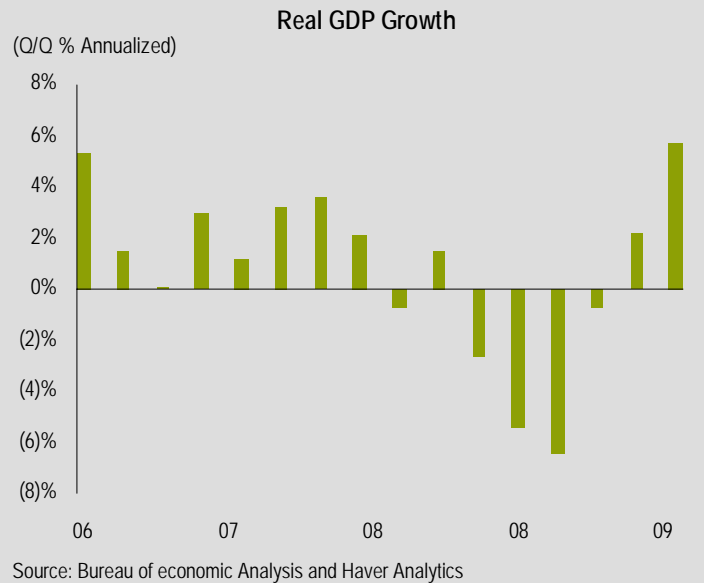


For Internal Use Only

January 29, 2010

World Summary: Global stock markets finished lower this week [DJI: -0.8% NASD: -2.4% DAX: -1.5% NKY: -3.7% HS: -2.9% BVSP: -1.3%]; one-week performance as of 4:00 pm]. The US dollar appreciated against the Euro and against the Yen. Non-energy commodity prices were overall lower with metal prices down 7.6% and ag prices down 2.1%. Gold fell 0.9% and settled at \$1083 per ounce. WTI crude fell to \$71 per barrel.

United States: According to the preliminary estimates release by the Bureau of Economic Analysis, Q4 real GDP rose 5.7% annualized, the largest gain since 2003. Inventory investment was the biggest contributor accounting for 3.4 percentage points of the overall increase in real GDP. Even though inventory investment added substantially to GDP growth, companies still produced less than what was purchased as inventories contracted in Q4. Another key driver of growth was exports, which surged 18% annualized in the quarter. We expect ongoing strength in exports in 2010 given the strong growth in emerging markets and the improved competitive position of US manufacturing firms.



Emerging Markets: Brazil's central bank kept rates unchanged this month. The statement moved towards a more neutral stance, but in the past the bank has been fairly explicit when starting or ending rate cycles. We did not see that in this statement, so we believe rate hikes are likely to begin in April. Even if the bank hiked 50 basis points a meeting, that would total far less than the over 300bps that are priced in the market, so we continue to like rate exposure. Like China, India has tightened monetary policy proactively in the current cycle. Although the Reserve Bank of India left overnight repo rate unchanged at 4.75%, it hiked the Cash Reserve Ratio by a larger-than-expected 75bp to 5.75%. We think that the latter move will pave the way for a 50bp hike in policy rate at the policy meeting in February.

U.S. High Yield: The high yield market was lower for the week (-0.30%). Volatility, as measured by the VIX, remained in the mid 20s. CCC (-0.35%) credits under performed BB (-0.33%) credits. Gaming (-1.43%) and Life Insurance (-3.17%) were the worst performing sectors, while Technology (+0.44%) was the best performing sector. There were fund outflows of 75 million, the first weekly outflow since August 2009. Seven deals priced this week for \$1.93 billion.

Europe: Survey data released this week suggest that the euro area continues to recover. But the main story has again been Greece. The week started on a positive note, with the government raising €3bn in a syndicated 5-year bond issue, albeit at a high price. But this didn't last long, as Greek yields rose to the highest levels since it joined the single currency in 2001. Next week, the European Commission will deliver its verdict on Greece's adjustment plans. A cautious endorsement is likely, but volatility is expected to remain high.