

Economic and Equity Market Outlook

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Economic Environment

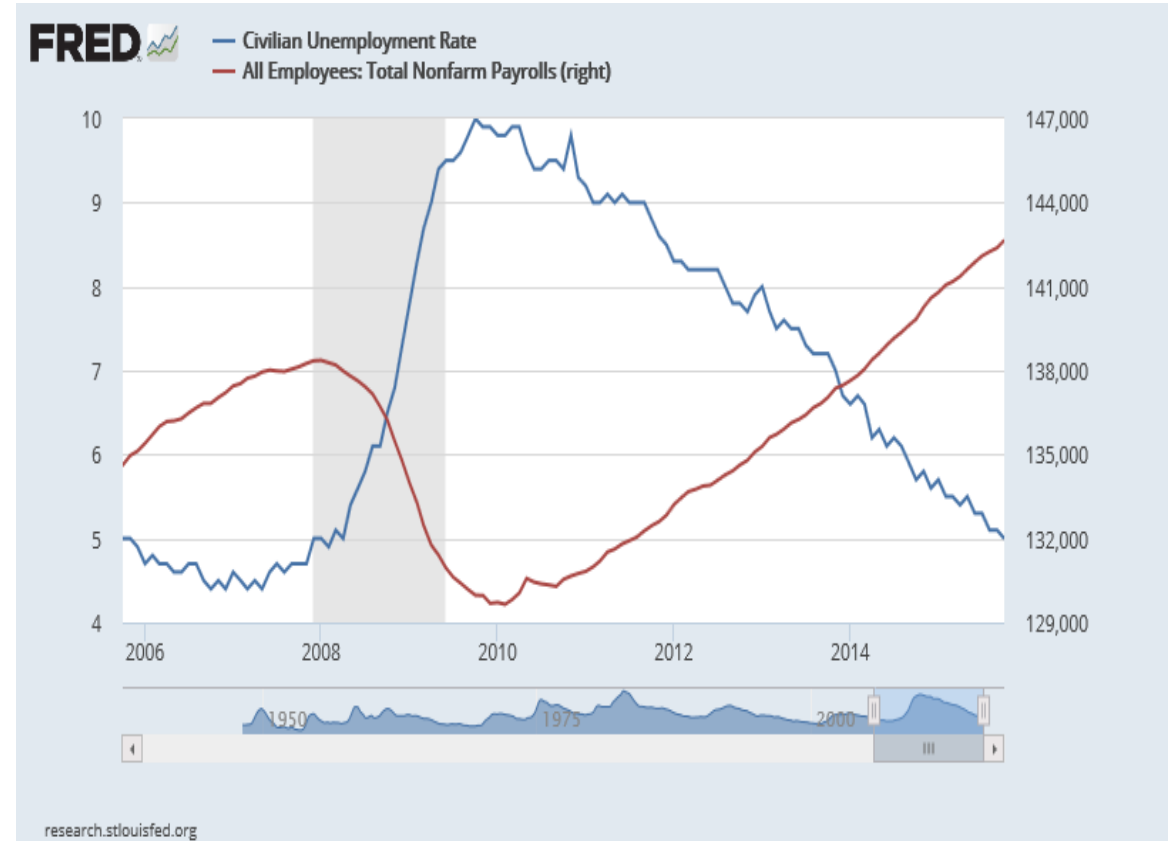
Current Economic Environment

- U.S. economy remains in relatively good shape as better than expected job gains, low unemployment, and low levels of financial stress have driven low single digit GDP growth.
- The Federal Reserve is back to “live” meetings beginning in December and market participants await its decision on interest rates.
- Global economic concerns remain somewhat elevated, particularly in China.
- The strong U.S. dollar is causing issues for domestic exporters and commodity-related producers.
- The decline in oil prices, while painful for producers, has been helpful for consumers.

Current Economic Environment: U.S. is Pretty Good



Source: Federal Reserve Bank of St. Louis, *St. Louis Fed Financial Stress Index*© [STLFSI], retrieved from FRED, Federal Reserve Bank of St. Louis <https://research.stlouisfed.org/fred2/series/STLFSI/>, November 6, 2015.



Source: US. Bureau of Labor Statistics, Civilian Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis <https://research.stlouisfed.org/fred2/series/UNRATE/>, November 6, 2015.

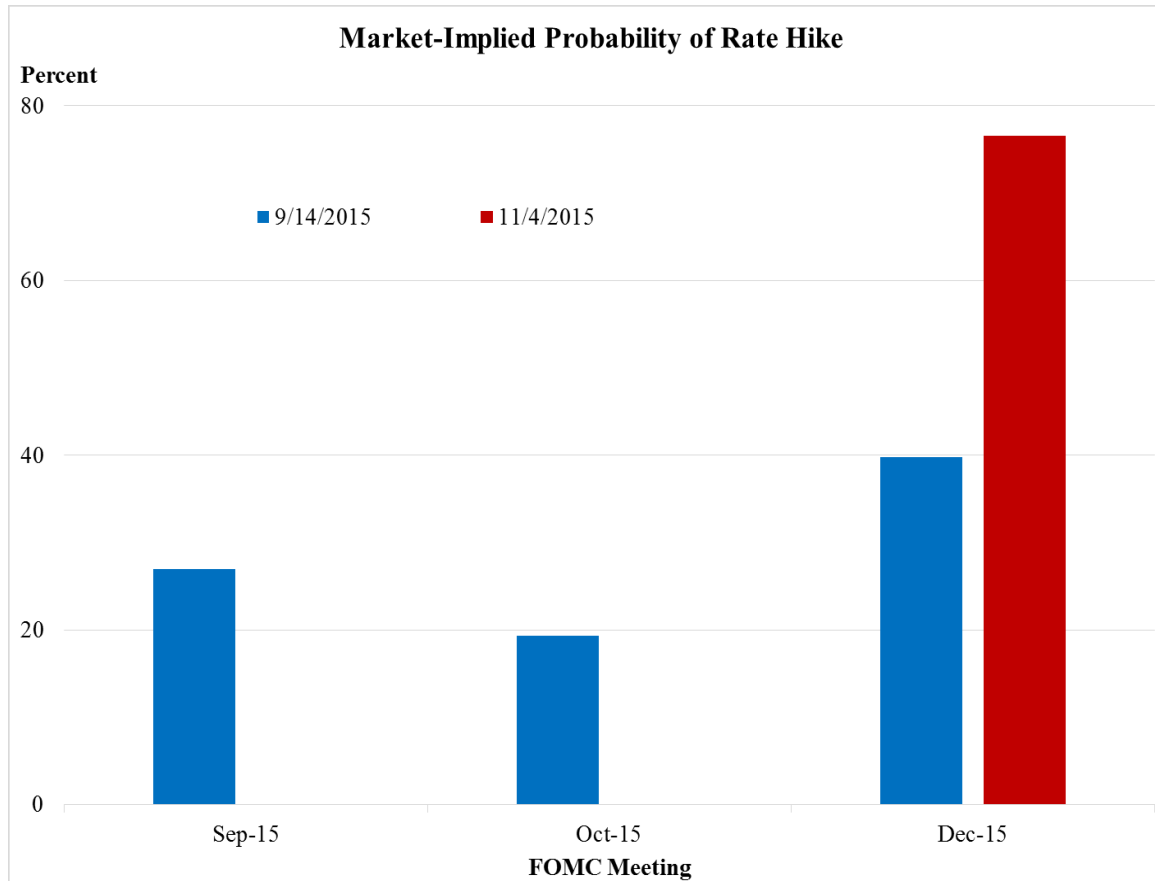
Current Economic Environment: U.S. GDP Growing Steadily



- 3Q15 GDP increased 1.5% following +3.9% in 2Q15.
- Personal Consumption Expenditures (PCE) increased 3.2% in 3Q and 3.6% in 2Q.
- Though declining energy prices are weighing on investment, the consumption benefit is at least offsetting for now.

Source: US. Bureau of Economic Analysis, *Gross Domestic Product* [GDP], retrieved from FRED, Federal Reserve Bank of St. Louis
<https://research.stlouisfed.org/fred2/series/GDP/>, November 6, 2015.

Current Economic Environment: The Fed in Focus



Source: FRB New York and Bloomberg. November 5, 2015.

- The FOMC has stated that 2015 would be a time to consider ending the zero interest rate policy (“ZIRP”).
- It demurred in raising rates in October but did make a notable change to its statement:
 - Old: ~~Recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term.~~
 - New: The Committee continues to see the risks to the outlook for economic activity and the labor market as nearly balanced but is monitoring **global economic and financial** developments ~~abroad~~.
- Economists and market participants must weigh increased capital costs against the positive economic signal of a rate hike.

Current Economic Environment: Non-U.S. Economies Still a Question

VXFXI:



- Will there be a hard landing in China?
 - Growth slowing but still positive.
 - Potential spillover effects.
- Europe stabilizing however monetary decisions continue to cause uncertainty.
- Other emerging markets suffering from commodity malaise

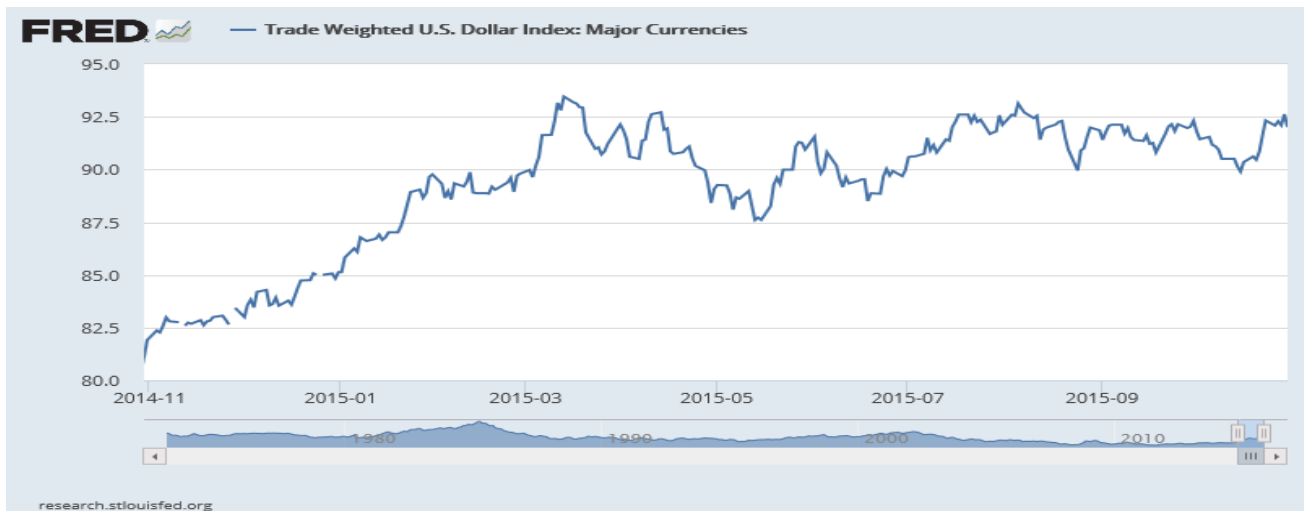
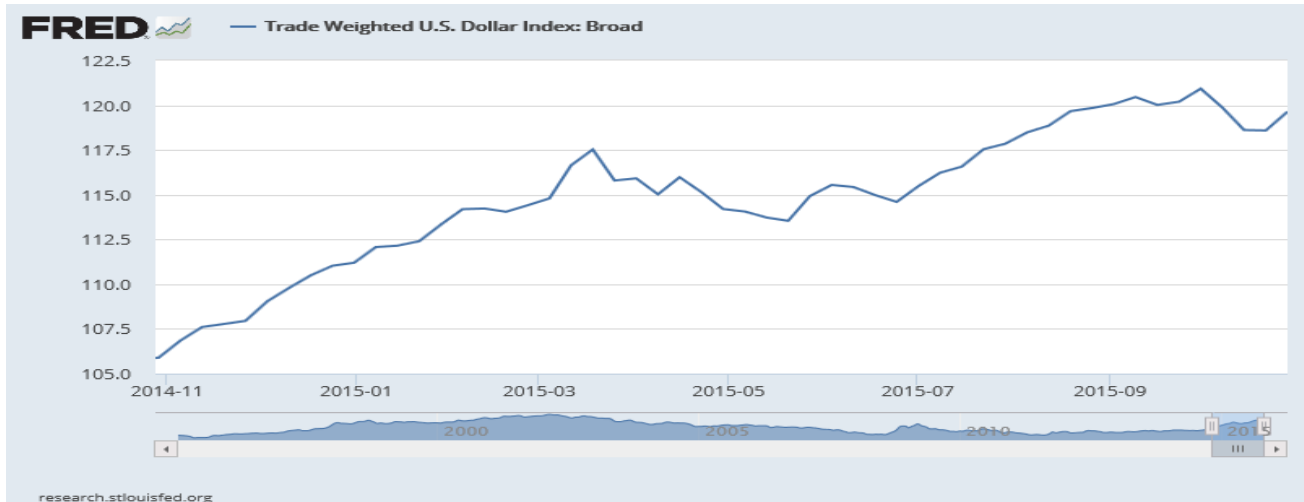
VXEFA:



VXEWZ:



Current Economic Environment: U.S. Dollar Strength

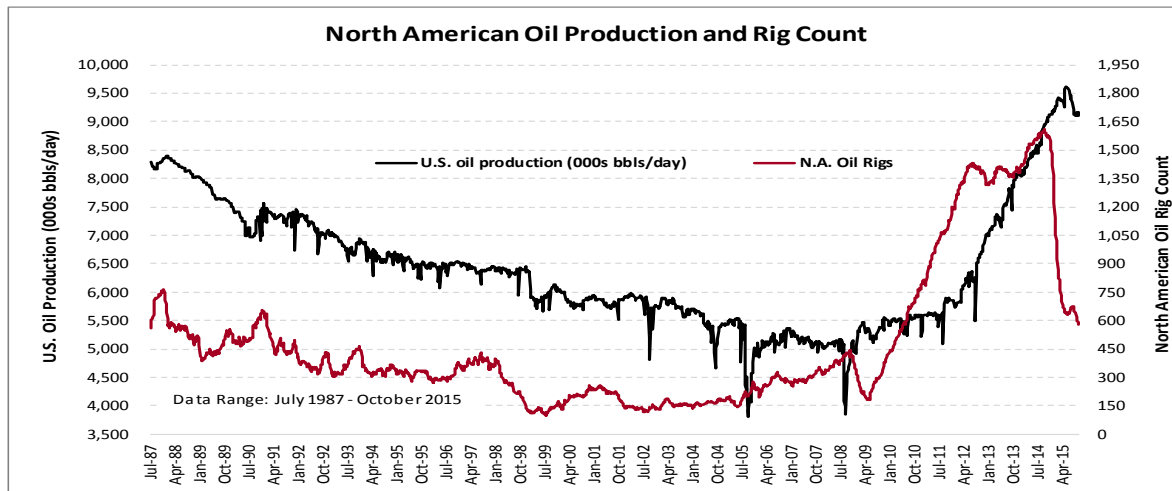


- The relative strength of the U.S. economy and a general “flight to safety” has driven the USD higher in the last 18 months.
- U.S. exporters must face the currency-driven price increase disadvantage.
- Since most global commodities are priced in dollars, the strength has exacerbated the supply-driven price decline in oil and demand-driven declines in other commodities.

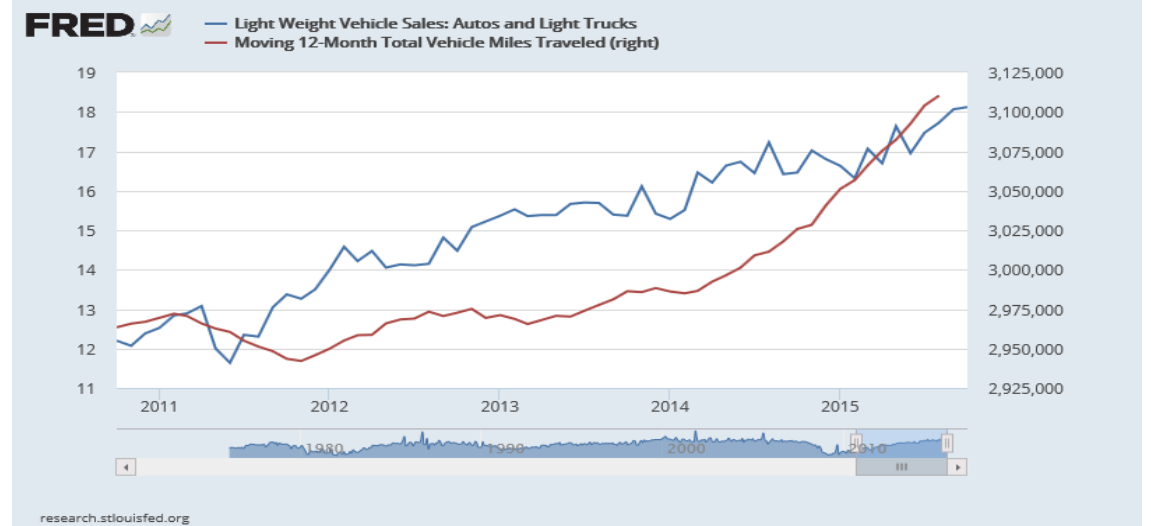
Current Economic Environment: Oil Review



- We are nearing the one year anniversary of OPEC’s surprise decision to essentially abandon its role as price defender of the oil market.
- The U.S. shale-boom has altered the oil market dynamics.
- Continued U.S. supply growth, market share battles and muted demand growth from emerging markets continue to weigh on the commodity.
- Consumers are enjoying the benefits of low prices.



Sources: Baker Hughes, Inc. and U.S. Energy Information Administration (EIA)



Source: US. Bureau of Economic Analysis, *Light Weight Vehicle Sales: Autos and Light Trucks* [ALTSALES], retrieved from FRED, Federal Reserve Bank of St. Louis <https://research.stlouisfed.org/fred2/series/ALTSALES/>, November 6, 2015.

Current Economic Environment - Outlook

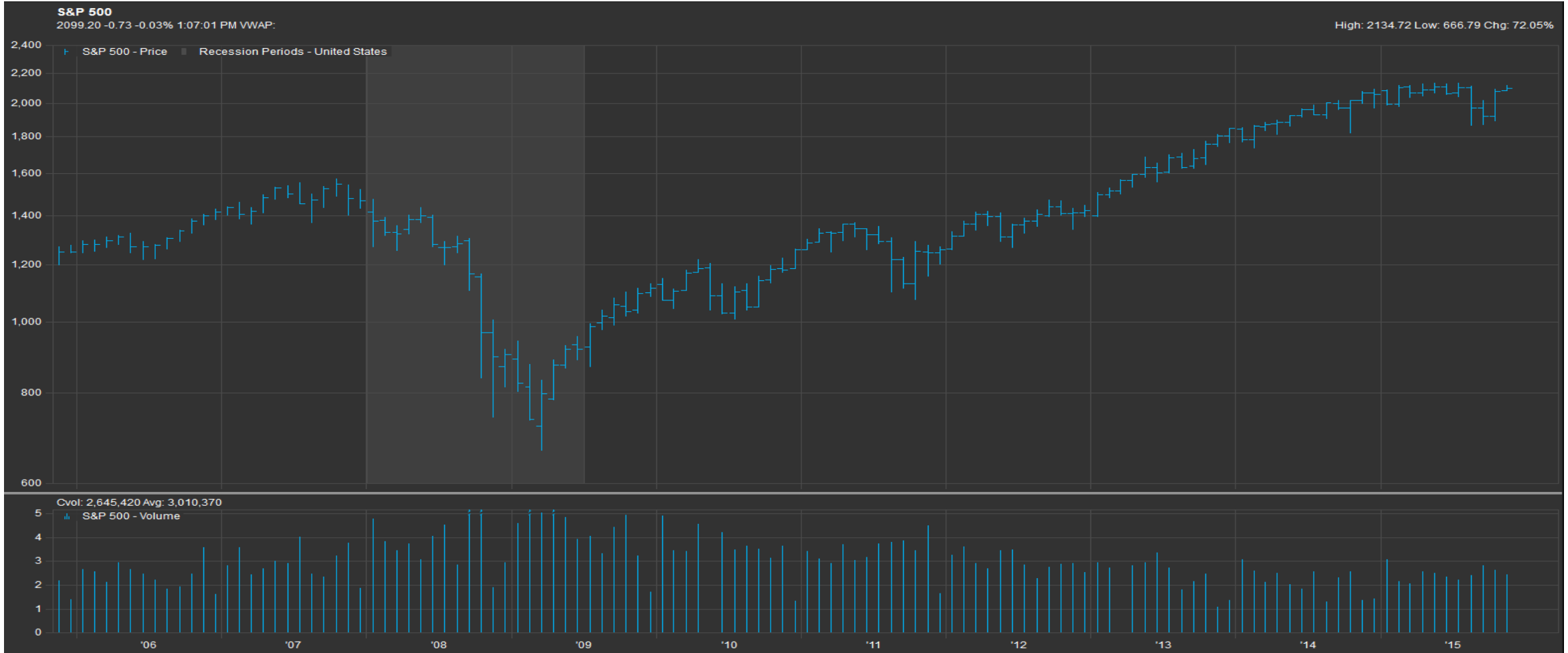
- U.S. economy still has the most favorable fundamentals and is likely to remain at a relative advantage.
- Interest rates will eventually go up. The current environment supports more “normal” rates.
- China is and will remain a wildcard.
- The U.S. dollar strength is likely to remain in place as interest rate differentials increase. That said, the pace of change should moderate at some point.
- Oil remains challenged fundamentally as supply growth is outstripping demand growth. Eventually, low prices are likely to correct this imbalance.

Equity Market Overview

Current Market Environment Environment

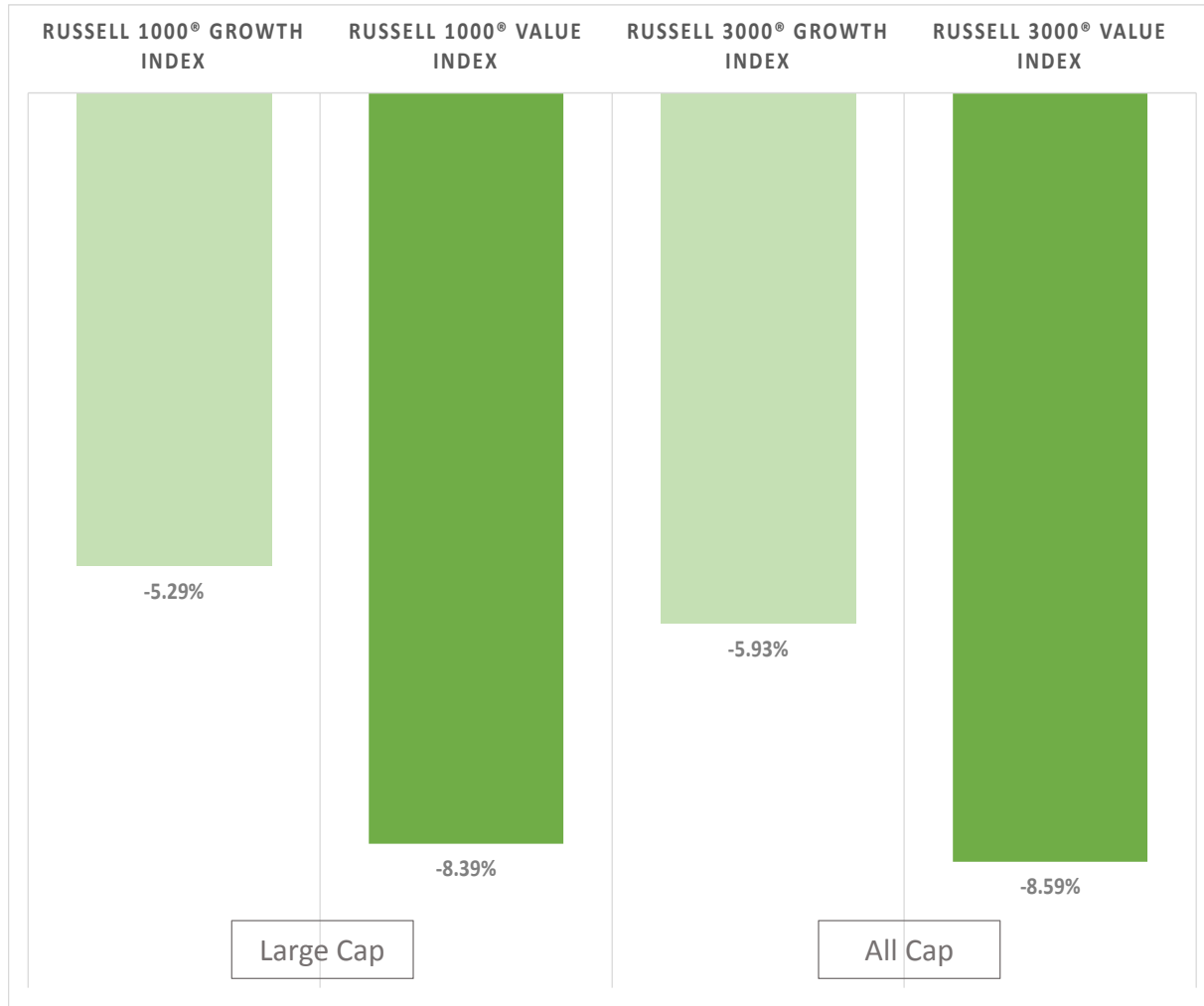
- The major indices remain near all-time highs.
- Recent stock market action has been bifurcated in terms of size and valuation.
- The five “E”s: Expensiveness (valuation); Exuberance; Economy; Earnings; and Energy are generally supportive of equity markets.
- Other key items we’re watching include corporate profit margins, corporate capital allocation changes, and the U.S. dollar.

Current Market Environment: Still Near All-Time Highs



Source: FactSet Research Systems

Current Market Environment: Bifurcation



- The S&P 500 declined 6% in 3Q
 - The 100 highest P/E constituents (most expensive) had a median decline of 2%.
 - The 100 lowest P/E constituents (cheapest) had a median decline of 10%.
- Through the end of 3Q, the S&P 500 was down 5% year-to-date.
 - The 125 largest companies fell 3% over that time period.
 - The 125 smallest companies fell 16% over that time period.
- The headline index returns haven't told the whole story as large, heavily weighted growth names have driven several popular indices.

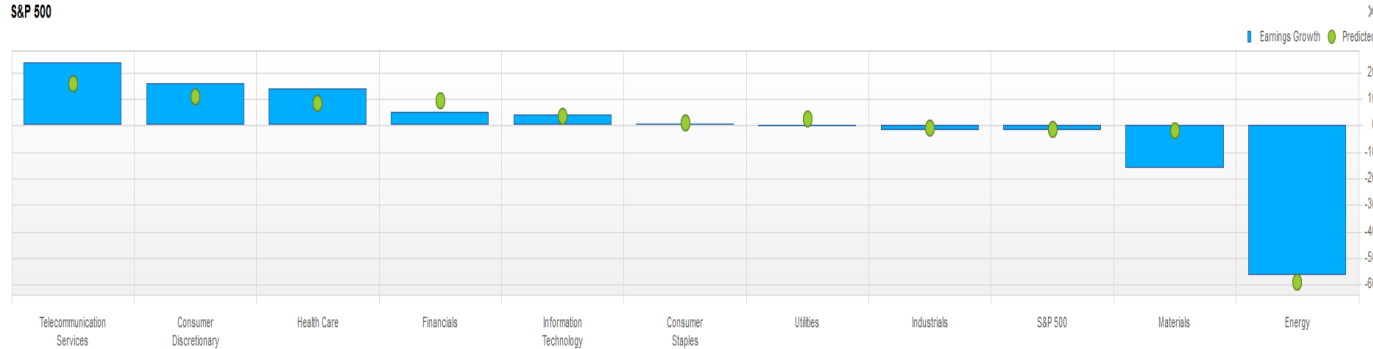
Current Market Environment: The Five “E”s



- Valuation (expensiveness), while not overly cheap, is not overly expensive either
- Investor sentiment (exuberance) has remained skeptical of the market advance.



Current Market Environment: The Five “E”s

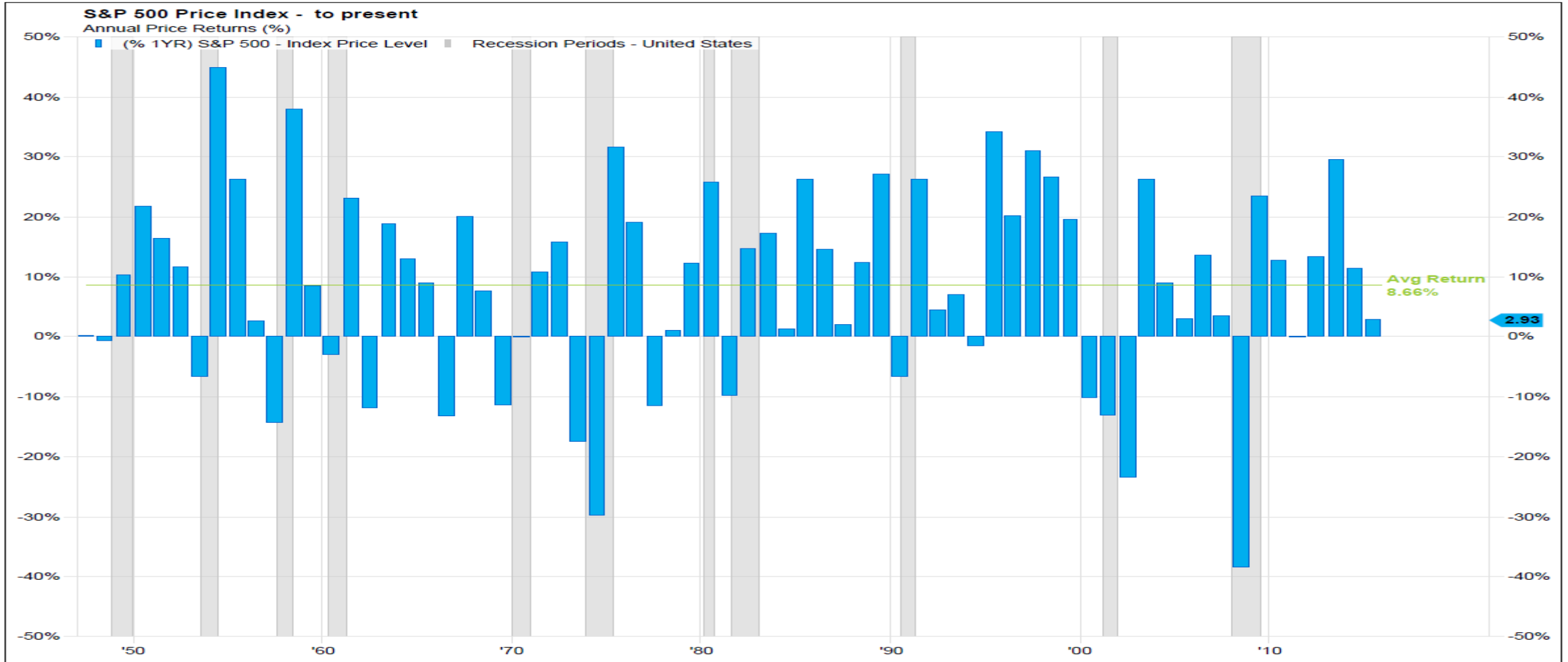


- The U.S. economy remains one of the most attractive globally in our view.
- Energy prices should help spur consumer demand (70% of GDP).
- Earnings growth has been negatively impacted by the energy sector, which is dependent on oil. Excluding that area however, fundamentals remain solid.

Report data updated through 05:17:38 PM EST Nov 6, 2015

Name	Symbol	# Cos Reported	% Cos Reported	Report Date	Q3 '15					Q4 '15		CY 2015		
					Growth Blended (%)	Contribution	Growth Reported (%)	Surprise (%)	% Pos Price Impact	% Neg Price Impact	Growth 30 Jun '15E	Growth 6 Nov '15E	Growth 30 Jun '15E	Growth 6 Nov '15E
S&P 500	SP50-SPX	444/506	87.9	-	-2.2	-2.2	-1.9	5.4	59.2	40.3	3.8	-3.6	1.3	-0.36
Consumer Discretionary	-	62	70.5	-	13.2	1.3	16.1	5.9	61.3	38.7	11.7	7.6	9.5	10.1
Consumer Staples	-	29	78.4	-	-1.9	-0.17	0.17	2.6	58.6	41.4	4.9	-2.4	2.5	0.26
Energy	-	39	97.5	-	-56.6	-6.2	-56.4	27.3	51.3	48.7	-39.0	-64.9	-55.2	-58.9
Financials	-	84	95.5	-	5.0	0.90	5.4	2.0	66.7	33.3	18.9	12.3	15.4	13.3
Health Care	-	50	90.9	-	14.5	1.8	14.0	8.1	64.0	34.0	9.9	6.2	11.1	12.6
Industrials	-	60	90.9	-	-3.3	-0.37	-1.7	3.3	63.3	36.7	-0.25	-2.6	1.5	-0.43
Information Technology	-	60	87.0	-	1.9	0.35	4.2	6.0	61.7	36.7	-0.07	-6.9	5.2	2.4
Materials	-	27	96.4	-	-15.8	-0.47	-16.1	3.5	55.6	44.4	3.6	-19.3	1.4	-5.9
Telecommunication Services	-	5	100	-	23.6	0.63	23.6	4.0	60.0	40.0	23.5	27.0	14.3	18.7
Utilities	-	28	96.6	-	-0.24	-0.01	-0.28	0.01	25.0	75.0	5.9	-0.77	2.7	2.2
Custom Groupings:														
Ex-Energy		405	87.1	-	4.5	4.5	5.5	4.4	60.0	39.5	7.5	1.7	7.9	6.5

Current Market Environment: Remember to Think Long-Term



Disclosures

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