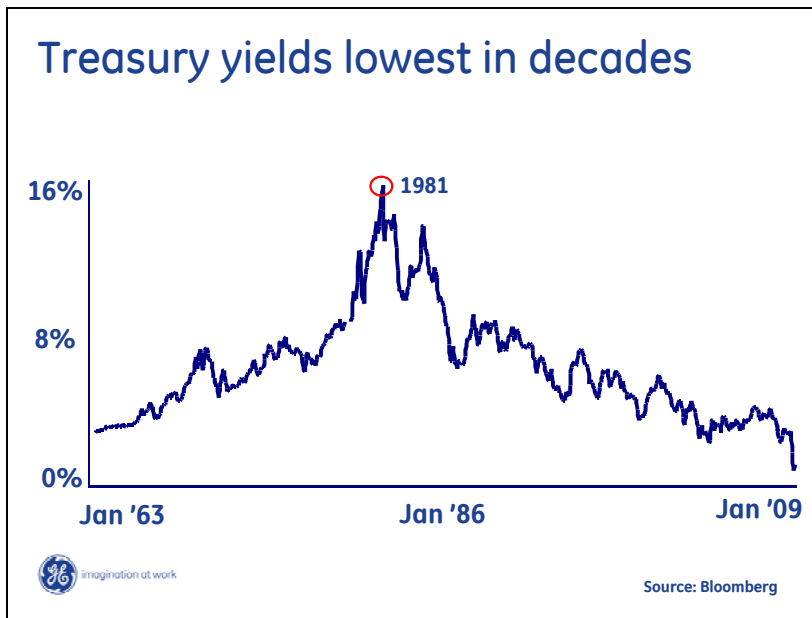




What Potential Treasury Market Imbalances Could Mean for Corporate Debt

By Rob Podorefsky, senior vice president of GE's Interest Rate Management team.

As a result of economic and financial market uncertainty, investors have flocked to the safety of U.S. Treasury securities driving yields down to their lowest levels in decades.

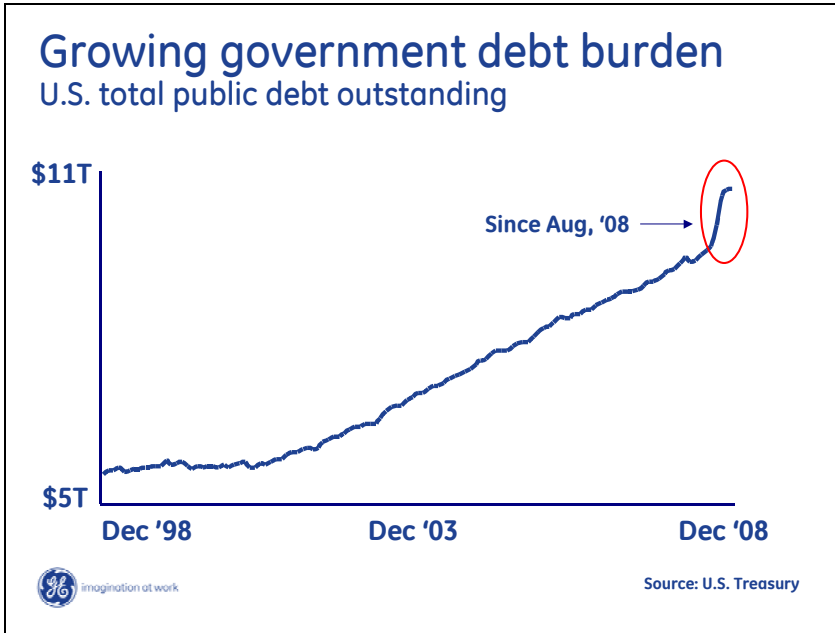


Treasury issuance has ballooned to support government deficit spending. While the market remains relatively stable, corporate borrowers should monitor shifts in Treasury yields and potential Treasury market supply/demand imbalances that could impact debt pricing, timing, maturity date, investor appetite and deal volume overall.

Here are several trends to watch.

Debt supply. While demand for this growing Federal debt has been strong, when corporate issuance returns there might be a “crowding out” effect forcing investors to

choose between corporate and government debt. This could impact the price of corporate debt and investor appetite.



Foreign demand for Treasuries. With the increased Treasury issuance, foreign demand is critical. Foreign holdings of U.S. Treasuries remain strong, but weak trade and volatile oil prices could drive demand and holding levels down. A decrease in foreign purchasing and holdings could increase the base Treasury rate -- the basis for debt pricing overall.



Increased stock prices. An increase in equity prices might lead investors to move out of Treasuries into riskier assets such as stocks and corporate debt obligations. This could result in higher Treasury yields impacting the pricing of debt. While there are many factors that influence the market, one in particular is worth noting. Will the U.S. government purchase longer-term Treasury securities? It seems less likely if credit conditions improve, but this would noticeably impact the Treasury rate environment.

Trends to watch

Could impact corporate debt pricing, timing, appetite

- Treasury market supply / demand imbalances
- Any change in foreign demand patterns for U.S. Treasury debt
- Increased stock prices leading investors to reallocate assets



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