

February's Employment Report was better than expected, as the economy shed 36K jobs compared to the consensus forecast of 68K jobs losses. The lower than estimated cut in payrolls was even more significant considering that the government added only 15K census workers during the month, much lower than the 35k that some investment firms were anticipating. Expectations are for the government to hire 100k census workers in total and that should happen over the next couple of months. Another question around this month's report was what effect the poor weather would have on the data. The household survey has a "not at work due to bad weather" component, which rocketed to 1.1 million, the second-highest posting on record (January 1996 holds the honors), subtracting what some are estimating as 100K or more from payrolls. Therefore, between the lack of hires on the census side and the huge move in the weather gauge, payrolls would have most likely been positive. The bottom line is that the census effect of additions was smaller than thought and the winter storm subtractions were greater, thus making the jobs cuts look even better. Another plus was the leading indicator temporary help, which rose 48K in February, continuing its recent uptrend. The Unemployment Rate was unchanged at 9.7% with the household survey indicating 308K in job growth. While the Average Weekly Hours slipped a tenth to 33.8, this was most likely due to a change in the BLS's calculation method. Prior month adjustments were also encouraging with January payroll cuts falling from -20k to -26K but December improving from -150K to -109K.

Risk assets look to be winners this week while Treasuries are shaping up to be the losers. In addition to the employment report, equities are also getting help from overseas with the support of the European Union for Greece and the successful issuance of bonds from the debt-troubled country. The Dow is currently up 202 points compared to last Friday's close, while the Nasdaq is up 79 and the S&P up 30. Treasuries are doing the opposite, as yields have climbed with the 2-year selling off near 10 basis points. Yields are currently at 0.92%, 2.36%, 3.69%, and 4.64%, respectively for the 2-, 5-, 10-, and 30-year notes/bond. The Treasury announced that \$74 billion in government debt would be auctioned next Tuesday through Thursday. Slated for sale are \$40 billion in 3's, \$21 billion in 10's (reopening), and \$13 billion in 30's (reopening), with all sized unchanged from their record levels.

It was a very busy week from an economic reporting standpoint, and outside of the jobs numbers, the ISM reports were the key releases. For a change, the manufacturing side came in weaker this time, falling from 58.4 to a still-healthy 56.5. Orders (59.5 vs. 65.9) and production (58.4 vs. 66.2) slipped from extremely strong postings in January, although the employment segment (56.1 vs. 53.3) hit a five-year high. Out of the 18 industries, 11 noted growth, down slightly from 13 in January. The service sector, as measured by the Non-Manufacturing index, had been lagging the factory-driven recovery; however, February's 1.5-point gain to 53.0 recorded a two-year high and served as a bit of a catch-up. Business activity (54.8 vs. 52.2) and orders (55.0 vs. 54.7) extended gains, while employment (48.6 vs. 44.6) crept higher, just below the 50-breakeven line. Industry reporting showed that 9 out of the 18 experienced growth in February as opposed to 4 in January, with information, entertainment, transportation, and government as some of the stronger areas.

The Fed released its Beige Book for the upcoming March 16 FOMC meeting. The tone of the account was of moderate growth across most of the country, with nine of the 12 Fed districts observing an uptick in economic activity in February. Not surprisingly, action in Richmond hit a speed bump due to the snowstorms that have recently hit the area. Consumer spending, manufacturing, and housing were reported as marginally improving, as were job cuts, although hiring remains subdued. Inflation was not seen as an immediate issue.

In other news, January Construction Spending continued to fall, this time to the tune of 0.6%, and the loss would have been worse (-1.5%) excluding the volatile home improvement segment. On the positive side, final Q4 Nonfarm Productivity was an absolute barnburner, finishing at 6.9% for the quarter, with Unit Labor Costs tanking 5.9%. Major cost cutting across the economy drove the plunge in costs and has helped prop up profits; however, without an increase in employment or hours worked, productivity is unsustainable at these levels. January Factory Orders were mixed, increasing 1.7%, with nondurables up 0.9% and durables higher by 2.6%, but certain key capital goods shipments were revised lower over the past couple of months. In housing, Pending Home Sales

plummeted 7.6% in January compared to a 0.8% gain in December and is another in a recent spate of reports that shows housing sales have fallen off from the summer/fall rush to participate before the first time expiration of homebuyer tax credits. Finally, Core PCE (MoM) was flat in January as expected, with YoY at 1.4%, again as expected.

Next week's calendar is light with a few confidence and inventory reports filling the bill. The most important release is Retail Sales and its related brethren, Sales Less Autos and Sales Ex Auto & Gas. The consensus estimate for the headline announcement is -0.2% vs. 0.5% in January, and the other two measures are expected to fall from their prior month readings as well.

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### Yield Analysis as of March 4, 2010

Yields					
	Yesterday	1 Week from Yesterday	1/29/2010	12/31/2009	12/31/2008
<b>2yr Note</b>	0.86	0.82	0.82	1.14	0.77
<b>5yr Note</b>	2.27	2.33	2.33	2.68	1.55
<b>10yr Note</b>	3.60	3.63	3.59	3.84	2.21
<b>30yr Bond</b>	4.56	4.58	4.49	4.64	2.68

Spread (in basis points)					
	Yesterday	1 Week from Yesterday	1/29/2010	12/31/2009	12/31/2008
<b>Invst. Grade Corporate*</b>	183	185	183	190	604
<b>High Yield*</b>	649	665	646	639	1812
<b>Global HY and EM*</b>	546	561	552	551	1456

\*Merrill Lynch Corporate, High Yield Master II, and Global High Yield and Emerging Markets

Municipal Yields and Taxable Equivalent Yields					
	2 Year	5 Year	10 Year	20 Year	30 Year
<b>AAA G.O.'s</b>	0.57	1.47	3.00	4.09	4.44
<b>% of Treasury</b>	67%	65%	83%	94%	97%
<b>35% Taxable Eq.</b>	0.88	2.26	4.62	6.29	6.83
<b>30% Taxable Eq.</b>	0.81	2.10	4.29	5.84	6.34
<b>25% Taxable Eq.</b>	0.76	1.96	4.00	5.45	5.92

\*Municipal yields according to Bloomberg's AAA national general obligation curve as of yesterday's close