

# What We're Watching

## Market Update

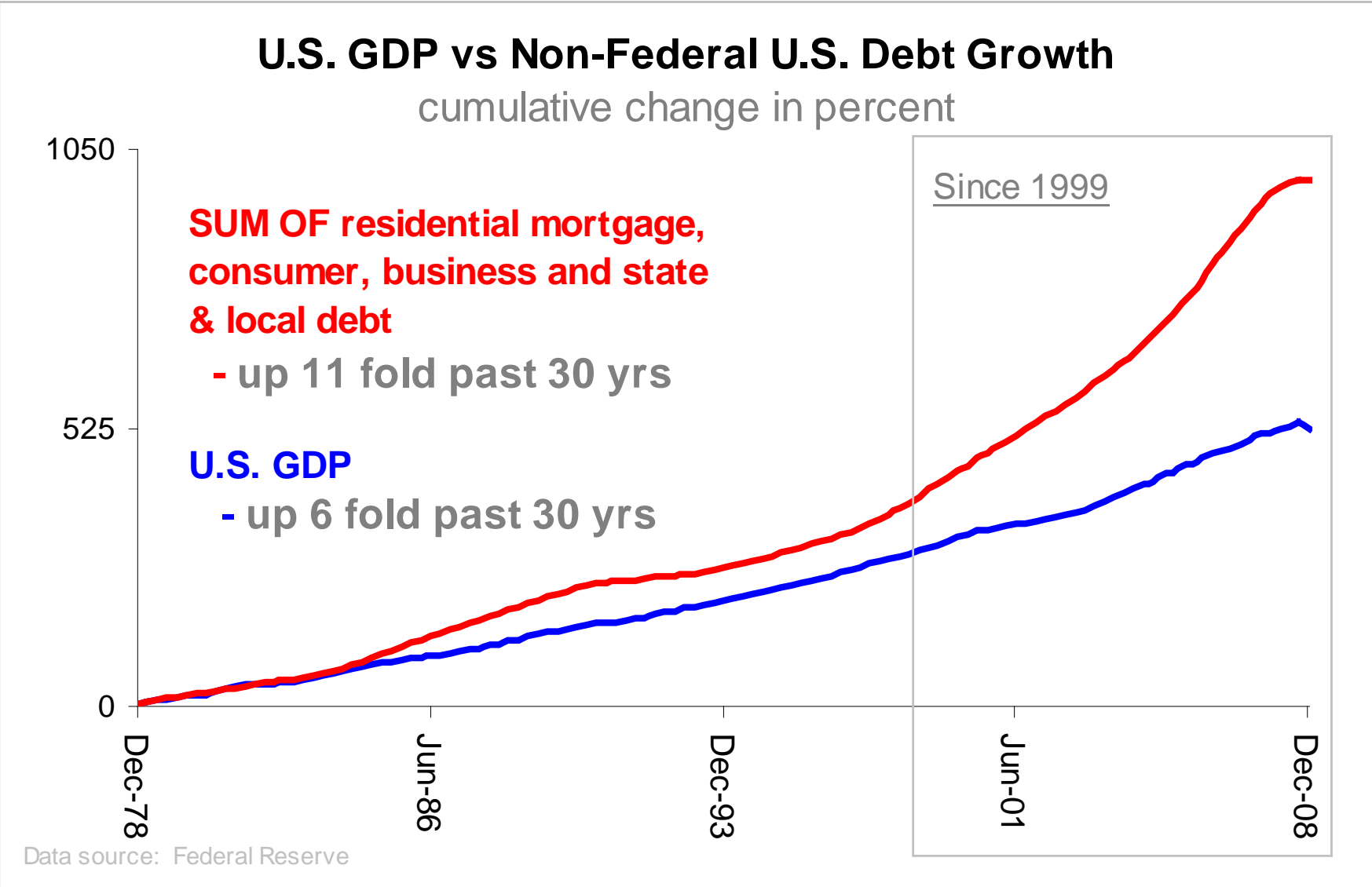
May 21, 2009

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Interest Rate Management  
**GE Commercial Finance**



# The Main Cause of Our Problem

# The big picture ...



# Too much borrowed, not enough growth ...

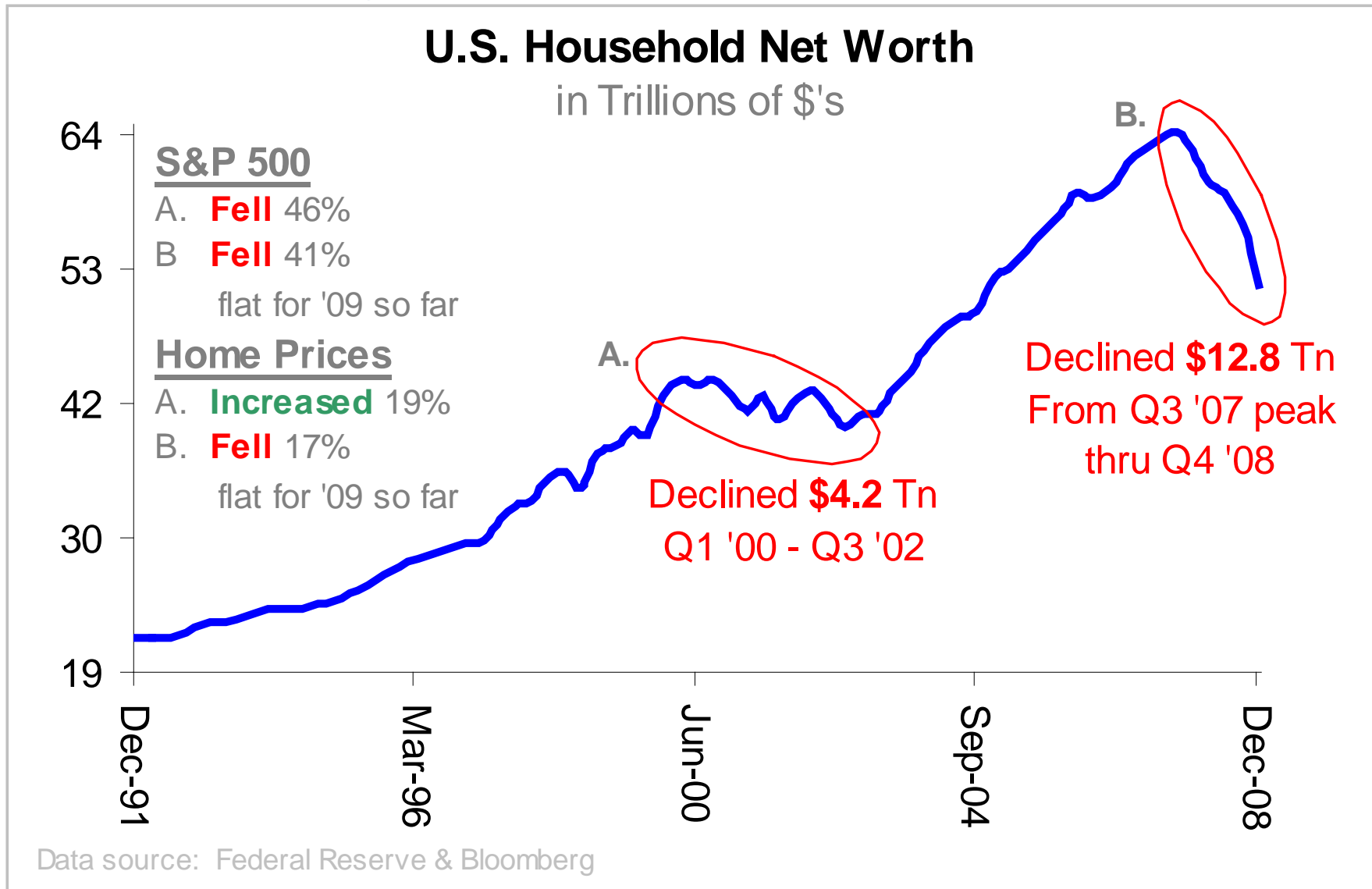
## Growth in U.S. GDP & Residential Mortgages

	1988		10 years ending 1998		10 years ending Dec-08	
		Ratio to GDP		Ratio to GDP		Ratio to GDP
<b>U.S. GDP</b>	117%	n/a	70%	n/a	59%	n/a
<b>Home Mortgages</b>	190%	1.62	98%	1.39	158%	2.69

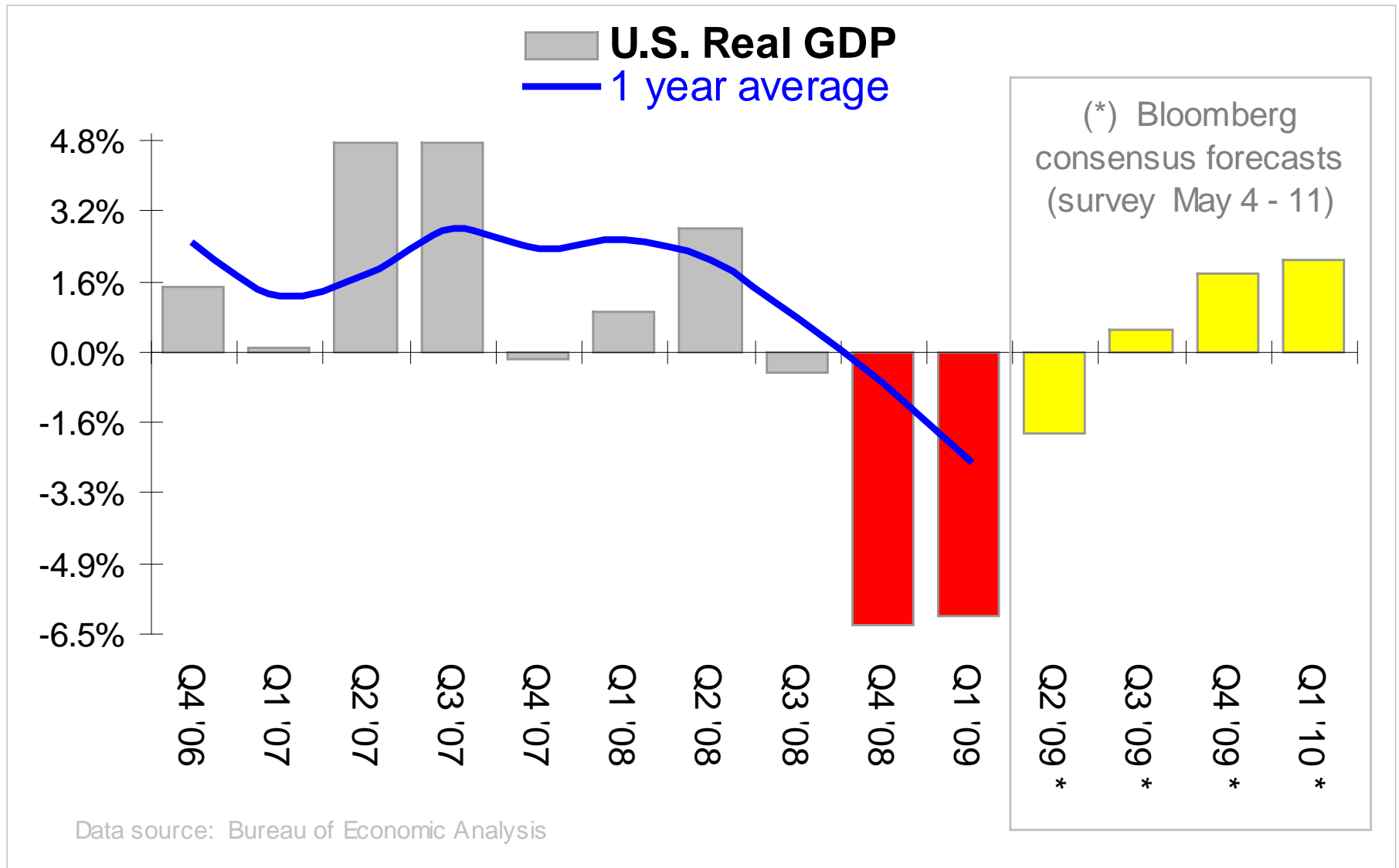
Based on 1978 – 1988 comparison, outstanding mortgage debt would be \$2.5 Tn less than it is now.

# The Economic Impact

# Gave back 5 yrs of accumulated wealth ...



# GDP decelerates ...



# Gov't spending increases ...

**Q1 2009 U.S. GDP  
Breakout**

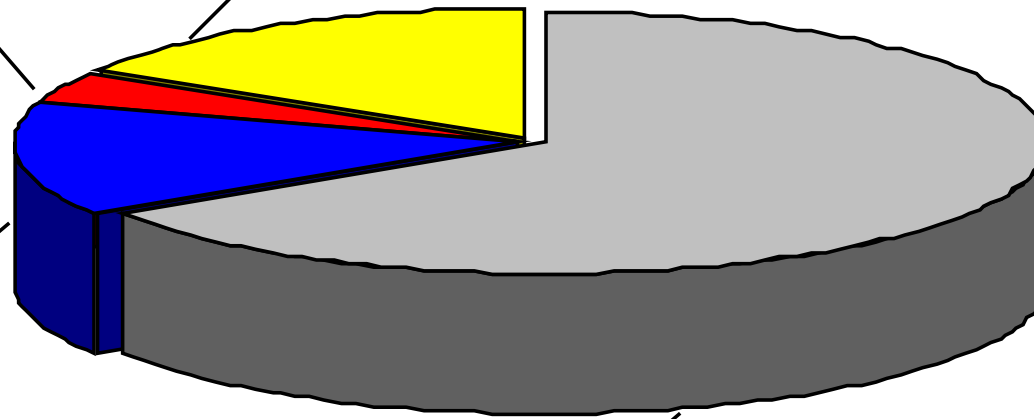
## Net Exports

**minus 2.7%**

(minus 4% year ago)  
(minus 5.9% in Q4 '04)

## Government

**Spending 18.3%** (was 17.5% a year ago)  
(was 23% in Q3 '86)



## Private Investment 11.7%

(was 15% a year ago)  
(peaked at 18% in Q2 '00)  
(was 11% in Q4 '82)

## Personal Consumption 72.4%

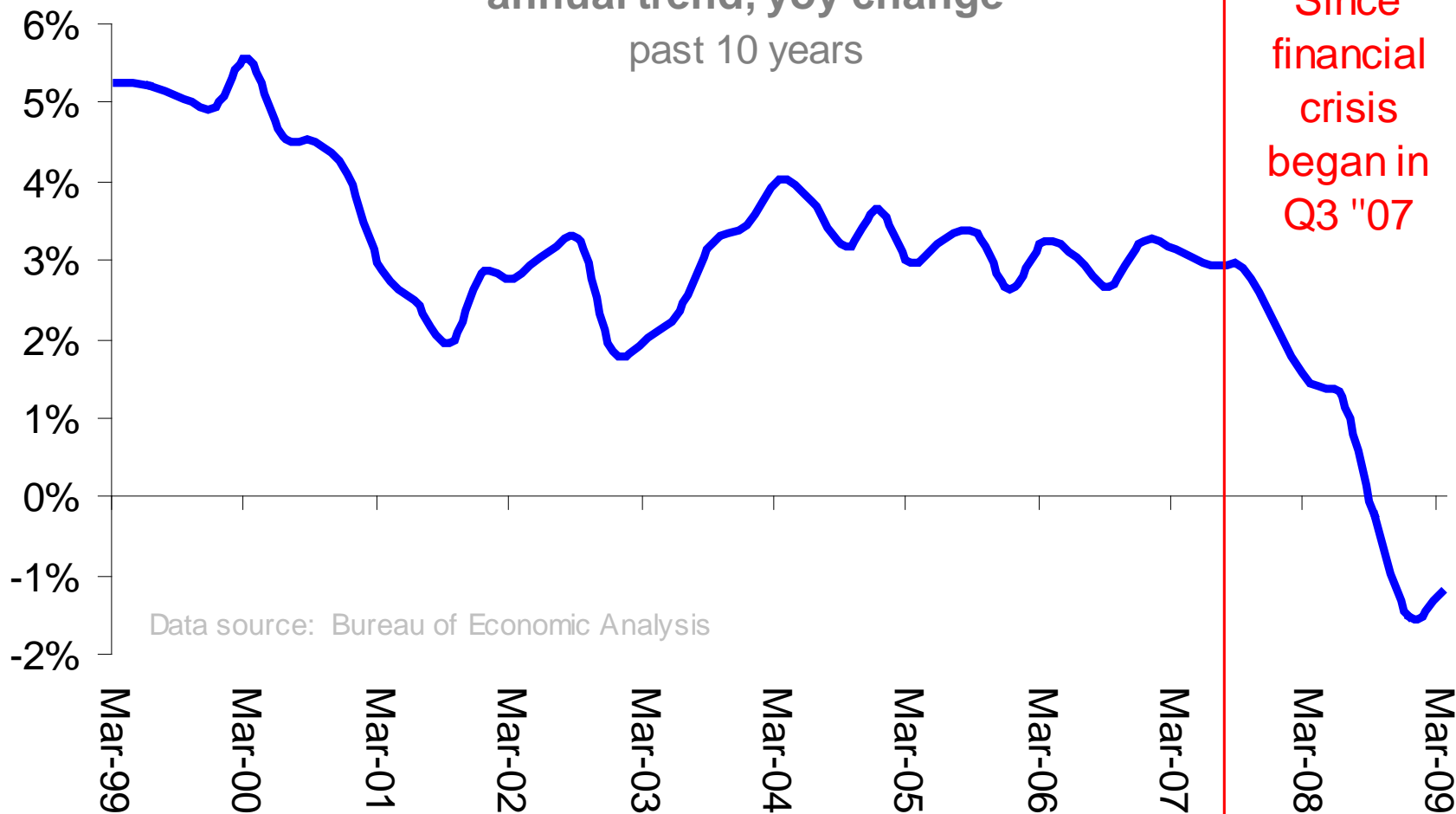
(was 71% a year ago)  
(was 64% in Q3 '81)

Bureau of Economic Analysis

# Consumer retreats ...

**72.4% of U.S. GDP - Personal Consumption**

annual trend, yoy change  
past 10 years



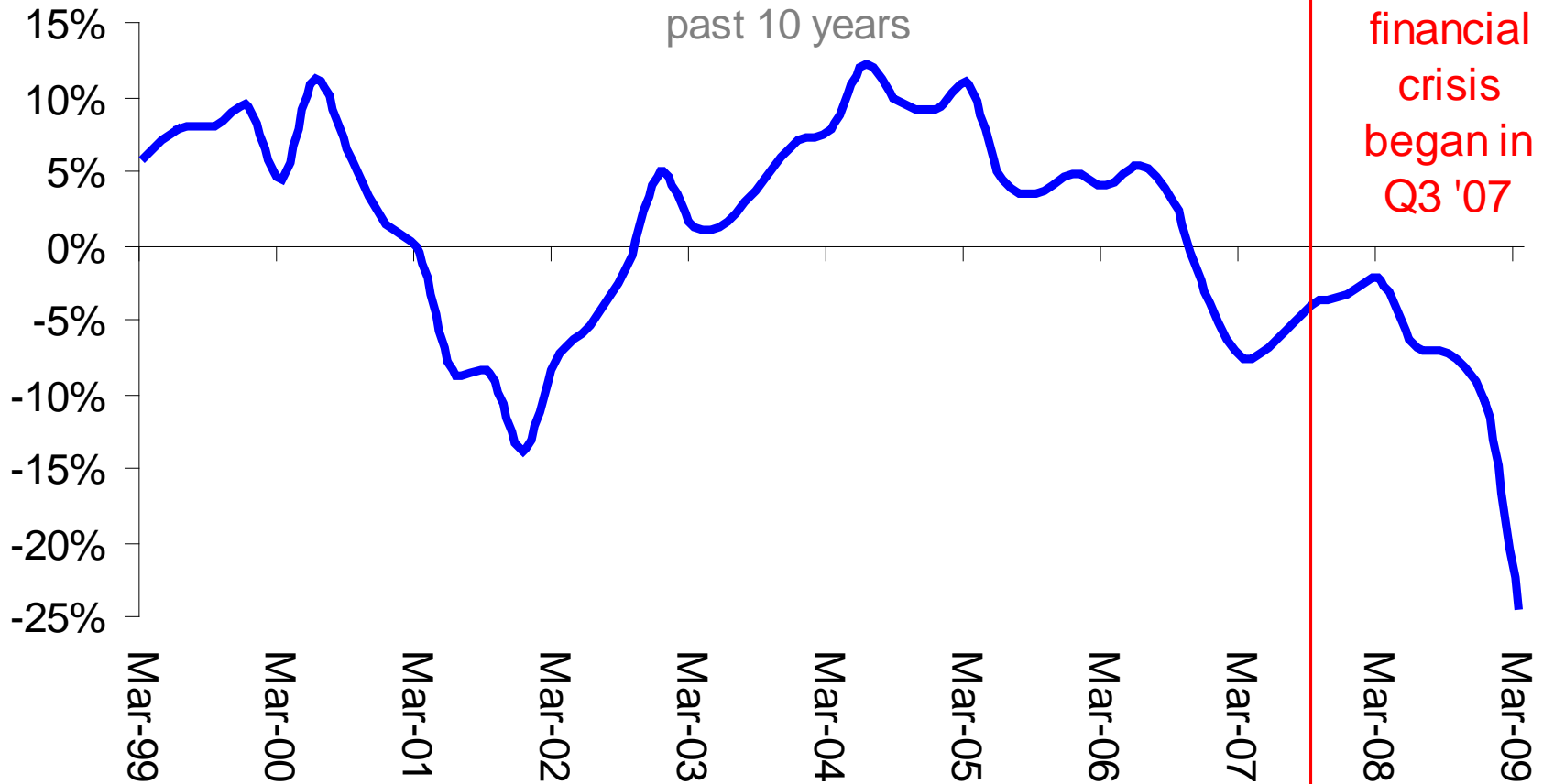
Data source: Bureau of Economic Analysis

Since  
financial  
crisis  
began in  
Q3 '07

# Investment plummets ...

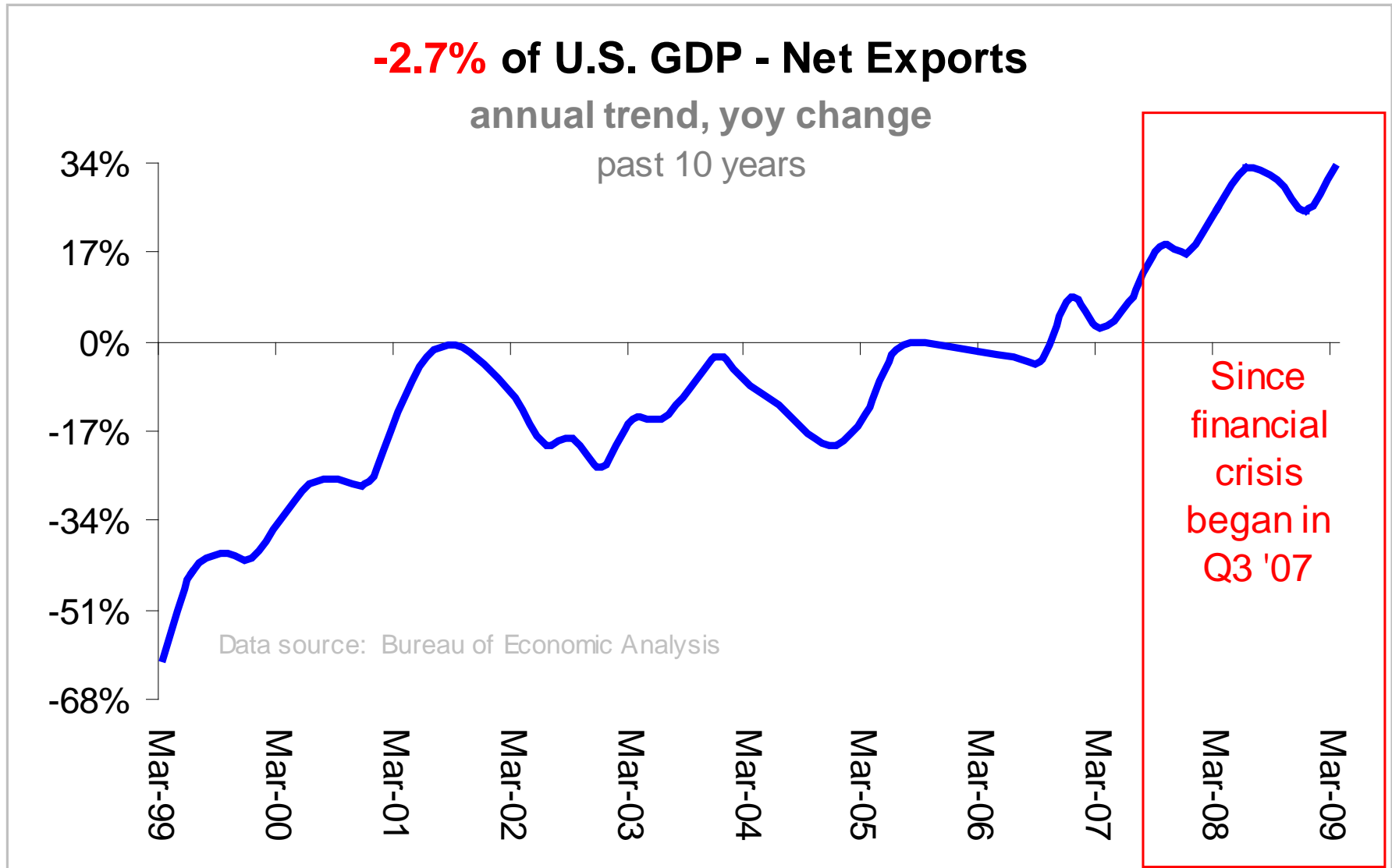
**11.7% of U.S. GDP - Gross Private Investment**  
annual trend, yoy change

past 10 years

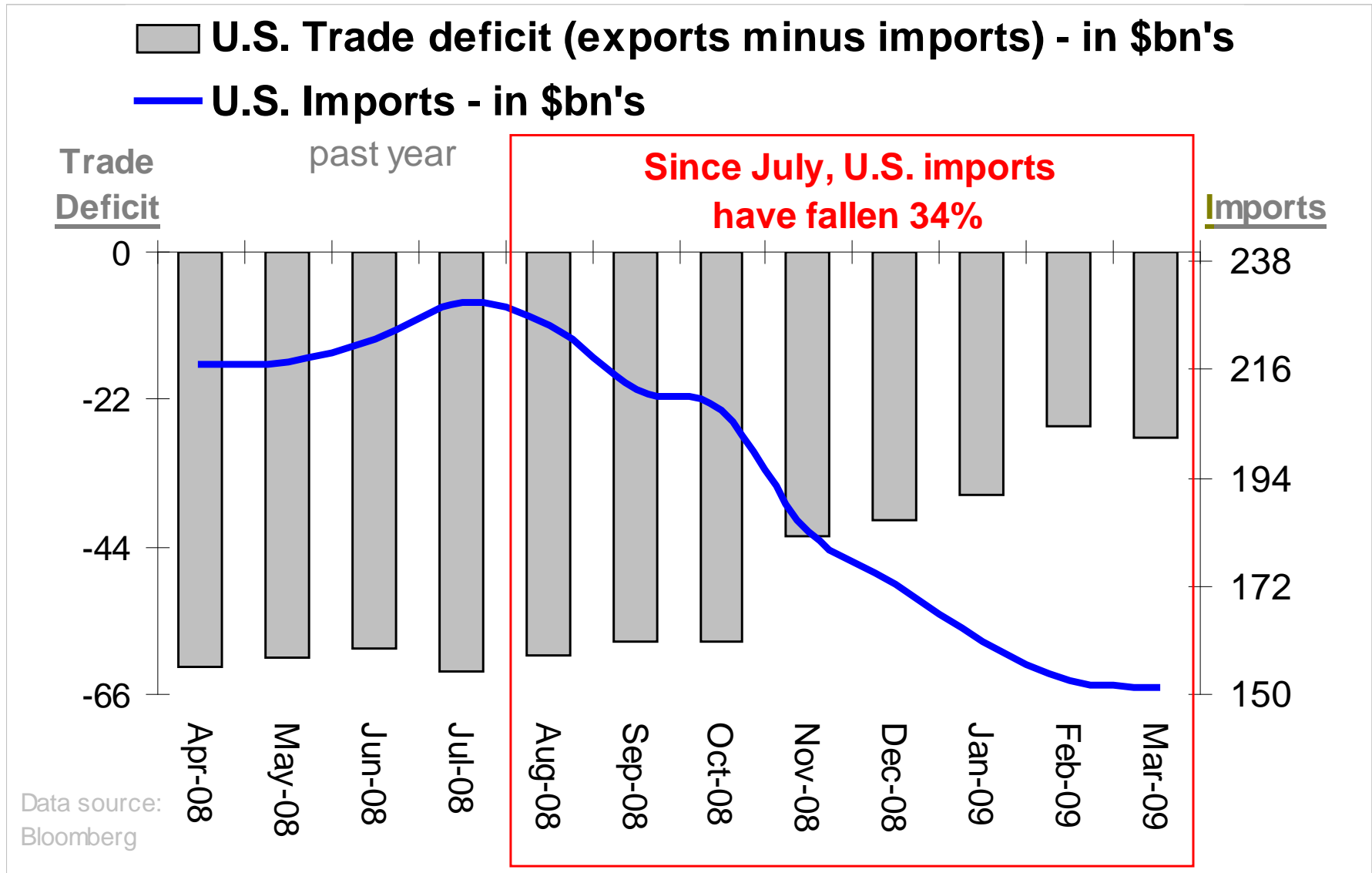


Data source: Bureau of Economic Analysis

# U.S. trade becomes less of a drag on growth ...



# But global trade shrinks ...



# Need stable markets for confidence to return ...

## We are watching ...

### Cost of debt

- Credit spreads
- Libor
- Treasury yields

### Markets

- Volatility
- Trends
- Yield curve
- Yen & yuan

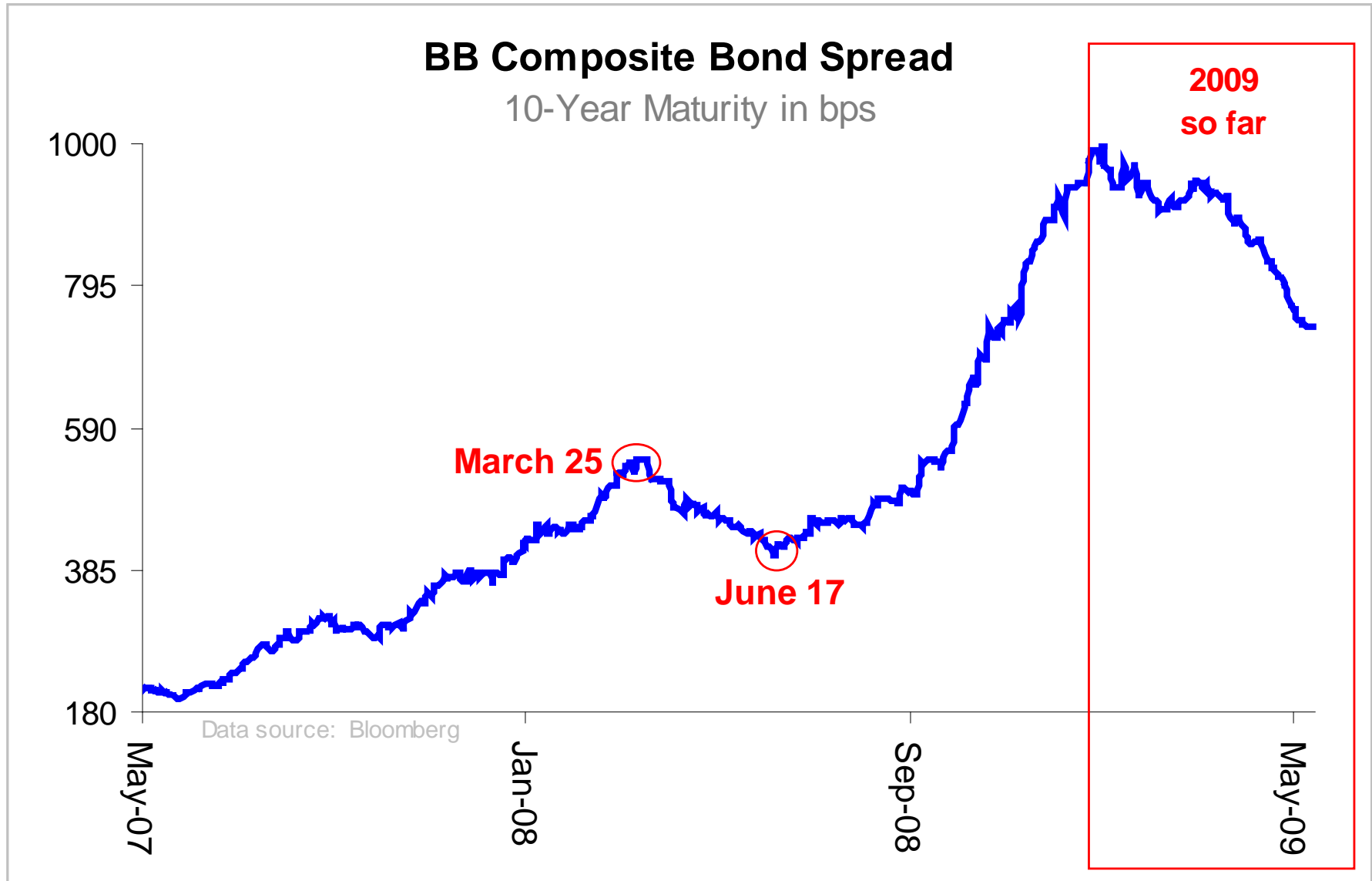
### Economy

- Home sales
- Unemployment
- Retail sales
- Inventories
- Trade deficit

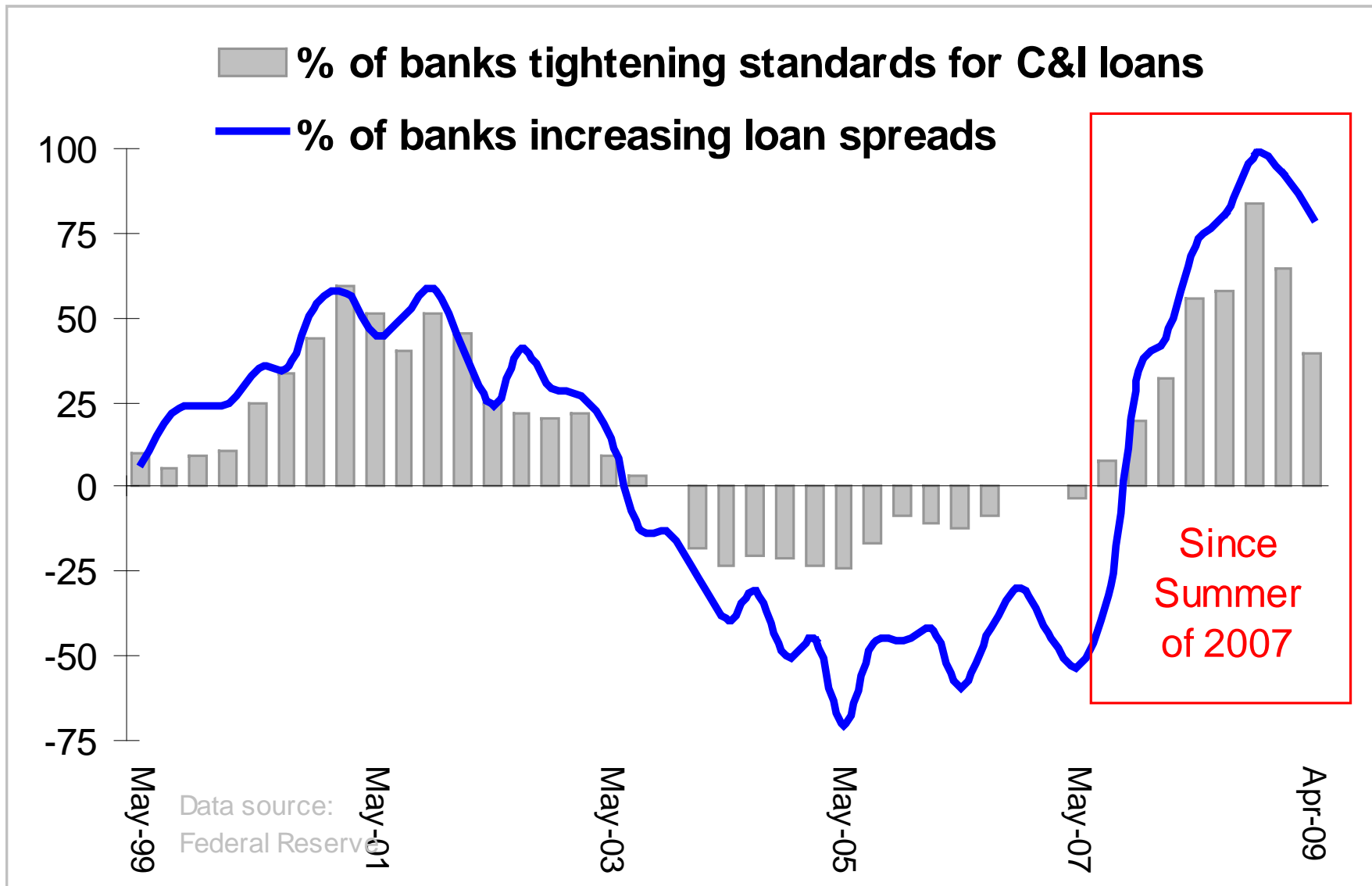


# Headwinds

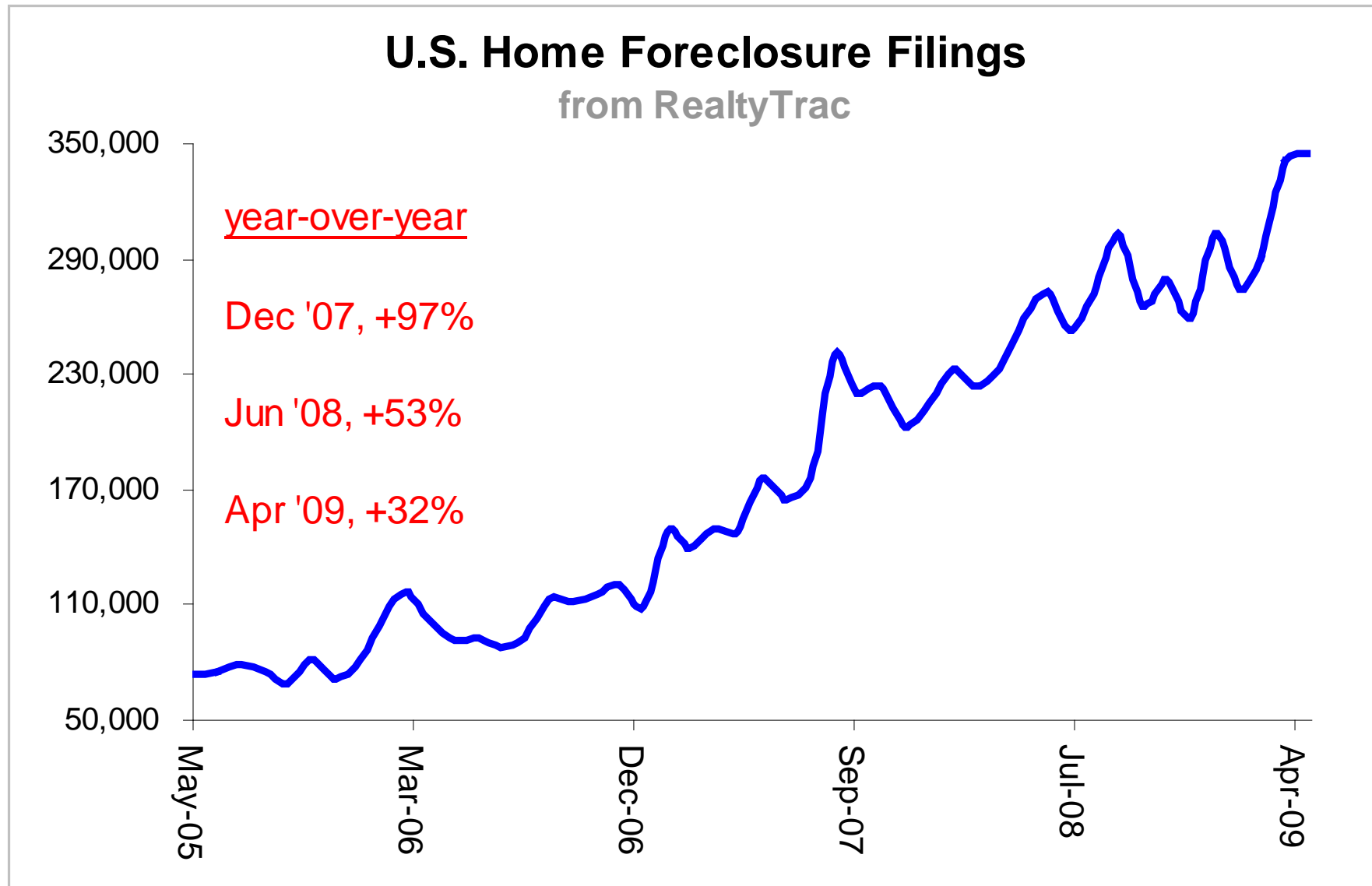
# Tight credit is main concern ...



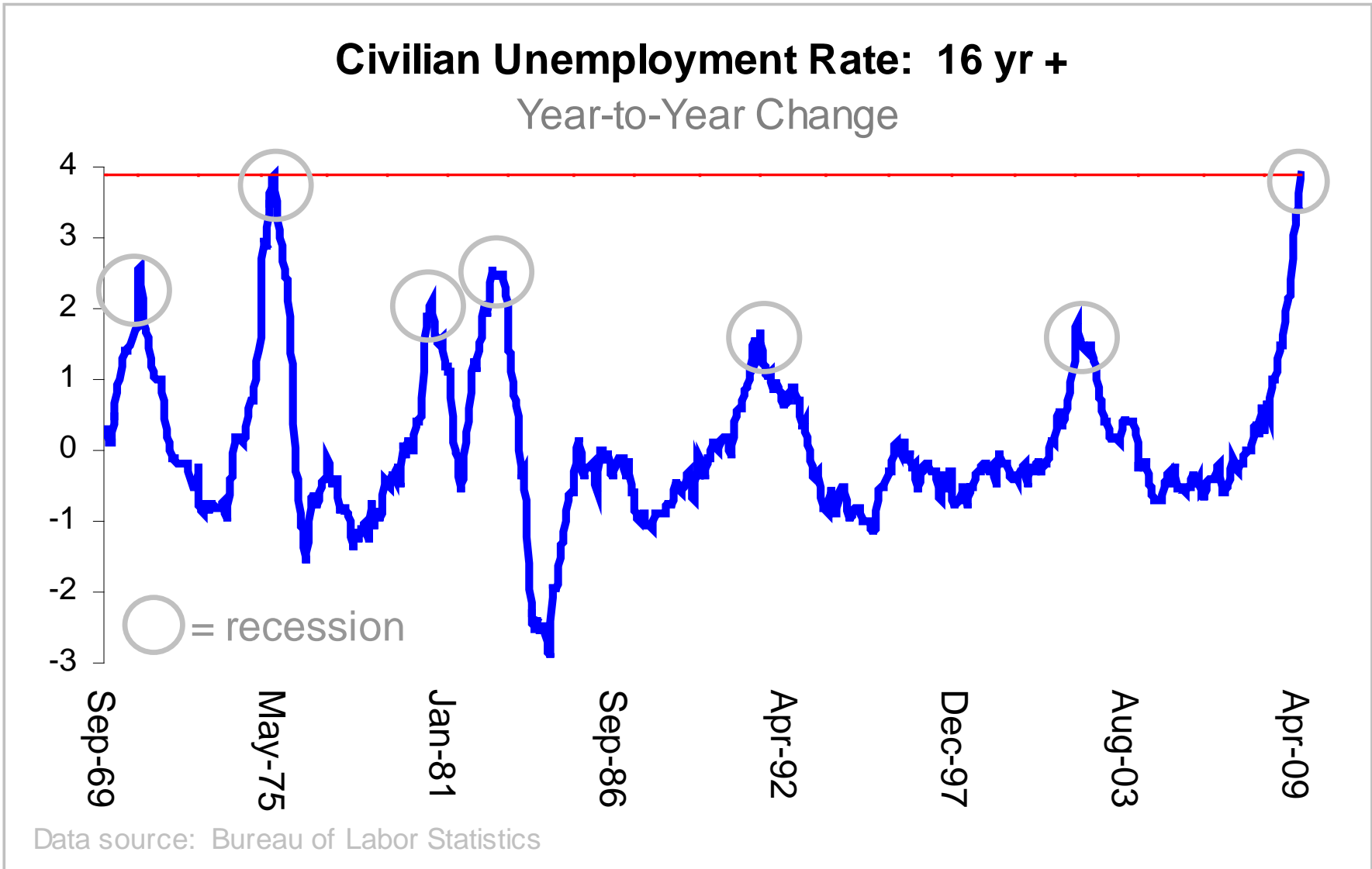
# Extremely tight lending standards remain ...



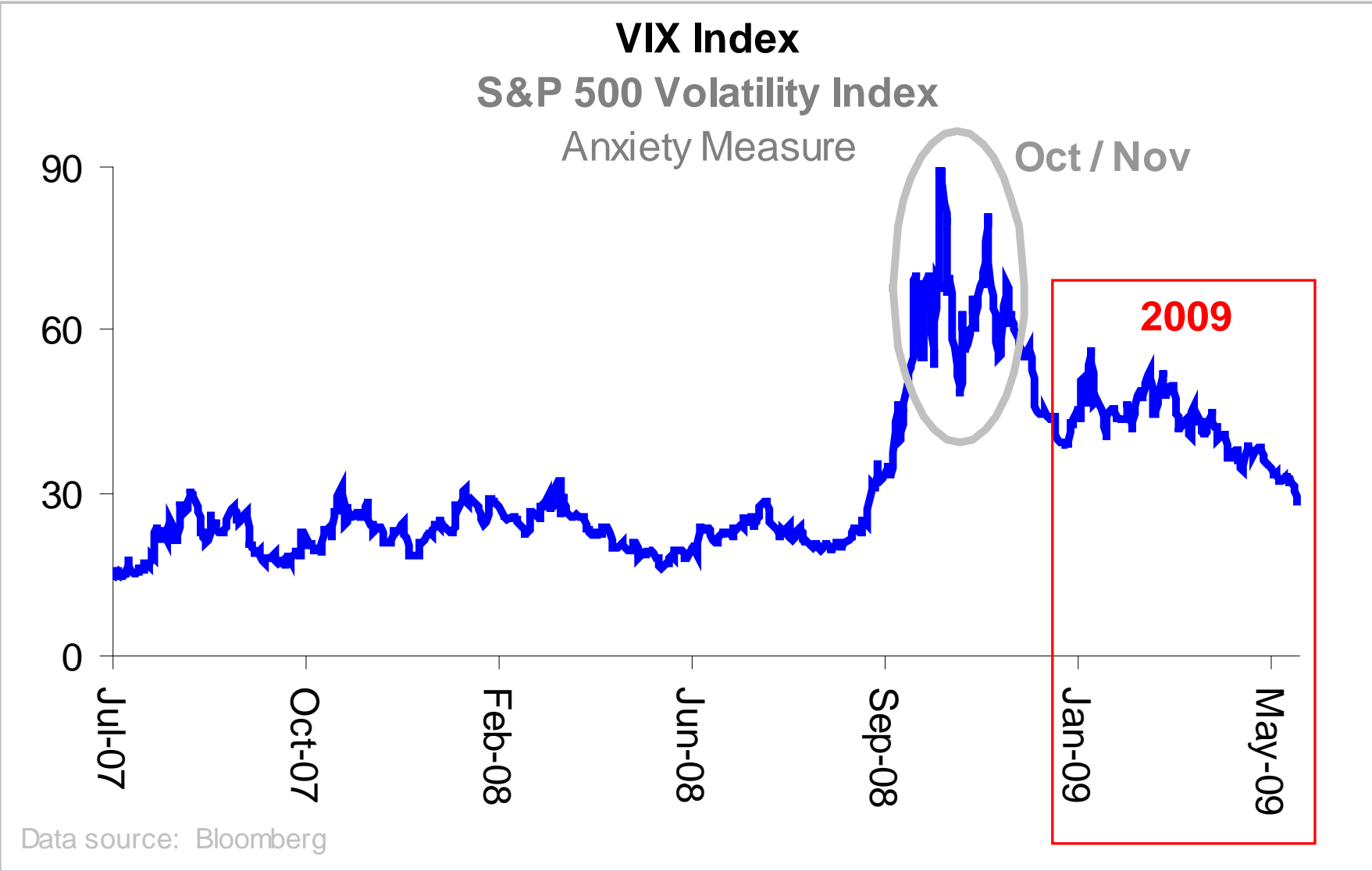
# Foreclosures up, but pace is erratic ...



# Unemployment, rate of change is key ...

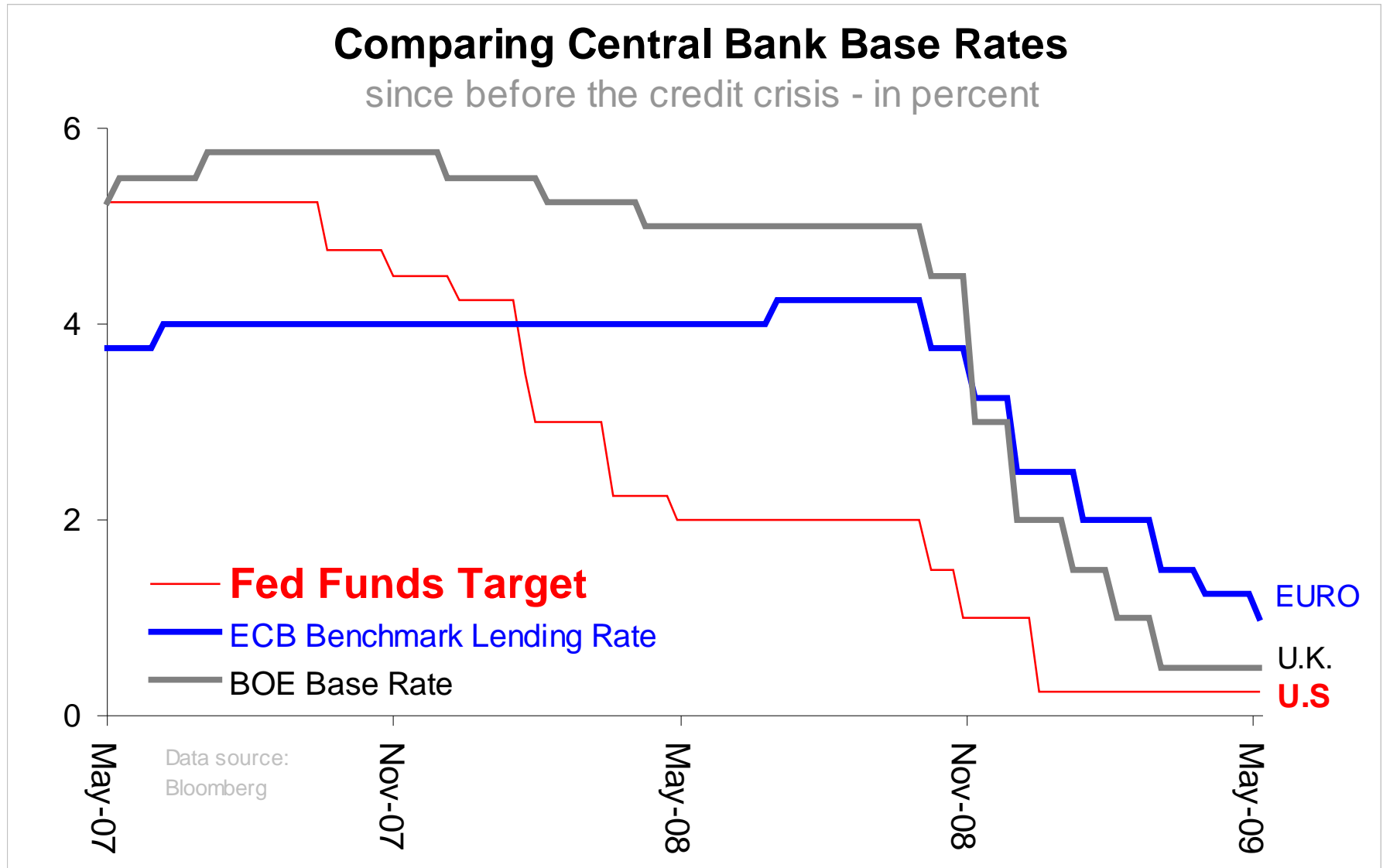


# Anxiety in the markets is an ongoing setback ...

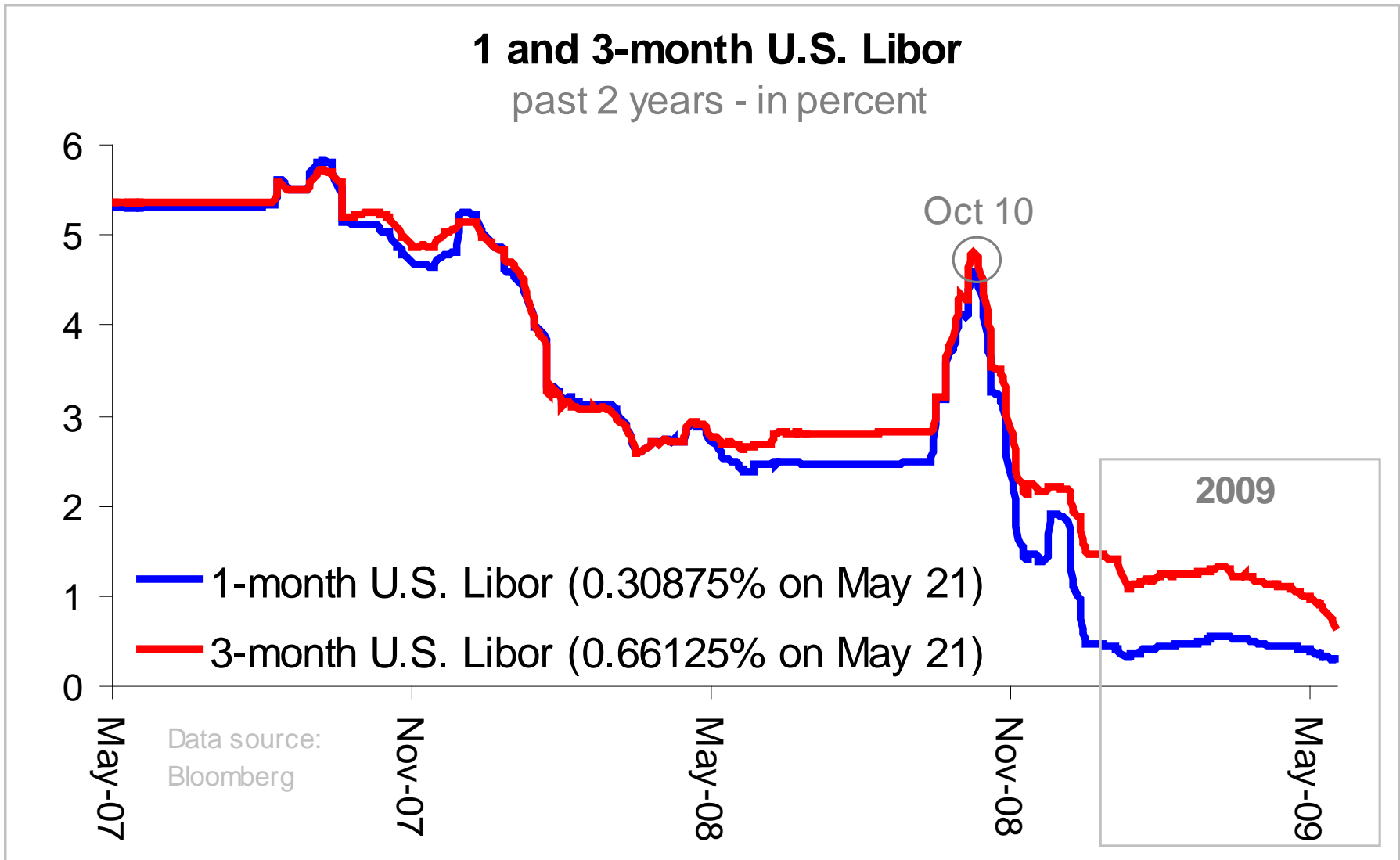


# Tailwinds

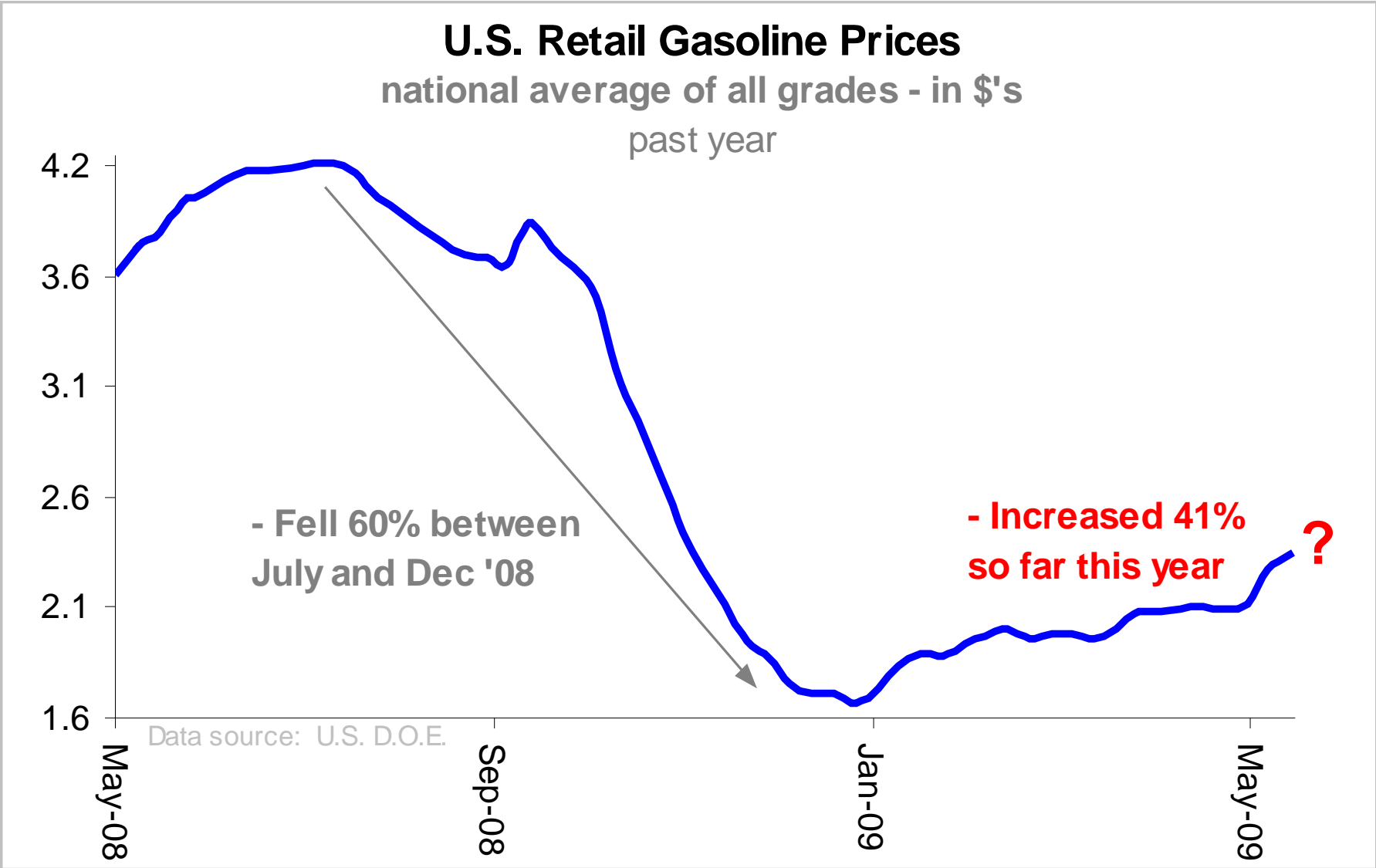
# Central banks cut short-term rates ...



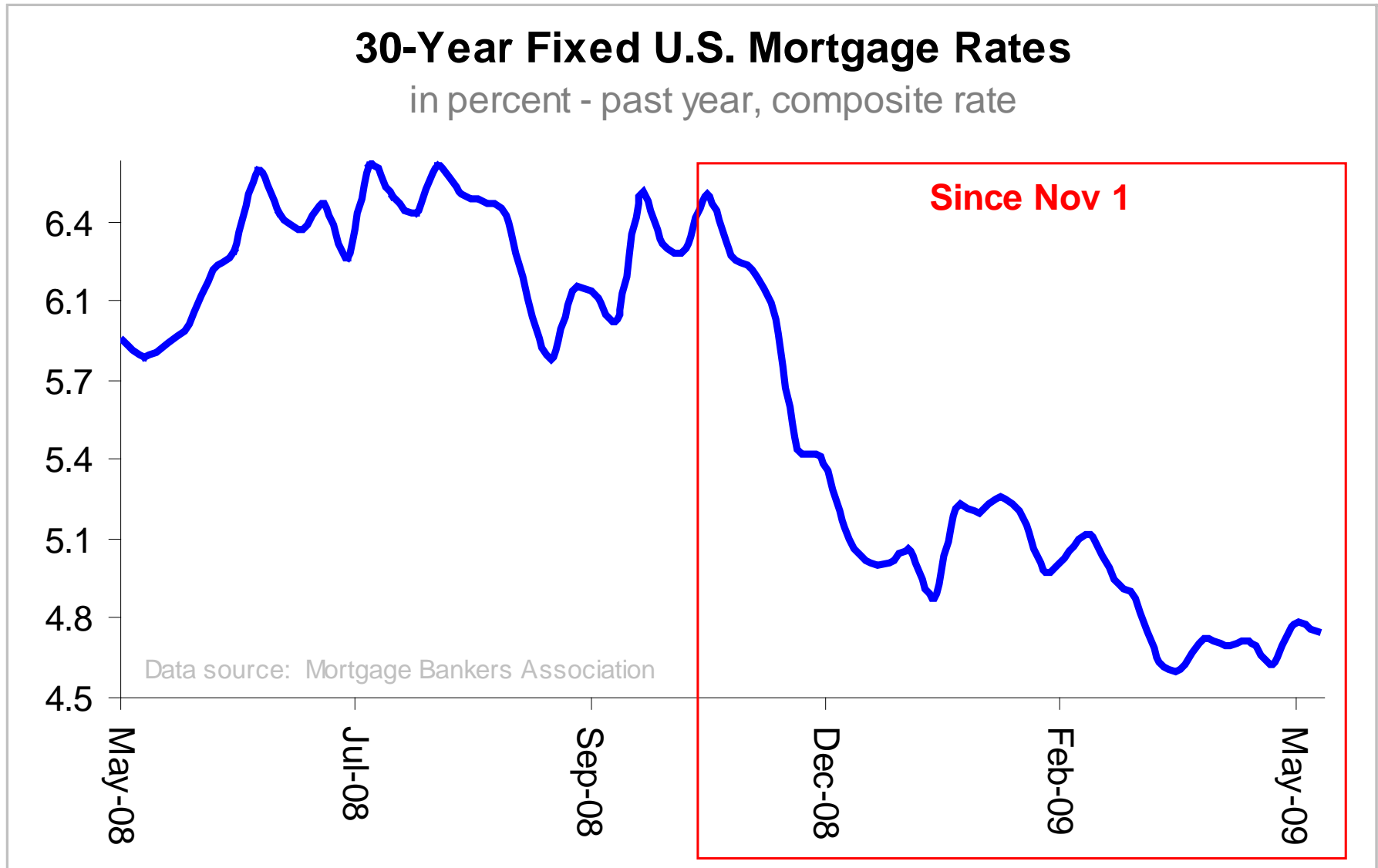
# And Libor mostly benefits ...



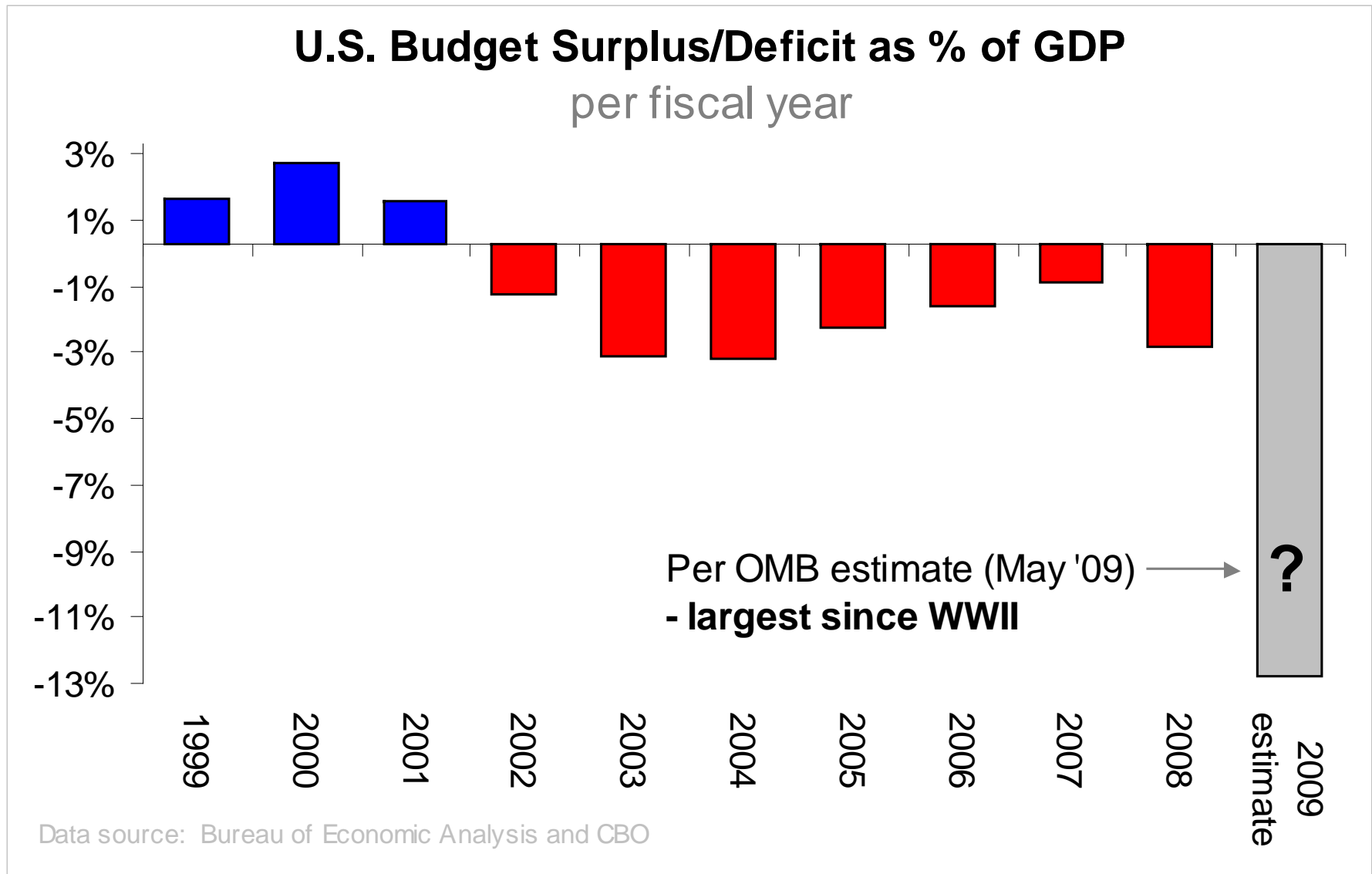
# Will gasoline prices behave?



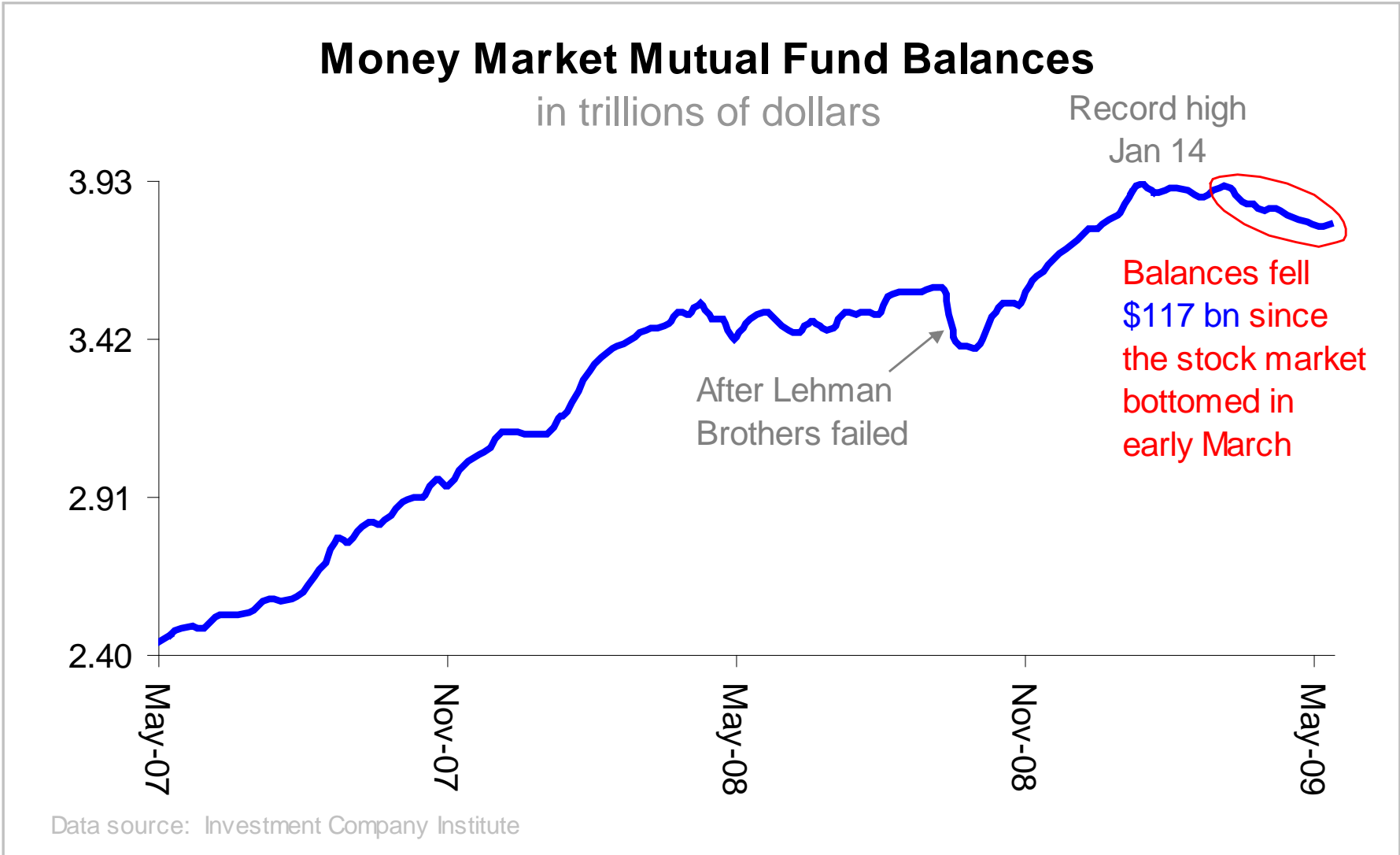
# Will the recent drop in mortgage rates last?



# Fiscal stimulus has arrived ...



# Significant cash is on the sidelines ...



# Cost of Debt

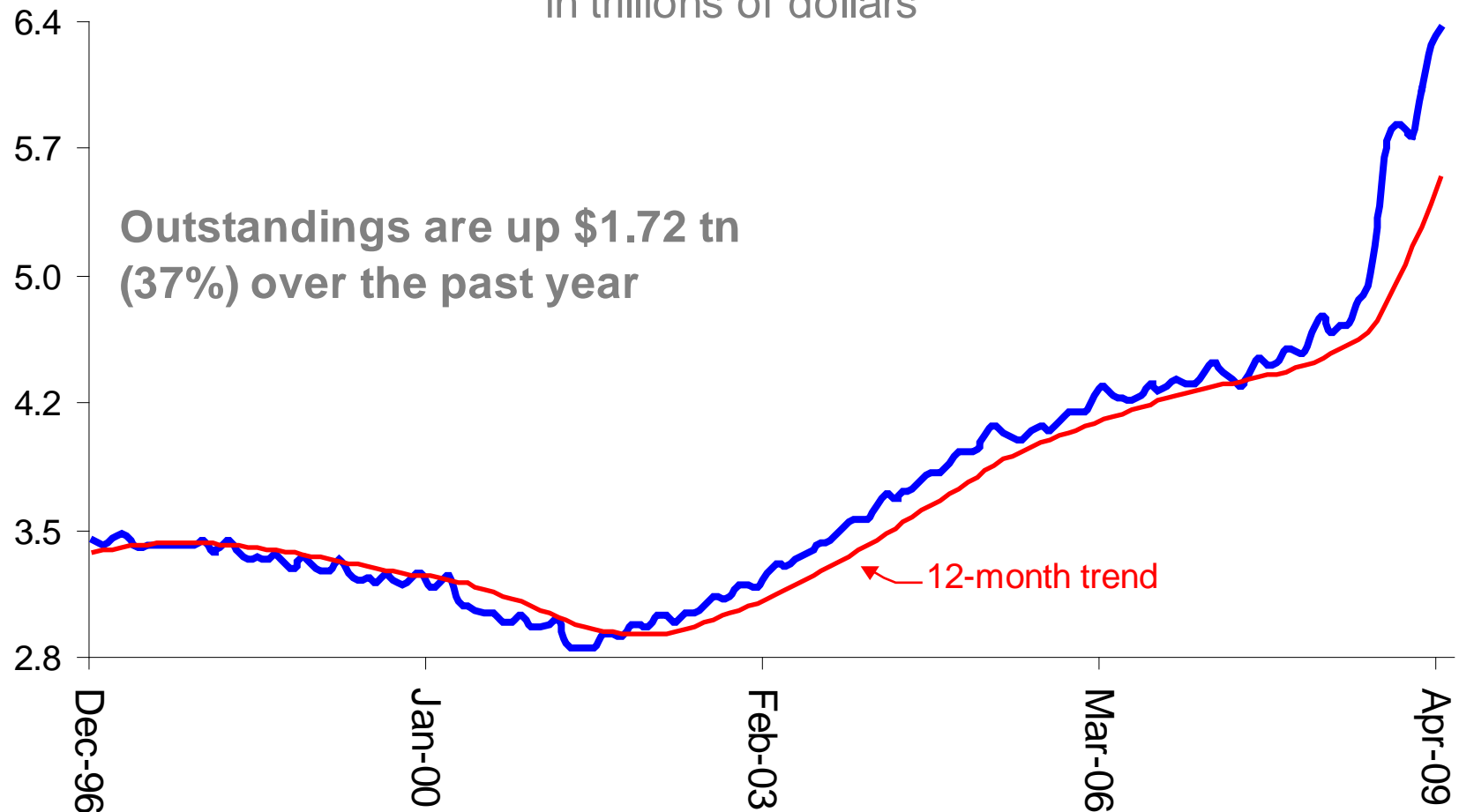
# Is '08's winning asset class the next bubble?



# Focus on Federal debt issuance intensifies ...

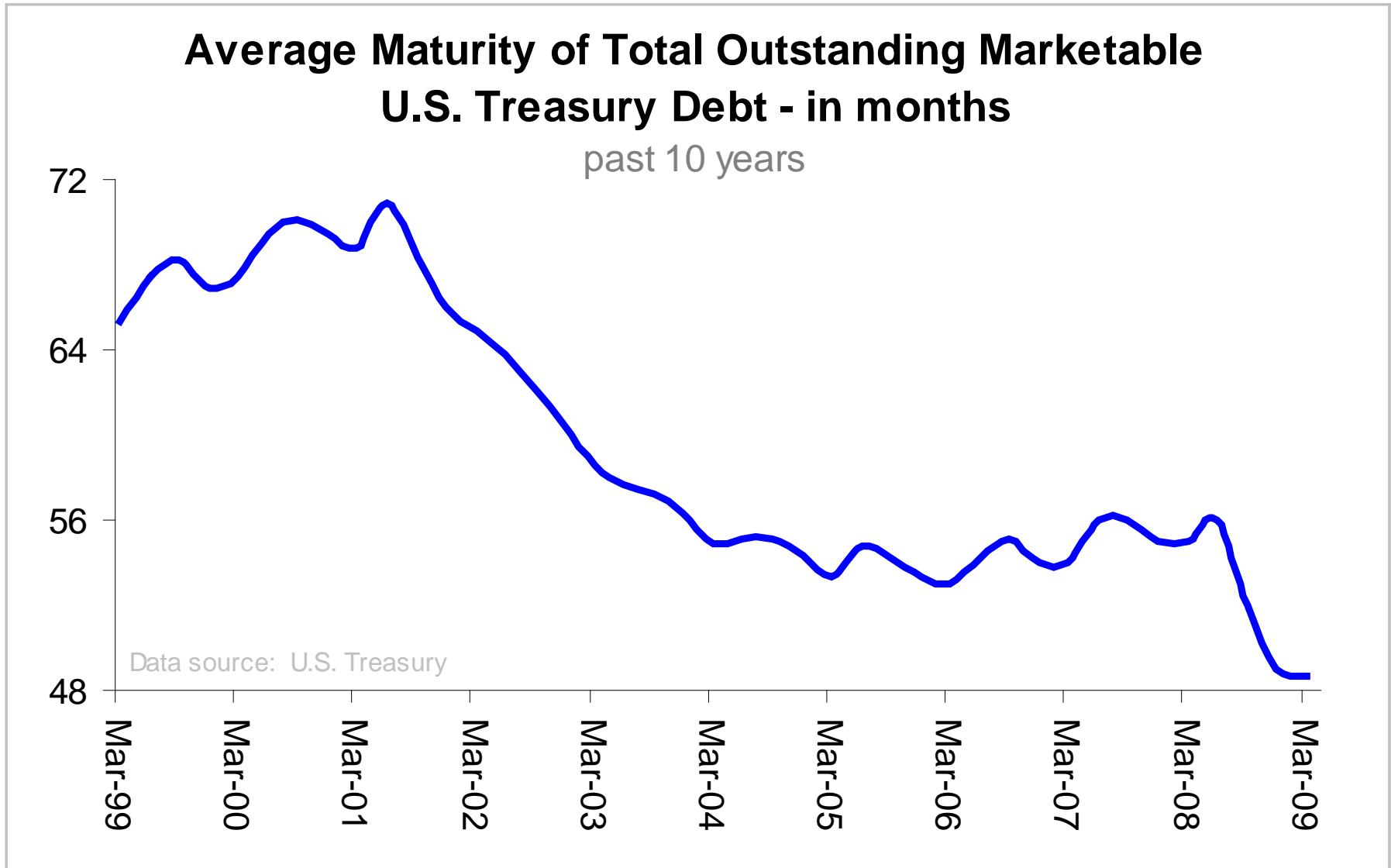
## Marketable Treasury Debt Outstanding

in trillions of dollars

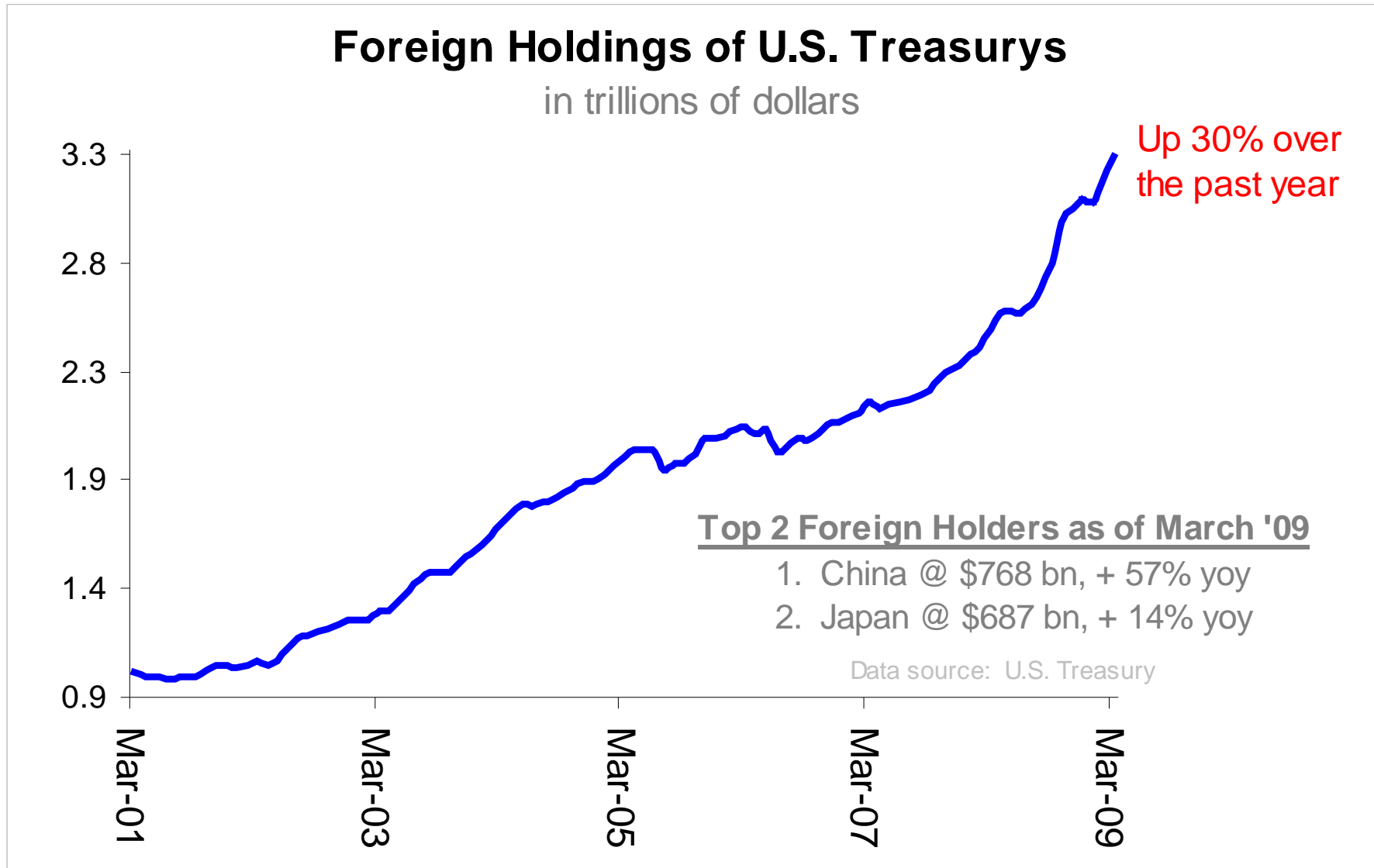


Data source: U.S. Treasury

# Avg Treasury debt maturities have shortened ...



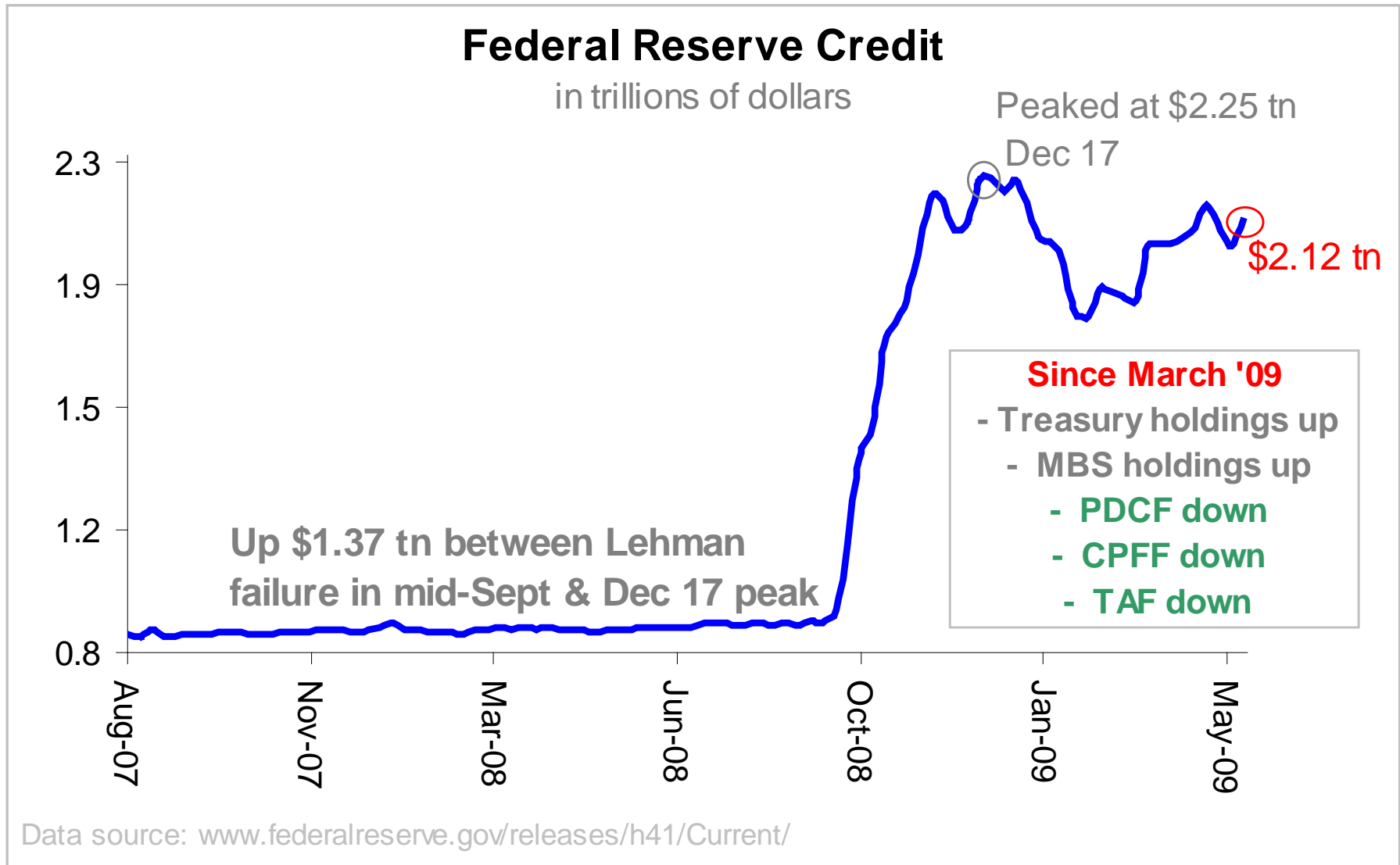
# Dependence on foreign capital rises ...



# When is enough, enough?

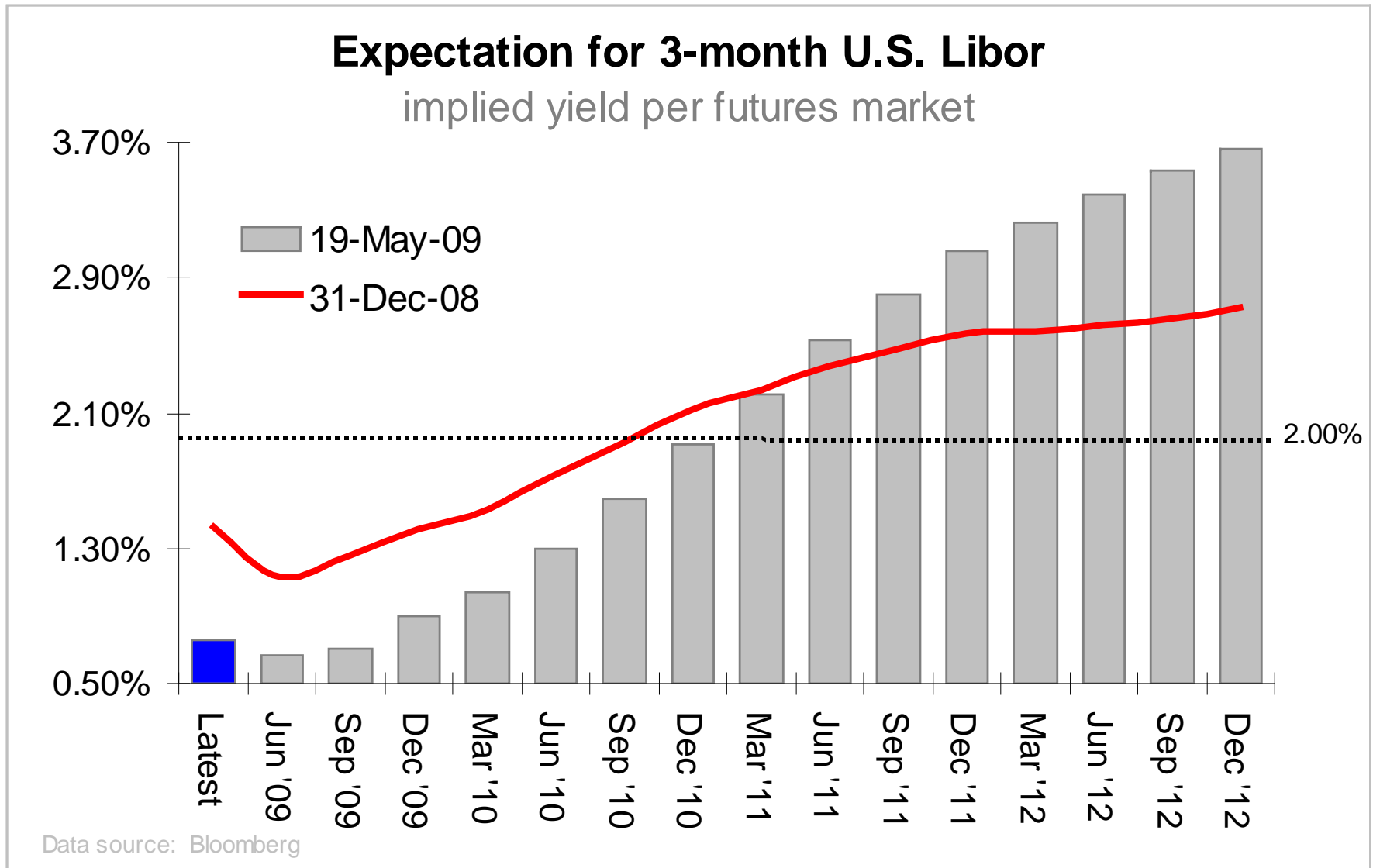


# But, the Fed buys Treasurys ...

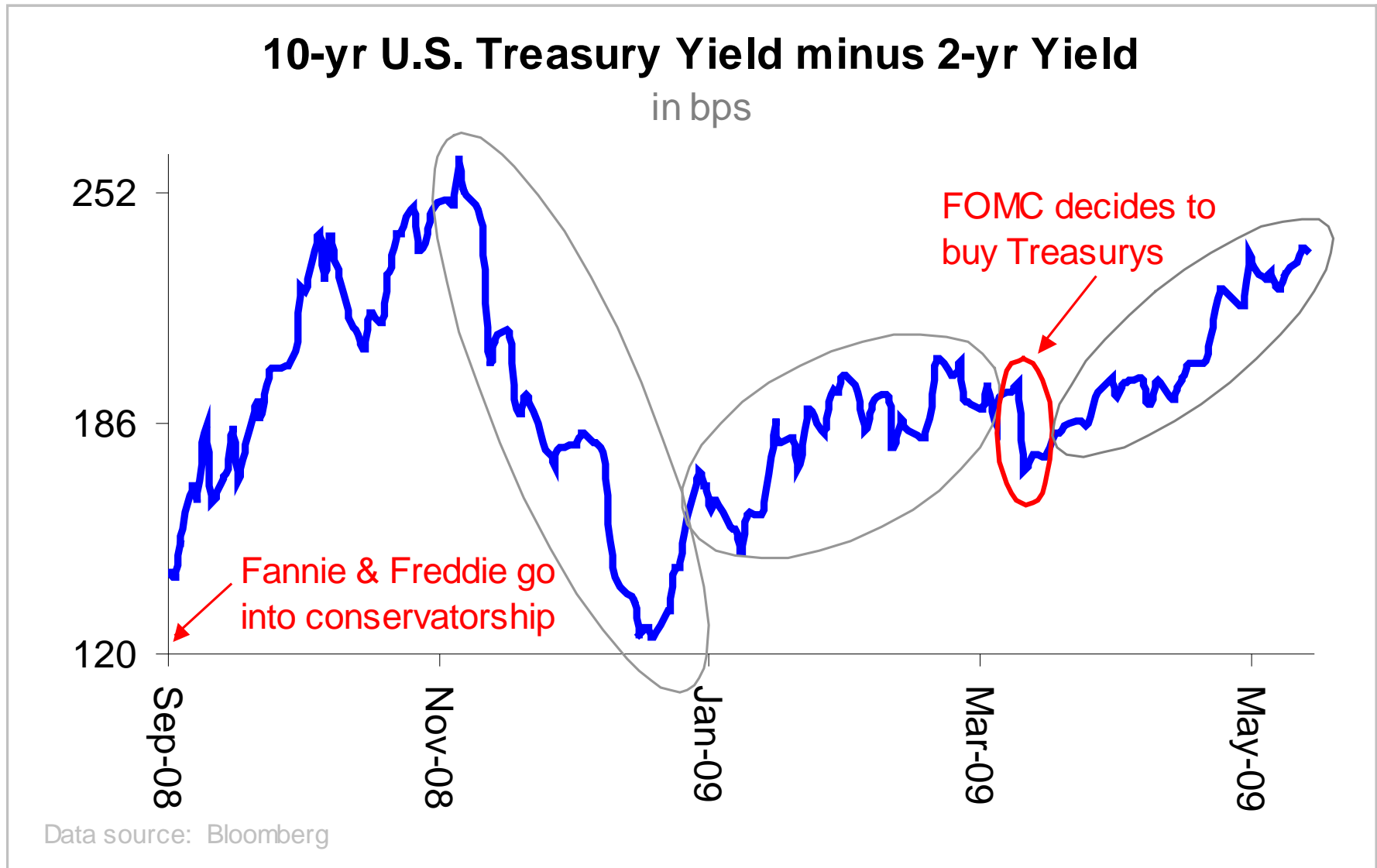


# Markets

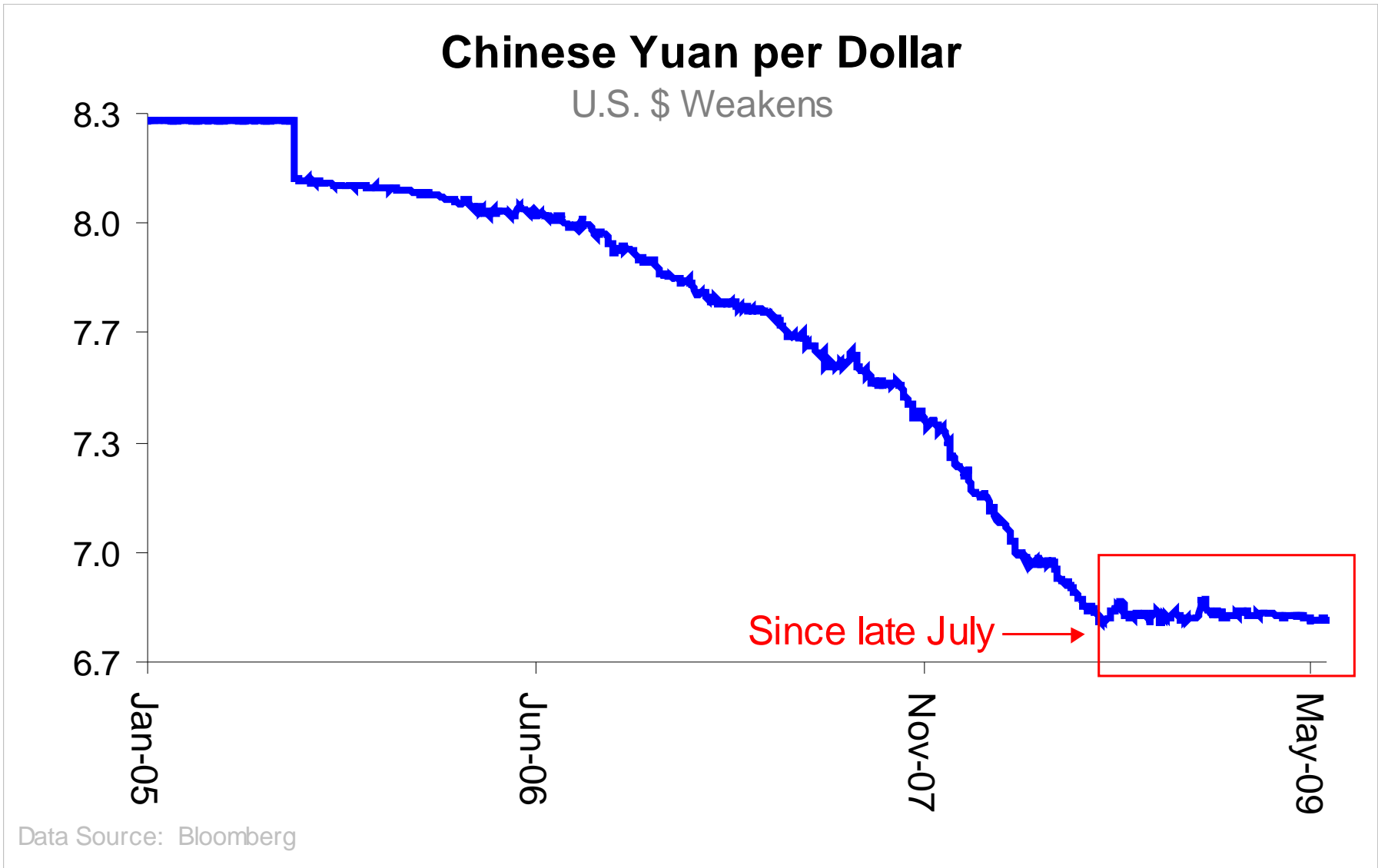
# Futures see things improving in '10 ...



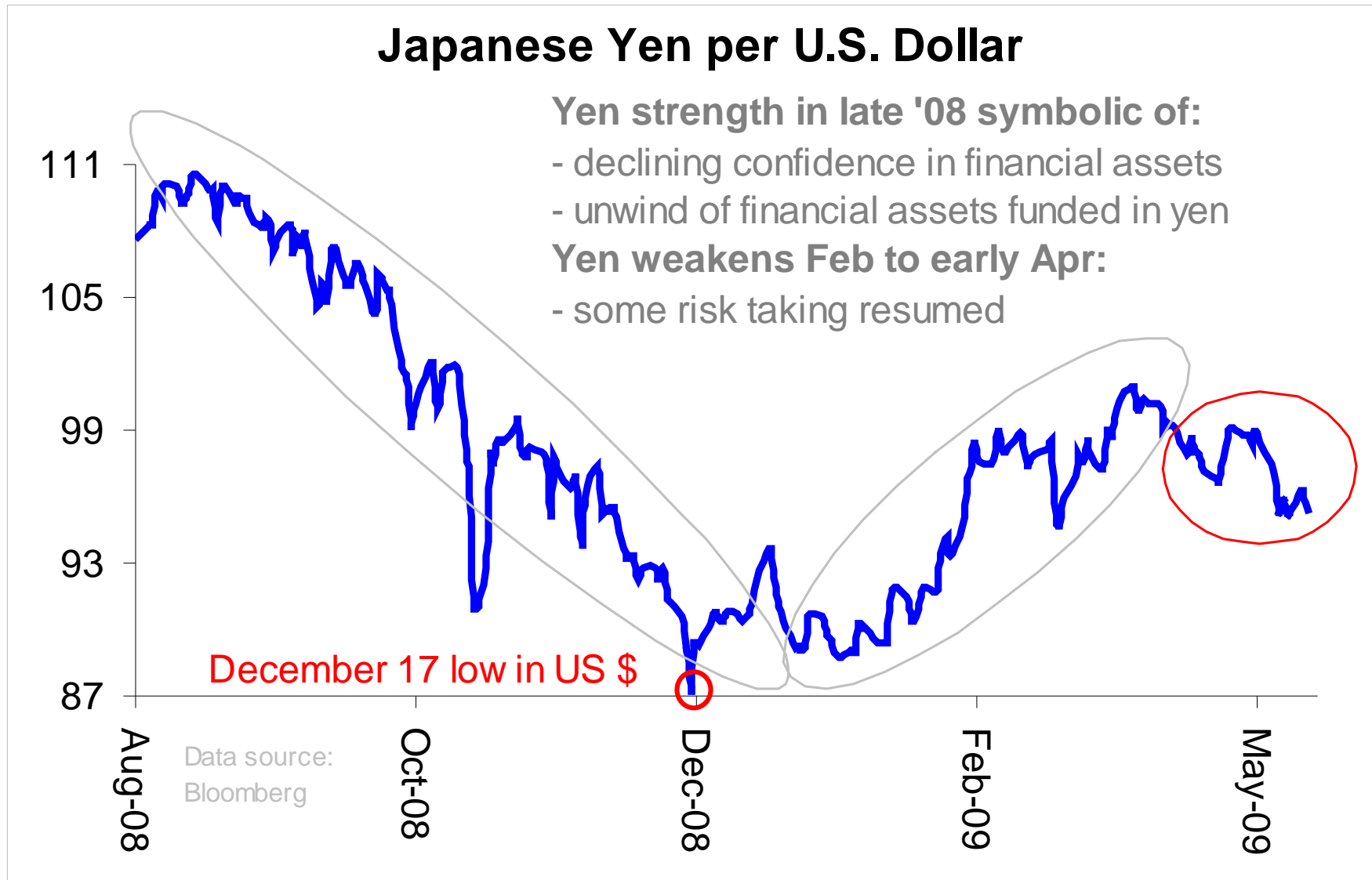
# U.S. Treasury yield curve is indecisive ...



# Chinese yuan gains stalled when crisis hit ...

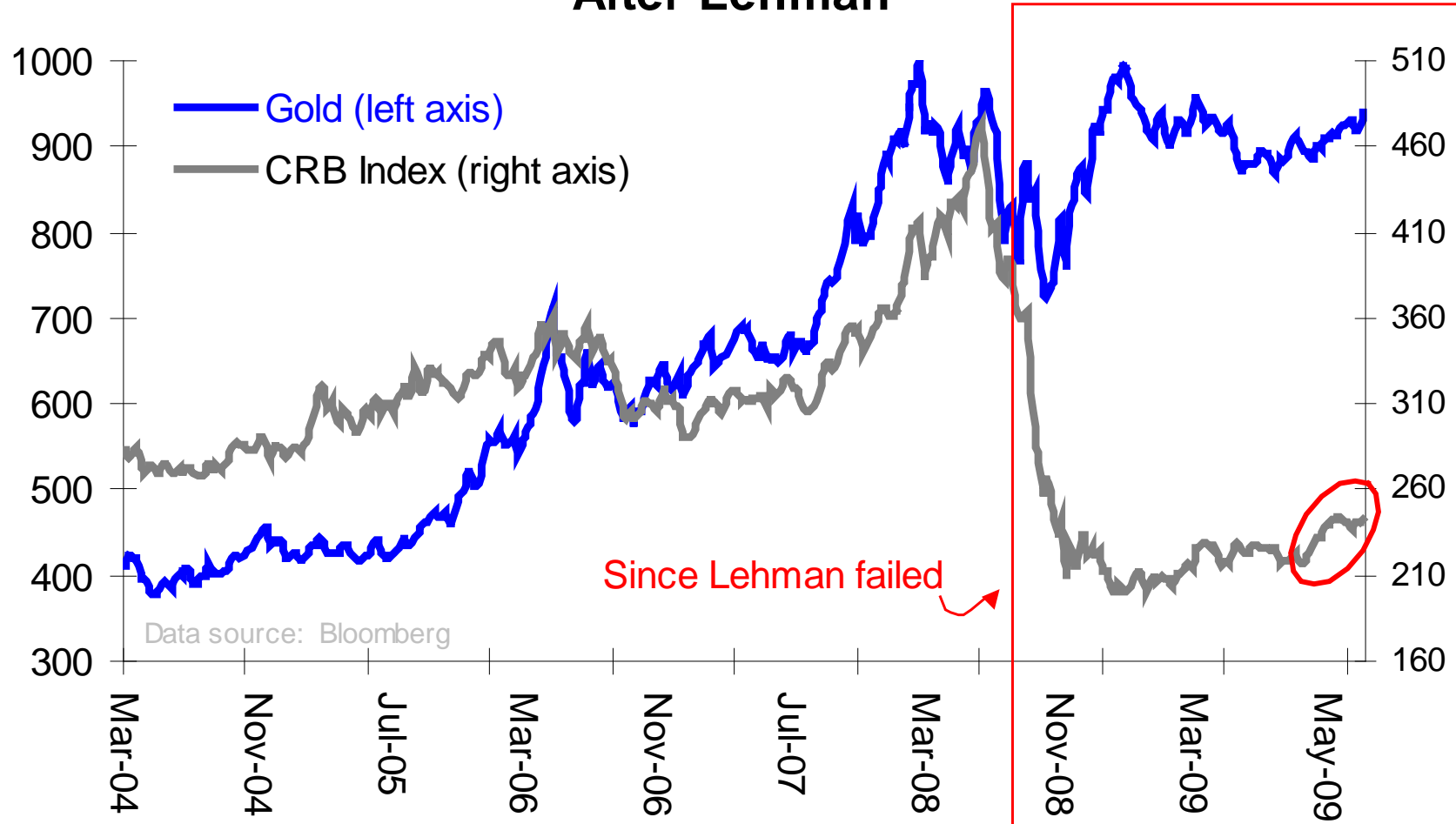


# Yen strengthened on asset liquidation ...

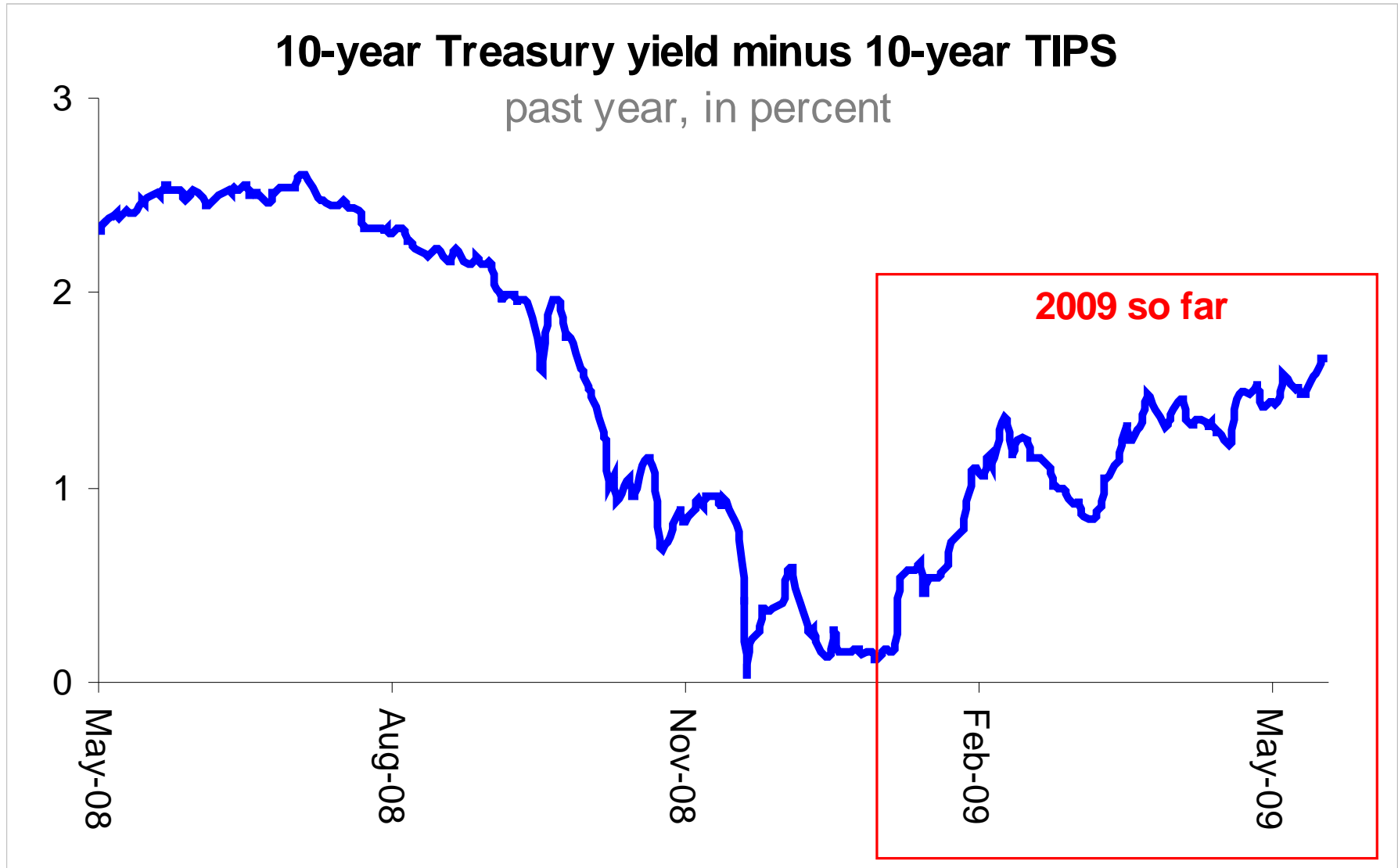


# Gold's rise is not convincing ...

## Gold and Broader Commodity Index Decouple After Lehman

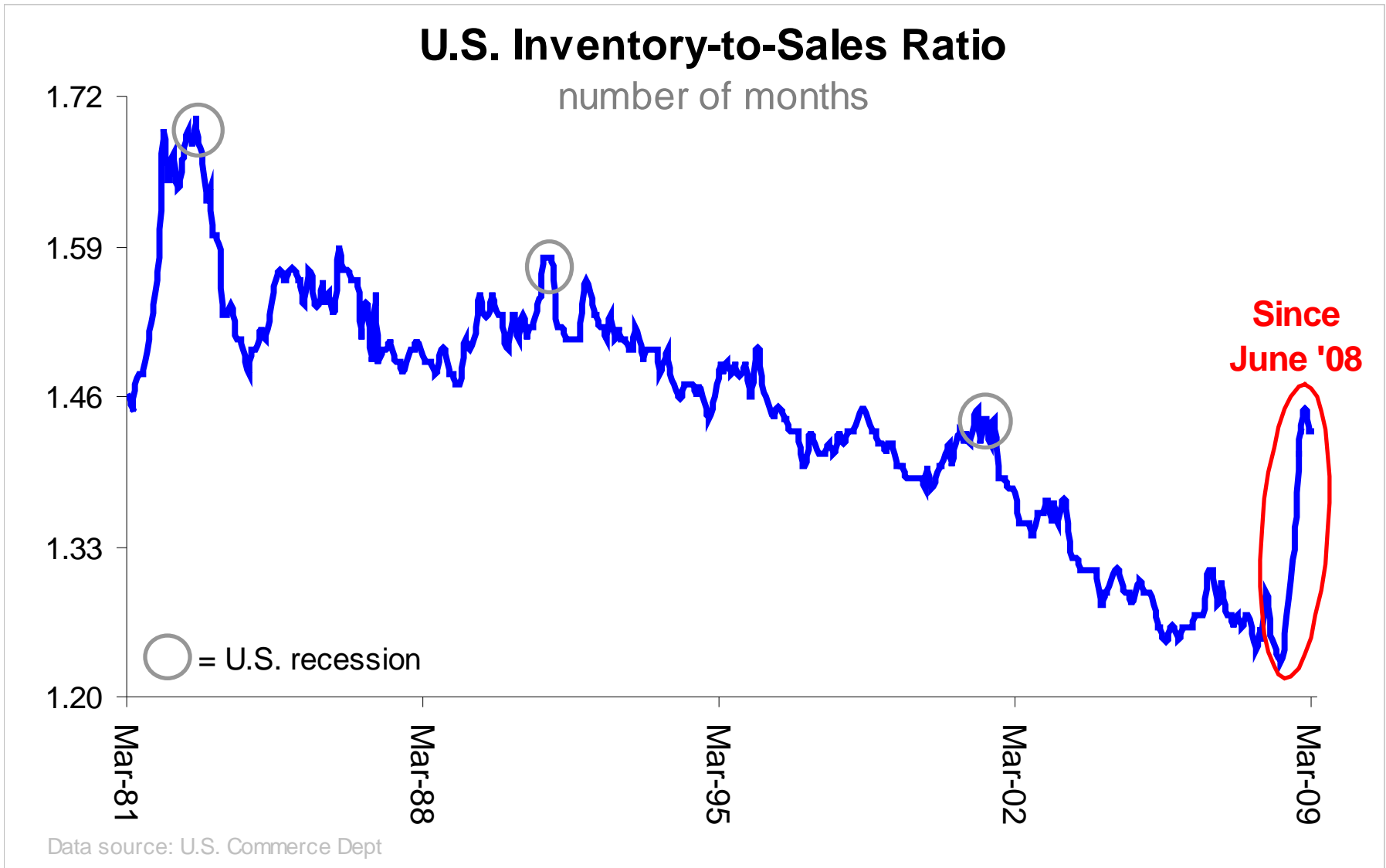


# Long-term inflation expectations creep up ...

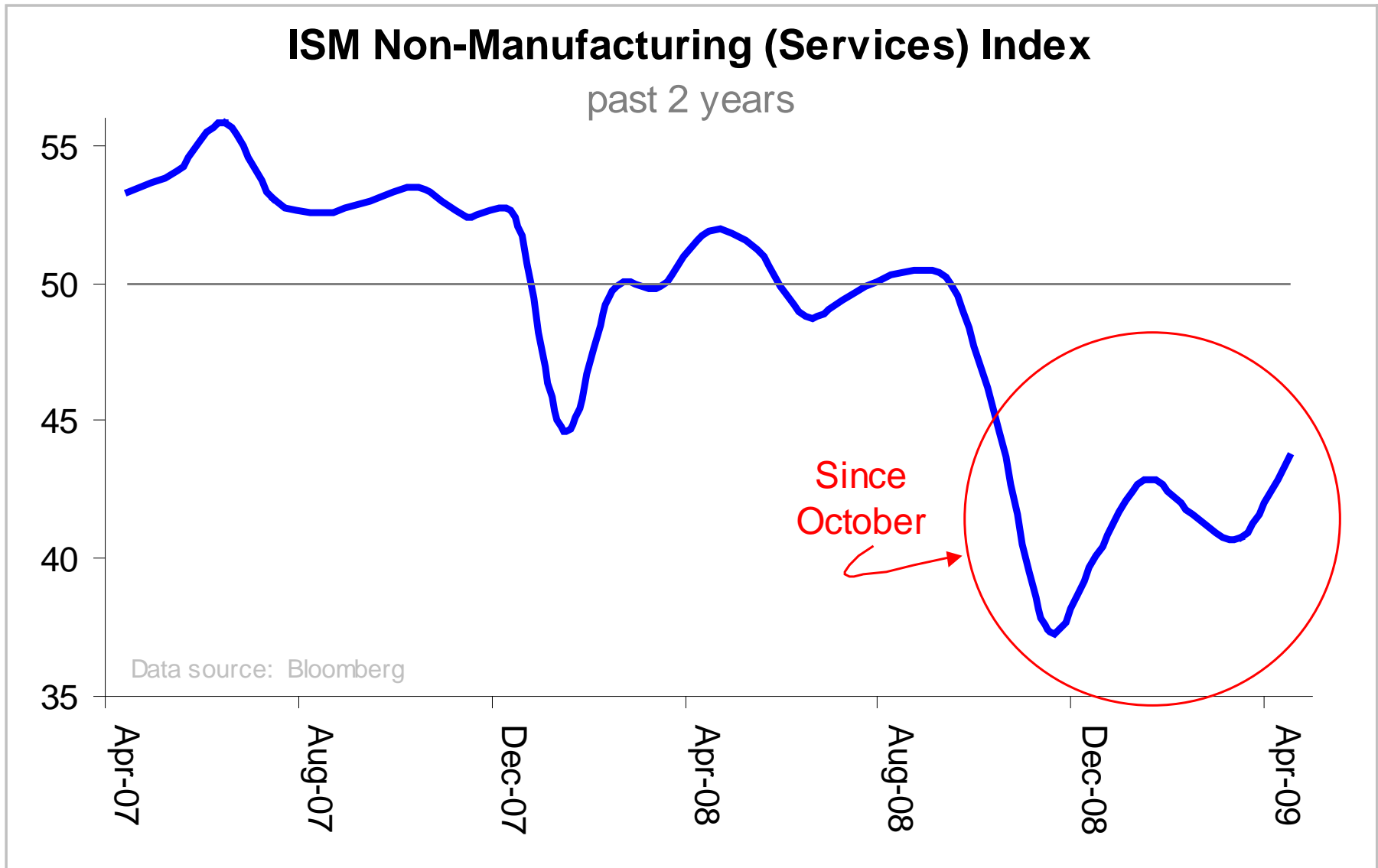


# Economy

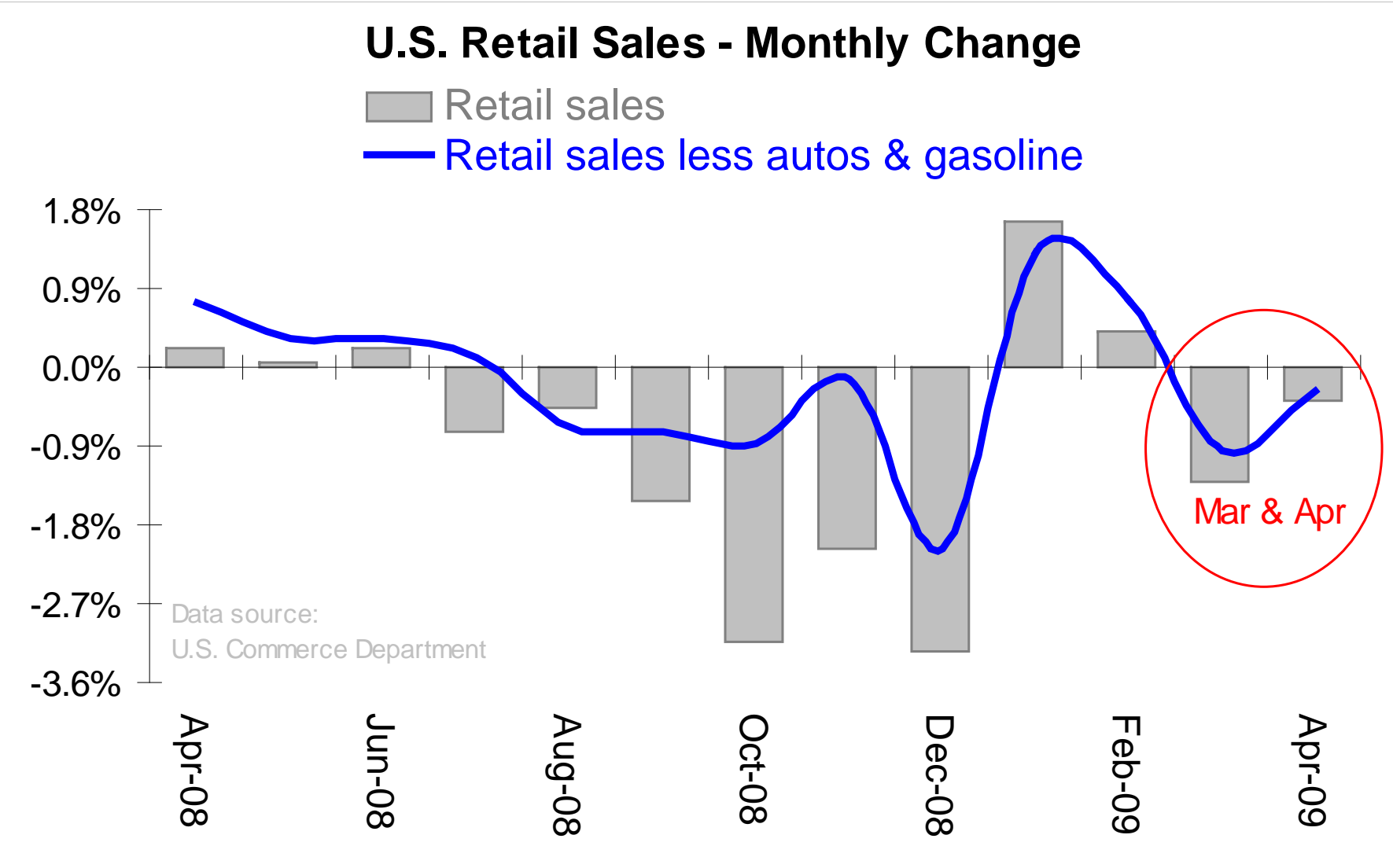
# U.S. business inventories swelled since June ...



# Contraction in U.S. service industries slows ...



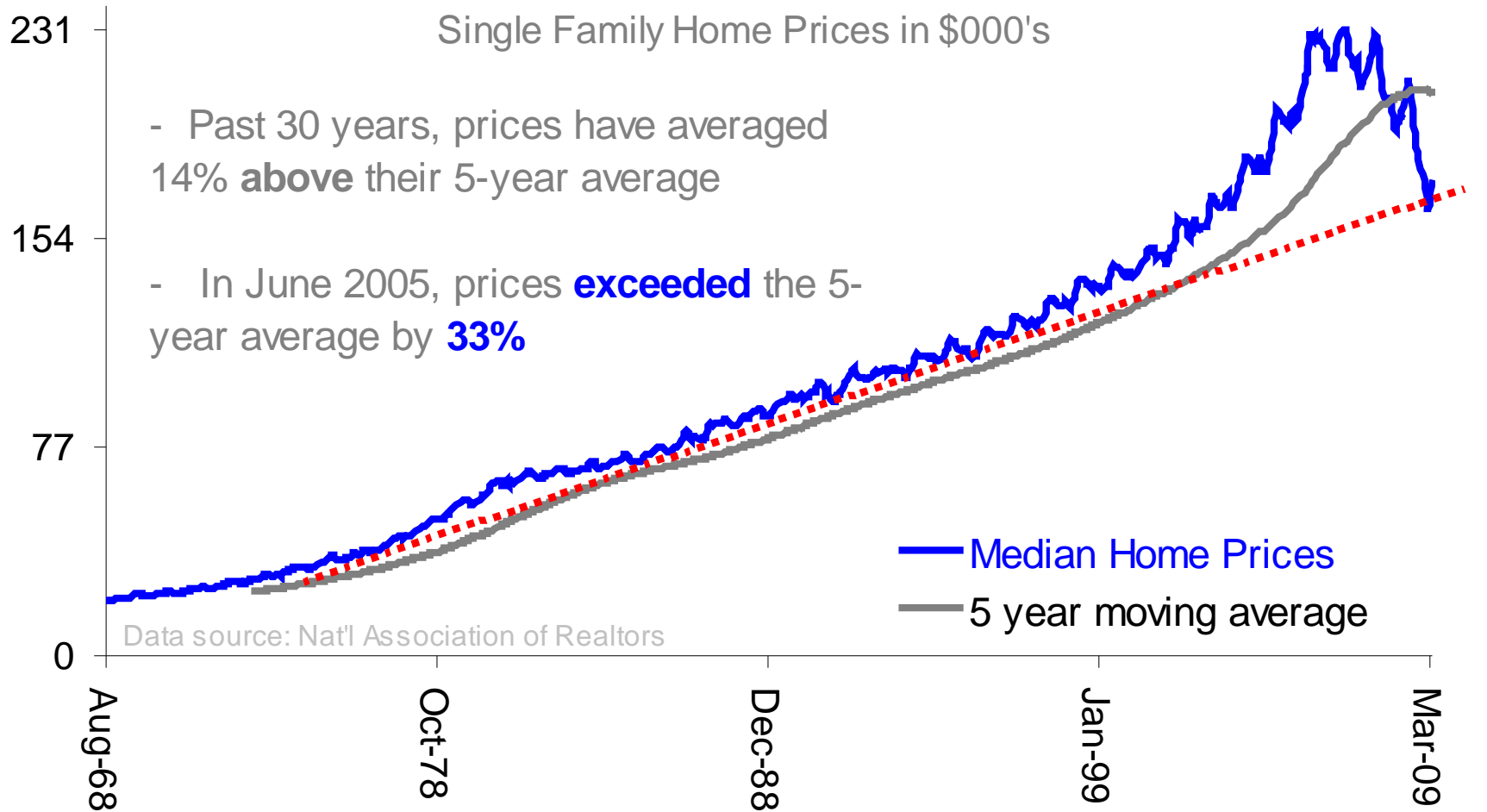
# Pace of decline in retail sales slows ...



# Home prices have adjusted ...

## U.S. Home Prices are Now **16%** Below Their 5 Year Moving Average

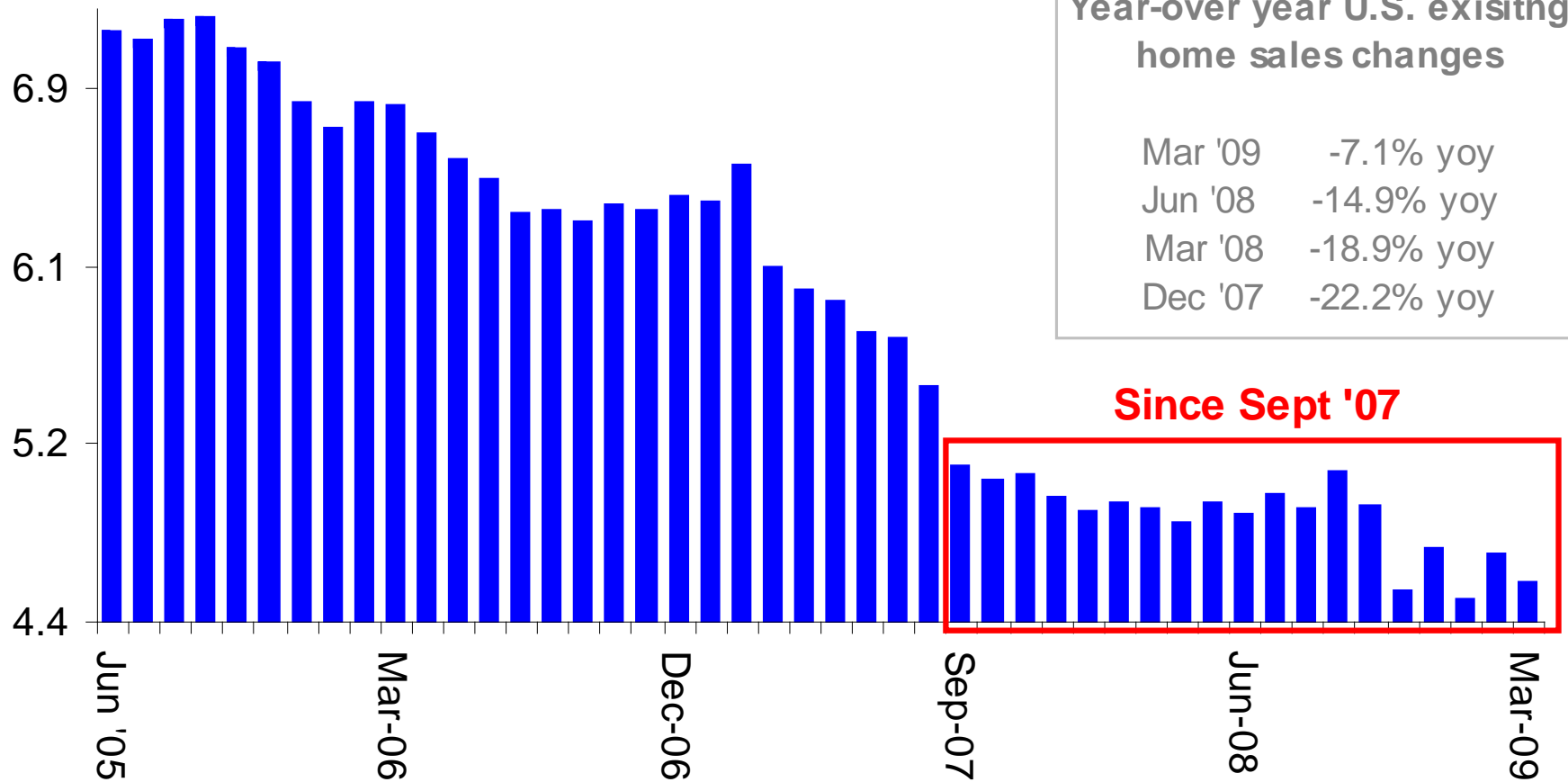
Single Family Home Prices in \$000's



# Home sales are low but stabilizing ...

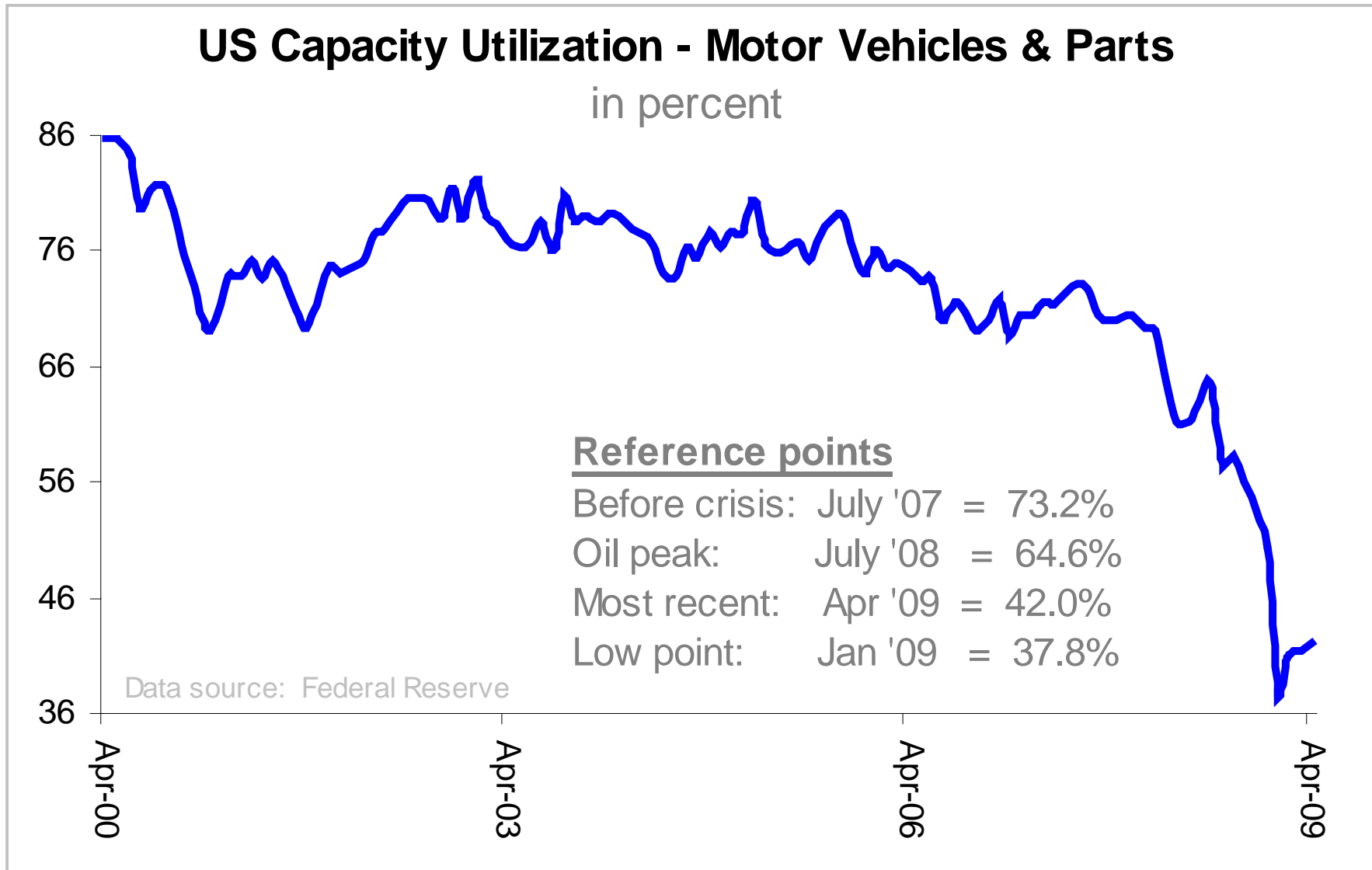
## U.S. Existing Home Sales

in millions of annual units

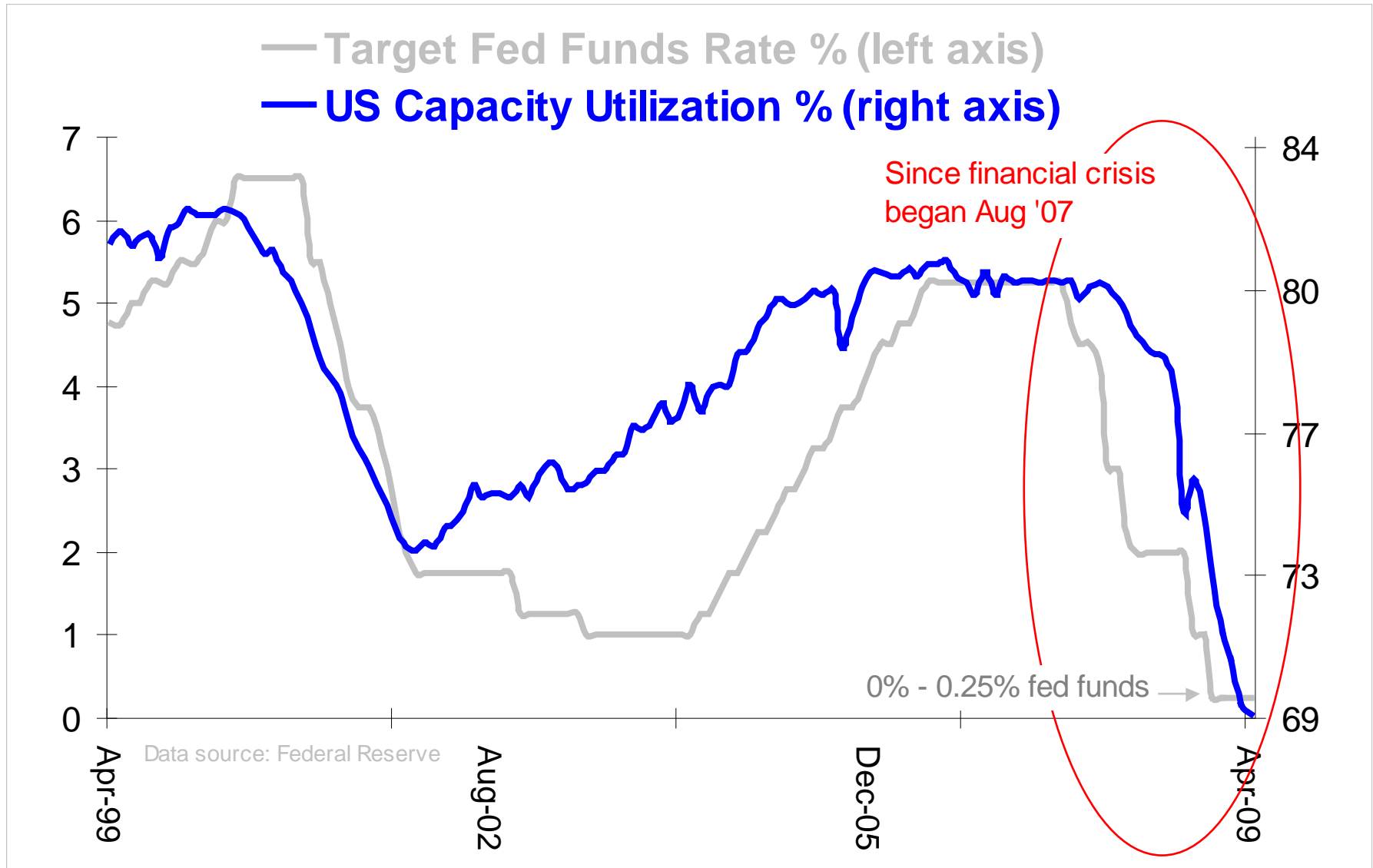


Data source: Nat'l Association of Realtors

# Overcapacity to force consolidation ...



# Watch capacity use, Fed policy reacts ...



# In summary

## Cost of debt

- Watch credit spreads
- Libor declines signal significant easing in interbank anxiety
- Treasury yields defy fundamentals but Washington has intervened

## Markets

- Volatility relief benefits spread environment
- Cash balances reflect both investment potential and fear
- Yield curve shift reflects changing views on the 2010 economy
- Yen weakness would likely reflect more risk taking

## Gov't action

- Huge stimulus set in motion
- Fed credit surge reflects Central Bank's determination
- Federal deficit will still be huge when fear subsides

# Disclaimer

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