

Prospects For 2010 and Beyond

Financial Conditions and Economic Recovery

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Citi Investment Research and Analysis
December 2009

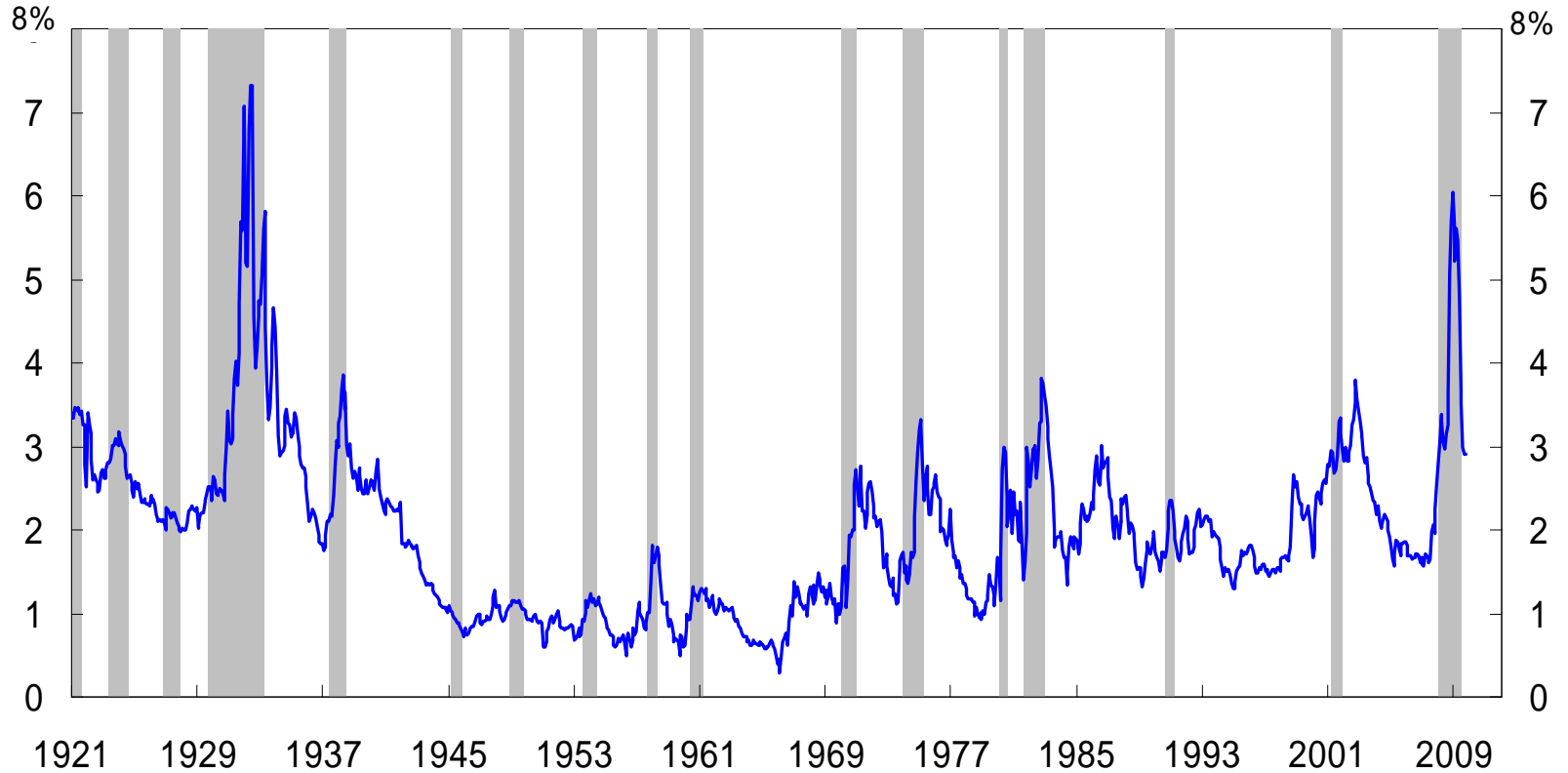
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Certification and Other Disclosures

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The Credit Crisis in Historical Perspective

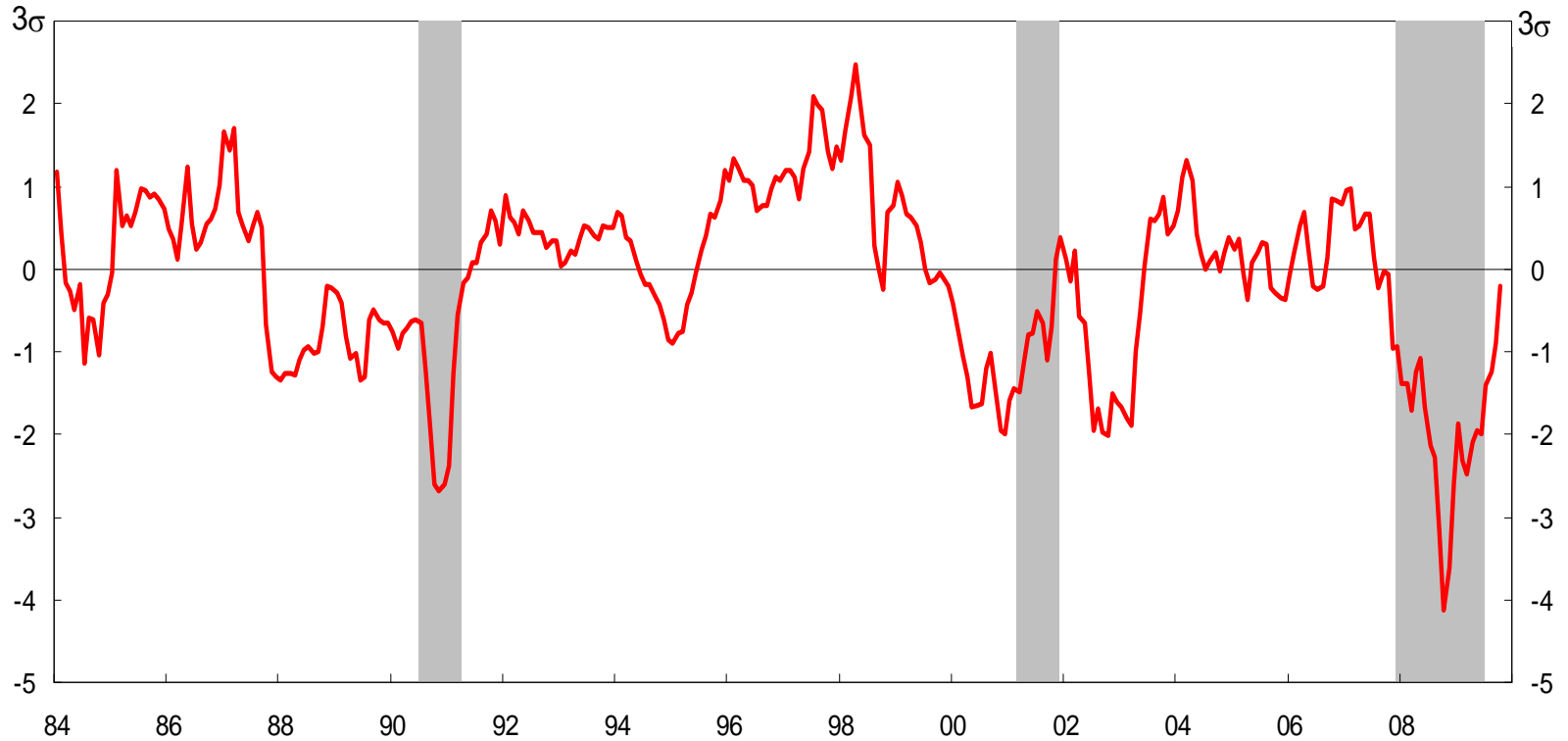
Moody's Baa Credit Yield Spread to 10-Year Treasury, 1921-Oct 09



Note: Shaded regions denote NBER recessions. Sources: Moody's and Federal Reserve Board.

The Citi Financial Conditions Index

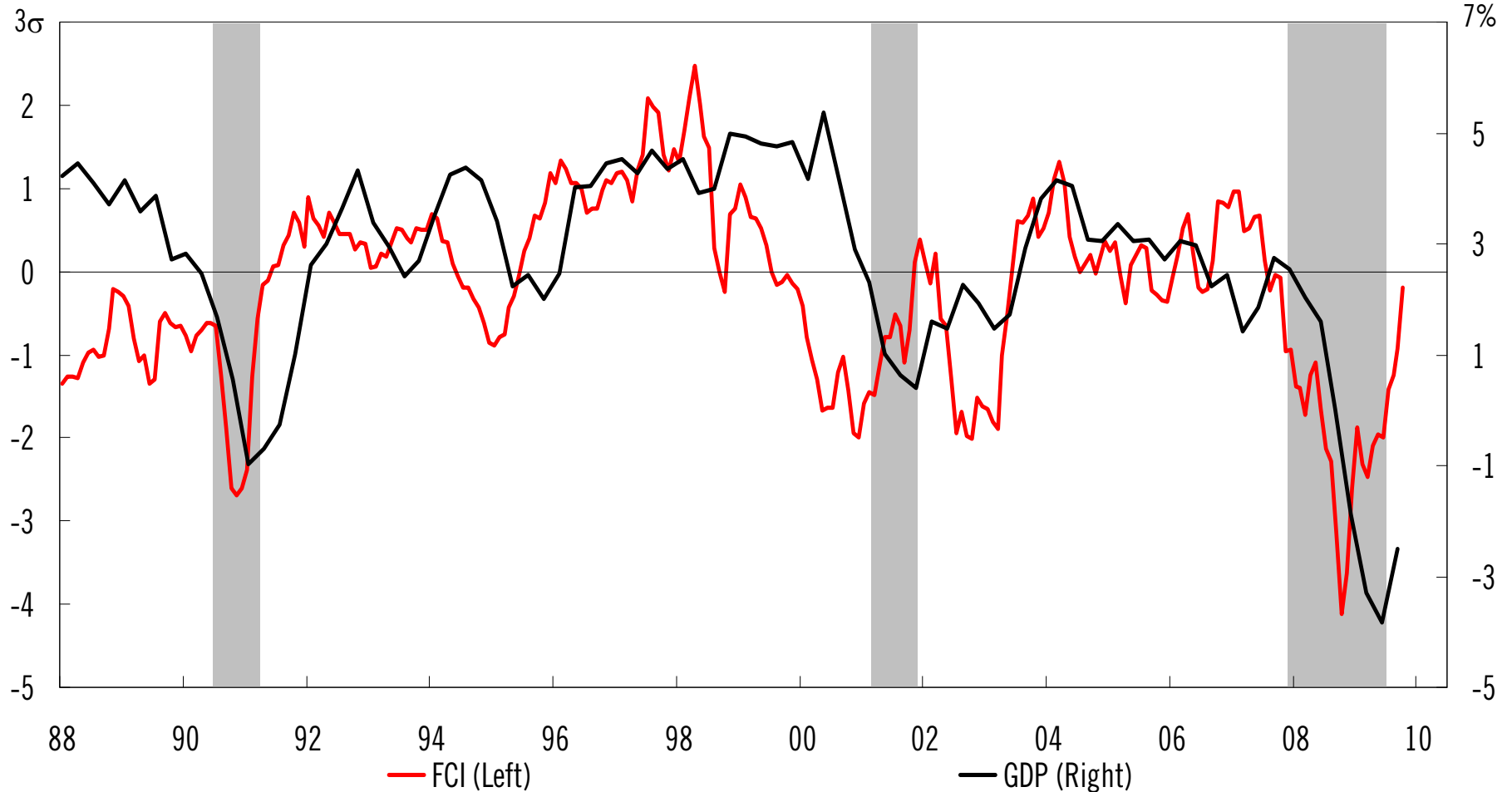
The Citi Financial Conditions Index (Standard Deviations), 1984-Oct 09



Note: Shaded regions denote recessions.
Source: Citi Investment Research and Analysis.

Policy Efforts Finally Lift Financial Conditions

Citi Financial Conditions Index and Real GDP, 1988-Oct 09

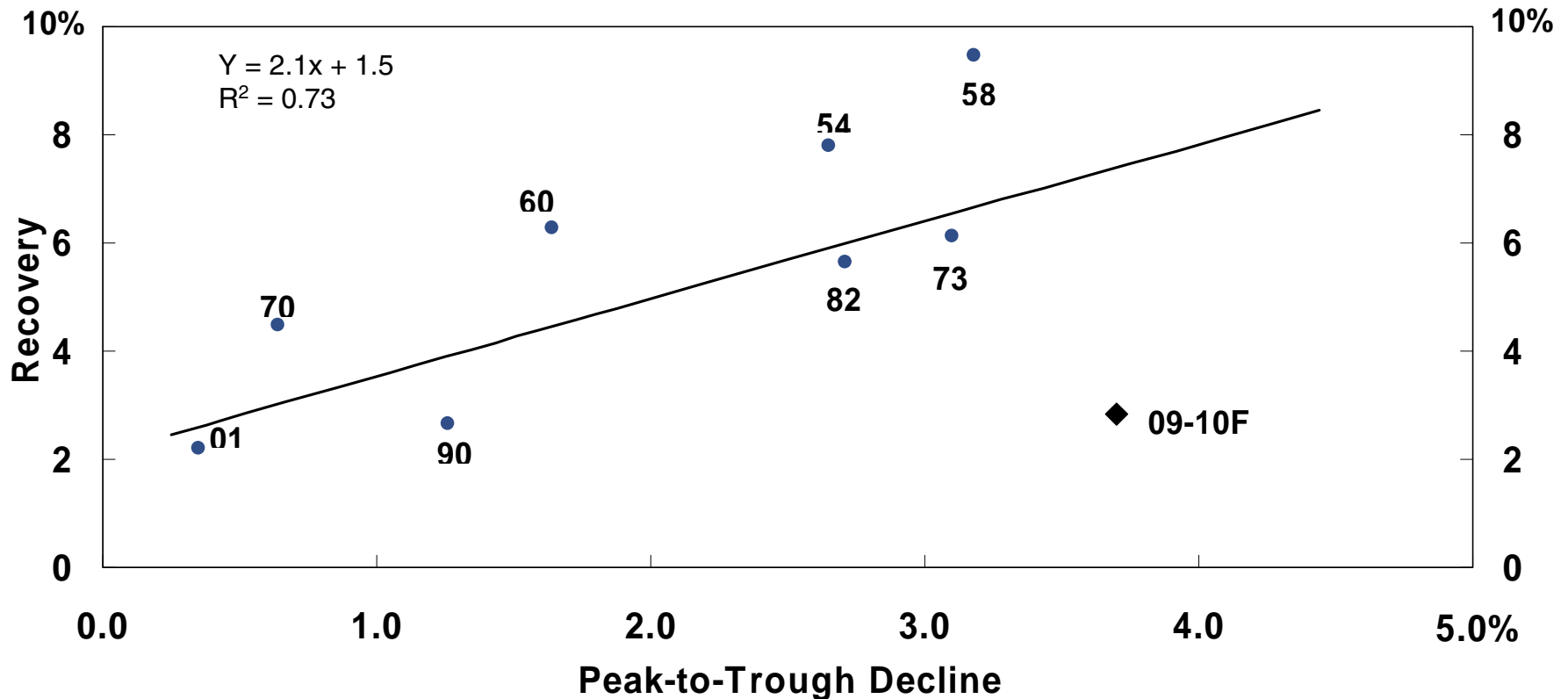


Note: Real GDP in figure is the year-to-year percent change. Citi Financial Conditions Index is in standard deviations.

Sources: Bureau of Economic Analysis and Citi Investment Research and Analysis.

Crisis Aftermath May Impede Typical Recovery From Deep Recession

Peak-to-Trough Decline in Real GDP (Percent)
During Recessions Versus Subsequent One-Year Recovery (Percent)



The Importance of Wealth For Savings Rate

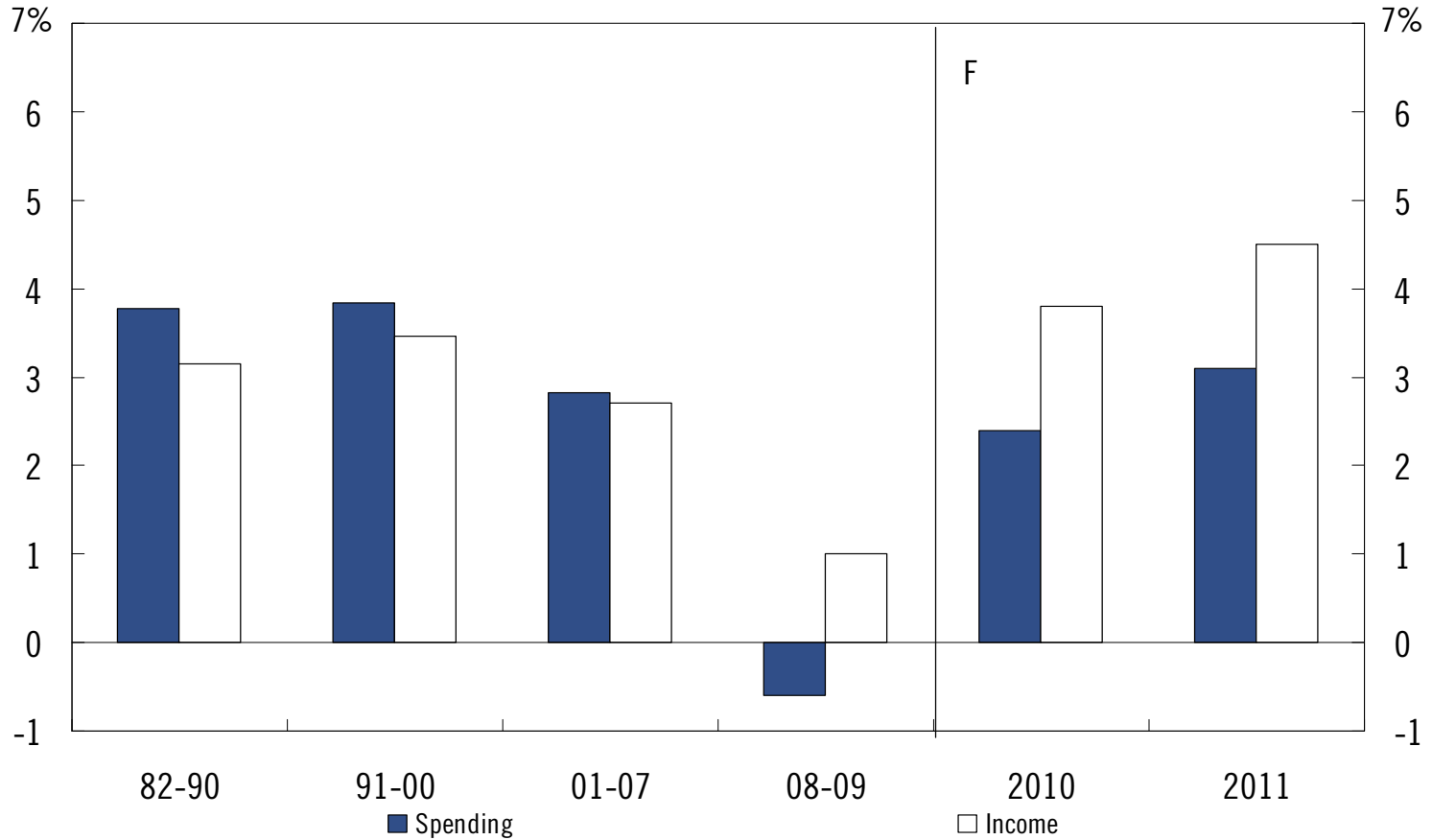
Personal Savings Rate (Percent) and Net Worth as a Percent of Disposable Income, 1960-3Q 09E



Sources: Bureau of Economic Analysis and Citi Investment Research and Analysis.

Overspending Gives Way to Saving and Deleveraging

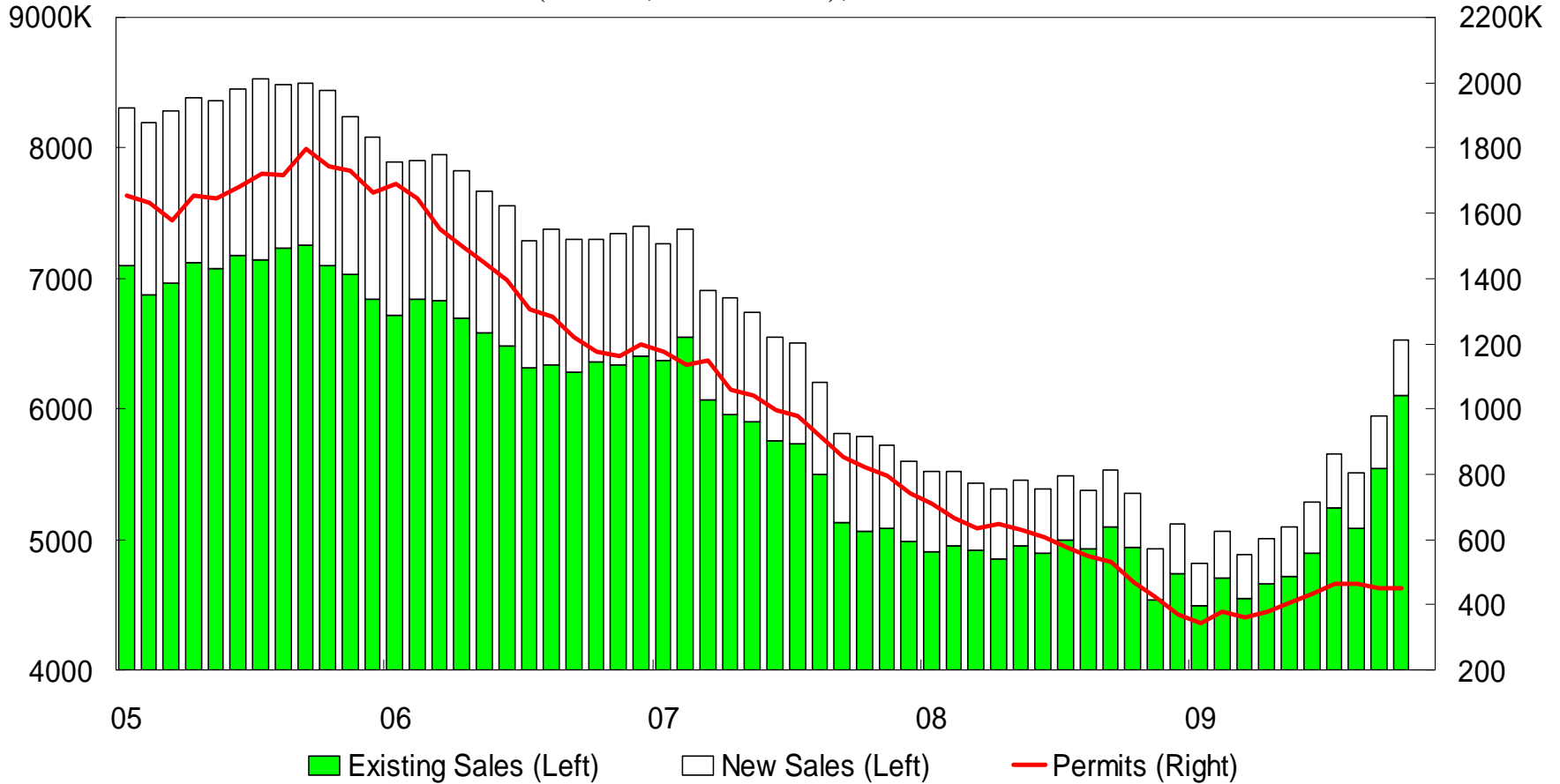
Average Change in Real Personal Consumption and Income



Sources: Bureau of Economic Analysis and Citi Investment Research and Analysis.

Green Shoots in Housing Markets

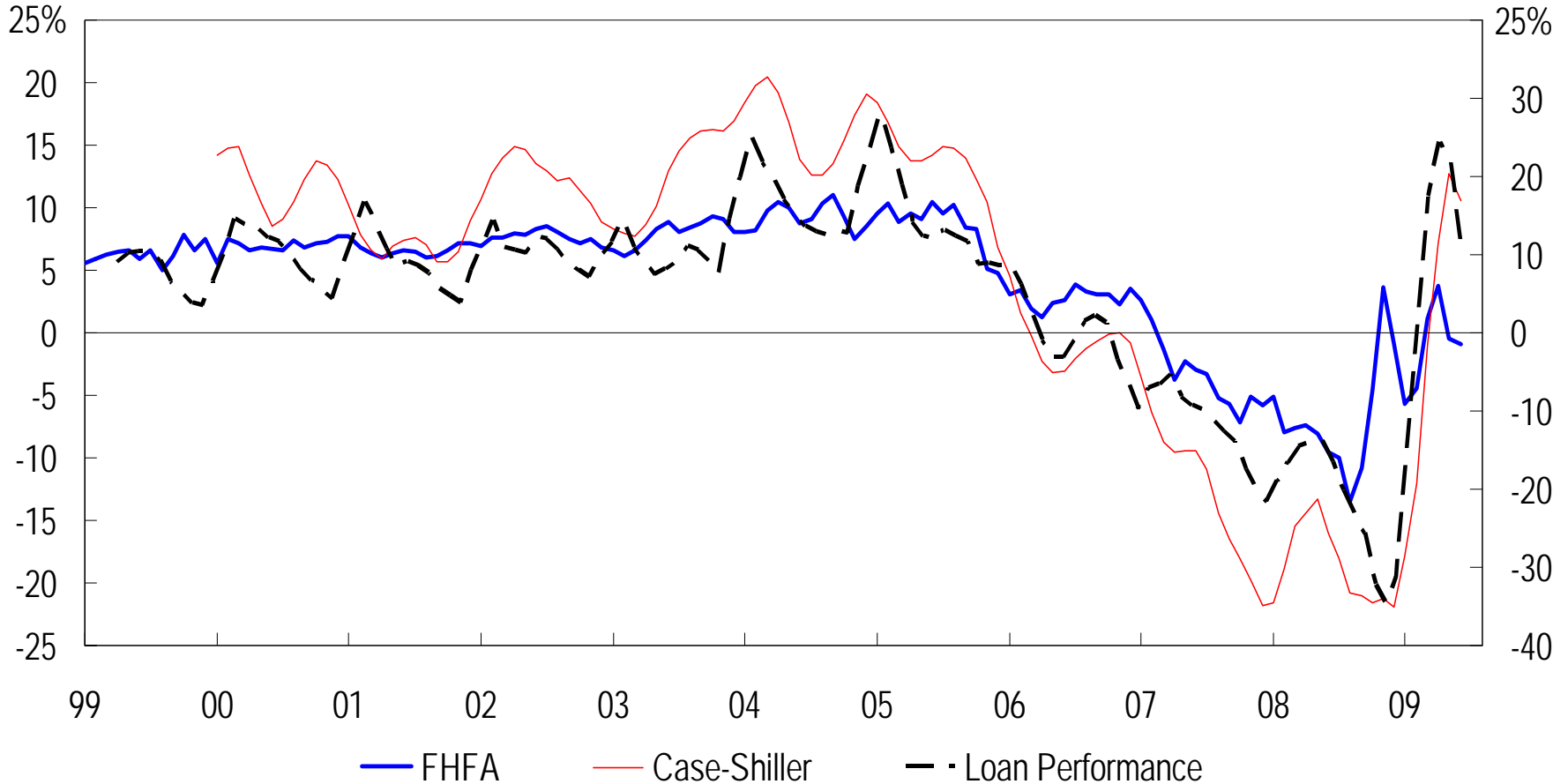
Existing Home Sales, New Home Sales and Building Permits
(SAAR, Thousands), 2005-Oct 09



Sources: National Association of Realtors and Census Bureau.

Declines in Home Prices Are Moderating

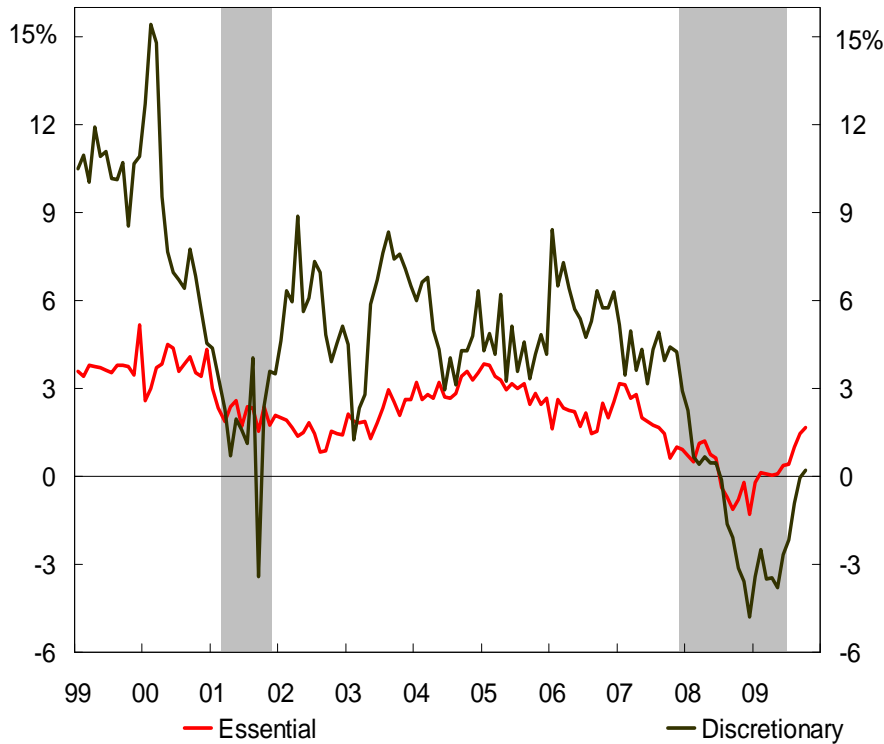
Selected House Price Indexes (Three-Month Annualized Percent Change), 2000-Sep 09



Sources: Federal Housing Finance Administration, S&P, Fiserv, MacroMarkets LLC and Loan Performance.

Encouraging Signs For Sustained Recovery

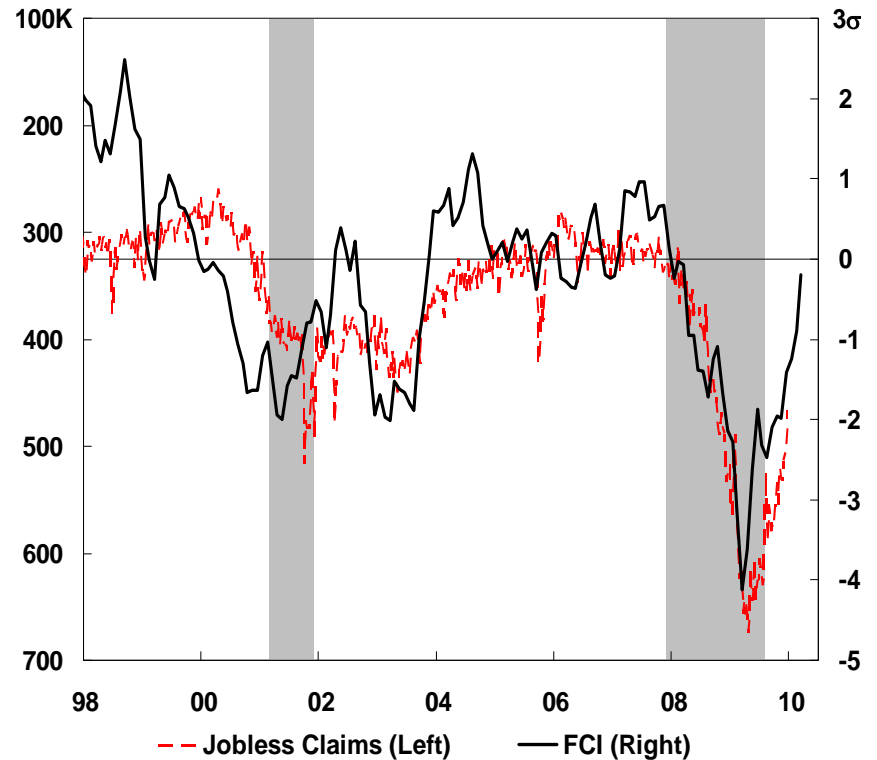
Essential and Discretionary Spending Ex-Autos in PCE (Six-Month Smoothed Annualized Percent Change), 1999-Oct 09



Note: Shaded regions denote recessions.

Sources: Bureau of Economic Analysis and Citi Investment Research and Analysis.

Weekly Jobless Claims (Thousands, Inverted) and Citi Financial Conditions Index (Standard Deviations, Five-Month Lag), 1998-21 Nov 09

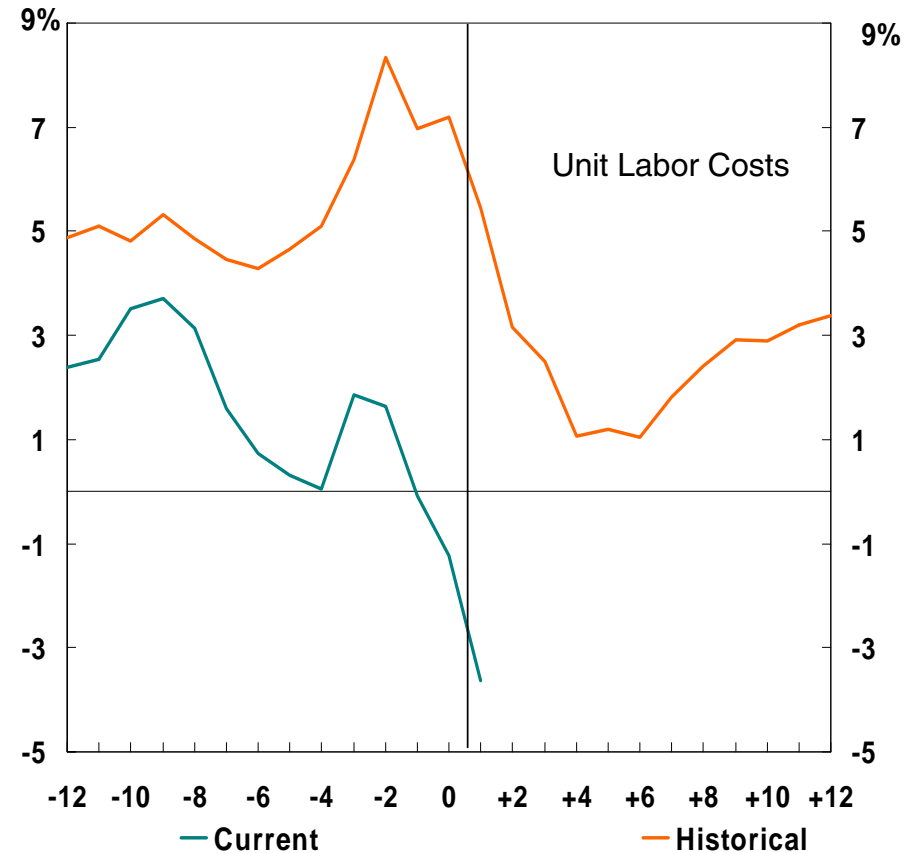
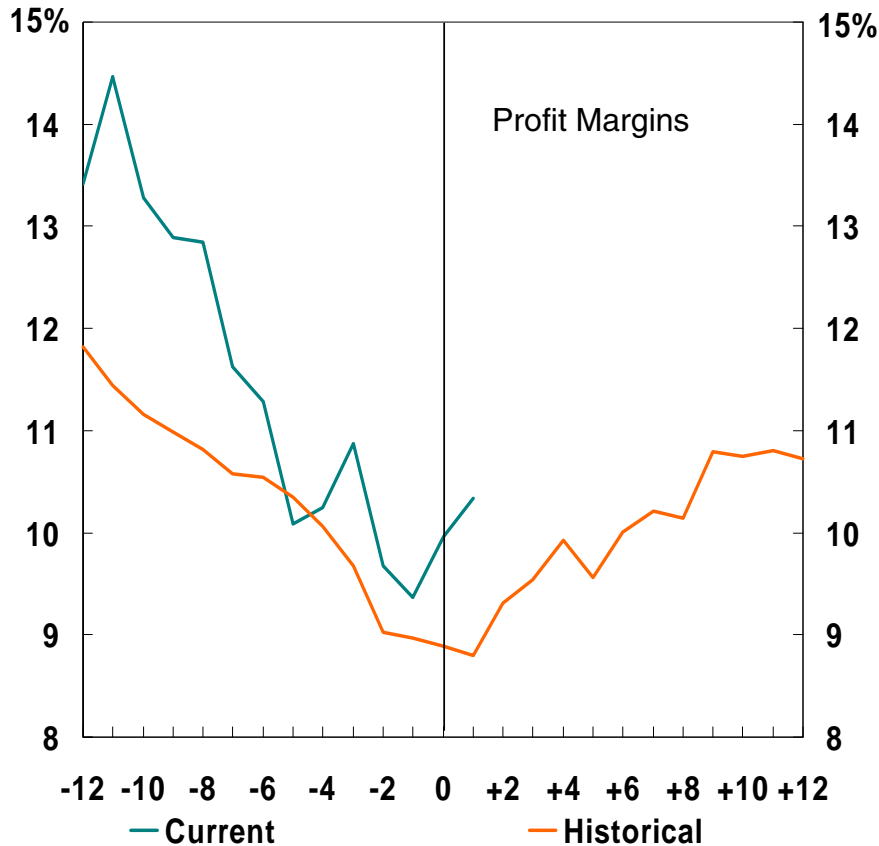


Note: Shaded regions denote recessions.

Source: Department of Labor and Citi Investment Research and Analysis.

The Corporate Sector is Outperforming Cyclical Norms

Profit Margins and Unit Labor Cost in Current and Past Recessions

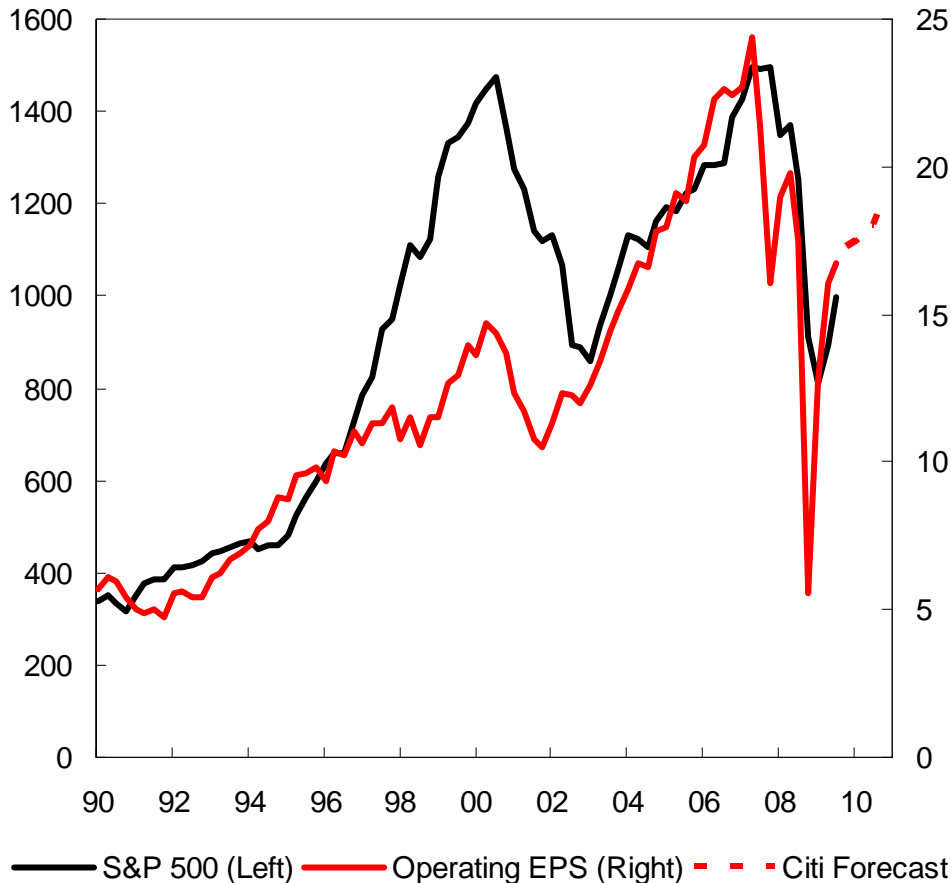


Note: Past recessions include 1971, 1981, 1990 and 2001.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics and Citi Investment Research and Analysis.

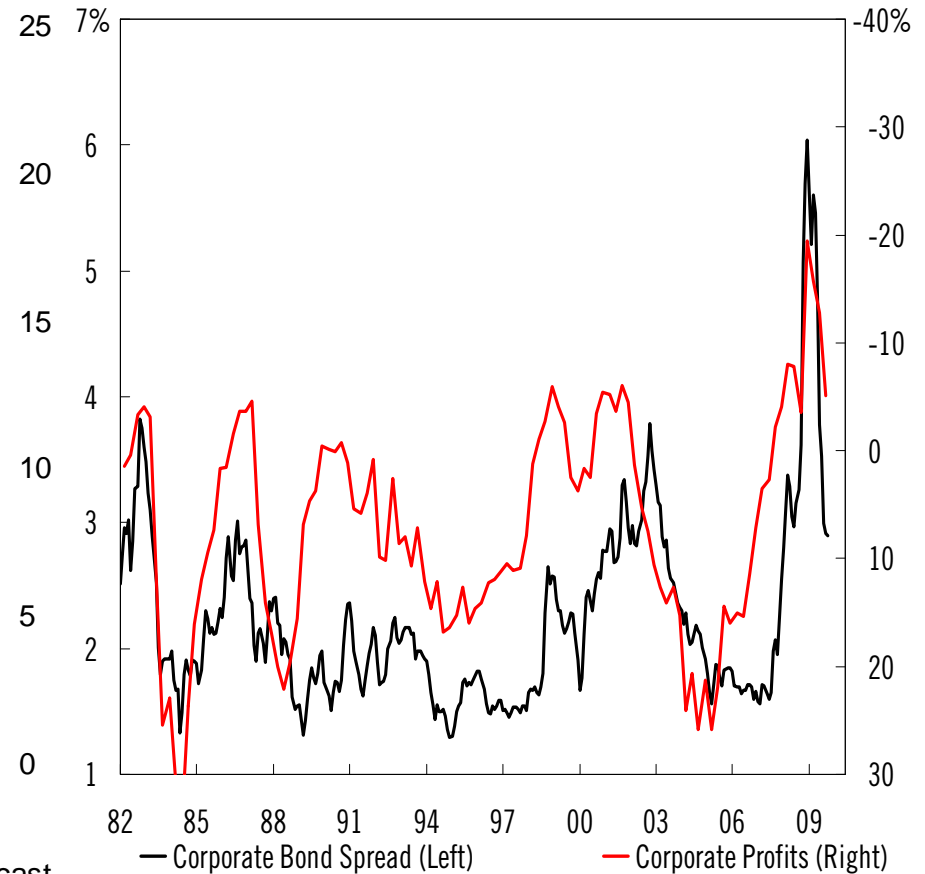
Profits Have Validated Improvements in Financial Conditions

S&P 500 and Operating EPS, 1990-Oct 10F



Sources: S&P 500 and Citi Investment Research and Analysis.

Spread of Baa Corporate Bonds to 10-Year Treasuries and Corporate Profits, 1982-Oct 09

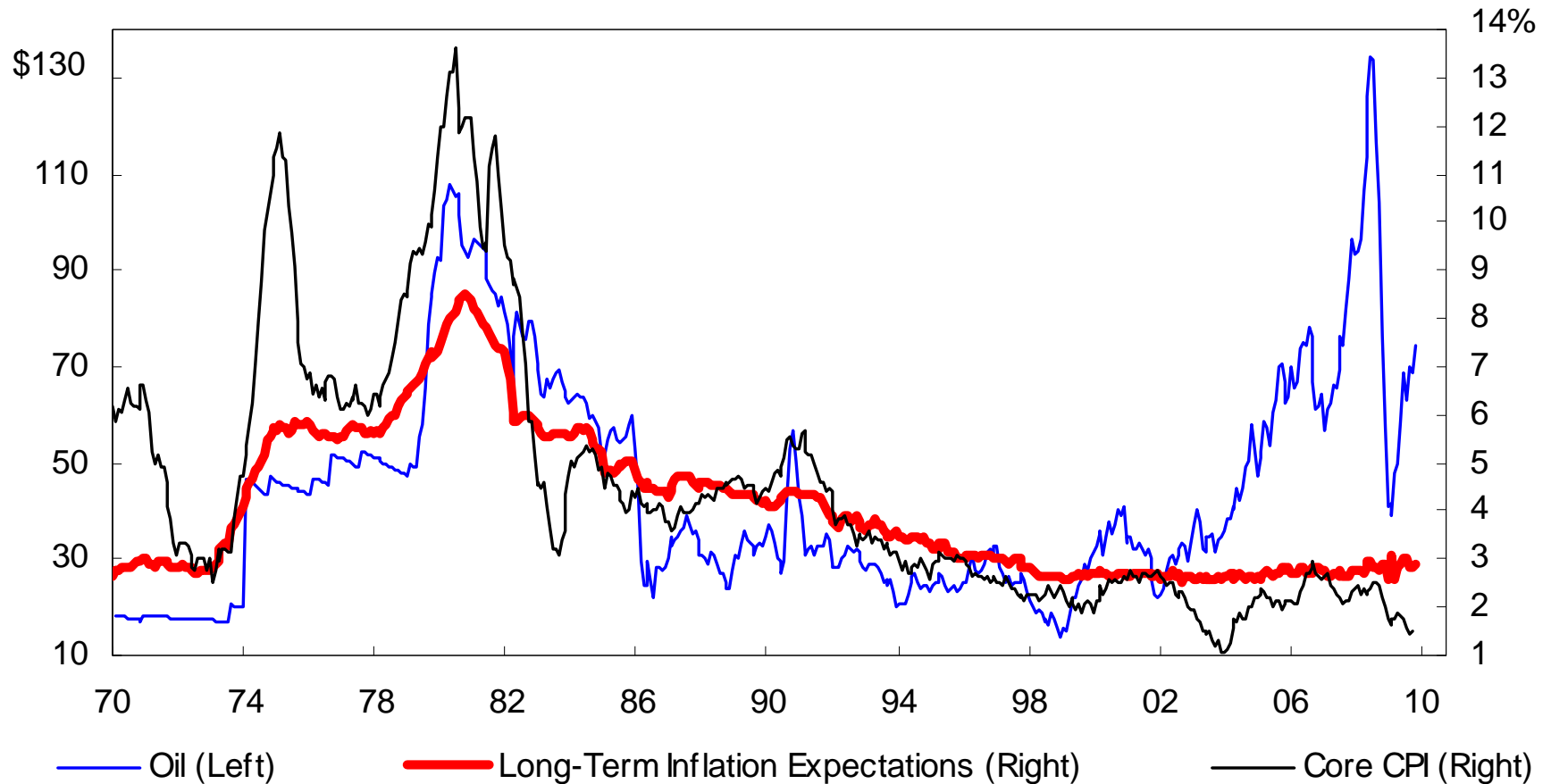


Note: Corporate profits are six-month smoothed annualized percent changes.

Sources: Federal Reserve Board and Bureau of Economic Analysis.

Will Inflation Expectations Remain Anchored?

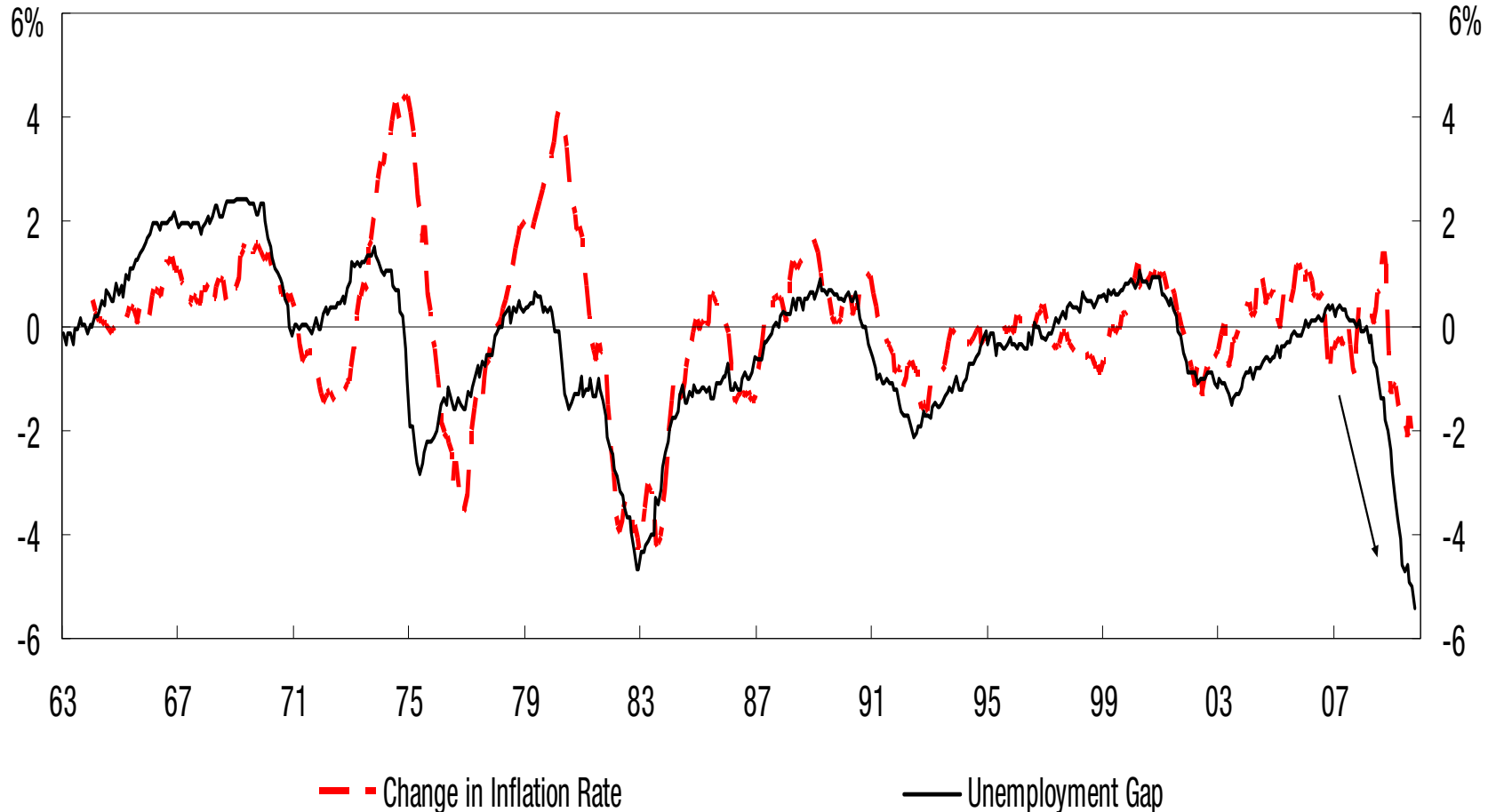
Inflation-Adjusted WTI Oil (\$ per barrel), Core CPI and Long-Term Inflation Expectations, 1970-Oct 09



Sources: *Wall Street Journal*, Federal Reserve Board of Philadelphia, University of Michigan, Bureau of Labor Statistics, and Citi.

Rising Economic Slack Undermining Pricing Power Across the Board

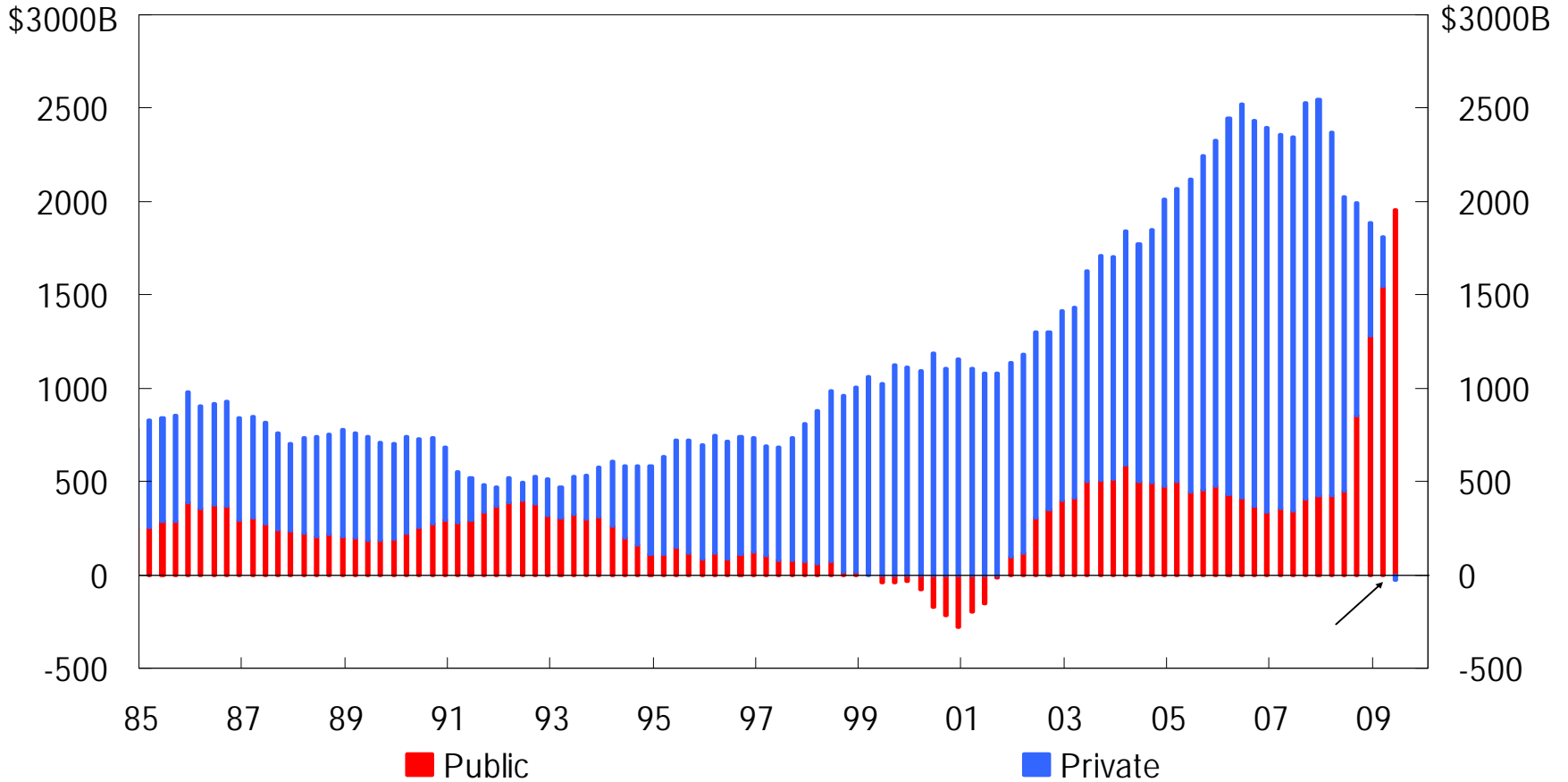
The Gap Between NAIRU and Jobless Rate vs. Yr-to-Yr Diff in Two-Yr Inflation Rate, 1963 – Oct 09



Note: NAIRU is the non-accelerating inflation rate of employment. Source: Bureau of Labor Statistics and Congressional Budget Office.

Treasury Has No Competition ... For Now

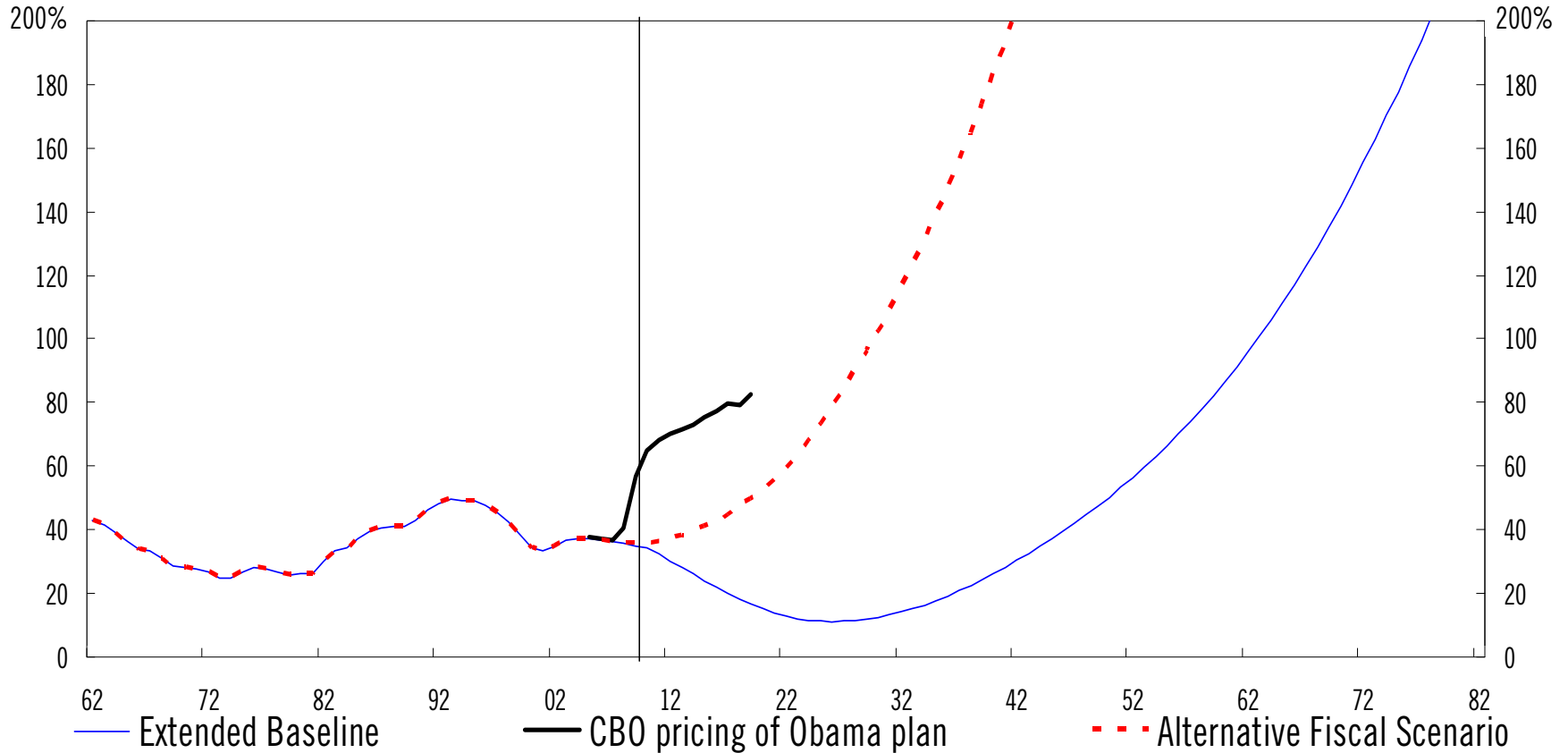
Yr-to-Yr Chg in Domestic Nonfinancial Debt, 1984-2Q 09 (Dollars in Billions)



Source: Federal Reserve Board.

Unsustainable Fiscal Path Predates Recession and Bailouts

Public Debt/GDP Under CBO's Long-Term Budget Scenarios and Pricing of President Obama's Plan, 1962-2082F



Source: Congressional Budget Office.

Disclosure Appendix

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