
Global Economic Outlook

DuPont Capital Management

May 24, 2011

Brett F. Sumsion, CFA

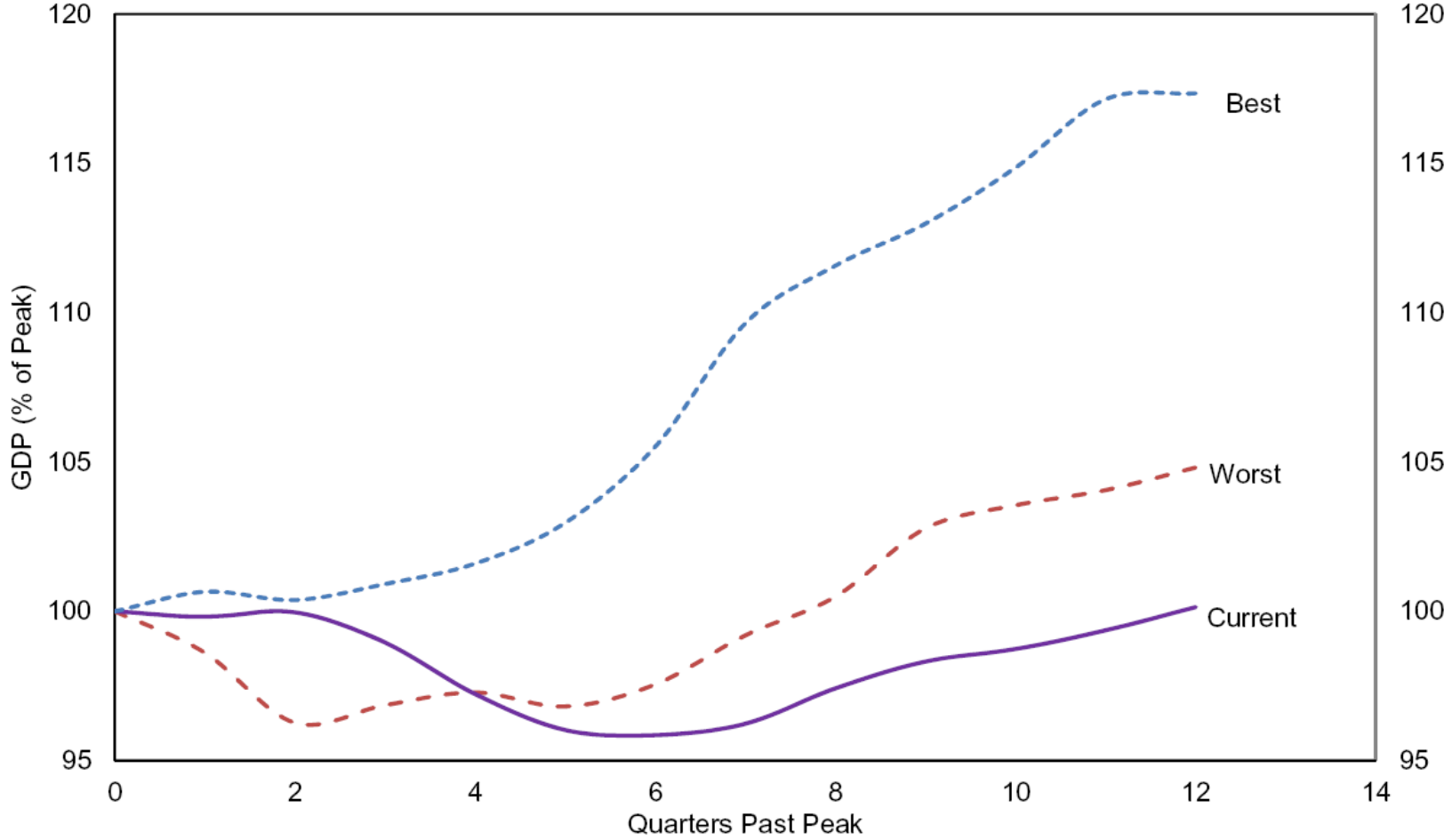
Managing Director, Asset Allocation

Outline

- The US economic recovery
- Global Inflationary Pressures
- Emerging Market Outlook

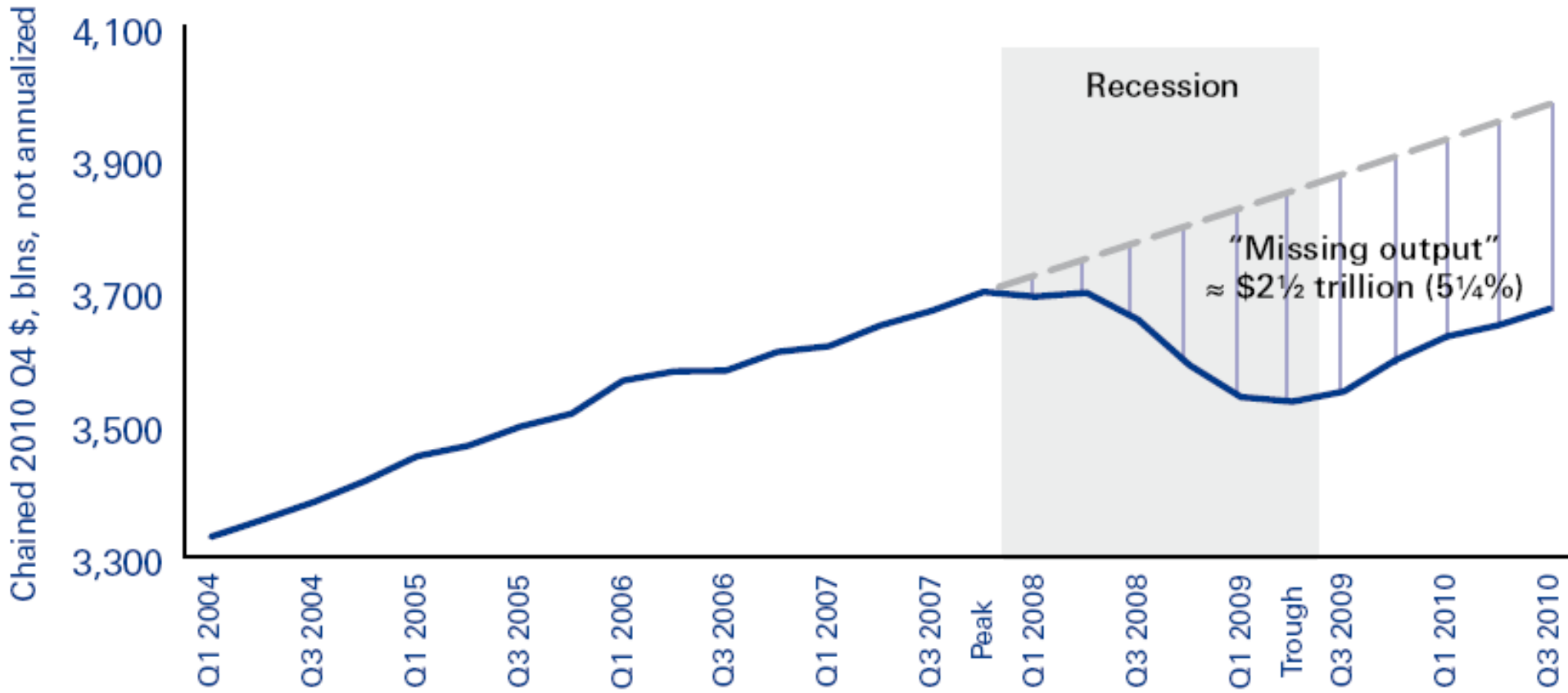
Worst Performance From Prior Peak To Present Since The Great Depression

GDP - Path from Peak
(2007Q4 - 2010Q4 vs. Max & Min For All Recessions, By Quarter, Since 1947)



“Missing Output” In The Great Recession

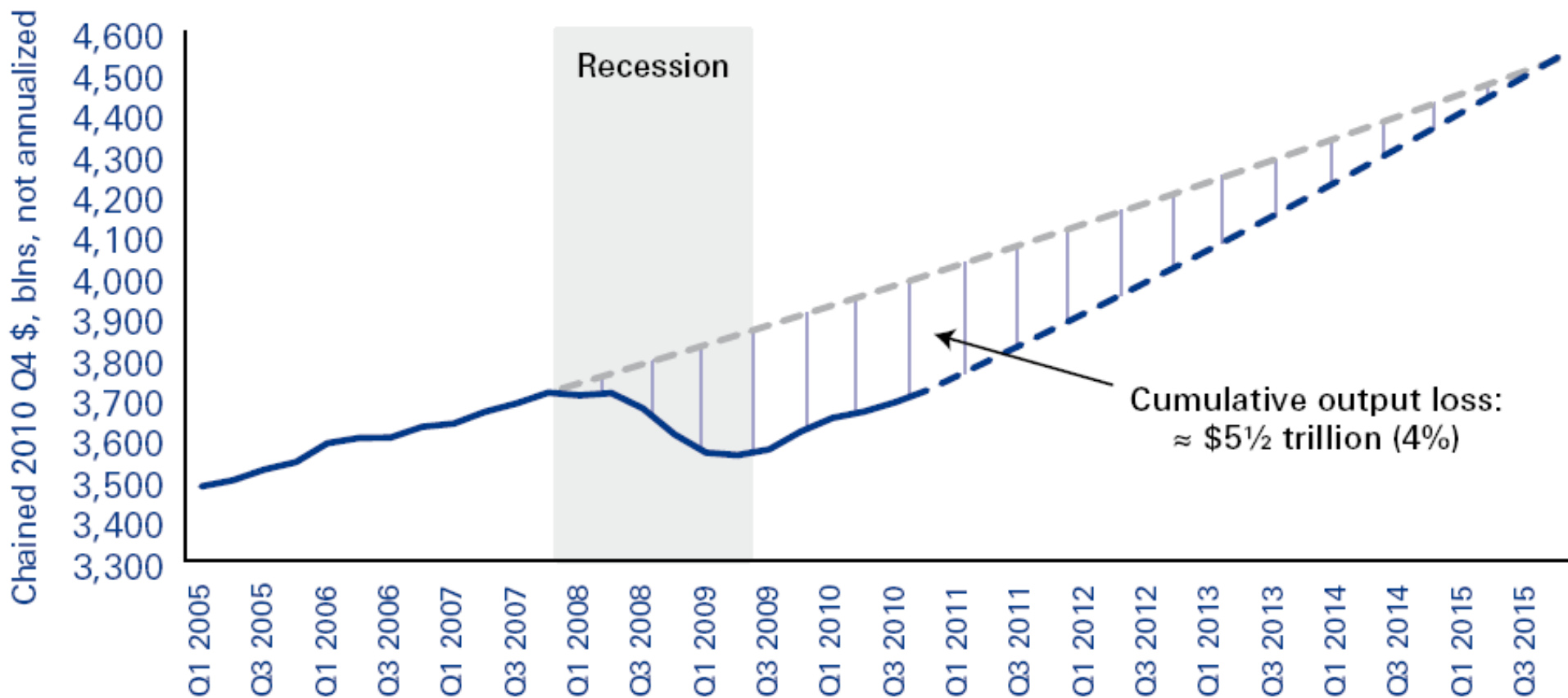
- Actual
- - - Pre-recession trend ($\approx 2.5\%$ annual growth)



Real GDP: A Long Climb Back

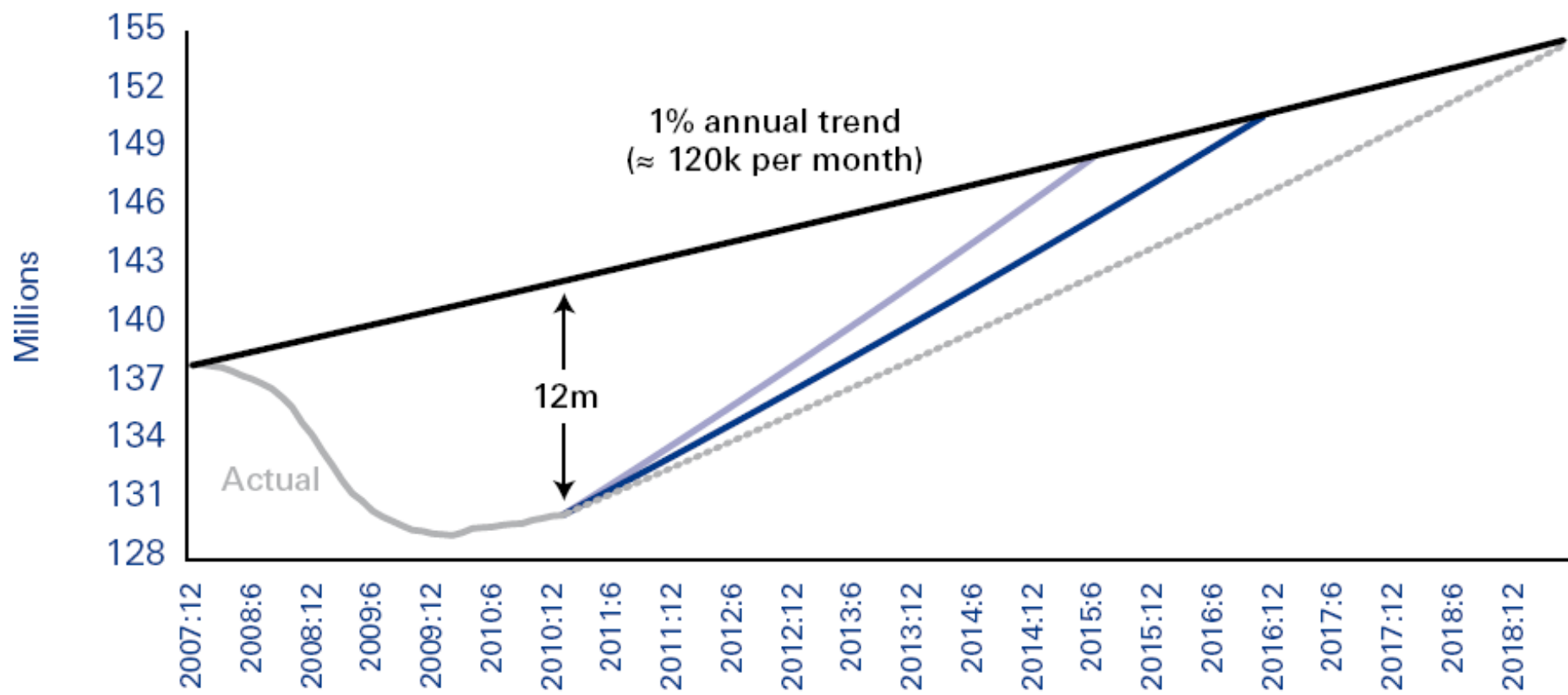
Would take four to five years of 4% growth (starting in 2011) to get back to pre-recession growth

— Actual - - - -4% growth - - - Pre-recession trend
($\approx 2.5\%$ annual growth)

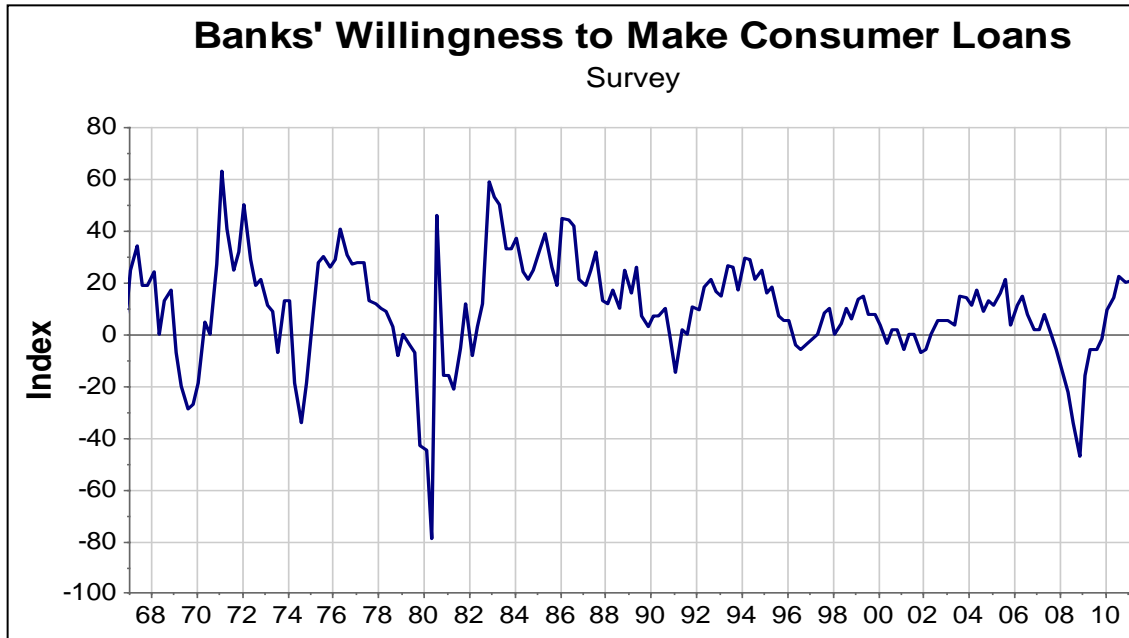


Non-Farm Payrolls – A Big Hole To Fill

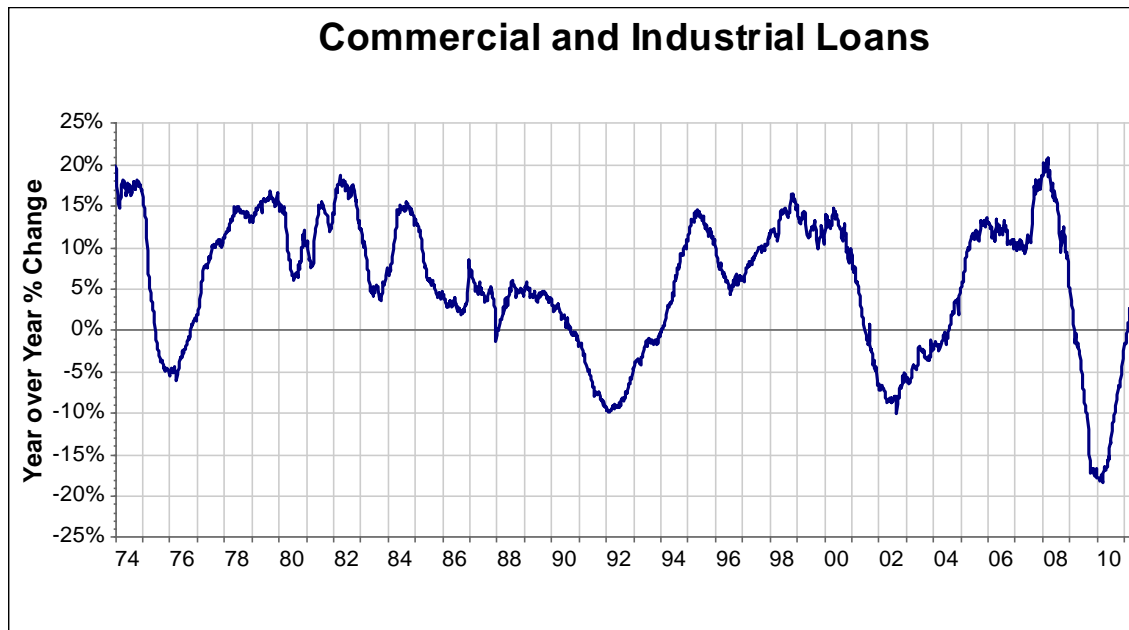
----- 2% annual growth (≈ 225k per month)
 — 2½% annual growth (≈ 275k per month)
 — 3% annual growth (≈ 325k per month)



Consumer and Commercial Lending Are Recovering ...

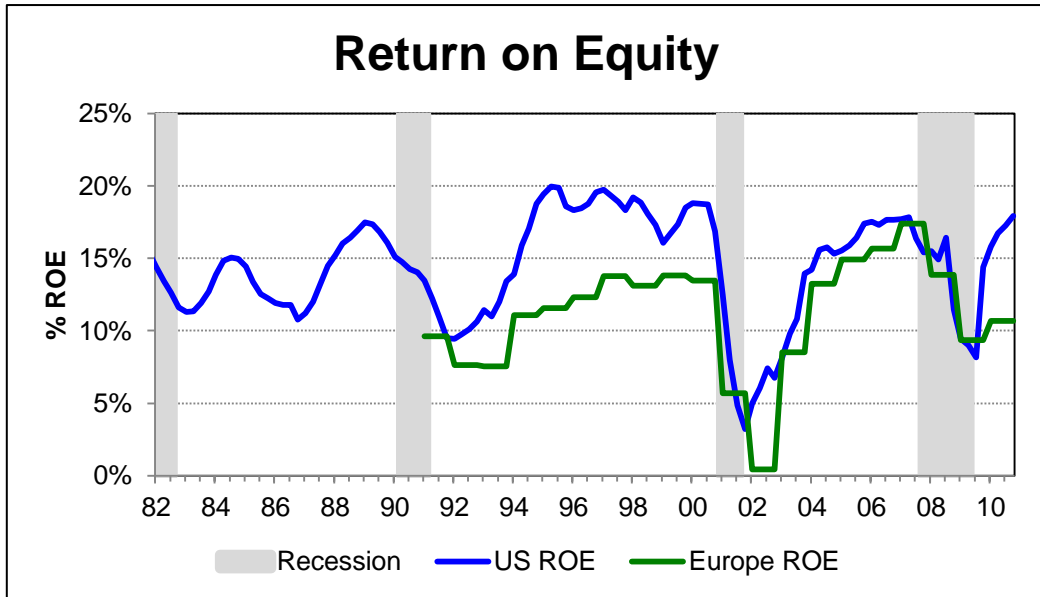


- Banks are willing to make consumer loans again

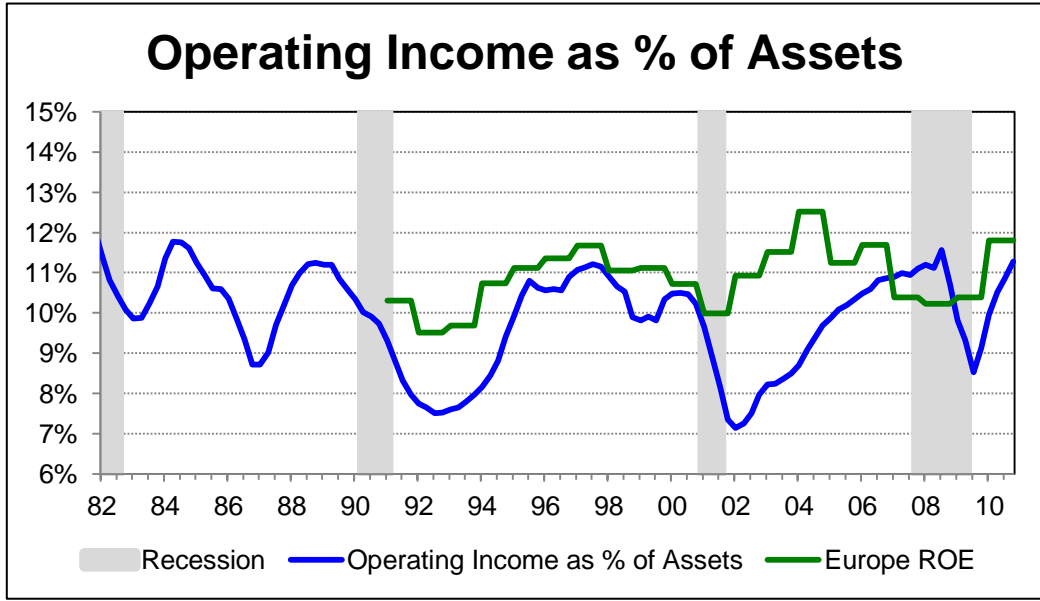


- C&I lending is now growing

Profitability Has Rapidly Returned To Pre-recession Levels



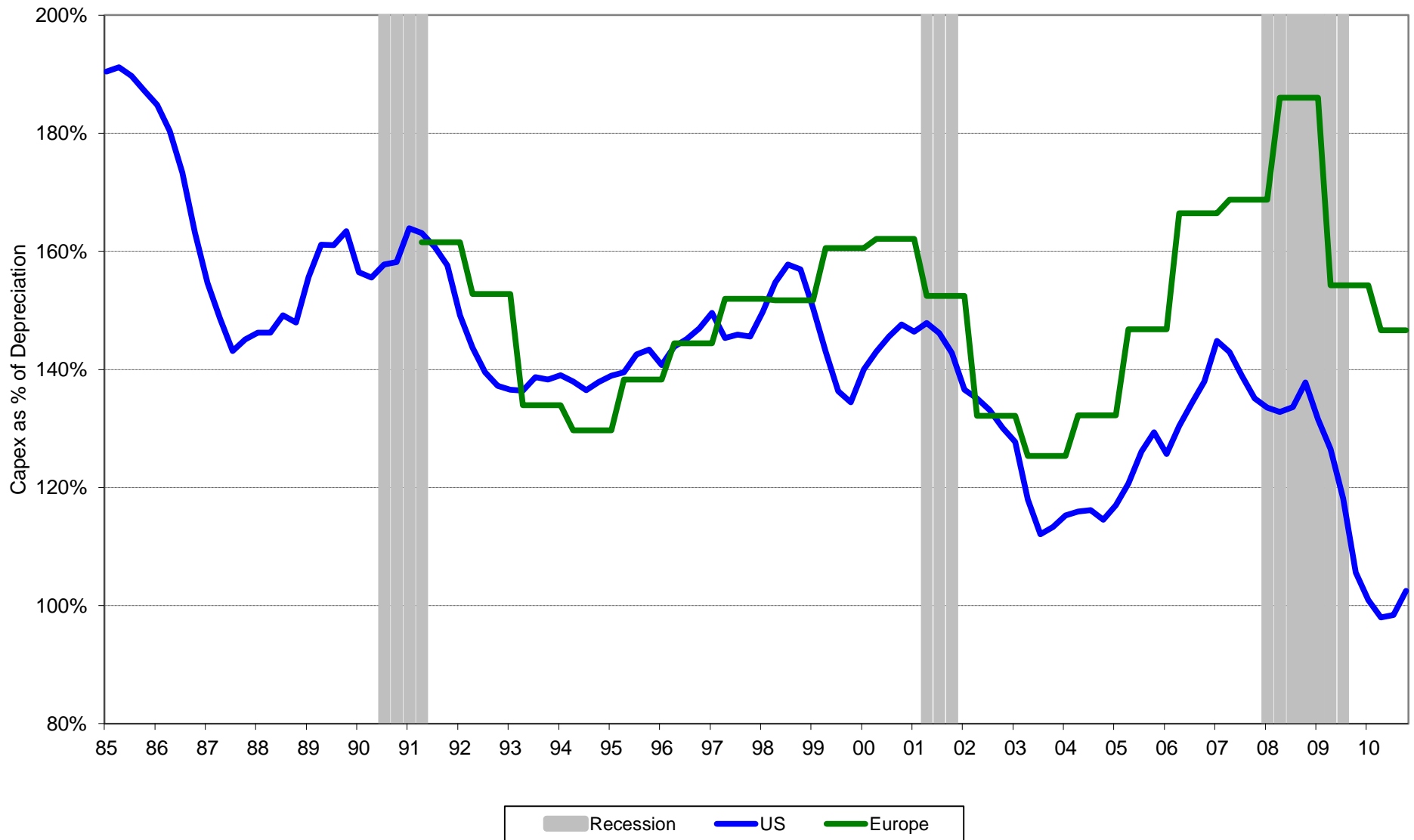
- Back to historical highs



- Companies cut discretionary expenses proactively

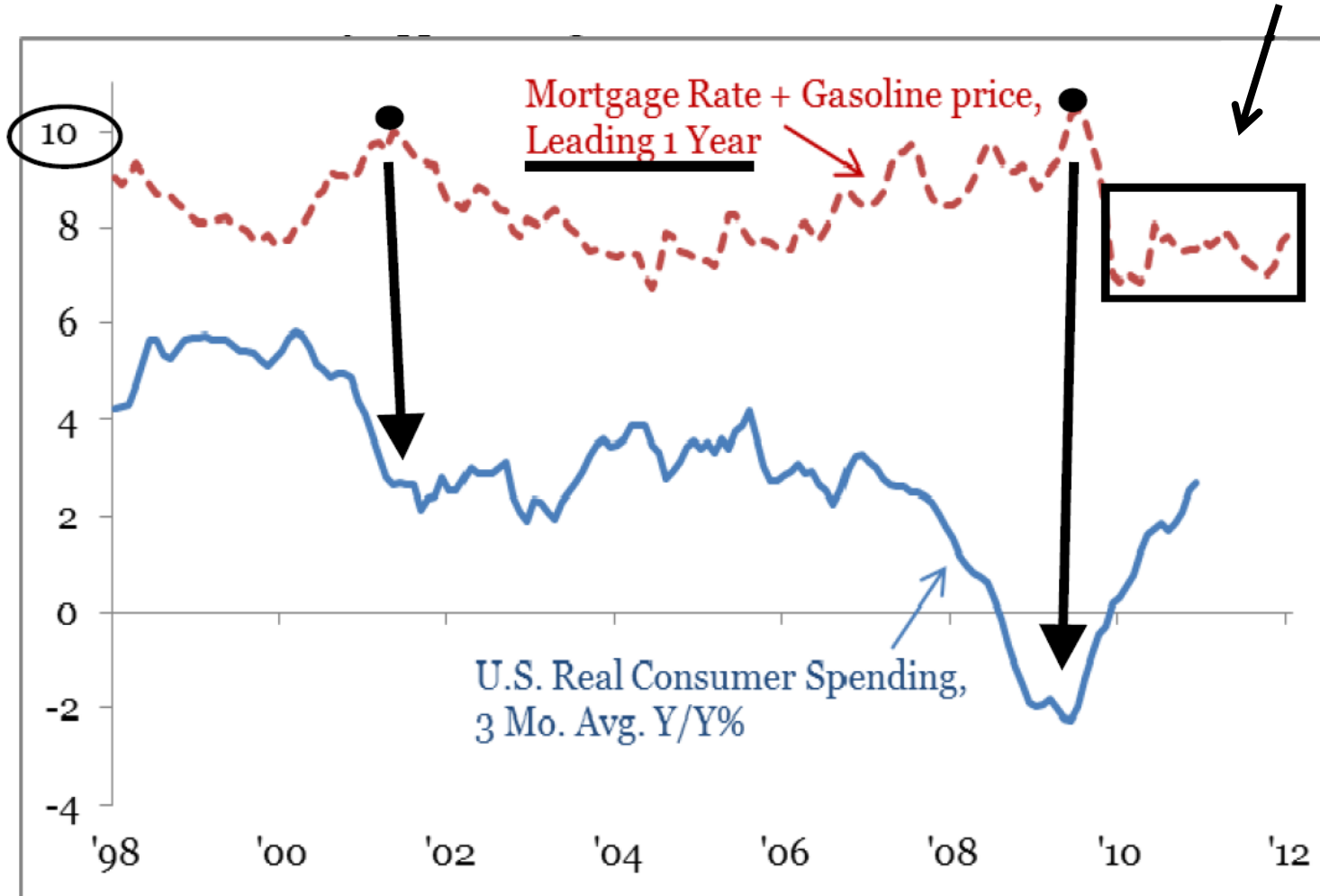
Capital Expenditures Equal to Depreciation...Not Sustainable

Capital Expenditures as % of Depreciation



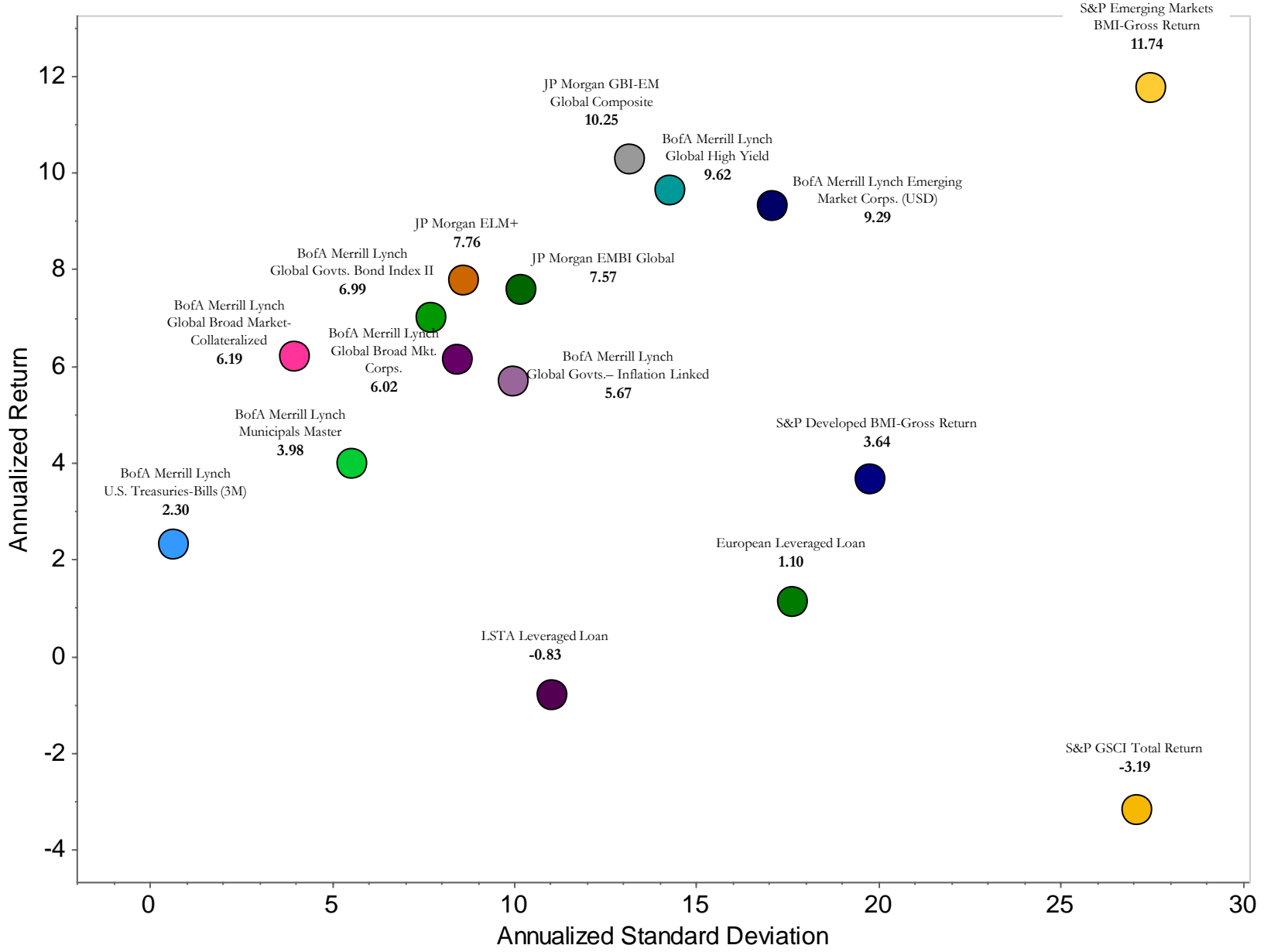
U.S. Economy Can Probably Handle 6% Mortgage Rates, or \$5 Gasoline, But Not Both

The economy becomes vulnerable as the sum of mortgage rates and gasoline prices reaches 10. With \$4 gasoline and 5% mortgage rates, we're currently approaching 9.



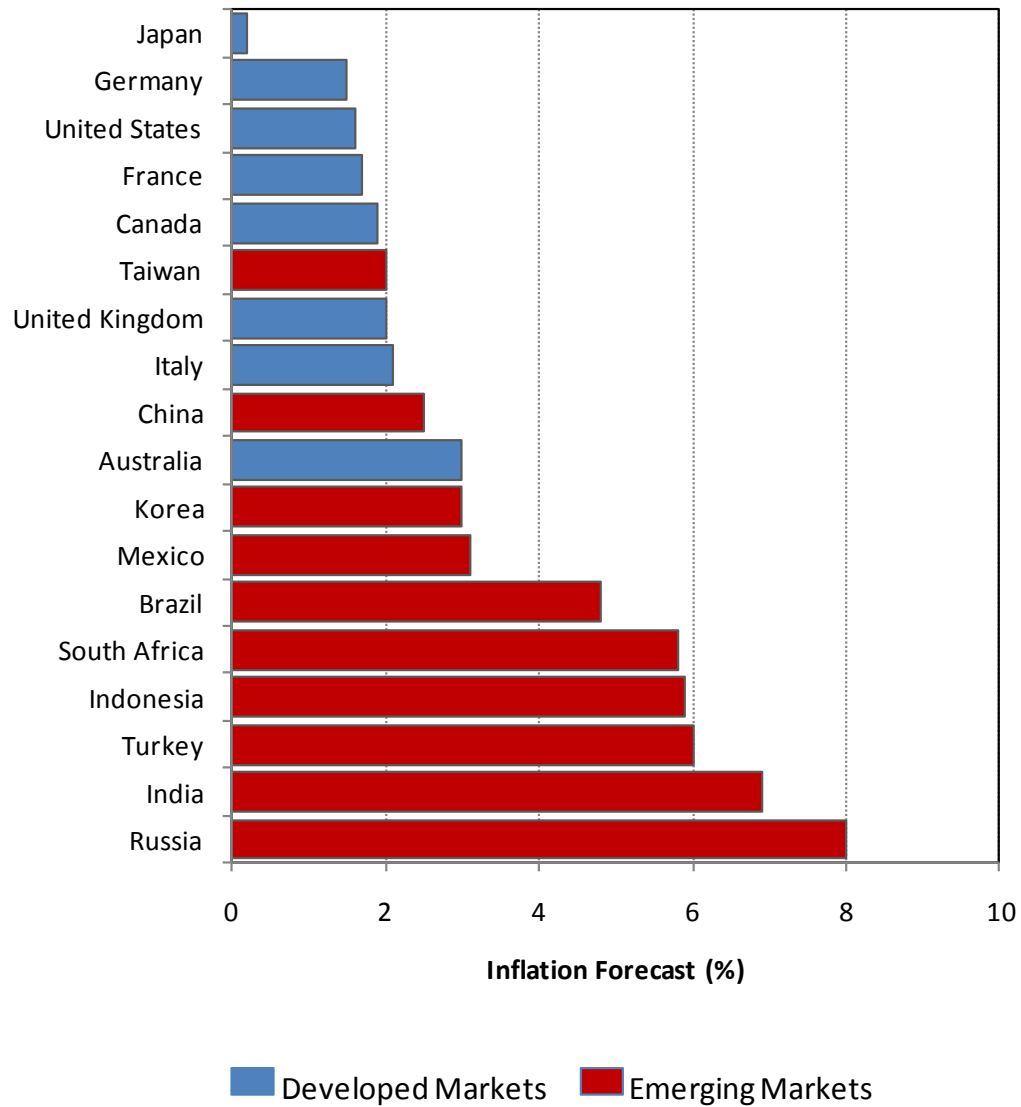
Major Asset Classes: Annualized Standard

Deviation vs. Annualized Return (03/2006 to 02/2011)



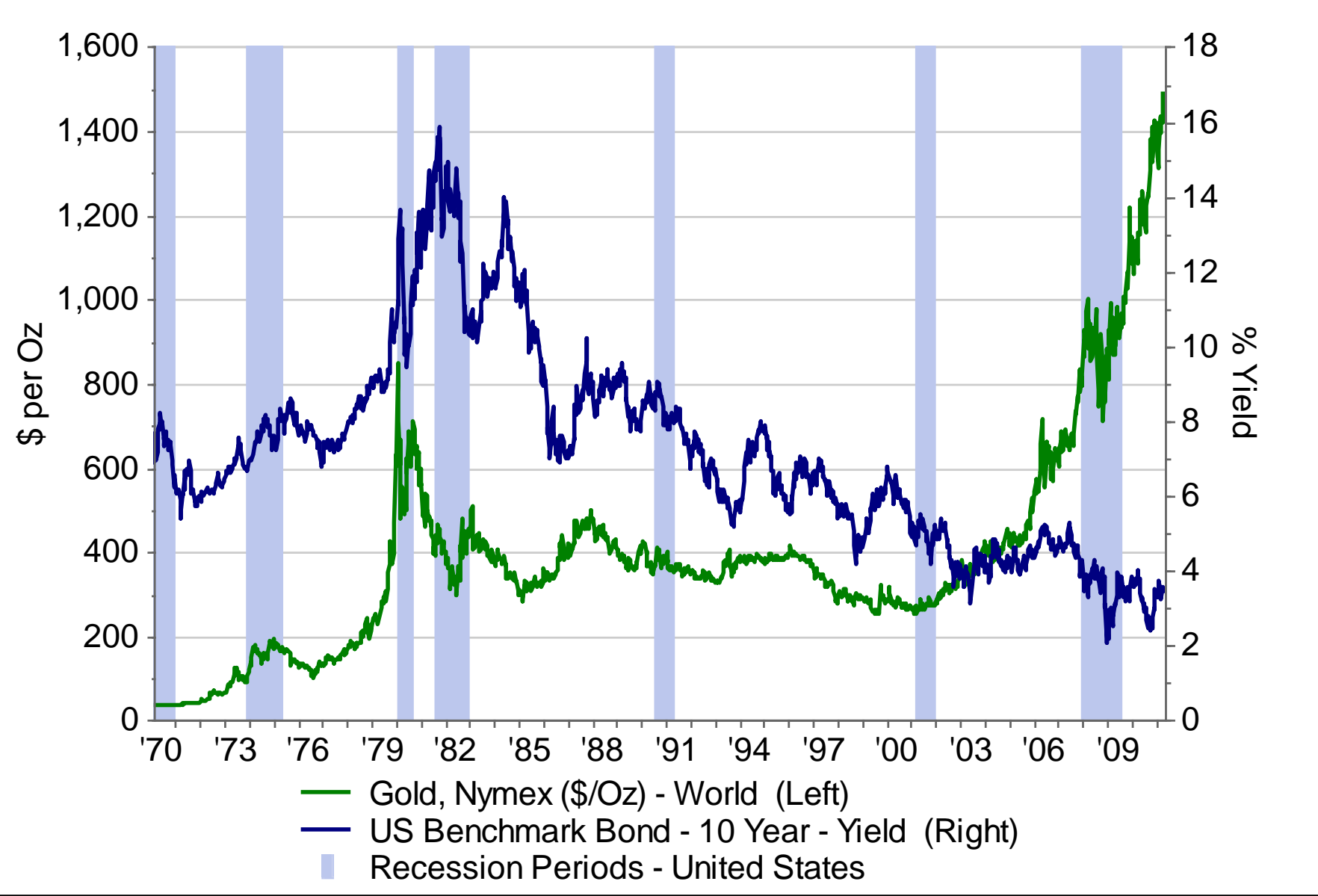
Inflation

Inflation Forecast for 2012 (Consumer Price Index)

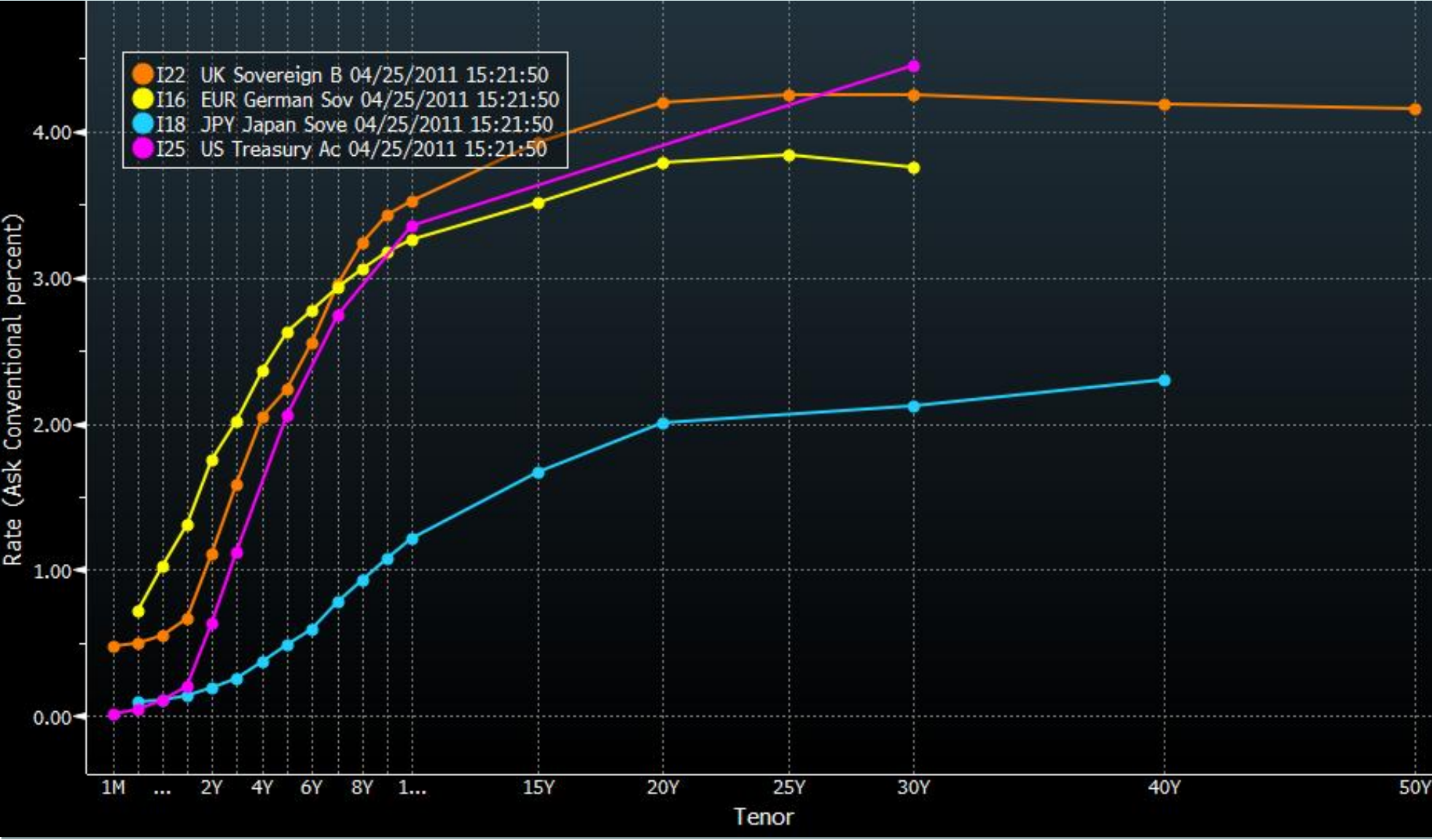


Interest Rates And Gold Prices Diverge.

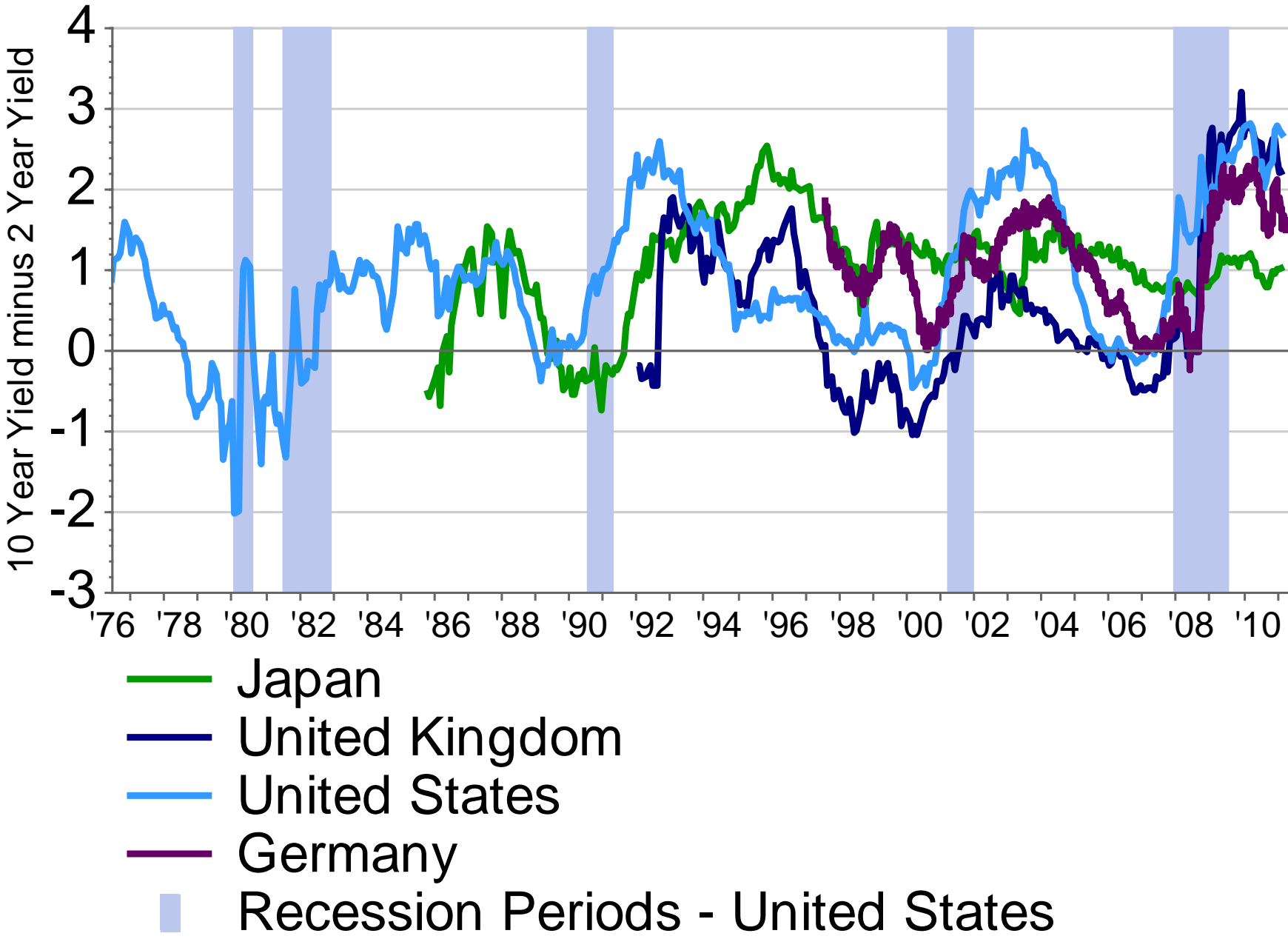
Which Is Right?



Yield Curves are steep and anchored to very low short rates

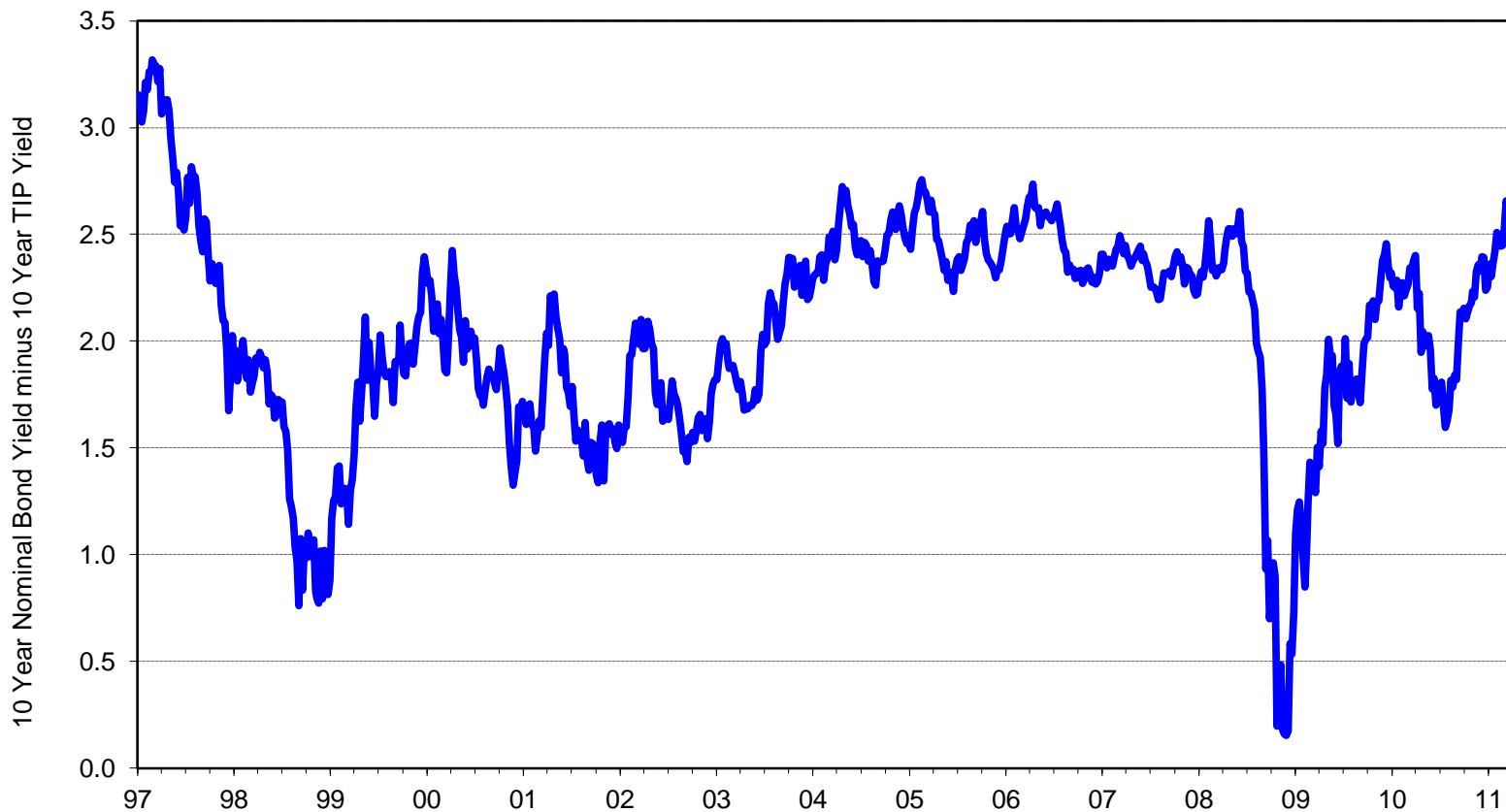


Global Yield Curve – Term Premium



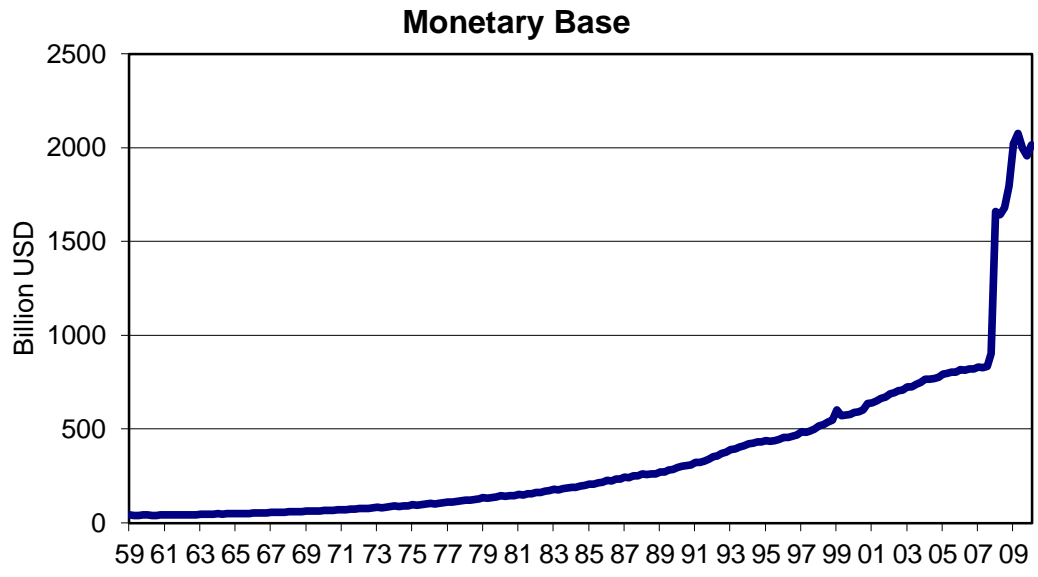
Investors Sanguine on Inflation

TIPS Implied Inflation

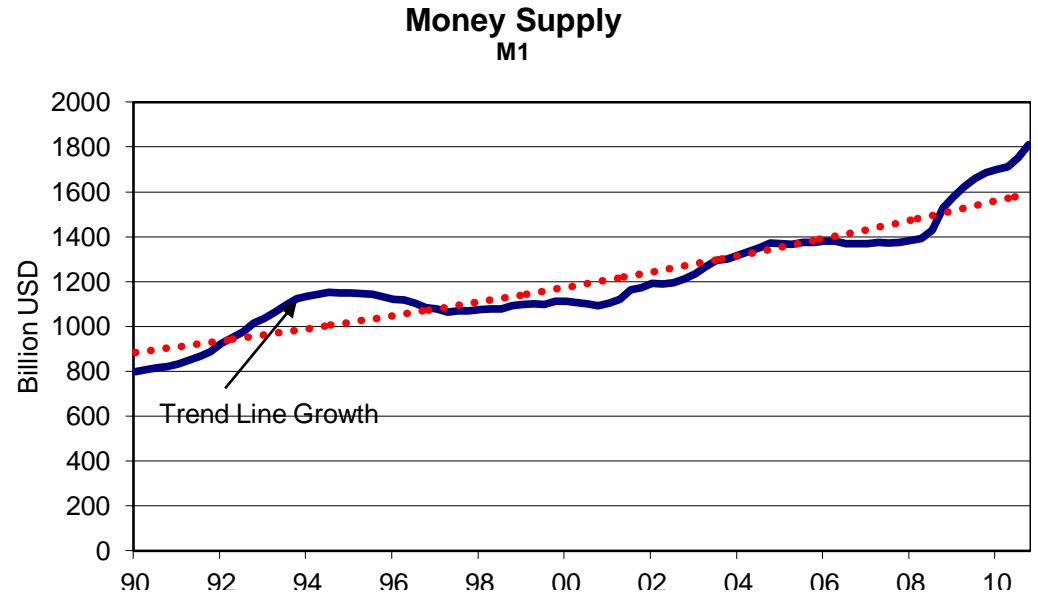


■ No big inflation worries yet!

Yet Leading Indicators Of Inflation Are Soaring ...



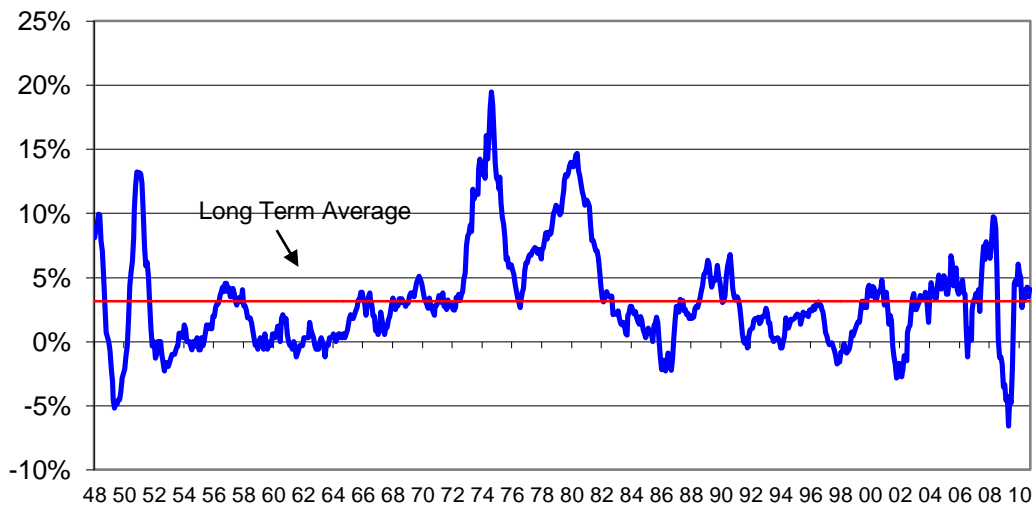
- Extraordinary Federal Reserve intervention



- Money supply has begun to move higher than its long-term trend of 5%

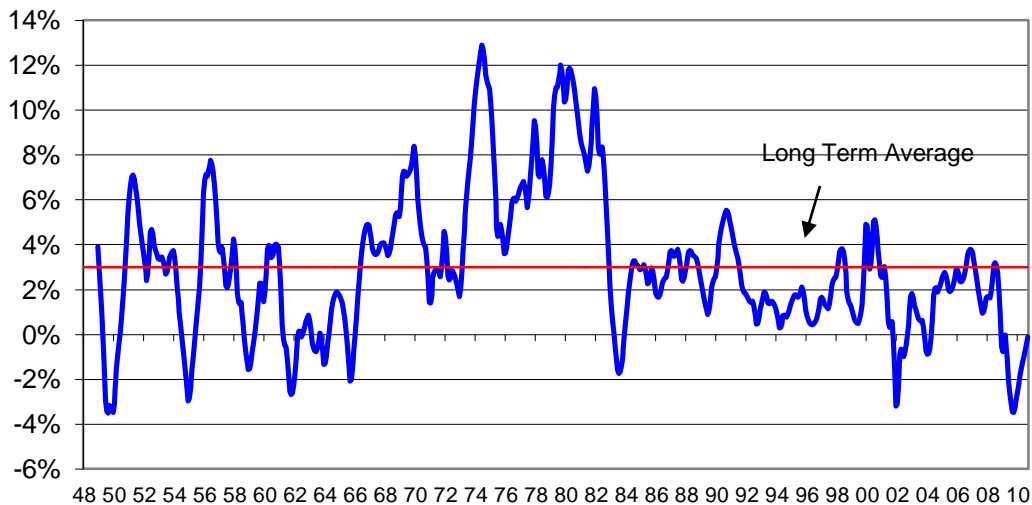
Input Costs Are Beginning To Rise....

Producer Price Index
Year over Year



- Slightly above long-term average

Unit Labor Costs
(Change in 1 Year Moving Average)



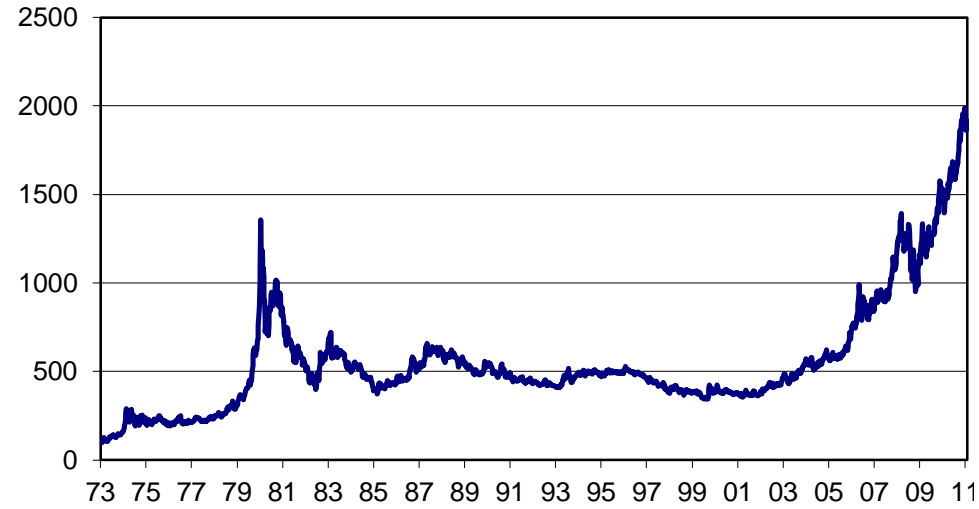
- Labor costs are no longer falling

.... As Are Commodity Prices

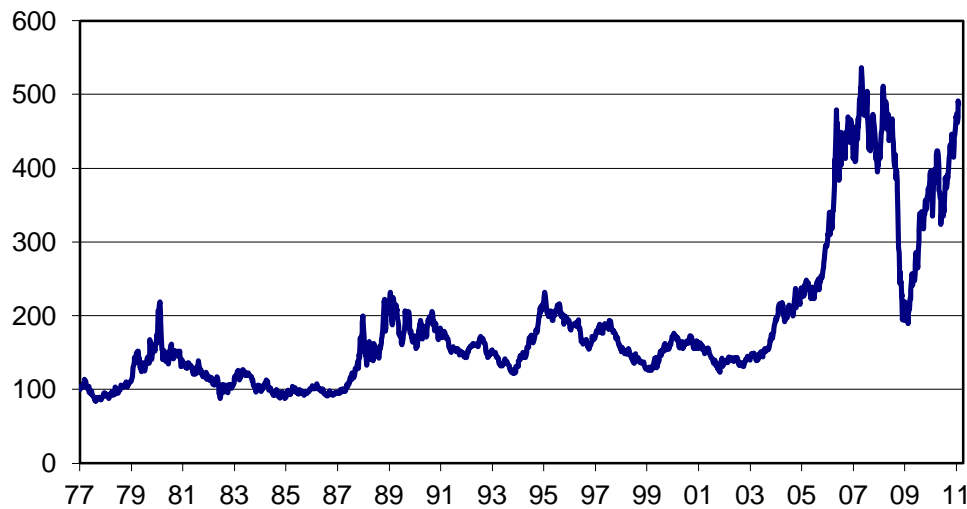
Agriculture & Livestock



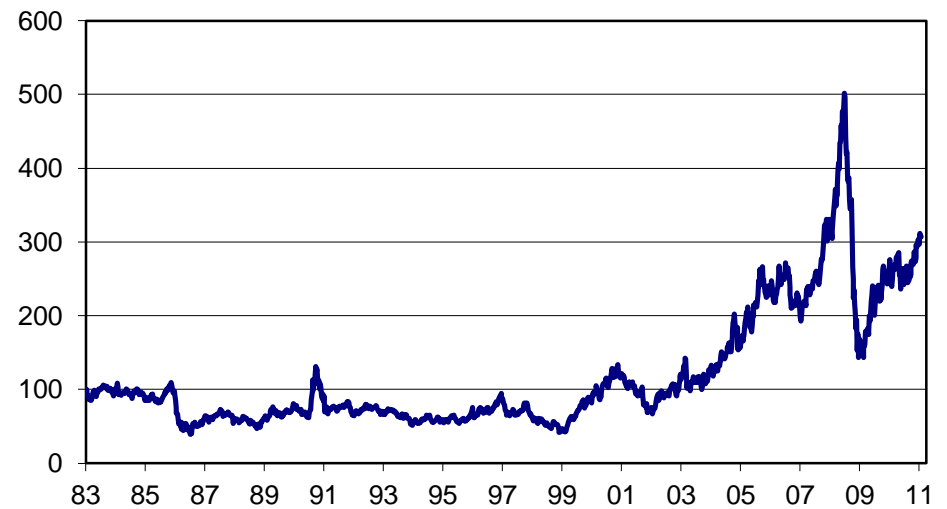
Precious Metals



Industrial Metals

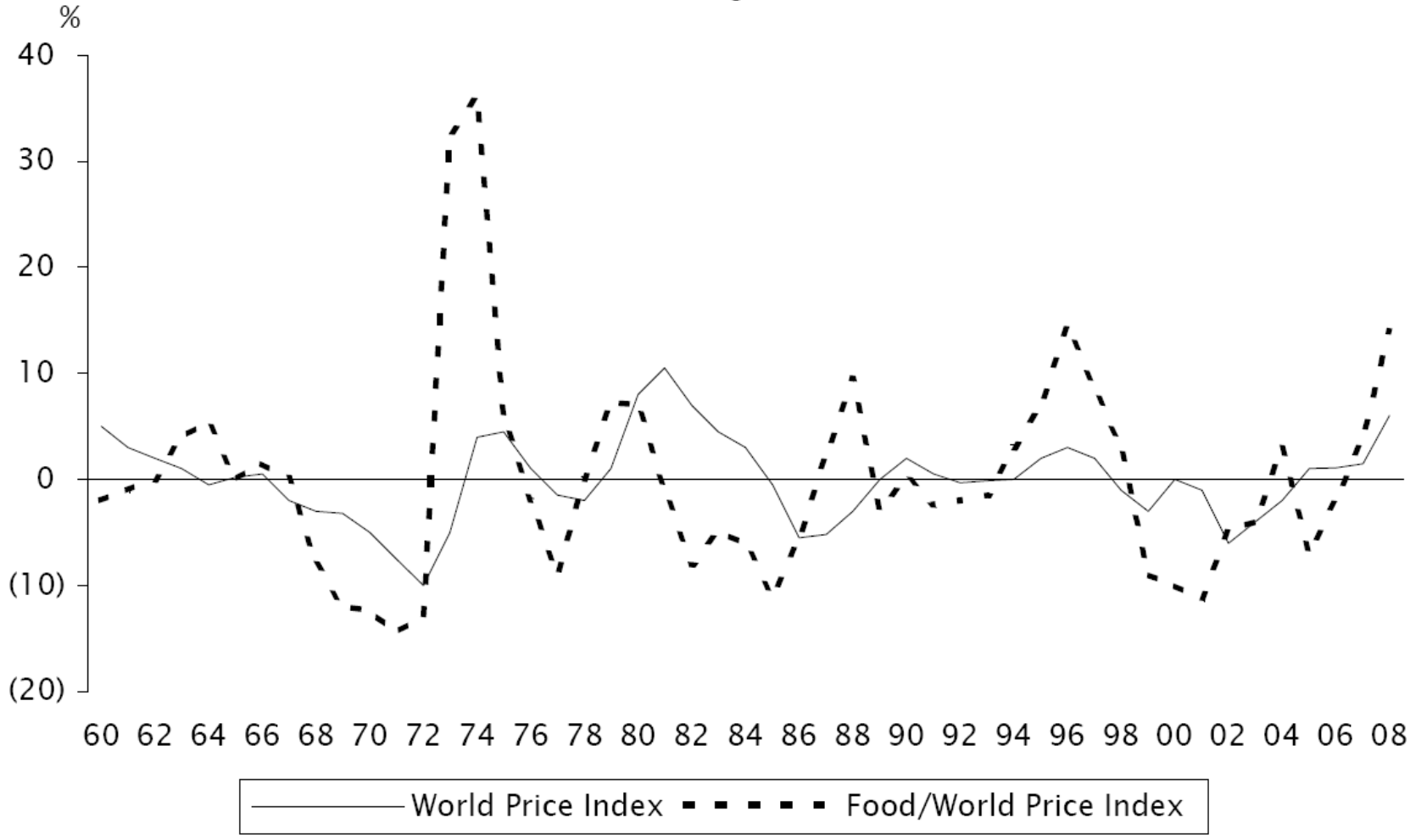


Energy



Food Price Rises Have Preceded Each Global Inflation Upturn Over The Last 40 Years

World Price Index and Relative Food Prices¹
1960 Through 2008



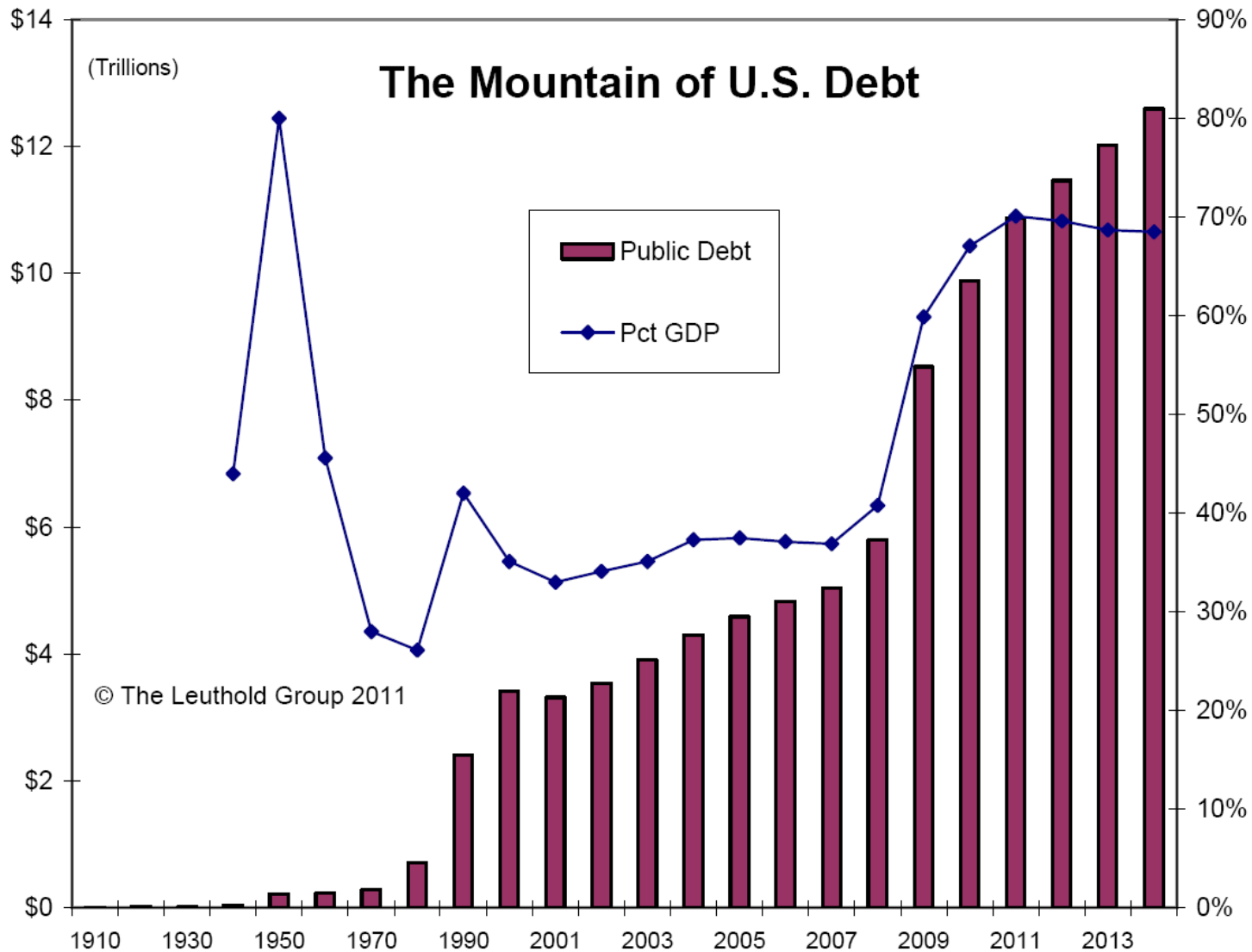
¹In deviations from trend.

Inflation Stemming From Rising Global Food Prices

	Dec-10	Headline if International Food Prices Remain at Current Levels	
		Q2 2011	Change
Philippines	2.99	10.06	7.07
Russia	8.73	15.00	6.27
China	4.76	9.06	4.30
Chile	2.99	6.59	3.60
Korea	3.50	6.25	2.75
Israel	2.57	5.24	2.67
Turkey	6.40	9.06	2.66
Singapore	4.58	6.63	2.05
Hong Kong	3.08	4.77	1.69
Brazil	5.78	7.44	1.66
South Africa	3.48	4.87	1.39
USA	1.39	2.54	1.15
Czech Republic	2.33	3.40	1.07

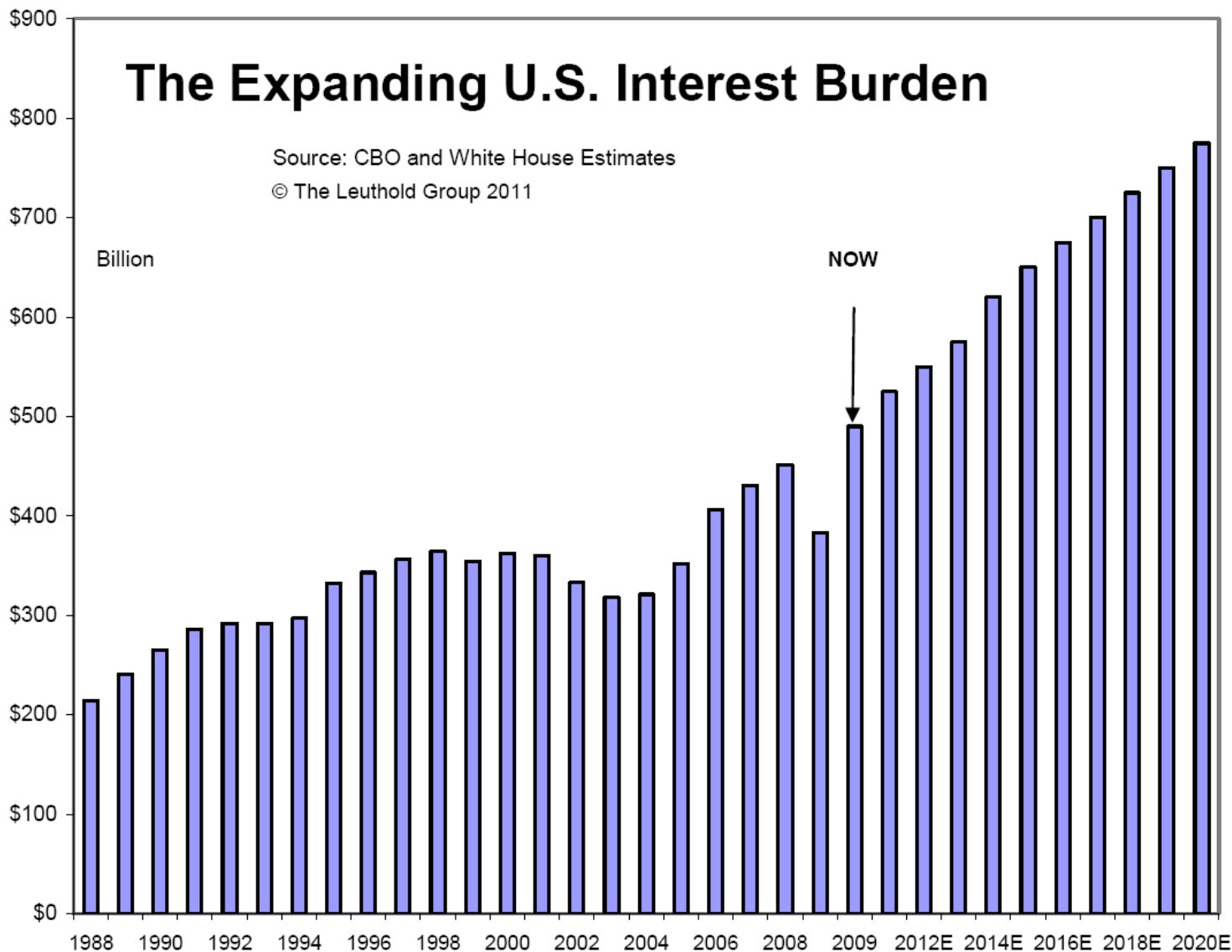
	Dec-10	Headline if International Food Prices Remain at Current Levels	
		Q2 2011	Change
Switzerland	0.52	1.58	1.06
Japan	0.00	0.92	0.92
Mexico	4.43	5.09	0.66
Poland	2.90	3.55	0.65
Euroland	2.19	2.71	0.52
Indonesia	7.00	7.34	0.34
Hungary	4.61	4.83	0.22
Sweden	2.11	2.20	0.09
UK	4.77	4.55	(0.22)
Taiwan	0.64	0.30	(0.34)
India	8.29	7.53	(0.76)
Norway	2.72	1.75	(0.97)

Concerns About U.S. Debt



- A growing debt means rising interest payments. Even if interest rates increase only slightly, the sheer magnitude of debt means interest payments would rise significantly.

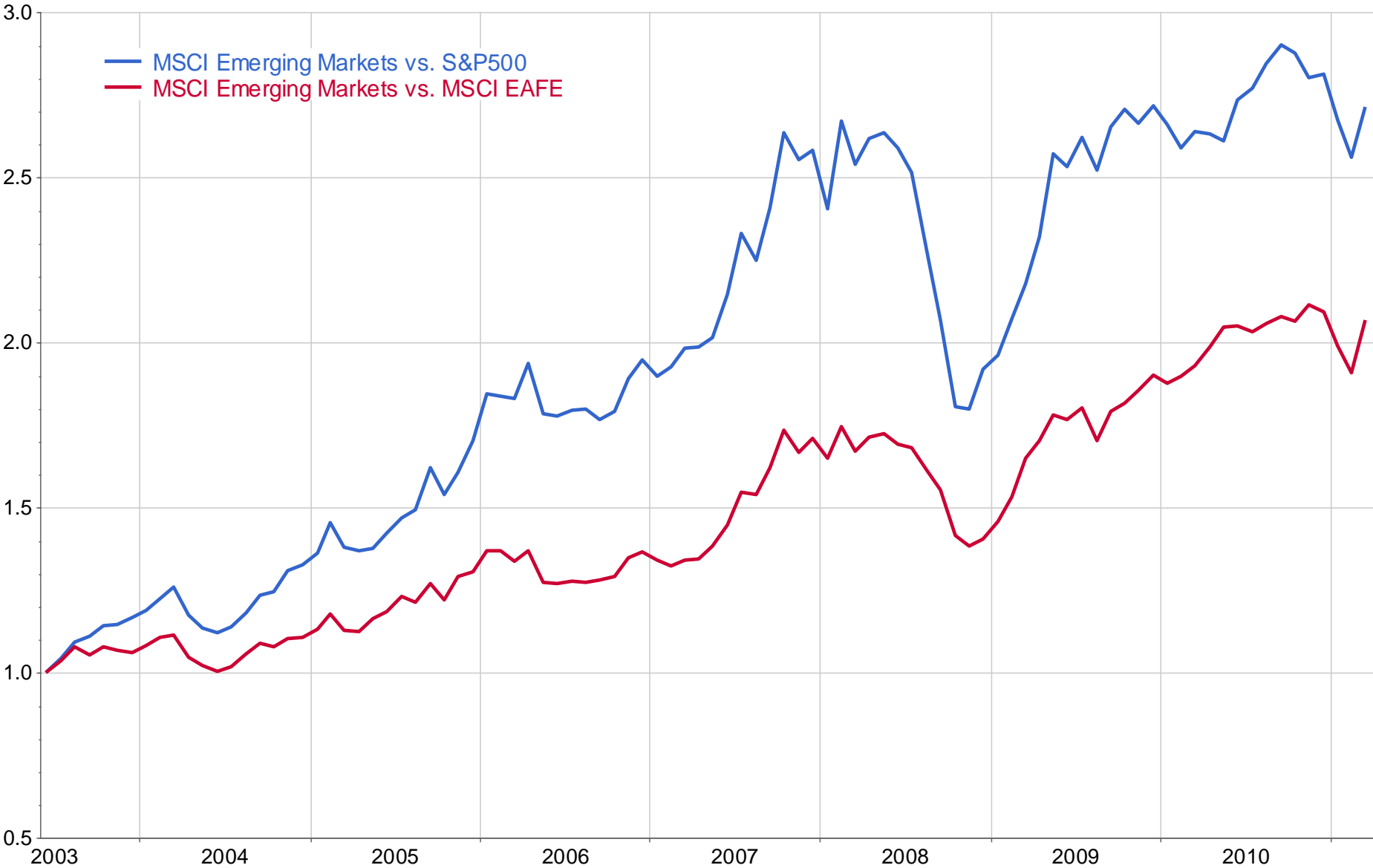
Interest Burden May Become Overwhelming



- More than one-half of the U.S. government's additional \$9 trillion in debt expected over the next ten years is projected to be interest.

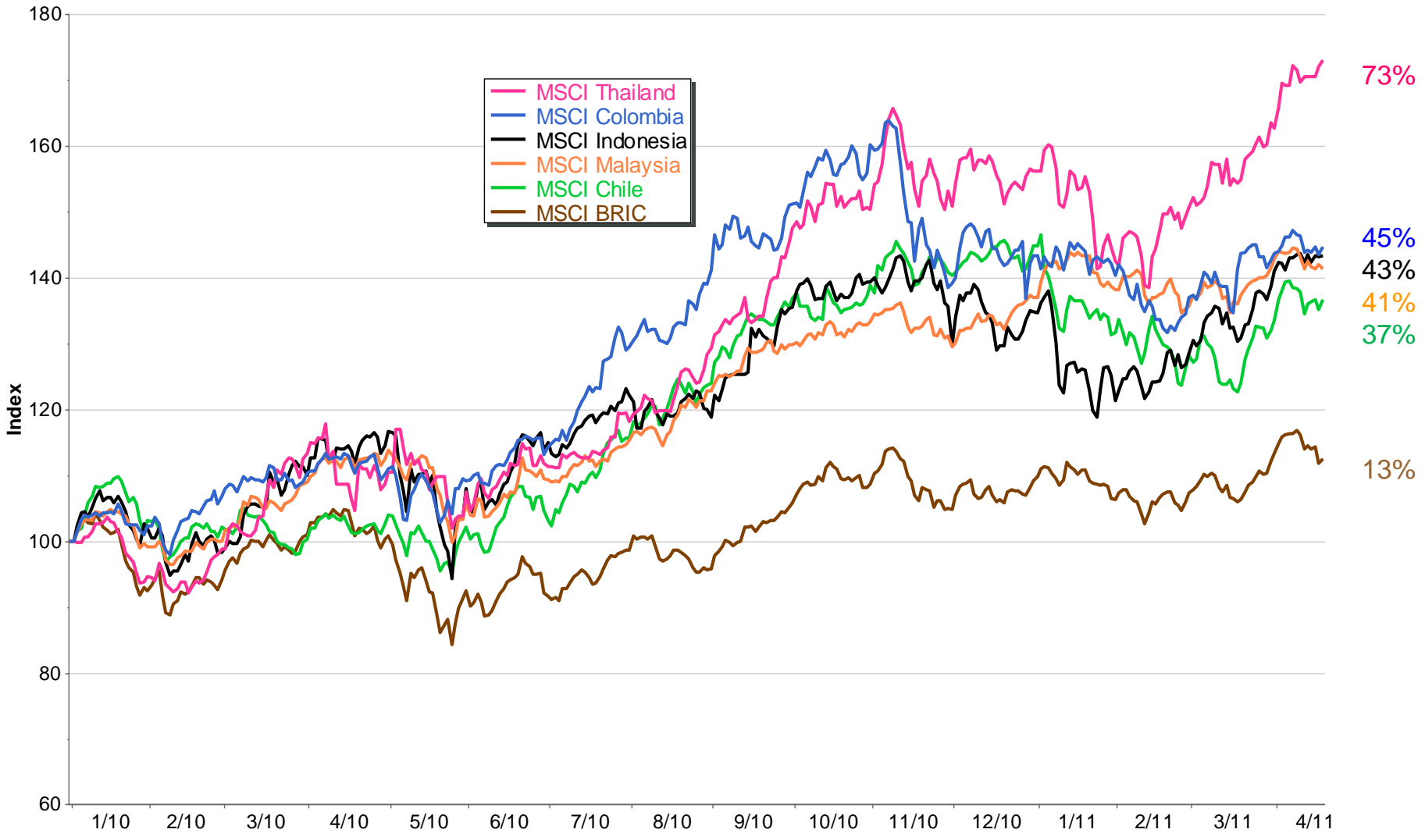
Emerging Markets

Relative Performance



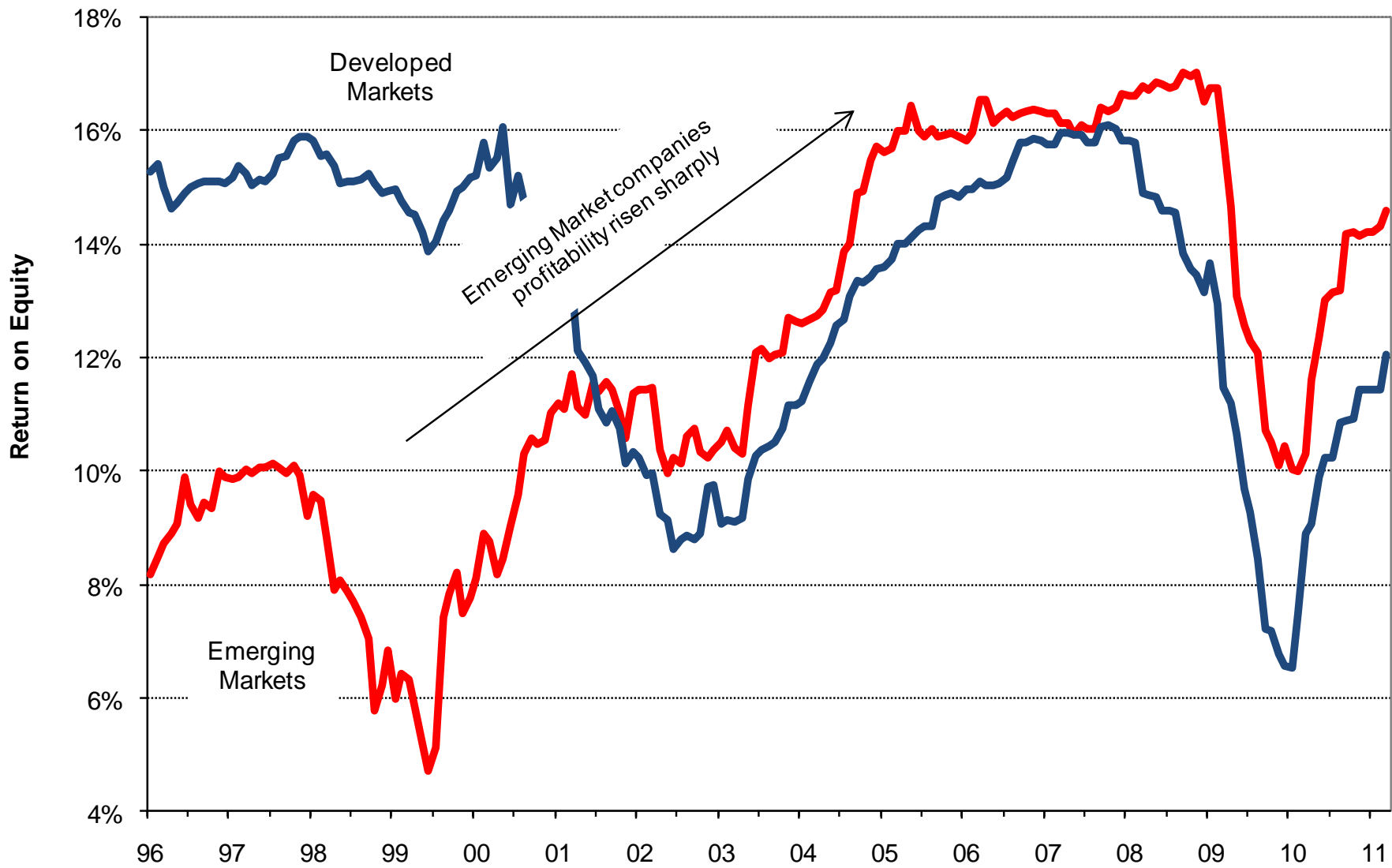
©FactSet Research Systems

EM Performance (US\$) – Country Selection Matters



Profitability Has Converged

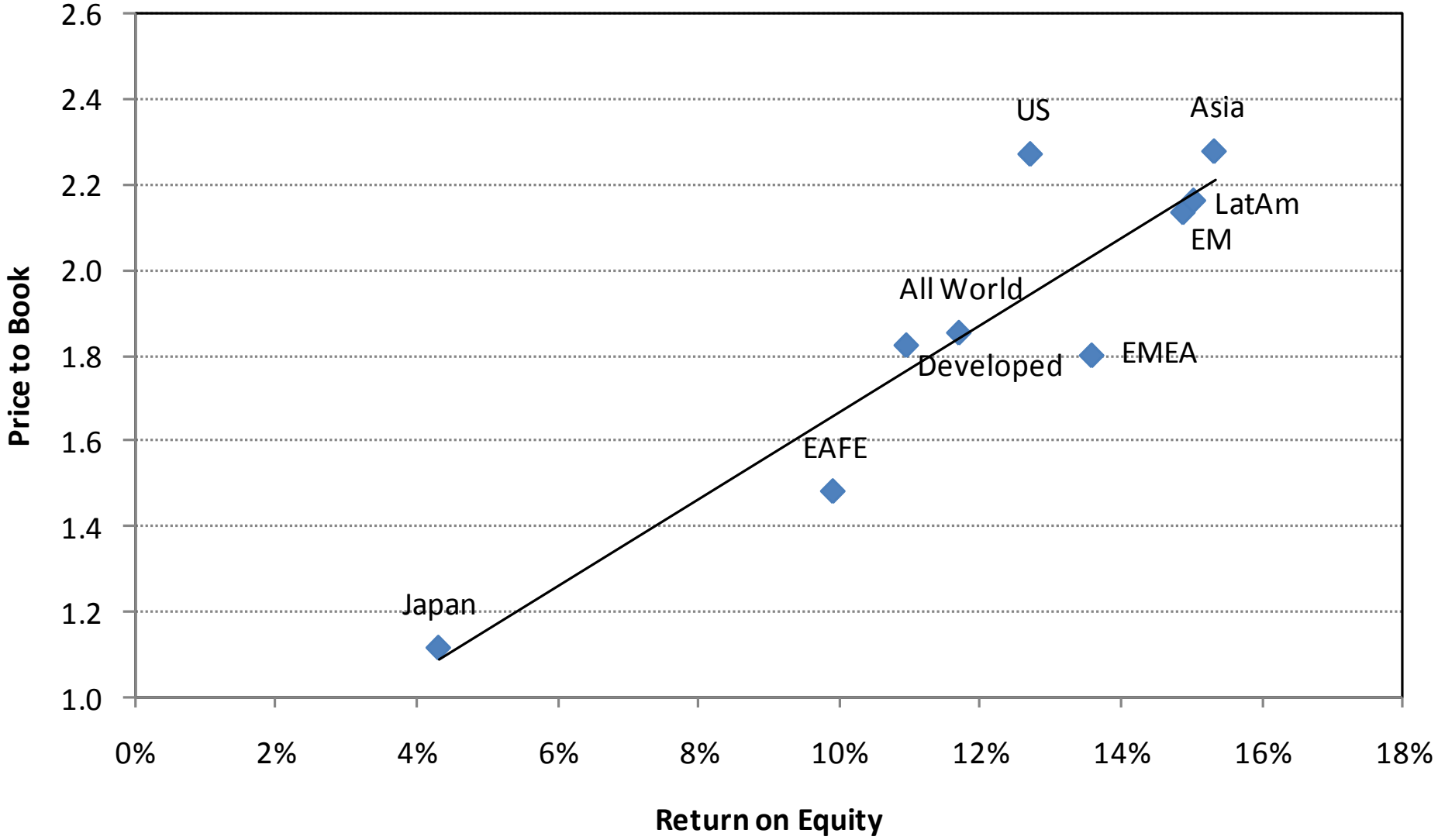
Developed vs. Emerging Market Companies



Valuation by Region

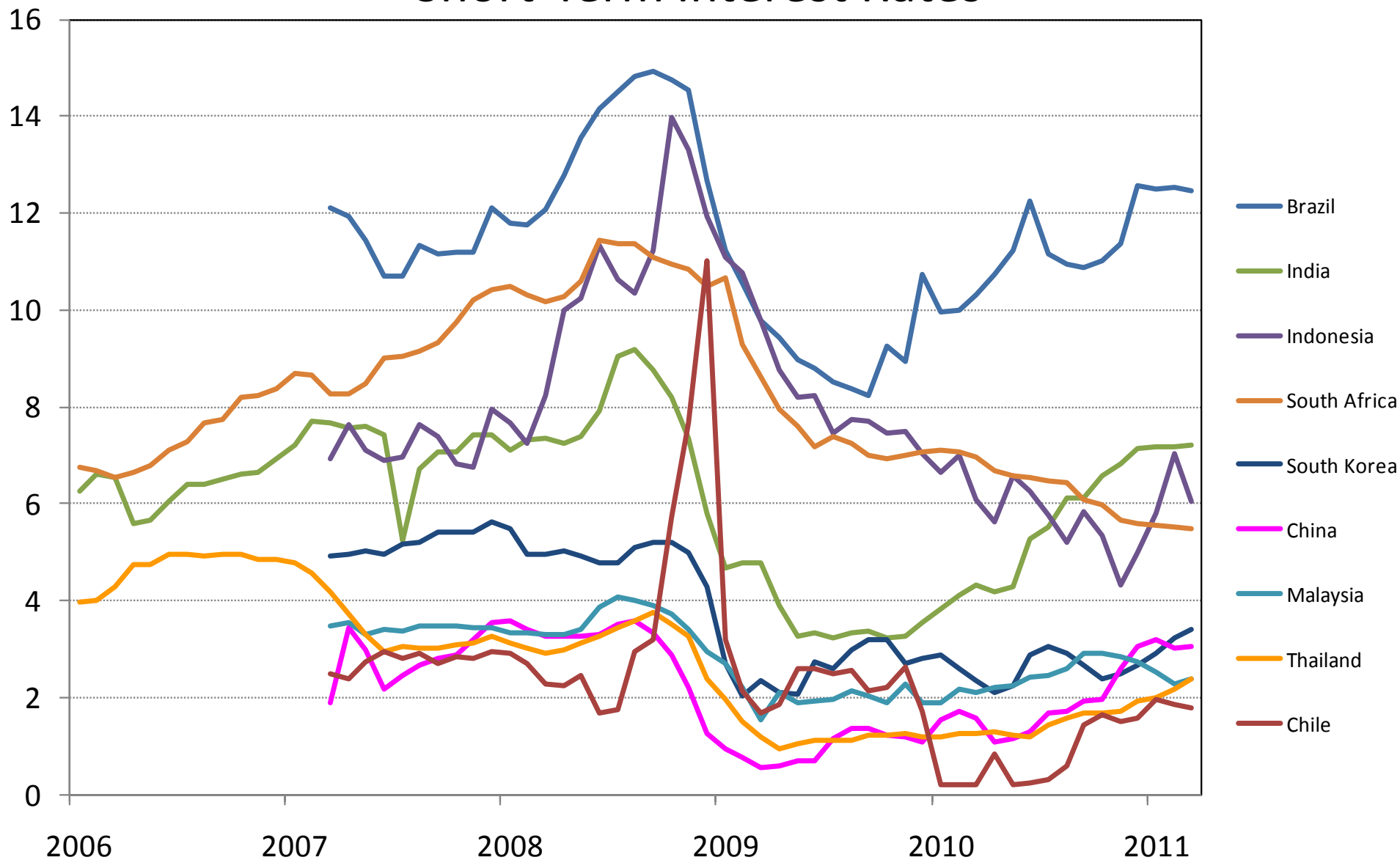
Valuation by Region						
	Price/Book	ROE	Trailing PE	IBES PE	DCM Normalized PE	DCM Normalized Growth
All COUNTRIES	1.9	11.7%	14.6	12.9	15.7	6.6%
DEVELOPED	1.8	11.0%	14.7	13.0	15.9	7.9%
EAFE	1.5	9.9%	13.8	12.2	14.0	7.2%
JAPAN	1.1	4.3%	14.3	13.7	14.3	5.0%
Developed Europe	1.6	11.6%	13.4	11.6	13.5	8.0%
US	2.3	12.7%	15.3	13.6	16.3	8.6%
EMERGING MARKETS	2.1	14.9%	14.4	12.4	14.8	9.9%
EM Latin America	2.2	15.0%	14.3	12.7	18.2	9.9%
EM Asia	2.3	15.3%	15.3	13.0	16.3	10.3%
EMEA	1.8	13.6%	12.5	10.7	12.1	8.6%

Price to Book versus Return on Equity by Region

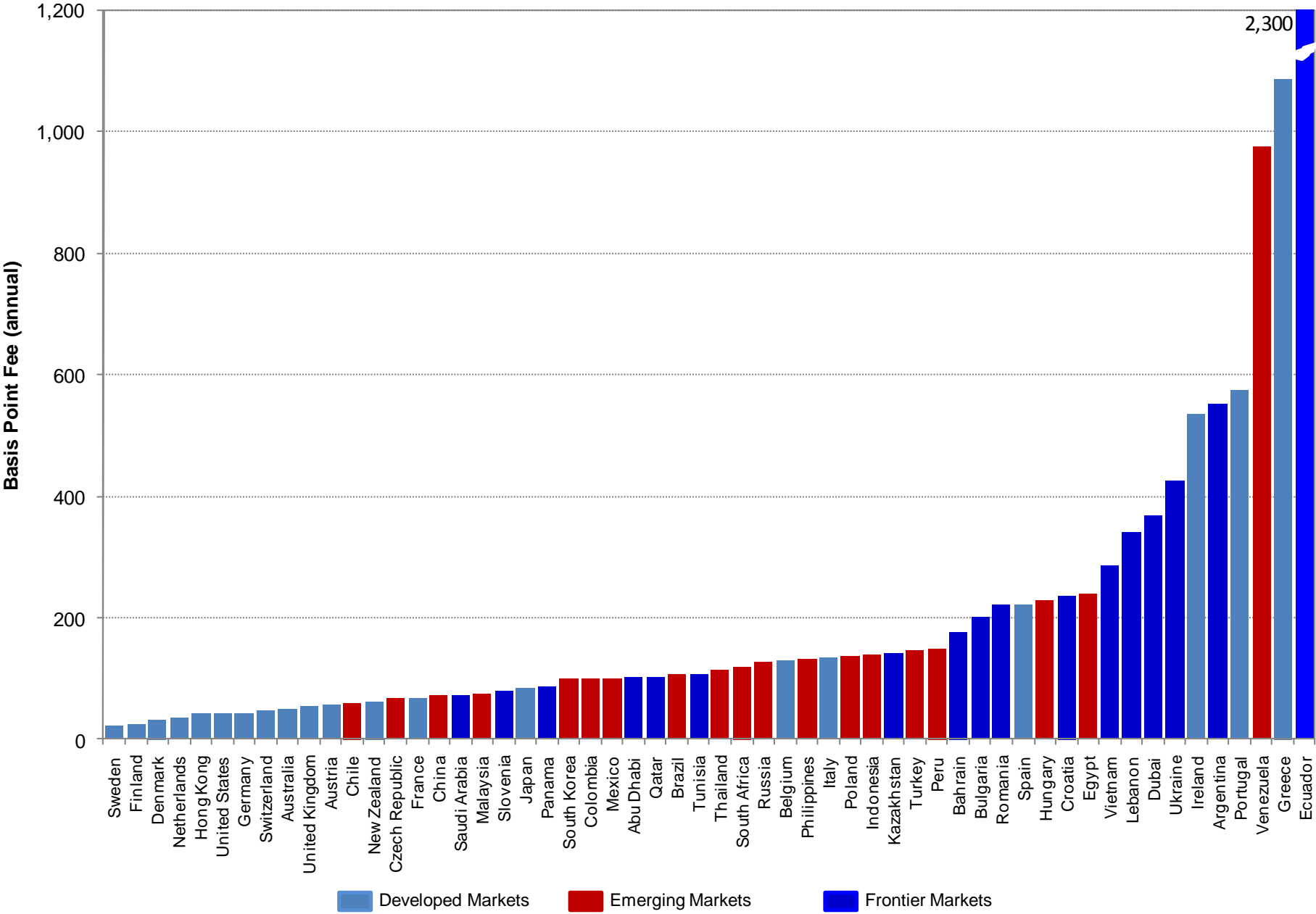


Policy Rates

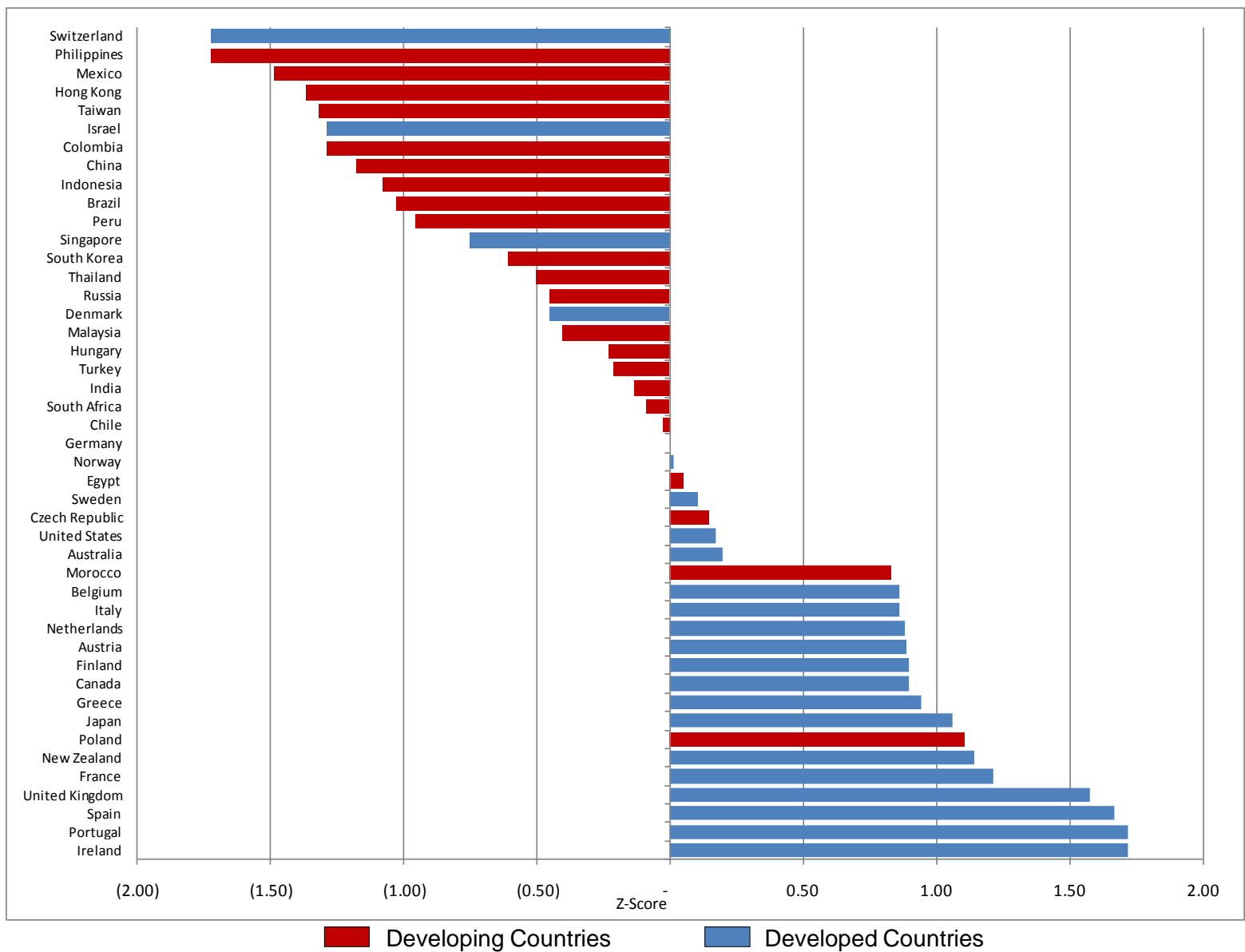
Short-Term Interest Rates



Sovereign Debt Credit Default Swaps

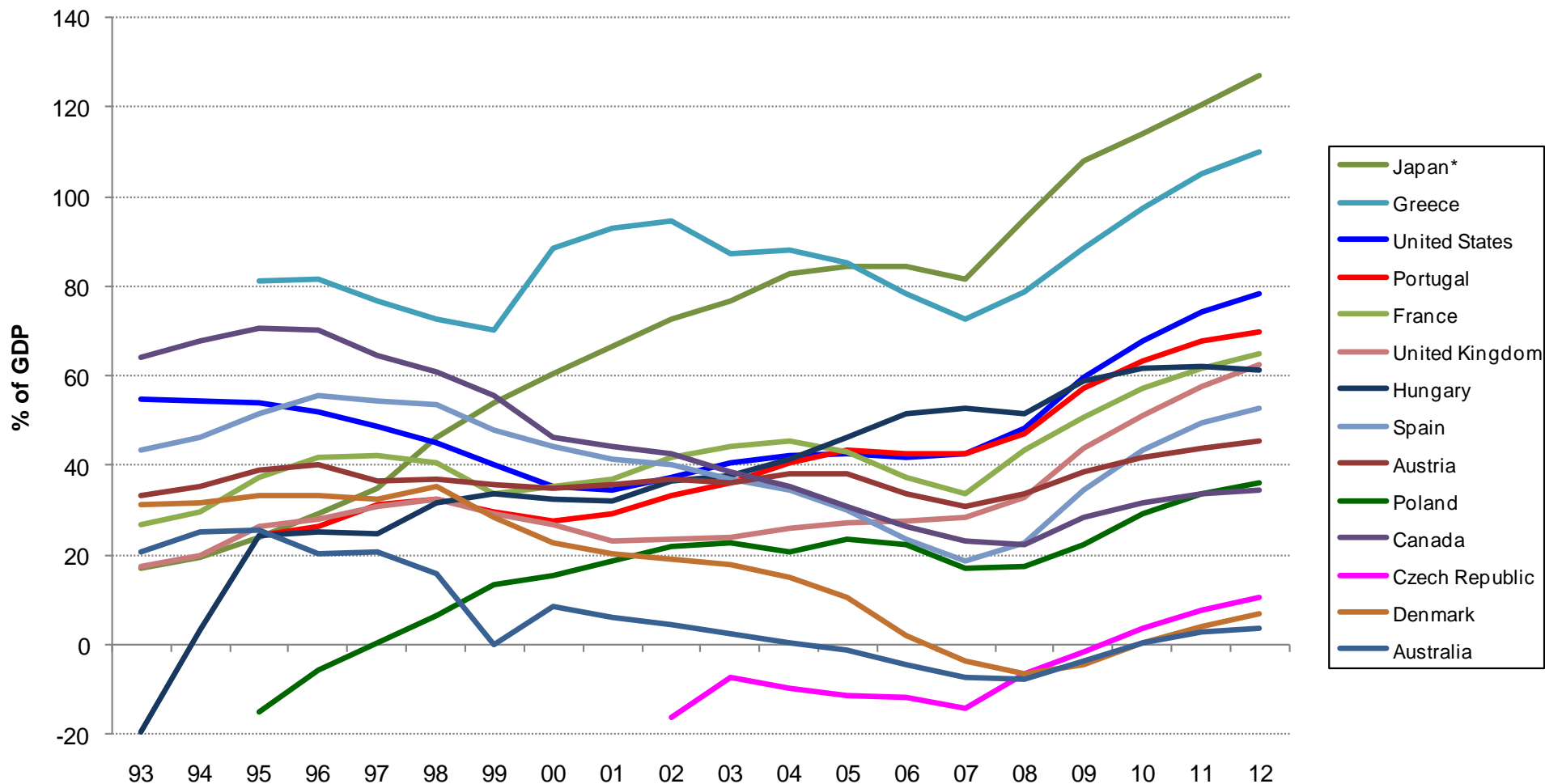


DCM Sovereign Risk Model



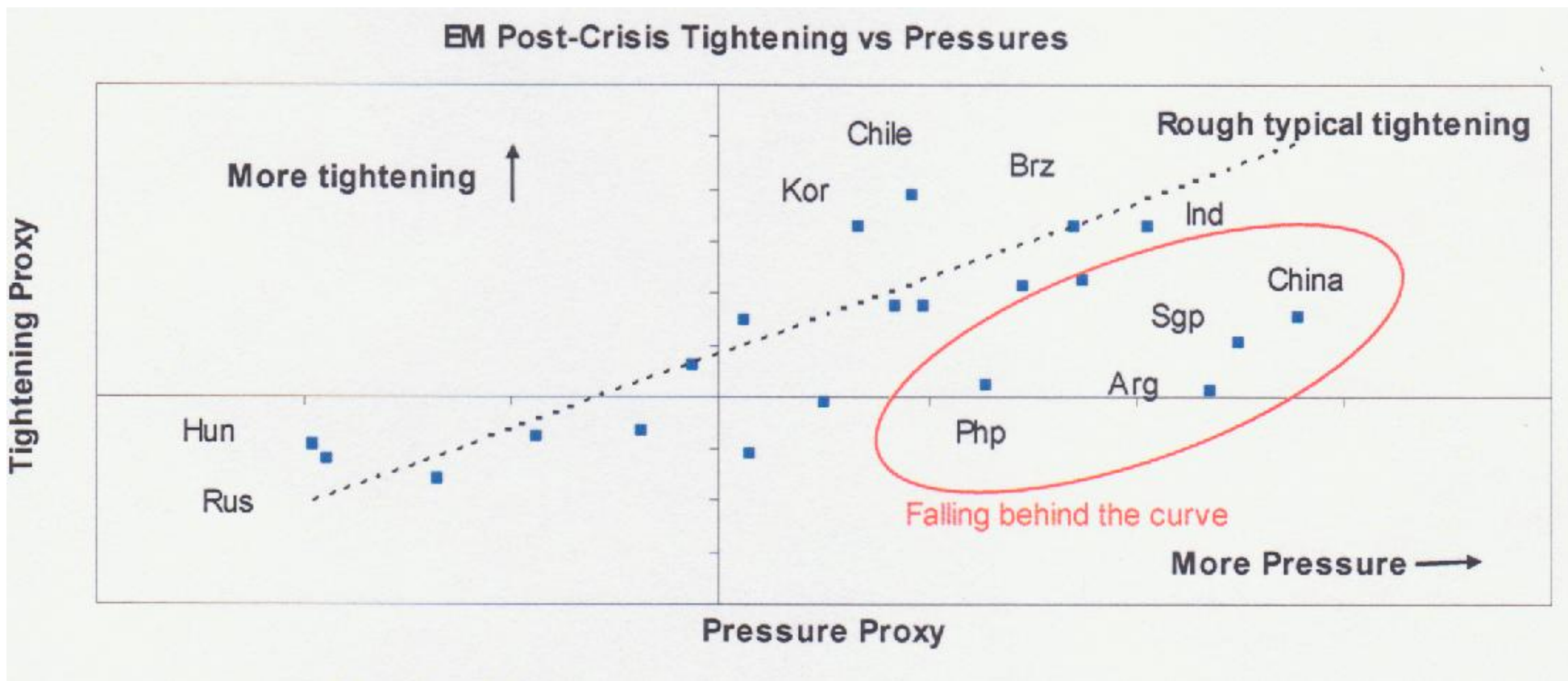
The risk measurements in the spreadsheet are based on information collected from governmental economic reports from the World Bank, IMF and other well recognized organizations. The statistics are then converted into z-scores for comparison purposes and sorted to indicate the level of risk.

General Government Net Financial Liabilities (% of GDP)



Note: Net debt measures are not always comparable across countries due to different definitions or treatment of debt (and asset) components. First, the treatment of government liabilities with respect to their employee pension plans may be different. Second, the range of items included as general government assets differs across countries. *Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards

Some Governments Falling Behind The Curve On Rate Tightening



Emerging Market Monetary Tightening

Change in Monetary Policy Measures Since 5/31/09				
	Policy Rate Change	Real Short Rate Change	Real FX Change (since May-09)	Other Significant Tightening Measures
Tightening				
Brazil	+1.00%	+1.73%	+9.61%	Capital controls
Chile	+2.00%	+2.65%	+14.11%	
Korea	+0.75%	+0.16%	+11.27%	Capital controls, mortgage-related tightening
India	+1.75%	+2.36%	+7.68%	Capital controls
Modest tightening				
China	+0.89%	-1.12%	-2.92%	RRR hikes, capital controls, domestic credit restrictions
Peru	+2.00%	-0.30%	+1.66%	
Malaysia	+0.75%	+0.33%	+7.52%	
Singapore	-0.06%	-1.41%	+4.48%	Mortgage-related tightening
Thailand	+1.00%	+0.08%	+5.73%	Capital controls
Taiwan	+0.38%	-1.09%	+5.57%	Capital controls, mortgage-related tightening
Neutral				
Argentina	+1.69%	-7.29%	+13.27%	
Mexico	-0.75%	-0.22%	+10.13%	
Czech Republic	-0.75%	-1.13%	-0.36%	
Poland	+0.25%	-0.48%	+9.24%	
Turkey	-0.91%	-1.94%	-1.85%	RRR hikes in conjunction with lower policy rate
South Africa	-2.95%	-1.45%	+9.96%	
Hong Kong	+0.00%	-2.29%	-4.46%	
Philippines	-0.25%	-0.52%	+3.25%	
Easing				
Colombia	-2.00%	-1.84%	+6.80%	
Hungary	-1.00%	-0.19%	+0.62%	
Russia	-2.25%	-5.11%	+4.03%	

Risks to Monitor in 2011

