

| US Economy and Credit Markets |                |                                   |                         |
|-------------------------------|----------------|-----------------------------------|-------------------------|
| Yields and Weekly Changes:    |                |                                   |                         |
| 3 Mo. T-Bill:                 | 0.12 (-01 bps) | GNMA (30 Yr) 6% Coupon:           | 109-23/32 (1.23%)       |
| 6 Mo. T-Bill:                 | 0.17 (+01 bps) | Duration:                         | 3.12 years              |
| 1 Yr. T-Bill:                 | 0.20 (unch.)   | 30-Year Insured Revs:             | 168.2% of 30 Yr. T-Bond |
| 2 Yr. T-Note:                 | 0.35 (unch.)   | Bond Buyer 40 Yield:              | 4.88% (-01 bps)         |
| 3 Yr. T-Note:                 | 0.53 (-06 bps) | Crude Oil Futures:                | 82.00 (+0.64)           |
| 5 Yr. T-Note:                 | 1.14 (-04 bps) | Gold Futures:                     | 1328.10 (+43.00)        |
| 10 Yr. T-Note:                | 2.55 (-01 bps) | Merrill Lynch High Yield Indices: |                         |
| 30 Yr. T-Bond:                | 3.93 (-05 bps) | BB, 7-10 Yr.:                     | 6.32% (-02 bps)         |
|                               |                | B, 7-10 Yr.:                      | 7.89% (-02 bps)         |

Treasury prices were slightly higher for the week, fluctuating on varying sentiment as to whether the Federal Reserve will resume buying debt securities and, if so, how much it will repurchase. Prices were higher Monday on news that industrial production declined in September, which was viewed as increasing the likelihood of further quantitative easing. Amid conflicting views expressed by several Fed officials as to the need for more easing, prices rose again Tuesday. The rally continued Wednesday, as the Federal Reserve Beige Book showed that the economy grew in the third quarter, albeit at a slow pace. Prices were lower Thursday after the St. Louis Fed president advocated an incremental approach to further intervention. With no economic news to provide guidance Friday, prices were mixed to close the week. Major economic reports (and related consensus forecasts) for next week include: Monday: September Existing Home Sales (4.30M); Wednesday: September Durable Goods Orders (+2.0%, Ex Transportation +0.5%) and September New Home Sales (300,000); Thursday: Initial Jobless Claims (455,000); and Friday: 3Q Advance Release GDP (Annualized) (+2.0%), Personal Consumption (+2.4%), and GDP Price Index (+1.9%), October Chicago Purchasing Manager (58.0), and October Final U of Michigan Consumer Confidence (68.0).

| US Stocks                 |                         |                          |   |
|---------------------------|-------------------------|--------------------------|---|
| Weekly Index Performance: |                         | Market Indicators:       |   |
| DJIA:                     | 11132.56 (+69.78,+0.6%) | Strong Sectors:          | Financials, Consumer Discretionary, Industrials |
| S&P 500:                  | 1183.08 (+6.89,+0.6%)   | Weak Sectors:            | Materials, Utilities, Telecom Svcs.             |
| S&P MidCap:               | 824.91 (+5.15,+0.6%)    | NYSE Advance/Decline:    | 1,642 / 1,483                                   |
| S&P Small Cap:            | 373.96 (+0.14,+0.0%)    | NYSE New Highs/New Lows: | 442 / 24  |
| NASDAQ Comp:              | 2479.39 (+10.62,+0.4%)  | AAII Bulls/Bears:        | 49.6% / 25.2%                                   |
| Russell 2000:             | 703.43 (+0.27,+0.0%)    |                          |   |

US stocks climbed higher for the seventh week in eight on strong corporate earnings and anticipation of additional monetary stimulus. Stocks were tripped up by a surprise interest rate hike by China on Tuesday but rebounded on Wednesday. Gold eased lower and crude oil was largely unchanged. Financials were in focus all week. Investors were generally pleased with bank results as improving credit trends and reserve releases overshadowed mortgage controversy and weak loan growth. **Wells Fargo** shares rose 10.7% reflecting perception it is less affected by mortgage troubles. **Bank of America** shares fell 4.5%, contrary to the trend, on reports the NY Fed and a group of investors seek to target the bank with mortgage putbacks. **Goldman Sachs'** results beat estimates though profits were down sharply from the prior year. **Morgan Stanley's** results were weaker than expected as trading revenues slumped. **Apple** rode iPhone success to report another impressive quarter. Some were disappointed iPad sales weren't higher. **IBM** reported better results than predicted though investors found fault with reported service contract signings. **Amazon** closed out the week with a strong report, and investors looked past the company's mixed forecast. **McDonald's** shares climbed to an all-time high after the company's results showed business is strong worldwide. **AT&T** outpaced **Verizon** in wireless subscriber additions in the third quarter. In merger news, **Northeast Utilities** agreed to merge with **NSTAR** in a \$4.2 billion all-stock deal. Looking ahead, the coming week is rich in terms of economic data and earnings set for release. Data on the housing market and 3<sup>rd</sup> quarter GDP will figure prominently in the mix. The Fed's decision on QE2 looms large as well but is over a week away. Stocks' recent run could be disrupted should QE2 not materialize as expected but longer-term the asset class looks relatively attractive.