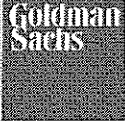


Investment Strategy Group

The Outlook for the Global Economy and Financial Markets

February 2009

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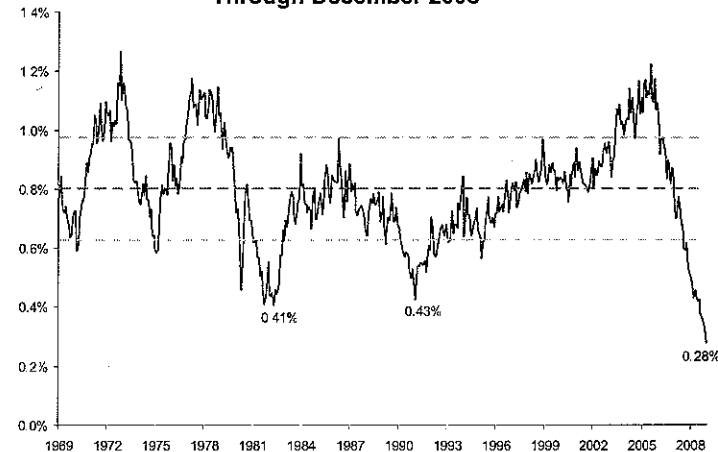
The Positives

3. Tentative Signs of Stabilization in the Housing Market have Emerged...

1. Current vs. Previous Cycles in New Home Sales
Seasonally Adjusted Annualized Rate (in Thousands)

Peak Date	Trough Date	New Home Sales Cycle			
		Peak Units	Trough Units	Duration Months	% Decline
Nov-65	Feb-70	616	373	52	-39%
Oct-72	Jan-75	843	416	27	-51%
Oct-78	Apr-82	872	339	43	-61%
Mar-86	Jan-91	880	401	59	-54%
Dec-93	Feb-95	812	559	14	-31%
Average		805	418	39	-47%
Standard Deviation		109	84	18	12%
Jul-05	Dec-08	1,389	331	43	-76%

2. New Home Sales Replacement Rate Through December 2008



- The current housing correction has now exceeded the maximum percent decline of the previous cycles (76% vs. 47%) and has lasted longer than the typical cycle (43 months vs. 39 months), suggesting that the current cycle is in an advanced stage.
- While there is no dispute that housing fundamentals remained challenged, it is encouraging that some positive signs have emerged.
- For example, new home sales adjusted for the size of the population are at 50-year lows. Similarly, existing home sales seem to have stabilized at around 5 million per month, a level they have held for over a year, despite a material worsening in the economic landscape.
- These tentative signs of stabilization are supported by falling home prices and lower mortgage rates. In fact, a national measure of housing affordability reveals that affordability is at its highest level on record.

Source: Investment Strategy Group, Datastream

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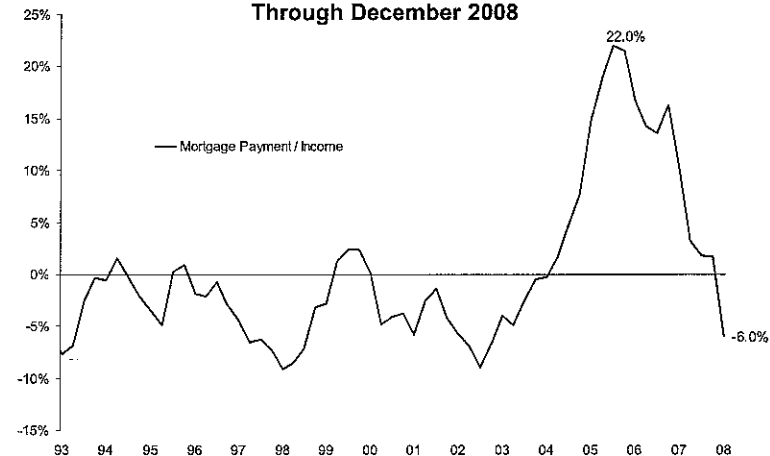
The Positives

3. ...And the Housing Cycle Appears to be in an Advanced Stage

1. Estimated Timing of the Trough in Home Prices Based on Historical Cycles As of December 2008

Average Number of Months:	To the Trough in Home Prices	Implied Timing of Trough in Home Prices in Current Cycle
From the Trough in Home Sales	5 - 17 months	Q2 09 - 2H 10
From the Peak in OFHEO Home Price Index	23 months	Q1 09
From the Peak in Case-Shiller Home Price Index	44 months	Q1 10
Average	22	Late 2009

2. Income-Based Home Price Valuation Measures (% Deviation from Long-Term Average Valuation) Through December 2008



- Does this mean that the housing market has reached bottom? Based on the analysis of several housing cycles since 1970, it appears that the housing market downturn has longer to go:
 - Home sales took an average of 50 months from peak to bottom during the last two cycles, which suggests that the bottom in sales will arrive in mid 2009.
 - The duration of previous corrections in home prices suggests that the earliest prices will bottom is in the first quarter of 2009, but may not bottom until late in 2010. (Exhibit 1)
- Even allowing for the fact that this cycle may be longer, history would still suggest we are well past the half-way mark. This fact is supported by examining mortgage payment affordability relative to income. As the chart above highlights, the excesses from the housing bubble have largely been expunged, at least judging from this metric, with valuations now at fair value. Of course, an overshoot would certainly be consistent with previous housing troughs. (Exhibit 2)

Source: Investment Strategy Group, Datastream

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