First Trust TALKING POINTS

A Recap of May 2008

The Economy

The consensus forecast from the Blue Chip Economic Indicators newsletter released in May '08 called for 1.7% real GDP growth for the U.S. in Q3'08, down from last month's 2.0% projection. Its GDP forecast for Q4'08 is 1.5%, down from 1.9% a month ago. Federal Reserve Chairman Ben Bernanke acknowledged in a recent speech at a conference in Spain that the Fed may be done easing due to concerns over mounting inflation. He also addressed the weakness in the dollar and its role in pushing prices higher. The dollar is down 7.1% vs. a basket of major currencies since 9/18/07 (1st rate cut).

Consumer Confidence
57.2 (May)
62.3 (Apr)

Crude Oil (Mo.-End)
$127.35 (May)
$113.46 (Apr)

Personal Spending
0.2% (Apr)
0.4% (Mar)

ISM Manufacturing
49.6 (May)
48.6 (Apr)

ISM Non-Manufacturing
51.7 (May)
52.0 (Apr)

Gold (Mo.-End)
$887.30 (May)
$865.10 (Apr)

Natural Gas (Mo.-End)
$11.70 (May)
$10.84 (Apr)

Construction Spending
-0.4% (Apr)
-1.1% (Mar)

New Home Sales
526,000 (Apr)
509,000 (Mar)

Existing Home Sales
4.89M (Apr)
4.94M (Mar)

The Stock Market

Index (Source: Bloomberg)	May	Y-T-D
S&P 500	1.30%	-3.80%
DJIA	-1.10%	-3.71%
Nasdaq 100	6.08%	-2.29%
S&P 400	5.29%	3.36%
Russell 2000	4.59%	-1.81%
MSCI World (ex U.S.)	1.70%	-1.71%
MSCI Emerging Markets	1.84%	-2.01%

Subsectors (Source: S&P)	May	Y-T-D
Coal & Consumable Fuels	20.7%	27.2%
Brewers	14.8%	10.1%
Application Software	13.1%	-4.4%
Wireless Telecom Services	12.0%	-17.3%
Semiconductors	7.1%	-6.3%

U.S. and foreign stocks were up big in May. In the U.S., 86 out of the 130 subsectors that comprise the S&P 500 posted gains, down from 106 last month. The top sector was Information Technology up 5.5%. In May, the dividend-payers (386) in the S&P 500 (equal weight) posted a total return of 1.90%, vs. 4.75% for the non-payers (114), according to Standard & Poor's. Year-to-date, the payers declined 1.80%, vs. a loss of 0.88% for the non-payers. For the 12-month period ended May '08, payers fell 10.56%, vs. a decline of 11.07% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 141. That lagged the 153 increases over the same period in 2007 and the 162 increases registered in 2006. The dividend yield on the index was 2.07% at the end of May. The average yield on taxable money market funds was 1.94%, according to iMoneyNet.com. Over the past 50 years, the S&P 500 has rallied 12.3%, on average, in the period from the last Fed rate cut in an easing cycle to the first rate increase, according to *USA TODAY*. The average duration of those 12 rate cycles was 329 days, or nearly 11 months. Net insider selling totaled $4.7 billion in the first four months of 2008, according to Charles Biderman, CEO of Trimtabs. That is the lowest four-month total ever measured by Trimtabs.

U.S. Dollar
(U.S. Trade-Weighted Basket)
-0.3% (May)
-3.5% (Y-T-D)
$ was down 10.0% in '07

CBOE Total Equity Options
(# of contracts in millions)
48.6 (5/30)
48.4 (4/30)
Record 1/08: 55.1 million

Short Interest (NYSE)
May 15: **16.00B** (+2.37%)
Apr 15: 15.63B (-2.37%)
Record 3/08: 16.01 billion

S&P 500 P-E Ratio
(Trailing 12-mo. earnings)
22.49 (5/30)
21.12 (4/30)
Avg. P-E is 20 over past 25 years

The Bond Market

Index (Source: Lehman)	May	Y-T-D	Yield
U.S. Treasury: Intermediate	-0.95%	1.82%	3.11%
GNMA 30 Year	-0.57%	1.83%	5.54%
Municipal Bond (22+)	0.83%	-0.40%	4.53%
U.S. Aggregate	-0.73%	1.21%	5.09%
Intermediate Corporate	-0.65%	0.62%	5.86%
U.S. Corporate High Yield	0.36%	1.53%	10.06%
Global Aggregate	-1.11%	3.44%	4.39%
Global Emerging Markets	0.31%	2.50%	6.69%

The yield on the 10-Yr. T-Note rose 33 basis points in May closing at 4.06% – 83 basis points below the close on May 31, '07. Highly-rated companies sold 147 bond issues totaling $132.8 billion in May, the most issues sold since January '03 and the most dollars ever raised in a month, according to Thomson Reuters. This is a good indication that the credit crunch that began in Q3'07 is easing. Lower-rated firms raised $12.1 billion – near the midpoint of their $10-$15 billion range. A recent study by S&P suggests that purchasing insured municipal bonds may not be worth the added cost since tax-frees rarely default, according to Bloomberg. S&P looked at 10,268 borrowing entities since 1986 and found zero defaults among those rated AAA and AA. The average default rate on A-rated and BBB-rated bonds was just 0.16% and 0.29%, respectively.

Key Rates as of May 30

Fed Funds	2.00%
2-Yr. T-Note	2.64%
10-Yr. T-Note	4.06%
30-Yr. Mortgage	5.87%
Bond Buyer 40	5.13%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 606 basis points on 5/30/08. It was 280 on 5/31/07 and 637 on 4/30/08. *(Source: Bloomberg)*

2008 Debt Issuance through April
(Source: Thomson Financial)

Debt Category	$ Amount	% change over '07
Corporate	$341.9 Billion	-8.6%
Convertible	$10.7 Billion	-65.4%
Asset-Backed	$78.1 Billion	-81.2%
Municipal	$136.7 Billion	-3.0%

The Investment Climate

Net cash inflows into equity funds totaled $12.2 billion in 4/08, vs. outflows totaling $9.4 billion in 3/08, according to the Investment Company Institute. Bond funds took in $16.8 billion, up from inflows totaling $8.8 billion in 3/08. Money Market funds reported outflows totaling $47.8 billion, vs. inflows totaling $56.7 billion in 3/08. Y-T-D thru 4/08, equity fund outflows totaled $31.5B, vs. bond fund inflows of $62.3B and MMF inflows of $267.3B.