Spring Investment Forum

The Path Forward

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Key Questions

- Has this been a Trump rally since Election Day?
- What is different today than over the past 8 years?
- What are the catalysts going forward?
- What are the risks?
- How high is up?

Trump Rally?

- S&P 500 is up 12% since Election Day and 10-year Treasury yields are up 15%

BUT:

- The unemployment rate is down just 0.2 percentage points and the average monthly hires are virtually unchanged
- GDP growth Y/Y is lower today
- The trade-weighted dollar has appreciated only 1%
- Commercial and Industrial loans are lower

Trump Rally?

BUT:

- Stocks are forward looking. Nothing has passed through Congress, but it is still early
- Regulatory reform is only beginning

CONCLUSION:

- So far Trump's impact is marginal
- The future offers more upside than downside
  - Any further actions should be business friendly
    - – Risks are trade and immigration

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Changes over the last 8 years?

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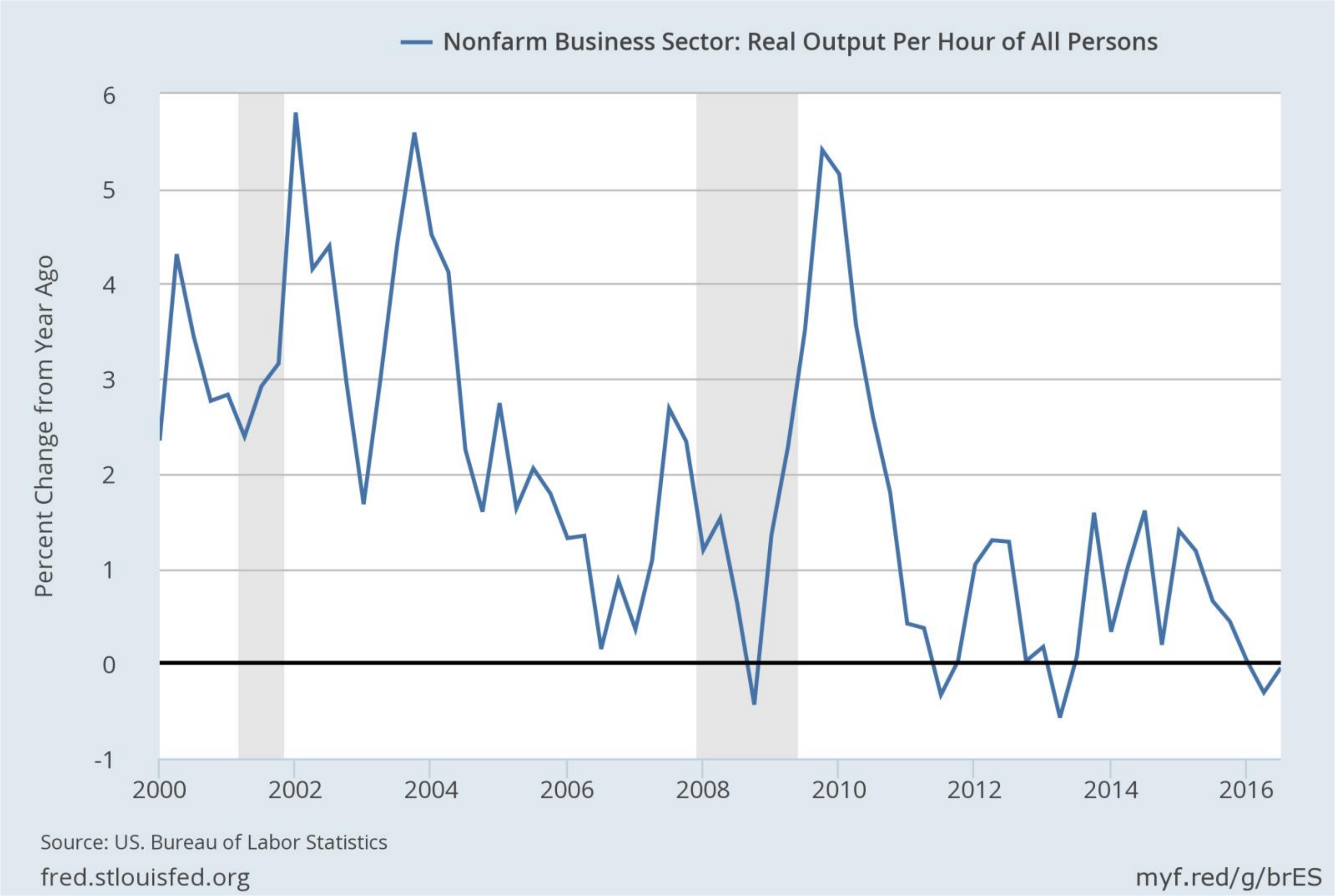

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Changes over the last 8 years?

- The steady decline in capacity utilization has eroded corporate pricing power for decades
- The advent of the Internet is highly deflationary
  - Increases price discovery for the buyer
  - Gives buyer additional information to level the playing field
  - Only the low-cost provider wins
- Companies have moved to strip out costs BUT have yet to invest to improve productivity

Catalysts

- In a nutshell, earnings and interest rates
- Earnings per share went through a two year recession (2014-2016)
  - Strong dollar
  - Weak growth overseas
  - Collapse in the energy sector

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Catalysts

- The Dollar is now virtually unchanged from Election Day and unchanged over the past 2+ years going back to February 2015
- Easy money has helped to accelerate GDP growth (and corporate earnings) in Europe and Japan while propping up GDP growth in China
- Oil prices are almost double their 2016 lows. Rig counts in the US today are up 75%+ from their lows
- Low capacity utilization has kept interest rates near historic lows

Catalysts

High earnings and low interest rates are ideal for equity prices

What are the Risks?

- Fiscal policy is too stimulative, driving both interest rates and the national debt higher at accelerating rates
- Euphoria takes center stage
- Fed moves too quickly

How high is up?

- Earnings are rising at double-digit rates at the moment
- The offset is higher rates
- If core inflation stays below 2.5-3.0%, and 10-year Treasuries stay below 3.5%, there is no reason why stocks can't sell at 20x earnings before the end of the bull market implying another 10-20% upside over the next few years

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THANK YOU!

Questions and Answers

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