PERIGON

THE ECONOMY AT A GLANCE

# ECONOMIC HIGHLIGHTS

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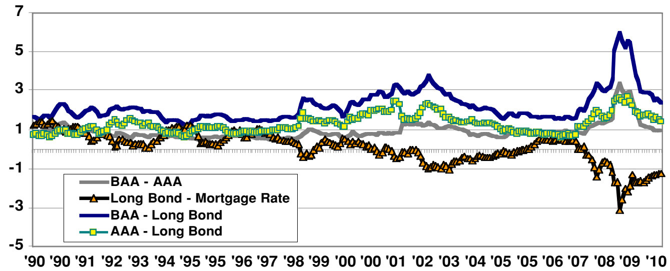
## SPREAD TREND STAYS COURSE

The spread between AAA-rated corporate bonds and government bonds is now 144 basis points, well above the 50-year average of 81 basis points. The gap between the government long bond yield and a Baa-rated bond is 240 basis points, versus a historical average of 179 bps. Despite the troubles in Continental Europe, we do not think the U.S. economy will endure a double-dip recession, and think the extra yield from financially strong corporate bonds is attractive for long-term investors.

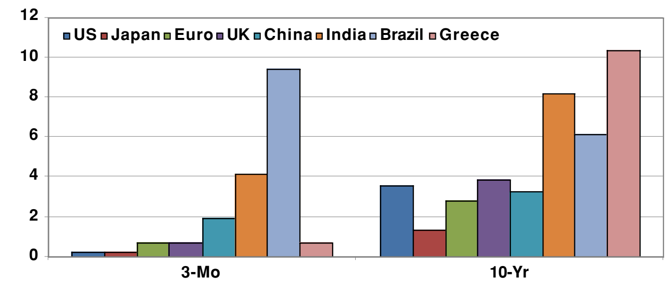
**BOND SPREADS**




## HIGHER YIELDS FOR TROUBLE SPOTS

Long-term yields are in the 6%-8% range in the emerging economies of Brazil, Russia and India, compensating investors for inflation rates that average 7.5%. In Greece, yields are double-digits. At the short end, once again rates are higher in Brazil, Russia and India, as monetary authorities combat rising prices. We anticipate that Brazil and Russia will be lowering short-term rates to keep economic growth strong. We expect India to continue to raise short-term rates to control inflation.

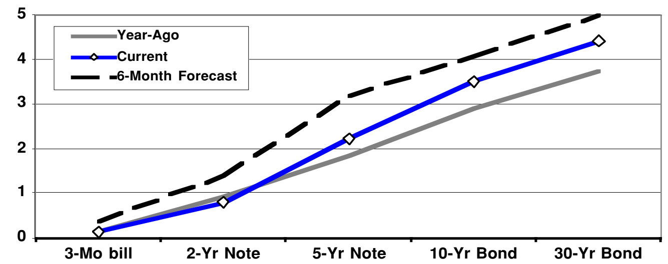
**GLOBAL YIELDS**




## INTEREST RATES POISED TO RISE

Our forecasts call for a shift upward in the yield curve over the next six months. We think that rates will rise as the U.S. economy continues to grow, oil prices advance, gold and other commodity prices trend higher and the U.S. government continues aggressive spending to spur GDP. We don't expect the Fed to raise its target rate for overnight federal funds until 1Q10. The market will not likely wait, though. Currently, fed fund futures are pricing in a rate hike by August/September 2010.

**TREASURY YIELD CURVE (%)**

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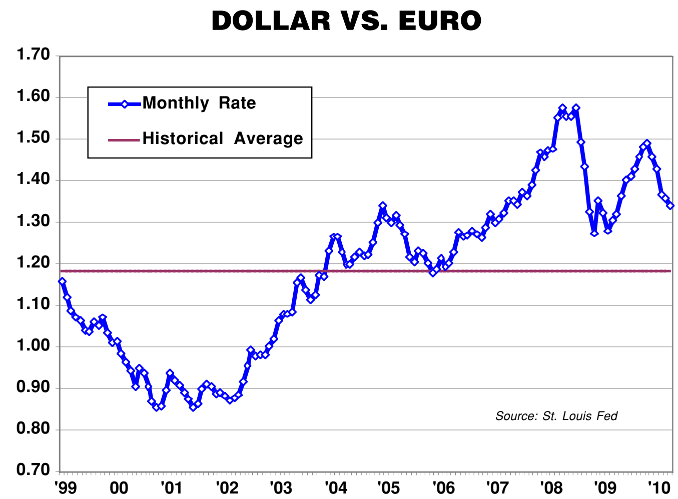
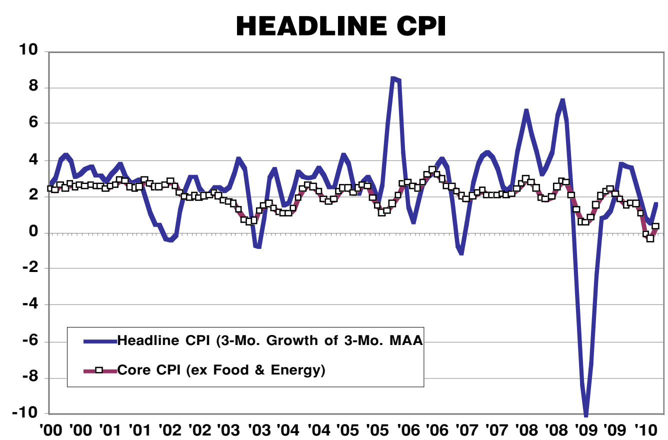
## EURO DROPS TO NEAR PARITY

The Greek sovereign debt crisis, and the risk that it spreads throughout Southern Europe first before threatening the entire European Monetary Union, has caused a 20% sell-off in the euro over the past month. Yet the currency continues to look vulnerable, particularly if spending cutbacks lead to the type of unrest that was unfolding in Greece two weeks ago. Meanwhile, the U.S. economy appears fairly resilient, with strong trends in place on Technology and Consumer spending. The sell-off in the euro has brought it near its long-term average of 1.18. Purchasing power parity is estimated at 1.20. Looking ahead, we estimate that the euro will likely trade in a range of 1.15-1.40 through year-end as fiscal and economic risks remain high.



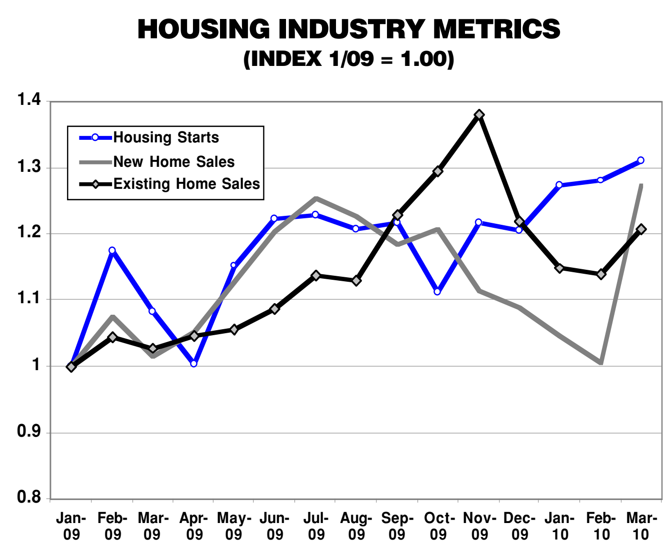

## LOWEST INFLATION GAIN SINCE 1966

Pricing pressures – at least as measured by the U.S. Labor Department's Consumer Price Index – are not yet an issue for consumers or the financial markets. On a three-month smoothed basis, which reduces the volatility of price swings, the core Consumer Price Index has been flat-to-lower in recent months, and headline CPI (including energy and food prices) has been rising at a 2.2% rate over the past year. Excluding food and energy, the CPI has only increased 0.9% over the past year, which is the smallest 12-month increase since 1966. With this inflationary backdrop, as well as the economic troubles in Europe, we expect the Federal Reserve to keep the federal funds rate at the current low target level through year end.




## HOUSING MARKET TURNS HIGHER

Several of the housing trends we follow have picked up in recent months. Yet it is premature to call the housing crisis over, and home foreclosures remain a threat. According to data from LPS Applied Analytics, banks have an inventory of approximately 1.1 million homes — up 20% from a year ago. This shadow market, unleashed on the main market, could depress prices and lengthen sales cycles. Further, the expiration on April 30 of a federal tax credit for home purchases, as well as the end of the Federal Reserve's period of quantitative easing, may have merely pushed sales prior to May. The housing market (and the financial services sector) led the U.S. economy into recession, and we expect the Federal Reserve to keep rates low long enough to stabilize housing trends.

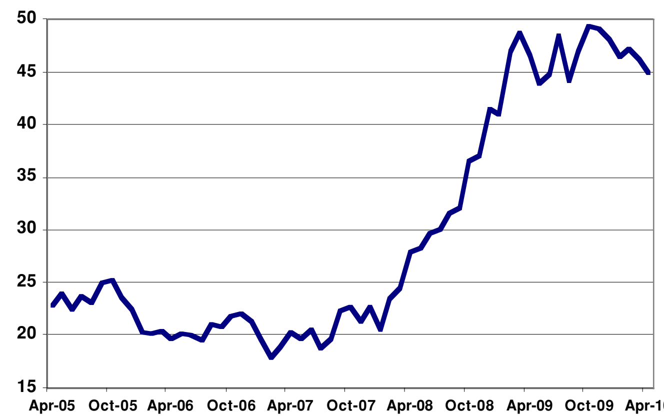


# FINANCIAL MARKET HIGHLIGHTS

## JOBS STILL HARD TO GET

April non-farm payrolls of 290,000 were well above the approximate consensus of 200,000. The previous month was revised upward to more than 200,000 jobs as well. Still, more than 800,000 people came back into the workforce in April – presumably either because their unemployment checks have run out or because they were encouraged by recent news of job growth. That pushed the unemployment rate up 20 basis points to 9.9%. In the most recent consumer confidence survey published by The Conference Board, 45% of respondents said that jobs were hard to get — not far below the 49% peak hit last fall and the long-term average level in the 20%-25% range. This statistic has been stuck in the 45%-50% range since early 2009, so a move below that level might be a bullish sign for the job market.

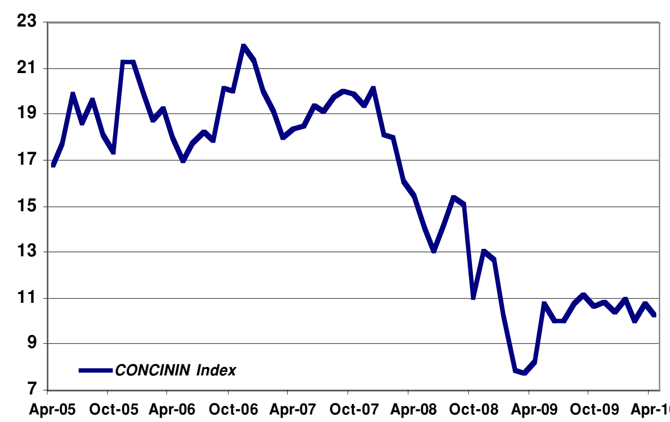
**JOBS HARD TO GET**
**(%, CONFERENCE BOARD MONTHY CONFIDENCE SURVEY)**




## CONSUMERS STILL PESSIMISTIC

As we looked recently at the details of The Conference Board's most-recent consumer confidence survey, we found some decidedly downcast sentiment. Almost half of respondents still say that jobs are hard to get. Those that have jobs are not that optimistic either. Just 10% expect to see their incomes increase in the next six months. April retail sales were weak and spending growth outpaced income growth last month, pushing the savings rate to its lowest level in months. With consumer credit still very tight, the outlook for consumer spending depends on an acceleration of job and income growth. Incomes are growing again, but barely. Jobs are growing again too, but the 290,000 jobs added in April were not enough to keep unemployment from rising.

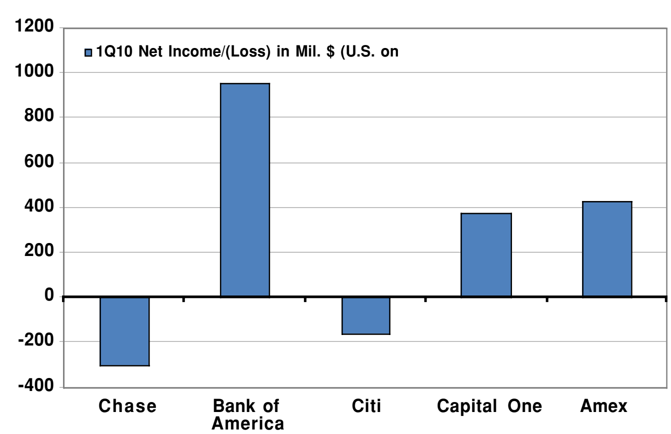
**EXPECT INCOME TO INCREASE**
**IN NEXT SIX MONTHS (%)**




## CREDIT CARD FIRMS STRUGGLE

Just when it appears that credit losses may have peaked, a host of new rules went into effect on Feb. 22 that will negatively impact card revenues. More importantly, however, is that demand for card loans remains weak and portfolios are shrinking. Whenever possible, customers are paying down balances and cutting back on putting new purchases on credit cards, opting for debit instead. In a shocking development last week, the Senate passed new rules giving retailers more power to determine debit card fees and how debit cards are used by customers. The biggest three card lenders (Chase, BofA and Citi) have all been losing money and expect to continue to lose money in 2010, though BofA swung to a surprise profit of $1 billion in 1Q.

**TOUGH TIMES FOR CREDIT CARD FIRMS**



# ECONOMIC CALENDAR

## Previous Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|---|---|---|---|---|---|---|
| Mon. 5/24 | Existing Home Sales | April | 5.35M | 5.45M | 5.6M | N/A |
| Tue. 5/25 | Consumer Confidence | May | 57.9 | 58.5 | 59.0 | N/A |
| Wed. 5/26 | Durable Goods Orders | April | -1.3% | 2.0% | 1.4% | N/A |
| | New Home Sales | April | 411k | 420k | 420k | N/A |
| Thur. 5/27 | Gross Domestic Product | Q1 | 3.2% | 3.4% | 3.4% | N/A |
| | GDP Price Index | Q1 | 0.9% | 1.0% | 0.9% | N/A |
| Fri. 5/28 | Personal Income | April | 0.3% | 0.4% | 0.5% | N/A |
| | Consumer Spending | April | 0.6% | 0.5% | 0.3% | N/A |
| | Chicago PMI | May | 63.8 | 64.0 | 62.1 | N/A |
| | U. of Michigan Confidence^ | May | 73.3 | 75.0 | 73.5 | N/A |

## Next Week's Re eases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|---|---|---|---|---|---|---|
| Mon. 6/7 | Consumer Credit | April | $2.0B | $1.9B | N/A | N/A |
| Wed. 6/9 | Wholesale Inventories | April | 0.4% | 0.5% | N/A | N/A |
| | Beige Book | N/A | N/A | N/A | N/A | N/A |
| Thur. 6/10 | U.S. Trade Balance | April | -$40.0B | -$41.0B | N/A | N/A |
| Fri. 6/11 | Advance Retail Sales | May | 0.4% | 0.2% | N/A | N/A |
| | Retail Sales ex-Autos | May | 0.4% | 0.2% | N/A | N/A |
| | Business Inventories | April | 0.4% | 0.5% | N/A | N/A |
| | U. of Michigan Confidence* | June | N/A | 75.0 | N/A | N/A |

** Preliminary*
*** Advance*
*^Final*