



Economic & Investment Outlook

Third Quarter 2008

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Investment Outlook

2008 –Third Quarter

Economy

- Continuation of recessionary pressures for the remainder of 2008, i.e. a decline in economic activity represented by GDP, employment, industrial production, real income, and retail sales.
- Expect real GDP growth of approximately 1% in 2008, compared to roughly 2% in 2007. Q2 GDP to be weakly positive – aided by the Economic Stimulus Package of 2008 - \$107B to be injected into the economy by July '08.
- Federal Reserve interest rate policy on hold. The Fed will talk tough on inflation to support the U.S. dollar but will keep interest rates steady through the remainder of the year to promote price stability and sustainable economic growth.
- Inflation outlook remains uncertain but certainly appears to be headed higher (food and energy). The Fed must also consider weakening employment, stress in the financial markets, and the continued deterioration in the housing sector.
- The U.S. dollar will not strengthen until the Fed raises interest rates. The U.S. dollar suffers from our large twin deficits, as well as higher global interest rates providing competition for U.S. debt.



Investment Outlook 2008 – Third Quarter

Fixed Income & Interest Rates

- Long term rates will drift higher as investors focus on inflationary pressures. Anticipated twelve month returns will be limited by rising intermediate to long-term interest rates.
- The gradual rise in interest rates will be periodically interrupted by a flight to quality (lower treasury yields) resulting from disruptions in the financial markets.

Equities

- Financial markets will continue to experience higher levels of volatility until the credit markets stabilize, inflationary pressures subside, and economic activity improves.
- 2008 S&P 500 operating earnings will be marginally higher than 2007.
- Equity valuations at reasonable levels but not cheap with the S & P 500 trading at 15 times 2008 estimated operating earnings. Expect 2008 reported earnings estimates to be revised lower over the next several quarters.
- International equities remain relatively attractive due to favorable valuations and anticipated growth rates greater than those in the U.S.