

Presented To Angeles Independent School Symposium

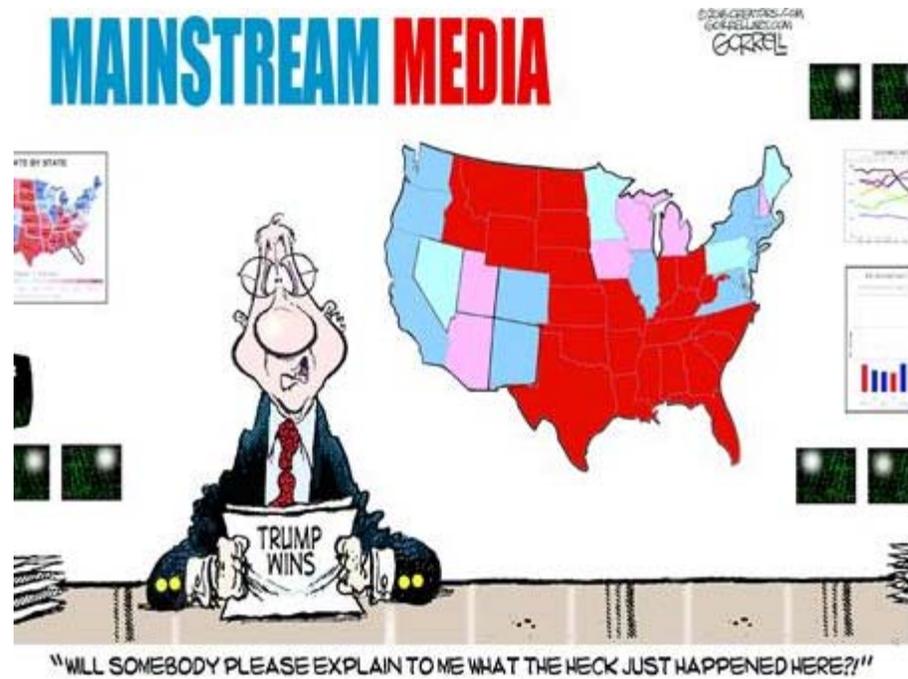
10 November 2016

Election, Defection, Selection

How We Feel



Not Our Profession



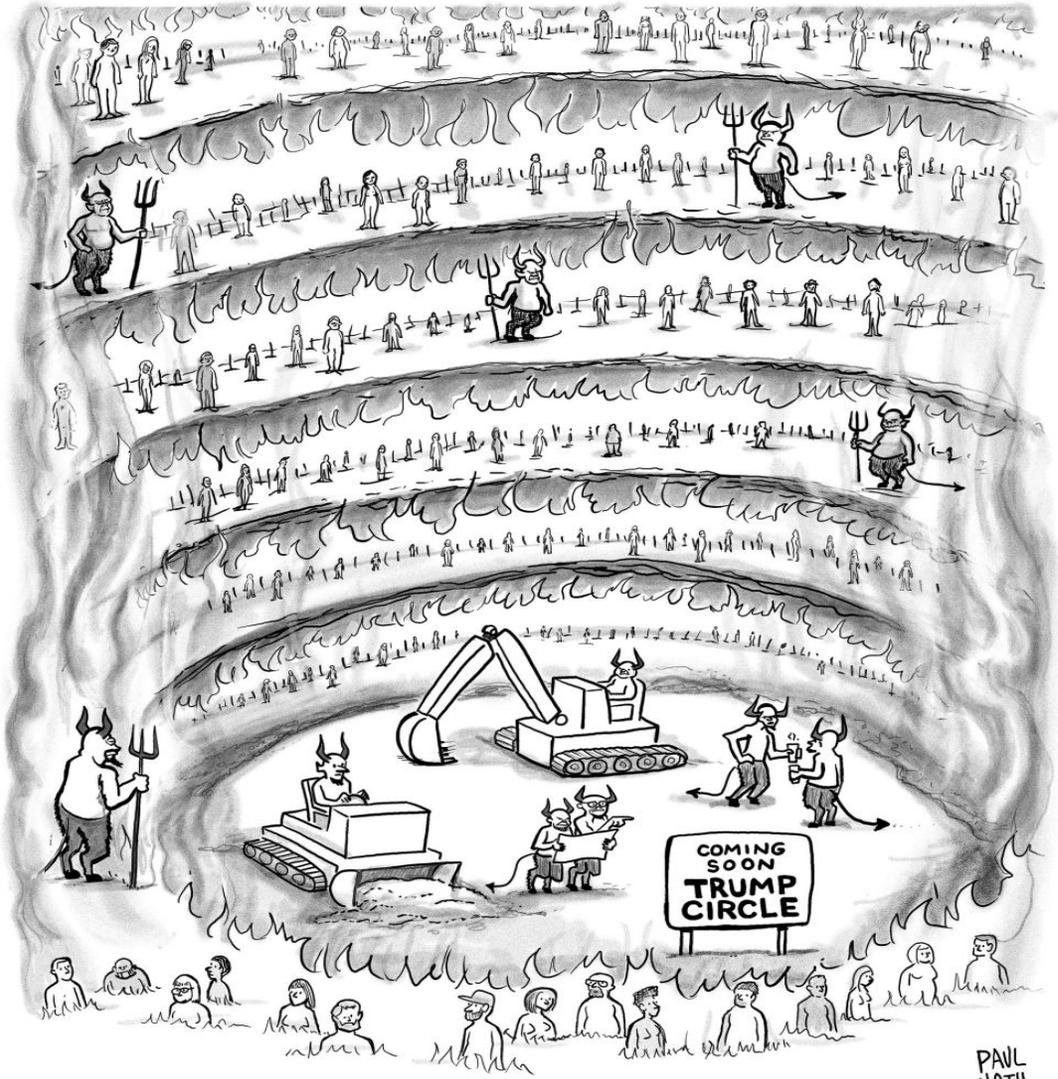
Maybe We Do Need a Wall



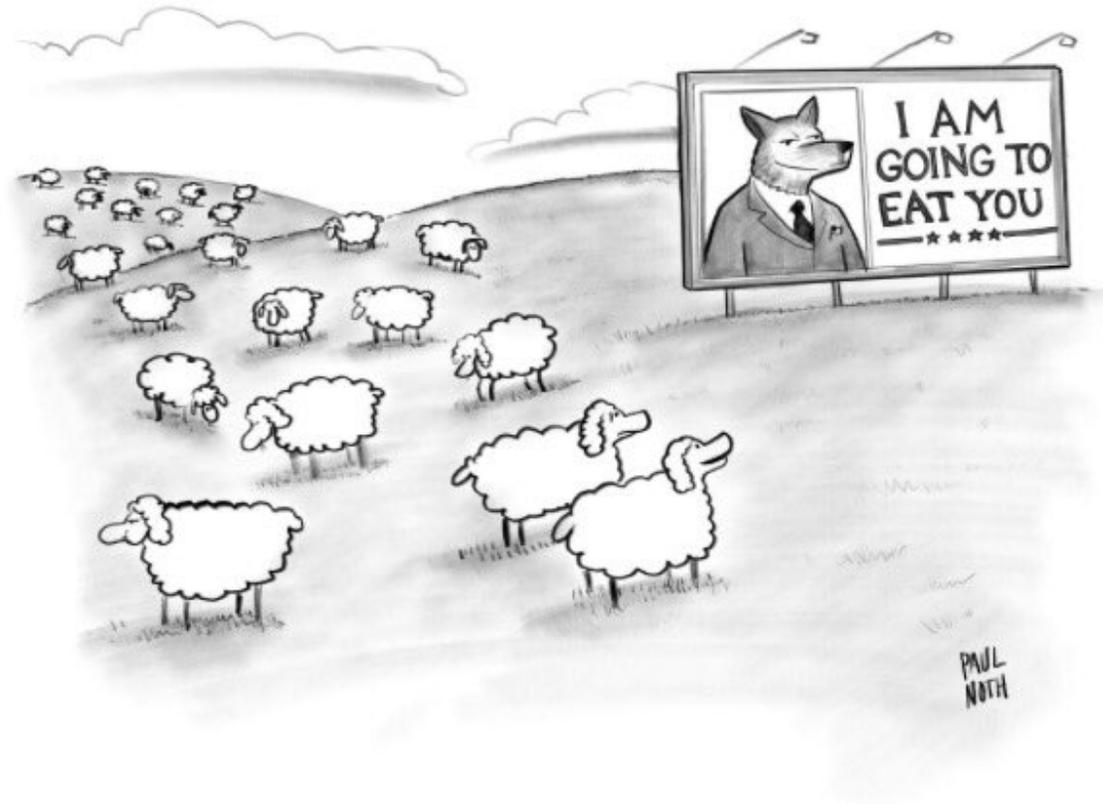
*'It's to stop Americans getting
in if Trump's elected.'*



Something Will Be Built...Somewhere



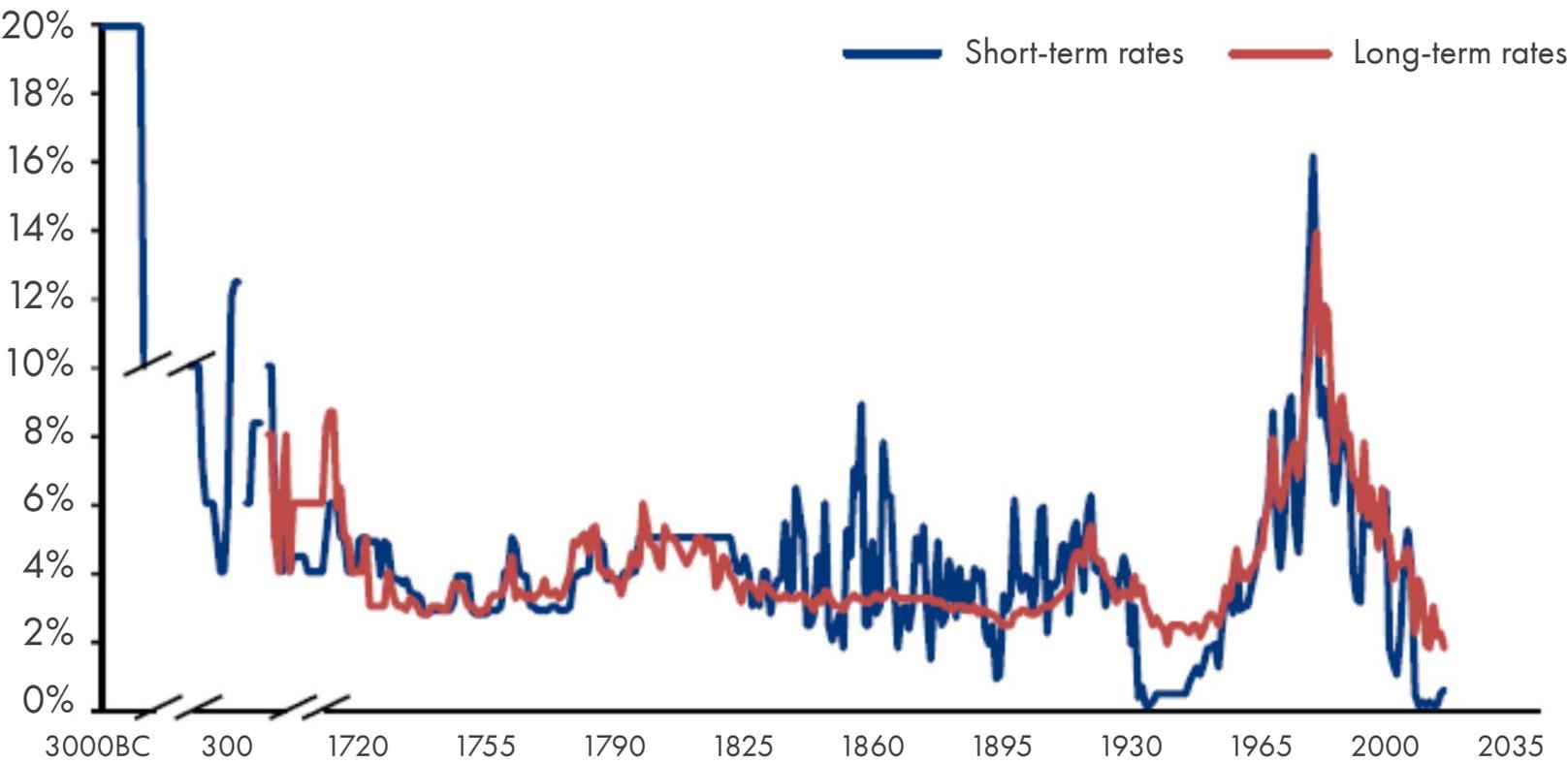
Silver Lining?



“He tells it like it is.”



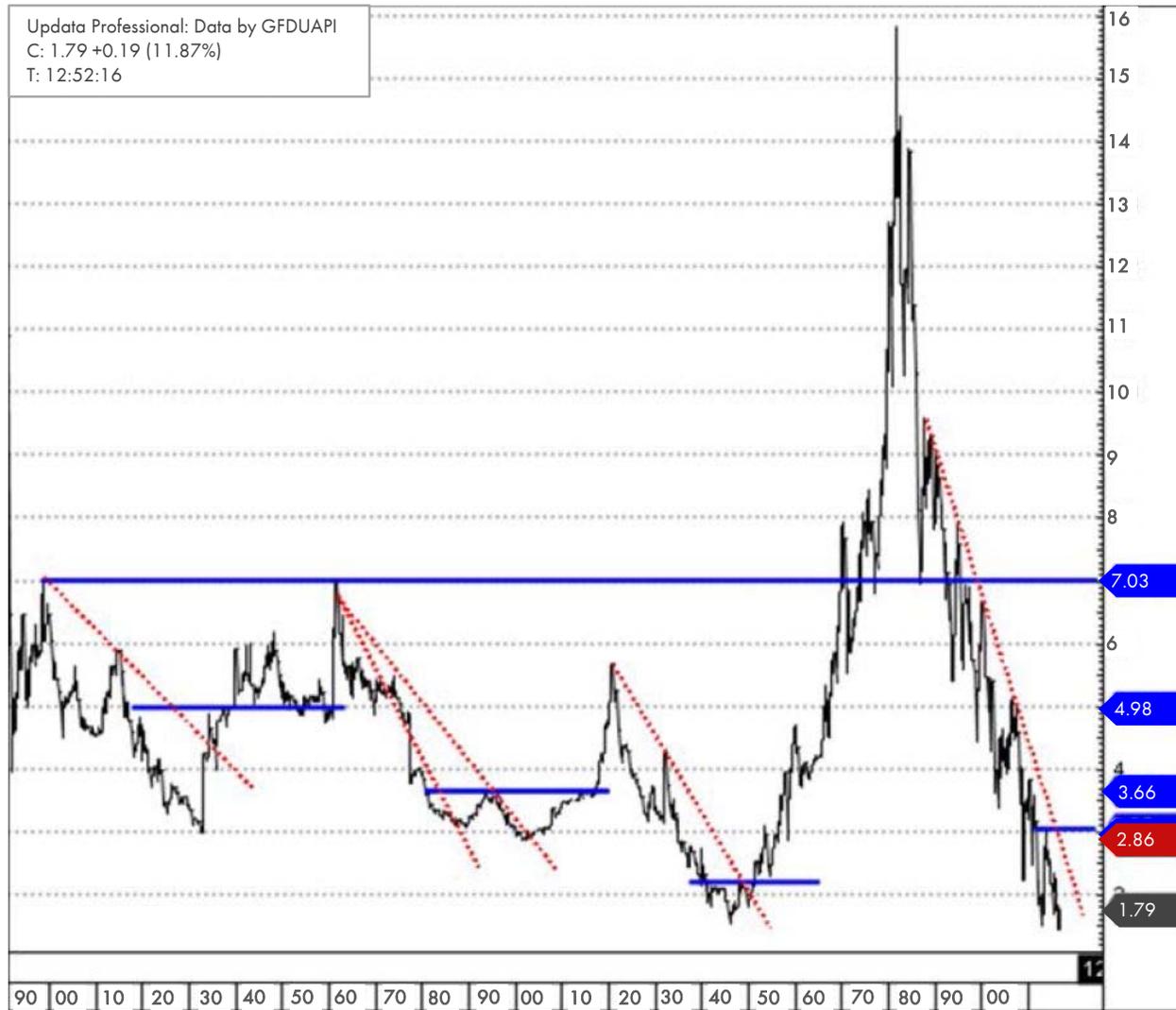
5,000 Years of Interest Rates



Source: Bank of England, Global Financial Data, Home and Sylla 'A History of Interest Rates' (2005)



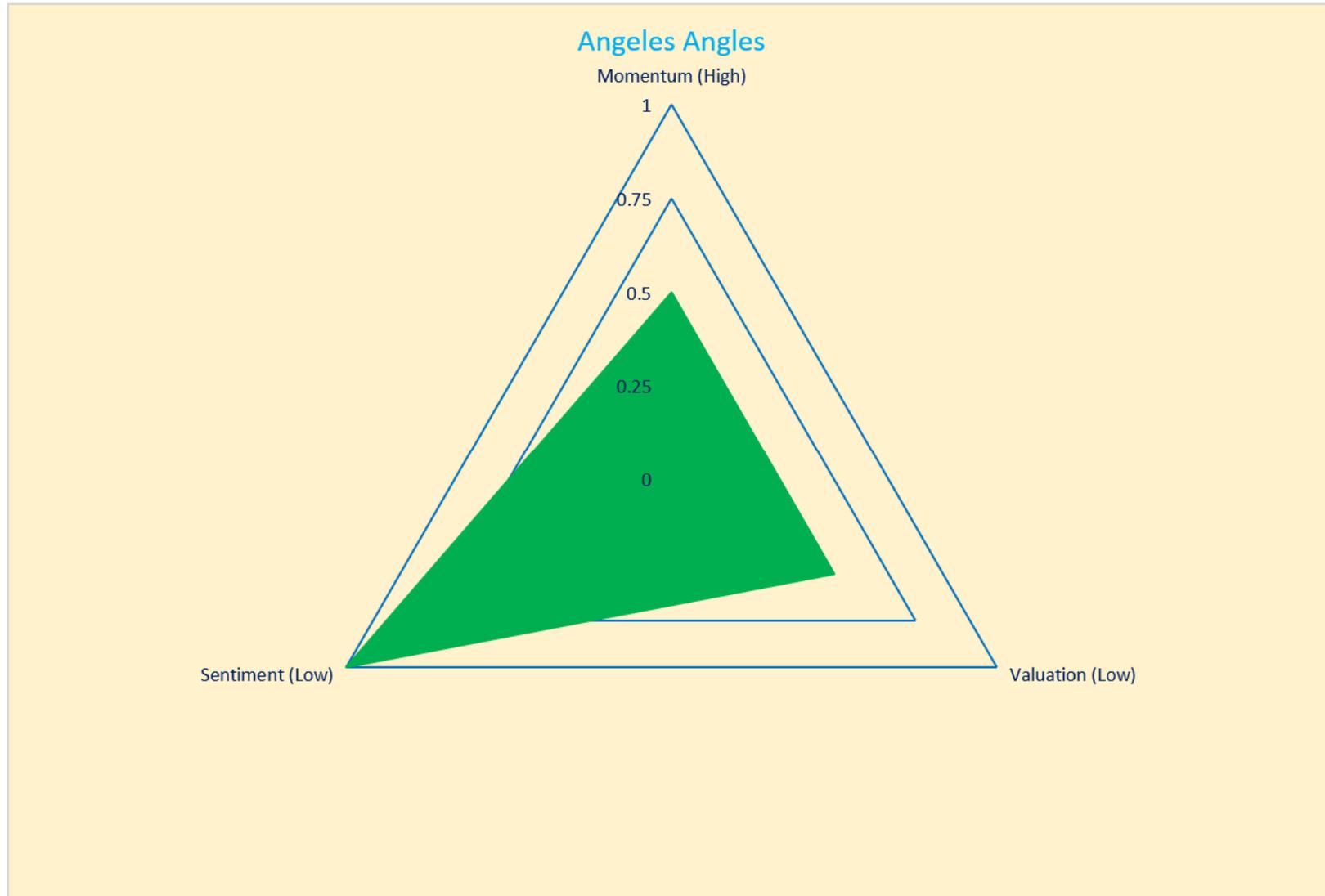
US Treasury Yields (10-Year), 1890-2016



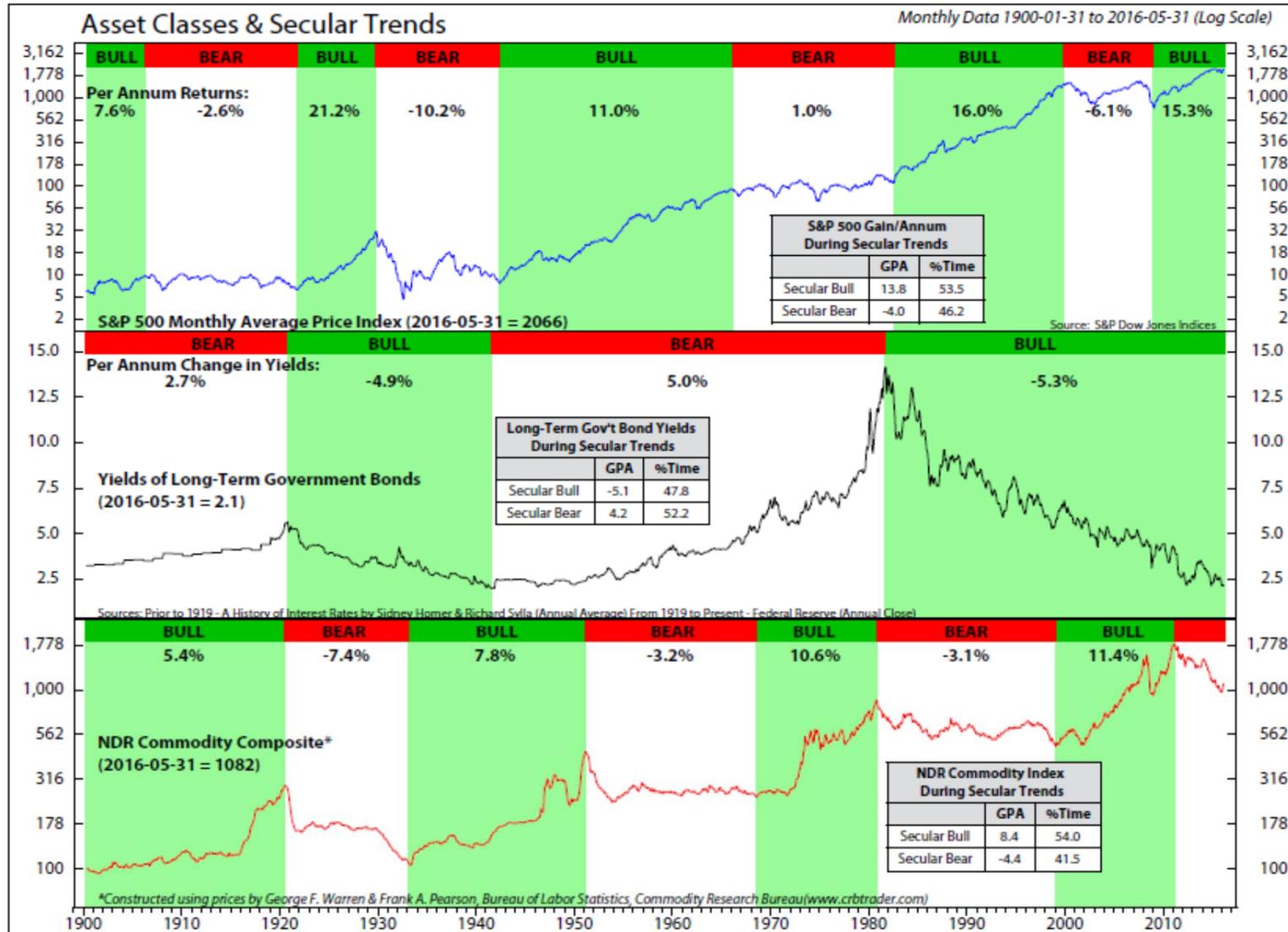
Source: BofA Merrill Lynch Global Research, Uptada GFD



(My) High Level Approach

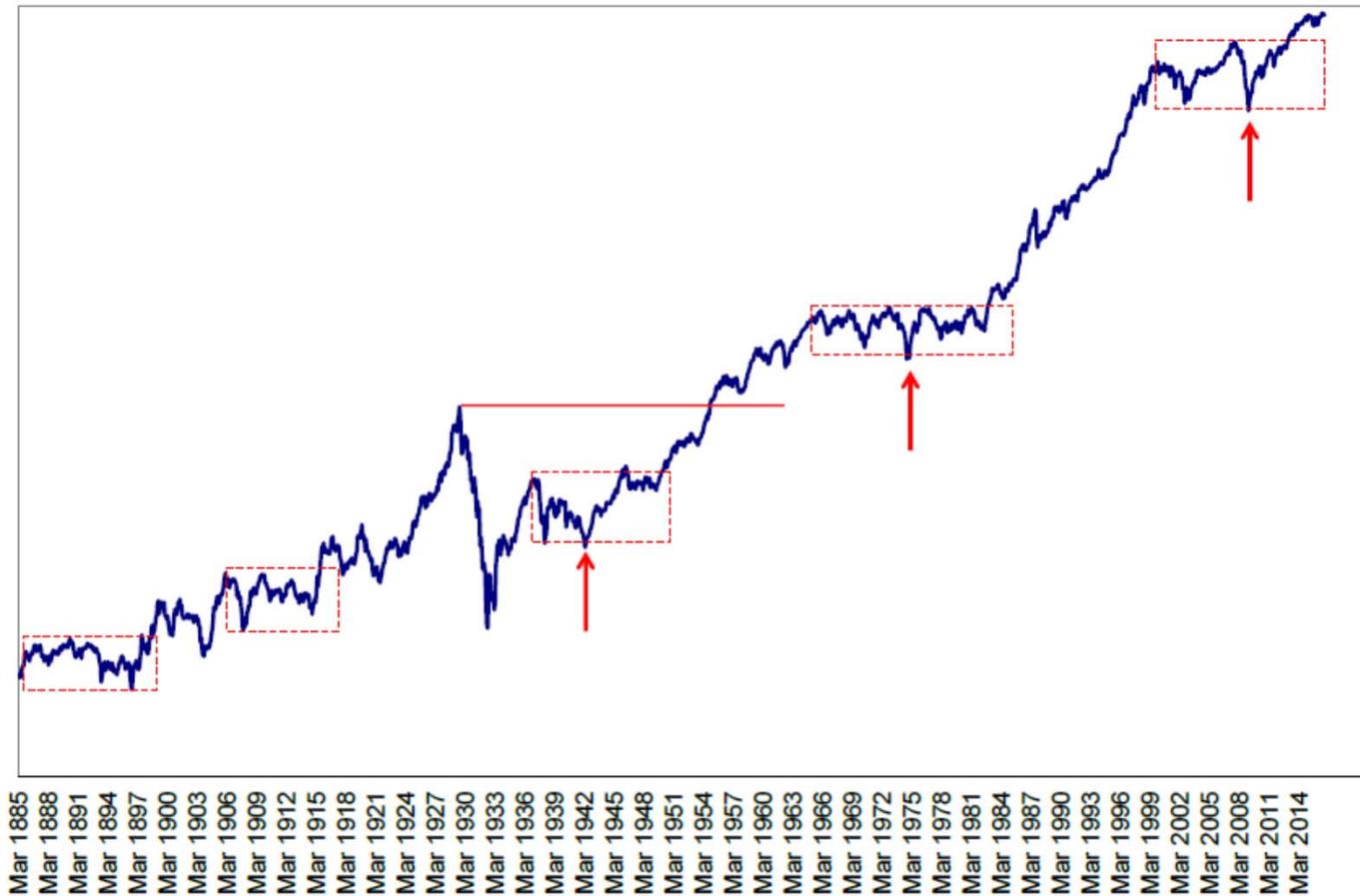


100 Years of Stocks, Bonds, Commodities



Equities, Step-Function

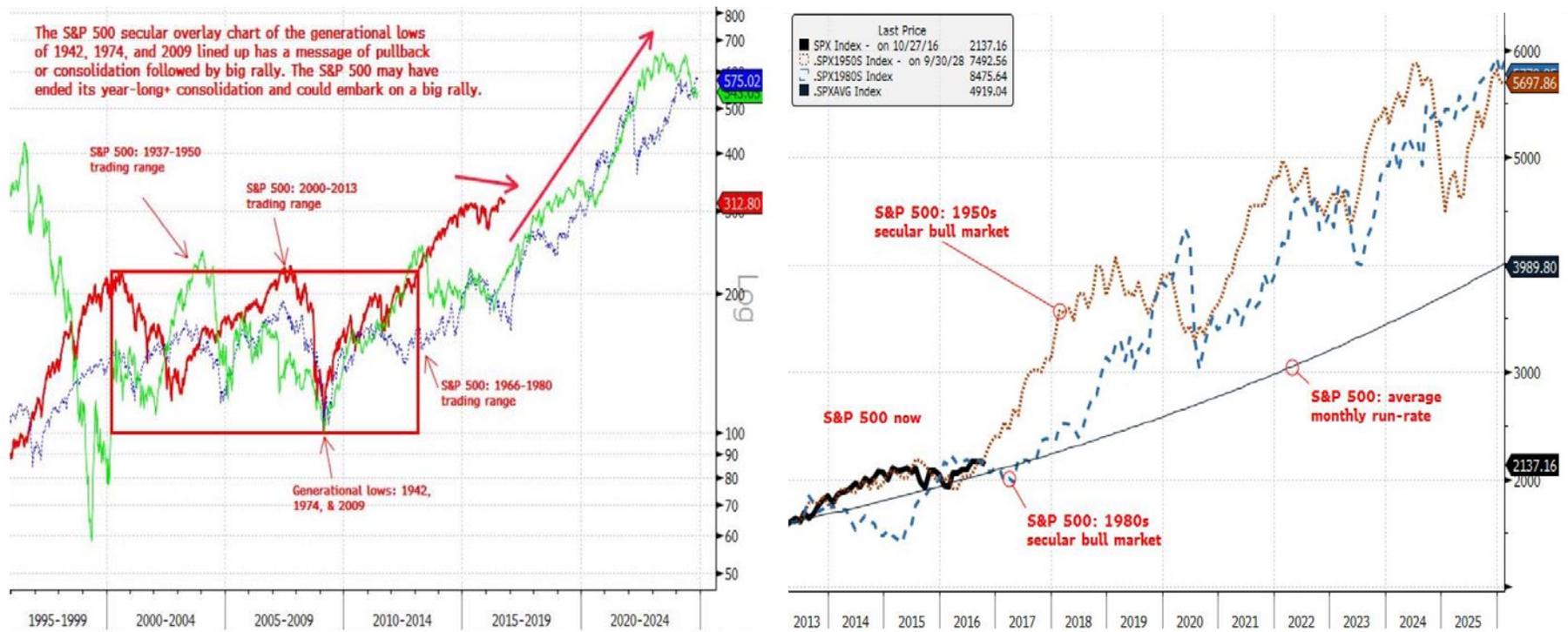
Dow Jones Industrial Average, 1885-2016



Source: BofA Merrill Lynch Global Research, Global Financial Data



US Equities, Structural Bull Market

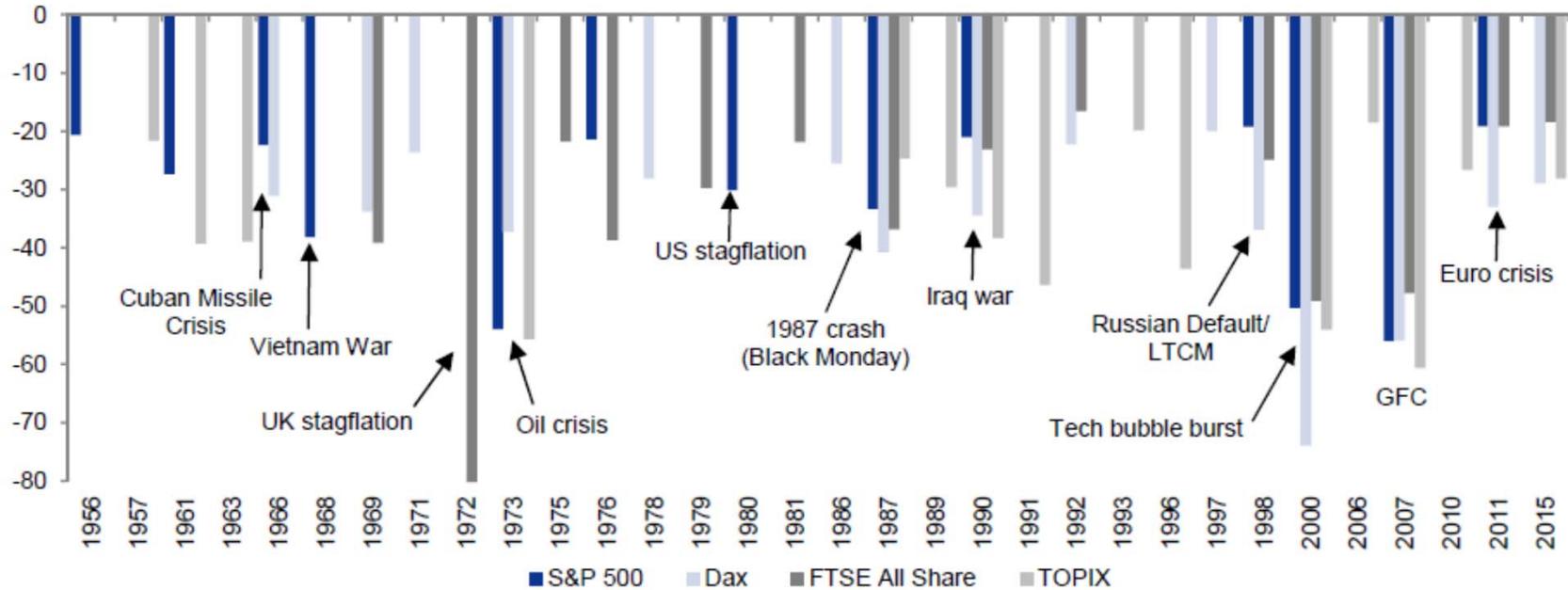


Source: BofA Merrill Lynch Global Research, Bloomberg



Drawdowns Will Happen

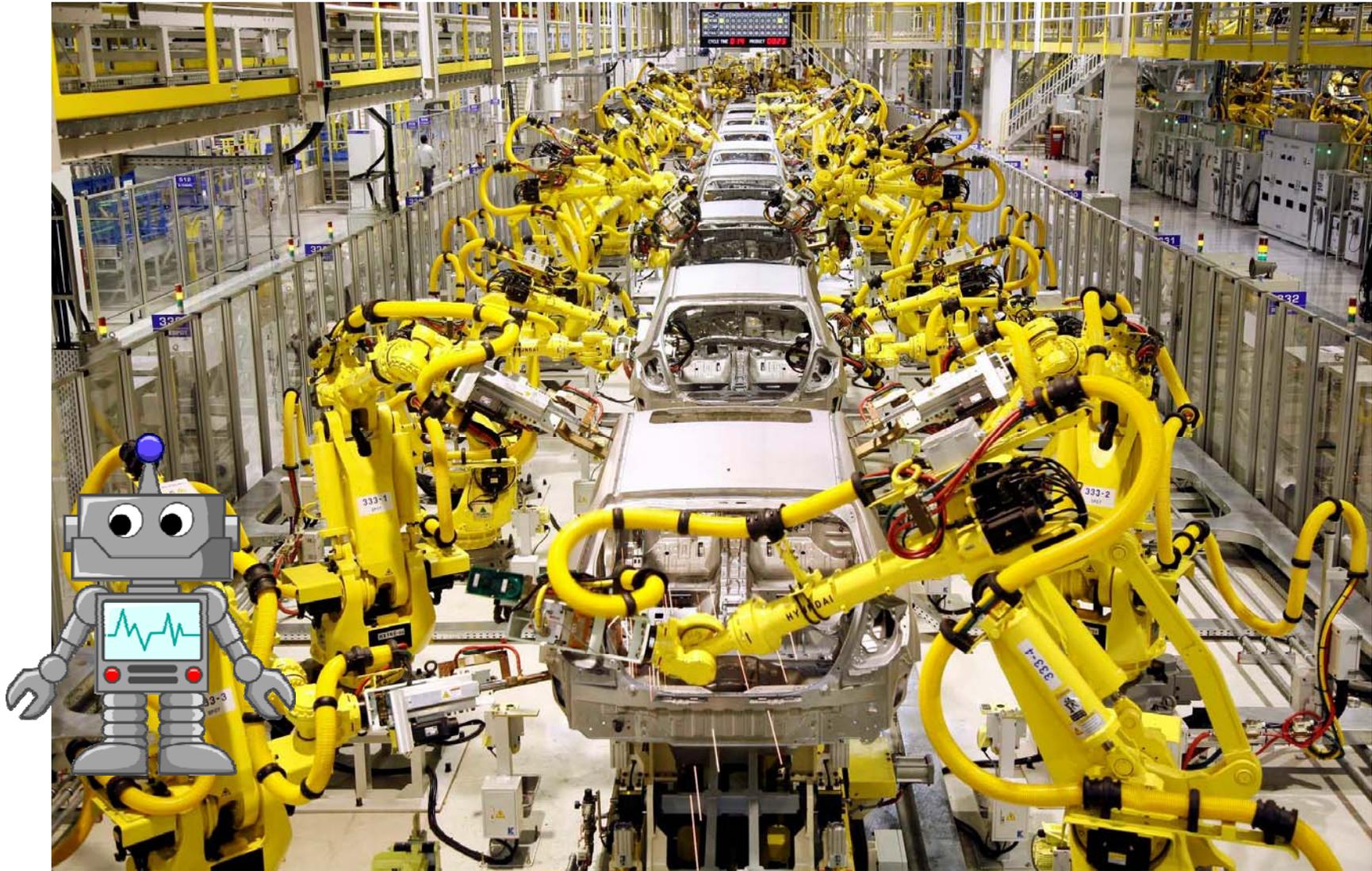
Real total return drawdowns of more than 20% for different equity markets (data for S&P 500 since 1950, TOPIX since 1952, FTSE All Share since 1962, DAX since 1965 – for details, including MSCI EM Drawdowns, see Appendix)



Source: Datastream, Bloomberg, Goldman Sachs Global Investment Research



The Future is... Robots



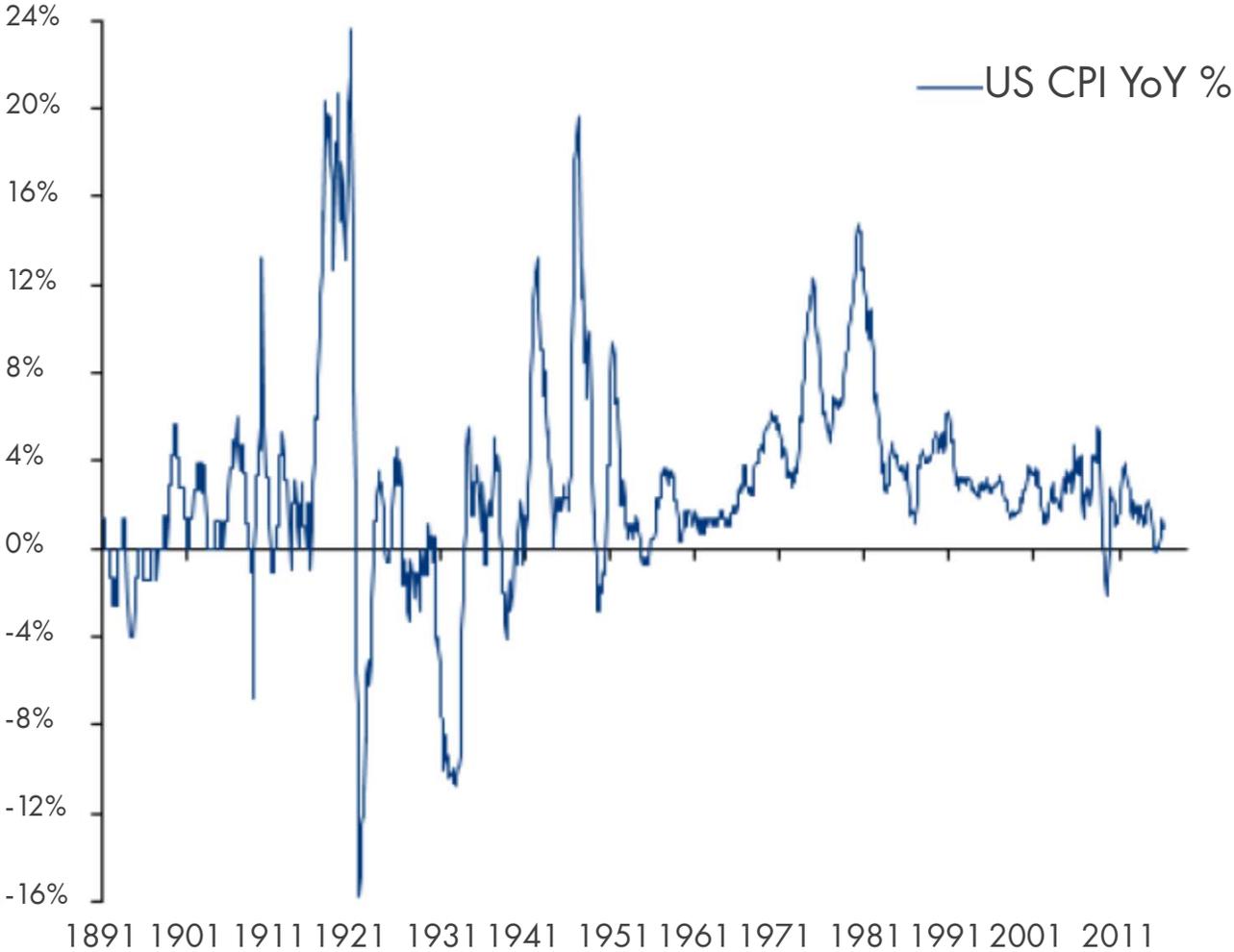
The Future is...Robots



Source: BofA Merrill Lynch Global Investment Strategy, IFR Statistical Department



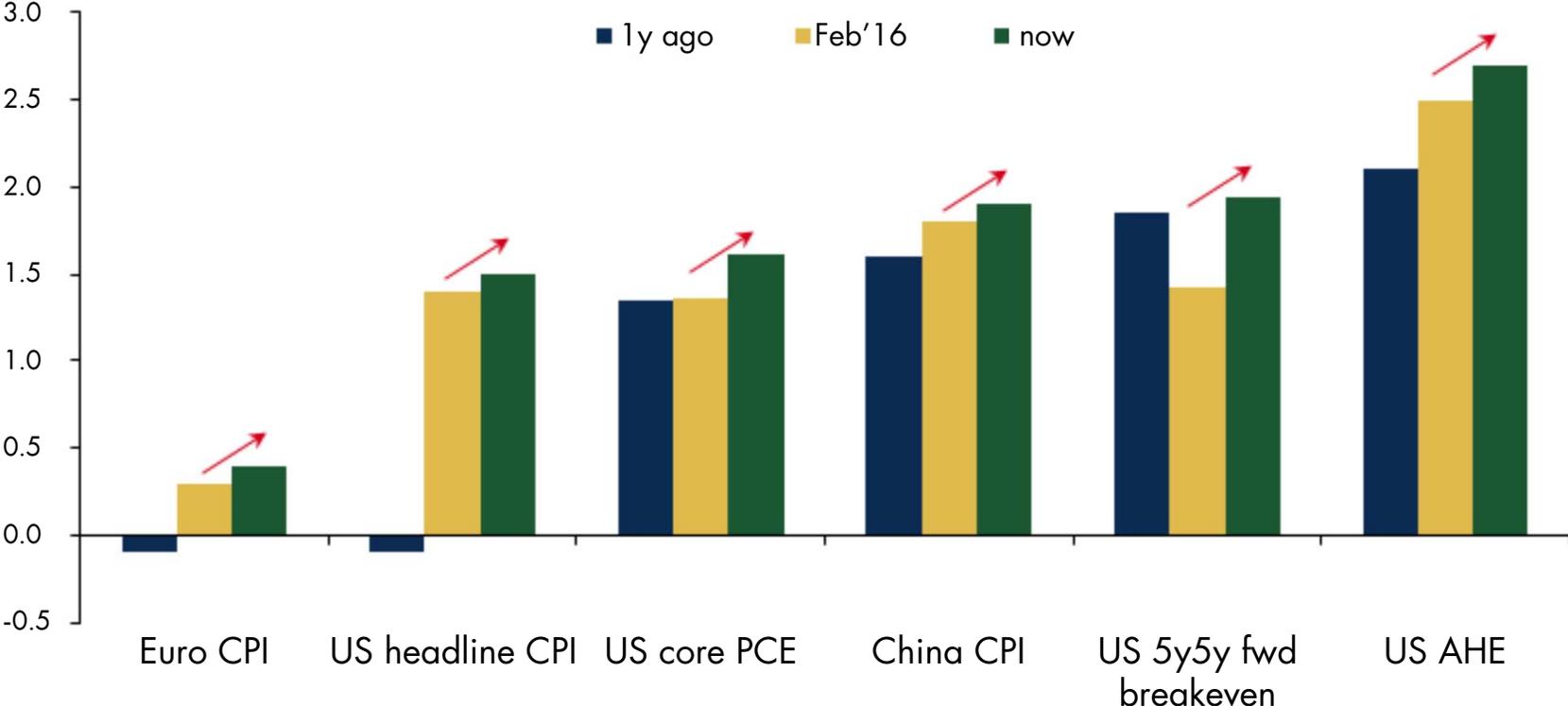
Inflation Dead



Source: BofA Merrill Lynch Global Investment Strategy, Global Financial Data



No So Fast

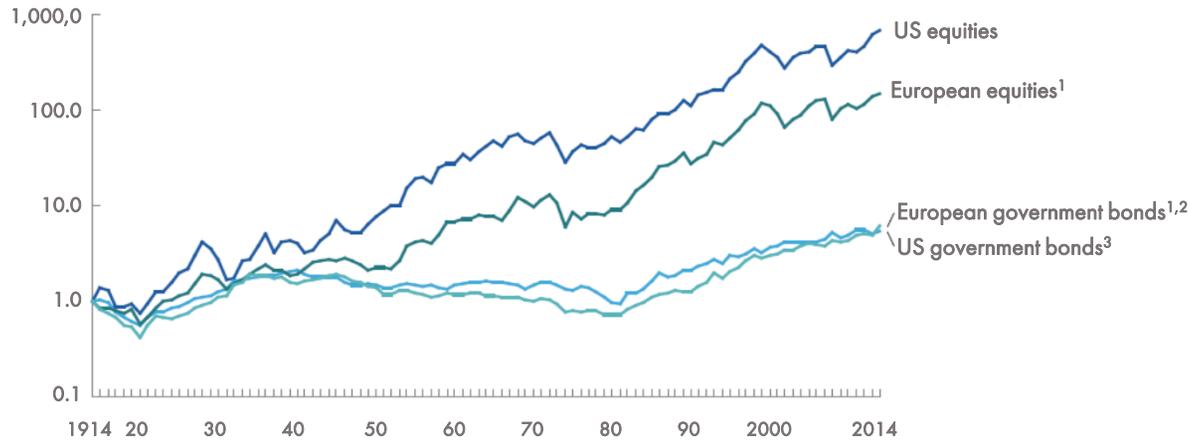


Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg
 *y/y %, except US 5y5y fwd breakeven



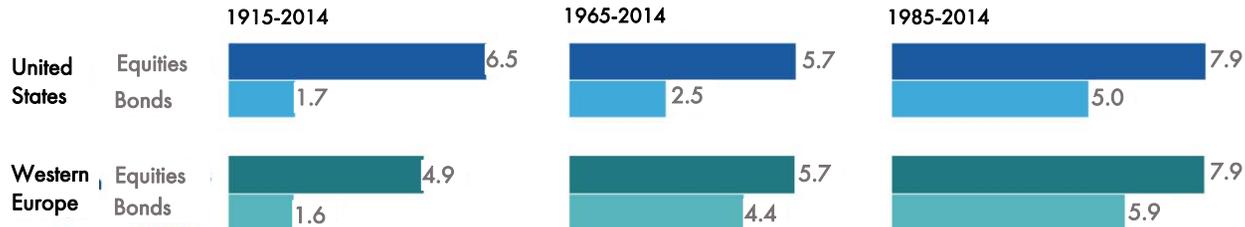
Recent Returns Well Above Long-Term Averages

Total real returns index
Index: 1.0=1914 (long scale)



Total real returns

Annualized, based on 3-year average index at start and end years
%



1. European returns are weighted average real returns based on each year's Geary-Khamis purchasing power parity GDP for 14 countries in Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Austria, Germany, and Italy are excluded from 100-year calculations and from exhibit. Each country's consumer price index is used to calculate its real returns.

2. For Europe, duration varies by country, but the Dimson-Marsh-Staunton database targets bonds having a 20-year duration.

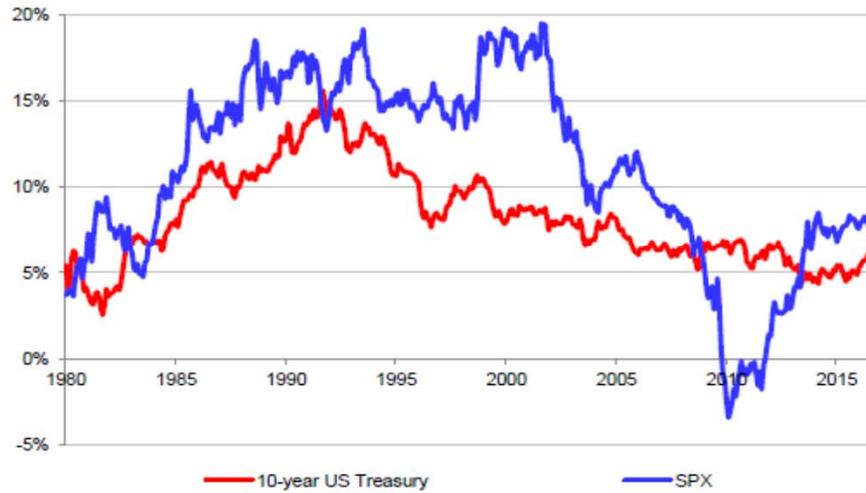
3. Time frame between 1914 and 1927 calculated using Dimson-Marsh-Staunton data. Bond duration for 1928 and later is ten years.

SOURCE: Dimson-Marsh-Staunton Global Returns database; Damodaran database, Stern School of Business, New York University, Jutta Bolt and Jan Luiten van Zanden, The first update of the Maddison Project; Re-estimating growth before 1820, Maddison Project working paper number 4, University of Groningen, January 2013; Conference Board; McKinsey Global Institute analysis.

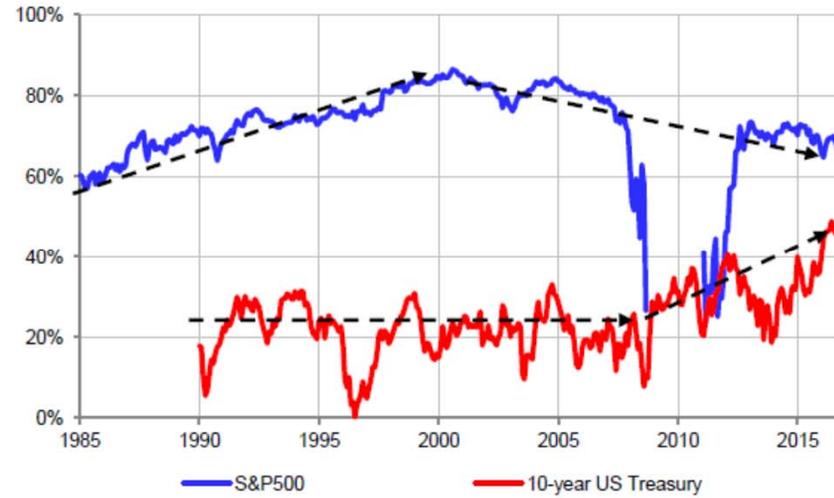


Components of Total Return

ANNUALIZED TOTAL RETURN, ROLLING 10-YEARS



SHARE OF CAPITAL GAINS IN TOTAL RETURN, ROLLING 10-YEARS



Source: Deutsche Bank



Why?

- Real returns for stocks and bonds last 30 years well above long-term averages.
- Reasons
 - Sharp declines in inflation and interest rates
 - Rising productivity
 - China's entry, emergence and strong growth
 - Rising profit margins



Next Ten Years?

- S&P500 Dividend Yield = 2.3% p.a.
- 10-Year Treasury = 1.75%
 - If rises to 2%, total return = 1.4%
 - To earn 2.3%, yield must = 0%.
 - To earn 5.4% of past decade, yield must be -2%.
- If real returns are 2% lower than past 30 years, to save the same wealth, a 30-year old would have to:
 - Work 7 additional years, or
 - Save twice as much.
- Strategy?
 - Stay invested.
 - Diversify.
 - Be ready when opportunities come.



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