

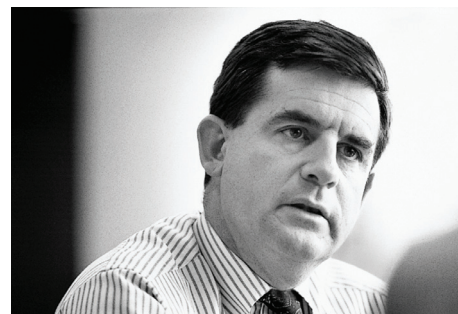
2011: A Look Ahead

December 31, 2010

As a way of discussing our economic and market views for the coming year, we present our 10 predictions for 2011:

1. **US growth accelerates as US real GDP reaches a new all-time high.**
2. **The US economy creates two to three million jobs in 2011 as the unemployment rate falls to 9%.**
3. **US stocks experience a third year of double-digit percentage returns for the first time in more than a decade as earnings reach a new all-time high.**
4. **Stocks outperform bonds and cash.**
5. **The US stock market outperforms the MSCI World Index.**
6. **The United States, Germany and Brazil outperform Japan, Spain and China.**
7. **Commodities and emerging market currencies outperform the US dollar, the euro and the Japanese yen.**
8. **Strong balance sheets and free cash flow lead to significant increases in dividends, share buybacks, mergers and acquisitions and business reinvestment.**
9. **Investor capital flows move from bond funds to equity funds.**
10. **The 2012 Presidential campaign sees a plethora of Republican candidates while President Obama continues to move to the political center.**

For some context around these predictions, we expect to see continued improvement in US economic growth, especially the quality of that growth. This trend, coupled with improved business and consumer confidence as well as a less hostile capital markets attitude from Washington, DC, should lead to another reasonably good year for risk assets including equities in particular. Our 1,350+ S&P 500 Index target implies that the stock market should appreciate at least in line with earnings with the risks skewed more to the upside than was the case last year. The cyclical recovery should continue, but at a less-than-normal pace due to the structural problems that continue to face most of the developed world. In this environment, the Fed will likely remain accommodative, which will probably result in some further steepening of the yield curve. Equities are likely to surpass fixed income as the preferred asset class, both in terms of price appreciation and investor flows. We expect the US stock market to outperform the MSCI World Index again in 2011. The gap between the higher growth rates in the developing world and the lower ones of the developed world will likely shrink somewhat in 2011, causing less differentiation in equity returns.



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On the possible what-can-go-right front, we include an acceleration in jobs gains, improving business and consumer confidence, a possible upside surprise in real GDP, corporate earnings exceeding expectations (as seen in 2010) and Washington, DC, beginning to address the debt and budget problems. The what-can-go-wrong list includes the possibility of credit problems resurfacing (including US housing, sovereign nations and state & local governments), commodity price increases causing profit margin pressure, inflation fears, a higher-than-expected rise in interest rates and excessive emerging markets tightening to curb asset bubbles. The upside possibilities could lead to a stock market that appreciates 10% to 20% more than we expect, while the downside issues could result in low double-digit percentage losses. In summary, while our expected gains for equity markets are similar going into 2011 to what they were going into 2010, we believe that the risks have moved from the downside to the upside.

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