

February 5, 2008

## **US & Global Current Economic and Financial Markets Situation**

- Economic statistics so far for Jan 2008 indicate a slowing US economy regarding job growth and weaker expectation in services sector.
- Real GDP increased 4.4% across the 2Q & 3Q of 2007...up only 0.6% for 4<sup>th</sup> quarter. Run off of inventories contributed to perhaps 1% growth loss.
- 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. Housing starts have dropped from peak level of 2 mln per year to near 1 million per year. Home mortgage refi's in Jan and Feb are booming with lower interest rates.
- Exports now comprise 12% of GDP and are growing at annual rate of 13.6%.
- Small business income accelerated in October and November of 2007, yet most headlines on economy slowing are from public company surveys.
- 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 rate cuts, weaker US dollar and tax refund policy suggest GDP is expected to increase 3.5% in 2008 while the probability of a 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 2.25% 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.

### **CMA Investment Strategy Highlights**

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. 32 out of 52 CMA common stock holdings have 15-90% non-US business revenues and earnings.

The FED's rate cut was "overwhelmingly" targeted to benefit the banking, housing and financial sectors feeling the most distress from the sub prime mortgage crisis. Lowering rates by 2.25% so far, is a huge reduction in banking industry interest cost. Another .5 to .75% rate cut is anticipated.

Interest rate cuts benefit bonds and preferred stocks...CMA preferreds and bonds have rallied 10-20% in securities values since mid January FED rate cuts. High dividend REIT stocks are rallying on FED rate cuts and strength in hospitality industry.