

**Fixed Income Market**

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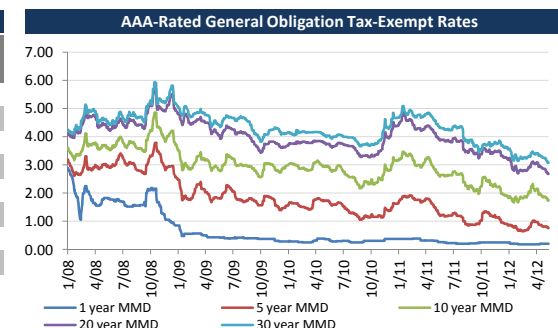
The Treasury market is trading higher this morning as the investment community digests the news coming out of Europe. We start the week with Greek President Papoulias still working on bringing together a unity government, leading some observers to conclude that the embattled nation may hold another election in the near future. As the anti-austerity movement appears to be picking up steam, another election could very well mean that the new government may opt to back out of agreed-upon austerity measures. This, in turn, may result in Greece exiting from the EU altogether, a move that will almost certainly lead to greater volatility in the financial markets. Also rattling markets this morning (and driving Treasuries and other high-quality instruments higher in price) is the continued fallout over the \$2 billion loss announced by JP Morgan on Thursday. The significance of that news extends well beyond JP Morgan; a loss of that magnitude from the bank widely considered to be the industry exemplar in terms of risk management makes it much more likely that the controversial "Volker Rule" will be enacted, with the final language being much stricter than its opponents might have hoped for. Moving along, today's economic calendar is light, but the rest of the week should offer enough economic data to work should the news out of Europe begin to slow down. Tomorrow brings the April results of the Consumer Price Index (expected to come in flat as a headline number and up 0.2% on a "core" basis) and Retail Sales (expected to increase 0.1%). Wednesday brings Housing Starts (expected to increase 4.7% to an annualized pace of 685,000), Building Permits (expected to drop 4.5% to an annualized 730,000), Industrial Production (+0.6%) and the minutes of the most recent FOMC meeting. The weekly jobless claims data is expected to be announced on Thursday, as are the Philly Fed results (expected to come in at a reading of 10.0). And on Friday, the markets get to take breather, with only a couple of revisions expected to be announced. All in all, it should be a pretty eventful week. Have a great day.

**Municipal Market**

Casy O'Brien, Managing Director / Kevin Thompson, Managing Director

With yields low, funds appear to be looking for yield given demand for low credits and housing paper. Uncertainty (and therefore volatility) remain the theme for our market as Europe's woes continue. The market continues to utilize a 6% yield gauge for Spain's debt, with higher than 6% being a gauge for weakness. Spain's debt was recently trading around a yield of 6.3%. Domestically, the State of California announced a \$16 billion deficit over the weekend, an increase of \$7 billion over previous estimates. **Uncertainty seems to create a flight to quality**, possibly accounting for some of the \$901 million of inflows into the municipal market. Many issuers are utilizing coupons lower than the institutional 5%. While lower coupons beyond the call date benefit refundings, investors appear to be starting to seek additional yield for these structures. The primary market brings about \$6.2 billion this week. Major issues include \$596 million Chicago General Obligation (Aa3/A+/AA-), \$497 million New York State Environmental Facilities Corp. (Aaa/AAA/AA+), and \$436 million North Carolina Eastern Municipal Power (Baa1/A/-). **In the short term market**, tax-exempt funds saw \$2.84 billion of inflows after losing a combined \$12 billion the previous 3 weeks. Taxable money market funds gained \$13 billion last week. SIFMA dropped 1 basis point to 0.22%.

Key Interest Rates				
	Today 5/14/2012	Last Week 5/7/2012	Last Month 4/12/2012	Last Year 5/17/2011
Federal Funds Rate	0.25	0.25	0.25	0.25
Prime Rate	3.25	3.25	3.25	3.25
LIBOR (1 month)	0.24	0.24	0.24	0.20
LIBOR (3 month)	0.47	0.47	0.47	0.26
SIFMA	0.22	0.23	0.23	0.21
SIFMA/1 M LIBOR %	92.1	96.3	95.7	106.6
B.B. 20 Bond Index	3.71	3.81	3.97	4.61
B.B. Rev. Index	4.73	4.77	4.85	5.41
30-Day Visible Supply	9.2 B	8.5 B	13.0 B	8.2 B



General Obligation Tax-Exempt Bond Markets										
Year	AAA Tax-Exempt	Current Tax-Exempt Credit Spreads			1 Month Ago Tax-Exempt Credit Spreads			1 Year Ago Tax-Exempt Credit Spreads		
		AA	A	BBB	AA	A	BBB	AA	A	BBB
1	0.20	0.05	0.35	1.18	0.05	0.35	1.20	0.06	0.54	1.49
5	0.76	0.16	0.62	1.68	0.19	0.65	1.70	0.15	0.87	1.95
10	1.75	0.28	0.78	1.84	0.25	0.78	1.83	0.20	1.10	1.99
20	2.68	0.27	0.78	1.67	0.27	0.80	1.69	0.22	0.92	1.73
30	3.08	0.25	0.71	1.55	0.27	0.79	1.61	0.19	0.81	1.58

General Obligation Taxable Market					Swap Market		
Year	Treasury	AAA Taxable	65% Taxable	Spread to AAA Tax-Exempt	LIBOR	70% LIBOR	SIFMA
1	0.17	0.46	0.30	0.10	0.59	0.42	0.30
5	0.71	1.31	0.85	0.09	1.09	0.76	0.84
10	1.78	2.37	1.54	-0.21	1.94	1.36	1.60
20	2.36	3.63	2.36	-0.32	2.53	1.77	2.23
30	2.94	3.73	2.42	-0.66	2.65	1.85	2.44

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