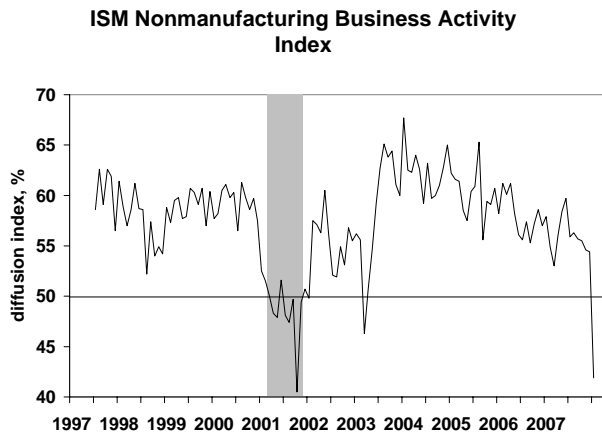
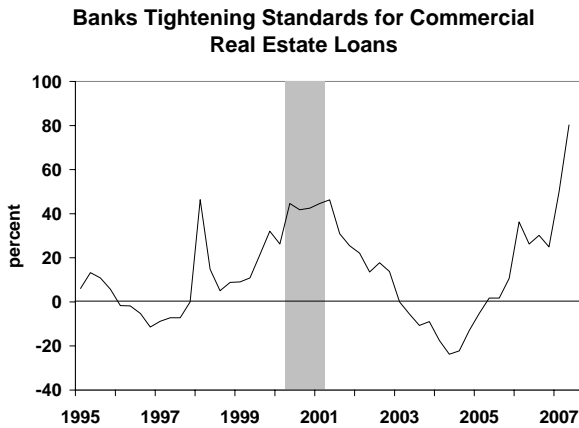


Recession signals

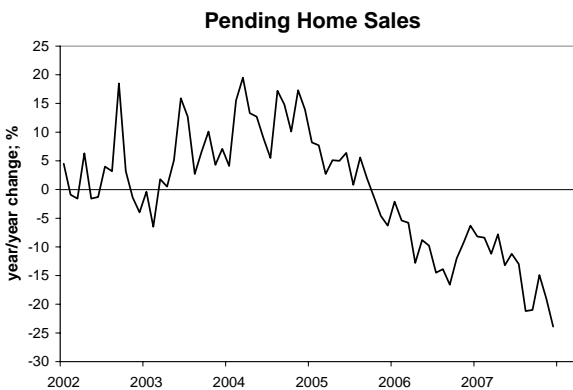
February 8, 2008



This week's economic data further challenged our baseline forecast of weak growth, rather than recession, in 2008. The plunge in the January ISM nonmanufacturing index suggests recession-like conditions at the start of the year (though this index is subjective and its message was not corroborated by the January ISM manufacturing index, which covers many more business cycles).



Lending standards (from the Fed's January Senior Loan Officer Survey) have tightened into recession territory.

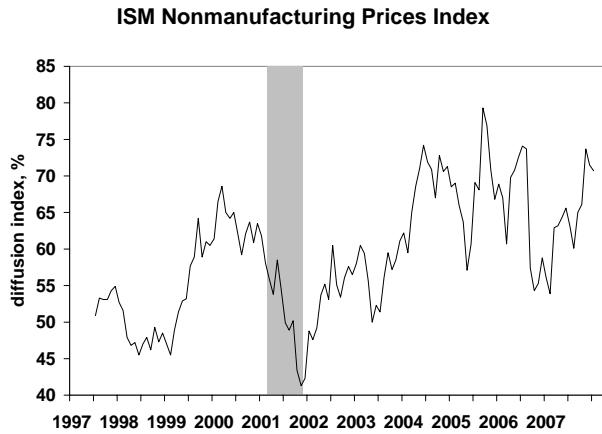


December pending home sales continued falling and have now declined 23.9% on a year-over-year basis.

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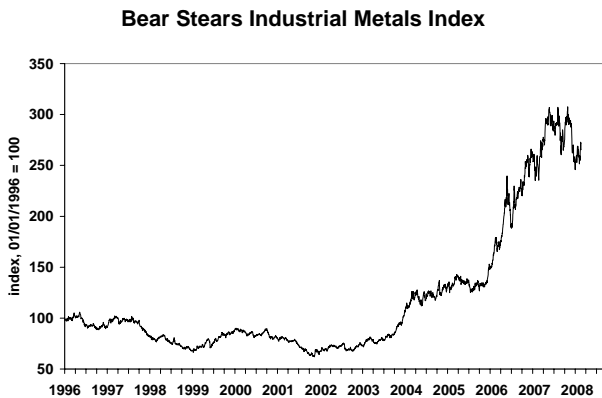
Inflation risks remain



The January ISM nonmanufacturing survey had a very stagflationary feel to it. In addition to the plunge in the activity indexes, prices paid remained very elevated. ISM members noted that “increased costs have negatively affected their business” and “indicated that they are experiencing inflationary pressures.”

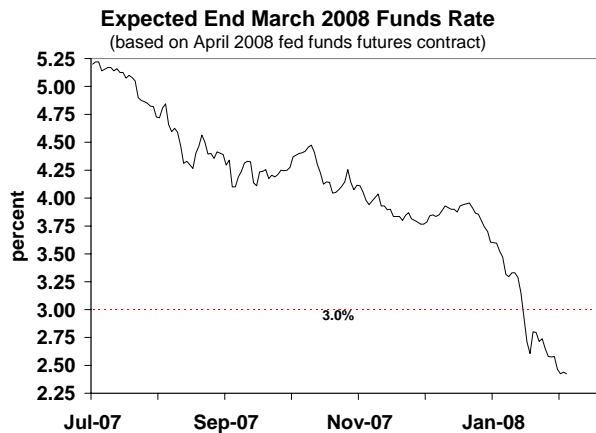


Although gold prices are off their highs, at over \$900 troy/oz, they remain very elevated...

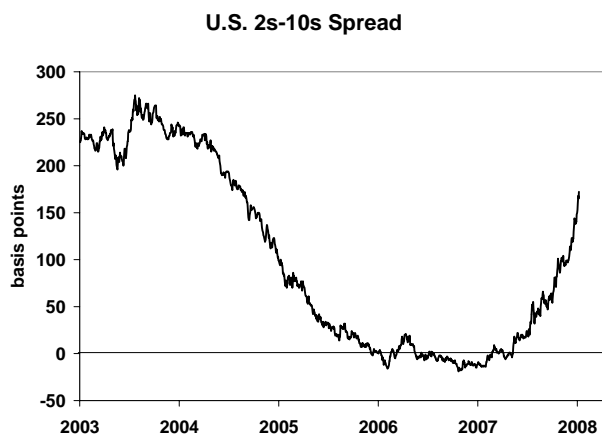


... and commodity prices maybe picking up again.

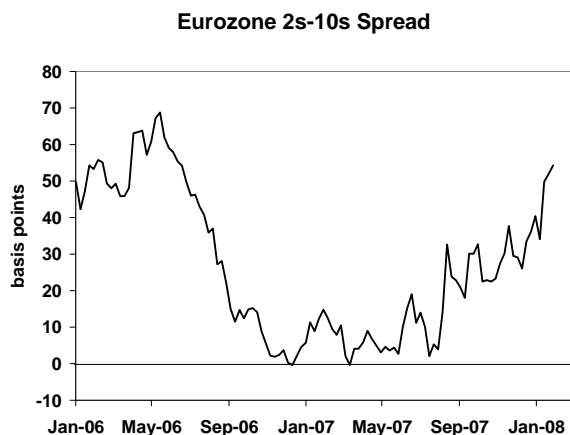
Markets update



The implied rate from April fed funds futures, at 2.43%, suggests that the market has fully priced in a 50-basis-points rate cut on March 18th and sees a significant chance of a larger move.



The U.S. yield curve continued to steepen in the latest week as the ISM nonmanufacturing report and U.S. equity market performance heightened recession fears and raised expectations of deeper rate cuts from the Fed.



The Eurozone curve also joined the steepening party in the latest week fueled by a shift in the ECB's policy statement to a more dovish stance.

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