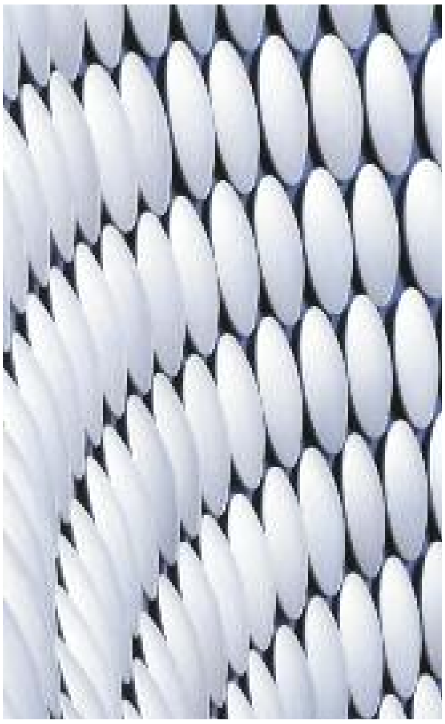
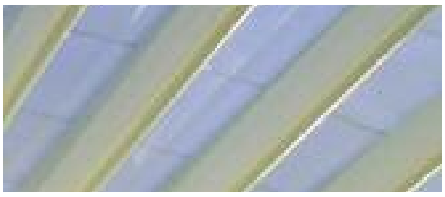




Prospects from an economist

Evidence continues to build supporting our thesis that the US and global recessions are over and that sustained economic recoveries have begun, both in the US and worldwide. The 'global emergency rescue' of the financial system and the economy was a major success, at least from a short-term cyclical perspective and probably from a long-term perspective as well. Aggressive global policy stimulus in the form of central bank liquidity actions, monetary stimulus and government fiscal stimulus occurred in many different countries and succeeded in calming the financial crisis, ending the recession and starting a global expansion.

Macroeconomic policy is stimulative in nearly every country in the world and we expect this harmonic of simultaneous macroeconomic stimulus to generate sustained expansion in nearly every country in the world in 2010. There are a number of key issues to consider. A summary of our views on these key issues follows.

- We expect a sustained global expansion at about a 4% real GDP growth rate in the second half of 2009 and the four quarters of 2010, with financially strong countries leading and 'debt hangover' countries growing more tentatively.

- We expect a sustained US economic expansion at a real GDP growth rate of 3% to 3.5% in the second half of 2009 and the four quarters of 2010. The sustained US expansion should be at a pace somewhat above the long-term trend growth rate near 2.5%, but well below a normal rebound after such a severe recession. The economic recovery should be above-trend but below-normal. We believe that a double-dip recession is quite unlikely. We disagree with forecasts of a major further rise in the personal savings rate in the US, as income growth may be too sluggish to support it. We believe that the developed economies face a job-light recovery, with labour markets only slightly stronger than in a jobless recovery.

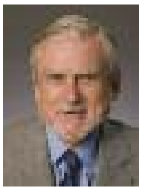
- The official US unemployment rate should peak in the spring of 2010 near 10.5%, followed by only gradual improvement. The persistence of high unemployment in the developed economies should create recurring trade skirmishes and concerns about the risk of a jobs trade war. We believe that high current budget deficits are not a major problem, but that high long-term structural deficits are a very serious problem about which little serious policy reform is likely in the next few years. In our view, stimulative monetary and fiscal policies have largely worked to reflate real economic activity and securities prices. However, we believe that they are not likely to cause a major upsurge in US inflation any time soon.

- We do expect a 'headline headfake' as the 12-month rate of consumer price inflation reflects first the fall from US$147 crude oil and then the rise from US$30 crude oil. We concede that, at the worst of the financial crisis, there was some risk of a global depression, although that was not our forecast. However, we believe that risk has passed, as we anticipated. We expect a trend of gradual financial recuperation to persist, despite residual pressures from collateral deflation in residential real estate and commercial real estate. Federal Reserve (Fed) policy remains anti-deflationary in the context of a collateral deflation. Our most likely case is that the Federal funds rate will start its cyclical rise in late 2010. We believe that the 28-year-long Treasury bond bull market is over, to be followed over the next decade by a 'secular neutral' trend in bond yields.

• With respect to the US dollar's exchange rate against currencies of other developed countries, we believe that the dollar is now in the final quarters of a major multi-year decline. We believe the decline will have run its course before the end of 2010 as the markets begin to anticipate future Fed tightening. We are unsure how weak the dollar may be in the meantime.

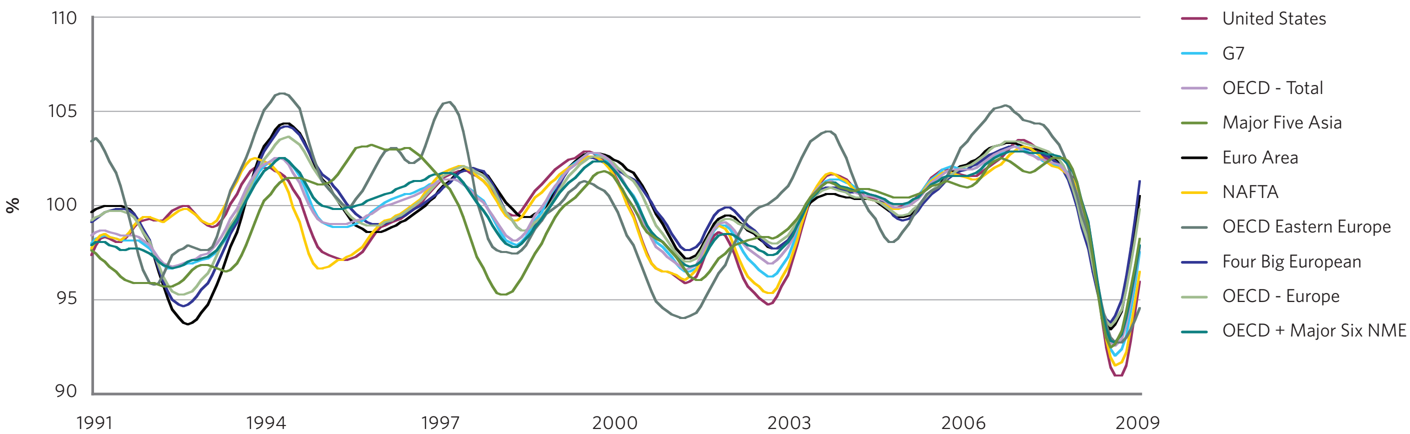
What kind of economic recovery is likely in the world and US economy? The International Monetary Fund has revised up its 2010 global growth forecast to about 3%. We believe that the most likely outlook is that the global economy has begun a simultaneous worldwide expansion and that the global growth rate in 2010 should be closer to 4%. The synchronisation of economic weakness in nearly all countries during the financial crisis intensified global economic weakness, but now the synchronisation of policy stimulus and recovery in nearly all countries should make a positive contribution to the strength of the recovery.

Evidence in support of our expectation of simultaneous global expansion has strengthened. Leading indicators and purchasing managers' surveys have been rising in many parts of the world. Risk spreads in the bond markets have narrowed. Yield curves have steepened. Stock prices and commodity prices have risen. Consumer and corporate surveys have improved. Real GDP has begun a sustained rise in most countries. The global expansion should be led by emerging and emerged economies with strong balance sheets as well as by some commodity exporting countries, while those countries suffering from a housing bust and a debt overhang should expand at a more tentative pace.



Richard B. Hoey
Chief Economist
BNY Mellon

OECD LEADING INDICATOR INDEX



Source: From June 1991 to June 2009; The OECD (Organisation for Economic and Co-operative Development) composite leading indicator (CLI) is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity. The OECD compiles CLIs for 29 member countries, for 6 non-member economies and for 7 country groupings such as Eurozone.

www.bnymellonam.com