

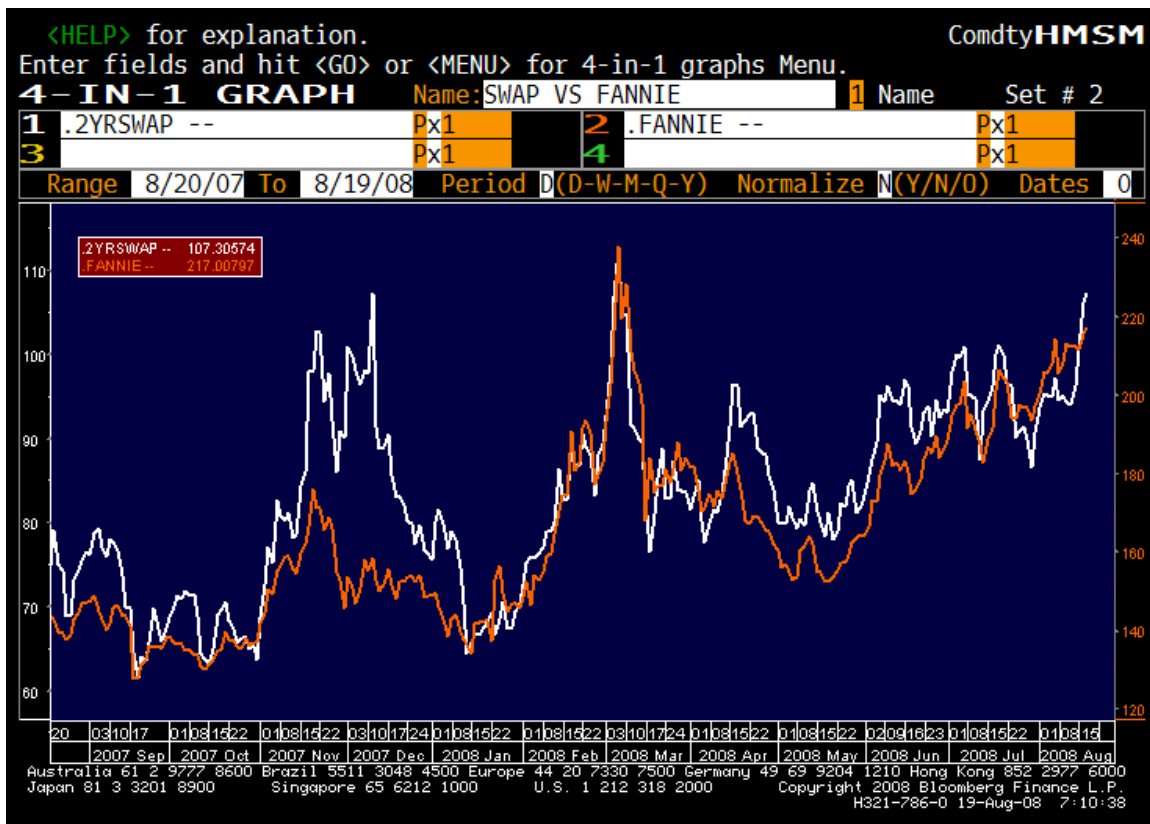
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Economics & Strategy

## Crisis Alert: Another Shoe to Drop

Current coupon mortgage spreads climbed to 217 bps this morning, the highest level since the 228 bps peak on March 10, one week *before* the Bear Stearns debacle. Swap spreads have also been rising, with the last read just over 107 bps -- the highest since March 6, about three weeks *before* the implosion of Bear Stearns. The stock market seems to be coming around the dour view in the credit markets: shares of Fannie and Freddie collapsed yesterday as investors discount the increasing probability of government takeover/nationalization that wipes out shareholder equity. Wide spreads across a broad swathe of debt categories suggests credit stresses have become more widespread. Spreads at these levels merit extreme caution in our view. Another shoe may be about to drop.



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