



### Six Signs of Happiness

The “Six Signs of Happiness” is not a Chinese entree. Rather, they are economic signals that tell us the “Green Shoots” that emerged a few months ago continue to bloom. These signals include the following:

1. **Lower Corporate Yield Spreads:** Narrowing spreads are an indicator that businesses will have an easier time getting a loan at attractive rates.
2. **The Housing Market Reaches a Bottom:** The root of the economic downturn stems from the housing crisis. As price declines abate, the housing market can stabilize and restore a more normal level of consumer activity.
3. **New Manufacturing Orders Pick Up:** The ISM Manufacturing New Orders Index measures the degree to which industrial companies see more or fewer orders. A turn in this, the most economically sensitive part of the economy, indicates that we are returning to health.
4. **Employment Stabilization:** Job growth is generally considered a lagging indicator. In the past few recessions, we had jobless recoveries which kept the overall economy from rebounding quickly and prolonged the downturn.
5. **Higher Savings Rate:** Given the high levels of debt Americans carried into this recession, a higher savings rate is needed. Consumer ability to amass debt is a critical part of the growth cycle.
6. **Earnings Expectations Stop Declining and Reverse Course:** Earnings expectations were grossly inflated coming into the downturn. A pick-up in expectations is Wall Street’s signal that economic conditions are improving.

As shown in the attached graphics, we have reached a point where all of these signals now point in a favorable direction. Corporate bond spreads have shrunk from a high of close to 5% to a little less than 2%. The Housing Market continues to stabilize. The latest data shows that the median home price increased during the month of June by 4.1%. This is probably exaggerated by seasonal factors but indicates the beginnings of a recovery, particularly in places like California where prices fell first and hardest.

*Review & Outlook is intended to be an unconstrained review of issues, topics and considerations of possible interest to Glenmede’s clients and is not intended to be applicable to any one particular client. Actual investment decisions for particular clients are made in light of applicable considerations and may be different from the views expressed here. Likewise, actual portfolio performance may differ from the results discussed. Clients are encouraged to discuss the applicability of any topic or view contained in any Glenmede publication with their Glenmede representative, especially Review & Outlook.*

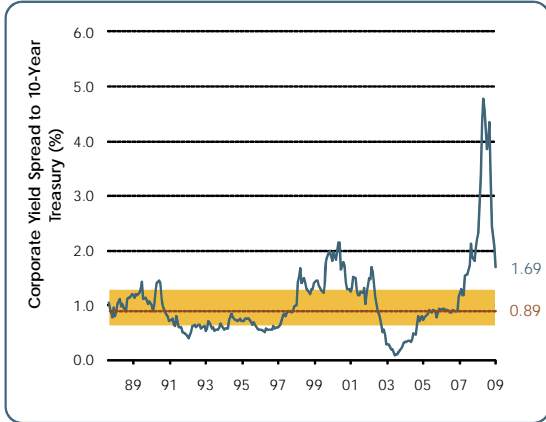
The ISM Manufacturing New Orders index is still at a below-normal reading, but it has bounced significantly from its lowest levels. The jobs picture is less clear but still improving; temporary employment is not declining at quite the same rate, and initial jobless claim levels are receding. Finally, expectations for corporate earnings per share are almost at a point where they are no longer being revised downward.

What does all this mean for investors? In our mind, the critical economic question is not whether the economy will recover. The more important question is whether economic growth returns to normal levels of 3% to 3.5%. We think that while we could see a quarter or two of strong growth from inventory rebuilding, it will take time to reduce and eliminate the high-debt loads incurred by Americans. This in turn will result in a slower-than-average recovery.

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# Economic Signals for a Stock Market Turnaround

**Lower Credit Spreads**



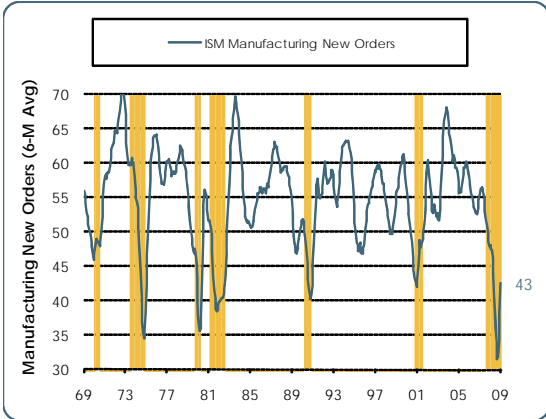
Sources: Glenmede Investment Research and FactSet

**Bottoming of Housing Market**



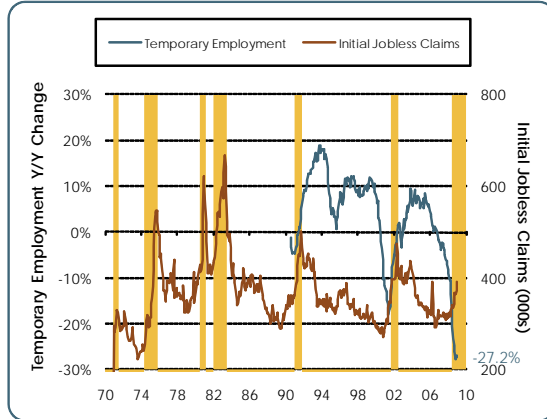
Sources: Glenmede Investment Research and Haver Analytics (NAR)

**Better Manufacturing Outlook**



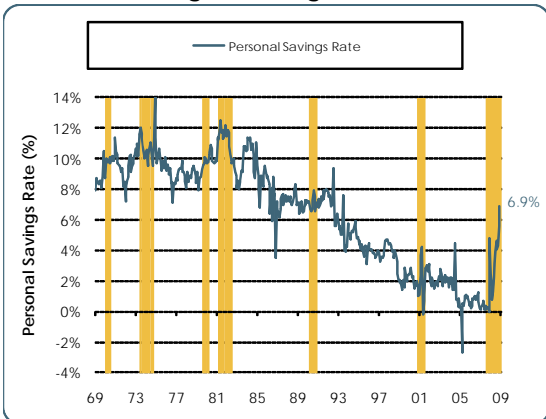
Sources: Glenmede Investment Research and Haver Analytics

**Stabilization of Employment**



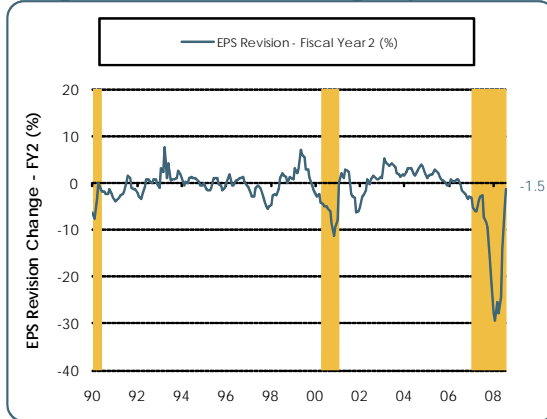
Sources: Glenmede Investment Research and Haver Analytics

**Higher Savings Rate**



Sources: Glenmede Investment Research and Haver Analytics

**Significant Decline in Earnings Expectations**



Sources: Glenmede Investment Research, FactSet (Russell 1000 Universe Average 3-Month Change of Fiscal Year 2 Estimates)

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