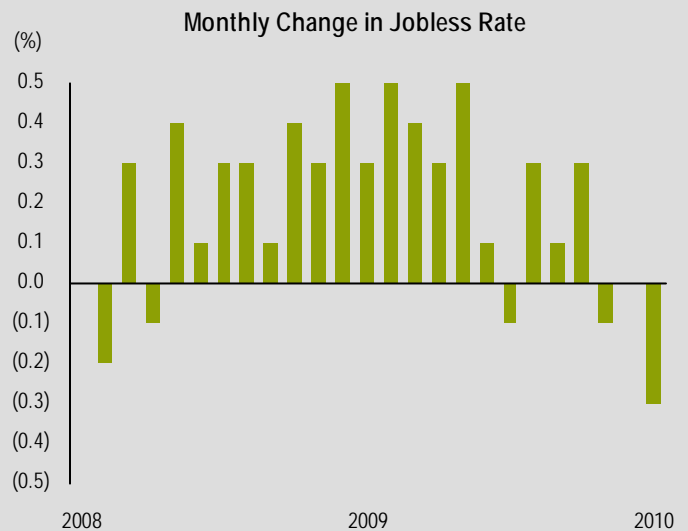


World Summary: Global stock markets finished lower this week [DJI: -0.6% NASD: -0.3% DAX: -3.1% NKY: -1.4% HS: -2.3% BVSP: -4.0%]; one-week performance as of 4:00 pm]. The US dollar appreciated against the Euro and flat the Yen. Non-energy commodity prices were overall lower with metal prices down 6.3% and ag prices down 3.5%. Gold fell 1.3% and settled at \$1067 per ounce. WTI crude fell to \$70 per barrel.

United States: In January, payroll employment fell 20,000, slightly worse than expectations. However, there were some encouraging signs in the jobs report in that manufacturing added 11,000 jobs, and that hours worked and wages increased as well. The gains in hours worked and wages points to a relatively large increases in manufacturing production and wage and salary income, consistent with our estimate of a 4% advance in Q1 real GDP. The other bright sign in the employment report was the .3 decline to 9.7% in the unemployment rate. The drop in the jobless rate was driven by a sizeable pickup in household employment (+541,000), and most of the new jobs were full-time workers.



Source: Bureau of Labor Statistics and Haver Analytics

Emerging Markets: Brazil's central bank notes released this week suggest the bank is preparing the market for the beginning of a rate hiking cycle, which we think will likely start in April, with one more meeting in between. January inflation was a bit higher than expected, and headline inflation is now 4.6%, or just above the 4.5% target. Though industrial production growth has slowed in Q4, retail sales growth remains quite strong. We think hikes totaling 200 bps are likely for the year. China's preemptive tightening has raised market worry of a hard economic landing, but this week's releases of strong Purchasing Managers' Index (PMI) in China, India and Korea, as well as signs of a sustained export recovery across the region should reinforce the strong growth message. Meanwhile, inflation has picked up steadily in many countries as widely anticipated, but the bounces are far from being translated into a shock to policymakers.

U.S. High Yield: The high yield market was slightly lower for the week (-0.04%). Volatility, as measured by the VIX, remained in the mid 20s. CCC (-0.21%) credits under performed BB (+0.13%) credits. Electric Utilities (-0.70%) and Independent Energy (-0.33%) were the worst performing sectors, while Banking (+1.29%) was the best performing sector. There were fund inflows of 42 million, a small reversal from last week's outflow. Twelve deals priced this week for \$5.21 billion.

Europe: Another eventful week for Greece, which continues to be a focal point for global financial markets. The good news is that the government's stability programme was endorsed by the European Commission—although implementation will be subject to an unprecedented degree of oversight from Brussels. The ECB was also slightly more supportive in its comments on Greece, perhaps reflecting concern that problems in Greece are starting to spill-over into the rest of the euro area periphery. We expect markets to remain volatile.