

Monarch Commentary

The top graph shows the gap between the 3-month Treasury Bill interest rate and the Federal Reserve's target rate. As you can see the interest rate paid on the 3 month Treasury Bill has dropped from 5% to 3½% over the past couple of weeks. Historically, when this has happened the Fed has followed with a Federal Funds rate cut. The next Federal Reserve meeting is September 18 and in some people's minds the only question is whether they will wait until September 18 or call for a special meeting to drop the Federal Funds rate.

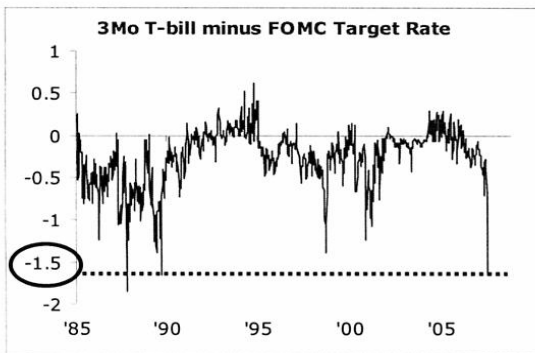
The subprime blow up has created enormous problems for a handful of industries. Hedge fund, mortgage companies, and anyone associated with them have gone from highly prized to highly avoided but thus far it appears to be contained and not spreading from Wall Street to Main Street. We are pretty sure Federal Reserve Chairman Ben Bernanke will lower rates if he believes the problem is sufficiently overflowing to Main Street. If not, we doubt he will raise rates.

What we do know is the market has corrected 10% from the 14,000 high on the Dow for the first time in 4-5 years. This drop has created some bargains, especially in the finance area.

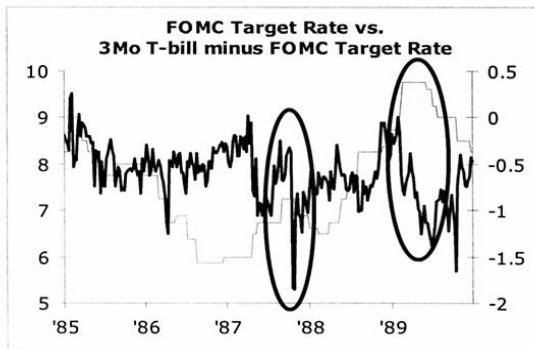
Strategas Article

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FED EASE APPEARS IMMINENT



Even with the rebound in the 3-month Treasury bill yield to 3.6% yesterday, it remains more than -150bp below the Fed Funds rate. The 3-month yield typically holds a very tight line with the Fed's target rate. Previous periods of divergence between the two series, as seen in the chart at top left, have been good indications of coming Fed Funds rate cuts. Such was the case in late-87 following Black Monday (middle chart) and in and late-98 following LTCM.



We believe there's a 60 pct. chance the Fed will ease before their Sept. 18th meeting, and we are forecasting a total of -100bp of easing for the entire easing cycle (through 1Q '08).

