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Weekly Market Wrap December 1, 2008

Review - Week Ending 11/28/2008

Stocks rebounded sharply last week, as lower interest rates, more government initiatives, and the announcement of the Obama economic team all brought out the bargain hunters. It was a classic bear market rally though, which showed signs of subsiding early this morning with more soft economic data. This week brings 15 economic releases, (most will be bad) culminating with the jobs report on Friday.

Commentary/Highlights

- **Before getting excited about the rally last week**, consider that auto industry stocks were the best performing group of the week, followed by financial stocks rallying 30%. **The only good news was more government involvement**, mainly in Citigroup, the buying of Fannie and Freddie mortgage debt, and impending aid to automakers.

- **India's 9/11:** The death toll from the terrorist attacks in Mumbai rose to 188, as India and Pakistan tensions heighten. The Obama foreign policy team is announced today.

- **Black Friday Holiday shopping was better than feared, actually slightly up from last year.** However, surveys indicated that shoppers finished their shopping during the weekend-instead of just beginning in normal years.

- **More Easing: The European Central Bank is expected to cut interest rates at least 50bps, if not more, on Thursday,** as its scrambles to catch up with the Bank of England, Fed, and Bank of China, which cut rates another 108bp last week.

- **It's Official:** The Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) met by conference call on Friday, November 28th and determined that a peak in economic activity occurred in the U.S. economy in December 2007. The peak marks the end of the expansion that began in November 2001 and the beginning of a recession. We are now almost one year into this recession.

- **Earnings revisions continue to tumble for both the 4th quarter and all of 2009**. The 3rd quarter earnings were really a tale of two sectors. Dow Jones/Wilshire 5000 earnings had gains of 105% for the energy sector, and earnings declines of 294% for the financial sector. Energy earnings will not be that good and Financial earnings will not be that bad going forward. **Ex-Financials and Energy, earnings were actually up 4.80% for the 3rd quarter.**

- **The high-yield bond market remains the one area of the credit markets that has been given up for dead.** Spreads remain close to 2000bps over Treasuries, similar to levels seen during the collapse of Drexel in 1991. About half of U.S. companies are non-investment grade and only one deal has been done since September, by MGM Mirage. Moody's has forecast default rates climbing to 11% by the end of 2009.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	+1.23%	+0.82%	+1.45%
Lehman High Yield	+1.39%	-23.74%	-31.42%
Dow Jones Industrial	+9.79%	-18.17%	-31.64%
S&P 500 Index	+12.06%	-22.67%	-37.69%
Russell 3000	+12.86%	-24.23%	-38.46%
MSCI EAFE Index	+11.87%	-24.78%	-48.16%
MSCI EAFE Small Cap	+6.53%	-27.10%	-50.19%
NASDAQ Composite	+10.92%	-26.26%	-42.10%
Russell 2000	+16.45%	-30.17%	-37.42%