



# **Economic and Financial Market Outlook**

**18<sup>th</sup> Annual Hyman P. Minsky Conference  
April 16-17, 2009**

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Wells Capital Management**

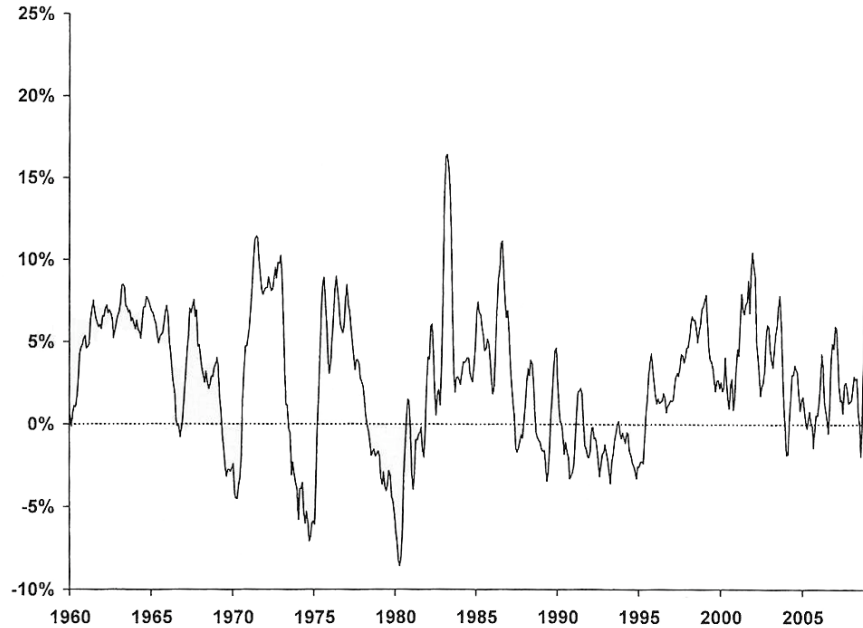


## V-Shaped Economic Recovery!!?

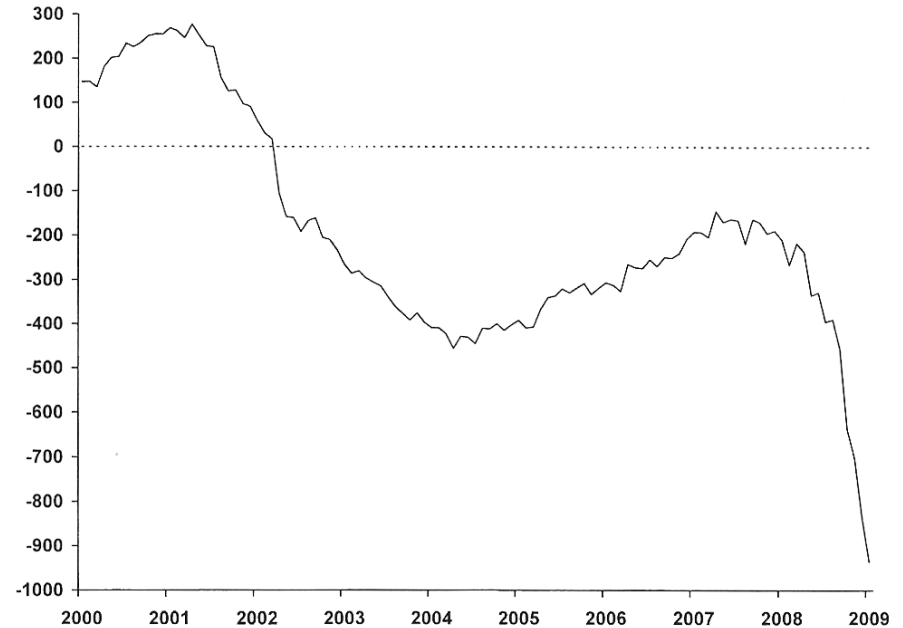
- Massive Policy Stimulus
- Sidelined Buying Power
- Healthy Player Thaw

# Stimulus GALORE!!!?

### Inflation-Adjusted M2 Money Supply Growth Annualized 6 Month Growth



### Trailing 12-Month Federal Government Deficit/Surplus – in Billions \$

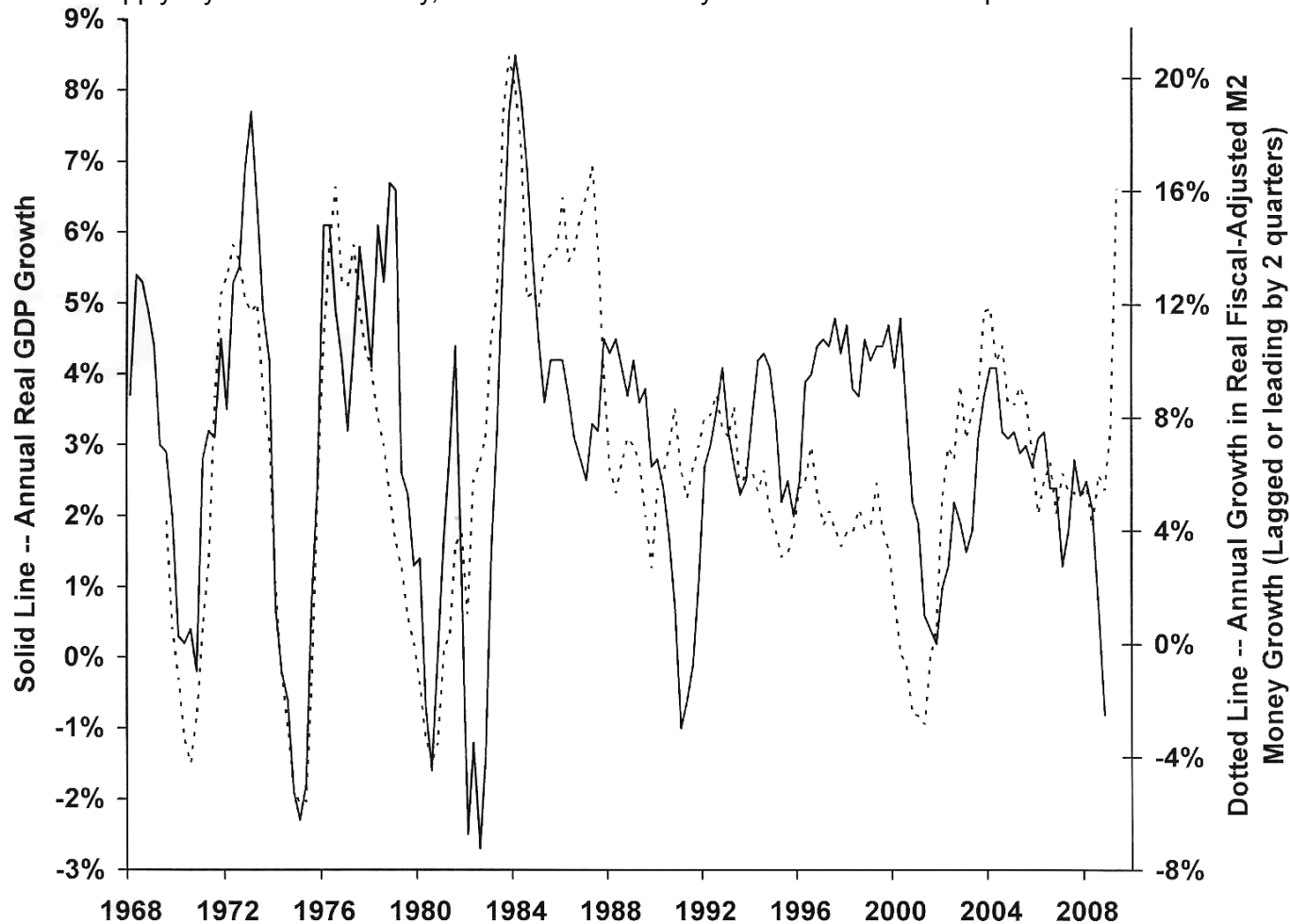


W W O W !!!

# Government Has Done Enough!!!?

## Annual Real GDP Growth vs. "Fiscal-Adjusted" M2 Money Supply Growth\*

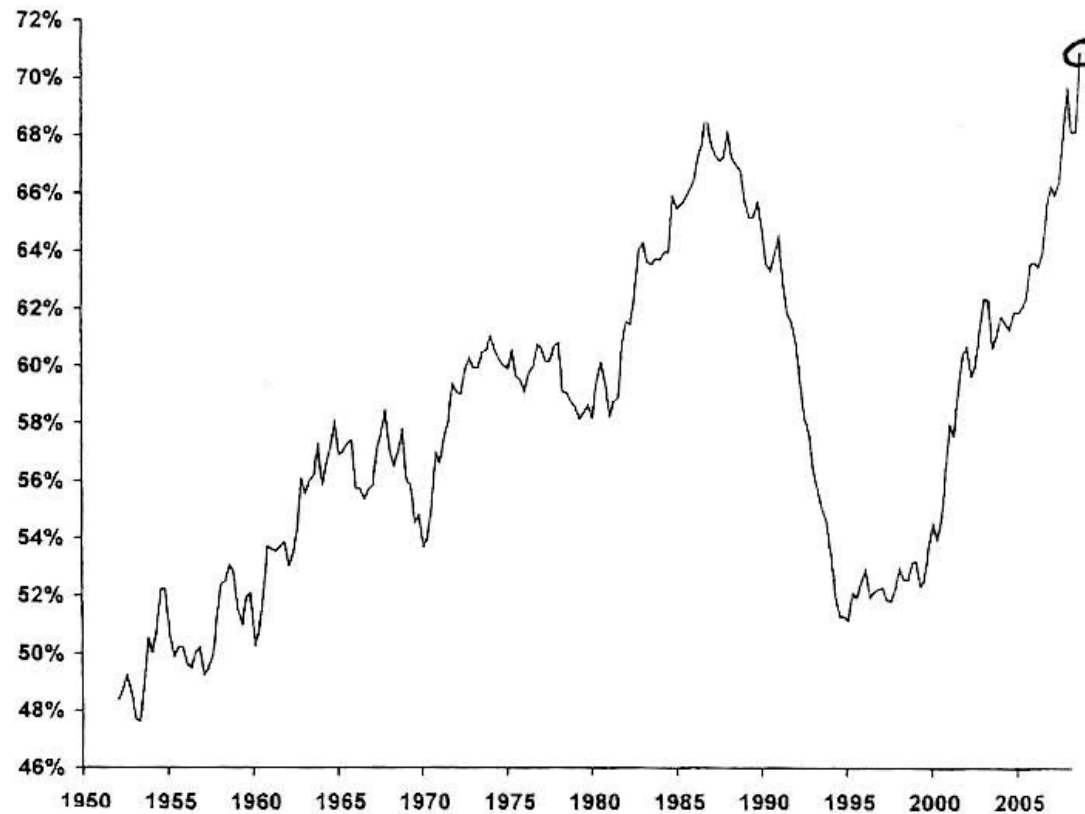
\*Annual change in M2 money supply plus annual increase in federal net outlays or less the annual reduction in net federal government outlays (i.e., federal outlays in less receipts) as a percent of initial base of M2 money supply a year earlier. Finally, this rate is reduced by the annual consumer price inflation rate.



# Sidelined Buying Power!!!?

## Private Sector Cash Holdings to GDP Ratio\*

\*Sum of cash holdings from Households, NonFinancial Corporations and NonCorporate Businesses as a Percent of Nominal GDP. Source: Tables B.100, B.102 and B.103 of Federal Reserve Flow of Funds Report (Z.1).

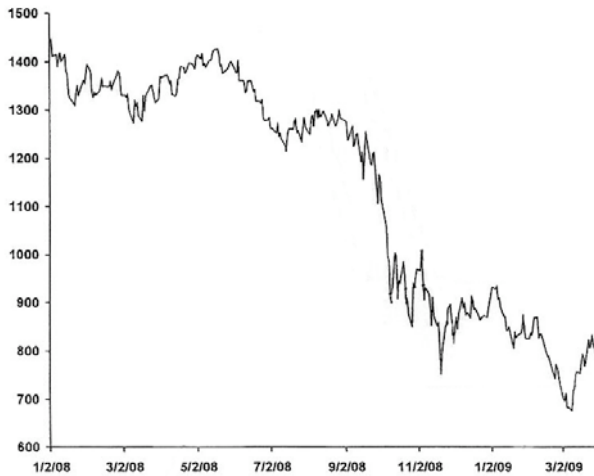


## Problems ...

- Credit Freeze
- High Consumer Debt
- H&A Death
- Global Recession
- **PLAYER PANIC**

# Wall Street Leads Main Street!??

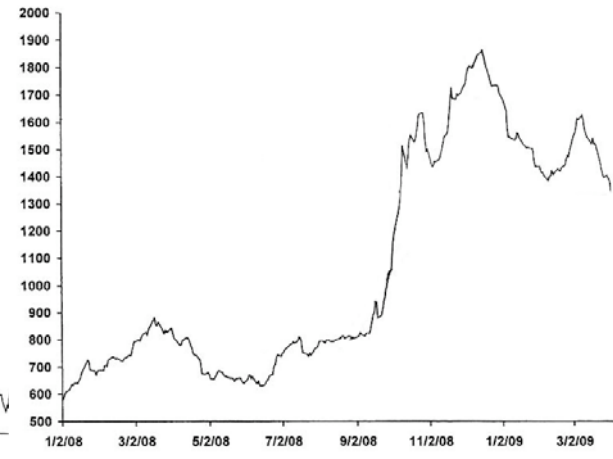
S&P 500  
Stock Price Index



CRB Commodity Price Index



JPMorgan High Yield Bond Index  
Yield Spread to Worst

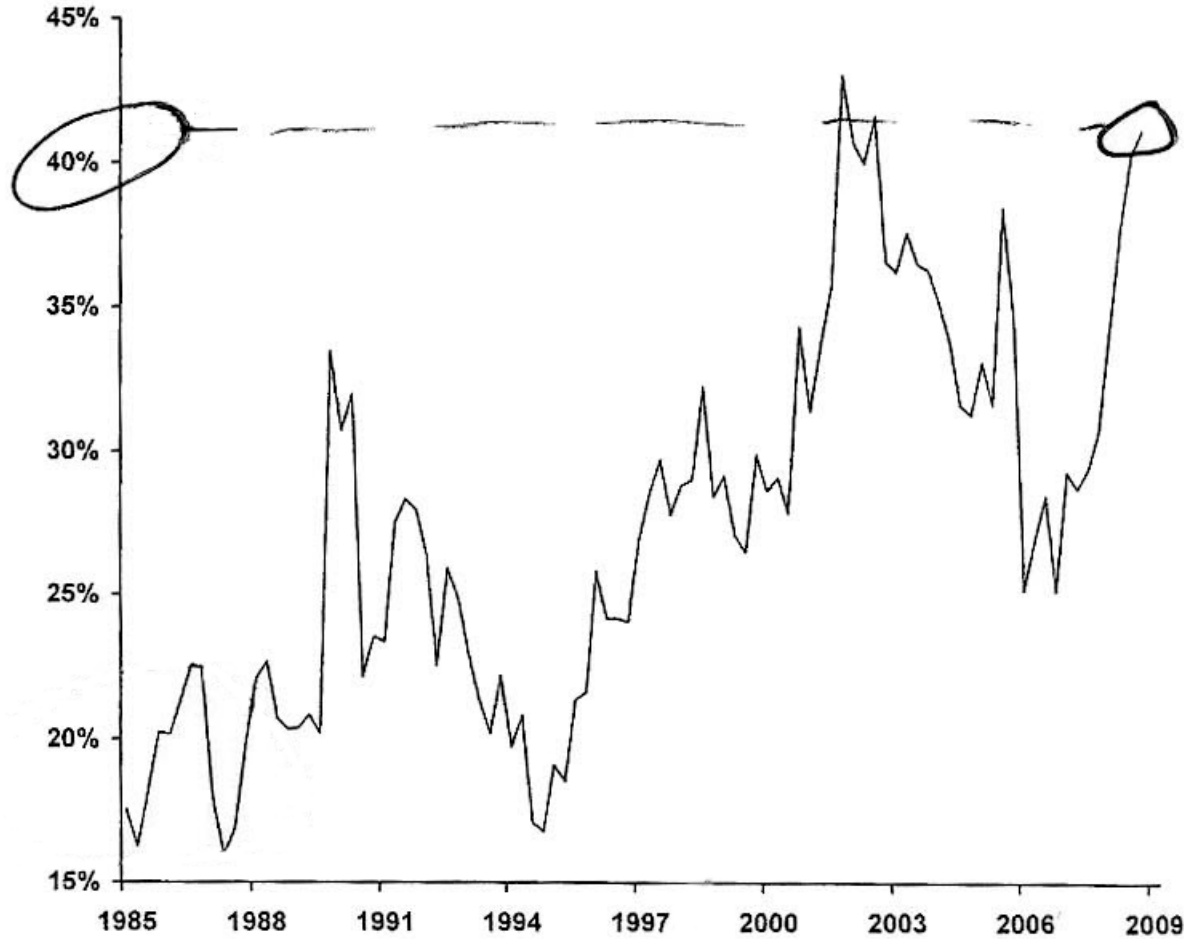


## Ending the Banking Crisis?!?

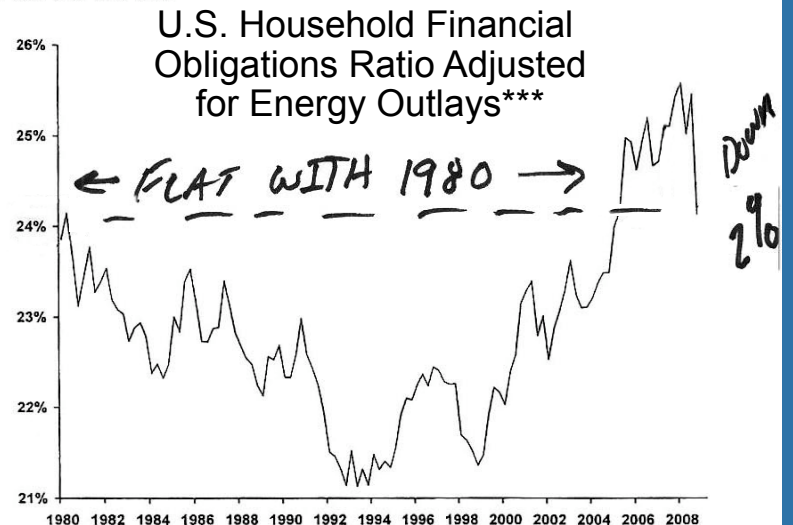
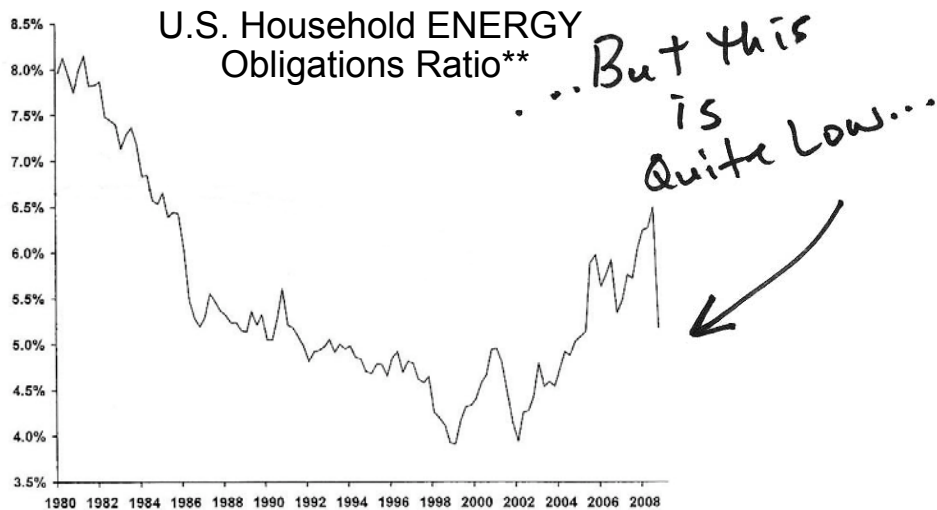
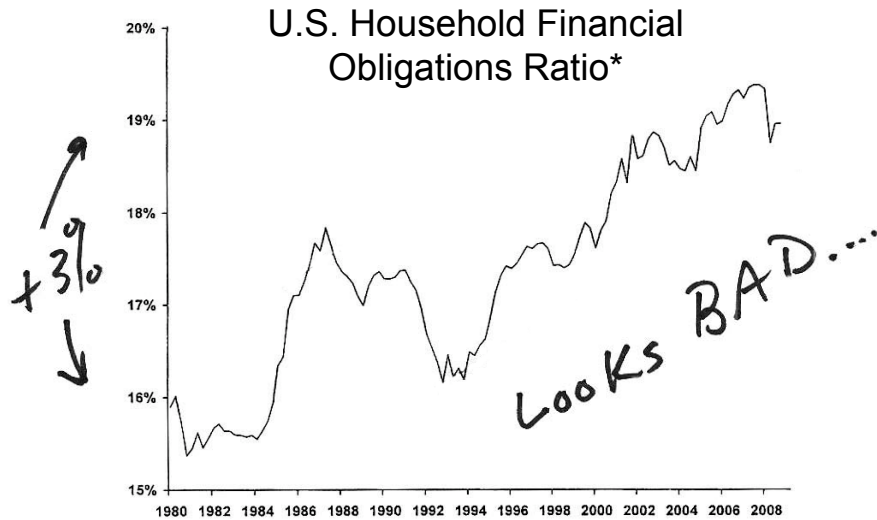
- “Nationalization” ... “Run on Bank Stocks”
- Easing Mark-to-Market
- Good “Operational Atmosphere” for Banks
- Wall Street “SMELLS” Economic Bottom

# Banking Pessimism May Be Overdone???

Charge Off Rates as a Percent of Delinquency Rates  
Total U.S. Bank Loans



# How Bad is the Household Burden??!



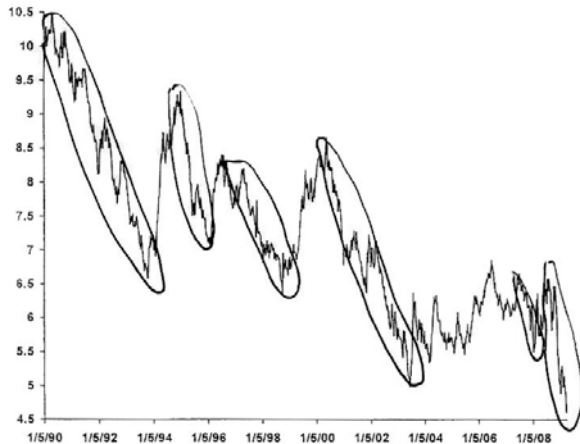
\*Includes all debt payments (principal and interest) on outstanding mortgage and consumer debt, auto least payments, rental payments on tenant-occupied property, homeowners' insurance and property tax payments as a percent of Disposable Personal Income.

\*\*Total Household Expenditures on Energy Goods and Services as a percent of Disposable Personal Income.

\*\*\*Includes all debt payments (principal and interest) on outstanding mortgage and consumer debt, auto least payments, rental payments on tenant-occupied property, homeowners' insurance and property tax payments AND Total Household Expenditures on Energy Goods and Services. All these outlays shown as a percent of Disposable Personal Income.

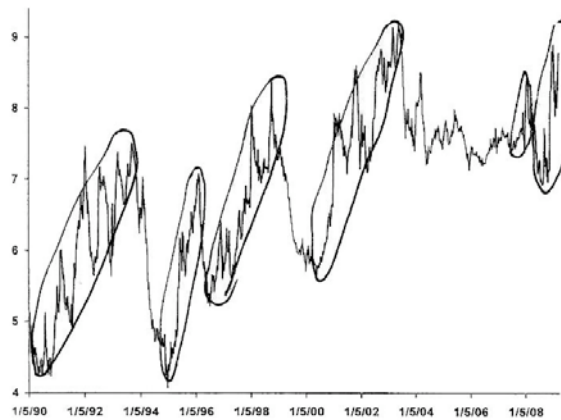
# REFI Machine Back in Action!!??

Mortgage Bankers' 30-Year National Mortgage Rate



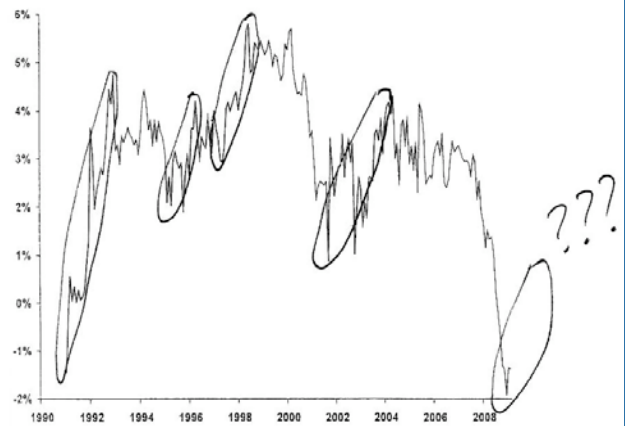
Mortgage Rates  
To New Lows...

Mortgage Bankers' Refinancing Applications Index



... REFI  
Explodes  
Again ...

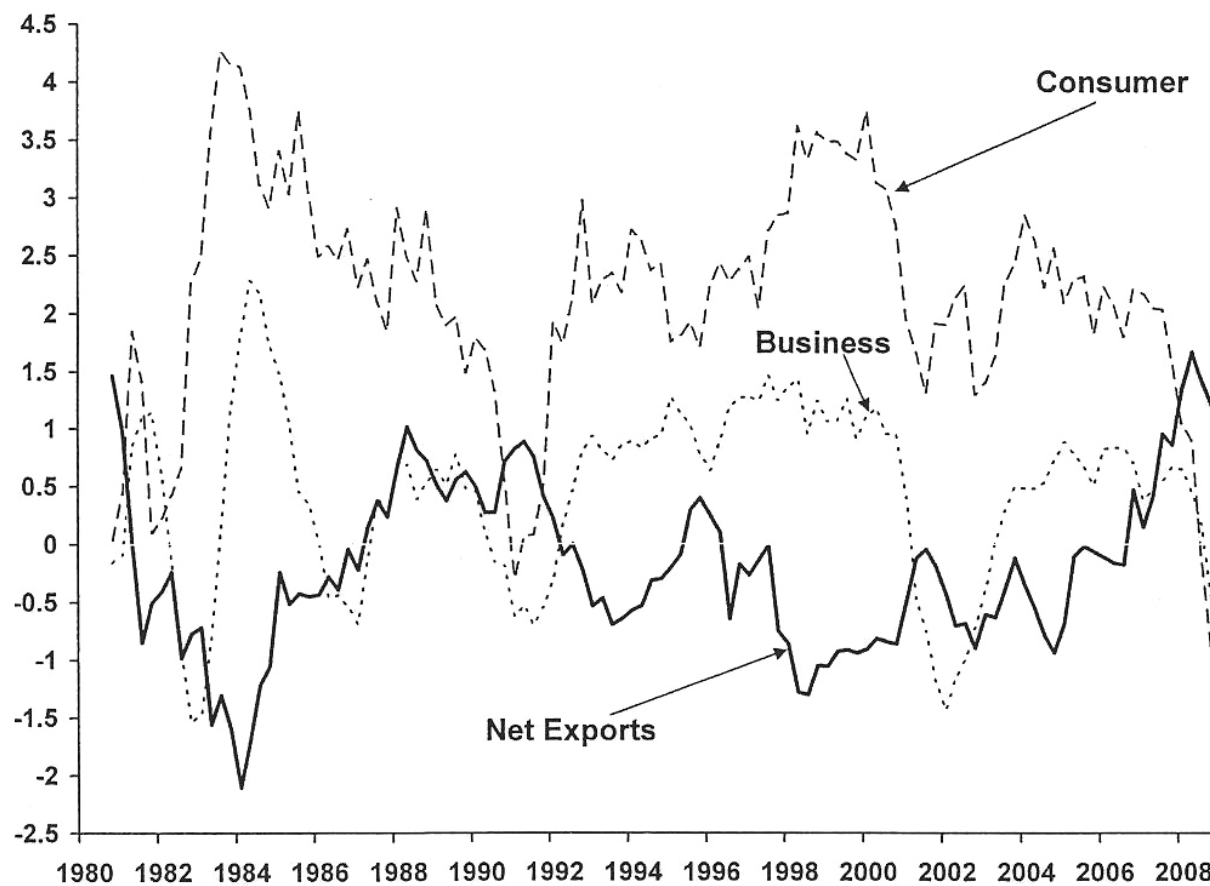
Real Personal Consumption Spending Annual Growth



... Can Consumption  
Be Far Behind???

# A New Composition For Future U.S. Growth!!?!

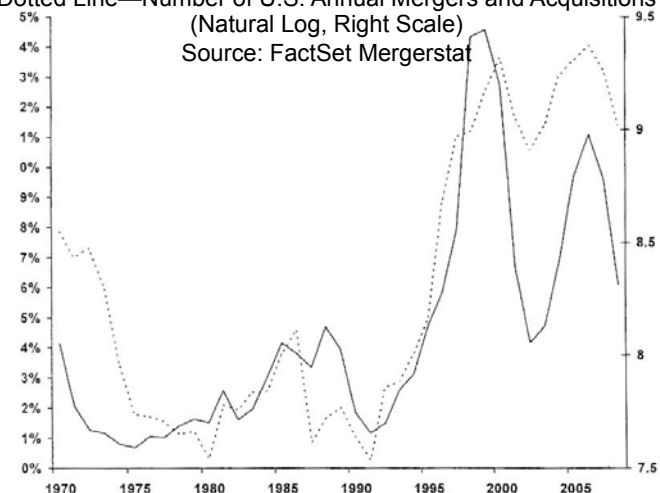
Trailing 4-Quarter Contributions  
to Total Real GDP Growth



# New Regulations... Or Simply Enforce Anti-Trust Laws???

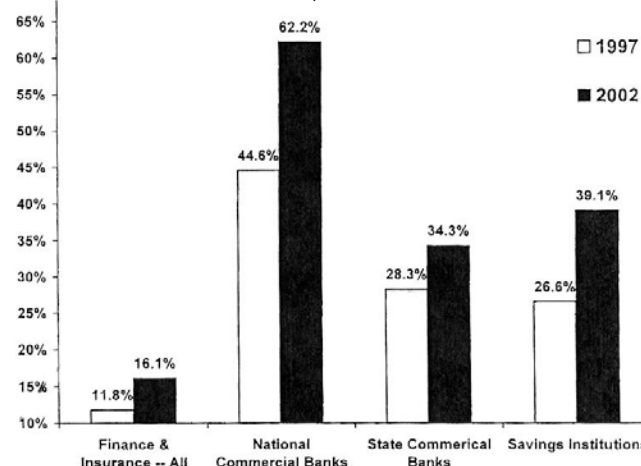
## U.S. Mergers & Acquisitions

Solid Line—U.S. Dollar Value of Annual U.S. Mergers and Acquisitions as a percent of Nominal GDP (Left Scale)  
 Dotted Line—Number of U.S. Annual Mergers and Acquisitions (Natural Log, Right Scale)  
 Source: FactSet Mergerstat



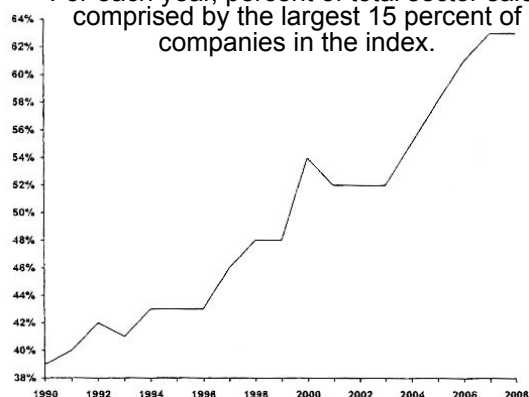
## Concentration Ratios in the U.S. Finance and Insurance Industries—1997 vs. 2002\*

\*Percent of Total Revenues in the Industry Comprised by the Largest eight firms.  
 Source: U.S. Census Bureau, 1997 and 2002 Economic Census



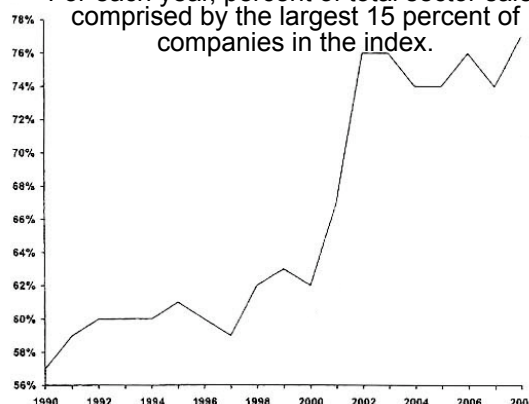
## S&P 500 Financials Sector Sales Concentration\*

\*For each year, percent of total sector sales comprised by the largest 15 percent of companies in the index.



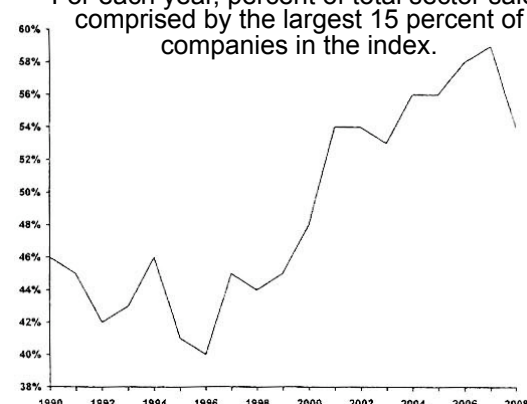
## S&P 500 Energy Sector Sales Concentration\*

\*For each year, percent of total sector sales comprised by the largest 15 percent of companies in the index.



## S&P 500 Health Care Sector Sales Concentration\*

\*For each year, percent of total sector sales comprised by the largest 15 percent of companies in the index.



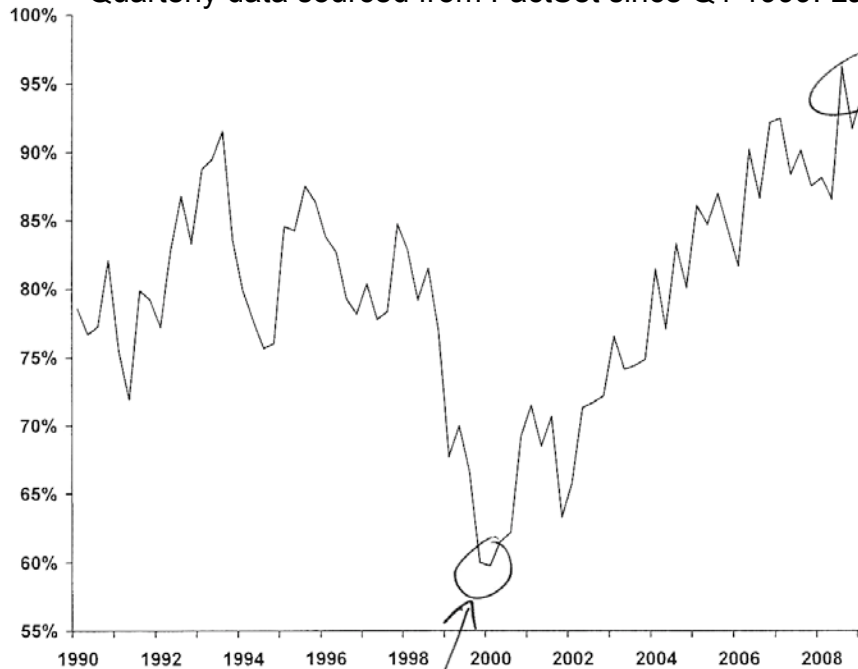


## Stock Market

# Safety is Expensive!!?

## Highest Dividend Yield Stocks Relative Valuation\*

\*For the S&P 500 Index, the median PE multiple (price to forward 1-year estimated IBES earnings per share) of the top quintile (highest) dividend yield stocks is shown as a percent of the overall median stock PE multiple of the entire S&P 500 Index. Quarterly data sourced from FactSet since Q1 1999. Last data point is as of 2/10/09.



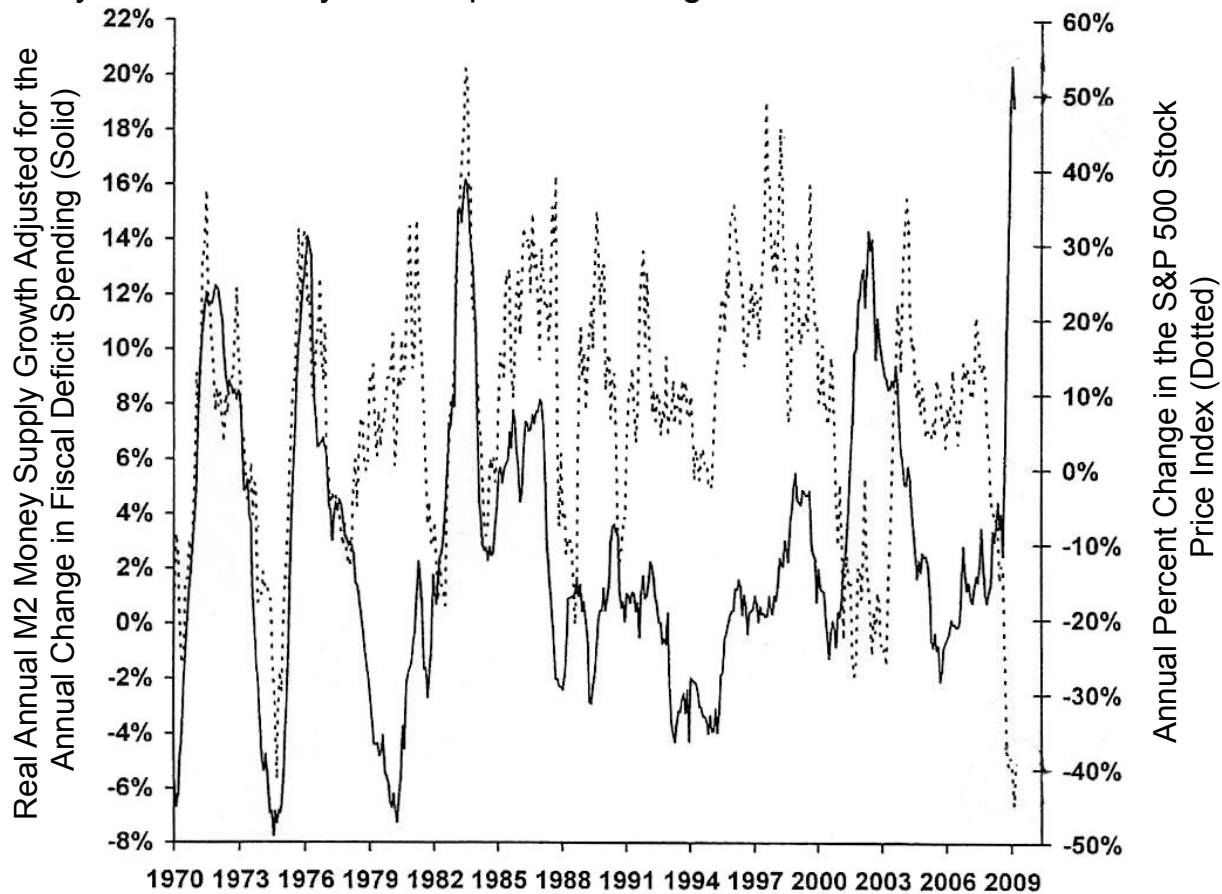
Everybody  
Wants Safety  
Today At the  
Bottom of  
"Irrational  
Fear"!!!

Nobody Wanted  
Safety At the Top  
of "Irrational Exuberance"!!

# Policy Push for Stocks Will Work!?!?

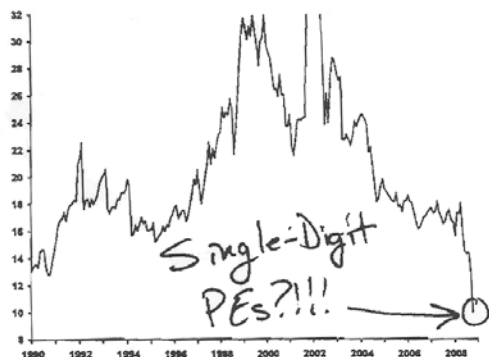
## Economic Policy\* vs. Stock Market

\*Annual percent change in M2 Money supply plus/minus annual increase/decrease in federal deficit spending during the previous year deflated by annual percent change in the CPI Inflation Index.

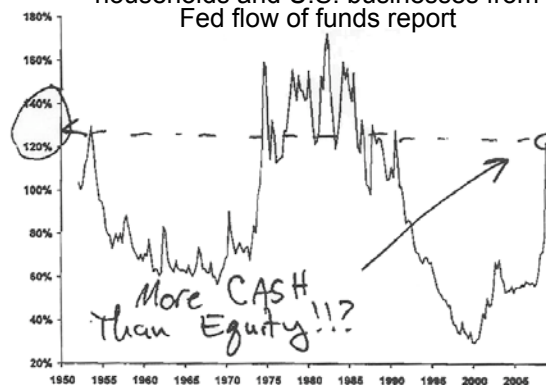


# VALUE is Back!!!!!!!

**S&P 500 Price-Earnings Multiple\***  
 \*Median Company Price to Forward 1-Year  
 IBES Mean Earnings Estimate



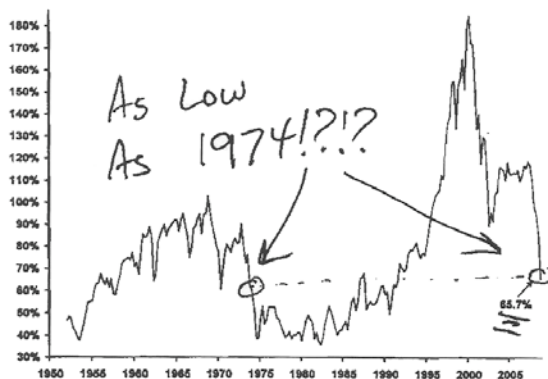
**U.S. Cash Holdings as a Percent of Total U.S. Stock Market Capitalization**  
 Cash holdings include liquid asset holdings of U.S. households and U.S. businesses from Fed flow of funds report



*BUY, Baby, BUY!!!!*

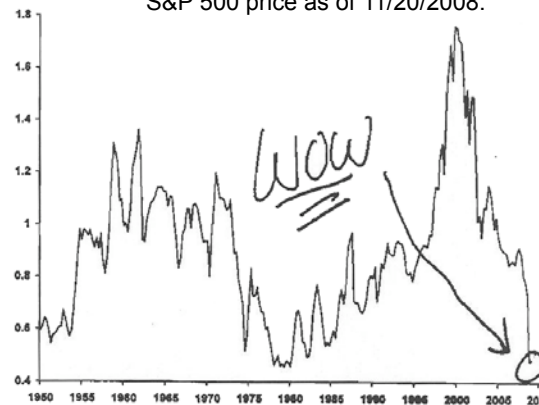
**U.S. Equity Market Capitalization as a Percent of Nominal GDP\***

\*Last data point based on actual nominal GDP data through 2008 Q3 and estimated flat nominal GDP for 4<sup>th</sup> Q and an estimated Market Capitalization adjusted for the total return of the Dow Jones Wilshire 5000 since the end of 2008 Q2. Last Data point as of 11/29/2008



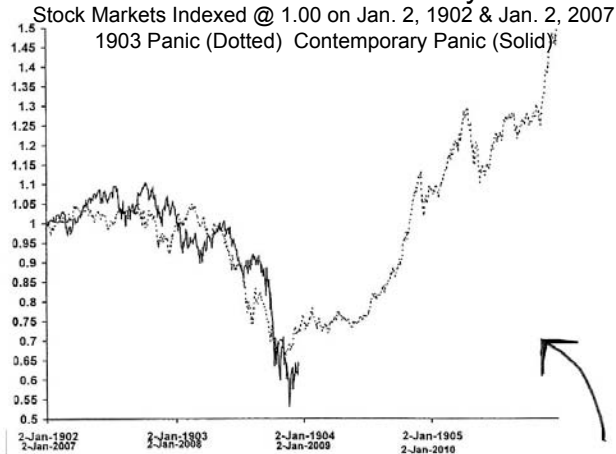
**U.S. Stock Market Price to Profits Ratio\***

\*Ratio of S&P 500 stock price index divided by trailing 4-quarter moving average of total U.S. corporate profits with IVA and CCA adjustments. Profit moving average is pushed forward one quarter. Latest data points based on actual reported 3<sup>rd</sup> quarter profits and on the S&P 500 price as of 11/20/2008.

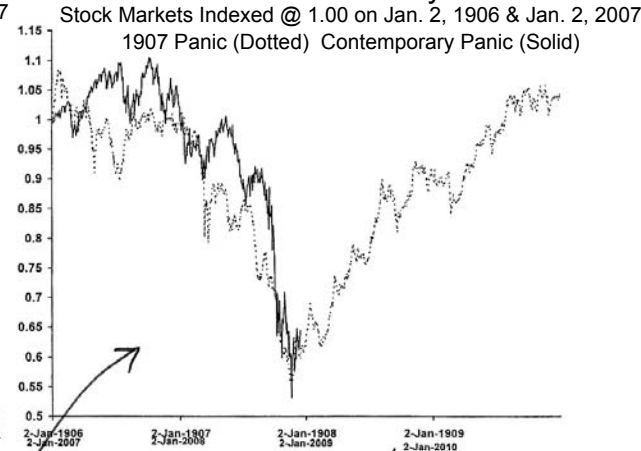


# Four Historic Stock Market Panics ... Four Spectacular Investment Opportunities

U.S. Stock Market Contemporary Panic vs. Rich Man's Panic 1903 Cycles

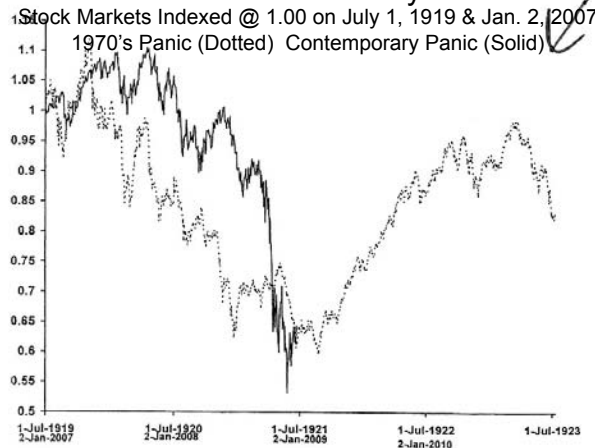


U.S. Stock Market Contemporary Panic vs. Panic of 1907 Cycles



*In Each Case ... the stock market fully recovered within 18 months of panic low!!*

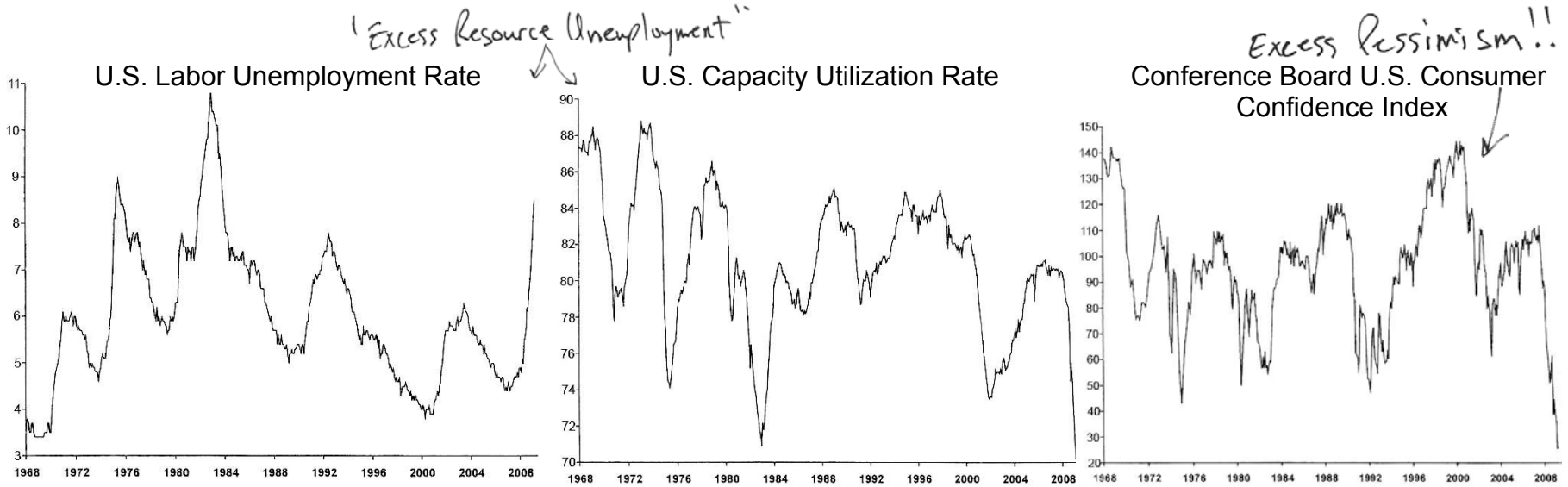
U.S. Stock Market Contemporary Panic vs. Prohibition Panic Cycles



U.S. Stock Market Contemporary Panic vs. Nifty-Fifty 1973-74 Cycles

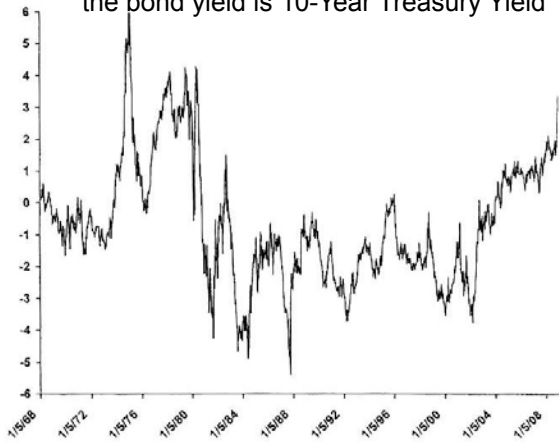


# Current "Excess Capacity" Fuel for Next Bull!??



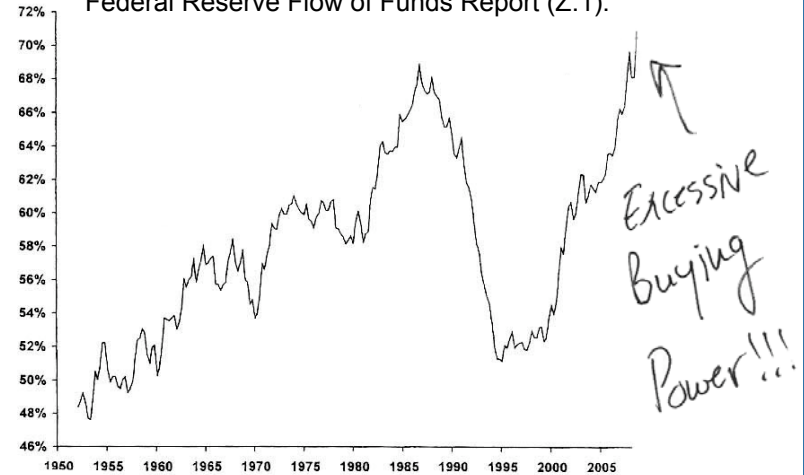
Stock Market Earnings Yield Less Bond Yield\*

\*Source for earnings yield is Bloomberg and the bond yield is 10-Year Treasury Yield



Private Sector Cash Holdings to GDP Ratio\*

\*Sum of Cash Holdings from U.S. Households, NonFinancial Corporate and NonCorporate Businesses as a Percent of Total Nominal GDP. Source: Table B.100, B.102 and B.103 of Federal Reserve Flow of Funds Report (Z.1).





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