

For The Week Ended January 16, 2009
Weekly Market Commentary & Developments

US Economy and Credit Markets:

Yields and Weekly Changes:

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|----------------------|----------------|--|
| 3 Mo. T-Bill | 0.11 (+06 bps) | GNMA (30 Yr) 7% Coupon: 104-29/32 (4.14%) |
| 6 Mo. T-Bill | 0.28 (+01 bps) | Duration: 2.75 years |
| 1 Yr. T-Bill | 0.42 (+02 bps) | 30-Year Insured Revs: 241.8% of 30 Yr. T-Bond |
| 2 Yr. T-Note | 0.72 (-03 bps) | Bond Buyer 40 Yield: 5.59% (-18 bps) |
| 3 Yr. T-Note | 1.05 (-05 bps) | Crude Oil Futures: 35.95 (-4.88) |
| 5 Yr. T-Note | 1.47 (-04 bps) | Gold Futures: 841.20 (-13.80) |
| 10 Yr. T-Note | 2.32 (-07 bps) | Merrill Lynch High Yield Indices: |
| 30 Yr. T-Bond | 2.85 (-19 bps) | BB, 7-10 Yr. 11.58% (-06 bps) |
| | | B, 7-10 Yr. 15.22% (+03 bps) |

Treasuries were generally unchanged on the week with the yield on the 30 Year Treasury Bond posting the biggest decline for this period. Treasury prices rose on Monday as concerns about corporate earnings weakened the equity market. With almost \$10 billion of new investment grade corporate debt issuance on Tuesday, prices of Treasuries were relatively unchanged despite the continued sell off in stocks. Wednesday's weak retail sales report contributed to price gains in the Treasury market as investors turned to Treasuries while the DJIA dropped about 250 points. Treasury prices were little changed on Thursday despite morning gains which were later given back as equities rallied. Treasury prices were down on Friday as the government extended additional aid Citigroup and Bank of America. Several major economic news releases occurred on Friday. CPI declined to 0.10% (Ex Food & Energy, 1.8%), Industrial Production dropped by 2.0%, and a preliminary indicator of January consumer confidence as measured by the U. of Michigan survey remained near recent monthly lows. The bond market closed early Friday in advance of Martin Luther King Day on Monday. Major economic reports (and related consensus forecasts) for the coming week will occur on Thursday and include: December Housing Starts (608,000); December Building Permits (600,000); and Initial Jobless Claims (548,000).

US Stocks:

Weekly Index Performance

| | |
|--------------------------|-------------------------|
| DJIA | 8281.22 (-317.96,-3.7%) |
| S&P 500 | 850.12 (-40.23,-4.5%) |
| S&P MidCap | 516.75 (-13.76,-2.6%) |
| S&P Small Cap | 247.89 (-8.27,-3.2%) |
| NASDAQ Comp | 1529.33 (-42.26,-2.7%) |
| Russell 2000 | 466.45 (-14.85,-3.1%) |

Market Indicators

| | |
|---------------------------------|---|
| Strong Sectors: | Health Care, Utilities, Retail, Food & Beverage, Gold |
| Weak Sectors: | Financials, Telecom, Industrials, Mining & Metals |
| NYSE Advance/Decline: | 804 / 2,429 |
| NYSE New Highs/New Lows: | 9 / 99 |
| AAII Bulls/Bears: | 27.6% / 47.4% |

US stocks fell for a second consecutive week, threatening their November lows along the way. The week's news included weak corporate earnings, more layoffs and downbeat economic data, but of most concern to investors were developments in the Financial sector – namely the huge reported losses, the unraveling of **Citigroup**, and a new rescue package for **Bank of America**. That stocks managed to post gains in back-to-back sessions Thursday and Friday without the participation of the Financials was a positive. Citigroup shares plunged 48% for the week as the banking giant sold a majority stake in a newly-formed brokerage joint venture with **Morgan Stanley** for \$2.7 billion. Citi also unveiled a plan to restructure following a “good bank/bad bank” model. Bank of America reported a quarterly loss totaling \$1.8 billion and announced the government would provide it with funding potentially amounting to \$138 billion. **JPMorgan Chase** reported a quarterly profit though results were impacted by asset write-downs and hefty provisions for loan losses. Earnings reporting season began inauspiciously with **Alcoa** reporting a \$1.2 billion loss. **Intel** reported profits fell 90% on slumping demand and slimmer margins though results met expectations. **Apple** shares lost ground on news CEO Jobs would take a six-month leave of absence to deal with health issues. **Circuit City Stores** announced it will liquidate after failing to find a buyer. **Best Buy** shares got a lift as the leading electronics retailer is expected to benefit. **Abbott Laboratories** announced it would acquire **Advanced Medical Optics** for \$2.2 billion. Looking ahead, the coming holiday-shortened week features a flood of earnings reports as well as the inauguration of President Obama. With some signs of stability in the stock market away from Financials late last week, investors may be gaining conviction in the durability of November's lows. Stocks aren't likely to make major headway until visibility on earnings improves, however.