

**THE ECONOMY AT A GLANCE**

**ECONOMIC HIGHLIGHTS**

December 27, 2011  
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**IMPROVING PAYROLLS AND UPWARD GDP REVISIONS**

Based on the improving trend in U.S. payrolls (data has shown solid improvement in the past six months) the Argus Economics Department is modestly increasing its GDP estimates for 4Q11 to 3.0%. Our new forecast assumes improved growth within the Consumer sector, stronger growth in Technology spending and a decline in imports as the dollar weakens. These factors are expected to offset curtailed growth in government spending through 2012. We have also modestly increased our forecasts for 2012.

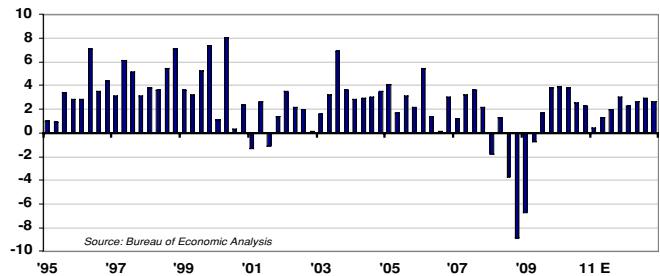
**FED FORECAST IMPLIES CONTINUED LOW YIELDS**

The Fed's latest economic forecast suggests that U.S. interest rates will remain low for the foreseeable future. Recently, U.S. government bond yields fell to 50-year lows, near the 1.8% level, on concerns over sovereign debt. Indeed, every time the euro appears poised to unravel, investors flock to the quality of U.S. Treasuries. This demand-push move will likely unwind, though, as Europe settles down over time—and we look for rates to drift slightly higher in the months ahead.

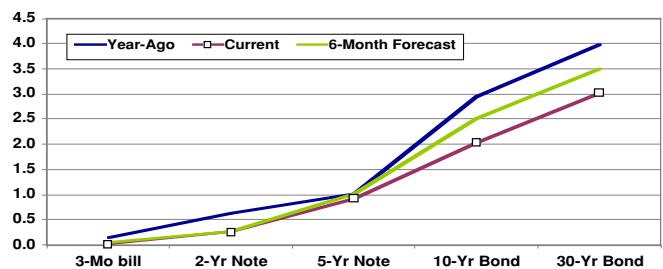
**AN EXPORT HOT SPOT**

Stocks around the globe recently fell sharply after the ECB lowered interest rates but refused to take additional steps such as announcing substantial purchases of sovereign debt. Exports have been a key driver in the U.S. economy in recent quarters. We note that the European region is the second-largest consumer of U.S. exports, among major regions. Within the Euro countries, Germany, Netherlands, France and Belgium are the largest in terms of demand for U.S. goods.

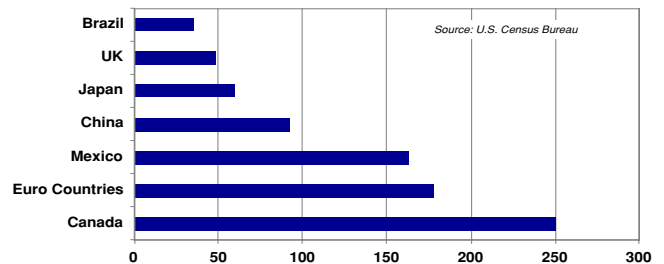
**REAL GDP**



**TREASURY YIELD CURVE (%)**



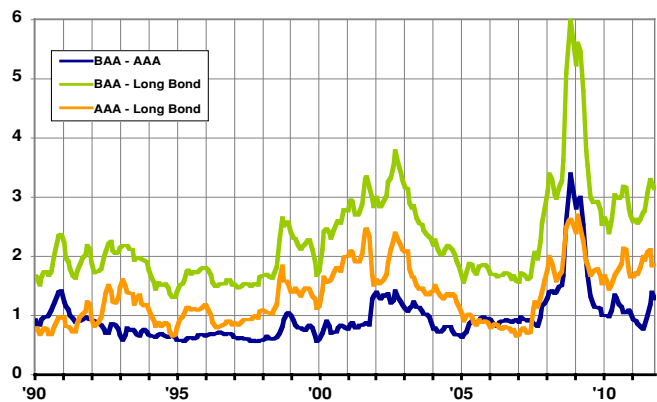
**2010 TOTAL EXPORTS (BIL. OF \$)**



## BOND SPREADS STEADY

The bond market continues to signal that the outlook for the corporate segment of the economy is improving. In the past month, spreads between government and corporate yields have generally narrowed, as both government rates and corporate rates have declined. From an economic standpoint, we will be watching the spreads closely to see whether they spike from recent levels on worries related to the European sovereign-debt crisis. That would be an ominous signal. From an investment standpoint, we continue to think corporate bonds offer relative value, as corporate balance sheets, flush with cash, appear to be (generally) strong.

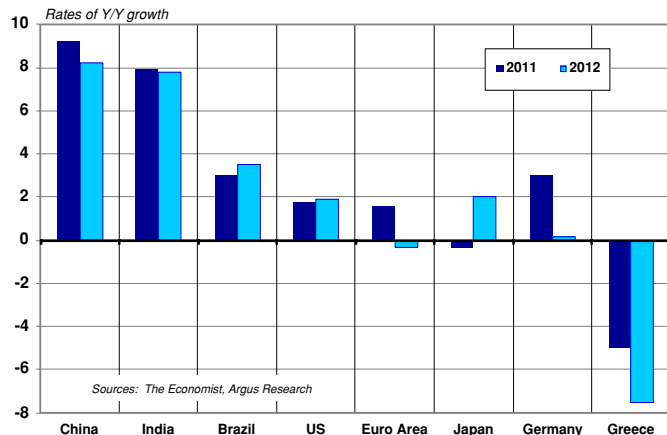
## CORPORATE/GOVERNMENT BOND SPREADS (%)



## GLOBAL GROWTH ESTIMATES COMING DOWN

In Europe, the outlook for expansion has now turned negative in 2012, based on the sovereign-debt crisis as well as government austerity plans. Growth is forecast to fall from 1.6% in 2011 to -0.3% in 2012. Even in Germany, the strongest economy in the region, growth is forecast at below 0.5% next year. Growth is also expected to decline in China, though others would certainly not mind an economy that is “only” expected to advance at an 8.2% rate next year. We suspect that as the year goes on, the estimate for 2012 will increase, as interest rates are falling and may promote additional expansion. In Japan, forecasts are calling for a rebound a recession in 2011 (caused by the earthquake and tsunami) to 2% growth in 2012. This is also the current global consensus forecast for the U.S.

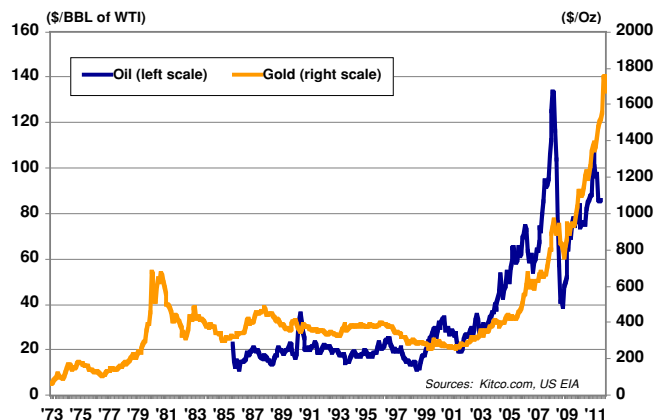
## GLOBAL GDP FORECAST



## COMMODITY PRICES PICK UP

Gold prices have risen for 10 years — and amid the bleak headlines have even surpassed the high end of our fundamental forecast range in 2011, which is \$1,700. Gold started the year at \$1,400. We look for gold to push toward \$2,000 in 2012, as monetary conditions remain easy. Oil prices have recently rejoined the rally as U.S. economic conditions have stabilized and China has started to ease tight monetary conditions. Our full-year 2011 WTI forecast is \$92 per barrel, below current price levels. For 2012, we forecast an average \$88 per barrel, with a trading range of \$70-\$125. From an asset allocation standpoint, we recommend that commodities account for 5% of assets for Moderate accounts. We are also bullish on non-precious metals and agricultural commodities.

## OIL & GOLD TRENDS

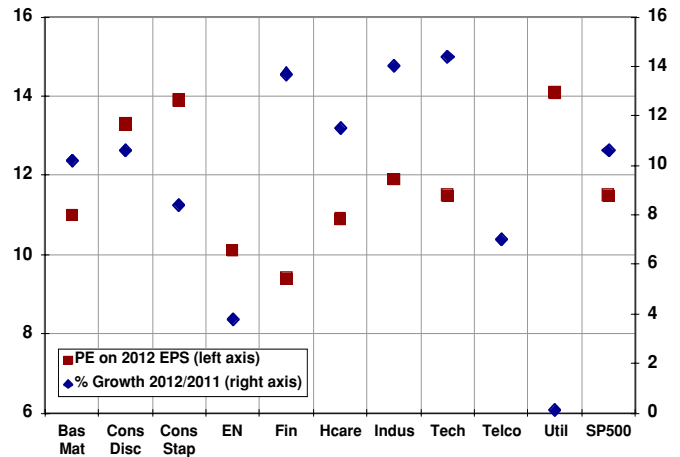


# FINANCIAL MARKET HIGHLIGHTS

## ALL EYES ON THE CONSUMER

Consumer confidence climbed to 56.0 in November, up from a 40.0 reading for October. In fact, Consumer Confidence increased the most since April 2003 — a time when the economy was revving up out of recession and the five-year 2003-2007 bull market was just one month old. But just as we were reluctant to read too much into a deeply negative October sentiment reading, we won't read too much into the positive November sales, sentiment and employment numbers. We will continue to monitor what consumers do, rather than take guidance from what they say. Even so, we have moved Consumer Discretionary from recommended Under-Weight to recommended Market-Weight. Our recommended Over-Weight sectors are partly risk-on (Technology and Energy) and partly defensive (Healthcare and Consumer Staples).

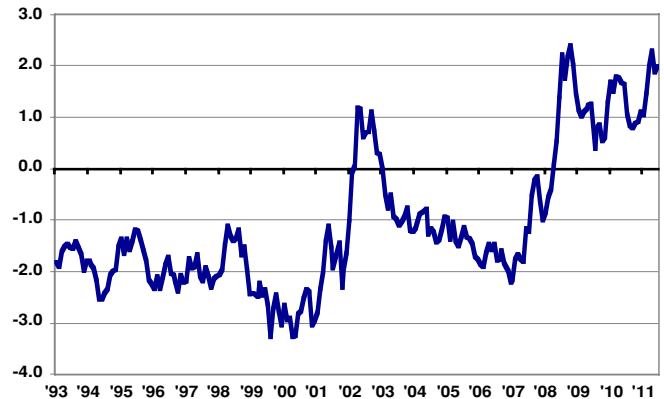
## SECTOR VALUATION & GROWTH OUTLOOK



## UTILITY STOCKS LOOK ATTRACTIVE

In our chart, we have plotted the difference between the dividend yield of the S&P 500 Utilities Index and the yield on the 10-Year U.S. Treasury Note. Treasuries have rallied in 2011, pushing the yield on the 10-Year Note from 3.3% to just 2%. The S&P 500 Utilities Index currently yields 4.1%, down from 4.35% at the end of 2010. Therefore, the yield gap is about 210 basis points, representing a compelling value by historical measures. The Merrill Lynch High Yield Index currently yields about 8.5%, but with much greater risk given the low current level of defaults and rising global economic risks. We think Utilities are a better alternative.

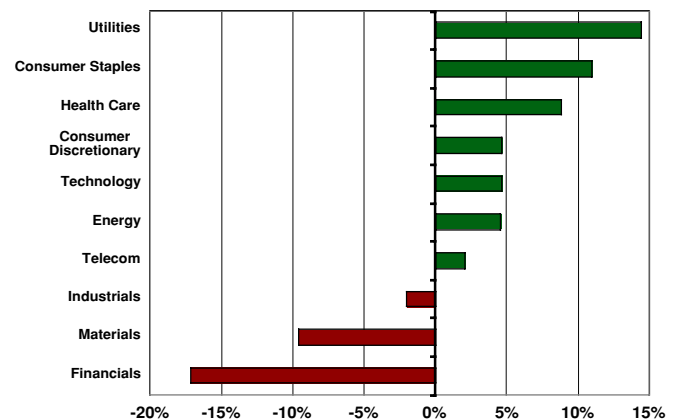
## YIELD GAP - UTILITIES VS. TREASURIES



## LIGHTS-OUT PERFORMANCE FOR UTILITIES

Utilities continue to lead the performance derby in 2011. Two defensive groups, Staples and Healthcare, relatively improved their year-to-date performance. Energy, the clear industry leader for winter 2011 and into spring, looks to finish out of the medal hunt with a current fourth-place posting. Industrial used the weak dollar to shave some of a year-to-date loss, but remain in the negative column. Materials, hurt by uncertain Chinese GDP growth, are nearing a double-digit decline. And Financials, which have been sweeping up the parade all year, seem destined to put up another very poor number for 2011. Looking out into 2012, we like solid growth trends and valuations for Technology and Energy, as well as momentum for Healthcare and Consumer Staples.

## SECTOR PERFORMANCE, YTD 2011



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 12/20	Housing Starts	November	628k	630k	618k	N/A
Wed. 12/21	Existing Home Sales	November	5M	5.05M	5M	N/A
Thur. 12/22	U.S. Gross Domestic Product	QIII	2.00%	2.20%	2.00%	N/A
	GDP Price Index	QIII	2.50%	2.50%	2.50%	N/A
	Leading Economic Indicators	November	0.90%	0.90%	0.30%	N/A
	U. of Michigan Confidence^	December	N/A	N/A	N/A	N/A
Fri. 12/23	Personal Income	November	0.4%	0.5%	0.2%	N/A
	Consumer Spending	November	0.1%	0.3%	0.3%	N/A
	New Home Sales	November	307k	312k	315k	N/A
	Durable Goods Orders	November	-0.7%	1.0%	1.5%	N/A

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 1/3	ISM Manufacturing	December	53.00	54.00	N/A	N/A
	FOMC Minutes	N/A	N/A	N/A	N/A	N/A
Wed. 1/4	Factory Orders	November	-0.8%	-1.0%	N/A	N/A
	Total Vehicle Sales	December	13.59M	13.8M	N/A	N/A
Thur. 1/5	ISM NonManufacturing	December	52.00	52.50	N/A	N/A
Fri. 1/6	Nonfarm Payrolls	December	120k	125k	N/A	N/A
	Private Payrolls	December	140k	150k	N/A	N/A
	Manufacturing Payrolls	December	2k	5k	N/A	N/A
Fri. 12/23	Unemployment Rate	December	8.6%	8.6%	N/A	N/A
	Average Hourly Earnings	December	-0.1%	0.2%	N/A	N/A
	Average Workweek	December	34.3 hrs,	34.3 hrs	N/A	N/A

\* Preliminary

\*\* Advance

^Final

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