



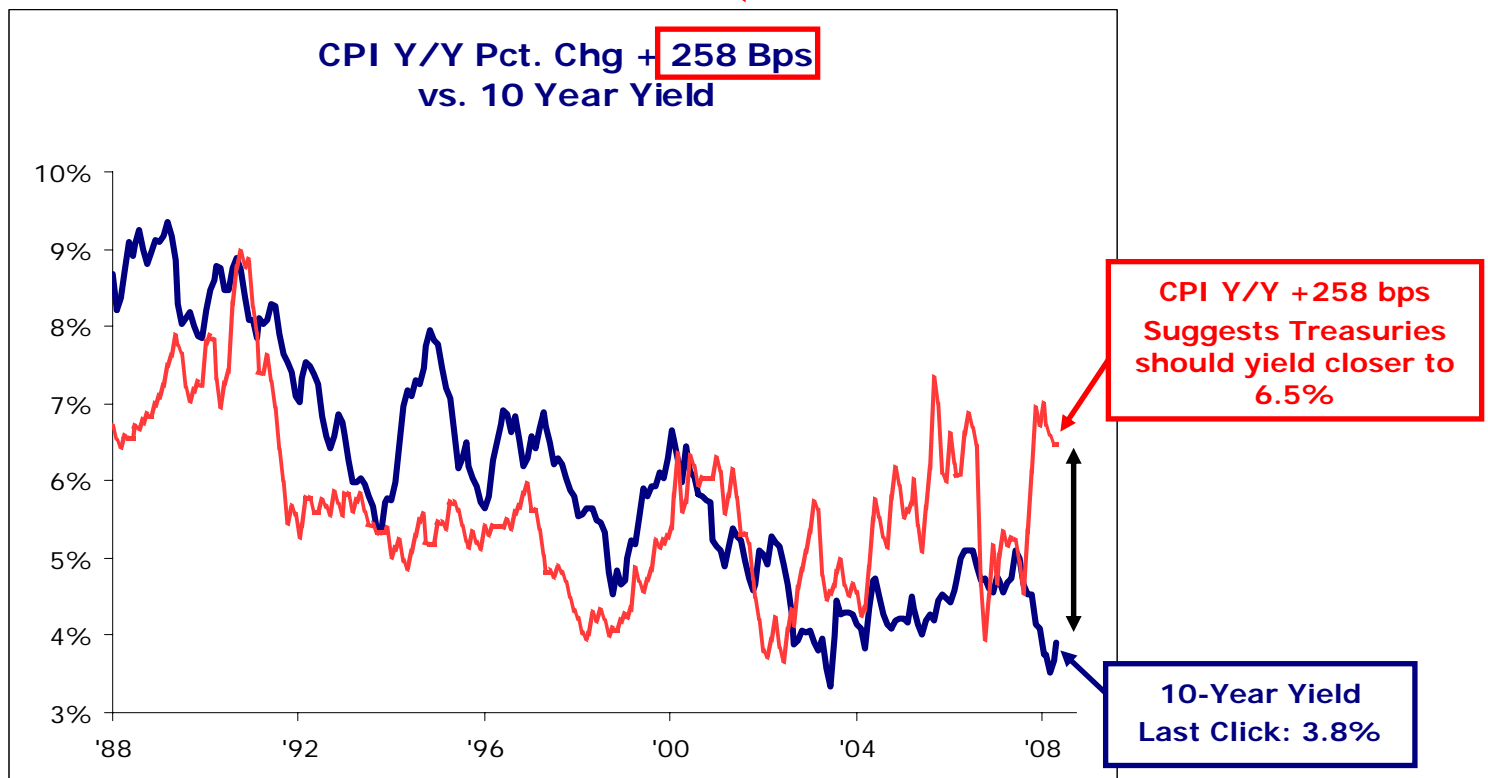
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BASED ON INFLATION, SHOULDN'T BOND YIELDS BE HIGHER?

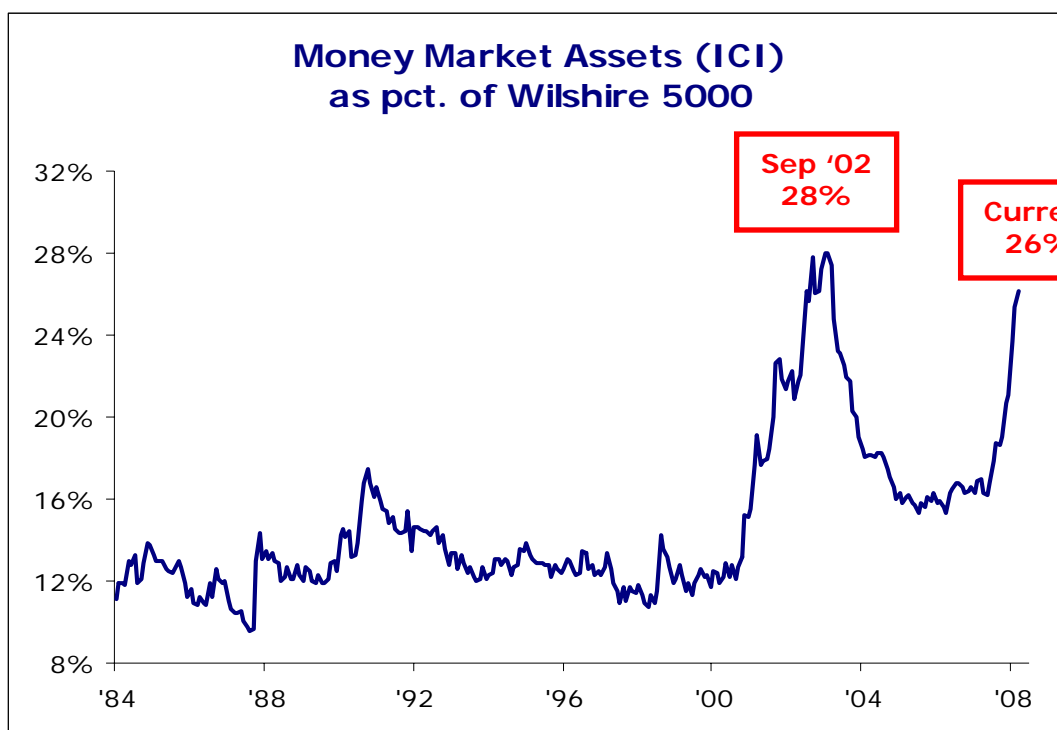
Given our view that a 4% 10-year yield is, if the current rally in equities is to continue through the summer, a necessary threshold to break through, the chart below would suggest that yields are likely to ratchet higher in the months ahead. **Over the last 50 years long-term bonds have, on average, yielded +258 bps more than inflation** (as measured by the Y/Y change in the CPI). Currently the two are closer to parity. History would suggest, however, that the 10-year should be yielding closer to 6.5%. (April CPI Y/Y 3.9% + 258 bps = 6.5%.) While admittedly we might not hit the upper end of the 6% level, some degree of reversion to the historical mean would validate yields in the 5% or 5.5% range moving forward, especially as the eventual thawing of the credit crisis helps fade the global flight to quality. Stay tuned...

**258 Bps:
Historical Spread Between
10-Year Yield & CPI Y/Y**

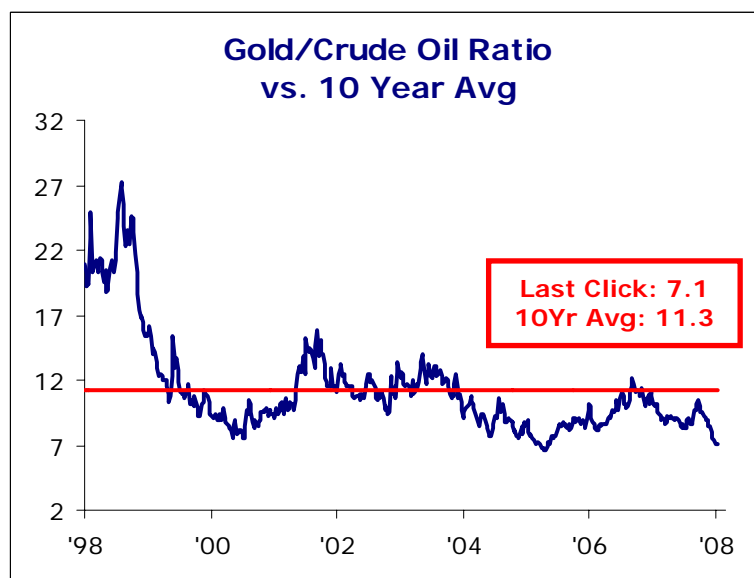
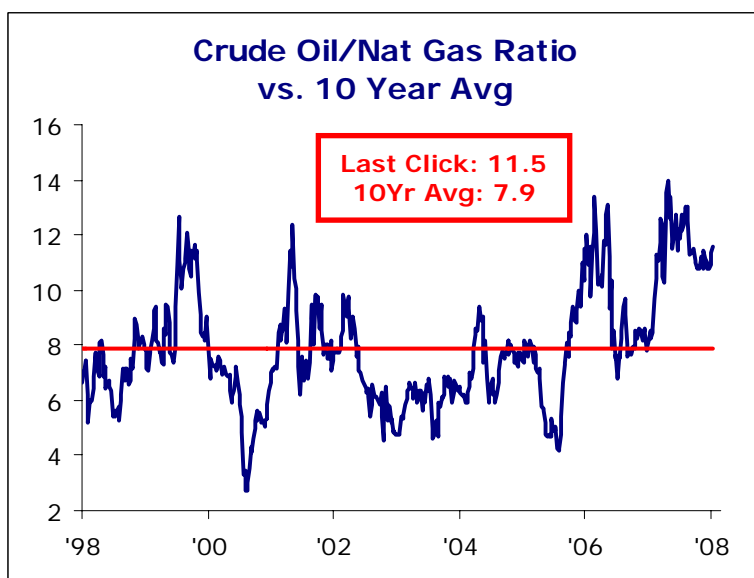


MONEY MARKET ASSETS AS PCT OF MARKET-CAP, HIGHEST SINCE 2002

With assets in money market funds now totaling \$2.5 trillion, the amount of cash as a percentage of total equity market valuation is now at normalized levels last seen during the prolonged bear market of the early '00s. The 2000-02 cash build came largely from sales of equities, while the increase in such funds today is more likely from the unwinding of structured fixed income products. Still, it bears noting, **there is an awful lot of cash on the sidelines.**



OIL CONTINUES TO CHART ALL-TIME HIGHS, CHECKING IN ON SOME KEY RATIOS

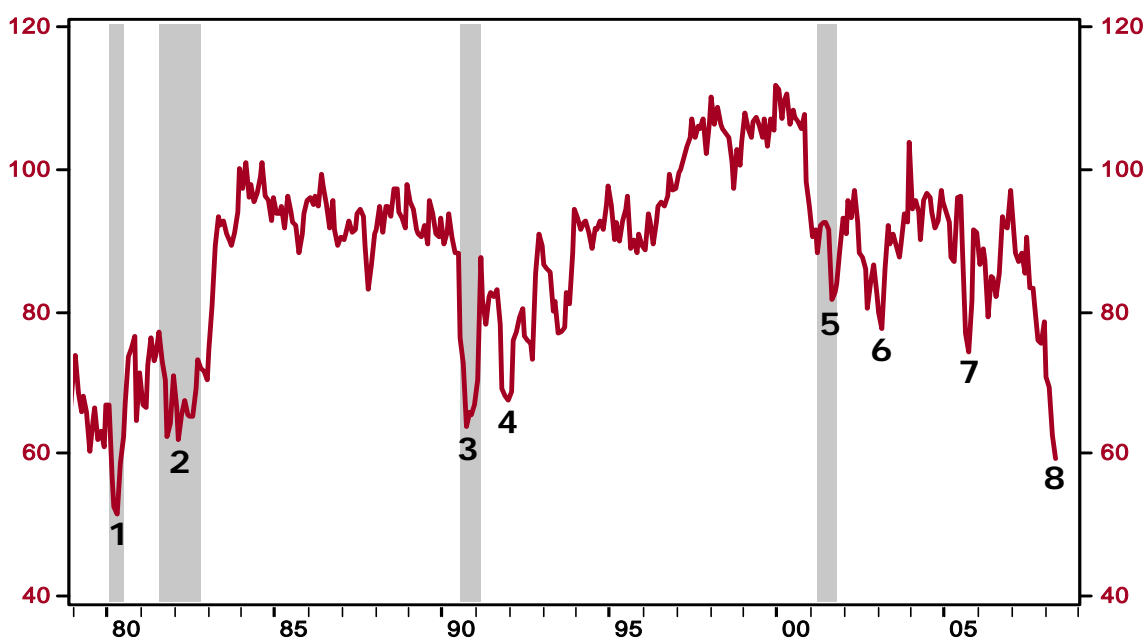


CONSUMER CONFIDENCE HITS NEW LOW... SIGNAL TO BUY EQUITIES?

Last Friday's depressed consumer sentiment print, the lowest since May 1980, is not all bad news. Previous lows have often come at the depths of recession, only to be followed by strong market performance in the 3, 6, and 12 month periods that followed as investors discount economic recovery. While the next several months could certainly look like "the real thing," however, we would be skeptical that the current rally can persist through 2009 as the costs associated with -325 Bps of easing, \$150bn of federal stimulus, and potential tax increases come to bear.

University of Michigan: Consumer Sentiment

NSA, Q1-66=100



Consumer Sentiment & Market Performance

	Univ. Mich Sentiment Value	S&P 500 + 3 Months	S&P 500 + 6 Months	S&P 500 + 1 Year
1 May-80	51.7	10.0%	26.3%	20.0%
2 Mar-82	62.0	-0.9%	7.6%	36.6%
3 Dec-90	65.5	13.6%	12.4%	26.3%
4 Jan-92	67.5	1.5%	3.8%	7.3%
5 Sep-01	81.8	10.3%	10.2%	-21.7%
6 Mar-03	77.6	14.9%	17.4%	32.8%
7 Oct-05	74.2	6.1%	8.6%	14.2%
8 May-08	59.5	?	?	?
Average		7.9%	12.3%	16.5%