Outlook on the **United States**

JAN
2016

Summary

- The US economy grew solidly in 2015 as the benefits of lower energy prices outweighed weakness emanating from the energy sector. This strength allowed the US Federal Reserve to raise interest rates in December—the first time in nine years.
- In 2016, we expect the US recovery to lift the fortunes of the middle class more substantially than in recent years as strong labor markets, low energy prices, and improved access to credit increase consumer confidence and spending, spurring a virtuous cycle.
- The US equity market, while trading at a valuation premium to historical levels, continues to offer opportunities for investors to capitalize on the economic growth and performance dispersion we expect to see across the investible universe. We believe the US market deserves a premium to its own history and to peers given the favorable composition of the market and the future prospects for earnings growth.

As we exit 2015, the United States continues to be arguably one of the brightest spots in the global economy. However, investor sentiment is understandably mixed as many sources of uncertainty that emerged in 2015 are poised to extend into the year ahead. We highlight several of these uncertainties—including the diverging paths of monetary policy, China's economic slowdown, low energy prices, and fresh concerns about geopolitics—in our *Global Outlook for 2016*. Nonetheless, we find ourselves more positive about the year ahead than many, and repeat what we said as we entered 2015—amid the economic and geopolitical challenges facing much of the world, "the United States stands out as an island of stability and economic strength that clearly appeals to investors."

The Year Behind

We remain relatively optimistic because of how resilient US economic growth has been in the face of global challenges. It is our belief that the current recovery will be extended when the middle class regains confidence and participates more fully. That has yet to happen but growth has nonetheless held up, leaving room for upside surprises. Highlights of 2015 include:

1. **The Fed raised rates for the first time since 2006.** The Federal Open Market Committee's (FOMC) move was widely anticipated, as was its guidance that subsequent rate hikes will be very gradual. Our view has been that the FOMC should sustain very loose monetary policy given weak inflation and remaining slack in the labor market. Having said that, we also recognize that an unhealthy amount of anxiety has been attached to the first 25 basis points (bps) of rate hikes. Although market parsing of statements and "Fedspeak" will continue, it's probably good for investors to put "lift-off" in the rearview mirror and return their focus to whether incoming economic data support further increases.
2. **Moderate economic growth continued.** Despite a weak first quarter, US real GDP continued its growth trajectory of the past couple of years, increasing by 2.0% at an annual rate in the third quarter, which brought real growth in the first three quarters of the year to 2.2% annualized. That this growth has been led by domestic demand was demonstrated by Real Final Sales to Private Domestic Purchasers. This figure—which excludes trade, government consumption and investment, and changes in inventories—increased at an annualized rate of 3.0% in the first three quarters of the year.[1]

   We do not believe that recoveries "die of old age," including this one. Due to the moderate pace of recent growth, we see plenty of room for the current expansion to continue (Exhibit 1), and we believe it has been quite resilient considering the headwinds against growth from deleveraging, re-regulation, and widening wealth inequality. Moreover, with re-regulation largely behind us, deleveraging well progressed in the private sector, and the recovery poised to broaden to more comprehensively encompass the middle class, we see several years of growth still ahead of us.
3. **Growth is driving deleveraging.** After peaking at 368.8% of GDP, total US debt has fallen to 329.7% of GDP as of the third quarter of 2015 (Exhibit 2). Beneath these headline numbers are a couple of positive trends that we expect to continue in 2016. The first is that private sector debt—consumer, corporate, and financial—has been rising since the second quarter of 2012, but at a slower pace than nominal GDP, resulting in lower debt-to-GDP ratios (except for corporate debt). The second is that this has become true for government debt more recently. Government debt peaked as a percentage of GDP at 99.1% in the first quarter of 2014. While the debt-to-GDP numbers may seem high, they are much lower than those of the euro zone or Japan.

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4. **US dollar strength has been a headwind.** Among the challenges to growth and corporate profitability in the past year has been the appreciation of the US dollar, which has risen 20% in broad trade-weighted terms and 23% against major currencies since July 2014.[2] Partly as a consequence, net exports have been weak, subtracting 26 bps from annualized third-quarter real GDP growth.[3] The stronger dollar also impacts corporate earnings as more than 30% of US corporate profits and S&P 500 earnings come from abroad.[4]

5. **Lower oil prices have had a mixed impact.** As we highlighted in *Oil Markets and the US Economy*, plunging oil prices have been painful for the energy sector. Upstream oil and gas (primarily exploration and production) investment has fallen by $81 billion annualized since the second quarter of 2014 and employment by 77,000 jobs since September 2014.[5] These cuts have been rapid, concentrated, and severe. However, they have obscured substantial improvement in business fixed investment outside of the energy sector (Exhibit 3), which contributed 0.9% to real GDP growth at an annual rate in the first three quarters of the year, excluding upstream oil & gas investment.

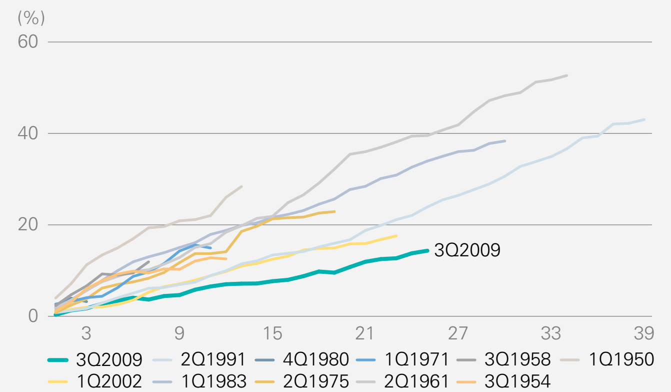
   The benefits of lower prices have been slow to materialize. We estimate that consumers will spend at least $700 less per household on gasoline in 2015 or about $90 billion in aggregate across all households. However, to date they have spent only part of this windfall. The personal savings rate has risen above 2014 levels recently, implying that consumers in aggregate will save about $50 billion more in 2015 than they would have at 2014 savings rates. Personal Consumption Expenditures (PCE) nonetheless remain the main driver of GDP growth, growing 3.0% annualized in the third quarter and contributing 2.0% to overall GDP growth.

6. **Jobs growth remained robust.** Despite headwinds in export and energy-exposed sectors, the United States added 2.3 million jobs in the first eleven months of 2015. The average monthly pace of 210,000 new jobs comfortably exceeds the approximately 110,000 jobs per month required to keep the employment-to-population ratio steady and has been enough to lower the unemployment rate to 5.0%.[6] However, the unemployment rate does not capture the large number of people who have given up looking for work, and labor force participation still remains well below pre-crisis levels even after correcting for aging. We estimate that the United States is 2.1–4.7 million jobs short of full employment and believe that many of these people can be drawn back into employment with faster wage growth in 2016. In the past three months, average hourly earnings have grown at an annual rate of 2.4%, slightly above their pace of the past two years. Further measured acceleration would bode well for consumption and growth.

7. **Geopolitical risk increased.** The world appeared to become a more dangerous place through 2015. In particular, conflicts intensified in the Middle East, with the strife in Syria effectively globalized. Additionally, the conflict in Yemen continued to pose risks, Libya remained unstable, and Russian forces remained firmly entrenched in Crimea. Last, China continued building its presence in the disputed South China Sea and saber-rattling with Japan continued. While these situations remain unresolved, the P5+1 (the UN Security Council permanent members plus Germany) reached an agreement with Iran to severely restrain its nuclear development program, although the implementation of this agreement could yet fall apart.

Exhibit 1
The Recovery Has Plenty of Room to Run

Post-1950 Expansions by Number of Quarters and Growth in Real GDP (%)



As of 30 September 2015

Dates correspond to first quarter of the expansion as defined by the National Bureau of Economic Research.

Source: Haver Analytics, National Bureau of Economic Research, US Bureau of Economic Analysis

Exhibit 2
US Deleveraging Has Continued

Debt as a % of GDP by Sector

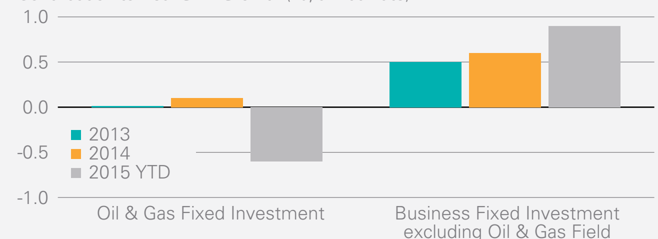
Sector	Q1 2009	Q2 2012	Q3 2015
Private Sector	294.8	238.5	233.0
Consumer	96.4	82.8	78.1
Corporate	73.9	64.8	69.9
Financial	124.5	90.9	85.0
Government	74.1	95.3	96.8
Total	**368.8**	**333.7**	**329.7**
GDP ($ trillion)	14.384	16.122	18.060

As of 30 September 2015

Source: Haver Analytics, US Bureau of Economic Analysis, US Federal Reserve

Exhibit 3
Energy Cuts Have Obscured Strengthening Business Investment

Contribution to Real GDP Growth (%, annual rate)



As of 30 September 2015

Oil & gas field fixed investment comprises investment in petroleum and gas wells and exploration (structures), and in mining and oilfield machinery (equipment). Calculation based on Q4/Q4 growth for 2013 and 2014, and Q3 2015/Q4 2014 growth for 2015 YTD.

Source: Haver Analytics, US Bureau of Economic Analysis. Adapted from Jason Furman, "Business Investment in the United States: Facts, Explanations, Puzzles, and Policies," 30 September 2015.

8. **Congress passed a budget.** While passing a budget is a basic responsibility of any Congress, this passage is notable as it occurred without the drama of prior years. One can hope this signals a more constructive approach to governing. The other good news is that the budget was more "honest" than previous ones in that it formally acknowledged that a range of tax cuts known as the "extenders," which had been extended by one or two years at a time for many years, were made permanent. The "dishonest" approach of the past was intended to game the Congressional Budget Office (CBO) scoring rules, which require future deficit forecasts to be made based solely on the existing law. The bad news is that the agreed-upon budget added $830 billion to the deficit forecast for the next ten years. In the future, we are hopeful that Congress will not only pass budgets on time, but will also ensure that they fund their spending and tax-related decisions.

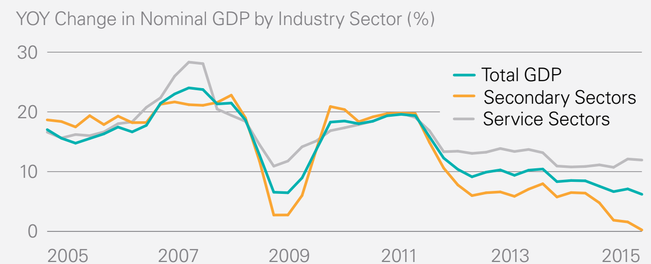
The Year Ahead

1. **Fed policy.** We expect three hikes of 25 bps each in the Fed Funds target rate in 2016. The Fed Funds futures market implies two hikes while the FOMC "dot plot" implies four. Assuming the FOMC raises rates within this range, we believe the US economy is strong enough to withstand the tightening. However, we see four areas that bear watching, as we outlined in the last Outlook:
   - Consumer debt: as of the third quarter, outstanding consumer debt was $14.1 trillion. We estimate that a 100-bp increase in rates could add $26–$31 billion in new debt servicing obligations per year, which is relatively small in the context of $13.5 trillion of disposable personal income.[7]
   - Federal debt: as of November, the average yield on marketable US Treasuries outstanding was 2.32%. Of the $18.8 trillion of total US Treasury debt outstanding,[8] $10.3 trillion is owned by private investors. Of this amount, $2.9 trillion matures within one year, implying that a 100-bp increase in rates could add $29 billion of extra interest expense within 12 months of the increase.[9] This would either lead to a higher deficit or would need to be offset by lower spending or higher taxes, all of which would likely detract from growth.
   - Mortgage rates and housing: to the extent higher overnight interest rates result in an increase in long-term interest rates, we could see the housing recovery suffer. For context, a 100-bp increase in mortgage rates equates to an increase of about 13% in the monthly payments for a new home buyer. This could price some prospective buyers out of the market and as a result impact house prices, which are particularly important as the vast majority of Americans have a large allocation of their wealth to housing.
   - US dollar: the divergence between Fed rate hikes and policy easing in Europe and Japan has contributed to the appreciation of the US dollar. To the extent that market expectations for Fed tightening are insufficiently hawkish, the dollar could strengthen further, creating additional headwinds for exports.
2. **China's economic slowdown.** As we outlined in our last Outlook, the direct exposure of the United States to China's economic slowdown appears limited. However, August's surge in volatility demonstrated its potential impact on markets and investor sentiment. Within China, two economies effectively emerged in 2015—an industrial economy near recession and a rapidly growing services economy (Exhibit 4). The industrial economy accounts for nearly 30% of employment and more than 40% of GDP, and is more heavily concentrated in a number of northeastern provinces. In recent years, the services economy likely was buoyed by booms first in real estate and then in the stock market. A slowdown in service economy growth in 2016 would be notable, even if the economy avoids a "hard landing." We expect a strong policy response, particularly with the 19th National Congress of the Communist Party of China due to take place in 2017.
3. **Oil prices.** Despite a year of low prices, growth in oil supply has outpaced growth in demand, opening a gap of 1.6 million barrels per day in the third quarter by IEA estimates.[10] We continue to believe that the "best cure for low prices is low prices" but that this gap will take time to close, and may be complicated by possible increased Iranian production.

   In the United States, production does seem to be responding to lower prices. Oil capex likely declined by more than 40% in 2015, and crude oil production fell from 9.6 million barrels per day in July to just below 9.2 million barrels per day in November. Looking into 2016, we expect US production to decline further, contributing to a stabilization of oil prices. Importantly, we do not believe this means the pain for the oil industry is over. In fact, we expect to see a further 20%–25% reduction in capex in North American oil in 2016, with negative effects spilling over into exposed industrial companies and banks.

Exhibit 4
Services Are Supporting China's Economic Growth

YOY Change in Nominal GDP by Industry Sector (%)



As of 30 September 2015

Secondary sectors consist of mining & quarrying, manufacturing, utilities, and construction. Service sectors consist of all other industries excluding agriculture, forestry, fisheries, and secondary sectors.

Source: Haver Analytics, National Bureau of Statistics

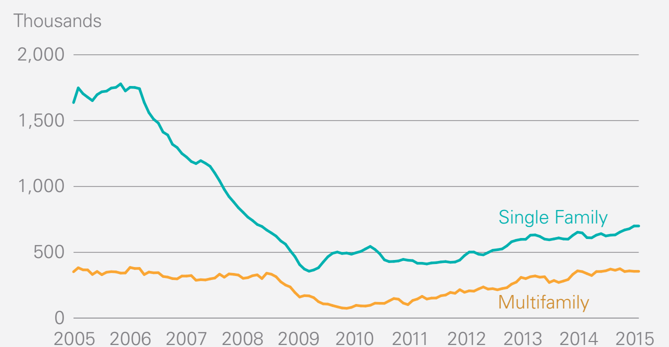
4. **Inflation and wages.** Inflation has been running below the Fed's target of a 2% annual change in PCE excluding food and energy since early 2012. The "transitory" effects of low energy prices and a strong dollar have contributed to low inflation, and the FOMC is raising rates with "reasonable confidence" that inflation will return to target in the medium term. However, the FOMC has consistently overestimated future inflation and inflation is weak globally. If oil prices do not take another major step down, low energy prices will reach one-year anniversaries in 2016 and their base effects will disappear from year-on-year measures of inflation. Similarly, the United States has made considerable progress in creating new jobs and, though we believe there is still substantial slack in the labor market, sustained rapid job growth will whittle away at this surplus supply and lead to increased wage inflation.

5. **Middle class economic recovery.** US growth to date has been quite resilient in spite of increasing income and wealth inequality as the recovery largely left out the middle class. We believe the next phase of the growth cycle is likely to be driven more by the middle class and less by easy monetary policy, surging corporate profits, and wealth effects related to financial assets. This broadening of the recovery to the middle class has yet to occur, but supportive factors may be aligning: jobs growth has been strong; wages may finally be growing more rapidly; many consumers have healthier credit as mortgage defaults typically come off credit records after seven years; consumer debt is rising again, although more slowly than income, adding to purchasing power; and low energy prices are providing savings at the pump.

   We see some evidence of improving sentiment in auto sales, which are at record levels. However, we would feel more confident that momentum was building with a stronger housing market, given years of pent-up demand (Exhibit 5).

Exhibit 5
Single Family Housing Starts Remain Well Below Pre-Crisis Levels

Housing Starts, Thousands of Units Seasonally Adjusted at an Annual Rate, 3-Month Moving Average



As of 30 November 2015
Source: Census Bureau, Haver Analytics

6. **Elections.** Finally, an obvious area to watch in the United States (and beyond) in 2016 will be the upcoming elections. While it is premature to speculate about the outcome or discuss issues of substance, it is clear that this election cycle already reflects strong anti-establishment frustrations. Ultimately, we feel that addressing some of the economic insecurities underlying them—e.g., seeking to restore labor force participation toward pre-crisis levels—will raise the productive capacity of the US economy and sideline more destructive conversations.

From a sector perspective, we canvassed our industry experts for their views on the key topics to watch in their coverage in 2016. We have listed our expectations for revenue growth, margins, and valuation, as well as any key issues we are watching by sector.

Consumer Discretionary

- **Revenue** growth is likely to be stable to weak for non-retail businesses and in the low-single digits for retailers.
- **Margins** are likely to be stable to down for non-retail businesses and relatively flat for retailers. In retail, commodity tailwinds and pricing will help offset wage inflation, which is a downside risk.
- **Valuation** could improve off bearish lows in traditional media, likely to remain stable in pay-TV, possibly compressing for telecom companies, and roughly in line with historical comparisons in the broader retail universe, depending on subsector.
- **Trends** to watch include the breakdown of the pay-TV ecosystem and disintermediation of traditional media consumption, wireless price wars resulting in declining margins at incumbents, rising restaurant wages, declining revenue and new supply in Macau gaming, and the continuing impact of online retail on brick and mortar retailers.

Consumer Staples

- **Revenue** growth is likely to be 2%–4%, with all subsectors showing acceleration but wide differences among individual companies. Reported sales growth will improve meaningfully as FX headwinds subside. We expect volume growth of 1%–2% and price/mix growth of 2%.
- **Margins** are likely to improve by over 30 bps due to smaller FX headwinds (especially for household & personal care companies), improved volume leverage, and increased cost reduction programs. Input costs are likely to remain benign while large cost reduction programs should result in above-average margin growth.
- **Valuation** remains expensive, with the sector trading toward the upper end of its historical range. While the valuation level is fairly similar across the industry, the growth/risk/return profile differs materially by company, as do our views on sales and earnings.
- **Trends** to watch include continued stabilization of emerging markets, volume improvement in the United States, and elevated mergers & acquisition (M&A) activity.

Energy

- **Revenue and margin** visibility is poor. That said, we now see a substantial probability that: oil & gas prices will be lower on average in 2016 than they were in 2015; production will decline for many US producers (following a year of sharply lower spending); and that industry capital spending will decline again, particularly in the United States. On the plus side, we see producers continuing to aggressively reduce their cost structure. US refiners could enjoy another strong year in 2016, but they will be up against surprisingly strong comps in 2015.
- **Valuation** looks expensive on typical price/cash flow (and ev/ebitda) metrics focused on year 1 or year 2, given how weak cash flows are in the current price environment. Energy investors will need to anticipate a time when oil prices are back to $65–$75 per barrel to conclude oil producers look attractive. Valuation on refiners looks more reasonable, with the key question revolving around the duration of current robust profitability.
- **Trends** to watch include capital spending plans (most of which will be announced in January/February); US oil production trends; non-US oil production; cash flow sources & uses outlook for producers; and M&A activity.

Financials

- **Revenue** is likely to grow in the low- to mid-single digits, depending on subsector. Consensus expectations include several rate hikes and are reflected in net interest margin expectations. We continue to believe expectations will be difficult to meet if the FOMC follows the course of action we expect.
- **Bank net interest margins** are forecast to expand a few bps in 2016 and 2017. Credit quality remains very solid outside of energy. We expect loan loss provisions to increase in 2016 and 2017 as banks no longer have substantial excess reserves that can be released back into earnings. Moreover, actual net credit losses are basically at record lows, leaving little room for incremental improvement to offset the lack of reserve releases. To the extent credit weakens beyond the energy sector, there is likely to be downside risk in the banks as expectations remain high for credit quality.
- **Capital management** will continue to be a critical theme over the next year as the Federal Reserve Comprehensive Capital Analysis and Review process continues for major banks. We expect increased capital return to be a theme into 2016.
- **Trends** to watch include cost control, revenue opportunities, and the selective re-appearance of M&A. Regulatory scrutiny remains high and banks continue to incur increasing compliance costs. The **key question** in 2016 is the outlook for higher rates, which has been a waiting game for years.

Health Care

- **Revenue** is likely to grow in the low- to mid-single digits, depending on subsector. We expect higher growth for branded biopharmaceutical companies and lower growth for companies lapping major drug launches or wrestling with patent expirations. Broadly speaking, growth will continue to be driven by utilization, partially offset by continued reimbursement pressure.
- **Margins** are likely to be flat to higher for product-focused companies (e.g., pharma, biotech, generics, and devices) depending on the impact of new growth drivers and operating expense flexibility. For service companies, margin expansion opportunities from the newly insured population under the Affordable Care Act should diminish.
- **Valuation** remains at the upper end of historical ranges, both in absolute and relative terms.
- **Trends** to watch include utilization, pricing for high-cost specialty drugs (e.g., hepatitis C, immuno-oncology, anticholesterol) and for major therapeutic areas (e.g., diabetes, respiratory drugs), coverage decisions on high-cost biopharmaceuticals, and industry consolidation. It is unlikely that impressive sector outperformance will continue, given that health care costs and branded drug pricing already appear to be political flashpoints for the upcoming elections.

Industrial and Materials

- **Revenue** growth is likely to be down early in 2016 and come in largely flat for the full year, as companies reduce high inventories and implement further restructuring due to oil and metals prices, decelerating organic growth in the United States and emerging markets, and further strengthening of the US dollar. Organic growth will likely be almost completely offset by negative currency translation. Aerospace, automotive, construction, and consumer-driven markets remain bright spots, while commodity-driven, agricultural, and general industrial markets are depressed.
- **Margins** are likely to be stable to slightly higher as prices will be neutral to slightly negative, but input costs will be down by more. Productivity and cost savings from restructuring should be benefits.
- **Valuation** varies across the sector, but looks fair at around mid-cycle levels. We expect little change in multiples.
- **Trends** to watch include signs of stabilization in short-cycle demand trends domestically, progression of emerging markets sales, any emergence of pricing pressure from weak demand and currency tailwinds from international competitors, and contagion from cuts in the energy sector.

Information Technology

- **Revenue** growth for the entire group is likely to be in the low- to mid-single digits. Growth continues to be driven by social and cloud enterprises.
- **Margins** should remain stable but with limited incremental leverage as companies are attempting to balance growth and profitability.
- **Valuation** is broadly attractive relative to the market and to historic multiples, but stretched for highest-growth sub-segments like cloud and social media services. Dividend yields continue to increase and are at attractive levels of 2.5%–4.0% for many companies.
- **Trends** to watch include mobile and cloud/social. **Biggest industry uncertainty** is the delivery of cloud-based products and the rollout of cloud infrastructure.

Conclusion

In summary, our baseline expectation for the US economy in 2016 is similar to that of the past year—moderate growth of 2.0%–2.5%, subdued price pressures, and interest rates that will remain very accommodative. While we recognize many sources of uncertainty, we remain optimistic and see the potential upside of a strengthening recovery as the labor market tightens, wage growth accelerates, and the middle class participates more fully.

In the environment we expect, with divergent monetary policies, potential for oil price stabilization, uncertainty around China's level of sustainable growth, and geopolitical and electoral uncertainty, we believe there will be increased dispersion in securities markets and improved opportunities for active managers to outperform the relevant benchmarks. Our colleagues highlight some specific areas of opportunity in recent papers, *Finding Value in Europe* and *Finding Value in US Equities*.

We continue to believe US equities, while expensive relative to history, present good opportunities, especially in the sustained low interest rate environment we expect over the next 2–3 years. As we have consistently done in the conclusions of previous Outlooks, we point out that while both the US and European markets are trading at a meaningful premium to historical median forward P/E ratios, it is also important to consider the return on capital being generated by companies in each market. On this count, the S&P 500 Index generates a return on equity well above the other regions at 14.7% versus the MSCI Emerging Markets Index at 11.7% and the MSCI Europe Index at 11.3%. The MSCI Japan Index still lags at 8.8%, but the trend has been improving in recent quarters (Exhibit 6).

Exhibit 6
US Valuations Are Not Cheap, but They Are Still Attractive

Forward P/E (NTM)	S&P 500	MSCI Europe	MSCI Japan	MSCI Emerging Markets
Current	17.4x	15.7x	14.9x	13.1x
3 Months Ago	16.2x	14.7x	13.4x	11.7x
5 Year Median	15.0x	13.2x	14.5x	11.1x
10 Year Median	15.0x	12.7x	15.3x	11.6x
Current-10 Year Median	**2.3x**	**3.0x**	**-0.3x**	**1.5x**
Forward ROE (NTM)				
Current (%)	14.7	11.3	8.8	11.7

As of 31 December 2015

Forward P/E is the Bloomberg estimate. Forward ROE is I/B/E/S consensus from FactSet. All numbers reflect rounding.

The figures above represent expected returns. Expected returns do not represent a promise or guarantee of future results and are subject to change.

Source: Bloomberg, FactSet, I/B/E/S Consensus, J.P. Morgan

Furthermore, part of the reason why the United States generates a much higher return on equity and deservedly trades at a higher multiple is market composition. For example, the margins for the technology industry in aggregate are the highest of any sector and the growth potential is also higher considering the amount of innovation in the industry. In the United States, 20.7% of the S&P 500 Index is composed of technology companies, compared to 4.1% of the MSCI Europe Index and 10.4% of the MSCI Japan Index. On the opposite side of the coin, in a world that is deleveraging and where Basel 3 and Dodd–Frank have re-regulated banks, one would expect a discount valuation on financial firms that extend credit. In this case, 16.5% of the S&P 500 Index is in financials versus 22.6% of the MSCI Europe Index and 19.3% of the MSCI Japan Index. Within each market, there is also a differentiation in terms of the composition of the financials sector with banks accounting for a much larger portion of the European and Japanese financial sector weight than in the United States (Exhibit 7).

Exhibit 7
Different Markets Deserve Different Valuations

% of Index	S&P 500	MSCI Europe	MSCI Japan
Consumer Discretionary	12.9	11.7	21.8
Consumer Staples	10.1	14.7	7.6
Energy	6.5	6.2	0.8
Financials	16.5	22.6	19.3
Health Care	15.2	14.0	8.1
Industrials	10.0	11.2	18.6
Information Technology	20.7	4.1	10.4
Materials	2.8	6.5	5.6
Telecom Services	2.4	5.0	5.3
Utilities	3.0	3.9	2.5

As of 31 December 2015

Source: I/B/E/S Consensus, Lazard, MSCI

In summary, we believe equity markets continue to be attractive on their own merits and especially relative to fixed income. In spite of our moderate expectations for real GDP growth, we believe S&P 500 earnings growth can be approximately 6%–7% over the next 2–3 years. In our base case, we expect P/E ratios to be stable at current premium levels due to the low absolute levels of interest rates and hence less attractive alternatives in fixed income. In our bull case, equity valuations could increase further due to quantitative easing (QE) in Europe and Japan and low interest rates, which lead to lower discount rates for future earnings from equities.

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Notes

1 As of 30 September 2015. Source: Haver Analytics, US Bureau of Economic Analysis

2 As of 31 December 2015. Source: US Federal Reserve

3 GDP data from the US Bureau of Economic Analysis as of 30 September 2015. Import price data from the US Bureau of Labor Statistics as of 30 November 2015.

4 US corporate profit data from the US Bureau of Economic Analysis as of 30 September 2015. S&P 500 sales from FactSet as of 31 December 2014.

5 Investment data from the US Bureau of Economic Analysis as of 30 September 2015. Jobs data from the US Bureau of Labor Statistics as of 31 October 2015.

6 As of 30 November 2015. Source: Haver Analytics, US Bureau of Labor Statistics

7 As of 30 September 2015. Source: US Federal Reserve, Haver Analytics, US Bureau of Economic Analysis

8 Of the $18.8 trillion of total US Treasury debt outstanding, $5.0 trillion is owned in US government accounts such as federal employee retirement plans and the Social Security Trust Fund. An additional $2.8 trillion is owned by Federal Reserve banks. Of the remaining amount, $10.3 trillion is owned by private investors.

9 Average yield as of 30 November 2015. Debt outstanding as of 30 September 2015. Source: Haver Analytics, US Treasury

10 As of 13 November 2015. Source: IEA

Important Information

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