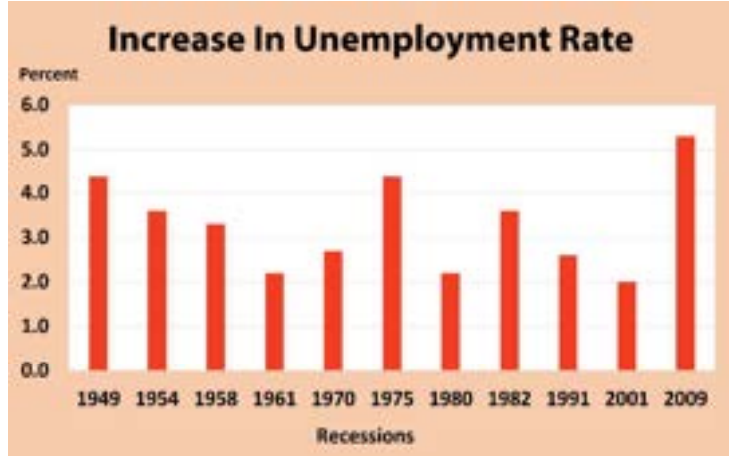


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e f S Y W W S ` [_ b d W e e [h W S ž * b W W U W d S ` f e a S d W d S f W ^ \$ ` V f Z W e a W U
c g S d f W d S ` V f Z W _ S [` Y d a i f ž ` W d h h a W d] W U f a ` d e S g _ W d e l S d W e f
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Not Out Of The Woods

; ` S e W e W l f Z W X S e f W d d [e W [Z W ^ b W W d W e f d S [` i S Y W Y d a i f Z l f Z S ` [f a f Z W d i [e W i a g ^ V ž 4 g f W j b S ` V [` Y e g b b ^ k [e f Z W a ` ^ k i S Y W b d W e e g d W e ž F Z W \ a T _ S d] V f Z W V W _ S ` V X a d i a d] W d e [e W g ` h W [^ W W a ` 3 g Y g e f \$ # e f f Z S f f Z a g e S ` V X W i W d \ a T e [` f Z W f i [` [f [S ^ ^ k W e f [_ S f W W [e S U S e T W U Z _ S d] d W h [e [a ` e , T S e W W f Z S ` S h S [^ S T ^ W [` f Z W _ a ` f Z ^ S T [Y e f a d k ž 4 g f f Z [e i S e f Z e [` U W \$ " " + ž

Hard To Stop, Once It Starts

F d g W l f Z W d W U W e e [a ` X W S d e f Z S f ^ S W i b h W k W W W S d d [W d l f d S f Z W e - a ` a f U a _ W a g f a X f Z l ` S [d ž F Z W a r g y k l e U d W S e W l s f W W z w W e b d d S f W f d [Y Y W d W W f Z W e a ž U S ^ ^ W W v s f S Z u W S d k v W b U e f W W S f U a a ^ W e S W c g S ^ f a f Z S f a h W d f Z W b S e f f Z W k U g f S e \ a i W d a b W U g y d d W v a g f e S d W U W e e [a ` e [` U W # + (" ž F Z W z l w U d W S e a W X S d a _ Z a i Z W h W d ž & f b W k U V [` \$ " \$ % f a < g ^ k i e & ž % b W d U W z a b [l e y e f W ` S ^ v i W W ^ S T W ^ a i e g f Z W U % S h W d S Y W e W W [` b S e f d W U W e e [U a e r e e ž T g f _ a ` U W [f d [e W e T k f Z [f [e g e g S ^ ^ k V [U g ^ f f a e f a b ž F Z W d W S e a ` l e f Z S f S f f g e g S ^ ^ k W f W d e S X W W T S U] ^ a

E [_ b ^ k b g f l S d [e W a X f Z S f _ i a d] W d e f Z S f f Z W [d \ a T e S d W b g ^ ^ T S U] [` e b W ` V [` Y l i Z [U Z a ` Z [d [` Y ž F Z W Z [d [` Y U g f T S d W f d W S f f Z S f ^ W S V e f a _ a d W X W W T S U] ^ a a b f Z S f U a ` f [` g V d W U W e e [a ` ž A _ [` a g e ^ k l S d W U b W d U W f a X i a d] W d e W j b W U f [` X a g d _ a ` f Z e d a e W f a f Z W Z [Y [` \$ " # & ž

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E a l S d W i W a ` f Z W U g e b a X S l d a f S Z W k d e W U W e e [` a Y l 1 f 7 z h W \ d T S g E S Z _ l S g f Z a d a X f Z W d g ^ W l V a U M e S e Z a f ` Y f z Z [3 ^] f Z e a a g Y Z F Z S a f T i e Y d f a W U f S d W S e a ` e X a d f Z W U g d d W f d [e g W W _ b f Z W W g ` f W _ d S f a W _ W S e d S a f W U Z _ S d] W W ^ k X d a _ f Z W U S f S ^ k e f e g b Z S f l e e f e f [W W f S Z W S [` d U W W S f e [W W ^ k d W U W e e [a ` e ž F Z W] W k V [W d W _ U S] W e f i Z S f W f Z W U g a d d W W f f W W U d a W T W [` Y V d [h W T k _ S e e [h W ^ S k a U k e f W i ž [W Z b f a g ^ W f l W e g v f e ` d f a a f Z W ^ a e f b S k U Z W U] e f Z S f e g b b a d i f ` e b [W W [S Y K W S g Z W i l ž g F Z W S a b b a S ` j [W f k S _ a ` Y i a d] W d e f Z S f f Z W [S g e W a T e W S d W W a S f a _ d [e] ž ; à e f V

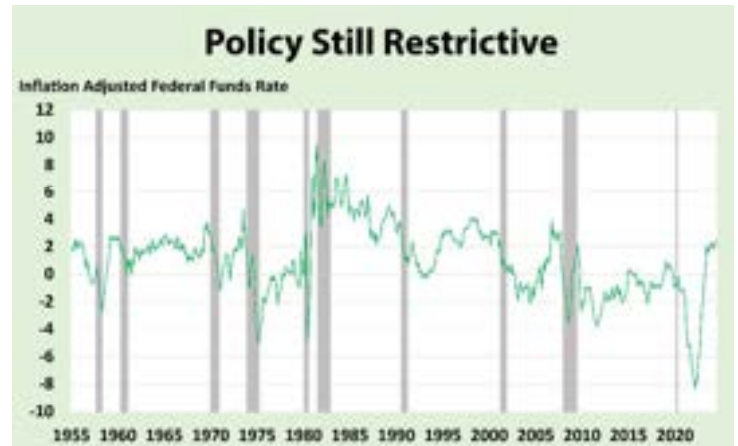
loop described earlier. The key is to short-circuit that prospect from coming to pass – and that job falls on the Federal Reserve.

Fed To The Rescue

There is an old economic adage that says expansions do not die of old age but are murdered by the Federal Reserve. By all accounts, the Fed has done a commendable job navigating the economy through the challenging dual objectives of taming inflation without spurring a big increase in unemployment. More often than not, it has overstayed its hand to bring inflation under control, either by jacking up interest rates too rapidly or leaving it too high beyond the point it is justified, thus killing the expansion.

While the economy has so far weathered the steep rate climb engineered by the Fed, the muscle that has sustained growth is rapidly losing strength. Pandemic -era savings have been used up and low- and middle-income households are struggling to keep up with debt payments. A broad swath of the population has been insulated from the rate hikes because they locked in the low rates that prevailed before the Fed stepped on the brakes. But as those loans mature and must be refinanced, they will incur the much higher cost associated with the current level of interest rates. In other words, the fabled lag effects of monetary policy are starting to kick in.

The good news is that with inflation having receded considerably, the Fed can now shift its priority to sustaining job growth. At its upcoming policy meeting in mid-September, the question is not if, but by how much policy makers will cut rates. The anticipation of a Fed pivot has been building for some time, with the bets on Wall Street ranging from the normal quarter-point reduction in the Fed's benchmark policy rate to a more aggressive – and unusual – half point cut from the current median level of 5.30 percent.



From our lens, a more normal quarter-point cut is all that is necessary for the first move, unless the next employment report due out on September 6 turns out to be weaker than the July report. But one thing is clear: one cut will not be enough to keep the economy out of a downturn. Even after a quarter or half point reduction, interest rates will still be restrictive and taking an ever-greater toll on an economy that is already cooling.

KEY FINANCIAL AND ECONOMIC INDICATORS

	July	June	May	April	March	February	January	12-Month Range	
								High	Low
Prime Rate	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
3-Month Treasury Bill Rate	5.20	5.24	5.25	5.24	5.24	5.24	5.22	5.34	5.20
5-Year Treasury Note Rate	4.16	4.32	4.50	4.56	4.20	4.19	3.98	4.77	3.98
10-Year Treasury Note Rate	4.25	4.31	4.48	4.54	4.21	4.21	4.06	4.80	4.02
30-Year Treasury Bond Rate	4.46	4.44	4.62	4.66	4.36	4.38	4.26	4.95	4.14
Tax-Exempt Bond Yield	3.94	3.94	4.00	3.87	3.54	3.53	3.36	4.13	3.36
Corporate Bond Yield (AAA)	5.12	5.13	5.25	5.28	5.01	5.03	4.87	5.61	4.74
Conventional 30-Year Mortgage Rate	6.85	6.92	7.06	6.99	6.82	6.78	6.64	7.62	6.64
Dow Jones Industrial average	40086	38904	39129	38401	39106	38721	37764	40086	33319
S&P 500 Index	5538	5415	5235	5112	5171	5012	4804	5538	4269
Dividend Yield (S&P)	1.31	1.33	1.36	1.39	1.37	1.42	1.47	1.63	1.31
P/E Ratio (S&P)	25.8	25.6	24.7	24.1	25.1	24.3	23.4	25.8	20.6
Dollar Exchange Rate (vs. Major Currencies)	123.7	124.0	122.2	122.5	121.0	121.4	120.6	124.0	120.2

* Monthly Averages

Economic Indicators

	July	June	May	April	March	February	January	12-Month Range	
								High	Low
Housing Starts (Thousands of Units)	1238	1329	1315	1377	1299	1546	1376	1568	1238
New Home Sales (Thousands of Units)	739	668	666	736	683	643	664	739	611
New Home Prices (Thousands of Dollars)	430	417	408	415	436	421	430	440	408
Retail Sales (% Change Year Ago)	2.7	2.0	2.6	2.8	3.6	2.0	0.2	5.00	0.2
Industrial Production (% Change Year Ago)	-0.2	1.1	0.3	-0.7	-0.3	-0.2	-1.2	1.1	-1.2
Operating Rate (% of Capacity)	77.8	78.7	78.3	77.7	77.7	78.0	77.2	78.9	77.2
Inventory Sales Ratio (Months)		1.38	1.38	1.37	1.37	1.37	1.38	1.39	1.36
Real Gross Domestic Product (Annual % Change)		2.8			1.4			4.9	1.4
Unemployment Rate (Percent)	4.3	4.1	4.0	3.9	3.8	3.9	3.7	4.3	3.7
Payroll Employment (Change in Thousands)	114	179	216	108	310	236	256	310	108
Hourly Earnings (% Change Year Ago)	3.6	3.8	4.0	3.9	4.1	4.2	4.3	4.5	3.6
Personal Income (% Change Year Ago)		4.3	4.6	4.4	4.3	4.3	4.6	4.9	4.3
Savings Rate (Percent of Disposable Income)		3.4	3.5	3.5	3.5	3.7	4	4	1.37
Consumer Credit (Change in Blns. Of Dollars)		8.9	13.9	7.8	-1.0	11.9	13.1	18.2	-16.3
Consumer Prices (% Change Year Ago)	2.9	3.0	3.3	3.4	3.5	3.2	3.1	3.7	2.9
CPI Less Food & Energy (% Change Year Ago)	3.2	3.3	3.4	3.6	3.8	3.8	3.9	4.3	3.2
Wholesale Prices (% Change Year Ago)	2.3	2.7	2.4	2.2	1.9	1.6	1.0	2.7	0.8