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Weekly Market Wrap September 10, 2007

Review - Week Ending 09/07/2007

Stocks got off to a positive start last week but declined sharply on Friday after a much weaker than expected jobs report. Small caps took the brunt of the selling and bonds firmed across the board. The market remains focused on Fed action and this week brings important manufacturing readings late in the week.

Commentary/Highlights

- **The jobs report saw a decline of 4,000 payroll jobs, which doesn't seem significant.** But economists were expecting a gain of 100,000 jobs-an even worse, and leading to the selling was the downward revision of **80,000 jobs for both June and July.** Key to the economy surviving the housing downturn is a relatively full employment scenario. **The weak jobs report gives the Fed all the cover it needs to cut rates on September 18th and increases the likelihood of a bold 50bp cut.**
- **Fed governors are giving four speeches on Monday,** followed by a Bernanke speech in Germany on Tuesday, so the market will be picking up additional signals as to direction of monetary policy.
- **The Asset-backed Commercial Paper market continues to dry up.** Outstandings fell by \$200 billion during August and rates increased by 84bp for AA non-financial paper. High-yield bonds and agency bonds are gradually recovering.
- **Reset volumes for sub-prime ARMS are expected to peak in March 2008.** Moodys Investors Services now expects the housing slump to last until 2009.
- **Temporary Treasury Gains?** Two-year Treasuries returned 1.09 percent in August, the best monthly performance since 2003, according to indexes compiled by Merrill Lynch & Co. Holdings of U.S. bonds by governments and central banks at the Federal Reserve fell 3.8 percent, the steepest decline since 1992. The dollar's slump to a 15-year low against six of its most actively traded peers is turning the gains into losses for international bondholders, prompting China, Japan and Taiwan to sell.
- **Global market valuation metrics show lower P/E ratios and higher dividend yields for all regions except Japan** when compared to the U.S. **Weekly surveys of business confidence show improvement in South America, Europe, and Asia, while North America continues to decline.**

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	+1.05%	+3.14%	+4.15%
Lehman High Yield	+0.42%	-1.82%	+1.00%
Dow Jones Industrial	+0.08%	+0.07%	+8.90%
S&P 500 Index	-1.34%	-2.97%	+3.81%
Russell 3000	-1.30%	-3.30%	+3.58%
MSCI EAFE Index	-1.22%	-4.49%	+4.16%
MSCI EAFE Small Cap	-0.55%	-6.02%	+5.14%
NASDAQ Composite	-1.18%	-1.44%	+6.23%
Russell 2000	-2.14%	-6.76%	-0.75%