STANDARD & POOR'S

The Outlook

Intelligence for the Individual Investor

COME VISIT US ONLINE!
www.outlook.standardandpoors.com

April 1, 2009
Volume 81
Number 13

What's Inside

Intelligencer	2
The Observatory	3
Utility Dividends	4
Health Matters	6
Brazil's Banks	7
ETF Portfolios	9
Master List	10
Top Ten Portfolio	12

Looking Ahead

In the midst of ongoing dividend cuts throughout the S&P 500, tech bellwether Oracle (ORCL 18 ★★★★) decided to start paying dividends last month. What other tech stocks offer income? Find out in the April 8 issue of *The Outlook.*

Even Gloomier

Risks to our U.S. forecast.

David Wyss
Chief Economist

For economists, projections are a stock in trade. At Standard & Poor's Ratings Services, which operates independently of S&P Equity Research, we publish our economists' best estimates of where the U.S. economy is heading.

Beyond the projection of gross domestic product (GDP) and inflation, we include outlooks for other major economic categories, such as home and auto sales, employment, and oil prices. We call this forecast our baseline scenario, and we use it to inform all areas of our credit analyses.

However, we realize that financial market participants also want to know how we think things could go worse — or better — than what our baseline scenario calls for. We also offer two additional scenarios, one worse than the baseline and one better, both of which have an estimated 20% chance of occurring (in the sense that reality will look more like them than like the baseline).

Baseline Case: The Worst Recession Since the 1930s

The baseline forecast is for the recession to be the deepest and longest since the Great Depression, with a sluggish recovery beginning in the fourth quarter of 2009. Although lower oil prices relieve the squeeze on consumers, financial markets tightened much more than anticipated. The inability to borrow money lowers investment more than expected, while consumers suffer from both the loss of wealth and the increased difficulty of borrowing.

Although the underlying problems that led to the recession are, in some ways, similar to those of the 1991-1992 recession (during which the GDP fell only 1.2% from peak to trough), we think that the financial problems will make this recession much deeper.

The cyclical peak of the latest expansion was December 2007 and the trough is likely to come in the third quarter of 2009. This 21-month recession would be longer than the average of 10.7 months during recessions since the 1950s, and longer than the longest recessions — 1975 and 1982 (both at 16 months). We're forecasting a contraction in GDP growth from the third quarter of 2008

BASELINE FORECASTS

	% CHANGE		
	2008	E2009	E2010
Real GDP	1.1	-3.0	1.8
Consumer Spending	0.2	-1.0	2.2
Equip. Investment	-3.0	-14.8	9.9
Real Nonres. Construction	11.5	-21.5	-10.7
Res. Construction	-21.0	-24.7	9.0
Federal Govt. Purchases	6.0	5.1	1.1
S&L Purchases	1.2	-1.4	-0.2
Total Exports	6.2	-12.5	-1.3
Total Imports	-3.4	-13.6	6.9
CPI	3.8	-1.7	1.7
Core CPI	2.3	1.1	1.2
Unemployment Rate (%)	5.8	8.9	9.7
Federal Funds Rate (%)	1.9	0.2	0.3
10-Yr. T-Note Yield (%)	3.7	2.8	3.0
AAA Bond Yield (%)	5.6	5.0	5.1

E-Estimated. Source: S&P Economics.

(Continued on page 8)

Intelligencer

Headlines, Highlights, and What's on Our Minds

DEFICIT TO GROW: In a report released in March, the Congressional Budget Office (CBO) estimated that the 2010 to 2019 cumulative deficit from President Obama's budget proposals would amount to a whopping $9.3 trillion, $2.3 trillion above the administration's projections. The CBO projected a deficit of $1.8 trillion — 13.1% of gross domestic product (GDP) this year and $1.4 trillion (9.6%) in 2010. It expects the deficit as a percent of GDP to decline to about 4% by 2012 and then remain between 4% and 6% of GDP through 2019. Debt held by the public is expected to rise to 57% of GDP in 2009, from 41% in 2008, and then to 82% by 2019. For the next two years, CBO expects the U.S. economic output will average about 7% below its potential (the output if the economy's resources were fully employed). It believes this recession is the most severe since World War II but should end in the fall of 2009. Unemployment is forecasted to top out at 9.4% in late 2009 and early 2010, and remain above 7.0% through 2011. Some good news: inflation is anticipated to be very low during the next several years. Of course, that good news could be bad news for TIPS investors (iShares Barclays TIPS Bond ETF, or TIP). / Arthur Epstein

FEELING THE CREDIT CRUNCH: According to a report released in March, the World Bank estimates that 129 developing countries are facing a financing shortfall of $270 billion to $700 billion this year. This includes public and private debt and trade deficits that cannot be covered by international financial institutions. With private-sector creditors staying away from emerging markets, only one-quarter of the most vulnerable countries have the resources to stop poverty from increasing. The report also noted that 94 of 116 developing countries saw a slowdown in economic growth, with the most affected sectors including urban-based exporters, construction, mining, and manufacturing. Cambodia lost 30,000 jobs in its garment industry, its largest export industry, and in India, more than half a million jobs were lost in gems, jewelry, autos, and textiles in the last quarter of 2008. The World Bank forecasts world trade in 2009 is heading toward its largest decline in 80 years, with the most losses seen in East Asia. This could have negative implications for exchange-traded funds that track emerging markets, including SPDR S&P Emerging Markets (GMM), SPDR S&P Emerging Asia Pacific (GMF), and Market Vectors Africa (AFK). / Arthur Epstein ■

MARKET MEASURES

INDEX	CLOSE WED. 3/25/2009	% CHG. YEAR TO DATE	% CHG. PAST 52 WKS.	‡OPERATING —EARNINGS— E2008	E2009	†P/E RATIO	INDICATED ANNUAL DIVIDEND	% YIELD
S&P 500 Composite	813.88	-9.9	-37.3	49.50	62.35	13.05	24.29	2.98
S&P MidCap 400	492.18	-8.6	-34.9	30.04	36.24	13.58	10.75	2.18
S&P SmallCap 600	223.58	-16.8	-36.8	10.24	13.56	16.49	4.15	1.86
S&P SuperComposite 1500	184.34	-10.0	-37.1	11.12	13.98	13.19	5.32	2.89
Dow Jones Industrials	7749.81	-11.7	-36.0	462.49	458.90	16.89	275.49	3.55
Nasdaq Composite	1528.95	-3.0	-30.8	...	...	...	...	...
S&P Global 1200	925.80	-10.0	-40.7	...	...	...	...	...
BBB Indus. Bond Yield (10-yr.)	9.19	0.06 ◊	2.50 ◊			...	...	...

Data through March 25. E-Estimated. †Based on estimated 2009 earnings. ‡Before special factors. ◊Actual change in yield (not percentage change).

For even more market intelligence, visit www.outlook.standardandpoors.com.

Standard & Poor's The Outlook

EDITORIAL

Managing Editor, U.S. Editorial Beth Piskora

Managing Editor, The Outlook Lisa Sanders

Statistician Chris Peng

OPERATIONS

Managing Director, Product and Business Development Robert Barriera

Managing Director, Product Development and Marketing Andrea Remyn

Vice President, Global Operations Peter Fiore

Vice President, Data Operations Frank LoVaglio

For customer service, please call **1-800-852-1641** between 9am and 4pm Eastern Time, Monday through Friday.

The Outlook (USPS 415-780, ISSN 0030-7246) is published weekly except for April 15, July 8, September 16, and December 30, 2009 by Standard & Poor's, 55 Water St., New York, NY 10041.

Annual subscription: $298. Periodicals postage paid at New York, NY, and additional mailing offices. Ride along included in all editions. POSTMASTER: Send address changes to *The Outlook*, Standard & Poor's, 55 Water St., New York, NY 10041.

S&P EVALUATION SYMBOLS

STARS Rankings*

Our evaluation of the 12-month potential of stocks is indicated by STARS:

★★★★★ **Strong Buy**—Total return is expected to outperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★ **Buy**—Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★ **Hold**—Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★ **Sell**—Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★ **Strong Sell**—Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

NR Not ranked.

*The fund and ETF STARS rankings come from S&P's mutual fund reports.

Quality Rankings (QR)

Our appraisals of the growth and stability of earnings and dividends over the past 10 years for STARS and other companies are indicated by Quality Rankings:

A+	Highest	**B+**	Average	**C**	Lowest
A	High	**B**	Below Avg.	**D**	In reorganization
A-	Above Avg.	**B-**	Lower	**NR**	Not Ranked

Quality Rankings are not intended to predict stock price movements.

The Observatory

Selected actions for March 20 through March 27.

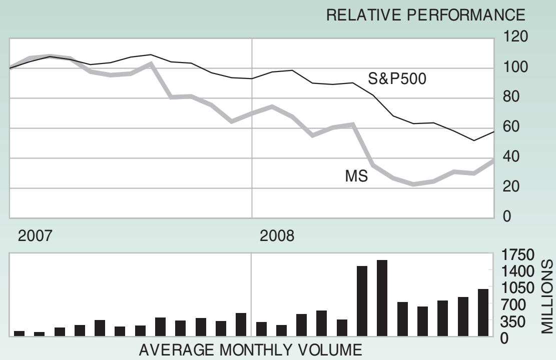
One to Watch

Morgan Stanley MS 26

To ★★★ From ★★★★

We expect the firm to benefit from the government's move to improve market conditions, but we think future earnings growth is uncertain considering lower leverage and potentially greater regulation. And we see reduced investment banking activity and asset management levels pressuring results. We trimmed our 2008 earnings estimate by $0.47 to $2.20 a share. On March 25, we maintained our hold recommendation after the *Wall Street Journal* reported that Morgan Stanley may be discussing merging its Japanese securities business with that of Mitsubishi UFJ (MTU 6 NR). We think that such a move could be positive, but the near-term bottom line benefits are less certain. ■

MORGAN STANLEY (MS)



SECTOR CHANGES

S&P Equity Strategy downgraded the S&P 500 consumer staples sector to marketweight from overweight, and upgraded the S&P 500 information technology sector to overweight from marketweight. Year to date through March 23, the consumer staples sector declined 9.7% vs. an 8.9% decline for the S&P 500. We believe U.S. consumers are trading down to private label brands, and this is hurting demand for national branded products, crimping profit margins. By comparison, the technology sector rose 5.5%.

RISING STARS

Diageo DEO 44

To ★★★ From ★★

Diageo shares declined 21% from the start of 2009 through March 23. We kept our earnings-per-American Depositary Share forecasts of $3.53 for fiscal 2009 (ending June) and $4.31 for fiscal 2010. We note that recent National Alcohol Beverage Control Association data show stable volume trends with a modest rise in revenue. We lowered our target price by $4 to $44 on a blend of peer multiple and discounted cash flow analyses. We now think the shares are appropriately valued.

Teradyne TER 4

To ★★★★ From ★★★

Teradyne lowered its outlook for first-quarter sales to a range of $115 million to $120 million from $125 million to $145 million and its loss estimate to $0.42 to $0.40 a share from $0.38 to $0.31. We think sales are near a cyclical trough, but we do not see a meaningful improvement in demand until 2010. We think profit margins could potentially reach 15% once industry conditions improve on cost reductions, and see growth opportunities from Teradyne's expansion in memory. We widened our 2009 loss estimate by $0.12 to $1.17 and initiated 2010's at a $0.14 loss. However, we kept our target price at $6 on price/sale above peers and we see notable upside potential.

FALLING STARS

Xerox XRX 5

To ★★ From ★★★

Xerox warned that first-quarter earnings are likely to be $0.03 to $0.05 a share compared with its prior expectation for $0.16 to $0.20 and our $0.17 estimate. This reflects about $0.06 in restructuring charges from Fuji Xerox, plus currency effects, and sales pressure Xerox sees from a printer industry downturn. We believe that this downturn will last into 2010. We lowered our earnings estimates to $0.45 from $0.90 for 2009 and to $0.85 from $1.05 for 2010. We also cut our 12-month target price to $4 from $8, based on our revised P/E and price-to-book analysis. ■

For a rolling eight-day list of STARS changes, additions, and deletions by S&P Equity Research, please visit our website.

S&P Observatory provides a selection of analytical actions and commentary — upgrades, downgrades, initiations — from S&P Equity Research. Stocks featured in S&P Observatory are selected by *The Outlook* according to factors including, but not limited to, newsworthiness, capitalization, and inclusion in a portfolio published by *The Outlook*. Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report.

All of the views expressed in this research report accurately reflect the research analysts' personal views regarding any and all of the subject securities or issuers. No part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Utility Dividends

Justin McCann and
Christopher Muir
S&P Equity Analysts

With the sharp decline in utility shares this year mirroring the dramatic drop in the broader market, the sector pretty much lost its status as a defensive haven.

Still, it should be noted that for each of the past five years, the S&P Electric Utilities index outperformed the S&P 500 on both a price-appreciation and a total return basis. In 2008, when the crisis in the housing and financial markets helped lead to a 28% decline in the sector on a price-appreciation basis, the group still outperformed the 38% drop for the S&P 500.

In addition to being caught up in the broader market turmoil, it also appears the sector's earnings were hurt by reduced customer demand, higher financing and pension costs, rising environmental expenditure requirements, and an increase in uncollectible accounts, offsetting the benefit of rate increases. To a lesser extent, Standard & Poor's Equity Research believes the prospect of a raise in tax rates on dividends to 20% from 15% (for households making more than $250,000 or for singles making more than $200,000) pressured shares.

While sharp dividend cuts from three major utilities highlight the effect of the current recession, credit crisis, and weakness in the power markets on earnings expectations, financial strength, and liquidity issues of those three companies, S&P Equity Research expects the overwhelming majority of utilities to increase or at least maintain dividends at current levels.

In 2008, 53 of the 77 publicly traded electric and gas utilities either raised or reinstated their dividend. Only one — El Paso Electric (EE 14 NR) — did not pay a dividend, and one other — PNM Resources (PNM 8 NR) — lowered its dividend. The dividends paid by the other 22 remained static.

POSITIVE POTENTIAL IMPLICATIONS

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
DPL / DPL	5	B+	Medium	Value	23	28	10.6	5.0
Dominion Resources / D	4	B+	Medium	Blend	32	49	9.7	5.5
Progress Energy / PGN	4	B	Low	Blend	36	42	11.8	6.9
Sempra Energy / SRE	5	B+	Medium	Blend	43	60	9.4	3.6

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2009 earnings. Source: S&P Equity Research.

The average annual dividend increase in 2008 was 8.0% (ranging from 0.8% to 80.0%). The largest increase was seen in that paid by CMS Energy (CMS 12 ★★) — from $0.20 to $0.36 a share. Year to date through March 16, 22 utilities raised their dividend an average of 7.4%.

While utility shares may remain under pressure in the near term, S&P Equity Research believes investors could benefit from the purchase of selected utility stocks that offer abnormally high dividend yields. We believe the shares of what we view as financially stable utilities will eventually recover once the current crisis passes. By purchasing the stocks now, investors can lock in relatively high yields.

During the fourth quarter of 2008, the sharp drop in the prices of electric utility stocks resulted in a corresponding and significant increase in the yield from their dividends. The dividend yield for the utilities sector rose to an average of 4.9% at the end of 2008, second only to the 5.8% yield of the financial services sector.

For comparison purposes, the average yield for the utilities sector was 3.7% in 2007, 3.6% in 2006, and 4.1% in 2005.

Utilities historically pay out a higher percentage of their earnings than any other sector, but last year, financial services took top honors. Standard & Poor's Equity Research notes that the switch was not the result of an increase in dividend payments on the part of financial services companies, but rather the losses resulting from the ongoing credit crisis, which banks, insurers, and other companies in the financial services sector bore disproportionately.

For the electric utility sector, the average dividend payout ratio in 2008 was 66.6%, up from 63.2% in 2007, but within the 62% to 68% range for the nine-year period from 2000 through 2008.

Most regulated utilities are extremely reluctant to cut their dividends. Utility investors often hunt for yield, so a dividend cut is often followed by a sharp decline

(Continued on page 6)

Herman Saftlas
S&P Equity Analyst

Health Matters

The drug industry faces tougher regulators.

The new leadership of the Food and Drug Administration (FDA) is expected to take a tougher stance on lapses in food protection, such as recently seen in peanut products contaminated with salmonella, and pharmaceuticals and medical devices linked with higher-than-acceptable risk factors.

Noting that food safety regulations have not been updated in nearly 100 years, President Barack Obama called the current practice of inspecting only 5% of the nation's food processing plants each year unacceptable.

Standard & Poor's Equity Research believes the new regulatory environment has modestly negative implications for branded drugmakers, but potentially positive implications for manufacturers of generic drugs.

The newly appointed commissioner of the FDA (subject to Senate confirmation) is Dr. Margaret Hamburg, a recognized leader in public health and medicine, and an authority on global health, public health systems, infectious disease, bioterrorism, and emergency preparedness. She was previously the head of the NYC Department of Health and assistant secretary of the U.S. Department of Health and Human Services (HHS) under President Bill Clinton.

Deputy Commissioner Dr. Joshua Sharfstein is health commissioner for the City of Baltimore, and has an accomplished record of service. He was recognized for his efforts to protect children from jewelry and over-the-counter medication tainted with lead, and enabling persons with disabilities access to prescription drugs.

FDA leadership under former President George W. Bush was generally viewed as "industry friendly," and received criticism from the current administration for not being sufficiently cautious with agency surveillance of the industry. While typically not involved in day-to-day workings of the FDA, the commissioner affects the general tone of the agency through his or her personality, management style, and philosophy.

Given the respective backgrounds of the appointees, we believe Dr. Hamburg will formulate general FDA policy and assume oversight over food, tobacco, and bio-terrorism, while Dr. Sharfstein is likely to be responsible for pharmaceuticals and medical devices (more significant areas from a Wall Street perspective).

Pharmaceutical industry response to the new appointees was mixed. While generally favorable to Dr. Hamburg, who comes with a clean slate with respect to prescription drug regulation, drug companies have been cool to Dr. Sharfstein, who has a history of hostility to the pharmaceutical industry. Commenting on the new nominees, the Pharmaceutical Research and Manufacturers Association (PhRMA) applauded the selection of Dr. Hamburg, but made no mention of Dr. Sharfstein.

Unlike past industry-friendly FDA leaders such as Dr. Andrew von Eschenbach and Dr. Mark McClellan, Dr. Sharfstein (following President Obama's philosophy), in our opinion, is likely to apply more rigor to pharmaceutical oversight, raising the bar with respect to safety and efficacy in new product approvals and applying increased surveillance of marketed

(Continued on page 6)

POSITIVE POTENTIAL IMPLICATIONS

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Mylan / MYL	5	A-	Medium	Growth	13	15	13.0	Nil
Teva Pharmaceuticals / TEVA	5	NR	Medium	Foreign	46	56	13.9	0.9
Watson Pharmaceuticals / WPI	4	B-	Medium	Blend	29	34	12.9	Nil

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2009 earnings. Source: S&P Equity Research.

NEGATIVE POTENTIAL IMPLICATIONS

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Bristol-Myers Squibb / BMY	4	B+	Medium	Value	21	26	10.5	5.9
Eli Lilly / LLY	3	B	Medium	Blend	34	37	8.4	5.8
Merck / MRK	3	B+	Medium	Blend	28	30	8.6	5.4
Pfizer / PFE	3	B+	Medium	Blend	14	18	7.4	4.6

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2009 earnings. Source: S&P Equity Research.

Health Matters (Continued from page 5)

products. We believe that policies that over-emphasize safety and don't take overall risk/reward patterns into consideration previously blocked the approval of many medicines that may have prolonged and improved the lives of many patients.

We also think Dr. Sharfstein will probably become actively involved in implementing the agency's new "Safety First" initiative announced last year. A key element of that program relates to the new Risk Evaluation Mitigation Strategy system, which requires drug manufacturers to assess and quantify potential risks associated with their drugs, and formulate remedial actions necessary to mitigate those risks. This program is likely to result in restricted utilization and expanded warnings on drug labels in the future.

We also think Dr. Sharfstein may move to limit off-label use of pharmaceuticals, restrict direct-to-consumer advertising, and curtail the practice of distributing free drug samples to physicians. Dr. Sharfstein is close to Rep. Henry Waxman, D-California, who has a long record of criticizing branded drug industry practices. We believe Rep. Waxman is more inclined to support generics over brand-name drugs. Dr. Sharfstein is also likely to champion Rep. Waxman's new regulatory plan to facilitate a FDA pathway to approve generic biologics, a move that has been discouraged by many in the branded biotechnology and pharmaceutical industries.

In a related development, we think President Obama's choice to head the Federal Trade Commission (FTC), Jon Leibowitz, is another appointment that is not friendly to branded pharmaceutical interests. Specifically, Mr. Leibowitz is staunchly opposed to deals whereby branded drug makers pay generic companies to delay entry of their cheaper generics into the market for several years. Eliminating these "pay-for-delay" settlements is expected to be a key focus of the FTC under Mr. Leibowitz. These deals have become commonplace in the industry in recent years, and removing them would, in our opinion, hurt profitability. ■

Utility Dividends (Continued from page 4)

in the value of the shares as the shares become less attractive to income-oriented investors. When this happens, it hurts the utility when it needs to raise new capital (in a very capital-intensive business) through the issuance of new shares. In this situation, the utility would have to sell the shares at their reduced price rather than at the price prior to the cut.

On February 11, Great Plains Energy (GXP 13 ★★★) announced a 50% cut in its dividend. Less than a week later, Ameren (AEE 23 ★★★) said it would lower its dividend by 39%, and, on the day after that, Constellation Energy Group (CEG 20 ★★★) announced it would slash its dividend by nearly 50%.

With the credit crisis, economic slowdown, and increasing environmental expenses expected to result in higher financing costs and lower earnings, Great Plains Energy and Ameren (neither of which increased their dividend over the past 10 years) believed they had to cut their dividends to maintain their financial strength and flexibility.

Abnormally high dividend payout ratios added to the burden. The majority of regulated utilities normally average a 60% to 70% payout. Ameren, for example, was paying 86% of its operating per-share earnings for 2008. In the same year, Great Plains paid 121%. It is rare for a utility to pay out more than 100%, but some were willing to maintain such a ratio for several years, reasoning that the pressure on their shares would be more severe if they cut the dividend.

For Constellation Energy, its dividend cut was not unexpected since the company's operations were undergoing a major restructuring after a severe liquidity crisis. The liquidity strain was the result of sharply higher commodity prices, which hurt Constellation's derivative assets and liabilities, collateral requirements, and its counterparty credit exposure. Ultimately, Constellation agreed to a $6.5 billion investment from Electricite de France, 84%-owned by the French government, which included the sale of 49.99% of Constellation's nuclear business for $4.5 billion.

S&P Equity Research views these three examples as isolated, company-specific events. However, we view the overall sector as safe and recommend the purchase of these high yielding stocks: DPL, Dominion Resources, Progress Energy, and Sempra Energy. ■

World of Finance

Brazilian banks' growth slows.

Justin Menza
S&P Editorial

A deteriorating economy led to a tough fourth quarter for the Brazilian banks, reflected in higher loan loss provisions for the industry and a slowdown in consumer lending, and it looks as if 2009 may yield more of the same.

On a positive note, the banks' long-term growth outlook appears to remains largely intact, with economic development likely to resume once the financial markets and the global economy recovers.

Economic research firm IHS Global Insight expects Brazilian gross domestic product (GDP) to contract 0.6% in 2009 (after 5.1% growth in 2008) but grow 3.2% in 2010. Economic activity did slow to 1.3% in the fourth quarter of 2008 from the comparable period in 2007. In response, the Brazilian central bank slashed interest rates by 150 basis points on March 11 to 11.25%.

As the severity of the global economic downturn intensified at the end of 2008, demand for Brazilian commodity exports declined and commodity prices dropped sharply from their July 2008 highs, hurting exports in terms of volume and price. Brazilian exports fell 2.9% in December, and IHG Global Insight forecasts a 20.9% decline for January.

In addition, Brazilian industrial production contracted 14.5% on the year in December, and 12.4% sequentially, the worst decline on record. Also, auto production fell 27.1% in January 2009 from January 2008 after an even steeper drop in December, while sales slumped 8.1% and exports declined 60.5%. Despite this, the auto industry had one of its best years in 2008, which helped the banking industry in respect to vehicle financing activity.

Total retail sales climbed 9% in 2008, but growth in seasonally adjusted sales volume fell 0.29% month-over-month in December after declining 1.03% month-over-month in November.

This economic downturn is starting to hurt Brazilian households and already resulted in higher loan delinquencies and a slowdown in demand for new consumer loans at the country's major banking institutions. Additionally, according to data from the Brazilian central bank, total available credit, including credit from the government, totaled $507 billion in December, up 1.6% from November, but down from as high as 3.8% earlier in the year.

At Itau Unibanco (ITU 12 ★★★), Brazil's largest financial institution, growth in loans to individuals, a major area of expansion in recent years, slowed to 3.3% quarter-over-quarter in the fourth quarter compared with 24.3% growth for all of 2008. Vehicle loans outstanding increased only 1.7% in the final quarter compared with the 35.8% achieved for the full year.

Business loan growth was 9.1% in the fourth quarter, while full-year growth clocked in at 41.9%. Itau noted that the tighter credit market conditions forced many large companies to turn to bank loans instead of the capital markets to finance their operations. Corporate lending rose 10.8% during the quarter.

In addition to a slowdown in lending, Itau's provisions for loan losses increased 26% in the fourth quarter from the third quarter, "due to risk ratings of large companies, as well as the impact of the economic downturn on the risk quality of the micro, small, and mid-sized companies, and individual portfolios," the company said.

The bank's nonperforming loan ratio stood at 4.8% at the end of 2008, a 20 basis point increase from the prior quarter's figure, a multi-year low. S&P Equity Analyst Erik Oja believes this level remains manageable for the bank.

At rival Bradesco (BBD 10 NR), net income fell 5.4% in the fourth quarter on a sequential basis. The bank's consumer loans outstanding increased 24.7% in 2008, but in the fourth quarter, they grew only 4.6%. Vehicle loans actually declined 1.4% in the quarter. Loans to corporations grew 10.1% in the quarter and 37.1% over the prior 12 months.

Provisions for loan losses climbed 32.5% during 2008, both as a result of the larger amount of loans outstanding and as a result of the increase in delinquencies. During the fourth quarter, Bradesco reported that the delinquency ratio edged up 0.1 percentage point.

However, the longer-term trend appears to remain positive for the Brazilian banking industry. The country's growing middle class will likely continue to need an array of financial services, including car loans and credit cards, which are expected to remain a major source of growth for the Brazilian banking industry.

Banco Bradesco expects total loans as a percentage of GDP will rise to 42.1% in 2009 (from 39.6% in 2008) and to 44.2% in 2010. According to data from the Brazilian central bank, the ratio was 34.7% in 2007 and 24.0% in 2003. However, the challenging economy may make these ratios difficult to achieve. ■

Even Gloomier *(Continued from cover)*

through the third quarter of 2009 (a total decline of 3.9%. The stimulus package should boost the economy late in the year, but private-sector demand will likely remain soft.

The Downside Case: Way Down

In our deep recession scenario, financial markets remain frozen, leading to cuts in capital spending and consumer purchases. Consumer and investor confidence weakens further, keeping the economy in a recession through early 2010. Stock prices drop another 20% from their recent lows, which takes them to 64% below the October 2007 peak, and a deeper foreign downturn ensures exports remain weak. The result is the deepest recession in postwar history, with a peak-to-trough decline in real GDP of 7.1% and an unemployment rate of 11.8% in late 2010, above the postwar record of 10.8% set in the 1982 recession.

Consumer spending drops more sharply, as households try to rebuild the wealth that was lost to weaker home and stock prices. The downturn would be longer (30 months) than the 21 months in the baseline projection.

Housing remains the weakest sector of the economy. Housing starts tumble to a record low of 450,000 in 2009, down from their 2005 peak of 2.07 million. Average home prices drop more than 50% by early 2010 from their 2006 peak, compared with a 37% drop in the baseline forecast (S&P/Case-Shiller house price index). The weak home prices will hit consumer wealth and spending; wealth drops 27% from its peak compared with 22% in the baseline. The saving rate holds at 5.3% in 2011 compared with 4.3% in our baseline projection. Weaker employment and tougher credit standards will hit light-vehicle sales hard — falling to 7.7 million in 2009 compared with 9.8 million in our baseline.

Capital spending suffers from the weak economy and borrowing difficulties. Spending on capital equipment falls 20% in 2009. Companies also cut back on employment. Nonfarm employment drops 6 million during 2009, after the 3.6 million lost in 2008.

The Upside Case: Even the Optimism is not Optimistic

As already confirmed by the National Bureau of Economic Research, the U.S. economy is in a recession. However, an improving housing market, better confidence, stronger growth abroad, and a more rapid calming of financial markets helps reduce the current strains on the U.S. economy. At the same time, a revival of productivity increases keeps inflation under control despite stronger economic growth.

In our optimistic projection, the housing sector contracts by less than in the baseline scenario because of lower mortgage rates and a stronger economy. Starts fall to 720,000 in 2009 (compared with a drop to 520,000 in the baseline) from 900,000 in 2008. Starts reach 1.55 million, near their pre-boom average level, in 2012. The result is still a deep recession, similar in length and depth to the 1975 and 1982 recessions. We see a 2.8% contraction in GDP growth from the third quarter of 2008 through the second quarter of 2009. Unemployment rises to a 9% peak in the fourth quarter of 2009 from its current 8.1% rate.

Capital spending benefits from a recovering economy and improving credit conditions. Although business borrowing restrictions continue to weigh on spending in the optimistic scenario, the credit market problems improve faster than in the baseline forecast, with a larger boost to spending. The business tax credits provide an additional boost to the fourth quarter, with equipment spending rising 11.5% (up 6.4% in the baseline). However, business borrowing restrictions cap the upside potential. Spending on capital equipment falls 12.1% in 2009 (compared with a 14.8% drop in the baseline). Companies also cut back on employment; nonfarm employment drops by 3.3 million jobs in 2009, better than the 4.4 million jobs lost in the baseline forecast. ■

DEEP RECESSION FORECASTS

	% CHANGE		
	2008	E2009	E2010
Real GDP	1.1	-4.8	-1.4
Consumer Spending	0.2	-2.2	0.0
Equip. Investment	-3.0	-19.8	-3.4
Real Nonres. Construction	11.5	-21.6	-16.7
Res. Construction	-21.0	-28.4	-10.5
Federal Govt. Purchases	6.0	5.1	1.1
S&L Purchases	1.2	-1.7	-1.8
Total Exports	6.2	-16.4	-6.6
Total Imports	-3.4	-14.7	-1.8
CPI	3.8	-1.9	1.5
Core CPI	2.3	0.9	0.9
Unemployment Rate (%)	5.8	9.4	11.5
Federal Funds Rate (%)	1.9	0.1	0.1
10-Yr. T-Note Yield (%)	3.7	2.8	4.2
AAA Bond Yield (%)	5.6	5.4	6.9

E-Estimated. Source: S&P Economics.

OPTIMISTIC FORECASTS

	% CHANGE		
	2008	E2009	E2010
Real GDP	1.1	-1.7	3.0
Consumer Spending	0.2	-0.4	3.1
Equip. Investment	-3.0	-12.1	12.9
Real Nonres. Construction	11.5	-18.1	-2.9
Res. Construction	-21.0	-13.3	20.0
Federal Govt. Purchases	6.0	5.1	1.1
S&L Purchases	1.2	-1.3	0.7
Total Exports	6.2	-10.7	3.6
Total Imports	-3.4	-10.6	11.5
CPI	3.8	-1.2	2.2
Core CPI	2.3	1.3	1.7
Unemployment Rate (%)	5.8	8.5	8.5
Federal Funds Rate (%)	1.9	0.2	0.5
10-Yr. T-Note Yield (%)	3.7	2.9	3.2
Aaa Bond Yield (%)	5.6	4.9	5.2

E-Estimated. Source: S&P Economics.

Global Asset Allocation Update

S&P's Investment Policy Committee's allocations remain intact.

The S&P growth ETF asset allocation is geared towards risk-tolerant investors with longer time horizons. It dedicates 37% to these asset classes: 19% in developed overseas markets (EFA), 6% in emerging markets (EEM), 7% in U.S. mid-caps (MDY), and 5% in U.S. small-caps (IJR). In addition, this allocation dedicates 43% to large-cap U.S. stocks (SPY), 5% to intermediate-term bonds (AGG), 5% to short-term bonds (SHY), and 10% to cash.

The conservative risk profile is designed for investors who primarily seek capital appreciation, but have some income requirements. In general, the time horizon for this model is five to seven years. The moderate risk profile is designed for investors with a primary objective of capital appreciation. In general, the time horizon for this allocation is 10 to 15 years.

The growth risk profile, with a time horizon of 20 to 25 years, is designed for investors who seek capital appreciation and are willing to tolerate the higher risk levels associated with greater exposure to domestic and international equity markets.

These time horizons are often tied to retirement dates or projected life expectancy, but not always. For example, a 70-year-old individual with substantial income may have a long investment time horizon since the funds may eventually be spent on the college education of a grandchild or great-grandchild yet to be born. Conversely, a 50-year-old planning to retire in five years may choose to be more conservative than his age would ordinarily indicate. ■

MODERATE PORTFOLIO

ALLOCATION	ASSET CLASS/ INVESTMENT STYLE	ETF/TICKER	*ANNUALIZED TOTAL RETURN (%)	EXPENSE RATIO (%)
45%	**U.S. STOCKS**			
37	Large-Cap Blend	SPDR S&P 500 / SPY	-43.1	0.09
5	Mid-Cap Blend	S&P MidCap 400 SPDR / MDY	-42.0	0.25
3	Small-Cap Blend	iShares S&P SmallCap 600 / IJR	-42.5	0.20
15%	**FOREIGN STOCKS**			
12	International	iShares MSCI EAFE / EFA	-50.1	0.34
3	Emerging Markets	iShares MSCI Emerging Markets / EEM	-53.5	0.72
25%	**BONDS**			
20	U.S. Debt	iShares Barclays U.S. Aggregate / AGG	2.1	0.23
5	U.S. Short-Term Debt	iShares Barclays 1-3 Year Treasury / SHY	3.2	0.15
15%	**CASH**	U.S. 6-Month Treasury Bills		
Total=100%				

*Data as of 2/28/2009. Sources: Standard & Poor's ETF Reports and iShares. *The Outlook's* Moderate ETF Portfolio lost 7.2% from inception (November 15, 2004) through February 28 vs. a loss of 11.2% for its custom benchmark, which is composed of 45% S&P 1500, 30% Barclays U.S. Aggregate, 15% MSCI EAFE, and 10% Barclays 1-3 month T-bill. Does not include transaction costs. Past performance is no guarantee of future results.

DETAILED GROWTH

ALLOCATION	ASSET CLASS/ INVESTMENT STYLE	ETF/TICKER	*ANNUALIZED TOTAL RETURN (%)	EXPENSE RATIO (%)
55%	**U.S. STOCKS**			
43	Large-Cap Blend	SPDR S&P 500 / SPY	-43.1	0.09
7	Mid-Cap Blend	S&P MidCap 400 SPDR / MDY	-42.0	0.25
5	Small-Cap Blend	iShares S&P SmallCap 600 / IJR	-42.5	0.20
25%	**FOREIGN STOCKS**			
19	International	iShares MSCI EAFE / EFA	-50.1	0.34
6	Emerging Markets	iShares MSCI Emerging Markets / EEM	-53.5	0.72
10%	**BONDS**			
5	U.S. Debt	iShares Barclays U.S. Aggregate / AGG	2.1	0.23
5	U.S. Short-Term Debt	iShares Barclays 1-3 Year Treasury / SHY	3.2	0.15
10%	**CASH**	U.S. 6-Month Treasury Bills		
Total=100%				

*Data as of 2/28/2009. Sources: Standard & Poor's ETF Reports and iShares. *The Outlook*'s Growth ETF Portfolio lost 34.4% from January 22, 2008 (inception date) through February 28 vs. a loss of 35.8% for its custom benchmark, which is composed of 55% S&P 1500, 15% Barclays U.S. Aggregate, 25% MSCI EAFE, and 5% Barclays 1-3 month T-bill. Does not include transaction costs. Past performance is no guarantee of future results.

DETAILED CONSERVATIVE

ALLOCATION	ASSET CLASS/ INVESTMENT STYLE	ETF/TICKER	*ANNUALIZED TOTAL RETURN (%)	EXPENSE RATIO (%)
30%	**U.S. STOCKS**			
23	Large-Cap Blend	SPDR S&P 500 / SPY	-43.1	0.09
4	Mid-Cap Blend	S&P MidCap 400 SPDR / MDY	-42.0	0.25
3	Small-Cap Blend	iShares S&P SmallCap 600 / IJR	-42.5	0.20
10%	**FOREIGN STOCKS**			
10	International	iShares MSCI EAFE / EFA	-50.1	0.34
45%	**BONDS**			
35	U.S. Debt	iShares Barclays U.S. Aggregate / AGG	2.1	0.23
10	U.S. Short-Term Debt	iShares Barclays 1-3 Year Treasury / SHY	3.2	0.15
15%	**CASH**	U.S. 6-Month Treasury Bills		
Total=100%				

*Data as of 2/28/2009. Sources: Standard & Poor's ETF Reports and iShares. *The Outlook*'s Conservative ETF Portfolio lost 15.6% from January 22, 2008 (inception date) through February 28 vs. a loss of 18.6% for its custom benchmark, which is composed of 30% S&P 1500, 50% Barclays U.S. Aggregate, 10% MSCI EAFE, and 10% Barclays 1-3 Month T-bill. Does not include transaction costs. Past performance is no guarantee of future results.

Total Return Portfolio

12/31/2008 - 3/20/2009
Base Currency: US Dollar

The Total Return Portfolio outperformed its benchmark year-to-date through March 20, losing 13.1% vs. a 14.3% loss in the S&P 500. The data we have provided shows which stocks and sectors contributed to, or detracted from, the portfolio's performance through March 20. For information on individual stocks in the portfolio, please visit *www.outlook.standardandpoors.com* for Standard & Poor's reports on the companies. ■

TOP CONTRIBUTORS BY HOLDING

COMPANY NAME	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Altria Group	1.67	13.61	0.21
Kinder Morgan Energy	7.49	2.54	0.11
Heinz (H.J.)	2.79	1.50	0.10
Sensient Technologies	7.66	-4.27	-0.30
Coca-Cola	7.11	-4.83	-0.33

TOP DETRACTORS BY HOLDING

COMPANY NAME	AVERAGE WEIGHT	RETURN	CONTRIBUTION
ExxonMobil	10.15	-16.80	-1.70
JPMorgan Chase*	2.78	-30.50	-1.59
Chubb	6.87	-19.54	-1.48
McDonald's	10.23	-13.64	-1.41
Oneok	5.08	-23.02	-1.27

*Replaced on February 17.

TOP CONTRIBUTORS BY SECTOR

SECTOR	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Consumer Staples	11.58	-2.20	-0.02
Materials	7.66	-4.27	-0.30
Telecom Services	5.86	-9.78	-0.55

TOP DETRACTORS BY SECTOR

SECTOR	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Financials	20.51	-19.83	-5.00
Energy	26.07	-10.01	-2.57
Utilities	10.55	-20.64	-2.36

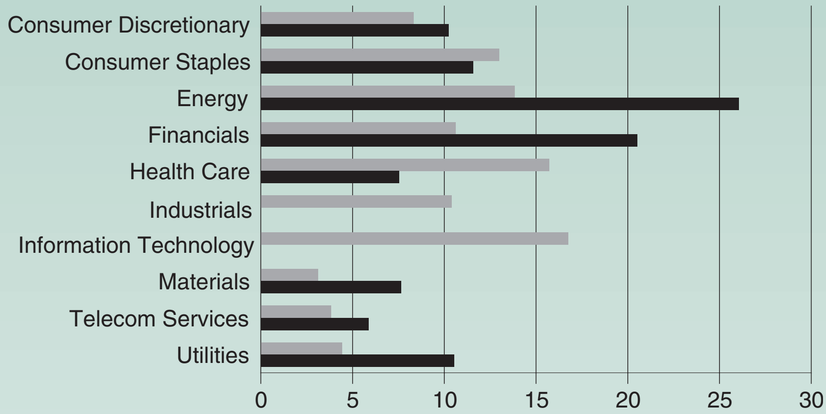
TOTAL RETURN PORTFOLIO

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Abbott Laboratories / ABT	5	A-	Medium	Growth	46	65	12.5	3.5
Altria Group / MO	5	A	Medium	Blend	17	21	9.8	7.5
AT&T / T	5	B+	Medium	Value	26	29	11.8	6.3
Chevron / CVX	5	A-	Low	Blend	70	95	9.5	3.7
Chubb / CB	5	A-	Medium	Blend	42	54	8.2	3.3
Coca-Cola / KO	5	A	Low	Growth	45	52	13.8	3.6
Cullen/Frost / CFR	5	A	Low	Blend	47	54	13.6	3.6
Entergy / ETR	4	A	Medium	Blend	67	82	9.7	4.5
ExxonMobil / XOM	5	A+	Low	Blend	70	93	12.5	2.3
Heinz (H.J.) / HNZ	4	B+	Low	Blend	35	40	12.1	4.7
Home Properties / HME	4	B+	Low	Value	32	34	9.4	8.4
Kinder Morgan Energy / KMP	5	NR	Low	NA	47	59	19.0	8.9
McDonald's / MCD	5	A-	Medium	Growth	55	66	14.5	3.6
Oneok / OKE	5	A-	Medium	Blend	23	34	8.6	7.0
Sensient Technologies / SXT	4	B+	Medium	Blend	24	27	12.4	3.2

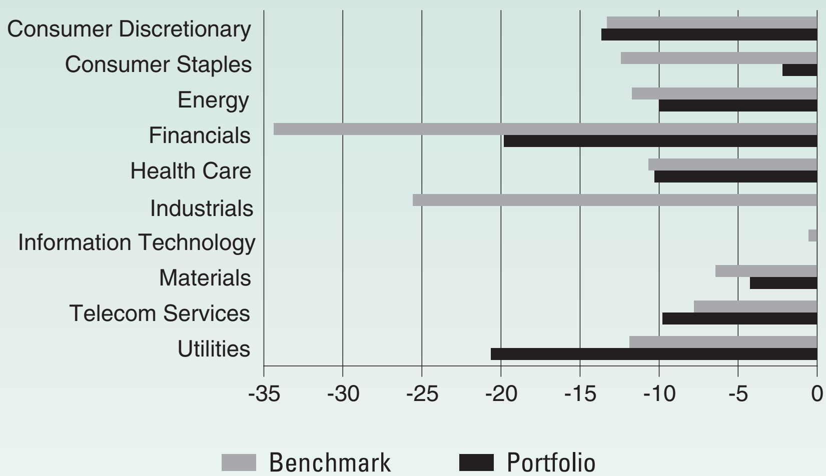
*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. †Price/earnings ratios are based on Standard & Poor's estimated fiscal 2009 per-share earnings. ‡See definitions on page 2. Past performance is no guarantee of future results. Source: S&P Equity Research.

Total Return Portfolio vs. S&P 500

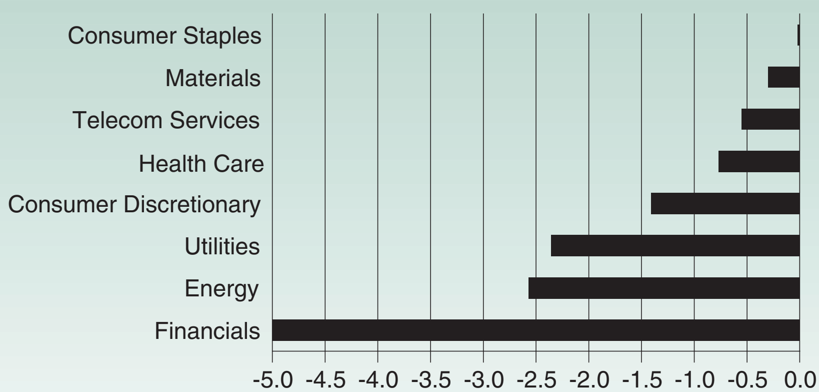
SECTOR ALLOCATION (%)



SECTOR RETURNS (%)



PORTFOLIO CONTRIBUTION BY SECTOR (%)



Source: S&P Equity Research.

LARGEST HOLDINGS

COMPANY NAME	AVERAGE WEIGHT	RETURN
McDonald's	10.23	-13.64
ExxonMobil	10.15	-16.80
Chevron	8.42	-11.70
Sensient Technologies	7.66	-4.27
Abbott Laboratories	7.54	-10.28

BEST PERFORMERS

COMPANY NAME	AVERAGE WEIGHT	RETURN
Altria Group	1.67	13.61
Kinder Morgan Energy	7.49	2.54
Heinz (H.J.)	2.79	1.50
Sensient Technologies	7.66	-4.27
Coca-Cola	7.11	-4.83

WORST PERFORMERS

COMPANY NAME	AVERAGE WEIGHT	RETURN
JPMorgan Chase*	2.78	-30.50
Home Properties	3.97	-27.92
Oneok	5.08	-23.02
Chubb	6.87	-19.54
Entergy	5.47	-18.51

*Replaced on February 17.

For more information on individual stocks in the portfolio, visit our website **www.outlook.standardandpoors.com.**

Harness Our Quant Power

Standard & Poor's Neural Fair Value 25 Portfolio buys what are deemed undervalued issues with superior return potential.

Neural fair value rankings are derived from two quantitative stock selection systems proprietary to S&P: the neural model and the fair value model.

The neural rank is based on "neural networks," an artificial intelligence system that replicates the brain's ability to learn from mistakes. The neural model identifies the factors that led to outperformance over the most recent six-month period and determines which stocks should benefit from those factors in the future. Stocks are ranked in five tiers, from most attractive (5) to least (1).

The fair value model calculates the price at which a stock should trade, based on fundamental data.

Neural fair value rankings also include the earnings surprise indicator, which tags those issues most likely to beat earnings estimates, and the timing index, which tells investors whether or not a stock meets certain trend requirements that have proved favorable to long-term capital appreciation.

Year-to-date through March 20, the portfolio declined 14.1% vs. a 14.9% loss for the S&P 500. ■

NEURAL FAIR VALUE 25 PORTFOLIO

COMPANY / TICKER	NEURAL	FAIR VALUE	TIMING	***EARNINGS SURPRISE	*S&P INDEX	**RISK	STYLE	CURRENT PRICE
ADC Telecommunications / ADCT	1	2	+	C	Mid	High	Blend	3
Accenture / ACN	4	4	+	A	...	Medium	Growth	32
Aeropostale / ARO	5	5	N	N	Mid	Medium	Growth	25
Allergan / AGN	4	4	N	A	500	Medium	Growth	48
BMC Software / BMC	4	3	+	B	500	Medium	Blend	33
Big Lots / BIG	4	2	+	A	500	Medium	Blend	21
Check Point Software / CHKP	3	4	+	B	...	High	Growth	22
Compass Minerals Int'l / CMP	2	1	N	B	...	Medium	Value	57
FMC Technologies / FTI	4	2	+	B	Mid	Medium	NA	33
General Dynamics / GD	4	5	+	C	500	Low	Growth	40
Hanover Insurance / THG	3	2	+	C	Mid	Medium	Value	30
Herbalife / HLF	2	5	+	C	...	Medium	Growth	15
Hewlett-Packard / HPQ	4	5	+	C	500	Medium	Blend	31
Hologic / HOLX	4	4	N	B	Mid	High	Growth	13
● Int'l Business Machines / IBM	3	4	+	A	500	Medium	Growth	98
Liz Claiborne / LIZ	1	3	N	C	Small	High	Blend	2
Lockheed Martin / LMT	4	3	+	A	500	Medium	Growth	68
Macy's / M	1	5	+	A	500	High	Blend	9
NCR / NCR	4	2	+	B	Mid	Medium	Growth	9
NetApp / NTAP	3	4	+	C	500	Medium	Growth	15
Occidental Petroleum / OXY	4	1	+	A	500	Medium	Blend	59
Polycom / PLCM	4	4	+	A	Mid	High	Growth	15
QLogic / QLGC	2	5	+	A	500	Medium	Growth	12
Symantec / SYMC	4	1	+	A	500	High	Blend	15
Tyco Int'l / TYC	4	4	+	A	500	Medium	Blend	20

●Master List issue. *500- S&P 500; Mid-S&P MidCap 400; Small-S&P SmallCap 600. **Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. ***This indicator divides stocks into five tiers, designated by the letters A through E, based upon their ability to beat earnings estimates. "A" ranked stocks are most likely to show future positive earnings surprises, while "E"-ranked stocks are most likely to report negative earnings surprises. "N" indicates data was not available to determine the indicator. N-Neutral. NA-Not available. Source: S&P Equity Research.

Performance calculations do not take into account reinvestment of dividends, capital gains taxes, or brokerage commissions and fees. If the foregoing had been factored into the portfolio's investment performance, it would have been lower. This performance calculation also does not take into account timing differences between the portfolio selections and purchases made based on those selections by actual investors. Over certain periods, the portfolio incurred losses and over time the portfolio is expected to continue to pose a risk of negative investment returns. Because the portfolio has a high turnover rate, we believe it is best suited for tax-deferred accounts such as IRAs and is less suited for other accounts. Investors should seek financial advice before investing based on the portfolio. This portfolio does not address the specific investment objectives, financial situation, and particular needs of any person. Stocks in the portfolio will not be suitable for all investors. Readers should be aware that past performance is not an indicator of future results.