

## MARKET INSIGHT...

- Performance
- Economic Update
- Charts\* of Interest

\*Provided by Strategas Research Partners LLC

July 24, 2011

# PERFORMANCE: as of 7-23-2011

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Sector	Week	3Mo	YTD
S&P 500	2.2%	1.0%	8.0%
Russell 2000 (small/mid Cap)	1.5%	-0.1%	8.1%
MSCI EAFE (Eurp.Asia, Far East)	3.3%	-1.7%	5.6%
MSCI Emerging Mkt	1.5%	-4.4%	0.2%
US Agg. Bonds (Barclay's)	-0.1%	2.6%	3.7%
High Yield Bonds (US)	0.5%	1.2%	6.2%
GLD (Net asset value)	0.6%	6.4%	13.3%
Real Estate	2.8%	3.6%	15.4%
Energy	3.5%	2.0%	19.4%

Must see a clear sign of improvement in the Labor market, otherwise, expect downward revision to 2H GDP for 2011.

Washington must get it right in terms of Fiscal Policy: “first do no harm”.

Market confidence extremely depressed. (Potentially Bullish) Fiscal clarity would bring enormous relief.

## STRATEGAS ECONOMIC FORECASTS

	2010				2011				2012			
	1Q	2Q	3Q	4Q	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP Q/Q % AR	3.7%	1.7%	2.6%	3.1%	1.8%	2.0%	3.7%	4.0%	2.3%	2.0%	1.0%	1.0%
Core CPI Q/Q % AR	0.0%	0.8%	1.1%	0.6%	1.7%	2.3%	1.2%	1.5%	2.0%	2.3%	2.5%	2.7%
Fed Funds EOP	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.5%	1.0%	1.5%
Mortgage Rate EOP	5.0%	4.6%	4.3%	4.8%	4.9%	4.6%	5.0%	5.1%	5.3%	5.3%	5.3%	5.3%

F = Forecast; EOP = End of Period, a = actual

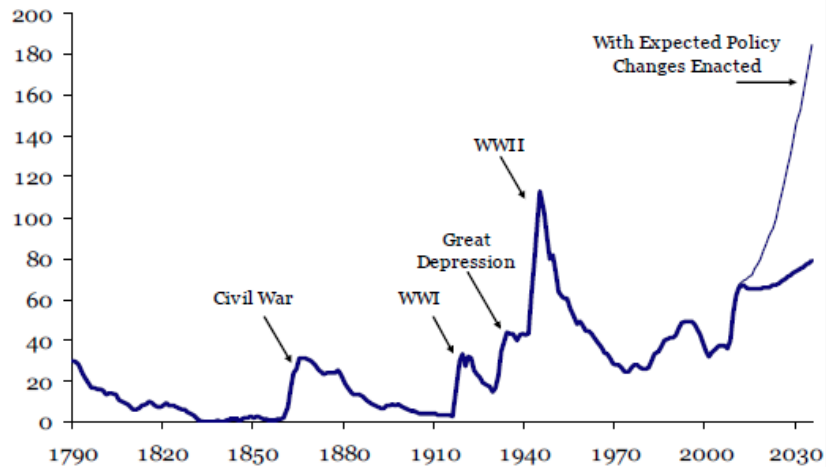
## THE “STRONG PATCH” SIX

*6 Items to Watch in July to Determine Whether 2011 “Soft Patch”  
Will be Followed by a 2H “Strong Patch”*

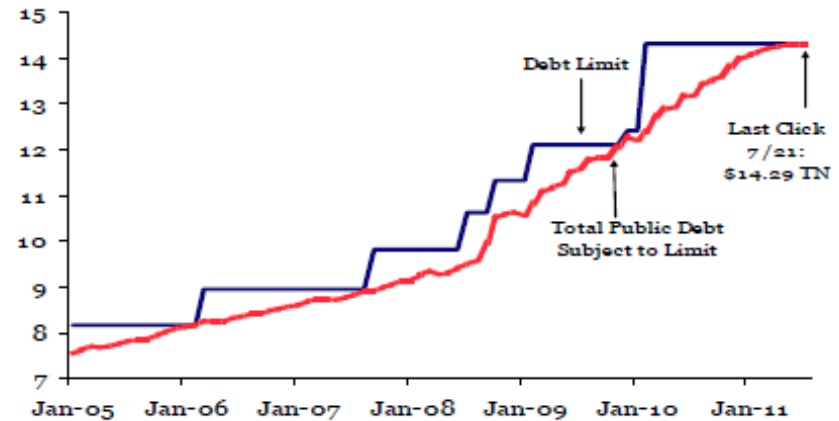
- 1) Initial Claims should fall seasonally in July, picking up additional vehicle production.
- 2) Money Growth (which has been trending around a 5% pace) should continue.
- 3) Mortgage Apps for Purchase should remain at least sideways.
- 4) Consumer Confidence should stabilize (reflecting lower gasoline prices after the SPR move).
- 5) Commodity prices in general should stabilize.
- 6) The velocity of money should pick up some (watching bank loans + commercial paper).

# Debt Limit: US Federal Debt presently 94% of GDP

**Federal Debt Held by Public, Pct. GDP**



**Federal Debt Outstanding (Monthly, \$TN)**



# EUROPEAN DEBT CRISIS IN NUMBERS

	General Government Gross Debt, Pct. of GDP (sorted)	General Govt Net Lending/ Borrowing, Pct. of GDP	Central Government Surplus/ Deficit, Pct. of GDP*
Greece	152.3	-7.4	-10.4
Italy	120.3	-4.3	-3.8
Ireland	114.1	-10.8	-12.0
Belgium	97.3	-3.9	-2.5
Portugal	90.6	-5.6	-6.9
France	87.6	-6.0	-7.7
Germany	80.1	-2.3	-1.8
Netherlands	65.6	-3.8	-4.5
Spain	63.9	-6.2	-4.9
Finland	50.8	-1.2	-7.8

*\*Actual 2010 values; all other data are 2011 estimates from the IMF.*

# MARKET: Expected Value Table 2011, 2012

**2011 S&P 500 Expected Value Table**

Probability	Outlook	Economy	S&P Earnings	Expected Multiple	Implied S&P 500
5%	Policy Error	Recession	\$84.00	11x	924
↑ 40%	Stimulus Driven Recovery	Macro Uncertainty	\$94.25	13x	1,225
↓ 45%		Base Case	\$94.25	16x	1,508
10%	Upside Surprise	Too Hot	\$98.00	14x	1,372
<i>Expected Value</i>					1,352

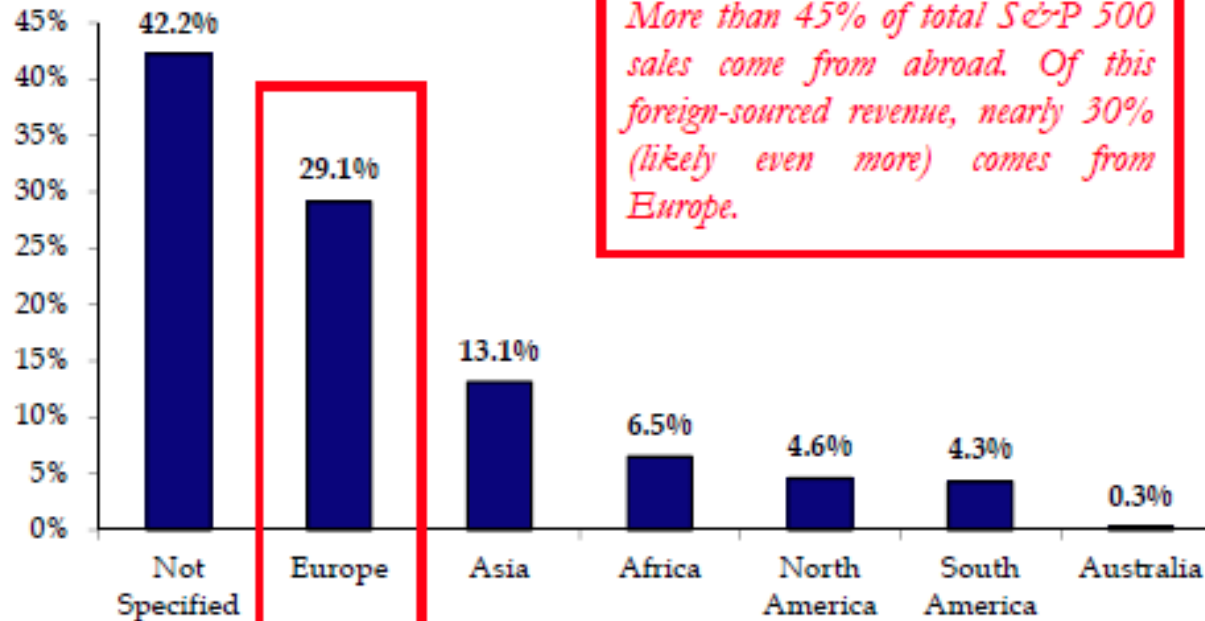
Range-bound, but tradable...

**2012 S&P 500 Expected Value Table**

Probability	Outlook	Economy	S&P Earnings	Expected Multiple	Implied S&P 500
20%	Policy Error	Recession	\$86.00	11x	946
30%	Economic Expansion	Macro Uncertainty	\$96.25	13x	1,251
40%		Base Case	\$96.25	16x	1,540
10%	Upside Surprise	Too Hot	\$105.00	14x	1,470
<i>Expected Value</i>					1,328

# Global Economy: 45% of Total S&P sales come from Abroad

**S&P 500 Geographic Distribution of Foreign Sales (2010)**

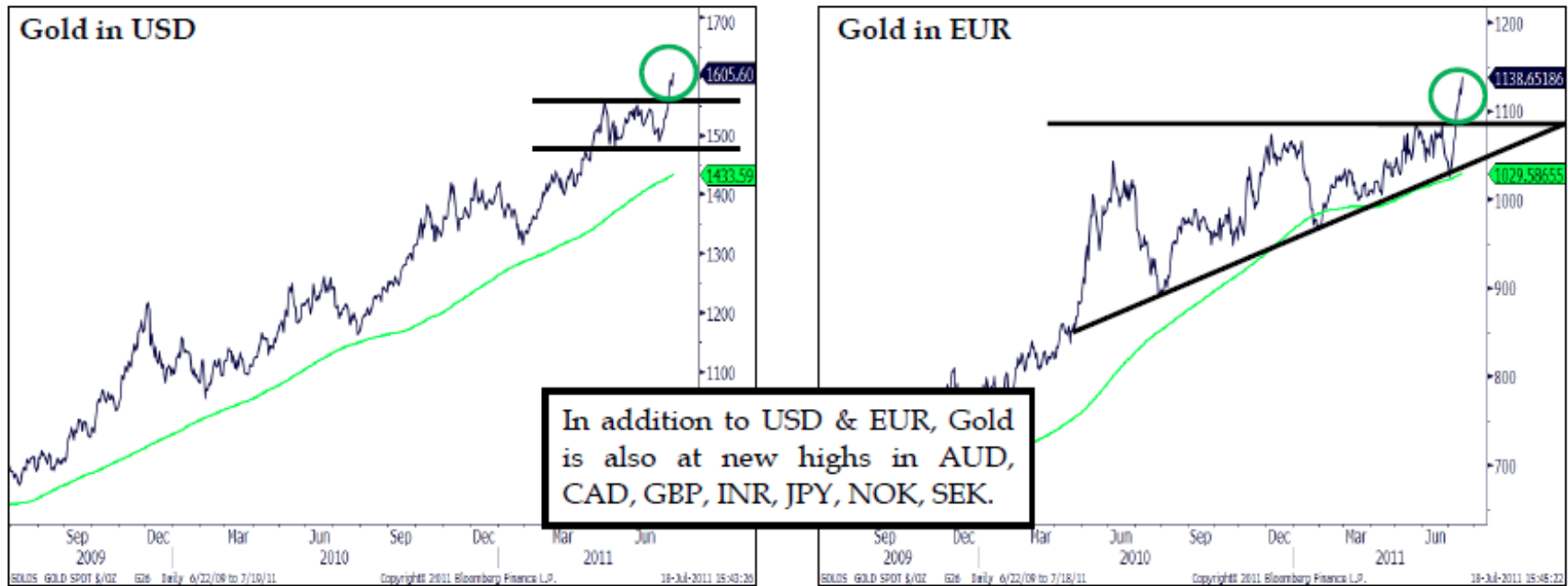


Source: Standard & Poor's



## Strength in Gold likely to continue

Gold is making new highs across multiple currencies – this has been a bullish signal in the past. In U.S. Dollar terms, the move through \$1580 points to the \$1690 neighborhood as next resistance. The price ratio of Gold to the S&P is currently about 1.2 to 1. The 80-year average is closer to 1.6 to 1. It would be unusual for a 10-year bull market in Gold to end before approaching this threshold.



# VALUATION: Dividends have contributed 50% of total return of stocks.

## Dividend Contribution to Total Return

	Price Pct. Change	Dividend Contribution	Total Return	Dividends Pct of TR	Avg. Payout Ratio
1930s	-41.9%	56.0%	14.1%	NA	90.1%
1940s	34.8%	100.3%	135.0%	74.3%	59.4%
1950s	256.7%	180.0%	436.7%	41.2%	54.6%
1960s	53.7%	54.2%	107.9%	50.2%	56.0%
1970s	17.2%	59.1%	76.4%	77.4%	45.5%
1980s	227.4%	143.1%	370.5%	38.6%	48.6%
1990s	315.7%	117.1%	432.8%	27.0%	47.6%
2000s	-24.1%	15.0%	-9.1%	NA	35.3%
<b>Avg.</b>	<b>104.9%</b>	<b>90.6%</b>	<b>195.6%</b>	<b>51.5%</b>	<b>54.6%</b>

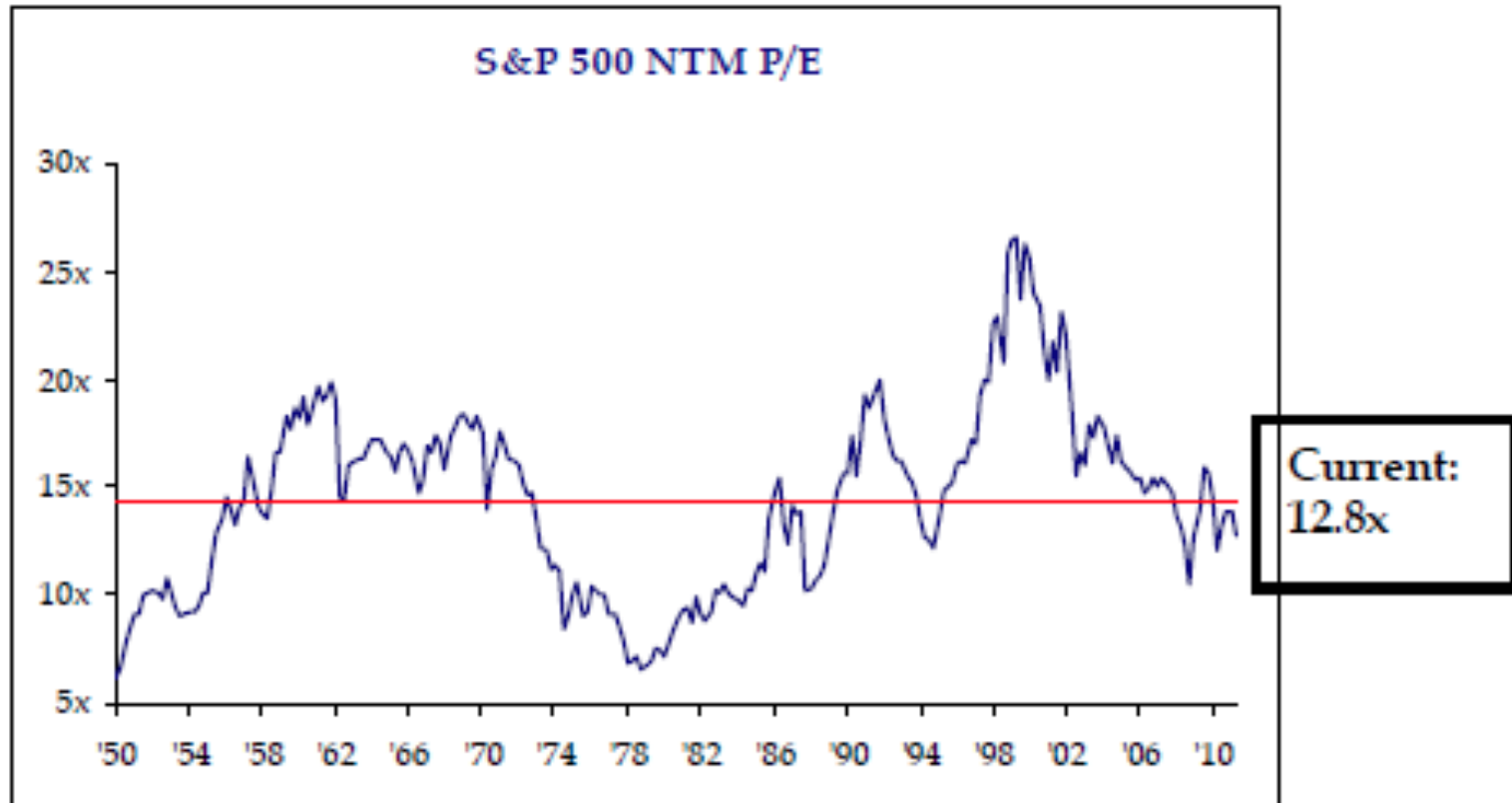
Companies that pay dividends have had higher growth rates than companies that don't throughout time.

## S&P 500 Sector Dividend Contribution to Yield Ratio

S&P 500 Sector	Dividend		Ratio (Sorted)
	Contribution	Yield	
Technology	9.5%	1.1%	8.9
Financials	11.9%	1.6%	7.6
Energy	11.3%	1.8%	6.3
Health Care	12.4%	2.1%	5.9
Industrials	12.0%	2.1%	5.6
Discretionary	7.9%	1.5%	5.3
Staples	15.9%	3.0%	5.3
Materials	3.6%	2.0%	1.8
Utilities	7.5%	4.4%	1.7
Telecom	7.8%	5.0%	1.5

← Tech offers the biggest bang for the buck...

## VALUATION: Historically Stocks look relatively cheap at 12.8x price-to-earnings ratio



# Strategy: Diversification is Key in Volatile Markets

