Press release

Wednesday 29th April 2009 **LONDON**

US outlook: the worst may be behind us, says RCM

- **The US is still in recession, but the worst may be behind us**
- **Sentiment and clarity have improved**
- **US government actions have been more Wall Street friendly than expected**

Scott Migliori, co-Chief Investment Officer of US Equities at RCM, the specialist global equity company of Allianz Global Investors, comments on the dynamics behind the current rally and the outlook for the US.

"We have seen an improving equity market in the US since early March, but you need to go back to February to appreciate the sentiment and dynamics behind the significant bounce we have been experiencing. In February, fear and uncertainty engulfed the equity markets due to the incoming Obama administration, the proposed stress-test for the banking sector, and the lack of transparency regarding new banking proposals. The latter which were expected to be released as early as January did not get formalised until early March. There was fear of impending nationalisation for many major banks, fear that equity holders would be wiped out as a result, and no clarity on which financial institutions would be spared. As a result, from the early part of the year to early March, there was a decline of over 50% in the financial services index. Many of the banks in the US were trading at 30% to 40% of tangible book value – levels we had not seen since the late 1980s or early 1990s. On top of that there was a rising populist anger directed at recipients of TARP government financing, specifically AIG. From a macroeconomic perspective all the economic data points also appeared to be in a free fall.

Improving sentiment

"Since then we have seen a major shift in sentiment driven by better clarity and more certainty on the financial services side as well as some stabilisation in some macroeconomic data points. In financial services, while we certainly don't have absolute clarity, there is now more visibility as to how the current administration plans to deal with toxic assets. Treasury Secretary Geithner, through the heavy use of taxpayer backing and a significant amount of leverage, has laid out a public-private investment plan (PPIP) essentially designed to incentivise private investors to pay - perhaps overpay - for the bad assets on the banks' books.

"PPIP has been a welcomed positive surprise for many as it is much more Wall Street and bank friendly as compared to the hard line rhetoric voiced by the Obama administration in February. This has led to a diminished fear of capital shortfall and nationalisation. It remains, however, an open question as to how many banks will participate in the programme given the fact that a lot of the bellwether banks have already marked down many of their problem loans.

"In terms of the stress test, there is a growing sense that this is not going to be nearly as onerous as feared. The New York Times has called it a 'pass-pass test' where even those financial institutions that do not meet the government standards will be given an opportunity to correct their capital deficiencies in a more bank friendly manner.

"In terms of quantitative easing the Federal Reserve has announced that they are likely to purchase $300 billion in Treasury securities over the next six months. Quantitative easing is designed, in part, to lower mortgage rates and in that respect it has been successful thus far. For instance, 30 year fixed rates in the US are now at roughly 4.8% - the lowest rate we have seen in well over a decade.

“Not coincidentally, we have seen some signs of stabilisation from a macroeconomic perspective with the common parlance referring to ‘green shoots', which implies some growth, albeit small and somewhat insignificant at this point. Specifically, we have seen what appears to be a peak in the inventory to sales ratio in the US, an encouraging uptick in new manufacturing orders, and even some stabilisation in automotive sales. We have also seen, not surprisingly, a big uptick in mortgage refinancing activities due to the lower rates.

Winners and losers

“While the current environment is certainly tough for any company or industry, there are some that are more economically insensitive or counter cyclical in nature. For example, the best performing areas in the US last year were the traditional safe havens of consumer stables and healthcare, which tend to be less economically sensitive. In the case of healthcare, there were also some fairly interesting and powerful product cycles, especially in biotechnology. Going forward we are more concerned about healthcare given the price and margin pressure we may see as a result of efforts by the Obama administration and the Democratic Congress.

“The for-profit education space in the US also looks attractive. These education companies (both for profit and not-for-profit) are counter cyclical in nature and witness acceleration in enrolment as unemployment rises. One somewhat counter intuitive sector that has also showed signs of improvement, both in the downturn and in the early part of the year, is technology. Technology in the US had been largely neglected since the dotcom bubble, but there are now many companies with very strong balance sheets that generate significant amounts of cash flow with compelling valuations such as free cash flow yields that are well above historical averages. This sector could be a leadership area coming out of this recession.

“Over the course of the last few weeks, an improvement in sentiment, a change in thinking towards the financial services sector, and some bottoming out in macroeconomic activity has generated what I would call a ‘less bad’ rally. One that has moved higher on the basis of events and developments being not as bad as feared, as opposed to actually being good in any real respect. We are certainly still in a recession in the US, but the hope is that the worst may be behind us. Our view from a macroeconomic standpoint is that we are likely to see some uptick in GDP in the fourth quarter of this year. In terms of the sustainability of the current rally, we have some concerns about the emerging consensus in the US calling for a positive third quarter GDP. We believe that level of optimism may be a little premature at this point.”

- Ends -

For more information:

Roger Miners, Head of Institutional Business Development & Client Service, RCM, Phone 020 7065 1491
Emma Taylor, Press Office, RCM, Phone 020 7065 1526
Amy Butler, Lansons Communications, Phone 020 7566 9709

Notes to Editors:

Past performance is not a reliable indicator of future performance. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation and anyone who acts on it, or changes their opinion thereon, does so entirely at their own risk. The opinions expressed are based on information which we believe to be accurate and reliable, however, these opinions may change without notice.

.. / 3

informed RCM

About RCM (all data source: RCM as at 31/12/08)

RCM is a global asset manager operating from six international offices - San Francisco, London, Frankfurt, Hong Kong, Tokyo and Sydney - with assets under management of over €60 billion/$83 billion worldwide. The firm provides a range of investment management solutions to institutions and individual clients. At RCM we believe that by generating and exploiting an information advantage, we will be able to deliver superior and consistent investment results for the benefit of our clients - a philosophy we call RCM informed. RCM is a company of Allianz Global Investors, a pre-eminent global asset management group committed to helping clients achieve sustainable success. As a company of Allianz Global Investors, RCM offers a distinctive investment philosophy and culture, while benefiting from the scale and substantial resources of our parent; including business support, industry best-practices and financial investment. This enhances our ability to attract and retain talent, and provide superior insight and investment performance.