

The Economy

The *Blue Chip Economic Consensus Forecast* out in early June called for 2.1% GDP growth (U.S.) in 2007, down from 2.2% in May. That estimate may turn out to be a little conservative. Non-farm payrolls increased 132,000 in June topping the consensus estimate of 125,000. April and May's totals were revised higher by a combined 75,000. Payrolls have grown by an average of 167,000 per month over the past year. The ISM Manufacturing Index (56.0) and Non-Manufacturing Index (60.7) posted gains in June and are both well above their base expansion level of 50. The economic expansion appears to be on solid footing in spite of the high cost of energy products, rising foreclosure rates related to subprime mortgages, terrorist attacks around the globe and the war in Iraq.

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| Consumer Confidence 103.9 (Jun) 108.0 (May) | ↓ | Crude Oil (Mo.-End) \$70.68 (Jun) \$64.01 (May) | ↑ | Factory Orders -0.5% (May) 0.3% (Apr) | ↓ | ISM Manufacturing 56.0 (Jun) 55.0 (May) | ↑ | ISM Non-Manufacturing 60.7 (Jun) 59.7 (May) | ↑ |
| Personal Income 0.4% (May) -0.1% (Apr) | ↑ | Natural Gas \$6.77 (Jun) \$7.94 (May) | ↓ | Construction Spending 0.9% (May) 0.1% (Apr) | ↑ | New Home Sales 915,000 (May) 981,000 (Apr) | ↓ | Existing Home Sales 5.99M (May) 6.01M (Apr) | ↓ |

The Stock Market

The three major indices were mixed in June with the DJIA, S&P 500 and Nasdaq Composite returning -1.5%, -1.7%, and 0.0%, respectively. Small-cap stocks, as measured by the Russell 2000 Index, fell 1.5%. Some of the top performing S&P 500 industry groups in June were as follows: Education Services (+21.8%); Autos (+19.7%); Photographic Products (+9.7%); Fertilizers & Ag. Chemicals (+9.6%); Construction & Engineering (+7.0%); and Semiconductors (+5.1%). The top performing S&P sector was Energy (+1.7%). In June, the dividend-payers (387) in the S&P 500 (equal weight) posted a total return of 0.96%, vs. 2.12% for the non-payers (113), according to Standard & Poor's. Year-to-date, the payers gained 11.65%, vs. 12.95% for the non-payers. For the 12-month period ended June '07, payers gained 24.39%, vs. 26.17% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 165, lagging the 179 and 180 increases registered over the same period in 2006 and 2005. The dividend yield on the index was 1.82%. The Q2'07 edition of the *Investment Manager Outlook*, a survey of investment managers conducted by Russell Investment Group, says that money managers continue to be most bullish on large-cap growth stocks over all other asset classes. Seventy-four percent of those managers polled are bullish, down slightly from 78% in Q1'07. Non-U.S. developed markets came in second at 62% followed by mid-cap growth stocks at 60%. The sectors that managers are most bullish on are health care (70%) and technology (62%). Managers believe that multi-nationals in the large-cap growth space are most attractive at this stage of the global growth cycle. Currently, 29% of the world's economies are growing at a real rate > 5%, according to Ed Hyman, chief economist at Int'l Strategy & Investment Group.

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| U.S. Dollar (U.S. Trade- Weighted Basket) -0.33% (Jun) -3.39% (Y-T-D) \$ was down 5.25% in '06 | ↓ | AAll Sentiment Index 39.0% Bullish (6/29) 33.3% Bullish (5/31) | ↑ | Short Interest (NYSE) Jun: 12.47B (+6.0%) May: 11.76B (+7.0%) <i>Short Interest at record high</i> | ↑ | S&P P-E Ratio (Trailing 12-mo. earnings) 17.61 (6/29) 18.18 (5/31) | ↓ |
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The Bond Market

| Index (Source: Lehman Bros.) | June | 12-Mo. | The yield on the 10-Yr. T-Note rose 13 basis points in June closing at 5.02% – 11 basis points lower than a year ago. The Mortgage Bankers Association (MBA) announced on 6/14 that the delinquency rate for mortgage loans on residential properties fell from 4.95% in Q4 to 4.84% in Q1'07, according to <i>BusinessWeek</i> . The percentage of loans in the foreclosure process, however, inched up 9 basis points to 1.28%. The MBA noted that Ohio, Indiana, and Michigan, represent only 8.7% of all mortgages in the U.S., but account for 19.9% of the total loans in foreclosure. Without these three, the percentage of loans in foreclosure would decline to 1.12%, below the 1.19% average over the past 10 years. Fearing that the problem in subprime mortgages could widen, it appears that investors took some gains in speculative-grade debt. |
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| U.S. Treasury: Intermediate | 0.16% | 5.29% | |
| GNMA 30 Year | -0.58% | 6.12% | |
| Municipal Bond (22+) | -1.08% | 5.56% | |
| U.S. Aggregate | -0.30% | 6.12% | |
| Intermediate Corporate | -0.19% | 6.41% | |
| U.S. Corporate High Yield | -1.80% | 11.55% | |
| Global Aggregate | -0.44% | 4.67% | |
| Global Emerging Markets | -1.50% | 11.54% | |

| Key Rates as of June 29 th | | Key Yield Spread | | 2007 Debt Issuance through May (Source: Thomson Financial) | | |
|---------------------------------------|-------|--|--|---|-----------------|-------------------|
| Fed Funds | 5.25% | The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 308 basis points on June 29. The yield on the index was 8.10%. The spread was 350 basis points on June 30, 2006, when the yield was 8.63%. | | Debt Category | \$ Amount | % change over '06 |
| 2-Yr. T-Note | 4.86% | | | Corporate | \$522.2 Billion | +24.4% |
| 10-Yr. T-Note | 5.02% | | | Convertible | \$41.4 Billion | +79.2% |
| 30-Yr. Mortgage | 6.61% | | | Asset-Backed | \$474.1 Billion | +2.3% |
| Bond Buyer 40 | 4.83% | | | Municipal | \$182.8 Billion | +37.5% |

The Investment Climate

Net cash inflows to equity funds totaled \$1.54 billion in May, down from \$18.2 billion in April, according to the Investment Company Institute. Bond funds reported inflows totaling \$21.3 billion, up from \$13.5 billion in April. Money funds reported inflows totaling \$57.6 billion, vs. outflows totaling \$11.3 billion in April. Y-T-D through May, inflows to equity funds totaled \$84.1 billion, vs. \$79.8 billion for bond funds.