



# PERIGON

## THE ECONOMY AT A GLANCE

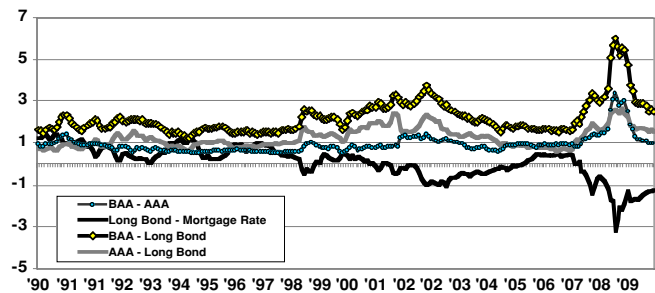
### ECONOMIC HIGHLIGHTS

May 3, 2010  
Vol. 77, No. 64

#### CORPORATE SPREADS NARROW AGAIN

The spreads between Treasuries and corporate bonds narrowed last month. Demand increased for corporate bonds, and government yields rose as economic data — particularly in the industrial and consumer sectors — improved. Yet even with the narrowing, corporate bonds continue to offer historical value. We do not think the economy will be enduring a double-dip recession, and think the extra yield available on financially strong corporate bonds is attractive for long-term investors.

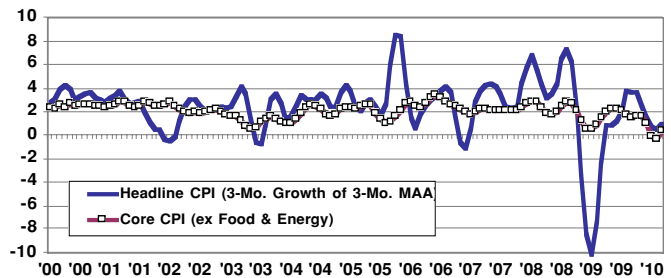
#### CORPORATE VS. TREASURY BONDS



#### LOW INFLATION MAY NOT LAST

Inflation is quiet. With this backdrop, we expect the Federal Reserve to keep the federal funds rate at the current low level when it meets on April 27-28. But the Fed may not be able to assume that high unemployment and low consumer confidence will keep prices under wraps. Longer-term government yields are up over the past month. And gold prices — a proxy for potential pricing pressures — are up from \$900 one year ago to the current \$1150 level.

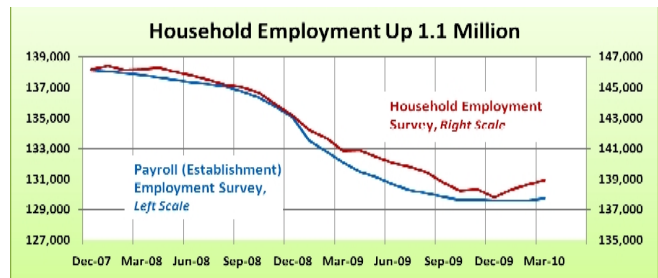
#### INFLATION TRENDS



#### WHICH EMPLOYMENT SURVEY IS RIGHT?

A discrepancy between the Nonfarm Payroll survey and the Household survey tends to occur early in economic recoveries. Economist Alan Meltzer wrote that the reason for this is “that the number of companies does not remain fixed. In our dynamic economy, old firms die and new ones are born. The Labor Department learns about the deaths quickly, but it takes longer to learn about the births.” In periods of significant downsizing, we think the Household survey is more likely to be accurate.

#### TOP EQUITY ETFs

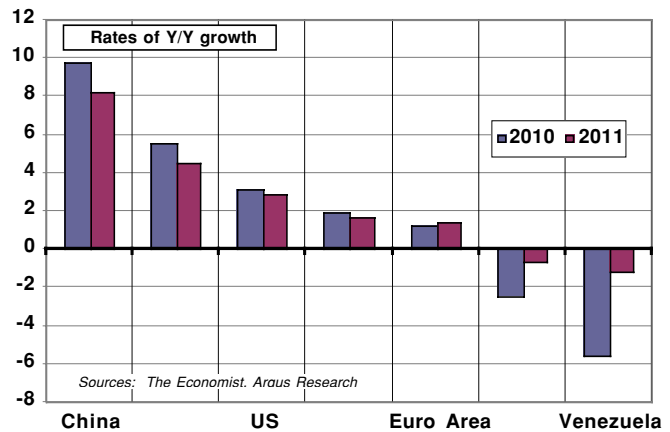


# ECONOMIC HIGHLIGHTS (CONTINUED)

## GLOBAL GROWTH REVISED HIGHER

The greatest rate of economic growth in 2010 is anticipated in China, which economists expect will report GDP growth of up to 9.7% in 2010 and 8.2% for 2011. Brazil is also expected to generate growth well above the global-growth average, and forecasts for this resource-rich emerging economy in 2010 have been rising as well. Even estimates for growth in the mature U.S. and Canadian economies have been on the upswing in the past two months. In Japan and the Euro area, concerns remain. Both are expected to grow at rates below 2.0% in 2010. Then we have the global trouble spots, including Greece and Venezuela. The EU is stepping forward to rescue Greece, and problems in Venezuela are likely to be contained. We continue to expect solid economic growth across the globe in 2010.

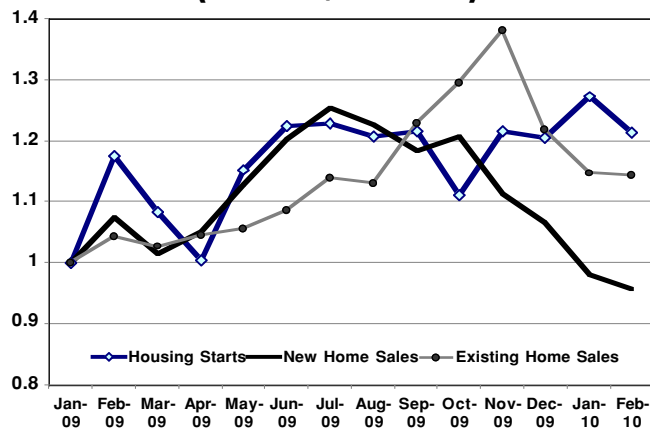
## GLOBAL GDP FORECAST



## HOUSING MARKET RECOVERY UNEVEN

Several of the Housing trends we follow (housing starts, new home sales and existing home sales) have all tailed off since last fall, though existing home sales may be starting to stabilize. However, foreclosures and delinquencies have fallen (according to data from LPS Applied Analytics), which is a promising sign. The expiration of a federal tax credit for home purchases on April 30 and the end of the Federal Reserve's period of quantitative easing (which has kept mortgage rates low), suggests a potentially challenging few months for the industry. The housing market (and the financial services sector) led the U.S. economy into recession, and we expect the Fed to keep rates low long enough to stabilize housing trends.

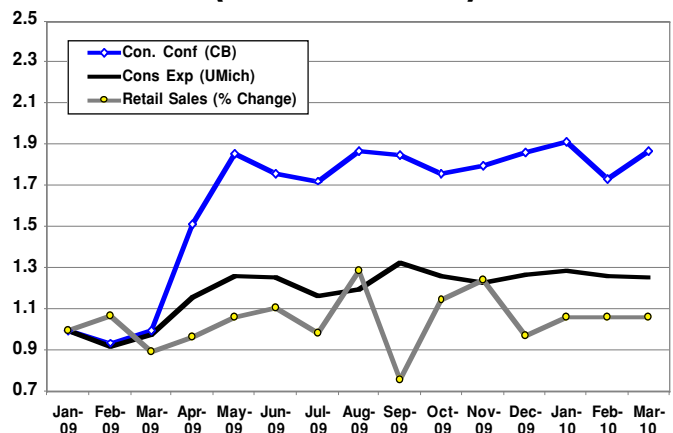
## HOUSING INDUSTRY METRICS (INDEX 1/09 = 1.00)



## CONSUMER COMING BACK

According to the Conference Board, Consumer Confidence was measured at 52.5 in March, an increase from February and sharply higher than the reading of 25.3 a year ago. In the spring of 2007, when consumers were flush with jobs and market gains, Consumer Confidence topped 100. Consumer Expectations are also trending higher, according to the University of Michigan survey — though expectations lag confidence a bit. How are consumers' feelings translating into retail sales? Here, the pattern is much more volatile, as seasonal factors and stimulus programs come into play. The overall trend is higher versus a year ago, with sales up approximately 6%. Looking ahead, we expect Consumer Confidence to resume its upward trek as the economy continues to grow.

## CONSUMER SECTOR METRICS (INDEX 1/09 = 1.00)

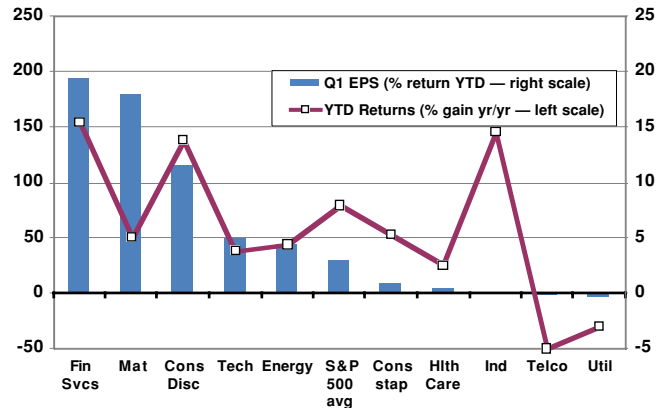


# FINANCIAL MARKET HIGHLIGHTS

## EPS EXPECTATIONS HIGH

The first-quarter EPS reporting season has commenced. The S&P 500 has increased for six quarters in a row. Drilling down on a sector basis, the highest expectations in Q1 are for the Financial Services, Materials and Consumer Discretionary groups. For the most part, these have been the leading sectors in terms of performance. The laggards match up as well: analysts are down on Telco and Utilities, and the returns have been relatively weak. Where are the anomalies? Tech & Energy earnings are expected to rise sharply, but returns aren't in the top tier. And Industrials, which are up almost 15% this year, may already discount much of the EPS rebound that is expected later in 2010.

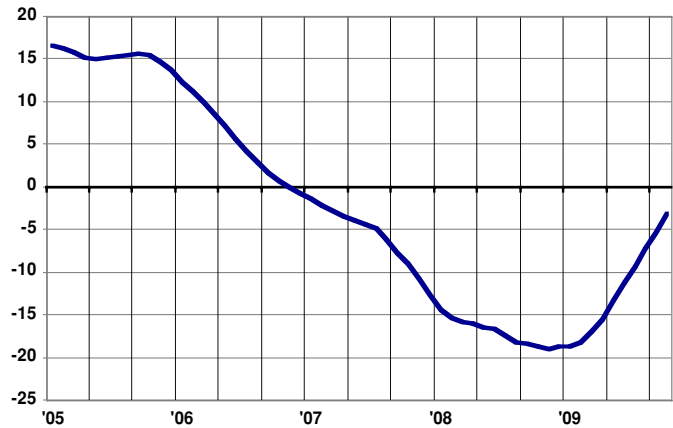
## EPS FORECASTS & SECTOR RETURNS



## HOME PRICES FACE NEW CHALLENGES

Clearly, the worst of the annual declines in home prices have passed, but home prices have not returned to growth either. S&P notes that the rate of improvement in home prices slowed in the last quarter of 2009 versus the previous quarter. But the last quarter of the calendar year is a seasonally slow time for home purchases. The real test comes this spring when the home buyer tax credit ends. So far, the Fed's plan to stop buying mortgage securities has not led to an increase in rates — but that could still happen. Finally, demand should continue to be depressed by high unemployment while supply is still artificially low due to bank and government foreclosure moratoriums and mortgage modifications. We expect to see another leg down in home prices at some point.

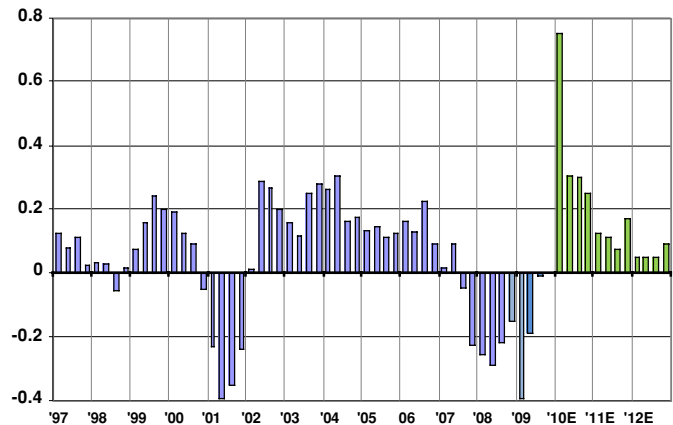
## CASE-SHILLER HOME PRICES (20-CITY COMPOSITE)



## ARGUS INCREASING EPS ESTIMATES

We have raised our S&P 500 operating earnings estimates to \$74 and \$83, respectively. We project operating EPS will reach \$88 in 2012, matching the 2006 high. Our higher estimates are predicated on stronger economic growth — as seen in unexpected gains in auto and retail sales, new highs in total consumer spending, a 1.1 million job build in Household employment in the past three months and ongoing strong rebuilding of inventories. Despite stronger economic reports, industry analysts have only inched up 2010 earnings estimates from 24.9% three months ago to 26.9% last week. We think earnings reports will show big positive surprises, both in the first and second quarters.

## S&P 500 PROFITS



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 4/27	Consumer Confidence	April	52.5	53.0	53.7	N/A
Wed. 4/28	FOMC Rate Decision	N/A	0.00 - 0.25%	0.00 - 0.25%	0.00 - 0.25%	N/A
Fri. 4/30	U.S. Gross Domestic Product**	Q1	5.6%	3.9%	3.3%	N/A
	GDP Price Index**	Q1	0.5%	0.0%	0.9%	N/A
	Chicago PMI^	April	58.8	59.0	60.0	N/A
	U. of Michigan Confidence*	April	N/A	75.0	71.0	N/A

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Mon. 5/12	Wholesale Inventories	March	0.6%	1.0%	N/A	N/A
Tue. 5/13	U.S. Trade Balance	March	-\$39.7B	-\$40B	N/A	N/A
Wed. 5/14	Import Price Index	April	0.7%	0.5%	N/A	N/A
Thur. 5/15	Advance Retail Sales	April	1.6%	1.0%	N/A	N/A
	Retail Sales ex-autos	April	0.6%	0.5%	N/A	N/A
	Industrial Production	April	0.1%	0.3%	N/A	N/A
	Capacity Utilization	April	73.2%	73.5%	N/A	N/A
	Business Inventories	March	0.5%	1.0%	N/A	N/A
	U. of Michigan Confidence*	April	N/A	75.0	N/A	N/A

\* Preliminary

\*\* Advance

^Final

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