

May 11, 2017

Capital Markets Review

Ohio Retirement Study Council

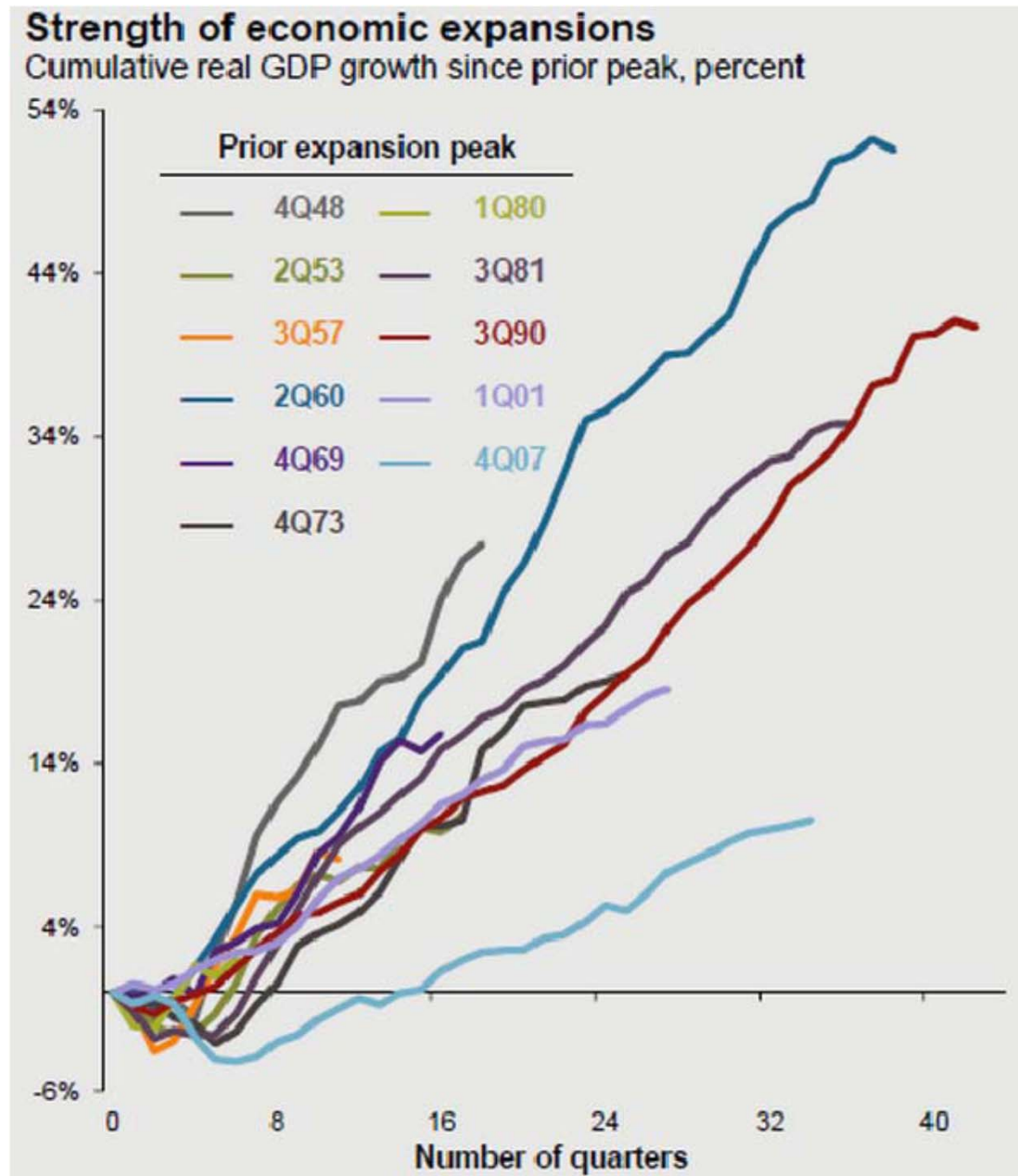


Economic Growth Has Been Tepid

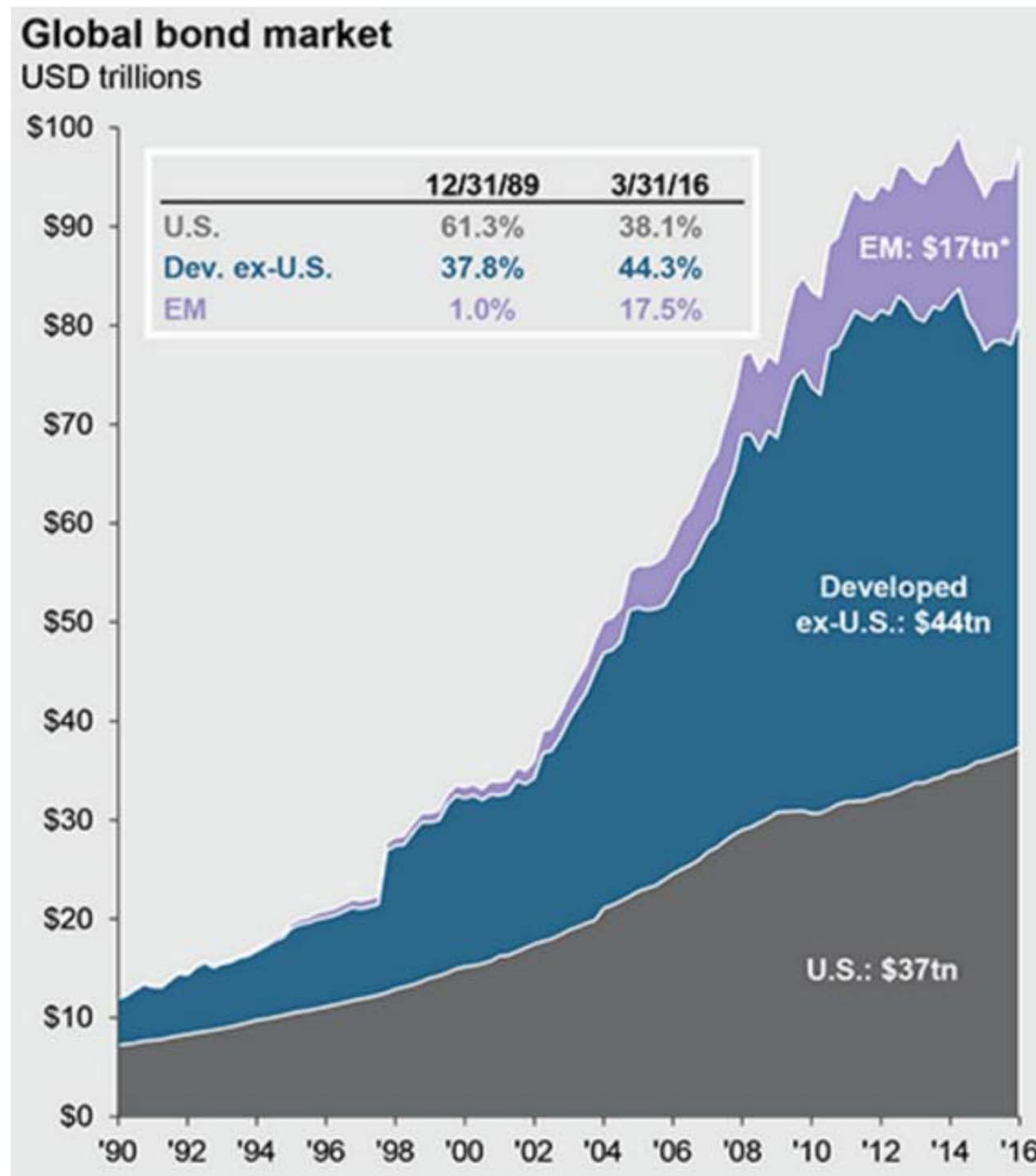
- ✓ In the U.S.
- ✓ Globally

Attribution and thanks to Lev Borodovsky.
Creator and editor of the chart service The Daily Shot (Wall Street Journal).

Putting the current recovery in perspective... tepid



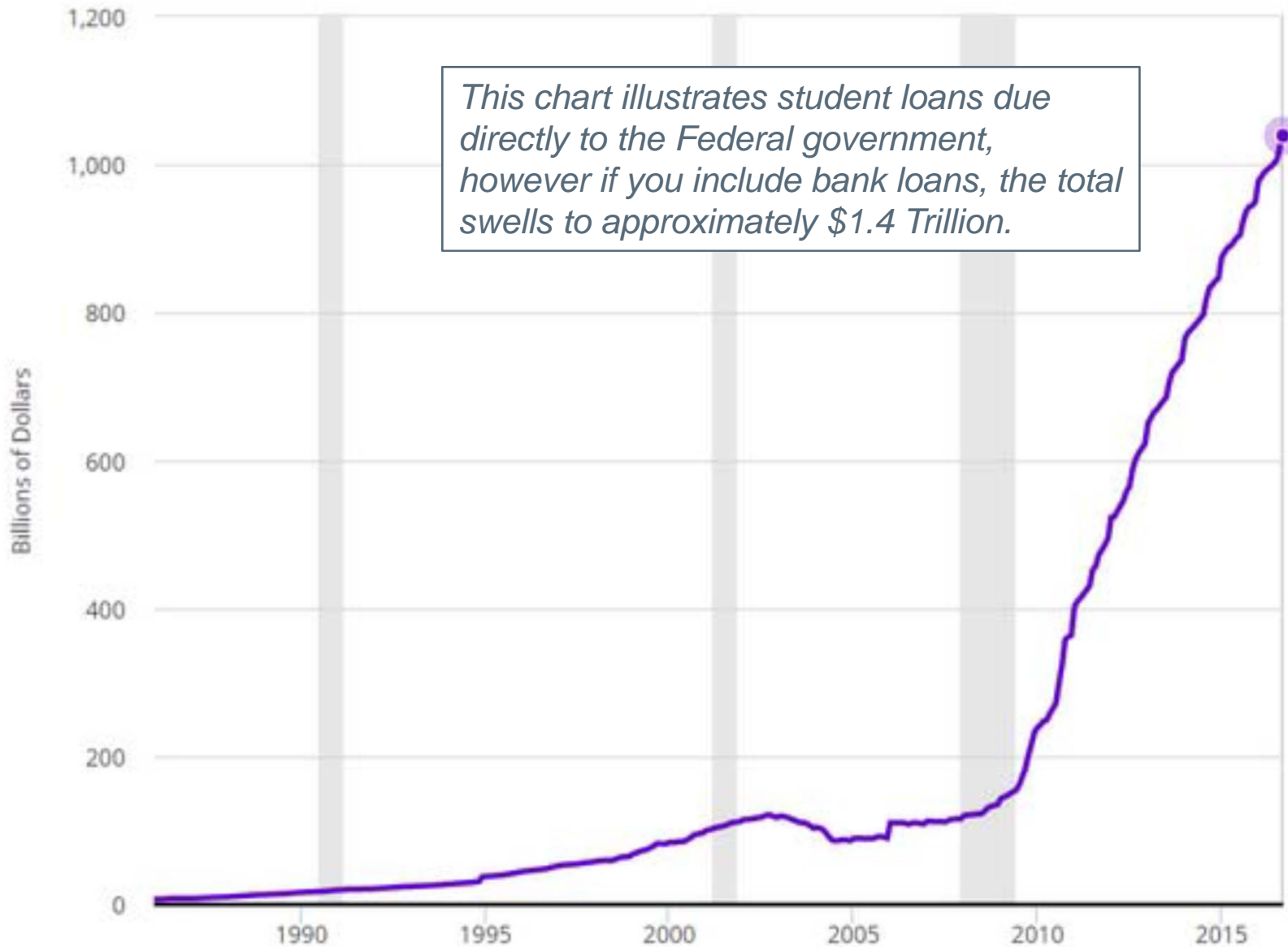
Global Debt Rises Dramatically – What Deleveraging?



Student Loans Continue to Climb – Remarkable Indebtedness

FRED 

— Nonrevolving Consumer Loans Owned by the Federal Government, Outstanding

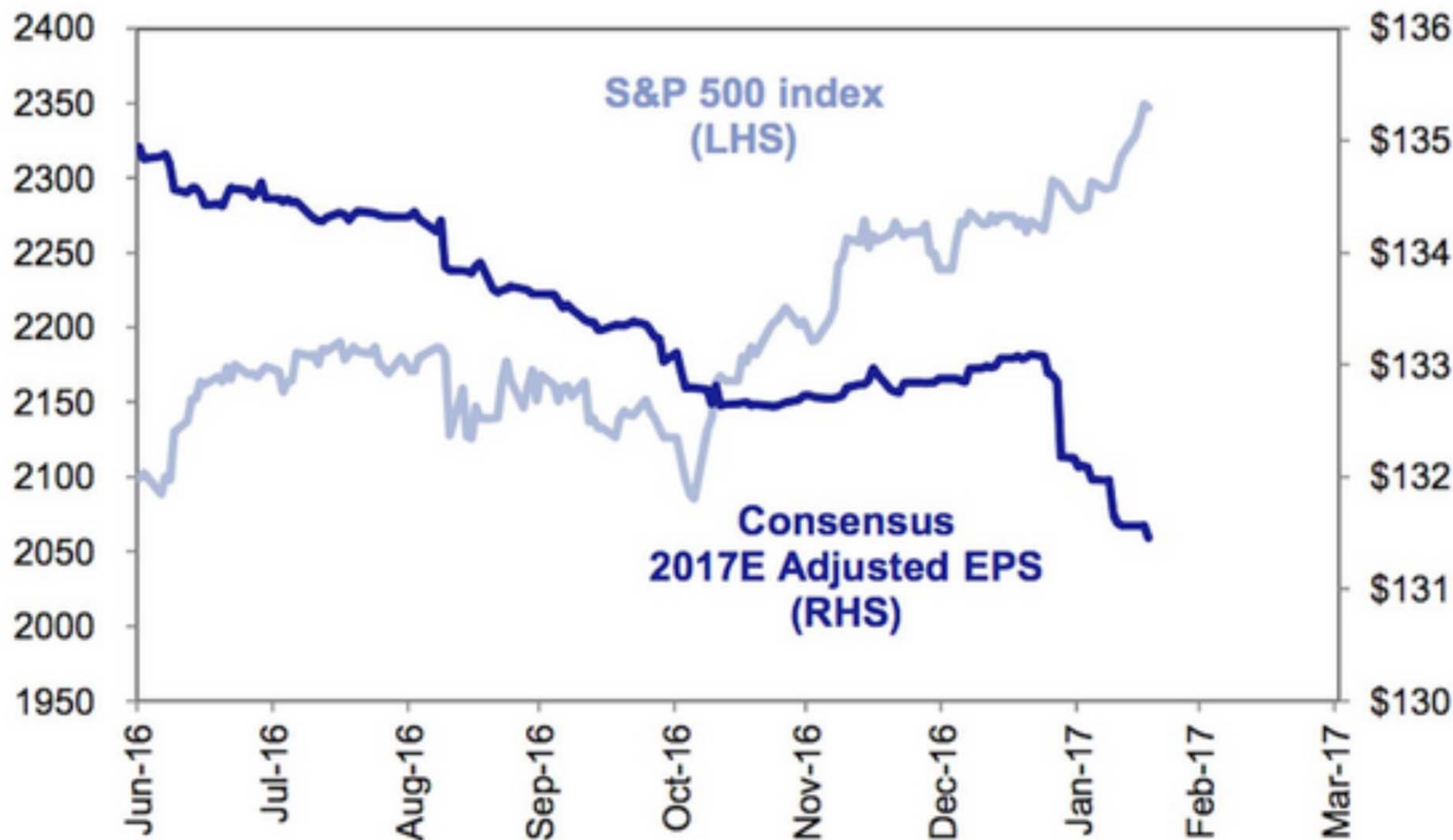


**Yet We (in the U.S. anyway) Are
Exceptionally Exuberant**



US Equities Continue Upward Even as Near Term Earnings Estimates Fall: Why?

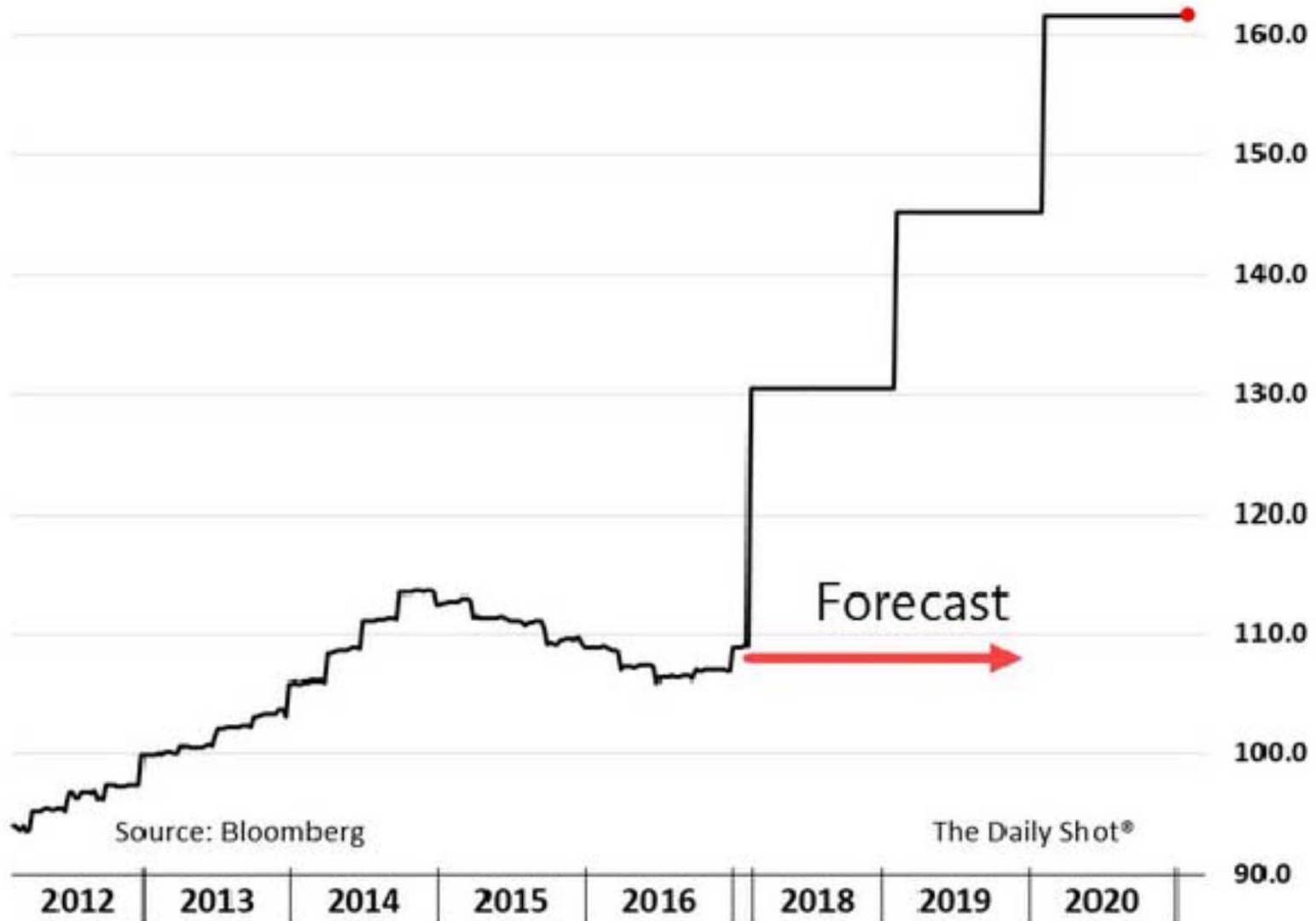
Exhibit 1: S&P 500 rallied as consensus adjusted EPS was revised down as of February 16, 2017



Source: FactSet and Goldman Sachs Global Investment Research.

Why? Forecasts for 2018-2020 are Extraordinarily Optimistic

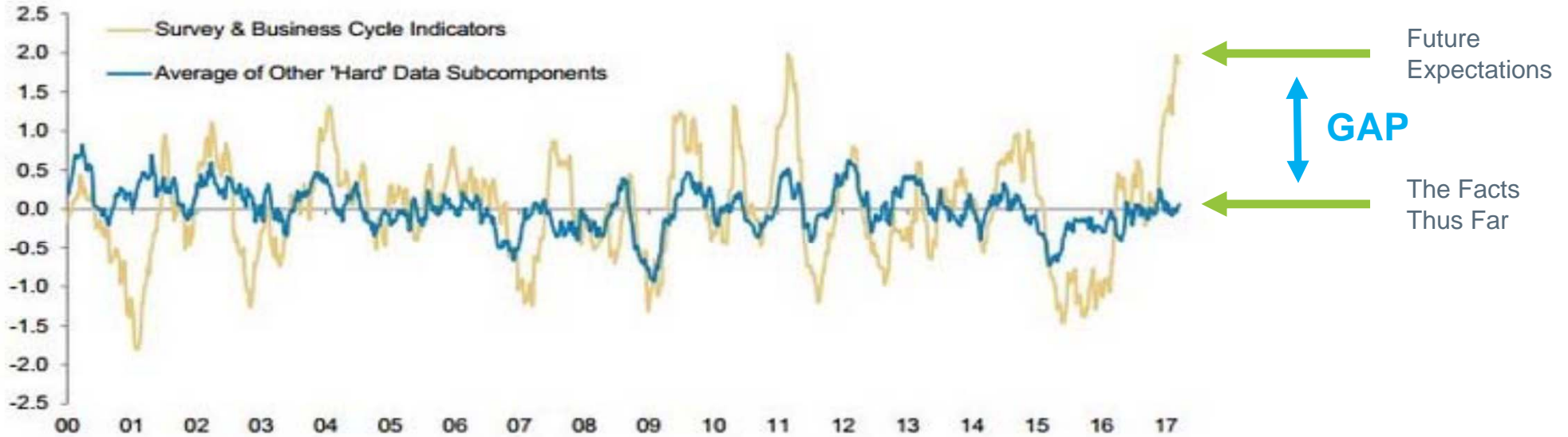
S&P 500 EPS Consensus Forecast



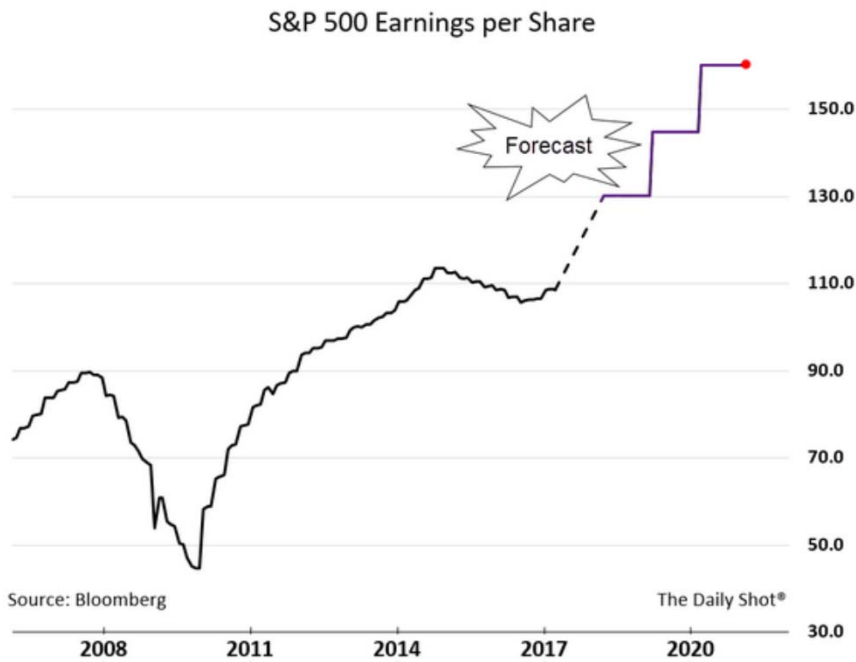
Source: Bloomberg

The Daily Shot®

Lots of Optimism ... In General ...



Source: Bloomberg, Morgan Stanley Research

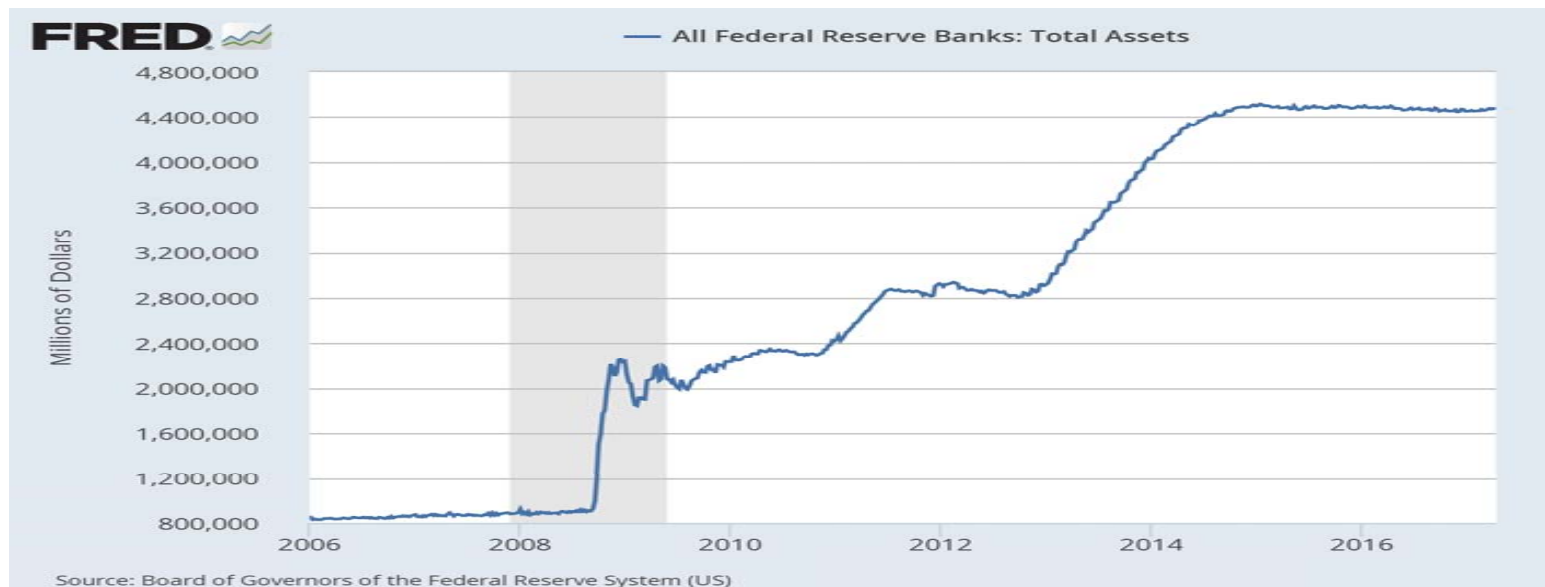


Source: Bloomberg

The Daily Shot®

... and on EPS

The Fed – Balance Sheet more so than the Fed Funds Rate



How will they reduce the balance sheet back to “normal”

Two Balance Sheet Scenarios

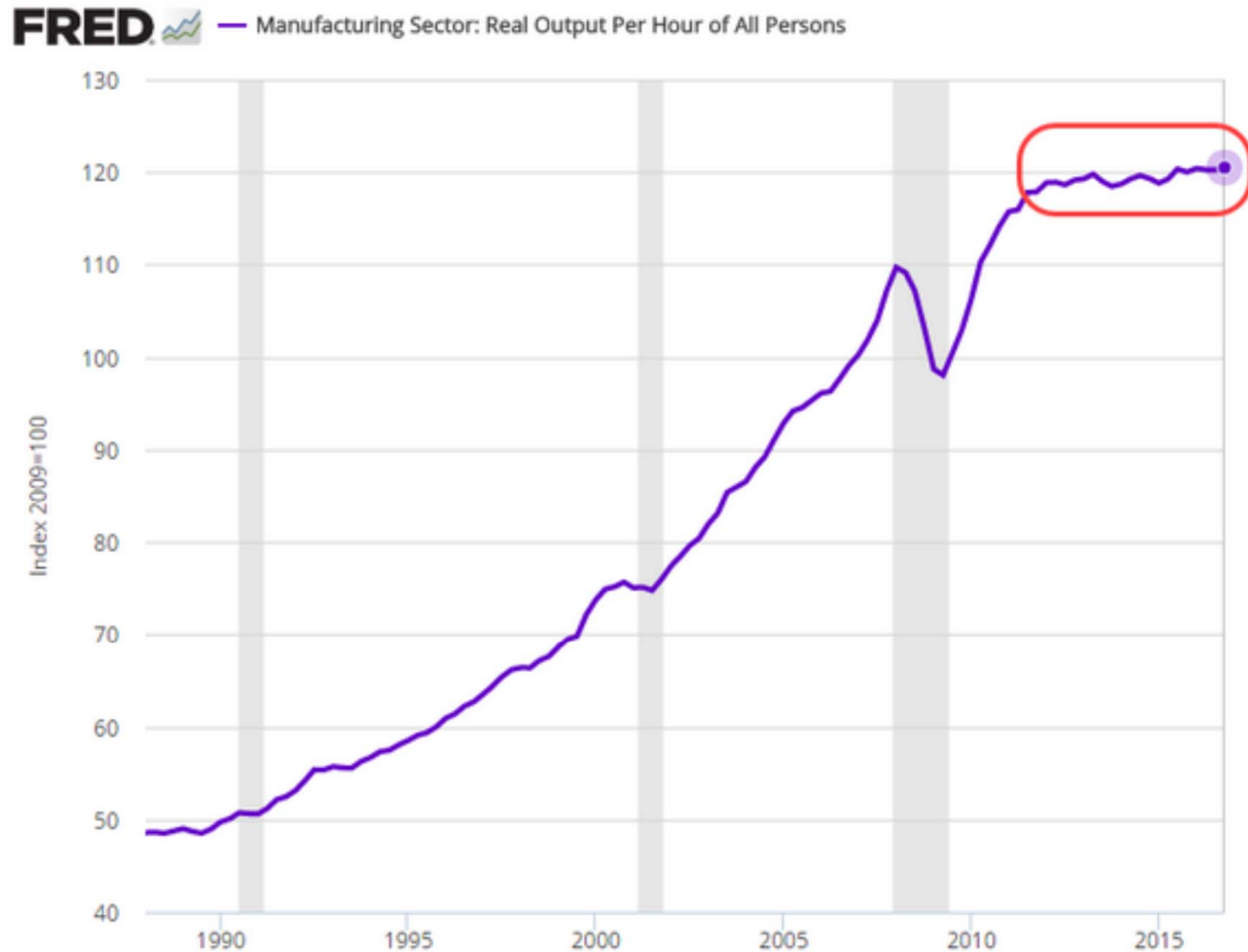


Source: Goldman Sachs Global Investment Research

Productivity Drives Wealth Creation

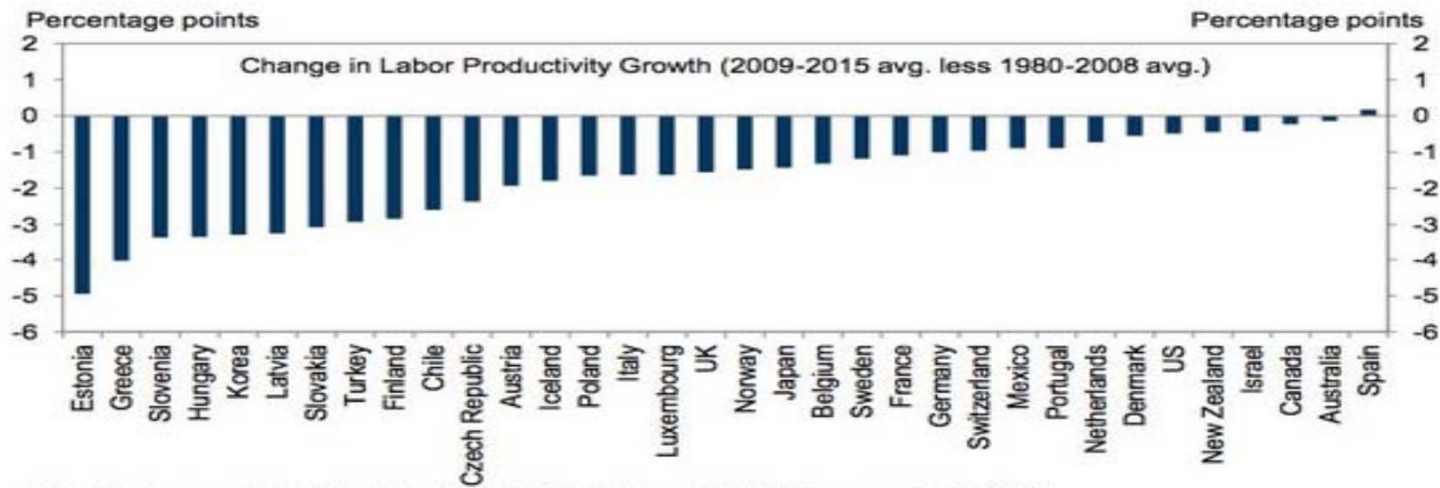


Productivity Growth – The Foundation for Sustained Wealth Creation and Wage/Income Growth Appears Stalled in the U.S. for Now



... And Productivity Growth is Slowing Globally ...

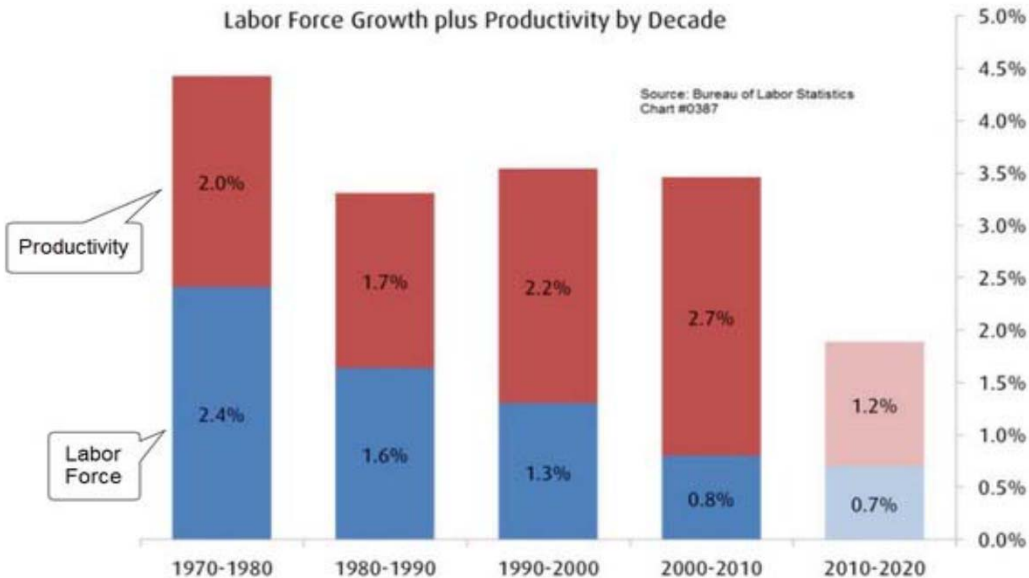
Exhibit 2: A Widespread Slowdown



Note: We have excluded Ireland due to a statistical change in its GDP accounting in 2015.

Source: OECD

Labor Force Growth plus Productivity by Decade

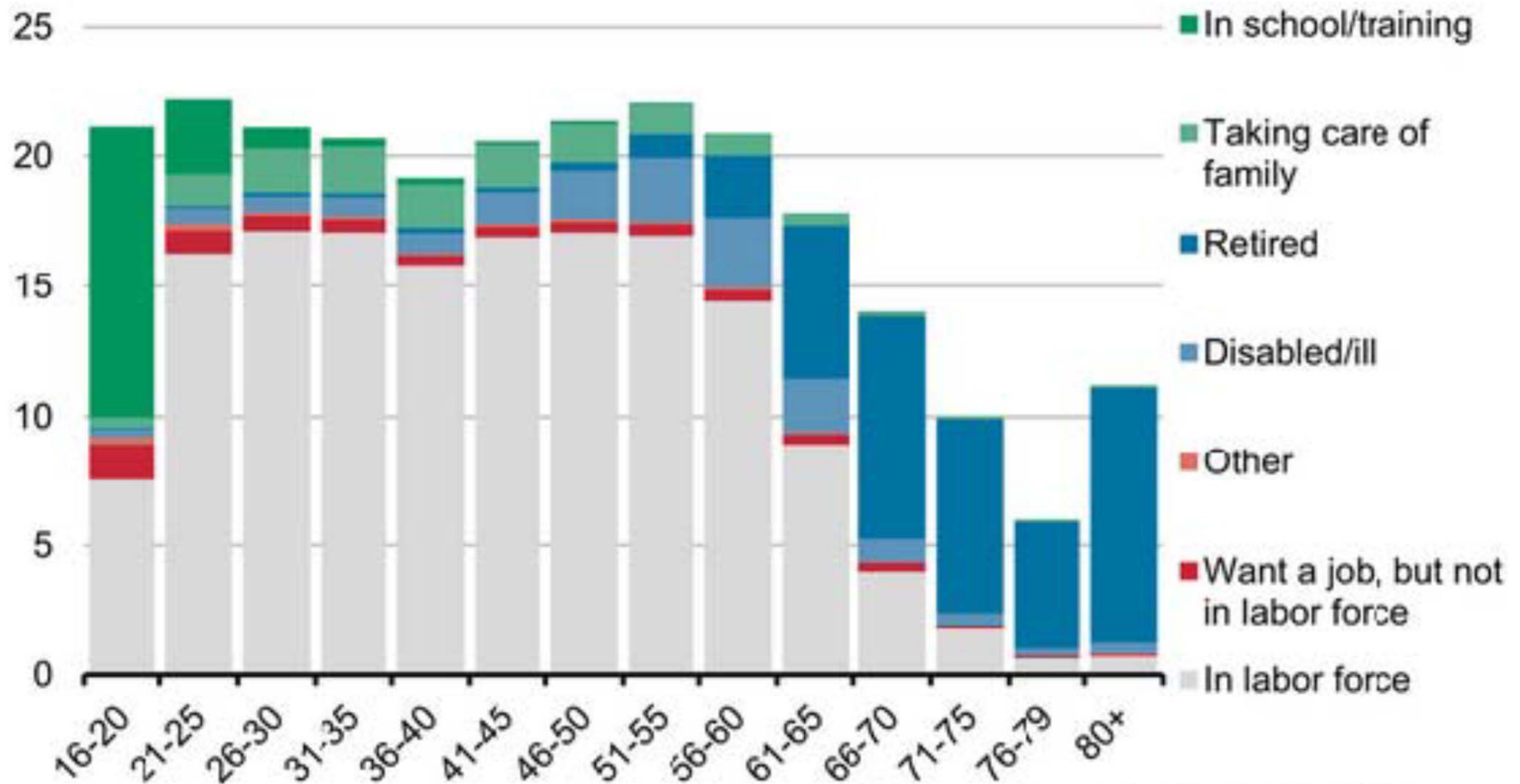


... And in the U.S. as well

A Productivity Issue?

Who's Not Working

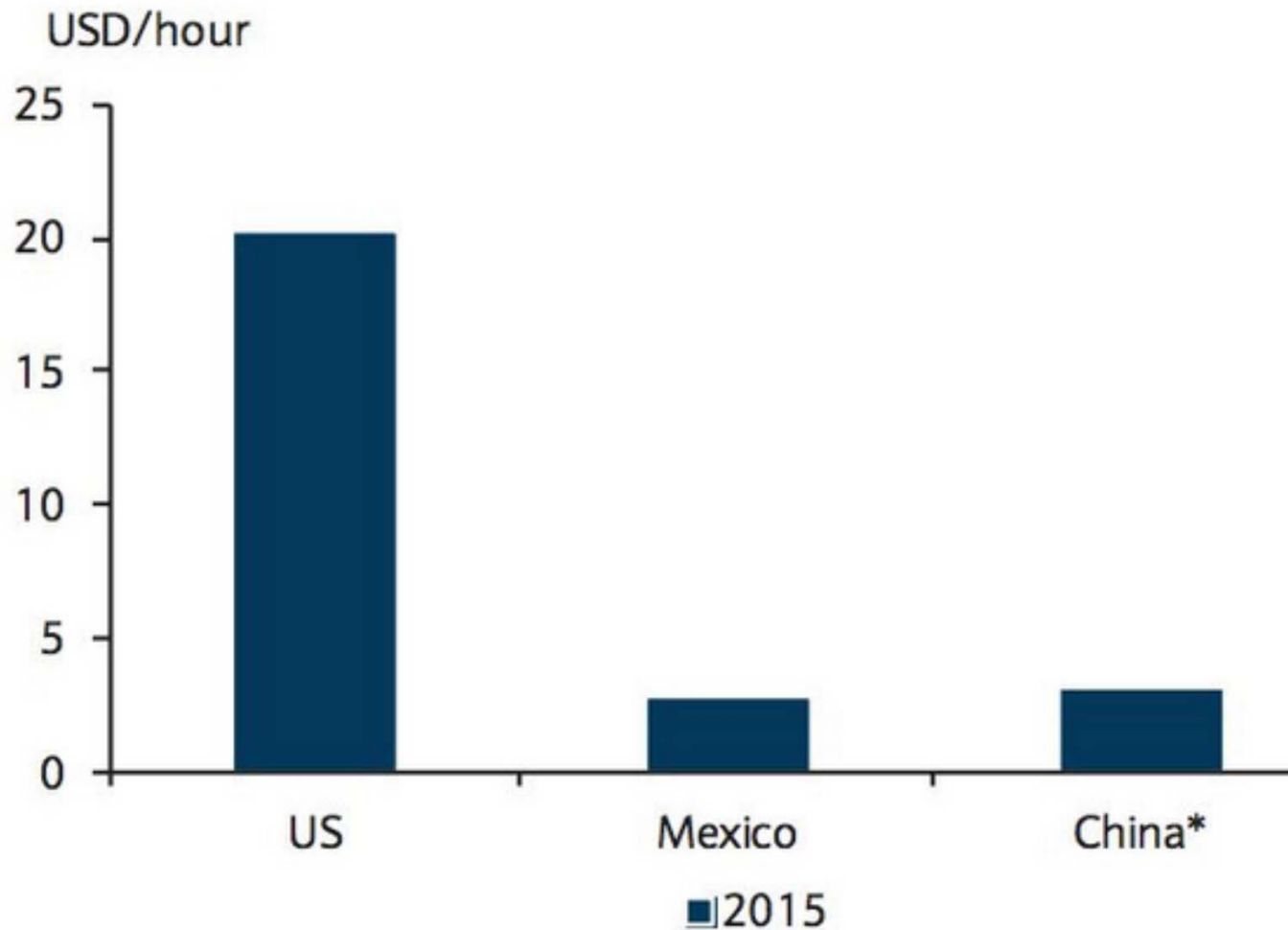
Number of people (in millions) by age and reason for not being in the labor force in 2014



Source: Labor Department via Atlanta Fed | WSJ.com

International Competition to Supply Global Demand Remains Intense

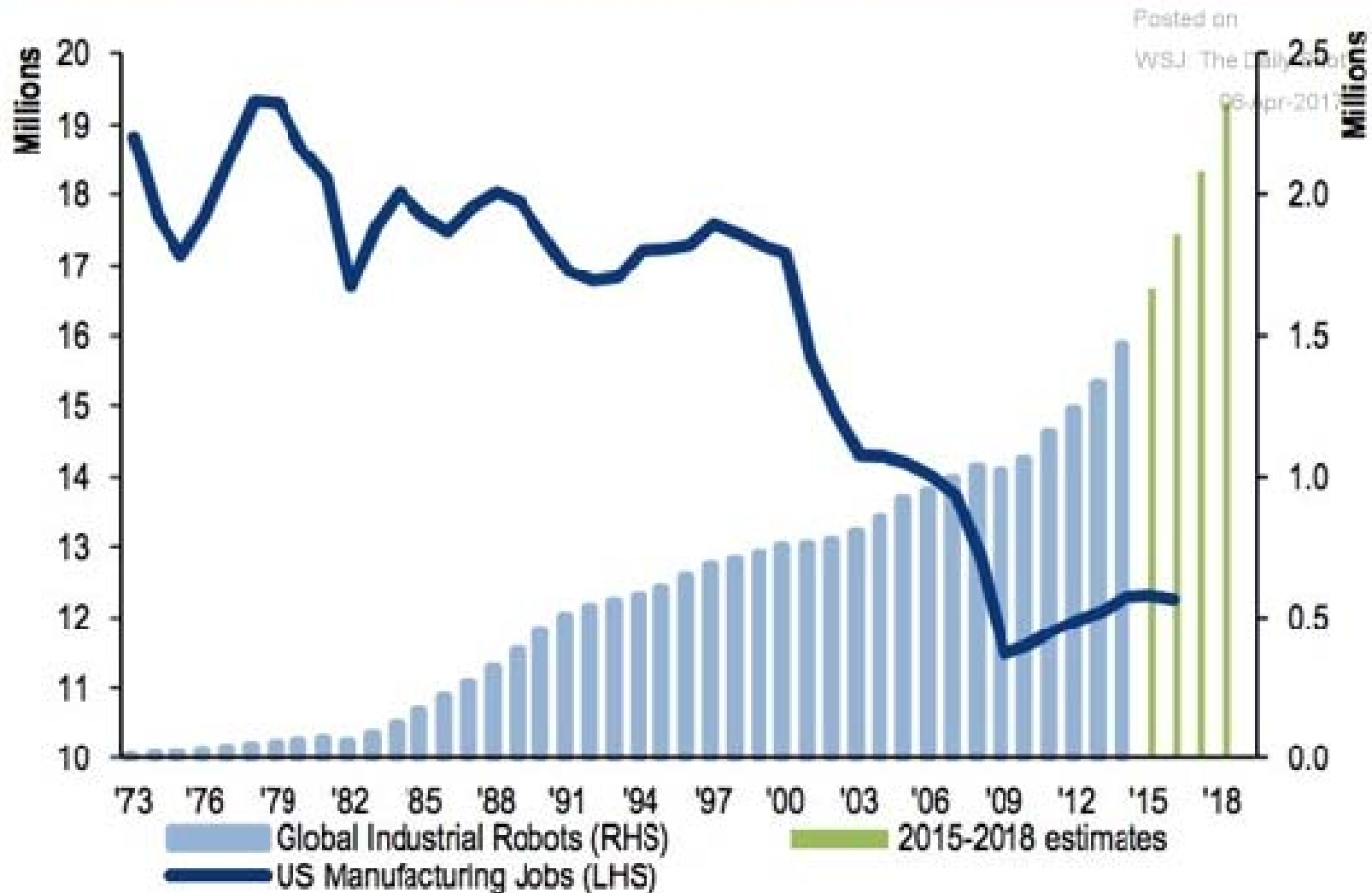
Average hourly wage in manufacturing sector



*Own estimate according to PBC data Source: INEGI, PBC, Barclays Research

Tariffs Cannot Keep Productivity Enhancing Automation At Bay

Chart 25: You can't build a wall to keep the robots out



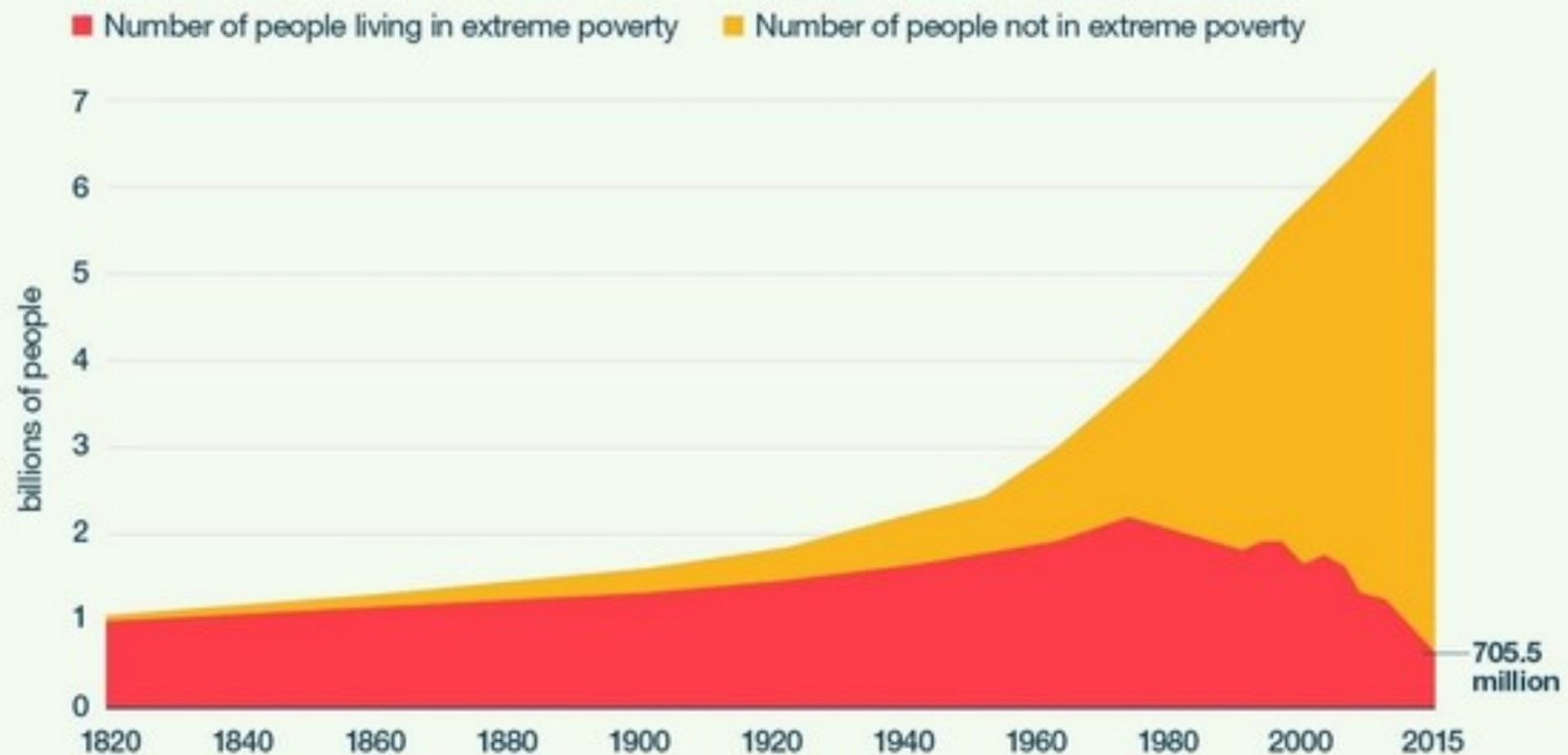
Source: BofA Merrill Lynch Global Investment Strategy, IFR Statistical Department

Let's End With Some Good News

gatesletter.com

Out of Poverty

Over the past 25 years, an average of 137,000 people were lifted from extreme poverty each day



Source: Our World in Data; extreme poverty defined as living on less than \$1.90/day in 2015 dollars

PORTLAND

CHICAGO

NEW YORK

