

# Michigan Association of County Treasurers

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The macro is fragile, while the micro remains healthy

presented by

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## US & michigan business balance sheet

Entries Might Include:

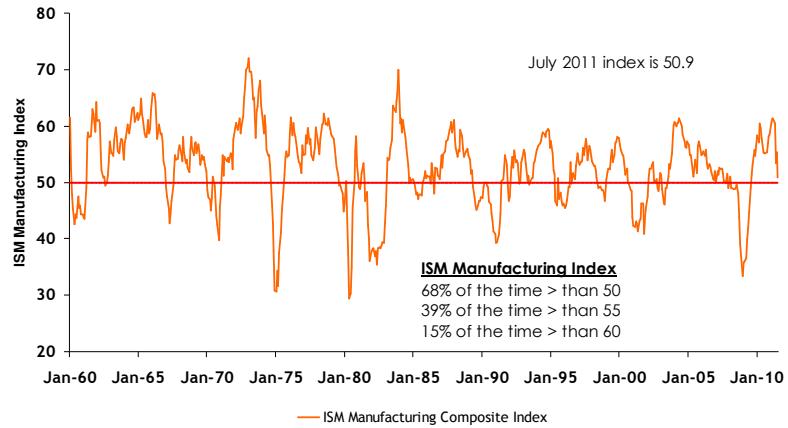
Assets	Neutral	Liabilities
<ul style="list-style-type: none"> <li>• Low interest rates</li> <li>• Steep yield curve</li> <li>• Cyclical Recovery –Capital spending improving</li> <li>• Corporate Profits and Cash Flow</li> </ul>	<ul style="list-style-type: none"> <li>• Employment</li> </ul>	<ul style="list-style-type: none"> <li>• Federal spending &amp; budget</li> <li>• Oil</li> <li>• Housing</li> <li>• European debt</li> <li>• Probability of recession has risen from 15% to 33%</li> </ul>

Source: Bloomberg, Loomis Sayles.

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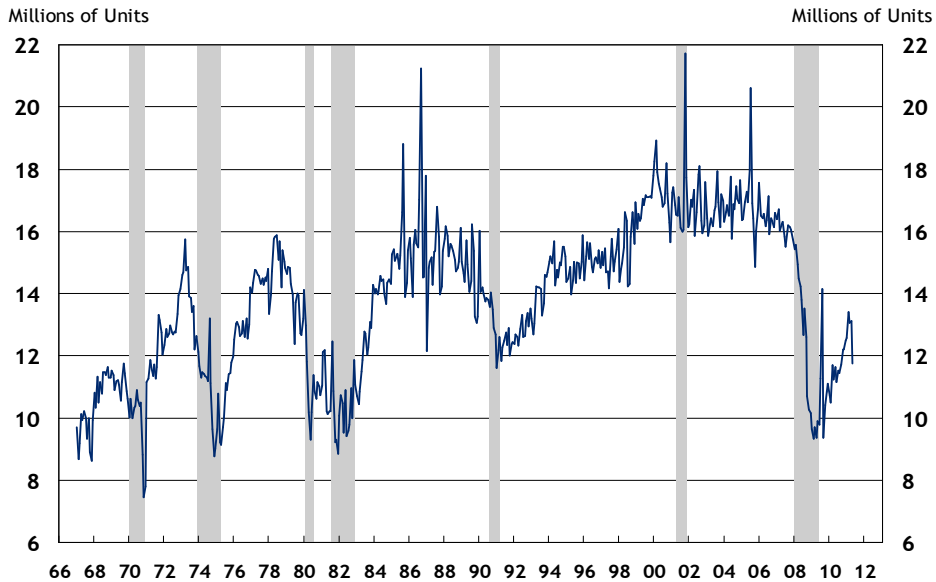
## ism manufacturing composite index typically a reliable business measure



Source: Institute for Supply Management, Bloomberg. Data is updated through 7/31/2011.

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## LIGHT VEHICLE SALES

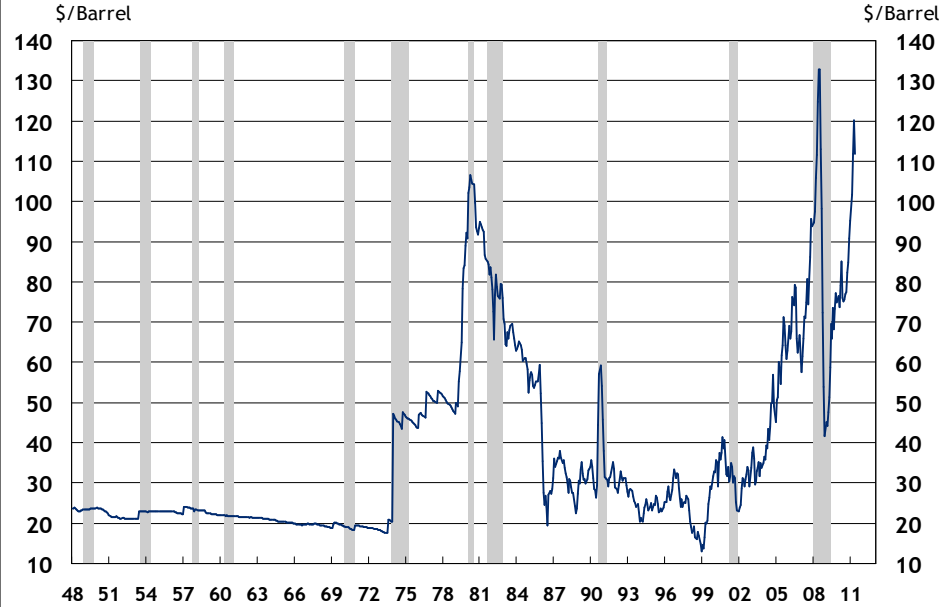


Seasonally Adjusted Annual Rates; Monthly Data; Log Scale; Shaded Areas Denote NBER-Designated Recessions  
 Source: Commerce Department; History Through June 2011; Data Excludes Sales of Imported Light Trucks Data Prior to 1976

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## REAL OIL PRICE



Prior to '85 West Texas Intermediate Spot Prices, '85 to Present Brent Crude ; Uses CPI To Convert To Dollars; Monthly Data; Shaded Areas Denote NBER-Designated Recessions  
Source: U.S. Labor Department; Wall Street Journal; History Through May-2011

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## michigan vs USA scorecard

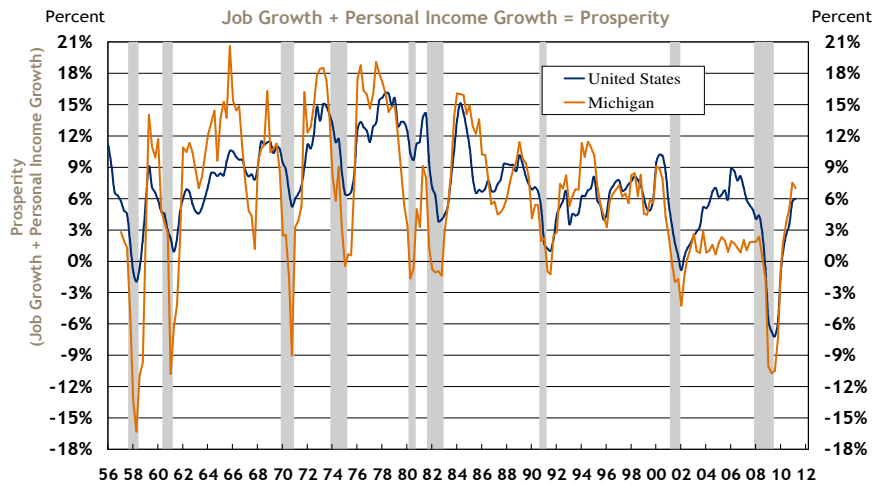
	MICHIGAN/DETROIT	USA
ISM Manufacturing Index <i>(as of June 2011)</i>	61.0	55.3
Stock Prices Appreciation <i>(as of June 2011)</i>	+5%	+4%
Corporate Profits 2 <sup>nd</sup> Quarter 2011, Yr/Yr % change	+16%	+14%
Employment <i>(from May 2010 to May 2011)</i>	-1.5%	-0.4%
Case-Shiller Home Prices <i>(% change from March 2010 to April 2011)</i>	-7.5%	-4.0%
Unemployment Rate <i>(as of May 2011)</i>	10.3%	9.1%

Source: Bloomberg, Institute for Supply Management, Case Shiller, Bureau of Labor Statistics, Michigan Senate Fiscal Agency.

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## prosperity index: michigan vs US

- Average prosperity spread (1971-1992): -0.87% (Michigan trails)
- Average prosperity spread (1993-1999): +0.77% (Michigan exceeds)
- Average prosperity spread (2000-2009): -3.43% (Michigan trails)



Source: Bureau of Labor Statistics; history estimated through 2Q2011. Seasonally adjusted quarterly data, shaded areas denote NBER-designated recessions. Prosperity is job growth plus personal income growth (year over year growth rates)

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## prosperity index: michigan vs US

### US PROSPERITY vs. MICHIGAN PROSPERITY<sup>1</sup>

	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011 <sup>2</sup>
U.S. Personal Income Growth (%)	4.27%	3.17%	0.86%	-2.55%	-2.91%	-3.11%	-1.79%	1.26%	1.70%	2.65%	2.90%	4.71%	5.00%
U.S. Jobs Growth (%)	0.09%	-0.48%	-1.54%	-3.19%	-3.82%	-4.06%	-4.02%	-2.09%	-0.80%	-0.10%	0.62%	1.02%	1.00%
U.S. Prosperity (%)	4.36%	2.70%	-0.68%	-5.74%	-6.73%	-7.17%	-5.81%	-0.83%	0.90%	2.55%	3.52%	5.73%	6.00%
MI Personal Income Growth (%)	4.45%	3.01%	2.14%	-3.28%	-3.20%	-3.01%	-1.71%	2.01%	2.47%	3.59%	4.00%	5.39%	5.00%
MI Jobs Growth (%)	-2.10%	-2.61%	-3.84%	-6.80%	-7.49%	-7.47%	-5.64%	-2.66%	-0.60%	0.16%	1.00%	2.13%	2.00%
MI Prosperity (%)	2.35%	0.41%	-1.69%	-10.08%	-10.69%	-10.48%	-7.35%	-0.64%	1.87%	3.75%	5.00%	7.52%	7.00%
<b>Prosperity spread: Michigan less US (%)</b>	<b>-2.01%</b>	<b>-2.29%</b>	<b>-1.01%</b>	<b>-4.34%</b>	<b>-3.96%</b>	<b>-3.30%</b>	<b>-1.54%</b>	<b>+0.19%</b>	<b>+0.97%</b>	<b>+1.20%</b>	<b>+1.48%</b>	<b>+1.79%</b>	<b>+1.00%</b>

<sup>1</sup> Prosperity is job growth plus personal income growth (year/year growth rates)

<sup>2</sup> Estimate

Source: Bureau of Labor Statistics; history through Q2-2011, seasonally adjusted, quarterly data

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# main themes to watch for in michigan

## Our View

- Michigan business conditions have been steadily improving. As of May 2011, the state has recovered about 1/3 of its original recession decline.
- The cyclical economic recovery for Michigan's private sector should continue to outpace the U.S. through 2012, as measured by job and income growth.
- The cyclical economic recovery will not be enough to return to peak 2000/2001 levels.
- Strong factors that will likely contribute to Michigan's structural improvement are:
  - State's natural resources
  - Attractive valuations (real estate)
  - Corporate income tax reform
  - Immigration expansion
  - Superior higher education offerings
  - Flat and low state personal income tax
  - Restructured motor vehicle industry

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# s&p 500 returns worst ten year periods . . . and the next five and ten year returns

S&P 500 Worst Ten Year Periods	10 Year Annual Compound Return	Next Five Years	Next 5 Year Annual Compound Return	Next Ten Years	Next 10 Year Annual Compound Return
Q2 1929 to Q2 1939	-3.65%	Q2 1939 to Q2 1944	10.25%	Q2 1939 to Q2 1949	8.62%
Q1 1999 to Q1 2009	-2.99%	Q1 2009 to Q1 2014	?	Q1 2009 to Q1 2019	?
Q1 1929 to Q1 1939	-2.79%	Q1 1939 to Q1 1944	8.38%	Q1 1939 to Q1 1949	9.12%
Q3 1929 to Q3 1939	-2.74%	Q3 1939 to Q3 1944	5.99%	Q3 1939 to Q3 1949	7.74%
Q1 1928 to Q1 1938	-2.54%	Q1 1938 to Q1 1943	13.03%	Q1 1938 to Q1 1948	11.76%
Q1 1930 to Q1 1940	-1.42%	Q1 1940 to Q1 1945	8.65%	Q1 1940 to Q1 1950	9.65%
Q2 1930 to Q2 1940	-1.42%	Q2 1940 to Q2 1945	15.14%	Q2 1940 to Q2 1950	12.19%
Q4 1928 to Q4 1938	-0.65%	Q4 1938 to Q4 1943	3.78%	Q4 1938 to Q4 1948	7.21%
Q3 1928 to Q3 1938	-0.10%	Q3 1938 to Q3 1943	5.97%	Q3 1938 to Q3 1948	8.12%
Q3 1930 to Q3 1940	0.18%	Q3 1940 to Q3 1945	15.29%	Q3 1940 to Q3 1950	12.57%
Q4 1927 to Q4 1937	0.20%	Q4 1937 to Q4 1942	4.61%	Q4 1937 to Q4 1947	9.61%
Q4 1929 to Q4 1939	0.23%	Q4 1939 to Q4 1944	7.67%	Q4 1939 to Q4 1949	9.09%
Q2 1928 to Q2 1938	0.44%	Q2 1938 to Q2 1943	7.60%	Q2 1938 to Q2 1948	9.52%
Q3 1964 to Q3 1974	0.49%	Q3 1974 to Q3 1979	16.86%	Q3 1974 to Q3 1984	15.58%
Q1 1931 to Q1 1941	0.71%	Q1 1941 to Q1 1946	19.22%	Q1 1941 to Q1 1951	14.47%
Q4 1964 to Q4 1974	1.24%	Q4 1974 to Q4 1979	14.82%	Q4 1974 to Q4 1984	14.76%
		<b>Average</b>	<b>10.48%</b>	<b>Average</b>	<b>10.67%</b>

Source: Ibbotson and Bloomberg

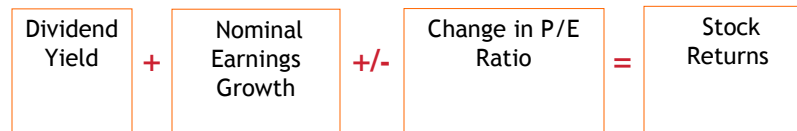
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## long-term stock returns

### I. Formula Driven:

1. Starting Dividend Yield on Stocks
2. Expected Growth Rate of Earnings, Dividends and Cash Flow
3. Expected Change (up or down) in Price/Earnings Ratio

### II. Example:



Source: Bloomberg, Loomis Sayles.

The example is provided for illustrative purposes only and is not meant to convey any prediction or expectation of performance for any investment product.

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## estimating future stock returns is not simple

### FACTORS THAT MATTER INCLUDE:

1. Mean Reversion of Long-Term Stock Returns
2. US Productivity
3. Inflation and Federal Reserve Monetary Policy
4. Government Tax, Spending and Regulatory Policy
5. Bond Yields and Assumptions on Equity Risk Premium
6. Corporate Capital Discipline and Free Cash Flow

Source: Loomis Sayles

Outlook as presented reflects subjective judgments and assumptions of the presenter as of August 2011, and unexpected events may occur. There can be no assurance that developments will transpire as stated. Opinions expressed will evolve as future events unfold.

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# factor influence on long-term stock returns

## I. Starting Point

## Stock Return Example

(Dividend Yield + Nominal Earnings Growth - change in P/E Ratio)

## II. Add/Subtract Factors

- |   |          |
|---|----------|
| 1. Mean Reversion of Long-Term Stock Prices | Positive |
| 2. US Productivity Growth                   | Positive |
| 3. Bond Yields & Equity Risk Premium        | Positive |
| 4. Corporate Capital Discipline             | Positive |
| 5. Government Tax & Regulatory Policy       | Negative |
| 6. Inflation Rates                          | Negative |

## III. Calculate Net Impact

Positive

Source: Bloomberg, Loomis Sayles.

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