WEEKLY CAPITAL MARKETS
MARKET REVIEW

January 23, 2011

AVIVA INVESTORS

THE WEEK IN REVIEW

Economic Releases for the Week Ending 1/20/12			
	**Consensus	Actual	Prior Period
Dec. Core CPI (YoY)	2.2%	2.2%	2.2%
Weekly Initial Jobless Claims	384k	352k	402k
Dec. Existing Home Sales	4.65M	4.61M	4.39M

A growing sense of optimism drove capital markets higher last week, as improving sentiment in both the U.S. and Europe led to a rally in risk assets and a sell-off of U.S. Treasuries. European markets recovered from the previous week's downgrades and the Euro was able to reach its highest level since January 4. Globally, equity markets rallied again, pushing year-to-date gains to between 3% and 8% for major stock markets, and the U.S. S&P 500 was up 2.04% for the week and finished at 1,315.38. The S&P is now up 4.59% for the year after ending 2011 virtually unchanged. Credit markets also continued to rally, as spreads in both investment grade and high yield asset classes tightened last week. High quality investment grade bonds were six to ten basis points tighter, while lower-quality high yield bonds tightened between 20 and 45 bps. The U.S. Treasury curve reversed the previous weeks flattening and steepened once again. The short-end of the curve remains fairly well anchored and all the buying and selling has been done out of the long-end. Yields on 10-year Treasuries were up 16 bps last week and finished back above 2%, while 30-year bond yields rose 19 bps to 3.10%.

Economic releases in the U.S. continued to paint the picture of a slowly improving economy. In the biggest weekly drop since September 2005, initial jobless claims plunged by 50,000, from 402,000 to 352,000. The data has been somewhat volatile lately, but has continued to trend in a positive direction. The less-volatile four-week moving average dropped by 3,500 to 379,000 and is at levels not seen since June of 2008. Other important information included the consumer price index (CPI) which indicated no price increases at the headline level and an increase of just 0.1% after excluding food and energy. Year-over-year, headline CPI is up 3.0%, while core CPI, which is the Fed's preferred gauge of inflation, is up 2.2%, slightly above the Fed's implicit target range of 2.0%. Data on the housing front was also positive. The National Association of Home Builders index is at its highest level since June of 2007, indicating positive sentiment in the sector, and existing home sales were up 5% in December to an annualized rate of 4.61 million.

THE WEEK AHEAD

Economic Releases for the Week Ending 1/27/2012		
	**Consensus	Prior Period
Dec. Durable Goods Orders	2.0%	3.7%
Dec. New Home Sales	320k	315k
Q4 GDP (Annualized)	3.0%	1.8%

The week ahead has a fairly busy calendar, with a balance of important economic releases and news headlines, including the first Federal Open Market Committee (FOMC) meeting of 2012. While the FOMC will keep the overnight lending rate in a range between 0% and 0.25%, special attention will be given to other items involved with the meetings. One such item is the new forecast of the Fed funds target rate, which will include individual participants' assessments about monetary policy. Other activities to watch will include Chairman Bernanke's post-meeting press conference and whether any mention of another round of quantitative easing comes up. One economic release to watch will be fourth quarter gross domestic product (GDP). Expectations are calling for annualized growth of around 3%, which would indicate a nice improvement over Q3 growth of 1.8%. On the domestic front, President Obama will hold his State of the Union speech on Tuesday. The speech is unlikely to be market moving but may indicate what type of policy may occur over the next six months as we ramp up toward the elections.

World Bond Rates	1/20/12	1-Wk Chg	4-Wk Chg	YTD
US 10y	2.03%	0.16%	0.00%	0.15%
GBR 10y	2.11%	0.15%	0.08%	0.14%
GER 10y	1.93%	0.17%	-0.03%	0.10%
CAN 10y	2.06%	0.14%	0.05%	0.12%
JAP 10y	0.99%	0.04%	0.01%	0.00%

Central Bank Rates	1/20/12	12/31/10	6/30/10	12/31/09
US Fed Funds	0.25%	0.25%	0.25%	0.25%
UK Bank Rate	0.50%	0.50%	0.50%	0.50%
ECB Base Rate	1.00%	1.00%	1.00%	1.00%
Canada Bank Rate	1.00%	1.00%	1.00%	0.25%
Japan Disc Rate	0.10%	0.10%	0.10%	0.10%
China Lending Rate	6.56%	6.56%	5.81%	5.31%
3 Mo-LIBOR	0.56%	0.58%	0.30%	0.25%

Risk Premiums	1/20/12	1-Wk Chg	4-Wk Chg	YTD
*30 Day T-Yld Vol.	84.6	5.4	-9.6	-6.5
VIX	18.28%	-2.63%	-2.45%	-5.12%

Currencies	1/20/12	1-Wk Chg	4-Wk Chg	YTD
EUR/USD	1.29	0.03	-0.01	0.00
CAD/USD	0.99	0.01	0.01	0.01
USD/JPY	77.01	0.04	-1.08	0.10
GBP/USD	1.56	0.03	0.00	0.00
USD/CNY	6.34	0.03	0.00	0.04

Commodities	1/20/12	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	$1,664.00	$33.20	$59.30	$97.20
Oil (barrel)	$98.46	-$0.24	-$1.22	-$0.37
Wholesale Gasoline (gal)	$2.78	$0.05	$0.10	$0.10
Natural Gas (mcf)	$2.34	-$0.33	-$0.77	-$0.65

Equity Markets	1/20/12	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,315.38	2.04%	3.96%	4.59%
FTSE 100	5,728.55	1.63%	3.92%	2.80%
DAX	6,404.39	4.25%	8.94%	8.58%
S&P/TSX Comp	12,397.10	1.36%	3.94%	3.70%
NIKKEI	8,766.36	3.13%	4.42%	3.68%

Bond Markets - Yields	1/20/12	1-Wk Chg	4-Wk Chg	YTD
ABS	1.47%	-0.02%	-0.20%	-0.17%
MBS	2.74%	0.18%	-0.16%	0.02%
CMBS	2.93%	0.02%	-0.36%	-0.25%
Private Placement	3.93%	0.16%	-0.02%	0.06%
Commercial Mortgage	3.78%	0.16%	-0.20%	0.07%
Investment Grade	3.88%	0.09%	-0.16%	0.00%
High Yield	6.46%	-0.16%	-0.48%	-0.39%

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