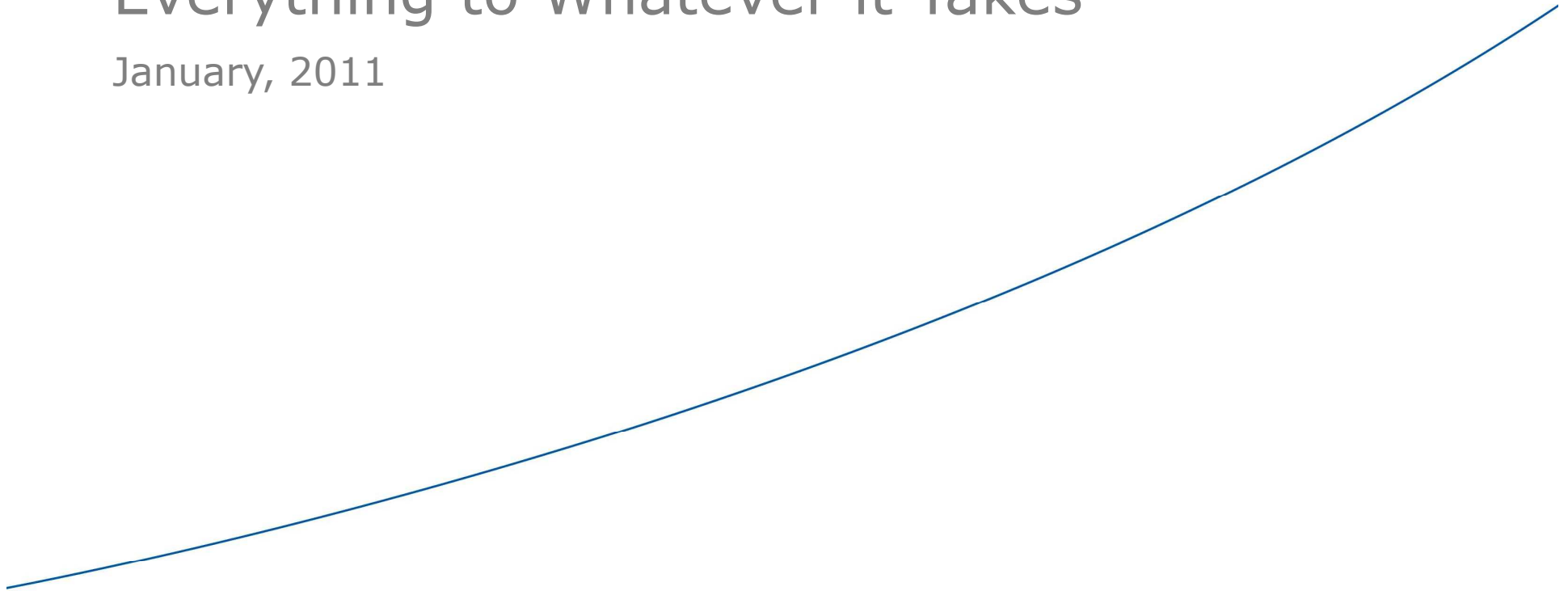


Economic Outlook: From Liquidate Everything to Whatever it Takes

January, 2011



Robert Spector, CFA
Vice President & Chief Economist



McLEAN BUDDEN
LOOK FORWARD™

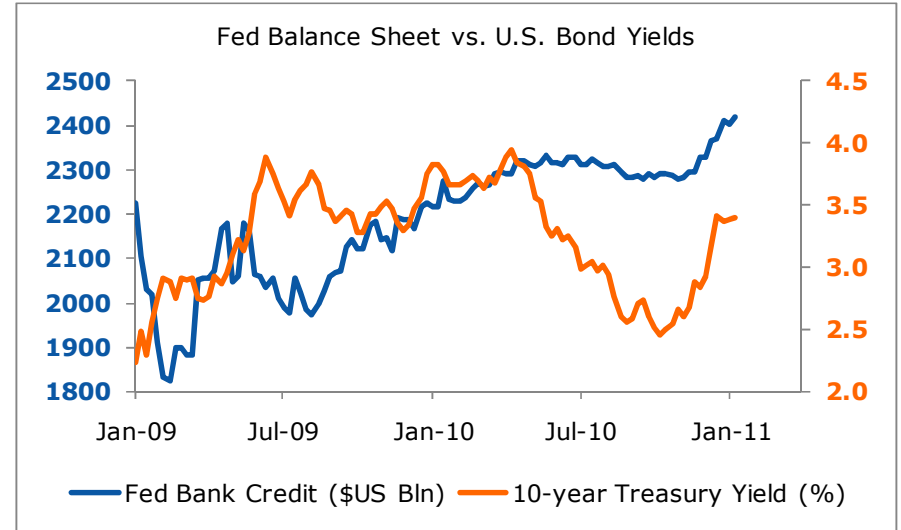
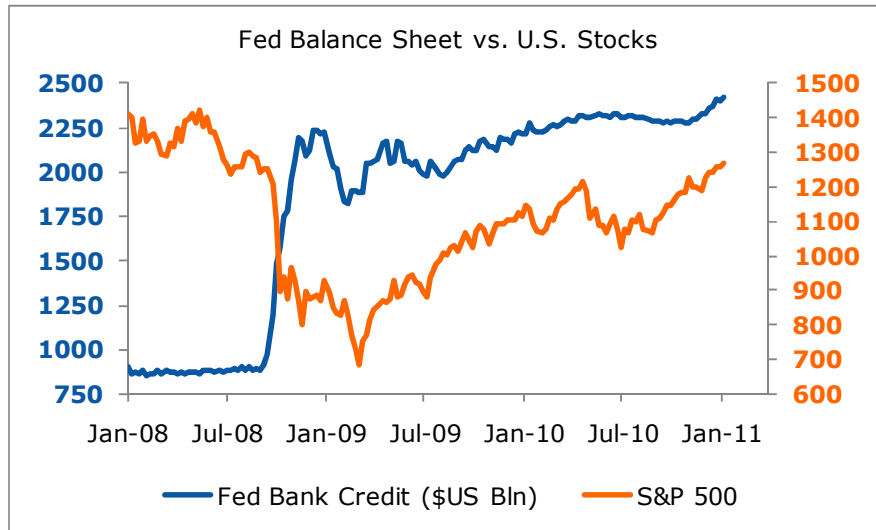
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1930s vs. Today: Policy Attitudes Could Not be More Different

- > “Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate... It will purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up the wrecks from less competent people...” **Attributed to Andrew Mellon, Herbert Hoover’s Treasury Secretary**
- > “The Federal Reserve has done, and will continue to do, everything possible within the limits of its authority to assist in restoring our nation to financial stability and economic prosperity as quickly as possible.” **Fed Chairman Ben Bernanke, Feb 18, 2009**

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Was QE2 Just About Boosting the Stock Market?



Source: Haver Analytics, McLean Budden

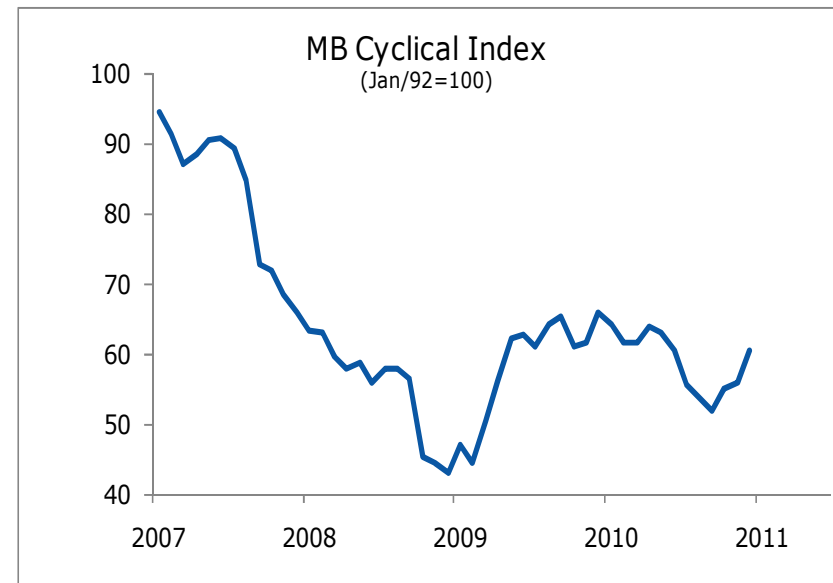
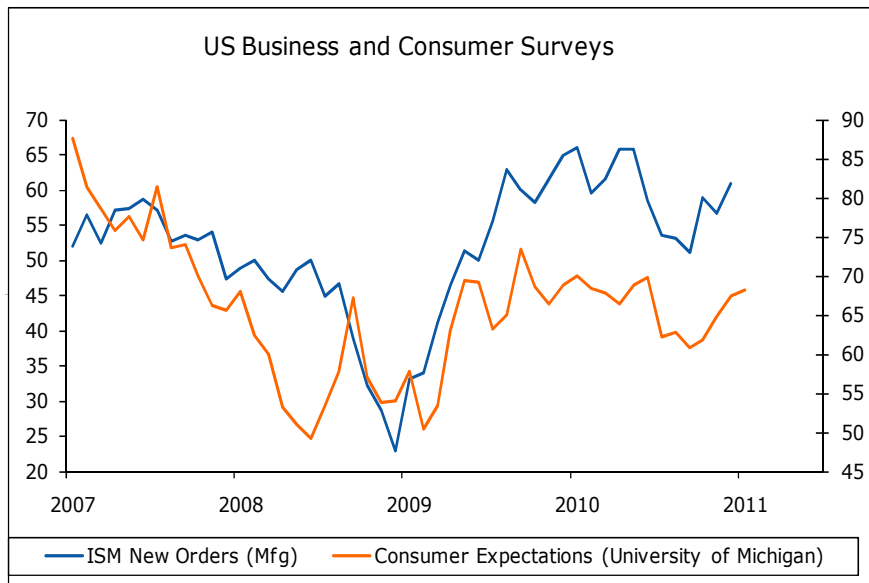
Economic Outlook

MB Macro Themes

- > Global economic expansion masks big regional differences
- > U.S. improving, needs policy push
- > Europe facing fiscal austerity
- > No inflation in developed economies—monetary policy to remain easy
- > Many emerging economies overheating, inflation/tightening risks rising
- > QE2 unleashes FX/commodity volatility with little economic benefit
- > This is not a normal cycle—de-leveraging not over
- > Risks: Protectionism, U.S. housing, sovereign debt contagion, rising commodity prices

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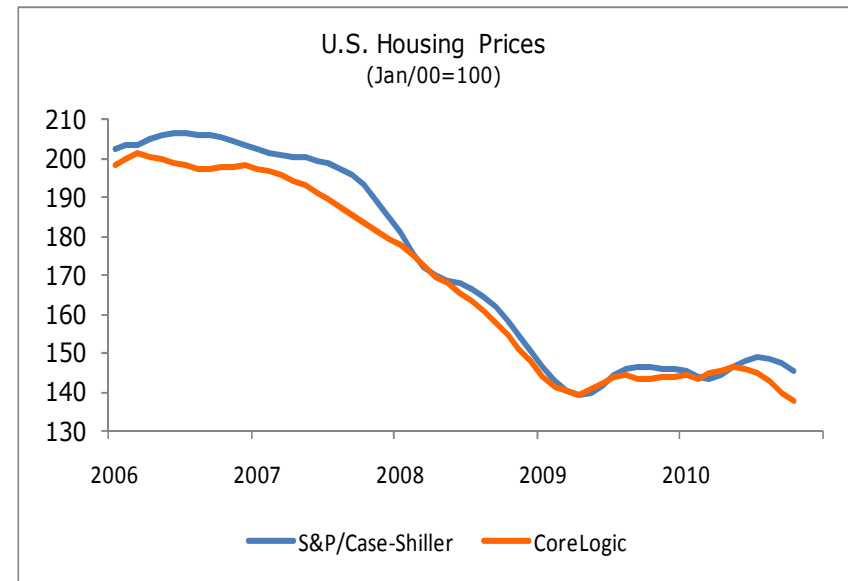
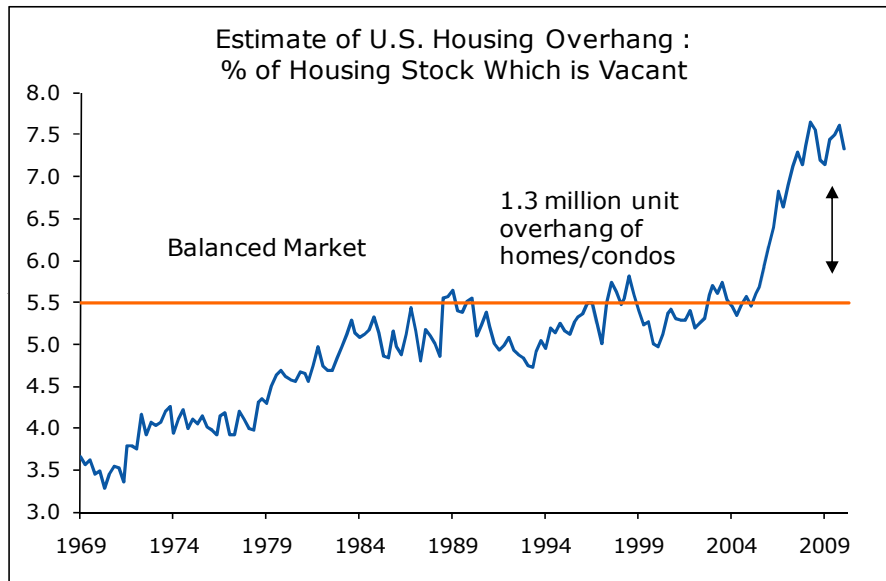
Global Growth Improving From Mid-2010 Slowdown



Source: Haver Analytics, McLean Budden

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Problems Remain in U.S. Housing

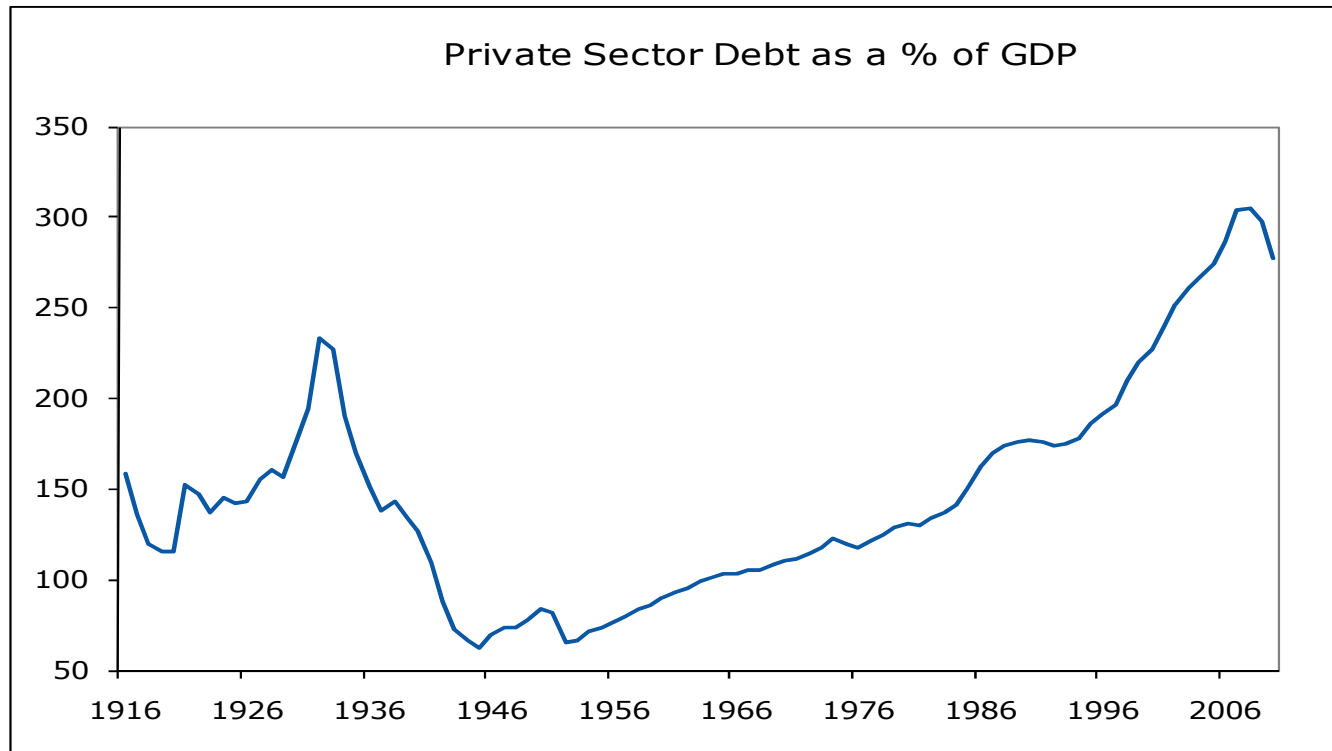


Source: Haver Analytics, McLean Budden

*Liquidity Proxy defined as real US M2 growth less industrial production

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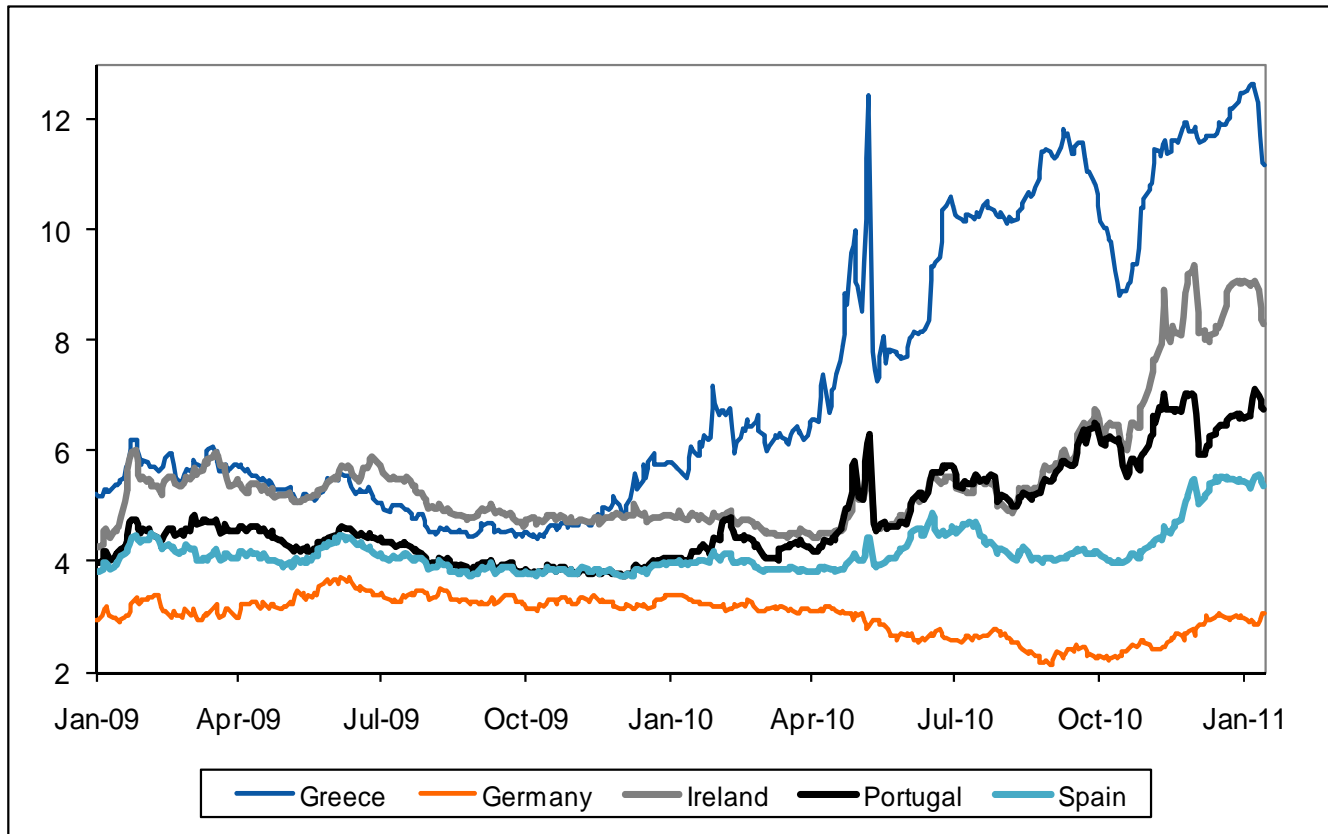
U.S. Private Sector Credit-to-GDP Now Falling



Source: Haver Analytics, McLean Budden, Historical Statistics of the United States

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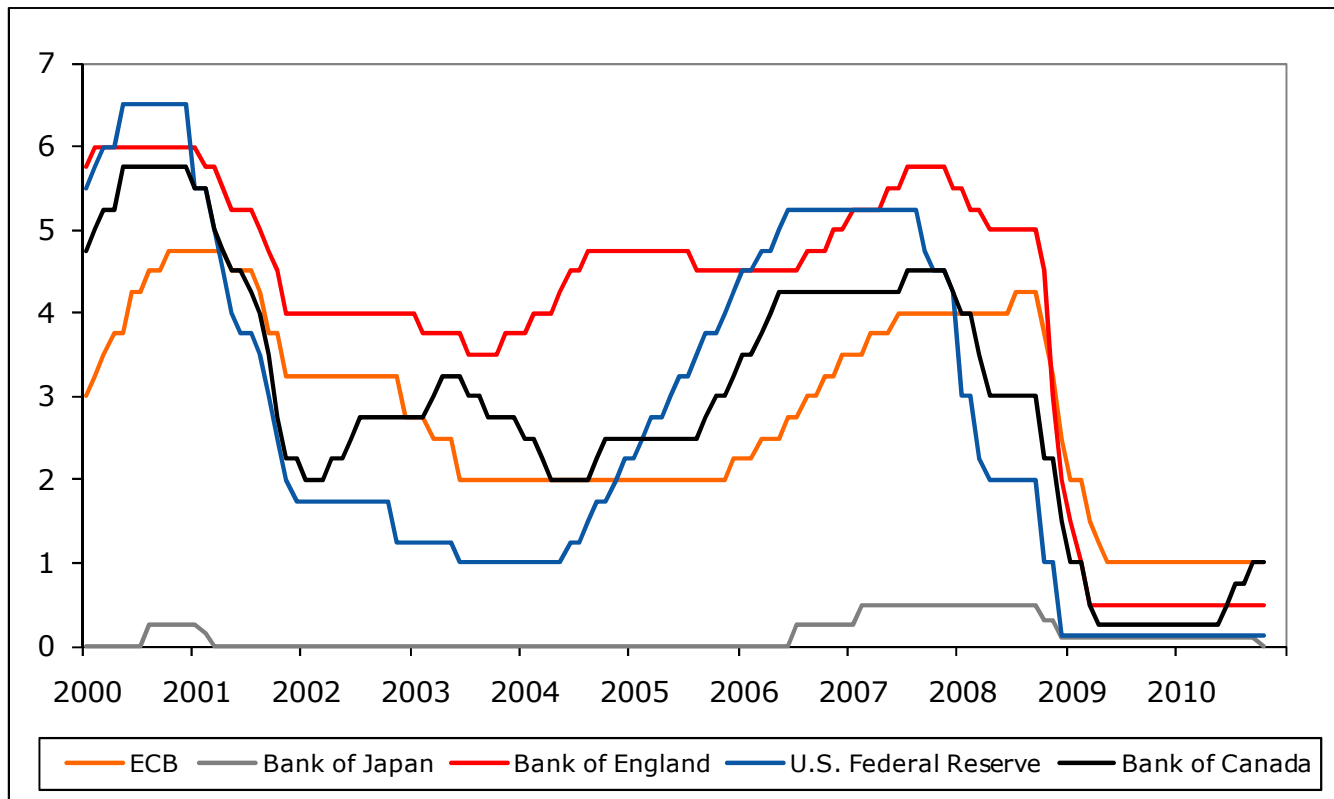
Europe's Sovereign Debt Crisis Means Austerity or Default Looms



Source: Bloomberg, McLean Budden

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Global Monetary Policy Rates (%)

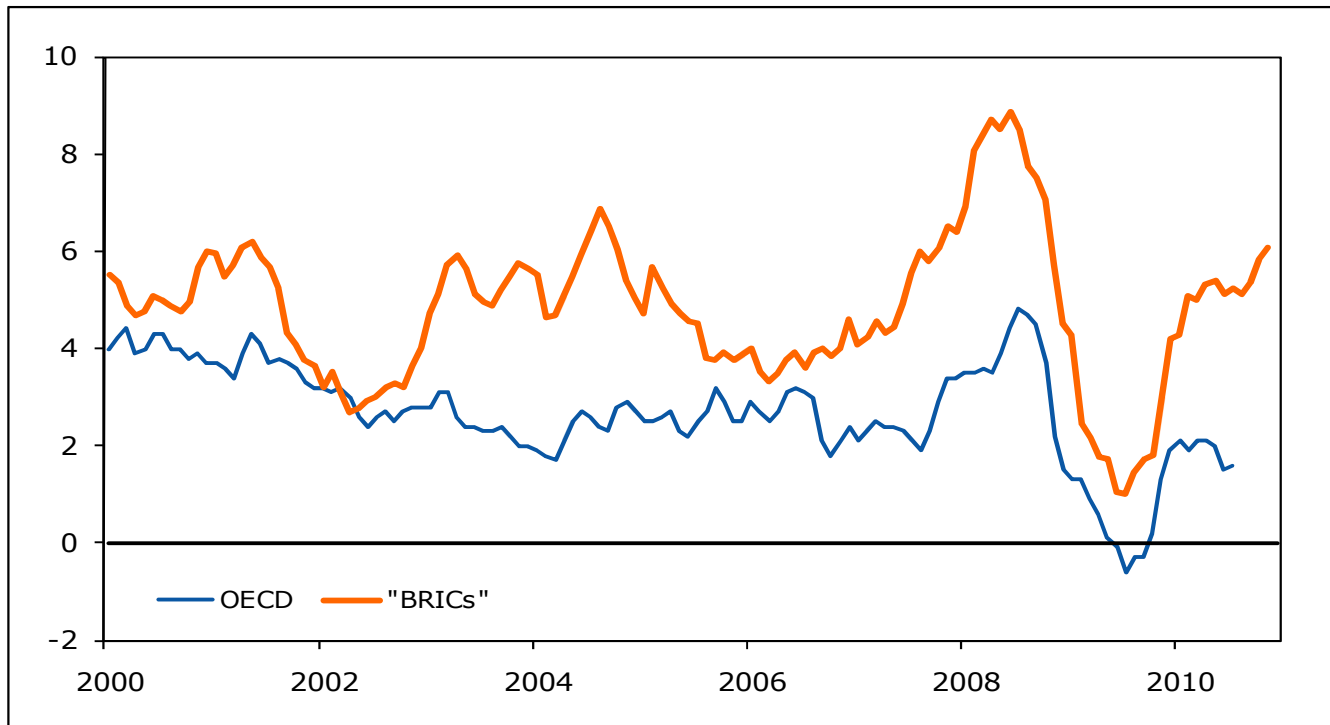


Source: Haver Analytics, McLean Budden

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Global Inflation Trends: Low in Major Economies, Rising in Emerging

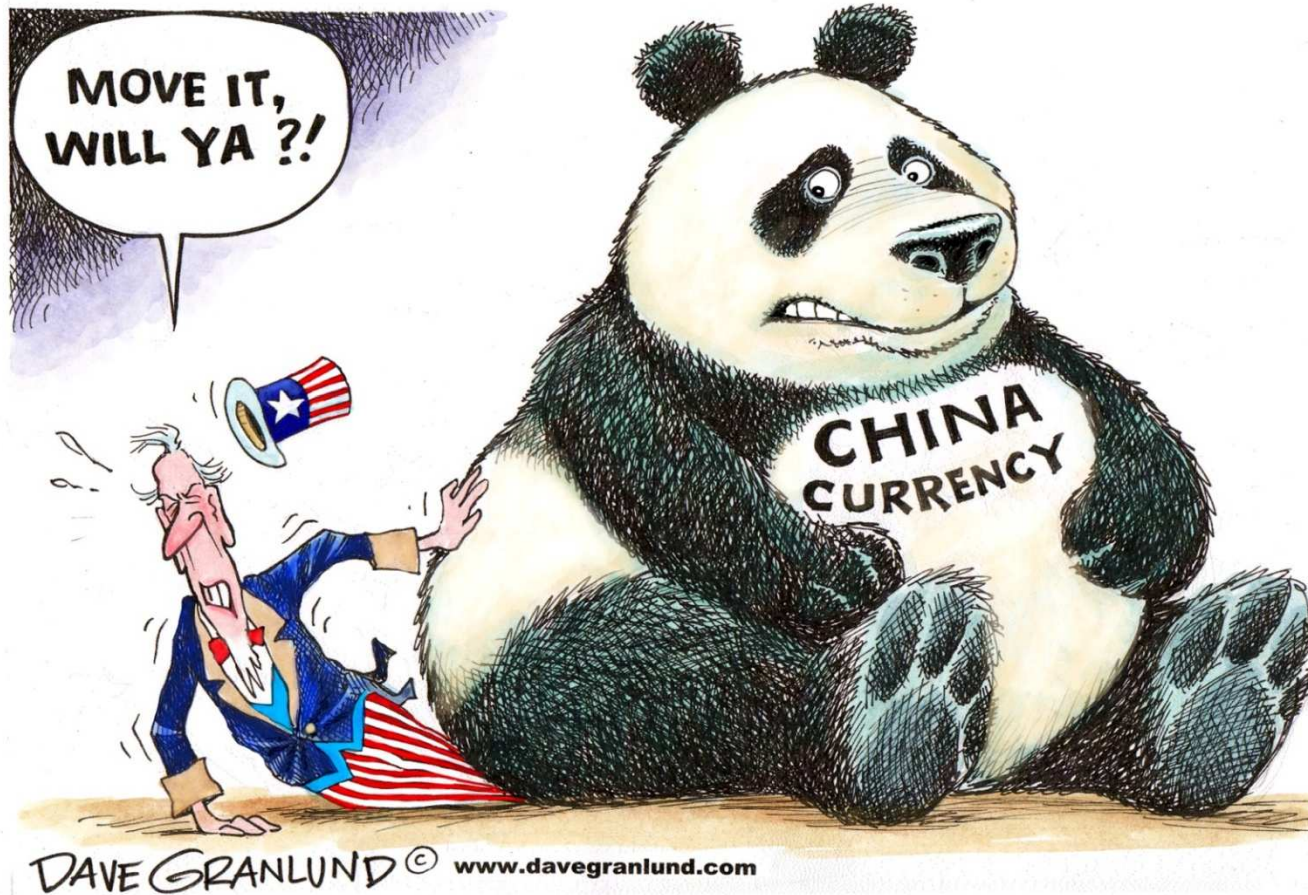
(year-over-year % change)



Source: Bloomberg, McLean Budden

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Currency Wars? Trade Wars?



Source: Dave Granlund

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Predictions for 2011

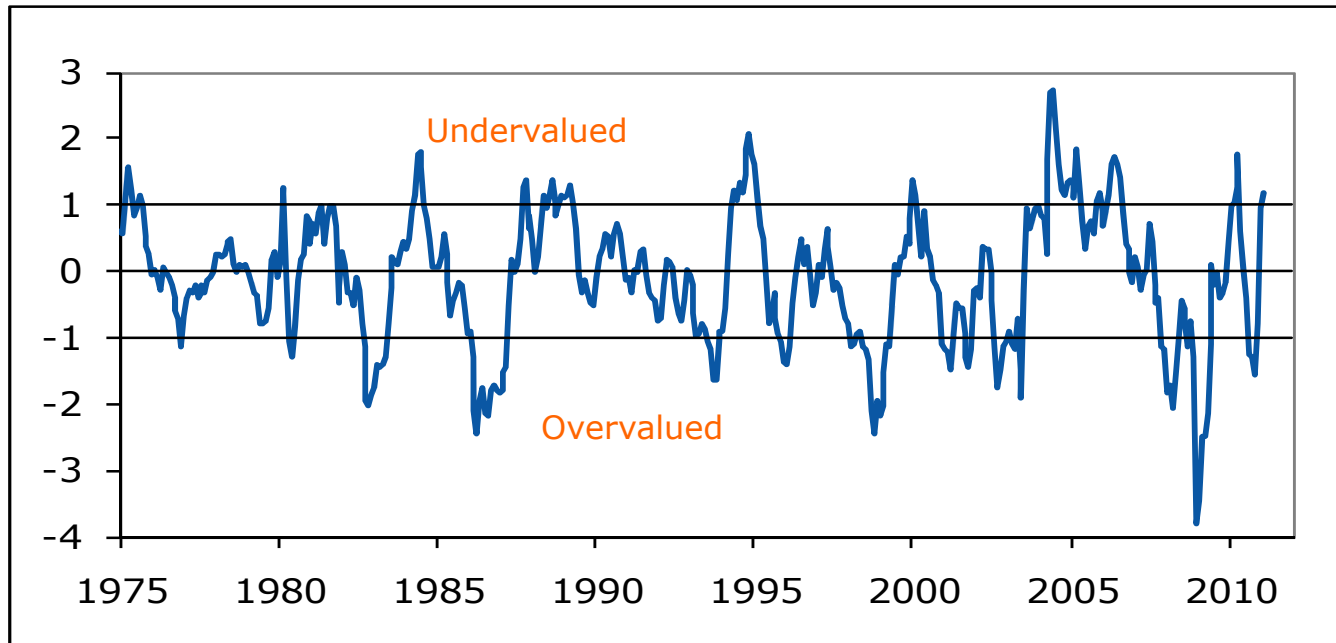
- > Ranges will be large for most asset classes
- > More volatility
- > Rates will stay low
- > Pricing power key in a low inflation world
- > There is one easy bet for 2011 (and 2012 and 2013...)



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U.S. Government Bonds Offer Good Value

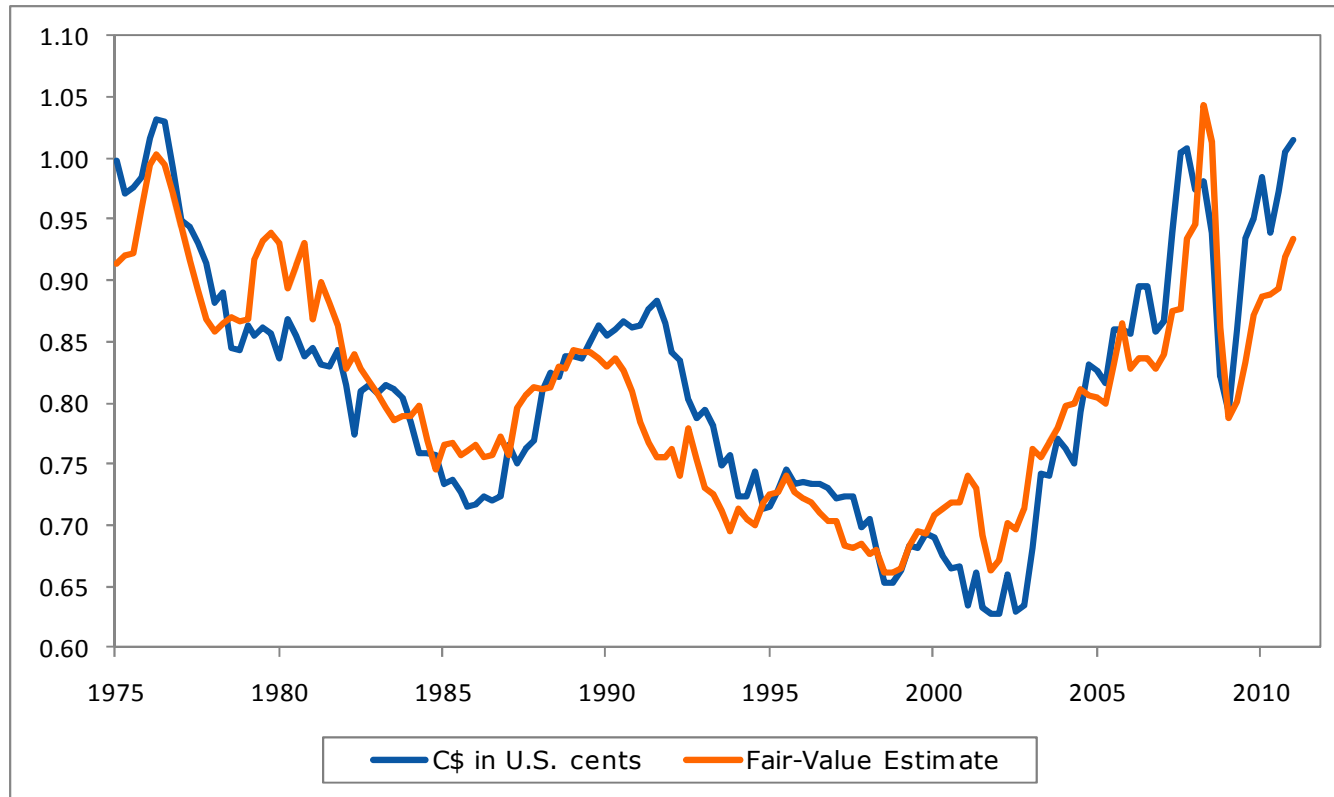
(Proprietary Model Based on 10-Year Treasury Yields)



Source: Haver Analytics, McLean Budden

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Canadian Dollar Overvalued



Source: Haver Analytics, McLean Budden

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