| Market Index | February Change | Year to Date |
|---|---|---|
| Standard & Poor's 500 | 3.1% | -0.6% |
| Dow Jones Industrial Average | 3.0% | -0.5% |
| Russell 2000 (small company) | 4.5% | 0.7% |
| MSCI EAFE (international) | -0.7% | -5.1% |
| Barclays Intermediate Gov/Credit Index | 0.4% | 1.8% |
| 3 Month Treasury Bill | 0.0% | 0.1% |

## U.S. Markets Back In Favor In February

The stock market resumed its upward trajectory in February with the S&P 500 Index rising 3.1%. It was a broad advance, as eight of the ten major sectors increased in the month (the Consumer Staples and Utilities sectors were the only decliners). The path was a little more volatile than usual, with 8 of the month's 19 trading days posting more than a 100 point move (plus or minus) in the Dow Jones Industrial Average.

Domestic bonds and the U.S. dollar held firm amid the stock market gyrations and continuing fiscal worries in Europe. Greece remained the headline problem in Europe. Germany and other European Union members scrambled to assure markets of their support for Greece without promising a bailout. Plans to offer loan guarantees seemed to alleviate concerns somewhat, and now Greece will try to show progress toward developing an acceptable fiscal plan.

## Economic Data Is Giving Mixed Signals

Economic releases during the month painted a mixed picture, but a modest recovery seems to be the most likely path. Growth was supported by 4th quarter GDP, which was revised up to 5.9%, and The Institute for Supply Management's (ISM) Manufacturing Index continued to indicate strong expansion. In contrast, consumer confidence fell sharply to 46.0, well below expectations, and core inflation fell 0.1%, its first decline since 1982. Also, new home sales fell 11.2% to 309,000 – an all-time low.

Monetary policy continues to be closely watched as investors try to anticipate the end of ultra-low interest rates. The Federal Reserve raised the discount rate by 0.25% in February, although this does not suggest an imminent increase in rates. Still, Federal Reserve communications will be closely dissected this year for any hints of a shift in strategy.

**4th Quarter Earnings Beat Expectations By A Wide Margin**

Fourth quarter earnings per share jumped a whopping 47%, compared to the same period a year ago. While a rebound was expected, the magnitude was even greater: 83% of S&P 500 companies beat or met expectations, the highest since the 2nd quarter of 2007. The biggest sector contributors to this positive surprise were Finance, Consumer Discretionary, Materials, Technology, and Industrials. Conversely, Energy, Health Care, and Telecom fell short of expectations.

Full year 2009 operating earnings per share still fell 9%, but the developing earnings recovery is expected to continue in 2010. Consensus forecast for 2010 earnings growth is 19%, and earnings estimates have been rising since last April.

JOHNSON INVESTMENT COUNSEL

**CINCINNATI**
3777 West Fork Road  Cincinnati, OH 45247  513.661.3100  800.541.0170

**DAYTON**
40 North Main Street  Dayton, OH 45423  937.461.3790  800.851.9114

**COLUMBUS**
100 E. Broad Street  Columbus, OH 43215  614.365.9103  866.365.4523