

June 2006: Fixed Income Market Update



Issue 5 - June, 2006

For the 16th consecutive time...

The Federal Open Market Committee (FOMC) tightened another 25 basis points to 5.00%, at the conclusion of the May 10th meeting. The raise marked the 16th consecutive tightening over the past two years, and was widely expected.

As the borrowing costs keep climbing up for consumers and businesses in the past two years, many of us are wondering about the same question, when is this going to end? It's clear that the Chairman of the Federal Reserve, Ben Bernanke, continues to lead the FOMC toward the transition of an inflation-battling era. And this might not be the end of the interest rate hike as the FOMC has indicated that further "policy firming" may yet be needed thus, the likelihood of tightening credit is still greater than easing credit.

From another standpoint, the FOMC hinted that further interest rate increases are not inevitable, which is a sign of relief for many investors. Many fear that the FOMC's interesting rising actions along with the combination of sagging housing market and increasing energy costs will create an unhealthy economy; they believe that this aggressive inflation-fighting regime has gone on for too long under Greenspan and Bernanke and it should finally come to an end.

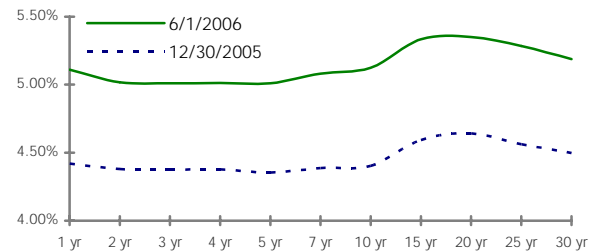
There is really no definite answer whether interest rates will rise again until we find out the outcome of the upcoming FOMC meeting in June. One certainty is that Chairman Bernanke's decision will be heavily driven and influenced by current economic data and the evolving overall economic outlook.

California General Obligations Upgraded

On May 17th, Standard and Poor's upgraded California General Obligation (GO) debt one notch from A to A+. Similarly, Moody's followed suit on May 22nd and raised its debt rating for California one notch from A2 to A1. This is the highest rating for the state rating since 2001.

This signals that California's budget woes might be heading toward the right direction, as its overall financial picture has improved. However, California is still the only state other than Louisiana to have a single A credit rating, as all other states GO debt are rated AA or better.

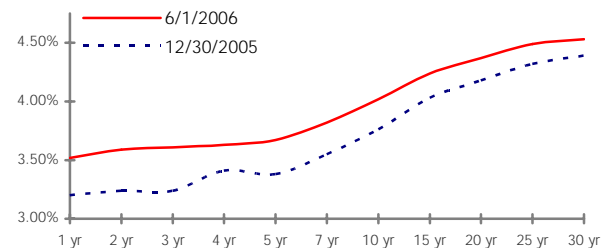
Treasury Yield Curve



Bond / Note	6/1/06	12/31/05	Change
2 Year	5.02%	4.37%	+0.64%
5 Year	5.01%	4.36%	+0.66%
10 Year	5.13%	4.40%	+0.73%
30 Year	5.19%	4.48%	+0.69%

Source: Bloomberg L.P.

National Municipal "AAA" Yield Curve



Bond / Note	6/1/06	12/31/05	Change
2 Year	3.59%	3.20%	+0.39%
5 Year	3.67%	3.38%	+0.29%
10 Year	4.02%	3.76%	+0.26%
30 Year	4.53%	4.39%	+0.14%

Source: Bloomberg L.P.

Key Economic Indicators

Gross Domestic Product (1st Quarter)	5.3%
Unemployment Rate (05/06)	4.6%
WTI Oil Spot Price (06/06)	\$71.42
Retail Gas (06/06)	\$2.89
CPI Year / Year (04/06)	3.5%
CPI (Core) Year / Year (04/06)	2.3%
Productivity (1st Quarter)	3.7%