

### Weekly Market Update

For the week ended October 20, 2006

US Stocks	
Weekly Index Performance	
DJIA:	12002.37 (+41.86, +0.4%)
S&P 500:	1368.60 (+2.98, +0.2%)
S&P MidCap:	780.32 (-4.33, -0.6%)
S&P SmallCap:	387.60 (-1.19, -0.3%)
Nasdaq Comp:	2342.30 (-14.99, -0.6%)
Russell 2000:	2000 762.13 (-0.52, -0.1%)
Market Indicators	
Strong Sectors:	Utilities, Health Care, Energy, Telecom Svcs., Internet
Weak Sectors:	Financials, Industrials, Semis, Telecom Eqpt.
NYSE Advance/Decline:	2,185 / 1,336
NYSE New Highs/New Lows:	650 / 24
AAll Bulls/Bears:	54.2% / 29.8%

US stocks were mixed as investors cheered the mostly positive earnings news but fretted over data on inflation. Still, the DJIA closed beyond 12,000 for the first time on Thursday. The Dow's winning streak now stands at four weeks. Earnings highlights included **IBM's** large upside surprise, **Coca-Cola's** strong results, but also **Caterpillar's** miss and lowered guidance. Earnings from **Merck** and **Pfizer** showed the effects of patent expirations, but Merck exceeded expectations and its shares rallied. **Citigroup** and **JPMorgan Chase** each reported largely in-line results. In Tech, results from **Google** and **Apple Computer** grew strongly and were well-received. On the other hand, **Motorola** fell short of revenue targets and its shares slumped. **Yahoo!**'s fortunes continued to diverge from Google's, the company's quarterly profits falling year-over-year. The September core CPI and PPI gave investors reasons to believe the Fed might not be done with interest rate increases. OPEC formalized a larger-than-anticipated cut in output, but crude oil prices fell anyway. In merger news, **Oshkosh Truck** agreed to acquire **JLG Industries** for \$3 billion, **Eli Lilly** bought **Icos** for \$2.1 billion, and **Level 3 Communications** agreed to acquire **Broadwing** for \$1.4 billion. The headline deal of the week was the **Chicago Mercantile Exchange's** \$8 billion acquisition of **Chicago Board of Trade**. Looking ahead, the coming week is rich in earnings reports, but investors will take time out Wednesday to listen to the Fed's decision on interest rates and associated commentary. Absent an unexpected move by the Fed, stocks could ride the tide of robust corporate earnings into year-end.

<b>US Economy and Credit Markets</b>	
<b>Yields and Weekly Changes:</b>	
<b>3 Mo. T-Bill:</b>	5.08% (+04 bps)
<b>6 Mo. T-Bill:</b>	5.13% (+01 bps)
<b>2 Yr. T-Note:</b>	4.86% (unch.)
<b>3 Yr. T-Note:</b>	4.80% (+01 bps)
<b>5 Yr. T-Note:</b>	4.75% (-01 bps)
<b>10 Yr. T-Note:</b>	4.78% (-02 bps)
<b>30 Yr. T-Bond:</b>	4.90% (-03 bps)
<b>GNMA (30 Yr) 8% Coupon:</b>	105-12/32 (6.34%)
<b>Duration:</b>	3.27 years
<b>30 Year Insured Revs:</b>	88.2% of 30 Yr. T-Bond
<b>Bond Buyer 40 Yield:</b>	4.74% (unch.)
<b>Goldman Sachs Commodity Index:</b>	5813.47 (+12.23)
<b>Merrill Lynch High Yield Indices:</b>	
<b>BB, 7-10 Yr.</b>	7.32% (-04 bps)
<b>B, 7-10 Yr.</b>	8.23% (-03 bps)

Ahead of the Federal Reserve meeting on Wednesday, the price of the benchmark Ten-Year Treasury Note had its first weekly gains in the past four as yields on all maturities closed only slightly off their level to open the week. The leading factors in the small gains for the longer maturities was a greater-than-expected decrease in industrial production and a decline in CPI, although it is worth noting that the core CPI (which excludes food and energy prices) rose by nearly a quarter of a percent. Both factors continued speculation that the pace of growth in the economy is slowing, and which will in turn prompt the Fed to keep rates steady into 2007. In a Bloomberg survey, all 101 economists canvassed felt that rates would remain unchanged at Wednesday's meeting. As with consumer prices, the overall PPI declined more than expected while the core rate rose. Both the one-week and four-week average of first time unemployment claims fell to their lowest levels since June Economic reports (and related consensus forecasts) for the coming week include: Wednesday: September Existing Home Sales (6.21 million), FOMC Rate Decision Expected (5.25%); Thursday: September Durable Goods Orders (2.1%, less Transportation 1.0%) Initial Jobless Claims (308,000), and September New Home Sales (1,045,000); and Friday: 3Q Actual GDP Annualized (2.0%, Price Index 2.8%) and October Final University of Michigan Consumer Confidence (92.5).

*Source: Bloomberg and Barron's*