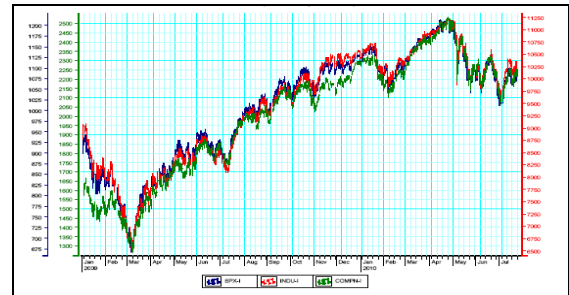


Weekly Market Update
Week Ending July 23, 2010

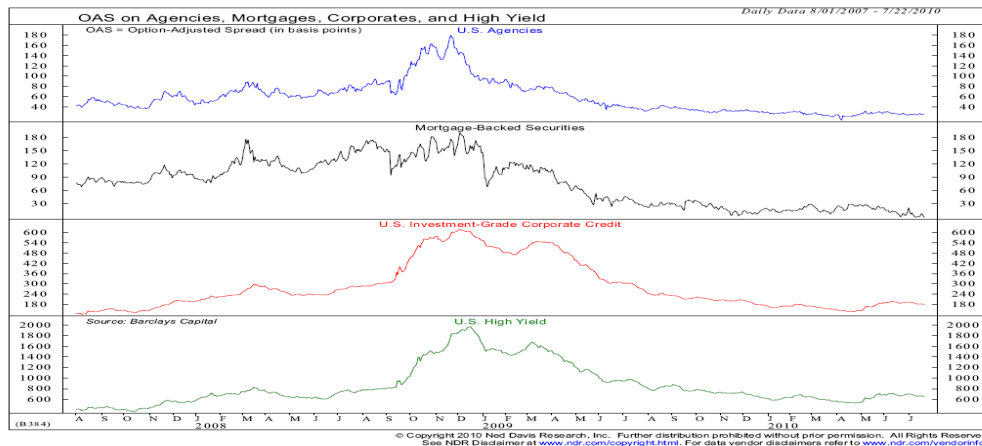
Equity Market Highlights

The stock market showed continued volatility this week as earnings releases and economic data were released. Overall, corporate earnings have surprised on the upside but future earnings guidance remains quite conservative. As of Friday's open, the DJIA, S&P 500 and NASDAQ Composite have returned -1.01%, -1.93% and -1.03%, respectively on a year-to-date basis. Over the last 360 days, they are up 13.82%, 12.02%, and 13.80%, respectively. Despite the decline since the April peak, keep in mind that stocks are up over 60% from the lows of March 2009.



Bond Market Update

Interest rates are low and are likely to remain so in the near term. The low level of yield on relatively-safe bond market products has led to strong competition for yield on spread-product such as agency, mortgage-backed and corporate bonds. The chart below shows the trend of option-adjusted spreads on these bonds. Note that overall spreads have come down significantly from the height of the financial crisis and are now near or below the spreads seen prior to the onset of the crisis. We believe taxable bonds are fully valued at current levels.



Economic Update

We have been noting for several weeks now that economic growth is showing signs of slowing growth. We want to reiterate that this is slowing *growth* in the economy, not a slowing economy. Although the European sovereign market remains concerning and the U.S. job market remains weak, economic activity is still growing, just at a more sustainable pace. Interest rates remain low and fully 50% of the economic stimulus has yet to be absorbed into the economy. This is not to imply that the economy is strong, but we do not yet see any evidence that we are headed for a new recession in the next few months. Economic data backs this idea with solid, but not robust economic releases. A few headline data releases this week that were headlined as very weak deserve a bit more scrutiny. First, the homebuilders' sentiment report was released at a level of 14, the lowest level in over a year. While this is certainly not positive news, bear in mind that the index has floated in a range of 8-20 since September of 2007 and was only down from 16 last month. Again, this is not good news, but not as bad as the press would make the release. Secondly, we had the housing starts and builders permit report. The headline report showed housing starts down 29,000, or 5% last month, well below the market expectation of a decline of 3,000. The press overwhelmingly reported that this was due to the expiration of the homeowner tax credit last month. However, a deeper look into the data shows that single-family home starts (those which would qualify for the credit) were virtually unchanged from the prior month, with the total number being skewed strongly to the downside by a 21% decrease in multi-family, or apartment, homes. Furthermore, building permits filed in the month were up by 12,000, compared to market expectations of a 2,000 permit decline. Other data released this week included leading economic indicators, which came in at -0.2%, compared to expectations of -0.4%. This was primarily due to the recent decline in equity markets. The volatile weekly jobless claims came in at 37,000 higher than last week, while the continuing claims number continues to fall.