



Economic and Investment Outlook

Investment Committee – Open Agenda Item 5

February 16, 2012

Rich Sega

Key Investment Themes

- ◆ Central banks are keeping global interest rates low
 - Conning's bias is for rates to rise

- ◆ Economic recovery is weak, but positive
 - Key threats include:
 - ❖ Global recession
 - ❖ Inflation
 - ❖ Regulatory over-reach

- ◆ Corporate balance sheets are generally strong
 - Conning favors:
 - ❖ Corporate bonds
 - ❖ High-Dividend Equity

Economic Outlook

| KEY ECONOMIC INDICATORS | Actual → | | | Forecast → | | | | | | | Actual → | | Forecast → | | |
|-----------------------------|----------|---------|--------|------------|---------|---------|---------|---------|---------|---------|----------|--------|------------|---------|---------|
| | 1Q11 | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Gross Domestic Product | 0.4% | 1.3% | 1.8% | 3.0% | 2.2% | 2.6% | 3.1% | 3.4% | 3.5% | 3.7% | -3.5% | 3.0% | 1.7% | 2.5% | 3.5% |
| Real GDP (Q4/Q4) | | | | | | | | | | | -0.5% | 3.1% | 1.6% | 2.8% | 3.7% |
| Civilian Unemployment Rate | 8.9% | 9.1% | 9.1% | 8.8% | 8.8% | 8.7% | 8.6% | 8.5% | 8.3% | 8.1% | 9.3% | 9.6% | 9.0% | 8.6% | 8.0% |
| Retail Sales | 10.5% | 4.7% | 4.7% | 7.6% | 4.0% | -1.7% | 4.8% | 6.9% | 6.6% | 6.8% | -7.0% | 6.4% | 7.7% | 4.0% | 5.9% |
| Michigan Consumer Sentiment | 73.1 | 71.9 | 59.6 | 65.0 | 68.1 | 68.9 | 69.7 | 71.3 | 73.3 | 74.3 | 66.3 | 71.8 | 67.4 | 69.5 | 74.8 |
| S&P Case-Shiller C-20 (Y/Y) | -5.0% | -5.8% | -3.9% | -3.8% | -2.1% | -3.0% | -3.0% | 0.2% | 0.9% | -0.5% | -11.5% | 0.2% | -4.6% | -2.0% | 1.0% |
| WTI Oil Price | \$94.0 | \$102.6 | \$89.7 | \$94.1 | \$104.0 | \$112.1 | \$116.4 | \$121.6 | \$126.3 | \$135.3 | \$61.7 | \$79.4 | \$95.1 | \$113.5 | \$137.0 |
| CPI (Y/Y) | 2.1% | 3.4% | 3.8% | 3.3% | 2.5% | 2.3% | 2.3% | 2.7% | 3.0% | 3.1% | 2.7% | 1.5% | 3.1% | 2.9% | 3.0% |
| CPI Core (Y/Y) | 1.1% | 1.5% | 2.0% | 2.2% | 2.1% | 2.0% | 1.9% | 2.1% | 2.1% | 2.0% | 1.8% | 0.8% | 2.2% | 2.1% | 2.0% |
| PPI (Y/Y) | 4.9% | 6.9% | 6.8% | 5.4% | 2.9% | 2.5% | 3.4% | 4.2% | 5.1% | 4.9% | 4.3% | 3.7% | 4.5% | 4.7% | 4.7% |
| Fed Funds Rate | 0.10% | 0.07% | 0.06% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.25% | 0.16% | 0.16% | 0.10% | 0.10% | 0.48% |
| 2-Year Note Yield | 0.80% | 0.45% | 0.25% | 0.30% | 0.50% | 0.60% | 0.75% | 0.95% | 1.25% | 1.55% | 0.95% | 0.65% | 0.43% | 0.65% | 1.72% |
| 5-Year Note Yield | 2.24% | 1.76% | 0.96% | 0.95% | 1.30% | 1.60% | 1.80% | 2.05% | 2.30% | 2.60% | 2.22% | 1.86% | 1.49% | 1.61% | 2.68% |
| 10-Year Note Yield | 3.47% | 3.18% | 1.92% | 2.00% | 2.30% | 2.60% | 2.90% | 3.15% | 3.40% | 3.60% | 3.29% | 3.14% | 2.76% | 2.65% | 3.63% |
| 30-Year Bond Yield | 4.51% | 4.38% | 2.90% | 3.00% | 3.35% | 3.65% | 3.85% | 4.10% | 4.35% | 4.55% | 4.10% | 4.17% | 3.87% | 3.65% | 4.58% |

Source of data and commentary: Action Economics

Numbers represent averages for indicated time frame.