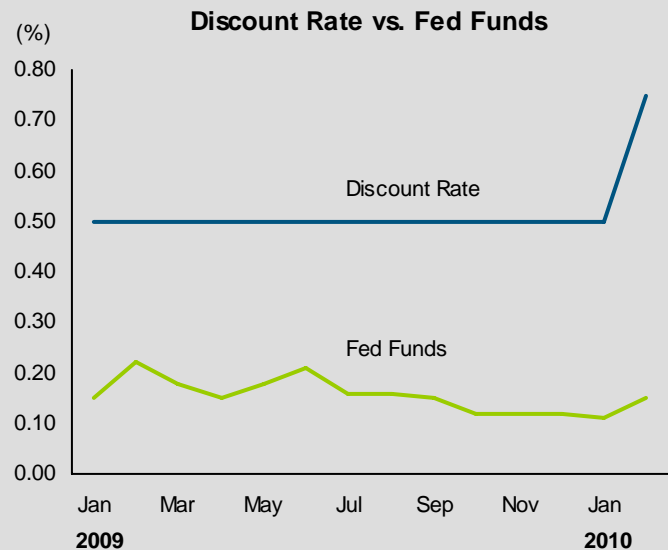


**World Summary:** Stocks were up on the week on the back of a belief that the Greece issue may be less of a problem in the near term for Europe. The US dollar was flat versus the Euro, but appreciated against the Yen and commodity currencies as the Fed indicated that monetary policy would begin to be tightened. Gold was up for the week, and oil soared for the week, ending at \$80 a barrel, gaining \$8 for the week.

**United States:** The Federal Reserve surprised the markets by increasing the discount rate 25 basis point increase to .75%. The official statement indicated that this rate increase should not be viewed as a tightening of monetary conditions and they repeated their promise to keep the target on the fed funds rate at exceptionally low levels for an extended period. However, lifting the discount rate does signal increased confidence in the economic recovery and also in the health of the banking system. The rate hike was also symbolic in that when the credit crisis first appeared on the scene in 2007, the Fed lowered the discount rate initially. We still see a hike in fed funds at mid-year.



Source: Federal Reserve Board and Haver Analytics

**Emerging Markets:** Argentina's dollar reserves continue to fall gently, and are now about \$300M below their peak, which was about \$48.2B. At the same time the currency continues to slide. We think local investors will soon begin to notice, and bank deposits are likely to begin to shift from pesos to dollars as dollar demand rises. Growth in the monetary base as well as spending have risen. We are increasingly cautious on the near term prospects here. The People's Bank of China raised banks' reserve requirement ratio (RRR) for the 2<sup>nd</sup> time by 50bp (to 16.5% for large) following Jan's 50bp hike. The latest RRR hike reflects the effort to curb local banks' ability to lend in response to the release of another outsized RMB1.39 trillion new loans in Jan. This is part of China's quantitative money controls to achieve this year's new loan target of MB7.5 trillion. Absence of the influx of hot money, we think a total of RRR hike of 250-300bp should be a reasonable forecast for this year (another 150-200bp more to go).

**U.S. High Yield:** The high yield market was higher for the week +1.25%. Volatility, as measured by the VIX, declined from the mid 20's to 20. CCC +2.11% credits out-performed BB 1.29% credits. Life Insurance +3.14% and Electric Utility +2.67% were the best performing sectors, while Health Insurance (-0.64%) was the worst performing sector. There were fund **outflows** of -916 million, similar to last week's outflow.

**Europe:** There were a number of important data releases this week consistent with a general slowing in the pace of economic growth. The highlight was 4th quarter GDP which edged higher by 0.1% vs. a consensus forecast of 0.3%. With respect to Greece, Finance ministers, as expected, expressed conditional words of support but stopped short of an actual package. The UK posted a poor budget deficit number with spending exceeding borrowing by £3.4bn vs. a forecast surplus of £2.6bn. This has dashed hopes of the fiscal year deficit undershooting the Treasury forecast.