



SILVERCREST
ASSET MANAGEMENT GROUP

KATRINA, RITA, THE ECONOMY & THE STOCK MARKET
Heartaches By The Number, Troubles By The Score

So far, I have counted 83 companies that have either reported earnings below expectations, blaming high energy or raw materials costs, or warned of lower-than-expected results. As a consequence, I believe it would be prudent, and more realistic, to lower our earnings estimates on the S&P 500 for the balance of this year even though Silvercrest has been consistently lower than consensus for all of 2005. Our new forecast is provided hereunder:

2004 ACTUAL	2005E	2006E
\$67.09	\$73.50 <i>current</i>	\$77.00 <i>current</i>
	\$75.00 <i>previous</i>	\$79.50 <i>previous</i>

While Hurricane Rita's potential damage cannot be assessed as yet, it will not reverse Katrina's impact. We will make further adjustments, if called for, when Rita becomes history.

In addition to the reduction in earnings estimates, we are revising our forecast of the federal budget deficit for next fiscal year, raising it to \$400 billion from what would otherwise have been \$300-\$325 billion. The implications for the dollar are obvious; instead of a slow and steady rebound, it is likely to remain range-bound around current value vs. the euro and the yen.

Finally, the inflationary consequences of all of the above, while moderate and perhaps temporary, should persuade the Federal Reserve Board to continue on the path of restraint, unless the economy exhibits clear signs of significant deceleration.

Until the hurricane season approaches its end (early November), the stock market will be subject to short-term volatility tied to news on energy prices and the weather. Subsequently, a relief rally will likely develop with its ultimate momentum greatly influenced by the speed with which the economy returns to reasonable normalcy and the rebuilding process proceeds.

Even with lowered earnings expectations, the market's valuation remains defensible and well-supported by fundamentals. At 15.8-times our 2006 estimate, the S&P 500 is well within its historical range at this stage of the economic cycle, even after discounting materially higher interest rates.

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