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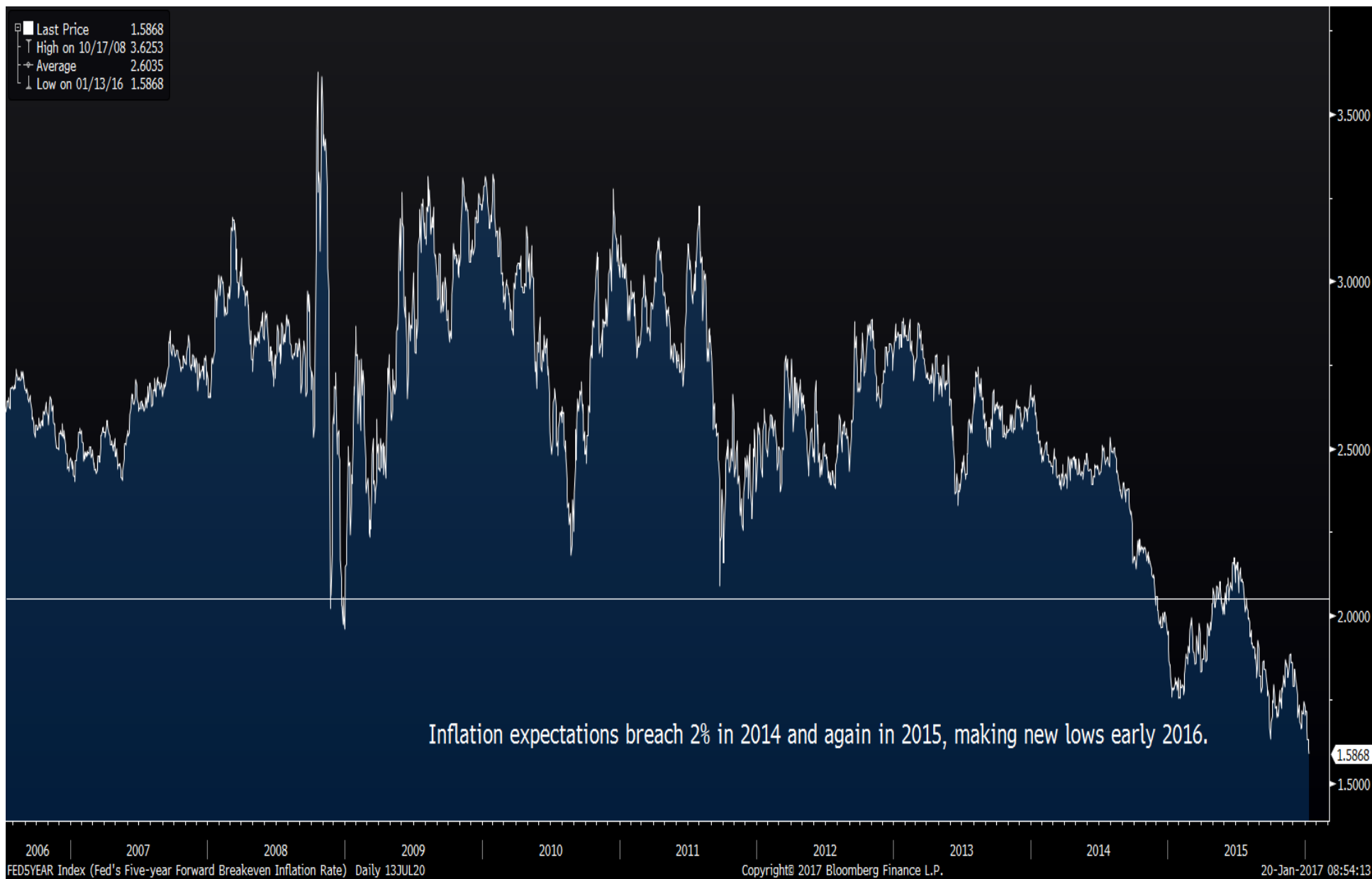
Global Macro Webcast

Presented by

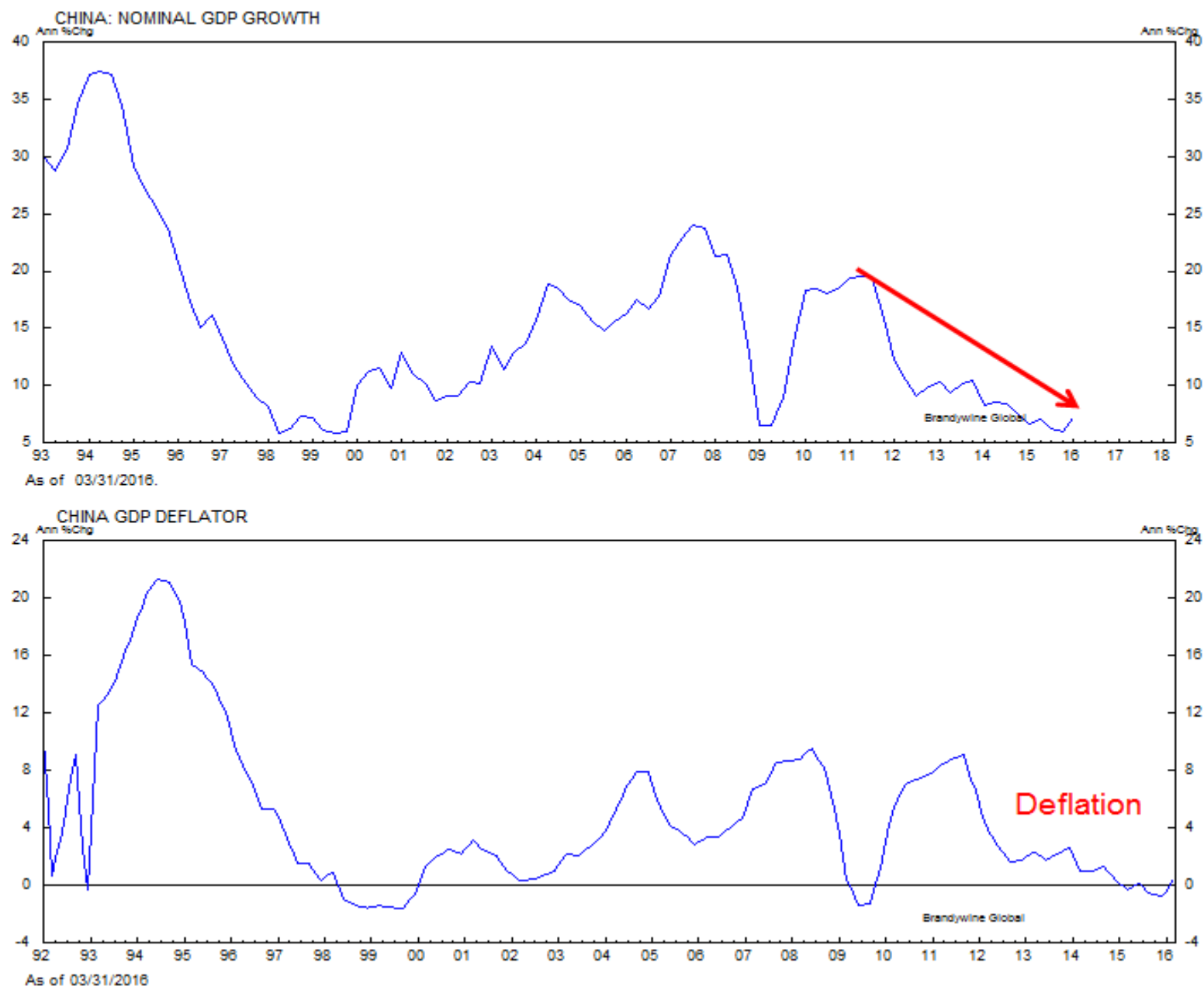
Francis A. Scotland

Director of Global Macro Research

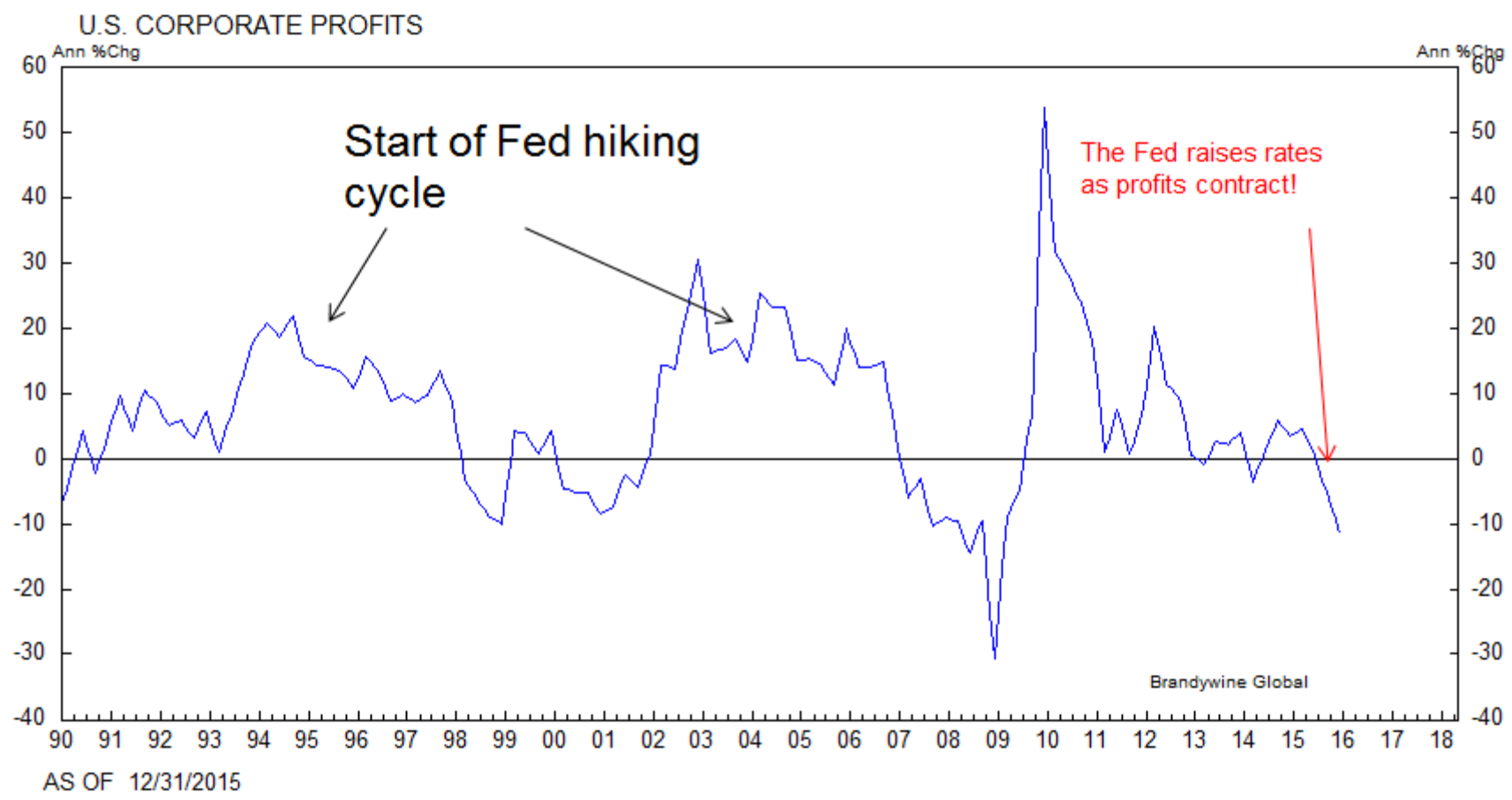
A year ago the story was deflation. The Fed's Five Year Forward Breakeven Inflation Rate had breached 2% in late 2014 and was making new lows by the end of 2015.



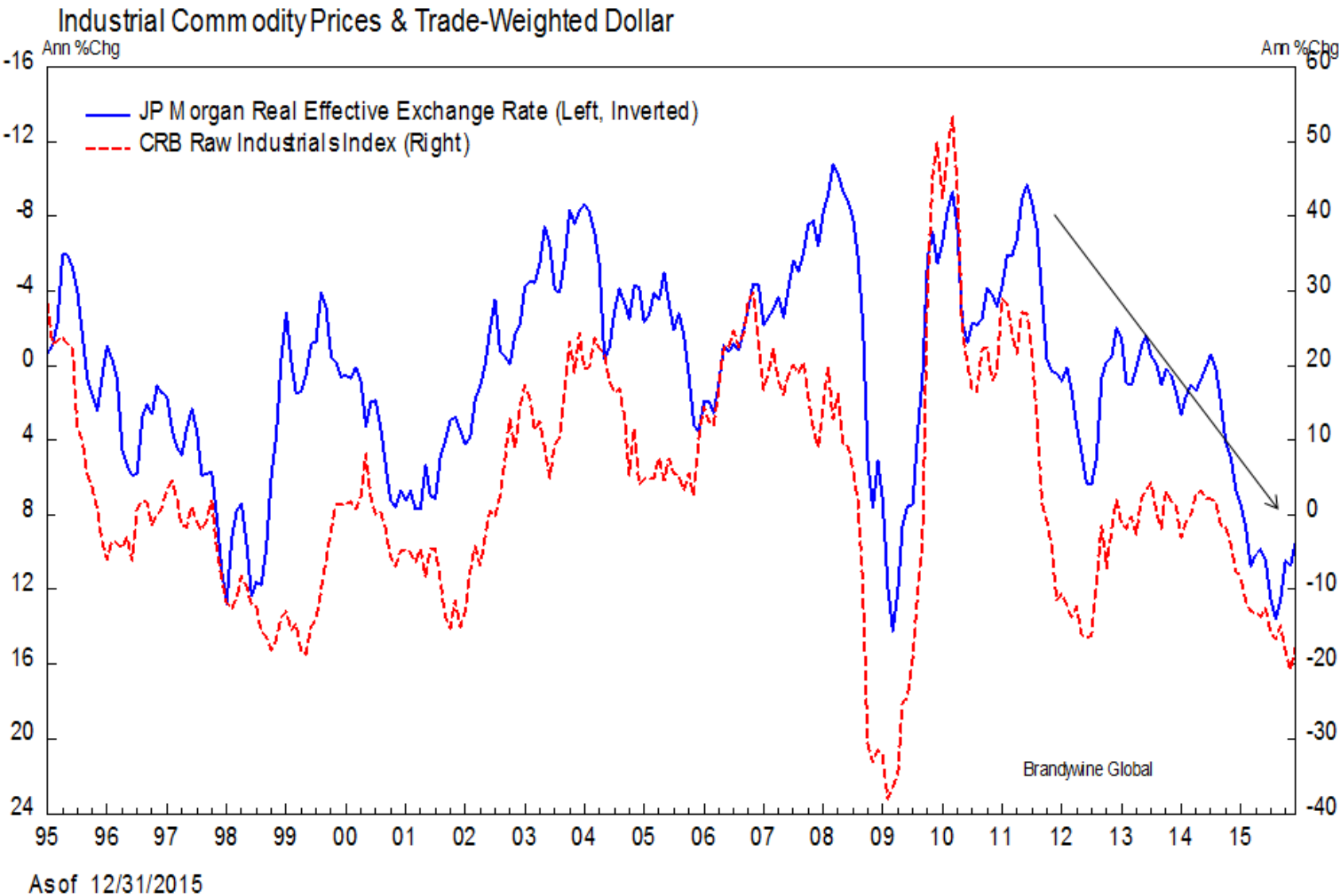
China's growth had fallen from 20% in 2011 and price levels were falling.



The Fed wanted to raise rates 3 or 4 times in 2016 despite the contraction in corporate profits.



Dollar strength helped drive the biggest bust in commodity prices in 85 years and forced EM countries to tighten policy in order to support their currencies.



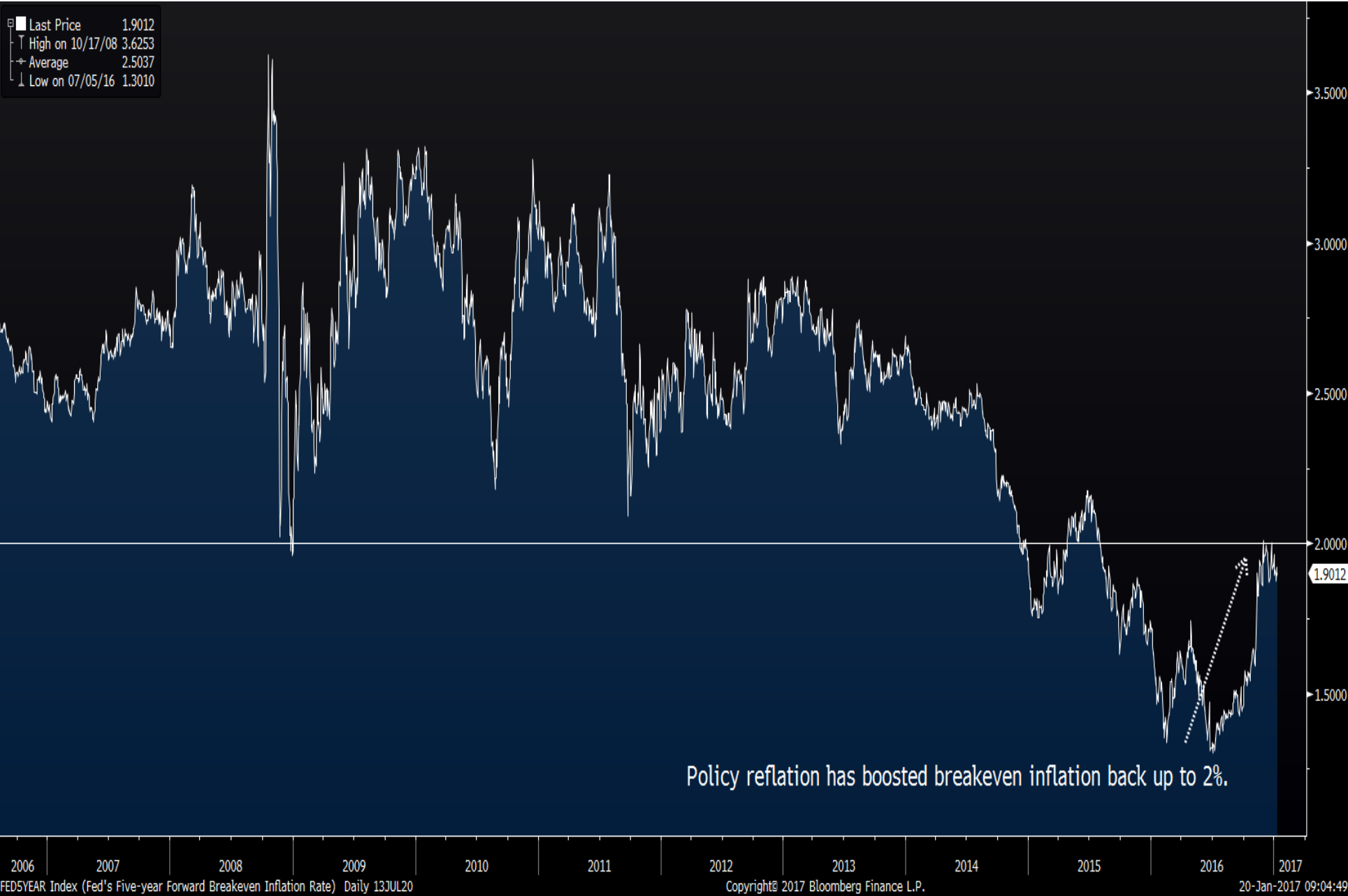
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Something Had to Give at the End of 2015, and It Did in 2016

- 1. The Chinese authorities acted to stabilize their economy with the biggest credit impulse since 2009.**
- 2. The Federal Reserve lowered the “dot plot” for the year and ended up raising rates only once and only in December!**
- 3. Lastly, the dollar stabilized which fostered policy stimulus abroad, profit recovery in the United States and stabilization in commodity prices which helped boost commodity sensitive Emerging Market countries.**

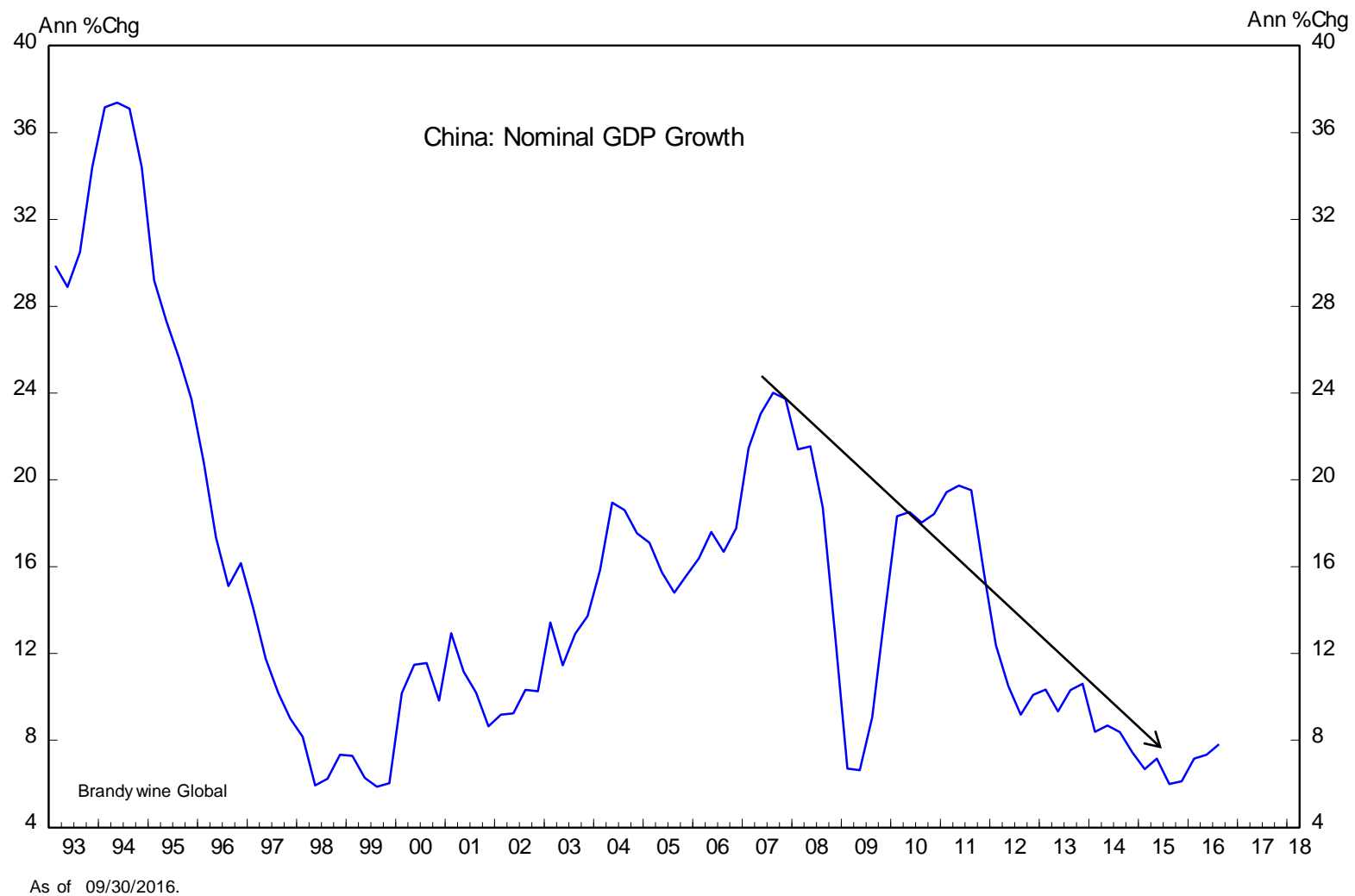
We said that 2016 would turn out to be better than what financial markets had priced in at the beginning because global growth would be better than expected and that the marginal gain would come from the emerging world.

The Fed's Five Year Forward Breakeven Inflation Rate is still below 2% but it has staged a significant recovery from its lows.

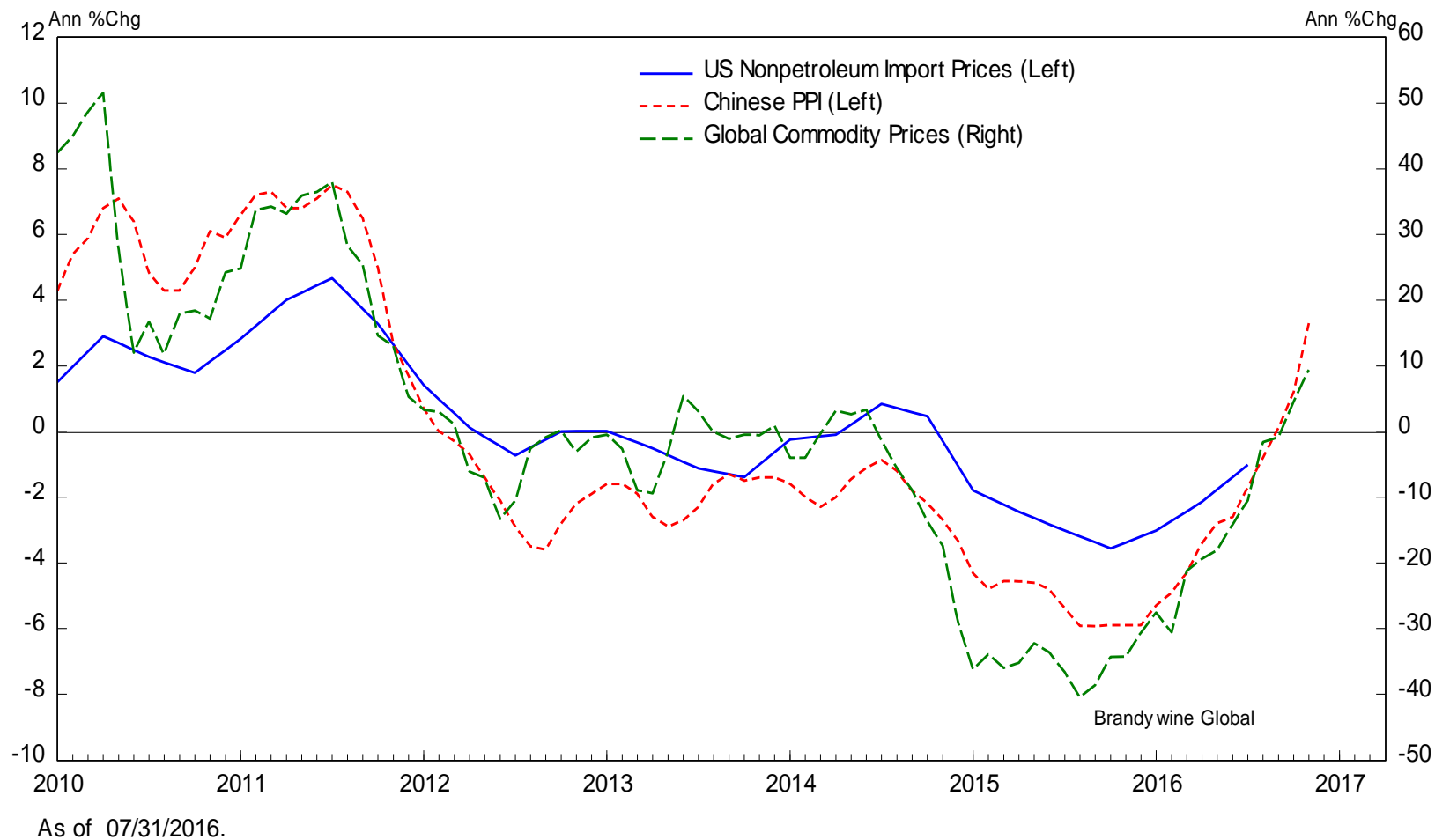


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China's growth slump ended.

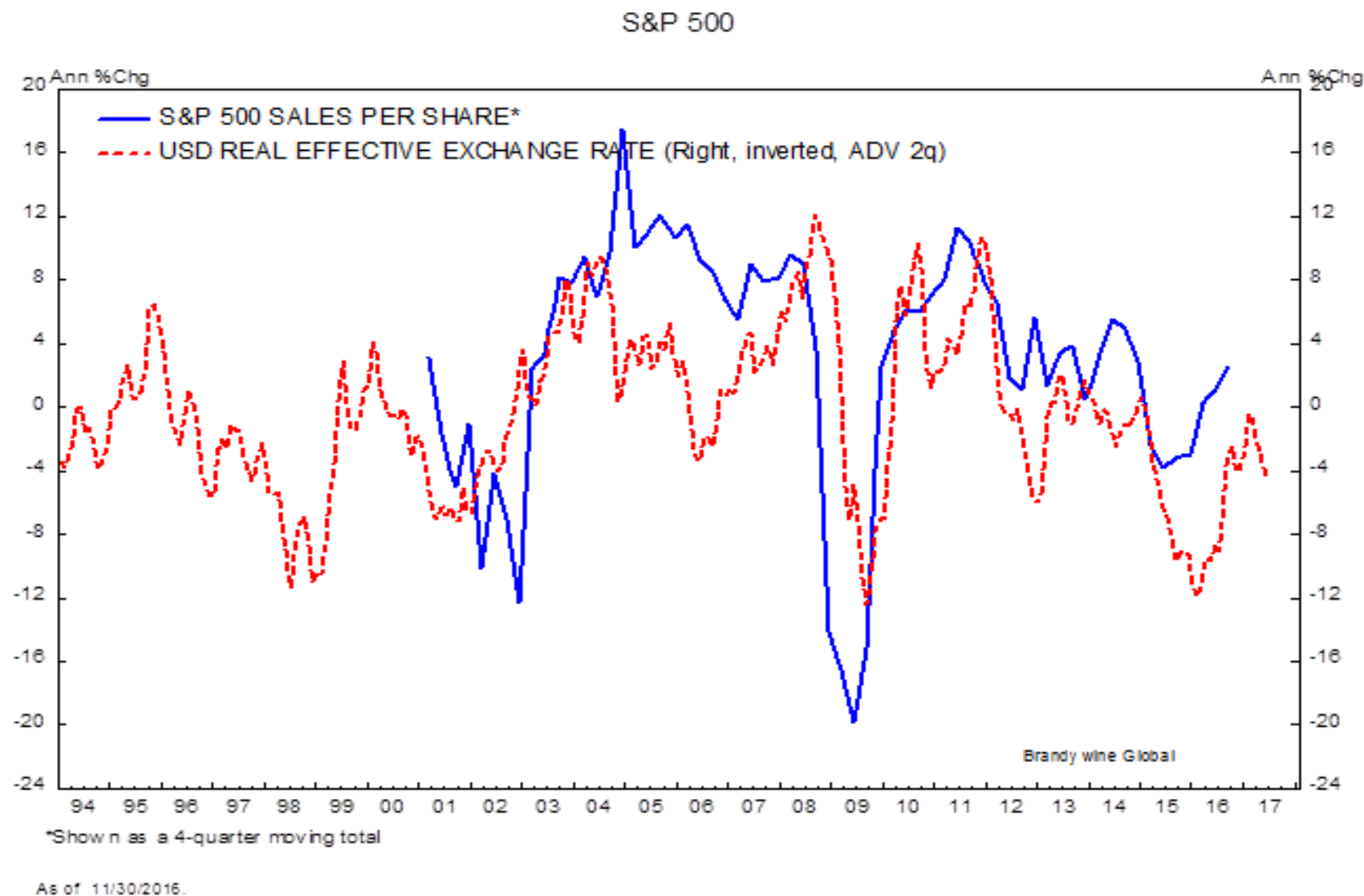


China's deflation ended which supported commodity and traded good prices.



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Growth in U.S. corporate revenues and profits rebounded on dollar stabilization.



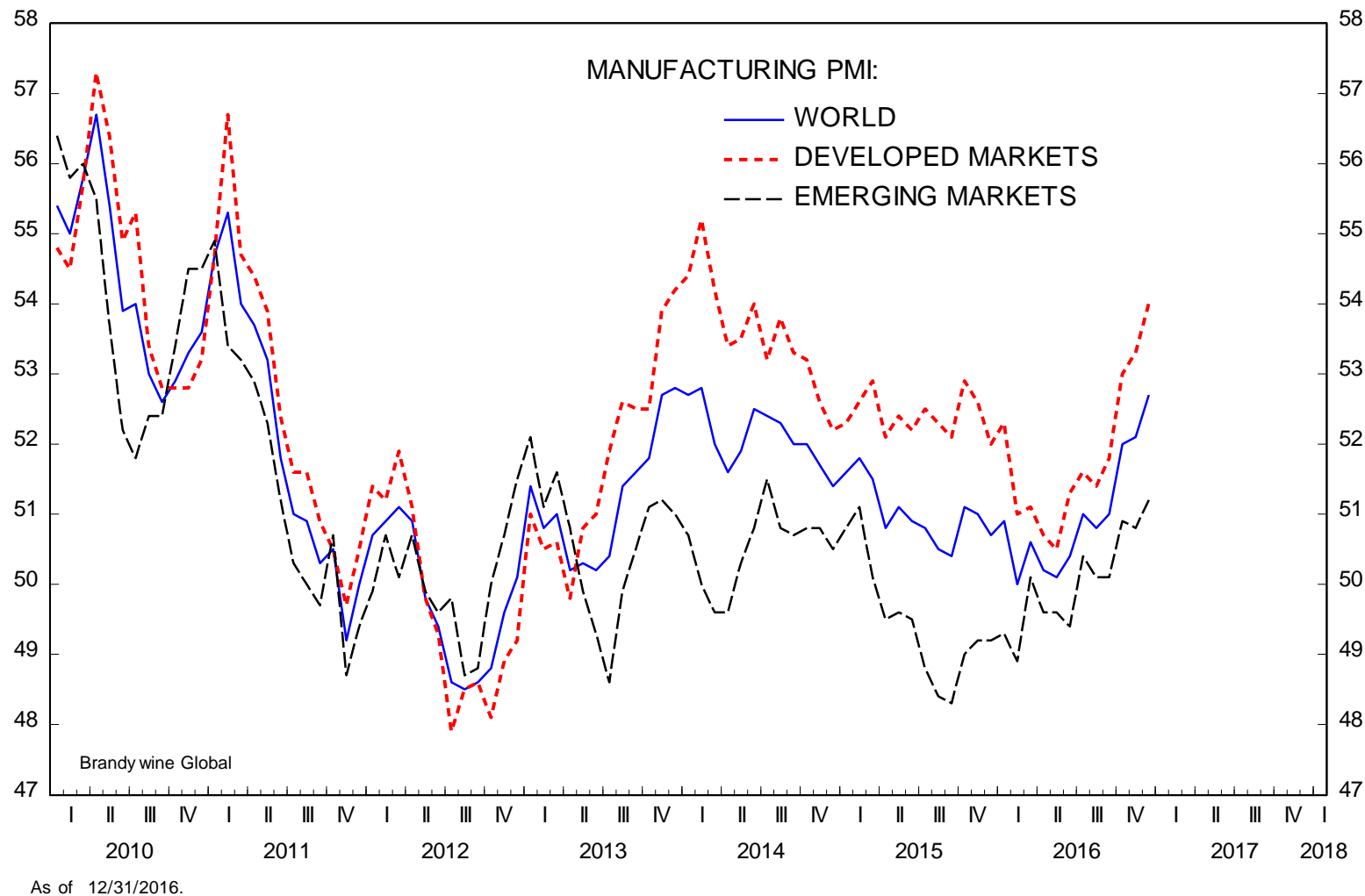
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EM FX rallied in the first half of 2016 providing the opportunity for stimulus from this part of the world.

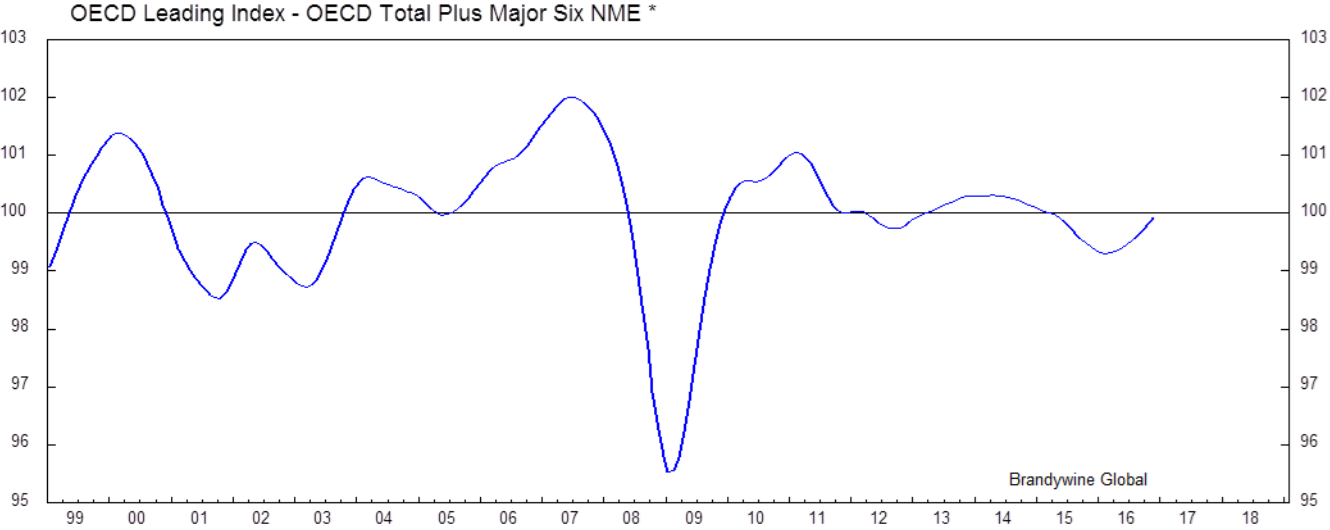


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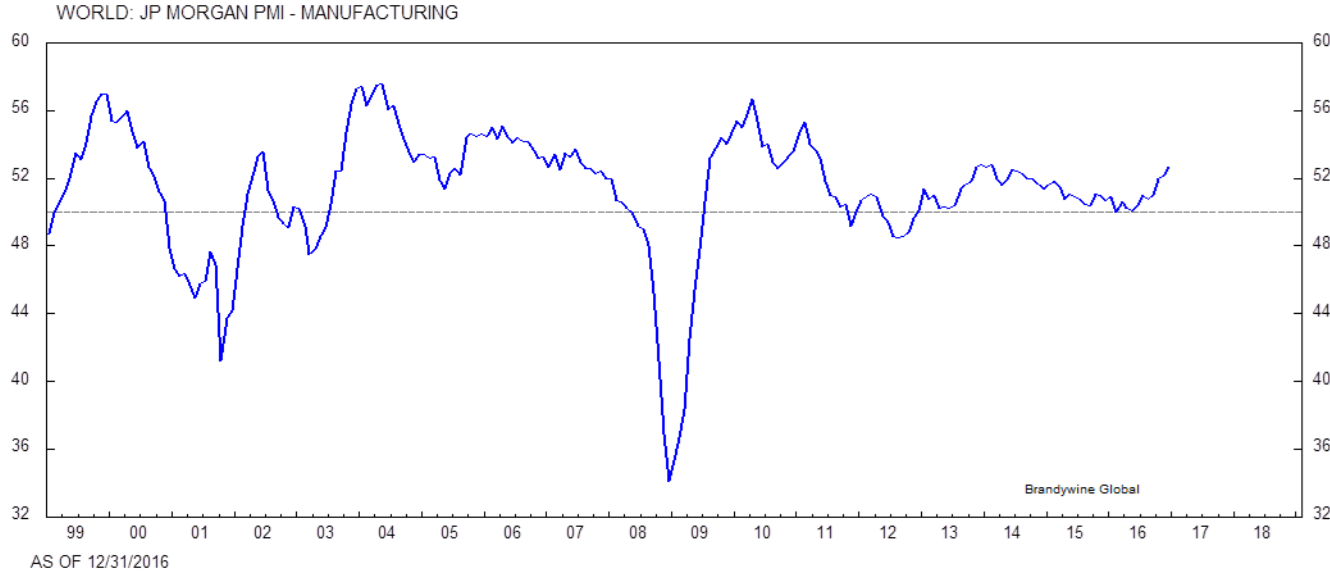
Global growth has turned higher led by the emerging markets. Only towards the end of the year did growth in the developed countries stage a revival.



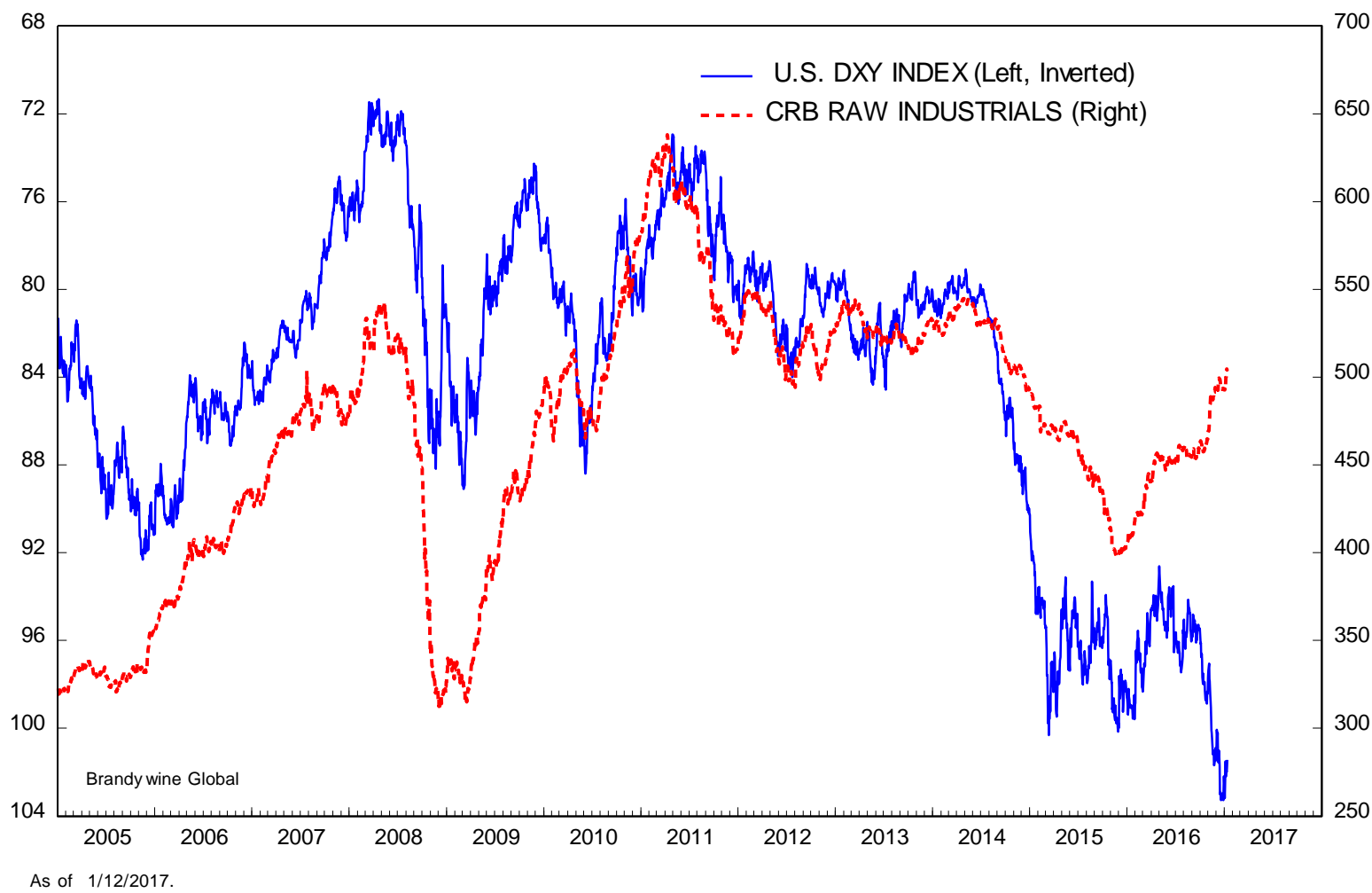
Leading indicators say global growth will continue to improve.



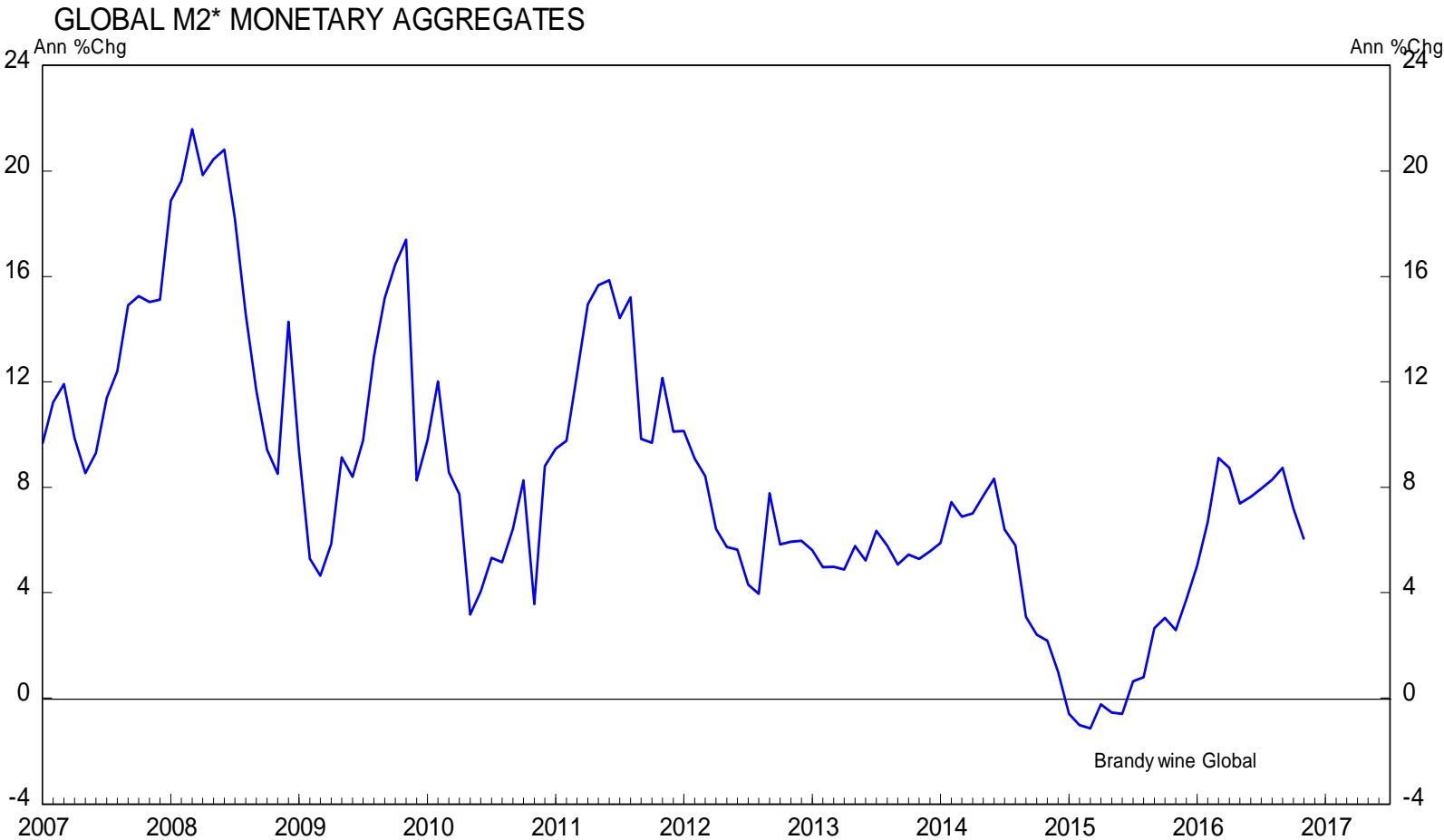
As of 11/30/2016.
Six major non-member economies: Brazil, China, India, Indonesia, Russia, South Africa.



Strong commodity prices and a strong dollar only happen in context of strong global growth.

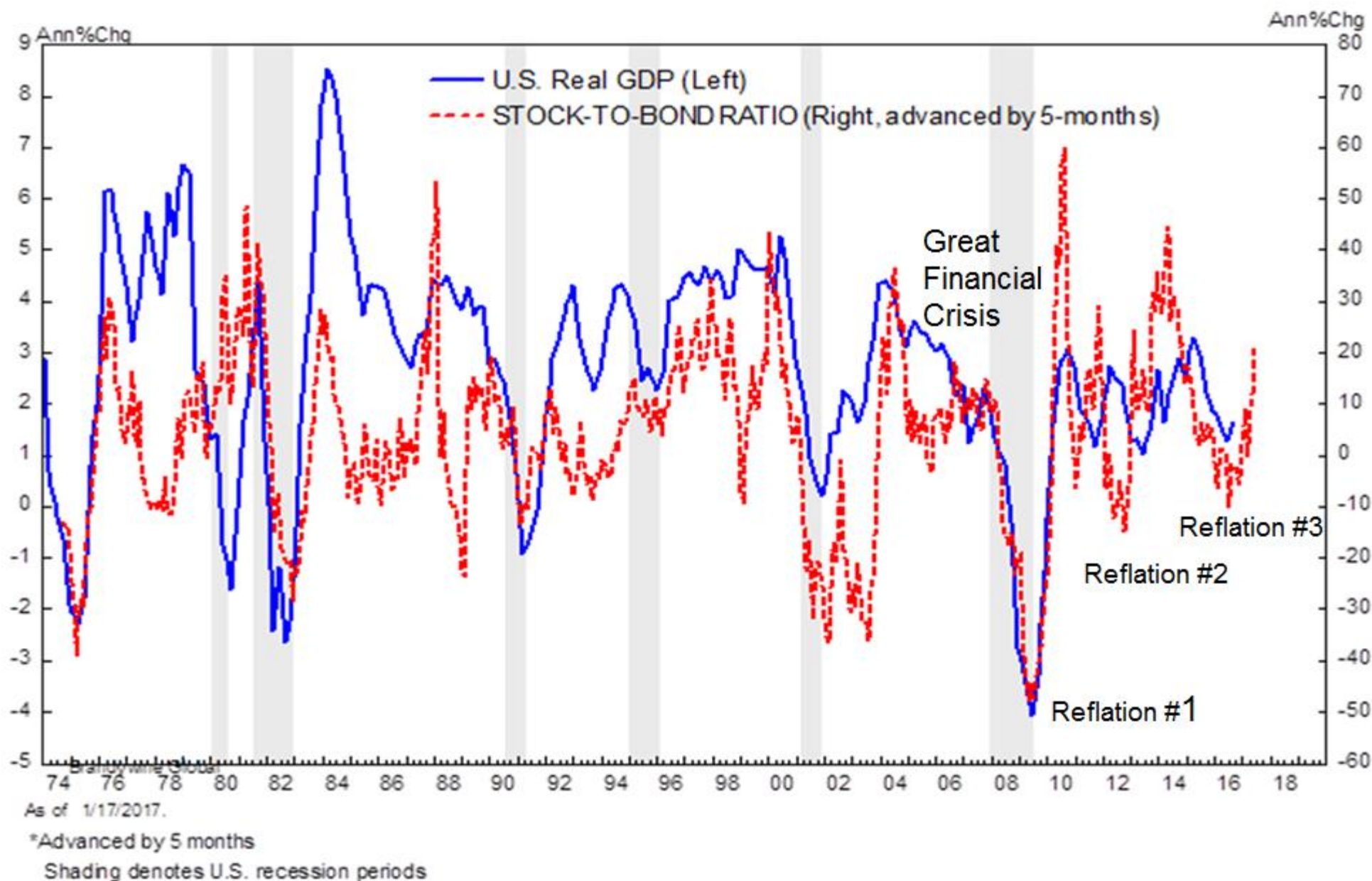


Economic policy around the world remains expansionary and looks set to continue to support this latest reflationary surge.

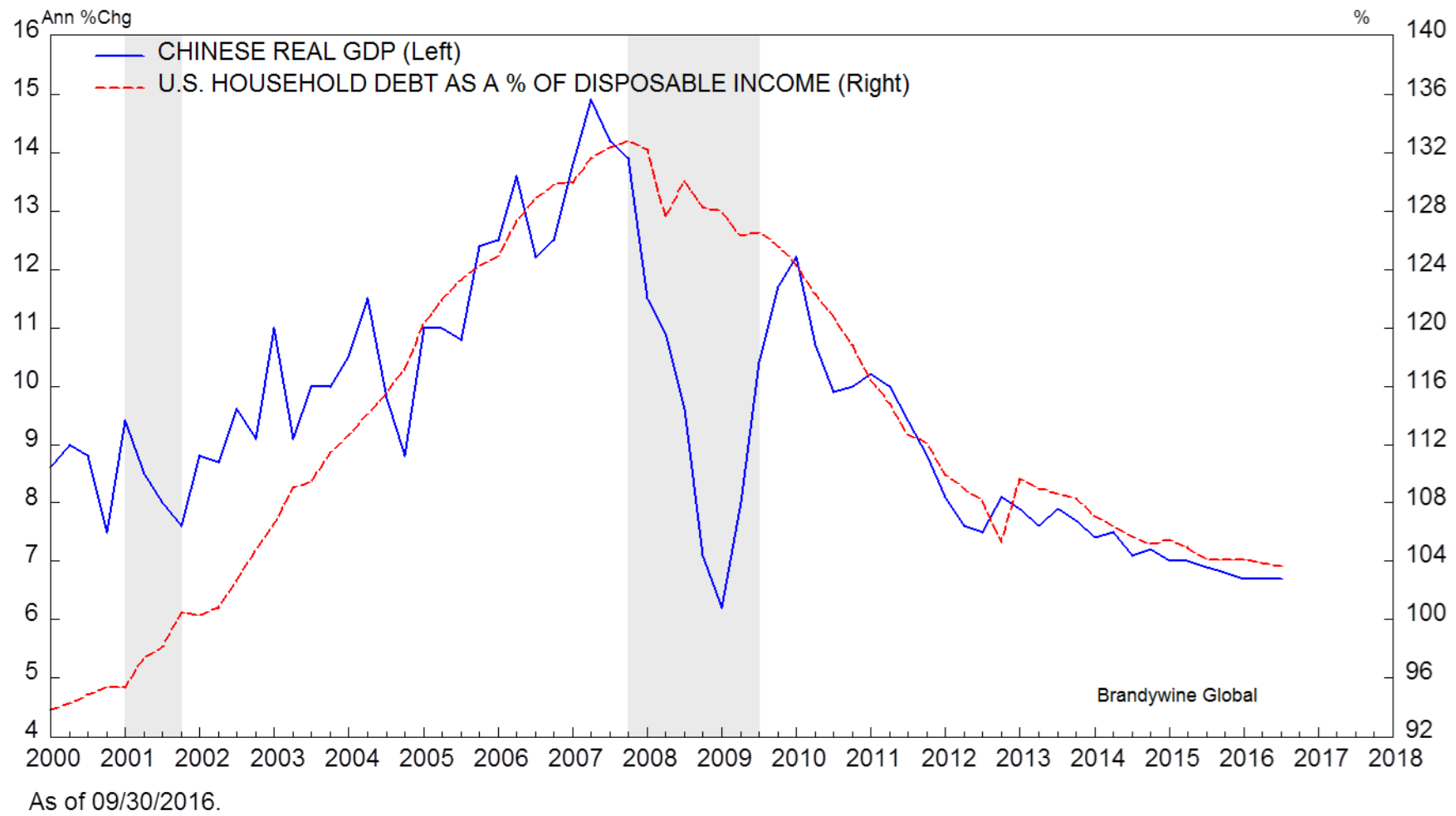


* In USD. Global includes China, Eurozone, Japan, and United States.
As of 11/30/2016.

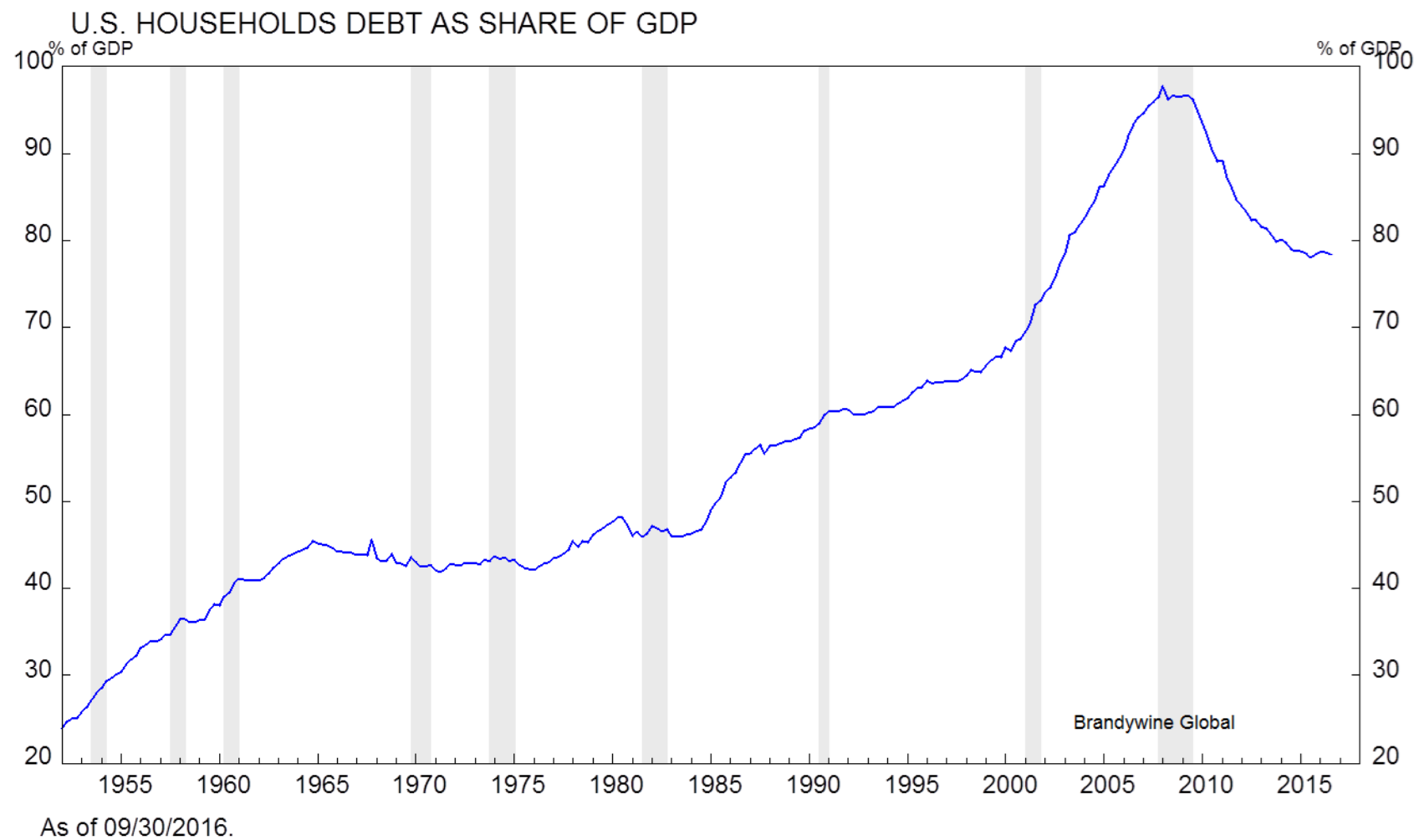
This is the third policy driven reflationary wave in play since the Great Financial Crisis.



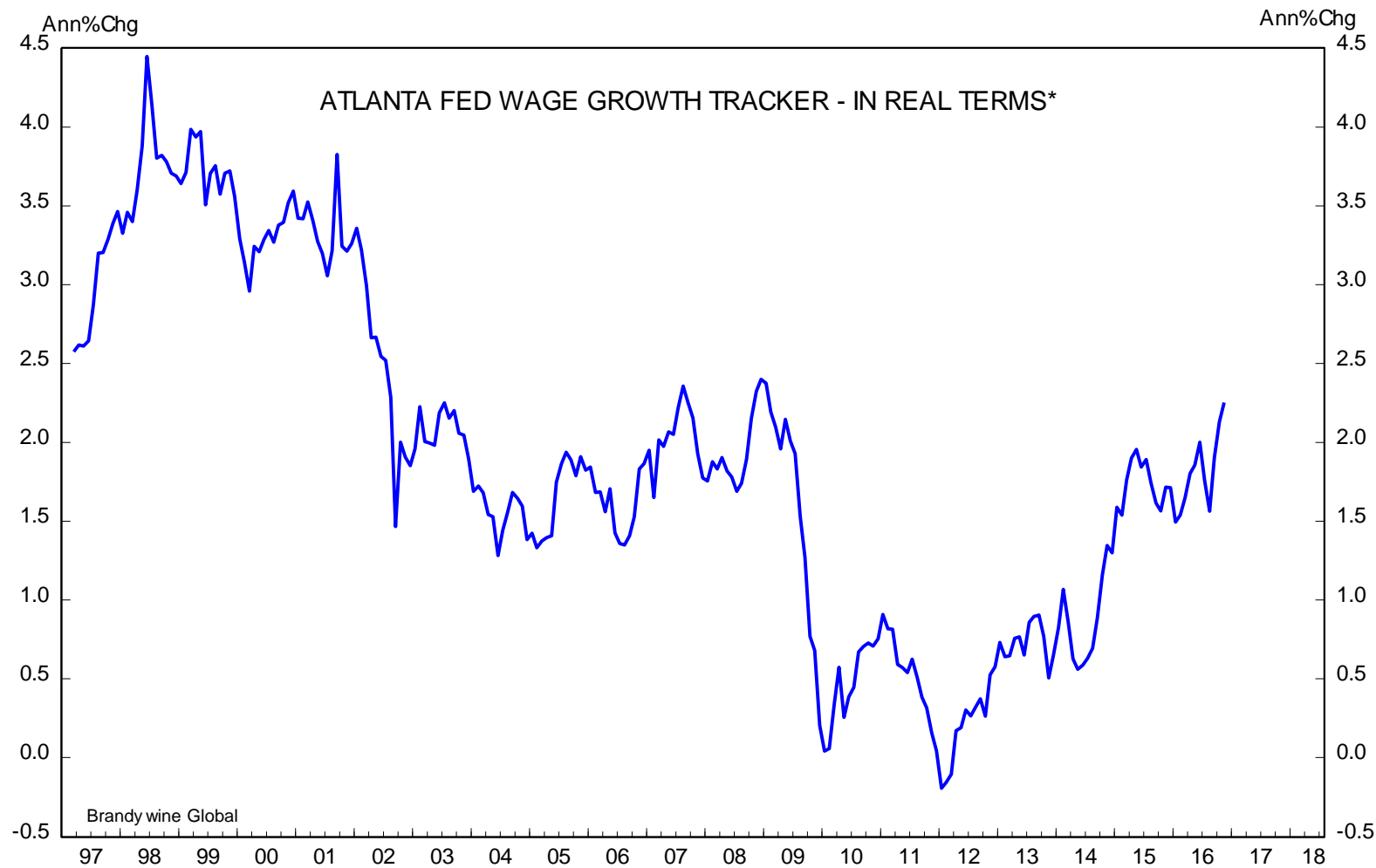
Reflation has not worked since 2008 because of the secular forces driving the new normal.



But in 2016 American households stopped deleveraging.



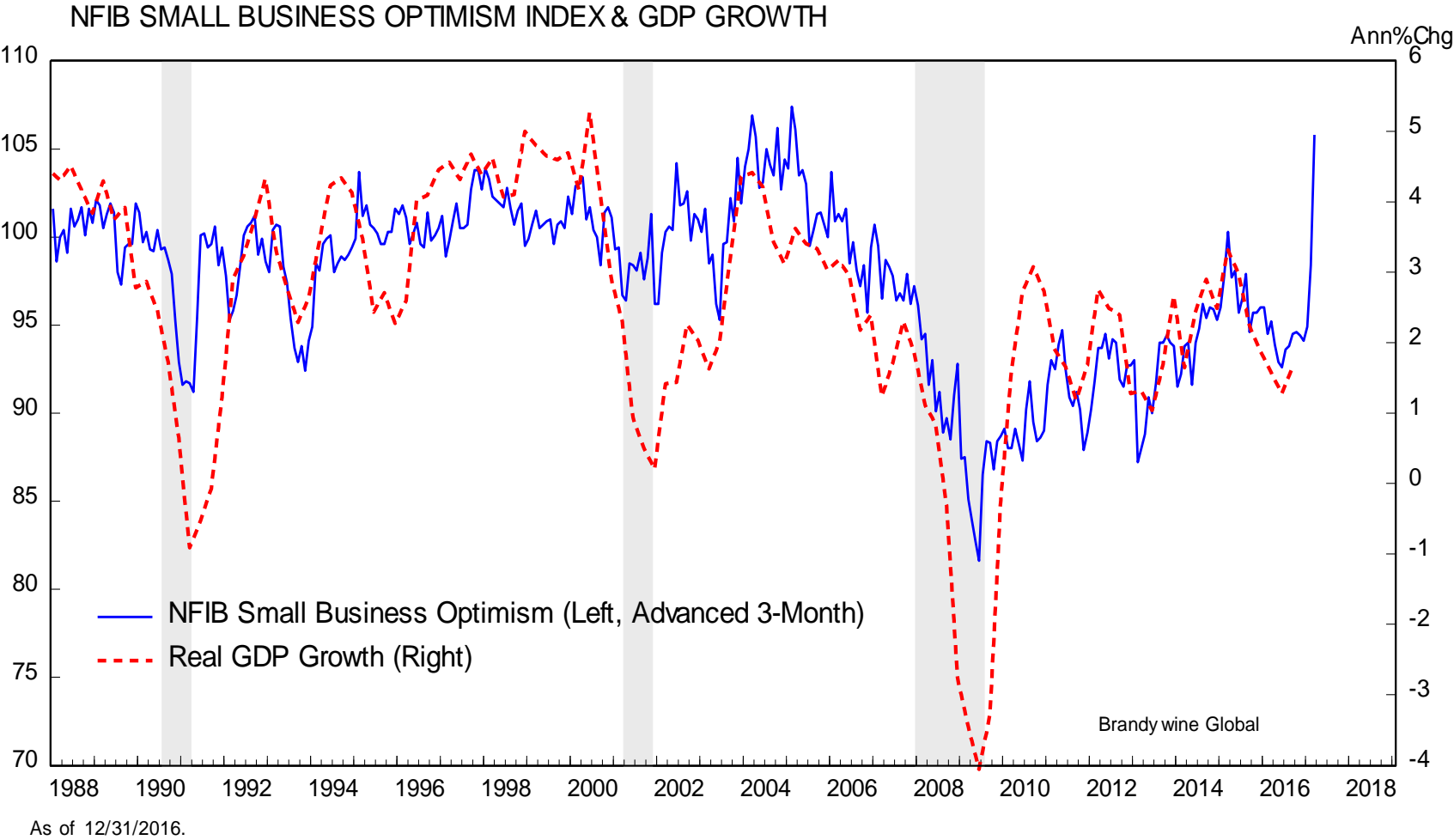
Productivity is higher than the secular stagnationists suggest.



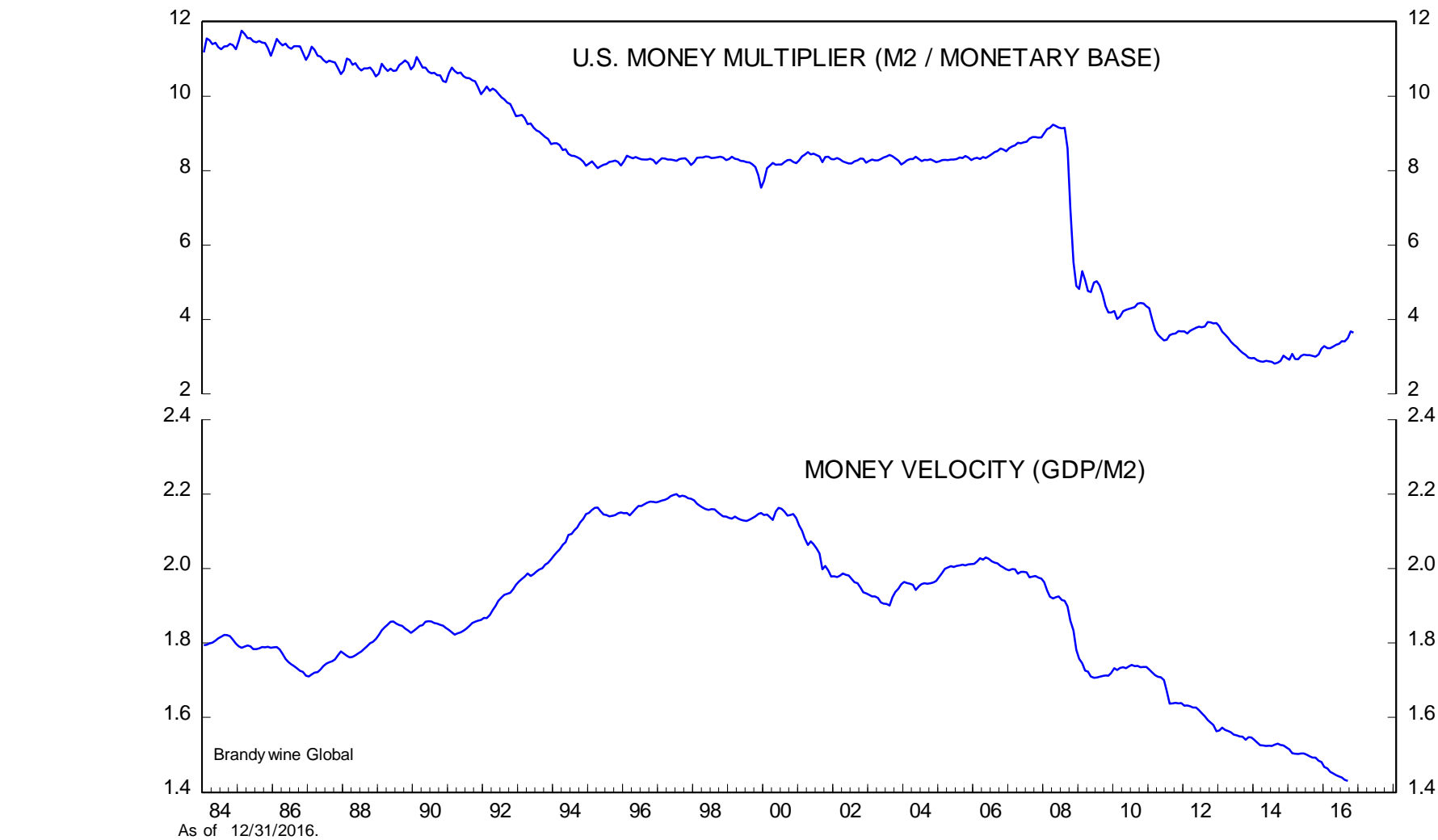
* Deflated by core PCE

As of 11/30/2016.

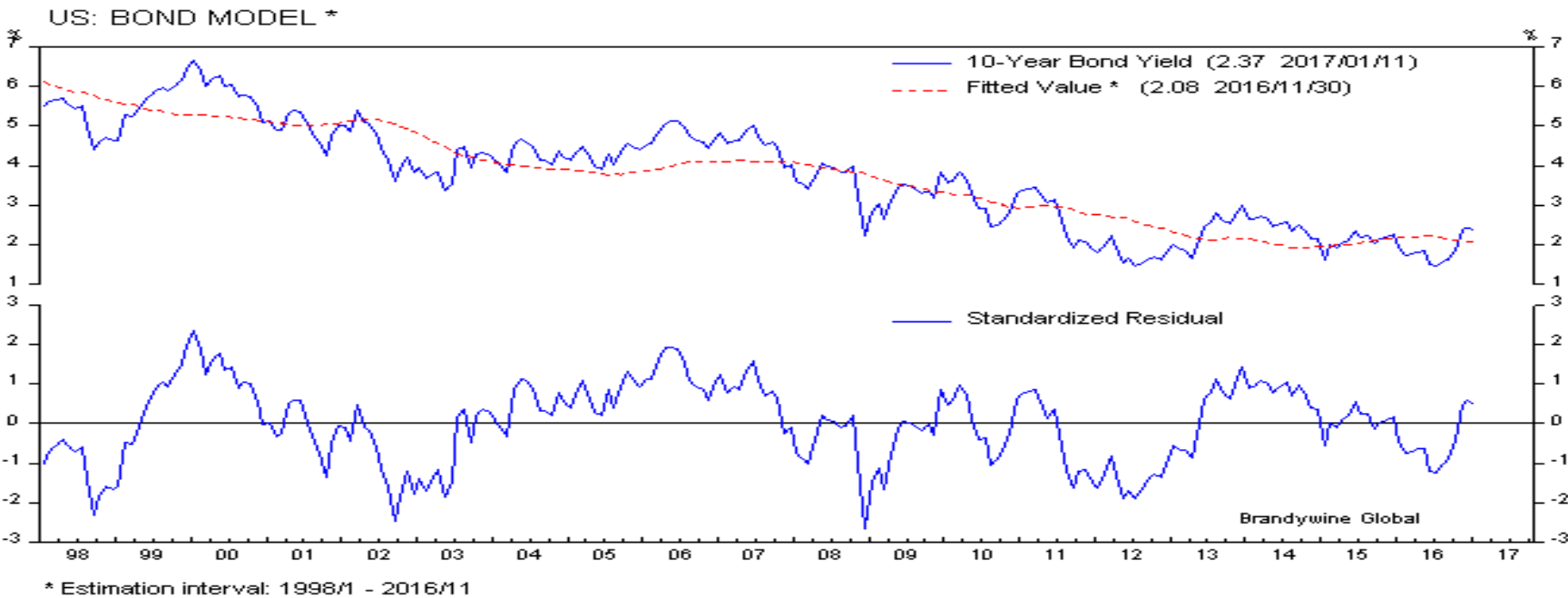
Expectations of a stimulative fiscal agenda have accelerated the “Stirrings of An End to Financial Repression” theme. Investors pricing in an economic boom.



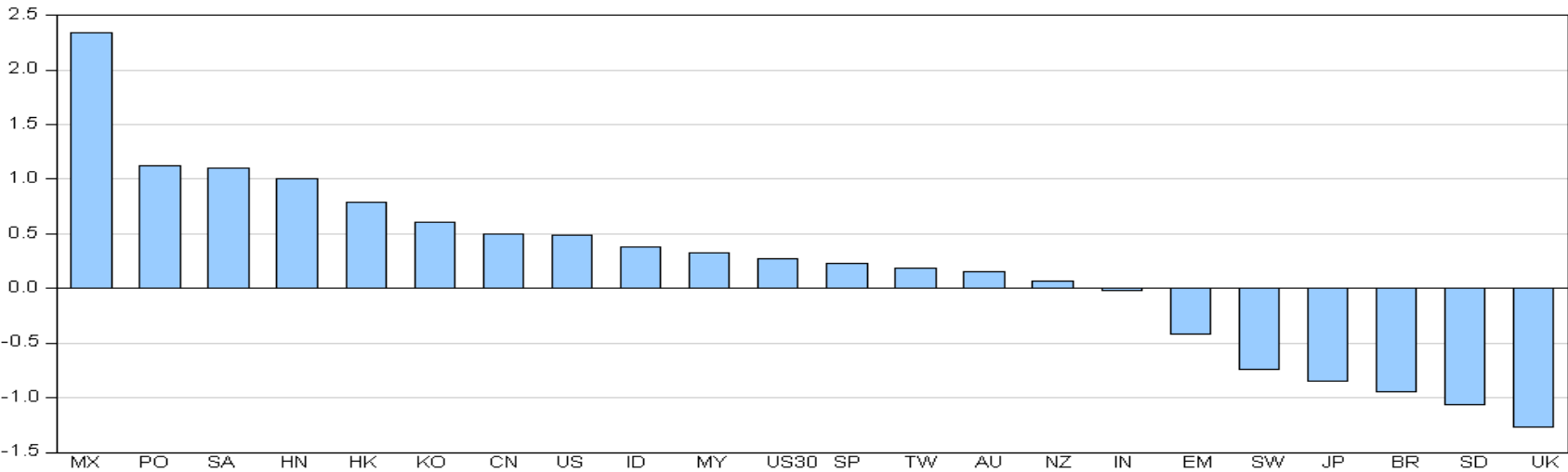
The financial firepower for a revival in “Animal Spirits” certainly exists.



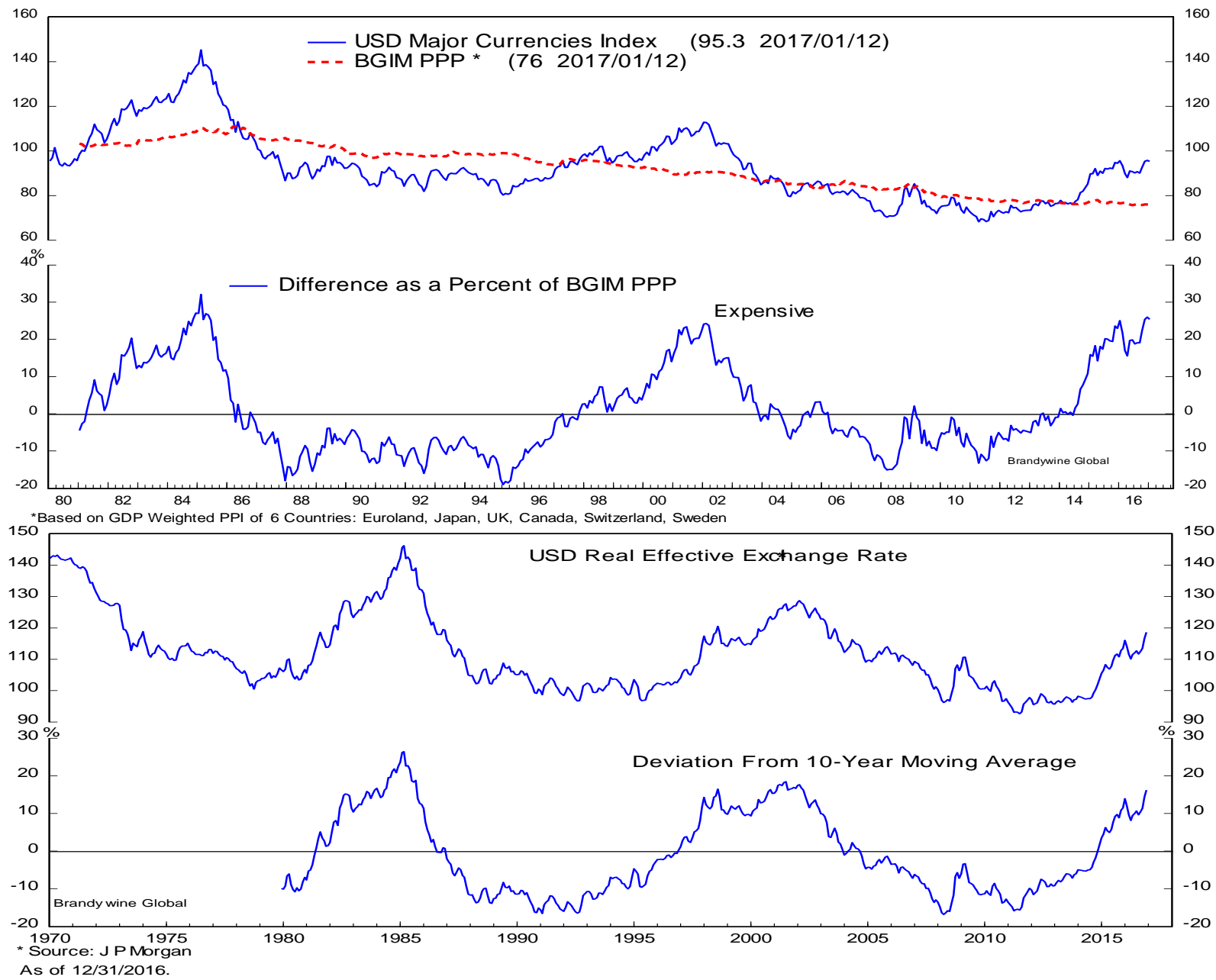
Treasuries back to fair value. No anomaly or secular trend driving return expectations. But many EM fixed income markets are anomalous and would benefit from the improved cyclical outlook.



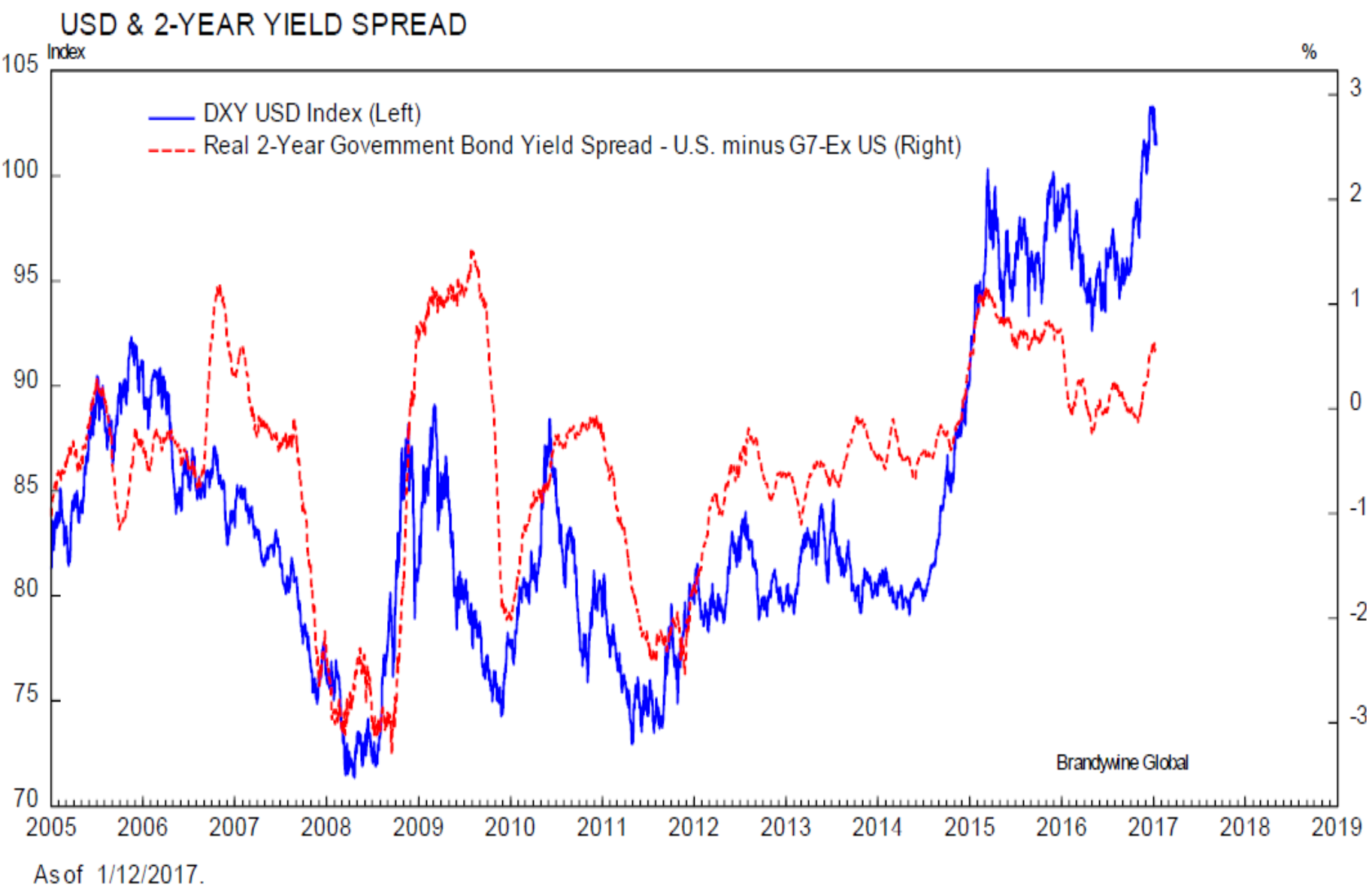
10-YEAR BOND YIELD DEVIATION FROM MODEL ESTIMATION (STD.) (01/11/2017)



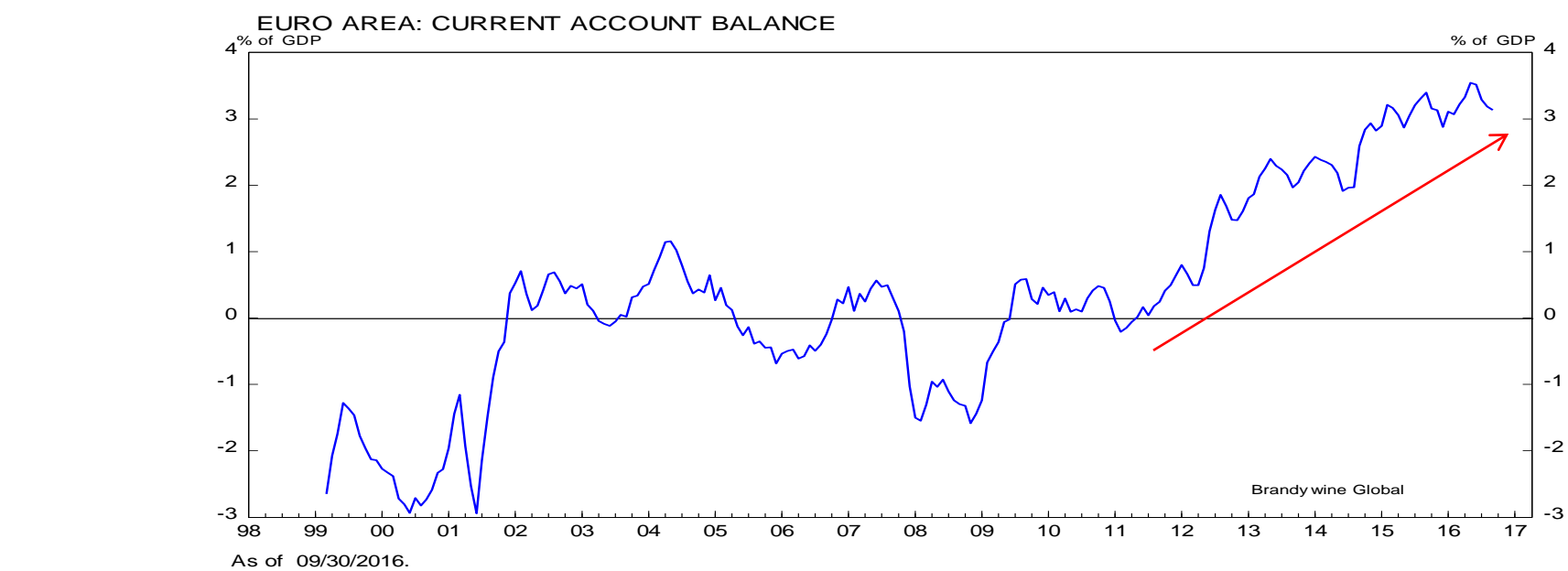
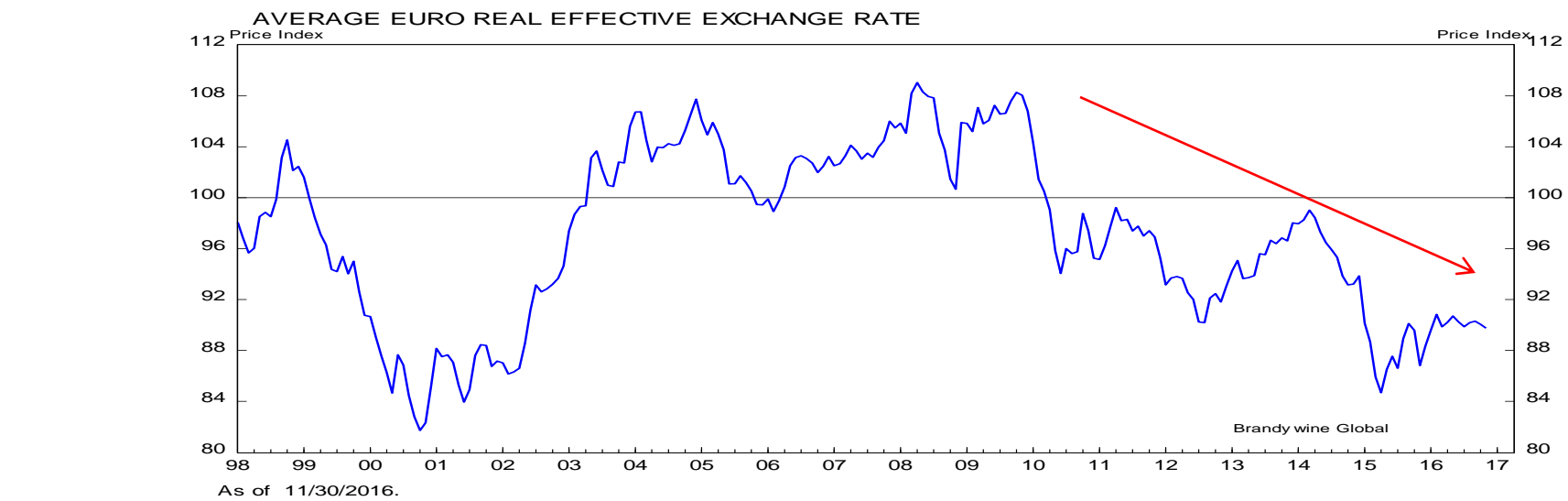
Trump's expected tax agenda has fostered a dollar rally and expectations of more to come. But the currency is already expensive.



The dollar is anomalous in relation to short-term real interest rate spreads.



The Euro is the biggest constituent of DXY. Price metrics and revealed preference both indicate good value.



Appendix 1 – Important Disclosure Information

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