

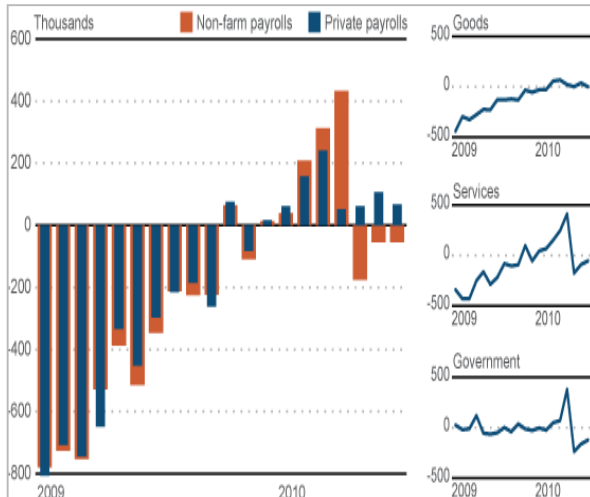
INSIDE DEBT

PRODUCED BY REUTERS IN PARTNERSHIP WITH ICAP

Friday, September 3, 2010

CHART OF THE DAY

U.S. payrolls



U.S. payrolls declined less-than-expected in August, while the private sector added 67,000 jobs, government payrolls lost of 54,000 jobs.

TODAY'S TOP NEWS

- U.S. payrolls data offer ray of hope for recovery
- Fed bond buying not big policy shift-Lockhart
- Foreign central bank U.S. debt holdings rise - Fed
- Obama says to address new economic ideas next week
- FSB's Draghi: global economic recovery to stay
- Heavy in dollars, China warns of depreciation
- Service sector spotlight shines on Germany, China
- Germany says won't block Basel III deal

ECON WATCH

FOR MONDAY SEPTEMBER 6

ET	Indicators	Unit	Reuters	Prior
04:30	EZ EZ Sentix Ind	ind	8.8	8.5
-	JP BOJ starts 2-day Monetary Policy Meet			
US & CA	Labor Day - Market Holiday			

FOR TUESDAY SEPTEMBER 7

ET	Indicators	Unit	Reuters	Prior
06:00	DE Industrial orders mm	%	0.5	3.2
10:00	US Employment trends	ind	-	97.0
19:50	JP Current account yy	%	17.5	-18.2
-	JP BOJ rate decision	%	-	0.1

Thomson Reuters LPC Loan Conference

Wednesday, September 22, 2010
Marriott Marquis, New York City
For more please [click here](#)

MARKETS TODAY

TODAY'S TOP STORY: U.S. employment fell for a third straight month in August, but the drop was far less than expected and private hiring surprised on the upside, easing pressure on the Federal Reserve to prop up economic growth. **For more please click here**

TREASURIES: U.S. Treasuries prices fell for a third straight day as data on the U.S. labor market alleviated fears the world's largest economy may be headed for a double-dip recession.

- 30-yr bonds declined 1-14/32 to yield 3.79 pct from 3.71 pct.
 - 10-yr notes fell 24/32 yielding 2.71 pct from 2.63 pct.
 - 5-yr notes were down 10/32 to yield 1.49 pct.
 - 2-10's part of the yield curve steepened by 6 bps to 219 bps.
- [Click here to watch related Reuters Insider video](#)

FOREX: The U.S. dollar fell against most foreign currencies after a surprisingly strong non-farm payroll report eased worries about the economy and boosted the appetite for riskier assets.

- The U.S. dollar index fell 0.53 pct to 82.022.
- Dollar rose 0.15 pct to 84.41 yen after hitting a high of 85.22 yen.
- Euro traded at \$1.2894 up 0.51 pct while it gained 0.68 pct to 108.84 yen. The euro rose to 0.95 pct against the Swiss franc to 1.3110 francs., while dollar was up 0.39 pct at 1.0166 francs.
- Australian dollar rose 0.60 pct to US\$0.9166 after hitting about four-week highs against the dollar of US\$0.9175, while the New Zealand dollar rose 0.85 pct and was last trading at US\$0.7205.

CORPORATES: U.S. corporate bond spreads tightened after a better-than-expected jobs report improved risk appetite and set the stage for a healthy rise in new issuance after the Labor Day weekend.

- The CDX.IG-14 index tightened by 1 bps to 105 bps.
- Sara Lee, this week offered to buy back its 2011 notes with a 6.25 pct coupon, while selling new 5- and 10- notes with coupons of just 2.75 pct and 4.10 pct respectively.
- Average corporate bond yields hit a record low of 3.731 pct last week, though they have edged up slightly to 3.872 pct.

STOCKS: Wall Street closed its best week in six after recent economic data, including a stronger-than-expected labor market report, bolstered optimism that the economy would not fall back into recession.

- Dow rose 1.24 pct to 10,447.86, S&P climbed 1.32 pct to 1,104.44 and Nasdaq advanced 1.53 pct to 2,233.75.
- Shares of Take-Two Interactive jumped 7.34 pct, Campbell Soup shed 2.97 pct. Celldex Therapeutics sank 26.15 pct and Pfizer rose 0.30 pct.
- S&P financials climbed 2.14 pct. S&P auto index rose 3.17 pct.

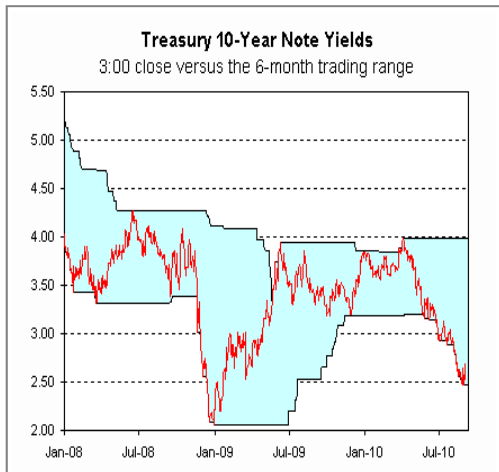
C & E: U.S. crude oil futures ended lower as data showed a slower growth pace in the services sector of the economy and Hurricane Earl weakened, easing fears that it may affect East Coast refinery activity.

- U.S. crude oil fell 0.91 pct to \$74.34 per barrel.
- Gold lost 0.31 pct to \$1,246.9 an ounce.
- Reuters-Jefferies index gained 0.6 pct to 272.77.

- For MARKET SNAPSHOT click here
- For NEXT UP click here
- For DEEP DIVE click here



MARKET SNAPSHOT as of 3:00 pm EST



TREASURIES <5> <500>

	BID	ASK	YIELD	CHANGE
1-Mo Bill	0.150	0.115	0.152	-0.01
3-Mo Bill	0.135	0.125	0.137	-0.001
6-Mo Bill	0.190	0.165	0.193	-0.003
1-Year	0.230	0.220	0.234	0.002
2-Year	99.711	99.742	0.523	-0.031
3-Year	99.875	99.906	0.794	-0.117
5-Year	98.844	98.891	1.492	-0.305
7-Year	98.328	98.375	2.134	-0.453
10-Year	99.281	99.344	2.708	-0.672
30-Year	101.578	101.641	3.786	-1.281

EQUITIES

	INDEX	CHANGE
DJIA	10411.11	91.01
NASDAQ	2225.60	25.59
S&P 500	1100.41	10.31

OIL

	PRICE	CHANGE
NYMEX	74.3	-0.7
BRENT	75.9	-1.0

EURODOLLAR FUTURES

	CLOSE	CHANGE
Sep-10	99.705	0.010
Dec-10	99.610	0.025
Mar-11	99.535	0.020
Jun-11	99.420	0.005

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.290	O/N	0.290
2-Week	0.290	2-Week	0.310
1-Month	0.290	1-Month	0.290
3-Month	0.300	3-Month	0.300
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.290	10:00 AM	0.230
2-Week	0.290	3:00 PM	0.226
1-Month	0.280		
3-Month	0.300		

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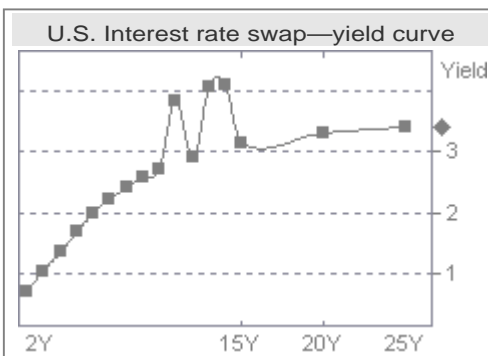
	SPREAD		RATE	
2-Year	16.25	20.25	0.68	0.70
3-Year	22.00	26.00	1.01	1.03
5-Year	17.50	21.50	1.66	1.68
7-Year	5.50	9.50	2.18	2.19
10-Year	-3.75	0.25	2.67	2.67
30-Year	-39.75	-35.75	3.39	3.38

FUTURES

	PRICE	CHANGE
CBOT 5 yr	120.61	-0.26
CBOT 10 yr	125.81	0.14
CBOT 30 yr	133.72	0.81

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.210	0.240	-	-
1-Month	0.250	0.360	0.179	0.189
3-Month	0.330	0.450	0.180	0.190
6-Month	0.500	0.650	0.176	0.186
12-Month	0.800	1.100	0.214	0.224



CURRENCIES

	BID	ASK
Euro	1.2887	1.2890
Sterling	1.5454	1.5458
JP Yen	84.39	84.42
Swiss Franc	1.0172	1.0176
Can Dollar	1.0393	1.0398
Mexico	12.9409	12.9510

FED FUNDS NYFRSM - 10AM

Open	0.2200	1m	0.2507
High	0.2200	3m	0.3137
Low	0.1500		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	0.625	24/09/2012	17	16.5	0.68
3-Year	1	23/09/2013	23	22	1.02
5-Year	2.375	28/07/2015	23.5	-	1.72
7-Year	3.75	27/03/2019	8.5	-	2.79
10-Year	-	-	-	-	4.29
30-Year	6.25	15/07/2032	25	22	4.03

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	27/07/2012	12.5	11	0.64
3-Year	0.875	28/10/2013	24.5	24	1.03
5-Year	2.875	09/02/2015	8.5	-	1.57
7-Year	5.125	18/10/2016	4	-	2.17
10-Year	6.625	15/11/2030	31.25	28.25	4.1
30-Year	-	-	-	-	4.14

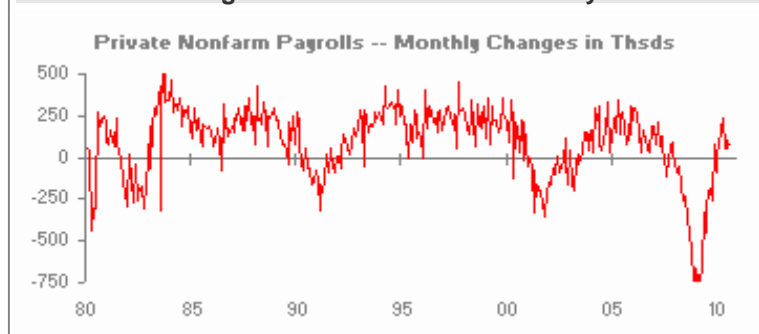
Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	4.0	104.2200	104.2300	2.485
FHLMC	4.0	104.2260	104.2320	2.489

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	4.5	104.1710	104.1750	2.913
FHLMC	4.5	104.1300	104.1400	2.949
GNMA	4.5	105.2000	105.2100	2.953

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

U.S. payrolls data offer ray of hope for recovery

U.S. employment fell for a third straight month in August, but the drop was far less than expected and private hiring surprised on the upside, easing pressure on the Federal Reserve to prop up economic growth.

Nonfarm payrolls fell 54,000, the Labor Department said, helping assuage fears of a double-dip recession in financial markets that had looked for a drop of 100,000 jobs.

While the data tamped down concerns the recovery could stall, a second report showing growth in the dominant services sector hit a seven-month low in August underlined the economy's sub-par performance.

Employment last month was dragged lower as the government let go 114,000 temporary census workers. Private employment, considered a better gauge of labor market health, increased 67,000 after an upwardly revised 107,000 gain in July.

In addition, the government revised payrolls for June and July to show 123,000 fewer jobs lost than previously reported.

Last month, the unemployment rate edged up to 9.6 percent from 9.5 percent, in line with expectations.

Meanwhile, the ISM said its index of national services activity fell to 51.5 in August from 54.3 in July.

The report's employment component fell to 48.2 from 50.9, while new orders dipped sharply to 52.4 from 56.7, suggesting a slow-down in the sector.

[Click here to watch related Reuters Insider video](#)

Foreign central bank U.S. debt holdings rise - Fed

Foreign central banks were net buyers of U.S. debt in the latest week, Federal Reserve data showed.

The Fed said its holdings of Treasury and agency debt kept for overseas central banks rose by \$28.59 billion in the week ended Sept. 1, to stand at a total of \$3.225 trillion.

The breakdown of custody holdings showed overseas central banks bought \$27.44 billion in Treasury debt to stand at a total \$2.408 trillion.

The foreign institutions bought securities from government-sponsored agencies like Fannie Mae and Freddie Mac, adding \$1.15 billion to their holdings, to stand at a total \$817.49 billion.

Overseas central banks, particularly those in Asia, have been huge buyers of U.S. debt in recent years, and own over a quarter of marketable Treasuries. China and Japan are the biggest two holders of Treasuries.

FSB's Draghi: global economic recovery to stay

The global economic recovery will likely stay on track, with some regions prospering while others lag, but risks remain including the impact from unwinding stimulus measures, Financial Stability Board Chairman Mario Draghi said.

"There's a greater likelihood that this recovery will stay with us," Draghi, who is also the governor of the Italian central bank, told a news conference in Seoul on the sidelines of a financial regulatory conference.

He said the global economic recovery was subject to a number of risks including the withdrawal of fiscal stimulus programs and fragility in the financial markets.

"The recovery is not uniform. In some parts of the world, for example in China, it is strong but in other parts it is not so," he said.

He was attending the conference that the FSB co-hosted with the South Korean government, which will host the Nov. 11-12 summit of leaders from the Group of 20 developed and leading emerging economies.

Fed bond buying not big policy shift-Lockhart

The Federal Reserve's decision to begin buying Treasuries again was a "precautionary" step, not the opening salvo in a new policy course, Atlanta Fed President Dennis Lockhart said. Lockhart said markets overreacted to the decision, reading a major worsening into the Fed's view of the world that had not taken place.

Last month, the U.S. central bank began reinvesting proceeds from maturing mortgage bonds in its portfolio into Treasury bonds, an effort to keep reserve bank credit from shrinking as the securities come due. He noted that officials were worried lower mortgage rates would speed up prepayments and increase the rate of shrinkage in the Fed's balance sheet.

Describing fears of deflation and a possible double-dip recession as "alarmist," Lockhart acknowledged that a weak job market was taking a toll on consumer spending.

A Friday government report showed a slight rise in the unemployment rate to 9.6 percent during August, but payrolls shrank less than economists expected and the private sector added 67,000 jobs.

Separately, U.S. jobless rate is unlikely to decline abruptly in coming months, Atlanta Federal Reserve Bank President Dennis Lockhart said.

Obama says to address new economic ideas next week

President Barack Obama will outline new measures next week to boost the U.S. economy after August data showed again that jobs were being created too slowly.

Obama greeted a better-than-expected August employment report that showed thousands of new private sector jobs were created as "positive news." But he said the numbers were not good enough and more needed to be done to address U.S. economic woes. On Monday, the president highlighted a number of possible options including extending middle class tax cuts, investing in clean energy, spending more on infrastructure, and delivering more tax cuts to businesses to encourage hiring.

The White House is under pressure to show tangible results in lifting growth and hiring before congressional elections in November, when Obama's Democrats face punishment from voters anxious about near double-digit unemployment.

Obama will have ample opportunity to flesh out those thoughts next week. He will also hold a White House news conference on Friday, September 10.

[Click here to watch related Reuters Insider video](#)

Heavy in dollars, China warns of depreciation

China offered a rare glimpse into its foreign exchange reserves, confirming that they are overwhelmingly allocated in dollars, while a central banker said the mountain of cash could face depreciation risks.

The Chinese government's currency reserves are held roughly in line with what was described as the global average: 65 percent in dollars, 26 percent in euros, 5 percent in pounds and 3 percent in yen. Separately, Hu Xiaolian, a vice governor with the People's Bank of China, warned that depreciation loomed as a risk for foreign exchange reserves held by developing counties. She reiterated China's long-standing discomfort with a global financial system dominated by a single currency in the dollar.

To that end, developing countries must speed up reform of their financial markets, and China would work to promote greater cross-border use of the yuan, she said. Chinese net buying of Japanese debt has surpassed 1.7 trillion yen this year, far surpassing its record of 255.7 billion yen in 2005.



TODAY'S TOP NEWS

Service sector spotlight shines on Germany, China

Global service sector surveys highlighted a growing divergence in economic recovery, with a pick-up in growth in China and Germany but slowdowns in Britain, Spain and the United States. HSBC said its Purchasing Managers' Index for Chinese services, which account for much less of output than in more developed countries, rose to 57.6 in August from 56.3 in July.

Markit's Eurozone Services Purchasing Managers' Index for the service sector nudged up to 55.9 in August from 55.8 in July -- a strong overall reading.

The bloc's economy expanded 1.0 percent in the second quarter over the first, the fastest pace in more than three years. Spain's services PMI fell to 49.2.

The headline Markit/CIPS services purchasing managers' index dropped to 51.3 in August from July's 53.1, a much sharper fall than the decline to 52.9 forecast in a Reuters poll.

Sales across the 16-nation currency bloc edged up 0.1 percent from June and rose by a faster-than-expected 1.1 percent year-on-year, Eurostat said. Eurostat said this week that consumer spending growth had improved to 0.5 percent quarter-on-quarter in the April-June period from 0.2 percent in the first quarter.

Germany says won't block Basel III deal

Germany said it would not block a global deal on tougher bank capital even though a top central banker said Europe's biggest economy was still mulling its position.

The committee drafting the new "Basel III" rules will meet next Tuesday, paving the way for a final endorsement of the reforms by leaders of the Group of 20 major nations in November.

So regulators have been trying to hammer out a compromise with Germany before Tuesday's Basel Committee meeting.

At the heart of Germany's objections to the draft Basel III rules is a form of non-voting bank capital known as "silent participations". Because silent participations do not absorb losses as long as a bank is still in business, the Basel Committee wants to exclude them from banks' new core capital requirements under its reforms, which could force German banks into a difficult and expensive round of raising other forms of capital.

UK Aug services PMI falls to 16-month low

British service sector activity grew last month at its slowest pace since April 2009, with a marked fall in hiring as employers worried about an economic slowdown and public spending cuts, a survey showed.

The headline Markit/CIPS services purchasing managers' index dropped to 51.3 in August from July's 53.1. The downbeat services reading follows bigger-than-expected falls in the PMIs for manufacturers and construction, though all are still above the 50 line that divides growth from contraction.

Markit said the three surveys suggested that British GDP growth slowed to 0.5 percent in the third quarter from a nine-year high of 1.2 percent the quarter before.

Almost all private sector economists believe the previous quarter's exceptional growth was a one-off caused by weather-related disruption in the first quarter, and the key question is how fast growth slows thereafter.

The services PMI expectations component has barely risen from the 15-month low hit in June, and the employment component fell sharply to 46.9 from 49.7, touching a 10-month low.

[Click here to watch related Reuters Insider video](#)

Japan capex fall slows, 2nd qtr GDP seen revised up

Japanese companies cut capital spending in April-June by a less-than-expected 1.7 percent from the same period last year, pointing to an upward revision of an anemic preliminary reading for second-quarter GDP growth.

But the strong yen and slowing exports to major destinations such as the United States and China may hurt business sentiment and corporate willingness to spend, boding ill for the economic outlook, analysts say.

The 1.7 percent fall in capital spending for April-June was slower than a median market forecast of a 6.5 percent decrease and an 11.5 percent drop in the first quarter.

The BOJ is likely to hold off on easing policy at its rate review next week, after loosening policy at an emergency meeting on Monday in the wake of the yen's surge to a 15-year high against the dollar.

NEXT UP

Traders betting on Sept 2011 Fed hike

U.S. short-term interest rate futures traders raised expectations of a Federal Reserve rate hike next year, after a government report showed the economy lost fewer jobs in August than expected.

Traders now see about a 68 percent chance the Fed will increase its target interest rate at the U.S. central bank's Sept 2011 meeting, trading in Fed funds futures at the Chicago Board of Trade shows.

Trading in Fed funds futures that mature in October 2011 fell 4 basis points to 99.58. The percentage assumes a Fed hike would put the target rate for overnight lending between banks to 0.50 percent, up from the current range of zero to 0.25 percent. Some market participants had been hedging against the possibility that the Fed's next move might be to lower short-term rates to head off a weakening economic recovery.

"This leaves the Fed on hold for now," said Michelle Meyer, senior U.S. economist at Bank of America Merrill Lynch in New York. "Unless the Fed sees a double-dip recession or deflation as a risk, the Fed will be in wait-and-see mode and we do not expect Fed hikes until 2012."

EU to mull new sanctions for EU budget rule breakers

EU finance ministers will discuss on Monday how to more effectively punish budget rule breakers and make governments pay attention to debt amid some frustration that progress was slow.

Reforms of the 27-nation's budget rules, the Stability and Growth Pact, are to prevent another sovereign debt crisis like the one triggered by Greece, after the existing rules proved insufficient to enforce with debt and deficit limits.

Ideas for reforms are debated in what the EU calls the Task Force, which is effectively made up of EU finance ministers who first convened on the reform in May.

Euro zone sources said there was some frustration among EU countries with the pace of progress, especially that the deadline has been set for the end of October. Sources said that while there was broad agreement that governments should pay greater attention to debt levels there had been no talks on how to achieve, enforce and monitor that and how to sanction misbehavior. The ministers will also discuss a request by nine EU countries that pension reform costs should be excluded from deficit and debt calculations so as not to penalize those who undertake reforms putting public finances on a sounder footing.

DEEP DIVE Commentary and Analysis

US tax and spending policies floating in Washington

President Barack Obama on Friday said he will offer a batch of new ideas to jump-start the moribund economic recovery, as the jobless rate ticked higher to 9.6 percent in August.

Congress has balked at even modest new spending initiatives in recent months and officials say the proposals are likely to be narrowly targeted. Following is a summary of some tax and spending policies that have been floated by administration and congressional leaders.

TAX POLICY: INDIVIDUAL TAXES

Tax cuts for all individuals expire at year-end unless Congress takes action to extend them. Obama has stood firm on his pledge to extend the lower tax rates for what he calls the middle class - individuals making less than \$200,000 and couples earning \$250,000 and under.

Obama and fellow Democrats say the wealthy are unlikely to spend the extra funds while Republicans say such individuals fuel consumption spending, investment and hiring.

Some Democrats, however, are pushing for an extension of all Bush-era tax cuts at least for another year while the economy is still on the mend.

PAYROLL TAX HOLIDAY

A version of this break already exists in the Hiring Incentives to Restore Employment Act signed into law in March that gives tax credits to business to hire workers who have been unemployed for eight weeks or longer.

The Obama administration says businesses that qualified for the credits have hired about 5.6 million workers, but the administration has been unable to link hiring directly to the incentive.

A new version could give a break on payroll taxes, shared by workers and employers, without the need to hire new workers and extend the time period to use the credits.

Lawmakers would have to work out the accounting so the Social Security trust fund doesn't take the financial hit.

BUSINESS TAX BREAKS

The House of Representatives has already passed a \$31 billion package that renews for a year corporate tax incentives, including a research and development tax credit and tax credits for biofuel use, that have expired.

Obama has already called for permanent extension of the R&D tax credit -- a popular idea among both political parties -- in his budget.

This so-called tax extenders bill also includes tax breaks for improvements to retail business and for finance companies earning money abroad.

That Obama-backed measure, which is paid for by trimming international tax perks enjoyed by some of the same companies, has stalled in the Senate.

INFRASTRUCTURE: BUILD AMERICA BONDS

Taxable so-called Build America Bonds, created in the stimulus program last year, were designed to finance infrastructure projects. Moves to extend the program beyond December have largely stalled in Congress.

The bonds pay issuers a federal rebate of about 35 percent of interest costs, and led to \$122 billion in bond sales by state and local governments since their debut in April of last year.

Obama has proposed making the program permanent and setting the subsidy level at 28 percent, a level the Treasury Department considers revenue neutral. A recent government report said more than two-thirds of the \$34 billion in payments to BABS is offset by higher revenues.

INFRASTRUCTURE BANK

Obama has proposed a grant and lending institution that would be an independent entity within the Transportation Department and would first focus on highway, bridge and waterway projects. The administration's five-year projection is to capitalize the bank at \$25 billion and Obama has sought up to \$7 billion in initial funding from Congress.

SMALL BUSINESS HELP

Obama again called for passage of a \$20-30 billion bill to invest in banks with assets of less than \$10 billion to spur investment in small business. Republicans have blocked the plan, calling it a waste of taxpayer funds.

Stock investors take to bond analysis on uncertainty

By Karen Brettell

Investors are approaching U.S. stock investments with greater caution, and as concerns about the strength of the economic recovery continue some are finding that approaching a stock like a bond may be the best approach.

Bond investors typically take a different approach to valuing companies than stock investors, as they prize strong cash flows and reliable income streams over opportunities for growth.

This credit approach is now looking increasingly attractive to stock investors that fear that another dip in the economy will whack growth and share prices.

"Equity investors that we've been talking to recently have stated that they are looking for things that have kind of a bond-like return," said Brian Yelvington, analyst at Knight Libertas in Greenwich, Connecticut. "People have a preference for predictable cash flows at this moment, no matter what the asset class is."

Bond investors typically grade companies based on the strength of their cash flows, the amount of debt they have relative to their earnings, and other measures including the ratio between earnings and the costs of paying interest on their debt.

Companies that are strong in these metrics are viewed as more resilient to any economic downturn. Bonds are also attractive as they provide regular, fixed income in the form of interest payments.

Stock investors, by contrast, typically concentrate on the opportunity for a company to expand earnings, with a strong focus on boosting its share price.

"The bulk of your return in equities is going to be from not a coupon or a dividend but from price appreciation, said Yelvington. "If you don't believe in a recovery you're not buying into that price appreciation theory."

STOCKS UNDERPERFORM CORPORATE BONDS IN 2010

Stocks have underperformed corporate bonds this year as investors seek out more defensive investments

For example, the Standard & Poor's 500 index has fallen 3.1 percent for the year to date, while high grade corporate bonds have returned 10 percent, according to Bank of America Merrill Lynch.

Investors have also withdrawn around \$29 billion from U.S. equity funds year-to-date, with the vast majority of the withdrawals coming in the past four months, according to data by the Investment Company Institute.

That compares to around \$84 billion in net inflows into investment grade corporate bond funds year-to-date, according to data by LipperFMI.

Peter Andersen, portfolio manager at Congress Asset Management in Boston, uses credit analysis to help select investments the firm makes in the equity market.

"Equity analysts tend to model differently, they project out to the



DEEP DIVE Commentary and Analysis

future and look at earnings, price-earnings ratios and things of that nature, whereas a classic fixed income analyst is looking at the here and now," Andersen said.

"That is a tremendously strong lens that focuses you on the current situation of the company," he said. And, "it's a byproduct of most equity analysts not having a clear sense of where the economy is."

Recent trades include taking a long position in ConocoPhillips, which is attractive as the company is selling assets, part of which will be used to repay debt, and also pays a dividend of around 4 percent, Andersen said.

The company's stock is also cheap relative to its peer group, he added. ConocoPhillips has a forward price-to-earnings ratio of 9.01, lower than rivals Exxon Mobil, Hess, and Chevron.

Correlation among the performance of stocks may also fall as

investors take a closer look at company's balance sheets, and how they will perform if the economy deteriorates.

The CBOE S&P 500 Implied Correlation Index 2011, which is an estimate of the average correlation of stocks in the S&P 500 index, has risen to around 73 from 65 a year ago, though its down from a high of almost 82 on August 25.

"We've noticed a preference by people to really live up to the term hedge fund and go long versus short, and the things they are looking at are those bond-like stocks versus stocks that don't have those bond-like characteristics," said Knight's Yelvington.

"This could point to the fact that people expect more differentiation, and even if you don't get more differentiation you're picking up higher yielding equities versus non-higher yielding equities," he said.

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Wednesday September 22, 2010
Marriott Marquis, New York City

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