

**AND THAT'S THE WEEK THAT WAS...
For the Week Ended June 13, 2008***Market Matters...*

Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (06/06/08)	Current Week (06/13/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	12,209.81	12,307.35	-7.22%
NASDAQ	2,652.28	2,279.10	2,474.56	2,454.50	-7.46%
S&P 500	1,468.36	1,322.70	1,360.68	1,360.03	-7.38%
Russell 2000	766.03	687.97	740.37	733.61	-4.23%
Fed Funds	4.25%	2.25%	2.00%	2.00%	-225 bps
10 yr Treasury (Yield)	4.04%	3.43%	3.91%	4.26%	22 bps

So let the partisan bickering and political pandering begin. With the executive branch up for grabs in November, the Democratic Congress introduced legislation that has virtually no chance of passing, merely to be used as ammunition as the campaign season heats up. Big Oil became the latest villain with politicians proposing windfall profit taxes on record company earnings. Our friends at OPEC did not escape the wrath of the Dems who want to file suits over perceived price-fixing. In typical partisan fashion, Senator McCain has touted his opponent as a traditional “tax and spend” liberal, the wrong choice during this period of economic challenges. Senator Obama pegged his opponent as a continuation of the previous eight years of failed policies that have led the country into recession/inflation/deflation. (So much for that “no negativity” pledge.)

Lehman Brothers remained front and center in the “*who will be the next Bear Stearns watch*” as the financial giant attempted to raise \$6 billion in new capital to compensate for its disastrous second quarter. The company also bid a (not-so) fond farewell to two high ranking executives as it goes to great measures to regain some lost public trust. Over a four-day time frame, its stock gave up over \$4 billion in shareholder value. Always a day late, **Moody’s** jumped in to protect investors by downgrading the firm from “stable” to “negative.” In other biz news, transactions headlined the week as **Staples** will be acquiring Dutch office supply company, **Corporate Express**, for \$2.7 billion. **Anheuser-Busch** turned to Mexican brewer **Grupo Modelo** to help fend off an unsolicited offer by rival **InBev**. Meanwhile, **Yahoo** finally said good riddance (presumably for the last time) to **Microsoft** in any merger, partnership, or other relationship (and jumped into bed with **Google** with a search ad agreement). Apparently, **McDonald’s** remains recession/inflation proof as the fast food chain reported strong domestic and global sales in May.

Crude traded within a \$10 range throughout the week to settle around the \$135/barrel level as traders (over-)analyzed news of declining demand, OPEC comments about “unjustifiable rise on oil prices,” and polls blaming industry insiders for “unethical behavior.” In the “if misery loves company” category, the U.S. is not the only nation to struggle with energy-related inflation. China’s Shanghai Composite Index fell to its lowest level of the year as the country attempted to fight off related price pressures. Likewise, India reported that its inflation rate climbed above 8% in May, while Vietnam devalued its currency because of soaring prices. Closer to home, Broadway tickets sales are down more than 10% from last year’s levels as even the “rich and famous” are suffering the ill-effect of soaring oil and gas prices.

After last Friday’s (June 6) extraordinary day in the markets that saw the Dow plunge close to 400 points and oil surge to almost \$140/barrel, any recent volatility seemed tame by comparison. While investors searched for bargains in equities, the fixed income markets struggled mightily this week as prospects for future fed rate hikes (see below) grew more likely. The yield on the benchmark 10-year treasury surged past 4% (and beyond) to its highest level of the year. Anyone inside the Beltway you’d care to blame, Senators McCain and Obama?

Economically Speaking...

Weekly Economic Calendar

Date	Release	Comments
June 10	Trade Balance (04/08)	Surprising jump on higher oil prices
June 11	Fed Beige Book	Fed must balance inflation with sluggish economy
	Budget Statement (05/08)	Huge seasonal fluctuations follow April's tax inflows
June 12	Initial Jobless Claims (06/07/08)	Surprisingly large increase in benefits claims
	Retail Sales (05/08)	Stronger than expected results aided by rebate checks
June 13	CPI (05/08)	Sharpest increase since November 2007
The Week Ahead		
June 17	Housing Starts (05/08)	
	PPI (05/08)	
	Industrial Production (05/08)	
June 19	Initial Jobless Claims (06/14/08)	
	Leading Indicators (05/08)	

Undoubtedly, a universal theme is emerging at the Fed and the other world Central Banks: Inflation, Inflation, Inflation. And, on that note, most Fed watchers believe that the next move in rates will be higher. This week, Dr. B. reiterated his concerns about price pressures and many of his partners in crime followed in step by towing the company line. Dallas Fed Prez Richard Fisher and his counterpart in New York, Tim Geithner, promoted the prospects (rather realities) of rising energy costs and the declining dollar as major concerns. Boston Fed President Rosengren echoed the sentiment by stating that higher energy prices were “trickling through the economy.” And Philly Bank President Plosser went so far as to predict that the Fed would have no choice, but to raise rates to combat inflation. Even the Fed’s Beige Book reported that the domestic economy remained sluggish through May, and has been “pinched by rising food and energy prices.” On the global front, ECB President Trichet targeted July as a date his Central Bank would look to hike rates should inflationary pressures continue. Meanwhile, the Bank of Canada held off on a much anticipated rate cut because of...what else...higher energy costs.

For now, however, the recent data showed that inflation (outside of food and energy) remained well contained as the core CPI climbed by a modest 0.2% in May. (Haven’t you been warned about looking only at the core numbers?) By the way, CPI as a whole (including food and energy) experienced its largest one month rise in six months. (Perhaps the Central Bankers are on to something?) Consumer activity offered perhaps the most promising news of the week as May retail sales surged by 1% as many Americans took those government rebate checks from the stimulus package directly to the malls. Even after removing gasoline sales from the equation, the retail data still experienced its best showing in a year.

On the Horizon... With CPI safely in the books for another month, economists can now turn their focus to wholesale inflation with the release of May PPI. Rightly or wrongly (mainly wrongly), analysts seem to disregard the energy component of this data each month and focus mainly on the core releases. While food and energy prices often suffer from month-to-month volatility based on seasonal factors, they cannot be overlooked these days as they continue to have significant impact on the global economy. Also, keep on an eye on bonds. While the stock market may be more fun to follow, fixed income is often a stronger gauge of investor expectations of the economy and future Fed policy. Lehman can’t seem to avoid the limelight as the eyes and ears of the investment community will be sharply focused on its June 16th earnings announcement which also is expected to detail plans for its much needed capital infusion. Treasury Secretary Paulson welcomes his friends from China for Strategic Economic Dialogue IV, as both countries are sure to bicker over unfair trade practices, protectionism, and currency valuations. (And, “bickering” has become a very popular sport in Washington as of late...too late for the Beijing Olympics?)

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