



Fiscal Tightening?

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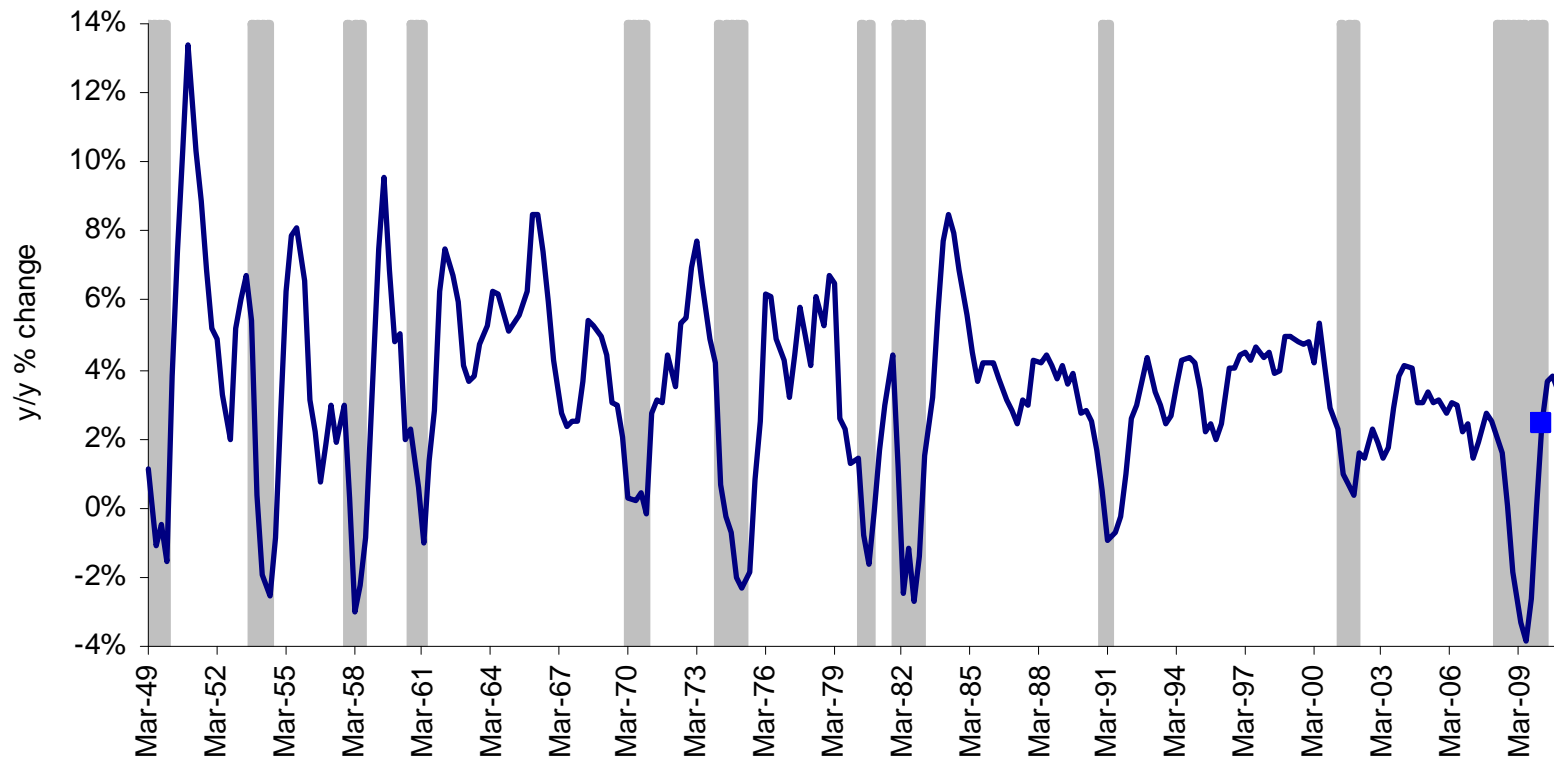
Please read the important disclosure information in the Addendum section of this presentation.

Outlook: Recovery/Expansion, Rolling Debt Crisis

- **We don't think European debt problems or China's slowdown will materially reduce global growth from current expectations. In the longer run, the large fiscal deficits in slow-growing countries and the concentration of debt are huge growth concerns along with the shift to big entities doing the capital allocation rather than smaller ones. But in the short-run, several factors support growth:**
 - **We expect strong corporate profits growth.**
 - **The ECB and China are likely to take supportive actions, leaving a moderate global expansion from the lower base established in 2009.**
 - **Interest rates and bond yields are very low and liquidity worldwide is immense. The demographic support for global bond markets should limit the coming jump in bond yields as growth expectations resume. We disagree with the conflicting signals from money supply.**
 - **Weak investment in many sectors = pent-up investment demand.**

Real GDP Y/Y; Square Root

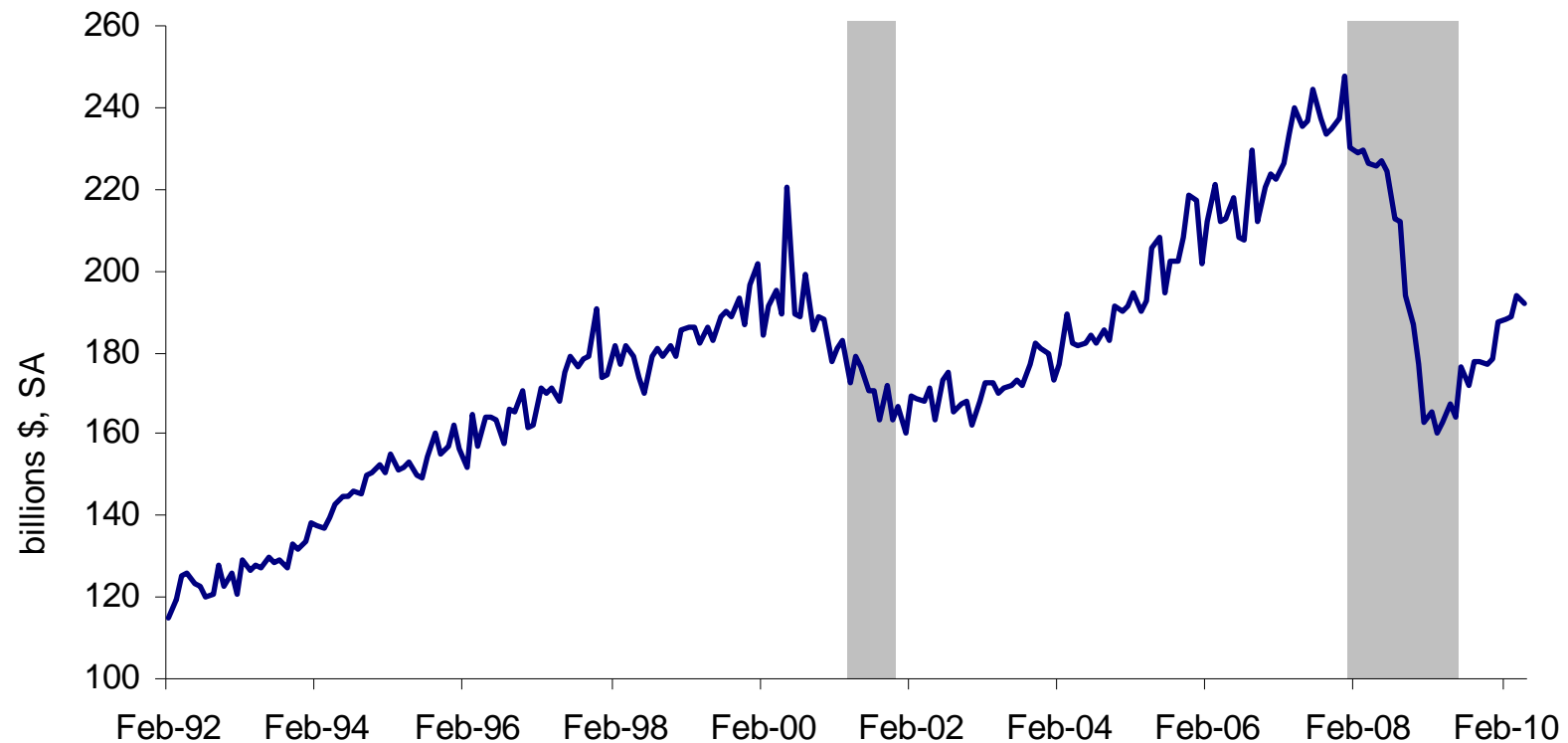
(last obs. Q1 2010, estimated through Q4 2010)



Source: Bureau of Economic Analysis; Encima Global

Durable Goods Orders: Growth from Lower Base

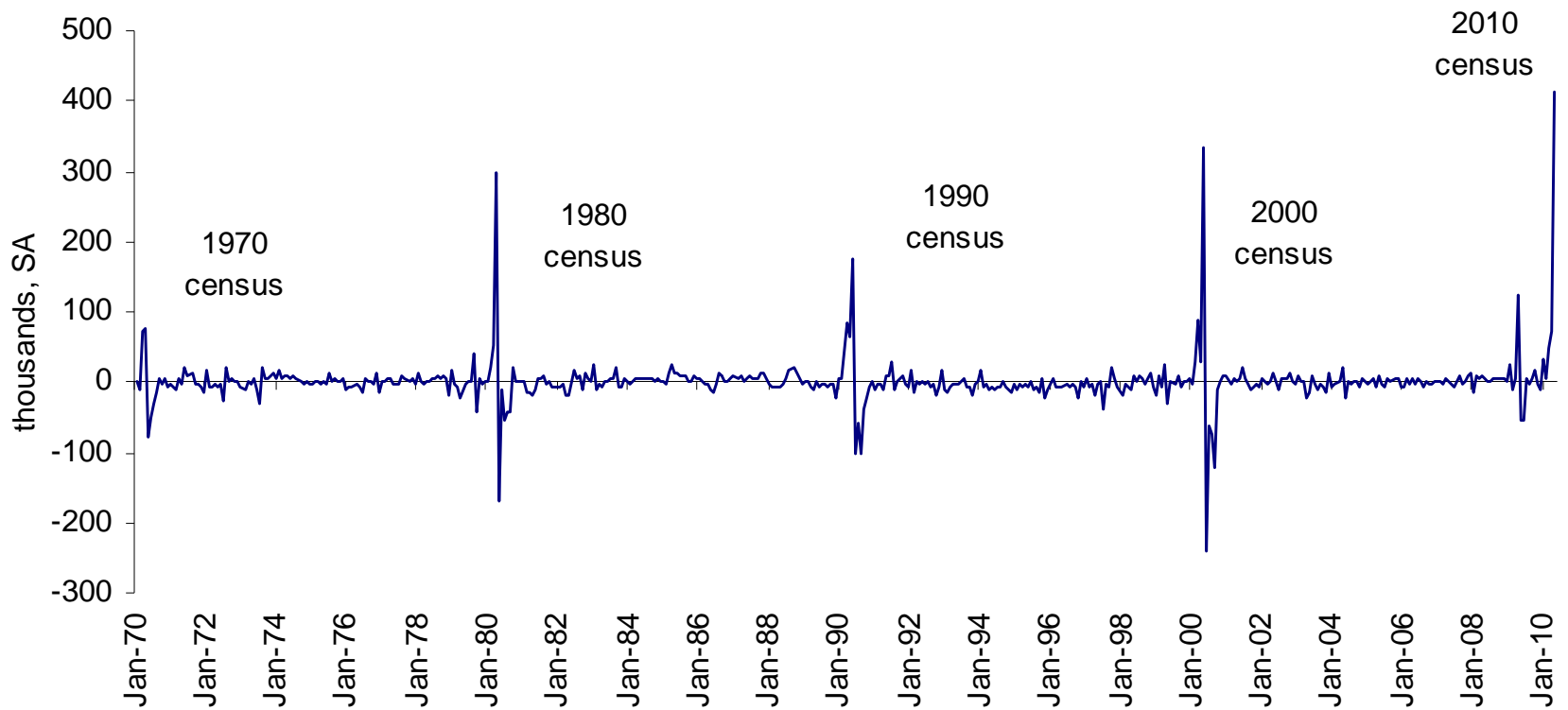
(last obs. May 2010)



Source: Department of Commerce; Encima Global

Census Hiring To Reverse

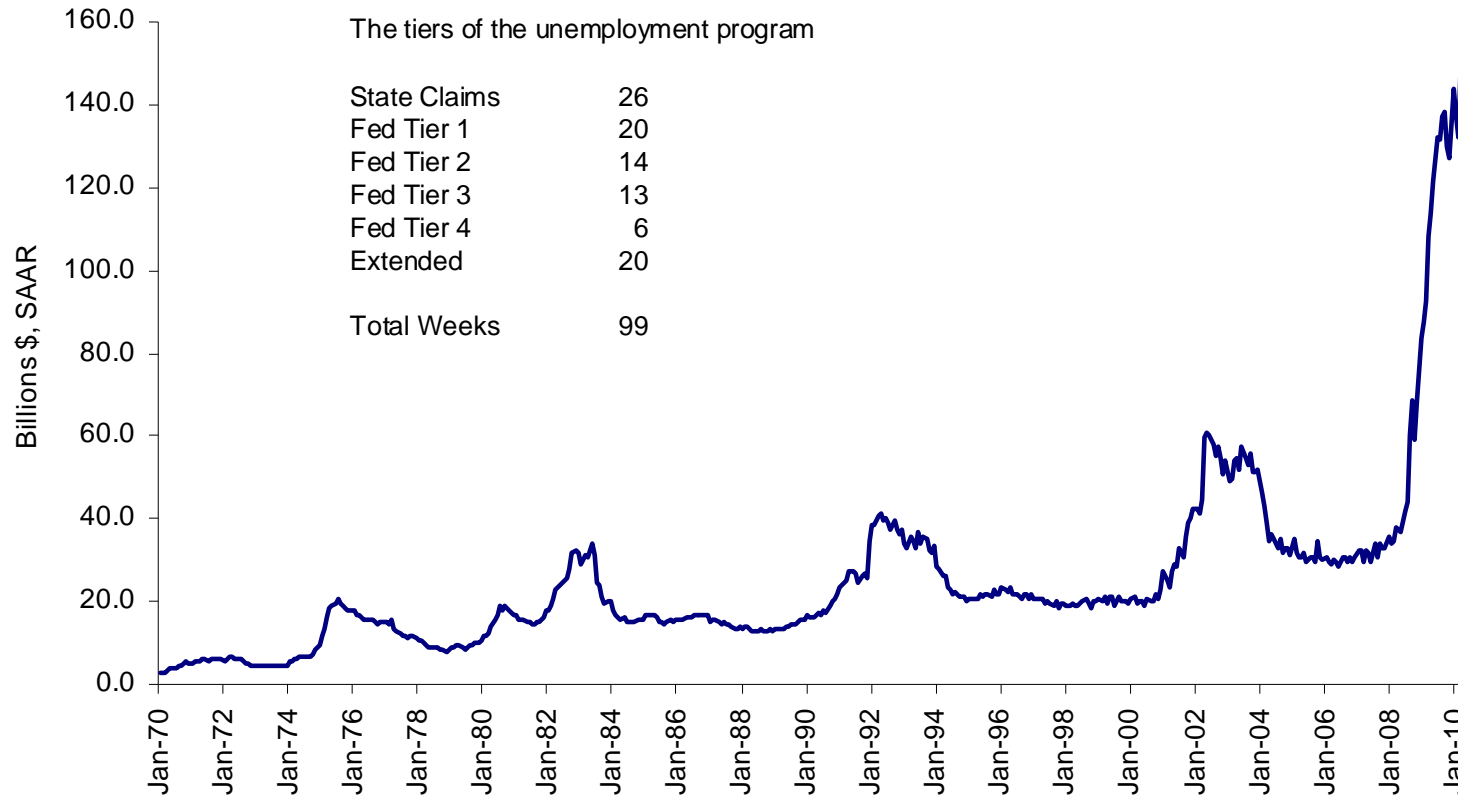
(last obs. May 2010)



Source: Bureau of Labor Statistics; Encima Global

Government Unemployment Insurance Benefits

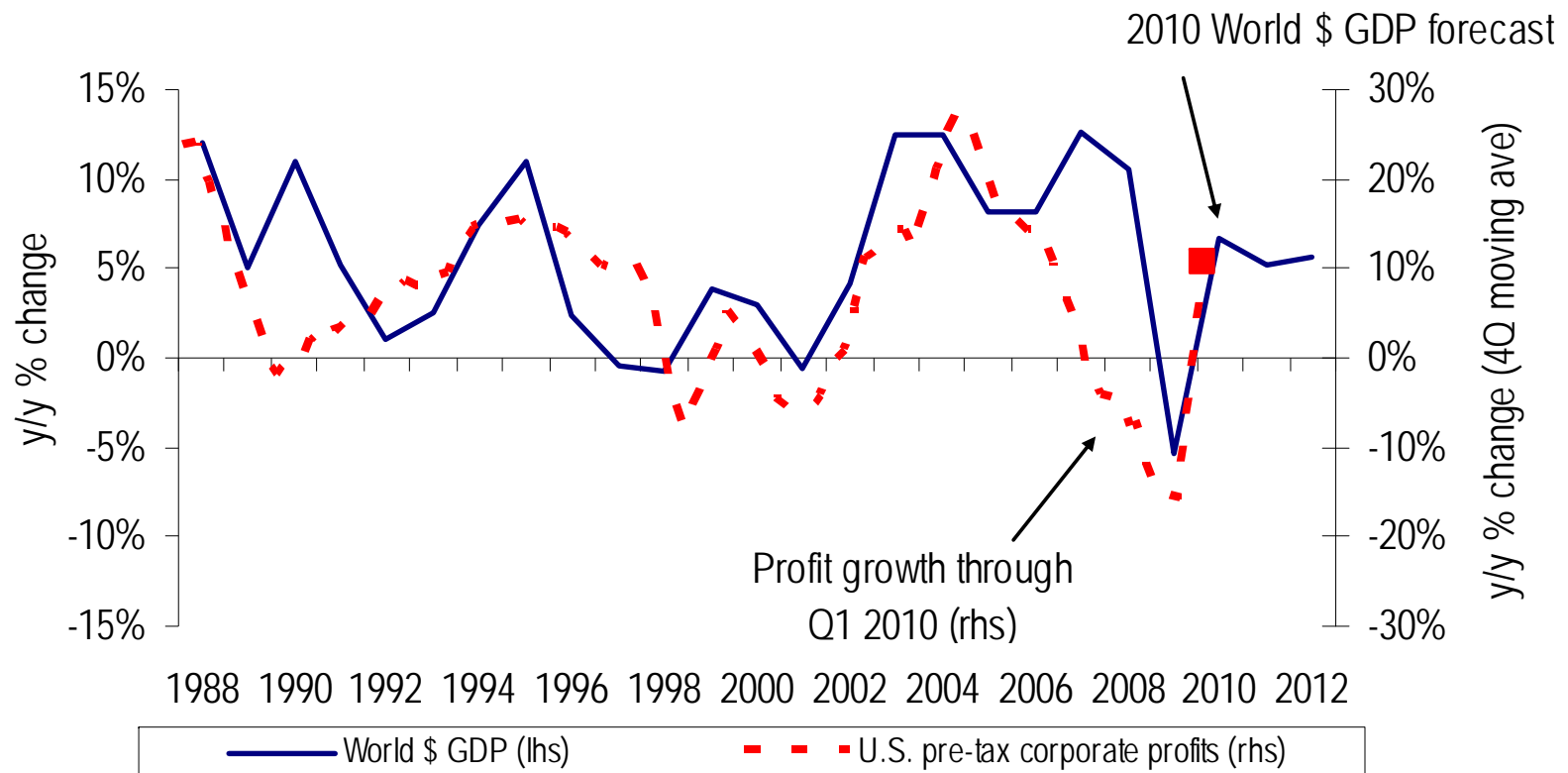
(\$billions, last obs. May 2010)



Source: Bureau of Economic Analysis; Encima Global

World Nominal \$ GDP and US NIPA Corporate Profits

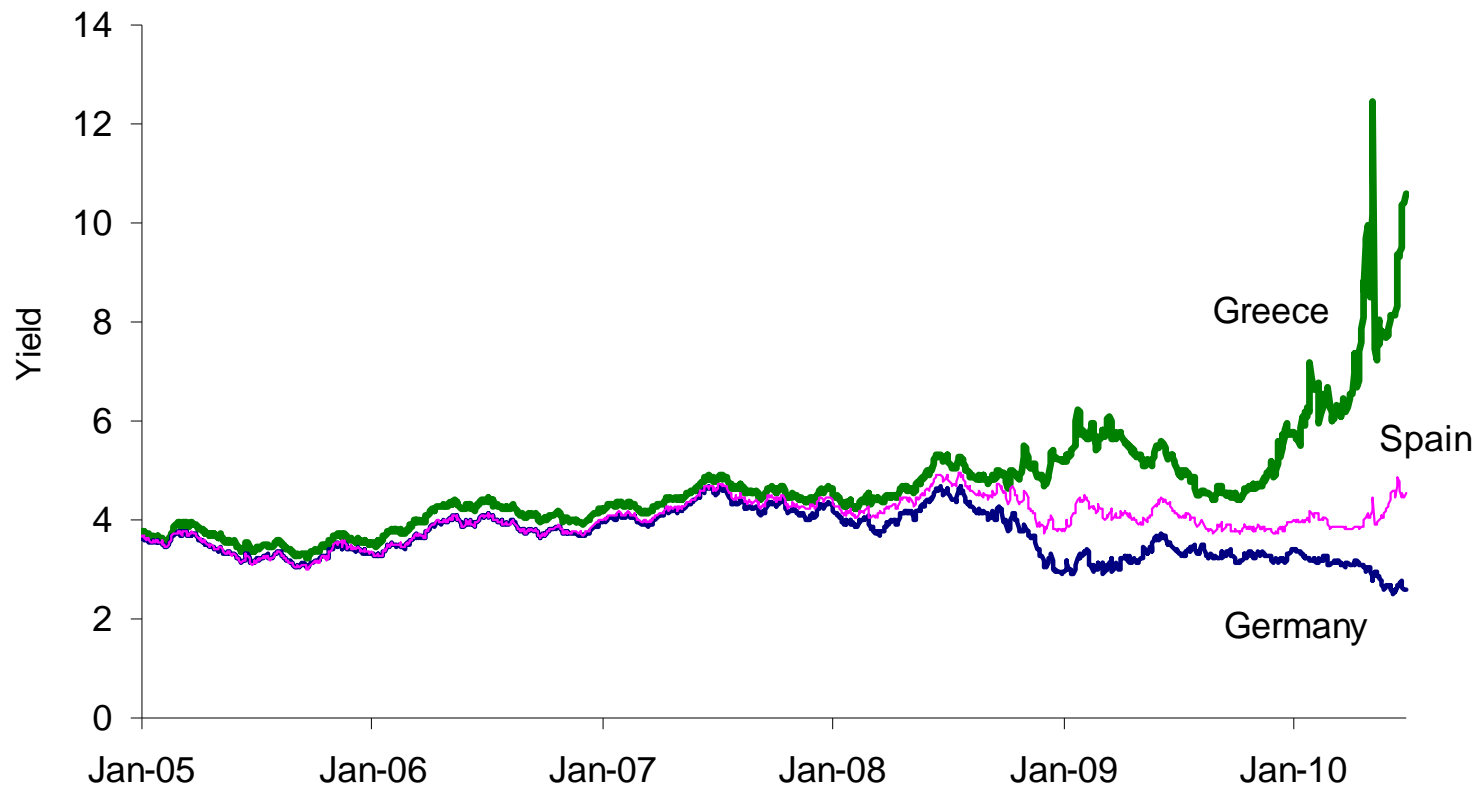
(last obs. Q1 2010)



Source: IMF; Bureau of Economic Analysis; Encima Global

Greece, Spain, Germany Yield

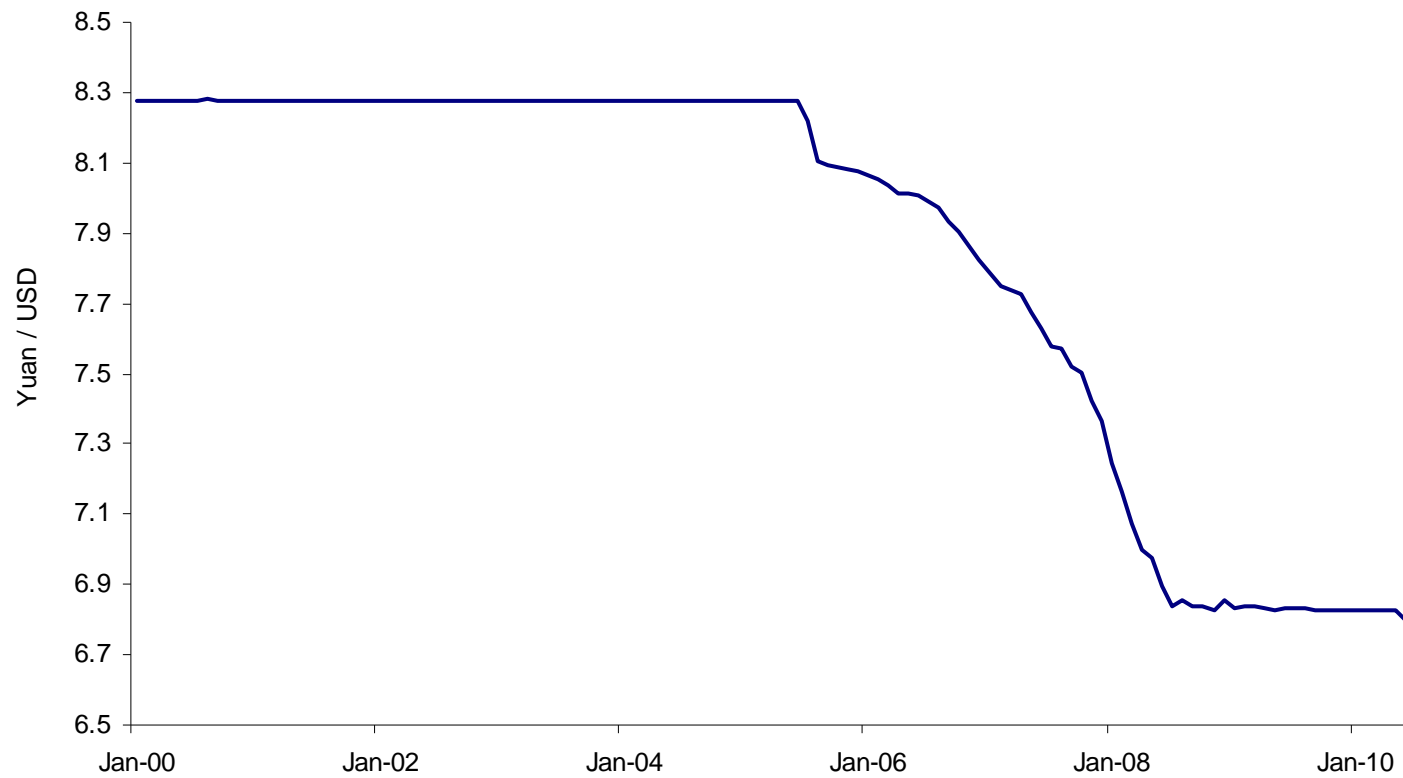
(last obs. June 28, 2010)



Source: Bloomberg; Encima Global

Yuan / USD

(last obs. June 28, 2010)



Source: WSJ; Encima Global

10 Yr US Treasury Yield

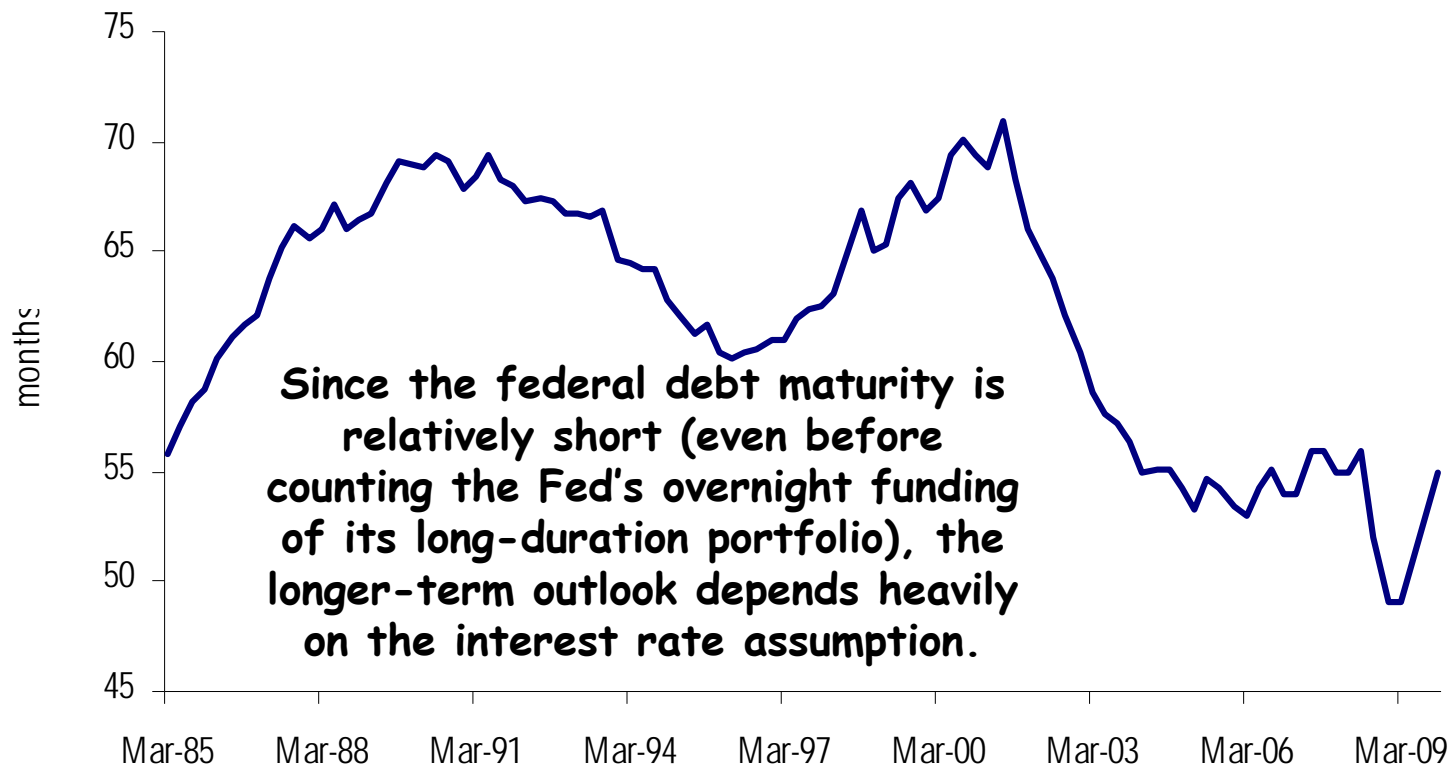
(last obs. June 28, 2010)



Source: Federal Reserve; Encima Global

Average Maturity of U.S. Publicly Held Debt

(last obs. Q4 2009)



Source: US Treasury; Encima Global

Baa Yield minus Aaa Yield

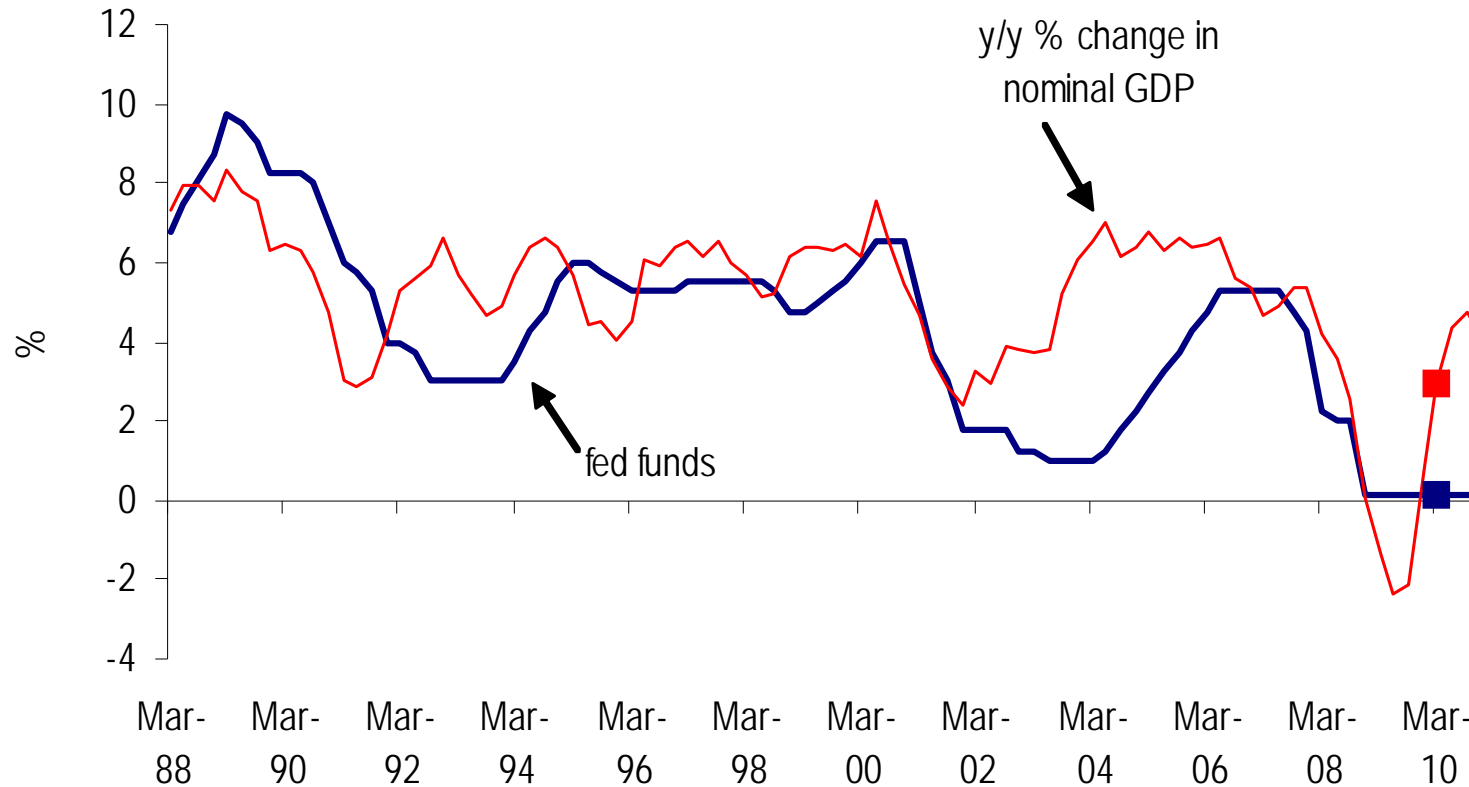
(last obs. June 28, 2010)



Source: Federal Reserve; Encima Global

Fed Funds Rate and Nominal GDP Y/Y

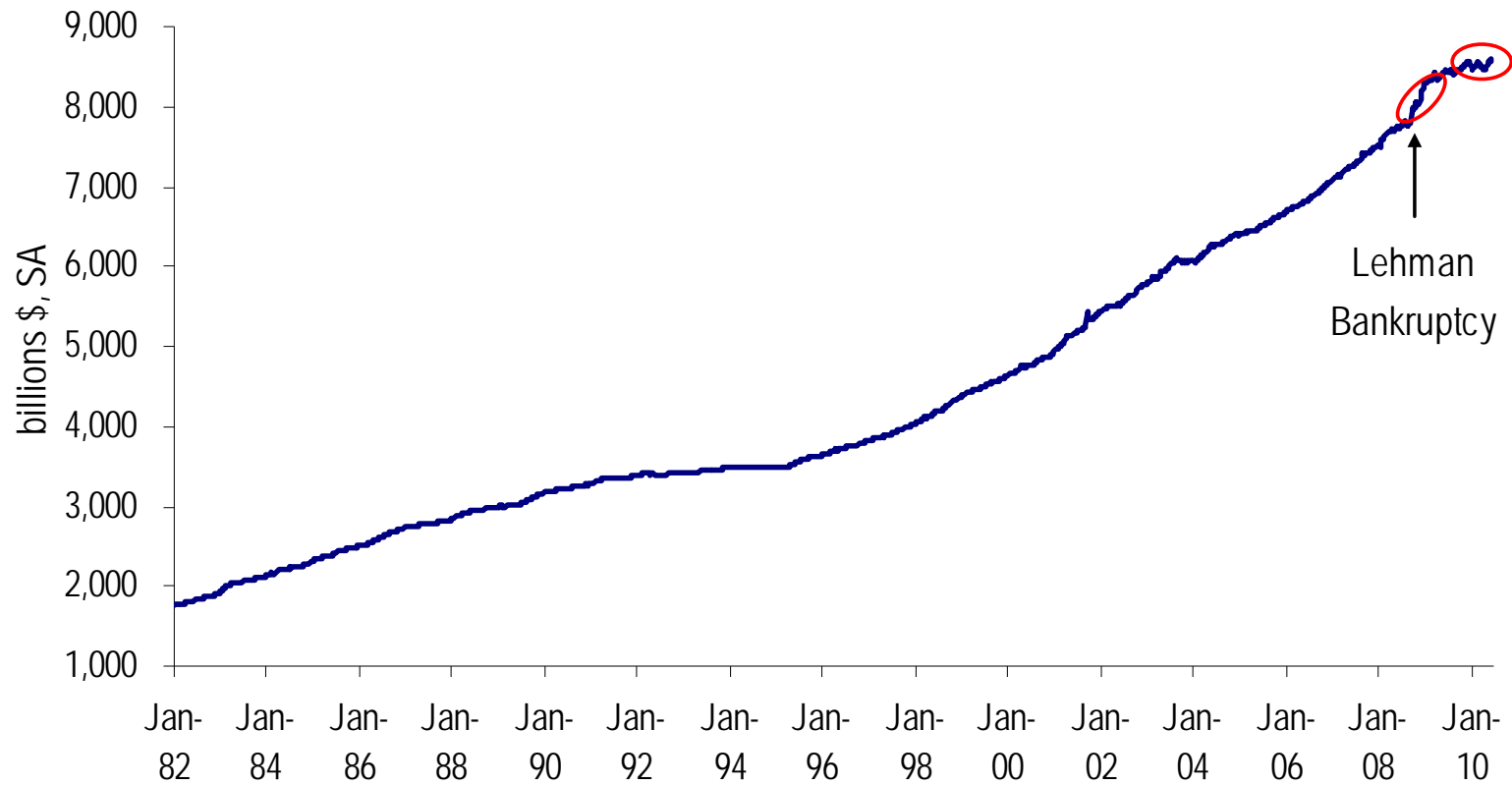
(last obs. Q1 2010, forecast to Q4 2010)



Source: Federal Reserve; Bureau of Economic Analysis; Encima Global

M2 Money Supply

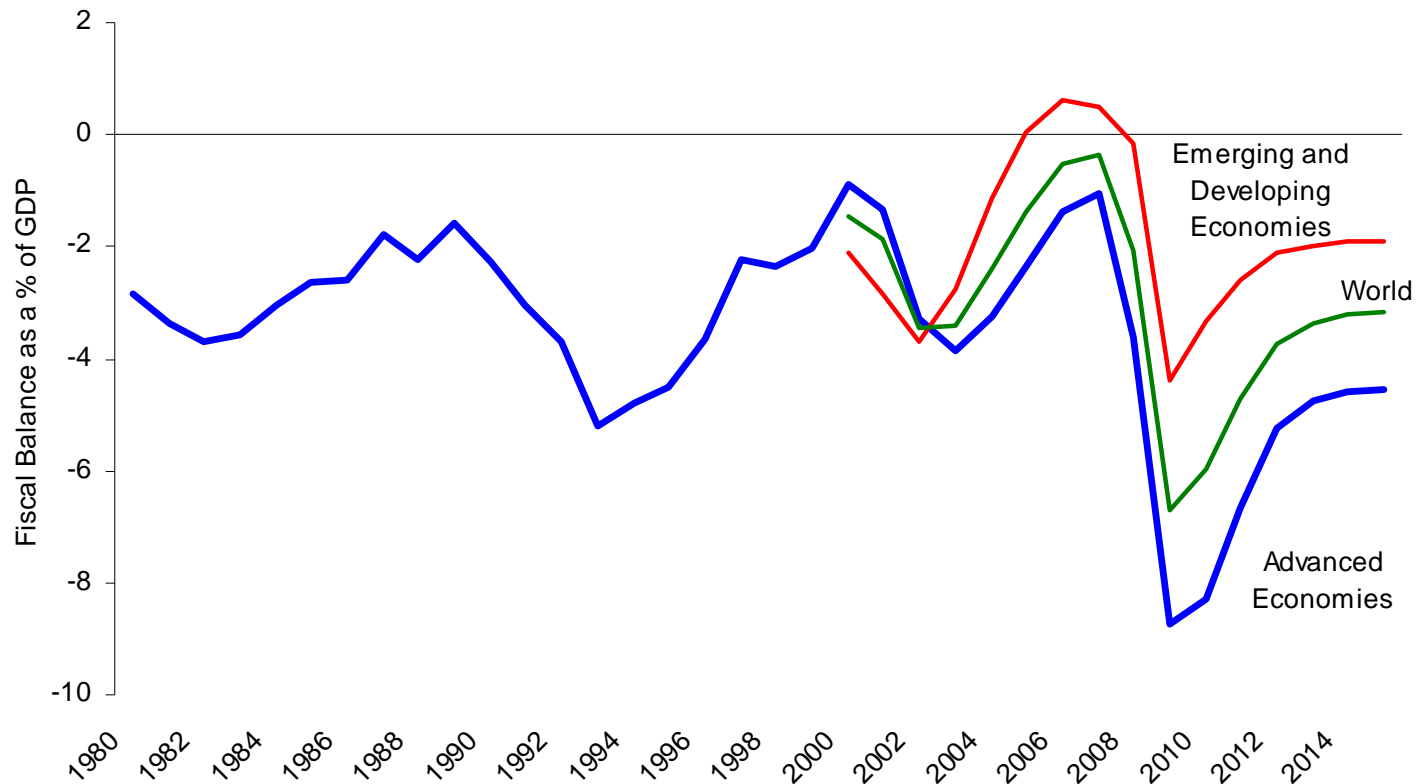
(last obs. June 14, 2010)



Source: Federal Reserve; Encima Global

Fiscal Balance as a % of GDP

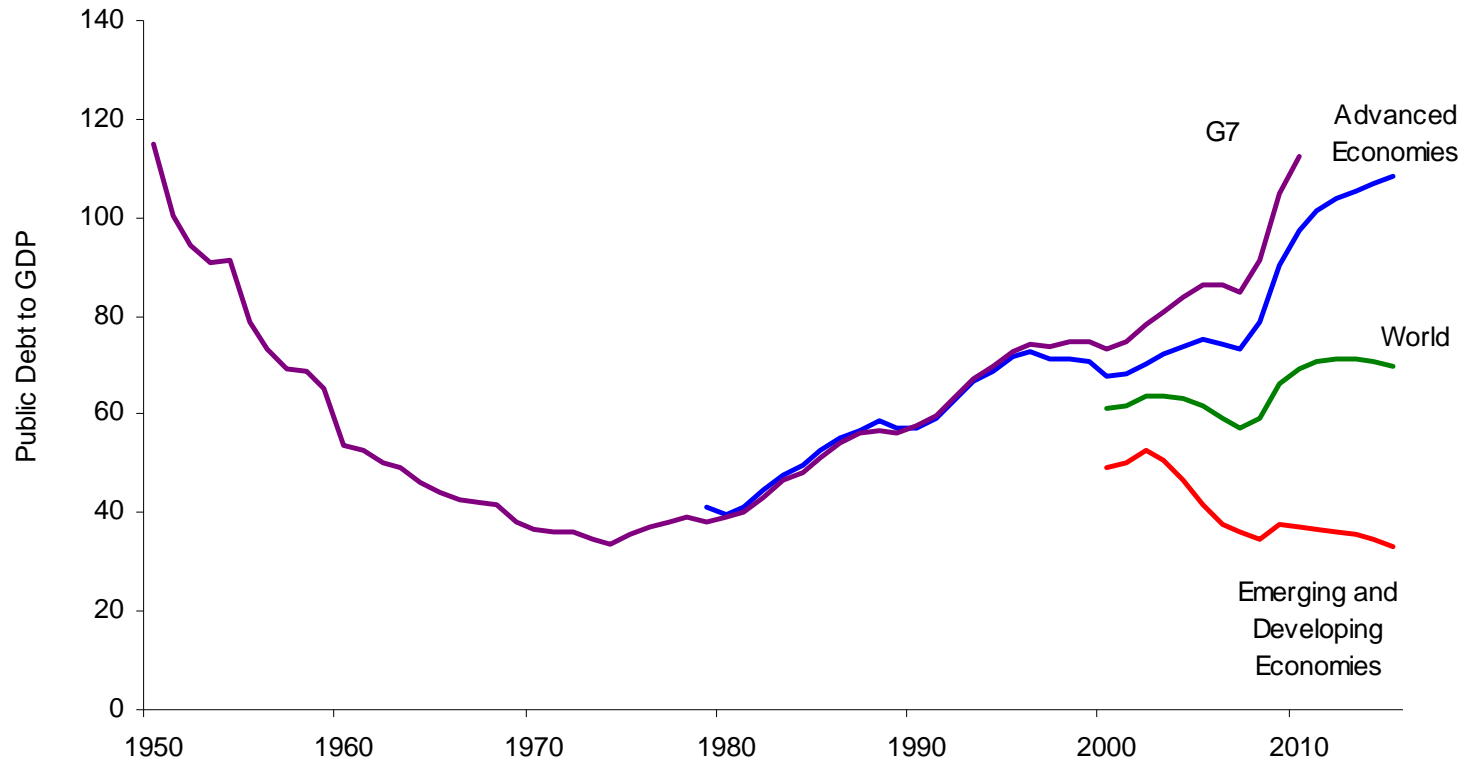
(last obs. 2009, IMF forecasts to 2015)



Source: IMF; Encima Global

Public Debt as a % of GDP

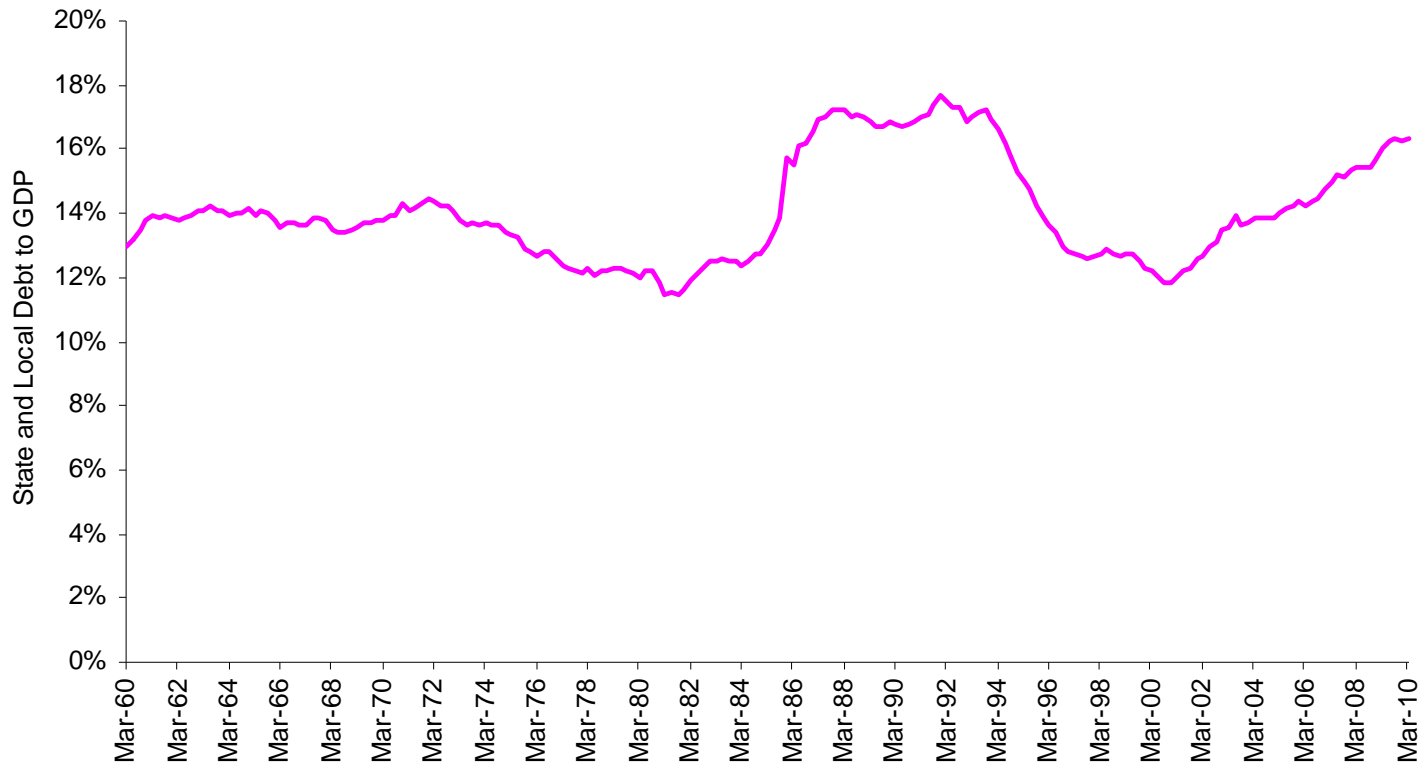
(last obs. 2009, IMF forecasts to 2015)



Source: IMF; Encima Global

State and Local Govt Debt as a % of GDP

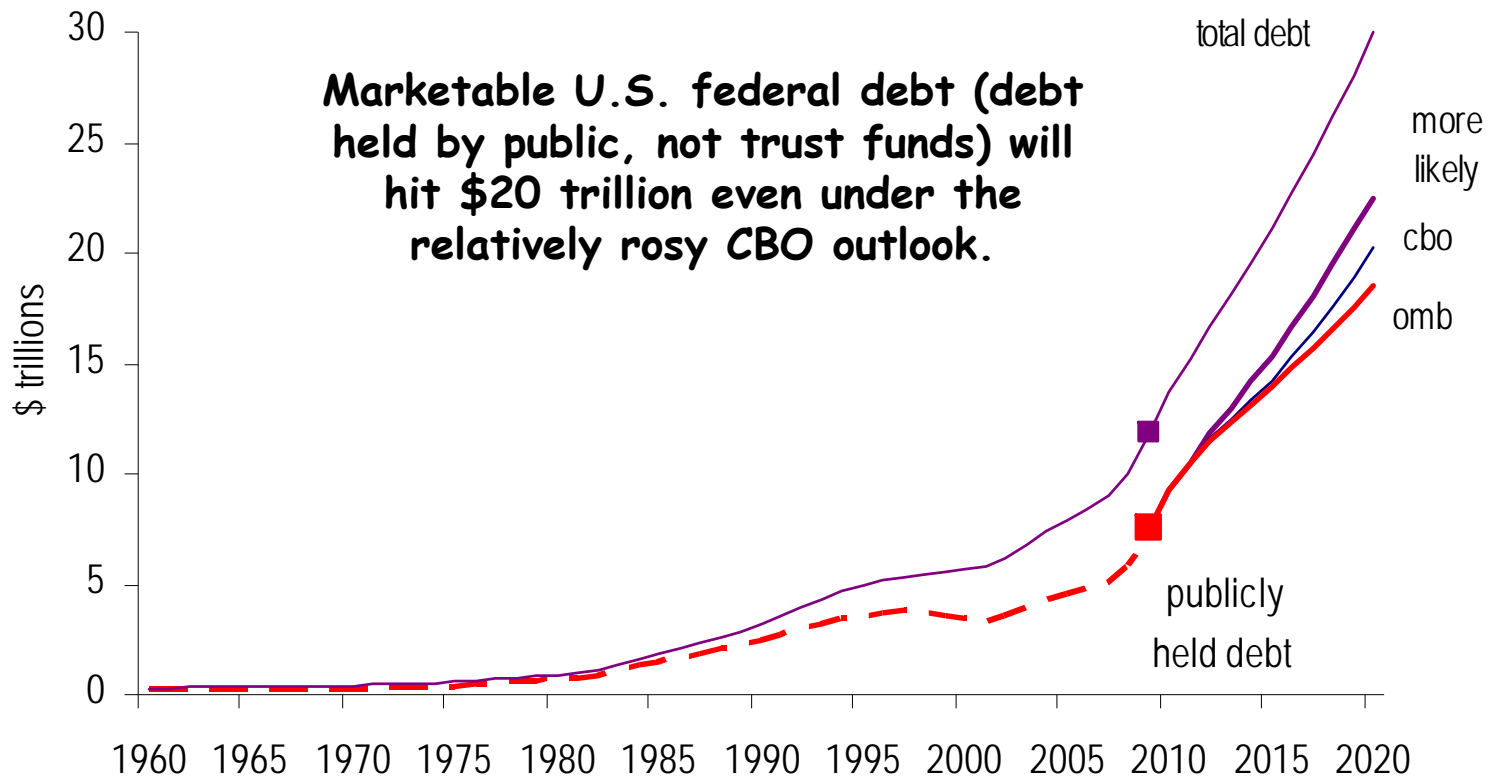
(last obs. Q1 2010)



Source: Federal Reserve Flow of Funds; Bureau of Economic Analysis; Encima Global

US Federal Government Debt (\$ trillions)

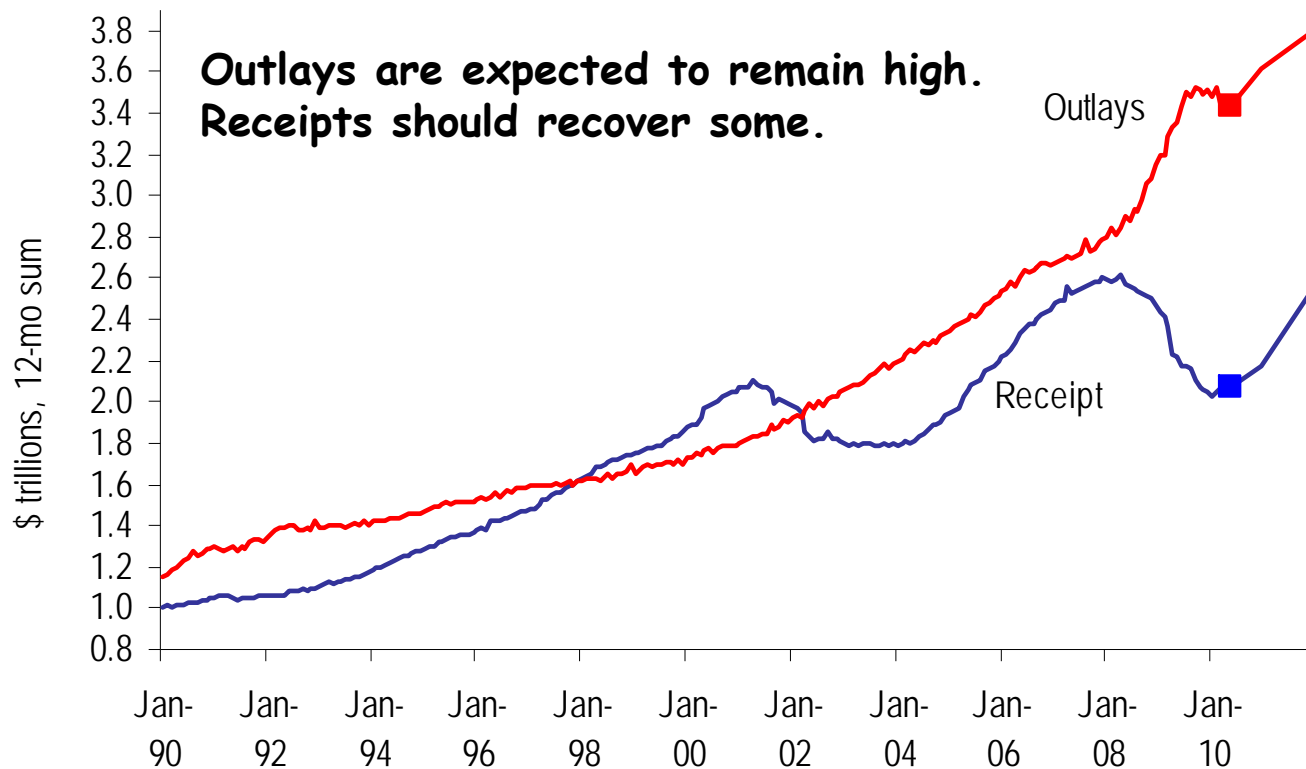
(last obs. 2009, estimated to 2020)



Source: CBO; OMB; Encima Global

Federal Receipts and Outlays (\$ trillions)

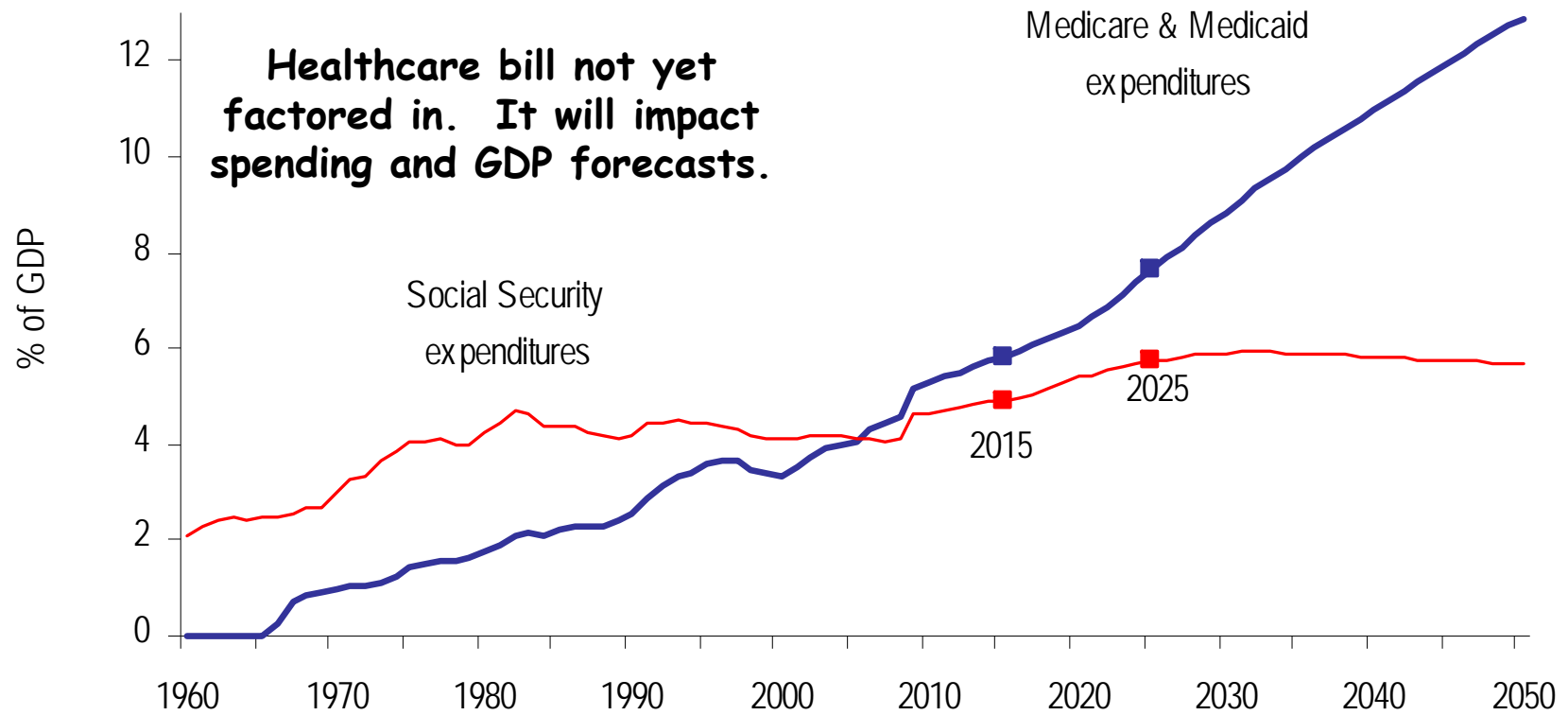
(last obs. May 2010, CBO estimates through FY2011)



Source: CBO; Treasury; Encima Global

Spending Projections for Medicare/Medicaid and Social Security

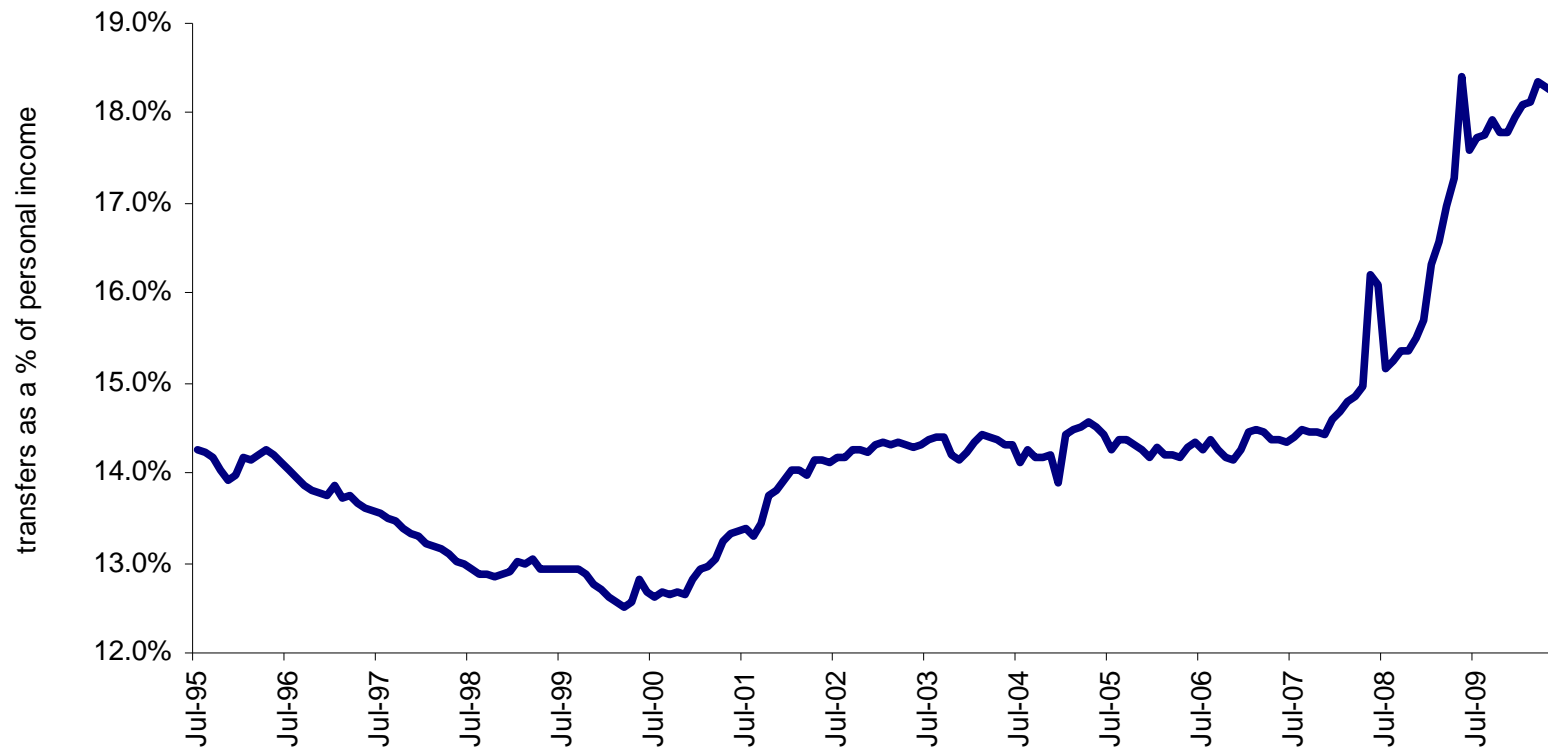
(last obs. 2009, CBO projections through 2050)



Source: CBO; Encima Global

Transfers as a % of Personal Income

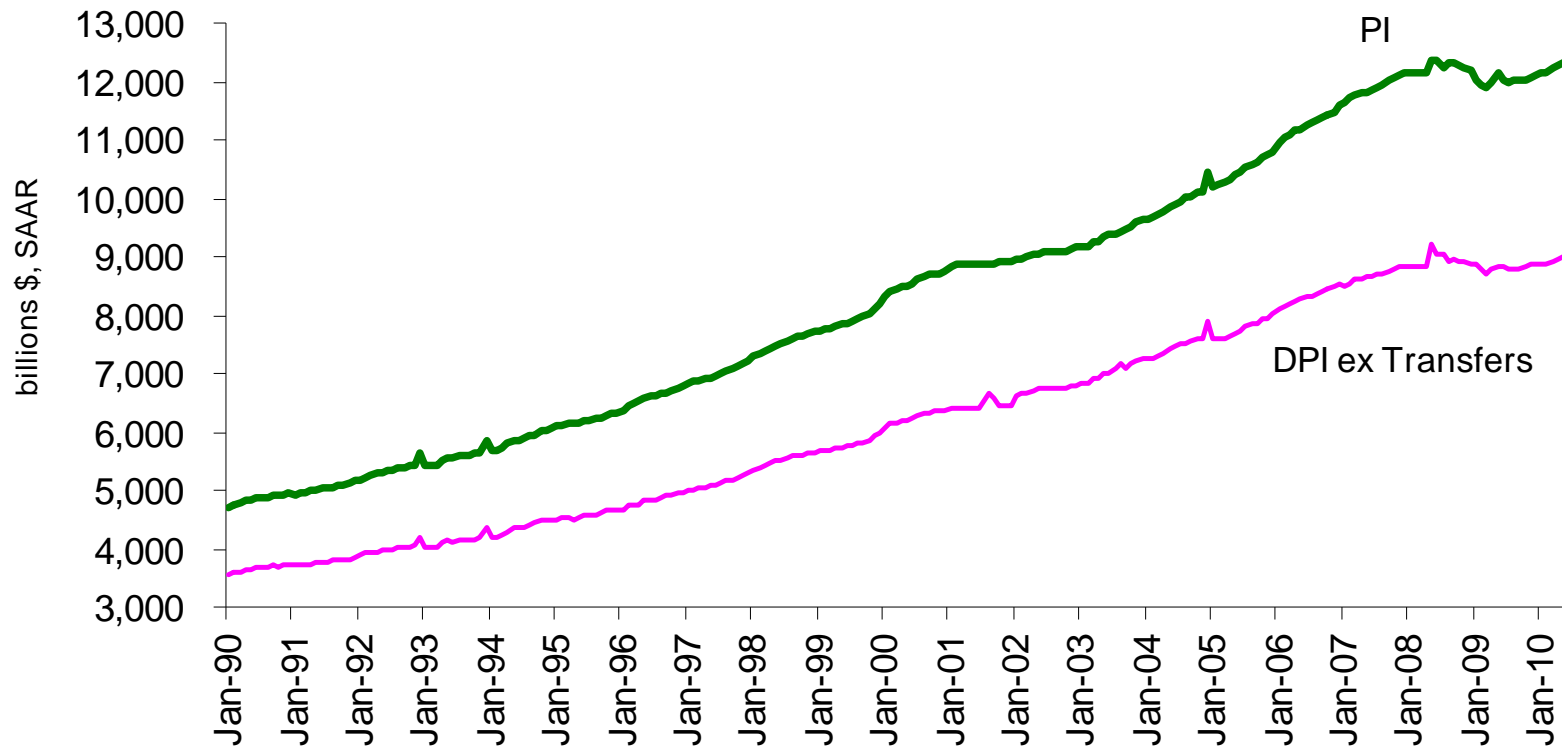
(last obs. May 2009)



Source: Bureau of Economic Analysis; Encima Global

Personal Income and DPI ex Transfers Stalled

(Nominal \$ billions, last obs. May 2009)



Source: Bureau of Economic Analysis; Encima Global



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