2010 Governor’s Water Conference
Economic and Market Update

Wednesday, October 27, 2010
Chris Cochran, Managing Director Public Finance | BOSC, Inc.
S&P 500

- S&P 500 had a very strong third quarter.
- September especially good… the second best September in 80 years.
- Corporate profits up largely due to cost cutting

Source: Strategas Research Partners, LLC
Existing Home Sales still nearly 20% below last years figure and nearly 50% below highs

- While there are some parts of the economy that are recovering, the U.S. housing market is still not providing any impetus for growth.

Source: Strategas Research Partners, LLC
Initial Jobless Claims Stuck Above 450,000. Economy Not Growing Enough For Unemployment To Fall

- The economic data continue to be “mixed” and “ok” as we move through October, but there is no evidence of a significant acceleration in the data yet, which is notable since the FOMC appears to be “on the fence” in terms of providing additional Quantitative Easing.

Source: Strategas Research Partners, LLC
The 9.6% unemployment rate indicates that forward economic momentum though positive, is not rapid enough to bring the unemployment rate down.

Source: Strategas Research Partners, LLC
Job Creation Now Occurring, But Barely.

- Despite improvement from lowest point of the recession, job growth is very hard to come by.
Retail Picture Continues Trend Of Tepid Growth… And Little Inflation – (Deflation)?

- But… the most important variable for spending remains whether consumers are employed, and with overall employment still sluggish, more of the same on the consumer front is likely.
Bank Reserves & Lending

- There’s plenty of fuel already in the system.
- But lending remains slow.

Source: Strategas Research Partners, LLC
Both third year of Presidential election cycle and divided government bode well for equity bulls.
World Economic Outlook (April 2010) – Real GDP Growth

- Gross domestic product is the most commonly used single measure of a country’s overall economic activity. It represents the total value at constant prices of final goods and services produced within a country during a specified time period, such as one year.
### Economic Outlook

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<th>4th Quarter 2010</th>
<th>2011</th>
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<td><strong>Real GDP estimates:</strong></td>
<td>1% - 2% est.</td>
<td>2% est.</td>
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- 2010 - 2011 will see positive, but flat economic growth.

- If not housing, what will be the engine driving our economy?
What Does this Economic Outlook Imply for Markets?

More of the Same

- Short term interest rates to remain near all time lows.
- Equity market to be a bumpy ride.
- Corporate earnings have been good, based in part on significant cost cutting.
- Since top line growth will be hard to come by, expect cost cutting/containment to continue.
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