

For The Week Ended January 2, 2009
Weekly Market Commentary & Developments

US Economy and Credit Markets:

Yields and Weekly Changes:

3 Mo. T-Bill	0.07 (+08 bps)	GNMA (30 Yr) 7% Coupon: 103-20/32 (4.99%)
6 Mo. T-Bill	0.27 (+05 bps)	Duration: 2.80 years
1 Yr. T-Note	0.37 (+02 bps)	30-Year Insured Revs: 245.4% of 30 Yr. T-Bond
2 Yr. T-Note	0.85 (-03 bps)	Bond Buyer 40 Yield: 5.89% (-13 bps)
3 Yr. T-Note	1.10 (+05 bps)	Crude Oil Futures: 46.12 (+8.44)
5 Yr. T-Note	1.69 (+19 bps)	Gold Futures: 877.50 (+7.10)
10 Yr. T-Bond	2.40 (+27 bps)	Merrill Lynch High Yield Indices:
30 Yr. T-Bond	2.82 (+22 bps)	BB, 7-10 Yr. 12.65% (-55 bps)
		B, 7-10 Yr. 16.68% (-21 bps)

Prices declined for most maturities of Treasury debt in the holiday-shortened week. Prices were higher both Monday and Tuesday as tension in the Middle East sent buyers to the safety of Treasuries. In addition, the decline of consumer confidence to record lows also helped prices rise early in the week. Prices fell Wednesday to close out 2008, as first-time jobless claims declined and equity markets showed gains. Across all maturities, Treasuries showed a gain of 14.9% for the year, their best year since 1995. Prices declined sharply when trading resumed Friday, as stocks showed strong gains. The price of the benchmark 10-year note had its biggest one-day decline in six weeks. First-time claims for unemployment insurance fell by 94,000 for the week, but continuing claims remain at their highest level since 1983. Economic reports (and related consensus forecasts) for the coming week include: Monday: December Total Vehicle Sales (10.0 million); Tuesday: December ISM Non-Manufacturing Index (37.0), November Factory Orders (-2.3%), and Minutes of Dec. 16 FOMC Meeting released; Thursday: Initial Jobless Claims (545,000), November Consumer Credit (\$0.1 billion); Friday: December Employment Report, including Change in Nonfarm Payrolls (-500,000), Unemployment Rate (7.0%), Average Hourly Earnings (0.2%), and Average Weekly Hours (33.5), and November Wholesale Inventories (-0.7%).

US Stocks:

Weekly Index Performance

DJIA	9034.69 (+519.14,+6.1%)
S&P 500	931.80 (+59.00,+6.8%)
S&P MidCap	551.34 (+36.44,+7.1%)
S&P Small Cap	272.28 (+15.96,+6.2%)
NASDAQ Comp	1632.21 (+101.97,+6.7%)
Russell 2000	505.84 (+29.07,+6.1%)

Market Indicators

Strong Sectors: Energy, Metals & Mining, Industrials, Travel & Leisure
Weak Sectors: Health Care, Consumer Staples, Telecom Svcs., Utilities
NYSE Advance/Decline: 2,963 / 290
NYSE New Highs/New Lows: 22 / 69
AAII Bulls/Bears: 24.0% / 54.7%

US stocks closed out a dismal year on a winning note and the positive momentum carried over into the first trading session of the New Year. Friday was the best start for stocks to a year since 2003. The week's gains halted a four-week losing streak. The DJIA closed above 9,000 for the first time since November. Still, volumes were light and the gains were small consolation to investors given that 2008 was the worst year for stocks since 1931. The 2008 tally: DJIA -33.8%, S&P 500 -38.5%, Nasdaq -40.5%, and Russell 2000 -34.8%. In taking stocks higher, investors looked past some grim economic data. The ISM manufacturing index fell to its lowest reading since June 1980. Home prices fell 18% in October as measured by the S&P/Case Shiller index. Crude oil futures climbed 23% as conflict intensified in the Middle East, OPEC's most recent production cut took effect, and as Russia cut off natural gas supplies to Ukraine. Automakers received their first installments of government funds: **General Motors** got \$6 billion for its GMAC operation while **Chrysler** got \$4 billion to fund operations. GM shares rose sharply Friday but were almost unchanged for the week. **Dow Chemical** shares fell 20% after Kuwait backed out of a planned joint venture that would have provided funding for Dow's purchase of **Rohm & Haas**. Several high-profile mergers in the Financial sector closed last week. **Merrill Lynch** officially became part of **Bank of America**, **Wells Fargo** completed the acquisition of **Wachovia**, and **PNC Financial** closed on its purchase of **National City**. Looking ahead, investors are likely to approach Friday's monthly employment report with caution in light of other recent data points on the economy. Earnings reporting season will not begin in earnest until later in the month. While investors' appetite for risk may be slow to recover despite recent signs of life in the market, those with a long-term focus would appear to face an unchallenging risk-return proposition in stocks at present levels.