

## Market Update

December 2009

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## High Yield Market Rally Hits 9 Straight Months in November

High yield bonds extended their positive monthly performance streak to nine in November as investors remain willing to reach for yield and presume the global economy will remain on the path to recovery. The Credit Suisse High Yield index rose 1.39% in November compared with a 6.00% equity return (S&P 500 Index). Year-to-date, the high-yield index has surged 49.9% versus a 24.1% equity return.

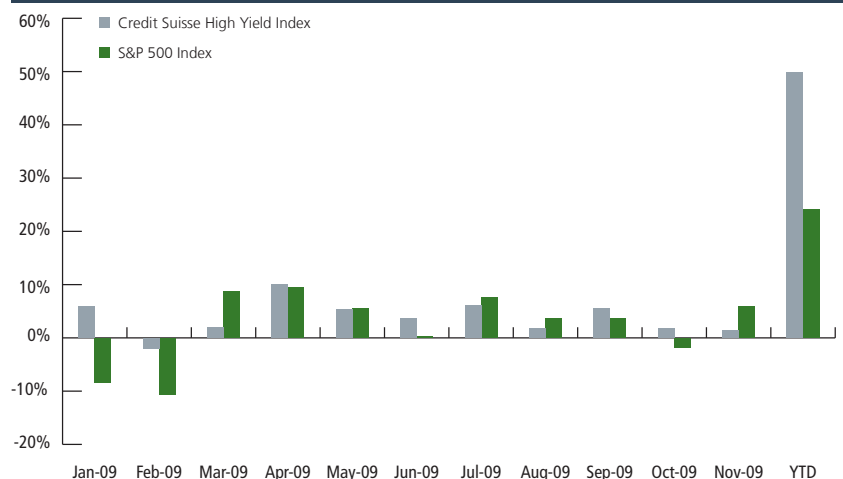
The global economy is moving ahead, albeit at a more cautionary pace. Since March, the markets have been propped up by government stimulus and relief. Going forward, we believe market action will be most affected by company fundamentals and tangible advances in economic indicators. We are often asked what we believe will mark an end to this volatile environment. Our answer is that we expect to see improved conditions when assets move from financially weak hands to financially strong. This can be evident in increased merger and acquisitions activity and when stronger institutions acquire their weaker peers.

High-yield spreads widened 6 basis points to 756 basis points more than 10-year Treasury yield, the first time since February the spread has widened. Most of the widening came from the CCC-rated tier. All sectors in the high-yield index posted modest gains, led by the consumer-discretionary (2.02%), financial (1.97%), and materials (1.73%) sectors. The CCC-rated segment, where the risk of bankruptcy and default is highest, continues to perform best with a 3.5% advance in November that outpaced the higher-rated B (0.6%) and BB (0.8%) tiers. CCC-rated securities have returned 101% this year, but we are not comfortable investing in this volatile and risky segment of the market. Our focus remains on the higher quality tiers.

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice. The information in this report should not be considered a recommendation to purchase or sell any particular security.

**Past performance is no guarantee of future results. Current performance may be lower or higher than the performance quoted.**

### 2009 Monthly High Yield Returns



Source: Mellon Analytical Solutions LLC

## Record New Issuance in 2009

The \$19.5 billion in new high-yield bonds in November brought this year's total to a record \$160 billion, passing the previous high of \$158 billion in 2004. Issuance has been well diversified by credit quality, sector and industry. The default rate continues to trend down and ended the month at 10.0% issue-weighted and 10.9% dollar-weighted. We are monitoring whether investors are being properly compensated for risk taken and remain committed to the higher quality tiers.

## Outlook: Wary of Government Participation

We have been skeptical of government's ever-growing involvement as a true recovery based on market forces is typically more sustainable because of its reliance on the needs of consumers. We believe the biggest risk today is Congress's level of participation in the recovery. Our investment focus continues to lead us to better businesses with healthier balance sheets, sustainable business models, and attractive valuations. We are prepared for a volatile market environment, but one which we believe should still present attractive long-term growth opportunities in areas such as technology, energy and materials.

### Index Definitions

The **Credit Suisse High Yield Index** is an unmanaged index of high yield debt securities. The **S&P 500 Index** is generally considered representative of the U.S. stock market. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

High-yield bonds are lower-rated securities, which present greater risks than investments in higher-rated securities. This is because there is a greater likelihood that the company issuing the lower-rated securities may default on income and principal payments.

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