



PERIGON

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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BALTIC DRY INDEX HITS RECORD

Unprecedented demand for commodities, heavily congested ports and the after-effects of the Chinese earthquake have sent shipping costs through the roof. The Baltic Dry Index, a widely respected barometer of dry bulk shipping costs and a fairly accurate gauge of global economic health, recently hit 11,100 threshold for the first time in its history. We suspect higher freight costs will result in higher goods prices, especially if wholesalers decide to pass these costs along to the retail level.

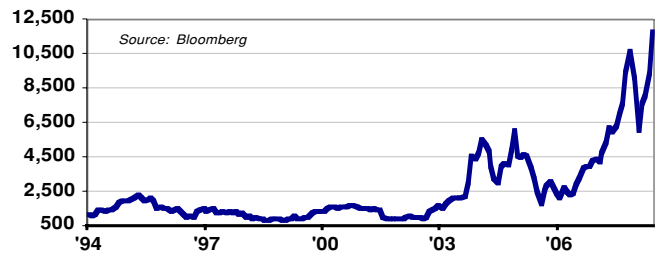
LEADING INDEX INCHES UP

The Conference Board's Index of Leading Economic Indicators rose 0.1% in April, the second consecutive monthly increase. Previous to that, the LEI had fallen for five months. The LEI has a strong history of correctly identifying turning points in the business cycle, but a less than desired ability to identify the magnitude of those changes. We view the current trend as a potential bottoming in the index, suggesting economic activity might be recovering in a few months.

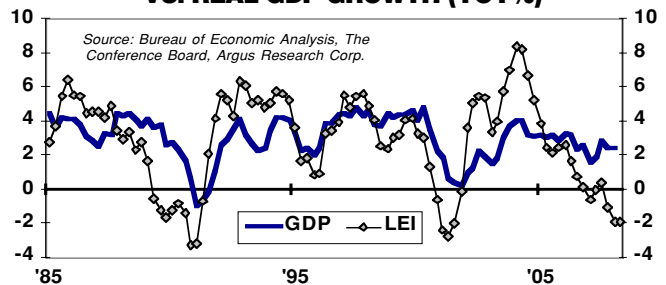
CREDIT CARD SPENDING RISES

Total outstanding consumer credit rose an annualized 7.2% during March, which followed a 3.1% increase in February. Meanwhile revolving, or credit card, spending was up 7.9% in March versus a 5.0% increase in February. To date, consumers have been quite resilient in the face of the credit crisis. While the current environment may force many to pull back, it may not be wise to bet that consumers will toss in the towel altogether. We've had 65 consecutive quarters of positive consumer spending.

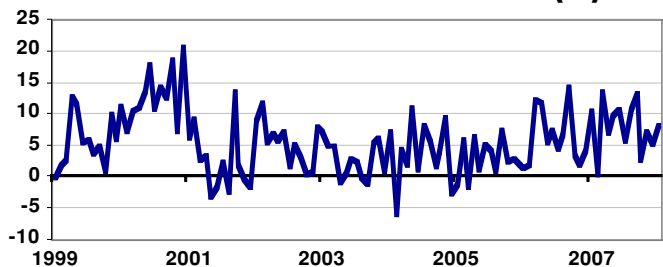
BALTIC DRY INDEX



LEADING ECONOMIC INDICATORS VS. REAL GDP GROWTH (YOY%)



CONSUMER REVOLVING CREDIT (%)

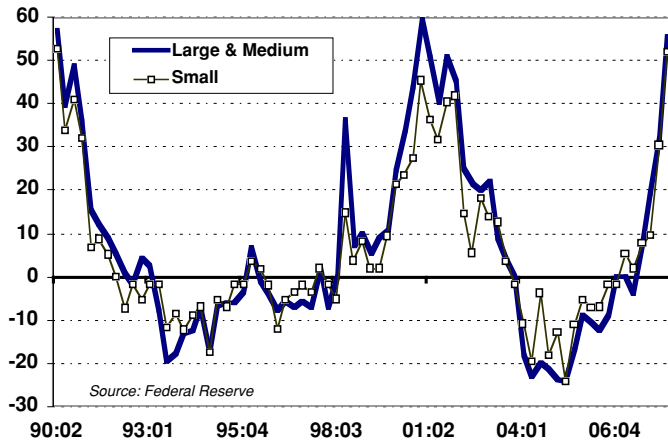


MONETARY HIGHLIGHTS

BANKS TIGHTEN STANDARDS

According to the latest Federal Reserve Senior Loan Officer Survey on Bank Lending Practices, banks tightened lending conditions on essentially all loan categories and were “close to, or above, historical highs.” Clearly lenders are rattled by the implosion of the subprime lending situation and the subsequent credit crisis. This isn’t encouraging news since borrowing is a vital component of future economic activity. No lending/borrowing, no growth. The Fed reported that, on net, lending standards “increased significantly for consumer and commercial and industrial (C&I) loans.” Demand for loans by households and businesses weakened even further over the past three months, which suggests that consumers are also spooked by the uncertainties in the credit markets.

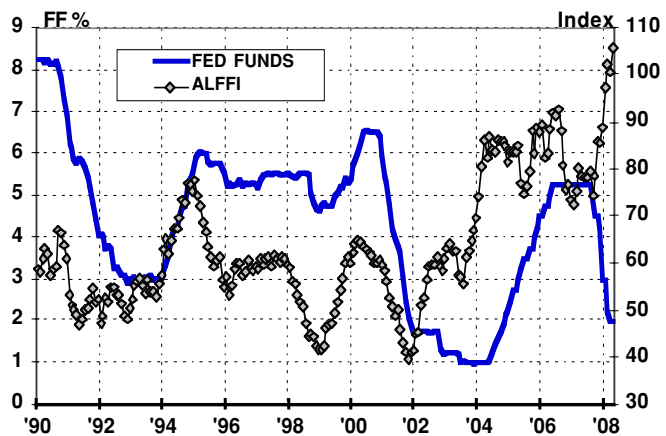
NET % TIGHTENING STANDARDS FOR C&I LOANS



ARGUS FED INDEX SOARS

The Federal Reserve has dedicated its policymaking efforts to the recovery and stability of the financial markets amid the most severe credit crisis in over sixty years. But prices have been climbing to uncomfortable levels, and it doesn’t appear as if these mounting pressures will be cooling any time soon. That means the Fed may have to consider raising its benchmark borrowing target sooner rather than later. The Argus Leading Fed Funds Index (ALFFI), our internal barometer of changes in the Federal Reserve’s overnight borrowing target rate, jumped almost six points to 106.00 in April – up from a revised 100.84 in March and the highest reading ever posted in the ALFFI. Five of the six components registered gains last month, with the biggest coming from the Reuters-Jefferies CRB Index.

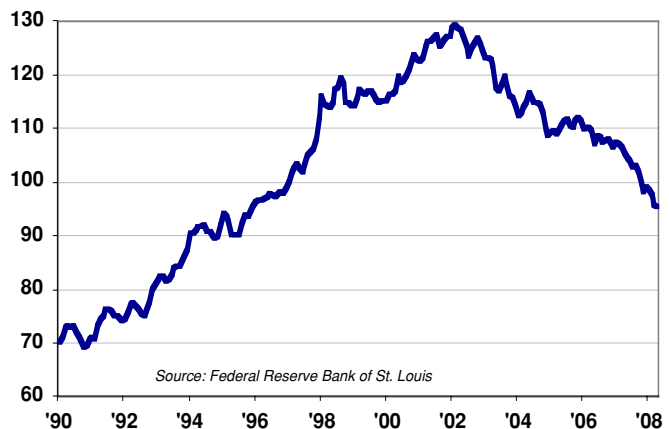
ARGUS LEADING FED FUNDS INDEX



DOLLAR SET TO RECOVER

The U.S. dollar may be on track for some degree of appreciation on a trade-weighted (TWI) basis. The Fed appears to have ended its rate cutting campaign – or is at least in the ninth inning – and the worst of the credit crisis, housing recession, and economic slump may be behind us. Based on that premise, the dollar could regain a great deal of its respectability — and subsequently rise with respect to the currencies of other nations. This would mean that prices of commodities denominated in U.S. dollars, like oil and gold, would fall — which would take a great deal of pressure off of inflation, thereby boosting real values of consumer spending and overall economic activity. We expect a mild 5.0% appreciation in the Broad Currency TWI, to 100.2 by year end (from the current 95.5).

U.S. TRADE WEIGHTED INDEX - BROAD

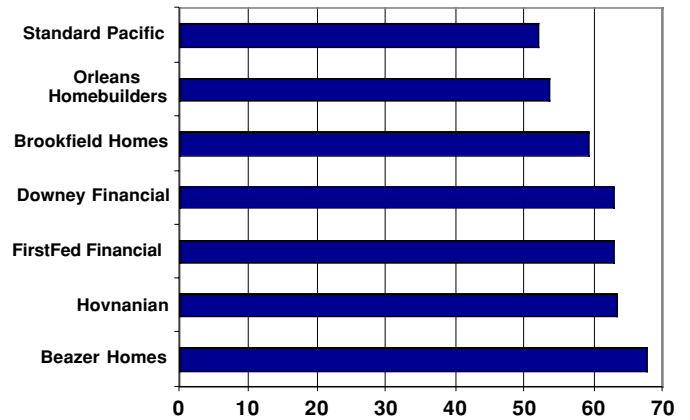


FINANCIAL MARKET HIGHLIGHTS

BEARISHNESS STILL HIGH ON BANKS, HOMEBUILDERS

While the shares of banks and homebuilders have rallied from their lows over the past several weeks, there still appears to be a high level of bearishness towards both groups. As indicated by our chart, several homebuilder stocks have more than half of their outstanding float out in short positions. The major banks, along with the Financials SPDR, dominate the list of stocks with the highest number of shares that are shorted. Washington Mutual tops the banks on this list, with more than 184 million shares shorted. Other names in the top 10 include Wells Fargo, Wachovia, Citigroup and National City. We currently rate Washington Mutual and National City SELL, Wells Fargo and Citigroup BUY and Wachovia HOLD.

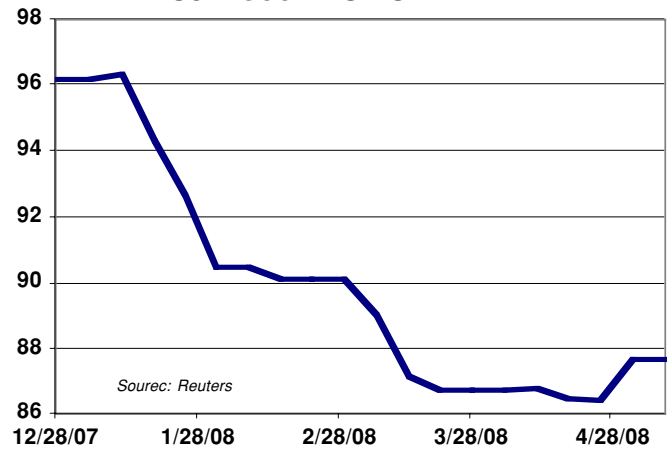
% OF SHARE FLOAT SOLD SHORT



PROFIT ESTIMATES

The current mean of S&P 500 profit estimates from market strategists is \$87.64 per share. Our current estimate is \$85 per share for 2008, so the mean of estimates is finally approaching our number. However, we continue to believe that EPS estimates for the banks are too high and we are starting to see some signs of weakness in other sectors as well. We are incorporating last week's earnings from the retailers into our model and are expecting to lower our earnings estimates once again for both 2008 and 2009. The current strategist consensus of \$87.64 implies a flat year for earnings in 2008 versus 2007. In 2007, earnings were down only slightly from the record 2006 level. We think that such a modest peak-to-trough decline in earnings appears too optimistic.

MEAN OF MARKET STRATEGISTS' 08 S&P 500 EPS ESTIMATE



LOWERING S&P 500 ESTIMATES

For 2008, we have reduced our S&P 500 EPS forecast to \$80. For 2009, we reduced our EPS estimate to \$90. The S&P currently trades at about 17.2-times our EPS forecast for the next four quarters and 15.5-times our EPS forecast for the four quarters beyond that. Since the market bottom in October 2002, the S&P has traded at a forward P/E of roughly 13-17. The current forward P/E using our forecasts is towards the high end of this range. We charted the S&P 500 trailing P/E for the past 30 years using actual earnings normalized over a 10-year period. The current P/E using this measure is not far from the P/E of the bear market bottom in late 2002. But inflation was lower then than it is now. P/Es were much lower in the 70's and 80's than today, in part because inflation was greater.

S&P 500 P/E RATIO



THE ARGUS ECONOMIC OUTLOOK

	2006 A				2007 A				2008 E				2009 E				May 28, 2008
	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	2.6	0.6	1.7	2.0	2.6	2.5	1.5	2.6	2.3
Annual:																	
Personal Consumption	4.4	2.4	2.8	3.9	3.7	1.4	2.8	2.3	2.4	1.0	1.8	1.9	2.4	2.2	1.2	2.5	2.5
Durables	16.6	0.8	5.6	3.9	8.8	1.7	4.5	2.0	3.1	-6.1	-3.3	0.6	3.1	5.3	4.6	-1.3	4.3
Non-Durables	4.5	2.3	3.2	4.3	3.0	-0.5	2.2	1.2	2.6	-1.3	0.1	1.0	2.6	0.3	1.7	1.0	0.3
Services	2.1	2.7	2.0	3.7	3.1	2.3	2.8	2.8	2.2	3.4	2.4	2.7	2.2	2.3	2.4	2.0	3.2
Gross Domestic Investment	4.3	0.6	-4.1	-14.1	-8.2	4.6	5.0	-14.6	1.7	-4.6	2.1	1.1	1.7	4.9	4.0	2.8	4.6
Fixed Investment	7.9	-1.9	-4.7	-7.1	-4.4	3.2	-0.7	-4.0	1.7	-9.7	3.0	0.2	1.7	2.6	4.0	2.8	4.6
Non-Residential	13.3	4.2	5.1	-1.4	2.1	11.0	9.3	6.0	3.2	-2.5	-0.3	2.9	3.2	3.1	4.5	2.9	4.1
Structures	15.0	16.4	10.8	7.4	6.4	26.2	16.4	12.4	3.8	-6.2	-2.3	3.9	3.8	3.8	4.9	4.5	7.1
Equip. & Software	13.0	-0.1	2.9	-4.9	0.3	4.7	6.2	3.1	2.6	-0.7	1.8	2.6	3.0	2.9	4.4	2.5	3.3
Residential	-0.7	-11.7	-20.4	-17.2	-16.3	-11.8	-20.5	-25.2	-9.2	-26.6	-20.1	-9.2	-3.8	0.8	2.0	2.2	6.7
Change in Pvt. Inventories	38.4	51.4	53.9	17.4	0.1	5.8	30.6	-18.3	5.0	1.8	1.0	5.0	5.0	15.0	15.0	15.0	15.0
Net Exports																	
Exports	11.5	5.7	5.7	14.3	1.1	7.5	19.1	6.5	5.5	5.5	3.7	5.2	6.7	4.7	2.6	2.3	2.4
Goods	15.5	6.5	7.4	9.6	0.9	6.6	26.2	3.9	5.2	5.2	2.6	5.8	5.2	4.3	2.6	2.2	2.0
Services	2.9	3.9	2.0	26.0	1.6	9.6	4.0	13.3	6.1	6.1	6.1	3.8	10.6	5.6	2.5	2.5	3.3
Imports	6.9	0.9	5.4	1.6	3.9	-2.7	4.4	-1.4	2.5	2.5	3.4	2.7	2.1	1.7	2.1	1.5	2.1
Goods	6.5	1.1	6.2	-0.6	4.2	-2.9	4.8	-2.7	2.4	2.4	3.3	2.1	1.6	1.6	1.5	1.4	1.7
Services	9.5	-0.1	1.3	14.2	2.3	-1.7	1.7	5.6	3.4	3.4	2.0	5.8	5.1	2.0	5.1	2.6	4.4
Gov't Purch. of Goods & Svcs.																	
Federal	4.9	1.0	0.8	3.5	-0.5	4.1	3.8	1.9	2.0	2.0	1.2	1.8	0.9	0.8	1.0	1.0	0.8
National Defense	8.4	-1.6	0.9	7.3	-6.3	6.0	7.1	0.5	4.6	4.6	0.7	2.4	1.0	0.5	1.6	1.2	0.6
Non-Defense	6.8	2.3	-1.5	16.9	-10.8	8.5	10.1	-0.5	6.0	6.0	0.2	2.8	0.8	0.3	1.8	1.1	0.2
State & Local	11.9	-8.8	6.0	-10.0	3.8	0.9	1.1	2.9	1.8	1.8	2.4	1.6	1.6	0.8	1.3	1.4	1.4
Final Sales of Domestic Prod.	5.4	2.0	1.0	3.5	1.3	3.6	4.0	2.4	-0.2	-0.2	1.8	1.9	2.6	2.4	2.5	1.5	2.6
Final Sales to Dom. Purch.	5.0	1.5	1.2	2.1	1.7	2.1	2.5	1.3	-0.4	-0.4	1.9	1.6	2.1	2.0	2.4	1.4	2.6
Addendum:																	
Nominal GDP	8.4	6.0	3.4	3.8	4.9	6.6	6.0	3.0	3.2	3.2	4.9	5.2	5.8	5.9	5.7	4.6	5.7
Personal Con Exp Deflator	1.7	4.3	2.6	-0.9	3.5	4.3	1.8	3.9	3.5	3.5	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	2.4	2.6	2.6	3.2	3.1	3.1	3.1	3.1	3.0	3.0

Richard Yamarone, Director of Economic Research

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