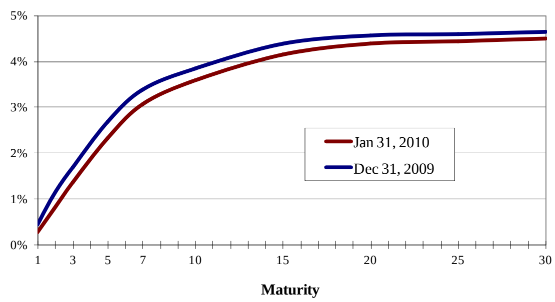
Baird Advisors
Fixed Income Market Comments
January 2010

Treasury Yields Fall

In the face of a growing debate of how and when the Fed should withdraw its historic easing, Treasury yields fell across the curve in January as world equity markets faded in the back half of the month. Concern about PIGS (Portugal, Ireland, Greece and Spain) and the European Union's resolve and ability to address the needs of these debt-burdened countries was the primary force moving the markets. Yields fell by over 30 bps in short to intermediate maturities while declines at both ends of the curve were more modest. The yield curve continued to steepen as the difference between 2 and 30-year Treasury yields edged up to 368 bps on January 31 from 350 bps at year end (see chart and table below).

Treasury Yields

Source: Bloomberg



Maturity	Dec 31, 2009	Jan 31, 2010	change
1	0.44%	0.27%	-0.17
2	1.14%	0.81%	-0.33
3	1.68%	1.35%	-0.33
5	2.68%	2.32%	-0.36
10	3.84%	3.58%	-0.26
30	4.64%	4.49%	-0.15

Strong Start to the New Year

The decline in Treasury yields provided a firm base for strong positive returns for all indices and sectors of the bond market in January. Treasuries were up 1.58% for the month (in contrast to a -3.57% return for all of 2009) while Government Agencies, which as a sector are shorter in duration, returned 1.06%. Investment grade corporates *out-yielded* Treasuries with a return of 1.63% (corporate yield spreads had tightened by nearly 10 bps early in January but widened back out to finish the month mostly unchanged). Spreads on high yield bonds widened by about 20 bps in January, explaining this sector's less robust (but still strong) return of 1.27%. Agency mortgage pass-throughs (MBS), still benefiting from outright Government purchases, which are set to cease after March 31, enjoyed a strong return of 1.33% and positive technicals helped municipals return 0.52%. Issuance of [taxable] Build America Bonds (BABs) continues to grow as a percentage of overall municipal supply, providing good support for true tax-exempt issues. TIPS had another strong month with a 1.61% return, reflecting investors' continued interest in seeking protection from anticipated increases in inflation over the long run. Please see January returns (alongside calendar year 2009) for various sectors and indices in the table below.

Total Returns of Selected Barclays Capital Indices and Subsectors

Index/Sector	2009	January
BC Aggregate Index	5.93%	1.53%
BC Gov't/Credit Index	4.52%	1.49%
BC Int. Gov't/Credit Index	5.24%	1.39%
BC 1-3 yr. Gov't/Credit Index	3.83%	0.77%
US Treasury Sector	-3.57%	1.58%
Gov't Agency Sector	1.95%	1.06%
Corporate Sector	18.68%	1.63%
MBS Sector	5.89%	1.33%
ABS Sector	24.72%	1.68%
Municipal Sector	12.91%	0.52%
TIPS	11.41%	1.61%
High Yield Sector	58.21%	1.27%

Indices and subsectors are unmanaged and an investment cannot be made directly in an index or a sector