

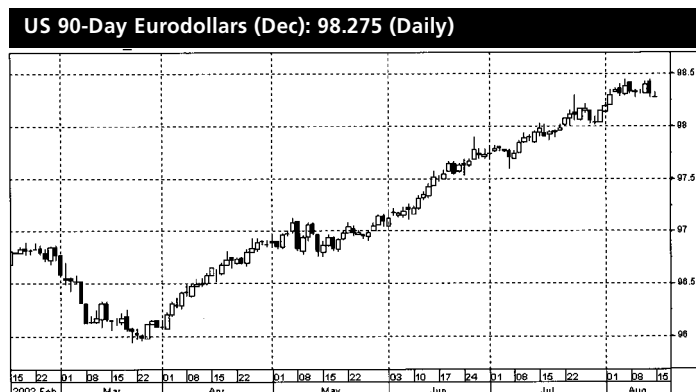
Government bond prices have commenced a corrective phase following strong gains.

They are overbought in the short-term and would fall further if most stock markets have commenced a medium-term recovery, as I suspect (FM218 & FMP185). I have strongly favoured bonds over equities recently but it is time to take some profits. US 10-year government bond yields have fallen back to their 1998 and 2001 lows - see p&f chart on www.chartanalysts.com (requires subscription) and a segment of this graph in FM218. Some firming is likely near those important floors. Upward trends for bond futures prices have accelerated recently - this is an ending characteristic for at least the short term. Money flooded into government bonds during the last few weeks, in the flight to quality. If most stock markets have established medium-term troughs prior to

ranging somewhat higher over the next few months, in line with my forecast, before eventually resuming their bear market, this would lead to a reweighting of bond portfolios. The main change would be to shift some funds away from the comparatively low-yielding governments - from short-term to 30-year treasuries - in favour of higher-yielding, quality corporate issues. The latter would benefit from an improvement in sentiment as stocks firmed. Also, some capital would temporarily flow from bonds back to equities. I would take profits on bond futures and purchase more triple-A corporate issues but continue to hold the closed-end (investment trust) Munienhanced Fund Inc, which has a portfolio of investment-grade municipal obligations - Bloomberg code MEN US. I may short interest rate futures, lightly, as a trade.

Best regards - David Fuller

Charts supplied by Bloomberg.



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