TALKING POINTS
A Recap of May 2007

The Economy

The Organization for Economic Cooperation and Development recently adjusted its global growth rates for 2007 to the following: 2.7% (13-nation euro-area); 2.4% (Japan); and 2.1% (U.S.), according to Bloomberg. If this forecast proves correct, it would be the first time in 16 years that the U.S. grew at a slower pace than its two major economic rivals in the same year. The *Blue Chip Economic Consensus Forecast* out in May called for 2.2% growth (U.S.) in 2007 and 2.9% in 2008. Brian Wesbury, Chief Economist at First Trust Advisors, believes that the U.S. is likely to grow at closer to a 3% or above clip for the remainder of 2007 due to the following factors: less of a drag from housing; a pickup in business spending; a buildup of inventories; continued strength in personal consumption; some shrinkage in the trade deficit; and the potential for a pickup in government spending.

Consumer Confidence	**108.0** (May)	104.0 (Apr)	⇧
Crude Oil (Mo.-End)	**$64.01** (May)	$65.71 (Apr)	⇩
Factory Orders	**0.3%** (Apr)	3.1% (Mar)	⇩
ISM Manufacturing	**55.0** (May)	54.7 (Apr)	⇧
ISM Non-Manufacturing	**59.7** (May)	56.0 (Apr)	⇧
Personal Income	**-0.1%** (Apr)	0.7% (Mar)	⇩
Personal Spending	**0.5%** (Apr)	0.3% (Mar)	⇧
Construction Spending	**0.1%** (Apr)	0.2% (Mar)	⇩
Industrial Production	**0.7%** (Apr)	-0.3% (Mar)	⇧
Capacity Utilization	**81.6** (Apr)	81.4 (Mar)	⇧

The Stock Market

The three major indices were all up big in May with the DJIA, S&P 500 and Nasdaq Composite returning 4.6%, 3.5% and 3.3%, respectively. Small-cap stocks, as measured by the Russell 2000 Index, gained 4.1%. Some of the top performing S&P 500 industry groups in May were as follows: Aluminum (+16.3%); Health Care Supplies (+15.4%); Coal & Consumable Fuels (+13.9%); Wireless Telecom. Services (+12.7%); Oil & Gas Drilling (+10.9%); Residential REITs (+9.9%); and Computer Hardware (+8.9%). The top performing S&P sector was Telecom Services (+9.6%). In May, the dividend-payers (387) in the S&P 500 (equal weight) posted a total return of 3.41%, vs. 2.96% for the non-payers (113), according to Standard & Poor's. Year-to-date, the payers gained 10.59%, vs. 10.61% for the non-payers. For the 12-month period ended May 2007, payers gained 23.75%, vs. 20.49% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 153, lagging the 162 and 163 increases registered over the same period in 2006 and 2005. The dividend yield was 1.80%. The last time corporate earnings bottomed was in the second quarter of 2001, according to USA TODAY. Since then, S&P 500 profits are up 150%, but the index itself has appreciated just 25%, according to Howard Silverblatt, senior index analyst at S&P. The 500 companies that comprise the index are 45% cheaper today relative to historical profits than when the index last peaked on March 24, 2000, and 30% cheaper than when it bottomed on October 9, 2002, according to Bloomberg. P-E ratios have contracted despite the longest quarterly profit growth streak since 1950. The Leuthold Group puts the median price of the market's largest growth companies at 19.2 times earnings, according to the *Chicago Tribune*. Since 1982, the average has been 26 times earnings.

U.S. Dollar (U.S. Trade- Weighted Basket)	**0.01%** (May) -3.07% (Y-T-D) $ was down 5.25% in '06	⇧
AAII Sentiment Index	**33.3% Bullish** (5/31) 39.2% Bullish (4/30)	⇩
Short Interest (NYSE)	May: **11.76B** (+7.0%) Apr: 10.99B (+4.7%) *Short Interest at record high*	⇧
Margin Debt (NYSE)	Apr: **$318.0B** (+8.5%) Mar: $293.2B (-0.9%) *Margin Debt at record high*	⇧

The Bond Market

Index (Source: Lehman Bros.)	May	12-Mo.
U.S. Treasury: Intermediate	-0.64%	5.32%
GNMA 30 Year	-0.50%	6.87%
Municipal Bond (22+)	-0.65%	6.28%
U.S. Aggregate	-0.76%	6.66%
Intermediate Corporate	-0.77%	6.70%
U.S. Corporate High Yield	0.75%	13.19%
Global Aggregate	-1.56%	4.30%
Global Emerging Markets	-0.69%	12.83%

The yield on the 10-Yr. T-Note rose 27 basis points in May closing at 4.89% – 23 basis points lower than a year ago. The yield curve in the U.S. remains flat. The global savings glut may still be the main cause. Government bond yields (10-yr.) throughout most of Europe remain about 40 -50 basis points below what foreigners can get in the U.S. Japan is paying a little over 300 basis points less. Now that banks in China can have up to 50% of the value of their overseas holdings in equities, we'll see if they curb their appetite for bonds moving forward. On another note, in 1992, 72% of all U.S. issuers were rated investment-grade by Standard & Poor's, a 25-year high, according to The Bond Market Association. By the close of 2006, that percentage had dropped to 50.7%. The median rating fell from A- in 1992 to BBB- in 2006, according to S&P.

Key Rates as of May 31st

Fed Funds	5.25%
2-Yr. T-Note	4.91%
10-Yr. T-Note	4.89%
30-Yr. Mortgage	6.36%
Bond Buyer 40	4.70%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 280 basis points on May 31. The yield on the index was 7.69%. The spread was 324 basis points on May 31, 2006, when the yield was 8.36%.

2007 Debt Issuance through April
(Source: Thomson Financial)

Debt Category	$ Amount	% change over '06
Corporate	$375.9 Billion	+19.3%
Convertible	$29.9 Billion	+79.0%
Asset-Backed	$387.9 Billion	+8.7%
Municipal	$138.7 Billion	+41.5%

The Investment Climate

Net cash inflows to equity funds totaled $18.3 billion in April, up from $8.1 billion in March, according to the Investment Company Institute. Bond funds reported inflows totaling $13.6 billion, down from $14.8 billion in March. Money funds reported outflows totaling $11.3 billion, vs. inflows totaling $24.4 billion in March. Y-T-D through April, inflows to equity funds totaled $82.6 billion, vs. $58.5 billion for bond funds.