

## The Economy

From the 1970s to late 2008, the cash-to-business loan ratio within the U.S. banking system fell from 60% to a low of 20%, according to the Economist Intelligence Unit. The ratio, however, surged to an all-time high of 98% on January 13, 2010, according to data from the Federal Reserve. The spike is a combination of cash hoarding and a reduction in loans outstanding. It indicates that banks should have the capacity to lend once confidence in the economy is restored and loan demand returns. As we noted last month, job growth would go a long way in boosting confidence levels.

|  |   |   |  |   |
|--|---|---|--|---|
| <b>Consumer Confidence</b><br><b>46.0</b> (Feb)<br>55.9 (Jan)      | <b>Crude Oil (Mo.-End)</b><br><b>\$79.66</b> (Feb)<br>\$72.89 (Jan) | <b>Personal Spending</b><br><b>0.5%</b> (Jan)<br>0.2% (Dec) | <b>ISM Manufacturing</b><br><b>56.5</b> (Feb)<br>58.4 (Jan)    | <b>ISM Non-Manufacturing</b><br><b>53.0</b> (Feb)<br>50.5 (Jan) |
| <b>Gold (Mo.-End)</b><br><b>\$1118.90</b> (Feb)<br>\$1083.00 (Jan) | <b>Natural Gas (Mo.-End)</b><br><b>\$4.81</b> (Feb)<br>\$5.13 (Jan) | <b>Factory Orders</b><br><b>1.7%</b> (Jan)<br>1.5% (Dec)    | <b>New Home Sales</b><br><b>309,000</b> (Jan)<br>342,000 (Dec) | <b>Existing Home Sales</b><br><b>5.05M</b> (Jan)<br>5.45M (Dec) |

## The Stock Market

### Indices (Source: Bloomberg)

|                             |       |       |
|-----------------------------|-------|-------|
| S&P 500                     | 3.1%  | 53.6% |
| DJIA                        | 2.9%  | 50.5% |
| NASDAQ 100                  | 4.6%  | 63.9% |
| S&P 400                     | 5.2%  | 66.9% |
| Russell 2000                | 4.5%  | 63.9% |
| MSCI World (ex U.S.) (USD)  | -0.1% | 56.8% |
| MSCI Emerging Markets (USD) | 0.3%  | 91.7% |

### Growth/Value (Source: Bloomberg)

|                                 |      |       |
|---------------------------------|------|-------|
| S&P 500 Citigroup Growth        | 3.4% | 48.4% |
| S&P 500 Citigroup Value         | 2.8% | 59.7% |
| S&P Midcap 400/Citigroup Growth | 5.6% | 65.6% |
| S&P Midcap 400/Citigroup Value  | 4.9% | 68.5% |
| Russell 2000 Growth             | 4.4% | 61.8% |
| Russell 2000 Value              | 4.6% | 65.9% |

**Feb. 12-mo.** One hundred and one out of the 134 subsectors (75.4%) that comprise the S&P 500 posted a gain in February, up from 29 last month. Consumer Discretionary was the top performing major sector, up 5.47%, according to S&P. In February, the dividend-payers (366) in the S&P 500 (equal weight) posted a total return of 4.15%, vs. 4.74% for the non-payers (134), according to Standard & Poor's. Year-to-date, the payers are up 1.57%, vs. a loss of 0.24% for the non-payers. For the 12-month period ended February '10, payers were up 77.75%, vs. a gain of 95.15% for the non-payers. The number of dividend increases year-to-date totaled 58. That topped the 47 increases registered at this point in 2009. One company decreased its dividend, down from 28 at this point a year ago. One company suspended its dividend, down from six a year ago. The Conference Board Consumer Confidence Index fell from a reading of 56.5 in January to 46.0 in February, or a drop of 18.6%. It marked the sixth time in the past decade that the index declined by 15% or more in a month, according to Bespoke Investment Group. While some might interpret such a decline in sentiment as a negative for the stock market, it isn't so. In the five prior periods where a drop of this magnitude occurred, the S&P 500 posted an average gain of 23.0% over the following 12 months – with positive returns in all five periods.

|   |   |  |   |
|---|---|--|---|
| <b>U.S. Dollar</b><br>(U.S. Trade-Weighted Basket)<br><b>+0.2%</b> (Feb)<br>+1.7% (2010)<br>\$ was down 5.9% in '09 | <b>CBOE Total Equity Options</b><br>(# of contracts in millions)<br>Feb: <b>39.5</b> (-21.6%)<br>Jan: 50.4 (+6.8%)<br>Record 7/08: 67.2 million | <b>Short Interest (NYSE)</b><br>Feb 12: <b>14.00B</b> (+4.9%)<br>Jan 15: 13.35B (-0.2%)<br>Record 7/08: 18.61 billion shares | <b>VIX Volatility Index</b><br>(S&P 500)<br><b>19.50</b> (2/26)<br>24.62 (1/29)<br>Record 11/20/08: 80.86 |
|---|---|--|---|

## The Bond Market

### Index (Source: Barclays)

|                             |       |        |       |
|-----------------------------|-------|--------|-------|
| U.S. Treasury: Intermediate | 0.42% | 2.33%  | 1.82% |
| GNMA 30 Year                | 0.47% | 6.64%  | 4.09% |
| Municipal Bond (22+)        | 1.04% | 16.61% | 5.13% |
| U.S. Aggregate              | 0.37% | 9.32%  | 3.35% |
| Intermediate Corporate      | 0.41% | 20.95% | 3.92% |
| U.S. Corporate High Yield   | 0.17% | 56.26% | 9.15% |
| Global Aggregate            | 0.07% | 13.62% | 2.83% |
| Global Emerging Markets     | 0.46% | 37.27% | 6.29% |

The headline story in February was the debt crisis in Greece. While the euro and other select currencies (British pound) weakened, the debt markets held up reasonably well. The Fed hiked the discount rate from 0.50% to 0.75% mid-month. Leveraged loans outperformed high yield corporate bonds for the first time in four years, according to Bloomberg. Speculative-grade loans were up 1.91% year-to-date through February 19, according to Standard & Poor's. The Merrill Lynch High Yield Master II Index was up 1.14%. Funds that invest in leveraged loans have attracted \$1.38 billion this year, compared to \$440 million in outflows from high yield funds, according to Deutsche Bank AG. Futures for the 3-month LIBOR rate indicate the rate will rise to 1.29% in a year, and to 3.63% by February 25, 2013. It currently stands at 0.25%.

| <b>Key Rates as of February 26</b><br>Fed Funds 0-0.25%<br>2-Yr. T-Note 0.82%<br>10-Yr. T-Bond 3.61%<br>30-Yr. Mortgage 5.08%<br>Bond Buyer 40 5.30%<br>(Source: Bloomberg) | <b>Key Yield Spread</b><br>The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 546 basis points on 2/26/10, up from 536 on 1/29/10. It was 1,621 on 2/27/09. (Source: Bloomberg) | <b>2010 Debt Issuance through January</b><br>(Source: Thomson Reuters) <table border="1"> <tr> <th>Debt Category</th> <th>\$ Amount</th> <th>% change over '09</th> </tr> <tr> <td>Treasury</td> <td>\$87.3 Billion</td> <td>+31.3%</td> </tr> <tr> <td>Corporate</td> <td>\$87.5 Billion</td> <td>+11.9%</td> </tr> <tr> <td>Convertible</td> <td>\$1.0 Billion</td> <td>+69.8%</td> </tr> <tr> <td>Asset-Backed</td> <td>\$11.7 Billion</td> <td>+174.3%</td> </tr> <tr> <td>Municipal</td> <td>\$32.6 Billion</td> <td>+40.7%</td> </tr> </table> | Debt Category | \$ Amount | % change over '09 | Treasury | \$87.3 Billion | +31.3% | Corporate | \$87.5 Billion | +11.9% | Convertible | \$1.0 Billion | +69.8% | Asset-Backed | \$11.7 Billion | +174.3% | Municipal | \$32.6 Billion | +40.7% |
|---|--|--|---------------|-----------|-------------------|----------|----------------|--------|-----------|----------------|--------|-------------|---------------|--------|--------------|----------------|---------|-----------|----------------|--------|
| Debt Category   | \$ Amount  | % change over '09  |               |           |                   |          |                |        |           |                |        |             |               |        |              |                |         |           |                |        |
| Treasury  | \$87.3 Billion   | +31.3%   |               |           |                   |          |                |        |           |                |        |             |               |        |              |                |         |           |                |        |
| Corporate   | \$87.5 Billion   | +11.9%   |               |           |                   |          |                |        |           |                |        |             |               |        |              |                |         |           |                |        |
| Convertible   | \$1.0 Billion  | +69.8%   |               |           |                   |          |                |        |           |                |        |             |               |        |              |                |         |           |                |        |
| Asset-Backed  | \$11.7 Billion   | +174.3%  |               |           |                   |          |                |        |           |                |        |             |               |        |              |                |         |           |                |        |
| Municipal   | \$32.6 Billion   | +40.7%   |               |           |                   |          |                |        |           |                |        |             |               |        |              |                |         |           |                |        |

Equity funds reported net cash inflows totaling \$16.3 billion in 1/10, vs. \$3.5 billion of outflows in 12/09, according to the Investment Company Institute. Bond fund inflows totaled \$26.9 billion, vs. \$26.0 billion of inflows in 12/09. Money Market fund outflows totaled \$102.7 billion, vs. \$852.0 million of outflows in 12/09.

| Index                              | 10-Yr. High Value | Date     | 10-Yr. Low Value | Date     | Month-End Value | % Off High Value | YTD Return (USD) | Month-End Yield |
|------------------------------------|-------------------|----------|------------------|----------|-----------------|------------------|------------------|-----------------|
| S&P 500                            | 1565.15           | 10/09/07 | 676.53           | 03/09/09 | 1104.49         | -29.43%          | -0.61%           | 2.05%           |
| S&P 500/Citigroup Growth           | 953.77            | 03/27/00 | 363.99           | 03/09/09 | 569.86          | -40.25%          | -1.88%           | 1.56%           |
| S&P 500/Citigroup Value            | 836.19            | 07/13/07 | 307.16           | 03/09/09 | 526.47          | -37.04%          | 0.68%            | 2.53%           |
| S&P 400                            | 926.23            | 07/13/07 | 372.88           | 10/09/02 | 738.36          | -20.28%          | 1.83%            | 1.51%           |
| S&P 400/Citigroup Growth           | 383.7             | 06/05/08 | 162.27           | 10/09/02 | 318.44          | -17.01%          | 1.45%            | 0.97%           |
| S&P 400/Citigroup Value            | 361.18            | 06/04/07 | 125.26           | 02/29/00 | 268.98          | -25.53%          | 2.19%            | 2.04%           |
| S&P 100                            | 832.65            | 03/24/00 | 322.13           | 03/09/09 | 506.06          | -39.22%          | -1.17%           | 2.10%           |
| DJIA                               | 14164.53          | 10/09/07 | 6547.05          | 03/09/09 | 10325.26        | -27.10%          | -0.47%           | 2.63%           |
| NASDAQ 100                         | 4704.73           | 03/27/00 | 804.64           | 10/07/02 | 1818.68         | -61.34%          | -2.10%           | 0.70%           |
| Russell 2000                       | 855.77            | 07/13/07 | 327.04           | 10/09/02 | 628.56          | -26.55%          | 0.66%            | 1.30%           |
| Russell 2000 Growth                | 498.17            | 03/27/00 | 169.69           | 10/09/02 | 341.92          | -31.36%          | -0.31%           | 0.63%           |
| Russell 2000 Value                 | 1276.63           | 06/04/07 | 465.24           | 04/14/00 | 877.54          | -31.26%          | 1.57%            | 1.91%           |
| Russell 3000                       | 907.58            | 10/09/07 | 389.61           | 03/09/09 | 648.9           | -28.50%          | -0.34%           | 1.95%           |
| MSCI World x U.S. (USD)            | 2389.57           | 10/31/07 | 809.32           | 03/12/03 | 1517.4          | -36.50%          | -4.73%           | N/A             |
| MSCI Emerging Markets (USD)        | 1338.49           | 10/29/07 | 245.64           | 09/21/01 | 935.93          | -30.08%          | -5.30%           | N/A             |
| Bovespa/Brazil (USD)               | 73516.81          | 05/20/08 | 8370.88          | 10/16/02 | 66503.273       | -9.54%           | -2.60%           | 3.13%           |
| RTS/Russia (USD)                   | 2487.92           | 05/19/08 | 131.02           | 01/03/01 | 1390.25         | -44.12%          | -3.76%           | 1.22%           |
| Bombay SE 500/India (USD)          | 8882.28           | 01/07/08 | 792.18           | 09/21/01 | 6518.38         | -26.61%          | -4.66%           | 1.04%           |
| Shanghai Composite/China (USD)     | 6092.057          | 10/16/07 | 1011.499         | 07/11/05 | 3051.943        | -49.90%          | -6.87%           | 1.30%           |
| Hang Seng (USD)                    | 31638.22          | 10/30/07 | 8409.01          | 04/25/03 | 20608.7         | -34.86%          | -5.77%           | 2.61%           |
| MSCI Euro (USD)                    | 1590.66           | 03/06/00 | 539.93           | 03/09/09 | 814.28          | -48.81%          | -7.18%           | 3.93%           |
| S&P Consumer Discretionary         | 318.54            | 06/04/07 | 125.72           | 03/09/09 | 240.22          | -24.59%          | 2.43%            | 2.52%           |
| S&P Consumer Staples               | 306.61            | 12/10/07 | 150.55           | 03/14/00 | 278.19          | -9.27%           | 1.68%            | 2.89%           |
| S&P Energy                         | 668.81            | 05/20/08 | 163.83           | 07/23/02 | 418.27          | -37.46%          | -2.25%           | 2.18%           |
| S&P Utilities                      | 223.91            | 12/10/07 | 77.27            | 10/09/02 | 147.14          | -34.29%          | -6.12%           | 4.48%           |
| S&P Financials                     | 509.55            | 02/20/07 | 81.74            | 03/06/09 | 197.43          | -61.25%          | 2.08%            | 1.15%           |
| S&P Banks                          | 414.38            | 02/20/07 | 49.02            | 03/05/09 | 133.75          | -67.72%          | 6.91%            | 1.11%           |
| FTSE NAREIT Equity REITs           | 676.54            | 02/07/07 | 163.57           | 03/06/09 | 344.16          | -49.13%          | -0.15%           | 3.98%           |
| S&P Health Care                    | 444.98            | 12/28/00 | 252.84           | 03/05/09 | 363.79          | -18.25%          | 0.77%            | 1.96%           |
| S&P Pharmaceuticals                | 496.83            | 12/28/00 | 214.5            | 03/03/09 | 300.8           | -39.46%          | -1.21%           | 3.50%           |
| NYSE Arca Biotechnology            | 1040.76           | 02/26/10 | 280.09           | 07/10/02 | 1040.76         | 0.00%            | 10.47%           | 1.54%           |
| S&P Information Technology         | 988.49            | 03/27/00 | 172.88           | 10/09/02 | 353.04          | -64.28%          | -4.57%           | 0.92%           |
| Philadelphia Semiconductor         | 1332.73           | 03/10/00 | 171.32           | 11/20/08 | 338.86          | -74.57%          | -5.62%           | 1.26%           |
| S&P Telecom Services               | 322               | 04/03/00 | 79               | 09/30/02 | 102.61          | -68.13%          | -9.35%           | 6.09%           |
| S&P Industrials                    | 381.16            | 10/09/07 | 132.83           | 03/09/09 | 251.04          | -34.14%          | 3.82%            | 2.21%           |
| S&P Materials                      | 285.91            | 05/16/08 | 102.55           | 10/09/02 | 190.2           | -33.48%          | -4.57%           | 1.80%           |
| Philadelphia Gold & Silver         | 206.37            | 03/14/08 | 41.85            | 11/17/00 | 161.39          | -21.80%          | -4.01%           | 0.58%           |
| Reuters/Jefferies CRB              | 473.52            | 07/02/08 | 183.52           | 10/22/01 | 274.77          | -41.97%          | -3.04%           | N/A             |
| Merrill Lynch Perpetual Preferred  | 197.851           | 05/08/07 | 51.791           | 03/09/09 | 139.307         | -29.59%          | 3.37%            | 7.56%           |
| Merrill Lynch High Yield Master II | 232.286           | 01/18/10 | 106.667          | 10/10/02 | 230.515         | -0.76%           | 1.58%            | 9.07%           |