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SVO Research Daily Market Watch

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Session Recap: Stocks Turn South Under Pressure from Poor Data and Earnings

The Dow finished lower 38pts, or -0.36%, to 10,636 on the session, reversing some of the gains of the recent rally. The Dow is now up 8.8% on the quarter and 2.0% on the calendar year. Today's sobering economic data and disappointing earnings from Procter & Gamble and Dow Chemical unnerved some investors who fled to the Treasury market to the expense of stocks. Two-year Treasury yields dropped to record lows on talk of the Fed buying more debt.

August 3, 2010				
Major Market Variables		Change %		
	Close $	Day	QTD	YTD
Dow Jones Ind	10,636	-0.4%	8.8	2.0
VIX	22.62	3.2	(34.5)	4.3
US Dollar $				
/ Euro	$1.323	-99.9%	8.1	(7.6)
/ Crude Oil bbl	82.42	1.2	9.0	3.9
/ Gold oz	1,185	0.1	(4.6)	8.1
Treasury Ylds %		Prior -		
	Close	Day	Q-End	Y-End
2 Year	0.53%	0.56	0.61	1.14
10 Year	2.91%	2.96	2.93	3.84

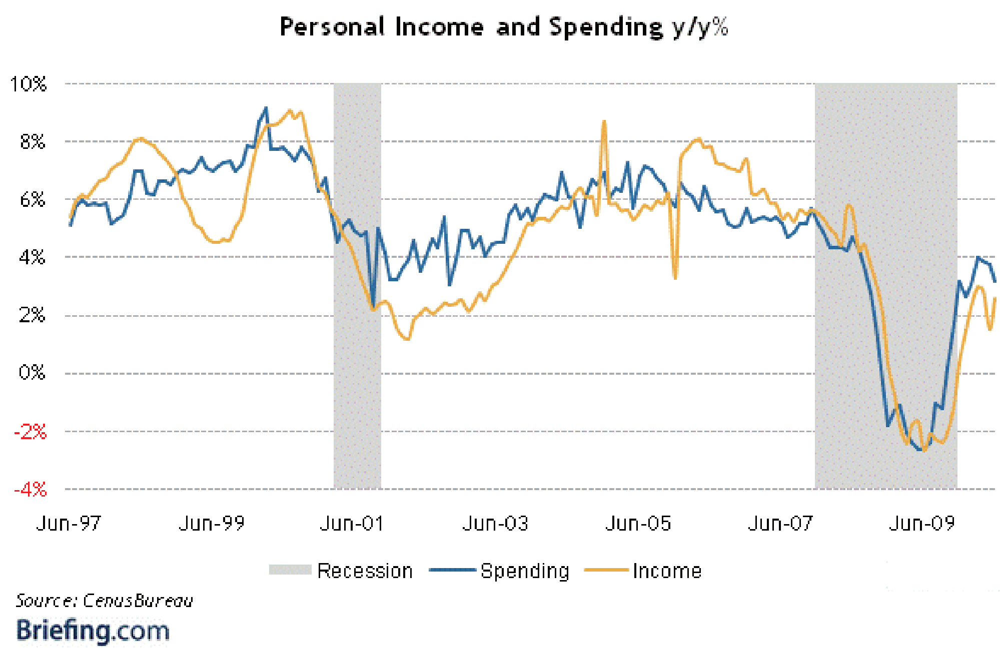
Page 3: In insurance industry-specific news, mortgage insurer Radian today reported a net loss for the second quarter as a result of problems in its mortgage insurance book and derivatives-related losses. Also we report on Aflac's and Aetna's reports of increased second-quarter net incomes.

Page 2: In economic news, he Commerce Department reported consumer spending remains sluggish, staying flat in June along with personal incomes. News from the Fed suggest that policy makers will probably pass on providing more stimulus at their August 10 meeting choosing instead to wait and see if signs of weaker economic growth persist.

Page 5: Our Flavor of the Day forwards a Financial Times story on plans by some European Banks to issue contingent convertible instruments, otherwise known as cocos, which convert into equity if a certain trigger point is reached. Banks may go ahead if regulators decide cocos can counts towards top-notch tier-one capital.

Inside this issue:

Consumer Spending Flat in June Along with Personal Income



(SVO Research/Karapiperis) The Commerce Department reported today consumer spending remains sluggish, staying flat in June after a slight 0.1% gain in the previous month. Also, personal income remained unchanged frustrating analysts that had forecasted an increase of at least 0.2% with a commensurate rise in spending. The latest data are consistent with the less sanguine view that the economy has lost its energy and momentum it had shown in the earlier months of the year. For all the recovery talk, the second quarter sends counter signals and reminds economists that the economy's structural weaknesses can limit its growth potential, at least in the near term. The data showed that the economy slowed to a 2.4% annual growth rate in the second quarter from a 3.7% rate in the first quarter.

With consumption stagnant, the personal savings rate jumped 6.4% in June, to the highest level of the year, after May's rise of 6.3%. Americans continue to deleverage worried about their debt levels in an uncertain economic environment, draining the economy of a significant portion of aggregate demand adding an additional drag to an already slow recovery. Some economists do not see much positive in the rising savings rate as they argue it is mainly attributable to the wealthiest and as such it is not expected to lead any time soon to a quick resumption of consumer spending.

Implications: Weak consumer spending reduces cash flows that support insurer investments in retailers and retail commercial real estate. Stagnant consumer spending greatly increases the risk that businesses could revert to net job cuts and, though a lower-probability risk, push the economy back into recession.

Fed Likely to Pass On More Stimulus Amid Signs Economy Weak

(Bloomberg) Federal Reserve policy makers signaled they will probably pass on providing more stimulus at their August 10 meeting and wait to see if signs of weaker economic growth persist. Chairman Bernanke told lawmakers in South Carolina yesterday that consumer spending is "likely to pick up" amid a "moderate" expansion.

Officials indicated they may ease more should the economy falter after reports of a flagging housing industry and persistently high jobless rate. Options include strengthening the pledge to keep interest rates around zero, cutting the rate the Fed pays on excess bank reserves, or buying more Treasuries or mortgage bonds. No consensus has emerged among policy makers for any of those actions, remarks by officials show, and Bernanke didn't mention them in a speech yesterday.

One FOMC option would be to change part of its statement to stress it is attentive to downside risks. Economic reports after the August meeting confirming a significant slowdown would prime investor expectations for some Fed action in September. The Fed signaled in June that Europe's debt crisis may harm U.S. growth and repeated a pledge to keep interest rates near zero "for an extended period." The central bank cut the benchmark interest rate almost to zero in December 2008 and turned to purchases of Treasury, housing-agency and mortgage- backed securities as the main tool of monetary policy.

Fed officials will leave the rate unchanged again at the August meeting, according to economists surveyed by Bloomberg News last month. Policy makers in June expected the economy to expand at rates fast enough to bring down the unemployment rate. Growth in 2011 should be in a range of 3.5 percent to 4.2 percent, according to their central tendency forecasts, and 3.5 percent to 4.5 percent in 2012. The central tendency removes the three highest and three lowest forecasts from committee members.

Radian's 2Q Loss

(SVO Research / Hopman) Mortgage insurer Radian today reported a net loss for the quarter ended June 30, 2010, of $475.1 million, or $4.31 per diluted share compared to net income of $231.9 million, or $2.82 per diluted share, for the prior-year quarter. Excluding results from the derivatives, the loss was $1.22 a share, wider than the 78 cent loss that was the average estimate of seven Wall Street analysts surveyed by Bloomberg. The net loss in the second quarter was primarily driven by a $524.6 million pre-tax loss recognized on derivatives resulting mainly from an improved market perception of Radian's credit risk that significantly tightened Radian's credit spread, and from the widening of general corporate credit spreads. New mortgage insurance written was $2.7 billion in the second quarter, compared to $1.9 billion in the first quarter, and continued to consist of loans with excellent risk characteristics.

"Our second quarter results include significant fair value impact from the tightening of Radian's credit spread and continued uncertainty regarding the aged delinquencies in our mortgage insurance book," said Chief Executive Officer S.A. Ibrahim. "However, we are pleased with the signs of credit trend stabilization in both our mortgage insurance and financial guaranty businesses, which we believe are integral to Radian's future success and long-term growth."

August 3, 2010					
Major Insurer Share Prices			Change %		
		Close $	Day	QTD	YTD
Life	Aflac	$49.81	-2.3%	16.7	7.7
	AIG	39.59	(1.1)	15.0	32.1
	Genworth	13.26	(2.9)	1.5	16.8
	Hartford	23.44	(2.9)	5.9	0.8
	Lincoln	25.48	(3.7)	4.9	2.4
	MetLife	41.68	(2.4)	10.4	17.9
	Phoenix	2.36	(3.7)	11.8	(15.1)
	Principal	25.61	(1.9)	9.3	6.5
	Protective	22.32	(3.8)	4.3	34.9
	Prudential	57.12	(2.1)	6.4	14.8
PC	ACE	$53.32	0.1%	3.6	5.8
	Allstate	28.55	(0.9)	(0.6)	(5.0)
	C N A	28.43	0.0	11.2	18.5
	Chubb	52.93	(0.5)	5.8	7.6
	CNO	5.30	(5.9)	7.1	6.0
	Hanover	44.29	(0.6)	1.8	(0.3)
	Progressive	19.61	(1.9)	4.8	9.0
	Torchmark	53.42	(1.7)	7.9	21.5
	Travelers	50.12	(1.4)	1.8	0.5
	WR Berkley	26.71	(0.4)	0.9	8.4
Health	Aetna	$28.45	-0.2%	7.8	(10.3)
	Cigna	31.77	0.7	2.3	(9.9)
	Humana	48.89	0.4	7.1	11.4
	United	32.42	3.1	14.2	6.4
	WellPoint	53.24	2.3	8.8	(8.7)
Monoline	Ambac	$0.78	-6.0%	16.4	(6.0)
	Assured	16.15	(1.6)	21.7	(25.8)
	MBIA	8.66	(5.0)	54.4	117.6
	MGIC	8.41	(5.1)	22.1	45.5
	PMI	3.10	(1.9)	7.3	23.0
	Radian	7.26	(19.7)	0.3	(0.7)
	XL Capital	17.83	(1.8)	11.4	(2.7)

Aflac's 2Q Profits up 85%

(SVO Research / Hopman) Last week, Aflac reported second quarter net income increased 85% to $581 million, or $1.23 per diluted share, compared with $314 million, or $.67 per share, a year ago on a stronger yen and lower investment losses. Net earnings in the second quarter of 2010 included after-tax realized investment losses of $58 million, or $.12 per diluted share, compared with realized investment losses of $249 million, or $.53 per share a year ago. Securities transactions produced realized investment gains of $8 million, or $.02 per diluted share, in the second quarter, which included a gain of $81 million from the exchange of two perpetual securities, a loss of $67 million from the company's sale of its Greek sovereign holdings and a loss of $6 million from various smaller securities transactions. Operating earnings in the second quarter were $639 million, compared with $562 million in the second quarter of 2009. Operating earnings per diluted share rose 12.5% to $1.35 in the quarter, compared with $1.20 a year ago.

Commenting on the company's second quarter results, Chairman and Chief Executive Officer Daniel P. Amos stated: "We are pleased with Aflac's financial performance in the second quarter of 2010 and believe we have made significant progress toward our annual objectives for operating earnings growth and capital strength. Despite ongoing volatility in capital markets, we are also pleased with the quality of our balance sheet and our capital position."

Aetna's 2Q Profits Up 42%

(SVO Research / Hopman) Last week, health insurer Aetna announced second-quarter 2010 net income increased 42% to $491.0 million for the second quarter of 2010, compared with $346.6 million for the second quarter of 2009. In the second quarter 2010, operating earnings reached $450.2 million, or $1.05 per share. Aetna now projects full-year 2010 operating results per share to be in the range of $3.05 to $3.15. Revenues excluding net realized capital gains decreased 2 percent to $8.5 billion for the second quarter of 2010, compared with $8.7 billion for the second quarter of 2009. The increase was largely the result of a higher commercial underwriting margin from favorable prior-period reserve development and improved underlying performance, partially offset by lower commercial insured membership.

"Our second-quarter results reflect the positive impact of disciplined, focused initiatives to improve our performance," said Ronald A. Williams, chairman and CEO. "Aetna's leadership in helping to build a better, more information-driven health care marketplace has been a fundamental dimension of our strategy during the past decade, and it continues to evolve."

NRSRO Latest Rating Actions

Company Name	Industry Type	Agency	Rating Type	Current	Previous
Alaska Air Group Inc	Airlines	S&P	LT Local Issuer Credit	B+	B
Coach America Holdings Inc	Transport-Equip&Leasng	Moody's	LT Corp Family Rating	B3 *-	B3
Continental Airlines Inc	Airlines	Moody's	Senior Secured Debt	Ba2	Ba3
DCP LLC	Inactive/Unknown	S&P	LT Local Issuer Credit	B	
Dick Clark Productions Inc	Broadcast Serv/Program	Moody's	Probability of Default	B1	
Ford Motor Co	Auto-Cars/Light Trucks	S&P	LT Local Issuer Credit	B+	B-
Global Brass and Copper Inc	Metal-Copper	Moody's	LT Corp Family Rating	B2	
Kendle International Inc	Research&Development	S&P	LT Local Issuer Credit	B	B+
Omnicom Group Inc	Advertising Agencies	S&P	LT Local Issuer Credit	BBB+	A-
Radian Insurance Inc	Financial Guarantee Ins	S&P	Financial Strength	NR	B+
Security Benefit Life Insurance	Life/Health Insurance	S&P	LT Local Issuer Credit	BBB+	BB+ *+
Security Benefit Life Insurance	Life/Health Insurance	AMBest	Financial Strength	B+	B *+
Strategic Partners Inc	Textile-Apparel	Moody's	LT Corp Family Rating	B2	
Synovus Bank/GA	Commer Banks-Southern US	Moody's	Issuer Rating	B1	B1 *-
UAL Corp	Airlines	Moody's	LT Corp Family Rating	B3 *+	Caa1 *+
Unifi Inc	Textile-Apparel	S&P	LT Local Issuer Credit	B- *+	B-

Source: Bloomberg

NOTE: Other issues/rating types other than those above may be affected.

 # NRSRO denotes Nationally Recognized Statistical Rating Organizations.
(-) denotes negative credit watch, (* +) denotes positive credit watch and (*) denotes credit watch uncertain.*

Banks await nod on cocos issuance

By Patrick Jenkins

August 1, 2010

The Financial Times

Some of Europe's biggest banks are planning to issue contingent convertible instruments – nicknamed cocos – if regulators confirm they can count towards top-notch tier-one capital.

Cocos are essentially bonds that convert into equity if a certain trigger point is reached, for example if the bank's core tier- one ratio – the key measure of a bank's capital strength – falls below 5 per cent. They boost capital without diluting shareholdings.

"If we are allowed to issue cocos to count towards core capital, then that will be extremely attractive," said a top executive at one of France's leading banks. "I think there would be a wave of issuance at the end of this year and into next."

A finance director at a big Spanish bank said: "If you can raise coco money significantly cheaper than core capital at 8 or 9 per cent, then there'll be significant issuance."

Many bankers and analysts had expected the issue last year of about £10bn ($15.7bn) of cocos by Lloyds Banking Group, when the UK bank restructured its capital, to prompt other banks to follow suit. In the event only Dutch group Rabobank has done a comparable coco issue.

Several obstacles have got in the way of cocos taking off, bankers say. Investor appetite will be held back as long as rating agencies continue to say they will not rate cocos because they stray outside their area of debt capital and into equity.

The lack of a ready market has kept pricing too high for most banks to consider issuance.

Regulators' views of cocos is unclear. Although the UK's Financial Services Authority was happy to accept Lloyds' cocos as top-notch capital if their conversion to equity were triggered, it gives them no credit in the bank's current capital ratio.

The Basel Committee on Banking Supervision, which oversees global banking regulation, is set to finalise tough new capital rules at the end of the year. However, there are signs that the rules will no longer take the expected hard line on tier-one capital being almost exclusively equity. Last week the Basel Committee said it would give an update of its views on "the use of contingent capital for meeting a portion of the capital buffers" in September.

The committee is keen on the introduction of several kinds of "capital buffer" for banks – including one that would be increased in boom years (a so-called countercyclical buffer) to prepare for tougher times and another (a so-called systemic buffer) for large institutions whose collapse would endanger the financial system.

One senior French banker said: "We can't raise equity to provide buffer upon buffer upon buffer. But if a buffer could be provided on a contingent basis, via a coco, that could ease the burden."

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The NAIC serves the needs of consumers and the industry, with an overriding objective of supporting state insurance regulators as they protect consumers and maintain the financial stability of the insurance marketplace. For more information, visit www.naic.org.