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AND THAT'S THE WEEK THAT WAS…
For the Week Ended June 20, 2008

Market Matters…

Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (06/13/08)	Current Week (06/20/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	12,307.35	**11,842.69**	**-10.72%**
NASDAQ	2,652.28	2,279.10	2,454.50	**2,406.09**	**-9.28%**
S&P 500	1,468.36	1,322.70	1,360.03	**1,317.93**	**-10.24%**
Russell 2000	766.03	687.97	733.61	**725.73**	**-5.26%**
Fed Funds	4.25%	2.25%	2.00%	**2.00%**	**-225 bps**
10 yr Treasury (Yield)	4.04%	3.43%	4.26%	**4.14%**	**10 bps**

Who says it's all about the "core" price data? While much the recent inflation focus has been on soaring oil and gasoline, the devastating Iowa floods have brought rising food prices into the forefront. Though feed prices have been climbing for the past few years, corn has surged over 10% during the last two weeks, leaving farmers and meat producers worried about the appetites of those already "belt-tightening" consumers. Some blame the ethanol mandates for the shrinking grain supply and are turning to politicos for relief. (It is an election year, after all.) Meanwhile, crude futures encountered a volatile week as traders analyzed the contrasting news from aboard. On one hand, Saudi Arabia may be increasing oil production and China's is hiking gasoline and diesel fuel prices that should dampen demand (and move prices lower). On the other hand, Israel threatened Iran's nuclear facilities and Nigerian oil workers plan to strike at a **Chevron** plant next week (which should move prices higher). For now, crude stands around the $135/barrel level.

Despite his low popularity rating, President Bush has yet to relinquish the limelight as he blamed the Democratic Congress for the record gas prices. Playing his own political game, he proposed lifting the ban on drilling in certain environmentally friendly regions, knowing good and well that such an idea will be met with great resistance. He also acknowledged that such measures would have little impact on the current state of the energy sector as new drilling would take years to implement and even longer until any results are realized. (But, it sure doesn't hurt to pander.)

Lehman announced a startling $2.8 billion loss in the second quarter, its first since going public, though the company avoided (for now) becoming the next **Bear Stearns** by raising $6 billion in new capital. **Goldman Sachs** and **Morgan Stanley** both reported declining earnings, though each bested the Street's already dire expectations. Rumors have **Merrill Lynch** and **Citigroup** taking more write-downs, thus, negating any prior speculation that the worst of the credit crisis had ended. In non-financial corporate news, **FedEx** reported a quarterly loss and projected a pretty negative outlook for 2009 due to soaring fuel costs. After its snubbing by **Yahoo**, **Microsoft** denied any interest in other Internet acquisitions at this time. **Continental Airlines** and **UAL** (United Airlines) are teaming up on a "non-merger" alliance to help create new revenue sources and cost efficiencies without the risks and red-tape of a full-fledged transaction.

In the "misery love company" category, the global markets struggled mightily this week as Shanghai Composite fell to a 16-month low and has declined about 50% on a year-to-date basis. Likewise, indexes in Tokyo, Bangkok, and Hong Kong have followed suit. Closer to home, the Dow Jones plunged below 12,000 for the first time in over three months as rising food and energy prices and ongoing negativity from financials continued to weigh on investors. Bonds, which had come under pressure lately over future fed policy, were recipients of a flight-to-quality mentality as some investors sought the safe-haven of the treasury markets. But, for the time being, it's all about those skyrocketing food and energy prices. Then again, don't economists always downplay those volatile components of the inflation gauges anyway (see below)?

Economically Speaking…

Weekly Economic Calendar

Date	**Release**	**Comments**
June 17	Housing Starts (05/08)	Worst showing in 17 years
	PPI (05/08)	Largest increase in 6 months
	Industrial Production (05/08)	Decline in output a setback for manufacturing
June 19	Initial Jobless Claims (06/14/08)	Lower filings though still labor concerns
	Leading Indicators (05/08)	Second straight (slight) monthly increase
The Week Ahead		
June 24	Consumer Confidence (06/08)	
June 25	Durable Goods (05/08)	
	New Home Sales (05/08)	
	Fed Policy Meeting Statement	
June 26	Initial Jobless Claims (06/21/08)	
	GDP (1^{st} quarter – final)	
	Existing Home Sales (05/08)	
June 27	Personal Spending/Income (05/08)	

*And The Survey Says…*The Business Roundtable released results from its recent poll that showed corporate execs believe the economy will grow at a 1.3% pace in the 2^{nd} quarter of the year (up from 0.9% in the 1^{st} quarter, but still reflective of ongoing sluggishness). While expectations have declined from the March survey when the trade group reported projected growth of 1.5%, they seem to reveal that the executives' concerns about the dreaded "R" word have subsided (for now). Meanwhile, over 30% of CEOs surveyed believe that their companies will feel a labor pinch in the form of layoffs (or perhaps attrition) over the next six months.

On the inflation front, PPI surged by 1.4% in May, its largest increase since last November. Further, the most recent surge in oil and the impact of the floods in the Midwest on food prices have yet to be reflected in this wholesale price gauge. Fortunately, economists like to focus more on the core (ex-food and energy) data which only climbed 0.2% in May. (Apparently, the volatile food and energy prices are just as likely to fall as they are to rise, so they really shouldn't be counted…if only that were true, these days.) The housing sector continued to struggle as May construction starts plunged to the lowest level in 17 years. Additionally, the manufacturing sector suffered a setback (hopefully temporary) as May industrial production depicted a decline in output at the nation's factories, mills and mines.

On the Horizon…The consumer takes center stage again next week as a few key releases should provide some valuable insight into his/her current mindset. After all, the consumer is supposedly responsible for 2/3 of the activity in the economy so investors should be quite interested in the latest confidence index reading and statistics on personal spending and income. In the eternal optimist corner, perhaps this will be the week that the housing releases (new and existing home sales) reveal that an upcoming sector rebound is on the horizon (not very likely)? The Fed also will be highlighted next week (and not just through those never-ending daily speaking engagements). On Tuesday and Wednesday, Bernanke and friends get together to survey the economic landscape and set policy for the next few weeks. While many Fed watchers expect that the next action will be a rate increase, few are willing to predict one will occur now (or even in August…though the interest rate futures market projects such a move as a possibility). After all, while "recession" may be off the table (for the time being), the most recent economic releases point to continued sluggishness and higher rates could prove devastating to future growth. Investors will wait with bated (not baited) breath for the text of the Fed's accompanying statement which certainly will address the growing threats of inflation as both energy and food prices continue to rise. (Unless, of course, the Fed only cares about "core" inflation as well.)