Weekly Market Commentary & Developments

Week Ended September 2, 2011

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.02 (+02 bps)	GNMA (30 Yr) 6% Coupon:	112-25/32 (0.97%)
6 Mo. T-Bill:	0.05 (+03 bps)	Duration:	3.58 years
1 Yr. T-Bill:	0.10 (+02 bps)	30-Year Insured Revs:	199.0% of 30 Yr. T-Bond
2 Yr. T-Note:	0.19 (unch.)	Bond Buyer 40 Yield:	5.06% (-02 bps)
3 Yr. T-Note:	0.31 (-01 bps)	Crude Oil Futures:	86.73 (+1.36)
5 Yr. T-Note:	0.86(-07 bps)	Gold Futures:	1882.60 (+88.50)
10 Yr. T-Note:	1.98 (-20 bps)	Merrill Lynch High Yield Indices:	
30 Yr. T-Bond:	3.28 (-24 bps)	BB, 7-10 Yr.:	6.90% (-24 bps)
		B, 7-10 Yr.:	8.71% (-22 bps)

Treasury securities gained this week as investors increased speculation that the Federal Reserve may consider additional stimulus and worries about European sovereign debt continued ahead of the three day weekend for Labor Day in the U.S. July personal income and spending was reported Monday, with income matching consensus at 0.3% growth and spending coming in at 0.8% which was higher than the estimate of 0.5%. Pending home sales declined 1.3% in July and are up 10.1% year over year. The August ISM manufacturing index was reported Thursday at 50.6 which was higher than the estimate of 48.5. Also Thursday, 2nd quarter nonfarm productivity declined 0.7% vs. the consensus expectation of -0.5% and 2nd quarter unit labor costs were up 3.3%, higher than the estimate of 2.4%. August total vehicle sales were reported at an annual rate of 12.1 million, matching expectations and domestic vehicle sales were reported at 9.52 million, better than the estimate of 9.45 million. There were no changes in nonfarm payrolls in August as the consensus estimated an increase of 68,000 and the unemployment rate remained at 9.1% matching expectations. Revisions to June and July data lowered payrolls by 58,000 workers. Major economic reports (and related consensus forecasts) for next week include: Tuesday: August ISM Non-Manufacturing Composite (51.0); Wednesday: Fed Beige Book Report; Thursday: July Trade Balance (-$51.0B), July Consumer Credit ($6.0B); Friday: July Wholesale Inventories (0.80%).

US Stocks

Weekly Index Performance:		Market Indicators:	
DJIA:	11240.26 (-44.28,-0.4%)	Strong Sectors:	Materials, Energy, Cons Disc
S&P 500:	1173.97 (-2.83,-0.2%)	Weak Sectors:	Financials, Telecom, Utilities
S&P MidCap:	832.99 (-2.93,-0.4%)		
S&P Small Cap:	374.05 (-3.91,-1.0%)	NYSE Advance/Decline:	1,770/ 1,400
NASDAQ Comp:	2480.33 (+0.48, 0.0%)	NYSE New Highs/New Lows:	92/ 53
Russell 2000:	683.36 (-8.43,-1.2%)	AAII Bulls/Bears:	38.6% / 32.3%

Last week, stocks declined as the final two trading days of the week wiped out previous gains. Stocks rose earlier in the week after the Federal Reserve reported that some policy makers sought to add more stimulus and the Institute for Supply Management's factory index beat economic expectations as the index signaled growth for the 25th consecutive month. Stocks fell in the final two trading days driven by a weak jobs report, which showed zero job growth last month. In addition, financials led the sell-off as the FHFA sued **Citigroup**, **JPMorgan**, **Barclays** and **Bank of America** over falsified or missing documents for residential mortgage-backed securities sold to **Fannie Mae** or **Freddie Mac**. Furthermore, U.S. regulators also pushed **Bank of America** to detail measures if conditions worsen. One possible solution is for the bank to offer a **Merrill Lynch** tracking stock, but this option is unlikely as Brian Moynihan wants investors to view the company as one entity. **AT&T** slumped -3.4% for the week as the Justice Department sued to block their $39 billion acquisition of **T-Mobile USA**. **Netflix** fell after **Starz** said it would not renew its contract and that its content will no longer be available after the end of February, 2012. **Pier 1 Imports** gained after beating same store sales expectations. Looking ahead, investor sentiment toward the continuing sovereign debt issues and President Obama's speech on Thursday will likely be the key catalyst of equity prices in the coming week. For those with a longer term horizon, valuations seem compelling even if growth slows marginally, as expectations are low.