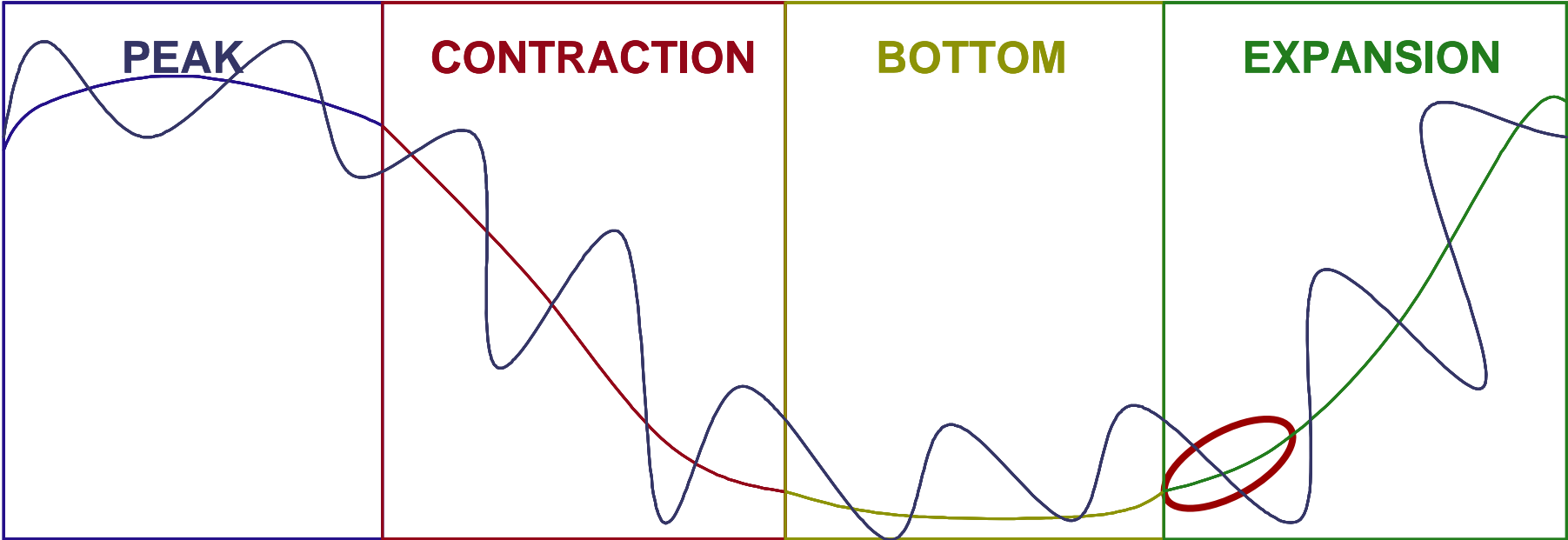


**Market Outlook/Economic Update**  
**Pete Guastamachio**  
**May 12, 2011**

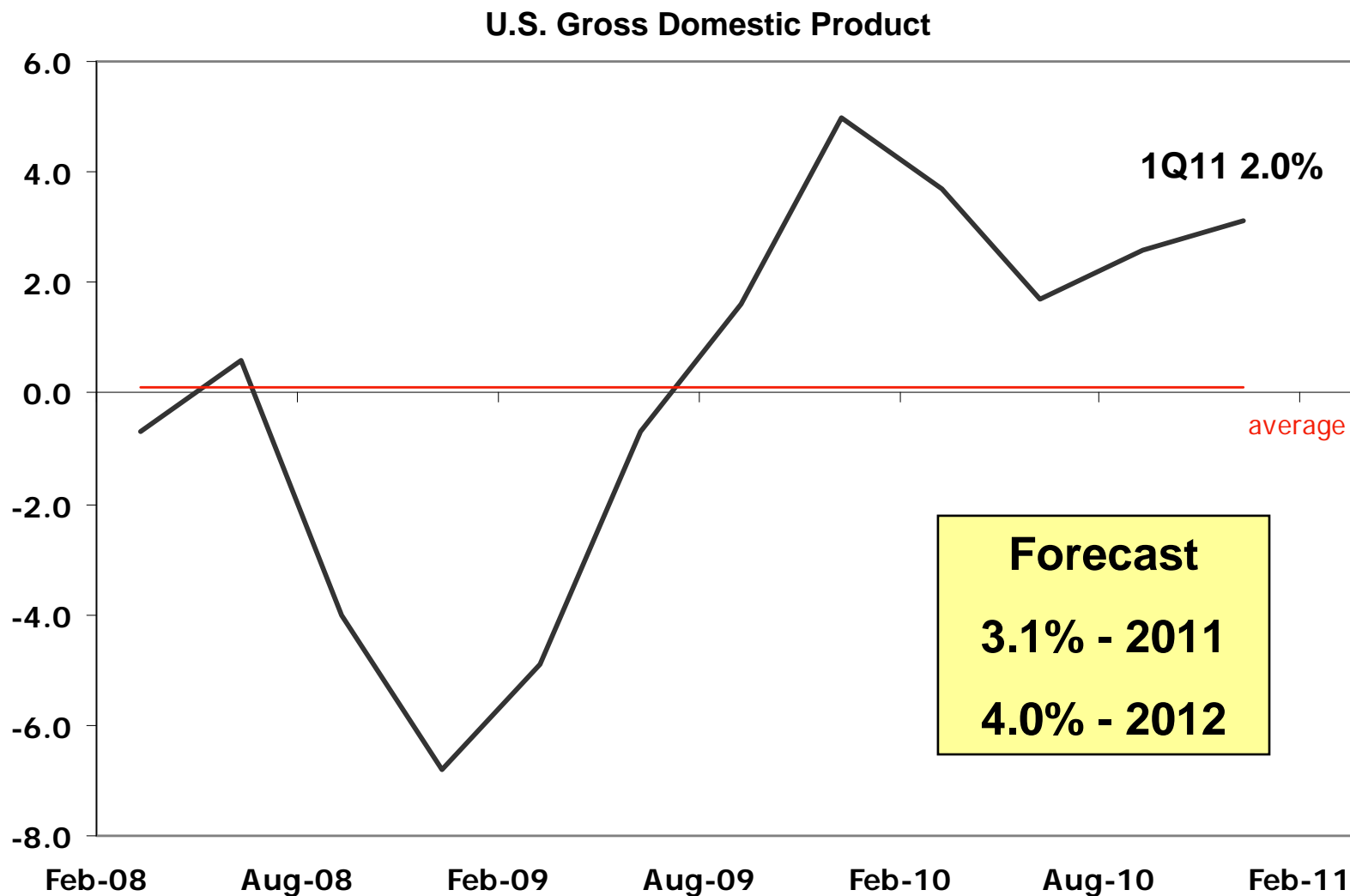
# The economic cycle



## U.S. economic and capital market outlook

- ◆ Growth has slowed in Q1 but fundamentals of growth remain solid - 2011 3.1%
- ◆ Employment situation is barely improving
- ◆ Core CPI to remain subdued at 1.4% in 2011 and 1.6% in 2012
- ◆ QE II will end in June without a material Treasury selloff to follow
- ◆ U.S. Dollar will average \$1.42/Euro in 2011, rising to \$1.45 in 2012
- ◆ ECB has begun to raise rates - from 1.0% to 1.25% in April, but.....  
...U.S. monetary policy remains accommodative – no change in 2011
- ◆ Slow creep higher in interest rates - 10-year UST in a 3.5%-4.0% range in 2011
- ◆ Yield curve to flatten early 2012
- ◆ Credit spreads to narrow...but not much more
- ◆ Equities should continue to perform well at this point in the cycle

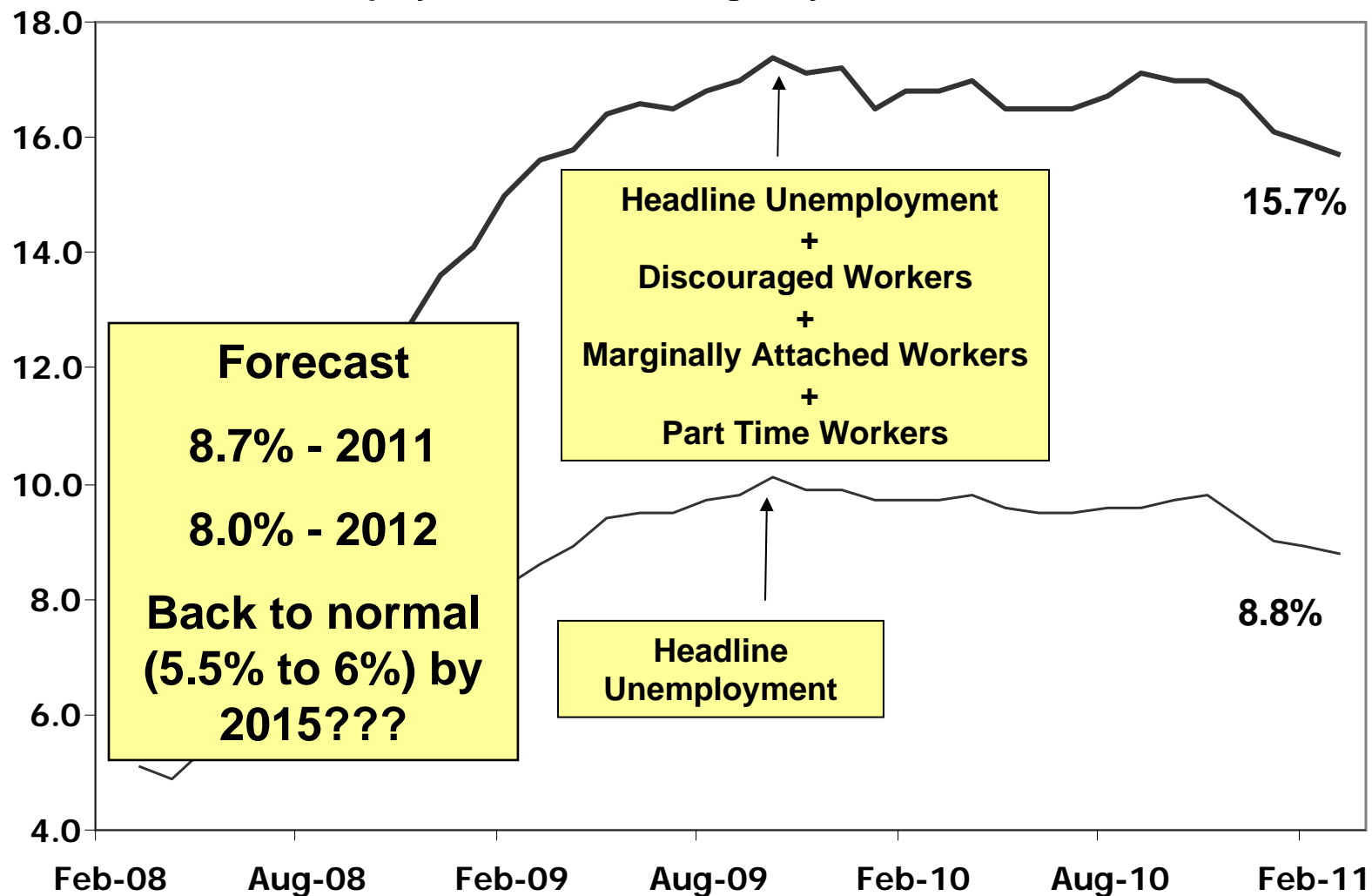
# GDP growth – jagged upward trajectory



Source: Bloomberg, Conning Analytics

# Employment situation barely improving

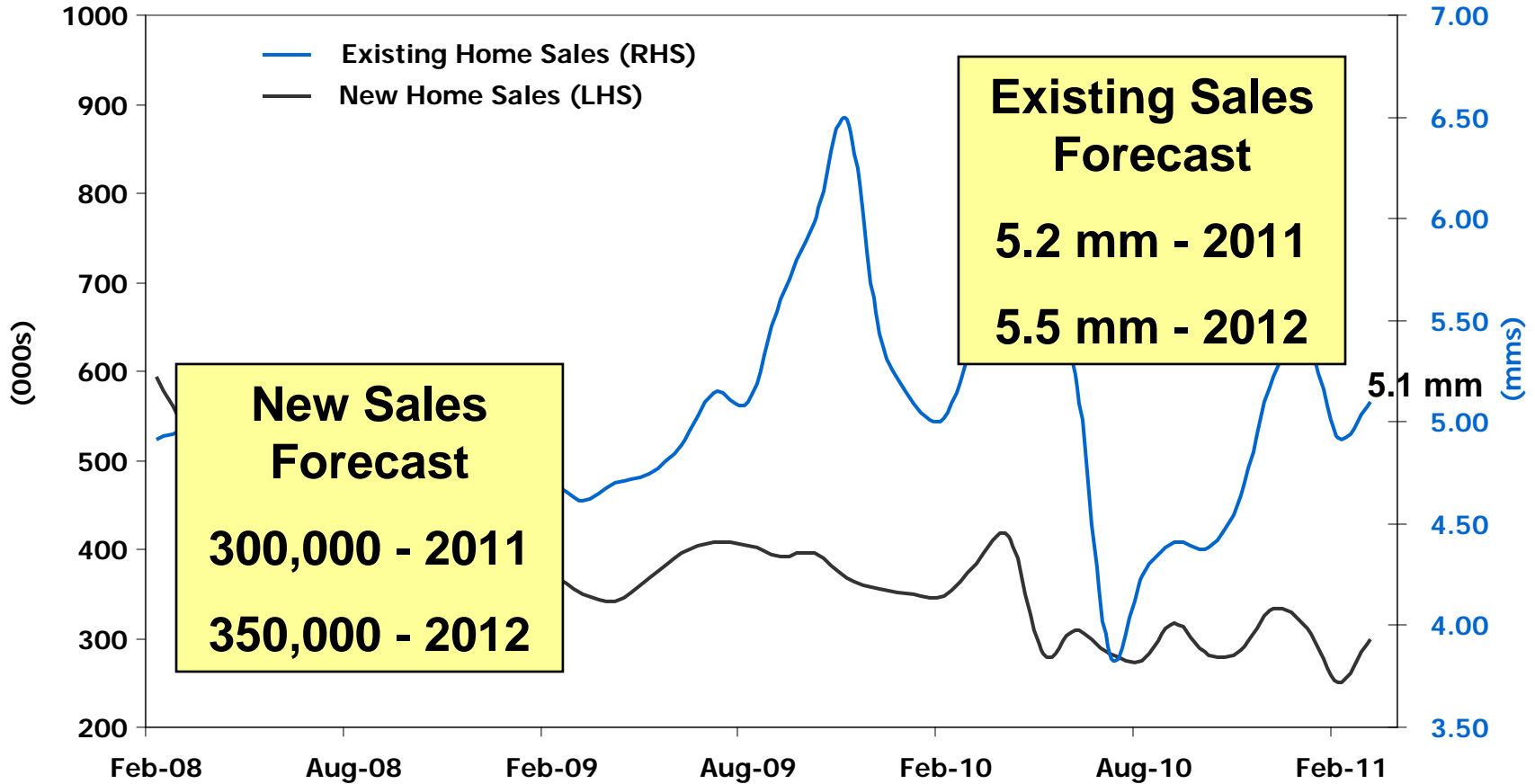
Unemployment Rate and Marginally Attached Workers



Source: Bloomberg, Conning Analytics

# Housing recovery continues to disappoint

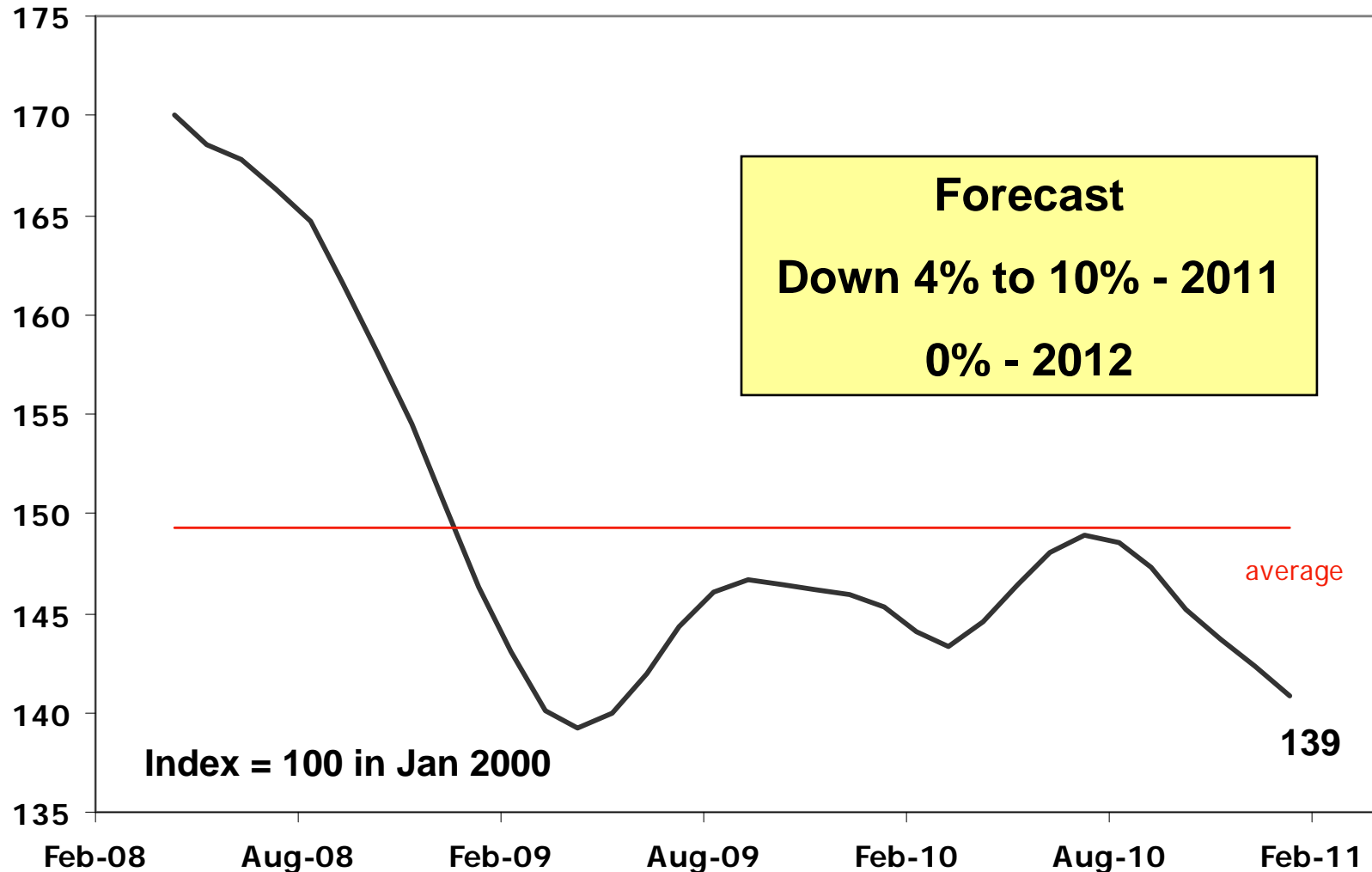
Home Sales: New vs. Existing  
Seasonally Adjusted Annual Rate (SAAR)



Source: Bloomberg, Conning Analytics

# Home prices remain stagnant at best

Case-Shiller 20 Metropolitan Statistical Area (MSA) Home Price Index



Source: Bloomberg, Conning Analytics

# Commodity prices continue to rise

Dow Jones – UBS Commodity Index

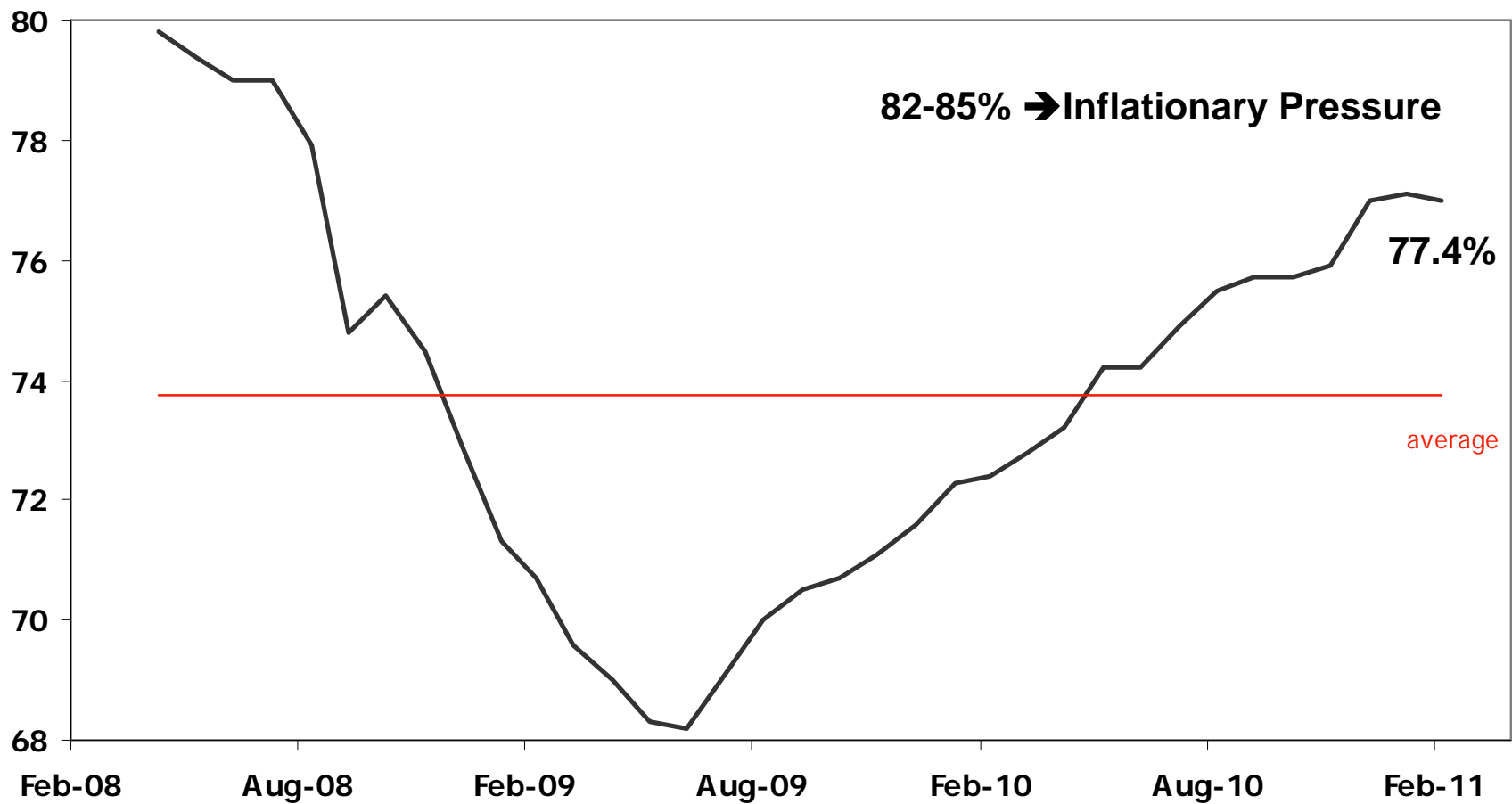


Source: Bloomberg, Conning Analytics



# Manufacturing output rising, but slack remains

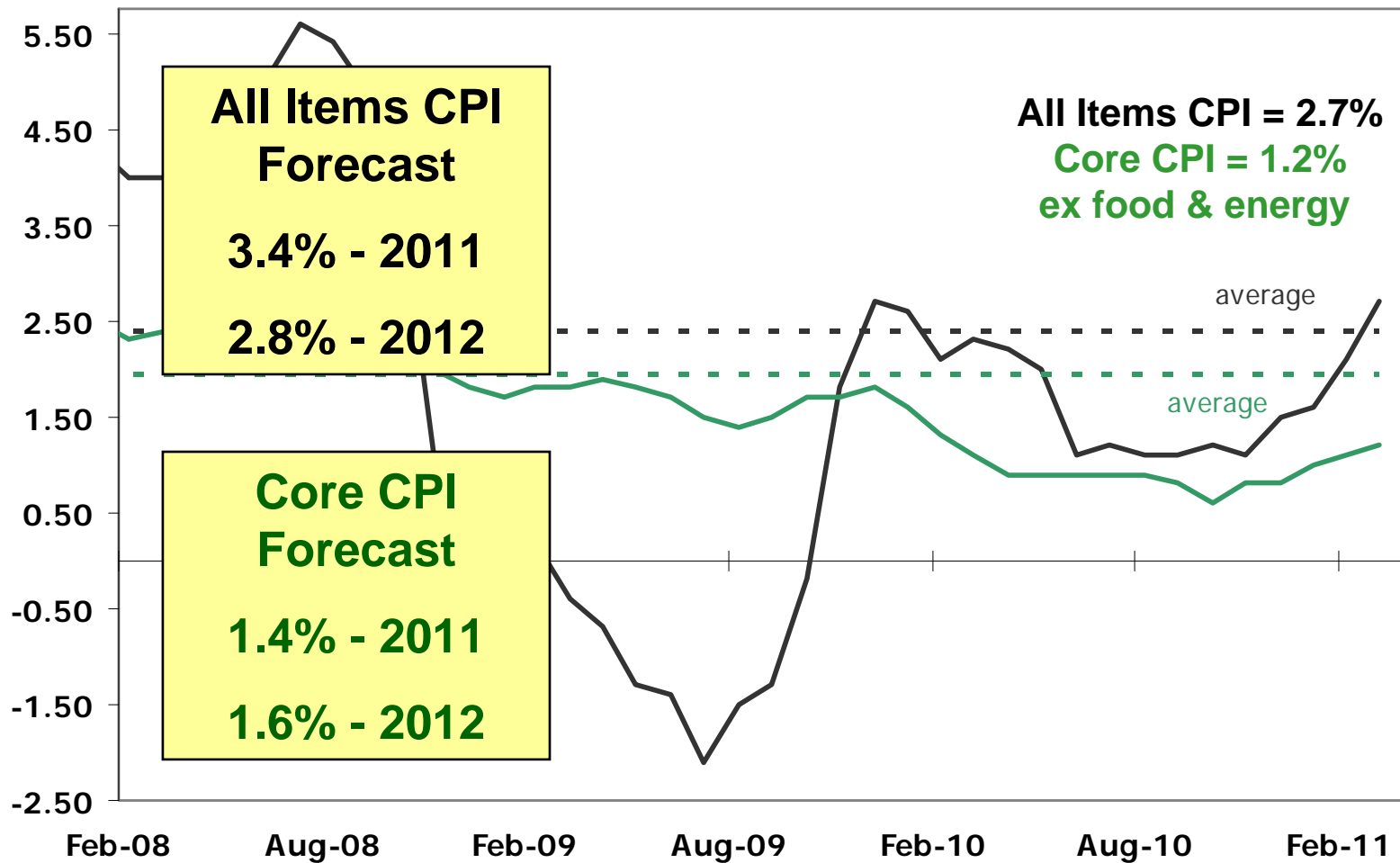
U.S. Capacity Utilization Index



Source: Bloomberg, Conning Analytics

# Direction of core inflation will determine FOMC action

CPI and Core CPI



Source: Bloomberg, Conning Analytics

## U.S. economic outlook: the numbers

| Key Economic Indicators        | Actual | Forecast (average) |              |
|--------------------------------|--------|--------------------|--------------|
|                                | 2010   | 2011               | 2012         |
| Gross Domestic Product         | 2.8%   | 3.1%               | 4.0%         |
| Civilian Unemployment Rate     | 9.6%   | 8.7%               | 8.0%         |
| Existing Home Sales (millions) | 4.9    | 5.2                | 5.5          |
| S&P Case-Shiller C-20 (Y/Y)    | 0.1%   | - 4.0% to 10%      | 0.0%         |
| WTI Oil Price                  | \$93   | \$110              | <b>\$130</b> |
| CPI (Y/Y)                      | 1.5%   | 3.4%               | 2.8%         |
| CPI Core (Y/Y)                 | 0.8%   | <b>1.4%</b>        | <b>1.6%</b>  |
| Fed Funds Rate                 | 0.25%  | <b>0.25%</b>       | <b>1.25%</b> |
| 2-Year Note Yield              | 0.60%  | <b>1.10%</b>       | <b>2.75%</b> |
| 10-Year Note Yield             | 3.30%  | <b>3.75%</b>       | <b>4.50%</b> |
| 2-10 year yield slope          | 2.70%  | 2.65%              | <b>1.75%</b> |

Source: ActionEconomics

10

## Conning's April sector strategy summary

| Asset Class                 | Bias         |
|-----------------------------|--------------|
| U.S. Treasurys              | Underweight  |
| U.S. Agencies               | Underweight  |
| Investment Grade Corporates | Overweight   |
| High Yield Corporates       | Marketweight |
| Municipals                  | Marketweight |
| Mortgage-Backed Securities  | Marketweight |
| Commercial MBS              | Marketweight |
| Asset-Backed Securities     | Marketweight |
| Yield Curve Position        | Ladder       |
| Duration Stance             | Short        |
| Equities                    | Overweight   |

**Corporates =**

**P/C - 25% of  
fixed income  
portfolios**

**L/H - 55% of  
fixed income  
portfolios**

# Investment grade corporate relative value solar system

