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To: Undisclosed recipients:;
Subject: GIO Closing Trade Idea: 2-10 Curve Flattener and 10Y Swap Spread Wideners
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Inline-Images: image002.png; image004.png; image009.png

Global Investment Opportunities Group (GIO)
Opportunistic Investments
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CLOSING TRADE IDEA: 2-10 CURVE FLATTENER

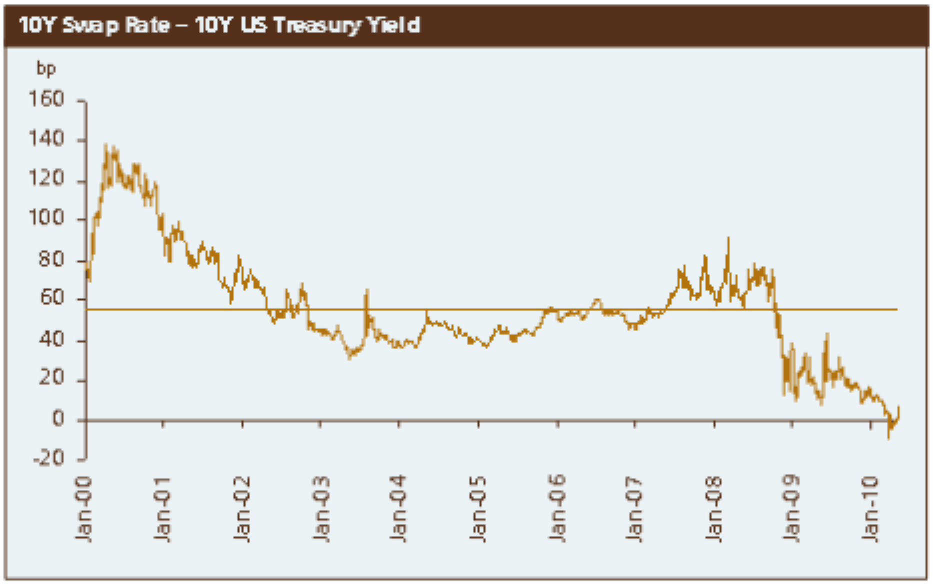
We believe clients in the 2-10 curve flattener trade should take advantage of current levels to exit the trade. Since we first wrote about it in January this year, the curve has flattened 25-30 bp. Our original thesis was for the curve to flatten either due to markets pricing in Fed rate increases or another pullback in risk driving yields lower, which is what we've seen over the past few days.

While we still believe the curve will flatten sharply once the Fed tightening cycle begins, the "low for long" language could remain in place for longer than previously expected; there has been little in the way of inflation pressures and unemployment, while stabilized, remains high. We will continue to watch levels and the Fed carefully for a re-entry point but believe investors should use the recent rally in the long end to take profits and re-enter the trade later this year.

Source: [redacted] Morgan Securities, Inc., Bloomberg. Data as of 05/07/10.

CLOSING TRADE IDEA: 10Y SWAP SPREAD WIDENERS

We recently highlighted an opportunity in 10 year rates to take advantage of what we believed would be a relatively quick correction in swap spreads. With 10 year swap spreads now back in positive territory, we believe clients who put on widener positions when spreads were negative should take this opportunity to take profits. According to JPMSI, at -5 bp, 10 year swap spreads were about 20 bp below fair value. However, if the negative 30 year swap spread levels since late 2008/early 2009 are any indication, 10 year swap spreads could also remain low for an extended period of time, particularly as there remain sources of pressure (rising sovereign risk concerns, large US debt burden, short mortgage positions, etc) that are likely to persist. While we will be closely monitoring levels for other entry points, we believe clients should remain opportunistic and take advantage of recent market movements to take profits.



10Y Swap Rate – 10Y US Treasury Yield

Source: [redacted] Morgan Securities, Inc., Bloomberg. Data as of 5/7/10.

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