

# Credit in Crisis

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**TEXPERS**

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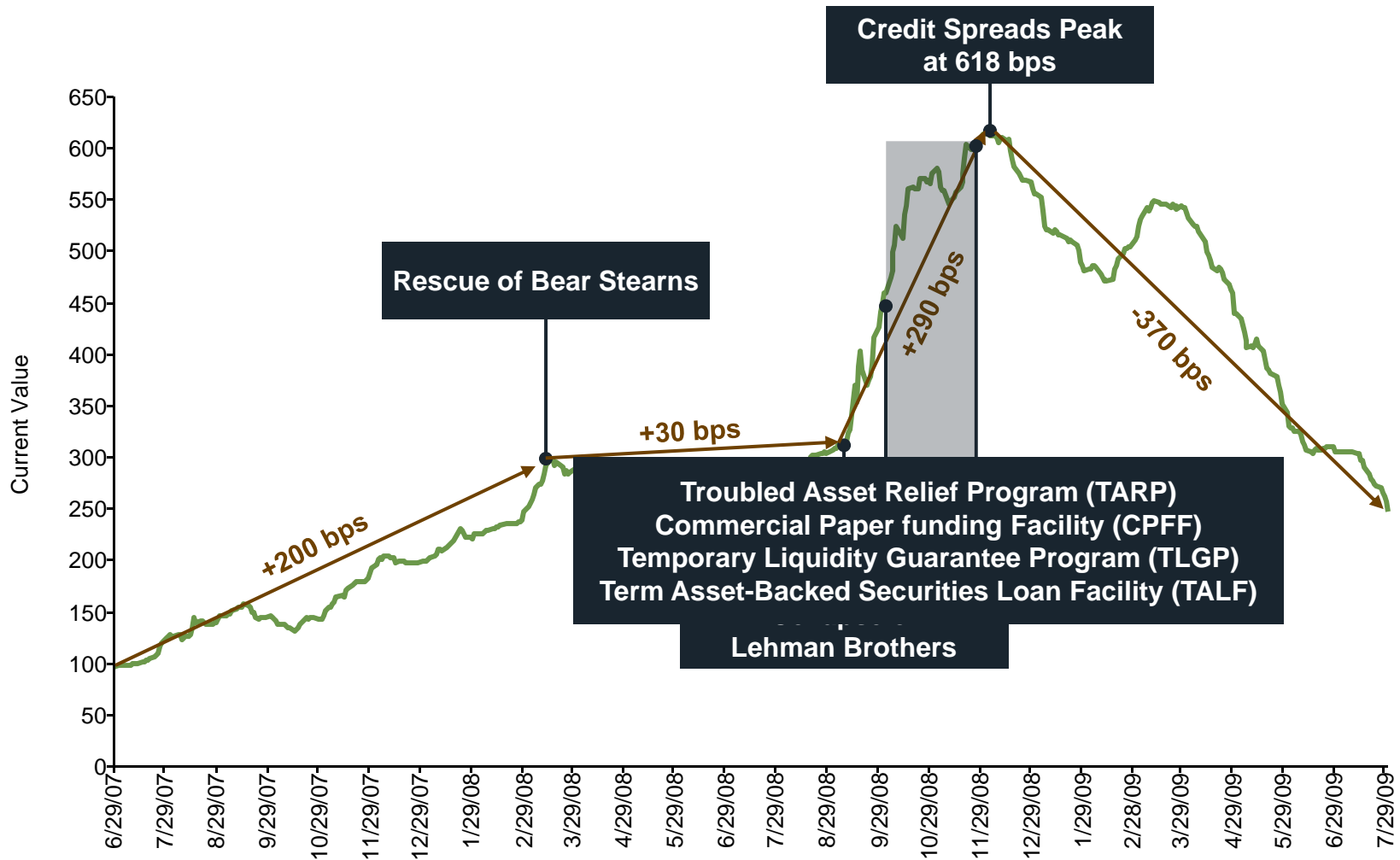
# Agenda

## Credit in Crisis: July 2007–July 2009

- Turmoil in the Banking Industry
- Massive Federal Government Intervention
- Unprecedented Capital Markets Volatility

S&P 500 Sets All-Time Closing High of 1565	30 Year SWAP Spreads Turn Negative	Investment Grade Credit Spreads Reach All-Time High of 618 bps	Federal Reserve Reduces Target Federal Funds from 0.0% to 0.25%
10 Year Treasury Yields Fall to All-Time Low of 2.04%	S&P 500 Falls to 677, Lowest Closing Level Since September 12, 2006	2 to 10 Year Treasury Spread Hits All-Time High of 2.76%	Public-Private Investment Program

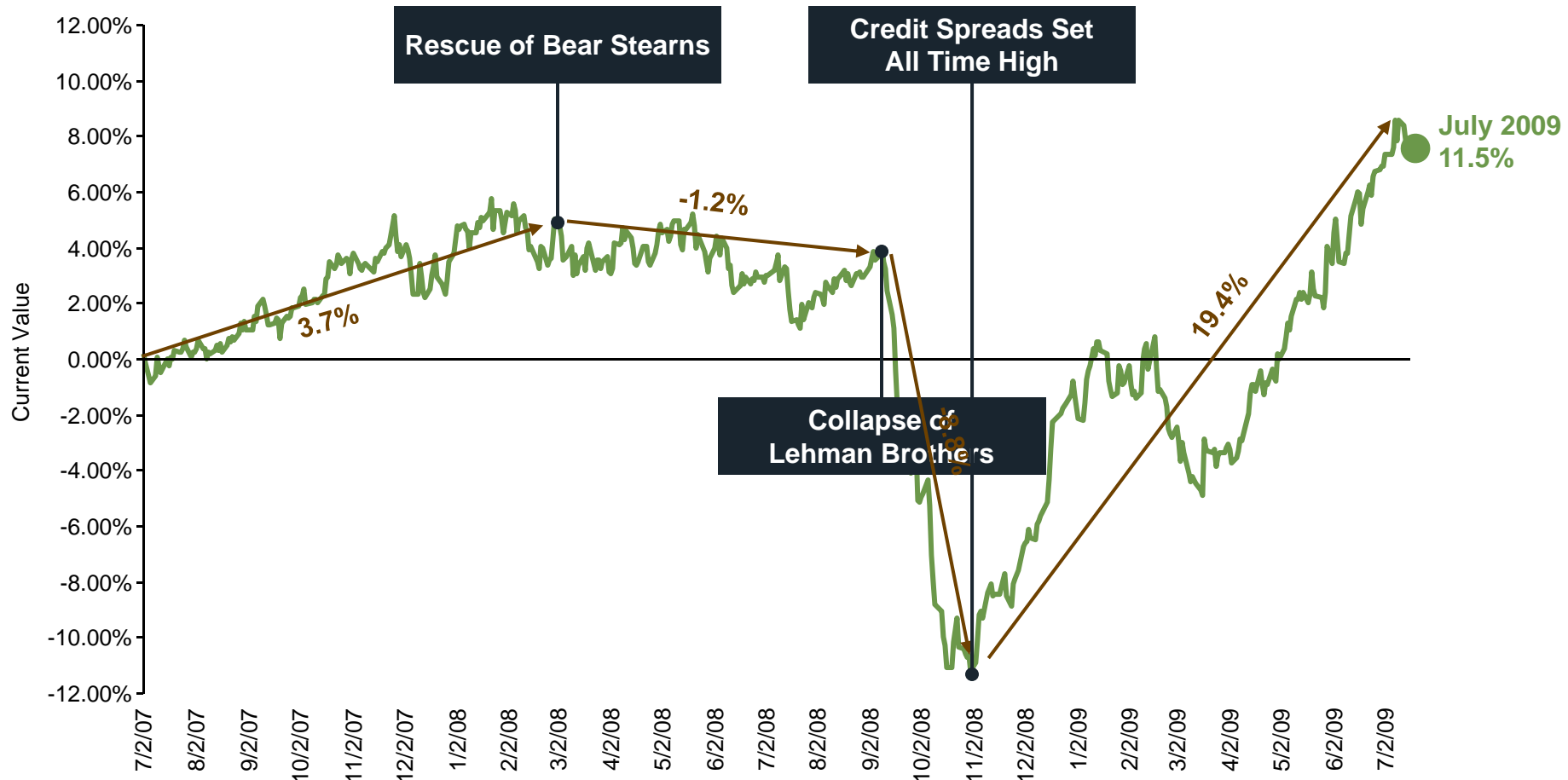
# Investment Grade Credit Spreads



Source: Barclays  
For illustrative purposes only.

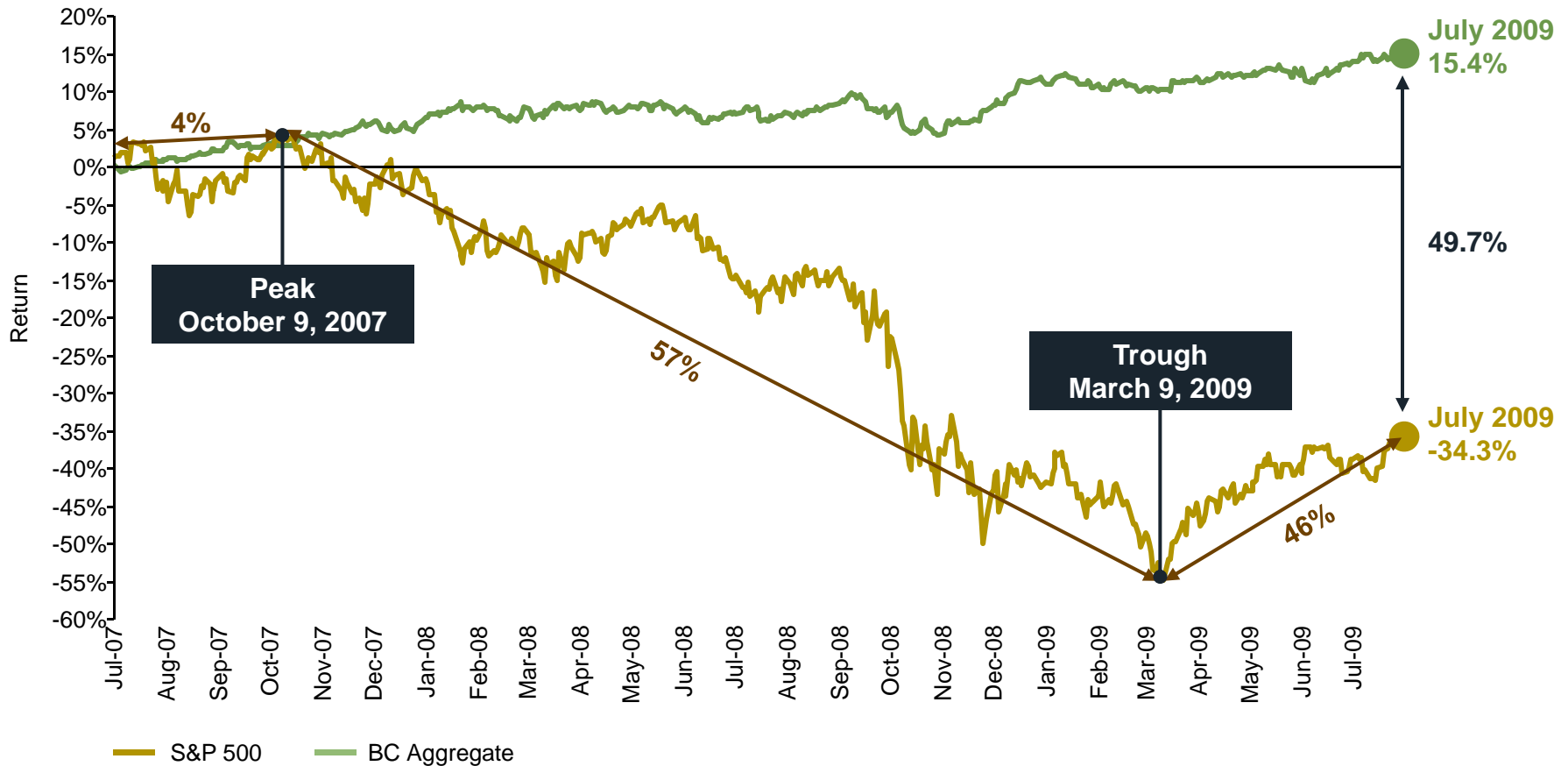
# Cumulative Return from July 2007

Barclays Corporate Index



Source: Barclays  
For illustrative purposes only.

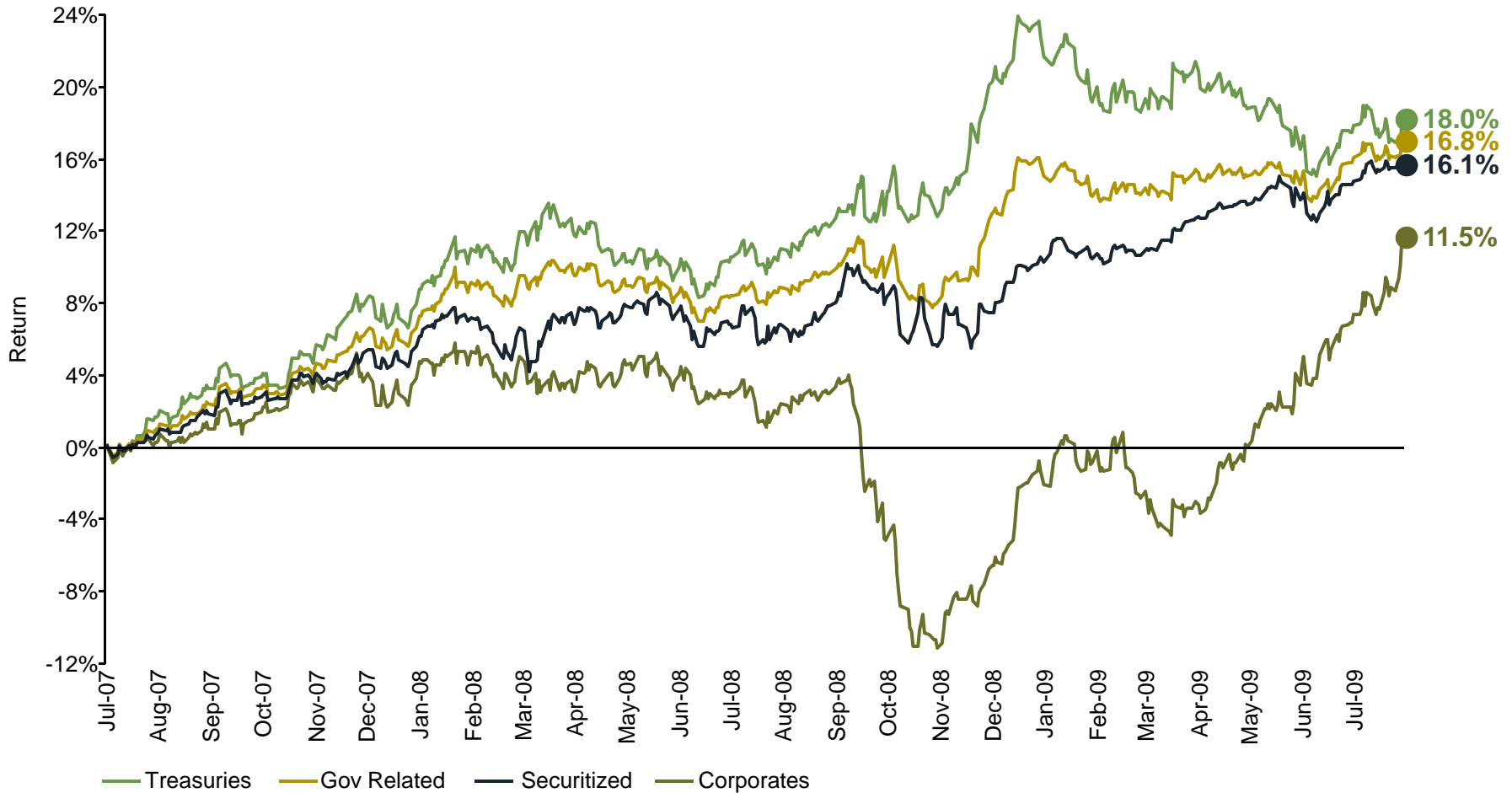
# Cumulative Return from July 2007



Source: Barclays and Standard & Poor's  
For illustrative purposes only.

# Cumulative Sector Returns: Investment Grade Bond Market

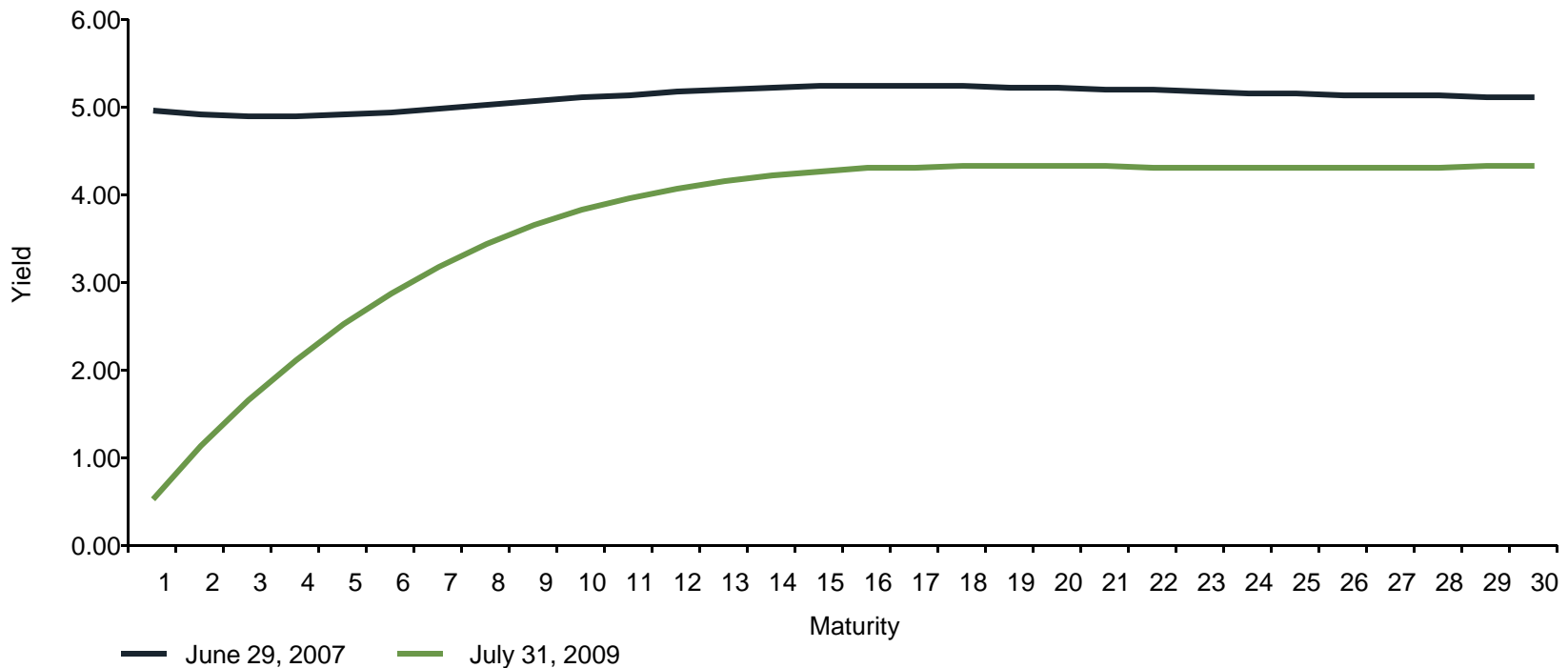
July 2007 through July 2009



Source: Barclays  
For illustrative purposes only.

# Current Market Environment—Treasury Bonds

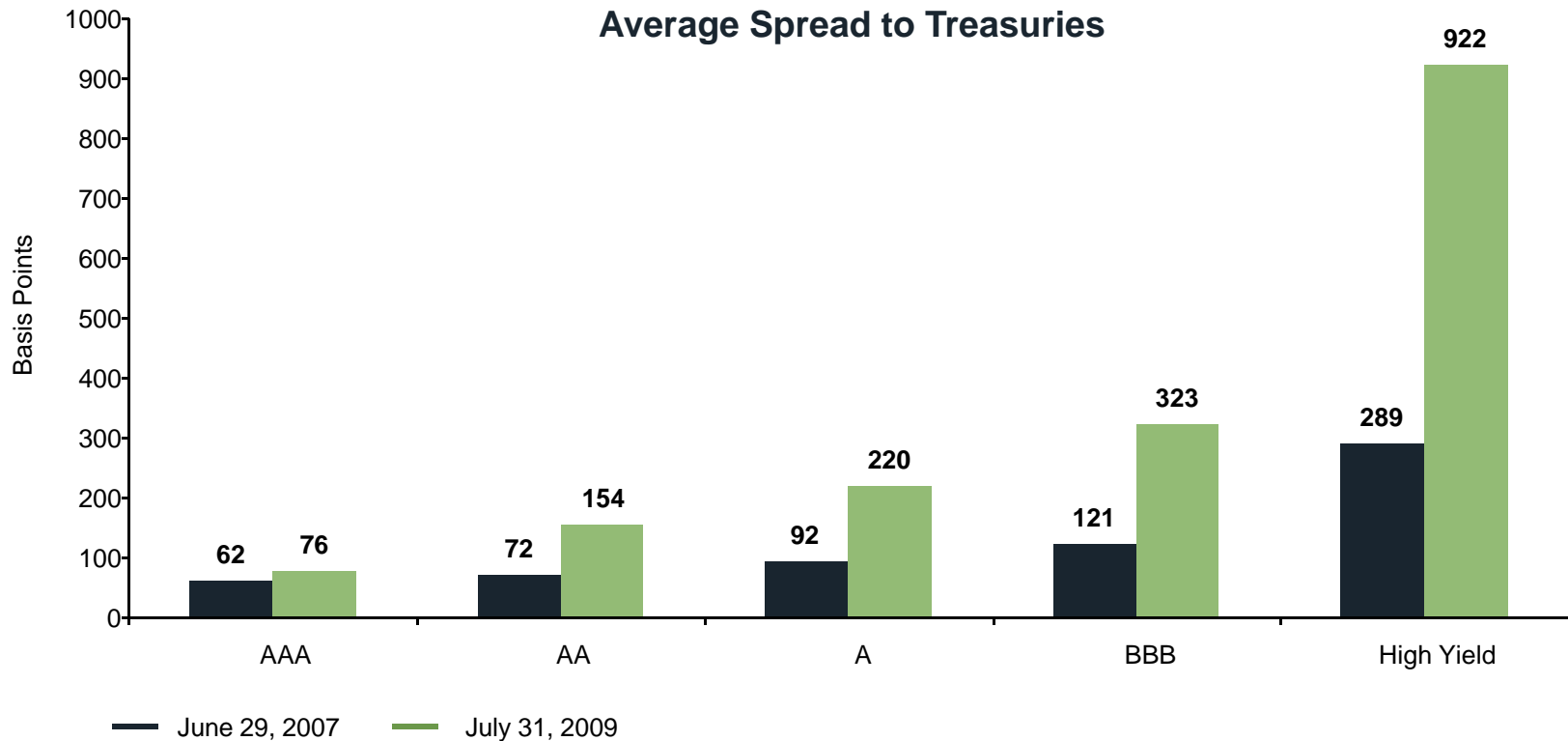
- Lower Treasury yields
- Much greater drop in short term yields
- Steeper Treasury curve



Source: Merrill Lynch  
For illustrative purposes only.

# Current Market Environment—Corporate Bonds

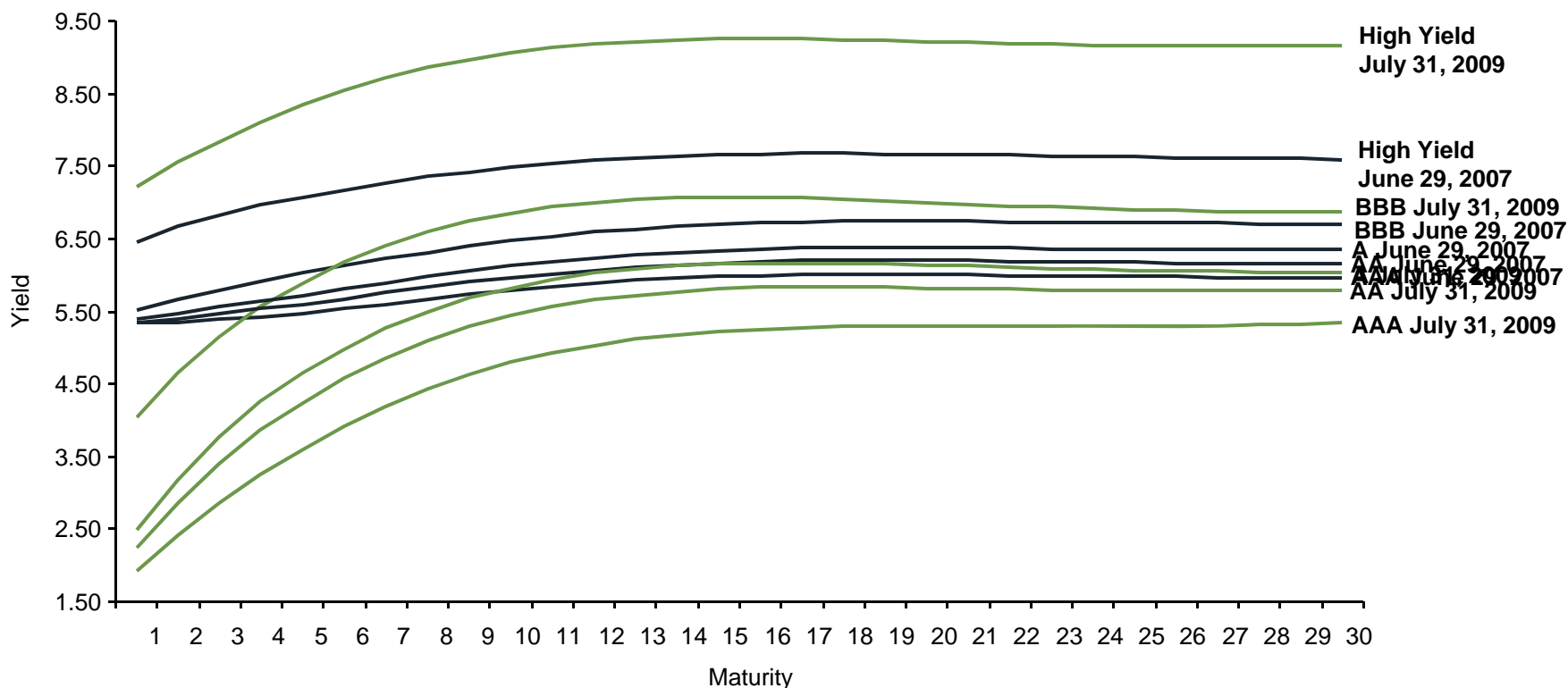
- Higher yields relative to Treasury bonds



Source: Barclays  
For illustrative purposes only.

# Current Market Environment—Corporate Bonds

- Lower “all-in” yields on investment grade
- Higher “all-in” yields on high yield bonds



Source: Merrill Lynch  
For illustrative purposes only.

# Summary

- Effect of credit crisis is evident across capital markets
- Safe assets (Treasuries) are more expensive
- Higher quality risk assets (investment grade bonds) are more expensive (but cheaper relative to Treasuries)
- High risk assets (high yield bonds and stocks) are cheaper

# Potential Areas of Interest

## **Longer Maturity Bonds**

- Wider spreads between longer- and shorter-dated bonds

## **Lower Quality Bonds**

- Wider spreads between lower- and higher-quality bonds

## **Beware of Inflation**

# Questions and Answers

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