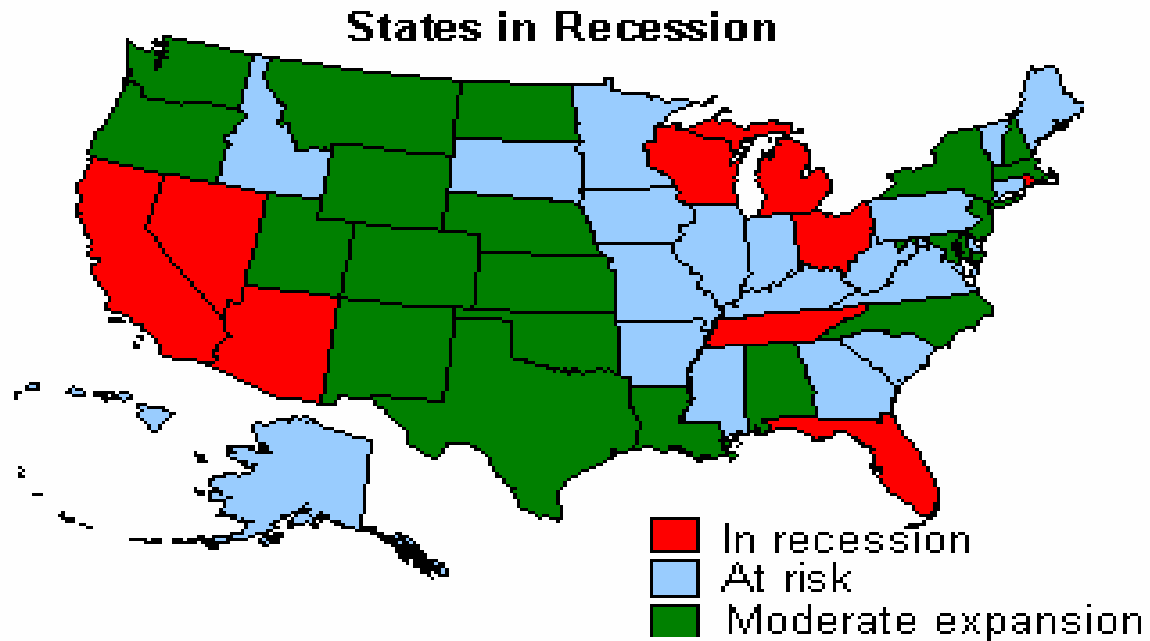


Monthly Chartbook

May 2008



Boom? Or Bust? Perhaps Neither!

Regions are in recession, not the entire country.

Big Picture

The immediate grasp of the crisis has passed; now the real worry is the dilutive effect of the recapitalization on the banking system.

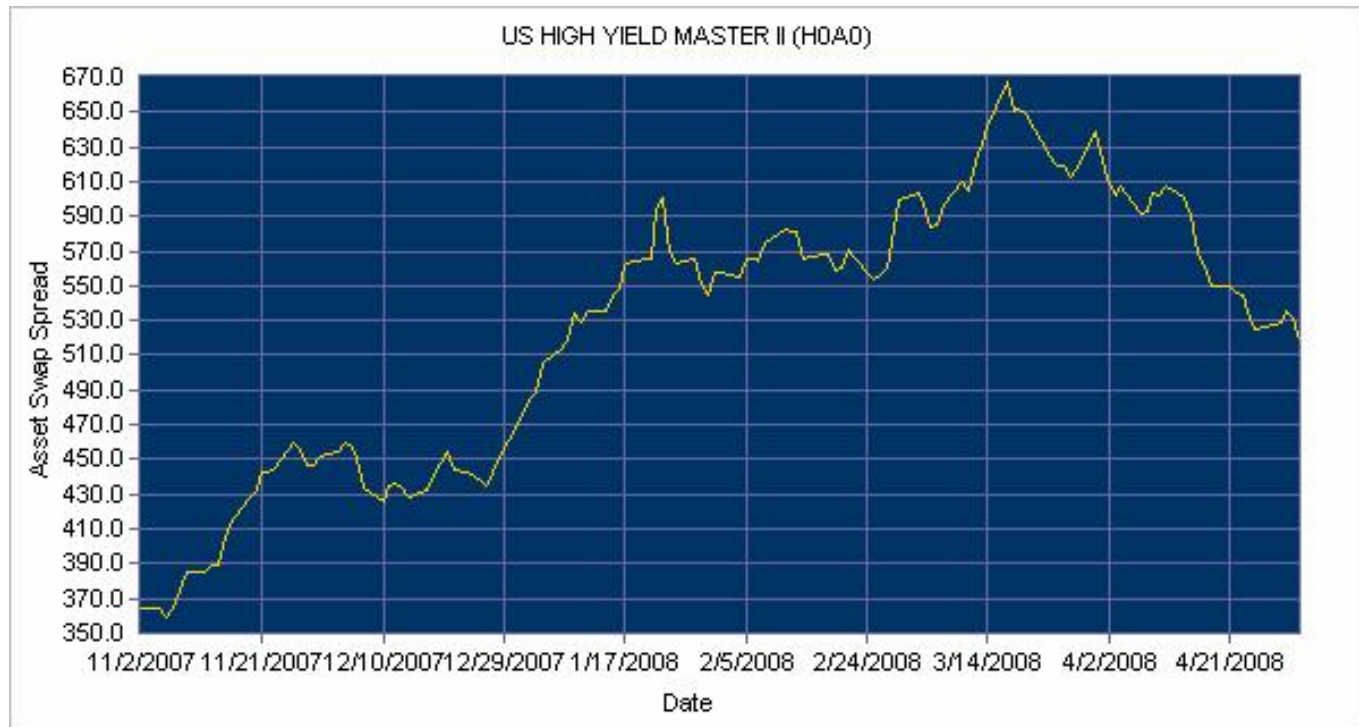
The *next worry* after that is inflation. If the dollar doesn't get the solid bounce so many expect, watch out inflation expectations.

Macro-economic research



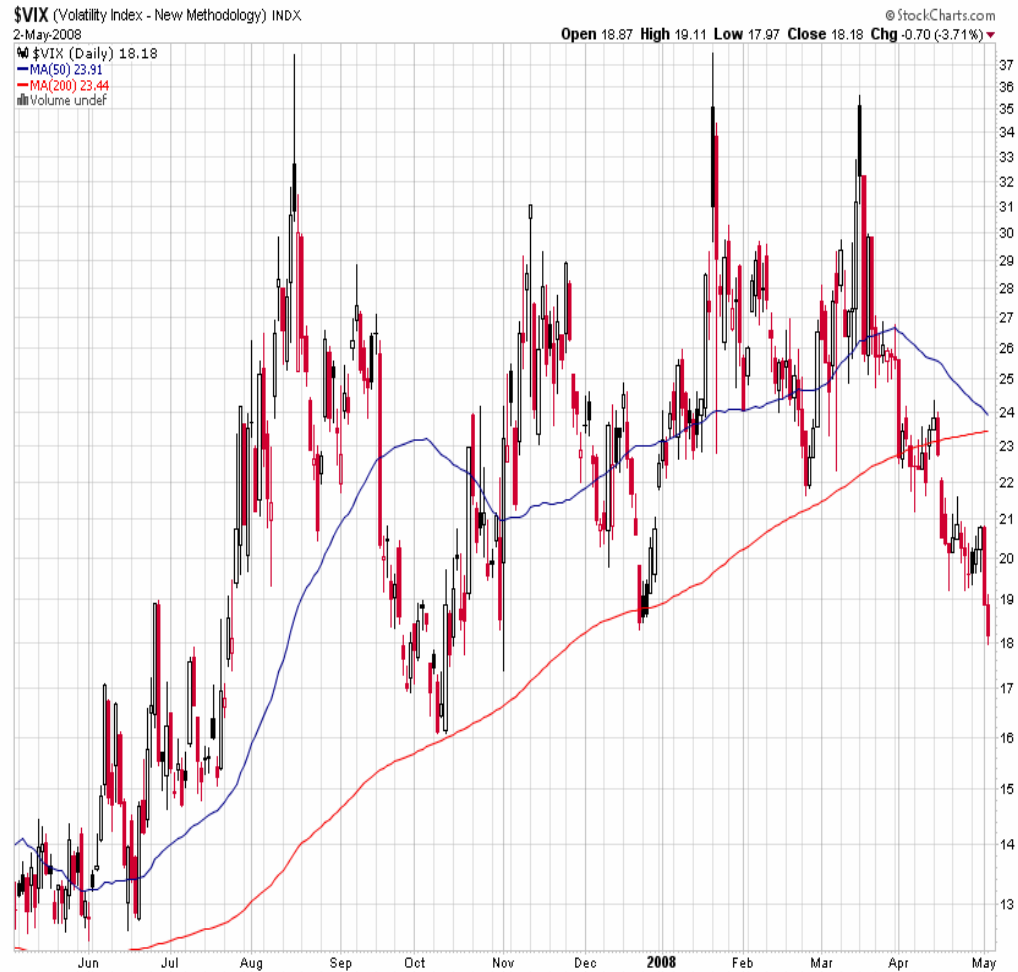
The yield on Three Month Treasury Bills shows some return to normalcy. Risk aversion was so great right before the BSC rescue that yields almost fell to zero.

Macro-economic research



Yield spreads on the most risky class of investments are what is in the driver's seat. These spreads have settled down somewhat, and that is the change that has the stock market higher.

Macro-economic research

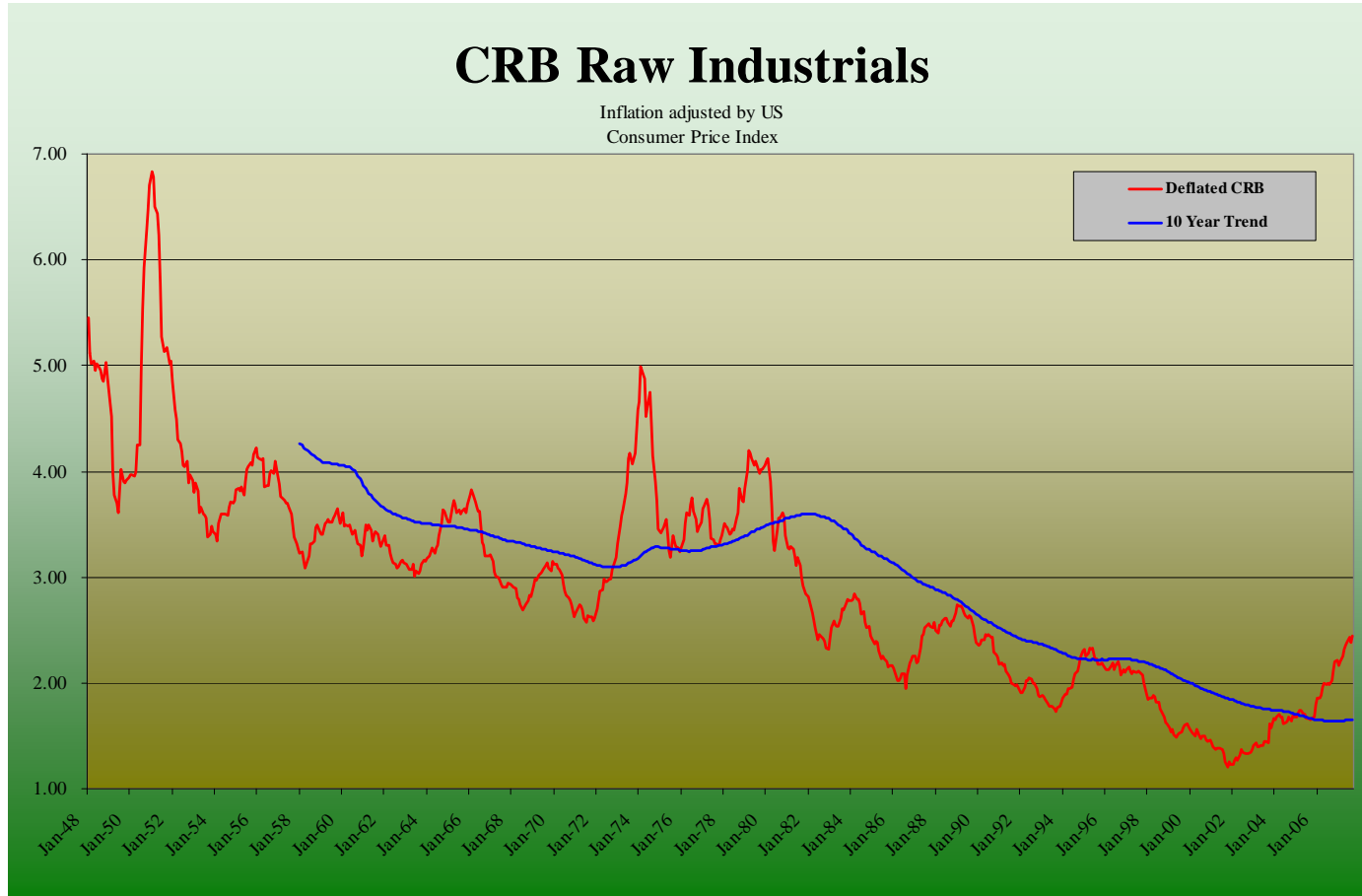


Along with yield spreads, the VIX has settled down but is still elevated over its five year average.

The Macro View

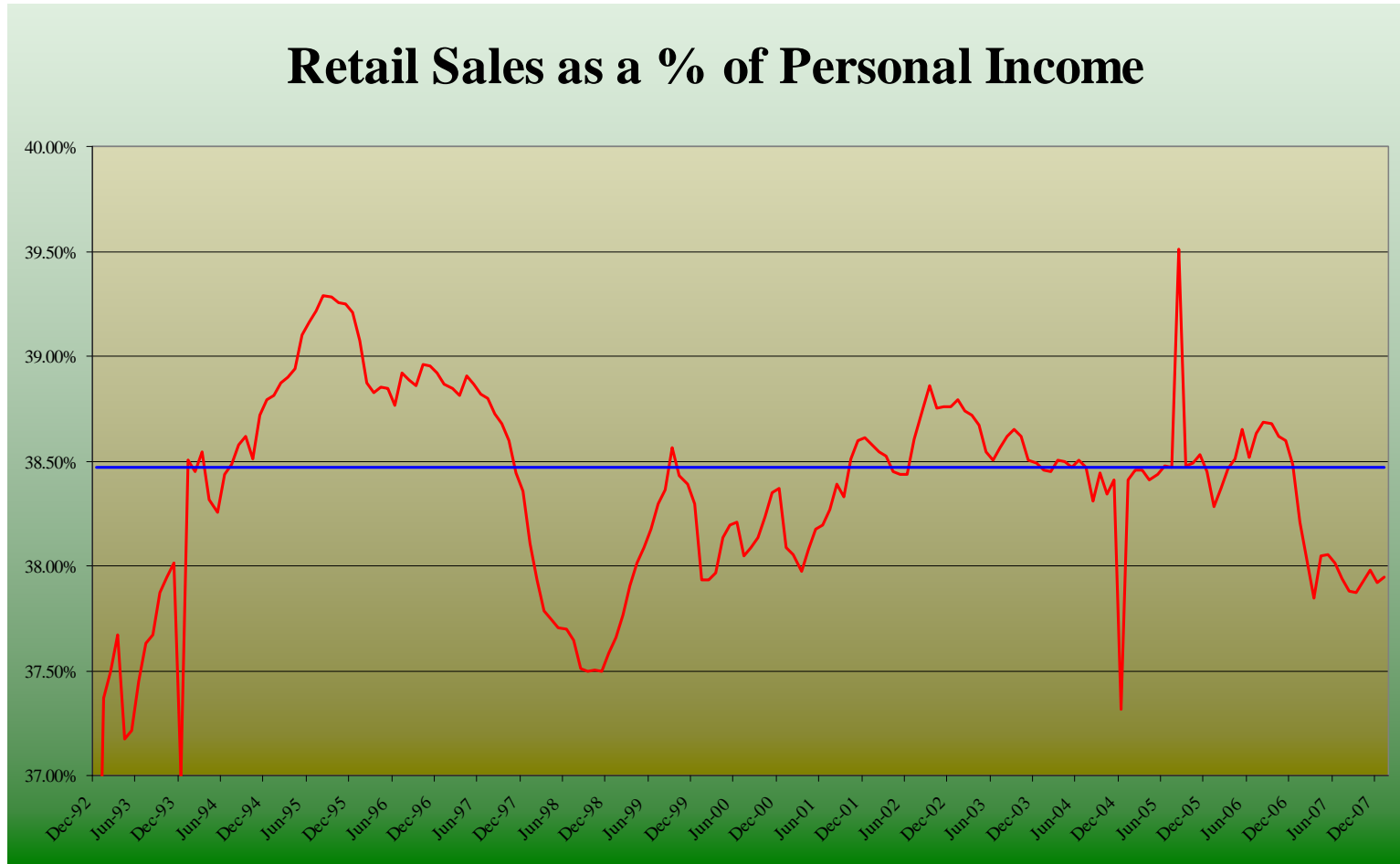
- It's *still* about leverage, access to funds and de-leveraging.
- The Global economy is benefiting from commodity prices (emerging markets) and increased final demand from the so-called BRIC's (Brazil, Russia, India, China).
- It seems as though everyone is betting **against** the US dollar and **on** the ability for the World to de-couple from US growth.
- A Consumer/Retail recession is upon us. How long and how deep will be an open question until we get past the effects of the stimulus checks.

All Urban CPI deflated CRB Raw Industrials



If this is a 10-25 year Super Cycle, where are we on price??? Year 5, year 10? How about 5 years in, but priced like year 10. Not much room for error for the speculators who are long but don't own the raw commodity.

Retail Sales as a % of Personal Income

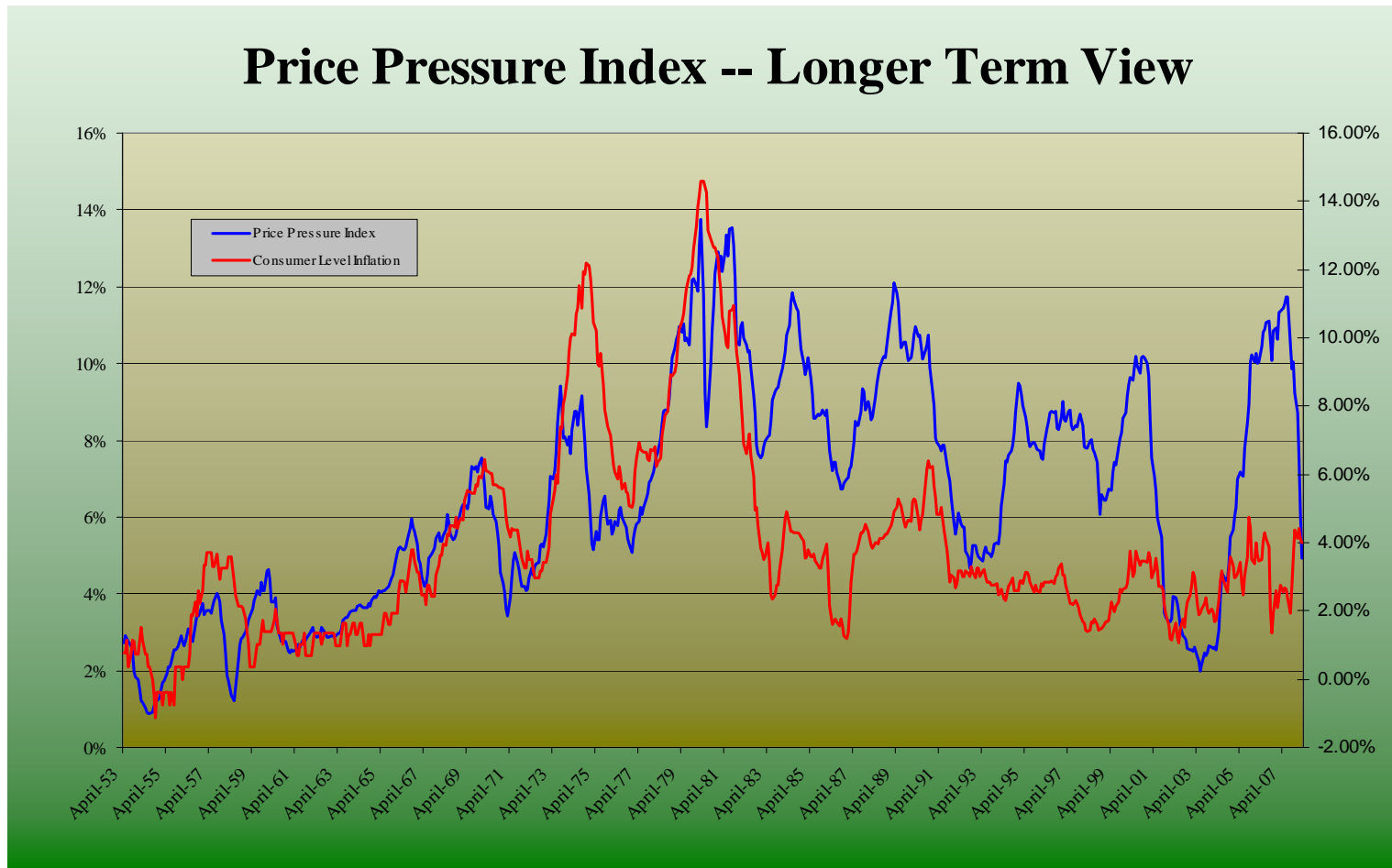


Retail looks to be in a rocky environment now that Mortgage Equity Withdrawal (MEW) is spent.

Inflation expectations

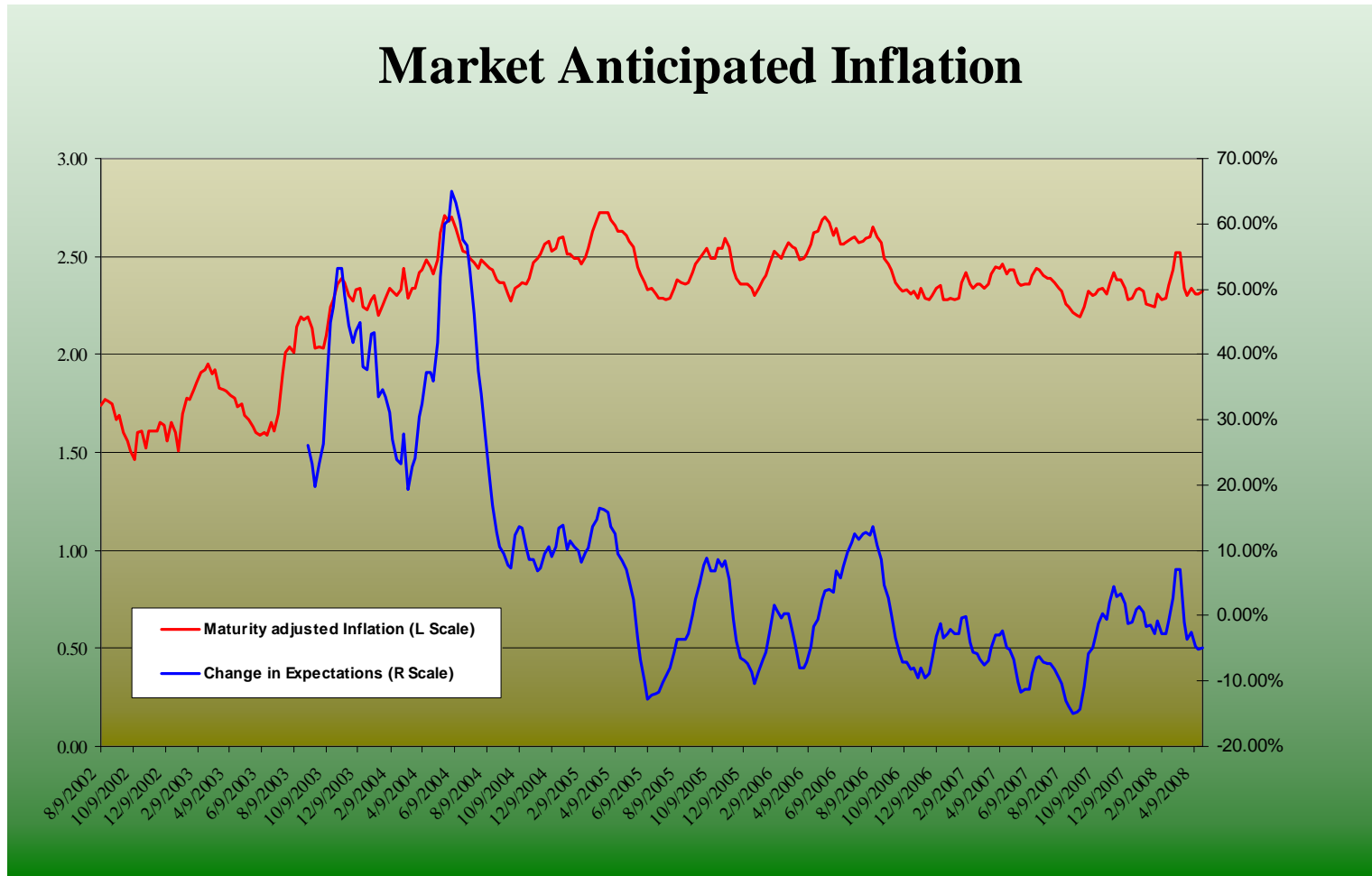
We expect inflation to become a problem the Fed has to address, soon...

Inflation expectations



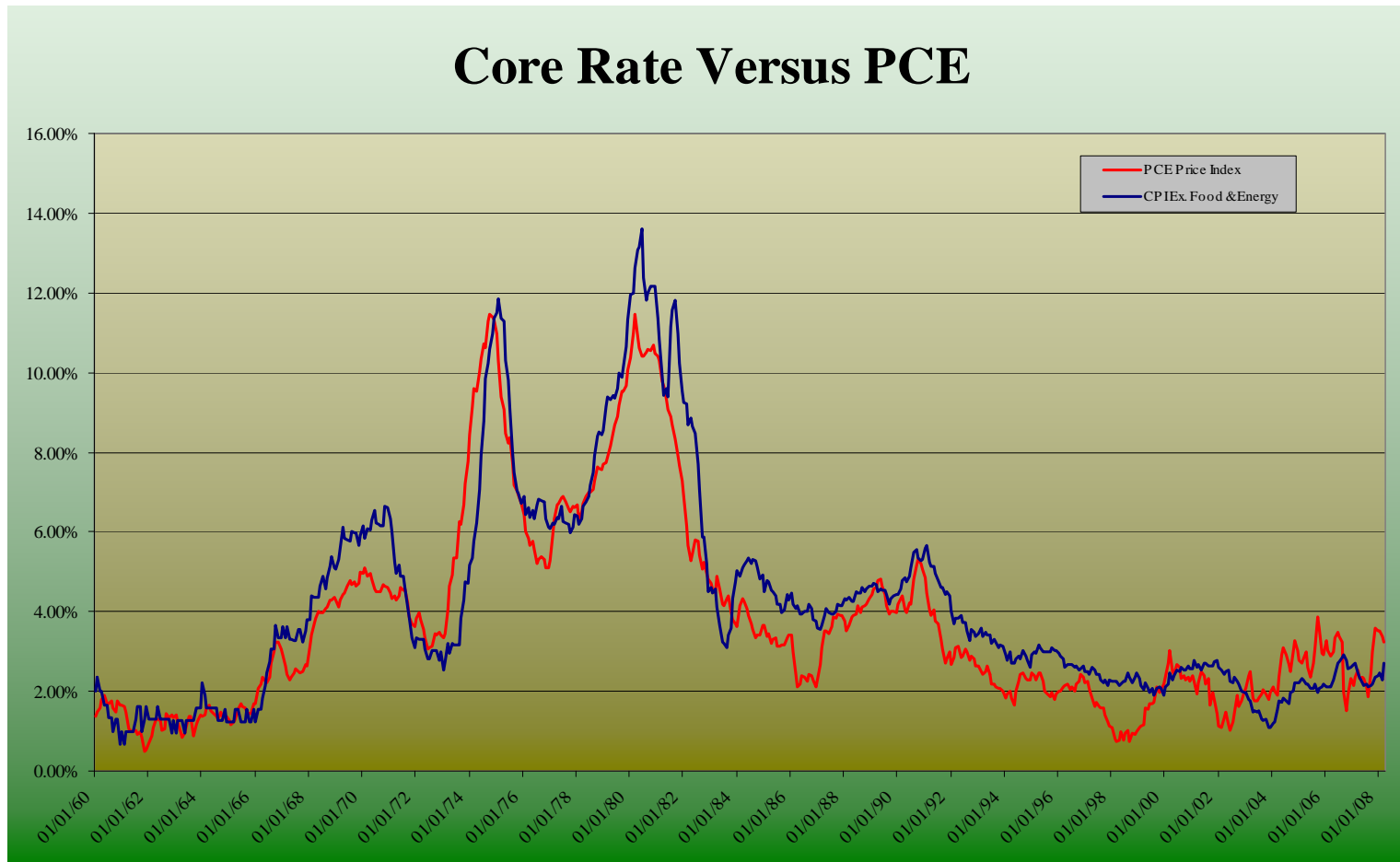
The decline in the Price Pressure index is mostly related to falling short term interest rates. Most price pressures remain.

Inflation expectations



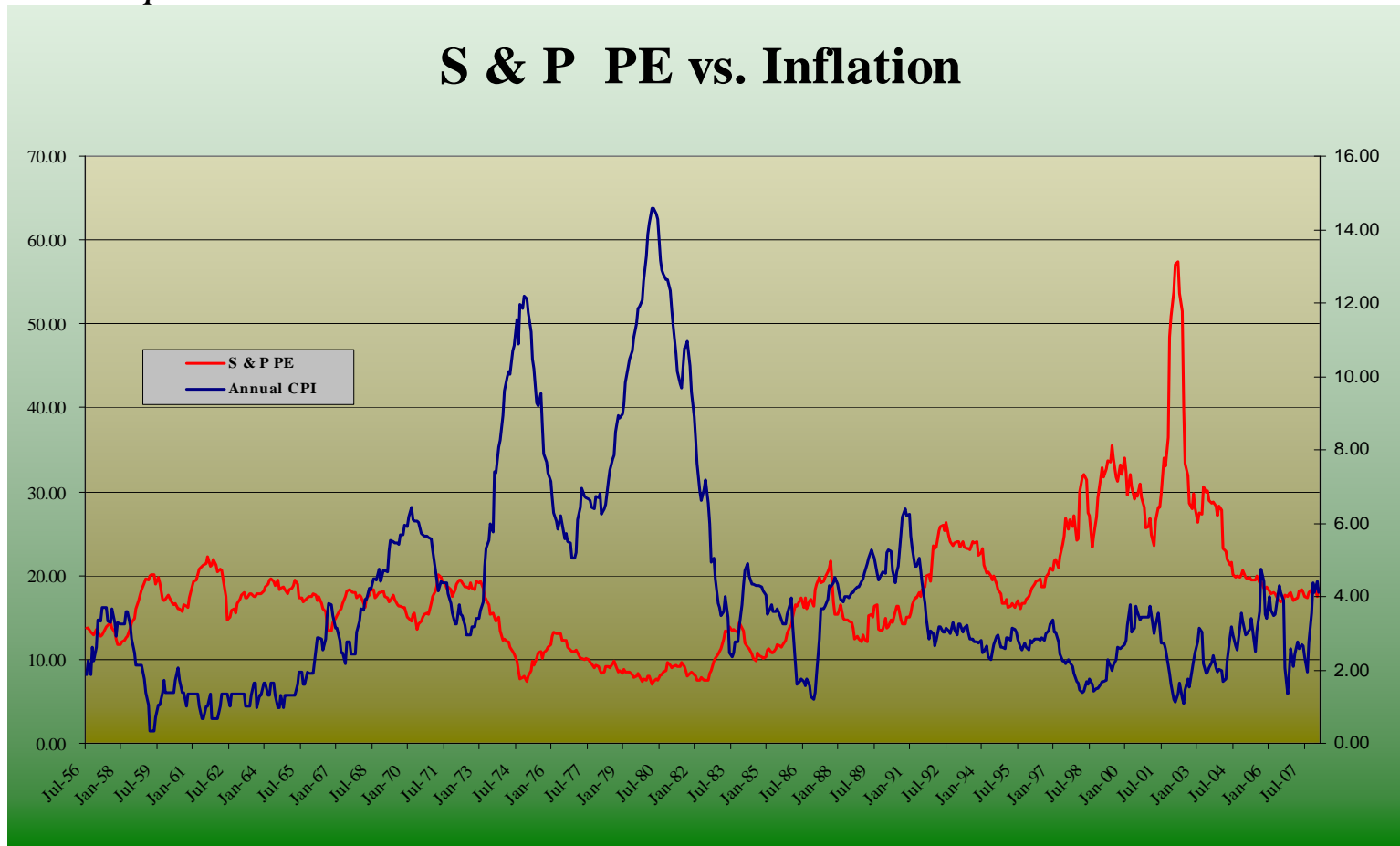
I know it is unbelievable, but long term inflation expectations remain contained.

Inflation expectations



While it isn't the 70s, the numbers are elevated and the hawks on the Fed are squawking.

Inflation expectations



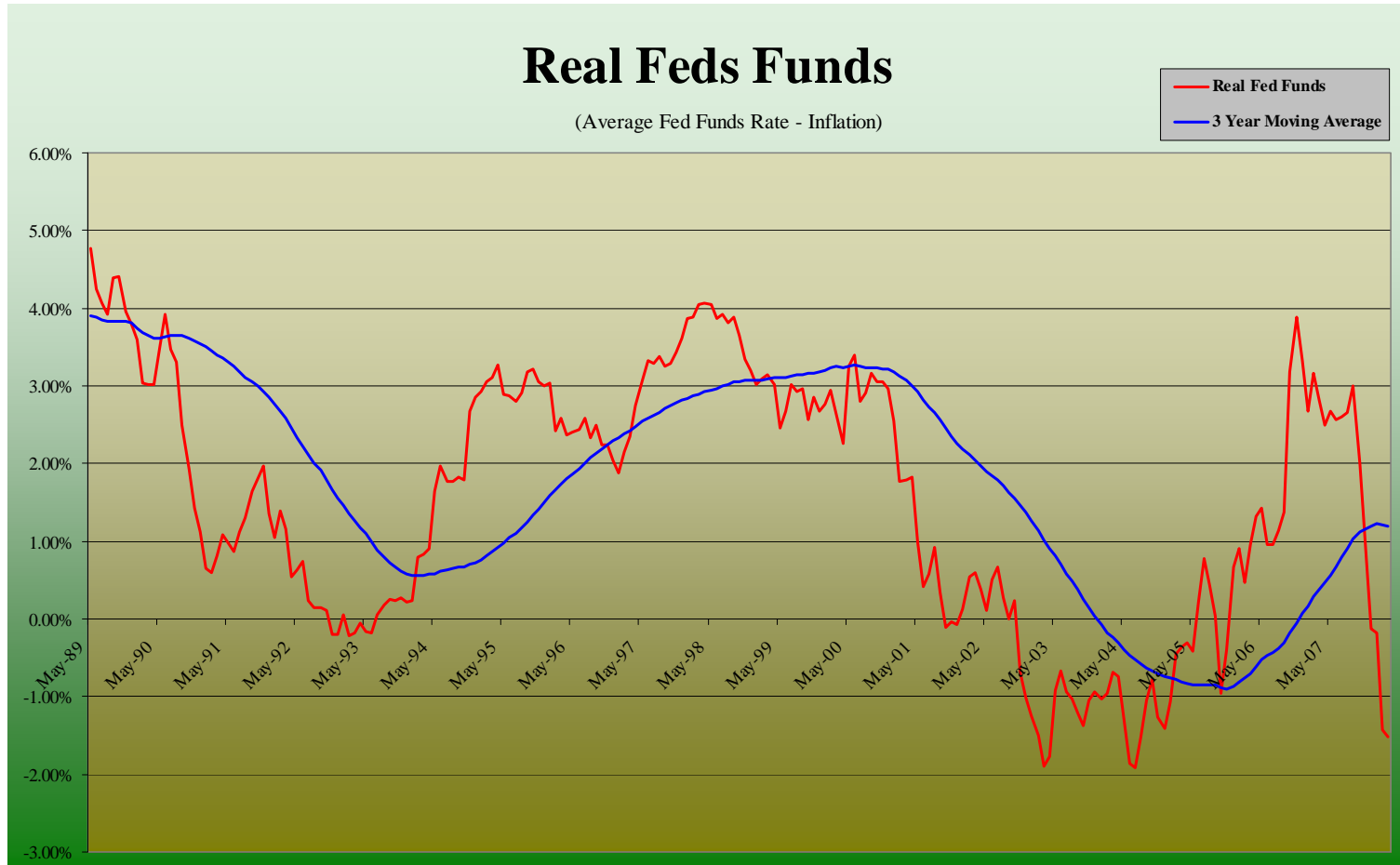
Inflation spiking higher could sink the P/E and really ruin the asset price control bubble. You think Banks are cheap today? Try them when the S&P 500 trades at 11x earnings. Ouch!

Federal Reserve Watch

Another 25 bps, and then...

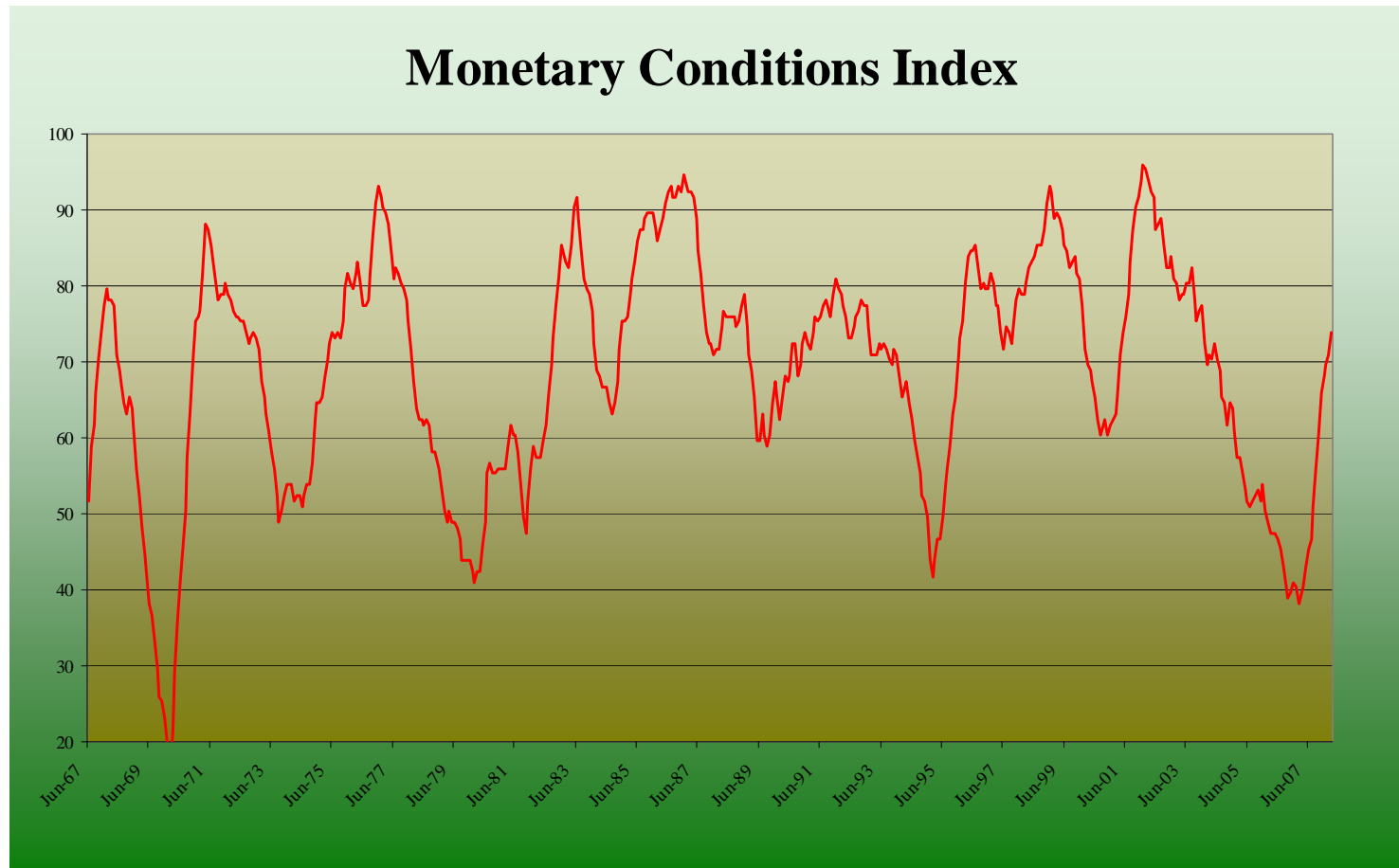
Pay attention to any speeches by the two dissenting voters, Plosser and Fisher. The only hope for the US\$ is hawkish dissent...

Federal Reserve Watch



No wonder no one in the USA saves. After tax, you are really going backwards.

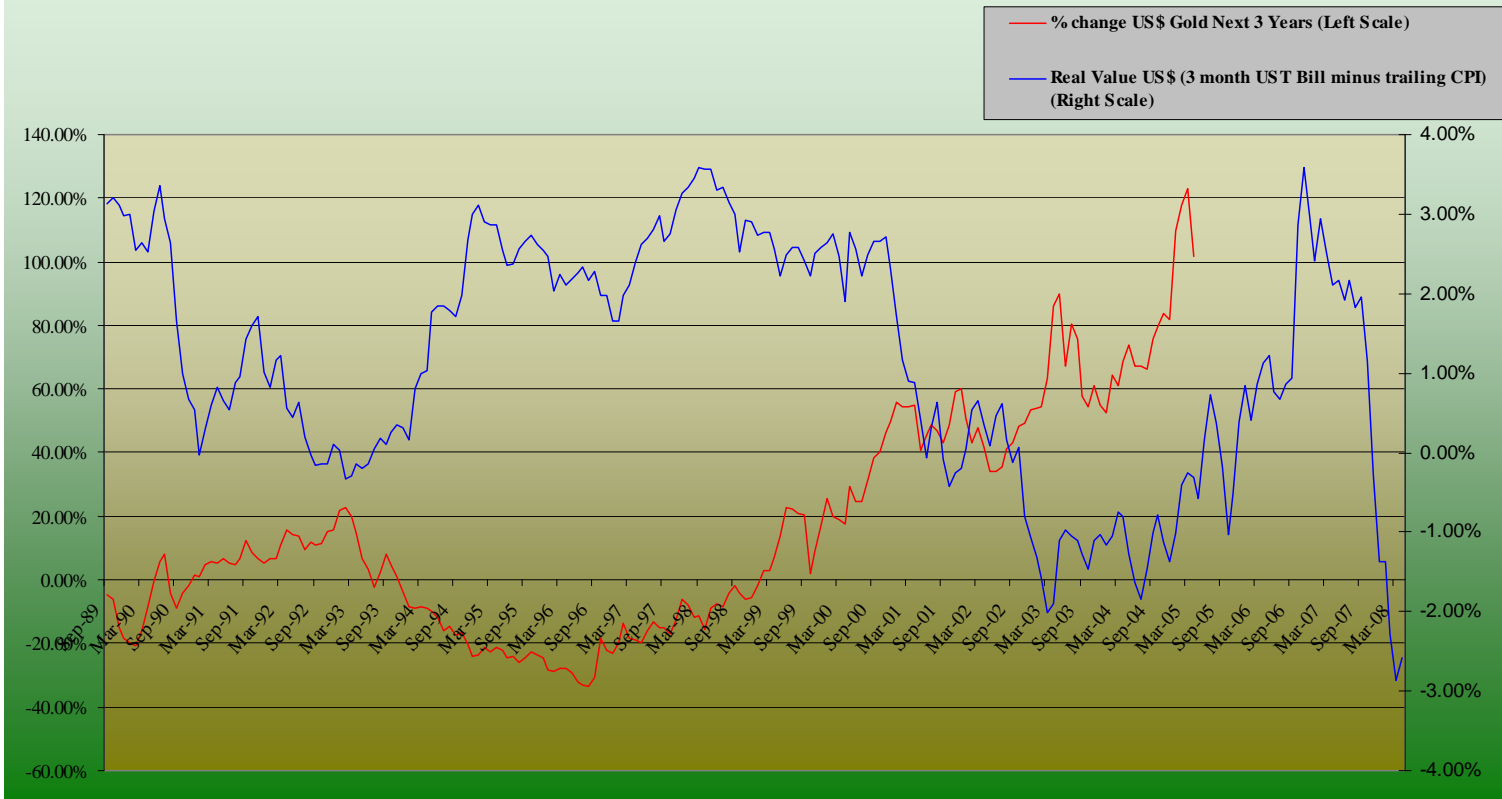
Federal Reserve Watch



Not much left. But if the dollar rallies, money will flow from commodities into stocks. It isn't so much that stocks are cheap, everything else is expensive.

Federal Reserve Watch

Gold, Real Short Term Interest Rates



The 3 month T-bill is going to need a real spread above whatever inflation really is in order to get the Gold/Oil/Dollar under control.

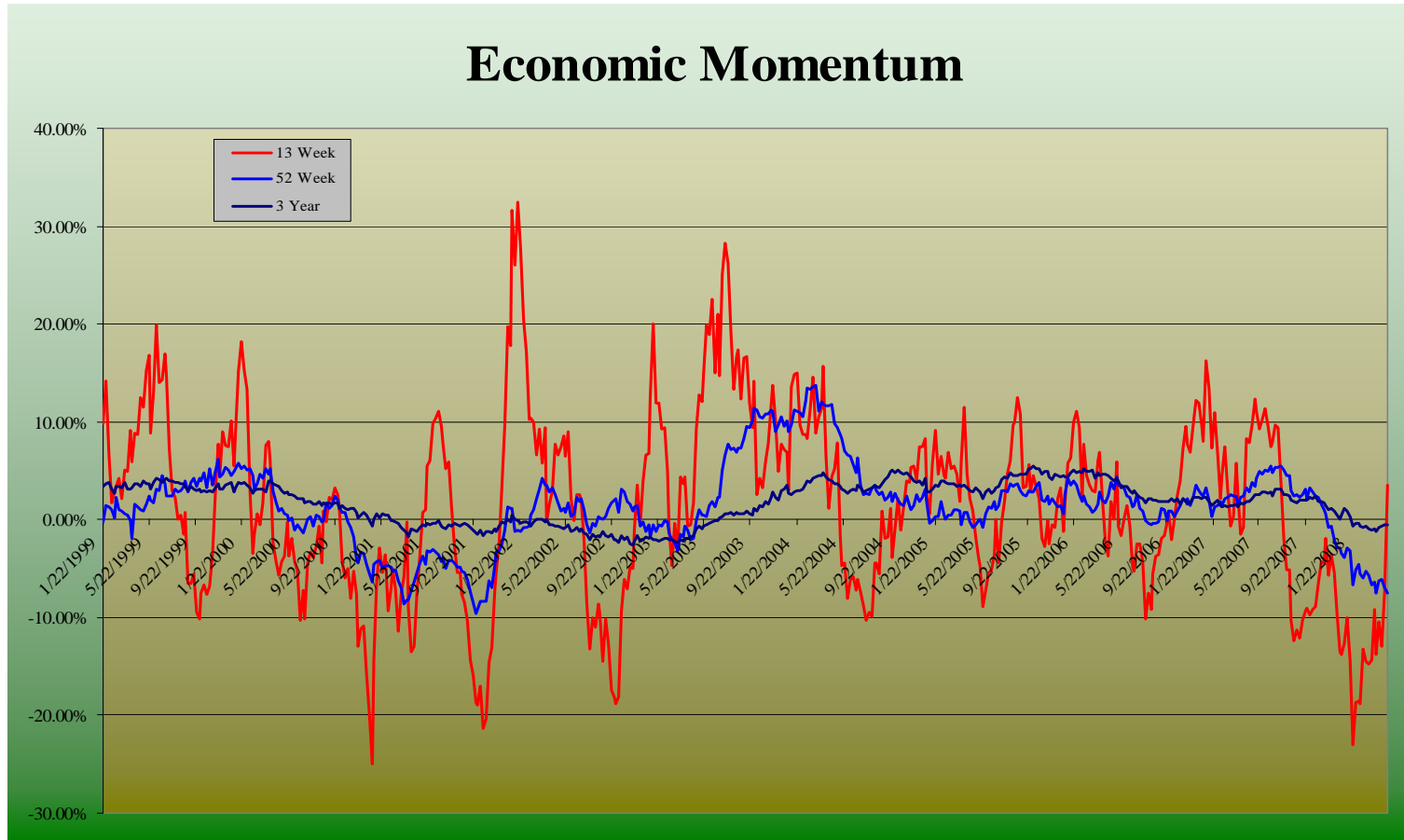
The Fed was *trying* to normalize things, and the wheels came off in the Subprime crisis. (Second Appearance)

Outlook

Range bound seems the most likely course, but the street has been rallying on “less bad” news.

The US\$, Gold and then Oil are key factors in the BRIC’s success over the last couple of years. A bout of dollar strength (even if it is because that is the path of least resistance) might make the commodities complex cool off a bit.

Outlook



Too soon for the all clear, but perhaps the worst of the crisis aspect is over.