BOND MARKET WATCH
JANUARY 31, 2013

The start of the year has been strong for risk assets, as equities returned more than 5% in January and credit continued tightening after fear dissipated with the threat of falling off of the "fiscal cliff" averted. To illustrate the perceived reduction of risk in the capital markets, the VIX approached 23 at the end of December before collapsing to 12.43 in mid-January. Following the market's perception of some political tail risk having been taken off the table with the agreement to increase taxes on the wealthy, a string of upside-surprises in earnings have kept momentum positive for equities and credit. Treasuries remained range-bound for a large portion of 2012, with yields increasing modestly at the end of the year. The trailing 12-month peak for the 10-year Treasury was 2.38% in March 2012, while the 10-year yield hit its trailing 12-month low of 1.38% at the end of July of 2012. Throughout the second half, the 10-year remained in a range between the mid 1.5% area and 1.9%. The Ryan Labs 10-year Treasury Index finished 2012 at 1.75% but has leaked up to 2% by the end of January. The Fed's massive balance sheet combined with the low domestic growth outlook, as evidenced by the -0.1% 4th quarter GDP, has weighed on rates. Continued quantitative easing, such as the large commitment to Agency MBS purchases along with the continuation of operation twist, looks likely to continue until unemployment is substantially reduced. The 10-year Treasury finished 2011 at 1.87%, 2012 at 1.75%, and the first month of 2013 at 1.99%. The yield on The Ryan Labs 30-year Treasury Index yielded 2.90% at the end of 2011, closed out the 3rd quarter at 2.83%, and finished the year at 2.94%.

Recent earnings news has been largely positive despite a tepid growth picture domestically and increased taxes pressuring consumers. After companies largely beat their EPS estimates in the 3rd quarter, US companies have turned in a healthy 4th quarter earnings season as we write this. With 443 of the 500 companies having already reported earnings, 73% had positive earnings surprises (on mostly lower guidance) but the more impressive number was the 7% year-over-year earnings growth posted so far in the 4th quarter. Top line growth has been a bit weaker coming in at 3.3% year-over-year. With margins and profitability at high levels, and weighing that historically long-run profitability has been mean-reverting, the fear in the market is that growing profitability without strong top line growth will become increasingly difficult. Financials turned in the strongest fundamental performance, with sales growth of 19.5% and earnings growth of 35.6%. Both financial credit as well as the financial sector in equities outperformed strongly in 2012. From a domestic and international macro level, geopolitical risks and economic concerns are not off the table. Although a liquidity crisis was temporarily averted in Europe by central bank financing (LTRO), fragmented political views on everything from fiscal independence to social assistance programs shows that the Eurozone is still far away from being united on an economic front. In the US, the upcoming gridlock on the sequester and spending cuts shows that we are not out of the woods in terms of our own budget management, and are even further away from meaningfully reducing our building leverage at the Federal, state, and local government levels. Within high-grade fixed income, after credit spreads in the Barclays Aggregate Index ended 2011 at 217 bps, and ended 2012 at 133 bps, spreads continued to tighten in January to 127 bps. After ending December 2011 at 337 bps and tightening to 155 bps off Treasuries to end 2012, financials tightened to 146 to close out January. Industrials closed out the year at 133 bps and ended January at 132 bps.

Within the securitized sector, ABS and CMBS had a very strong 2012 on positive technicals, with fairly low supply vs. run-off, and positive fundamental performance. In CMBS, loan resolution activity was generally more favorable than expected, and strong, trophy properties in major cities exceeded their highs in valuation compared with 2007 in some cases. In ABS, bids have been extremely strong for front end yield, and wider ABS yields have collapsed as a result of the demand. Agency MBS have sold off recently after a violent rally off of QE3 and the $40+ billion of Agency MBS purchases by the Fed every month. CMBS was up 7 bps versus duration-neutral Treasuries for January after outperforming by 841 bps for 2012. Agency MBS underperformed duration neutral Treasuries by 5 bps in January after outperforming by 91 bps for 2012. U.S. core fixed income has returned -0.70% for January of 2013.

RYAN LABS
ASSET MANAGEMENT

BOND MARKET WATCH

JANUARY 31, 2013

Yield and Total Returns

Ryan Labs Indexes	YTW	QTD	YTD	12M[1]	Ryan Labs Indexes	YTW	QTD	YTD	12M[1]
RL 2 Year Indexes					RL 10 Year Indexes				
TIPS	-1.84	0.44	0.44	1.15	TIPS	-0.44	-1.22	-1.22	5.30
Treasury	0.02	0.01	0.01	0.22	Treasury	1.98	-1.97	-1.97	1.35
Agency	0.03	0.02	0.02	0.52	Agency	1.08	-0.56	-0.56	1.90
AAA Corporate	0.44	0.11	0.11	2.13	AAA Corporate	2.39	-0.22	-0.22	5.49
AA Corporate	0.72	0.18	0.18	2.90	AA Corporate	2.81	-0.39	-0.39	8.08
A Corporate	1.08	0.23	0.23	4.88	A Corporate	3.04	-0.36	-0.36	10.70
BBB Corporate	1.55	0.49	0.49	6.25	BBB Corporate	3.71	-0.14	-0.14	13.31
Financials	1.31	0.42	0.42	5.77	Financials	3.44	-0.06	-0.06	15.25
Industrials	1.01	0.20	0.20	3.90	Industrials	3.26	-0.35	-0.35	9.16
Utilities	0.90	0.40	0.40	3.79	Utilities	3.09	-0.10	-0.10	9.06
RL 5 Year Indexes					RL 30 Year Indexes				
TIPS	-1.45	-0.01	-0.01	2.60	TIPS	0.43	-2.98	-2.98	5.18
Treasury	0.88	-0.65	-0.65	0.78	Treasury	3.17	-4.28	-4.28	-1.00
Agency	0.62	0.07	0.07	1.62	Agency	3.15	-2.11	-2.11	3.18
AAA Corporate	1.41	-0.17	-0.17	4.61	AAA Corporate	3.84	-1.61	-1.61	10.04
AA Corporate	1.67	-0.14	-0.14	5.94	AA Corporate	4.20	-0.48	-0.48	13.30
A Corporate	1.95	0.03	0.03	9.34	A Corporate	4.33	-0.65	-0.65	14.44
BBB Corporate	2.49	0.34	0.34	9.28	BBB Corporate	4.84	-0.39	-0.39	15.34
Financials	2.36	0.17	0.17	11.71	Financials	4.78	-0.17	-0.17	21.71
Industrials	1.94	0.11	0.11	7.20	Industrials	4.46	-0.80	-0.80	12.95
Utilities	1.98	0.47	0.47	8.39	Utilities	4.31	-0.23	-0.23	11.88
Barclays Indexes					Barclays Indexes				
BC Aggregate	1.90	-0.70	-0.70	2.59	BC ABS	0.98	-0.25	-0.25	2.22
BC CMBS	1.82	-0.15	-0.15	7.30	BC MBS	2.59	-0.51	-0.51	1.66

REGISTERED INVESTMENT ADVISOR

500 Fifth Avenue, Suite 2520
New York, NY 10110
www.ryanlabs.com

MAIN: 212.635.2300
TOLL FREE: 800.321.2301
FAX: 212.635.2309

Ryan Labs TIPS				
	Yield To Worst (%)	**MDuration (Years)**	**Year To Date Returns (%)**	**Last 12 Month Returns (%)**
2 Year TIPS	-1.84	2.76	0.44	1.15
5 Year TIPS	-1.45	5.36	-0.01	2.60
10 Year TIPS	-0.44	10.71	-1.22	5.30
30 Year TIPS	0.43	22.09	-2.98	5.18
RL TIPS Index	-0.94	8.45	-0.74	3.80

Market Implied Breakeven Inflation Expectation				
	Yield To Worst (%)		**Inflation (%)**	
	Nominals [1]	**TIPS**	**BEI [2]**	**Current [3]**
CPI (1 Month Lag)				1.7
2 Year	0.02	-1.84	1.85	
5 Year	0.88	-1.45	2.33	
10 Year	1.98	-0.44	2.42	
30 Year	3.17	0.43	2.74	

1) Nominals represent conventional U.S. Treasury Bonds and Notes.

2) BEI = Breakeven Inflation Rate (Nominal yields minus TIPS yields). Widening BEI indicates that TIPS are outperforming nominal bonds. When realized inflation is greater than implied inflation, TIPS also outperform.

3) Current Inflation = Bureau of Labor Statistics, Year over Year Consumer Price Index (non-seasonally adjusted, all items, 1 month lag)

REGISTERED INVESTMENT ADVISOR

500 Fifth Avenue, Suite 2520
New York, NY 10110
www.ryanlabs.com

MAIN: 212.635.2300
TOLL FREE: 800.321.2301
FAX: 212.635.2309