

### Weekly Market Update

For the week ended  
January 26, 2007

US Stocks	
Weekly Index Performance	
DJIA:	12487.02 (-78.51,-0.6%)
S&P 500:	1422.18 (-8.32,-0.6%)
S&P MidCap:	819.28 (+2.79,+0.3%)
S&P SmallCap:	401.21 (+1.59,+0.4%)
Nasdaq Comp:	2435.49 (-15.82,-0.6%)
Russell 2000:	788.14 (+2.98,+0.4%)
Market Indicators	
Strong Sectors:	Telecom, Materials, Utilities
Weak Sectors:	Consumer Discretionary, Industrials, Health Care
NYSE Advance/Decline:	1,714 / 1,820
NYSE New Highs/New Lows:	581 / 47
AAll Bulls/Bears:	39.5% / 33.3%

U.S. stocks finished mixed in a choppy week of trading as generally strong earnings reports were offset by tepid forecasts for 2007. With roughly 40% of the S&P 500 having reported, those beating forecasts have outpaced those missing by almost a 4 to 1 ratio. Energy shares benefited from a 6% rise in crude oil prices as the U.S. government announced an increase to the Strategic Petroleum Reserve. **Microsoft** announced strong 4Q earnings and raised its outlook for 2007 ahead of this week's Vista launch. **Bank of America** reported a 47% jump in profits. Internet plays **Yahoo!** and **eBay** both gained after reporting strong results. On the downside, **Amgen** shares fell after reporting results short of investor expectations and potential safety concerns for one of its drugs. **Ford** shares gained on the week despite posting a \$5.8 billion Q4 loss. **Alcatel-Lucent** shares plunged after the company warned 4Q revenues and profits will be lower than expected. **Advanced Micro Devices** posted an unexpected loss due to a price war with **Intel**. In merger news, **Countrywide Financial** shares spiked Friday on rumors of a possible alliance with **Bank of America**. Looking ahead, the coming week will be busy on both the earnings and economic front. Over 100 S&P 500 companies are scheduled to report including **Google**, **Exxon-Mobil**, **Merck** and **Proctor & Gamble**. The economic calendar brings the Fed decision on rates (expected to be unchanged), along with Q4 GDP and the January jobs report. Equities could remain volatile as we progress through earnings seasons, but patient investors should be rewarded as valuations remain attractive relative to other asset classes.

<b>US Economy and Credit Markets</b>	
<b>Yields and Weekly Changes:</b>	
<b>3 Mo. T-Bill:</b>	5.12% (+09 bps)
<b>6 Mo. T-Bill:</b>	5.16% (+07 bps)
<b>2 Yr. T-Note:</b>	4.96% (+16 bps)
<b>3 Yr. T-Note:</b>	4.91% (+16 bps)
<b>5 Yr. T-Note:</b>	4.86% (+13 bps)
<b>10 Yr. T-Note:</b>	4.87% (+13 bps)
<b>30 Yr. T-Bond:</b>	4.97% (+12 bps)
<b>GNMA (30 Yr) 8% Coupon:</b>	103-29/32 (6.81%)
<b>Duration:</b>	3.29 years
<b>30 Year Insured Revs:</b>	88.7% of 30 Yr. T-Bond
<b>Bond Buyer 40 Yield:</b>	4.67% (+06 bps)
<b>Goldman Sachs Commodity Index:</b>	28.94 (+155.90)
<b>Merrill Lynch High Yield Indices:</b>	
<b>BB, 7-10 Yr.</b>	7.09% (+02 bps)
<b>B, 7-10 Yr.</b>	7.98% (-05 bps)

Prices for Treasuries fell for the third straight week and the sixth time in the last two months. Yields did come down from their intraweek highs, which saw the benchmark 10-year note reach its highest level since mid-August. The yield on the 10-year topped out during the week at 50 basis points above what it was on December 1, a move that has lowered prices by almost four percent in that time. The consensus view is that the Fed will not change its target rate when it meets this week, and the interest-rate futures market currently sees only a 10% chance of a rate cut in the first half of the year. Economic reports (and related consensus forecasts) for the coming week include: Wednesday: 4Q Actual GDP Annualized (3.0%, Price Index 1.5%), January Chicago Purchasing Manager (52.0), and FOMC Rate Decision Expected (5.25%); Thursday: December Personal Income (0.5%) and Personal Spending (0.7%), and Initial Jobless Claims (315,000), January ISM Manufacturing (51.6, Prices Paid 47.0), and January Total Vehicle Sales (16.7 million); Friday: January Employment Report, including Change in Nonfarm Payrolls (140,000), Unemployment Rate (4.5%), Average Hourly Earnings (0.3%), and Average Weekly Hours (33.9), December Factory Orders (1.8%) and January Final U of Michigan Confidence (97.5).

**Source: Bloomberg and Barron's**