Economic & Market Update

LFMA 38th Annual Conference
October, 2016

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Regional CIO
## Risks & Rewards for Investors – Global Economy and Capital Markets

<table>
<thead>
<tr>
<th>Positives</th>
<th>Negatives</th>
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<tbody>
<tr>
<td>• U.S. economy is remains resilient</td>
<td>• U.S. Elections creating uncertainty/govt policy uncertainty</td>
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<tr>
<td>• Rising employment is fueling consumption &amp; housing</td>
<td>• Slower than potential growth resulting in disappointing earnings and revenue</td>
</tr>
<tr>
<td>• Fed will move very slowly in raising/normalizing rates</td>
<td>• Lack of business investment/confidence hurting LT growth</td>
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<tr>
<td>• Low energy prices helping consumers across the globe</td>
<td>• QE and now NIRP: Central Banks going too far?</td>
</tr>
<tr>
<td>• Investor skepticism remains exceptionally strong (still very few bulls!)</td>
<td>• Geopolitical risks: failed states, ISIS, Brexit, Russia, China, N. Korea, etc.</td>
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</tbody>
</table>
Open Presidential Election Years Have Typically Underperformed Reelection Years

*1964 & 1976 are treated as open elections, 1948 is treated as reelection

2016: Most Likely Result is Divided Government

S&P 500 Annual Performance


- R Congress, D President: 15.1%
- D Senate/R House/D President: 13.6%
- R Congress, D President: 13.3%
- R Sen/D House/R President: 10.8%
- D Congress, D President: 9.3%
- D Congress, R President: 4.9%

Source: Strategas January 2016
# Economic and Equity Outlook

## Economic Forecast

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Global GDP Growth</td>
<td>3.2%</td>
<td>3.0%E</td>
<td>3.1%</td>
<td>3.4%</td>
<td>3.0%</td>
</tr>
<tr>
<td>U.S. GDP Growth</td>
<td>2.1%</td>
<td>1.9%E</td>
<td>2.6%</td>
<td>2.4%</td>
<td>1.7%</td>
</tr>
<tr>
<td>U.S. CPI</td>
<td>2.1%</td>
<td>1.4%E</td>
<td>0.1%</td>
<td>1.6%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.5%</td>
<td>4.8%E</td>
<td>5.0%</td>
<td>5.6%</td>
<td>6.7%</td>
</tr>
<tr>
<td>10-Year U.S. Treasury</td>
<td>1.5-2.00%</td>
<td>1.58%</td>
<td>2.27%</td>
<td>2.17%</td>
<td>3.04%</td>
</tr>
</tbody>
</table>

## Equity Market Forecast

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>2190-2290</td>
<td>2171</td>
<td>2,044</td>
<td>2,059</td>
<td>1,848</td>
</tr>
<tr>
<td>S&amp;P 500 EPS</td>
<td>$127</td>
<td>$119E</td>
<td>$118.0</td>
<td>$119.0</td>
<td>$110.5</td>
</tr>
<tr>
<td>Russell Midcap</td>
<td>1720-1820</td>
<td>1736</td>
<td>1,596</td>
<td>1,663</td>
<td>1,492</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>1170-1270</td>
<td>1240</td>
<td>1,136</td>
<td>1,205</td>
<td>1,164</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>1660-1760</td>
<td>1686</td>
<td>1,716</td>
<td>1,775</td>
<td>1,916</td>
</tr>
<tr>
<td>MSCI Emerging Markets</td>
<td>850-930</td>
<td>894</td>
<td>794</td>
<td>956</td>
<td>1,003</td>
</tr>
</tbody>
</table>

Sources: Bloomberg Finance LLP, Baseline, Wells Fargo Investment Institute. 9/1/16

E: Wells Fargo Investment Institute for estimate. Forecasts are not guaranteed and are subject to change. Past performance is no guarantee of future results.
Global GDP Outlook

Global GDP to climb modestly due to limited growth in developed economies.

**Global GDP Growth**

Job Openings Near Record High

Job openings remain strong.

Source: FactSet, Data as of 8/1/16.
Will Job Gains = Wage Gains?

The Federal Reserve (Fed) is watching wage growth for signs of inflation.

Unemployment and Wage Rates

Source: Factset; Data as of 9/1/16; the shaded bar represents recession period.
Consumers Feeling Better

Consumer Confidence and Business Optimism have been improving.

Source: FactSet, the shaded bar represents recession period.
Consumer Balance Sheet Suggests the U.S. Economy is Fundamentally Strong

Housing Recovery

Demand continues to outpace housing supply.

Source: FactSet, Data as of 8/1/16.
Productivity Holding us Back

Productivity has been on a steady decline since late 2015.

Source: FactSet, Data as of 2Q16.
Interest Rate Expectations

The market is skeptical rates will normalize as quickly as the Fed believes.

Fed Officials Believe Interest Rates Will Rise

Source: Federal Reserve Board, Wells Fargo Investment Institute, Data as of 6/15/16 for the Fed Projections. Bloomberg, Data as of 9/13/16 for the fed funds futures market rates.
Central Banks Supporting Growth

Japan and the Eurozone are likely to remain easy.

Note: Fed = Federal Reserve Board, BOJ = Bank of Japan, ECB = European Central Bank
Bull Markets: Historical Perspective

This bull market has exceeded the average bull-market return and length.

Source: Bloomberg Finance LLP, S&P 500 Index Price Return as of 9/1/16
Past performance is no guarantee of future results.
Global Equity Valuations: Too Much Or Not Enough?

Global equity price earnings (P/E) ratios remain fair relative to history.

Global Forward Valuations

S&P 500 Avg: 15.7x
MSCI EAFE (Developed Markets) Avg: 14.1x
MSCI Emerging Markets Avg: 11.1x

Source: FactSet, Wells Fargo Investment Institute, Data as of 9/1/16.
Past performance is no guarantee of future results. P/E ratios represent the total price of the index divided by its total earnings.
Global Dividend Yields

Equity dividend yields are currently attractive relative to cash and bond yields.

**Key Yields**

<table>
<thead>
<tr>
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<th>Yield (%)</th>
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<tbody>
<tr>
<td>3-Mo LIBOR</td>
<td>0.84</td>
</tr>
<tr>
<td>10-Yr TSY</td>
<td>1.58</td>
</tr>
<tr>
<td>MSCI U.S.</td>
<td>2.09</td>
</tr>
<tr>
<td>MSCI China</td>
<td>2.28</td>
</tr>
<tr>
<td>MSCI ACWI</td>
<td>2.56</td>
</tr>
<tr>
<td>MSCI Germany</td>
<td>2.85</td>
</tr>
<tr>
<td>MSCI Brazil</td>
<td>3.46</td>
</tr>
<tr>
<td>MSCI U.K.</td>
<td>3.95</td>
</tr>
<tr>
<td>MSCI Australia</td>
<td>4.40</td>
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</tbody>
</table>

Source: FactSet, Data as of 9/1/16.

**Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment. Cash and sovereign bond yields represented in green; equity dividend yields represented in blue. Cash is represented by 3-Mo LIBOR and sovereign bond yields is represented by 10-Yr U.S. Treasury. The LIBOR USD 3 Month rate is an average derived from the quotations provided by the banks determined by the ICE Benchmark Administration.
Today’s Interest Rate Dilemma

Treasury rates are near historic lows, again.

34-year bond bull market run, yields are at historic lows. For how long?

Source: FactSet, Data as of 9/7/16

Past performance is no guarantee of future results. 10 Year Yield: Yields are yield to maturity and pre-tax. The rates are comprised of Generic United States on-the-run government bill/note/bond indices. On the run refers to most recently issued U.S Treasury bill, bond, or note of a particular maturity. These yields are based on the ask side of the market. Yields fluctuate with changes in market conditions. Current yields may be higher or lower than that shown above.
Global Interest Rates

U.S. yields are highest among developed nations.

Source: FactSet. Data as of 9/1/16.
Past performance is no guarantee of future results. Yields fluctuate with market conditions. Current yields may be higher or lower than that shown.
Equities

- The World at a Glance

Asset Performance

Market timing may lead to missing out on higher returns.

Source: Wells Fargo Investment Institute; Morningstar Direct as of 1/1/2016. For illustrative purposes only. Past performance is no guarantee of future results. An index is unmanaged and not available for direct investment.
Asset Performance

Individual Equity Investors vs. Index

Source: Dalbar, Inc. 2016, 20 years from 1996-2015; “Quantitative Analysis of Investor Behavior” by Dalbar, Inc. (6/6/2016) and Lipper. Dalbar computed the “average stock fund investor return” by using industry cash flow reports from the Investment Company Institute. The “average stock fund return” figure represents the average return for all funds listed in Lipper’s U.S. Diversified Equity fund classification model. All Dalbar returns were computed using the S&P 500 Index. Returns assume reinvestment of dividends and capital gain distributions. The fact that buy and hold has been a successful strategy in the past does not guarantee that it will continue to be successful in the future. The performance shown is not indicative of any particular investment. Past performance is not a guarantee of future results.
Asset Class

Tactical adjustments

<table>
<thead>
<tr>
<th>Underweight</th>
<th>Overweight</th>
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<tbody>
<tr>
<td>▪ Long-Term U.S. Investment-Grade Bonds</td>
<td></td>
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<tr>
<td>▪ Developed-Market Bonds</td>
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<tr>
<td>▪ U.S. Small Cap Equities</td>
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<tr>
<td>▪ Emerging-Market Equities</td>
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<tr>
<td>▪ Event Driven - Hedge Funds*</td>
<td></td>
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<tr>
<td>▪ Cash</td>
<td></td>
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<tr>
<td>▪ Intermediate U.S. Investment-Grade Bonds</td>
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<tr>
<td>▪ U.S. Large Cap Equities</td>
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<tr>
<td>▪ Relative Value - Hedge Funds*</td>
<td></td>
</tr>
<tr>
<td>▪ Equity Hedge - Hedge Funds*</td>
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</table>

Source: Wells Fargo Investment Institute

*Hedge funds are not suitable for all investors and are only open to accredited or qualified investors within the meaning of the U.S. Securities laws. Any offer to purchase or sell a specific hedge fund will be made by the product’s official offering documents. Investors could lose all or a substantial amount investing in hedge funds.
Key Points

In our view:

- We anticipate growth of 2.1 percent in the U.S. and 3.2 percent globally in 2017.

- Improving employment and consumer confidence likely will contribute to U.S. economic growth.

- The Fed is likely to raise rates twice in 2017.

- Diverging monetary policy and geopolitical concerns could continue to contribute to global market volatility.

- Global stocks are trading at fair valuations by recent historical standards and longer term rates are likely to be range bound. Therefore we anticipate low asset price returns in 2017.
Living Longer and Living Better

How will you handle the 100 year life?

Source: Wells Fargo Investment Institute, 1/16
Life Expectancies are Increasing

The Renaissance 30 Years

Industrial Revolution 25 Years
Liverpool England, 1860’s

Japanese Women Today 87 Years

Developed World 2300 101 Years

Living Healthier

Individuals with chronic illnesses in the U.S. living longer

Source: Global Burden of Disease Study 2013, Mortality and Causes of Death Collaborators, as published in Lancet
Don’t Plan for Average

You may live longer than you think

Probability of a 65-year couple old in good health living to various ages in the U.S.

Source: Social Security 2010 tables with 1% mortality improvement. *Longevity of one member of a couple.
Planning for a longer life is an important aspect of your financial well-being

- Younger investors invest early for compounding benefit
- Older workers should balance assets with expectations
  - Rethink traditional investing approaches
- Investors should look for investing for total return, growth of assets and annuities as a retirement strategy