

**Quarterly  
Investment Briefing  
August 6, 2015**

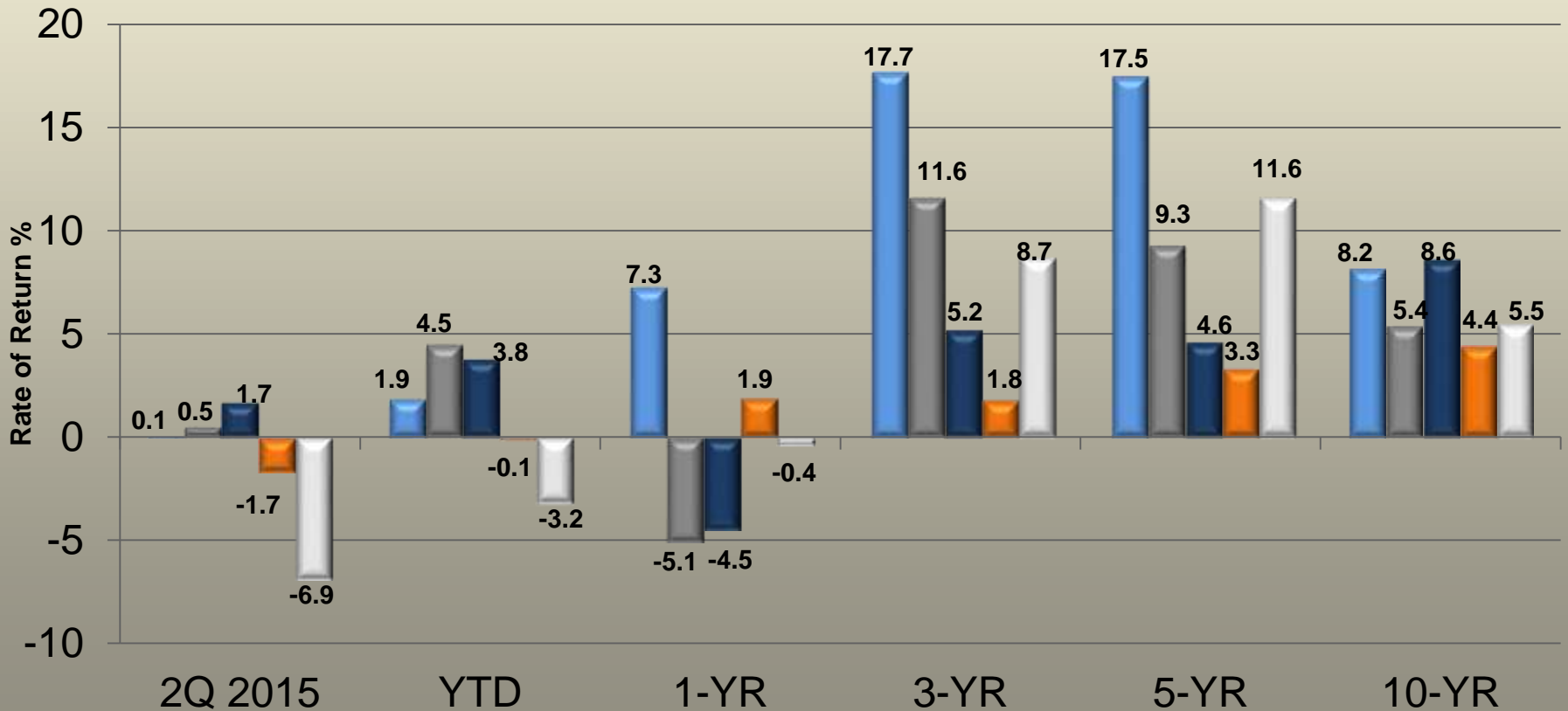


**Clayton T. Bill, CFA**

**Lavone F. Whitmer, CFA**

# Capital Market Returns Current & Annualized Period Ending June 30, 2015

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



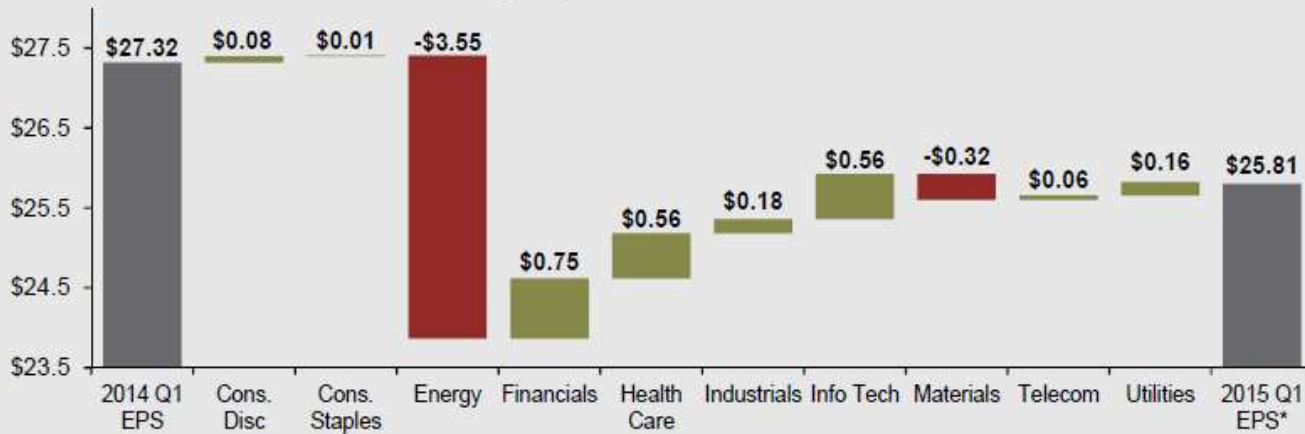
# U.S. Stock Market Valuation Metrics

**S&P 500 Index: Forward P/E ratio**

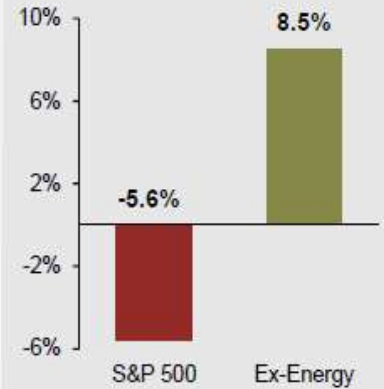


# Drivers Of U.S. Corporate Earnings

**S&P 500 contributions to earnings by sector**

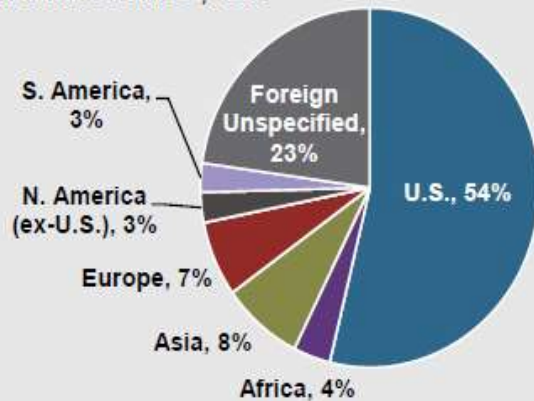


**1Q 2015 EPS growth**  
Year-over-year



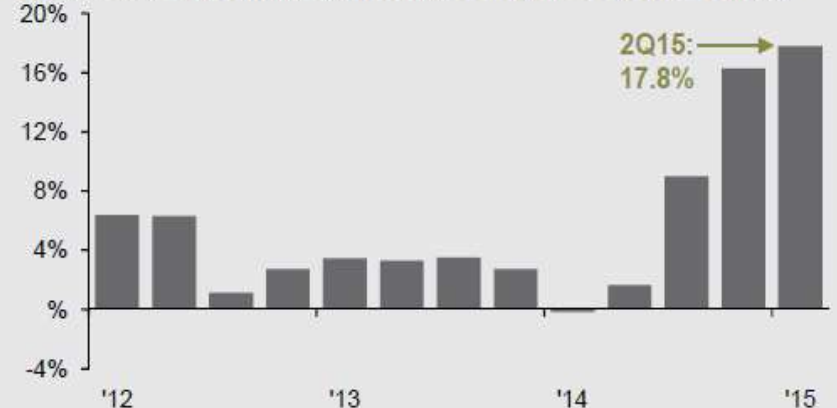
**S&P 500 international revenues**

% of total revenues\*, 2013



**U.S. dollar**

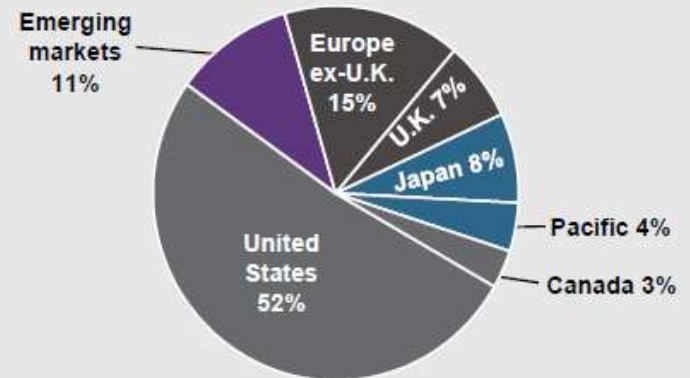
Year-over-year % change, quarterly, USD major currencies index



# Global Equity Markets

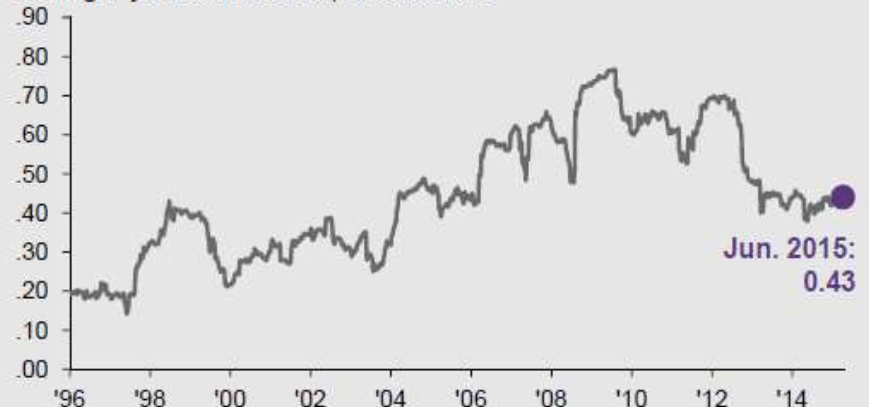
Country / Region	YTD		2014	
	Local	USD	Local	USD
<b>Regions / Broad Indexes</b>				
All Country World	4.6	3.0	9.9	4.7
U.S. (S&P 500)	-	1.2	-	13.7
EAFE	9.2	5.9	6.4	-4.5
Europe ex-U.K.	10.9	5.3	7.4	-5.8
Pacific ex-Japan	4.8	0.6	5.8	-0.3
Emerging Markets	5.8	3.1	5.6	-1.8
<b>MSCI: Selected Countries</b>				
United Kingdom	1.2	2.0	0.5	-5.4
France	14.9	5.8	3.6	-9.0
Germany	11.7	2.9	2.8	-9.8
Japan	16.1	13.8	9.8	-3.7
China	14.8	14.8	8.3	8.3
India	2.5	1.6	26.4	23.9
Brazil	6.8	-8.6	-2.8	-13.7
Russia	20.5	27.8	-12.1	-45.9

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



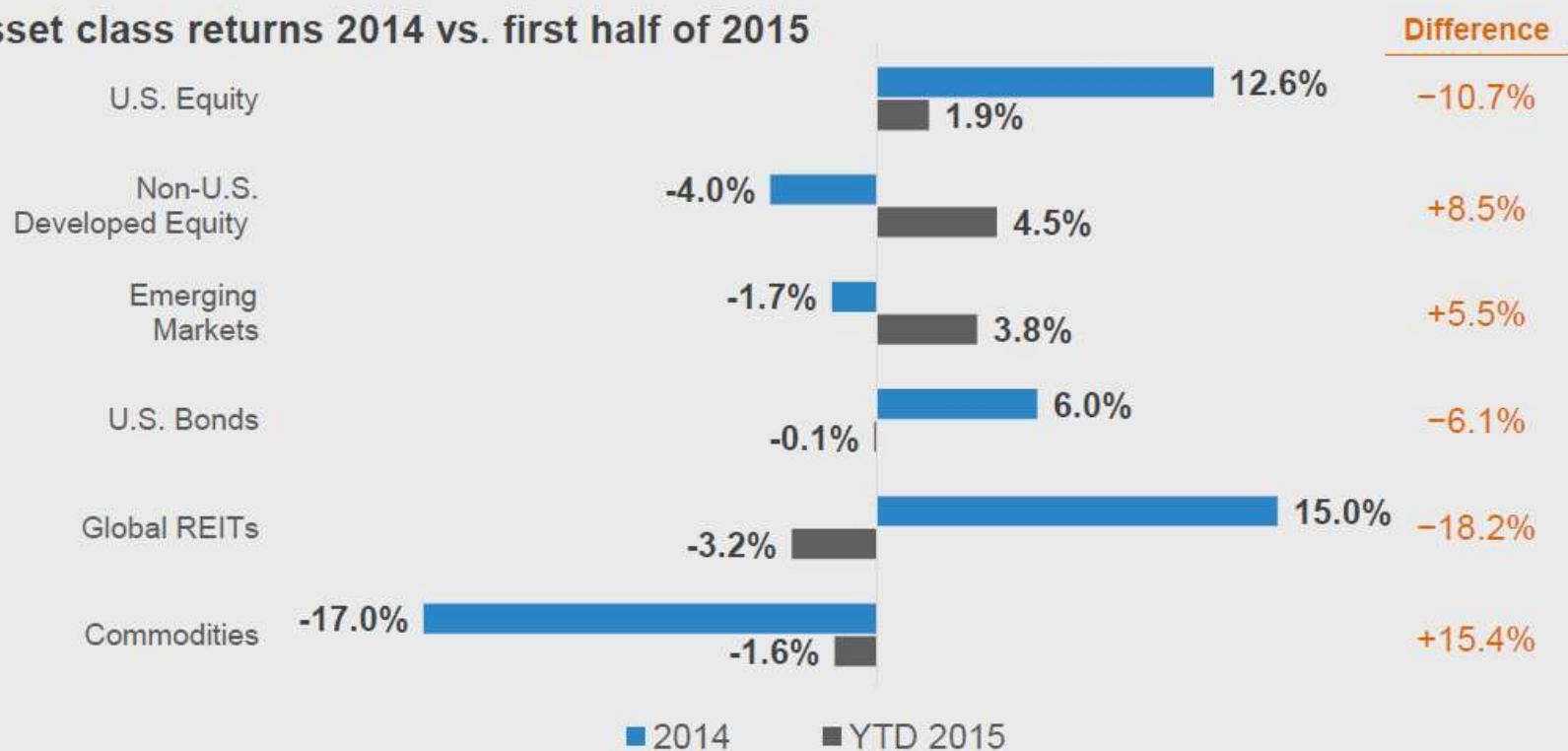
**Global equity market correlations**

Rolling 1-year correlations, 30 countries



# Reversals Reinforce The Role Of Diversification

Asset class returns 2014 vs. first half of 2015



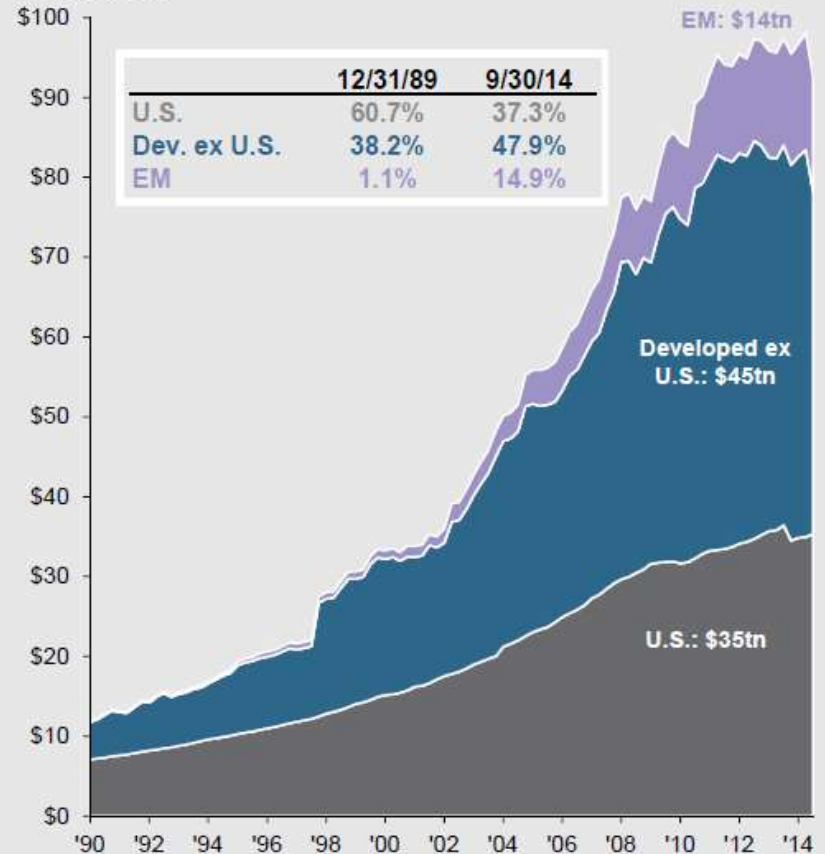
- › For the major asset classes, the first half of 2015 was quite different than 2014.
- › Abandoning what lagged in 2014 (Non-U.S. Developed Equity and Emerging Markets) in favor of what led (U.S. Equity, U.S. Bonds, and Global REITs) would have hurt in 2015.

# Global Fixed Income Markets

Aggregates	Correl to 10-year	Duration	Yield		YTD Return	
			6/30/2015	3/31/2015	Local	USD
U.S.	0.84	5.6 Yrs	2.39%	2.06%	-0.10%	-0.10%
Gbl. ex. U.S.	0.31	7.1	1.41%	1.09%		-4.72%
Japan	0.46	8.3	0.47%	0.44%	-0.63%	-2.63%
Germany	0.17	6.0	0.76%	0.39%	0.33%	-7.62%
U.K.	0.16	9.2	2.16%	1.78%	-2.06%	-1.21%
Italy	0.01	6.4	1.68%	0.97%	-0.66%	-8.53%
Spain	0.04	5.9	1.50%	0.83%	-1.68%	-9.47%
<b>Sector</b>						
Euro Corp.	0.13	5.1	1.45%	0.92%	-1.58%	-9.38%
Euro HY.	-0.35	4.1	4.79%	4.24%	3.70%	-4.51%
EMD (\$)	0.21	6.8	5.79%	5.56%		1.67%
EMD (LCL)	0.09	4.9	6.79%	6.34%	2.26%	-4.88%
EM Corp.	-0.26	5.5	5.53%	5.41%		3.70%

## Global bond market

USD trillions



# Capital Market Returns

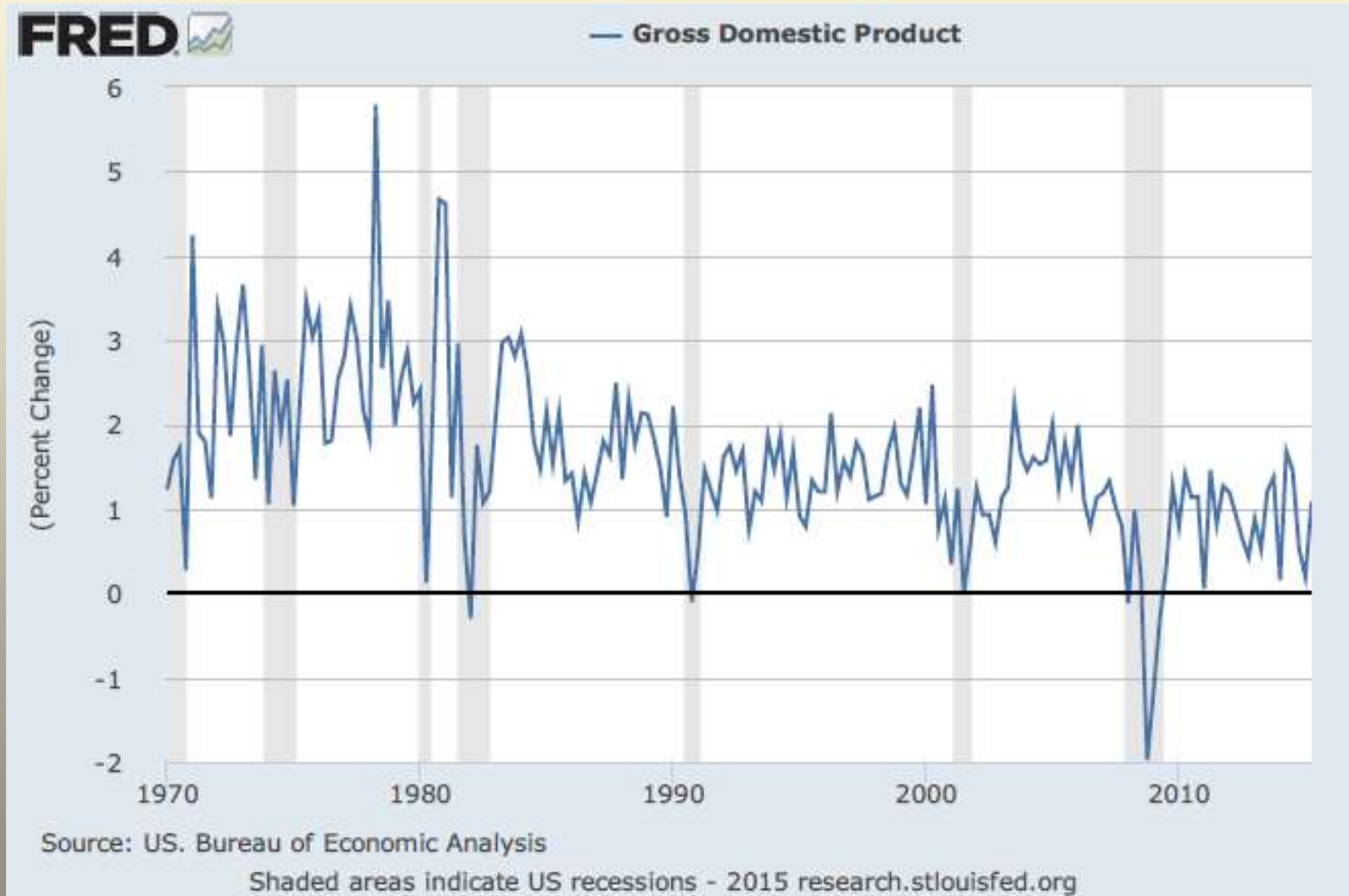


**Economic Growth**

**Interest Rates**



# U.S. Economic Growth 1970 – Q2 2015



# Economic Indicators

## INTEREST RATES

10 year U.S. Treasury yield increased 43 bps during 2Q 2015 as economy continued to strengthen and potential for a rate rise increased

## HOME PRICES

Home prices were up again in the 2nd quarter as residential real estate sale prices increased 4.9% YoY

MOST RECENT  3-MO. TREND  TYPICAL RANGE  ACTUAL RANGE 

### Market Volatility (CBOE VIX)

[HISTORICAL DETAILS](#)



### 10 Yr. U.S. Treasury Yield

[HISTORICAL DETAILS](#)



### Yield Spread

[HISTORICAL DETAILS](#)



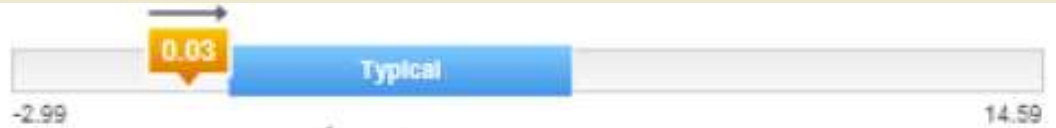
### Home Prices (HPI)

[HISTORICAL DETAILS](#)



# Economic Indicators

**Inflation (CPI)**  
[HISTORICAL DETAILS](#)



**Unemployment**  
[HISTORICAL DETAILS](#)



**Economic Expansion (GDP)**  
[HISTORICAL DETAILS](#)



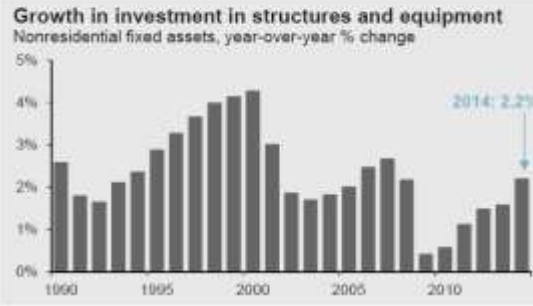
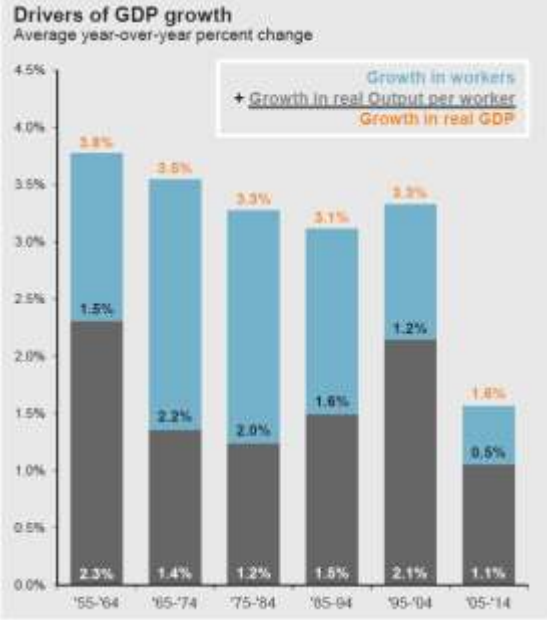
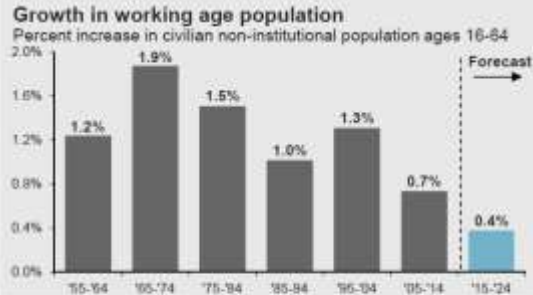
**Consumer Sentiment (CSI)**  
[HISTORICAL DETAILS](#)



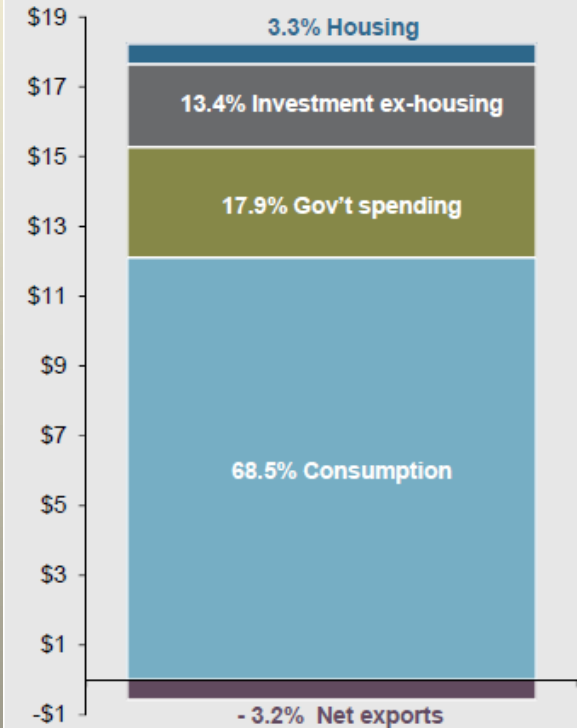
**UNEMPLOYMENT**

Unemployment rate continues to drop and made a new low for the current economic recovery at 5.3%

# Components and Drivers of Economic Growth



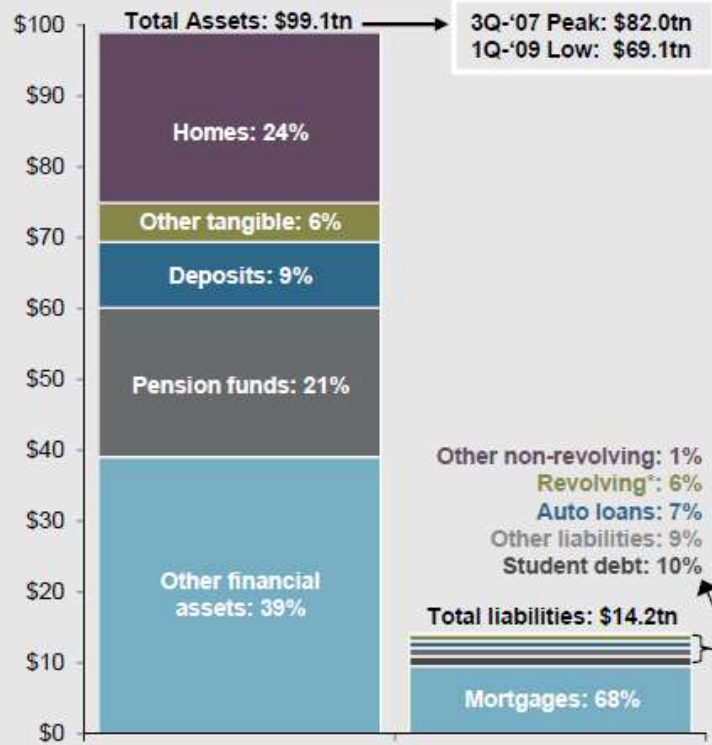
**Components of GDP**  
 1Q15 nominal GDP, USD trillions



# Consumer Finances

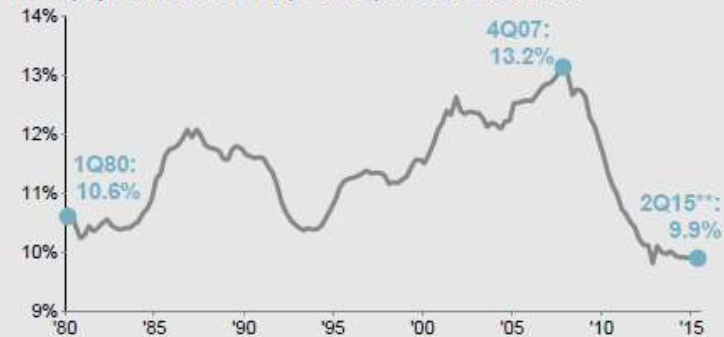
## Consumer balance sheet

1Q15, trillions of dollars outstanding, not seasonally adjusted



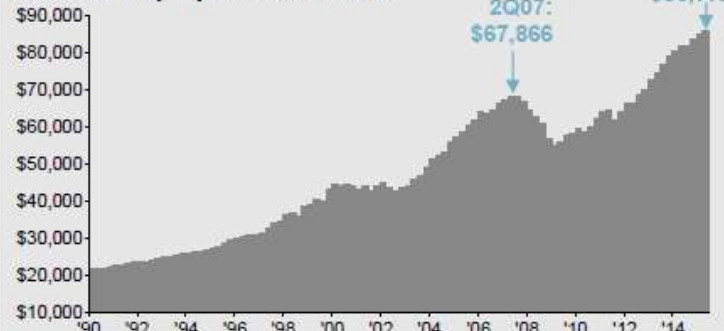
## Household debt service ratio

Debt payments as % of disposable personal income, SA



## Household net worth

Not seasonally adjusted, USD billions



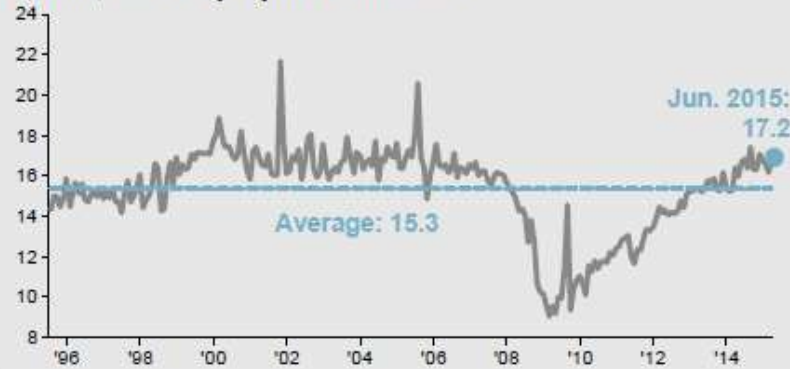
Source: BEA, FactSet, FRB, J.P. Morgan Asset Management.

Data include households and nonprofit organizations. SA – seasonally adjusted. \*Revolving includes credit cards. \*\*1Q15 household debt service ratio and 1Q15 household net worth are J.P. Morgan Asset Management estimates. Values may not sum to 100% due to rounding. Guide to the Markets – U.S. Data are as of June 30, 2015.

# Cyclical Sectors

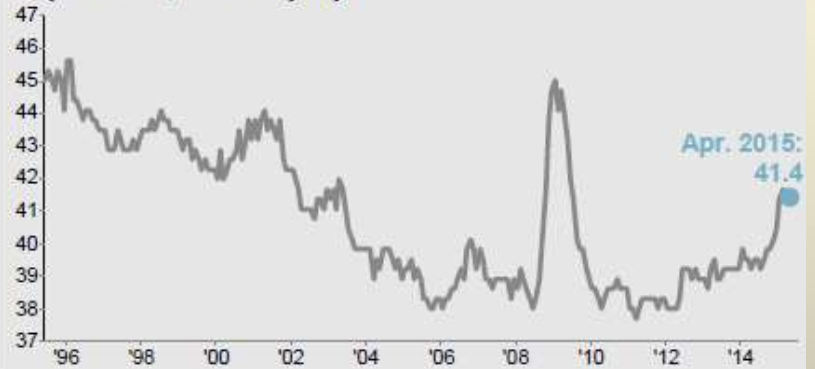
## Light vehicle sales

Millions, seasonally adjusted annual rate



## Manufacturing and trade inventories

Days of sales, seasonally adjusted



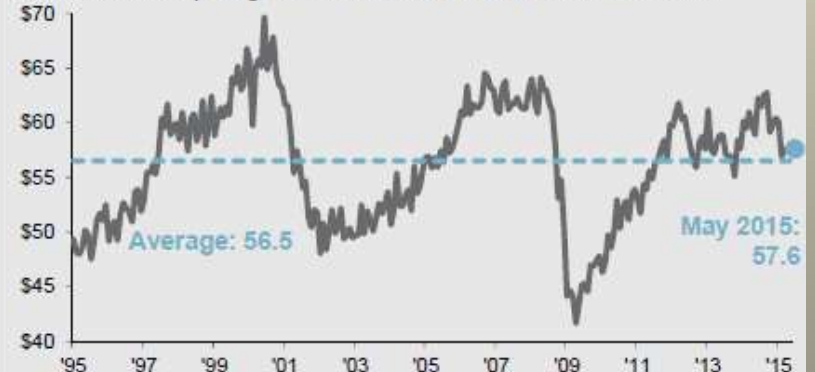
## Housing starts

Thousands, seasonally adjusted annual rate



## Real capital goods orders

Non-defense capital goods orders ex. aircraft, USD billions, SA



Source: BEA, Census Bureau, FactSet, J.P. Morgan Asset Management.  
 SA – seasonally adjusted. Capital goods orders deflated using the producer price index for capital goods with a base year of 2004.  
 Guide to the Markets – U.S. Data are as of June 30, 2015.

# Interest Rate Outlook

## Improving U.S. economy a reason for Fed to raise rates

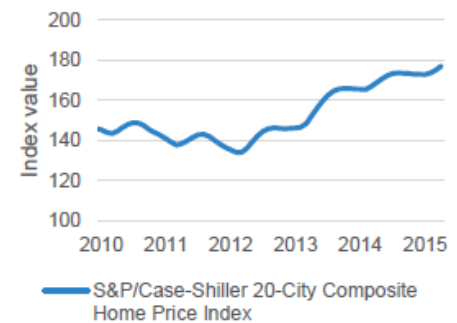
**1.** More people are working (lower unemployment)



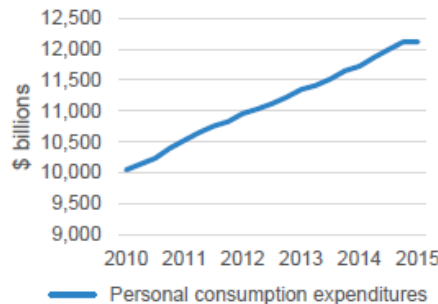
**2.** and getting paid more in total



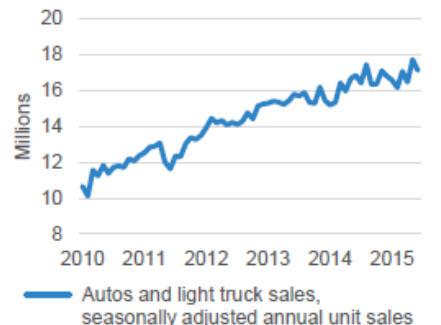
**3.** and the value of their homes is increasing



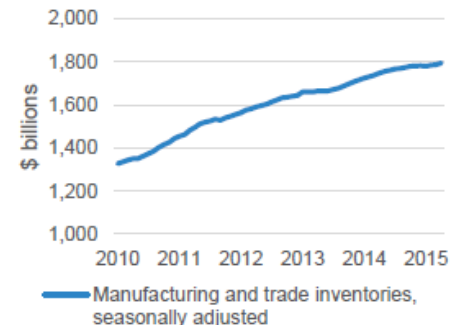
**4.** leading to increased confidence to spend more overall



**5.** and on bigger ticket items



**6.** which is improving business confidence



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, S&P, U.S. Census Bureau. Exhibits 2 & 4: March 2015, Exhibits 1 & 5: June 2015, Exhibit 3 & 6: April 2015.

# Interest Rates - Rate Hikes Since 1980

**7** rate hike cycles since 1980

**3.25%** cycle's median increase

**13** month average length

**Average market and portfolio returns**  
Periods post initial Fed rate hike  
Returns Annualized (%)

