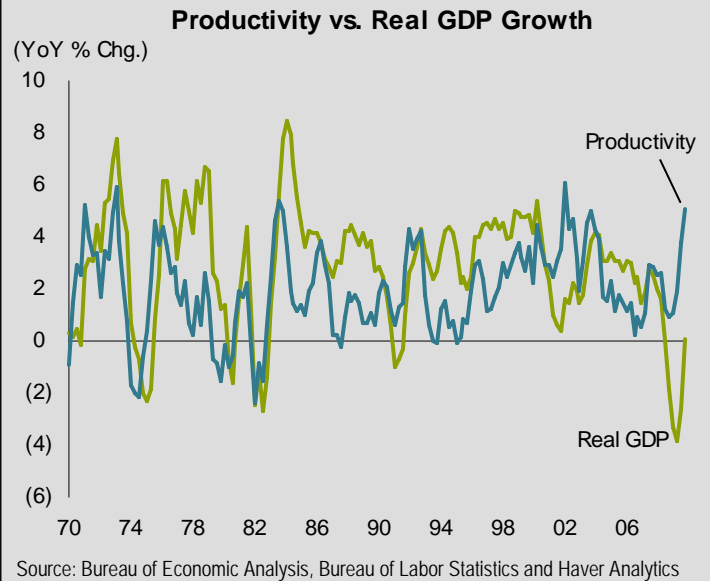


World Summary: Global stock markets finished mixed this week [DJI: +0.9% NASD: +2.0% DAX: +1.2% NKY: -2.5% HS: +3.1% BVSP: +4.9%; one-week performance as of 4:00 pm]. The US dollar appreciated against the Euro and flat the Yen. Non-energy commodity prices were overall higher with metal prices up 7.7% and ag prices up 4.7%. Gold improved 2.5% and settled at \$1093 per ounce. WTI crude increased to \$72 per barrel.

United States: Real GDP has increased 4% annualized over the second half of 2009, almost double consensus estimates. Yet, despite the strong cyclical performance, concern is growing that GDP recoveries based heavily on productivity gains are not sustainable. There is no empirical evidence to support that view. In fact, we believe strong productivity gains are the lifeblood of strong economic performance and they will eventually lead to new job creation and gains in wealth and living standards. Already, the strong productivity gains in the US are propelling a very strong export cycle as competitive US firms are gaining share around the world, and should continue to do so in 2010.



Emerging Markets: Venezuela announced that 2 of 3 blocks in their large heavy oil fields have been successfully auctioned for development. This is key for the medium-term outlook of the country, as it will remain heavily dependent on oil given the poor policy mix. In **Brazil**, capacity use in December rose to 81.7%, its highest level since October 2009. We think this adds to the probability of rate hikes beginning no later than in April of this year. **China's** January CPI surprised on the downside and eased to 1.5% y/y while non-food food CPI remained benign at 0.5% y/y. These indicate a still well-behaved underlying inflation trend despite the jump in PPI to 4.5% y/y. M2 and loan growth have further eased and we expect both growth rates will decline to the official targets of around 18-20% by mid-year. Combined with an expected slowdown of real investment growth to around 20-25% y/y, we think China will be in a sweet spot of its exit cycle, prompting a re-pricing its fundamentals.

U.S. High Yield: The high yield market was lower for the week (-1.18%). Volatility, as measured by the VIX, remained in the mid 20s. CCC (-1.94%) credits under performed BB (-0.98%) credits. Electric Utilities (-1.85%) and Independent Energy (-1.73%) were the worst performing sectors, while Airlines (-0.04%) was the best performing sector. There were fund **outflows** of -984 million, a complete reversal from last week's inflow. Twelve deals priced this week for \$5.18 billion.

Europe: With concerns over contagion growing, Europe's leaders finally rallied round Greece this week. Although there were no concrete measures, it now seems clear that, as long as Greece delivers on fiscal policy, its euro area partners will provide some form of financial assistance should that prove necessary. In this respect, it is worth noting that there is a meeting of euro area finance ministers in the coming week. This too is likely to provide conditional words of support for Greece but stop short of an actual support package.