



December 31, 2011

### Quiet Post-Christmas Rally Helps IG Corporates have a Great December

With no new issuance this week, investment-grade corporate bonds rallied, which I predicted as part of the “December-April effect.”

Main bond sectors I follow performed as follows:

Sector	12/30/11	12/23/11	Wkly Spread	Dec Spread	2011 YTD
	OAS	OAS	Change (bp)	Change (bp)	TROR (%)
IG Corp	256	260	-4	-10	+7.51
AAA Corp	111	112	-1	+9	+9.11
AA Corp	184	189	-5	-10	+6.25
A Corp	243	248	-5	-11	+7.39
BBB Corp	307	308	-1	-7	+8.12
All HY Corp	738	737	+1	-41	+4.38
BB Corp	545	543	+2	-31	+6.11
B Corp	749	747	+2	-44	+4.64
CCC Corp	1356	1360	-4	-68	-1.40
Govt Master	4	4	+0	+0	+9.19.
Mtg Master	45	51	-6	-9	+6.14
Sr Agencies	32	31	+1	-1	+5.27.
BB Sovs	566	554	+12	+6	+5.89
EM Corps	1001	992	+9	-12	+6.17
Muni Master	61	62	-1	+9	+11.19
BABS	216	211	+5	+8	+22.60

**With a near-historical high spread of 256 bps, investment-grade corporate bonds are highly likely to outperform Treasuries over the next two to three years. High yield is similarly good relative value at 738 bps spread.** High volatility and low liquidity in high yield continue to be disincentives to full participation in the otherwise-attractive secondary corporate bond market. Nevertheless we’re now in the traditionally good time of the year (December-April) to invest in spread product, so that will offset worries about European-inspired volatility, in my opinion.

Good luck and good investing in 2012,

Stephen Smart, CFA  
Chicago (630-363-8511) stephen.h.smart@gmail.com  
Carolina Capital Markets  
Chapel Hill (919-960-0807) smart@bonddog.com  
*The Smart Bond Guy*

*“Stephen Smart is an in-house research analyst and former portfolio manager. Recommendations in this report are based on an independent evaluation of particular bonds and do not necessarily represent the views of CCM or its representatives. This is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Returns and yields are not guaranteed and may be subject to change. Neither CCM nor its affiliates own or position the recommended security. CCM is an independent, non-positioning fixed income broker/dealer providing execution and research to their clients on a fully compliant and transparent platform. The views expressed in the research report accurately reflect Stephen Smart’s personal views about the subject securities and issuers and no part of his compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report; or to learn more about how to utilize SEC rule 28(e) in acquiring research through CCM, contact a CCM representative at (800) 922-6864.*”