

PERSPECTIVES FROM GOLDMAN, SACHS & CO.

Economic Outlook

- **Better News Drives Up Near-term GDP:** Improved news flow in homebuilding, home prices, manufacturing, and employment contribute to an upgrade in our second half 2009 GDP forecast from 1.0% to 3.0% annualized. This change is particularly warranted due to the economic jolt coming from the positive turn in the inventory cycle and fiscal stimulus.
- **Remaining Headwinds Keep Longer-term Views in Check:** The factors driving the near-term rebound are inevitably transitory. Persistent headwinds remain, as 1) consumers continue deleveraging from damaged balance sheets, 2) weak employment weighs on household income, 3) state and local governments cut back, 4) commercial real estate price declines accelerate, and 5) credit availability remains impaired.
- **Unemployment:** The July labor report was the clearest recent sign of economic stabilization as payroll losses posted their smallest decline (-247K) since the Lehman Brothers bankruptcy and the unemployment rate fell for the first time since April 2008 (9.5% to 9.4%). We have tempered our view slightly on labor, now expecting the unemployment rate to reach 10¼% in 2010, down from our previous forecast of 10½%.
- **Fed Policy:** Monetary tightening seems highly unlikely in a world of vast labor and manufacturing slack, contained inflation, and subdued consumption. We think the FOMC will be reluctant to raise the funds target, even from zero, until they have some confidence that the unemployment rate has reached its cyclical peak or will do shortly.
- **Treasury Yields:** The recent sell off seems to have gone too far in response to improving economic data. In our view, the 10-yr will migrate closer to 3% over the next few months.

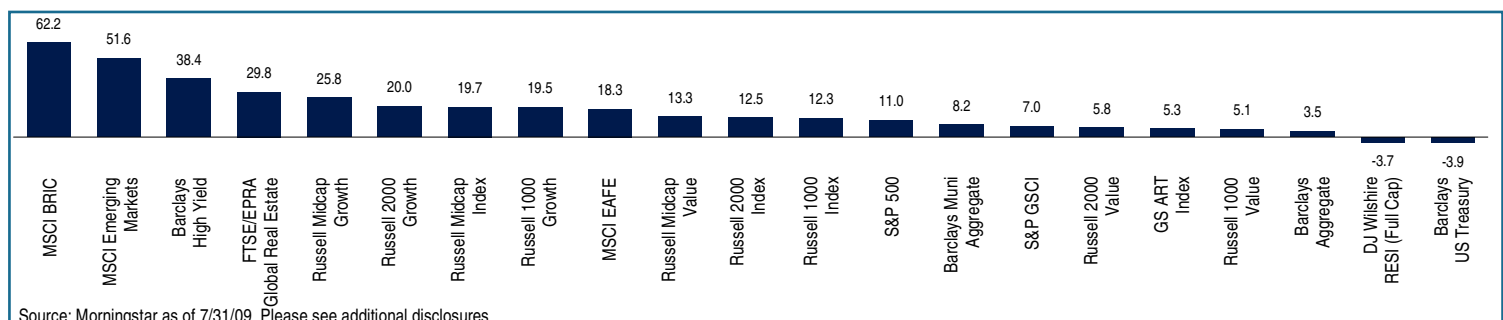
Key Forecasts (annl'd % changes)

	2007	2008	7/31/09	Forecast 2009
Real GDP Growth ¹	2.0%	1.2%	-1.0%	-2.6%
Core CPI ¹	2.3%	2.3%	1.6%	1.6%
Unemployment Rate ¹	4.6%	7.2%	9.4%	9.8%
FED Funds Rate ¹	4.25%	0.13%	0.13%	0.13%
Crude Oil ²	\$96	\$45	\$69	\$85
10-Year Note Yield ¹	4.10%	2.21%	3.48%	3.00%
S&P 500 ³	1468	903	987	1060
Dollar/Euro ¹	1.46	1.40	1.43	1.45
Yen/Dollar ¹	112	91	95	98

Goldman, Sachs & Co. Global Investment Research^{3,4}

- **S&P 500 Target:** In mid July we raised our year-end 2009 price target to 1060 from 940, roughly 7% higher than current levels. The S&P 500 rose 8% in July, breaking through the 10% trading range of the past three months. We believe the market is out of the "stall" phase of market recovery and anticipate a more extended "sustained rally" in the US equity market during the second half of 2009.
- **Earnings:** As we evaluate recent earnings for anecdotal evidence of pricing, volume, costs and thematic trends, we note six major themes unfolding for corporations: 1) Economic stabilization and preparations for growth as demand clearly bottoms, 2) A focus on capacity and utilization with the Industrial, IT, and Energy sectors noting their ability to add capacity, increase utilization rates, and bring back employees, 3) Inventory re-stocking underway following the dramatic drawdown of 1H 2009, 4) Cost-cutting initiatives bolstering margins given a lack of top-line growth, 5) Operating leverage back in vogue for firms anticipating a cyclical recovery in revenue growth, and 6) BRIC economies as a continued source of end demand and relative strength.

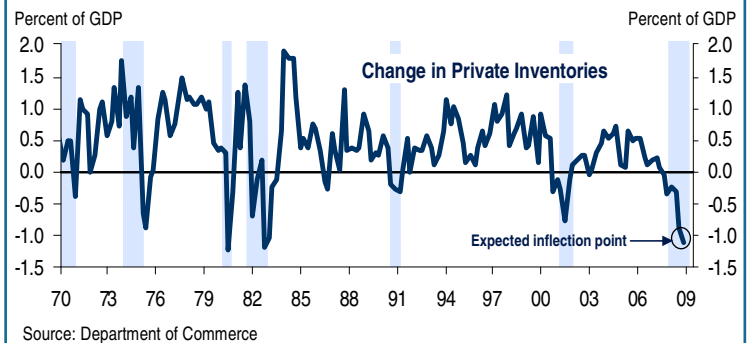
Market Performance (%): Year-to-Date 2009



Source: Morningstar as of 7/31/09. Please see additional disclosures.

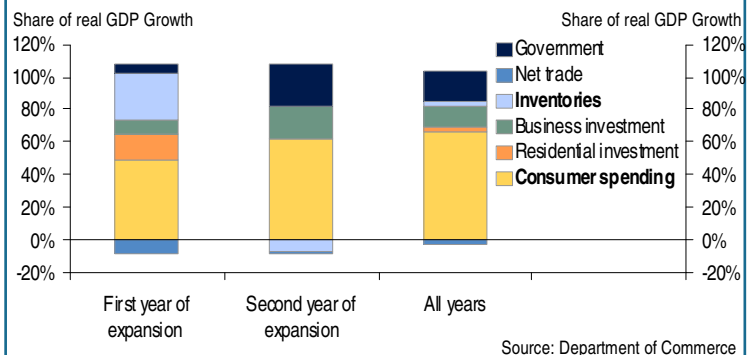
Inventory Cycle to Turn Positive

The second quarter saw businesses liquidate inventories at a near record rate. As corporations decide to bring production more in line with demand (even significantly reduce demand), GDP will get a significant shot in the arm.



Consumers are the Key

The chart below details the drivers of growth in the first and second years of an economic expansion and on average over the entire cycle. While an inventory correction can kick things off, renewed growth in consumer spending must be a part of any sustained recovery.





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¹ Source: Actual 2007, 2008 and 2009 Estimates – "US Economics Analyst. Issue 09/31 – August 7, 2009. Under "2009 Forecast", GDP Growth and Core CPI are expected averages for the entire year. All other numbers are year-end forecasts.

² Source: "Global:Energy:Oil", Recovery and Relapse: Bullish Oil Equities at Beginning of New Upcycle - Global Economics, Commodities and Strategy Research – June 4, 2009.

³ Source: "United States: Portfolio Strategy", US Weekly Kickstart - Global Economics, Commodities and Strategy Research – August 7, 2009.

⁴ Source: "United States: Portfolio Strategy", S&P 500 Beige Book - Global Economics, Commodities and Strategy Research – August 5, 2009.

⁵ Source: "Defaults and Returns in the High Yield Bond Market: First Half 2009 Review", New York University Salomon Center, Leonard N. Stern School of Business, By Edward I. Altman with Brenda Karlin – August 2009.