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For The Week Ended February 1, 2007
Weekly Market Commentary & Developments

US Economy and Credit Markets:

Yields and Weekly Changes:

3 Mo. T-Bill	2.08 (-16 bps)	**GNMA (30 Yr) 8% Coupon:**	104-24/32 (5.85%)
6 Mo. T-Bill	2.13 (-23 bps)	**Duration:**	2.93 years
2 Yr. T-Note	2.06 (-13 bps)	**30-Year Insured Revs**:	102.6% of 30 Yr. T-Bond
5 Yr. T-Note	2.73 (-04 bps)	**Bond Buyer 40 Yield**:	4.81% (-01 bps)
10 Yr. T-Note	3.58 (+02 bps)	**Crude Oil Futures**:	88.83 (-1.98)
30 Yr. T-Bond	4.30 (+04 bps)	**Gold Futures**:	903.70 (-9.90)
		Merrill Lynch High Yield Indices:	
		BB, 7-10 Yr.	7.84% (-26 bps)
		B, 7-10 Yr.	9.86% (-02 bps)

Treasury prices were mixed for the week amid a slew of economic data as the Fed cut its target rate by 50 bps on the heels of the emergency 75 bps cut the week prior. The data for the week was mixed, showing continued weakness in the housing market but a potential rebound in manufacturing. The headline number of the week was the January employment report, which came in well below expectations. The consensus forecast was for an increase in the range of 70,000 for nonfarm payrolls; however, the report showed a loss of 17,000 jobs. It was the first decline since 2003. Despite the decline in payrolls, the unemployment rate fell to 4.9%. The net loss of jobs fueled speculation of yet another Fed rate cut, pushing the yield of the 2-Year Treasury down for the seventh straight week. The yield on the benchmark 10-Year note rose slightly, partly on the strength of strong growth in durable goods orders and an increase in manufacturing activity. Economic reports (and related consensus forecasts) for the coming week include: Monday: December Factory Orders (+2.5%); Tuesday: January ISM Non-Manufacturing Business (53.0); Wednesday: 4Q Preliminary Nonfarm Productivity (+0.5%) and Unit Labor Costs (3.5%) Thursday: Initial Jobless Claims (344,000) and December Consumer Credit ($7.3 billion); and Friday: December Wholesale Inventories (0.3%).

US Stocks:

Weekly Index Performance

DJIA	12743.19 (+536.02,+4.4%)
S&P 500	1395.42 (+64.81,+4.9%)
S&P MidCap	823.43 (+51.56,+6.7%)
S&P Small Cap	384.64 (+24.49,+6.8%)
NASDAQ Comp	2413.36 (+87.16,+3.8%)
Russell 2000	730.50 (+41.90,+6.1%)

Market Indicators

Strong Sectors: Financials, Telecom Svcs., Homebuilders, Transports
Weak Sectors: Technology, Energy, Health Care, Consumer Staples
NYSE Advance/Decline: 3,126 / 448
NYSE New Highs/New Lows: 89 / 91
AAII Bulls/Bears: 30.1% / 48.9%

US stocks rallied on optimism fiscal and monetary stimulus would rescue the economy as the Financial sector works to contain the damage from subprime defaults. While the week's economic news was mostly downbeat, a 50 bps interest rate cut from the Federal Reserve, positive developments at bond insurers **Ambac** and **MBIA**, and a late-week $44.6 billion hostile bid from **Microsoft** for **Yahoo!** all worked to generate buying interest. Small-cap stocks bounced highest but the DJIA had its best week since March 2003 and the Nasdaq Composite ended a five-week losing streak. Still, January was a bleak month for stocks and all indexes remain in the red for the year. Bargain-hunters snapped up Financials and homebuilder shares. **Hovnanian Enterprises** and **IndyMac Bancorp** surged 66% and 61%, respectively. A potential bailout of Ambac by major banks and a statement from MBIA on its credit rating reassured investors. Crude oil prices eased 2%, weighing on Energy issues. **ExxonMobil** reported a record $11.7 billion in quarterly profits. Elsewhere, **Altria**'s earnings beat estimates and the company finalized the spin-off of **Phillip Morris International**, due in March. **Procter & Gamble** reported strong results and announced it would divest Folgers coffee. **Google** shares fell 9% on an earnings miss and on concern over the potential Microsoft/Yahoo combination. **VMWare** shares tumbled 28% as its revenue growth disappointed. **Motorola** shares rebounded as the company announced it would look to divest its handset division. Looking ahead, investors may get no relief from volatility in the coming weeks as the economy flirts with a credit-induced recession. Longer-term, valuations in the stock market appear compelling compared to competing asset classes. Investors will likely look for guidance from the corporate sector as to the outlook for earnings growth under present conditions.