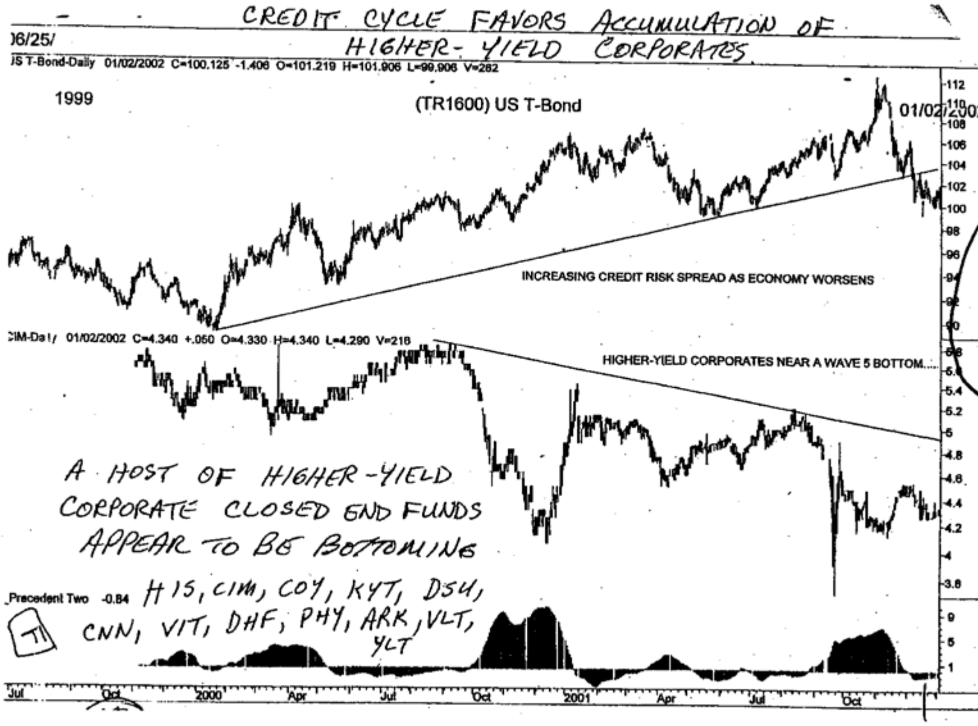
CORPORATE BONDS WERE ATTRACTIVE IN 2002

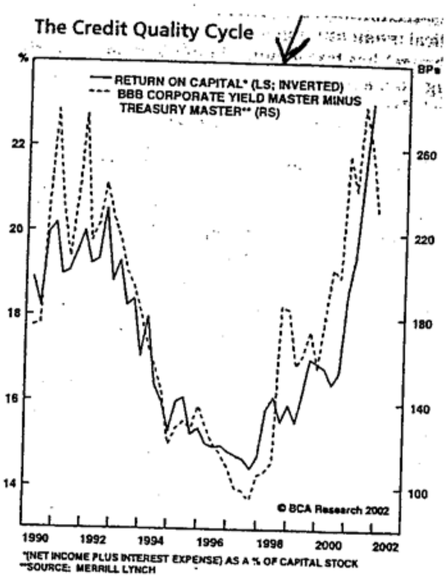


FROM CORNERSTONE JAN '02 ANNUAL MARKET OUTLOOK

"Higher yield corporate bonds have been out of favor since '98…as the outlook For the economy and corporate cash flow improves, the risk perception should Improve, favoring a reduction in the spread of corporates over T-Bonds…"

6

CORPORATE BOND YIELDS HAD RISEN SIGNIFICANTLY ABOVE THEIR NORMAL SPREAD OVER TREASURIES



FROM 1-6-02 CORNERSTONE ANNUAL MARKET OUTLOOK

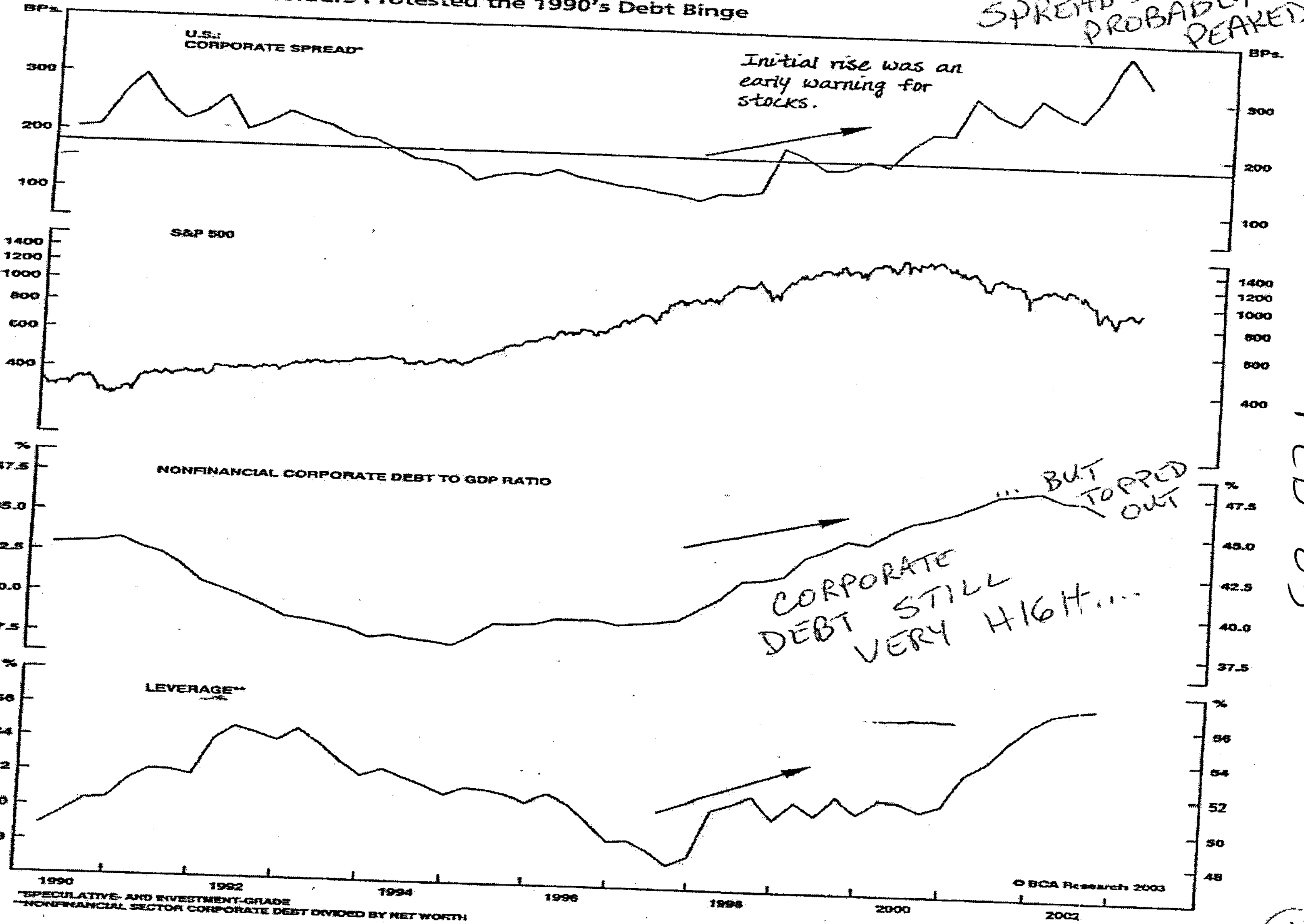
B1

The market was fearful of lending to companies because they had taken on so much CAPEX debt in the booming '90's…for similar reasons they are also fearful of STOCKS! Fear is reflected in the spread.

Feb, '03: CORPORATE vs. TREASURY SPREADS HAVE PEAKED OUT

CREDIT SPREADS PEAKED BY FEB '03

Corporate Bondholders Protested the 1990's Debt Binge



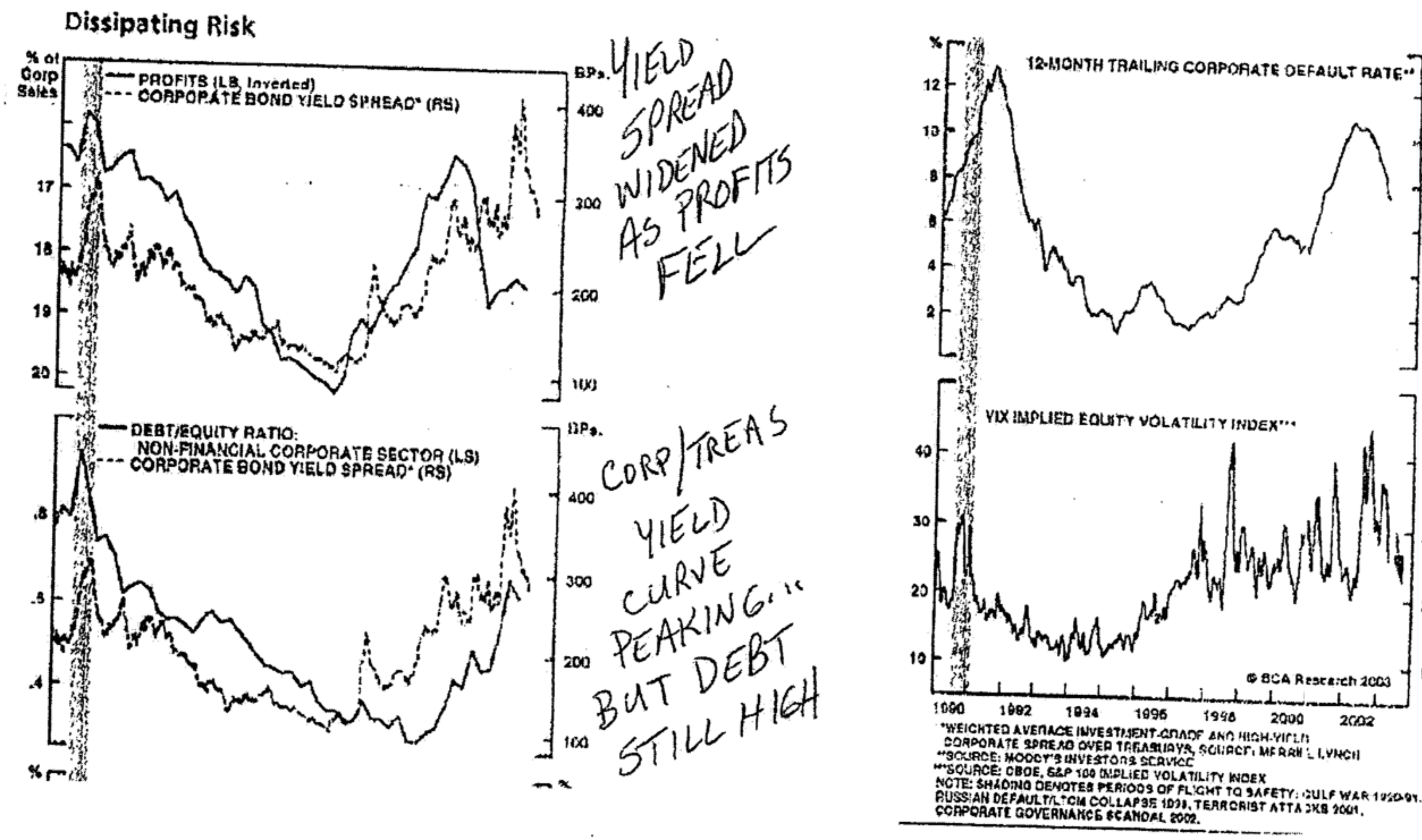
*SPECULATIVE- AND INVESTMENT-GRADE
**NONFINANCIAL SECTOR CORPORATE DEBT DIVIDED BY NET WORTH

B2

1-46

CORPORATE BOND SPREADS CONTINUE TO FALL AS CONFIDENCE RETURNS TO THE MARKETS...

April 20, '03



YIELD SPREAD WIDENED AS PROFITS FELL

CORP/TREAS YIELD CURVE PEAKING... BUT DEBT STILL HIGH

DEFAULTS FALLING

*WEIGHTED AVERAGE INVESTMENT-GRADE AND HIGH-YIELD CORPORATE SPREAD OVER TREASURYS, SOURCE: MERRILL LYNCH
**SOURCE: MOODY'S INVESTORS SERVICE
***SOURCE: CBOE, S&P 100 IMPLIED VOLATILITY INDEX
NOTE: SHADING DENOTES PERIODS OF FLIGHT TO SAFETY: GULF WAR 1990-91, RUSSIAN DEFAULT/LTCM COLLAPSE 1998, TERRORIST ATTACKS 2001, CORPORATE GOVERNANCE SCANDAL 2002.

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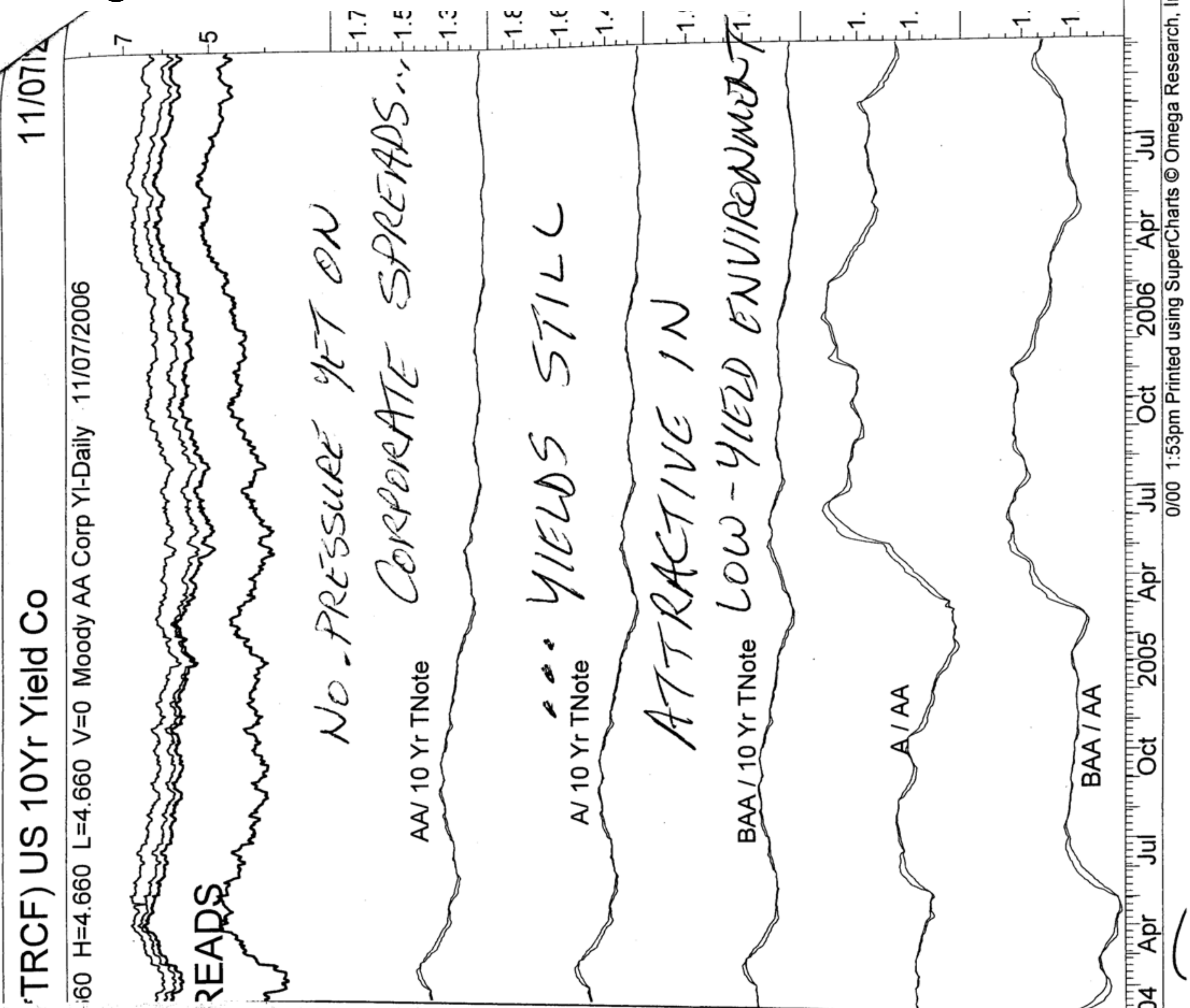
B3 ...CONFIDENCE IN BONDS INCREASES CONFIDENCE IN EQUITIES !

Low Cash Yields make Corporate Bonds & Higher-Yield stocks more attractive to investors



Cash Starts to Lose Its Luster

10-26

Fed Pause, Fears of Rate Cuts Prod Banks to Trim Yields On CDs, Other Instruments

By Jane J. Kim

10-26-06

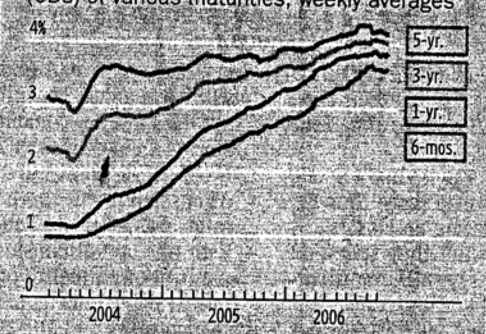
THE PARTY MAY BE nearing an end for investors betting on cash.

For the first time since early 2004, banks are cutting rates on many CDs and other cash instruments. Yesterday, the Federal Reserve left short-term interest rates unchanged for the third time since August, when it stopped raising rates after 17 consecutive increases. And with signs that the economy is weakening, some investors and analysts are predicting the Fed might begin cutting interest rates next year.

That's bringing an end to some of the best deals on cash investments in years. As the Fed began tightening in June 2004, market interest

Past Their Peak

Annualized yields on certificates of deposit (CDs) of various maturities; weekly averages



Source: Bankrate.com

rates tracked steadily higher, boosting returns on certificates of deposit, money-market accounts and other bank products. Investors poured in, tempted by yields that jumped above savings accounts from 2% or less just ... years ago. Currently, total deposits in ... accounts are at a record \$3.6 trillion ... deposits in retail CDs topped \$1 trillion ... this year for the first time in five yea...

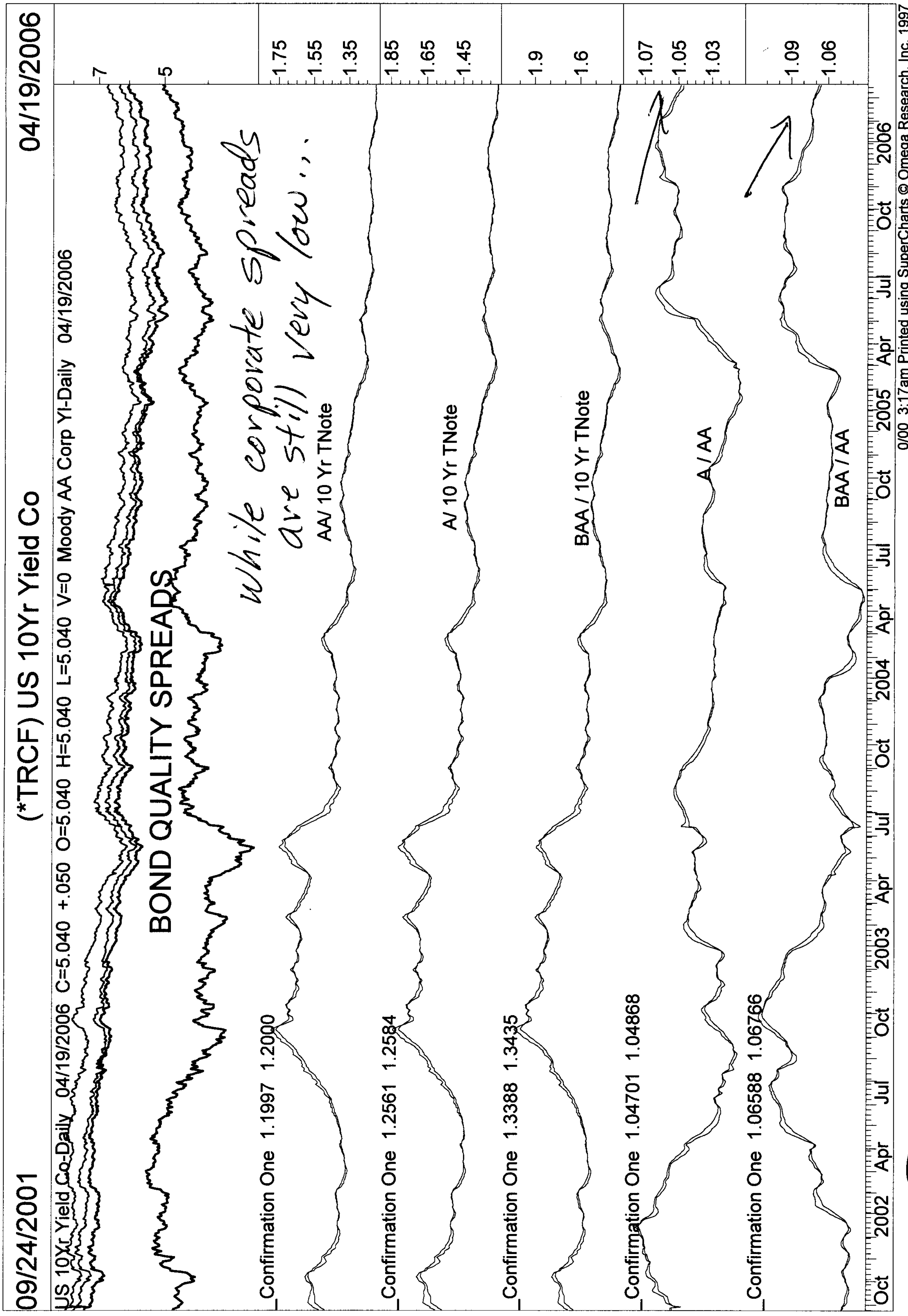
With the outlook now tending toward lower interest rates, consumers who h... cused on short-term instruments may ... consider locking in still-favorable ra... longer terms.

"I don't really trust where the econ... going," says Patrick Karrer, a library ... in Omaha, Neb., who recently locked in ... year CD paying about 6%. "I thought I ... well be prudent and put my money into ... thing."

Institutions including **Bank of A...** Corp., **Wachovia** Corp. and Huntingto... tional Bank, a unit of **Huntington Banc...** Inc., have begun cutting rates in a num... major markets on some of their longe...

Please Turn to Page D3, Column ...

Corporate bond spreads over treasuries remain very narrow…
…but are widening spreads on the horizon ?



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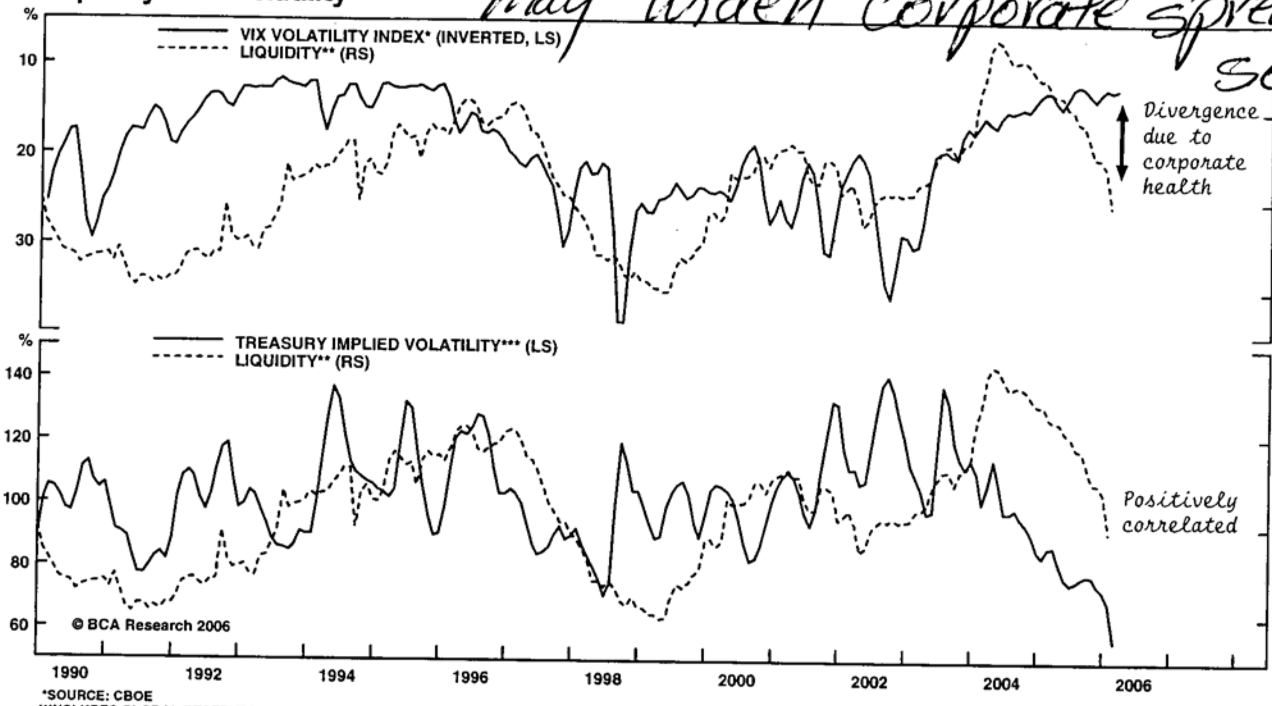
Corporate spreads are now vulnerable to a rise in stock volatility

... increasing stock volatility may widen corporate spreads soon...

CHART 5
Liquidity And Volatility



*SOURCE: CBOE
**INCLUDES GLOBAL RESERVES, GLOBAL BROAD MONEY SUPPLY AND FED ASSETS AND FOREIGN CENTRAL BANK GOVERNMENT SECURITY PURCHASES HELD BY THE FED
***MOVE INDEX; SOURCE: MERRILL LYNCH

- The best for corporate balance sheet health is probably behind us. Profitability remains elevated, but rampant M&A and stock repurchase activity are a bad sign.

Our model simulations suggest that the risks for the VIX are clearly tilted to the upside (**Chart 6**). The base-case scenario sees a slow-but-steady upward trend in the VIX, reaching 20 sometime next year. This scenario assumes that the Fed has almost finished the tightening cycle and that there is only a small deterioration in corporate health in the coming quarters. The VIX would shift closer to 25 if the Fed fund rate peaks at 5.5% and corporate health begins to deteriorate. Of course, the model projects only the underlying trend. Equity implied volatility is highly volatile and could spike higher on any unforeseen economic or financial shocks.

Corporate Spread Implications

Implied volatility is a key driver of corporate bond spreads. Part of the decline in corporate spreads during the past few years can be attributed to the decline in volatility.[1] Similarly, a jump in volatility, as outlined under our base case scenario above, would force spreads wider and damage corporate bond returns.

Our corporate spread model provides some insight into how much spreads may widen as volatility rises. Together with ratings migration, the level of yields and the slope of the yield curve, this model explains about 80% of the movement in corporate spreads (**Chart 7**). The model also allows us to predict the likely range of corporate spreads based on three scenarios:

- **An optimistic scenario,** which assumes no deterioration in corporate health, a slight improvement in ratings migration (back to its average level during the past six months) and a

1 A drop in equity implied volatility reduces the value of the implicit short put option embedded in corporate debt.

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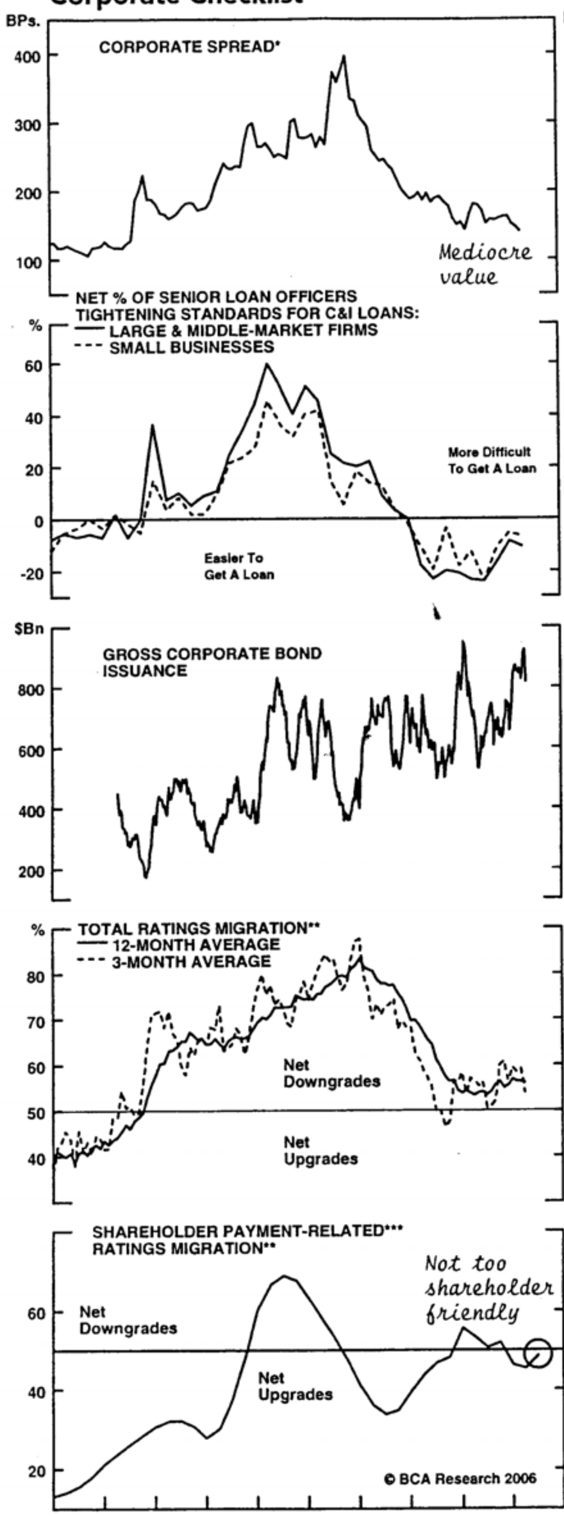
More warning signs for Corporate Spreads

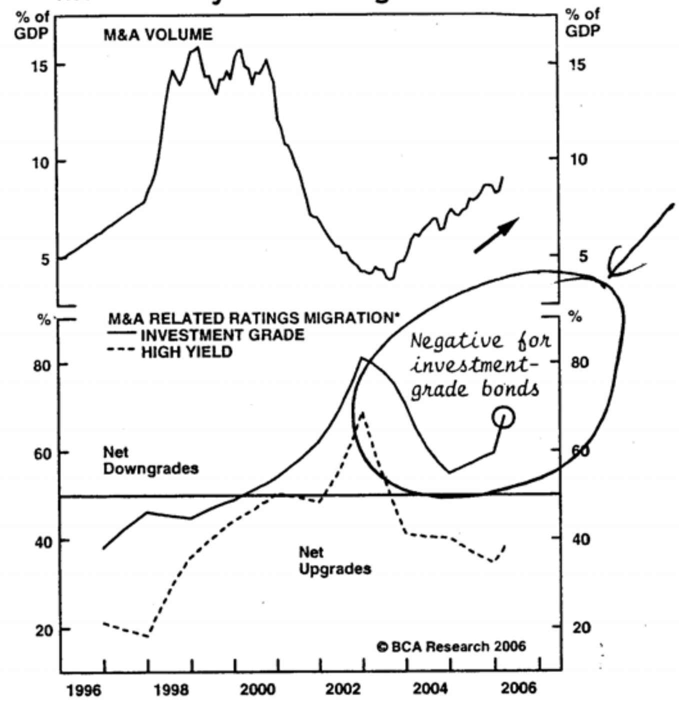
MORE WARNING SIGNS FOR CORPORATE VS. TREASURY SPREADS

CHART 6
Corporate Checklist



*WEIGHTED AVERAGE INVESTMENT-GRADE AND HIGH-YIELD SPREAD OVER TREASURY INDEX; SOURCE: MERRILL LYNCH
**DOWNGRADES AS A % OF TOTAL RATINGS CHANGES, 6-MONTH MOVING AVERAGE, SOURCE: MOODY'S INVESTORS SERVICE
***INCLUDES RATING CHANGES DUE TO SHARE ISSUANCE, DIVIDENDS, EQUITY BUYBACKS AND LBOs

CHART 7
M&A Activity Accelerating



*DOWNGRADES AS A PERCENT OF TOTAL RATING CHANGES; SOURCE: MOODY'S INVESTORS SERVICE

Certainly, demand for corporate credit has been robust: gross corporate bond issuance is at a cyclical high (**Chart 6**). In a report released last week, Standard and Poor's noted that issuance of leveraged loans hit a new high of $109 billion in the first quarter of 2006.

The acceleration in issuance (and of leveraged loans in particular) has been stimulated in part by heightened mergers and acquisitions (M&A) activity, which has surged to its highest level since the peak of the equity bubble in 2000 (**Chart 7**). The backdrop continues to favor further growth in M&A: equity valuation multiples are relatively low, cash is abundant and the cost of financing remains cheap by historical standards.

The bottom panel of **Chart 7** shows that corporate ratings changes related to M&A follow the growth in M&A volume with a lag of several years. Recent data from Moody's Investors Service show this ratings trend remains intact: net

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