

TALKING POINTS

A Recap of March 2008

The Economy

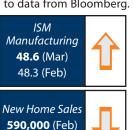
The consensus forecast from the Blue Chip Economic Indicators newsletter released in March '08 called for 1.5% real GDP growth for the U.S. in 2008, down from 1.7% the previous month. The Fed cut the federal funds target rate from 3.00% to 2.25% on March 18. Chairman Bernanke has commented that the Fed is prepared to do more if warranted. Nonfarm payrolls fell 80,000 in March and 76,000 in both January and February. Prior to Q1'08, nonfarm payrolls had not registered a down month since August 2003, according to data from Bloomberg.



\$975.00 (Feb)







601,000 (Jan)



The Stock Market

Y-T-D U.S. stocks were mixed for the month, while foreign stocks were down. In the U.S., 58 out of the 130 Index (Source: Bloomberg) Mar S&P 500 -0.43% -9.44% subsectors that comprise the S&P 500 posted gains, up from 36 last month. The top sector was DJIA 0.11% -7.00% Telecom Services up 4.9%. In March, the dividend-payers (387) in the S&P 500 (equal weight) Nasdaq 100 2.12% -14.42% posted a total return of -0.96%, vs. -3.26% for the non-payers (113), according to Standard & Poor's. S&P 400 -1.03% -8.85% Year-to-date, the payers declined 7.96%, vs. a loss of 11.24% for the non-payers. For the 12-month Russell 2000 0.42% -9.90% period ended March '08, payers fell 9.68%, vs. a decline of 14.47% for the non-payers. The number MSCI World (ex U.S.) -1.36% -8.54% of dividend increases (S&P 500) year-to-date totaled 92. That lagged the 102 increases over the -5.17% -10.99% MSCI Emerging Markets same period in 2007. The Q1'08 edition of the Investment Manager Outlook, a survey of investment Subsectors (Source: S&P) Y-T-D Mar managers conducted by Russell Investment Group, says that money managers continue to be **Health Care Facilities** 17.7% 11.4% most bullish on large-cap growth stocks over all other asset classes. Sixty-four percent of those Footwear 5.9% 13.0% managers polled are bullish, down from 75% in Q4'07. Non-U.S. developed markets came in 4.0% Retail REITs 11.0% second at 54% (61% in Q4) followed by mid-cap growth stocks at 49% (60% in Q4). The top sectors **Industrial Conglomerates** 9.9% 13.8% are health care at 71% (73% in Q4) and technology at 63% (78% in Q4). 7.4% Homebuilding



<u>Index (Source: Lehman)</u>

Municipal Bond (22+)

Intermediate Corporate

GNMA 30 Year

U.S. Aggregate

Global Aggregate

U.S. Treasury: Intermediate 0.65%



Y-T-D

4.55%

2.48%

1.48%

3.91% -4.14%

0.34% 2.17%

-1.30% 0.78%

2.04% 6.63%

MAR

0.31%

U.S. Corporate High Yield -0.34% -3.02% 10.86%



Yield

2.17%

5.21%

5.38%

4.51%

5.56%

3.87%

6.71%





S&P 500 P-E Ratio (Trailing 12-mo. earnings) **18.34** (3/31) 18.56 (2/29) Avg. P-E is 20 over past 25 years



The Bond Market

The yield on the 10-Yr. T-Note fell 10 basis points in March closing at 3.41% - 124 basis points below the close on March 30, 2007. As the numbers in the chart indicate, municipal bonds enjoyed a nice pop in March, but high yield corporates did not. The combination of more moderate issuance and a better than 5% tax-free yield on longer maturities attracted investors, particularly on the retail side, according to Citigroup Global Markets. The announcement by S&P that the end to the subprime writedowns was in sight and that banks could be writing down losses in excess of what the actual losses will be may have helped boost sentiment. Municipal bond prices have been depressed to a great extent due to the the uncertainty surrounding the creditworthiness of the bond insurers.

Global Emerging Marke	ts 0.35%	
Key Rates as of March 31		
Fed Funds	2.25%	
2-Yr.T-Note	1.59%	
10-Yr.T-Note	3.41%	
30-Yr. Mortgage	5.78%	
Bond Buyer 40	5.18%	

Key Yield Spread The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 740 basis points on 3/31/08. It was 315 on 3/31/07 and 696 on 2/29/08. (Source: Bloomberg)

2008 Debt Issuance through February (Source:Thomson Financial)		
Debt Category	\$ Amount	% change over '07
Corporate	\$148.0 Billion	-8.8%
Convertible	\$4.6 Billion	-55.8%
Asset-Backed	\$35.9 Billion	-79.7%
Municipal	\$40.9 Billion	-35.3%

The Investment Climate

Net cash inflows into equity funds totaled \$9.5 billion in 2/08, vs. outflows totaling \$44.9 billion in 1/08, according to the Investment Company Institute. Bond funds reported inflows totaling \$14.9 billion, down from inflows totaling \$24.2 billion in 1/08. Money funds reported inflows totaling \$92.2 billion, down from \$160.4 billion in 1/08.Y-T-D thru 2/08, equity fund outflows totaled \$35.4B, vs. bond fund inflows of \$39.1B.