

For The Week Ended September 19, 2008 Weekly Market Commentary & Developments

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill	0.88 (-60 bps)	GNMA (30 Yr) 7% Coupon: 104-20/32 (5.05%)
6 Mo. T-Bill	1.54 (-29 bps)	Duration: 3.70 years
1 Yr. T-Note	1.99 (unch.)	30-Year Insured Revs: 117.4% of 30 Yr. T-Bond
2 Yr. T-Note	2.17 (-03 bps)	Bond Buyer 40 Yield: 5.62% (+25 bps)
5 Yr. T-Note	3.03 (+09 bps)	Crude Oil Futures: 104.05 (+2.99)
10 Yr. T-Bond	3.81 (+10 bps)	Gold Futures: 873.00 (+102.00)
30 Yr. T-Bond	4.38 (+07 bps)	Merrill Lynch High Yield Indices:
		BB, 7-10 Yr. 9.18% (+38 bps)
		B, 7-10 Yr. 11.85% (+46 bps)

Despite large swings and intraday volatility, most maturities of Treasury debt closed the week close to their prices at the beginning of the week. Prices were up sharply Monday as financial sector fears continued, following the bankruptcy filing by Lehman Brothers and Merrill Lynch being bought by Bank of America. Following the Fed's decision to keep its target rate at 2%, prices declined slightly on Tuesday. Prices rebounded Wednesday, as housing starts declined more than expected, signaling that the housing market weakness continues to cast a shadow over the economy. Prices declined steeply Thursday as the Federal Reserve took strong measures to increase liquidity in the market. The decline continued Friday as the government's broad-based plans to help the financial crisis caused investors to move away from the safety of Treasuries. Economic reports (and related consensus forecasts) for the coming week include: Wednesday: August Existing Home Sales (4.94 million); Thursday: August Durable Goods Orders (-1.8%, less Transportation -0.5%), Initial Jobless Claims (448,000), and August New Home Sales (510,000); and Friday: 2Q Final GDP (3.3%, Price Index 1.2%) and September Final U of Michigan Consumer Confidence (70.5).

US Stocks

Weekly Index Performance

DJIA	11388.44 (-33.55,-0.3%)
S&P 500	1255.08 (+3.38,+0.3%)
S&P MidCap	805.08 (+16.60,+2.1%)
S&P Small Cap	397.34 (+16.25,+4.3%)
NASDAQ Comp	2273.90 (+12.63,+0.6%)
Russell 2000	753.74 (+33.48,+4.6%)

Market Indicators

Strong Sectors:	Financials, Energy, Materials
Weak Sectors:	Utilities, Telecomm, Consumer Staples
NYSE Advance/Decline:	1,257 / 2,064
NYSE New Highs/New Lows:	206 / 1,664
AAII Bulls/Bears:	27.2% / 54.4%

US stocks managed to post gains on a tumultuous week on Wall Street. Small cap stocks generally fared better than large caps. The week began with the collapse of two global financial institutions and ended with unprecedented intervention from the Federal government. **Lehman Brothers** filed for bankruptcy on Monday, a victim of excessive subprime exposure. **AIG** was next until the government bailed them out by extending an \$85 billion loan in exchange for an almost 80% equity stake. **Merrill Lynch** agreed to be acquired by **Bank of America** on Monday in a move to provide the investment bank with a deep pocketed parent. **Morgan Stanley** and **Goldman Sachs'** shares were pummeled despite solid earnings reports on rumors they would have to sell themselves or suffer Lehman's fate. Away from financials, **Oracle** reported a solid quarter besting estimates. **Dell** shares fell after warning of softening demand amid slowing economic conditions and increased competition from **Hewlett-Packard**. **General Mills** reported earnings ahead of forecasts and raised its outlook on increasing demand. **Best Buy** reported strong revenue gains however earnings were lower than forecast due to store upgrade costs. In merger news, **Berkshire Hathaway** subsidiary **MidAmerican Energy** agreed to pay \$4.7 billion for **Constellation Energy**. **SanDisk** rejected a \$5.8 billion offer from **Samsung**. Looking ahead, equities are likely to remain volatile in the coming days and weeks as the effects of the government intervention play out. Confidence in the financial system will be needed to stabilize the equity markets. Once the dust settles patient investors with a long-term focus will likely find much to like as many sectors are trading at attractive valuations.