



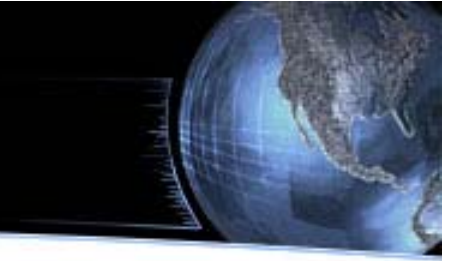
Flat World Curve & Its Implications for The American Economy

March 30, 2007

200 Crescent Court ♦ Suite 1200 ♦ Dallas, Texas ♦ 75201 ♦ T. 214.756.6900 ♦ F. 214.756.6979 ♦ www.westwoodgroup.com



U.S. – The economy or part of the economy?

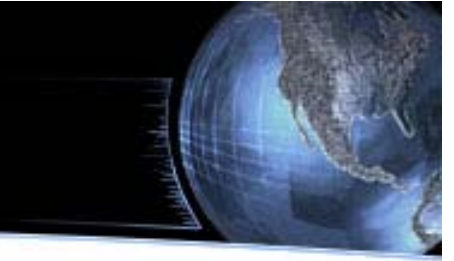


Where We Were - Post World War II

- ✓ **World Creditor**
- ✓ **Engine of World Growth**
- ✓ **7% of World Population**
- ✓ **41% of World GDP**
- ✓ **British Pound was reserve currency**



U.S. – The economy or part of the economy?



Where We Are – 2007

- ✓ **Debtor to the World**
- ✓ **Participant in World Growth**
- ✓ **4.6% of World Population**
- ✓ **32.5% of World GDP**
- ✓ **US Dollar is reserve currency**

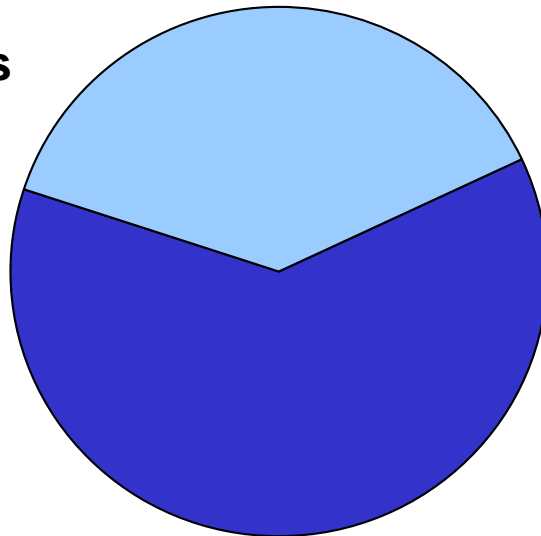


Goods And Services As A % of U.S. GDP



1947

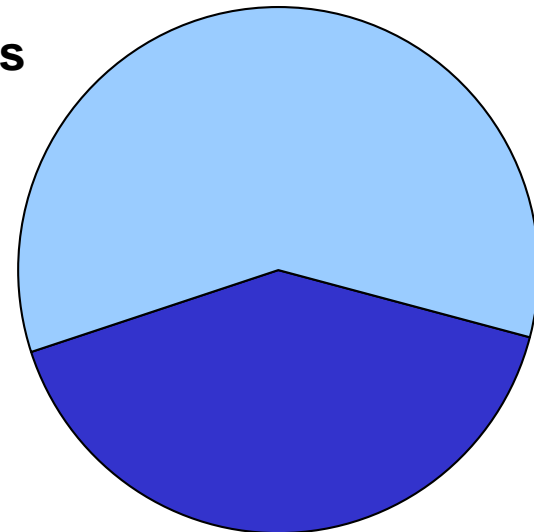
Services



Goods

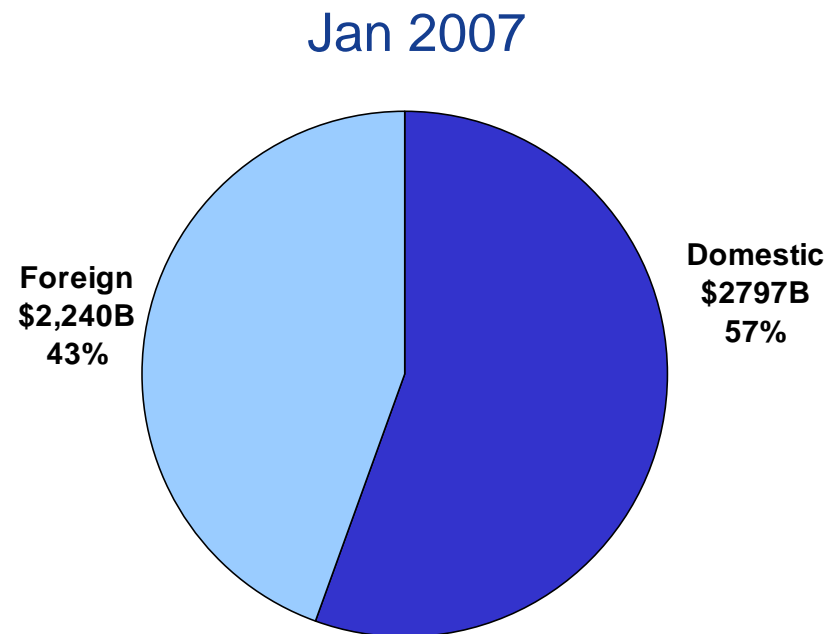
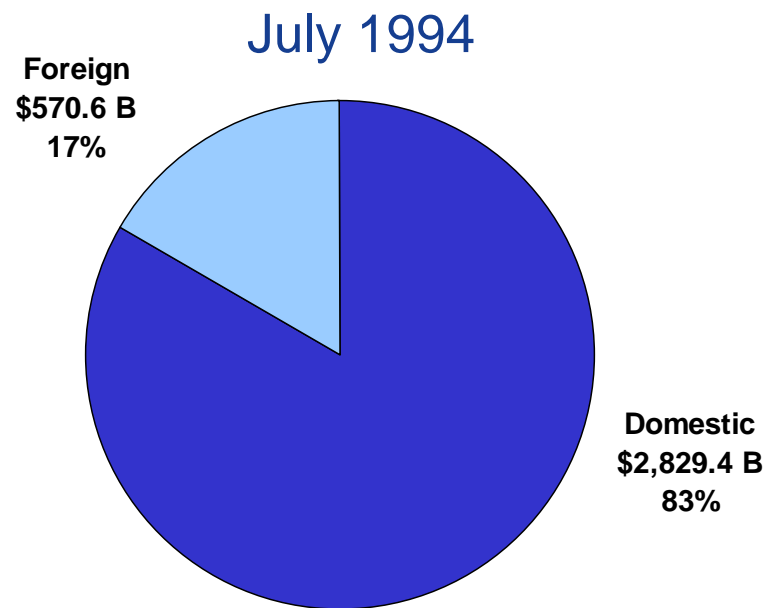
2007

Services



Goods

U.S. - Debtor Nation



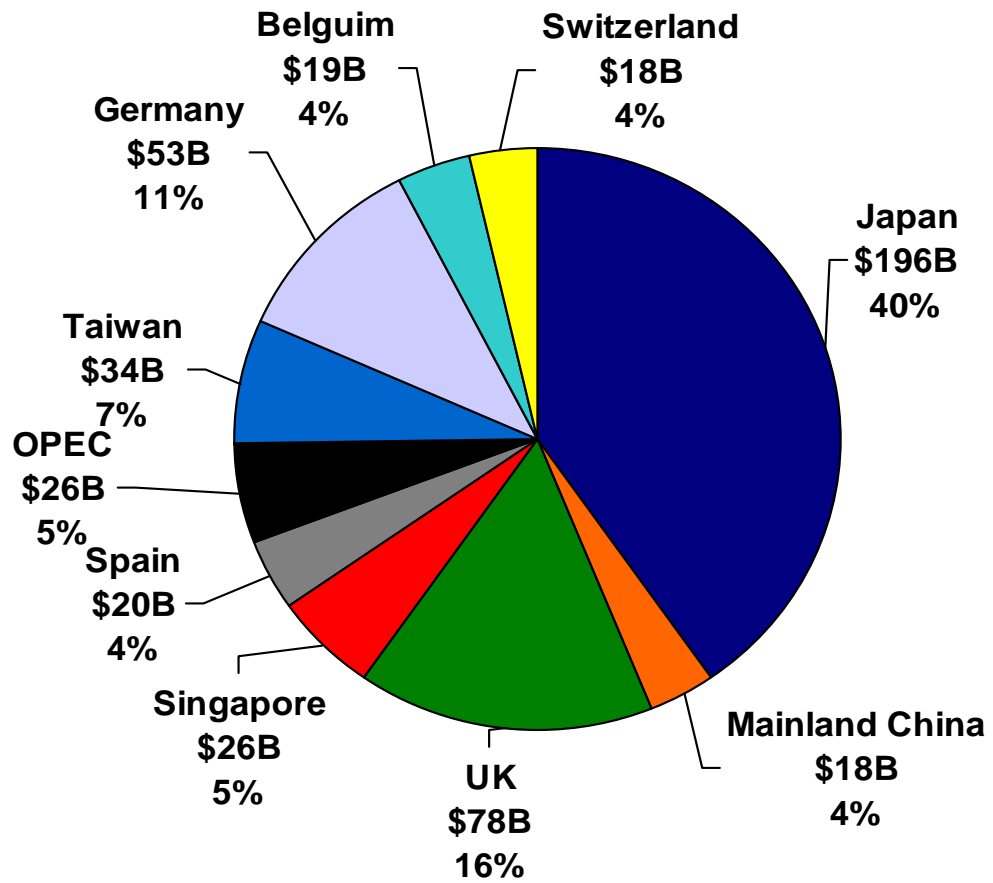
**Total US Net Debt
Growth +48%**

* Does not include intragovernmental debt
Source: Dept. of the Treasury

Then And . . .



Top 10 Foreign Holders of U.S. Treasuries 1994

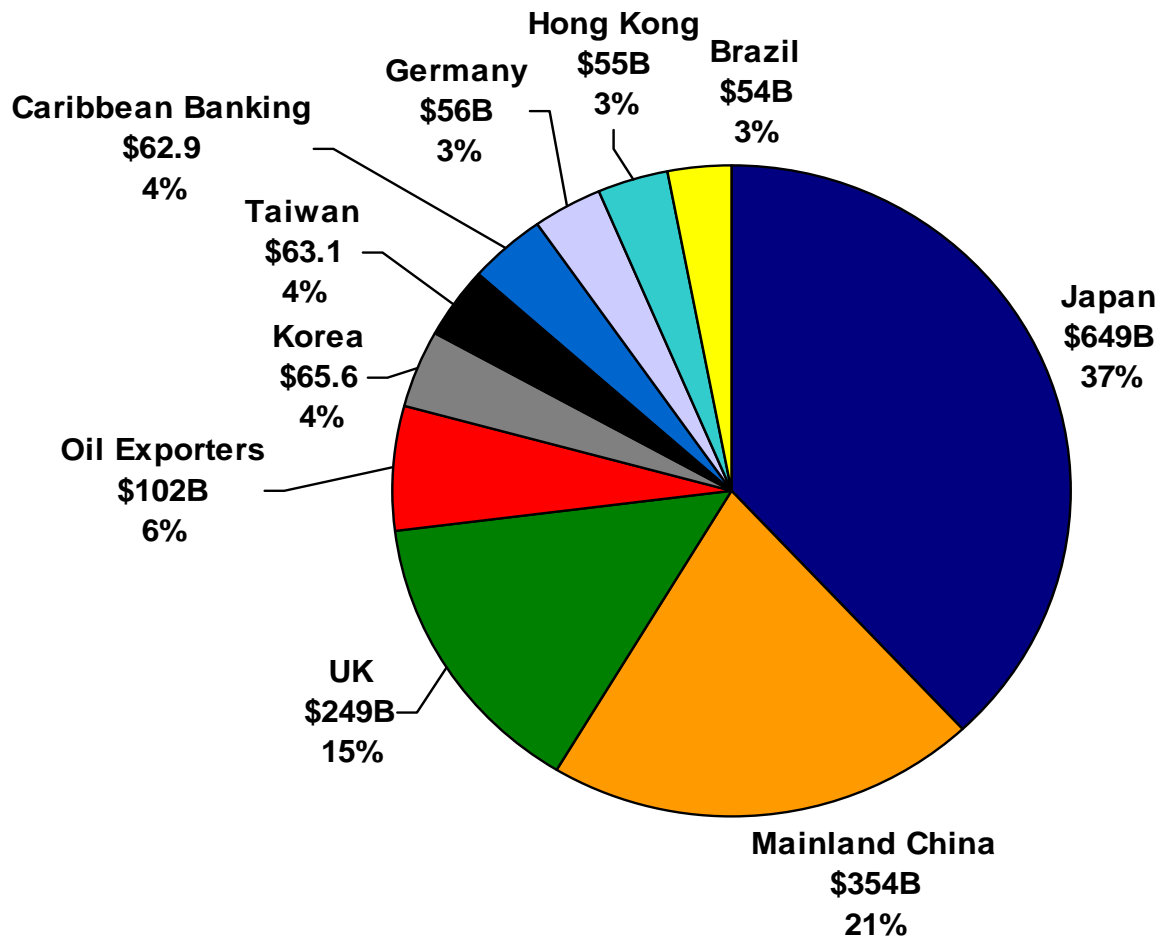


% of Top 10 Holdings
Source: Dept. of the Treasury

Now . . .



Top 10 Foreign Holders of U.S. Treasuries 2007

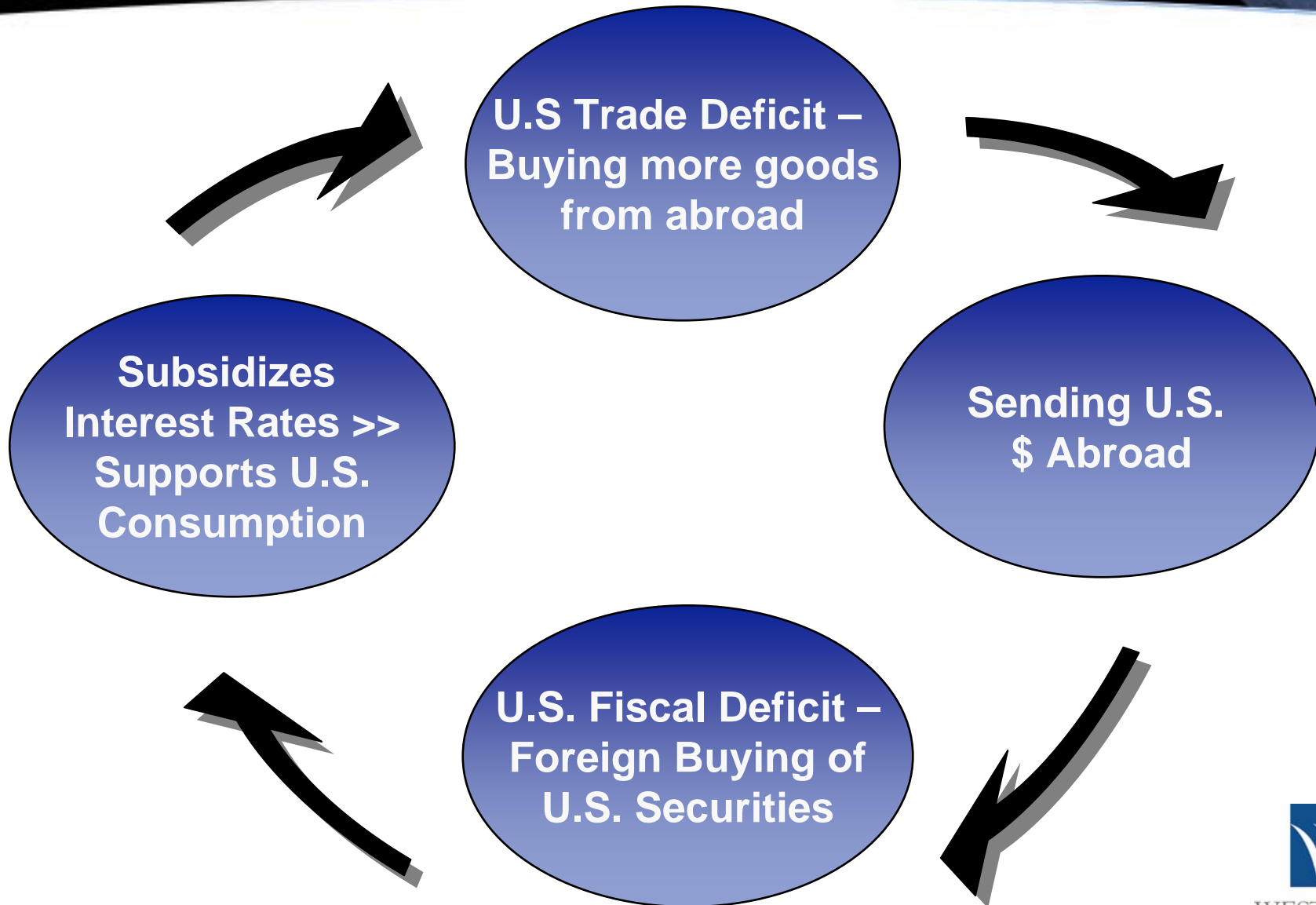


% of Top 10 Holdings
Source: Dept. of the Treasury

U.S. 10-Year Treasury



So Why Are Interest Rates Low?



Sources of Global Liquidity

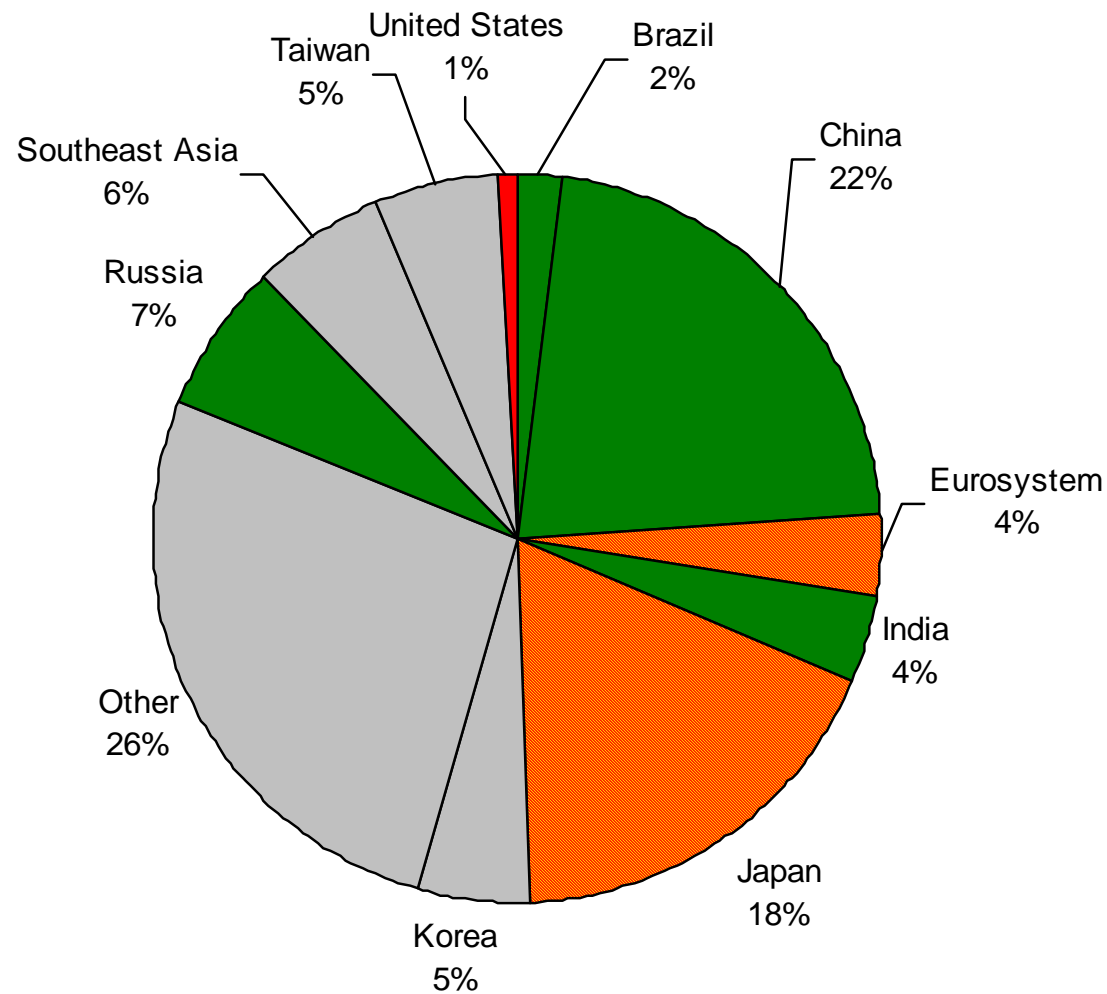


- **U.S. Twin Deficits**
- **Japanese Savings (Yen/Carry trade)**
- **China – unusually profitable fixed investments**
- **Asset portfolio shifts in Eastern Europe due to Euroland membership**
- **Oil at \$50+ - more liquidity than can be absorbed (OPEC, Russia, Azerbaijan)**



Global Liquidity

International Reserves (% of Total)

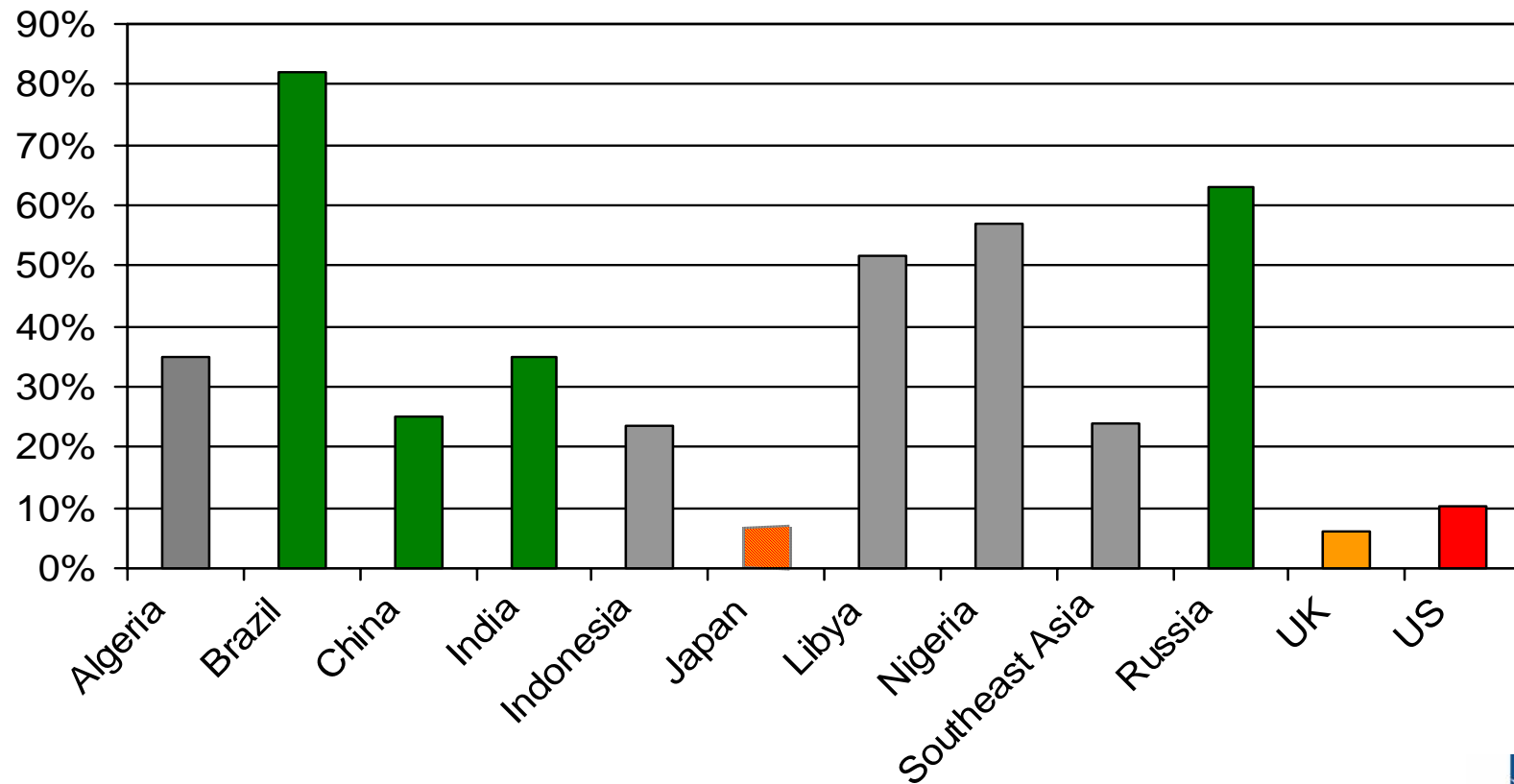


Source: Bloomberg

Global Liquidity



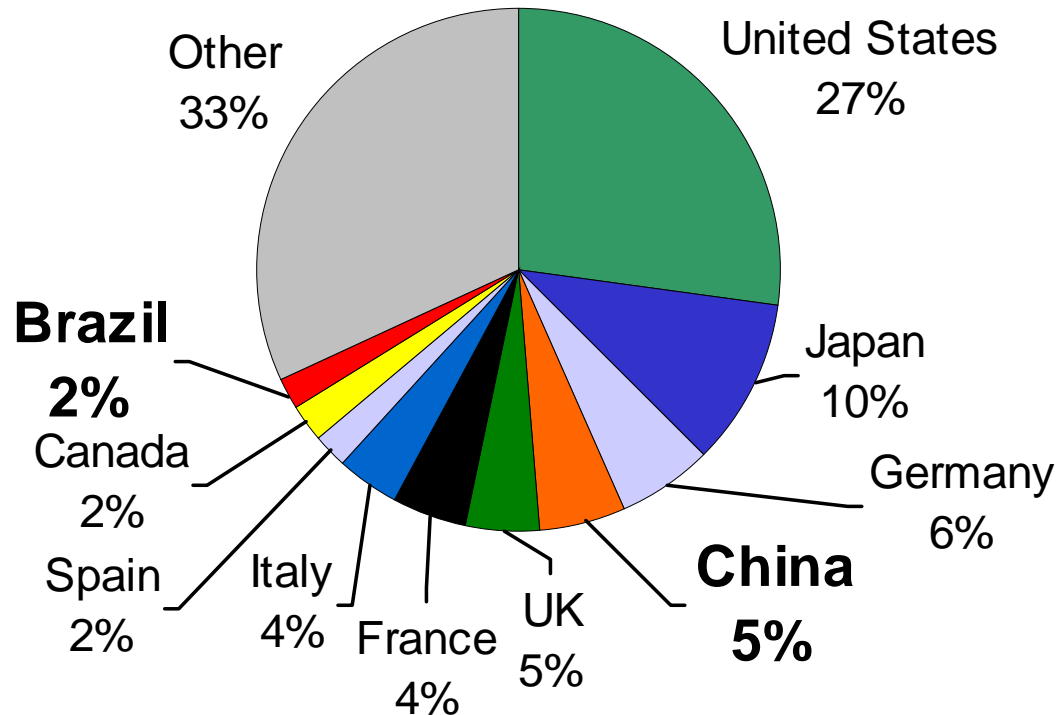
Year Over Year % Change in Reserves



Old Money (Asset Rich)



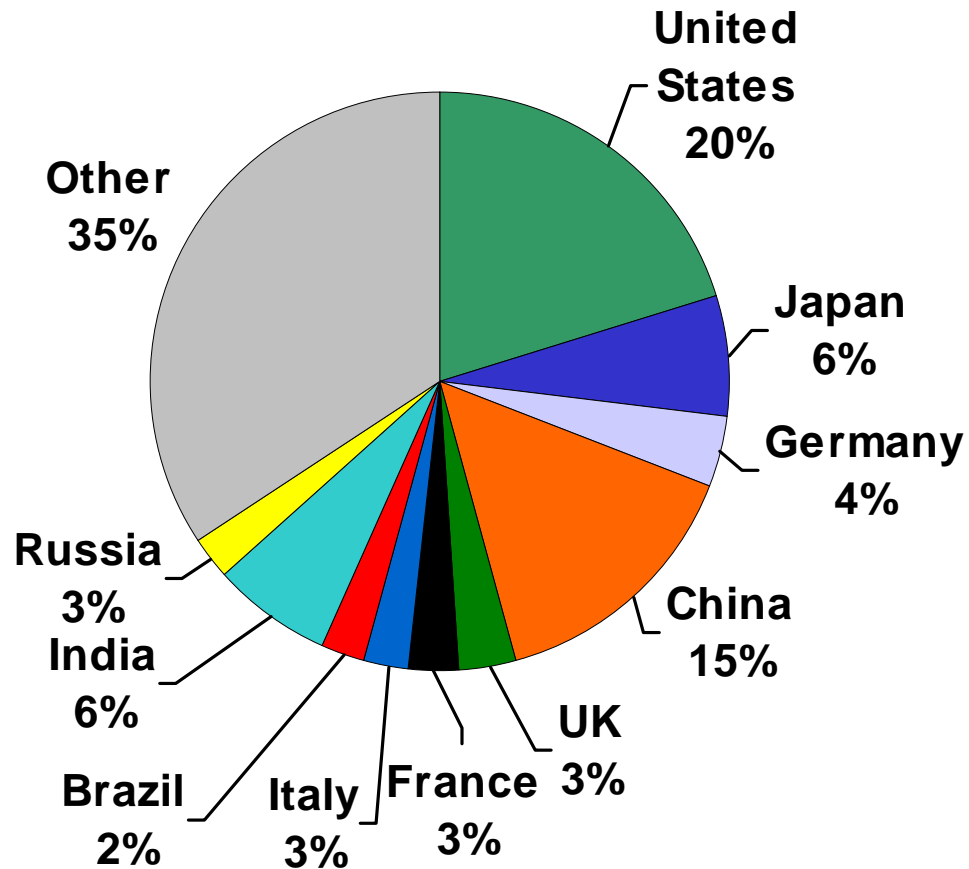
% of World GDP - Current Exchange Rate Basis



New Money (Cash Rich)



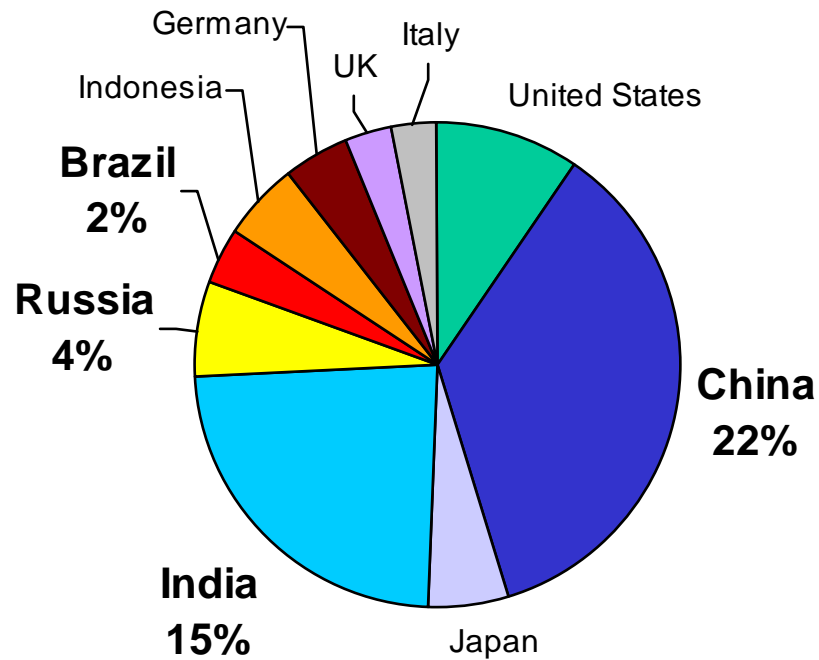
% of World GDP - Purchasing Power Parity Basis



World Population

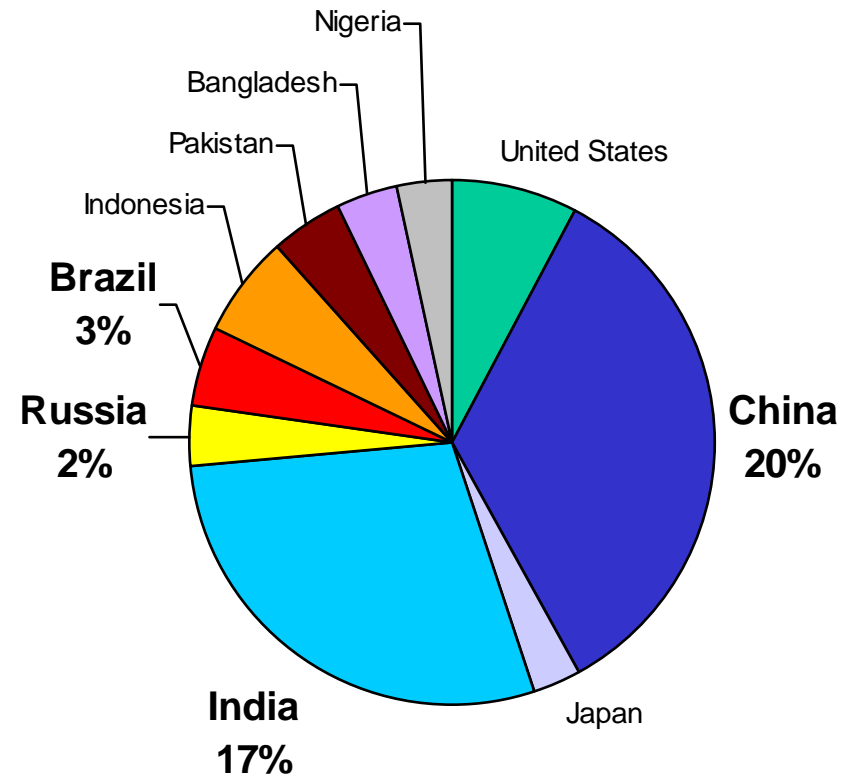


World Population 1950



2.6 Billion people

World Population 2007

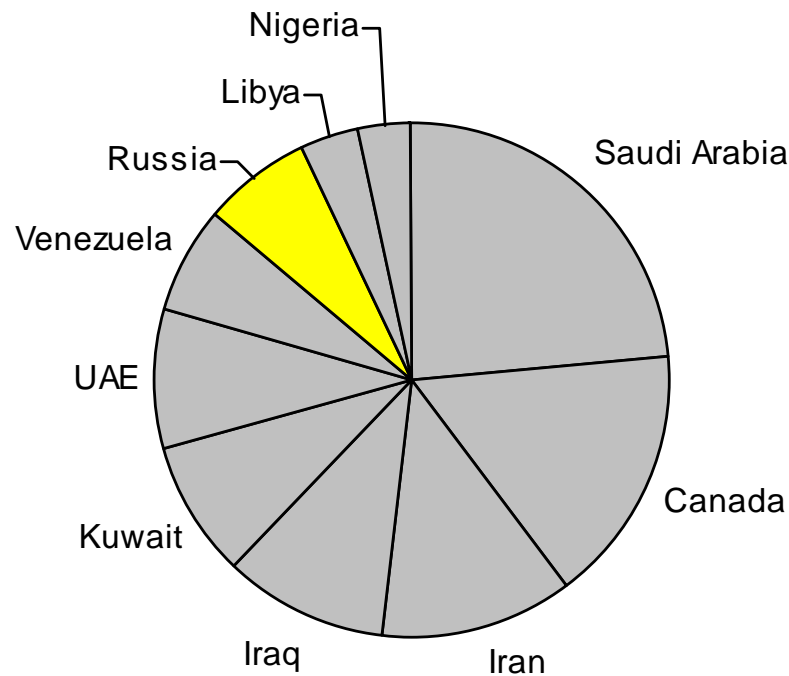


6.6 Billion people

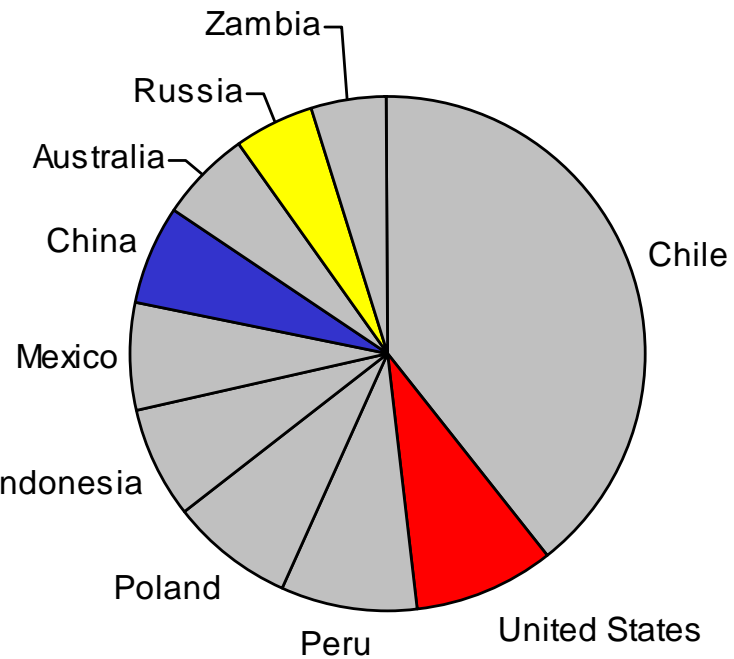
Top 10 Countries: The Emerging Role of BRICs



Oil Reserves



Copper Reserves



Emergence of Competing Demand



Source: Bloomberg

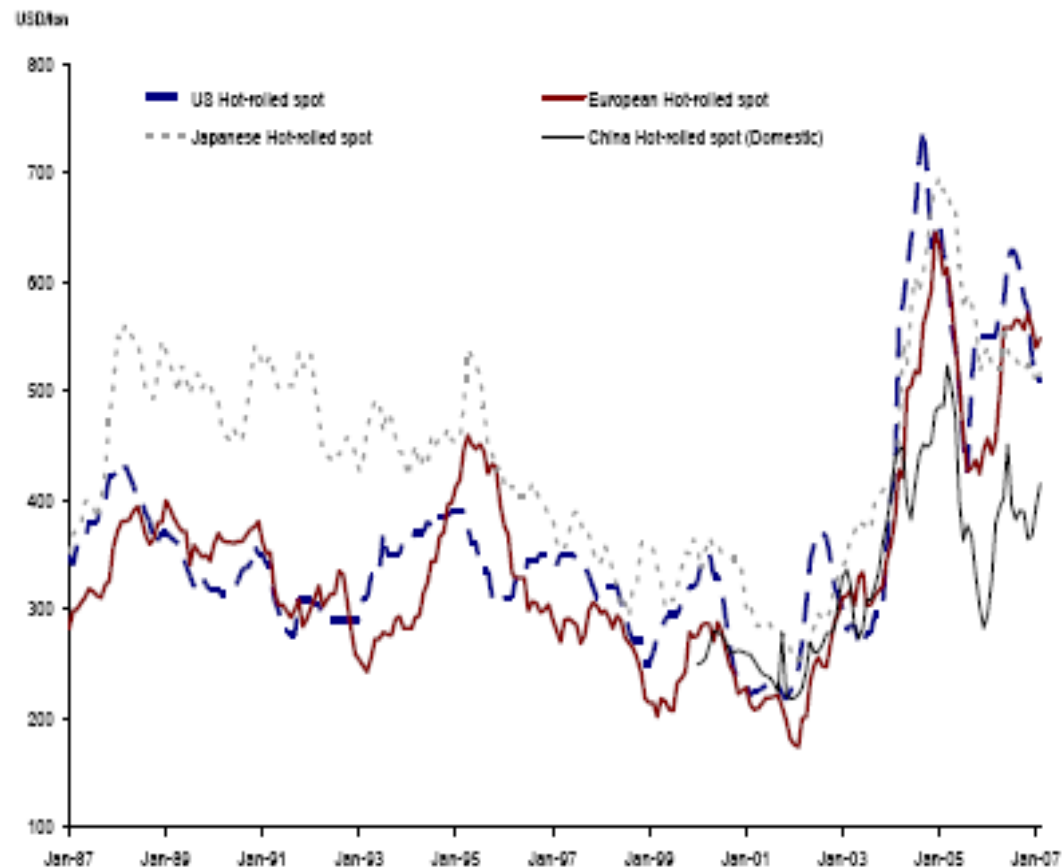


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BRIC Demand Sets Price



Global demand forces steel prices up around the world



Source: CRU.

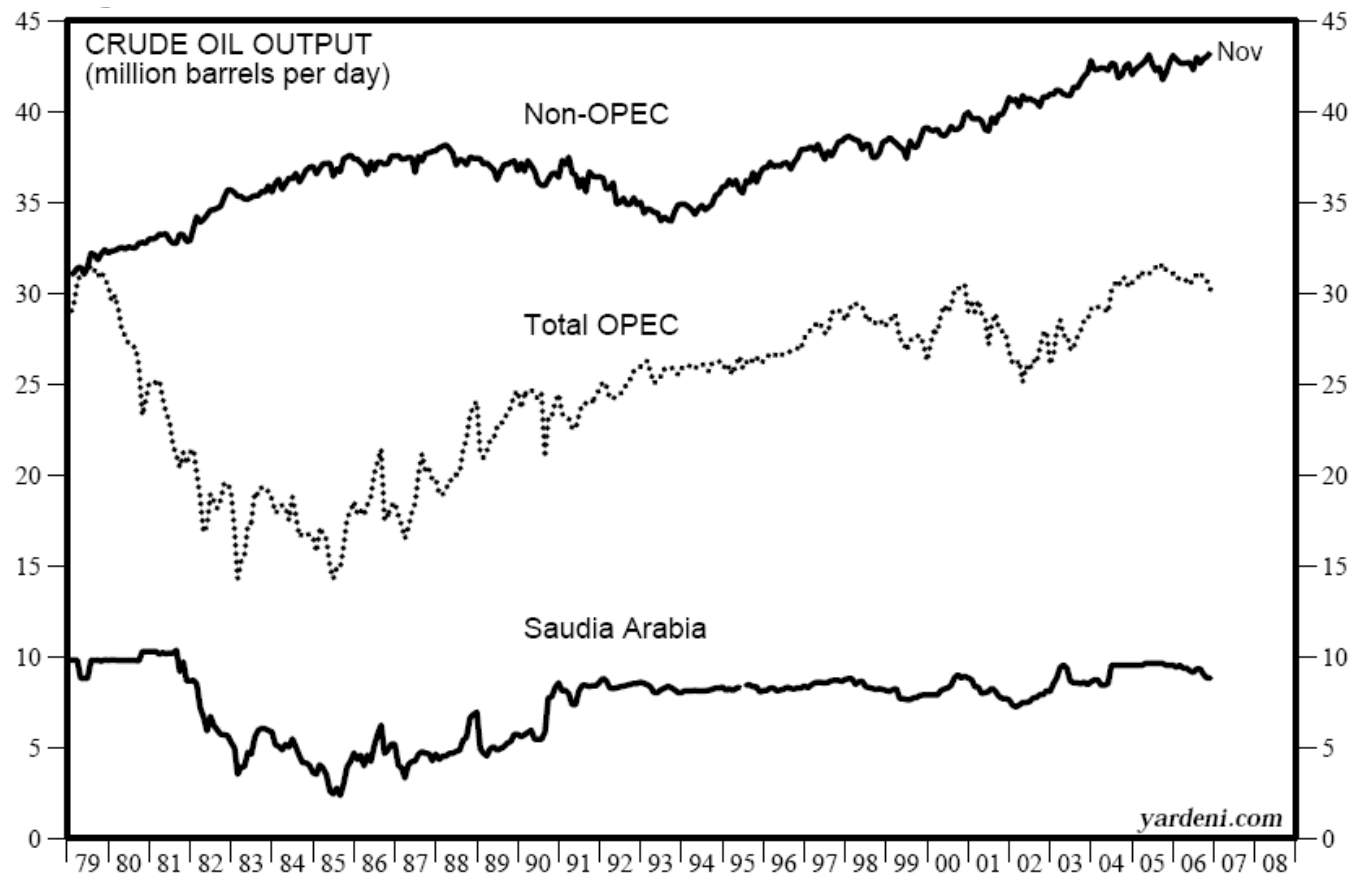


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Commodities – Domestic vs International Demand



Commodities – Price Rise Reflects Competing Demand



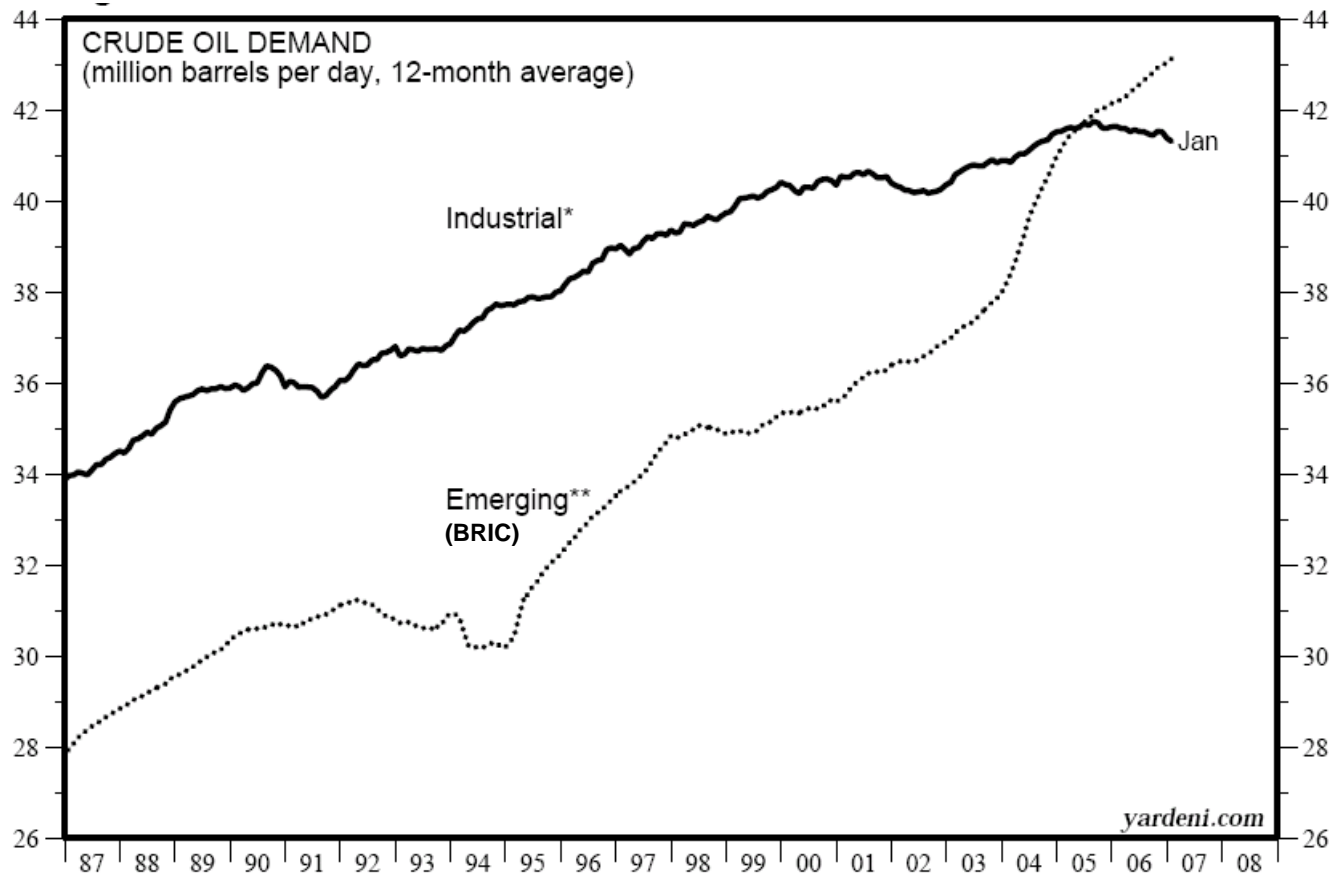
Source: US Department of Energy.

Source: Yardeni.com



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BRIC Demand Sets Price



* US, Western Europe, and Japan.

** Total excluding US, Western Europe, and Japan.
Source: Oil Market Intelligence.

Source: Yardeni.com

We are 5% of the World population and use 30% of Supply



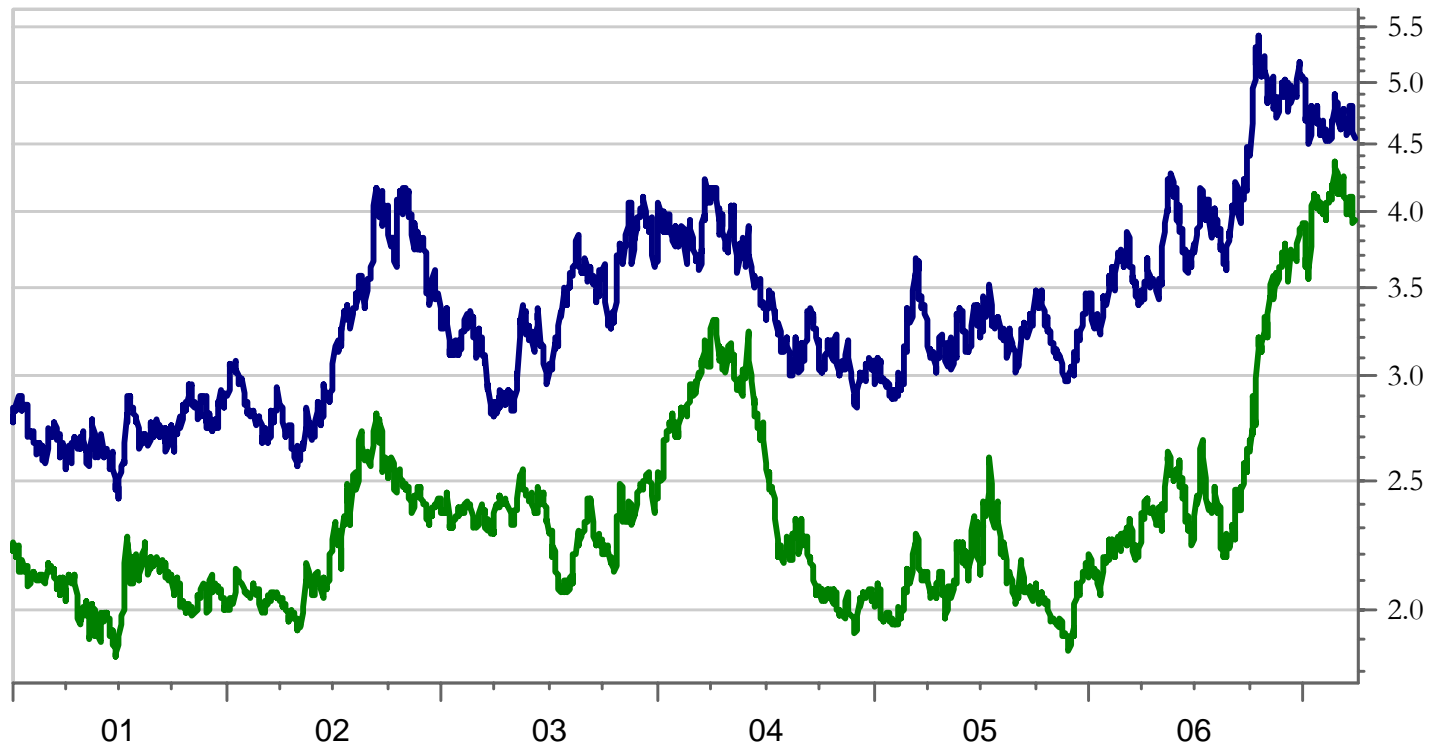
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Corn & Wheat Prices



Prices

- Wheat (Chicago) - Historical Futures
- Corn - Historical Futures



Data Source: IDC / Exshare



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Domestic Real Estate Priced By Foreign Investors



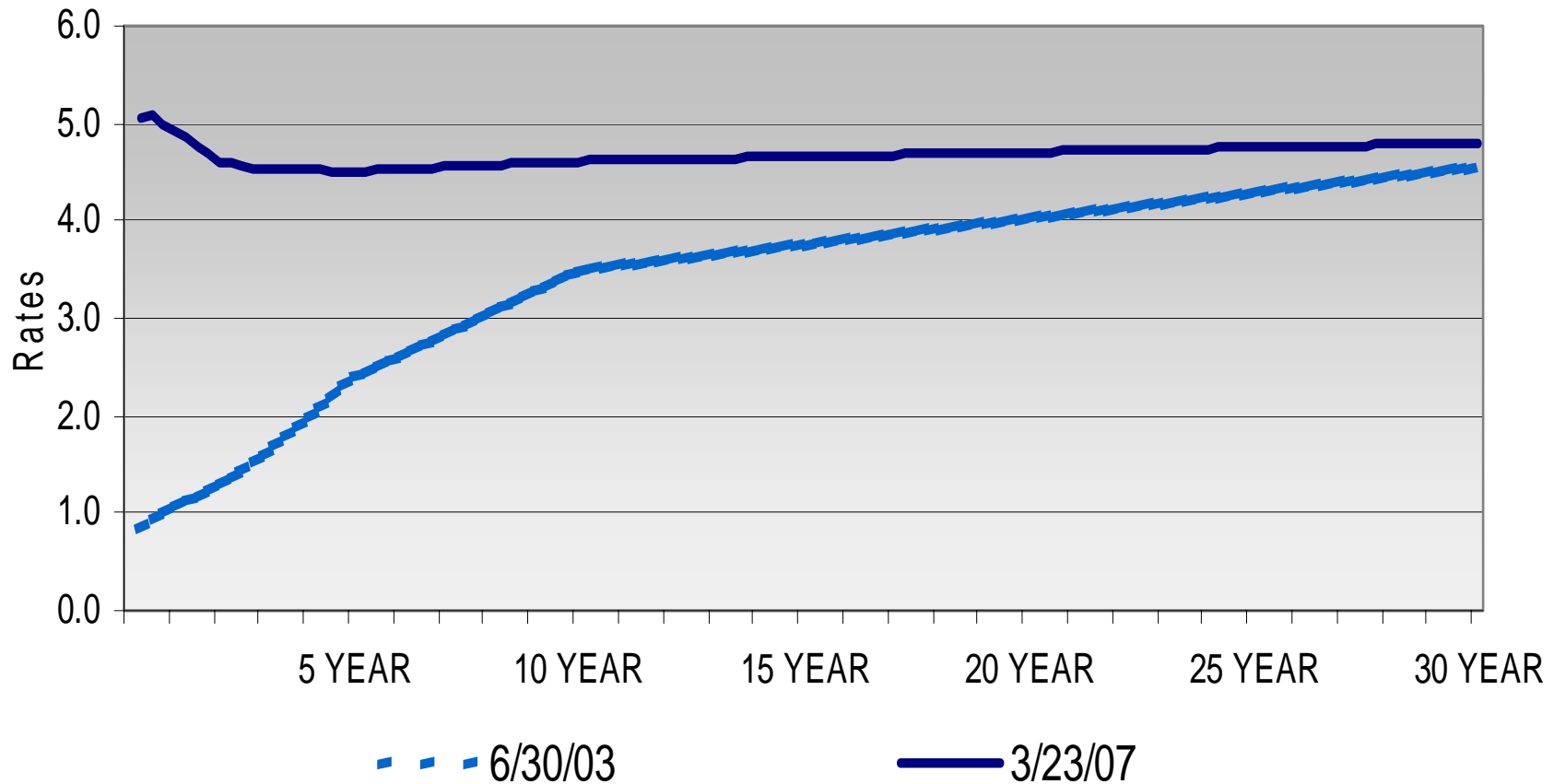
REIT earnings yields are almost 250 bp lower than bond yields.



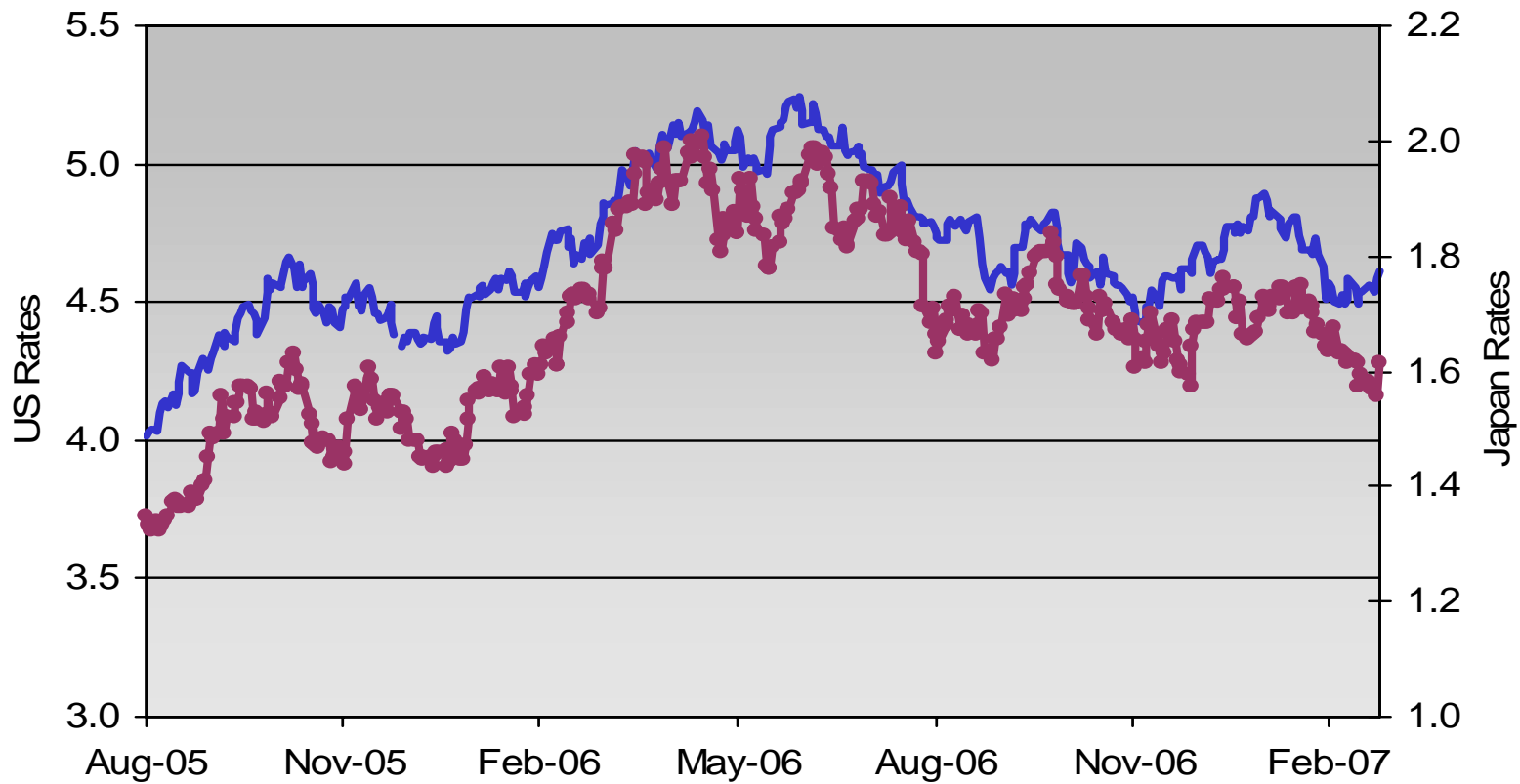
- (1) Historical AFFO estimates have been adjusted (lowered) to account for the current level of cap-ex. Historical estimates were inflated because we underestimated cap-ex.
- (2) Average yield-to-maturity on selected Baa-rated long-term (30-year) corporate bonds, as calculated by Moody's Investors Service.

U.S. Yield Curve

Fed Only Controls Short Rates



Global Yields



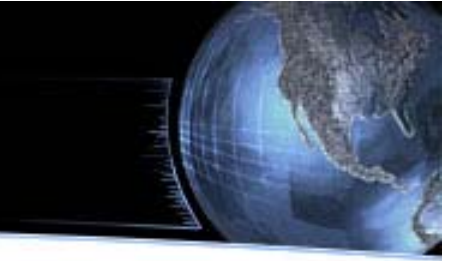
— US Treasury 10 year

—●— Japan Govt 10 Year (Right)



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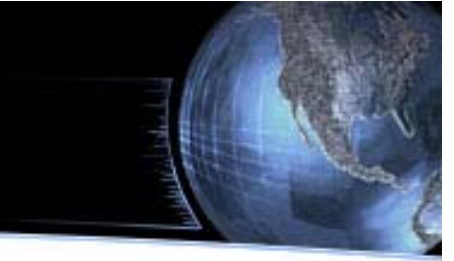
Price Takers



Just because we can't afford it,
doesn't mean it's too expensive.



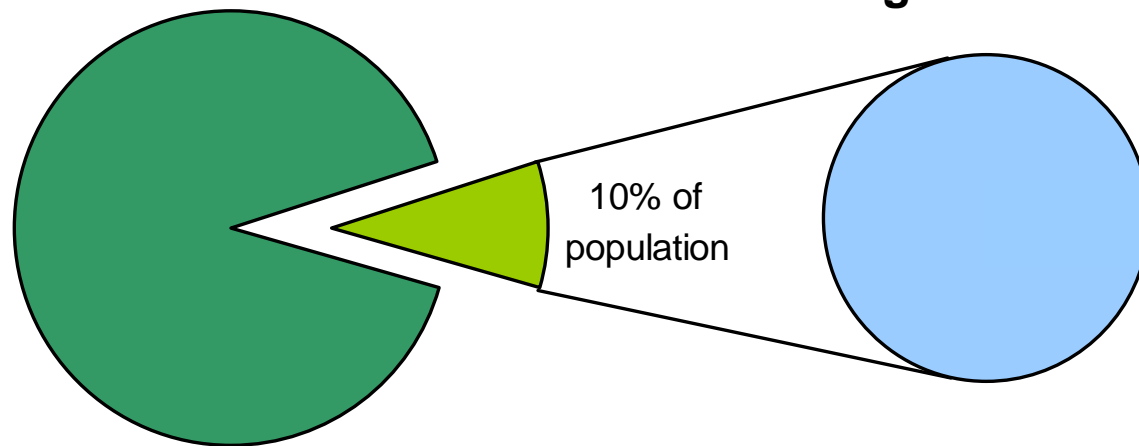
Personal Consumption Goes Global



Purchasing Power of China

**1.3 billion =
China's
population**

**130 million =
Japan's
population (2nd
largest economy)**



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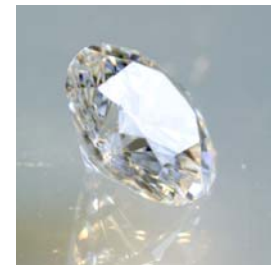
New World Formula



+



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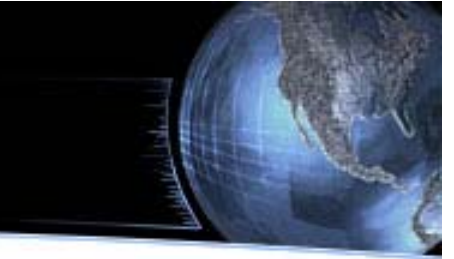
Things To Watch In 2007



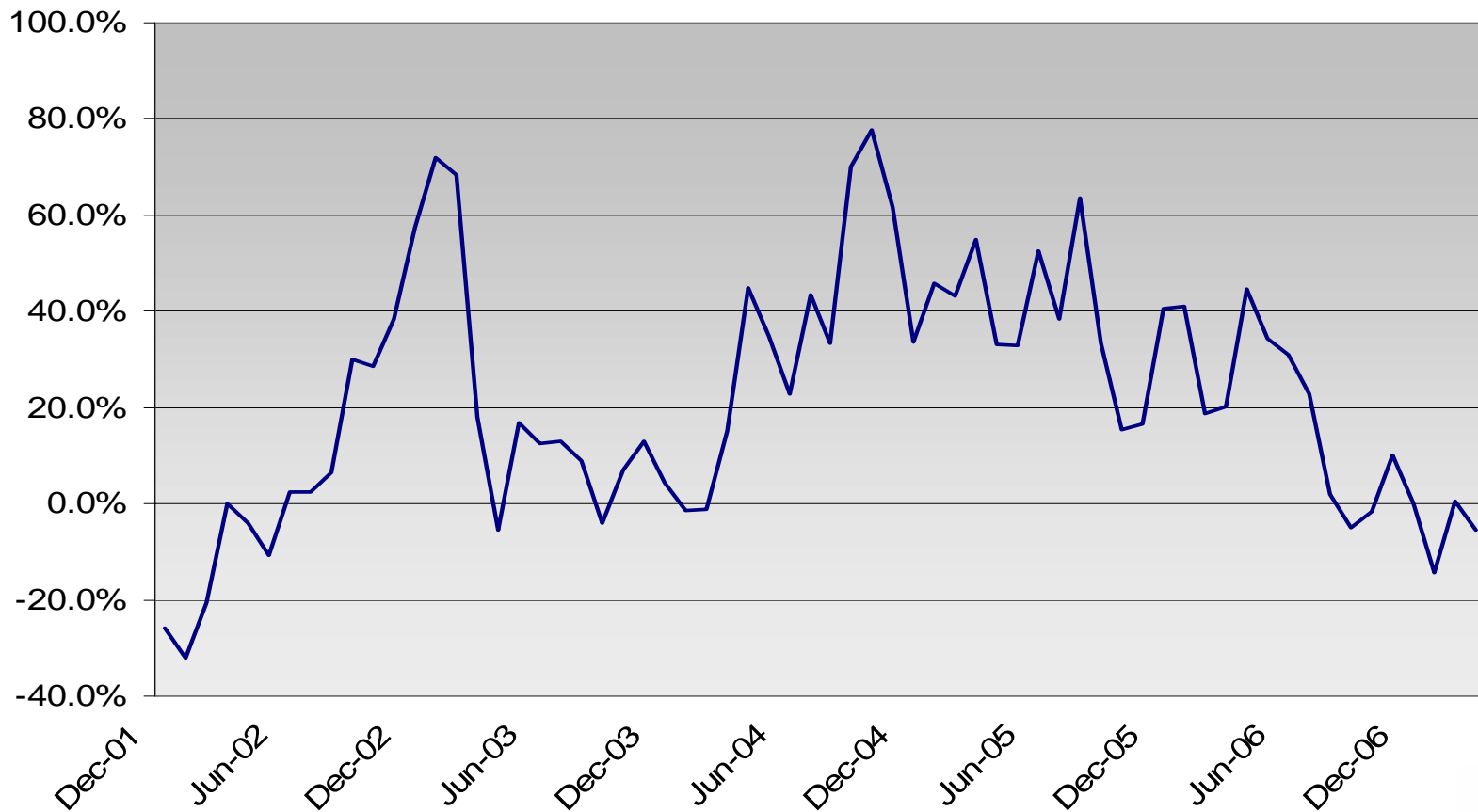
- **Rate of Change in Price of Oil**
- **U.S. Trade and Fiscal Deficits**
- **Value of the Yuan**
- **BOJ Monetary Base**
- **Change in Risk Premiums among Riskiest Asset Classes**



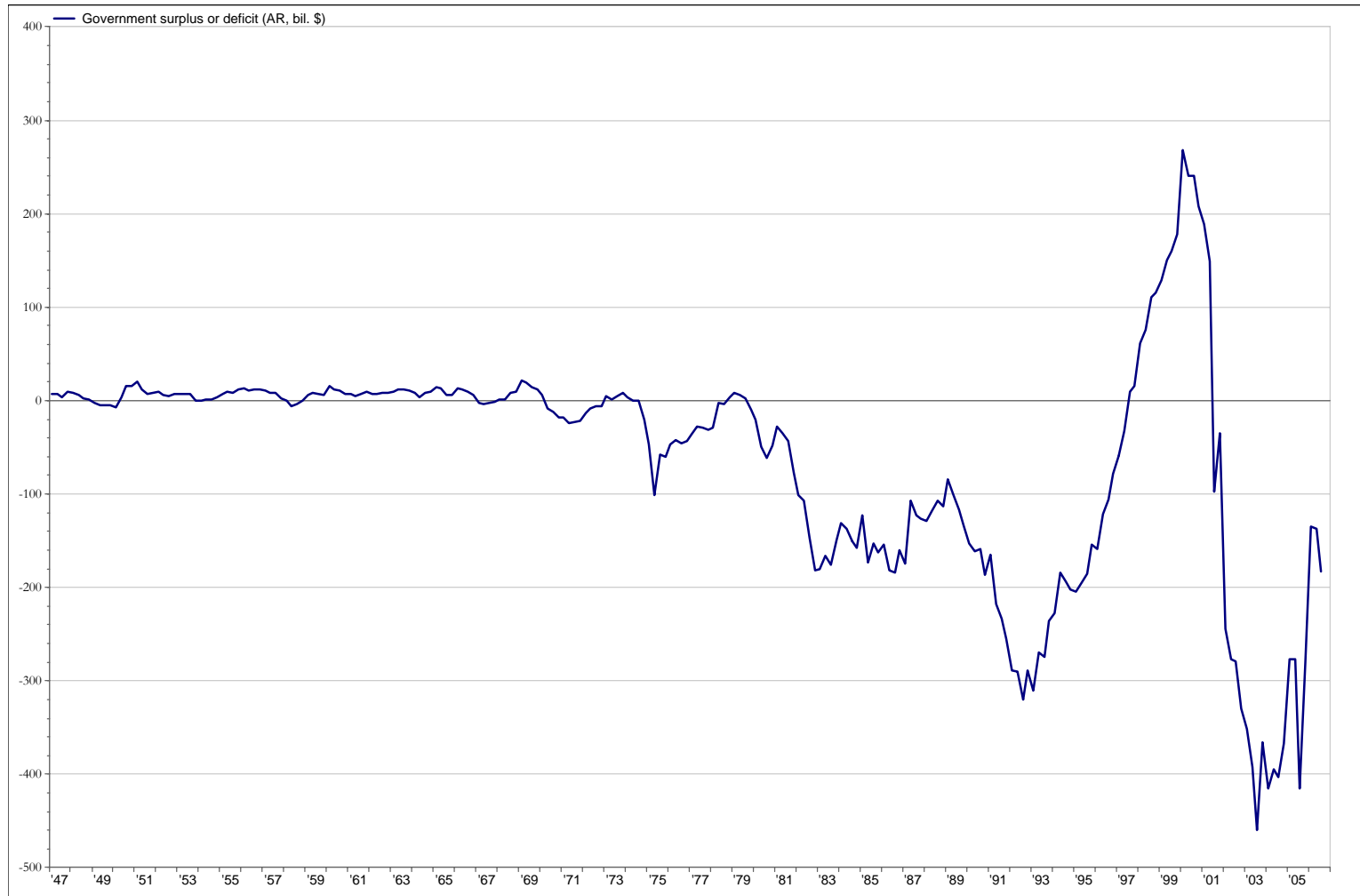
Rate of Change in Price of Oil



Year-Over-Year % Change



U.S. Federal Deficit

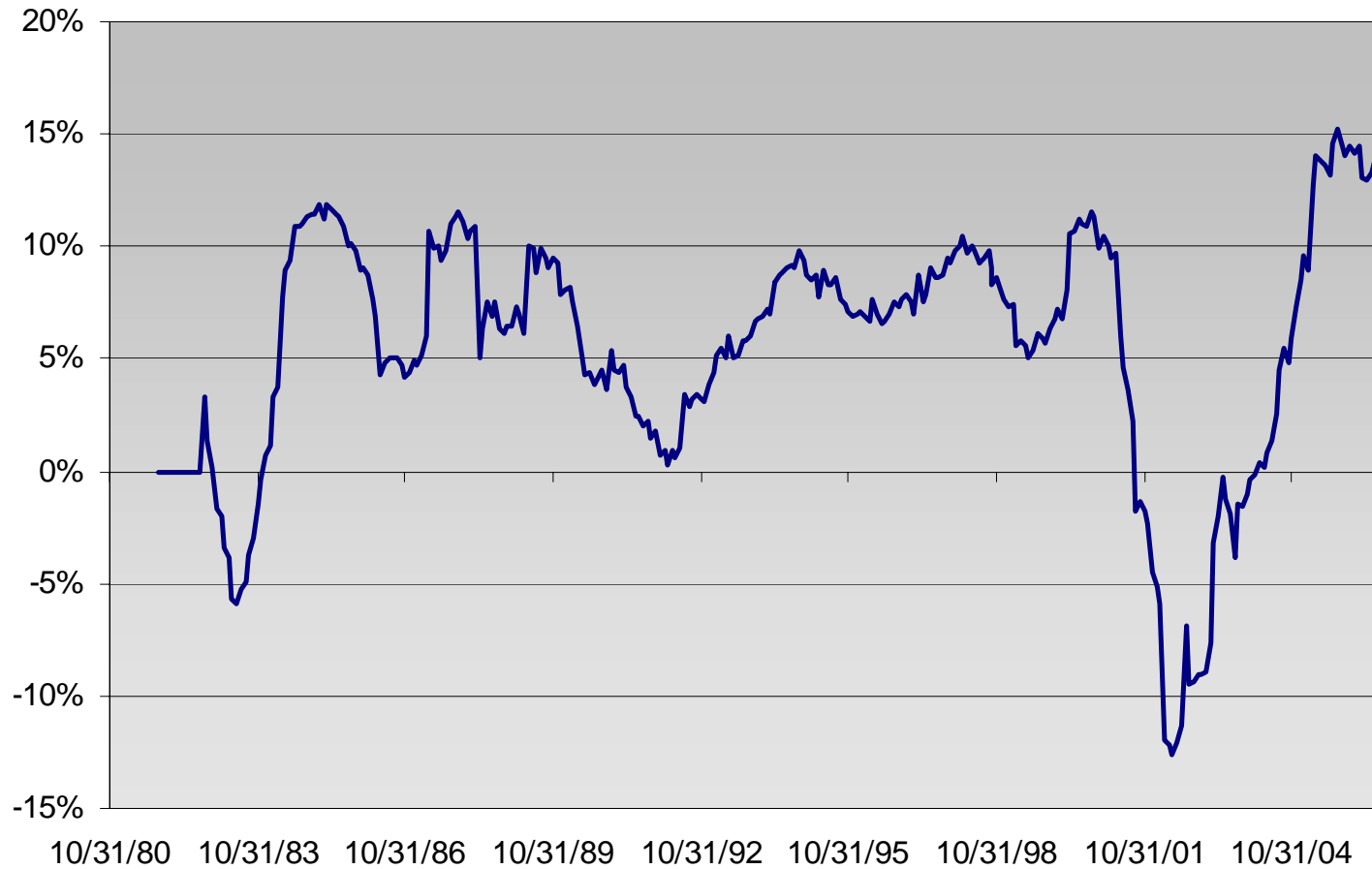
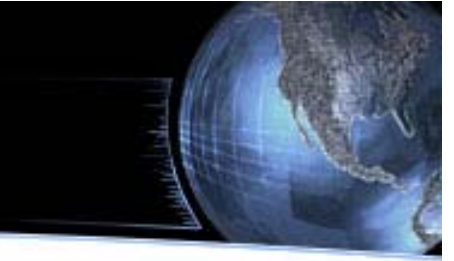


Source: Factset



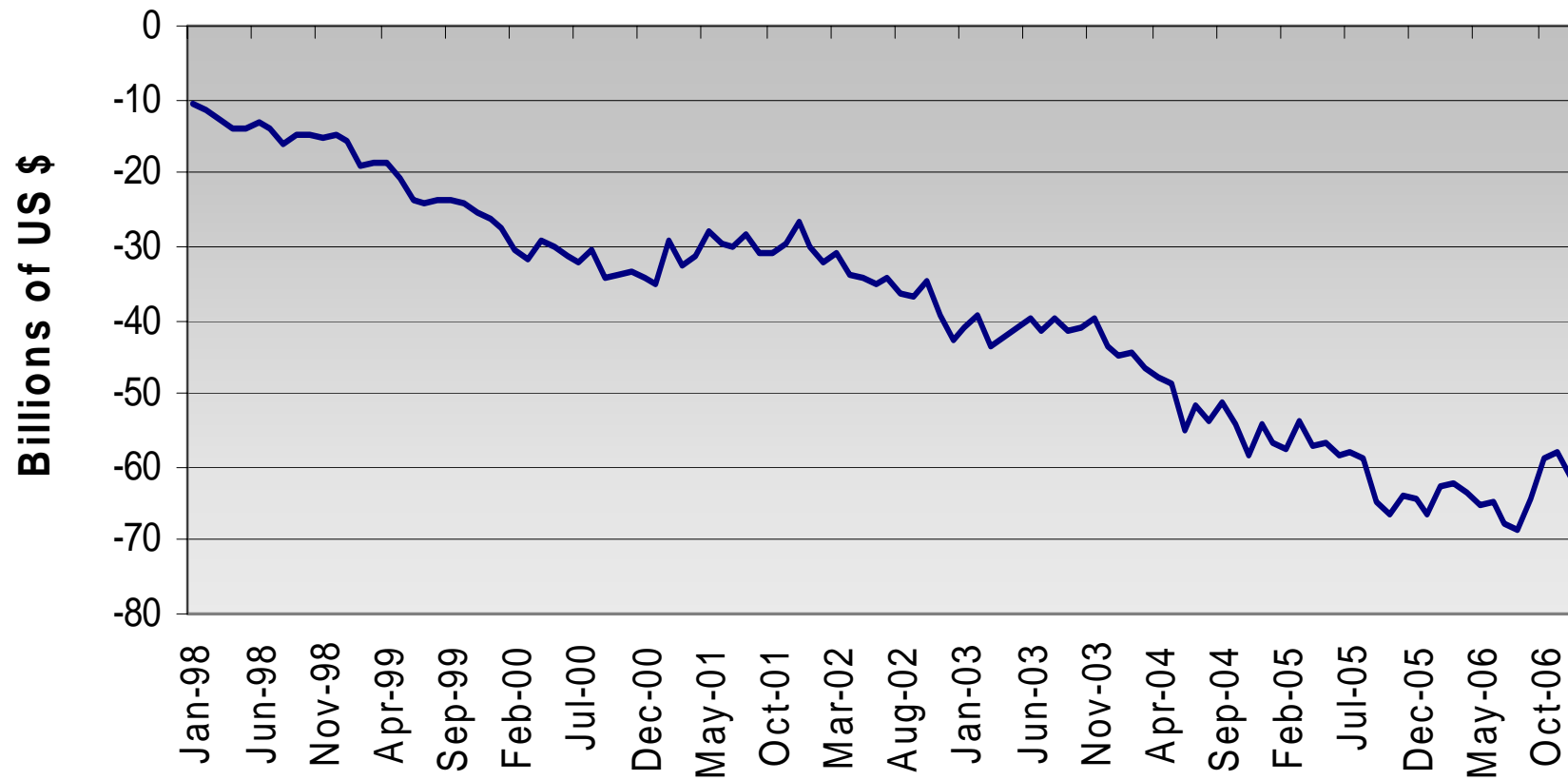
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Growth In Average Tax Receipts



Source: Department of the Treasury, Monthly Treasury Statement

U.S. Trade Deficit

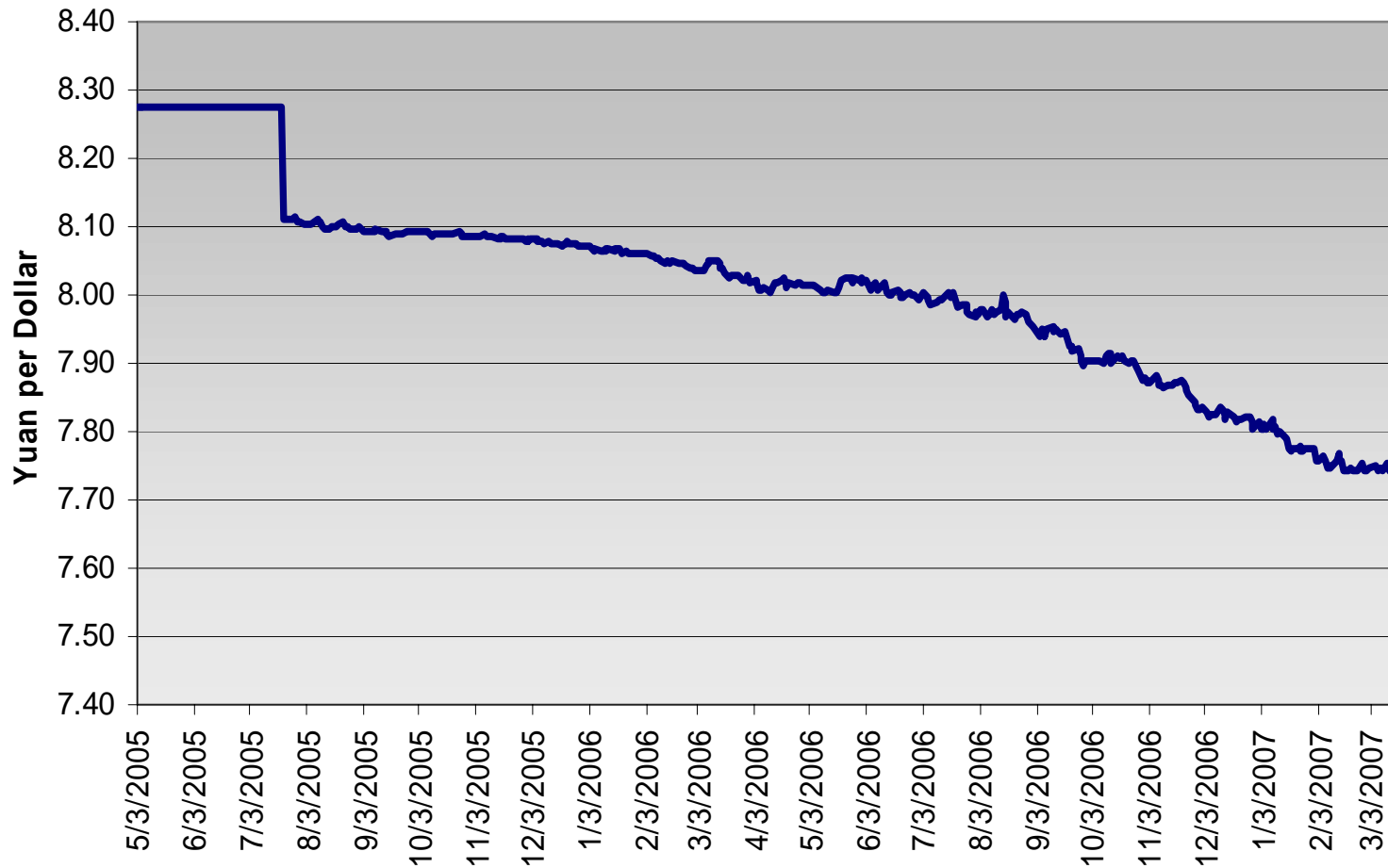


Source: Bloomberg



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Value of the Yuan

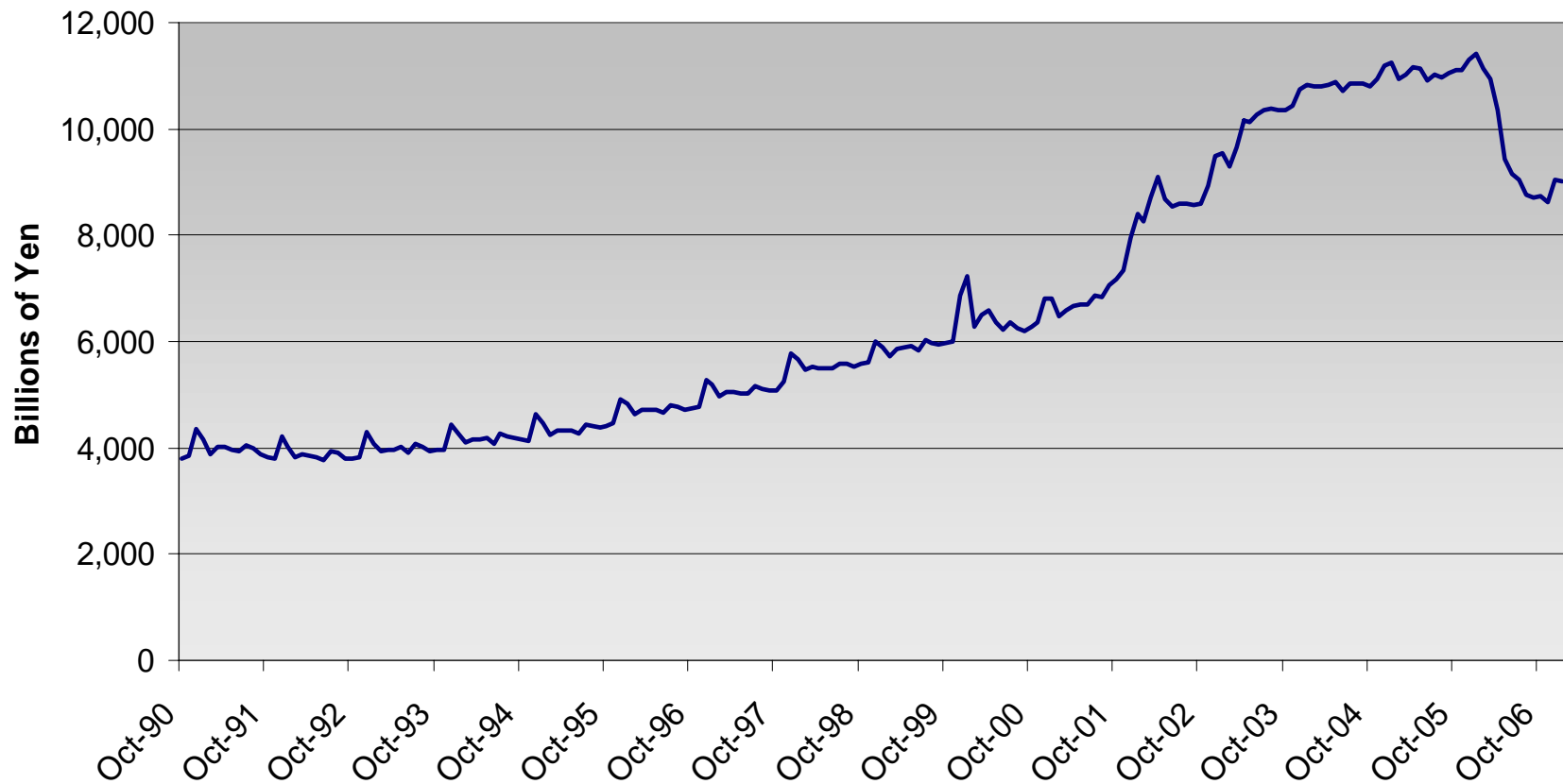
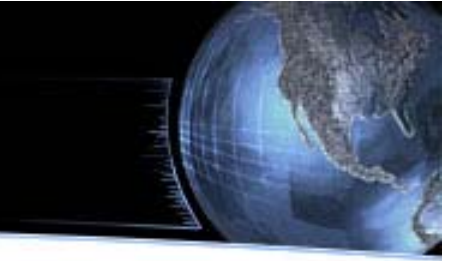


Source: Bloomberg



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Bank of Japan Monetary Base



Source: Bloomberg

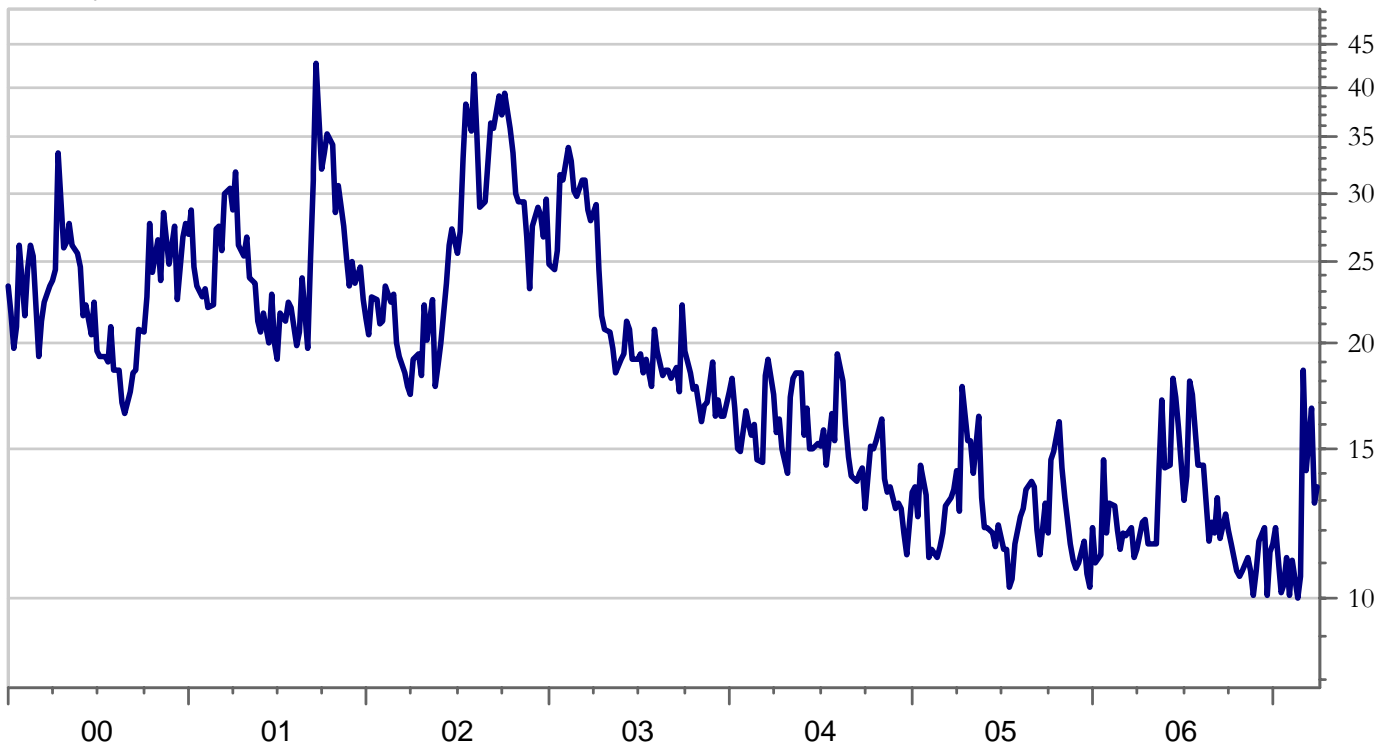


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Global Liquidity Leads to Reduced Volatility



CBOE Market Volatility Index (VIX)
Weekly from 31-Dec-1999 to 27-Mar-2007

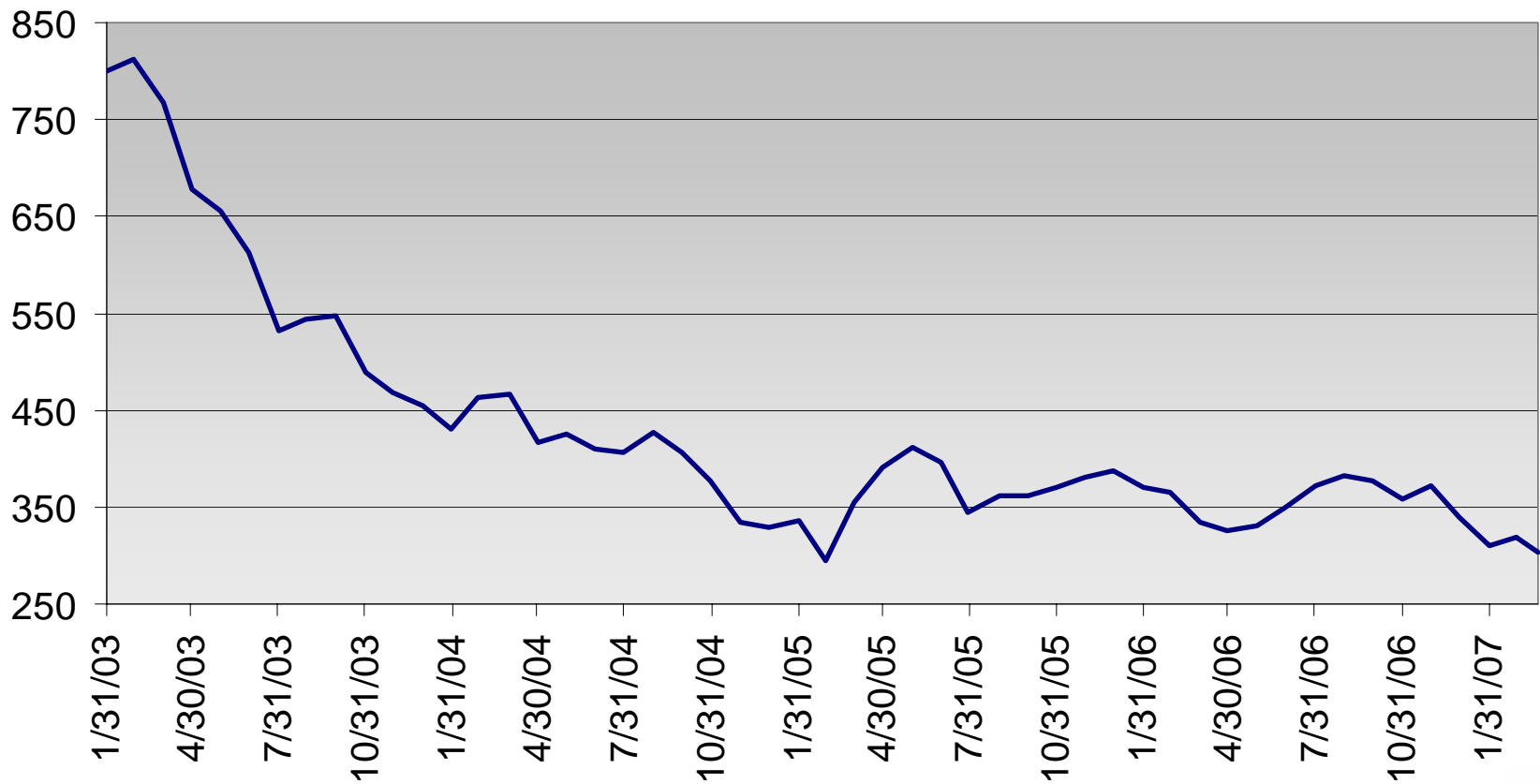


Data Source: IDC / Exshare



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High Yield Spreads





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