

Interest rates rose modestly last week despite equity and commodity weakness. Economic news was mixed, with improved jobless claims and better existing home sales offset by weak housing starts and modestly weaker Empire manufacturing and Philadelphia Fed surveys. Next week sees a continuation of fourth quarter earnings releases, but the highlight of the week is likely to be the Fed's FOMC meeting which concludes on Wednesday, January 26th.

Trading was relatively subdued during the holiday-shortened week. Treasuries generally traded sideways with brief spurts of activity. Rates jumped on Tuesday following the release of government data showing that the Chinese were net sellers of Treasuries in November. Rates drifted lower until they spiked again on Thursday following a less-than stellar auction of 10-year TIPS. Friday saw rates drift back down, but on the week rates rose marginally. Ten-year yields finished the week 8 basis points higher at 3.40%, and 2-year yields increased 4 basis points to 60.9 basis points.

Equities appeared relatively top-heavy, as some good earnings news from key companies such as Apple and GE failed to spark buying. Sub-par reports from Goldman and Bank of America put a damper on the strength. The market had rallied for seven straight weeks, so it was overdue for a correction. Earnings season may prove to be the catalyst because strong results were already priced into the market. A modest pull-back could certainly ensue now that equities have softened. On the week the S&P fell 0.8%, while the NASDAQ declined 2.4%, feeling the effect of Apple's weakness.

Commodities also continued to correct. Oil prices fell another 3.7%, and gold prices declined 1.4%. Weakness in the dollar failed to spur buying in commodities. News out of China showing stronger than expected growth and inflation caused investors to worry that China would do more to slow inflation and economic growth, sending a shiver through risk markets.

Next week the FOMC meets to consider monetary policy, which should be the highlight of the week. Most analysts do not expect a significant change in policy. The FOMC will likely reiterate that it will continue with its current

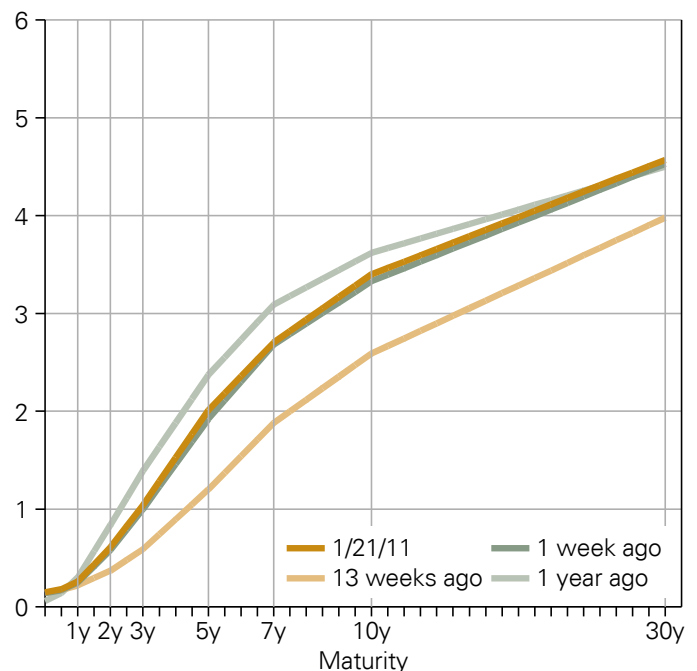
**Rates increased marginally on the week despite weakness in equities and falling commodity prices. Next week's highlight will be the FOMC meeting ending on January 26th.**

purchase program, with the caveat that it will continue to monitor the situation closely. It is also likely that the statement will acknowledge the modest improvement in the economic climate, while continuing to focus on the elevated unemployment rate. All in all it should be a relatively uneventful meeting.

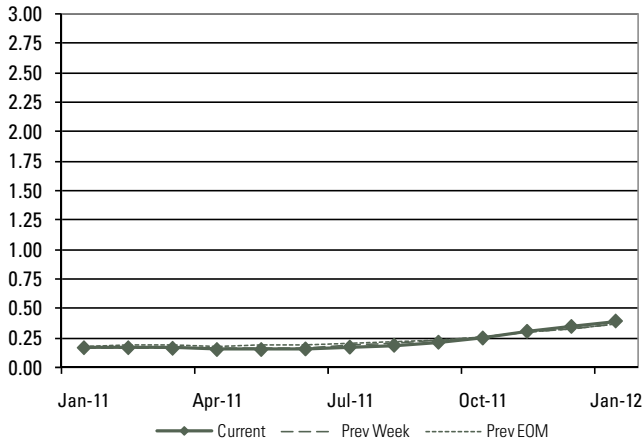
Expect rates to remain range-bound. Auctions of 2, 5 and 7-year Treasury notes and better economic news will tend to lift rates. Pushing rates lower could be equity weakness, sovereign debt worries out of Europe and state and local budget issues in this country.

Bob Hoffman

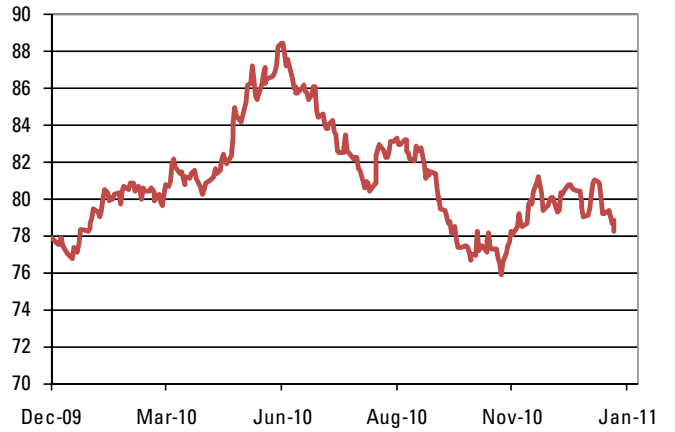
Treasury Yield Curve  
Percent Yield



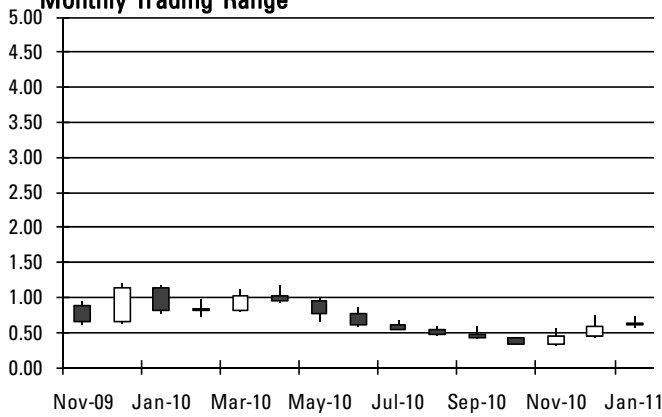
**Federal Funds Rate Forecast**



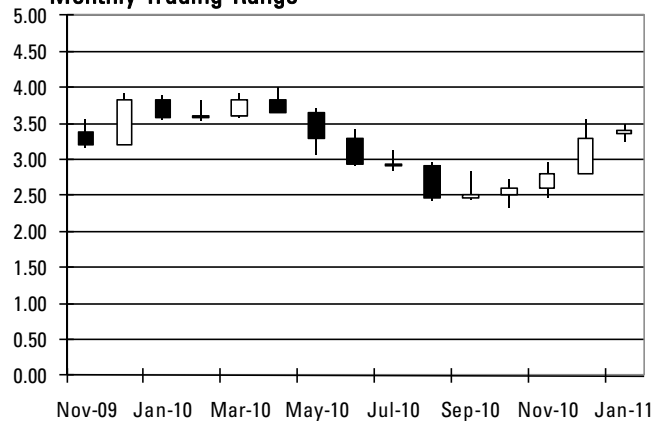
**U.S. Dollar Index**



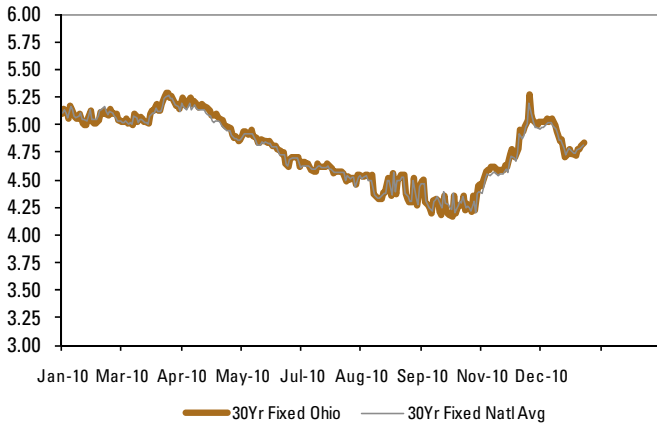
**2 Year Treasury Yield  
Monthly Trading Range**



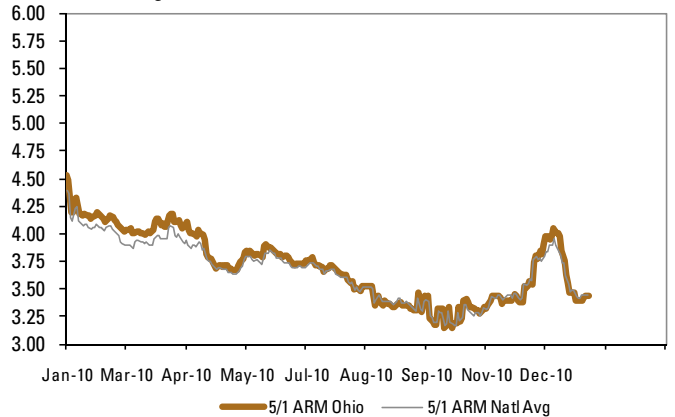
**10 Year Treasury Yield  
Monthly Trading Range**



**Bankrate.com US Home Mortgage 30 Year Fixed Rate Ohio vs. National Avg**



**Bankrate.com US Home Mortgage 5/1 Year ARM Ohio vs. National Avg**



Source: Bloomberg