

**AND THAT'S THE WEEK THAT WAS...****For the Week Ended May 23, 2008***Market Matters...*

Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (05/16/08)	Current Week (05/23/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	12,986.80	12,479.63	-5.92%
NASDAQ	2,652.28	2,279.10	2,528.85	2,444.67	-7.83%
S&P 500	1,468.36	1,322.70	1,425.35	1,375.93	-6.29%
Russell 2000	766.03	687.97	741.17	724.10	-5.47%
Fed Funds	4.25%	2.25%	2.00%	2.00%	-225 bps
10 yr Treasury (Yield)	4.04%	3.43%	3.85%	3.83%	-21 bps

Memorial Day 2008 could not get here soon enough for investors (at least, those who can afford to take advantage of the long holiday weekend). After a week of obsessing over gas prices, they can analyze how those (pessimistic) travel prognostications actually panned out. For 16 straight days, AAA reported record prices at the pumps with the recent average of \$3.875/gallon getting dangerously close to the dreaded \$4/gallon mark. AAA even predicted that Americans will travel less this Memorial Day than they did last year, the first such decline since 2002. A **Deloitte & Touche** survey projected 23% of folks have changed their plans because of the rising prices with 12% of respondents canceling vacations altogether. While some analysts targeted Memorial Day as the date for gas prices to peak, others are now looking at 4th of July, Labor Day, and beyond.

In reality, the jury is still out for the energy sector altogether. In one school, crude prices (which pushed above \$135/barrel this week), still have a ways to go. They claim that supply will not keep up with the summer demand and point to the recent inventory levels which unexpectedly fell last week. Demand in developing nations like China continues to rise and the devastating earthquake has only made matters worse. Additionally, some believe that the International Energy Agency is preparing a very pessimistic report on global supply/demand issues as it conducts a thorough review of the world's largest oil fields. On the other hand, contrasting analysts believe that the declining dollar and sheer speculation have more to do with escalating crude prices than supply concerns. They scoff at any real rationale for prices rising \$4 in one day, \$9 in one week, and \$16 in one month. However, while some feel that the elevated prices are not justifiable, they cannot project exactly when the "mania" will end. According to one...*"It's a fool's errand to try and figure out when it's going to be over. Internet stocks took a year and a half to explode."* Some oil execs even believe that politicians are to blame and Congress should lift the "tree-hugger" ban on domestic drilling in certain environmental regions instead of begging "friends" in Saudi Arabia to increase production. (No self-serving motives there, you think?)

Retailers highlighted the corporate news as "W" claimed that \$110 billion in rebates will push consumers back to the malls (though execs are not so sure). **Home Depot** reported a 66% decline in income, while **Target** announced weaker sales as well. On the other hand, **BJ's Wholesale Club** reaped the benefits of consumers going the discounter route, and **Gap Inc.** surprised investors with much higher than expected profits. **HP** recognized strong overseas sales, and **Ford** warned that its future looks bleak as drivers shy away from gas guzzling pickups and SUVs.

Investors kept one eye on energy prices and the other on the clock as they prepared for the long weekend. The pessimists ruled the day as the dreaded "I" words crept more and more into water cooler conversations; the major indexes plummeted early and never looked back. In fact, the Dow suffered its worst two-day loss since February. Financials led the downward spiral as investors speculated that the newfound focus on inflation means the next move in rates may be higher (see below). For now, a long holiday weekend (at home?) is just what the doctor ordered.

Economically Speaking...

Weekly Economic Calendar

Date	Release	Comments
May 19	Leading Eco. Indicators (4/08)	Slight increase in April
May 20	PPI (04/08)	Surprisingly high jump in core release
May 21	Fed Minutes	Latest rate cut was a "close call"
May 22	Initial Jobless Claims (05/17/08)	Claims for benefits fell to lowest level in a month
May 23	Existing Home Sales (04/08)	8 th decline in past 9 months
The Week Ahead		
May 26	Memorial Day	
May 27	Consumer Confidence (05/08)	
	New Home Sales (04/08)	
May 28	Durable Goods Orders (04/08)	
May 29	GDP (1 st Qtr)	
	Initial Jobless Claims (05/24/08)	
May 30	Personal Income/Spending (04/08)	

Inflation or recession? Recession or inflation? Suddenly the growing concern about energy price pressures seems to be winning out. The minutes from the last Fed policy-meeting revealed that the latest rate cut was a "close call" and, despite the fact that labor remains "weak" and housing remains "bleak," the cuts may become a thing of the past. In fact, the fed funds futures market has priced in a 50-50 possibility that Dr. B. and friends may start RAISING rates in October (and surely by January 2009). While PPI climbed by a lower than expected 0.2% in April, the increase in core (ex-food and energy) wholesale inflation was actually twice as high as the Street had projected. Additionally, some analysts point out that the recent surge in energy prices has yet to be factored into the equation and the summer inflation gauges will prove quite problematic.

As the Fed implied in its minutes, the prospects for a near-term housing rebound are indeed growing more and more bleak with each passing day. This week, the Office of Federal Housing Enterprise Oversight reported that home prices suffered their largest quarterly decline in 17 years, the worst showing on record. The National Association of Realtors added that existing home sales dropped by 1% in April, its eighth decline over the past nine months. (On the bright side, analysts were calling for a 1.6% decrease in sales so the poor showing was better than expected.)

On the Horizon... So will Memorial Day represent the peak in gas prices (not very likely) or will July 4th now become the new target date for those energy prognosticators? With investors and traders alike returning from the long holiday weekend, oil and gas prices will remain high on their radar screens. For now, those "low supply/high demand" naysayers seem to be winning out over the "weak dollar/speculation" conspirators and \$4.00/gallon seems all but a foregone conclusion. New earnings releases will reveal how both discounters and high-end retailers are being impacted by the sluggish economy and rising gas prices. **Costco, Sears, and Tiffany and Co.** all report, though most investors seem to be welcoming such profit news with a collective yawn these days. Consumer confidence and personal income/spending give investors a more accurate view of the mindset of the consumer, who, after all, contributes 2/3 to the overall growth of the economy. Investors also get a reminder of the weak 1st quarter activity with the revised release of GDP (originally reported as +0.6%), and renewed talks of recession are sure to follow. The NY Fed hosts a conference at Columbia Business School with Fed Prez Geithner and Governor Kohn pontificating on money market issues (among other timely topics). Finally, with Obama (close to) locking up the Dem nomination, his policies on taxes, the economy, entitlements, drilling, globalization, etc. will be dissected more than in the past. Enjoy the holiday weekend, Barack. Soon, your views will become more important than those of Hillary (and even Reverend Wright).