



October 27, 2008

Weekly Market Commentary

Domestic and foreign equity markets declined sharply last week as investors feared that the financial crisis would push economies around the world into a deep recession. In most cases, there were not many bright spots to see. The biotechnology group finished as the week's best performer – up 6%. Its largest member, Amgen Inc., reported quarterly earnings greater than the analysts' consensus estimate. The railroads group was also among the outperformers, rising 1%. Three members of the group: Norfolk Southern Corp., Burlington Northern Santa Fe Corp., and Union Pacific Corp. each reported quarterly earnings this week that also beat consensus estimates. Leading economic indicators gained 0.3% in September, the first gain in five months.

On the downside, the industrial real estate investment trust (REIT) group was the worst-performing group, dropping 46%, led by its single member, ProLogis. The company, an owner, manager and developer of distribution facilities, reported lower than expected earnings for the third quarter. The diversified metals and mining group was also among the underperforming groups, losing 24%, led by its single member, Freeport-McMoRan Copper & Gold Inc. – due to last week's sharp decline in prices for copper and gold. In addition, an increasing number of companies communicated plans to cut the size of their workforce.

Short- and long-term bond yields moved lower last week as the credit crisis continued, extending to a currency crisis affecting both developed and developing world economies. This spurred the flight-to-quality trade: long-term Treasury bond yields declined to their lowest level, 3.87%, since the Treasury began issuing 30-year maturities in 1977, and the U.S. dollar index (USDIX) surged nearly 6%, the most since 1992, on a dour outlook for markets outside the U.S.

	Key Market Data		
	Week ending		
	10/24/08	10/17/08	Change
Dow Jones Industrial Average Index	8,378.95	8,852.22	-5.35%
S&P 500 Index	876.77	940.55	-6.78%
NASDAQ Composite Index	1,552.03	1,711.29	-9.31%
10-Year Treasury Note Rate	3.69%	3.93%	-0.24%
NYMEX Crude Future (Barrel)	\$64.15	\$72.05	-\$7.90
Euro/U.S. Dollar	\$1.2632	\$1.3414	-\$0.0782

The broader view

While it will take time for the impact of recent policy measures to be felt, there are some signs of hope already. The LIBOR (London Interbank Offered Rate) continued to fall last week, indicating at least some thawing of the frozen credit markets. LIBOR is the key benchmark for what banks charge each other for dollar loans. Still, even

though LIBOR's improvement should have been a signal that the credit markets were starting to behave, the equity markets continued their swoon.

As uncertainty, desire for liquidity, and panic continued to ebb and flow last week, a three-part pattern became more visible. First, global recessionary concerns continued to unsettle the market; while, second, a lot of selling was forced by hedge funds needing to build cash in order to meet margin calls and to satisfy customer redemption requests. In addition, retail investors continued to redeem shares of mutual funds and sell individual stocks as fear and panic reached a new level of despondency. Their fears were genuine: volatility – as measured by the Chicago Board Options Exchange Volatility Index (VIX) – spiked to another record high last week. Third, the unwinding of the carry trade, a strategy in which an investor sells a certain currency with a relatively low interest rate and uses the funds to purchase a different currency yielding a higher interest rate (i.e. Yen), forced selling across all asset classes. The domestic markets braced themselves for a significant sell-off on Friday after foreign bourses slumped on bleak earnings announcements from companies, such as Sony, and with the report of Gross Domestic Product (GDP) in the U.K. declining 0.5% in the third quarter

We are confident the capital markets will survive, even though there will likely be more pain associated with testing and retesting new lows. To spur borrowing, we believe the Fed will cut rates by .50%, perhaps as early as this week. The capital markets for equity and debt securities will continue to act as a discounting mechanism both on the downside as well as the upside, and will tend to anticipate economic reports and investor sentiment. We see market volatility remaining high until market

participants are reasonably certain a systemic meltdown has been avoided. At that point, we can then focus our attention on the domestic and global economies, and deal with a recession – even a major one – as we have many times before.

Still, we believe all of this selling may be transpiring less because of investor panic and more because of the desire to build liquidity at almost any cost. For the time being, as the global markets search for a bottom, traditional ideas about equity valuations have been thrown out the window. Patience will be important in the days ahead: Governmental policy measures have been extensive both here and abroad and will continue to exert a preventive effort in keeping a deflationary spiral from unfolding.

In the meantime, investors need to remind themselves that investing is a long-term commitment and eventually there will be clear sailing on the horizon. Unfortunately, no one has any idea whether the recovery will occur this week, next month, or next year.

A look ahead

After nine months of job losses, declining output, lower sales and falling incomes, the final proof that the nation has tipped into recession will likely arrive this week. Real GDP – the broadest measure of the economy's output – probably fell in the third quarter. GDP hasn't fallen since the last quarter of 2007, when growth slipped 0.2%. The GDP report Thursday will be the culmination of a very busy week for economic news, including another expected rate cut from the Federal Reserve and more news from the troubled consumer, housing and business sectors.

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All index references and performance calculations are based on information provided through Bloomberg. Bloomberg is a provider of real-time and archived financial and market data, pricing, trading, analytics, and news.

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Standard and Poor's 500 Index[®] (S&P 500[®]) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Standard & Poor's offers sector indices on the S&P 500 based upon the Global Industry Classification Standard (GICS[®]). This standard is jointly maintained by Standard & Poor's and MSCI. Each stock is classified into one of 10 sectors, 24 industry groups, 67 industries and 147 sub-industries according to their largest source of revenue. Standard & Poor's and MSCI jointly determine all classifications. The 10 sectors are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services, and Utilities.

The NASDAQ Composite Index[®]. Stocks traded on the NASDAQ stock market are usually the smaller, more volatile corporations and include many start up companies.

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