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First Quarter Investment Outlook

Prepared
February 6, 2015

Current Overview

- Global economy continues to muddle along.
- Central banks remain accommodative
- Valuation levels are mixed.
- Stocks remain the "Best House in a Bad Neighborhood"
  - Not all markets are created equal
  - Opportunities Exist Outside the US

Why Global

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- US markets have outpace global counterparts
  - Begs the question why not just focus on the US?

- Decades ago, the US accounted for half of the global economy

- Today, however, it only accounts for about a quarter
  - By focusing solely on the US investors potentially miss out on opportunities in other attractive markets

Global Diversification

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- Foreign stocks represent 2/3rds of the world's total market capitalization, up from just 34% in 1970

- Valuations outside the U.S. appear more reasonable

- Dividend yields in many foreign markets exceed the U.S.

Global Diversification: Risk Reduction

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- Another benefit to investing globally is that diversification across countries can actually be expected to reduce the risk of the overall portfolio

- A study by the London Business School showed owning the world index rather than only domestic equities between 1972 and 2011 made diversification worthwhile for every major country studied except South Africa

- Furthermore, the study found that investors in the 19 major countries studied would have enjoyed a risk reduction on average of 20% from holding the world index as opposed to if they only held their own countries' shares

Growth Drives Performance

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- With many developed regions experiencing paltry economic growth over the last 5 years, investors would be wise to look to other regions with more robust growth opportunities

- There is a strong correlation between the growth rates of a country and the performance of its stock market over time

Historical Performance

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Range 04/30/2003 - 01/30/2015 Period Monthly No. of Period 141 Month(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	SPX Index	USD	117.58%	176.31%	-126.32%	9.03%
2.	EEM US Equity	USD	233.03%	302.63%		12.57%
3.	MXWOU Index	USD	91.67%	181.28%	-121.34%	9.19%

Chart Courtesy of Bloomberg

So Why Not Just Invest in US Multinationals?

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- Owning large multinational companies isn’t the same as direct ownership in foreign companies
    - US multinationals typically have exposure to many different markets and therefore the benefit from one region may be offset by weakness in another

- The best way to invest globally is to diversify the portfolio into specific countries

- Valuation is Key

US Dollar Strength Poses Profit Risk to US Multinationals

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Chart Courtesy of Bloomberg

Oil Price Decline: Potential Driver of Deflation – Pushes Out Possibility of US Rate Hike

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Chart Courtesy of Bloomberg

Higher Dollar/Lower Oil: Impact on Possible Fed Action

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- Many US multinationals have warned that the stronger US dollar will negatively impact their results in 2015, including US heavy weights Apple, Microsoft, Johnson & Johnson, and McDonald's

- The stronger dollar, coupled with increased supply, have resulted lower oil prices, which has had a deflationary impact on the US economy

- Could result in a delay in rising interest rates as the Fed would prefer an inflationary environment rather than a deflationary one

  - US stocks could see a pullback as a result given that most investors are expecting the Fed to raise rates some time this summer

Valuation:
It's All Relative

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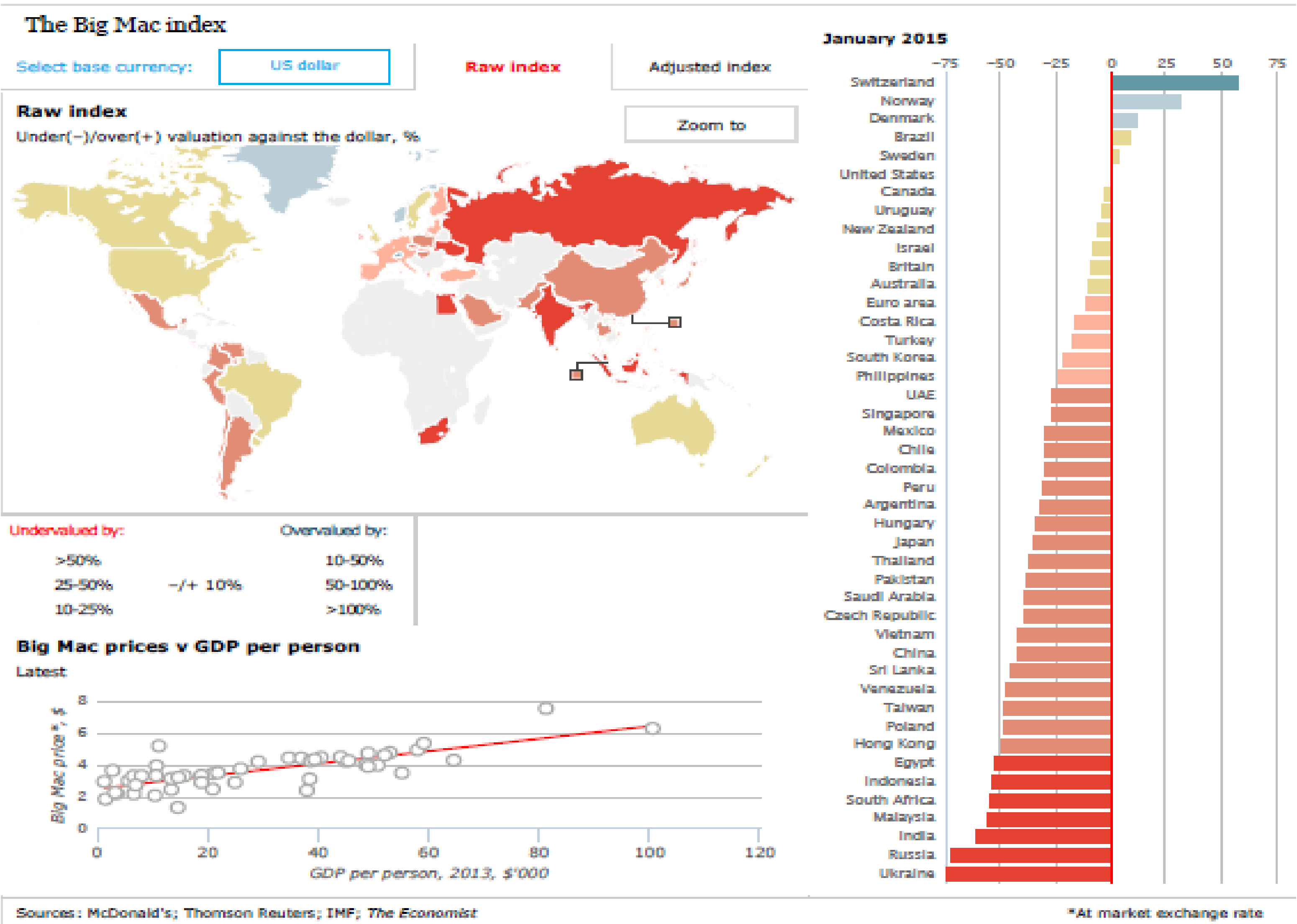
Index	P/E	Est P/E	P/B	P/S	Yield
S&P 500	18.09	17.12	2.79	1.80	1.96
Euro STOXX 50	23.62	14.63	1.57	1.01	3.42
Thailand	18.26	15.33	2.26	1.23	2.85
Singapore	13.83	13.84	1.40	1.25	3.24
South Africa	15.92	17.18	2.33	1.75	2.96
Hong Kong	10.38	11.40	1.38	1.85	3.66
Japan	19.61	18.61	1.63	0.91	1.46

Chart Courtesy of Bloomberg

The Big Mac Index



Why Now?

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- In 2014, the divergence of returns between U.S. and foreign markets was the widest since 1992

- This magnitude of divergence has only occurred four times since 1970

- Global equities outperformed that of the US the following year by 1400 basis points

Source: Bloomberg

Looking Forward

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- <u>Global</u> Quantitative Easing continues to buoy broader equity markets
- Long-Term Bull Market remains intact
  - Anticipate 2015 domestic returns to be muted relative to 2014
    - Cannot rule out the possibility of a pull back in the broader markets as volatility returns
      - Believe downside would be limited to 10%
- Continued <u>global</u> economic sluggishness increases the likelihood that the ‘presses’ continue to run for quite some time
  - European negative interest rates are key to watch
- Continue to be selective
  - Focus on markets outside the US

European Yields Turn Negative

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Chart Courtesy of Bloomberg

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