

# RESEARCH INSIGHTS

January 7, 2010

Hello, I'm Mary Ann Bartels, head of U.S. Technical and Market Analysis. I'd like to share with you our outlook for the equity market in 2010. The year started off with a solid breakout in the S&P 500—a key benchmark for stocks—pointing to a continuation of the strong gains in equities that began last March. Our target range for the S&P this year is 1200-1250 and we think the index could eventually move as high as 1325.



We also expect to see more sector rotation and volatility in 2010. Congressional election years, which we are in, tend to have large market swings. Historically, stocks tend to perform slightly positive to flat during election years, but recession periods have proven to provide higher market returns averaging 7%.

One investment theme from 2009 that we continue to favor is mega-cap multinationals. These are companies generally with solid balance sheets, strong cash flows, and provide attractive dividend yields. This theme spans across most sectors, and we would focus in particular on the technology, energy, healthcare and consumer staples sectors. Mega-cap companies also favors growth style of investing over value. We believe the growth cycle is secular in nature and likely to outperform for several more years.

Yield is another a theme we believe individual investors will seek out in 2010, as returns on cash and similar investments are expected to remain low. Many of the mega-caps stocks provide above market yield, as does the telecom sector.

There are a few speed bumps we are watching out for that could temporarily shake the confidence in the equity market in 2010. These include rising interest rates on long-term Treasury bonds, along with a move in crude oil prices above \$83 a barrel. We see a risk that 10-year Treasury yields could rise sharply and this could prove as temporary competition for stocks. However, from an asset allocation perspective, the secular trends still favor stocks over bonds. We also continue to recommend long-term accumulation of high-quality equities.

While the improving earnings outlook has led to strong equity market returns, the individual investor has not yet come back to the market. However, as cash yields remain low and confidence in stocks returns, we will see individual investors come back to the market. In addition, a more volatile and rotational market generally leads to a more active investment approach within a portfolio.

Thank you for joining us