

Outlook 2016

Exclusive view of what's ahead in 2016

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Together we'll go far



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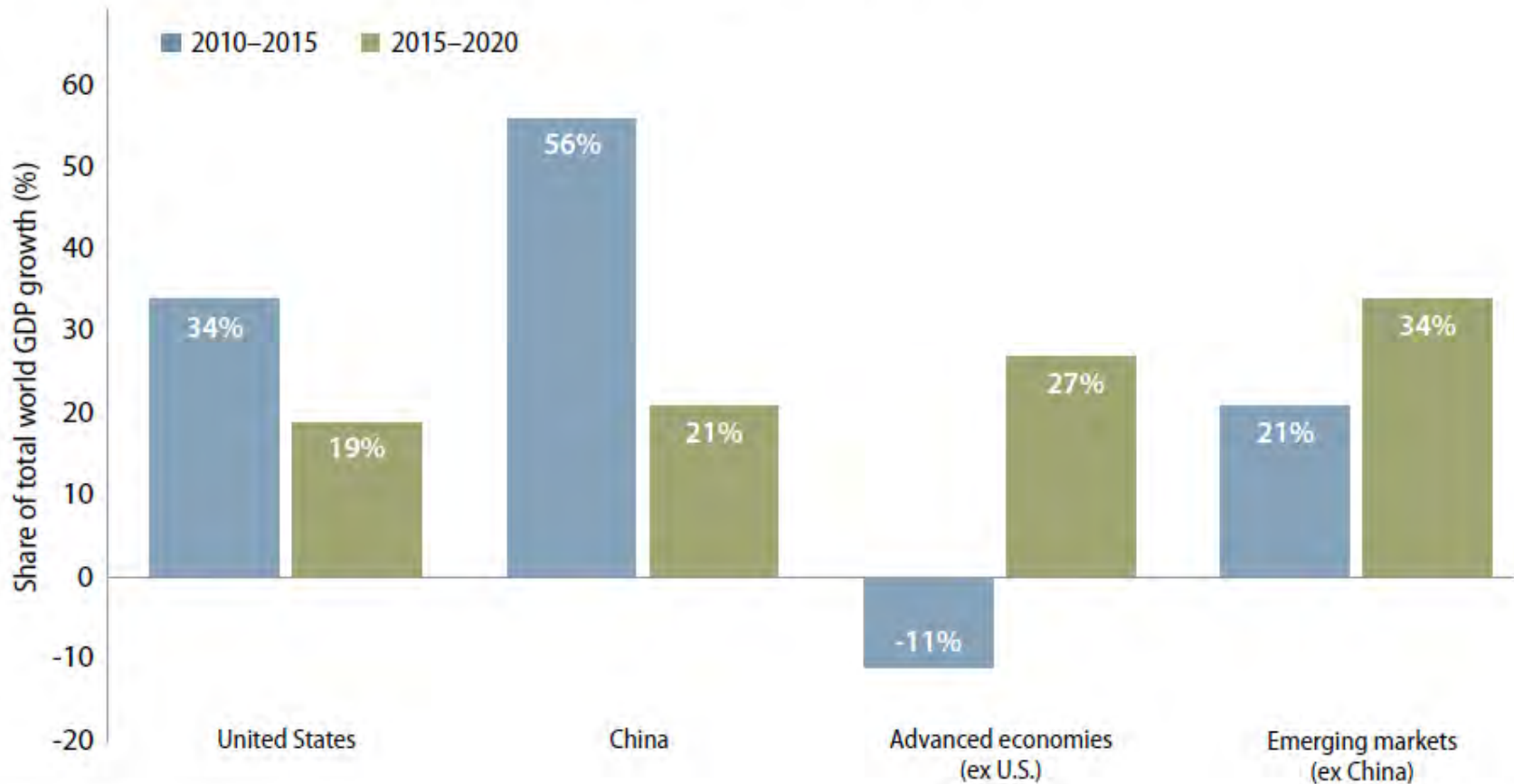
Three key themes for 2016



- 1. Focus on opportunities outside the U.S.**
- 2. Don't rule out the U.S.—the economy is growing, albeit slowly.**
- 3. Keep rising interest rates in perspective.**

Global growth creates value opportunities

Sources of global growth are becoming more diverse



Source: IMF, September 2015

What to watch for in 2016

- Signs of renewed vigor out of China could have the double benefit of providing support for commodity prices and improving sentiment broadly for equity markets.
- Stability in commodity prices would also improve sentiment toward emerging markets debt.
- Commodity prices may be bottoming, creating opportunities in many emerging markets.

Theme #2: Don't rule out the U.S.—the economy is growing, albeit slowly

Historical growth in the U.S.

Leading economic indicators signal continued growth



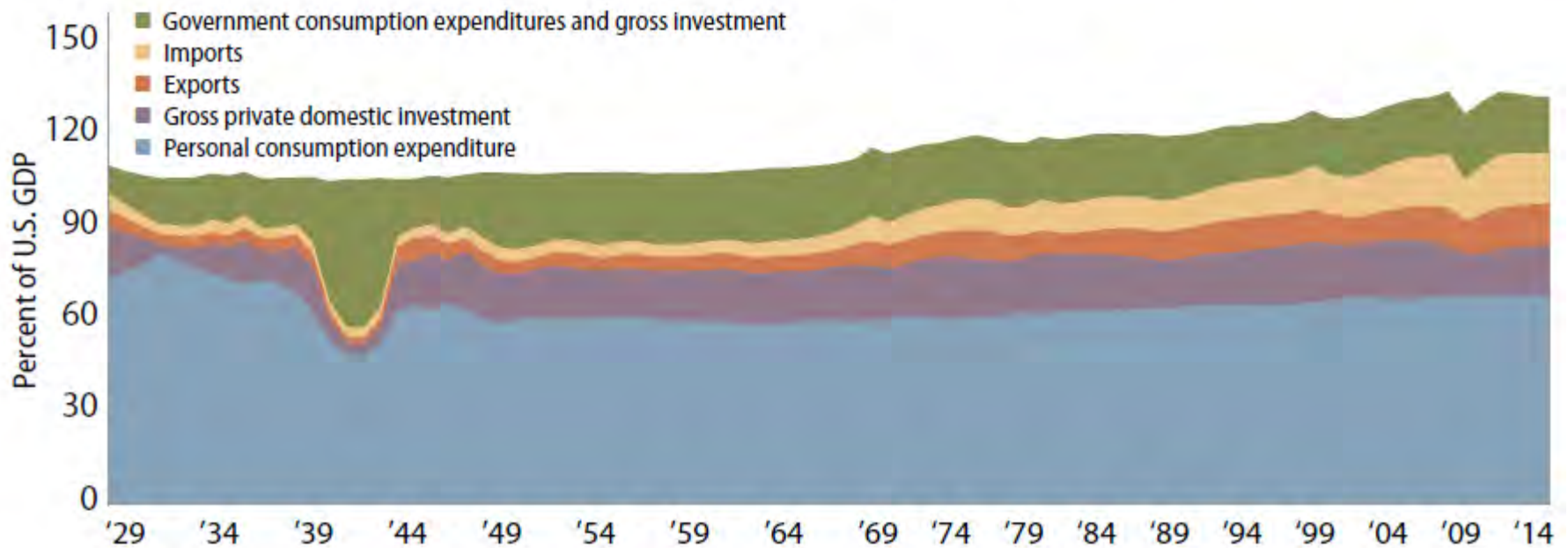
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Source: FRED, Federal Reserve Bank of Philadelphia, 7-1-15

Theme #2: Don't rule out the U.S.—the economy is growing, albeit slowly

Main contributors to GDP in the U.S.

U.S. GDP growth has been consistent, driven by consumption



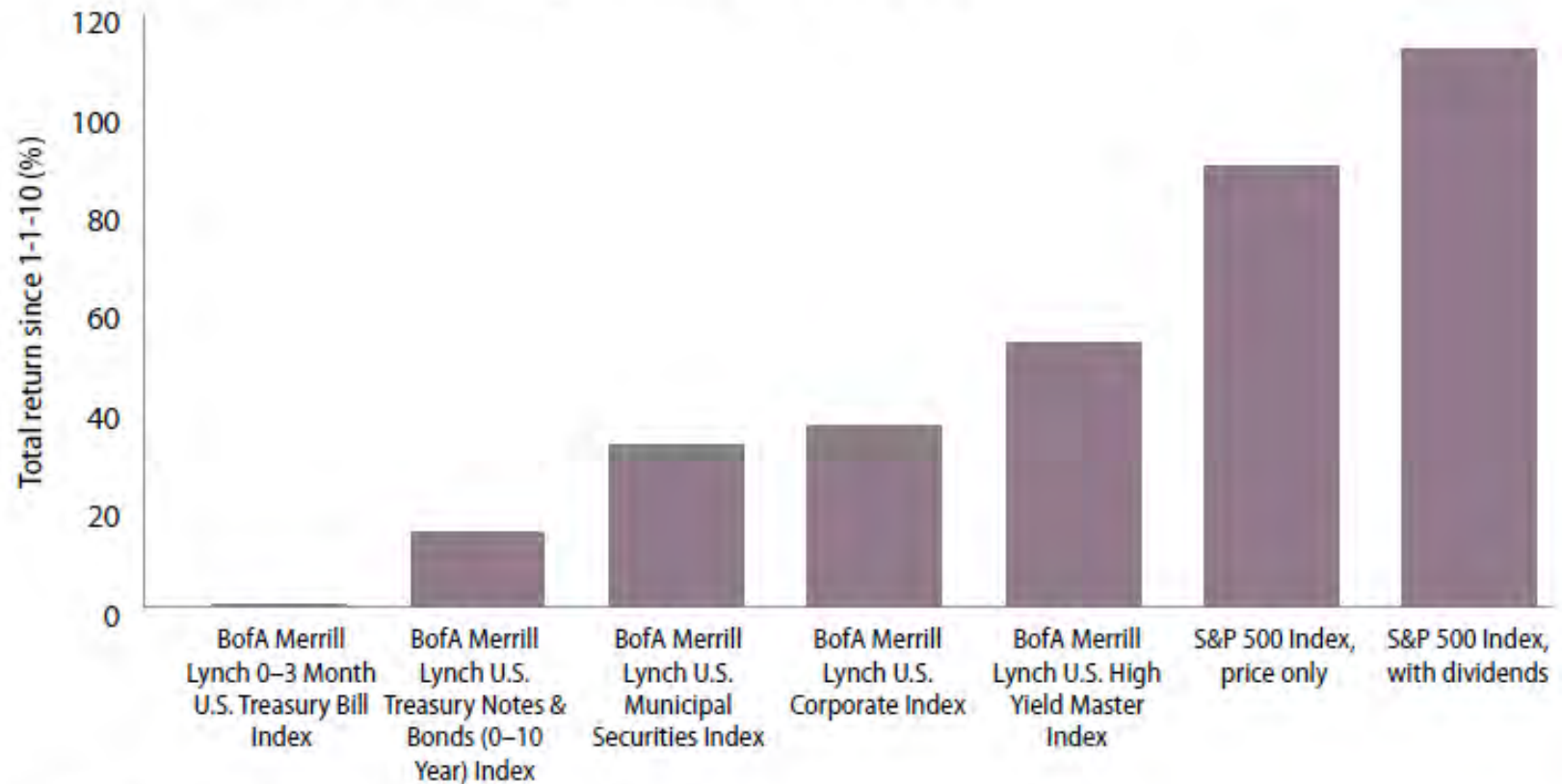
Source: Bureau of Economic Analysis, August 2015. In order to show the impact of international trade, exports and imports are both plotted as positive values (instead of subtracting imports). Therefore, GDP components sum to more than 100%.

What to watch for in 2016

- The unemployment rate. It will likely dip well below 5%, but we don't see that as a problem.
- Inflation numbers. The effects of low energy prices and a stronger dollar should stop weighing on them.
- The dollar. For the past few years, the dollar has gone up relative to just about every other currency.

Total returns over extended investment horizons

For fixed-income investors, patience has paid off



Source: Bloomberg, as of 11-5-15

What to watch for in 2016

- Watch the high-yield corporate bond market.
- Watch for rising yields, which have tended to go with rising equity markets over the past few years.
- Pay attention to any change in Fed rhetoric.

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