

**Market Situation and Outlook Update:
Panic to Euphoria to Reality (Denial)
Jun08 vs Jun09**

FACTOR	SITUATION	EVALUATION	Surprise Watch
Structure	Housing continues on downpath as forecast. Dollar pressures abating Oil pressures worsening Developing world inflationary pressures	D and dropping	Geo-political risks for Oil Inflationary surges in ROW leading to political instabilities
	Housing will be weak for years Credit Markets beginning to repair but weak. Oil/Commodity demand dropped putting down-pressure on Inflation	D and stabilizing	Out-year inflation NOT the problem it's expected to be. Speculative surges in Oil and Commodities
Fundamentals	Economic pessimism in general population. Severe credit restrictions and loan failures. 0-1% growth Q1-Q2 at best. Sustained < 2% three year outlook Nature of economic cycle timetable widely mis-understood	D and dropping	Increased deceleration in Employment which is anticipatable but unanticipated. Rapidly dropping real wages Consumer demand decelerates sharply Accelerating loan defaults & bankruptcies – real economy hits back to financial economy
	Core economy fell off a cliff in Q408 and Q109 but rate has slowed; credit and housing metastasized into “real” economy.	D and stabilizing	Employment continues to drop and real wage improvements are temporary leading to continued drops in demand
Technicals	Market technicals deteriorating Inflation-adjusted monetary base shrinking	C/C- and dropping	Earnings outlook surprises and revisions as reality sets in PE Compressions Momentum cusp points
	Markets fell off two cliffs in Sep/Oct08 and Mar09. Former from credit collapse, latter from “surprises” on depth and severity of economic downturn. Recent recovery and repair mis-placed optimism on economic outlook and finance sectors. Market more than fully valued at current levels for stronger recovery	D+/C-, stabilizing and settling into trading range	Over-optimism on econ recovery. Ignoring structural changes in US economy as balance sheet repair for consumers extends Mis-understanding of BRIC strategic outlook as demand patterns change, i.e. import demand will be weak PE Compression risks and sustained low-valuations due to weak recovery
Outlook	Major attitudinal changes with realization that credit crisis morphing into credit crunch, economic outlook changes and MAJOR shift on Technology sentiment	C/C – and deteriorating (Mar low test anticipated)	Dr. Pangloss is leaving the house but slowly. Market moves have shifted pessimistic. Technology optimism in particular has suddenly disappeared
	Mar09 cliff-dive was panic over economy while recent surge was euphoria over green shoots and Finance new. Both mis-placed.	B+/A- and Fading	Market being driven by Sentiment almost entirely. Risk of self-correction if economic news and earnings are below expectations. We anticipate they will be.