Economic Update

Broadleaf Partners, LLC

Opening Day: Top of the Second Quarter
April 2, 2007

One down, three quarters to go.

Following several harrowing at-bats, the markets managed to eke out some modest gains for the first quarter. And as we open the second quarter, we continue to see great promise for the stock market in spite of a bullpen of worry. The following is our scouting report on the quarter ahead and the year that remains:

- **Energy**. Mr. Energy spooked the markets late in the first quarter, with prices spiking almost ten percent to $66 per barrel following Iran's capture of several British soldiers. It is safe to say that the geopolitical premium is back in the price of oil, but difficult to say how long it will remain. One positive is the fact that Russia isn't happy with Iran's latest moves either, which may help expedite the soldiers return. On the demand front, we believe a slowing domestic economy should help to offset torrid energy demand overseas. In addition, the higher price of oil should, once again, stimulate alternative resource discussions, and may be one reason that ethanol has become front page news again in recent days. Outcome: Strike One, But not Out.

- **Inflation**. Inflation readings have continued to remain above the Fed's comfort zone, but are not alarmingly high and certainly aren't reminiscent of impending problems, ala the 1970's. Short term inflation readings may likely creep up a bit over the next few weeks for seasonal reasons, but should ultimately come back down as the domestic economy slows. The issue of lower inflation, in our opinion, isn't a matter of if but of when. Outcome: Late Inning Rally.

- **Fed Policy**. As we've said repeatedly, the Fed can have a disproportionate impact on the stock market. Their primary focus will and should remain on keeping inflation in check and as a result, it isn't likely that they will begin to reduce interest rates while these readings remain suboptimal. The difficult real estate market and subprime lending issues will, however, keep any thoughts of future rate hikes out of the lineup. Outcome: Forecast, Sunny Skies.

- **Earnings.** Earnings for the S&P 500 are growing but remain in a slowing trend, consistent with our overall economic views. As a result, productivity should return to the forefront as a primary tool for sustaining profit margins and profit growth, as it has in previous periods of slower nominal GDP growth. Growth investments have in particular done well in this type of environment, as investors place a premium on companies and industries that can sustain growth on the heels of innovation, in spite of slower overall economic growth. Outcome: Triple.

- **Long-Term Interest Rates**. While the Fed won't likely lower short term interest rates anytime soon, current U.S. long rates (4.6%) are reasonably higher than those of other countries like Germany (3.9%), the Czech Republic (3.75%) and Singapore (3.5%). Ed Hyman, economist at ISI group, recently suggested that the S&P 500 has gained nearly 20% for every 100 basis point decline in bond yields. Outcome: A Possible Perfect Game?

While there were some bumps and bruises for investors in the first quarter, the outlook from the bleachers remains full steam ahead.

Play Ball!

Kindest Regards,

Doug

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