FIXED INCOME STRATEGY HIGHLIGHTS …

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THE U. S. FIXED INCOME MARKETS

Brief Overview

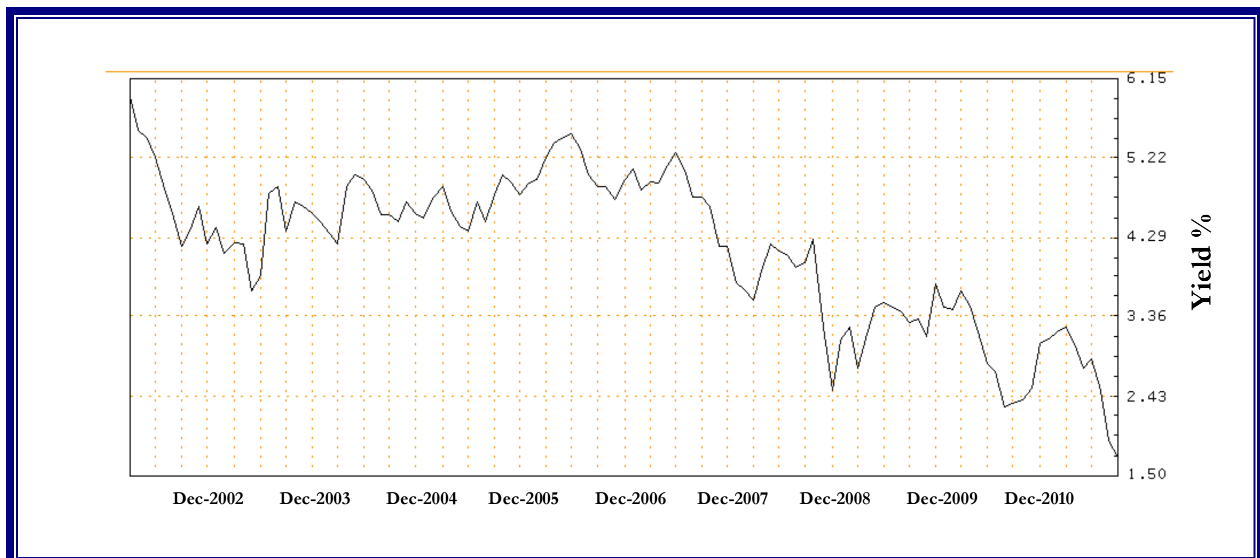
The fixed income market reacted strongly to the EU Summit, which attempted to provide a roadmap for the resolution of the debt crisis in Greece as well as other highly leveraged European governments. Ten year Treasury yields rose to over 2.3% from a mid-September low of 1.7% reflecting some of the risk attributable to the EU debt issue. Although some of the proposals are far from a panacea, they appear sufficient to unwind a crowded risk-off trade. Broadly, the latest comprehensive package consists of three key measures: recapitalize the banks by June of 2012, leveraging the EFSF against the issuing of new sovereign debt and exchanging, voluntarily, the Greek debt with a 50% haircut. The near term is likely to bring modestly positive headlines out of Greece, but the sovereign crisis will broadly remain an overhang that haunts U.S. markets.

Looking beyond European risks, several factors could tactically support risky asset performance. Leveraged investors likely still need to lighten risk off trading positions, despite the considerable de-risking that has already occurred. In addition, retail demand for spread product remains strong, and the macroeconomic backdrop of steady growth, an accommodative Fed and strong corporate profits are also supportive of risky assets over the near term.

Government-Related Debt/MBS

EXHIBIT I

7-10 Year U.S. Treasury/ Agency Yield

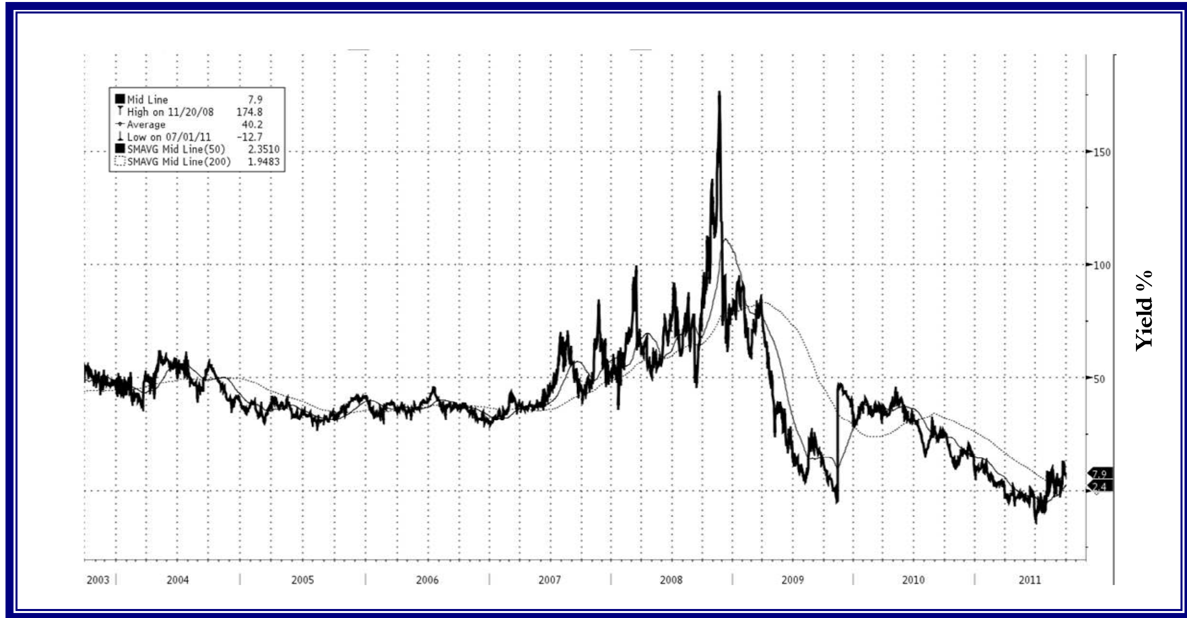


Source: Altman Investment Management Research and Bloomberg

Looking ahead, we turn outright overweight Agencies versus Treasuries. The reasons behind our overweight on Agencies remain unchanged. Five-year Agency spreads to Treasuries are still 11bp wide to our estimates of fair value, and supply-side technicals continue to be strong. Moreover, despite the flurry of headlines surrounding Greece, we believe the risk of a near-term disorderly Greek default has receded, mitigating some of the pressure on Agency spreads emanating from Europe. Much of the recent divergence in Agency spreads from fair value appears to have been driven by exogenous risks stemming from Europe.

EXHIBIT II

10-year U.S Agency (Fannie Mae) Yield minus 10-year Treasury Yield



Source: Altman Investment Management Research and Bloomberg

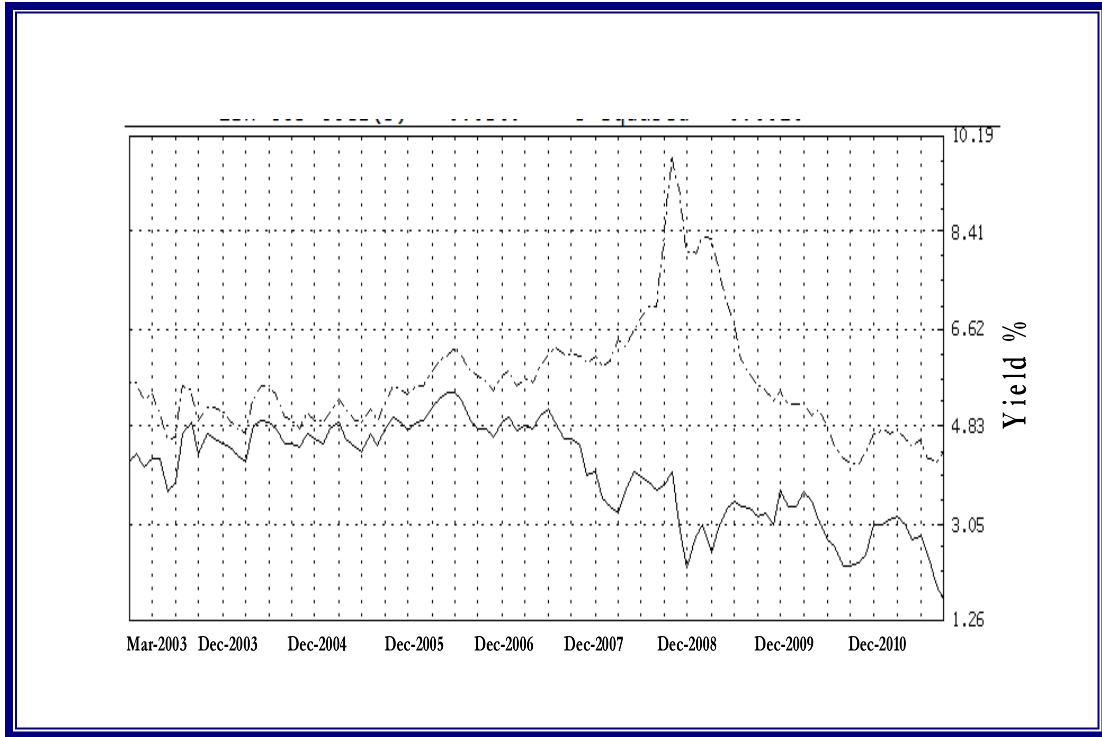
In mortgage type assets, we are neutral on legacy assets given continued macro uncertainty, elevated volatility, and spreads near our year-end target. We are more positive in higher yield, where bond and loan valuations look attractive. In addition, we think defaults are likely to remain low over the next 18 months, and investor cash balances remain high, all of which argue for tighter spreads into year-end. Similarly, we stay overweight the mortgage basis given attractive valuations.

High-Grade Corporates and Preferreds

We are lightening our recommendation from an overweight to neutral as non-financial HG bond spreads rallied 50bp in the last month, while economic and political developments in Europe have deteriorated and HG bond yields moved to record low. We believe our overall yield spread target to be at 250bp, some 46bp wider than last quarter. The risks are growing that the situation in Greece deteriorates before the firewalls meant to protect other peripherals (more bank capital, expanded capacity of the EFSF) are in place. There is no change in our view that U.S. corporate credit fundamentals are and will remain quite strong, but it is likely that the weakness coming through in European economic data will contribute to the declining earnings trend. We continue to expect growth to remain moderate in the U.S. next year due, in part, to fiscal tightening when the payroll tax cut expires in January. There remains the possibility that this tax cut is extended, which would improve the U.S. economic outlook into next year.

EXHIBIT III

U.S Corporate 7-10 year (dotted line) versus U.S. Treasury 7-10 year (solid line)



Source: Altman Investment Management Research and Bloomberg

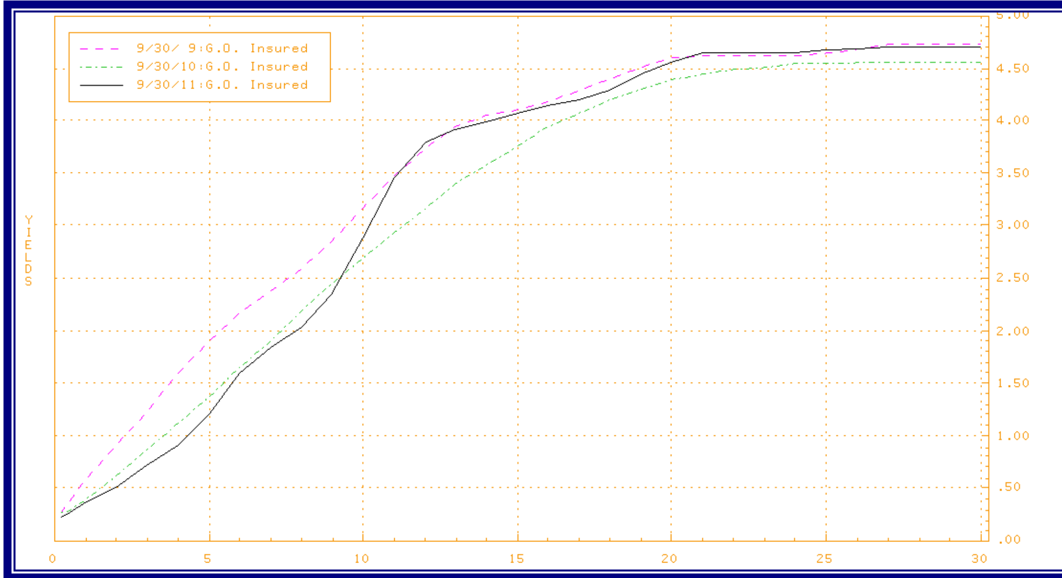
High Grade bond spreads tend to move inversely with Treasury yields, but Treasury yields have been more volatile recently (i.e., bond spreads have moved less than Treasury yields). This has led to significant HG bond yield volatility. Usually low bond yields bring out new supply, but because of the negative overhang in the market sentiment, the supply has not picked up substantially. It is likely that Non-Financial issuers in particular are eager to take advantage of the current low yields as the average Non-Financial yields are at historic lows. Yields for Non-Financials are 13bp below the prior lows of August 4; however, yields for Financials are 32bp higher as compared to then. When market conditions allow new issuance combined with a rebound in Treasury, yields will likely move off of their lows quickly.

Municipal Bonds

Tax-exempts should perform well in light of the limited supply, consistent (albeit unspectacular) inflows, and cheap levels versus Treasury and corporate securities. Early indications of state returns show 8.4% higher revenue in August/September this year versus 2010 data. Several states that have seen positive trending revenues also have GO debt trading at attractive spreads relative to their typical trading range.

EXHIBIT IV

Fair Market Yield Curve History: Generic Muni- General Obligation Insured Curves

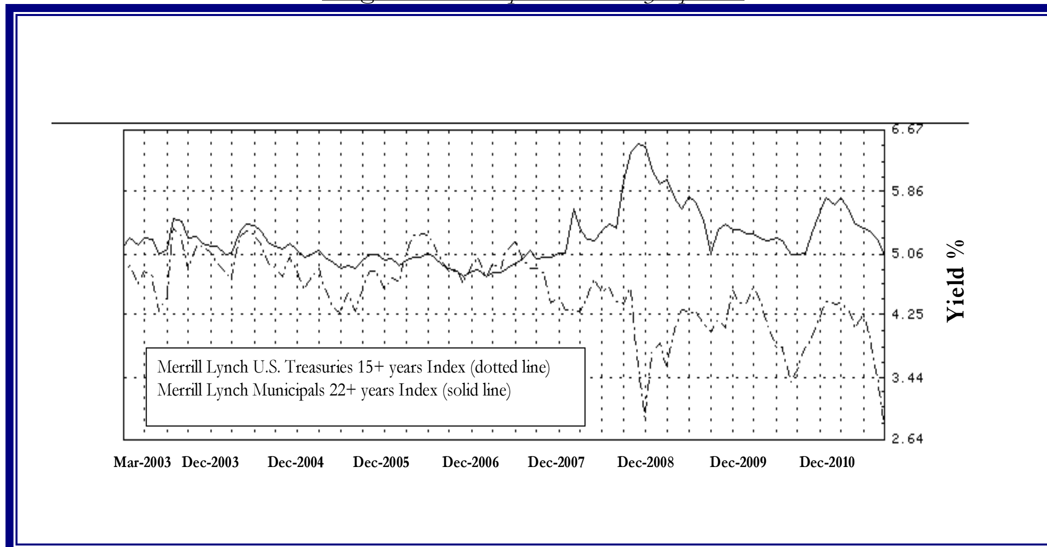


Source: Altman Investment Management Research and Bloomberg

Fiscal stress at the federal level has led to reduced fiscal transfers to states, which has in turn exacerbated state revenue transfers to cities and localities. U.S. cities are heading into year-end 2011 against a backdrop of slowing tax revenues, declining fiscal transfers, the ongoing slow growth environment, weak housing markets, high unemployment, and considerable political and fiscal difficulties in Europe. City revenues began declining during the recession, albeit at a modest pace relative to the deceleration in state income. The vast majority of cities have exercised prudent fiscal management by mitigating declining tax revenue and cutting expenses in order to balance their budgets. City finance officers project that general fund revenues will decline by -2.3% and expenditures will decline by-1.9%, based on the National League of Cities' latest annual survey of city finance officers.

EXHIBIT V

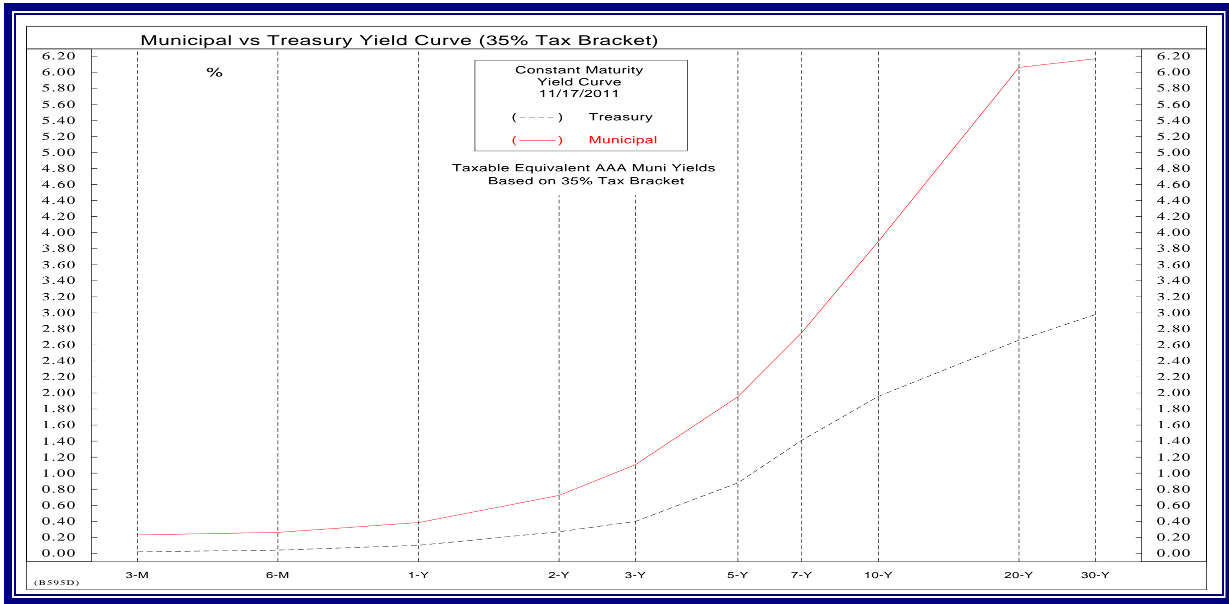
Long Term Municipal to Treasury Spreads



Source: Altman Investment Management Research and Bloomberg

EXHIBIT VI

Municipal to Treasury Yield Curve (35% tax bracket)



Source: Ned Davis Research

EXHIBIT VII

Treasury/Tax Exempt/Yield Relationship

	As of 11/16/11			As of 9/30/11		
	Munis	**Treasuries**	**Ratio**	**Munis**	**Treasuries**	**Ratio**
4-6 Years	1.9%	.9%	200%	1.7%	.9%	188%
8-12 Years	3.1%	2.0%	155%	3.0%	1.9%	158%
22+ Years	4.1%	3.0%	137%	4.0%	2.9%	138%

Source: Bloomberg and Altman Investment Management, LLC
** Merrill Lynch Global Index- Investment Grade*

The Overseas Political Crises in Transition:

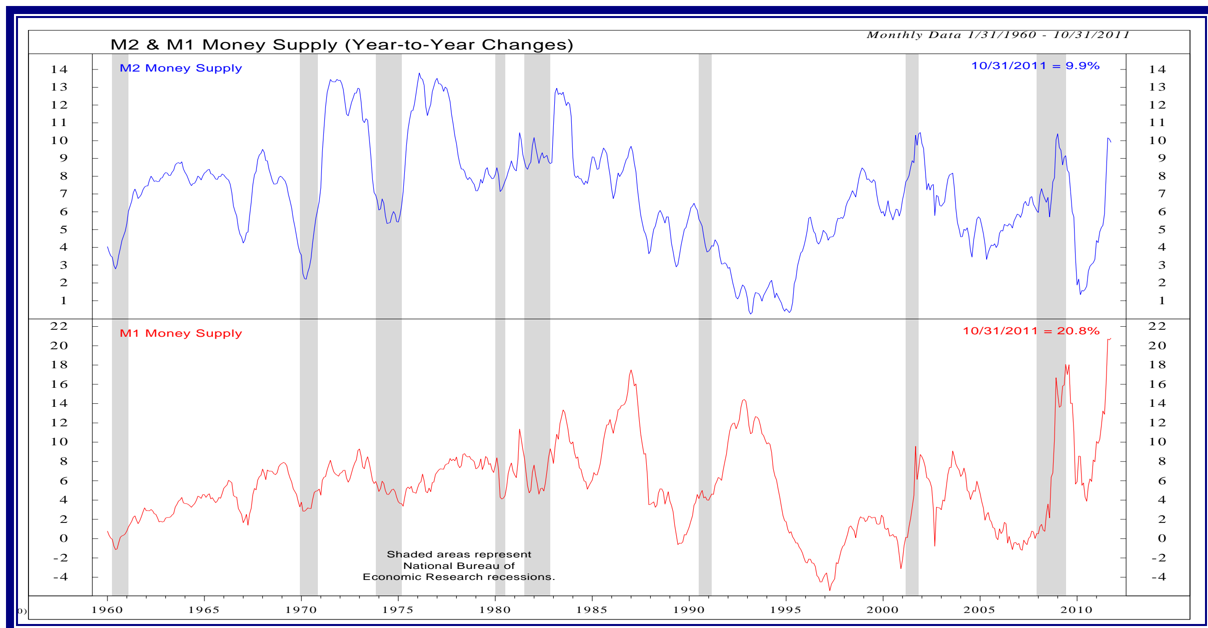
As of mid-November, the crisis in Europe appears to have escalated more recently in French sovereign debt and increasingly the key issue becomes whether Germany can/will agree to 'socialization' of Europe's debt via ECB intervention. While markets seem to conclude that the stepping up SMP (Securities Markets Programme) by the ECB is the best solution, the recent concern is that the central bank's actions are too late to contain the crisis. Hence, markets remain extremely reactive to any developments. The euro zone news continues to overhang the markets, feeding investors uncertainty and dampening a sustained stock rally. Our view remains that Europe ultimately moves in the right direction. In the interim, we believe that the combination of decent U.S. economic momentum, a potential positive surprise from Super-committee (but not crucial), fund managers underinvested and underperforming benchmarks, act to magnify the year-end seasonal rally.

While French sovereign yields crept up in mid-November, aggravated by earlier concerns from Italy, the backup in rates in the sovereign debt of Italy and France appear to be due to a lack of "liquidity" rather than "solvency". This is reflected in an apparent appetite for corporates. JP Morgan research pointed out that in early November 86% of Italian corporate issuers have lower yields than the Italian governments. However, one might conclude that recent political developments have been more positive in the Euro zone. In Italy, a technocrat government led by Mario Monti has been introduced, and the new prime minister secured a consensus and is well regarded. In Greece, the new Prime Minister Papademos has been confirmed as the new leader of a temporary technocrat government and he appears to be committed to implementing austerity measures.

The U.S. Economy is on the Mend:

In his recent press conference, Chairman Bernanke acknowledged that the Federal Reserve's forecasts had been too optimistic, not only as a result of a longer-than-expected period of financial repair but of "bad luck" associated with the Japanese earthquake, surge in oil prices, and intensity of European debt crisis resulting in unexpected negative shocks to our economy. He reiterated that the first interest hike might well be later than mid-2013 and dismissed criticism that current monetary policies would stoke inflation by pointing to the scoreboard, noting that inflation has been well-contained over the past few years.

MONEY SUPPLY



On a positive note, jobless claims have remained steady at about 400,000 in recent weeks and a 2.5% increase in GDP in the third quarter, combined with relatively weak growth in hours worked, implied a sizable increase in productivity in the third quarter. Although factory orders declined slightly in September, the ISM non-manufacturing index held steady at 53.0 confirming other business surveys that point to steady growth. The most recent employment report showed private sector payroll growth of +110,000 in line with consensus, and job growth reported in September was also revised upwards.

October retail sales recently released were much stronger than expected, with core spending rising 0.6% following 0.5% in each of the last two months. But perhaps the most encouraging sign comes from weekly claims, which are now down to 388,000 and the best reading since early 2011. This would appear that our labor market is gaining momentum.

The U.S. housing sector is also showing signs of bottoming. As the labor market improved in 2011 by 1.26 million jobs vs. 940,000 in 2010, economists estimate 88% of the incremental jobs created in 2011 were housing-related. Housing data confirms the strengthening market, such as the NAHB sentiment indicators at the highest levels since 2007, vacant homes now at the lowest level since 2006 and building permits at the highest since 2008. The secular population growth coupled with slow starts are absorbing excess housing. However, financing remains tight and is still a key impediment to a faster recovery. Still, the improvement is impressive.

In summary, we are optimistic with regards to U.S. real GDP growth which should trend above the 2.5% rate for the balance of 2011. We are forecasting a CPI inflation rate of 2.5% and corporate profits to come in at close to 10%, by yearend. In 2012, we expect real GDP growth to move moderately higher at 2.7%, CPI inflation of 3% and corporate profits growth of 7.0% versus 2011.

Outlook for the Financial Markets:

Thus far, the market action in the fourth quarter has been encouraging in contrast to the August-September warnings of more weakness ahead. The rally off the October low seems to reflect the spreading view that the global recession fears have been overblown. In the U.S., China and even perhaps Europe, the economic data has been consistent with an economic slowdown, but not contraction. The momentum of industrial production for example remains positive in most countries and should be sustainable into 2012.

The U.S. market has outperformed during the European crisis this year, reminiscent of its out-performance during the "Asian contagion" of 1997-1998. Both these periods stand in contrast to 2007-2008, when the U.S. was at the epicenter of the financial crisis. After the 1998 crisis receded, Asian markets accounted for one of the top performing markets throughout the rest of that year. We expect the rest of the world to gain confidence as the ECB eases up on monetary constraint in the ensuing months and averts a deepened recession in 2012.

FIRM UPDATE:

Altman Investment Management is celebrating its tenth year managing investments for our valued clients. We remain dedicated to servicing our investment partners in good and more difficult times, by achieving both consistent and superior investment performance relative to our benchmarks across both equity and fixed income classes. Our singular focus on investment performance and exceptional client service, with seasoned investment professionals, continues to solidify our long-term partnerships. We recognize that over the past decade it has not been particularly easy to stay the investment course, especially during volatile periods in the markets. During these periods of uncertainty, we especially appreciate our clients and business partners for their continued confidence in our process and expertise. We look forward to celebrating our Twenty year anniversary with the same degree of energy and passion as on our first day of incorporation.

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