



MARKET WATCH

Foreclosures fell nearly 8% in November - the fourth straight month of declines after hitting an all-time peak in July - as measures to stabilize the housing market appear to show success. Despite the fall, default notices, scheduled foreclosure auctions and bank repossessions were up 18% from a year earlier, totaling 306,627. One in every 417 housing units received a foreclosure filing in November. The data comes on the heels of a report from mortgage giant Freddie Mac that U.S. home prices rose 0.9% in the third quarter from the second quarter, when a 2% sequential gain was reported.

U.S. retail sales jumped 1.3% in November, according to Commerce Department data released last week. The number was more than double the consensus forecast. Shortly after the report, the University of Michigan and Reuters reported that their index of consumer sentiment had soared in early December to the highest reading since September.

TCW Group Inc.'s Total Return Bond Fund has seen more than a quarter of its assets, about \$3.5 billion, be redeemed by clients since its ousting of investment chief Jeffrey Gundlach last week. Gundlach oversaw \$65 billion, or 59%, of TCW's assets. The redemptions have not prompted any shifts in the fund's overall composition, although TCW has sold about \$450 million mortgage securities to meet part of the demand. TCW last week acquired Metropolitan West, which manages about \$30 billion.

INTEREST RATES

	3M Libor	2 YT	5 YT	10 YT	30 YT	30Y Fixed Mortgage
Friday's Close:	0.25	0.80	2.25	3.55	4.50	4.71
1 Week Ago:	0.26	0.83	2.24	3.47	4.40	4.71
1 Month Ago:	0.27	0.83	2.29	3.49	4.41	4.72

WEEKLY REVIEW

October 2010. The Troubled Asset Relief Program (TARP) will be extended from its scheduled Dec. 31 expiration but limit new spending to such areas as housing and small business. Administration officials said the U.S. economy remained too fragile to abandon TARP and that its expiration would spook financial markets. The extension comes as some Democrats look to tap some of the more than \$200 billion remaining for other initiatives. Republicans criticized the extension, saying the program shouldn't turn into a piggybank for other initiatives.

The Federal Deposit Insurance Corp. (FDIC) seized three small lenders last week, lifting the total number of bank failures this year to 133. The FDIC estimated that the three failures - in Florida, Arizona and Kansas - would cost the agency's cash-strapped deposit-insurance fund a total of about \$252 million. Miami-based Republic Federal Bank NA's failure is the 13th this year in Florida and expected to cost the FDIC's insurance fund \$122.6 million. Valley Capital Bank NA of Mesa, Ariz., and Kansas based SolutionsBank are projected to cost a combined \$130 million. In all three failures, the FDIC agreed to shield the acquiring banks from most losses on the failed banks' assets.

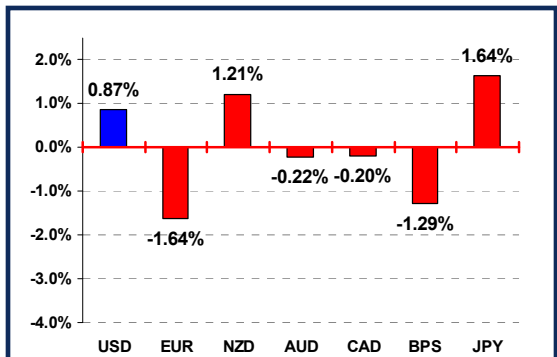


TRADERS INSIGHT

The Federal Reserve reported a \$3.5 billion decline in consumer lending. Lending shrank 1.7% in October, the ninth consecutive drop, and caps a 4% drop from its July 2008 peak. Before then, borrowing by U.S. consumers - including credit card debt and auto loans, but excluding mortgages - had been growing for more than a half-century. Consumer activity accounts for about two-thirds of U.S. economic growth. Curtailed lending to consumers could hurt the chances for a strong recovery.



WEEKLY CURRENCY RETURNS (VS U.S. Dollar)



GLOBAL BOND YIELDS (In Local Currency)

	2-Year	5-Year	10-Year
USA	0.81	2.25	3.54
Canada	1.25	2.54	3.38
Germany(Euro)	1.24	2.24	3.19
U.K.	1.22	2.67	3.85
Japan	0.18	0.52	1.31
Australia	4.53	5.19	5.52
Mexico	5.38	7.43	7.97

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ASIA PACIFIC

Last week, Dubai World's property unit Nakheel, which is seeking to renegotiate \$26 billion of debt, posted a first-half loss of 13.43 billion U.A.E. dirhams (\$3.4 billion). Due to a slump in the emirate's property market, revenue fell 78% to AED1.97 billion from AED9 billion a year earlier. The cost of insuring Dubai sovereign debt against default rose on the news. The country's credit-default swap spreads stood at around 580 basis points Wednesday morning after trading and around 540 basis points Tuesday afternoon. Earlier in the week Dubai's Department of Finance said the government had provided Dubai World with AED9 billion from its emergency support fund.

Japan's economy grew at a much slower rate than previously thought in 3Q, as the country struggles to emerge from a crushing recession weighed by a soaring yen. Data showed that the world's number two economy expanded at an annualized rate of 1.3% in the July-September quarter, sharply down from the original estimate of 4.8%. The economy - which early this year emerged from its worst post-war recession - expanded just 0.3% in the three months, compared with the initial estimate of 1.2%.

China's consumer price index climbed 0.6% from a year earlier in November after declining every month since February, the National Bureau of Statistics said last week. After nearly a year of falling consumer prices, China is moving out of deflation. The turnaround is driven in part by changes in government policies that kept costs of oil, water and electricity artificially low. The mild return of inflation highlights the recovering economy: Industrial output rose 19.2% in November, the fastest gain since early 2007. It also shows the result of efforts to raise state-set prices for key resources to better reflect market supply and demand.

EUROPE/CANADA

Greek officials stated that the country realizes the severity of its fiscal woes and is expected to take decisive action to bring its finances under control. Greece's budget deficit, which is expected to approach 13% of GDP this year, has sparked fears of an economic and political crisis in Europe. Fitch Ratings cut Greece's sovereign debt rating by one notch to BBB+ last week, the lowest of any country in the euro zone. Spreads between Greek government bonds and safer German debt widened to seven-month highs last week - approaching 2.5 percentage points, making it more expensive for Greece to issue new debt and roll over maturing securities.

Standard & Poor's Corp. lowered its ratings outlook on Spain to negative last week. S&P cited the outlook of the country having lower GDP growth and higher fiscal deficits relative to its peers in the near future. Spain's outlook downgrade comes after S&P cut Spain's rating to AA+ from AAA in January. The ratings agency warned of possible downgrades for lower-rated Greece (see above) and Portugal. Yield spreads between Spanish 10-year government bonds and the German benchmark bund widened to 71 basis points after the announcement.

Data Source: Bloomberg 14 Dec 2009 7:25 am PST

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