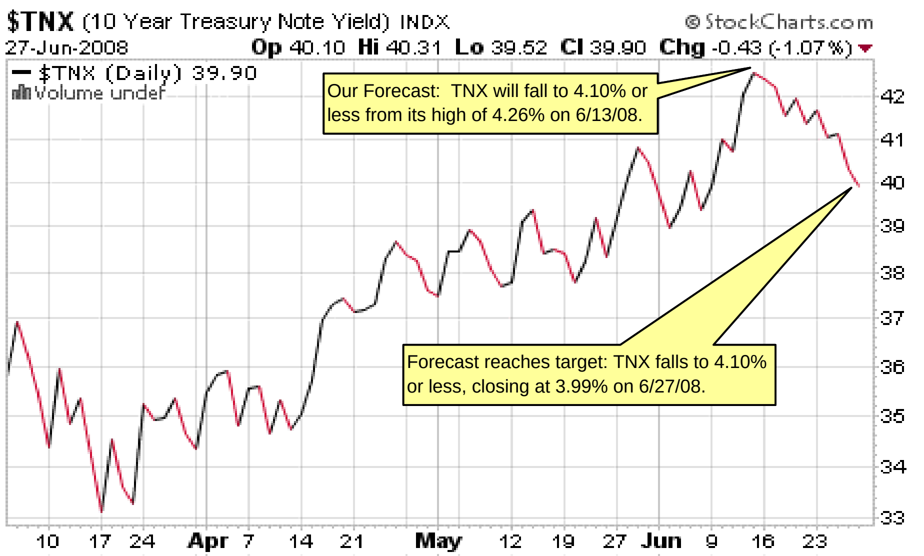
YieldSafeINVESTMENTS LLC

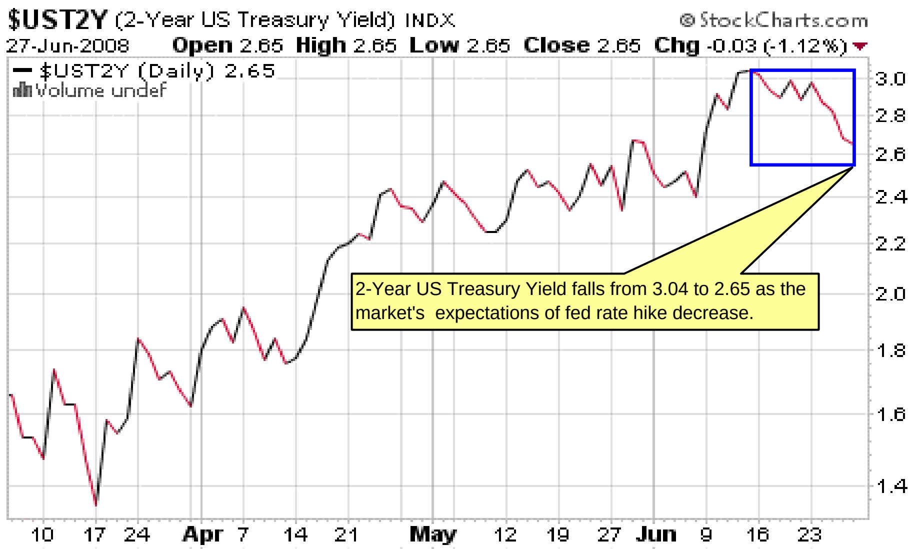
OUTLOOK

"Bonds Rally as Forecasted"
6/27/2008

In our Outlook on 6/17/08, we were bullish on bonds and expected a bond rally within 8 weeks. Specifically, we expected the 10-Year Treasury Yield to fall to 4.10% or less from its high of 4.26% on 6/13/08. Our forecast was correct as shown in the graph below.



In our Outlook on 6/17/08, we mentioned two catalysts that could spur a bond rally, a stock market correction and decreased inflation expectations. So what happened since 6/17/08? One, the stock market corrected. The S&P 500 corrected over 5%, falling from a close of 1350.93 on 6/17/08 to 1278.36 on 6/27/08. As one would expect, the sell-off in stocks ignited a flight to quality trade in which investors fled stocks for the safety of bonds. As a result, bonds rallied and yields fell. See the graphs above.



Two, expectations of a fed rate hike decreased. On 6/17/08, we felt the market's expectations of a fed rate hike were too high. We based this view on the action of the 2-Year US Treasury Note. Given that the 2-Year US Treasury Note is the most sensitive to Fed rate expectations, its surging yield from 2.38 to 3.04 was a clear indication that the market was factoring in a high chance of fed rate hikes. As mentioned in our Outlook on 6/17/08, we thought this was unrealistic since the Fed would be unlikely to raise rates in the face of a credit crunch, fragile banking system, weak housing market, and election year. After the Fed's meeting last week, the market's expectations of a rate hike diminished as the Fed showed no sign of raising rates in the near future, setting no timetable of when it would happen. Correspondingly, the 2-Year US Treasury Yield fell to 2.65% as the market adjusted its expectations of a fed rate hike downward. The decreased expectations of a fed rate hike helped treasuries rally across the board as both intermediate and long-term treasuries joined in the rally too.