Bianco Research L.L.C.

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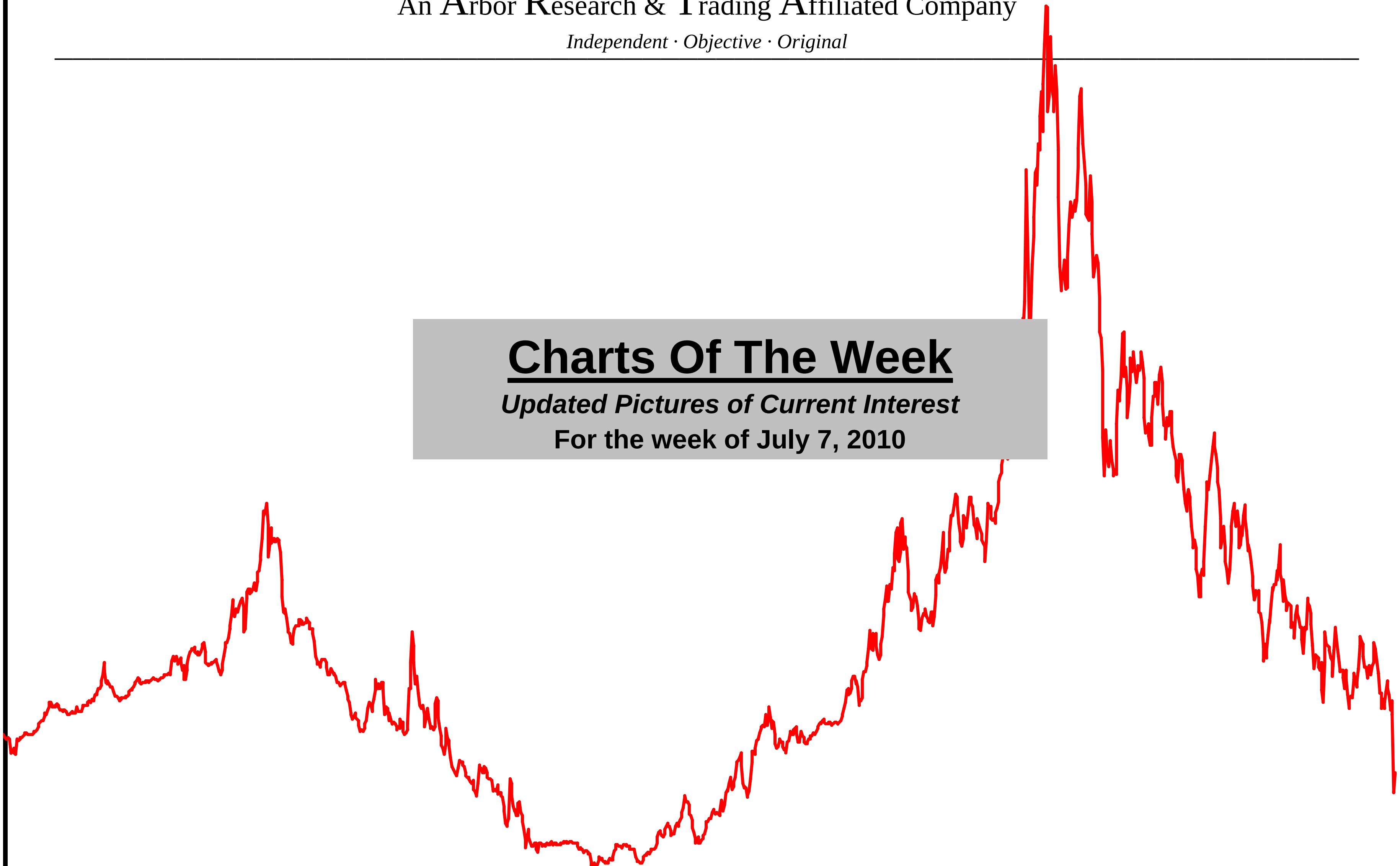
Charts Of The Week

Updated Pictures of Current Interest

For the week of July 7, 2010

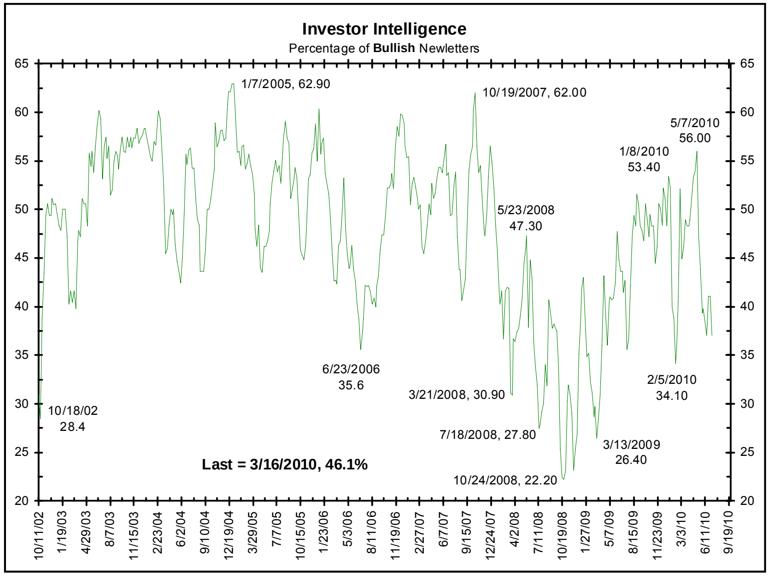


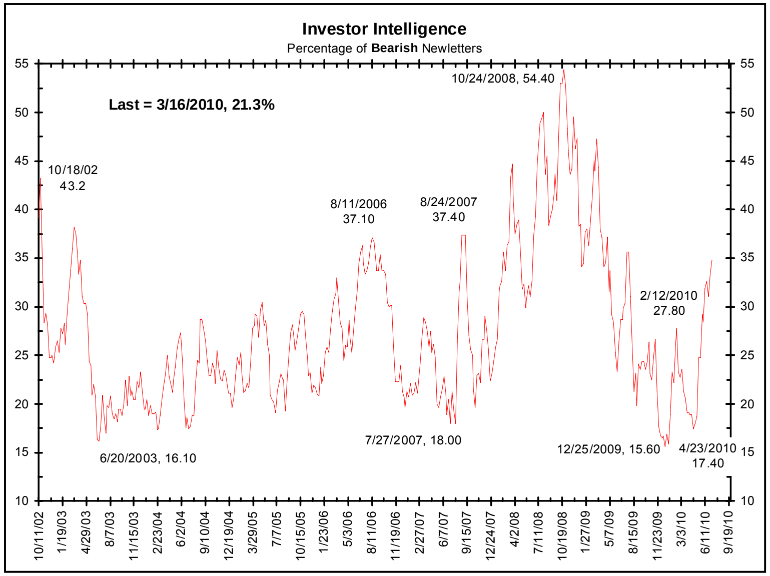
Long-Term Interest Rates - 1900 to 2009

Is The Crowd Too Bearish?

Was today's explosive rally a result of an oversold market or something more?

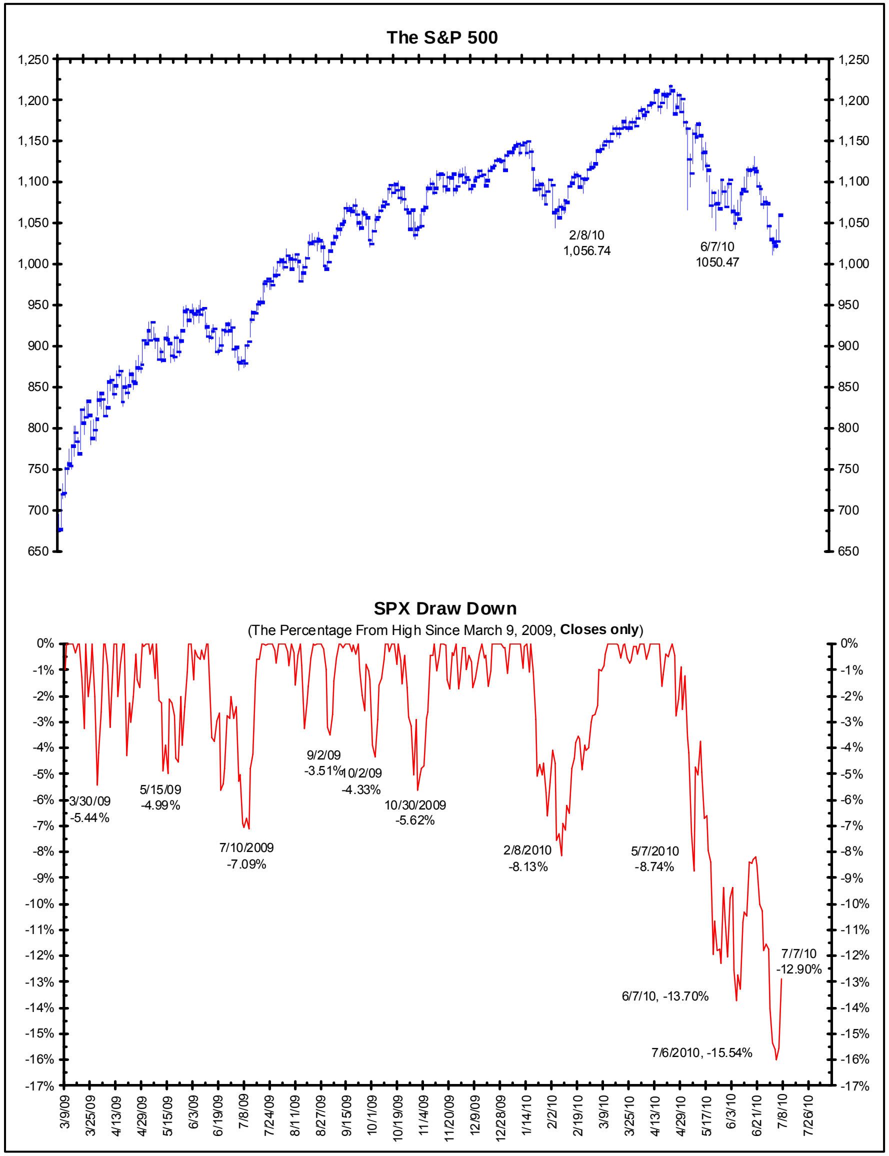
The chart to the right shows market sentiment via a survey of stock market newsletter writers by *Investor's Intelligence*. Given the 16% decline in stocks through last week, it is not surprising to see such high bearish opinion prevalent in the marketplace. If 2008 proved anything, investors can still become much more bearish before capitulating.





S&P 500 Drawdown

Prior to today's rally, the S&P 500 was 15.54% off the April 23 high. Now it is only 12.90% off this high.



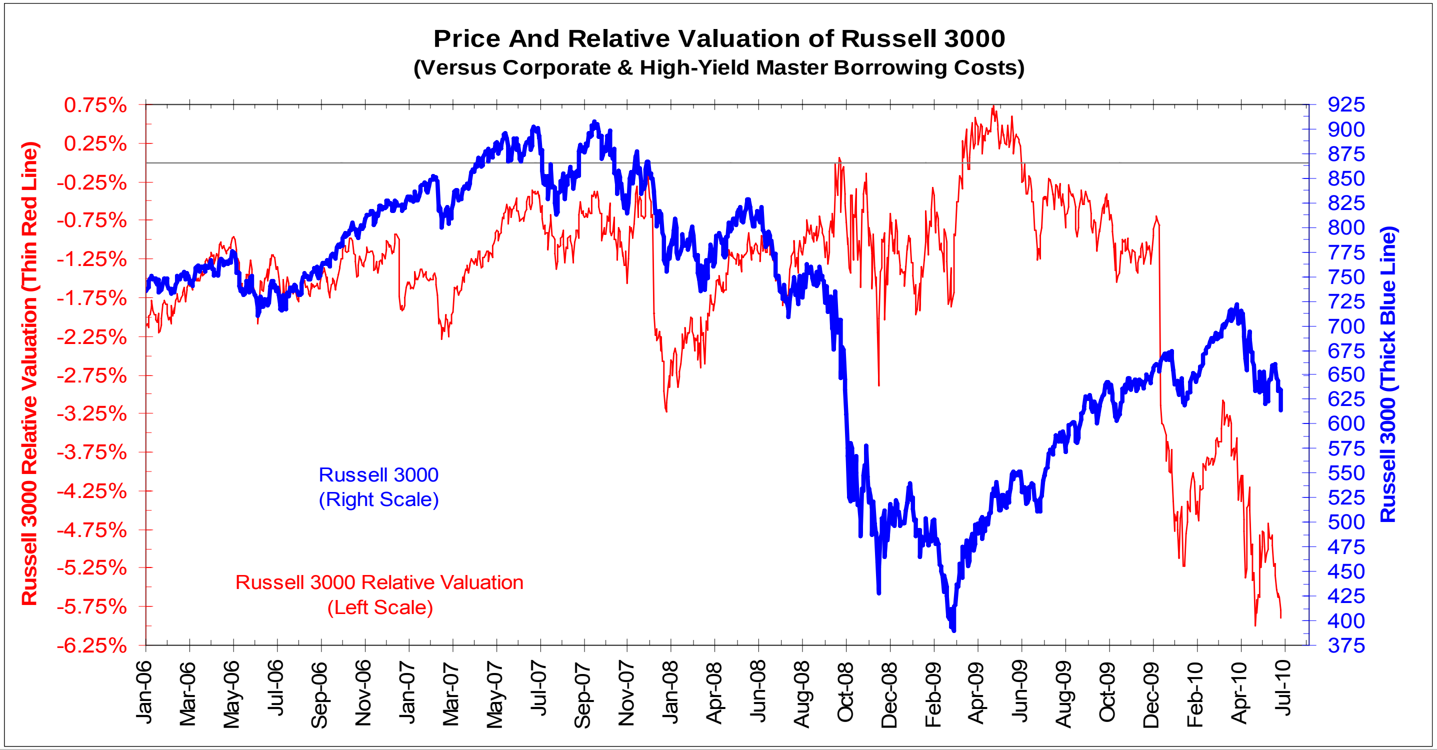
Are U.S. Stocks Wildly Undervalued Given Earnings Estimates?

From A Recent **Commentary**

When we last updated this construct in March, we concluded the stage was being set for a bubble in U.S. equities given rising earnings estimates and continued stimulative monetary conditions. The bull market lasted another month before being derailed by a combination of events, the most prominent of which have been the European credit crisis and a turn toward restrictive policies in China.

Both the exuberant top-down earnings estimates for the U.S. remain, and with the Federal Reserve at least maintaining an accommodative stance, so, too, do the stimulative monetary conditions. Recent analyses of corporate yield curves and swap spreads, while not bullish, reveal remarkably little stress given equity performance, and nothing in the asset return differentiation map is remarkable save for the drive into U.S. Treasuries.

As prices for U.S. equities (thick blue line) have fallen almost 14% since the end of April, the forward-looking top-down valuations therefor are compelling (thin red line). All an investor needs to do is believe those estimates.

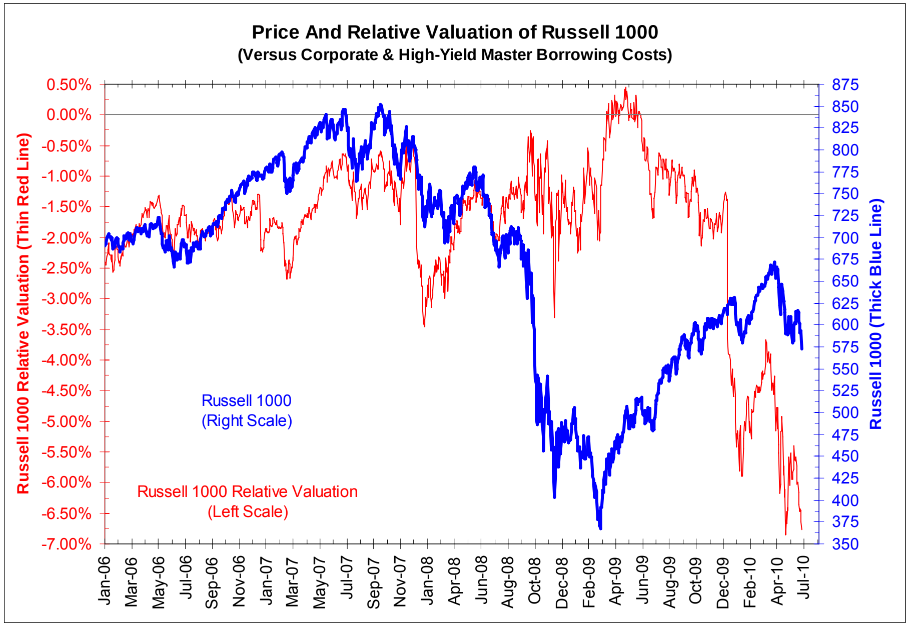


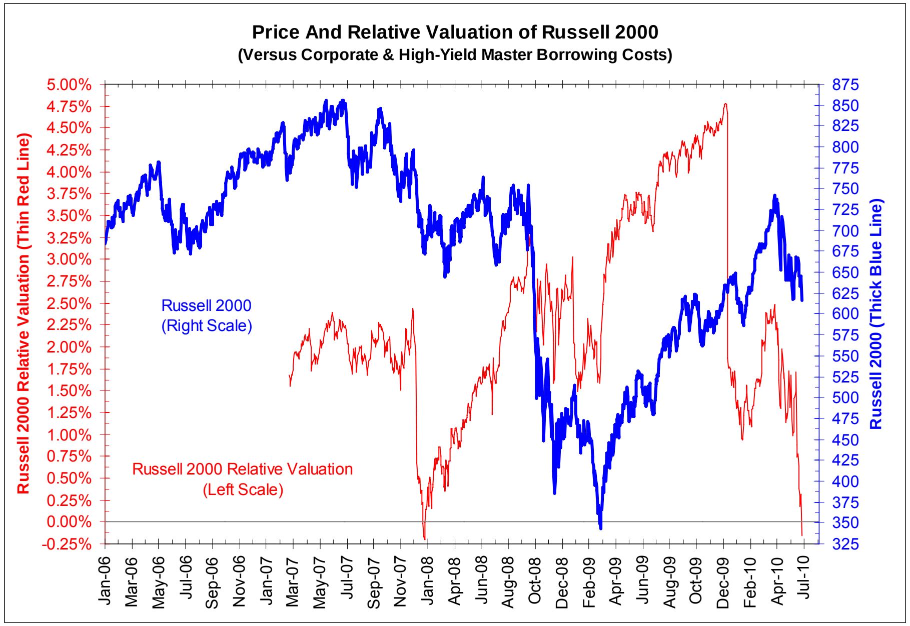
Revisiting Size-Dependent Value And Growth Relative Valuations

From A Recent **Commentary**

We addressed the continued undervaluation of the Russell 3000 given current forward-looking top-down earnings estimates yesterday.

Let's repeat the analysis on a size-dependent basis by addressing the Russell 1000 and Russell 2000 indices (left- and right-hand charts, all dyads below) separately. All indices are depicted in blue; all relative valuations in red.
The Russell 1000 and Russell 2000 are undervalued by 6.77% and 1.02%, respectively.





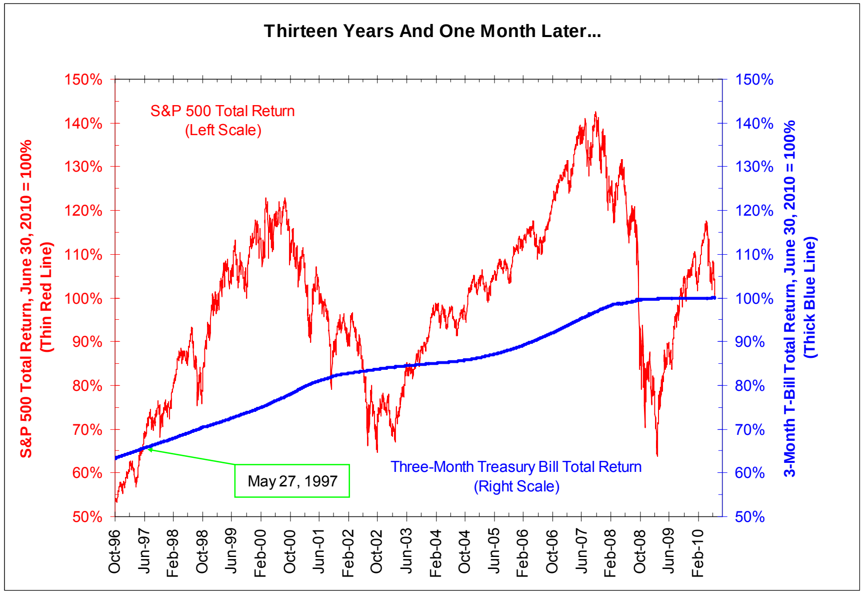
Revisiting S&P 500 & 3-Mth Treasury Bill Comparative Returns

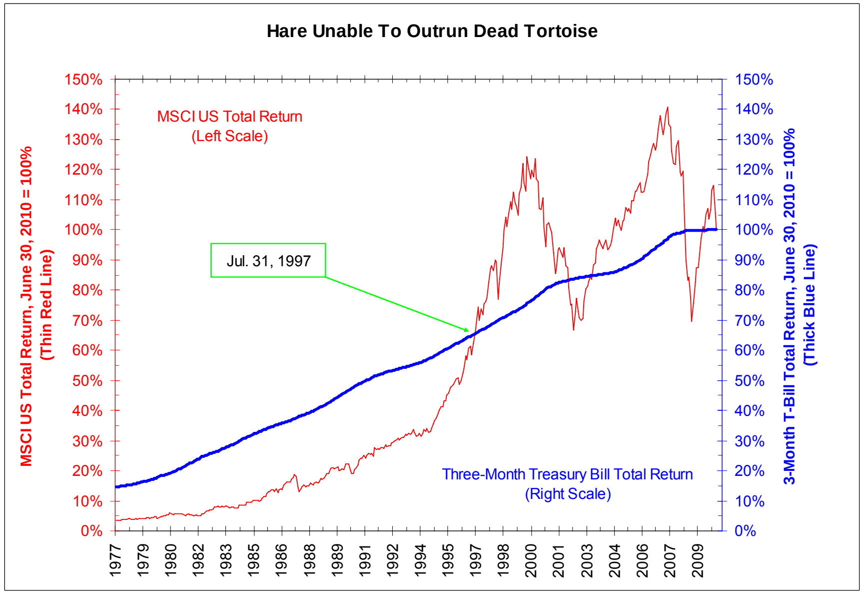
From A Recent **Market Facts**

If we overlay the total return index for three-month Treasury bills on either a daily or a monthly basis (blue line, left- and right-hand chart, respectively), the comparison between equities and Treasury bills becomes grimmer. The S&P 500 has not outperformed three-month Treasuries since May 27, 1997, more than a month before the Thai baht crisis launched a series of what we today would consider trivial rescue attempts. The comparable date of equivalent performance for the MSCI index measured monthly is July 1997.

For those contemplating the view from a window-ledge, consider the average monthly return on three-month Treasuries since October 2008 has been 0.023%. That number is before taxes, inflation and the cost of e-mailing a statement to clients; regular postage is too expensive to use for in this context.

The hare of the U.S. stock market is struggling to beat the dead tortoise of three-month Treasuries.





Equities Still Correlated Positively To Higher Short-Term Yields

From A Recent [Market Facts]

Two-Year Note Beta-Weighted Impact On S&P 1500

	SPR Weight	TU Beta	Weighted Beta
Pharmaceuticals	5.35%	0.076	0.004
Soft Drinks	2.16%	0.096	0.002
Household Products	2.32%	0.088	0.002
Healthcare Equipment	1.92%	0.078	0.001
Packaged Foods	1.71%	0.077	0.001
Electric Utilities	1.84%	0.061	0.001
Hypercenters & Superstores	1.19%	0.094	0.001
Integrated Telecommunications	2.32%	0.040	0.001
Multiline Utilities	1.36%	0.066	0.001
Biotech	1.41%	0.061	0.001
Tobacco	1.33%	0.061	0.001
Aerospace & Defense	2.70%	0.027	0.001
Restaurants	1.29%	0.056	0.001
Computer Hardware	3.48%	0.020	0.001
Healthcare Services	0.88%	0.066	0.001
Systems Software	3.00%	0.017	0.001
Managed Health	0.88%	0.051	0.000
Internet Software & Services	1.65%	0.022	0.000
Healthcare Distributors	0.47%	0.074	0.000
Life Sciences Tools & Services	0.59%	0.055	0.000
Drug Retailers	0.63%	0.051	0.000
Gold	0.26%	0.123	0.000
Data Processing & Outsourcing	1.34%	0.019	0.000
Air Freight & Logistics	0.92%	0.023	0.000
Environmental Services	0.35%	0.051	0.000
General Merchandise Retailers	0.48%	0.035	0.000
Food Retailers	0.30%	0.049	0.000
Food Distributors	0.19%	0.071	0.000
Insurance Brokers	0.26%	0.042	0.000
Personal Products	0.21%	0.048	0.000
Healthcare Suppliers	0.12%	0.070	0.000
Education Services	0.18%	0.041	0.000
Gas Utilities	0.41%	0.017	0.000
Brewers	0.07%	0.092	0.000
Healthcare Facilities	0.17%	0.030	0.000
Distillers & Vintners	0.09%	0.060	0.000
Automotive Retailers	0.23%	0.019	0.000
Metal & Glass Containers	0.18%	0.023	0.000
Distributors	0.08%	0.045	0.000
Reinsurance	0.10%	0.033	0.000
Specialized Consumer Services	0.12%	0.022	0.000
Healthcare Technology	0.08%	0.033	0.000
Housewares & Specialty Stores	0.13%	0.016	0.000
Office Services & Supplies	0.13%	0.011	0.000
Water Utilities	0.03%	0.050	0.000
Subtotal:	44.89%		-2.41%

	SPR Weight	TU Beta	Weighted Beta
Other Diversified Financial Services	3.54%	0.176	0.006
Diversified Banks	1.72%	0.134	0.002
Investment Banking & Brokerage	1.18%	0.145	0.002
Regional Banks	1.56%	0.108	0.002
Asset Management & Custodial Banks	1.14%	0.125	0.001
Oil & Gas Equipment	1.53%	0.080	0.001
Oil & Gas Exploration	2.06%	0.058	0.001
Life & Health Insurers	1.01%	0.111	0.001
Consumer Finance	0.79%	0.131	0.001
Retail REITs	0.50%	0.126	0.001
Industrial Conglomerates	2.05%	0.031	0.001
Specialized REITs	0.69%	0.091	0.001
Multiline Insurers	0.41%	0.147	0.001
Steel	0.39%	0.129	0.001
Construction & Farm Machinery	1.08%	0.045	0.000
Specialized Finance	0.42%	0.098	0.000
Residential REITs	0.35%	0.114	0.000
Office REITs	0.30%	0.115	0.000
Diversified Metals & Mining	0.31%	0.113	0.000
Property & Casualty Insurers	2.10%	0.016	0.000
Coal & Cons. Fuels	0.25%	0.129	0.000
Construction & Engineering	0.31%	0.088	0.000
Diversified REITs	0.17%	0.132	0.000
Broadcast & Cable TV	0.22%	0.089	0.000
Oil & Gas Drilling	0.24%	0.080	0.000
Diversified Chemicals	0.82%	0.022	0.000
Thrifts & Mortgages	0.24%	0.076	0.000
Hotels	0.33%	0.055	0.000
Automobile Manufacturers	0.35%	0.052	0.000
Oil & Gas Refining	0.18%	0.096	0.000
Oil & Gas Storage	0.34%	0.050	0.000
Industrial REITs	0.09%	0.173	0.000
Industrial Machinery	1.09%	0.015	0.000
Homebuilding	0.17%	0.088	0.000
Internet Retailers	0.55%	0.025	0.000
Apparel & Accessories	0.36%	0.034	0.000
Aluminum	0.11%	0.105	0.000
Electrical Components & Equipment	0.66%	0.017	0.000
Apparel Retailers	0.67%	0.017	0.000
Department Stores	0.37%	0.023	0.000
Auto Parts & Equipment	0.25%	0.033	0.000
Semiconductor Equipment	0.42%	0.018	0.000
Specialty Stores	0.31%	0.021	0.000
Casinos & Gaming	0.16%	0.041	0.000
Paper Products	0.16%	0.038	0.000
Electrical Manufacturing Services	0.12%	0.033	0.000
Tires & Rubber	0.03%	0.152	0.000
Forest Products	0.09%	0.042	0.000
Multisector Holdings	0.04%	0.080	0.000
Motorcycle Manufacturers	0.05%	0.052	0.000
Trucking	0.12%	0.019	0.000
Commercial Printers	0.05%	0.034	0.000
Home Furnishings	0.06%	0.019	0.000
Consumer Electronics	0.02%	0.046	0.000
Marine	0.03%	0.019	0.000
Photo Products	0.01%	0.045	0.000
Commodity Chemicals	0.01%	0.052	0.000
Subtotal:	32.59%		2.73%
Total:	**77.48%**		**0.32%**

A total of 45 industry groups in the S&P 1500 accounting for 44.89% of market capitalization have a statistically significant negative relative performance beta to higher two-year note yields (left-hand cells). The net weighted beta is -2.41%.

Fifty-seven groups accounting for 32.59% of the S&P 1500 have a statistically significant positive relative performance beta; the net weighted beta here is 2.73%. Many of these are financial issues (yellow shading) whose fall preceded and then coincided with the massive decline in short-term interest rates; we noted this first in January 2008.

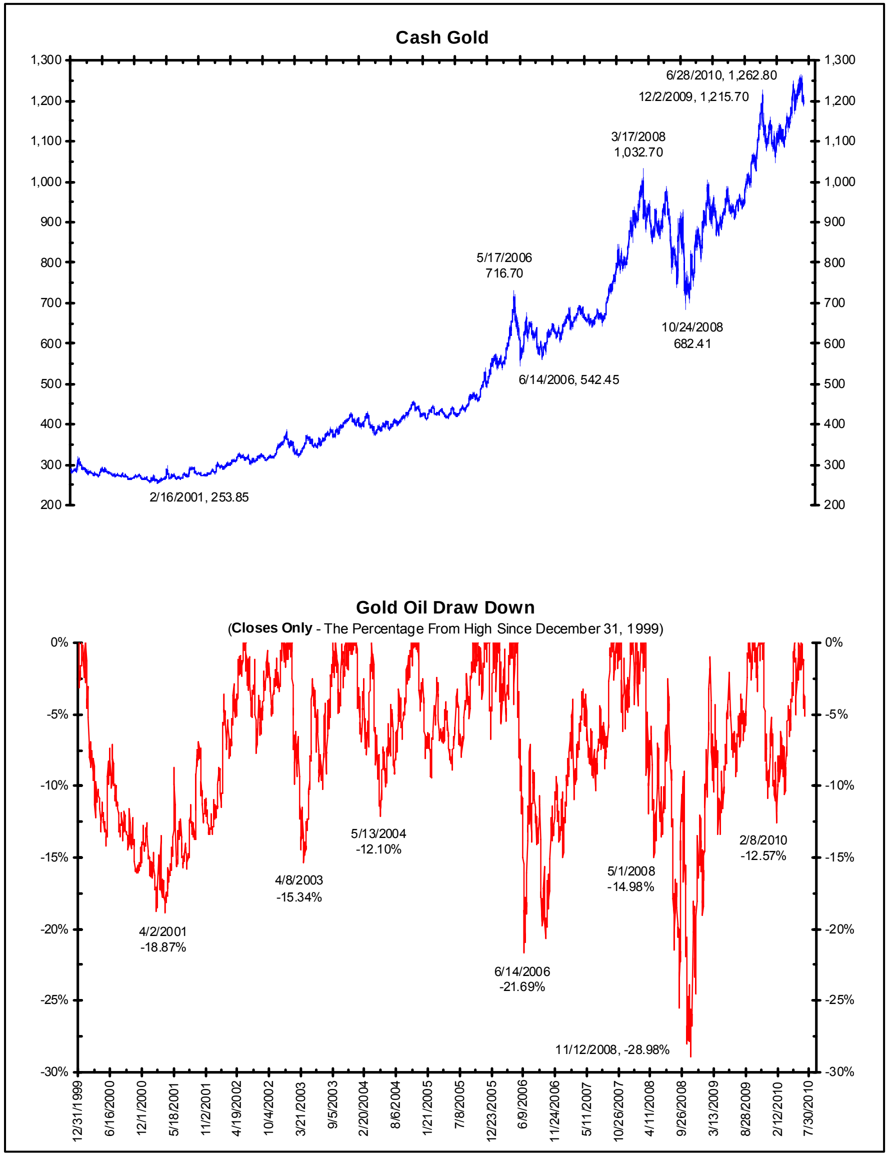
The net contribution is 0.32%. Each 1% increase in two-year note yields, about 0.67 basis points at current levels, could be expected to lead to a 0.0032% increase in the S&P 1500, all else held equal.

Measuring Gold's Decline

Gold declined almost $80 from its all-time high set last week. Some now wonder if the rally in gold is over.

As the bottom panel to the right shows, gold's decline was barely 5% from its previous high at its worst level. During the bull market that began in 2001, gold has decline more than 10% seven times and more than 15% five times.

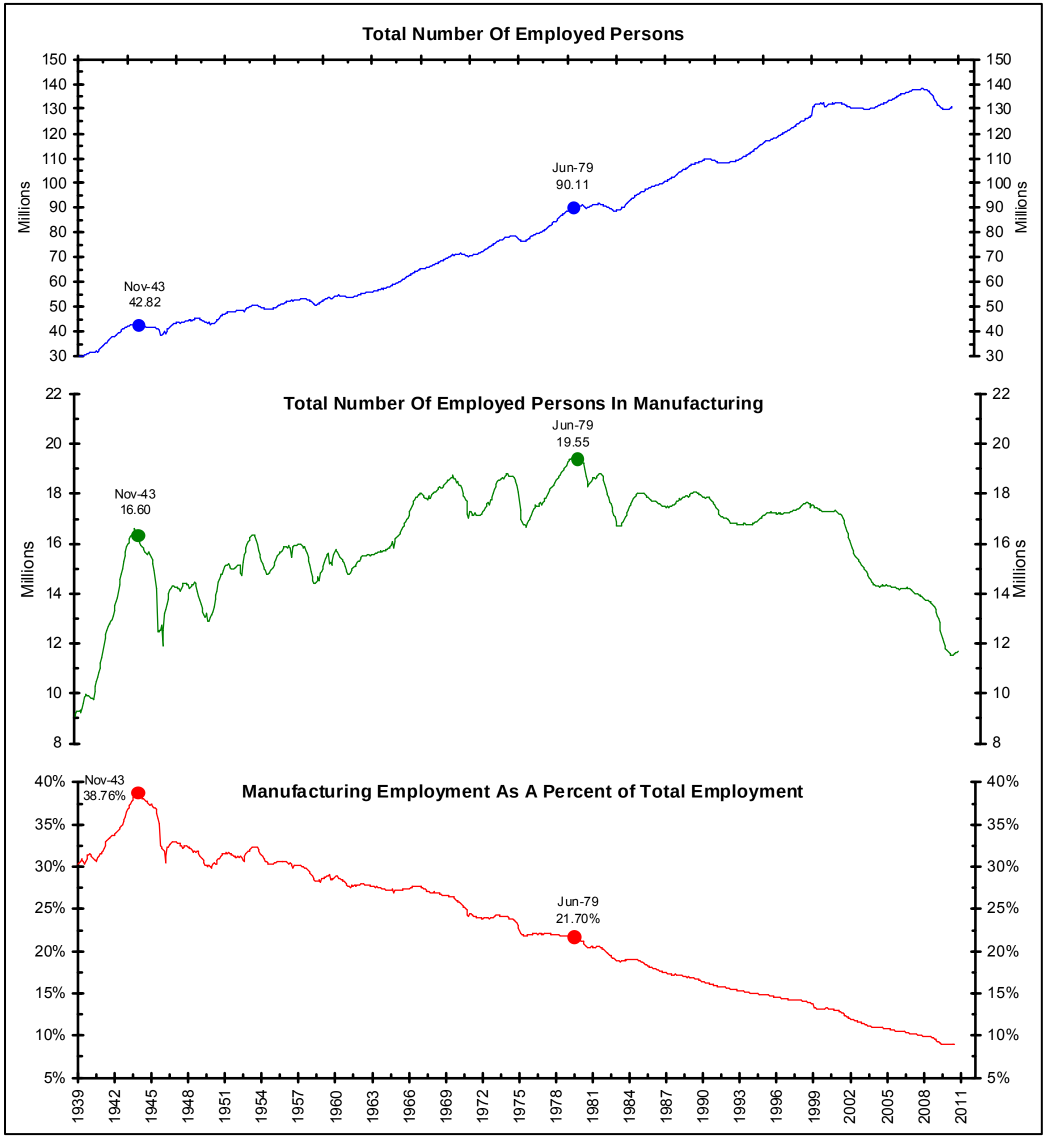
Given this, on price action alone, we would say gold has not "broken down."



Manufacturing Jobs – Do They Matter Anymore?

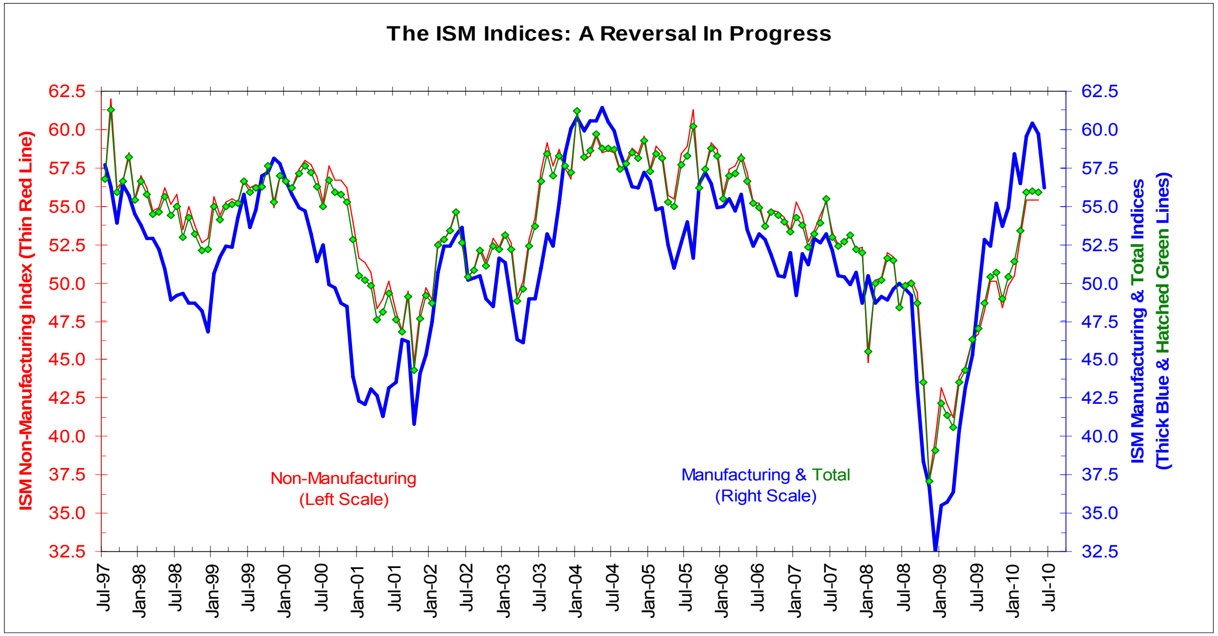
From Our
Newsclips/Daily Market Commentary

All too often manufacturing jobs are stressed moreso than service sector jobs. This may have made sense many decades ago when manufacturing jobs accounted for nearly 40% of total employment, but today those jobs account for less than 9% of total employment. In fact, as the highlighted passage above points out, the service sector now employs more than five times the number of people as the manufacturing sector.



ISM Manufacturing Index' Reversal Not Deterministic

From A Recent **Market Facts**



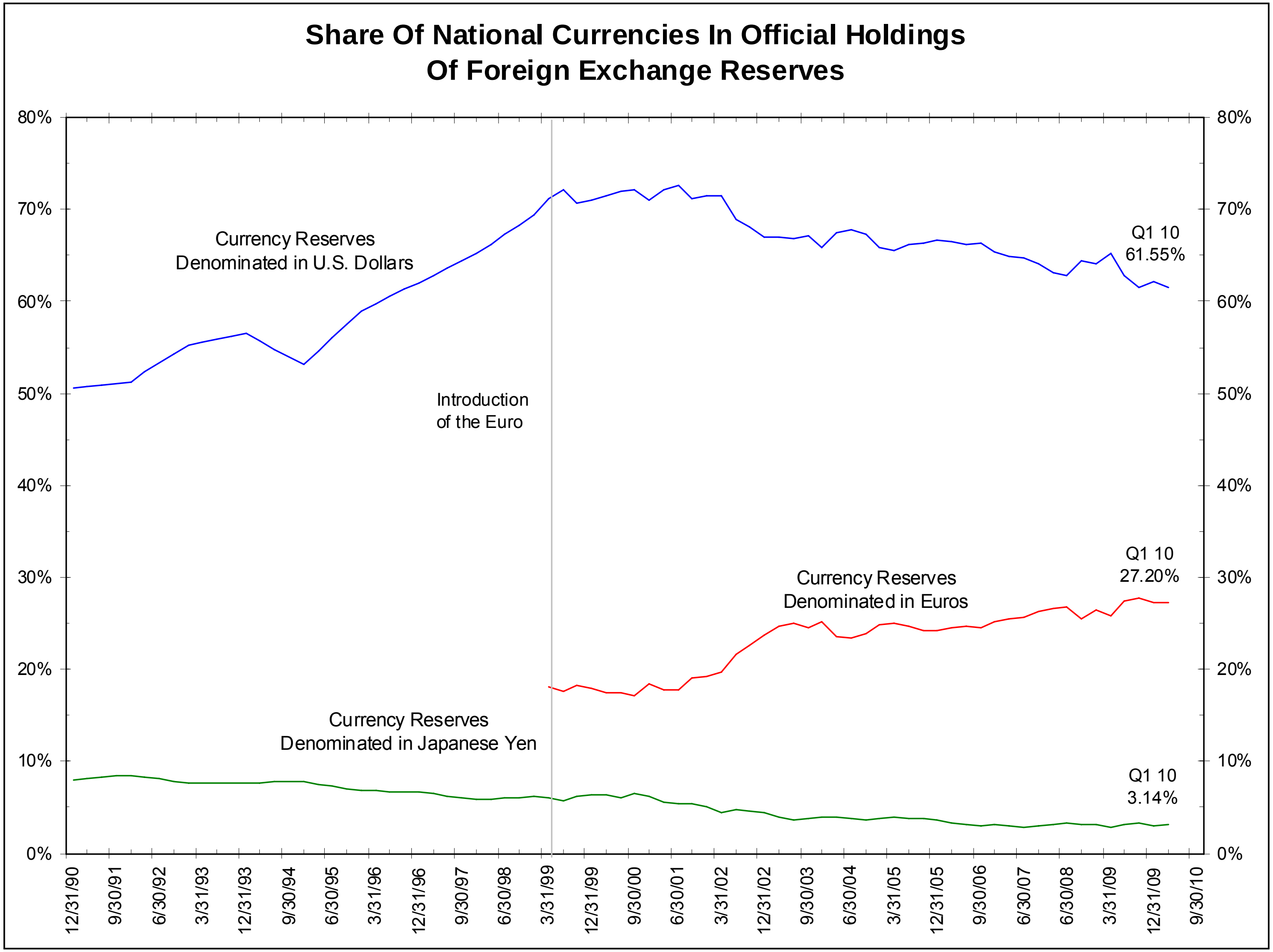
As a methodological note, while the manufacturing index extends back to 1948, the non-manufacturing index (thin red line) has only twelve years of history.

We should note the ISM manufacturing index peaked in May 2004 and declined irregularly into September 2008; the U.S. economy remained in an expansion phase between 2004:Q3 and 2007:Q3. The downturn in the index is not a single-stop indicator of expansion and contraction. Similarly, the index bottomed in December 2008, well before anyone has suggested the recession ended.

The non-manufacturing index, available only through May at the time of this writing, and the weighted-average combined index (hatched green line) have trended sideways since March. Similar divergences occurred between November 1999 and November 2000 and between June 2002 and February 2003.

Manufacturing can be stopped and restarted much more quickly than can non-manufacturing; the entire sector simply is more volatile and is increasingly linked to global, as opposed to national trends. The present V-shaped downturn is a matter of concern, but does not indicate a reprise of the credit-led downturn in 2008-2009.

Currency Reserves



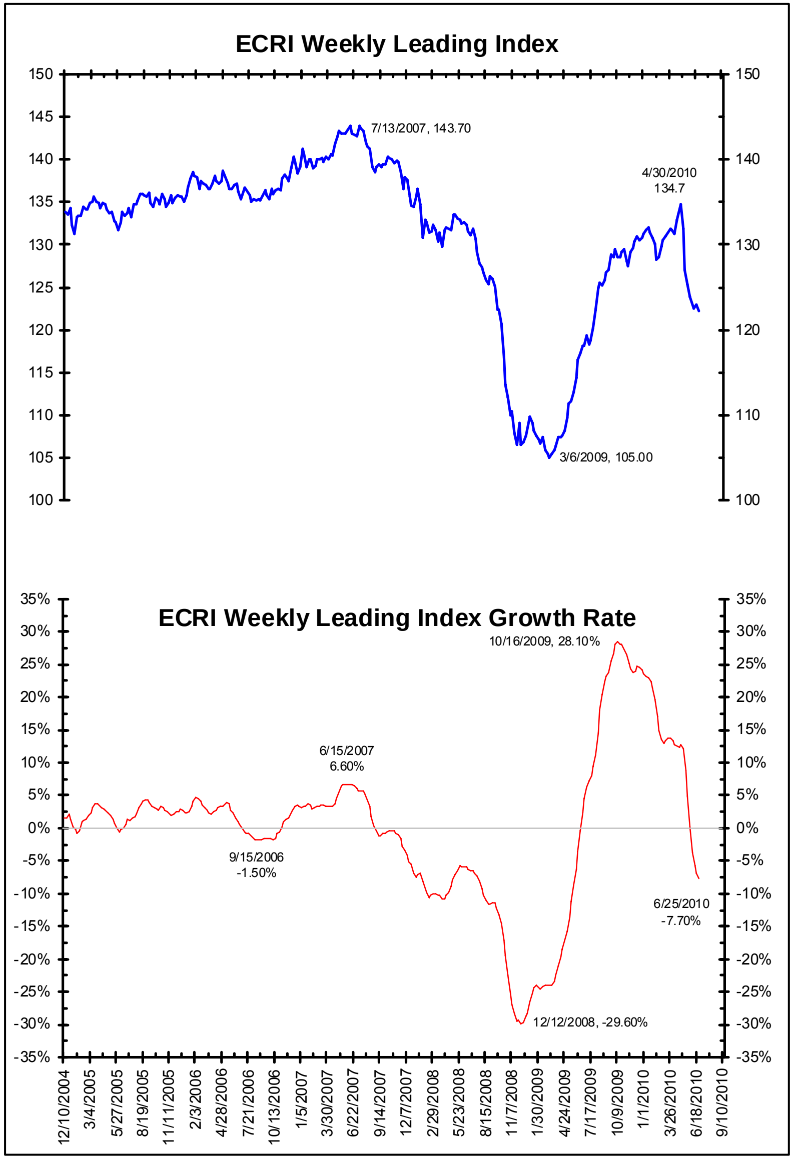
ECRI Falls Again

From Our
[Newsclips/Daily Market Commentary]

Should We Care?

This index, which has been published every Friday for decades, is viewed as a very good leading indicator of future economic activity. However, it is not without its critics.

Bank of America panned this index in a June 22 commentary. As we further discussed in a Market Facts on Wednesday, although the **ECRI is constructed of multiple components, one need look no further than last week's stock prices to get a general idea of where this index is heading. But, given its great reputation and track record, if the ECRI is telling us the economy is stumbling, we need to pay attention.**

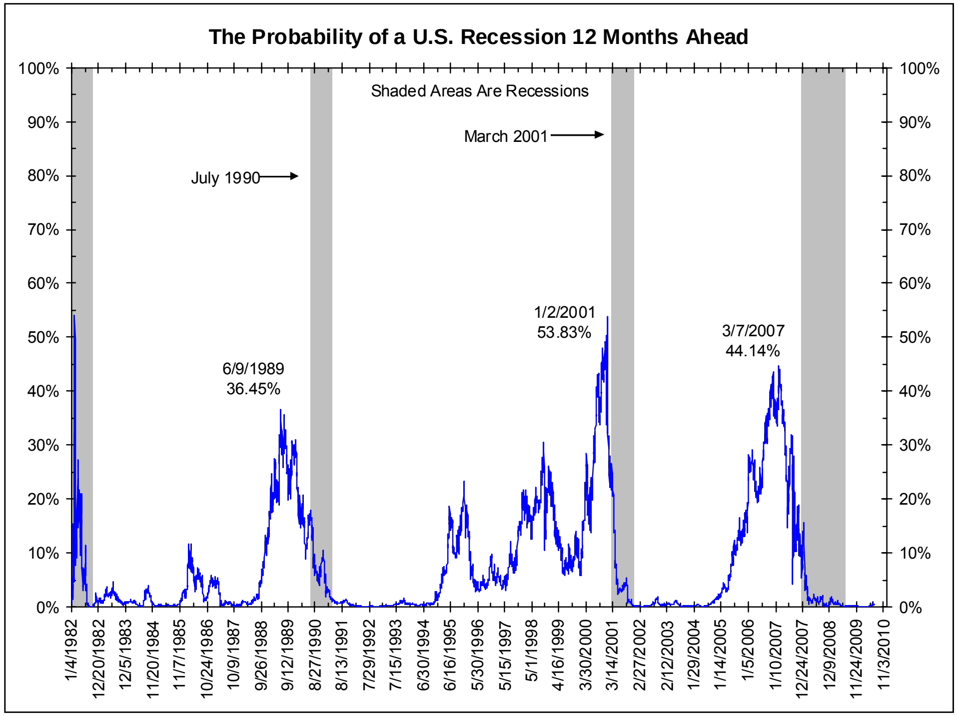


Chances Of A Double Dip Recession

From Our **[Newsclips/Daily Commentary]**

ClevelandFed.org – The Yield Curve, June 2010

Since last month, the yield curve has dropped slightly, with both long and short rates ticking down. The difference between these rates, the slope of the yield curve, has achieved some notoriety as a simple forecaster of economic growth. The rule of thumb is that an inverted yield curve (short rates above long rates) indicates a recession in about a year, and yield curve inversions have preceded each of the last seven recessions (as defined by the NBER). In particular, the yield curve inverted in August 2006, a bit more than a year before the current recession started in December 2007. There have been two notable false positives: an inversion in late 1966 and a very flat curve in late 1998. More generally, a flat curve indicates weak growth, and conversely, a steep curve indicates strong growth. One measure of slope, the spread between ten-year Treasury bonds and three-month Treasury bills, bears out this relation, particularly when real GDP growth is lagged a year to line up growth with the spread that predicts it.



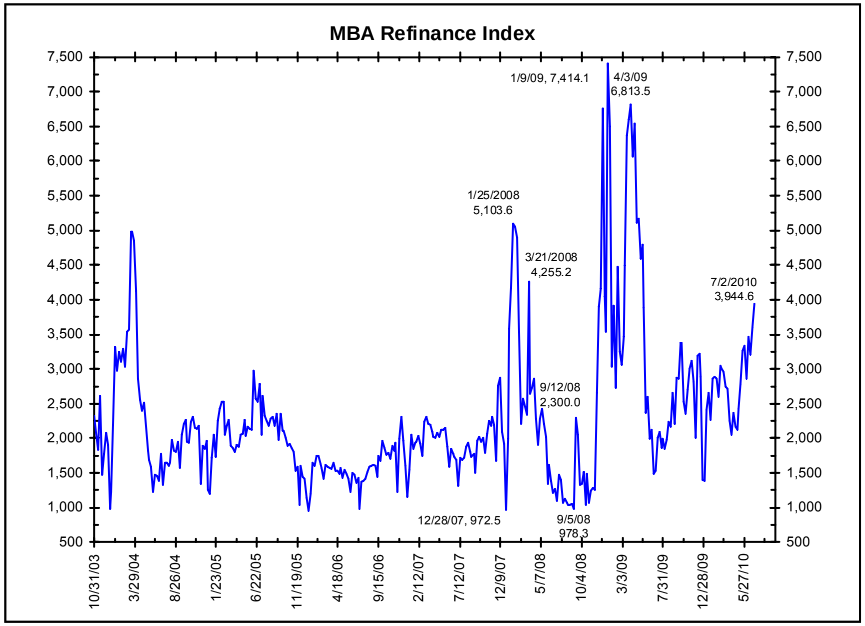
The Probability of a U.S. Recession 12 Months Ahead

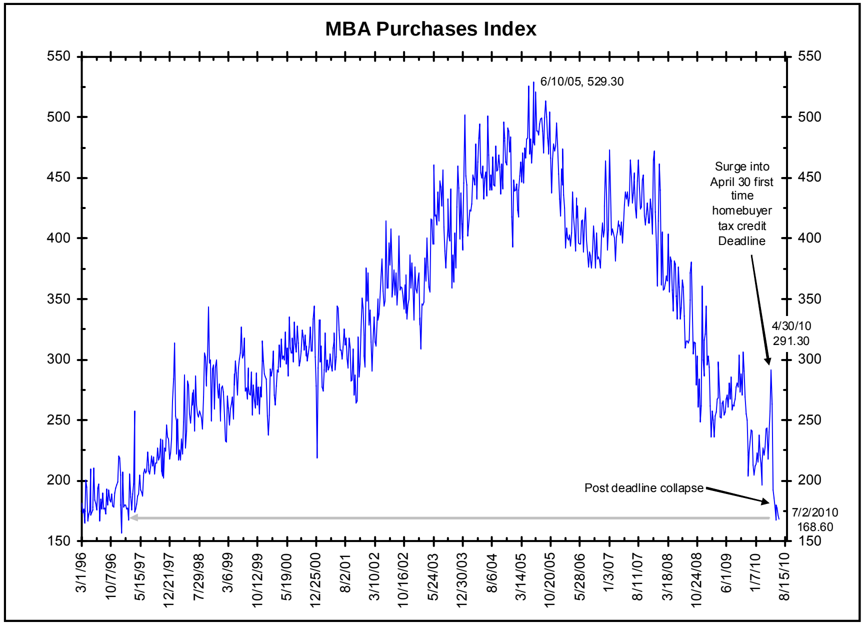
Comment

The chart above is calculated using the model mentioned in a July 2006 Federal Reserve paper. While the Cleveland Federal Reserve seems to have tweaked this model a bit for their own use, we still believe this to be a rather ineffective predictor of recessions for the time being. As we last pointed out roughly 6 months ago, we believe the yield curve has been rendered rather ineffective as an indicator of future recessions thanks to massive government intervention in the markets. The Federal Reserve itself has even gone as far as adding the following disclaimer to some of its research on the topic:

Of course, it might not be advisable to take these number quite so literally, for two reasons…First, this probability is itself subject to error, as is the case with all statistical estimates. Second, other researchers have postulated that the underlying determinants of the yield spread today are materially different from the determinants that generated yield spreads during prior decades. Differences could arise from changes in international capital flows and inflation expectations, for example. The bottom line is that yield curves contain important information for business cycle analysis, but, like other indicators, should be interpreted with caution.

Refis Boom Again, Purchases Fall To New Lows



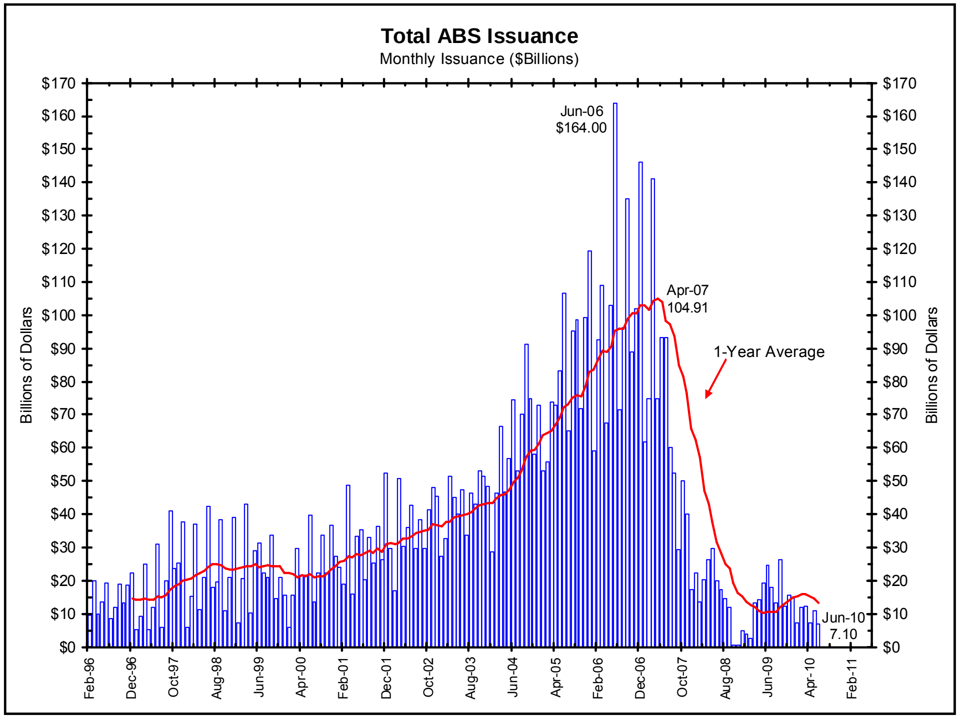


R.I.P TALF

From Our [Newsclips/Daily Market Commentary]

The Financial Times – Talf retires as saviour of securitisation

The Federal Reserve Bank of New York last year said attempts to revitalise the securitisation markets would depend on the success of its ambitious programme to tackle the dysfunctional market for commercial mortgage-backed securities (CMBS). The programme in question – the term asset-backed securities loan facility (Talf) – this week quietly came to an end after 15 months of service. Through Talf, the Fed lent money to investors like hedge funds on favourable terms so that they could buy securities backed by auto loans, credit cards and commercial mortgages…Talf, which formally ended on Wednesday, was flagged in the depths of the financial crisis as a potential $1,000bn liquidity pump for securitised markets, which provided more than half of credit for US consumers and businesses before shutting down in 2008. In fact, only just over $70bn was lent through Talf, with $12bn going towards purchases of existing CMBS and just $72m towards just one new issue.



Comment

Did the TALF work? See the following chart and make the call.

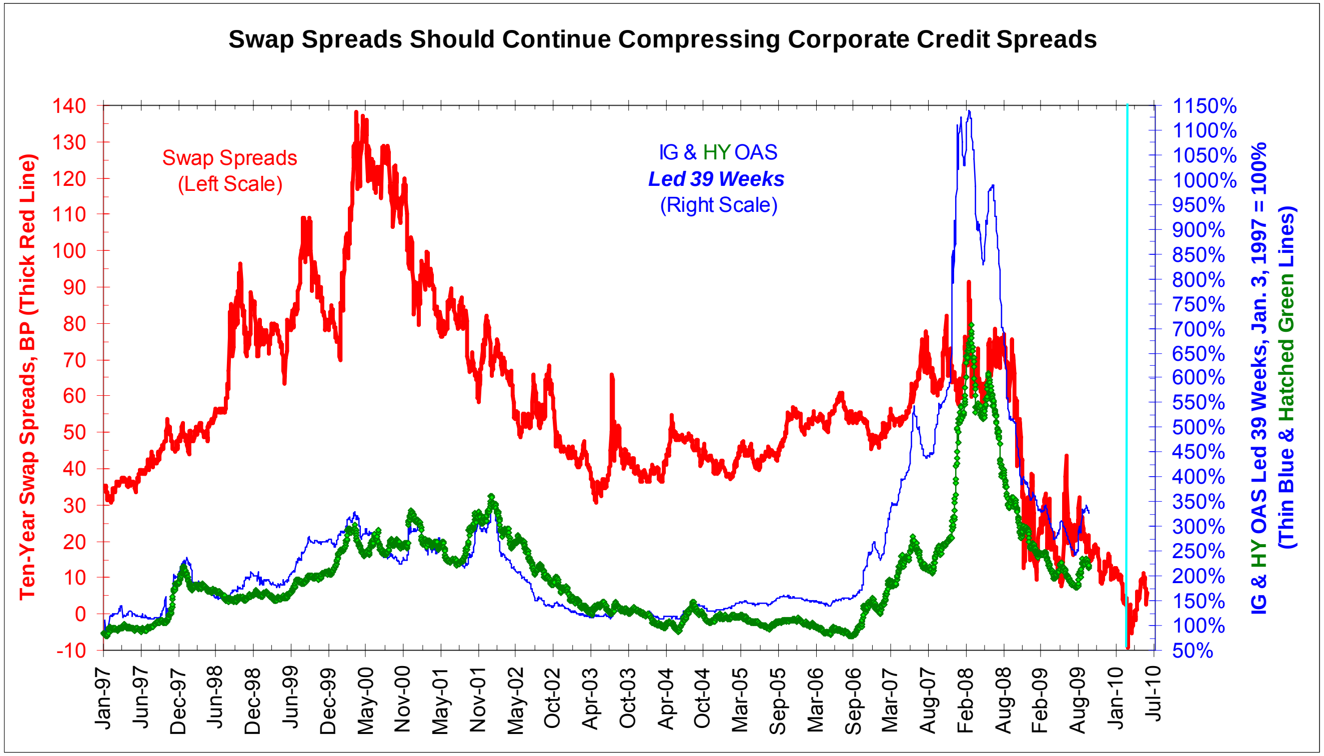
If ABS issuance is now stuck in the $5 billion to $10 billion range, it is no longer large enough to be a serious part of the financial landscape.

Swap Spreads Still Signaling Narrower Corp. Credit Spreads

From A Recent **Market Facts**

Ten-year swap spreads (thin red line) soon hit their lows and rebounded. Both investment-grade and high-yield credit spreads led 39 weeks (thin blue and hatched green lines) followed suit and rose through the Eurozone' credit problems.

If the long-observed 39-week lead time remains, the current turn lower in swap spreads should placed renewed downward pressure on corporate credit spreads.
Narrower swap spreads are consistent with both lower expectations of financial risk and with a lack of fear of interest rates moving higher. They also are consistent with a continued decline in realized fixed-income volatility; ten-year zero-coupon implied volatility hit its low for 2010 on Monday.



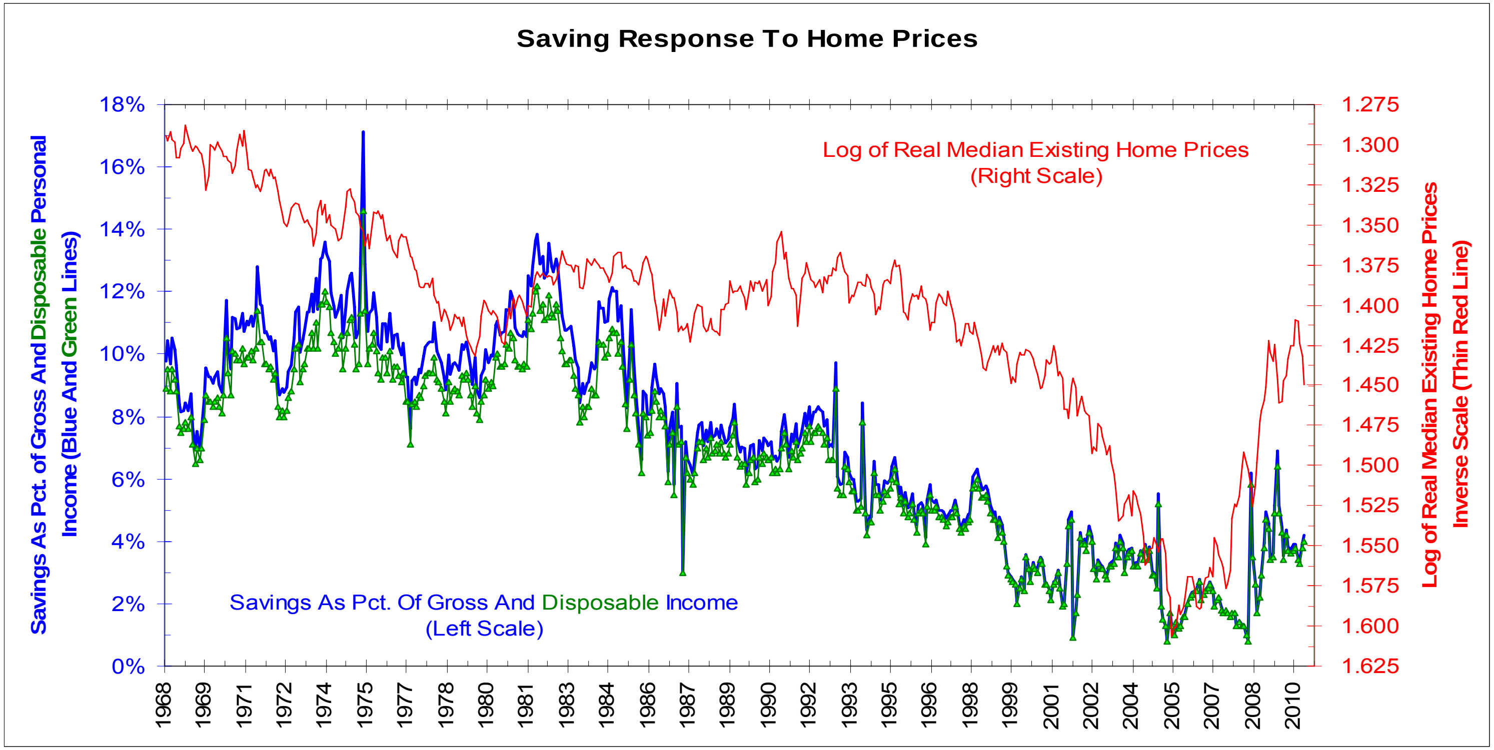
Savings Rates And Asset Prices During The Keynesian Thermidor

From A Recent **Commentary**

Housing

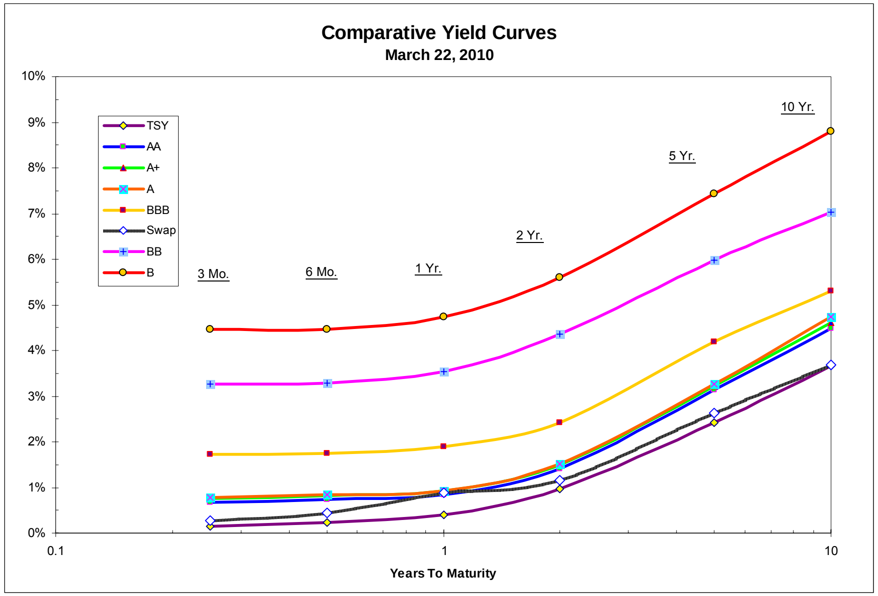
The housing market's contribution to savings is far less direct than previously. Artificially low interest rates, more than $1.2 trillion in Federal Reserve MBS purchases, the aforementioned homebuyer tax credit, the inability of many otherwise creditworthy mortgagors to refinance or obtain new mortgages, the virtual cessation of mortgage equity withdrawals and a dizzying array of home foreclosure delay programs have left the housing market arguably overvalued. We must say, "arguably" as the answer to the question of what actual, market-clearing prices might have been or should be probably will remain unknown.

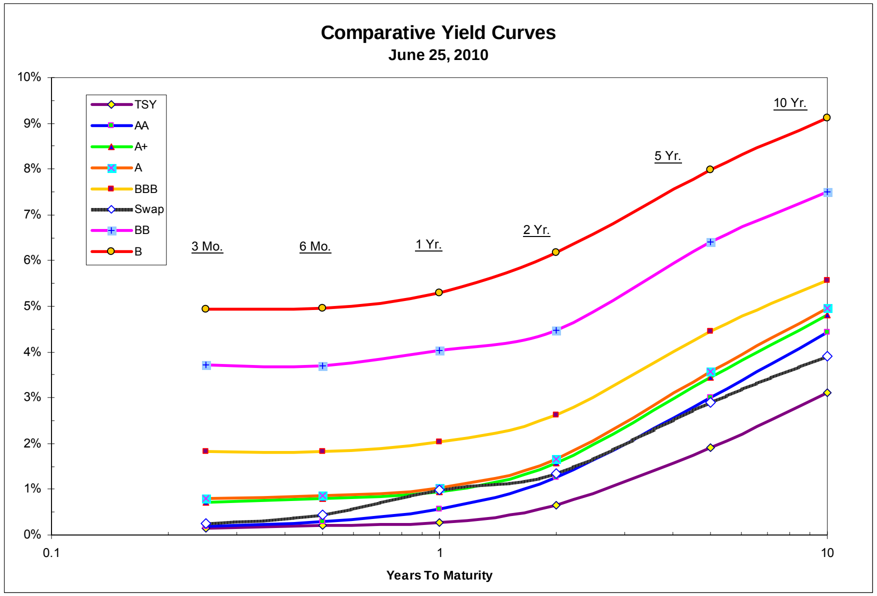
Still, the expected inverse relationship between savings rates and real housing prices as measured by the median constant-dollar price of existing homes (thin red line, inverse scale) as we have seen in the past for both housing and equities remains.



Corporate Yield Curves After The Bull Run

From A Recent **Special Report**





We can compare the relative steepness of two yield curves by comparing their forward rate ratios across a segment of the yield curve, in this case the 2-10 year segment.

One message in the charts above is unmistakable: Corporate yield curves are flattening relative to the Treasury yield curve, a condition seen during both of the major bear markets of the past decade. These yield curve spreads are prone to V-shaped reversals both higher and lower and cannot be ignored.

This outlook is confirmed by high-yield markets, as measured by BB- and to a lesser extent B-rated markets (thick blue and thin red lines, right-hand chart).

Comparative Utility Yield Curves

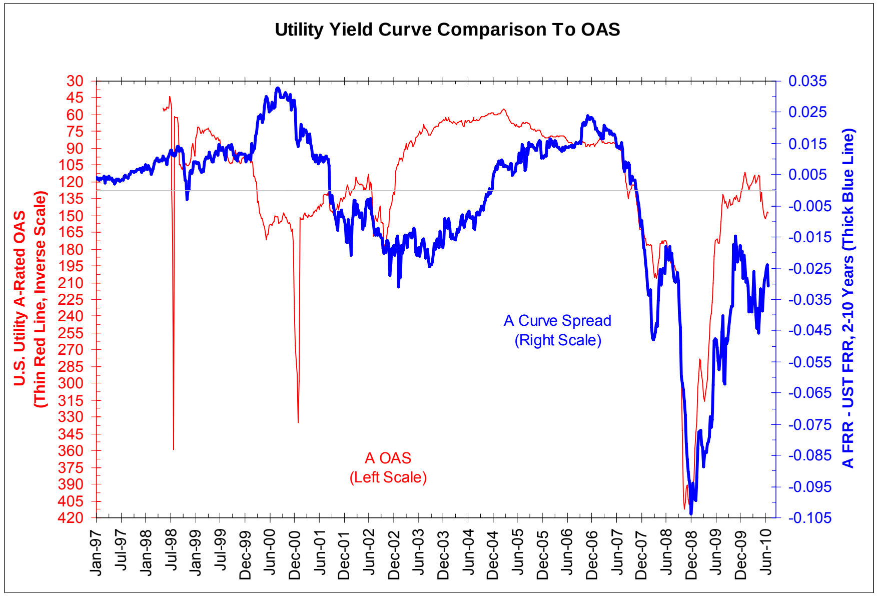
From A Recent **Special Report**

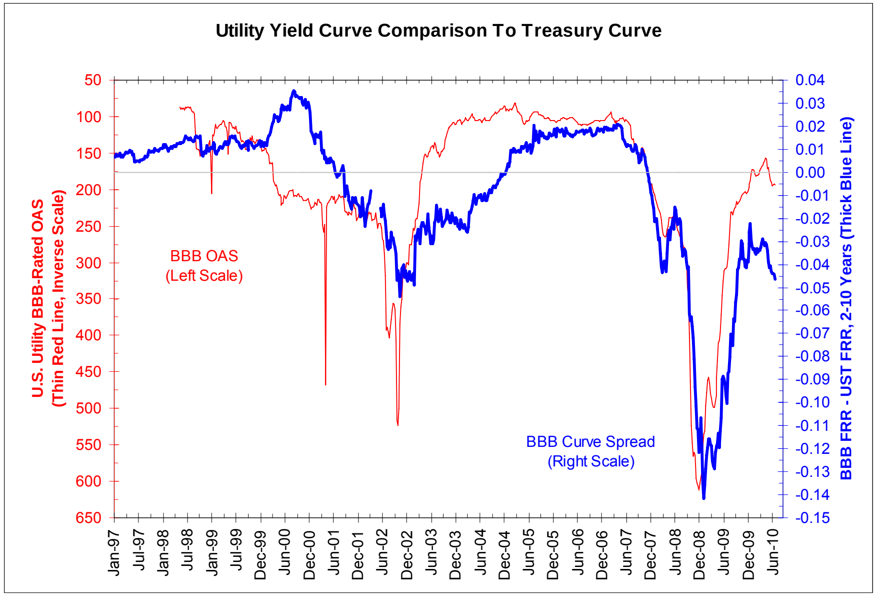
Yield Curve Spreads And OAS Levels

Next, we can compare the relative steepness of two yield curves by comparing their forward rate ratios across a segment of the yield curve, in this case the 2-10 year segment. The FRR2,10 spread for the A-rated issues (thick blue line, left-hand chart, following page) has encountered resistance below the breakdown points of July 2008 and November 2009. The yield curve spread for the BBB-rated issues against the Treasury FRR2,10 curve (thick blue line, right-hand chart) is now widening aggressively. Neither one of these developments is bullish for utilities and in the case of BBB-rated issues, the implications are negative.

This conclusion is confirmed by the OAS levels for these indices (thin red lines, inverse scale). Both the A- and BBB-rated OAS (left-hand chart) failed to narrow beneath their breakdown levels of August 2007.

The utility sector is not demonstrating intrinsic strength so much as it is demonstrating relative strength vis-à-vis the broad market.





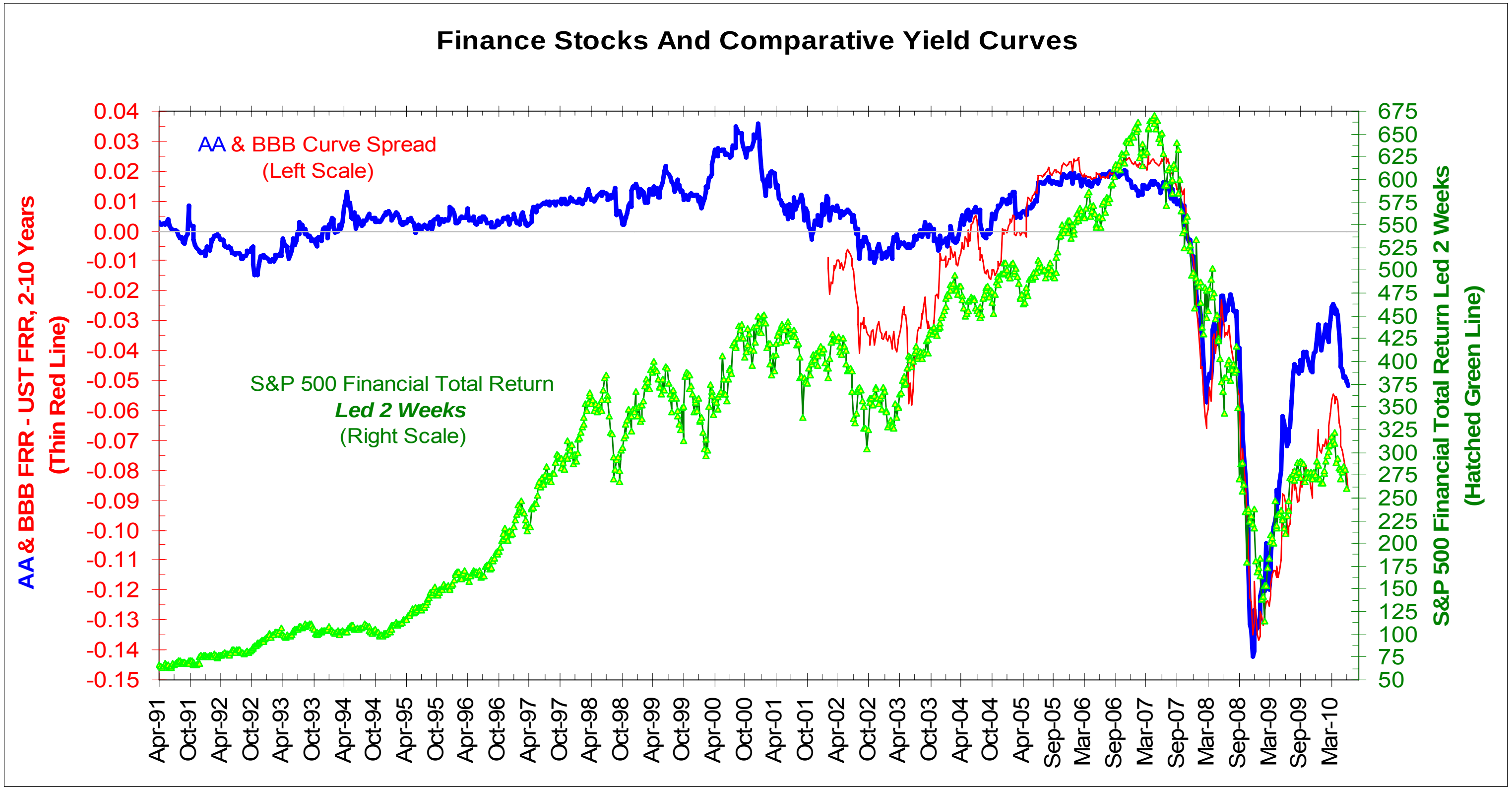
Comparative Financial Yield Curves Argue For Defensive Stance

From A Recent **Special Report**

The AA and BBB yield curve spreads (thick blue and thin red lines, respectively) lead the total return of the S&P 500 Financial index (hatched green line) by two weeks on average.

The current configuration for the sector is the worst it has been since just before the September 2008 financial crisis. This makes the entire sector vulnerable to one bad event or combination of events or to a continued negative reaction to the financial regulation legislation now underway in Washington.

As the world starts to back away from the stimulus programs so responsible for the financial sector's post-March 2009 recovery, the sector's reliance on those programs is exposed. A defensive posture in the sector is advised.



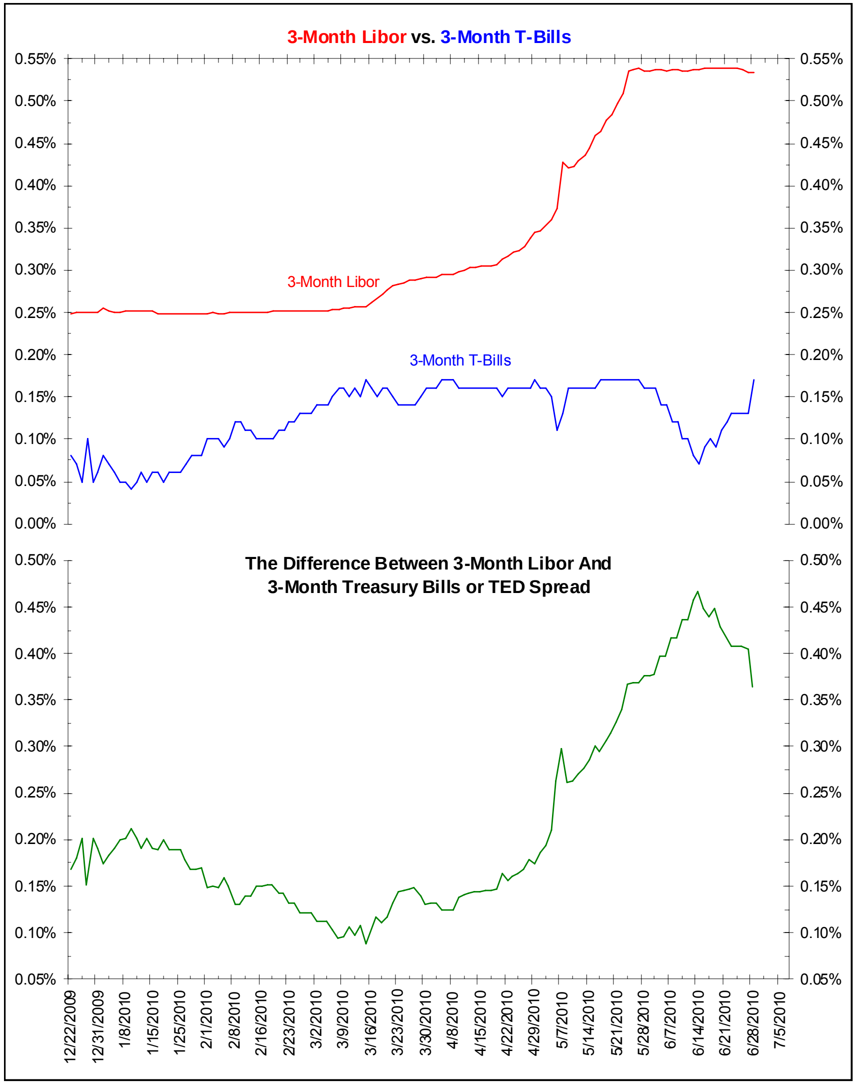
Does LIBOR Matter Anymore?

From A Recent **Special Report**

One interesting thing is happening with LIBOR. If you look at the LIBOR chart on the right of Page 11, then what it shows is that LIBOR has not been moving. It has been unchanged for the last 35 days.

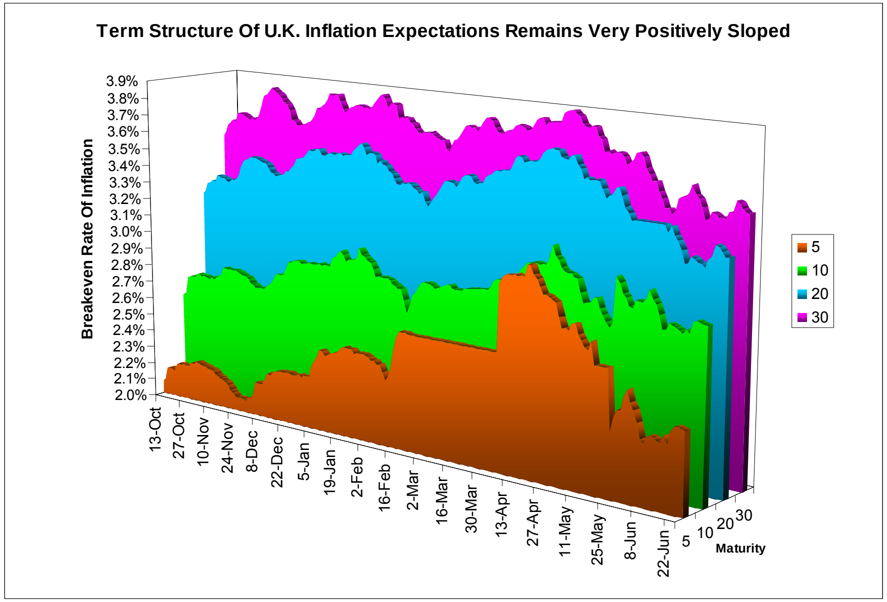
Now, I am in the conspiracy camp when it comes to LIBOR. I am in the conspiracy camp that this is somewhat of an invented number that -- just to say it bluntly to get the point across – the banks lie about. I am in that camp because, one, Citibank was caught doing exactly that in 2007 – lying about LIBOR. They were worried that if they showed that they had higher funding costs than everybody else, that they were kind of an outlier, that they were 10 basis points, five basis points, or 15 basis points higher than the next highest of the 16 reporting banks –

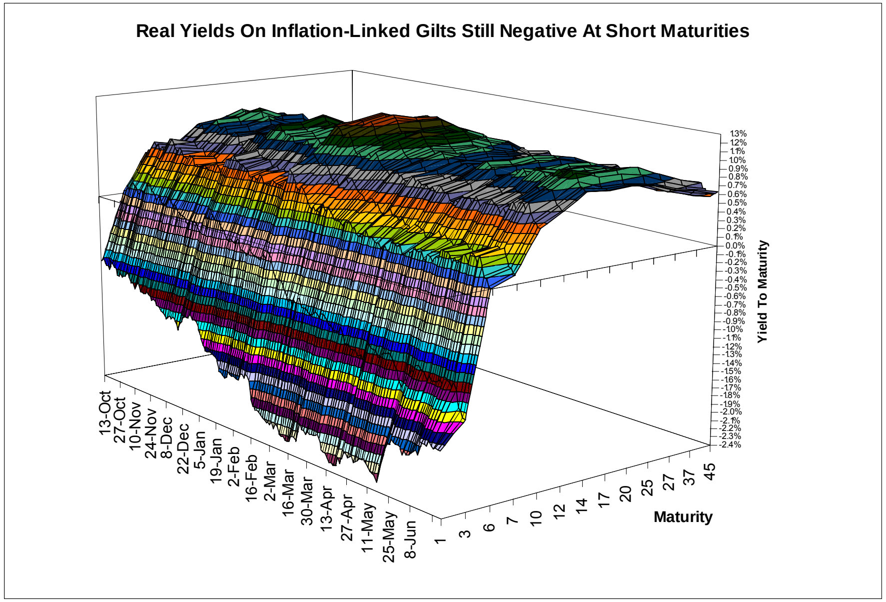
This is from our most recent conference call we had on July 1, 2010 (handout, audio, webcast, transcript)



U.K. Real Yields And Inflation Breakevens Revisited

From A Recent **Market Facts**





We last discussed real U.K. yields and inflation expectations in November 2009, just after the pound began to firm against the euro.

The term structure of inflation expectations remains very positively sloped (left-hand chart). Breakeven rates of inflation have declined since sovereign debt concerns in Europe began to increase in late April.

Real rates (right-hand chart) on inflation-linked Gilts are negative for both the 2.5% due August 23, 2011, and for the 2.5% due August 16, 2013. These negative real yields were seen in the U.S. during the depths of the credit crisis in late 2008. Like negative Treasury-bill yields and negative long-term swap spreads, the presence of negative real yields is a sign of credit market stress and high levels of risk aversion.

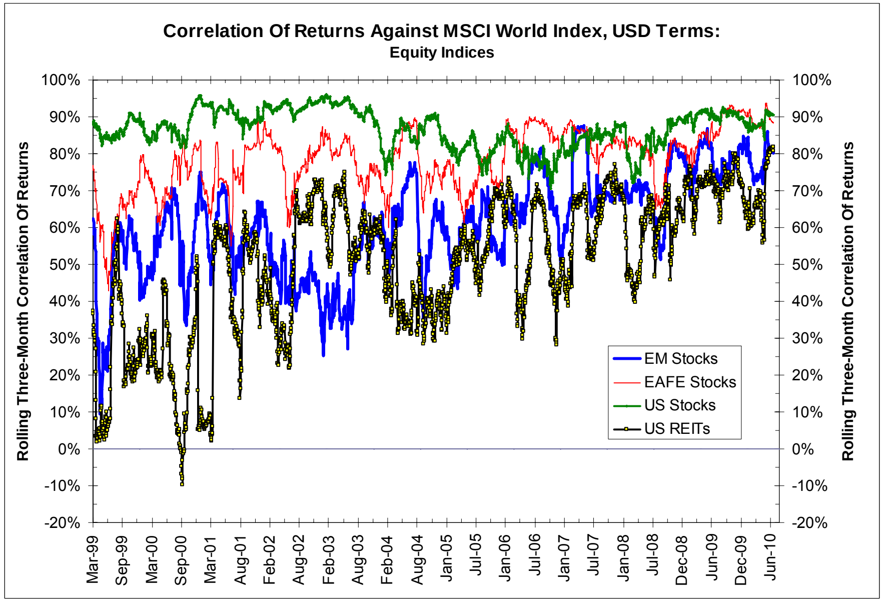
Asset Returns Differentiation At The G-20 Junction

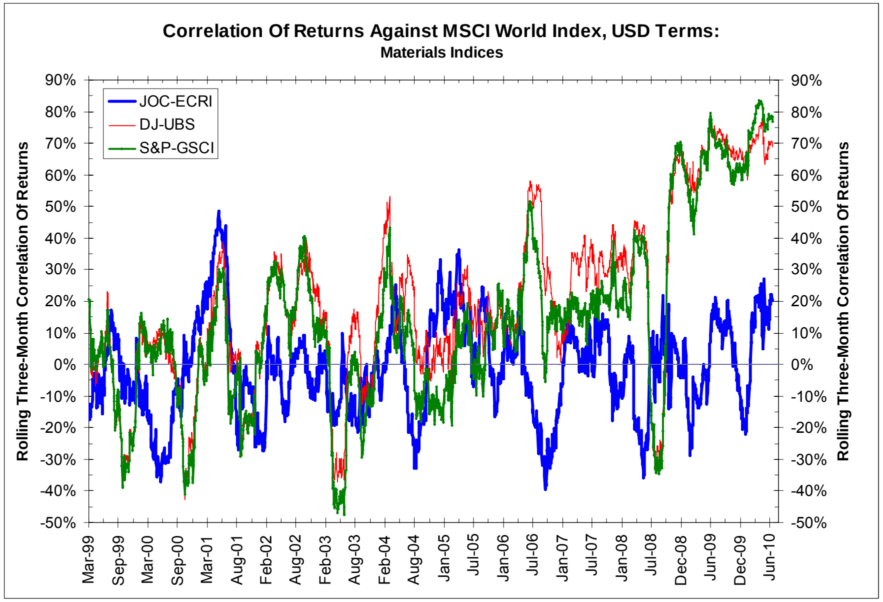
From A Recent **Market Facts**

As in May we will use total returns in USD for all markets below except for the JOC-ECRI industrial materials index, for which no total return measure exists, and construct a set of three-month rolling correlations of returns against the MSCI World total return index expressed in USD terms. A post-November 2009 correlation matrix is presented at left.

The correlation of returns for U.S. REIT indices (blue black line, left-hand chart) increased since the April 26th high, but such was not the case for the Emerging Markets, EAFE or U.S. indices (blue, red and green lines, respectively, left-hand chart).

The S&P-GSCI and Dow Jones-UBS indices' correlation of returns remain below their April highs (green and red lines, right-hand chart) as well.





Partial Contribution Of 10-Yr Note Yields Decreasingly Positive For Equities

From A Recent **Market Facts**

A total of 41 industry groups in the S&P 1500 accounting for 44.2% of market capitalization have a statistically significant negative relative performance beta to ten-year Treasury yields (right-hand cells). The net weighted beta is -4.64%. These groups are concentrated in the consumer staples and healthcare sectors.

Fifty-five groups accounting for 36.98% of the S&P 1500 have a statistically significant positive relative performance beta (right-hand cells); the net weighted beta here is 5.14%. Here the impact is concentrated in the energy and financial (highlighted with mauve and yellow backgrounds, respectively) sectors.

The net contribution is 0.50%, as opposed to 0.73% in March. Each 1% gain in ten-year note yields, about 30 basis points at present, could be expected to lead to a 0.005% increase in the S&P 1500, all else held equal.

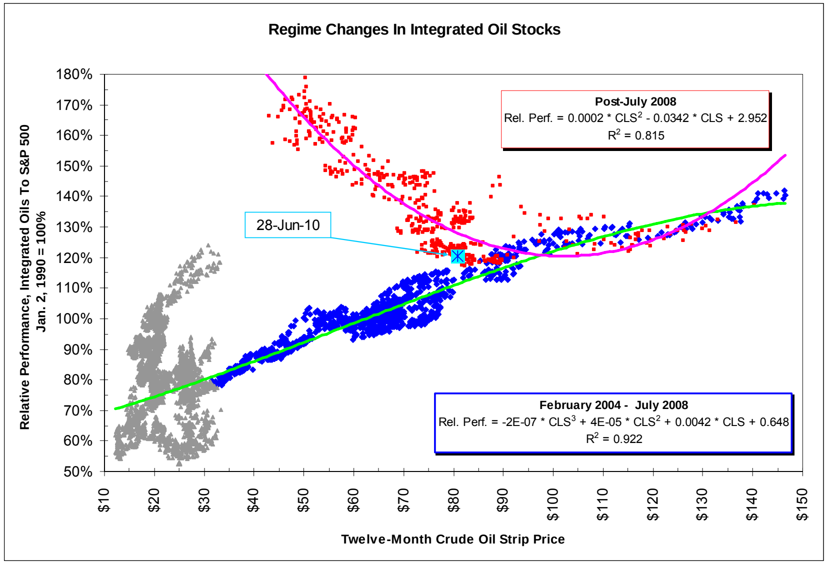
Ten-Year Note Beta-Weighted Impact On S&P 1500

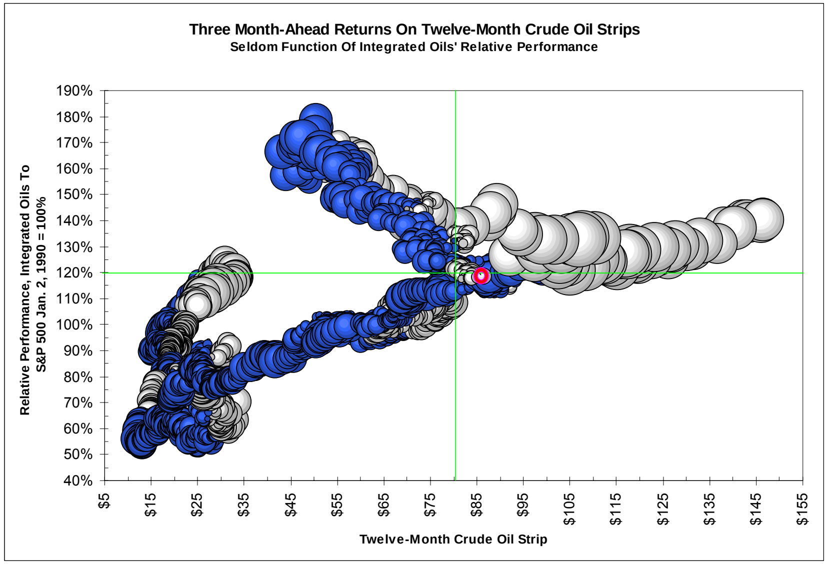
	SPR Weight	TY Beta	Weighted Beta
Other Diversified Financial Services	3.59%	0.292	0.010
Oil & Gas Equipment	1.53%	0.197	0.003
Diversified Banks	1.74%	0.171	0.003
Investment Banking & Brokerage	1.20%	0.243	0.003
Oil & Gas Exploration	1.80%	0.160	0.003
Regional Banks	1.59%	0.152	0.002
Asset Management & Custodial Banks	1.15%	0.198	0.002
Consumer Finance	0.81%	0.232	0.002
Integrated Oil & Gas	5.70%	0.031	0.002
Life & Health Insurers	1.03%	0.164	0.002
Construction & Farm Machinery	1.08%	0.128	0.001
Steel	0.38%	0.307	0.001
Retail REITs	0.50%	0.231	0.001
Specialized REITs	0.70%	0.159	0.001
Industrial Conglomerates	2.03%	0.048	0.001
Multiline Insurers	0.41%	0.227	0.001
Diversified Metals & Mining	0.31%	0.294	0.001
Specialized Finance	0.43%	0.211	0.001
Coal & Cons. Fuels	0.25%	0.352	0.001
Residential REITs	0.35%	0.201	0.001
Office REITs	0.30%	0.206	0.001
Construction & Engineering	0.31%	0.189	0.001
Diversified Chemicals	0.80%	0.071	0.001
Movies & Entertainment	1.38%	0.038	0.001
Oil & Gas Drilling	0.23%	0.207	0.000
Industrial Machinery	1.09%	0.044	0.000
Oil & Gas Storage	0.34%	0.132	0.000
Oil & Gas Refining	0.19%	0.217	0.000
Broadcast & Cable TV	0.22%	0.185	0.000
Diversified REITs	0.17%	0.237	0.000
Hotels	0.32%	0.121	0.000
Industrial REITs	0.09%	0.361	0.000
Automobile Manufacturers	0.33%	0.101	0.000
Aluminum	0.11%	0.294	0.000
Thrifts & Mortgages	0.24%	0.122	0.000
Apparel & Accessories	0.35%	0.071	0.000
Electrical Components & Equipment	0.66%	0.036	0.000
Apparel Retailers	0.67%	0.032	0.000
Semiconductor Equipment	0.41%	0.051	0.000
Homebuilding	0.17%	0.125	0.000
Department Stores	0.35%	0.056	0.000
Specialty Stores	0.31%	0.058	0.000
Casinos & Gaming	0.16%	0.086	0.000
Auto Parts & Equipment	0.24%	0.053	0.000
Paper Products	0.16%	0.064	0.000
Electrical Manufacturing Services	0.12%	0.080	0.000
Tires & Rubber	0.02%	0.329	0.000
Forest Products	0.08%	0.088	0.000
Multisector Holdings	0.04%	0.181	0.000
Publishing & Printing	0.19%	0.034	0.000
Motorcycle Manufacturers	0.05%	0.122	0.000
Electrical Equipment Manufacturing	0.22%	0.022	0.000
Commercial Printers	0.05%	0.063	0.000
Consumer Electronics	0.02%	0.093	0.000
Commodity Chemicals	0.01%	0.178	0.000
Subtotal:	36.98%		5.14%

	SPR Weight	TY Beta	Weighted Beta
Pharmaceuticals	5.43%	0.162	0.009
Household Products	2.33%	0.164	0.004
Soft Drinks	2.16%	0.172	0.004
Healthcare Equipment	1.95%	0.147	0.003
Packaged Foods	1.71%	0.145	0.002
Integrated Telecommunications	2.32%	0.106	0.002
Hypercenters & Superstores	1.18%	0.190	0.002
Electric Utilities	1.88%	0.108	0.002
Biotech	1.42%	0.124	0.002
Tobacco	1.35%	0.127	0.002
Multiline Utilities	1.40%	0.116	0.002
Restaurants	1.28%	0.117	0.001
Aerospace & Defense	2.69%	0.048	0.001
Healthcare Services	0.88%	0.118	0.001
Computer Hardware	3.48%	0.029	0.001
Systems Software	2.97%	0.028	0.001
Managed Health	0.87%	0.085	0.001
Gold	0.27%	0.243	0.001
Data Processing & Outsourcing	1.33%	0.048	0.001
Healthcare Distributors	0.47%	0.126	0.001
Internet Software & Services	1.64%	0.036	0.001
Life Sciences Tools & Services	0.59%	0.097	0.001
Air Freight & Logistics	0.92%	0.043	0.000
Drug Retailers	0.62%	0.064	0.000
Insurance Brokers	0.26%	0.123	0.000
Environmental Services	0.35%	0.084	0.000
Food Retailers	0.30%	0.090	0.000
General Merchandise Retailers	0.46%	0.057	0.000
Education Services	0.18%	0.133	0.000
Food Distributors	0.19%	0.116	0.000
Healthcare Suppliers	0.12%	0.142	0.000
Personal Products	0.21%	0.066	0.000
Brewers	0.07%	0.169	0.000
Automotive Retailers	0.23%	0.038	0.000
Distillers & Vintners	0.09%	0.103	0.000
Reinsurance	0.10%	0.084	0.000
Distributors	0.09%	0.087	0.000
Metal & Glass Containers	0.18%	0.040	0.000
Specialized Consumer Services	0.13%	0.047	0.000
Healthcare Technology	0.08%	0.064	0.000
Water Utilities	0.03%	0.096	0.000
Subtotal:	44.20%		-4.64%
Total:	**81.18%**		**0.50%**

Integrated Oils’ Relative Performance & Crude Oil Prices

From A Recent **Market Facts**





Let’s map three month-ahead returns on twelve-month crude oil strip prices as a function of the relative performance of the Integrated Oil group and the strip prices themselves. Positive prospective crude oil returns are depicted with blue bubbles; negative prospective returns in white bubbles. The current values are marked with a green bombsight; the last datum, April 1, 2010, is highlighted with a magenta torus.

The April 1st observation was three weeks before the Deepwater Horizon drilling rig disaster; even with the negative news swirling about the industry, today’s relative performance for the Integrated Oil group is essentially unchanged from that day; 12-month crude oil strip prices are 6.4% lower at present.

To-date, the U.S. Integrated Oil group (BP is not a member) has remained relatively unaffected by the disaster and by speculation regarding the future of deepwater drilling in U.S. waters. In addition, 12-month strip prices for West Texas Intermediate have remained within their 2010 range.

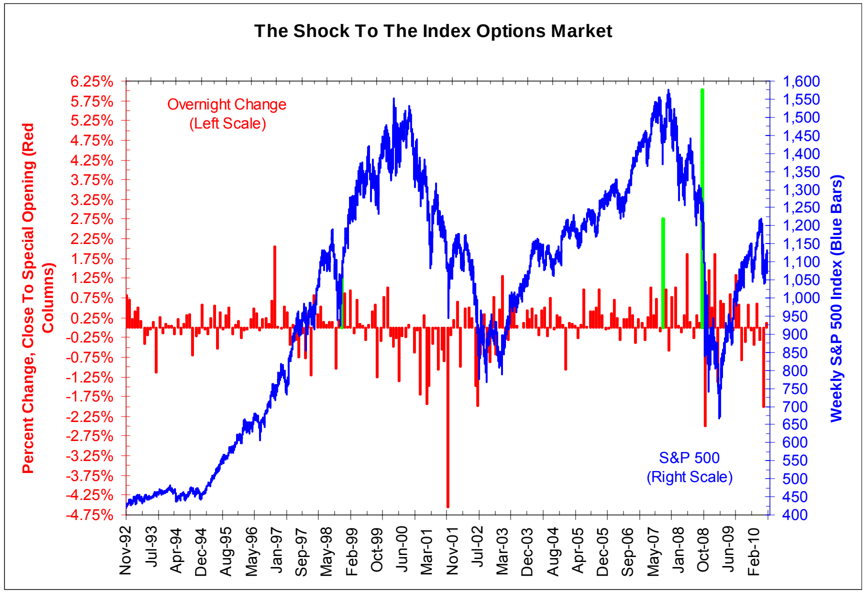
Revisiting Index Options Settlement's Risk

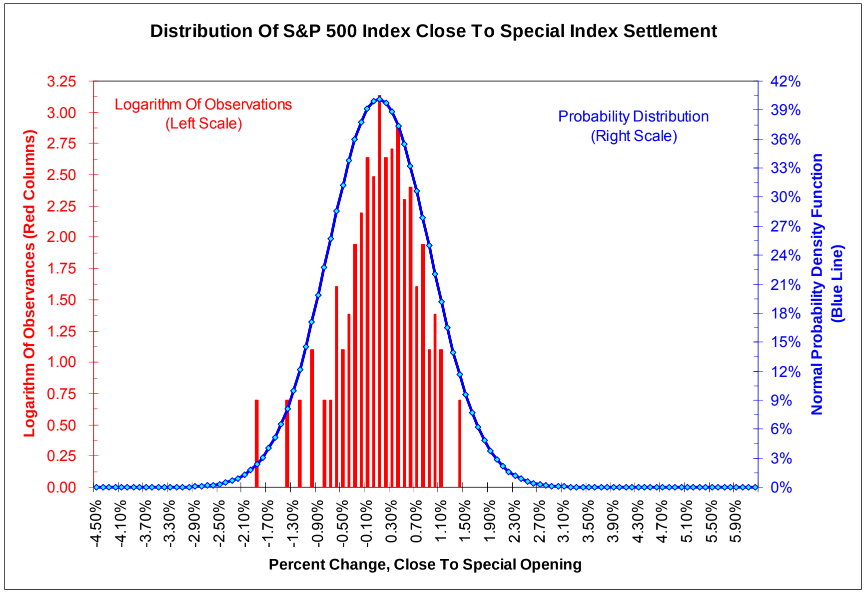
From A Recent **Market Facts**

We last visited unusual activity in the special settlement of index options following the massive opening gap of September 19, 2008. Index options based on the S&P 500 (blue bars, left-hand chart), cease trading on (generally) a Thursday afternoon and are priced against a special settlement index the following (generally) Friday morning. The special settlement is calculated from the opening prices of all 500 stocks in the index and their index weights. The close-to-special opening return (red columns) can be significant, but option traders know how to hedge all but the most extreme and unexpected risks.

The gap between the Thursday close and the Friday special opening that day was 6.03% (second green vertical column). The first green vertical column coincided with the August 17, 2007 pre-opening rate cut by the Federal Reserve.

We wonder what the official reaction would be if moves such as these were 1) negative and 2) the result of private trading activity. No, we really do not wonder; it is one of those truths we hold to be self-evident.





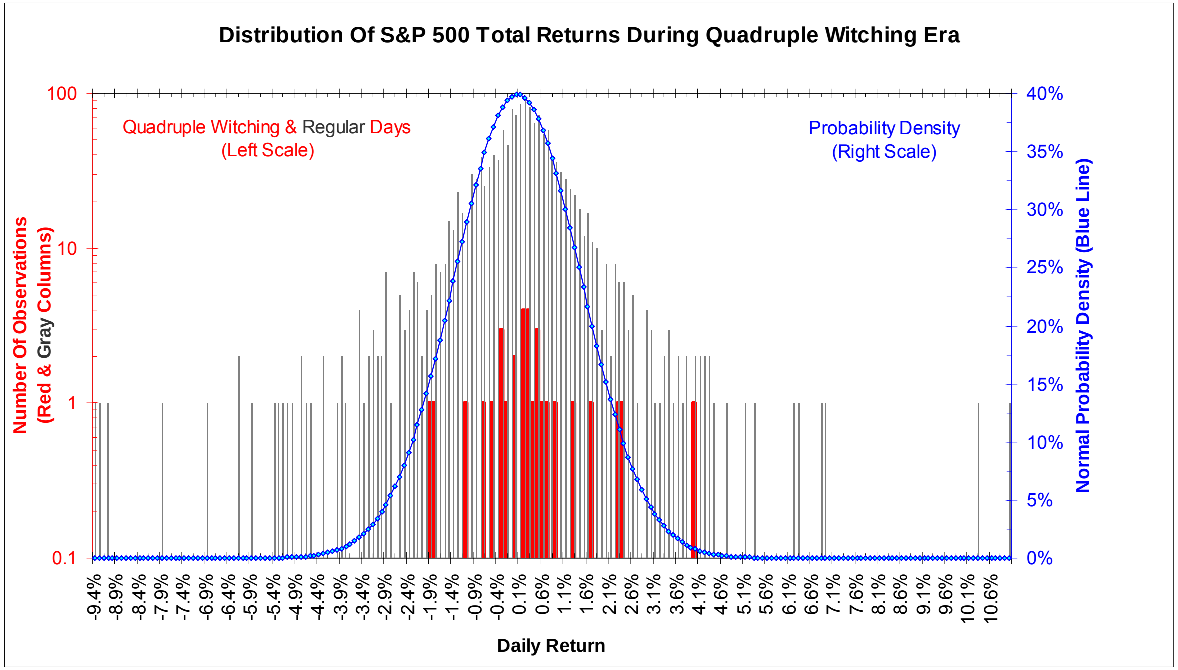
The Upside Bias Of Quadruple Witching Remains

From A Recent **Market Facts**

Traders looking for expiration-related entertainment had to wait for those moments when the Federal Reserve engaged in surprise rate-cuts (younger traders may need to be reminded these once were considered bullish) or when Congress decided to spend money it did not have to rescue the financial system from itself.

As before, we can calculate the daily returns on the S&P 500 total return series from December 20, 2002 onwards and create frequency histograms for the quadruple witching and regular days (red and gray columns, respectively). We see a positive skew in the quadruple witching days; the average return for the quadruple witching days of 0.297% has a positive skew of 0.927; the average return for all other days of 0.0287% has a negative skew, -0.304. We can be 78.5% confident the two distributions are different statistically.

The June 18, 2010 quadruple-witching expirations were the first in our new flash-crash era. It will be interesting to see how returns on the less-volatile (1.16% standard deviation of returns, as opposed to 1.42% σ on regular days) quadruple-witching days progress over time.

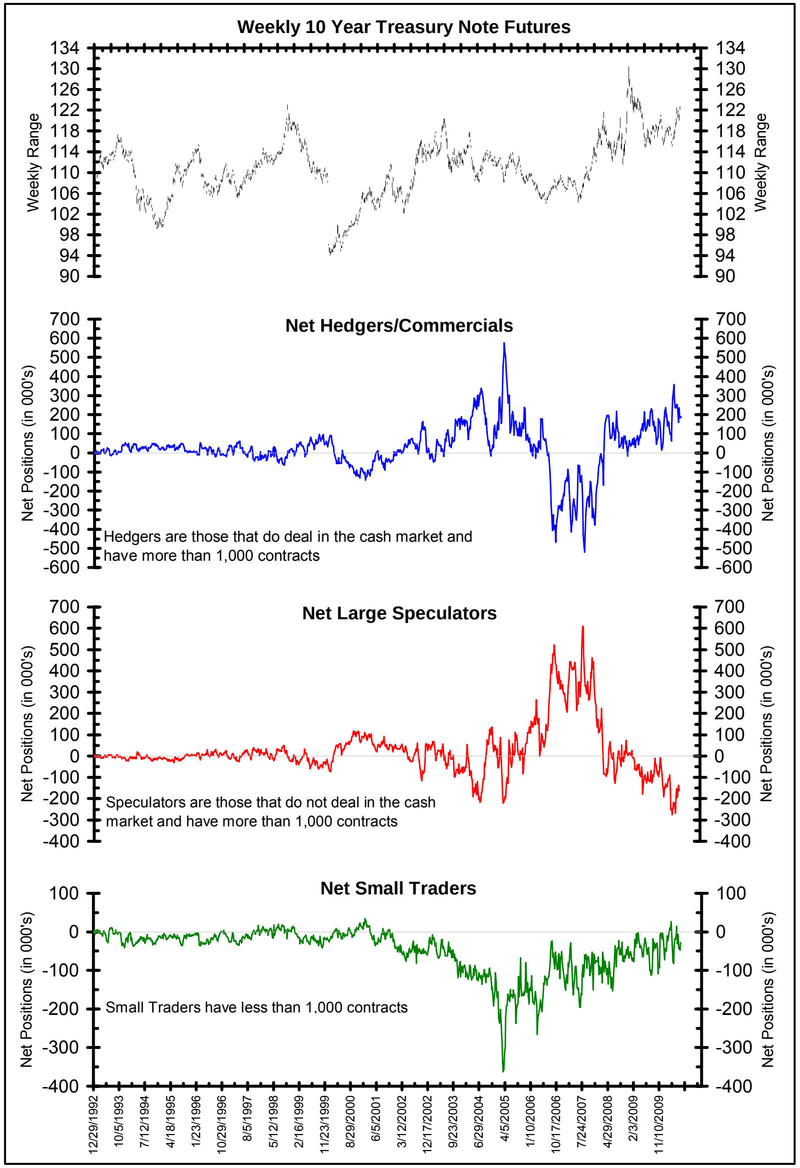


10-Year Treasury Note Futures: No Trend-Followers Need Apply

From Our Latest
Commitment Of Traders Update

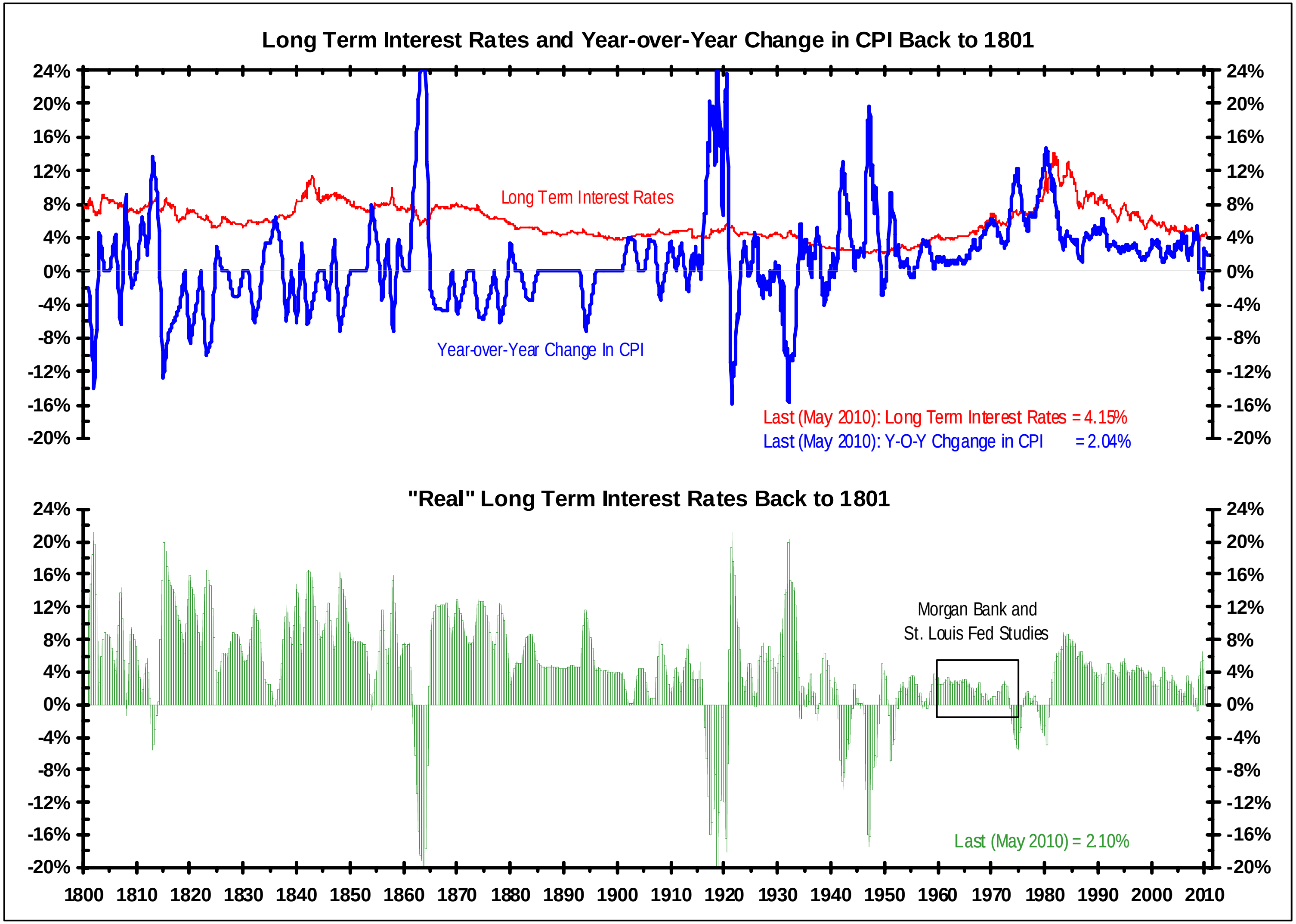
Friday's Commitments of Traders data for 10-Year Treasury note futures showed Hedgers were net long 188,968 contracts on June 29. At the same time, Friday's report showed the Large Speculators were net short 161,338 contracts on June 29.

The Large Speculators have been busy covering their short positions. As yields have been doing nothing but moving lower for weeks, the real question remains why have they been net short?



LT Interest Rates & YoY Change In CPI Back to 1801

From Our Collection of **[Long-Term Charts]**



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