

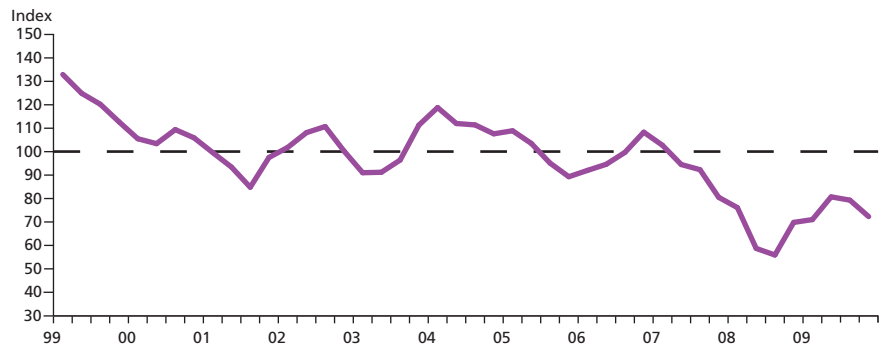
US Financial Reality Index – Q4 2009

January 2010



The latest research from the Alliance Trust Research Centre shows that the overall financial situation facing US households has deteriorated further during Q4. General economic activity remains subdued, the unemployment rate has moved to 10% and gasoline prices have risen sharply over the last year, all adding to the pressures facing households in the US. In addition, the recent increase in inflation means that real earnings are falling, debt remains a burden and house price growth remains negative. Our US Financial Reality Index has fallen from 79.4 to 72.4 moving even further away from the critical level of 100, and signalling that consumer spending is likely to remain muted over the next few months.

US Financial Reality Index



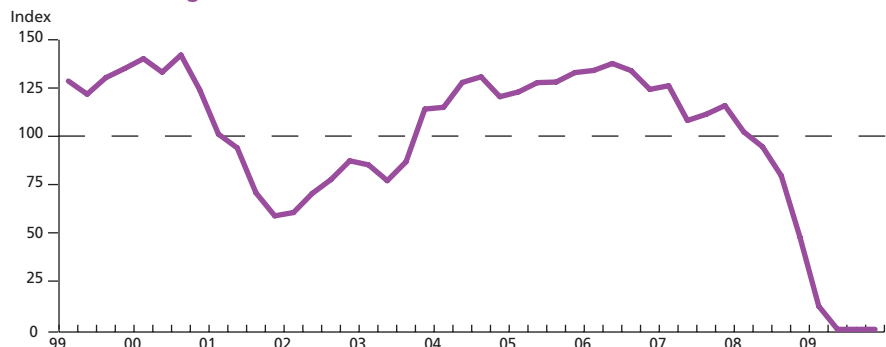
The Alliance Trust US Financial Reality Index fell from 79.4 in Q3 (09) to 72.4 in Q4 (09). This renewed deterioration leaves the index even further below the critical level of 100.

US Financial Reality Index, continuing to record the lowest possible score of 0.0 in Q4. Economic activity remains generally weak and unemployment continues to rise, recently reaching a rate of 10%. This increase in unemployment is one of the key factors behind the ongoing high level of consumer loan delinquencies, which clearly illustrates the ongoing financial stress facing US households.

Economic Background – Remains at a record low of 0.0 for the third consecutive quarter

The economic background remains the weakest component of the Alliance Trust

Economic Background



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Alliance Trust PLC is the largest generalist investment trust company listed on the London Stock Exchange. The Research Centre is part of Alliance Trust and was formed to carry out economic and social analysis to deepen our understanding of economies, markets and socio-economic issues.

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Household Budget – Fell from 159.4 to 123.6

The household budget index deteriorated further during Q4, falling from 159.4 to 123.6. However, despite this fall, the index still lies well above the critical level of 100, indicating that overall budget conditions remain relatively good. The deterioration during Q4 was largely due to the sharp increase recorded in the gasoline price over the last year, and the fact that rising inflation has caused real earnings to fall. However, there was also some relief from the fact that the cost of basic goods and services continues to decline, leaving households with an increased level of income available to spend on more discretionary items.

Net Wealth – Improved for the fourth successive quarter, rising from 25.3 to 59.6

The net wealth index continued to improve during Q4 rising from 25.3 to 59.6. This is the fourth successive gain in this component and takes the net wealth index to its highest level since Q2 (06). However, despite this improvement, this particular index remains well below the critical level of 100, indicating that wealth levels, and trends in these, are still well below the long run average and continue to weigh negatively on household finances. House prices have been falling in the US for more than 3 years and continue to do so – although the pace of decline has lessened. Debt levels remain high and represent a major burden for households, particularly now that unemployment is so high and levels of real earnings are declining. The key driver of the improvement recorded during Q4 was the equity market, which has shown a relatively strong gain of more than 20% over the last year.

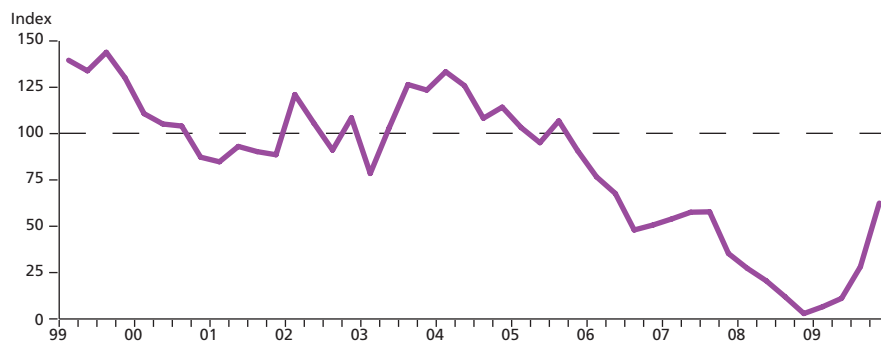
Summary and conclusions

It is disappointing to see that our US Financial Reality Index has deteriorated for the second successive quarter, losing 7 points to reach a level of 72.4. This move confirms that the financial conditions facing households not only remain negative but are weakening again, given that the index has now moved even further below the critical long run average level of 100. For the third successive quarter the economic background is the weakest of our three

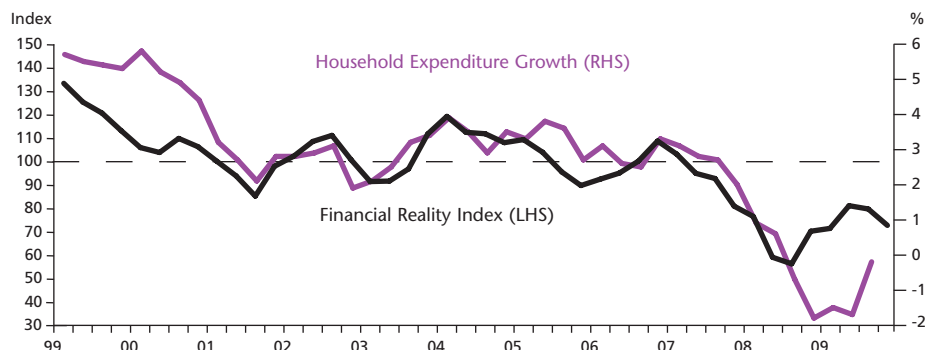
Household Budget



Net Wealth



Financial Reality Index v Household Expenditure



components, and the household budget component is the strongest, reflecting lower costs for basic goods and services. However, despite this relative strength, it was the household budget index which recorded the biggest move over the month, with the fall being driven by higher gasoline prices and a decrease in real earnings.

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 became less negative during Q3 but the most recent trend in our index suggests that weakness in spending is likely to prevail over the next

few months. The burden of debt remains high, and US consumers are therefore expected to continue to increase savings, particularly while the labour market remains so weak.

Sources: EcoWin, In-house Analysis