

Weekly Capital Markets

March 8, 2010



Market Review

The Week in Review

Economic Releases for the Week Ending 3/5/10

	**Consensus	Actual	Prior Period
Feb. Manufacturing ISM	57.5	56.5	58.4
Feb. Non-Farm Payrolls	-68k	-36k	-26k
Feb. Unemployment Rate	9.8%	9.7%	9.7%

Last week's economic data was better than expected, leading to an increase in Treasury yields and equity prices. Despite headwinds brought on by weather, the February employment report beat analyst expectations and led to a positive tone for the markets going into the weekend. Global equity markets were higher for the week (the S&P 500 gained 3.10%), while the U.S. Treasury yield curve rose in a nearly parallel fashion. The yield on the benchmark ten-year Treasury climbed seven basis points. The positive tone in the markets also led to tightening in credit spreads. Both investment grade and high yield markets saw prices rise and option-adjusted spreads tighten for the week, leading to positive performance in the sector.

The highlight of the economic week came on Friday with the release of the February employment report. The numbers were not as bad as feared, as the economy lost 36,000 jobs compared to the forecast for 68,000 job losses. The biggest positive surprise came in the form of an increase in temp hiring, which increased 48,000. Increases in the hiring of temporary workers are usually an indication that businesses are getting closer to hiring full-time employees. The unemployment rate held steady at 9.7%. The February ISM indices were also released last week. The manufacturing index fell from 58.4 to 56.5, which is still quite strong but indicates that expansion in the sector slowed on a month-over-month basis. The non-manufacturing index, driven by improvement in the employment component, beat expectations and rose from 50.5 to 53.0. Economists were expecting the index to reach 51.0.

The Week Ahead

Economic Releases for the Week Ending 3/12/10

	**Consensus	Prior Period
Feb. Budget Statement	\$-221.0B	\$-42.6B
Feb. Retail Sales	-0.2%	0.5%
Jan. Business Inventories	0.2%	-0.2%

The week ahead is relatively quiet on the economic front. The focus of the week will be on the retail sales numbers which will be released on Friday, March 12. After climbing 0.5% in January, February retail sales are expected to have declined 0.2%. One of the big reasons for the decline would be the severe snow storms that pounded much of the country during the month. As long as the decline is not too large, the release should not be market moving. Excluding autos, retail sales are expected to have remained flat in February after climbing 0.6% in January. The monthly budget statement will also be released and is expected to show that the deficit jumped from \$46.2 billion in January to \$221.0 billion in February. That increase in the deficit would bring the year-over-year increase to 8.8%. Business inventories are expected to have risen 0.2% in January after falling 0.2% in December. The December decline was driven by a large decrease in wholesale inventories, primarily imports. Finally, investors will also be keeping a close eye on the employment situation via the initial jobless claims and continuing claims. Initial jobless claims are expected to remain stubbornly high in the 460,000 range, while continuing claims are likely to remain around 4.5 million.

World Bond Rates	3/5/10	1-Wk Chg	4-Wk Chg	YTD
US 10y	3.68%	0.07%	0.12%	-0.16%
GBR 10y	4.06%	0.03%	0.18%	0.05%
GER 10y	3.16%	0.06%	0.04%	-0.23%
CAN 10y	3.47%	0.08%	0.11%	-0.15%
JAP 10y	1.32%	0.01%	-0.06%	0.02%

Central Bank Rates	3/5/10	12/31/09	9/30/09	6/30/09
US Fed Funds	0.25	0.25	0.25	0.25
UK Bank Rate	0.50	0.50	0.50	0.50
GER Base Rate	1.00	1.00	1.00	1.00
CAN Bank Rate	0.25	0.25	0.25	0.25
JAP Disc Rate	0.10	0.10	0.10	0.10
3 Mo-LIBOR	0.25	0.25	0.28	0.56

Risk Premiums	3/5/10	1-Wk Chg	4-Wk Chg	YTD
*CDX (bps)	85	-7	-17	0
*30 Day T-Yld Vol.	78.9	-2.3	-10.2	-28.6
VIX	17.42%	-2.08%	-8.69%	-4.26%

Currencies	3/5/10	1-Wk Chg	4-Wk Chg	YTD
USD/EUR	1.36	0.00	-0.01	-0.07
USD/CAN	0.97	0.02	0.04	0.02
JPY/USD	90.28	1.31	1.03	-2.74

Commodities	3/5/10	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	\$1,135.20	\$16.30	\$83.00	\$39.00
Oil (barrel)	\$81.50	\$1.84	\$10.31	\$2.14
Wholesale Gasoline (gal)	\$2.27	\$0.19	\$0.38	\$0.22
Natural Gas (mcf)	\$4.59	-\$0.22	-\$0.92	-\$0.98

Equity Markets	3/5/10	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,138.70	3.10%	6.80%	2.12%
FTSE 100	5,599.76	4.58%	10.65%	3.45%
DAX	5,877.36	4.98%	8.15%	-1.34%
S&P/TSX Comp	11,975.14	2.97%	6.70%	1.95%
NIKKEI	10,368.96	2.40%	3.10%	-1.68%

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* DJ CDX.NA.IG.10 5Yr; 30 Day Avg. 1-month TSY Yield Volatility

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