

Fixed income review

May 14, 2012

The following list represents investment strategy recommendations that we believe will provide attractive opportunities over the next 9-12 months. For recommended allocation of these ideas, please see the most recent *Investment Strategy Guide*.

Within U.S. dollar fixed income:

- Within investment grade corporates: short- to medium-term issues of larger, well-capitalized diversified banks, insurers and REITs
- Fixed and floating rate preferred securities of well-capitalized banks

- Emerging markets sovereign debt, in particular from Asia and Latin America issuers
- High yield corporate bonds
- High quality municipal bonds in particular: essential purpose revenue bonds in the water/sewer and public utility sector, broad-based sales tax bonds with ample coverage and a conservative additional bonds test, major established transportation agency issuers, and voter-approved general obligation bonds.

UBS Weekly Guide / Wealth Management Research / May 14, 2012

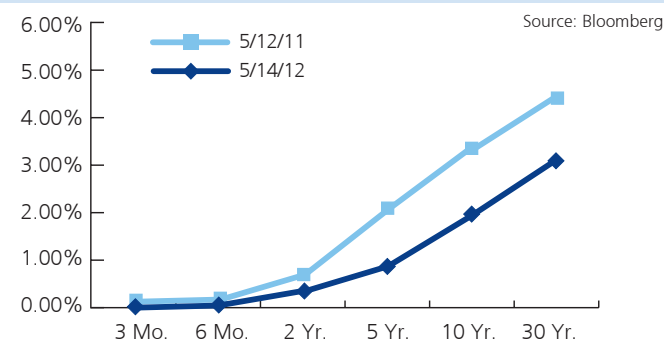
Key rates	Current	1 Year ago
Fed Funds	0.25%	0.25%
Prime	3.25%	3.25%
2 year Tsy	0.26%	0.55%
10 year Tsy	1.77%	3.22%
3 month LIBOR	0.47%	0.26%

Source: Bloomberg

CD Term	Interest rate	Annual percentage yield
3 Month	0.40%	0.4006%
6 Month	0.50%	0.5006%
9 Month	0.20%	0.2000%
1 Year	0.50%	-

CDs present certain investment risks that you should discuss with a Financial Advisor prior to making an investment decision. Redemptions of CDs prior to the maturity date may result in significant loss of principal due to changes in interest rates and limited liquidity of the CDs in the secondary markets. Each CD is a deposit obligation of a U.S. depository institution and a minimum deposit of \$1,000 is required. Interest paid on the CD cannot remain on deposit at the depository institution and will be paid to the depositor according to the terms of the CD. CDs are FDIC insured up to a maximum of \$250,000 aggregate principal and accrued interest in non-retirement accounts and up to a maximum of \$250,000 in certain retirement accounts for all deposits held in the same legal capacity at the same depository institution.¹

U.S. Treasury yield curve



Municipal bond yields	Yield	TEY*
10 Year	2.19%	3.37%
30 Year	4.10%	6.31%

Source: The Municipal Consensus™ 'Aaa' G.O. Yield Curve, courtesy of Municipal Market Advisors. Taxable Equivalent Yield (TEY) calculated using a 35% Federal income tax bracket. Yields are indicative of national tax-exempt rates. Actual yields available in the market may be lower or higher than those shown.

Municipal bonds

Rating (Moody's/S&P)	Issuer	Coupon	Maturity	Call feature	Price	YTC/YTM	TEY*
Aa3/AA-	West VA Economic Development	2.375%	12/15/21	12/15/2018@\$100	\$100.00	NA/2.38%	3.65%
AA2/-	Hamilton Cnty OH GO	2.375%	12/1/22	12/01/2021@\$100	\$100.00	NA/2.38%	3.65%
Aa2/-	Iroquois NY Central School District	2.250%	6/15/23	06/15/2020@\$100	\$100.00	NA/2.25%	3.46%
Aa3/-AGMC	Jersey Shore Area PA School District	2.500%	3/1/26	03/01/2017@\$100	\$97.43	NA/2.73%	4.19%
Aa3/-	Hazleton PA Area School District	3.250%	3/1/27	03/01/2022@\$100	\$99.85	NA/3.26%	5.02%
-/AA+	Fremont CA GO	3.250%	8/1/32	08/01/2020@\$101	\$99.70	NA/3.27%	5.03%

As of 5/14/12, subject to change. Call features may apply. *Taxable equivalent yields (TEY) assume a 35% top tax bracket. Subject to prior sale or change in price.

All fixed income securities are subject to market risk and interest rate risk. If fixed income securities are sold in the secondary market prior to maturity, an investor may experience a gain or loss depending on the level of interest rates, market conditions and the credit quality of the issuer. Investors must consult with their personal tax advisor regarding the suitability of tax exempt investments for their portfolio. Income may be subject to state or local tax as well as alternative minimum tax. UBS Financial Securities Inc. and/or its directors, officers and employees may have or have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or UBS Financial Securities Inc. may act or have acted as market-maker, manager or co-manager of the public offering, in any or all securities or related financial instruments discussed in this circular. Federal agency securities, including agency discount notes, are not direct obligations of the U.S. government. *Yield to worst is the yield to maturity under the least desirable bond repayment pattern under the assumption that market yields are unchanged. If market yields are higher than the coupon, the yield to worst would assume no prepayment. If market yields are below the coupon, yield to worst assumes prepayment at the earliest call date.

As of 5/14/12, subject to change

Corporate Bonds

Rating (Moody's/S&P)	Issuer	Coupon	Maturity	Call Date	Price	YTW/YTM
Baa2/BBB+	Bank Of America Corporation	4.750%	8/15/13	Non-Callable	\$104.23	NA/1.31%
Baa1/BBB+	Citigroup Inc	5.000%	9/15/14	Non-Callable	\$104.49	NA/2.99%
A1/A-	Goldman Sachs Group Inc	3.700%	8/1/15	Non-Callable	\$101.88	NA/3.08%

Corporate bonds are subject to credit quality fluctuations. Should the business fundamentals of a corporate bond deteriorate, credit quality ratings and market value may be adversely affected. Make Whole Call—Call option that gives the issuer the option to redeem the bonds at any time, but pay a higher price if interest rates have fallen. Specifically, to redeem the bonds, the issuer must pay the greater of (a) par, or (b) a price that would give the bonds a yield-to-maturity equal to that of a comparable Treasury plus a make-whole yield spread.

Agencies

Issuer	Coupon	Maturity	Call Date	Price	YTC/YTM
Federal Home Loan Bank	1.850%	5/22/19	Non-Callable	\$103.62	NA/1.31%
Federal Home Loan Bank	2.000%	11/18/20	Non-Callable	\$102.20	NA/1.72%
Federal Farm Credit Bank	2.540%	5/16/22	05/16/2013 at 100	\$101.47	1.06%/2.37%
Federal Farm Credit Bank	3.040%	4/30/27	Non-Callable	\$104.48	NA/2.67%

Is it time for a conversation?

If you have questions about your fixed income holdings, or would like to discuss these investment ideas, please contact me.

- FDIC Insurance Maximum Coverage
 - Certain Retirement Accounts are insured up to a maximum of \$250,000 for all deposits per issuing institution and held in the same legal capacity in IRAs, self-directed 401(k) plans, Keogh plans and Section 457 plans.
 - Non-Retirement Accounts are insured up to a maximum of \$250,000 per depositor for all deposits held in the same legal capacity at the same depository institution.
- FDIC insurance coverage is limited for each depositor. Investors with Certificates of Deposit from the same institution but which are held in multiple accounts or firms must verify that they do not exceed their aggregate insurance limit for their combined deposits. Total deposits (principal plus interest) that exceed the specified maximum are considered uninsured for the excess. Furthermore, CDs purchased at a premium (a price above par) are only FDIC insured up to par value. Any premium paid over par value is not FDIC insured.
- FDIC insurance coverage for Trust Accounts varies depending upon several factors, including but not limited to trust type, trust ownership, number of beneficiaries and relationship of beneficiaries to the trust owner. Trust owners should consult with their legal advisors to determine how FDIC insurance applies to their particular trusts. If you have a trust account, you and your legal advisor may contact the FDIC at 1-877-275-3342 for more information or visit their website at www.FDIC.gov

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