US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.00 (unch.)	GNMA (30 Yr) 6% Coupon:	112-11/32 (1.13%)
6 Mo. T-Bill:	0.02 (unch.)	Duration:	3.55 years
1 Yr. T-Bill:	0.08 (unch.)	30-Year Insured Revs:	185.0% of 30 Yr. T-Bond
2 Yr. T-Note:	0.19 (unch.)	Bond Buyer 40 Yield:	5.08% (+04 bps)
3 Yr. T-Note:	0.32 (-02 bps)	Crude Oil Futures:	85.47 (+3.21)
5 Yr. T-Note:	0.94(+04 bps)	Gold Futures:	1794.1 (-54.80)
10 Yr. T-Note:	2.18 (+12 bps)	Merrill Lynch High Yield Indices:	
30 Yr. T-Bond:	3.53 (+14 bps)	BB, 7-10 Yr.:	7.15% (+16 bps)
		B, 7-10 Yr.:	8.71% (+20 bps)

The yield curve steepened this week as investors speculation about QEIII shifted through the week to reflect Friday's confirmation from Fed Chairman Ben Bernanke that there are no plans for additional stimulus at the moment. Prices fell through the first part of the week as investors wrestled with the likelihood of QEIII and Wednesday's durable goods numbers were better than expected. Thursday and Friday saw price increases on Bernanke's announcement and the report that 2Q GDP grew 1.0% versus the expected 1.1%. Major economic reports (and related consensus forecasts) for next week include: Monday: July Personal Income (+0.3%), July Personal Spending (+0.5%), July Pending Home Sales (-0.9% MoM, 14.0% YoY) and August Dallas Fed Manufacturing Activity (-8.5); Tuesday: June S&P/Case-Schiller Composite Home Price Index (0.0% MoM, -4.6% YoY) and August Consumer Confidence (52.0) and Minutes of FOMC Meeting released; Wednesday: July Chicago Purchasing Manager Index (53.5) and July Factory Orders (+1.8%); Thursday: 2nd Quarter Nonfarm Productivity n(-0.8%), Initial Jobless Claims (408,000), July Construction Spending (+0.2%), August ISM Manufacturing Index (48.5) and August Vehicle Sales – Annualized (12.1M Total, 9.5 Domestic); Friday: August Change in Nonfarm Payrolls (75,000), August Change in Private Payrolls (105,000) and August Unemployment Rate (9.2%).

US Stocks

Weekly Index Performance:		Market Indicators:	
DJIA:	11284.54(+466.89,+4.3%)	Strong Sectors:	Technology, Consumer Discretionary, Industrials
S&P 500:	1176.80 (+53.27, +4.7%)	Weak Sectors:	Utilities, Consumer Staples, Telecom
S&P MidCap:	835.92 (+48.06,+6.1%)		
S&P Small Cap:	377.96 (+21.63,+6.1%)	NYSE Advance/Decline:	2,532 / 646
NASDAQ Comp:	2479.85 (+138.01,+5.9%)	NYSE New Highs/New Lows:	45 / 354
Russell 2000:	691.79 (+40.09,+6.2%)	AAII Bulls/Bears:	36.4% / 41.0%

US stocks rebounded strongly as investors' risk appetite returned following several weeks of turmoil. Trading volumes remained elevated and ahead of seasonal averages. Gold prices pulled back from record highs. Friday's key speech by Federal Reserve Chairman Bernanke passed with no new quantitative easing measures introduced although the possibility was left open for further action, perhaps to come as early as next month. Bernanke emphasized the need for fiscal policy reform. Market sentiment was helped by Warren Buffett's announced $5 billion investment in **Bank of America** in the form of preferred shares and warrants to purchase up to 700 million common shares. B of A shares bounced 11% on the week. Shares of **Apple** advanced almost 8% despite Steve Jobs' resignation as CEO (he will stay on as Chairman). In earnings news, **Medtronic** posted good results highlighted by above consensus revenues. **Tiffany** posted results well ahead of expectations and raised guidance. **Heinz** reported higher than expected revenues and earnings but warned full year results would be negatively impacted by commodity costs. **American Eagle Outfitters** reported strong quarterly earnings but lowered guidance on promotions and higher cotton costs. Looking ahead, the coming week will bring a number of data points that should bring further clarity to the picture of how the economy fared amid budget battles in Congress. Friday's monthly jobs report looms large on that front. With markets clearly looking to Congress for signs it is up to the task of dealing with the nation's fiscal troubles, macro issues are unlikely to abate in importance to stocks any time soon. Still, for investors with a longer-term horizon, stocks appear to have priced in a lot of bad news and they remain attractively valued.