Payden&Rygel

Economic Update

THOUGHTS FROM OUR ECONOMICS TEAM

MARCH 23, 2012

LEI says: continued moderate US economic growth, possible pick-up in second half economic activity.

The Conference Board released its Index of Leading Economic Indicators (LEI) on Thursday morning. The index was up 0.7% in February, beating analysts' expectations of a 0.6% increase. Compared to a year ago, the composite index rose 3% in February.

Attached you will find our updated "LEI Scorecard" Of the ten components* that constitute the composite index (three financial, seven real indicators), eight increased during the month. This broad-based increase supports our view that recovery in the US in the first half of 2012 will continue as the economy restructures.

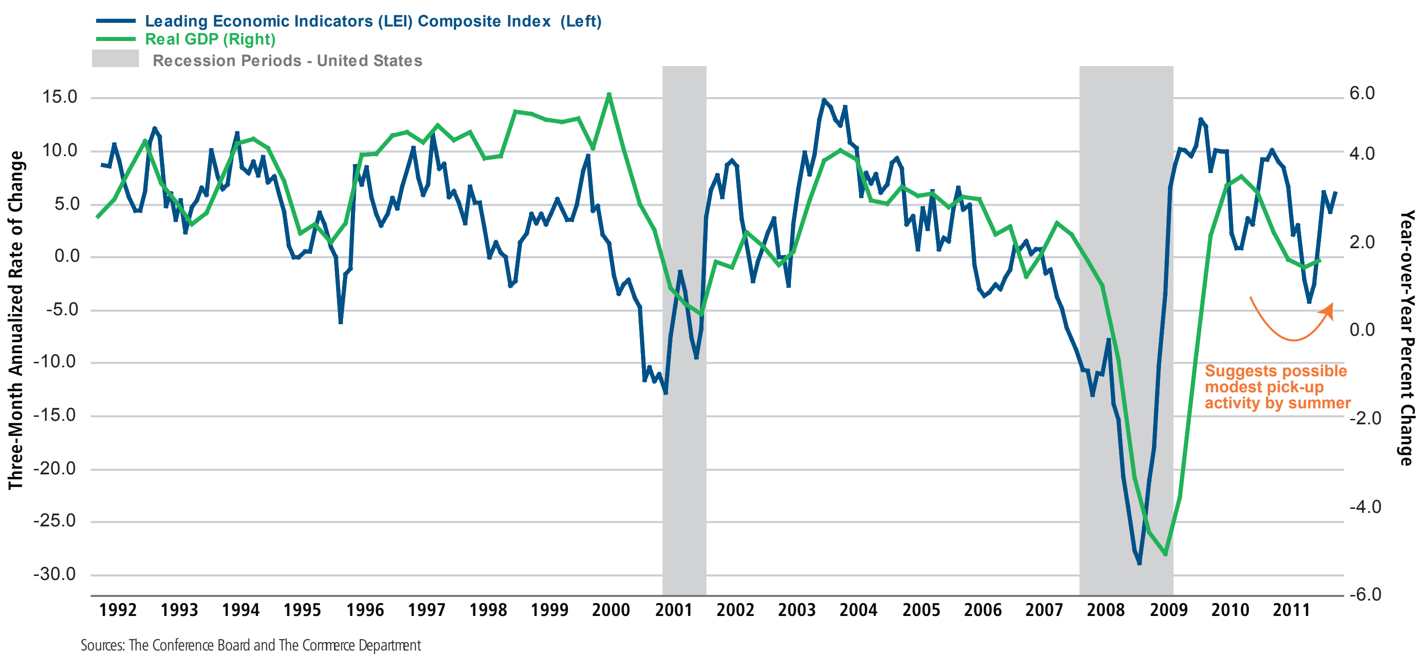
Particularly noteworthy was the 0.2% contribution by the Interest Rate Spread (read: yield curve) component. Because of its unrivaled historical success in predicting both upswings and downturns, the yield curve receives the largest weight—accounting for 33% of the composite index. The yield curve, which is measured as the slope between 10-year Treasury yields and the federal funds rate, sat at +215 bps yesterday compared to +185 bps to start the year.

With the yield on the 10-year Treasury yield now hovering in and around 2.30% (a far cry from the Sept. 2011 low of 1.72%) and the fed funds rate effectively at 15 bps, the steepening could reflect an increase in prospects for future economic activity or a reflection of inflationary worries. But, as core CPI continues to run in a comfortable range, 2.2% year-on-year as of February 2012, we think that the steepened slope of the yield curve is an auspicious sign, and look forward to moderate growth in the months ahead.

Finally, the three-month annualized rate of change of the composite index suggests an uptick in economic activity could occur with a lead time of 3-6 months.

*As of January, the Conference Board made a number of changes to the LEI and revised the index back to 1959. The biggest change (in our view) was the replacement of M2 money supply with a new "Leading Credit Index" that takes into account credit spreads, swaps spreads and other financial market indicators of business cycle turning points. M2 money supply continued to rise throughout the 2008 crisis, sending a false signal of economic strength when it really reflected a panic flight into money funds.

FORECASTING A US RECESSION? ACCORING TO LEIs: ITS NOT IN THE CARDS FOR 2012



Sources: The Conference Board and The Commerce Department