

TALKING POINTS

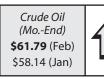
A Recap of February 2007

The Economy

The 3.5% real GDP growth (annualized) rate posted in Q4'06 was revised lower to 2.2% on 2/28, just below the 2.3% consensus estimate, according to Bloomberg. The most recent Blue Chip Economic Indicators survey is forecasting 2.5% real GDP growth in the first quarter and 2.7% for all of 2007. Those are encouraging growth rates for the sixth year of an economic expansion. One of the biggest concerns facing the economy today is the continued turbulence in the housing market and the potential ripple-effect it could have on growth moving forward. Aside from the natural slowdown in the demand for homes, the real pain is being felt by subprime lenders. In 2006, 13.5% of mortgages originated in the U.S. were subprime, way up from 2.4% in 2000, according to the Mortgage Bankers Association. That amounted to roughly \$640 billion worth of subprime lending, according to B&C Lending. At the end of 2006, subprime delinquencies over 60 days late jumped to nearly 13%, up from 8% a year earlier, according to LoanPerformance, a subsidiary of First American Real Estate Solutions. Many of these problem loans were originated in 2005 and early 2006, when short-term rates were considerably lower. Look for lenders to tighten credit standards moving forward. Edwin Groshans, Fox-Pitt Kelton's vice president of mortgage finance, believes the subprime mortgage market will remain under pressure for at least the next half year, according to Forbes. We agree that this problem is worth monitoring, but we do not believe that investors should be overly concerned about its potential drag on the economy at this time.

Consumer Confidence 112.5 (Feb) 110.3 (Jan)













ISM Non-Manufacturing **54.3** (Feb) 59.0 (Jan)



The Stock Market

The three major indices were all down in February with the DJIA, S&P 500 and Nasdaq Composite returning -2.5%, -2.0% and -1.9%, respectively. Small-cap stocks, as measured by the Russell 2000 Index, fell 0.8%. Some of the top performing S&P 500 industry groups in February were as follows: Construction Materials (+14.4%); Independent Power Producers (+13.7%); Agricultural Products (+7.4%); Footwear (+5.7%); Health Care Services (5.6%); Oil & Gas Refining & Marketing (+5.4%); Semiconductor Equipment (+5.0%); and Diversified REITs (+4.0%). The top performing S&P sector was Utilities (+4.8%). In February, the dividend-payers (384) in the S&P 500 (equal weight) posted a total return of -0.30%, vs. -0.19% for the non-payers (116), according to Standard & Poor's. Year-to-date through February, the payers gained 2.10%, vs. 1.77% for the non-payers. For the 12-month period ended February 2007, payers gained 14.79%, vs. 8.26% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 81, lagging the 91 and 94 increases registered over the same period in 2006 and 2005. The dividend yield on the S&P 500 was 1.81% at the end of February. The most significant event in February was the steep sell-off on the 27th. Heading into that trading session, the S&P 500 had gone 221 days without a 2% correction, according to Forbes. The S&P 500 declined 3.46% that day. The last time investors enjoyed a streak like that was in 1995 and it lasted 223 days. There is another streak likely to garner some attention moving forward and it involves the absence of a 10% correction in the current bull market. The market has gone 48 months without one, which is the second longest run in 78 years, according to James B. Stack, president of InvesTech Research.

U.S. Dollar (U.S.Trade-Weighted Basket) -1.35% (Feb) +1.34% (Jan) \$ was down 5.25% in '06



AAll Sentiment Index **36.6% Bullish** (2/28) 39.5% Bullish (1/31)



Short Interest (NYSE) Feb: **9.60B** (-0.8%) Jan: 9.68B (+0.3%)



The yield on the 10-Yr.T-Note fell 24 basis points in February closing at 4.57% - just two basis

points higher than on February 28, 2006. The sell-off in the stock market at the end of February

helped fuel demand. The yield on the 10-yr. T-Note fell 16 basis points from 2/22-2/28. As you can

see, all debt groups reflected robust returns. Moody's Investors Service expects the default rate

on speculative-grade corporate bonds to nearly double in 2007 from 1.57% in 2006, the lowest

yearend level since 1981, to 3.07%. The default rate has averaged 4.9% since 1983, according to

Moody's. It cites some riskier debt issuance back in 2003-2004, particularly debt rated below

single-B, as the reason for the anticipated jump in the default rate. Historically, the default risk

associated with such debt tends to be highest in the third and fourth years after issuance.

Margin Debt (NYSE)
Jan: **\$285.6B** (+3.7%)
Dec: \$275.4B (+1.8%)
\$278.5B in March 2000



The Bond Market

Index (Source: Lehman Bros.) Feb. 12-Mo. U.S. Treasury: Intermediate 1.32% 5.01% GNMA 30 Year 1.21% 5.34% Municipal Bond (22+) 1.71% 6.67% U.S. Aggregate 1.54% 5.54% Intermediate Corporate 1.63% 6.21% U.S. Corporate High Yield 1.40% 12.13% Global Aggregate 6.80% 2.06% Global Emerging Markets 1.72% 8.71%

Key Rates as of February 28 th		
Fed Funds	5.25%	
2-Yr. T-Note	4.65%	
10-Yr. T-Note	4.57%	
30-Yr. Mortgage	6.10%	
Bond Buyer 40	4.55%	

Key Yield Spread
The spread between the Merrill Lynch
High Yield Master II Index and the 10-Yr.
T-Note was 313 basis points on Feb. 28.
The yield on the index was 7.70%. The
spread was 361 basis points on Feb. 28,
2006, when the yield was 8.16%.

2007 Debt Issuance through January (Source:Thomson Financial)		
Debt Category	\$ Amount	% change over '06
Corporate	\$81.8 Billion	-16.1%
Convertible	\$5.7 Billion	+147.8%
Asset-Backed	\$51.6 Billion	-29.9%
Municipal	\$31.9 Billion	+71.6%

The Investment Climate

Net cash inflows to equity funds totaled \$28.3 billion in January, up from \$10.1 billion in December, according to the Investment Company Institute. Bond funds reported inflows totaling \$15.2 billion, up from \$8.6 billion in December. Money funds reported outflows totaling \$7.9 billion, vs. inflows totaling \$41.4 billion in December.