

Weekly Capital Markets Market Review June 28, 2010



The Week in Review

Economic Releases for the Week Ending 6/25/10			
	**Consensus	Actual	Prior Period
May Existing Home Sales	6.0%	-2.2%	7.6%
FOMC Rate Decision	0.25%	0.25%	0.25%
May Durable Goods Orders	-0.5%	-1.1%	2.9%

A stretch of disappointing economic releases led to increases in volatility and uncertainty last week. Disappointing sales of homes and durable goods, downward revisions to GDP, and stubbornly high jobless claims that point to a gloomy picture for June's employment report all drove investors to the safety of government bonds. For the week, yields on U.S. Treasuries were driven lower throughout all parts of the curve, with 10-year yields falling 11 basis points (bps) to 3.11% and 30-year yields falling eight bps to 4.06%. Global equity markets suffered as a result of the risk aversion. The U.S. S&P 500 fell 3.65% to 1,076.76 and is back in the red for the year, down 3.44% year-to-date. Bond markets were generally mixed. Higher quality bond indices experienced some spread tightening but lower quality, higher-yielding indices saw spreads widen.

A majority of the economic releases were disappointing. The expiration of the homebuyer tax credit led to a record low number of new home sales and existing home sales were also surprisingly weak, raising concerns about the housing outlook. New home sales were down 33% in May, while existing home sales fell 2.2% to an annualized rate of 5.66 million. Headline durable goods orders were also weaker than expected. Consensus estimates were for durable goods orders to have declined by 0.5%, but the actual decline was 1.1%. Excluding weak airline sales, orders were up 0.9%. The final estimate of first quarter gross domestic product (GDP) was revised down from 3.0% to 2.7%. One of the primary drivers of the downward revision was a decline in personal expenditures. Finally, the Federal Open Market Committee (FOMC) kept the overnight lending rate in a range between 0.0% and 0.25%. There were some interesting changes to the statement, primarily focused on a softening economy, but the FOMC kept the language stating that the rate is likely to "remain exceptionally low for an extended period".

The Week Ahead

Economic Releases for the Week Ending 7/2/10		
	**Consensus	Prior Period
May Pending Home Sales	-13.4%	6.0%
June Non-Farm Payrolls	-115k	431k
June Unemployment Rate	9.8%	9.7%

The week ahead is packed with top-tier economic releases including pending home sales and the June employment report. The expiration of the homebuyer tax credit is expected to drive home prices lower, which would lead to a drop in household wealth and potentially put a squeeze on consumer spending. After three consecutive months of increases, pending home sales are likely to have declined by 13.4% in May, according to expectations. Initial jobless claims and continuing claims have remained at elevated levels that continue to suggest weakness in the labor market and after May's payroll boost of 431,000 workers being added, expectations are that the economy lost 115,000 jobs in June. Investors may be more focused on the number of private payrolls that were added in June. Expectations for the number of private payrolls that were added to the economy are for an increase of 111,000. The unemployment rate is expected to have risen from 9.7% to 9.8%. Policymakers will also be a focus of investors next week, with three appearances by Federal Reserve Chairman Ben Bernanke and a key meeting of the European Central Bank commanding most of the attention.

World Bond Rates	6/25/10	1-Wk Chg	4-Wk Chg	YTD
US 10y	3.11%	-0.11%	-0.18%	-0.73%
GBR 10y	3.38%	-0.16%	-0.20%	-0.63%
GER 10y	2.61%	-0.12%	-0.07%	-0.78%
CAN 10y	3.20%	-0.13%	-0.11%	-0.41%
JAP 10y	1.15%	-0.06%	-0.11%	-0.15%

Central Bank Rates	6/25/10	3/31/10	12/31/09	9/30/09
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	0.50	0.25	0.25	0.25
JAP Disc Rate	0.10	0.10	0.10	0.10
3 Mo-LIBOR	0.53	0.29	0.25	0.28

Risk Premiums	6/25/10	1-Wk Chg	4-Wk Chg	YTD
*CDX (bps)	115	5	0	30
*30 Day T-Yld Vol.	84.7	-9.7	-27.4	-22.8
VIX	28.53%	4.58%	-3.54%	6.85%

Currencies	6/25/10	1-Wk Chg	4-Wk Chg	YTD
USD/EUR	1.24	0.00	0.01	-0.20
USD/CAN	0.97	-0.01	0.02	0.02
JPY/USD	89.23	-1.48	-1.83	-3.79

Commodities	6/25/10	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	\$1,255.80	-\$1.40	\$43.60	\$159.60
Oil (barrel)	\$78.86	\$1.68	\$4.89	-\$0.50
Wholesale Gasoline (gal)	\$2.17	\$0.02	\$0.15	\$0.12
Natural Gas (mcf)	\$4.86	-\$0.14	\$0.52	-\$0.71

Equity Markets	6/25/10	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,076.76	-3.65%	-1.16%	-3.44%
FTSE 100	5,046.47	-3.89%	-2.74%	-6.77%
DAX	6,070.60	-2.35%	2.09%	1.90%
S&P/TSX Comp	11,707.85	-1.84%	0.31%	-0.33%
NIKKEI	9,737.48	-2.58%	-0.26%	-7.67%

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

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