

FIXED INCOME COMMENTARY

JANNEY FIXED INCOME STRATEGY

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Interest rates were again lower Thursday on a rash of not-so-positive August sales news from a number of players in the retail sector. The rally marked the fourth consecutive day of higher Treasury prices, as the ten year Treasury declined in yield by 7.5 basis points to 3.63% and the two year fell in yield by 8 basis points to 2.18%. Since the beginning of the month, the ten year Treasury is down nearly 23 basis point, equivalent to a price increase of approximately 1.9%.

The ADP Employment Change Index recorded a decline in jobs of 33,000 for the month of August, slightly better than our forecast, but slightly worse than consensus expectations. These results included a 2,000 drop in financial sector payrolls, but that level seems, judging by the mass number of layoff announcements, short of reality. For that reason, we once again expect that the ADP Index will outperform Friday's Nonfarm Payrolls number, which we're forecasting at -50,000. Also out Thursday was the ISM Non-Manufacturing Index, the corollary to Tuesday's ISM Manufacturing activity. The largely services sector survey registered 50.6, which was exactly in line with our expectations and a bit above the consensus. Despite export strength in the manufacturing sector, the new export orders component of the ISM Non-Manufacturing was actually lower month-over-month; instead, the real driver was inventory sentiment. While the probable cause of differences between the manufacturing and non-manufacturing sectors are varied, one likely explanation is the nature of manufactured goods, which are inherently more storable than services and have longer production lead times. For foreign corporations interested in stockpiling U.S. goods before the dollar rallies further, it's far easier to pre-purchase goods than services.

The International Council for Shopping Center's same store sales index rose 1.7% year over year, an anemic result given an annual core CPI increase of 2.5%. Any semblance of strength, however, came from continued stronger sales at wholesale clubs, while traditional retailers underperformed significantly. Among the chains that produced individual results were Dillard's (-7.0%), Kohl's (-5.8%), and JC Penney (-4.9%), and Gap (-8.05) in the middle tier, Nordstrom (-7.9%), Saks (-5.9%), and Neiman Marcus (-0.5%) on the high end, and Target (-2.1%) and Wal-Mart (3.0%, 2.8% excluding Sam's Club). Wal-Mart once again proved to be the perennial outperformer, despite sluggish apparel activity in the prime back to school season. There is very little catalyst for higher sales until the holiday season and, given the particular importance of the holidays in this weak environment, we can expect the promotions to begin even earlier than usual.

The New Jersey Turnpike Authority, faced with challenging economics amid fewer miles driven by both consumers and transport companies, will be raising tolls on the Turnpike and Garden State Parkway in 2009 by 50% above current levels. In addition, the NJTPA also scheduled another 50% increase in 2012 and again in 2023. The action should help boost revenues for the toll roads after a 2% first half traffic decline forced the authority to dip into reserves to pay interest on the TPA's outstanding bonds. A gasoline tax increase that could have provided additional funding for NJ's roads was sidelined before it ever came to a legislative vote.

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"On-the-Run" Treasury Yields				Benchmark Muni Yields				Benchmark Corporate Yields			CD Yields (APY)					
	Close	Previous	Chg.	Aaa	% Treas	Insd.	Baa	Aa	Baa	GMAC	Non-Callable CDs			Callable CDs		
6mo	1.89	1.91	(0.021)	2yr	2.11	100%	2.25	2yr	4.06	5.03	22.75	Mat.	APY	Mat.	Call	APY
2yr	2.18	2.26	(0.081)	5yr	2.83	99%	3.04	5yr	5.05	5.85	23.17	3m	2.42	5.5yr	6m	5.00
5yr	2.86	2.95	(0.094)	10yr	3.74	103%	3.95	10yr	5.88	6.67	23.02	6m	2.97	8yr	2yr	5.25
10yr	3.63	3.70	(0.076)	20yr	4.55	105%	4.77	15yr	6.23	7.11	22.74	1yr	3.60	10.5yr	6m	5.25
30yr	4.26	4.32	(0.059)	30yr	4.72	111%	4.93	30yr	6.52	7.17		2yr	4.20	10.5yr	1.5yr	5.50
												5yr	5.05	10.5yr	2yr	5.50

Historical Treasury Yields				Other Key Market Rates		Recent Economic Indicators				Upcoming Economic Indicators			
				Fed Funds Target	2.00	Date	Release	Actual	Trend	Date	Release	Proj.	Trend
				Prime Rate	5.00	4-Sep	ADP Employment	-33k		5-Sep	Nfarm Payrolls	-50k	
				3 Month LIBOR	2.82	4-Sep	Nfarm Productivity	4.3%	+	5-Sep	Unemployment	5.8%	-
				7-Day Muni Auction	N/A	4-Sep	Unit Labor Costs	-0.5%	-				
				5yr/1yr Agency Callable	4.28	4-Sep	ISM Non-Manu.	50.6					
				GNMA 30yr 5.5% MBS	5.38								
				FNMA 30yr 6.0% MBS	5.57								

The yield information presented above is representative of yields for various fixed income products as of the date noted in upper left hand corner of the table. Yields on Treasuries, Munis, and Corporates are based on indicies and data gathered from Bloomberg. The yields indicated on CDs are Annual Percentage Yields (APYs) based on new-issue brokered CDs. Bonds and CDs mentioned above may not be available for purchase or they may not be available at the stated yields. All data comes from Bloomberg and JMS Fixed Income Strategy.

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