

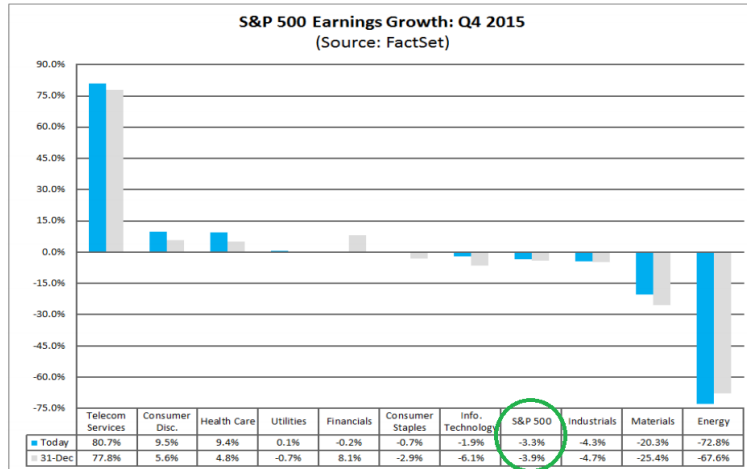
# **Q2 2016 LOOK AHEAD**

## Disclaimer

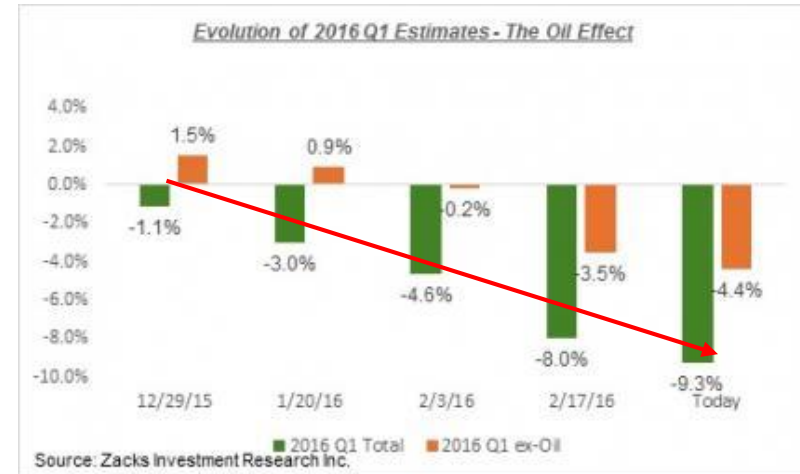
*Certain information in this presentation constitutes forward-looking statements. Due to various risks, uncertainties, and assumptions made in our analysis, actual events or results or actual performance of the markets covered by this presentation may differ materially from those described. The information herein reflects our current views only, is subject to change, and is not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as presented. Data are from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.*

# Longer Earnings Recession Than Expected

## Beating Q4 Expectations



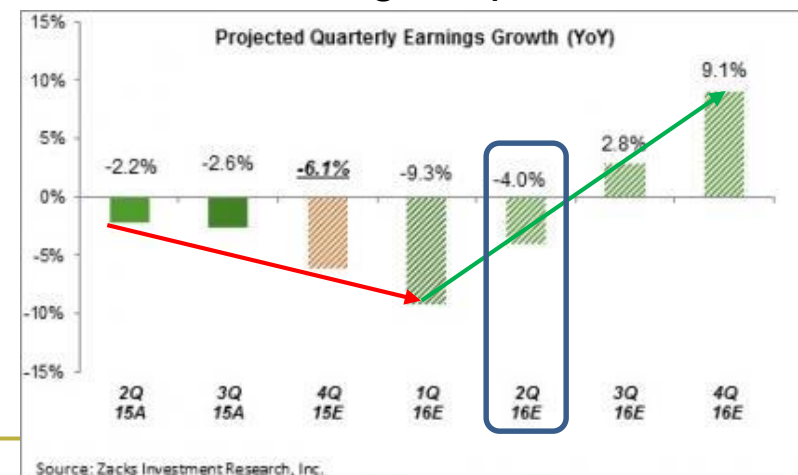
## Q1 Expectations Revised Down



## Earnings Expectations- July 2015



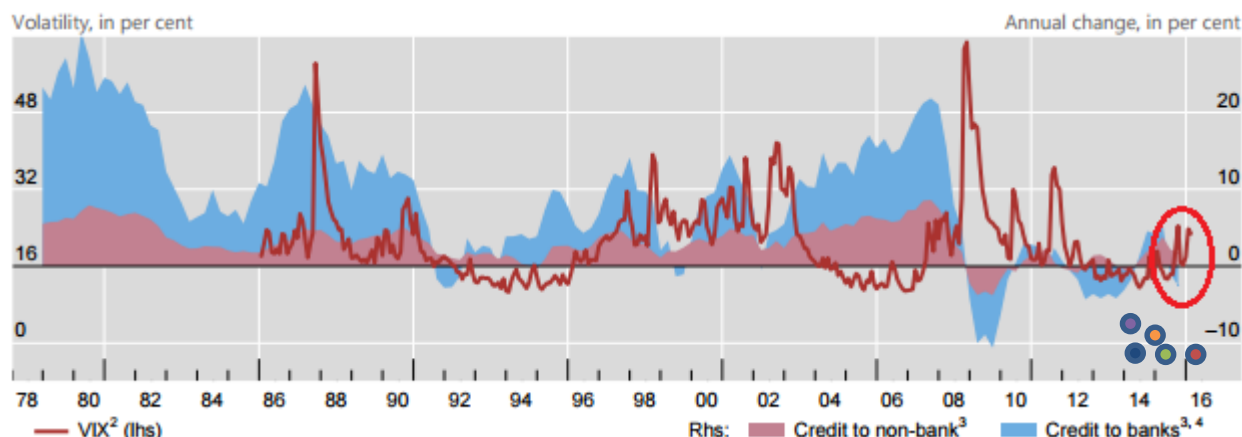
## Current Earnings Expectations



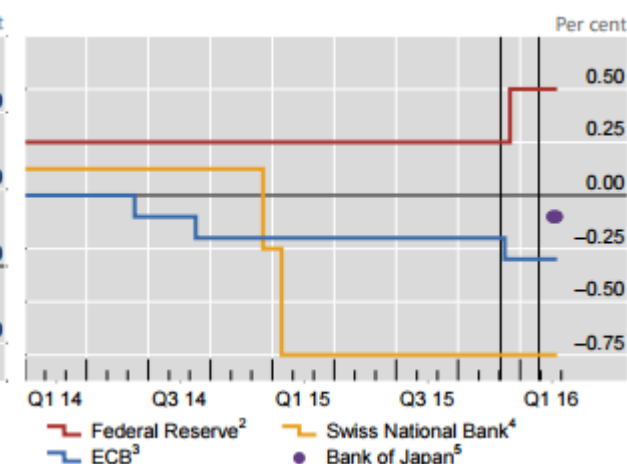
# New Global Central Bank Policy Tool

## NIRP - Negative Interest Rate Policy

### International Bank Lending



### Central Bank Deposit Rates



### Central Banks With Negative Interest Rate Policies

	Bank	Start Date	Initial Rate	Current Rate
1.	ECB	June 11, 2014	-0.10%	-0.30%
2.	Japan	January 29, 2016	-0.10%	-0.10%
3.	Sweden	February 18, 2015*	-0.10%	-0.50%
4.	Denmark	September 5, 2014	-0.50%	-0.65%
5.	Switzerland	December 18, 2014	-0.25%	-0.75%

Sources:

[http://www.bis.org/publ/qtrpdf/r\\_qt1603\\_charts.pdf](http://www.bis.org/publ/qtrpdf/r_qt1603_charts.pdf)

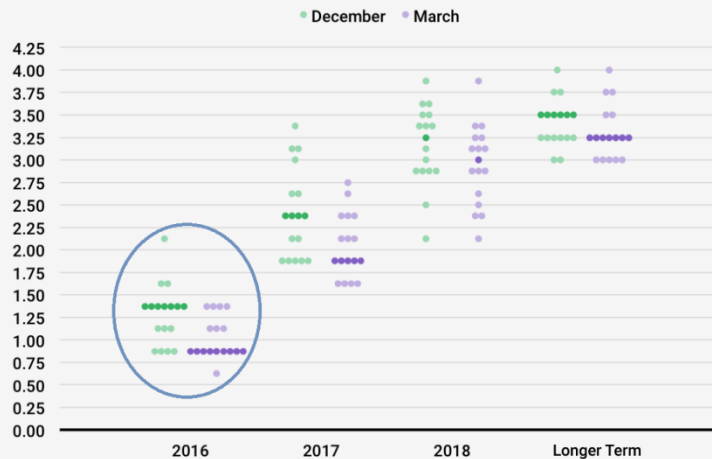
BIS Quarterly Review, March 2016

\*The Riksbank had flirted with negative policy rates in 2009-10

# We Live in a Policy Driven World

The Fed's response has been to delay expectations

## MARCH VS DECEMBER FED DOT PLOT



SOURCE: Federal Open Market Committee

BUSINESS INSIDER

## Impact of Higher Rates

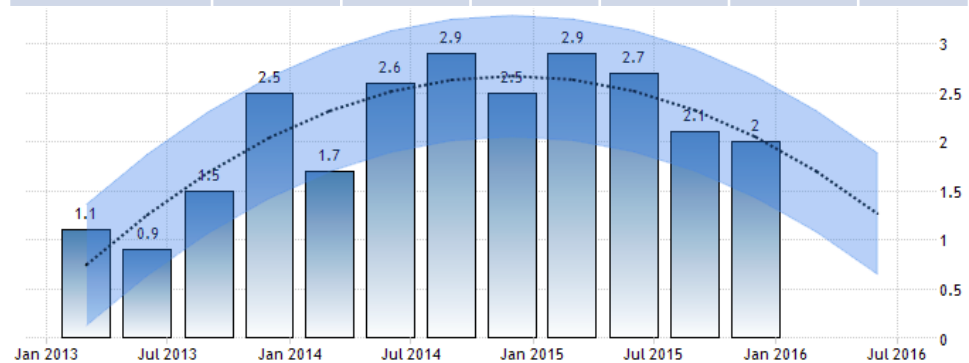
1. The Dollar
2. Wealth Effect
3. Oil & Gas
4. Foreign Debt
5. Overseas Business
6. Retail

Yellen: "It is too early to tell if this recent faster pace will prove durable," March 29, 2016

Forecast	Actual	Q1/16	Q2/16	Q3/16	Q4/16	2020
U.S. GDP Annual Growth Rate	2%	2.1%	2.5%	2.2%	2.9%	2.1%

## Negative Interest Rates Could be Coming to America

"We're taking a look at them ... I wouldn't take those (negative rates) off the table," Federal Reserve chair Janet Yellen, February 11, 2016



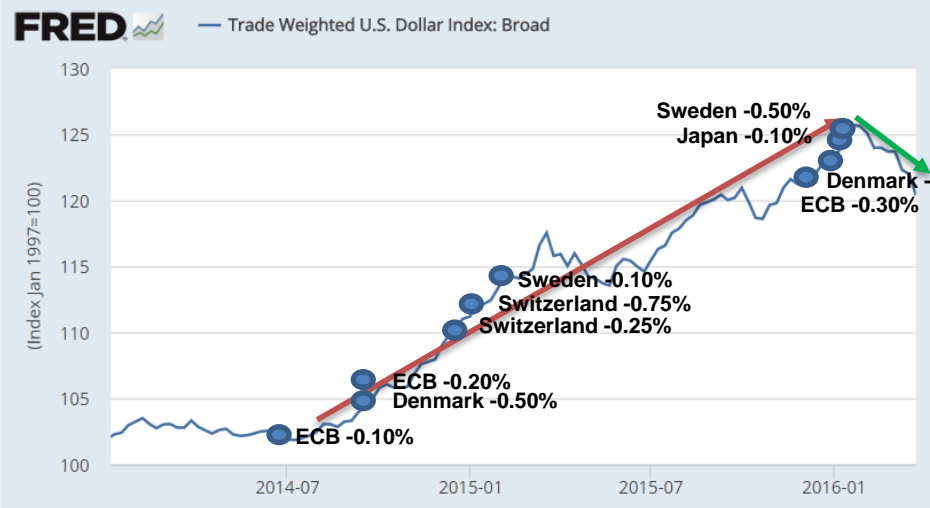
Sources:

<http://www.tradingeconomics.com/united-states/gdp-growth-annual/forecast>

<http://www.businessinsider.com/fed-dot-plot-march-2016-2016-3>

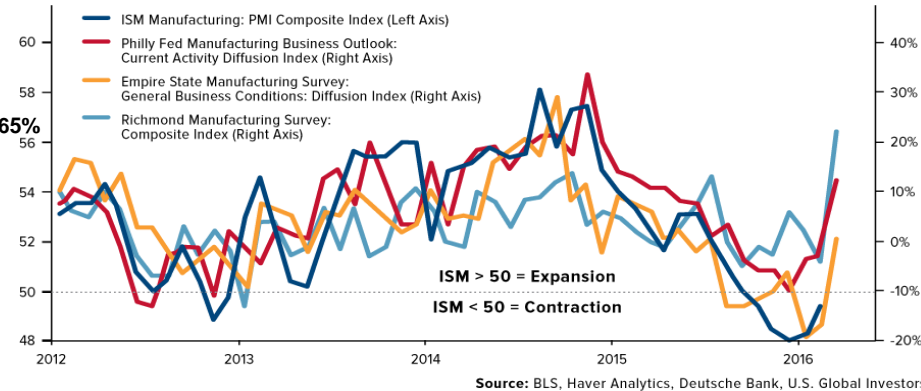
# Lost In Translation – Policy Driven World

## Dollar has Benefited from a Dovish Fed

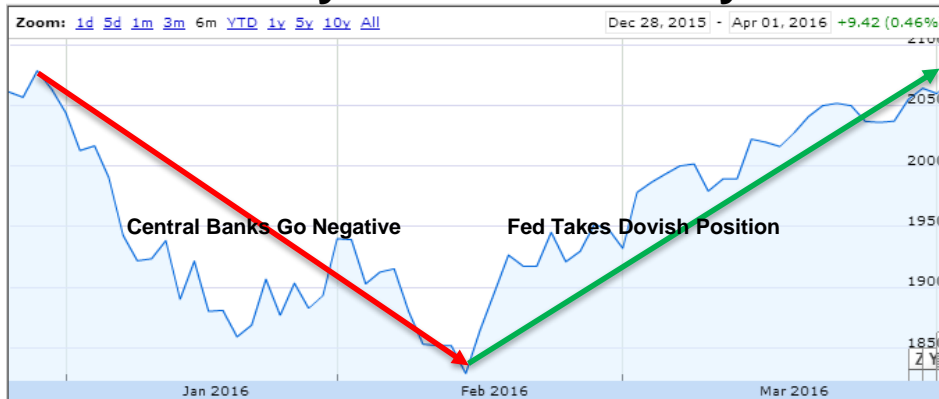


## U.S. Manufacturing Bolstered

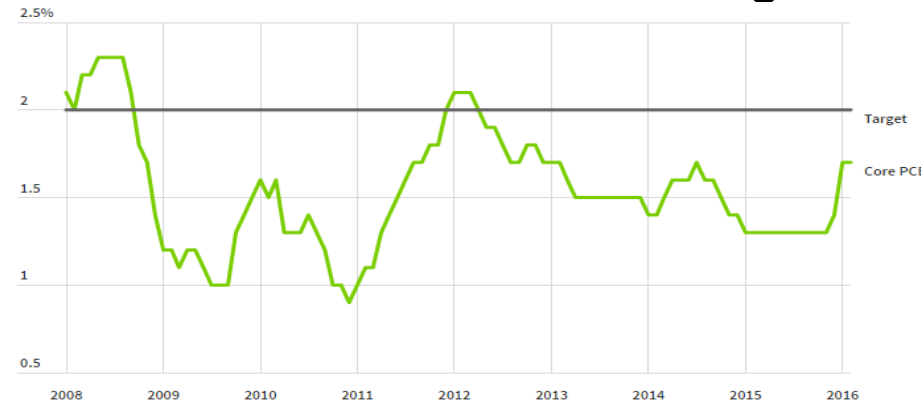
### Manufacturing Sector Shows Strong Acceleration In March



## Policy Driven S&P Rally



## Inflation Still Lower Than Target

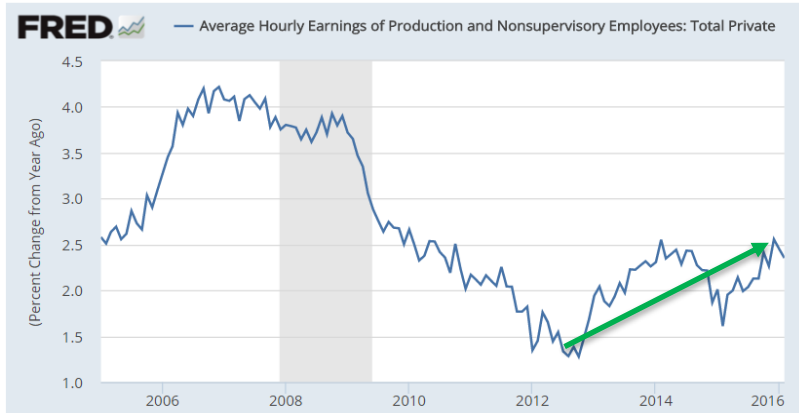


# The U.S. Consumer Stands Firm

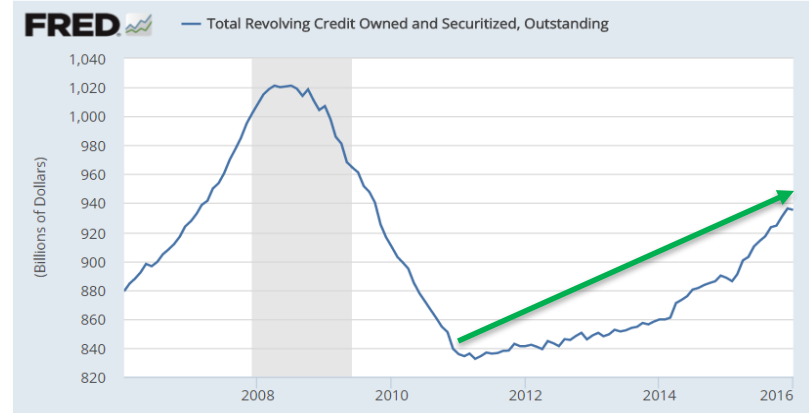
## Missing Animal Spirits – But Not For Long

Consumers have more to spend due to higher wages, increased credit, participation in the workforce, and increased personal savings

### Wages



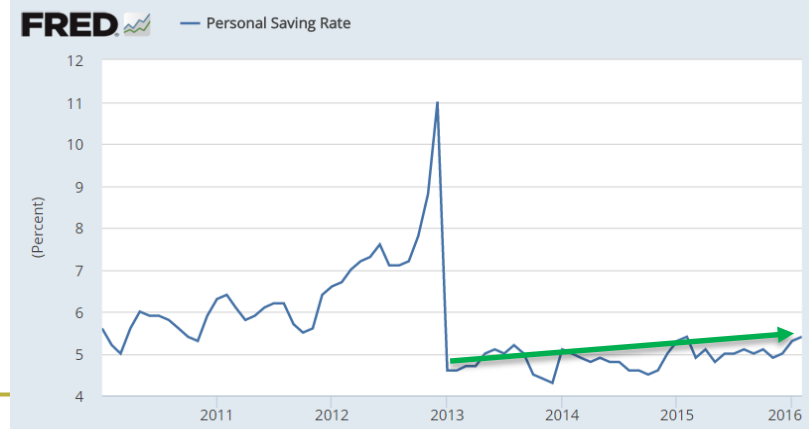
### Credit



### Participation Rate

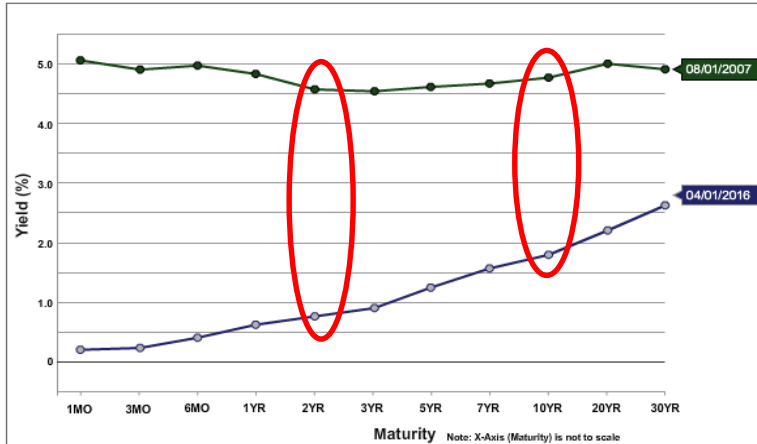


### Personal Savings Rate

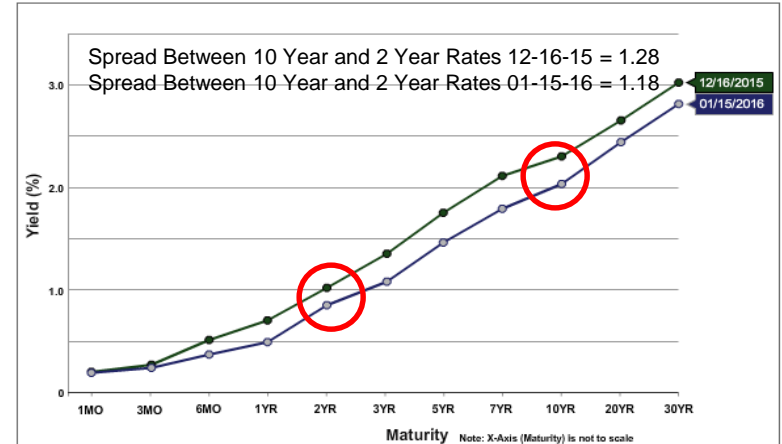


# Risk of Recession is Limited

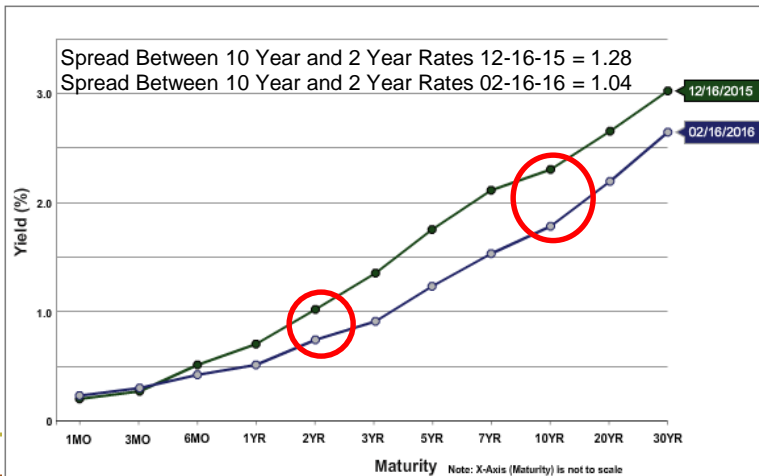
## Great Recession vs. Now



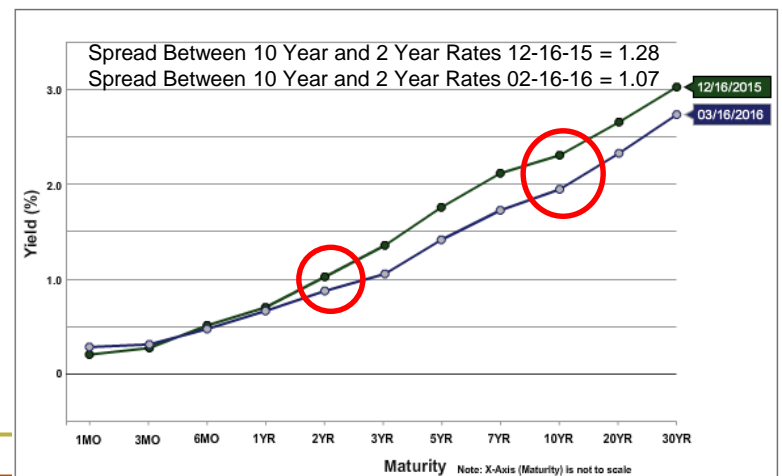
## One Month After Rate Hike 10bps



## Two Months After Rate Hike 24 bps



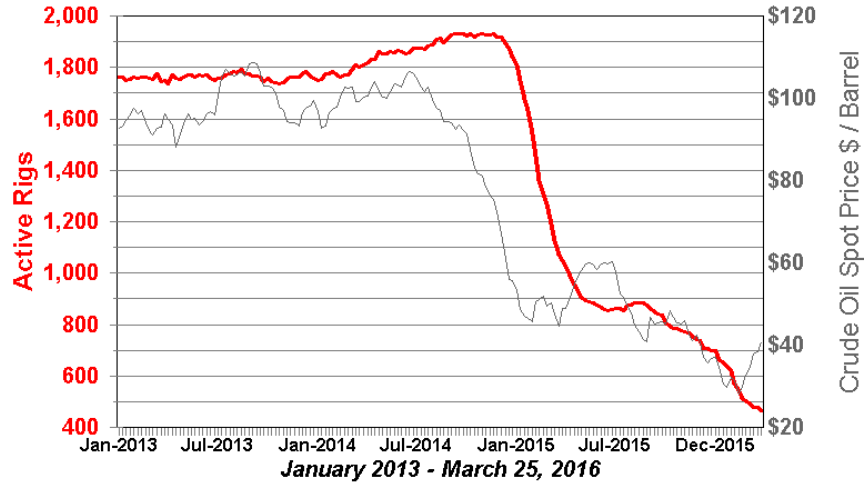
## Three Months After Rate Hike 21bps



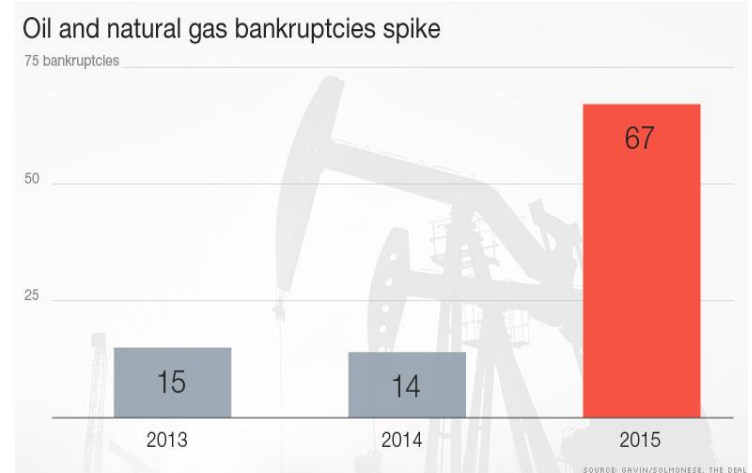


# Has Oil Found a Bottom?

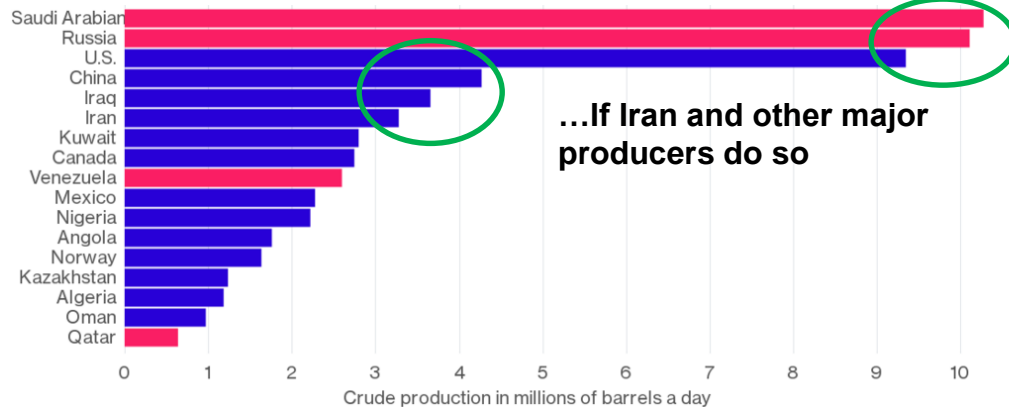
## U.S. Active Oil Rig Decline



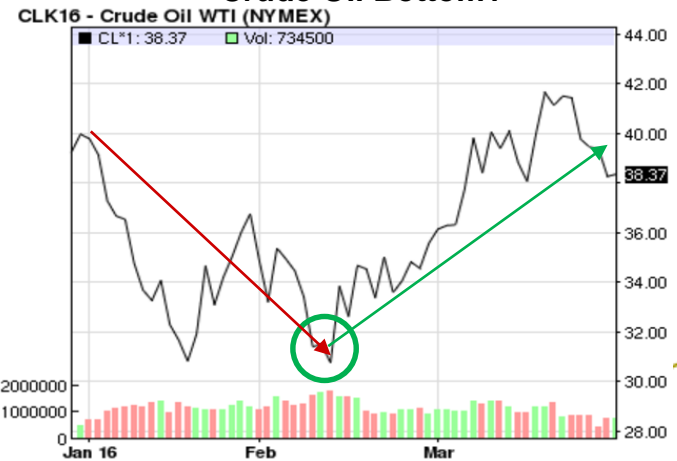
## U.S. Oil Bankruptcies Spiked 379%



## Russia and Saudi Arabia Agree to Production Freeze...



## Crude Oil Bottom?



Sources:

Nasdaq

Joint Organizations Data Initiative data for October 2015

<http://www.wtrg.com/rotaryrigs.html>

<http://money.cnn.com/2016/02/11/investing/oil-prices-bankruptcies-spike/>

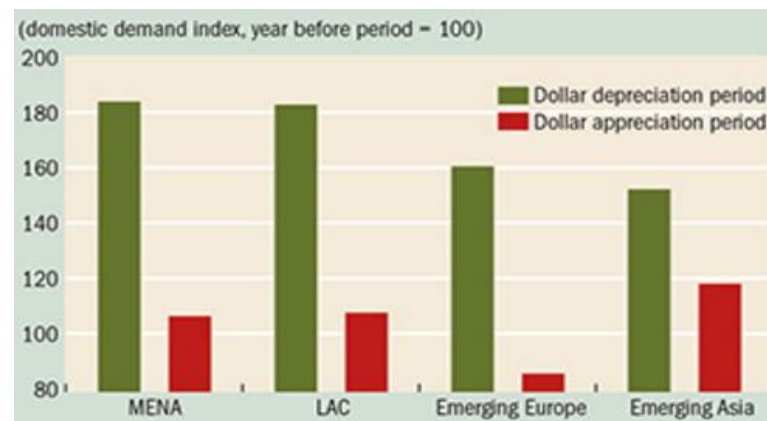
# Emerging Markets Actually Benefit From Weak Dollar

- When the dollar appreciates, the growth rate of both real (after-inflation) GDP and domestic demand slows in emerging market economies
- Reliance of commodity imports favors weak dollar

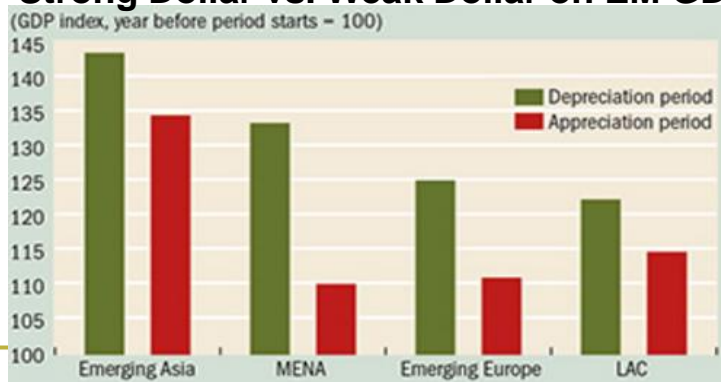
## Strong Dollar Slows EM Growth



## Demand Grows When Dollar Depreciates for EM Economies



## Strong Dollar vs. Weak Dollar on EM GDP



# UK and Greek Exit Impacts

Last summer we saw the possibility of a Greek exit from the European Union. The possibility of the UK leaving the European Union could create even greater volatility

## EU markets Reaction to Possible Greek Exit



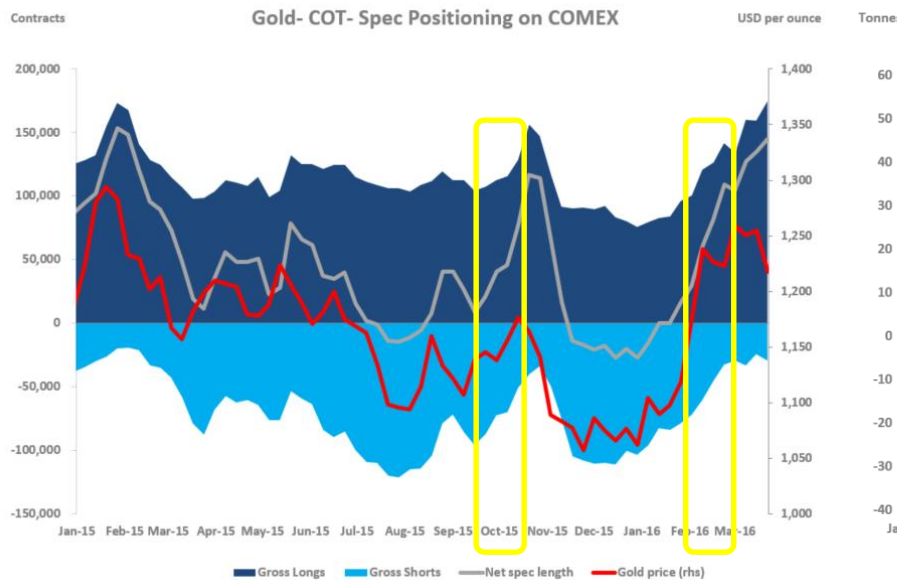
## Impact of UK Leaving

oe	Sector	% exported to EU	Trade deficit/Surplus with EU (£bn)	Potential barriers to EU markets	Risk of disruption	Chances of similar EU access	Possible conditions attached
Goods	Cars	35.0	-13.95	10% tariff	High	High	Basic standards
	Chemicals	56.6	-7.82	4.6% tariff	High	Medium to high	Adhering to EU's regulatory standards
	Aerospace	44.6	2.56	Zero tariffs	High	High	Basic standards
	Machinery	30.7	-5.47	1.7% to 4.5% tariffs	Medium	High	Basic standards
	Food, Beverages & Tobacco	60.5	-16.56	Average tariffs over 20% and higher	High	Medium to high	Keep external tariff with rules on foreign content
Services	Financial services	41.4	16.06	Various EU market access regulations	High	Low	Equivalent regulation; possibly still with patchy access
	Insurance	18.4	3.85	Various EU market access regulations	Medium	Medium	Equivalent regulation; possibly still with patchy access
	Professional services	29.8	-1.92	Primarily national market access regulations	Medium	Medium	Mutual recognition, free movement of professionals

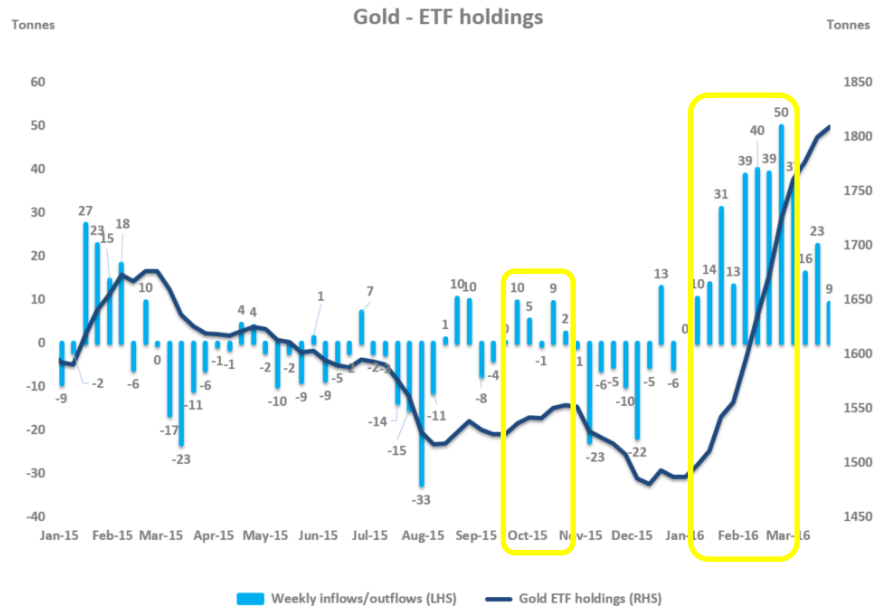
- June, UK voters will decide whether to re-elect the Conservatives – whose referendum promise risks UK exit from EU

# Flight to Safety

## Gold is Inversely Correlated to the Stock Market



## Experiencing Inflows



## Factors that have the highest correlation to gold:

- Currency Volatility
- Falling Interest Rates (Negative Rates)
- Increasing Credit Stress

Sources:

<http://seekingalpha.com/article/3961735-gold-weekly-u-s-monetary-policy-stance>

Sprott Gold & Precious Metals

# Mean Reversion Dashboard

Style Current P/E as a % of 10yr Avg. P/E

	Value	Blend	Growth
Large	107.2%	104.8%	100.4%
Mid	90.2%	95.2%	92.4%
Small	58.3%	51.3%	64.9%

Regional Fwd P/E as a % of 10yr Avg. Fwd P/E

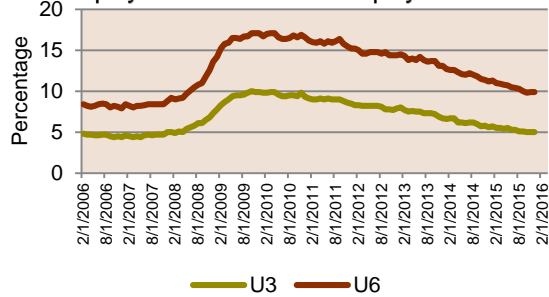
ACWI	EAFE Index	EM Index	United States	Germany	U.K.	China	Brazil	India	Russia
97.23%	75.51%	88.48%	107.59%	77.45%	82.40%	76.35%	97.52%	102.41%	87.17%

Sector Trailing P/E as a % of 20yr Avg. P/E

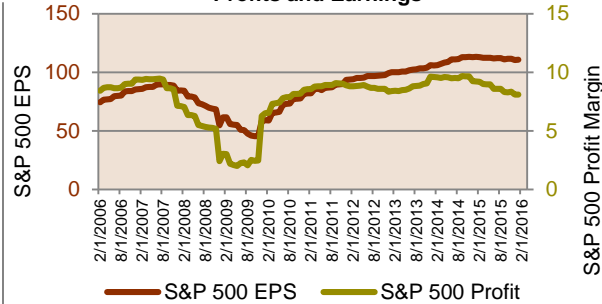
Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Materials
77.7%	59.7%	72.1%	86.5%	435.1%	82.36%	110.1%	73.1%	119.4%	90.1%

# Economic Dashboard

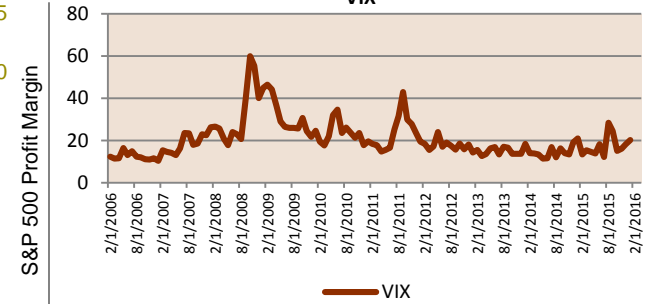
U-3 Unemployment and U-6 Underemployment



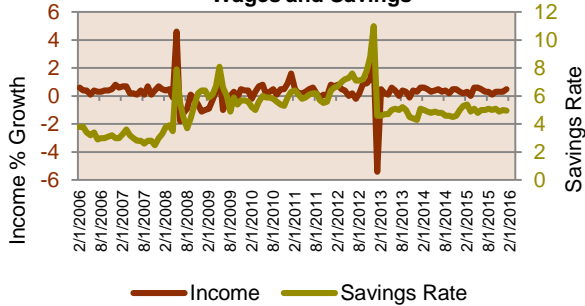
Profits and Earnings



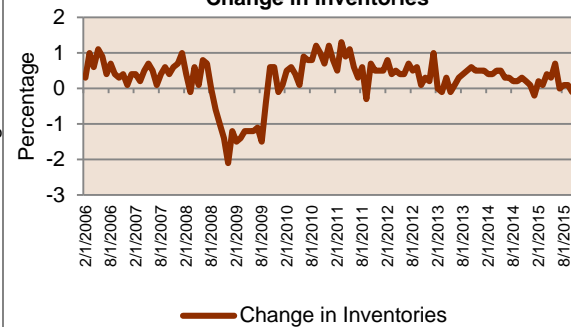
VIX



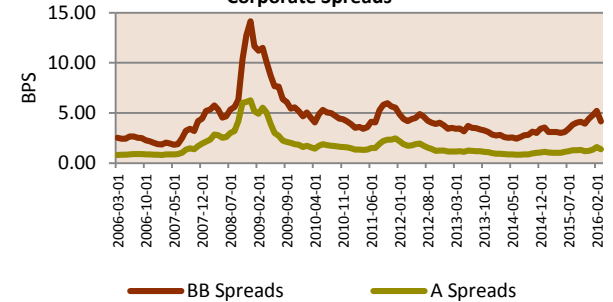
Wages and Savings



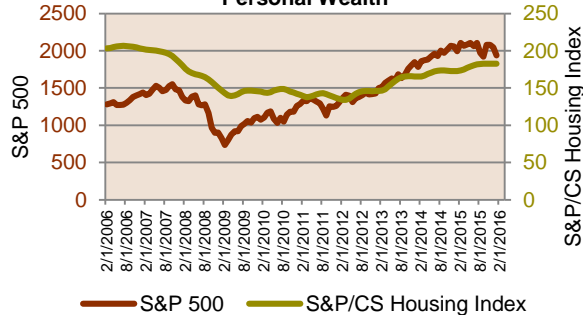
Change in Inventories



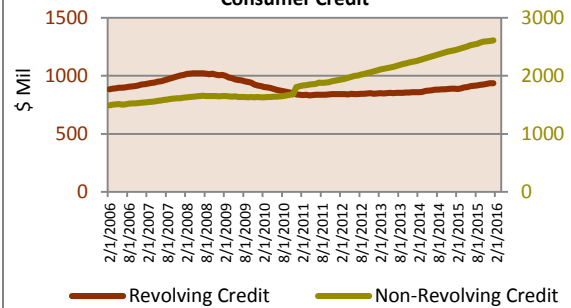
Corporate Spreads



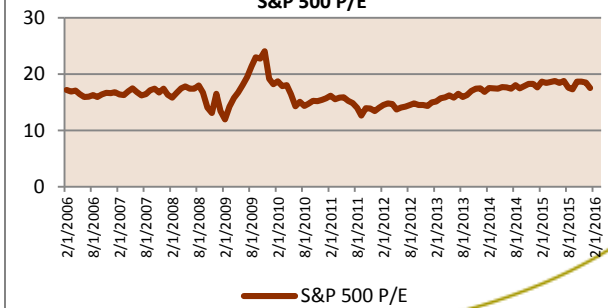
Personal Wealth



Consumer Credit



S&P 500 P/E



Source: Bloomberg LP and Federal Reserve. Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented. Data retrieved on 3/31/2016.

# Recommendations

## Summary:

- We expect earnings recovery in second half of 2016
- Policy driven world, where Fed is managing the markets until earnings recover
- U.S. Consumer is strongest since Great Recession
- Oil has likely found a bottom
- Gold may be a safe haven asset
- Emerging markets & U.S. markets will benefit from weakening dollar
- Expect significant volatility with UK possibly leaving EU

## Recommendations:

- Slight underweight to Developed Markets
- Remove exposure to financials
- Continue to migrate fixed income to benchmark duration
  - Including HY & Muni
- Overweight U.S. Small-Cap

# THANK YOU