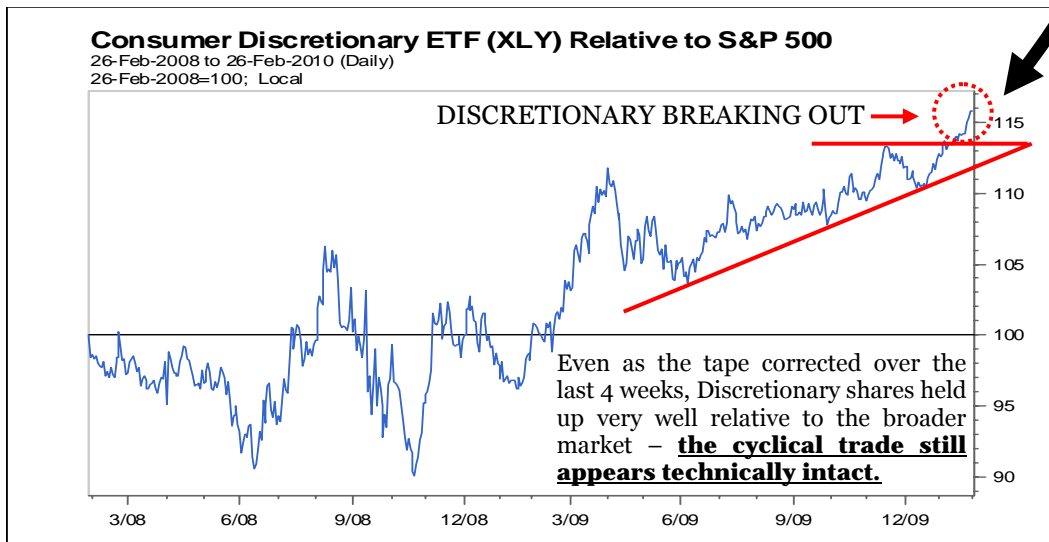
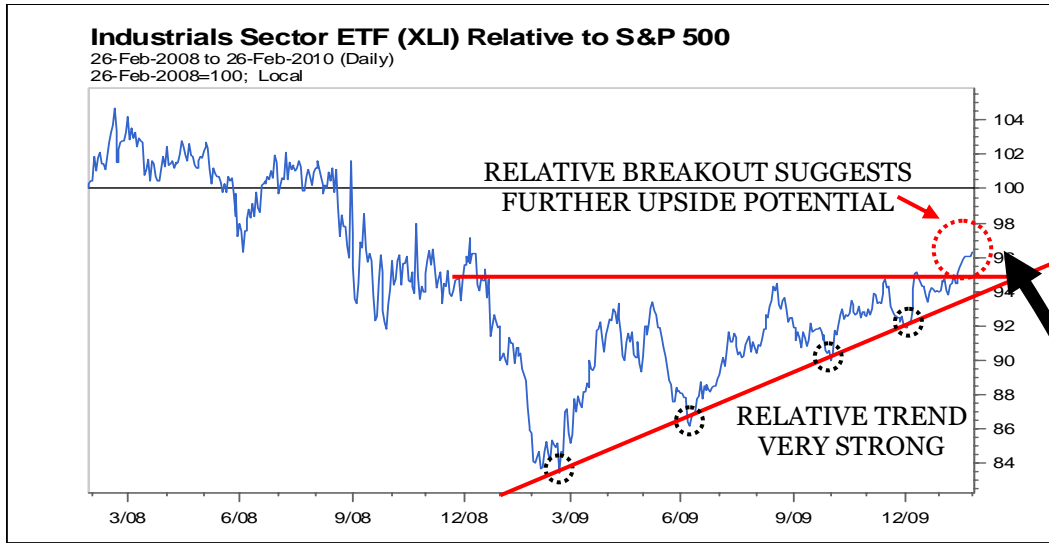




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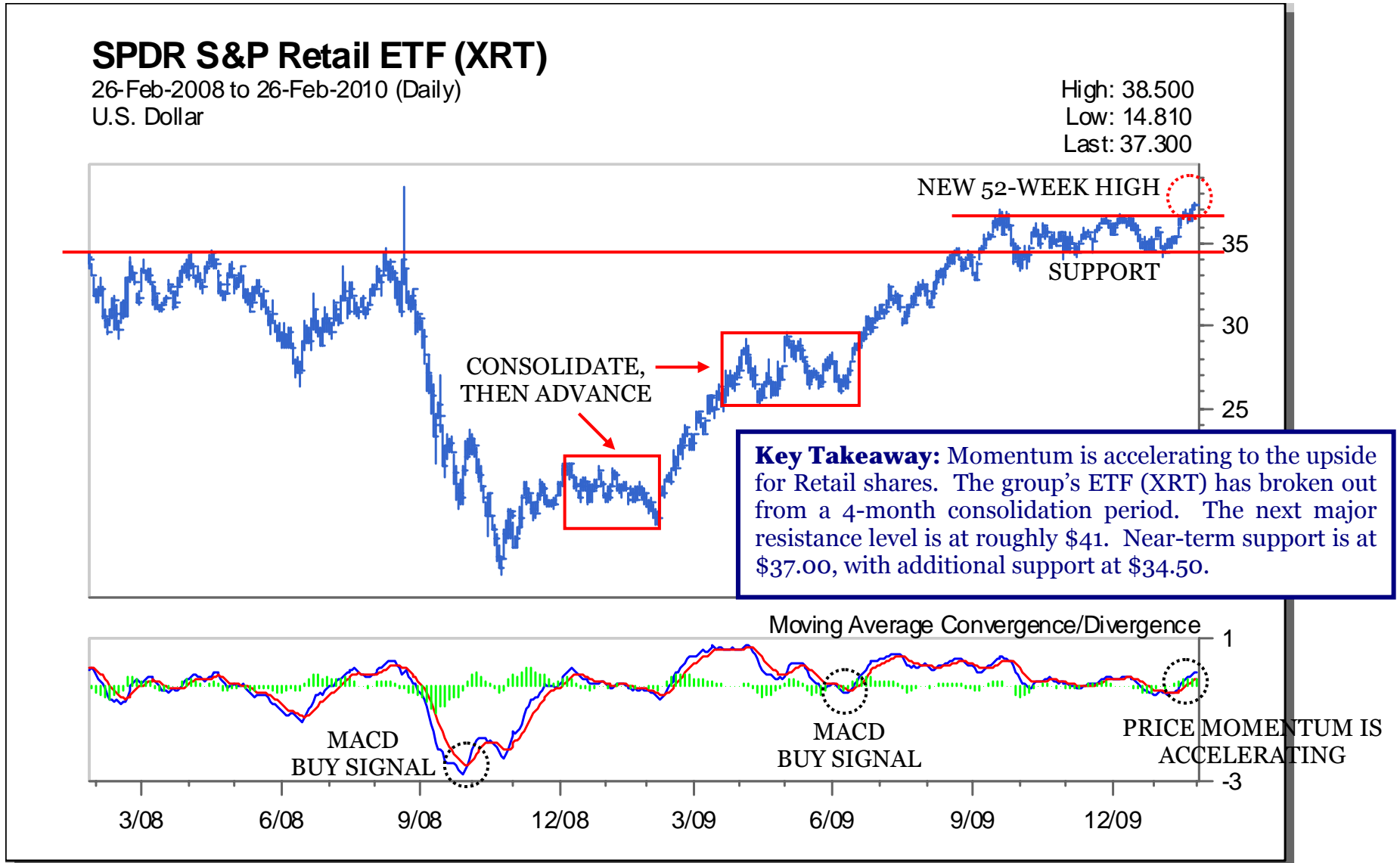
LEADERSHIP STAYS CYCLICAL – INDUSTRIALS & CONSUMER DISCRETIONARY SECTORS BREAKING OUT, BULLISH SIGNAL FOR BROADER MARKET



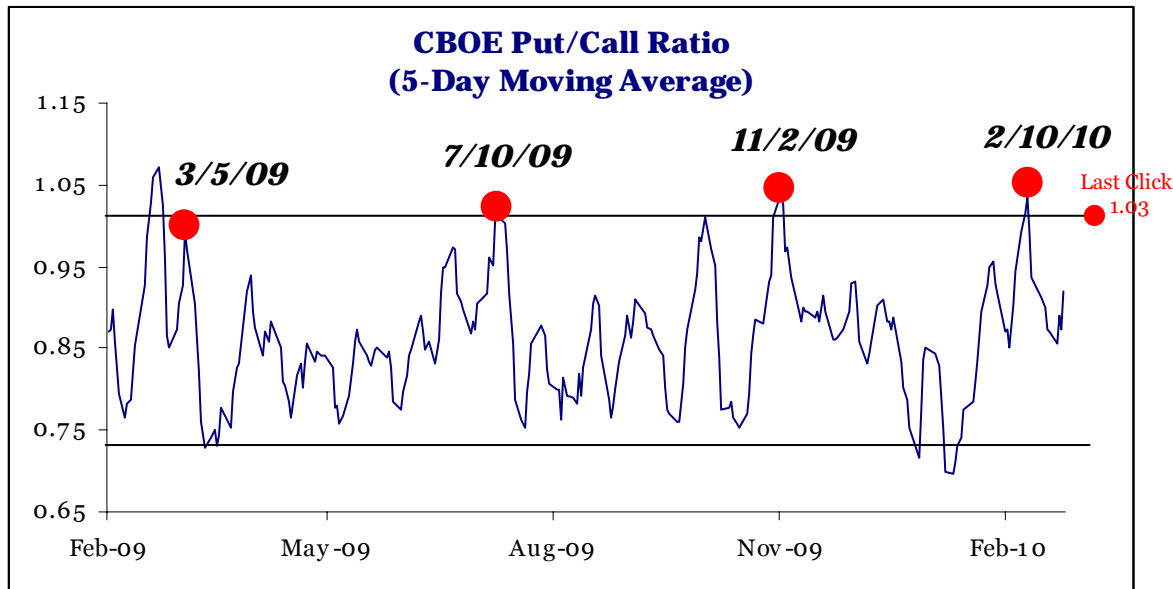
While equities have been volatile, market internals remain broadly supportive. More than 50% of NYSE stocks are back above their 50-day moving average and new 52-week highs have begun to reaccelerate – two positive developments. At this stage, leadership from the market’s more cyclical groups is also encouraging – Friday’s new 52-week highs for the Consumer Discretionary ETF (XLY) and the S&P Retail ETF (XRT) are, in our view, bullish developments for the broader indices. The Industrials sector (XLI) has also meaningfully outperformed over recent weeks, consistent with the theme that periods of consolidation over the last 10 months have been marked more by sector rotation than across the board weakness.

Key Levels to Watch: In the near-term the market’s interaction with 50-day moving average resistance (roughly 1109) is key. 1121 follows as the next major resistance level (the 50% midpoint from the October ‘07 all-time high to the March ‘09 bear market low). We’ll look to the 1086 level, which was tested and held last week, as near-term support once again.

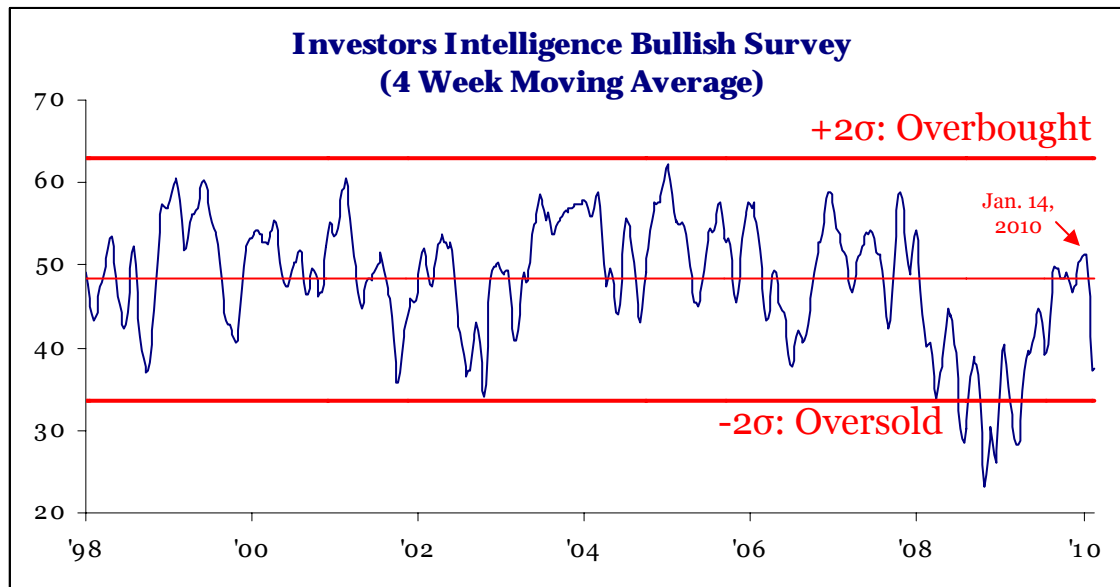
RETAIL ETF (XRT) BREAKING OUT FROM CONSOLIDATION PATTERN, MOMENTUM ACCELERATING TO THE UPSIDE



STILL CONSTRUCTIVE ON SENTIMENT – PUT/CALL RATIO, FUND FLOWS, AND SURVEY DATA NOT CONSISTENT WITH MAJOR MARKET TOP



Broadly, sentiment remains in the market's favor at this stage – the put/call ratio (top chart), for instance, was higher this February than it was at the March '09 low, fixed income fund flows continue to outpace equity flows by an overwhelming margin, and measures like the Investors Intelligence Bullish Survey (bottom chart) **are not flashing signals typically consistent with a major market top.** While volatility has picked up, it's difficult to get too bearish here.



Even at the January market high, the II Bullish Survey was well below the +2 standard deviation threshold that has typically been a good indicator of an “overbought” market. **Attitudes towards equities remain far from ebullient.**