First-Quarter U.S. Economic Update
April 2011

Summary of Recent Economic and Market Developments

Real GDP is expected to grow by 3.6% in the first quarter of 2011, up from 3.1% in 4Q2010. Economists forecast 3.2% growth for the full year. On the positive side, employment is picking up, though stagnant wage growth should restrain income growth. Consumption slowed from the rapid pace in Q4, and it should lag behind income gains in 2011 as households increase savings, but it should continue to post moderate growth. The housing market appears to be bouncing along the bottom and should not be a significant drag on GDP. Business investment should again be a bright spot, although it won't match its extremely strong 2010 performance. Industrial production is accelerating on firm underlying demand and renewed inventory accumulation. On the negative side, government consumption is falling, albeit modestly so far. A wider trade deficit is also likely to weigh on growth. Headline inflation is moving higher, but core inflation remains subdued. Monetary policy is likely to remain accommodative through 2011. Treasury rates increased in Q1, while credit spreads tightened, leaving preferred securities prices generally up on the quarter. Corporate credit quality continues to improve, bank capital is increasing under stricter regulatory guidance, and private debt burdens are shrinking. Sovereign debt risks are increasing, however, with Portugal the latest victim, and U.S. government debt problems are clearly visible on the horizon. We think preferred securities still offer investors attractive yields, but the rapid price appreciation of the last two years is over. Performance for the rest of 2011 will turn on credit and security selection rather than market-wide price appreciation.

Figure 1: Key Macroeconomic Indicators and Interest Rates

Economic Indicator*	2009:2	2009:3	2009:4	2010:1	2010:2	2010:3	2010:4	2011:1
Real GDP, Chg QoQ (%)	-0.7	1.6	5.0	3.7	1.7	2.6	3.1	3.6f
Real Personal Consump Expnds, Chg QoQ (%)	-1.6	2.0	0.9	1.9	2.2	2.4	4.0	1.0a
Real Busi Investmt, Eqp & Sftware, Chg QoQ (%)	0.2	4.2	14.6	20.4	24.8	15.4	7.7	NA
Real Residential Investmt, Chg QoQ (%)	-19.7	10.6	-0.8	-12.3	25.7	-27.3	3.3	NA
Corporate Profits, After Tax, Chg YoY (%)	-3.1	0.4	41.9	27.0	26.5	16.2	13.7	8.9f
Current Account Balance, Annualized (% of GDP)	-2.4	-2.8	-2.8	-3.0	-3.4	-3.4	-3.0	NA
Federal Budget, 12-mo Def or Surp (% of GDP)	-8.9	-10.0	-10.3	-9.4	-9.1	-8.8	-8.6	-8.5a
Unemployment Rate (%)	9.5	9.8	9.9	9.7	9.5	9.6	9.4	8.8
Household Employment, Chg QoQ (000)	-844	-1187	-831	992	140	286	-172	658
Nonfarm Payrolls, Chg QoQ (000)	-1548	-767	-406	118	543	-137	416	478
Nonfarm Productivity, Chg QoQ (%)	8.9	6.5	6.7	4.6	-1.7	2.3	2.6	NA
Capacity Utilization (%)	67.3	69.5	70.8	72.8	74.5	75.7	77.0	77.0a
GDP Price Index, Chg QoQ (%)	0.3	0.7	-0.2	1.0	1.9	2.1	0.4	NA
Consumer Price Index, Chg YoY (%)	-1.4	-1.3	2.7	2.3	1.1	1.1	1.5	2.1a
CPI ex food & energy, Chg YoY (%)	1.7	1.5	1.8	1.1	0.9	0.8	0.8	1.1a
Nominal Personal Income, Chg YoY (%)	-2.7	-2.4	0.4	2.8	2.9	3.6	3.9	5.1a
Personal Savings Rate (%)	6.7	5.7	5.8	5.3	6.3	5.8	5.6	5.8a
Rate or Spread (End of Quarter)	**2009:2**	**2009:3**	**2009:4**	**2010:1**	**2010:2**	**2010:3**	**2010:4**	**2011:1**
Federal Funds Rate Target (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-month LIBOR (%)	0.60	0.29	0.25	0.29	0.53	0.29	0.30	0.30
10-Yr Treasury Note Yield (%)	3.54	3.31	3.84	3.83	2.93	2.51	3.29	3.47
30-Yr Treasury Bond Yield (%)	4.34	4.05	4.64	4.71	3.89	3.69	4.34	4.51
Moody's Baa Long Corp Spread (bp)	283	212	175	160	216	189	164	154
10-Yr Interest Rate Swap Spread (bp)	25	15	13	-2	7	6	9	11

* Figures are either quarterly or, if more frequent, quarterly averages. f = Forecast[1]; a = Actual through February 2011 Source: Reuters EcoWin

Legend for all Figures: AR = Annual Rate; SA = Seasonally Adjusted; MA = Moving Average; C.O.P. = Change over Period

Economic Outlook

The U.S. economy continued its modest growth in the first quarter of 2011. Economists now expect inflation-adjusted **Gross Domestic Product** (real GDP) to grow by 3.6% in Q1 and 3.2% for 2011 as a whole, following growth of 3.1% in 4Q2010.[1] These forecasts are ¾ to 1% stronger than last autumn and reflect the clear strengthening in economic activity seen over the past two quarters. We continue to expect slightly slower GDP growth of about 3% in Q1 and 2½ - 3% for the full year. We anticipate that strength in business investment and the ongoing recovery in consumer spending will be partially offset by household deleveraging, reduced government spending, and a wider trade deficit. Although a 2½ - 3% GDP growth rate is somewhat disappointing compared to typical recoveries from recession, it should be enough to push down the unemployment rate and increase profits while holding core inflation comfortably below 2%.

Figure 2: Job Market Improving

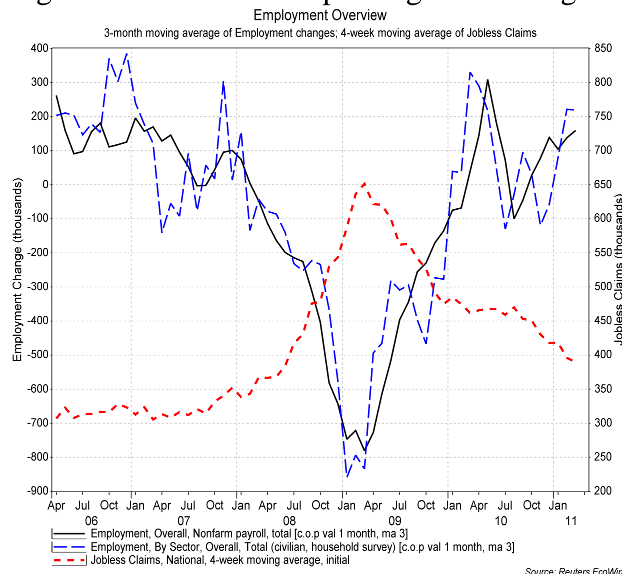
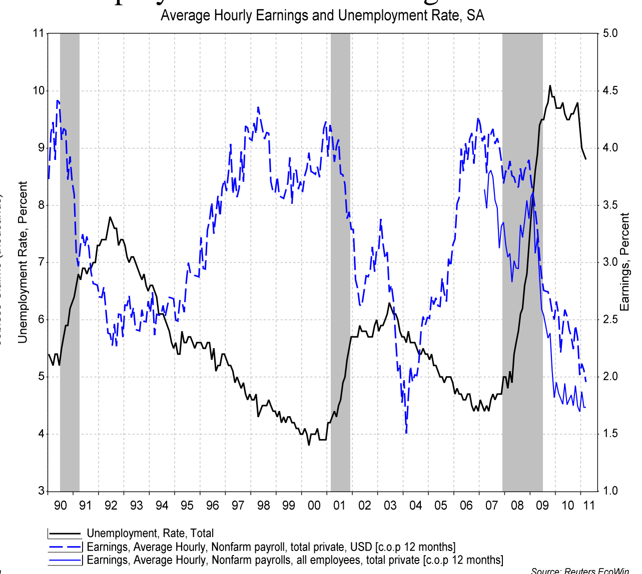


Figure 3: Unemployment Down but Wage Growth Slow



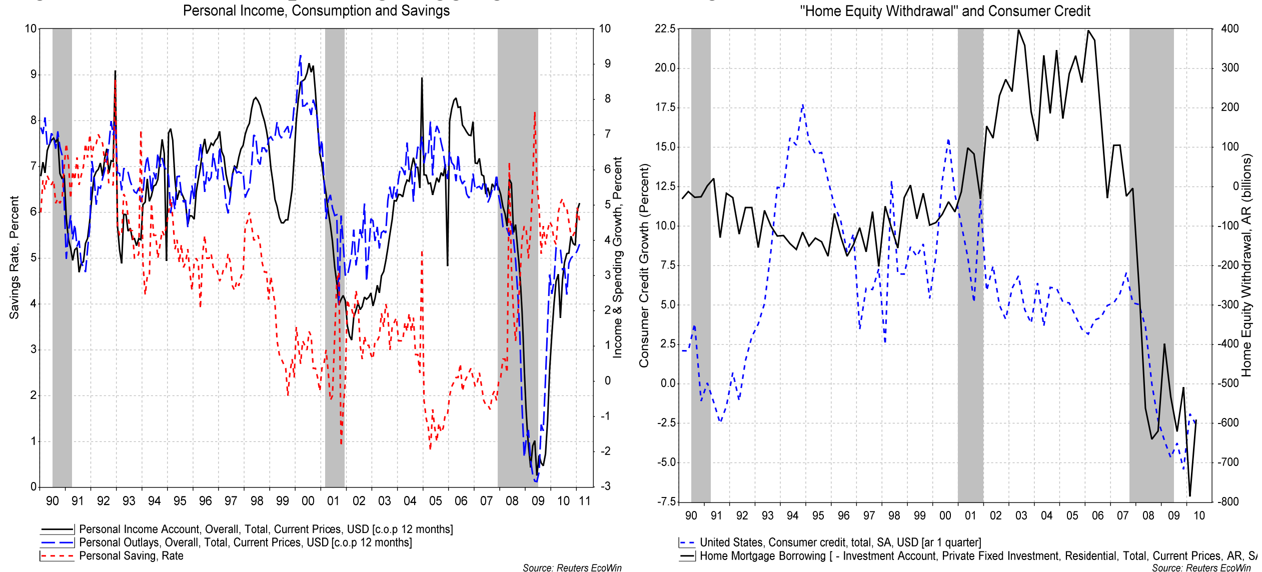
The recovery in the **labor market** accelerated in the first quarter of 2011 after languishing in the second-half of last year (Figure 2). Employment as measured by the household survey grew by an average of 219,000 jobs per month in Q1, while the payroll survey averaged 159,000 jobs per month. In addition, both surveys showed strengthening employment trends from month-to-month within the quarter, and jobless claims continue to trend down slowly but steadily. This improved level of job formation, along with a modest decline in the labor participation rate, pushed the unemployment rate down to 8.8% at the end of Q1, its lowest level in two years. However, wage growth has not yet picked up, ending the quarter up just 1.7% YoY (Figure 3).

With job formation accelerating but wage increases stagnant, **personal income** showed only modest improvement. Overall personal income was up 7.0% in the three months ending in February (the latest data available) and 5.1% YoY, which looks pretty good. However, much of that improvement (especially over the three-month horizon) was due to the reduction in social security taxes that began in January and run through the end of 2011. Wage and salary income was up a much more modest 3.0% over the three-month period and 4.1% YoY. Since we

[1] All growth rates are annualized unless noted otherwise. Forecasts in this Update are from *The Survey of Professional Forecasters*, Federal Reserve Bank of Philadelphia, February 11, 2011.

probably won't be seeing another tax cut this year, the wage and salary trend should be more important in driving consumer spending going forward. We do expect that wages will accelerate eventually, but that is not likely to happen in earnest until the unemployment rate falls considerably further, which will take time. Until then, we anticipate that income gains will be driven mostly by employment gains, without an extra boost from wage acceleration.

Figure 4: Consumer Spending Lagging Income… Figure 5: …As Debt Reduction Continues



With incomes growing only modestly and households still looking to increase savings, we anticipate subdued growth in **personal consumption expenditure** (PCE). After initially outpacing income, personal spending growth has lagged behind personal income growth since 3Q2010, which has pushed up the personal savings rate (Figure 4) and led to substantial debt reduction (Figure 5). PCE has still rebounded substantially from the lows of the recession. However, at 3.9% YoY in nominal terms, that translates to only 1.4% YoY in inflation-adjusted terms – not awful, but not particularly robust either. Moreover, if the household sector continues to gradually increase its savings rate, as we expect, then consumption growth should remain fairly tepid. This consumer restraint will not last forever, but we think it will last for another year or two at least. It is an important factor in our outlook for a moderate, rather than booming, economic recovery.

New and existing **home sales** dipped to just a 5.1 million unit pace in February, well below expectations, although poor weather across much of the country in January and February probably accounted for a good portion of the decline (Figure 6). Despite the tepid pace of sales, inventories of unsold homes continue to decline. However, there are still enough unsold homes to keep downward pressure on home prices (Figure 7). We remain optimistic that further price declines will be relatively small and that housing is essentially bouncing along the bottom rather than poised for another fall. There are three reasons for this. First, home affordability is at an all-time high. Second, apartment rental prices are rising and vacancies are falling. Finally, the population in the U.S. is still growing, and those people need places to live. We don't expect the inevitable rebound in housing to start this year, but it probably is not too far beyond that.

Figure 6: Home Sales and Inventories Down

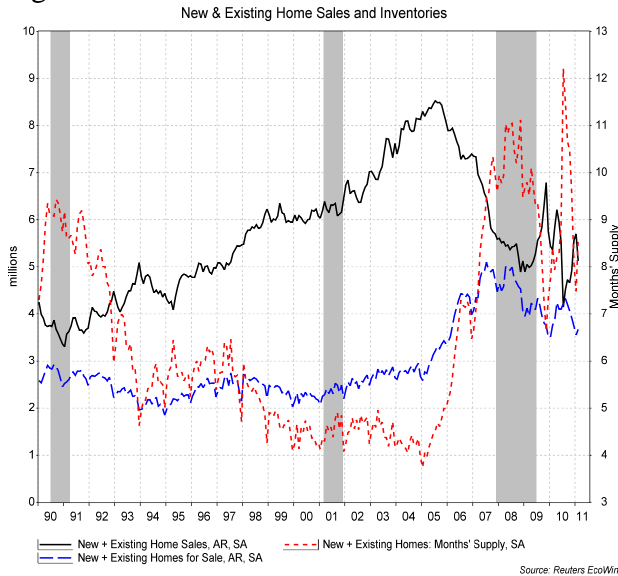
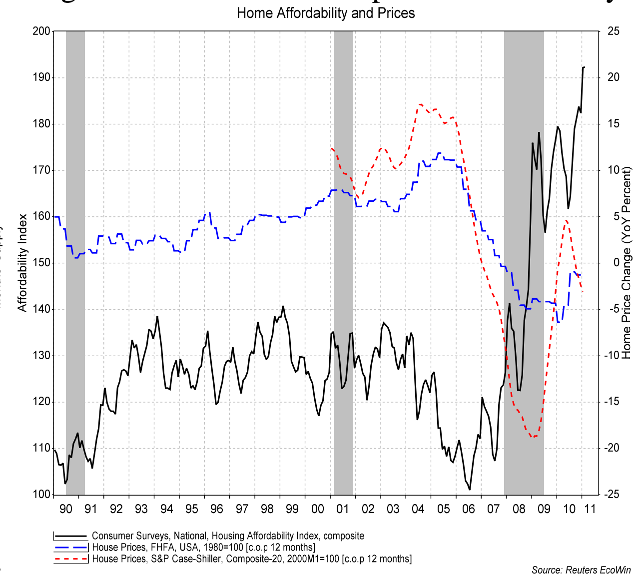


Figure 7: Lower Prices Improve Affordability



Business investment should remain a bright spot in 2011, though it probably will not outshine the 17% average gain achieved in 2010. Shipments of manufactured goods remain quite sturdy, but core durable goods orders have slowed in recent months (Figure 8). At the same time, inventory-to-sales ratios are generally trending lower again after strong demand in Q4 and Q1, which should prompt a rebound in orders before long. Even in good times, capital goods orders are volatile, so we are not troubled by this modest slowdown. However, we think business investment will slow a bit from the torrid pace of 2010. For the past decade or more, the change in capacity utilization has been a good proxy for growth in business investment a quarter later (Figure 9). Because the rise in capacity utilization has slowed recently, we anticipate somewhat slower – but still strong – business investment in 2011.

Figure 8: Capital Goods Outlook Mixed

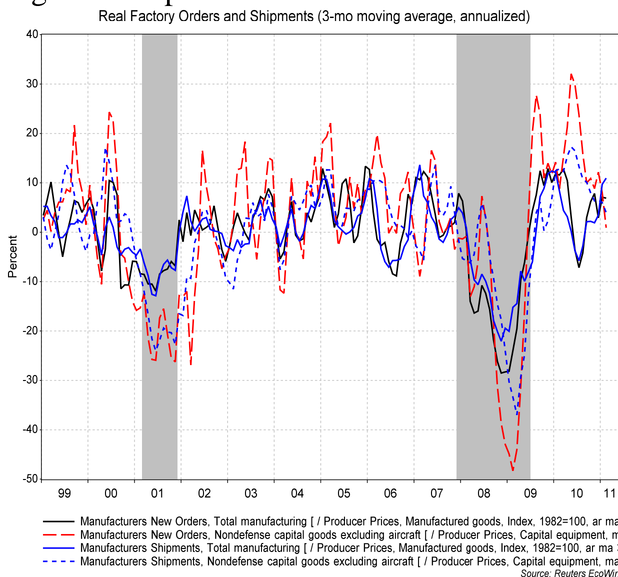


Figure 9: Investment Spending Should Slow

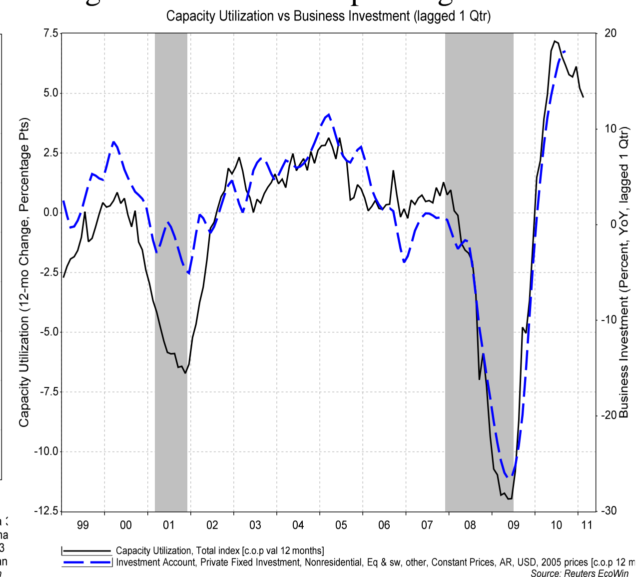


Figure 10: Inventory Growth Picking Up Again

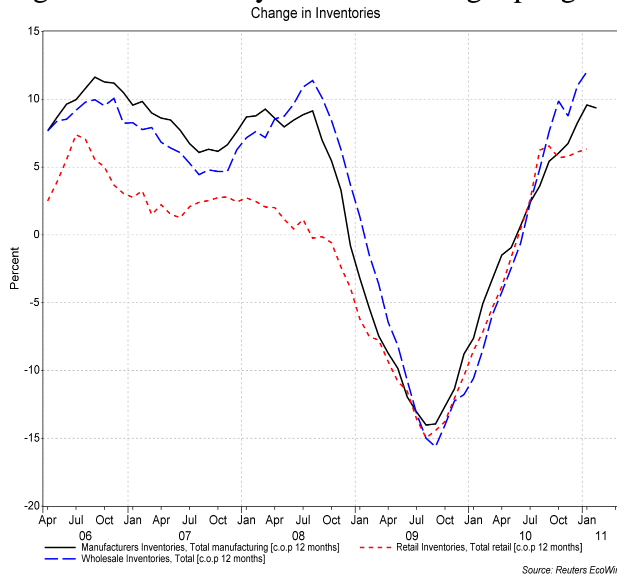
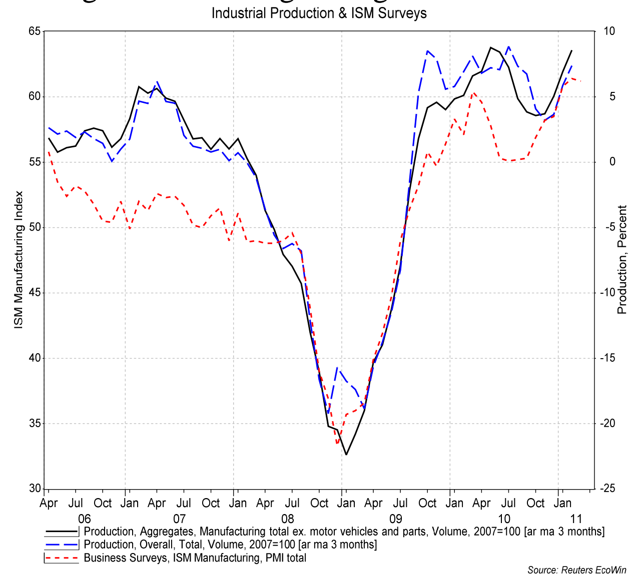


Figure 11: Driving Stronger Production



Producers sharply reduced inventory growth late in 4Q2010 as sales generally exceeded expectations. In fact, inventory growth slowed so much that it subtracted 3.4 percentage points from Q4 GDP. This has led to a new round of inventory rebuilding in recent months (Figure 10), which should add significantly to GDP growth in Q1 – although we still anticipate that inventories will not contribute much to GDP for 2011 as a whole. The renewed growth in inventories in addition to still-sturdy final demand has pushed **industrial production** upward again (Figure 11). The manufacturing sector is booming and is likely to remain strong at least through the first half of the year. However, we have to keep in mind that manufacturing is only about 15% of the U.S. economy.

Figure 12: Trade Deficit Trending Wider Again

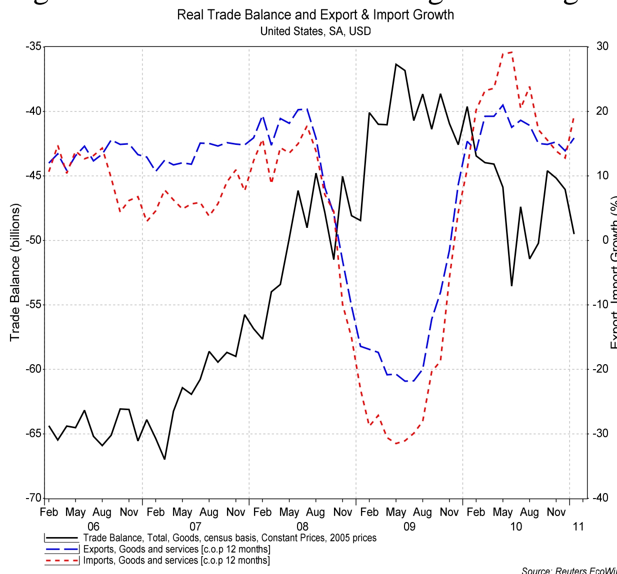
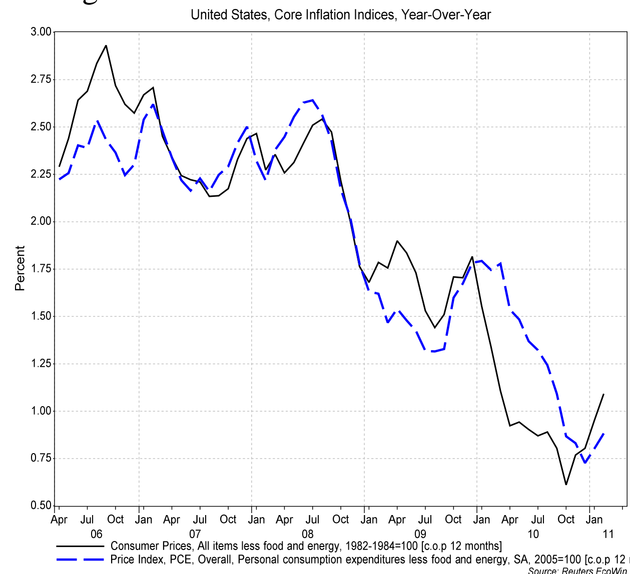


Figure 13: Deflation Risk Has Eased

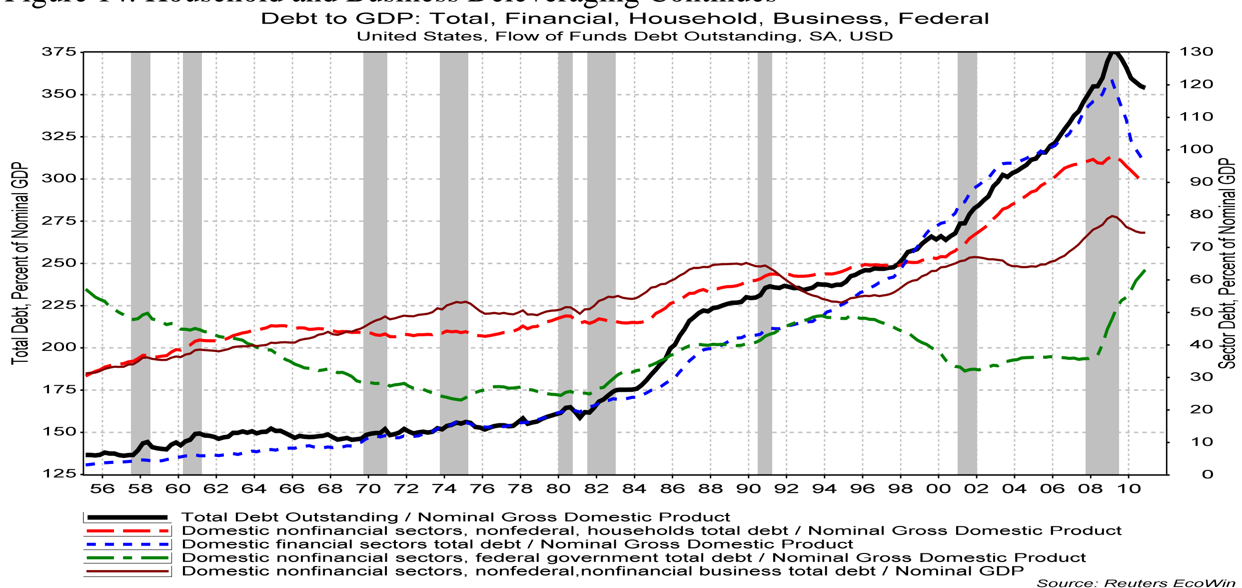


The **trade deficit** widened sharply in January (Figure 12), but we expect some retracement in February at least. With U.S. economic growth running above that of most of its trading partners, trade is likely to be a modest drag on GDP this year.

State and local **government spending** continues to decline, and deficit spending by the federal government has slowed slightly. As a result, government spending – which has been a substantial contributor to GDP growth over the past several years – is likely to subtract from growth for the foreseeable future. Having said that, fiscal drag is likely to be fairly small in 2011 since spending cuts currently being contemplated by Congress are relatively modest, especially compared to already-passed tax cuts. Budget cuts in fiscal years 2012 and, especially, 2013 may have a more sizable impact on growth, but the politics there are difficult to sort out at this stage.

Inflation in the U.S., as anyone who has bought food or paid for a tank of gasoline recently can attest, has increased noticeably in recent months. Even "core" (i.e., excluding food and energy) prices have started to head upward (Figure 13). While the increases in core prices, which are the focus of the Federal Reserve, are tame for now, the threat of deflation appears to have passed. Since the risk of deflation was one of the reasons for highly accommodative monetary policy, the lessening of that risk is significant. At this stage, we are not concerned about inflation getting out of control given overall deleveraging and substantial excess capacity across the U.S. economy (including low capacity utilization, high vacancy rates, large inventories of unsold homes, and high unemployment). However, it is a clear risk for fixed-income investors and something we are watching very closely.

Figure 14: Household and Business Deleveraging Continues



As usual, we will conclude this section with a brief recap of **balance sheet trends** (Figure 14). Deleveraging is continuing apace in the household and financial sectors, and it likely will continue for some time to come. Deleveraging has moderated in the nonfinancial business sector. After significantly improving their balance sheets, nonfinancial companies are starting to focus on growth again. We are not troubled by this given that leverage in the sector is relatively modest, interest rates are low, and profitability is strong – although it too bears watching.

While the private sector has been reducing debt, government sector debt is rising sharply – indeed, unsustainably. Federal government debt now stands at more than 63% of GDP, up from less than 36% at the end of 2007, and it is growing by 8-9 percentage points per year. At the current rate, in just a few years the U.S. federal debt will exceed 90% of GDP, a level that is associated with slower economic growth, higher inflation, and/or debt crises.[2] Regardless of one's political beliefs, this is a problem that cannot be kicked down the road much longer. It is certain to be *the* major issue in the next election cycle in late 2012. How we address the deficit problem as a nation will have important investment implications, which we discuss in the next section.

Market Outlook

Treasury rates rose moderately in the first quarter of 2011 (Figure 15). The thirty-year Treasury yield increased by 17 basis points (bp) to 4.51%, and it has risen a further 13 bp to 4.64% today. This puts long-term Treasury rates up by nearly 100 bp since 3Q2010. In the short end, the fed funds target rate remains unchanged at zero to 0.25%. The market expects no change in the fed funds rate in 2011, with tightening beginning in early 2012. The Fed is also expected to complete its $600 billion Treasury purchase program as scheduled at the end of June. We think the Federal Reserve may wait a little longer to begin tightening, but short rates probably will rise in 2012.

Figure 15: Benchmark Rates Up…

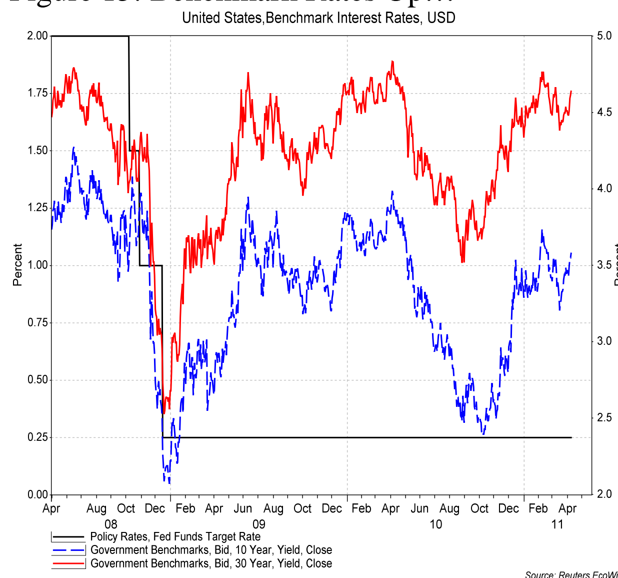
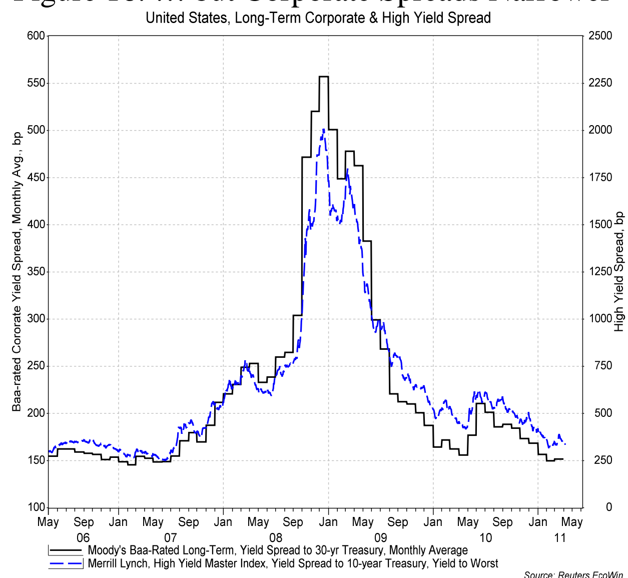


Figure 16: … but Corporate Spreads Narrower



Credit spreads continued to tighten in Q1. The Moody's long Baa-rated corporate spread to Treasuries narrowed by 10 bp, and high yield spreads dropped by 66 bp, bringing spreads back to levels not seen since early-mid 2007 (Figure 16). Preferred securities' prices rallied in Q1, returning spreads close to pre-crisis "normal" levels. We expect some further spread tightening in preferreds, but it's obvious that the vast majority of the recovery in spread from the crisis high is

[2] See *Growth in a Time of Debt*, by Carmen M. Reinhart and Kenneth S. Rogoff, January 2010. Available at: http://www.economics.harvard.edu/faculty/rogoff/files/Growth_in_Time_Debt.pdf. Of course, the level of debt is a function of both fiscal policy (spending and taxes) and economic growth, which are changeable and difficult to predict very far into the future. Our point is not to predict a precise timetable for when the U.S. national debt will become unsupportable, but to observe that a sizable fiscal policy shift toward lower deficits is required soon.

behind us. We are back in an environment where preferreds can offer attractive yields relative to other alternatives, but only limited further price appreciation. With market-wide tailwinds diminishing, credit analysis and security selection will be increasingly important. We think that plays to our strengths.

Credit quality generally continues to improve, which is good news for the preferred market. As previously mentioned, leverage at financial companies continues to decline, and it was essentially flat at nonfinancial companies. Corporate profitability is strong: the after-tax profit share of GDP stands at 8.4%, near the post-war record of 8.6%, and profits are expected to rise further in 2011 (Figure 17). Interest expense relative to earnings before interest and taxes is at a healthy level. Liquidity is at a record high, as is the proportion of long-term debt to total debt, both of which reduce short-term funding risk (Figure 18).

Figure 17: Corporate Profits Strong

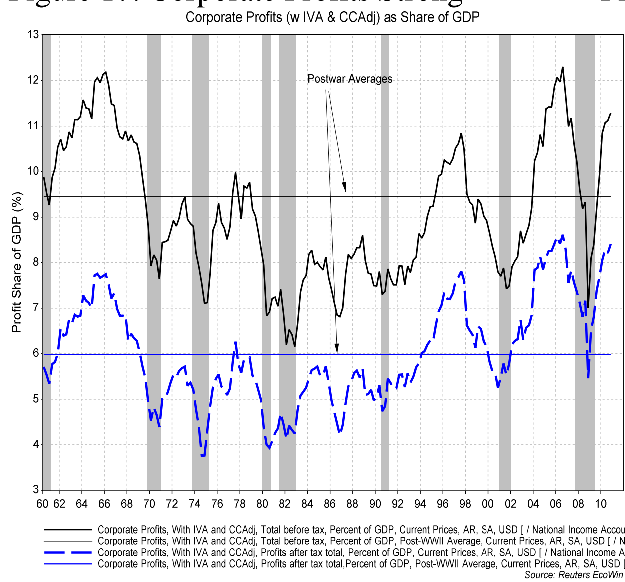


Figure 18: Balance Sheets Solid; Debt Burden Low

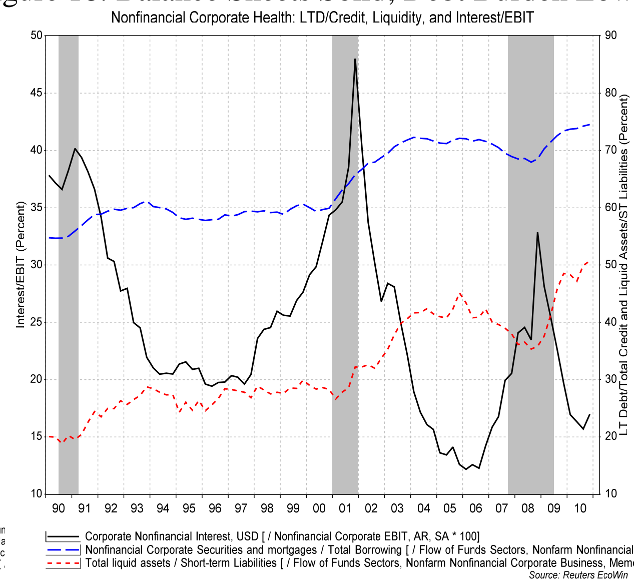


Figure 19: Loan Quality Improving

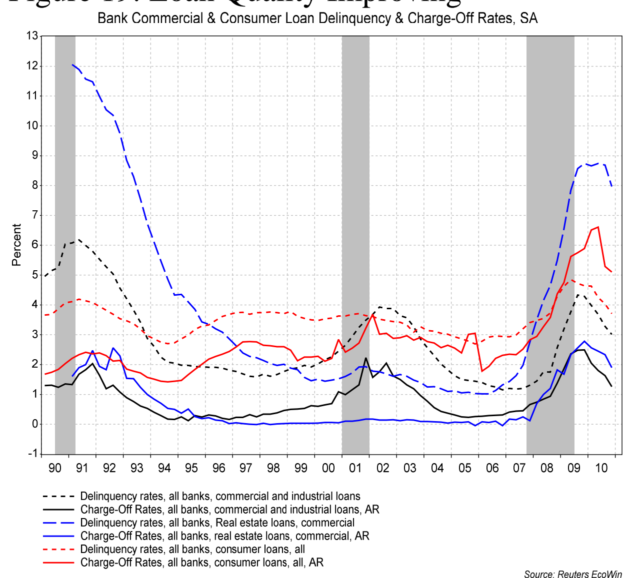
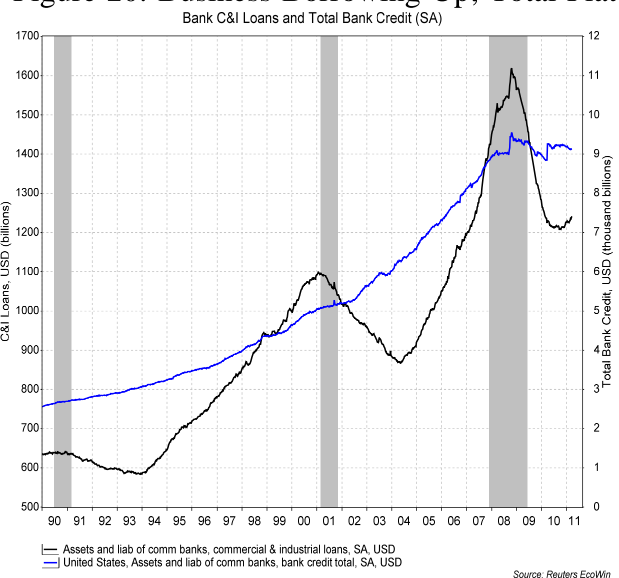


Figure 20: Business Borrowing Up; Total Flat



Bank loan delinquencies and charge-offs, while still high historically, continue to trend down across all major loan categories (Figure 19). This improved lending environment has increased both banks' willingness to lend and businesses' desire to borrow. As a result, commercial and industrial loans are rising again. Consumers continue to reduce debt, however, which has kept overall bank credit roughly flat (Figure 20). We expect the earnings rebound and balance sheet cleanup in the banking sector to continue.

We see similar if less dramatic improvement in capitalization and operating fundamentals in the other business sectors of interest to preferred investors. Regulated utilities are benefitting from renewed economic growth, continued interest in renewable and domestic energy, and the "back-to-basics" strategy begun a decade ago at many of these companies. Life insurers have seen their capital and earnings recover along with financial markets, and they have spent the past several years making their businesses more efficient. Property and casualty insurance and reinsurance companies have taken some lumps from recent natural disasters – from the earthquake and tsunami in Japan, to the earthquake in New Zealand, to flooding in Australia and the U.S. Midwest. However, they came into those catastrophes with very strong capital and renewed risk discipline. We anticipate that most will post only moderate losses, and they should benefit from premium increases that normally occur after major catastrophes. As always, there will be both winners and losers in each of these industries. Our focus is on investing with the former and, especially, avoiding the latter.

Turning to **regulatory matters**, there are two related measures moving through the banking system, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and the Basel Committee on Banking Supervision's third version of international bank capital standards (Basel III). We have previously described some of the features of each of these regulatory frameworks; here we will offer a brief update on where they stand.[3]

There has been little news on Dodd-Frank since its passage in July 2010 that is of importance to the preferred securities market, though much is happening behind the scenes. Of primary importance are the unanswered questions surrounding bank capital requirements: How much and what types of capital will banks be required to hold, and what features will securities need to qualify as a particular form of capital? We expect regulators to offer preliminary rules on capital in June or July, followed by a comment period of several months. That should put the market on track for final U.S. bank capital rules in 4Q2011. For bank Tier 1 Trust Preferred Securities (TruPS) that have regulatory call features, those final regulations may open the "window" for banks to call those securities, even though they will continue to fully qualify as Tier 1 capital until January 1, 2013. Not all banks will be in a position to call their TruPS, and banks that are able to call their TruPS may not do so with all (or even any) of their outstanding issues. What gets called and what gets refinanced will depend upon the final rules, a bank's capital position, and the cost of issuing any replacement capital security. It's going to be an interesting period, and we have spent considerable time thinking through how it might play out.

In December and January, international bank regulators finalized the Basel III bank capital standards. Under Basel III, banks will be required to maintain much higher levels of capital than

[3] See *Preferred Market Update*, August 2010, and *Comment on "Proposal to ensure the loss absorbency of regulatory capital at the point of non-viability," Basel Committee on Banking Supervision*, Sepetmber 2010. Both are available at www.preferredincome.com or www.fcclaymore.com.

in the past, particularly at the common equity level. Minimum common equity capital will rise from the current 2.5% of risk-weighted assets (RWA) to 7% including a "capital conservation buffer[4]" when fully implemented in 2019. The Tier 1 minimum increases to 8.5%, and minimum Total Capital rises to 10.5%. In addition, banks will be subject to a "countercyclical" capital buffer ranging from 0% to 2.5%, as determined by national regulators, and to a "systemically important financial institution" capital buffer whose size and application have not yet been determined. Those capital buffers may be met by common equity or certain forms of contingent capital securities.[5] While individual countries still need to adopt these standards, we expect that the great majority will do so.

The other major piece of news out of Basel that affects preferred investors is that the Committee finalized its loss absorbency rules for preferred securities largely as originally proposed, with an important exception. The Committee had proposed that non-common capital securities qualifying as Tier 1 or Tier 2 capital needed to "include a mechanism in their terms and conditions that ensures they will take a loss at the point of non-viability." Since current preferred securities – even those with features that would otherwise allow them to qualify as Tier 1 or Tier 2 capital – generally do not explicitly incorporate such terms, it was feared that virtually all bank preferred securities would become ineligible as Tier 1 or Tier 2 capital. Fortunately, the final rule gives national regulators an "escape clause" on this requirement. If a country's bank resolution regime incorporates a system for allocating losses to capital providers prior to the injection of state funding, then the loss provision language is not required. While we won't know for sure until final rules are written, it appears that Dodd-Frank gives bank regulators just such authority. As a result, it is likely that perpetual, noncumulative U.S. bank preferreds eligible for the dividends received deduction will remain qualifying Tier 1 capital under the new rules. Other countries are likely to adopt similar resolution regimes as well.

Finally, banks in the U.S. and Europe have completed or are currently undergoing another round of "stress tests" given by their regulators. So far, Spain and the U.S. have completed their bank stress tests, although only Spain has released its results. Its two largest banks, Santander and BBVA, are not required to raise any additional capital (as expected), while a number of smaller banks are required to raise a total of €15.1 billion of common equity capital, a relatively modest (and perhaps ultimately insufficient) amount. In the U.S., a number of large banks received permission from the Federal Reserve to increase their common dividends.[6] In addition, several other banks received permission to repay their Troubled Asset Relief Program (TARP) preferred capital after raising a smaller amount of common equity capital.[7] Both actions indicate that those institutions passed their stress tests. However, unlike in April 2009, the Fed has not released the stress test results publicly – and, in fact, has instructed banks not to reveal their individual results.

---

[4] The capital conservation buffer will be 2.5% of RWA, making the minimum common equity capital standard 4.5%. Banks that fall below 7% (i.e. 4.5 + 2.5%) common equity will face restrictions on employee compensation, shareholder dividends, and share repurchases. As a result, we see 7% common equity as the operating minimum under the new standards.

[5] Contingent capital securities ("Cocos") are securities that either convert into common equity or are written down upon some pre-specified capital event, such as Tier 1 common equity falling below a certain level. The common equity conversion moves the face value of the instrument into common equity, while the write down creates a gain that (after taxes) boosts retained earnings, both of which increase the common equity ratio.

[6] BBT, BK, C, JPM, KEY, STT, USB, and WFC announced dividend increases as of the second quarter of 2011.

[7] KEY and STI raised $650 million and $1 billion, respectively, in common equity and have repaid TARP.

We continue to believe that the Dodd-Frank and Basel III regulatory changes will be positive for investors in preferred securities. Banks will need to hold significantly more common equity capital than they have in the past. In fact, they already do. This will give banks much more capacity to absorb losses before preferred investments are in danger of impairment. In addition, other regulatory changes such as the Volker Rule and derivatives clearing and reporting requirements should reduce the risk profiles at banks. While all these regulatory changes create uncertainty in the market, we think they will be beneficial for preferreds.

Although the creditworthiness of U.S. banks and corporations continues to improve, the European **sovereign debt crisis** has flared up again. Just last week, Portugal followed Greece and Ireland in requesting a financial assistance package from the European Union and the International Monetary Fund. The particulars of that package are still being worked out, but reports indicate that it will be in the range of €75 – 90 billion. Portugal's debt crisis was brought about by sluggish economic growth (which reduced tax revenues) and a political inability to reduce government spending by enough to put its deficit on a sustainable path. (Government debt-to-GDP probably ended 2010 a little over 85% of GDP.) Markets reacted by pushing interest rates on Portuguese government debt well above 8%, which is a crushing burden for an economy with heavy debt and low growth. Portugal's request for external assistance ensued.

We think that Portugal will be the last member of the European Monetary Union (EMU) to require financial assistance in the current crisis. Markets are still somewhat fearful that Spain may need a bailout, though that concern actually diminished even as the situation in Portugal deteriorated. We believe that Spain will be able to stabilize its debt on its own given that (1) it already has made the difficult political decisions required to reduce its deficit and (2) its debt-to-GDP ratio remains under 60%, which gives it time to address its problems before it reaches a tipping point.

We are monitoring the sovereign debt situation in Europe closely, as it has meaningful implications for a number of European financial institutions and even some U.S. companies. If the crisis remains contained to Greece, Ireland, and Portugal, we think any potential losses faced by companies in any of our portfolios will be manageable.

The crisis now facing Europe is a cautionary tale for the United States, where public debt is quickly approaching the level that proved problematic in Europe. Of course, the U.S. has more economic flexibility (fiscal, monetary, and foreign exchange) than does an individual EMU nation, whose sole adjustment tool is fiscal policy. Nonetheless, the policy responses available to the U.S. become increasingly worse for investors as public debt climbs: higher taxes and/or less government spending (which slow economic growth and increase credit risk, at least temporarily), higher inflation (which erodes the value of fixed claims), or a weaker dollar (which increases domestic inflation). None of these are especially friendly for preferred investors.

The good news is that both Republicans and Democrats appear to understand that current U.S. budget trends are unsustainable. The bad news is that they disagree so fundamentally on how to solve the problem that it may be impossible to make much progress until the next election cycle in late 2012. By then, there may be little maneuvering room, and any policy changes will need to be dramatic – and, hence, risky for investors.

When it comes to investing in preferred securities in 2011, we believe that the improvement in the U.S. economy and the strengthening credit profile of the companies we own will trump the

storm clouds gathering over the U.S. budget deficit and sovereign debt problems in Europe. That may change at some point down the road, however. With preferred spreads close to "normal" levels, we need to be especially vigilant in our credit analysis and security selection while still keeping our eye on the developing macroeconomic environment. That has always been our approach – and, we believe, our comparative advantage. We are grateful for your continued confidence in us.

Flaherty & Crumrine Incorporated
April 11, 2011

© 2011, Flaherty & Crumrine Incorporated. All rights reserved. This commentary contains forward-looking statements. You are cautioned that such forward-looking statements are subject to significant business, economic and competitive uncertainties and actual results could be materially different. There are no guarantees associated with any forecast; the opinions stated here are subject to change at any time and are the opinion of Flaherty & Crumrine Incorporated. Further, this document is for personal use only and is not intended to be investment advice. Any copying, republication or redistribution in whole or in part is expressly prohibited without written prior consent. The information contained herein has been obtained from sources believed to be reliable, but Flaherty & Crumrine Incorporated does not represent or warrant that it is accurate or complete. The views expressed herein are those of Flaherty & Crumrine Incorporated and are subject to change without notice. The securities or financial instruments discussed in this report may not be suitable for all investors. No offer or solicitation to buy or sell securities is being made by Flaherty & Crumrine Incorporated.