CONGRESS ASSET
MANAGEMENT COMPANY

ECONOMIC AND MARKET OUTLOOK
FIRST QUARTER 2010

The year now drawing to a close will be remembered as one of historic events for our country. From economic collapse to resurgence, from financial market turmoil to stability, from stock market collapse to historic recovery, and from deep despair and fear to a guarded optimism and renewed hope, 2009 will go into the record books as a year of profound change for our market oriented economy. Many records were shattered last year. A $787 billion Stimulus Package and other spending initiatives set new records of government deficit spending, $1.4 trillion, and government debt surpassed $12 trillion for the first time. There were a record number of bank failures last year, and never before have interest rates been set so low for so long. Pillars of American industry were judged too big to fail and nationalized, their governance and decisions now overseen by government agencies and czars. As we leave 2009 and enter a new year of recovery the American economy has been fundamentally changed by the events of 2009.

Recovery is underway and at least in the near term will be stronger than the consensus view projects. The details of the November increase in industrial production provide a solid base for optimism as we enter the New Year. Manufacturing output accelerated, production of durable and non-durable goods was strong, and industrial commodities were positive. An end to the worst inventory cycle in the post war era and a sudden increase in export orders is the catalyst for this industrial based resurgence. This has set the stage for a recovery in the manufacturing sector which is definitely showing signs of new life. Consumer spending also appears to be unexpectedly sturdy. After declining in the previous three quarters spending grew 2.9% last quarter. Based on trends in October and November the final quarter will be satisfactory also, supported by exceptionally strong internet sales.

New employment is the missing ingredient which is keeping confidence shaky. On this front there have been indications lately that the worst news may be behind us. Initial jobless claims and continuing claims have been trending downward for weeks now. Many economists believe the recent increase in temporary hiring is a harbinger of a rise in permanent employment. In addition the improvement in manufacturing, which suffered the largest number of layoffs during the recession, will lead to an improvement in manufacturing jobs before long. We anticipate a turn to positive employment reports sooner rather than later. The improvement in jobs will increase personal incomes as well

There is no immediate danger of inflation in the near term. Excess slack in both production capacity and labor are not conducive to inflationary pressures. New pressures may emerge, however, as the slack in the labor market eases. Foreign price competition may moderate also if the dollar continues to strengthen. Longer term we believe a new inflation era will be hard to avoid. The governments' appetite for new social entitlement programs, and penchant for the nationalizing large failing companies, and the enormous amount of money needed to fund them indicates that the government is moving away. from relying on the market forces in favor of central planning. Deep government involvement in the economy will ultimately hinder productivity and competition, and make price stability dependent upon government action.

The immediate year ahead will be characterized as a year of global industrial based recovery, led primarily by the emerging nations of Asia. U.S. expansion is firming and sustainable, founded on inventory rebuilding and a recovery in spending. Based on public statements both fiscal and monetary policy will remain very expansionary until a turn in employment is confirmed. The major near and long term questions relate to government actions and policies. In the new year the test will come as the Federal Reserve and Treasury withdraw support from a host of companies and industries. To a large extent the healthy housing and automobile trends in recent months have been artificially influenced by government programs. Regulation of the financial markets is now only beginning to be addressed and adds a further element of uncertainty to 2010. Over the long term the growth of government spending and increasing deficits threaten the soundness of the dollar, push interest rates substantially higher, and will cause in the broadest and largest tax increases ever enacted in our country outside of wartime. In spite of platitudinous calls for fiscal austerity neither the Administration nor the Congress has taken any steps to control expenditures. The absorption of so much of the private resources by the government will cause growth to be considerably below the economy's otherwise excellent potential. We must await the outcome of these issues as they evolve over time. In the meanwhile we believe the stock market holds excellent recovery potential, especially for large, financially secure companies which serve solid industries and which can gain advantage in their market place by their strength, flexibility and reach.

Investment Policy Committee
Alfred A. Lagan, CFA, Chairman
Daniel A. Lagan, CFA, President

December 23rd, 2009