



# **Capital Markets in 2008**

MBA's National Secondary Market Conference

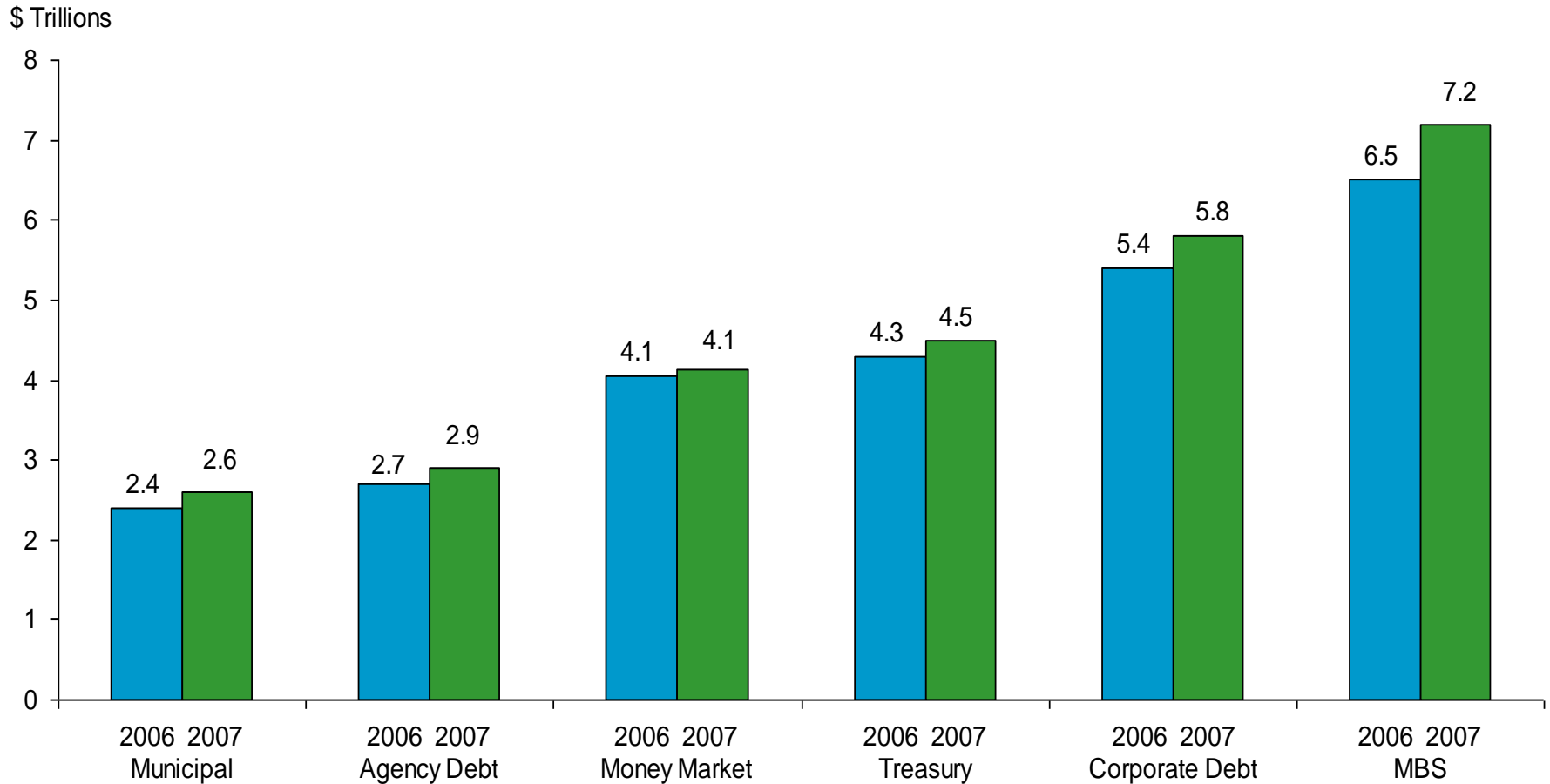
Boston

Jeff Huther – VP, Fixed Income Strategy

May 6, 2008

# Extreme makeover?

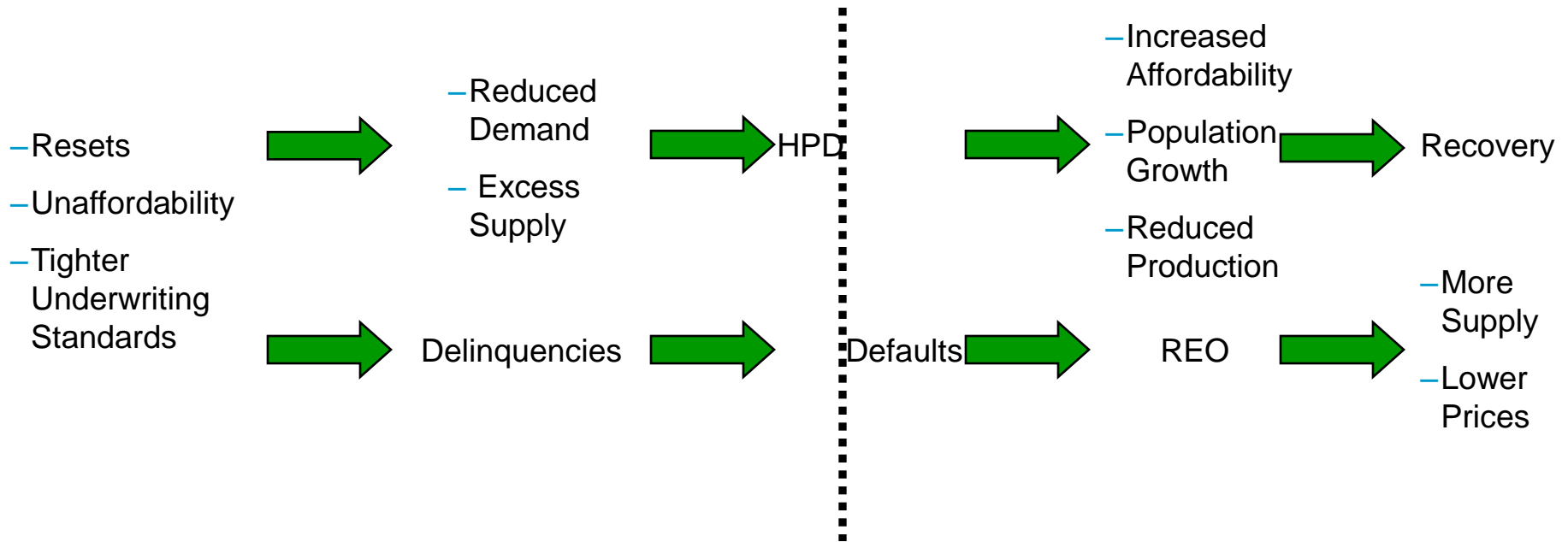
## Outstanding public and private bond market debt



Note: Percentages may not add up to 100% due to rounding.

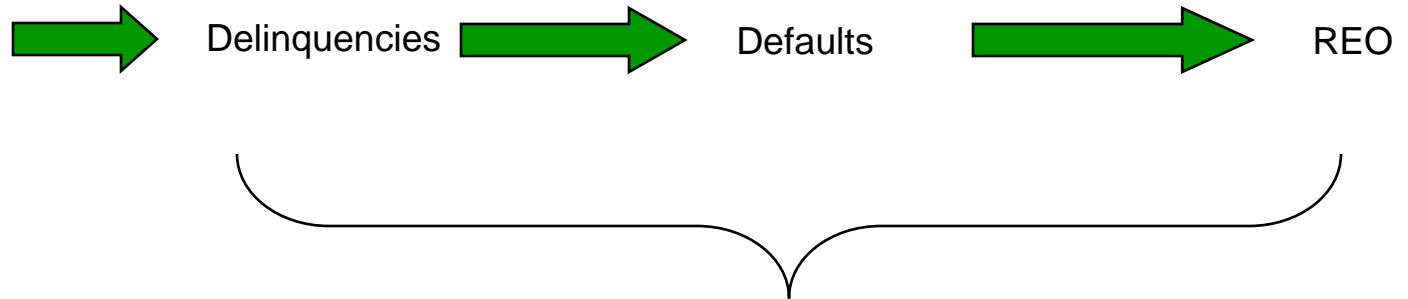
Source: Securities Industry and Financial Markets Association.

# Housing market: Ugly economics



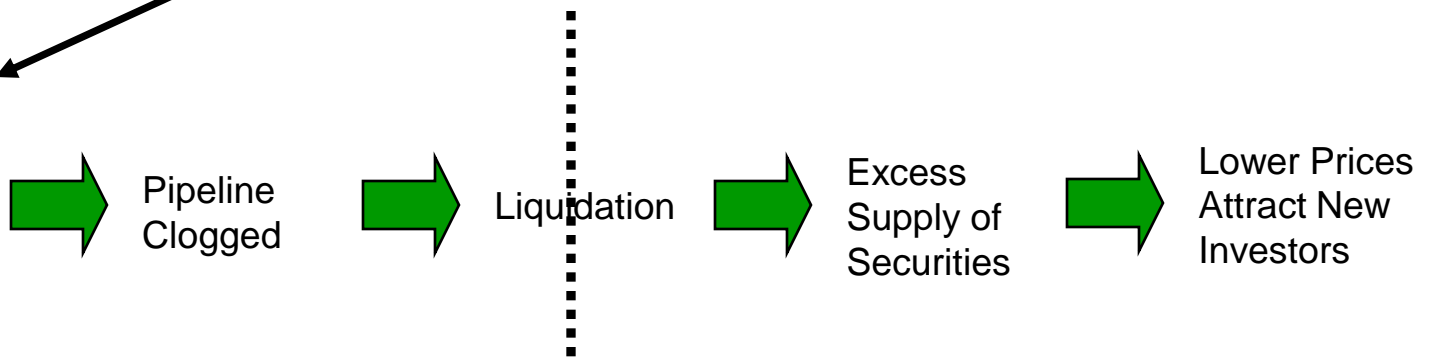
# Financing: Mirror broken, shopping for a new one

- Resets
- Unaffordability
- Tighter Underwriting Standards

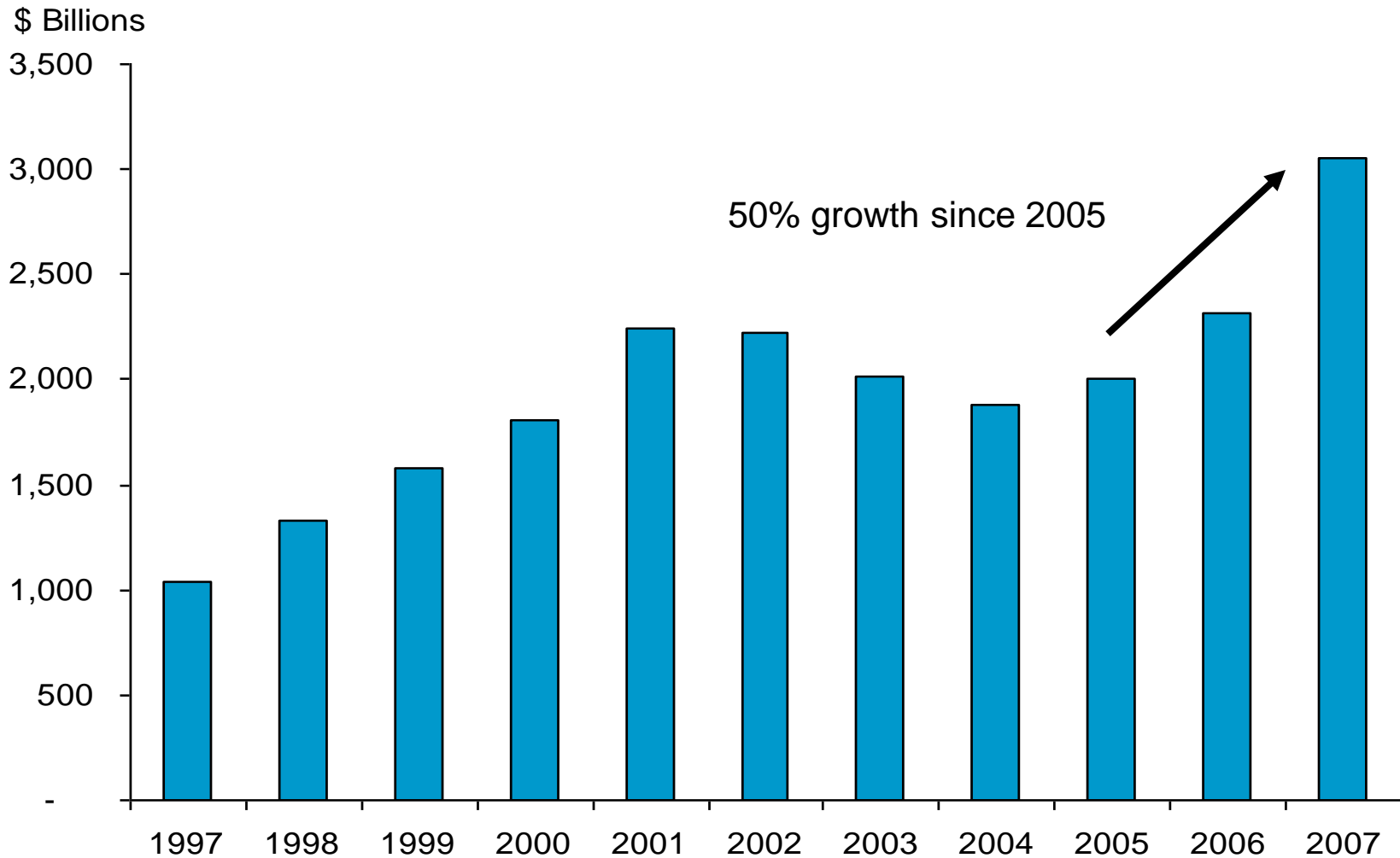


Estimates Now Priced In

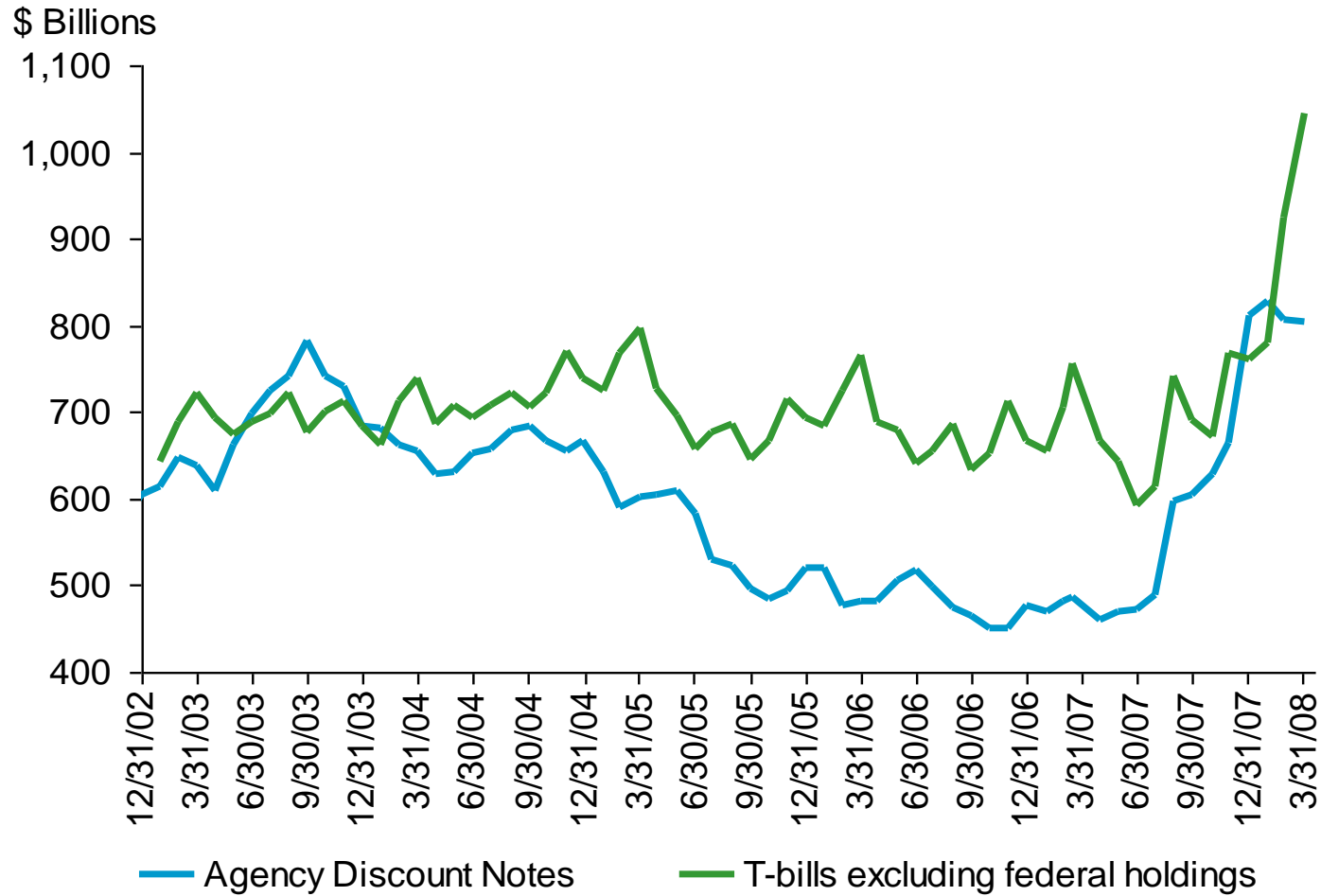
- Returns Fall
- Downgrades
- Investment Dries Up



## Flight to quality: Money market mutual funds



# Supply easing demand pressures



Source: Freddie Mac and Bloomberg.

## Why are things not worse?

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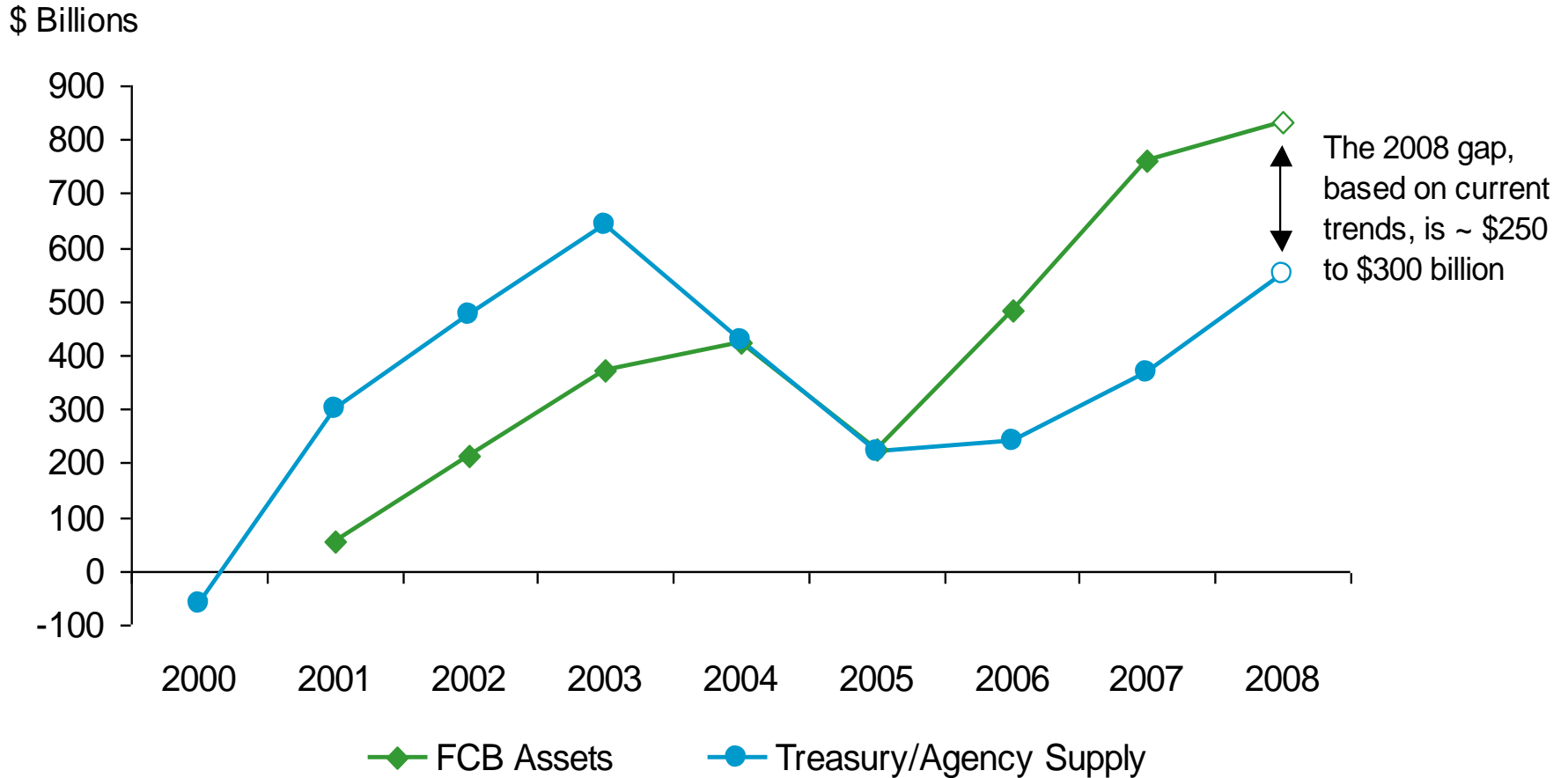
### Capital Keeps Falling On My Head

By Sam Zell

*(to the tune of "Raindrops Keep Falling On My Head")*

Capital is raining on my head.  
Everything is liquid, we're awash with cash to spend –  
The flood has drowned returns,  
'Cause assets keep liquefying, monetizing, raining...  
So I just did me some Econ 101.  
Seems like we've gotten out of Equilibrium;  
Liquidity abounds,  
But relative yields keep falling as more capital keeps raining

# A bigger imbalance?

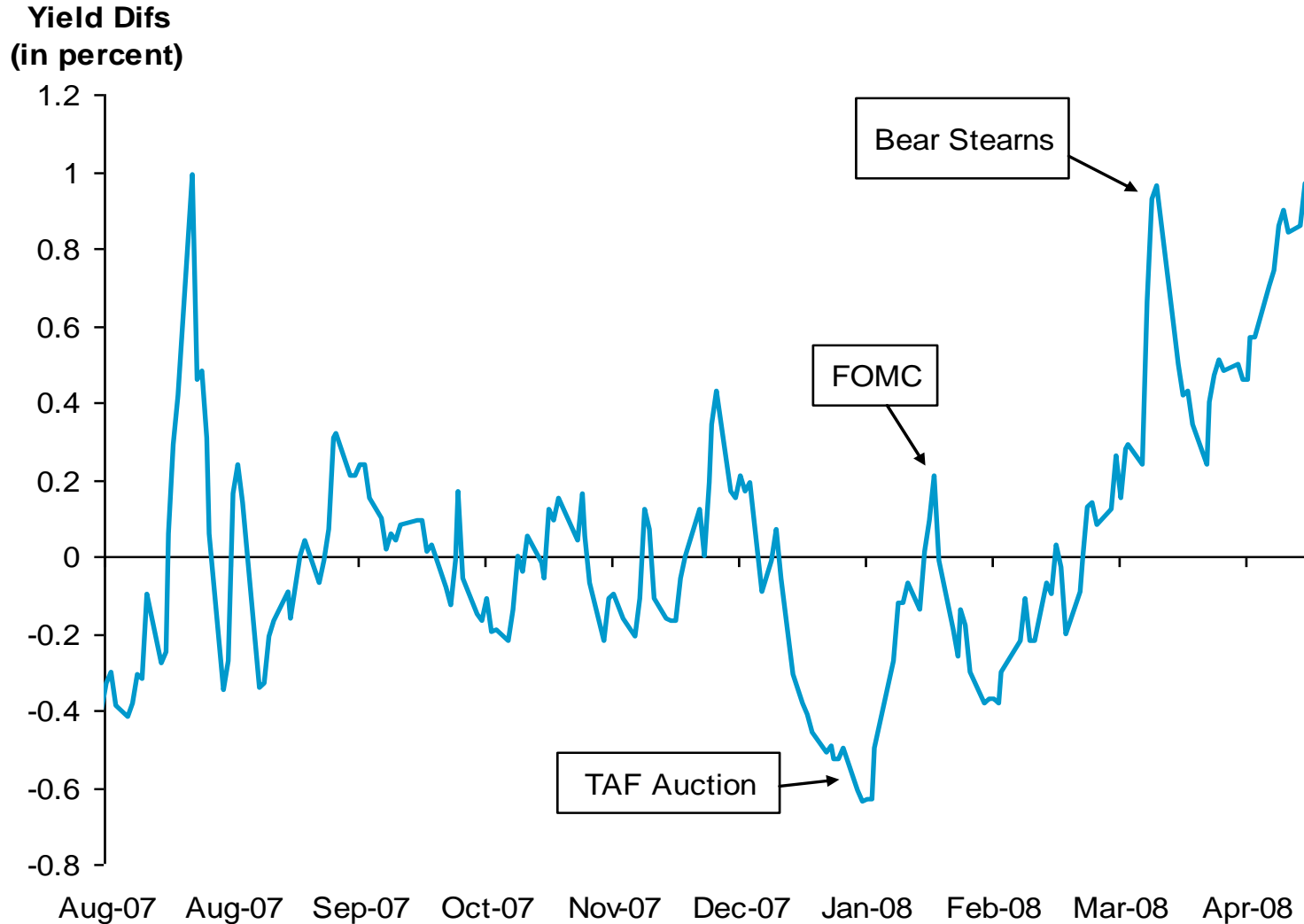


## Extending out the curves

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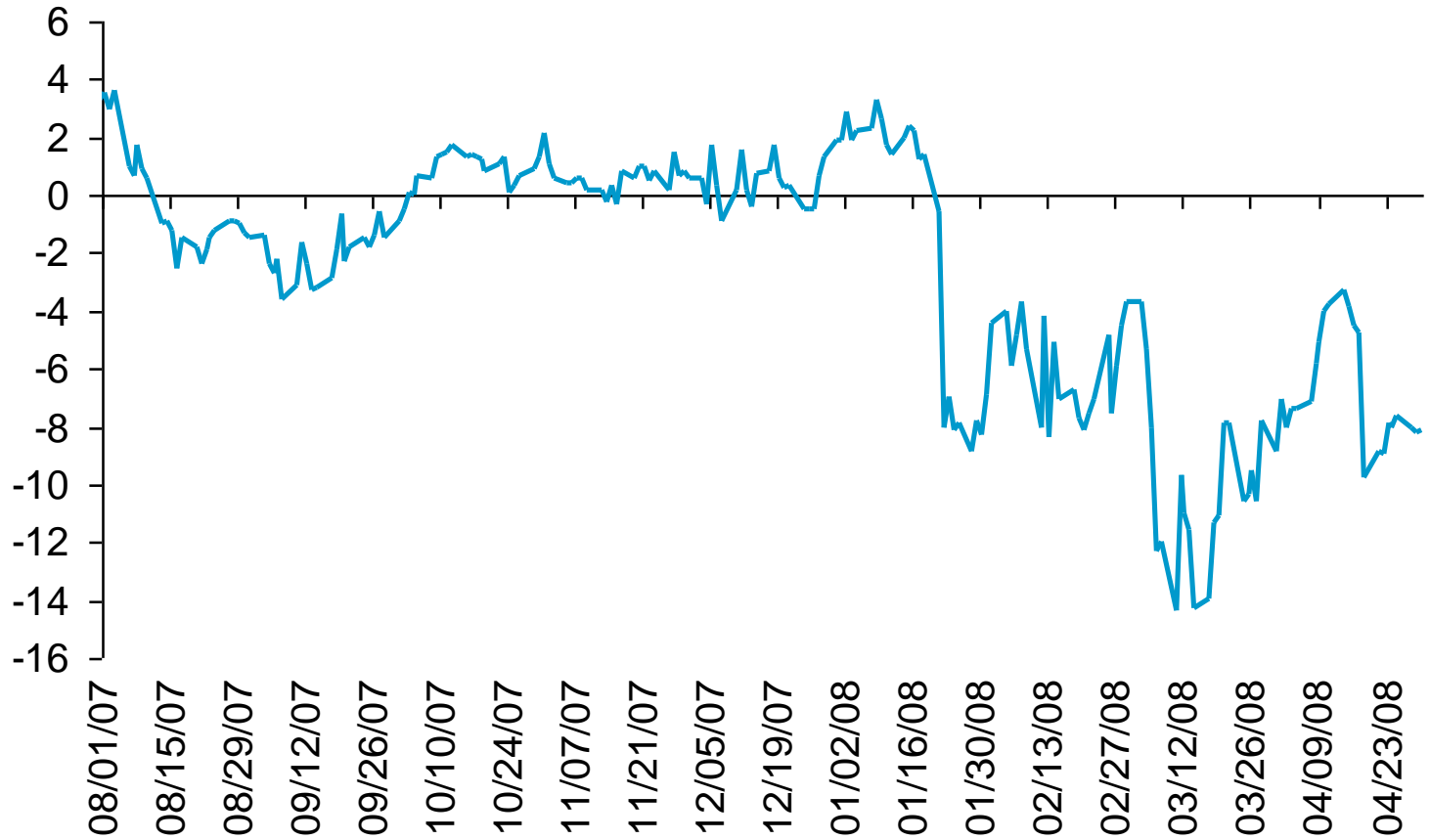
- Duration
  - Volatility
- } First, cautious steps
- 
- Credit
- } Second, more cautious steps

# Duration: 2 year – 3 month Treasury spread



## Volatility: 1y x 1y - 3 m x 1y

Yield Vol Difs



## Closing observations

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- Surprising that the economy has not done worse (Production, consumption, employment all so-so but not catastrophic)
  - » Exported production
  - » Demand overseas
  - » Many healthy households
  
- Financial market recovery may not help the housing market much
  - » Higher long-term interest rates
  - » Less Fed focus on housing and liquidity, more on inflation
  - » Investment opportunities elsewhere

## Safe Harbor Statements

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