

WELLS CAPITAL MANAGEMENT



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**THE OUTLOOK FOR THE U.S. AND GLOBAL
ECONOMIES THROUGH 2013:**

What Next For The Post-"Meltdown" Economy?

***A Presentation To 2013 Statewide
Economic Forecast Luncheon***

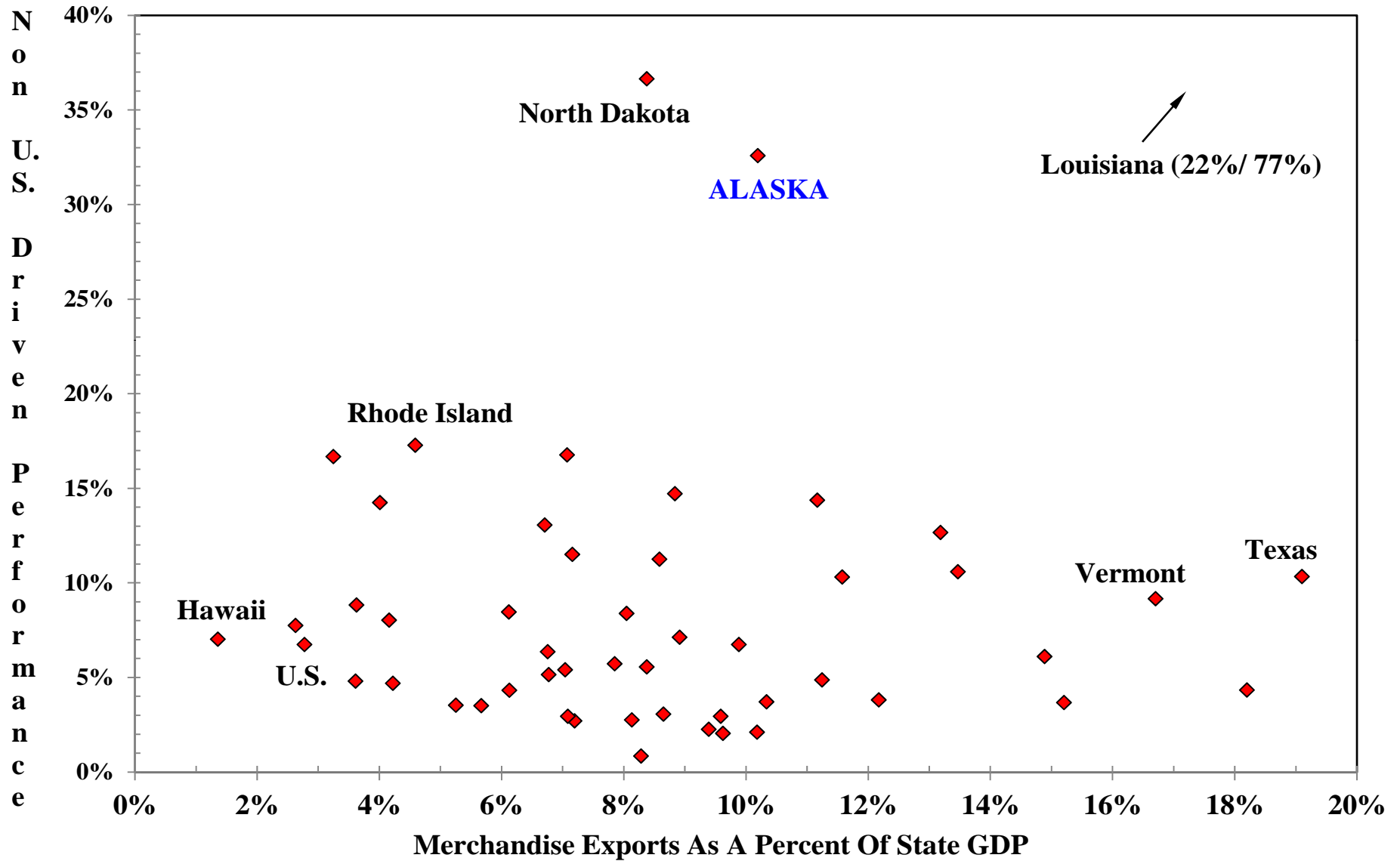
Anchorage, Alaska

January 22, 2013

GLOBAL “PRESSURE POINTS” IN 2013: A MORE “OPEN” U.S. ECONOMY

- **Exports’ Increasingly Important Role In U.S. Growth**
- **Emerging Markets’ Growing Share Of The Global Economy**
- **Increasingly “Tight” And Integrated “Supply Chains”**
- **Threats To The Very Heart Of The World Financial System**

GAUGING ALASKA'S HIGH INTERNATIONAL EXPOSURE Percent



Sources: Moody's Economy.com,;U.S. Census Bureau

GLOBAL “PRESSURE POINTS” IN 2013: ECONOMIC POLICY AT CENTER-STAGE

- **“Quantitative Easing’s” Threat Of Currency And Trade Wars**
- **European Elections, Economic Austerity And Structural Reforms**
- **Japanese Fiscal Stimulus And Public Debt**
- **China’s Leadership Change And Economic Reforms**
- **The U.S. Budget Debate**

THE U.S. BUDGET DEBATE AT A GLANCE

- **First Of A Four-Part Battle**

- Fiscal “Cliff,” Debt-Ceiling Increase, 2013 Appropriations, Long-Term Deficit Reduction*

- **Extended Tax Cuts Overshadowed By Tax Increases**

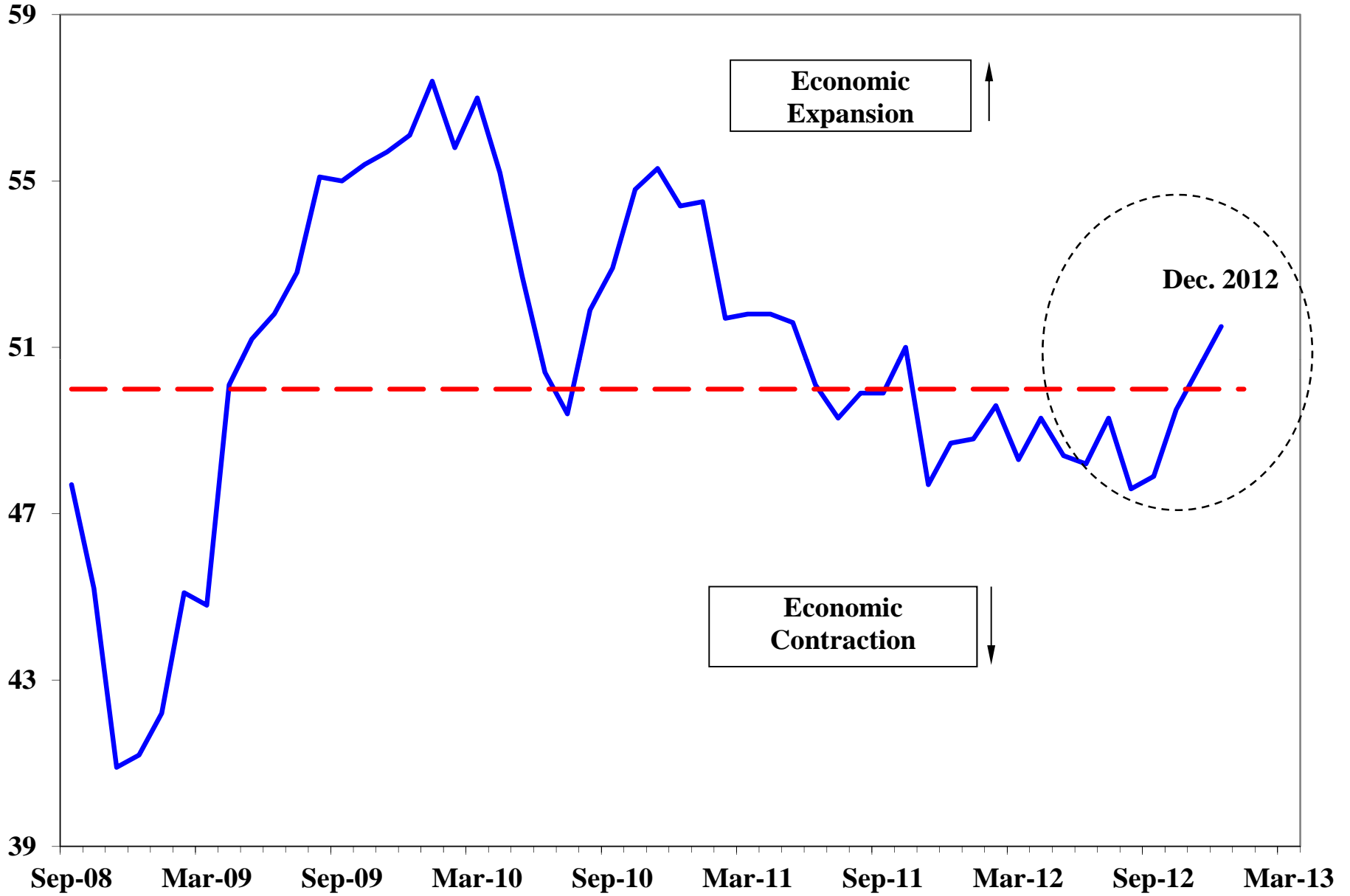
- Payroll Taxes, Higher Upper-Income Tax Rates, Exemption, Deduction Caps*

- Fiscal Drag Exceeded In Only 9 Of The Past 73 Years*

ECONOMIC “TAIL WINDS” IN 2013

- **Growth Led By “High Multiple” Housing And Autos**
- **Housing- (And Equity-?) Related Rebound In Household Wealth**
- **Lower Fuel Costs**
- **Release Of Pent-Up Business Demand As Policy Clarity Improves**
- **A Slow Turn Toward Recovery In China, Other Emerging Markets, Boosting U.S. Exports**

CHINA'S MANUFACTURING RECOVERY SLOWLY GATHERS MOMENTUM
% Of Respondents Reporting Increased Manufacturing & Non-Manufacturing Activity



Source: HSBC, Inc.

MORE UNSETTLED INTEREST RATES IN 2013?

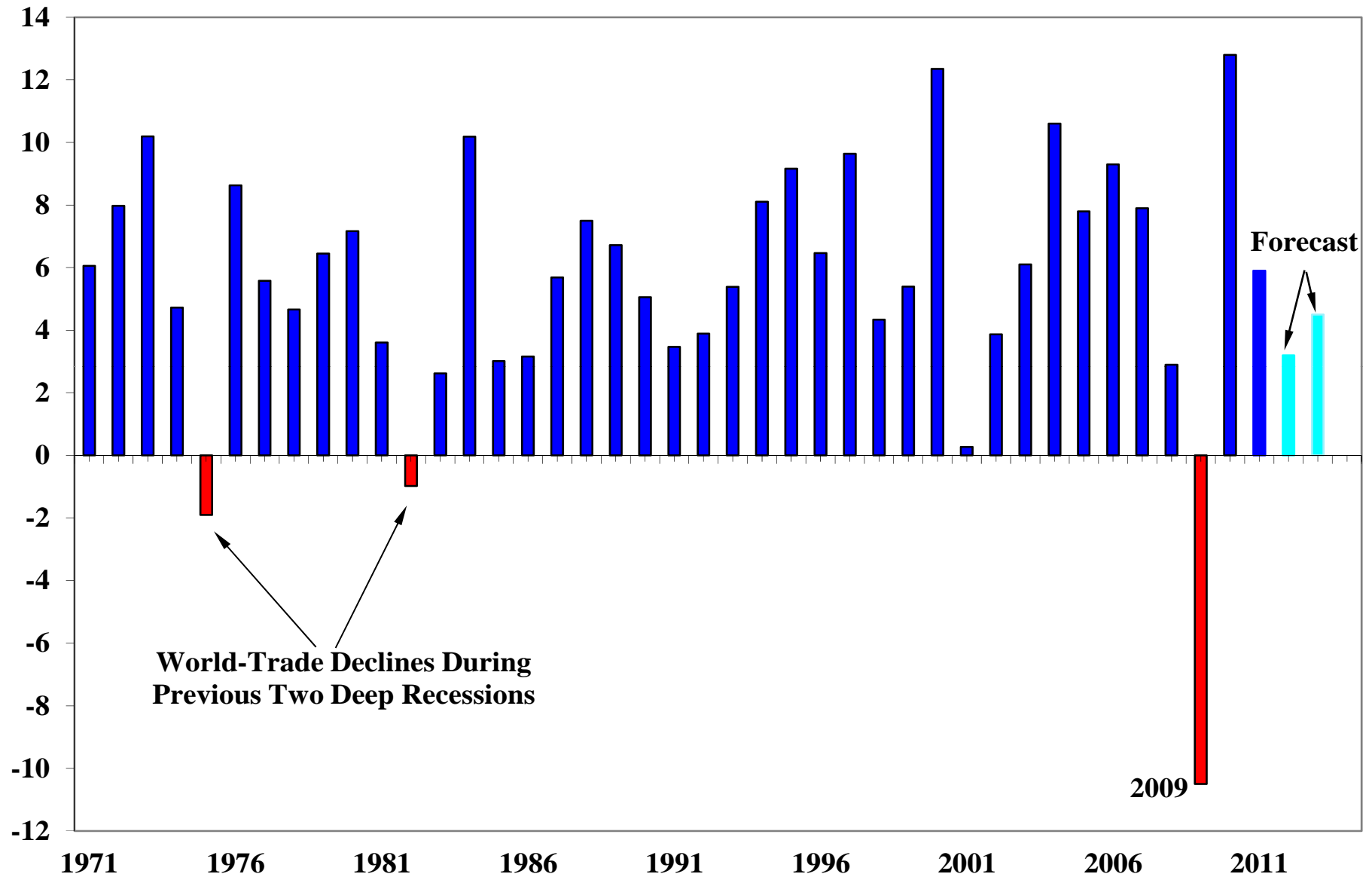
- **Interest Rates Steady And Artificially Low In 2012**
- **U.S. Fiscal-Policy Uncertainties Through Mid-2013**
- **Euro-Related “Flight” Capital’s Ebb And Flow**
- **Geo-Political Tensions In The Mid-East And In Asia**
- **“Quantitative Easing’s” Unintended Consequences**

HURDLES TO A QUICK RETURN TO MORE “NORMAL” ECONOMIC GROWTH

- Lingering Fall-Out From The Financial “Meltdown”
In 2008-09**
- Diminished “Pent-Up” Consumer Demand In A Maturing
Growth Cycle**
- Global Competition’s Effect On “Pricing Power,” Hiring
And Wage Increases**
- A Labor-Market Mismatch In The U.S. And Abroad**
- Market Vulnerability To Rolling Asset “Bubbles”**

THE 2008-09 "MELTDOWN'S" REMINDER OF WORLD TRADE'S CREDIT-SENSITIVITY¹⁰

Year-To-Year Percent Change In The Volume Of World Trade



Sources: International Monetary Fund; World Bank

MEDIUM-TERM RISKS IN THE GLOBAL OUTLOOK (I)

- **Europe's Difficult Transition From "Welfare Capitalism"**
- **Low Inflation & Market Vulnerability To Rolling Asset "Bubbles"**
- **An Unwinding Of "Safe-Haven" Investments, Bloated Central-Bank Balance Sheets**
- **A Further Tilt Toward Capital Controls In Emerging Markets**
- **A Bumpy Transition From The Commodity "Super-Cycle"**

MEDIUM-TERM RISKS IN THE GLOBAL OUTLOOK (II)

- Heightened Exchange Risk From A Shift To A “Multiple Currency” System Of World Trade And Finance**
- Changing Debt Ownership And The Threat To Financial Stability In Japan**
- “Internationalization” Of The Yuan And The Threat To Financial Stability In China**
- Slow Economic Growth And The Threat Of Trade Protectionism**
- Political Fall-Out From India’s Attempt To Deal With Infrastructure, Other Structural Weaknesses**

AN EVOLVING RELATIONSHIP BETWEEN THE U.S. AND GLOBAL ECONOMIES

- **Global Re-Balancing**

- ”Consumerism” And Emerging-Market Opportunities*

- Broader, Export-Oriented Growth In Europe*

- Tilting Toward More Export-Oriented Growth In The U.S.*

- **An Inside Track For The U.S. In Global Innovation And Competitiveness**

- Manufacturing “Re-Shoring” Slowly Gathering Momentum*

- **The Promise—And Implications—Of Low-Cost Energy**