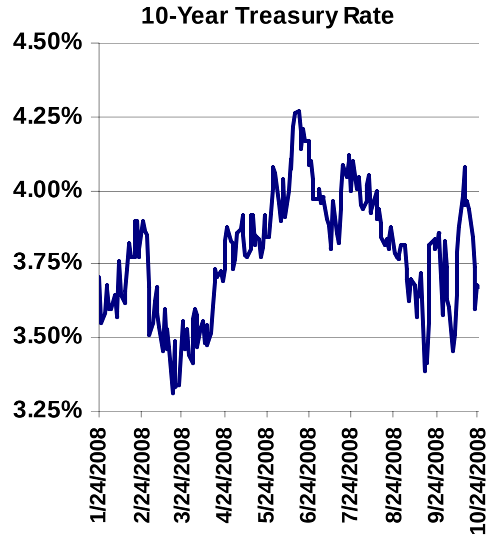
October 24, 2008

Economic and Interest Rate Outlook



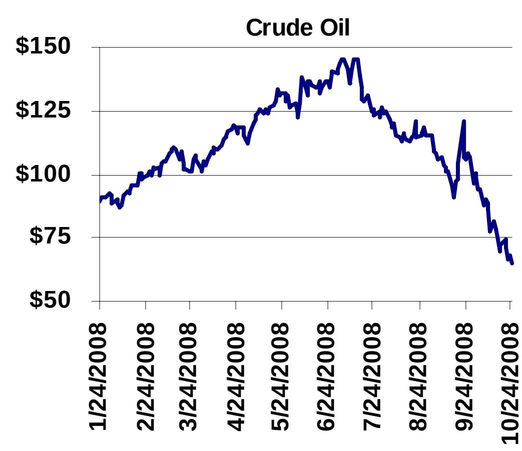
Falling investor confidence on fear that the global economy is headed for Recession hammered the equity markets again this week and pushed down Treasury yields. Just as the world's central banks bail-out programs get underway - which have finally helped to bring some relief to LIBOR – the market's focus has turned to economic fundamentals. As a result, Fed Chairman Bernanke said early in the week that Congress should strongly consider - and should act "quickly" on - another economic stimulus package due to the danger of a "protracted" and weak slowdown.

Although 1 and 3-month LIBOR managed to fall 90 basis points on the week, the decline mostly came in just two days, Monday and Tuesday. Since then, the drop has slowed to a trickle with both indices moving just down just 3-4 basis points since Wednesday. However, as long as LIBOR continues to tick downward, it will be a good sign. That said, it was probably unreasonable to expect the LIBOR to continue to drop at a very quick pace. It will take time for the capital injections into the major banks – and now some regional banks – to take hold and bring confidence back into the credit markets. At the same time, swap spreads have also come in from their recent nosebleed levels – another favorable sign that the credit markets are loosening up.

Initial Jobless Claims rose again to 478k, while Existing Home Sales rose more than expected as inventories and prices fell. On the week, as equities fell, the 10-Year Treasury rate was pushed down more than 25 basis points to 3.67% while the 30-Year Treasury was reported to hit its lowest level in three decades as investors sought safe havens. The FOMC meets for two days next week with their rate decision expected on Wednesday, October 29. Even though the Fed delivered an emergency 50 basis point cut earlier this month, the Fed Funds Futures Market expects at least another 50 basis points cut next week. Another Fed rate cut is unlikely to push down LIBOR significantly, but the Fed does not want to disappoint the markets – and a rate cut will ultimately help banks that still need the Fed for funding.

	Key Rate Summary	Today	1-Month Ago	3-Months Ago	1-Year Ago
Interest Rates	**Fed Funds Target**	1.50%	2.00%	2.00%	4.75%
	Wells Fargo Prime	4.50%	5.00%	5.00%	7.75%
	1-Month LIBOR	3.24%	3.43%	2.46%	4.85%
	3-Month LIBOR	3.52%	3.48%	2.79%	5.06%
	2-Year Treas Note	1.51%	1.96%	2.61%	3.34%
	5-Year Treas Note	2.58%	2.91%	3.32%	3.99%
	10-Year Treas Note	3.69%	3.81%	4.00%	4.34%
	30-Year Treas Note	4.07%	4.41%	4.60%	4.64%

Commodity Update



As expected, OPEC came to agreement in Vienna today to cut daily oil production by 1.5 million barrels. The production cut, an attempt to support crude oil prices, actually did little to prop up prices today as crude fell more than $3 to $64 per barrel. With the fast and hard price drop of nearly 60% since mid July, some market pundits see prices falling further on the belief that the OPEC production cut is not enough to lower supplies. At the same time, the exit of speculators and hedge funds from the market has continued to put downward pressure on prices. OPEC is viewed as trying to get ahead of the fall in oil demand and the weakening global economy with this production cut as it does not want to get anywhere near to the $10 per barrel reached in 1998 when it was late in responding to a fall in global demand.

Natural Gas prices continued to fall on the week on the economic outlook and as inventories show adequate supply for the winter. Mostly moderate weather forecasts also offered little support to prices. Despite the fall in the equity markets, Gold continued to fall this week, as investors sold the metal to help them raise cash. Gold fell below $700 for the first time in more than a year.

The expected global slowdown continued to push down most commodity and metal prices throughout the week as Copper, Aluminum, Nickel, and Lead all fell. Slowing construction and automobile production is hitting demand for metals. Since early July, Copper has fallen more than 50% from mid July. Since March, Nickel is down 70%. The downward price spiral is apparently impacting the scrap markets as well as the difference between scrap and new Copper has widened - as scrap Copper prices have reported been falling at a faster rate than new copper.

Commodities	Today's Price/Level	1 Year Ago Price/Level	52-week Change
Crude	$64.68	$87.10	-26%
Diesel	$1.95	$2.34	-17%
Natural Gas	$6.22	$6.97	-11%
Aluminum	$1,876.00	$2,469.00	-24%
Copper	$3,721.00	$7,792.50	-52%
Gold	$732.80	$771.00	-5%
Corn	$3.73	$3.66	2%
Soybeans	$8.67	$9.94	-13%
Wheat	$5.16	$8.02	-36%

Equity: Index/Stock	Today's Price/Level	1 Year Ago Price/Level	52-week Change
S&P 500	876.77	1,515.88	-42%
NASDAQ 100	1,202.27	2,188.59	-45%
Microsoft	21.96	31.25	-30%
Wells Fargo	30.91	34.04	-9%

Financial Product Offices

Atlanta: 770-551-4688	Los Angeles(1): 213-253-7380	New York: 212-315-7376
Cleveland: 216-344-6953	Los Angeles(2): 213-614-4014	Phoenix: 602-378-5003
Dallas: 214-721-8232	Minneapolis: 612-667-3242	San Francisco: 415-222-1366
Denver: 303-863-6909		Seattle: 206-292-3711