

**AND THAT'S THE WEEK THAT WAS...****For the Week Ended May 30, 2008***Market Matters...*

Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (05/23/08)	Current Week (05/30/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	12,479.63	12,638.32	-4.72%
NASDAQ	2,652.28	2,279.10	2,444.67	2,522.66	-4.89%
S&P 500	1,468.36	1,322.70	1,375.93	1,400.38	-4.63%
Russell 2000	766.03	687.97	724.10	748.28	-2.32%
Fed Funds	4.25%	2.25%	2.00%	2.00%	-225 bps
10 yr Treasury (Yield)	4.04%	3.43%	3.83%	4.05%	+ 1 bps

Now that Memorial day has come and gone, investors seem to be monitoring the daily energy trades even more closely than usual (if that is possible) for signs that prices have peaked and Americans will be able to afford summer travel again. Well, in the aftermath of the holiday, gas prices actually continued their trek toward that dreaded \$4/gallon level and hit a new national average of \$3.96 late in the week. In fact, 11 states and the District of Columbia already are reporting average prices at the pump in excess of that psychological barrier.

While crude prices fell from last week's record highs of \$135/barrel, the ongoing "supply/demand vs. speculation" debate rages on. In one corner...The Department of Energy said that exports from the top oil producers dropped by 2.5% in 2007 and are on pace for a similar showing this year. While much of the increased demand focus has been on China, oil consumption throughout the Middle East (and Saudi Arabia, in particular) has skyrocketed in recent years, thus, leaving less to export and meet the growing demand abroad. On the flipside, conspiracy theorists cry wolf that prices have been running without any regard to true supply/demand issues. They point to escalating trades in commodity (petro) futures indexes and make Internet bubble comparisons (remember those fun days?) as explanations for the wild price swings. This week, the regulators got involved (typically a day late and a dollar short) as the Commodity Futures Trading Commission initiated a probe into potential market manipulations by energy insiders.

And suddenly those increased water cooler discussions about the dreaded "I" word are starting to move from speculation to reality. **Dow Chemical** announced a 20% across the board price increase to "mitigate the effects of raw material costs." German-based **DHL** soon will be "outsourcing" its North American delivery biz to competitor **UPS** as it seeks to reduce costs. Discounter airline **JetBlue** will not be adding to its fleet as expected because it too suffered the ill-effects of rising fuel prices that have prompted major changes throughout its industry (can you say consolidation?). Likewise, automakers continued to struggle from consumer activity (rather inactivity) as both **Ford** and **General Motors** announced major reductions to their respective workforces. Apparently, the "rich and famous" have been impacted far less than others as **Polo Ralph Lauren** and **Tiffany** both reported better than expected quarterly earnings. Even **Dell Inc.** surprised many analysts with a solid quarter on strong sales in Asia. Turning to financials, shareholders finally approved the **JP Morgan Chase** acquisition of **Bear Stearns** (like they had much of a choice), though \$10 a share is a far cry from the \$170 the stock traded at in early 2007.

Investors took their clues from declining crude prices this week and again looked for value in the equity markets. The major indexes traded higher (often at the expense of fixed income). In fact, the yield of the benchmark 10-year drifted back above 4.0% for the first time in about five months as talks of inflation seemed to overshadow prior recessionary fears (see below). Still investor sentiment can change on a dime these days and next week brings significant economic releases that are sure to be over-analyzed. Until then, happy motoring (at \$4/gallon).

Economically Speaking...

Weekly Economic Calendar

Date	Release	Comments
May 26	Memorial Day	Can any afford to travel?
May 27	Consumer Confidence (05/08)	5 th straight decline and worst reading since Oct. 1992
	New Home Sales (04/08)	Increase still left sales at lowest level in 17 years
May 28	Durable Goods Orders (04/08)	Excluding transportation, best showing in 9 months
May 29	GDP (1 st Qtr)	Revision shows slightly stronger quarterly growth
	Initial Jobless Claims (05/24/08)	More claims reveals softening labor market
May 30	Personal Income/Spending (04/08)	Increase in spending offset by rise in prices
The Week Ahead		
June 2	Construction Spending (04/08)	
	ISM – Manu (05/08)	
June 3	Factory Orders (04/08)	
June 4	ISM – Services (05/08)	
June 5	Initial Jobless Claims (05/31/08)	
June 6	Unemployment Rate (05/08)	
	Nonfarm Payroll Additions (05/08)	
	Consumer Credit (04/08)	

If the consumer truly accounts for 2/3 of the growth of the economy, the latest confidence readings cannot be good news. The Conference Board reported that its confidence index fell for the 5th consecutive month to its lowest level in almost 16 years. Meanwhile, the competing U. of Michigan sentiment survey plummeted to a 28-year low. (So, whatever your index of choice...the consumer appears to be in hibernation.) Then again, what consumers SAY and what consumers DO are often two very different things. Of note, orders for durable goods dropped by 0.5% in April; HOWEVER, once aircrafts and autos were factored out of the equation, sales of these high ticket items actually rose by 2.5% last month. In fact, orders for appliances and electrical equipment surged by over 25%, the best reading ever reported. Overall consumer spending also increased in April, though the naysayers quickly point out that much of the gains were reflective of higher prices as opposed to increased sales. (Bear in mind, any over-analysis of the data can lead to a variety of diverse and confusing conclusions about consumer activity...so pick your poison, but don't read too much into any one number).

This past week also found the revision of the 1st quarter GDP which had initially been reported as growth of 0.6% during the January through March months. Again, the pessimists in the bunch claimed that recession already was in our midst, and (by true definition) two consecutive quarters of negative activity were closing in. Instead, the revised GDP reflected a 0.9% gain in the 1st quarter, a weak showing by any measure, but still positive and far from recessionary.

On the Horizon...As the post-Memorial Day hangover lingers and \$4/gallon gasoline becomes a national reality, expect more and more daily energy prognostications. **Goldman Sachs** is already on record for \$200/barrel oil. Do I hear \$250? What about \$5/gallon gas by July 4th? Sometimes, these daily price gyrations take on lives of their own, but at the end of the day, the basic laws of supply and demand (almost) always work themselves out. The upcoming week's hectic economic calendar could go a long way to clarifying the "are we in a recession yet?" discussion. Crucial news from manufacturing and labor highlight the week and any renewed strength in these sectors could put an end to the "R" talk for the time being (or until next week). In fact, the National Association of Business Economic forecast 0.4% economic growth for the 2nd quarter and a much stronger 2.2% GDP pickup in the 3rd as the Fed rate cuts and those tax rebates begin to work their ways through the system. Suddenly, economists are projecting a rebound and cries of recession have become somewhat muted (and replaced by cries of inflation).