

THE ECONOMY AT A GLANCE

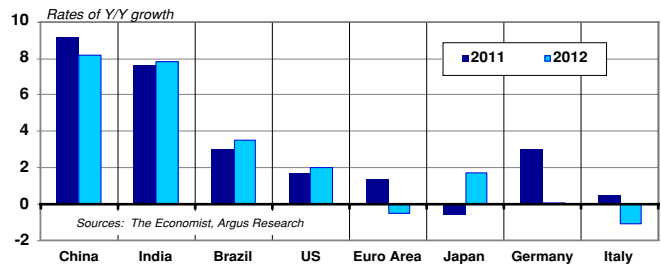
February 6, 2012
Vol. 79, No. 15

ECONOMIC HIGHLIGHTS

GLOBAL GROWTH ESTIMATES COMING DOWN

Estimates for global economic growth were once again revised lower in recent weeks. In Europe, the outlook for GDP now calls for a decline of 0.5% in 2012. Growth is also expected to decline in China and is expected to “only” advance at an 8.2% rate next year. In Japan, forecasts are calling from a rebound from a recession in 2011 to 1.7% growth in 2012. The forecast for the U.S. calls for only 2.0% growth. We think this may be revised upward as the consumer remains strong.

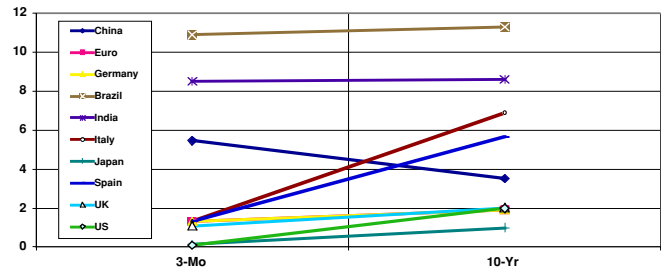
GLOBAL GDP FORECAST



CHINA, INDIA RATE PICTURES IMPROVE

The European debt crisis has led to some remarkable disruptions in the fixed income markets. The curves in India and China are also far from normal. The Chinese yield curve is inverted and the Indian curve is flat, as authorities seek to quell inflation. Unfortunately, interest rate changes don't seem to be a likely way out of the European mess. Budget cuts, austerity programs, tax hikes and debt forgiveness are the likely unpopular answers to the problem.

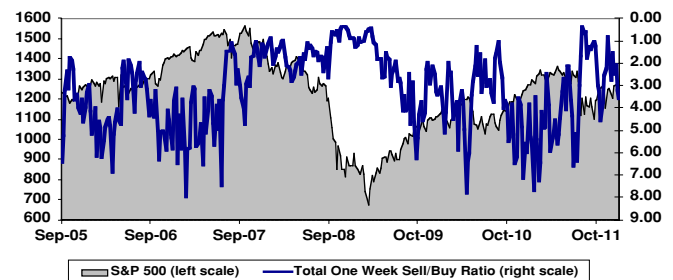
GLOBAL SOVEREIGN YIELD GAPS, %



INSIDER SENTIMENT DETERIORATING?

As the market has moved slowly but consistently higher, insider sentiment has started to weaken — also slowly. The current mini-trend suggests that insiders see less-compelling bargains in the market today than they did three weeks ago. On the flipside, the total number of insiders filing trades with the SEC over the past month has been below average — and given this relatively lackluster insider participation, we do not believe the current sentiment move is reason for significant concern.

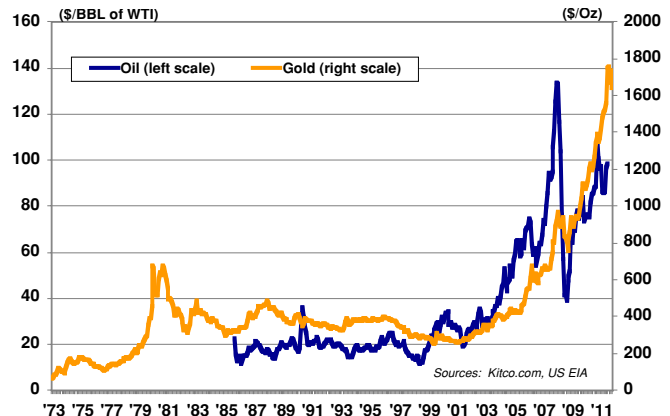
VICKERS ONE WEEK SELL/BUY RATIO



RAISING TARGETS FOR OIL PRICES

We recently increased our forecast for crude oil prices for 2012. We are now estimating that the price per barrel of West Texas Intermediate oil will average \$100 this year, and will trade in a range of \$70-\$125. Looking out to 2013, we estimate WTI will average \$98 per barrel and will trade in the same range. Our price estimates for Brent crude are 10% higher. Our increases are based on a somewhat stronger economy; supply growth in the U.S.; and concerns that if oil prices get too high, prices could react negatively as there is some impact on demand. The big wildcard that could send prices markedly higher is the current situation in Iran. From an asset allocation standpoint, we recommend that commodities account for 5% of assets for Moderate accounts.

OIL & GOLD TRENDS



HOPE IN THE EUROZONE

Liquidity infusions from the European Central Bank and negotiations with Greece on debt forgiveness continue. Thus far in 2012, investors seem less concerned about the problems on the Continent. Eurozone stocks (EZU) have jumped 15% off the December low. The Euro has climbed from \$1.2624 at mid-month to \$1.3031 recently. Our PIIGS sovereign-debt composite has fallen from 11.62% to 10.68%, although the trend of higher highs and higher lows has yet to be broken. But Greece is a minor player in the Euro group. The trick for the regulators and financiers will be to keep Italy — the world's third-biggest debtor — from taking the same path. Italy's economy is near recession and President Mario Monti has pushed through a tough budget that will make growth difficult in the near future.

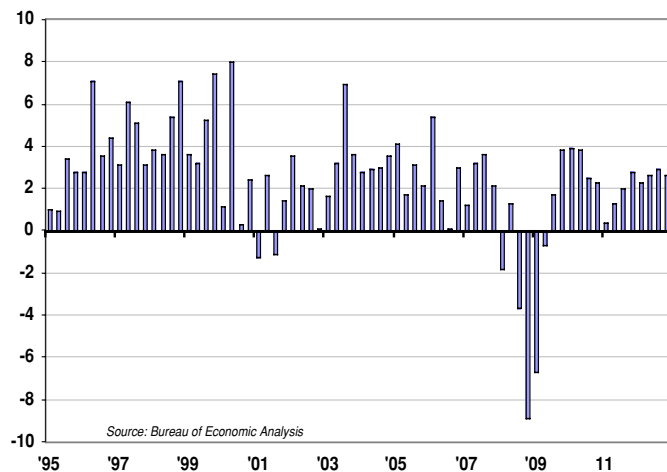
10-YEAR YIELDS: PIIGS, FRANCE, GERMANY & US



3Q GDP PICKS UP TO 2.8%

The Commerce Department announced that 4Q GDP increased 2.8%. Although the economy's growth trajectory is increasing, the consensus was looking for a figure with a 3-handle. Digging deeper, the results were a bit bumpy: Real Personal Consumption Expenditures, the most-important component of GDP, grew 2.0% in 4Q versus a 1.7% gain in 3Q. That's good. Durable goods increased 14.8%, but services only advanced 0.2%. Technology spending growth was lower quarter-to-quarter at 5%. Exports were steady, but imports increased, detracting from GDP growth. Government spending was sharply lower. The report provides further evidence that the U.S. economy is recovering slowly and should be able to avoid a double-dip recession. Still, the economy is operating at far from an optimum level.

REAL GDP

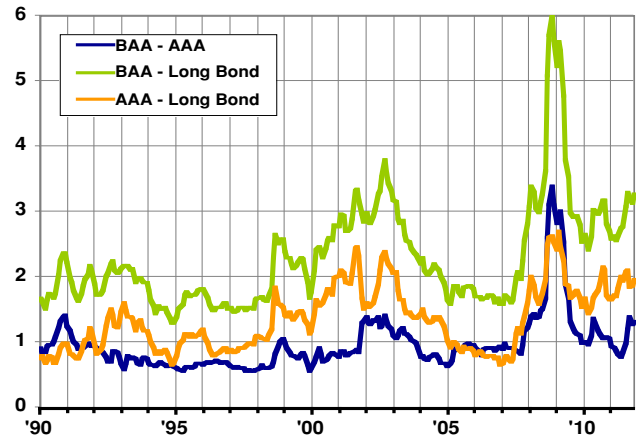


FINANCIAL MARKET HIGHLIGHTS

BOND SPREADS TICK HIGHER

The spread between AAA-rated corporate bonds and government bonds in December was 195 basis points, well above the 50-year average of 84 bps and up from an average 184 bps over the prior two months. The gap between the government long-bond yield and a BAA-rated bond (still investment grade) is now 327 basis points, substantially higher than the historical average of 182 bps and up 14 bps over the prior month. From an economic standpoint, we will be watching the spreads closely to see whether they spike fully from recent levels on worries related to the European sovereign-debt crisis. That would be ominous. From an investment standpoint, we continue to think corporate bonds offer relative value, as corporate balance sheets, flush with cash, generally appear to be strong.

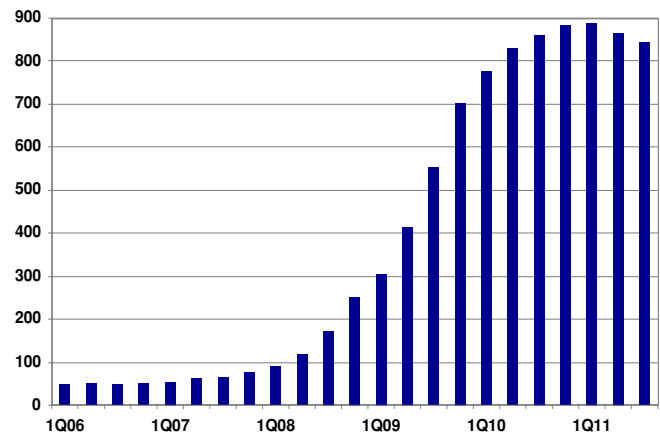
CORPORATE/GOVERNMENT BOND SPREADS (%)



BANKS PROFITS UP, REVENUES WEAK

The FDIC released its Quarterly Banking Profile for 3Q11. Banking profits continued to recover, driven mostly by continued releases of loan loss reserves. Still, we've been warning that reserve releases would slow — and that was the case in the quarter. Banks released only 3% less reserves in the previous quarter. Revenues declined for the third consecutive quarter as well, with weakness in both net interest revenue and fee revenue. On a positive note, loans and leases inched up 0.3% year-over-year. The previous quarter was the first quarter for growth in loans since 2008, with the strongest growth from commercial loans. Also, banks continued to build equity capital as a result of improving profits, reduced or eliminated dividend payouts, weak asset growth and better bond valuations.

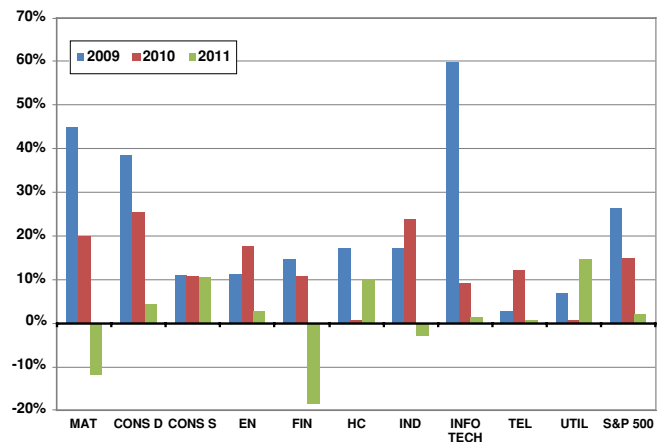
NUMBER OF FDIC-INSURED "PROBLEM" BANKS



LONG LAG FOR FINANCIALS, TECH

Some interesting performance patterns have emerged in the three years since the 2007-2009 bear market. For example, the Consumer Discretionary sector has outperformed the S&P 500 in each of the three years — the only group to do so. You don't think the Consumer Staples sector is steady? Well, consistent three-year returns of 11% may not look so great in rebound years 2009 and 2010, but outpaced the market in 2011. The Financial sector has lagged every year, unable to shake economic, credit and regulatory factors. And in the past two years, the high-flying Tech sector has underperformed the market, despite accounting for almost 20% of the S&P 500's total market capitalization. Our forecasts for 2012 call for outperformance in Staples (again), Healthcare, Energy and Tech (finally).

3-YEAR SECTOR PERFORMANCE



ECONOMIC CALENDAR

Previous Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|-----------|-------------------------|----------|-----------------|----------------|-----------------|--------|
| Mon. 1/30 | Personal Income | December | 0.1% | 0.2% | 0.4% | 0.5% |
| | Consumer Spending | December | 0.1% | 0.3% | 0.1% | 0.0% |
| Tue. 1/31 | Chicago PMI | January | 62.50 | 60.00 | 63.00 | N/A |
| | Consumer Confidence | January | 64.50 | 65.00 | 68.00 | N/A |
| Wed. 2/1 | Construction Spending | December | 1.2% | 1.5% | 0.5% | N/A |
| | ISM Manufacturing | January | 53.90 | 54.50 | 54.50 | N/A |
| | Total Vehicle Sales | January | 13.52M | 13.7M | 13.6M | N/A |
| Thur. 2/2 | Nonfarm Productivity* | Q4 | 2.3% | 2.5% | 0.8% | N/A |
| | Unit Labor Costs* | Q4 | -2.5% | 0.0% | 1.0% | N/A |
| Fri. 2/3 | Nonfarm Payrolls | January | 200k | 150k | 135k | N/A |
| | Private Payrolls | January | 212k | 200k | 165k | N/A |
| | Manufacturing Payrolls | January | 23k | 25k | 13k | N/A |
| | Average Hourly Earnings | January | 0.2% | 0.2% | 0.2% | N/A |
| | Average Workweek | January | 34.4 hrs. | 34.3 hrs. | 34.4 hrs. | N/A |
| | Unemployment Rate | January | 8.5% | 8.5% | 8.5% | N/A |
| | ISM Non-Manufacturing | December | 52.60 | 53.00 | 53.30 | N/A |
| | Factory Orders | December | 1.8% | 2.0% | 1.5% | N/A |

Next Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|------------|-----------------------------|----------|-----------------|----------------|-----------------|--------|
| Tue. 2/14 | Retail Sales | January | 0.1% | 0.2% | N/A | N/A |
| | Retail Sales ex-Autos | January | -0.2% | 0.1% | N/A | N/A |
| | Import Price Index | January | -0.1% | -0.1% | N/A | N/A |
| | Business Inventories | December | 0.3% | 0.5% | N/A | N/A |
| Wed. 2/15 | Empire State Manufacturing | February | 13.48 | NA | N/A | N/A |
| | Industrial Production | January | 0.4% | 0.5% | N/A | N/A |
| | Capacity Utilization | January | 78.1% | 78.2% | N/A | N/A |
| | FOMC Minutes | N/A | N/A | N/A | N/A | N/A |
| Thur. 2/16 | Producer Price Index | January | -0.1% | 0.2% | N/A | N/A |
| | PPI ex-Food & Energy | January | 0.3% | 0.3% | N/A | N/A |
| | Housing Starts | January | 657k | 650k | N/A | N/A |
| | Philadelphia Fed. | February | 7.30 | NA | N/A | N/A |
| Fri. 2/17 | Consumer Price Index | January | 0.0% | 0.2% | N/A | N/A |
| | CPI ex-Food & Energy | January | 0.1% | 0.3% | N/A | N/A |
| | Leading Economic Indicators | January | 0.4% | 0.3% | N/A | N/A |

* Preliminary

** Advance

^Final

PUBLICATION DISCLAIMER

INVEST Financial Corporation (INVEST), member FINRA, SIPC, a registered broker dealer, is not affiliated with Argus Research Corporation. Securities, advisory services and insurance products offered through INVEST and its insurance agencies are *** not insured by FDIC or NCUA * not a deposit or obligation of, or guaranteed by, the depository institution * subject to risks including the possible loss of principal amount invested.**

Past performance does not guarantee future results. Prices and yields quoted are subject to change. INVEST, its affiliates and subsidiaries, or their officers and employees may from time to time acquire, hold or sell securities or other derivatives related to such securities mentioned herein.

Research reports are produced by Argus Research Company. INVEST has not independently verified this information. This report is not an offer to sell or a solicitation of an offer to buy any security. This report is prepared for general circulation and is for general information only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the suitability of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investments involve risk and an investor may incur a profit or a loss. Additional information is available upon request.

Copyright Argus Research Company,
61 Broadway, NY, NY 10006 • 212-425-7500
Not to be reprinted without express permission.