



The Shape of Things to Come: Understanding the New Global Economy

Monday, May 2, 2011; 8:00 AM – 9:15 AM

Moderator:

Jared Carney, Executive Director, Program Development, Milken Institute

Speakers:

Mohamed El-Erian, CEO and Co-Chief Investment Officer, PIMCO

Scott Minerd, Chief Investment Officer, Guggenheim

Laura Tyson, S. K. and Angela Chan Chair in Global Management, Haas School of Business,
University of California, Berkeley; former Chairman, National Economic Council

Ruben Vardanian, Chairman and CEO, Troika Dialog

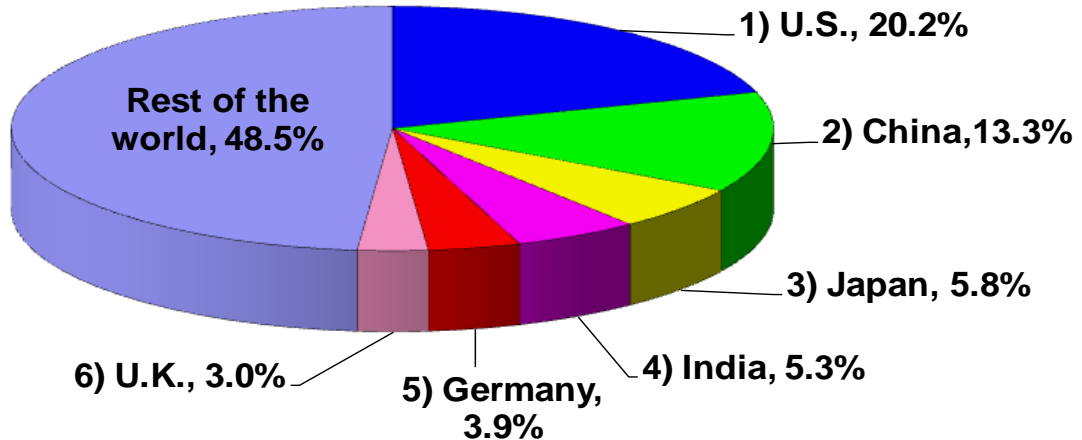
The world's largest economies

Share of the world's GDP (PPP international dollar)



MILKEN INSTITUTE

World's GDP (2010): US\$62 trillion

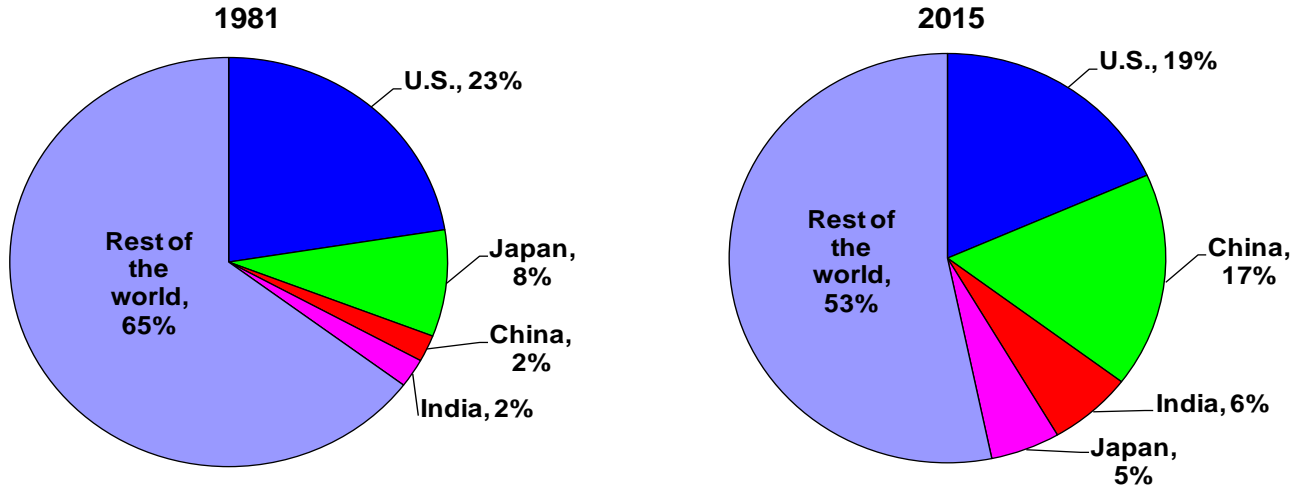


China and India economies will grow larger



MILKEN INSTITUTE

Share of the world's GDP (PPP international dollar)



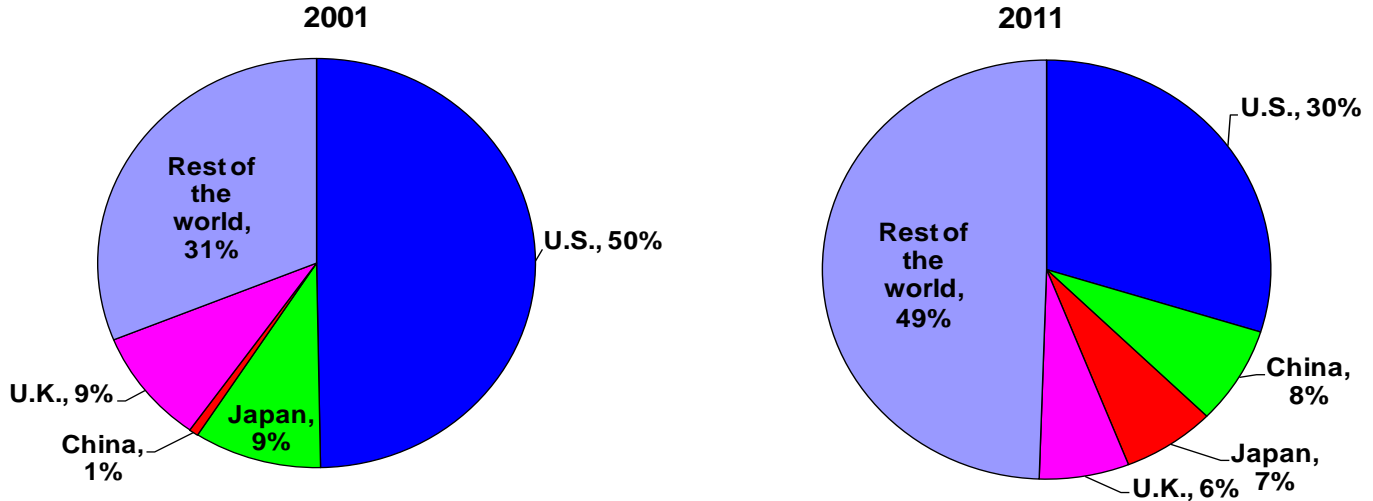
Source: International Monetary Fund.

U.S. stock market's share is shrinking

Share of the world's market capitalization



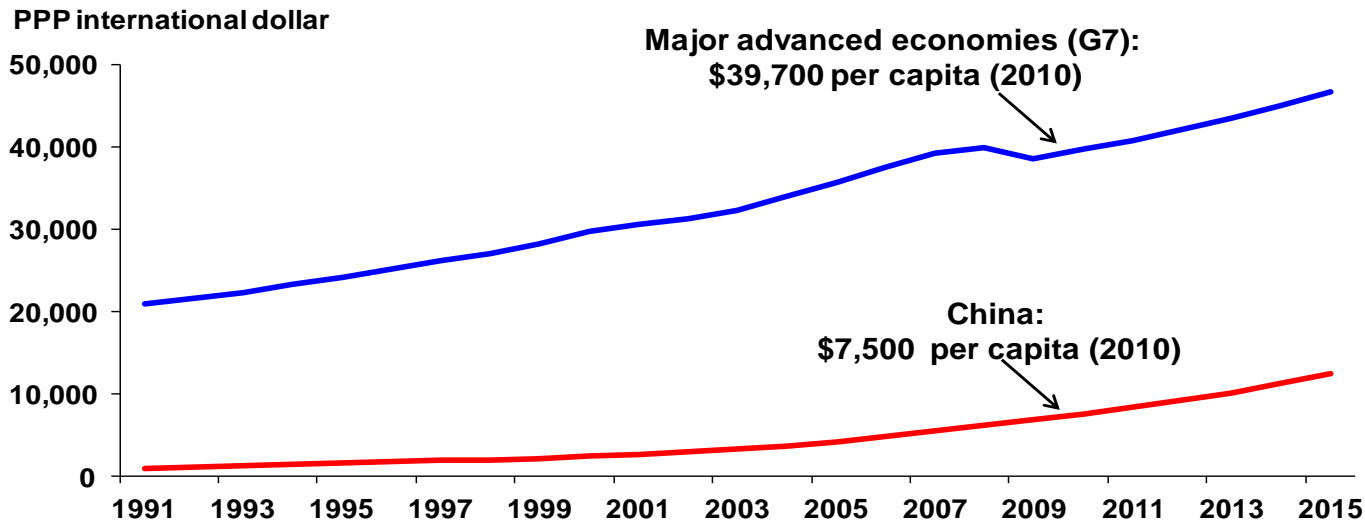
MILKEN INSTITUTE



Note: The 2011 data are as of April 18, 2011.

Source: Bloomberg.

Is China's standard of living catching up to rich countries? *(GDP per capita, PPP)*

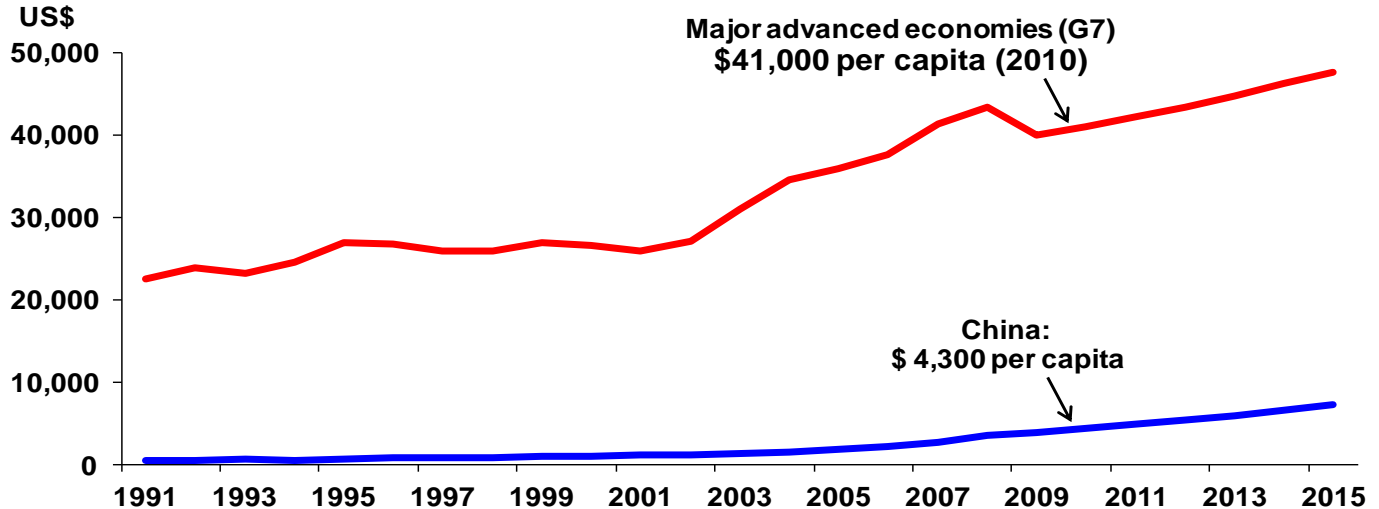


Note: Data for 2010 and beyond are estimates.
Source: Bloomberg.

Is China's standard of living catching up to rich countries? *(Nominal GDP per capita, US\$)*



MILKEN INSTITUTE



Note: Data for 2010 and beyond are estimates.

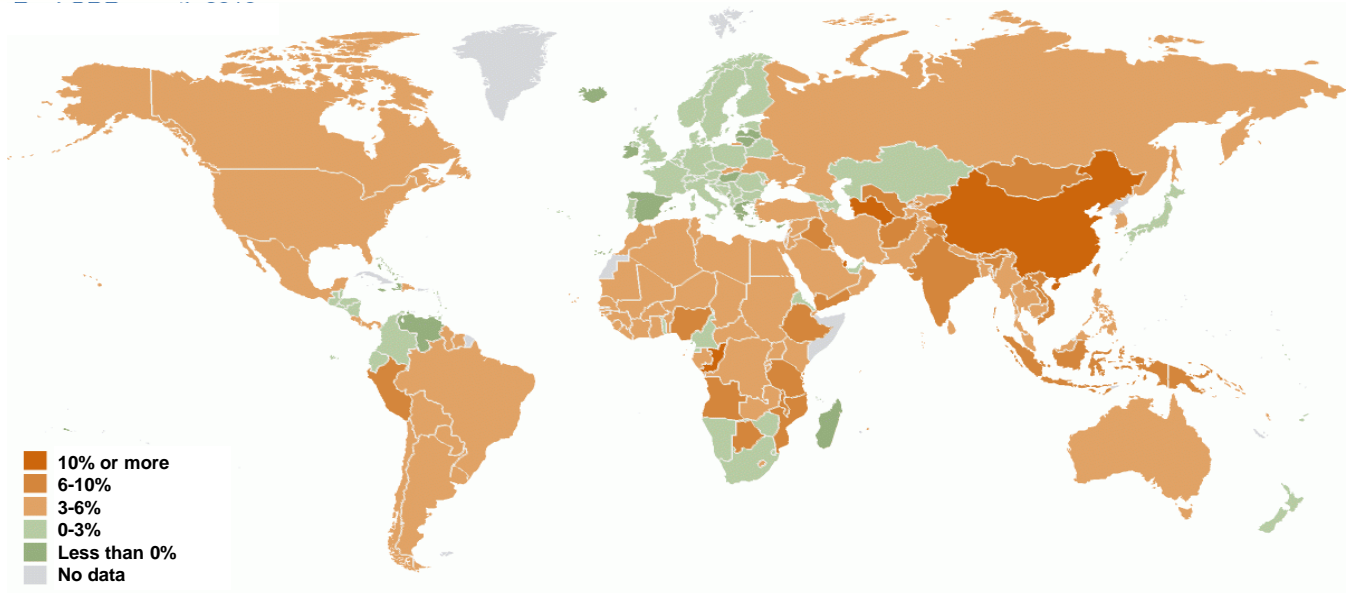
Source: Bloomberg.

World real GDP growth in 2010

Annual percentage change



MILKEN INSTITUTE



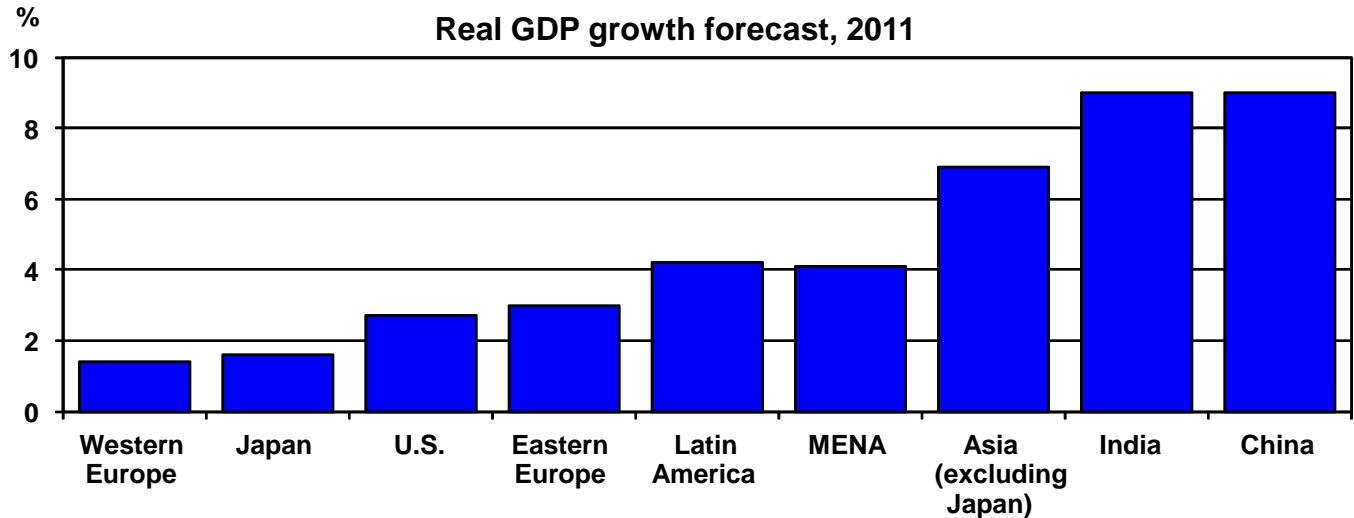
Source: International Monetary Fund.

2011 global GDP growth forecasts

Key countries/regions



MILKEN INSTITUTE



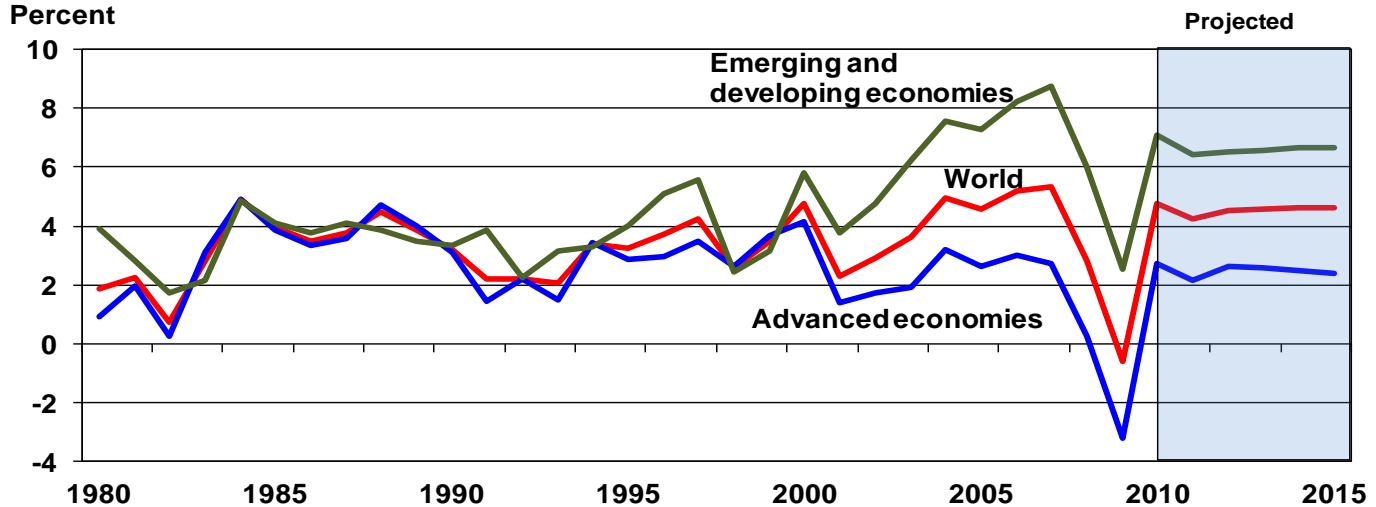
Source: Economist Intelligence Unit.

World economic recovery



MILKEN INSTITUTE

Real GDP growth rates, 1980-2015



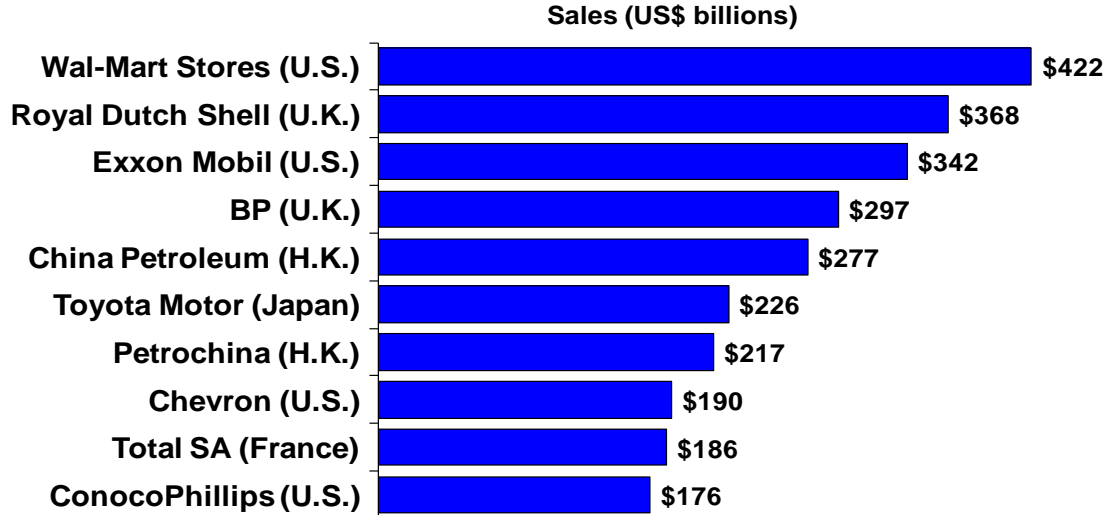
Source: Economist Intelligence Unit.

Corporations become larger and multinational



MILKEN INSTITUTE

The world's 10 biggest companies ranked by sales

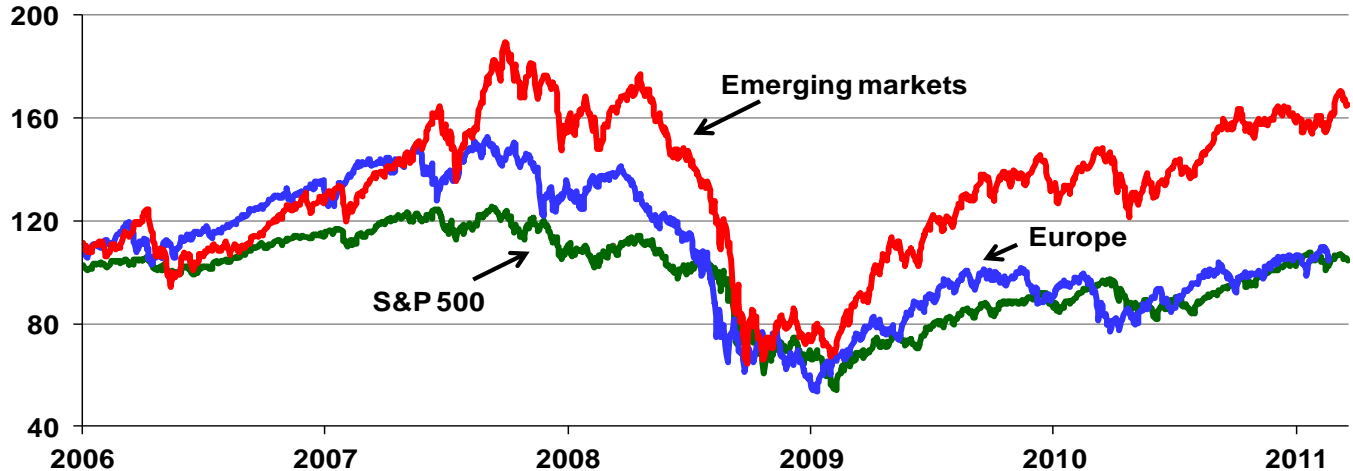


Stock prices around the world gained strongly, but most remained below their pre-crisis peaks



MILKEN INSTITUTE

January 2006 = 100



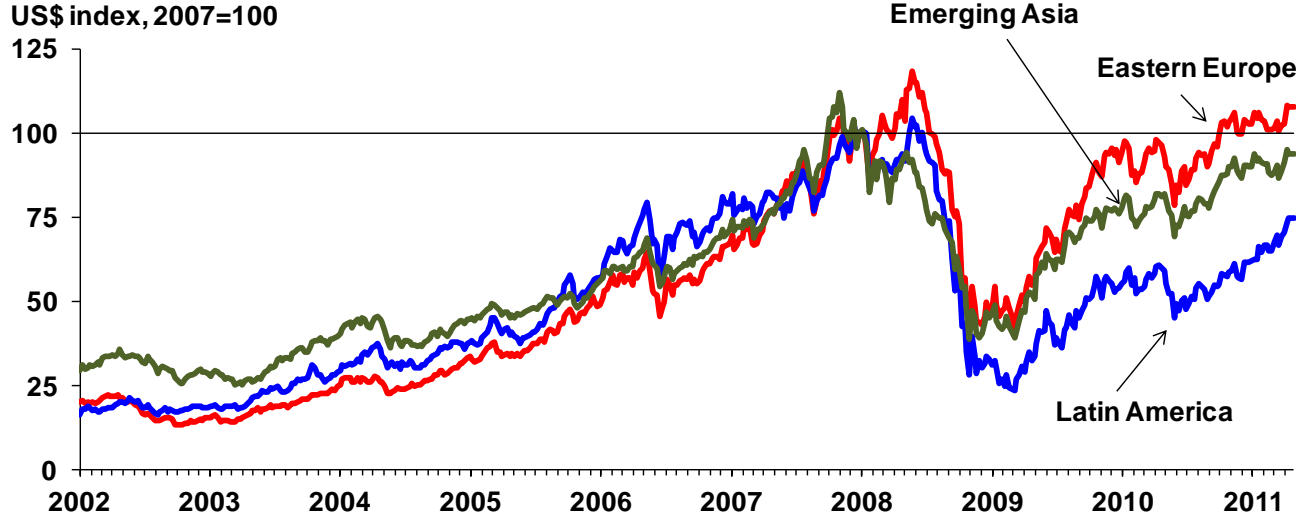
Note: Data are as of April 20, 2011.

Source: Bloomberg.

Emerging markets: Equity markets have returned to pre-crisis level



MILKEN INSTITUTE



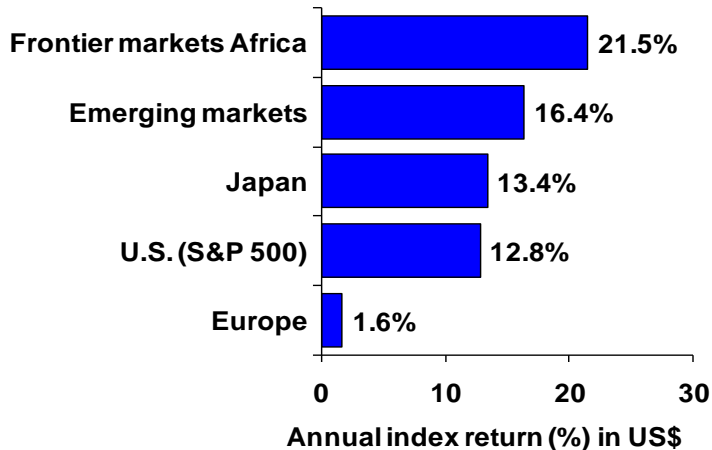
Source: Bloomberg.

Will 2011 be another strong year for global stock markets?

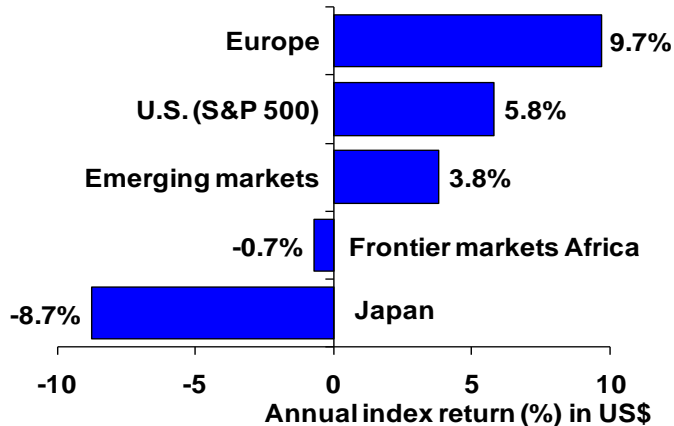


MILKEN INSTITUTE

2010



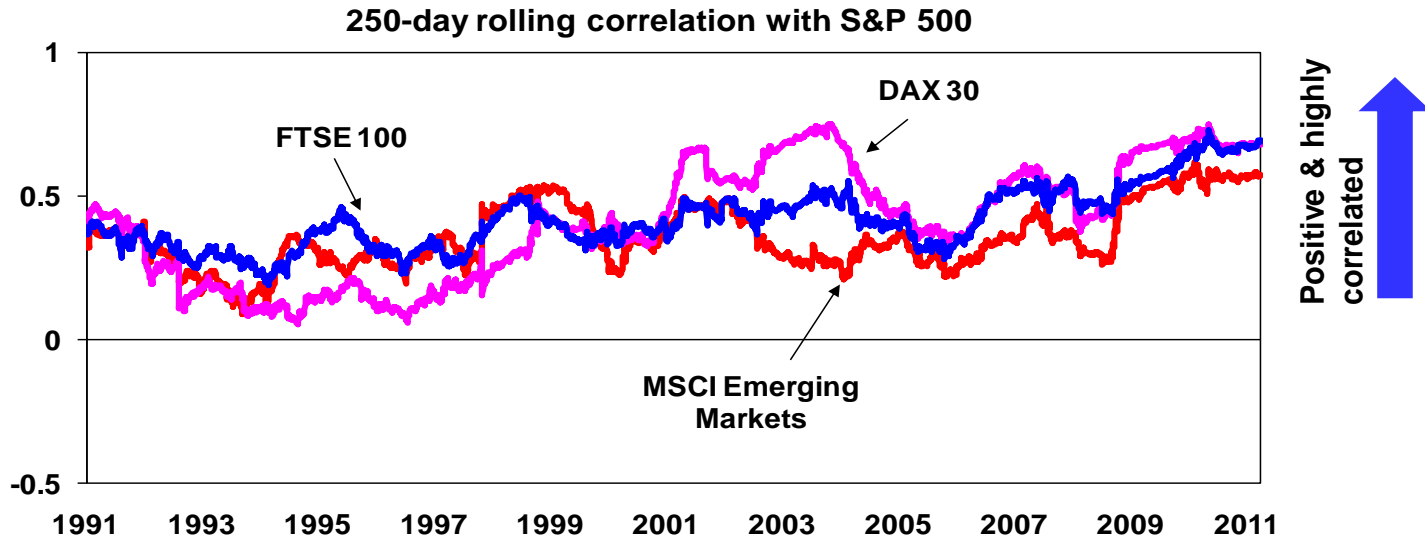
YTD (as of 4/20/2011)



Note: the regional equity indices are based on the MSCI equity indices.
Source: Bloomberg.



Global stock markets are highly correlated

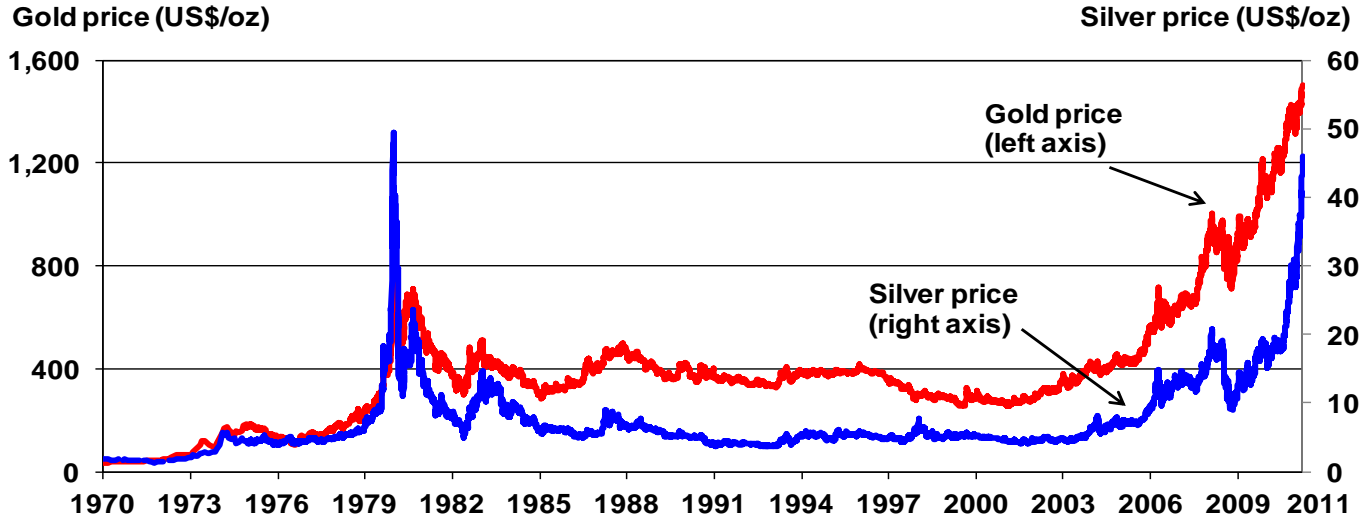


Source: DataStream.

Gold prices hit record highs and silver rallied to its strongest since 1980



MILKEN INSTITUTE



Source: Bloomberg.

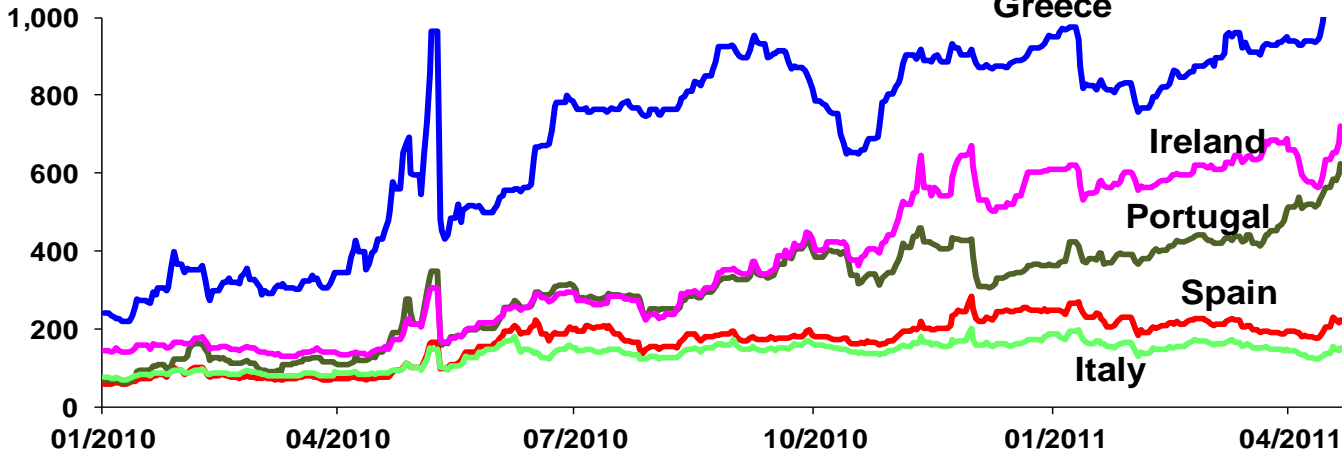
Deepening European sovereign debt crisis

Widening spreads over German government bond



MILKEN INSTITUTE

10-year gov't bond spreads over
German gov't bond (basis points)



Source: Bloomberg.

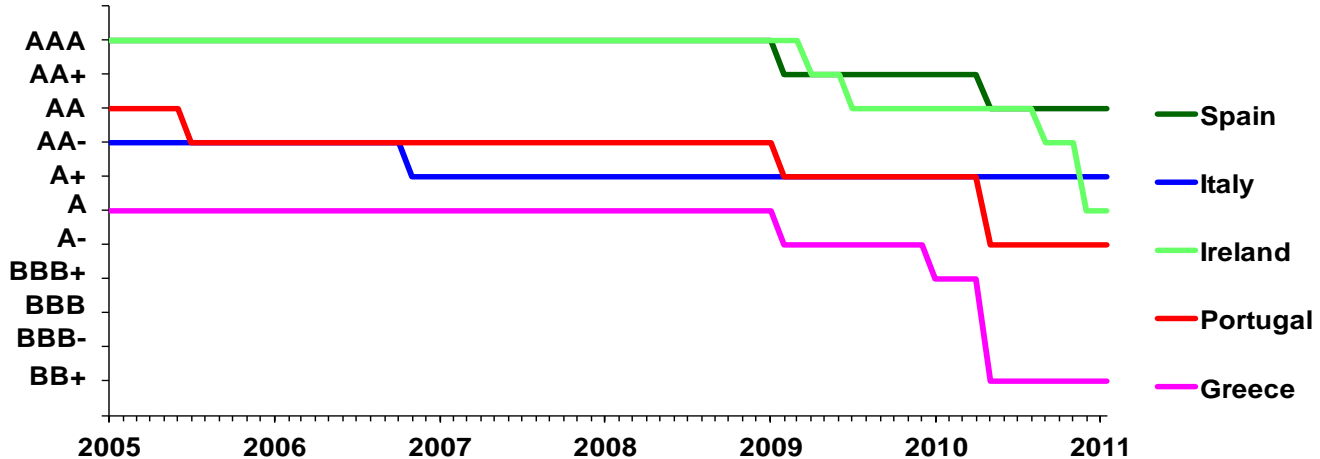
Eurozone faces various sovereign issues



MILKEN INSTITUTE

Changes in sovereign credit ratings

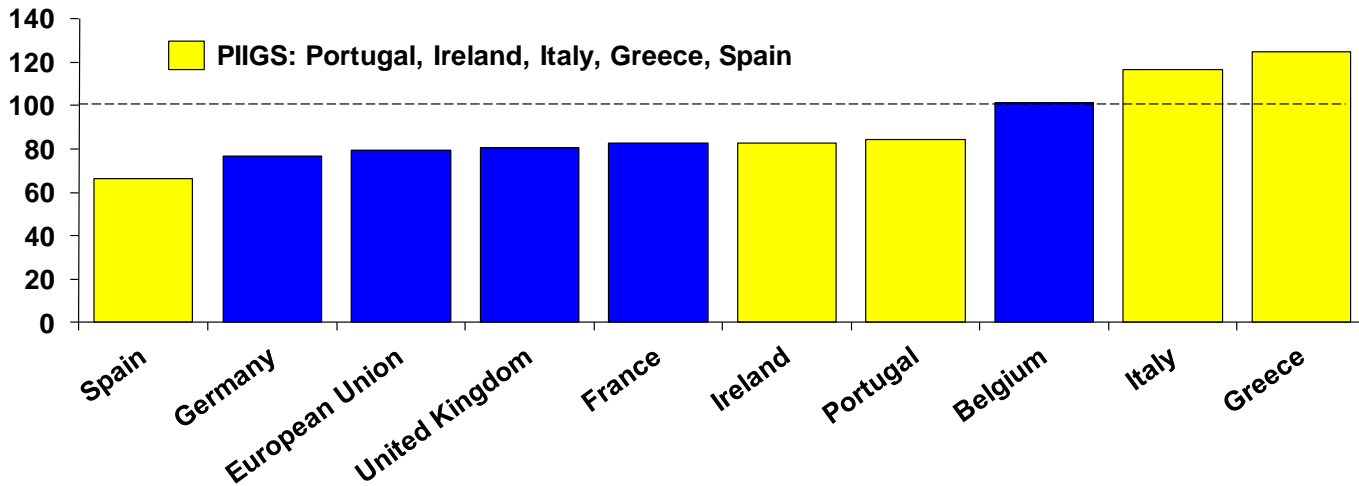
S&P's foreign currency long-term issuer ratings



Concerns over European public debt

Many countries have public debt-to-GDP ratios close to or exceeding 100%

Gross public debt (%GDP)

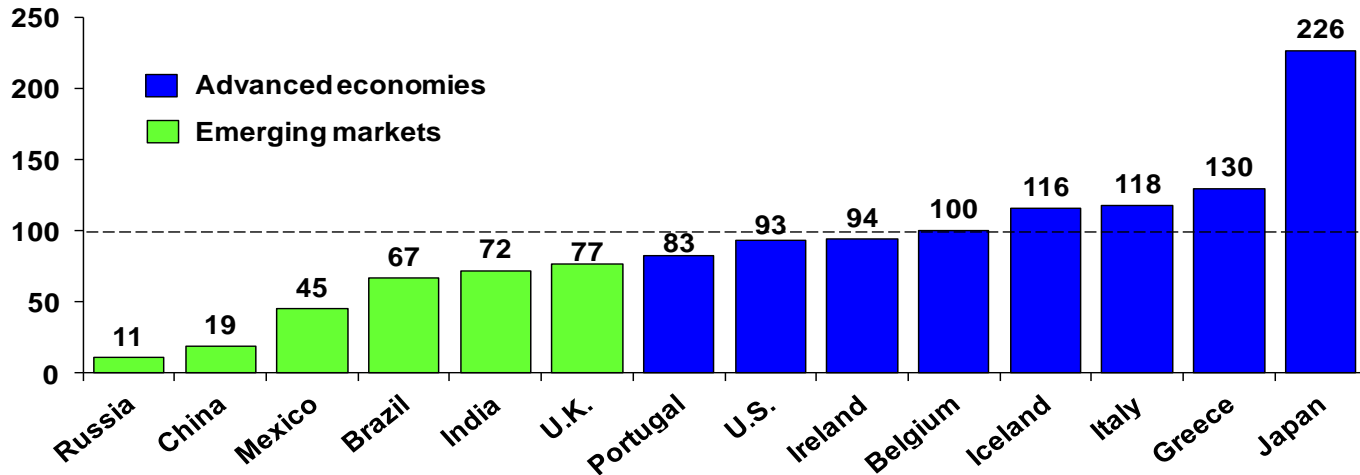


Many advanced industrial countries face the sovereign debt problems



MILKEN INSTITUTE

Gross public debt (% of GDP)



Advanced countries with high public debt have relatively better sovereign debt ratings



MILKEN INSTITUTE

Advanced economies			Emerging markets		
	Public debt (gross, % of GDP)	Sovereign debt rating		Public debt (gross, % of GDP)	Sovereign debt rating
Japan	226	AA	Egypt	74	BB
Greece	130	BB+	India	72	BBB
Italy	118	AA-	Brazil	67	BBB-
Portugal	83	BBB-	Mexico	45	BBB
United States	93	AAA	China	19	A+
United Kingdom	77	AAA	Russia	11	BBB

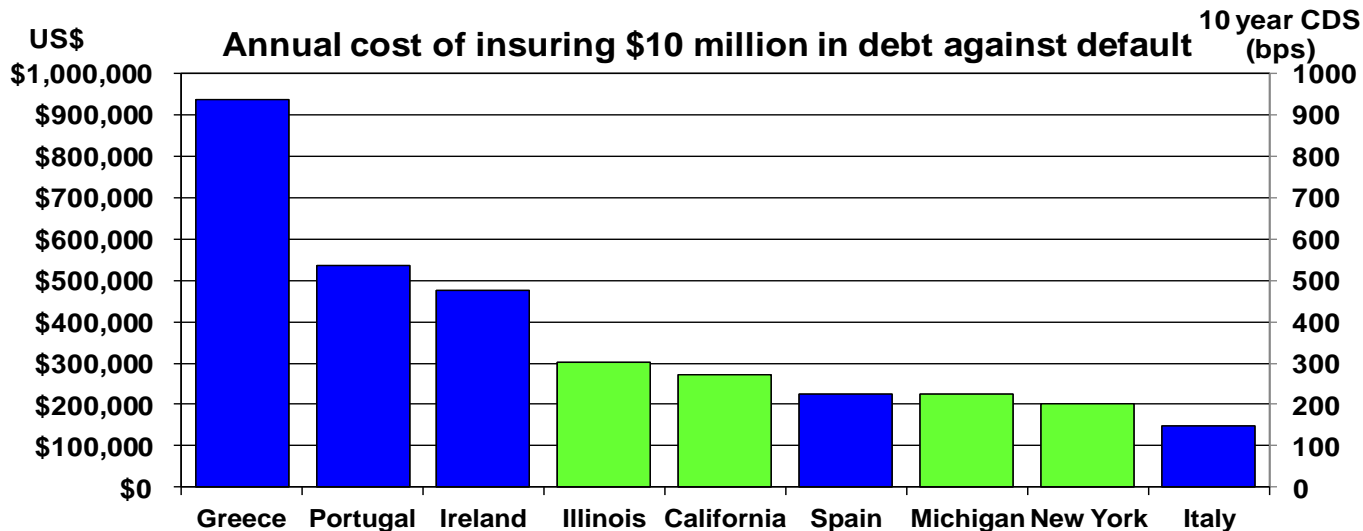
Notes: The public debt data are as of 2010 (estimates); sovereign debt ratings are Fitch's long-term sovereign debt rating.
Sources: IMF; Bloomberg.

Some state debt is now riskier than sovereign debt of PIIGS countries

As of April 6, 2011



MILKEN INSTITUTE



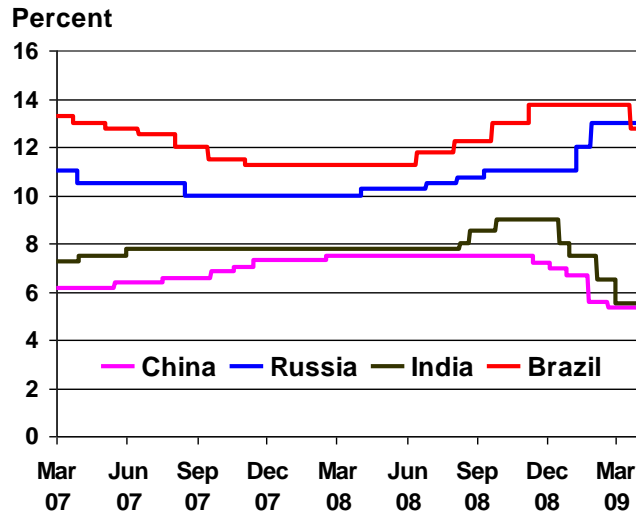
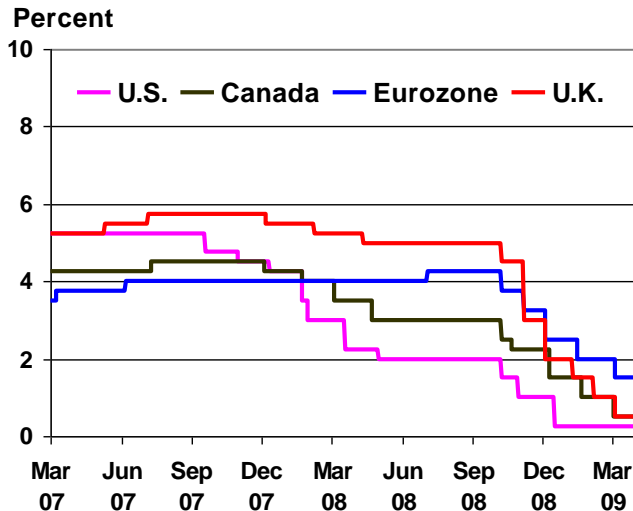
Sources: Bloomberg, Milken Institute.

Coordinated monetary policy actions during the global financial crisis



MILKEN INSTITUTE

Central bank interest rate targets



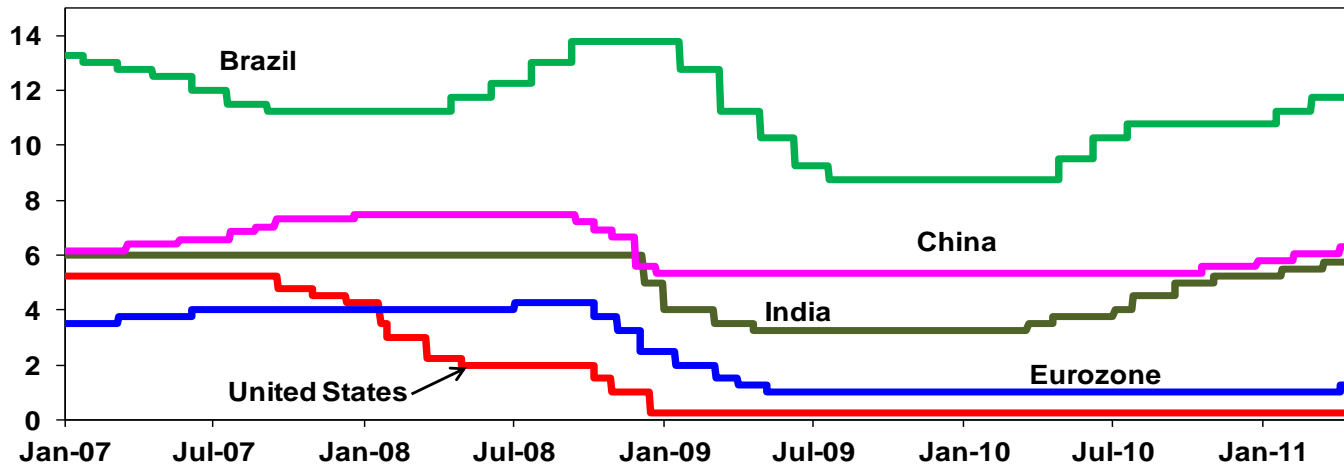
Source: Bloomberg.

Many central banks have raised interest rates to counter inflation risk



MILKEN INSTITUTE

Central bank rate (%)



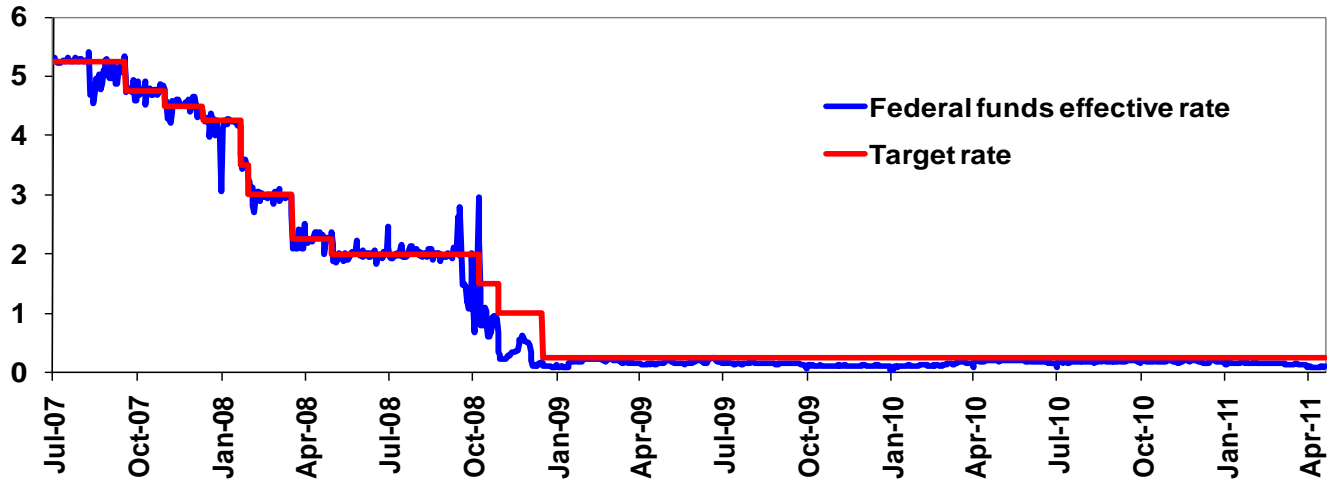
Source: Bloomberg.

Continued accommodative monetary policy in the United States



MILKEN INSTITUTE

U.S. federal funds rate (%)

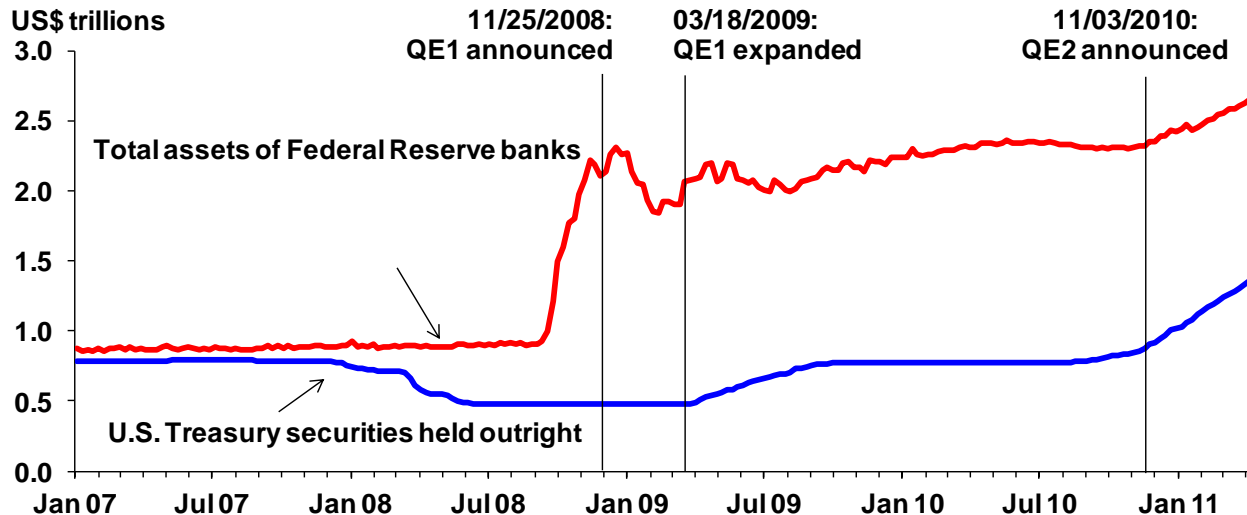


Source: Federal Reserve.

The Federal Reserve engages in quantitative easing



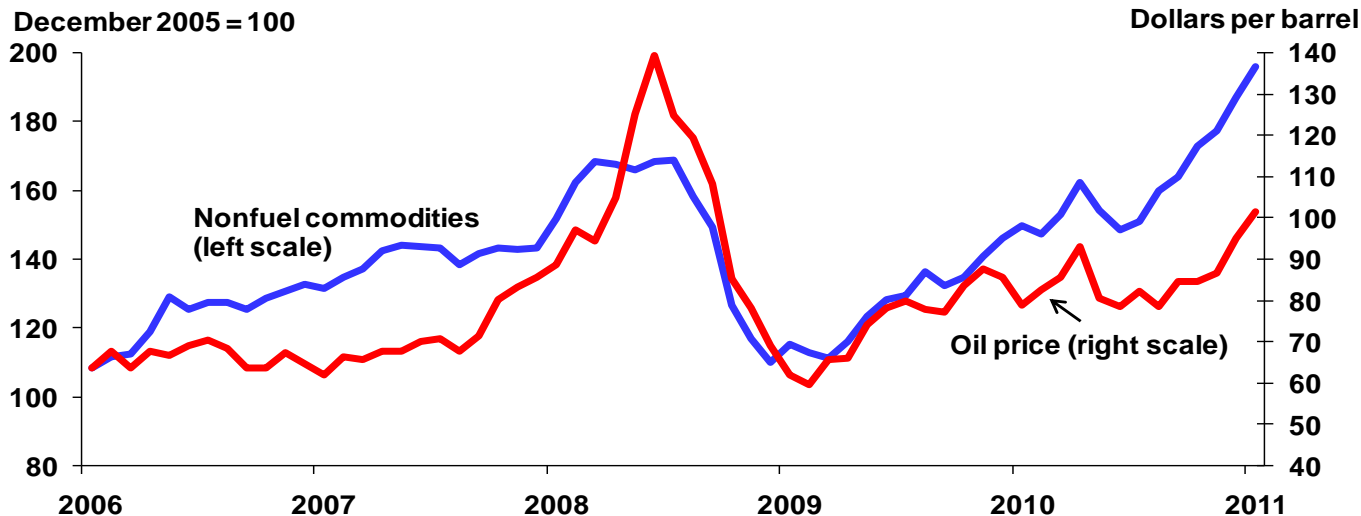
MILKEN INSTITUTE



Sources: Federal Reserve, Milken Institute.



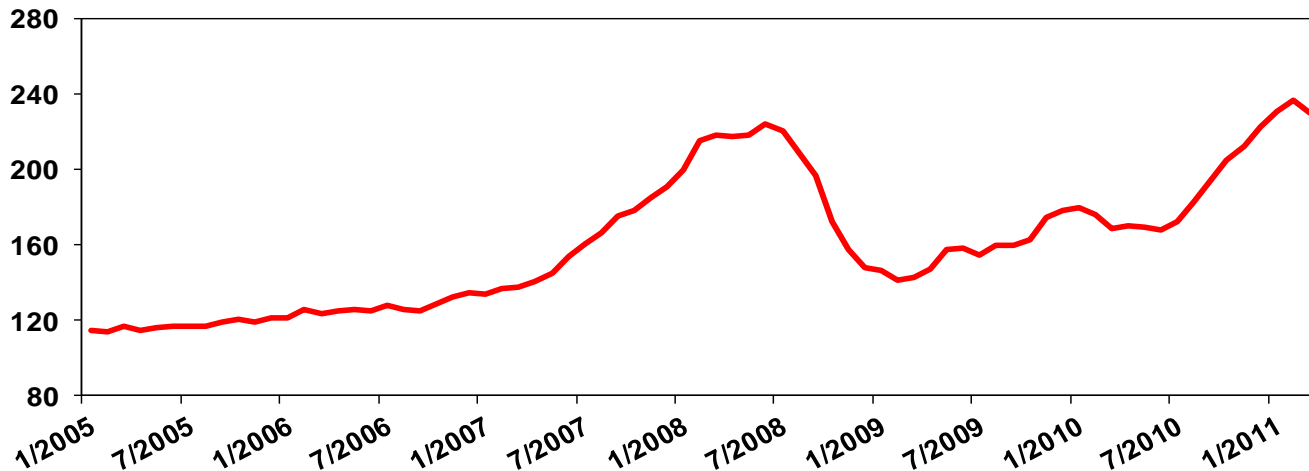
Rising food and commodity prices





World food prices reached a record high

World food prices (2002-04=100)



Note: Data are as of March, 2011.

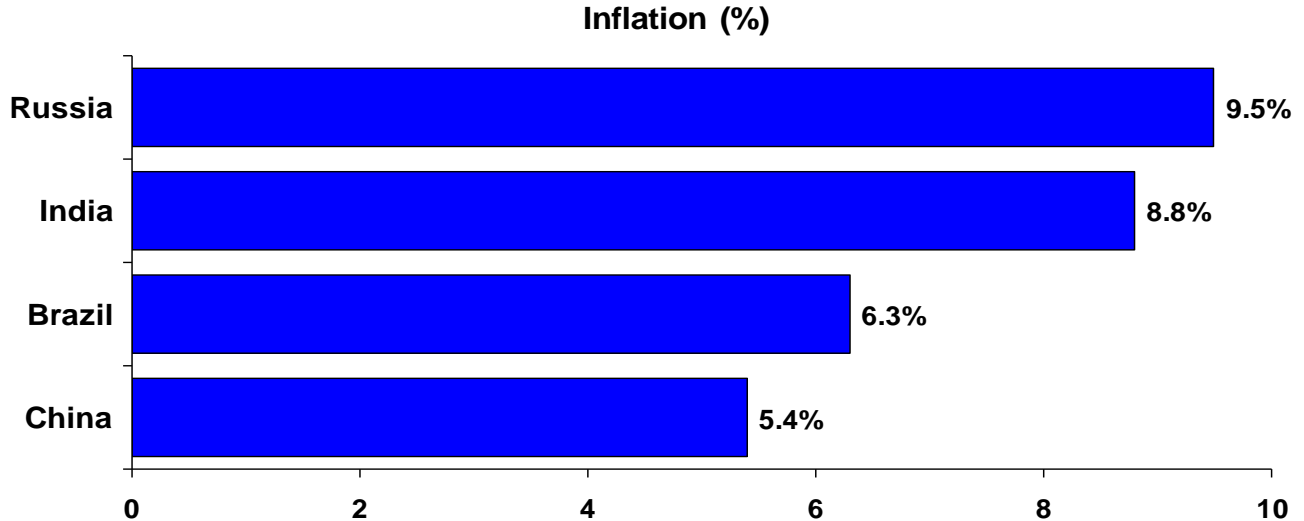
Source: UN Food and Agriculture Organization.

Soaring prices in emerging markets

BRIC countries



MILKEN INSTITUTE



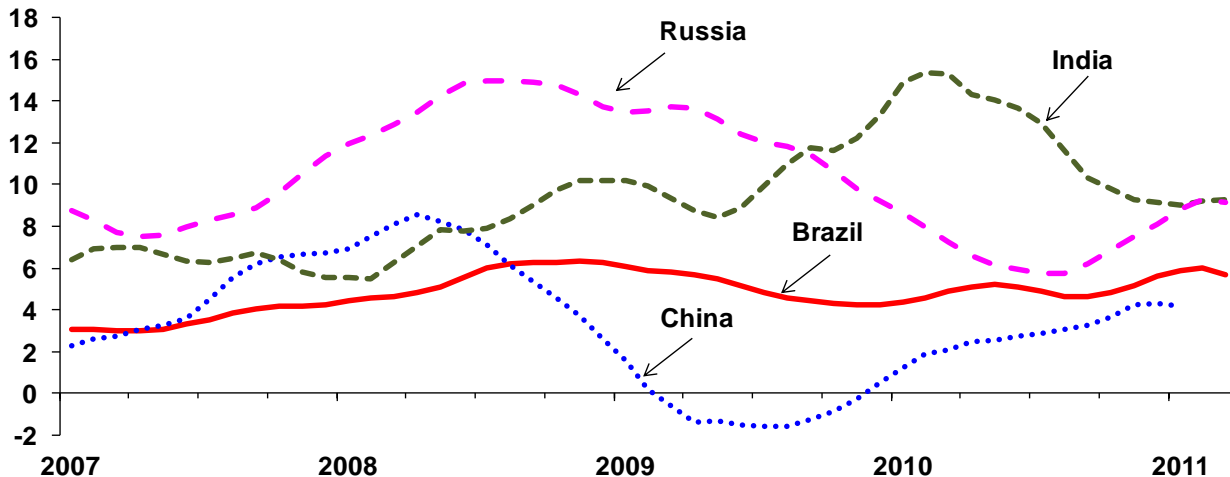
Note: Data as of April 18, 2011.

Source: Bloomberg.



Inflation pressure rising in emerging countries

% change in consumer price index, 3-month rolling average

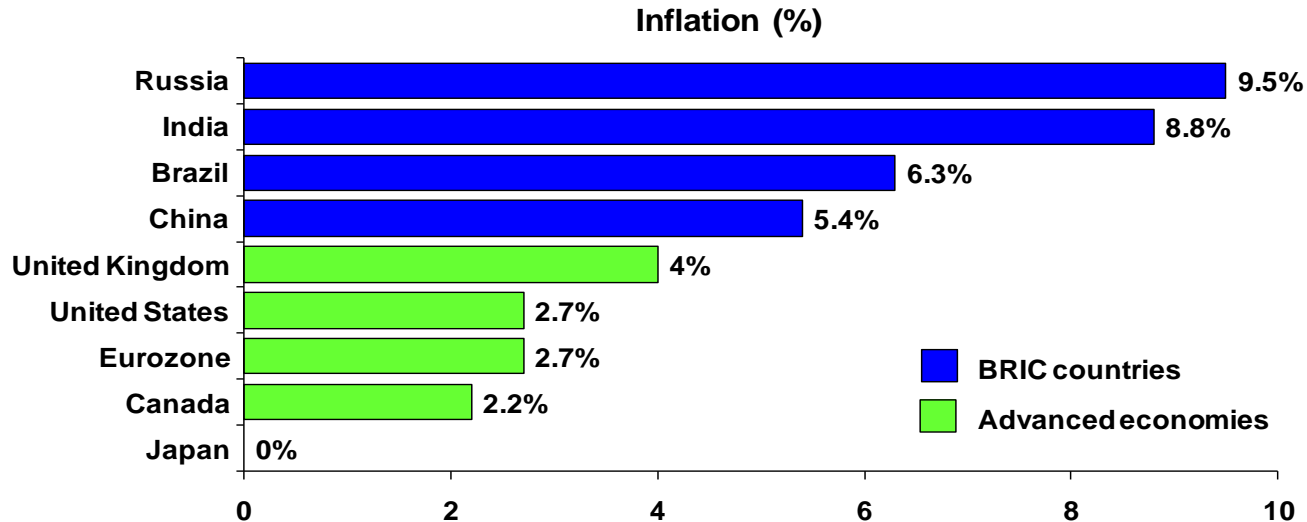


Sources: OECD; Milken Institute.

Inflation is less of a concern in advanced economies



MILKEN INSTITUTE



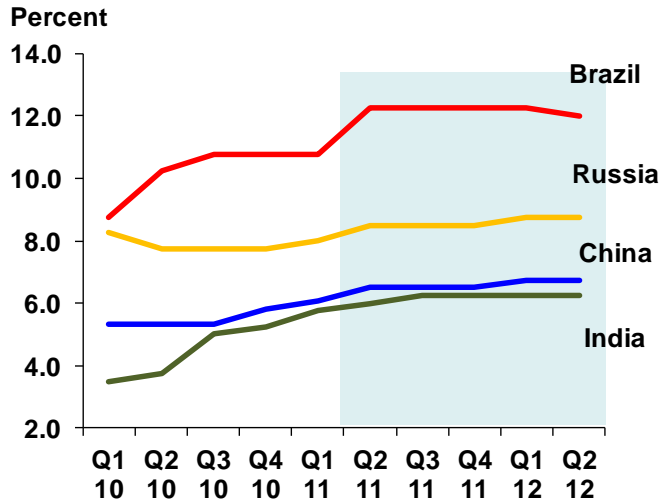
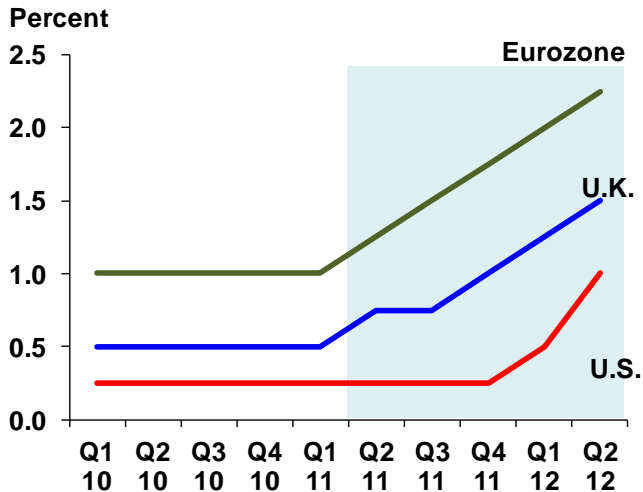
Note: Data as of April 18, 2011
Source: Bloomberg.

End of the era of cheap capital?



MILKEN INSTITUTE

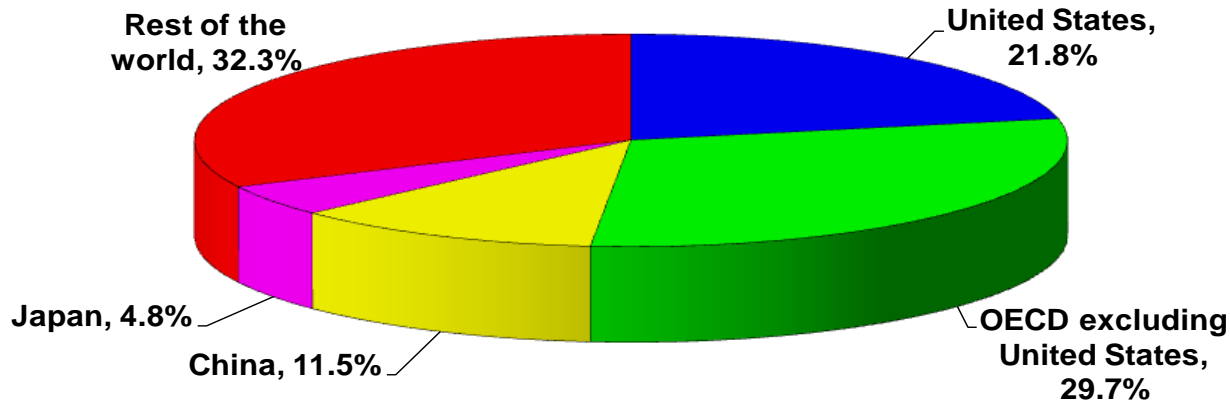
Consensus forecasts: Central bank rates will increase in the next 12 months



Source: Bloomberg.

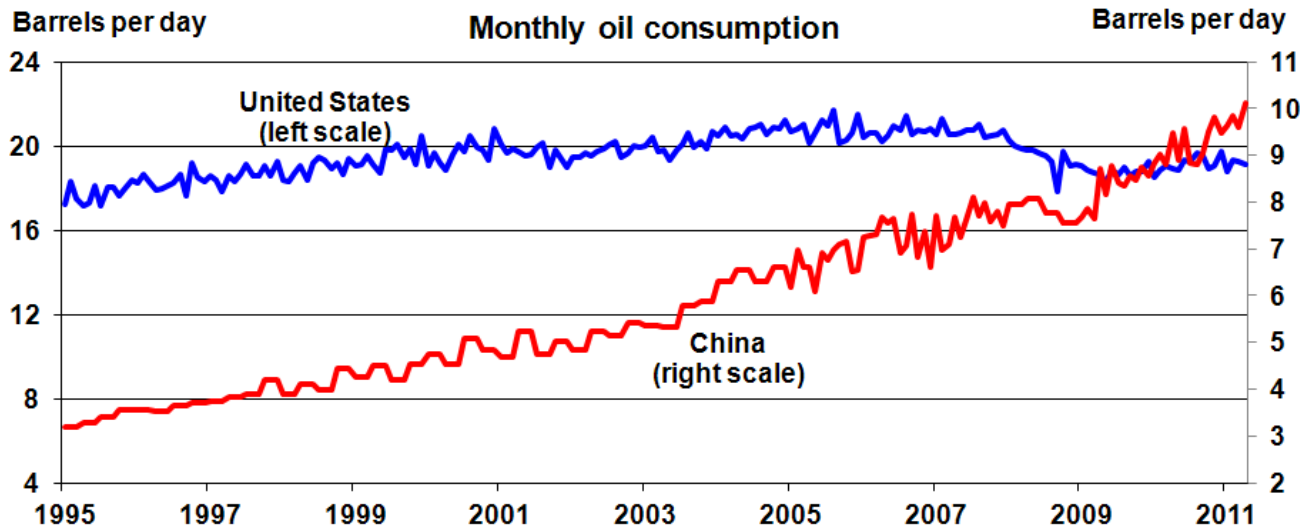
Countries that consume the most oil

Global oil consumption
Total = 88 million barrels per day (April 15, 2011)





Oil consumption has risen rapidly in China

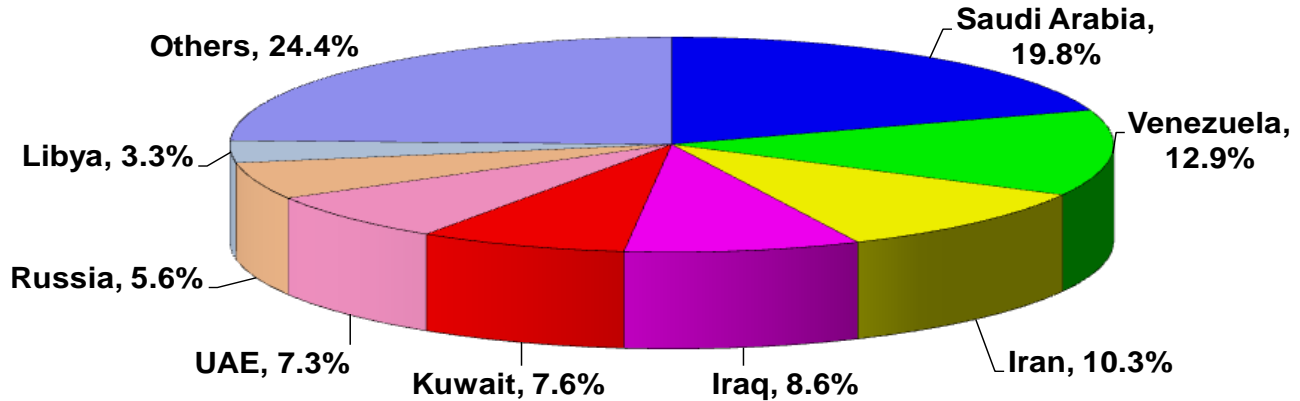


Source: Energy Information Administration.

Oil reserves concentrated in many politically instable countries



Countries with largest crude oil reserves
Total reserves = 1.3 trillion barrels (2009)

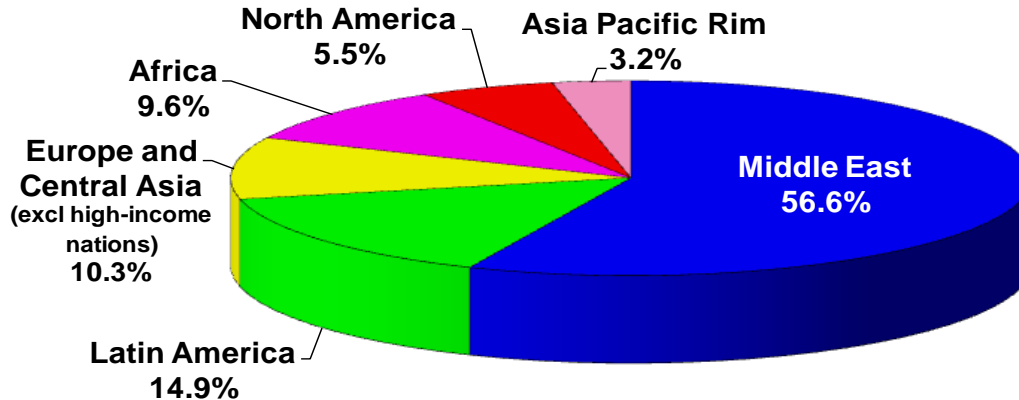


Majority of countries with oil reserves are in politically unstable regions of the world



MILKEN INSTITUTE

Crude oil reserves by region
Total reserves = 1.3 trillion barrels (2009)





Strong financial recovery in U.S. stock market



Note: Data are as of April 19, 2011.

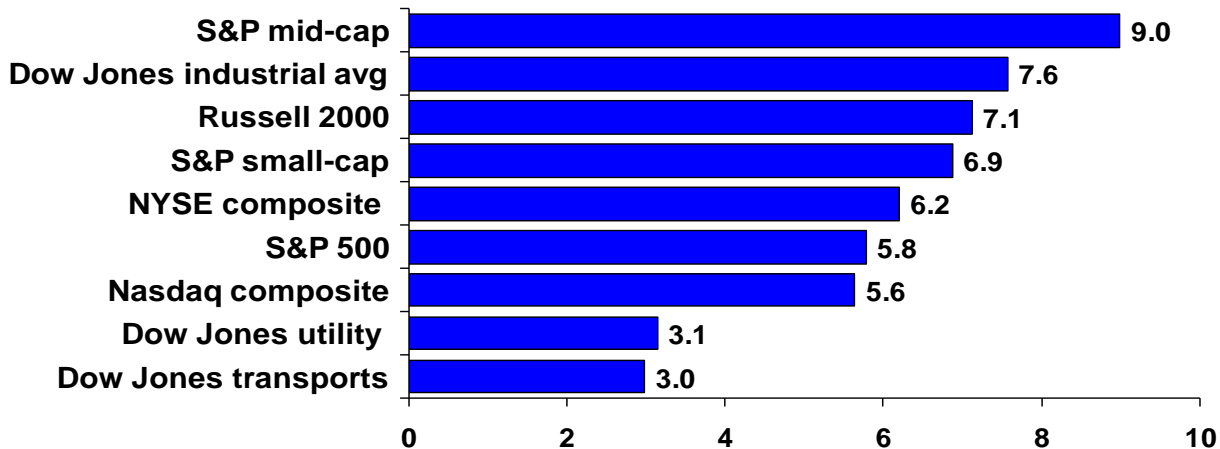
Source: Bloomberg.

2011: U.S. stock market is off to a good start



MILKEN INSTITUTE

2011 YTD gains for key U.S. stock indexes (%)
(as of 04/20/2011)



Note: Data are as of April 19, 2011.

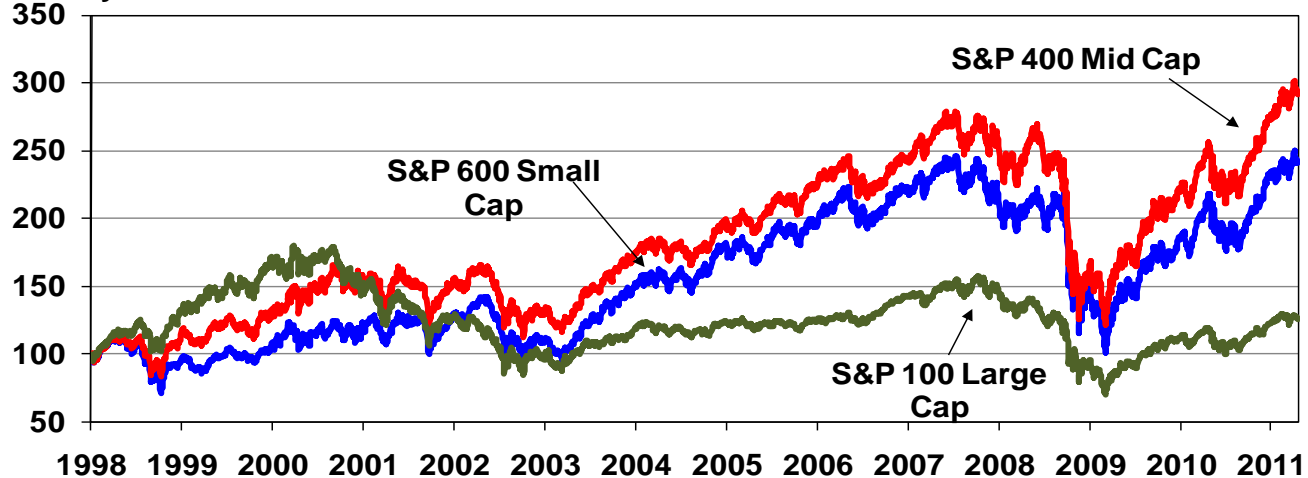
Source: Bloomberg.

The U.S. small- and mid-cap outperform large cap stocks



MILKEN INSTITUTE

January 1998 = 100



Note: Data are as of April 19, 2011.

Source: Bloomberg.

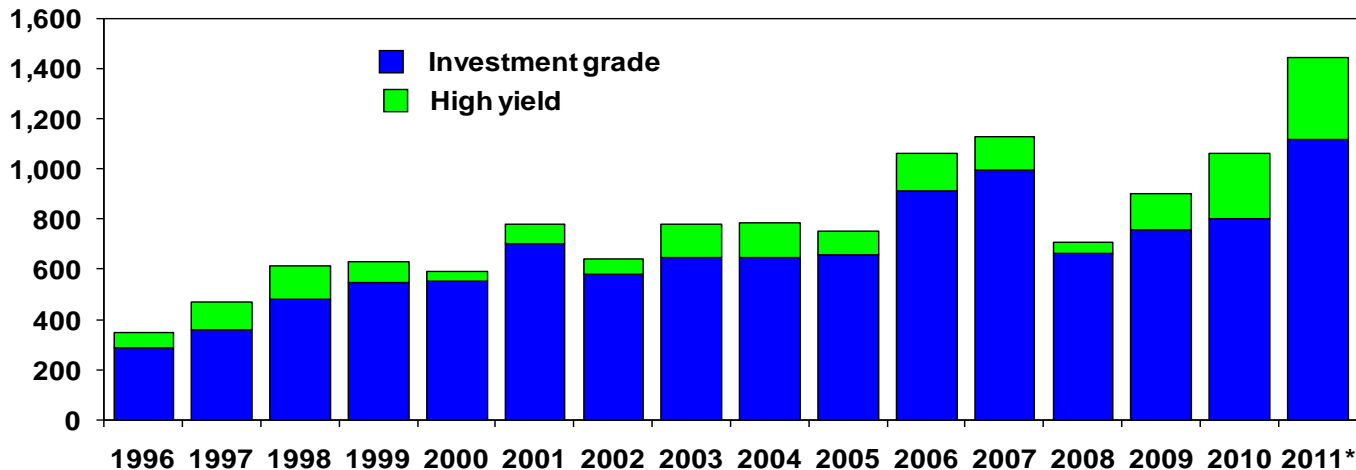
A record issuance of high-yield bonds in 2010-11

United States



MILKEN INSTITUTE

Total issuance (US\$ billions)



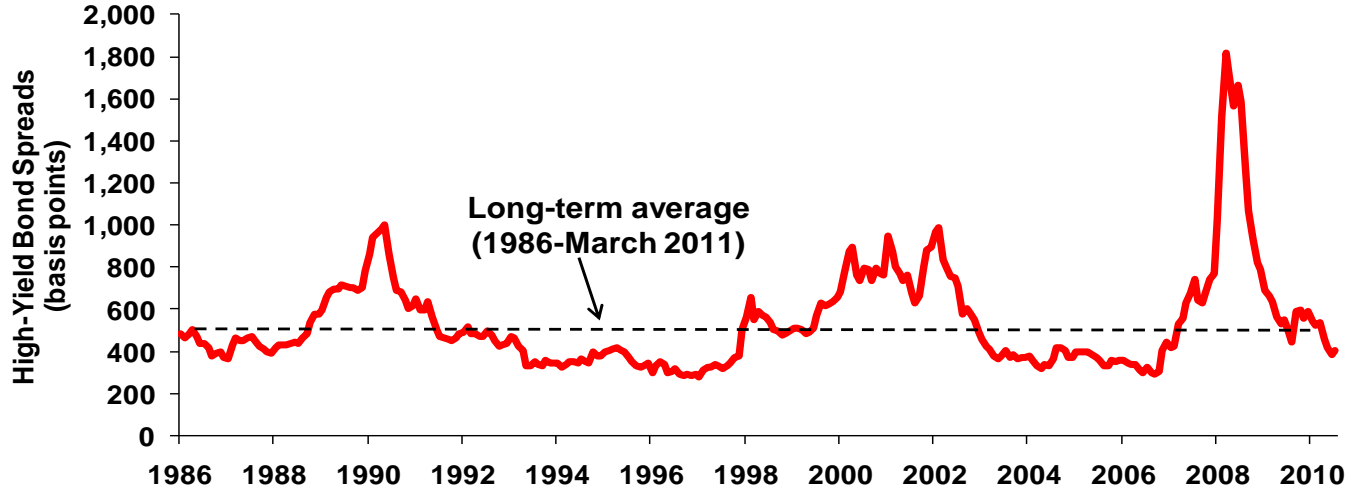
* Year to date, annualized.

Source: Securities Industry and Financial Markets Association.

U.S. high-yield bond spread over Treasury is at its historical average



MILKEN INSTITUTE

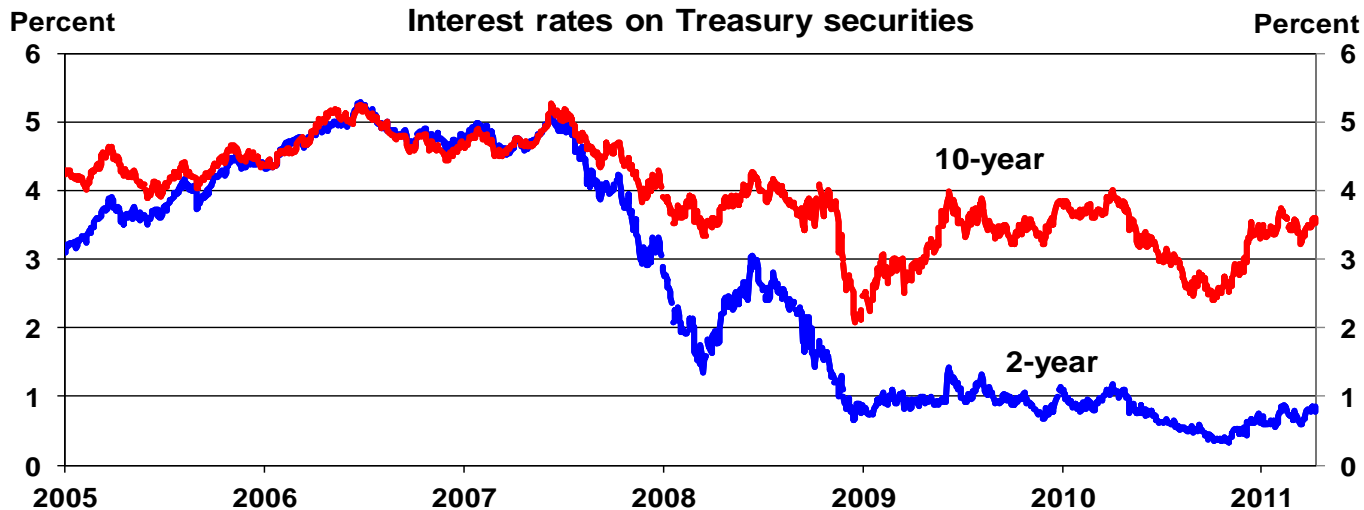


Note: Spread is the difference between the U.S. high-yield Merrill Lynch Master II index and 10-Year treasury bond.
Source: Bloomberg.

U.S. Treasury yields remained low by historical standards



MILKEN INSTITUTE



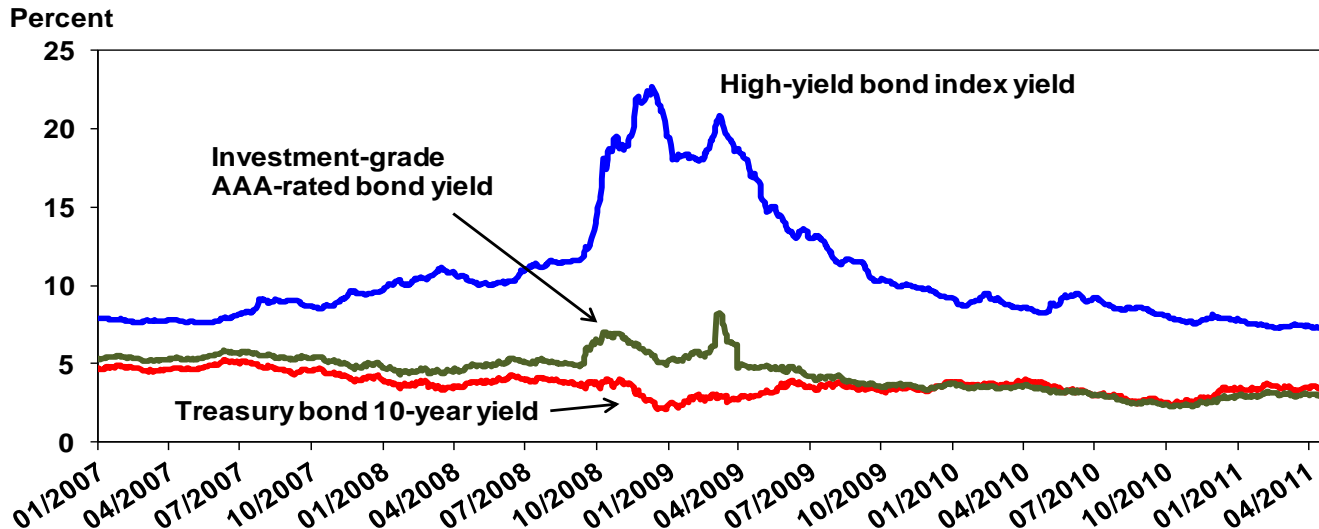
Source: Federal Reserve.

Credit spreads have returned to low levels

United States



MILKEN INSTITUTE



Source: Bloomberg.

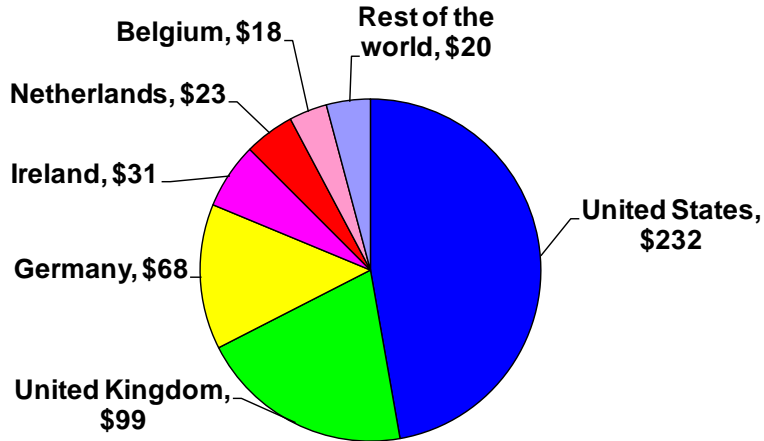
Government capital investments in financial firms

Most recently available data, as of April 6, 2011 (US\$ billions)



MILKEN INSTITUTE

Total outstanding = \$491 billion



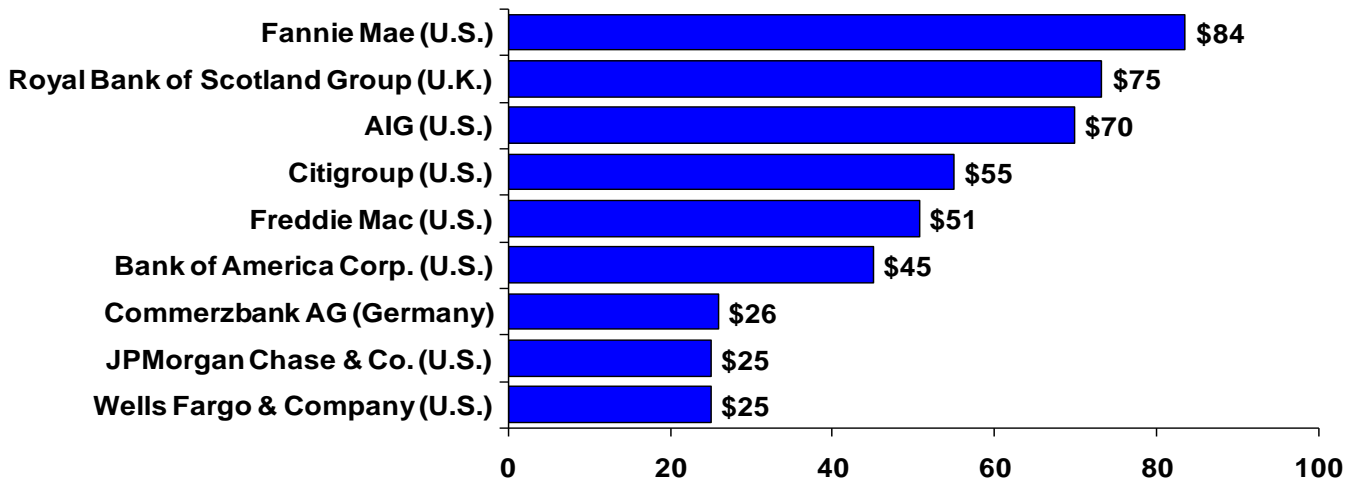
Source: Bloomberg.

Financial institutions received largest government bailouts (all countries)



MILKEN INSTITUTE

Bailout funds received from governments (US\$ billions)



Note: Data are as of April 20, 2011.

Source: Bloomberg.

U.S. bank bailout returns 9.4%

Return on TARP investment



MILKEN INSTITUTE

	TARP bailouts (\$B)	Return on TARP (\$B)	Return on TARP (%)
Citigroup	45	12.4	27.5
Bank of America Corp	45	4.3	9.5
Wells Fargo & Company	25	2.3	9.2
GMAC Financial Services	16.3	2.2	13.4
JPMorgan Chase & Co	25	1.7	7.0
Goldman Sachs Group Inc	10	1.4	14.2
Morgan Stanley	10	1.3	12.7
Hartford Financial Services group	3.4	0.8	24.8
PNC Financial Services group	7.6	0.7	9.8
Others	144.0	3.9	2.7
Total	331.3	31.2	9.4%

Note: Data are as of April 20, 2011.
Source: Bloomberg.

Large banks become larger

Five largest U.S. commercial banks



MILKEN INSTITUTE

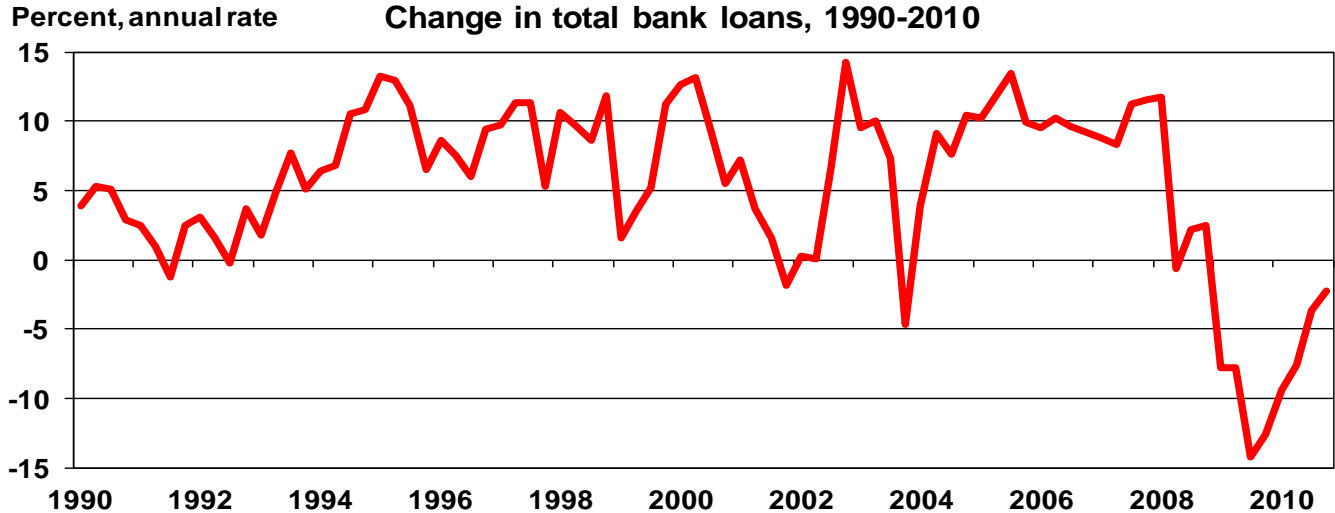
End of 1989	Consolidated assets (US\$ billions)
Citicorp	204
Chase Manhattan	96
Bank of America	93
JPMorgan	83
Security Pacific	78
Total banking assets	3,128
Top five banks (% of total banking assets)	18%

End of 2010	Consolidated assets (US\$ billions)
JPMorgan Chase	1,631
Bank of America	1,482
Citigroup	1,154
Wells Fargo	1,102
Wachovia (Wells Fargo)	302
Total banking assets	12,067
Top five banks (% of total banking assets)	47%

U.S. banks' lending still contracted due to weak demand and tight lending standards



MILKEN INSTITUTE



The world's largest commercial banks, 2011



MILKEN INSTITUTE

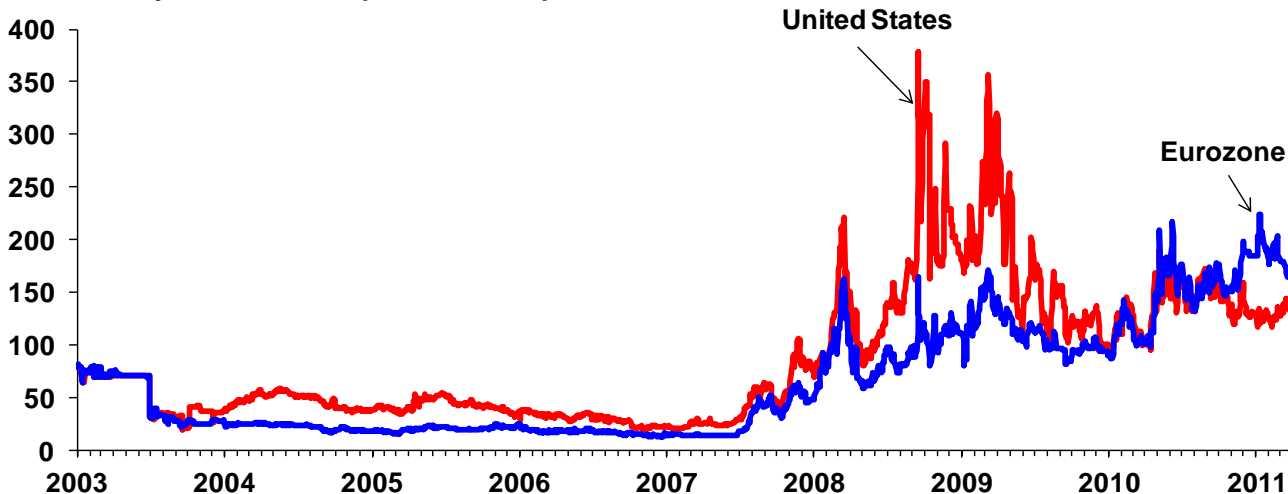
Each has trillion dollars in assets

		Total assets (US\$ trillions)
1. BNP Paribas	France	2.67
2. Deutsche bank	Germany	2.55
3. Mitsubishi UFJ	Japan	2.47
4. HSBC Holdings	United Kingdom	2.45
5. Barclays	United Kingdom	2.32
6. Royal Bank of Scotland	United Kingdom	2.27
7. Bank of America	United States	2.26
8. Credit Agricole	France	2.13
9. JPMorgan Chase	United States	2.12
10. Ind and Comm Bank	China	2.04



Bank CDS spreads: Still elevated

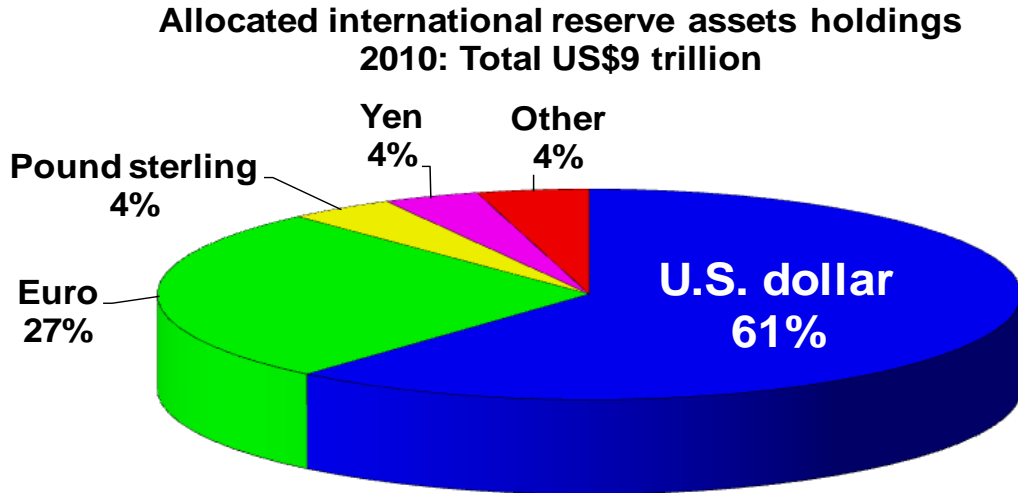
Median 10-year bank CDS spreads, basis points



The dollar is the world's primary reserve currency



MILKEN INSTITUTE



Note: The data in 2010 are as of September. The data exclude unallocated international reserve assets holdings, which were approximately US\$4 trillion.
Source: Bloomberg.

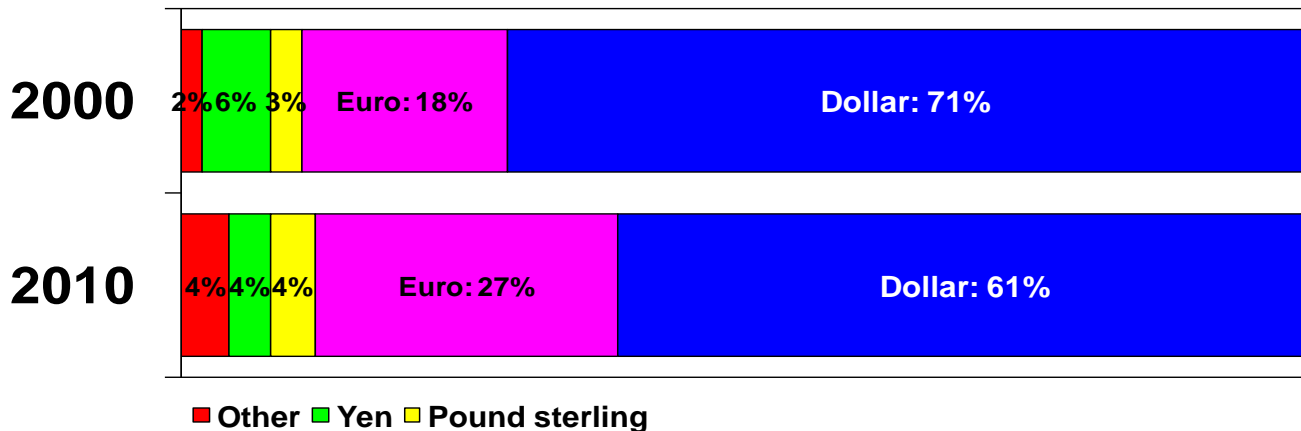
Slowly declining role of the U.S. dollar



MILKEN INSTITUTE

Allocated international reserve asset holdings

Share of foreign exchange reserves held in major currencies



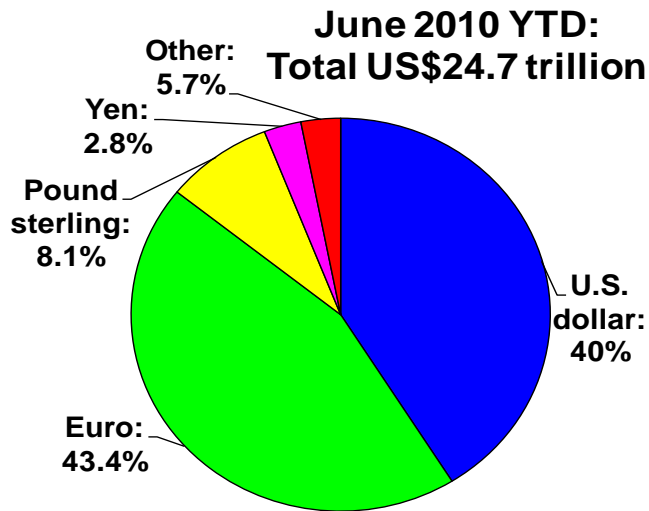
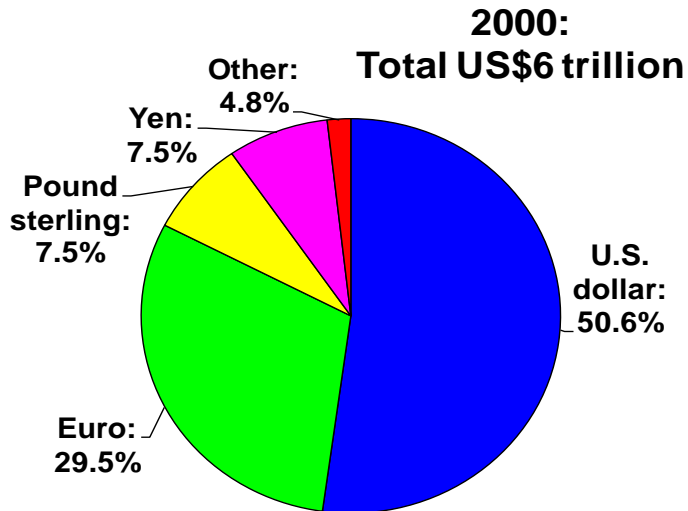
Note: The data in 2010 are as of September. The data exclude unallocated international reserve asset holdings, which were approximately US\$4 trillion.
Source: Bloomberg.

The dollar's international dominance is declining

International debt securities denominated in dollars



MILKEN INSTITUTE



Source: Bank of International Settlement.

The dollar slid to a three-year low

Trade Weighted Exchange Index: Broad



MILKEN INSTITUTE

Trade weighted exchange index
(January 1997 = 100)

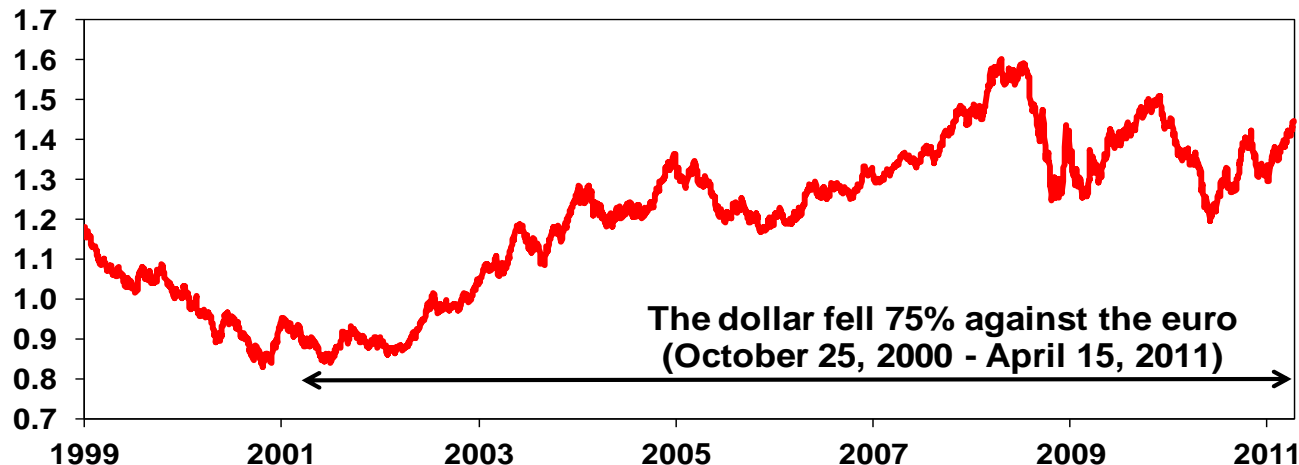


Note: data are as of 04/15/2011.

Source: Federal Reserve.

Weaker dollar relative to euro

US\$/euro

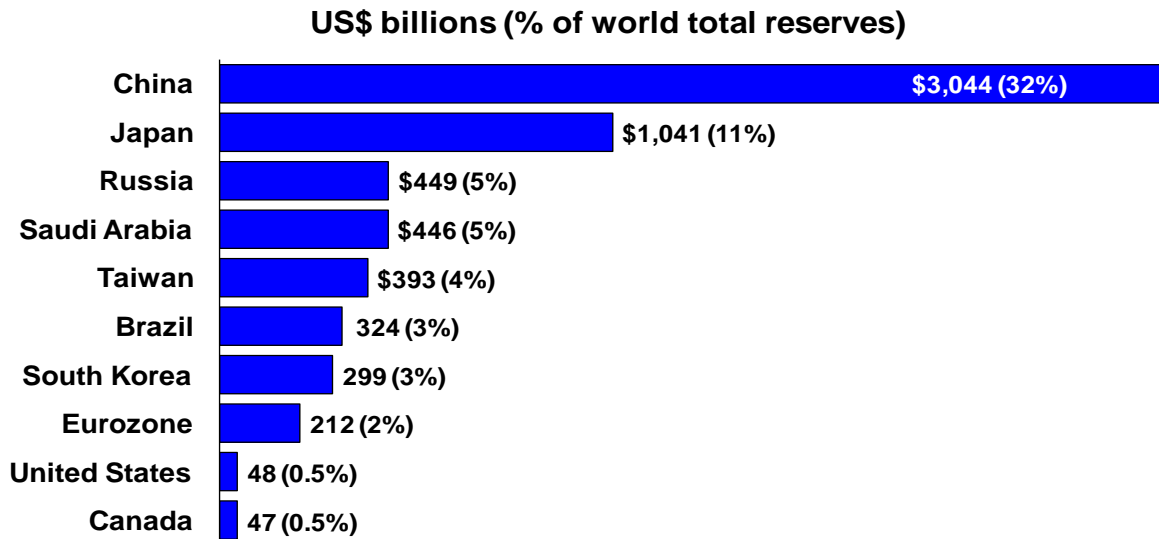


Source: Federal Reserve.

China's foreign exchange reserves reached US\$3 trillion



MILKEN INSTITUTE

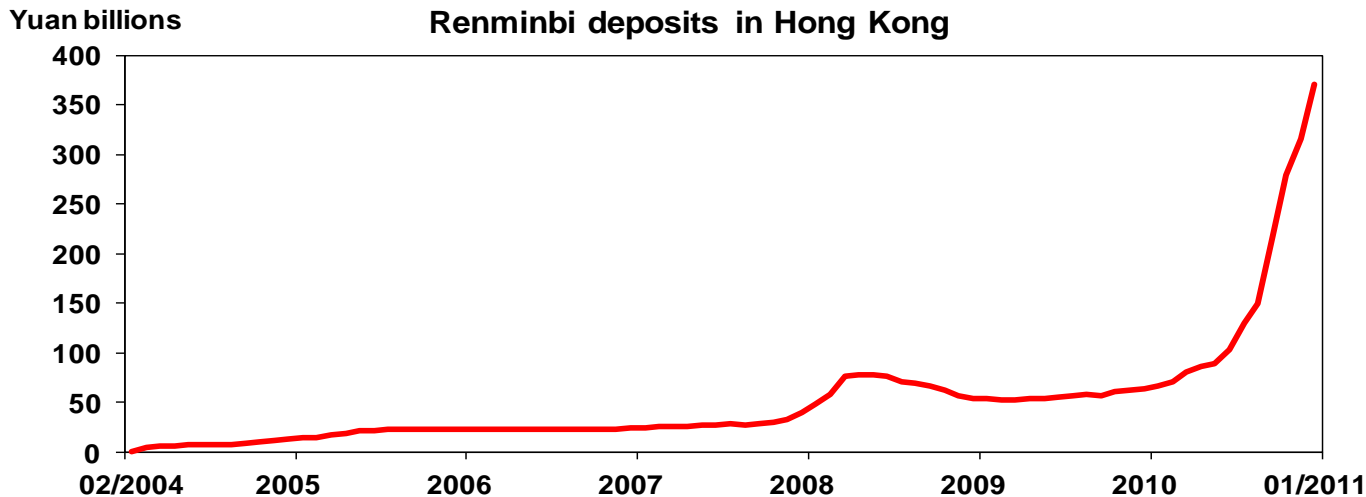


Note: Data as of April 18, 2011.
Source: Bloomberg.

Process of making the yuan into an international currency has begun and quickly expanded



MILKEN INSTITUTE

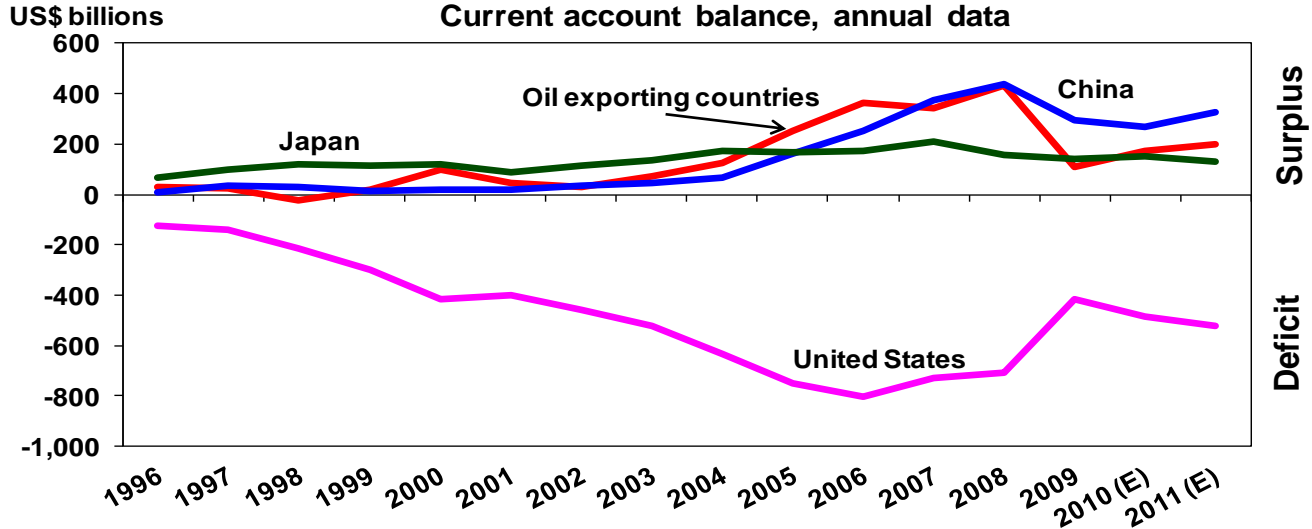


Source: Hong Kong Monetary Authority.

Global imbalances



MILKEN INSTITUTE

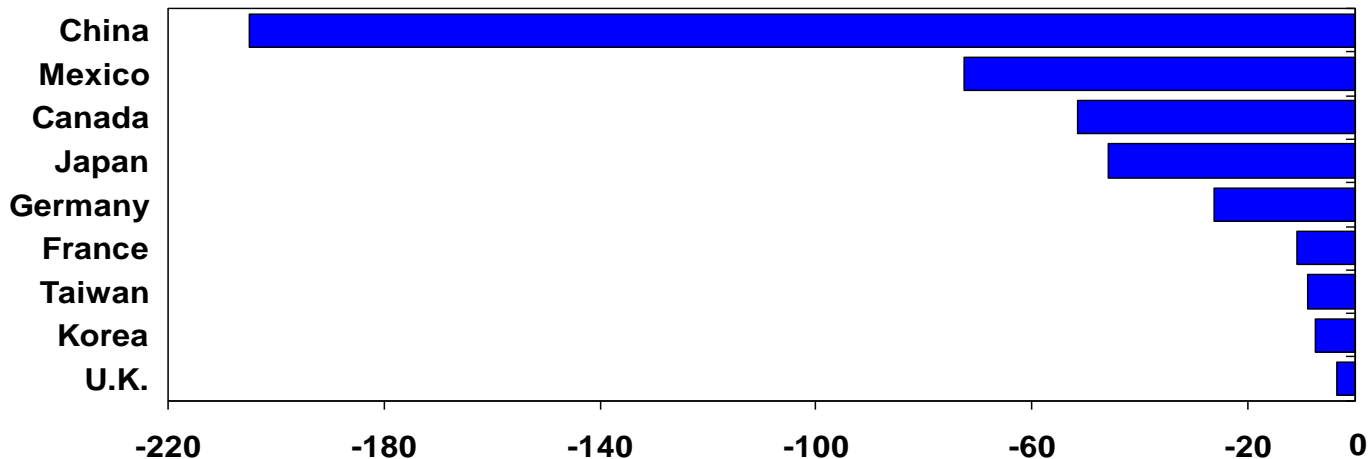


Source: World Economic Outlook, International Monetary Fund.



U.S. has a large trade deficit with China

U.S. bilateral merchandise trade balance
with major trading partners, 2010 (\$US billions)



Source: U.S. International Trade Commission.

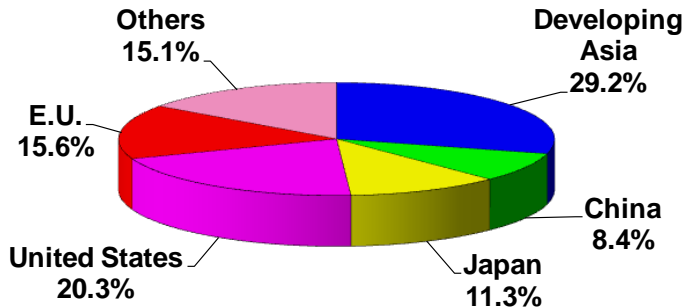
Asia: expanding intraregional trade

Exports from developing Asia, 2000-2009

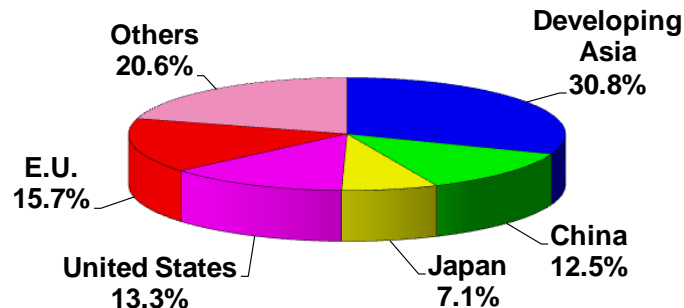


MILKEN INSTITUTE

2000



2009



Source: Asian Development Bank Outlook 2011.

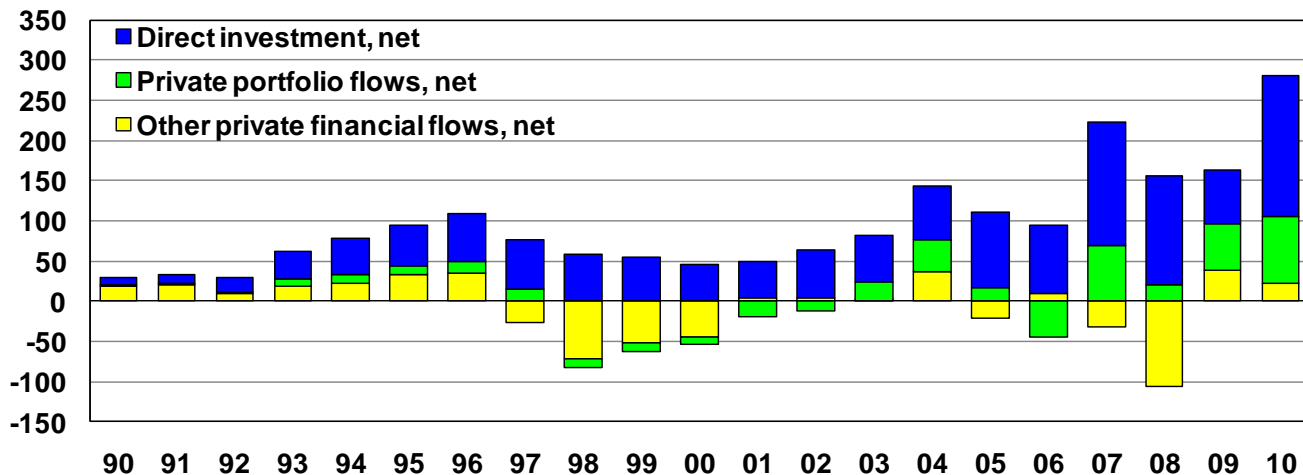
Asia: too much liquidity, again?

Foreign investments in developing Asia



MILKEN INSTITUTE

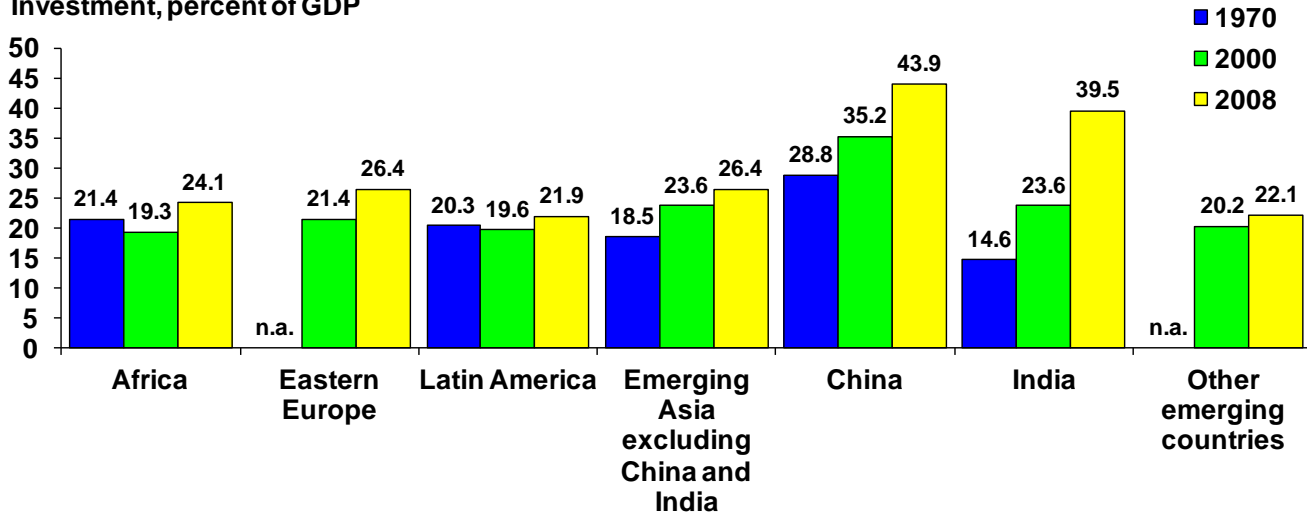
US\$ billions



Source: IMF WEO database 2011.

Investment rates have increased across all emerging market regions since 2000

Investment, percent of GDP

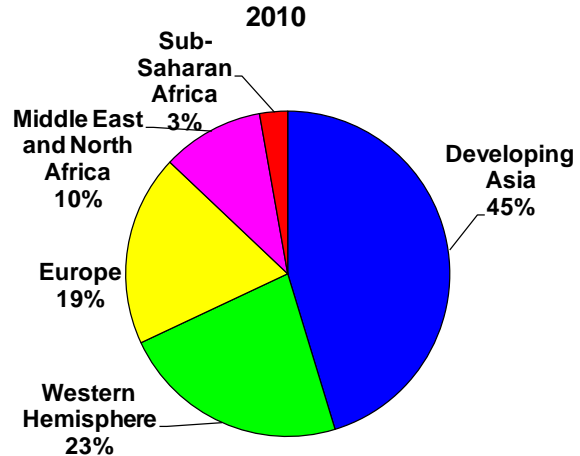
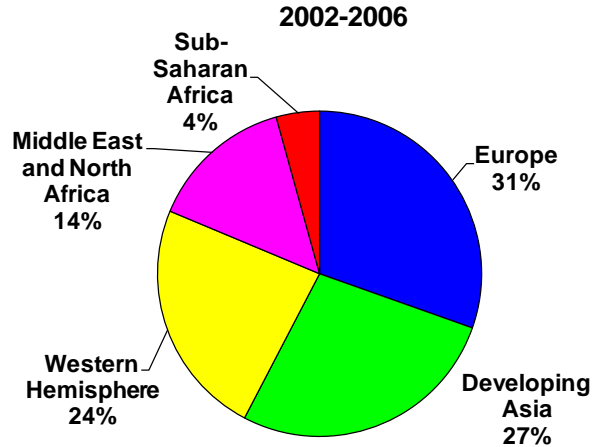


Source: McKinsey Global Institute.

Capital raised: Developing Asia attracts the most funding after the crisis



MILKEN INSTITUTE



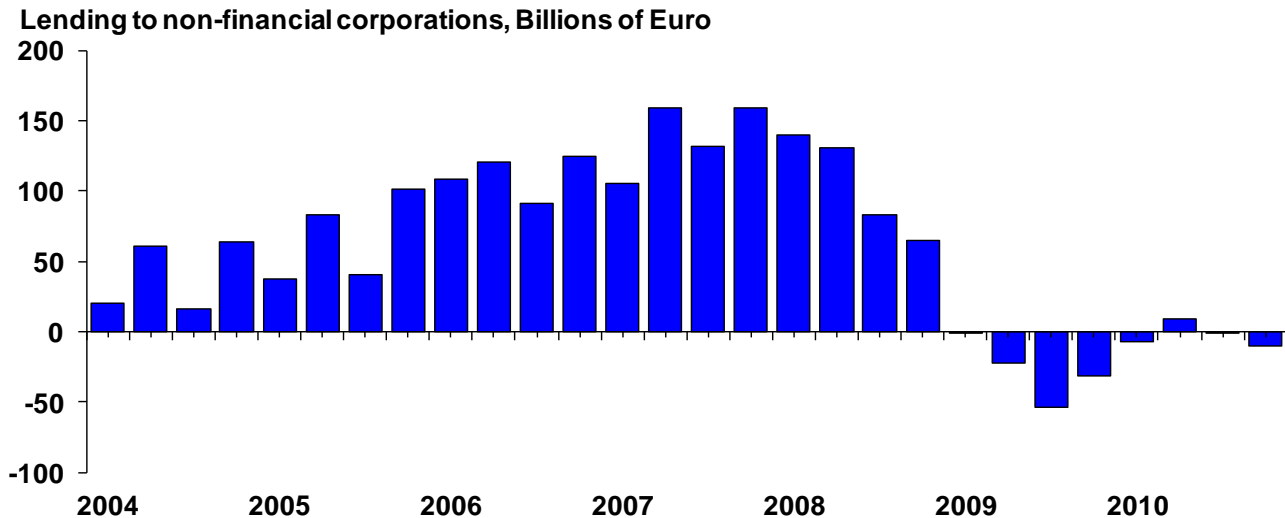
Source: International Monetary Fund.

Creditless recovery in Europe?



MILKEN INSTITUTE

Lending to non-financial corporations



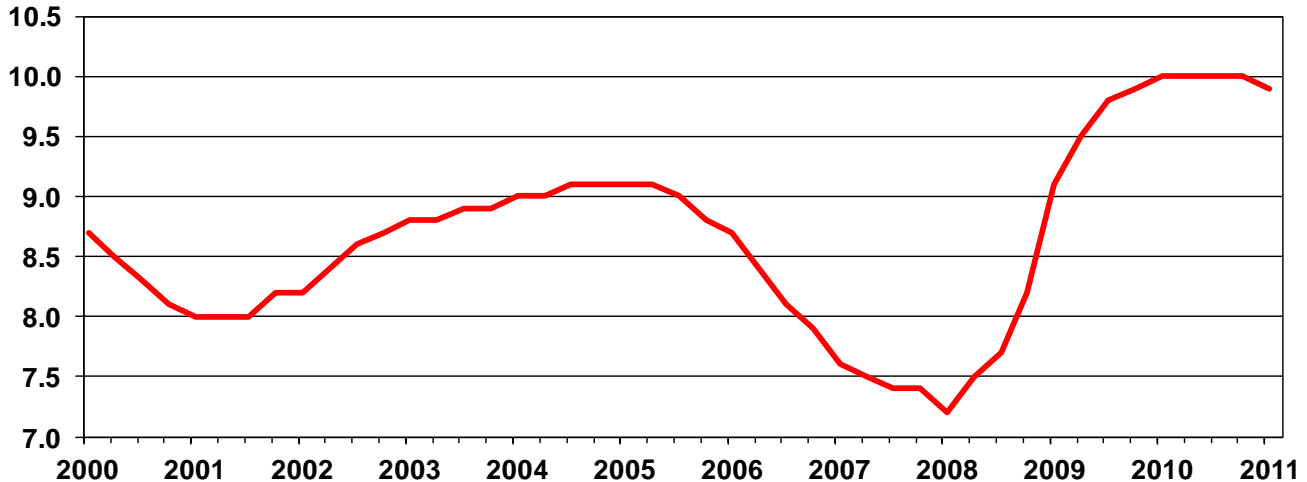
Source: European Central Bank

Unemployment rates in the Eurozone remain high



MILKEN INSTITUTE

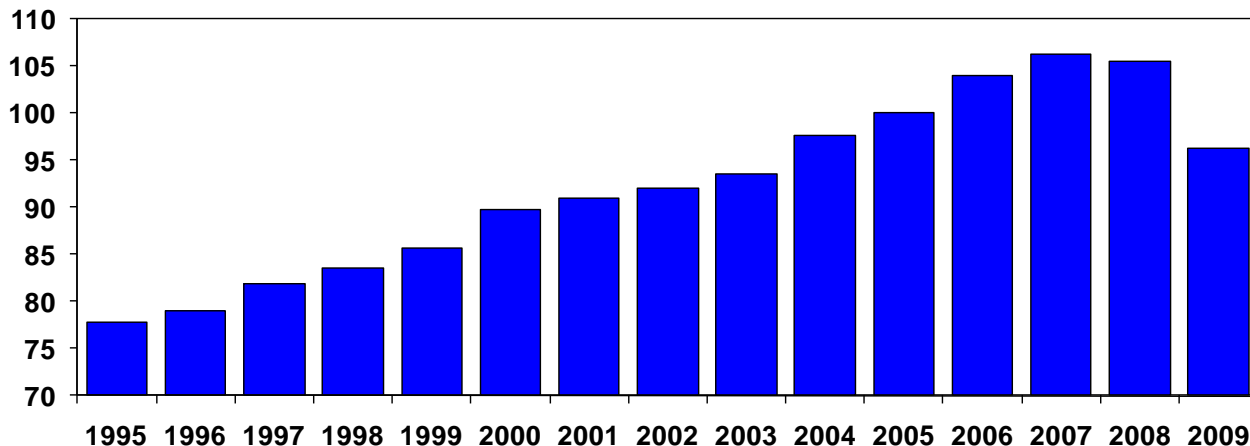
Unemployment rate, percent (seasonally adjusted)





Labor productivity in Eurozone

Index, 2005=100



Source: OECD.

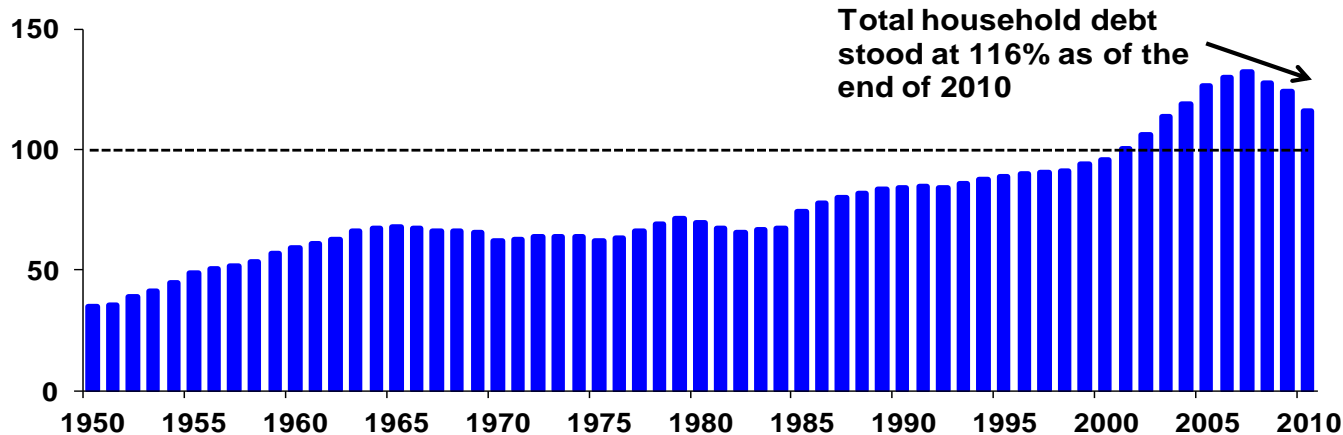


U.S. economic indicator watch

	2010	2011(F)
Real GDP growth (%)	2.90	2.90
Inflation (%)	1.63	2.70
Unemployment (%)	9.60	8.70
Budget balance (% GDP)	-8.60	-9.10
Federal funds rate (%)	0.25	0.25
10-year Treasury yield (%)	3.30	3.91

U.S. households still carry too much debt, but continue deleveraging

U.S. household debt (% of disposable personal income)

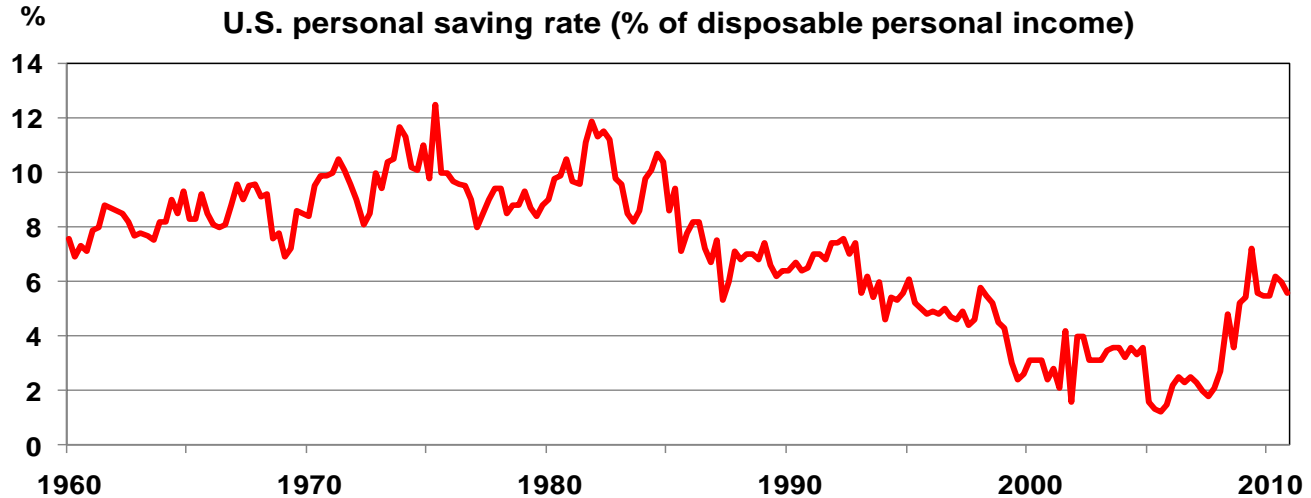


Source: Federal Reserve.

The U.S. saving rate has started to increase following decades-long decline



MILKEN INSTITUTE

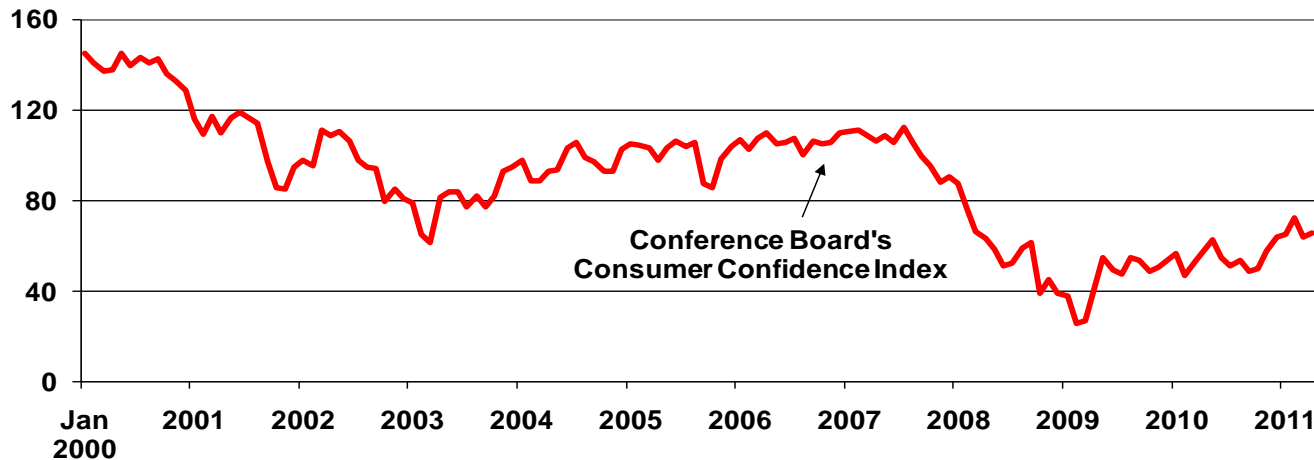


Source: Bureau of Economic Analysis.



U.S. consumer confidence improves slowly

Index (1985=100)



Note: Data as of April 26, 2011.

Source: Bloomberg.

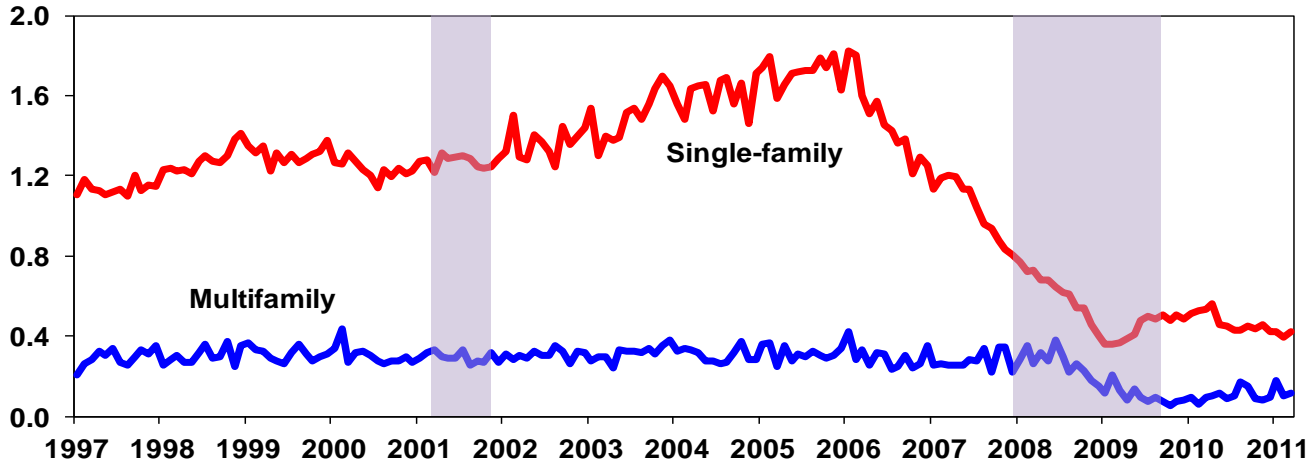
U.S. housing activity remained depressed



MILKEN INSTITUTE

Private housing starts, 1997 – March 2011

Millions of units, annual rate



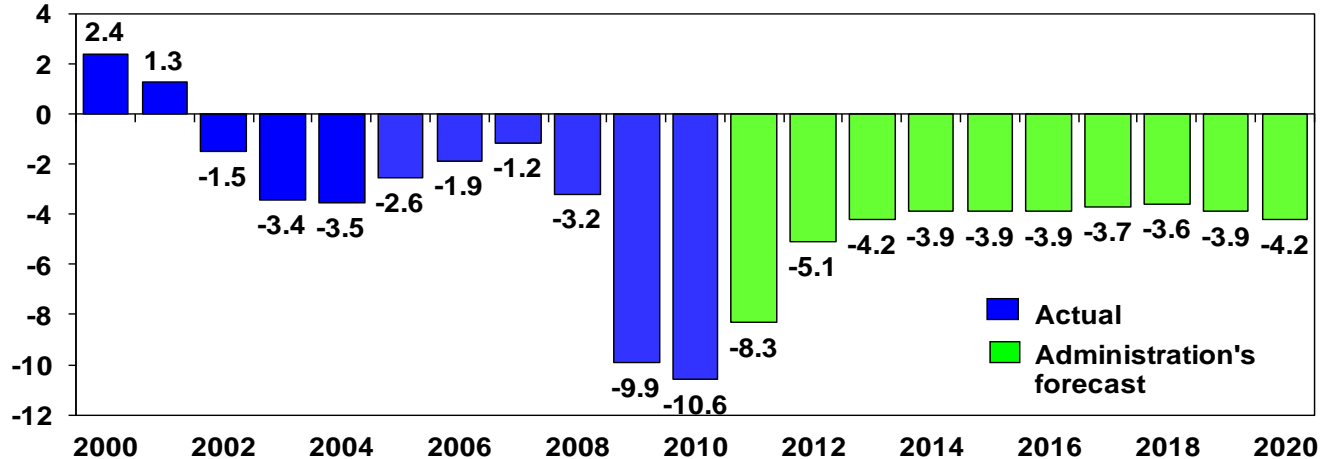
Source: Bureau of the Census, Department of Commerce.

Will U.S. fiscal deficit fall from 10% of GDP in 2011 to 4.2% by 2020?



MILKEN INSTITUTE

Federal budget (% of GDP)

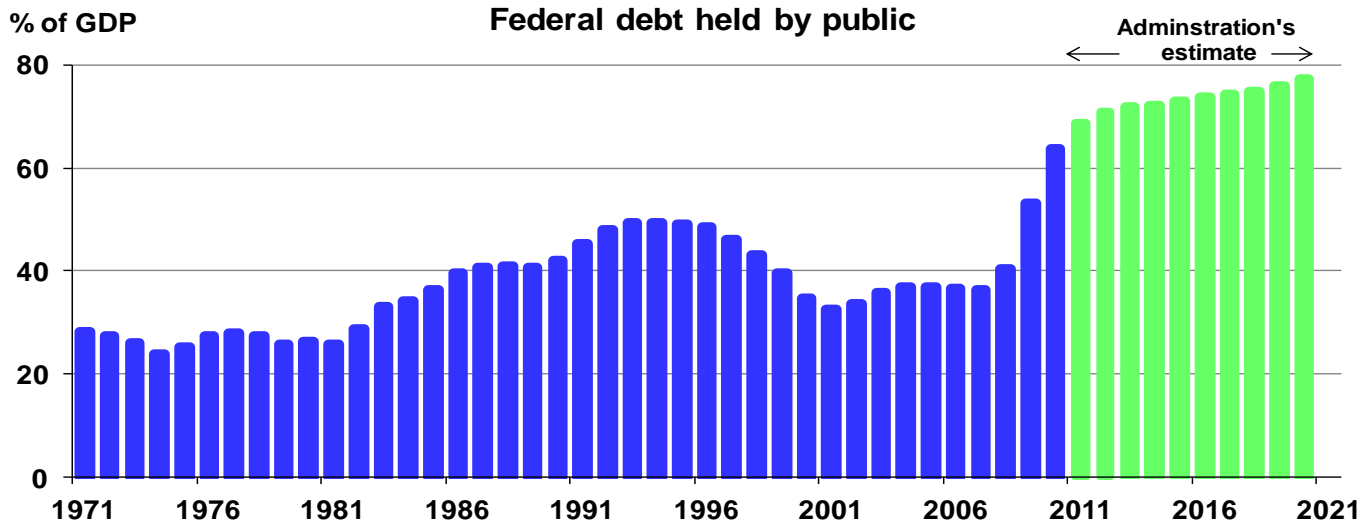


Source: Office of Management and Budget, White House.

U.S. net national debt will be close to 80% of GDP in the next decade



MILKEN INSTITUTE



Source: Office of Management and Budget, White House.

Foreign ownership of U.S. Treasury securities

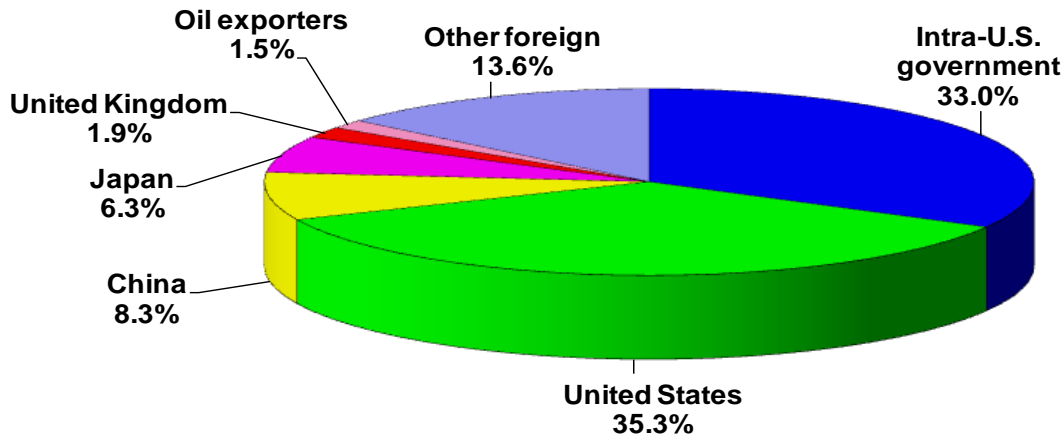
% of gross Treasury debt



MILKEN INSTITUTE

Major holders of U.S. Treasury Securities (% of gross federal debt)

Total gross federal debt = US\$14 trillion (2010)



Source: Treasury Department.

Foreign ownership of U.S. Treasury securities

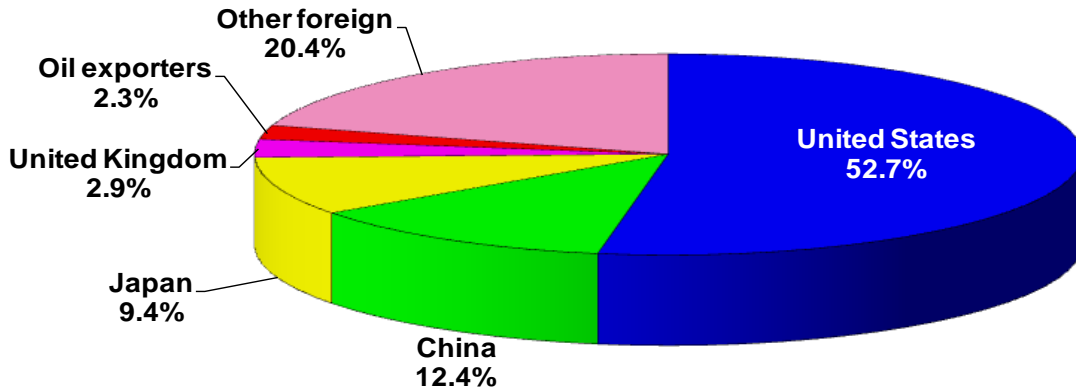
% of privately held Treasury debt



MILKEN INSTITUTE

Major holders of U.S. Treasury securities (% of privately held Treasury debt)

Total federal debt held by the public = US\$9 trillion

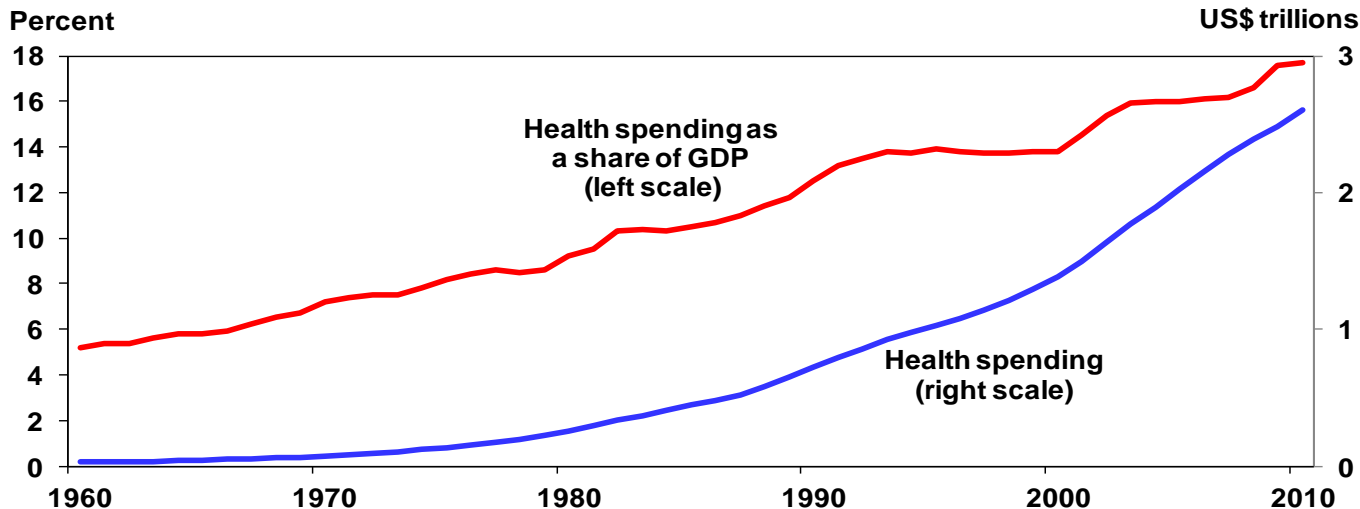


Source: Treasury Department.

U.S. health spending has increased dramatically



MILKEN INSTITUTE



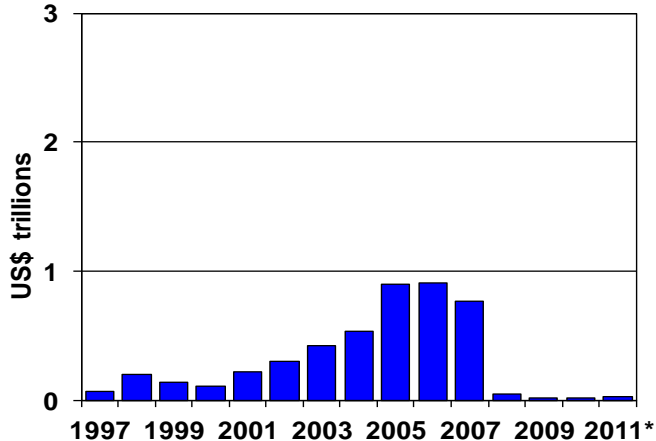
Source: Bureau of Economic Analysis.

Issuance of U.S. private mortgage-backed securities (MBS) remains at depressed levels

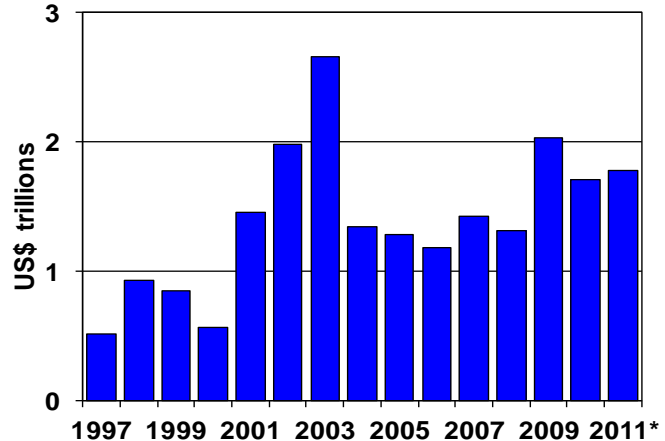


MILKEN INSTITUTE

Private-label MBS issuance



Gov't agency MBS issuance

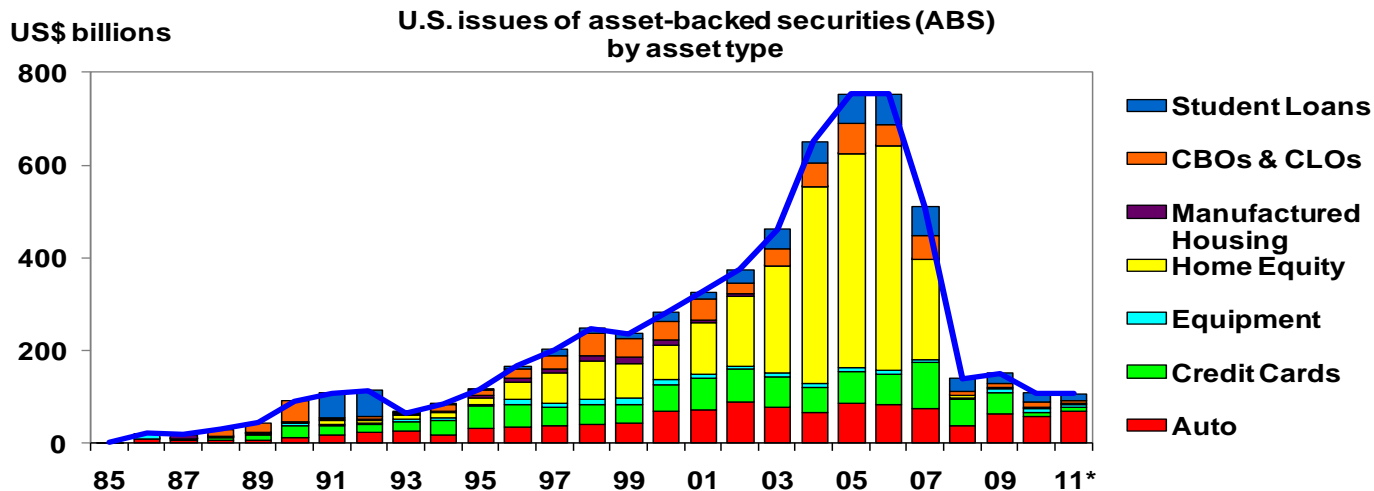


* Year to date, annualized.

Source: Securities Industry and Financial Markets Association.



The U.S. secondary markets remain weak



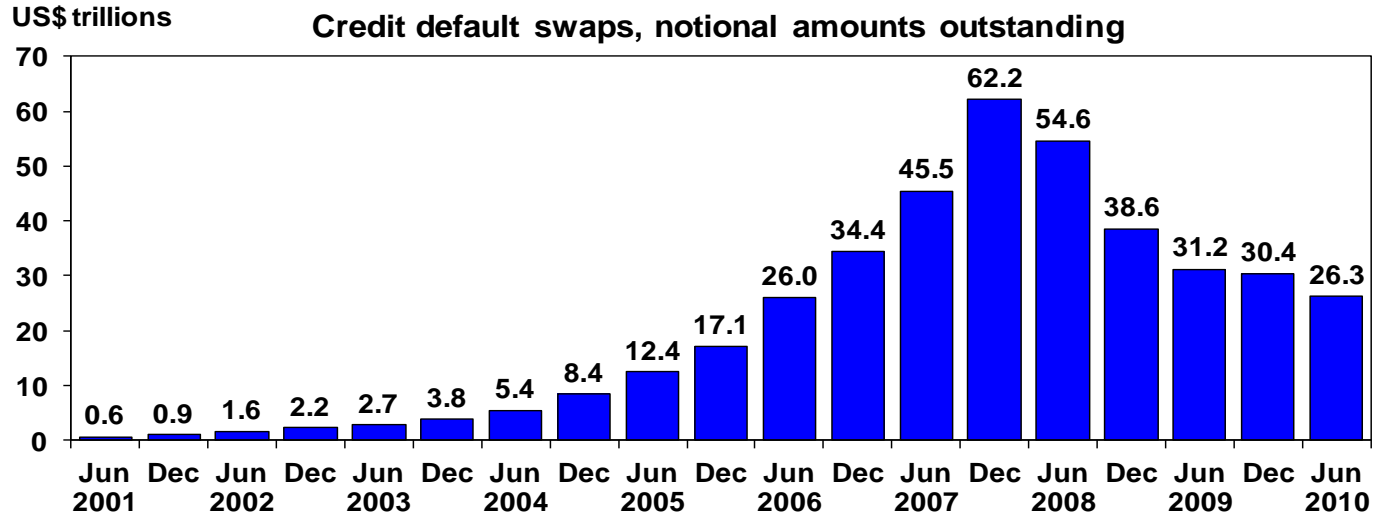
* Year to date, annualized .

Source: Securities Industry and Financial Market Association, SIFMA.

Despite significant decline after the crisis, the U.S. CDS market is still valued at \$26 trillion



MILKEN INSTITUTE



Source: International Swaps and Derivatives Association.

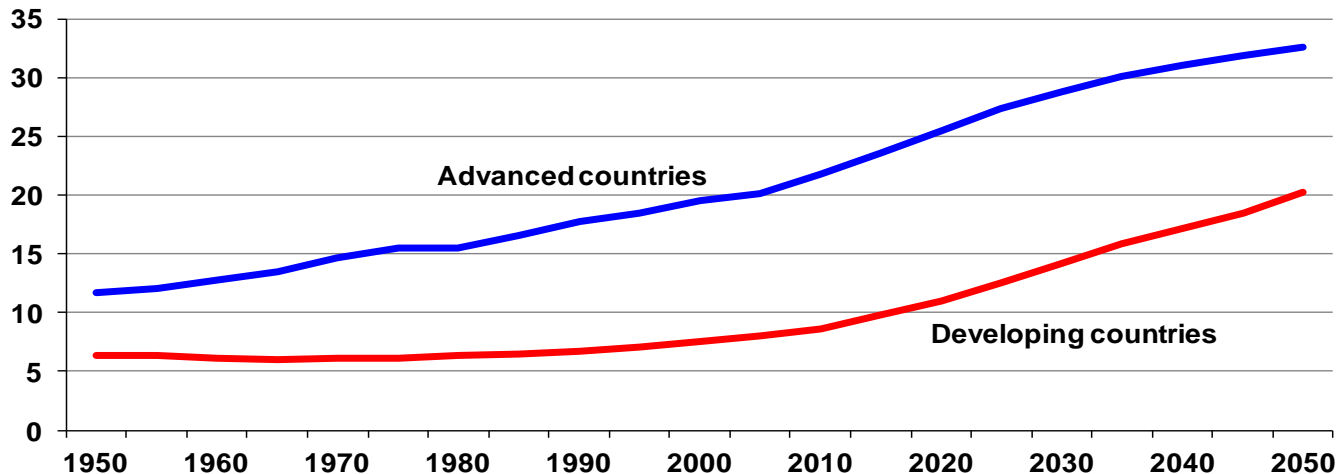
Aging population



MILKEN INSTITUTE

33% of population in advanced countries will be 65 and older by 2050

% of population age 65+



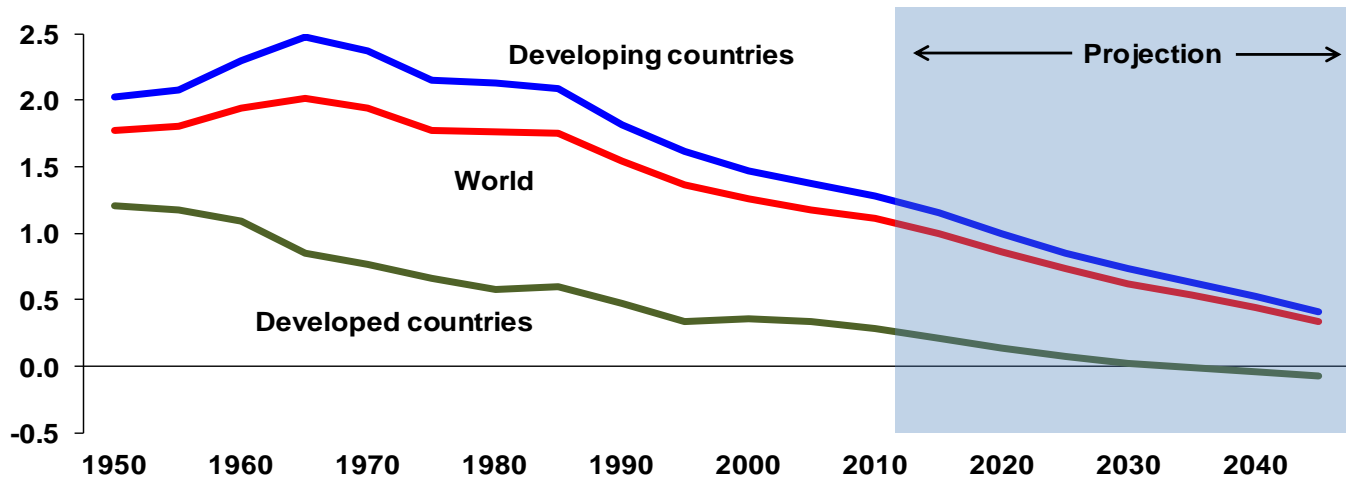
Source: United Nations.

Some advanced countries will eventually experience negative population growth



MILKEN INSTITUTE

Average annual rate of population change (%)



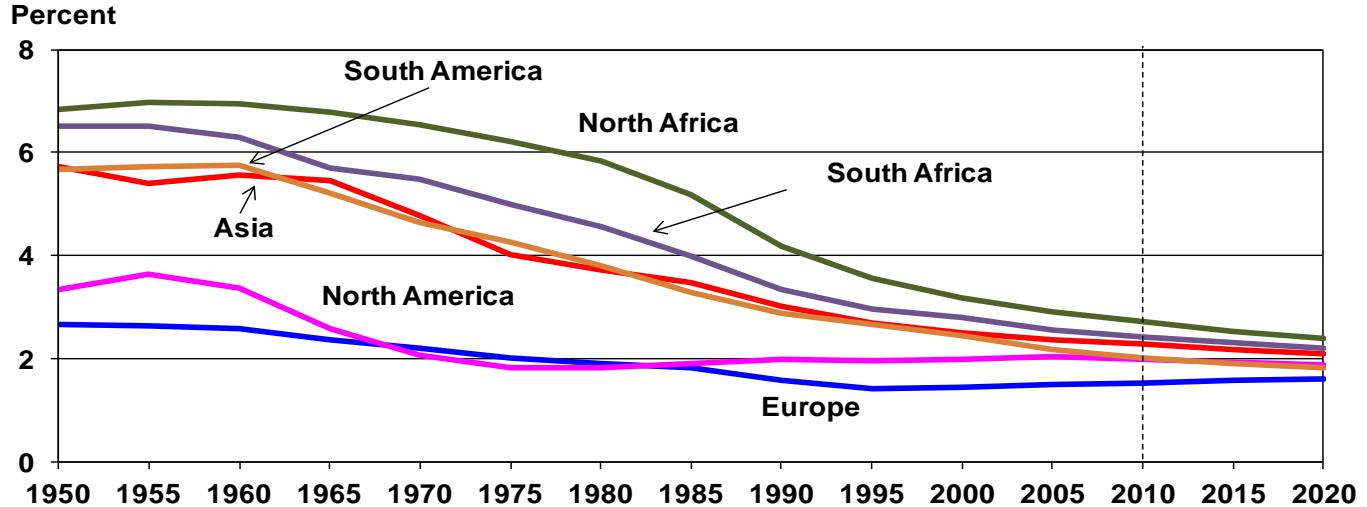
Source: United Nations.

Declining total fertility rate around the world



MILKEN INSTITUTE

By year and region



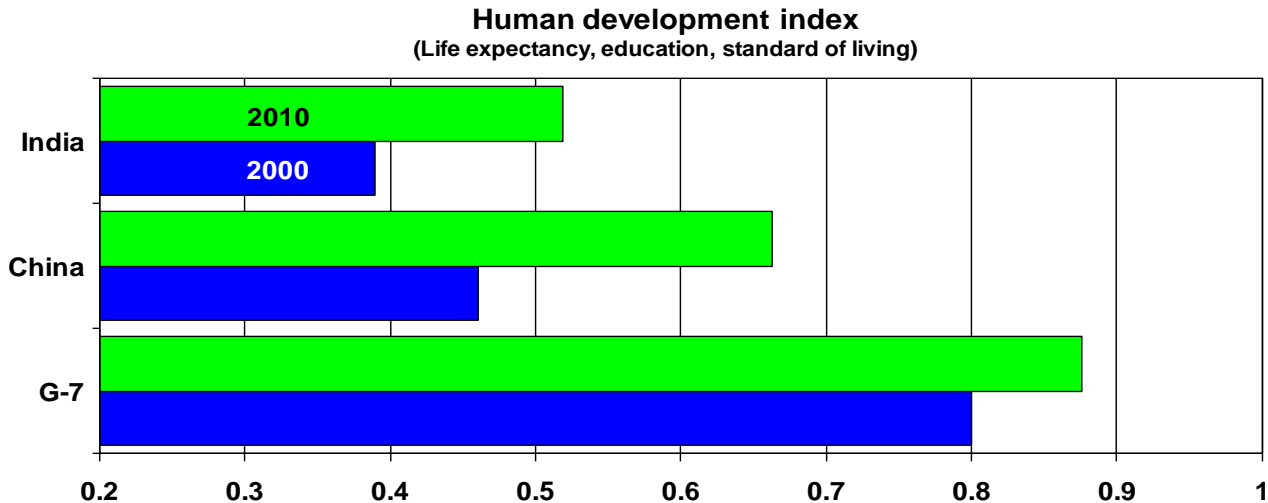
Source: United Nations.

Human capital indicators



MILKEN INSTITUTE

Major advanced countries, China and India



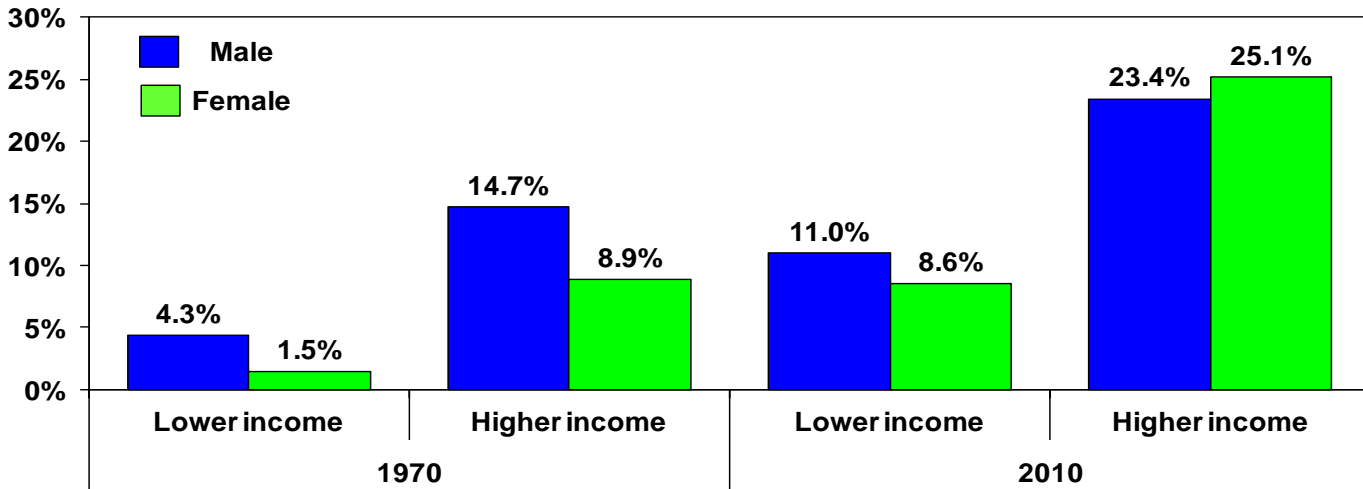
Source: The World Bank.

Higher education: comparison between lower- and higher-income countries



MILKEN INSTITUTE

Percentage of 30-40 year olds with higher education



Source: International Institute for Applied Systems Analysis.



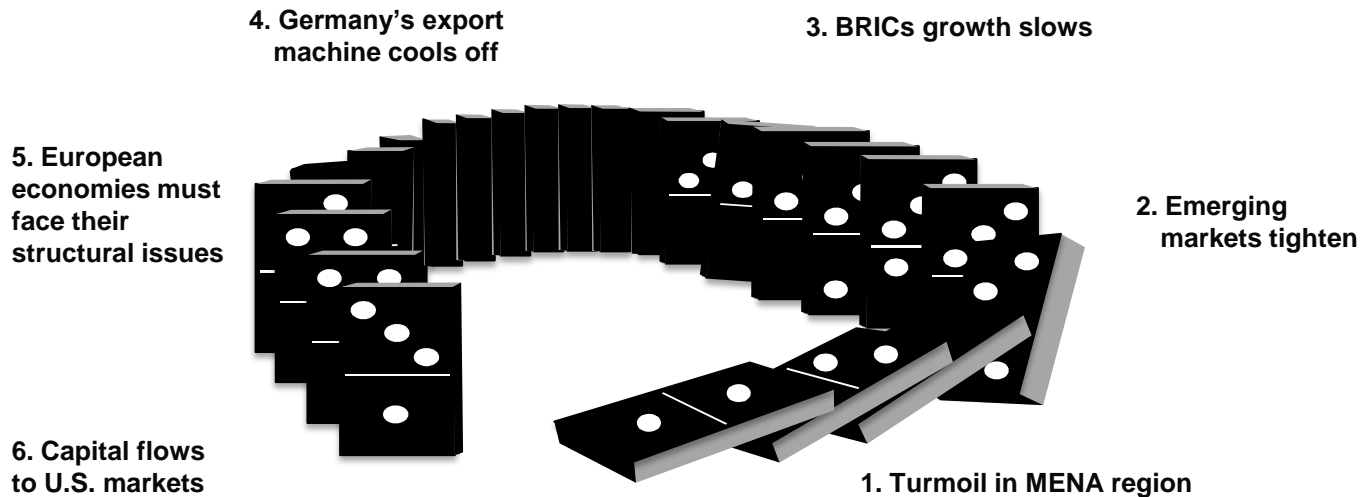
Scott Minerd's slides

The Economic Dominos

A View of Global Events Transpiring or Yet to Transpire



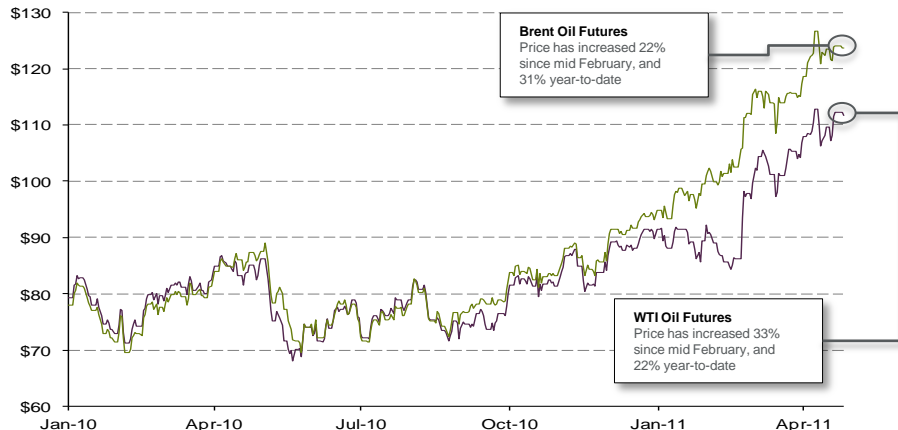
MILKEN INSTITUTE





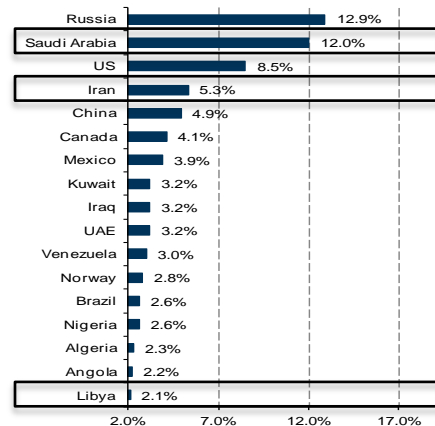
Rising Oil Prices “Fuel” Inflation Concerns

Oil Price (\$ per barrel)



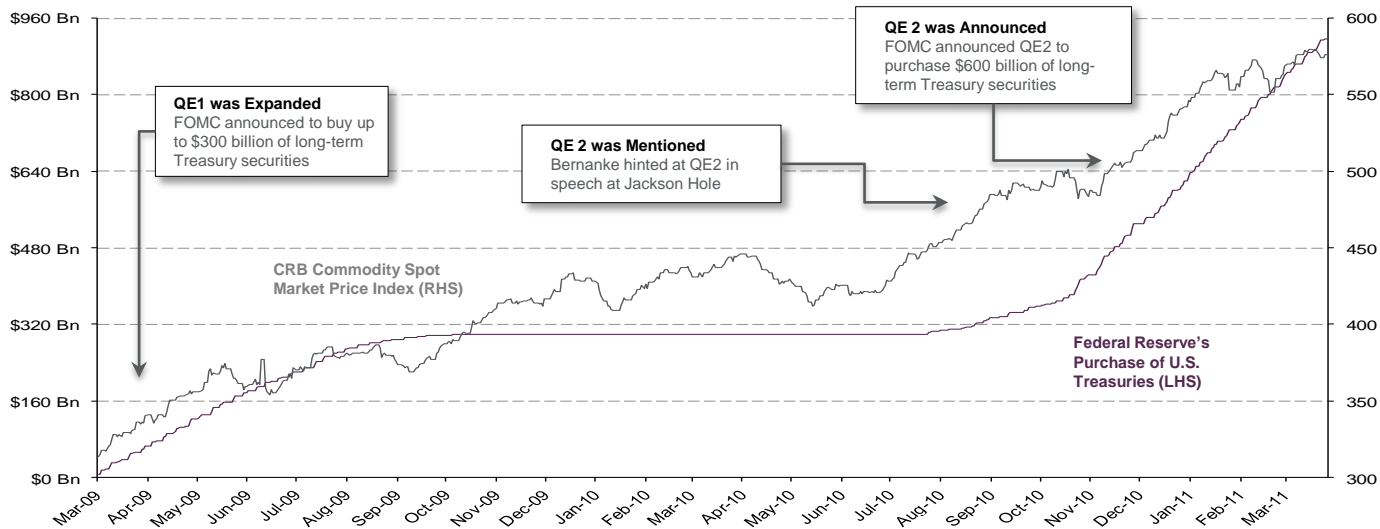
Source: Bloomberg, Guggenheim Partners. Data as of 4/25/2011.

Share of World Oil Production 2009



Source: BP Statistics, Guggenheim Partners

The Effect of QE on Global Commodity Prices



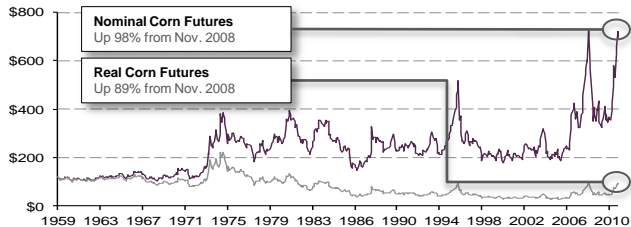
Source: Federal Reserve, Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

The Surge in Agricultural Commodities



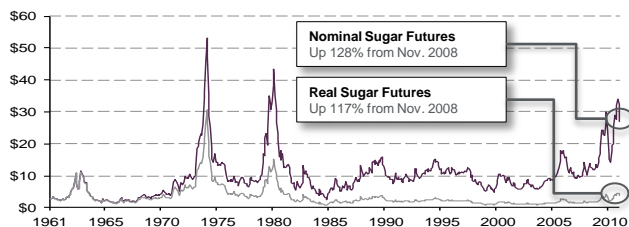
MILKEN INSTITUTE

Corn Price (USD/Bushels)



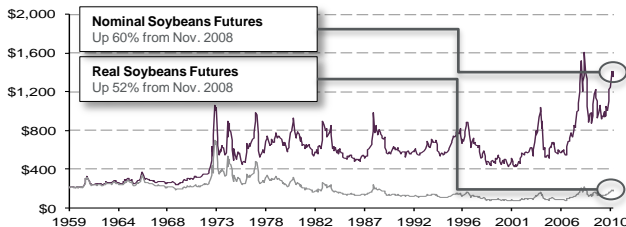
Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011. U.S. CPI in 7/31/1959 = 100

Sugar Price (USD/Bushels)



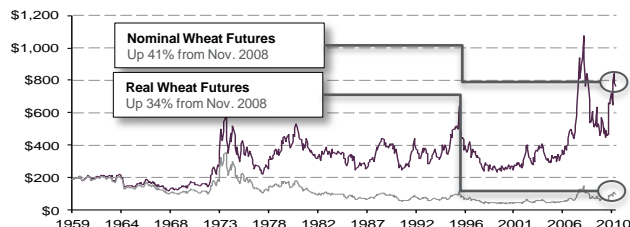
Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011. U.S. CPI in 1/31/1961 = 100

Soybeans Price (USD/Bushels)



Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011. U.S. CPI in 7/31/1959 = 100

Wheat Price (USD/Bushels)



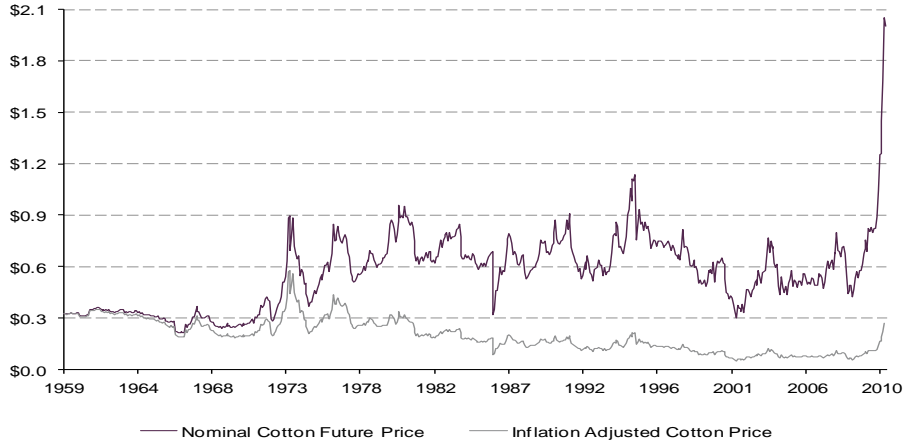
Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011. U.S. CPI in 7/31/1959 = 100

Cotton Prices – Nominal vs. Real



MILKEN INSTITUTE

Cotton Historical Future Price (\$ per Pound)

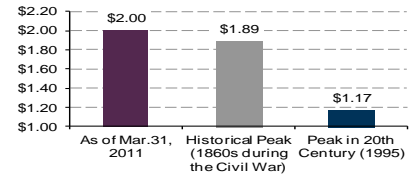


Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011. U.S. CPI in 7/31/1959 = 100

A Farmer in China Hoarding 7,700 lbs Cotton



U.S. Cotton Price Record (\$ per Pound)



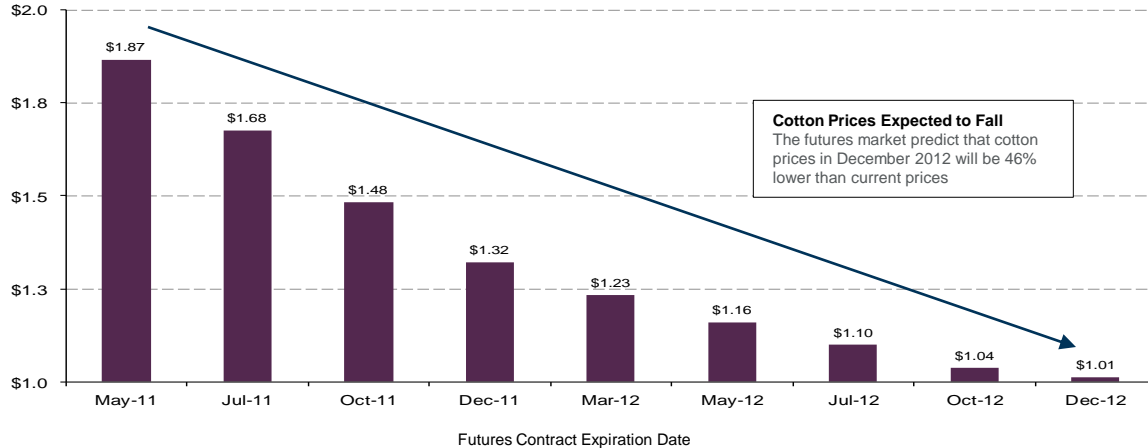
Source: Bloomberg, The Wall Street Journal

The Futures Market Predicts Large Declines In Cotton Prices



MILKEN INSTITUTE

Cotton Futures are in Backwardation (\$ per Pound)



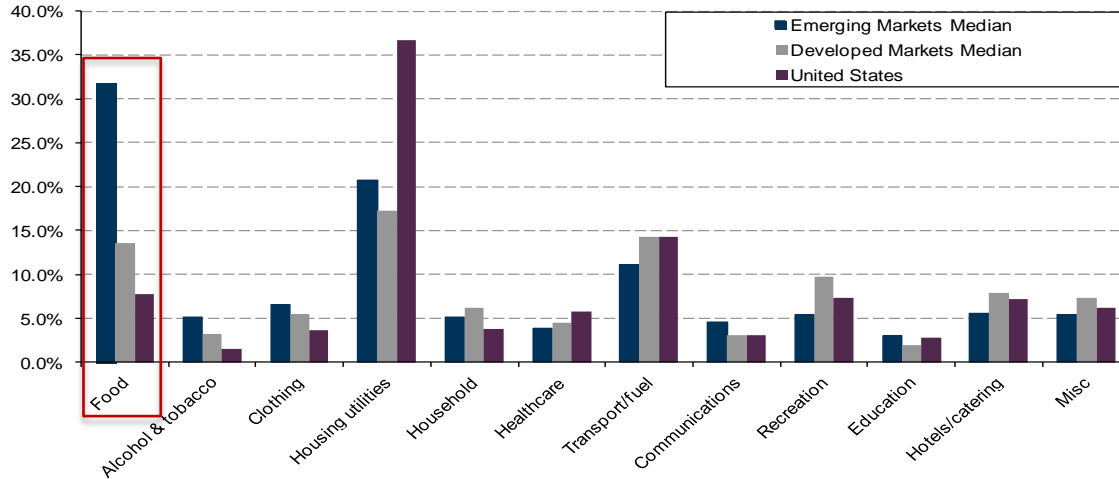
Source: Bloomberg, Guggenheim Partners. Data as of 4/25/2011.

Globally, the U.S. is the Least Sensitive to Food Price Increases



MILKEN INSTITUTE

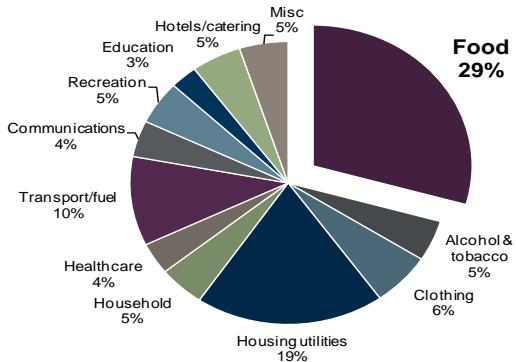
Consumer Price Index (CPI) Breakdown



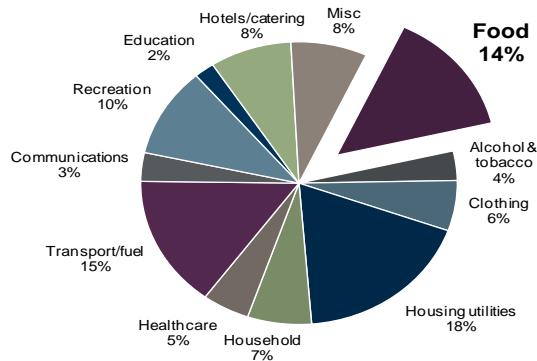
Source: ING, Guggenheim Partners.

CPI of Emerging Countries are More Sensitive to Food Price Increases

CPI Basket Breakdown - Emerging Markets Median



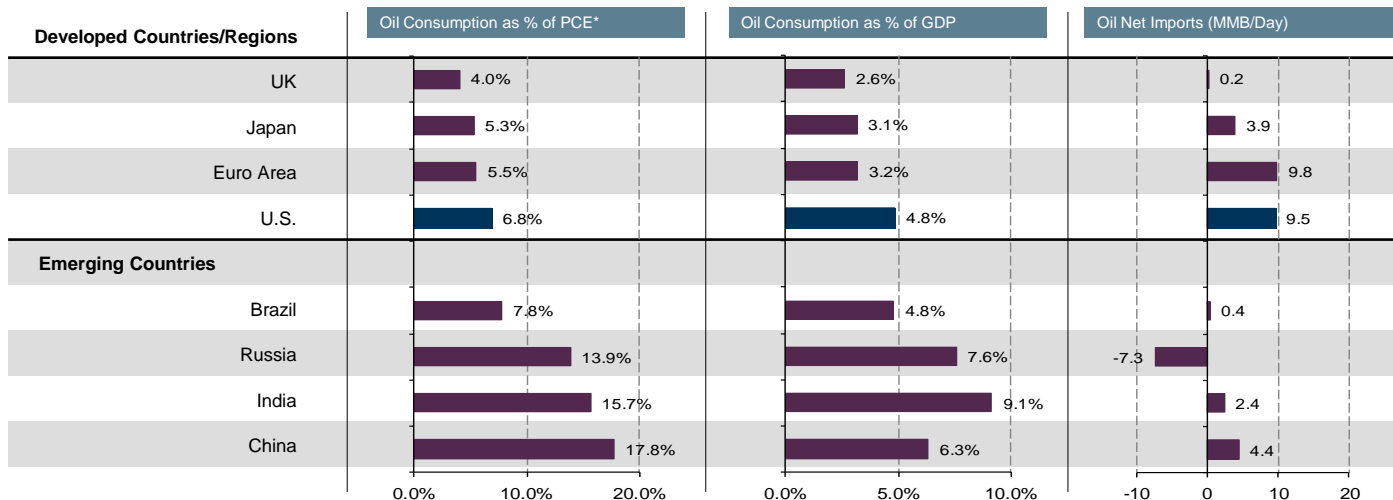
CPI Basket Breakdown - Developed Markets Median



Emerging Markets will be More Adversely Impacted by Rising Oil Prices



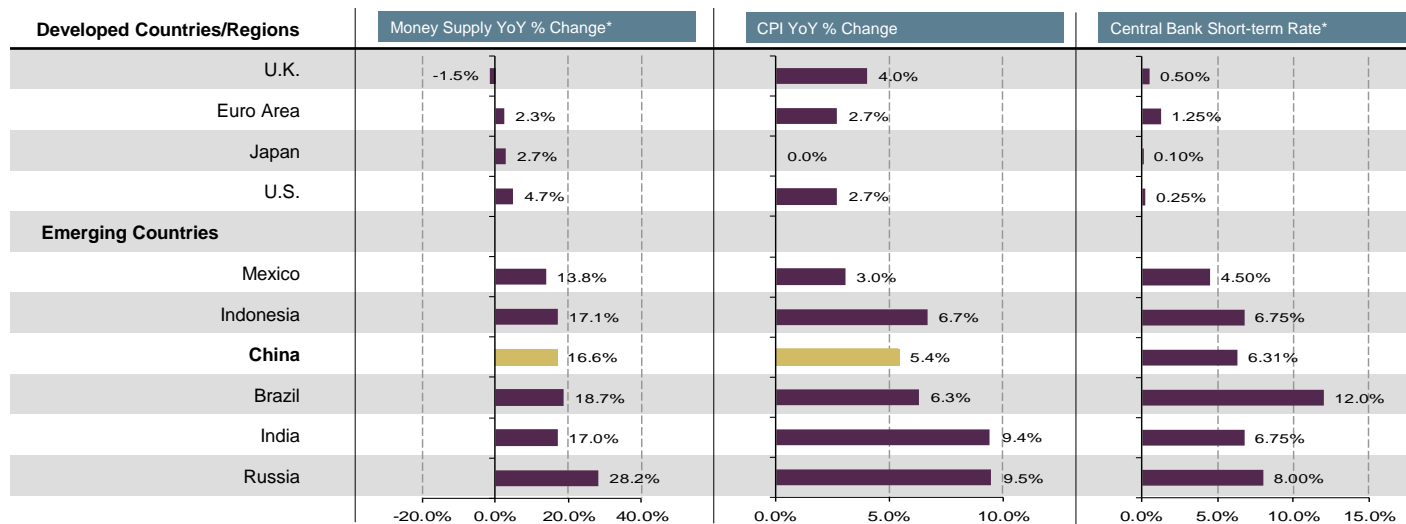
MILKEN INSTITUTE



Source: BP Statistics, Eurostat, Bloomberg, Guggenheim Partners. *: PCE = Personal Consumption Expenditure. Estimate is based on WTI price \$100 per barrel and 2009 consumption data.



The Overheating in Emerging Markets



Source: National Central Banks, Bloomberg, Guggenheim Partners. *: Money supply: U.K. – M4, Mexico, India and Euro Area – M3, Others – M2. All data is from latest available statistics as of 4/22/2011.



BRICs' Real Interest Rate Composite

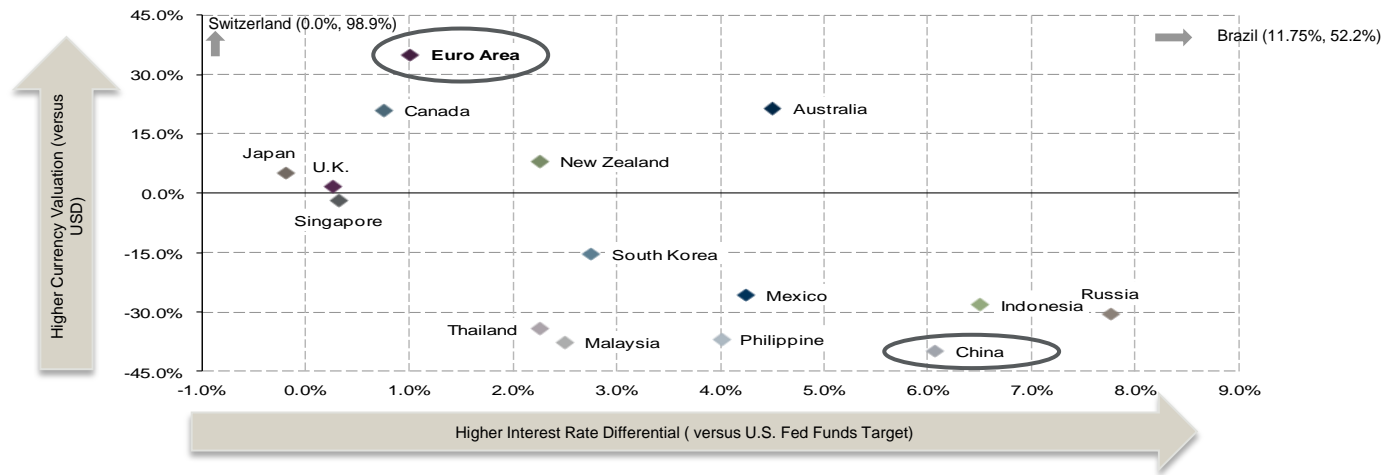


Source: Bloomberg, World Bank, Guggenheim Partners. Calculation is based on latest available data as of 4/25/2011. *Note: BRICs' Rate Composite is calculated by the real interest rate in each countries weighted by their GDP shares.

Global Currencies versus Purchasing Power Parity



MILKEN INSTITUTE

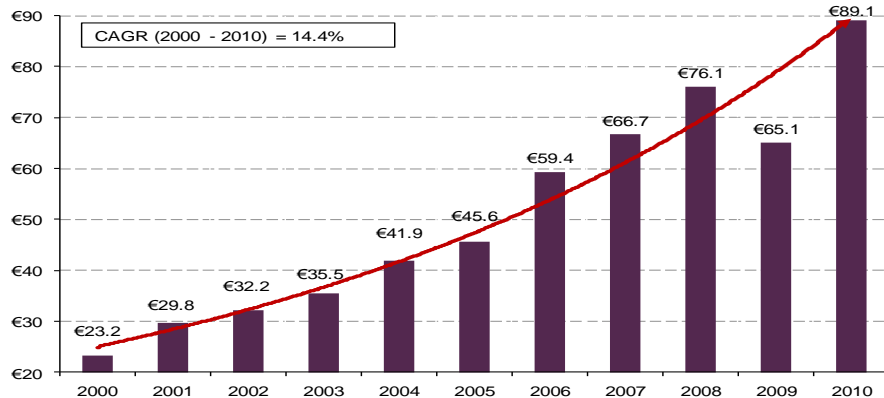


Source: The Economist Big Mac Index, Bloomberg, Guggenheim Partners. Data as of 4/22/2011.

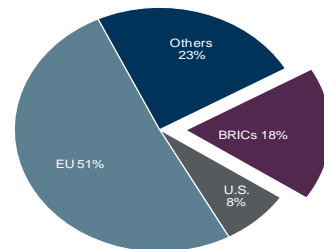


German Exports Fueled by the BRICs

Real Germany's Export to BRICs (€ Billion, Constant 2000 Price)



Contribution to Total Export Growth (2010)



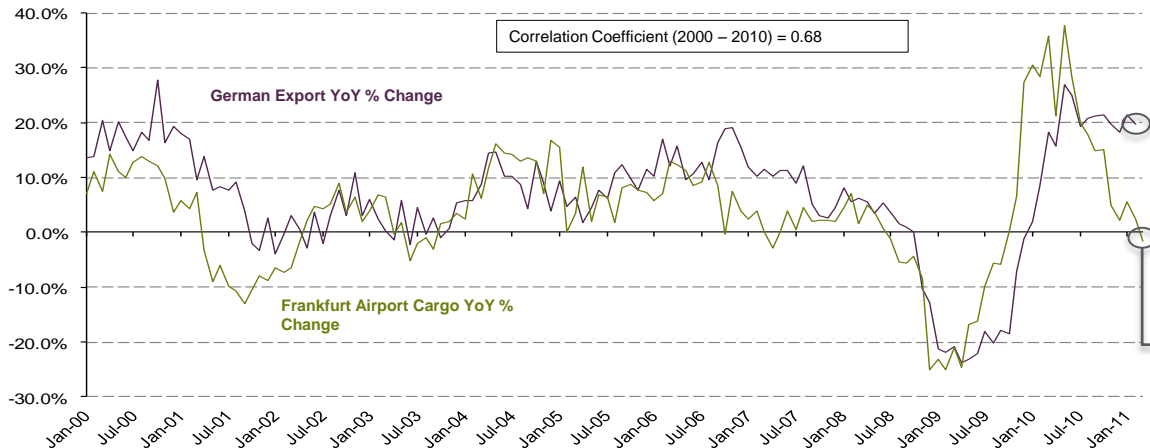
Although Germany's exports to the BRICs account for only 2% of GDP on a nominal basis, the fast-growing category accounted for 18% of incremental export growth in 2010.

German Exports May Have Peaked



MILKEN INSTITUTE

German Export YoY % Change and the Frankfurt Airport Cargo YoY % Change



Total German Exports

19.7% year-over-year growth in February 2011; however, the growth rate has declined since the peak of 26.9% in May 2010.

Frankfurt Airport Cargo

1.7% year-over-year decrease in airport cargo growth in March, the first annual decline since September 2009.

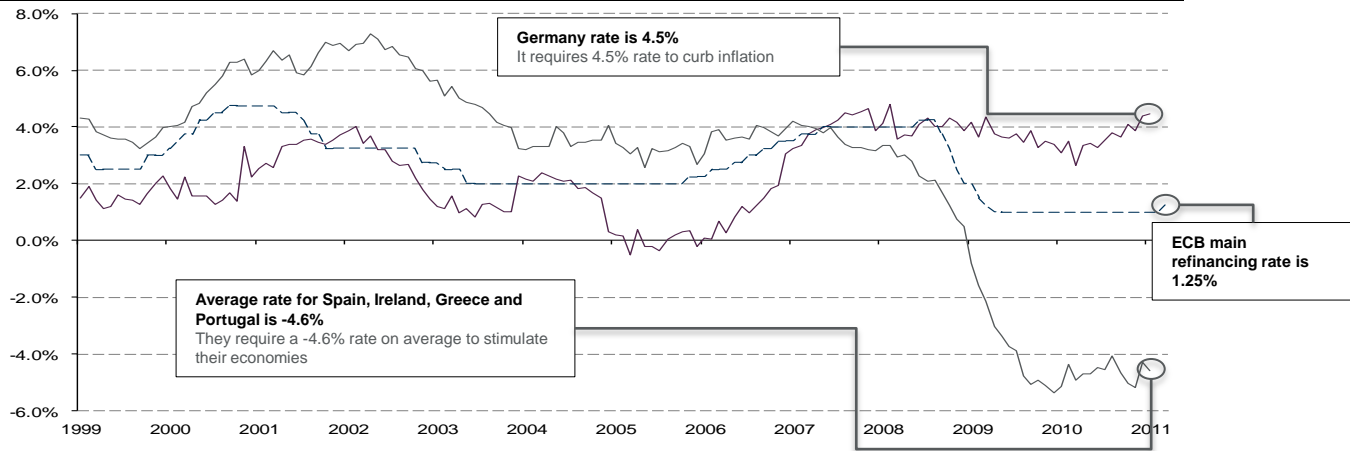
Source: Frankfurt Airport Statistics, Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

One Size Doesn't Fit All When it Comes to European Monetary Policy



MILKEN INSTITUTE

The Taylor Rule Suggests a 4.5% Short-Term Rate in Germany and -4.6% in Peripheral Europe

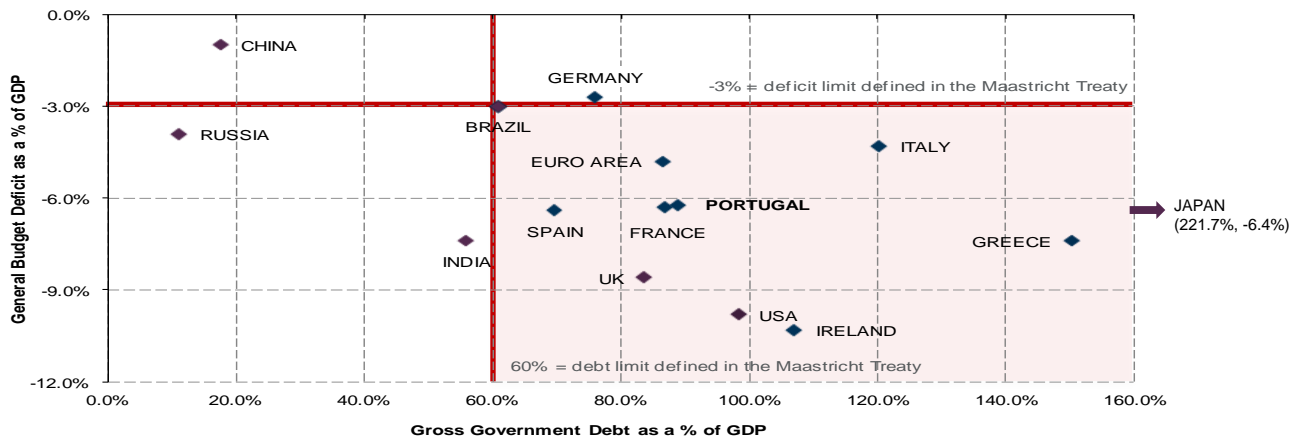


Source: OECD, Bloomberg, Guggenheim Partners Calculation. Data for calculation based on Taylor's rule is latest available as of 4/25/2011.



Structural Imbalances in Peripheral Europe

Budget Deficit to GDP and Gross Government Debt to GDP: 2011 Estimates*

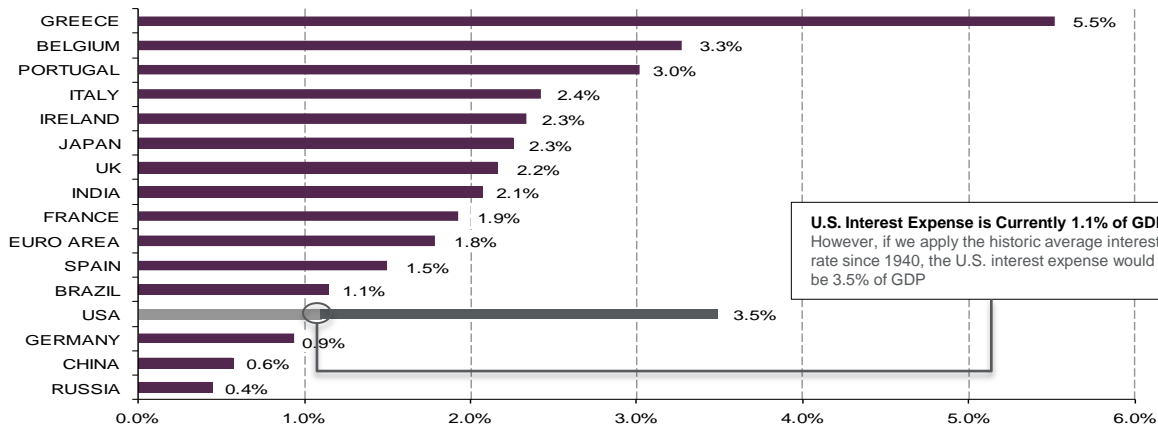


Source: European Commission Forecast Autumn 2010, Guggenheim Partners. Data for China, India, and Brazil as of 2010 end.



2011 Interest Expense as a % of GDP

2011 Interest Expense as a % of GDP



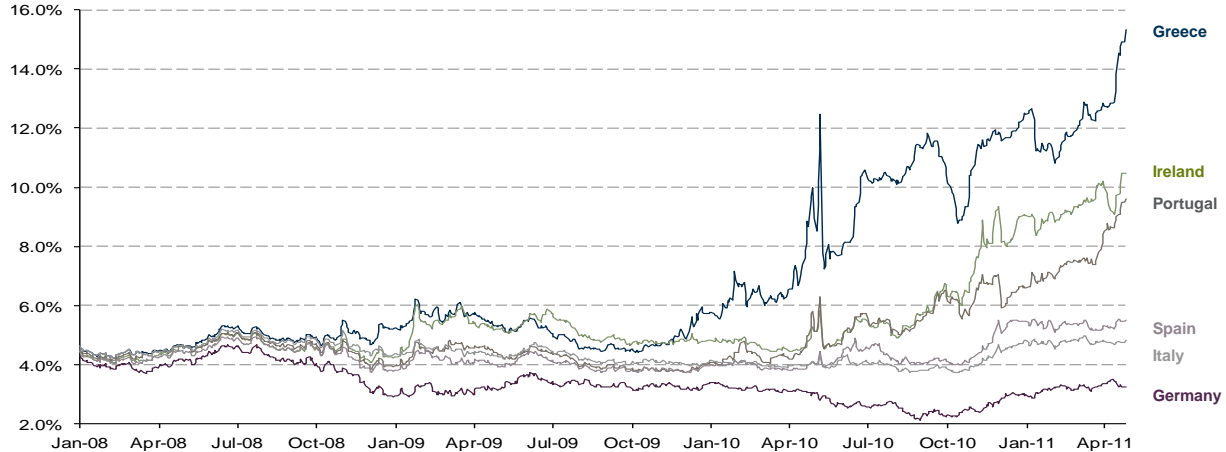
Source: European Commission Forecast, Bloomberg, Guggenheim Partners.

Elevated Yields Compound Problems for Europe's Periphery



MILKEN INSTITUTE

10-Year Bond Yields of "PIIGS" and Germany

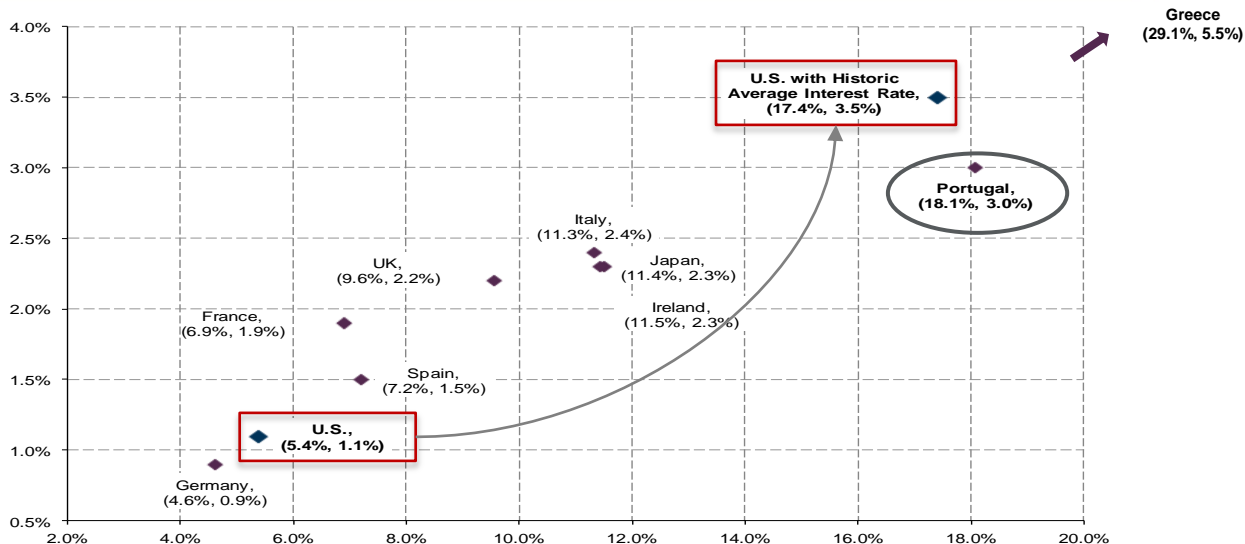


Source: Bloomberg. Data as of 4/25/2011.

Interest Expense as % of GDP and as a % of Government Spending



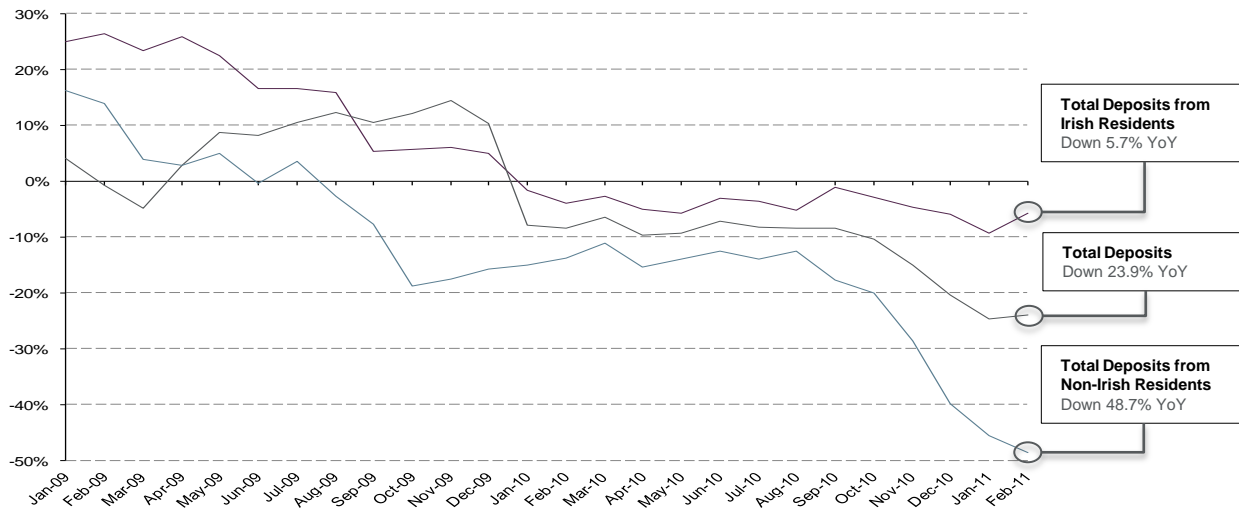
MILKEN INSTITUTE



Source: Eurostat, Bloomberg. Assume the Government Spending as a % of GDP in 2011 is the same as that in 2010.



The Irish Banking Run Continues

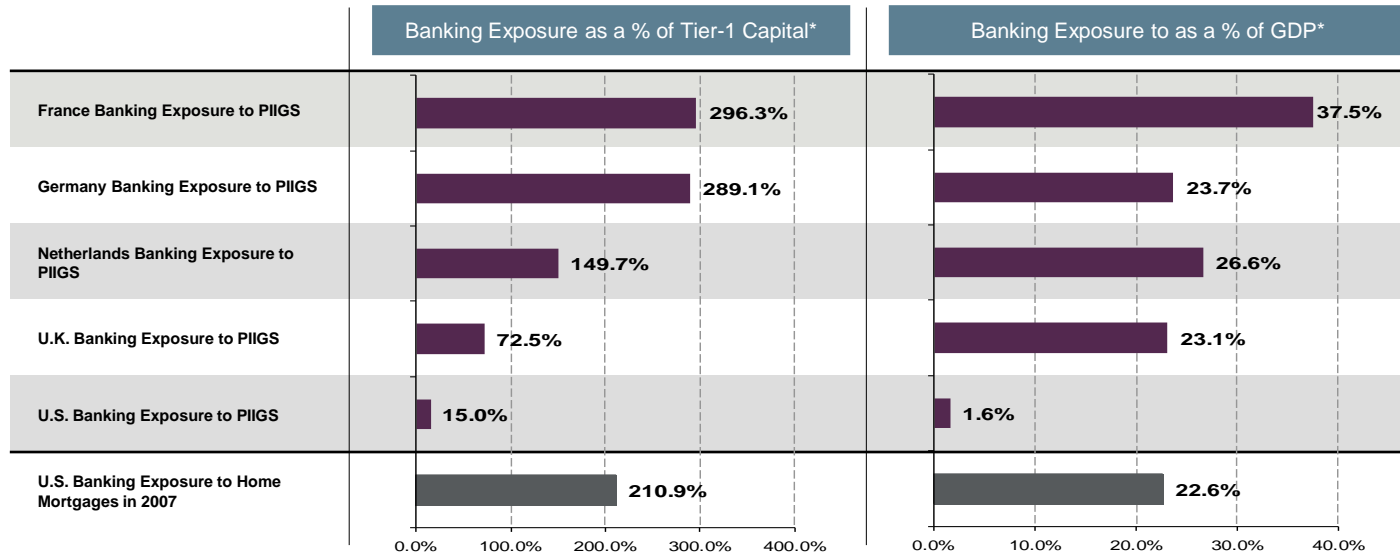


Source: Central Bank of Ireland, March 2011 Money and Banking Statistics

The Core of Europe Can't Afford to Let "PIIGS" Default



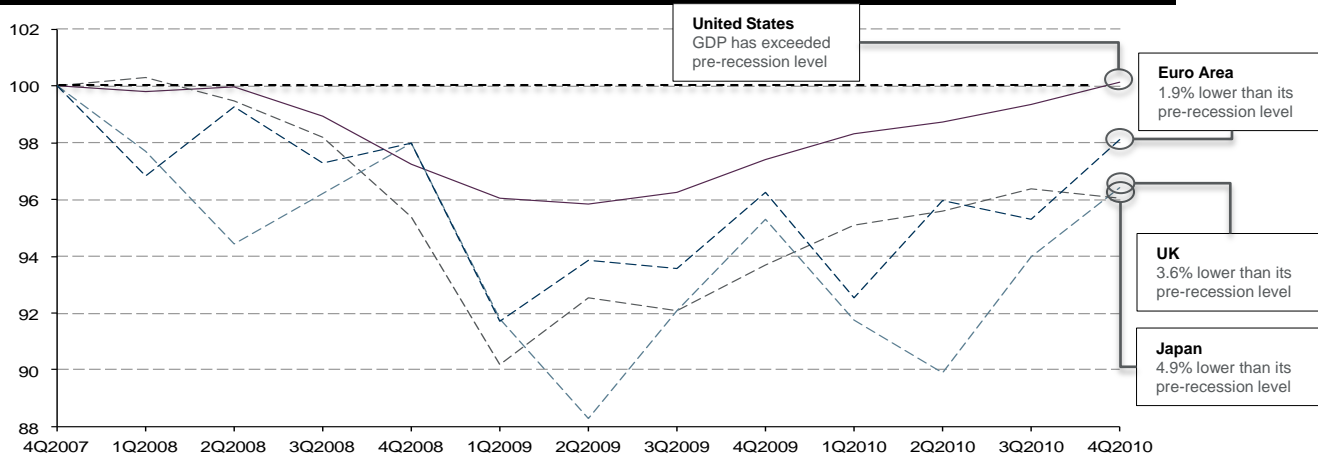
MILKEN INSTITUTE



Source: Bank for International Settlements, OECD, European Commission, Guggenheim Partners. * Note: Tier-1 capital data as of 2009 year end; GDP data is 2011 European Commission forecast. Banking exposure data as of 3Q2010.

U.S. Economy has Outperformed Other Developed Economies

Normalized Real GDP since the Recession (4Q2007 = 100)

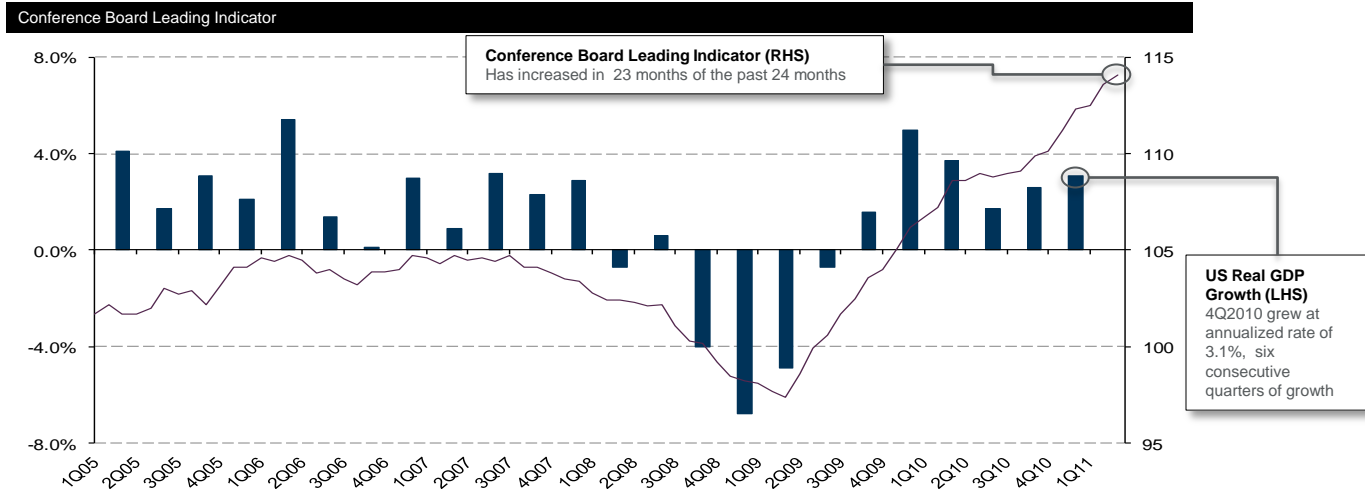


Source: Bloomberg, Guggenheim Partners. Data as of 4Q2010.

U.S. Economic Recovery is Unfolding



MILKEN INSTITUTE

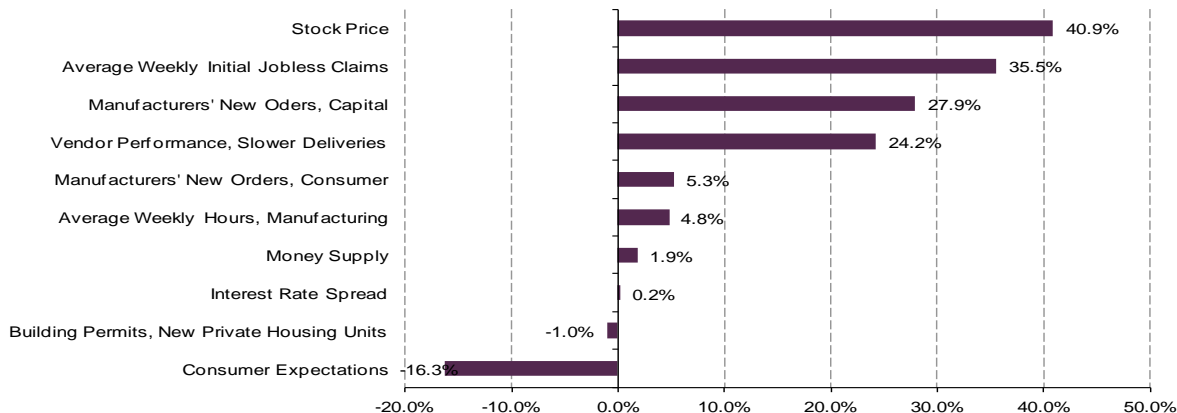


Source: Bloomberg, Guggenheim Partners. Data as of 4/25/2011.



Leading Indicators are Nearly All Positive

Conference Board Leading Indicator 10 Components' Improvement Compared to the End of Recession

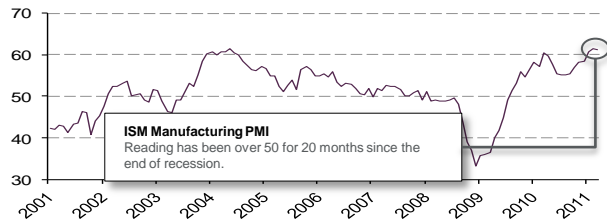


Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011. * Note: The improvements of Initial Jobless Claims and Interest Rate Spread mean the decrease of those two items.



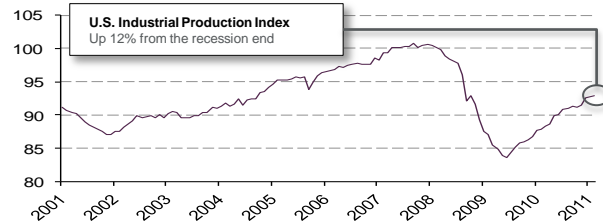
U.S. Economy is on Sound Footing

Manufacturing



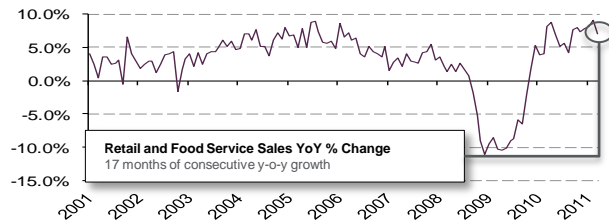
Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

Industrial Production



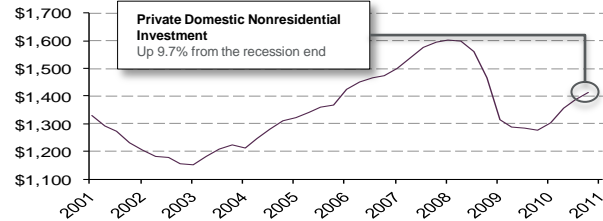
Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

Retail Sales



Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

Business Investment

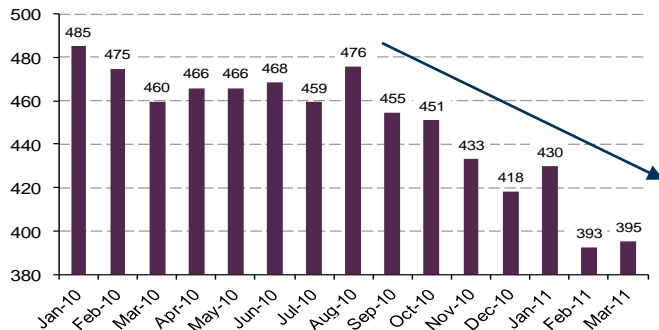


Source: Bloomberg, Guggenheim Partners. Data as of 12/31/2010.

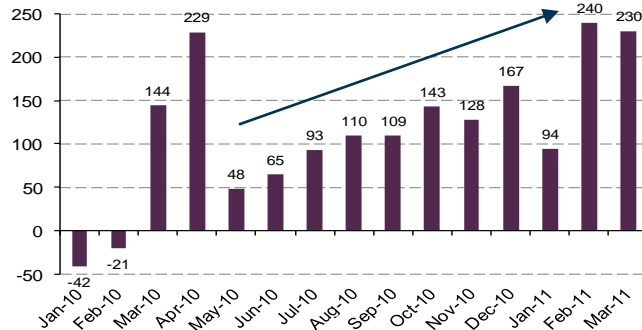


U.S. Labor Market Conditions are Improving

U.S. Initial Jobless Claims 4 Weeks Moving Average (thousands)



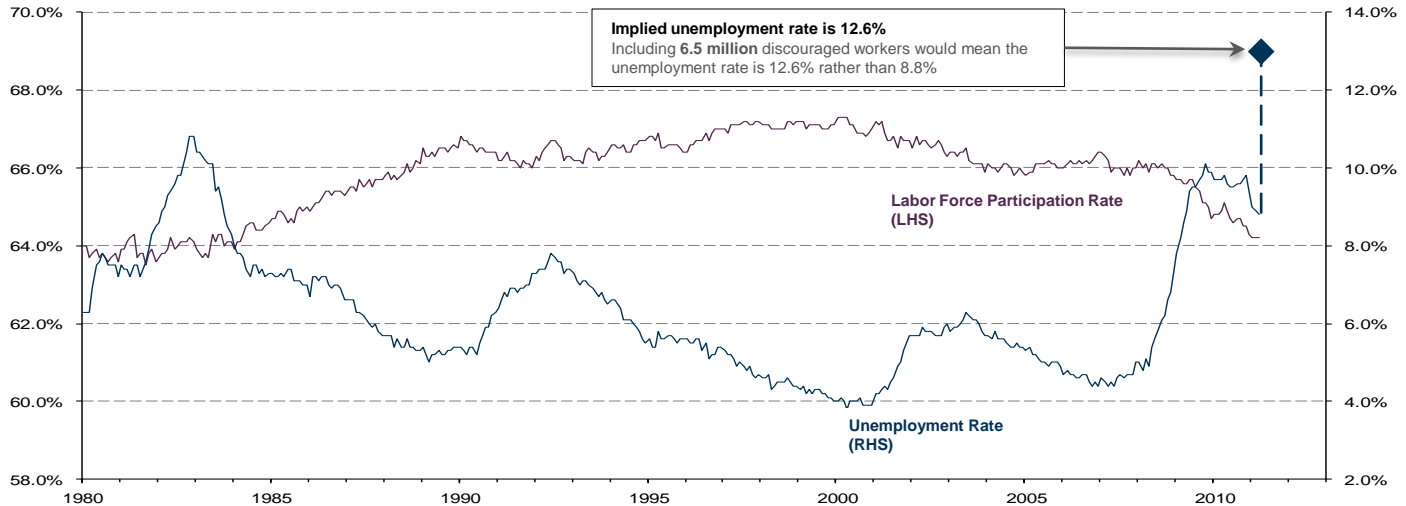
MoM Change of U.S. Employees on Nonfarm Private Payroll (thousands)



U.S. Unemployment Rate and Labor Force Participation Rate

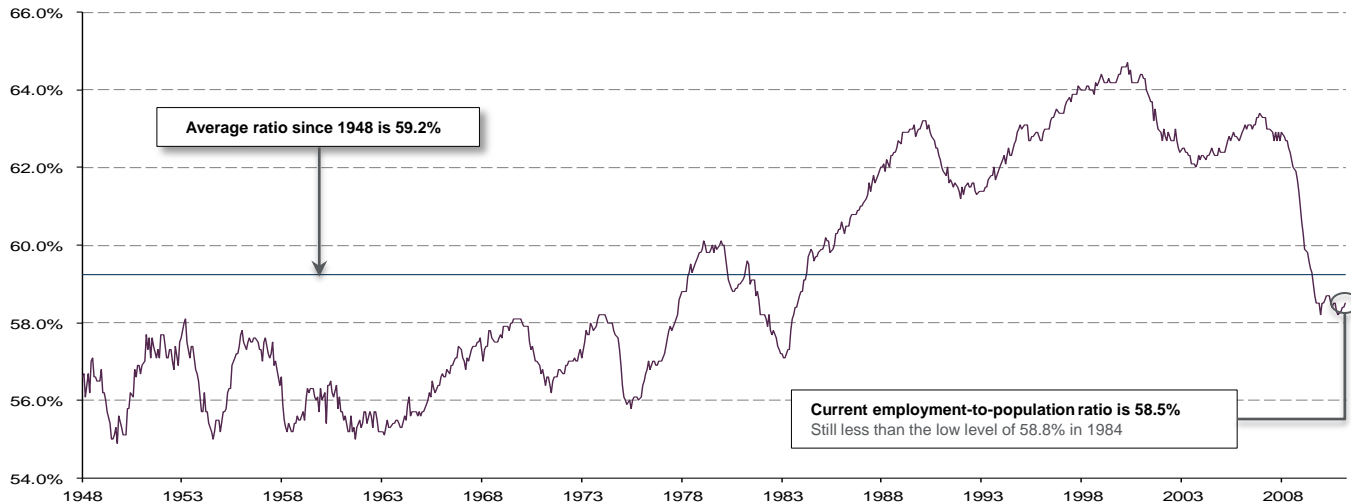


MILKEN INSTITUTE



Source: Bloomberg, Bureau of Labor Statistics, Guggenheim Partners. Data as of 3/31/2011.

U.S. Employment to Population Ratio



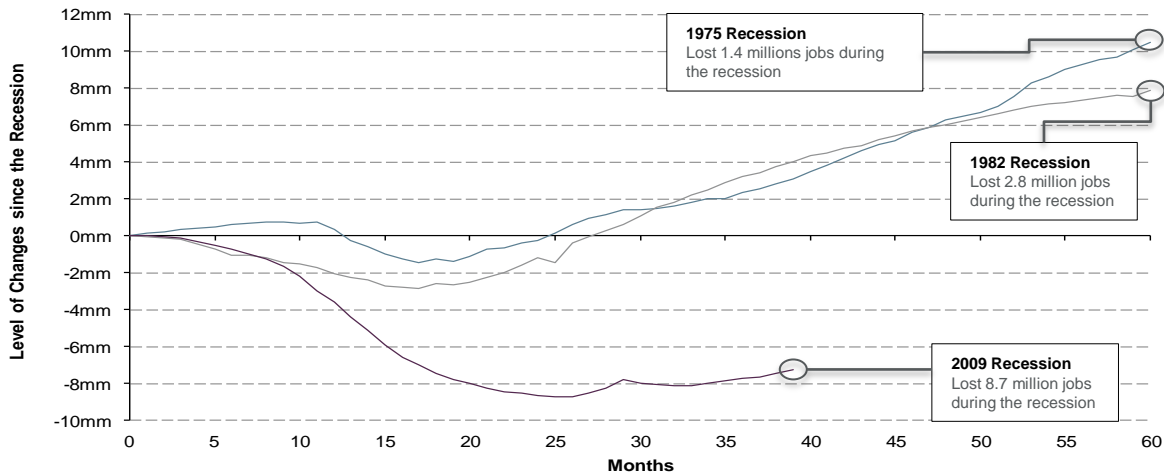
Source: Bloomberg, Bureau of Labor Statistics, Guggenheim Partners. Data as of 3/31/2011.

U.S. Labor Market is Still Far Behind Its Pre-recession Level



MILKEN INSTITUTE

Changes on ADP Non-farm Payroll Since Recession



Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

Trends in Long-Term Interest Rates after a Recession

Change to 10-Year Treasury Rates from the End of Recession (basis points)

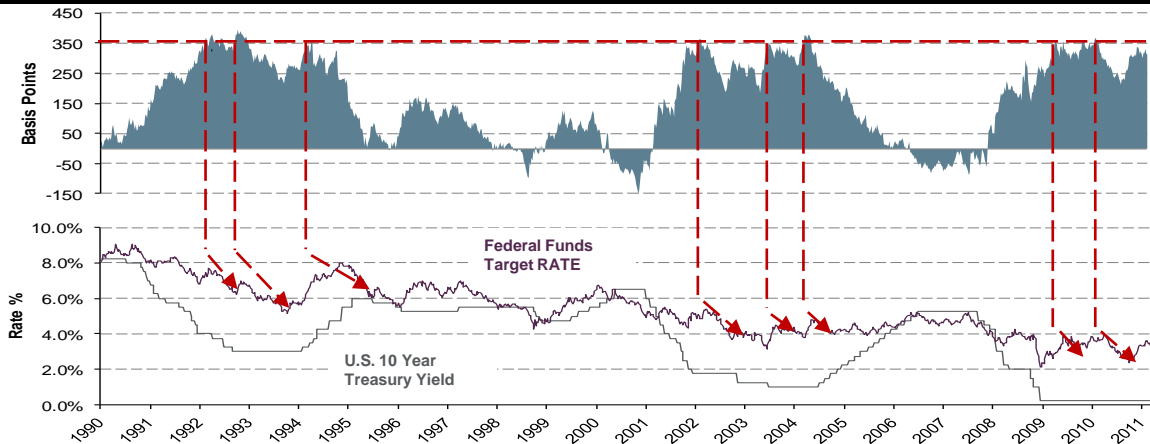


This would mean a yield of 2.50 to 3.30 by 2nd half of 2011

Source: Bloomberg, Recession date is based on NBER definition. Data as of 3/31/2011.

Spread of 10-Year Treasury Yield to the Federal Funds Rate

The Spread of 10-Year Treasury Yield to the Federal Funds Target Rate



Average
correction in
Treasury yields is
-128 bps

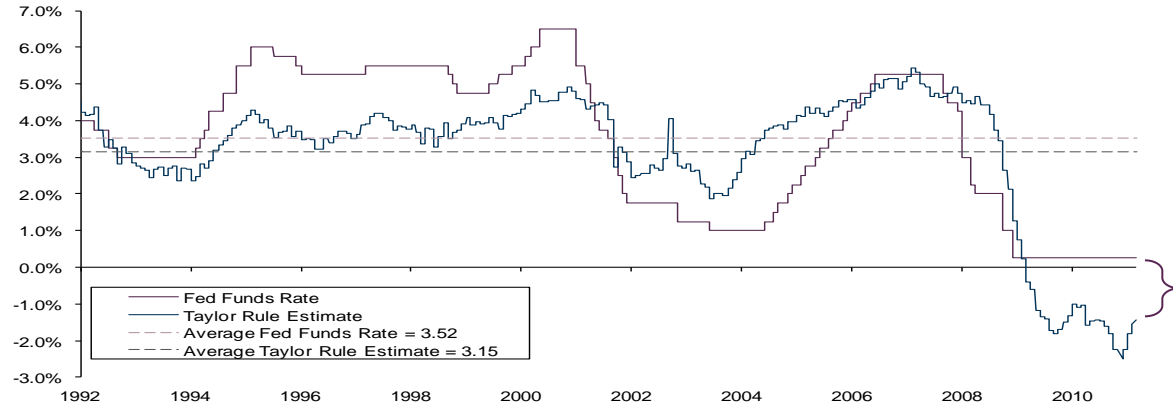
Source: Bloomberg, Guggenheim Partners. Data as of 4/15/2011.

The 'Taylor Rule' *Still* Endorses Quantitative Easing



MILKEN INSTITUTE

Taylor Rule Estimate versus the Fed Funds Target Rate



Current spread is 170 bps, the average historic spread is 36 bps

The Generational Bull Market in Bonds Remains Intact



MILKEN INSTITUTE

10-Year Treasury Yield: 1985 to Present



Source: Bloomberg, Guggenheim Partners. Data as of 4/25/2011.

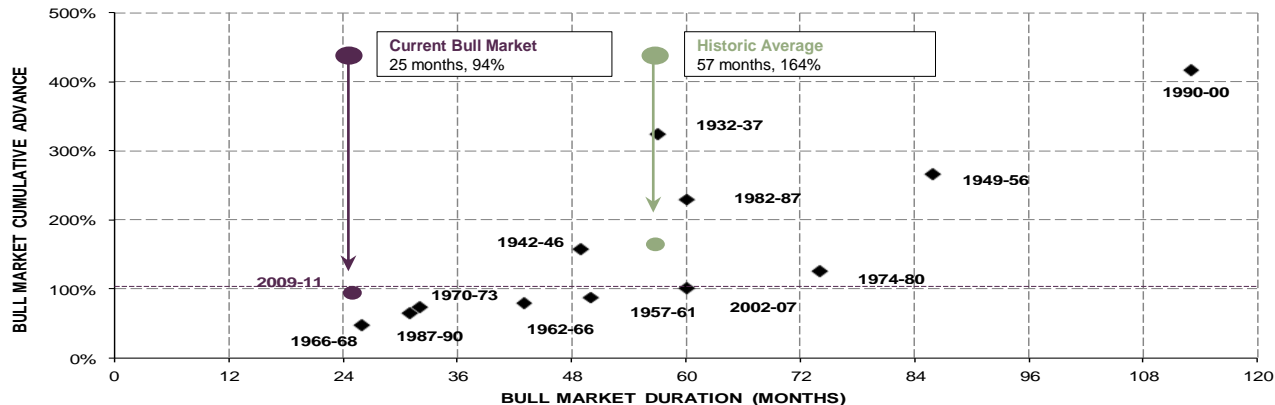
U.S. Equities



MILKEN INSTITUTE

If the Bull Market Were to End Today, it Would be the Shortest in History

S&P 500 Bull Markets, 1928 to Present

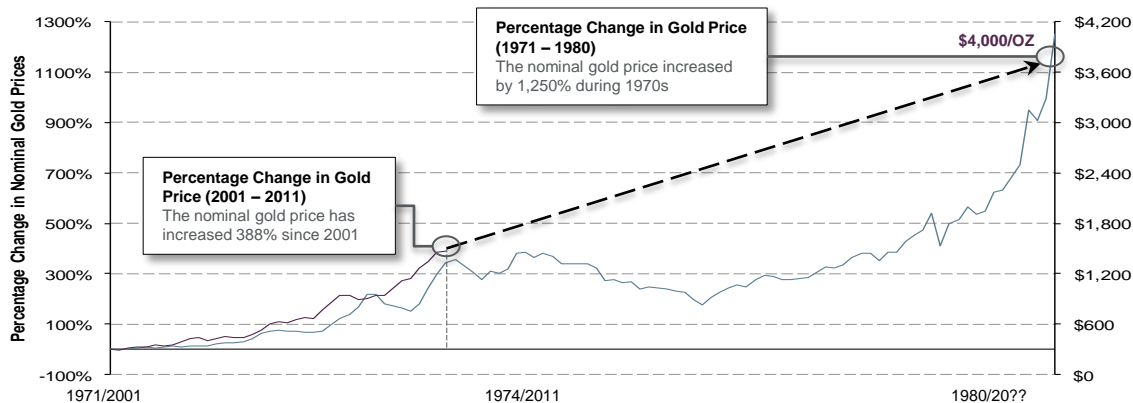


Source: Strategas. Data as of 4/25/2011.



Gold Prices – 1970s versus Today

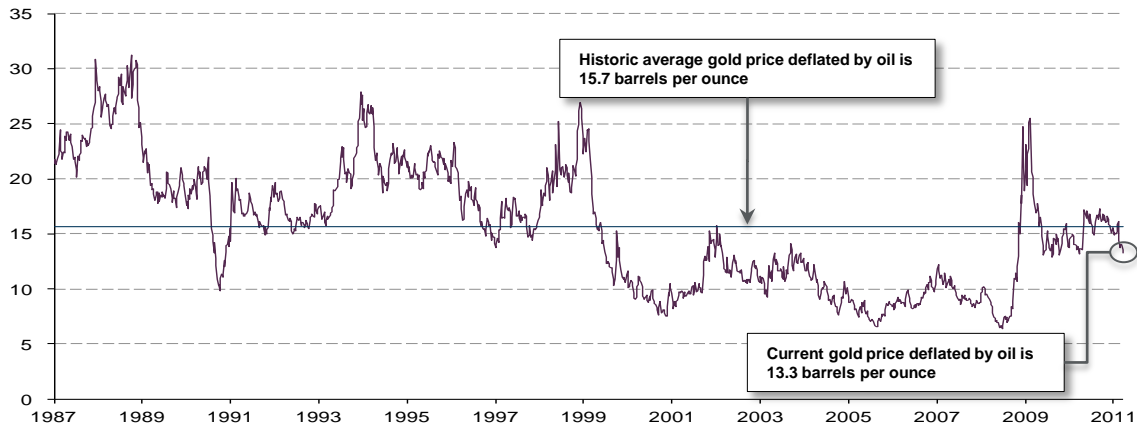
Gold Prices – 1970s versus Today



Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

Gold Deflated by Oil

Gold/Crude Oil



Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011

The Dow Jones Industrial Average vs. Gold Prices



MILKEN INSTITUTE

Dow Jones Industrial Average Divided by Gold



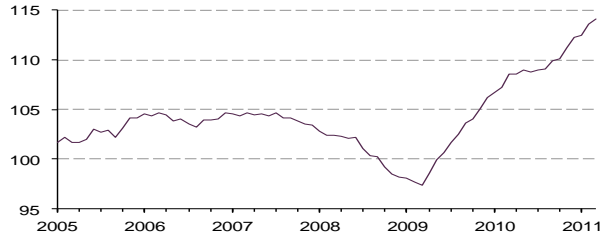
Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011

The U.S. Economy is Improving without the Housing Market



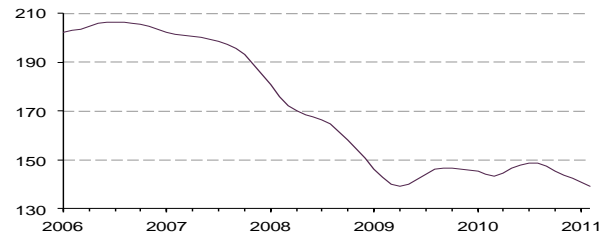
MILKEN INSTITUTE

Conference Board Leading Indicator



Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

S&P/Case-Shiller 20 Cities Home Price Composite



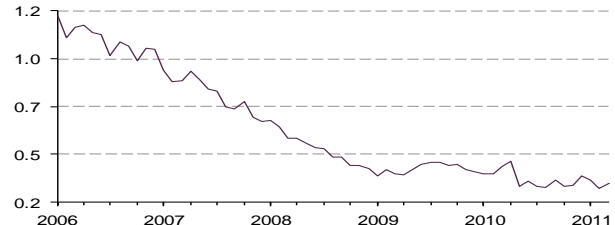
Source: Bloomberg, Guggenheim Partners. Data as of 2/28/2011.

New Privately Owned Housing Starts (millions)



Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

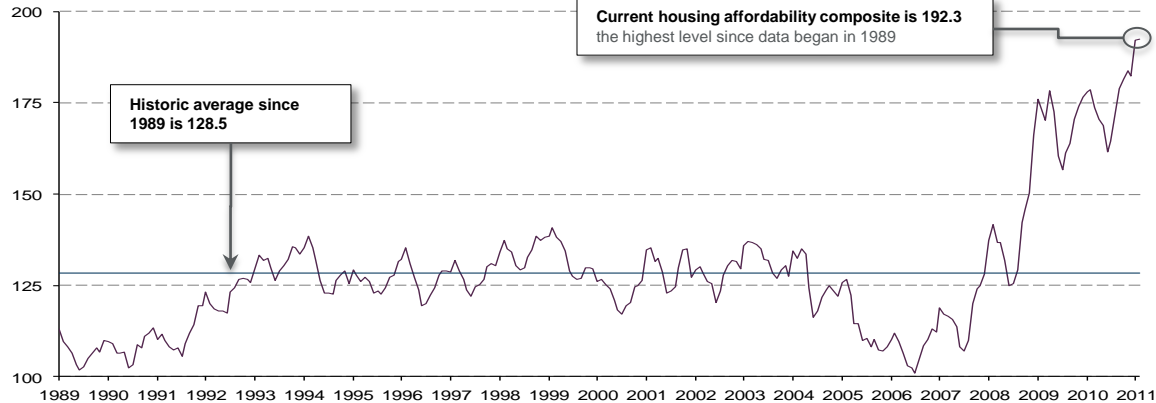
New One Family Houses Sales (millions)



Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

U.S. Housing Affordability is at Record Highs, Aided by Low Rates

Housing Affordability Composite Index (Higher is More Affordable)

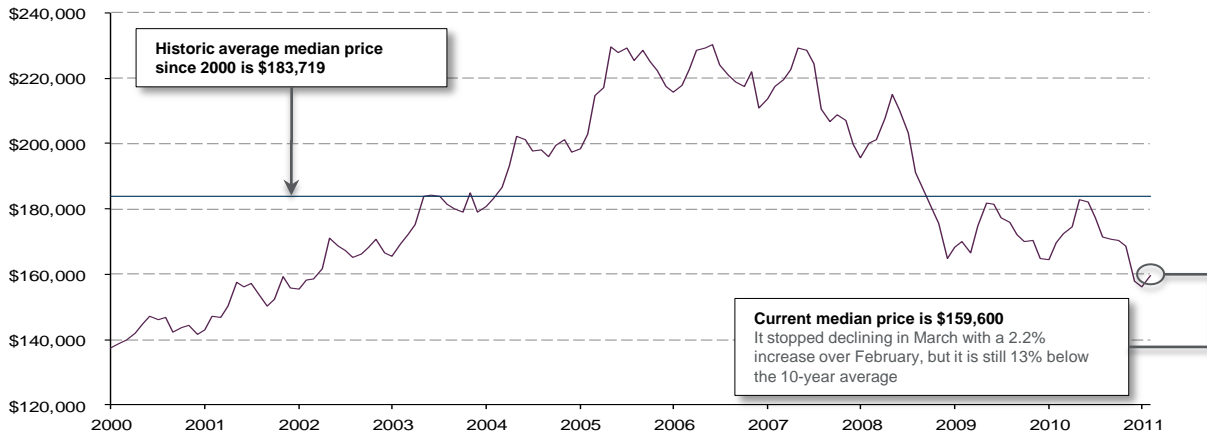


Source: Bloomberg; National Association of Realtors. Total includes single-family homes, townhomes, condominiums, and co-ops. Data as of 2/28/2011.



U.S. Median Housing Prices Continue to Fall

U.S. Existing Home Sales Median Price



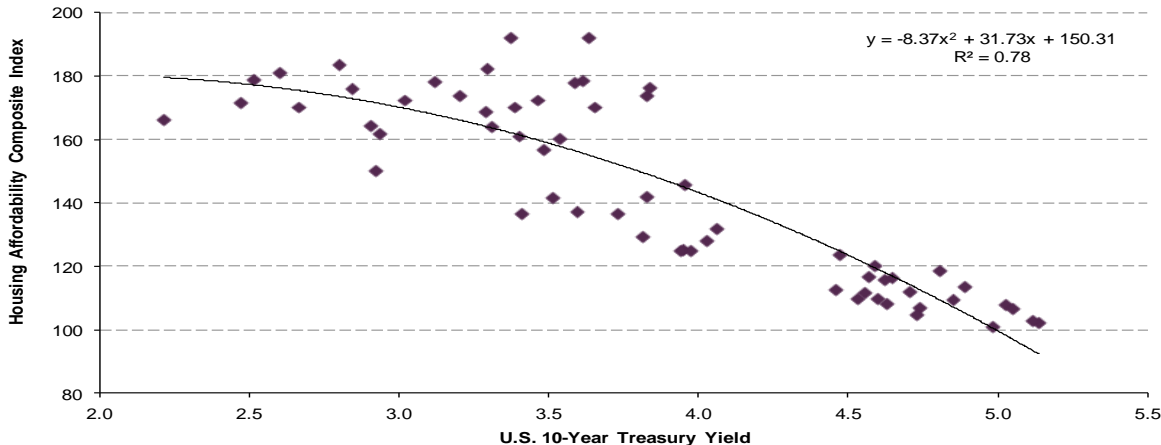
Source: Bloomberg, National Association of Realtors. Total includes single-family homes, townhomes, condominiums, and co-ops. Data as of 3/31/2011.

Strong Negative Correlation between Interest Rates and Housing



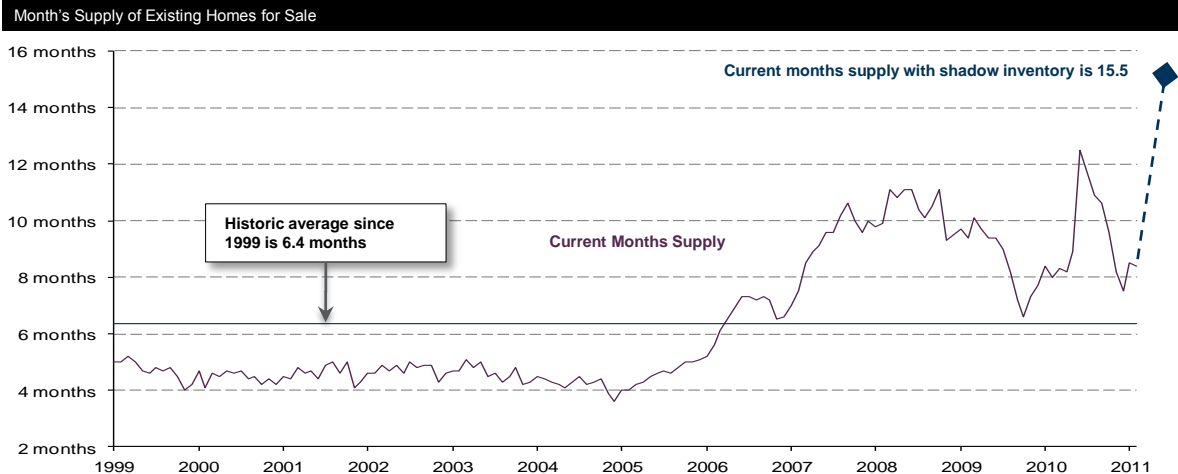
MILKEN INSTITUTE

The Inverse Relation of Treasury Yields with Housing Affordability Composite Index



Source: National Association of Realtors, Bloomberg, Guggenheim Partners. Total includes single-family homes, townhomes, condominiums, and co-ops. Data as of 2/28/2011

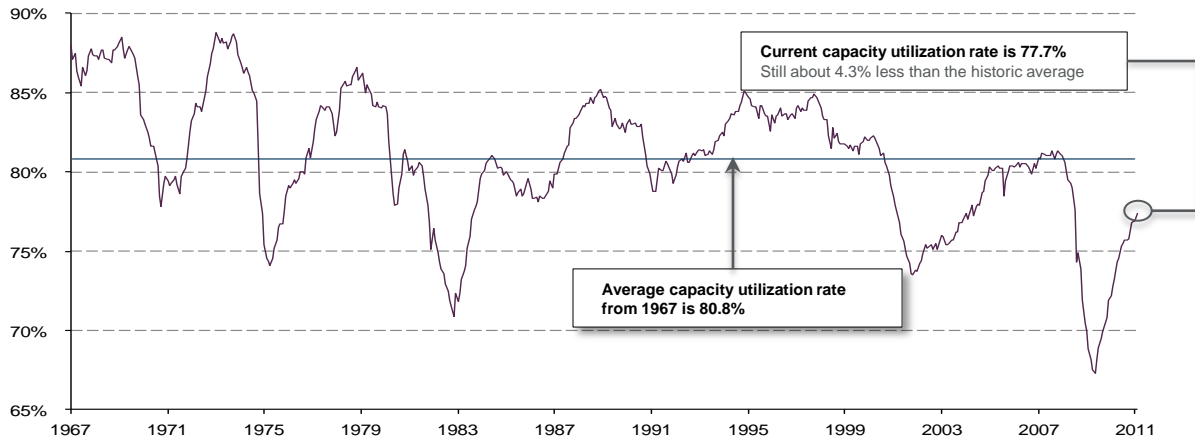
In the U.S. Housing Market, Shadow Inventory Looms



Source: Bloomberg, National Association of Realtors. Total includes single-family homes, townhomes, condominiums, and co-ops. *Federal Reserve congressional testimony from Elizabeth Duke on November 17, 2010.

In the U.S., Capacity Utilization Remains Below Historic Average

U.S. Capacity Utilization as a % of Total Capacity

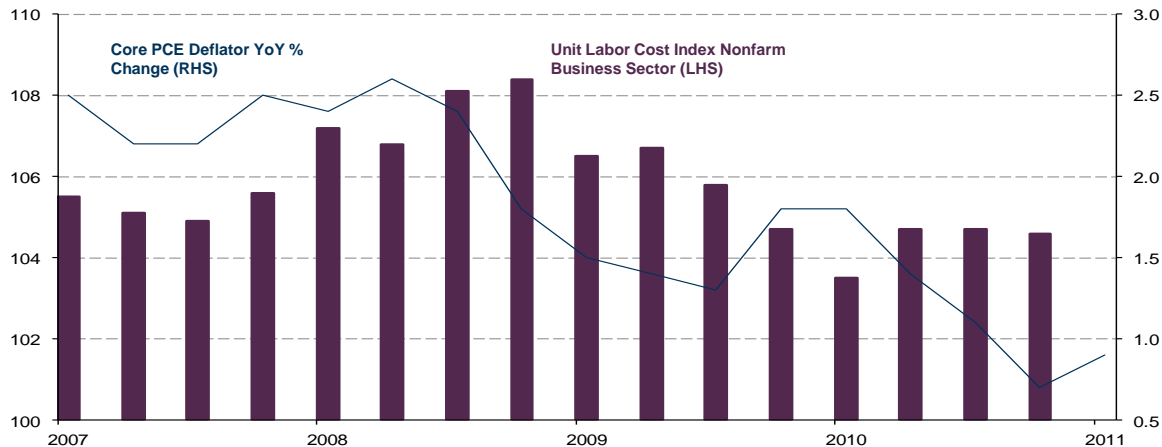


Source: Federal Reserve, Bloomberg, Guggenheim Partners. Data as of 3/31/2011.



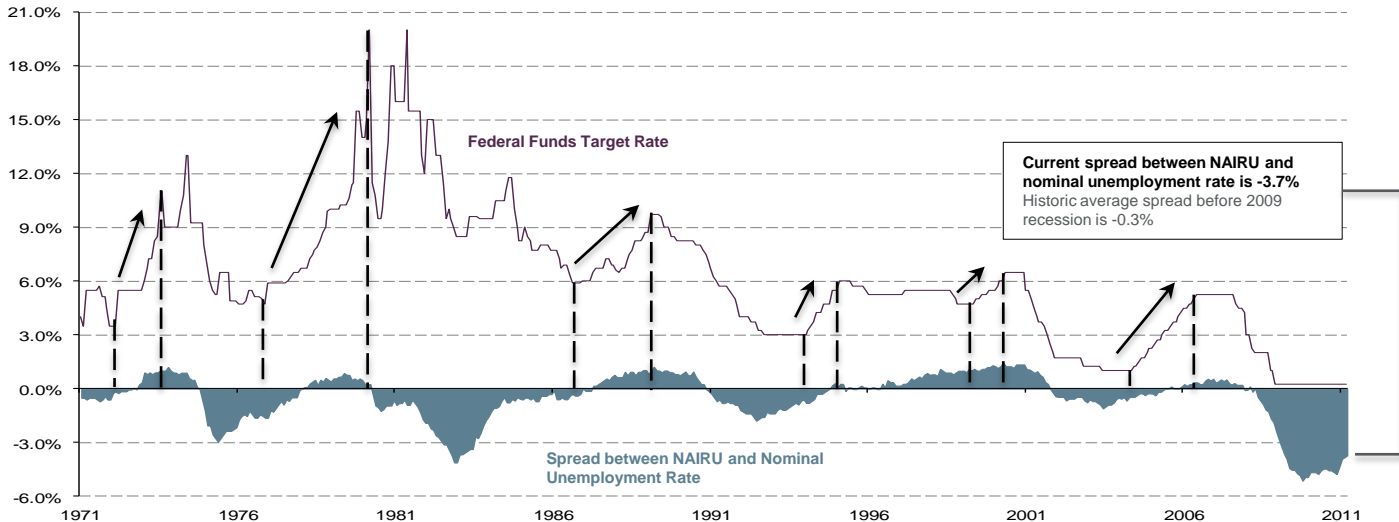
U.S. Unit Labor Cost Index vs. Core PCE

U.S. Unit Labor Cost Index (2005 = 100) vs. Core PCE



Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

Fed Rarely Starts Raising Rates before Unemployment Rate Approaches NAIURU

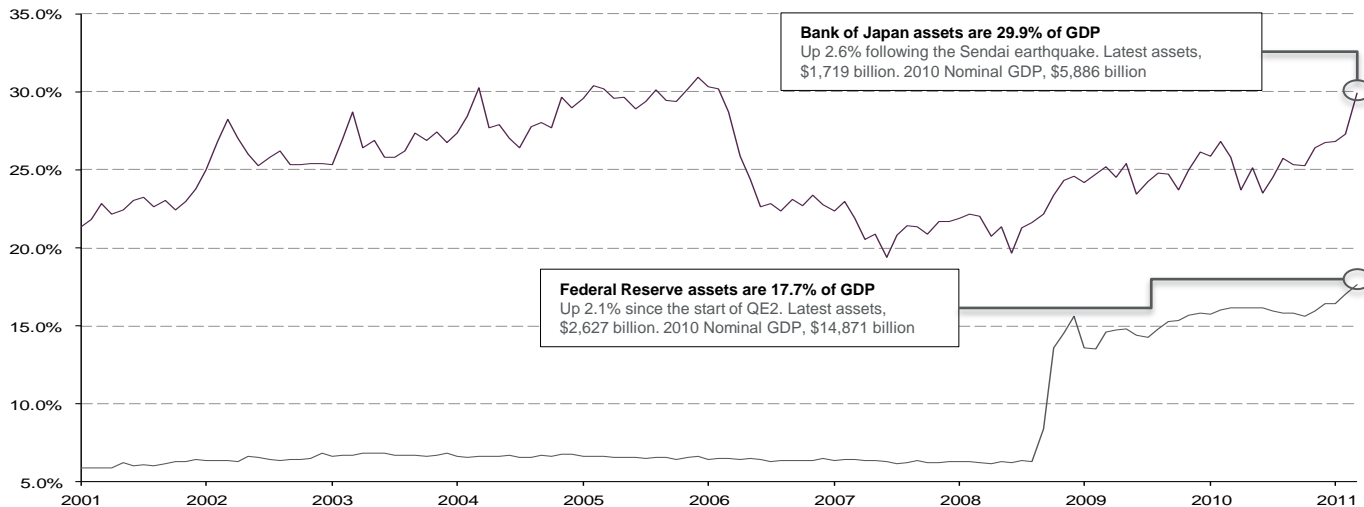


Source: Bloomberg, Bureau of Labor Statistics, Guggenheim Partners. Data as of 3/31/2011. NAIURU estimate for 2011 = 5.09%, average NAIURU since 1971 = 5.81%.

BOJ Balance Sheet as a % of GDP versus the Federal Reserve

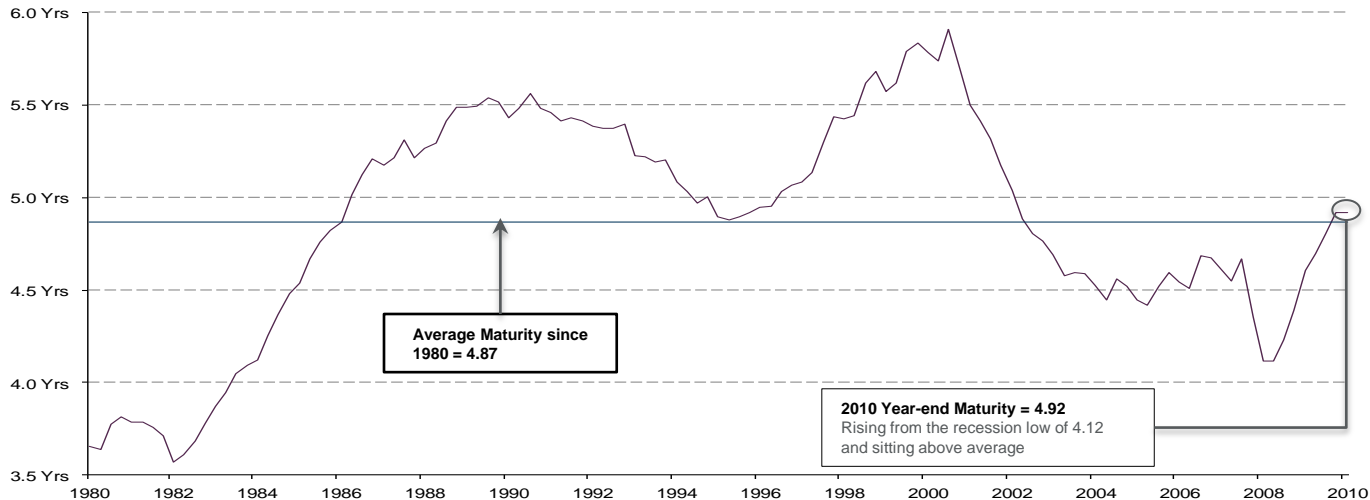


MILKEN INSTITUTE



Source: Bloomberg, Guggenheim Partners. Data as of 3/31/2011.

Average Remaining Maturity of U.S. Government Debt

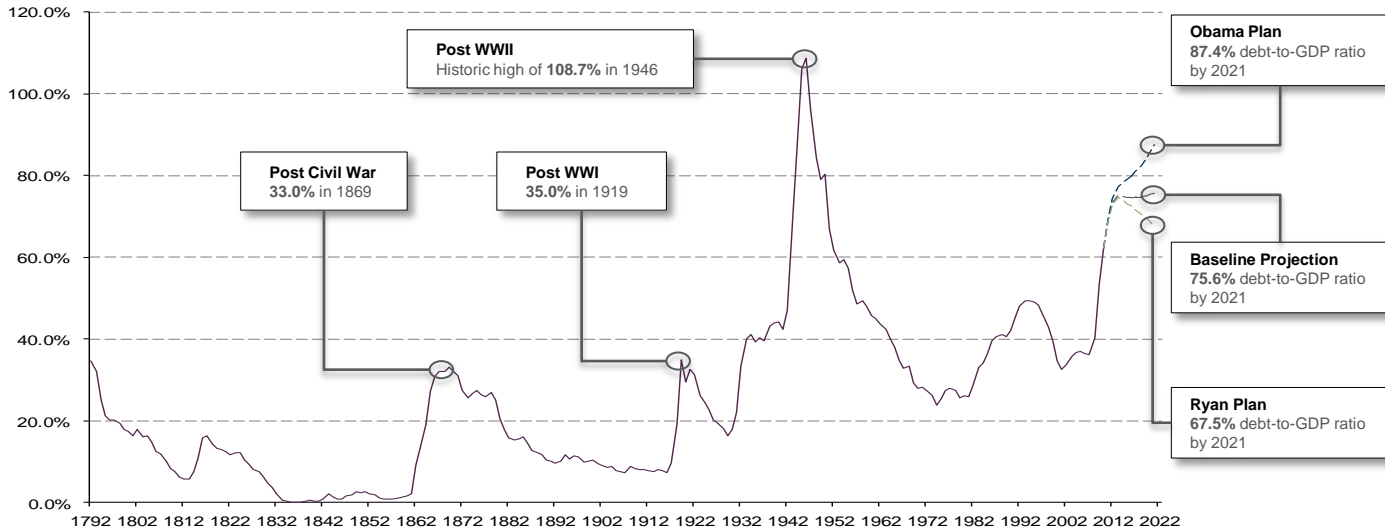


Source: Bloomberg, Guggenheim Partners. Data as of 12/31/2010.

U.S. Federal Debt Held by the Public as a % of GDP



MILKEN INSTITUTE

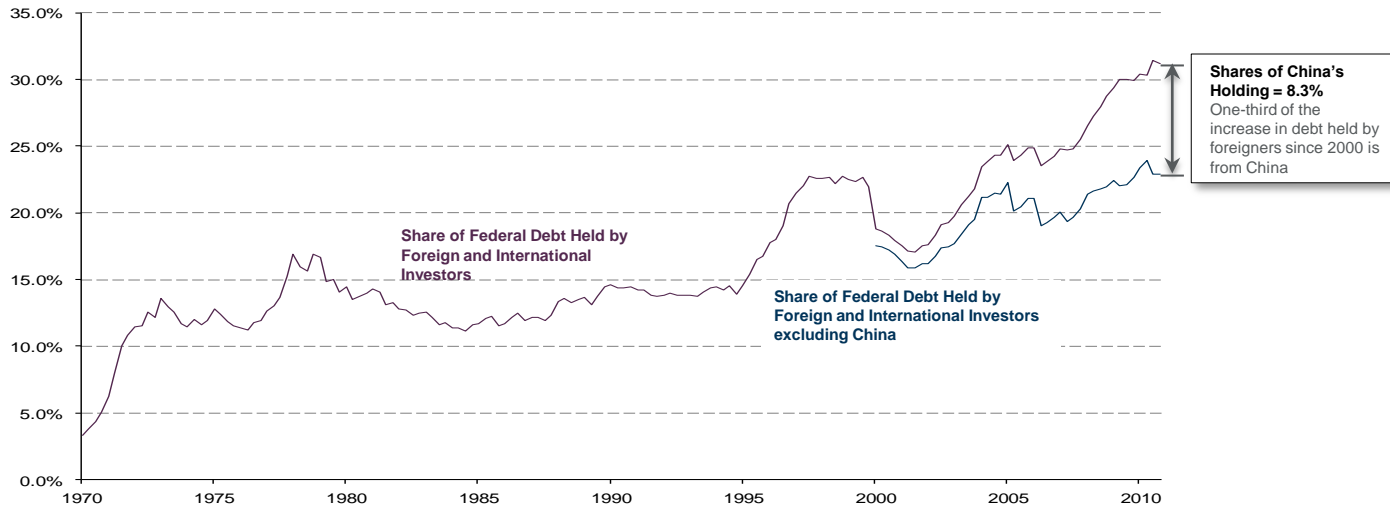


Source: Department of Treasury, Office of Management and Budget, Federal Reserve, Guggenheim Partners. * Note: Debt data before 1940 is the total public debt

Share of Federal Debt Held by Foreign and International Investors



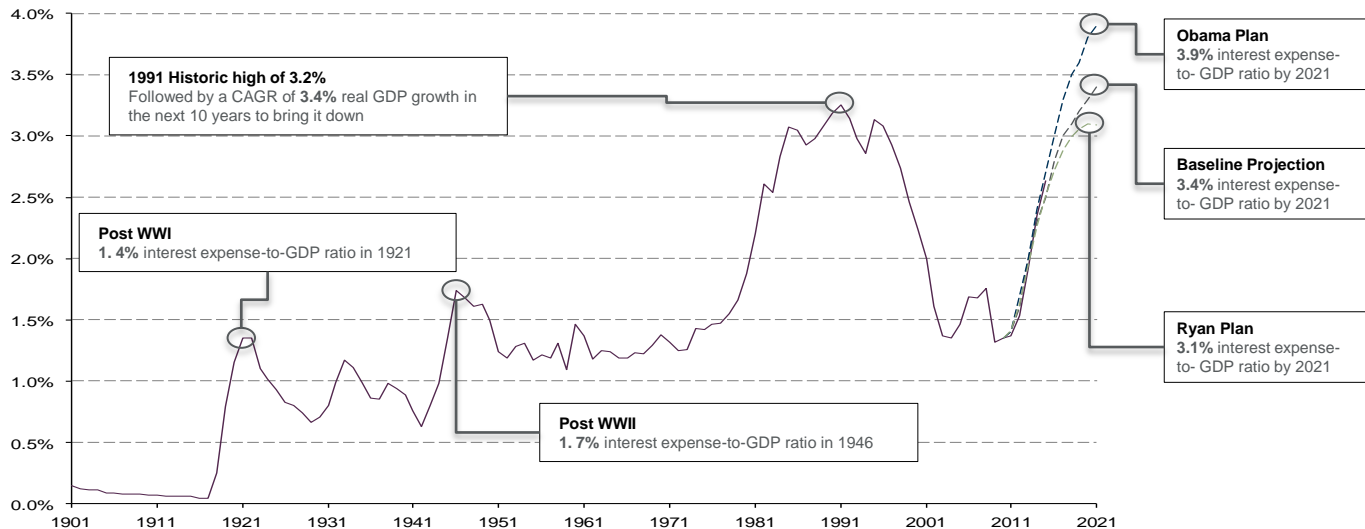
MILKEN INSTITUTE



Source: Department of Treasury, Federal Reserve, Bloomberg, Guggenheim Partners. Data as of 12/31/2010. * Note: The detailed breakdown by country was available from 2000



U.S. Interest Expense as a % of GDP

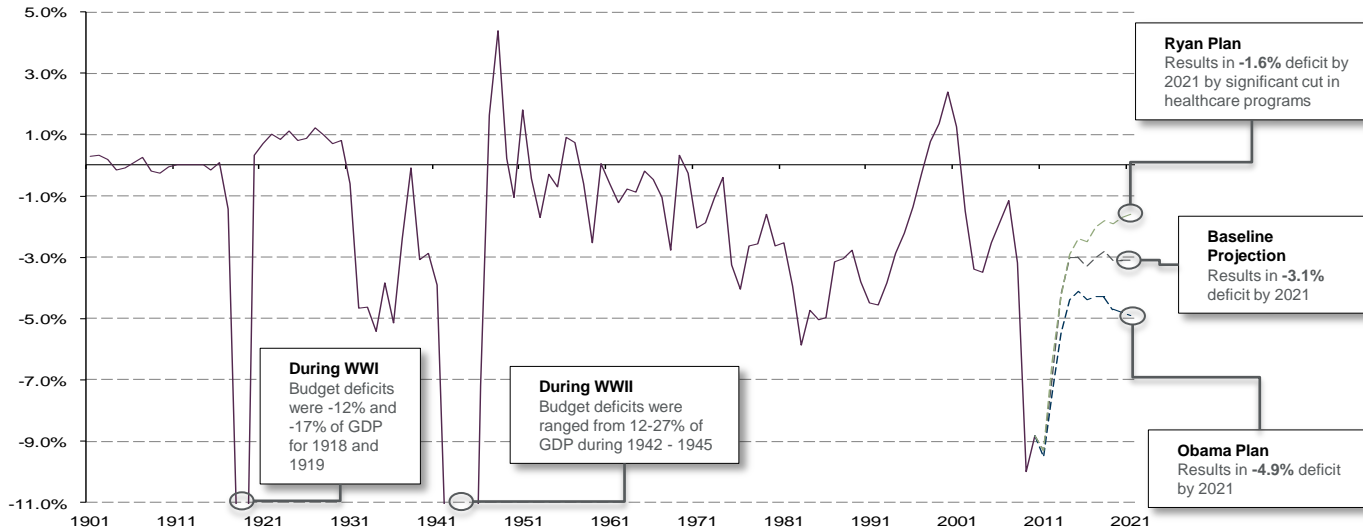


Source: Bloomberg, CBO, Federal Reserve, Guggenheim Partners.

U.S. Budget Balance as a Percentage of GDP since 1901



MILKEN INSTITUTE

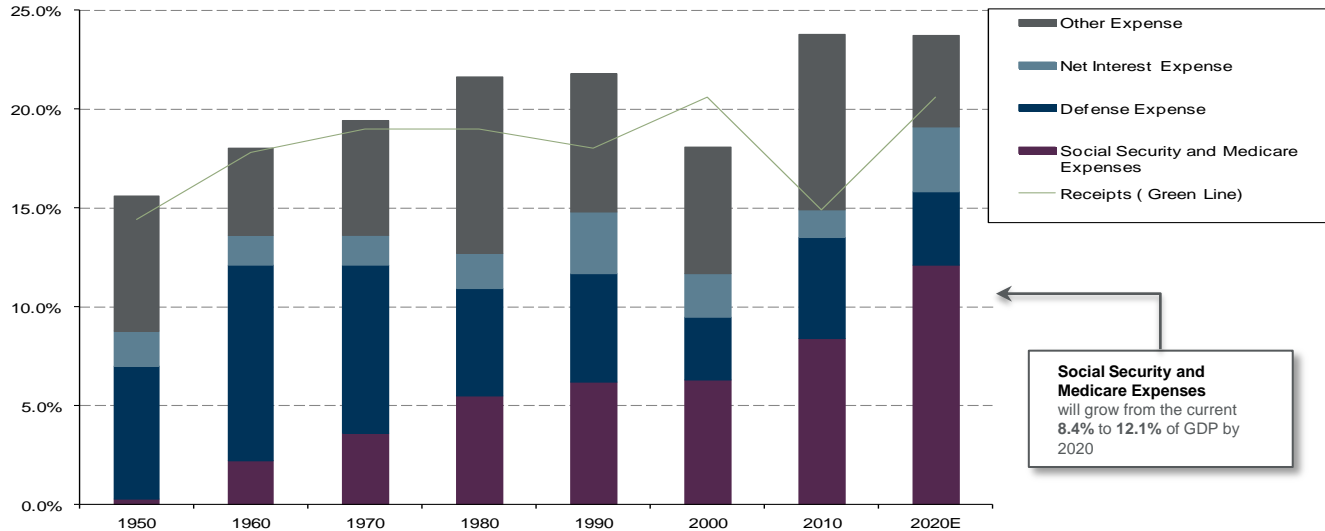


Source: Bloomberg, CBO, Federal Reserve, Guggenheim Partners. * Note: Budget balance includes the interest expense

U.S. Government Receipts and Outlays as % of GDP

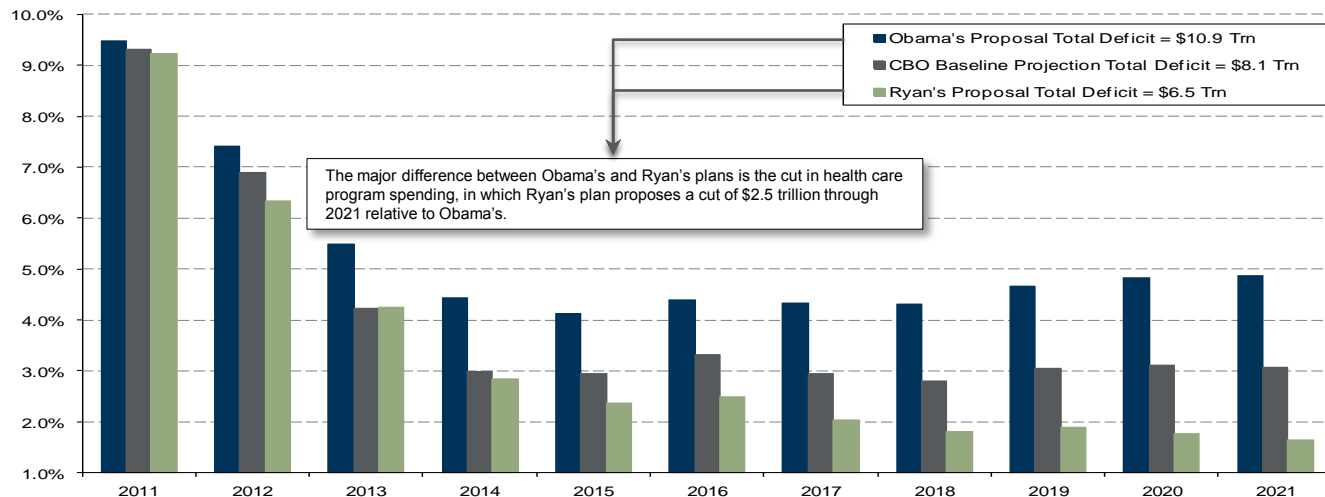


MILKEN INSTITUTE



Source: Office of Management and Budget, CBO, Guggenheim Partners. * Note: 2020 estimate is CBO baseline projection

Projected Budget Deficit of the U.S. Federal Government through 2021



Source: Bloomberg, CBO, Federal Reserve, Guggenheim Partners. * Note: Budget deficit includes interests expense