

The Economy

The consensus forecast from the Blue Chip Economic Indicators newsletter released in August '08 called for 1.2% real GDP growth for the U.S. in Q3'08, down from last month's 1.3% projection. Its GDP forecast for Q4'08 is 0.3%, down from 0.6% a month ago. The consensus GDP forecast for 2008 remained at 1.6%, while 2009's projection was lowered from 1.7% to 1.5%. The survey also found that 78% of the 50 economists polled expect the Fed to hold rates at current levels through the end of 2008. The headline inflation rate is 5.6%, but energy, commodity and gold prices are falling.

Consumer Confidence 56.9 (Aug) 51.9 (Jul)	↑	Crude Oil (Mo.-End) \$115.46 (Aug) \$124.08 (Jul)	↓	Personal Spending 0.2% (Jul) 0.6% (Jun)	↑	ISM Manufacturing 49.9 (Aug) 50.0 (Jul)	↓	ISM Non-Manufacturing 50.6 (Aug) 49.5 (Jul)	↑
Gold (Mo.-End) \$831.20 (Aug) \$913.90 (Jul)	↓	Natural Gas (Mo.-End) \$7.94 (Aug) \$9.12 (Jul)	↓	Construction Spending -0.6% (Jul) -0.4% (Jun)	↓	New Home Sales 515,000 (Jul) 530,000 (Jun)	↓	Existing Home Sales 5.00M (Jul) 4.86M (Jun)	↑

The Stock Market

Indices (Source: Bloomberg)

	August	Y-T-D
S&P 500	1.45%	-11.38%
DJIA	1.81%	-11.41%
Nasdaq 100	1.36%	-9.88%
S&P 400	1.71%	-4.07%
Russell 2000	3.61%	-2.62%
MSCI World (ex U.S.)	-3.85%	-15.91%
MSCI Emerging Markets	-8.04%	-21.95%

Top Sector/Subs (Source: S&P)

	August	Y-T-D
Consumer Discretionary	7.0%	-7.4%
Apparel, Accessories & Luxury	16.1%	4.8%
Department Stores	16.0%	-8.6%
Auto Manufacturers	-8.0%	-46.5%
Consumer Electronics	-17.3%	-53.8%

U.S. and foreign stocks were mixed in August. High inflation is tempering global growth so investors are selling foreign stocks after a great 5-year run. Ninety-one out of the 130 subsectors that comprise the S&P 500 posted gains, up from 66 last month. In August, the dividend-payers (384) in the S&P 500 (equal weight) posted a total return of 2.49%, vs. 3.81% for the non-payers (116), according to Standard & Poor's. Year-to-date, the payers declined 9.69%, vs. a loss of 8.09% for the non-payers. For the 12-month period ended August '08, payers fell 12.18%, vs. a decline of 12.45% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 189. That lagged the 210 increases over the same period in 2007. The ongoing credit crunch has extended its influence to the IPO market. So far in '08, 43 IPOs were priced in the U.S., down 74.9% from this point last year (171), according to data from Renaissance Capital's IPOHome.com. Total volume was \$27.8 billion. At this pace, total volume for the year will approach \$42 billion, below last year's take of \$59.7 billion and more than half off the \$97.4 billion raised in 2000. Of the 10 major sectors that comprise the S&P 500, the ones trading the most above their lows set this summer are Financials (+25.3%) and Consumer Discretionary (+17.1%).

U.S. Dollar (U.S. Trade-Weighted Basket) 4.6% (August) 2.4% (Y-T-D) \$ was down 10.0% in '07	↑	CBOE Total Equity Options (# of contracts in millions) 45.3 (8/29) 67.2 (7/31) Record 7/08: 67.2 million	↓	Short Interest (NYSE) Aug 15: 17.80B (-4.35%) Jul 15: 18.61B (+5.44%) Record 7/08: 18.61 billion shares	↓	S&P 500 P-E Ratio (Trailing 12-mo. earnings) 24.75 (8/29) 20.83 (7/31) Avg. P-E is 20 over past 25 years	↑
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The Bond Market

Index (Source: Lehman)	August	Y-T-D	Yield
U.S. Treasury: Intermediate	0.36%	4.29%	2.74%
GNMA 30 Year	0.10%	3.20%	5.56%
Municipal Bond (22+)	0.05%	-2.03%	5.35%
U.S. Aggregate	0.30%	2.31%	5.01%
Intermediate Corporate	0.34%	0.40%	6.25%
U.S. Corporate High Yield	0.12%	-2.17%	11.54%
Global Aggregate	-0.58%	1.36%	4.31%
Global Emerging Markets	-0.21%	0.24%	7.14%

The yield on the 10-Yr. T-Note fell 14 basis points in August closing at 3.81% – 72 basis points below the close on August 31, '07. Moody's reported that the U.S. speculative-grade default rate stood at 2.5% in July, up from 1.5% in July 2007, according to Bloomberg. It sees the default rate rising to as high as 6.3% by July 2009. The default rate on senior loans stood at 2.92% in July, up from 0.42% in July 2007 and just shy of its historical average of 3.00%, according to Standard & Poor's LCD. Standard & Poor's said mid-month that it is no longer reviewing its ratings on the insurance arms of MBIA and Ambac Financial for potential downgrade, though it maintained a negative outlook on both, according to *BusinessWeek*. Both were downgraded in June from AAA to AA. With the exception of municipals, debt issuance is down significantly y-t-d (see chart below).

Key Rates as of August 29 Fed Funds 2.00% 2-Yr. T-Note 2.36% 10-Yr. T-Note 3.81% 30-Yr. Mortgage 6.24% Bond Buyer 40 5.32%	Key Yield Spread The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 757 basis points on 8/29/08. It was 450 on 8/31/07 and 735 on 7/31/08. (Source: Bloomberg)	2008 Debt Issuance through July (Source: Thomson Financial)															
		<table> <tr> <th>Debt Category</th><th>\$ Amount</th><th>% change over '07</th></tr> <tr> <td>Corporate</td><td>\$582.0 Billion</td><td>-15.9%</td></tr> <tr> <td>Convertible</td><td>\$30.3 Billion</td><td>-43.2%</td></tr> <tr> <td>Asset-Backed</td><td>\$137.4 Billion</td><td>-80.5%</td></tr> <tr> <td>Municipal</td><td>\$266.3 Billion</td><td>+1.2%</td></tr> </table>	Debt Category	\$ Amount	% change over '07	Corporate	\$582.0 Billion	-15.9%	Convertible	\$30.3 Billion	-43.2%	Asset-Backed	\$137.4 Billion	-80.5%	Municipal	\$266.3 Billion	+1.2%
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The Investment Climate

Net cash outflows from equity funds totaled \$26.4 billion in 7/08, vs. outflows totaling \$4.8 billion in 6/08, according to the Investment Company Institute. Bond funds took in \$1.8 billion, down from \$4.6 billion in 6/08. Money Market funds reported inflows totaling \$79.4 billion, vs. outflows totaling \$75.9 billion in 6/08. Y-T-D thru 7/08, equity fund outflows totaled \$47.3B, vs. \$85.9B in bond fund inflows and \$314.8B in MMF inflows.