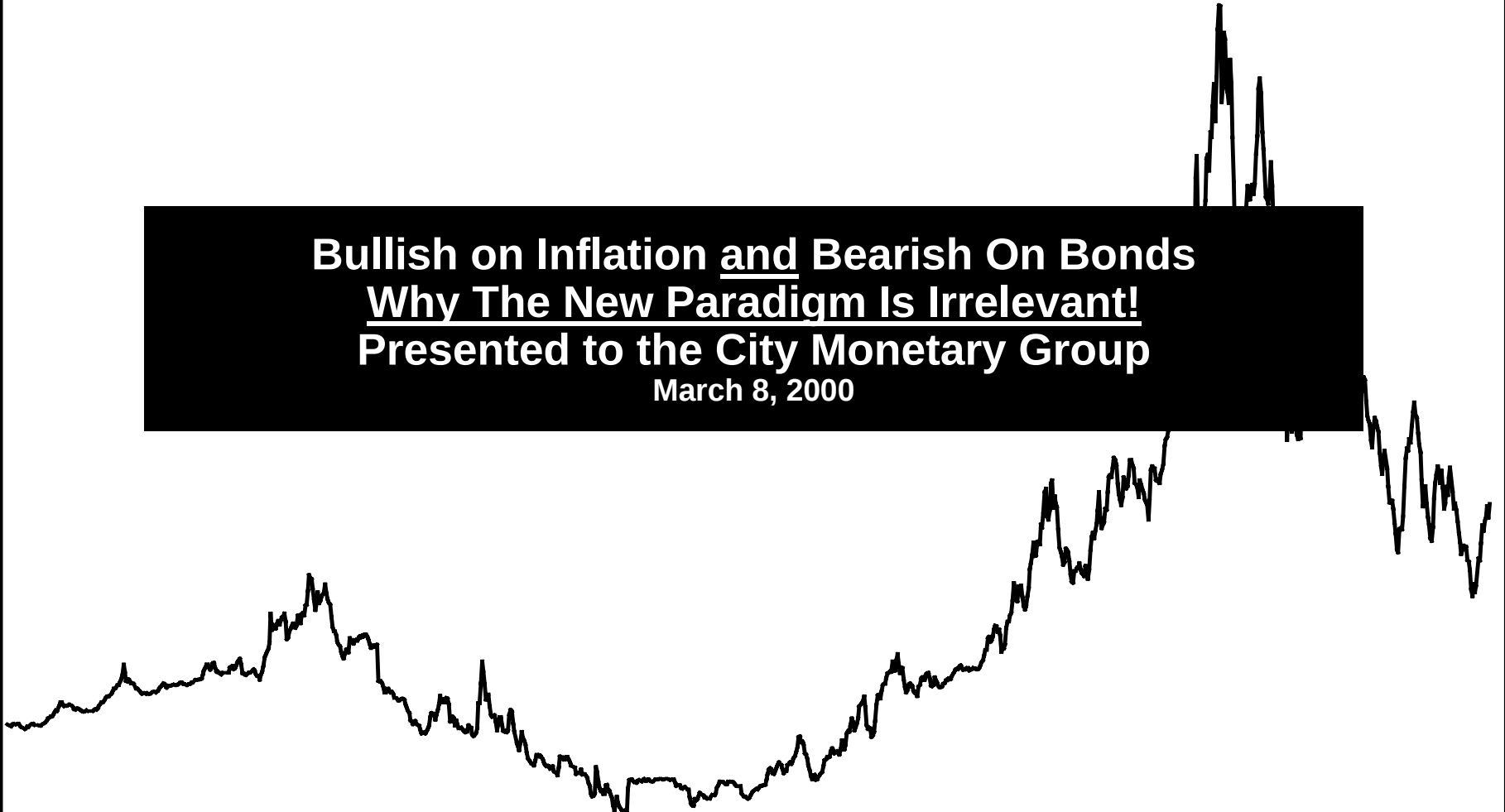


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Bullish on Inflation and Bearish On Bonds
Why The New Paradigm Is Irrelevant!
Presented to the City Monetary Group
March 8, 2000

Long-Term Interest Rates - 1900 to 1999

Major Themes

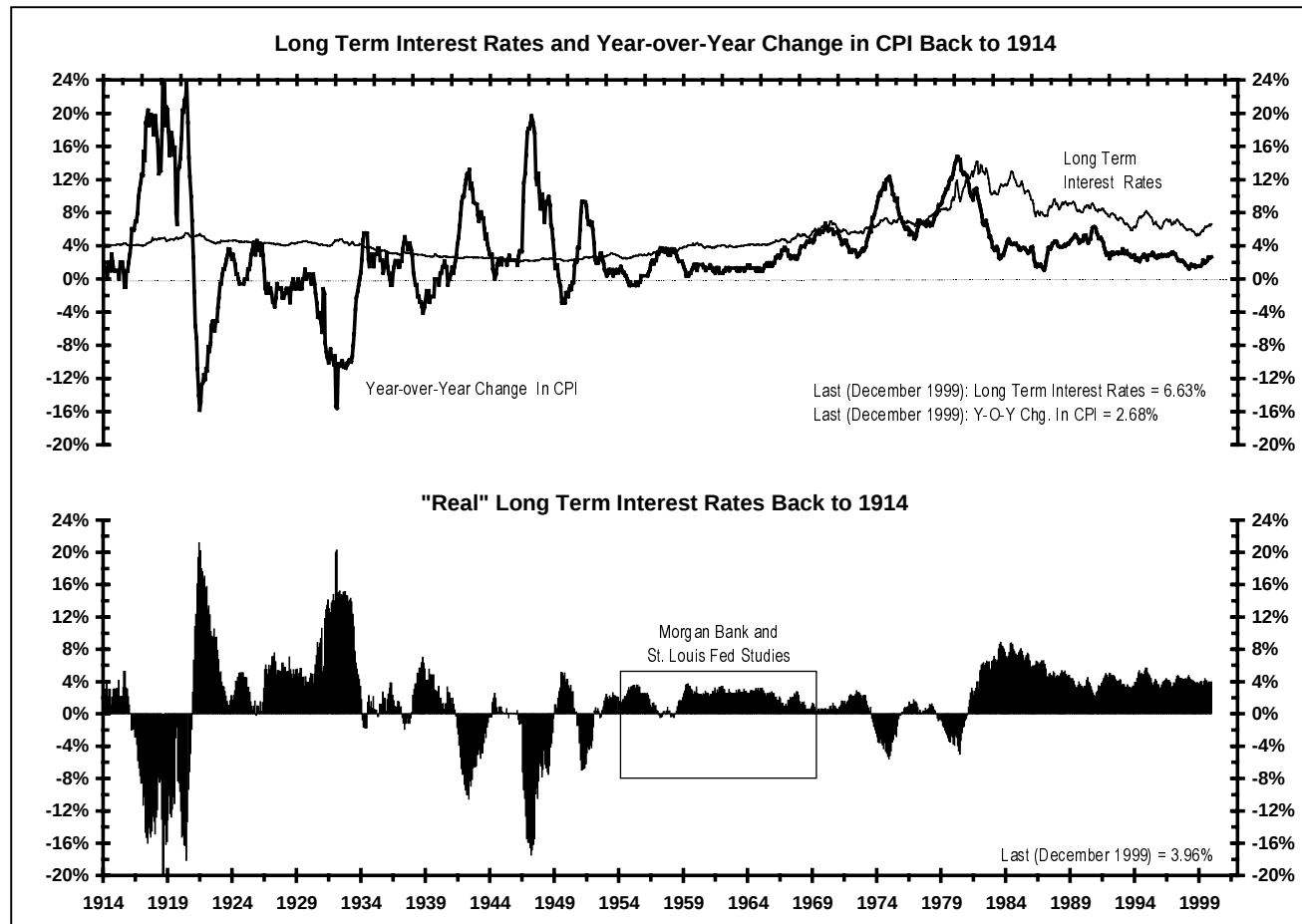
Why The New Paradigm Is Irrelevant!

- The Best Measure Of Interest Rate Valuation
- Measuring The Wealth Effect
- Stocks Versus Bonds
- Correcting The Asset Allocation Imbalance
- Will Interest Rates “Break” The Stock Market/Economy?

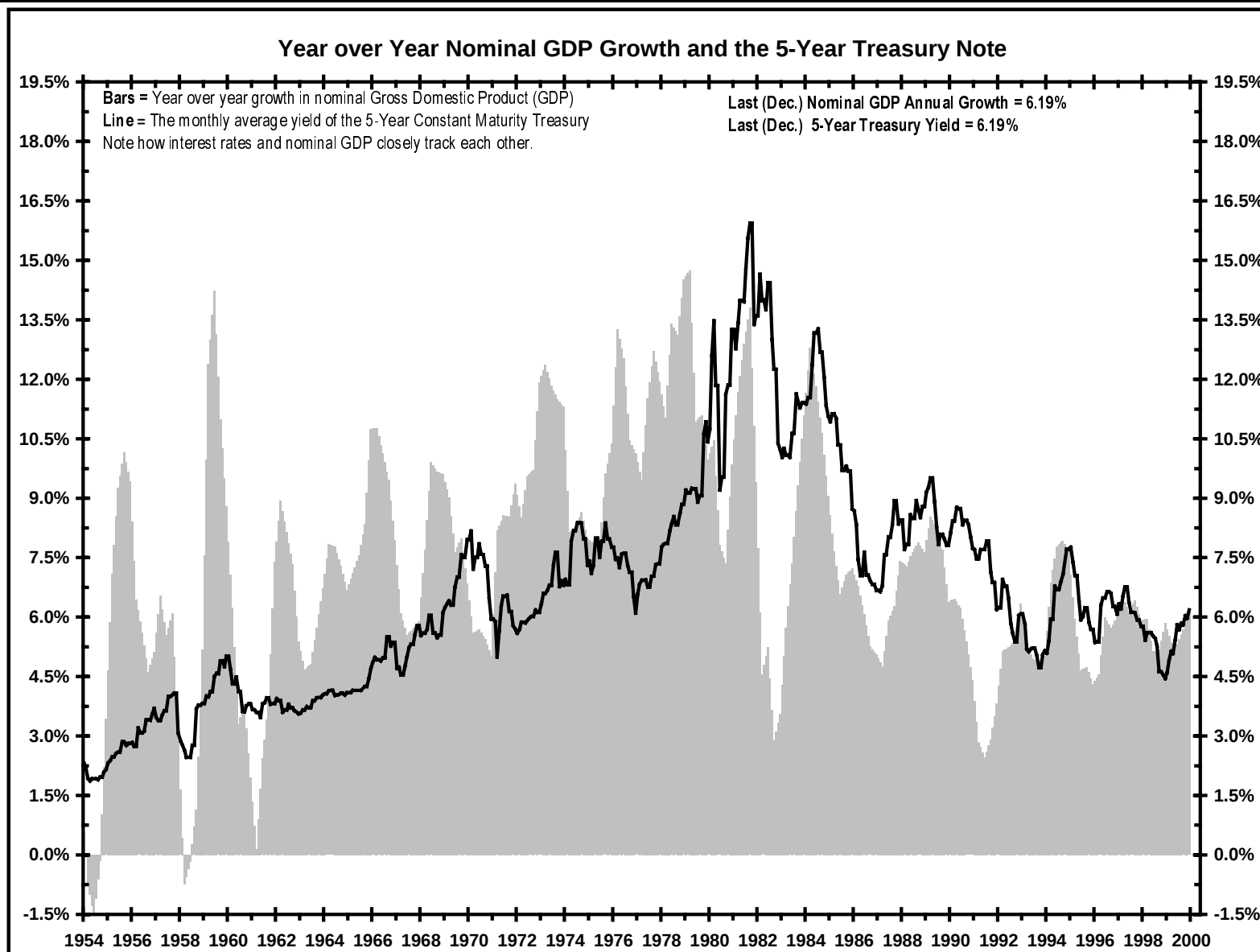
The Best Measure Of Interest Rate Valuation - 1

"Real" Long-Term Rate Statistics

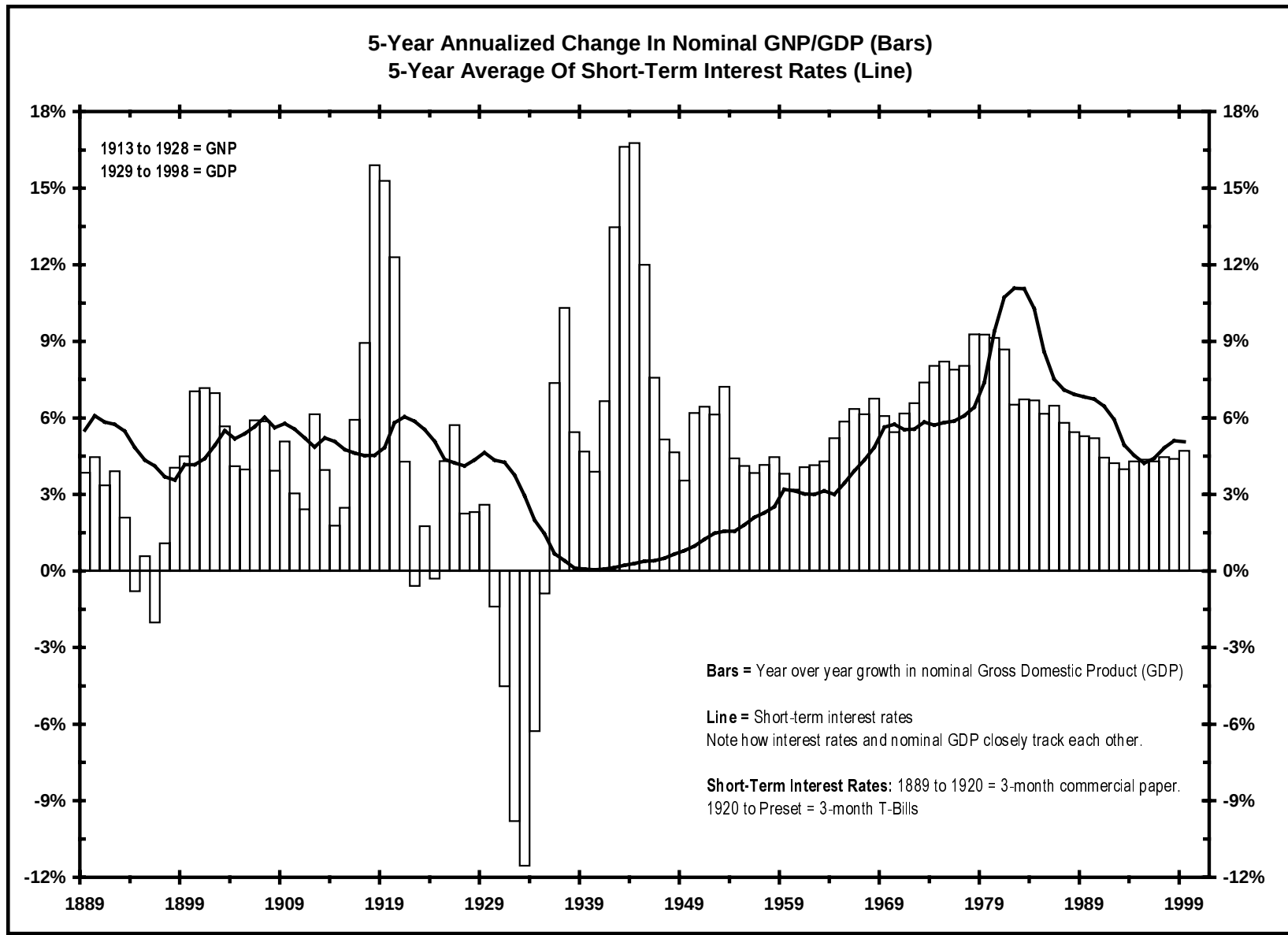
Period	Median	Average	Std Dev	+1 Std Dev	-1 Std Dev	% Neg.	Correlation: LT Rates & YOY CPI	Largest Positive	Date	Largest Negative	Date
Since 1914	2.50%	1.76%	5.54%	7.30%	-3.77%	22.09%	22.76%	21.21%	Jun-21	-21.22%	Aug-18
Since WW II	2.51%	1.78%	3.81%	5.58%	-2.03%	18.22%	32.85%	8.86%	Aug-83	-17.48%	Mar-47
Morgan & Fed Study	2.49%	2.17%	0.97%	3.14%	1.21%	5.88%	54.64%	3.73%	May-59	-0.47%	Mar-57
Since Sept. 1981	4.49%	4.91%	1.47%	6.38%	3.44%	0.00%	70.98%	8.86%	Aug-83	2.19%	Dec-90



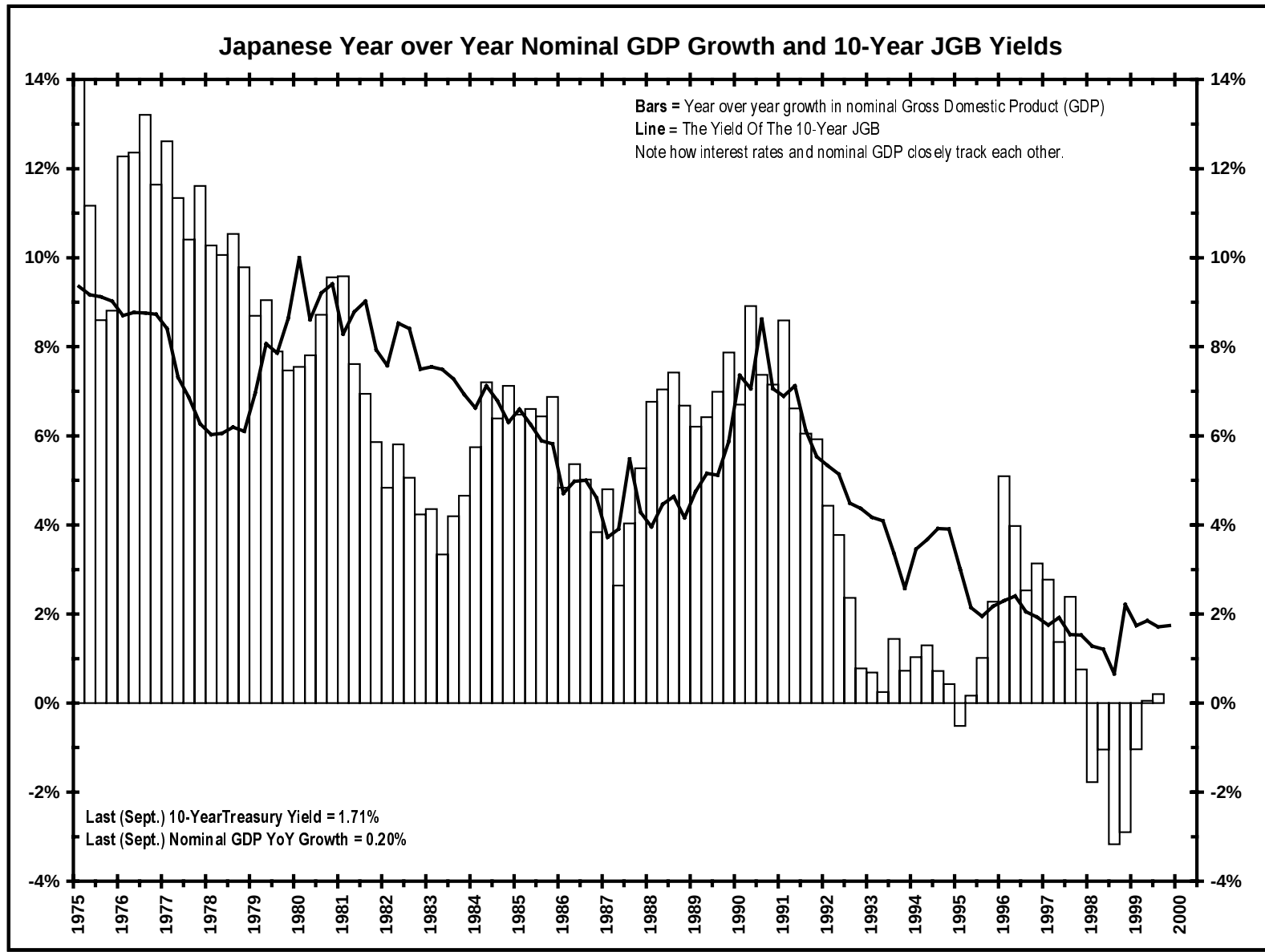
The Best Measure Of Interest Rate Valuation - 2



The Best Measure Of Interest Rate Valuation - 3

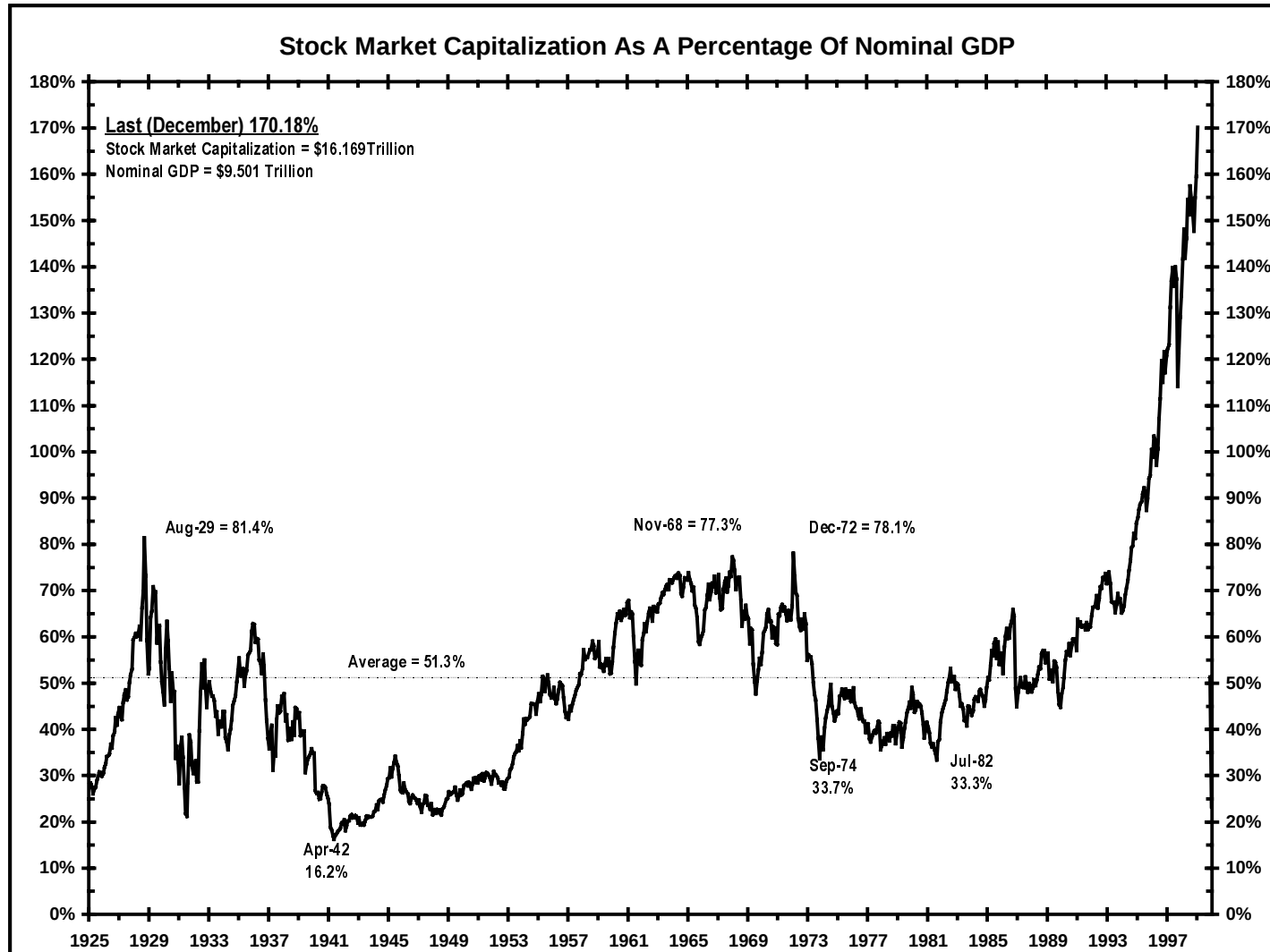


The Best Measure Of Interest Rate Valuation - 4



Measuring The Wealth Effect - 1

There is a wide range of estimates of how much added growth the rise in equity prices has engendered, but they center around 1 percentage point of the somewhat more than 4 percentage point annual growth rate of GDP since late 1996. --Remarks by Chairman Alan Greenspan Before the Economic Club of New York, January 13, 2000

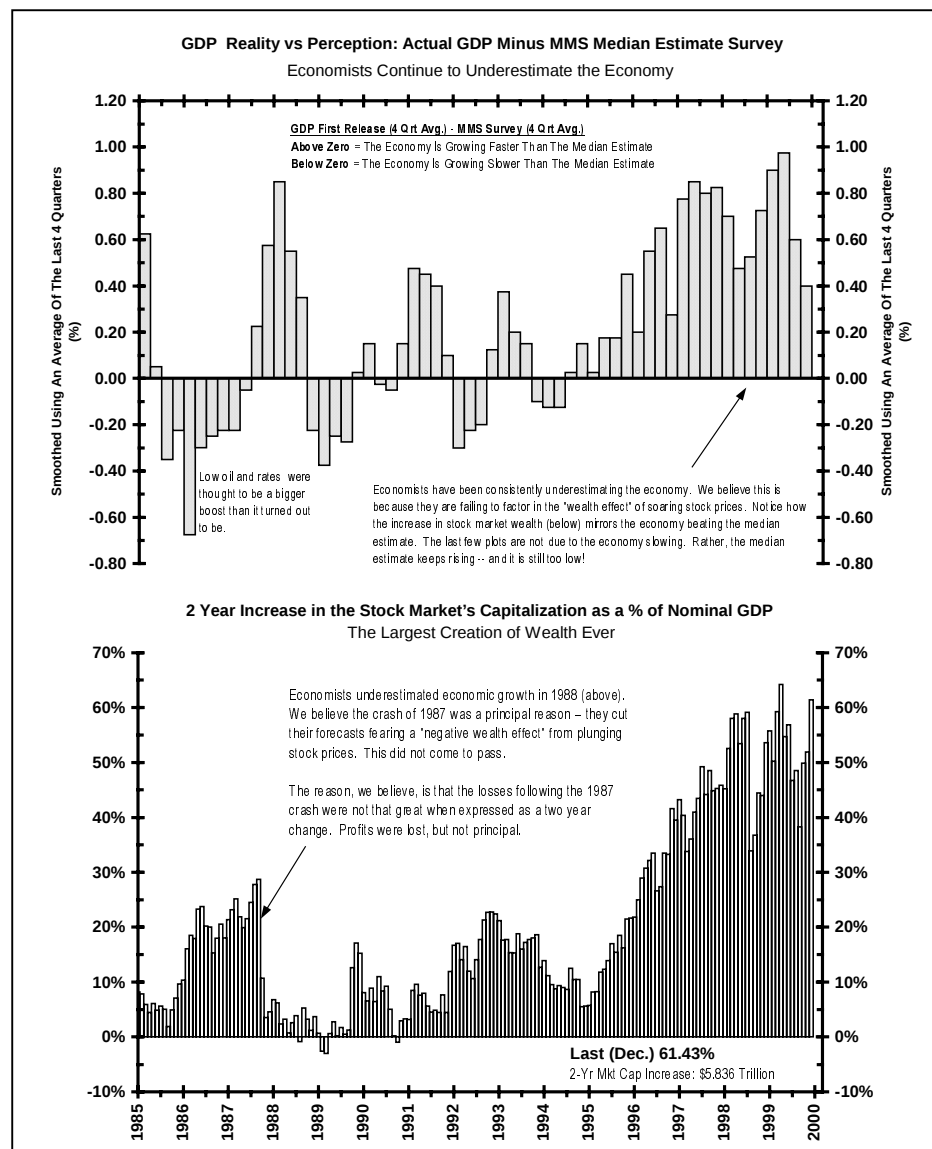


Measuring The Wealth Effect - 2

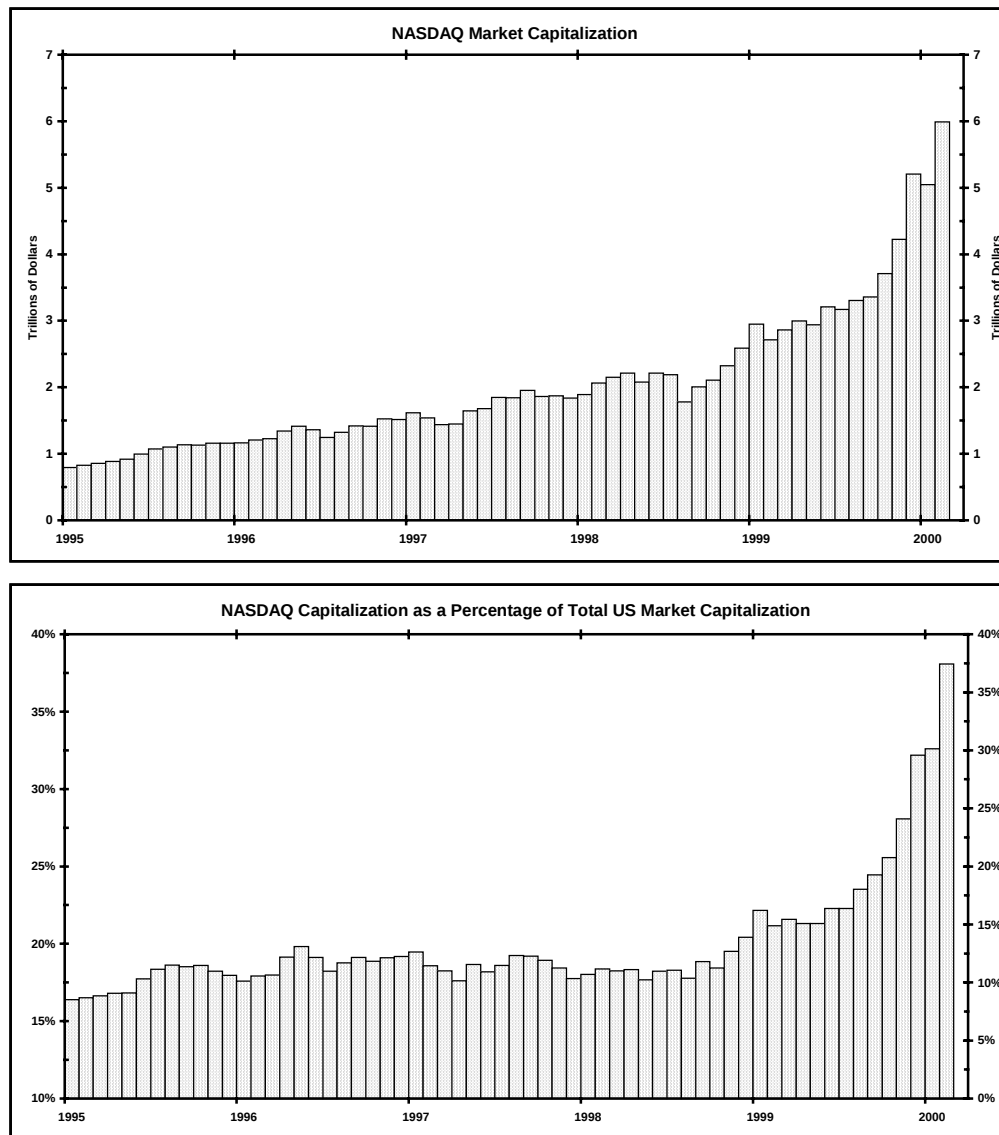
As of 12/31/1999, the two-year increase in the stock market's capitalization surged by \$5.836 trillion or 61.59% of the size of nominal GDP. This is just off the all-time high of 64.1% in April 1999. We use this chart to measure the stock market's wealth creation. The latest plot shows that the "stock market money machine" was still firing on all cylinders.

Historical evidence suggests that perhaps three to four cents out of every additional dollar of stock market wealth eventually is reflected in increased consumer purchases. The sharp rise in the amount of consumer outlays relative to disposable incomes in recent years, and the corresponding fall in the saving rate, has been consistent with this so-called wealth effect on household purchases. Moreover, higher stock prices, by lowering the cost of equity capital, have helped to support the boom in capital spending.

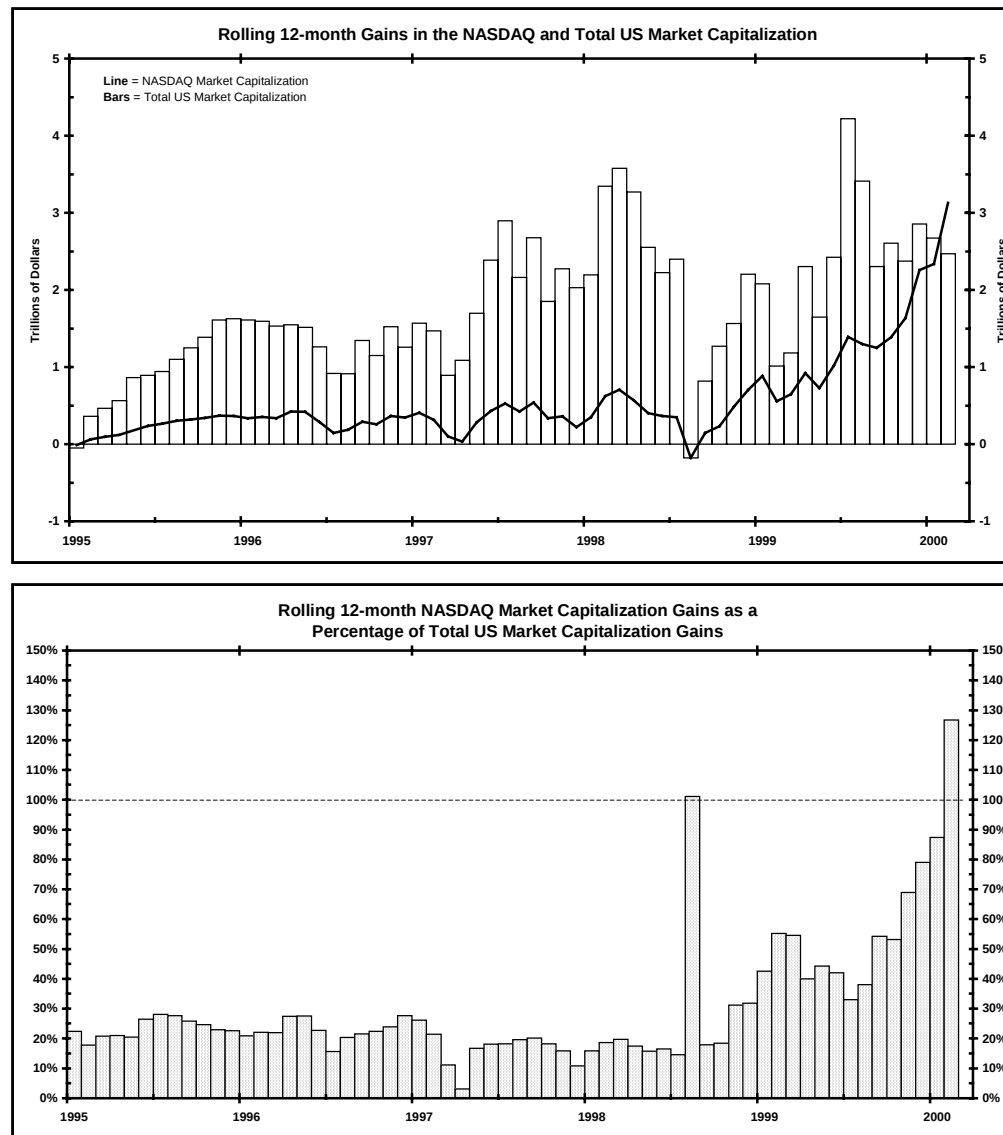
Outlays prompted by capital gains in excess of increases in income, as best we can judge, have added about 1 percentage point to annual growth of gross domestic purchases, on average, over the past five years. The additional growth in spending of recent years that has accompanied these wealth gains as well as other supporting influences on the economy appears to have been met in about equal measure from increased net imports and from goods and services produced by the net increase in newly hired workers over and above the normal growth of the work force, including a substantial net inflow of workers from abroad. -- Testimony of Chairman Alan Greenspan Before the Committee on Banking and Financial Services, U.S. House of Representatives 2/17/2000



Measuring The Wealth Effect - 3



Measuring The Wealth Effect - 4



Measuring The Wealth Effect - 5

The NASDAQ 100's Influence on the NASDAQ Composite Index

Month Ending	NASDAQ Composite Market Capitalization (in Trillions)	NASDAQ 100 Market Capitalization (in Trillions)	As a percentage of NASDAQ Composite	Valuation Statistics for the NASDAQ 100				
				Net Income (in Millions)	Total Shares Outstanding (In Millions)	Earnings Per Share (EPS)	Average Share Price	Price-to- Earnings Ratio (P/E)
Jan-99	2.948	1.827	62%	23,708	22,287	1.06	81.96	77.05
Feb-99	2.712	1.784	66%	24,986	22,582	1.11	73.03	66.00
Mar-99	2.861	1.778	62%	25,026	28,832	0.87	60.52	69.72
Apr-99	2.998	1.729	58%	23,481	29,379	0.80	61.87	77.41
May-99	2.942	1.905	65%	23,244	30,533	0.76	56.65	74.41
Jun-99	3.209	1.897	59%	22,225	32,527	0.68	58.57	85.72
Jul-99	3.169	2.033	64%	21,891	32,773	0.67	57.87	86.64
Aug-99	3.307	2.047	62%	22,685	32,945	0.69	61.7	89.61
Sep-99	3.357	2.047	61%	26,654	33,621	0.79	60.9	76.82
Oct-99	3.709	2.217	60%	27,047	33,965	0.80	65.29	81.99
Nov-99	4.226	2.468	58%	26,930	35,221	0.76	70.06	91.63
Dec-99	5.205	3.148	60%	26,511	35,207	0.75	83.15	110.42
Jan-00	5.048	3.015	60%	27,116	39,881	0.68	75.16	110.54
Feb-00	5.990	????	????	????	????	????	????	????
12-Month Gain	2.336	1.231	53%	n.a.	n.a.	n.a.	n.a.	n.a.

Data Source: <http://www.marketdata.nasdaq.com/asp/mr3i.asp>

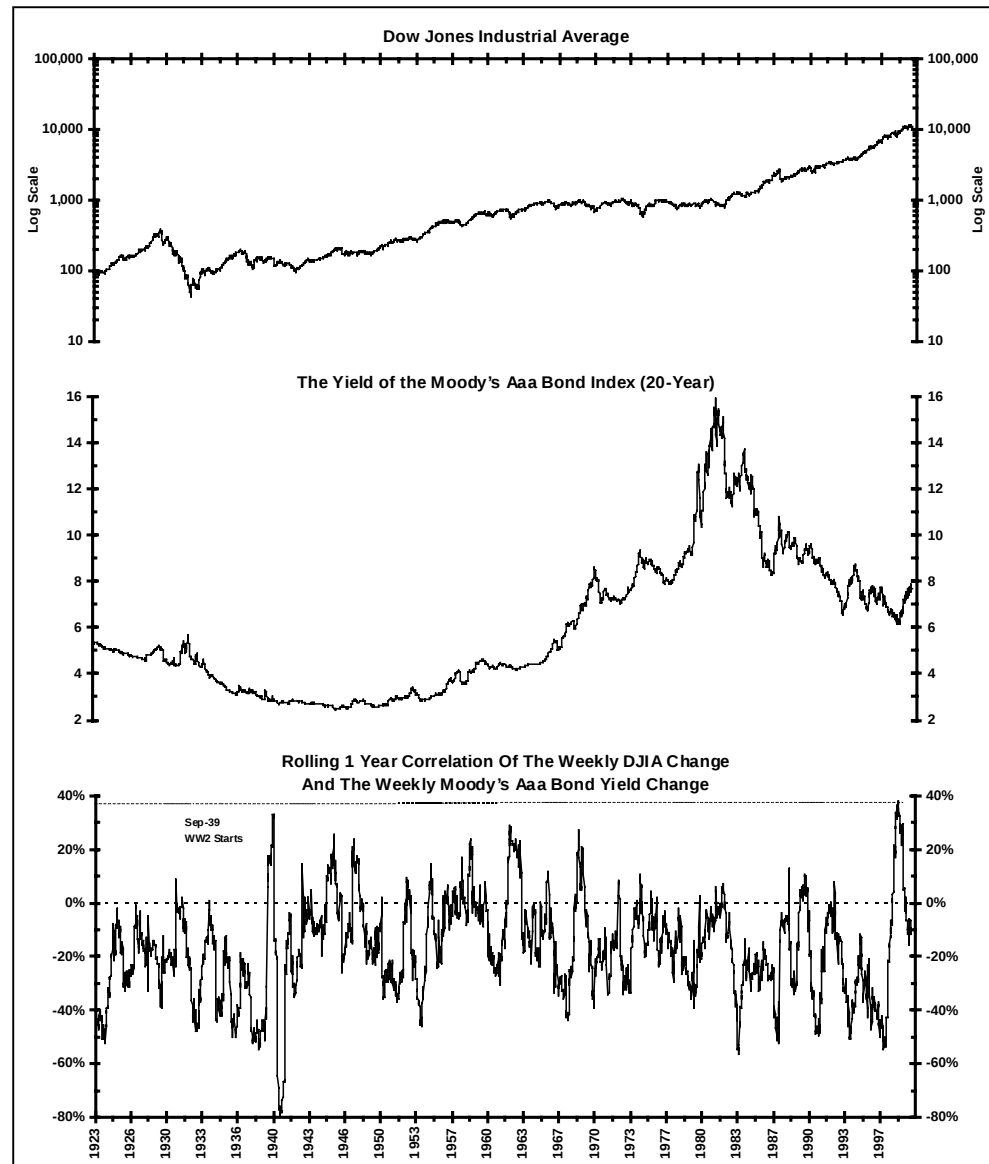
Stocks Versus Bonds - 1

This chart shows the relationship between stock prices and interest rates. The top panel shows the stock market (Dow Jones Industrial Average - DJIA). The middle panel shows interest rates (the yield of the Moody's Aaa Bond Index). The bottom panel shows a rolling 52 week (1 year) correlation of the weekly change of the stock market and the weekly change of interest rates.

For the 30 years ending in the summer of 1997, the correlation between changes in stock prices and the changes in interest rates were almost always negative. This means that stock prices would rise when interest rates were falling and vice versa. One could argue as to which market leads and which follows, but the fact is that stock prices and interest rates had a consistent inverse relationship with each other.

Starting in July of 1997, the correlation between stocks and bonds began its most dramatic change ever. The correlation moved from very negative to positive, suggesting that stocks and interest rates are now moving in the same direction.

How large is this change? This chart traces this relationship back to 1923. Note that the correlation peaked at its most positive ever -- 40% on 12/15/98.



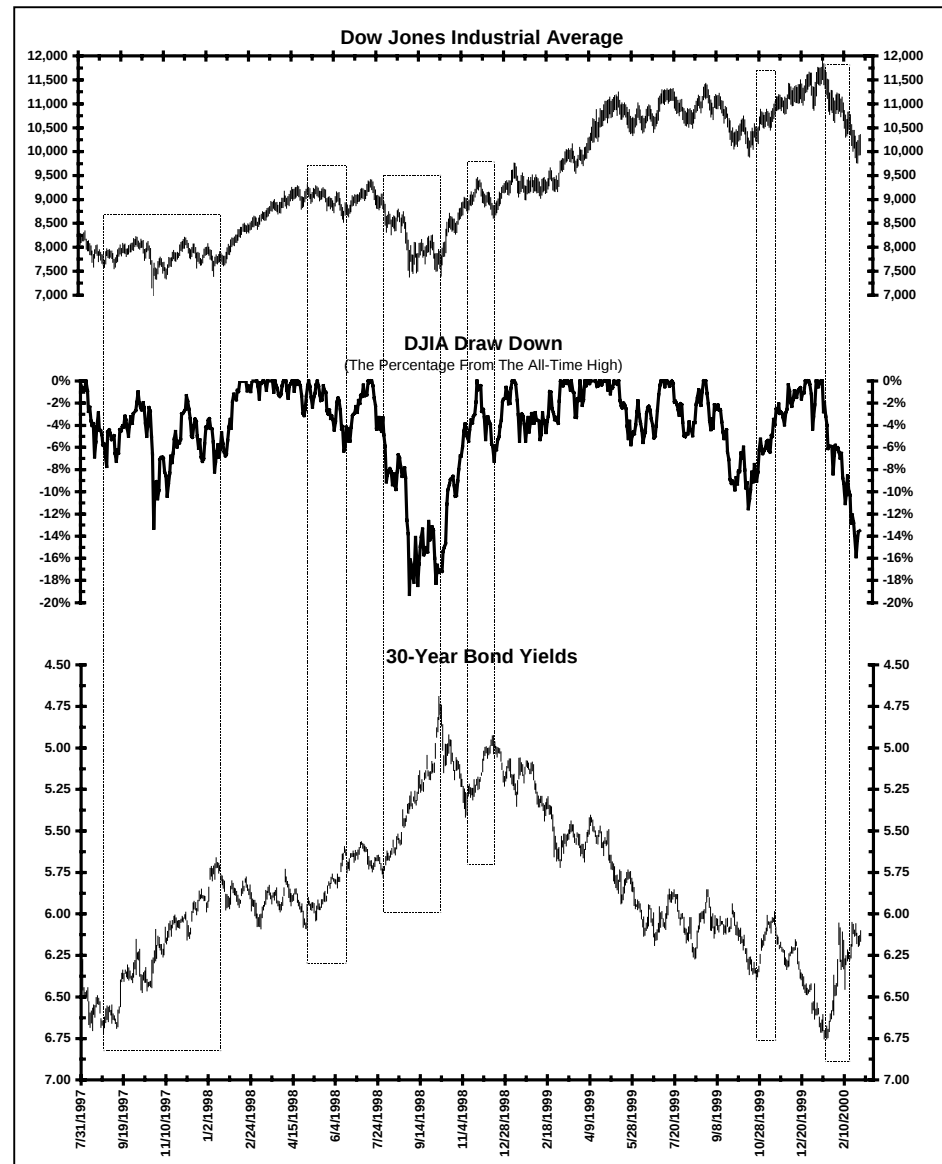
Stocks Versus Bonds - 2

This chart shows the relationship between stocks and bonds over the last 2 years.

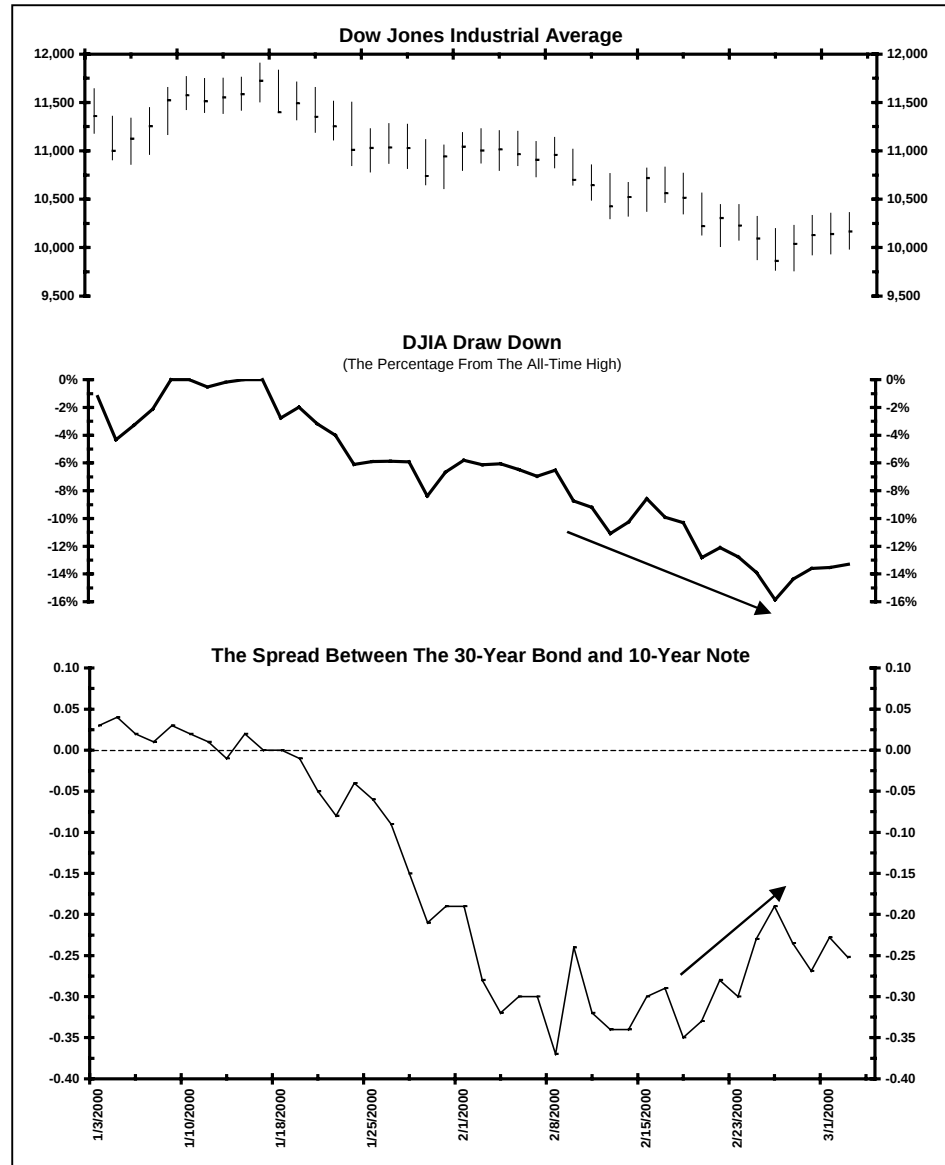
The top panel is the DJIA. The middle panel is a "drawdown" chart of the DJIA. A drawdown chart measures how far the DJIA is from its all-time high (a reading of 0% means a new all-time closing high). The bottom panel is the nearest bond futures contract.

This chart has five boxed periods. These are the four largest bond rallies since mid-1997.

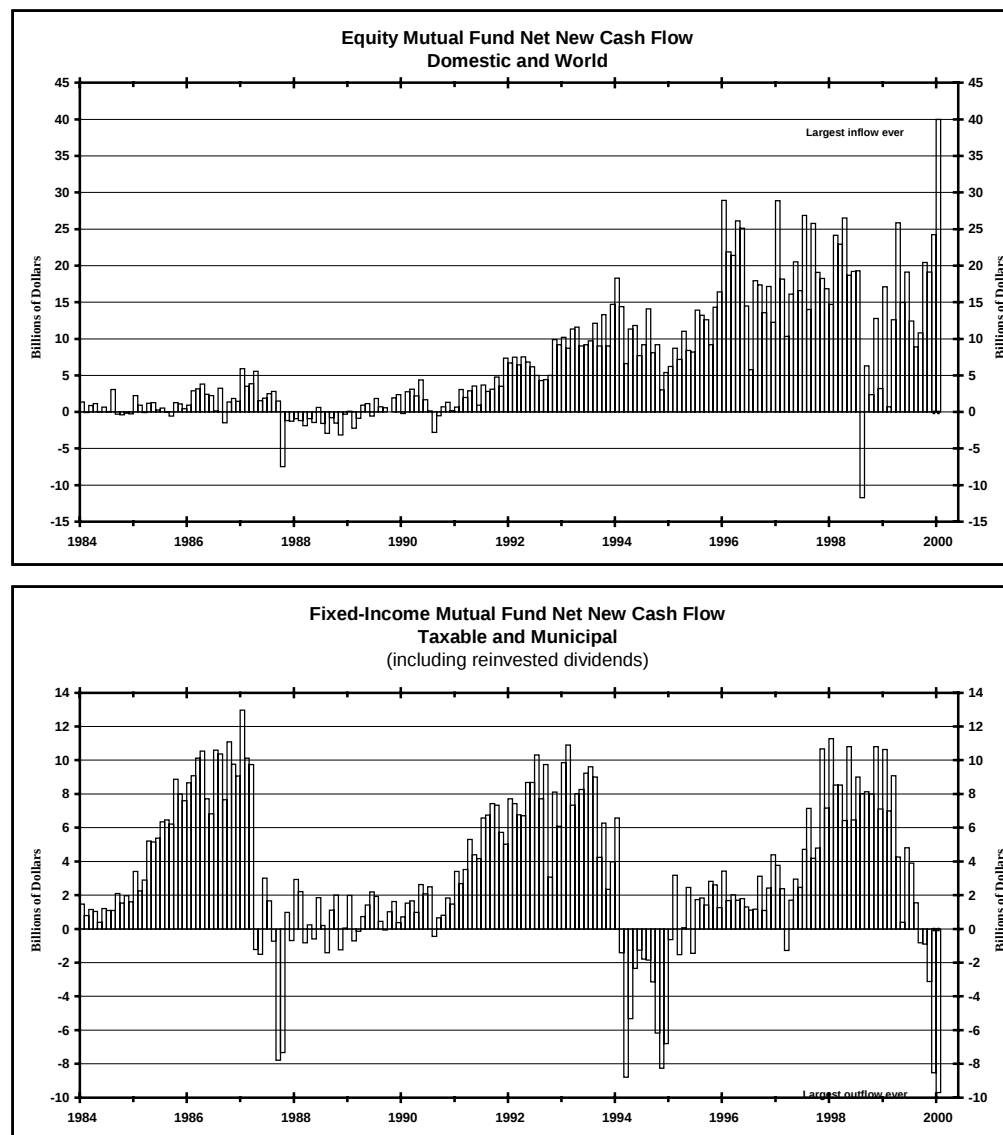
Note that no bond rally in the last 2 years has occurred when stock prices were rising. When stocks were making new all-time highs, bonds were either declining or, at best, trending sideways.



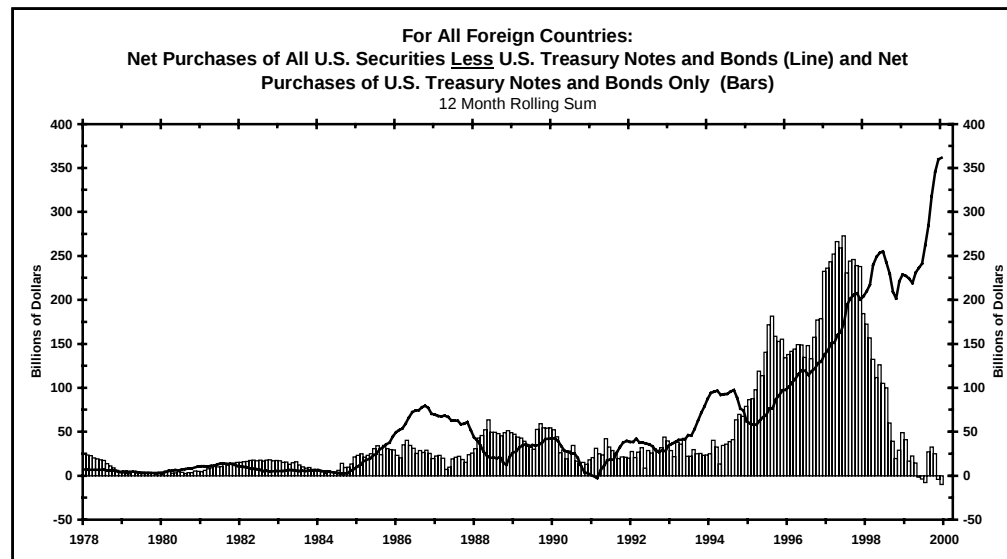
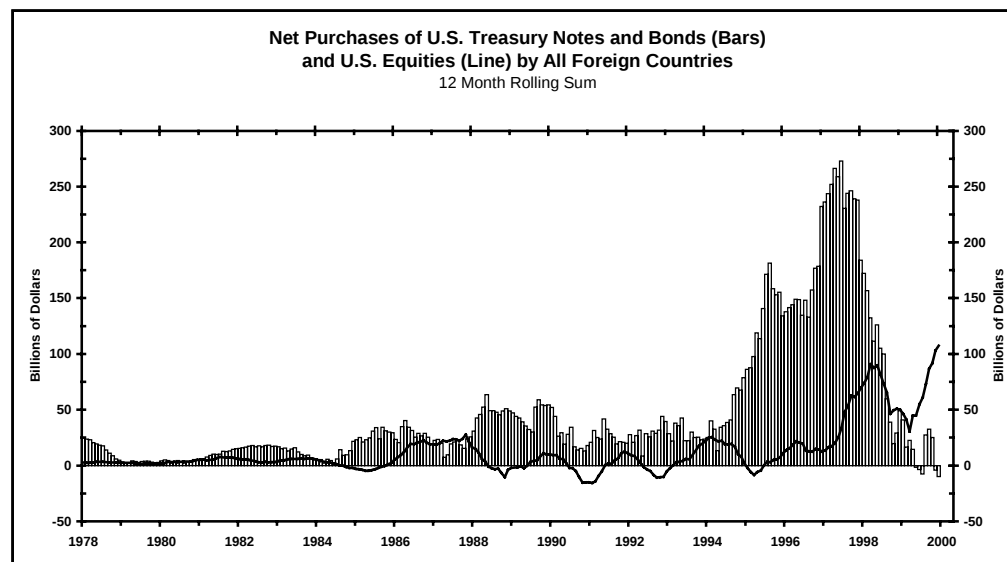
Stocks Versus Bonds - 3



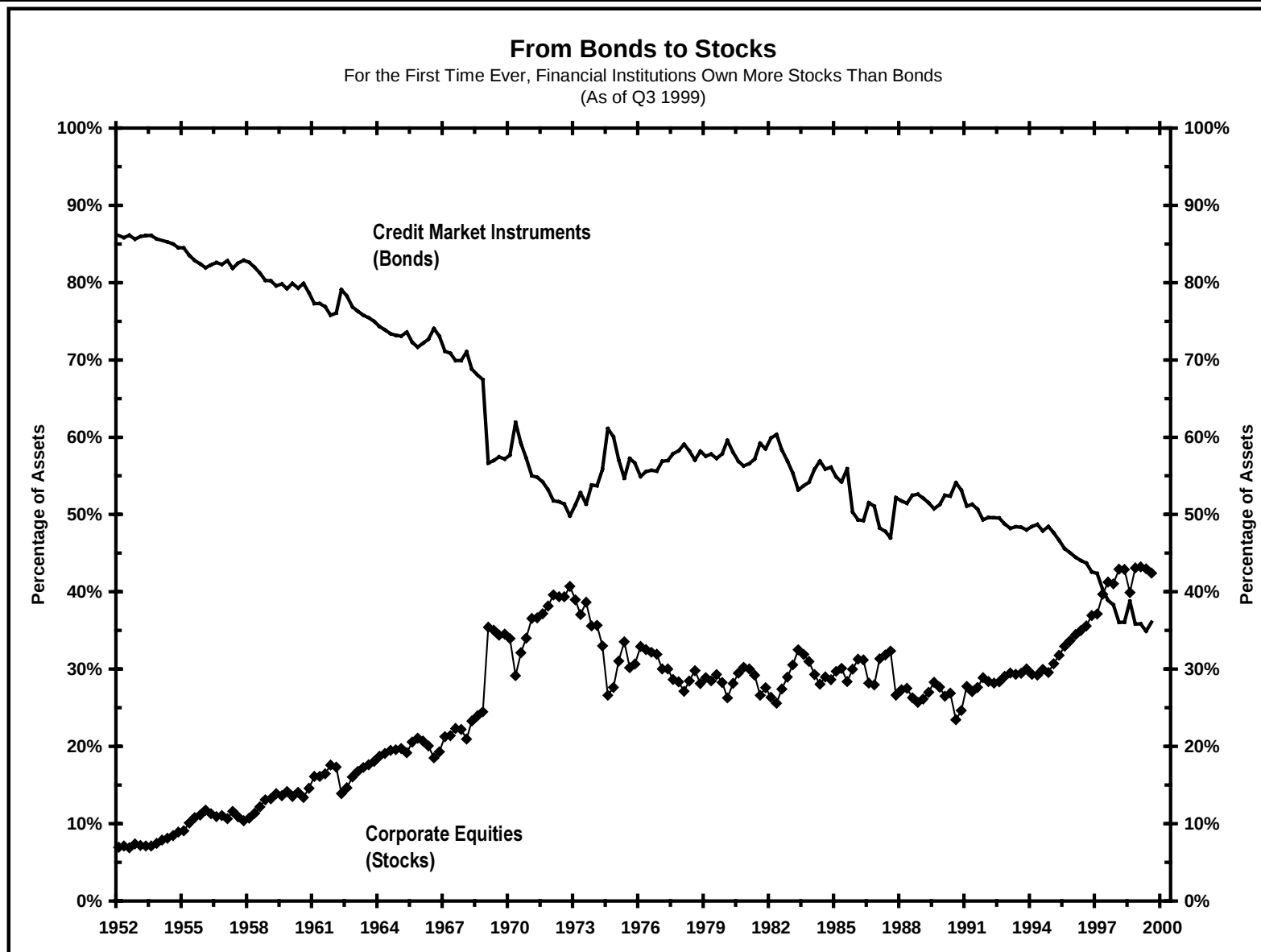
Correcting The Asset Allocation Imbalance - 1



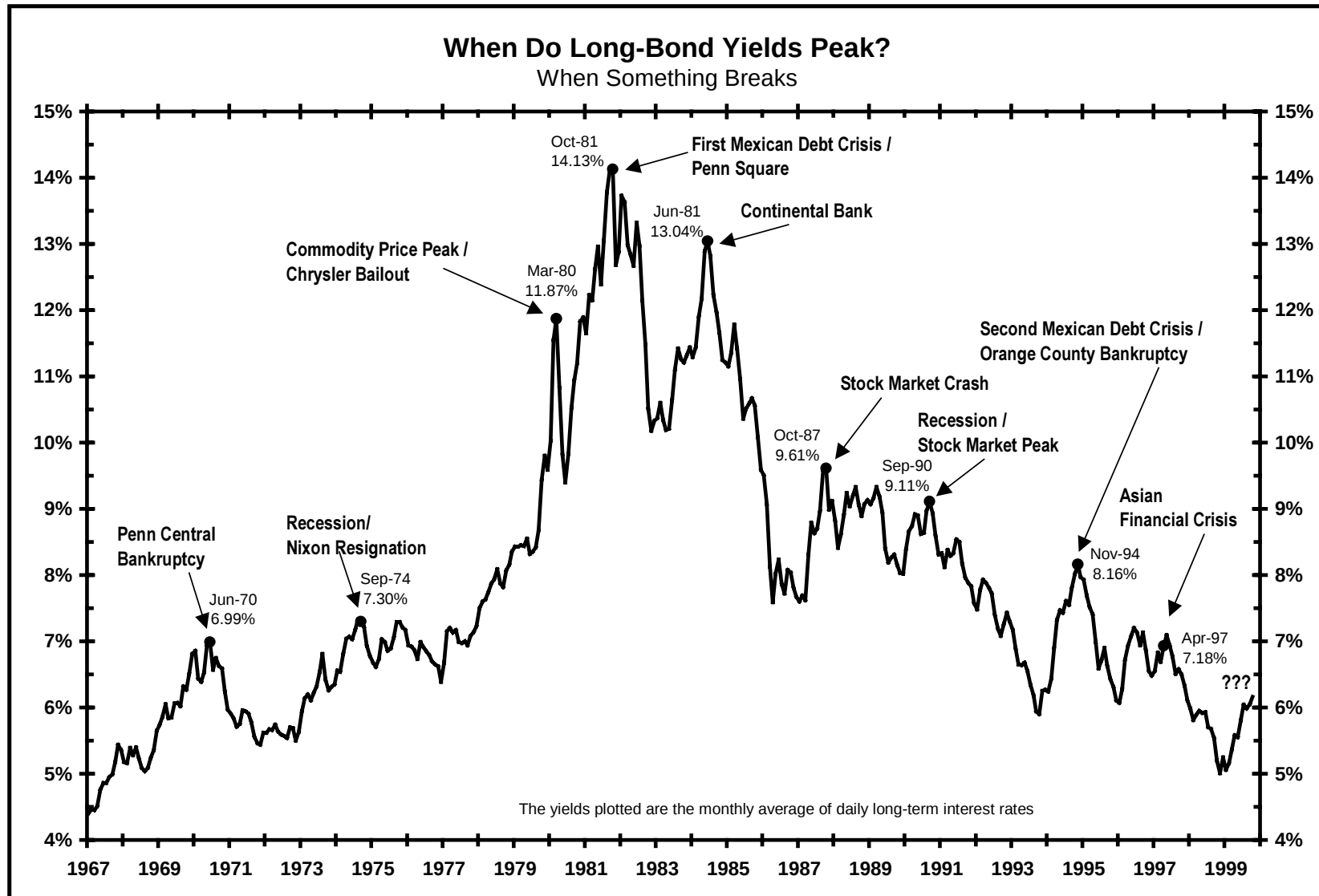
Correcting The Asset Allocation Imbalance - 2



Correcting The Asset Allocation Imbalance - 3



Will Interest Rates “Break” The Stock Market?



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