

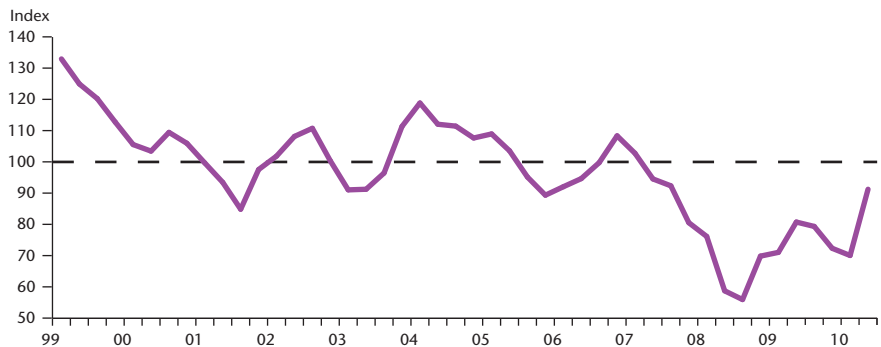
US Financial Reality Index – Q2 2010

July 2010



The latest research from the Alliance Trust Research Centre shows that the overall financial situation facing US households improved during Q2, with all three sub-indices, covering general economic activity, household budget conditions and net wealth, increasing simultaneously for the first time since Q1 (04). Our US Financial Reality Index has increased from 70.1 to 91.3, moving closer towards the critical level of 100, and reaching its highest level since Q3 (07). However, given that the index remains below its long term average, we still expect consumer spending growth to be relatively low over the next few months.

US Financial Reality Index



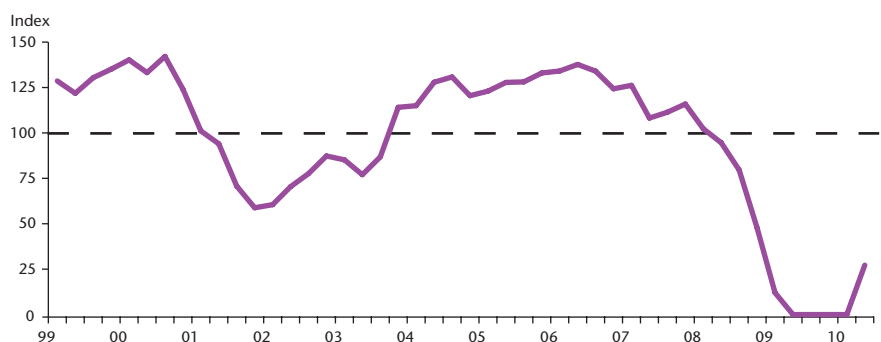
The Alliance Trust US Financial Reality Index increased from 70.1 in Q1 (10) to 91.3 in Q2 (10), moving closer to the critical level of 100. This is the first increase in the headline index since Q2 (09).

(07), rising from 0.0 to 27.2. However, despite this encouraging move, this remains the weakest component of the Alliance Trust US Financial Reality Index. Economic activity is still relatively weak and the unemployment rate remains close to 10%. This high level of unemployment is one of the key factors behind the ongoing weakness in the housing market and the elevated level of consumer loan delinquencies. US households continue to face a significant level of financial stress.

Economic Background – Increased from a record low of 0.0 to 27.2

The economic background component has recorded its first gain since Q4

Economic Background



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Household Budget – Increased from 111.6 to 133.7

The household budget index increased during Q2, rising from 111.6 to a level of 133.7. This component currently lies well above the critical level of 100, indicating that overall budget conditions are relatively good. The improvement recorded during Q2 was largely due to an increase in real disposable income, caused by the favourable combination of both rising incomes and a decline in headline inflation. In addition, there was a sharp improvement caused by the fact that gasoline price inflation has dropped very sharply over the last year.

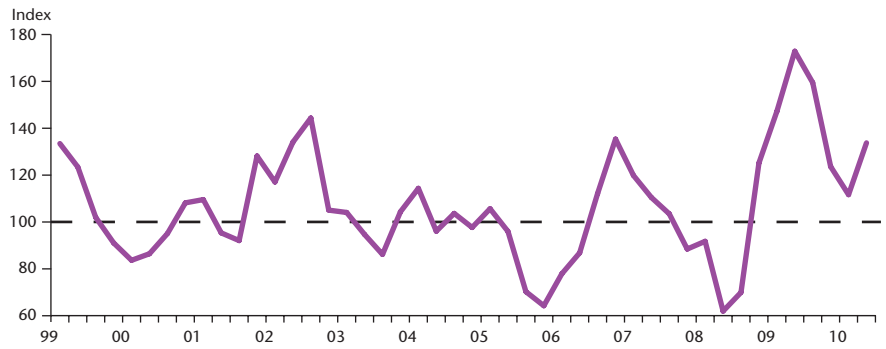
Net Wealth – Improved for the sixth successive quarter, rising from 71.0 to 84.8

The net wealth index continued to improve during Q2, rising from 71.0 to 84.8. This is the sixth successive gain in this component and takes the net wealth index to its highest level since Q4 (05). However, despite this ongoing improvement over the last 18 months, this component still remains below the critical level of 100, indicating that wealth levels, and trends in these, are still below their long run average. During Q2, our weighted average of house prices recorded positive annual growth for the first time since Q2 (06), but stock market performance was a bit weaker than had been recorded during Q1 (10). One major negative factor is the high level of household debt which continues to represent a major burden on households, particularly while the labour market remains relatively weak.

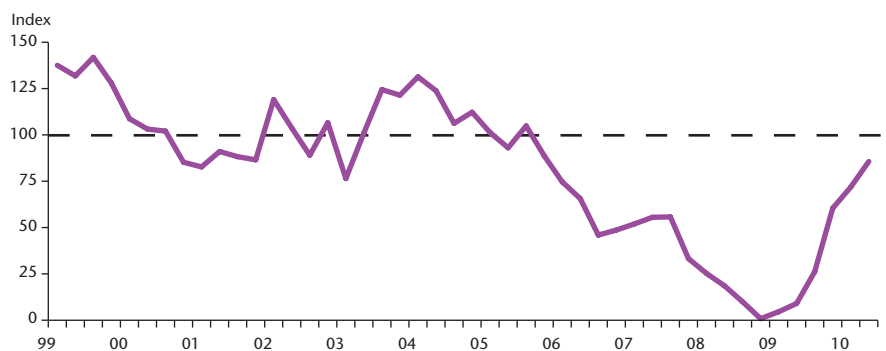
Summary and conclusions

It is encouraging to see that our US Financial Reality Index has improved during Q2 (10), following three successive declines, increasing from 70.1 to 91.3. However, despite this upward move, the index remains below the long run average level of 100, indicating that the financial conditions facing households are still relatively negative overall. For the fifth successive quarter, it is the economic background which is the weakest of our three components, despite this index recording the biggest

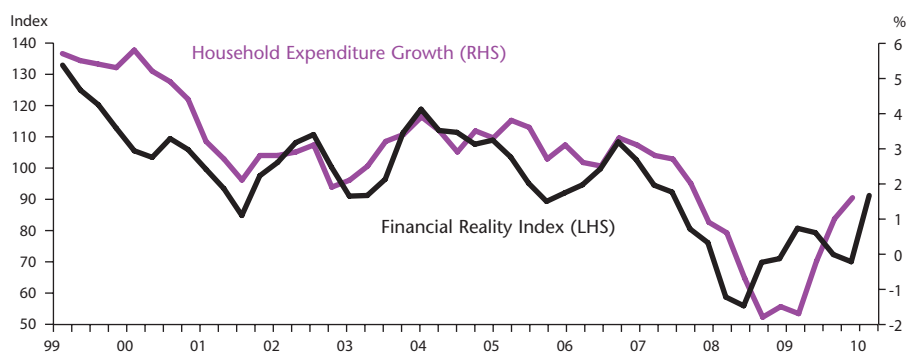
Household Budget



Net Wealth



Financial Reality Index v Household Expenditure



gain during the quarter. The household budget component is the strongest, reflecting the fact that real incomes have improved and gasoline price inflation has lessened significantly.

remain relatively weak, suggesting that consumer confidence, and spending, will be muted for some time.

Sources: EcoWin, In-house Analysis

Over the course of our 10 year study there has been a very close relationship between our US Financial Reality Index and actual consumer spending growth, as can be seen in the chart above. The latest reading for consumer spending showed that this recorded positive growth of close to 1.6%, and the recent trend in our index suggests that this relatively low level of spending growth is likely to prevail over the next few months. The burden of debt is still high and both the labour and housing markets