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4th Quarter 2015 Webcast

Global Macro Overview

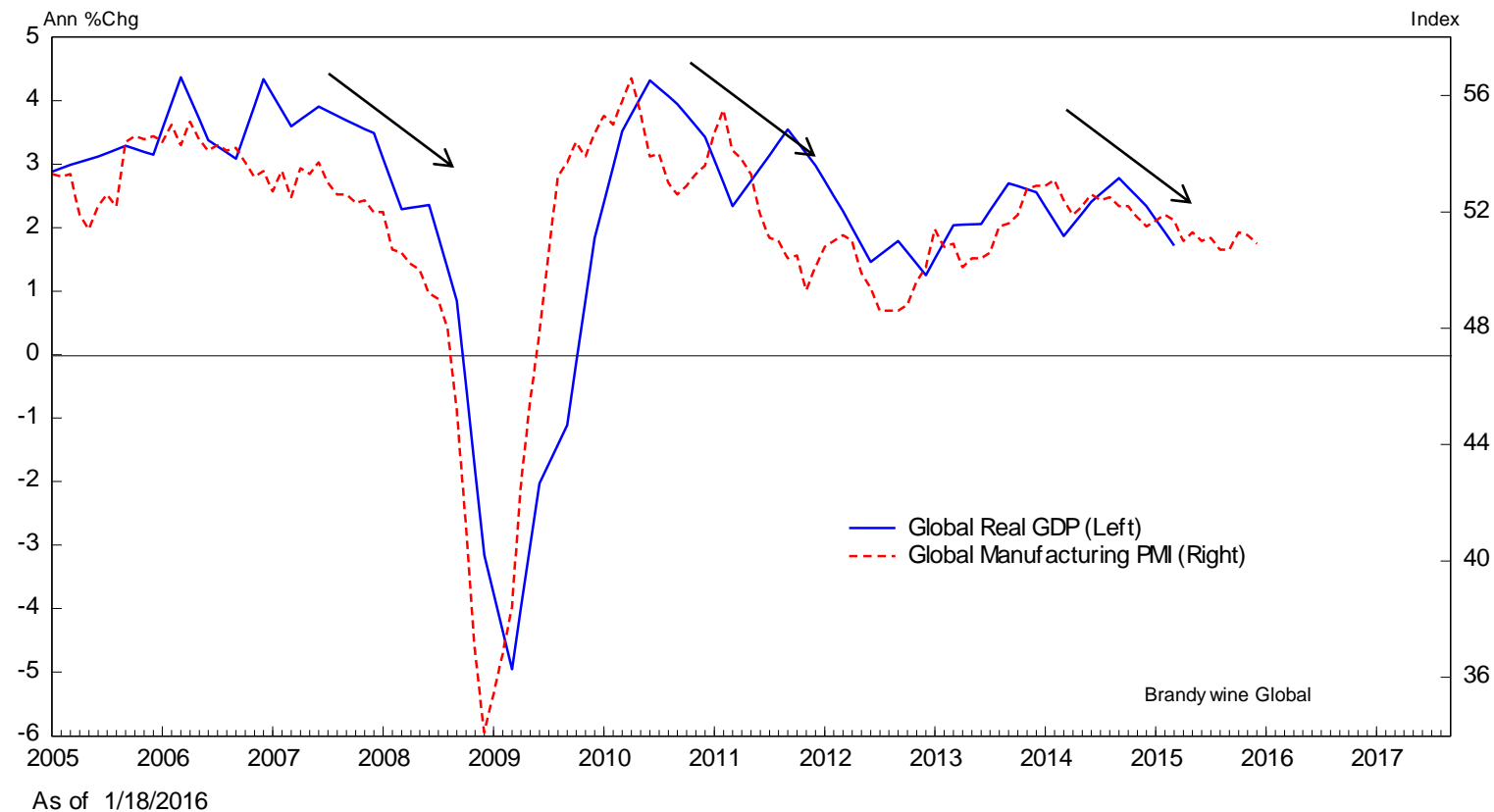
Presented by

Francis A. Scotland

Co-Director of Global Macro Research

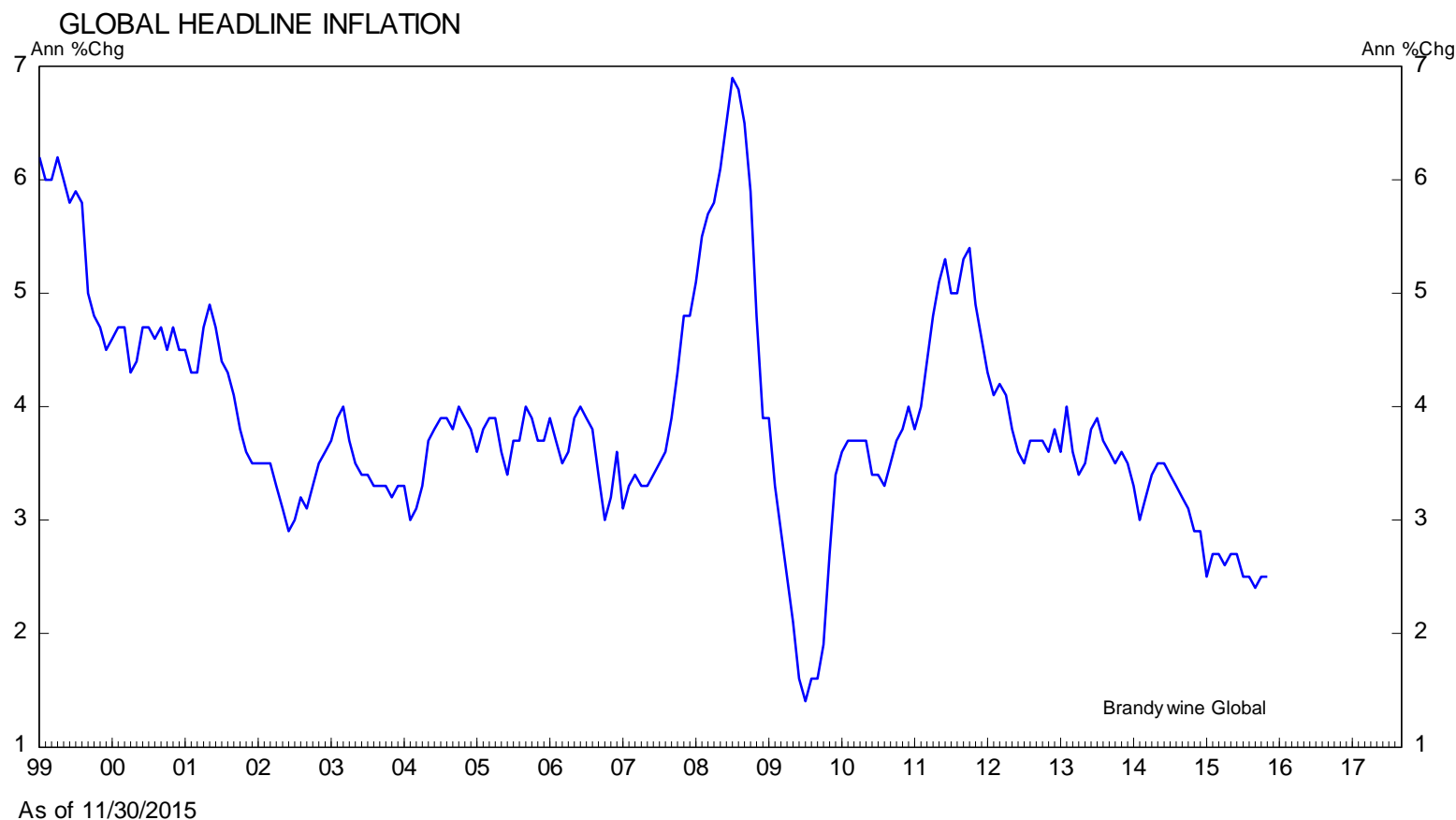
Can See the Three Down Cycles Since 2008

The Third Started the Beginning of 2014. The First was the U.S. Housing Bust. The Second was Europe Sovereign Crisis. Third is China.



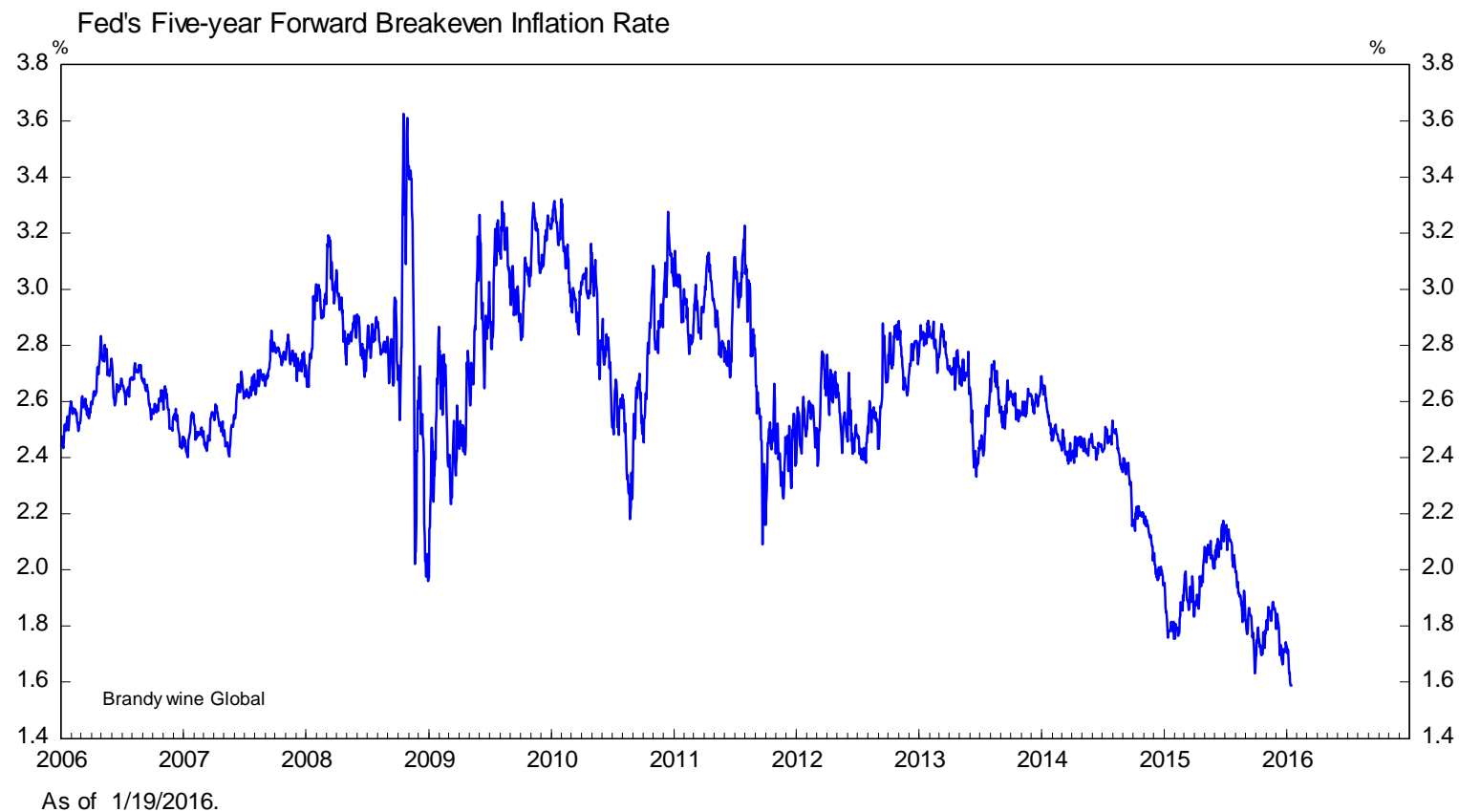
Source: Thomson DataStream

With Each Crisis There has been a Big Slide in World Inflation Before Stabilizing on the Back of a lot of Policy Stimulus



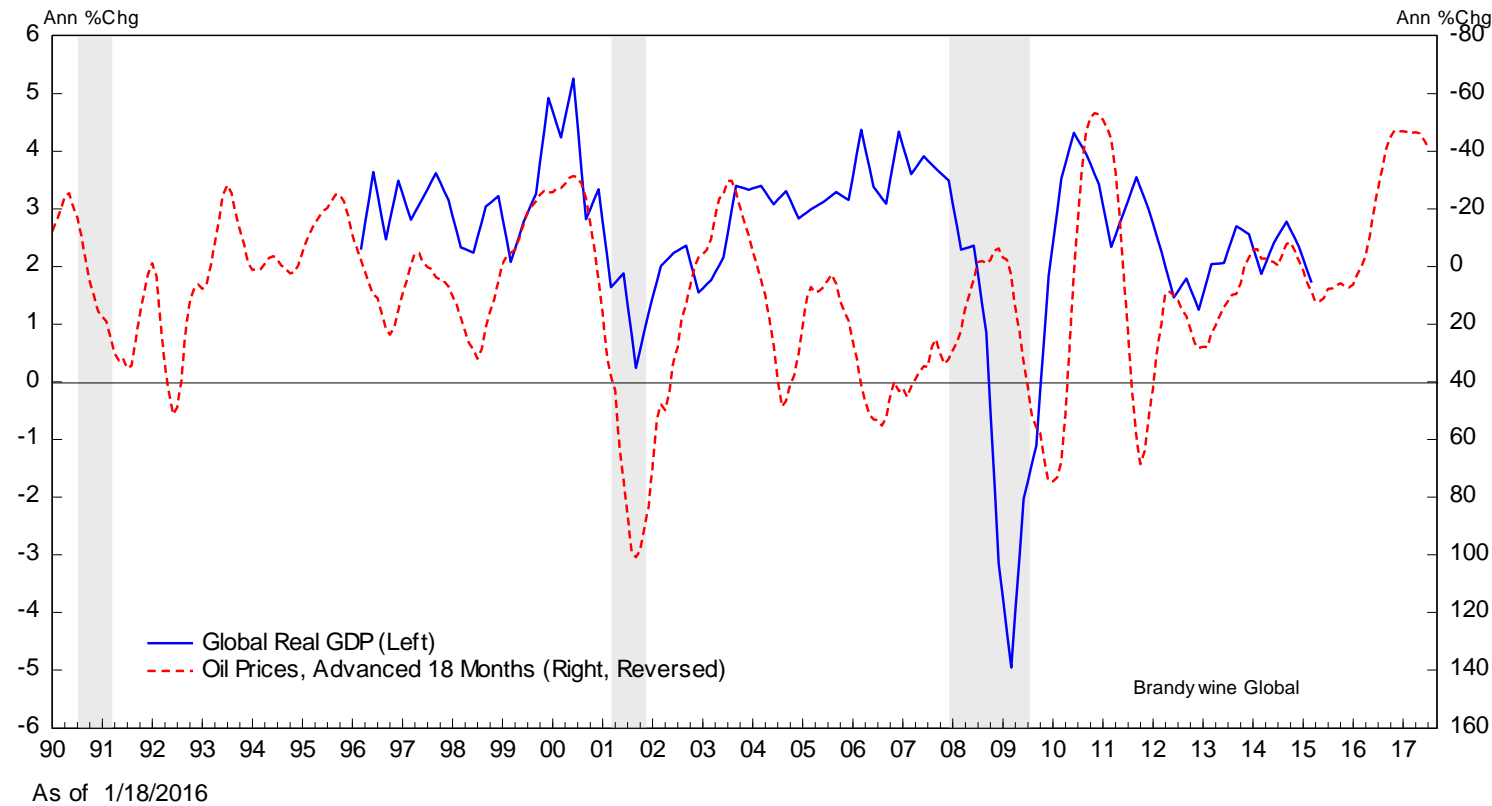
Source: Bloomberg

Forward Inflation Expectations have Melted in the U.S. Since 2014



Source: Thomson DataStream

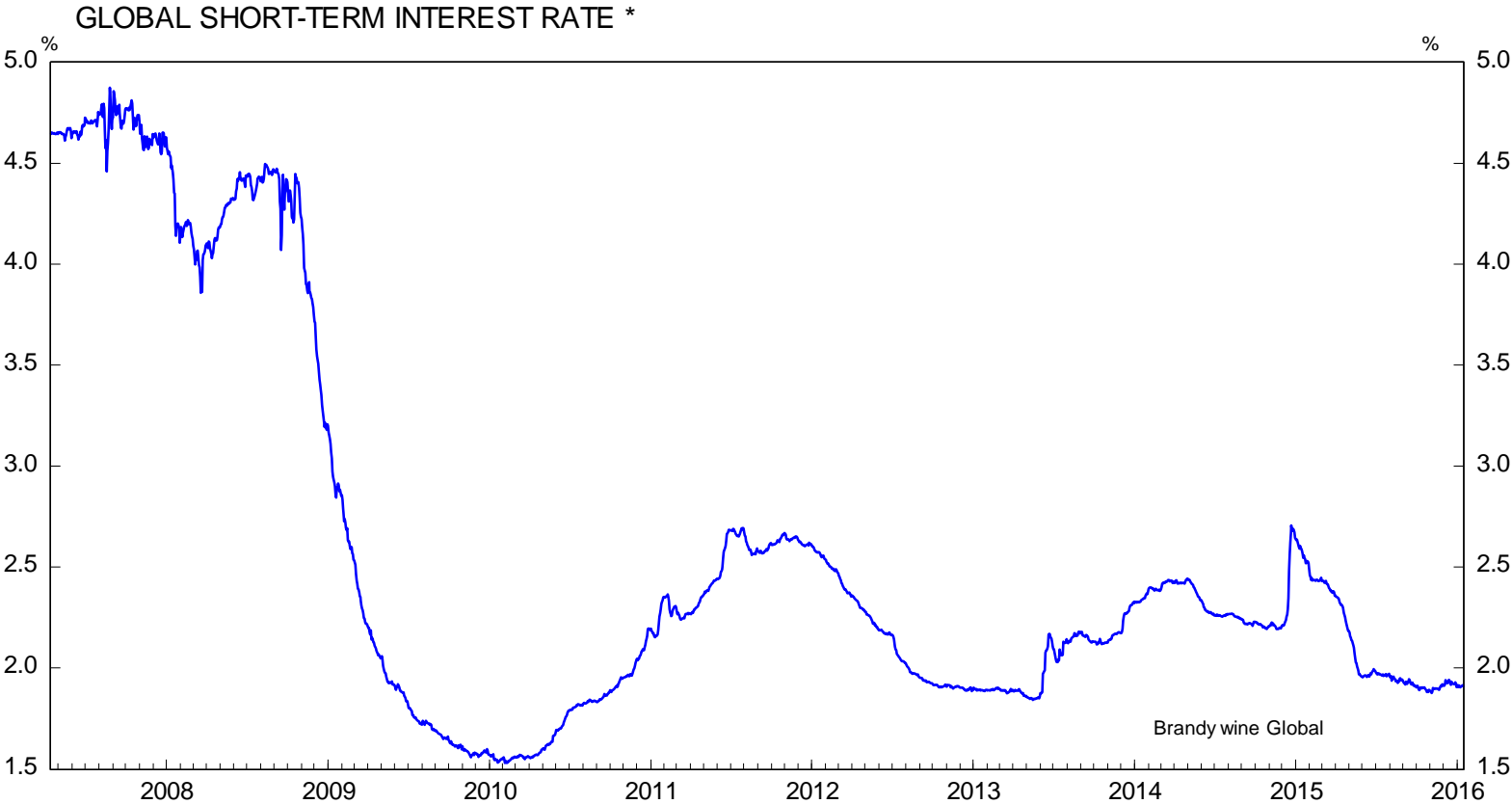
Growth Back Drop Not All Bad: Falling Energy Prices are a Big Positive for Global Growth---2016 the Sweet Spot!



Source: Thomson DataStream

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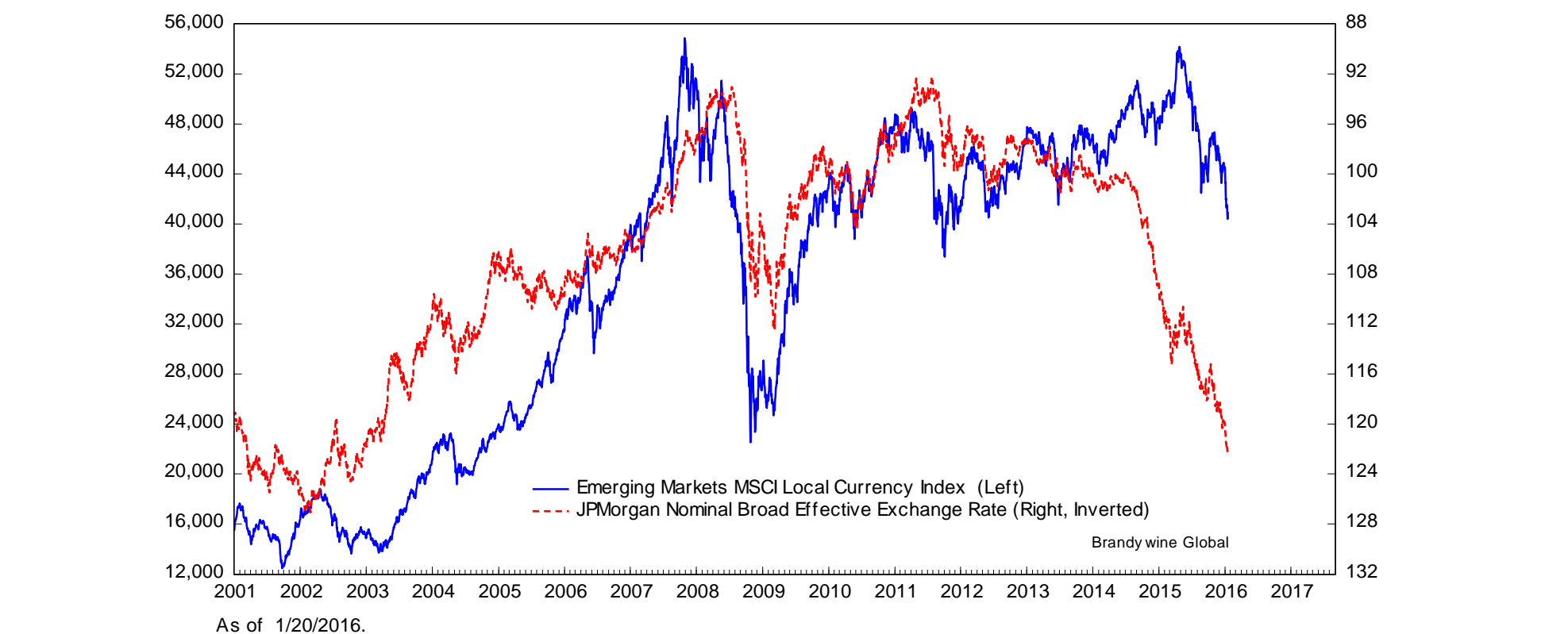
Interest Rates Have Been Falling all Year in the Developing World



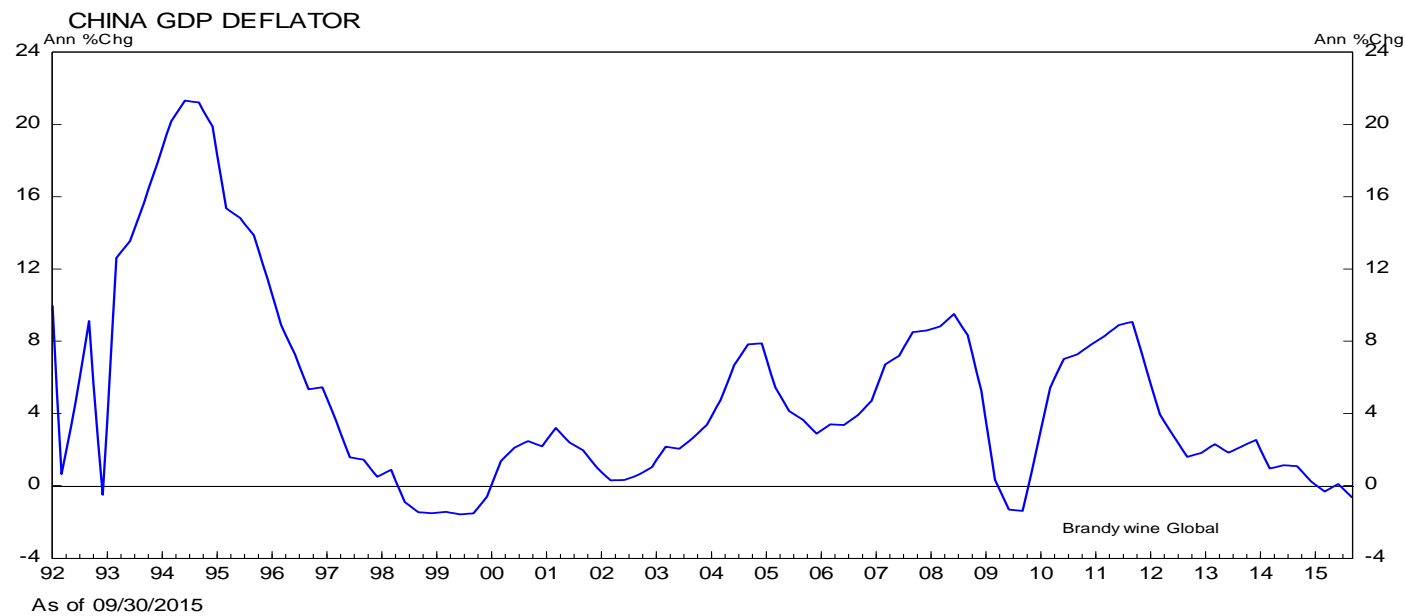
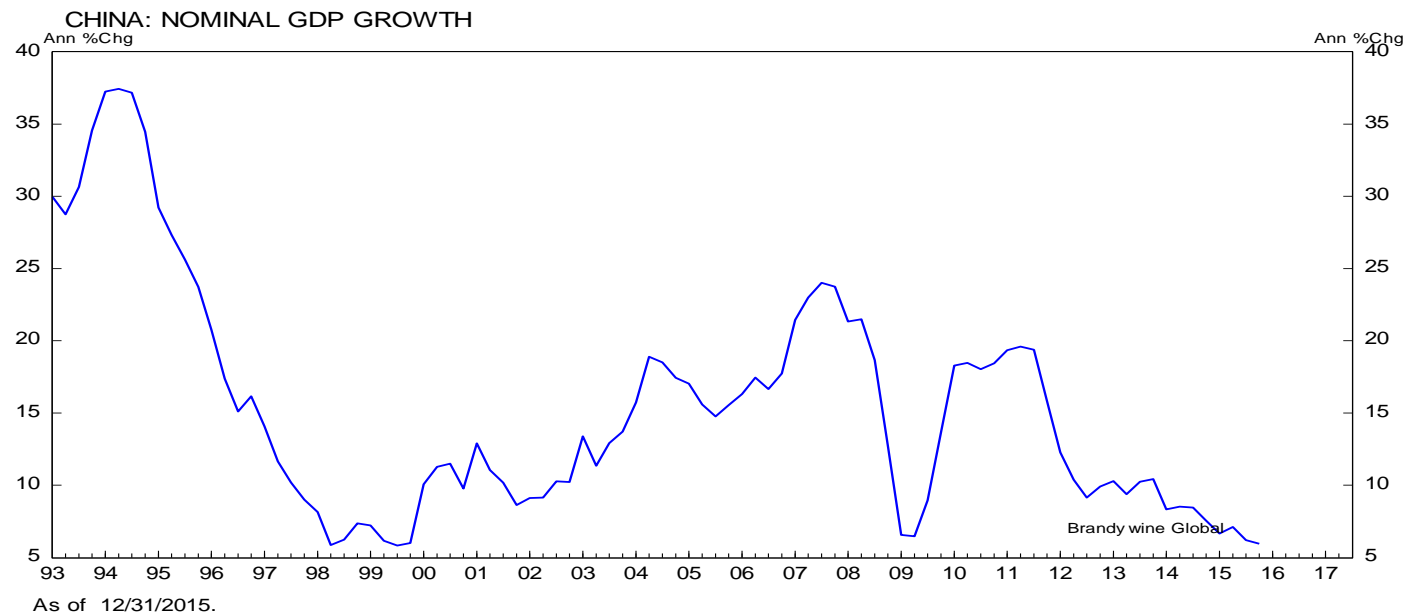
* GDP WEIGHTED
As of 1/15/2016.

Source: Thomson DataStream

Generalized Foreign Currency Weakness Against the Dollar Propped up EM Equities in Local Currency Terms Until Recently

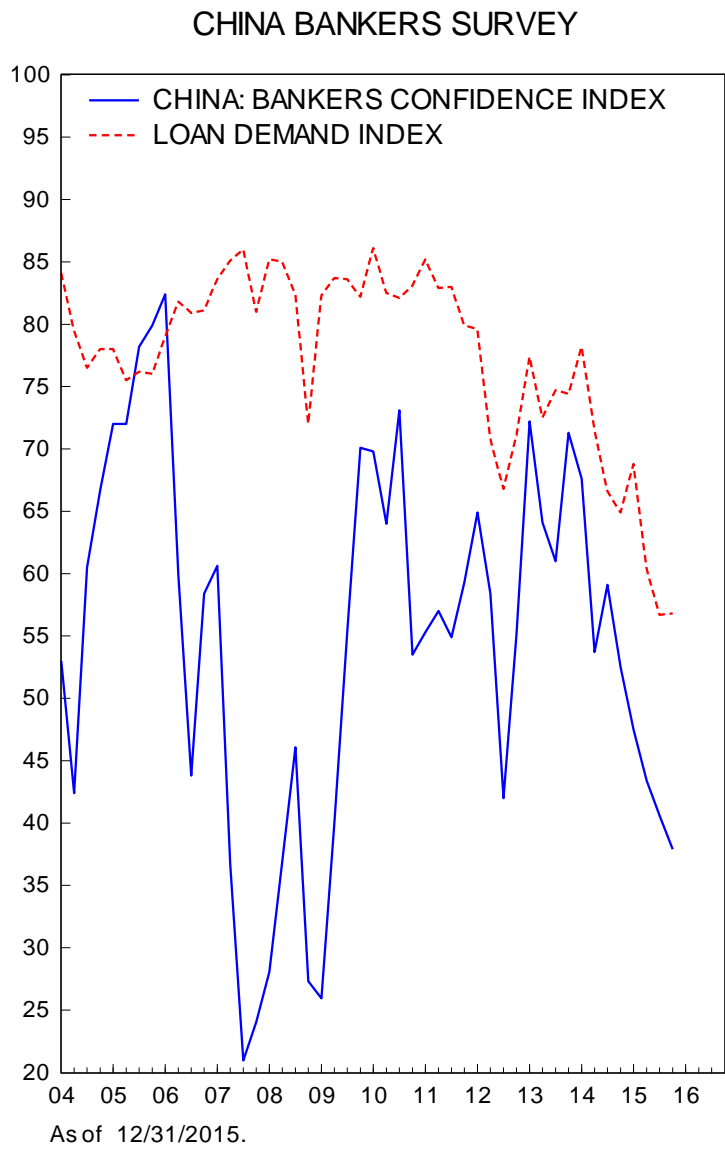
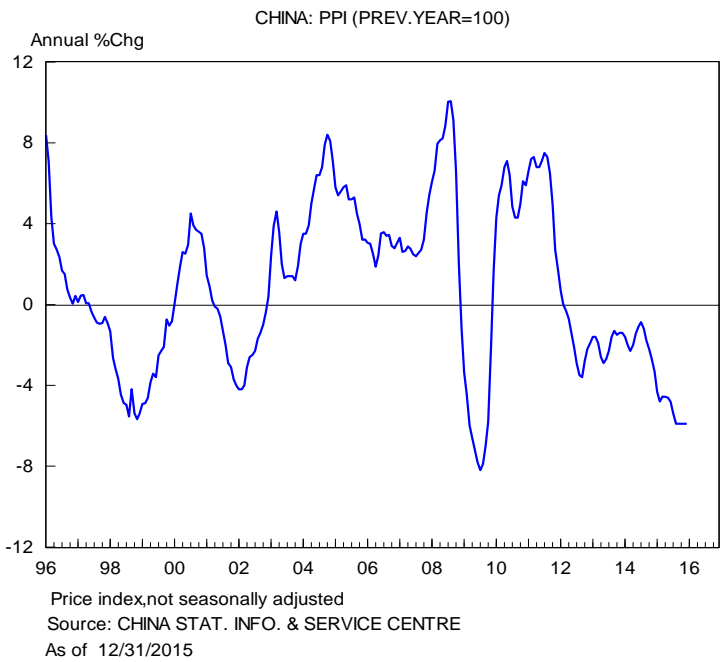


China Back in Deflation—Nominal GDP Lower Than 2008!



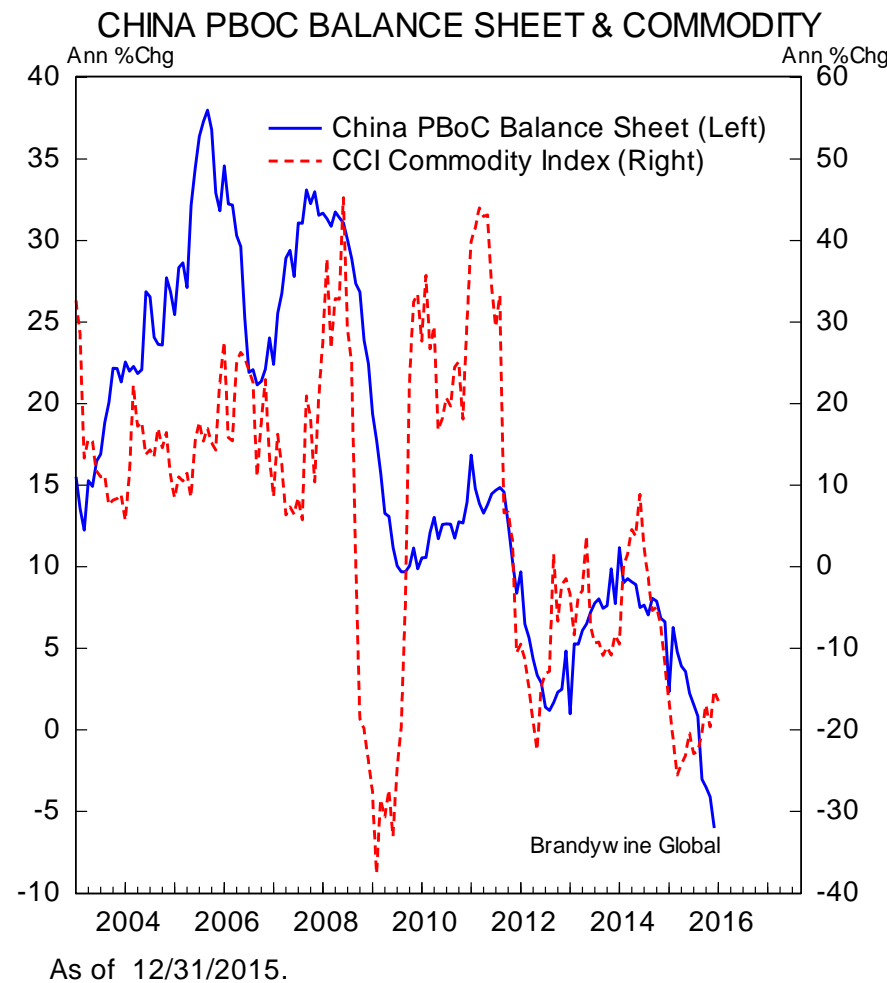
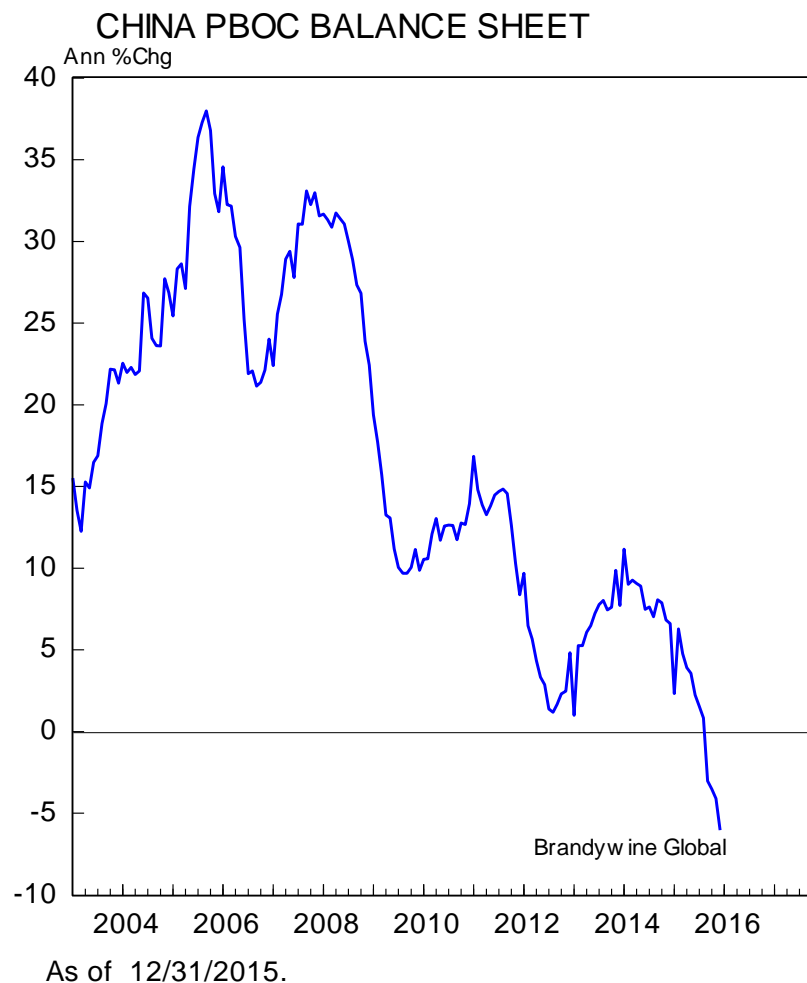
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Financial Dysfunction: Falling Prices , High Real Rates Despite Rate Cuts, Banks Do Not Want To Lend

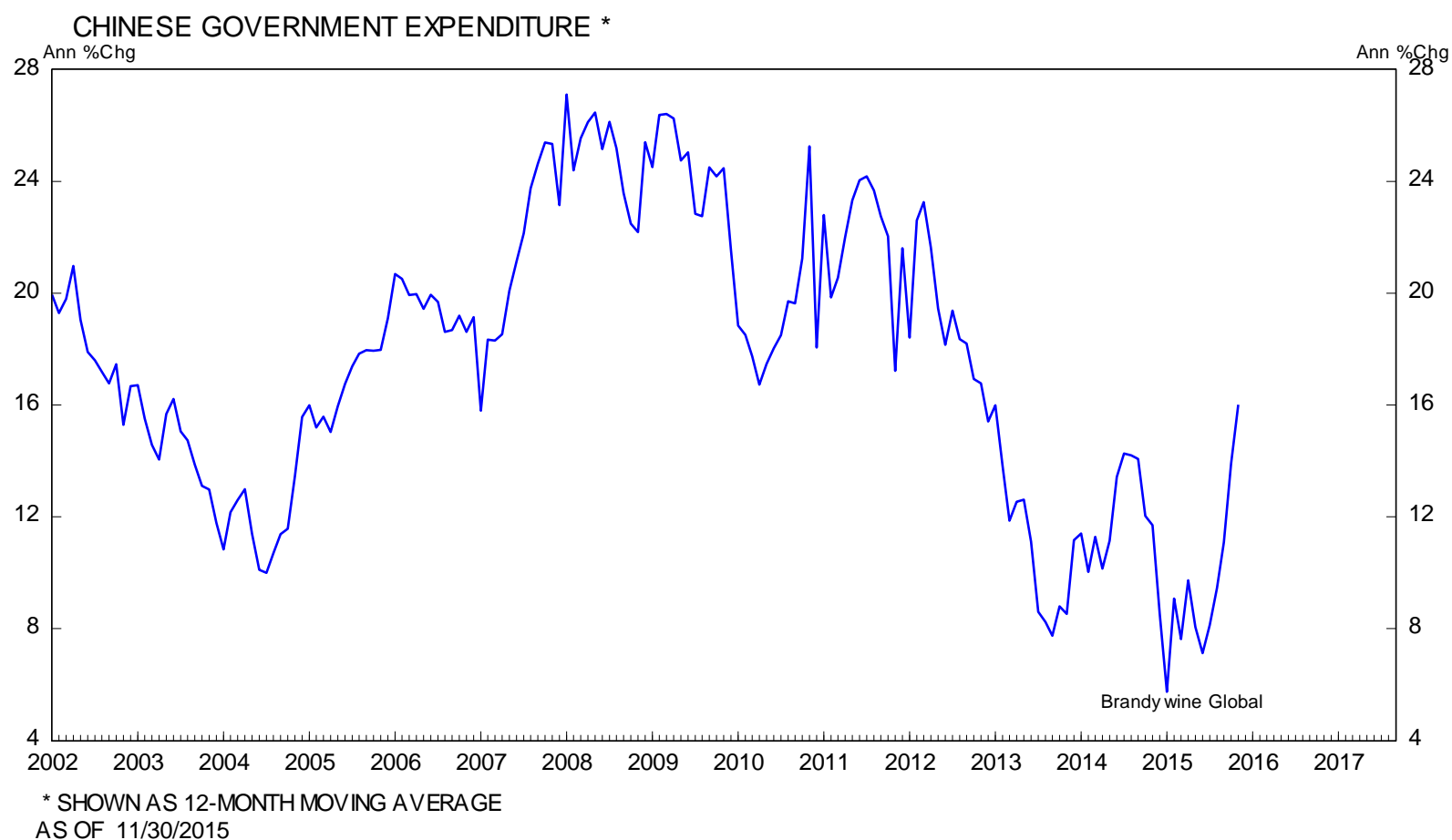


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PBoC Balance Sheet Contracting Despite Rate Cuts

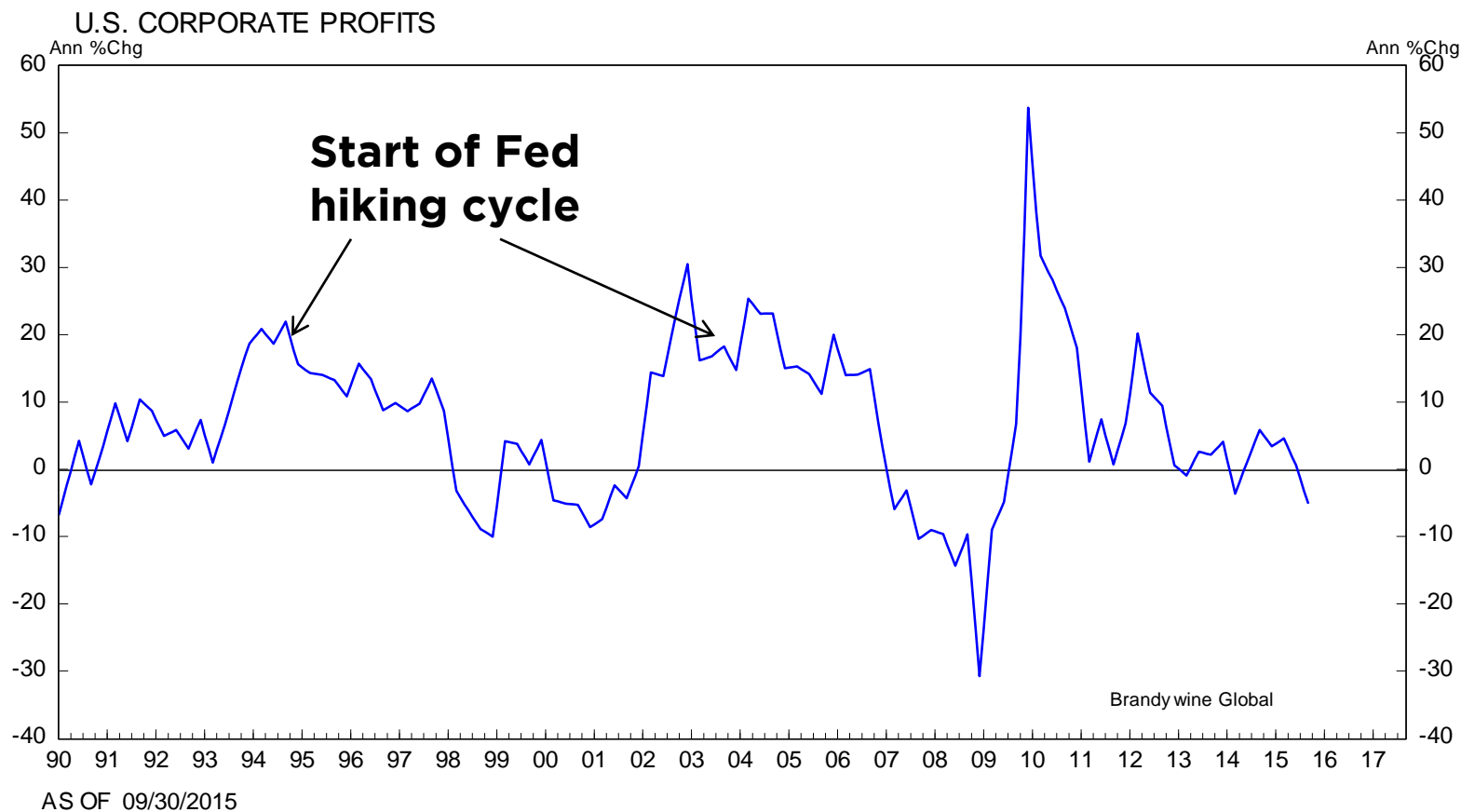


Chinese Government Boosting Fiscal Spending as Support but not Enough. In 2008 Support Package was 10% of GDP. Currently Net Fiscal Stimulus of only 2 to 3%.

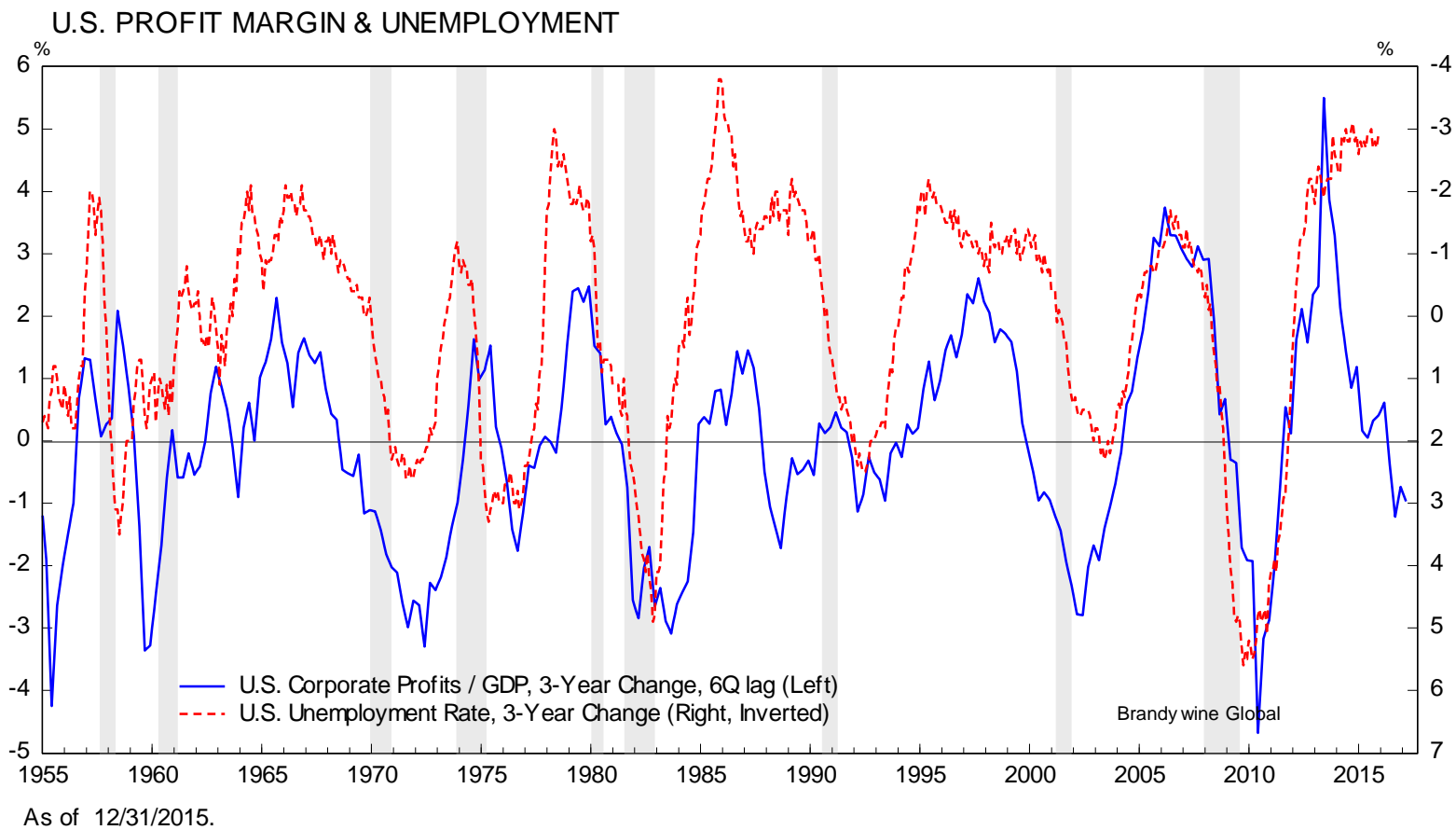


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Fed Renormalization Completely Out of Synchrony With Profit Cycle

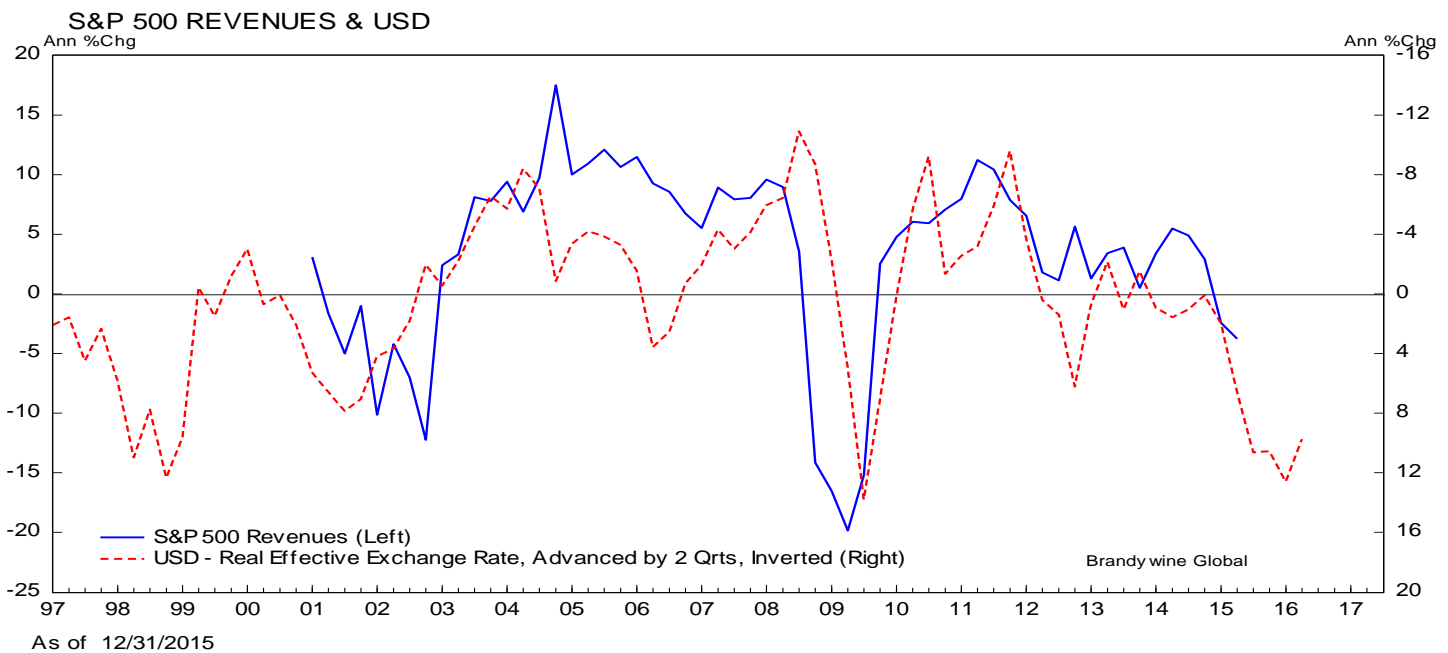
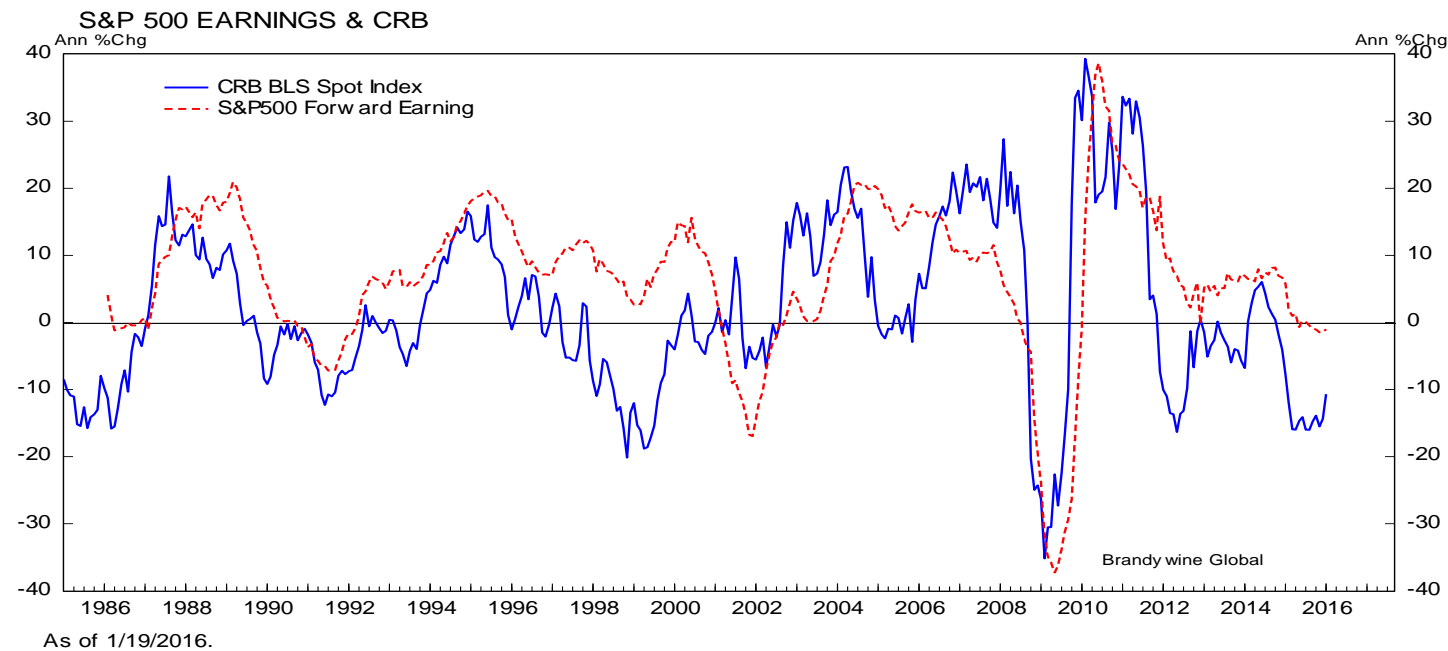


Profit Cycle Warns of a Major Deterioration Ahead in Labor Data---by Then too Late. Risk Assets will be Punished if Fed Waits Until Employment Rolls Over.



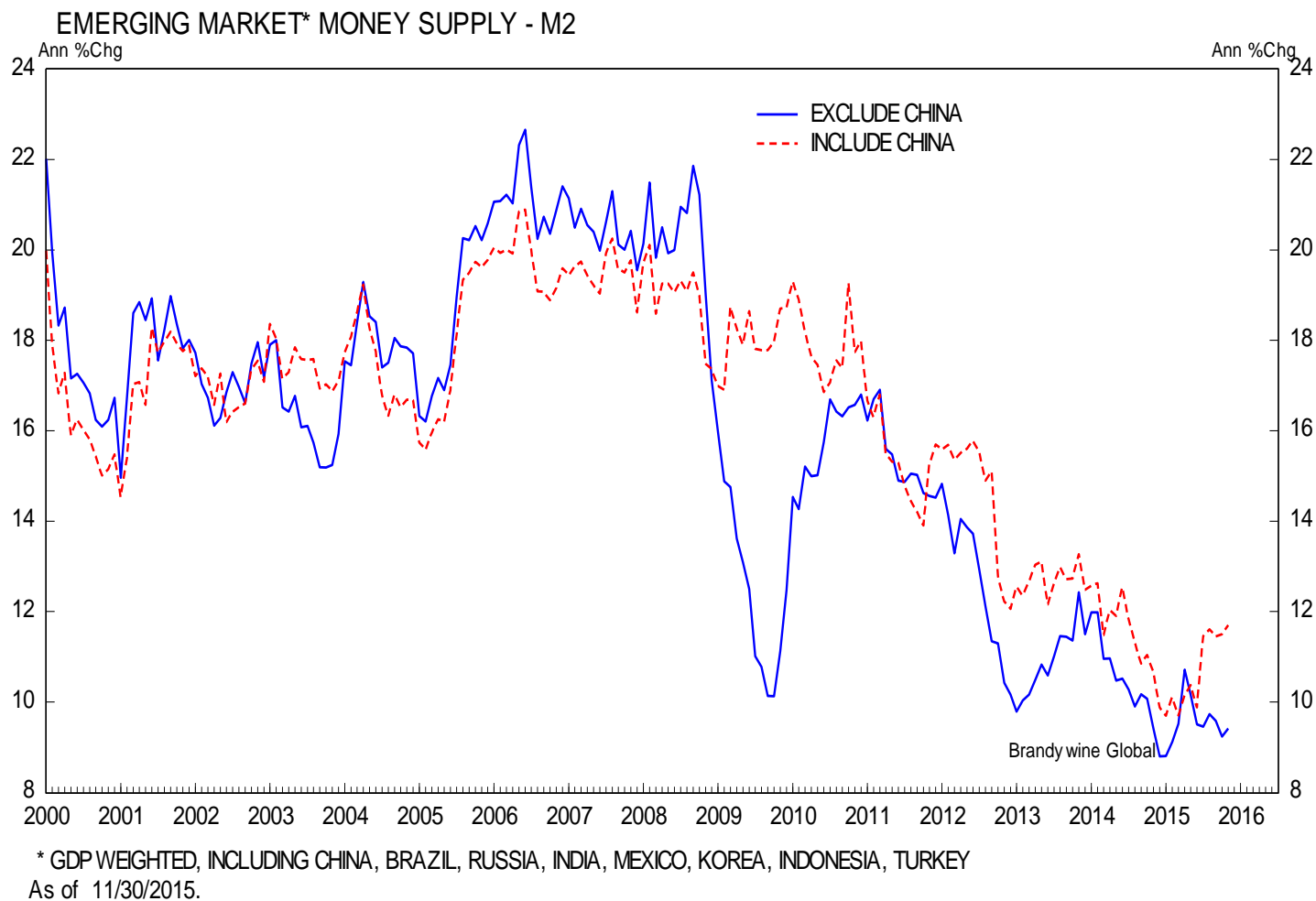
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Problem 3: Dollar Strength No Longer in the U.S. or World's Interests



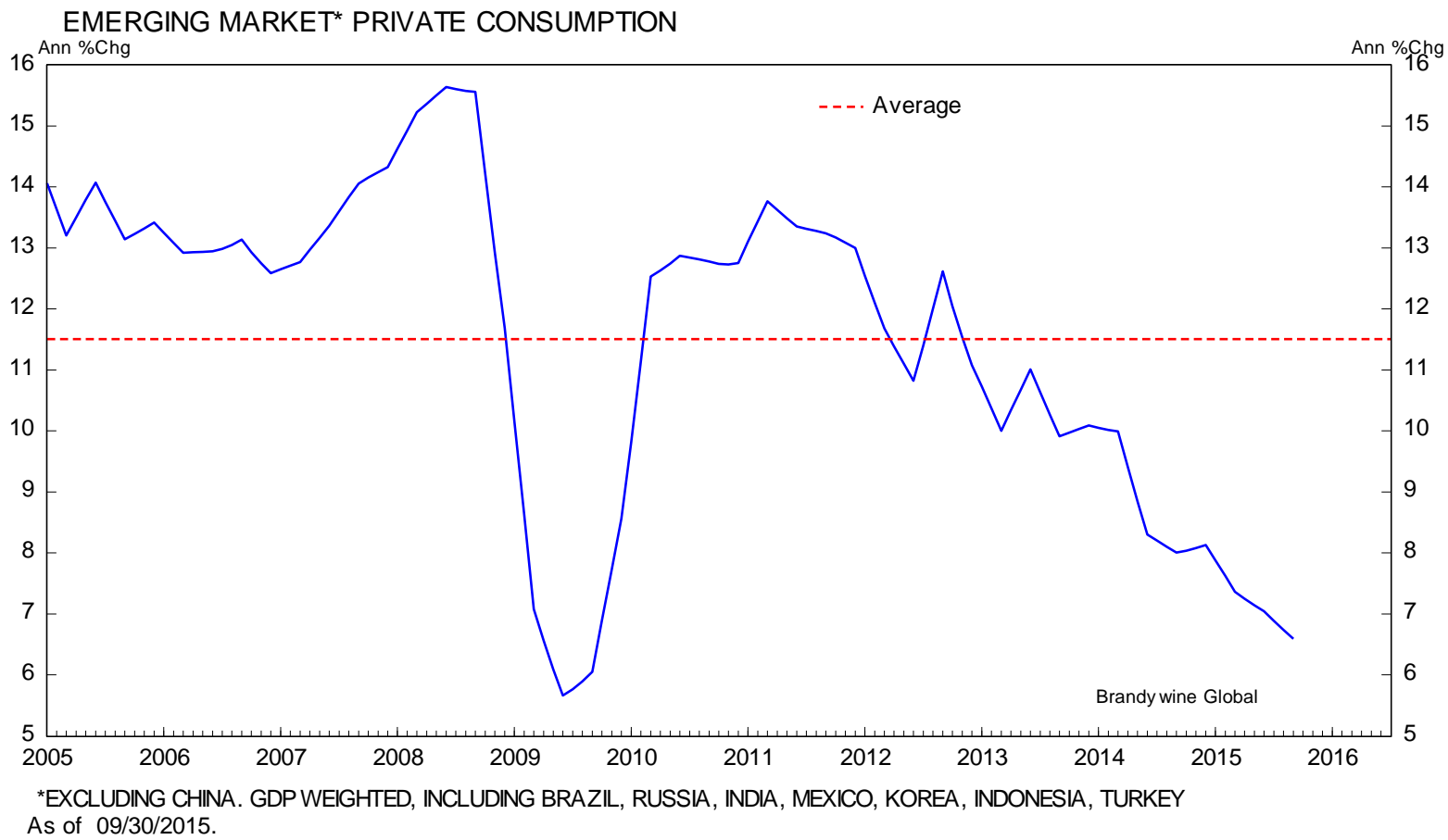
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Dollar Strength Driving EM Monetary Restraint

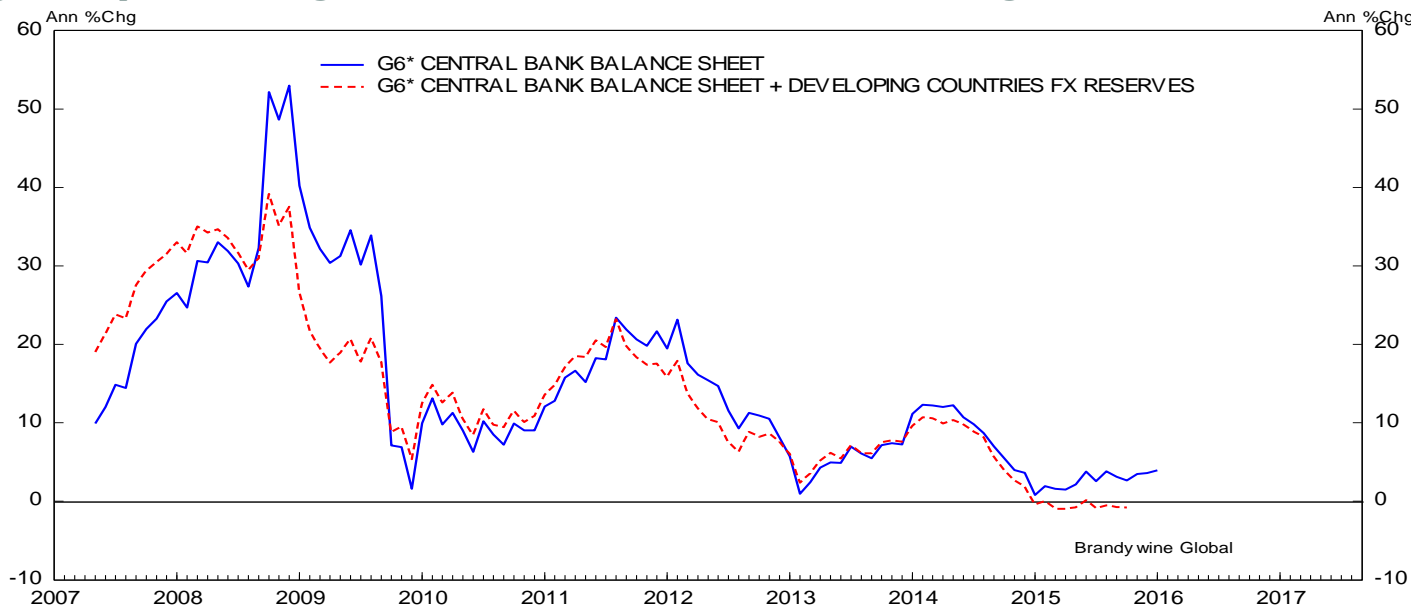


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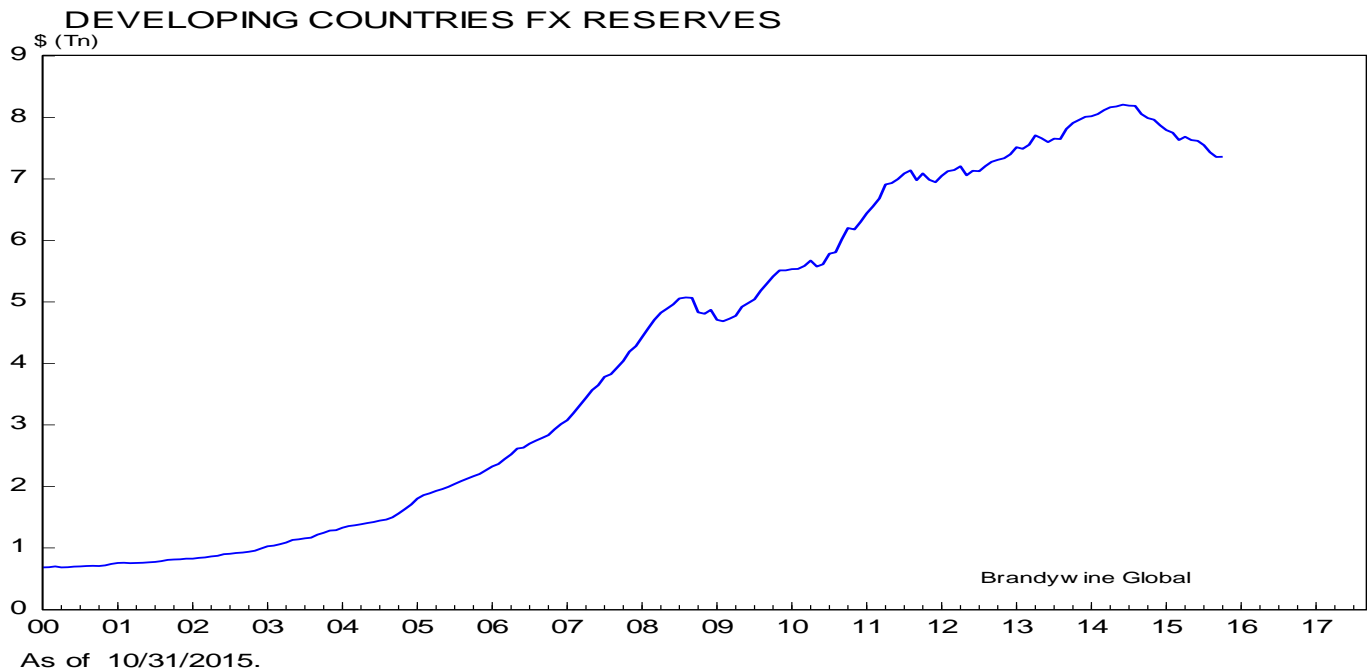
Dollar Strength—U.S. Deflationary Pressure—EM Inflationary Pressure—More Restrictive EM Monetary Policy---Reduced Domestic Spending....



Central Bank Balance Sheets are Contracting When EM Fx Reserves are Factored in, Despite Large Scale Asset Purchase Programs in the G6

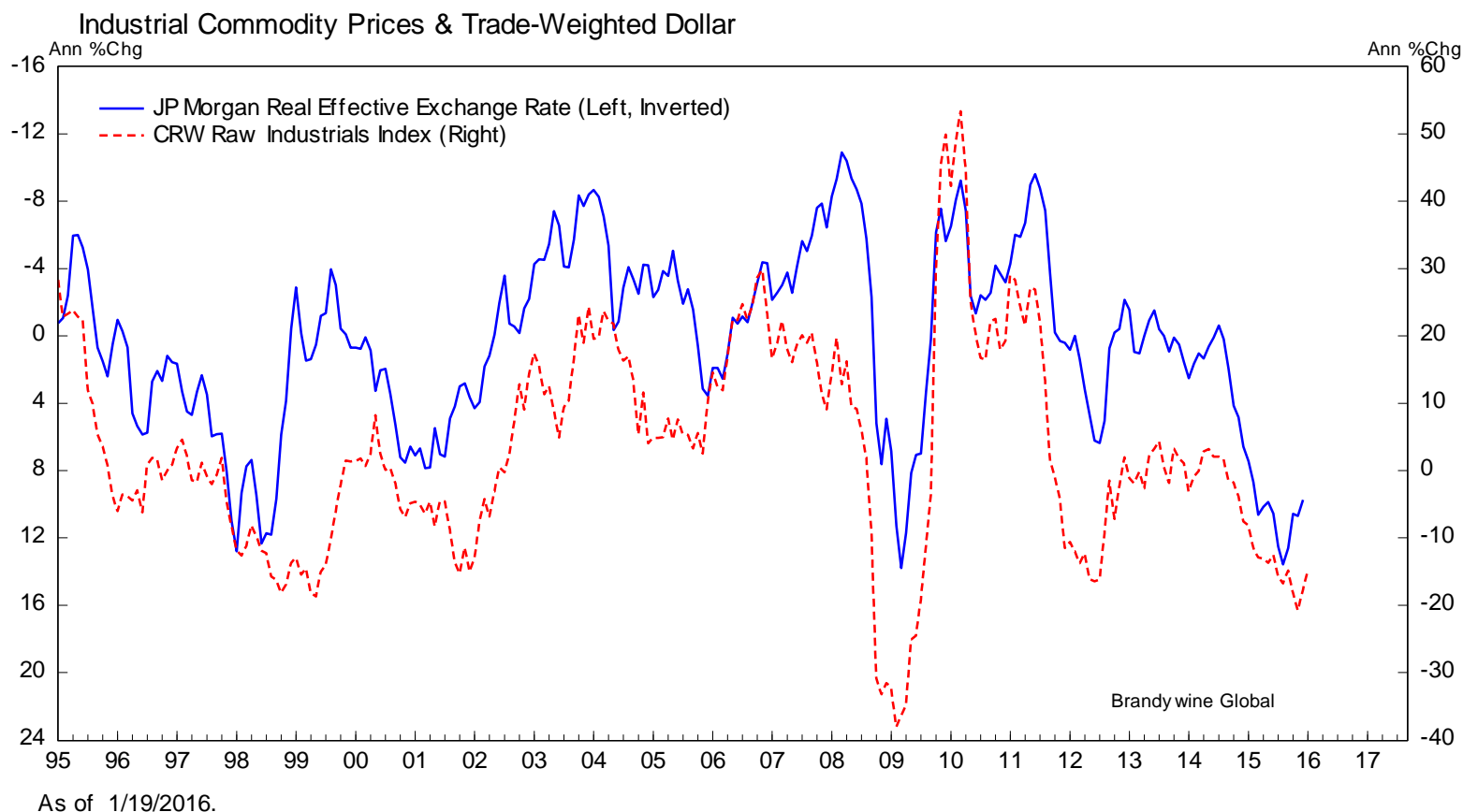


* INCLUDING US, UK, ECB, JAPAN, CHINA, AND SWITZERLAND
As of 1/13/2016.



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CRB Bear Market? Or Dollar Bull Market?



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