Investment & Sector Strategy

May 2009

Nicholas Bohnsack
(212) 906-0132
nbohnsack@strategasrp.com

STRATEGAS' ESTIMATES & FORECASTS

	2008		2009				2010			
	3Q	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP Q/Q Pct. AR	-0.5%	-6.3%	-6.1%	-1.0%	2.0%	0.0%	2.0%	2.0%	3.0%	3.0%
Core CPI Q/Q Pct. AR	2.8%	0.6%	1.5%	1.5%	1.0%	0.0%	1.0%	1.5%	2.0%	2.0%
Fed Funds - End of Period	2.0%	0.1%	0.1%	0.1%	0.1%	0.5%	1.5%	3.0%	4.0%	4.5%
10-Year Yield - End of Period	3.8%	2.2%	2.7%	2.7%	2.7%	3.0%	3.5%	4.5%	5.0%	5.5%
F = Forecast										

2010 S&P 500 Expected Value Table

Odds	Economy	Fed Posture	S&P Op Earnings	Expected Multiple	S&P 500
10%	Deep Rec.	Easy	$46	14x	644
20%	**Recession**	**Neutral**	**$52**	**17x**	**884**
60%	Jobless R.	Tighter	$59	16x	944
10%	Too Hot	Tighter	$70	14x	980
				Expected Value:	***906***

Consensus Estimates

	Bottom Up
2008	$49.51
2009	$57.13
2010	$73.47

Strategas Earnings Estimates

	2008		2009		2010	
	Level	Y/Y	Level	Y/Y	Level	Y/Y
1Q	$16.62	-25.8%	$10.75	-35.3%	$14.25	32.6%
2Q	$17.02	-29.3%	$11.75	-31.0%	$14.75	25.5%
3Q	$15.96	-23.5%	$14.25	-10.7%	$15.00	5.3%
4Q	-$.09	-100.6%	$15.00	NA	$15.25	1.7%
Year	$49..51	-40.0%	$51.75	4.5%	$59.25	14.5%

Recommended Asset Allocation

Balanced

		B'mark
Equities	60%	60%
Bonds	10%	30%
Cash	30%	10%

Equities

		B'mark
Equities	70%	80%
Cash	30%	20%

Size

		B'mark
Large-Cap	75%	70%
Mid-Cap	20%	15%
Small-Cap	5%	15%

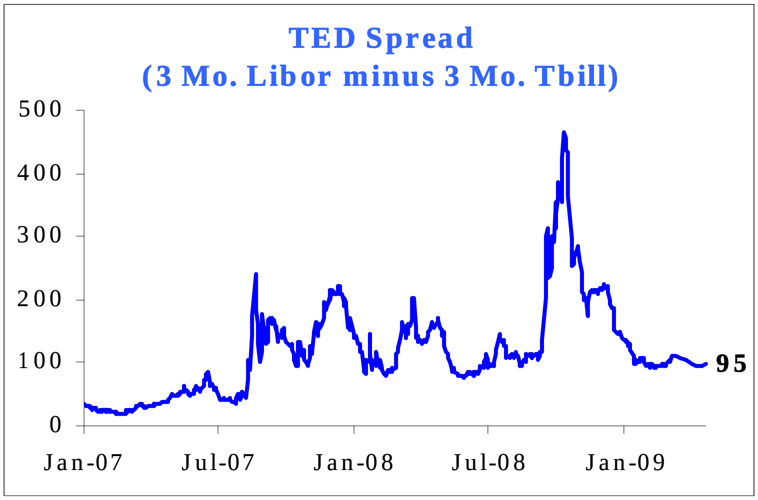
Style

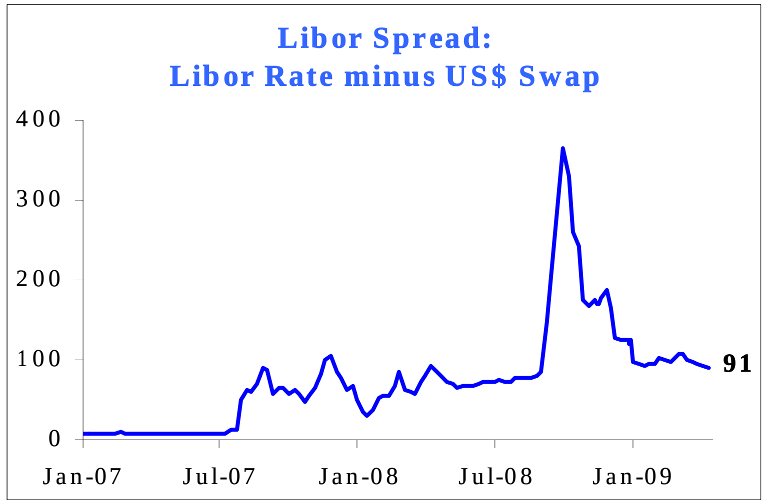
		B'mark
Value	30%	40%
Growth	50%	40%
Blend	20%	20%

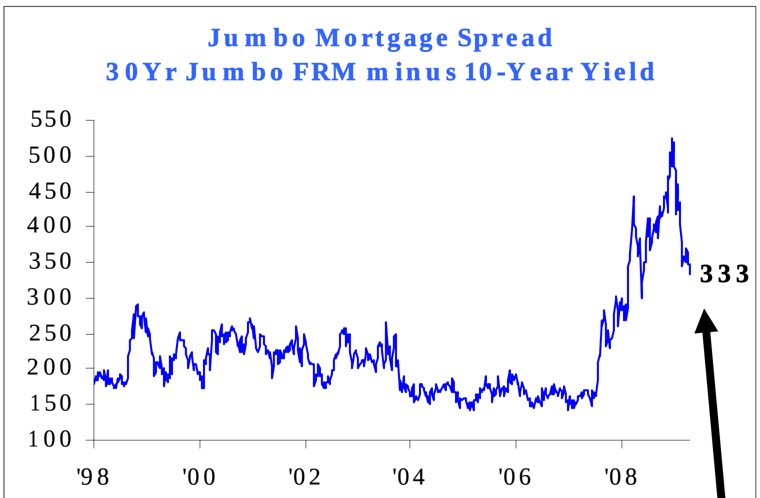
Recommended Sector Allocation

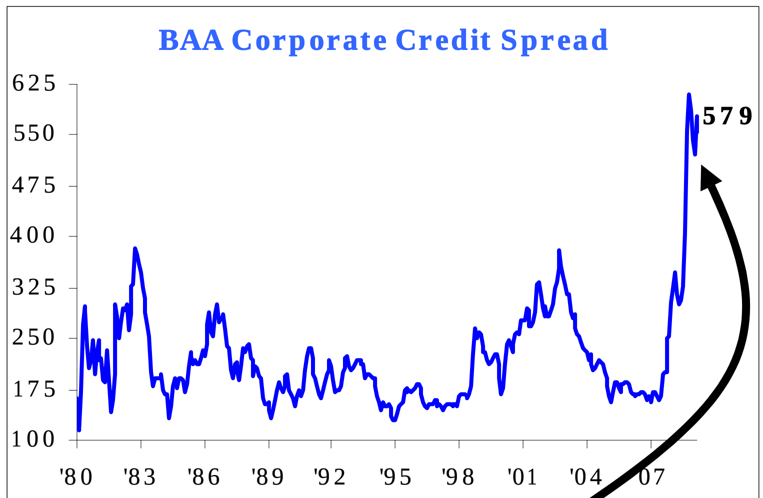
Overweight	**Market Weight**	**Underweight**
Energy	Technology	Discretionary
Materials	Financials	Utilities
Staples	Health Care	Telecom
		Industrials

Spreads Signal Economic Emergency Over,
(Need to See Further Improvement in High Quality Spreads)







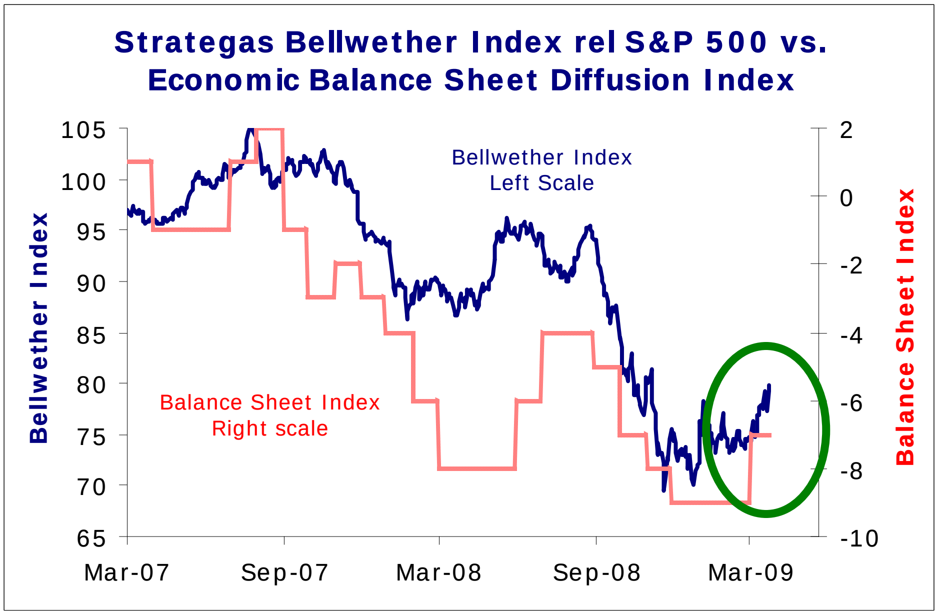


Still need to see further improvement here

	Market Low (3/9/09)	Current	Percent Change
S&P 500	676.53	919.66	35.9%
Investment Grade Spread	543.1	491.0	-9.6%
Investment Grade ETF (LQD)	90.54	96.50	6.6%
High Yield Spread	1799.2	1147.0	-36.2%
High Yield ETF (HYG)	61.64	77.00	24.9%
Jumbo Mortgage Spread	367.1	285.0	-22.4%

What Are Strategas' Proprietary Metrics Saying?

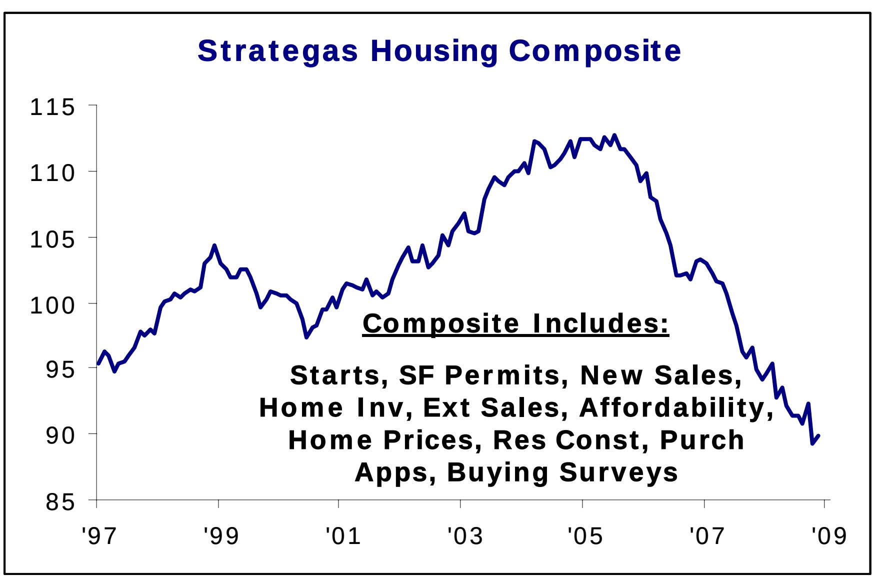
- **Commodities in Secular Bull Market**
- **Equities in Neutral Market**
- **Bonds in a Bear Market**



Much like our proprietary Economic diffusion index, the Strategas Bellwether Index, constructed from the 15 S&P 500 stocks with the highest correlation to nominal GDP Growth, (82% overall), is not yet showcasing any material improvement. For the better part of 4 months, the Bellwether Index has been confined to a well-defined trading channel relative the broader S&P 500. **To have any confidence that the market rally is in fact "the real thing," we'd have to see some sustained improvement to the Bellwether.**

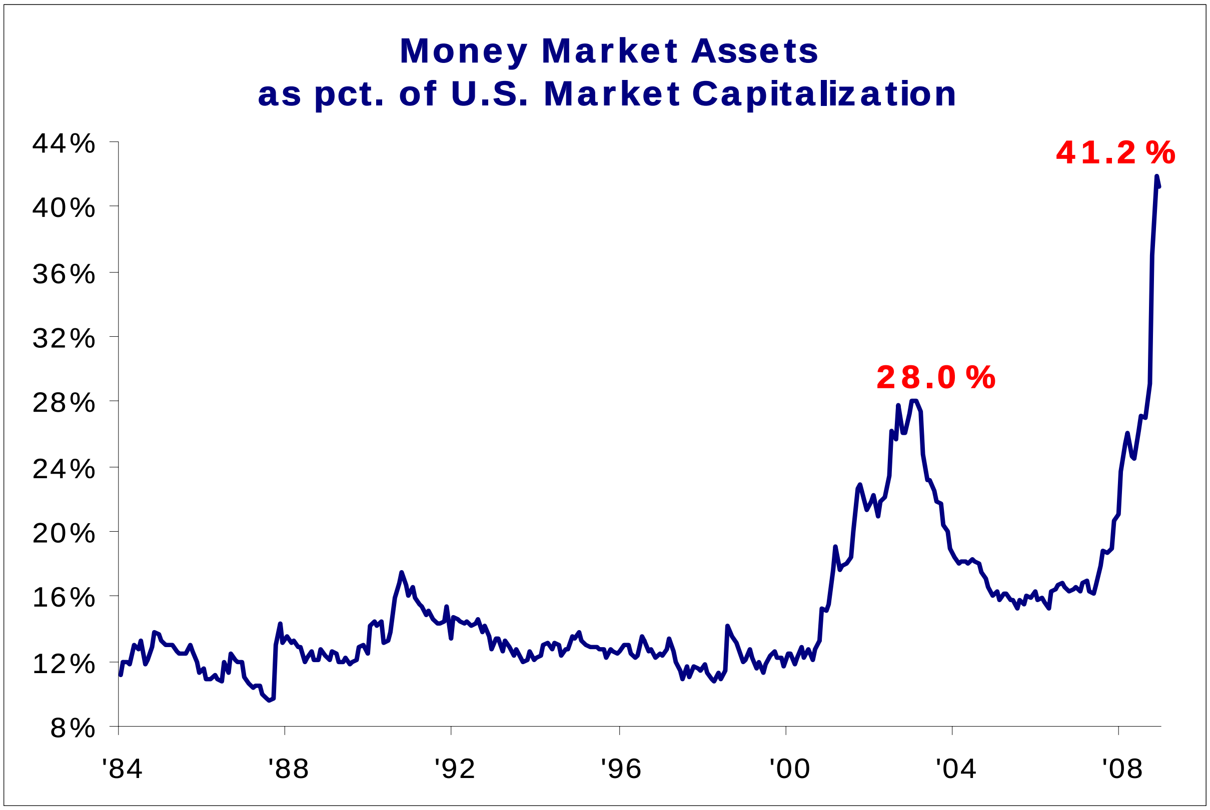
2009 Bellwether Constituents:

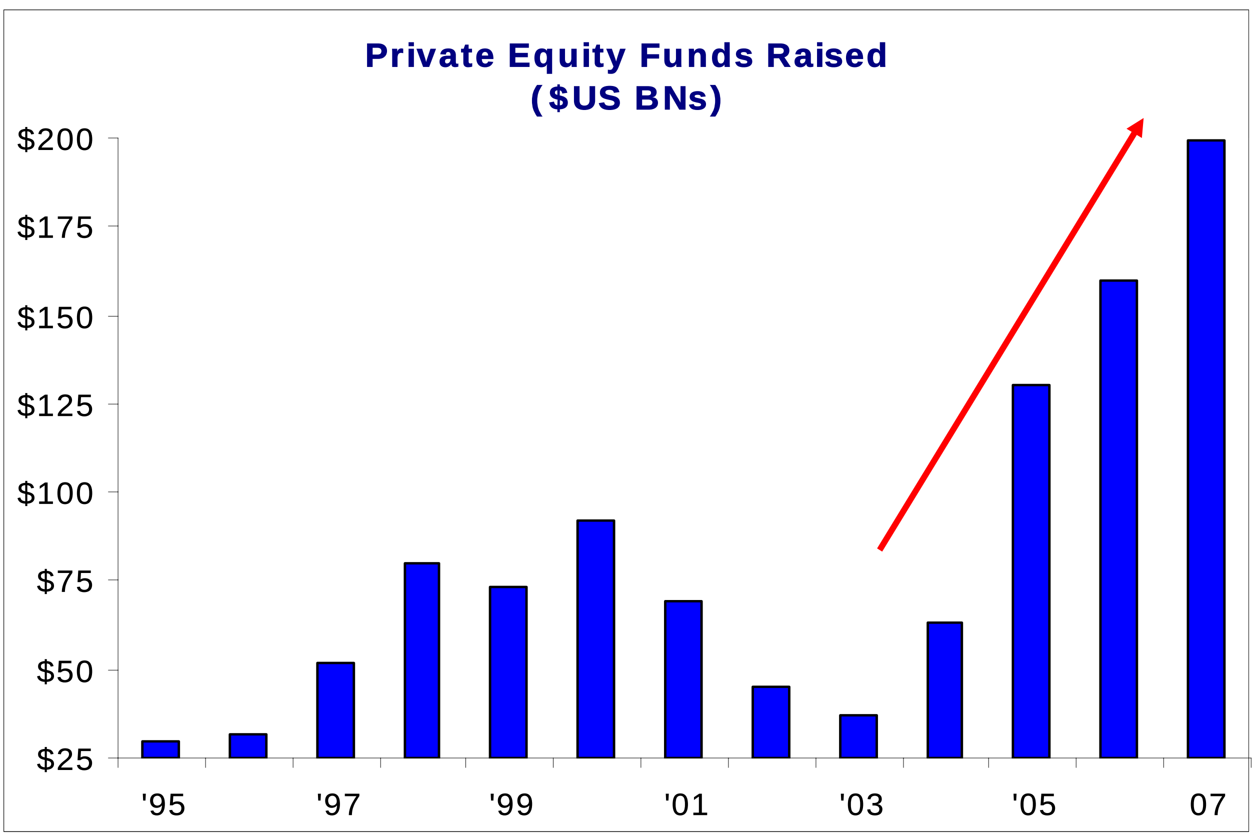
Motorola (MOT), General Electric (GE), Tellabs (TLAB), Monster (MWW), Dover (DOV), Computer Sciences (CSC), Sprint Nextel (S), Apple (AAPL), New Corp. (NWSA), Hewlett-Packard (HPQ), American Express (AXP), Schlumberger (SLB), Walt Disney (DIS), Advanced Micro Devices (AMD), Halliburton (HAL)



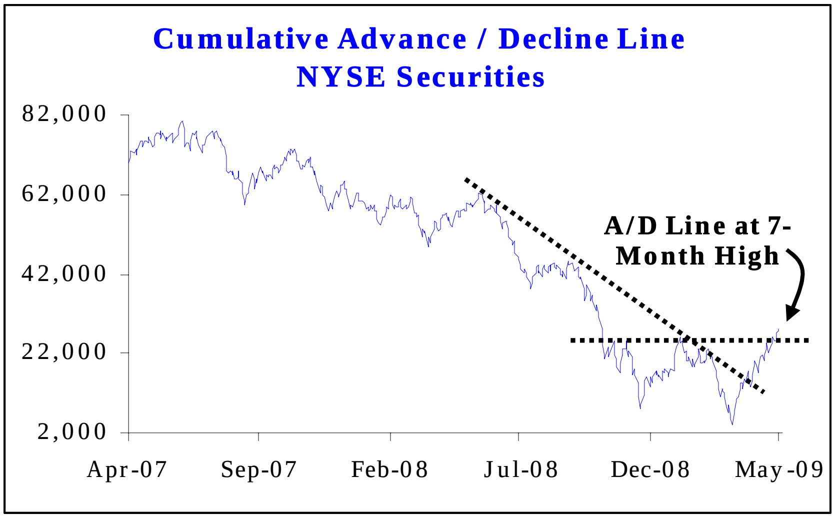
Along with continued capital injections, foreclosure relief initiatives, and recent rhetoric suggesting a renewed push towards troubled asset purchases (the original purpose of TARP), programs designed to slow the decline in home prices will play an integral part in the next phase of government intervention. Home prices probably need to find a bottom before a sustained recovery can take hold.

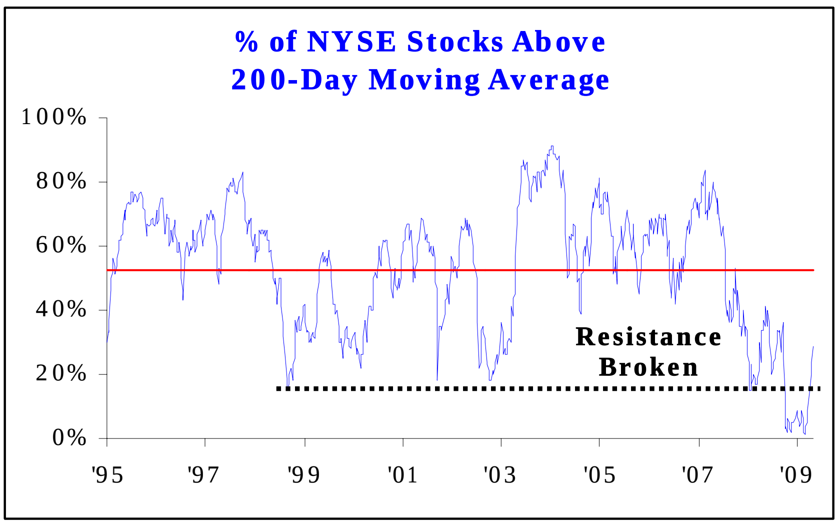
However, No Shortage of Opportunistic Capital…

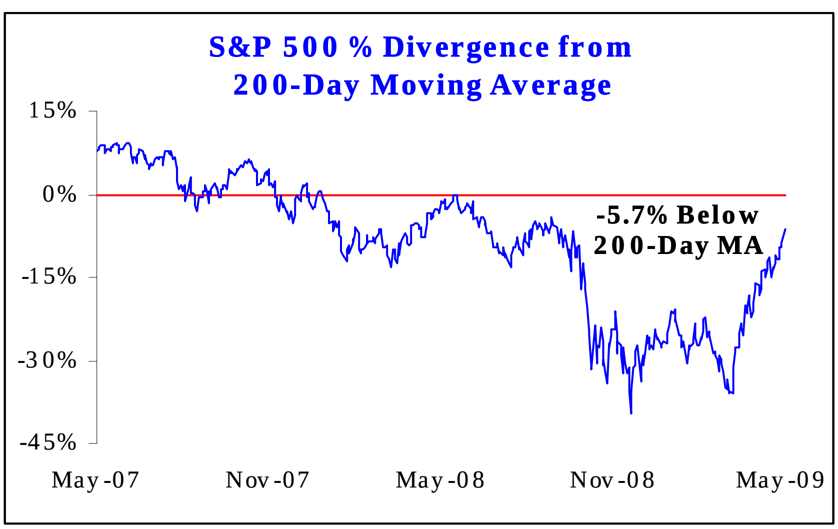




BREADTH REMAINS RALLY'S KEY ASSET:
UNTIL THIS CHANGES, EASY TO LIKE STOCKS SHORT-TERM







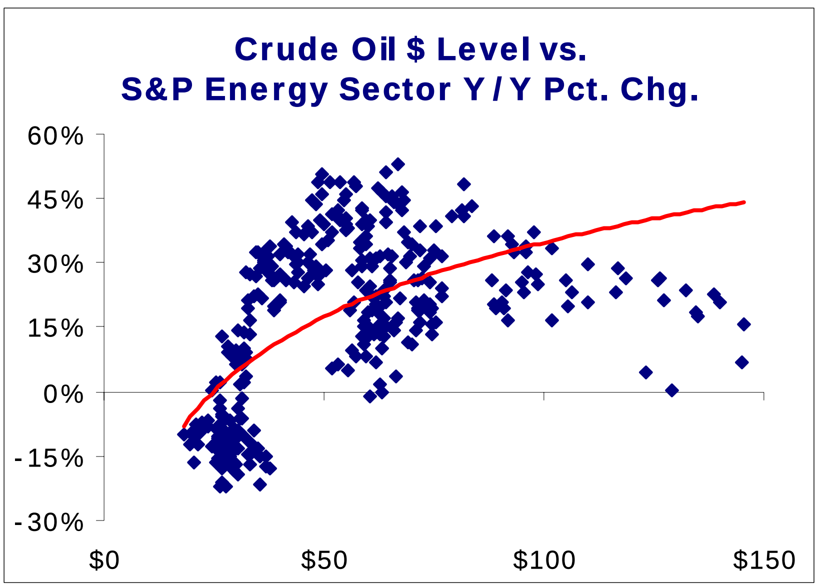
Given the broad rally in the equity markets it's not surprising that the most frequent question we're receiving from clients has to do with our short-term market outlook. As we wrote on Friday from a fundamental and macro perspective, we would be bullish on stocks until the Fed decides that it no longer feels it is necessary to expand its balance sheet to support the housing market. We're not sure when that will be, but for the time being, it appears that, if anything, the Fed is content to keep long-term interest rates low, making it potentially painful to be short in the near-term.

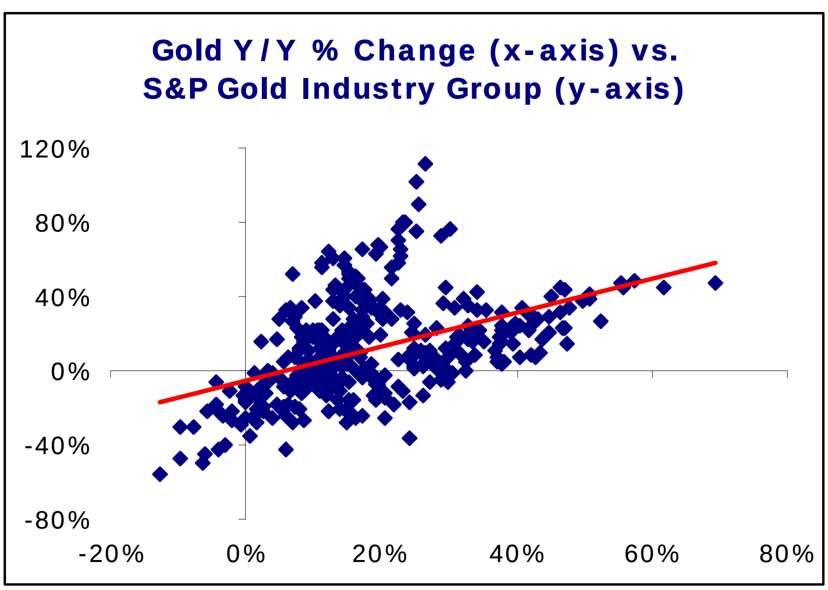
Likewise, from a technical perspective, we feel that market breadth is probably the single most important barometer of short-term rally momentum moving forward – as long as breadth continues to be supportive, we want to be on the long side of this trade.

As it stands now, the NYSE Cumulative Advance/Decline Line is at a 7-month high (top chart), the % of NYSE stocks above their 200-Day Moving Average is at an 8-month high (middle chart), and the S&P 500 is just -5.7% below its 200-Day Moving Average (bottom chart). With institutional sentiment so mixed, the 3 charts at left bear our constant attention. Stay tuned.

The "Responsible" Economic Cases Misses Key Investment Conclusion

The lagged effects of the economic downturn are likely to linger and we have certainly opened up a lot of slack in the economy as the unemployment rate continues to rise. The "responsible" economic case in this environment is that slack will bias prices lower, and deflation fears will persist. We would agree that this is the right way to analyze a price index like the core CPI or the PCE deflator – price indexes that measure finished consumer goods. **However, we continue to believe that items like food and energy prices, and other input & commodity prices, may not be so well behaved, and so investors will likely be better served by not getting too tied to a particular consumer price index.** It seems very easy in this case to make a logical economic argument that misses an important investment conclusion, especially when it comes to energy and materials (U.S. import prices, for instance, rose +0.5% M/M in March on an increase in fuels prices). The data would suggest it's not necessarily appropriate to approach both the oil and gold questions as binary ($25 or $150 / $400 or $1,500).

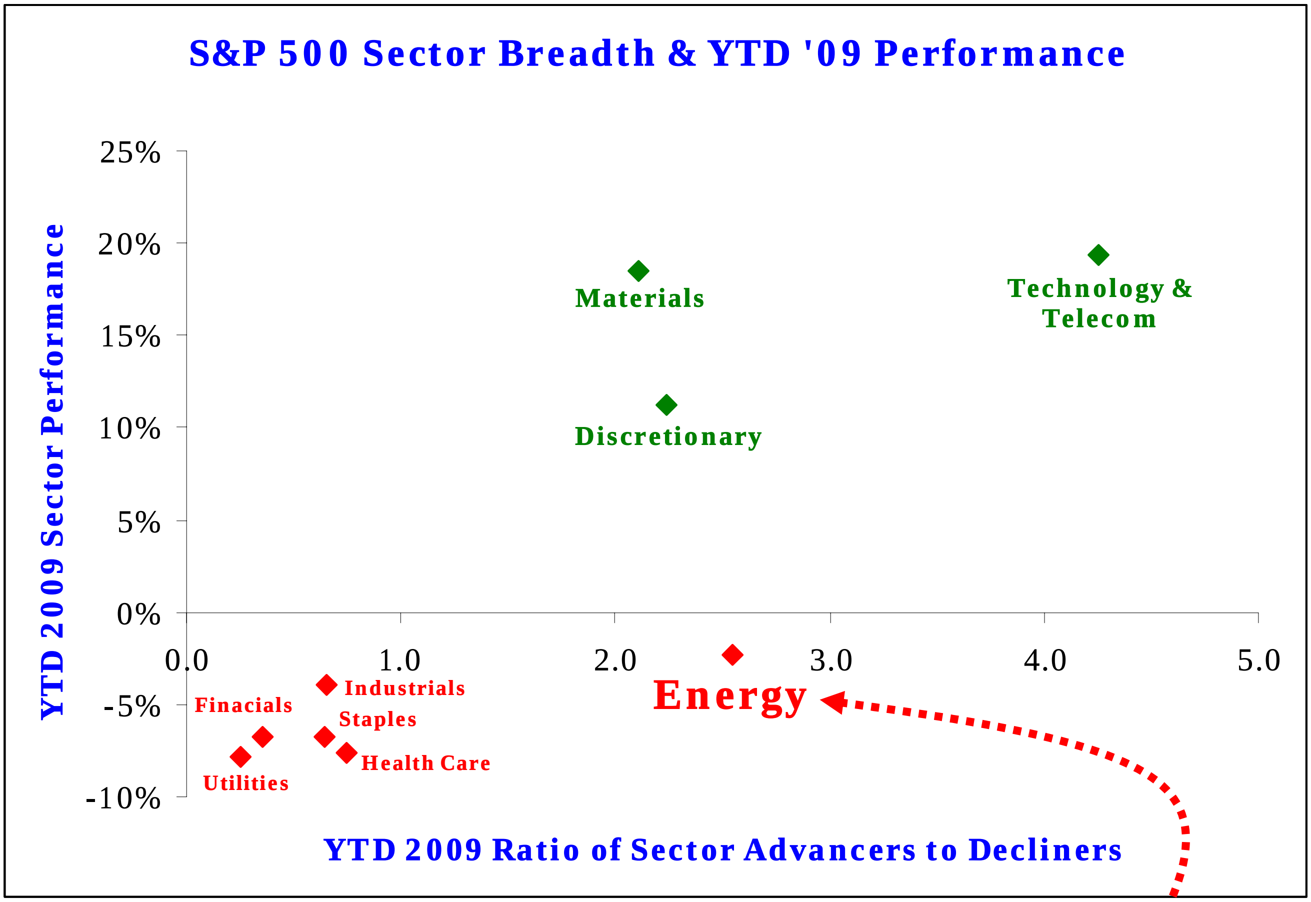


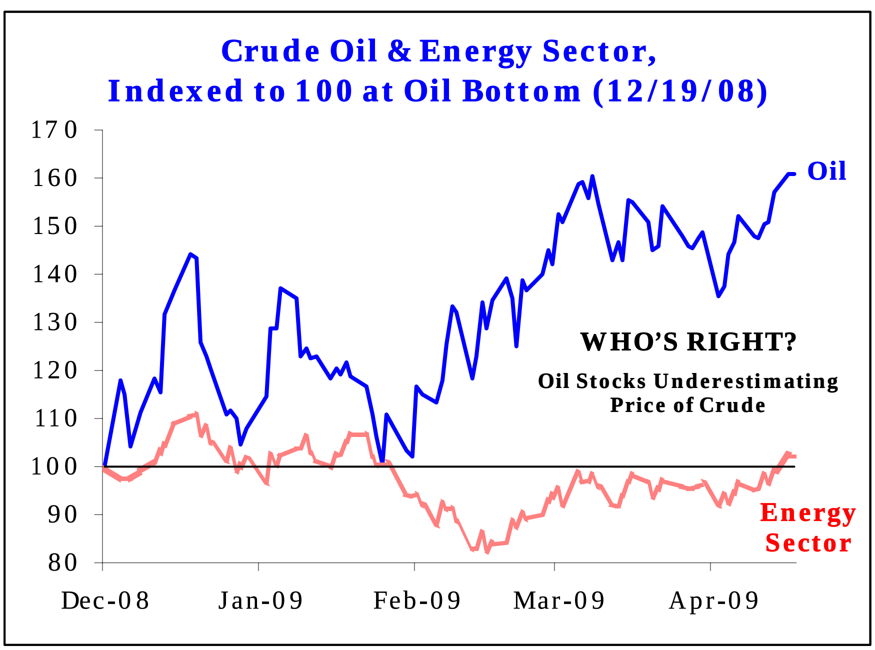


The sweet spot for energy-related equities appears to be when the commodity settles in the $50 to $75 range…

…for gold bugs, modest Y/Y appreciation bodes best for the underlying. While the "inflation /intrinsic value" argument drives the gold story, in the current environment, investors' ability to extract some operating leverage may make an allocation to gold easier.

DISLOCATION AMONG ENERGY SHARES LOOKS BULLISH





While the dislocation between Energy sector breadth (ratio of YTD advancing issues to declining issues, 2.6 to 1) and Energy Sector YTD performance (-2.3%) can in part be attributed to the underperformance of Exxon Mobile, it's getting difficult to reconcile the substantial underperformance of the sector relative Crude Oil. **Ultimately, we feel the two charts on this page are bullish for the commodity related equities in general.**

The Earnings Debate Continued – Well, What is the "Number?"

Strategas Estimates: $51.75 in 2009; $59.25 in 2010

The economy is not in good shape. Corporate results in 4Q '08 were, in a word, horrible. Questions abound as to the *stimulative* nature of the stimulus package, and so it is little wonder that earnings estimates are being revised materially lower – we have seen estimates for 2009 in the mid-$30 range. A re-canvassing of our own earnings analysis indeed showed some areas where a more conservative view is warranted, but our analysis does not suggest a wholesale slashing of calendar year estimates. **We have revised our 2009 estimate to $51.75 from $58.25** on cuts to our outlook for Financials, Technology and 1H Energy earnings. Further, we have reduced our 2010 estimate to $59.25 from $68.25 as we see a significantly more muted recovery than historical context would suggest.

Strategas S&P 500 Earnings Estimates

	2008		2009*E*		2010*E*	
	Level	Y/Y	Level	Y/Y	Level	Y/Y
1Q	16.62	-25.8%	10.75	-35.3%	14.25	32.6%
2Q	17.02	-29.3%	11.75	-31.0%	14.75	25.5%
3Q	15.96	-23.5%	14.25	-10.7%	15.00	5.3%
4Q	-0.09	-65.2%	15.00	183.6%	15.25	1.7%
Year	**$49.51**	**-33.5%**	**$51.75**	**-5.7%**	**$59.25**	**14.5%**

Reasons to NOT Overshoot When Revising Earnings Lower

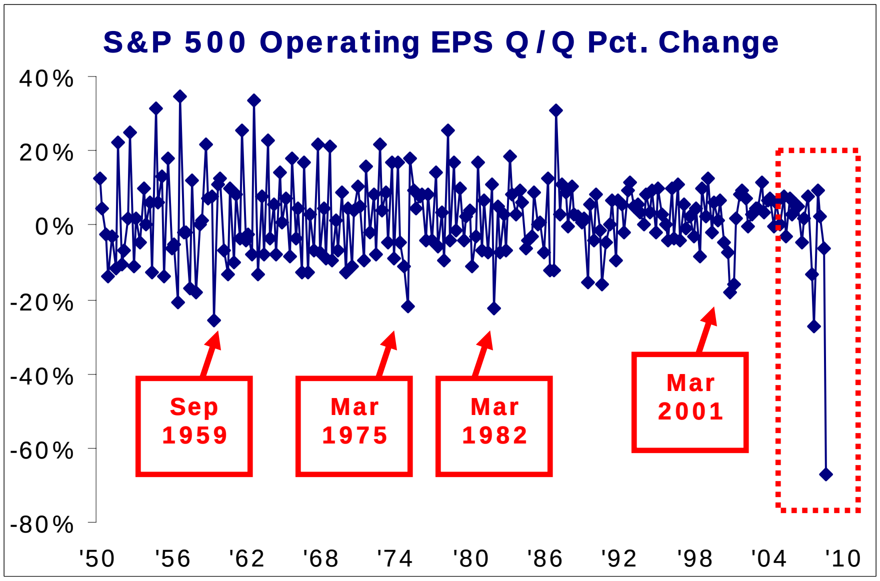
1) **The earnings power of the Financial sector has desperately restrained. So too have Financial company market capitalizations.** For the same reasons we discuss on page 1, the impact of further losses (the 2nd derivative of losses is likely to ebb) is mitigated by the sector's reduced contribution factor. The '09/'10 earnings story will reside on the income statements of non-Financial corporate profits...

2) **...Non-Financial balance sheets are not constructed in the same manner as Financial sector balance sheets.** While there is certainly more weakness to come (and likely in 1H '09 in particular), non-financial corporate will be hard pressed to contract as drastically given their relative usage of far less leverage and the absence of significant levels of asset writedowns against earnings.

3) **Stimulus spending is back-end loaded.** Historically, just 24% of stimulus spending hits the economy in the first 12 months after passage and just 57% hits in the first 24 months. 2008 was bad, 1H 2009 won't be great, but 2010 will look a little better.

4) **An improving credit environment, even modestly, will facilitate some level of nominal economic activity.** Corporate profits are a nominal concept.

Looking Ahead, Earnings Finally Trough in 3Q '09, Muted 2010 Recovery to Follow



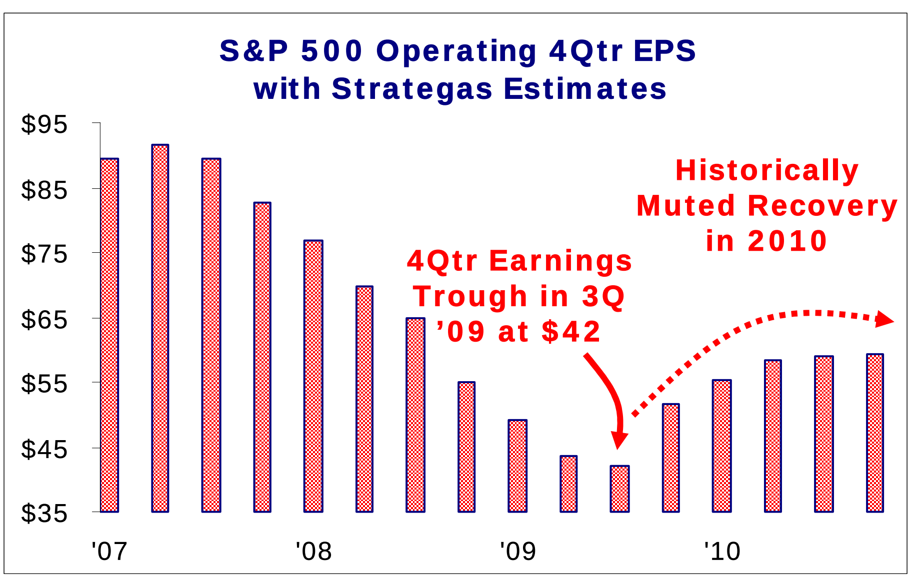
S&P earnings fell to just $5.29 in 4Q '08, a level not seen since 3Q '91. As the chart at left illustrates, the sequential decline from 3Q to 4Q was unlike any seen in the past 60 years.

The recovery in corporate profits will likely be muted relative to historical comparisons.

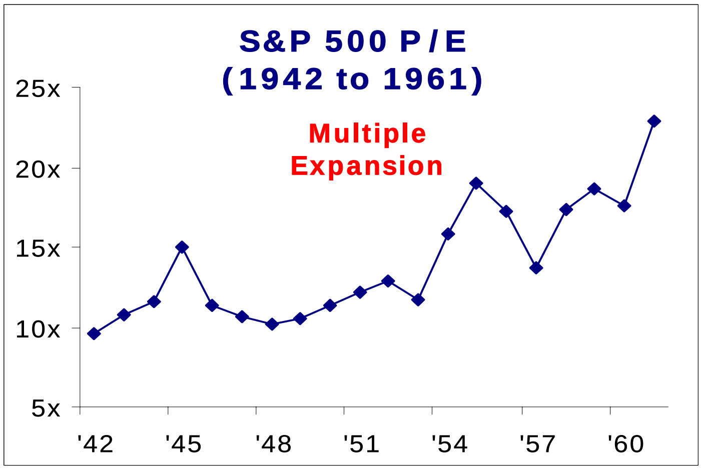
S&P 500 Sector $ Contribution to Operating EPS

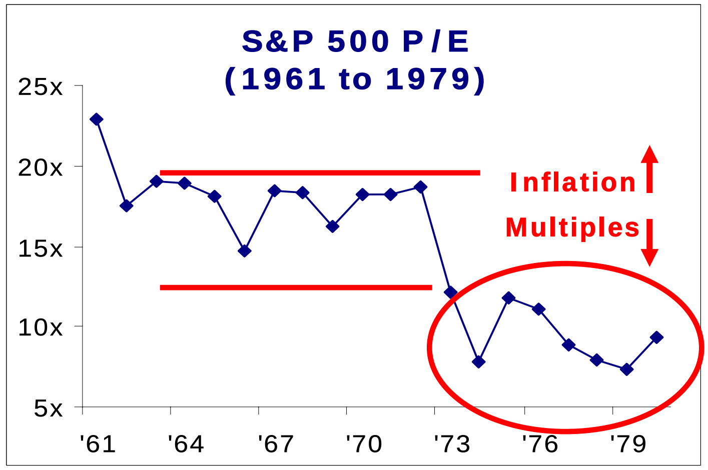
	2006	2007	2008	2009e	2010e
Energy	13.39	14.32	16.14	8.33	10.43
Technology	9.08	10.39	9.57	7.75	9.84
Health Care	8.93	10.03	10.54	10.88	9.70
Industrials	9.14	10.16	10.05	7.87	9.20
Staples	6.99	7.82	8.49	8.62	7.34
Utilities	3.05	3.01	3.05	3.31	2.79
Discretionary	7.82	6.51	2.45	2.12	2.12
Materials	3.00	2.99	1.53	2.02	2.71
Telecom	2.57	2.64	2.56	2.40	2.48
Financials	23.76	14.66	-14.86	-1.61	2.85
S&P 500	**$87.72**	**$82.54**	**$49.51**	**$51.75**	**$59.25**

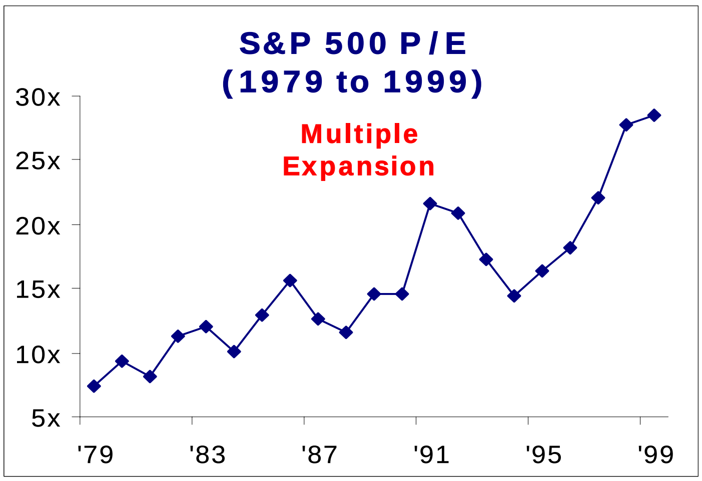
Key Assumptions: *Energy* – Using $45/$50 oil in '09; *Health Care* – Obama Plan punitive in '10; *Industrials & Tech* – Stimulus a '10 story; *Financials* – Asset contraction moderates.

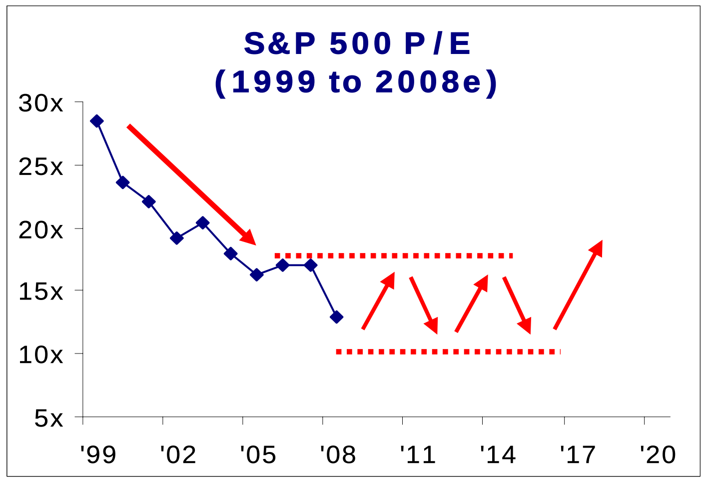


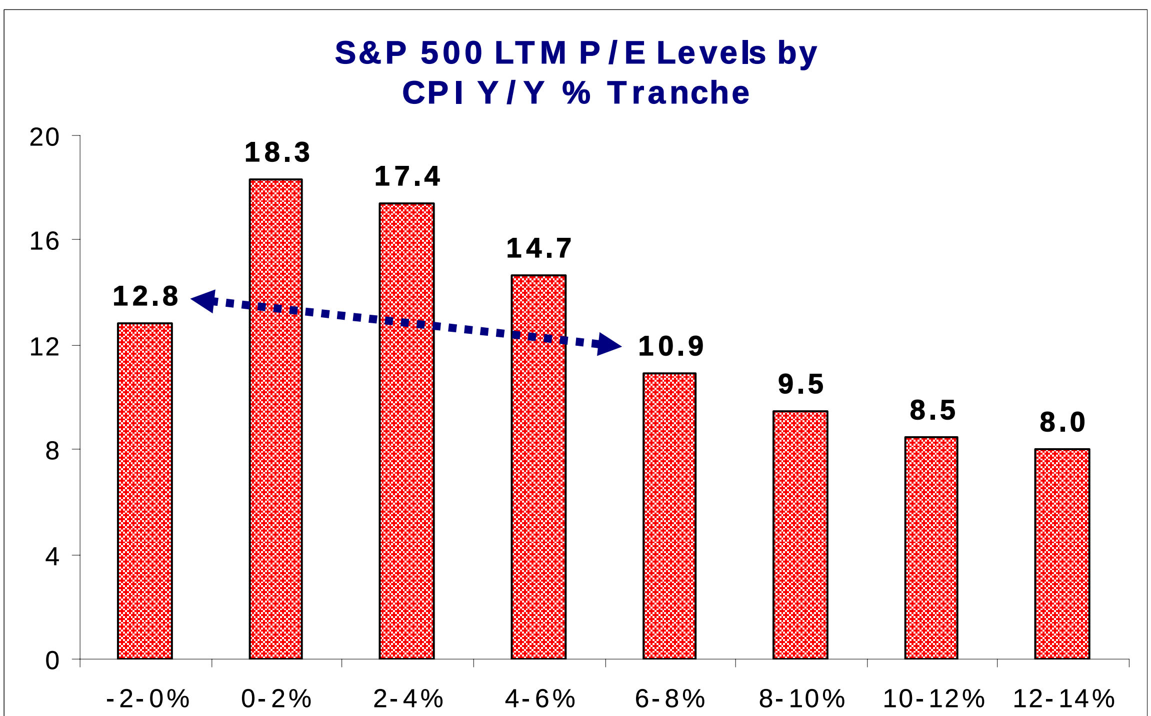
Multiples Finding a Bottom:
Period of Secular Contraction Transitioning to Sideways Stage











Source: Strategas

ON THE MARGIN:
UPSIDE PROFIT SURPRISE FOR 2010?

The theoretical construct of profit margins below provides an interesting roadmap for the way we see the earnings picture playing out over the next year and beyond. With 2008 earnings having finished at an abysmal $49.49 (down -40% Y/Y), and our 2009 forecast calling for continued weakness among non-financial sectors of the economy (we're estimating $51.75), **the relatively conservative economic inputs we're using below suggest that the risk to our 2010 profit forecast could *actually* be an upside earnings surprise along with some modest margin improvement.** There are likely more pitfalls in 2009 as the lagging economic indicators weaken (e.g. non-residential construction and C&I lending). However, as we approach the summer months, the market should start to look ahead to 2010. Stay tuned.

Productivity	2.00%
+Employment Growth	0.00%
Real GDP	***2.00%***

Wages	2.00%
(Productivity)	2.00%
Unit Labor Costs	***0.00%***

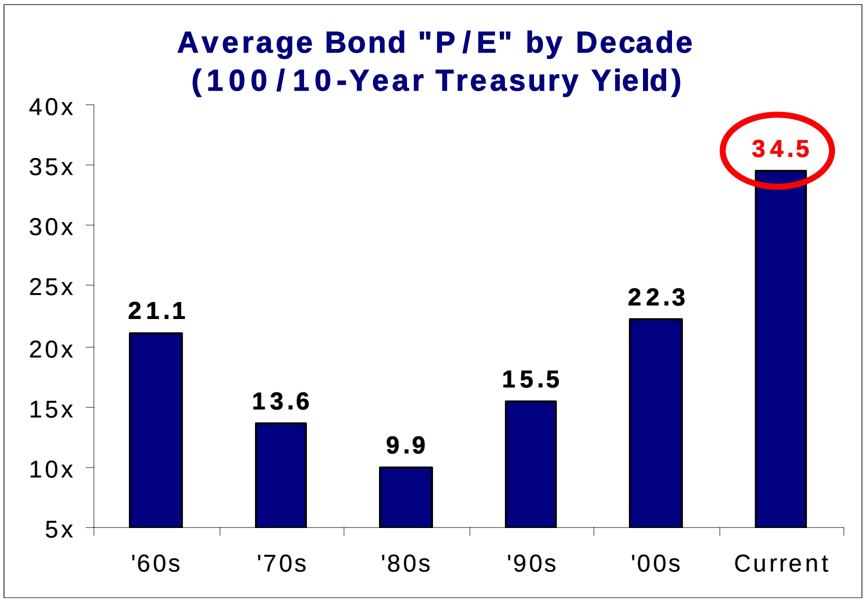
Real Output	2.00%
Unit Labor Costs	0.00%
Total Costs	***2.00%***

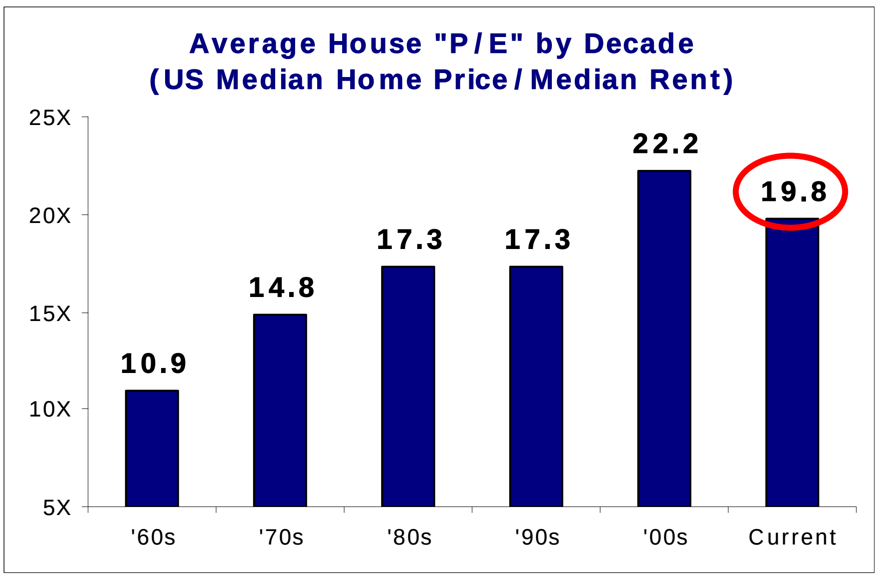
	2009	2010		
Sales	$100.00	$103.00	3.00%	Revenue Gain*
(Costs)	$95.90	$97.82	2.00%	Cost Increase
Income	**$4.10**	**$5.18**	**26.3%**	**Earnings Gain**
Margin	4.1%	5.0%		

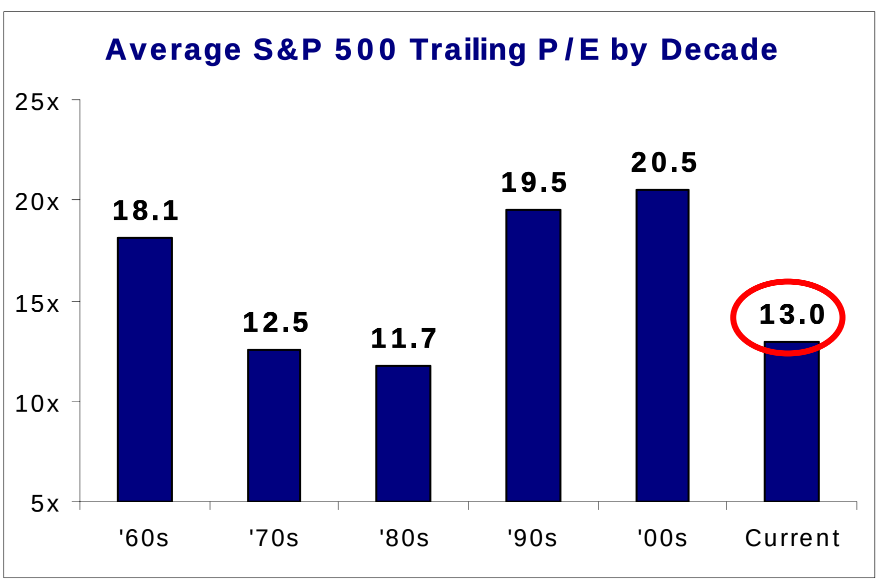
A 26% increase off our 2009 estimate of $51.75 would imply earnings of roughly $65 in 2010. We are currently forecasting $59.25 for 2010.

*Strategas 2010 nominal GDP forecast, 3.0%

Asset Class Valuation Breakdown







With equities experiencing their largest decline in a generation, we have begun to see an increase in the frequency of investors' questions concerning valuation – and in particular whether current low equity multiples represent a buying opportunity for longer-duration holders. Perhaps another way to get at the answer is to look at the multiple at which the fixed income and housing markets are trading. At 37.5x "earnings," (the reciprocal of the Treasury yield) the bond market is looking aggressively expensive relative to the past several decades. Though only a few clicks below its average for the decade, the "P/E" for houses (measured as the median home price over the median rent) is still rather elevated compared to prior decades.

Strategas Recommended Sector Allocation

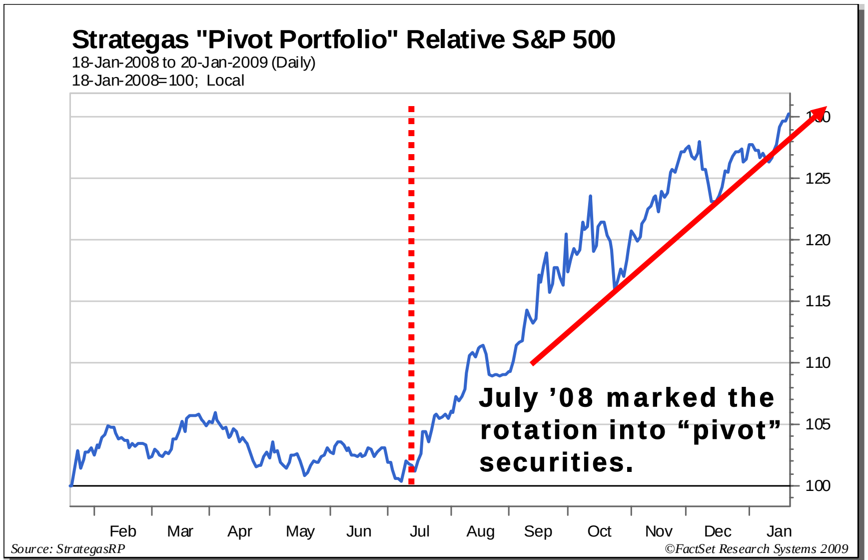
Overweight (Long)	Market Weight (Neutral)	Underweight (Short)
Consumer Staples Energy Materials	Technology Health Care Financials	Discretionary Utilities Telecom Industrials

Strategas Recommended Sector Allocation

Sector	Index Wtd	SRP Wtd	Spread / Recommendation		ETF	In Favor of...	Cautious on...
Technology	18	18%	+/-0%	Market Wtd	XLK*	App Software; Internet Software & Services, Comm Equipment	Semiconductors; Comp Hardware
Financials	12%	12%	+/-0%	Market Wtd	XLF	Exchanges, Boutique I-Banks	Asset Managers; Insurance, Regionals
Energy	13%	16%	+3%	Overweight	XLE	Eqp & Services; Storage	Integrated O&G
Health Care	14%	14%	+/-0%	Market Wtd	XLV	Health Care IT	Managed Care; Pharma; Lg-Cap Biotech
Industrials	10%	8%	-2%	Underweight	XLI	Conglomerates; Environmental Services; Airlines	Rails; Building Products
Staples	12%	14%	+2%	Overweight	XLP	Hypermarkets; Personal Products	Drug Retail
Discretionary	9%	8%	-1%	Underweight	XLY	Education Srvcs; Auto Parts	Retail
Utilities	4%	2%	-2%	Underweight	XLU	Ind. Producers & Traders	Electric; Gas
Materials	3%	5%	+2%	Overweight	XLB	Construction Materials	Metals & Mining
Telecom	4%	3%	-1%	Underweight	XLK*	Integrated; Content	Wireless

* Both Tech and Telecom are included in Technology Select Sector SPDR Fund (XLK)
* Index weights may not sum to 100% due to rounding.

Strategas' "Pivot" Portfolio for a Credit-Starved World



Access to and cost of debt capital may be one the most important factors in determining earnings growth and performance as the economy slowly starts to recover. With credit semi-permanently impaired, we believe investors should now be buying companies just strong enough to access the credit markets, but not so strong as to provide little

Strategas "Pivot" Portfolio

		Market Cap $BN			Market Cap $BN
WMT	Wal-Mart Stores	218.6	BF.B	Brown-Forman	4.7
HD	Home Depot	41.1	CHD	Church & Dwight	3.7
ADP	Automatic Data Processing	19.1	SEIC	SEI Investments	3.0
SYK	Stryker	15.8	WTR	Aqua America	2.7
SYY	Sysco	14.4	CTL	CenturyTel	2.6
NOC	Northrop Grumman	13.9	DCI	Donaldson	2.5
BCR	C.R. Bard	7.9	LECO	Lincoln Electric Holdings	2.1
EXPD	Expeditors International	6.8	GCI	Gannett	1.8
SHW	Sherwin-Williams	6.5	BXS	BancorpSouth	1.8
VFC	VF	6.1	ROL	Rollins	1.7
SIAL	Sigma-Aldrich	5.1	JKHY	Jack Henry & Associates	1.6
FAST	Fastenal	5.0	FULT	Fulton Financial	1.6

Pivot Portfolio Criteria: 1) Market Cap > $1.5 Billion; 2) 2008 Capital Spending < 3-Year Average; 3) Cash > 3-Year Average; 4) Debt to Equity < Sector Average; S&P Debt Rating Better than Index Average

Monitoring the "Reflation Trade"

"Velocity of Money" Checklist:
Some Improvement, More Needed

1. **Baa Corporate & Jumbo Mortgage Spreads Recede** – 4/16/09 Status: Spreads signal economic emergency is over, still waiting for sustainable recovery.
2. **U.S. Dollar Strength Ebbs & the Yen Stabilizes** – 4/16/09 Status: The Dollar has weakened since its early-March high, though still remains up roughly +5% YTD. The JPY/EUR cross, a useful risk barometer, has turned increasingly accommodative.
3. **China's Stock Market Sustainably Outperforms** – 4/16/09 Status: China has emerged as the best performing stock market in 2009, and is now at a 9-month high.
4. **10-Year Yields Move Higher** – 12/18/08 Status: 2.08%; 4/16/09 Status: 2.79% The persistent overhang of Fed purchases likely prevents a significant move higher for yields at this point.
5. **Unemployment Claims Reverse Path & Trend Lower** – 4/16/09 Status: If initial claims can establish a sideways trend (less firing) that would go a long way to helping the labor market picture.
6. **Fed's Senior Loan Officer Survey Shows Improvement** – 4/16/09 Status: While not particularly timely, we have yet to see an indication that the willingness of banks to extent credit further down the risk profile is materially improving.

Original list first published in Strategas Strategy Report, 12/8/08

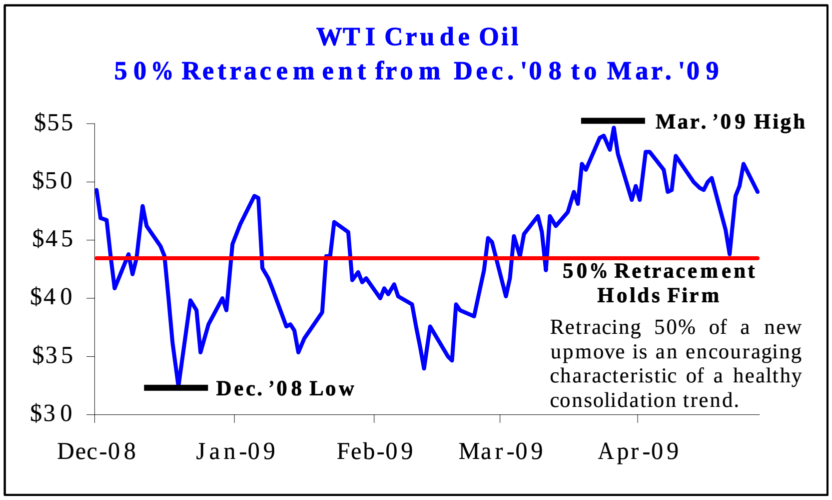
REFLATION TRADE –
HARD ASSETS & EM STILL OUTPERFORMING FINANCIAL ASSETS IN 2009

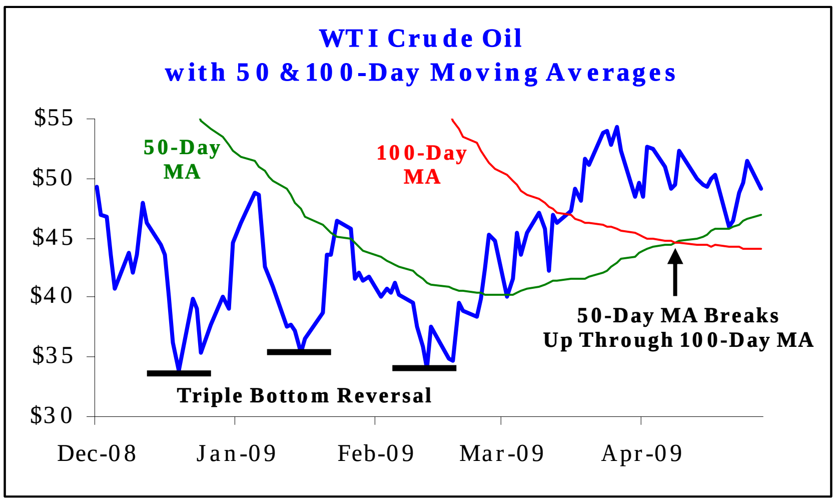
We believe the concept of the velocity of money is key in determining the comfort of investors in buying riskier assets. The rise and fall of the shadow banking system has made measuring money far more difficult and so we developed, about six months ago, a velocity of money checklist. The relative outperformance of commodities and emerging market equities over developed markets and financial assets may be some early indication that the velocity of money is indeed picking up.

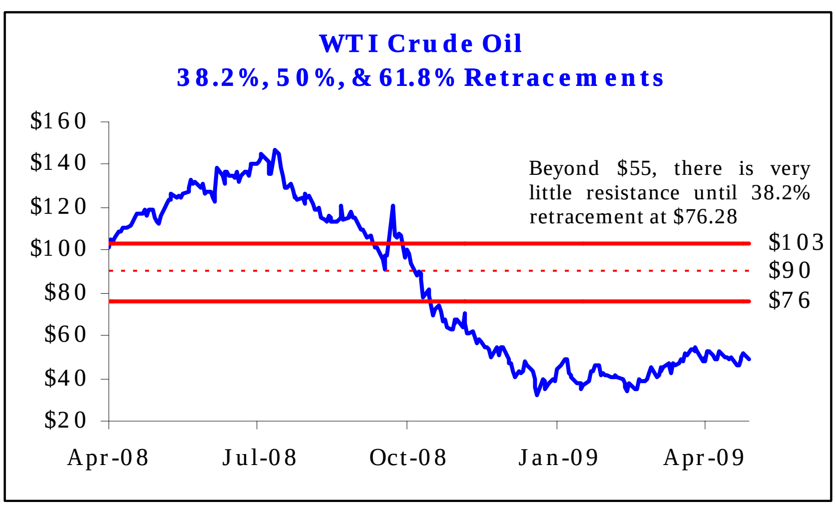
2009 YTD Performance

	Copper	+34.7%
	China (Shanghai SE A Share)	+31.9%
	Russia (RTS Index)	+23.5%
	Brazil (Bovespa)	+22.0%
	Platinum	+21.4%
	Korea (Kospi)	+15.6%
	Silver	+15.5%
	India (BSE Sensex 30)	+14.0%
	Gasoline	+12.5%
	Crude Oil	+9.2%
	Canada (S&P/TSX Composite)	+4.5%
	Gold	+3.7%
	Australia (All Ordinaries)	+0.3%
-4.1%	Japan (Nikkei 225)	
-5.0%	Germany (DAX)	
-5.1%	USA (S&P 500)	
-5.3%	Italy (MIB30)	
-5.8%	France (CAC 40)	
-7.3%	Spain (IBEX 35)	
-8.0%	United Kingdom (FTSE 100)	

TAKING PULSE OF OIL TRADE –
TECHNICAL BIAS STILL SUPPORTIVE







We thought it would be appropriate to take a step back and review the technical underpinnings to this trade. **<u>We highlight three key developments that likely support a higher price band moving forward.</u>**

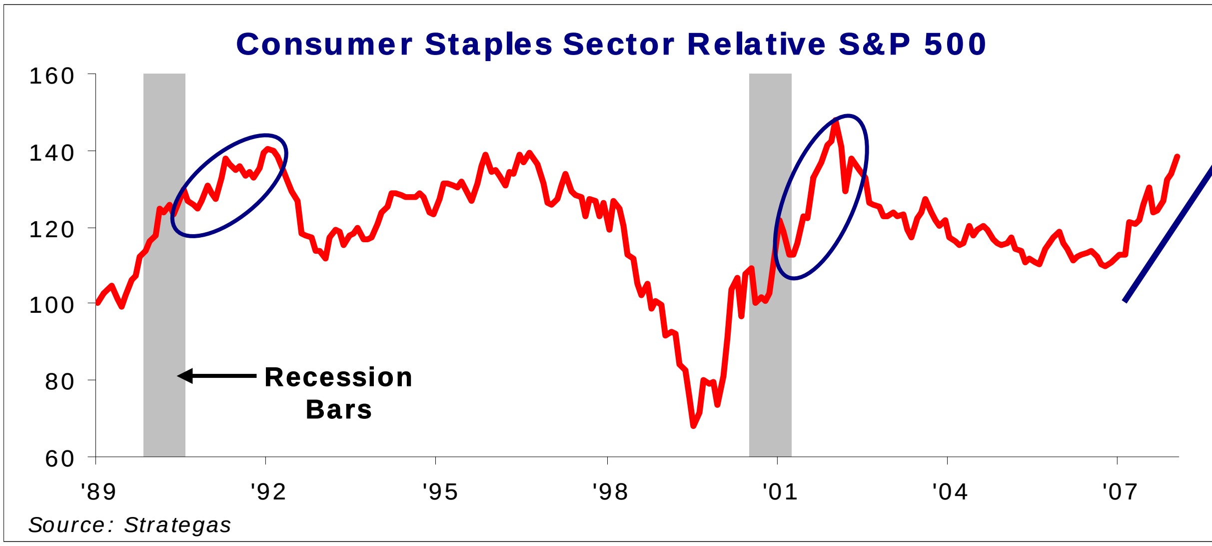
1) Classic Characteristic of a Healthy Consolidation – While there is no question Crude has run from the $32 low hit in December (and again in January), recent weeks have also witnessed the commodity undergo a successful and healthy consolidation process. 50% retracement off the March '09 high ($54.66) to the December '08 low ($32.40) stands at $43.53. This key support level convincingly survived a test last week.

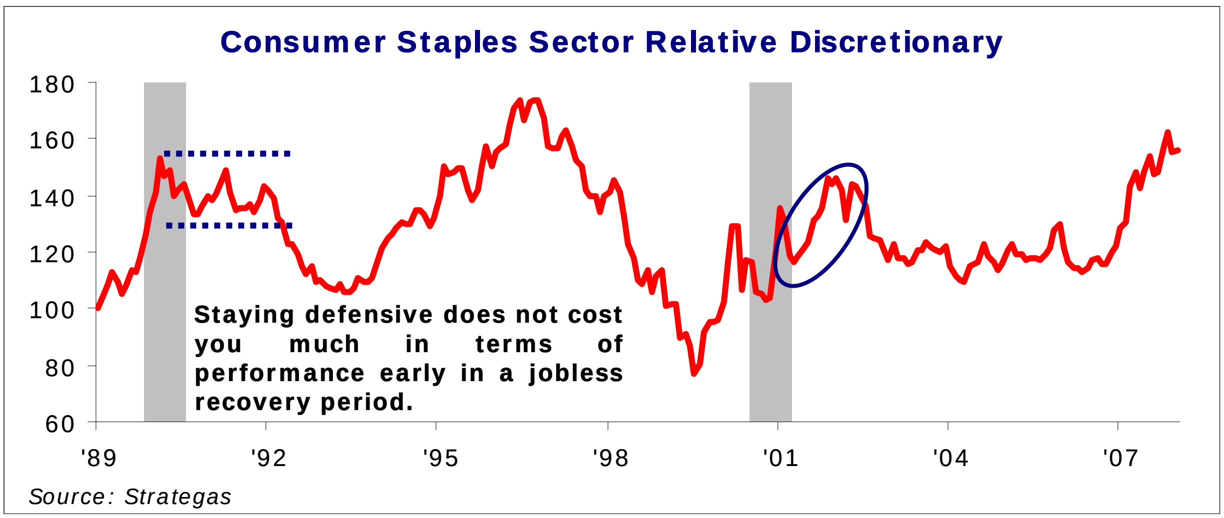
2) Following Triple Bottom Reversal, Moving Average Profile Turned Supportive – The 50-Day Average has convincingly broken up through the 100-day average and has transitioned into a firming support band. In turn, the 100-day average has also begun to flatten and just recently trend higher.

3) Little Resistance in Way of Longer-Term Retracement Level – The $76 level marks a 38.2% Fibonacci retracement of the July '08 high to the December '08 low. Beyond the $55 level, there is not much resistance standing in the way up to the $76 retracement point.

No Rush to Abandon Defensive Posture…

…Consumer Staples Continues to Outperform Broader Market in Months *After* Recession



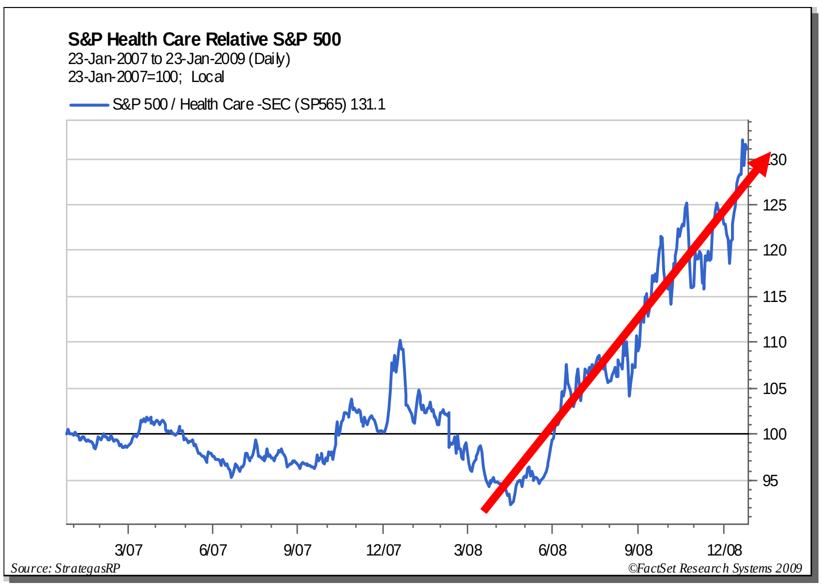


Consumer Staples
RELATIVE Performance Before, During & Following Recession

Recession	-1 Year	-6 Months	-3 Months	During	+3 Months	+6 Months	+1 Year
Nov '73 to Mar '75	-14.7%	-12.2%	-4.0%	-3.0%	-4.1%	-4.4%	-14.2%
Jan '80 to Jul '80	-15.8%	-7.0%	-5.6%	-1.1%	-10.0%	-8.4%	-2.6%
Jul '81 to Nov '82	2.0%	15.6%	4.2%	34.5%	-6.3%	-7.7%	-6.4%
Jul '90 to Mar '91	13%	7%	9.7%	15.7%	-3.6%	-0.7%	4.9%
Mar '01 to Nov '01	43.0%	46.2%	4.2%	4.7%	8.7%	19.6%	14.3%
Dec '07 to Date	9.2%	10.1%	8.4%	40.3%	-	-	-
Average	**6.1%**	**10.0%**	**2.8%**	**15.2%**	**-3.1%**	**-0.3%**	**-0.8%**

…But, As Political Headwinds Pick-Up, It's Time to Market Weight Health Care

Beginning with the '06 mid-term election and running through the better part of the Presidential campaign that followed, the legislative prospects for the Health Care sector – Pharmaceuticals and Managed Care in particular – were easily in question. However, the rapid development and global spread of the crisis in the financial markets forced Washington's attentions to be diverted, and allowed for the sector's defensive characteristics to take share. By our lights, a difficult fundamental environment coupled with the imminent passage of a massive stimulus bill, which, for Washington, may serve as a starting point to put the crisis behind it, should clear the deck for the political headwinds offered by HHS Secretary Daschle's impending healthcare reform to take hold.



Our Washington team assigns a very low probability of an expensive large scale healthcare reform becoming law in 2009. Yet, despite the task for healthcare overhaul appearing seemingly insurmountable, many advocates for overhauling the system continue to push for action – we believe they will push hard enough that equities in the space will come under pressure.

We believe the following five items will be enacted into law:

- Expansion of the popular children's health insurance program, SCHIP, financed with an increase in the federal excise tax on tobacco.
- More than $80bn for state Medicaid assistance which helps providers and facilities exposed to Medicaid funding.
- Increased funding for healthcare information technology as part of the stimulus package.
- Increased stem cell funding for biotechnology companies.
- FDA regulation of tobacco products.

Sector Leadership Evolving – Upgrading Technology

Rationale for Upgrading Technology to *Market Weight*

- New leadership is a welcome development. While the current rally is being driven by the areas that have been the most beaten up over the past year (Financials and Consumer), Tech has reasserted itself after lagging for much of the decade. The sector is up +4% YTD.
- Superior balance sheet. Sector tops the list of cash as a percentage of assets with over 31%. In a period where organic earnings growth will be difficult to attain, Technology has the cash to acquire it or reward shareholders with yield (as Oracle did last week).
- In sharp contrast to the economic imbalances of the early-’00s, the sector is largely out of the political crosshairs.
- Established federal and state government procurement infrastructure which facilitates the early receipt of stimulus monies.
- Improved technical picture – Sector has broken up out of a well-established 24-month relative trading band and remains the market’s **only** sector to hold its November ’08 low.
- Coupled with renewed U.S. Dollar weakness, sector offers high emerging market exposure – offering among the best opportunities for a “V-shaped” recovery.

Reasons for NOT Recommending Overweight

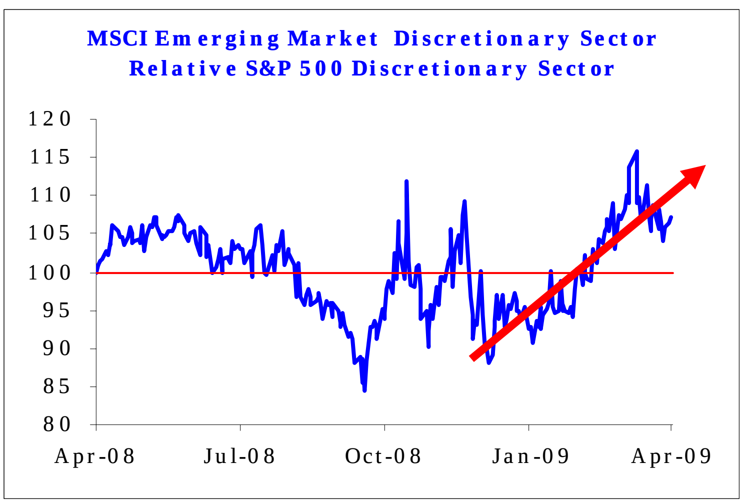
- Despite largely anticipated stimulus spending, corporate capex budgets have been slashed as companies shore up financial condition (i.e. strengthen their balance sheets).
- Many of the sector’s most recognizable names remain highly leveraged to the consumer. While consumer spending has averaged roughly 66% of economic activity over the past 50 years, it had moved to over 70% in the past 5 years; the difference between 66% and 70% in a $14 trillion economy is meaningful – nearly $700 billion.
- The predisposition to “V-shaped” recoveries underscores the real potential that the recent spate of “less bad” economic data is a head fake. Rather, while the contraction in economic growth is in the processes of troughing, the full swing of recovery is likely a ways off.

Where do I hide in Consumer Discretionary?

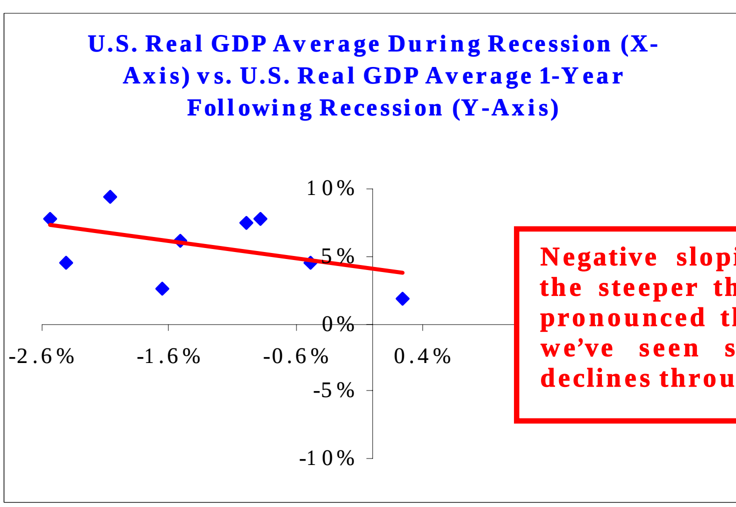
We believe the recent outperformance of Discretionary shares will prove transitory – as opposed to the start of a new, sustainable bullish market phase. However, absent these secular undercurrents several important trends appear to be emerging on the consumer front, namely…

Please call your Strategas salesperson for the complete list of index constituents: (212) 906-0130

The "Do-It-Yourself" Paradigm – When times are tough (economic sluggishness) and visibility restrained (do I have a job next month?) the prudent among us will naturally retrench. On the consumer front this equates to delaying the purchase of *new*, fixing what we *have*, and "doing it ourselves." To that end we are not surprised by the continued outperformance (both absolute and relative) of our Strategas "Do-It-Yourself" Index.

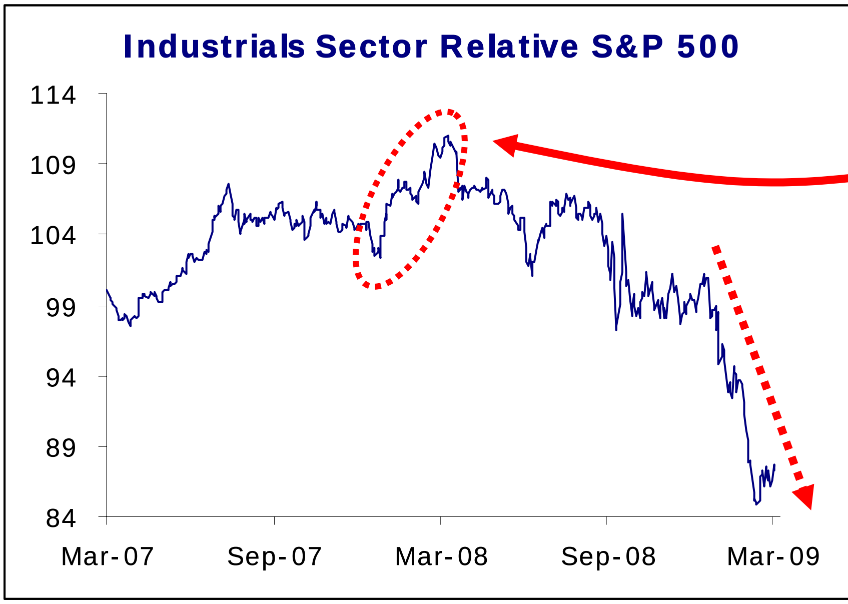


The Emerging Market Consumer – The backdrop exists for a material increase in domestic consumption within "forward position" emerging economies (Brazil, India, China, South Africa) and, to some extent, the frontier economies of the Middle East and Southeast Asia. By our lights this offers an opportunity for global allocators to establish positions in markets where there exists a greater potential for "V-shaped" recoveries, and an interesting counterbalance to the secular headwinds faced by developed marker consumers.



Negative sloping trend line implies the steeper the recession, the more pronounced the recovery. Globally, we've seen some of the sharpest declines throughout emerging Asia.

Still too Early for the Industrials, Reaffirming our Underweight Position



The Industrials trade worked following the passage of stimulus package 1 (accelerated depreciation)...

...but has collapsed with stimulus package 2 (difficult to deploy infrastructure).

Allocated stimulus money can take some time to find its way into the economy.

Modeling the Speed at which Infrastructure Dollars Can Be Deployed (FY, $MM)

Infrastructure Investments	Year 1	Year 2	Year 3	Year 4
% Deployed By Year	26.7%	33.3%	17.9%	12.0%