



PERIGON

THE ECONOMY AT A GLANCE

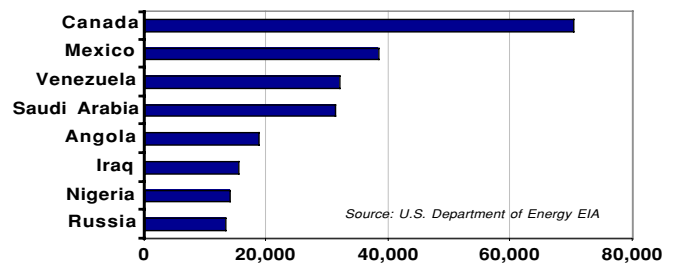
ECONOMIC HIGHLIGHTS

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OIL CANADA

According to the latest import data from the Department of Energy's Energy Information Administration, the U.S. imported a total of 341.329 million barrels of crude oil and products during February. The top four oil-importing countries were Canada (70.419 million barrels), Mexico (38.2 million barrels), Venezuela (31.965 million barrels) and Saudi Arabia (31.233 million barrels). Canada has the second-largest amount of reserves, following Saudi Arabia.

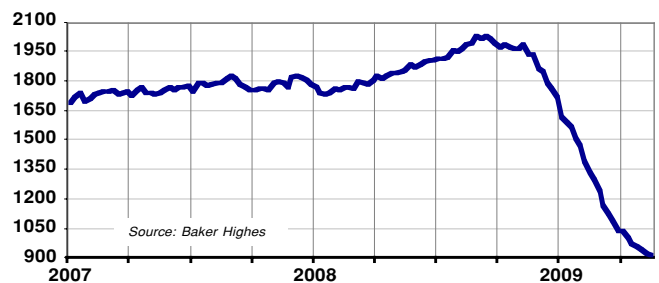
U.S. OIL IMPORTS BY COUNTRY OF ORIGIN
(A/O FEBRUARY 2009 - THOUSANDS OF BARRELS)



RIG COUNT SLUMPS

The total number of crude oil and natural gas rigs currently operating in North America slumped 1.1% to 918 in the week ended May 15. This was the lowest level since February 2003. Now that the global economic activity has cooled, with most of the world in recession, energy prices have collapsed from year-ago levels — forcing producers to shutter rigs. Natural gas prices are currently about 70% of year-ago levels. We suspect that depressed gas prices will continue to dampen drilling activity.

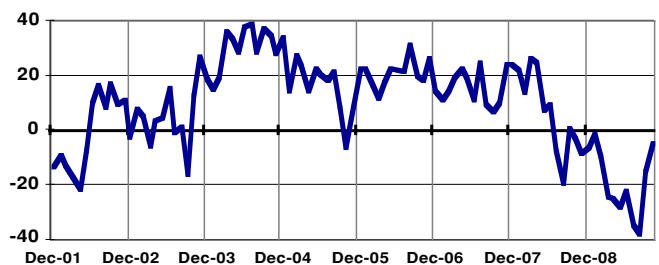
BAKER HUGHES RIG COUNT



NY MANUFACTURING RECOVERY

The New York Fed's Empire State Survey, a barometer of manufacturing conditions in the New York region, climbed to -4.6 in May from -14.7 in April. This was the highest reading in the index since last August when the economy essentially shut down. The survey suggests that the manufacturing economy is still steeped in recession, but has nonetheless improved considerably. This index has climbed more than 40 points in a two-month period.

NY FED EMPIRE STATE INDEX

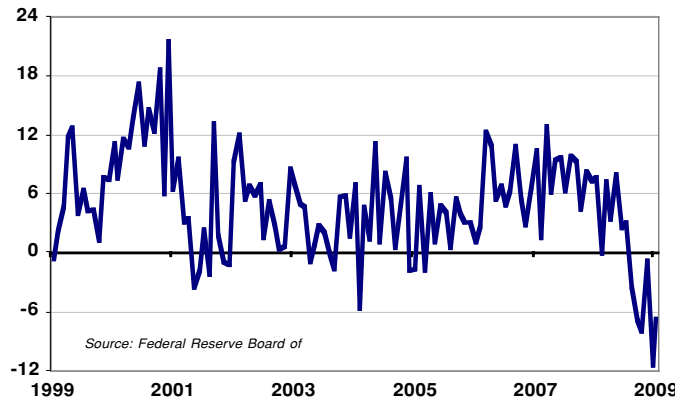


MONETARY HIGHLIGHTS

CONSUMER CREDIT FALLS \$11.1 BILLION

Total outstanding consumer credit fell by a record \$11.1 billion during March to a seasonally adjusted annual rate of \$2.55 trillion. The steep decline was a function of an annualized 6.8% plunge in revolving (or credit card) debt and a 4.2% drop in non-revolving debt. When there are record job losses, a record declines in spending and economic activity is to be expected. The jobs situation appears to be improving, but we're still losing over a half a million jobs each month. That doesn't exactly promote confidence. Non-revolving debt suffered from the deepening recession in the auto industry. We don't expect this downward trend to reverse course any time soon. When the jobs climate is this poor, consumers don't head out to ring the cash registers or buy a car.

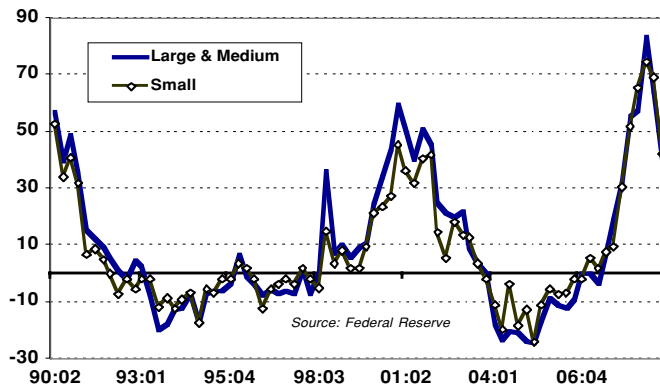
CONSUMER REVOLVING CREDIT (%)



LENDING REMAINS TIGHT

According to the latest Federal Reserve Senior Loan Officer Survey on Bank Lending Practices report, the percentage of respondents that reported tighter lending standards on all major loan categories continued to be "very elevated" but "edged down for the second consecutive survey." Some 65% of those surveyed tightened standards on commercial real-estate loans, which is a much-welcomed drop from the 80% reading in the January survey. Still, banks are reluctant to lend to businesses and households – this given the increased risk of default amid a deepening recession and widespread joblessness.

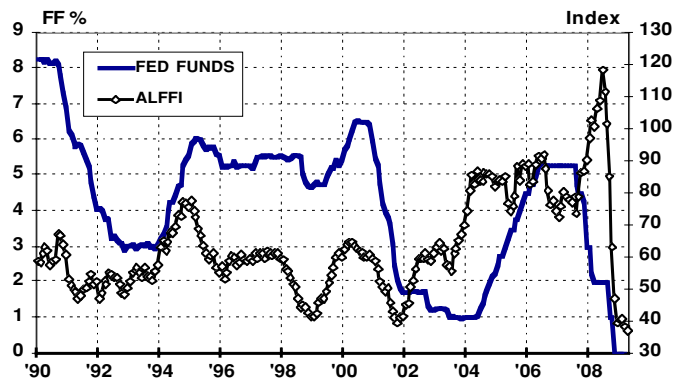
NET % TIGHTENING STANDARDS FOR C&I LOANS



ARGUS FED INDEX SLIPS

The Argus Leading Fed Funds Index (ALFFI), our internal barometer of changes in the Fed Funds rate, slipped again in April, suggesting the Federal Reserve can safely remain sidelined and refrain from taking back any of the stimulus currently injected into the financial/banking system. The ongoing economic recession is crimping prices, particularly at the intermediate stage of production (the true pipeline indicator of inflationary pressures). We expect this trend to continue for the next two-to-three months. During April, the ALFFI slipped 1.1 points to 37.16 from a revised 38.25 during March. The April reading is the lowest in the 18-year history of the Index.

ARGUS LEADING FED FUNDS INDEX

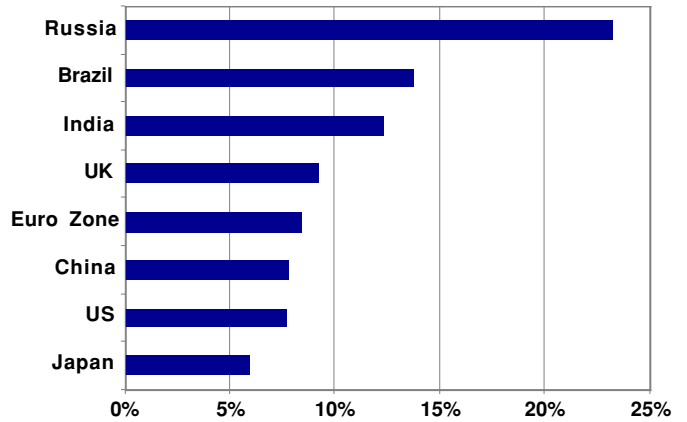


FINANCIAL MARKET HIGHLIGHTS

PLENTY OF COMPANY

The “Misery Index” is a calculation of a country’s economic conditions. The formula is simple: unemployment plus inflation. For the United States, the current Misery Index reading is 7.7%, which is not far from year-earlier readings — though the composition is different as unemployment has climbed. Compared with other nations, conditions in the United States are relatively sanguine. Other industrialized regions such as Japan and the Euro Zone are in the 6%-8% range, along with the U.S. But emerging economies such as India, Brazil and Russia have Misery Indexes that reach into the double-digits — primarily driven by inflation. Stock markets in these regions are up sharply this year (Russia has climbed almost 50%), once again indicating that unemployment is a lagging market indicator.

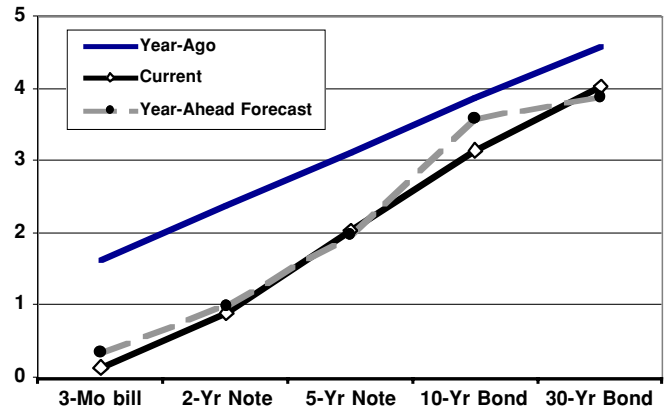
MISERY INDEX (%)



YIELDS ON THE RISE

The yield curve has shifted upward while retaining its positive slope. The activity in the bond market points to renewed economic growth over the next 12 months, which may unleash inflationary pressures. The extraordinary easing of monetary and fiscal policy should lead to economic recovery early in the second half of the year. Longer term, it should have inflationary or stagflationary consequences. We believe precious metal prices could rise sharply in the next 12 months as inflationary expectations rise, and the U.S. dollar could revisit historical lows. While we don’t favor government bond investments at this juncture of the market and economic cycle, we do note that Moody’s AAA Corporates offer good value at 5.42%, yielding 2.92% above the long-term inflation rate of 2.5%.

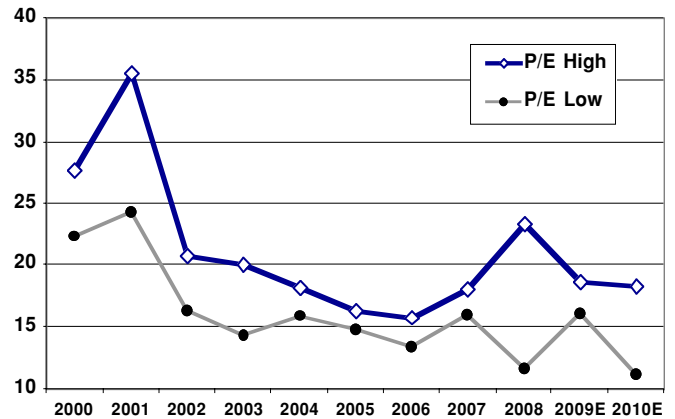
TREASURY YIELD CURVE



MARKET MULTIPLES STILL REASONABLE

Even though the S&P 500 has climbed more than 30% from its March lows, the P/E ratio on forward earnings is still in the mid-teens (depending on which estimate is used). Argus is looking for a 10% increase in S&P 500 earnings next year to \$55. With a price of 900, the market’s P/E is currently 16-times. We are on the conservative side. From a bottom-up basis, the current estimate on 2010 EPS is \$73. Using this forecast, the P/E becomes 12-tims. Argus Institutional Partners is in the middle with a 2010 S&P 500 EPS forecast of \$63. On their outlook, the P/E is 14 — which is at the low end of the typical post 2000-2002 recession band of 18-13. We note the forecast bands are wider for the next two years, reflecting the variability of the EPS estimates.

S&P 500 P/E RANGE



THE ARGUS ECONOMIC OUTLOOK

	2008 A												2009 E				2010 E				May 26, 2009	
	I			II			III			IV			I	II	III	IV	I	II	III	IV		
Real Gross Domestic Product	0.0	4.8	4.8	-0.2	0.9	2.8	-0.5	-6.3	-0.9	-6.1	-2.3	0.7	0.9	1.3	2.3	1.8	1.9					
Annual:			2.4				-0.8						-1.7				1.8					
Personal Consumption	3.9	2.0	2.0	1.0	0.9	1.2	-3.8	-4.3	2.2	2.2	-0.7	0.5	0.1	0.1	1.5	1.4	1.4					
Durables	9.2	5.0	2.3	0.4	-4.3	-2.8	-14.8	-22.1	9.4	9.4	-9.0	-7.2	-6.1	-7.3	3.9	3.8	5.7					
Non-Durables	3.5	1.9	1.2	0.3	-0.4	3.9	-7.1	-9.4	1.3	2.4	2.4	1.0	1.5	2.6	2.1	1.5	1.2					
Services	3.1	1.4	2.4	1.4	2.4	0.7	-0.1	1.5	1.5	1.5	1.6	1.1	0.9	0.7	0.8	0.8	0.6					
Gross Domestic Investment	-9.6	6.2	3.5	-11.9	-5.8	-11.5	0.4	-23.0	-51.8	-3.2	-3.2	-0.5	4.0	6.3	4.0	1.4	1.5					
Fixed Investment	-3.4	3.0	-0.9	-6.2	-5.6	-1.7	-5.3	-22.0	-37.9	-20.4	-20.4	-6.2	-2.0	3.2	1.0	1.4	3.0					
Non-Residential	3.4	10.3	8.7	3.4	2.4	2.5	-1.7	-21.7	-37.9	-19.1	-19.1	-5.7	-2.2	2.9	0.1	0.3	2.5					
Structures	11.2	18.3	20.6	8.6	8.7	18.4	9.6	-9.4	-44.1	-21.3	-21.3	-11.2	-3.4	1.8	4.3	6.4	6.4					
Equip. & Software	0.0	6.9	3.6	1.0	-0.5	-5.0	-7.5	-28.1	-33.5	-10.5	-10.5	-3.9	-1.9	3.2	-1.2	-1.6	1.3					
Residential	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-16.1	-22.7	-38.0	-11.9	-11.9	-6.8	-0.9	3.8	4.3	5.7	4.2					
Change in Pvt. Inventories	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	-29.6	-25.8	-103.7	-45.0	-45.0	-25.0	-5.0	5.0	15.0	15.0	10.0					
Net Exports	0.6	8.8	23.0	4.4	5.1	12.3	3.0	-23.6	-30.0	-10.3	-10.3	-6.4	-2.1	2.3	4.7	4.7	4.7					
Exports	2.1	6.8	21.8	5.1	4.6	16.3	3.6	-32.0	-38.7	-9.5	-9.5	-8.5	-2.7	2.2	5.7	5.2	4.4					
Goods	-2.7	13.3	26.0	2.7	6.4	3.7	1.4	-1.5	-9.2	-9.0	-9.0	-2.1	-0.9	2.5	2.7	3.7	5.4					
Services	7.7	-3.7	3.0	-2.3	-0.8	-7.3	-3.5	-17.5	-34.1	-7.1	-7.1	-4.1	0.5	2.2	1.9	3.0	2.4					
Imports	8.4	-4.0	2.4	-2.6	-1.9	-7.1	-4.7	-19.6	-39.4	-7.2	-7.2	-3.6	1.5	2.4	1.6	2.6	1.9					
Goods	4.2	-2.0	6.3	-0.8	5.5	-8.1	3.3	-6.7	-5.6	-1.4	-1.4	-6.2	-4.2	1.4	3.5	4.6	4.8					
Services	0.9	3.9	3.8	0.8	1.9	3.9	5.8	1.3	-3.9	-0.5	-0.5	3.1	3.9	2.8	2.3	2.7	2.5					
Gov't Purch. of Goods & Svcs.	-3.7	6.7	7.2	-0.5	5.8	6.6	13.8	6.9	-4.0	2.4	2.4	5.0	7.9	5.5	4.2	5.3	5.9					
Federal	-5.9	8.4	10.1	-0.9	7.2	7.3	18.0	3.4	-6.4	2.0	2.0	5.8	7.2	2.8	3.3	2.7	2.8					
National Defense	1.3	3.1	1.1	0.5	2.7	5.0	5.1	15.3	1.3	3.9	3.9	3.3	9.5	11.1	6.0	10.7	12.1					
Non-Defense	3.6	2.4	1.9	1.6	-0.3	2.5	1.4	-2.0	-3.9	-3.0	-3.0	1.9	1.3	1.1	1.0	0.9	0.2					
State & Local	1.1	4.3	4.0	0.8	0.9	4.4	-1.3	-6.2	-3.4	-4.5	-4.5	0.0	0.2	1.0	1.9	1.8	2.0					
Final Sales of Domestic Prod.	2.2	2.5	1.9	-0.1	0.1	1.3	-2.2	-5.8	-5.1	-3.8	-3.8	0.2	0.5	1.0	1.6	1.6	1.8					
Final Sales to Dom. Purch.																						
Addendum:																						
Nominal GDP	4.3	6.9	6.4	2.3	3.5	4.1	3.4	-5.8	-3.5	-0.4	-0.4	4.0	4.0	4.5	5.8	5.3	5.0					
Personal Con Exp Deflator	3.4	3.6	2.5	4.3	3.6	4.3	5.0	-4.9	-1.0	1.9	1.9	3.0	3.0	2.9	3.3	2.9	3.4					
GDP Price Deflator (implicit)	4.2	2.0	1.5	2.5	2.6	1.3	3.9	0.6	2.9	1.9	1.9	3.2	3.1	3.2	3.5	3.5	3.1					

Richard Yamarone, Director of Economic Research

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