



PERIGON

THE ECONOMY AT A GLANCE

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ECONOMIC HIGHLIGHTS

JOBLESS CLAIMS TUMBLE

During the week ended January 12, the number of first-time unemployment claims fell by 21,000 to a seasonally adjusted annual rate of 301,000 — the lowest level since September 22, 2007. We acknowledge that end-of-year statistics can be quite volatile – but end of day, the number of initial claims stands at a level that is 100,000 below the point where recessionary warning bells get traditionally get rung. As employment is the most important economic barometer, that is a very important statistic.

AG EXPORTS BOOMING

The pace of agricultural exports is surging. These gains are helping bolster the struggling U.S. economy by improving demand for related equipment and services. Similarly, the increase in farm employment has offset a great number of the losses felt in the housing and construction industries. But of all the things to which the rebirth in agricultural output has contributed, nowhere has it been greater felt than in the increase in export activity — which has more than offset losses in residential spending.

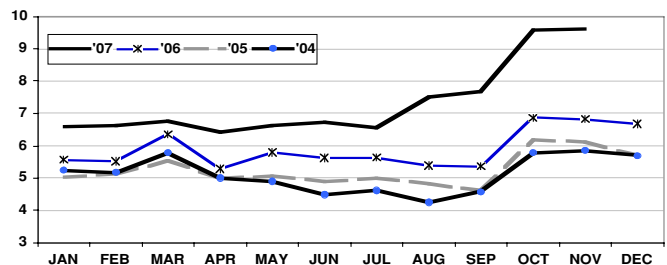
I/S RATIOS POINT TO STRENGTH

Economists look to the ratio of total business inventories to total business sales (I/S Ratio) as a guide for spending. If the I/S ratio rises, it is generally a sign that spending is slowing — implying economic softness. The latest available data suggest that the inventories/sales ratio is 1.24, or 1.24 months of available stock give the current pace of sales. And since this measure is approaching an all-time low, we believe that a major economic downturn is not in the cards.

WEEKLY INITIAL CLAIMS



U.S. AGRICULTURAL EXPORTS (\$BLN)



INVENTORY-TO-SALES RATIO

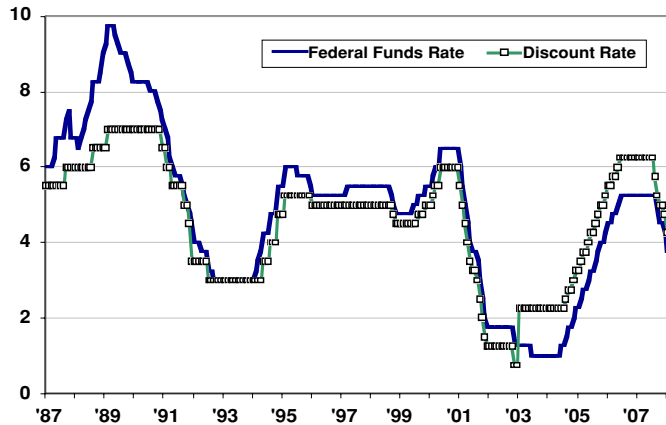


MONETARY HIGHLIGHTS

FED SLASHES RATES, AGAIN

The Federal Reserve cut its benchmark target rate by 50 basis points, a week after reducing rates by 75 basis points in an unexpected intermeeting move. The borrowing target rate is currently 3.0%, 225 basis points lower than it was in mid-September when the Fed commenced its rate-cutting campaign. We suspect rates may fall another 50 to 100 basis points by mid-2008, dependent on the economic data that come across the tape during that period. Some recent data, particularly the fourth-quarter GDP report that showed the U.S. economy slowed to a crawl during the quarter, support a good portion of the Fed's rate cuts. We remain optimistic, and do not believe that the economy will slip into recession. There is a great deal of monetary and fiscal stimulus in the works.

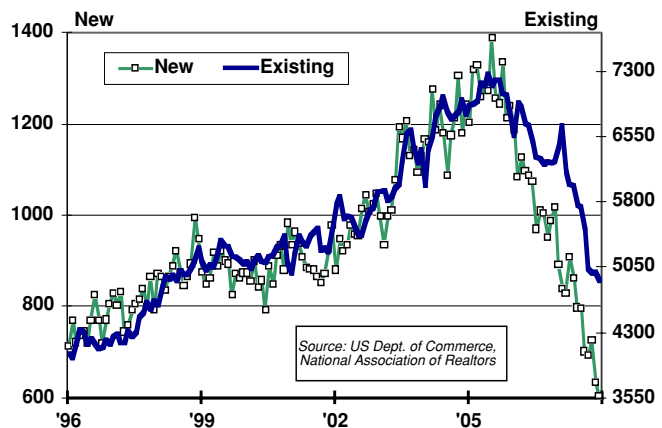
FED FUNDS RATE ACTIVITY (%)



HOME SALES CONTINUE SLUMP

The number of existing homes sold in December fell 2.2% from November to a seasonally adjusted annual rate of 4.89 million units. This was a decline of 22.0% over the last year. Meanwhile, sales of new homes slumped 4.7% in December from the previous month, to an annual pace of 604,000 — the fewest since February 1995. New home sales were down 26% in 2007 from 2006 levels. We are not overly concerned with this prolonged housing recession since there are encouraging statistics; mortgage rates are as low as they've ever been and the Fed seems intent on lowering its rates even further. Also, mortgage applications for new home purchases are holding up quite well. The recovery may not come for another year, but there are some buffers in place that should limit the downside.

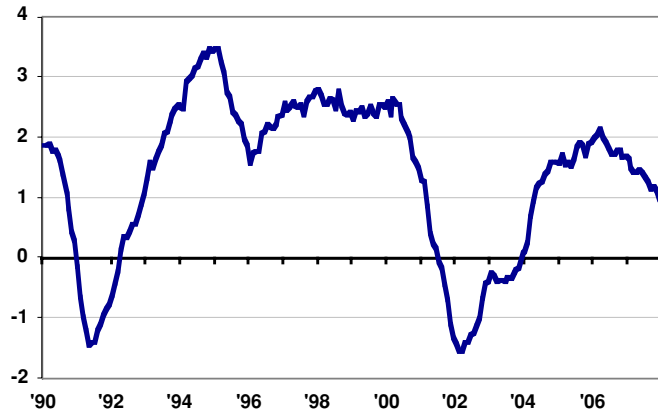
NEW & EXISTING HOME SALES



ECONOMY SHEDS 17,000 JOBS

The U.S. economy lost 17,000 nonfarm payroll jobs in January, which followed a strong upward revision in December. Nonfarm payrolls during the last month of the year jumped 82,000, up from a previously reported 18,000 increase. Not all was as dismal as the headline figure suggested. The unemployment rate slipped a notch to 4.9% from 5.0%. Average hourly earnings were up 0.2% in January or 3.7% over the last year. The fallout from the housing recession continues to weigh heavily on the economy and the labor market as some 27,000 construction workers were furloughed in January. Other steep losses were made in manufacturing, government and professional and business services. Gains included education and health services, leisure and hospitality and retail trade.

NONFARM PAYROLL GROWTH (YOY%)

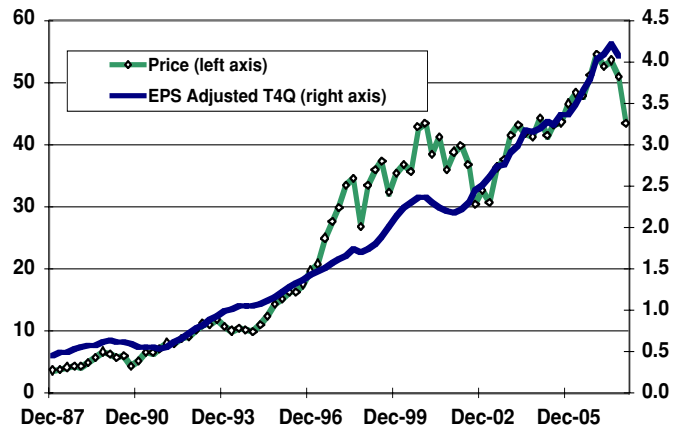


FINANCIAL MARKET HIGHLIGHTS

FINANCIALS: EARNINGS & STOCK PRICES

Many banks look cheap by historical measures, with prices close to reported book values and forward P/E ratios in the mid- to high-single digits. As we know from past cycles, stocks begin to turn higher before earnings bottom. In our last major recession in the early 1990's, bank stock prices turned higher several months before earnings bottomed. But where is that bottom for bank earnings? The consensus is that comparisons will get very easy for banks in 2Q08 and thus growth rates will start to look quite healthy. However, a closer look reveals that earnings are still well below peak levels of 2006 and early 2007. In short, we think it is premature to Over-Weight Financials in a diversified portfolio. The sector is still the largest, accounting for about 18% of the S&P 500's value.

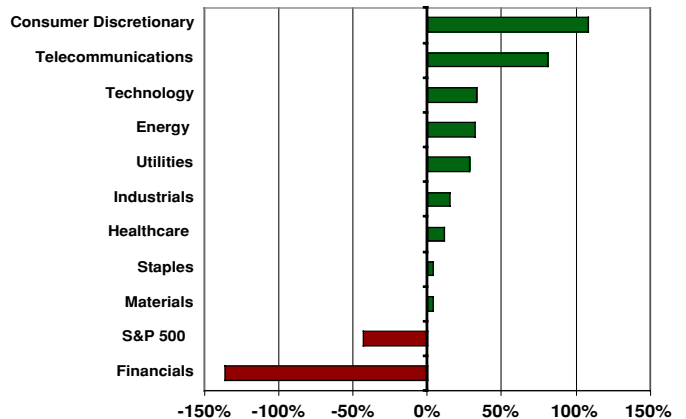
FINANCIALS - EARNINGS VS. STOCK PRICES



FOURTH-QUARTER EARNINGS UPDATE

As of January 25, S&P 500 earnings are down 43% from the year-ago level. For perspective, we note that the Financials sector commonly booked operating earnings of better than \$50 billion per quarter in 2006 before peaking at \$60 billion in the second quarter of 2007. Overall, just 1% growth is expected from analysts in both the first and second quarters of 2008 — but much stronger growth is expected to make a return in the back half of the year. Our chart below combines actual fourth-quarter results with estimates for firms that have yet to report. As you can see, there is a wide variation in growth rates at the sector level, though so some sectors, like consumer discretionary, have had few significant companies report yet.

ESTIMATED EARNINGS GROWTH (4Q07/4Q06)



JUNK BOND SPREADS KEEP WIDENING

Spreads between junk bonds and Treasuries continue to increase. The average spread is now 650 basis points, up from a near all-time low of 250 basis points as recently as June of last year. So junk bond investors are clearly pricing in a recession because corporate credit quality, outside of homebuilders and other real estate-focused industries, remains quite good. According to S&P, default rates on junk bonds are still just 0.9% versus a long-term average of about 4.5%. The default was already 8% when the last two recessions began in 2001 and 1991, and default rates ultimately exceeded 10% in those cases. Again, while the major banks just reported another quarter marked by severe credit quality deterioration, the pain was largely confined to real estate, and mostly to consumer loans.

JUNK BOND SPREADS OVER TREASURIES (%)



THE ARGUS ECONOMIC OUTLOOK

	February 5, 2008															
	2006 A				2007 A				2008 E				2009 E			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Real Gross Domestic Product	4.8	2.4	1.1	2.1	0.6	3.8	4.9	0.6	1.5	1.9	3.2	3.0	3.0	2.5	2.3	1.9
Annual:				2.6			2.5					2.4				2.4
Personal Consumption	4.4	2.4	2.8	3.9	3.7	1.4	2.8	2.0	2.0	1.6	2.2	2.6	2.1	2.1	2.1	2.1
Durables	16.6	0.8	5.6	3.9	8.8	1.7	4.5	4.2	-1.5	2.0	1.8	4.2	4.3	2.2	4.6	3.7
Non-Durables	4.5	2.3	3.2	4.3	3.0	-0.5	2.2	1.9	1.3	1.9	1.8	2.1	0.4	1.8	1.1	1.5
Services	2.1	2.7	2.0	3.7	3.1	2.3	2.8	1.6	0.9	1.4	2.6	2.5	2.4	2.2	2.0	1.9
Gross Domestic Investment	4.3	0.6	-4.1	-14.1	-8.2	4.6	5.0	-10.2	5.4	0.5	4.9	3.8	6.7	3.4	3.5	2.1
Fixed Investment	7.9	-1.9	-4.7	-7.1	-4.4	3.2	-0.7	-2.6	3.4	0.5	4.9	3.8	4.5	3.4	3.6	2.1
Non-Residential	13.3	4.2	5.1	-1.4	2.1	11.0	9.3	7.5	1.9	4.4	7.7	5.4	5.1	3.3	4.1	2.4
Structures	15.0	16.4	10.8	7.4	6.4	26.2	16.4	15.8	7.4	3.7	3.2	7.9	5.6	5.1	3.6	2.2
Equip. & Software	13.0	-0.1	2.9	-4.9	0.3	4.7	6.2	3.7	2.7	4.7	9.1	4.7	5.0	2.8	4.2	2.4
Residential	-0.7	-11.7	-20.4	-17.2	-16.3	-11.8	-20.5	-23.9	-19.3	-12.4	-4.6	-2.1	2.1	4.0	1.6	1.2
Change in Pvt. Inventories	38.4	51.4	53.9	17.4	0.1	5.8	30.6	-3.4	5.0	5.0	5.0	5.0	15.0	15.0	15.0	15.0
Net Exports	11.5	5.7	5.7	14.3	1.1	7.5	19.1	3.9	3.1	5.1	7.1	5.3	5.2	4.1	2.5	3.3
Exports	15.5	6.5	7.4	9.6	0.9	6.6	26.2	2.4	2.6	5.4	7.1	5.2	4.3	2.6	2.2	2.0
Goods	2.9	3.9	2.0	26.0	1.6	9.6	4.0	7.6	3.9	4.3	6.9	5.7	7.5	8.0	3.2	6.5
Services	6.9	0.9	5.4	1.6	3.9	-2.7	4.4	0.3	7.6	2.1	2.2	1.9	3.4	2.0	2.0	2.8
Imports	6.5	1.1	6.2	-0.6	4.2	-2.9	4.8	0.3	8.0	2.0	2.1	1.8	2.9	1.5	2.1	2.4
Goods	9.5	-0.1	1.3	14.2	2.3	-1.7	1.7	0.5	2.3	3.2	2.9	2.0	5.8	5.1	2.0	5.1
Services	4.9	1.0	0.8	3.5	-0.5	4.1	3.8	2.6	0.4	2.1	1.7	1.3	1.9	1.6	1.5	1.1
Gov't Purch. of Goods & Svcs.	8.4	-1.6	0.9	7.3	-6.3	6.0	7.1	0.3	2.4	3.3	2.1	2.1	3.5	1.7	2.4	0.9
Federal	6.8	2.3	-1.5	16.9	-10.8	8.5	10.1	-0.6	1.1	1.6	1.2	2.2	2.8	0.8	3.2	0.2
National Defense	11.9	-8.8	6.0	-10.0	3.8	0.9	1.1	2.3	5.7	6.8	3.9	1.9	5.0	3.5	0.7	2.4
Non-Defense	2.9	2.5	0.7	1.3	3.0	3.0	1.9	4.0	-0.7	1.4	1.4	0.8	1.0	1.5	1.0	1.2
State & Local	5.4	2.0	1.0	3.5	1.3	3.6	4.0	1.9	1.2	1.9	3.2	3.0	2.6	2.5	2.3	1.9
Final Sales of Domestic Prod.	5.0	1.5	1.2	2.1	1.7	2.1	2.5	1.4	2.1	1.5	2.5	2.6	2.4	2.2	2.2	1.9
Final Sales to Dom. Purch.																
Addendum:																
Nominal GDP	8.4	6.0	3.4	3.8	4.9	6.6	6.0	3.2	4.8	5.1	6.4	6.2	6.1	5.6	5.4	5.0
Personal Con Exp Deflator	1.7	4.3	2.6	-0.9	3.5	4.3	1.8	3.9	3.7	3.7	3.2	3.7	3.0	2.9	3.2	2.9
GDP Price Deflator (implicit)	3.4	3.5	2.4	1.7	4.2	2.6	1.0	2.5	3.2	3.2	3.1	3.1	3.1	3.1	3.0	3.0

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