Payden&Rygel | Weekly Market Update

For the week of April 13, 2012

MARKET LEVELS

	Friday*	Last week	Dec. 31, 2011	One year ago
Dow Jones Industrial Avg	12,890	13,060	12,218	12,285
S&P 500	1,375	1,398	1,258	1,315
NASDAQ	3,019	3,081	2,605	2,760
Russell 2000	798	818	741	827
DJ STOXX Europe 600 (€)	253	259	245	277
Nikkei Index (¥)	9,638	9,768	8,455	9,654
MSCI EM Index	376	378	343	396
Fed Funds Target	0%-0.25%	0%-0.25%	0%-0.25%	0%-0.25%
2-Year Treasury Yield	0.28%	0.34%	0.24%	0.77%
10-Year Treasury Yield	1.99%	2.18%	1.88%	3.50%
U.S. $ / Euro	1.31	1.31	1.30	1.45
U.S. $ / British Pound	1.59	1.58	1.55	1.64
Yen / U.S. $	80.97	82.37	76.91	83.50
Gold ($/oz)	$1,669.38	$1,631.23	$1,563.70	$1,474.18
Oil	$103.41	$103.31	$98.83	$108.11

**Levels reported as of 8:00 a.m. Pacific Standard Time*

MARKET RETURNS

Year-to-date (12/31/11-4/13/12)*

Dow Jones Indus Avg.	5.51%
S&P 500	9.33%
NASDAQ	15.89%
Russell 2000	7.73%
MSCI World Index	8.60%
DJ STOXX Europe 600	3.57%
MSCI EM Index	9.58%

Year-to-date (12/31/11-4/12/12)

90 Day T-Bill	0.01%
2-Year Treasury	0.02%
10-Year Treasury	-0.73%
ML High Yield Index	4.76%
JPM EMBI Global Diversified	4.78%
JPM Global Hedged	0.67%

**Returns reported as of 8:00 a.m. Pacific Standard Time*

RECAP OF THE WEEK'S ECONOMIC RELEASES

Monday, April 9: NFIB Small Business Optimism – Small business optimism ticked down to 92.5 in March from 94.3 in February. The majority of net, new jobs created in this recovery stem from small business hiring so this gauge remains an important indicator.

Tuesday, April 10: Job Openings Labor Turnover Survey (JOLTs) – The number of unfilled job openings rose slightly in February, moving to 3.498 million from 3.459 million in January. More job openings lead to a lower unemployment rate over time as businesses eventually fill positions.

Thursday, April 12: International Trade Balance – The trade balance (exports minus imports) narrowed to -$46.0 billion in March from -$52.6 billion in January. This will boost Q1 2012 gross domestic product (GDP) growth calculations as exports act as a drag on domestic production.

Friday, April 13: Consumer Prices – The Consumer Price Index (CPI) rose 0.3% in March and 2.7% over the last 12 months. The core consumer price index, which excludes food and energy prices, rose 0.2% during the month and 2.3% over the last 12 months. See more on inflation in the "Economic Overview" below.

Michigan Confidence – Consumer Confidence ticked down slightly from 76.2 to 25.7 in the preliminary March reading. A weaker job market and higher gasoline prices hamper consumer confidence.

ECONOMIC OVERVIEW

Outside of energy prices, US consumer price inflation is modest. This situation will provide room for the Federal Reserve to maintain its current accommodative policies but little room to pursue further easing. In March, the consumer price index (CPI) rose 0.3% driven by a 0.9% increase in energy prices. This compares to a 3.2% jump in energy prices in February. If gasoline prices stabilize, the upward pressure on the CPI should ease. If this happens, the year-over-year rate of inflation will continue to edge back toward 2.0%. In March, headline CPI fell to 2.7% versus a year ago. If we exclude energy prices altogether – using the so-called "core" CPI which excludes food and energy – inflation rose 0.2% in March and 2.3% over the last year. This is not enough to worry the Fed about inflation pressures nor is it evidence of a looming disinflation. As a result, we think the Fed is content to maintain its current monetary policy stance and wait for further information before embarking on a new easing program (e.g., the much talked about QE3) in the near term.

US MARKETS:

LARGE-CAP EQUITIES

- The stock market fell for the second consecutive week on a disappointing US jobs report and renewed European debt concerns. Equities had its worst performing week of the year as trading picked up on increased volatility. The S&P 500 and NASDAQ Composite indexes ended the week lower by 1.7% and 2%, respectively. Large-cap stocks outperformed small-cap stocks. In terms of style, large-cap growth stocks performed in line to large-cap value stocks. The best performing sectors were materials and utilities, while the worst performing sectors were energy and health care. Earnings season kicked-off this week with Aloca, Google, and JPMorgan topping street earnings estimates, while Wells Fargo met expectations.

CORPORATE BONDS

- Investment grade primary activity slowed to a crawl as 1st quarter earnings commenced and took center stage. Uncertainly relating to US growth after a bleak March payroll number, ongoing concerns regarding the fiscal status in Spain/Italy coupled with the fact that April typically is a low volume month due to earnings-related issuance blackouts kept most issuers at bay. Notable deals this week included John Deere ($1bln) and Kroger ($850mm).

- Investment grade corporate spreads widened most of the week as last Friday's weak payroll number pressured markets. US earnings and the growth story in China are near term catalysts that could determine the trajectory of spreads. The overall sentiment remains cautiously positive. The Barclays Credit Index Option-Adjusted Spread (OAS) finished the week at +171, eight basis points wider. Financials widened by 15 basis points (banks +17, insurance +9); industrials widened by 6 (basic materials +8, capital goods +4, telecom +13, consumer cyclical +5, consumer non-cyclical +4, energy +7); and utilities widened by 4 basis points.

MORTGAGE-BACKED SECURITIES

- Heavy trading in agency mortgages as interest rates declined with the 10-year dropping below the 2.0% threshold level. Supply trumped demand and pass-through spreads were wider by 5 to 7 basis points versus comparable Treasuries. With the bond market rally, lower coupons outperformed higher coupon mortgages and Ginnie Mae mortgages bested conventionals. In mortgage credit, European debt woes and weaker global equities contributed to the risk-off trade with spreads wider and prices lower for both non-agency and commercial mortgage-backed securities. For the week, the benchmark commercial mortgage-backed security (CMBS) transaction, GSMS 07-GG10 A4, widened 10 basis points to 265 basis points versus the 10-year swap rate.

MUNICIPAL BONDS

- California once again led the charge for a hectic new-issue week. The state priced $1.3 billion in general obligation (GO) bonds, and were able to maintain similar spreads to the last deal that priced only a month ago. Although the state continues to see revenues that come in below the projections, the cash situation for the state treasury is nowhere near the level of fiscal crisis that triggered IOUs in 2009.

- The maximum yield on the California deal was the 2042 maturity at 4.39%. A generic 30-year AAA-rated general obligation yielded 3.35%, lower by 7 basis points on the week.

HIGH-YIELD BONDS

- The high yield bond market hit a bout of choppiness in the early part of April, with the Merrill Lynch high yield BB/B index down -0.35% month-to-date. The weakness in April to-date is resulting primarily from mixed economic data in the US, renewed worries about Spain and Portugal and their respective debt loads, and a modest sell-off in the global equity markets. After a strong first quarter, when the Merrill Lynch high yield BB/B index was up 4.42%, it is not surprising that the market is taking a “breather.” The recent softness in the market notwithstanding, the high yield new issue market remains healthy with over $4 billion in bonds pricing this week. The seminal deal of the week was financing for the $7.5 billion acquisition of the oil and gas assets of El Paso Corporation led by a consortium of financial buyers including Apollo Advisors and Carlyle’s Riverstone Group. The entity, EP Energy, issued $2.75 billion of bonds, led by $2 billion of unsecured bonds rated B2 and with a 9.375% coupon for the 2020 maturity bonds. The deal was well-received and the bonds broke up 2 points (2%) as trading began. The new issue forward calendar is currently on the light side but is expected to grow as parties return from their spring holidays.

INTERNATIONAL MARKETS:

EASTERN EUROPEAN EQUITIES

- Stocks in Eastern Europe were flat during the week. In Mr. Putin's his final address to the State Duma as prime minister before his assumes the presidency, he communicated multiple goals, with a clear emphasis to social/demographic issues (further population growth, intensive regional development, creation of qualitative jobs and increase of real wages). At the same time, he also focused on the "new economy" (investments equal to 25% of GDP by 2015, cheaper retail loans), competitiveness and the business climate (cut red tape/corruption via stricter control over public employees), which should be supportive to equities. A lack of focus on political reforms, however, means the issue of setting the right incentives for modernisation "from below" remains in place, effectively making the reforms agenda even more challenging for his next presidential term.

GLOBAL BONDS AND CURRENCIES

- Major non-US sovereign bond market received support in the past week from safe haven buying following fresh concerns regarding Spain's capacity to deliver on its deficit reduction commitments. A general perception that the initially positive market impact of the ECB's long term liquidity operations was wearing thin added to these concerns. Efforts by the Spanish government to appease the markets via the announcement of further structural economic reforms did nothing to calm market jitters. Instead speculation focused on the EU authorities' likely response to this latest round of instability – including the possibility of another round of Spanish government bond purchases by the ECB and a 'precautionary' package of financial aid.

- Bund and UK Gilt yields finished several basis points lower across the curve on the week, in line with US Treasuries, while 10-year Spanish government bond yields approached 6% and the spread over 10-year Bunds widened to around 400 basis points. Italian government bonds were relatively stable despite the lukewarm reception for the week's Italian debt auction.

- Despite fresh worries over Europe, and a weaker-than-expected reading on Chinese Q1 GDP at the end of the week, currency markets traded in relatively tight ranges and the USD ended the week mostly unchanged. The yen received a minor boost from the Bank of Japan's decision to keep policy on hold while in Australia, hopes of a May cut in rates diminished following some stronger than expected employment data.

EMERGING-MARKET BONDS

- Emerging market dollar-pay debt spreads were wider this week.

- The National Bank of Serbia (NBS) kept its policy rate of hold at 9.5%, its third consecutive pause as policymakers await the new government following the May 6th general elections for future policy direction. The NBS further elaborated on its decision stating, "with a view to uncertainty over import prices, the new agricultural season and probably faster pace of growth in the second half of the year," the NBS "decided to keep the reference rate unchanged."

- Bank Indonesia left its benchmark interest rate unchanged for a second month at 5.75% on the back of uncertainty over the fuel price hike and inflation. Consumer prices rose 3.97% year-over-year in March from 3.56 year-over-year in February. Bank Indonesia Governor Darmin Nasution stated that rising commodity prices, especially oil, have increased inflationary pressures that can lead to tight monetary policy.

NEXT WEEK'S ECONOMIC RELEASES

Monday, April 16:	Retail Sales
Tuesday, April 17:	Housing Starts, Building Permits
Thursday, April 19:	Existing Home Sales, Leading Indicators