

Weekly Market Update

For the week ended
February 23, 2007

US Stocks	
Weekly Index Performance	
DJIA:	12647.48 (-120.09,-0.9%)
S&P 500:	1451.19 (-4.35,-0.3%)
S&P MidCap:	867.56 (+8.87,+1.0%)
S&P SmallCap:	421.47 (+4.12,+1.0%)
Nasdaq Comp:	2515.10 (+18.79,+0.8%)
Russell 2000:	826.64 (+8.49,+1.0%)
Market Indicators	
Strong Sectors:	Utilities, Energy, Materials
Weak Sectors:	Financials, Health Care, Industrials
NYSE Advance/Decline:	1,903 / 1.601
NYSE New Highs/New Lows:	689 / 40
AAll Bulls/Bears:	53.9% / 22.3%

U.S. stocks finished the week mixed as smaller cap names continued their strong 2007 start while larger cap names faced some selling pressure. Small and mid-cap stocks are now up 5.5% and 8.0% for the year, respectively. The Dow Industrials hit another all-time high Tuesday before sliding into negative territory to end the week. A stronger than expected CPI report and surging commodity prices called into question recent banter about tame inflation. Gold and oil rose 2% and 3%, respectively. The later was affected by lower than expected inventories and increased tensions with Iran. The Bank of Japan raised interest rates 25 bps. **Wal-Mart** announced better than expected 4Q earnings. **Medco Health Solutions** shares surged thanks to strong earnings and an increased outlook for the rest of the year. **Hewlett-Packard** fell despite earnings ahead of forecasts due to concerns about inventory levels and future margins. Sub-prime lenders were in the news again as **Novastar** shares lost over 40% in one day due to mortgage losses. **Toll Brothers** lowered 2007 EPS estimates again, a further sign the housing sector has not hit bottom. It was another busy week in M&A. **Sirius Satellite** agreed to buy rival **XM Satellite** for \$4.9B although the deal faces significant regulatory hurdles. **Vulcan Materials** announced a \$4.6B deal for **Florida Rock**, while **Whole Foods** will acquire rival **Wild Oats**. Over the weekend **TXU** agreed to be purchased by KKR in a deal valued at \$32B in what will be the largest LBO ever. Looking ahead, earnings from several retailers along with February consumer confidence should help bring into focus the state of the consumer. Reports on Q4 GDP and manufacturing activity will also be closely watched. While acknowledging the risks present in the market, current valuations point to a favorable risk/reward profile for patient equity investors.

US Economy and Credit Markets	
Yields and Weekly Changes:	
3 Mo. T-Bill:	5.16% (+01 bps)
6 Mo. T-Bill:	5.14% (+01 bps.)
2 Yr. T-Note:	4.80% (-02 bps)
3 Yr. T-Note:	4.70% (-02 bps)
5 Yr. T-Note:	4.65% (-02 bps)
10 Yr. T-Note:	4.67% (-01 bps)
30 Yr. T-Bond:	4.77% (-01 bps)
GNMA (30 Yr) 8% Coupon:	103-28/32 (6.81%)
Duration:	3.24 years
30 Year Insured Revs:	91.0% of 30 Yr. T-Bond
Bond Buyer 40 Yield:	4.58% (+02 bps)
Goldman Sachs Commodity Index:	5750.70 (+178.57)
Merrill Lynch High Yield Indices:	
BB, 7-10 Yr.	6.88% (-03 bps)
B, 7-10 Yr.	7.82% (-03 bps)

Treasury notes and bonds rose slightly in price over the course of a week shortened due to the observance of President's Day, although the gains were small. It marked the second straight positive week for the Treasury market. Prices opened the week with a small gain in light trading Tuesday, before declining both Wednesday and Thursday. The declines were fueled by the Consumer Price Index, which came in above expectations. Inflationary undermines the value of fixed income investments. Prices rebounded Friday, as the Dallas Fed president stated in address that the economy may be "turning the corner" on inflation, offsetting the fears that had driven prices downward following the CPI reading. Economic reports (and related consensus forecasts) for the coming week include: Tuesday: January Durable Goods Orders (-2.5%, less Transportation -0.3%) and January Existing Home Sales (6.25 million); Wednesday: 4Q Preliminary Annualized GDP (2.3%, Price Index 1.5%), February Chicago Purchasing Manager Index (50.0), and January New Home Sales (1,080,000); Thursday: January Personal Income (0.3%) and Personal Spending (0.4%), Initial Jobless Claims (328,000), February ISM Manufacturing (50.0, Prices Paid 53.8), and February Total Vehicle Sales (16.2 million); and Friday: February Final U of Michigan Confidence (93.8).

Source: Bloomberg and Barron's