

TALKING POINTS

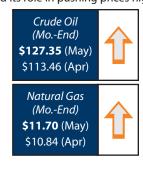
A Recap of May 2008

The Economy

The consensus forecast from the Blue Chip Economic Indicators newsletter released in May '08 called for 1.7% real GDP growth for the U.S. in Q3'08, down from last month's 2.0% projection. Its GDP forecast for Q4'08 is 1.5%, down from 1.9% a month ago. Federal Reserve Chairman Ben Bernanke acknowledged in a recent speech at a conference in Spain that the Fed may be done easing due to concerns over mounting inflation. He also addressed the weakness in the dollar and its role in pushing prices higher. The dollar is down 7.1% vs. a basket of major currencies since 9/18/07 (1st rate cut).



\$865.10 (Apr)





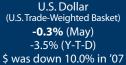


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The Stock Market

Index (Source: Bloomberg) May Y-T		Y-T-D	U.S. and foreign stocks were up big in May. In the U.S., 86 out of the 130 subsectors that comprise the	
S&P 500	1.30%	-3.80%	S&P 500 posted gains, down from 106 last month. The top sector was Information Technology up	
DJIA	-1.10%	-3.71%		
Nasdaq 100	6.08%	-2.29%	vs. 4.75% for the non-payers (114), according to Standard & Poor's. Year-to-date, the payers declined	
S&P 400	5.29%	3.36%	1.80%, vs. a loss of 0.88% for the non-payers. For the 12-month period ended May '08, payers fell	
Russell 2000	4.59%	-1.81%		
MSCI World (ex U.S.)	1.70%	-1.71%	10.56%, vs. a decline of 11.07% for the non-payers. The number of dividend increases (S&P 500) year-	
MSCI Emerging Markets	1.84%	-2.01%	to-date totaled 141. That lagged the 153 increases over the same period in 2007 and the 162 increases	
Cb(C(OD)	84	V T D	registered in 2006. The dividend yield on the index was 2.07% at the end of May. The average yield on	
Subsectors (Source: S&P)	<u> May</u>	<u>Y-T-D</u>	taxable money market funds was 1.94%, according to iMoneyNet.com. Over the past 50 years, the S&P	
Coal & Consumable Fuels	20.7%	27.2%		
Brewers	14.8%	10.1%	500 has rallied 12.3%, on average, in the period from the last Fed rate cut in an easing cycle to the first	
Application Software	13.1%	-4.4%	rate increase, according to USA TODAY. The average duration of those 12 rate cycles was 329 days, or	
Wireless Telecom Services 12.0% -		-17.3%	nearly 11 months. Net insider selling totaled \$4.7 billion in the first four months of 2008, according to	
Semiconductors 7.1% -6.3% Ch		-6.3%	Charles Biderman, CEO of Trimtabs. That is the lowest four-month total ever measured by Trimtabs.	









Short Interest (NYSE) May 15: **16.00B** (+2.37%) Apr 15: 15.63B (-2.37%) Record 3/08: 16.01 billion



The yield on the 10-Yr. T-Note rose 33 basis points in May closing at 4.06% – 83 basis points

below the close on May 31, '07. Highly-rated companies sold 147 bond issues totaling \$132.8

billion in May, the most issues sold since January '03 and the most dollars ever raised in a month,

according to Thomson Reuters. This is a good indication that the credit crunch that began in

Q3'07 is easing. Lower-rated firms raised \$12.1 billion – near the midpoint of their \$10-\$15 billion

range. A recent study by S&P suggests that purchasing insured municipal bonds may not be

worth the added cost since tax-frees rarely default, according to Bloomberg. S&P looked at

10,268 borrowing entities since 1986 and found zero defaults among those rated AAA and AA.

The average default rate on A-rated and BBB-rated bonds was just 0.16% and 0.29%, respectively.

S&P 500 P-E Ratio (Trailing 12-mo. earnings) **22.49** (5/30) 21.12 (4/30) Avg. P-E is 20 over past 25 years



The Bond Market

Index (Source: Lehman) Y-T-D Yield May U.S. Treasury: Intermediate -0.95% 1.82% 3.11% GNMA 30 Year -0.57% 1.83% 5.54% Municipal Bond (22+) 0.83% -0.40% 4.53% U.S. Aggregate -0.73% 1.21% 5.09% Intermediate Corporate -0.65% 0.62% 5.86% U.S. Corporate High Yield 0.36% 1.53% 10.06% Global Aggregate -1.11% 3.44% 4.39% Global Emerging Markets 0.31% 2.50% 6.69%

2.00%

2.64%

4.06%

5.87%

5.13%

Key Rates as of May 30

Fed Funds

2-Yr.T-Note

10-Yr.T-Note

30-Yr. Mortgage

Bond Buyer 40

Key Yield Spread
The spread between the Merrill Lynch
High Yield Master II Index and the 10Yr. T-Note was 606 basis points on
5/30/08. It was 280 on 5/31/07 and
637 on 4/30/08. (Source: Bloomberg)

2008 Debt Issuance through April (Source:Thomson Financial)					
Debt Category	\$ Amount	% change over '07			
Corporate	\$341.9 Billion	-8.6%			
Convertible	\$10.7 Billion	-65.4%			
Asset-Backed	\$78.1 Billion	-81.2%			
Municipal	\$136.7 Billion	-3.0%			

The Investment Climate

Net cash inflows into equity funds totaled \$12.2 billion in 4/08, vs. outflows totaling \$9.4 billion in 3/08, according to the Investment Company Institute. Bond funds took in \$16.8 billion, up from inflows totaling \$8.8 billion in 3/08. Money Market funds reported outflows totaling \$47.8 billion, vs. inflows totaling \$56.7 billion in 3/08.Y-T-D thru 4/08, equity fund outflows totaled \$31.5B, vs. bond fund inflows of \$62.3B and MMF inflows of \$267.3B.