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For The Week Ended January 18, 2007
Weekly Market Commentary & Developments

US Economy and Credit Markets:

Yields and Weekly Changes:

3 Mo. T-Bill	2.84 (-25 bps)	**GNMA (30 Yr) 8% Coupon:** 104-24/32 (5.87%)	
6 Mo. T-Bill	2.84 (-22 bps)	**Duration:** 2.86 years	
2 Yr. T-Note	2.34 (-21 bps)	**30-Year Insured Revs**: 102.3% of 30 Yr. T-Bond	
5 Yr. T-Note	2.86 (-17 bps)	**Bond Buyer 40 Yield**: 4.73% (-05 bps)	
10 Yr. T-Note	3.63 (-15 bps)	**Crude Oil Futures**: 90.62 (-2.10)	
30 Yr. T-Bond	4.28 (-09 bps)	**Gold Futures**: 885.50 (-12.10)	
		Merrill Lynch High Yield Indices:	
		BB, 7-10 Yr.	8.16% (+10 bps)
		B, 7-10 Yr.	9.98% (+20 bps)

Treasury yields continued to decline, meaning prices have risen for five straight weeks, as President Bush's proposed economic stimulus package failed to alleviate fears that the economy is on the brink of a recession. Before climbing off of its intra-week low, the yield on the benchmark 10-Year Note had hits its lowest level since July 2003. Bush's plan calls for a $150 billion stimulus package to keep the economy growing, and followed by a day Fed chairman Ben Bernanke noting to Congress that a $100 billion plan would have significant effects on growth in the second half of 2008. Despite the announcement of the plan and a pledge to work with lawmakers to get it into effect as soon as possible, the market continued to seek the safety of Treasuries. Using Fed funds futures to imply the probability of a rate cut when the FOMC meets on January 30th, contracts show a 72% chance of a 75 bps cut and 28% of a 50 bps cut. The anticipated rate cut is also seen in the steepening of the yield curve, as the demand for shorter-term debt increases, pushes those yields lower; the spread between the Two- and Ten-Year Note sits at 129 bps, the widest it has been since December 2004. Economic reports (and related consensus forecasts) for the coming week include: Thursday: Initial Jobless Claims (320,000) and December Existing Home Sales (4.95 million).

US Stocks:

Weekly Index Performance

DJIA	12099.30 (-507.00,-4.0%)
S&P 500	1325.19 (-75.83,-5.4%)
S&P MidCap	756.21 (-40.02,-5.0%)
S&P Small Cap	350.60 (-13.94,-3.8%)
NASDAQ Comp	2340.02 (-99.92,-4.1%)
Russell 2000	673.18 (-31.47,-4.5%)

Market Indicators

Strong Sectors: Retail, Homebuilders, Transportation, Technology
Weak Sectors: Energy, Telecom Svcs., Utilities, Materials, Financials
NYSE Advance/Decline: 821 / 2,739
NYSE New Highs/New Lows: 107 / 877
AAII Bulls/Bears: 24.3% / 54.4%

US stocks tumbled, resulting in the steepest weekly decline for the S&P 500 since July 2002. Small-cap stocks officially entered bear market territory, down over 20% from their highs of last July. More news of staggering losses from the Financial sector along with several weak economic data releases shook investors out of stocks into cash and Treasuries. **Citigroup**'s quarterly loss totaled $9.83 billion. Citi wrote down $18 billion, cut its dividend 41% and raised $14.5 in capital. Citi shares fell 14%. **Merrill Lynch** equaled Citigroup's quarterly loss while writing down $16.7 billion. Merrill's shares fell 5.2%. Investors took little comfort from the President's proposed emergency stimulus package. Troubled bond insurers came into sharp focus for their role at the epicenter of the subprime mortgage crisis. **Ambac** shares tumbled 71% on a credit downgrade. **MBIA** shares fell 48%. **Intel**'s quarter fell short of expectations and the chipmaker offered muted guidance. **Apple** shares gained no traction following its annual MacWorld event. **Sprint Nextel** shares shed 29% on wireless subscriber losses. Crude oil traded lower, but it was the economy that was behind the weak showing for Energy shares. Among positives last week, quarterly reports from global giants **General Electric** and **IBM** included optimistic assessments of business conditions. Signs of bargain-hunting emerged in beaten-down retailers. Looking ahead, key earnings reports are due out this week from Apple, **Caterpillar** and **Microsoft**, as well as numerous players from the Financial sector. With stocks arguably already discounting a financial crisis and a recession, evidence pointing to any less dire outcome could bring about a powerful rally. Long-term investors may find plenty of bargains are available in the stock market at current prices.