



# PERIGON

## THE ECONOMY AT A GLANCE

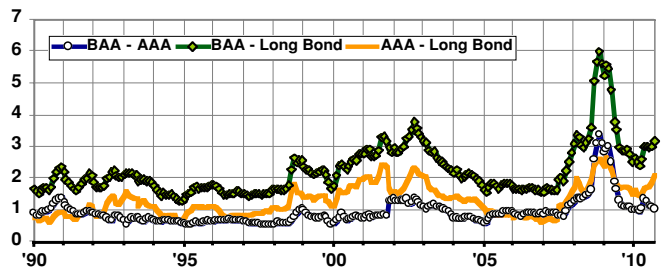
### ECONOMIC HIGHLIGHTS

November 29, 2010  
Vol. 77, No. 174

#### BOND SPREADS HISTORICALLY HIGH

Treasury yields declined for the sixth month in a row in October, while corporate bond yields ticked higher. As such, the extraordinarily wide gap between corporate and Treasury yields widened further. From an investment standpoint, we think corporate bonds offer relative value on an historical basis. We do not think the U.S. 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.

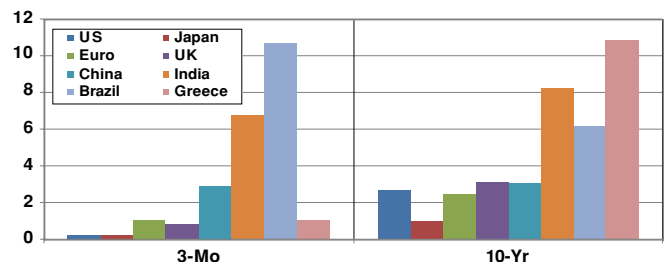
#### CORPORATE/GOVERNMENT BOND SPREADS (%)



#### EMERGING NATIONS OFFER HIGHER YIELDS

Long-term yields are in the 5%-8% range in the emerging economies of Brazil, Russia and India. In Greece, which triggered the European sovereign debt crisis earlier this year, yields have shot back above 10% in the past month. We still don't recommend them, though, for investors who want to sleep. We think the BRAC nations are likely to grow strongly over the next few quarters, and their governments should have tax receipts to pay interest. Australian long-term yields are 5.3%.

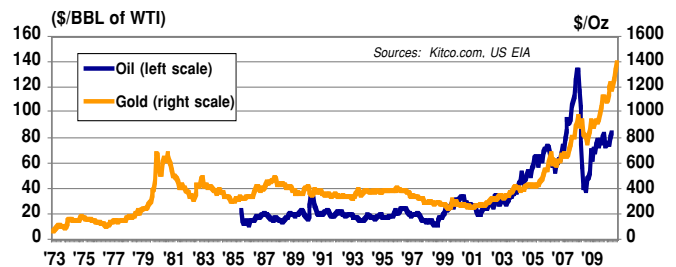
#### GLOBAL SOVEREIGN INTEREST RATES (%)



#### COMMODITIES PRICES SURGE ON FED EXPECTATIONS

Key commodity prices have spiked higher, on expectations and now the news that the U.S. Fed will re-enter the Treasury markets to buy bonds — further driving down the value of the dollar. Oil prices have pushed into the upper \$80s per barrel. Gold prices have climbed to all-time highs near \$1,420 per ounce. Our forecasts call for further appreciation in gold over the next 1-2 years, while oil prices could spike higher but will likely settle near current levels.

#### OIL & GOLD TRENDS

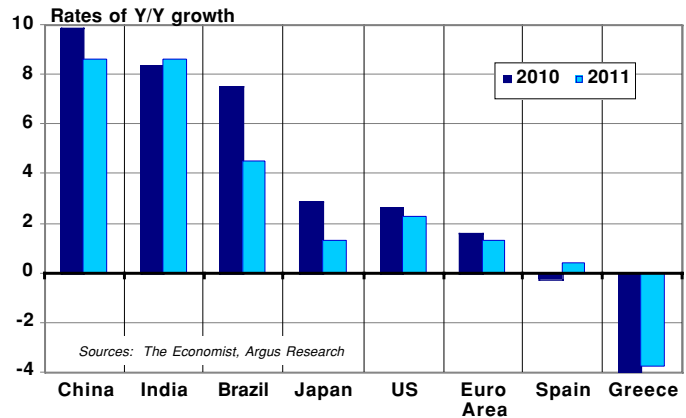


# ECONOMIC HIGHLIGHTS (CONTINUED)

## EMERGING ECONOMIES TOP GROWTH CHARTS

Estimated growth rates for the BRIC nations (Brazil, Russia, India and China) are on average 6.25% and are generally rising. Meanwhile, the estimated growth rate for the US, UK, Eurozone and Japan in 2011 is on average 1.7%. The commodity based BRAC nations (Brazil, Russia, Australia and Canada) are forecast to grow 3.6%. The PIIGS still have problems, as economies in both Spain and Greece are forecast to decline in 2010. But non-Eurozone economies in Europe continue to expand at a 2%-3% pace and are expected to generate 2% growth in 2011. In Latin America, the Mexican economy is expected to grow a solid 3% next year; the Venezuelan economy is forecast to contract.

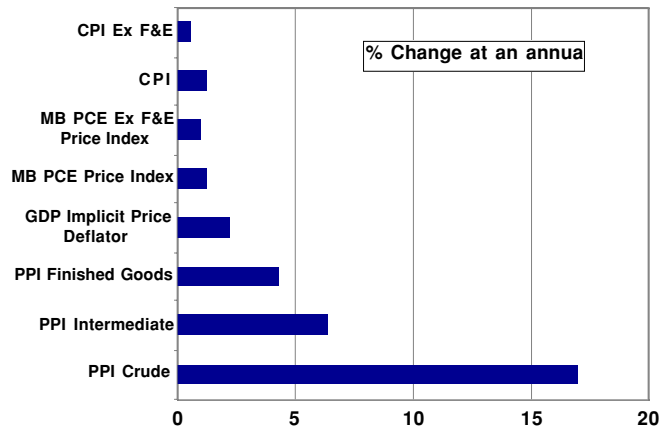
## GLOBAL GDP FORECAST



## INFLATION PERCOLATING BELOW SURFACE

According to the Labor Department's CPI, the Commerce Department's GDP Implicit Price Deflator and the Bureau of Economic Analysis' Personal Consumption Expenditure price measures, consumer prices have been rising at a 1%-2% annual rate through October. But the picture is a bit different for Producer Prices. According to Labor, Producer Price inflation for finished goods has increased at a 4.3% rate over the past year. Deeper in the production pipeline, pricing pressures are even more pronounced. For intermediate and crude goods, prices have jumped 6.4% and 17%, respectively, over the past year. The Fed's quantitative easing program is designed to push price increases to the 2% range. Central bankers will have to maintain vigilance so they don't overshoot their target.

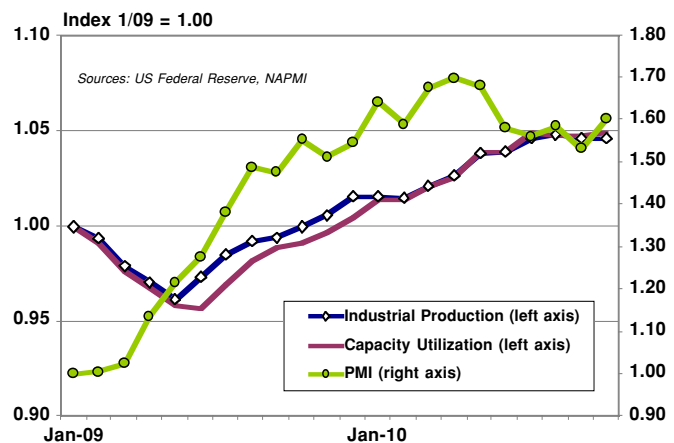
## MEASURES OF INFLATION



## RUST BELT REACCELERATION

Capacity utilization and industrial production have leveled off in recent months, though they remain well ahead of recession levels. But the Purchasing Managers Index tells a more compelling story. The PMI is a survey of 250 businesses conducted monthly by the National Association of Purchasing Managers. In October, this index, which is more forward-looking than either CU or IP, surged higher after several months of stagnation. Looking ahead, a pronounced downtrend in the U.S. dollar is expected to improve the competitiveness of U.S. goods. In addition, economic growth rates in emerging economies of 5%-8% should support demand for U.S. goods. We forecast mid-single-digit growth for Exports through 2011, and recommend investors Over-Weight Industrials in diversified portfolios.

## INDUSTRIAL SECTOR METRICS

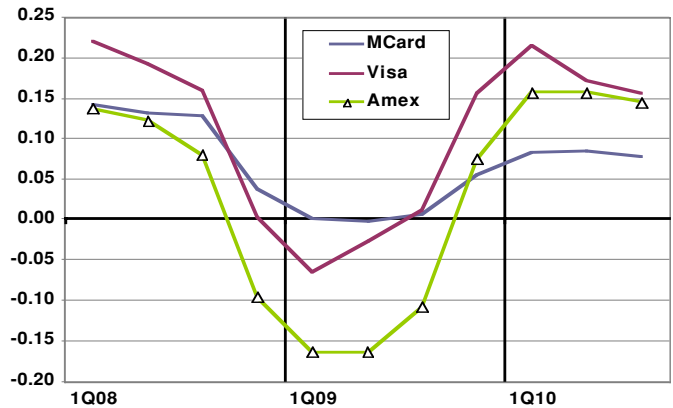


# FINANCIAL MARKET HIGHLIGHTS

## PLASTIC MAKING A COMEBACK

The banking business is still very competitive, so banks will likely move cautiously when adding fees and removing benefits. But one thing is clear – consumers have not put away their cards. They continue to enjoy the convenience and safety of paying by card. Card acceptance in non-traditional settings like mass transit and mobile commerce continues to grow rapidly, providing more opportunity for consumers to use cards. Banks may stop paying rewards on debit cards when interchange fees are cut, but we think consumers will simply switch back to their rewards-based credit cards. Such an outcome would likely benefit American Express since the company does not offer debit cards and has an outstanding rewards program for its credit cards.

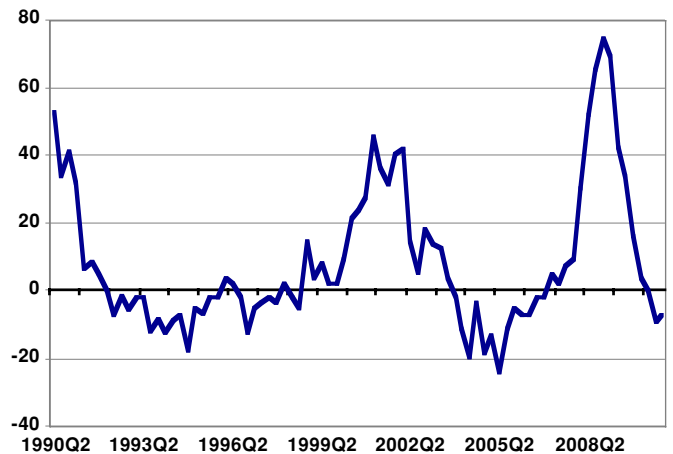
**CARD SPENDING GROWTH (YOY %)**



## BANKS CREDIT STILL TIGHT BY HISTORICAL MEASURES

The Federal Reserve released its Senior Loan Officer Opinion Survey on Bank Lending Practices for October. The survey indicated that, on net, banks eased standards and terms over the previous three months on some categories of loans. But the Fed also reported that substantial fractions of banks reported that standards for many categories of loans would not return to their longer-run averages for the foreseeable future. Banks reported easing standards and most terms on C&I loans to firms of all sizes. The banks that eased credit mainly pointed to a more-favorable or less-uncertain economic outlook and to increased competition from other banks or nonbank lenders. Of the few banks that reported having tightened standards or terms, all referenced a reduced tolerance for risk.

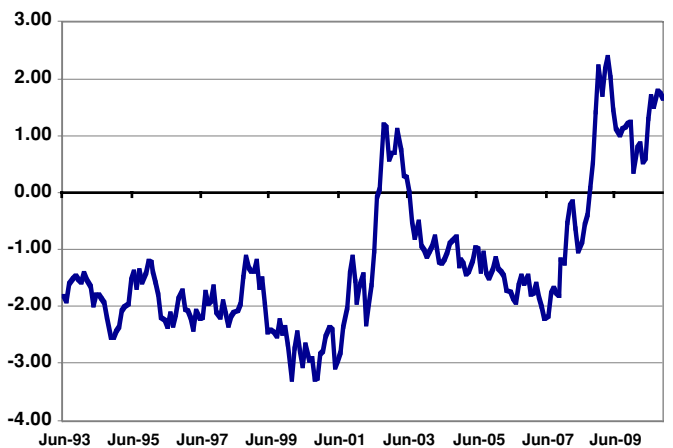
**% OF BANKS TIGHTENING / (LOOSENING) LENDING STANDARDS**



## UTILITY STOCKS LOOK ATTRACTIVE

In our chart, we have plotted the difference between the dividend yield of the S&P 500 Utilities Index and the yield on the 10-Year U.S. Treasury Note. Despite the unveiling of QE2, Treasuries have plunged in recent days — pushing the yield on the 10-year Note to near 2.9%. The S&P 500 Utilities Index currently yields 4.27%, down from 4.57% at the end of May. Therefore, the yield gap is about 130 basis points. While this is down from 180 basis points a few months back, it still represents a compelling value by historical measures. Investors reaching for yield have bid-up high-yield bonds to lofty levels, making dividend-paying utilities look like a much safer bet. Clouding the outlook for income stocks is the possibility of higher taxes on dividends and capital gains.

**YIELD GAP - UTILITIES VS. TREASURIES**



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 11/23	U.S. Gross Domestic Product	Q3	2.00%	2.50%	2.40%	N/A
	GDP Price Index	Q3	2.30%	1.90%	2.30%	N/A
	Existing Home Sales	October	4.53M	4.43M	4.5M	N/A
Wed. 11/24	Durable Goods Orders	October	3.30%	1.00%	0.10%	N/A
	Personal Income	October	-0.10%	0.20%	0.40%	N/A
	Consumer Spending	October	0.20%	0.30%	0.50%	N/A
	New Home Sales	October	307k	325k	315k	N/A
	University of Michigan Confidence^	November	69.3	68	69	

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 12/7	Consumer Credit	October	\$2.1B	\$2.0B	N/A	N/A
Wed. 12/9	Wholesale Inventories	October	1.50%	1.50%	N/A	N/A
Thur. 12/10	U.S. Trade Balance	October	-\$44B	-\$43B	N/A	N/A
	Import Price Index	November	0.90%	0.90%		
	U. of Michigan Confidence*	December	N/A	68	N/A	N/A

\* Preliminary

\*\* Advance

^Final

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