

For The Week Ended February 15, 2008

Weekly Market Commentary & Developments

US Economy and Credit Markets:

Yields and Weekly Changes:

3 Mo. T-Bill	2.18 (-03 bps)	GNMA (30 Yr) 8% Coupon: 104-22/32 (6.06%)
6 Mo. T-Bill	2.06 (-04 bps)	Duration: 3.15 years
2 Yr. T-Note	1.91 (-01 bps)	30-Year Insured Revs: 100.2% of 30 Yr. T-Bond
5 Yr. T-Note	2.75 (+07bps)	Bond Buyer 40 Yield: 4.91% (+08 bps)
10 Yr. T-Note	3.76 (+12 bps)	Crude Oil Futures: 95.63 (+3.91)
30 Yr. T-Bond	4.57 (+16 bps)	Gold Futures: 902.80 (-16.20)
		Merrill Lynch High Yield Indices:
		BB, 7-10 Yr. 8.01% (+07 bps)
		B, 7-10 Yr. 10.32% (+09 bps)

The yield curve continues to grow steeper, with yields climbing at the long end of the curve for the second straight week, while continuing to fall -- albeit only slightly -- at the short end. The increase in price for the 2-year note marked the ninth straight weekly gain, the longest such streak since October 1998. There was limited data from the economy for the week, but what news there was was generally positive. While expectations were for a decline in retail sales, they actually grew by 0.3%, both overall and when excluding auto sales. In addition, the international trade deficit narrowed on the strength of an increase in exports. Finally, industrial production grew by 0.1%, matching forecasts; November and December production numbers were also revised upward. Credit markets remain uncertain, however, as auction rate preferred securities suffered from failed auctions, leading to speculation that borrowing costs could increase if the market fails to regain liquidity. Economic reports (and related consensus forecasts) for the coming week include: Wednesday: January Consumer Price Index (0.3%, less Food & Energy 0.2%), January Housing Starts (1,010,000), and Minutes of Jan. 29-30 FOMC Meeting released; and Thursday: Initial Jobless Claims (345,000), February Philadelphia Fed report (-10.0), and January Leading Indicators (-0.1%).

US Stocks:

Weekly Index Performance

DJIA	12348.21 (+166.08,+1.4%)
Staples	
S&P 500	1349.99 (+18.70,+1.4%)
S&P MidCap	795.52 (+1.44,+0.2%)
S&P Small Cap	369.84 (+0.82,+0.2%)
NASDAQ Comp	2321.80 (+16.95,+0.7%)
Russell 2000	701.52 (+2.59,+0.4%)

Market Indicators

Strong Sectors:	Energy, Telecom Svcs., Materials, Consumer
Weak Sectors:	Financials, Retail, Health Care, Technology
NYSE Advance/Decline:	1,763 / 1,779
NYSE New Highs/New Lows:	88 / 163
AAll Bulls/Bears:	33.3% / 41.9%

US stocks advanced for the week despite falling in the last two days of trading. Early-week optimism over potential new avenues of support for troubled bond insurers and a better-than-expected January retail sales report gave way to worries about the Financial sector and weak economic data. Still, the S&P 500 has risen in three of the last four weeks. Warren Buffett offered to reinsure \$800 billion in municipal bond debt but by week's end NY Governor Spitzer had imposed a deadline for the bond insurers to address capital needs. **UBS** posted an \$11.28 billion quarterly loss owing to subprime mortgage exposure and the bank suffered its first annual loss in ten years. A UBS analyst warned the global financial sector faces \$200 billion in potential additional losses. A measure of consumer sentiment out Friday fell to its lowest level in sixteen years. Earlier in the week, **AIG** rattled investors after announcing an unexpected debt-related \$5.2 billion writedown. Crude oil prices climbed 4.1% to \$95.50, boosting Energy shares. News Warren Buffett owned a \$4 billion stake in **Kraft Foods** at year-end helped get investors excited about food stocks. **H.J. Heinz** and **Campbell Soup** each posted solid quarterly results, easing investor fears rising commodity costs would crimp profits. Other consumer-related issues struggled. **Best Buy** lowered its guidance for 2008 citing soft traffic in January. **Wynn Resorts** issued a cautious outlook despite positing better-than-expected earnings. **General Motors** lost \$38.7 billion for 2007. But **Comcast** announced shareholder-friendly moves and the market applauded. Shares of **First Solar** surged 26% after the company blew past earnings estimates. Looking ahead, the consumer is likely to be in focus in the upcoming, holiday-shortened week. **Wal-Mart** reports earnings Tuesday while the January CPI report is due out Wednesday. The stock market may continue choppy as investors worry over the economy, the health of the Financial sector, higher commodity prices, and the prospect of higher taxes depending on election results. Changes to the DJIA effective Tuesday see **Bank of America** and **Chevron** replace **Altria Group** and **Honeywell**.