



PERIGON

THE ECONOMY AT A GLANCE

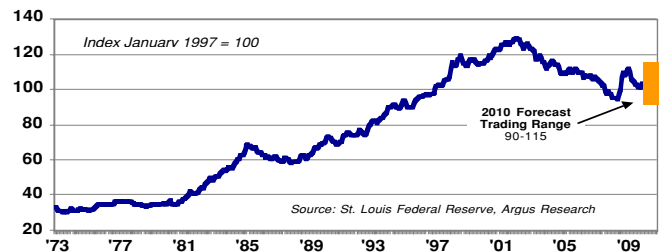
March 22, 2010
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ECONOMIC HIGHLIGHTS

GREENBACK POISED TO REVERSE

We think the dollar rally will be short-lived, and we look for the greenback to slide further, trading within a range of 93-115. 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, we anticipate the dollar could stabilize and begin to strengthen.

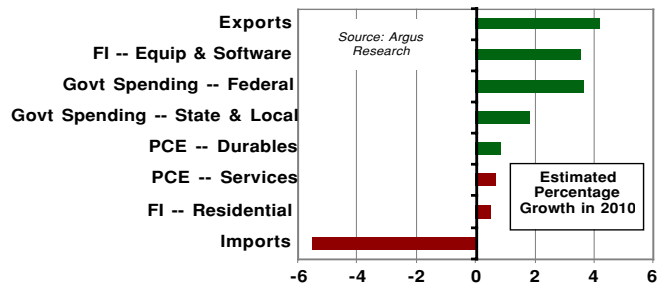
TRADE WEIGHTED DOLLAR



TECH, EXPORTS EXPECTED TO DRIVE GDP

We forecast above-trend GDP growth over the next two quarters. First, we expect the dollar to resume its decline and to drive export demand. Second, we expect the recovery in Technology to continue, and we estimate 3.6% average growth for this group (7% of GDP) in 2010. Third, we assume that government spending growth will resume at an accelerated pace in an election year – at least on the Federal level. Our model calls for 3.6% growth in Federal government spending, which accounts for 8% of GDP.

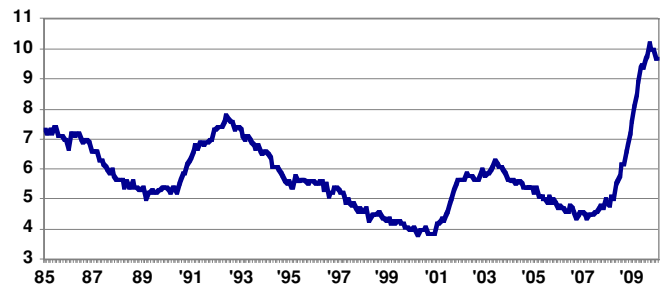
2010 GDP FORECAST



PAYROLLS BETTER THAN CONSENSUS EXPECTATIONS

The payroll picture was hardly robust in February, but the numbers were not as bad as the consensus had feared. Though the economy is clearly recovering, investors must brace for a relatively jobless initial expansion phase. The challenges of finding a job – the number of long-term unemployed workers was 6.1 million – are likely to take a toll on the consumer sector. But data suggests the Federal Reserve will keep interest rates low as long as possible, in order to provide support.

UNEMPLOYMENT RATE

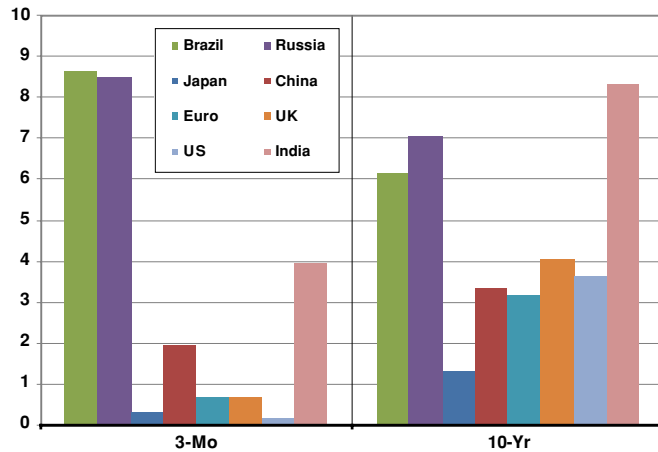


ECONOMIC HIGHLIGHTS (CONTINUED)

EMERGING ECONOMIES OFFER HIGHER RATES

Long-term yields are in the 6%-8% range in the emerging economies of Brazil, Russia and India, compensating investors for inflation rates that average 7.8%. At the short end, both the U.S. and Japan have extremely low rates that are designed to stimulate economic growth. Once again, short-term rates are higher in Brazil, Russia and India, as monetary authorities in those nations combat rising prices. Looking ahead, we anticipate that Brazil and Russia will be lowering short-term rates to keep economic growth strong. We thus anticipate that long-term rates will remain elevated. We expect India to raise its short-term rates to control inflation that is increasing at a double-digit pace. We thus anticipate that the intermediate-term trend for Indian long-term rates is lower.

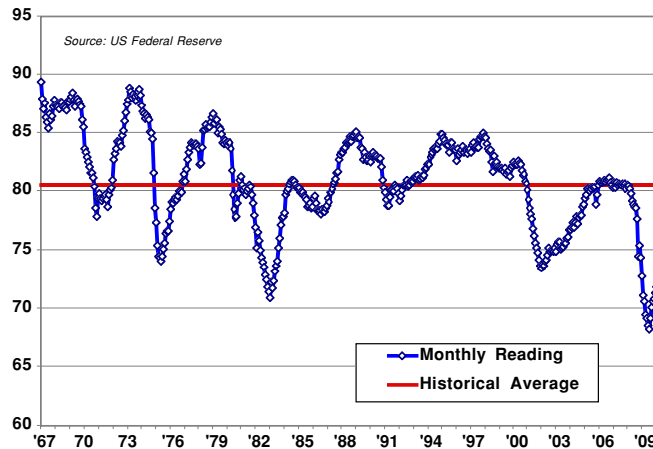
GLOBAL YIELDS



THE LIGHTS ARE COMING BACK ON

Capacity utilization is historically low, but is on the upswing. In the latest report (January 2010 data), the utilization rate was 72.6%, up from 71.9% in November and 68.2% in June 2009 — but still well below the 1972-2008 average of 80.9%. Strengthening sectors included aerospace, metal and metal products, and machinery. The auto sector has improved to 55% of capacity, up from 48% in August 2009 — but down sharply compared to the 20-year average rate of 76.7%. During the last recession, almost five years passed before utilization once again reached the 80% level. The long-term trend is lower: when the government first started reporting this statistic, utilization was almost 90%. Looking ahead, we anticipate a slow recovery in utilization, back toward the 80% level by 2013-2014.

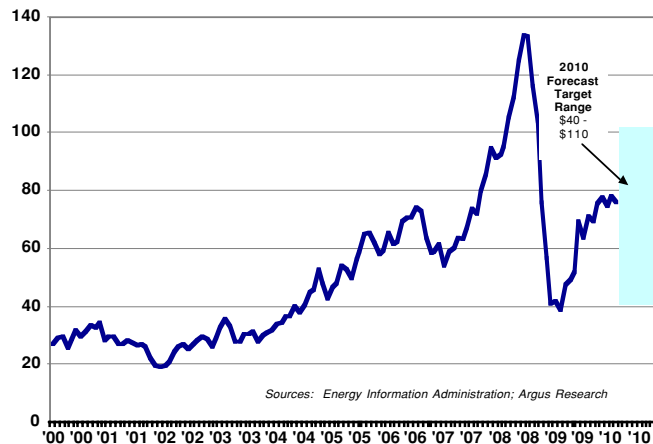
CAPACITY UTILIZATION (%)



OIL PRICES IN FORECAST RANGE

Argus forecasts an average price of \$75 per barrel for West Texas Intermediate crude oil for 2010 and has a forecast of \$85 for 2011. We look for a trading range for WTI of \$40-\$110 in 2010 and \$60-\$130 in 2011. The current price for WTI is \$80. Our forecasts are based on our expectation that petroleum demand will once again resume its upward course. The International Energy Agency forecasts worldwide demand for crude oil of 85.7 million barrels per day (b/d) in 2010. The demand rates in 2007-2009 were 86.5 million, 86.3 million and 85.4 million, respectively. In recent months, several factors have combined to restore near-term stability to world oil prices. These include production cuts by OPEC, a declining dollar and increased interest in the energy sector from sovereign wealth funds.

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



FINANCIAL MARKET HIGHLIGHTS

CONSOLIDATION CANDIDATES

Our monthly Red Flag reports capture company price trends, Z-scores, credit outlooks, and insider selling, among other factors to determine which sectors may be under the most financial pressure – and the most ripe for potential M&A. The latest screens for February once again identified a high number of Regional Bank companies at potential risk for bankruptcy, or at the least consolidation. We also anticipate further M&A activity in Software, Semiconductors and Utilities. The risk profile rose somewhat last month for Consumer groups, as more companies in the Retail, Auto, Airline and Hotel/Restaurants emerged. The financial condition of Energy stocks improved, as oil prices once more are near \$80.

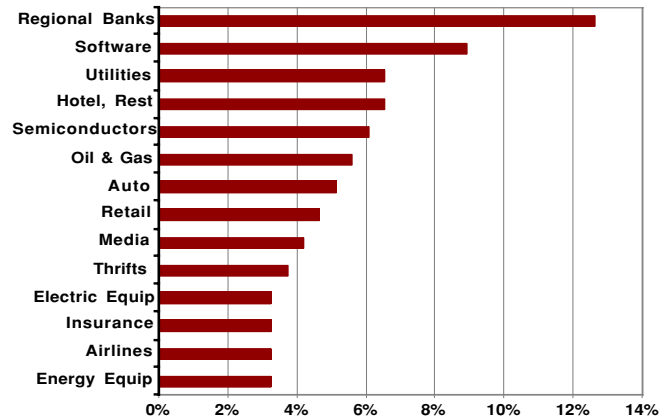
CDS PRICES ON SOVEREIGN DEBT: NO BROADER CRISIS

The prices of credit default swaps on Greek debt have fallen as details emerged about budget cuts and possible debt backing from others in the EU. With many other governments piling up debt for deficit spending, investors are justly wondering which country is next. However, if prices for credit insurance in the form of default swaps were an early warning sign of trouble in mortgage credit, they do not appear to be signaling that a broad sovereign credit crisis is taking shape. First, we note that sovereign CDS prices of late have remained well below the crisis levels of late 2008 and early 2009, despite the attention paid to Greece. However, we also note that the average CDS price on sovereign debt is still more than twice the level at which it stood in the summer of 2008.

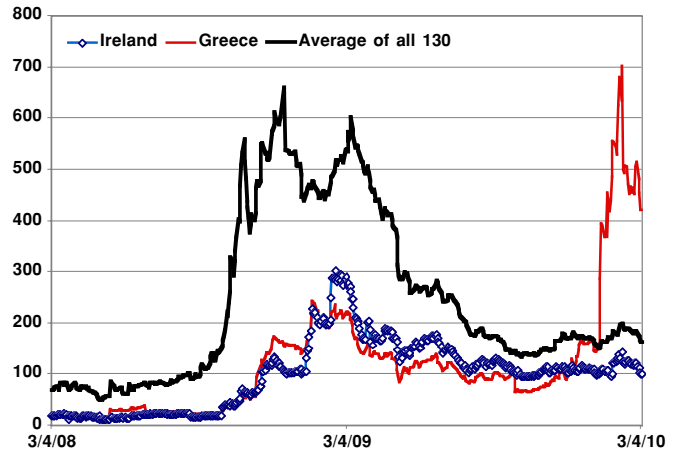
CHANGES TO SECTOR RATINGS

We reduced our recommended asset allocation in Energy from Over-Weight to Market-Weight. Although a global recovery is proceeding, shifts in energy consumption patterns toward thrift and conservation may result in more-tempered demand growth for petroleum products. We raised our recommended allocation in Industrials from Market-Weight to Over-Weight. We believe the debt restructuring agreement with Greece will mark the end of dollar strength. Moreover, underlying demand for industrial goods appears to be accelerating. Our three recommended Over-Weight sectors (Industrial, Healthcare and Telecom) represent 25.7% of S&P 500 market capitalization, while our two Under-Weight (Financial Services, Consumer Discretionary) sectors represent 25.8%; we see good balance in our recommended sector mix.

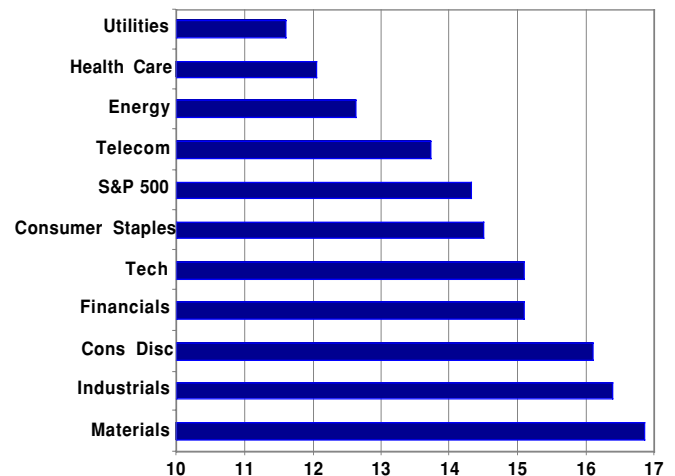
RED FLAG INDUSTRIES (SECTOR % OF TOTAL UNIVERSE)



CDS PRICES ON SOVEREIGN DEBT



SECTOR P/E RATIOS



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 3/16	NY State Manufacturing Index	March	24.9	27.0	28.0	N/A
	Industrial Production	February	0.9%	0.9%	0.9%	N/A
	Capacity Utilization	February	72.6%	73.0%	73.0%	N/A
Wed. 3/17	Import Price Index	February	1.4%	1.0%	1.0%	N/A
	Housing Starts	February	591k	595k	595k	N/A
	FOMC Rate Decision	N/A	0.25%	0.25%	0.25%	
Thur. 3/17	Producer Price Index	February	1.4%	0.7%	0.7%	N/A
	PPI ex Food & Energy	February	0.3%	0.3%	0.3%	
Fri. 3/19	Consumer Price Index	February	0.2%	0.2%	0.2%	N/A
	CPI ex Food & Energy	February	-0.1%	0.2%	0.2%	N/A
	Philidelphia Fed.	March	17.6	20.0	21.0	
	Leading Economic Indicators	February	0.3%	0.3%	0.3%	N/A

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Mon. 3/29	Personal Income	February	0.1%	0.2%	N/A	N/A
	Consumer Spending	February	0.5%	0.3%	N/A	N/A
Tue. 3/30	Consumer Confidence	March	46.0	46.5	N/A	N/A
Wed. 3/31	Chicago PMI	March	62.6	60.0	N/A	N/A
	Factory Orders	February	1.7%	1.7%	N/A	N/A
Thur. 4/1	ISM Manufacturing Survey	March	56.5	56.0	N/A	N/A
	Construction Spending	February	-0.6%	0.3%	N/A	N/A
	Total Vehicle Sales	March	10.36M	10.5M	N/A	N/A
Fri. 4/2	Nonfarm Payrolls	March	-36k	25k	N/A	N/A
	Average Hourly Earnings	March	0.1%	0.1%	N/A	N/A
	Unemployment Rate	March	9.7%	9.8%	N/A	N/A
	Manufacturing Payrolls	March	1k	5k	N/A	N/A
	Average Workweek	March	33.8 hrs.	35.0	N/A	N/A

* Preliminary

** Advance

^Final

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