

Reading the Tea Leaves: What Lies Ahead for Financial Markets

Wednesday, May 4, 2011; 8:00 AM - 9:15 AM

Moderator:

Brian Sullivan, Anchor, CNBC

Speakers:

Todd Boehly, President, Guggenheim

Nick Calamos, President of Investments and Co-Chief Investment Officer, Calamos Investments

Peter Gunning, Global Chief Investment Officer, Russell Investments

David Solomon, Managing Director and Co-Head of the Investment Banking Division, Goldman Sachs

Meredith Whitney, CEO, Meredith Whitney Advisory Group LLC

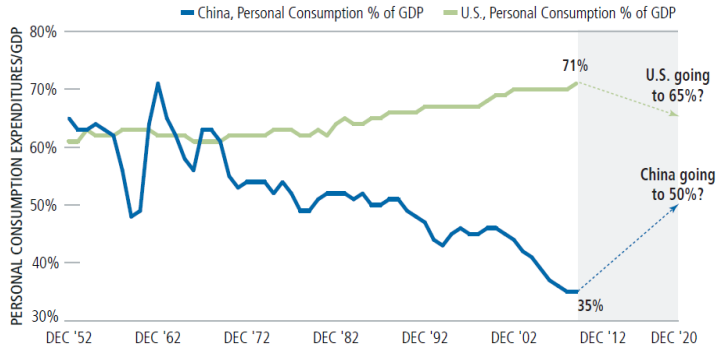


Nick Calamos's slides



Correlation of asset classes

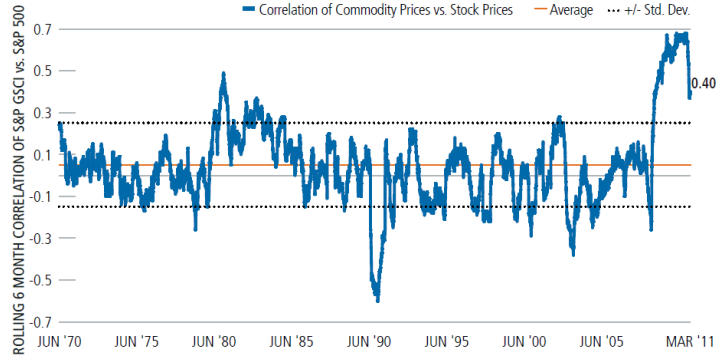
FIGURE 1: U.S. AND CHINA PERSONAL CONSUMPTION, AS A % OF GDP 1952 - 2009



Sources: Federal Reserve Bank of St. Louis, Bureau of Labor Statistics. Information in shaded area is hypothetical, by Calamos Advisors.

FIGURE 2: COMMODITY PRICES VS. STOCK PRICES

ROLLING 6-MONTH CORRELATION BETWEEN DAILY % CHANGES IN S&P GSCI INDEX AND S&P 500 INDEX, JAN 2, 1970-MAR 29, 2011



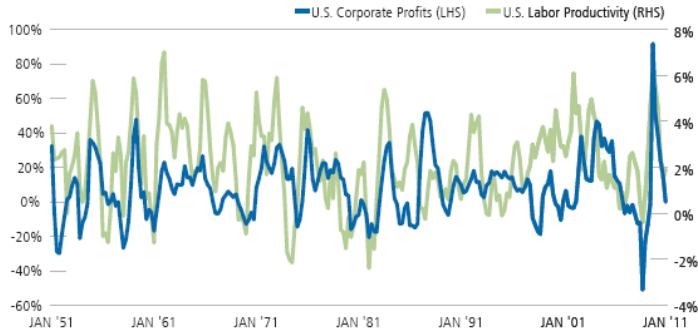
Source: Bloomberg. The S&P GSCI Index tracks the performance of commodity sector returns, based on commodity futures.



Labor productivity demands high skill workers

FIGURE 3: U.S. CORPORATE PROFITS AND U.S. LABOR PRODUCTIVITY

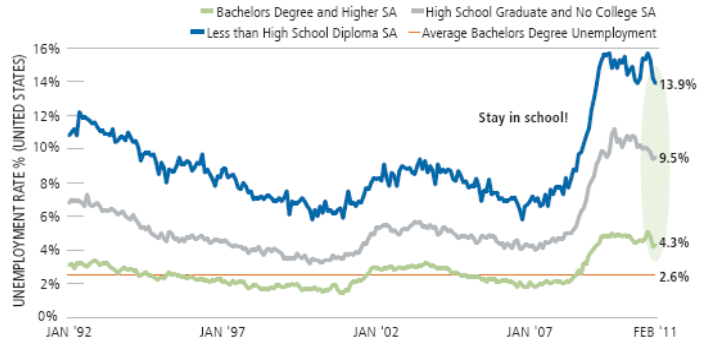
JANUARY 1951 – JANUARY 2011, % Y/Y



Source: Federal Reserve Bank of St. Louis

FIGURE 4: U.S. UNEMPLOYMENT RATES BY EDUCATION LEVEL

JANUARY 1992 – FEBRUARY 2011

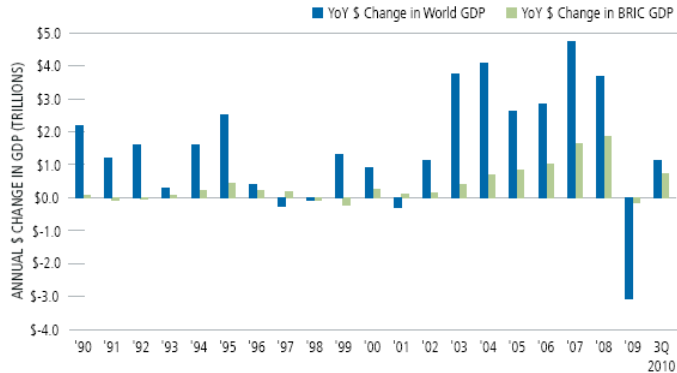


Sources: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics.

Emerging markets (BRIC Countries)* and world GDP

FIGURE 5: EMERGING MARKETS ARE CONTRIBUTING MORE TO WORLD GDP GROWTH

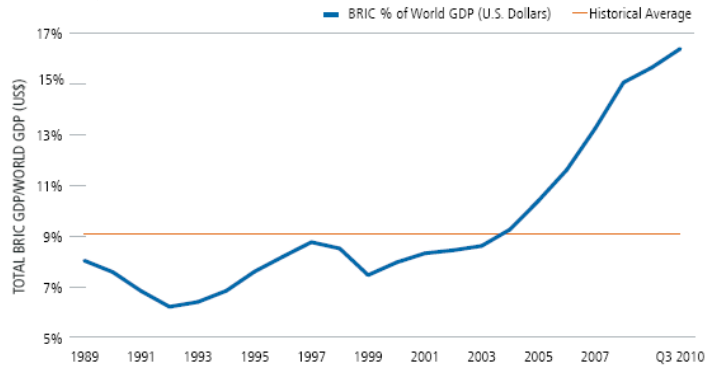
1990 – Q3 2010



Source: Bloomberg. *BRIC nations are Brazil, Russia, India and China.

FIGURE 6: EMERGING MARKETS' SHARE OF WORLD GDP

1989 – Q3 2010



Source: Bloomberg. *BRIC nations are Brazil, Russia, India and China.



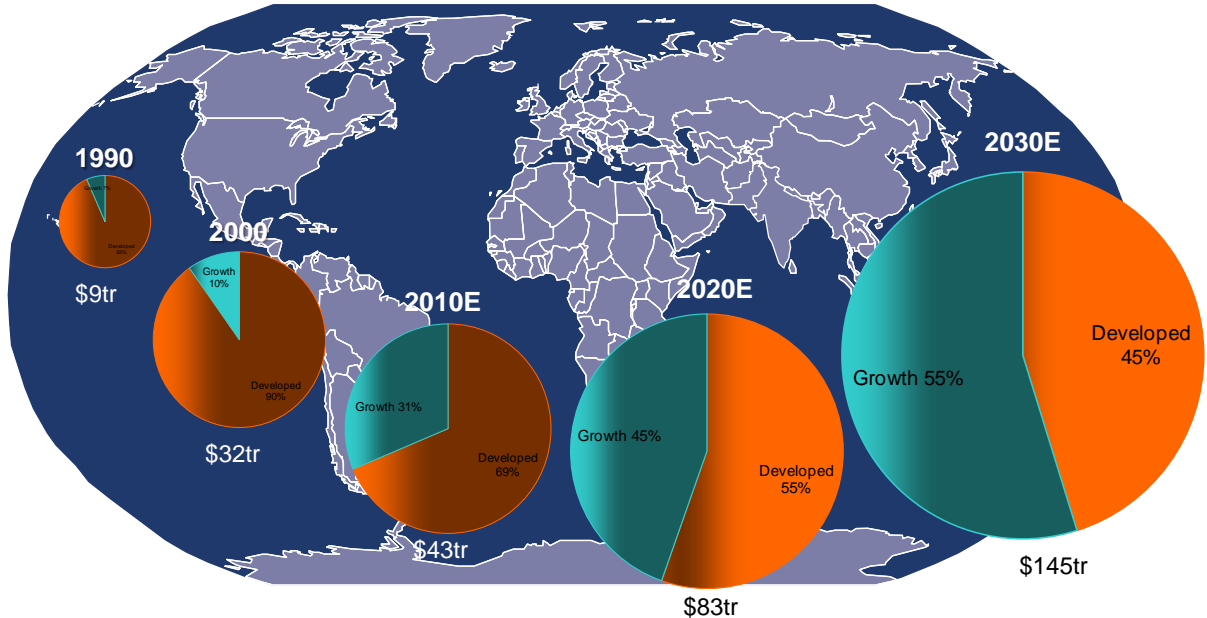
David Solomon's slides

Global market capitalization over time

Growth markets exceed developed

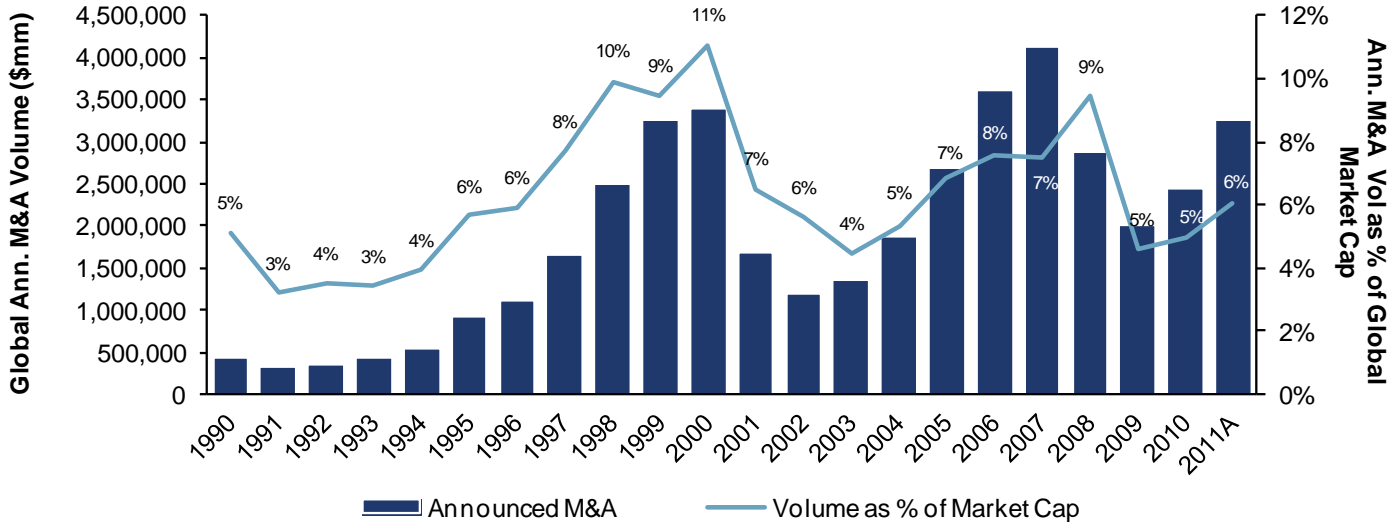


MILKEN INSTITUTE



Source: Historical data from S&P. Forecast data from Goldman Sachs Research.

Correlation of M&A volume to market cap

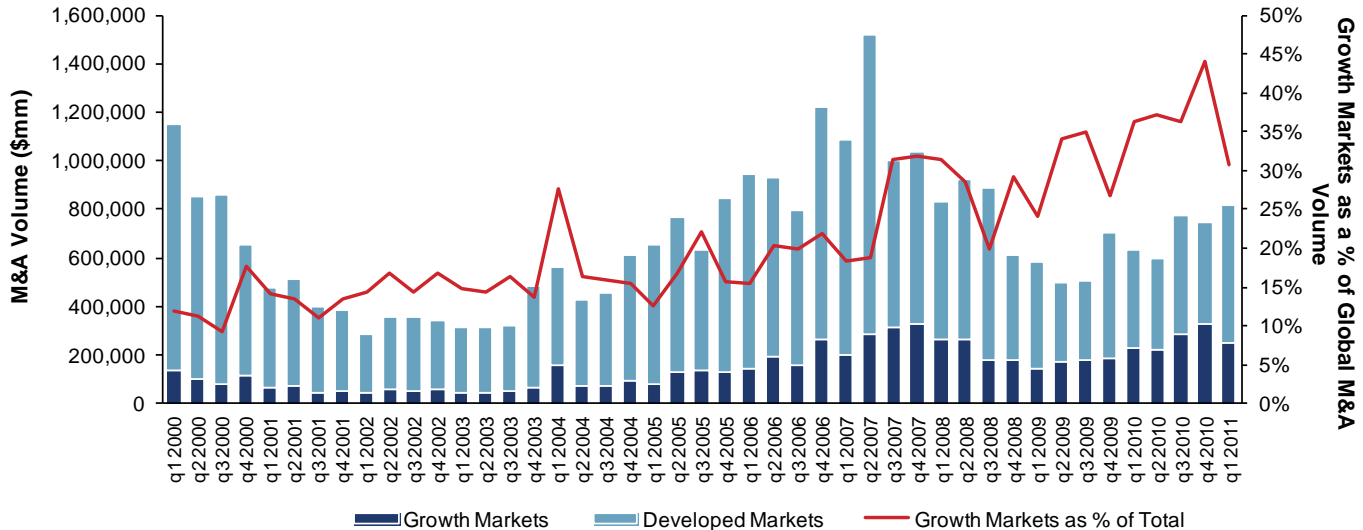


M&A activity rebounding from cyclical lows

Declining volatility, rising confidence, cash reserves should extend recovery



MILKEN INSTITUTE



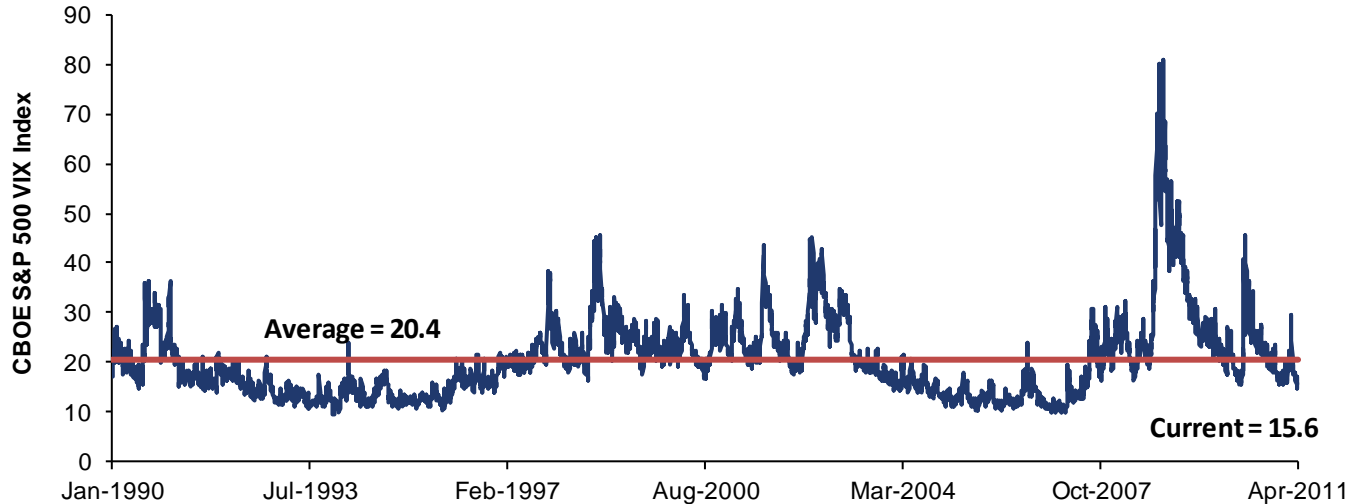
Source: Dealogic.

Volatility has declined below historical average

CBOE S&P 500 Volatility Index

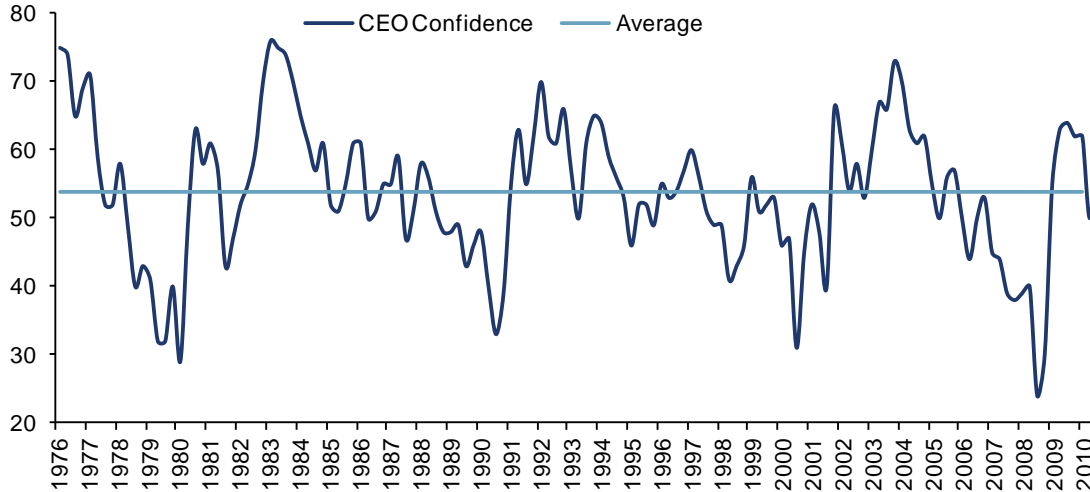


MILKEN INSTITUTE



CEO confidence on the rise

Above average levels in 4Q10



CEO Confidence Levels

2009 - Q4	64
2010 - Q1	62
2010 - Q2	62
2010 - Q3	50
2010 - Q4	62

% Change

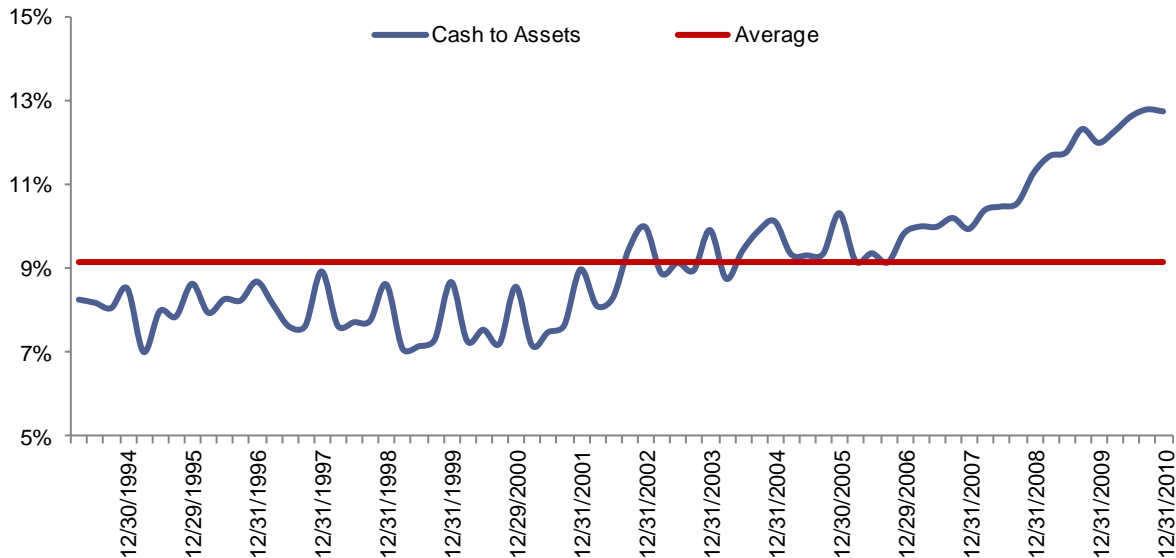
QoQ	24%
YoY	3%

U.S. corporate balance sheets flush with cash

Cash as % of Assets, S&P 1500



MILKEN INSTITUTE



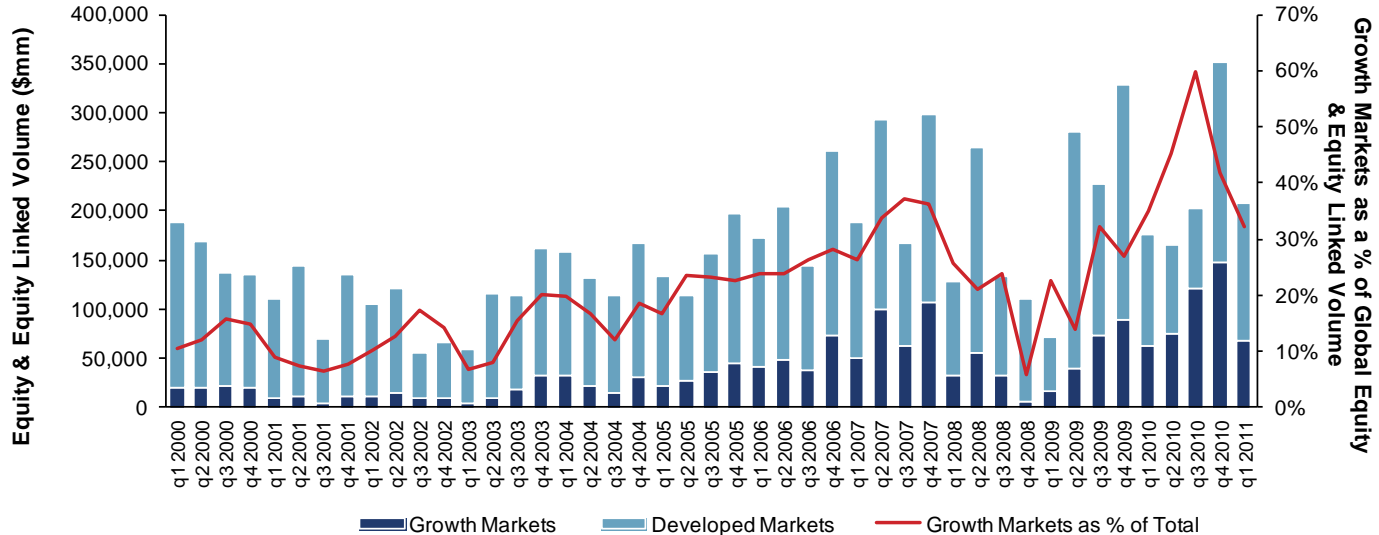
Source: Factset, Goldman Sachs Research.

Equity issuance driven by growth markets

Growth markets represented 45% of equity issuance in 2010



MILKEN INSTITUTE



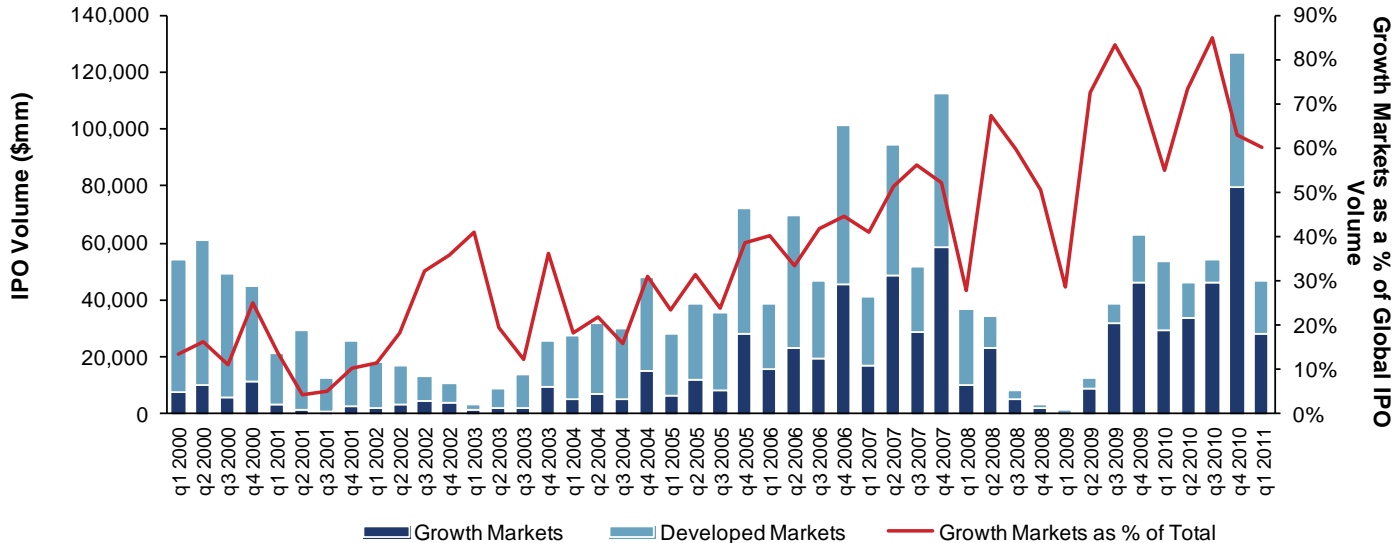
Source: Dealogic.

IPO issuance driven by growth markets

Growth markets represented 67% of IPO issuance in 2010



MILKEN INSTITUTE



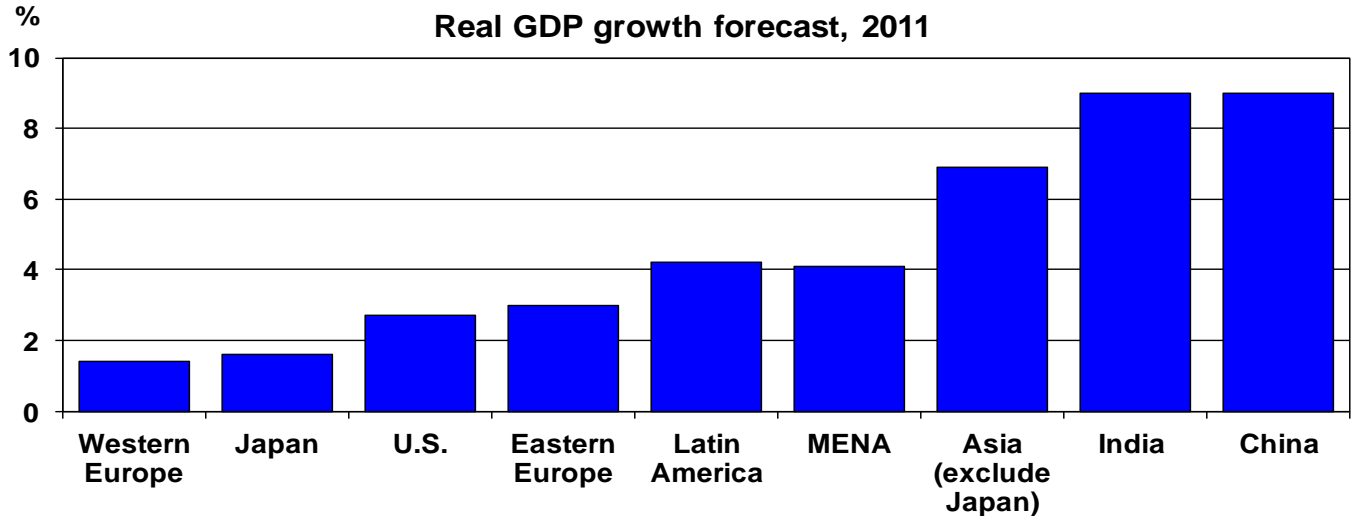
Source: Dealogic.



Additional slides

2011 global GDP growth forecasts

Key countries/regions

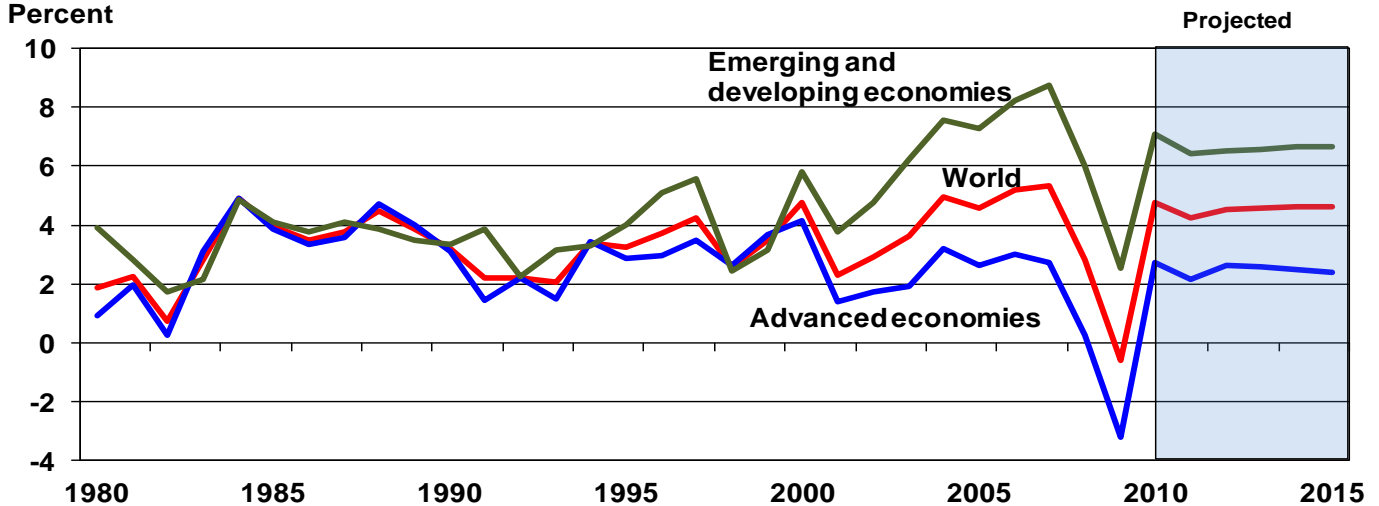


World economic recovery

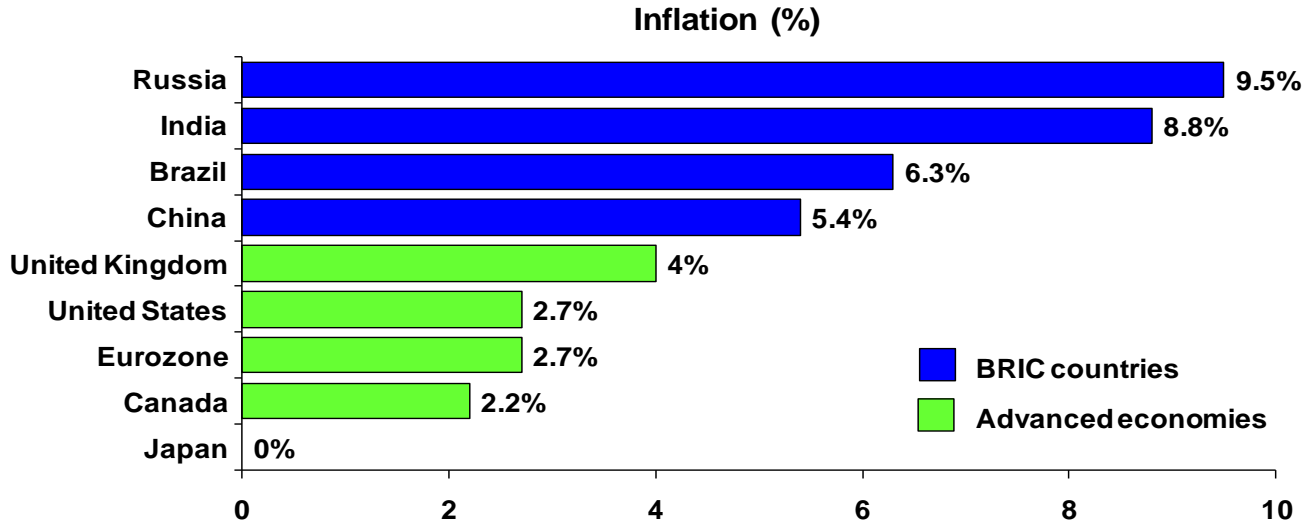
Real GDP growth rates, 1980-2015



MILKEN INSTITUTE

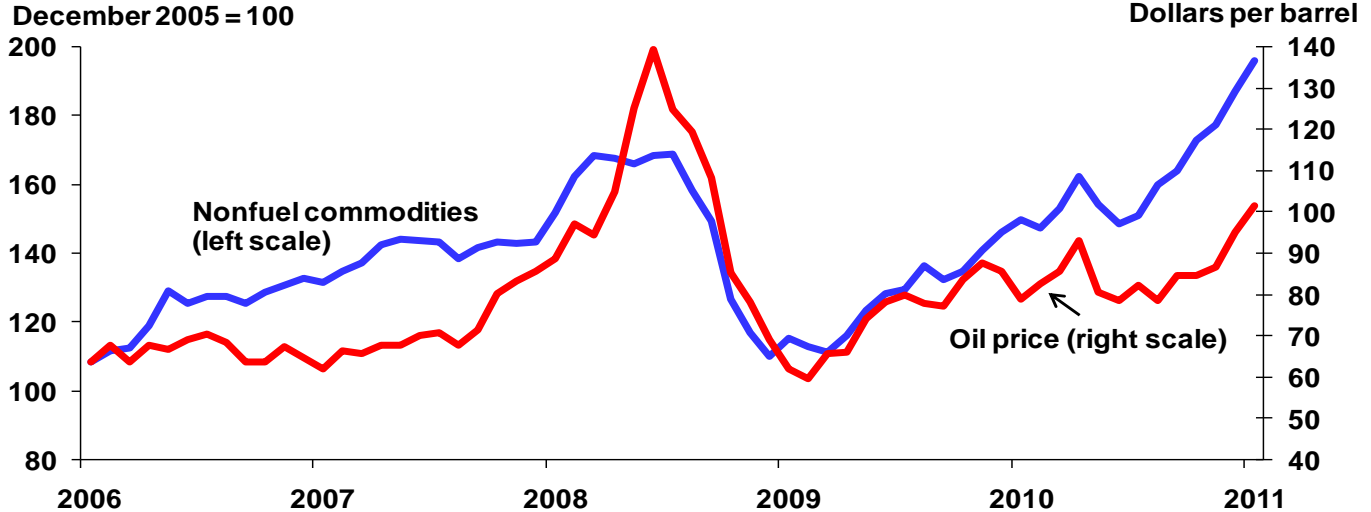


Soaring prices in emerging markets



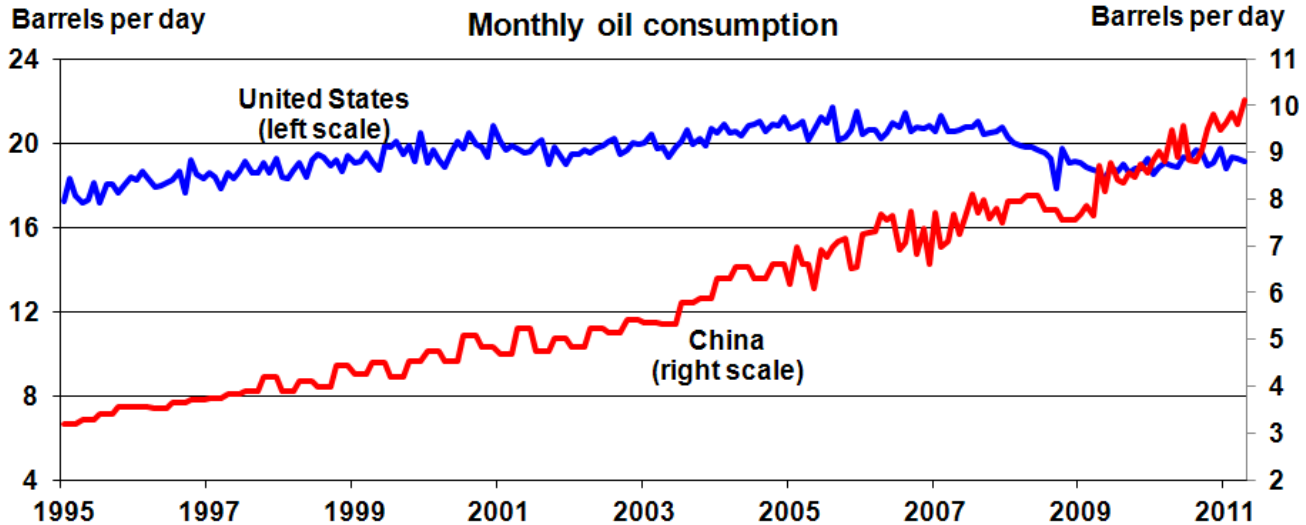


Rising food and commodity prices



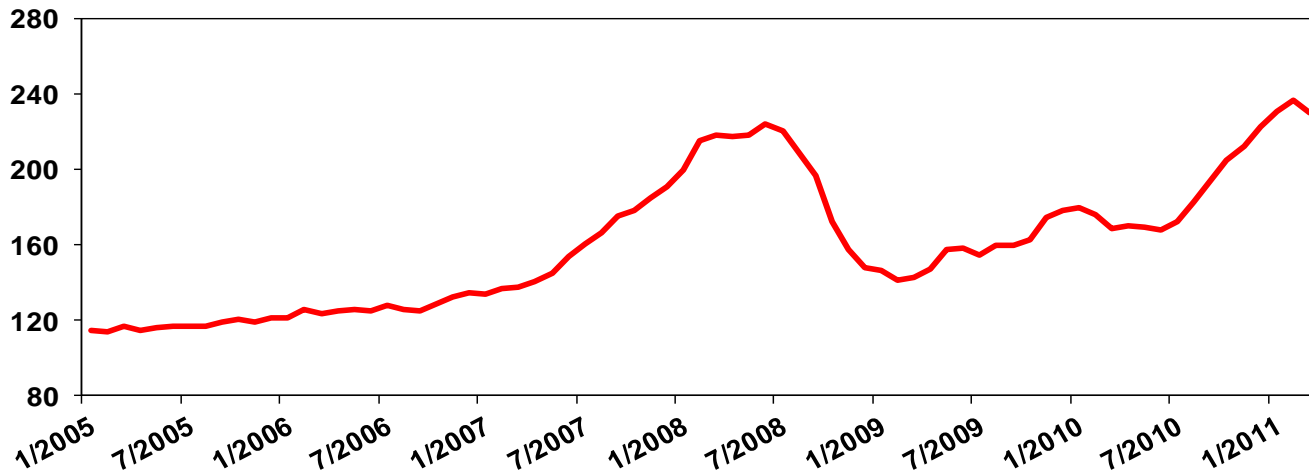


Oil consumption has risen rapidly in China



World food prices reached a record high

World food prices (2002-04=100)

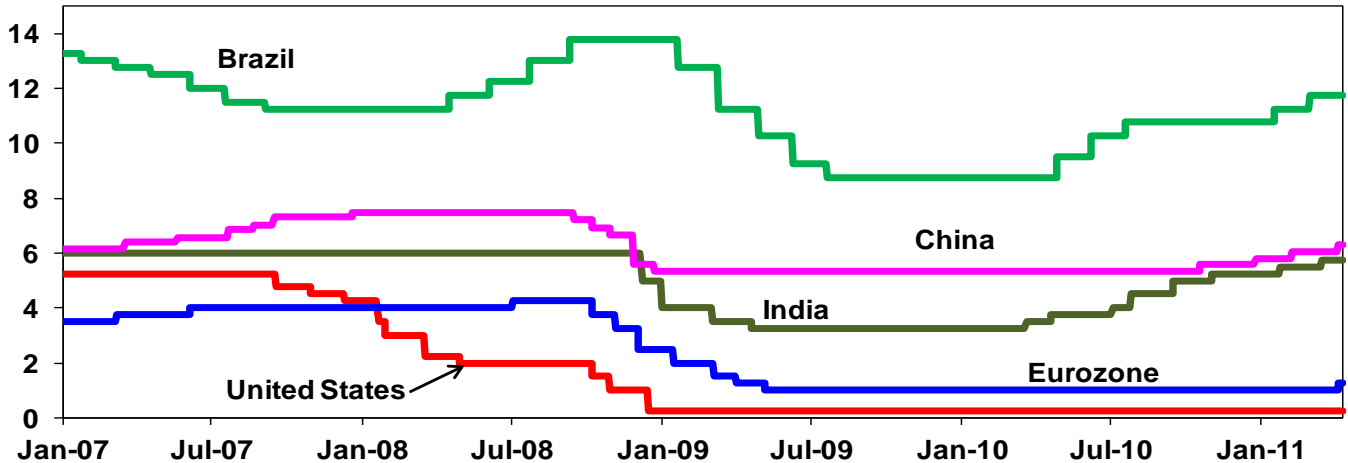


Note: Data are as of March, 2011.
 Source: UN Food and Agriculture Organization.

Many central banks have raised interest rates to counter inflation risk



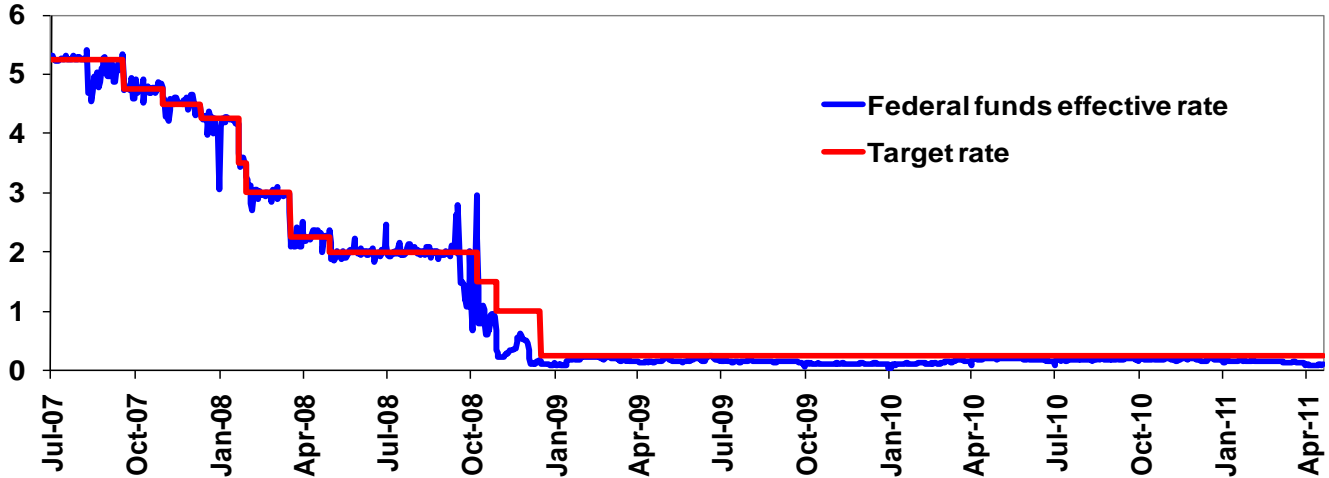
Central bank rate (%)



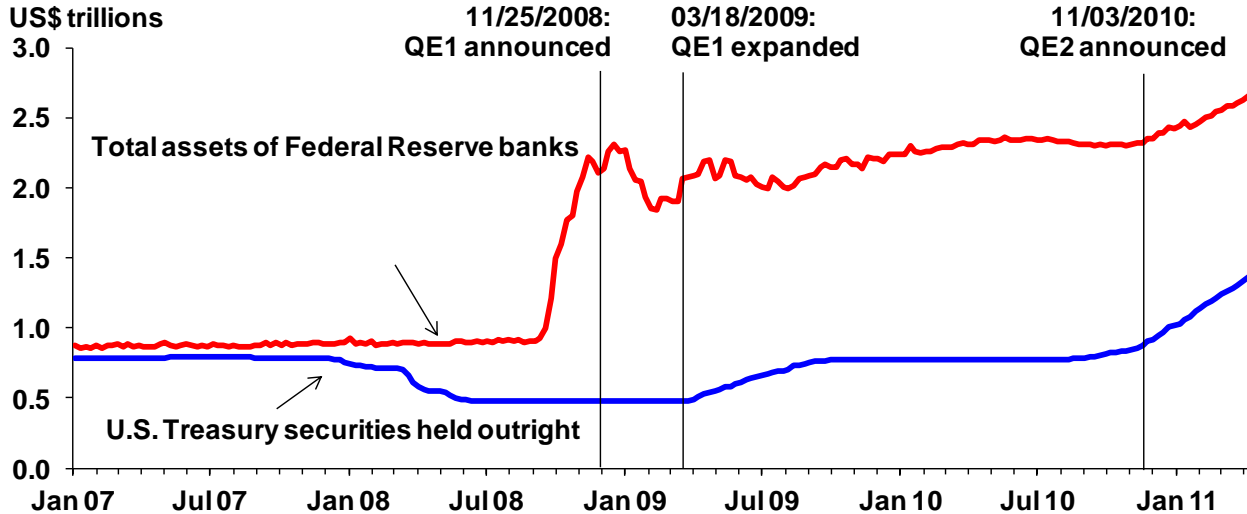
Continued accommodative monetary policy in the United States



U.S. federal funds rate (%)



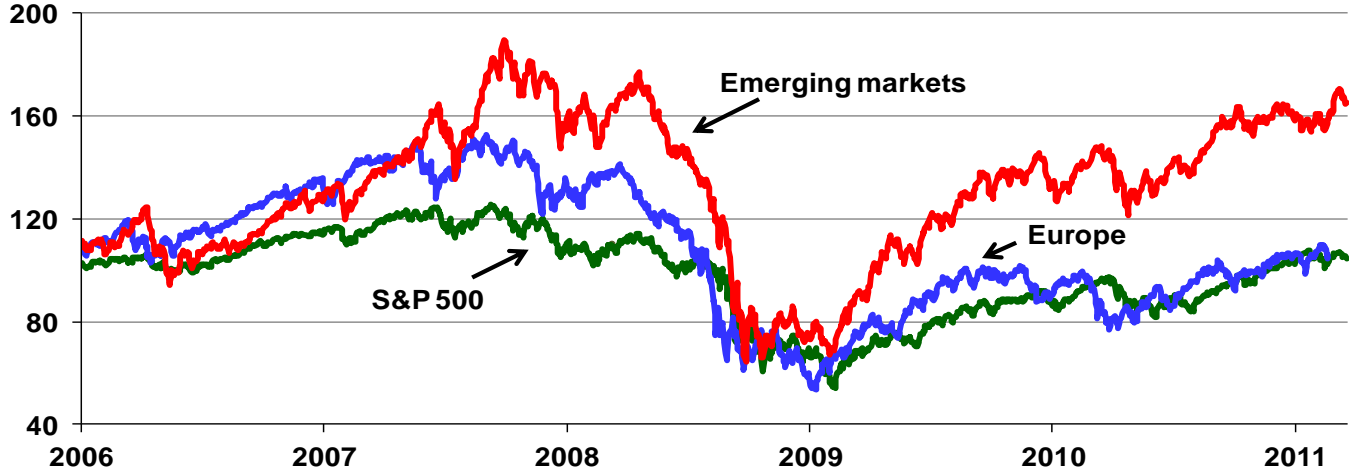
The Federal Reserve engages in quantitative easing



Sources: Federal Reserve, Milken Institute.

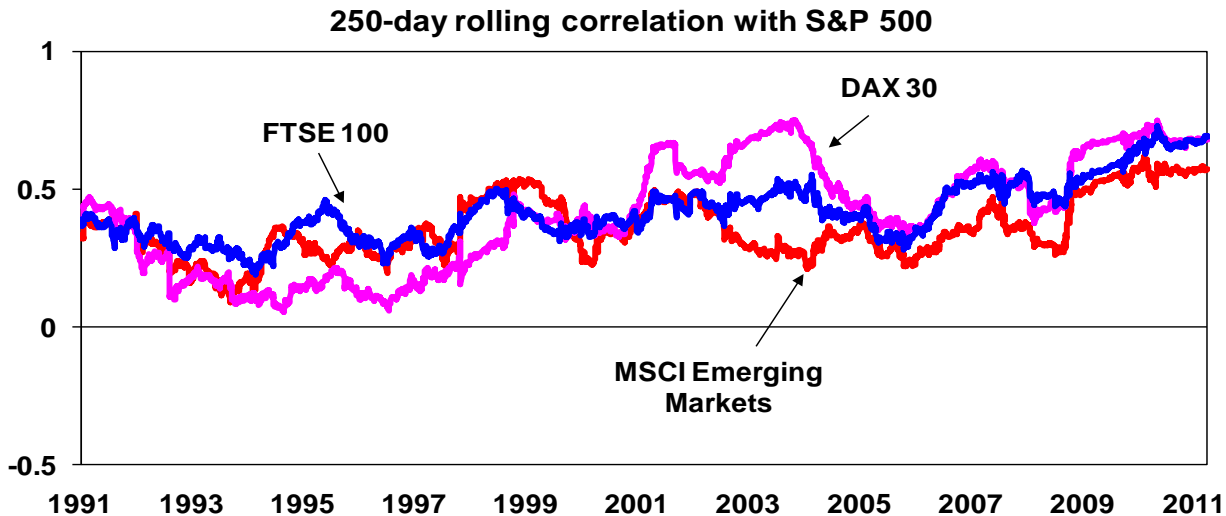
Stock prices around the world gained strongly, but most remained below their pre-crisis peaks

January 2006 = 100



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

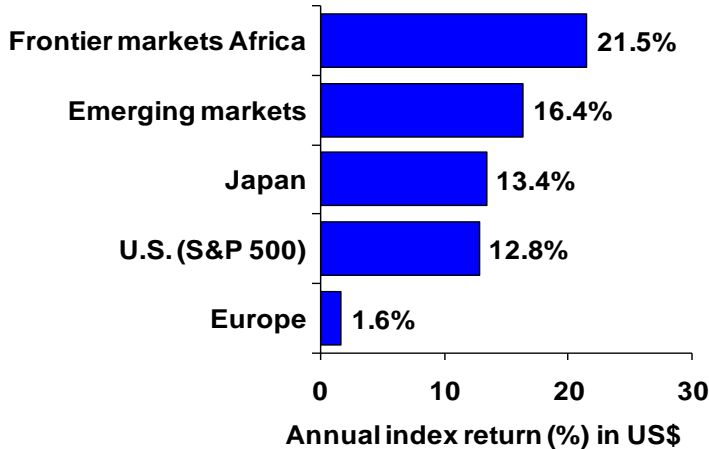
Global stock markets are highly correlated



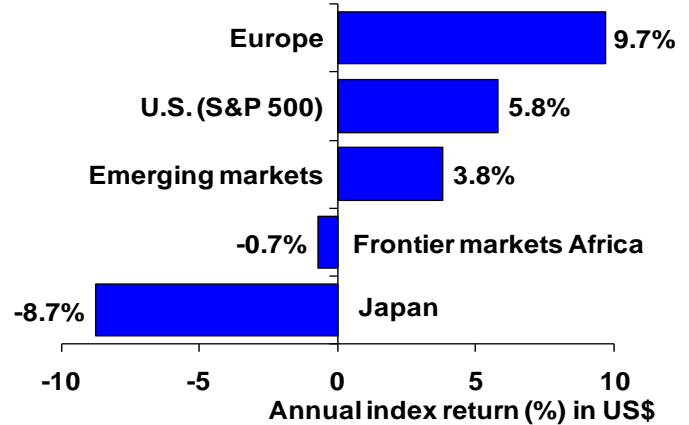
Will 2011 be another strong year for global stock markets?



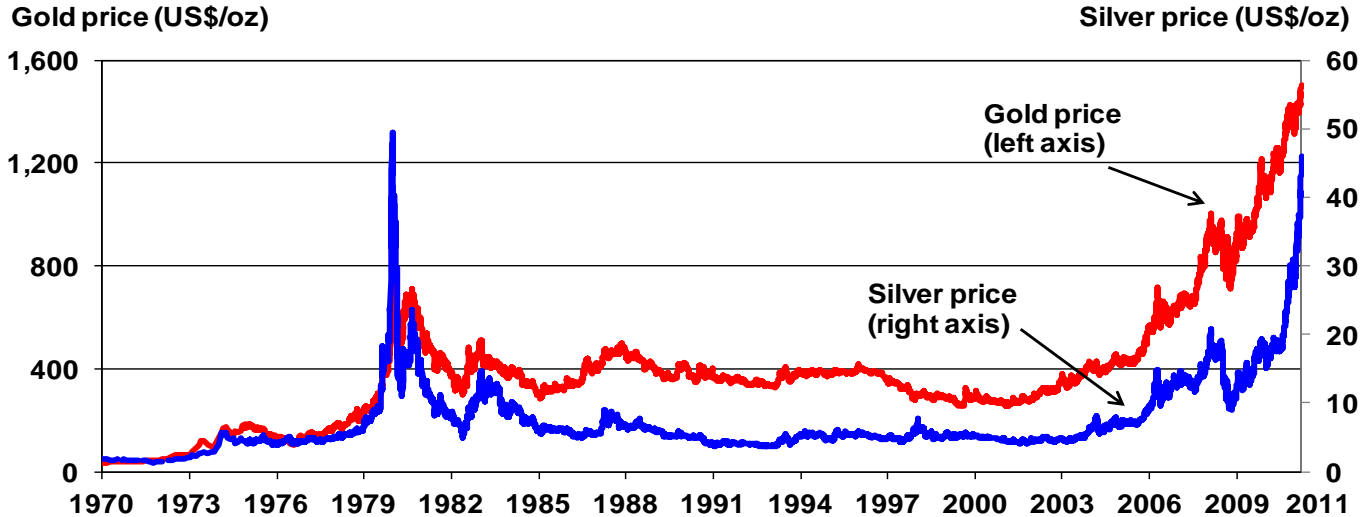
2010



YTD (as of 4/20/2011)

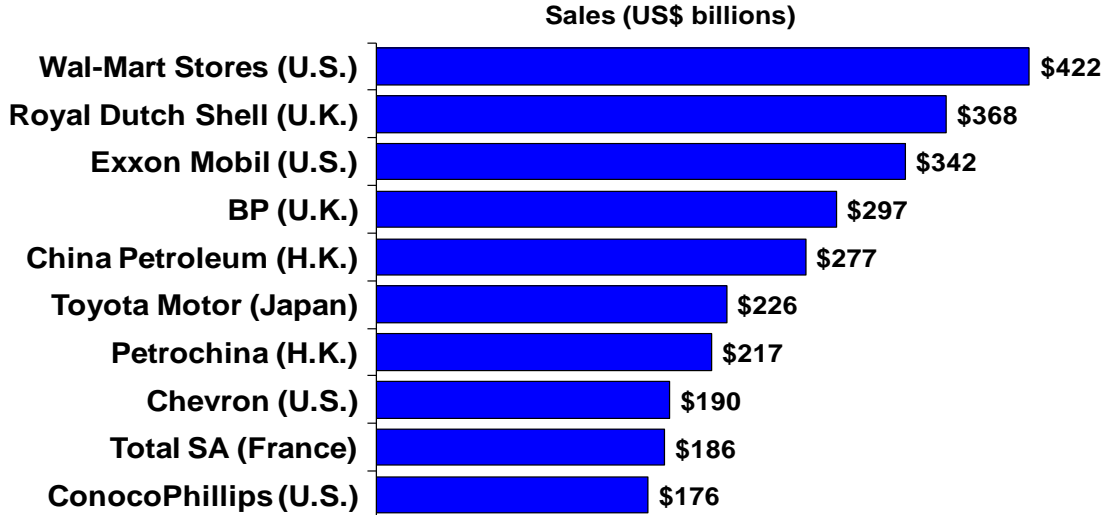


Gold prices hit record highs and silver rallied to its strongest since 1980

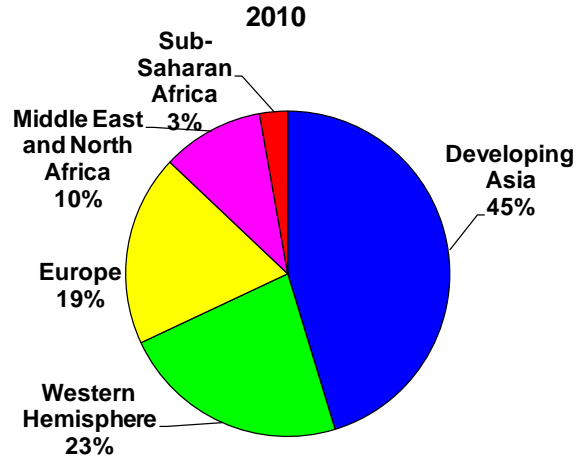
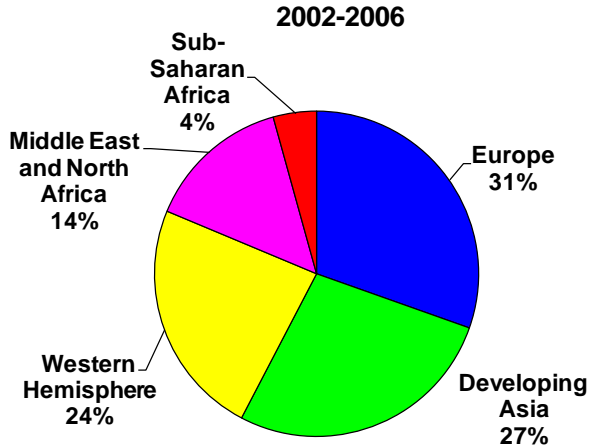


Corporations become larger and multinational

The world's 10 biggest companies ranked by sales



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

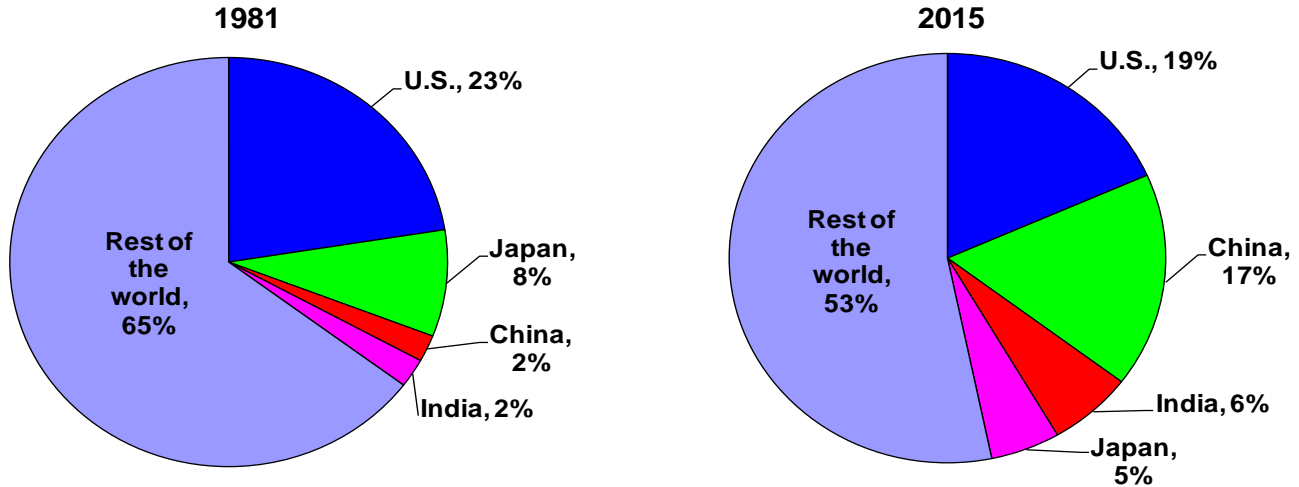


China and India economies will grow larger



MILKEN INSTITUTE

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



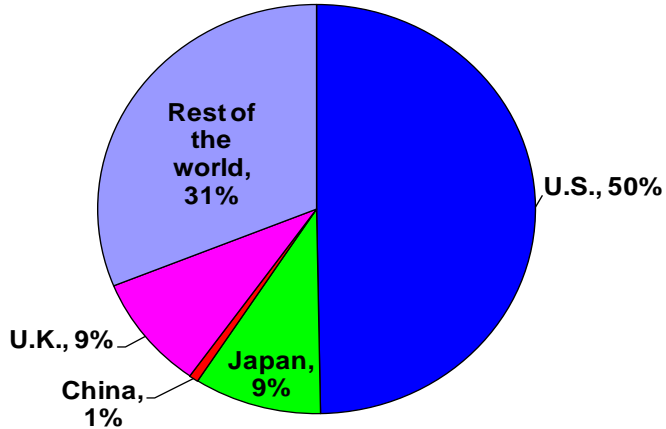
U.S. stock market's share is shrinking

Share of the world's market capitalization

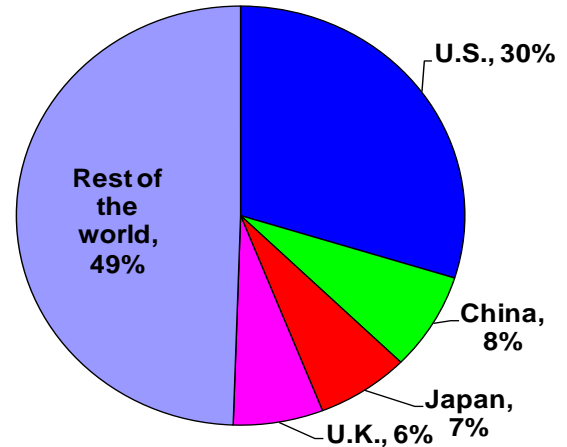


MILKEN INSTITUTE

2001



2011



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

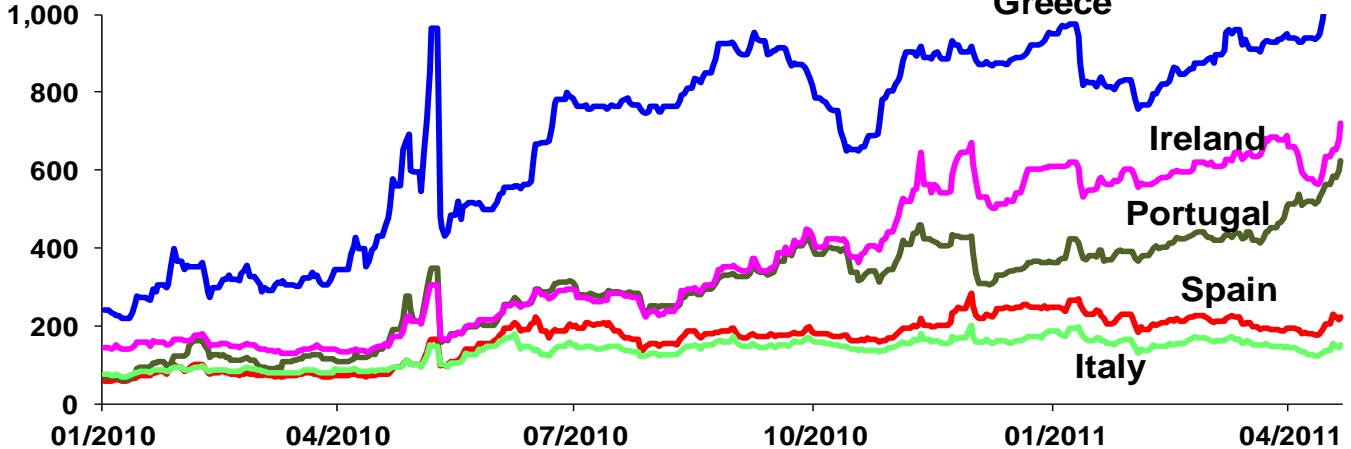
European sovereign debt crisis

Widening spreads over German government bond



MILKEN INSTITUTE

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





U.S. economic indicator watch

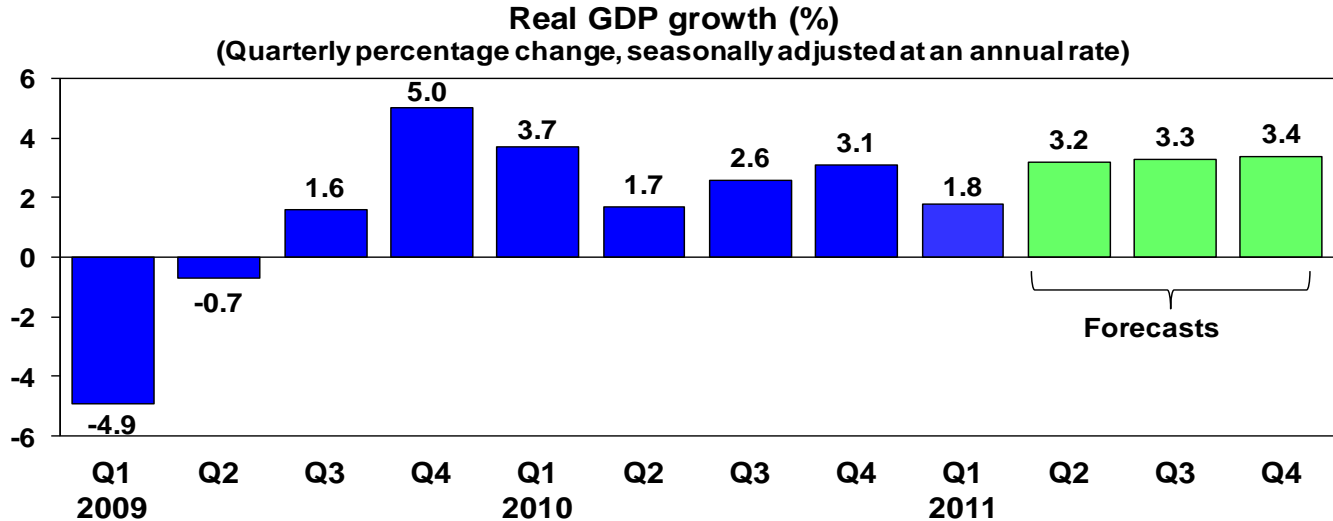
	2010	2011(F)
Real GDP growth (%)	2.90	2.90
Inflation (%)	1.63	2.70
Unemployment (%)	9.60	8.70
Budget balance (% GDP)	-8.60	-9.10
Federal funds rate (%)	0.25	0.25
10-year Treasury yield (%)	3.3	3.91

U.S. actual and forecasted real GDP growth

2009-2011



MILKEN INSTITUTE

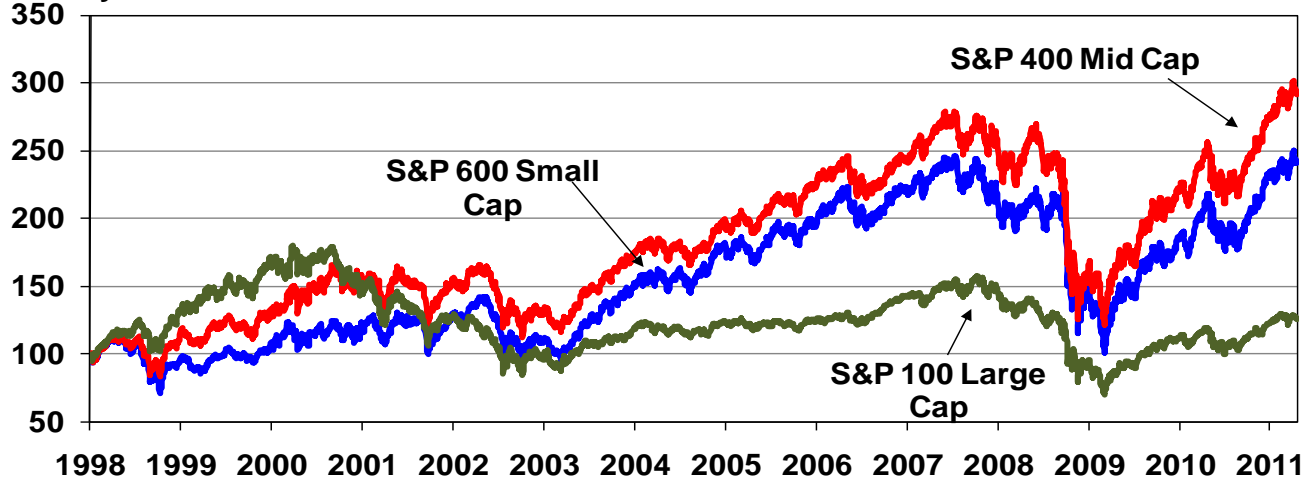


Note: Composite forecasts are average forecasts of 27 private organizations.
Sources: U.S. Bureau of Economic Analysis; Bloomberg.

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



January 1998 = 100



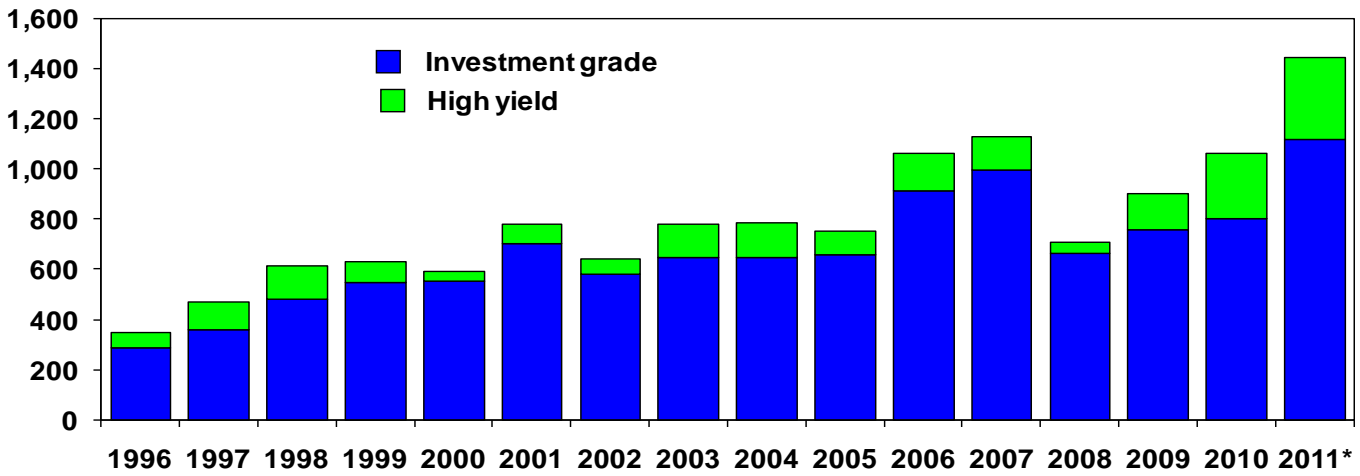
Note: Data are as of April 19, 2011.
Source: Bloomberg.

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

United States

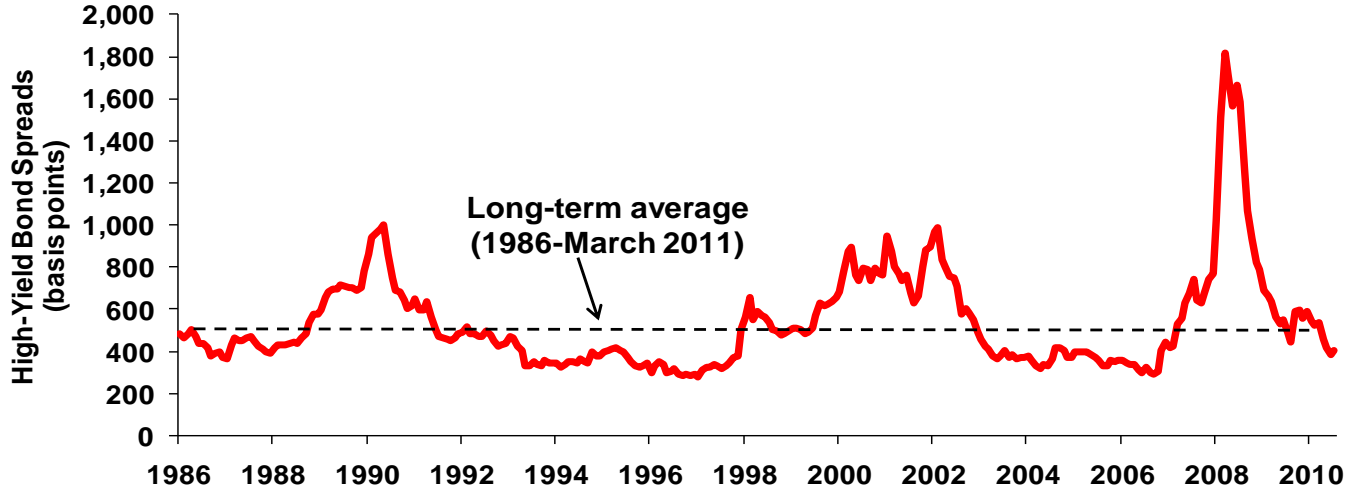


Total issuance (US\$ billions)

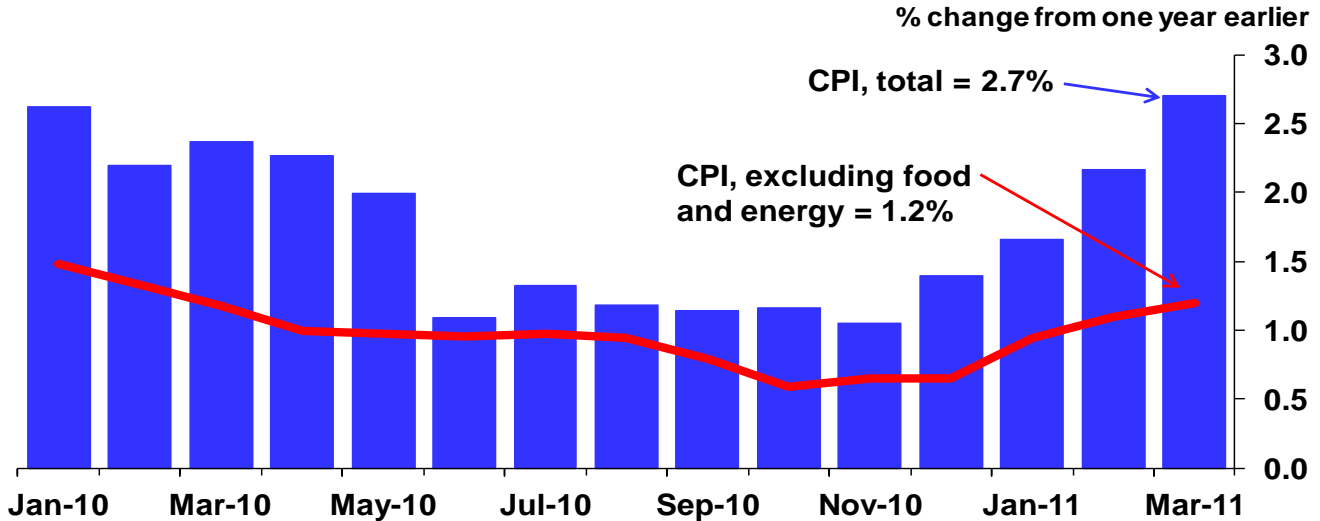


* Year to date, annualized.
Source: Securities Industry and Financial Markets Association.

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



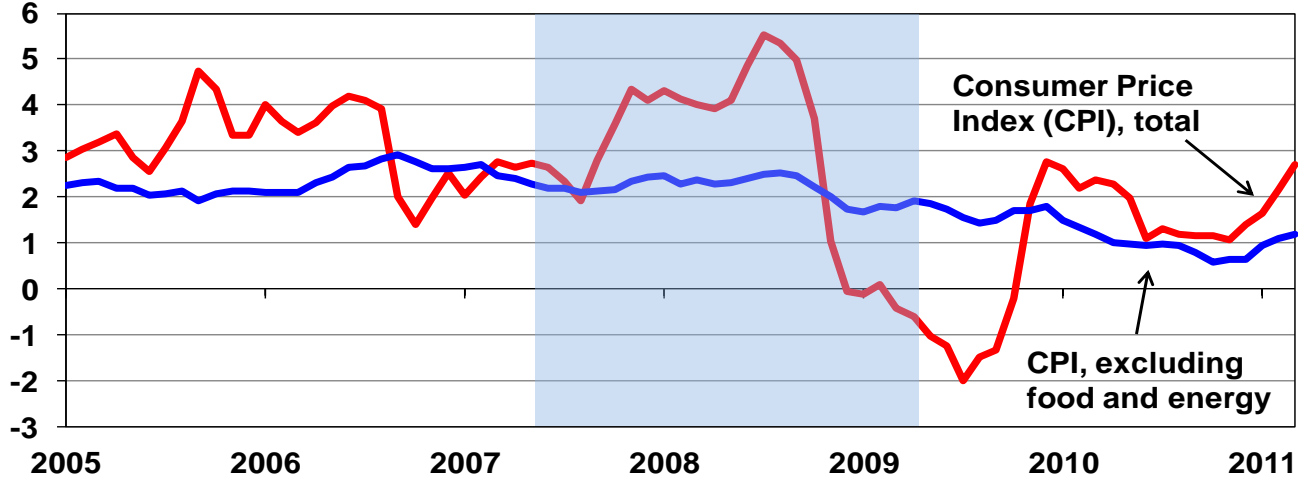
The U.S. Consumer Price Index (CPI) shows only moderate price inflation especially when the cost of food and energy are taken out



U.S. CPI inflation remains stable and lower than the pre-crisis level



% change from one year earlier

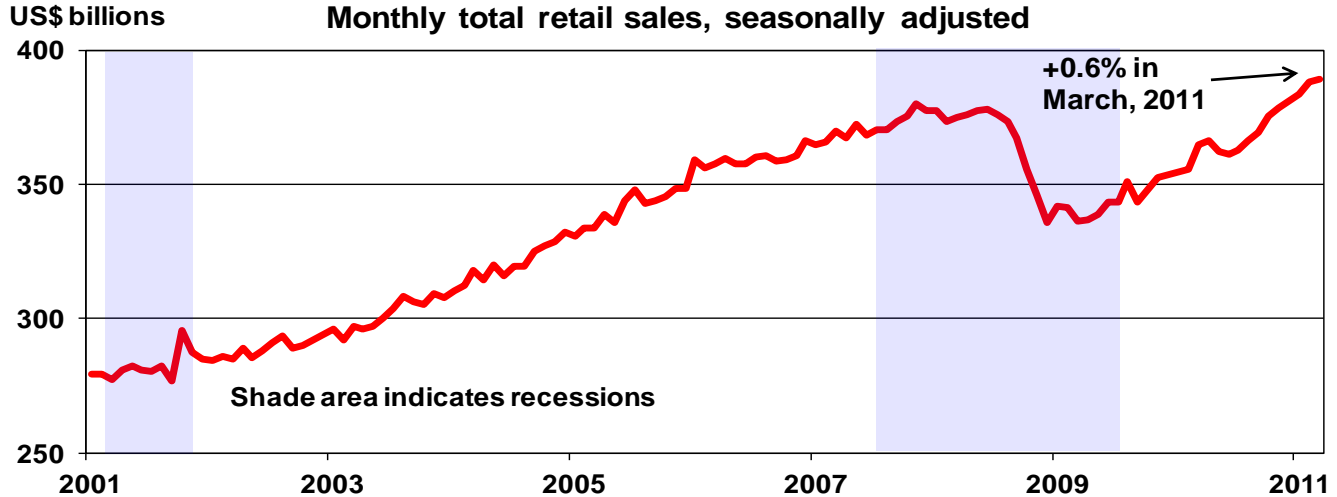


U.S. retail sales continue to grow

A sign showing American consumers were beginning to spend more



MILKEN INSTITUTE



Source: U.S. Department of Commerce.

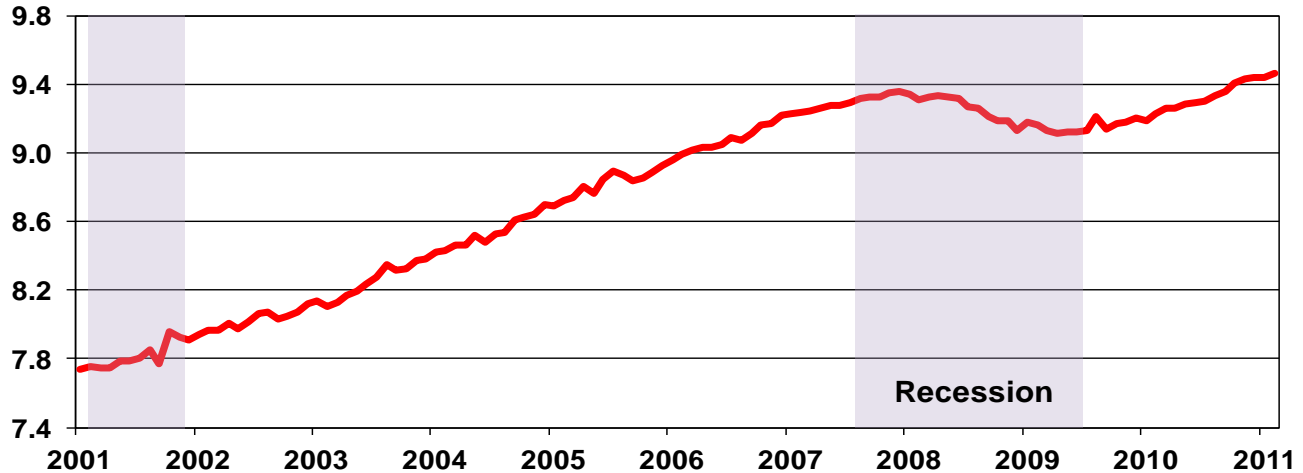
U.S. consumer spending gains continued

Real personal consumption expenditures



MILKEN INSTITUTE

Trillions of chained (2005) dollars



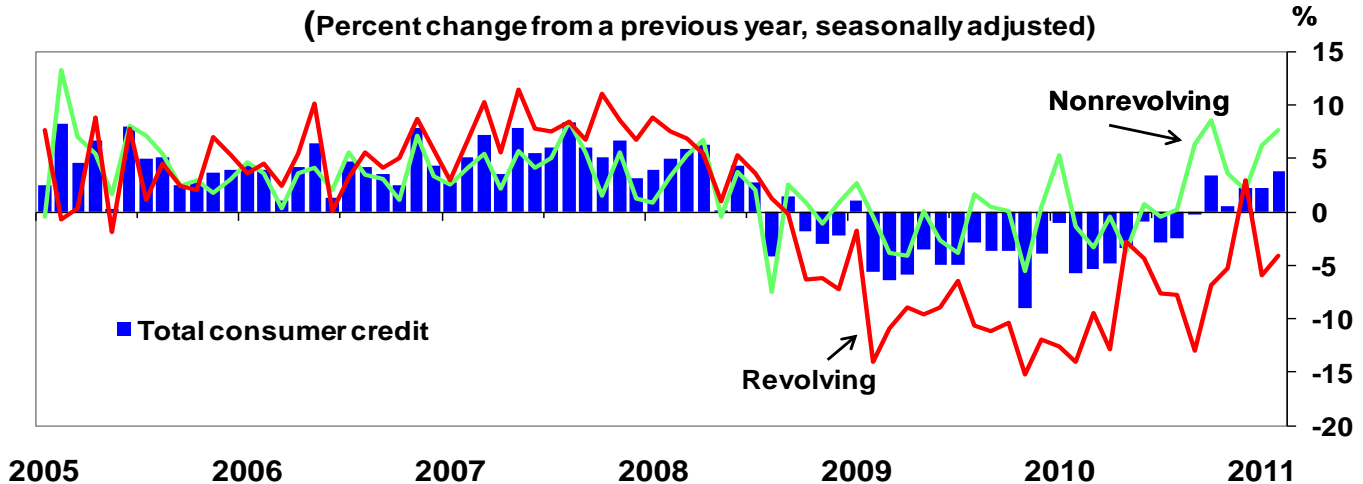
Source: Bureau of Economic Analysis.

U.S. consumer borrowing rose on an increase in non-revolving credit



Consumer credit

(Percent change from a previous year, seasonally adjusted)

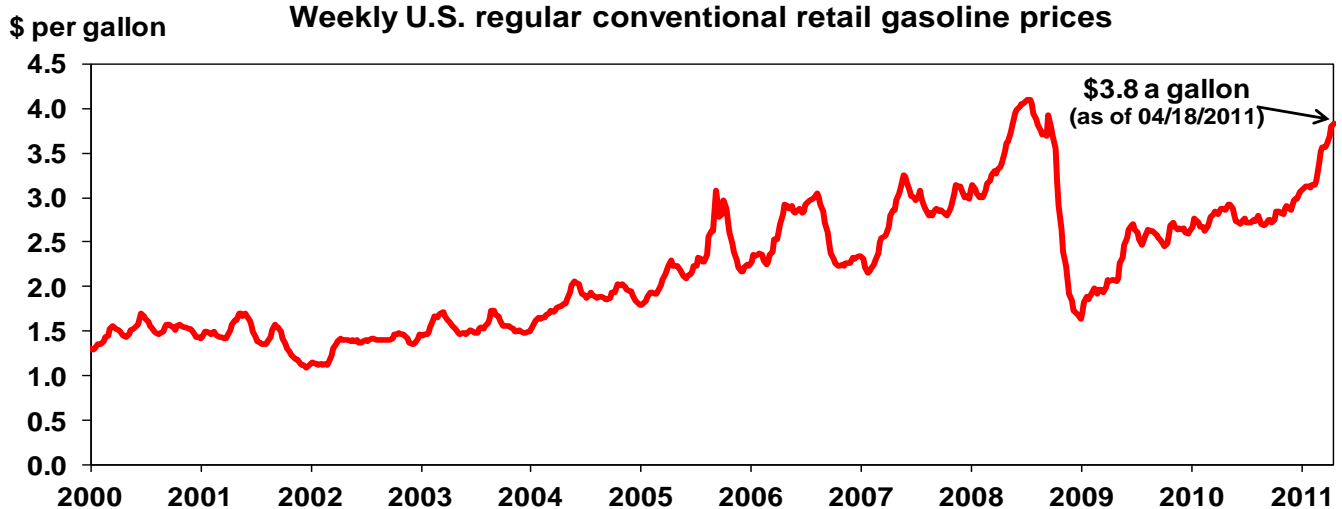


Source: Federal Reserve.

Squeezed household budgets



Gasoline jumped 7.5% from last month and has risen >30% from last year

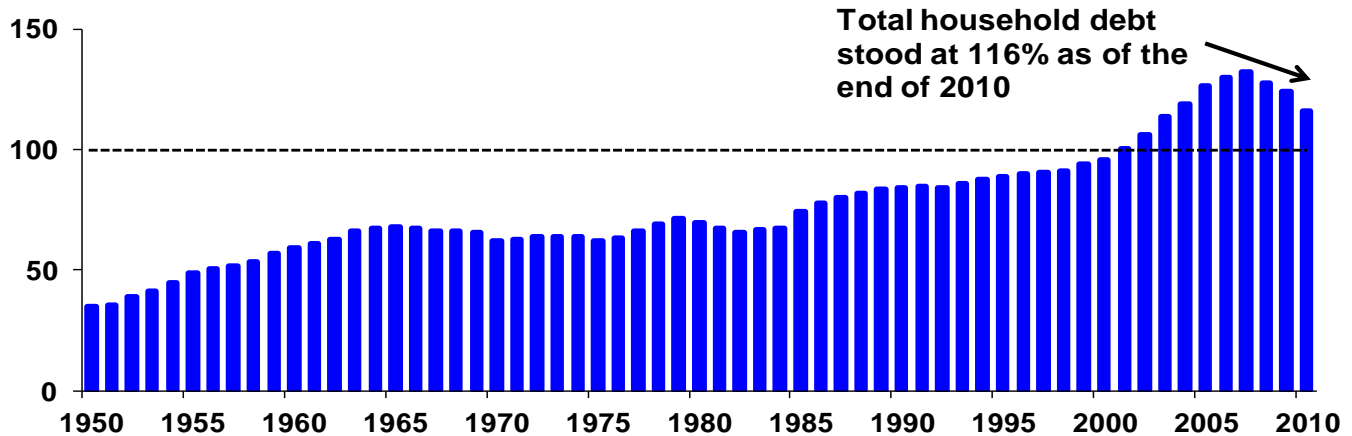


Source: Energy Information Administration.

Households still carry too much debt, but continue deleveraging

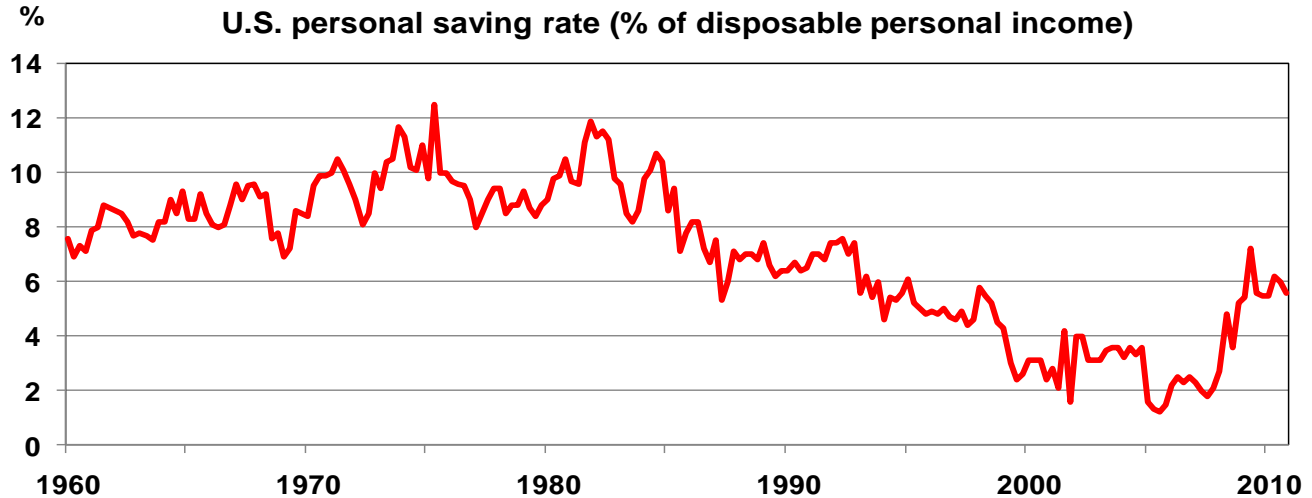


U.S. household debt (% of disposable personal income)



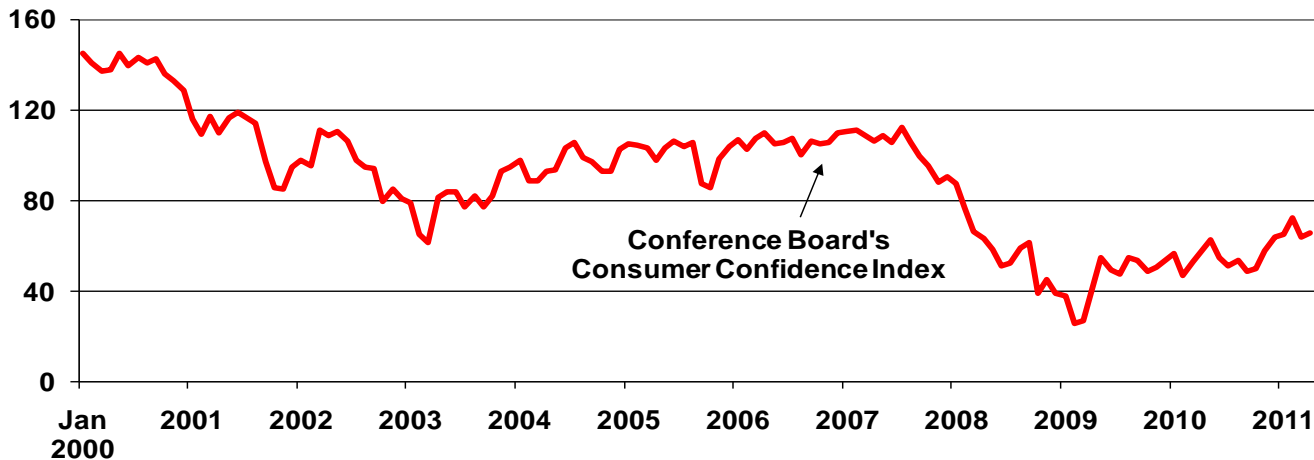
Source: Federal Reserve.

The saving rate has started to increase following a decades-long decline



U.S. consumer confidence improves slowly

Index (1985=100)

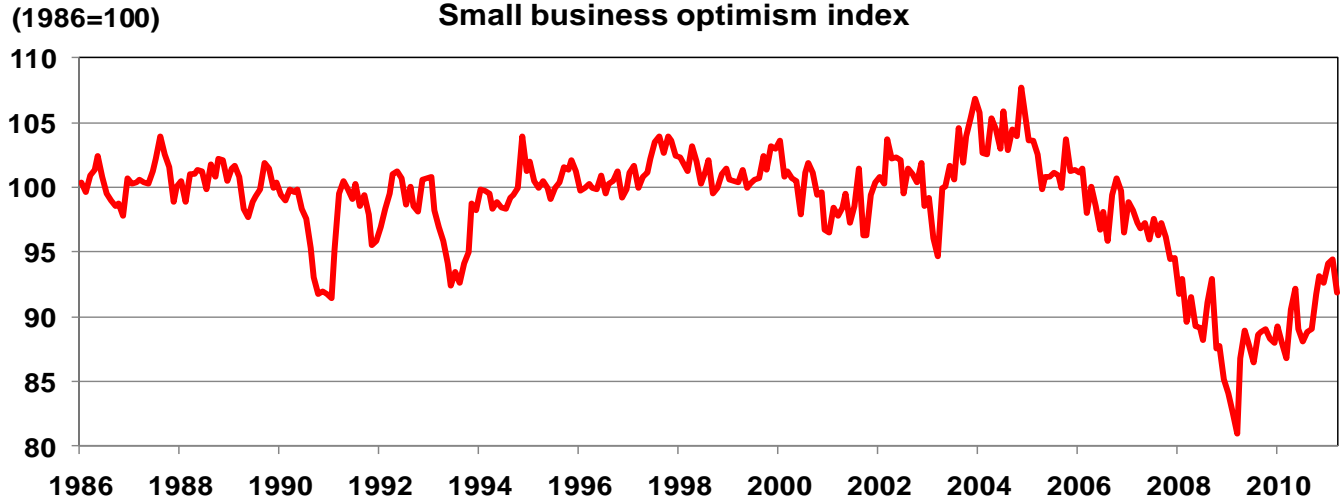


Note: Data as of April 26, 2011.
Source: Bloomberg.

U.S. small business optimism index



Declines in March after several months of a slow but steady growth



Source: the National Federation of Independent Business.

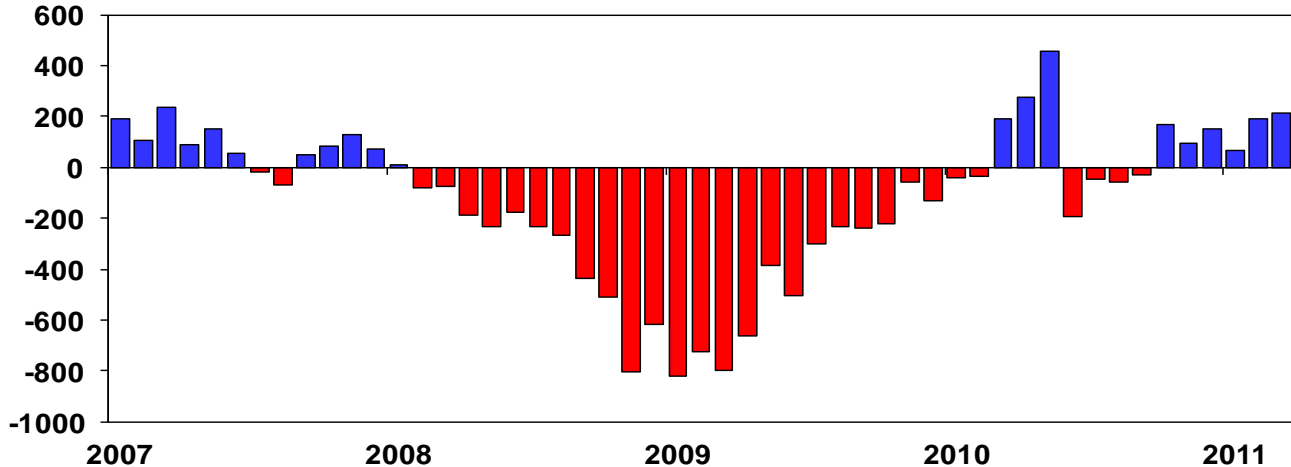
Six straight months of job growth

October 2010 – March 2011

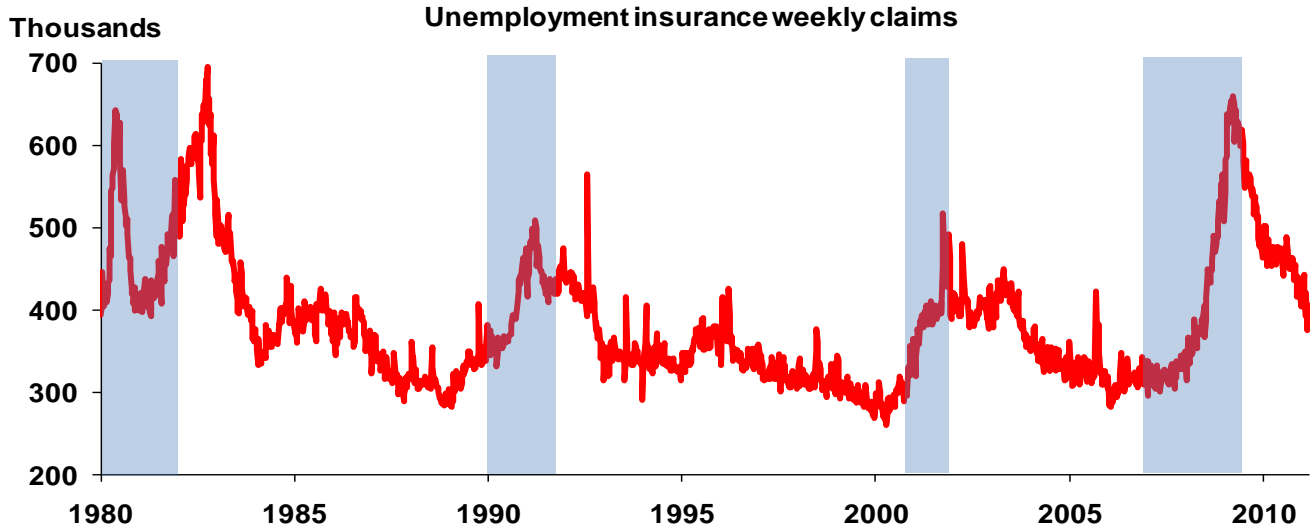


Thousands of workers

Total nonfarm employment
(one-month net change, seasonally adjusted)



Decline in initial claims for unemployment insurance





Underemployment is still a concern



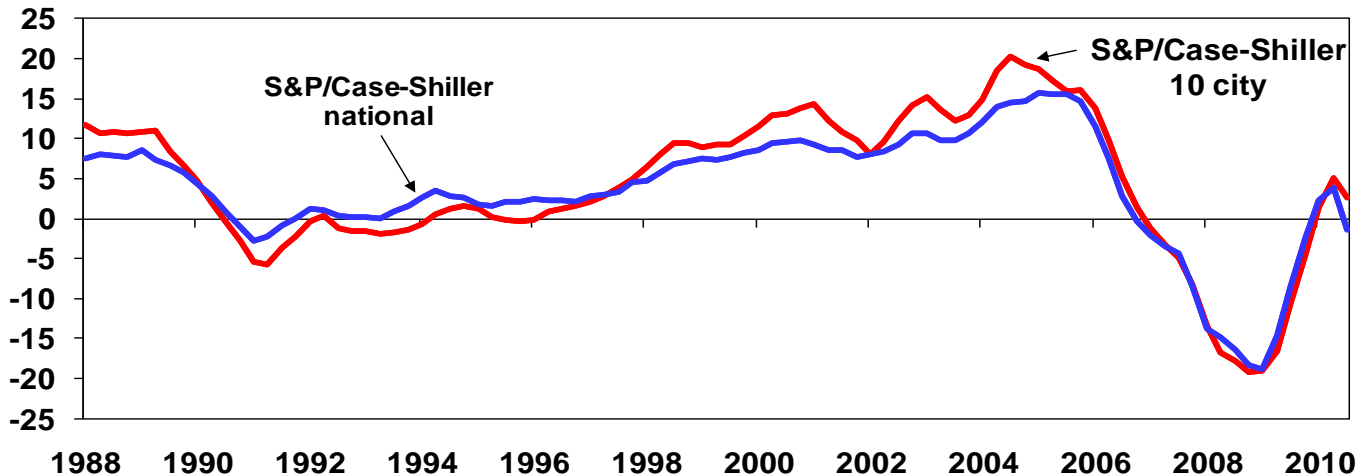


Unemployment rate fell marginally



Home prices had skidded downward again

Home price indices, percent change on a year earlier

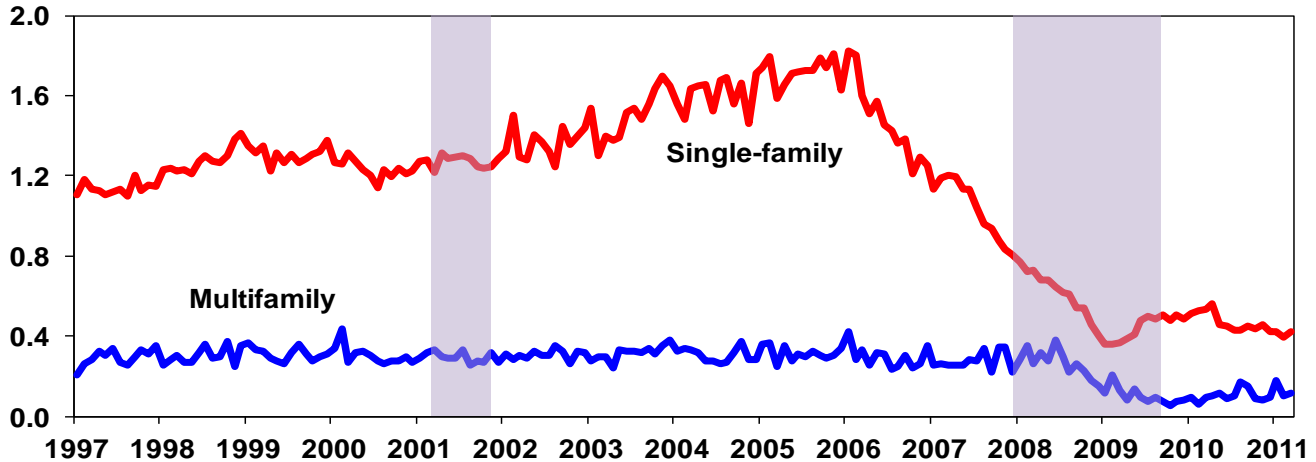


Housing activity remained depressed



Private housing starts, 1997 – March 2011

Millions of units, annual rate

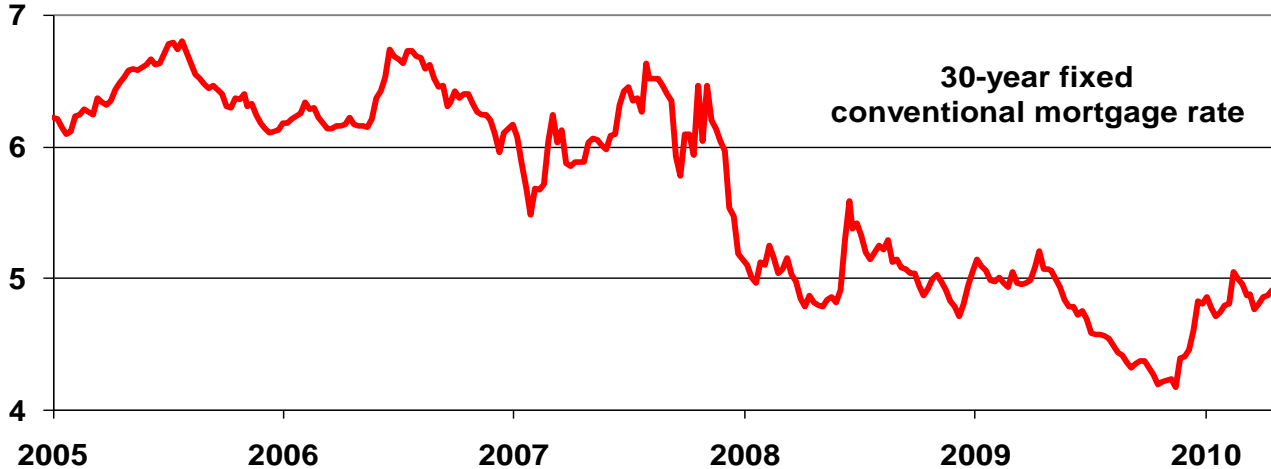


Source: Bureau of the Census, Department of Commerce.

Is mortgage rates low enough to jumpstart the housing market?



Percent

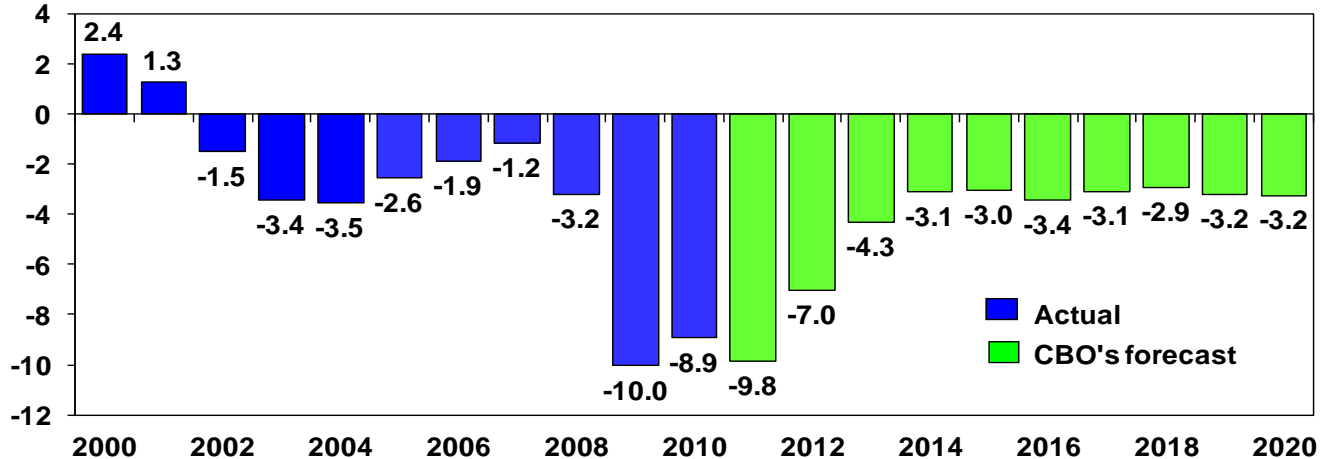


Source: Freddie Mac.

Will fiscal deficit fall from 10% of GDP in 2011 to 3.2% by 2020?

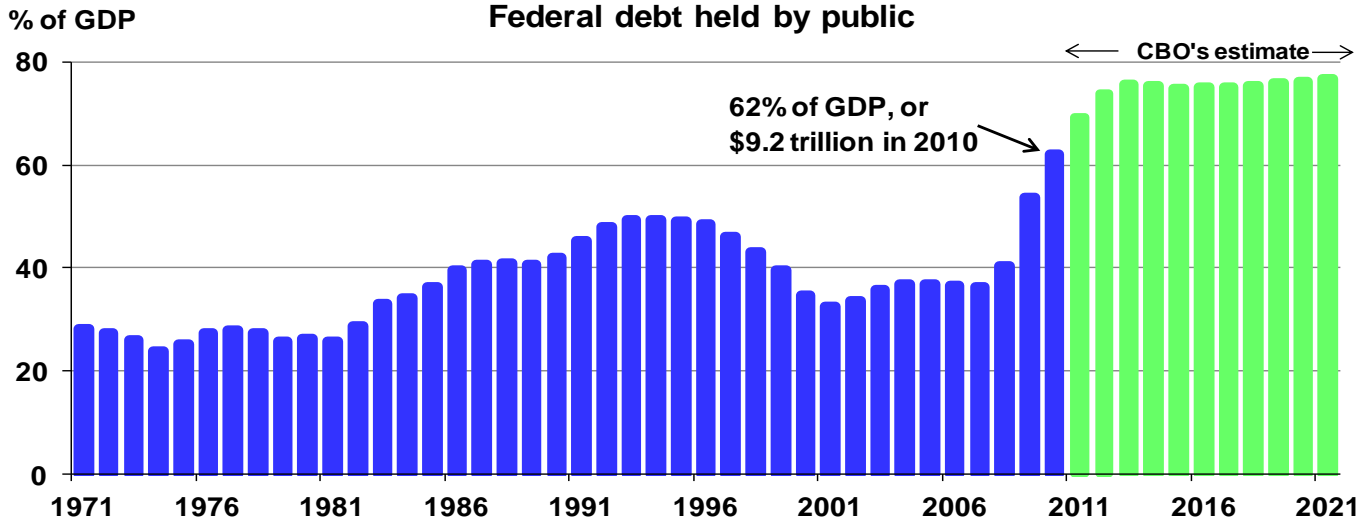


Federal budget (% of GDP)



Source: Congressional Budget Office (CBO).

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

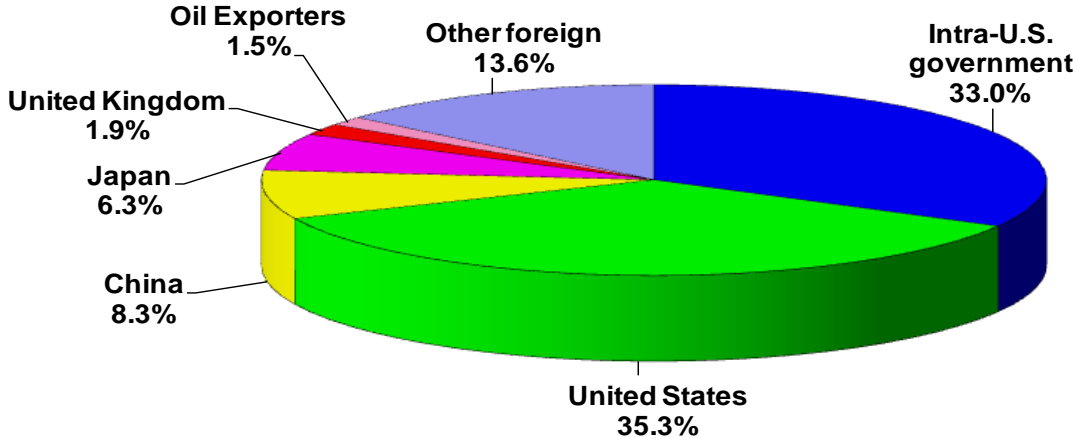


Source: Congressional Budget Office (CBO).

Foreign investors own one-third of U.S. Treasury Securities



Major holders of U.S. Treasury Securities
Total = US\$14 trillion (2010)



Source: Department of the Treasury.