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Market Performance

After the difficult first quarter, stocks managed a strong rally in April as investors sought attractive valuations in an economic environment that turned out not to be as bad as initially feared. Several industry bellwethers reported solid profit news, offering further encouragement to those non-financial sectors that have yet to be affected by the credit crisis. Stocks were up across the board last month, with all the major equity market indexes that we cover showing gains for April. Emerging markets led the way, followed by domestic mid-cap stocks and the Nasdaq Composite. Yields backed-up for U.S. Treasuries, as investors anticipated an end to the Federal Reserve's easing campaign as well as in an attempt to potentially seek better value in the equity market. Municipal bonds tried to rally from their dreadful period at the end of the first quarter, while high yield bonds soared last month as investors jumped in for their attractive yields. Similar to U.S. Treasuries, gold lost its safe haven status last month but the prices for other commodities strengthened. See Chart 1 for more details of Market Performance.

U.S. Economy

Gross Domestic Product (GDP) expanded by a paltry +0.6% in the first three months of the year, a pace equal to that of the fourth quarter. (See Chart 2) It should be noted that a buildup in inventories and export gains provided a much needed boost for growth in the first quarter, however, as output excluding these items suggest a contraction of -0.4%. Business investment was weak and residential investment plunged by more than 26%. Personal consumption, responsible for more than two-thirds of output, did manage a gain, though, of +1.0%, during the quarter, but recent employment trends may further cap trends in consumption.

Looking ahead, it appears the inventory buildup from the first quarter may weigh on economic activity in the current quarter, as businesses choose to empty their shelves rather than increase production. In addition, hope springs eternal (or at least for this quarter) regarding the tax rebate checks as a catalyst for personal consumption. Spending on flat screen TV's may accelerate these next few months, but the primary challenge for output growth, in our opinion, remains falling home prices and we suspect only time can heal these wounds. While government spending, exports, and the lag effects from previous monetary policy moves may help support

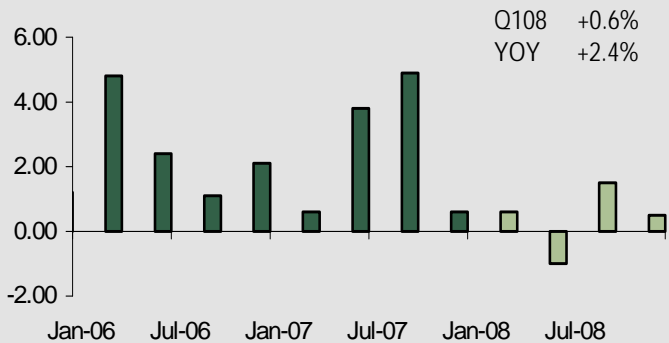
1. Market Performance

EQUITIES	4/30/08 LEVEL	APRIL TOTAL RETURN	YTD TOTAL RETURN
Dow Jones Industrials	12,820.1	4.7	-2.6
S&P 500	1,385.6	4.9	-5.0
NASDAQ	2,412.8	5.9	-9.0
Russell 2000	716.2	4.2	-6.1
S&P MidCap	838.8	7.7	-1.8
Russell 1000 Growth	576.3	5.2	-5.5
Russell 1000 Value	755.5	4.9	-4.3
MSCI EAFE	2,139.5	5.4	-4.0
MSCI (Emerging Markets)	1,191.5	8.1	-3.8
FIXED INCOME	4/30/08 YIELD	APRIL TOTAL RETURN	YTD TOTAL RETURN
10-Year Treasury	3.76	-2.4	3.2
Lehman Aggregate	4.74	-0.2	2.0
Lehman Municipal	4.04	1.2	0.5
Lehman Corporate	5.91	0.9	0.8
Lehman High Yield	10.10	4.3	1.2
Lehman Mortgage	5.18	0.1	2.5
Lehman Global ex. US	3.26	-3.4	6.6
COMMODITIES & CURRENCIES	4/30/08 LEVEL	APRIL TOTAL RETURN	YTD TOTAL RETURN
CRB Index	409.27	5.8	14.1
Crude Oil - WTI	113.46	11.7	18.2
Gold	862.80	-5.8	3.3
Trade Weighted Dollar	72.72	0.8	-5.2

Source: Factset, Bloomberg, Lehman Brothers, Evergreen Investments.
*Total Return includes price appreciation & dividend income for equities.

Past performance is not indicative of future results. It is not possible to invest directly in an index.

2. Gross Domestic Product



Source: Baseline, Evergreen Investments

growth for the balance of 2008, we remain concerned about the absence of these catalysts next year, in what may still prove to be a challenging period for home prices.

Indeed, while the magnitude of the current economic weakness may prove limited, we question the prevailing sentiment that its duration will be short. For example, after the significant gains in home values from 2003-2006, we suspect more time is needed to find equilibrium in pricing as housing inventories still suggest elevated levels. In addition, the recent tax package virtually doubled the federal budget deficit and consequently, tax increases may loom at the federal, state and local levels next year. Finally, inflation typically puts an end to economic expansions and the trends in global food and energy prices do not bode well for growth.

Federal Reserve and Interest Rates

Wary of these global pricing developments, monetary policy makers reduced their target for the federal funds rate by just 25 basis points, to 2.0%, at the conclusion of their Federal Open Market Committee (FOMC) meeting on April 30th. In their closely watched statement, monetary policy makers issued a negative outlook on the economy, suggesting that growth remained weak but could be further pressured by “subdued” business investment. In addition, the Fed reiterated that financial markets remained under “considerable” stress. Perhaps most important, central bankers dropped the line that “downside risks to growth remain” from their previous meeting, implying their intention (though not a commitment) to pause at the June meeting, while highlighting their “substantial easing of policy to date.”

Indeed, monetary policy makers have been very aggressive, cutting their target for the federal funds rate seven different times (from 5.25%) since the financial crisis began last August. In addition, the Federal Reserve has been very innovative in contending with the current financial crisis by developing several innovative policy initiatives and lending facilities in attempting to target liquidity without further pressuring the dollar or adding to inflationary concerns. Yet despite these efforts, inflationary pressures continue to build and the dollar continues to weaken. As a result, market interest rates have once again begun to move against the Fed, this time heading north, as global investors anticipate a pause, if not a completion, of the most recent Fed easing campaign. Perhaps this is best illustrated by the yield for the 2-year Treasury, which has climbed by more than 100 basis points over the past several weeks. See Chart 3.

3. 2-Year Treasury Yield



Source: Baseline, Evergreen Investments



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John is a Managing Director and Chief Market Analyst for Evergreen Investments. A member of the firm's Investment Strategy Committee, John uses a top-down, macro-economic approach in his analysis of the financial markets. He has been featured in various media outlets, including CNBC, BusinessWeek, CNN-Money, Bloomberg News and The Wall Street Journal.

Investments in stocks, bonds, variable annuities and mutual funds:

NOT FDIC INSURED	NOT BANK GUARANTEED	MAY LOSE VALUE
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