

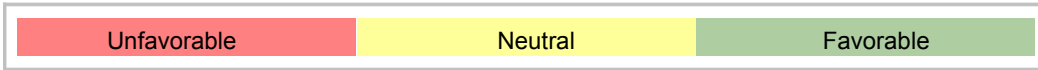


The foundation for our near-term view of the U.S. stock market is summarized by examining five important drivers of stock prices. While much of the data we review for each factor (such as earnings growth rates, P/E ratios, etc.) are objective, the process of assimilating that data into a view of where that factor falls on the spectrum of favorable to unfavorable for stocks is essentially a subjective exercise.

## Equity Five Factor Model: As of February 2010

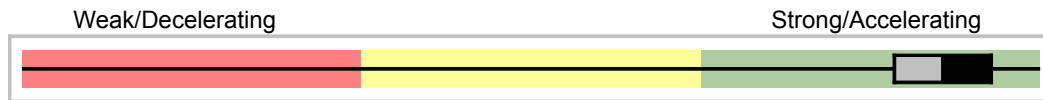
Current position
  1 month ago
  Unchanged

### Factor Key



1

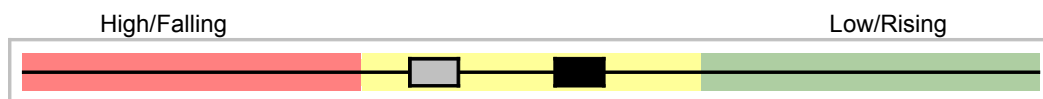
### Earnings



The 4Q09 earnings season has been impressive in many respects, and even though earnings expectations continue to improve, we still expect more positive surprises in the quarters ahead. Remarkably, expected reported earnings for 2010 are still approximately 30% off the 2007 peaks.

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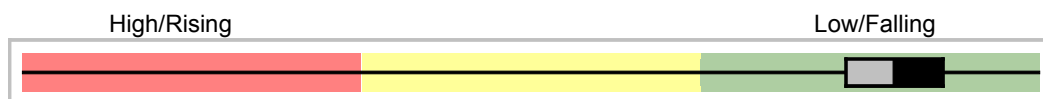
### Valuations



The 5-year normalized price/earnings ratio dropped below 17x by the end of January, and the price/earnings ratio using expected 2010 reported earnings drops to 14x. Compared to a 50-year median valuation of 20x, the market appears modestly cheap. Another positive is that valuations are rising.

3

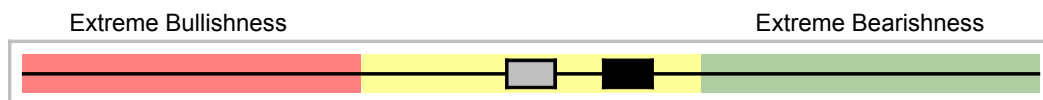
### Interest Rates



The interest rate environment remains net positive for stocks. Short-term interest rates are nearly zero and the yield curve (the yield difference between short and long maturity Treasury bonds) is very steep. The risk to the outlook is rising rates, but in January rates dropped.

4

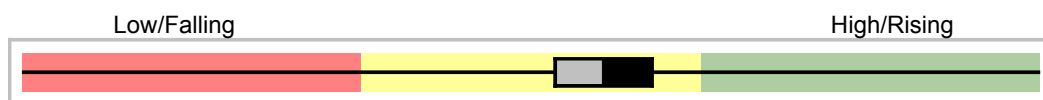
### Sentiment



With the sell-off in the latter part of January, investor sentiment moved back toward a slightly bearish tilt. In the grand scheme of things, the reading is mostly neutral. Investor allocations remain mostly defensive though, with allocations to fixed income now at multi-decade highs.

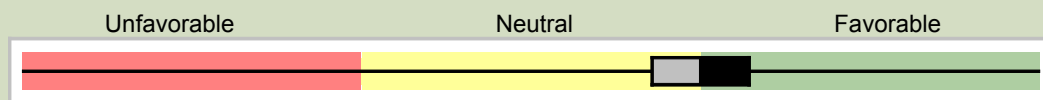
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### Liquidity



Cash is clearly being re-deployed. Total money market balances have been reduced by a over half of a trillion dollars in recent months. And, given that cash levels remain 50% above 2004-2006 levels, we expect this trend has room to run. One notable concern, however, is slowing money supply (M2) growth.

### Outlook



The sell-off in January, coupled with the strong earnings season, has improved our outlook for the stock market. Looking forward, we believe that the biggest risks to the stock market are significantly higher interest rates (especially corporate bonds) or disappointing earnings.