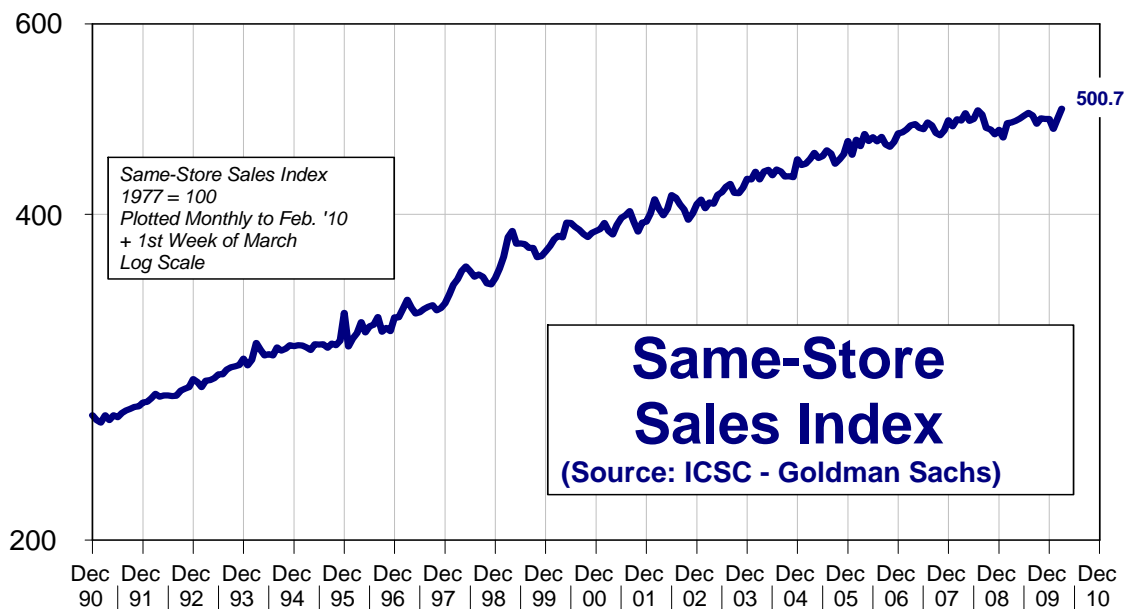


Happy birthday to the best bull market in 75 years...

March 9, 2010...One year ago today, the worst bear market since the 1930s ended, giving way to the best 12-month recovery since 1935-36, with the S&P 500 up 69%. Tuesday's increase in the major stock market averages ranged from the somewhat pedestrian 0.1% for the DJIA to 0.4% for NASDAQ. AIG (+13%) and Citigroup (+7%) attracted traders betting on more divestitures as a way toward rationalizing these troubled firms. Despite these advances, the S&P 500's financial sector averaged only a 0.1% increase relative to the Composite for the day. Overall in the S&P 500, there were nearly as many decliners (238) Tuesday as there were advancing stocks (253). Early market gains on the order of 60 to 90 basis points evaporated in mid-afternoon trading, but a rally in the last hour of trading put most of the market averages into the black for the day. At the same time, Treasury bonds squandered an early session rally, only to finish with modest price gains – 6/32s for the 10-year T-note, which closed at a yield of 3.69%. Commodities prices were mostly lower, while the dollar advanced a bit against the euro and lost a bit versus the yen.

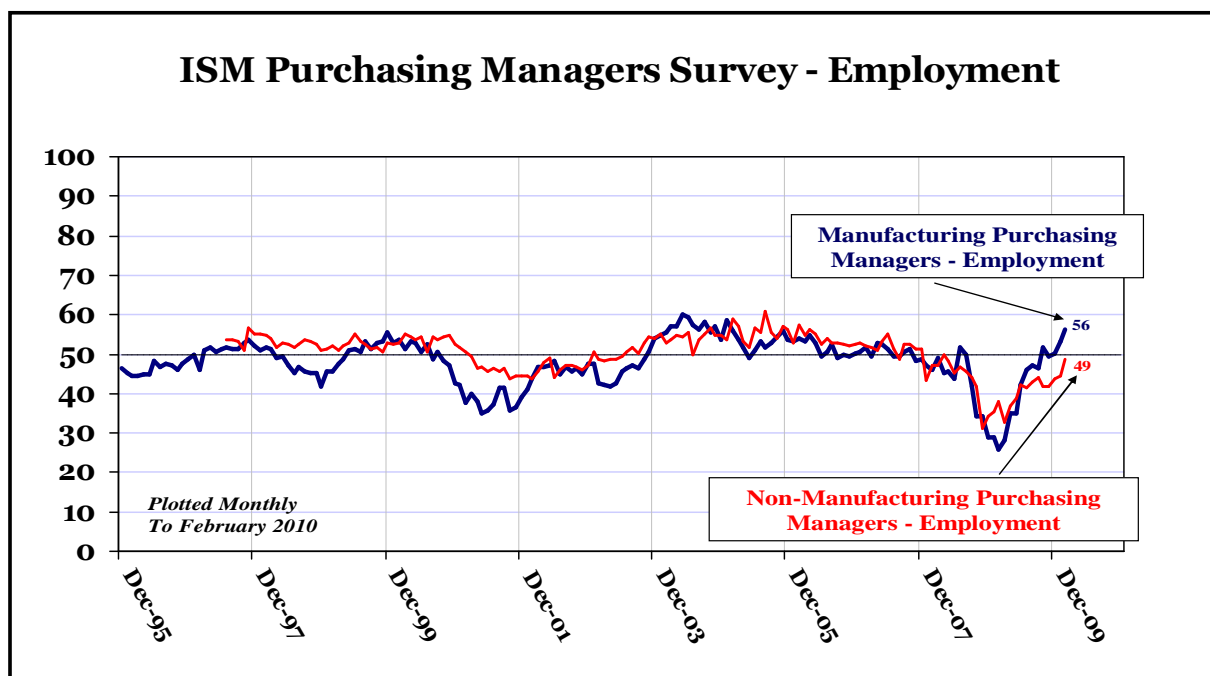
- **Same-store sales rose 2.9% in the latest week, as reflected in the ICSC-Goldman Sachs seasonally adjusted index.** On a light day for economic news, the retail sales indications continue on their recent upward bent, finally surpassing the previous peak hit in July 2008. Considering the low level of consumer confidence and high unemployment rates, this year's retail sales vigor is a little surprising.



INVESTMENT OUTLOOK...Real GDP grew at a 5.9% annual rate in the fourth quarter, which together with Q3's 2.2% growth rate has put the U.S. economy in forward gear after one of the worst recessions in decades. The powerful monetary and fiscal policy actions taken over the past 18 months should keep the recovery going through 2010. To be sure, consumer confidence

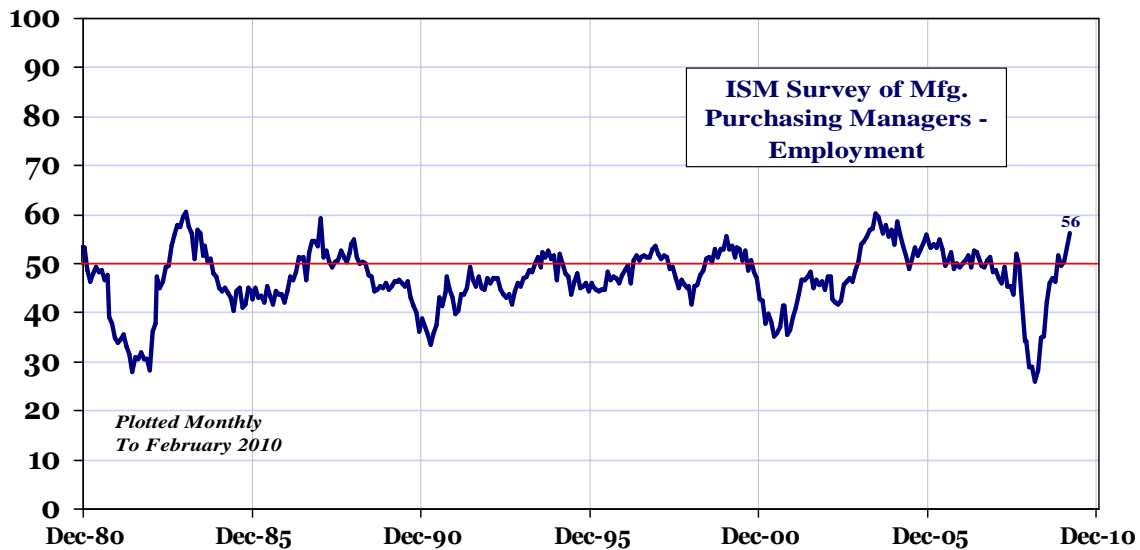
is shaky due to the weak labor market, small businesses are still feeling the pinch of the credit crunch, and commercial real estate looks to be a drag on economic growth for some time yet. On a year-over-year basis, GDP is slightly to the plus side (+0.1%), a vast improvement on the nearly 4% rate of decline seen through the middle of 2009. It could take a couple more quarters before U.S. real GDP returns to a trend growth rate around 2.5%. Still, the economy is digging its way out of recession, which makes us think that any correction in the stock market rally here will not rise to bear market proportions.

March 3, 2010...Unlike the ISM purchasing managers survey for manufacturing, the ISM survey for non-manufacturing (service industries) came in above expectations for February – indeed, at the best level since October 2007. In other words, the ISM services sector survey produced its best reading (53%, where 50% is the line of demarcation between expansion and contraction) since before the recession began. The chart below shows the improvement in the employment component of the two surveys – not quite into expansion for the big service sector but getting there.



March 1, 2010...The ISM purchasing managers survey for February came in a bit on the low side of market expectations, but stock prices rose broadly on signs consumers are spending. Never mind that today's data showing consumer spending rising don't exactly comport with recent consumer confidence readings or that disposable personal income declined 0.6% in real terms during January. While short of forecasts, the ISM manufacturing purchasing managers index was still a healthy 56.1% in February, and its employment component hit a five-year high. This may or may not point to a better-than-expected nonfarm payroll report on Friday, what with the way that

winter storms have crippled the Mid-Atlantic economies last month. And Wednesday's purchasing report for non-manufacturing is probably more relevant for economic forecasting, as it will provide some clues on whether the inventory fillip boosting factories is spreading to the service sector, where recent readings have been sub-par. Still, some nice weather hinting at spring in the Northeast, the possibility that employment may be about to turn up, and Prudential's deal to buy AIG's Asian operations for \$35 billion – bringing with it some hope for a resolution of the AIG/government entanglement – buoyed investor spirits today.



- **The S&P 500 gained 1% Monday, retaking the 1115 level where it began 2010.** The NASDAQ composite increased 1.6%, while the Dow was today's laggard, gaining 0.8%. Treasury bond yield defied the usual stock/bond pattern, rising modestly in price despite the day's big gains in stocks. The dollar gained slightly on the day, and with the exception of copper (Chile), commodity prices were mostly lower. Crude oil closed down more than 1% on Monday.

February 26, 2010...The first revision to the fourth-quarter GDP tally showed economic growth a little stronger than first reported in late 2009. The real growth rate for the period was revised slightly higher to a 5.9% annual rate, from 5.7% first reported. Business spending on plant and equipment and inventory made a more positive contribution than first reported, but growth in consumer spending was revised modestly lower, confirming our view that the consumer may be the weak link in this recovery. Still, the final reading of the University of Michigan's consumer sentiment index for February, which showed a modest drop to 73.6 from January's 74.4, was somewhat reassuring after the plunge in consumer confidence reported by the Conference Board earlier this week. On the other hand, the report that existing home sales fell by 7.2% in January instead of rising slightly as expected confirmed the message of the new home sales report from earlier this week: the recovery in housing (and home price) has stalled, at least temporarily.

- **After rising for two weeks in a row, stocks edged lower in the latest week.** On Friday, the mixed bag of economic news didn't generate much enthusiasm in stocks, which closed just a shade over break-even. For the week, the S&P 500 lost 0.4%, which puts it down about 1% for the year and 4% below its January peak. The signal from the bond market this week was one of caution

on the economic outlook; the 10-year Treasury bond rose more than a point in price for the week as the yield declined about 15 basis points to 3.62%.

February 24, 2010...Fed Chairman Ben Bernanke fended off questions from members of the House Financial Services Committee – questions ranging from the bizarre and ill-informed to the thoughtful – and testified that the Fed anticipates moderate economic growth of “roughly 3 to 3-1/2 percent in 2010 and 3-1/2 to 4-1/2 percent in 2011 (and 2012).” Bernanke also reiterated that “economic conditions--including low rates of resource utilization, subdued inflation trends, and stable inflation expectations--are likely to warrant exceptionally low levels of the federal funds rate for an extended period.” The Fed Chairman’s so-called Monetary Report to Congress, delivered to each house of Congress twice a year, also updated the Fed’s “central-tendency” forecasts of GDP growth, inflation and the unemployment rate, as detailed in the table below.

Economic Variable	Fed Economic Projections 2010-12			
	Central Tendency			
	2010	2011	2012	Longer Run
Change in Real GDP	2.8%-3.5%	3.4%-4.5%	3.5%-4.5%	2.5%-2.8%
<i>November Projection</i>	2.5%-3.5%	3.4%-4.5%	3.5%-4.8%	2.5%-2.8%
Unemployment Rate	9.5%-9.7%	8.2%-8.5%	6.6%-7.5%	5.0%-5.2%
<i>November Projection</i>	9.3%-9.7%	8.2%-8.6%	6.8%-7.5%	5.0%-5.2%
PCE Inflation	1.4%-1.7%	1.1%-2.0%	1.3%-2.0%	1.7%-2.0%
<i>November Projection</i>	1.3%-1.6%	1.0%-1.9%	1.2%-1.9%	1.7%-2.0%
Core PCE Inflation	1.1%-1.7%	1.0%-1.9%	1.2%-1.9%	1.0%-2.0%
<i>November Projection</i>	1.0%-1.5%	1.0%-1.6%	1.0%-1.7%	0.9%-2.0%

Economic projections of Federal Reserve Governors and Reserve Bank presidents, January 2010

- **New single-family home sales hit the lowest rate in probably five decades in January, down 11% from December’s already low rate, dealing a blow to the case for a housing recovery in 2010.** We suspect that poor weather around the country may have played havoc with last month’s sales figures, a fact that then was aggravated by the seasonal adjustment of January’s normally low level of activity. Expectations have long been for a very modest rise in housing sales and construction in 2010, so today’s report does not conflict with those expectations. The inventory of unsold new homes is at Nixon-era lows.
- **Stock prices rebounded from Tuesday’s sell-off with a 0.9% to 1% gains in the major market Wednesday.** To judge by today’s market time line, Bernanke’s reassurance on the interest rate front bolstered investor psyches. Treasury bond prices ended the day fairly flat, losing an early advantage on a so-so auction of new five-year notes.

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