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Fixed Income Commentary Non-Agency RMBS Holding Steady

Notwithstanding the week's credit and equity volatility, pricing for ABX contracts, which represent baskets of home equity ABS reference obligations, held generally steady to marginally higher. Although correlation to broader markets still exists, non-agency residential mortgage-backed securities (RMBS) are no longer at the forefront of causing market volatility but have now remarkably become the relatively "safer" asset class.

Higher risk-adjusted yields continue to attract support from the investment community including money managers, banks, insurance companies and hedge funds. With onerous outcomes already embedded within the price of these securities, the investor community has become very comfortable deploying capital into the space while viewing any pullbacks in prices as buying opportunities.

Cash bond prices have moved right back to or very close to the recent highs as demand has greatly overwhelmed any sort of supply. Attractive yields and positive technicals should lead to a continued decline in the correlation factor to broader market volatility and should bode well for non-agency RMBS prices going forward.

ABX Weekly Price Changes

INDEX	6/4/10	5/28/10	Change	INDEX	6/4/10	5/28/10	Change
07-2Pens	42.54	41.85	+0.69	06-2Pens	74.09	73.37	+0.72
07-2AAA	40.71	39.94	+0.77	06-2AAA	53.29	52.81	+0.48
07-2AA	5.67	5.62	+0.05	06-2AA	16.01	15.85	+0.16
07-2A	5.08	4.91	+0.17	06-2A	5.38	5.38	+0.00
07-2BBB	3.93	3.74	+0.19	06-2BBB	7.20	7.22	-0.02
07-2BBB-	3.93	3.74	+0.19	06-2BBB-	6.54	6.37	+0.17
07-1Pens	51.51	50.81	+0.70	06-1Pens	86.29	86.31	-0.02
07-1AAA	41.36	40.77	+0.59	06-1AAA	86.05	86.04	+0.01
07-1AA	5.45	5.29	+0.16	06-1AA	41.71	41.02	+0.69
07-1A	3.95	3.66	+0.29	06-1A	15.52	15.47	+0.05
07-1BBB	4.13	4.12	+0.01	06-1BBB	5.70	5.36	+0.34
07-1BBB-	4.15	4.12	+0.03	06-1BBB-	5.73	5.47	+0.26

Source: Deutsche Bank

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