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Weekly Market Wrap November 26, 2007

Review - Week Ending 11/23/2007

Stocks were down last week as concerns over housing, a lower Fed forecast, and anxiety over holiday sales dominated the markets. In the bond market, government bonds gained again, while credit related bonds saw declines. Earnings season is essentially over, nothing but economic news until the Fed meets again on December 11th.

Commentary/Highlights

- **The Fed lowered their forecasts for GDP growth in 2008 to 1.6-2.6% (One of the last to do so).** They still envision growth resuming once the mortgage issues are resolved in the financial sector. Both the ECRI and Conference Board leading indicator readings are pointing toward slowing growth in the US economy.
- **The Financial Times notes that global markets are uneasy about whether global economies can “decouple” from the U.S.** Marco Annunziata, chief economist at UniCredit Markets notes “Some strongly believe in decoupling and look forward to watching the giant collapse, while the rest of the world powers on, while others believe we would all be hurt.” **Some signs of decoupling** include the recent Moody’s Global Survey of Business Confidence, where **Europe, Asia, and South America all show higher confidence readings since November 3rd, while US confidence has declined.** Also, US exports now account for less than a quarter of all exports from China, Japan, and less than 15% of ASEAN nations.
- **Congress and the Bush Administration have displayed a disheartening lack of leadership** on the sub-prime mortgage crisis and resulting credit crunch that could spin out of control into a credit crash. Compare to the Panic of 1907, which led to creation of the Federal Reserve, and the Crash/Depression of the 1930’s which led to Fannie Mae, the SEC, and Social Security. Where have the leaders gone?
- Long-term investors are reminded that valuations remain reasonable, and gains often come during the midst of intense pessimism. **The recent UBS Investor Sentiment Index came in at 44, lowest reading since September 2005, post-Katrina. Annualized returns since then have been 9.6%. The UBS Investor Sentiment reached a high in January 2000 at 178, annualized returns for the next three years(-12.7%). Sentiment often makes a good contrarian indicator.**
- Bloomberg notes that **smaller U.S. companies** are taking advantage of faster communications to grab a bigger share of U.S. exports; 46 percent of sales abroad in 2005, up from 38 percent in 1999, a Commerce Dept study shows. **Exports are up 14% overall, helped by a weaker dollar.**

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	+0.54%	+2.33%	+6.27%
Lehman High Yield	-0.99%	-2.62%	+0.51%
Dow Jones Industrial	-1.45%	-6.26%	+6.27%
S&P 500 Index	-1.21%	-5.38%	+3.28%
Russell 3000	-1.35%	-5.43%	+2.86%
MSCI EAFE Index	-0.47%	-2.70%	+7.90%
MSCI EAFE Small Cap	-3.17%	-4.23%	+2.39%
NASDAQ Composite	-1.54%	-3.88%	+7.51%
Russell 2000	-1.86%	-6.13%	-3.17%