MEMORANDUM

To: PCA Clients

Date: August 4, 2011

From: Pension Consulting Alliance, Inc.

RE: Comments on August 2011 Market Issues

Summary

Today, the yield-to-maturity on the 30-Year U.S. Treasury Bond declined from 3.90% to 3.67%. In relative percentage terms, this one-day decline (5.9%) ranks as the 8th largest relative yield decline in the history of the 30-Year U.S. Treasury Bond. Additionally, on Tuesday, August 2nd, the yield on the same U.S. long bond[1] declined from 4.08% to 3.91%, a one-day relative yield decline of (4.2%). Both of these events reflect a significant sell-off of risk assets by global investors. Furthermore, the broad U.S. equity market[2] declined by approximately (4.8%) today, representing the largest one-day loss since the global financial crisis. While PCA is not recommending any specific action at this time, we are continuing to monitor these market trends closely.

Discussion

For comparison purposes, of the over 8,800 trading days since daily data for the U.S. long bond was first established (February 1977), there has only been 10 days in which the U.S. long bond has seen a relative yield decline of (5.0%) or more. Moreover, there has only been 16 days in which the U.S. long bond has seen a relative yield decline of (4.0%) or more. Of those 16 days, 12 of them occurred between September 2008 and March 2009 – the epicenter of the financial crisis. Similar to August 2nd (debt-ceiling resolution), a large portion of the days that saw relative yield declines of (4.0%) or more were surrounded by significant government activity. For example:

- October 31, 2001 *(long bond yield decline of -6.4%)*
    - U.S. Treasury announced that they would suspend the sale of 30-year bonds.
- September 29, 2008 *(long bond yield decline of -5.9%)*
    - The U.S. House of Representatives voted 228-205 against a $700 billion bailout.
- November 25, 2008 *(long bond yield decline of -4.3%)*
    - The Federal Reserve and U.S. Treasury announced $800 billion in asset purchases and new lending programs to help revive the financial system.
- February 10, 2009 *(long bond yield decline of -4.3%)*
    - Treasury Secretary Tim Geithner introduced a $2.5 trillion Financial Stability Plan to help clean up the financial system.
- February 17, 2009 *(long bond yield decline of -5.2%)*
    - President Obama signed the $787 billion American Recovery and Reinvestment Act into law.

[1] 30-Year U.S. Treasury Bond
[2] S&P 500

Although many of the one-day relative yield declines that occurred between September 2008 and March 2009 were impacted by government action, they were also negatively affected by the overwhelming environment of high idiosyncratic risk, as many firms and entities were facing significant asset losses and insolvency. It was a period in which government action and negative economic news continued hand-in-hand.

As earnings season continues to wind down, investor focus will further transition towards macroeconomic and government activity factors. Although the recent decline in the yield-to-maturity of the 30-Year U.S. Treasury Bond is historically significant, highlighting a “risk-off” investor play, it isn’t likely that further significant declines will occur unless accompanied by poor economic data.

PCA will continue to monitor these market trends closely and provide additional viewpoints on any material issues as they arise. We look forward to discussing these matters with you further within short order. Please do not hesitate to contact your PCA Consultant if you have additional questions or comments.