

Assume crash position!

U.S. Economic and Market Outlook



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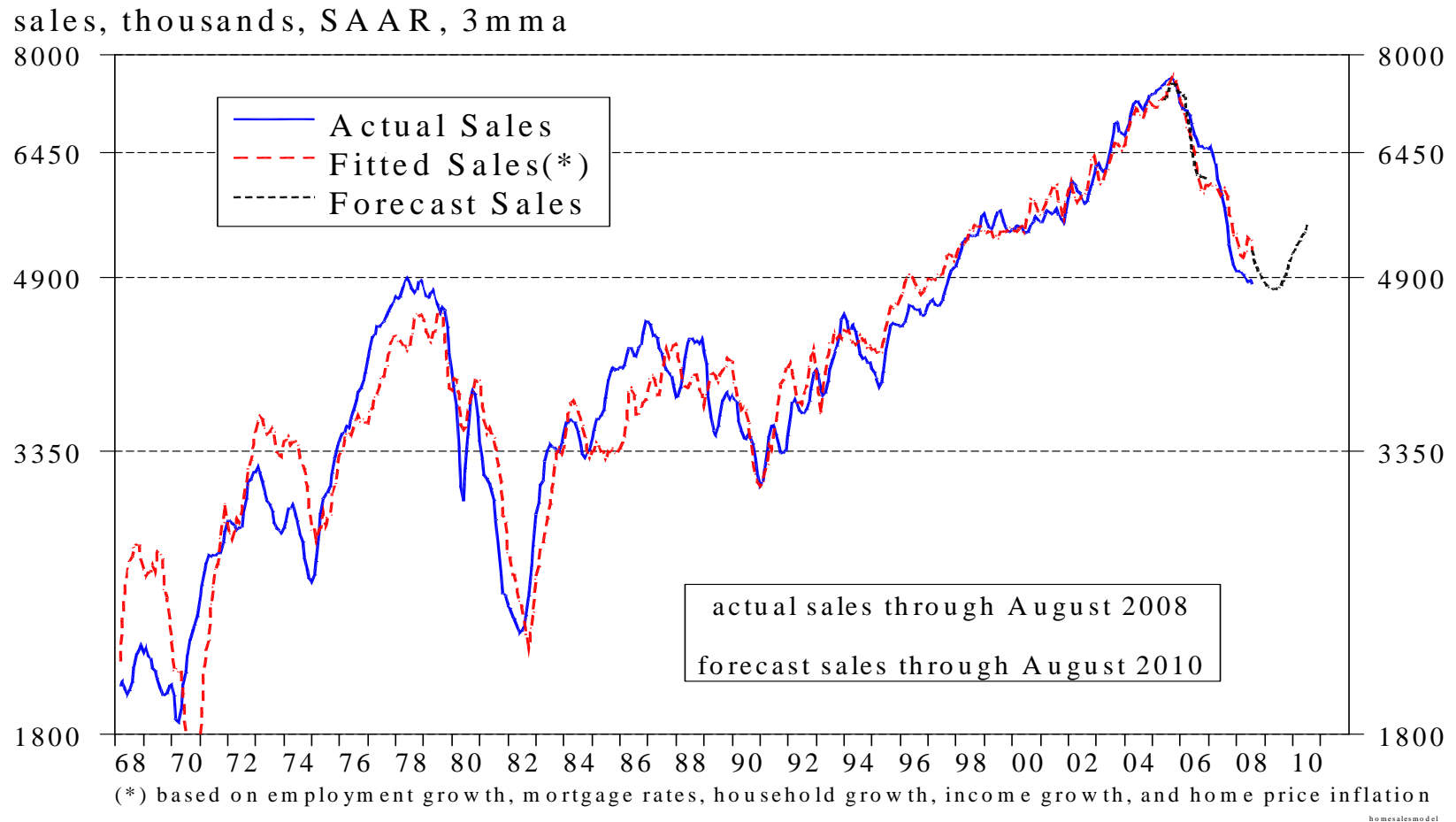
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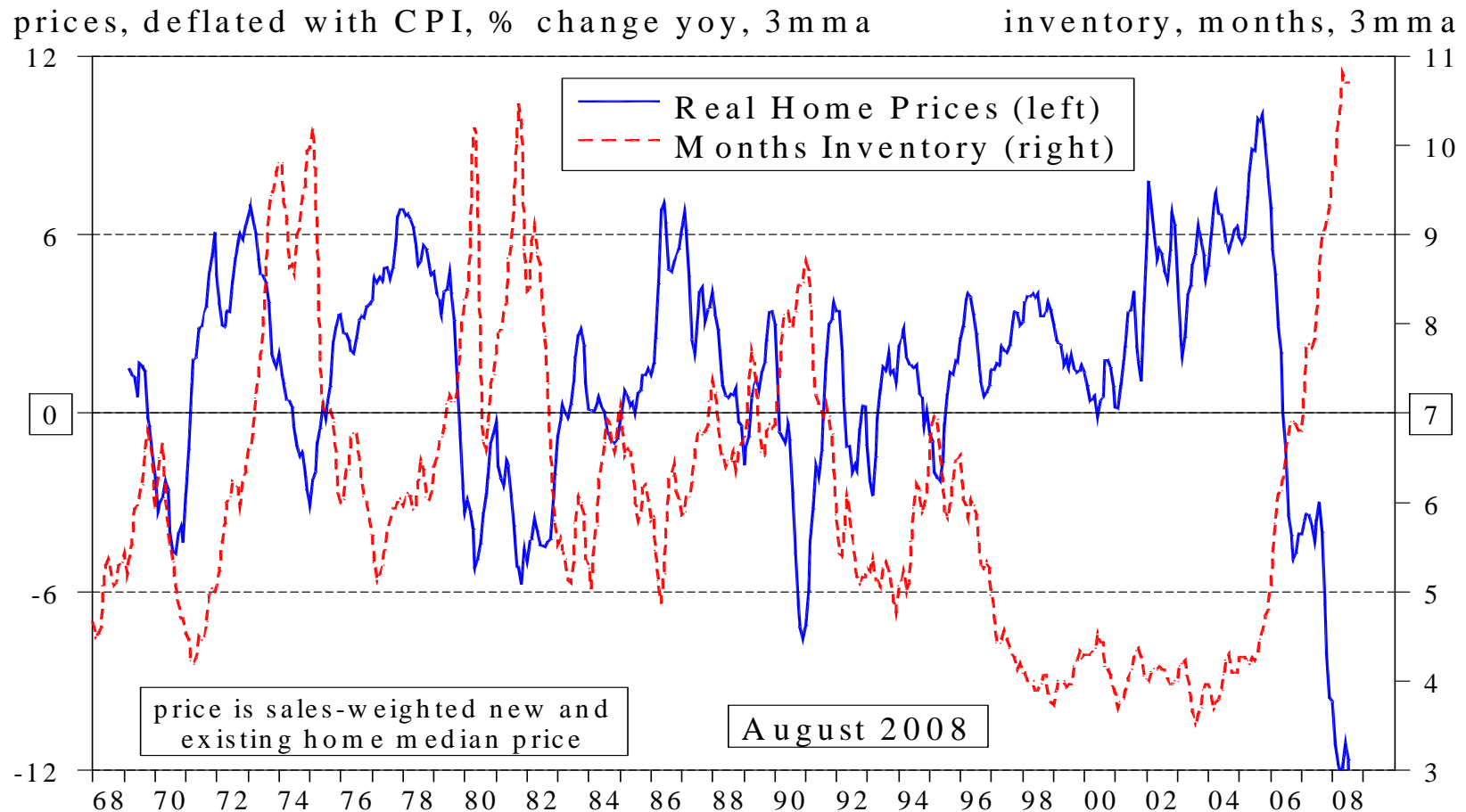
Our flight today...

- U.S. economic update
- Defined contribution implications
- Q&A

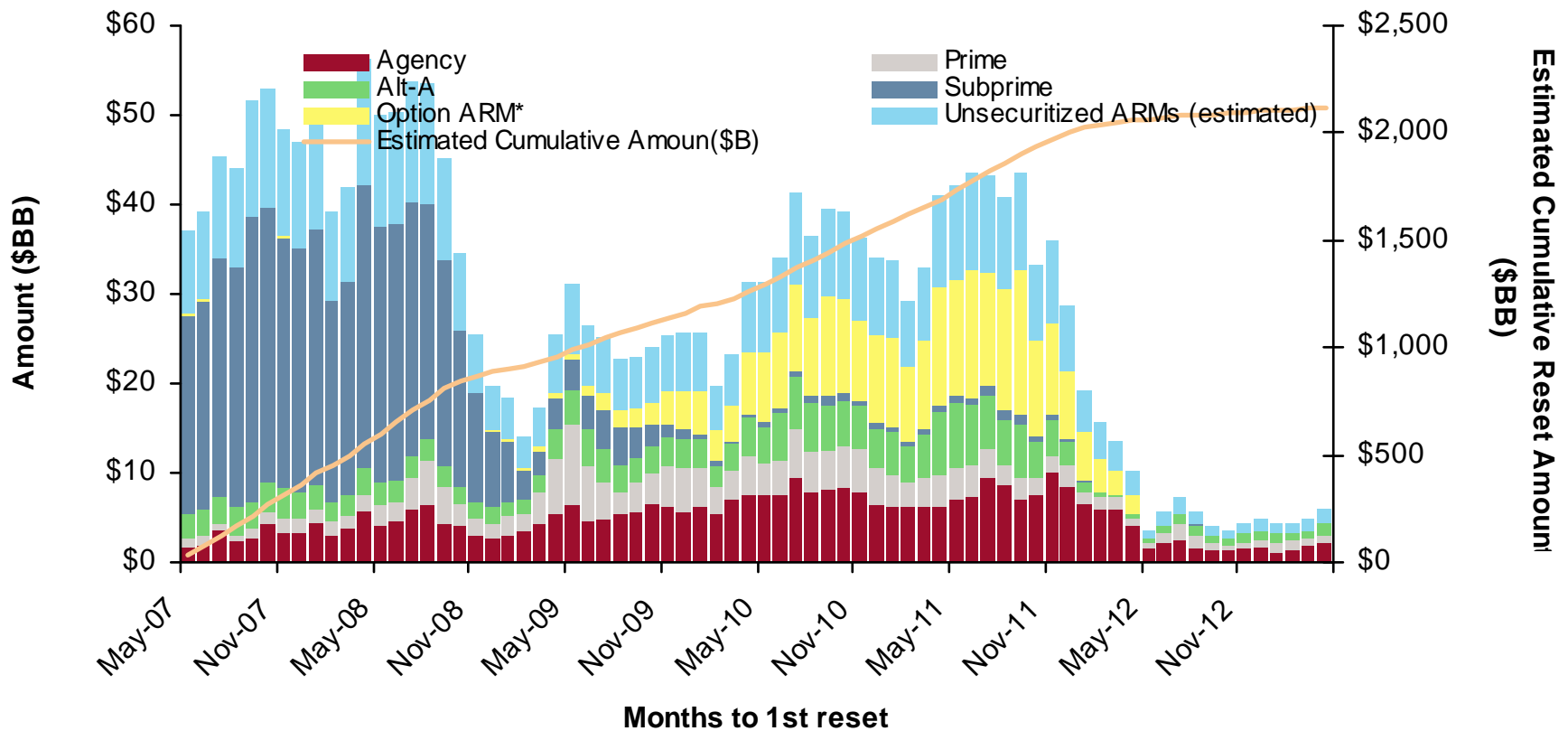
Sales of single-family homes appear to be finding a bottom



High inventory levels are still putting downward pressure on home prices

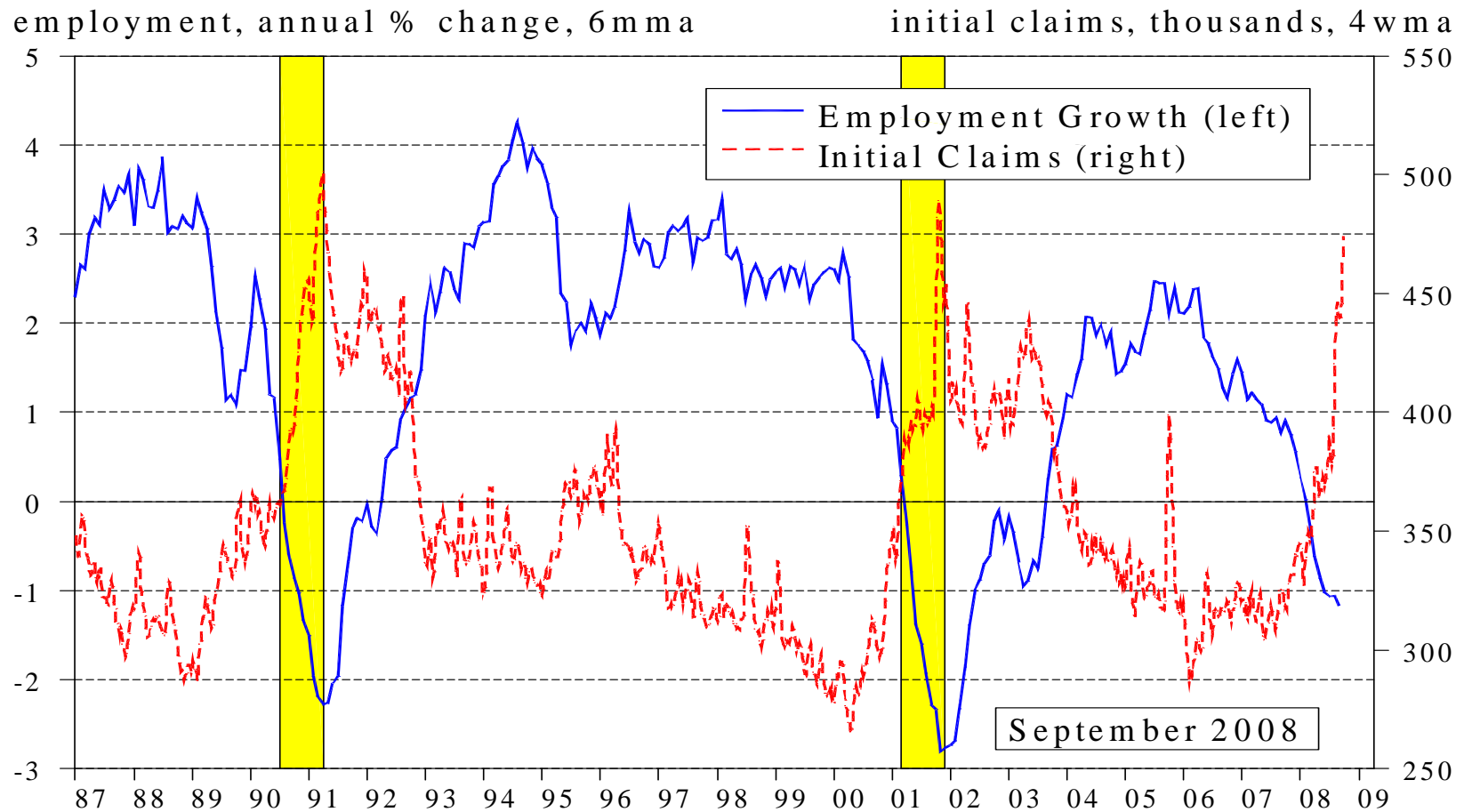


A significant amount of mortgages are still scheduled to reset in coming years

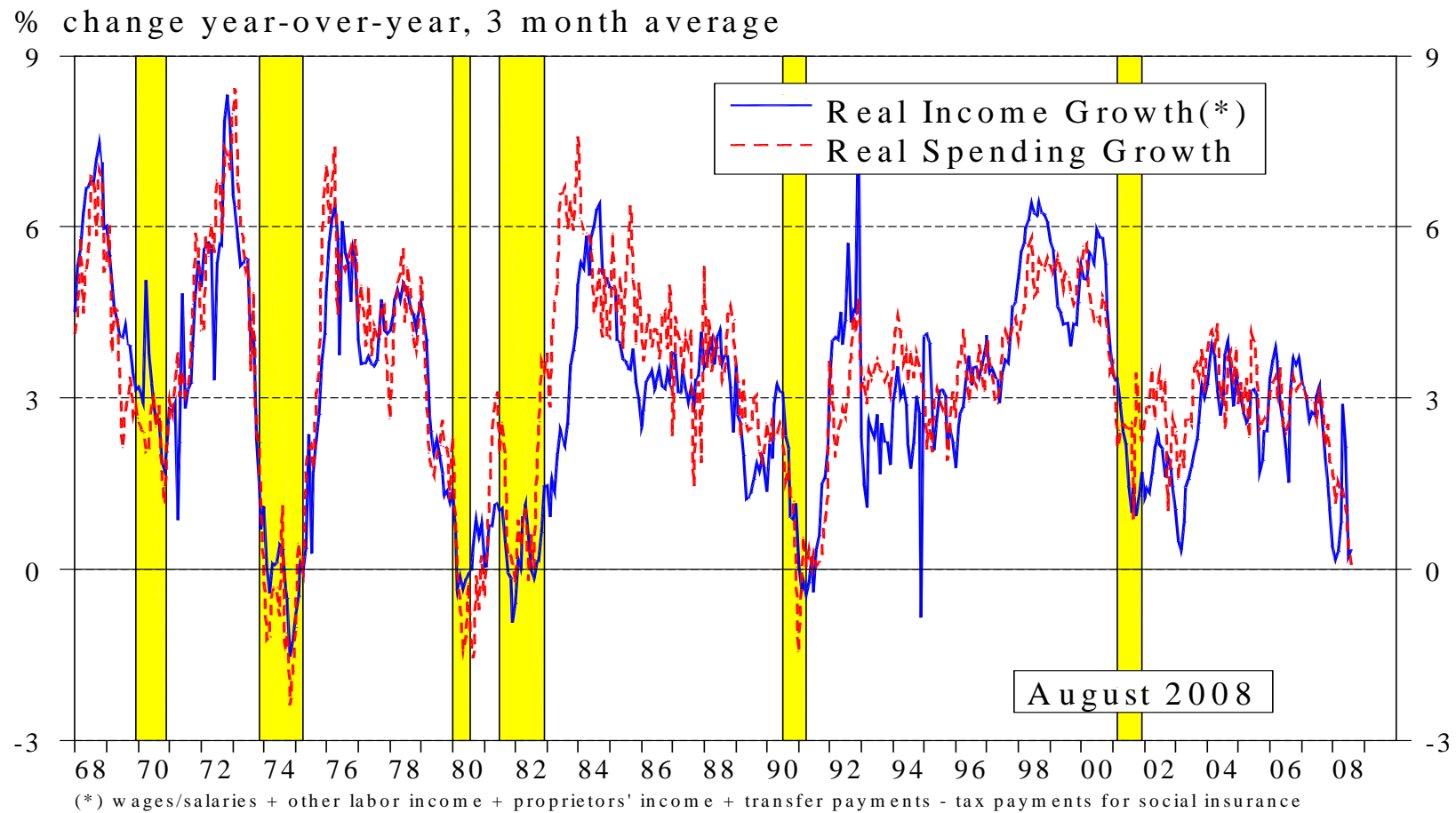


Source: Credit Suisse

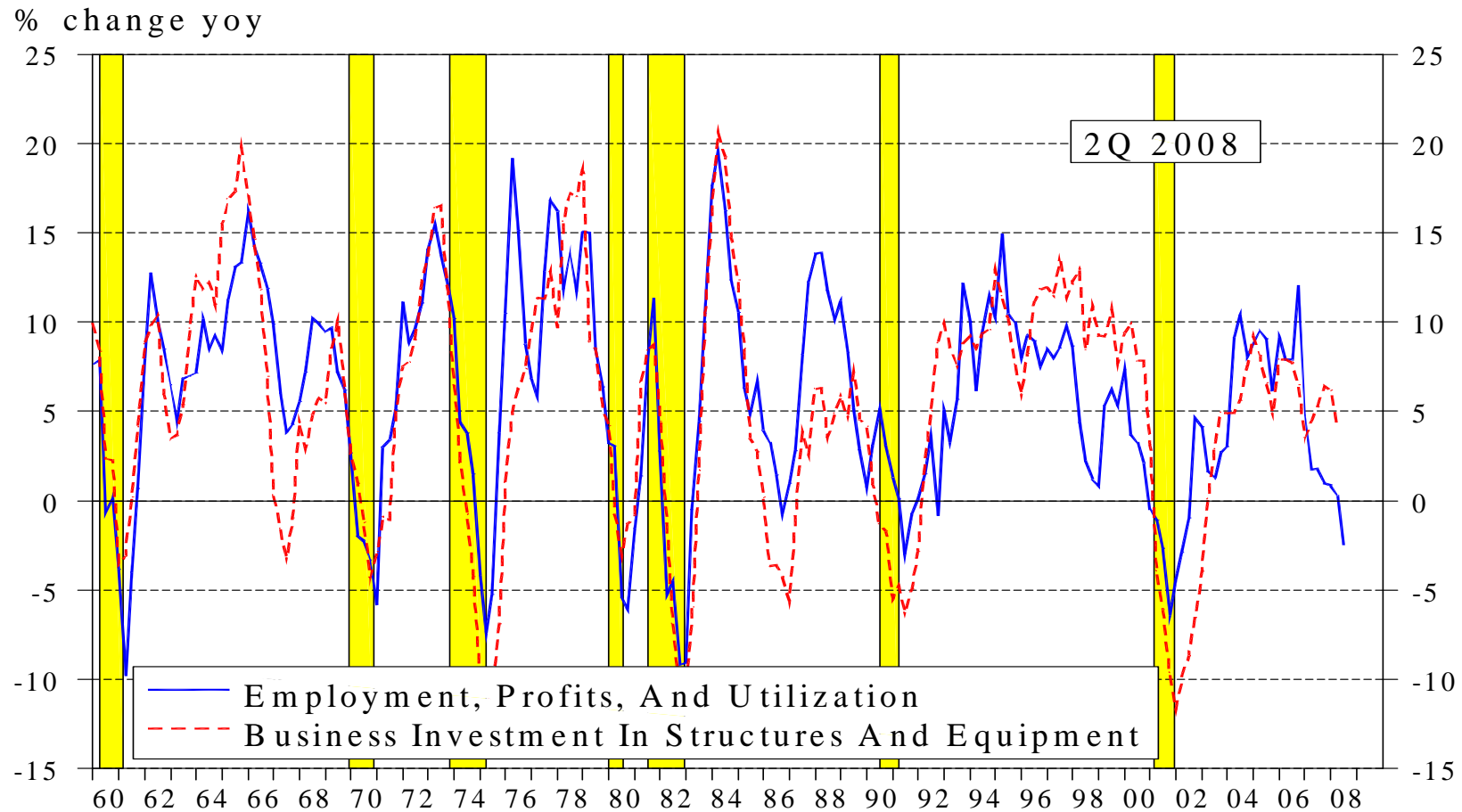
Labor market conditions certainly suggest that the U.S. is in a recession



Job losses and higher inflation have caused real income growth to slow

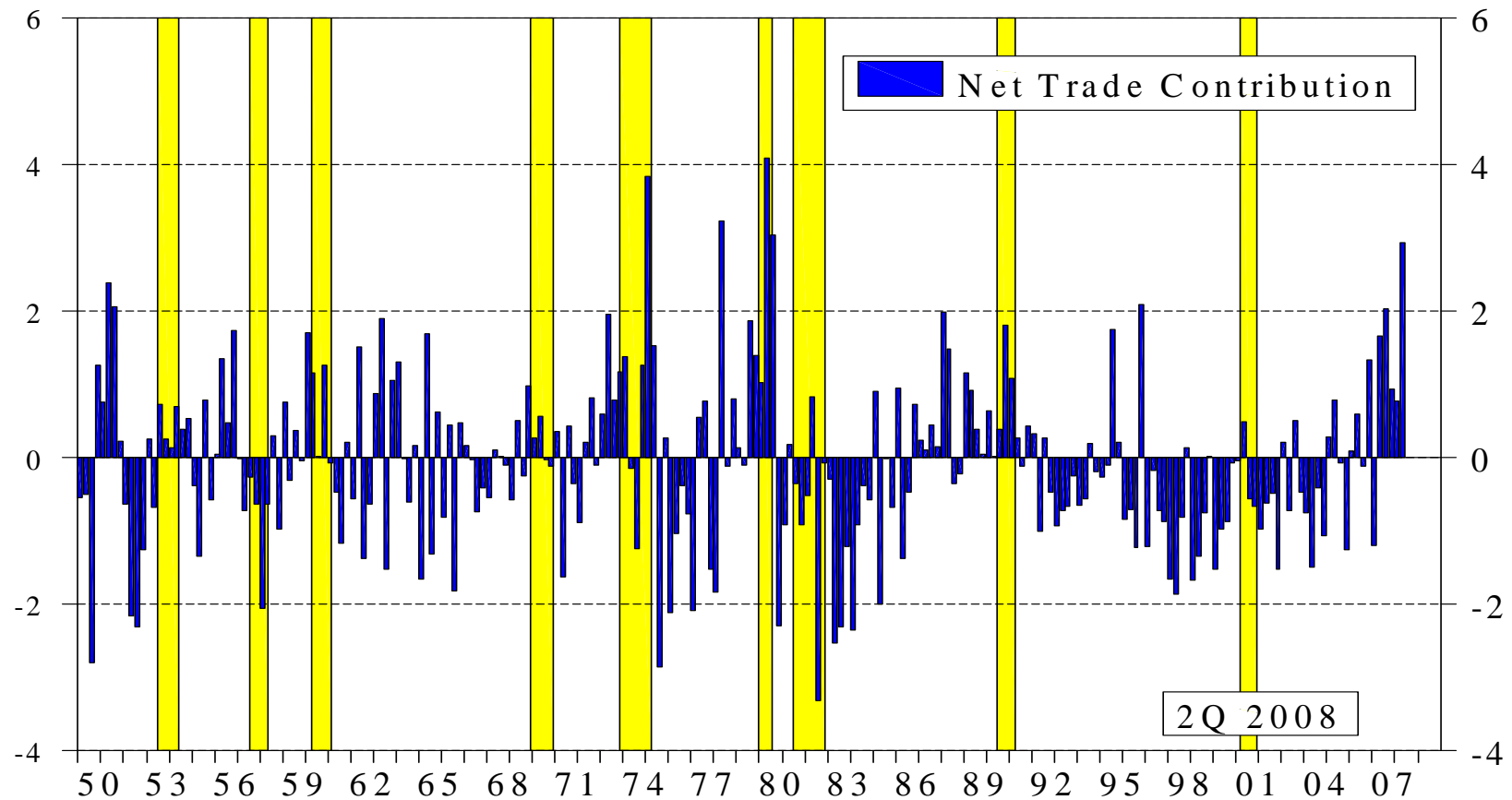


Deteriorating fundamentals suggest business investment is likely to contract



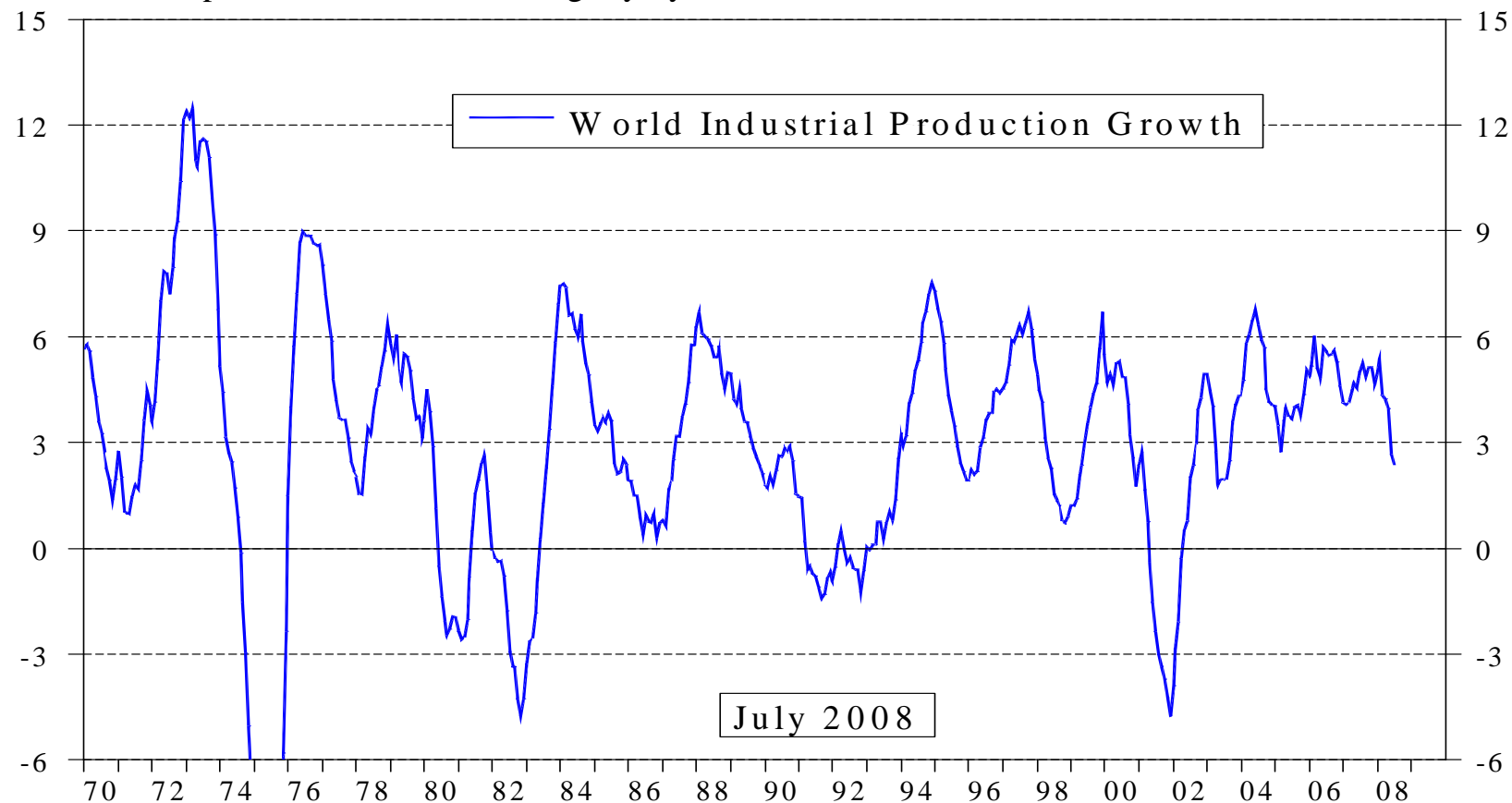
Net exports contributed significantly to GDP growth in 2Q 2008

net trade contribution, %

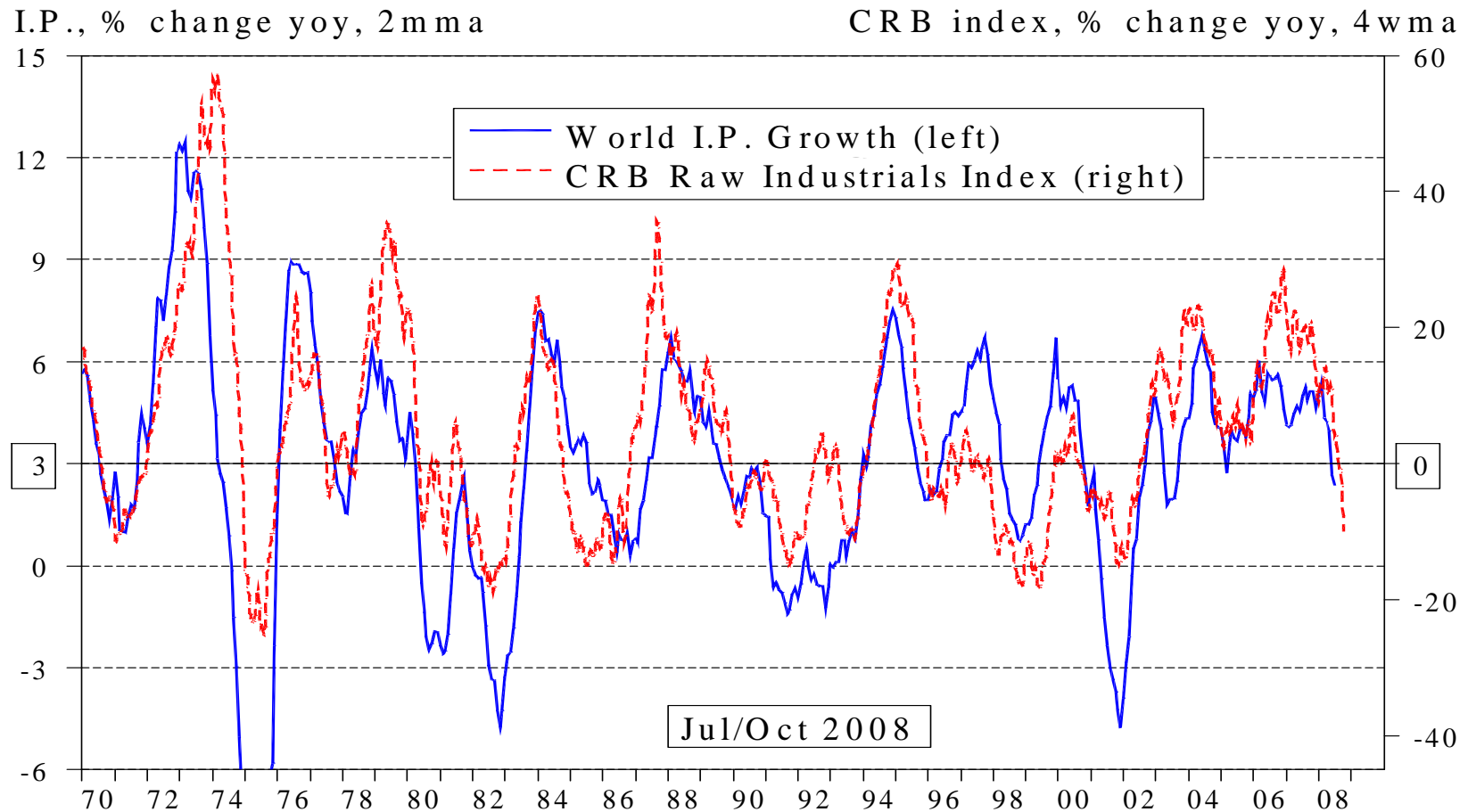


Global growth is slowing. However, the good news is . . .

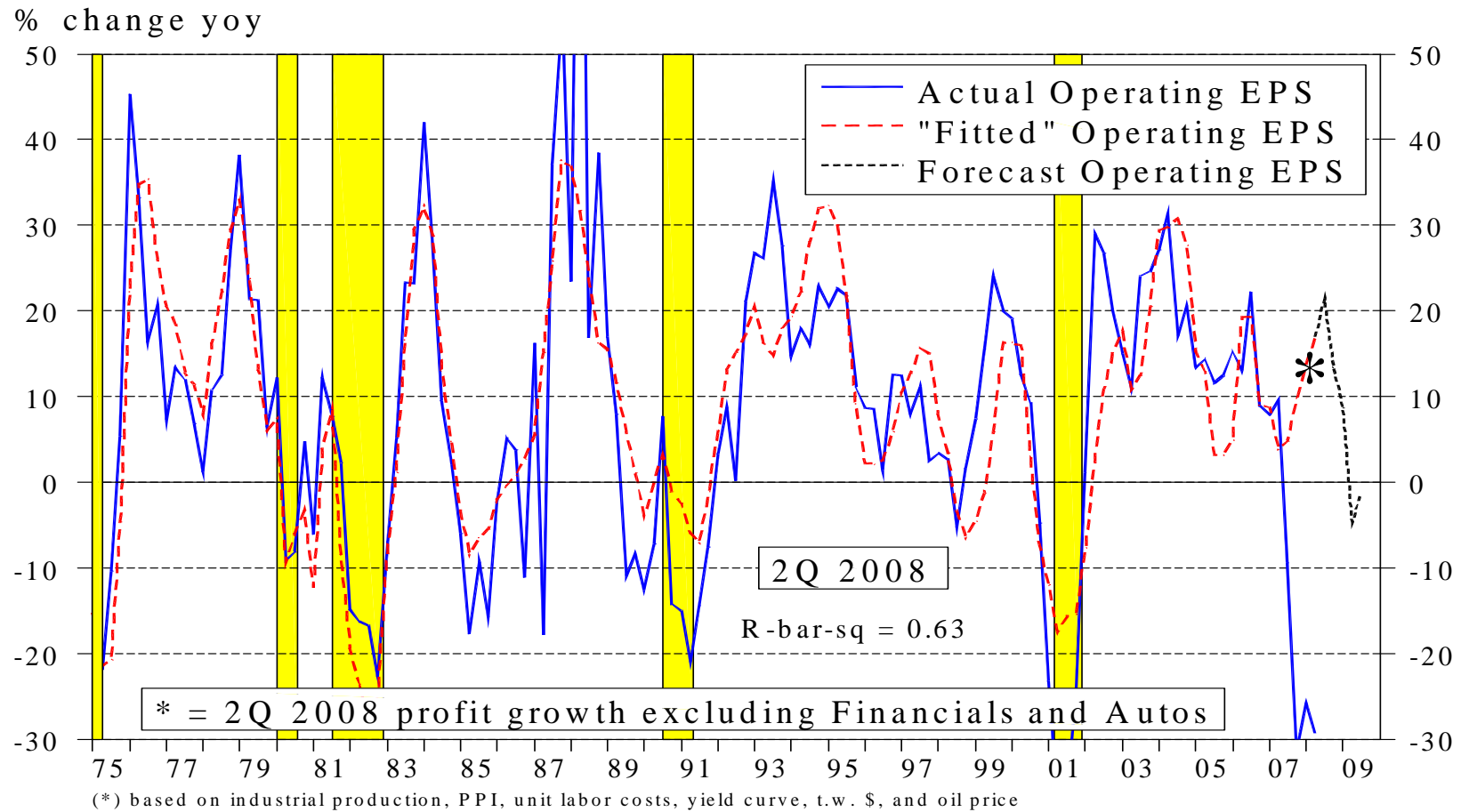
industrial production, % change yoy, 2mma



... slower global growth suggests that commodity prices could fall further



Non-financial profit growth is likely to slow in coming quarters



* = 2Q 2008 profit growth excluding Financials and Autos

2Q 2008

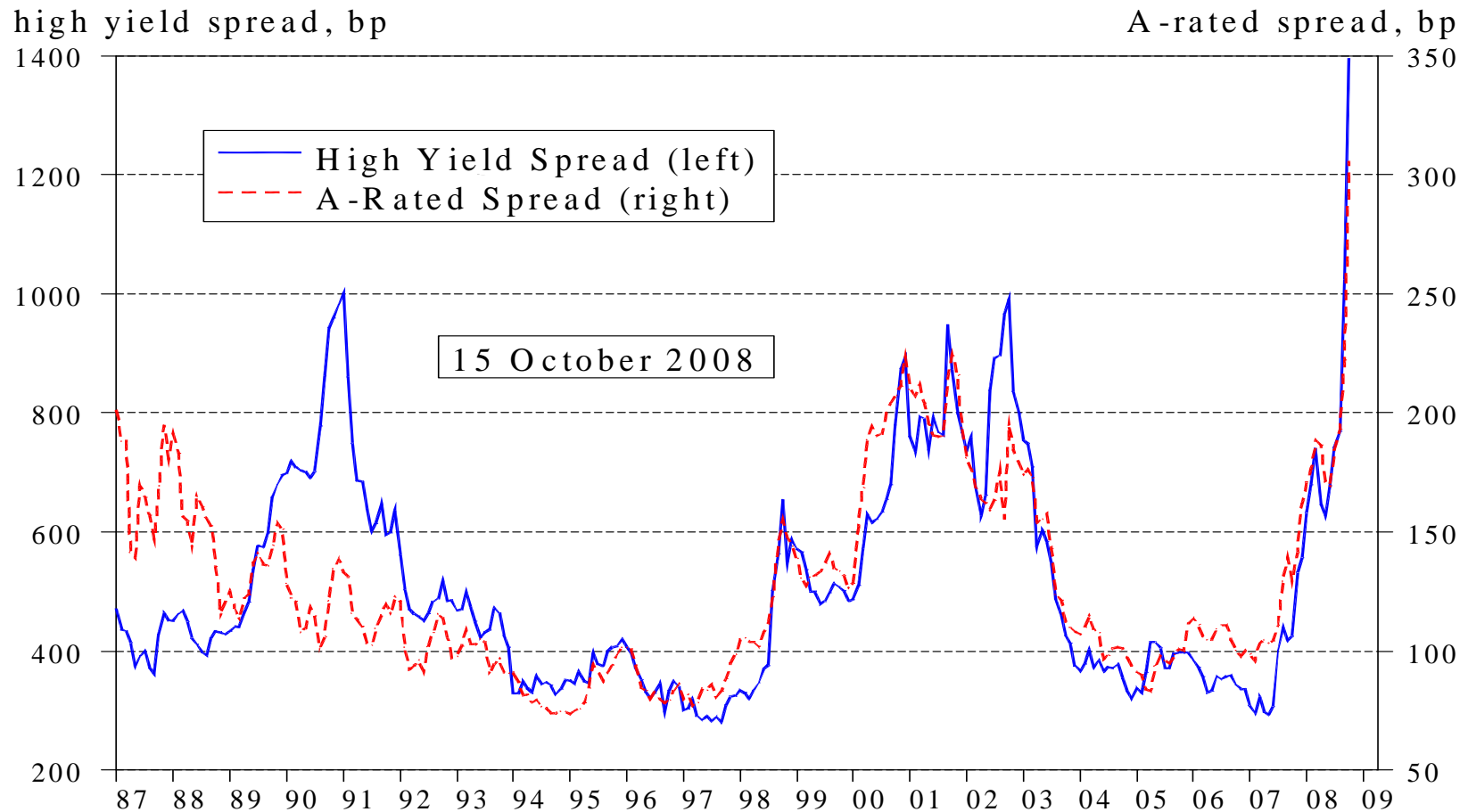
R-bar-sq = 0.63

(*) based on industrial production, PPI, unit labor costs, yield curve, t.w. \$, and oil price

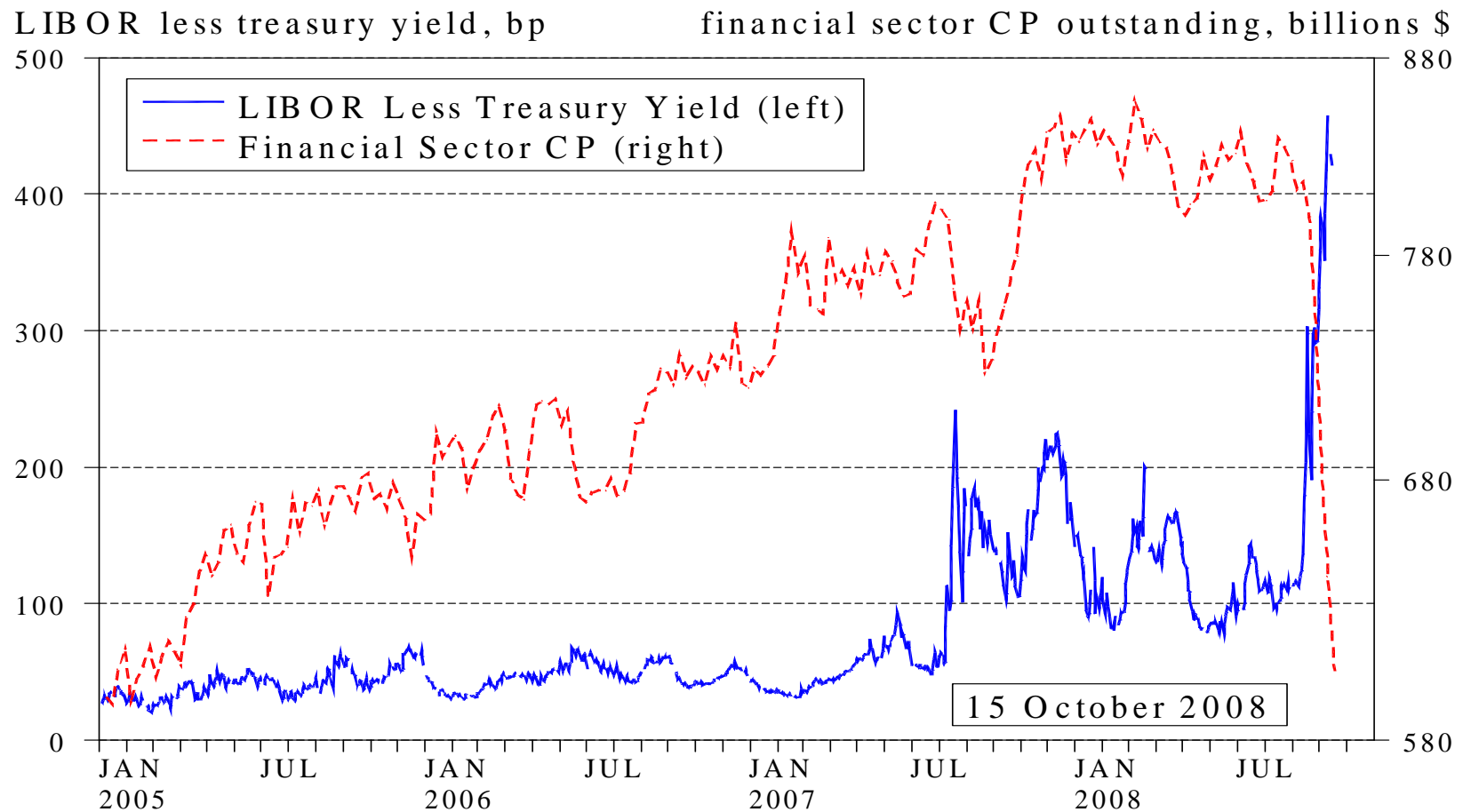
Source: Standard & Poors, Federal Reserve, Bureau of Labor Statistics, Brown Brothers, CG

calculations

Spreads on “risky” fixed income assets are exceptionally wide



There are still SIGNIFICANT strains in the financial system



The Bottom Line . . .

- Housing activity may be bottoming, but price adjustments and mortgage problems are likely to persist
- Weakness has spread to consumer and business spending, and global growth is slowing, reducing the support from exports. An “official” recession appears almost inevitable
- Inflation concerns should abate in the coming year, giving the Federal Reserve room to cut interest rates
- Near term, investors will be largely driven by developments in the financial sector and political arena rather than in the economy
- Longer term, some asset classes are beginning to look quite attractive relative to their fundamentals

How are DC participants reacting?

- Hardship withdrawals are up
- Flow information is not conclusive (yet)
- Loans actually appear to have dropped
- What do participants have going for them right now?
 - Inertia
 - Consistent contributions
- What should we be concerned about?
 - Many forced to rethink retirement timing
 - Panic selling
 - Reaction of new enrollees

How are DC plans reacting?

- Scrutinizing the details
 - Stable value contracts
 - Money market provisions
 - Security lending practices
- Providing support and perspective through communication
- Continuing to evolve their plan by:
 - Simplifying plan choices
 - Increased use of auto features
 - Scrutinizing fees
 - Considering both accumulation and decumulation stages
 - Focus on participant outcomes

Possible implications for the DC industry

- Questioning of some assumptions has already begun
- Interest in using some alternative investments in DC may wane
- Guarantees continue to gain appeal but become harder and more expensive to implement
- Opportunity for thought leadership

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We have landed...

Question and answers