



The Future of Wall Street and the Financial Industry

Tuesday, May 3, 2011; 9:30 AM – 10:45 AM

Moderator:

[Antonio Quintella](#), Regional CEO Americas, Credit Suisse

Speakers:

[Chris Brummer](#), Senior Fellow, Milken Institute; Professor of Law,
Georgetown University Law Center

[Josh Friedman](#), Co-Founder, Co-Chairman and Co-CEO, Canyon Partners LLC

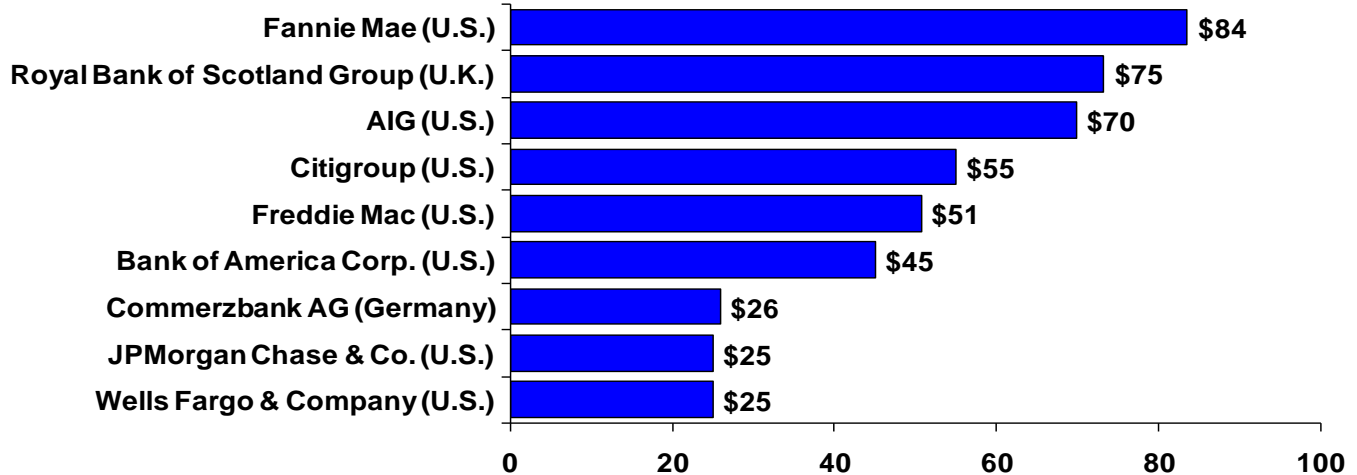
[Bill Lockyer](#), Treasurer, State of California

[Duncan Niederauer](#), CEO, NYSE Euronext

Financial institutions received largest government bailouts (all countries)



Bailout funds received from governments (US\$ billions)



Note: Data are as of April 20, 2011.

Source: Bloomberg.

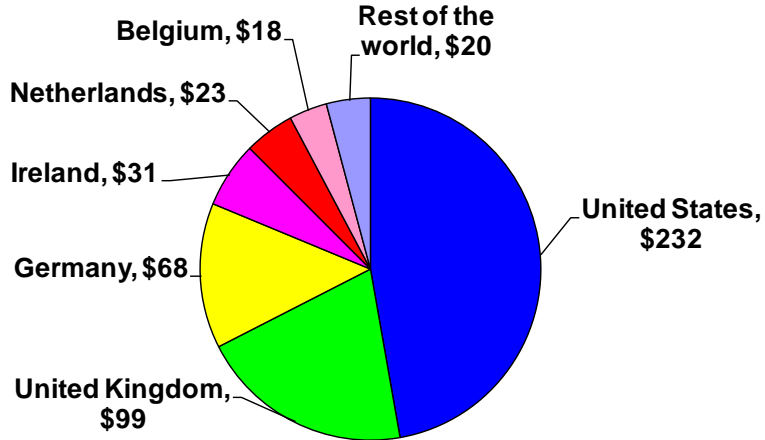
Government capital investments in financial firms

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



MILKEN INSTITUTE

Total outstanding = \$491 billion



Source: Bloomberg.

U.S. bank bailout returns 9.4%

Return on TARP investment



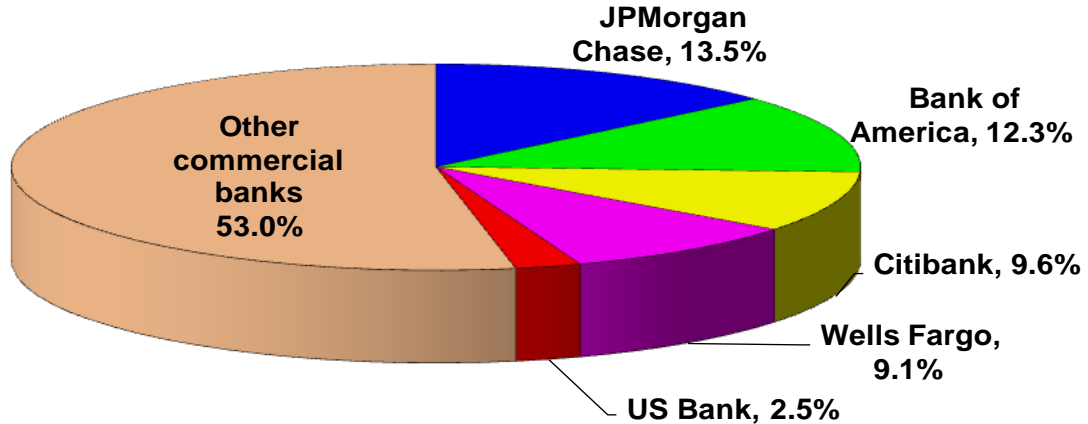
	TARP bailouts (\$B)	Return on TARP (\$B)	Return on TARP (%)
Citigroup	45	12.4	27.5
Bank of America Corp	45	4.3	9.5
Wells Fargo & Company	25	2.3	9.2
GMAC Financial Services	16.3	2.2	13.4
JPMorgan Chase & Co	25	1.7	7.0
Goldman Sachs Group Inc	10	1.4	14.2
Morgan Stanley	10	1.3	12.7
Hartford Financial Services 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.

Five largest banks control almost half of the U.S. national banking assets (2010)



All FDIC insured commercial banks
Total assets = US\$12 trillion; Total number = 6,529 banks



Large U.S. banks become larger

Top U.S. banks ranked by total assets

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%

The world's ten largest commercial banks



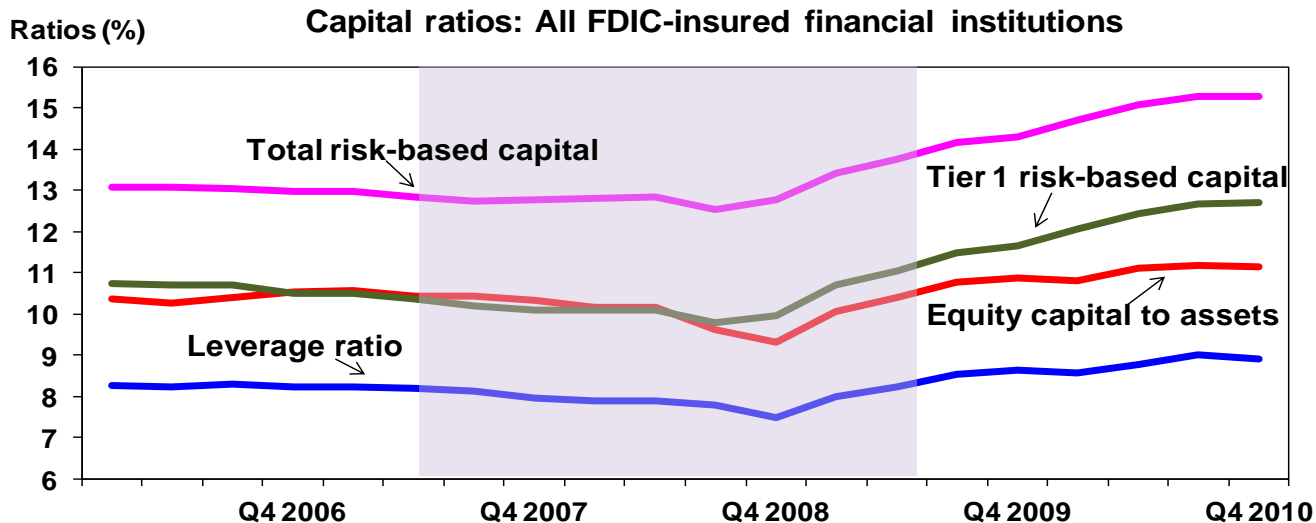
Each has trillion dollars in assets

		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

Basel III: Capital requirement

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Leverage Ratio	Supervisory monitoring		Parallel run January 1 st , 2013-2017 Disclosure starts January 1 st , 2015					Migration to Pillar 1	
Minimum Common Equity Capital Ratio			3.5%	4%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.5%
Minimum common equity plus capital conservation buffer			3.5%	4%	4.5%	5.125%	5.75%	6.375%	7%
Phase-in of Deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20%	40%	60%	80%	100%	100%
Minimum Tier 1 Capital			4.5%	5.5%	6%	6%	6%	6%	6%
Minimum Total Capital			8%	8%	8%	8%	8%	8%	8%
Minimum Total Capital plus conservation buffer			8%	8%	8%	8.625%	9.25%	9.875%	10.5%
Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital			Phased out over 10 year horizon beginning 2013						
Liquidity coverage ratio	Observation period begins 2011				2015 Introduces minimum standard				
Net stable funding ratio	Observation period begins 2012						2018 Introduces minimum standard		

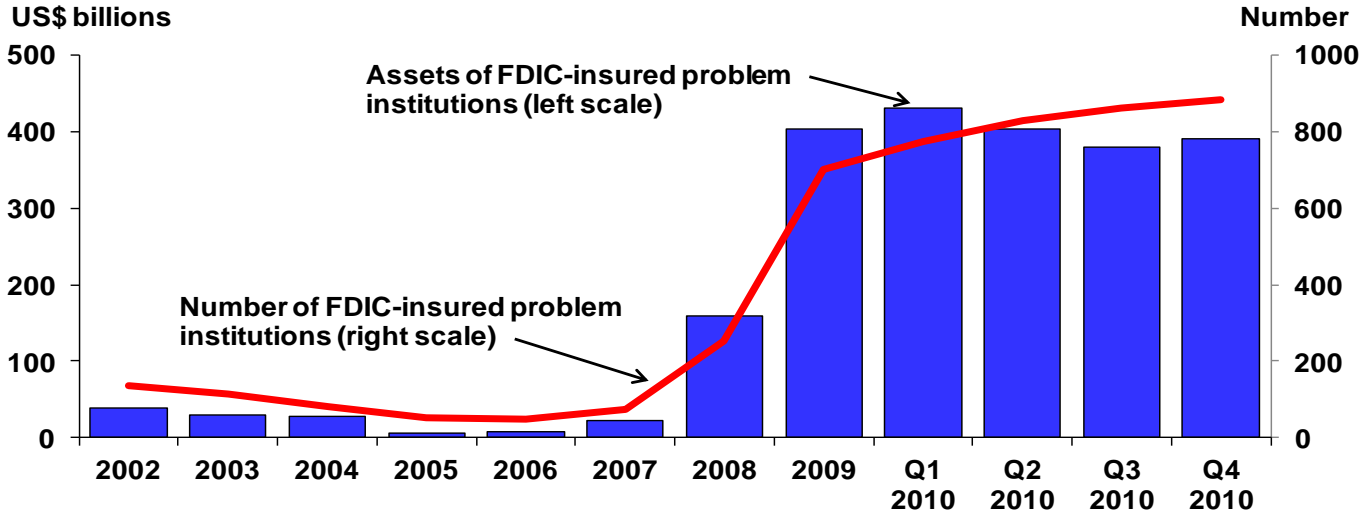
Banks have built up more capital after the crisis



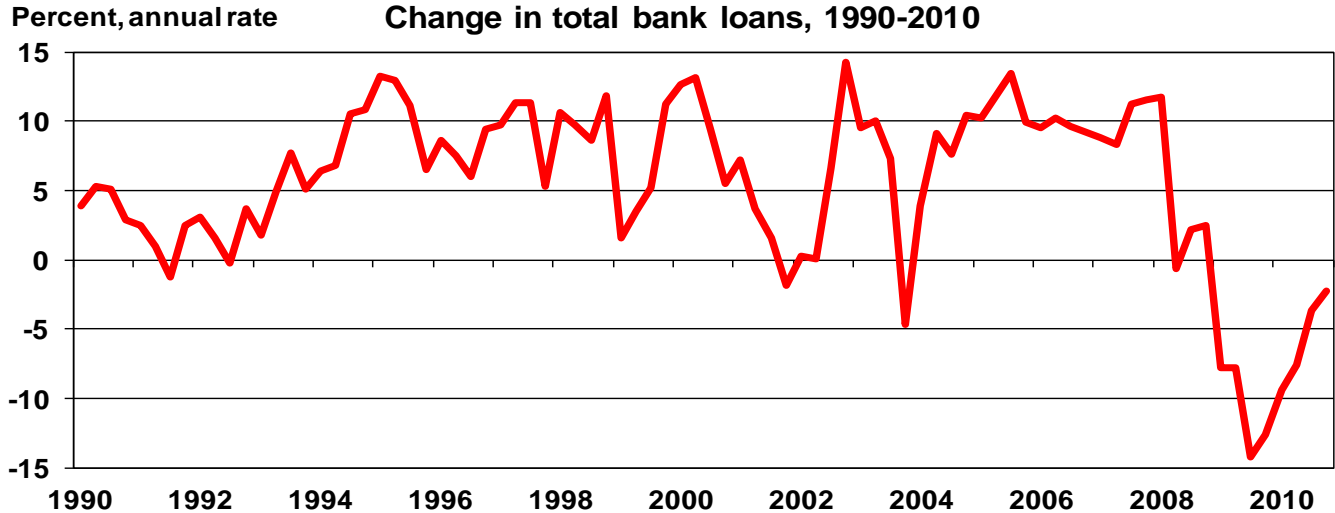
Note: shade area indicates recession.

Source: FDIC.

The number of problem U.S. banks continued to increase



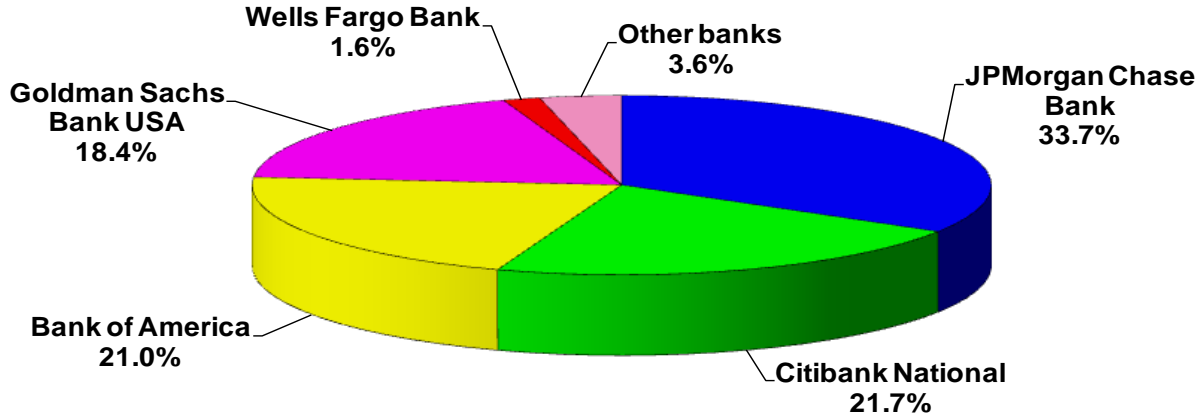
U.S. banks' lending still contracted due to weak demand and tight lending standards



Derivatives activity is dominated by few large banks

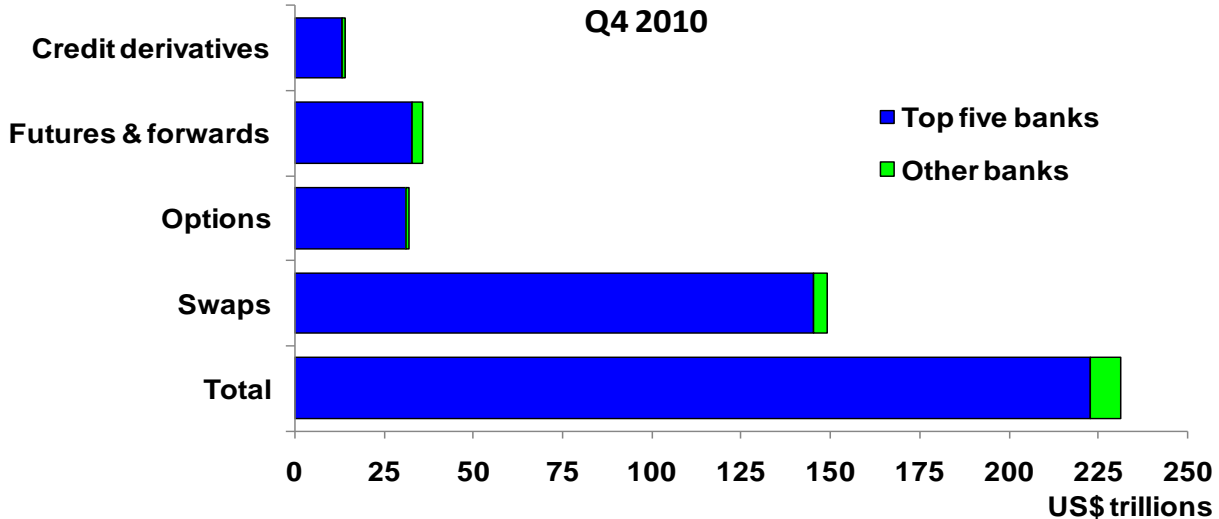
The top five banks hold 96% of all derivatives

The notional amount of derivative contracts held by large U.S. commercial banks, fourth quarter 2010 (% total)



Source: Comptroller of the Currency.

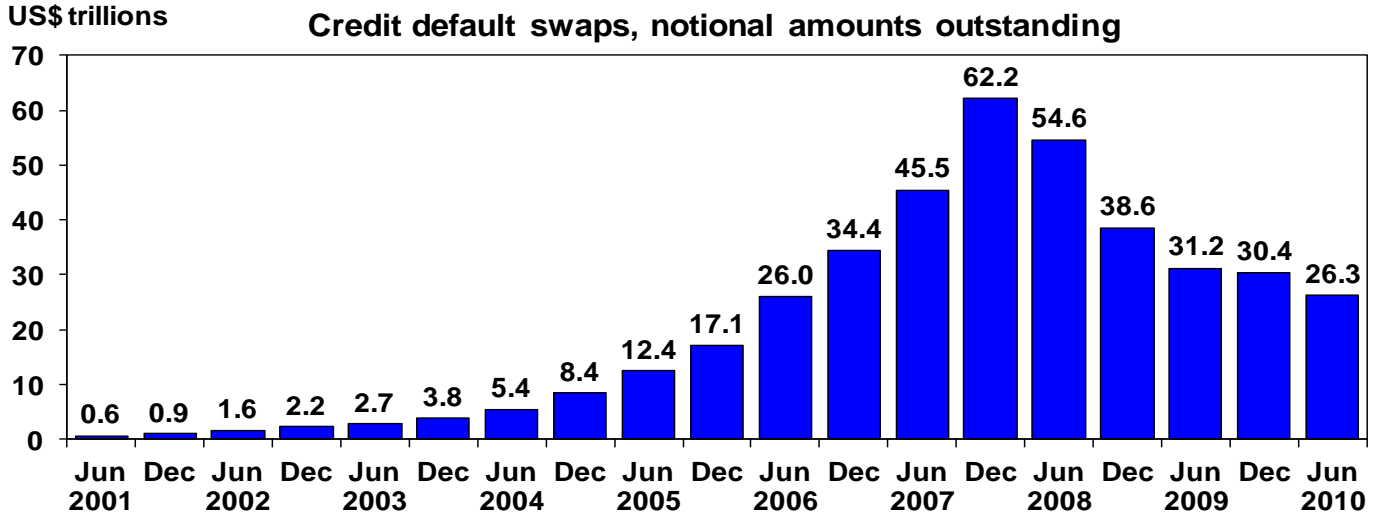
Derivative contracts are concentrated in top five largest banks



Note: Other banks include only U.S. commercial banks with derivatives activity.

Source: OCC's quarterly report on bank trading and derivative activities, Comptroller of the Currency, fourth quarter, 2010.

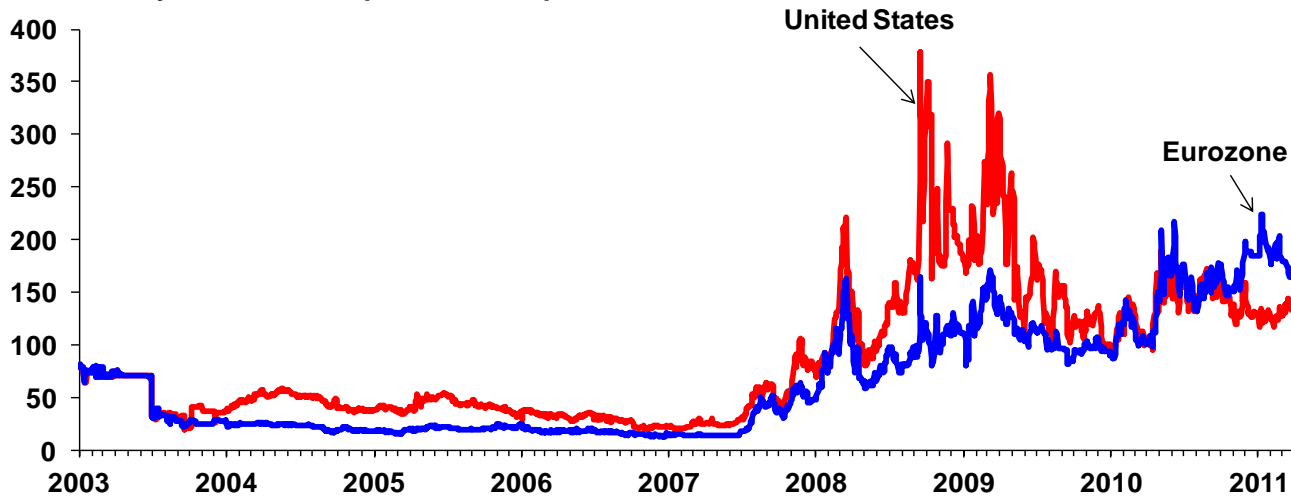
Despite significant decline after the crisis, the CDS market is still valued at \$26 trillion



Source: International Swaps and Derivatives Association.

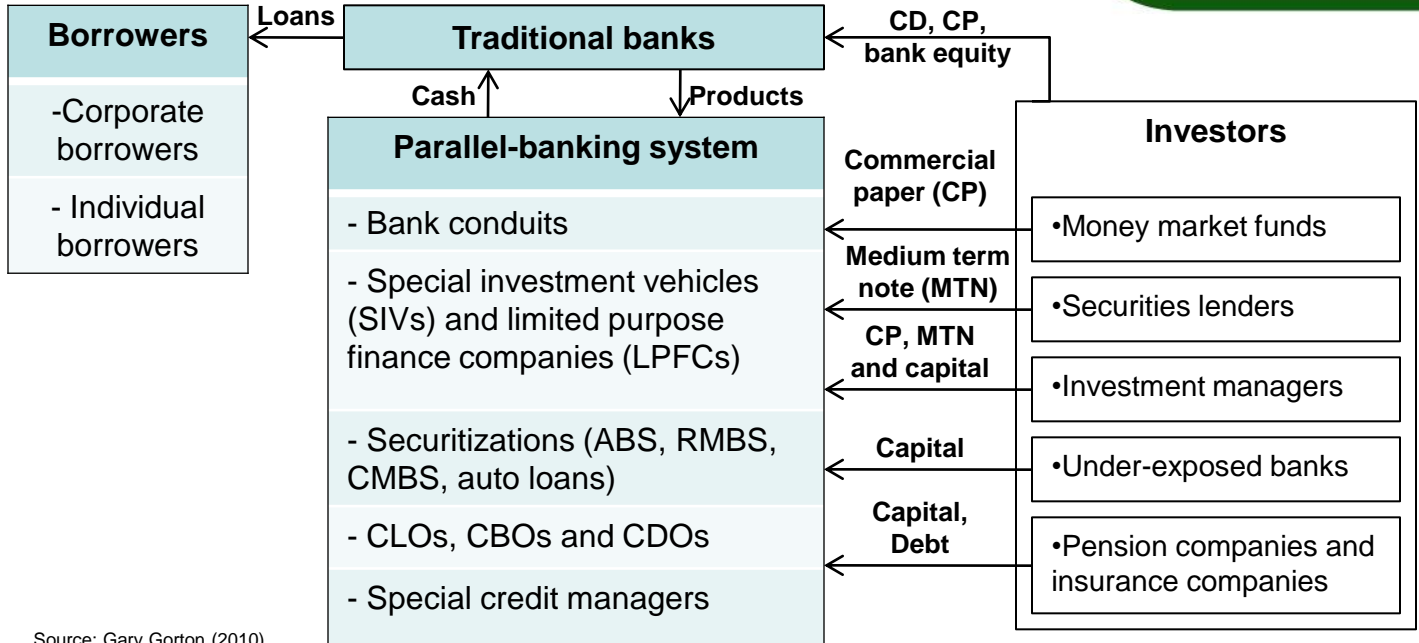
Bank CDS spreads

Median 10-year bank CDS spreads, basis points



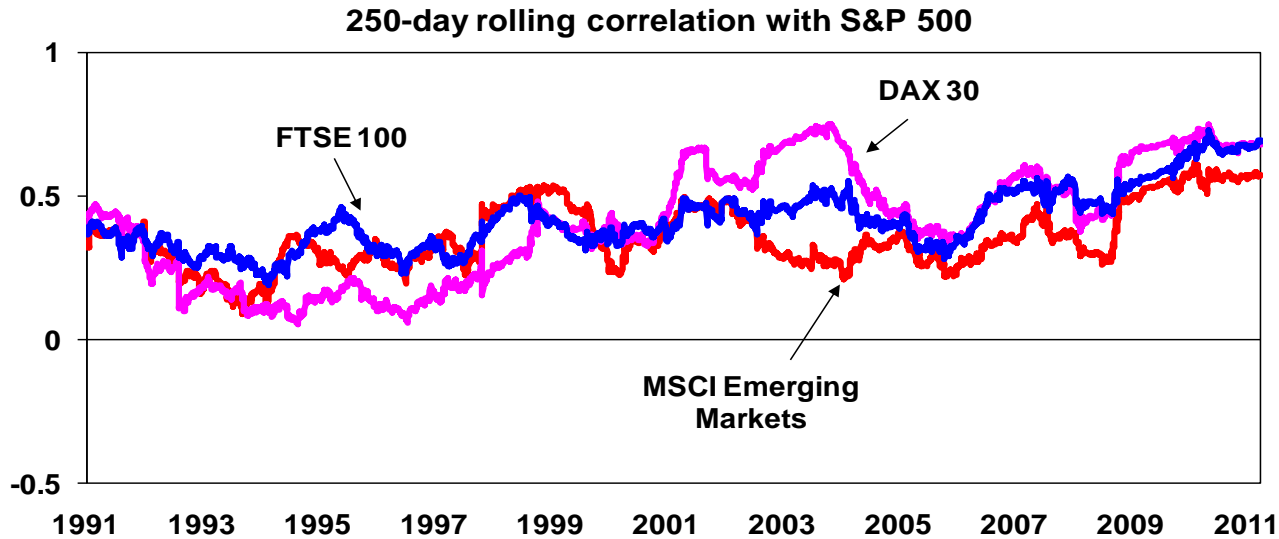
Source: International Monetary Fund.

Traditional vs. parallel-banking system



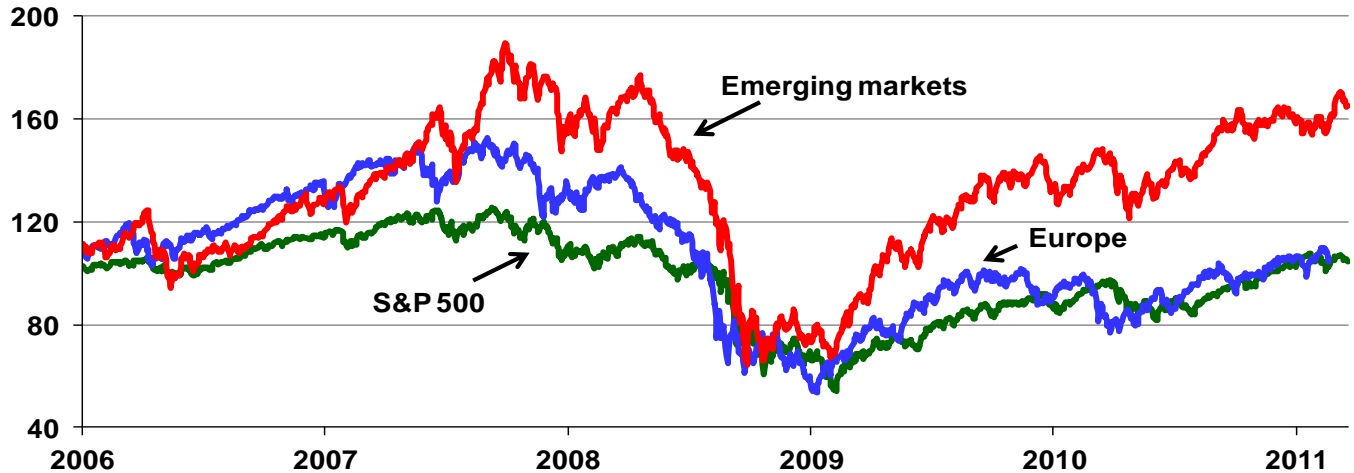
Source: Gary Gorton (2010).

Global stock markets are highly correlated



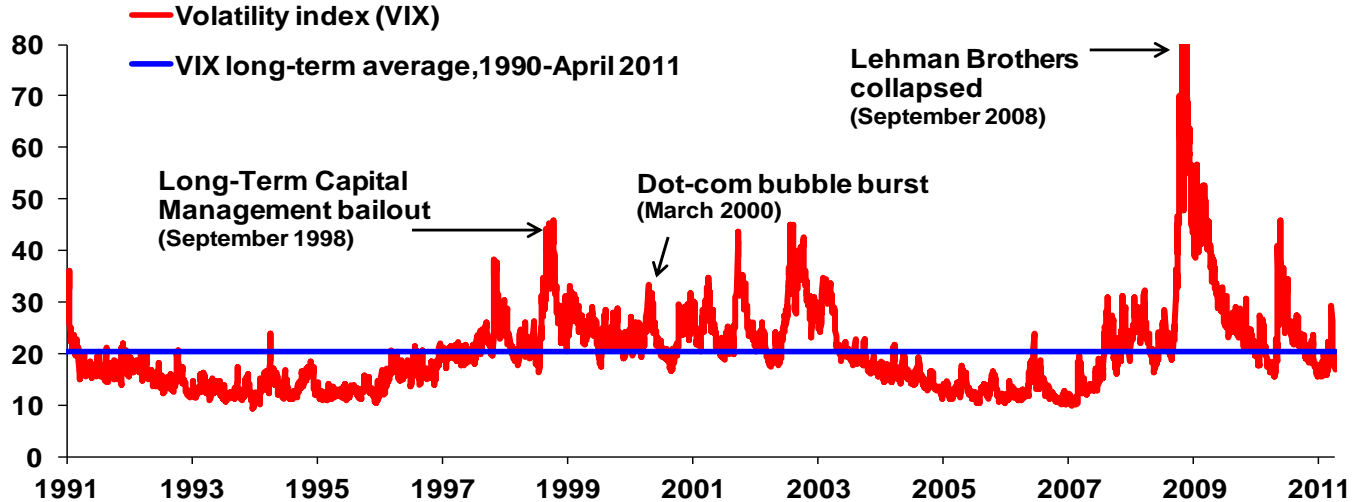
Stock prices around the world gained strongly, but remained below their pre-crisis peaks

January 2006 = 100



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

Unprecedented rise in market volatility during the 2008 market crash

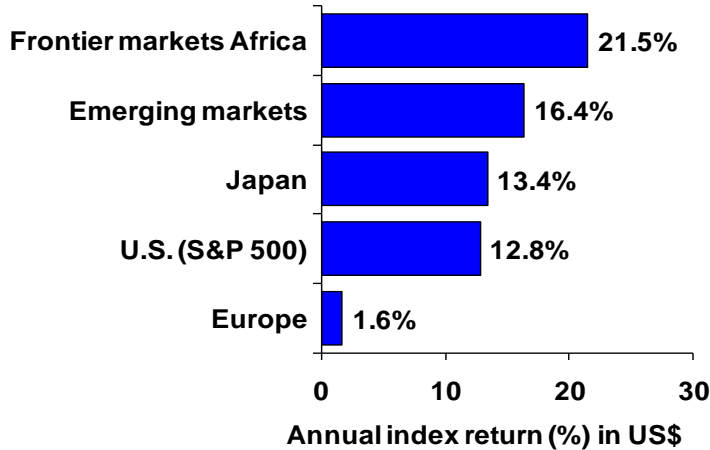


Note: VIX is the Chicago Board Options Exchange's volatility index.
Source: DataStream.

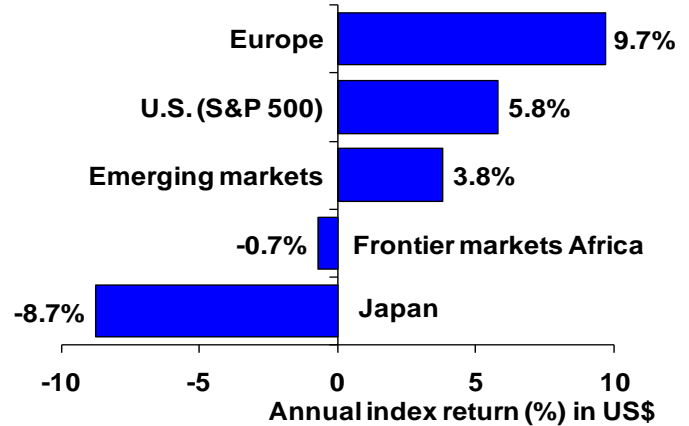
Will 2011 be another strong year for global stock markets?



2010



YTD (as of 4/20/2011)



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

Strong financial recovery in U.S. stock market

Particularly in much of 2009 and early 2010

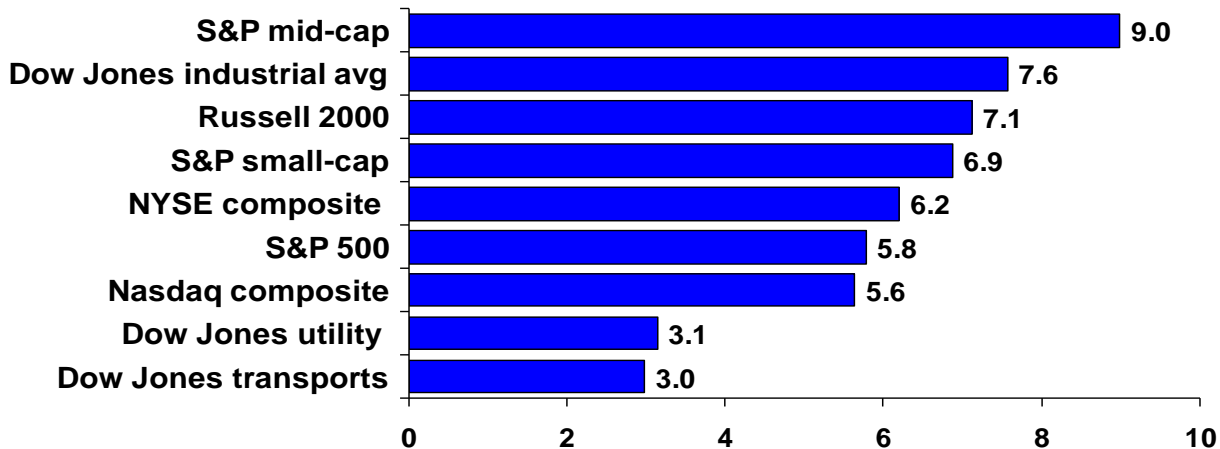


Note: Data are as of April 19, 2011.
Source: Bloomberg.



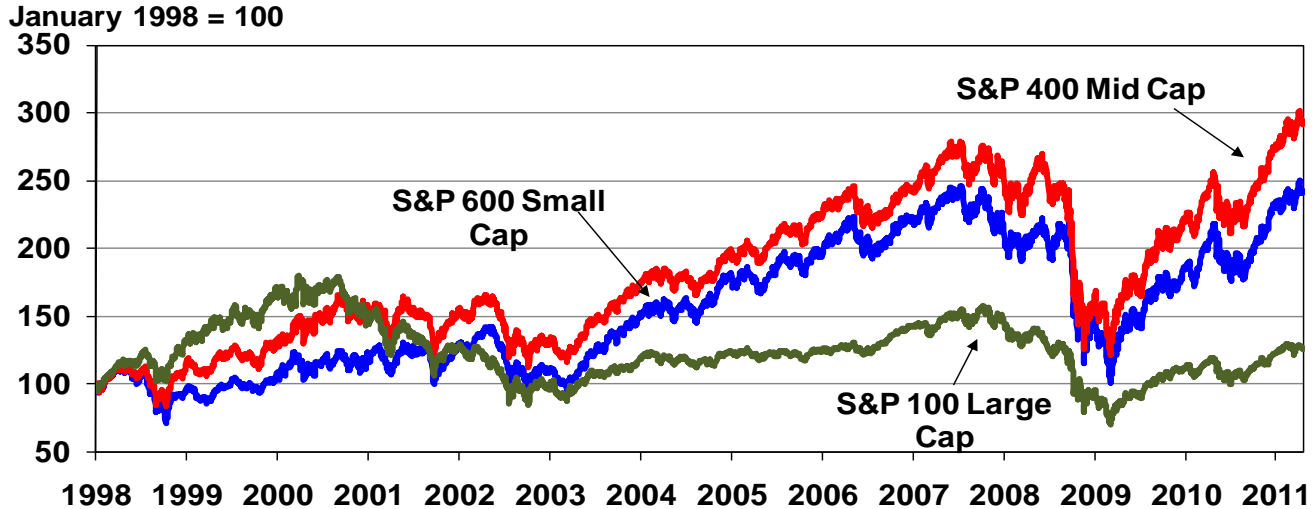
2011: U.S. stock market is off to a good start

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 stocks outperform large cap stocks

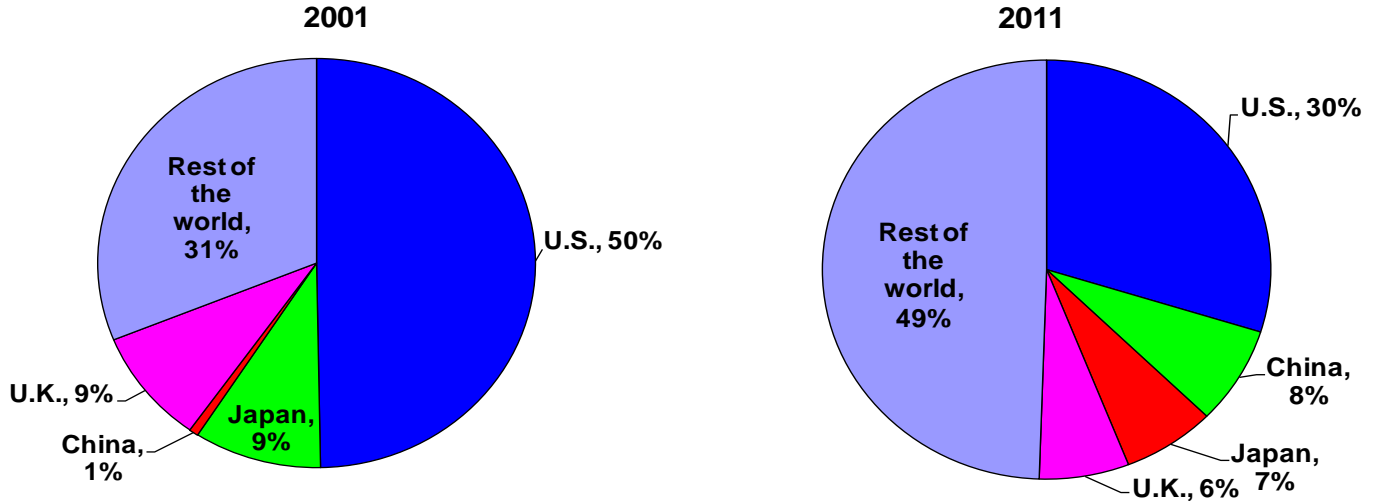


Note: Data are as of April 19, 2011.
Source: Bloomberg.

U.S. stock market's share is shrinking

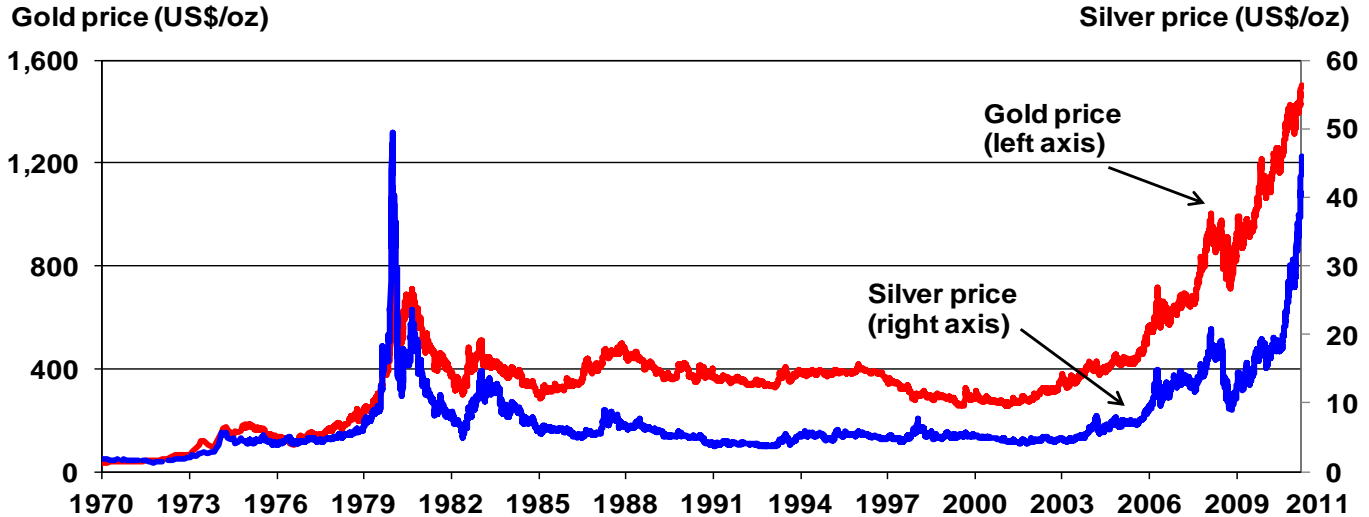


Share of the world's market capitalization



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

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

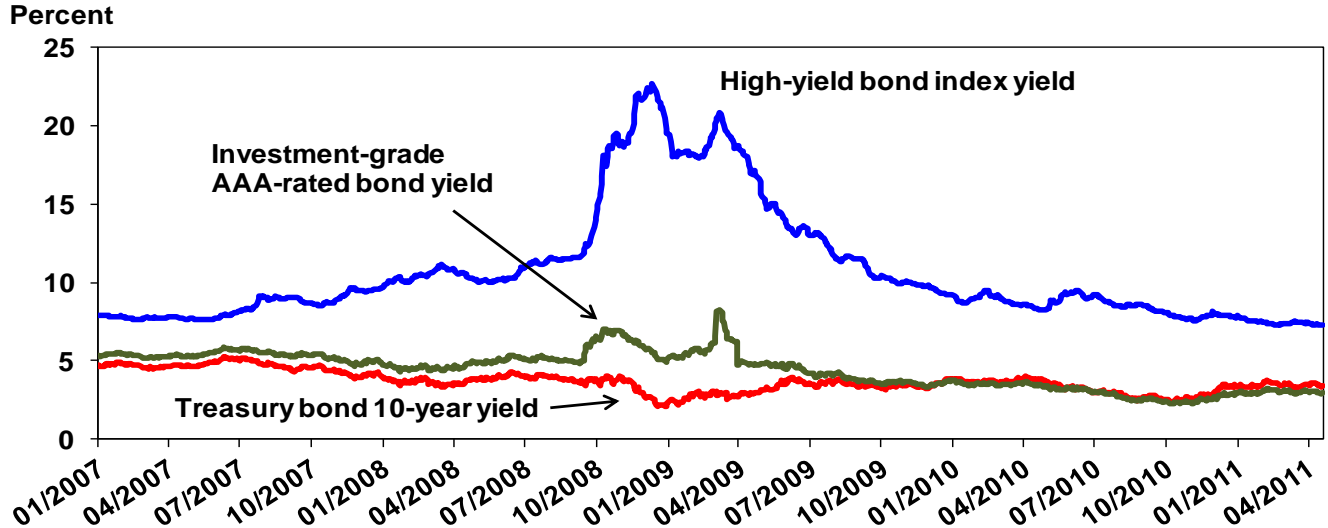


Credit spreads have returned to low levels

United States



MILKEN INSTITUTE



Source: Bloomberg.

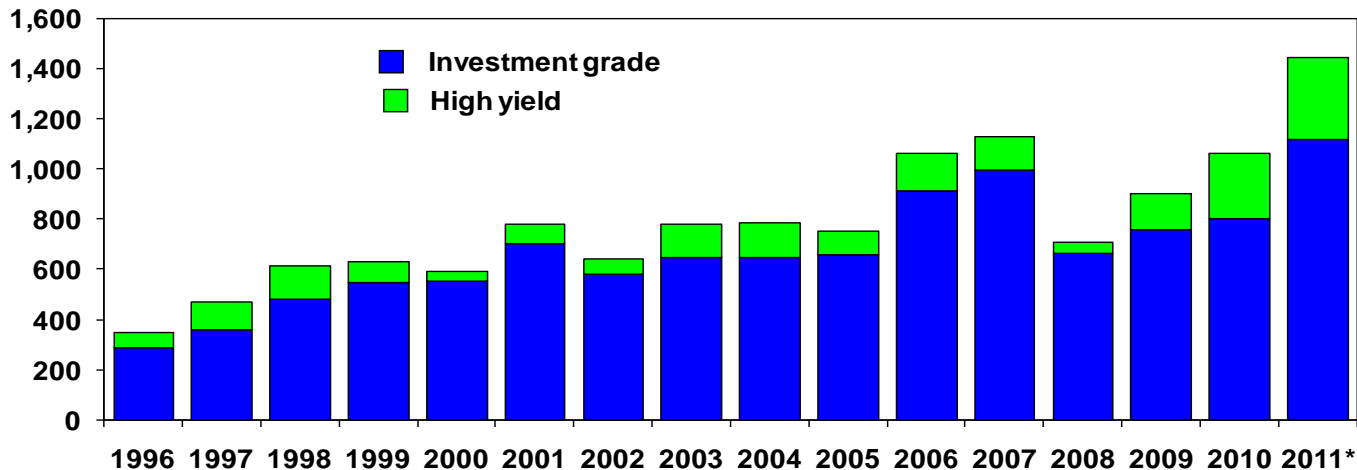
A record issuance of high-yield bonds in 2010-11



MILKEN INSTITUTE

United States

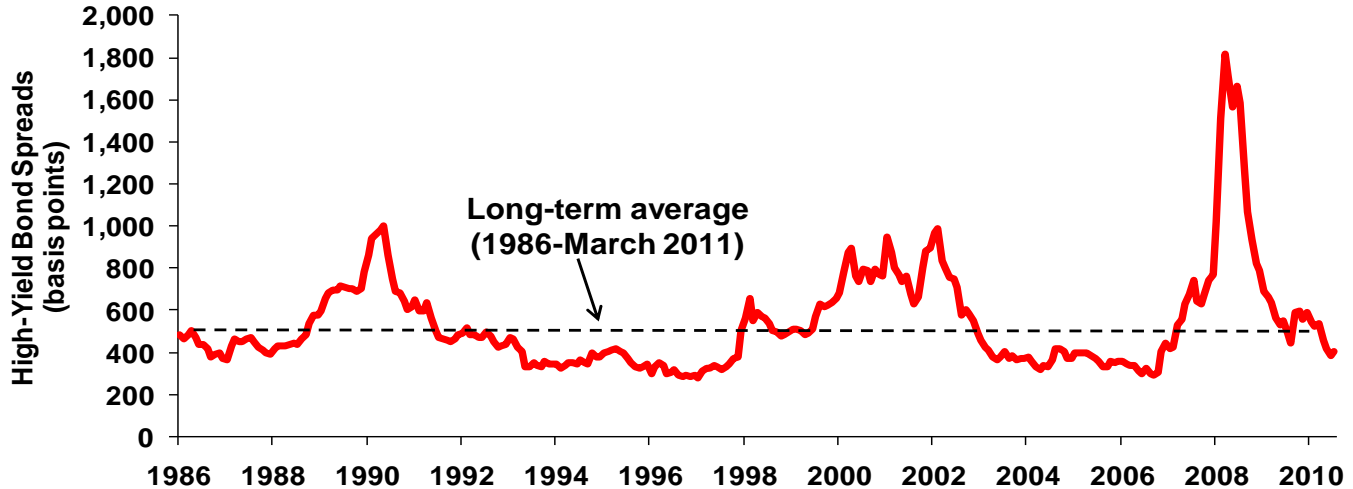
Total issuance (US\$ billions)



* Year to date, annualized.

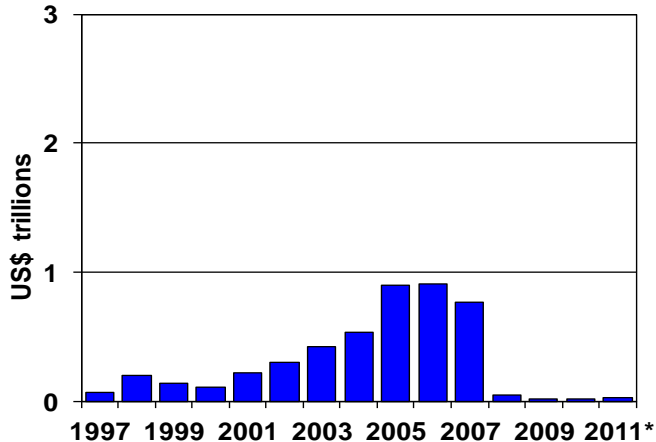
Source: Securities Industry and Financial Markets Association.

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

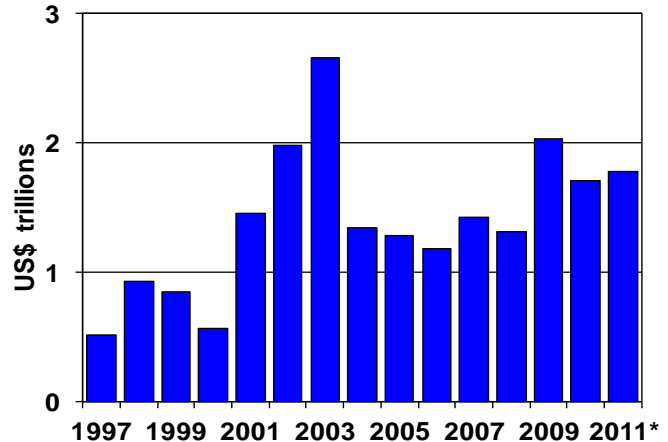


Issuance of U.S. private mortgage-backed securities (MBS) remains at depressed levels

Private-label MBS issuance



Gov't agency MBS issuance



* Year to date, annualized.

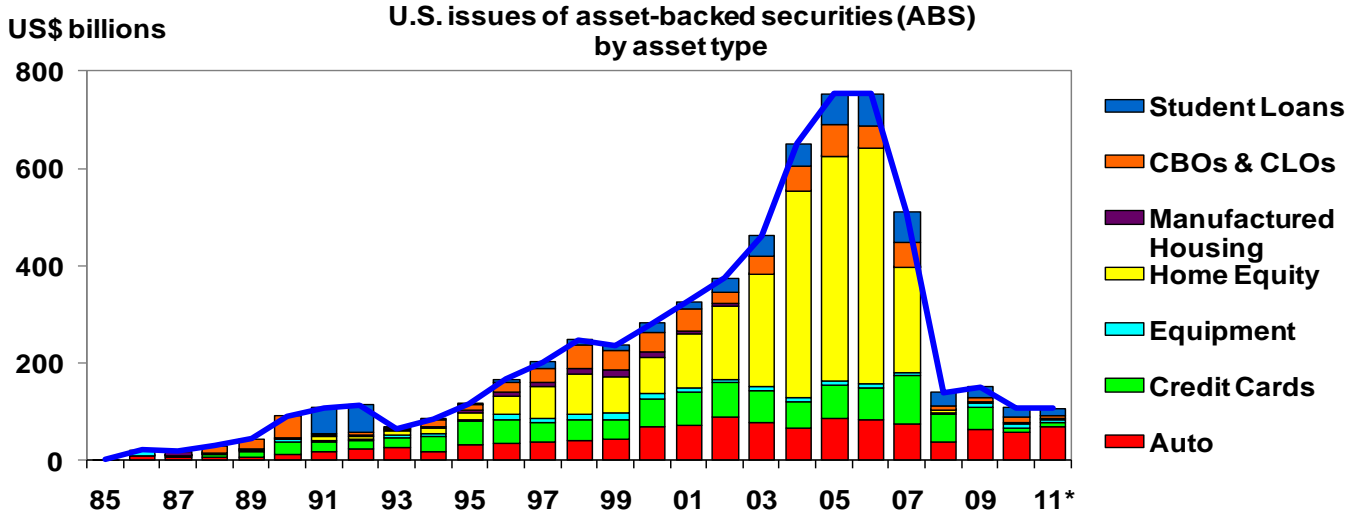
Source: Securities Industry and Financial Markets Association.

The secondary market remains stagnant

U.S. asset-backed securities issuance



MILKEN INSTITUTE

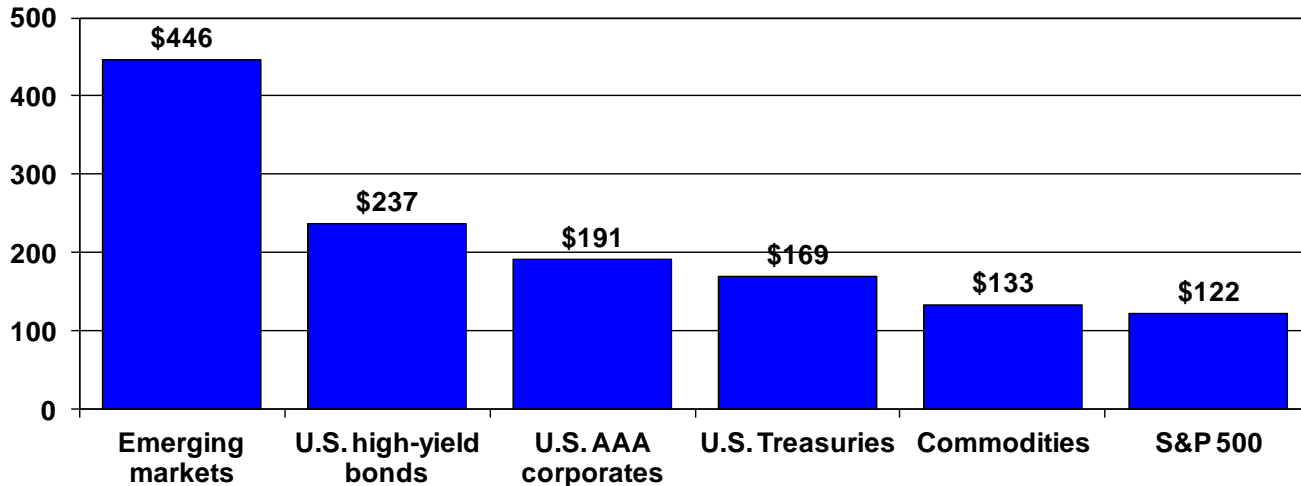


* Year to date, annualized.

Source: Securities Industry and Financial Markets Association.

Investment returns for selected asset classes

As of March 2011, a \$100 investment made in December 2000 gives you:



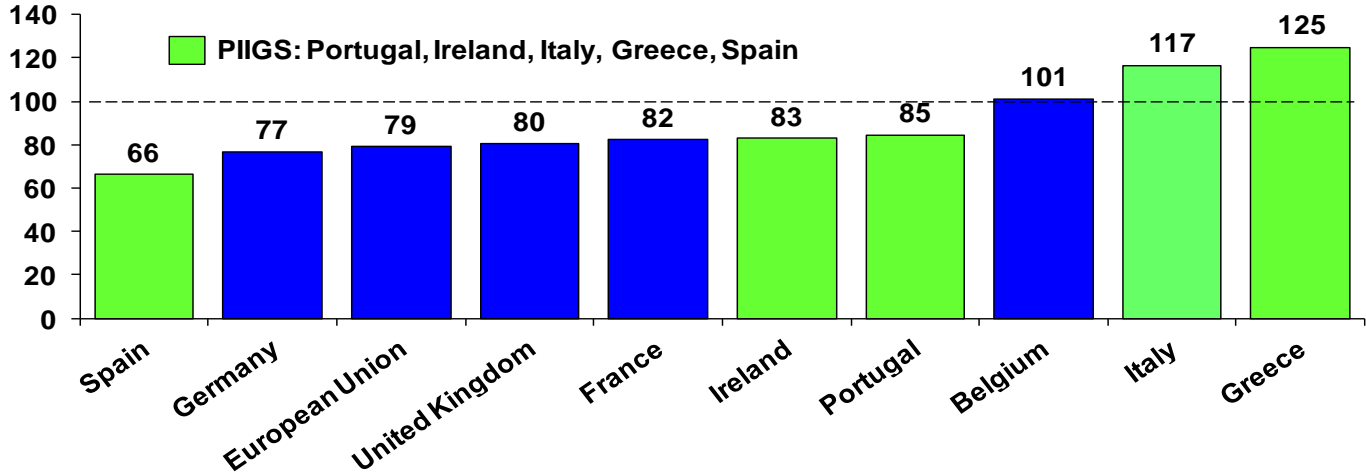
Sources: Bloomberg, Milken Institute.

Concerns over European public debt



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

Gross public debt (%GDP)



Source: European Commission.

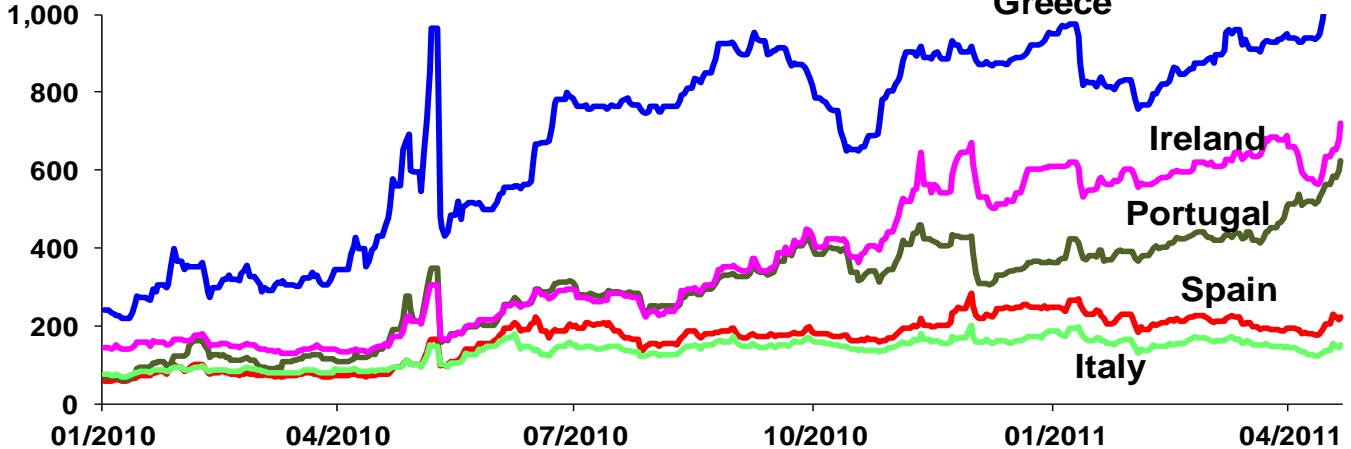
European sovereign debt crisis

Widening spreads over German government bond



MILKEN INSTITUTE

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



Source: Bloomberg.

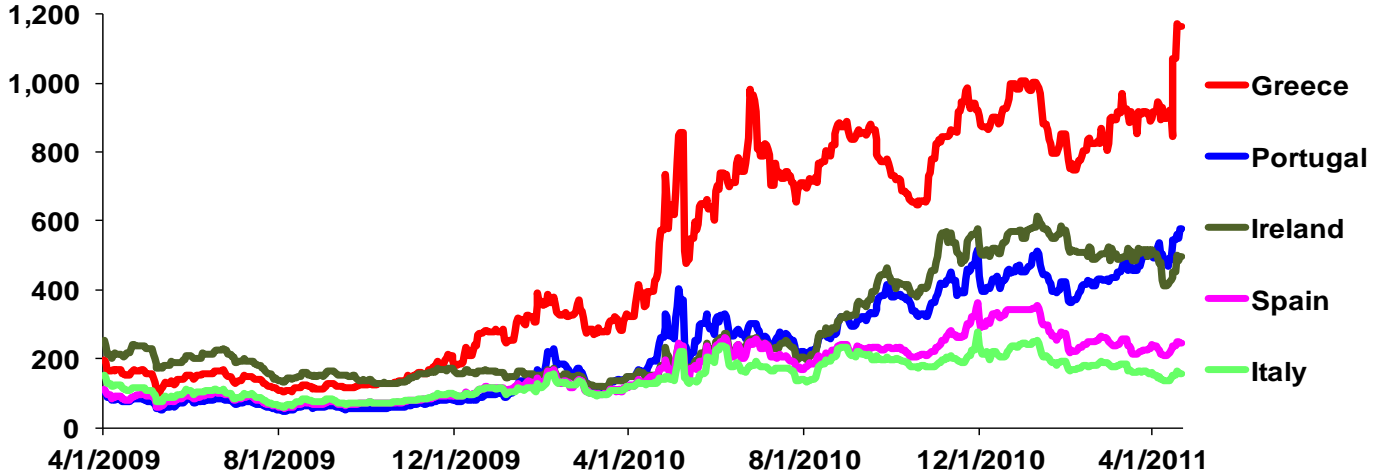
Widening credit default swaps

Selected European countries



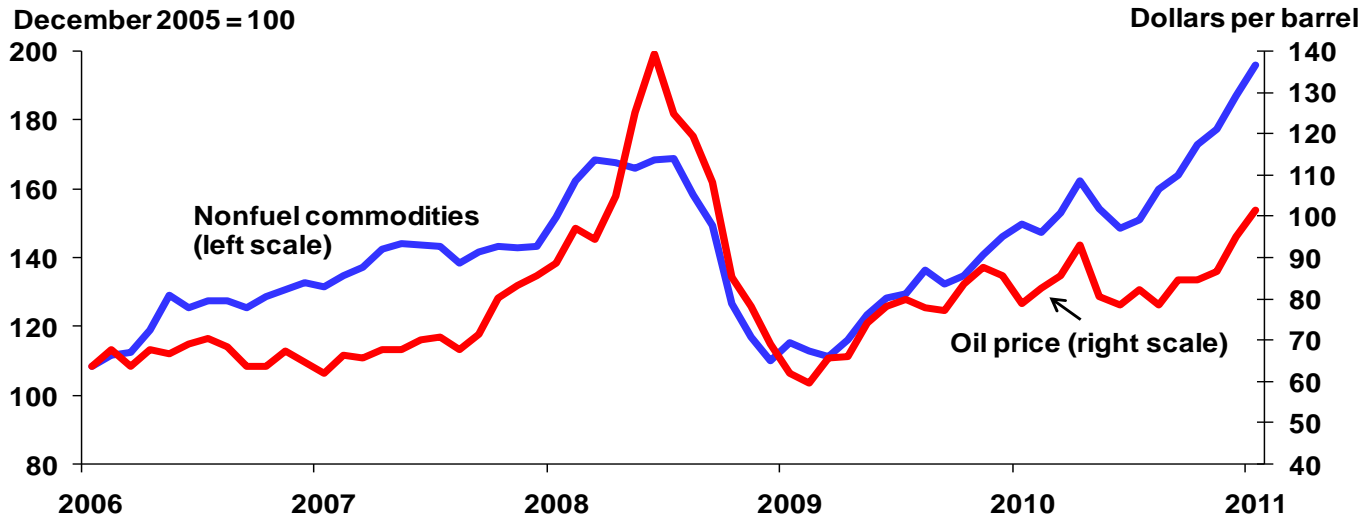
MILKEN INSTITUTE

Senior 10-year CDS, basis points



Source: Bloomberg.

Rise in oil and nonfuel commodity prices

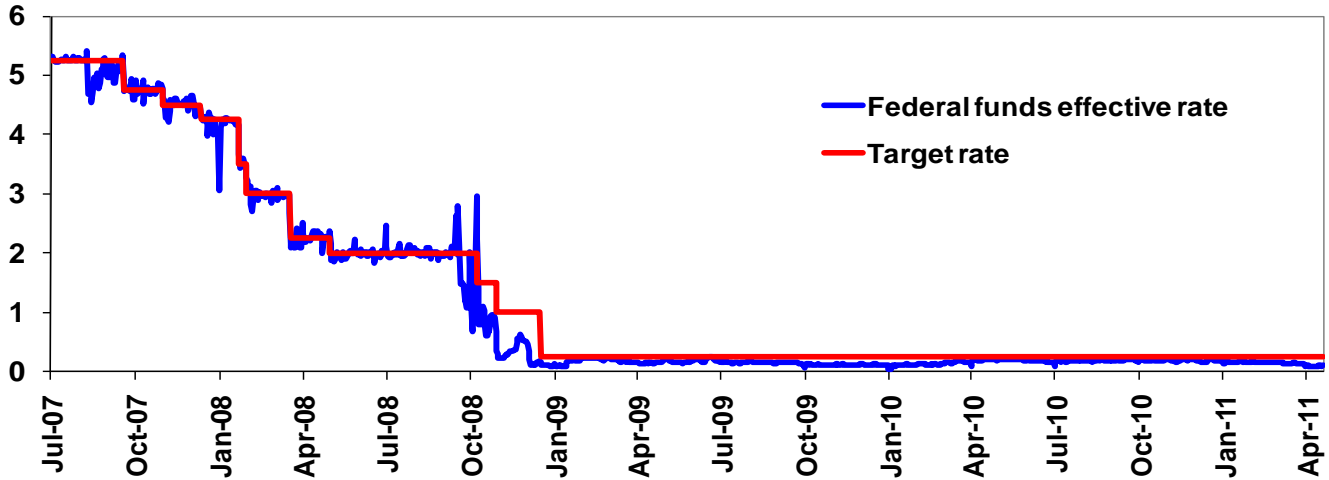


Sources: Bloomberg; International Monetary Fund.

Continued accommodative monetary policy in the United States



U.S. federal funds rate (%)

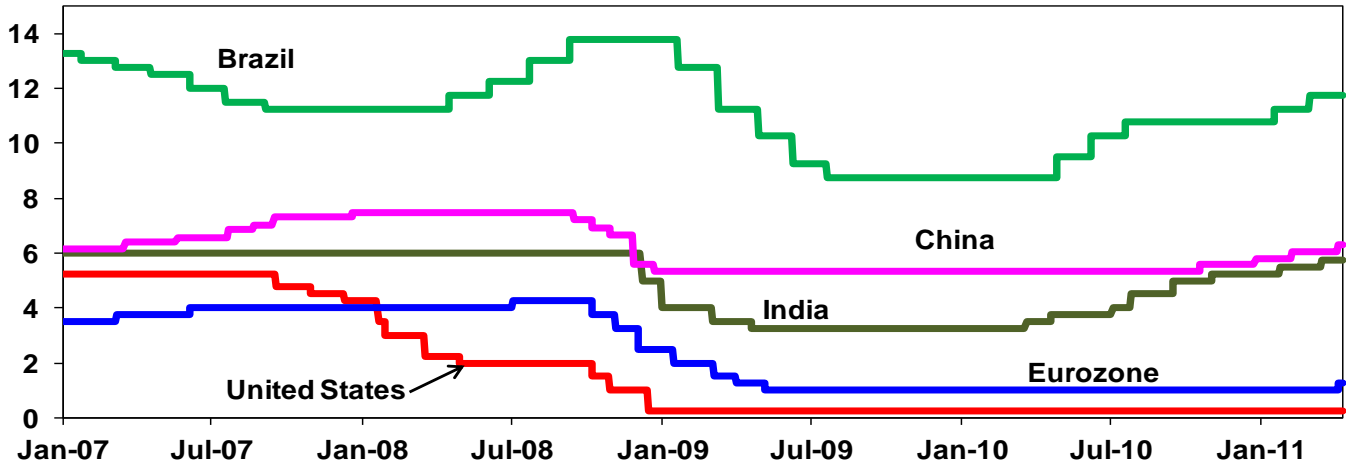


Source: Federal Reserve.

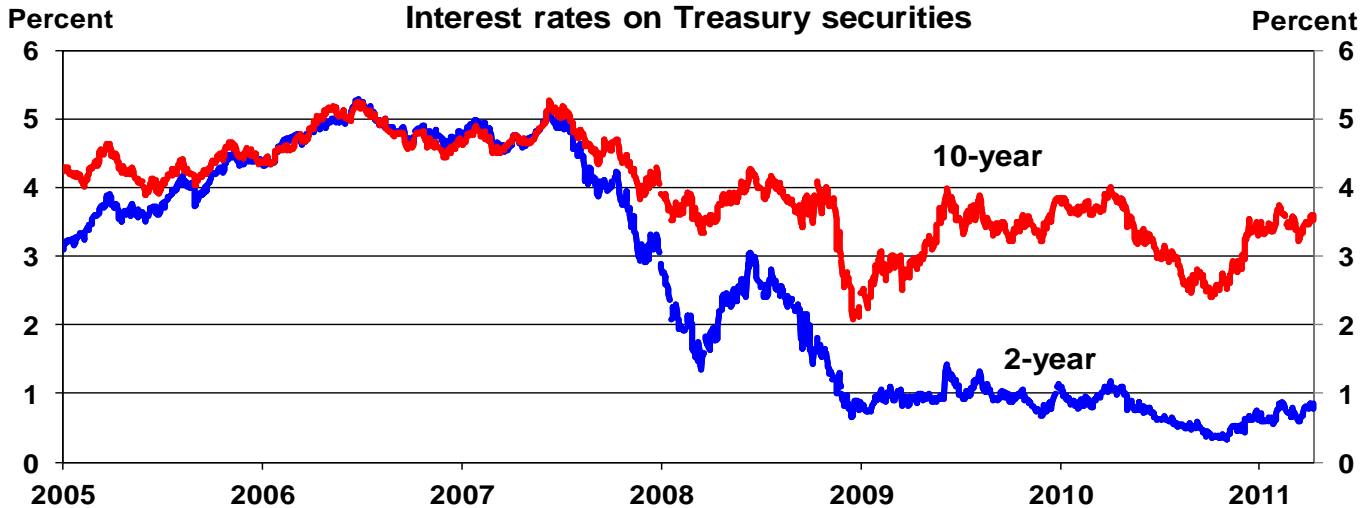
Some central banks started raising interest rates to counter inflation risk



Central bank rate (%)



U.S. Treasury yields remained low by historical standards



Source: Federal Reserve.

The dollar slid to a three-year low

Trade Weighted Exchange Index: Broad



Trade weighted exchange index
(January 1997 = 100)



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

Source: Federal Reserve.



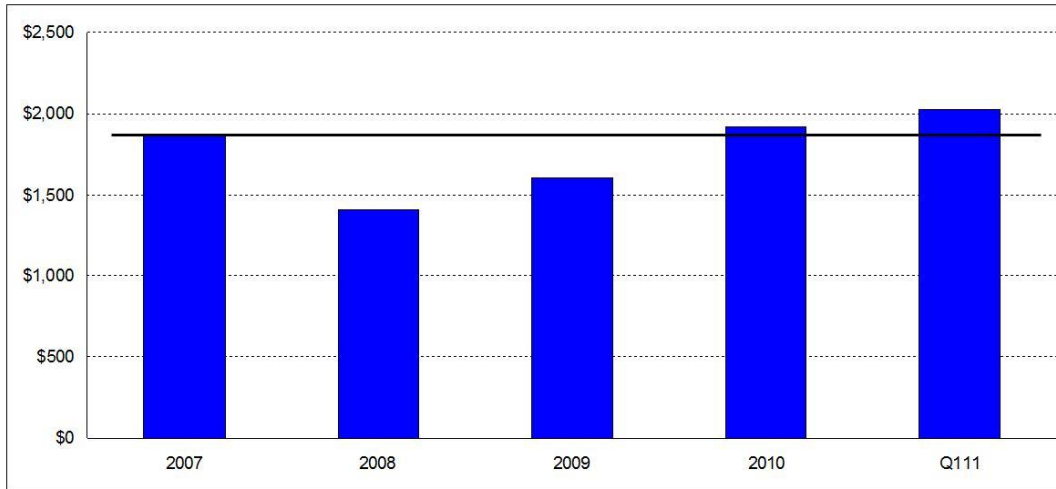
Josh Friedman's slides

Hedge fund industry



Assets

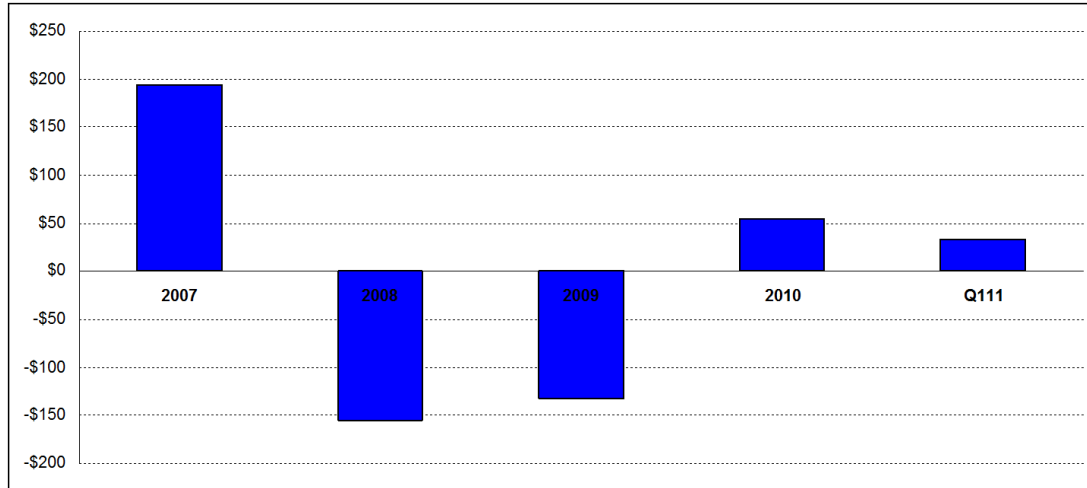
- At just over \$2trn in Q111, hedge fund industry assets have rebounded and surpassed the 2007 highs...



Hedge fund industry

Net asset flow

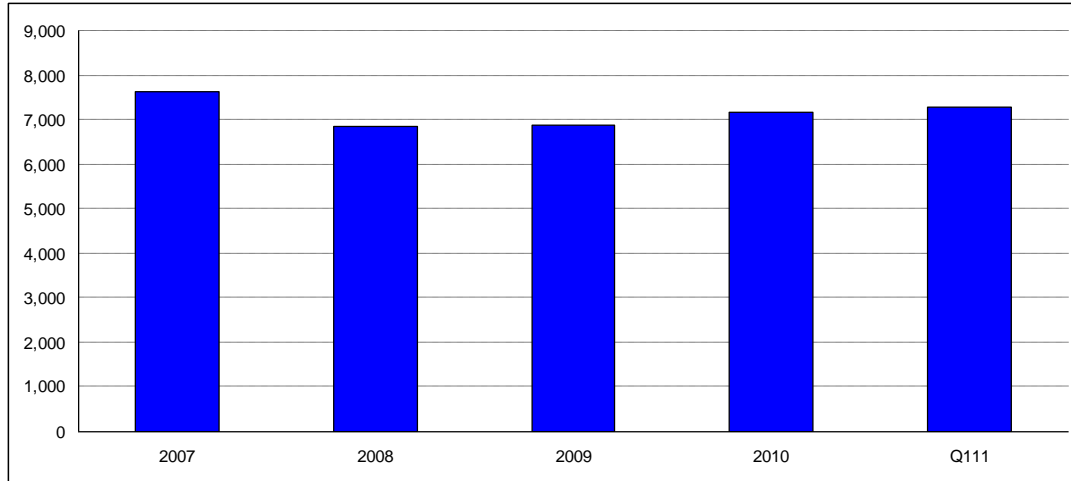
- After \$285bn of outflows in 2008 and 2009, the industry has returned to inflows in 2010 and YTD...



Hedge fund industry

Estimated number of funds

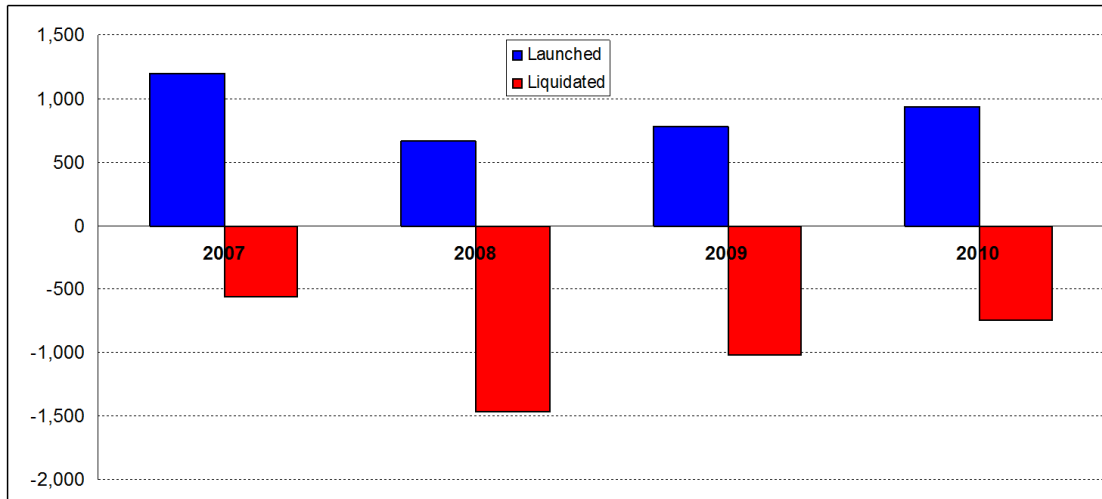
- While off the 2007 peak of ~7,600 funds, the number of funds bottomed in 2008 and has begun to grow slowly...



Hedge fund industry

Funds liquidated / launched

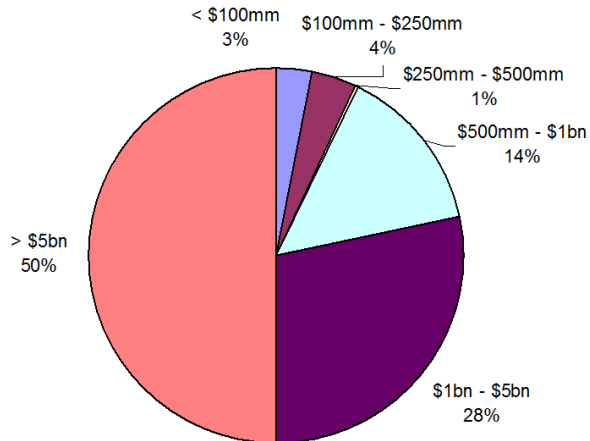
- **Hedge fund liquidations peaked at ~1500 in 2008 – in 2010, launches exceeded liquidations for the first time since 2007...**



Hedge fund industry

Flows by firm asset tier

- In Q111, 50% of inflows went to funds with AUM over \$5bn, and 78% of flows to funds over \$1bn...





Q&A

Email questions to:

gcquestion@milkeninstitute.org