

### Weekly Market Update

For the week ended  
January 5, 2007

US Stocks	
Weekly Index Performance	
DJIA:	12398.01 (-65.14, -0.5%)
S&P 500:	1409.71 (-8.59, -0.6%)
S&P MidCap:	800.40 (-3.97, -0.5%)
S&P SmallCap:	393.70 (-6.32, -1.6%)
Nasdaq Comp:	2434.25 (+18.96, +0.8%)
Russell 2000:	775.87 (-11.79, -1.5%)
Market Indicators	
Strong Sectors:	Technology, Biotech, Pharmaceuticals, Retail
Weak Sectors:	Energy, Basic Materials, Telecom
NYSE Advance/Decline:	1,253 / 2,247
NYSE New Highs/New Lows:	420 / 48
AAII Bulls/Bears:	49.1% / 29.3%

US stocks were strong out of the blocks to begin the New Year, but faltered down the stretch as hopes for a near-term interest rate cut by the Federal Reserve were apparently dashed. Investors were forced to re-evaluate their outlook for rates after the release of minutes from the December meeting showed the Fed remains more concerned with inflation than slowing growth. Furthermore, Friday's jobs report was much stronger than expected. Trading for the week was limited to sessions Wednesday through Friday following Monday's holiday and a national day of mourning Tuesday for President Ford. Technology stocks were the week's winners, though gains were trimmed Friday after **Motorola** warned of weak fourth-quarter sales and profits. Biotechnology stocks including **Amgen** rose smartly on analyst upgrades. Last year's sector winners Telecom, Energy and Materials endured some profit-taking. Crude oil prices sank 7.8% to \$56.31/bbl, their biggest weekly drop since April 2005. Retail sales in December were generally lackluster. **Best Buy** reported sales ahead of expectations. **Limited Brands** fell short of expectations. **Home Depot's** embattled CEO resigned, giving lift to the company's shares. Elsewhere, homebuilder **Lennar** preannounced a fourth quarter loss on accounting charges. Looking ahead, fourth quarter earnings begin to trickle in this week, starting with **Alcoa** on Tuesday. **Genentech** reports on Wednesday. Despite the consternation over the Fed's next move, US stocks appear conservatively valued at present levels. Investors may regain confidence in the market as earnings season unfolds.

<b>US Economy and Credit Markets</b>	
<b>Yields and Weekly Changes:</b>	
<b>3 Mo. T-Bill:</b>	5.03% (+03 bps)
<b>6 Mo. T-Bill:</b>	5.08% (unch.)
<b>2 Yr. T-Note:</b>	4.75% (-05 bps)
<b>3 Yr. T-Note:</b>	4.67% (-05 bps)
<b>5 Yr. T-Note:</b>	4.64% (-05 bps)
<b>10 Yr. T-Note:</b>	4.64% (-06 bps)
<b>30 Yr. T-Bond:</b>	4.74% (-07 bps)
<b>GNMA (30 Yr) 8% Coupon:</b>	103-29/32 (6.75%)
<b>Duration:</b>	3.16 years
<b>30 Year Insured Revs:</b>	91.1% of 30 Yr. T-Bond
<b>Bond Buyer 40 Yield:</b>	4.55% (-06 bps)
<b>Goldman Sachs Commodity Index:</b>	5596.29 (-35.12)
<b>Merrill Lynch High Yield Indices:</b>	
<b>BB, 7-10 Yr.</b>	7.07% (+07 bps)
<b>B, 7-10 Yr.</b>	8.15% (+10 bps)

Despite their largest drop in price in almost two weeks on Friday, Treasuries opened 2007 with a positive week. In a week shortened by the New Year's holiday and an abbreviated trading day on Tuesday's national day of mourning for former President Gerald Ford, Treasuries gained in the first three days of trading before declining sharply on Friday's December employment report. Prices rose slightly in the shortened session on Tuesday, and did so again Wednesday when the minutes of the last FOMC meeting noted the slowing pace of economic growth. A decline in the ISM non-manufacturing index, although slightly less than expected, helped increase prices Thursday. Friday's decline was caused by an increase in payrolls in December of 167,000, well above the consensus forecast of 115,000. Those payroll gains lowered expectations of a Fed rate cut in the first half of the new year. Economic reports (and related consensus forecasts) for the coming week include: Monday: November Consumer Credit (\$5.4 billion); Wednesday: November Trade Balance (-\$60.0 billion) and November Wholesale Inventories (0.4%); Thursday: Initial Jobless Claims (325,000) and December Monthly Budget Statement (\$22.5 billion); Friday: December Import Price Index (0.7%), December Advance Retail Sales (0.6%, less Autos 0.5%), and November Business Inventories (0.3%).

*Source: Bloomberg and Barron's*