



THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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CHINA EXPECTED TO SET GDP PACE IN 2010

The greatest economic growth is anticipated in China, which economists expect will report GDP growth of up to 8.6% next year. Brazil and Mexico are also expected to generate growth above the global average. The industrialized economies of the U.S., Canada, Euro area and Japan are expected to grow in the 1%-2% range, though the outlook for the U.S. has recently been revised upward. China and Brazil are both expected to avoid an outright economic contraction during the global recession.

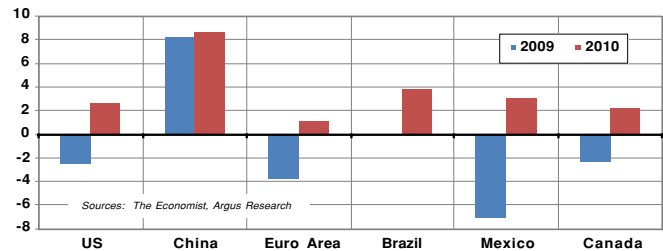
ARGUS FORECAST: A DECLINING DOLLAR

Since its most-recent peak in March 2009, the dollar has declined 10%. We look for the greenback to slide further in 2010, and to trade 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.

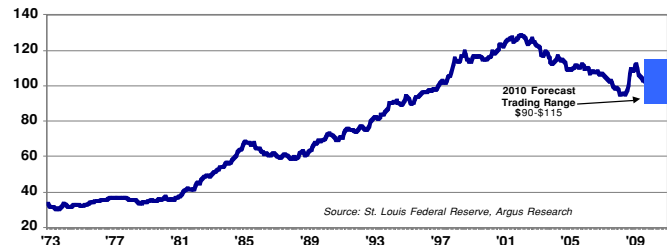
HOUSING: THE RECOVERY IS SUSTAINABLE

The 10.6% decline in Housing Starts in October does not, in our view, pose a threat to a housing recovery. Housing Permits fell just 4%; and both Starts and Permits are up more than 10% from April lows. Existing Home sales jumped 10.1% in October after an 8.8% surge in September — anticipated by 6.4% and 6.1% increases in Pending Home sales in August and September. Existing home inventories at the end of October fell 3.7% to 3.57 million units, and are down 15% vs. a year ago.

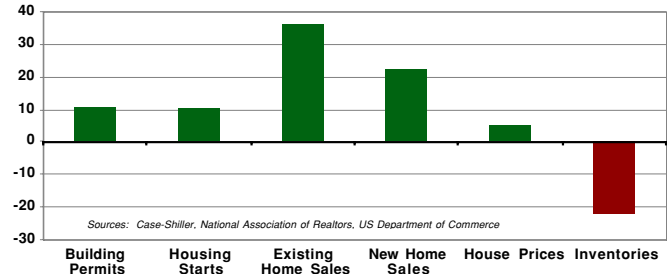
GLOBAL GDP GROWTH RATES & FORECASTS (% CHANGE)



TRADE-WEIGHTED DOLLAR



TURNING POINTS IN HOUSING (% CHANGE SINCE TROUGH)

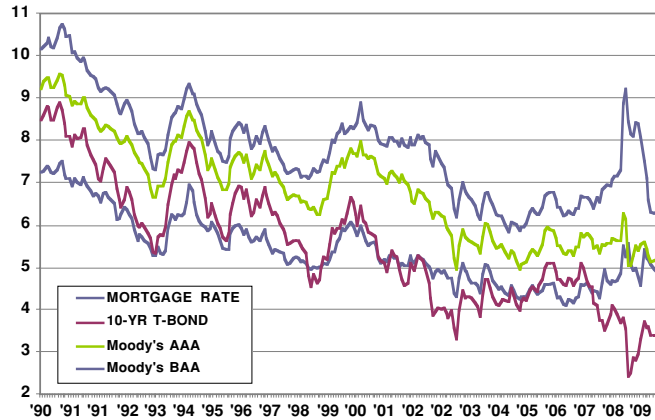


ECONOMIC HIGHLIGHTS (CONTINUED)

CORPORATE SPREADS TICK HIGHER

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 November, the gap was 179 basis points — up from 176 bps a month earlier. The gap between the government long bond yield and a Baa-rated bond (still investment grade) is now 292 basis points, versus a historical average of 178 bps. One year ago, the gap was 600 basis points. The wide gaps signify that investors continue to discount the strength of the U.S. economic recovery. Despite the rise in the 10-year/AAA spread over the past four months, we continue to think that the market is overweighting the default risks of Corporate America, and believe that corporate bonds can be a good buy.

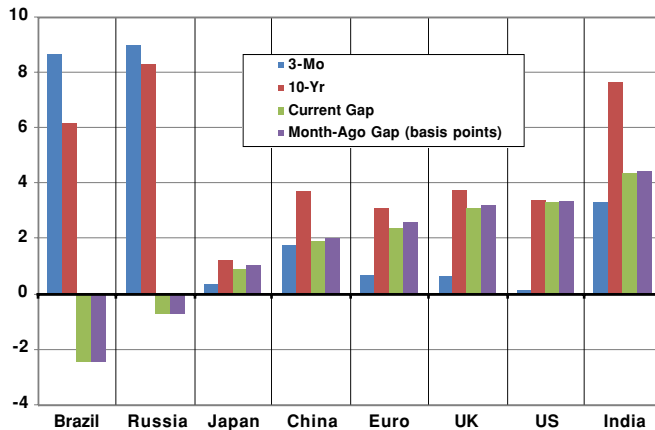
CORPORATE VS. TREASURY BONDS



GLOBAL YIELD CURVES POINT TO GROWTH

The spread between short-term and long-term bonds across the globe narrowed slightly in the past month, but gaps are still positive — suggesting economic growth will return for both Emerging and Industrialized economies over the next 12 months. The gap is widest in India, where economists expect GDP growth to surge to 6.3% in 2010. The gaps are also relatively wide in the U.S. and U.K., driven by aggressive rate-cutting from central bankers. Inflation remains a concern. We would not be surprised if the central bank was willing to raise rates aggressively if inflation were to emerge as an issue. Brazil and Russia are cases in point: the local monetary authorities have kept short-term rates above 8% in order to quell prices that have been rising at rates of 9% and 4%, respectively.

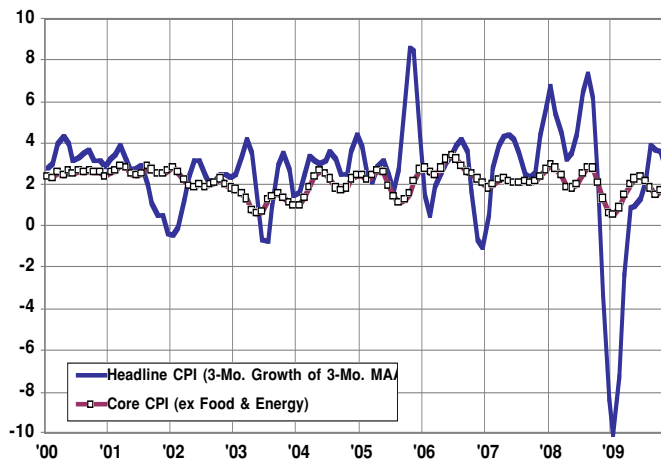
GLOBAL YIELD CURVES



PRICING PRESSURES EASE A BIT

Inflation seems well-contained, but the dollars deployed by the Federal Reserve and Obama Administration are a potential trigger to pricing pressures. The Consumer Price Index for All Urban Consumers has risen 2.6% over the past 12 months on a smoothed basis, as a 1% decline in the food index has been more than offset by increases of 7.4% in energy, 3.5% in medical care services and 3.6% in transportation services. Shelter prices are up 0.3% over the past 12 months — rising, but at a slower pace for two months now. The ex-food and energy measure is also higher, but only at a 1.7% rate. The central bank is unlikely to alter its aggressive policies any time soon. We anticipate higher bond yields over the next six-to-twelve months, as the stimulus programs ultimately stoke inflation.

INFLATION MOMENTUM: CPI

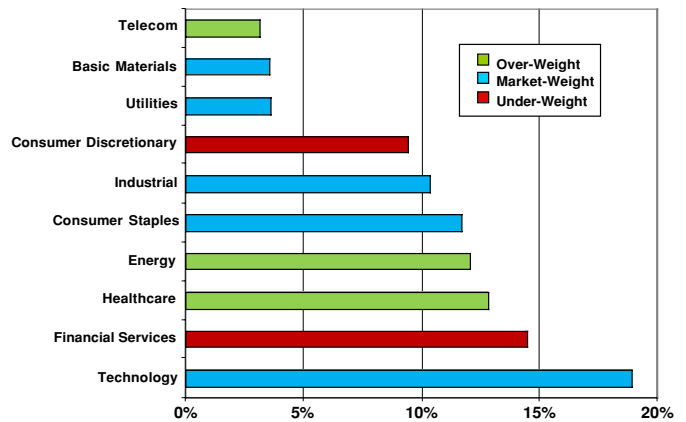


FINANCIAL MARKET HIGHLIGHTS

SECTOR REVIEW

We have made two changes to our recommended sector allocations this month. We upgraded Healthcare to Over-Weight from Market-Weight, and downgraded Industrials from Over-Weight to Market-Weight. In Healthcare, we think that the group will benefit from the reform movement in Washington DC that is expected to result in improved insurance coverage. In short, the sector will see a net benefit from increasing enrolled insures. Further, valuations are attractive for a sector that has lagged the market rally this year. As for Industrials, the sector has been strong this quarter, as the dollar has declined. But with the November payrolls report, we saw dollar improvement and market gains, signaling that stocks can rally even if the greenback is not weak. Industrials must now advance on merit.

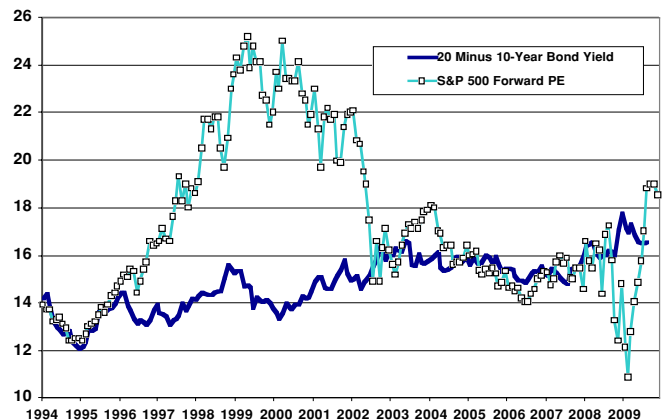
SECTOR MARKET CAP DISTRIBUTION



THE RULE OF 20

One of the simplest market valuation models is the so-called Rule of 20, which holds that the forward P/E of the S&P 500 should track close with the number 20 minus the yield of the 10-year Treasury note. But starting in the mid-1990's, the forward P/E got ahead of the Rule of 20 variable (perhaps foreshadowing the bear market) and stayed there until late 2002. For several brief periods in the years since, the forward P/E of the S&P 500 dipped below the Rule of 20 variable (suggesting attractive entry points for stocks). The current relationship suggests that the market is a bit overvalued again. The consensus forward P/E on the S&P 500 is about 18.5 while the Rule of 20 variable is about 16.8 (20 minus 3.2).

RULE OF 20: FORWARD PE VS. BOND YIELDS



ETF OVERVIEW

A group of the largest ETFs has increased on average 32% year-to-date. The largest ETF in terms of market cap is the S&P 500 SPDR fund, which has more than \$74 billion invested in it. International ETFs hold down places No. 2 and 3. The most-expensive of the leading ETFs, on a price/earnings basis, is the iShares Russell 2000 fund (which trades at 73-times earnings, according to ETF Advisor). Most ETFs appear to be clustered in the 16- to 18-times range. On a price/book basis, the outliers on the cheap side include iShares MSCI EAFE and iShares S&P 500 Value. Both also have above-average yields. Gold ETFs are proving 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.

TOP EQUITY ETFS

Name	Ticker	AUM (\$BIL)	YTD Return	P/E	P/B	P/S	Yield
SPDR S&P 500	SPY	72.3	19%	18.1	2.2	1.2	2.1
iShares MSCI EAFE	EFA	35.0	24%	17.7	1.5	0.9	2.7
iShares MSCI Emerg. Mkt.	EEM	37.3	57%	16.3	2.0	1.7	1.5
Powershares QQQ	QQQQ	16.9	43%	22.1	3.4	2.4	0.4
Vanguard Emerging Markets	VWO	17.8	64%	16.0	2.1	1.6	2.9
iShares Russell 2000	IWM	11.1	24%	73.3	1.7	0.8	1.4
Dow Industrials	DIA	8.0	19%	15.6	2.7	1.3	2.6
S&P 500 Growth	IWW	5.8	19%	18.6	2.9	1.5	1.4
Market Vectors Gold Miners	GDX	5.8	34%	39.0	2.4	5.9	0.4
S&P 500 Value	IVE	3.6	16%	18.4	1.8	1.0	2.8
Average			0.3181	25.51	2.27	1.83	1.819

Sources: Barron's, ETF Advisor, Argus Research

ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 12/22	Real GDP ^	Q3	2.8%	3.0%	2.8%	2.2%
	Existing Home Sales	November	6.09M	6.10M	6.25M	6.54M
	GDP Price Index	Q3	0.5%	0.5%	0.5%	0.4%
Wed. 12/23	Personal Income	November	0.2%	0.2%	0.5%	N/A
	Personal Spending	November	0.7%	0.7%	0.5%	N/A
	New Home Sales	November	430k	450k	440k	N/A
Thu. 12/24	Durable Goods Orders	November	0.6%	1.0%	0.4%	N/A

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Mon. 1/4	Construction Spending	November	0.0%	N/A	N/A	N/A
	ISM Purchasing Managers Index	December	53.6	N/A	N/A	N/A
Tue. 1/5	Factory Orders	November	0.6%	N/A	N/A	N/A
Wed. 1/6	ISM Non-Manufacturing	December	N/A	N/A	N/A	N/A
Fri 1/8	Wholesale Inventories	November	0.3%	N/A	N/A	N/A
	Non-Farm Payrolls	December	-11,000	NA	NA	NA
	Manufacturing Payrolls	December	-41,000	NA	NA	NA
	Average Workweek	December	33.2	NA	NA	NA
	Average Hourly Earnings	December	0.1%	NA	NA	NA
	Unemployment Rate	December	10.0%	NA	NA	NA
	Consumer Credit	November	3.5B	NA	NA	NA

* Preliminary

** Advance

^Final

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