

Weekly Market Update

For the week ended
May 18, 2007

US Stocks	
Weekly Index Performance	
DJIA:	13556.53 (+230.31, +1.7%)
S&P 500:	1522.75 (+16.90, +1.1%)
S&P MidCap:	898.19 (+4.08, +0.5%)
S&P SmallCap:	428.20 (-2.40, -0.6%)
Nasdaq Comp:	2558.45 (-3.77, -0.2%)
Russell 2000:	823.66 (-5.88, -0.7%)
Market Indicators	
Strong Sectors:	Energy, Telecom Svcs., Utilities, Railroads
Weak Sectors:	Precious Metals, REIT's, Biotech, Semiconductors
NYSE Advance/Decline:	1,716 / 1,792
NYSE New Highs/New Lows:	584 / 71
AAII Bulls/Bears:	38.4% / 36.6%

US stocks rose for a seventh straight week, aided by benign economic data and continued deal activity. The DJIA pushed deeper into record territory while the S&P 500 closed in on its March 2000 peak. Beneath the surface, market breadth narrowed. The technology-heavy Nasdaq failed to advance for the second week in a row, and small stocks lost ground. But investors continued to be impressed with corporate earnings and share buyback activity. Announced deals included **DaimlerChrysler's** sale of an 80% stake in its Chrysler unit to private equity group Cerberus for \$7.4 billion, **Alliance Data Systems** taken private by Blackstone Group for \$7.8 billion, **Microsoft's** purchase of **aQuantive Inc.** for \$6 billion, **Bausch & Lomb** taken private for \$3.7 billion, and **Mylan Laboratories** buying the generics business of **Merck KGaA** for \$6.6 billion. Investors Buffett, Lampert and Icahn established and increased stakes in a variety of companies. **Citigroup** shares rose on news that Mr. Lampert had accumulated 15 million shares. Elsewhere as crude oil prices rose and retail gasoline prices hit a record, energy shares shot higher. **Applied Materials'** cautious view on orders weighed on the semiconductor group. **Amgen** shares slid further as a decision on reimbursement for Medicare patients went against the company. **Kohl's, J.C. Penney** and **Nordstrom** each reported strong results, in contrast to results from **Wal-Mart, Home Depot** and **Federated**. Key events for investors in the coming week include earnings reports from several more retailers, a reading on durable goods orders and a pair of reports on housing. Though Fed Chairman Bernanke's recent comments do seem to rule out any near-term interest rate cut, modest expectations for corporate profitability, ideal conditions for corporate deal-making, and a shrinking supply of equity would appear to give investors plenty of reasons to stay interested in the market.

US Economy and Credit Markets	
Yields and Weekly Changes:	
3 Mo. T-Bill:	4.81 (-02 bps)
6 Mo. T-Bill:	4.95 (+07 bps)
2 Yr. T-Note:	4.81 (+10 bps)
3 Yr. T-Note:	4.74 (+13 bps)
5 Yr. T-Note:	4.72 (+14 bps)
10 Yr. T-Note:	4.80 (+13 bps)
30 Yr. T-Bond:	4.96 (+11 bps)
GNMA (30 Yr) 8% Coupon:	103-22/32 (6.85%)
Duration:	3.24 years
30 Year Insured Revs:	88.7% of 30 Yr. T-Bond
Bond Buyer 40 Yield:	4.66% (+06 bps)
Goldman Sachs Commodity Index:	5815.27 (+16.73)
Merrill Lynch High Yield Indices:	
BB, 7-10 Yr.	6.92% (+02 bps)
B, 7-10 Yr.	7.75% (-02 bps)

Treasury yields rose to their highest levels since the middle of February as the stock market continued to rise, dampening expectations of a Fed rate cut this year. As fuel prices have continued to rise and the housing market continues to slump, fears of a slowdown in the economy have led many in the market to speculate that the Fed will drop its target rate in order to spur the economy. Despite the apparent barriers to growth, both the economy and the stock market continue to hum along, and the University of Michigan survey of consumer sentiment rose in April to its highest level since February in the face of a forecasted decline. While overall CPI rose less than expected (0.4% vs. an expected 0.5%), the core inflation level -- which excludes food and energy -- matched expectations with a 0.2% increase. First-time unemployment claims continued to fall, with the weekly level hitting its lowest mark since January and the four-week average at its lowest since April of 2006. Economic reports (and related consensus forecasts) for the coming week include: Thursday: April Durable Goods Orders (0.9%, less Transportation 0.6%), Initial Jobless Claims (305,000), and April New Home Sales (860,000); and Friday April Existing Home Sales (6.11 million).

Source: Bloomberg and Barron's