

January 12, 2006

To: Clients and Friends of the Firm

Subject: Talking Points: Winter 2006 Economic Update

Despite dire initial predictions of a sharp post-Katrina economic slowdown, the US economy actually experienced its most rapid expansion since early 2004 in the third quarter of 2005. While the quarter just ended is likely to have shown a more moderate advance, the economy entered 2006 with considerable momentum which will produce yet another year of solid performance led by business spending and, early this year, government outlays to rebuild the Gulf area. Hiring increases will underpin consumer spending, while housing is expected to slow from its earlier unsustainable pace. We expect core inflation to remain at or below 2% allowing the Fed to complete its rate increase cycle this spring.

Attached in outline form are more of the details of our outlook for the economy and the financial markets for 2006.

Happy New Year!!