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MARK LUSCHINI

[MLUSCHINI@JANNEY.COM](mailto:MLUSCHINI@JANNEY.COM)

JOSEPH G. WITTHOHN, CFA

[JWITTHOHN@JANNEY.COM](mailto:JWITTHOHN@JANNEY.COM)

GREG DRAHUSCHAK

[GDRAHUSCHAK@JANNEY.COM](mailto:GDRAHUSCHAK@JANNEY.COM)

BRAD DURKO

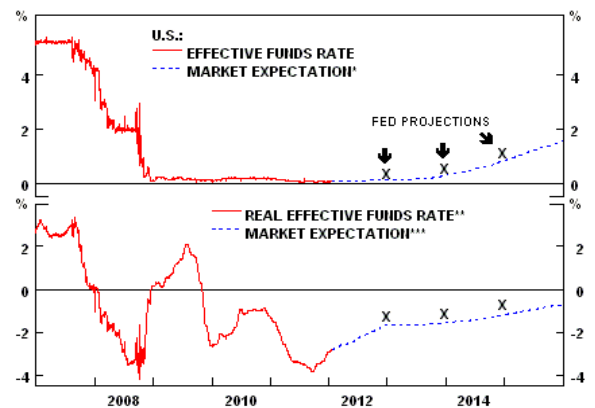
[BDURKO@JANNEY.COM](mailto:BDURKO@JANNEY.COM)**THE FED UNDERTAKES “COMMUNICATIVE EASING”**

The conclusion of last week’s Federal Open Market Committee meeting was eagerly anticipated. Market participants were going to receive from the Fed – with additional color provided by Chairman Bernanke at his subsequent news conference – more transparency to the opinions that went into the establishment of the Fed’s monetary policy. The news release brought with it two new items for market participants to monitor. The first was the Fed establishing an explicit target for inflation of 2%. As part of the Fed’s dual mandate (the other being full employment), we can now expect to see the Fed attending to policy in the context of a defined number rather than a general range or implied target. The Fed was a little more ambiguous about the labor market, opting to estimate that the normal rate of unemployment is in the 5.2 to 6.0% range. The second item of note – and that which came as a surprise to the market – was the extension of time during which the Fed expects to maintain its interest rate policy at low levels. Having stated in a previous meeting that the period would likely be through mid-2013, the Fed now expects conditions to warrant keeping rates buried near zero “...at least through late 2014.” In other words, dear savers, expect today’s almost invisible yields on cash-like instruments – savings and checking accounts, money market funds, and short-term CDs – to not offer more than you see today for probably three more years.

Stocks and bonds both rallied on the news. Treasury bond yields fell, as investors viewed the Fed’s statement as signalling no imminent threat of an unanticipated hike in rates which could undercut bond values. Equities rallied because the liquidity in the market that is earmarked for a longer duration will likely migrate to risk assets, since the opportunity cost of cash and government bonds is going to remain excruciatingly high for several years, at least. For investors, that implies the search for yield will continue in earnest. While still offering relatively low yields, corporate and municipal bonds offer an attractive spread over government securities of similar maturity. In addition, as a carryover theme from 2011, high dividend-paying stocks still have appeal. While we would not dive into the traditional bastions of yield, namely the utility and consumer staples sectors, principally because valuations have become somewhat rich, we believe the energy, health care and technology sectors can provide the quality and yield that income seekers desire. Major integrated oil companies, large pharmaceuticals, and semiconductor and software companies are the sub-sectors that we find most compelling.

| INDEX          | WTD   | YTD   | 1-YR  |
|----------------|-------|-------|-------|
| DOW JONES      | -0.5  | 3.8   | 8.5   |
| S&P 500        | 0.1   | 4.8   | 3.4   |
| S&P 400        | 1.3   | 7.2   | 2.2   |
| RUSSELL 2000   | 1.8   | 7.9   | 1.8   |
| MSCI EAFE      | 1.6   | 6.0   | -9.6  |
| MSCI EM        | 2.2   | 11.0  | -8.7  |
| TYPE           | YIELD | 12/11 | 12/10 |
| 3-MO TREASURY  | 0.05  | 0.01  | 0.12  |
| 2-YR TREASURY  | 0.21  | 0.24  | 0.59  |
| 10-YR TREASURY | 1.89  | 1.88  | 3.29  |
| 30-YR TREASURY | 3.06  | 2.89  | 4.33  |

SOURCE: BLOOMBERG AS OF 1/30/2012



\* DISCOUNTED PATH FROM THE OIS MARKET. © BCA Research 2012  
 \*\* FED FUNDS RATE MINUS CPI INFLATION  
 \*\*\* DISCOUNTED PATH FROM THE OIS MARKET AND THE CPI SWAP CURVE.  
 NOTE: X DENOTES FED PROJECTIONS OF THE FED FUNDS RATE.