CHART OF THE MONTH

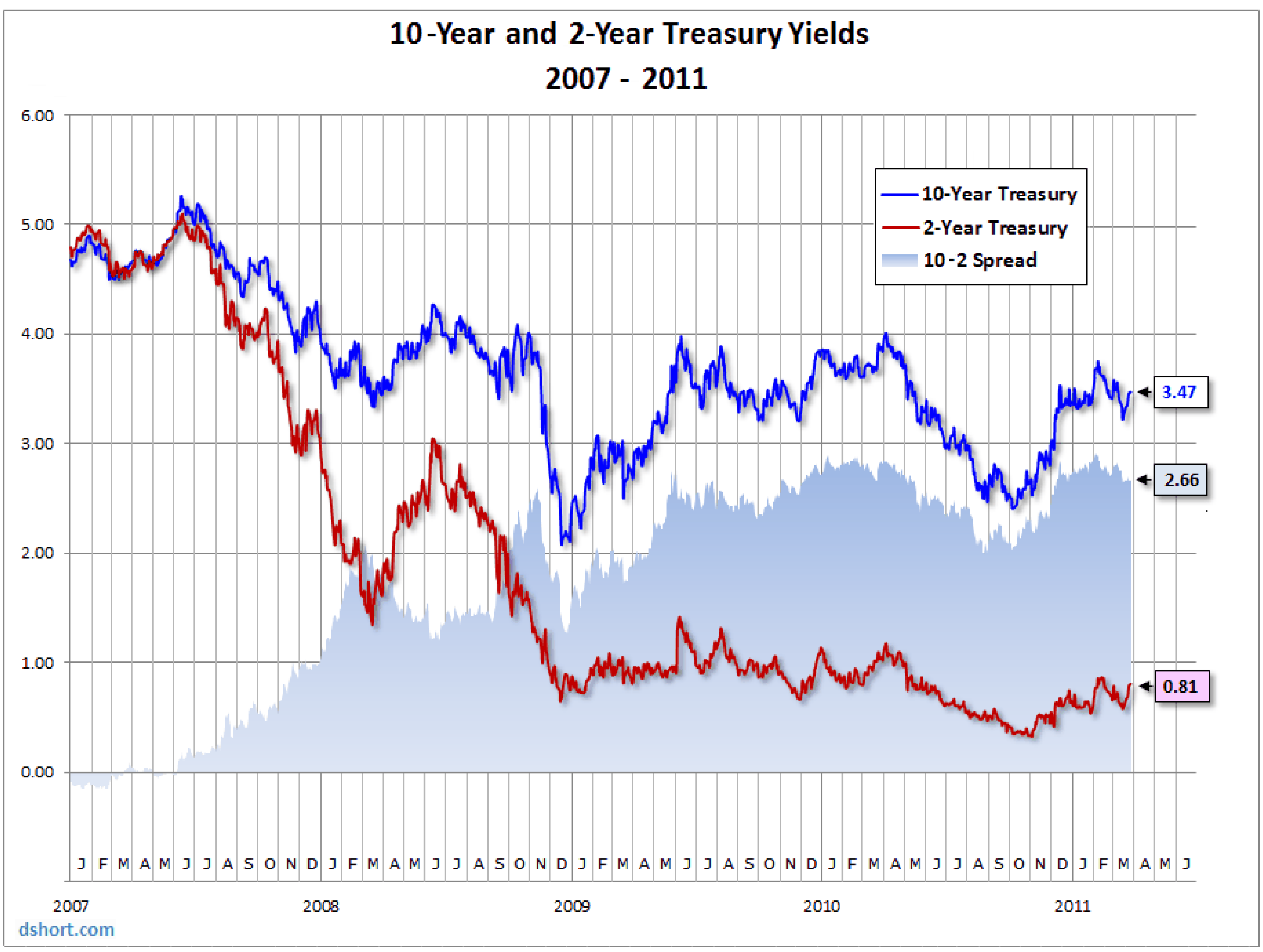
MARCH 2011

The Chart of the Month displays the yields on the 10-year and 2-year Treasury Notes as well as the difference (or what is known as the "spread") between these two maturities. As shown, the yield on the 10-year Treasury is currently 3.47% while the yield on the 2-year is 0.81%. The spread is 2.66%. The spread was negative (meaning the yield on the 2-year was greater than the yield on the 10-year) just over four years ago when the economy was peaking. Importantly, an inverted yield curve (i.e., short rates higher than long rates), which is generally caused by a tightening in monetary policy, tends to portend a slowing or even contracting economy. Conversely, a positively sloped yield curve (i.e., long rates greater than short rates), which is usually a function of a more accommodative Fed policy, tends to presage an expanding economy.

There are a number of key takeaways in this graph:

1. Shorter-term interest rates, as measured by the 2-year USTN, are still low by historical standards.
2. Longer-term interest rates, as measured by the 10-year USTN, are closer to the middle of their range after advancing from the mid-2s to the mid-3s over the past six months.
3. The spread between the 10-year and 2-year is at the upper end of its range.

While the spread may widen if Ben Bernanke introduces a third round of quantitative easing (QE3) later this year, we believe the yields between the 10-year and 2-year are likely to narrow if and when the Fed begins raising interest rates. Of note, the level and changes in Treasury yields have had a high correlation with the Standard & Poor's 500 since the peak in the index in October 2007. We will share a graph with an overlay of the S&P 500 and the 10-year Treasury yield in our April Chart of the Month on Friday.



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