



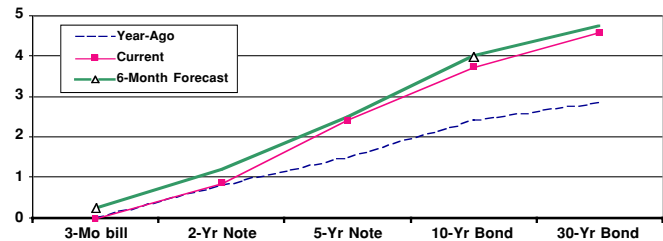
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### ECONOMIC HIGHLIGHTS

#### YIELD CURVE IMPLIES EXPANSION

In recent months, the slope of the yield curve has grown steeper, as the Fed has kept short-term rates low — but traders have pushed longer-term rates higher in anticipation of inflation. The challenge for the Fed will be to start to unwind aggressive easing in order to keep inflation at bay, while also preventing unemployment from increasing further. We think the central bank is likely to stand pat on its low target for the fed funds rate until at least H2 2010.

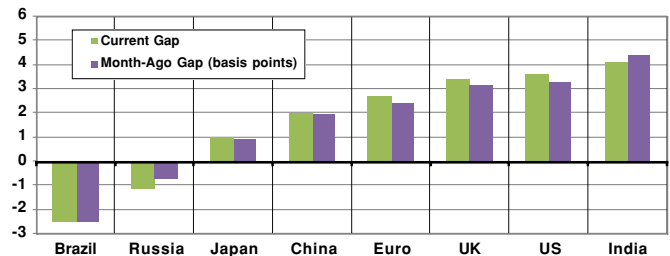
#### YIELD CURVE



#### GLOBAL LONG RATES RISING

Long-term interests are headed mostly higher across the globe. In the past month, long-term rates in the U.S., U.K., Euro area, Japan and China all rose – this as investor expectations of economic growth improved and concerns over potential inflationary pressures accelerated. Meanwhile, governments continue to keep short-term rates low. Accordingly, the spreads between short-term and long-term bonds in the major economies widened, further implying global GDP expansion.

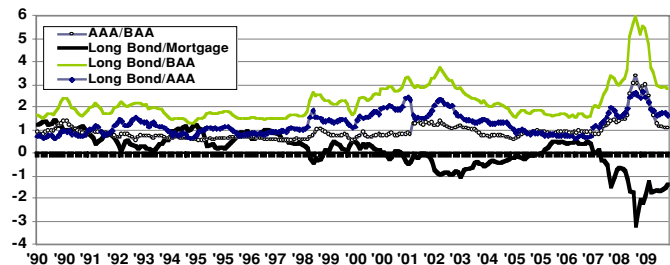
#### GLOBAL INTEREST RATES



#### SPREADS HEAD BACK TO NORMAL

According to our calculations, the average spread between the government long bond and an AAA-rated corporate bond over the past 55 years is 81 basis points. As of December, the gap was 167 basis points. The gap between the government long bond yield and a Baa-rated bond is now 278 basis points, versus a historical average of 178 bps. Tighter yields between AAA and BAA bonds suggests that the risk-reward ratio may soon start to favor the higher-grade credits.

#### BOND SPREAD



# ECONOMIC HIGHLIGHTS (CONTINUED)

## ARGUS TEAM RAISES OIL PRICE OUTLOOK

The Argus Energy Team has raised its forecasts for oil and gas prices in 2010. The forecast for the average price of West Texas Intermediate crude oil is now \$75 per barrel for 2010, up from \$68. The team has also established a forecast of \$85 for 2011. We look for a trading range for WTI of \$40-\$110 in 2010 and \$60-\$130 in 2011. Our increased forecasts are based on our expectation that petroleum demand will once again resume its upward course. In recent months, several factors combined to restore near-term stability to world oil prices. Natural gas has not yet rebounded to the same degree, though the price has risen to \$5.83, up from \$5.23 in December. Our estimates for the average wellhead price of Henry Hub natural gas are now \$5.40 per mcf for 2010 and \$5.75 per mcf for 2011.

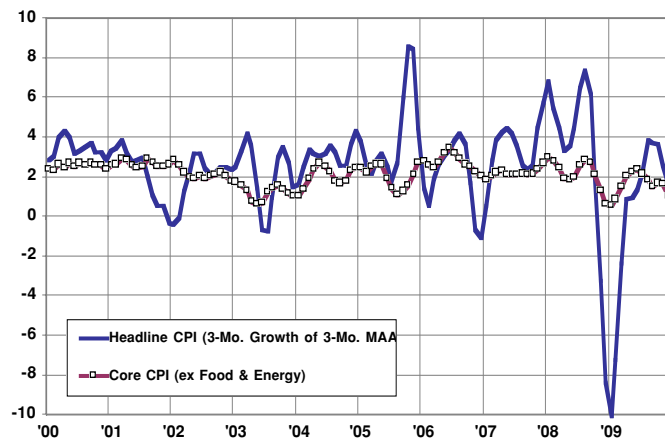
## OIL PRICE TRENDS WTI SPOT PRICE (\$/BARREL)



## INFLATION APPEARS CONTAINED – FOR NOW

The Consumer Price Index for All Urban Consumers has risen 2.7% over the past 12 months through December. The ex-food and energy CPI measure is also higher, but only at a 1.8% rate. At these levels, the central bank is unlikely to alter its aggressive policies in the next few months, although one regional Fed president voted for higher rates at the two-day central bank meeting that ended Wednesday. Bond yields are certainly beginning to suggest that the central bank look more closely at inflation. The benchmark U.S. long bond yield has risen in the past month from 3.5% to 3.7%, before settling in the 3.6% range. We anticipate higher bond yields over the next six-to-twelve months, as the government stimulus programs ultimately stoke inflation, which the Fed will then begin to fight.

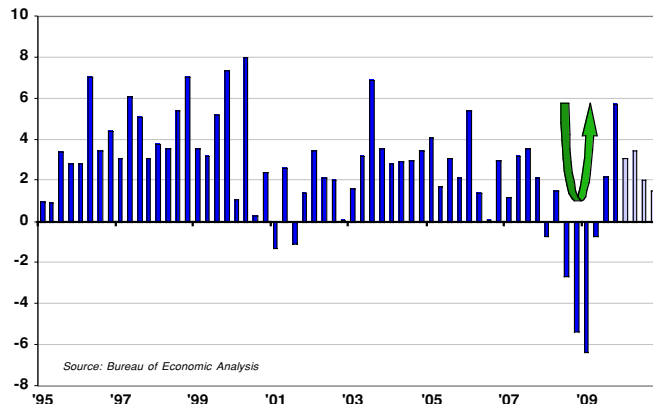
## CONSUMER PRICE INDEX



## Q4 GDP STRONG AT 5.7%

The U.S. economy roared back in the fourth quarter of 2009, growing at a 5.7% pace — well ahead of expectations, according to the “advanced estimate” of GDP by the U.S. Bureau of Economic Analysis. Of course, this most recent rate of expansion will not be sustainable; the Federal Reserve targets long-term U.S. economic growth in the 3% range. That said, we do expect above-trend growth for at least the next two quarters, as inventories are rebuilt. Along with the economic growth, we expect to see interest rates rise (not to mention the Fed pulling back on its easing policies), which will eventually bring GDP expansion back toward a more normal pace.

## REAL GDP (%)



# FINANCIAL MARKET HIGHLIGHTS

## BROAD-BASED GROWTH FORECAST IN 2010

In 2010, the leading sectors, according to Street analysts and our internal forecasts, are expected to be the Financial, Energy and Materials groups — which are either bouncing back from losses in the 2008-2009 period or are being driven by the declining dollar and the return of global economic growth. The Consumer Discretionary and Technology groups are also expected to generate market-beating earnings growth. And then we reach the laggards, including Healthcare, Industrials, Utilities and Staples — all clustered in the 8%-14% range. These groups are more mature and less exposed to emerging economies. The Telecom group is the clear outlier in terms of expected growth. The Street is only a 4% gain in profits, as wireline usage continues to drop. Contrarians may take note.

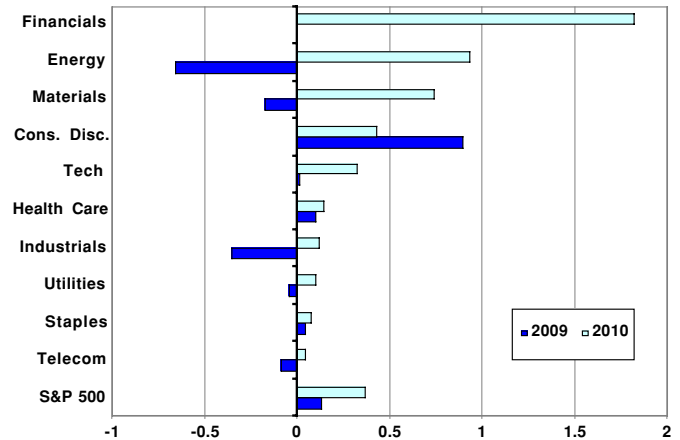
## PERFORMANCE OF LARGE-CAPS VERSUS SMALL-CAPS

We follow the relationship between the Russell 1000 (which measures the performance of large-cap stocks) and the Russell 2000 (small-cap stocks). At the peak in late 1999, the Russell 1000 was 60% higher than the Russell 2000. After some weak years for large-caps, however, that premium turned into a discount of as much 10% early in 2006. Now, the two indices have pulled close to even and have stayed that way over the past few years. However, large-cap stocks still look more attractive on the basis of the most common valuation measures. Versus small-caps, large-caps also tend to get more business from overseas and have stronger balance sheets. Given the still-uncertain state of affairs in the U.S. economy right now, we think investors will continue to favor the large U.S. multinationals.

## ETF VALUES

The largest ETF in terms of market cap is the S&P 500 SPDR fund. The most expensive of the leading ETFs, on a price/earnings basis, is the iShares Russell 2000 fund — which trades at 23-times forecast 2010 earnings (according to ETF Advisor). Vanguard Emerging Markets raises eyebrows with a P/E of 13-times. On a price/book basis, outliers on the cheap side include iShares MSCI EAFE and iShares S&P 500 Value. Both also have above-average yields. Gold ETFs were popular in 2009. However, investors should be cautious about the holdings in various commodity ETFs. Several blend securities, while others focus on the metals themselves. The beta on the Market Vectors Gold Miners ETF is 9.5. That said, the R-squared is less than 1 — indicating returns are not correlated with the broad market.

## SECTOR GROWTH FORECASTS



## LARGE-CAP/SMALL-CAP PERFORMANCE RATIO



## TOP EQUITY ETFs

Name	Ticker	AUM (\$BIL)	'09 Return	P/E	P/B	P/S	Yield
SPDR S&P 500	SPY	72.3	26%	14.5	2.1	1.2	1.9
iShares MSCI EAFE	EFA	35.0	27%	14.2	1.5	0.9	3.2
iShares MSCI Emerg. Mkt.	EEM	37.3	69%	13.2	1.9	1.5	2.3
Powershares QQQ	QQQQ	16.9	55%	18.4	3.0	2.2	0.6
Vanguard Emerging Markets	VVO	17.8	76%	13.2	1.9	1.5	2.3
iShares Russell 2000	IWM	11.1	28%	23.2	1.7	0.8	1.2
Dow Industrials	DIA	8.0	22%	13.4	2.4	1.2	2.7
S&P 500 Growth	IWG	5.8	31%	16.0	2.9	1.8	1.5
Market Vectors Gold Miners	GDX	5.8	37%	21.0	2.1	4.6	0.4
S&P 500 Value	IVE	3.6	21%	13.7	1.6	0.8	2.4
Average			39%	16.08	2.11	1.65	1.85

Sources: Barron's, ETF Advisor, Argus Research

# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Mon. 2/1	Personal Income	December	0.4%	0.4%	0.3%	N/A
	Consumer Spending	December	0.5%	0.5%	0.3%	N/A
	ISM Manufacturing Index	December	55.9	56.9	55.6	N/A
	Construction Spending	December	-0.6%	-0.2%	-0.3%	N/A
Tue. 2/2	Total Vehicle Sales	January	11.23MM	11.5M	11.3M	N/A
Wed. 2/3	ISM Non-Manufacturing Index	January	50.1	51.1	51.0	N/A
Thur. 2/4	Nonfarm Productivity*	QIV	8.1%	7.0%	5.6%	N/A
	Unit Labor Costs*	QIV	-2.5%	-2.5%	-2.1%	N/A
	Factory Orders	December	1.1%	1.1%	1.2%	N/A
Fri. 2/5	Nonfarm Payrolls	January	-85k	20k	27k	N/A
	Unemployment Rate	January	10.0%	10.4%	10.0%	N/A
	Manufacturing Payrolls	January	-27k	-27k	-25k	N/A
	Average Hourly Earnings	January	0.2%	0.2%	0.2%	N/A
	Average Workweek	January	33.2	33.5	33.2	N/A
	Consumer Credit	December	-\$17.5B	-\$9.2B	-\$9.2B	N/A

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 2/16	NY State Manufacturing Index	February	15.9	20.0	N/A	N/A
Wed. 2/17	Import Price Index	January	0.0%	0.2%	N/A	N/A
	Housing Starts	January	557k	560k	N/A	N/A
	Industrial Production	January	0.6%	0.8%	N/A	N/A
	Capacity Utilization	January	72.0%	72.4%	N/A	N/A
	FOMC Meeting Minutes	N/A	N/A	N/A	N/A	N/A
Thur. 2/18	Producer Price Index	January	0.2%	0.2%	N/A	N/A
	PPI ex Food & Energy	January	0.0%	0.1%	N/A	N/A
	Philadelphia Fed.	February	15.2	20.0	N/A	N/A
	Leading Economic Indicators	January	1.1%	1.0%	N/A	N/A
Fri. 2/19	Consumer Price Index	January	0.1%	0.2%	N/A	N/A
	CPI ex Food & Energy	January	0.1%	0.2%	N/A	N/A

\* Preliminary

\*\* Advance

^Final

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