

January 29, 2008

## US Current Economic and Financial Markets Situation

- Real GDP increased 4.4% across the 2Q & 3Q of 2007...1-3% for 4<sup>th</sup> quarter.
- Personal income up 6.1% during the year ended November 2007.
- Housing industry comprises only 4.9% of GDP, and housing has fallen so much already that it is unlikely to have a major negative effect going forward.
- Exports now comprise 12% of GDP and are growing at a rate of 13.6%.
- Current Initial unemployment claims are nowhere near levels of past recessions.
- Small business income accelerated in October and November of 2007.
- 20 out of 24 S&P 500 technology companies have reported earnings that have beat estimates in the 4Q of 2007.
- US corporations have \$1.1 trillion in cash on their books.
- Federal Reserve President, Ben Bernanke, estimate that even a loss of \$100 billion in value of subprime loans would only represent 0.1% of the combined \$100 trillion assets of all U.S. households. More importantly, behind every subprime loan is an asset that is likely worth close to the loan value.
- Recent monetary and tax policy data suggest real GDP is expected to increase 3.5% in 2008 while the probability of recession is less than 10%.
- Thru most economic downturns, the Federal Reserve has had a tight monetary policy very near to or even into a recession. With the early 1.75% in rate cuts over the past six months, growth acceleration is expected second half of 2008.
- \$150 billion of one time tax cuts are expected to be implemented over the next several months with checks going directly into consumer hands.

The FED's latest review of the economy was done a week ago, via the Beige Book Report, which covered the period from mid-November thru end-December. It showed stable to mixed economic conditions and employment trends outside of the housing sector.

We see economic pickup in revenues (domestic and international) and more opportunities in earnings growth now with the FED rate cut rates for the financial, industrial, consumer cyclical, consumer discretionary and technology sectors....all the industries we are invested in.

The FED's rate cut was "overwhelmingly" targeted to benefit the banking and financial sectors that have felt the most distress from the sub prime mortgage crisis. Lowering rates by 1 3/4% so far, is a huge reduction in the banking industry interest cost.

Interest rate cuts benefit bonds and preferred stocks...prices rise. Further benefit arises as economic growth expands, and rising business activity across the board causes corporate credit risk factors (spreads) to narrow to give a major lift to fixed income securities prices thru 2008.