2016 Investment Outlook

Ten Predictions | April 2016

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Frustrating the Bulls and the Bears

A Look at U.S. Returns

	2015	2016		
		Jan 1 – Feb 11	Feb 12 – Mar 31	1Q16
Stocks	1.4%	–10.3%	13.0%	1.4%
Bonds	0.6%	2.3%	0.8%	3.0%
Cash	0.1%	0.0%	0.1%	0.1%

Data source: Morningstar Direct as of 3/31/15. **Past performance is no guarantee of future results.** Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index.
For U.S. Returns, **Stocks:** S&P 500 Index; **Bonds:** Barclays U.S. Aggregate Bond Index; **Cash:** BofAML 3-Month U.S. Treasury Bill Index.

1Q Review

Swoon	Recovery
January | February →	February | March
1. Recession looms	1. No recession
2. Oil can't find a bottom	2. Oil rallies
3. China: big black hole	3. China: stabilizes somewhat
4. Fed: 4 or 5 rate increases vs NIRP	4. Fed: 2 rate increases likely
5. Election fears	5. Election fears still exist

NIRP refers to a negative interest rate policy, where interest rates would be set below 0 in an attempt to stimulate spending, so that banks would be charging interest to hold deposits.

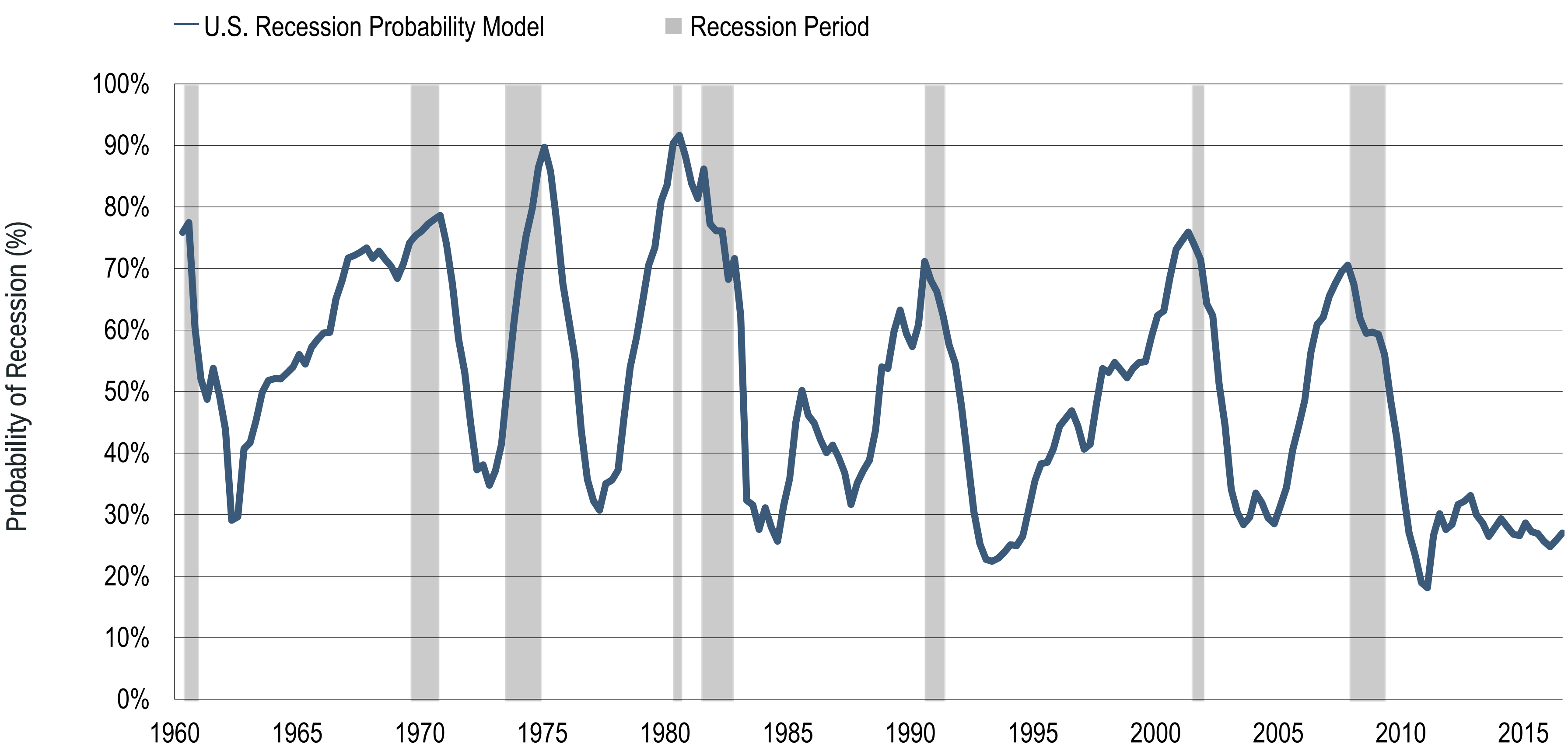
A Rotation Is in Motion

Markets Began Shifting to Favor Cheaper Valuations Over Momentum

Data source: Cornerstone Macro, 3/25/15 – 3/24/16. Universe is the S&P 500 Index and data is indexed to 100. **Value** is defined as the top decile of cheap valuation based on Price/Cash Flow. **Momentum** is defined as the top decile based on the prior 6-month price change. **Past performance is no guarantee of future results.** Used with permission.

Are Recession Fears Overstated?

Likelihood of Recession Is Still Low



Data source: Cornerstone Macro, U.S. Recession Probability Model Aggregate, 6/30/60 – 9/30/16. Used with permission.

2016 Ten Predictions

MUDDLE THROUGH CONTINUES

1. U.S. real GDP remains below 3% and nominal GDP below 5% for an unprecedented tenth year in a row
2. U.S. Treasury rates rise for a second year, but high yield spreads fall
3. S&P 500 earnings make limited headway as consumer spending advances are partially offset by oil, the dollar and wage rates
4. For the first time in almost 40 years, U.S. equities experience a single-digit percentage change for the second year in a row
5. Stocks outperform bonds for the fifth consecutive year
6. Non-U.S. equities outperform domestic equities, while non-U.S. fixed income outperforms domestic fixed income
7. Information technology, financials and telecommunication services outperform energy, materials and utilities
8. Geopolitics, terrorism and cyberattacks continue to haunt investors but have little market impact
9. The federal budget deficit rises in dollars and as a percentage of GDP for the first time in seven years
10. Republicans retain the House and the Senate and capture the White House

Muddle Through Continues

Trends to Watch

- Improving global growth
- Modest increase in global trade
- Some pickup in inflation in developed economies
- Limited improvement in corporate profits
- Fed funds rate and U.S. yield curve to move moderately higher
- Slower pace of dollar increase
- Volatile, trendless commodity prices

The Risks

- Deflation imported from outside U.S.
- Reflation in U.S. leads to inflation
- Geopolitics, terrorism, cyberattacks

On the Economy

TAIL WAGGING THE DOG

Foreign Trade & Manufacturing

Consumer

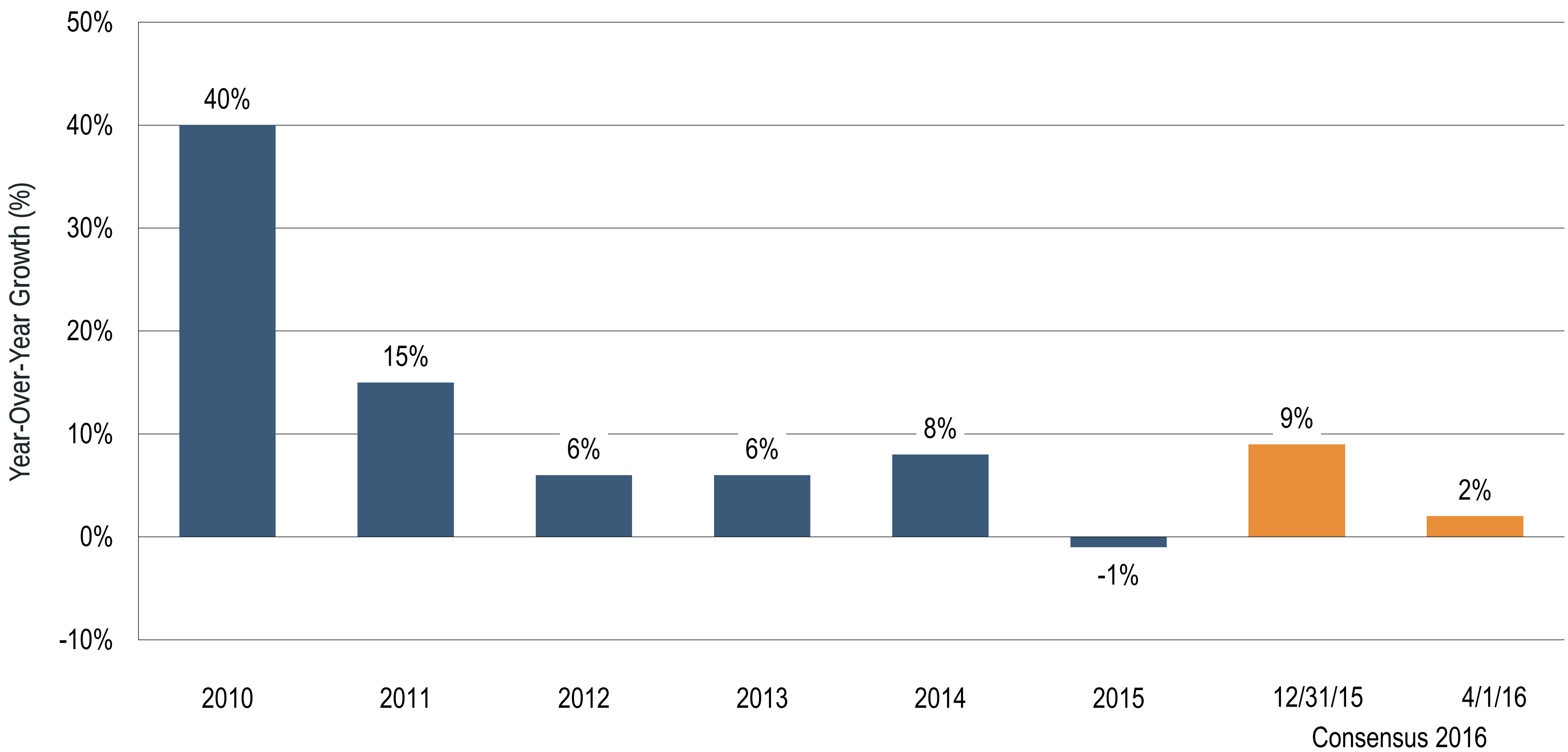
Signs of U.S. Consumer Strength

1. Job growth
2. Beginning of wage growth
3. Balance sheet improvement
4. Oil “dividend”

Earnings Are Key for the Stock Market

Consensus Revisions Indicate Earnings Growth is Slowing

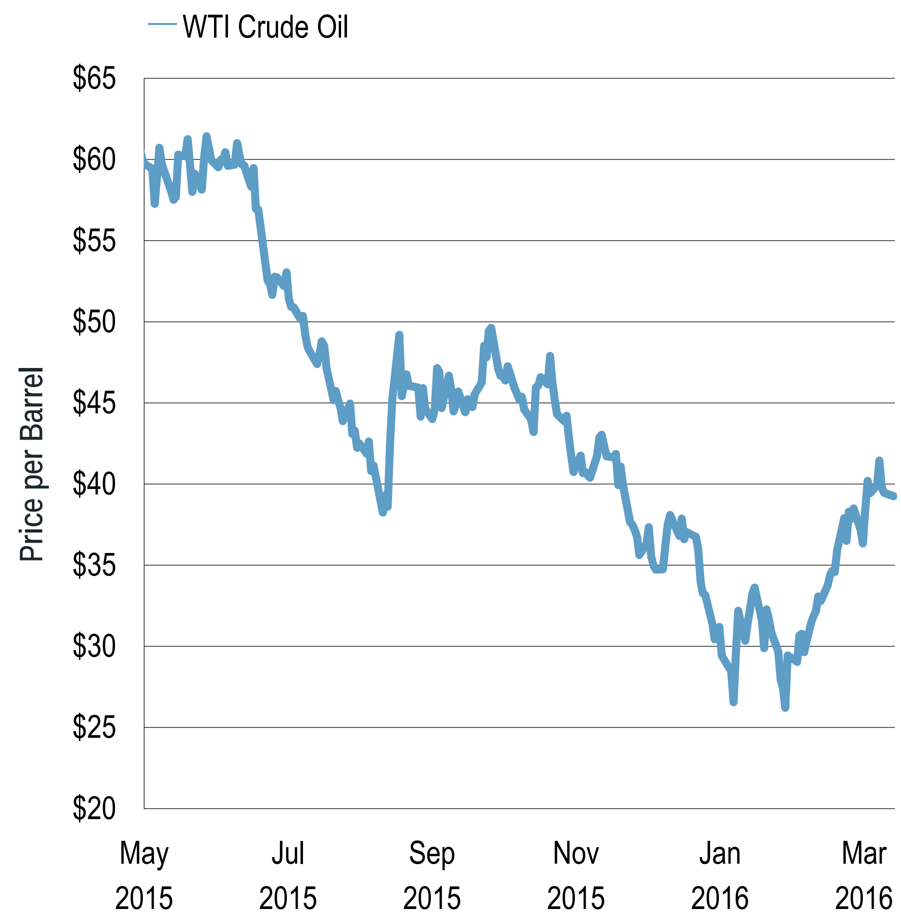
S&P 500 Earnings Per Share Growth (Year-Over-Year)



Data source: J.P. Morgan, Thomson EPS, as of March 31, 2016. Data for 2016 is estimated. Past performance is no guarantee of future results. Used with permission.

The Dollar Falls as Oil Moves Higher

A Reversal of Recent Trends



Data source: Cornerstone Macro, 5/15/15 – 3/28/16. Used with permission.

The Market and the Economy Can Diverge

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Major S&P Declines Without a Recession (1945 to Present)

Start Date	End Date	Percentage Decline	Recession?
5/2/11	10/4/11	-21.6%	No
7/20/98	10/8/98	-22.5%	No
8/25/87	10/20/87	-35.9%	No
9/21/76	3/6/78	-19.4%	No
2/9/66	10/7/66	-22.2%	No
12/12/61	6/26/62	-28.0%	No
5/29/46	5/19/47	-28.5%	No

Data source: Strategas Research Partners. Used with permission.

Equity Market Forecast

Earnings & Return Expectations	2015 Results	2016 Outlook
Economy (Earnings)	$118	$124
P/E Target	17.3x	17.3x
S&P 500 Target	2044	2150
Components of Return		
Earnings	–1%	5%
P/E	0%	—
Yield	2%	2%
Total Return	1%	7%

Data source: Bloomberg, Nuveen Asset Management for all forecasted, estimated and target figures, which are based on the S&P 500 Index.

The Bull Market Is Not Over Yet

Why Should the Bull Market Continue?

1. Several more years of economic, earnings and dividend growth
2. Nearly ideal ("Goldilocks") real growth rates
3. Ideal inflation (1.5% to 2.5%)
4. Accommodative monetary policy
5. Non-excessive valuation levels
6. Investor skepticism (climbing walls of worry)

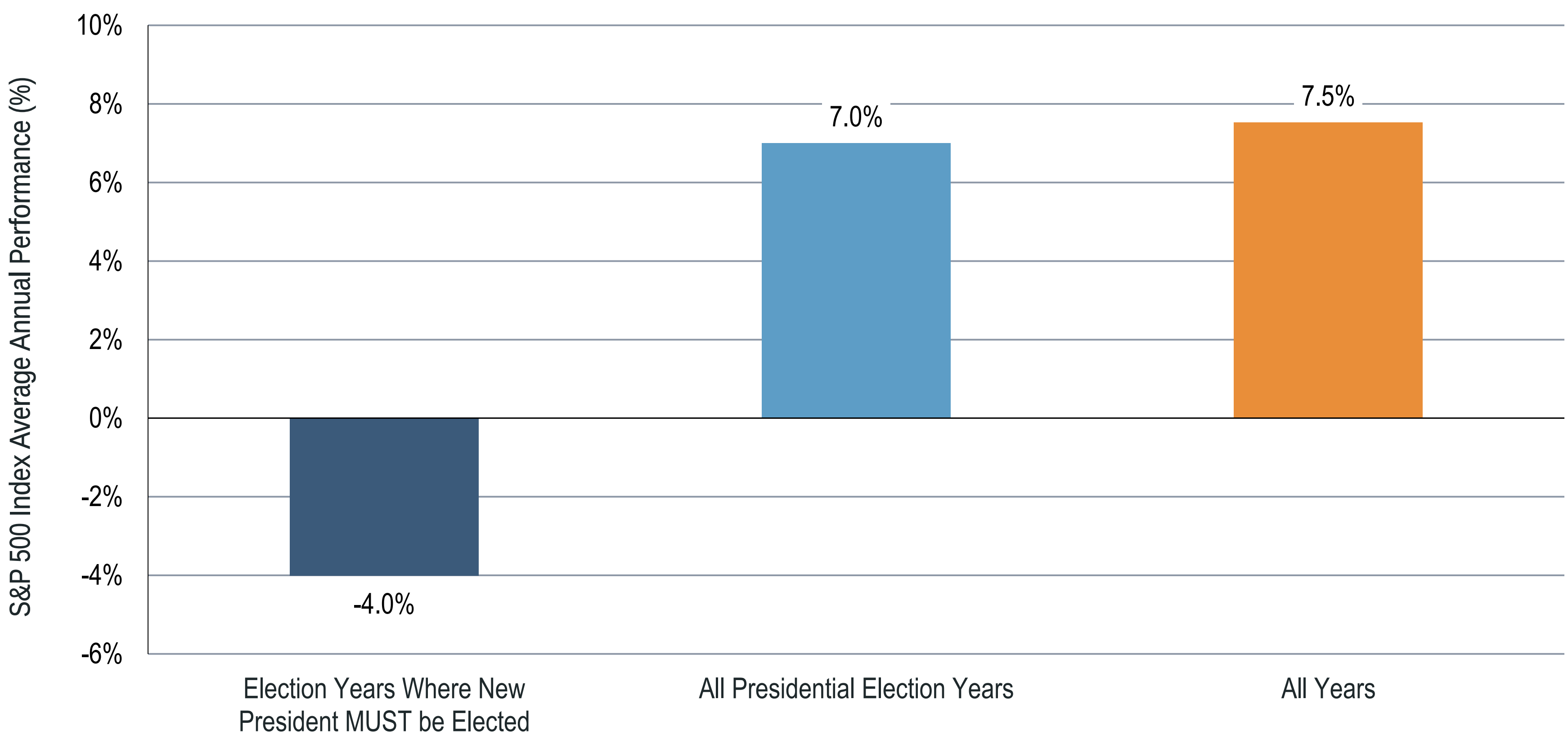
What Ends a Bull Market?

1. Recession prospects
2. Accelerating inflation
3. Tight money
4. Excessive wage inflation
5. High interest rates
6. Investor euphoria

Presidential Election Years Can Be Tough for Equities

U.S. Equities Have Not Performed as Well When a New President Must Be Elected

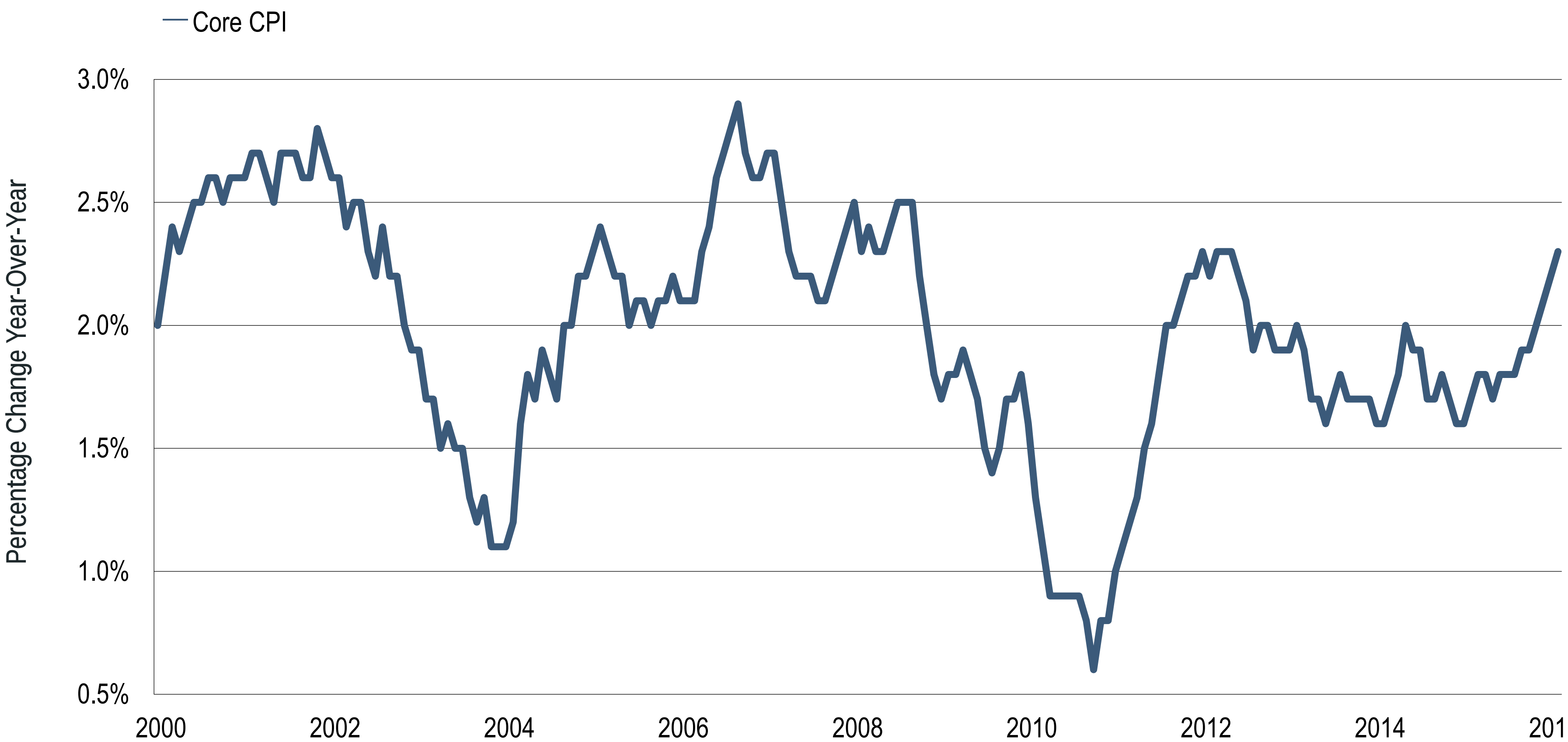
S&P 500 Index Average Annual Performance During Presidential Election Years



Data source: BMO Capital Markets Investment Strategy Group, Bloomberg, for presidential election years 1928 – 2012. Indicates an average of the annual performance for those election years that fall into these categories.
Past performance is no guarantee of future results. Used with permission.

Is 2% Inflation the Right Target?

Inflation Trends from Very Low to Low



Data source: Bureau of Labor Statistics, Haver Analytics, Strategas Research Partners, 1/1/00 – 2/1/16. Data indicates Core CPI, or CPI-U: All Items Less Food and Energy. Used with permission.

How Have Stocks and Bonds Performed After the Fed First Raises Rates?

Analyzing Performance and Yields After First Fed Tightening

S&P 500 Performance	
Date of First Raise	+12 Months
3/31/1983	4.1%
1/5/1987	2.6%
3/30/1988	13.3%
2/4/1994	1.9%
6/30/1999	6.0%
6/30/2004	4.4%
Average	**5.4%**

Percent of Periods with Positive Returns **100.0%**

10-Year U.S. Treasury Yield		
Start	1 Year Later	Difference
10.62%	12.47%	1.85%
7.05%	8.72%	1.67%
8.55%	9.34%	0.79%
5.87%	7.50%	1.63%
5.78%	6.03%	0.25%
4.58%	3.91%	–0.67%
	Average	**0.92%**

Percent of Periods with Higher Yields **83.0%**

Data sources: Strategas Research Partners, S&P, Bloomberg, 3/31/83 – 6/30/04. Date of First Raise is determined by the Effective Federal Funds Rate.

Stocks Should Outperform Bonds in 2016

Expected Returns and Suggested Asset Mixes

	2015 Returns	2016 Expected Returns	Suggested Asset Mix
Stocks	+1.4%	7.0%	+5% vs normal (was +10)
Bonds	0.6%	–1.5%	–10% vs normal (was –10)
Cash	0.1%	0.5%	+5 vs normal (was 0)

Data source: Cornerstone Macro. Past performance is no guarantee of future results. Used with permission.

Spreads Remain Reasonable Given Low Default Rates (Outside of Commodity-Related Sectors)

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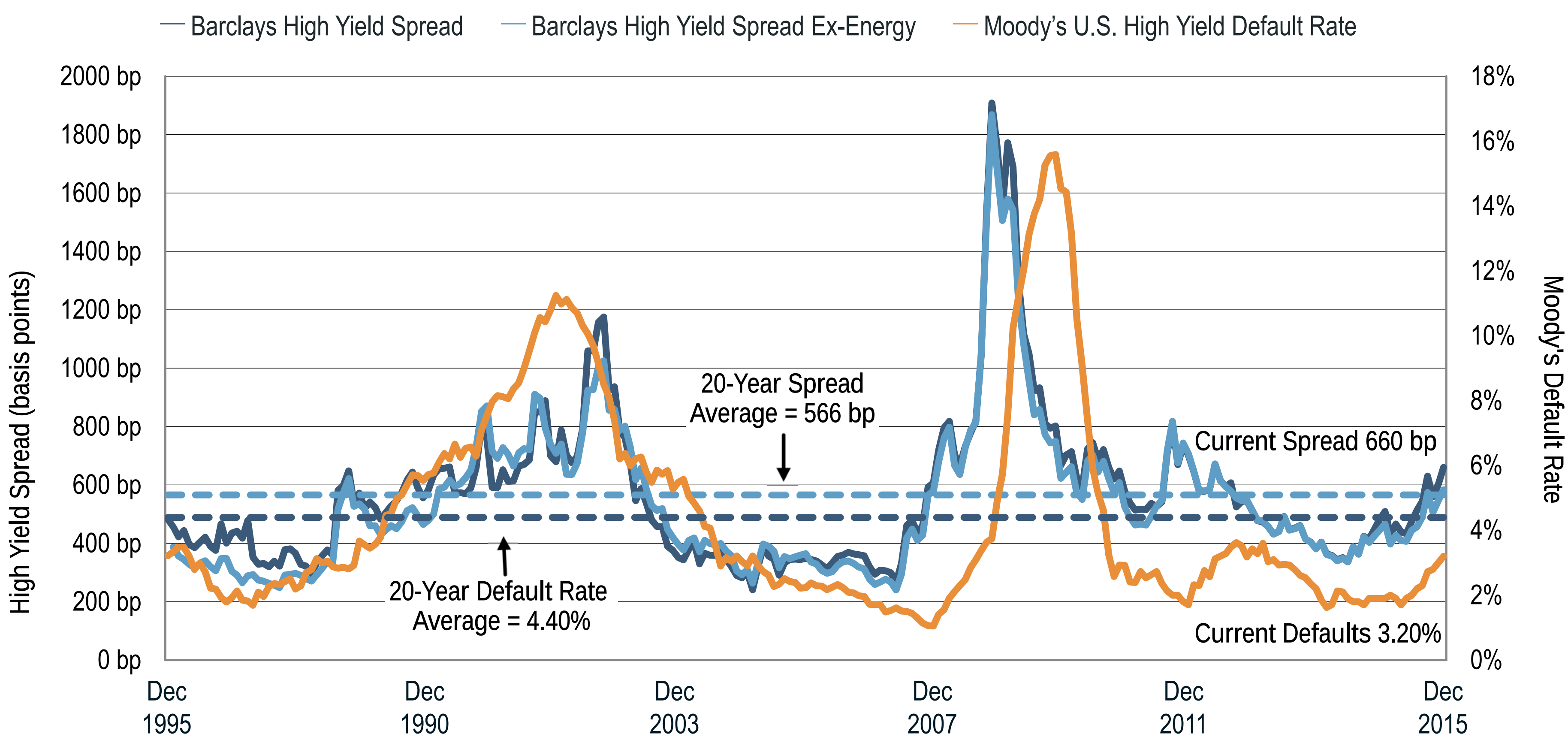
High Yield Has the Potential to Outperform as Rates Rise



Data source: Barclays Capital and Moody's. Barclays High Yield Spread 12/31/95 – 12/31/15 and Moody's U.S. High Yield Default Rate as of 12/31/15. Most recent data available. The Barclays High Yield Spread is represented by Barclays U.S. High Yield 2% Issuer Capped Index. Past performance is no guarantee of future results.

U.S. Markets Have Outperformed in Recent Years

	Equities		Bonds	
	Russell 1000® Index	MSCI World ex-U.S. Index	Barclays U.S. Aggregate Bond Index	Barclays Global Aggregate Bond ex-U.S. Index
2010	16.1%	9.4%	6.5%	5.0%
2011	1.5%	–11.8%	7.8%	4.4%
2012	16.4%	17.0%	4.2%	4.1%
2013	33.1%	21.6%	–2.0%	–3.1%
2014	13.2%	–3.9%	6.0%	–3.1%
2015	0.9%	–2.6%	0.6%	–6.0%

Data source: Morningstar Direct, as of 12/31/15. Past performance is no guarantee of future results.

Global Performance Continues to Shift

U.S. Assets Have Outperformed in Recent Years …

1. Global growth anxiety
2. Commodity price collapse
3. Surge in the dollar

… But the U.S. May Underperform Going Forward

1. Improving global growth
2. Trade improvement
3. Commodity price stabilization
4. Diminished deflation risk
5. Dollar momentum slowing
6. Upturn in global profits

Data source: Morningstar Direct, as of 12/31/15. Comparison of S&P 500 Index to MSCI World ex-U.S. Index.

What Countries Are Most at Risk from a Slowdown in China?

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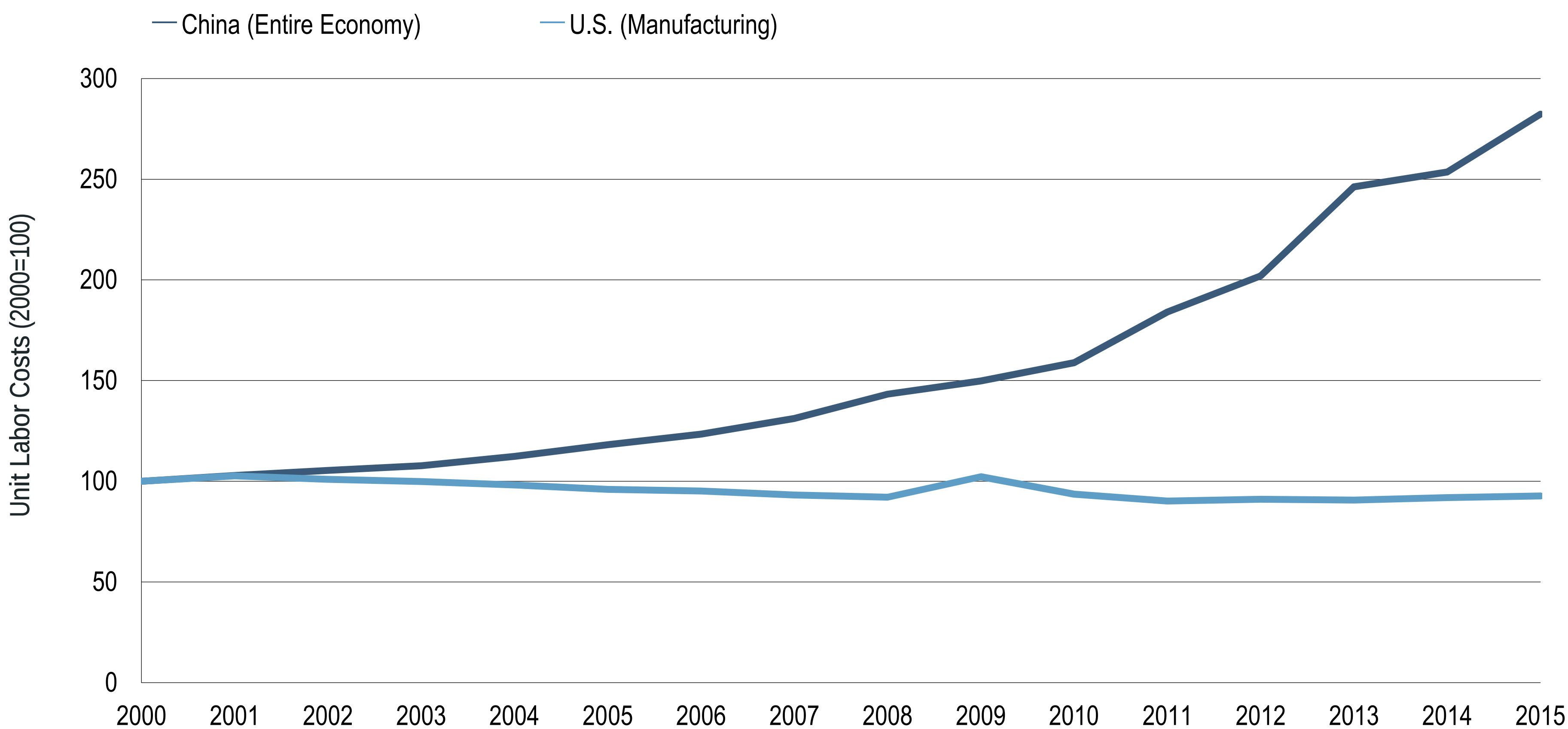
Exports To China and Hong Kong (% of GDP)

	SECOND QUARTER 2015
Australia	5.0%
Japan	3.6%
Germany	2.2%
European Union	1.3%
United Kingdom	1.2%
Canada	1.2%
United States	0.9%

Data source: Cornerstone Macro, using IMF Direction of Trade Statistics (DOTS) data. DOTS provides data on the country and area distribution of countries' exports and imports as reported by themselves or by their partners. Used with permission.

Labor Costs Have Grown Much Faster in China than the U.S.

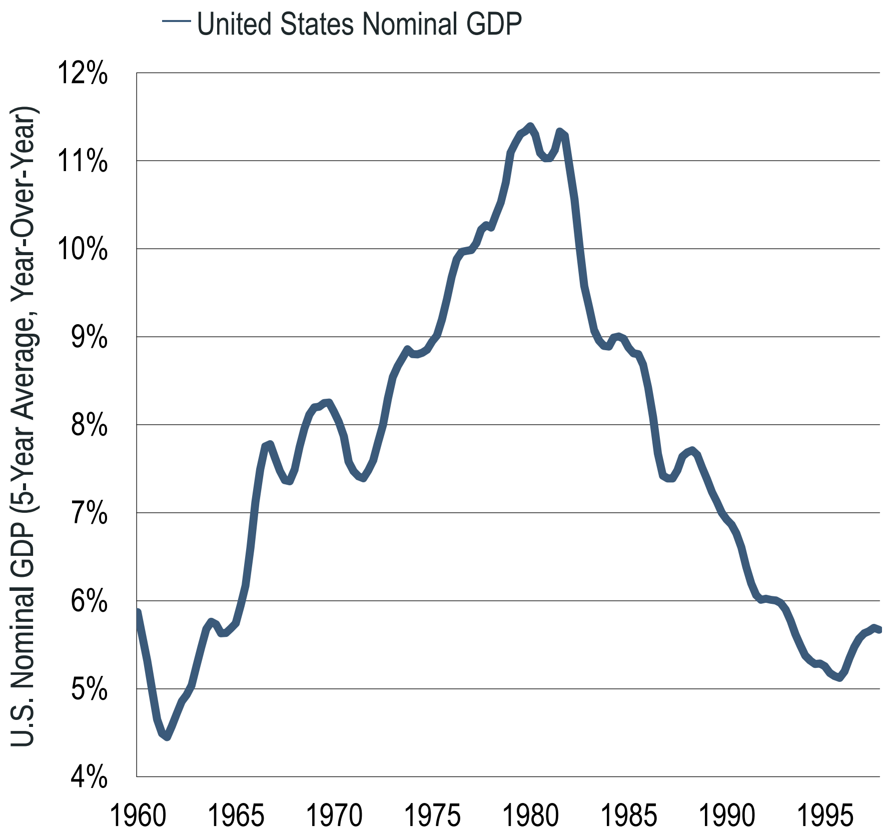
The Difference in Unit Labor Costs Continues to Increase



Data source: CSSBM, Bureau of Labor Statistics, Haver Analytics, Deutsche Bank Global Markets Research, 2000 – 2015. 2015 value for China is the average growth rate of the past five years. 2015 value for the U.S. is the average of the first three quarters. Used with permission.

A Secular Shift in Growth

Comparing U.S and China Nominal GDP



Data source: Cornerstone Macro. U.S. Nominal GDP shown 3/31/60 - 12/31/97. China Nominal GDP shown 12/1/98 - 12/1/15. Used with permission.

Thoughts on Portfolio Weightings

Overweights

Information Technology

- Superior organic growth
- Strong balance sheets, cash flows, earnings growth
- Valuation discount to market

Risk: Non-U.S. economies weaken

Financials

- Loan growth improving
- Positive revisions likely
- Compelling valuations/ROE improving

Risk: Credit problems haunt

Telecommunication Services

- Extraordinarily cheap
- High yield compared to alternatives
- Good free cash flow

Risk: Further price wars

Underweights

Energy

- Adverse supply-demand picture
- Credit issues
- Valuation not cheap relative to current fundamentals

Risk: Global growth accelerates

Materials

- In secular decline (prices falling)
- Emerging markets weak
- Dollar headwinds

Risk: Global growth accelerates/dollar falls

Utilities

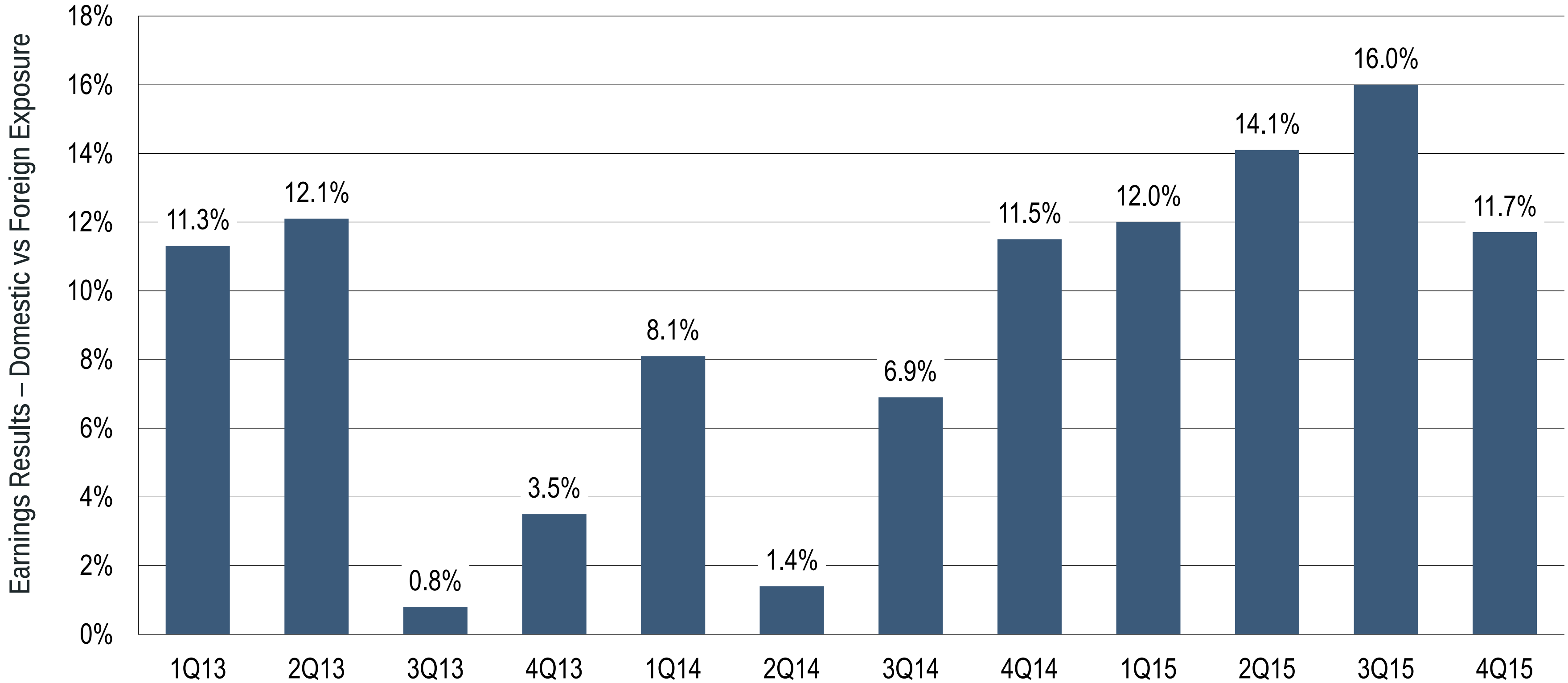
- Very low earnings and dividend growth
- Bond-like stocks lag as rates rise
- Not cheap even with 2015 underperformance

Risk: Very weak economy

In Light of Sluggish Earnings, the U.S. Has Been the Place to Be

U.S. Companies with a Domestic Focus Delivered Faster Growth

Differential in Earnings Growth Between Companies with the Highest and Lowest % of U.S. Revenue



Data source: S&P, Thomson Financial, Compustat and RBC Capital Markets, 1/1/13 – 12/31/15. Used with permission.
Universe is the S&P 500 Index. Compares companies in the universe with the highest % of domestic revenue versus companies with the lowest % of domestic revenue. Excludes financials.

The Deficit Should Rise from Here

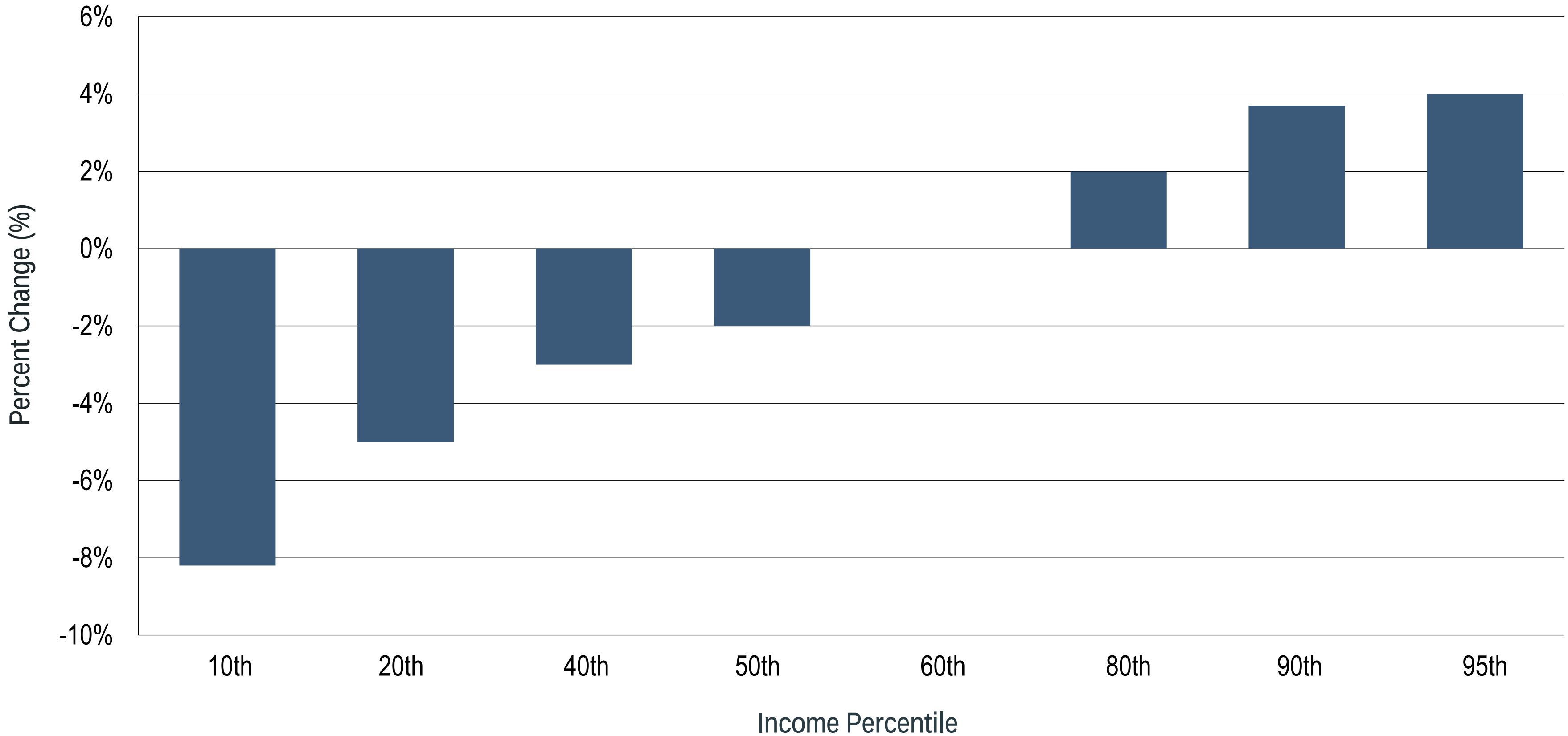
	Federal Budget Deficit	
	$ Billions	% GDP
2009	$1,413	9.8%
2010	$1,294	8.7%
2011	$1,300	8.5%
2012	$1,087	6.8%
2013	$680	4.1%
2014	$485	2.8%
2015	$439	2.4%
2016 (Estimated)	$560	3.0%
2017 (Estimated)	$625	3.2%

Trough

Data source: Cornerstone Macro. BofA Merrill Lynch, Nuveen Asset Management estimates, as of December 31, 2015.

Income Growth Has Differed Since the Financial Crisis

Higher Income Percentiles Saw Increased Household Income from 2009 to 2014



Data source: U.S. Census, Deutsche Bank Global Markets Research, as of March 2016. Used with permission.

Biggest Washington, D.C. Issue After the Election

Corporate Tax Reform

- Highest marginal tax rate
- High taxation on repatriated earnings

2016 Outlook as of December 31, 2015

1. Overweight equities (but could be bumpy)
2. Underweight bonds (all has to go right for bonds to win)
3. Fed raises rates two or three times
4. Dollar moves unevenly higher
5. Commodities reach a bottoming process at best
6. Keep a careful eye on U.S. inflation
7. Overall returns should be mediocre

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The U.S. Has Had Successes, Despite Tough Sledding

1. Housing and banks healed
2. Household net worth returned to all-time high
3. Corporate and household debt refinanced at low rates
4. Unemployment dropped from 10% to 5%
5. U.S. government passed a budget for the first time in years
6. U.S. federal deficit cut from 10% to 2% of GDP
7. Fed has begun exit from monetary experiment

Adapted from BofA Merrill Lynch.

Think About the Long-Term and Remain Diversified

10-Year Return Forecast By Asset Class	Forecasted Return Range
Equities	**6 – 8%**
U.S.	6 – 8%
Non-U.S. Developed Markets	4 – 6%
Emerging Markets	8 – 10%
Bonds	**2 – 4%**
U.S. Government	0 – 2%
U.S. Investment Grade	2 – 4%
U.S. High Yield	4 – 6%
Emerging Market Sovereign	5 – 7%
Cash	**1 – 2%**
Inflation	**2 – 3%**
Diversified Portfolio	**4 – 6%**

Data source: MRB Partners, Nuveen Asset Management as of December 2015. The forecast data reflects the opinion of the author, Bob Doll, and not the firm. The information provided herein is not intended to be a forecast or guarantee of future events or results. It is not a recommendation to buy or sell any specific securities and should not be considered investment advice of any kind. Investing in securities involves risk of loss that clients should be prepared to bear. There is no assurance that an investment will provide positive performance over any period of time. Past performance is no guarantee of future results and different periods and market conditions may result in significantly different outcomes.

The Stock Market

“In the short run, the market is a voting machine but in the long run, it is a weighing machine.”

Benjamin Graham

A Closer Look

- Voting: Reflects consensus opinion, highly susceptible to psychology
- Weighing: Reflects what things are actually worth

Investing in an Uncertain World

1. No one knows what the market will do in the short run.
2. There will be 7 to 10 recessions over the next 5 years. Don't be surprised or panicked when they come.
3. Markets generally go through at least one big pullback each year and one massive one per decade.
4. The market doesn't care what you paid for a stock.
5. It's tough for individuals to do well on IPOs since corporate managers who are selling have more information than the buyers.
6. If you have credit card debt, pay it down rather than investing, since it's hard to beat the 30% annual interest.
7. Whatever you think you need for retirement, double it.
8. Much of what is taught in school about investing is theoretical (not many professors do as well as investment managers).
9. It is hard for you and me to understand a big bank's balance. It's also hard for the senior management and their accountants.
10. Most people would be better off if they focused on their own finances, rather than worrying about Washington, D.C.

Important Disclosures

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A Word on Risk

Equity investments are subject to market risk, active management risk, and growth stock risk; dividends are not guaranteed. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. The use of derivatives involves additional risk and transaction costs.

Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, derivatives risk, income risk, and other investment company risk. As interest rates rise, bond prices fall. Credit risk refers to an issuer's ability to make interest payments when due. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Foreign investments involve additional risks as noted above.

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Index Definitions

The Barclays Global Aggregate Bond ex U.S. Index measures the performance of non-U.S. global bonds. It includes government, securitized and corporate sectors.

The Barclays U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

The Barclays U.S. Corporate High Yield 2% Issuer Capped Index tracks the performance of U.S. non-investment-grade bonds and limits each issuer to 2% of the index.

The BofA Merrill Lynch 3-Month U.S. Treasury Bill Index is an unmanaged index of Treasury securities maturing in 90 days that assumes reinvestment of all income.

The Consumer Price Index (CPI) is an inflationary indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock, serving as an indicator of a company's profitability.

Gross domestic product (GDP) is a primary indicator used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific time period. Real GDP is adjusted for inflation. Nominal GDP is not adjusted for inflation.

The MSCI World Index ex-U.S. Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets minus the United States.

Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply.

The Russell 1000® Index is a stock market index that represents the highest-ranking 1,000 stocks in the Russell 3000 Index, which represents about 90% of the total market capitalization of that index.

The S&P 500® Index is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy.

The Trade Weighted U.S. Dollar Index includes currencies of countries that are major U.S. trading partners.

The West Texas Intermediate (WTI) Index is used as a benchmark for pricing much of the world's crude oil production.

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