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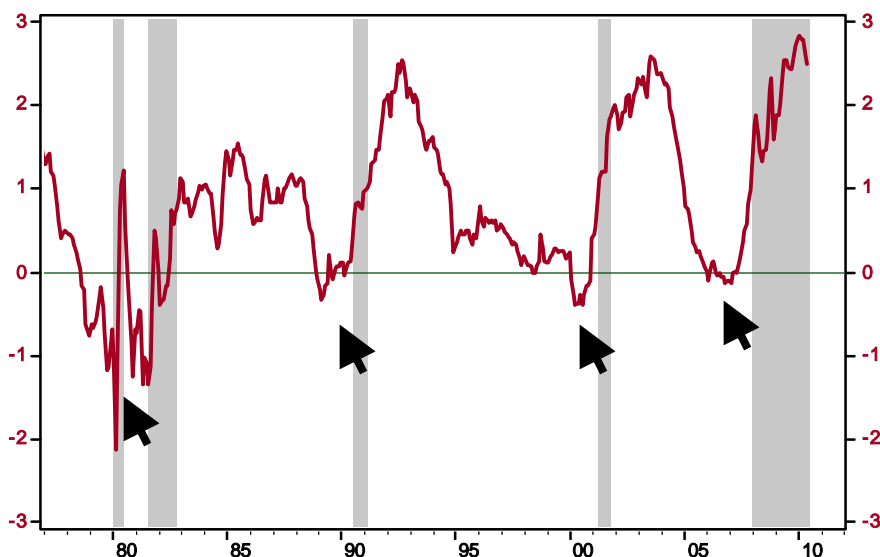
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A DOUBLE DIP VERSUS A SHORT BUSINESS CYCLE (The Latter Makes more Sense versus the Former)

There are a number of reasons, including the steep yield curve, corporate compensation rising slower than corporate GDP (which is good for profits), and cash on corporate balance sheets that make it, we believe, hard to make a double-dip in the U.S. economy the base case. Recovery, we continue to believe, is easier when cyclical economic variables such as home sales or auto sales are starting from depressed positions. That is, it's easier to generate a negative GDP number with housing starts falling from 2 million to 500,000 rather than bottoming around 500,000 and then looking for another drop from there.

Additionally, while there are clear problems in economies abroad – eg. Greece as it pursues austerity packages - there has been a strong package of economic data out of countries such as Germany (industrial production up sharply in May) and Canada (employment showed a solid increase in June) in recent weeks. China also appears to be interested again in going for growth as we enter 2H. The OECD leading indicators are generally still pointing to growth. To be fair, what investors are willing to pay for this growth remains an open question (multiples have been pressured as companies are hoarding cash, see Strategas' *Sector Strategy Report*, 6/8/10).

U.S. 10-Year Treasury Yield minus 2-Year Treasury Yield

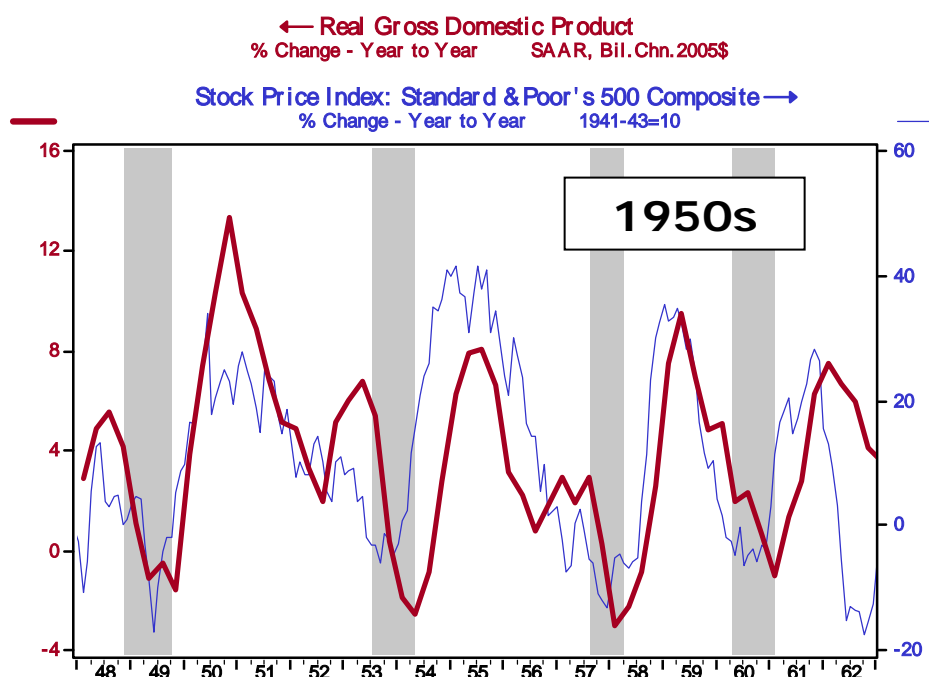


The yield curve, which inverted before past recessions, remains very steep as we move through 2010. We continue to believe that a double dip is not the base case for the U.S. economy.

A DOUBLE DIP VERSUS A SHORT BUSINESS CYCLE Contd

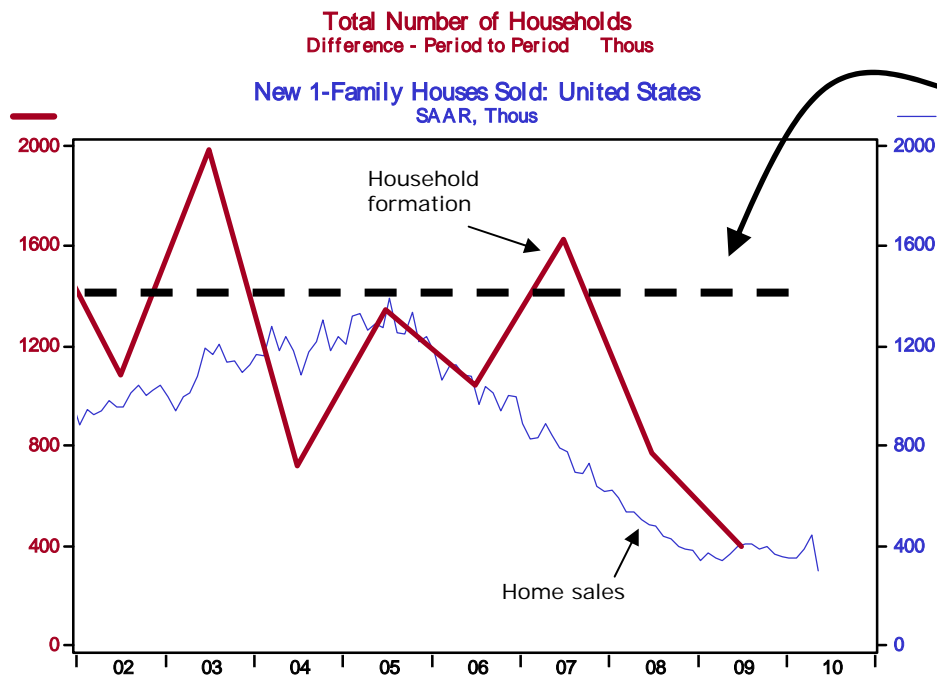
Historical Business Cycles			
Duration In Months			
Peak	Trough	Trough from Previous Trough	Peak from Previous Peak
Jan- 1920	Jul- 1921	28	17
Jul- 1981	Nov- 1982	28	18
Apr- 1960	Feb- 1961	34	32
Jan- 1913	Dec- 1914	35	36
May- 1923	Jul- 1924	36	40
Oct- 1926	Nov- 1927	40	41
Jan- 1910	Jan- 1912	43	32
May- 1907	Jun- 1908	46	56
Aug- 1957	Apr- 1958	47	49
Nov- 1948	Oct- 1949	48	45
Aug- 1918	Mar- 1919	51	67
Nov- 1973	Mar- 1975	52	47
Jul- 1953	May- 1954	55	56
May- 1937	Jun- 1938	63	93
Aug- 1929	Mar- 1933	64	34
Jan- 1980	Jul- 1980	64	74
Feb- 1945	Oct- 1945	88	93
Jul- 1990	Mar- 1991	100	108
Dec- 1969	Nov- 1970	117	116
Mar- 2001	Nov- 2001	128	128
Dec- 2007		??	81

A lot of attention has been paid recently to the odds of a double-dip in the U.S. We covered on Friday (*Investment Strategy Viewpoint* 7/9/10) the reasons why a double dip is not our base case, but **central to our view is that we believe double dips are caused (eg, in 1981) while short cycles happen in the post-War period.** Absent a major policy mistake going forward – which we do not believe is likely – the current cycle does not appear set up to follow the double-dip profile; **it is much more likely in our view that we will have a short business cycle, like in the 1950s** (ie, a period when the economy was more industry oriented, and the capex cycle dominated the economic swings, like today's environment where manufacturing is the only sector that appears to be "working").

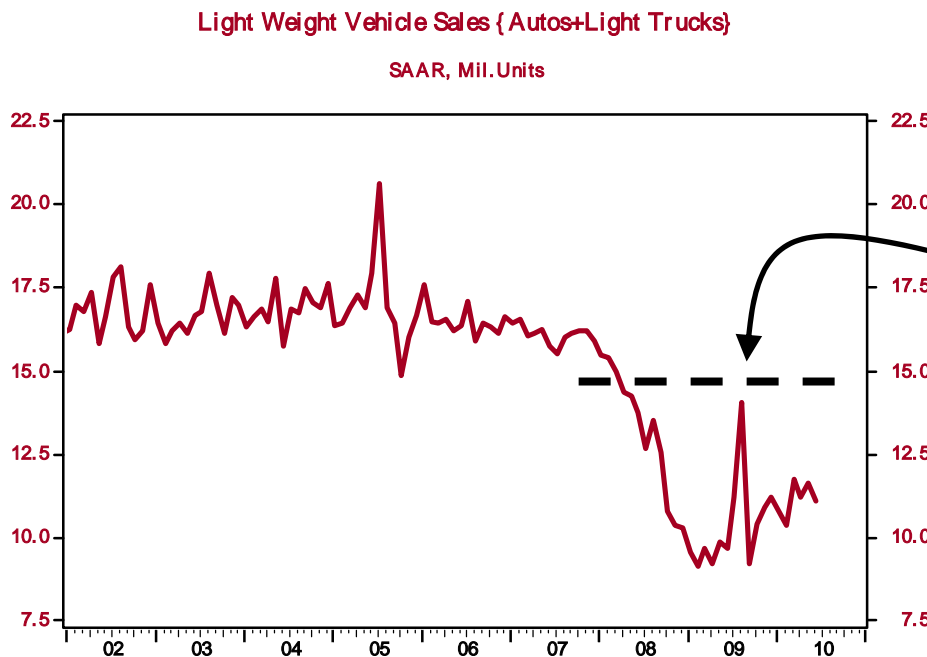


The 1950s were not a bad decade overall, but both the economy and the market exhibited greater cyclical volatility. A shorter business cycle and a "double-dip" are different, in our view.

AUTOS AND HOUSING BELOW REPLACEMENT RATES



Versus more “normal” levels over the past decade, home sales are especially slow, but even versus last year’s reduced increase in household formation, residential construction has been slack. New home sales in May slowed to a 300,000 seasonally adjusted annual rate, versus an increase of 398,000 in households in 2009. Vehicle sales have also been below scrappage according to Polk data, as “clunkers” programs have helped, and recent vehicle sales data has slowed further to an 11 million SAAR!



Polk Finds More Vehicles Scrapped Than Added to Fleet

More than 14.8 million cars and light trucks were retired from the fleet between July 1, 2008 and September 30, 2009, compared to new registrations of slightly more than 13.6 million, resulting in an overall scrap rate of 6.1 percent.

Polk expects conditions facing the U.S. automotive industry today to remain through 2010 and expects trends for scrappage and vehicle ownership to continue for at least another year.

Polk, 3/30/2010

COMPANIES SHOULD DEFEND MARKET SHARE, AND THAT'S PROBABLY GOING TO REQUIRE MORE WORKERS.

Cost cutting has been the story for the past year and the labor share of GDP hit a new low in 1Q (which is where the undistributed corporate profits have come from!) However, with earnings season now starting in earnest, of particular interest should be companies' desire to preserve their market share. This should provide a reasonable motive for hiring and, perhaps, could shake loose some of the corporate cash that has accumulated on balance sheets in recent quarters. Nonfinancial companies should take cash and, through some business process, make a profit. Taking cash and holding it is the function of a financial company / checking account; ie, it would require a market failure for cash to accumulate unchecked on nonfinancial corporate balance sheets. There should be pressure from shareholders and competitors to do something with the cash.

U.S. Corporate Compensation % Corporate GDP

