



For The Week Ended October 19, 2007 Weekly Market Commentary & Developments

US Economy and Credit Markets:

Yields and Weekly Changes:

3 Mo. T-Bill	3.82 (-36 bps)	GNMA (30 Yr) 8% Coupon: 104-23/32 (6.17%)
6 Mo. T-Bill	4.05 (-23 bps)	Duration: 3.18 years
2 Yr. T-Note	3.76 (-45 bps)	30-Year Insured Revs: 97.2% of 30 Yr. T-Bond
3 Yr. T-Note	3.77 (-45 bps)	Bond Buyer 40 Yield: 4.73% (-05 bps)
5 Yr. T-Note	4.00 (-41 bps)	Crude Oil Futures: 88.60 (+4.91)
10 Yr. T-Note	4.37 (-41 bps)	Gold Futures: 764.00 (+15.30)
30 Yr. T-Bond	4.67 (-22 bps)	Merrill Lynch High Yield Indices:
		BB, 7-10 Yr. 7.51% (+06 bps)
		B, 7-10 Yr. 8.63% (+20 bps)

With the credit crisis once again rearing its head and an increasing belief in the likelihood of another cut in interest rates by the Fed when it meets at the end of the month, Treasury prices rose sharply for the week. Prices rose over each trading session for the week, as developments in the market sent buyers to seek the safety of Treasuries. In a speech Monday night, Fed chairman Ben Bernanke indicated that the housing slump will have a significant drag on the growth of the economy, which was read by the market as an indication that another rate cut will be made. Wednesday's moderate increase in core CPI helped increase prices as well. Lower profits at Bank of America, due mainly to loan losses and credit-related write-downs, furthered the view that there are still significant credit issues in the market, and bumped up prices Thursday. A decline in the stock market on Friday fueled an increase in Treasuries once again. Economic reports (and related consensus forecasts) for the coming week include: Wednesday: September Existing Home Sales (5.25 million); Thursday: September Durable Goods Orders (1.5%, less Transportation 0.7%), Initial Jobless Claims (320,000), and September New Home Sales (770,000); and Friday: October final U. of Michigan Confidence (82.0).

US Stocks:

Weekly Index Performance

DJIA	13522.02 (-571.06,-4.1%)
S&P 500	1500.63 (-61.17,-3.9%)
S&P MidCap	879.07 (-33.31,-3.7%)
S&P Small Cap	415.48 (-23.20,-5.3%)
NASDAQ Comp	2725.16 (-80.52,-2.9%)
Russell 2000	798.79 (-42.38,-5.0%)

Market Indicators

Strong Sectors: Technology, Consumer Goods, Health Care
Weak Sectors: Financials, Retail, Homebuilders, Utilities
NYSE Advance/Decline: 704 / 2,806
NYSE New Highs/New Lows: 293 / 223
AAII Bulls/Bears: 42.0% / 35.7%

US stocks were sold across the board on a combination of disappointing earnings news, weak economic data and still-higher oil prices. The selling climaxed Friday as the DJIA fell 2.6%, its biggest drop since August 9th. While the DJIA failed to register a single winning session, the S&P 500 eked out a gain on Wednesday and the Nasdaq Composite finished higher on both Wednesday and Thursday. The earnings news from the Financials sector was almost universally downbeat, beginning with **Citigroup's** reported 57% decline in earnings out Monday and concluding with **Wachovia's** warning Friday of more credit troubles ahead. In between, **JPMorgan Chase** stood out by reporting a year-over-year gain in profits, but **Bank of America's** poor report echoed Citi's. **IBM's** comment that weak sales to Financial sector customers hurt its growth brought to light the wider effects of the credit market's troubles. A \$100 billion bailout plan by three major banks aimed at shoring up the commercial paper market shook investor's confidence. Technology shares continued recent outperformance. **Intel** reported robust results that beat expectations. **Google** shares rose to a record after its strong quarterly report. Crude oil's 5.9% weekly advance on Turkey's preparations to cross into Northern Iraq was a source of worry. Oil services firms traded lower, though, as **Schlumberger's** US operations weighed on results. Diversified industrial firms **Caterpillar**, **3M** and **United Technologies** each disappointed investors with reported and/or forecasted earnings. Fed Chairman Bernanke's dour assessment of the housing market was underscored by September data on new home construction that showed activity at a 14-year low. Shares of **Biogen Idec** surged as the company announced it would consider selling itself. **Medtronic** shares plunged after the company announced defects in its heart devices may have contributed to five patient deaths. Looking ahead, earnings reports from **Apple**, **Boeing**, **AT&T**, **Microsoft** and a wave of others will be in focus this week. With even a modest dose of positive earnings news, stocks could quickly regain traction since valuations are not stretched and the competition for investment capital from low-yielding bonds does not appear stiff.