

INVESTMENT COMMITTEE MEETING (OPEN)

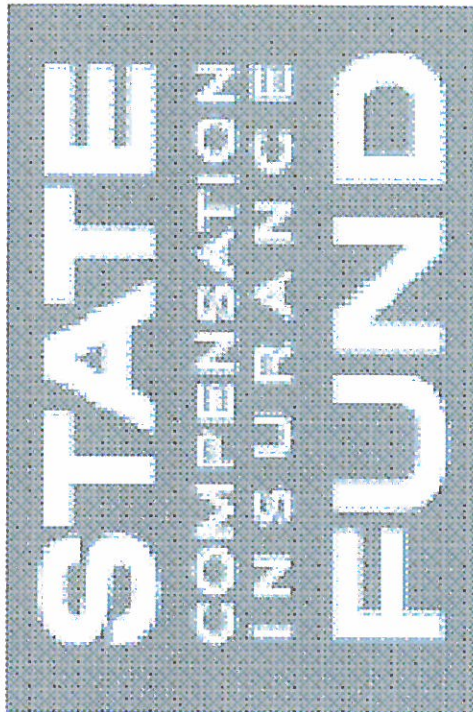
AGENDA ITEM 10

ATTACHMENT ~ AMENDED ~ HANDOUT DISTRIBUTED

ECONOMY and OUTLOOK for INVESTMENT PORTFOLIO

PRESENTED BY: GENERAL RE-NEW ENGLAND ASSET MANAGEMENT

September 10, 2009



# The Economy, Capital Markets & the Leverage Cycle: *Where Are We Now?*

September, 2009

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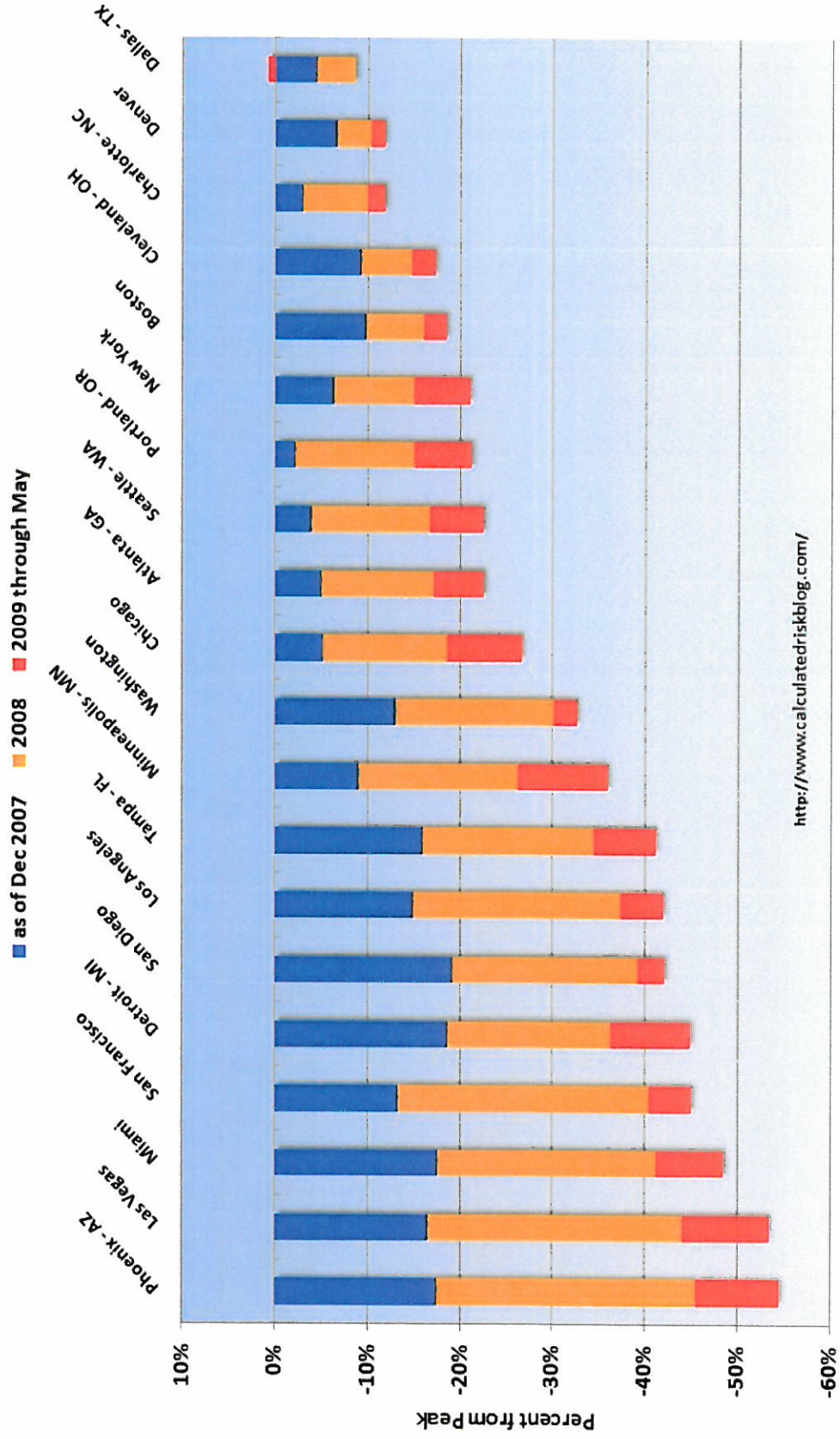
# The Housing Market





# House Price Declines by City

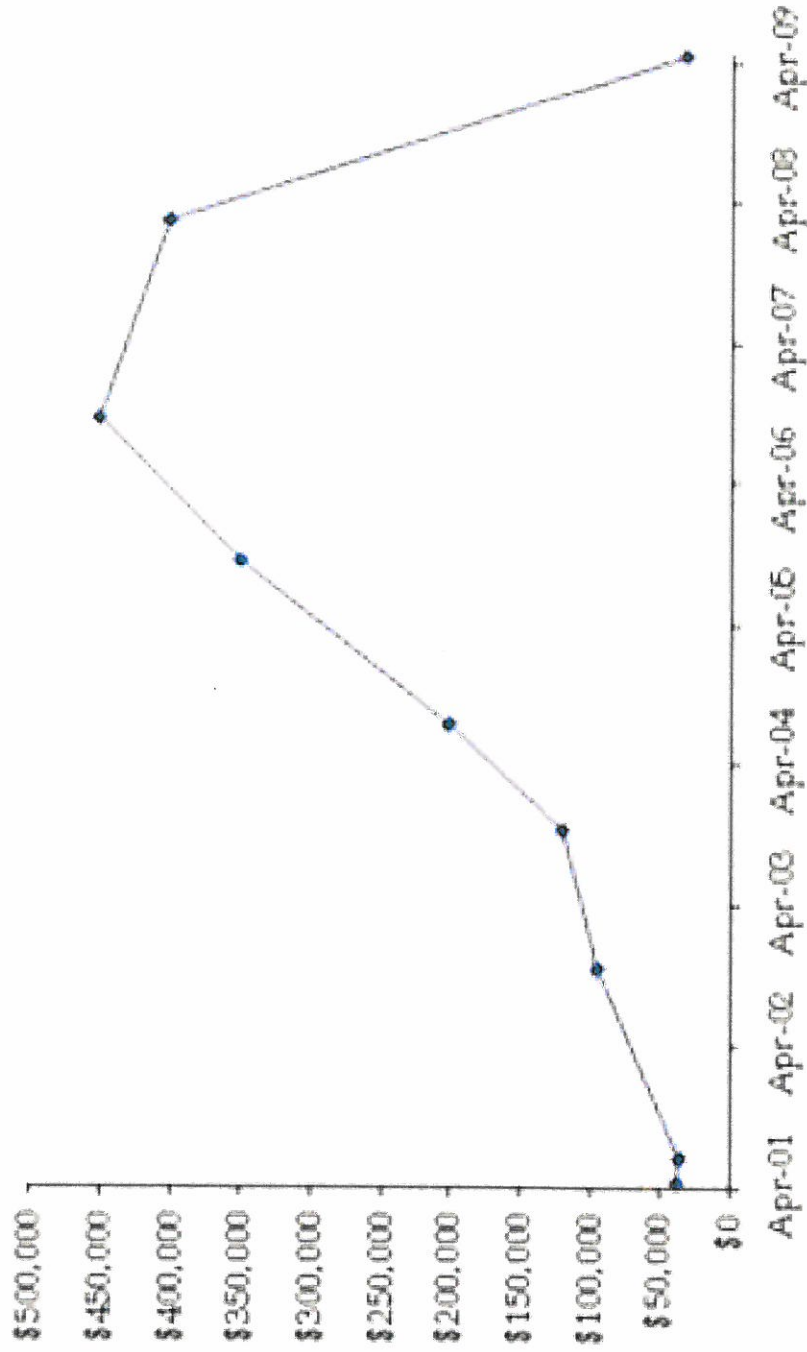
Case-Shiller Price Declines from Peak, by Year and City



# House Price Declines – Palm Springs, CA

## EXTREME Bubble Pops in Palm Springs

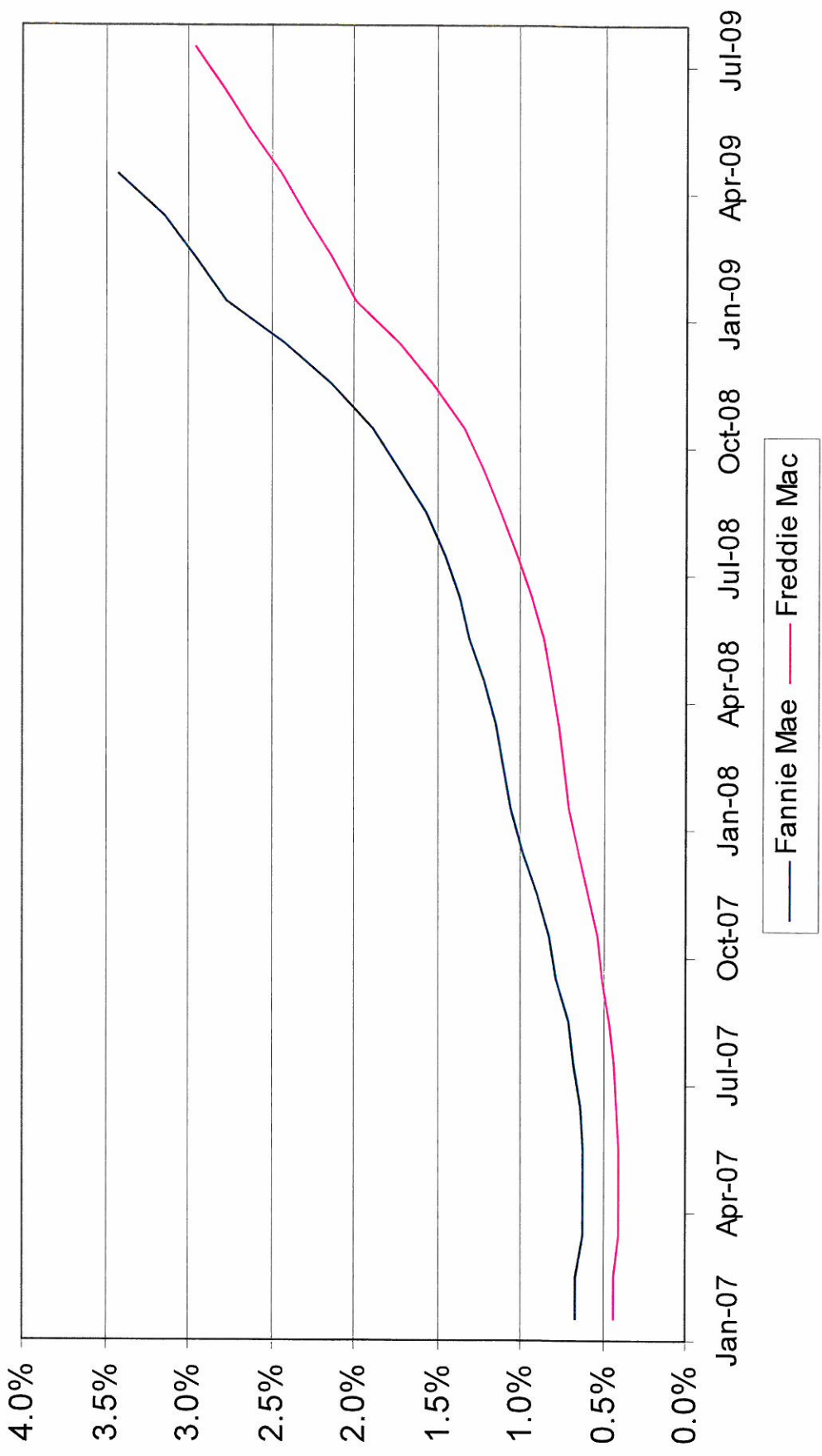
*Property Histor of One House*



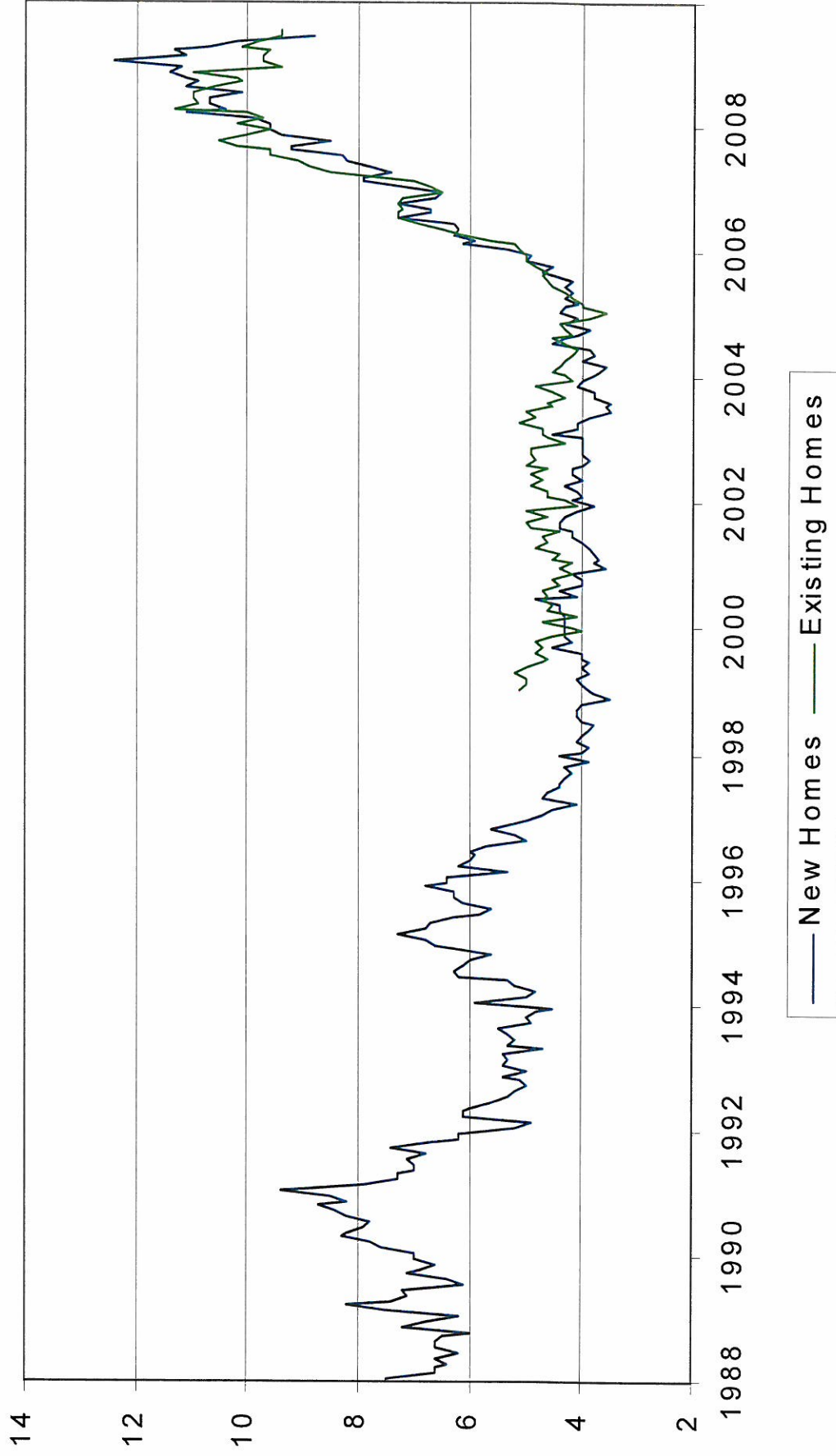
**ECONOMICDATA**



# Problem Loans: Prime Agency Mortgages

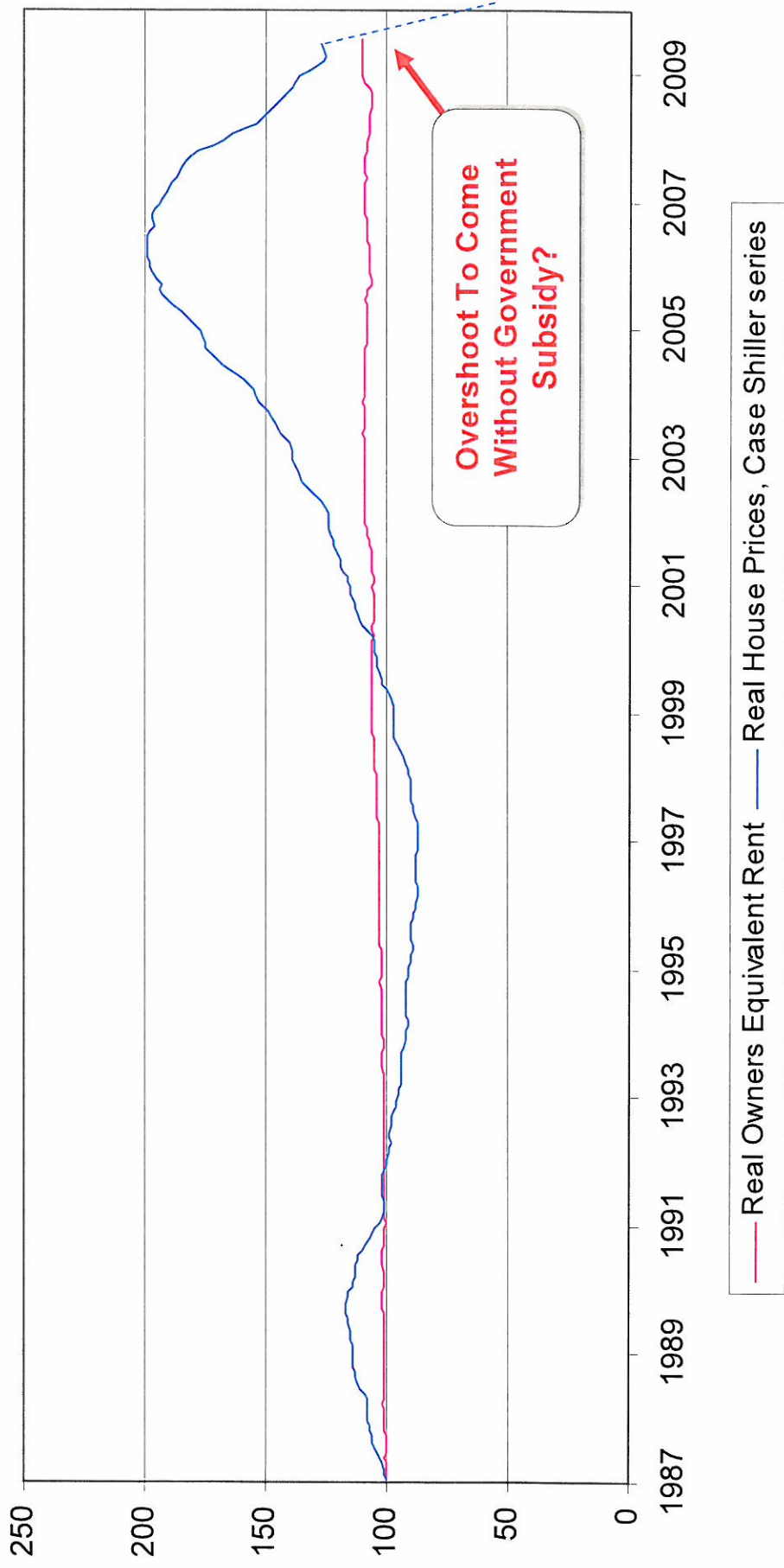


# Months' House Sales In Inventory



Source: Bloomberg L.P., Census Bureau and GR-NEAM  
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# House Prices And Rents, After Inflation



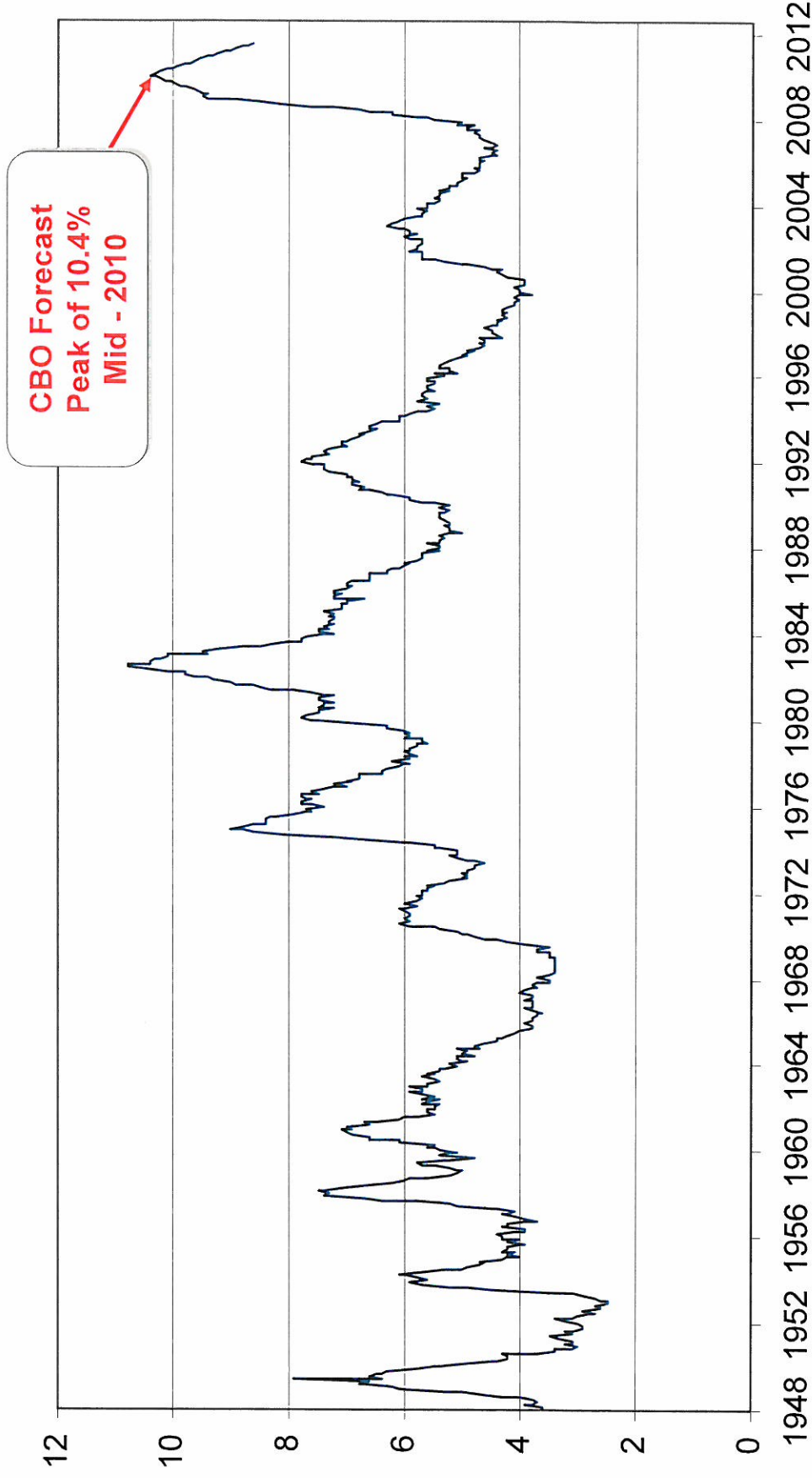
Source: Bureau of Labor Statistics, Bloomberg L.P. and GR-NEAM  
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# The Consumer



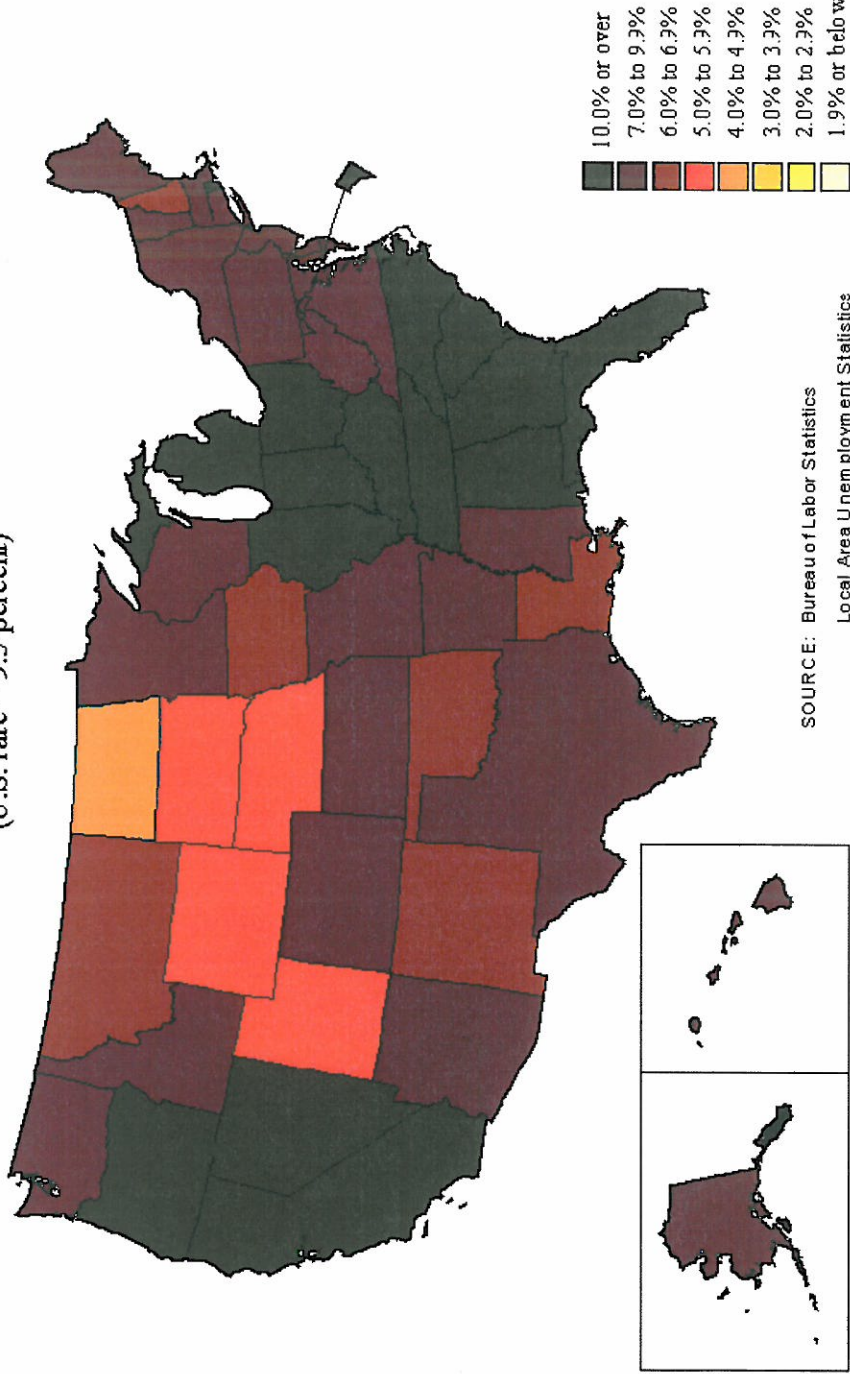
# U.S. Unemployment Rate, With CBO Forecast Through 2011



Source: Bureau of Labor Statistics, CBO and GR-NEAM Analytics  
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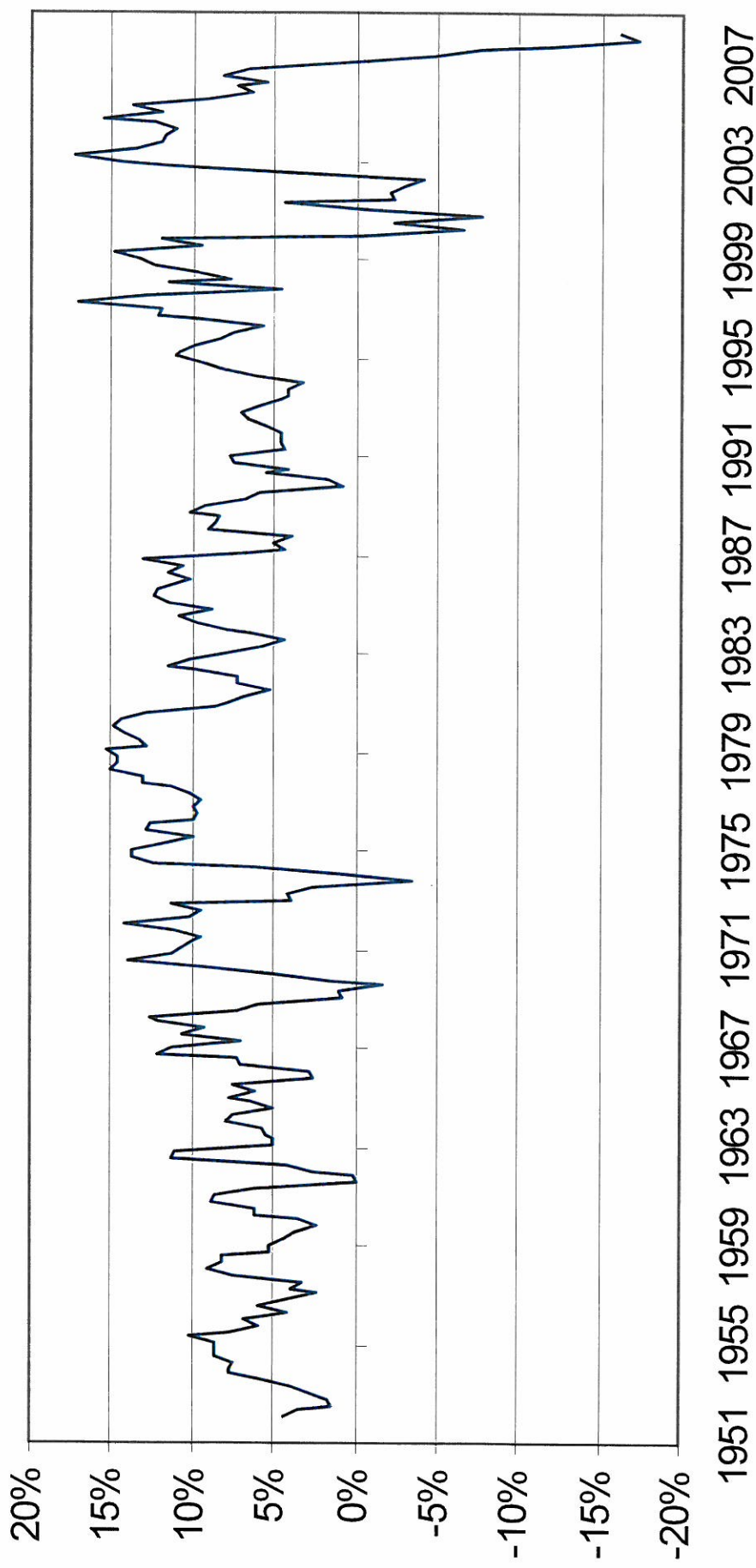
# U.S. Unemployment Rate by State – June 2009

(U.S. rate = 9.5 percent)



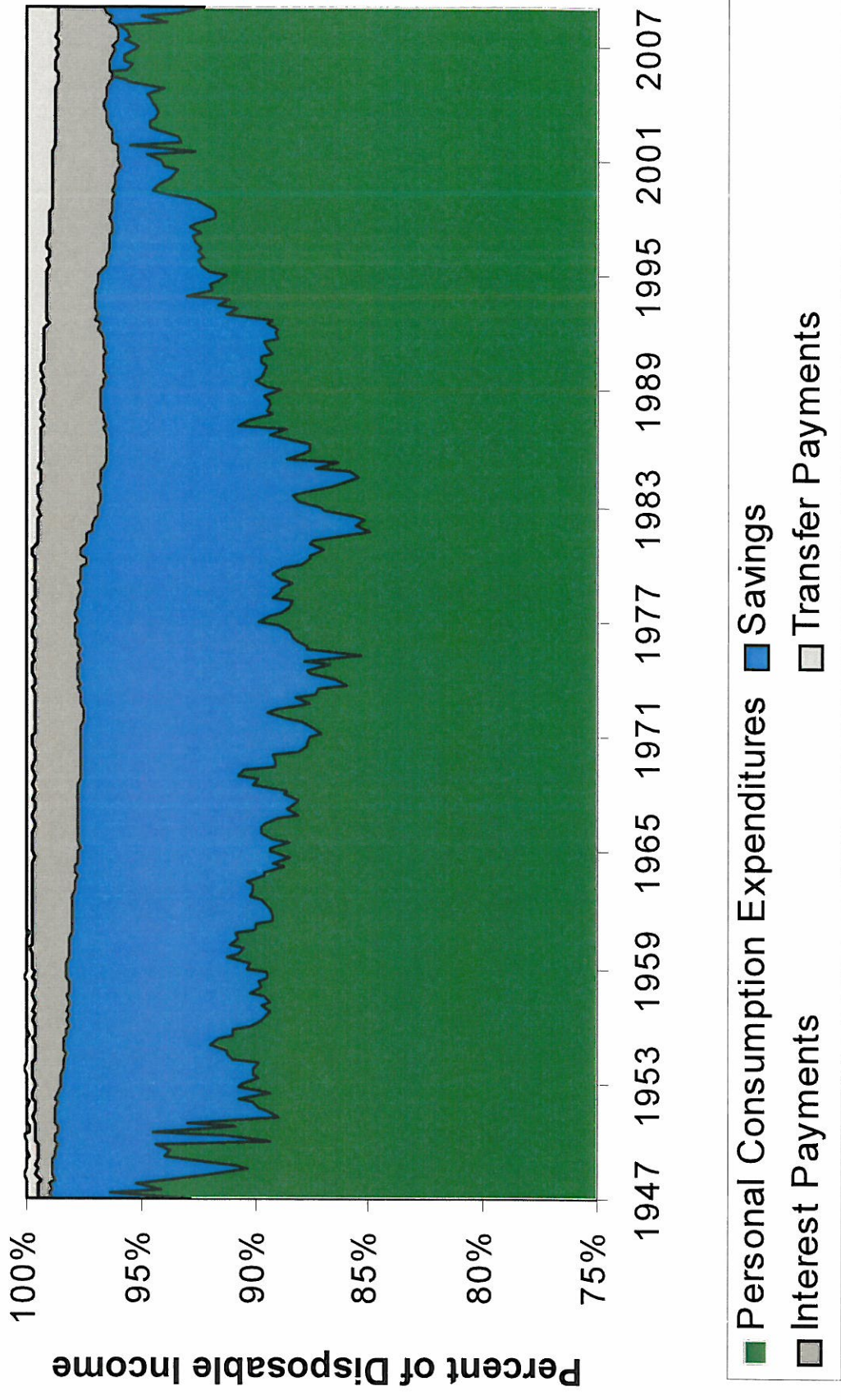


# Change In Household Net Worth, Year Over Year



Source: Federal Reserve, Flow of Funds and GR-NEAM Analytics  
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# The Problem: No Place For Rising Savings Rate To Come From But Consumption



Source: Federal Reserve, Flow of Funds and GR-NEAM Analytics  
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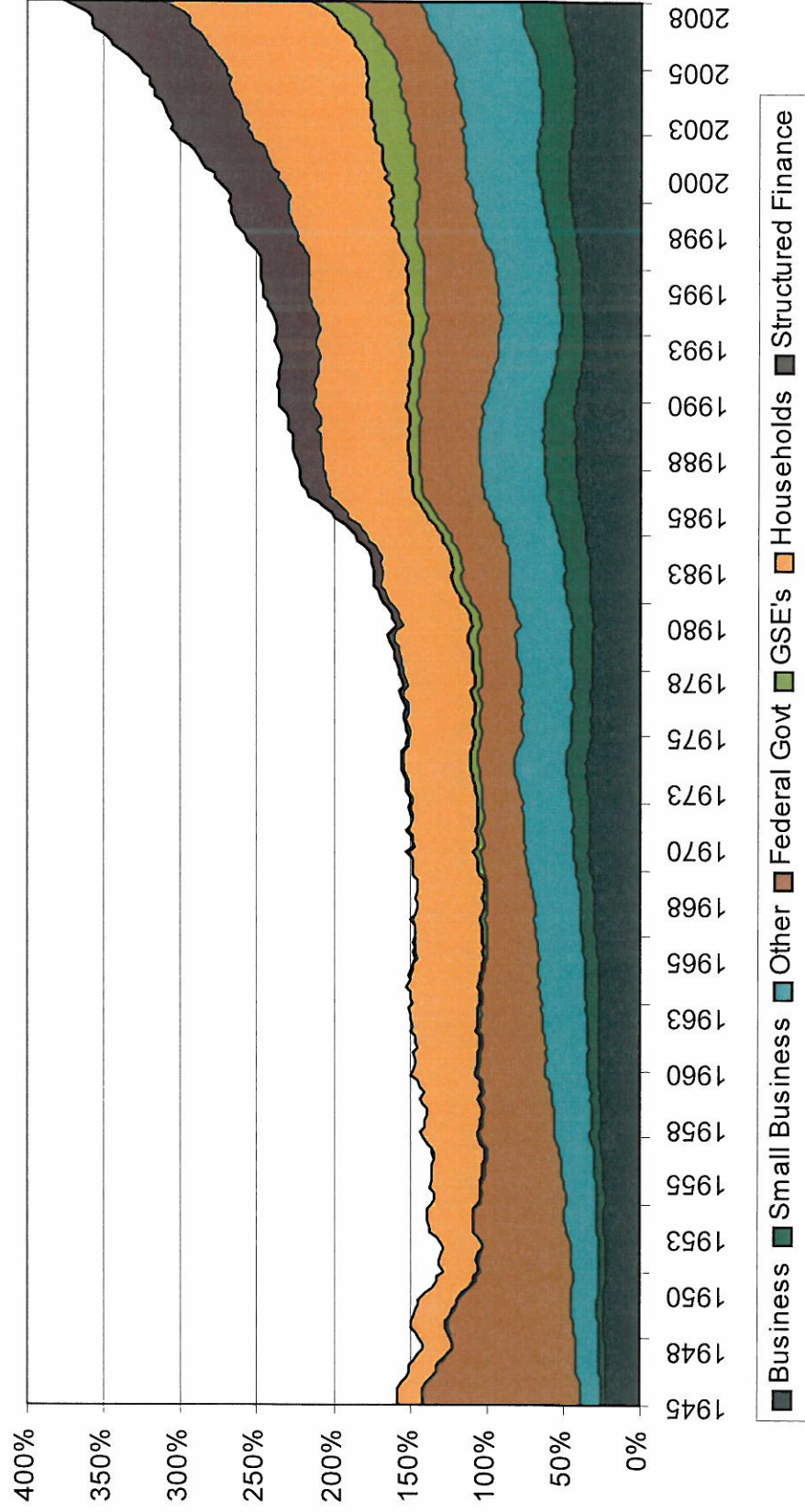


# Leverage

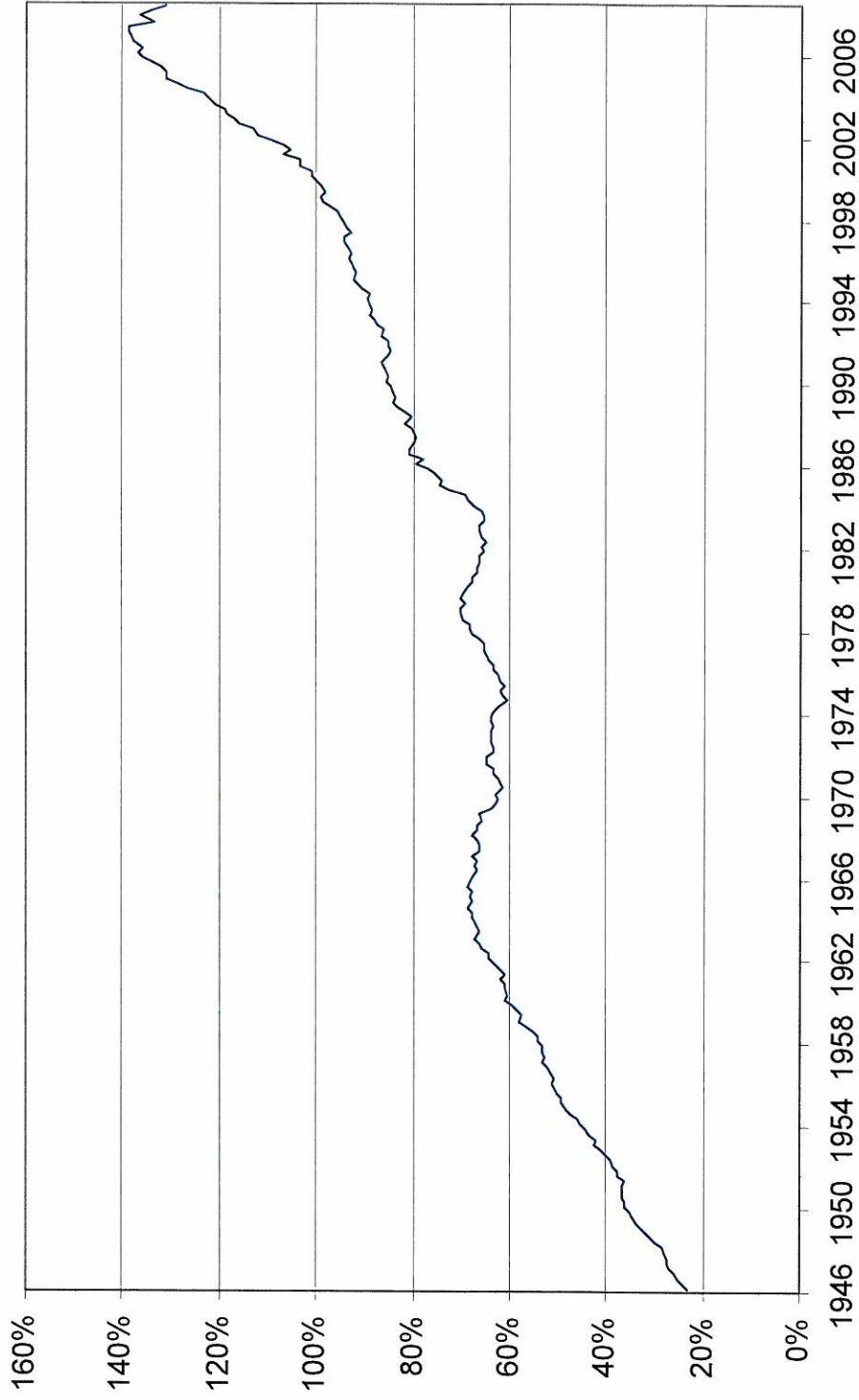




# U.S. Debt To GDP



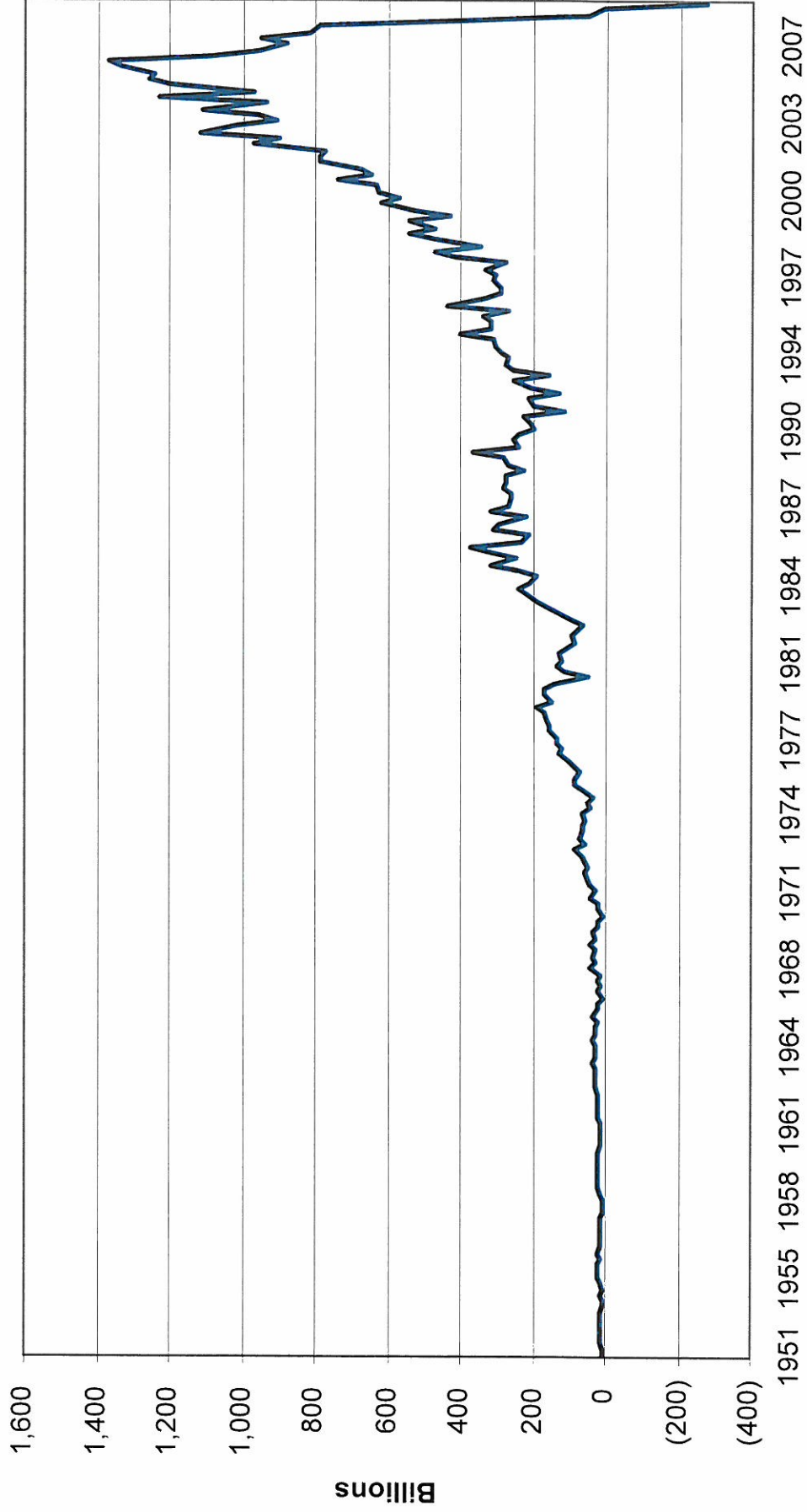
# Household Debt To Disposable Income



Source: Federal Reserve, Flow of Funds and GR-NEAM Analytics  
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# Change in U.S. Household Total Borrowing



Source: Federal Reserve, Flow of Funds and GR-NEAM Analytics  
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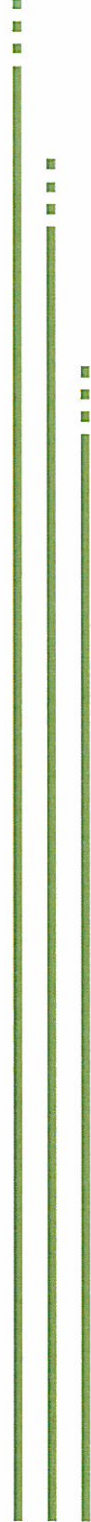


# Economic Conclusions

- The current recession is now the longest and deepest in the post-WWII period.
- Recent economic indicators such as manufacturing indices, housing starts and unemployment claims indicate we may have hit bottom.
- Cash for Clunkers and inventory re-stocking should lead to positive RGDP growth in Q3.
- Growth in Asia is picking up again, especially in China.
- However, secular forces (such as consumer deleveraging, taxes and re-regulation) are likely to make the shape and pace of this economic recovery sub par from a historical perspective.



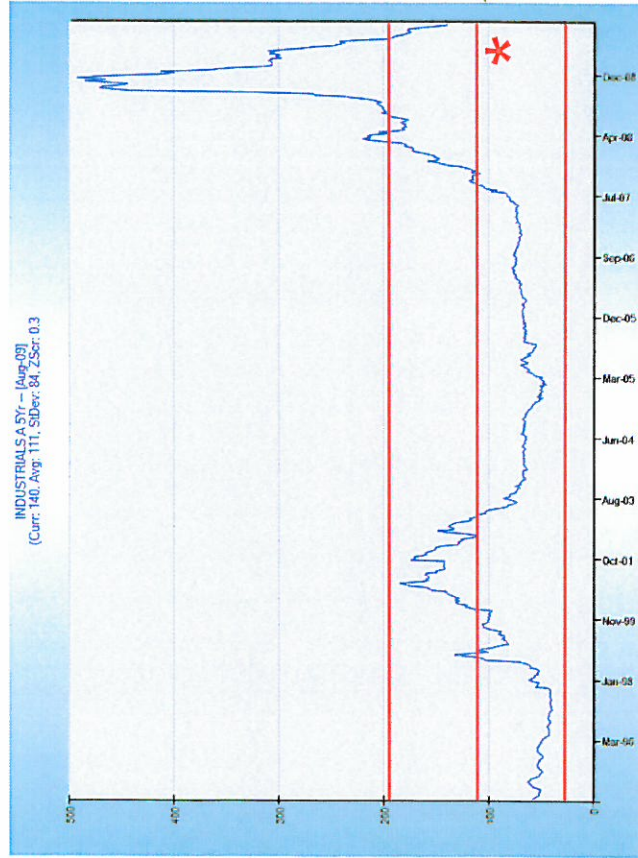
# Fixed Income Capital Markets





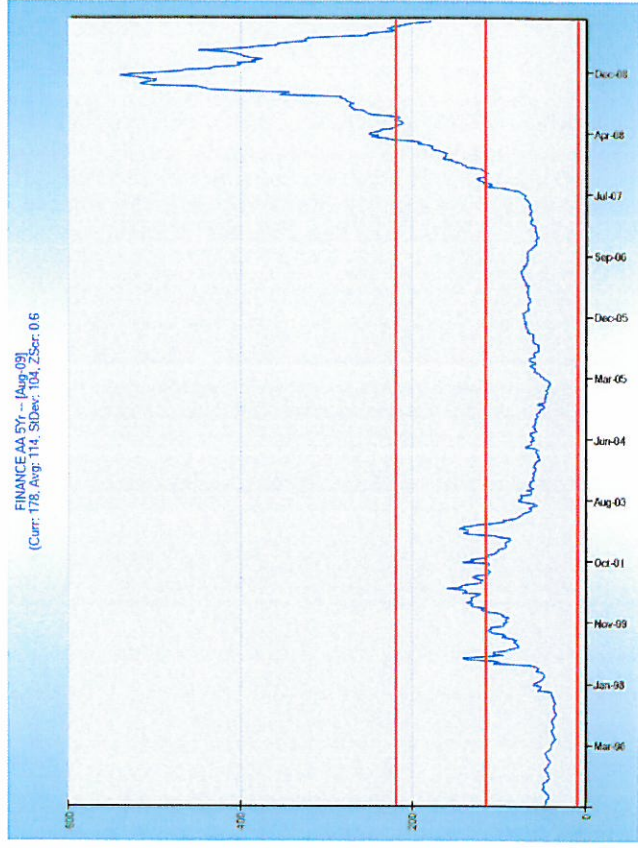
# Corporate Bond Spreads

5 Year A Rated Industrials



Best of breed single A issuers are inside of 100 bps

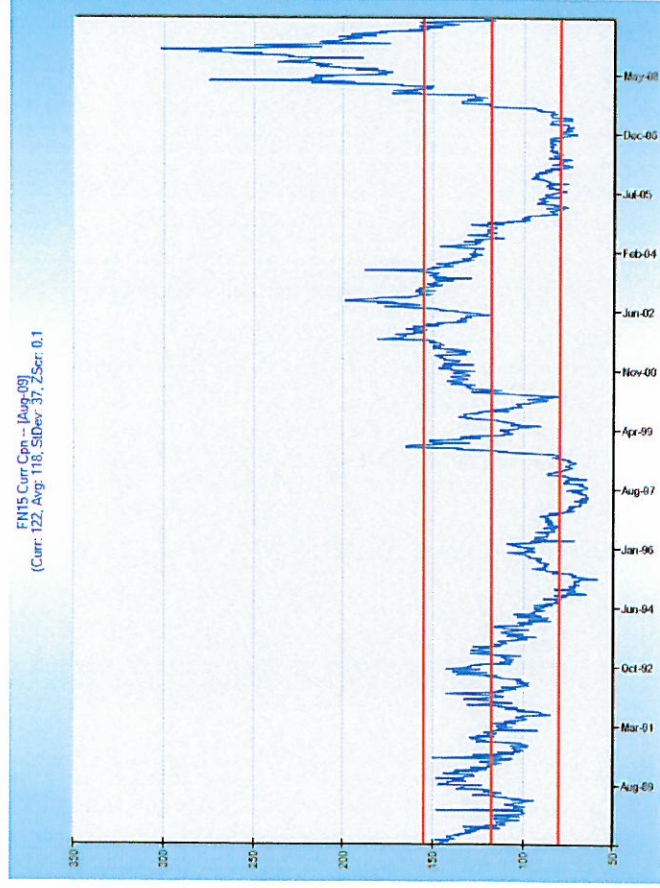
5 Year AA Rated Finance



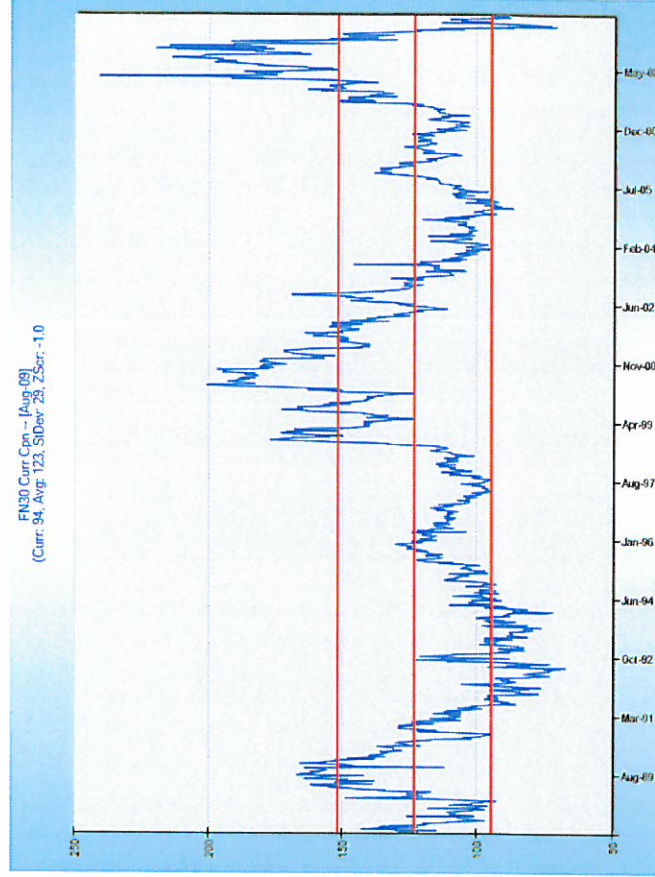


# Mortgage Backed Security (MBS) Spreads

15 Year MBS



30 Year MBS

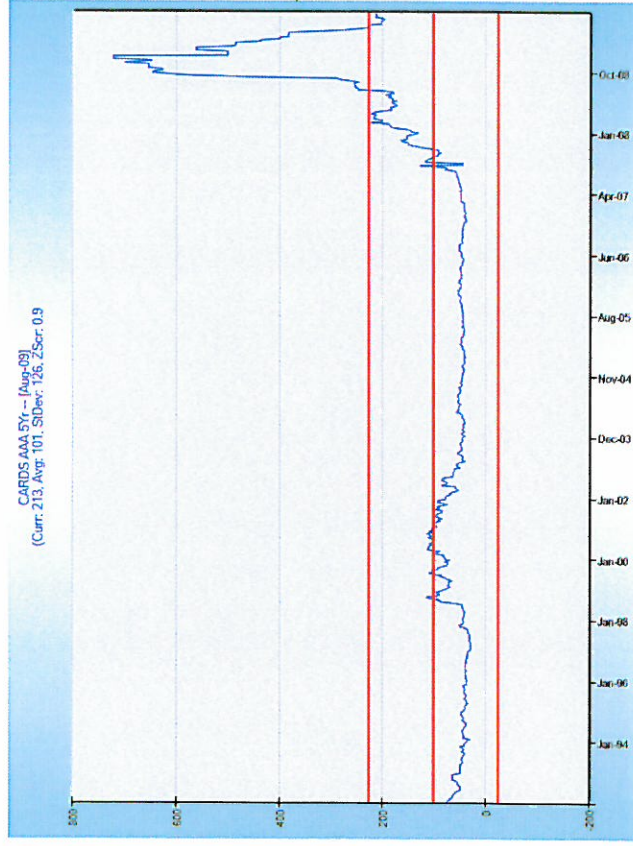


**Fed buying has focused on 30 year MBS, distorting their historical relationship to 15 year MBS**

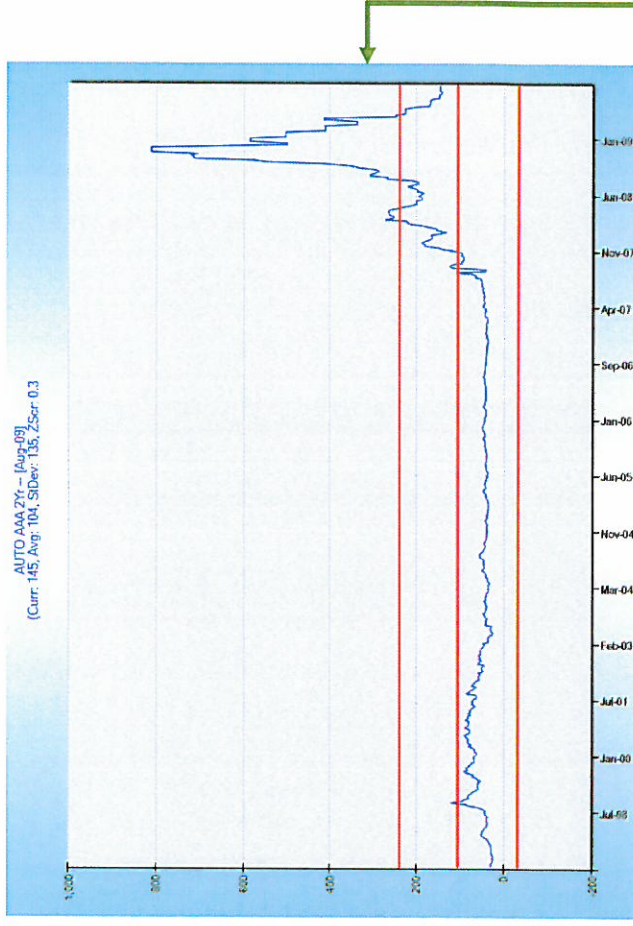


# Consumer Asset Backed Security (ABS) Spreads

5 Year AAA Credit Cards



2 Year AAA Auto

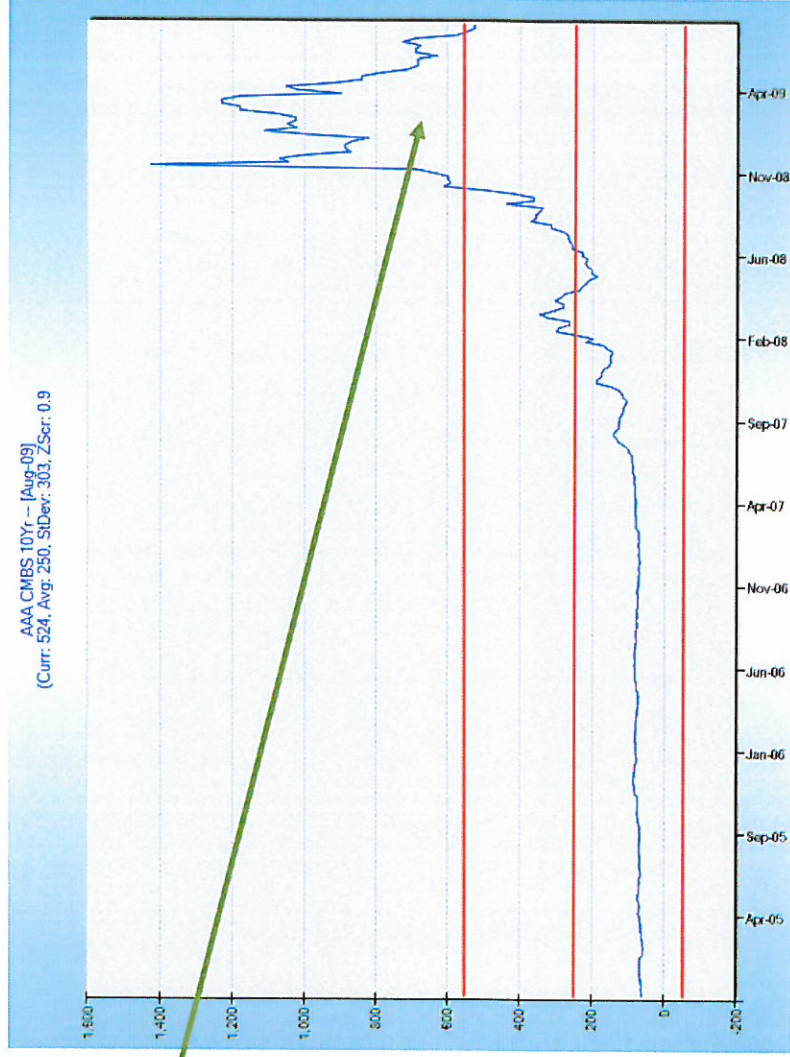


TALF has been very successful at compressing spreads in consumer related ABS



# Commercial Mortgage Backed Security (CMBS) Spreads

## 10 Year AAA CMBS



CMBS have not tightened to "Consumer ABS" levels due to ratings pressure and deteriorating fundamentals



# Fixed Income Capital Market Conclusions

- Technical Conditions are overwhelming fundamentals in the Corporate Bond market. No need to “chase” the rally.
- Fed buying is driving 30 year MBS valuations to historically tight levels. Focus on the relative value in 15 year MBS and short Agency CMOs.
- TALF program has been very effective at compressing spreads in the consumer Asset Backed sectors.
- CMBS market is digesting the cross currents of deteriorating fundamentals/ratings and increased risk appetite/TALF eligibility.
- Fixed income assets have experienced a strong increase in price (decline in spread) in a very short period of time.