

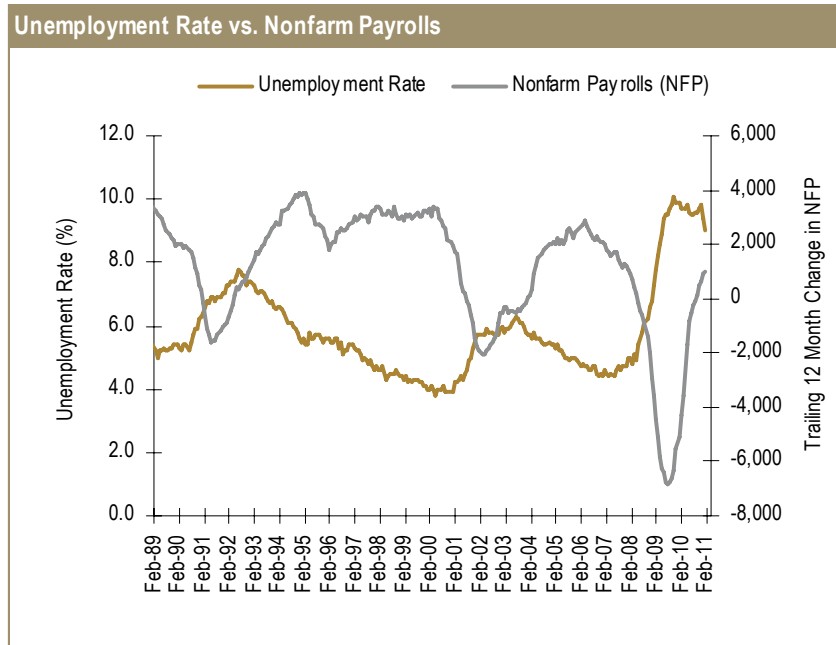
# STANDISH



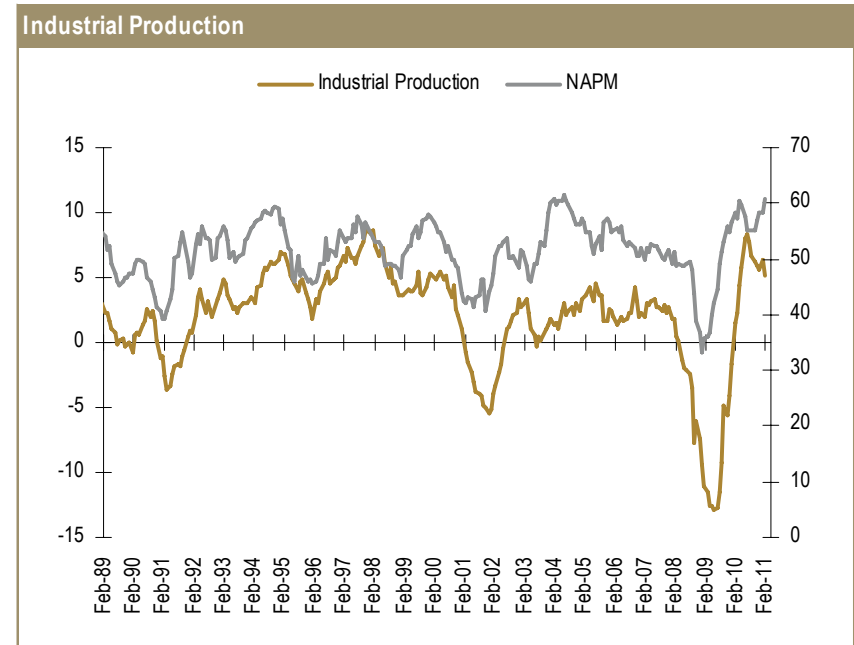
## Insurance Bond Market Update

March 2011

## Employment and Manufacturing



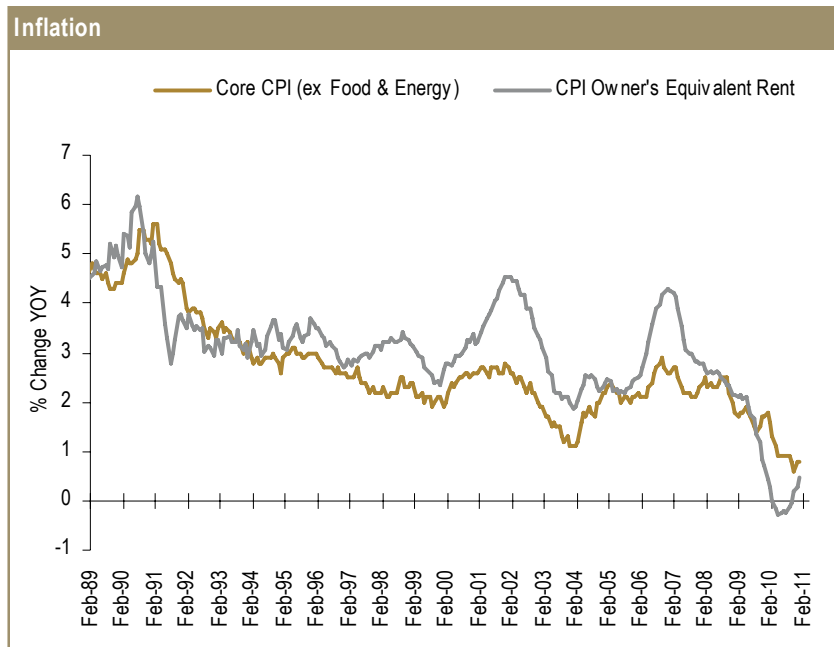
Source: Bloomberg as of February 28, 2011



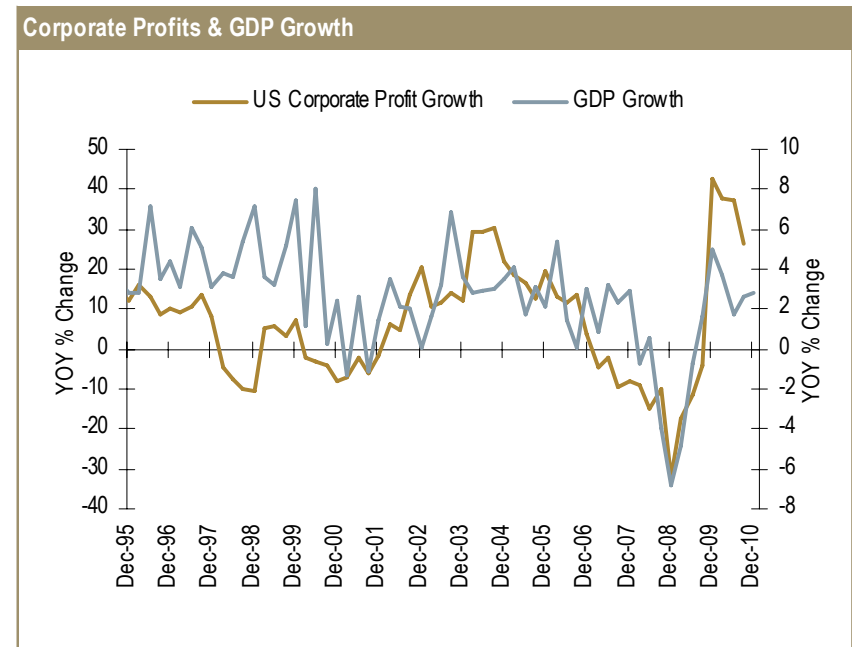
Source: Bloomberg as of February 28, 2011

- The positive momentum in job growth continues with broad gains across many industries.
- The recent decline in the unemployment rate to 8.9% is likely to slow if discouraged workers re-enter the job market.
- Manufacturing activity remains at a healthy pace.
- Tax-related stimulus will likely be supportive of business spending and continued strength in the manufacturing sector.

## Inflation and Growth



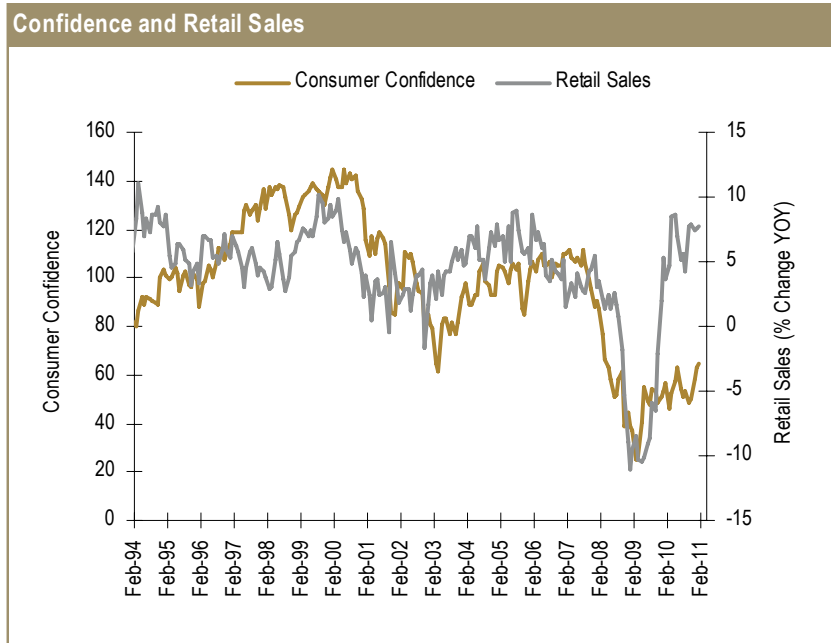
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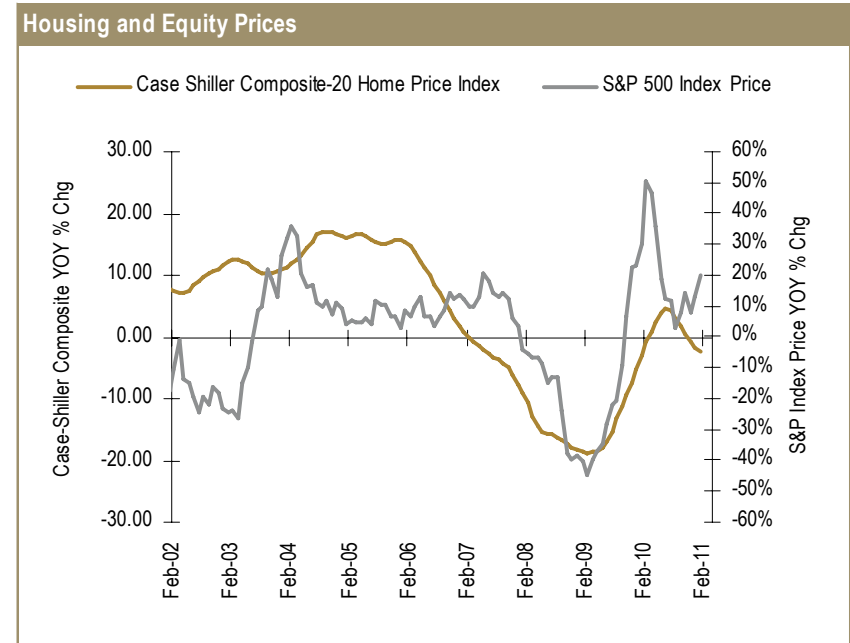
Source: Bloomberg as of February 28, 2011

- The trend in core inflation appears to be bottoming out.
- With the downturn in housing and home ownership, more renters in the market put upward pressure on rents which eventually feeds into core inflation.
- Companies remain well positioned with lots of cash liquidity.
- Corporate profits are also supported by a boost to growth with the tax-related stimulus.

## Consumer Wealth and Confidence



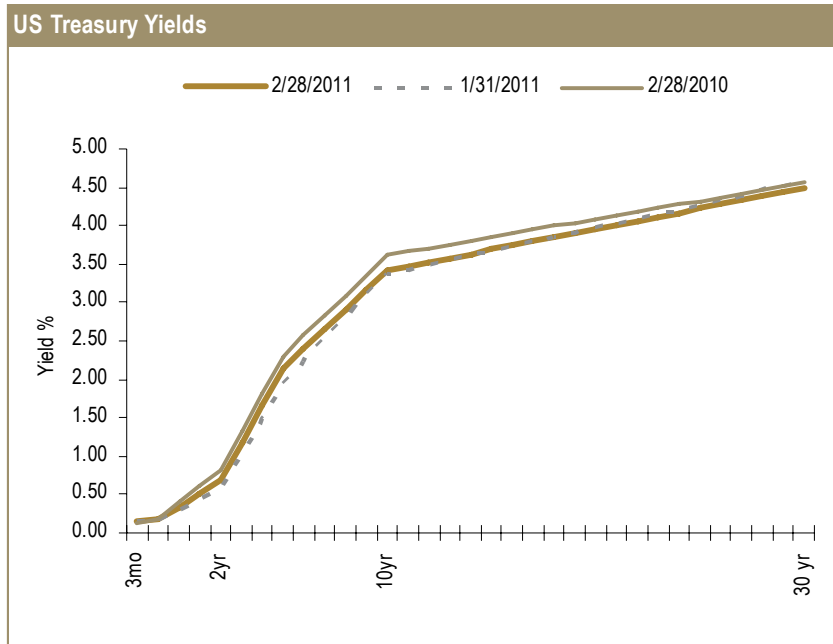
Source: Bloomberg as of February 28, 2011



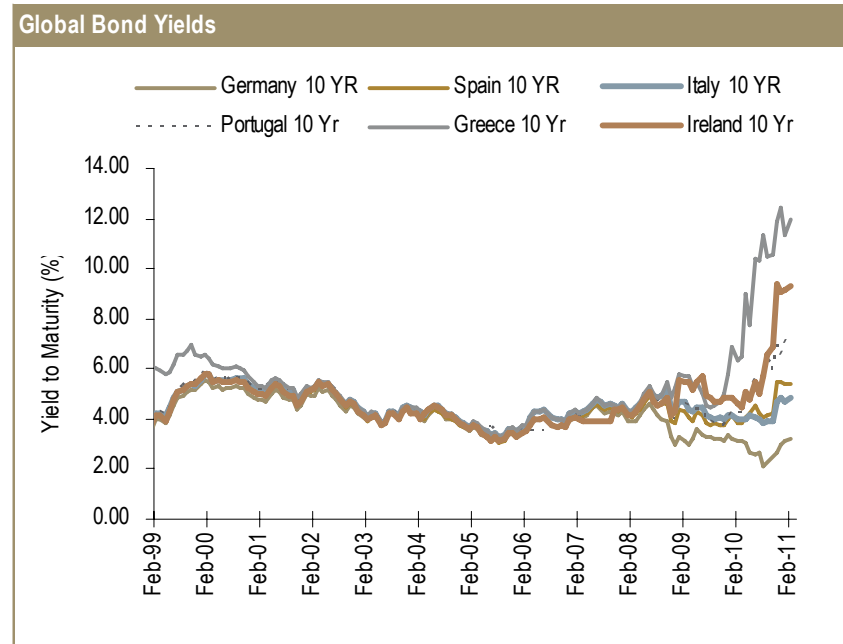
Source: Bloomberg as of February 28, 2011

- Tax cuts over the next two years are a boost to discretionary income.
- However, the recent rise in oil and gas prices, if sustained, will likely reduce discretionary spending.
- Rising tensions in the Middle East and disruption to oil production will likely dampen growth prospects and limit the upside to equity prices.
- Housing fundamentals remain weak as inventories are high and demand is soft.

## Government Bond Yields and Global Bond Yields



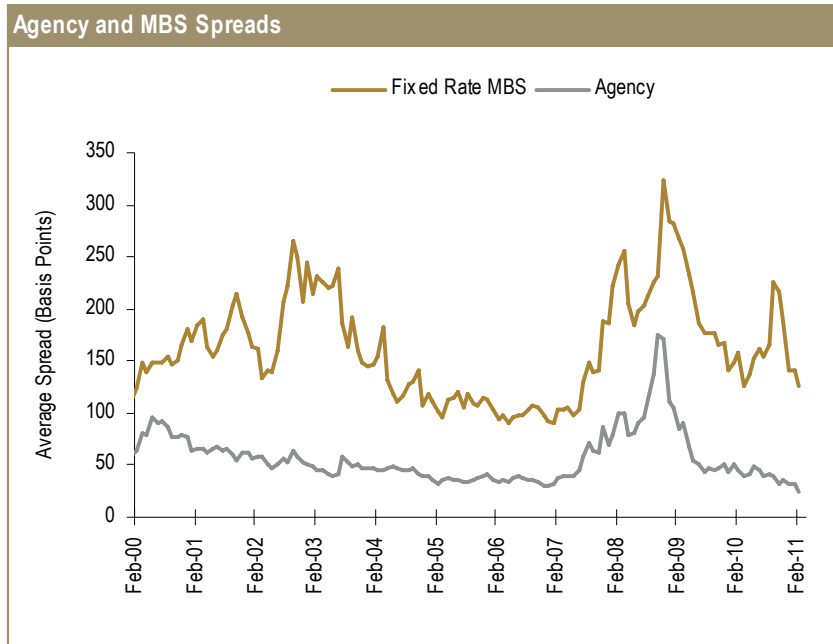
Source: Bloomberg as of February 28, 2011



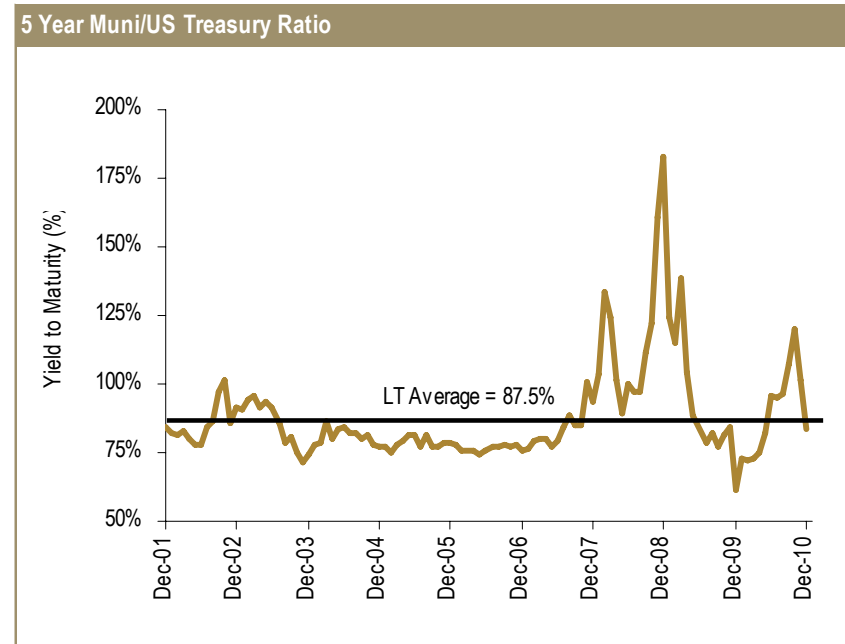
Source: Bloomberg as of February 28, 2011

- Treasury yields rose as economic news continues to be strong.
- Given the backup in rates, investors do not appear to be overly concerned that geopolitical risks will escalate into a flight to Treasuries.
- Higher interest rates in the weaker peripheral countries persist.
- Rising funding costs and significant refinancing needs are driving spreads wider relative to core Europe.

## Agency/MBS Spreads and 5 Year Muni/US Treasury Ratio



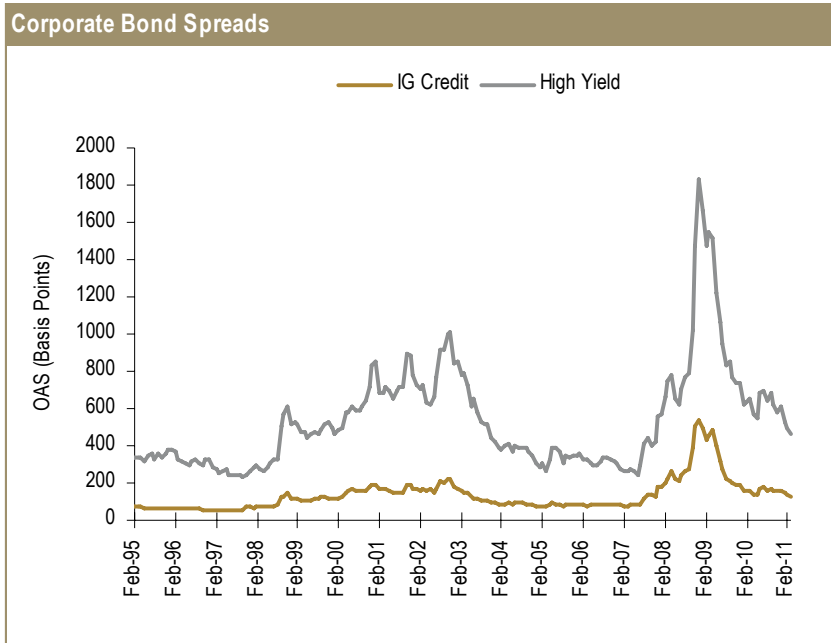
Source: Barclays as of February 28, 2011



Source: Bloomberg as of February 28, 2011

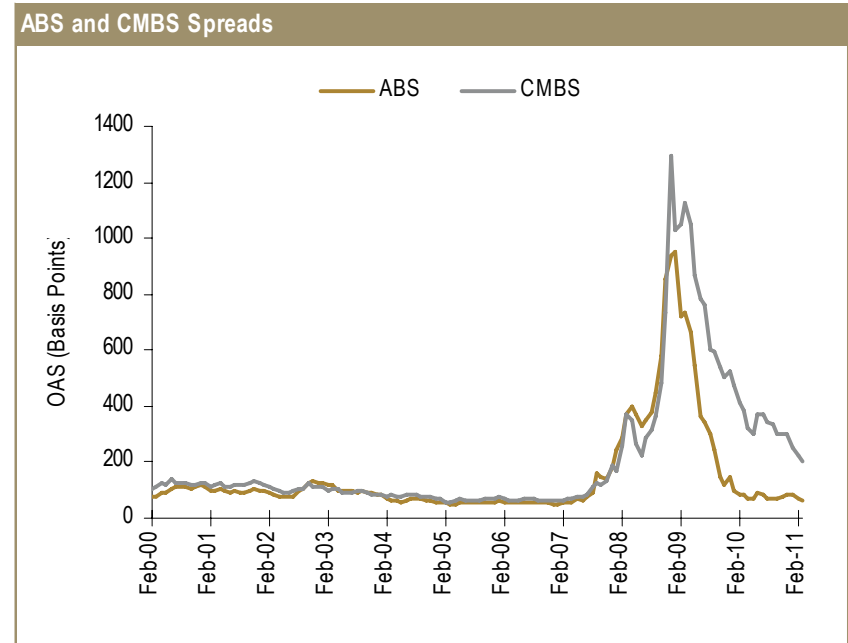
- Agencies and mortgages outperformed as investors continue to reach for incremental yield over Treasuries.
- The combination of very low municipal bond issuance and a good demand resulted in a sharp decline in municipal yields relative to Treasuries.

## Credit Risk Premiums



Source: Barclays as of February 28, 2011

- Against the backdrop of sustained economic growth, investment grade and high yield corporate bonds outperformed.



Source: Barclays as of February 28, 2011

- ABS and CMBS outperformed Treasuries. The technical conditions remain positive for CMBS given negative net supply.

## Sector Returns

Bond Market Returns - Nominal			
	Feb '11	2011 YTD	2010 Full Yr
US Treasury	-0.07%	-0.10%	5.87%
US Agency	0.01%	0.16%	4.36%
US MBS - Fixed Rate	0.26%	0.30%	5.50%
CMBS	0.79%	2.69%	20.40%
AAA	0.29%	1.35%	14.61%
<AAA	2.03%	6.10%	36.67%
ABS	-0.01%	0.63%	5.85%
Investment Grade Credit	0.72%	0.93%	8.47%
Financials	1.07%	1.61%	9.44%
Industrials	0.61%	0.64%	8.65%
Utilities	0.74%	0.70%	9.20%
Non-corporate	0.45%	0.69%	6.36%
AAA Credit	0.02%	0.21%	5.13%
AA Credit	0.62%	0.53%	7.10%
A Credit	0.92%	1.06%	8.50%
BBB Credit	0.75%	1.20%	10.03%
High Yield	1.31%	3.55%	15.12%
Emerging Markets	0.48%	0.20%	12.84%

Source: Barclays as of February 28, 2011

Bond Market Returns - Excess Over Treasuries			
	Feb '11	2011 YTD	2010 Full Yr
US Treasury	-	-	-
US Agency	0.10%	0.10%	0.72%
US MBS - Fixed Rate	0.22%	0.22%	2.30%
CMBS	1.07%	2.60%	15.01%
AAA	0.53%	1.26%	9.79%
<AAA	2.37%	6.00%	30.09%
ABS	0.13%	0.56%	1.69%
Investment Grade Credit	0.62%	1.02%	1.92%
Financials	1.08%	1.60%	3.26%
Industrials	0.45%	0.76%	1.75%
Utilities	0.48%	0.92%	1.81%
Non-corporate	0.37%	0.74%	0.48%
AAA Credit	0.12%	0.18%	0.64%
AA Credit	0.52%	0.63%	0.95%
A Credit	0.80%	1.16%	1.70%
BBB Credit	0.61%	1.30%	3.05%
High Yield	1.44%	3.46%	9.74%
Emerging Markets	0.55%	0.28%	5.08%

Source: Barclays as of February 28, 2011

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