



Are we there yet?



MARKETS SUMMIT

Tuesday 16 February 2010

Theme 2

Global debt markets



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Global debt markets

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PortfolioConstruction Markets Summit

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Important Information

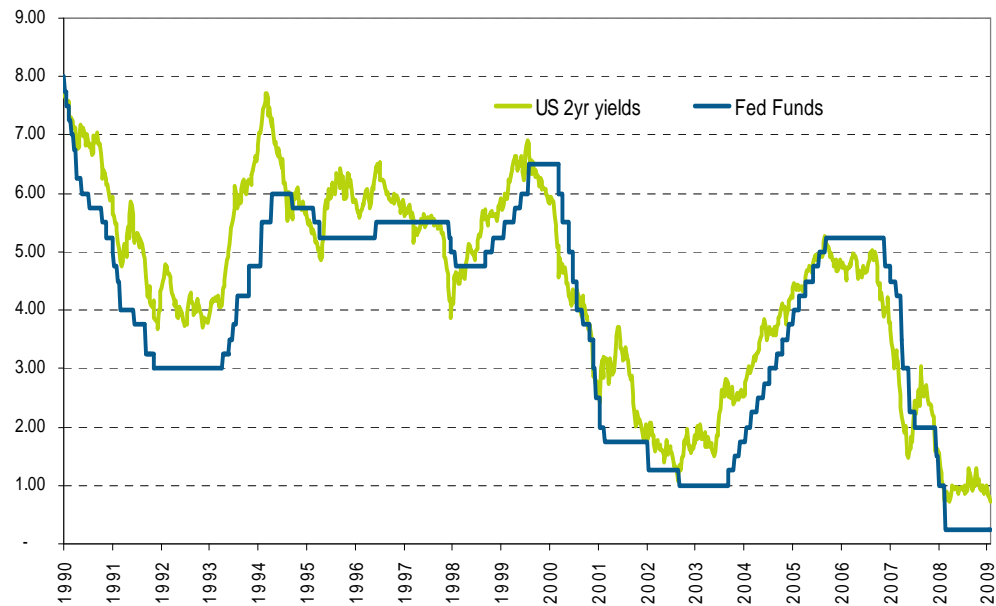
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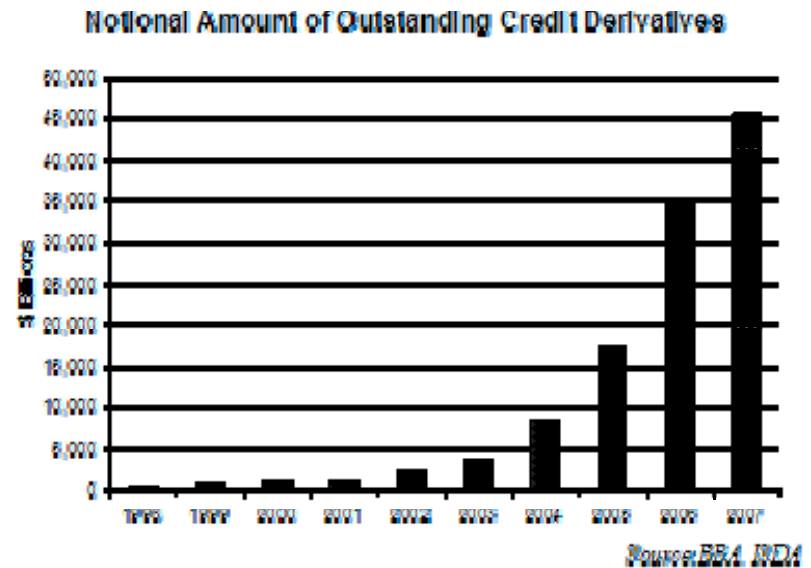
What Happened in 2008/2009

- Low Interest Rates
- Leverage
- Housing Boom
 - Sub prime
 - Poor lending and underwriting standards
- Financial Engineering (CDO's/CLOs)
- **Caused** Financial systems to collapse
- Brought economies to their knees ~ Government's stepped in to bail out

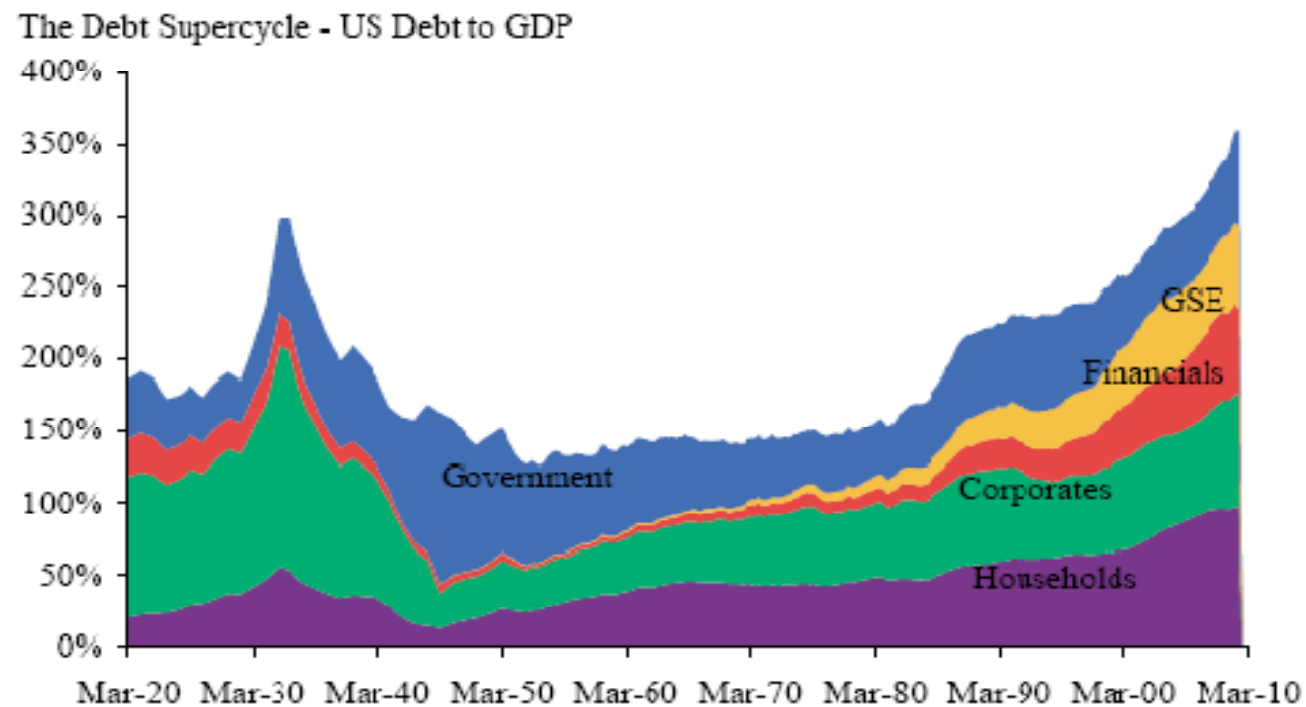


What Happened in 2008/2009?

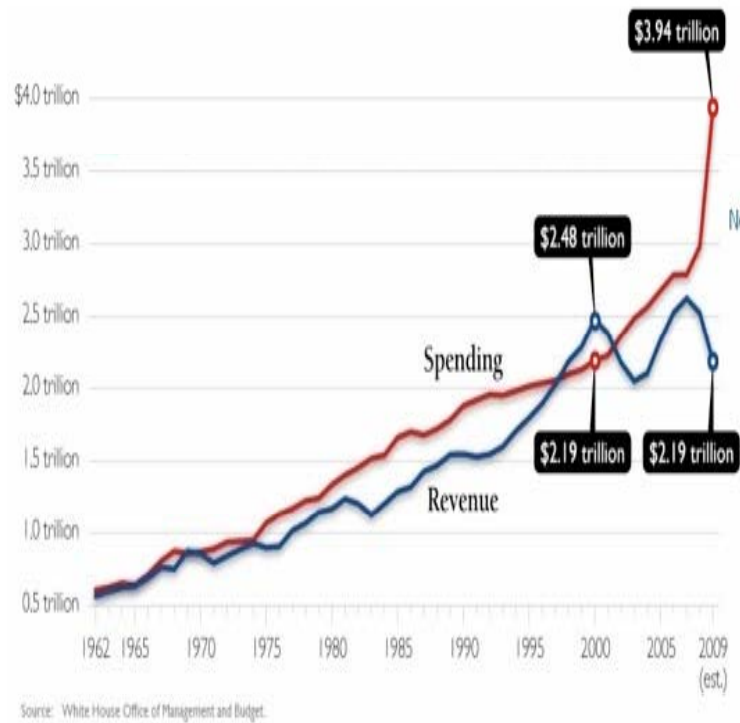
- \$1.8 trillion in losses and counting!
- Too big to fail (Fannie/Freddie, AIG)
- Marriage of convenience (Merrill/BOA, JPM/Bear Stearns)
- Sacrificial lamb (Lehman)
- US Government owns
 - Freddie Mac, Fannie Mae
 - AIG
 - Chrysler, GM



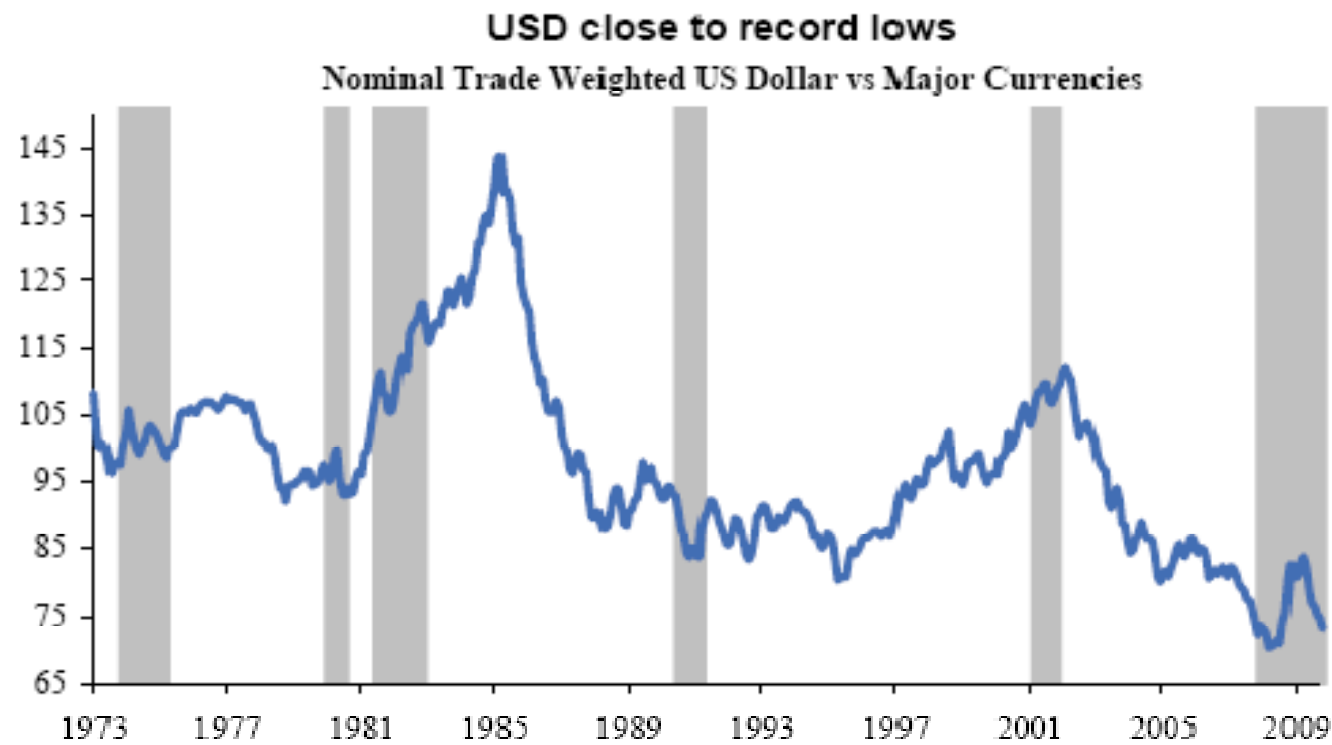
Current State ~ US Government Debt



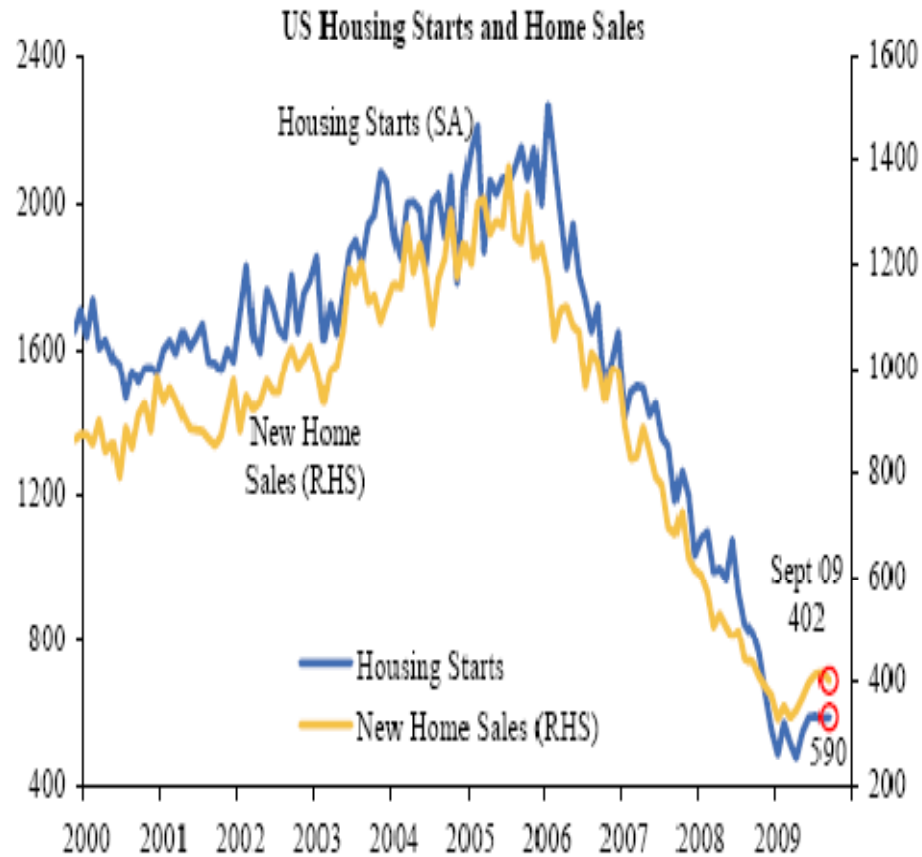
Current State ~ US Fiscal position



The Aftermath ~ US \$ weaker



The Aftermath ~ Housing



- Housing market yet to show any signs of life
- Over supply in areas like California continue to weigh on the economy

The Aftermath ~ US Job losses

US Unemployment

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2000	4	4.1	4	3.8	4	4	4	4.1	3.9	3.9	3.9	3.9	4.0
2001	4.2	4.2	4.3	4.4	4.3	4.5	4.6	4.9	5	5.3	5.5	5.7	4.7
2002	5.7	5.7	5.7	5.9	5.8	5.8	5.8	5.7	5.7	5.7	5.9	6	5.8
2003	5.8	5.9	5.9	6	6.1	6.3	6.2	6.1	6.1	6	5.8	5.7	6.0
2004	5.7	5.6	5.8	5.6	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4	5.5
2005	5.3	5.4	5.2	5.2	5.1	5	5	4.9	5	5	5	4.9	5.1
2006	4.7	4.8	4.7	4.7	4.6	4.6	4.7	4.7	4.5	4.4	4.5	4.4	4.6
2007	4.6	4.5	4.4	4.5	4.4	4.6	4.6	4.6	4.7	4.7	4.7	5	4.6
2008	5	4.8	5.1	5	5.4	5.5	5.8	6.1	6.2	6.6	6.9	7.4	5.8
2009	7.7	8.2	8.6	8.9	9.4	9.5	9.4	9.7	9.8	10.1	10	10	9.3

- US Unemployment Rate has risen from 4% to 9.3%
- US Unemployment will likely remain over 10% for a long time

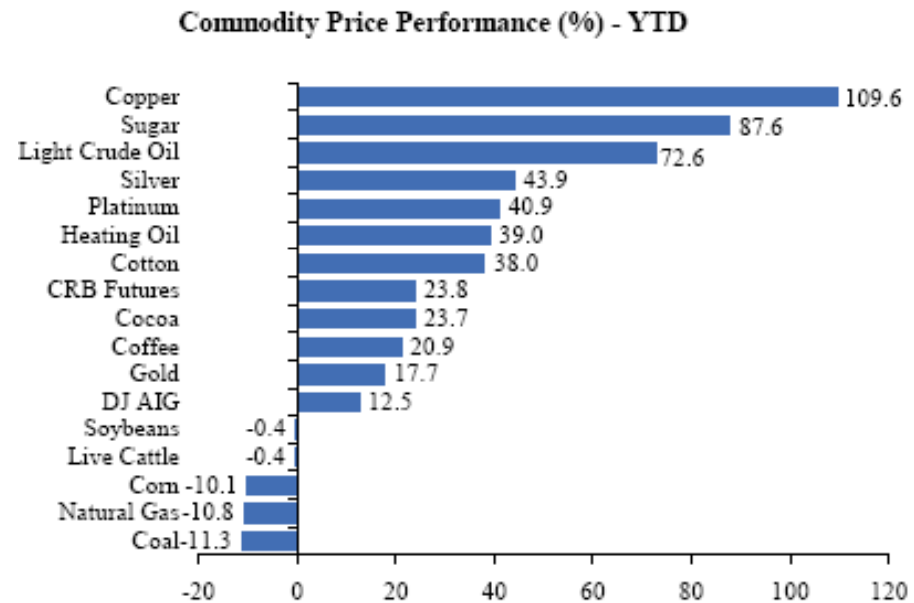
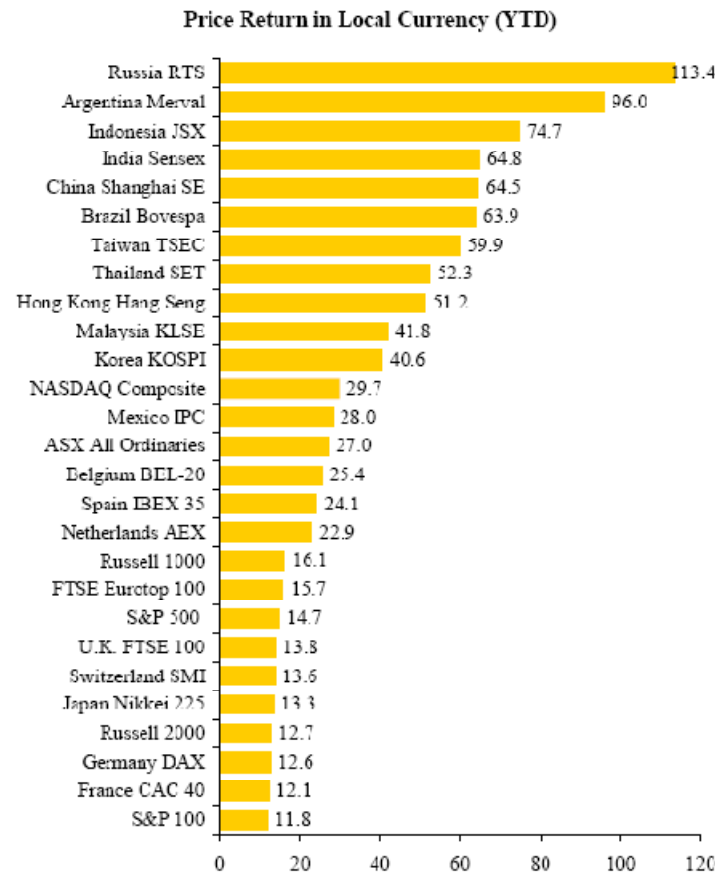
US Non Farm Payroll

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2000	249	121	472	286	225	-46	163	3	122	-11	231	138	163
2001	-16	61	-30	-281	-44	-128	-125	-160	-244	-325	-292	-178	-147
2002	-132	-147	-24	-85	-7	45	-97	-16	-55	126	8	-156	-45
2003	83	-158	-212	-49	-6	-2	25	-42	103	203	18	124	7
2004	150	43	338	250	310	81	47	121	160	351	64	132	171
2005	182	221	121	312	212	259	322	190	87	98	380	160	212
2006	294	274	282	151	24	70	186	149	147	82	261	219	178
2007	180	36	184	35	156	54	-65	-28	100	165	215	120	96
2008	-72	-144	-122	-160	-137	-161	-128	-175	-321	-380	-597	-681	-257
2009	-741	-681	-652	-519	-303	-463	-304	-154	-139	-127	4	-85	-347

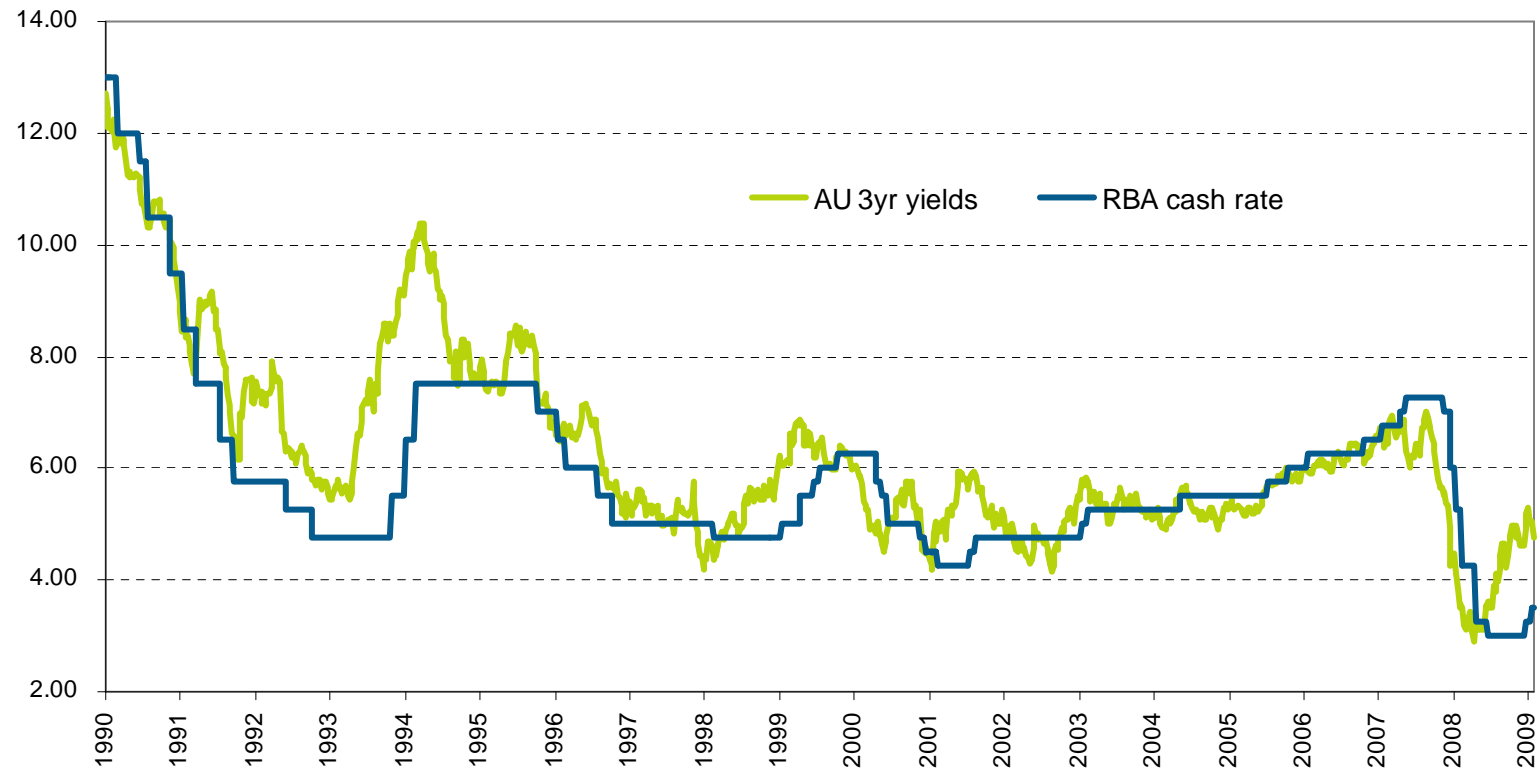
- US needs over 15 million jobs over the next 5 years to get back to pre-recession levels.

Where are we now?

Massive stimulus led to recent risk asset rally



GFC ~ Impact on Australia



GFC ~ Impact on Australia

- **Australia Unemployment Rate held steady.**

Aussie Unemployment

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2000	6.5	6.4	6.6	6.5	6.4	6.2	6.1	6.1	6.0	6.0	6.3	6.3	6.3
2001	6.2	6.6	6.5	6.8	6.8	6.9	6.9	6.9	6.8	7.1	6.9	6.8	6.8
2002	7.0	6.6	6.4	6.3	6.3	6.5	6.2	6.3	6.3	6.1	6.2	6.2	6.4
2003	6.1	6.0	6.1	6.0	6.1	6.1	6.1	5.8	5.8	5.8	5.7	5.7	5.9
2004	5.5	5.7	5.4	5.5	5.3	5.5	5.5	5.5	5.4	5.1	5.2	5.1	5.4
2005	5.1	5.1	5.2	5.1	5.1	5.0	5.0	4.9	5.0	5.1	5.0	5.1	5.1
2006	5.1	5.1	4.9	4.9	4.8	4.8	4.7	4.7	4.7	4.5	4.6	4.6	4.8
2007	4.5	4.6	4.4	4.3	4.2	4.3	4.3	4.3	4.2	4.4	4.5	4.3	4.4
2008	4.2	3.9	4.0	4.2	4.2	4.2	4.3	4.1	4.3	4.4	4.5	4.6	4.2
2009	4.9	5.3	5.7	5.5	5.7	5.8	5.8	5.8	5.7	5.8	5.6	5.5	5.6

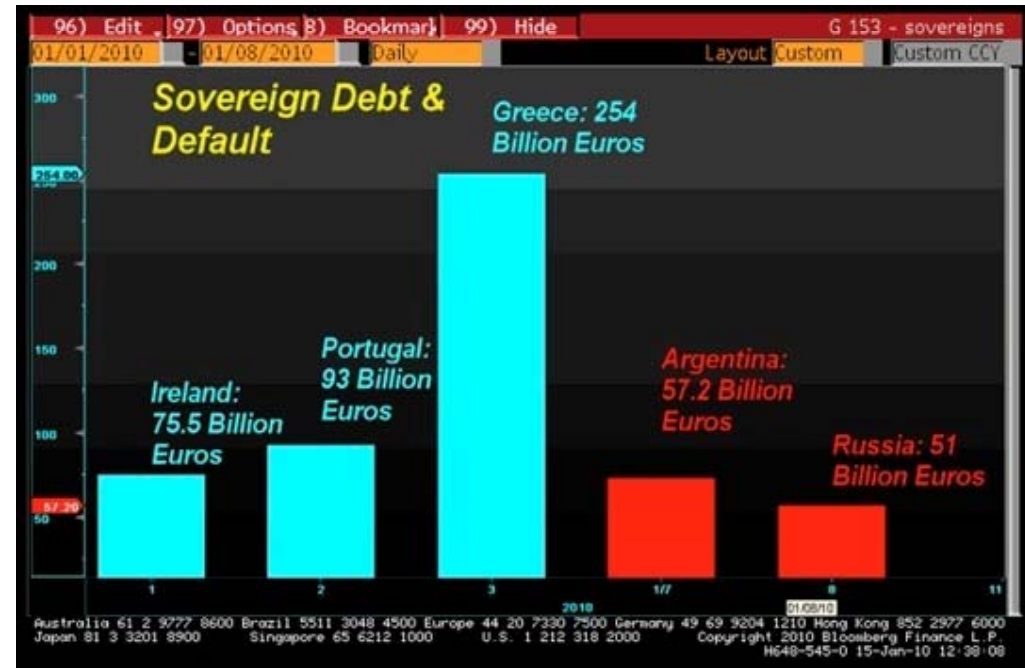
- **Australia has created jobs every year in the last decade!**

Aussie Jobs

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2000	-18	40	24	36	12	17	82	10	-13	-5	-40	31	15
2001	0	-16	7	55	-9	-3	12	29	-24	21	20	1	8
2002	16	49	11	-3	12	28	4	50	1	9	63	38	23
2003	43	32	-44	8	14	-24	-4	50	11	24	12	20	12
2004	-7	15	38	18	18	-3	14	-12	65	52	25	23	20
2005	51	34	45	46	-12	40	18	39	-10	-0	34	-4	23
2006	6	34	43	11	38	34	49	16	48	-30	25	53	27
2007	11	13	26	28	40	9	12	29	33	-3	41	15	21
2008	40	33	9	38	-33	37	7	13	-6	22	-20	-7	11
2009	7	3	-38	28	-11	-24	34	-23	41	28	31	35	9

Key Risks ~

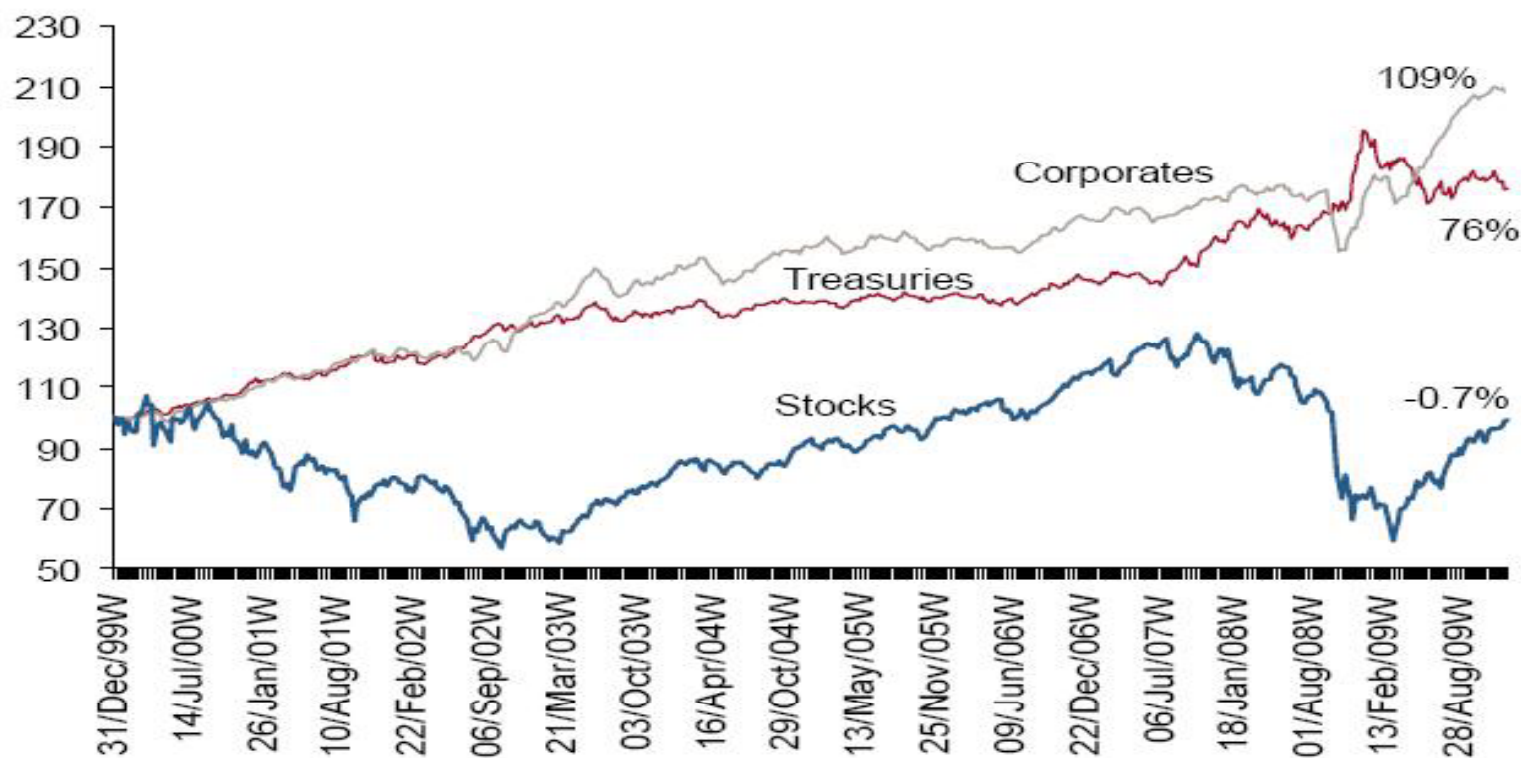
- **The US cannot afford: (Can't fund debt with debt)**
 - A drop in GDP
 - A fall in equity markets
 - Rise in interest rates
- **European Economies in a mess**
 - Greece, Spain, Italy, Portugal and Ireland all in trouble
 - They have to cut spending and increase taxes ~ when economic growth is on shaky ground!
- **RBA – A little too trigger happy**
 - Domestic economy is good shape
 - Global backdrop remains tricky



Outlook ~ US Equities ~ “the lost decade”

Total Returns for the “Aughts”

Including reinvestment of dividends and coupons, 100=December 31, 1999. Treasuries and Investment-Grade Corporates are composite indices, stocks are the Wilshire 5000



Source: Treasuries: Ryan Labs; Corporate Bonds: Dow Jones; Stocks: Wilshire, Haver Analytics, Credit Suisse

Out look ~ Aussie assets ~ “the sweet spot”





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