



SILVERCREST
ASSET MANAGEMENT GROUP

ECONOMIC & MARKET PERSPECTIVE

MAY 2006

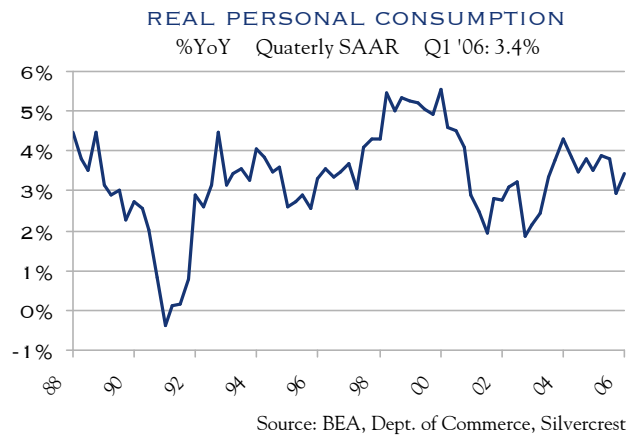
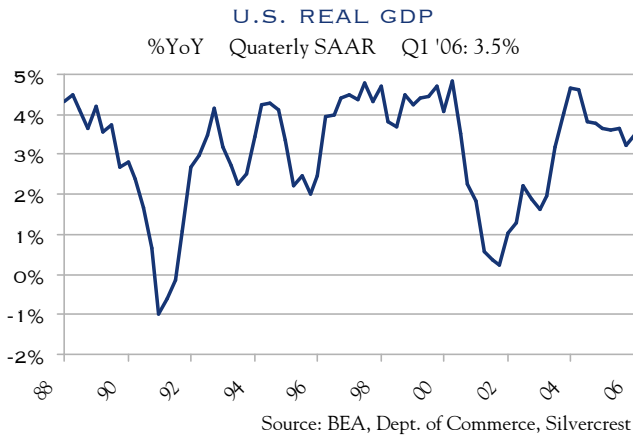
SUMMARY

- The U.S. economy continues to expand at a solid pace and shows no sign of meaningful deceleration.
- All major engines are contributing to growth: consumption, business investment, and productivity.
- Inflation remains tame despite commodity price increases.
- Profit margins have reached the highest level in more than 45 years.
- Negative media emphasis has helped to erode large cap stock valuations to their lowest levels in over ten years.
- Corporate America is awash in cash: dividend distribution has risen more than 50% over the past three years.
- Increasing dividends should provide added support to stocks, making them more competitive with bonds.

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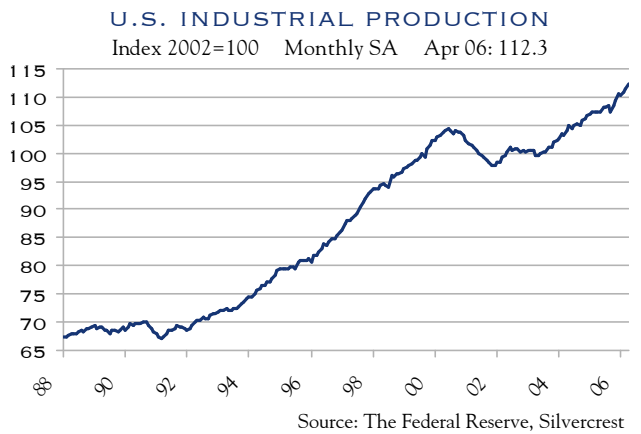
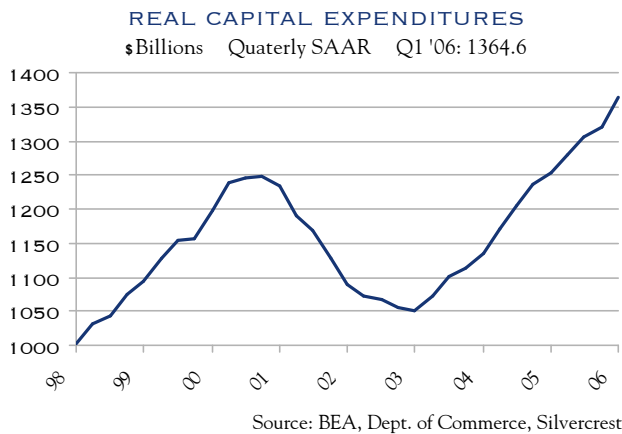


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Real gross domestic product continues to expand at a solid pace.

Growth in real consumer spending persists, supported by rising employment and incomes.



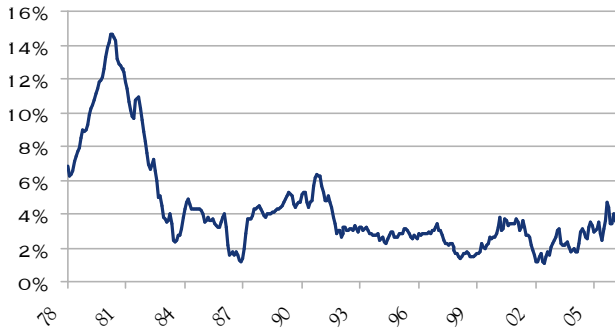
Corporate capital expenditures have rebounded from the trough following the 2001 recession and are growing at a healthy pace.

U.S. industrial production has risen to record levels, contrary to negative talk about the decline of U.S. industries.



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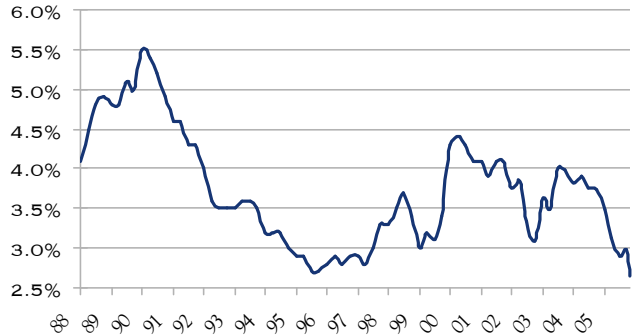
CONSUMER PRICE INDEX
%YoY Monthly SA Apr 06: 3.5%



Source: BLS, Dept. of Labor, Silvercrest

Inflation remains tame, despite the increase in oil prices and other commodities.

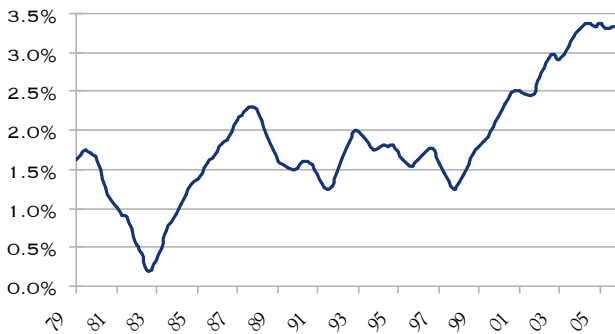
U.S. EMPLOYMENT COST INDEX
YoY Total Comp Civilian Workers Q4 '06: 2.7%



Source: BLS, Dept. of Labor, Silvercrest

Changes to workers' benefits have kept the Employment Cost Index and compensation per hour under control.

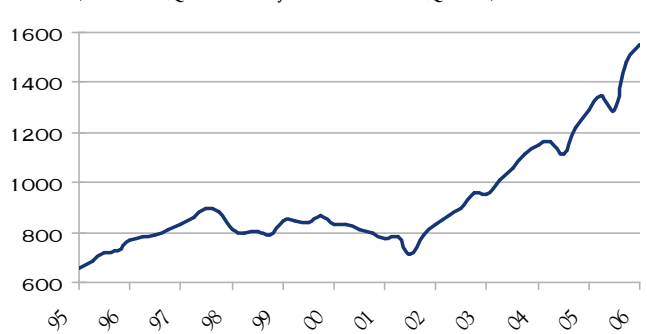
NON-FARM PRODUCTIVITY
5-Yr Annualized, 4-Q Avg SA Q1 06: 3.3%



Source: BLS, Dept. of Labor, Silvercrest

Historically high productivity gains are a major contributor to future economic growth and contained inflation.

CORPORATE PROFITS
\$Billions Q SAAR adj. IVA & CCA Q106: \$1547.9E



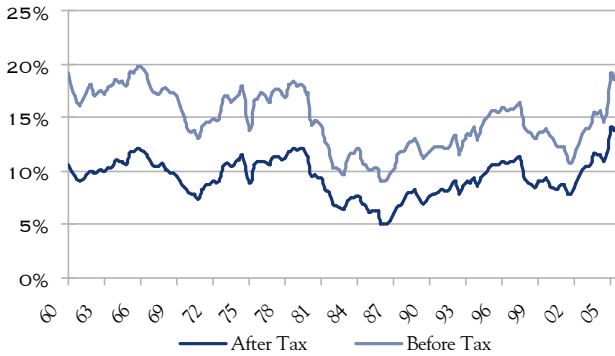
Source: BEA, Dept. of Commerce, Silvercrest

Pre-tax corporate profits have increased more than 117% since the 2001 recession.



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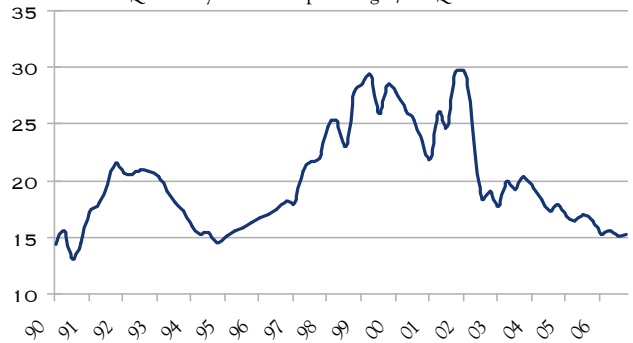
CORPORATE PROFIT MARGINS
% nom. corporate GDP Quarterly



Source: Decision Economics, Inc.

Pre- and after-tax profit margins have reached their highest levels in 45 years.

S&P 500 OPERATING P/E RATIO
Quarterly NTM Operating P/E Q1 06: 15.3

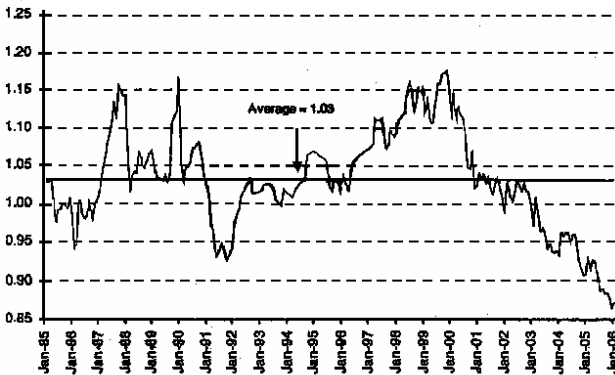


Source: Standard & Poor's, Silvercrest

The S&P 500's P/E ratio is near its lowest point in more than ten years, even without adjusting for today's lower interest rates.

RELATIVE P/E OF THE LARGEST COMPANIES

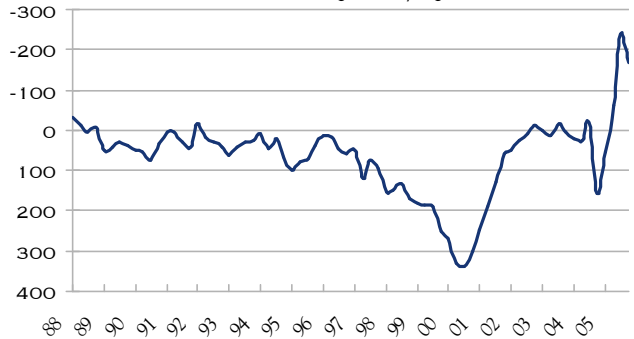
P/E based on FY1 EPS and based on current S&P 500 constituents



Source: FactSet and Citigroup

Hedge funds and other "fast money" have lost interest in the largest, most stable companies, driving their P/E ratios to a 15% discount relative to the average P/E of the S&P 500.

CORPORATE FINANCING GAP
\$billions nonfinancial Quarterly Q4 05: \$166.8



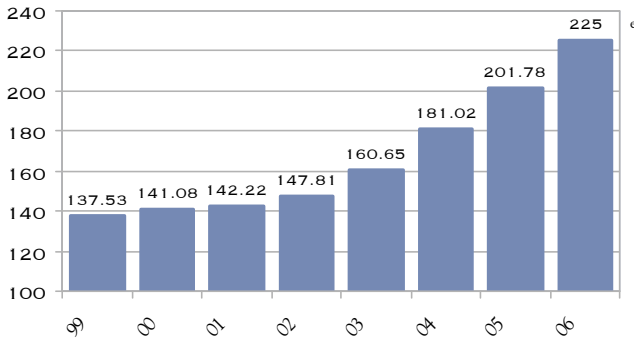
Source: Federal Reserve, Silvercrest

Corporate America is awash in cash as evidenced by a surplus in the corporate financing gap—the difference between capital expenditures and cash flows.



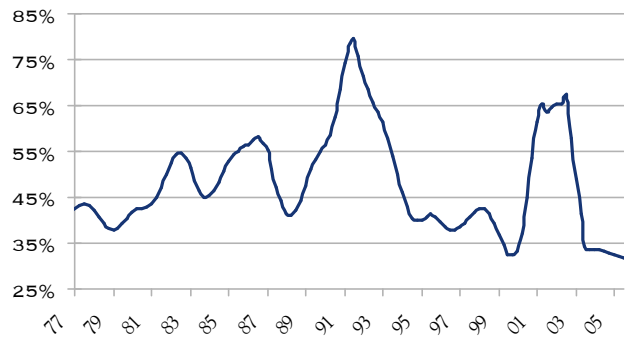
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S&P 500 DIVIDEND INCOME
\$ Billions Annual



Source: Standard & Poor's, Silvercrest

S&P 500 PAYOUT RATIO
4-Quarter Avg Quarterly Q4 05: 31.7



Source: Standard & Poor's, Silvercrest

Companies are using cash to increase dividend payments, which have risen more than 50% over the past three years.

Despite an aggressive dividend policy, the payout ratio has declined to the lowest level on record, suggesting the possibility of an even more generous dividend distribution policy in the future. This should add support to stocks, making them more competitive with bonds.

