

**Neil Dutta** – Economics

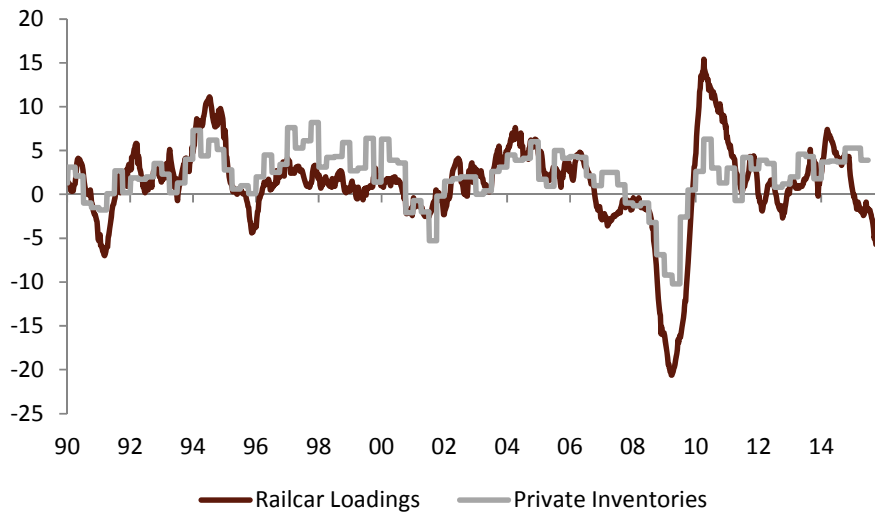
**Kim Wallace** – Washington & Global Policy

**Jeff deGraaf** – Market Technicals & Strategy

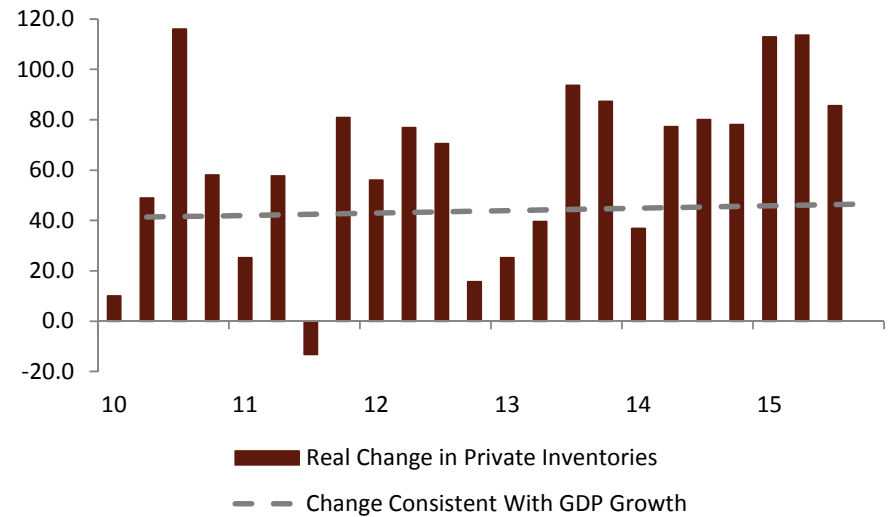
**Rob Ginsberg** – Sector Deep Dives & Small Cap

Neil Dutta

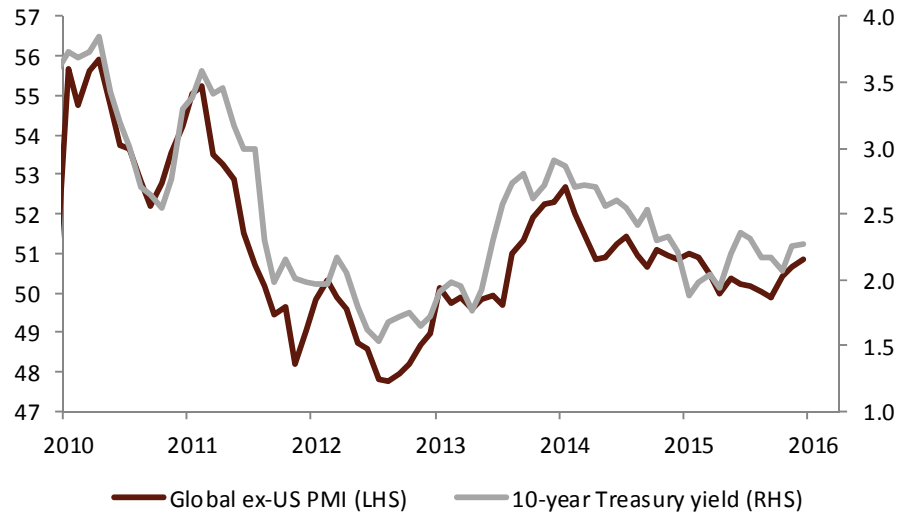
**Inventory corrections hurt industrials**  
(year-over-year % change)



**How much will inventories drop?**  
Real change in private inventories (billions \$)



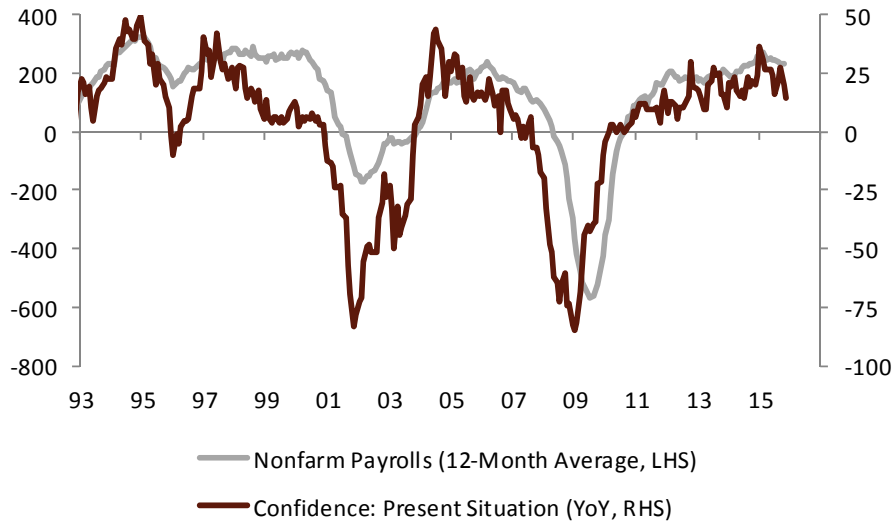
**Global manufacturing activity looks better**



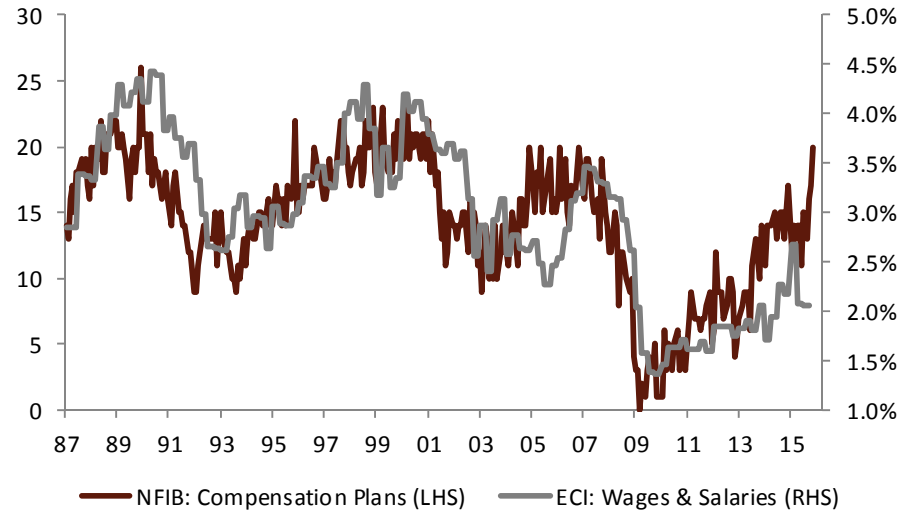
**Structural problems to global trade  
(year-over-year % change)**



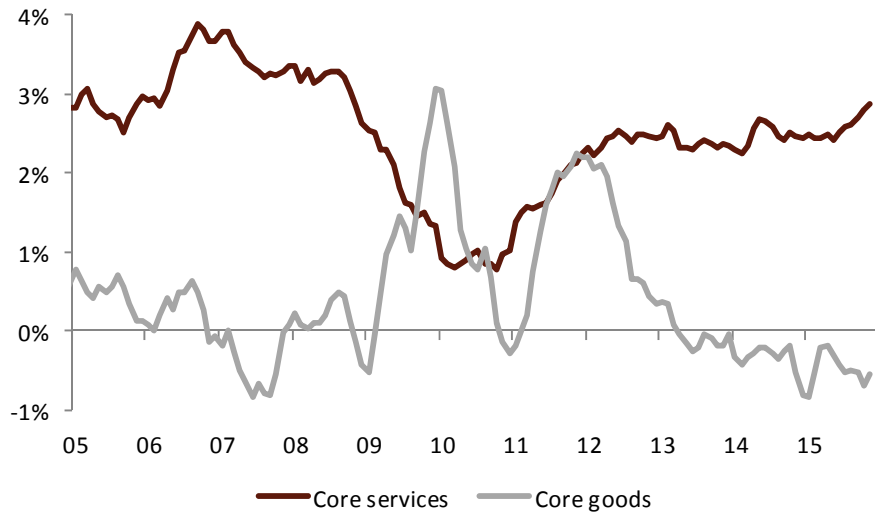
**Confidence leads employment**



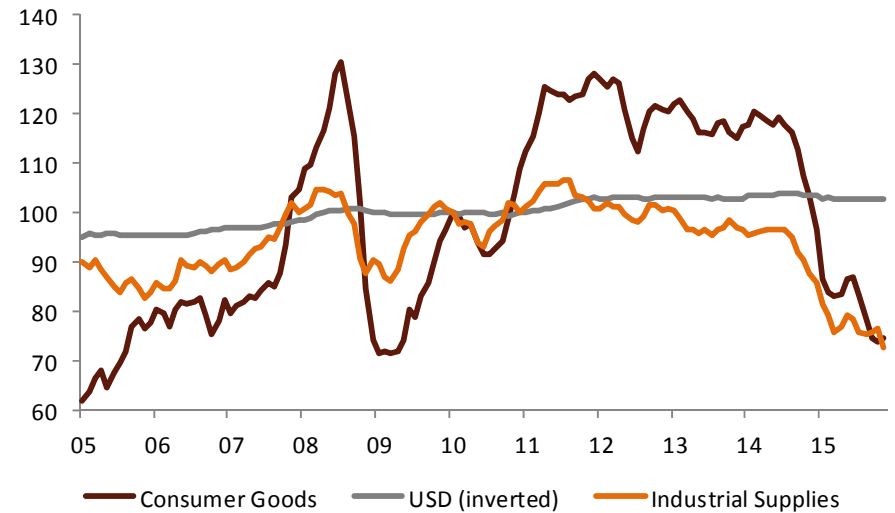
**Small businesses signaling strong wage gains**



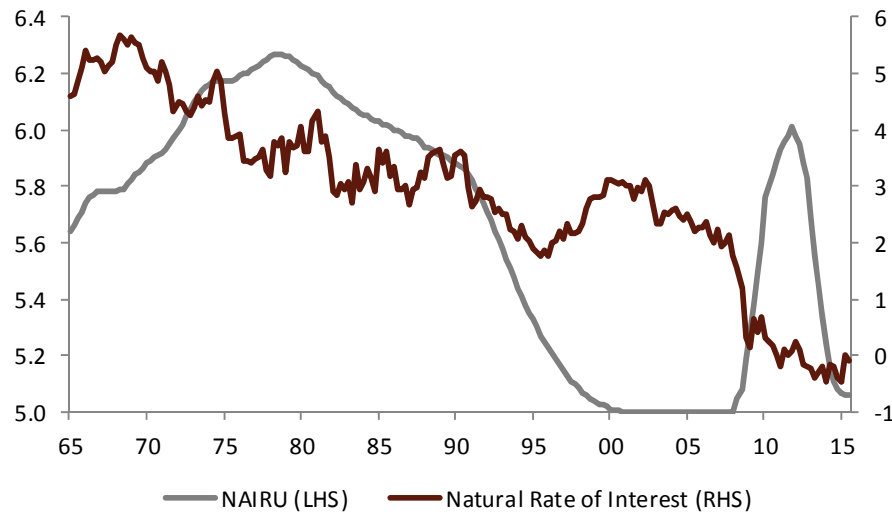
**Services sector inflation picks up**  
(year-over-year % change)



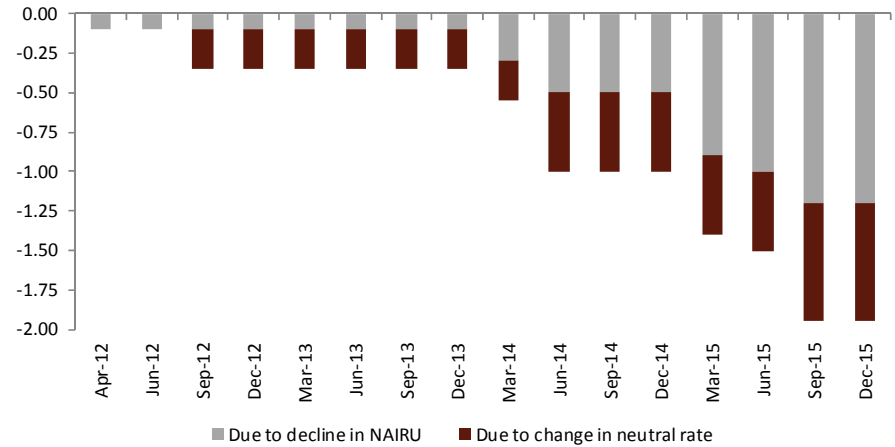
**USD: small impact on imported consumer goods**  
(Index: 2010 = 100)



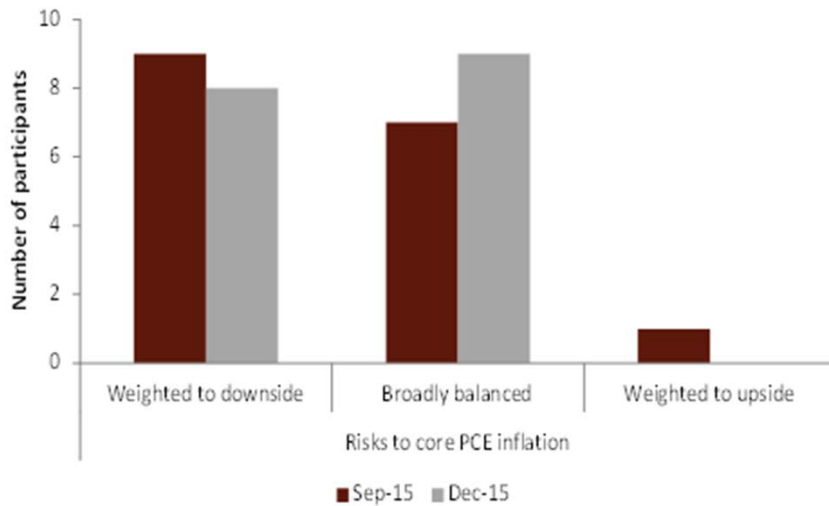
**Pinning down NAIRU and neutral (percent)**



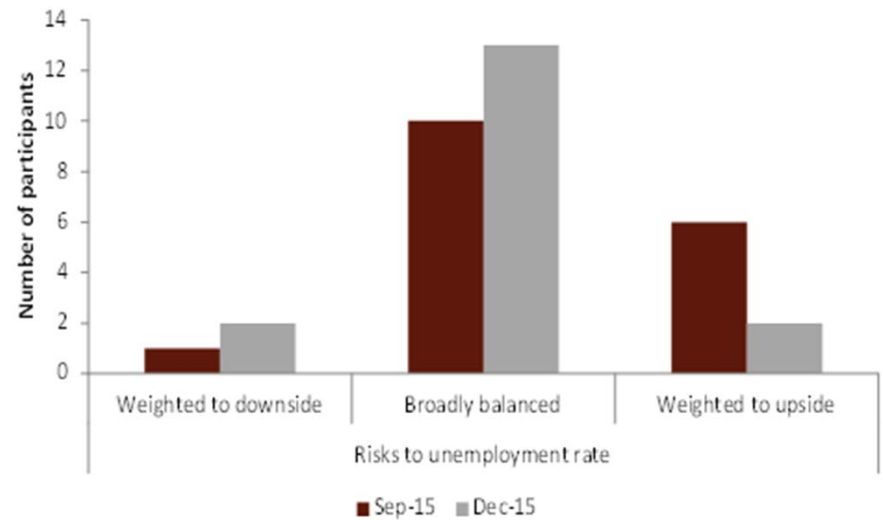
**Will the Fed ease their response function again? (percentage points)**



**Balanced inflation risks in December**  
(number of participants)



**Balanced risks around unemployment**  
(number of participants)







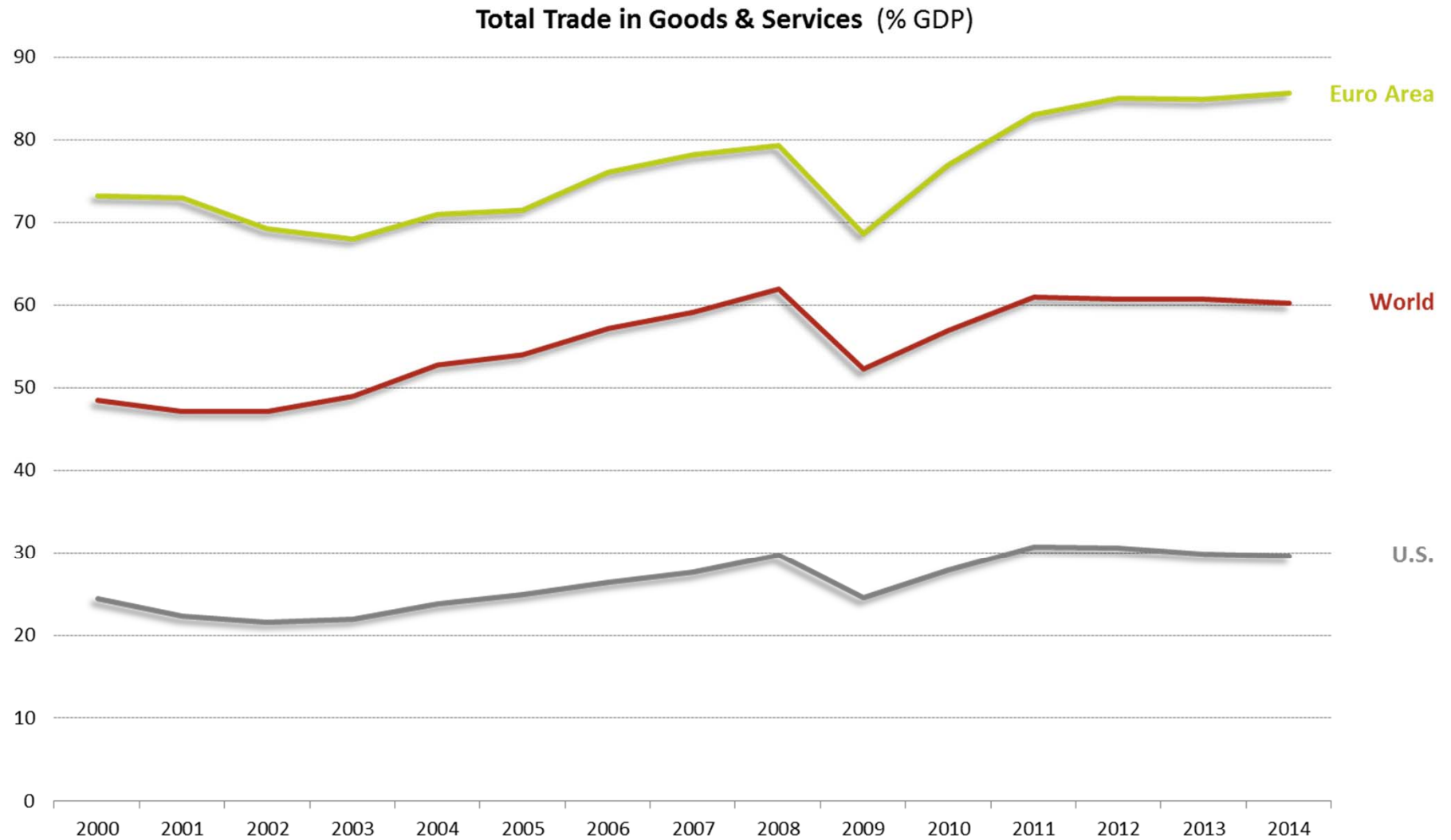
**RENMAC**  
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**Washington & Global Policy**

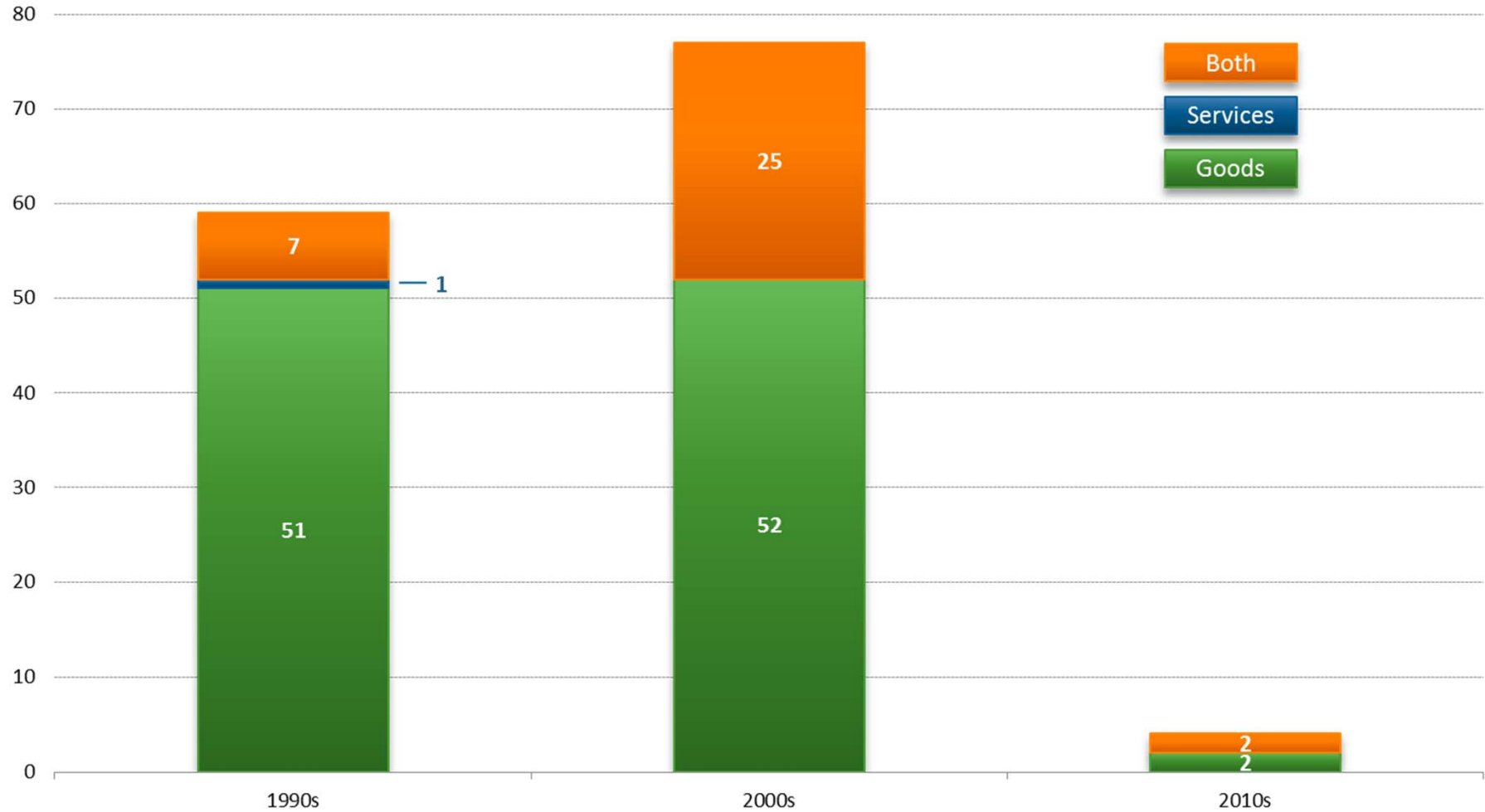
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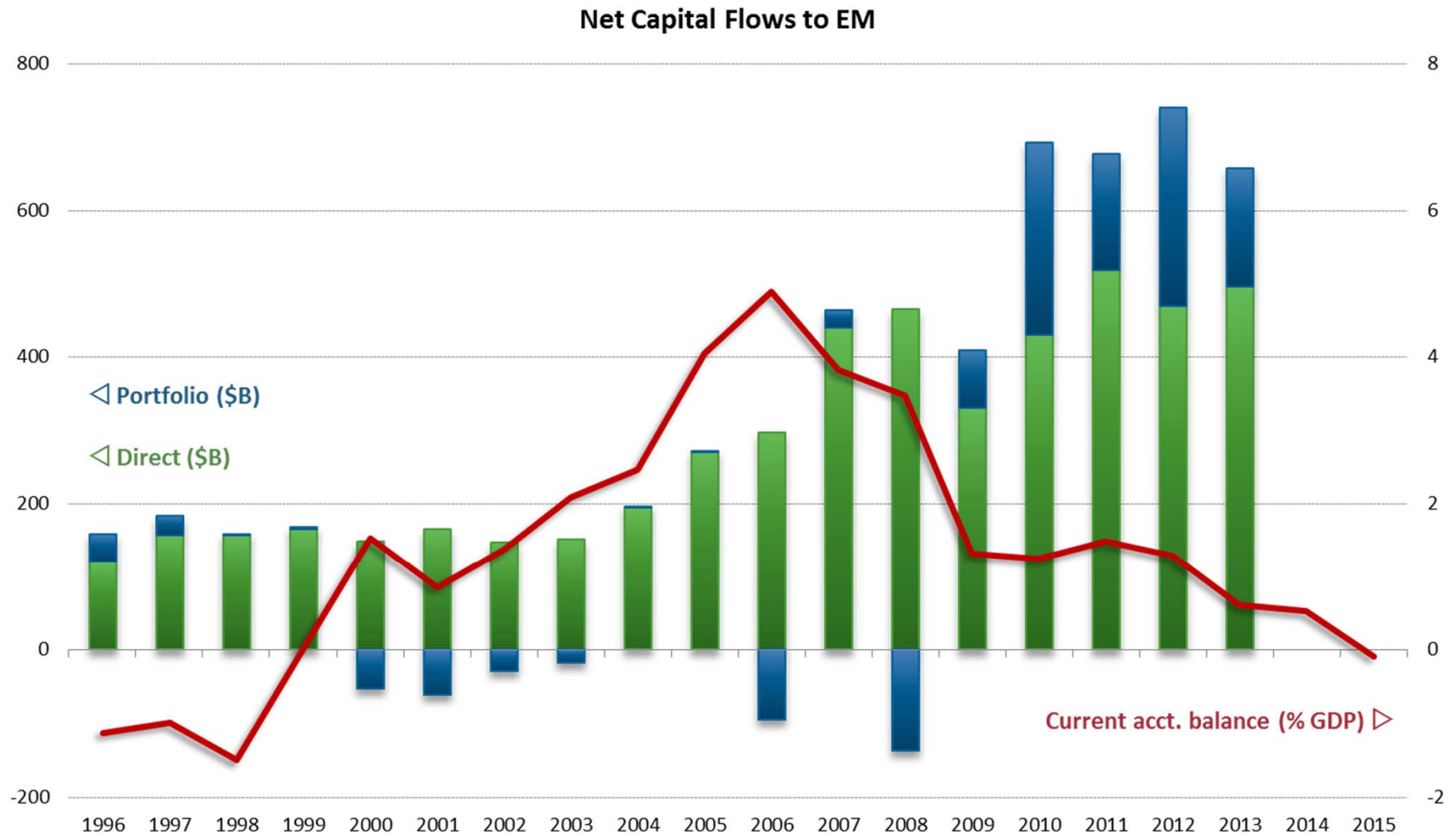
**Kim Wallace**

- ❖ Effective policymaking relies on capable, resilient institutions' consensual action, which often determines whether uncertainty becomes risk
- ❖ 2016 marks 7<sup>th</sup> consecutive post-crisis year of intensifying macroeconomic and geopolitical uncertainties
- ❖ Monetary and fiscal authorities in open economy countries/regions struggle to break from short-horizon policies
- ❖ Geopolitical risks test development and implementation of coordinated response but geostrategic actions contain macroeconomic spillover
- ❖ U.S. elections cap DC risks to markets and also truncate non-defense policy-based market opportunities



Regional Free Trade Agreements (number)



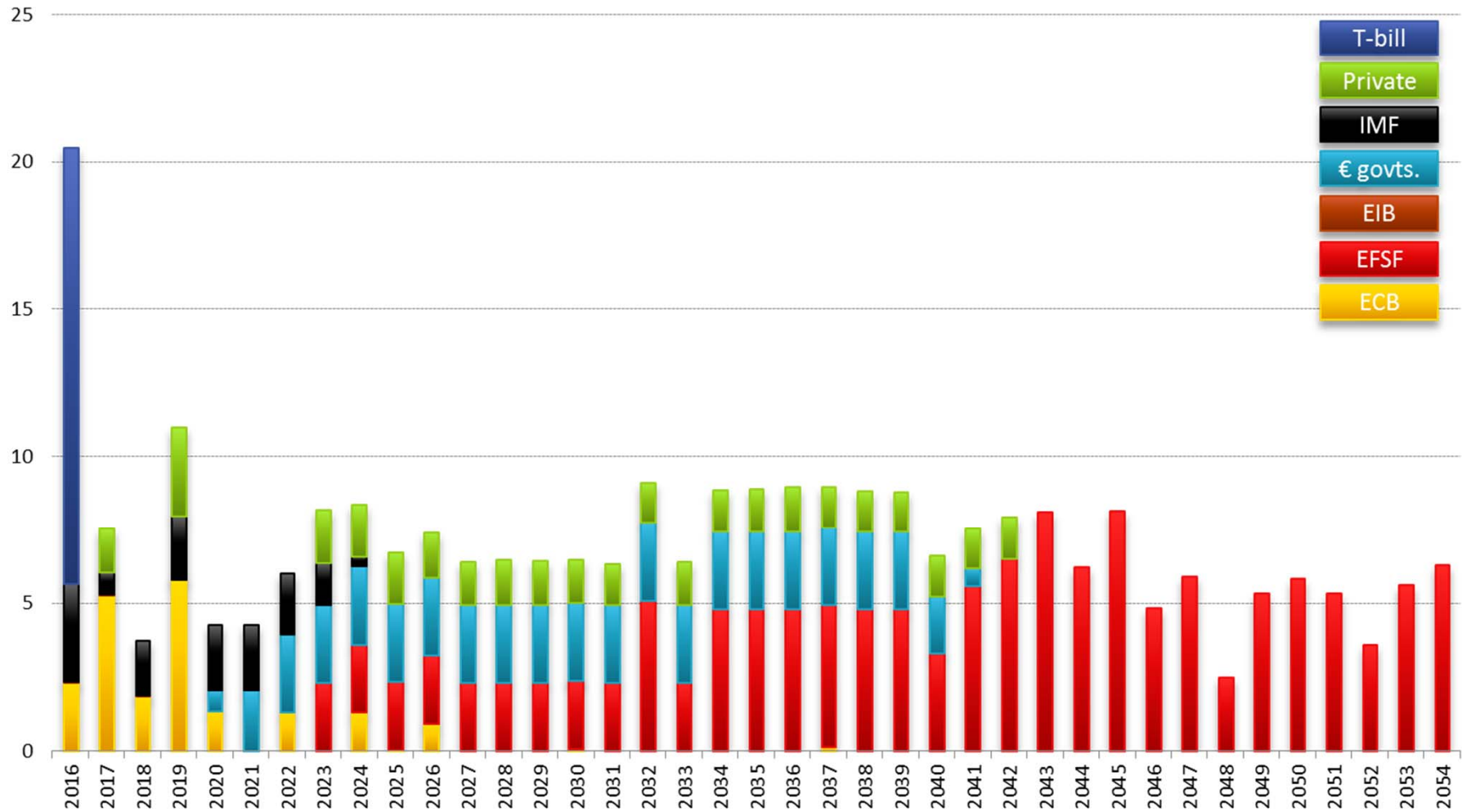




**Bloomberg Eurozone Sovereign Bond Index**

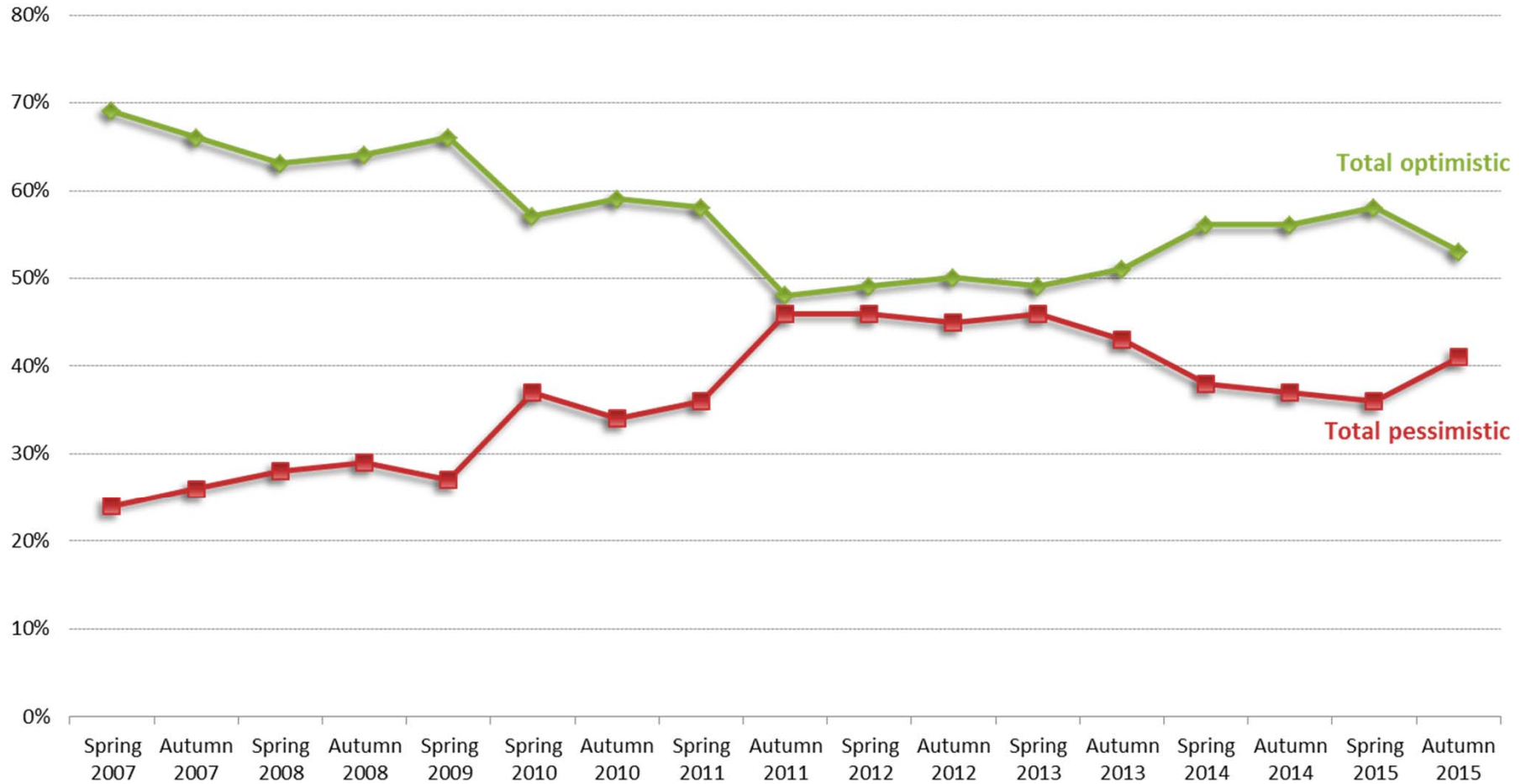


Greek Debt Repayment Schedule (€B)

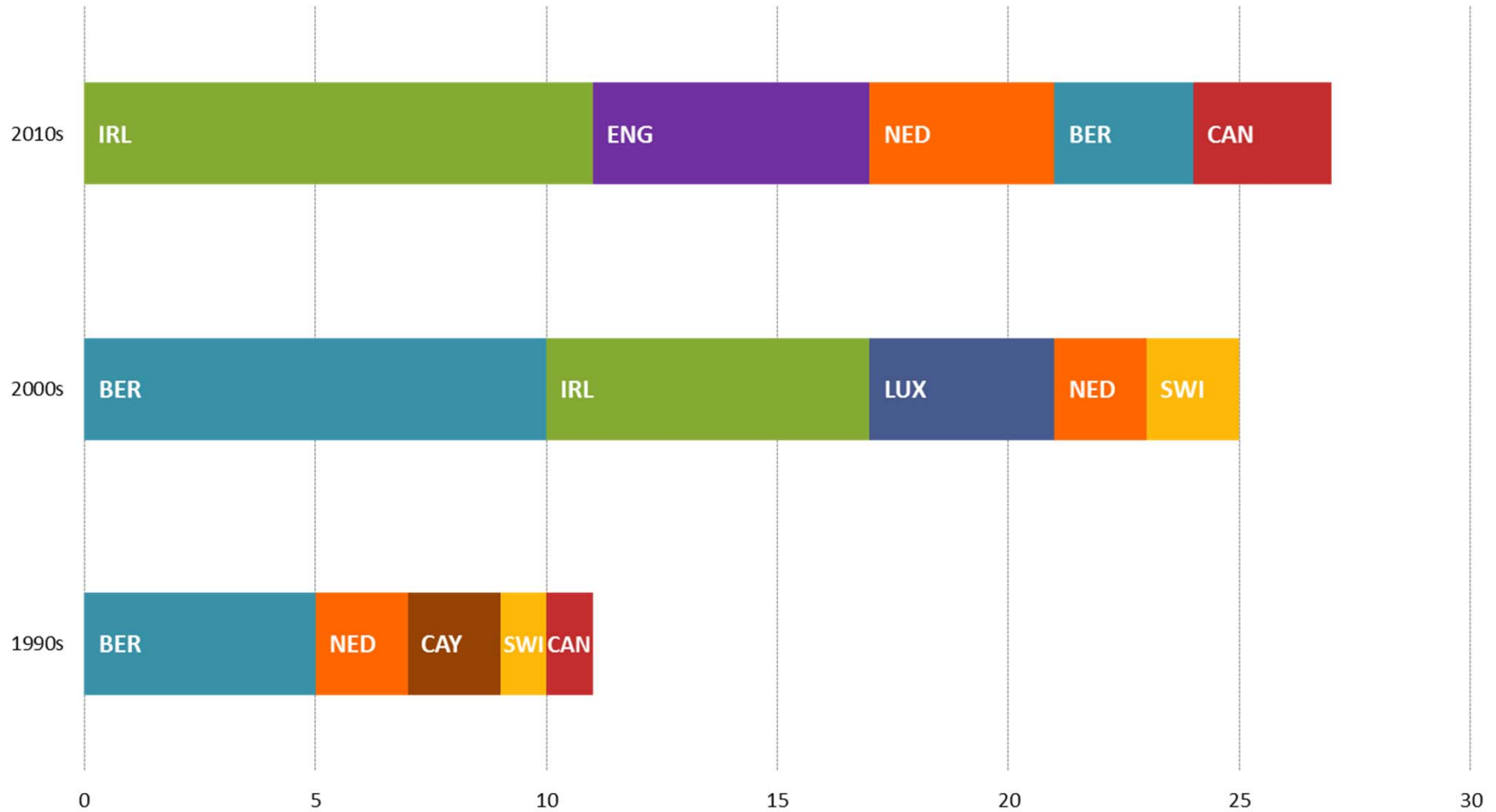


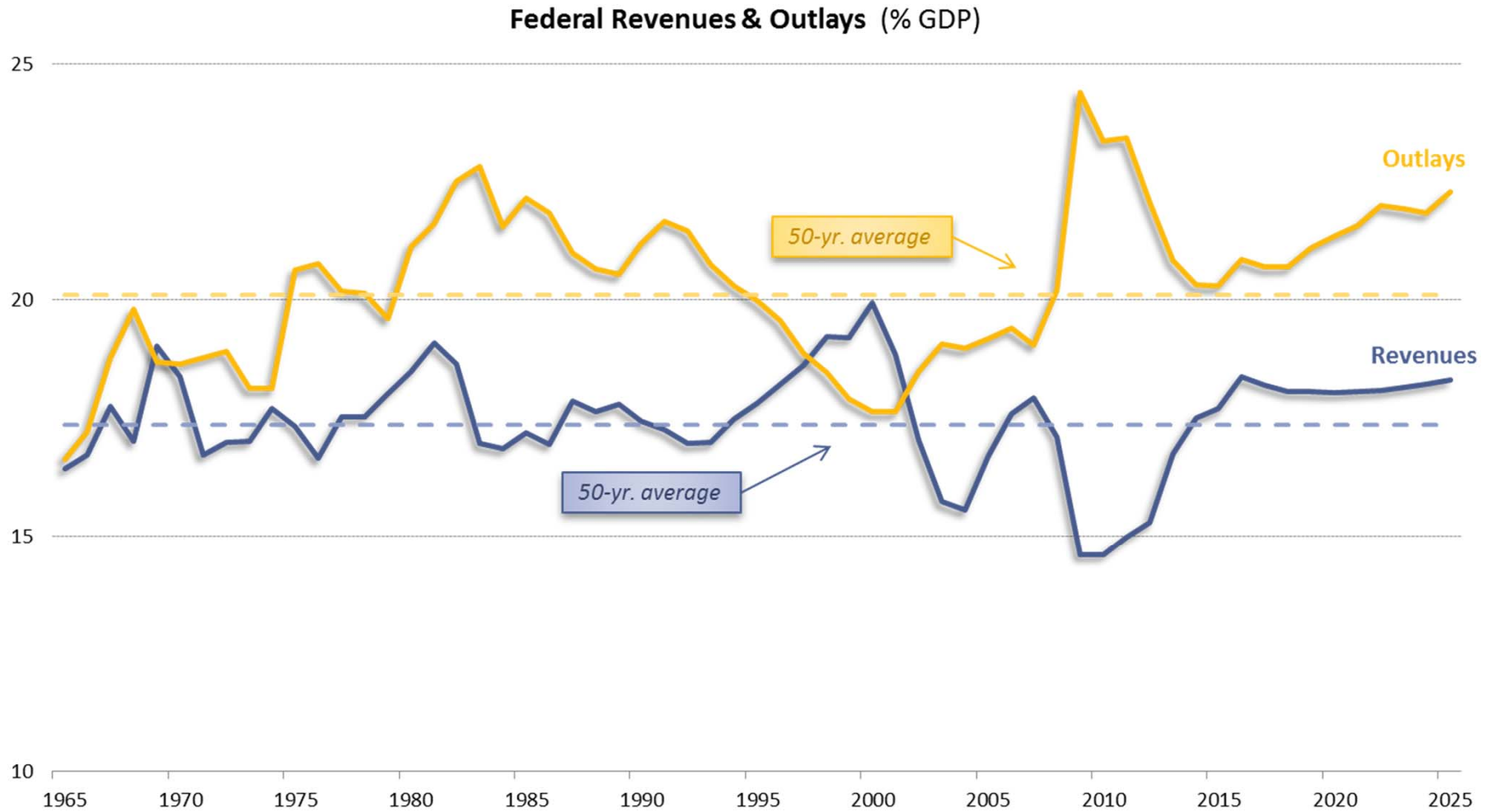


"Would you say you are very optimistic, fairly optimistic, fairly pessimistic, or very pessimistic about the future of the EU?"

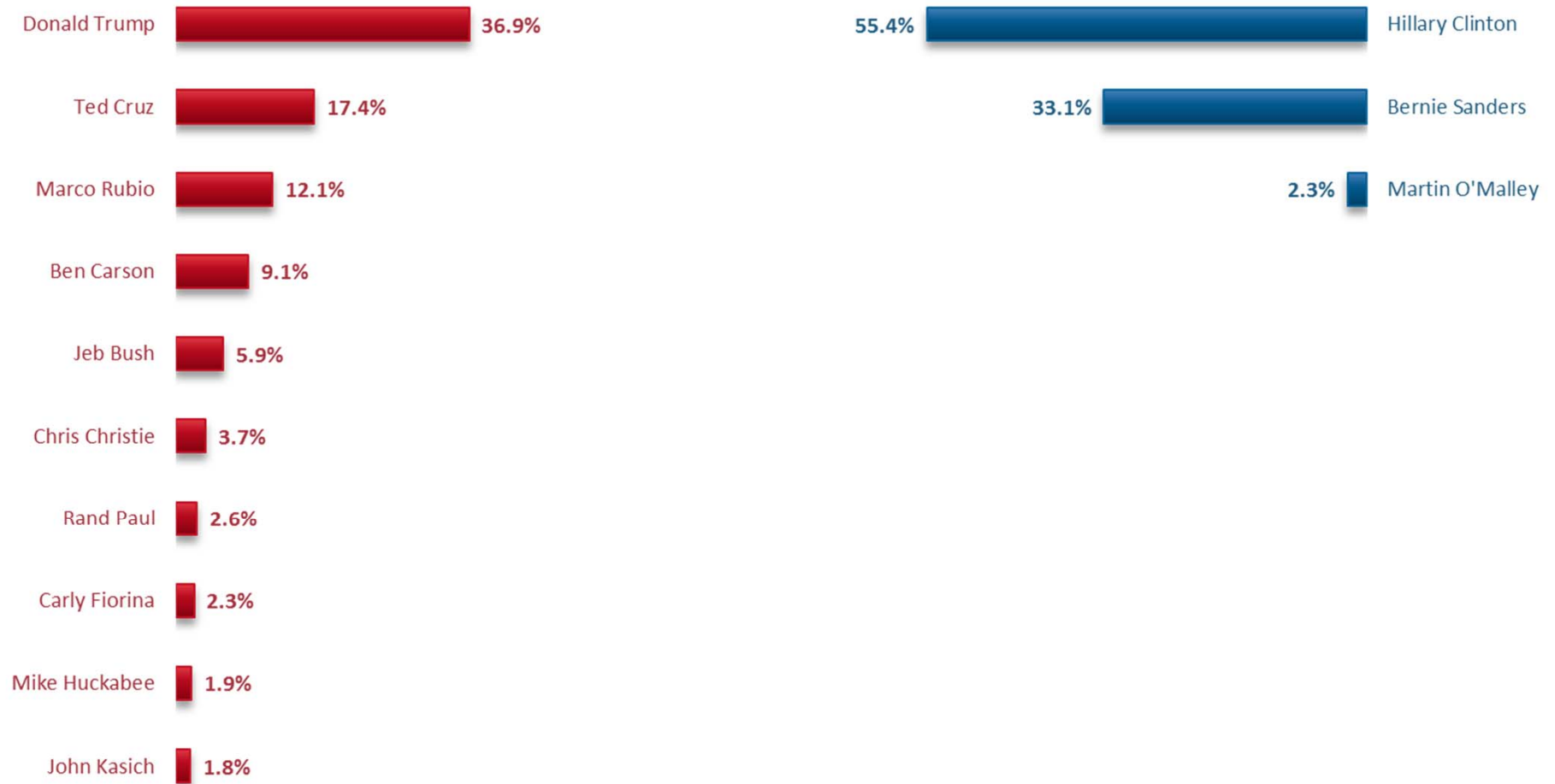


Corporate Expatriations by Decade (top 5 destinations)

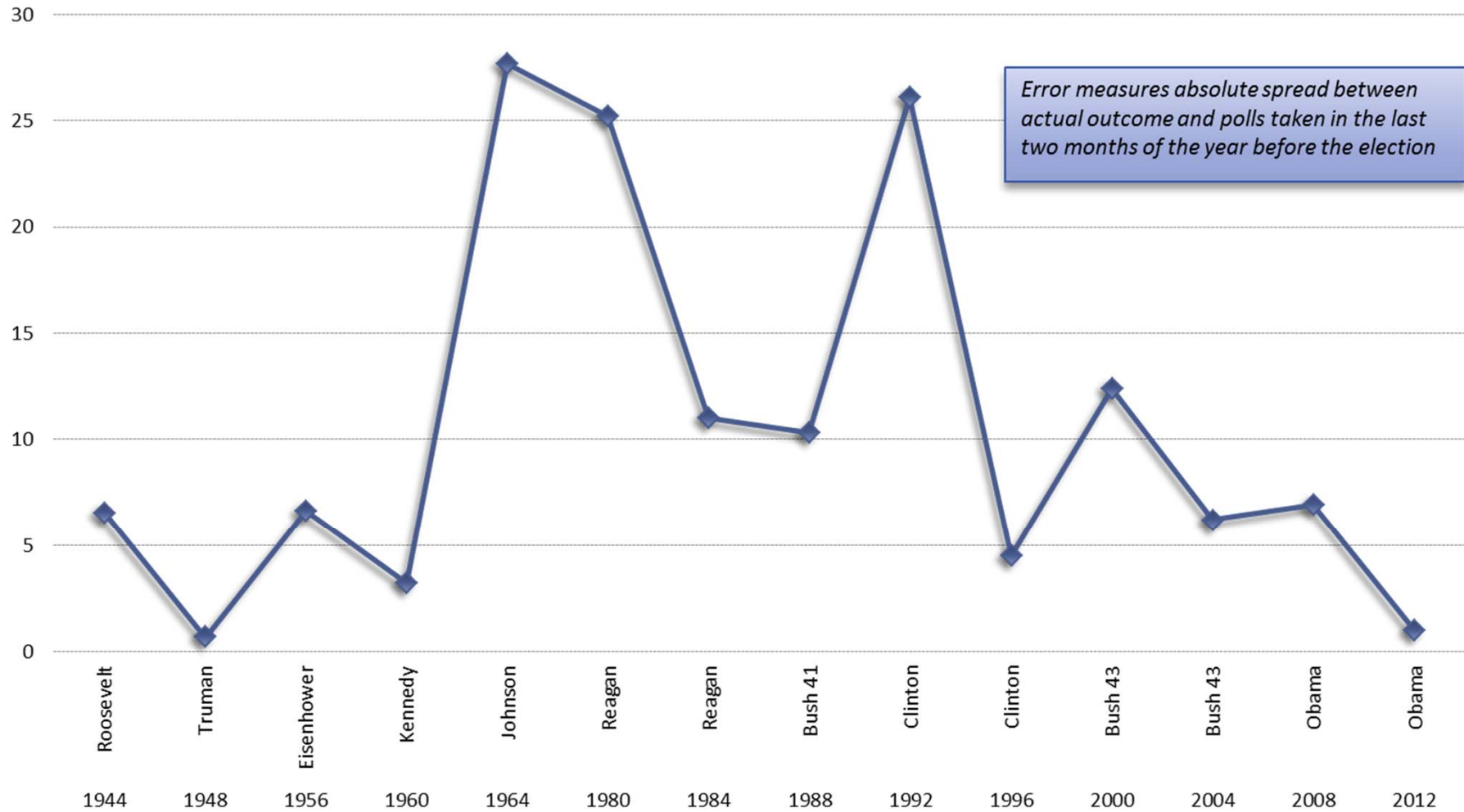




## GOP vs. Dem Poll Averages (as of Jan. 5, 2016)

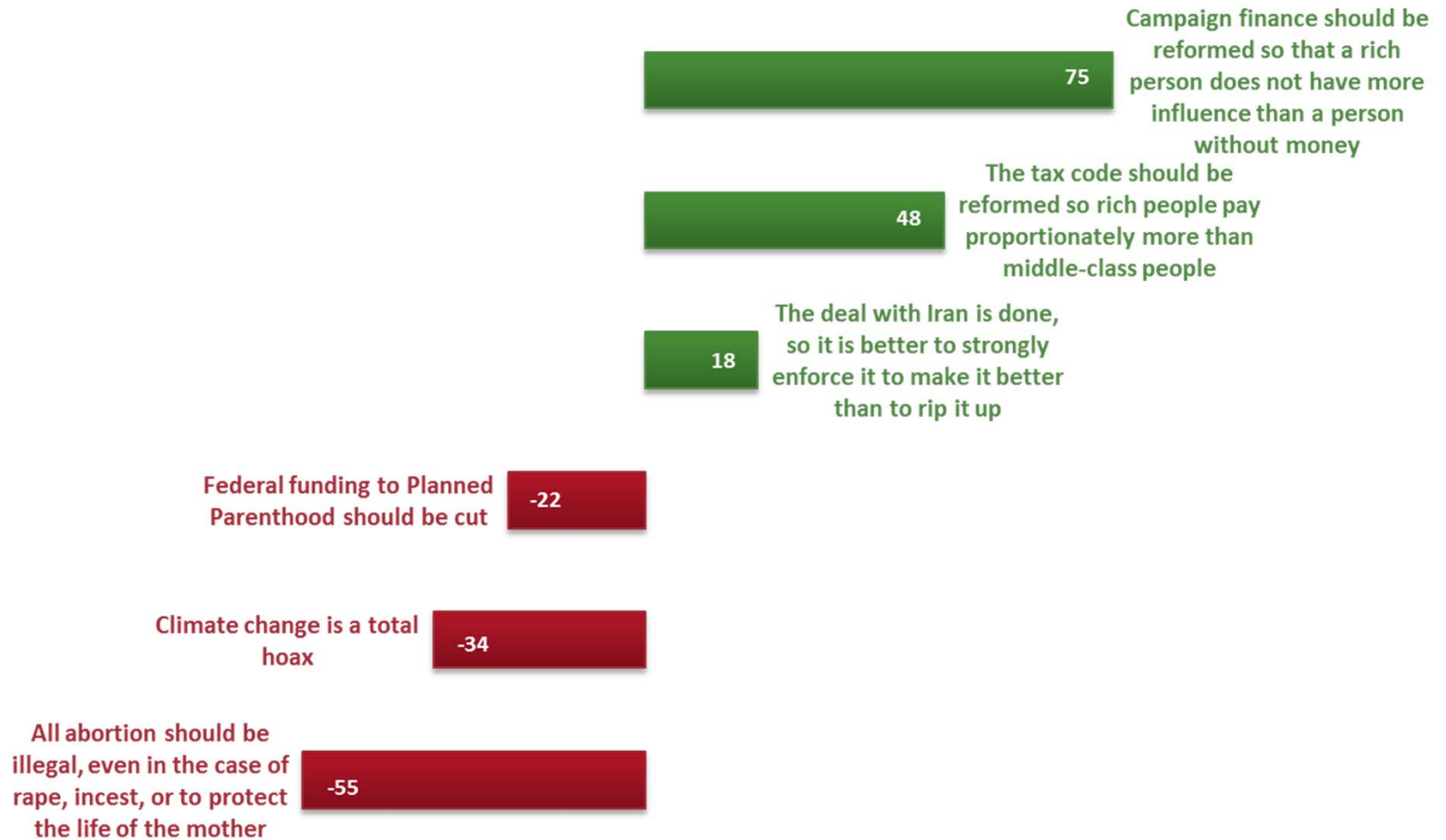


**U.S. Presidential Election Polling Error (percentage points)**

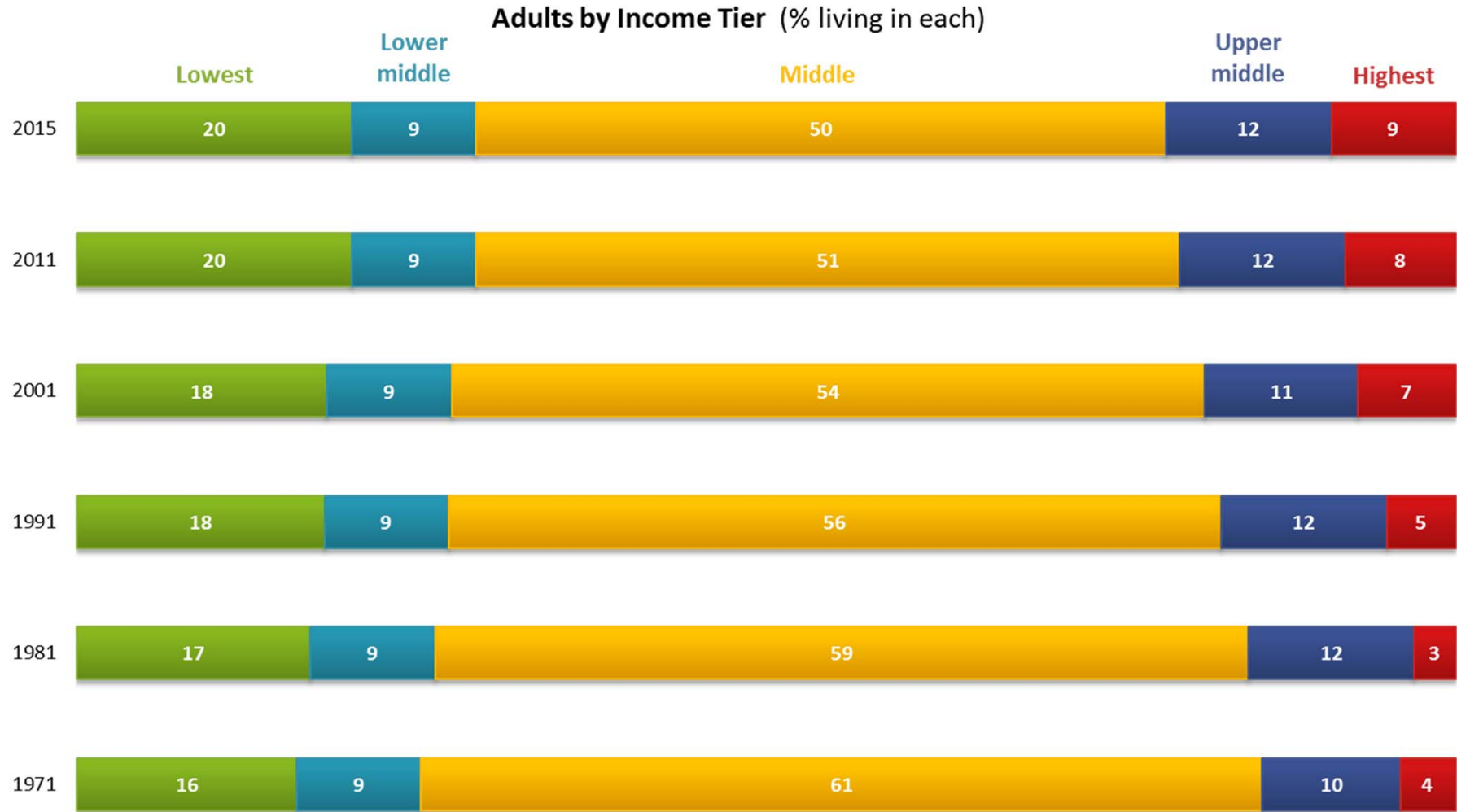


<b>Date</b>	<b>State (Delegates)</b>		
March 1 <i>total 624</i>	AL (50)	MA (42)	<b>TX (155)</b>
	AK (28)	MN (38)	VT (16)
	AR (40)	OK (43)	WY (29)
	<b>GA (76)</b>	TN (58)	
March 15 <i>total 358</i>	OH (66)	<b>IL (69)</b>	<b>NC (72)</b>
	<b>FL (99)</b>	MO (52)	
April 26 <i>total 172</i>	CT (28)	MD (38)	RI (19)
	DE (16)	<b>PA (71)</b>	
June 7 <i>total 303</i>	<b>CA (172)</b>	NJ (51)	SD (29)
	MT (27)	NM (24)	

## Agreement with Candidate Stances on Key Issues (net agreement %)



# Campaign 2016: Significant shrinkage



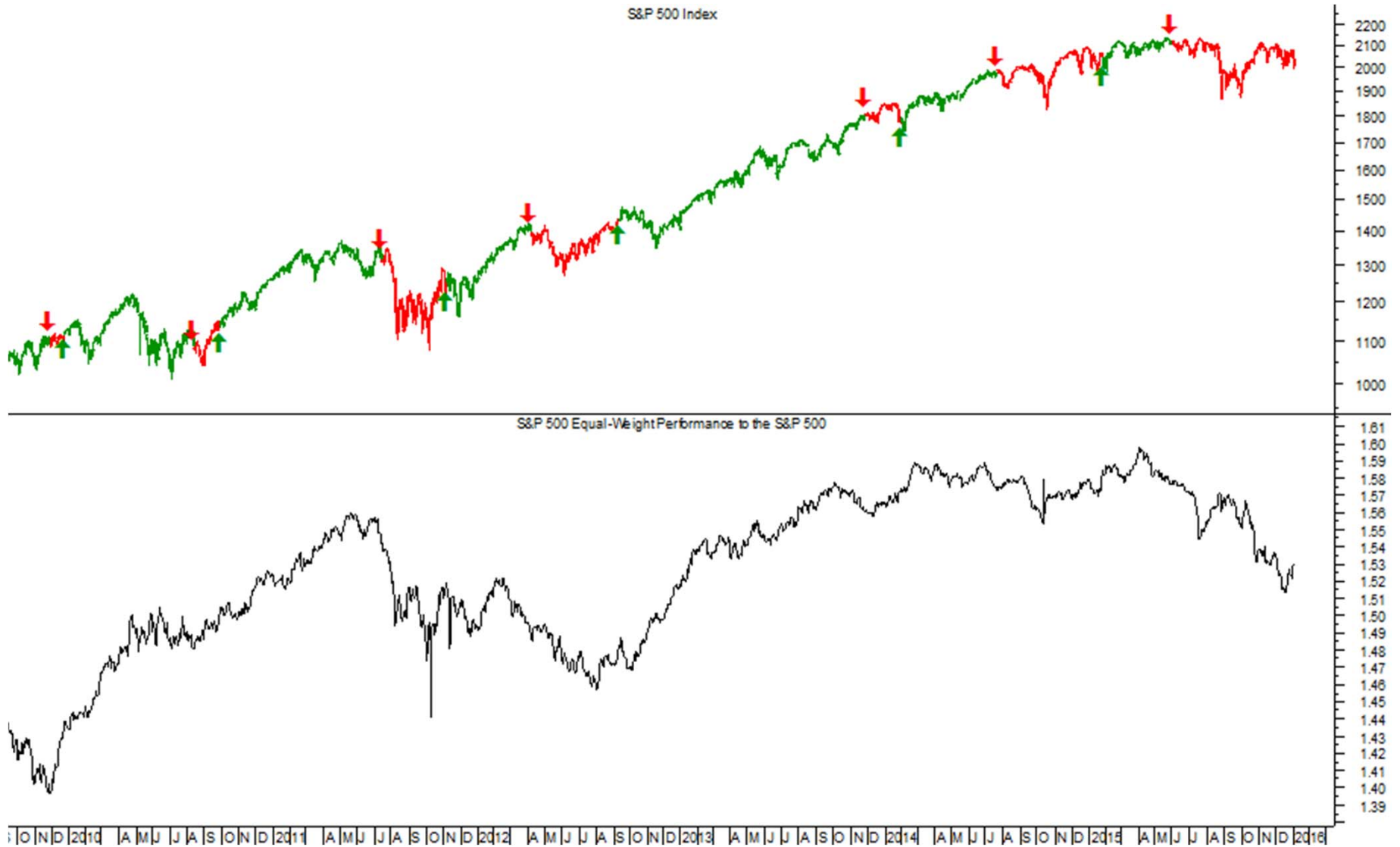


Jeff deGraaf

# Stock returns have been historic



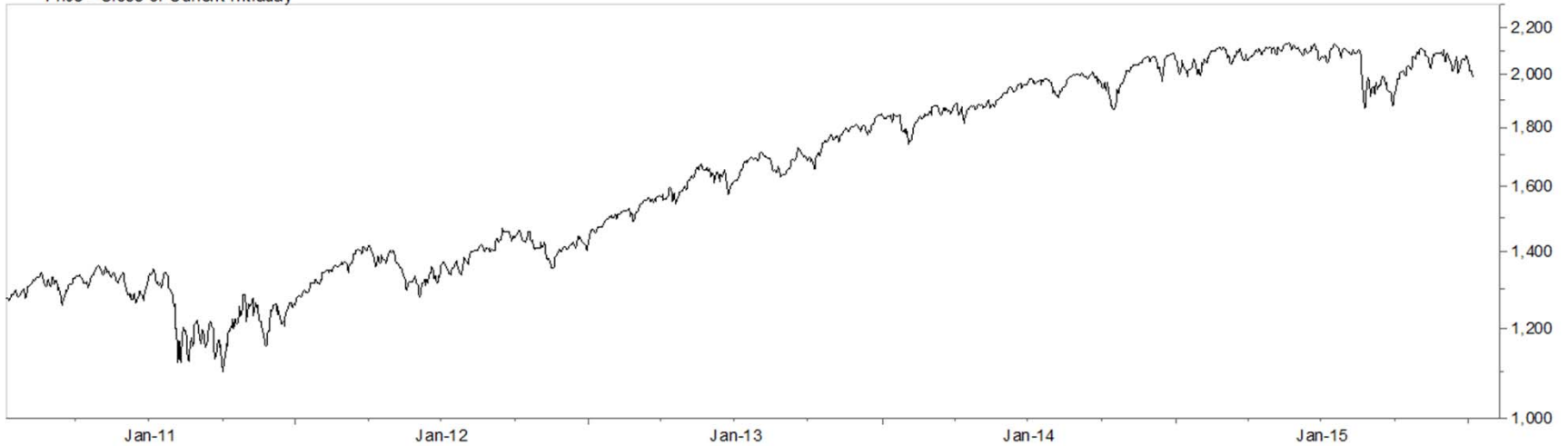
# Average stock weaker than market



# Net 20-day lows are expanding

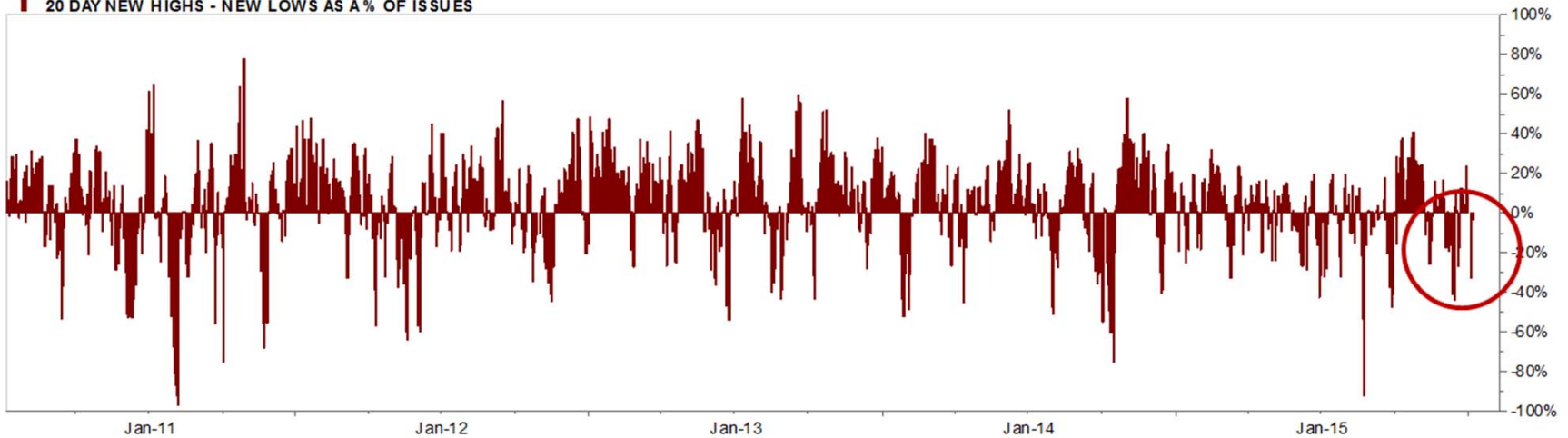
**S&P 500 (SP50)**

— Price - Close or Current Intraday



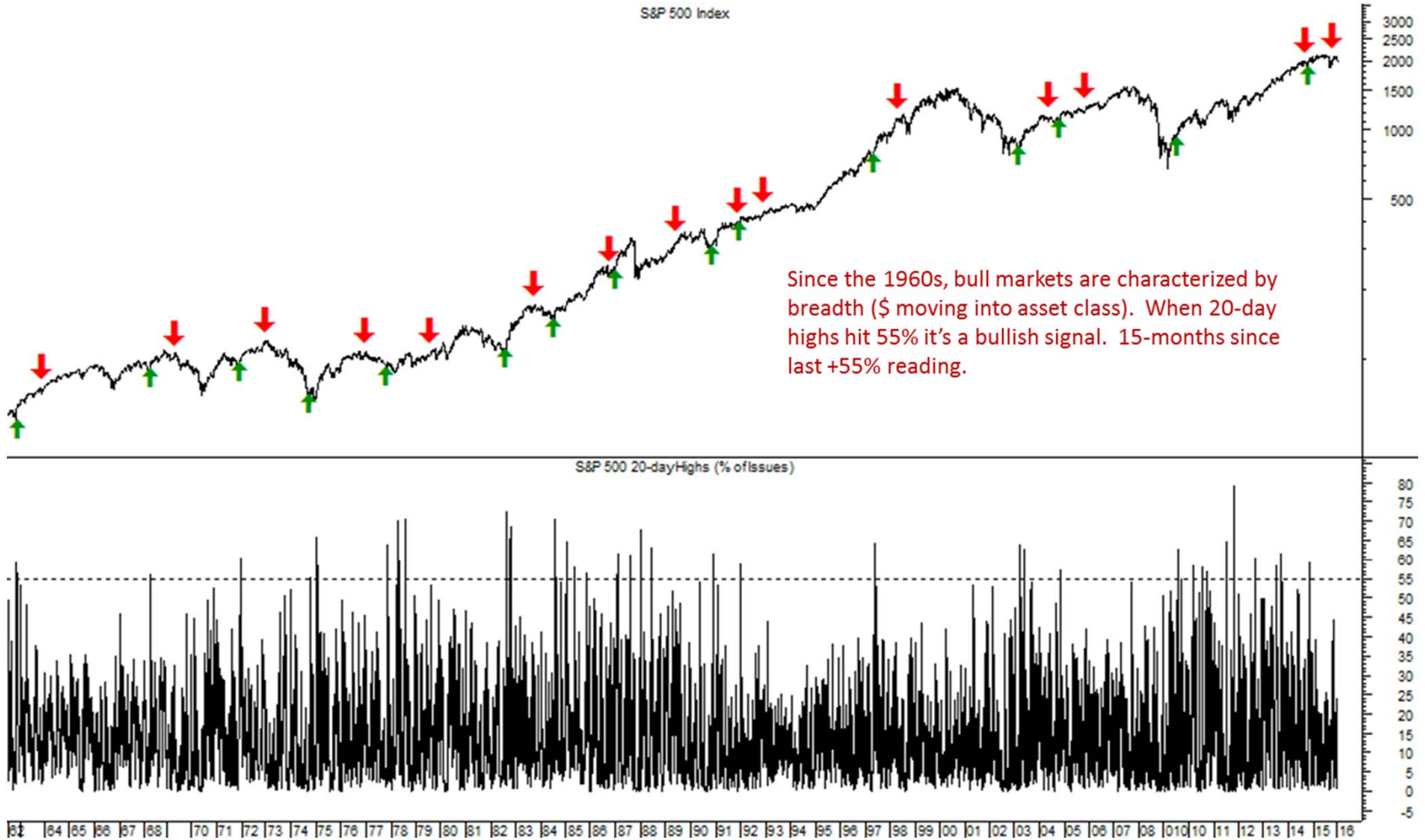
**20 DAY NEW HIGHS - NEW LOWS AS A % OF ISSUES**

1/06/2016 = -2.78%



Renaissance Macro Research - Technical Analysis

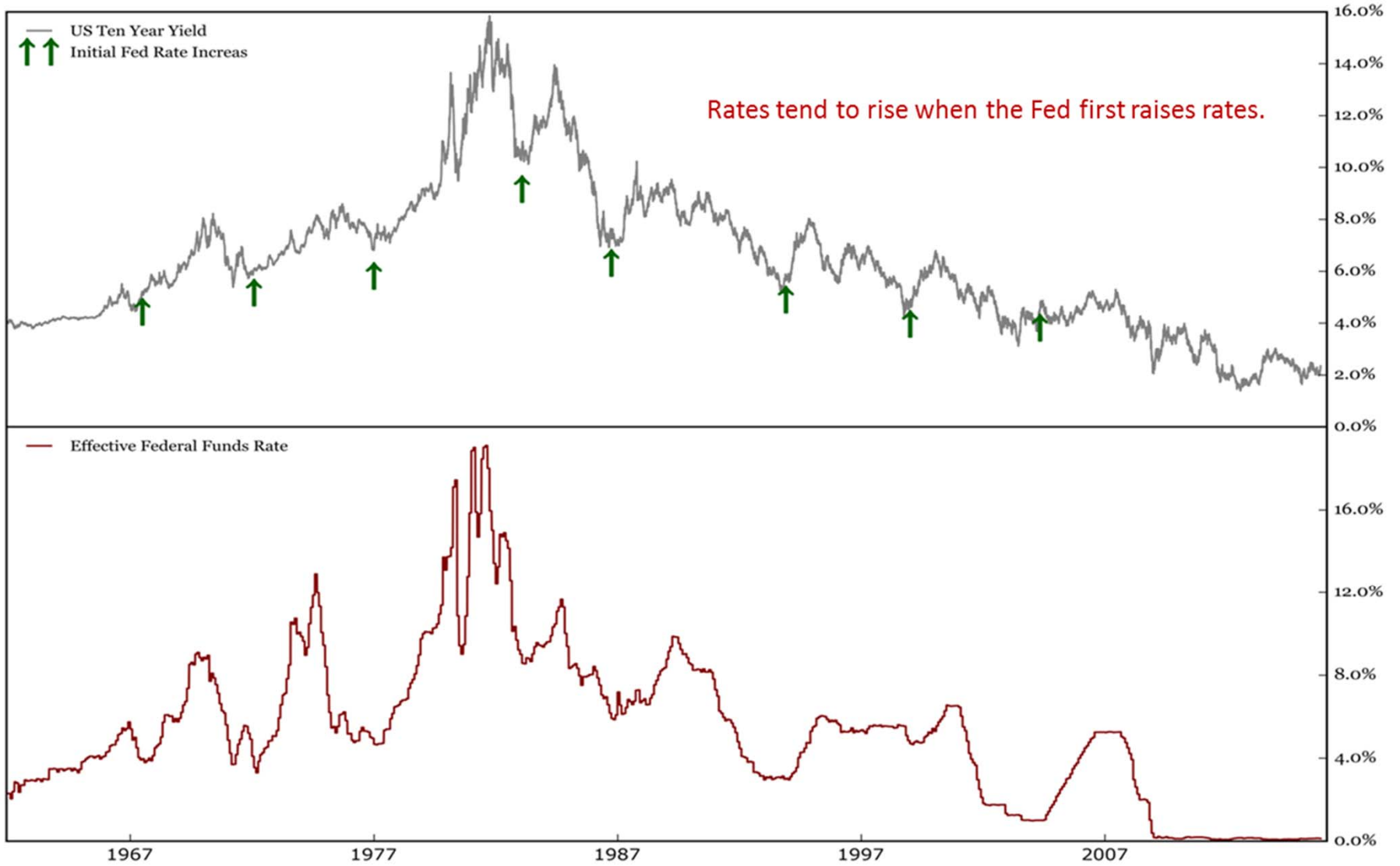
# 20-day highs hit 55% in bull market



# IG default premiums are rising

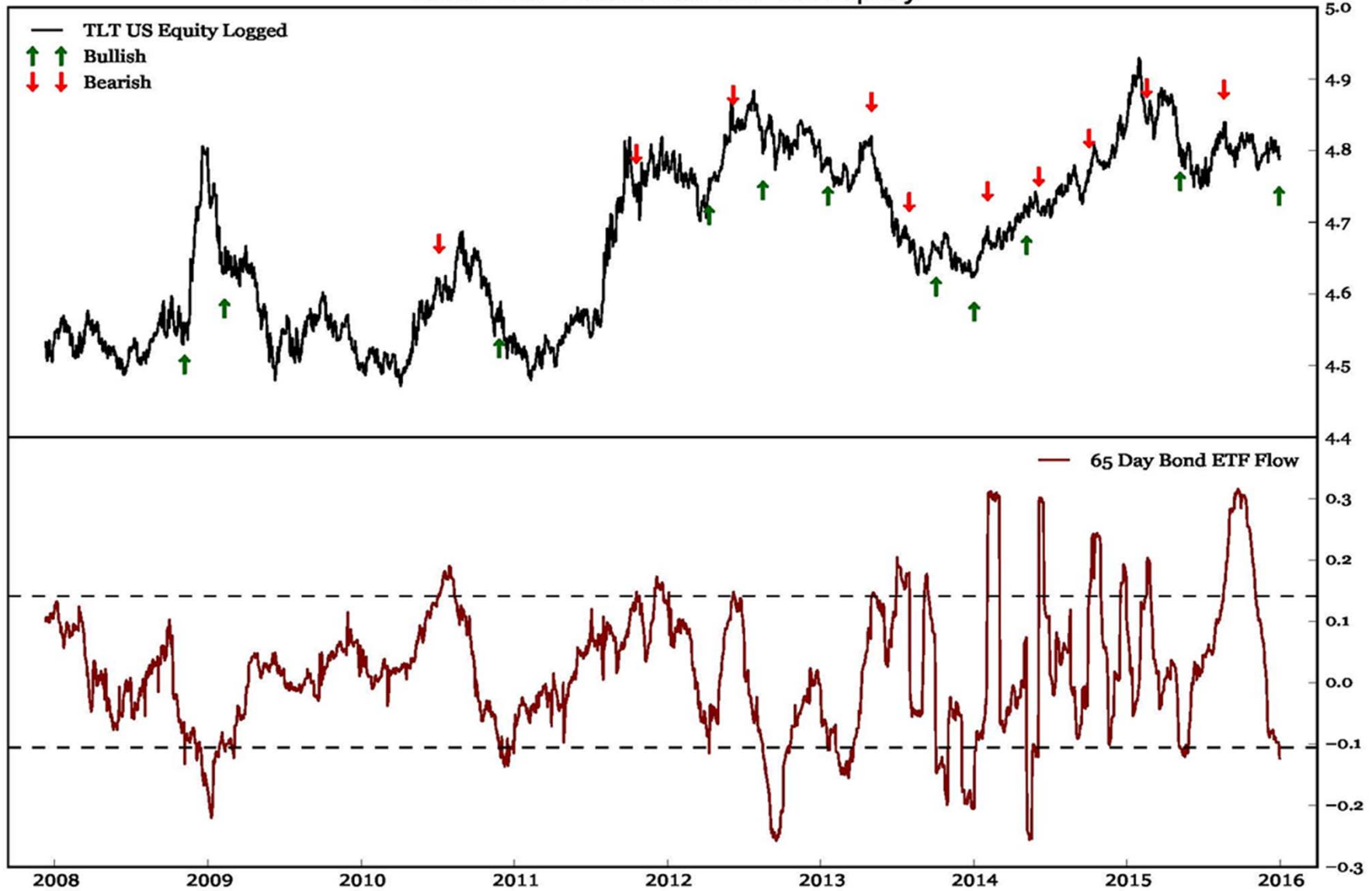


# 10-year yields & fed rate hikes



# Bond exodus is bullish for bonds

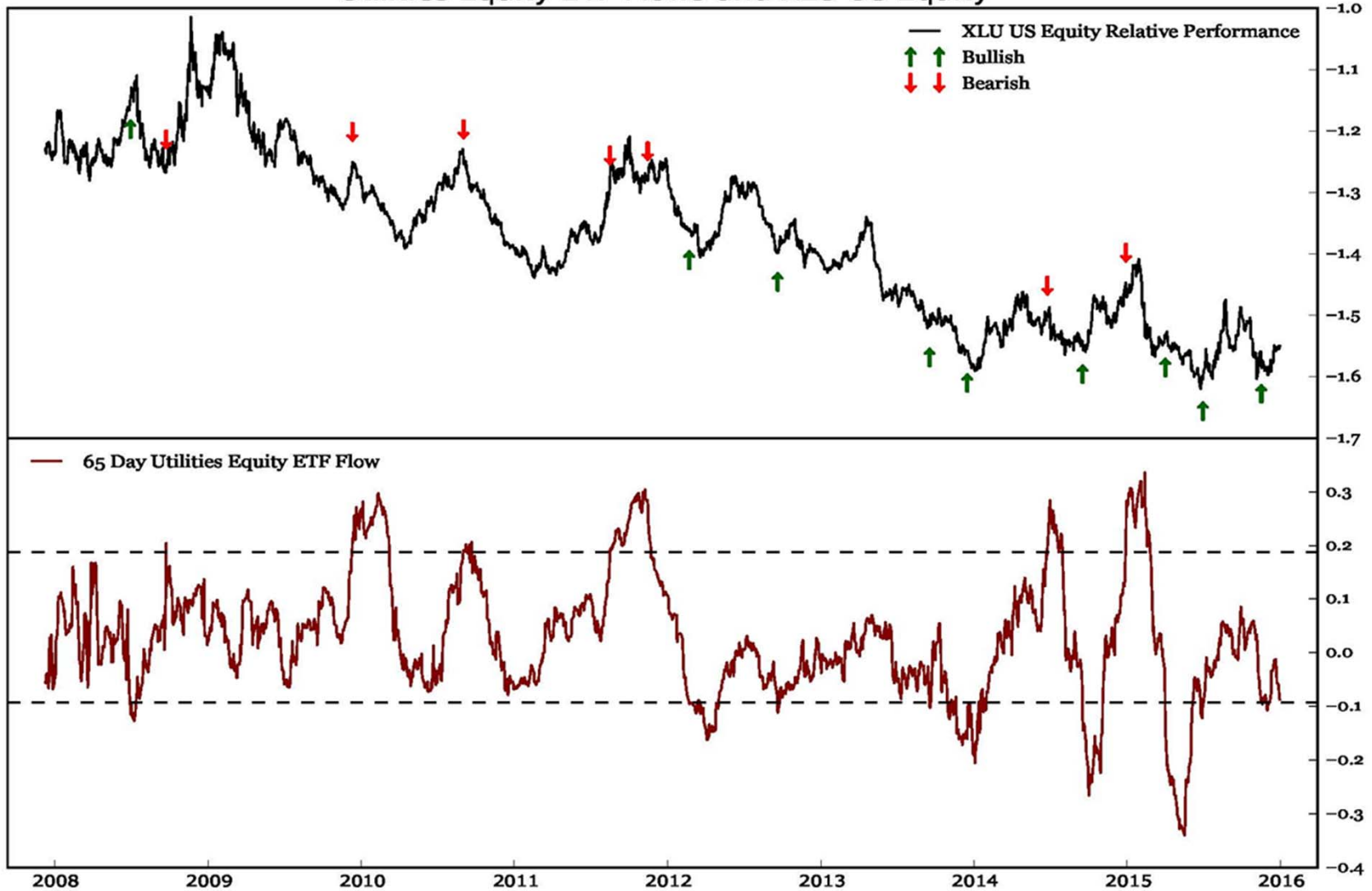
Bond ETF Flows and TLT US Equity



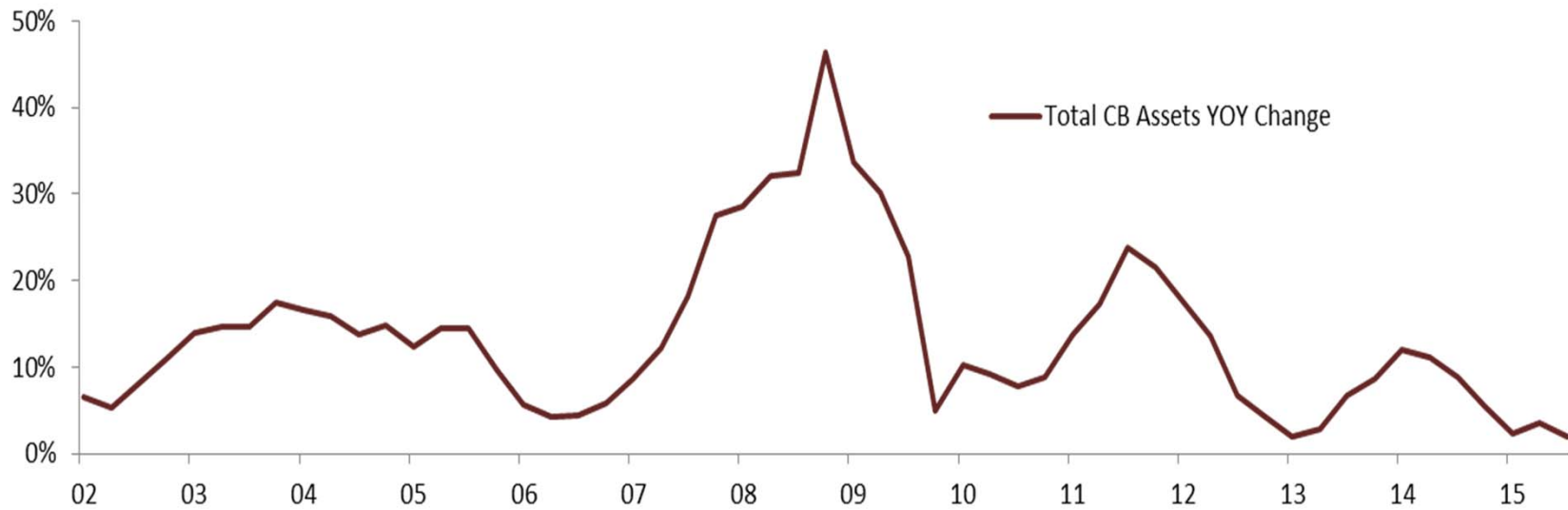
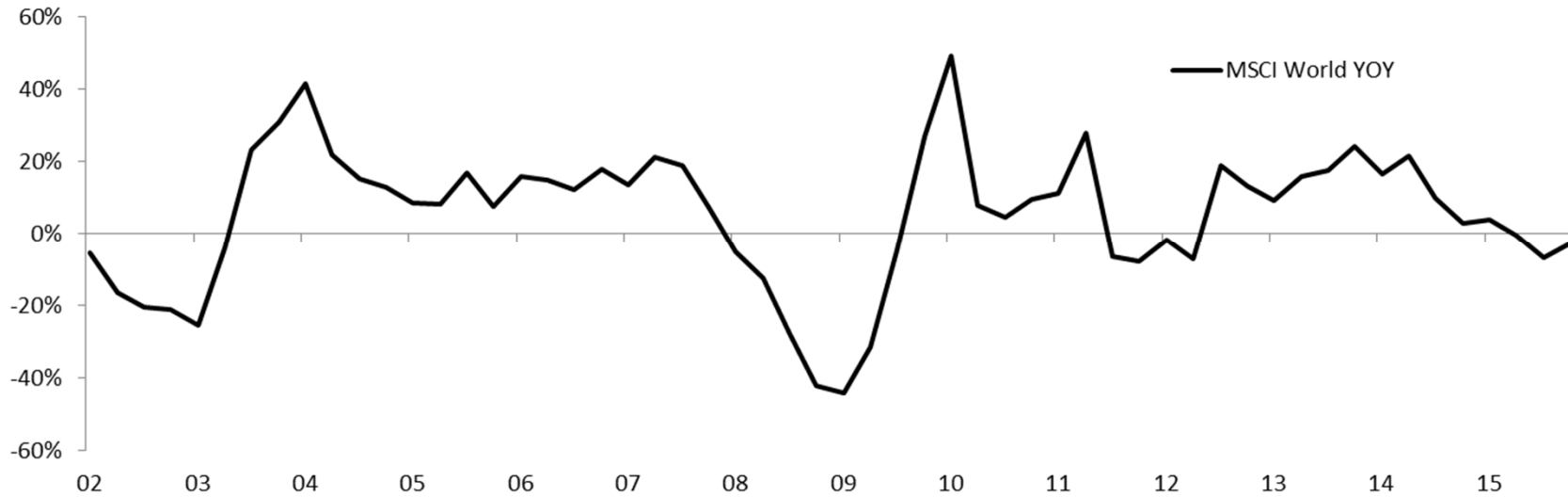


# Utility ETF flows also bullish

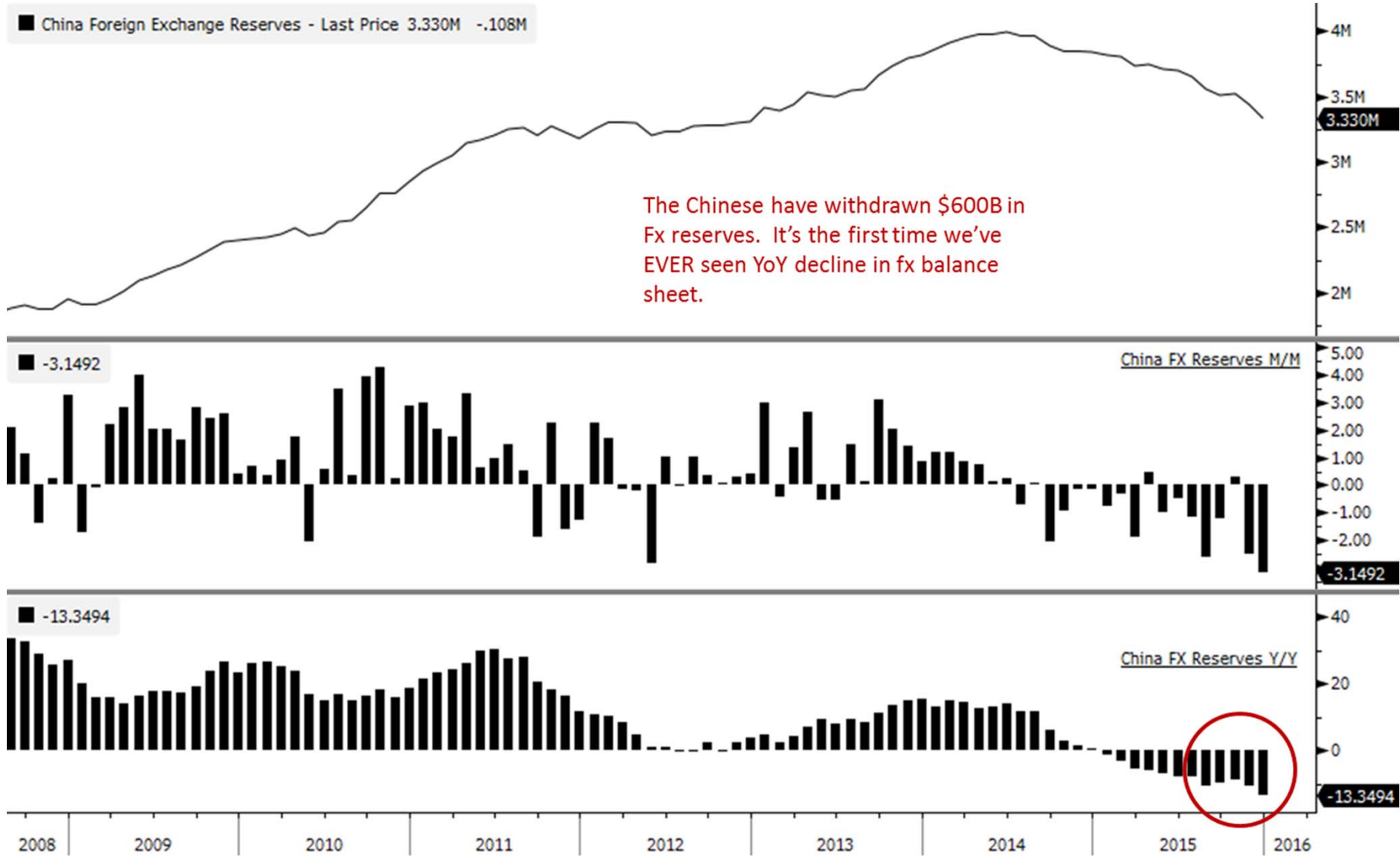
Utilities Equity ETF Flows and XLU US Equity



# Central bank assets growth is slow

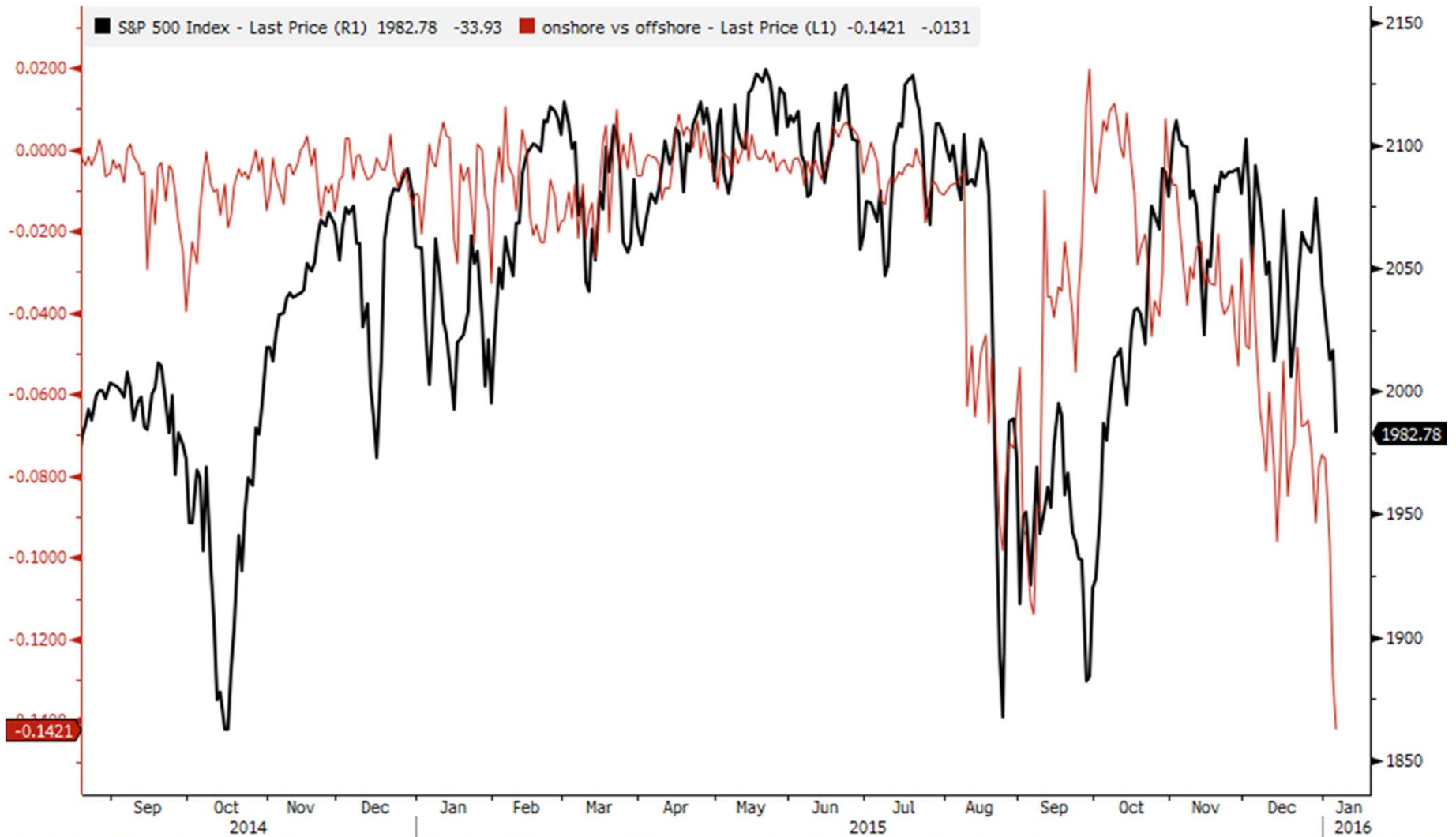


# China FX reserves contracting



WIRACHIN Index (China Foreign Exchange Reserves) China fx reserves Monthly 30NO Copyright© 2016 Bloomberg Finance L.P. 07-Jan-2016 08:51:27

# On-shore vs. off-shore Yuan

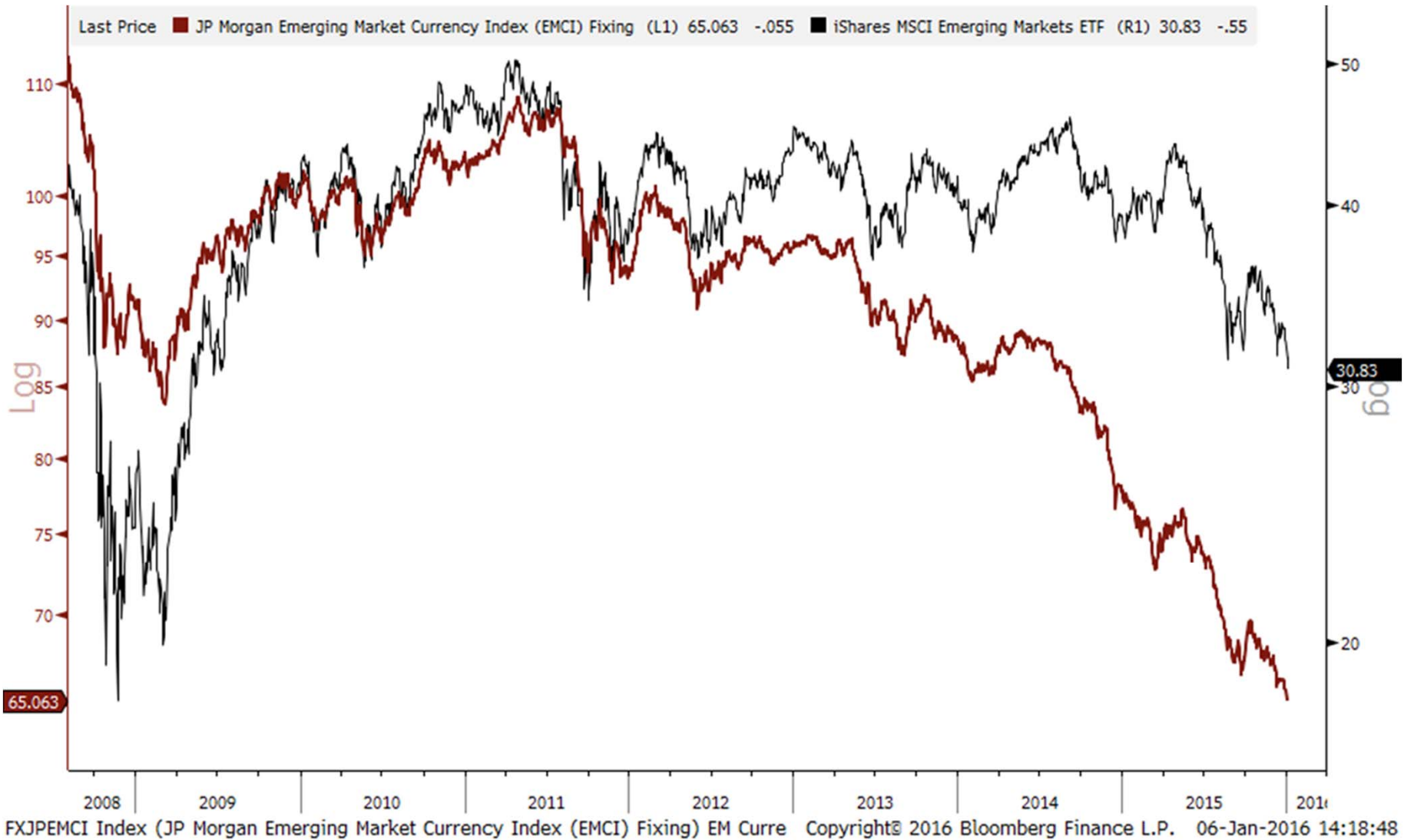


SPX Index (S&P 500 Index) SPX vs Yuan Daily 23AUG1994-06JAN2016

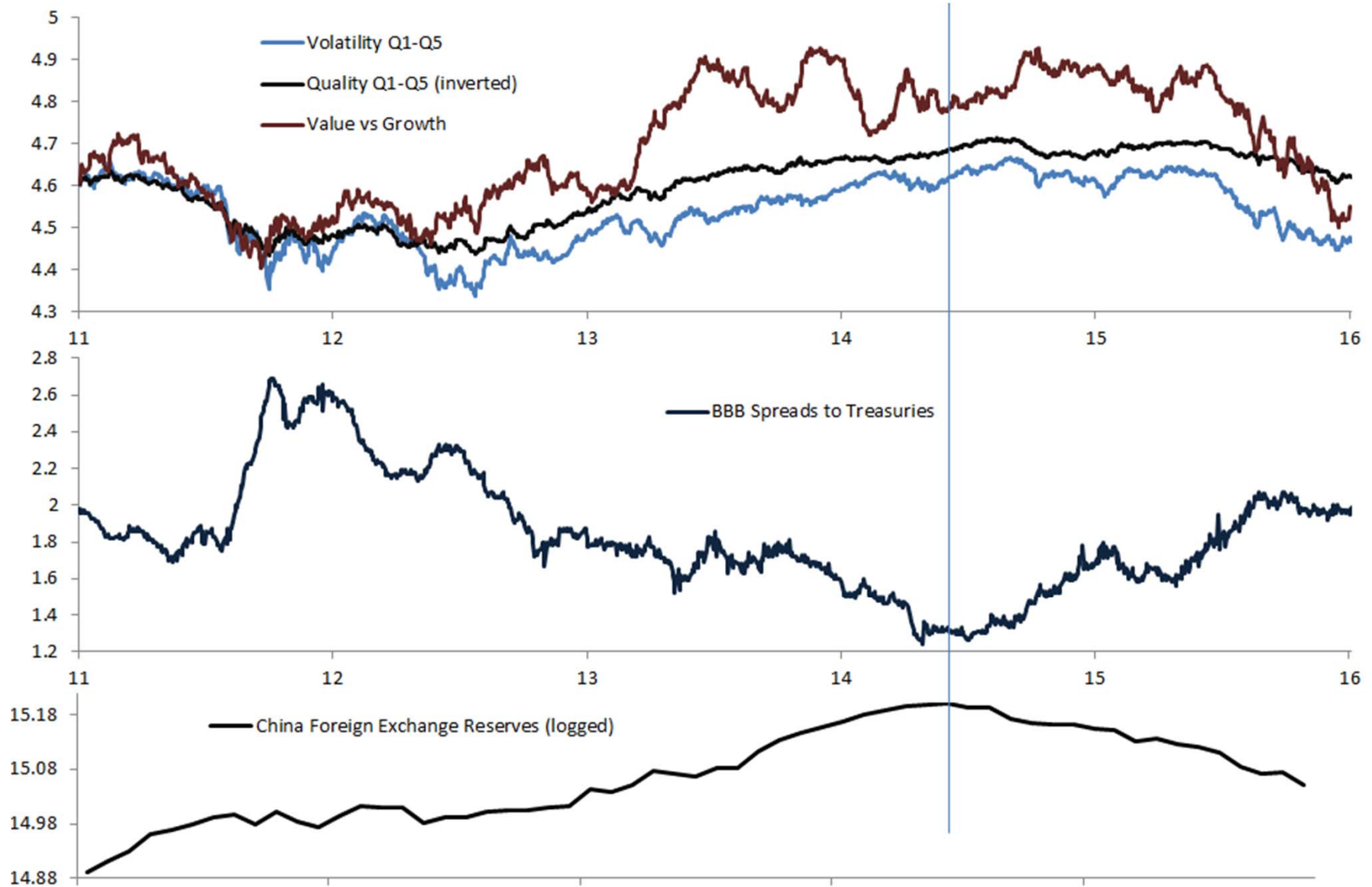
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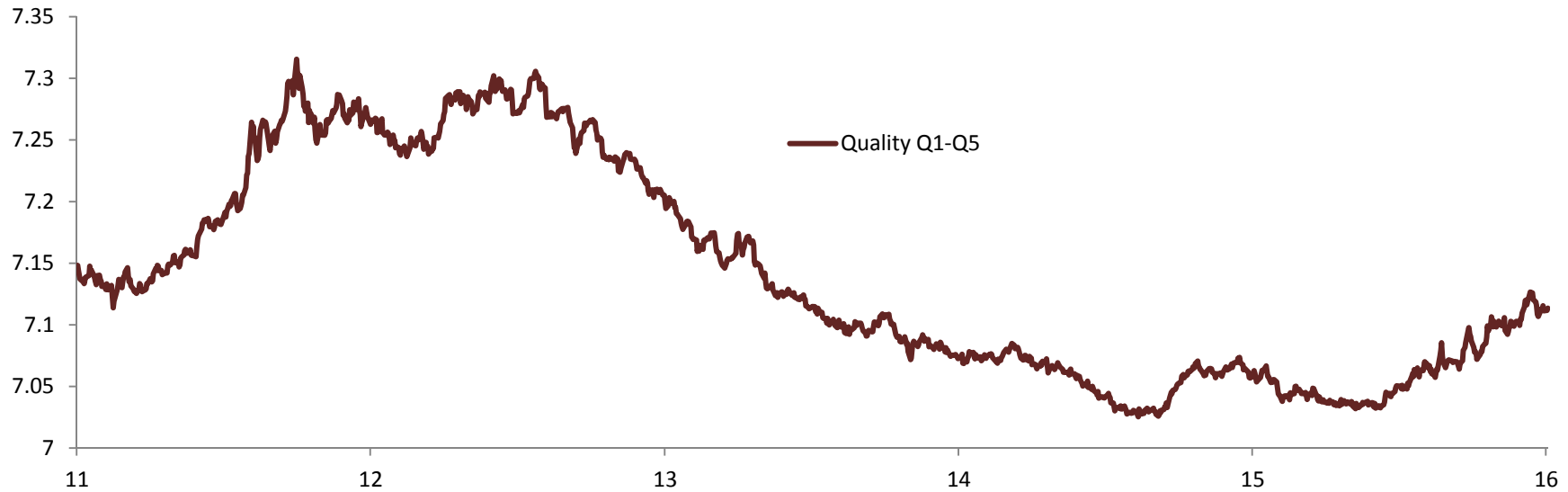
# EM Fx weak w/ exception of China

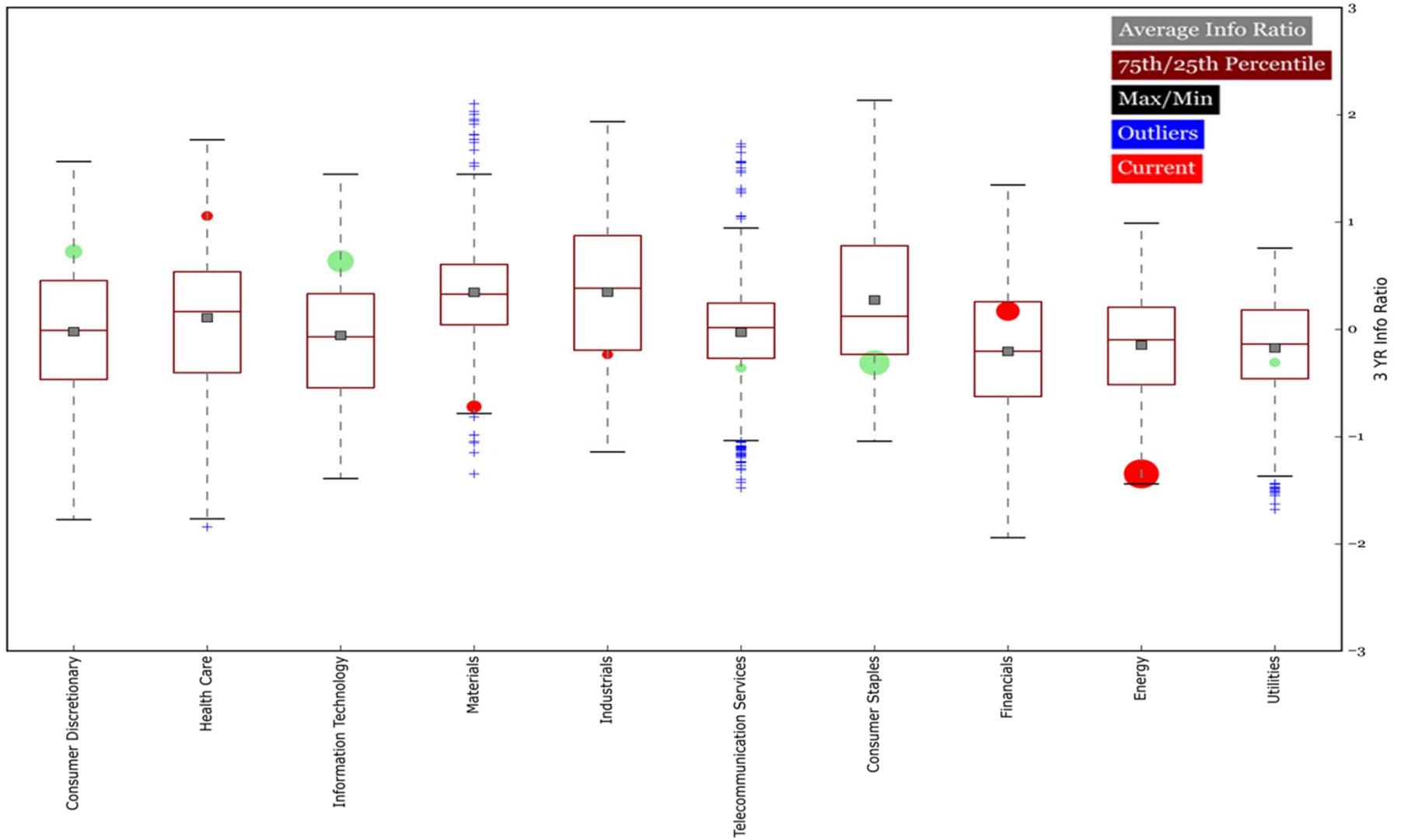


# China Fx reserves impact on assets



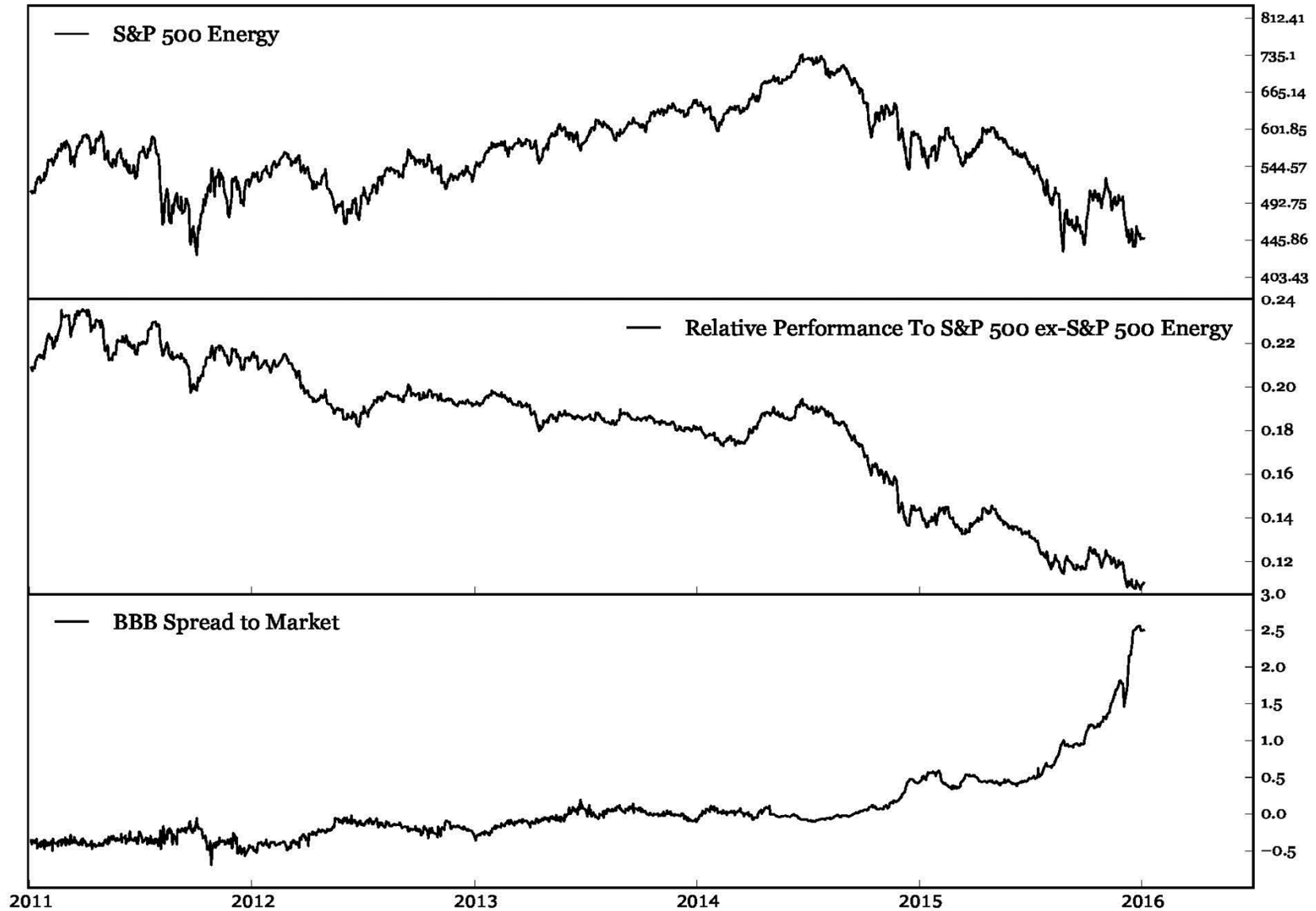
# Quality works when credit stressed







# Energy credit still widening



# INTC: One of the few mega-bases



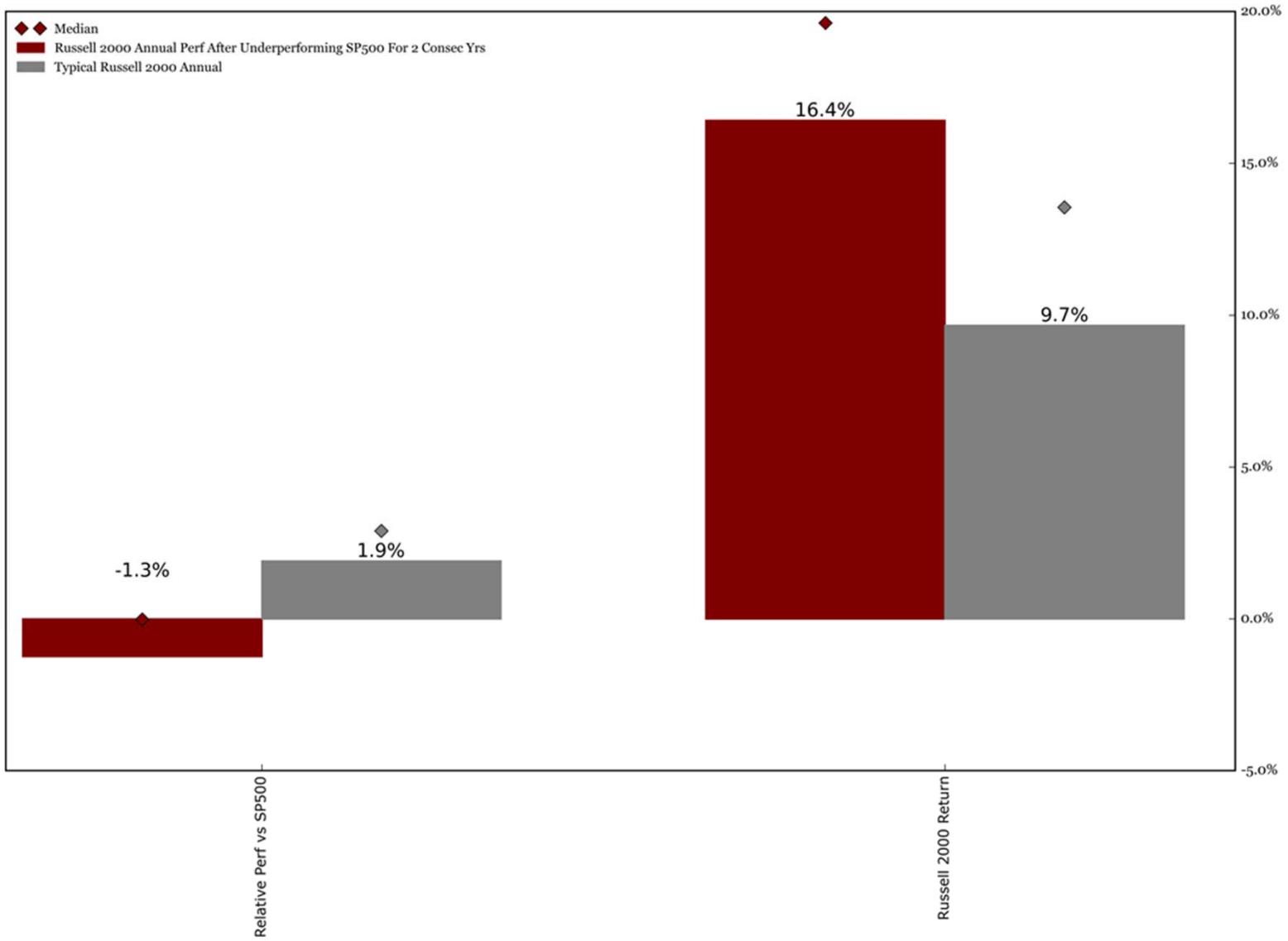


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# Small Cap & Sector Deep-Dives

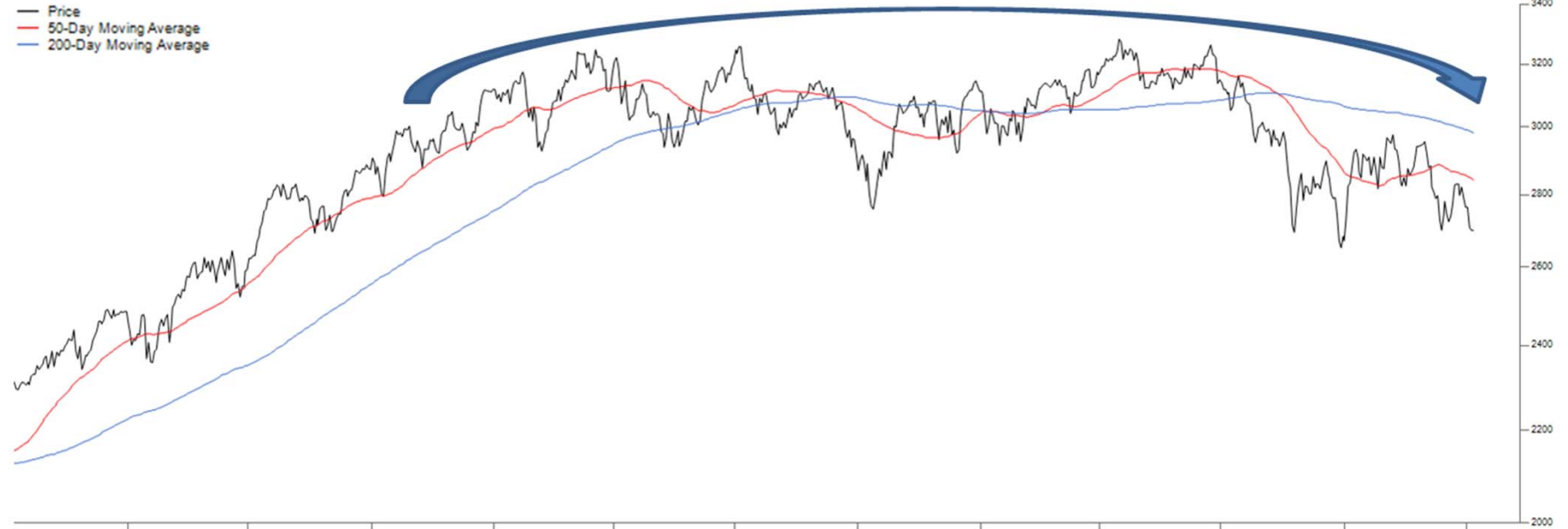
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Rob Ginsberg

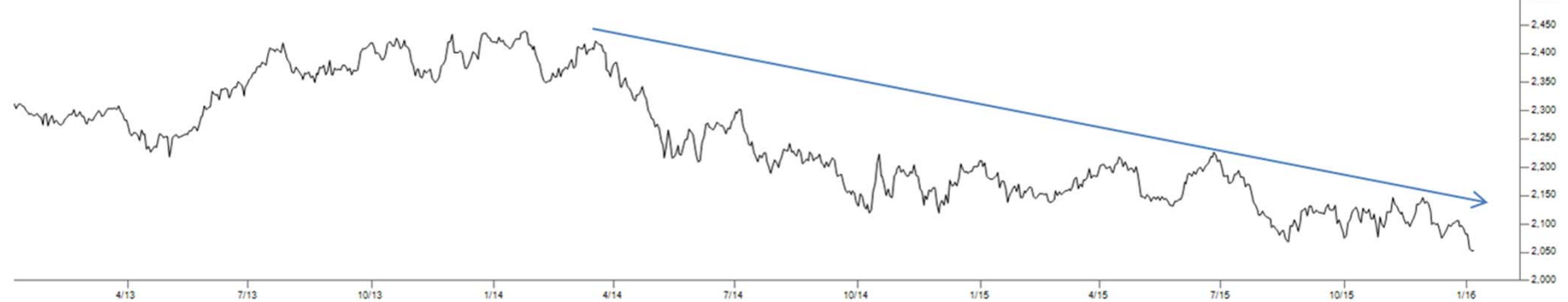


**...Yet, the technical backdrop remains our main concern**

Russell 2000 Equal Weight



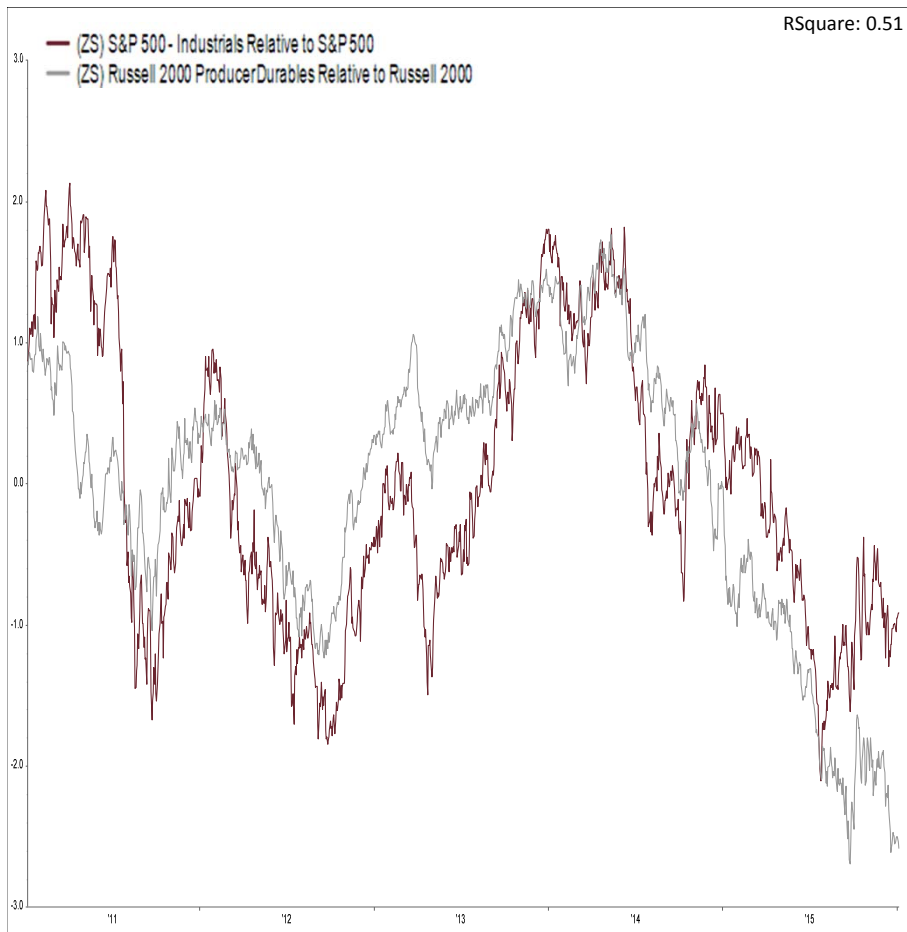
— Relative to Russell 1000 Equal Weight



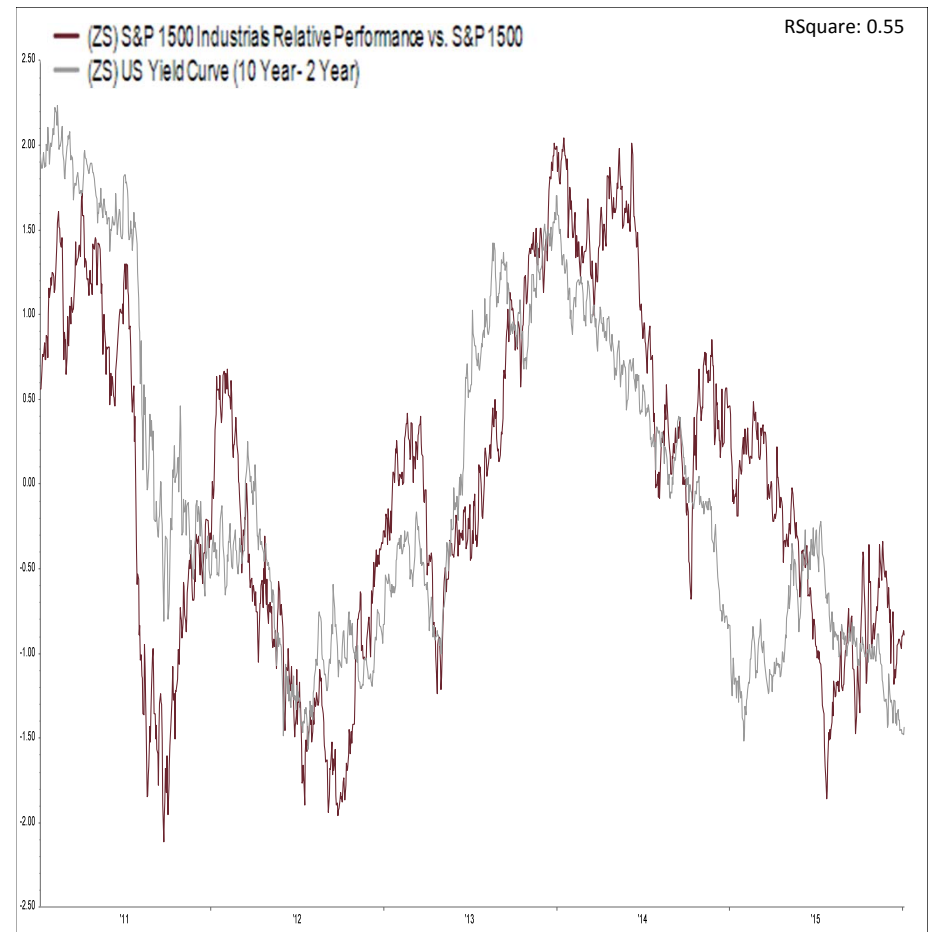
# Industrials: Valuation continues to intrigue us...



### Large vs. small cap industrials

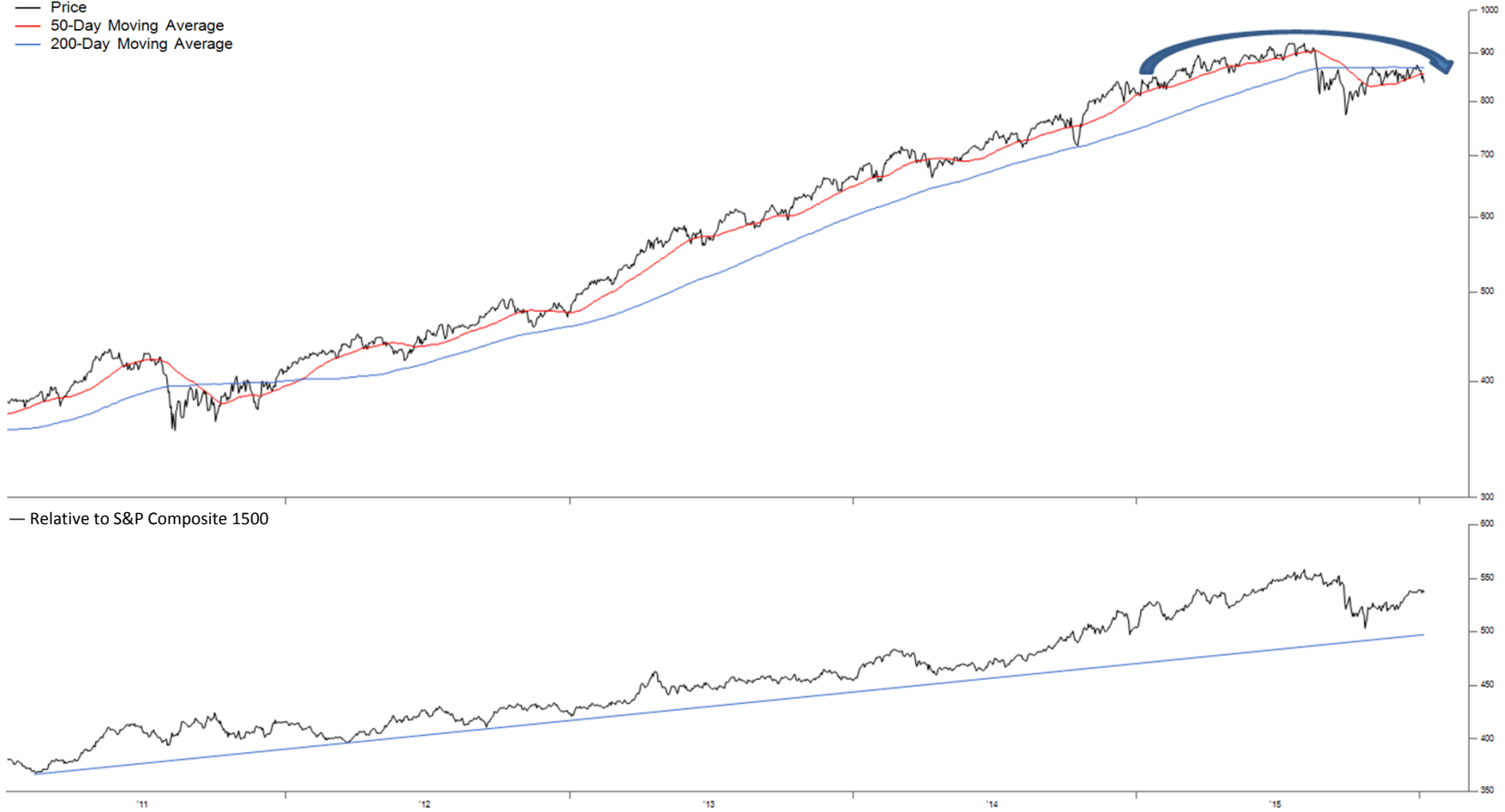


### Industrials relative performance and the yield curve



S&P Composite 1500 / Health Care -SEC

- Price
- 50-Day Moving Average
- 200-Day Moving Average





## Health Care: Sustained improvement In industrials would signal improving global growth prospects and an end to health care leadership, in our view





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