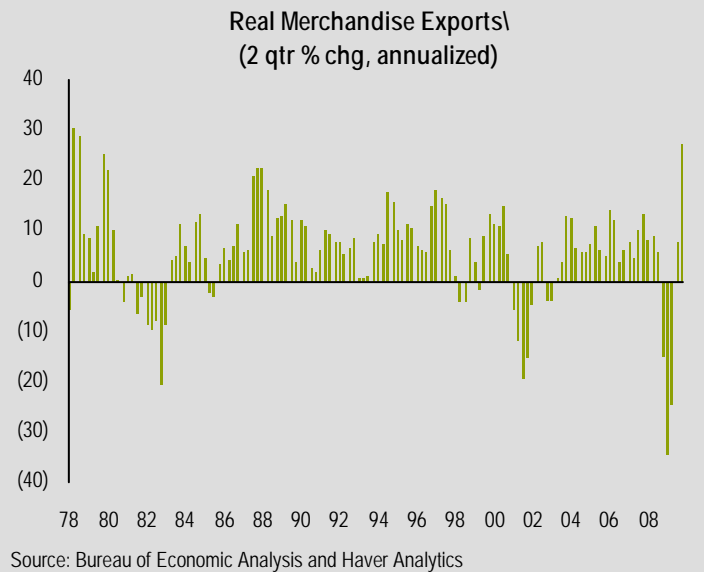


**World Summary:** Global stock markets finished lower this week [DJI: -0.7% NASD: -0.2% DAX: -2.2% NKY: 0.0% HS: +3.6% BVSP: -2.0%; one-week performance as of 4:00 pm]. The US dollar depreciated against the Euro and the Yen. Non-energy commodity prices were overall lower with metal prices down 2.5% and ag prices up only 0.1%. Gold fell 0.4% and settled at \$1115.3 per ounce. WTI crude fell to \$76 per barrel.

**United States:** Q4 Real GDP growth was revised up a bit to 5.9%. Reduced inventory liquidation accounted for a lot of the growth in Q4, but fast exports also helped a lot. Real merchandise exports surged 34% annualized in q4, following a 25% gain in Q3. That represents the largest two quarter surge in exports since 1978. The strength in US exports reflects the fact that emerging market domestic demand is leading the global recovery and that US firms are gaining market share. We continue to expect very strong gains in US exports in 2010, up 8% to 10%, and that directly, and indirectly through investment spending and inventory rebuilding, will push GDP up 4%.



**Emerging Markets:** Brazil's central bank raised reserve requirements this week, effectively withdrawing much of the stimulus that was put into the system during the financial crisis. The move in our view should be seen as laying the groundwork for the tightening cycle. We expect rate hikes beginning in either March or April, but we expect only about 200 basis points in hikes, while the market has priced in over 300. The growth recovery in Brazil is well entrenched. Our confidence in Asia's continued recovery strength is reinforced by the significant upside surprises in this week's 4Q/09 GDP releases in Singapore, Taiwan, Thailand, Hong Kong and Malaysia. The message is clear that a robust, broad-based recovery is firmly underway in the region. We have further revised up our GDP forecast for the region to 8% in 2010 from 7.7% previously.

**U.S. High Yield:** The high yield market was slightly higher for the week (+0.24%). Volatility, as measured by the VIX, fell to the low 20s. CCC (-0.13%) credits under performed BB (+0.50%) credits. Banking (+1.71%) and Diversified Finance (+0.66%) were the best performing sectors, while Electric Utilities (-1.07%) was the worst performing sector. There were fund **inflows** of 470 million. Four deals priced this week for \$2.17 billion.

**Europe:** Next week's calendar includes central bank policy meetings in the euro area and UK. Neither is likely to result in rate changes. In the euro area, the ECB is expected to give some insight into its plans to reduce its support for the banking system. Given the uncertainty caused by the Greek crisis, it seems likely that the ECB will want to maintain maximum flexibility. The dovish nature of recent comments from the Bank of England has led some observers to speculate that it might soon resume gilt purchases. We think this is unlikely.