

The Economy

Despite the fact that GDP growth in Q4'10 was knocked down from its original estimate of 3.2% (annualized) to 2.8%, the recovery continues to evolve. Non-farm payrolls expanded by 192,000 in February, just shy of the 196,000 consensus estimate. December and January's figures were also revised higher by 58,000. The shining star so far is the manufacturing sector, which added 33,000 new hires in February. The ISM Manufacturing Index is tracking above the 60-level. A reading above 50 indicates that manufacturing activity is expanding. To put February's reading of 61.4 in perspective, consider the fact that the index never hit 60 even once during President Clinton's 96-month term in office. It happened three times in the past year.

Consumer Confidence 70.4 (Feb) 60.6 (Jan)	Crude Oil (Mo.-End) \$96.97 (Feb) \$92.19 (Jan)	Personal Spending 0.2% (Jan) Dec was 0.7%	ISM Manufacturing 61.4 (Feb) 60.8 (Jan)	ISM Non-Manufacturing 59.7 (Feb) 59.4 (Jan)
Gold (Mo.-End) \$1409.90 (Feb) \$1333.80 (Jan)	Natural Gas (Mo.-End) \$4.04 (Feb) \$4.42 (Jan)	Factory Orders 3.1% (Jan) Dec was 0.2%	New Home Sales 284,000 (Jan) 329,000 (Dec)	Existing Home Sales 5.36M (Jan) 5.28M (Dec)

The Stock Market

Indices (Source: Bloomberg)

	Feb	12-mo.
S&P 500	3.4%	22.6%
DJIA	3.2%	21.6%
NASDAQ 100	3.1%	30.3%
S&P 400	4.7%	32.8%
Russell 2000	5.5%	32.6%
Russell 3000	3.6%	24.3%
MSCI World (ex U.S.) (USD)	3.8%	22.0%
MSCI Emerging Markets (USD)	-1.0%	21.0%

Growth/Value (Source: Bloomberg)

	Feb	12-mo.
S&P 500 Citigroup Growth	3.2%	22.9%
S&P 500 Citigroup Value	3.7%	22.4%
S&P Midcap 400/Citigroup Growth	5.2%	37.2%
S&P Midcap 400/Citigroup Value	4.2%	28.5%
Russell 2000 Growth	5.9%	36.3%
Russell 2000 Value	5.1%	28.9%

One hundred and twelve out of the 133 subsectors (84%) that comprise the S&P 500 posted a gain in February, up from 86 last month, according to S&P. Energy was the top performing major sector, up 7.2%. It was up 7.3% last month. In February, the dividend-payers (380) in the S&P 500 (equal weight) posted a total return of 3.95%, vs. 4.62% for the non-payers (120), according to Standard & Poor's. Year-to-date through February, the payers were up 6.11%, vs. a gain of 6.82% for the non-payers. For the 12-month period ended February '11, payers were up 24.06%, vs. a gain of 24.46% for the non-payers. The number of dividend increases in the first two months totaled 55, up from 45 increases a year ago. Six companies initiated dividends, up from two a year ago. No dividends have been cut in 2011. The S&P 500 posted a total return of 5.87% in the first two months of 2011. It is the first year since 2006 that the index has appreciated in both January and February, according to Bespoke Investment Group. The top performing major sectors so far have been Energy (+15.0%), Industrials (+6.9%) and Technology (+6.3%), as measured by S&P's indices. The only sector with a negative return so far is Telecom. Services, down 0.4%. The global IPO market is off to its best start on record, according to Reuters. New issuance has already reached \$24.3 billion, up 20% from this point a year ago.

U.S. Dollar (U.S. Trade-Weighted Basket) -1.1% (Feb) -3.6% (2011) \$ was down 1.1% in '10	CBOE Total Equity Options (# of contracts in millions) Feb: 49.2 (-15.2%) Jan: 58.0 (+25.3%) Record 7/08: 67.2 million	Short Interest (NYSE) Feb 15: 12.8B (+1.6%) Jan 14: 12.6B (-5.3%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500) 18.35 (2/28) 19.53 (1/31) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)

	Feb	12-mo.	Yield
U.S. Treasury: Intermediate	-0.26%	3.43%	1.64%
GNMA 30 Year	0.38%	5.26%	3.69%
Municipal Bond (22+)	1.71%	-0.26%	5.63%
U.S. Aggregate	0.25%	4.93%	3.02%
Intermediate Corporate	0.47%	7.27%	3.31%
U.S. Corporate High Yield	1.31%	17.51%	6.84%
Global Aggregate	0.59%	5.84%	2.86%
Global Emerging Markets	0.60%	10.89%	5.80%

At the risk of sounding like a broken record, chalk another monthly win up for high yield corporate bonds. While municipals had the best showing in February, some of that gain can be attributed to a bounce back from their thumping in December (-3.5%) and January (-1.5%). The "Steady Eddie" over the past two years has been high yield corporates. They have benefitted the most from the current recovery. The plunge in defaults is a good indicator. The U.S. speculative-grade default rate stood at 3.0% in January, down from a revised 3.4% (from 3.3%) in December, according to Moody's. The rate stood at 13.7% a year ago. It is forecasting a default rate in the vicinity of 2.0% a year from now. A similar trend is happening with senior loans, which are speculative-grade floating-rate securities.

Key Rates as of February 28		Key Yield Spread		2011 Debt Issuance Through January		
				(Source: Thomson Reuters)		
				Debt Category	\$ Amount	% change over '10
Fed Funds	0-0.25%	The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 398 basis points on 2/28/11, down from 417 on 1/31/11. It was 558 on 2/26/10. (Source: Bloomberg)		Treasury	\$181.7 Billion	+108.1%
2-Yr. T-Note	0.68%			Corporate	\$145.7 Billion	+57.1%
10-Yr. T-Bond	3.43%			Convertible	\$2.4 Billion	+151.5%
30-Yr. Mortgage	4.87%			Asset-Backed	\$8.9 Billion	-18.6%
Bond Buyer 40	5.59%			Municipal	\$12.5 Billion	-61.8%
(Source: Bloomberg)						

Equity funds reported net cash inflows totaling \$19.5 billion in 1/11, vs. an upwardly revised \$939.0 million of inflows in 12/10, according to the Investment Company Institute. Bond fund outflows totaled \$1.8 billion (Municipal Bond outflows totaled \$25.3B over last two months), vs. \$20.0 billion of outflows in 12/10. Money Market fund outflows totaled \$75.6 billion, vs. \$9.5 billion of outflows in 12/10. In 2010, equity funds reported net outflows totaling \$28.8 billion, vs. \$246.0 billion of inflows for bond funds and \$524.1 billion of outflows for MMFs.

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	1327.22	-15.20%	5.88%	1.83%
S&P 500/Citigroup Growth	730.83	10/12/07	363.99	03/09/09	688.66	-5.77%	4.76%	1.66%
S&P 500/Citigroup Value	836.19	07/13/07	307.16	03/09/09	629.38	-24.73%	7.05%	2.01%
S&P 400	982.17	02/18/11	372.88	10/09/02	966.59	-1.59%	6.75%	1.29%
S&P 400/Citigroup Growth	439.59	02/18/11	162.27	10/09/02	433.05	-1.49%	6.57%	0.81%
S&P 400/Citigroup Value	361.18	06/04/07	135.55	10/09/02	338.83	-6.19%	6.92%	1.76%
S&P 100	729.79	10/09/07	322.13	03/09/09	595.96	-18.34%	5.72%	1.96%
DJIA	14164.53	10/09/07	6547.05	03/09/09	12226.34	-13.68%	6.10%	2.40%
NASDAQ 100	2397.94	02/16/11	804.64	10/07/02	2350.99	-1.96%	6.13%	0.79%
Russell 2000	855.77	07/13/07	327.04	10/09/02	823.45	-3.78%	5.21%	1.29%
Russell 2000 Growth	471.96	02/17/11	169.69	10/09/02	463.45	-1.80%	5.29%	0.68%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	1110.38	-13.02%	5.14%	1.92%
Russell 3000	907.58	10/09/07	389.61	03/09/09	791.44	-12.80%	5.90%	1.73%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	4417.05	-17.90%	5.94%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	75.12	09/21/01	421.19	-11.02%	-3.62%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	40582.51	-9.09%	-2.48%	3.13%
RTS/Russia (USD)	2487.92	05/19/08	161.27	04/04/01	1969.91	-20.82%	11.28%	1.46%
Bombay SE 500/India (USD)	226.04	01/07/08	16.50	09/21/01	151.32	-33.06%	-14.95%	1.32%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	442.04	-45.44%	4.01%	1.42%
KOSPI/South Korea (USD)	2.29	10/31/07	0.36	04/04/01	1.72	-25.06%	-4.95%	1.23%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2996.66	-26.59%	1.13%	2.67%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	1265.83	-36.34%	10.33%	3.51%
S&P Consumer Discretionary	318.54	06/04/07	125.72	03/09/09	310.37	-2.56%	5.25%	1.46%
S&P Consumer Staples	307.00	02/18/11	182.72	03/10/03	305.42	-0.51%	0.89%	3.20%
S&P Energy	668.81	05/20/08	163.83	07/23/02	580.67	-13.18%	15.03%	1.62%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	162.26	-27.53%	2.55%	4.24%
S&P Financials	509.55	02/20/07	81.74	03/06/09	226.78	-55.49%	5.77%	1.12%
S&P Banks	414.38	02/20/07	49.02	03/05/09	152.85	-63.11%	2.91%	0.89%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	462.24	-31.68%	8.89%	3.54%
S&P Health Care	426.93	05/07/07	252.84	03/05/09	376.58	-11.79%	3.66%	2.10%
S&P Pharmaceuticals	449.36	05/17/01	214.50	03/03/09	299.20	-33.42%	1.31%	3.73%
NYSE Arca Biotechnology	1333.16	01/18/11	280.09	07/10/02	1284.59	-3.64%	-1.00%	1.25%
S&P Information Technology	443.16	05/22/01	172.88	10/09/02	429.03	-3.19%	6.25%	0.88%
Philadelphia Semiconductor	706.15	05/21/01	171.32	11/20/08	458.62	-35.05%	11.61%	1.04%
S&P Telecom Services	205.51	05/01/01	79.00	09/30/02	126.68	-38.36%	-0.41%	5.35%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	320.28	-15.97%	6.85%	1.97%
S&P Materials	285.91	05/16/08	102.55	10/09/02	245.23	-14.23%	2.62%	1.78%
Philadelphia Gold & Silver	228.76	12/06/10	46.21	04/02/01	215.32	-5.88%	-4.81%	0.94%
Reuters/Jefferies CRB	473.52	07/02/08	183.52	10/22/01	352.58	-25.54%	5.94%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	157.20	-20.54%	2.31%	7.13%
Merrill Lynch High Yield Master II	270.17	02/28/11	106.67	10/10/02	270.17	0.00%	3.47%	7.41%