



**Presentation to Economic Outlook and Revenue  
Assessment Committee**

**CAPITAL MARKET OUTLOOK**

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# ECONOMIC EXPECTATIONS

	Projected 2015	Actual 2015	Projected 2016
Real GDP	3.0%	2.5%	2.5%
Nominal GDP	4.7%	3.5%	4.2%
Core CPI Inflation	1.5%	0.2%	1.7%
Real Consumption	2.9%	3.1%	2.9%
Real Bus Spend	5.8%	3.2%	4.3%
Pre-Tax Corp Profit	7.3%	-0.6%	3.3%
Real Ind. Product	3.5%	1.6%	1.8%
Unemployment	5.5%	5.0%	4.8%
Housing Starts	1,118,000	1,110,000	1,260,000
Europe Real GDP	1.1%	1.5%	1.7%
Europe Inflation	0.7%	0.1%	1.0%
China Real GDP	7.0%	6.9%	6.5%
China Inflation	2.1%	1.5%	1.7%

# MARKET EXPECTATIONS

	2015 Predict	2015 Actual	2016 Predict	Exp. Return	Actual Return	Predict Return
Real GDP	3.0%	2.5%	2.5%			
Inflation	1.5%	0.2%	1.7%			
Unemployment	5.5%	5.0%	4.8%			
Cash (1M Lib)	0.8%	0.4%	1.0%	0.3%	0.1%	0.9%
10 Y TIPS	0.4%	0.8%	0.9%	2.0%	-1.7%	1.4%
10Y Treasury	2.5%	2.3%	2.4%	-1.3%	0.6%	1.0%
10Y Corp A	3.3%	3.5%	3.6%	-0.7%	-1.2%	3.2%
S&P 500	2244	2043	2127	11%	1.4%	7.3%

## Goldman Sachs Global Macro Forecasts

### Goldman Sachs Global Macro Forecasts

	units	Current	3m	6m	12m	Change to Target
<b>Equities</b>						
TOPIX	level	1565	1650	1700	1800	15 %
STOXX Europe 600	level	365	380	385	400	10
MXAPJ	level	406	410	420	425	5
<b>S&amp;P 500</b>	<b>level</b>	<b>2042</b>	<b>2025</b>	<b>2050</b>	<b>2100</b>	<b>3</b>
<b>Ten Year Rates</b>						
US	%	2.2	2.5	2.8	3.0	76 bp
Japan	%	0.3	0.4	0.5	0.6	30
Euro Area (Germany)	%	0.6	0.6	0.6	0.8	20
<b>Currencies</b>						
US Dollar / Yen	\$/¥	123	122	125	130	6 %
Sterling / US Dollar	£/\$	1.49	1.51	1.50	1.47	(1)
Euro / US Dollar	EUR/\$	1.08	1.07	1.05	1.00	(8)
<b>Energy</b>						
NYMEX Nat. Gas	\$/mmBtu	1.76	2.35	2.50	3.00	71 %
Brent Crude Oil	\$/bbl	37	43	50	54	46
WTI Crude Oil	\$/bbl	35	38	45	50	43
<b>Metals</b>						
LME Copper	\$/mt	4550	4800	4800	4500	(1)%
COMEX Gold	\$/troy oz	1050	1100	1050	1000	(5)

	EPS Forecast			EPS Growth		NTM P/E		Div Yield
	2014	2015	2016	2015	2016	Current	YE 2015	
TOPIX	¥ 86	¥ 98	¥ 114	14 %	17 %	13.7 x	14.1 x	2.0 %
STOXX Europe 600	€ 23	€ 23	€ 25	0	8	14.5	13.9	3.7
MXAPJ	\$ 35	\$ 34	\$ 34	(4)	(0)	12.1	11.9	3.4
<b>S&amp;P 500</b>	<b>\$ 113</b>	<b>\$ 109</b>	<b>\$ 120</b>	<b>(3)</b>	<b>10</b>	<b>17.0</b>	<b>16.6</b>	<b>2.3</b>

### Goldman Sachs US Economics Forecasts

	% Annual Change		
	2015E	2016E	2017E
<b>Real GDP</b>	<b>2.5%</b>	<b>2.3%</b>	<b>2.2%</b>
Consumer Spending	3.1	2.8	2.5
<b>Total Fixed Investment</b>	<b>4.3</b>	<b>4.6</b>	<b>4.7</b>
Business Fixed Investment	3.2	3.4	3.9
Residential Investment	9.0	9.2	7.6
Federal Government Spending	(0.4)	2.8	(1.6)
State and Local Government	1.5	2.0	2.0
Net Exports (Bil.)	(545)	(646)	(705)
<b>Inflation</b>			
Headline CPI	0.2	1.6	2.4
Core CPI	1.8	2.0	2.1
Core PCE	1.3	1.5	1.8
<b>Unemployment Rate</b>	<b>5.3</b>	<b>4.7</b>	<b>4.6</b>
Fed Funds Rate	0.4	1.4	2.4
<b>10-year Treasury Rate</b>	<b>2.3</b>	<b>3.0</b>	<b>3.3</b>

### Real GDP

	2014	2015E	2016E	2017E	2018E
<b>China</b>	7.3 %	6.9 %	6.4 %	6.3 %	6.1 %
World	3.4	3.1	3.5	3.7	3.8
UK	2.9	2.5	2.7	2.6	2.7
Spain	1.4	3.1	2.5	2.2	2.1
<b>USA</b>	<b>2.4</b>	<b>2.5</b>	<b>2.3</b>	<b>2.2</b>	<b>2.0</b>
Australia	2.6	2.2	2.0	3.1	3.0
Germany	1.6	1.5	1.8	1.4	1.3
<b>Euro Area</b>	<b>0.9</b>	<b>1.5</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>
Italy	(0.4)	0.7	1.6	1.5	1.3
Russia	0.6	(3.5)	1.5	3.2	3.4
France	0.2	1.2	1.4	1.6	1.7
<b>Japan</b>	<b>(0.0)</b>	<b>0.7</b>	<b>1.2</b>	<b>0.7</b>	<b>0.7</b>
Brazil	0.1	(3.6)	(2.3)	1.4	2.4

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# BASIC CAPITAL MARKET CONCEPTS

## ■ EXPECTATIONS

- ❑ Not Current Conditions
- ❑ Current Economic Expectations Moderate

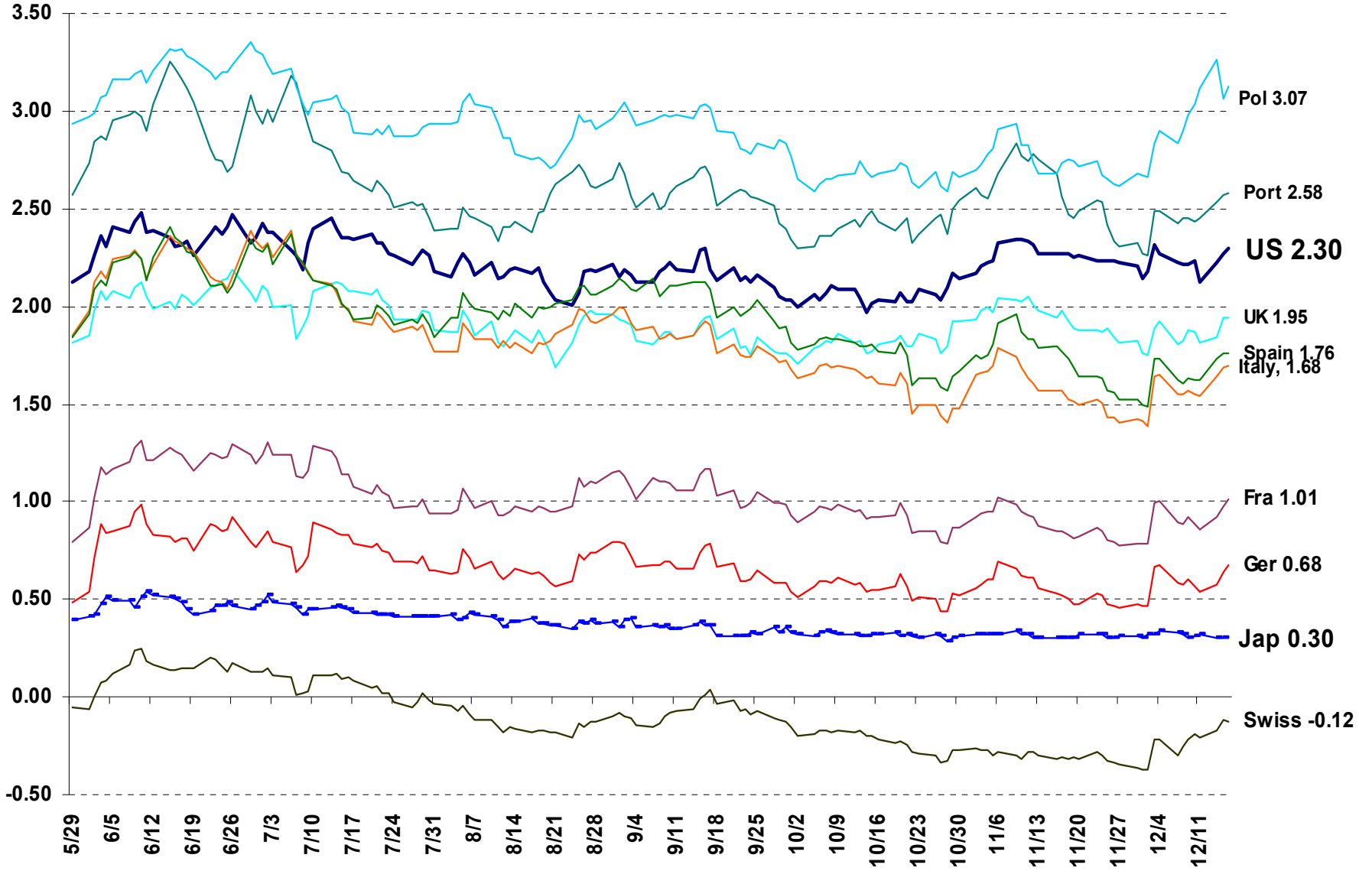
## ■ RELATIVE VALUE

- ❑ Not absolute value in itself
- ❑ What are people willing to pay for expected earnings
- ❑ Current alternative – bonds – unattractive

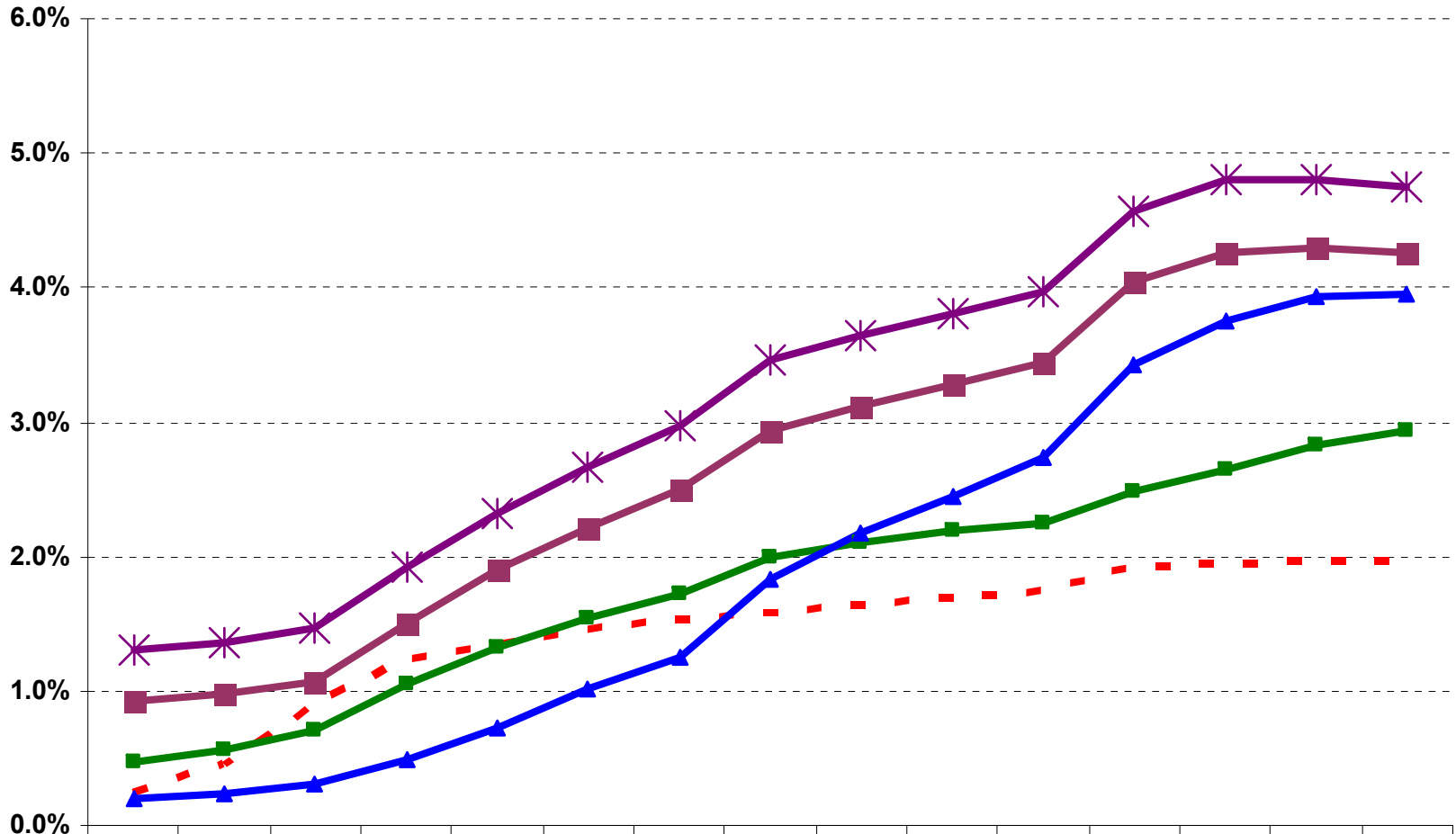
## ■ PROFITS

- ❑ Not general economy
  - ❑ Good balance sheets, lean operating conditions, little current pressure on labor costs
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# 10YR Bond Yields

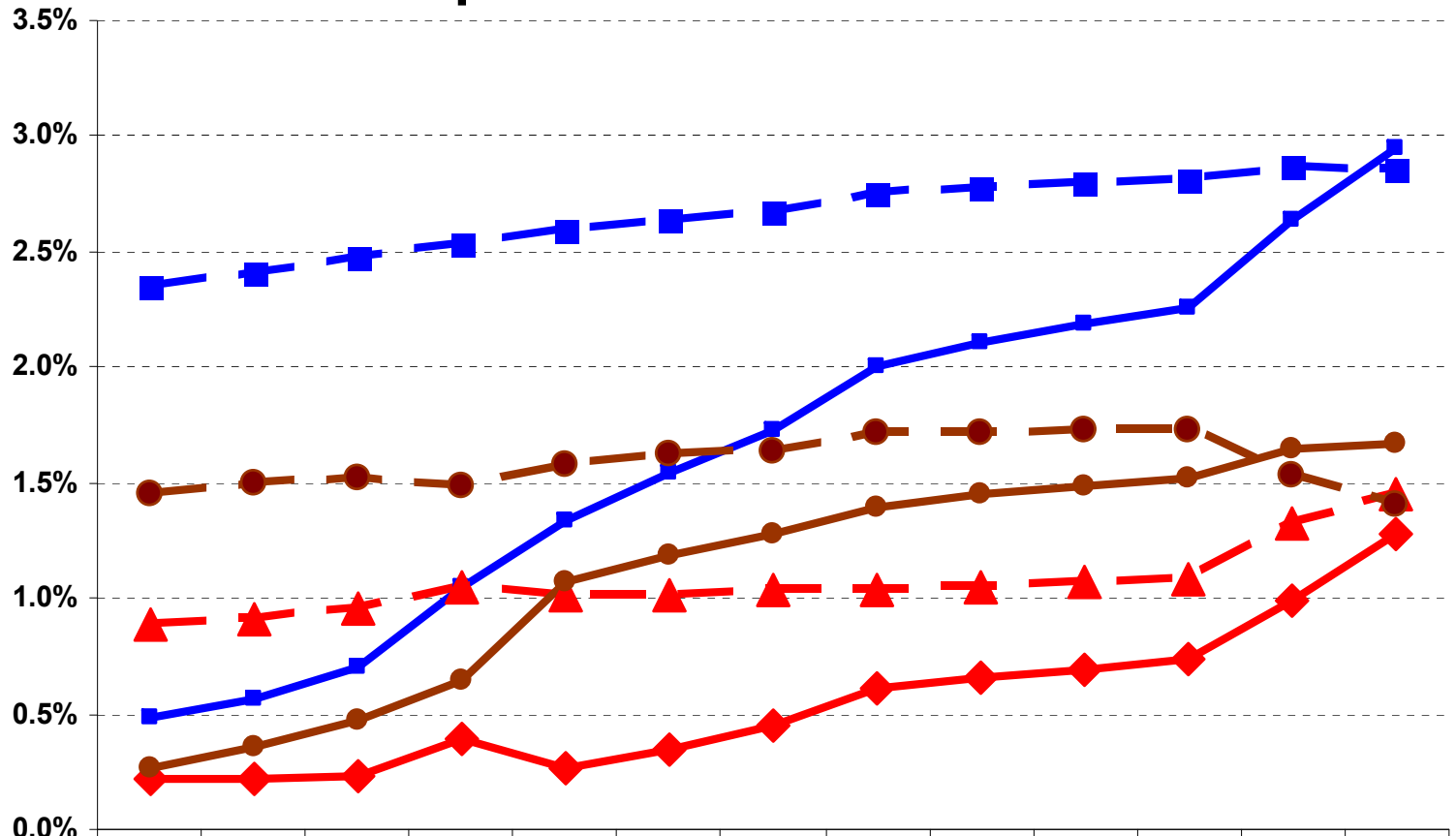


# Expected Inflation and Current Yield Curves



	3M	6M	1Y	2Y	3Y	4Y	5Y	7Y	8Y	9Y	10Y	15Y	20Y	25Y	30Y
<b>- - - Inflation</b>	0.2%	0.5%	0.9%	1.2%	1.3%	1.5%	1.5%	1.6%	1.6%	1.7%	1.7%	1.9%	1.9%	2.0%	2.0%
<b>—■— Treasury</b>	0.5%	0.6%	0.7%	1.0%	1.3%	1.5%	1.7%	2.0%	2.1%	2.2%	2.3%	2.5%	2.6%	2.8%	2.9%
<b>—▲— AAA</b>	0.2%	0.2%	0.3%	0.5%	0.7%	1.0%	1.2%	1.8%	2.2%	2.4%	2.7%	3.4%	3.8%	3.9%	4.0%
<b>—■— A</b>	0.9%	1.0%	1.1%	1.5%	1.9%	2.2%	2.5%	2.9%	3.1%	3.3%	3.4%	4.0%	4.3%	4.3%	4.3%
<b>—*— BBB</b>	1.3%	1.4%	1.5%	1.9%	2.3%	2.7%	3.0%	3.5%	3.6%	3.8%	4.0%	4.6%	4.8%	4.8%	4.8%

# Current and Expected Yield Curves in 5 Yrs



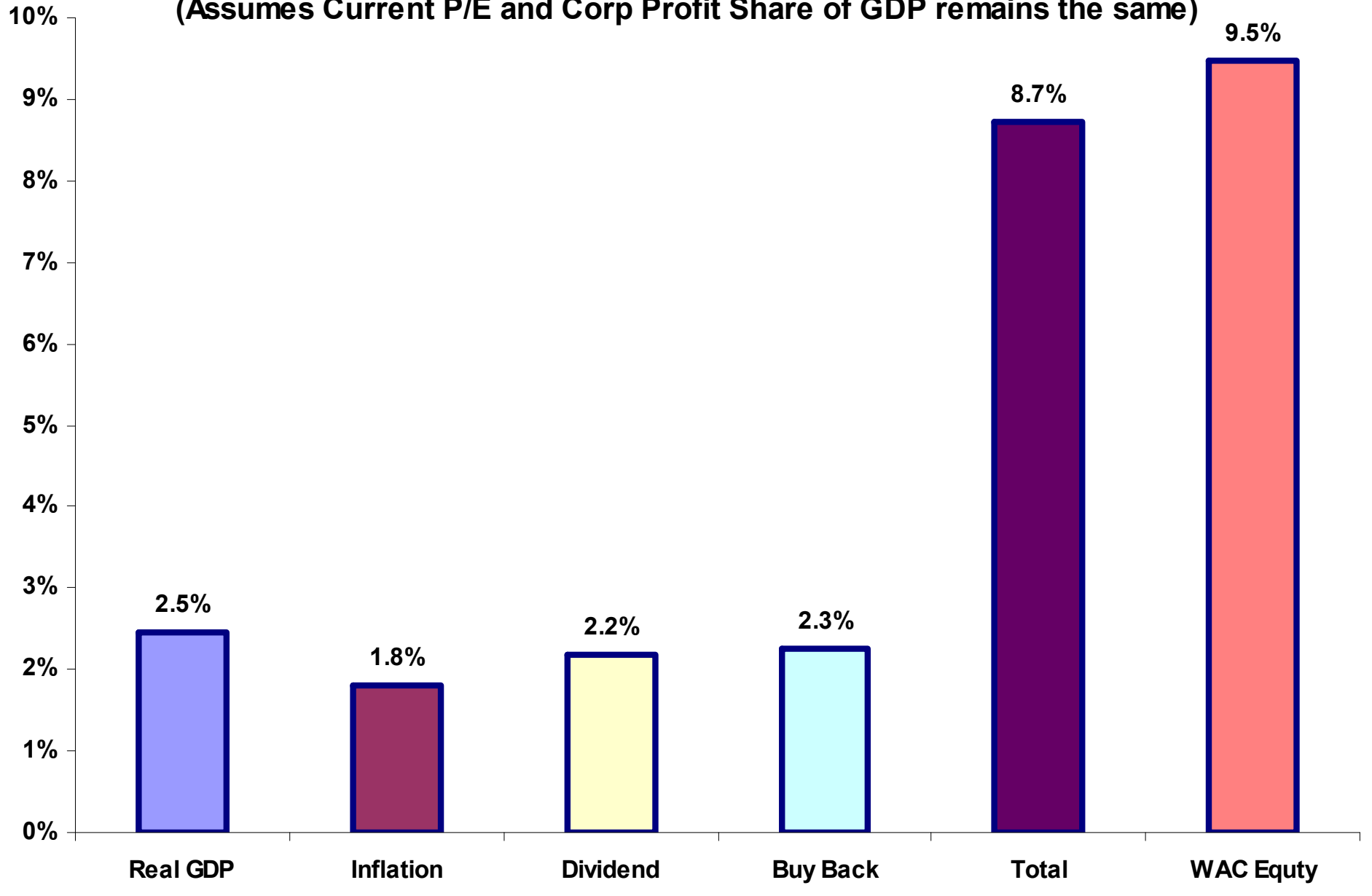
	3M	6M	1Y	2Y	3Y	4Y	5Y	7Y	8Y	9Y	10Y	20Y	30Y
Current TIPS	0.2%	0.2%	0.2%	0.4%	0.3%	0.3%	0.4%	0.6%	0.7%	0.7%	0.7%	1.0%	1.3%
Current Treasury	0.5%	0.6%	0.7%	1.0%	1.3%	1.5%	1.7%	2.0%	2.1%	2.2%	2.3%	2.6%	2.9%
TIPS in 5	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.1%	1.1%	1.1%	1.3%	1.5%
Treasury in 5	2.3%	2.4%	2.5%	2.5%	2.6%	2.6%	2.7%	2.8%	2.8%	2.8%	2.8%	2.9%	2.9%
Current Breakever	0.3%	0.4%	0.5%	0.6%	1.1%	1.2%	1.3%	1.4%	1.4%	1.5%	1.5%	1.6%	1.7%
Breakeven in 5	1.5%	1.5%	1.5%	1.5%	1.6%	1.6%	1.6%	1.7%	1.7%	1.7%	1.7%	1.5%	1.4%



# MARKET EXPECTATIONS

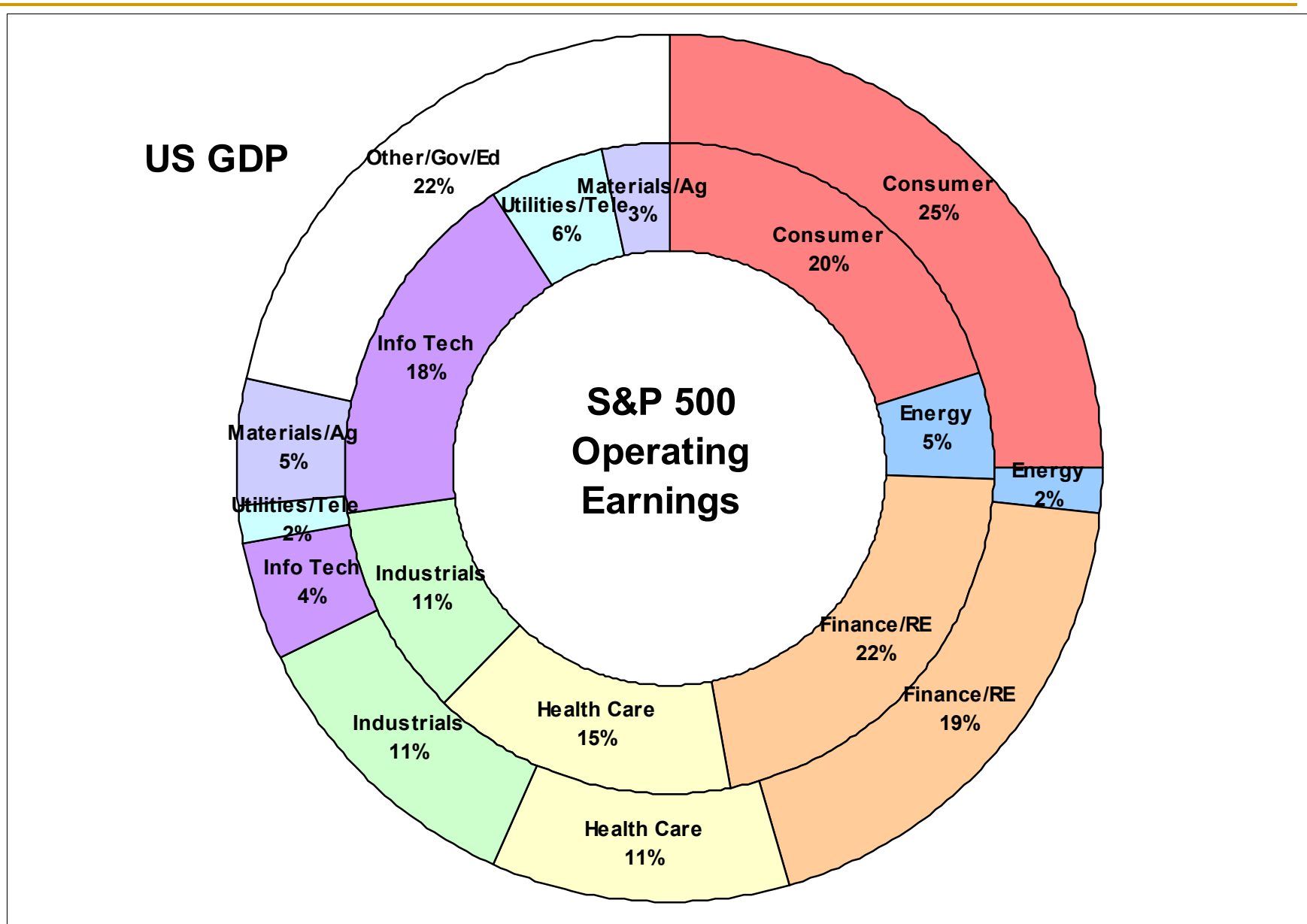
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S&P 500	2244	2078	2200	11%	1.2%	7.6%
						S&P 500
Dividend						2.1%
Stock Buyback						2.2%
Corporate Profit						3.3%

### Expected 10 Year Stock Return and Sources (Assumes Current P/E and Corp Profit Share of GDP remains the same)



# S&P 500 Current PE

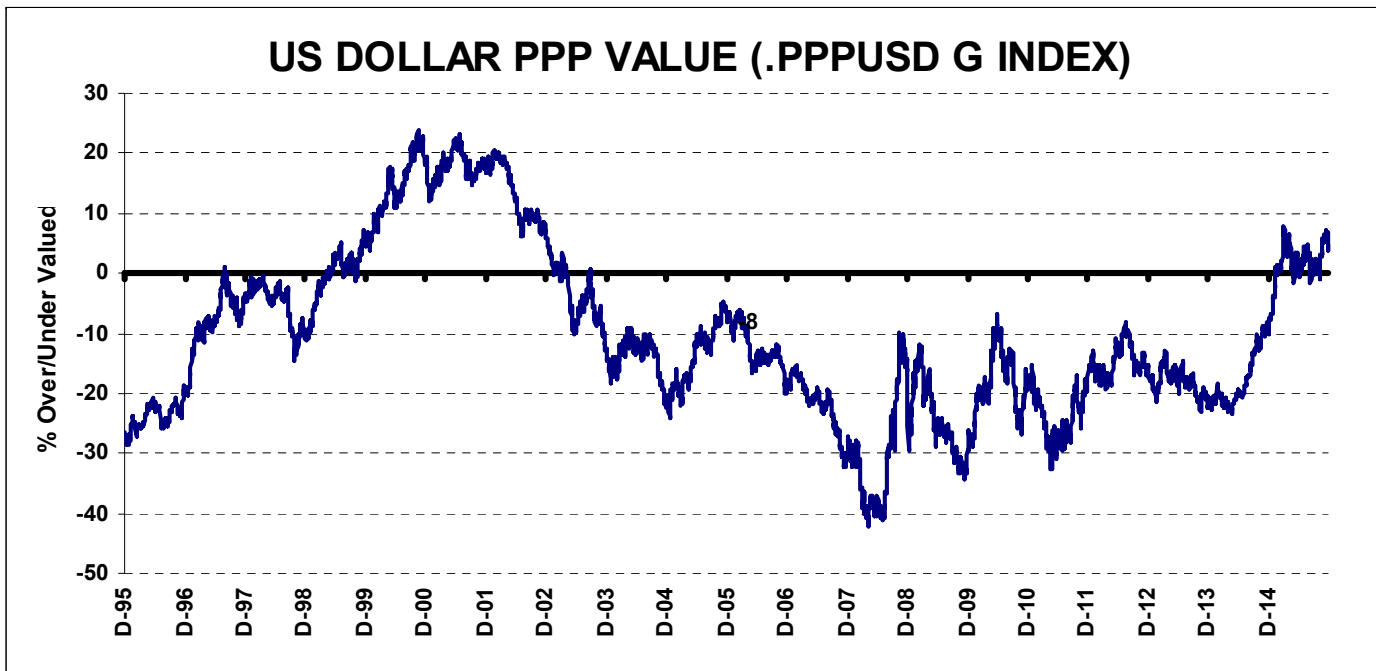




**Information Technology, Utilities and Energy 29% of Stock Market vs. 8% of GDP  
One-Third of Revenue from international sources**

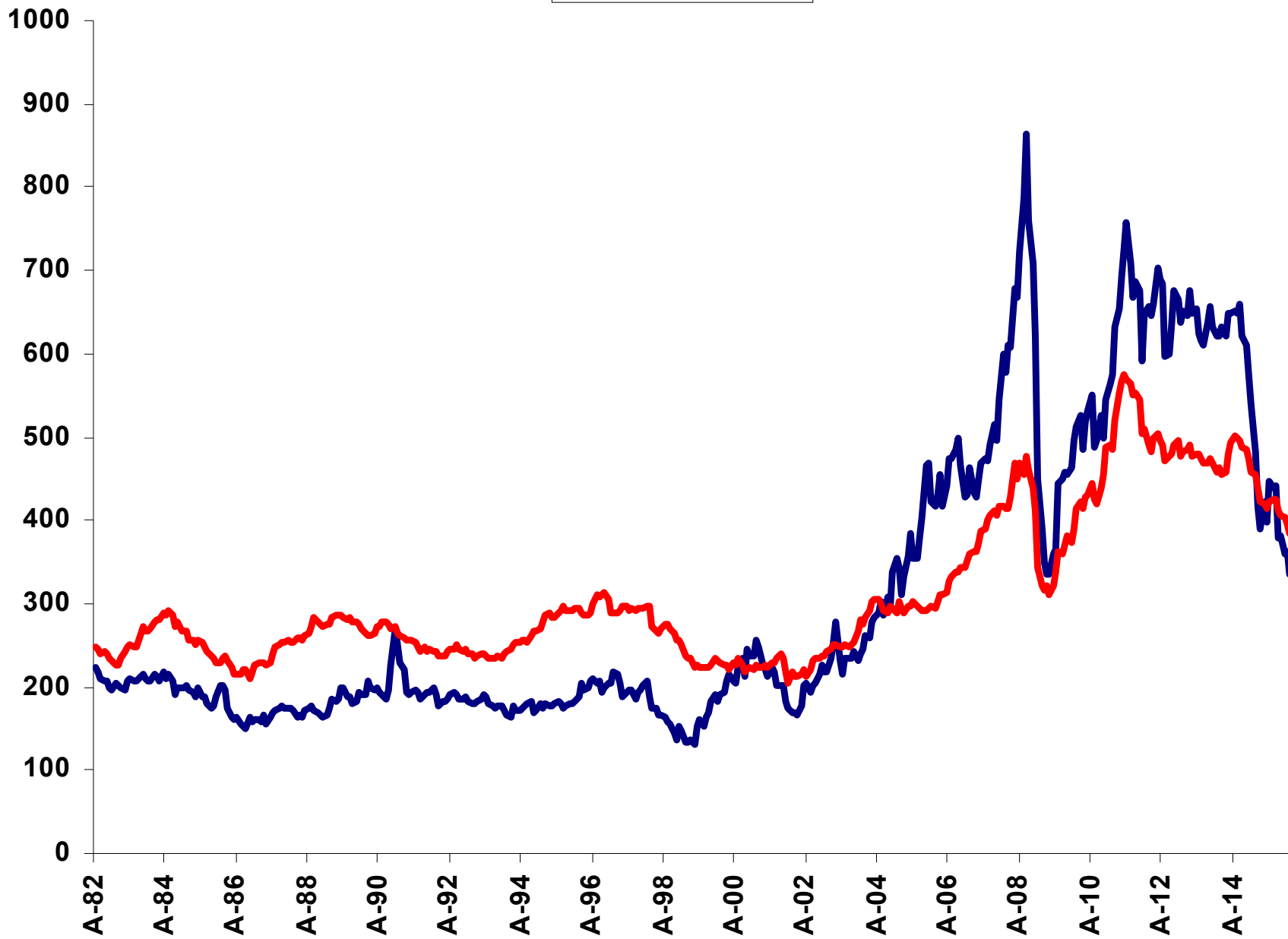


**Dollar's Recent  
Rise Hit  
S&P 500 Earnings  
But Not  
Historically  
Overvalued**



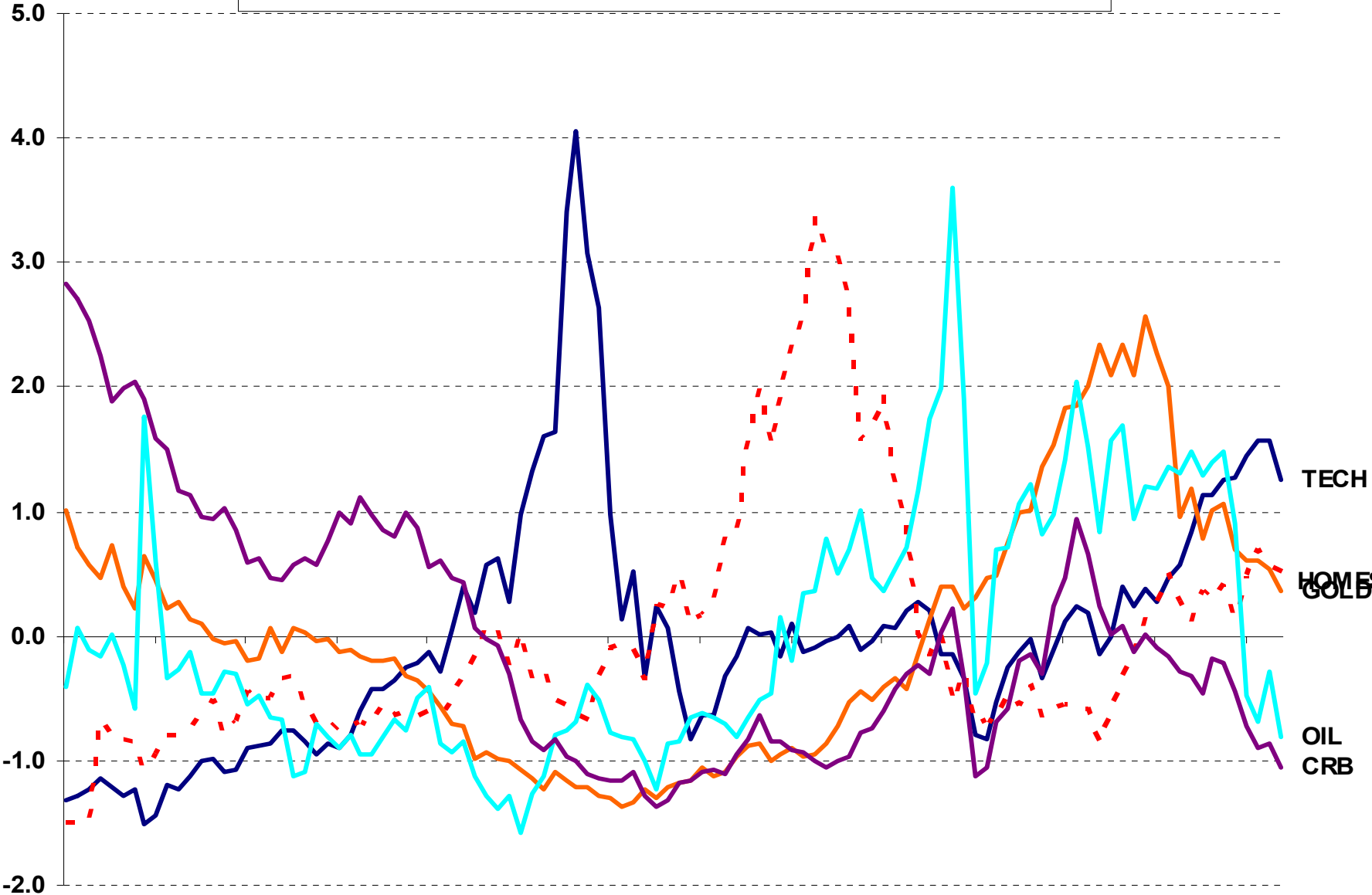
# Commodities since 1981 (crb has no energy or precious metals)

gsci crb



# ZSCORES VS US GDP SINCE 1987

TECH HOMES GOLD OIL CRB



TECH  
HOMES  
GOLD  
OIL  
CRB

