

Have Investors Overlooked Positive Signs in the Market?

Profits have increased, as have margins

- Of companies that reported second quarter earnings by 8/2/10, 50% delivered positive earnings surprises.¹
- Of the S&P 500 Index firms that reported first quarter earnings, 77% beat expectations.²

Improved balance sheets reflect companies' efforts to dramatically streamline operations and strengthen their balance sheets³

- Free cash has been steadily increasing for nearly 20 years, and is now at a 30-year high.
- S&P 500 Index companies' cash as a percentage of assets continued its multi-year expansion.

Interest rates are low⁴

- The Federal Funds Target Rate remains at 0.25%, the lowest rate in over 40 years.
- The LIBOR rate is at 0.34% compared to a range of 2.5% to 5.5% over the past few years.

Yield curve is positive, consistent with previous economic expansions

- In March 2010, the U.S. Treasury yield curve reached the widest spread since 1950. As of May 2010, the two year note and 20 year bond yield differed by 3.4%.⁵
- Coming out of a recession, 13 of the last 15 expansionary periods since 1926 have had a positive yield curve.⁶

Debt markets are accessible

- For the first half of 2010, \$670 billion in corporate bonds were issued, compared with fourth quarter 2008, when U.S. corporate issuance slowed considerably and totaled \$202 billion.⁷

¹Bloomberg Financial L.P. ²"Comeback of the Year? Try Corporate Profits."The New York Times, 5/7/10. ³Oppenheimer Investment Strategy and Research, 3/1/10. ⁴Bloomberg Financial L.P., 6/30/10. ⁵Green Book - May 2010: Inside the Bond Market, Leuthold Group. ⁶Leuthold Group, May 2010. ⁷Bloomberg Underwriter Rankings Market - U.S. Corporates.

The **Federal Funds Rate** is the interest rate at which banks lend federal funds at the Federal Reserve to other depository institutions. The **LIBOR** (London Inter-Bank Offer Rate) rate is that interest rate that banks charge each other. **Free cash flow** is the amount of cash a company has after expenses, debt service, capital expenditures, and dividends. The higher the free cash flow, the stronger the company's balance sheet. **Yield curve** is a graph showing the term structure of interest rates by plotting the yields of all the bonds with maturities ranging from the shortest to the longest. **S&P 500 Index** is an index of 500 U.S. stocks chosen for market size, liquidity and industry group representation and is a widely used U.S. equity benchmark. All indices mentioned are unmanaged. It is not possible to invest directly in an index.

Past performance does not guarantee future results.

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