

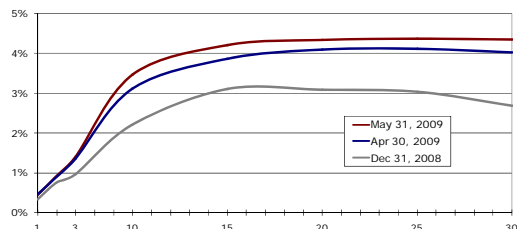
Baird Advisors
Fixed Income Market Comments
May 2009

Long Treasury Yields Continue to Rise

Treasury yields continued to rise in May as heavy new issuance began to weigh on the bond market. During the month, the Treasury auctioned a stunning \$770 billion of T-bills (maturities of less than 1 year) and \$172 billion of T-notes and T-bonds (maturities of 2 to 30 years). Amazingly, the market absorbed all the new T-bills with no noticeable impact as 1-year T-bill rates fell by 2 bps in May. However, the increase in longer-term yields (10-year and 30-year yields rose 34 and 31 bps respectively) reflects the market's concern that heavy supply will push interest rates higher over time.

Treasury Yields

Source: Bloomberg

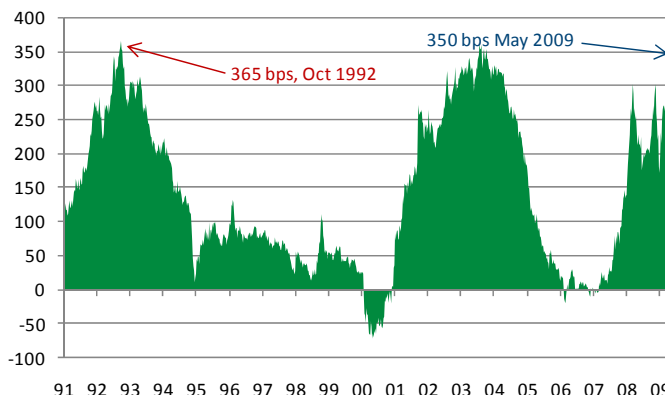


Maturity	Dec 31, 2008	Apr 30, 2009	May 31, 2009	1 mo. change	YTD change
1	0.34%	0.46%	0.44%	-0.02	0.10
2	0.76%	0.90%	0.92%	0.02	0.16
3	0.97%	1.36%	1.40%	0.04	0.43
5	1.55%	2.01%	2.34%	0.33	0.79
10	2.21%	3.12%	3.46%	0.34	1.25
30	2.68%	4.03%	4.34%	0.31	1.66

Yield Curve Approaches Record Steepness

With the recent increase in long-term Treasury yields, the difference between 2 and 30-year yields (350 bps on May 22) is approaching its all-time high of 365 bps reached in October 1992 (see chart at right). With Fed policy "wide open" for the time being, we believe a steep curve is part of the Government's plan to aid bank earnings and feel it is likely that the yield curve will steepen further to a new record this year.

2 to 30 Year Yield Spread (in bps)



Spread Sectors Continue to Rally

As Treasuries lost additional ground in May (-1.01%, -4.10% YTD), non-Treasury sectors continued to rally.

Asset-backed securities continued their convincing recovery and led all investment grade sectors with another strong month (+5.43%, +14.90 YTD) followed by investment grade corporates (+3.90%, +5.44% YTD). Steady investor demand pushed municipals higher again in May (+1.06%, 7.43% YTD) and high yield bonds continued an impressive bounce with stocks (+6.73%, +26.80% YTD). Government Agencies (+0.01%, -0.20% YTD) and Agency MBS (+0.29%, +2.79% YTD) took a breather in May as investors favored higher yields over Government guarantees and TIPS advanced further (+2.10%, +5.73% YTD) on concerns that inflation could be the bond market's next big problem down the road.

Total Returns of Selected Barclays Capital Indices and Subsectors

Index/Sector	May	2009 YTD
BC Aggregate Index	0.73%	1.32%
BC Gov't/Credit Index	0.80%	-0.30%
BC Int. Gov't/Credit Index	0.74%	1.15%
BC 1-3 yr. Gov't/Credit Index	0.68%	1.83%
US Treasury Sector	-1.01%	-4.10%
Gov't Agency Sector	0.01%	-0.20%
Corporate Sector	3.90%	5.44%
MBS Sector	0.29%	2.79%
ABS Sector	5.43%	14.90%
High Yield Sector	6.73%	26.80%
Municipal Sector	1.06%	7.43%
TIPS	2.10%	5.73%