

WEEKLY CAPITAL MARKETS MARKET REVIEW

February 6, 2011



THE WEEK IN REVIEW

Economic Releases for the Week Ending 2/3/12				
	**Consensus	Actual	Prior Period	
Jan. Manufacturing ISM	54.5	54.1	53.1	
Jan. Non-Farm Payrolls	140k	243k	203k	
Jan. Unemployment Rate	8.5%	8.3%	8.5%	

Last week's economic releases were stronger than expected and U.S. financial markets have partially decoupled (at least temporarily) from the headlines arising out of Europe. Equity markets around the globe continued their January rallies into February, as major equity markets were up between 1% and 4%. The U.S. S&P 500 rallied 2.17% to 1,344.90 and is up nearly 7% for the year. The good vibes also spread into credit markets, where both investment grade and high yield bonds continued to outperform Treasuries. Spreads of higher-quality, investment grade companies tightened by 7 to 10 basis points (bps), while spreads of lower-quality, high yield companies were about 10 bps tighter. The rally in riskier assets meant that investors were selling Treasuries, and as a result, yields across the curve moved higher. The yield on the benchmark ten-year Treasury rose by three bps to 1.92% while the yield on the 30-year Treasury was up six bps to 3.12%. Treasury yields are still historically low and are likely to remain extremely low for some time, as evidenced by the Federal Reserve's recent statement indicating that economic conditions "are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014".

As previously noted, the U.S. economic releases were surprisingly upbeat. January's employment report indicated that the economy added 243,000 jobs during the month, much higher than economist expectations for a gain of 140,000, and November and December totals for job gains were also revised higher by a total of 60,000. The combination of increases in job gains and declines in the labor force led to an unexpected drop in the unemployment rate from 8.5% to 8.3%. That reading is the lowest the unemployment rate has been since February of 2009. Other positives from the report included a 0.2% increase in average hourly earnings (month-over-month) and an increase in the average workweek from 34.4 hours to 34.5 hours. Other strong data points included the ISM indices. The manufacturing index increased from 53.1 to 54.1, while the non-manufacturing index jumped from 53.0 to 56.8. Readings above 50 for the ISM indices indicate expansionary activity, so both sectors are well above breakeven levels.

THE WEEK AHEAD

Economic Releases for the Week Ending 2/10/2012		
	**Consensus	Prior Period
Dec. Consumer Credit	\$7.0B	\$20.4B
Weekly Initial Jobless Claims	370k	367k
Dec. Trade Balance	-\$48.5B	-\$47.8B

The week ahead has a very light economic calendar, especially early in the week, and will give investors in the U.S. a chance to revisit the previous week's positive data and gather their thoughts. There are some important events occurring in Europe, including Greek debt restructuring talks, which could finish as early as Monday. Here in the states, the focus will be on consumer credit, jobs, and trade. After strong auto sales led to a jump to \$20.4 billion in November, consumer credit likely pulled back to \$7.0 billion in December. On the job front, weekly initial jobless claims are expected to remain at a level near 370,000. The four-week moving average improved for the 8th time in nine weeks and has fallen to its lowest level of the year at 375,750. Finally, the international trade balance will be released and is likely to show the U.S. deficit grew by roughly \$1 billion to \$48.5 billion. Recent increases in the U.S. deficit have been driven by a combination of higher oil imports and a decline in imports.

World Bond Rates	2/3/12	1-Wk Chg	4-Wk Chg	YTD
US 10y	1.92%	0.03%	-0.04%	0.05%
GBR 10y	2.18%	0.11%	0.16%	0.20%
GER 10y	1.93%	0.08%	0.08%	0.11%
CAN 10y	2.01%	0.03%	0.08%	0.07%
JAP 10y	0.95%	-0.02%	-0.03%	-0.04%

Central Bank Rates	2/3/12	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	0.55%	0.58%	0.30%	0.25%

Risk Premiums	2/3/12	1-Wk Chg	4-Wk Chg	YTD
*30 Day T-Yld Vol.	76.7	1.3	-5.0	-14.4
VIX	17.10%	-1.43%	-3.53%	-6.30%

Currencies	2/3/12	1-Wk Chg	4-Wk Chg	YTD
EUR/USD	1.32	-0.01	0.04	0.02
CAD/USD	1.01	0.01	0.03	0.03
USD/JPY	76.60	-0.10	-0.37	-0.31
GBP/USD	1.58	0.01	0.04	0.03
USD/CNY	6.30	-0.01	-0.01	0.01

Commodities	2/3/12	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	\$1,737.90	\$5.70	\$121.10	\$171.10
Oil (barrel)	\$97.84	-\$1.72	-\$3.72	-\$0.99
Wholesale Gasoline (gal)	\$2.91	-\$0.01	\$0.16	\$0.23
Natural Gas (mcf)	\$2.50	-\$0.18	-\$0.56	-\$0.49

Equity Markets	2/3/12	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,344.90	2.17%	5.25%	6.94%
FTSE 100	5,901.07	2.92%	4.45%	5.90%
DAX	6,766.67	3.91%	11.70%	14.72%
S&P/TSX Comp	12,577.28	0.89%	3.19%	5.20%
NIKKEI	8,831.93	-0.11%	5.26%	4.45%

Bond Markets - Yields	2/3/12	1-Wk Chg	4-Wk Chg	YTD
ABS	1.34%	-0.14%	-0.25%	-0.30%
MBS	2.60%	0.01%	-0.07%	-0.13%
CMBS	2.66%	-0.11%	-0.30%	-0.51%
Private Placement	3.90%	0.07%	0.00%	0.04%
Commercial Mortgage	3.87%	0.03%	-0.04%	0.16%
Investment Grade	3.72%	-0.02%	-0.21%	-0.16%
High Yield	6.14%	-0.08%	-0.51%	-0.70%

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

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