

**Quarterly  
Investment Briefing  
November 2, 2017**

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**INDIANA TRUST**

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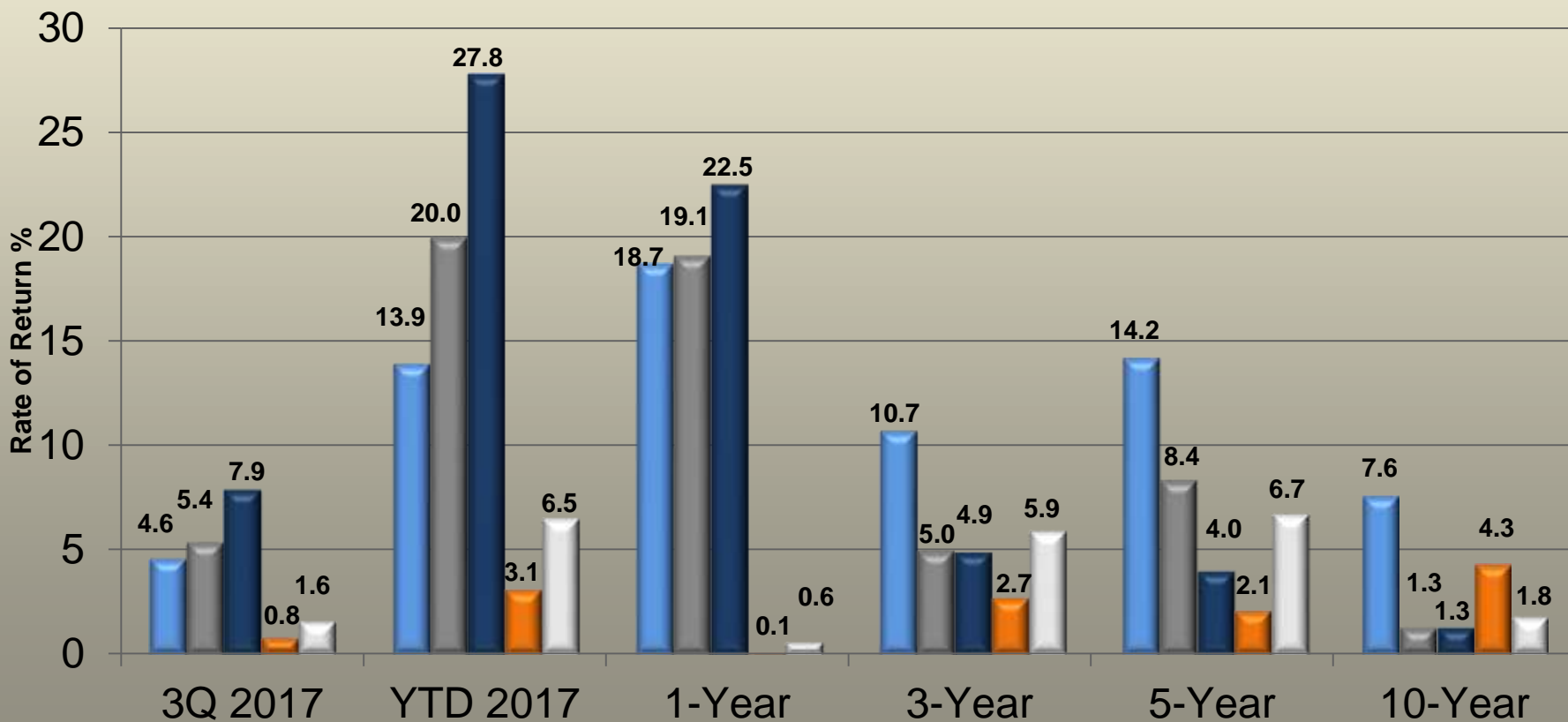
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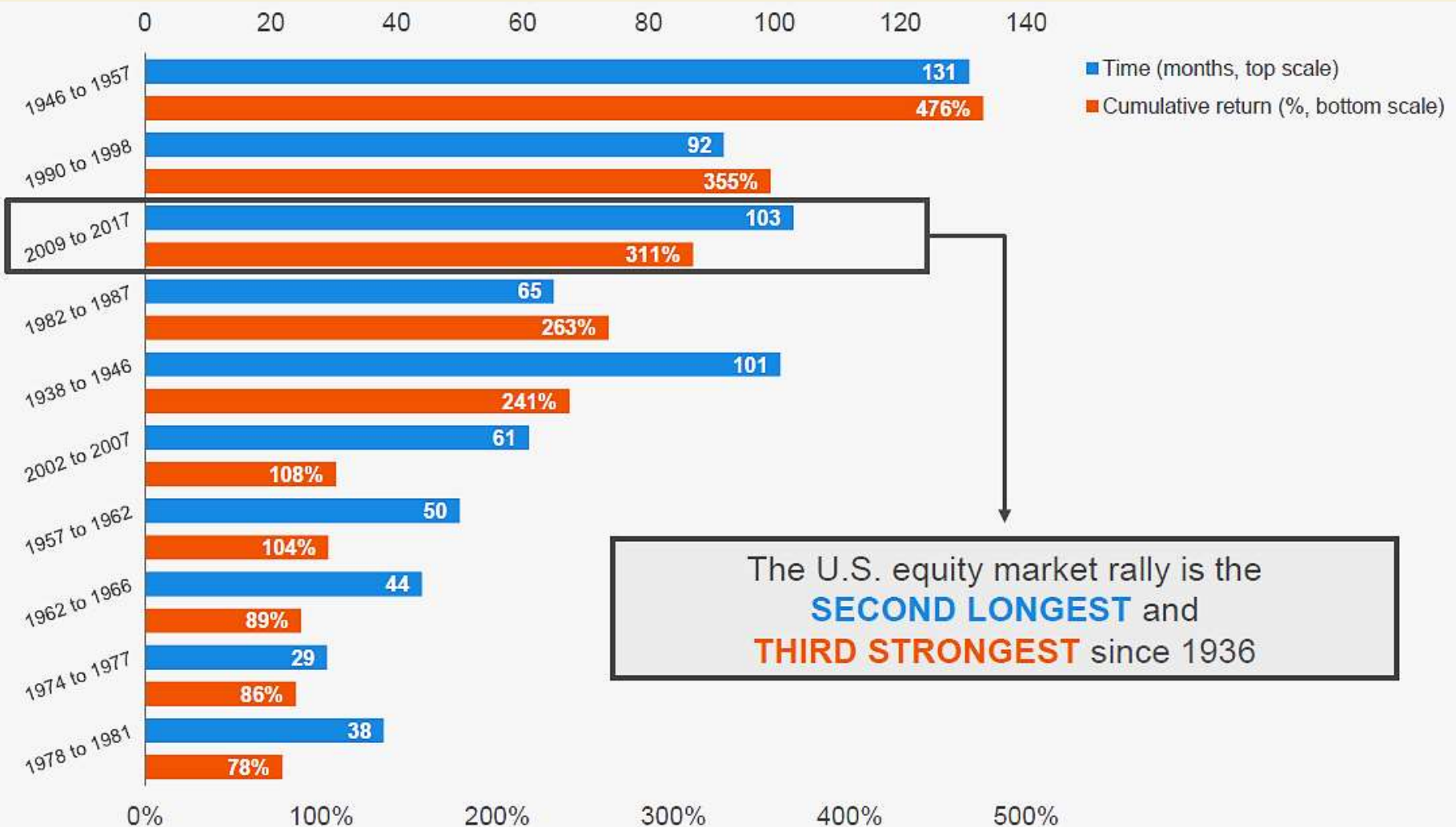
# Capital Market Returns Current & Annualized Period Ending September 2017

- U.S. Equities
- Non-U.S. Equities
- Emerging Market Equities
- Fixed Income
- Real Estate



# U.S. Stock Returns in Context

## SECOND LONGEST, THIRD STRONGEST

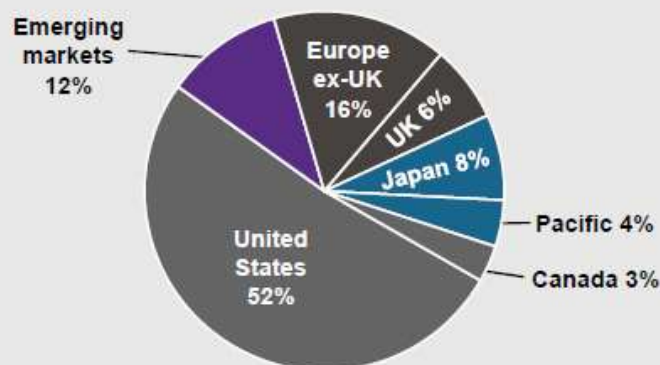


# Weakening Dollar Bolsters International Markets

Local currency returns were strong outside the U.S., and a rally in the euro boosted returns even higher for USD-based investors.

Country / Region	2017 YTD		2016	
	Local	USD	Local	USD
<b>Regions / Broad Indexes</b>				
All Country World	14.2	17.8	9.7	8.5
U.S. (S&P 500)	-	14.2	-	12.0
EAFE	11.6	20.5	5.9	1.5
Europe ex-UK	14.5	26.6	3.2	0.3
Pacific ex-Japan	11.6	17.7	8.5	8.0
Emerging markets	23.9	28.1	10.1	11.6
<b>MSCI: Selected Countries</b>				
United Kingdom	6.6	15.7	19.2	0.0
France	14.1	27.9	9.2	6.0
Germany	11.5	25.0	6.6	3.5
Japan	10.6	14.6	-0.4	2.7
China	44.2	43.4	1.2	1.1
India	19.4	24.1	1.1	-1.4
Brazil	23.3	26.9	37.2	66.7
Russia	-3.2	1.6	35.1	55.9

**Weights in MSCI All Country World Index**  
% global market capitalization, float adjusted



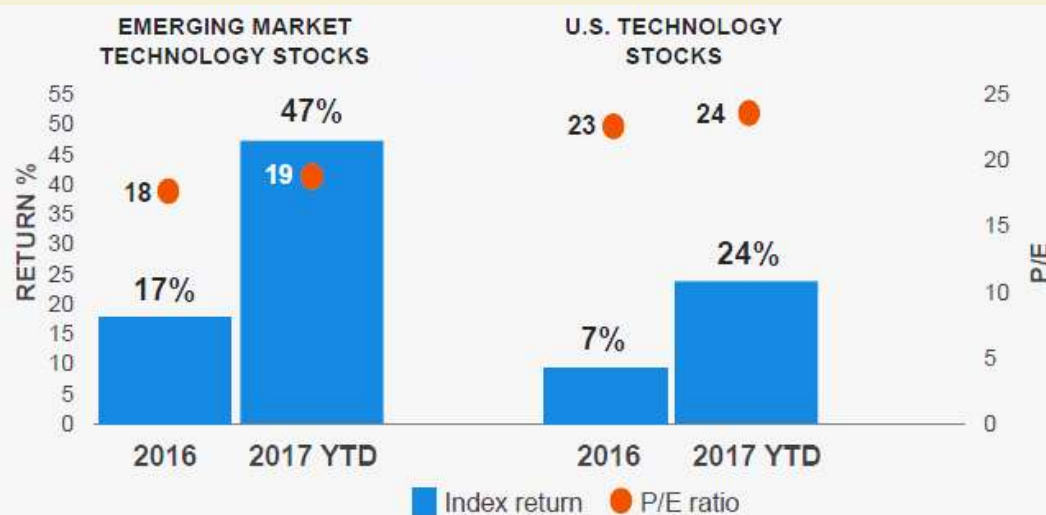
**Global equity market correlations**

Rolling 1-year correlations, 30 countries



# Tech Powering Global Rally

Everyone knows the “FANGS” but have you heard of the “BATTs”?



- EM Tech beating U.S. Tech year-to-date; EM “BATTs” return nearly 23% ahead of U.S. “FANGs”
- EM Tech more attractive valuations with potentially more room to run; U.S. Tech comparatively expensive
- More than half of today’s internet users live in Asia; this number expected to grow

U.S. TECH (FANGs)	YTD % RETURN	P/E	EMERGING MARKETS TECH (BATTs)	YTD % RETURN	P/E
Facebook	49%	38	Baidu Inc	51%	46
Amazon	28%	245	Alibaba Group Holding	97%	58
Netflix	46%	221	Tencent Holdings	82%	52
Google	23%	35	Taiwan Semiconductor Manufacturing	35%	17
			Samsung Electronics	72%	12

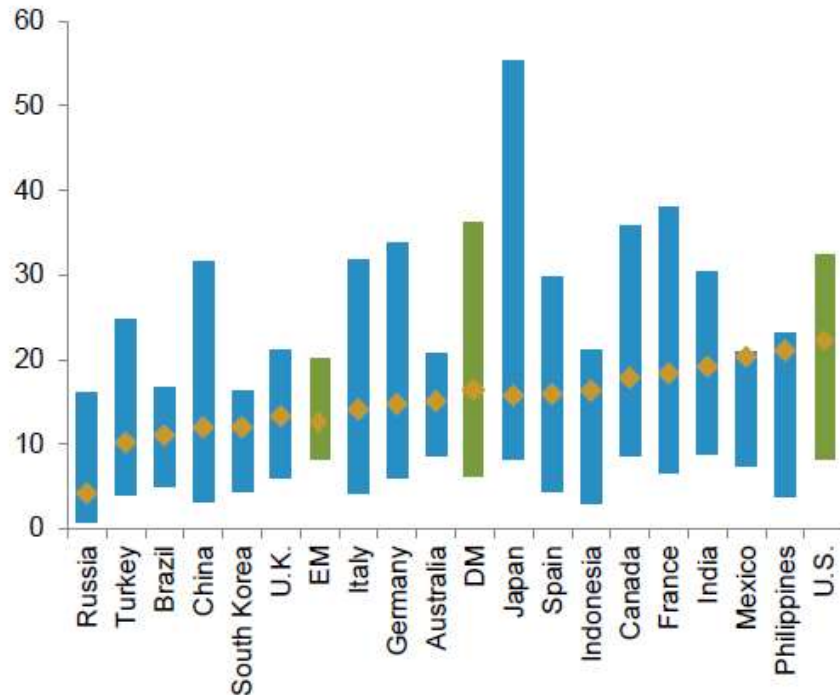
# Equity and Currency Valuations Attractive Vs. U.S.

P/E ratios for most equity markets are lower than those in the U.S., with many countries' valuations in the bottom half of their 20-year range. Moreover, the value of the U.S. dollar remains at the upper end of ranges versus major currencies. Both factors provide a favorable long-term valuation backdrop for international equity returns.

## Cyclical P/E's

◆ 8/31/2017     ■ 20-Year Range

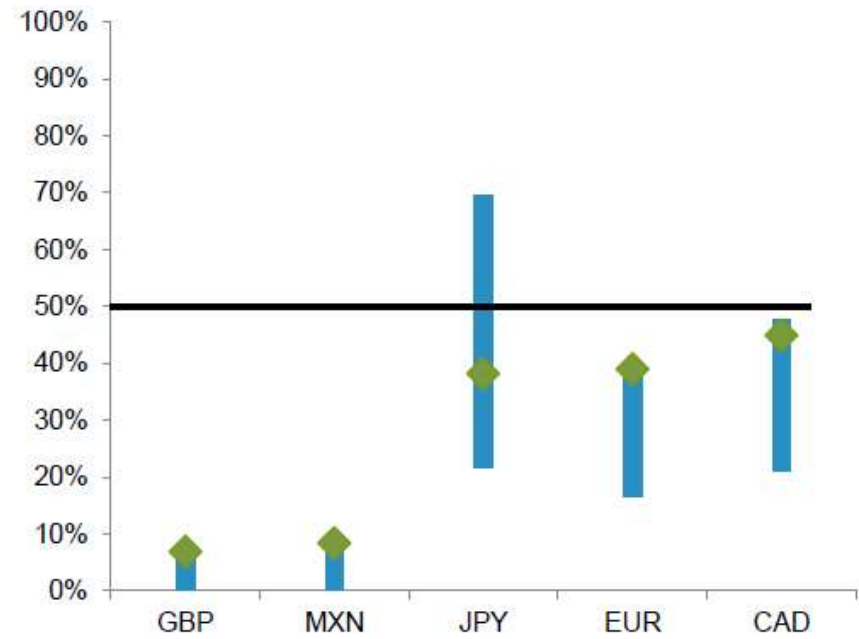
Price/5-Year Peak Real Earnings



## Valuation of Major Currencies vs. USD

■ Last 12-Month Range     ◆ 9/30/2017

Percentile Since 2000





# U.S. Stock Market Valuations are Elevated

With valuations above long-term averages, the likelihood increases for below-average long term returns – although that outcome is far from given.

S&P 500 Index: Forward P/E ratio

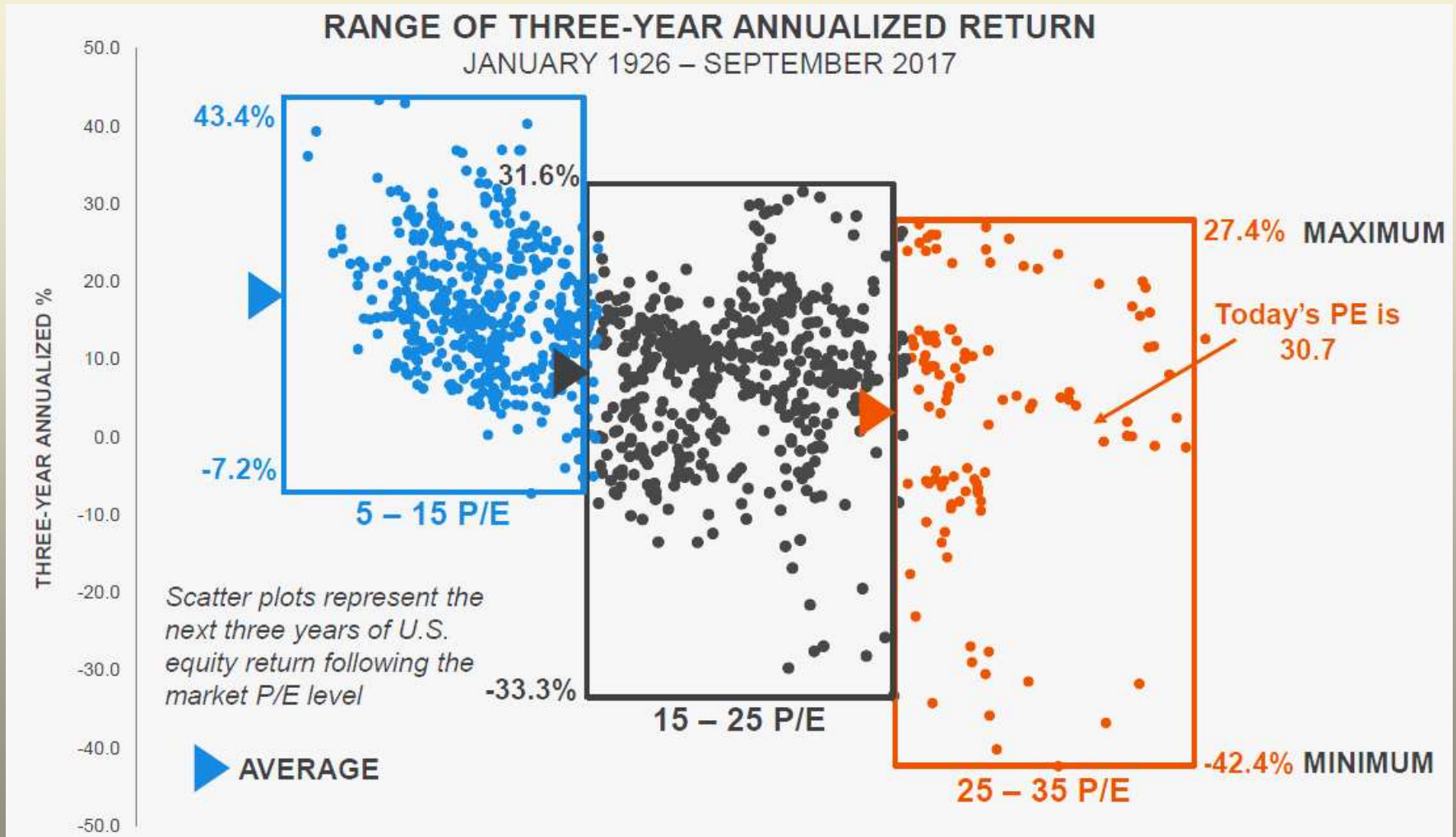
Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	17.7x	16.0x	0.5
CAPE	Shiller's P/E	30.7	26.3	0.7
Div. Yield	Dividend yield	2.1%	2.0%	-0.1
P/B	Price to book	2.9	2.9	0.1
P/CF	Price to cash flow	12.4	10.7	0.9
EY Spread	EY minus Baa yield	1.3%	-0.3%	-0.8



Source: FactSet, FRB, Thomson Reuters, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.

# Market Valuations and Future Returns

HIGHER VALUATIONS TEND TO REDUCE FUTURE RESULTS





# Perspective on “Stock Market Highs”

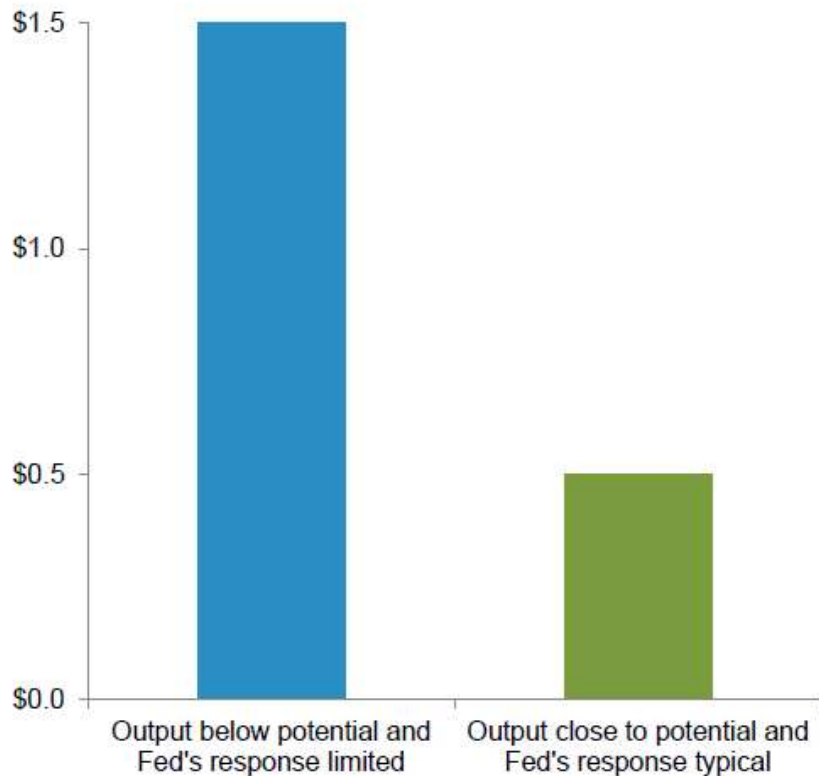
(S&P 500 THROUGH 10/5/17)

- 43 new stock market highs this calendar year
- 171 new highs since 2013
- 737 new highs since 1980
- 3 major “tops” – 1987, 2000, 2007

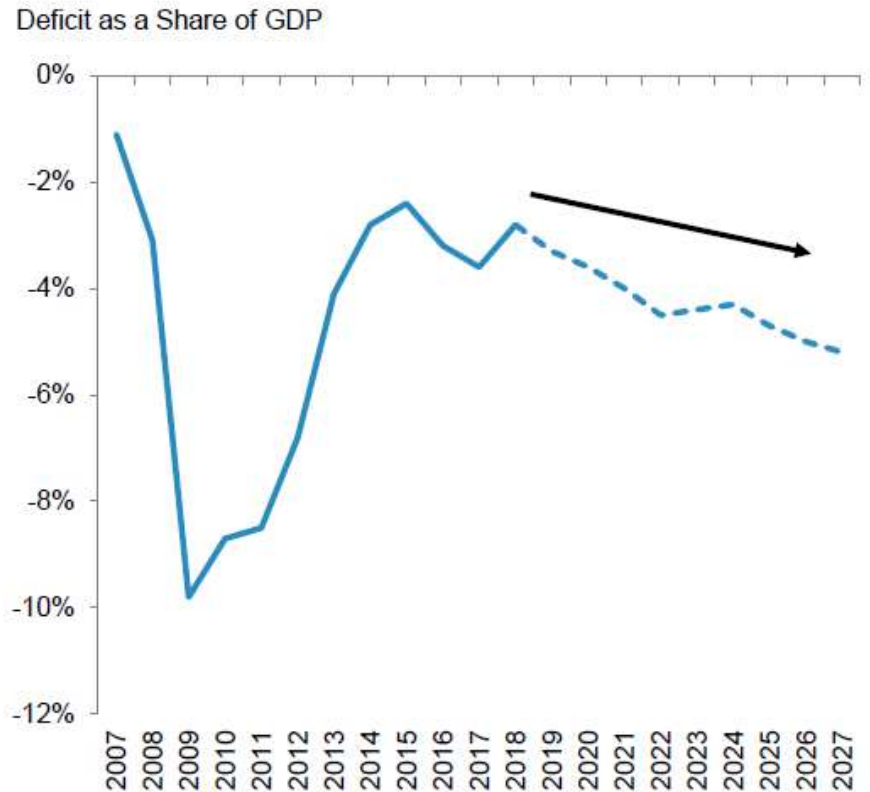
# Fiscal Policy Is Supportive of Growth, but Upside Is Limited

Whether tax legislation is enacted or not, budget deficits are likely to widen in the coming years amid rising entitlement spending. Hopes for tax-cut legislation represent a potential upside surprise for corporate earnings, but cyclically may do more to boost inflation than growth. The stimulus growth multiplier tends to be higher when there is a large amount of economic slack and monetary policy is easing (unlike today).

### Impact of \$1 Fiscal Stimulus Boost over Next Two Years



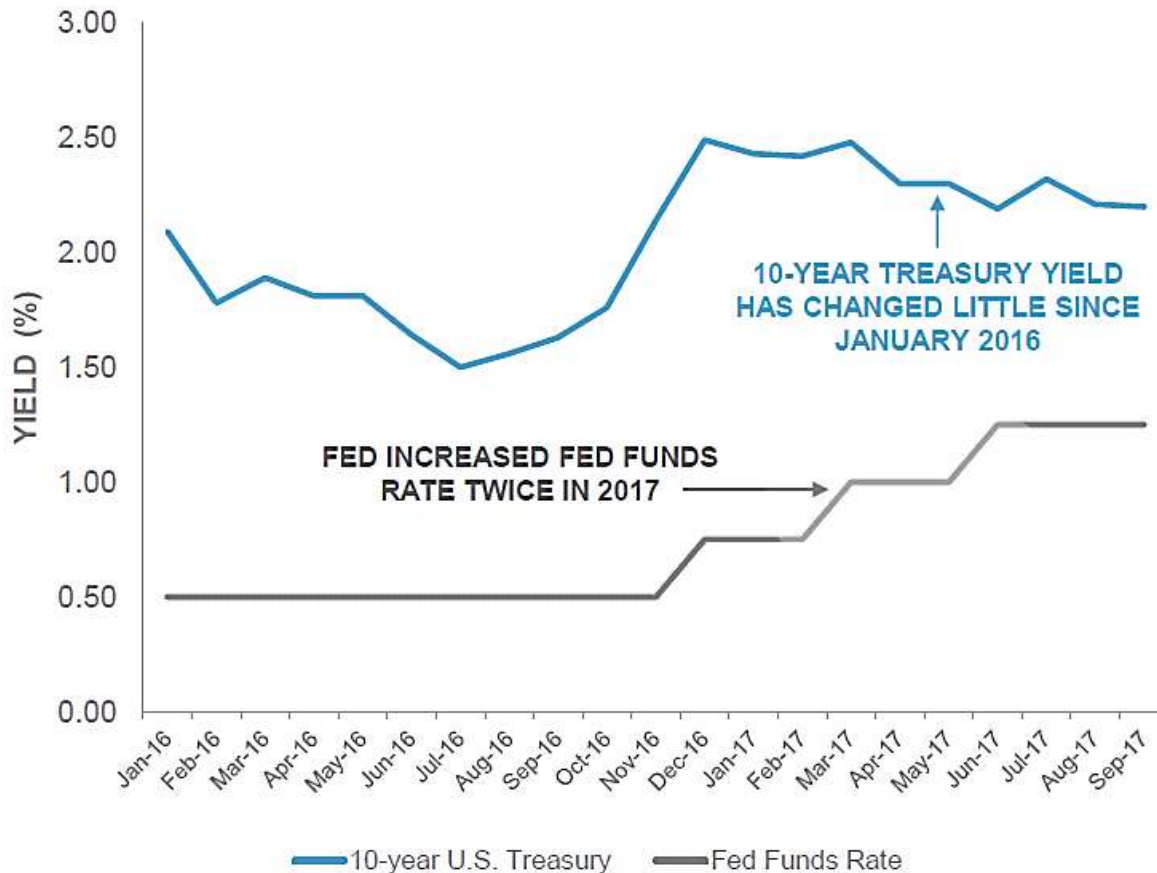
### U.S. Fiscal Deficit



# Federal Reserve Controls Short-term Interest Rates

LONGER-TERM INTEREST RATES HAVE CHANGED LITTLE

**FED FUNDS RATE VS. 10-YEAR U.S. TREASURY YIELD**  
JANUARY 1, 2016 – SEPTEMBER 30, 2017



- › The Federal Reserve controls short-term rates; the market drives long-term rates
- › The Fed has raised the Fed Funds target rate twice in 2017
- › Longer-term rates have been range bound
- › Bond portfolios are often more influenced by market forces than the Fed's actions

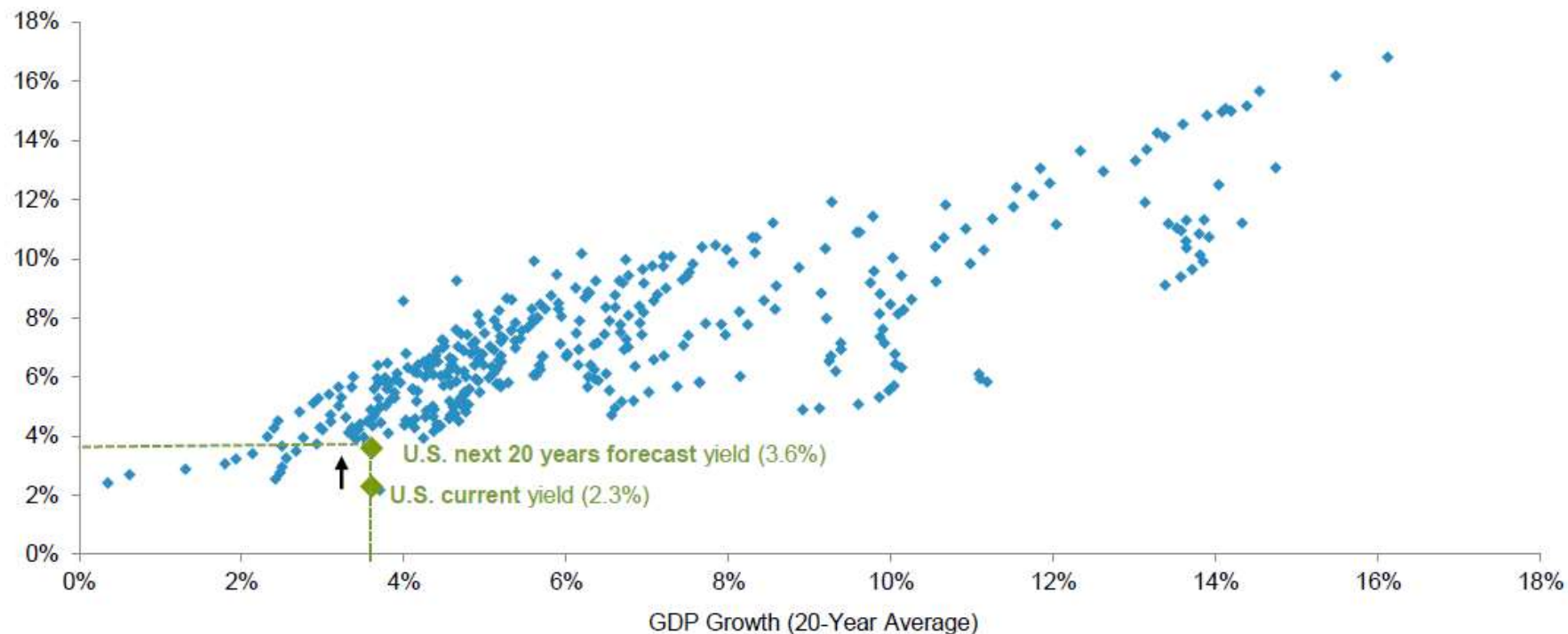
# Secular Rate Outlook: Higher than Now, Lower than History

Over long periods of time, GDP growth has a tight positive relationship with long-term government bond yields (yields generally have averaged the same rate as nominal growth). We expect interest rates will rise over the long term to an average that is closer to our 3.6% nominal GDP forecast, but this implies they would settle at a significantly lower level than their historical averages.

## Nominal Government Bond Yields and GDP Growth

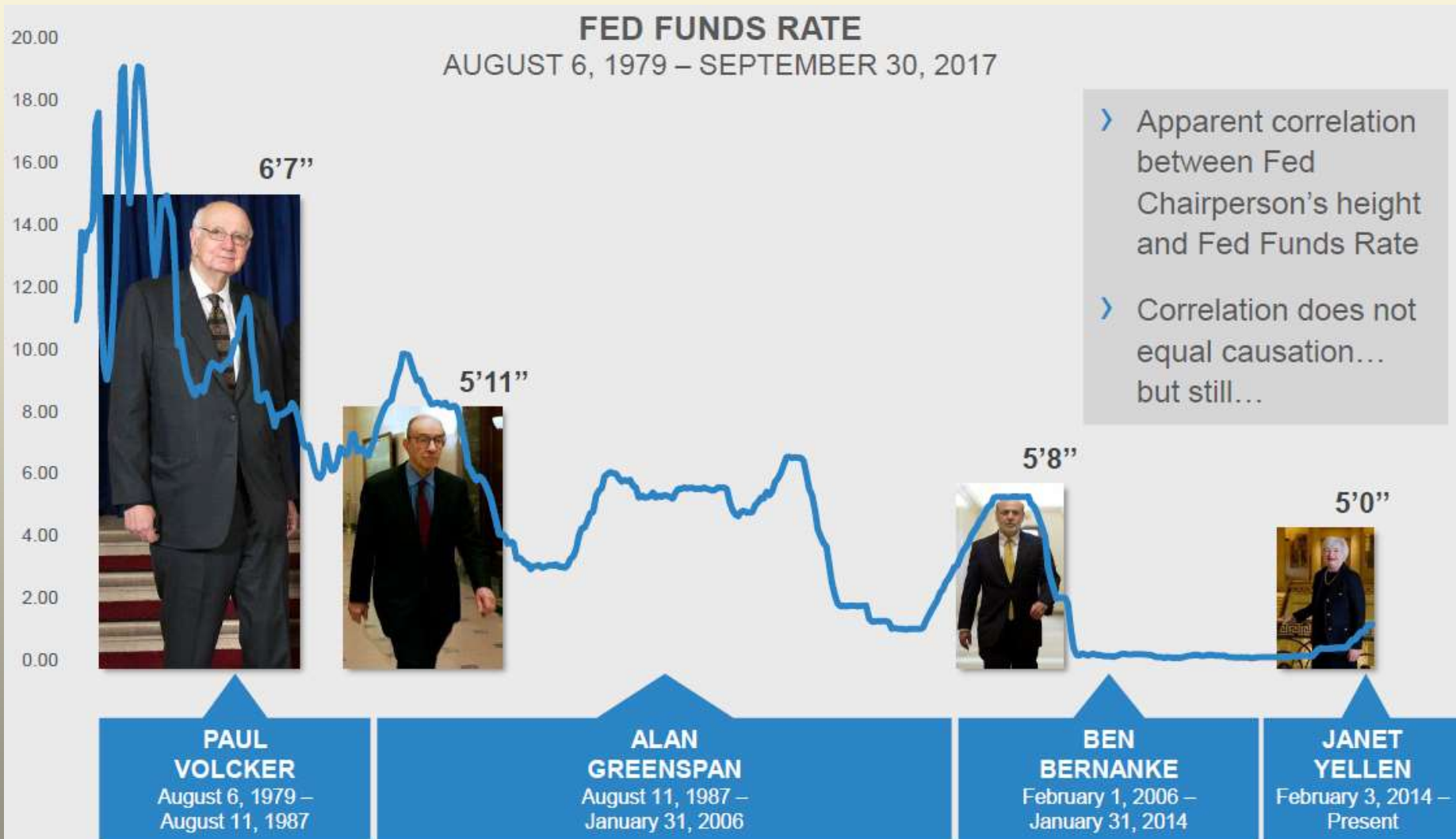
◆ U.S. Secular Growth Forecast ◆ Historical Observations of Various Countries

10-Year Sovereign Yield (20-Year Average)



# Leading Indicator of Fed Funds Rate?

## THE FED CHAIRPERSON'S HEIGHT



**Who comes next?**