

# The Estate Planning Council of Birmingham

Economic and Market Update

John P. Boston, CFA

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 **MORGAN ASSET MANAGEMENT**



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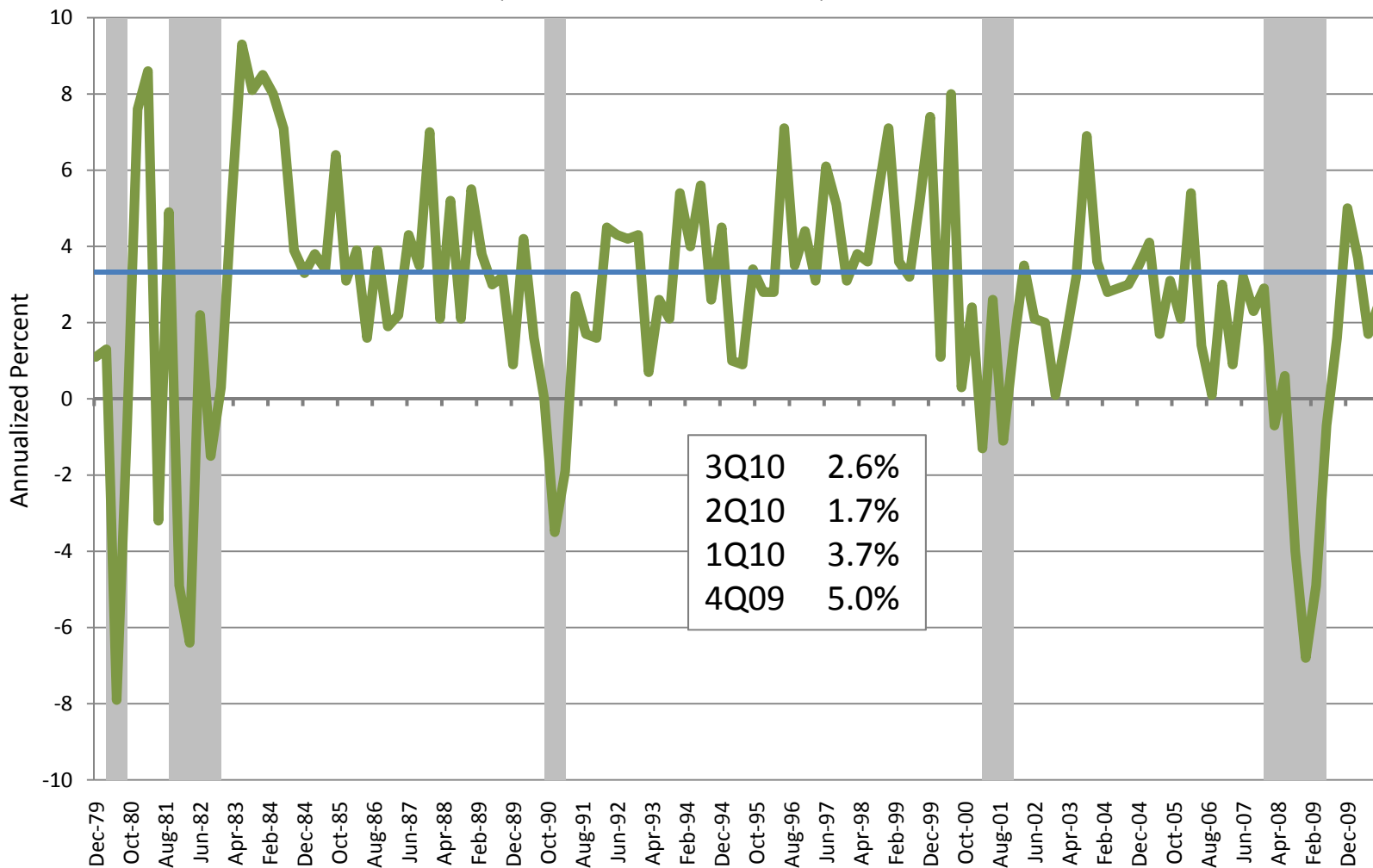
# Financial Market Indices

## Total Returns

|   | 2009   | 2010   |
|---|--------|--------|
| S&P 500 Index (Domestic Large Cap Stocks)     | 26.47% | 15.08% |
| <i>S&amp;P 500 Value (Large Cap Value)</i>    | 21.17% | 15.16% |
| <i>S&amp;P 500 Growth (Large Cap Growth)</i>  | 31.58% | 15.11% |
| KBW Bank Index                                | -1.67% | 23.36% |
| Russell 2000 Index (Domestic Small Cap)       | 27.17% | 26.87% |
| EAFE Index (Developed Country Foreign Stocks) | 32.18% | 8.44%  |
| Barclays Aggregate Index (Inv Grade Bonds)    | 5.93%  | 6.54%  |
| U.S. T-Bills (3 Month)                        | 0.23%  | 0.15%  |
| Merrill Lynch 1-30 Year Muni Bond Index       | 14.54% | 2.25%  |

# Change in U.S. Real GDP (% Annualized)

1<sup>st</sup> Quarter 1979 – 3<sup>rd</sup> Quarter 2010

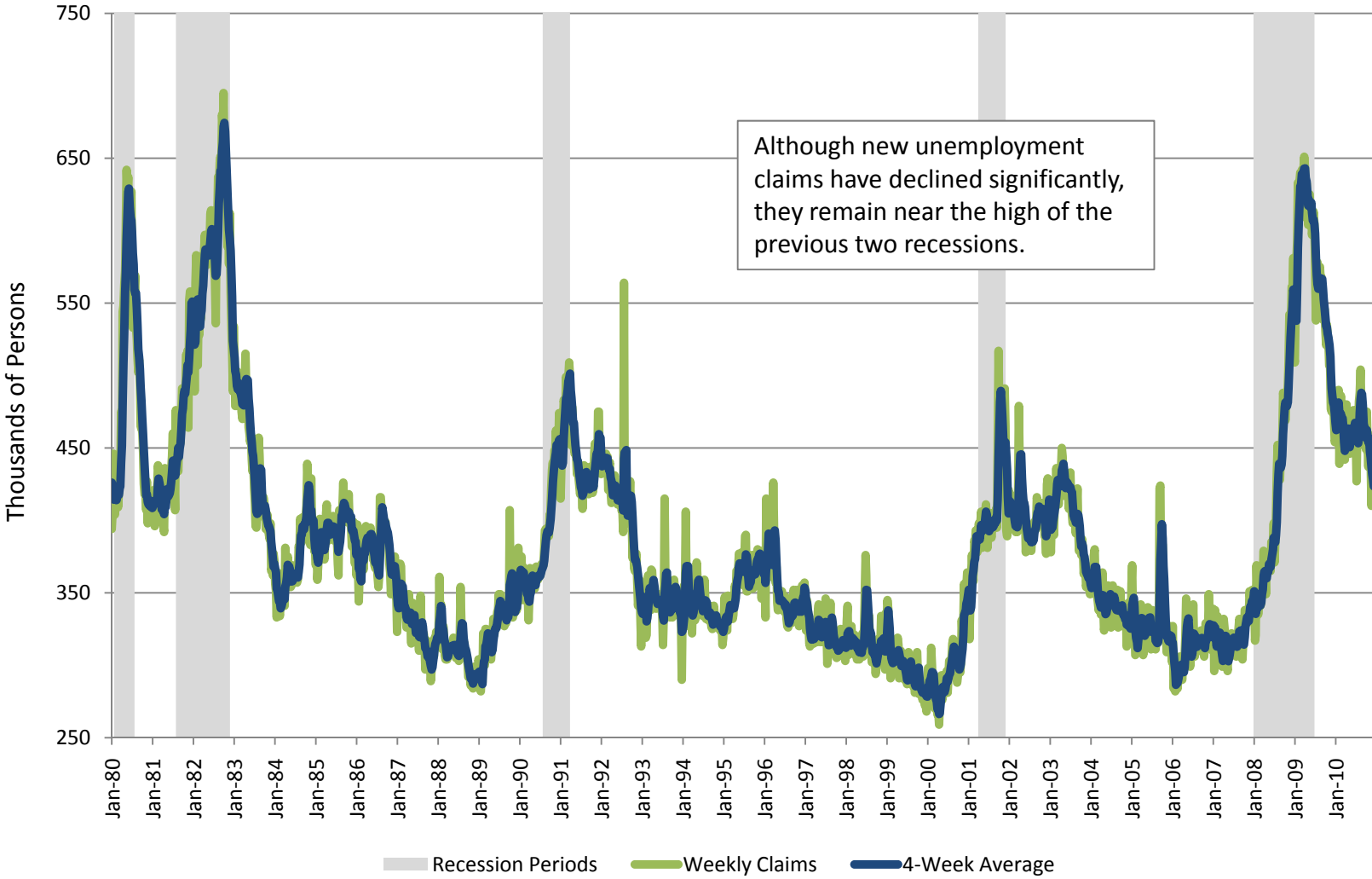


| High | Low  | Avg | Curr |
|------|------|-----|------|
| 9.3  | -7.9 | 2.7 | 2.6  |

Source: Bloomberg



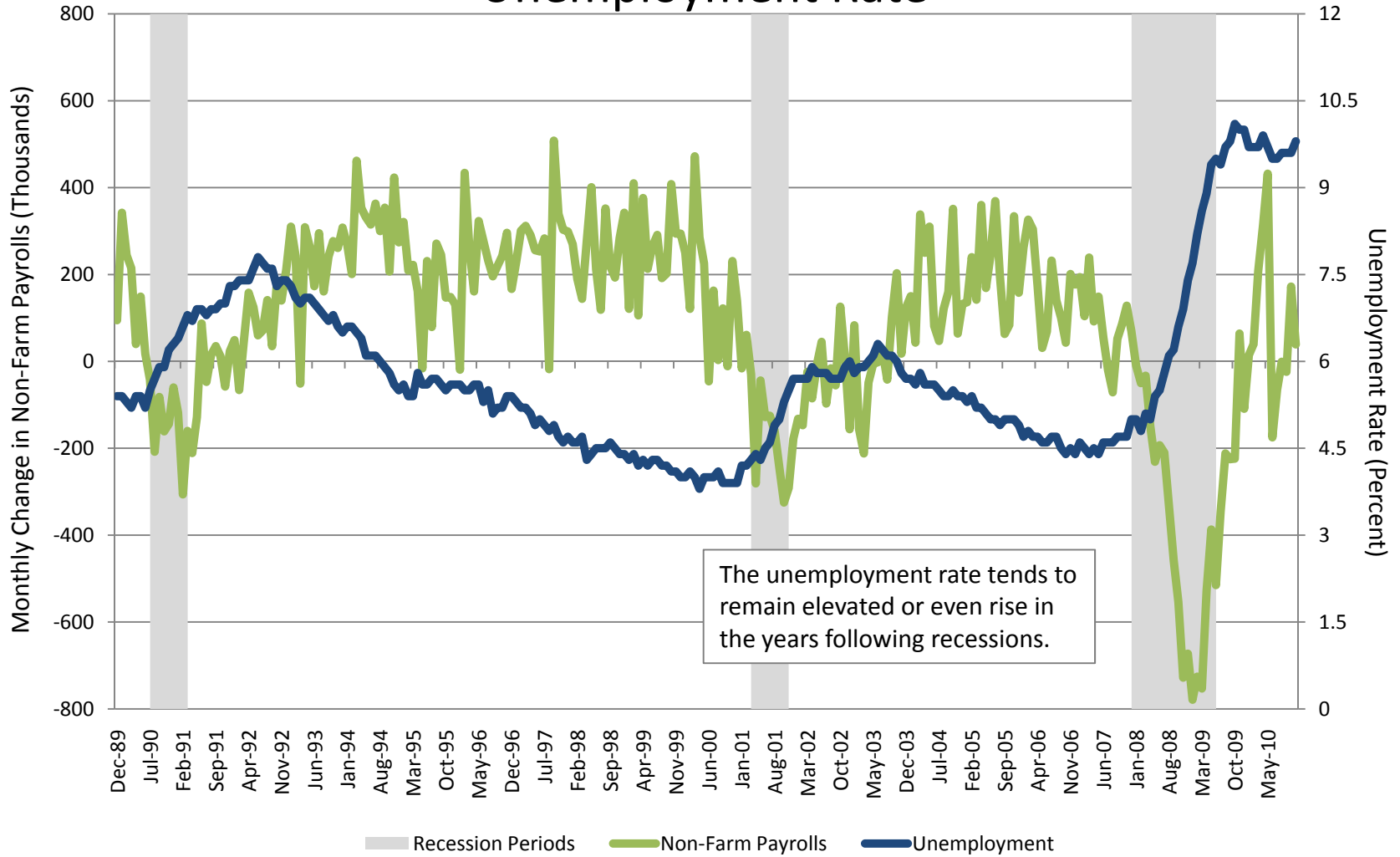
# U.S. Initial Unemployment Claims



Source: Bloomberg



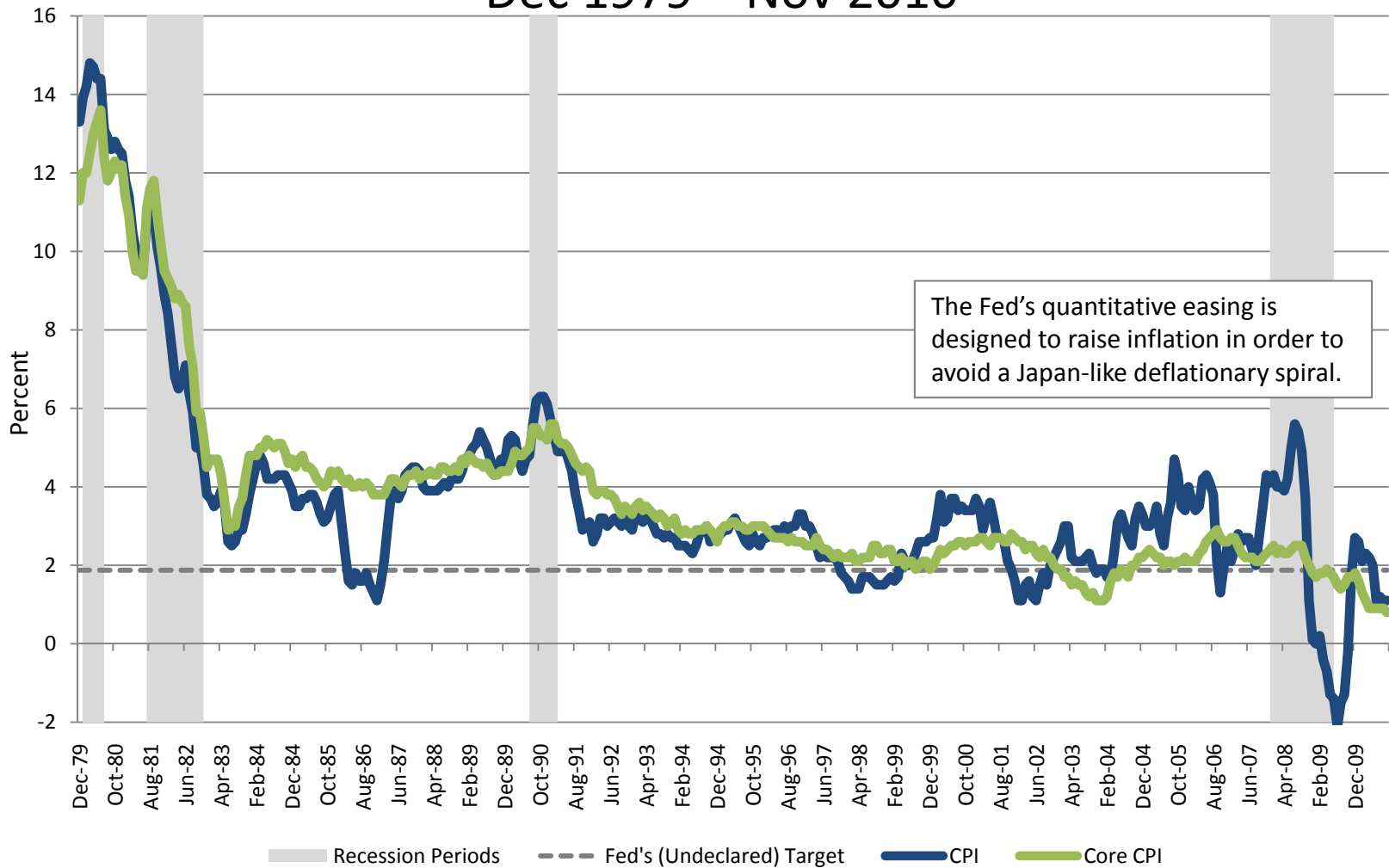
# Change in U.S. Non-Farm Payrolls and Unemployment Rate



Source: Bloomberg

# U.S. CPI and Core CPI Index

## Dec 1979 – Nov 2010



Source: Bloomberg

# 2010 U.S. Economic Recovery Compared to Prior Recoveries

|  | <u>1<sup>st</sup> Year</u> | <u>2<sup>nd</sup> Year</u> | <u>3<sup>rd</sup> Year</u> |
|--|----------------------------|----------------------------|----------------------------|
| Past Recoveries<br>(1975, 1983,<br>1991, 2002) | 5%                         | 4%                         | 4%                         |
| 2010 Recovery                                  | 3%                         | 3% e                       | 3% e                       |

Source: ISI Group

# What Does History Tell Us About The Length of U.S. Economic Recoveries?

## Trough to Peak (Months)

|             |       |
|-------------|-------|
| 1954 – 1957 | 39    |
| 1958 – 1960 | 24    |
| 1961 – 1969 | 106   |
| 1971 – 1973 | 36    |
| 1975 – 1979 | 58    |
| 1980 – 1981 | 12    |
| 1983 – 1990 | 92    |
| 1991 – 2000 | 120   |
| 2002 – 2007 | 73    |
|             | <hr/> |
| Average     | 62    |

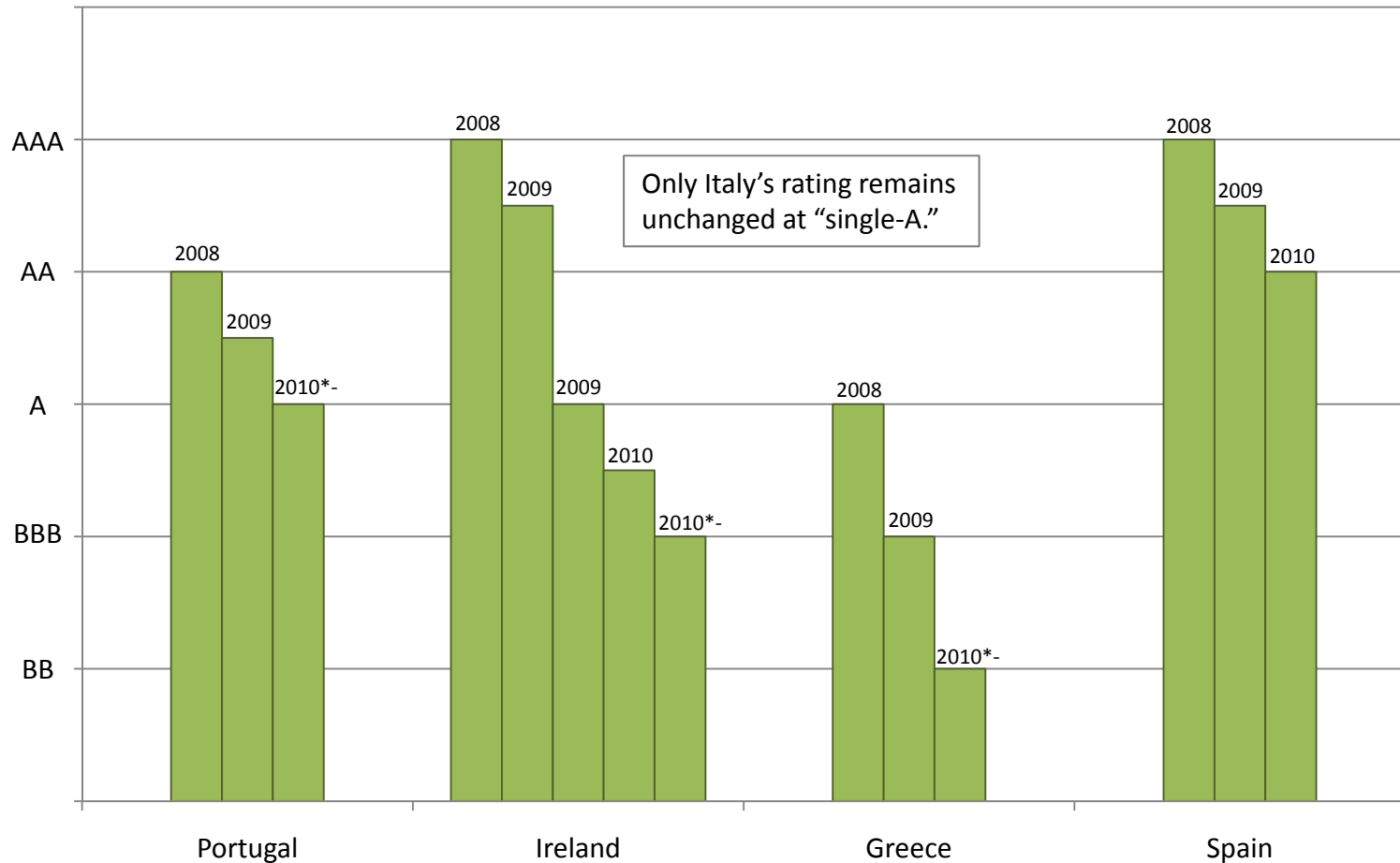
Source: NBER

# Global Economic Expansion

|          | <u>2009 GDP</u> | <u>2010 GDPe</u> | <u>2011 GDPe</u> |      |
|----------|-----------------|------------------|------------------|------|
| U.S.     | 0.2%            | 2.8%             | 3.0%             |      |
| Eurozone | -4.1%           | 1.7%             | 1.4%             | 2.2% |
| Japan    | -6.3%           | 2.1%             | 1.8%             |      |
| China    | 9.1%            | 10.1%            | 9.0%             | 8.8% |
| Brazil   | <u>-0.6%</u>    | <u>7.5%</u>      | <u>4.5%</u>      |      |
| Average  | -0.4%           | 4.8%             | 3.9%             | 6.8% |

Source: Bloomberg Consensus, BOJ

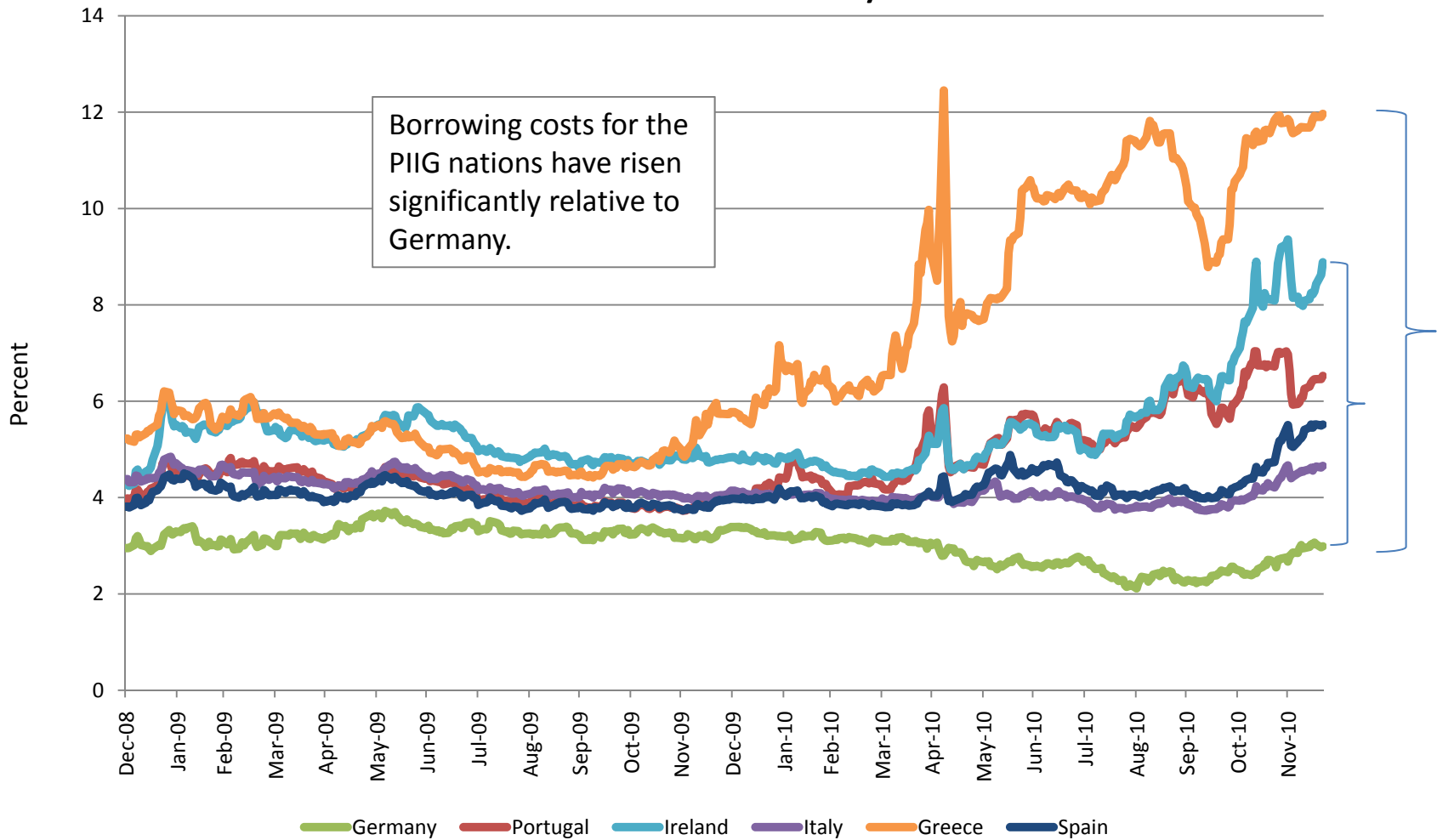
# PIIGS Debt Ratings Changes (S&P) 2008 to 2010



Source: Bloomberg

# European Government Bond Yields

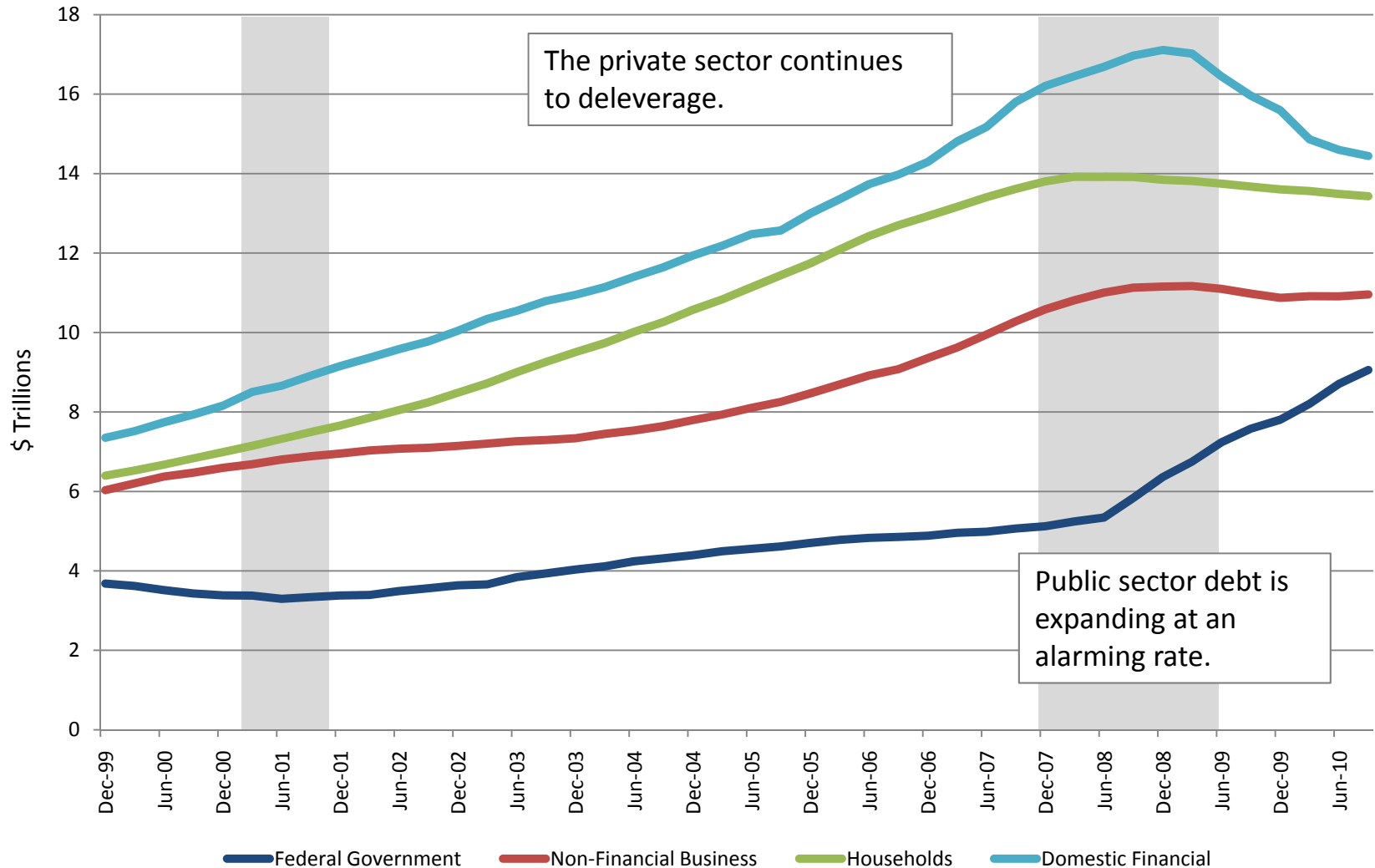
## 10-Year Maturity



Source: Bloomberg

# U.S. Total Debt by Sector

Dec 1999 to Sept 2010

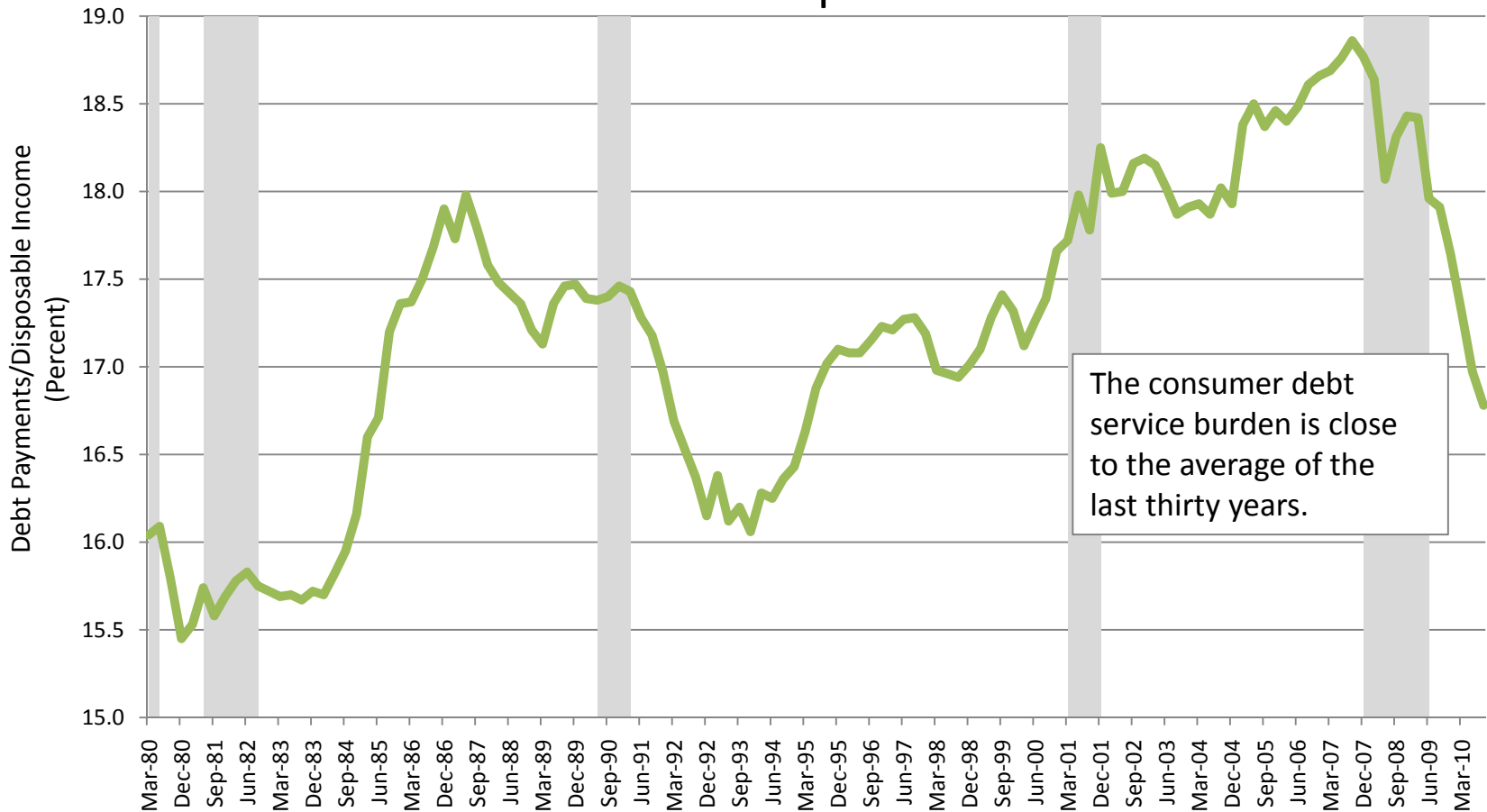


Source: Bloomberg/Federal Reserve/WSJ

# U.S. Consumer Debt Service Burden

## % of Disposable Income Going to Debt Payments

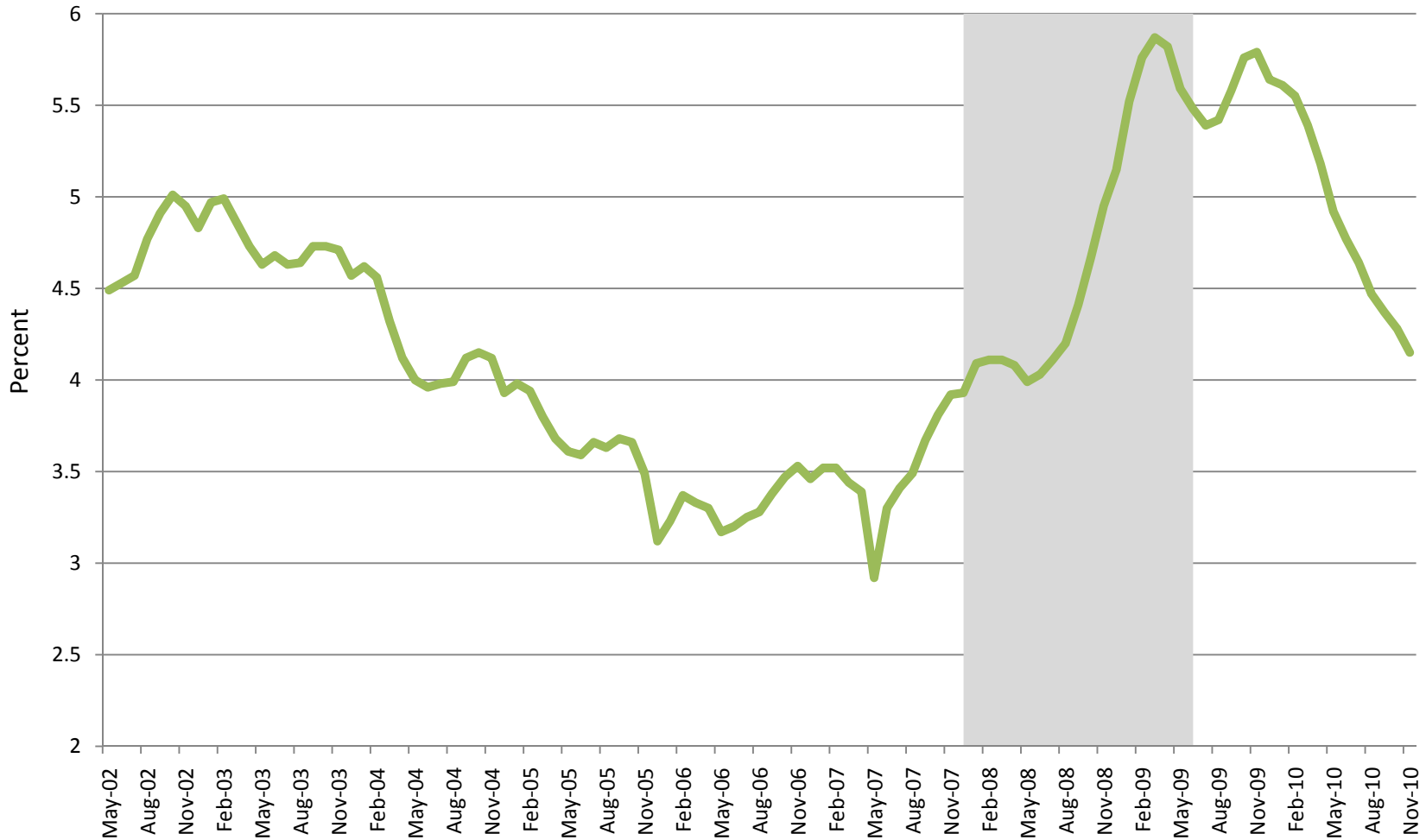
### March 1980 to September 2010



Source: Bloomberg/Federal Reserve

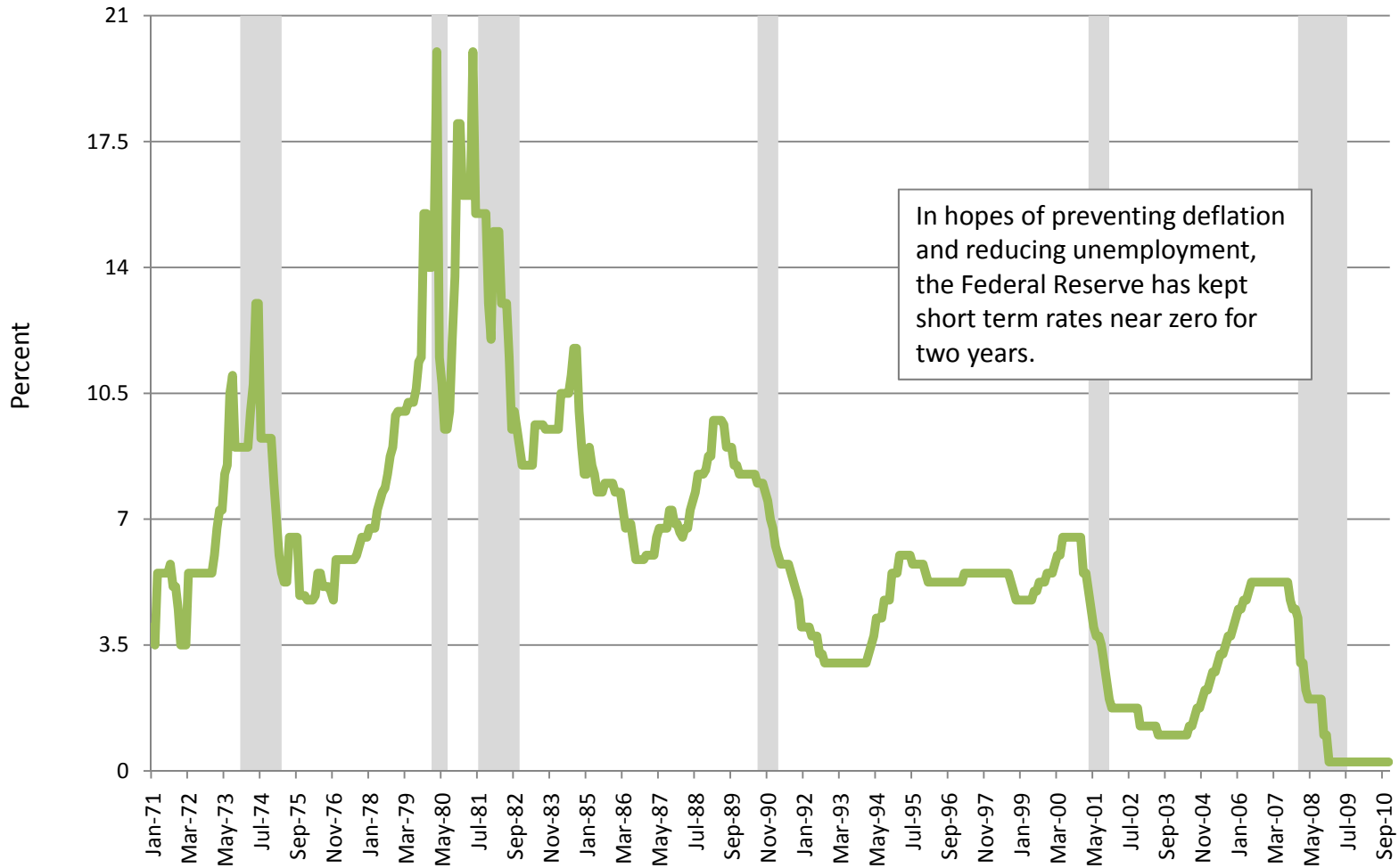
# U.S. Credit Card Delinquency Rate

## May 02 to November 10



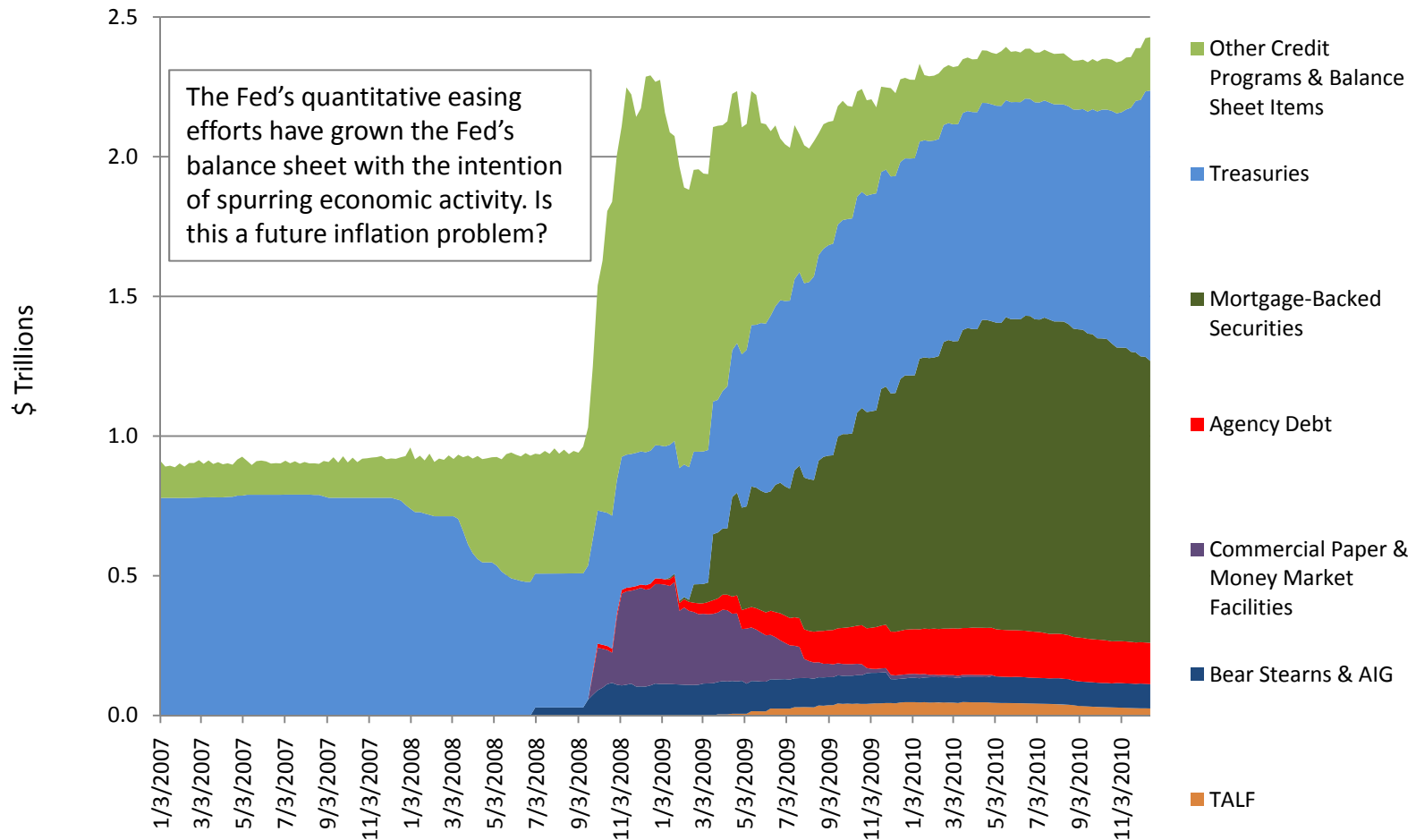
Source: Bloomberg/Federal Reserve

# Fed Funds Target Rate 1971 - 2010



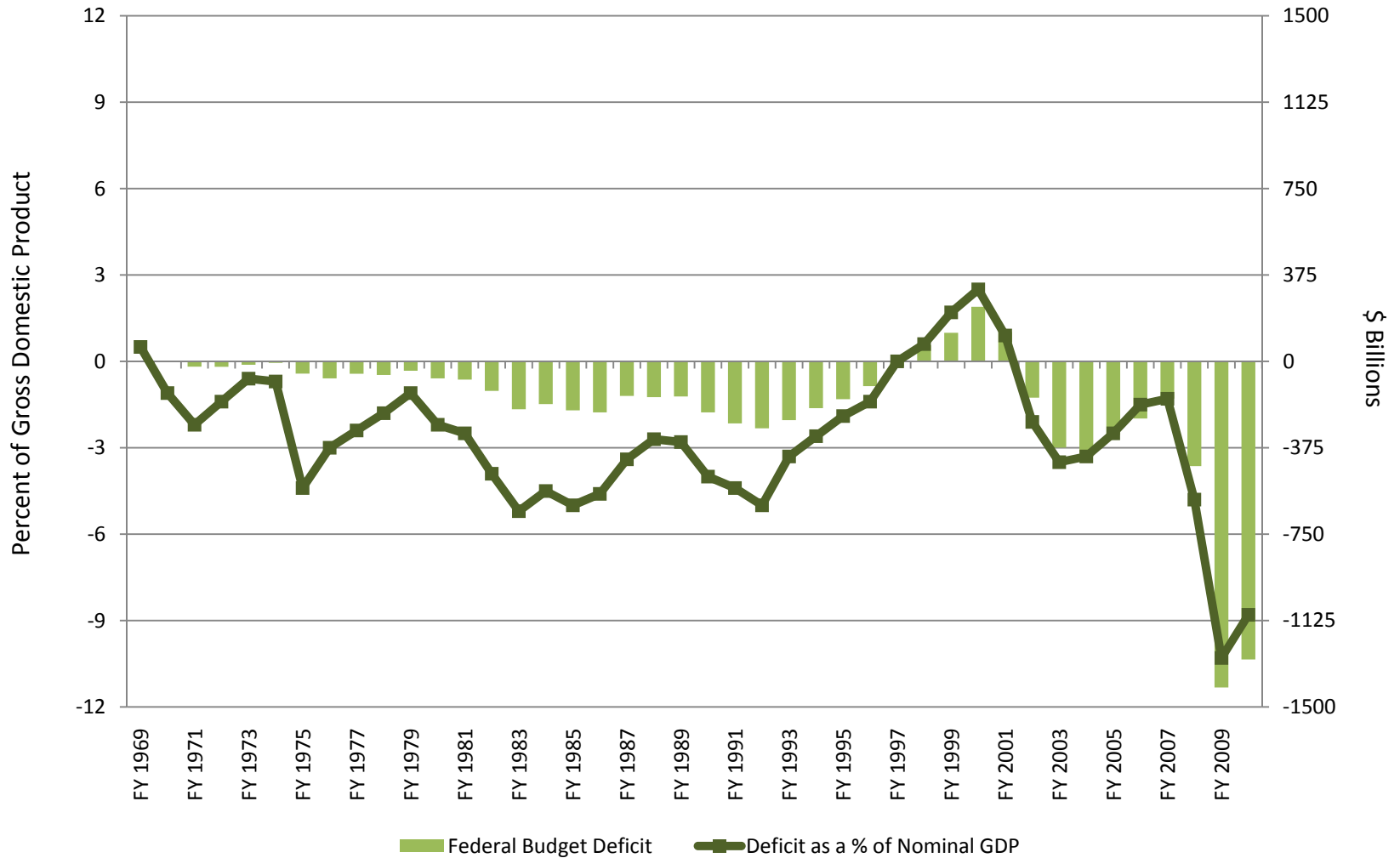
Source: Bloomberg

# U.S. Federal Reserve Balance Sheet



Source: Bloomberg

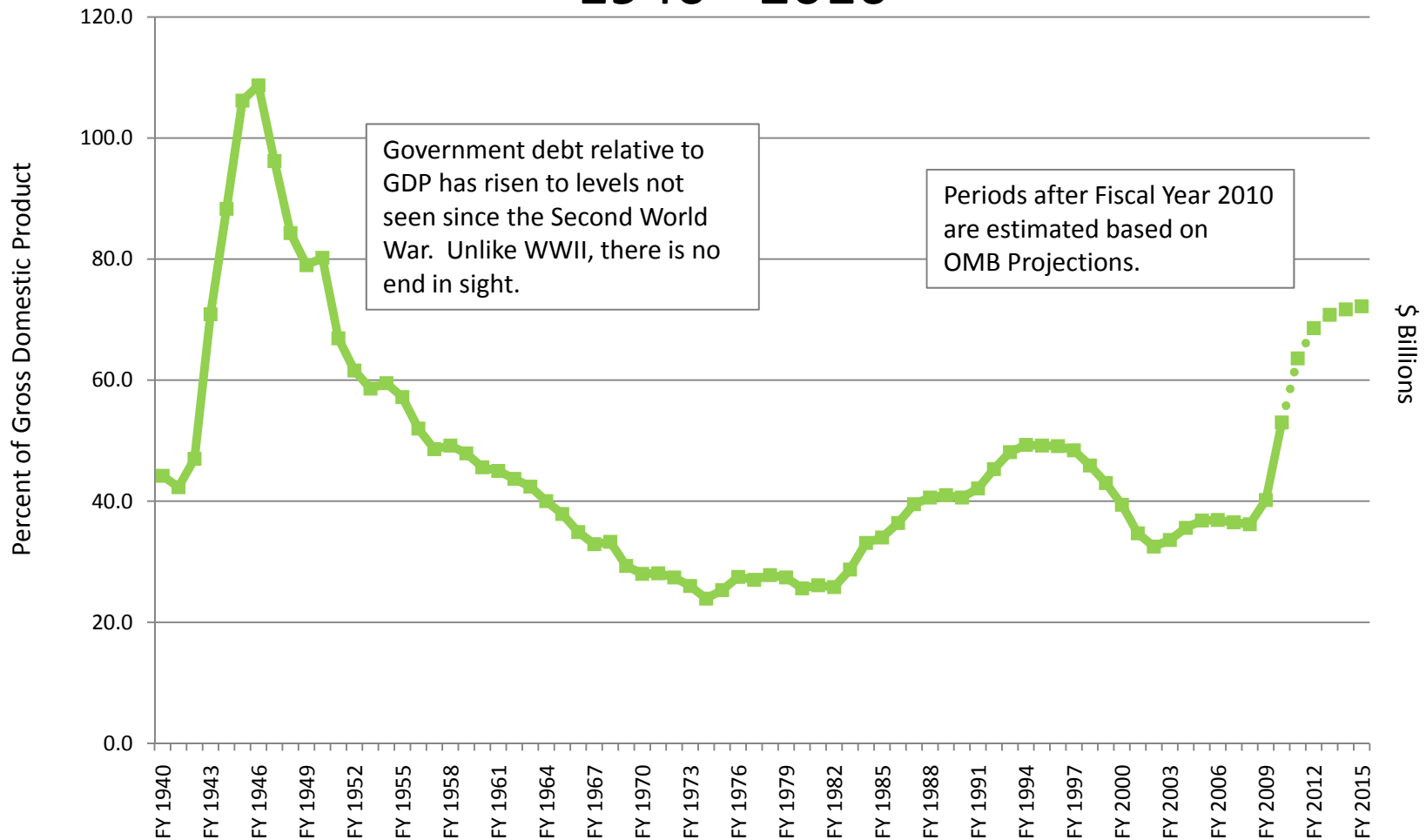
# U.S. Federal Budget FY 1969 – FY 2009



Source: Bloomberg/White House  
Office of Management and Budget



# U.S. Federal Debt as % of GDP 1940 - 2010



Government debt relative to GDP has risen to levels not seen since the Second World War. Unlike WWII, there is no end in sight.

Periods after Fiscal Year 2010 are estimated based on OMB Projections.

Source: Bloomberg/White House  
Office of Management and Budget



# U.S. 10-Year Treasury Yield

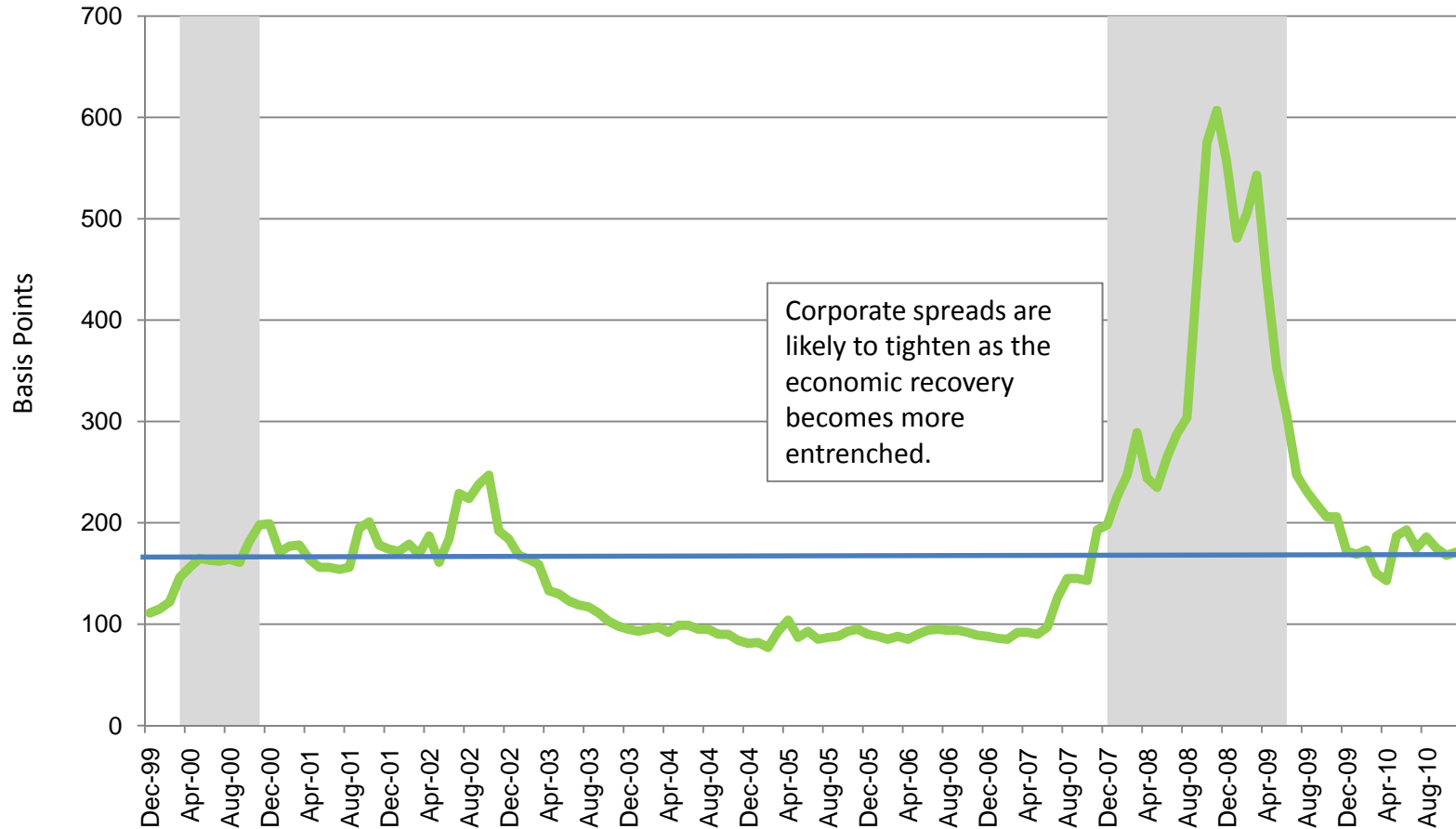
## Dec 1959 – Dec 2010



Source: Bloomberg

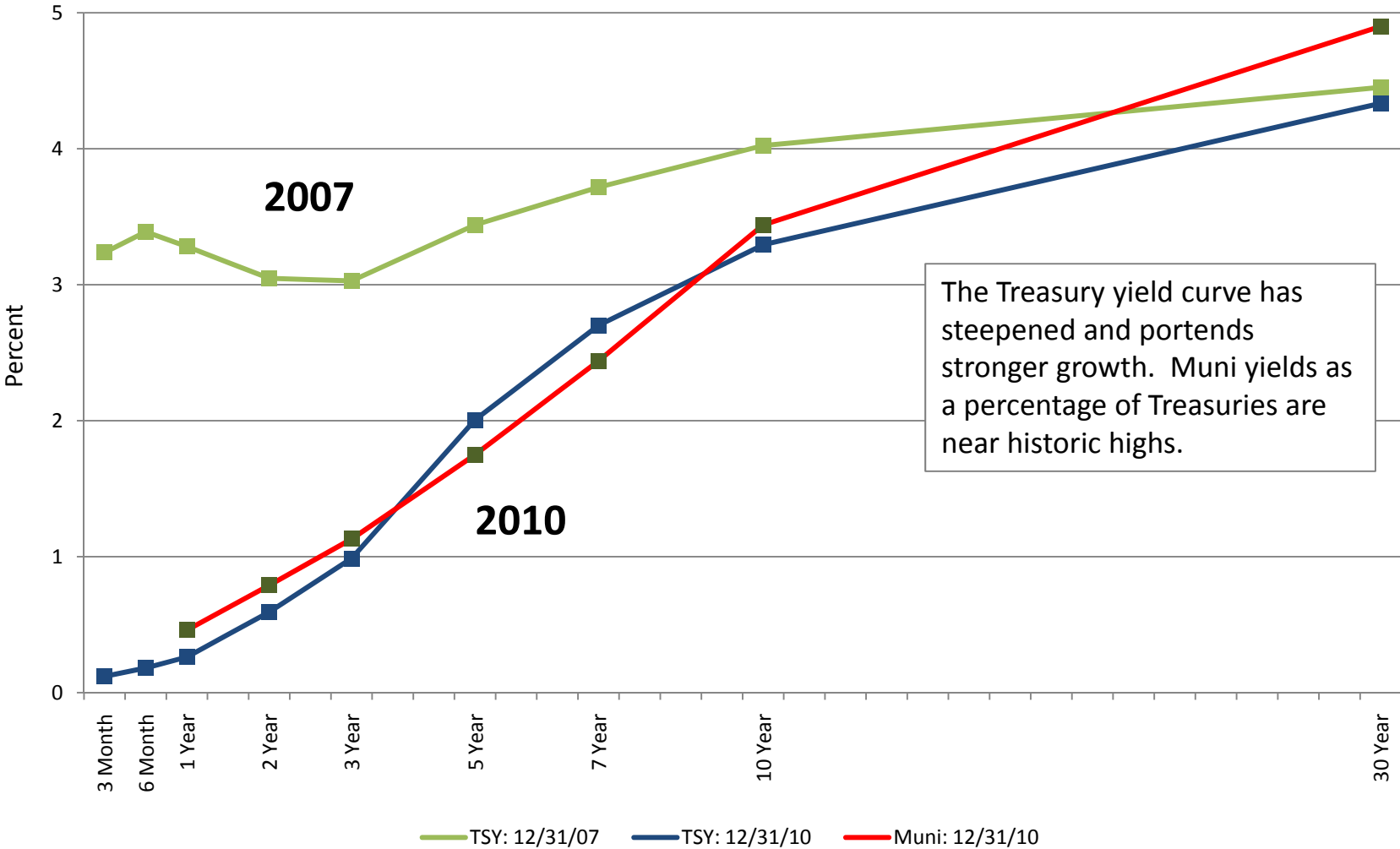
# Investment Grade Corporate Bond Spreads

## Dec 1999 – Dec 2010



Source: Barclays

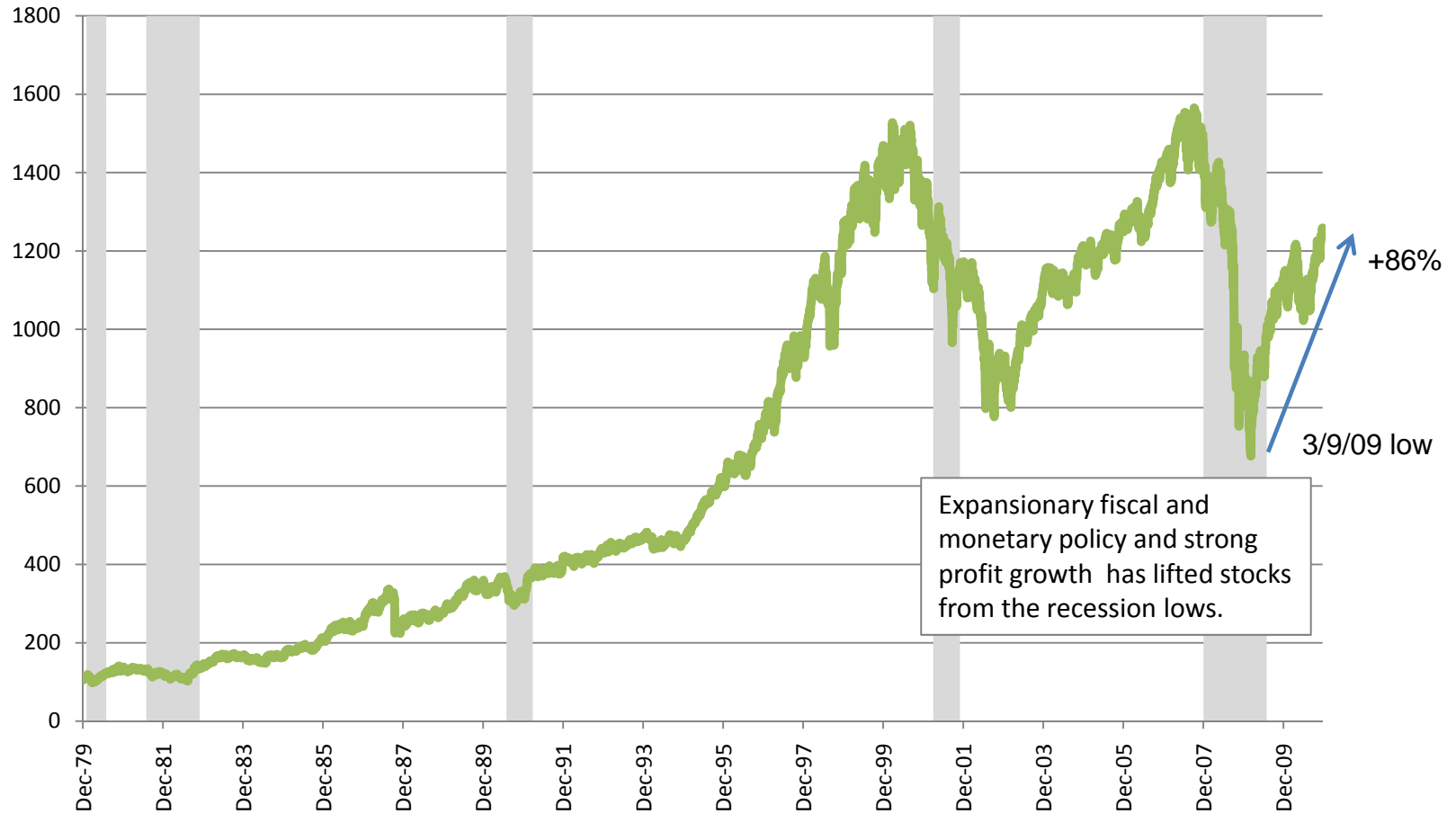
# U.S. Treasury and AAA Municipal Yield Curves



Source: Bloomberg



# S&P 500 Stock Index Dec 1979 – Dec 2010



Source: Bloomberg

# Stock Market Valuation Fundamentals

## S&P 500 Index

Dec 2010

20-year Average

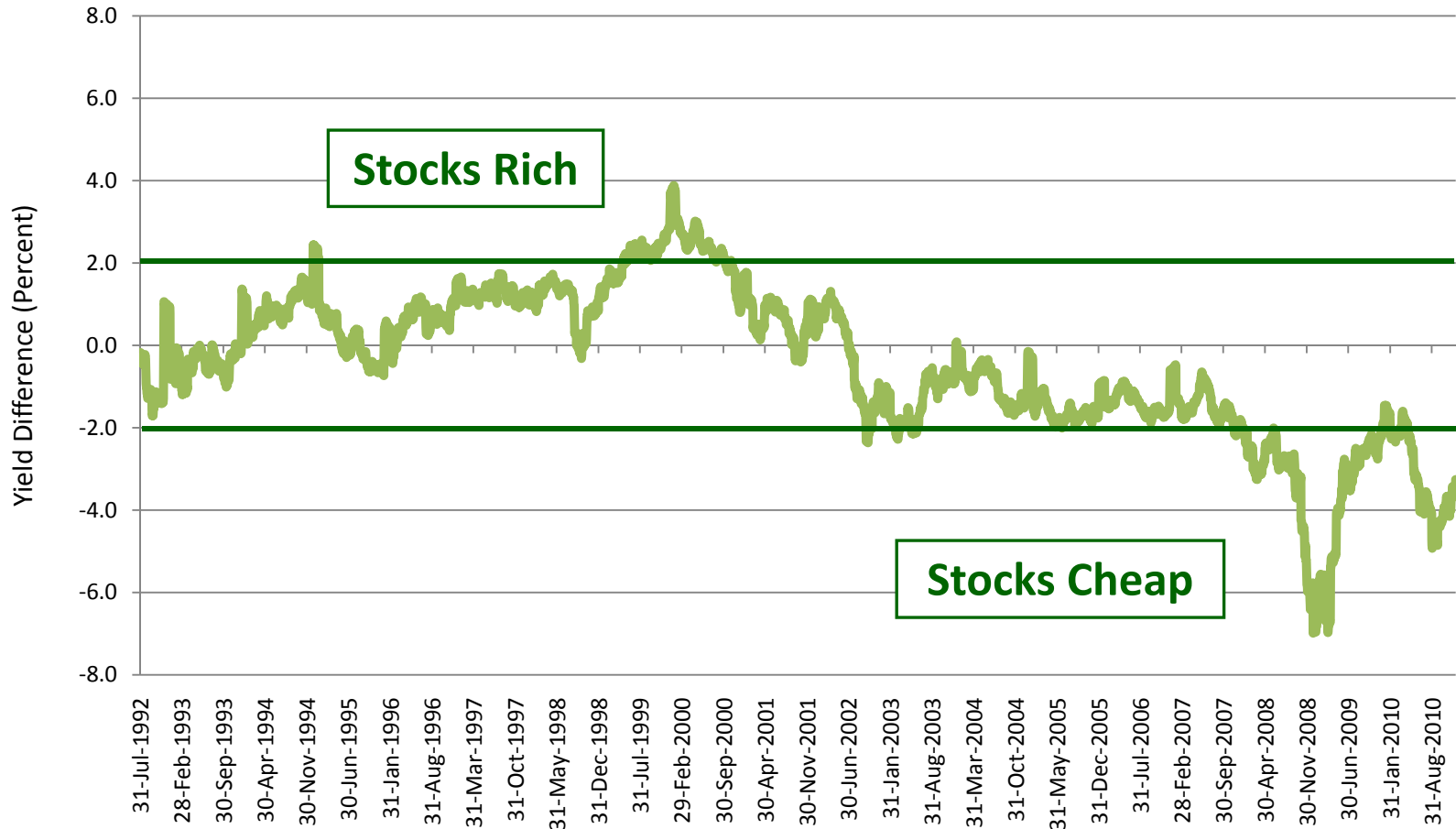
|                |       |       |
|----------------|-------|-------|
| P/E Ratio      | 15.2x | 17.6x |
| P/B Ratio      | 2.2x  | 2.8x  |
| Dividend Yield | 1.8%  | 2.1%  |

Source: FactSet

# U.S. Fed Model Valuation Indicator

10-Year Treasury Yield – S&P 500 Earnings Yield

July 1992 to December 2010



Source: Bloomberg/FactSet

# 2011 Investment Themes

Global Economic Growth Continues

Growth in G-7 Developed Nations Lags Emerging Countries

U.S. Economic Policy Remains Stimulative

Fate of PIIGS and Euro Currency Remains Uncertain

Global Bond Yields Trend Higher

Equity Returns Outpace Bonds and Cash

Q & A