



PERIGON

THE ECONOMY AT A GLANCE

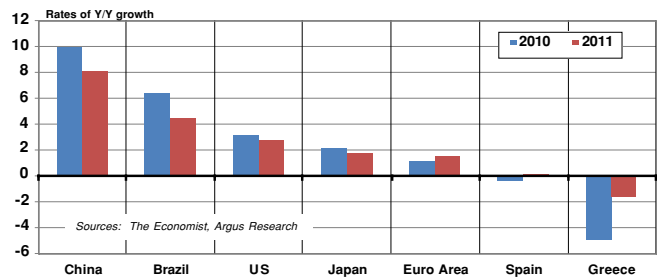
ECONOMIC HIGHLIGHTS

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GROWTH FORECASTS STALL A BIT

Global expectations for GDP are stable, with growth forecasts in the 1%-1.5% range through 2011. But the outlook is deteriorating rapidly in Greece, and forecasts are now negative in Spain. Rising tensions on the Korean Peninsula and the potential of a confrontation with Iran over nuclear weapons are adding to global concerns. The price of oil has generally been a good proxy for overall economic growth. In recent weeks, oil has fallen — suggesting global growth, while positive, is slowing.

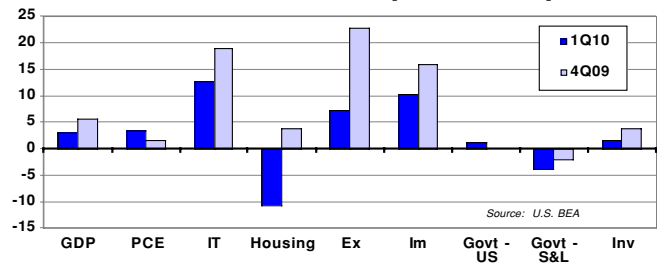
GLOBAL GDP FORECAST



GDP GROWTH REVISED LOWER TO 3%

The U.S. economy expanded at a 3.0% annual pace in the first quarter of 2010. This indicated solid growth. Looking ahead, our forecasts call for 2%-3% GDP growth through the balance of the year. This rate is slightly below the recent trend, reflecting the likelihood that a stronger dollar lowers export growth while government spending remains constrained. The consumer sector is expected to stay strong.

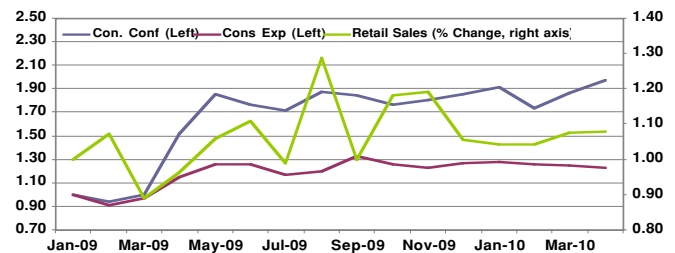
GDP COMPONENTS (% CHANGE)



CONSUMER COMING BACK

In the latest GDP report, consumer spending accounted for 70.7% of overall 1Q economic activity and rose at a 3.5% annual rate. Confidence has been recovering from the depths of the recession, though it remains far from the highs of 2006-2007. Looking ahead, we expect consumer confidence to continue its upward trek, pulling along expectations and retail sales. The measure in some respects is a lagging indicator; once consumer confidence climbs back above 100, the recovery may well be complete.

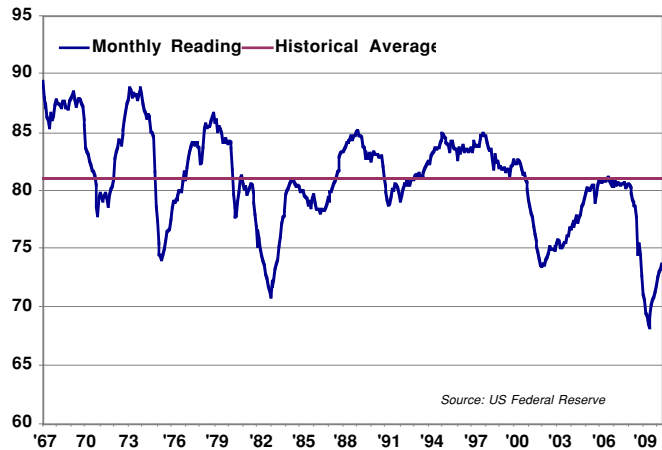
CONSUMER SECTOR METRICS (INDEX 1/09 = 1.00)



CAPACITY UTILIZATION CLIMBING BACK

Capacity utilization is historically low, but is on the upswing. In the latest report, the utilization rate was 73.7% — up from 68.2% in June 2009, but still well below the 1972-2008 average of 81%. Strengthening sectors included metal and metal products, plastics and machinery. The auto sector logged 53% of capacity, up from 48% in August 2009 but down sharply compared to the 20-year average rate of 76.7%. Trends are similar in the Tech sector, which is also currently plagued with overcapacity. Looking ahead, we note that during the last recession, utilization fell below 80% in January 2001 — and spent more than four years climbing back. This time around, we continue to anticipate a slow recovery — with utilization back toward the 80% level by 2013-2014.

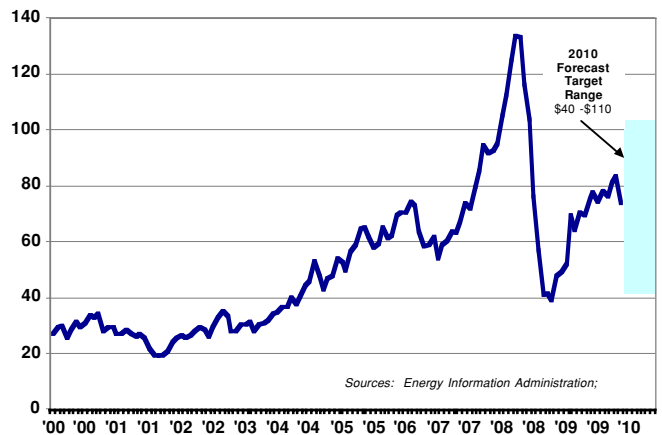
CAPACITY UTILIZATION (%)



OIL PRICES SLUMP, BUT GAS PRICES RISE

The price of West Texas Intermediate crude fell from \$84 in April to \$74 in May, and dropped below \$70 toward the end of the month. Argus forecasts an average price of \$77 per barrel for WTI for 2010, up from \$75, and \$85 for 2011. Our forecasts are based on our expectation that petroleum demand will resume its upward course after two years of declines. We also believe that supply could be curtailed by the fallout from the BP Gulf of Mexico disaster. Natural gas prices have been volatile in 2010, and generally on a downtrend. Though the current price of \$4.36 per mcf is up from the April reading of \$3.97, prices are still below the \$5.83 seen in February. Our estimates for the average well-head price of Henry Hub natural gas are \$4.50 per mcf for 2010 and \$5.30 per mcf for 2011.

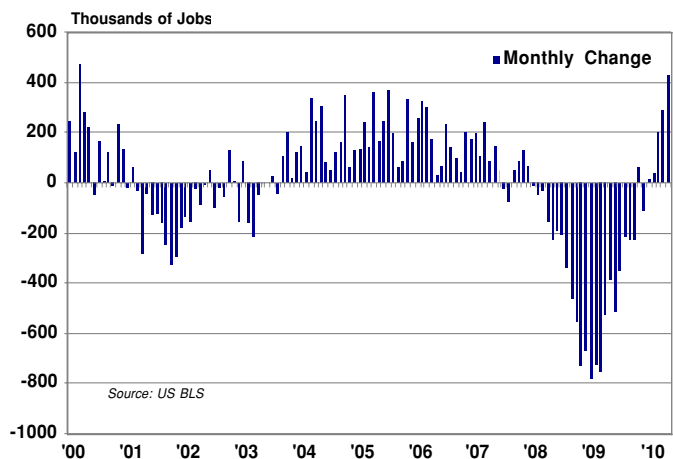
OIL PRICE TRENDS WTI SPOT PRICE (\$/BARREL)



PAYROLLS DISAPPOINT

The U.S. economy generated 431,000 jobs in May, the strongest reading since 2006. However, the results fell below consensus expectations of +500,000. Moreover, the vast majority of the jobs were created by the U.S. government as a result of the 2010 census. Excluding census workers, the economy created only 20,000 jobs during the month, well below trend. While the payroll report is disappointing, we have noted several times in recent months that household survey employment has risen sharply in 2010. We think the household results are more consistent with employment trends, as they include workers who have moved on to smaller companies or to self-employment. The overall unemployment rate fell to 9.7%. This level is too high for the Fed to raise short-term interest rate targets.

NONFARM PAYROLLS

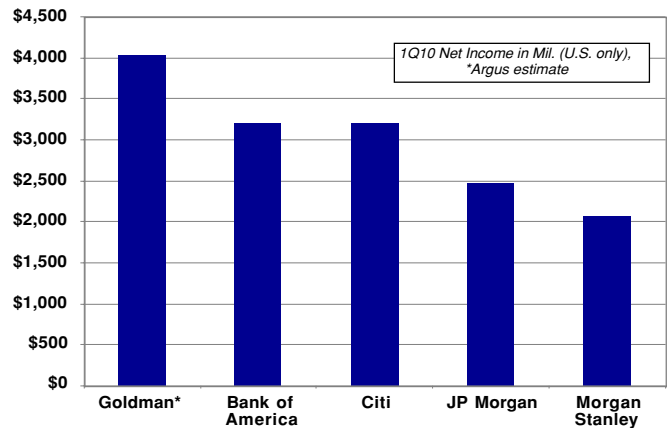


FINANCIAL MARKET HIGHLIGHTS

CAPITAL MARKETS EARNINGS STRONG

First-quarter 2010 profits from capital markets activities at the major banks were down from year-ago levels but still quite healthy — and probably add fuel to the reform push in Congress. Most of the major firms estimate that proprietary trading accounts for anywhere from 1% of total revenue to as much as 10%. Revenues from principal investing activities would also be at risk if the so-called “Volker Rule” were passed. In any event, the major banks are still best suited to serve the capital markets needs of large global companies and that won’t likely change as a result of this new rule, should it pass. (Note: Goldman does not break out segment profitability so we applied a 35% net profit margin to the company’s \$11.5 billion in revenue from investment banking, trading, and investing).

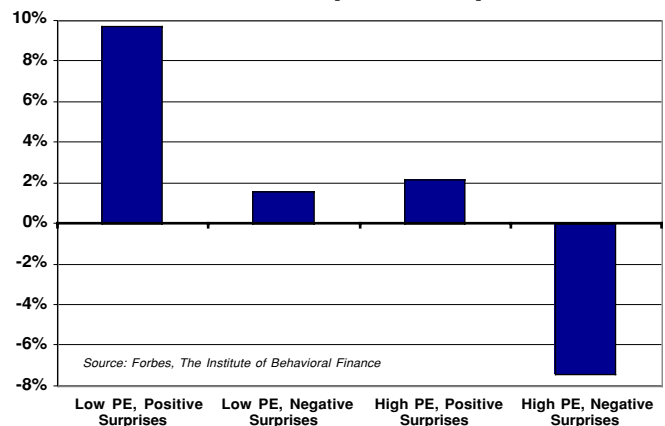
CAPITAL MARKETS EARNINGS STRONG



STOCK RETURNS, VALUATIONS AND EARNINGS EXPECTATIONS

Individual stocks react differently to earnings surprises. A study from the Institute of Behavioral Finance, published in Forbes magazine, puts numbers to a phenomenon that should seem familiar. Perhaps not surprisingly, high P/E stocks tend to lose most after negative earnings surprises and not gain as much from positive surprises. Alternatively, low P/E stocks gain the most from positive surprises, but don’t lose as much from negative surprises. We’ve observed this pattern during earnings season, but the study measured performance after one year in order to remove the impact of short-term moves. The study (admittedly a bit dated) also covers a 30-year period, so it seems to remove the impact of periods in which either growth or value stocks are favored.

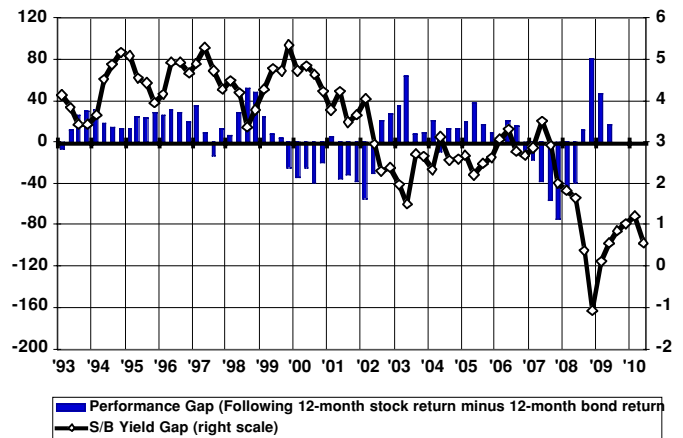
MEAN RETURN ONE-YEAR AFTER EARNINGS SURPRISE (1973-2004)



THE BOND-STOCK YIELD GAP – PREDICTIVE AT THE EXTREMES

This chart depicts the gap between yields on the 10-year Treasury note and the S&P 500. Plotted against this is the performance gap between the return on the S&P 500 and the return on the 10-year Treasury over the subsequent 12-month period. Generally, a yield gap of 400 basis points or less has proven bullish for stocks. More notable is that extreme levels have been very predictive of the market’s future direction. The yield gap peaked in the fourth quarter of 1999 at 535 basis points, foreshadowing that stocks were quite overvalued. Alternatively, in March of 2003 the gap shrunk to just 150 basis points as bond yields plunged and stock prices sunk to bear market lows (pushing up dividends). Current readings are below March 2003 levels, suggesting stocks are quite undervalued.

BOND-STOCK YIELD GAP



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Mon. 6/7	Consumer Credit	April	\$2.0B	\$1.9B	\$0.0B	N/A
Wed. 6/9	Wholesale Inventories Beige Book	April	0.4%	0.5%	0.7%	N/A
		N/A	N/A	N/A	N/A	N/A
Thur. 6/10	U.S. Trade Balance	April	-\$40.0B	-\$41.0B	-\$41.0B	N/A
Fri. 6/11	Advance Retail Sales	May	0.4%	0.2%	0.2%	N/A
	Retail Sales ex-Autos	May	0.4%	0.2%	0.1%	N/A
	Business Inventories	April	0.4%	0.5%	0.6%	N/A
	U. of Michigan Confidence*	June	73.6	75.0	75.0	N/A

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 6/22	Existing Home Sales	May	5.77M	5.85m	N/A	N/A
Wed. 6/23	New Home Sales FOMC Rate Decision	May	504k	525K	N/A	N/A
		N/A	0-0.25%	0-0.25%	N/A	N/A
Thur. 6/24	Durable Goods Orders	April	2.9%	1.0%	N/A	N/A
Fri. 6/25	Gross Domestic Product	Q1	3.0%	3.0%	N/A	N/A
	GDP Price Index	Q1	1.0%	1.0%	N/A	N/A
	U. of Michigan Confidence^	June	N/A	75.0	N/A	N/A

* Preliminary

** Advance

^Final

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