

For The Week Ended July 3, 2008
Weekly Market Commentary & Developments

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill	1.84 (+18 bps)	GNMA (30 Yr) 8% Coupon: 105-19/32 (5.98%)
6 Mo. T-Bill	2.07 (-03 bps)	Duration: 3.34 years
1 Yr. T-Note	2.28 (-03 bps)	30-Year Insured Revs: 108.3% of 30 Yr. T-Bond
2 Yr. T-Note	2.52 (-09 bps)	Bond Buyer 40 Yield: 5.14% (-05 bps)
5 Yr. T-Note	3.27 (-07 bps)	Crude Oil Futures: 145.29 (+5.08)
10 Yr. T-Bond	3.98 (+01 bps)	Gold Futures: 933.60 (+2.30)
30 Yr. T-Bond	4.53 (+01 bps)	Merrill Lynch High Yield Indices:
		BB, 7-10 Yr. 8.51% (+07 bps)
		B, 7-10 Yr. 10.80% (unch)

Although Treasuries were modestly higher Monday, the day marked the end of the steepest quarterly Bond market loss in the past four years. During this three-month period, yields on the two- and 10-year Treasury notes moved higher by 100 bps and 55 bps, respectively. For the remainder of the holiday-shortened week (the Bond market closed early on Thursday in advance of the Fourth of July weekend), Treasuries generally traded in a relatively narrow range. However, the release on Thursday of the June Unemployment Rate (which was unchanged at 5.5%) and a weaker-than-expected report concerning service sector business activity seemed to further reduce expectations of a near-term increase in the Federal Funds rate and enabled maturities across the curve to close higher for the day. Economic reports (and related consensus forecasts) for the coming week include: Tuesday: May Wholesale Inventories (0.7%) and May Consumer Credit (\$7.5B); Thursday: Initial Jobless Claims (395,000); and Friday May Trade Balance (-\$62.4B), June Import Price Index (2.0%), July preliminary University of Michigan Consumer Confidence Survey (55.5) and June Monthly Budget Statement (\$30.0B).

US Stocks

Weekly Index Performance

DJIA	11288.54 (-57.97,-0.5%)
S&P 500	1262.90 (-15.48,-1.2%)
S&P MidCap	786.80 (-36.48,-4.4%)
S&P Small Cap	351.95 (-16.52,-4.5%)
NASDAQ Comp	2245.38 (-70.25,-3.0%)
Russell 2000	665.78 (-32.36,-4.6%)

Market Indicators

Strong Sectors: Utilities, Consumer Staples, Health Care
Weak Sectors: Materials, Financials, Consumer Discretionary
NYSE Advance/Decline: 719 / 2,584
NYSE New Highs/New Lows: 86 / 854
AAII Bulls/Bears: 23.9% / 52.1%

U.S. stocks fell for a fifth consecutive week amidst light trading on the holiday shortened week. Large cap stocks generally fared better than small and mid cap stocks on the week. Monday brought to a close a tough month and quarter for equities. For the month, the Dow Industrials, S&P 500 and Russell 2000 fell -10.0%, -8.4% and -7.7%, respectively. For the second quarter, the same benchmarks returned -13.4%, -11.9% and -9.4%, respectively. Oil continued to set new highs passing \$145/bbl during the week on worries of a potential Iranian/Israeli conflict and diminishing U.S. inventories. Financial stocks remained under pressure on speculation several firms will need to raise yet more capital. June auto sales were down significantly from the same period last year. **GM** shares initially shot up after it reported sales that were better than expected only to fall back the following day on brokerage comments that the embattled automaker will need to raise capital. **Starbucks** announced it will close up to 600 stores. **NVIDIA** shares were sent sharply lower following reduced guidance blamed on increased competition and quality control problems. Coal and steel stocks, two recent stock market stalwarts, came under selling pressure over the course of the week. **CIT Group's** shares jumped after it exited all home lending operations. Looking ahead, earnings season gets underway this week. Expectations have been steadily ratcheted down over the last several weeks to the point that current stock prices reflect rather modest expectations. Negativity is building on Wall Street and stocks could get relief should results surprise to the upside. While equity valuations are compelling, investors will likely need some visibility on longer term results for equities to make a sustainable move higher from current levels.