

Weekly Capital Markets

May 24, 2010



Market Review

The Week in Review

Economic Releases for the Week Ending 5/21/10			
	**Consensus	Actual	Prior Period
April Housing Starts	650k	672k	626k
April CPI	0.0%	-0.1%	0.1%
April Leading Indicators	0.1%	-0.1%	1.4%

Financial markets remained extremely volatile last week as investors continued to de-risk their portfolios. Yields on U.S. Treasuries fell across the curve as market participants sought out the safety of Treasuries in order to minimize exposure to more risky asset classes. This flight-to-quality led to a drop in 10-year and 30-year yields of 22 and 24 basis points respectively. Global equity markets also took a nosedive and the U.S. S&P 500 ended up losing 4.23% during the week. The VIX, which is known as a "fear index", jumped nearly 30% from 31.24% to 40.10%, due to the increases in market volatilities.

The economic data was mixed. Housing data was generally positive. The annualized number of housing starts rose 7.4% from 626,000 to 672,000 during the month of April and is up more than 40% on a year-ago basis, while the National Association of Homebuilders (NAHB) index climbed from 19 to 22. Homebuilders however, have remained cautious due to the recent expiration of the homebuyer tax credit. Inflation remains non-existent, as indicated by the most recent decline in the consumer price index (CPI). Headline April CPI was down 0.1% (2.2% higher year-over-year) and the core CPI, excluding food and energy, was 0.1% higher month-over-month (1.0% year-over-year). On a negative note, the index of leading economic indicators declined for the first time in more than a year. Expectations were for an increase of 0.1% but the index posted a decline of 0.1%. The primary drivers behind the negative print were a decline in building permits and unemployment claims that have remained stubbornly high.

The Week Ahead

Economic Releases for the Week Ending 5/28/10		
	**Consensus	Prior Period
April Existing Home Sales	5.6M	5.35M
Q1 GDP	3.5%	3.2%
April Personal Income	0.5%	0.3%

The week ahead is likely to be packed with news from Europe, Washington, and Wall Street. Questions also remain surrounding sovereign debt issues and financial regulation in the U.S. and these are the topics that are likely to dominate the news. The economic data is also heavy and investors will be focused on the housing, growth, and personal income and spending numbers. Existing home sales are expected to have climbed nearly 5% in April from an annualized pace of 5.35 million to 5.60 million. The second-round of the housing stimulus expired at the end of April so investors will anxiously wait to see how the numbers will look going forward. The second estimate of gross domestic product (GDP) will be released and is expected to increase from 3.2% to 3.5%. This will be a slowdown from fourth quarter growth of 5.6% but is still a positive indication of economic improvement. April personal income and spending numbers will also be released and are expected to have increased 0.5% and 0.2% respectively. Personal income and spending numbers have seen a nice upward trend over the last several months and increases in weekly earnings are likely to have driven these numbers higher in April.

World Bond Rates	5/21/10	1-Wk Chg	4-Wk Chg	YTD
US 10y	3.24%	-0.22%	-0.57%	-0.60%
GBR 10y	3.55%	-0.20%	-0.49%	-0.47%
GER 10y	2.67%	-0.19%	-0.40%	-0.72%
CAN 10y	3.35%	-0.08%	-0.35%	-0.26%
JAP 10y	1.25%	-0.06%	-0.08%	-0.05%

Central Bank Rates	5/21/10	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	0.50	0.29	0.25	0.28

Risk Premiums	5/21/10	1-Wk Chg	4-Wk Chg	YTD
*CDX (bps)	120	11	34	35
*30 Day T-Yld Vol.	110.9	11.1	25.7	3.4
VIX	40.10%	8.86%	23.48%	18.42%

Currencies	5/21/10	1-Wk Chg	4-Wk Chg	YTD
USD/EUR	1.26	0.02	-0.08	-0.18
USD/CAN	0.94	-0.02	-0.06	-0.01
JPY/USD	90.00	-2.47	-3.97	-3.02

Commodities	5/21/10	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	\$1,176.10	-\$51.70	\$23.00	\$79.90
Oil (barrel)	\$70.04	-\$1.57	-\$15.08	-\$9.32
Wholesale Gasoline (gal)	\$1.96	-\$0.17	-\$0.39	-\$0.09
Natural Gas (mcf)	\$4.04	-\$0.28	-\$0.22	-\$1.54

Equity Markets	5/21/10	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,087.69	-4.23%	-10.65%	-2.46%
FTSE 100	5,062.93	-3.80%	-11.54%	-6.47%
DAX	5,829.25	-3.76%	-6.87%	-2.15%
S&P/TSX Comp	11,521.35	-4.11%	-5.87%	-1.91%
NIKKEI	9,784.54	-6.48%	-10.35%	-7.22%

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

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