

## Who Will Win The Battle of 2009: Bulls or Bears?

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## **The Economic Outlook: Fasten Your Seatbelts**

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June 30, 2009  
Data as of June 5, 2009

**Please see the required disclosures on the last four slides of this presentation.**

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# The U.S. Is In Recession

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- **The economy is in recession.**
- **Housing has been in recession for three years, subtracting over a percentage point from GDP growth in both 2007 and 2008.**
- **But that was offset by strength in nonresidential construction and the closing of the trade gap.**
- **Weaker overseas growth will mean less benefit from the trade deficit.**
- **Nonresidential construction is plunging.**
- **The fiscal 2008 deficit beat the 2004 record; 2009 may triple 2008.**
- **The Fed has cut rates sharply.**
- **The recession is already the longest since the 1930s.**
- **We expect it to be the deepest as well.**
- **And an even deeper and longer recession is possible if the financial markets lock up again, oil prices continue to climb, and home prices continue to drop.**

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# Most Weakness Is In The Bubble Cities

(S&P/Case-Shiller Home Price Indexes, March)

|                 | Decline from<br>July 2006 | 2002-2005<br>average<br>(12-month percent<br>change) | Price/income<br>ratio (2005) |
|-----------------|---------------------------|--|------------------------------|
| <b>Top 5</b>    |                           |  |                              |
| Charlotte       | -6.8                      | 4.1  | 3.8                          |
| Dallas          | -10.4                     | 2.7  | 3.0                          |
| Denver          | -14.2                     | 2.6  | 4.5                          |
| Seattle         | -17.2                     | 12.2   | 7.1                          |
| Portland, OR    | -17.8                     | 13.1   | 5.0                          |
| <br>            |                           |  |                              |
| 20-City Average | -32.2                     | 14.3   | 6.3                          |
| <br>            |                           |  |                              |
| <b>Bottom 5</b> |                           |  |                              |
| Phoenix         | -53.0                     | 20.6   | 5.1                          |
| Las Vegas       | -50.3                     | 17.5   | 6.1                          |
| San Francisco   | -45.9                     | 14.7   | 12.7                         |
| Miami           | -46.5                     | 19.9   | 8.6                          |
| San Diego       | -42.0                     | 17.2   | 14.0                         |
| <br>            |                           |  |                              |
| Detroit         | -42.4                     | 3.1  | 2.6                          |

Source: Standard & Poor's, Census Bureau

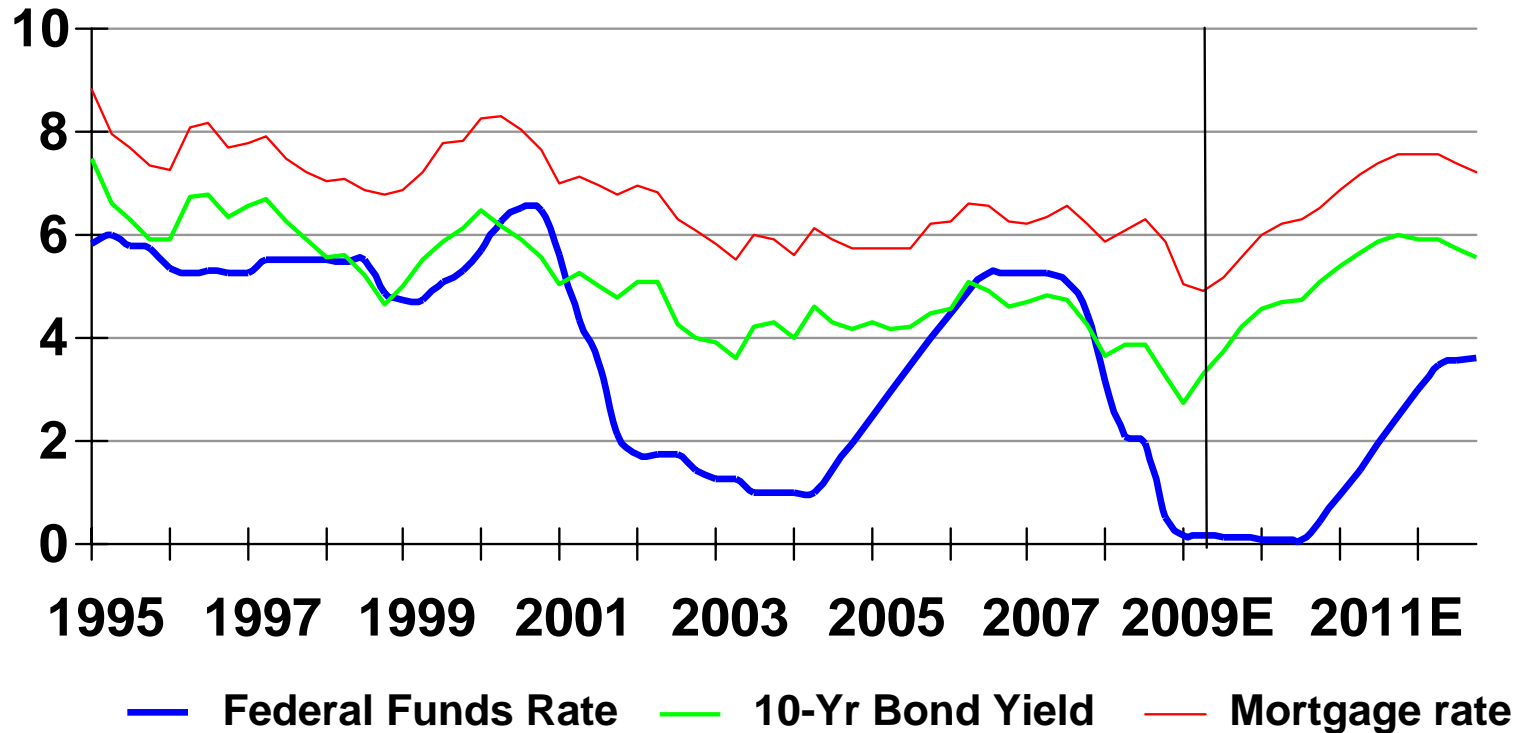
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# The Fed Is Still Easing

Percent



Source: Federal Reserve; estimates are from S&P

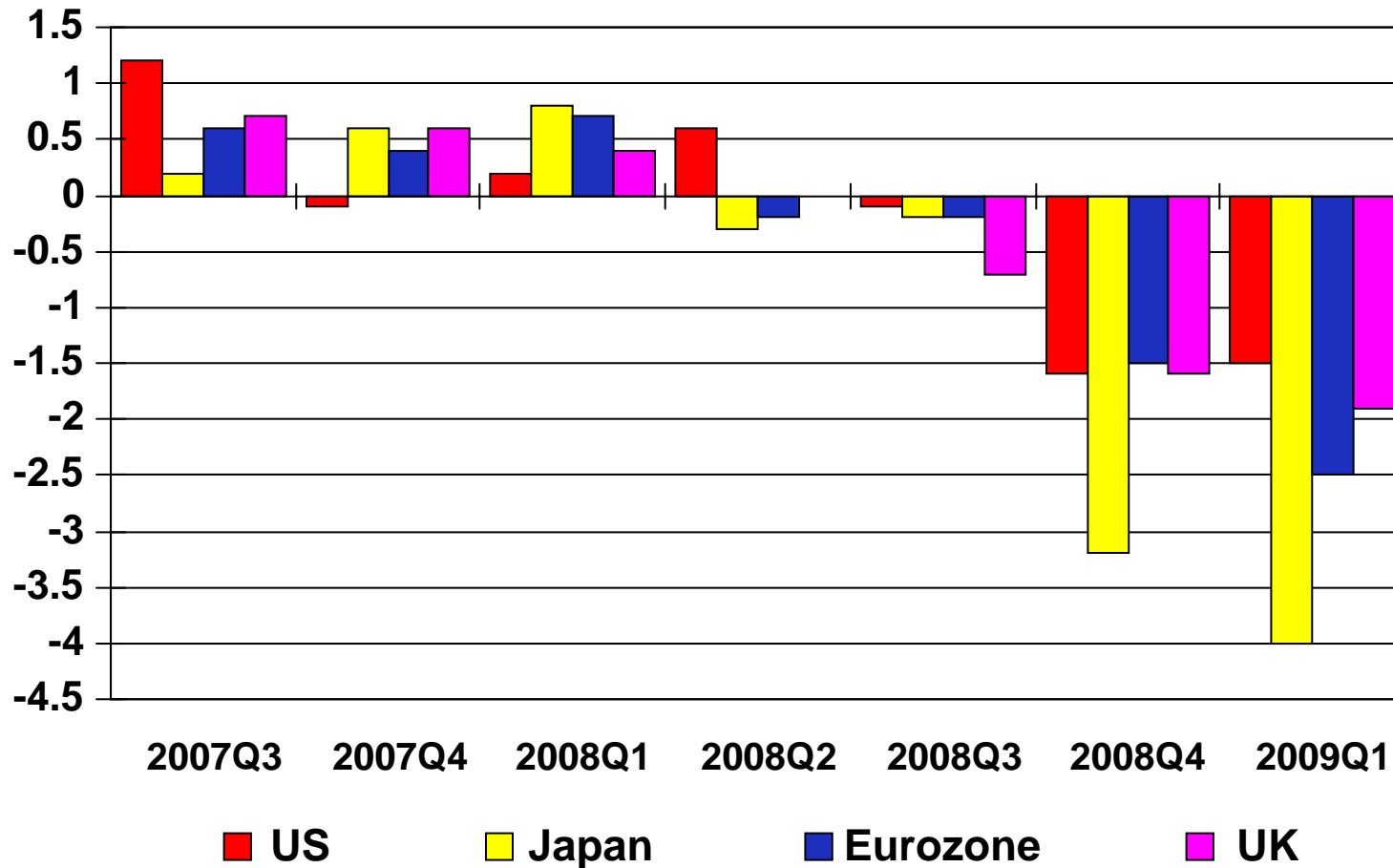
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# All (GDP) Fall Down

Percent change, quarterly rate



Source: Global Insight

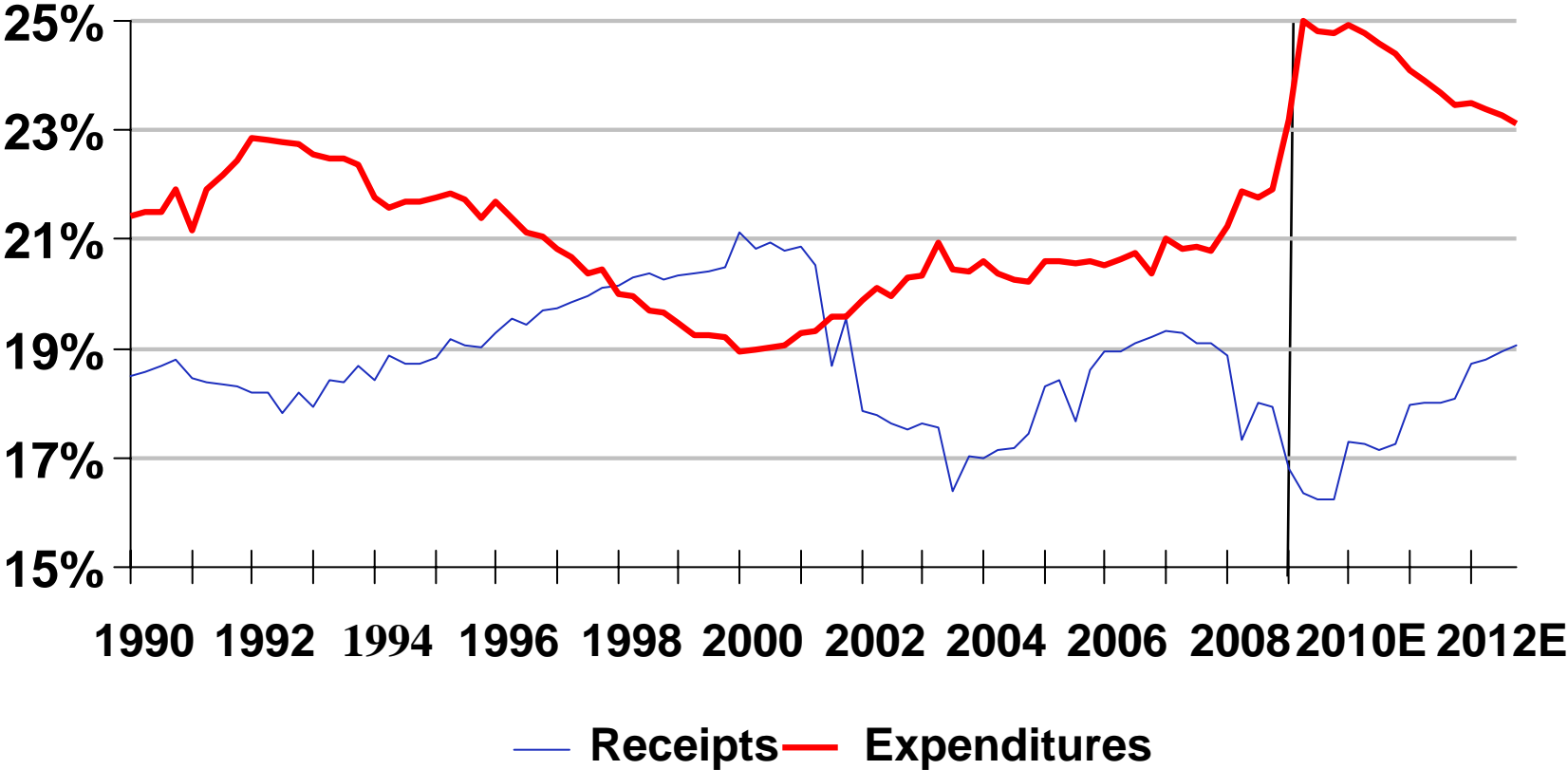
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# Federal Budget Deficits Soar

Percent of GDP



Source: Bureau of Economic Analysis; estimates are from S&P

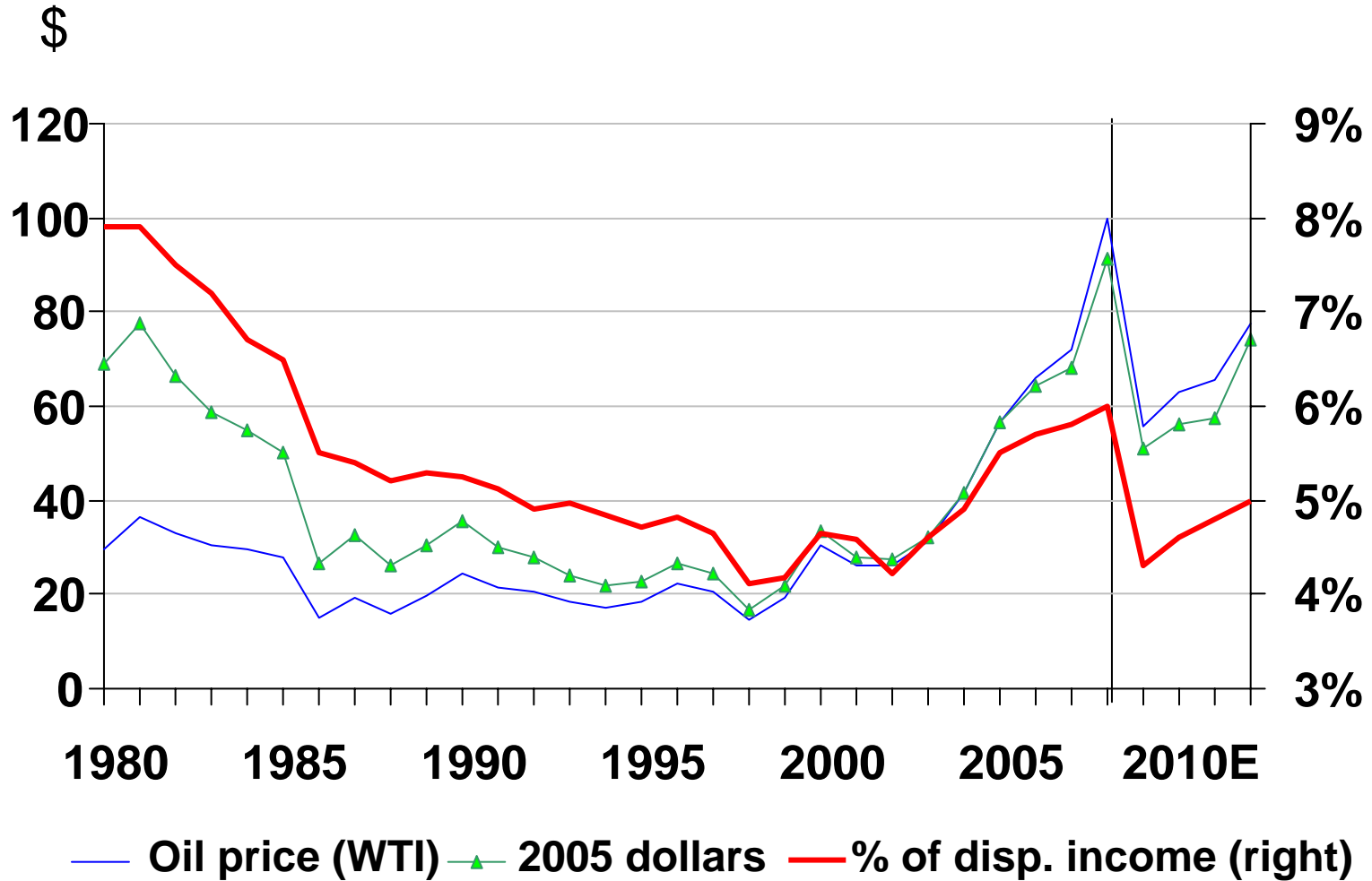
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# Oil Prices Have Dropped

(\$/barrel, WTI and deflated by CPI; household energy purchases as percent of disposable income)



Source: Bureau of Economic Analysis; estimates are from S&P

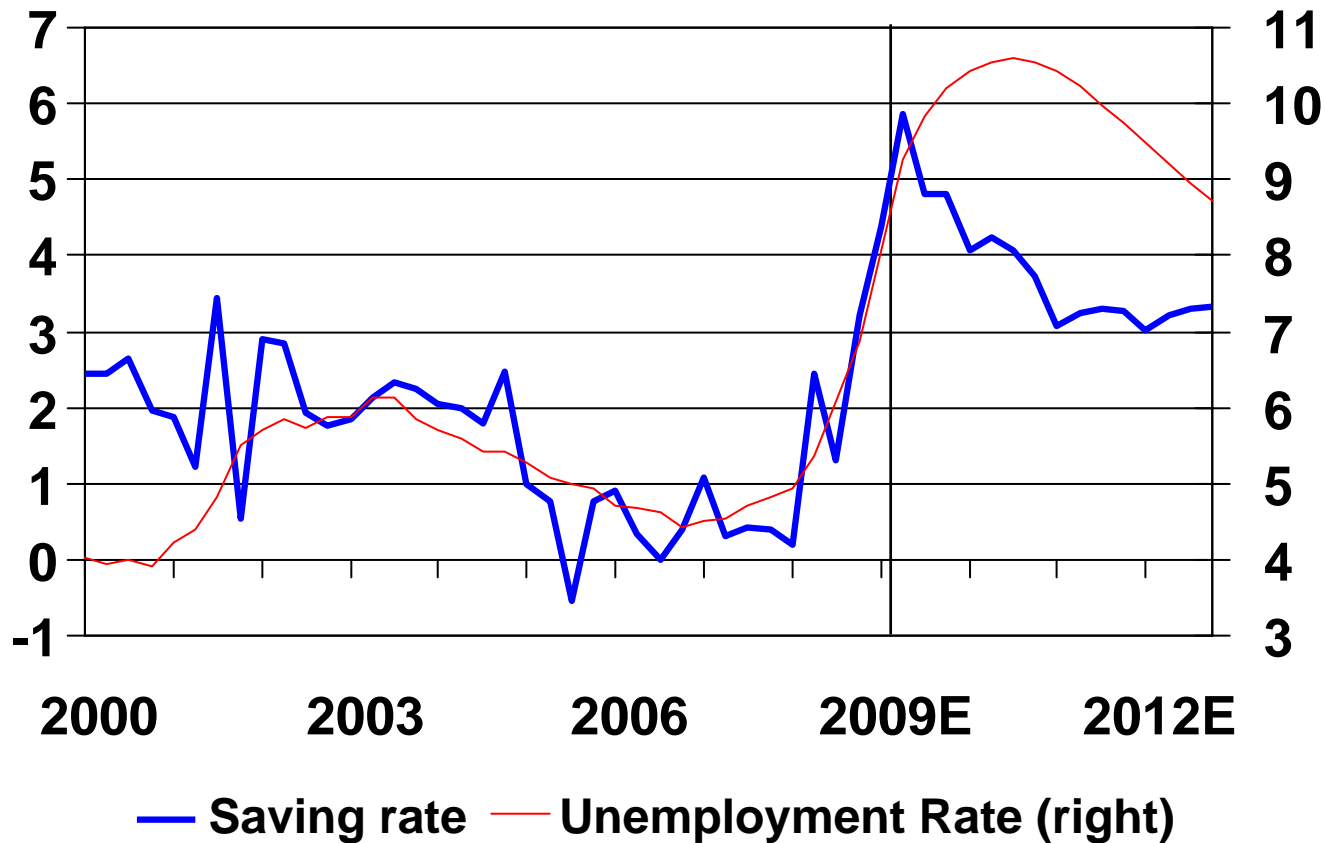
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# High Unemployment Scares Consumers

Percent



Source: Bureau of Labor Statistics and University of Michigan Survey Research Center; estimates are from S&P PROPRIETARY.

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## **SECOND-HALF 2009 OUTLOOK: The Three “Rs” -- Rally, Retest, Recovery?**

Sam Stovall  
Chief Investment Strategist  
Standard & Poor's Equity Research Services

June 30, 2009

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# Where We're Likely Headed: **Positives** and **Negatives**

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## **Positives**

### **Faith Over Fundamentals**

- Share prices anticipate improvements

### **Fundamental Recovery Projected**

- Recession end by Q4 2009
- EPS rebound by end of year

### **Bear Mkt. Bottom 3/9/09**

- Avg. 46% 12-Mo. Gain
- 121% Jump After 1929 Crash
- Avg. 36% Rise After Re-Tests

### **Asset Class Rotation 3/9-6/12/09**

- Equities outpaced Bonds
- Small Caps lead Large Caps
- Cyclical sectors beat Defensives

## **Negatives**

### **Re-evaluating World GDP Growth**

### **Severity of S&P 500 price Re-Test**

### **Equity Valuations**

- Hard to justify further surge
- Analysts looking to '10E and '11E

### **Money Supply/Federal Deficit Worries**

- Higher Treasury Yields
- Rising Inflation Worries
- Drag on housing recovery

### **Rising Commodity Prices**

### **Still-High Consumer Debt Levels**

*Source: Standard & Poor's Equity Research. Past performance is no guarantee of future results.*

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## Positives: Fourth Quarter 2009 EPS Recovery Expected

| S&P 500 Sectors        | 2009        |             |            |           | 2010E     |           |
|------------------------|-------------|-------------|------------|-----------|-----------|-----------|
|                        | Q1A         | Q2E         | Q3E        | Q4E       | Year E    | Year      |
| Consumer Discretionary | (85)        | 37          | 70         | NM        | 43        | 74        |
| Consumer Staples       | (4)         | 3           | (4)        | 10        | 1         | 10        |
| Energy                 | (96)        | (62)        | (73)       | 37        | (66)      | 87        |
| Financials             | NM          | NM          | NM         | NM        | NM        | 85        |
| Health Care            | 7           | 3           | 7          | 17        | 8         | 9         |
| Industrials            | (40)        | (42)        | (29)       | (15)      | (32)      | 9         |
| Information Technology | (35)        | (26)        | (13)       | 73        | (8)       | 34        |
| Materials              | (77)        | (71)        | (78)       | NM        | (42)      | 115       |
| Telecom. Services      | (8)         | (5)         | 10         | 14        | 2         | 1         |
| Utilities              | (9)         | (5)         | (4)        | 13        | (2)       | 10        |
| <b>S&amp;P 500</b>     | <b>(39)</b> | <b>(16)</b> | <b>(5)</b> | <b>NM</b> | <b>13</b> | <b>33</b> |

Source: Standard & Poor's Equity Research. Past performance is no guarantee of future results.

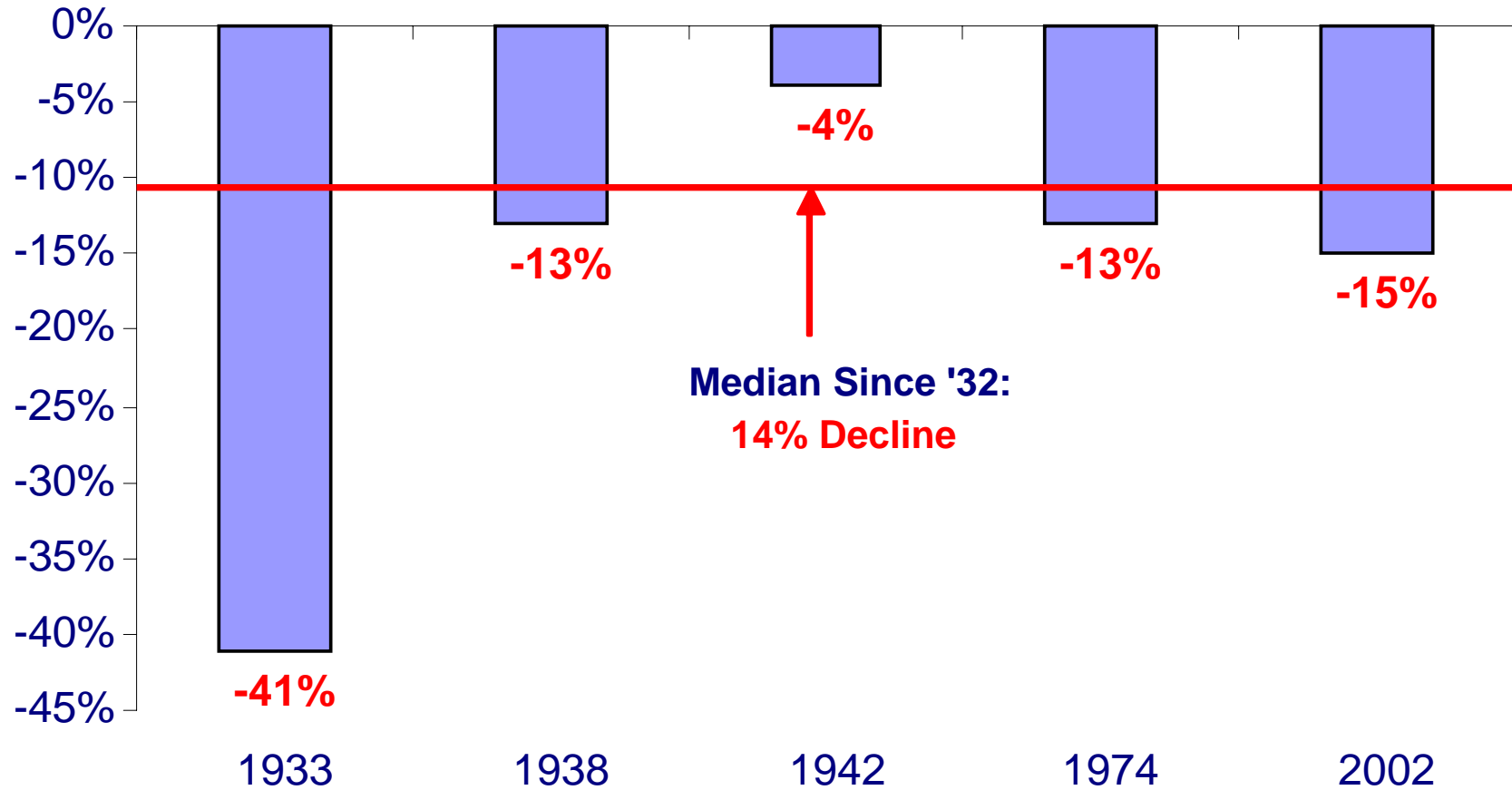
NM: Not Meaningful

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# Negatives: S&P 500 Price Declines Typically Follow Initial Bounces

## Corrections of Initial Recoveries Following Bear Market Declines of 40%+



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## Negatives: Lofty Valuations

### P/E Ratios 12 Mos. Into New Bull Markets

Trailing 12-Month GAAP ("As Reported") EPS

#### "As Reported" P/E Ratios as of

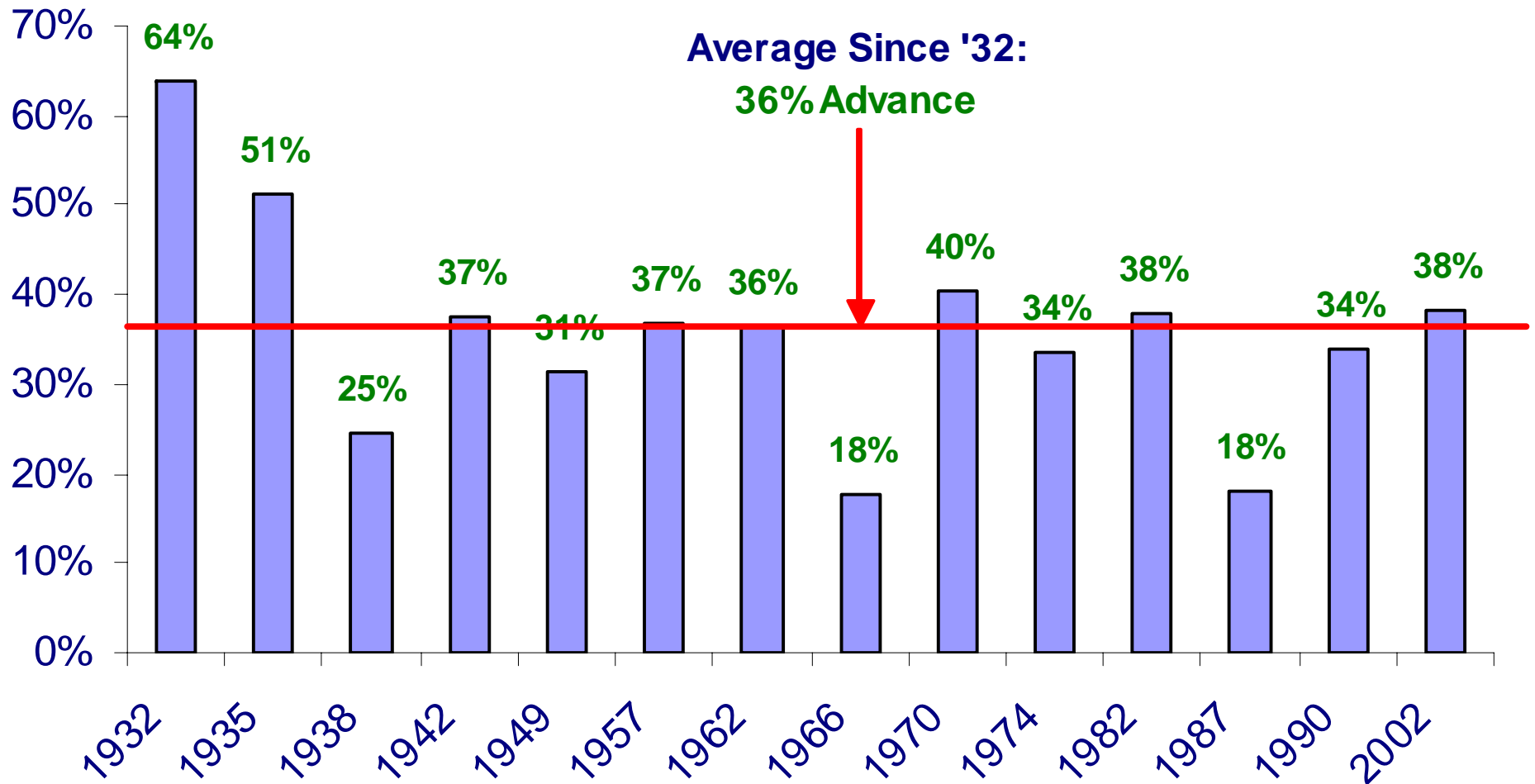
| End of Bear     | Bottom      | 3 Mos. After | 6 Mos. After | 12 Mos. After |
|-----------------|-------------|--------------|--------------|---------------|
| 03/31/38        | 8.8         | 15.0         | 19.7         | 15.5          |
| 04/28/42        | 7.6         | 8.5          | 9.4          | 10.8          |
| 06/13/49        | 5.6         | 6.5          | 7.2          | 7.0           |
| 10/22/57        | 11.6        | 11.9         | 13.2         | 17.4          |
| 06/27/62        | 15.1        | 15.9         | 17.2         | 18.1          |
| 10/07/66        | 13.2        | 14.5         | 16.6         | 18.2          |
| 05/26/70        | 12.6        | 15.7         | 18.0         | 18.6          |
| 10/03/74        | 7.0         | 7.7          | 9.9          | 10.8          |
| 08/12/82        | 7.6         | 8.9          | 11.1         | 13.3          |
| 12/04/87        | 12.8        | 13.9         | 12.6         | 11.7          |
| 10/11/90        | 13.8        | 15.5         | 17.9         | 21.8          |
| 10/09/02        | 28.2        | 31.9         | 28.0         | 25.8          |
| 03/09/09        | 97.9        | ???          | ???          | ???           |
| <b>Averages</b> | <b>12.6</b> | <b>14.2</b>  | <b>14.9</b>  | <b>16.5</b>   |

Source: Standard & Poor's Equity Research. Past performance is no guarantee of future results.

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## Positive: S&P % Changes 12-Mos. After Retest of Initial Bull Market Rally



Source: Standard & Poor's Equity Research. Past performance is no guarantee of future results.

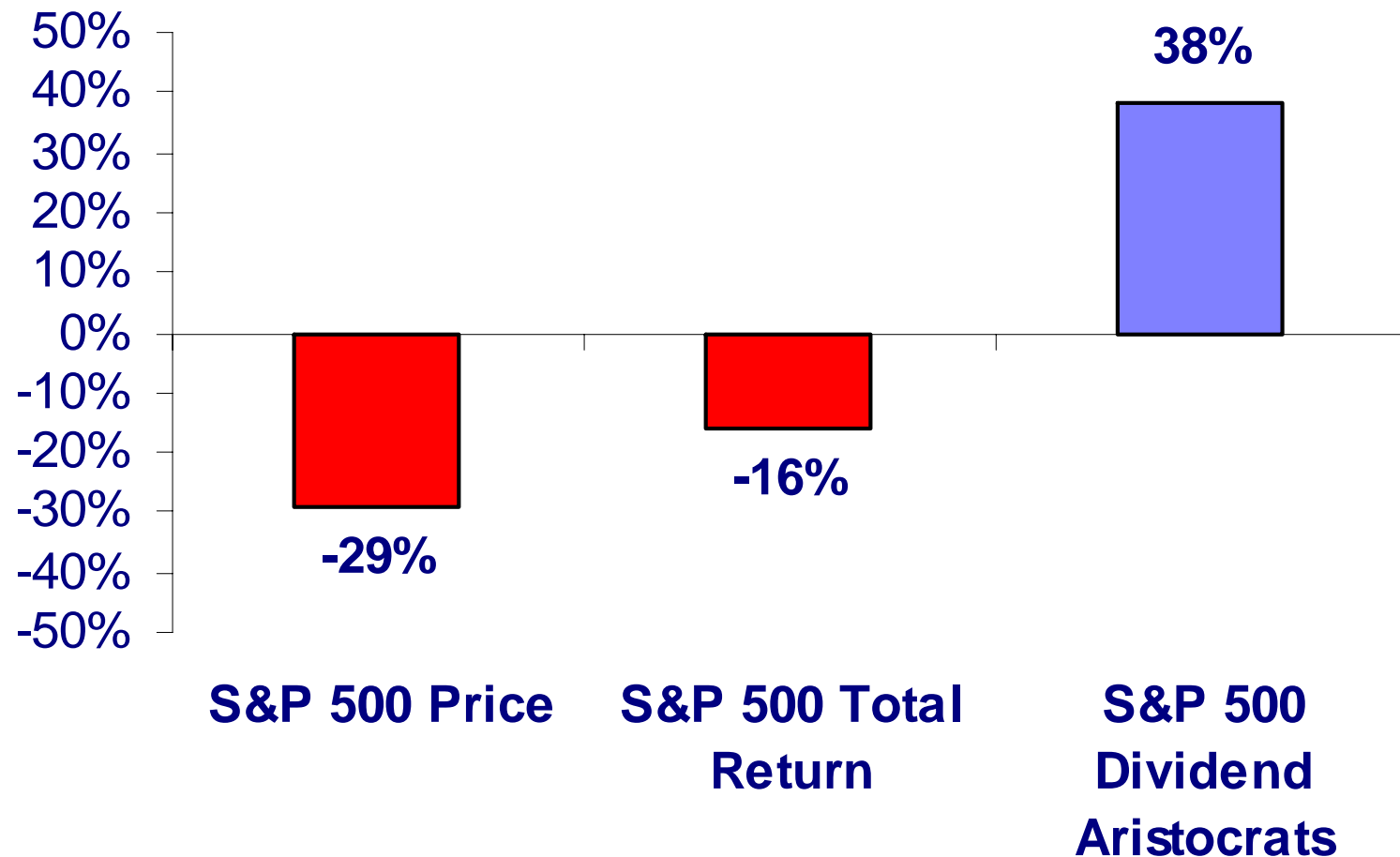
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# The Impact of Dividends: S&P 500 and the S&P 500 Dividend Aristocrats

## S&P 500 Performances 5/31/99-5/31/09



Source: Standard & Poor's Equity Research. Past performance is no guarantee of future results.

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## Recommendation: Focus on High Quality, High Yielding Stocks

### Stocks with Highest STARS / Yield / Quality Rank By Sector (6/23/09)

|                             |        |       | S&P   |         |         |
|-----------------------------|--------|-------|-------|---------|---------|
|                             | Ticker | Price | STARS | Q. Rank | Yield % |
| Consumer Discretionary      | GPC    | \$32  | 5     | A       | 4.9     |
| Consumer Staples            | MO     | \$16  | 5     | A       | 7.8     |
| Energy                      | CVX    | \$66  | 5     | A-      | 3.9     |
| Financial                   | HCBK   | \$13  | 5     | A       | 4.7     |
| Health Care                 | JNJ    | \$55  | 4     | A+      | 3.5     |
| Industrials                 | MMM    | \$57  | 4     | A+      | 3.5     |
| Information Technology      | LLTC   | \$22  | 5     | A       | 4.0     |
| Materials                   | PPG    | \$42  | 5     | B+      | 5.0     |
| Telecommunications Services | CTL    | \$32  | 4     | A-      | 8.9     |
| Utilities                   | OKE    | \$28  | 5     | A-      | 5.6     |

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## S&P Forecasts

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- **S&P 500: Re-Test of Bear Market Low Ahead?**
- **Rebound After Retest: 12-Month Double-Digit Rise Possible.**
- **Recession End: Q4 2009 Recovery Expected.**
- **EPS Freefall Likely to Slow: Late 2009 Recovery Seen.**
- **Sector Outlooks: Gradual Rotation to Cyclical Sectors.**
- **Reminder: Don't Forget the Impact of Re-invested Dividends.**

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# International Investment Outlook: The Going Gets Tougher

Alec Young  
International Equity Strategist  
Standard & Poor's Equity Research

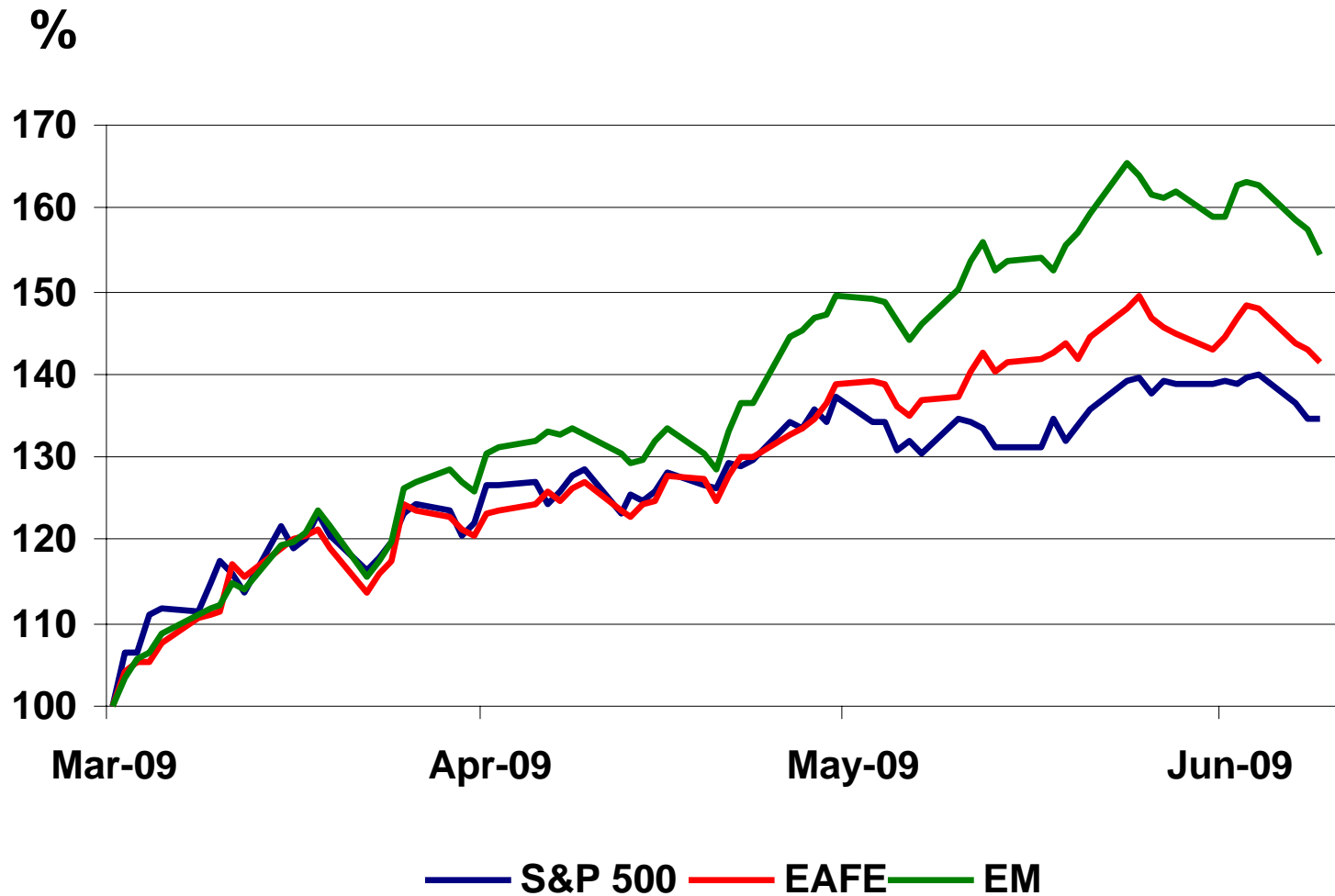
June 30, 2009

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## Profit Taking Strikes in June



Source: Standard & Poor's Index Services, MSCI (through 6/17/09 in USD)

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## EM, Canada, Australia Lead; France, Germany, Switzerland Lag

| <u>COUNTRY/REGION</u>   | <u>MTD</u> | <u>3Mo.</u> | <u>YTD</u> | <u>1 Yr</u> |
|-------------------------|------------|-------------|------------|-------------|
| EAFE                    | -2.2%      | 22.0%       | 4.2%       | -37.0%      |
| FRANCE                  | -5.3%      | 17.6%       | -1.3%      | -39.4%      |
| GERMANY                 | -4.9%      | 18.4%       | -5.1%      | -42.7%      |
| SWITZERLAND             | -2.8%      | 13.0%       | -5.3%      | -30.3%      |
| UNITED KINGDOM          | -2.1%      | 24.4%       | 9.6%       | -38.9%      |
| EUROPE                  | -3.8%      | 20.9%       | 2.6%       | -40.4%      |
| AUSTRALIA               | 0.5%       | 22.4%       | 18.3%      | -38.7%      |
| JAPAN                   | 2.0%       | 23.3%       | 1.9%       | -27.6%      |
| CANADA                  | -7.2%      | 27.6%       | 22.1%      | -39.3%      |
| EMERGING MKTS.          | -3.1%      | 31.4%       | 32.1%      | -34.5%      |
| CHINA                   | 1.5%       | 30.6%       | 32.3%      | -16.6%      |
| INDIA                   | -2.4%      | 59.4%       | 56.8%      | -20.1%      |
| KOREA                   | -0.7%      | 25.5%       | 23.6%      | -36.1%      |
| TAIWAN                  | -11.5%     | 19.7%       | 29.7%      | -34.5%      |
| EM ASIA                 | -2.2%      | 30.8%       | 32.4%      | -26.8%      |
| BRAZIL                  | -5.8%      | 36.6%       | 52.9%      | -43.5%      |
| MEXICO                  | -3.0%      | 29.4%       | 11.3%      | -38.6%      |
| EM LATIN AMERICA        | -4.4%      | 34.0%       | 40.1%      | -40.5%      |
| CZECH REPUBLIC          | 4.3%       | 28.9%       | 8.7%       | -45.0%      |
| POLAND                  | 4.2%       | 36.4%       | -6.5%      | -54.1%      |
| RUSSIA                  | -9.9%      | 43.2%       | 50.9%      | -61.7%      |
| TURKEY                  | -3.5%      | 40.3%       | 22.1%      | -31.4%      |
| EM EUROPE & MIDDLE EAST | -5.4%      | 33.6%       | 28.5%      | -52.4%      |
| SOUTH AFRICA            | -4.3%      | 23.8%       | 17.4%      | -20.0%      |

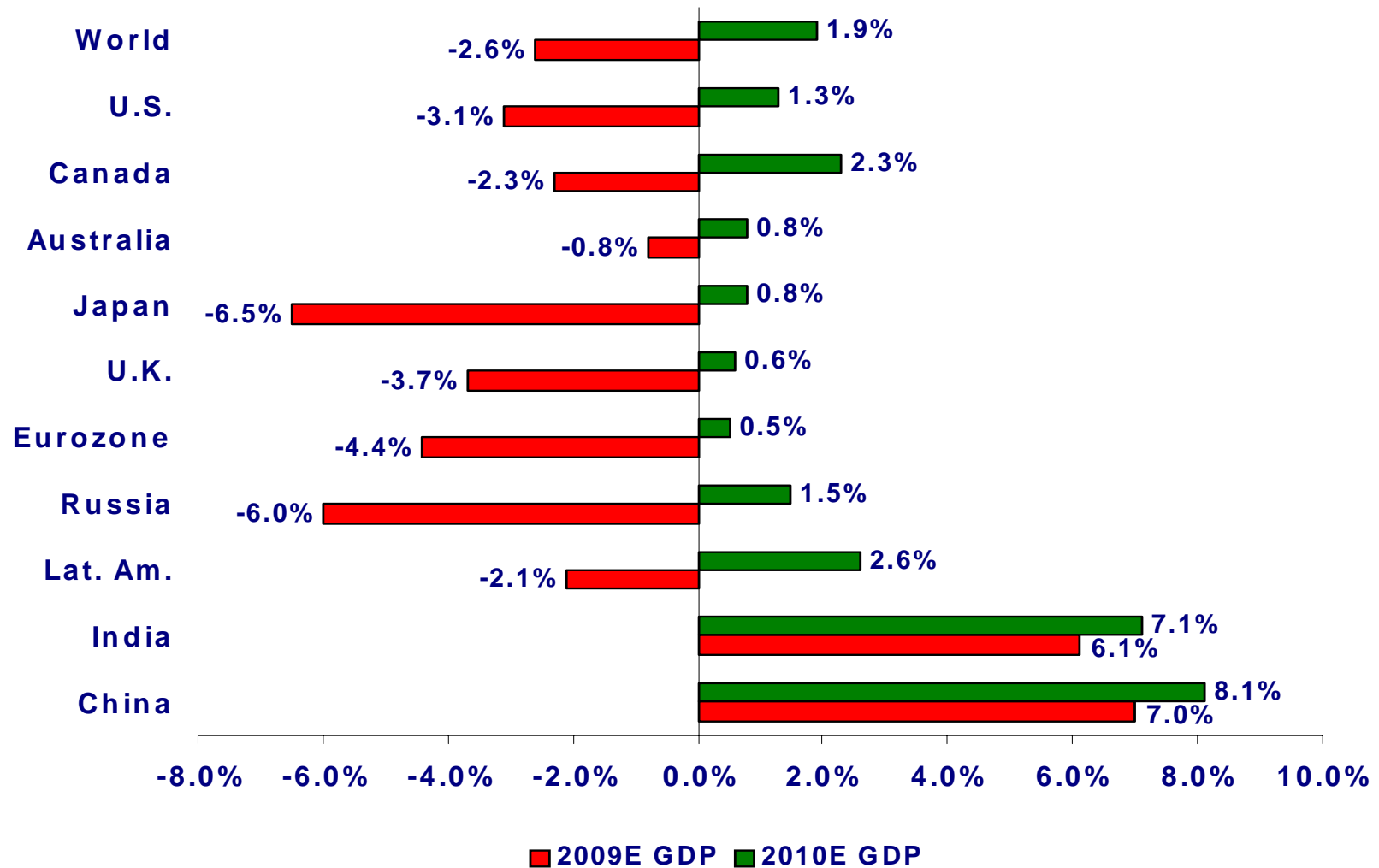
Source: MSCI (through 6/17/09 in USD)

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# Emerging Asia Seen Leading Muted 2010 Global GDP Recovery



Source: Standard & Poor's Economics, IHS Global Insight (through 6/24/09)

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**Commodity Currency Strength vs. USD Boosts Returns But Weak Yen & Euro Dilute the Benefit as Europe ex U.K. & Japan Comprise 1/2 of Int'l Mkt. Cap.**

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| <b>Country/Asset Class</b>       | <b>YTD (USD)</b> | <b>YTD (LC )</b> | <b>YTD Currency Impact</b> |
|----------------------------------|------------------|------------------|----------------------------|
| <b>Brazil</b>                    | <b>52.9%</b>     | <b>30.9%</b>     | <b>22.0%</b>               |
| <b>South Africa</b>              | <b>17.4%</b>     | <b>3.3%</b>      | <b>14.1%</b>               |
| <b>Australia</b>                 | <b>18.3%</b>     | <b>4.7%</b>      | <b>13.6%</b>               |
| <b>U.K.</b>                      | <b>9.6%</b>      | <b>-3.4%</b>     | <b>13.0%</b>               |
| <b>Canada</b>                    | <b>22.1%</b>     | <b>13.0%</b>     | <b>9.1%</b>                |
| <b>Emerging Markets</b>          | <b>32.1%</b>     | <b>27.0%</b>     | <b>5.1%</b>                |
| <b>Mexico</b>                    | <b>11.3%</b>     | <b>8.3%</b>      | <b>3.0%</b>                |
| <b>EAFE</b>                      | <b>4.2%</b>      | <b>2.1%</b>      | <b>2.1%</b>                |
| <b>India</b>                     | <b>56.8%</b>     | <b>54.9%</b>     | <b>1.9%</b>                |
| <b>Germany</b>                   | <b>-5.1%</b>     | <b>-4.8%</b>     | <b>-0.3%</b>               |
| <b>Japan</b>                     | <b>1.9%</b>      | <b>7.6%</b>      | <b>-5.7%</b>               |
| <b>All Country World ex U.S.</b> | <b>10.1%</b>     | <b>7.1%</b>      | <b>3.0%</b>                |

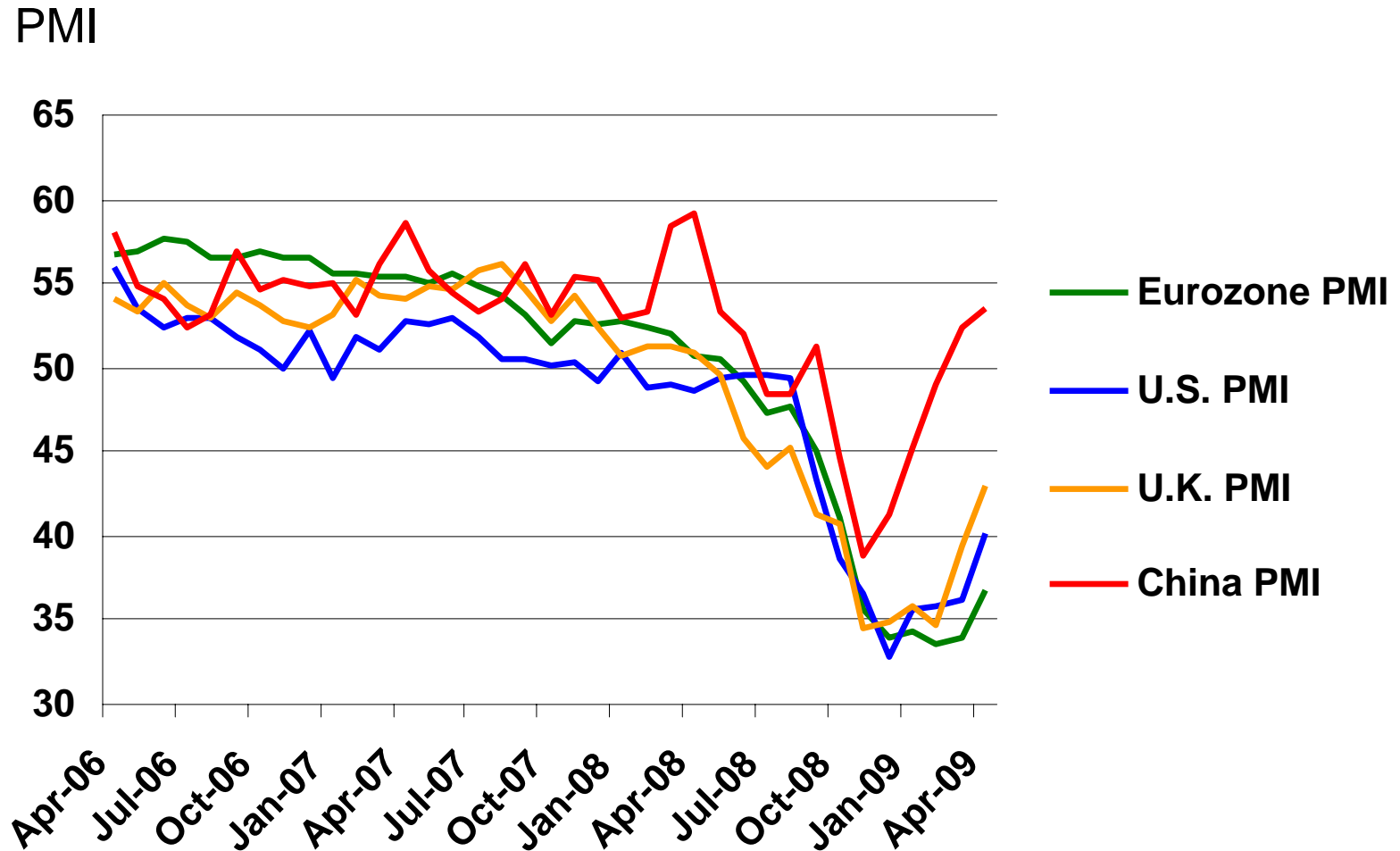
Source: MSCI (through 6/17/09)

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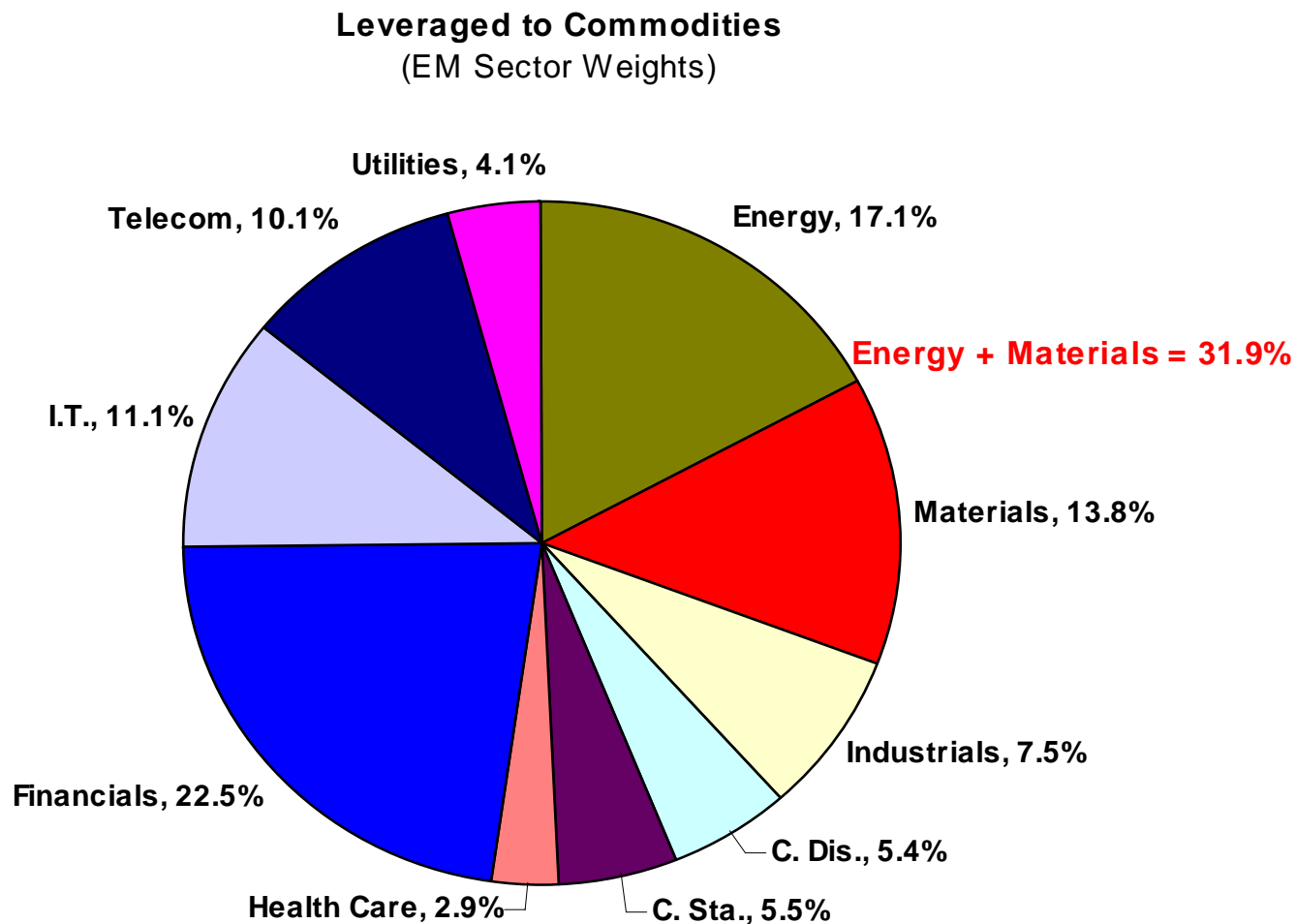
# Signs of Stability in U.S., U.K. & Europe; Signs of Recovery In China



Source: Bloomberg

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# Higher Commodity Prices are a Net Positive For EM Equities ...



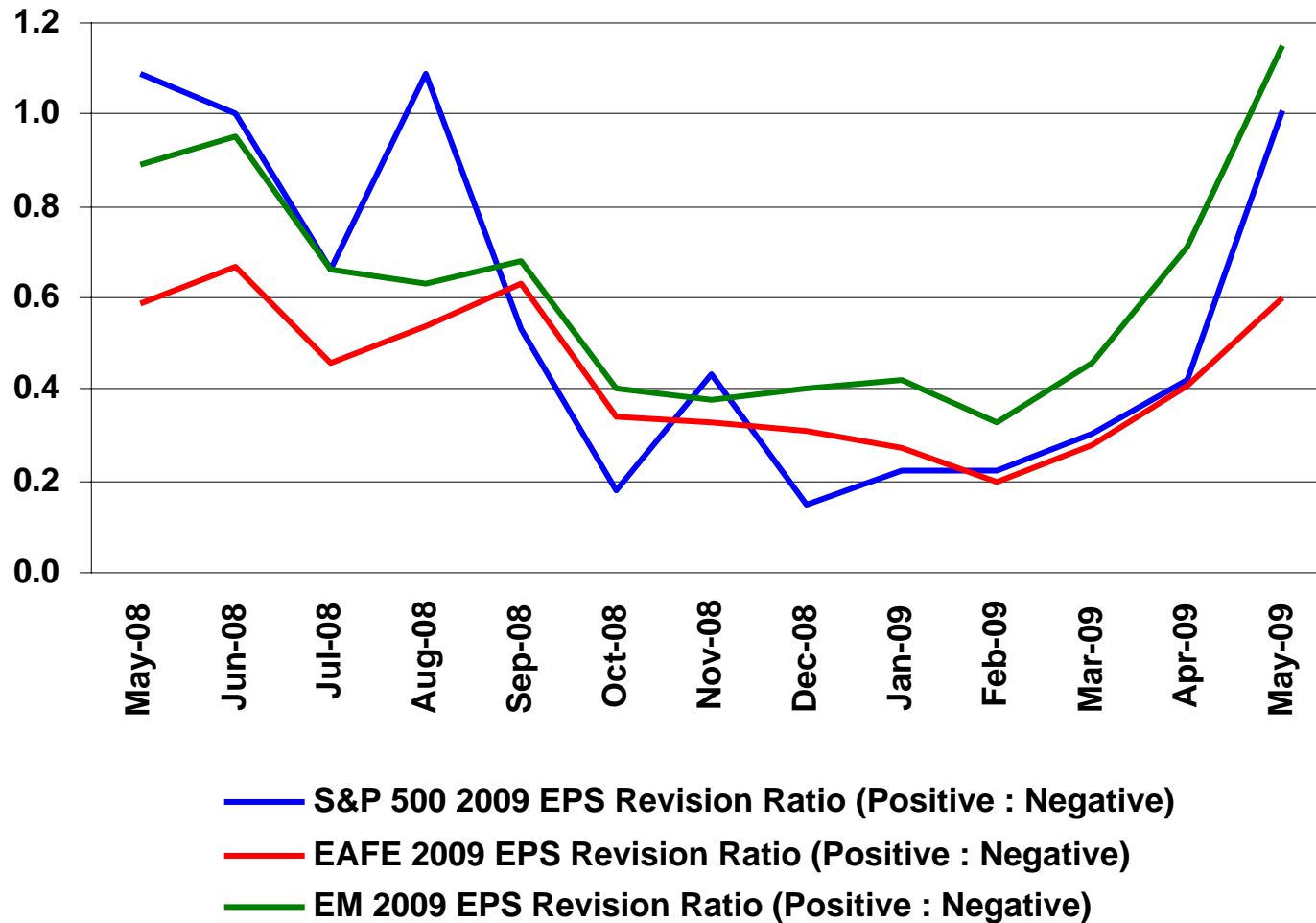
Source: Standard and Poor's Index Services (through 6/17/09)

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## ... Helping Fuel a Faster EM EPS Recovery

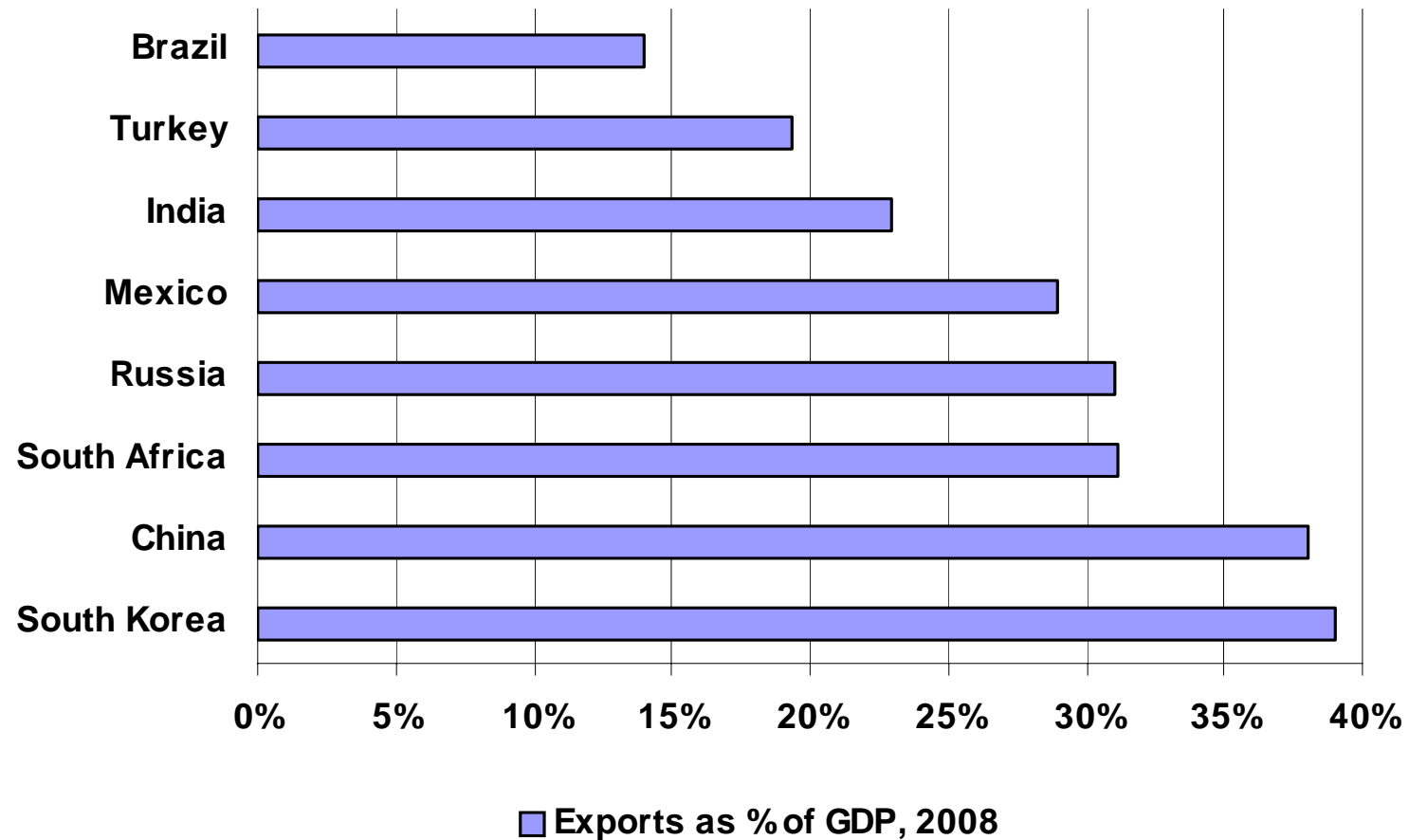


Source: Thomson One Analytics

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## ... But EM Remains Vulnerable to Weaker Growth in Developed World

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Source: Economist Intelligence Unit

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## Overseas Equities Appear Fully Valued Over the Near Term

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| <b>Asset Class</b> | <b>Cycle Low<br/>2009E P/E</b> | <b>Current<br/>2009E P/E</b> |
|--------------------|--------------------------------|------------------------------|
| <b>EAFE</b>        | <b>8.7X</b>                    | <b>15.5X</b>                 |
| <b>Canada</b>      | <b>9.3X</b>                    | <b>15.7X</b>                 |
| <b>U.K.</b>        | <b>7.7X</b>                    | <b>12.3X</b>                 |
| <b>Switzerland</b> | <b>8.2X</b>                    | <b>12.9X</b>                 |
| <b>Germany</b>     | <b>8.5X</b>                    | <b>13.9X</b>                 |
| <b>Japan</b>       | <b>NM</b>                      | <b>44.1X</b>                 |
| <b>Australia</b>   | <b>10.6X</b>                   | <b>14.2X</b>                 |
| <b>Em. Mkts.</b>   | <b>7.9X</b>                    | <b>14.5X</b>                 |
| <b>China</b>       | <b>9.9X</b>                    | <b>17.6X</b>                 |
| <b>India</b>       | <b>10.2X</b>                   | <b>17.0X</b>                 |
| <b>Russia</b>      | <b>3.5X</b>                    | <b>8.8X</b>                  |
| <b>Brazil</b>      | <b>6.5X</b>                    | <b>13.5X</b>                 |
| <b>S&amp;P 500</b> | <b>11.0X</b>                   | <b>16.5X</b>                 |

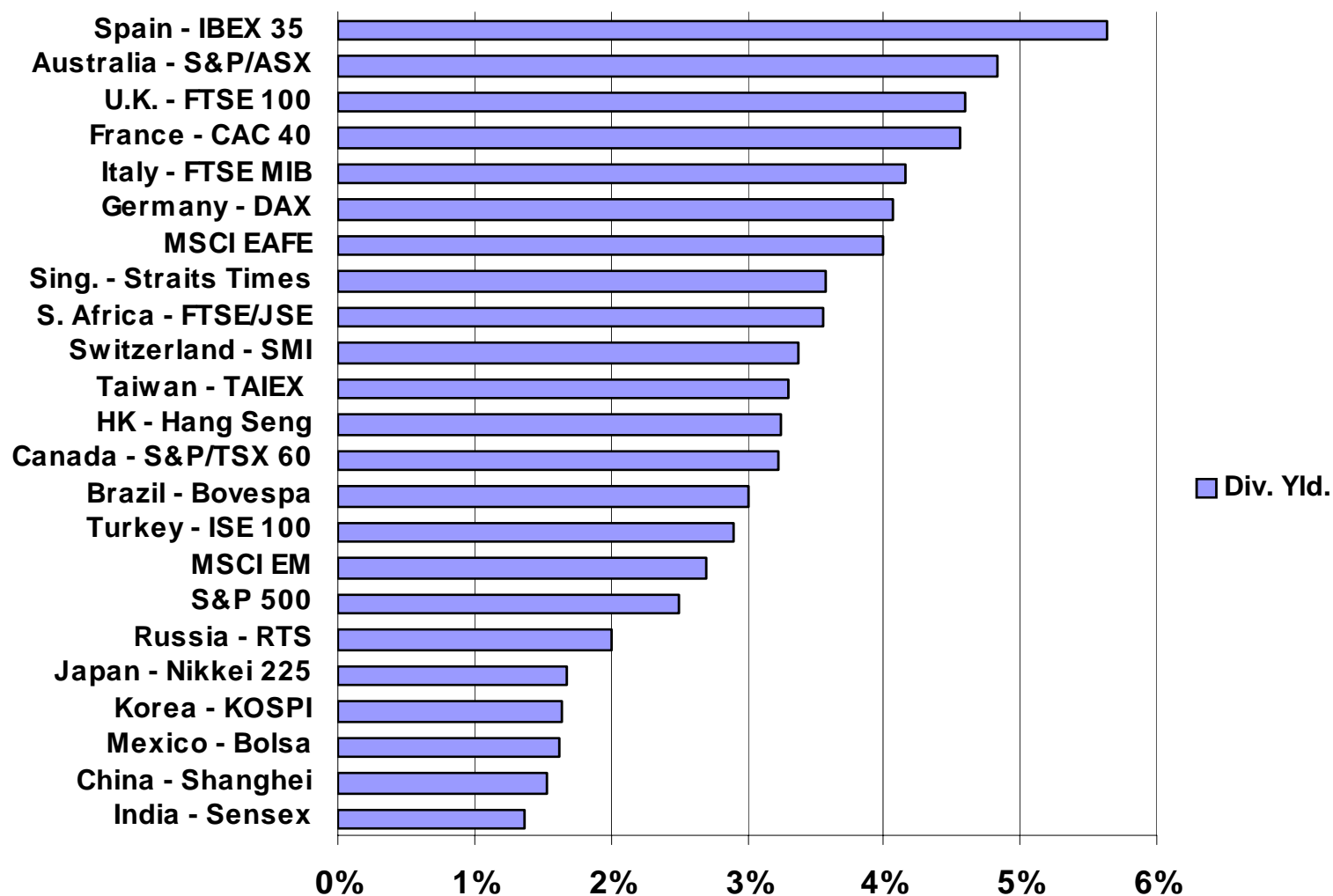
Source: Bloomberg, MSCI, S&P Equity Research (through 6/18/09)

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## With Global Equity Rally Moderating, Focus on Yield



Source: Bloomberg (through 6/18/09)

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## S&P Forecasts

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- International equity appreciation is expected to slow through year-end
  - Europe, U.K., Canada & Japan recoveries remain fragile
  - Valuations are no longer compelling: EAFE @ 15.5X 2009E EPS
  - Focus on yield – Many overseas markets yield 4%-6%
- Emerging Markets are expected to continue to modestly outperform
  - Strongest GDP and EPS momentum thanks to significant domestic stimulus and heavy commodity exposure
  - BRIC expected to outperform Eastern Europe as latter is hobbled by external debt
  - Relatively high valuations (14.5X 2009E EPS) suggest alpha over developed world are expected to moderate through year-end

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## **Market Still Working on a Bull Market Reversal Formation**

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June 30, 2009

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# S&P 500 WEEKLY



Source: Metastock

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# S&P 500 DAILY



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# NASDAQ DAILY

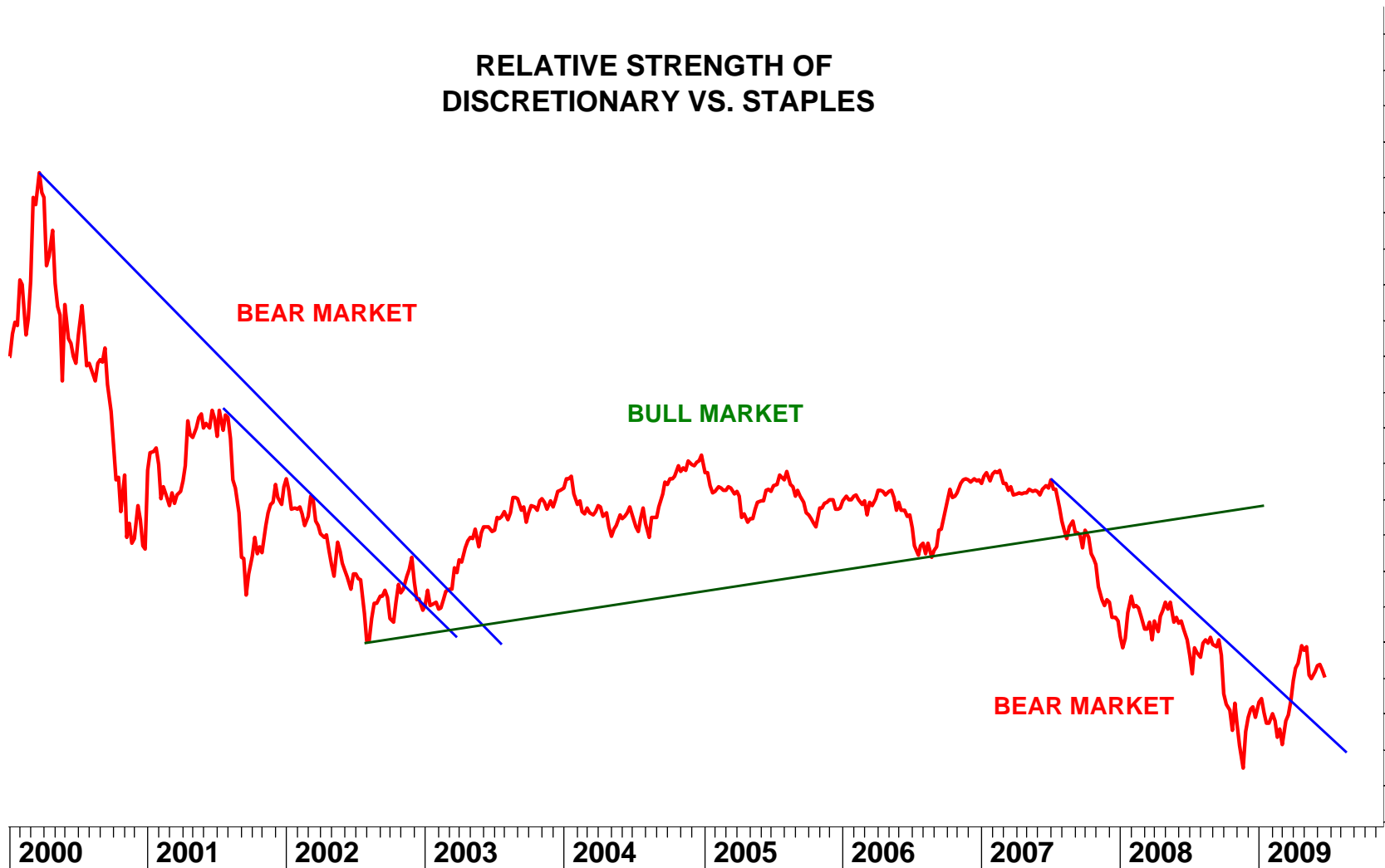


Source: Metastock

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# CONSUMER DISCRETIONARY VS. STAPLES

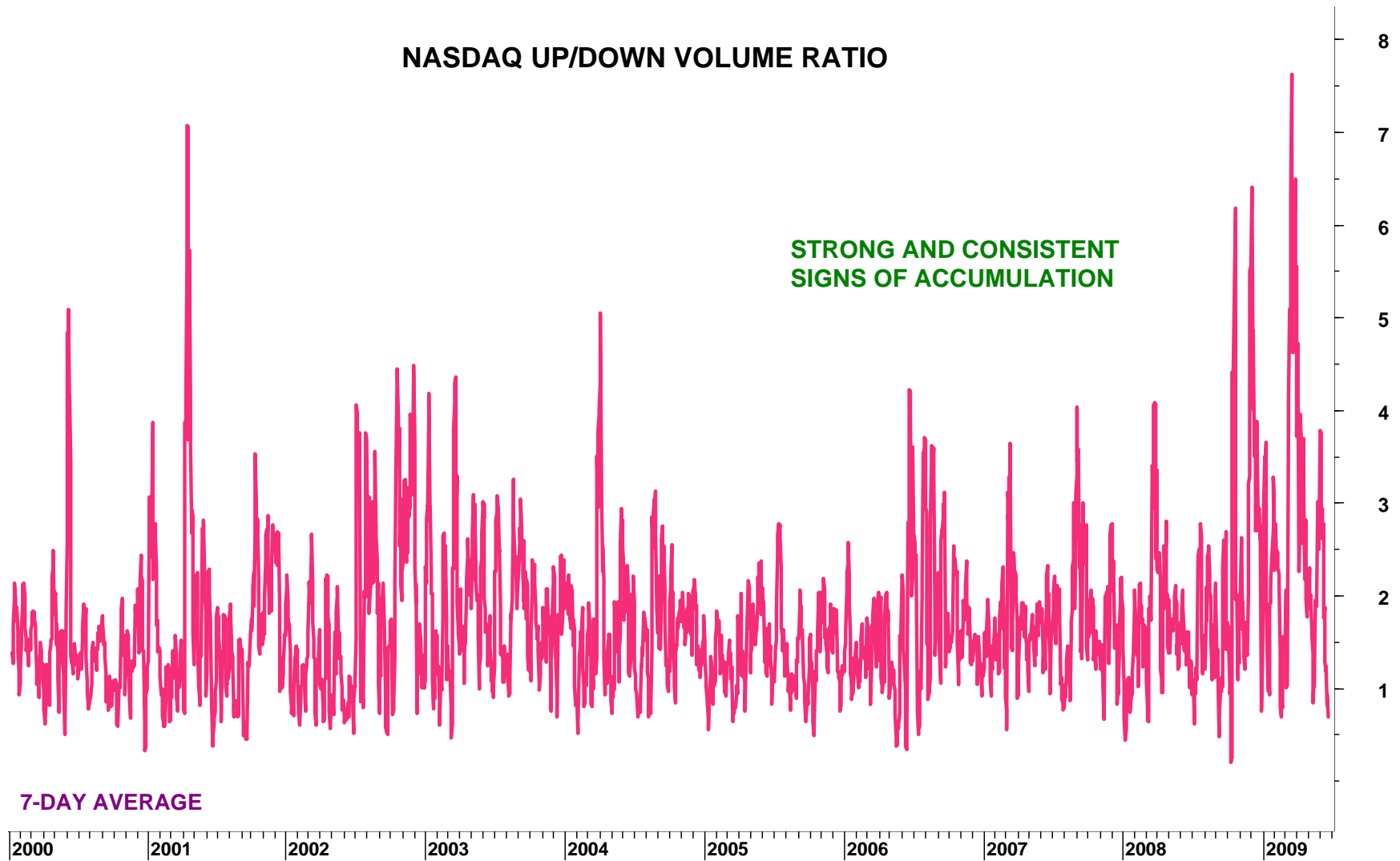
RELATIVE STRENGTH OF  
DISCRETIONARY VS. STAPLES



Source: Metastock

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# NASDAQ UP/DOWN VOLUME RATIO



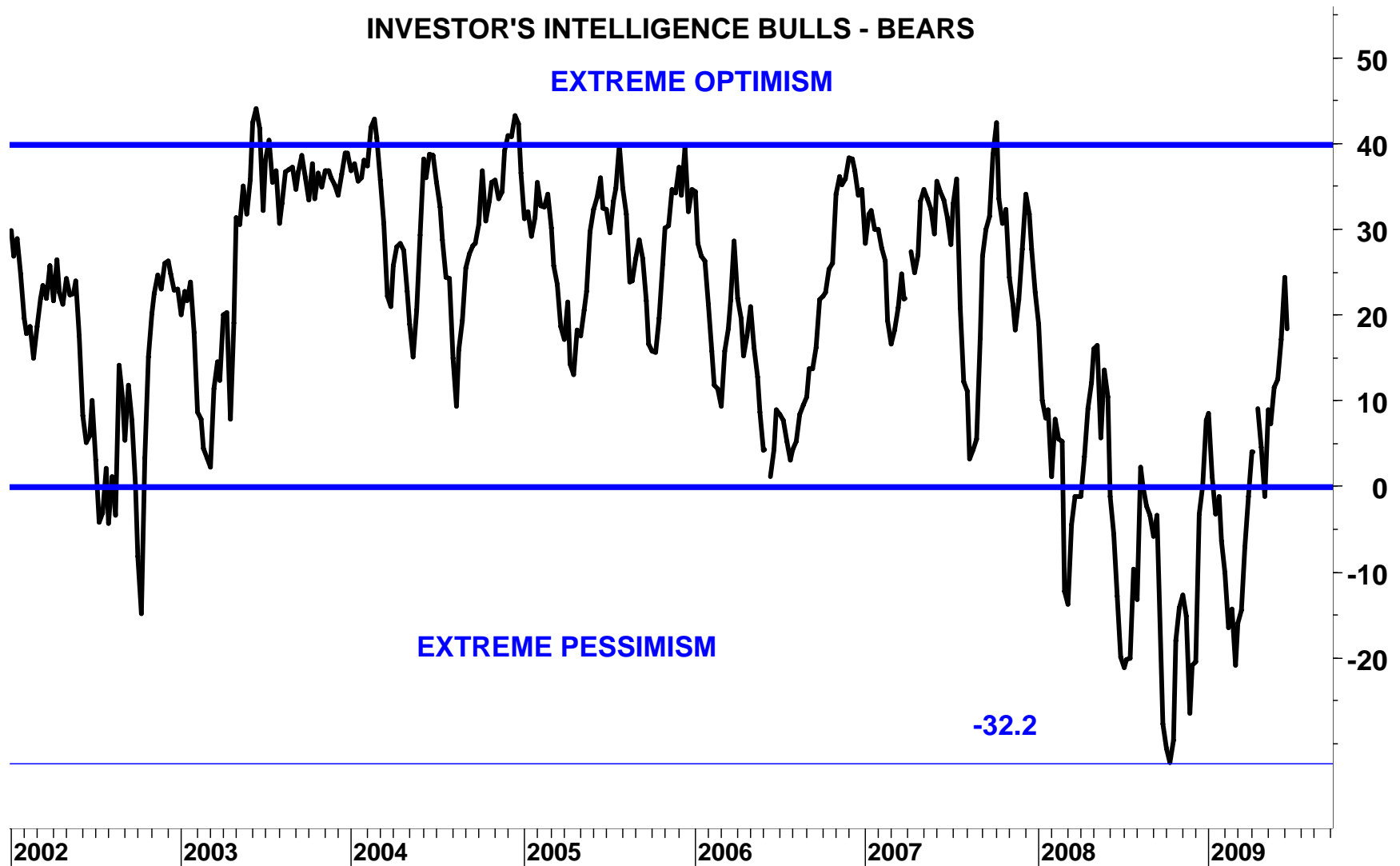
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# INVESTOR'S INTELLIGENCE POLL



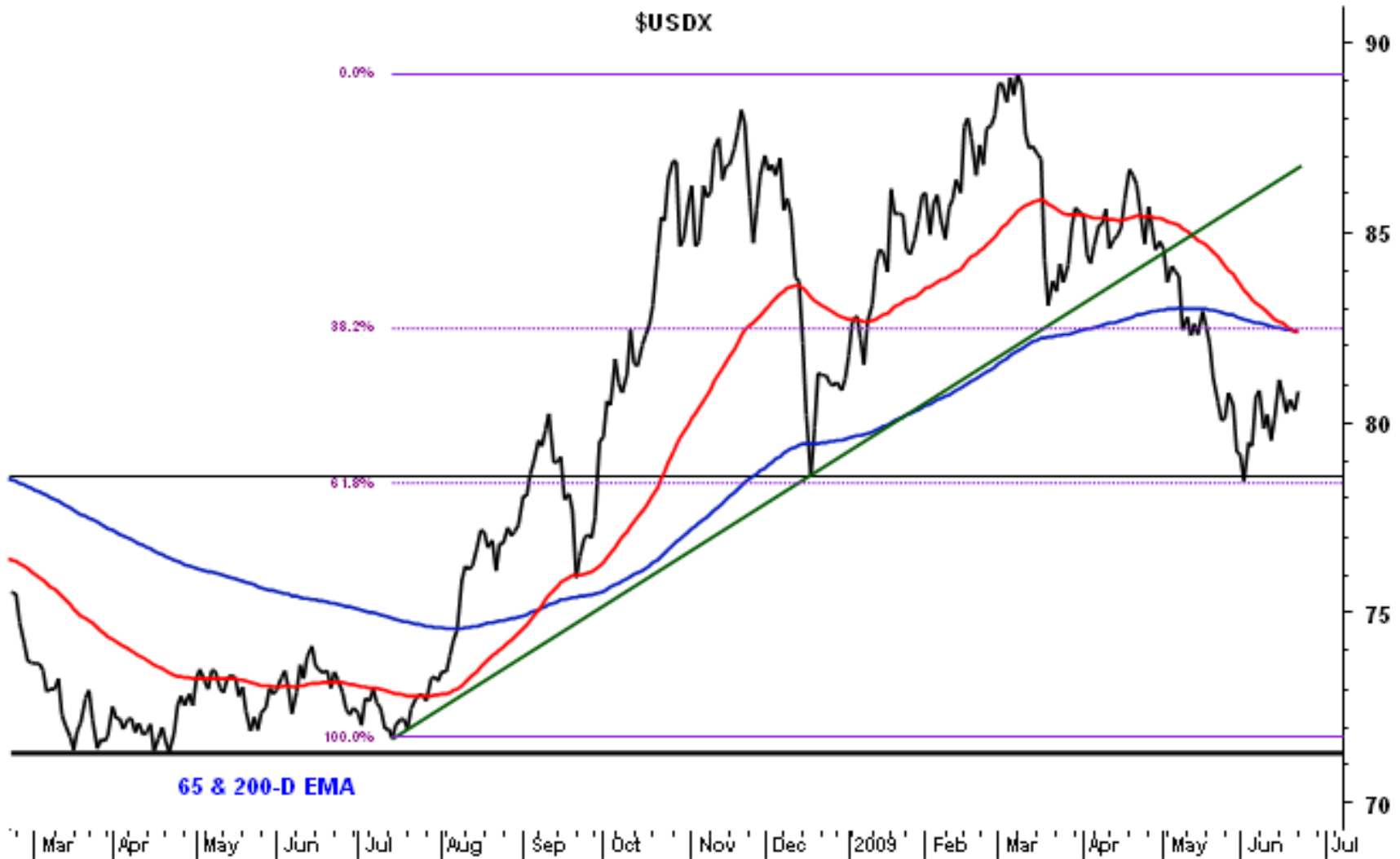
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# U.S. DOLLAR INDEX



Source: Metastock

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|    |               |    |                   |
|----|---------------|----|-------------------|
| A+ | Highest       | B- | Lower             |
| A  | High          | C  | Lowest            |
| A- | Above Average | D  | In Reorganization |
| B+ | Average       | NR | Not Ranked        |
| B  | Below Average |    |                   |

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## Who Will Win The Battle of 2009: Bulls or Bears?

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