



Economic & Investment Outlook

Second Quarter 2008

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Investment Outlook

2008 – Second Quarter

Economy

- U.S. economy most likely entered into the current recession in Q4 2007. Expect real GDP growth of approximately 1.5% in 2008, compared to roughly 2% in 2007. Economy will strengthen in the 2nd half of 2008.
- Recessionary factors and inflation are the key issues for the Federal Reserve. Energy and food prices remain stubbornly high with no relief in sight.
- Federal Reserve continues to reduce Fed Funds rate as it has chosen slower economic growth rather than inflation as its primary foe. Fed caught between a rock and a hard place. Must consider the liquidity crunch, inflation, weakening economic conditions, weak dollar, and declining home values. While Fed policy may be suitable for some of these issues, it may be problematic for others.
- Continued weakness in the U.S. dollar due to large twin deficits, as well as higher global interest rates providing competition for U.S. debt.



Investment Outlook

2008 – Second Quarter

Fixed Income & Interest Rates

- Long term rates to drift slightly higher as investors eventually focus on inflationary pressures. Returns will be limited by rising intermediate to long-term interest rates.
- Money Market rates to come down from highs due to the recent and anticipated Fed action.

Equities

- Anticipate modest equity returns in 2008.
 - Corporate operating earnings will be lower, but still healthy. Balance sheets remain strong.
 - Equity valuations at reasonable levels but not cheap with the S & P 500 trading at 16 times 2008 estimated operating earnings. Expect 2008 earnings estimates to be revised lower over the next several quarters.
 - Financial markets will continue to experience higher levels of volatility until the credit markets stabilize, inflation is no longer a concern, and a clearer sense of our economic direction emerges.
 - International equities remain relatively attractive due to favorable valuations and anticipated growth rates greater than those in the U.S.