

For The Week Ended May 9, 2008

Weekly Market Commentary & Developments

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill	1.68 (+19 bps)	GNMA (30 Yr) 8% Coupon: 105-26/32 (5.71%)
6 Mo. T-Bill	1.73 (+06 bps)	Duration: 3.07 years
2 Yr. T-Note	2.23 (-21 bps)	30-Year Insured Revs: 105.1% of 30 Yr. T-Bond
5 Yr. T-Note	2.96 (-22 bps)	Bond Buyer 40 Yield: 5.04% (-02 bps)
10 Yr. T-Note	3.76 (-09 bps)	Crude Oil Futures: 126.10 (+9.72)
30 Yr. T-Bond	4.52 (-05 bps)	Gold Futures: 885.80 (+27.80)
		Merrill Lynch High Yield Indices:
		BB, 7-10 Yr. 7.85% (+06 bps)
		B, 7-10 Yr. 10.25% (+12 bps)

Prices of Treasury notes and bonds rose for the week, as the stock market fell and some financial companies experienced renewed concerns relating to the credit crisis. In addition, the fast-rising price of oil continues to present a potential drag on the economy in the U.S. and across the globe. The ISM index for the service sector for the month of April showed an increase to 52.0 — signaling economic expansion — while forecasters had foreseen a decline. However, prices paid increased as well, showing that inflation continues to loom. In addition, nonfarm productivity increased in April, as did unit labor costs. In the employment department, the number of first-time claims fell from the previous week, but the four-week moving average ticked up slightly. Economic reports (and related consensus forecasts) for the coming week include: Monday: April Monthly Budget Statement (\$160.0 billion); Tuesday: April Import Price Index (1.7%), April Advance Retail Sales (-0.2%, less Autos 0.2%), and March Business Inventories (0.5%); Wednesday: April Consumer Price Index (0.3%, less food & energy 0.2%); Thursday: Initial Jobless Claims (370,000), April Industrial Production (-0.3%) and Capacity Utilization (80.1%), and May Philadelphia Fed report (-19.0); and Friday: April Housing Starts (940,000) and May Preliminary U of Michigan Confidence (62.5).

US Stocks

Weekly Index Performance

DJIA	12745.88 (-312.32,-2.4%)
S&P 500	1388.28 (-25.62,-1.8%)
S&P MidCap	853.93 (+3.09,+0.4%)
S&P Small Cap	379.42 (-4.50,-1.2%)
NASDAQ Comp	2445.52 (-31.47,-1.3%)
Russell 2000	720.05 (-5.69,-0.8%)

Market Indicators

Strong Sectors:	Energy, Materials, Technology
Weak Sectors:	Financials, Consumer Discretionary, Telecom
NYSE Advance/Decline:	1,526 / 2,057
NYSE New Highs/New Lows:	164 / 96
AAll Bulls/Bears:	52.8% / 24.7%

US stocks lost ground for the first time in four weeks as crude oil surged to new highs and financials continued to post massive losses. Crude oil gained over 8% and crossed \$126/bbl on Friday before ending the week at \$125.96. Results in the financial sector showed firms are still struggling to put the recent credit market turmoil behind them. **AIG** reported almost \$8 billion in write offs and will seek to raise \$12 billion in new capital. **Fannie Mae** reported a large Q1 loss, cut its dividend again and announced plans to raise \$6 billion in fresh capital. **Legg Mason** reported its first ever quarterly loss. **UBS** wrote down \$19 billion and announced plans to pare its workforce. **NYSE Euronext** was a bright spot as strong trading volumes boosted results above expectations. April same store sales were generally better than expected with **Wal-Mart** and **Costco** two standouts. **FedEx** cuts its earnings forecast for a second time blaming rising fuel costs. **Yahoo** shares fell after **Microsoft** walked away from its bid to acquire the internet search firm. **Cisco** shares fell slightly despite earnings and revenue above expectations as the company failed to boost its outlook for the remainder of the year. **Disney** shares gained after reporting strong earnings on strength in its theme park and studio divisions. **Sprint Nextel** agreed to combine its high speed wireless unit with **Clearwire** to form a new company focused on building a nationwide WiMax network. The new company will receive financial backing from **Intel**, **Comcast** and **Google** among others. Looking ahead, the coming week should provide some insight on the state of the consumer as a handful of retailers report along with reports on retail sales and consumer confidence. **Hewlett-Packard** also reports later in the week. While company valuations and economic trends remain favorable for higher equity prices, energy prices could impede equity market gains should they remain at current levels.