

Weekly Market Update

For the week ended
January 12, 2007

| US Stocks | |
|--------------------------|---|
| Weekly Index Performance | |
| DJIA: | 12556.08 (+158.07,+1.3%) |
| S&P 500: | 1430.73 (+21.02,+1.5%) |
| S&P MidCap: | 820.43 (+20.03,+2.5%) |
| S&P SmallCap: | 402.61 (+8.91,+2.3%) |
| Nasdaq Comp: | 2502.82 (+68.57,+2.8%) |
| Russell 2000: | 794.26 (+18.39,+2.4 %) |
| Market Indicators | |
| Strong Sectors: | Materials, Technology, Consumer Discretionary |
| Weak Sectors: | Energy, Utilities, Telecom |
| NYSE Advance/Decline: | 2,566 / 973 |
| NYSE New Highs/New Lows: | 468 / 52 |
| AAII Bulls/Bears: | 44.4% / 34.3% |

U.S. stocks posted healthy gains last week as earnings season got underway and oil prices continued to fall. **Alcoa** kicked off earnings season on Tuesday posting earnings well ahead of expectations and pushing the shares up 6%. **Genentech** followed up with a strong report of its own on Wednesday helping boost biotech shares over 3% for the week. **Apple** unveiled its long awaited iPhone at Macworld on Tuesday causing the shares to surge 11% for the week. Later in the week **Cisco** sued **Apple** over the rights to the iPhone name. **Sears** announced 4Q earnings will come in ahead of earlier forecasts. **Gap** shares gained on rumors the company hired an investment bank to explore strategic alternatives. Oil continued to decline, falling below \$52/bbl at one point before rebounding to end the week at \$52.99, down almost 6% for the week. Energy shares fell in sympathy. Venezuelan president Chavez sent his country's stocks to a 19% one day loss and roiled emerging markets stocks in general after announcing the nationalization of the country's utilities and phone companies. **Sprint Nextel** shares plunged after 2007 revenue guidance come up short of market expectations. **AMD** shares fell 9% Friday after announcing 4Q profits will be less than expected due to fierce competition with **Intel**. German software maker **SAP** fell sharply after announcing 4Q revenues will be lower than expected. Looking ahead, it will be a busy week as earnings start to pour in along with several important economic reports. **Intel**, **Apple**, **JPMorgan** and **Citigroup** are among the notables reporting to investors this coming week, while the economic calendar brings December PPI and CPI reports among others. With valuations reasonable, stocks could continue their move higher as earnings season progresses and investors grow more comfortable with the soft landing thesis.

| US Economy and Credit Markets | |
|--|------------------------|
| Yields and Weekly Changes: | |
| 3 Mo. T-Bill: | 5.03% (+04 bps) |
| 6 Mo. T-Bill: | 5.08% (+05 bps) |
| 2 Yr. T-Note: | 4.75% (+12 bps) |
| 3 Yr. T-Note: | 4.67% ((+13 bps) |
| 5 Yr. T-Note: | 4.64% (+12 bps) |
| 10 Yr. T-Note: | 4.64% (+13 bps) |
| 30 Yr. T-Bond: | 4.74% (+12 bps) |
| GNMA (30 Yr) 8% Coupon: | 103-29/32 (6.75%) |
| Duration: | 3.16 years |
| 30 Year Insured Revs: | 89.9% of 30 Yr. T-Bond |
| Bond Buyer 40 Yield: | 4.63% (+08 bps) |
| Goldman Sachs Commodity Index: | 5166.08 (-430.21) |
| Merrill Lynch High Yield Indices: | |
| BB, 7-10 Yr. | 7.12% (+05 bps) |
| B, 7-10 Yr. | 8.11% (-04 bps) |

Treasury prices fell for the week as continued strong performance from the economy decreases the likelihood of Fed interest rate cuts in the first half of 2007. Yields on the benchmark 10-year note have increased for six straight sessions, pushing them to their highest levels since last October, and have gone up by 24 bps since their low-water mark on December 1. Among the factors pressuring Treasuries this week were the continued effects of the strong January employment report and Friday's December retail sales report, which showed an increase of 0.9%, bettering the consensus forecast of 0.7%. Excluding automobiles, the December figure of 1.0% doubled the forecasted 0.5% increase. In addition, both the weekly and four-week moving average for first-time claims for unemployment fell, with the weekly mark hitting its lowest level since July and the four-week average at its lowest since mid-November. Economic reports (and related consensus forecasts) for the coming week include: Wednesday: December Producer Price Index (0.5%, less food and energy 0.1%), December Industrial Production (0.1%) and Capacity Utilization (81.7%), and Fed's Beige Book released; Thursday: December Consumer Price Index (0.4%, less food and energy 0.2%), Initial Jobless Claims (314,000), December Housing Starts (1,560,000), and January Philadelphia Fed report (3.2); and Friday: January Preliminary U of Michigan Consumer Confidence (92.4).

Source: Bloomberg and Barron's