



PERIGON

THE ECONOMY AT A GLANCE

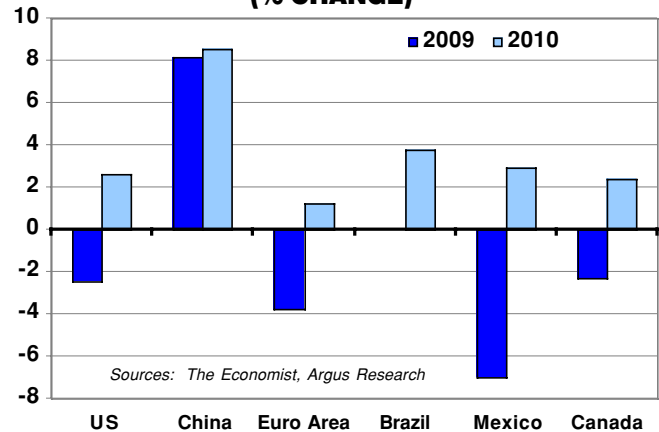
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Vol. 77, No. 4

ECONOMIC HIGHLIGHTS

GDP SET TO GROW, BUT JOBS WILL LAG

We look for consistent – but below normal trend – GDP growth of 1%-2.5% through 2010. Across the globe, most economies are expected to once again expand next year. But the Euro area, in particular, may struggle to top estimates in 2010. Unemployment has reached 19% in Spain, is near 12% in Belgium and is 10% in France. The Euro countries are unable to spend as freely as, say, the U.S. because they have to keep inflation under control as part of the currency pact. The employment situation in Germany and Italy is in better shape, with jobless rates of 8.1% and 7.8%, respectively. Of the major trading partners, only Japan, with a 5.1% unemployment rate (and falling), is lower. We look for the U.S. employment rate to peak in the second quarter of 2010.

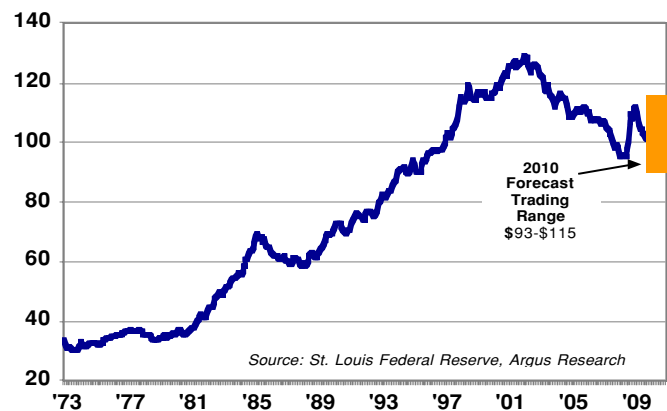
GLOBAL GDP GROWTH RATES & FORECASTS (% CHANGE)



DOLLAR EXPECTED TO DECLINE INTO 2010

As of this writing, the U.S. dollar had declined 7% in 2009 on a trade-weighted basis, versus a basket of currencies including Europe, China, Canada, Mexico and the UK, among others. We look for the greenback to slide further in 2010, and to trade within a range of 93-115. In response to the financial crisis, the Fed more than doubled Reserve Bank Credit through quantitative easing. Further complicating things is the growth of the federal deficit and the national debt. Dollar weakness should benefit inflation-sensitive groups such as Materials and Energy, as well as export-heavy industries such as Industrials, Pharmaceuticals and Consumer Packaged Goods. Once the Fed starts to raise interest rates and unwind quantitative easing, the dollar could begin to strengthen.

TRADE WEIGHTED DOLLAR

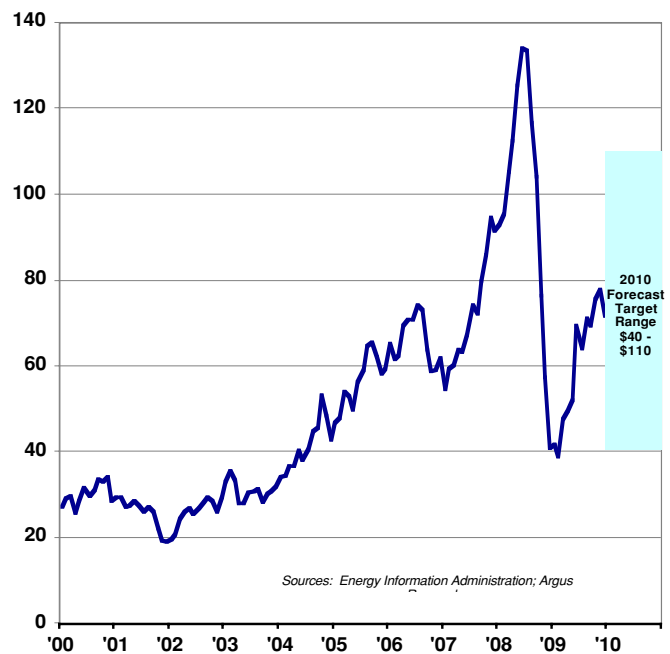


ECONOMIC HIGHLIGHTS (CONTINUED)

OIL PRICE OUTLOOK

Our estimates for the average price of West Texas Intermediate crude oil are now \$60 per barrel for 2009 and \$68 per barrel for 2010. We look for a trading range for WTI of \$33-\$85 in 2009 and \$40-\$110 in 2010. The current price for WTI is \$71.33, down from \$78 a month ago. The International Energy Agency now forecasts that the worldwide demand for crude oil will decline by 2.2%, or 1.9 million barrels per day in 2009. This is a rare event and highlights the severity of the recent global recession. Even so, we expect petroleum demand to resume its upward course by early 2010 due to global demographic and economic growth. The economies of China and India are expected to grow 8.6% and 6.3%, respectively, next year. In recent months, several factors have combined to restore near-term stability to world oil prices — include production cuts by OPEC and a declining dollar. Natural gas has not yet rebounded to the same degree, though the average price for December is \$5.23, up from \$4.66 in November. Our estimates for the average wellhead price of Henry Hub natural gas are now \$3.90 per mcf for 2009 and \$6.00 per mcf for 2010.

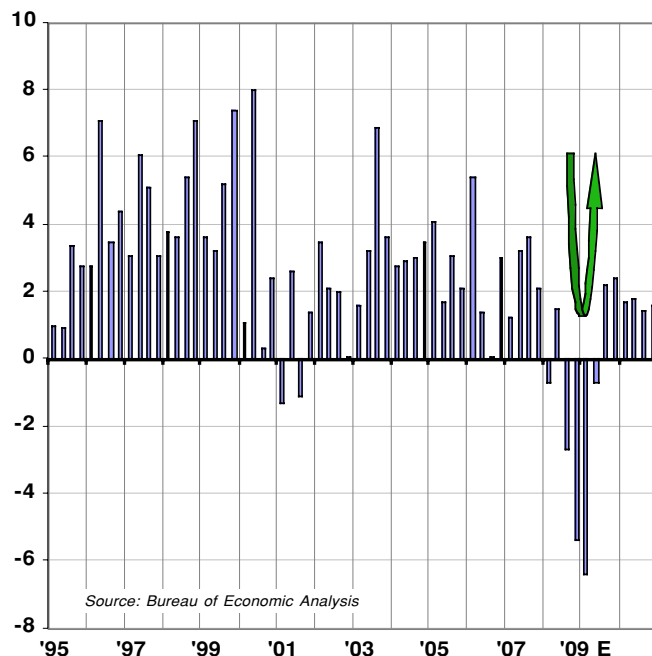
OIL PRICE TRENDS (WTI SPOT PRICE, \$/BARREL)



GDP EXPECTED BACK ON TRACK IN 2010

The U.S. economy increased at an annual rate of 2.2% in the third quarter, according to the Bureau of Economic Analysis. The rate, while positive, was revised downward twice from an initial 3.5%. Still, the gain was the first for the economy after a four-consecutive-quarter decline, which was the longest continuous drop since the Great Depression. Several categories contributed to the advance, including personal consumption expenditures, private inventory investment and exports. On the positive side, personal consumption expenditures rose at a solid 3.8%, and the economy grew despite a pull-back in government spending from earlier projections. The housing market is showing mixed signs: investment in housing declined 5.9% in the quarter, but the pace was not as bad as the 9.6% decline in the previous quarter. As we look out into 2010, we expect the economy to string together several more quarters of moderate advancement. In particular, we look for inventory investment to grow into 2010. But we do not anticipate record economic levels in 2010. At \$12.973 trillion, the U.S. economy is still 11% smaller than it was at its peak in 2008.

REAL GDP (%)



FINANCIAL MARKET HIGHLIGHTS

RISKIER SECTORS THRIVE IN 2009

In 2009, sectors that were the riskiest – because of volatile earnings, high debt and exposure to the consumer – were those that generated the highest returns. Leading the way were Tech, Materials and Consumer Discretionary. The laggards were sectors that are mature or heavily regulated: Consumer Staples, Energy, Utilities and Telecom. Looking to 2010, we think the trends are likely to be less clear-cut. In Q309, we lowered our Over-Weight to Technology as we think the strongest gains have been notched. But we upgraded our rating on Energy to Over-Weight, as we think inflation may re-emerge in 2010. And we have taken a contrarian stance on Healthcare, which we reckon can benefit from millions of newly insured customers. We also upgraded Telco, based on growing wireless MOU.

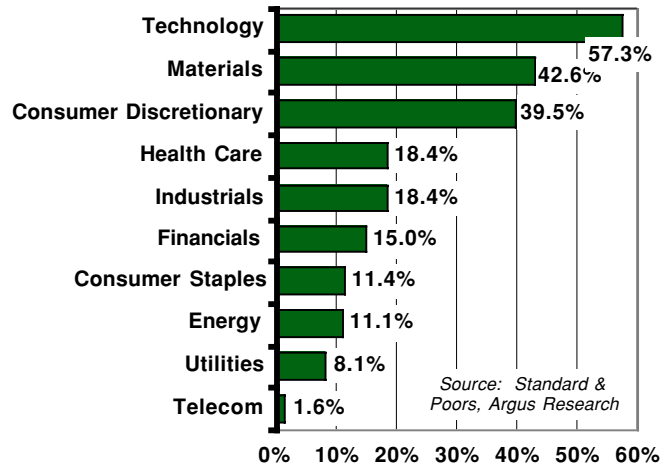
DOW THEORY: TRANSPORTS VS. INDUSTRIALS

Market bulls will take cheer from the increasing correlation in trend between the Dow Jones Transportation Average and the Dow Jones Industrials Average. The DJIA is an index of 30 blue-chip stocks with a market value of roughly one-third of the U.S. market. The “Transports” is an index of 20 stocks with much smaller market value and membership including railroads, truckers, airlines and shipping companies. Adherents to Dow Theory believe that you should not trust a rally in the Industrials without a similar rally in the Transports. Back in the late 1990’s, this certainly held true, and the Industrials and Transports have certainly moved in lock-step since the market rally began last March.

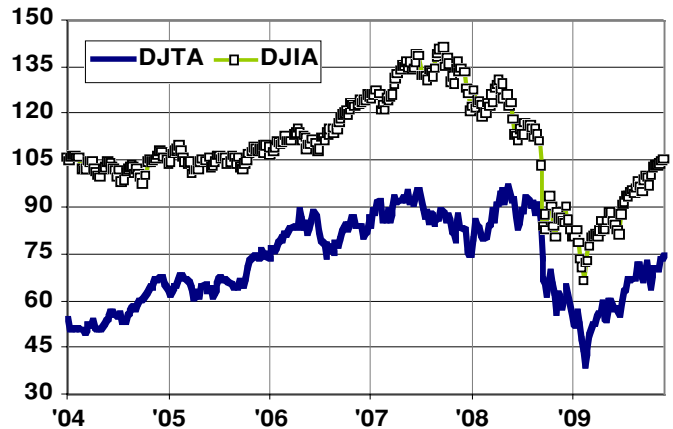
MARKET CONDITIONS A BIT FROTHY

The U.S. stock market generated a solid year of performance in 2009. While markets are anticipatory and the gains forecast an impending improvement in corporate earnings, stock investors may have pushed up prices too far too fast. The 200-day trend line is a popular measure of investor sentiment. When market measures are below, as they were for all of 2008, the trendlines act as resistance; when they are above, the trendlines provide support. At current levels, though, popular stock market measures are 15%-20% above their trendlines. We view this level as too high. While we don’t forecast a sharp pullback in the equity markets – certainly not back to the bear market depths – we do think that forecast gain in 2010 will not be as great as in 2009.

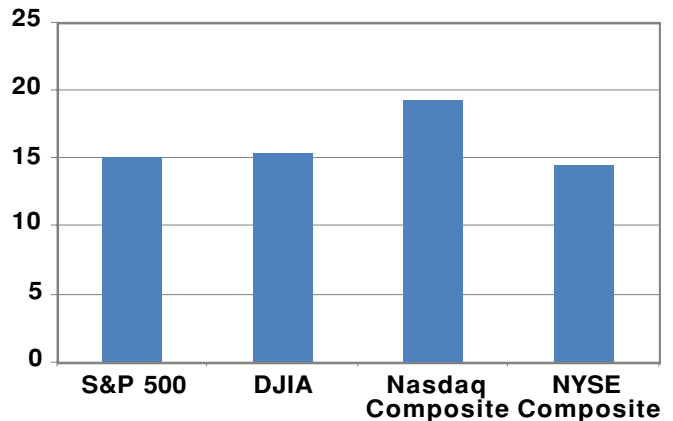
SECTOR PERFORMANCE



DOW THEORY - TRANSPORTS VS. INDUSTRIALS



TRENDLINE ANALYSIS (% +/- 200-DAY MOVING AVG)



ECONOMIC CALENDAR

Previous Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|----------|-------------------------------|----------|-----------------|----------------|-----------------|--------|
| Mon. 1/4 | Construction Spending | November | 0.0% | 0.1% | -0.4% | N/A |
| | ISM Purchasing Managers Index | December | 53.6 | 54.0 | 54.0 | N/A |
| Tue. 1/5 | Factory Orders | November | 0.6% | 0.3% | 0.5% | N/A |
| Wed. 1/6 | ISM Non-Manufacturing | December | 48.7 | 50.5 | 50.5 | N/A |
| Fri 1/8 | Wholesale Inventories | November | 0.3% | 0.5% | -0.3% | N/A |
| | Non-Farm Payrolls | December | -11,000 | -30,000 | N/A | NA |
| | Manufacturing Payrolls | December | -41,000 | -32,000 | -35,000 | NA |
| | Average Workweek | December | 33.2 | 33.5 | 33.2 | NA |
| | Average Hourly Earnings | December | 0.1% | 0.1% | 0.2% | NA |
| | Unemployment Rate | December | 10.0% | 10.2% | 10.1% | NA |
| | Consumer Credit | November | -\$3.5B | -\$3.7B | -\$5.0B | NA |

Next Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|-----------|-----------------------------|----------|-----------------|----------------|-----------------|--------|
| Tue. 1/20 | Producer Price Index | December | 1.8% | 1.5% | N/A | N/A |
| | PPI ex-Food&Energy | December | 0.5% | 0.2% | N/A | N/A |
| | Housing Starts | December | 574k | 570k | N/A | N/A |
| Wed. 1/21 | Philadelphia Fed. | January | 20.4 | 20.7 | N/A | N/A |
| | Leading Economic Indicators | December | 0.9% | 1.0% | N/A | N/A |

* Preliminary

** Advance

^Final

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