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# Economic Outlook and Market Update

January 2015

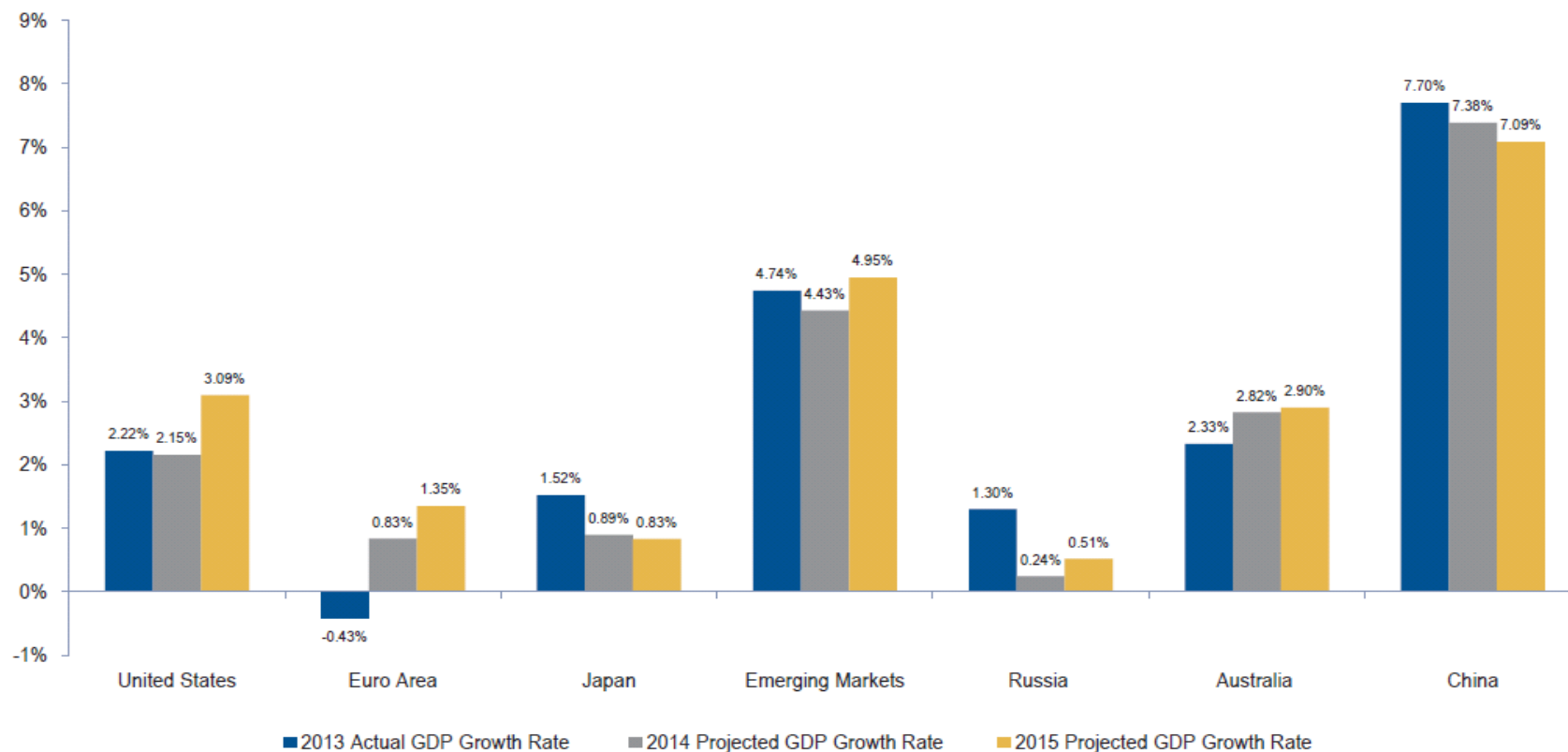
The logo features the text "HPM PARTNERS" in a white, serif, all-caps font. The text is centered within a horizontal blue band that has a subtle gradient. Behind this band is a stylized, light blue globe showing continents and latitude/longitude lines. Below the blue band is a solid dark blue horizontal bar.

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# World Economy

# Global economic growth will continue to be uneven, with upward momentum in the US offset by flat, or even recessionary, conditions around the world.

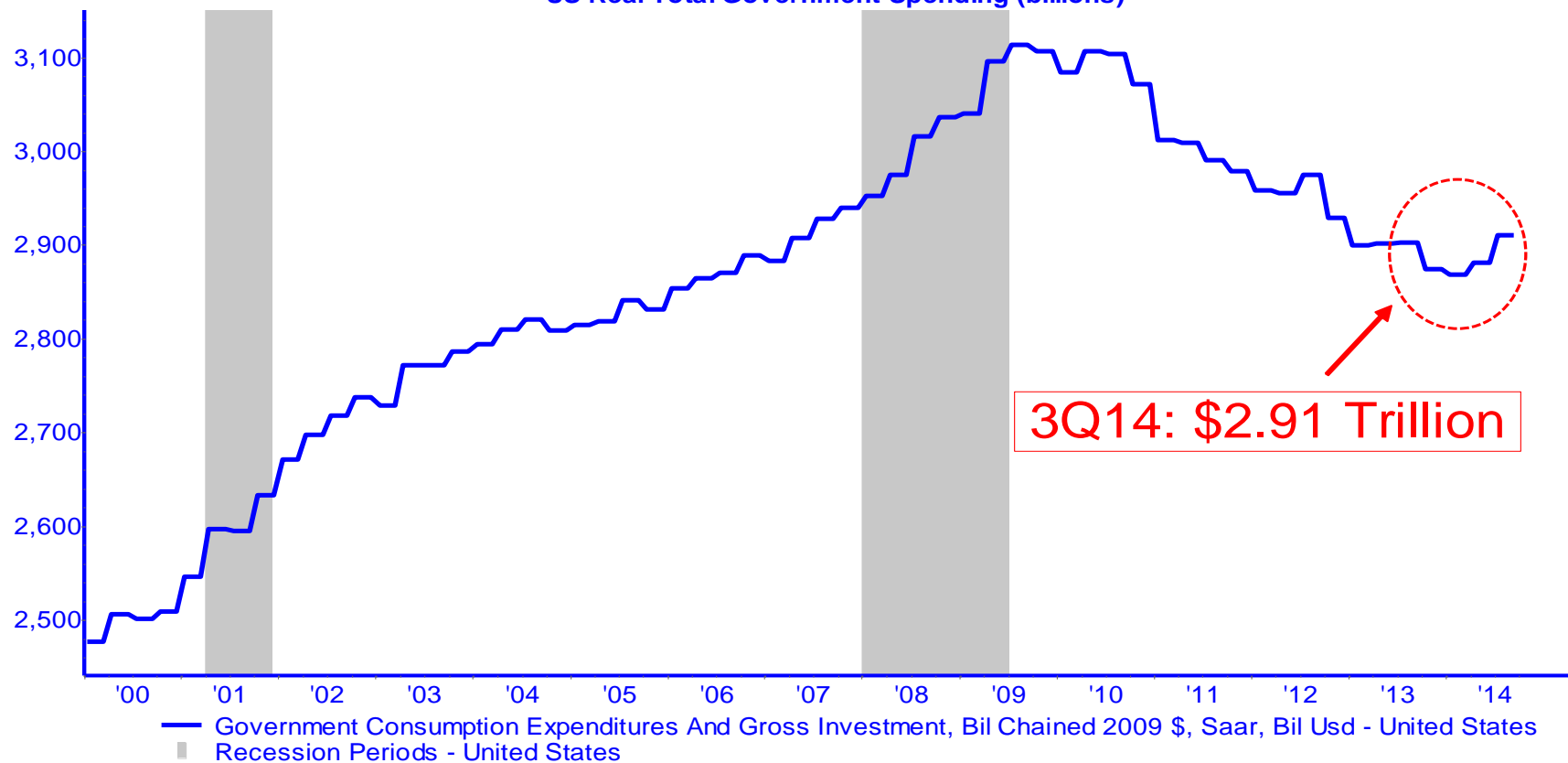
## PROJECTED GDP GROWTH RATES



Source: Neuberger Berman. International Monetary Fund. As of September 30, 2014.

Going into 2015, the combination of a healthier US consumer, revived US business spending, and reduced fiscal drag from lower government spending, sets the stage for US GDP growth of 3% or higher.

US Real Total Government Spending (billions)

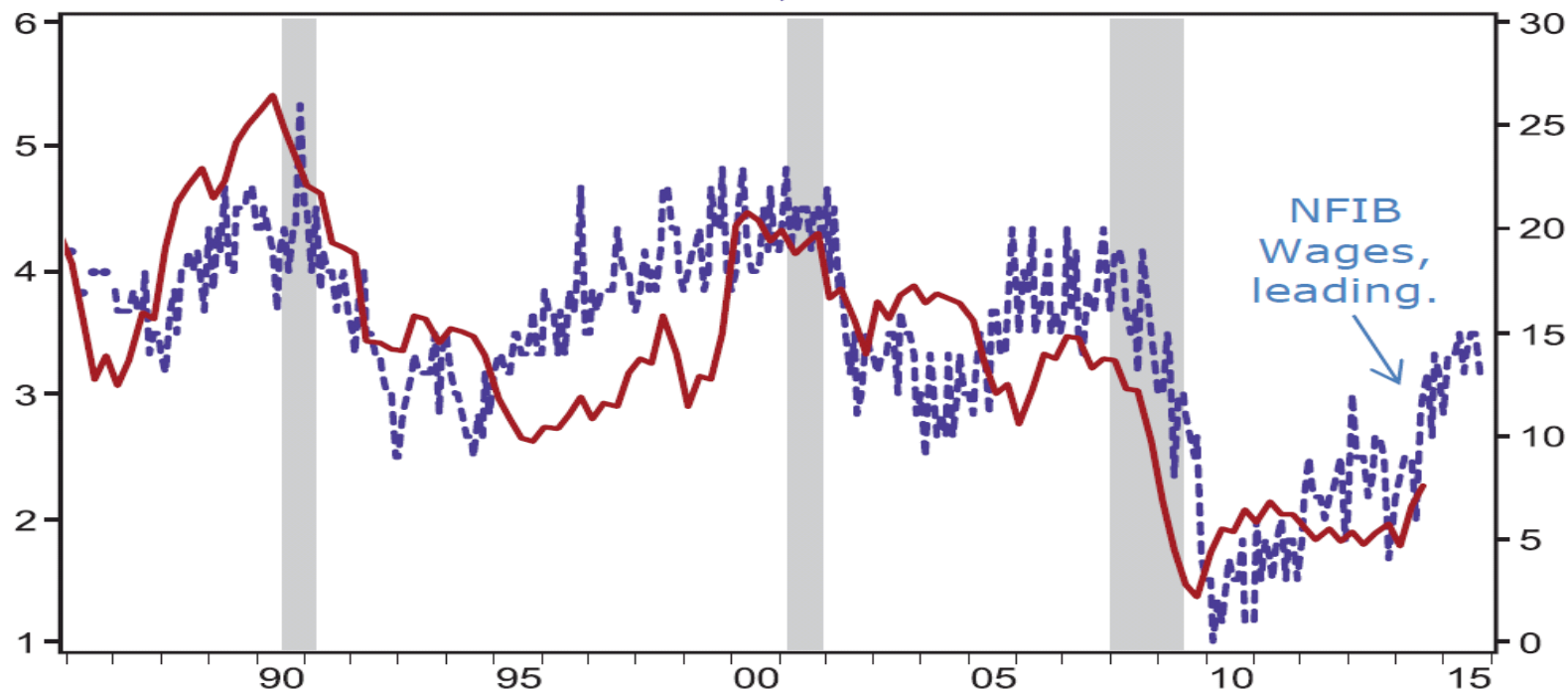


Source: FactSet. As of December 13, 2014.

# The Fed is awaiting tangible signs of wage inflation before beginning to tighten.

← Employment Cost Index: Compensation: Civilian Workers  
% Change - Year to Year SA, Dec-05=100

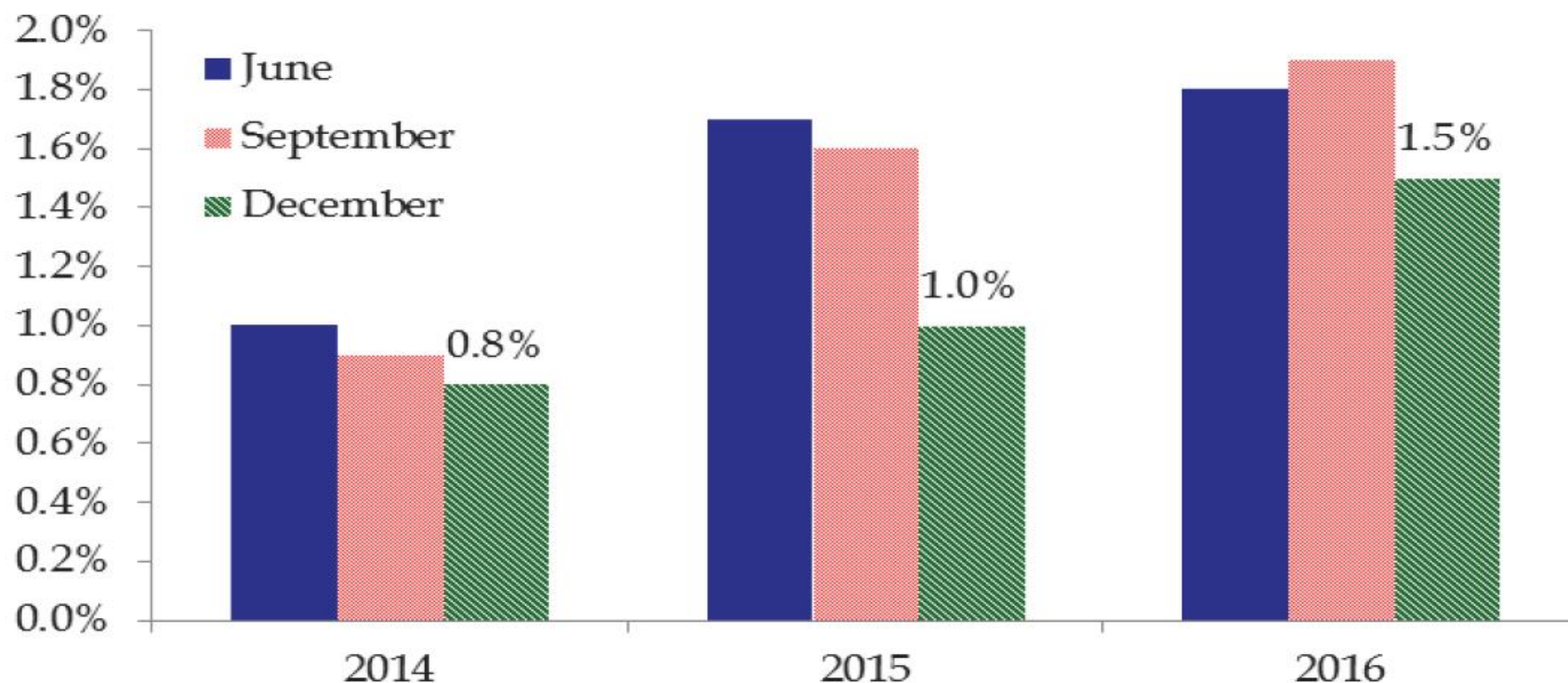
NFIB: % Planning to Raise Worker Comp in Next 3 Months [Lead 12 Mos] →  
SA, %



Sources: BLS, NFIB

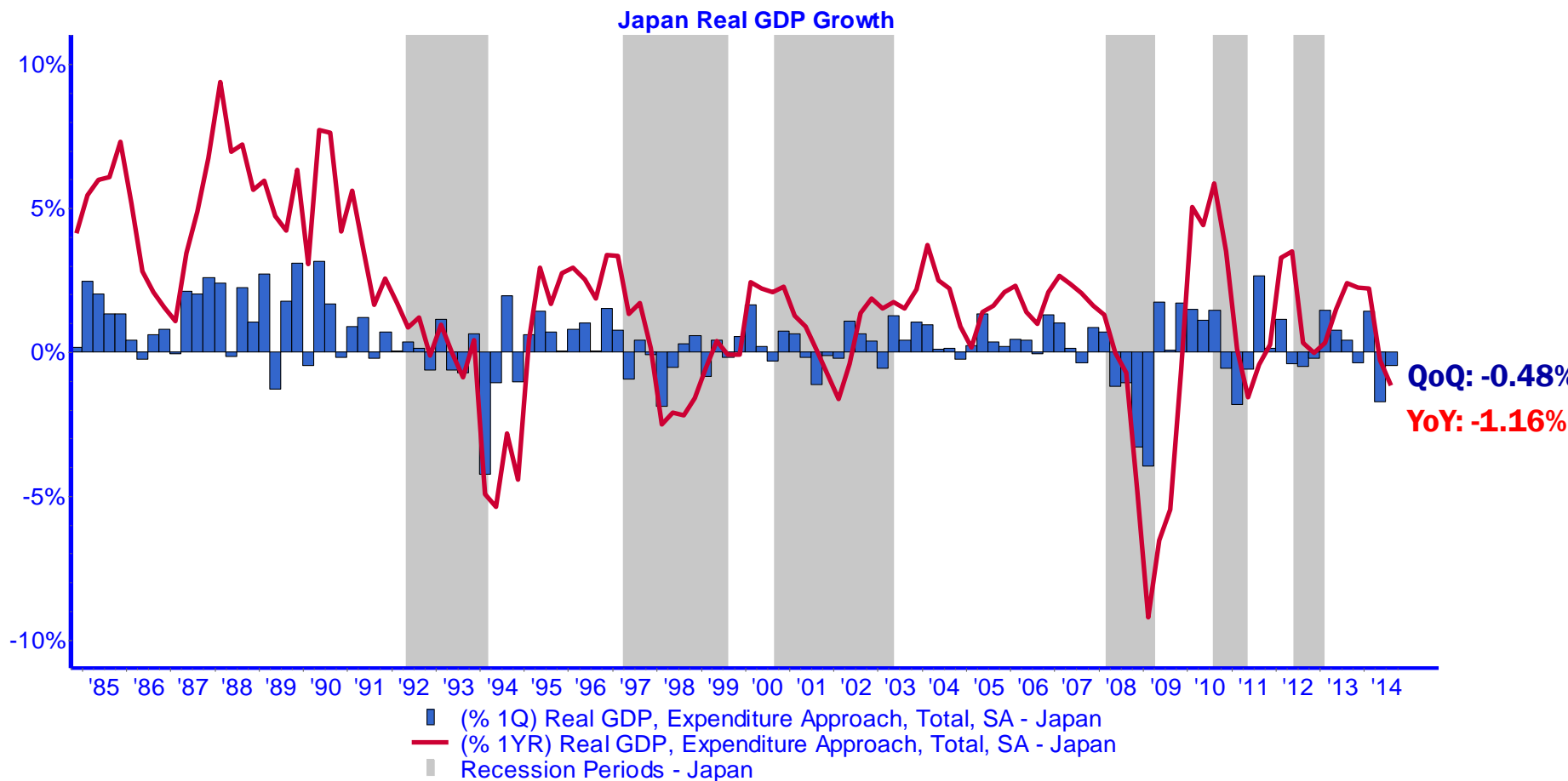
ECB forecasts were revised down broadly driven by falling oil prices, weakening global demand, and a lack of structural reforms. These factors coupled with further escalation in the Ukraine/Russia conflict are resulting in a deteriorating economic outlook.

### ECB Forecasts For Economic Growth: Real GDP Y/Y%



Source: Strategas. As of December 4, 2014.

## Japan is now officially in recession following the second straight quarter of negative GDP growth.



In reaction to the continuing economic slowdown, the Chinese authorities again appear to be favoring growth over reform.

China PMI Manufacturing Index



Source: FactSet. As of December 12, 2014.





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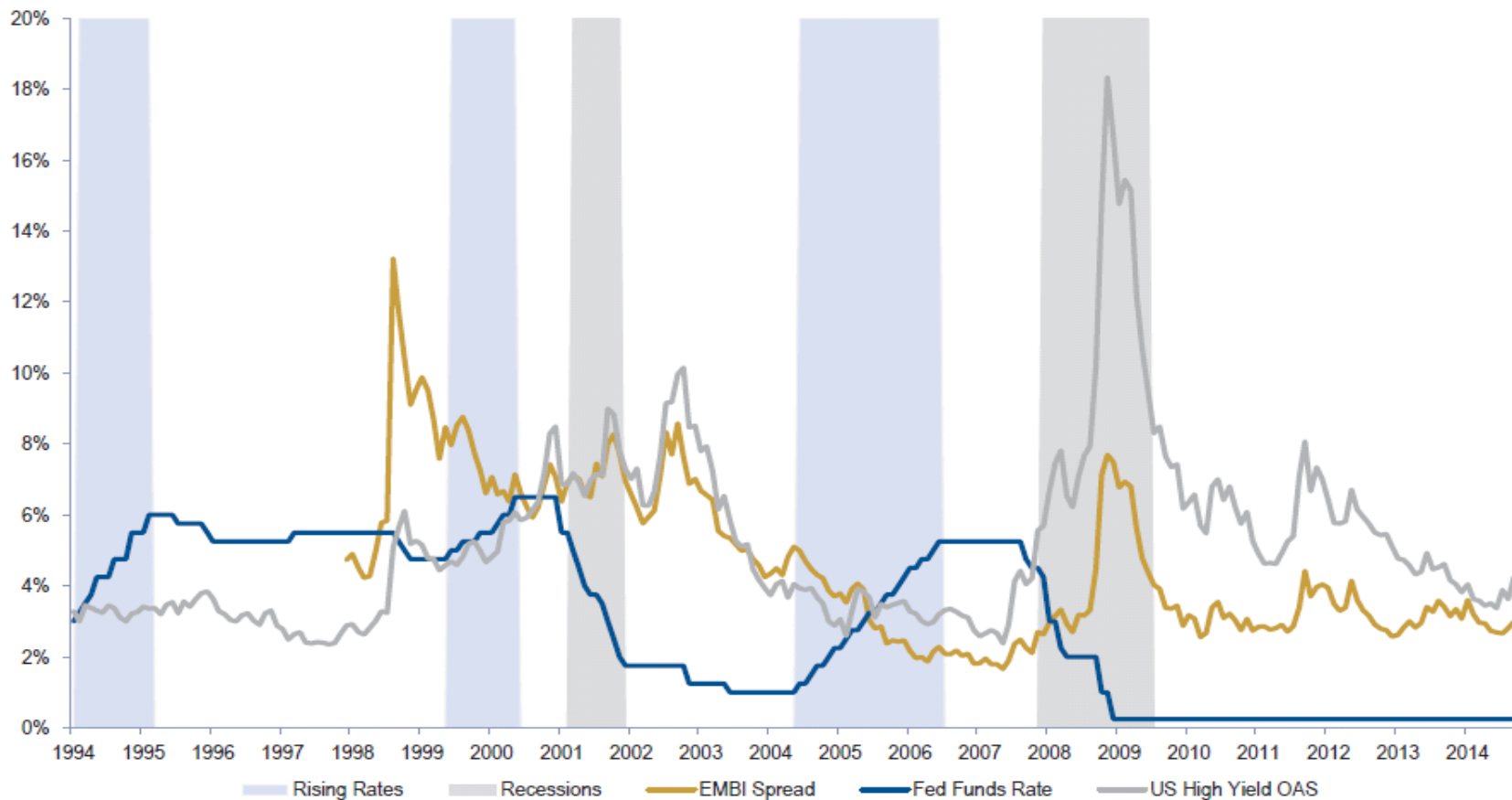
## Fixed Income

**Yields are anticipated to rise in the US, reflecting above-trend economic growth and expected Fed tightening. The impact of higher rates will be mitigated by the combination of lower issuance and heavy foreign demand.**



## Rising rates have not historically been a negative on high yield and emerging market debt credit spreads.

### SPREAD BEHAVIOR IN RISING RATE ENVIRONMENTS



Source: Neuberger Berman, J.P. Morgan (EMD Spreads), Barclays (High Yield OAS). As of October 3, 2014.

Many of the central banks in the developed markets remain accommodative. We expect the Fed to be the first to tighten.

In emerging markets, some central banks have begun raising short term rates to counteract inflationary pressures, but most are keeping monetary policy accommodative, thereby keeping rates low and exerting pressure on their currencies. Emerging Markets Debt priced in dollars can best take advantage of this policy environment.

Country:	Rate:	Real Rate:	Last Rate Move:	Date of Last Rate Move:
Australia	2.50%	0.19%	Easing	8/7/2013
Brazil	11.75%	5.19%	Tightening	12/4/2014
Canada	1.00%	-1.36%	Tightening	9/8/2010
China	5.60%	3.90%	Easing	7/6/2012
Eurozone	0.05%	-0.25%	Easing	9/10/2014
Hong Kong	0.50%	-4.72%	Easing	12/17/20008
India	8.00%	2.48%	Tightening	1/28/2014
Japan	0.05%	-2.83%	Easing	10/5/2010
Mexico	3.00%	-1.30%	Easing	6/6/2014
Phillipines	6.00%	2.32%	Tightening	9/11/2014
Poland	2.00%	2.41%	Easing	10/9/2014
Russia	9.50%	0.41%	Tightening	11/5/2014
South Africa	5.75%	-0.16%	Tightening	7/18/2014
South Korea	2.00%	1.04%	Easing	10/15/2014
Sweden	1.00%	0.68%	Easing	1/2/2013
Switzerland	0.25%	0.26%	Easing	8/3/2011
Taiwan	1.88%	1.01%	Tightening	7/1/2011
Thailand	2.00%	0.74%	Easing	3/12/2014
United Kingdom	0.50%	-0.79%	Easing	3/5/2009
United States	0.13%	-1.54%	Easing	12/16/2008

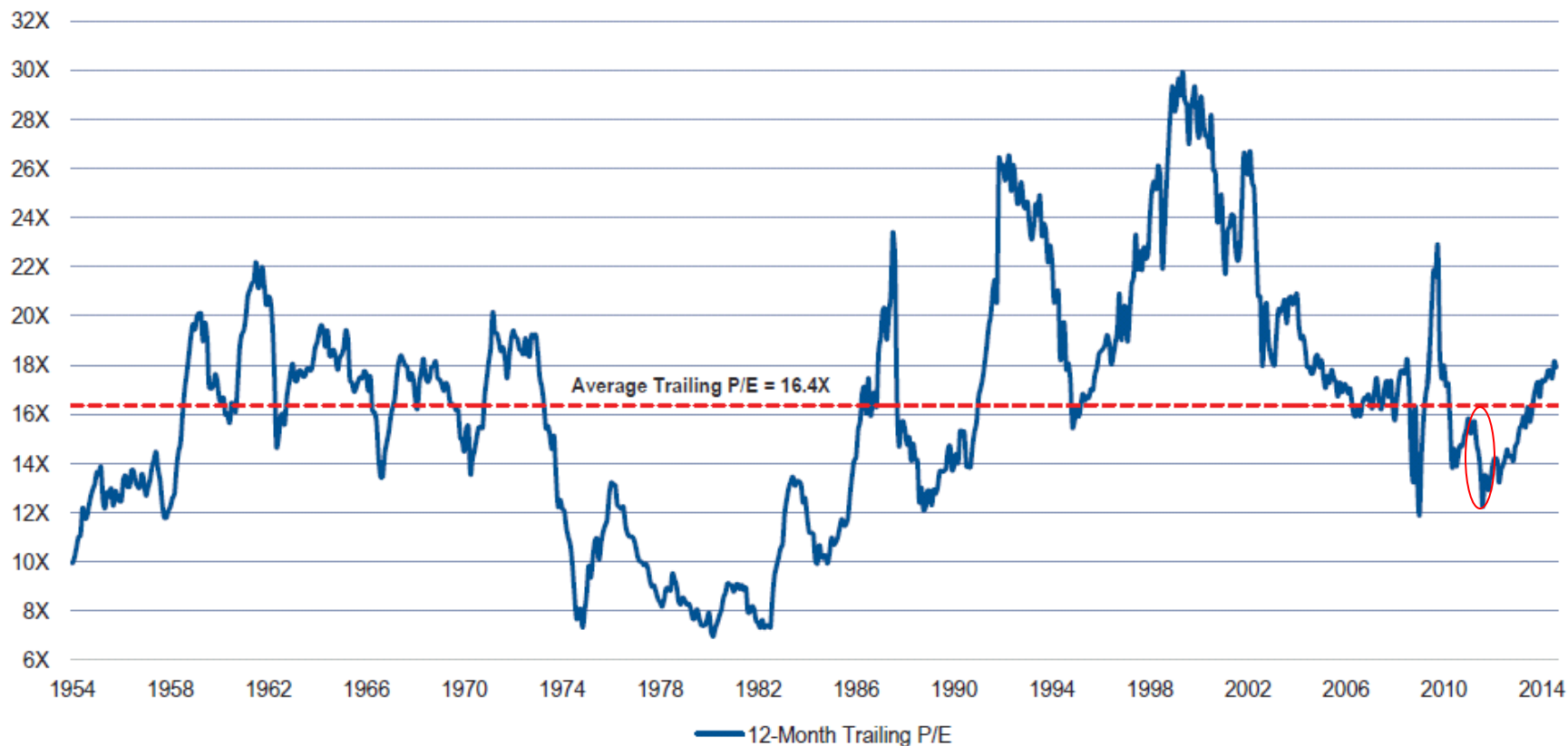


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**Equities**

2012 marked the end of a secular bear market. We believe we are now in a secular bull market.

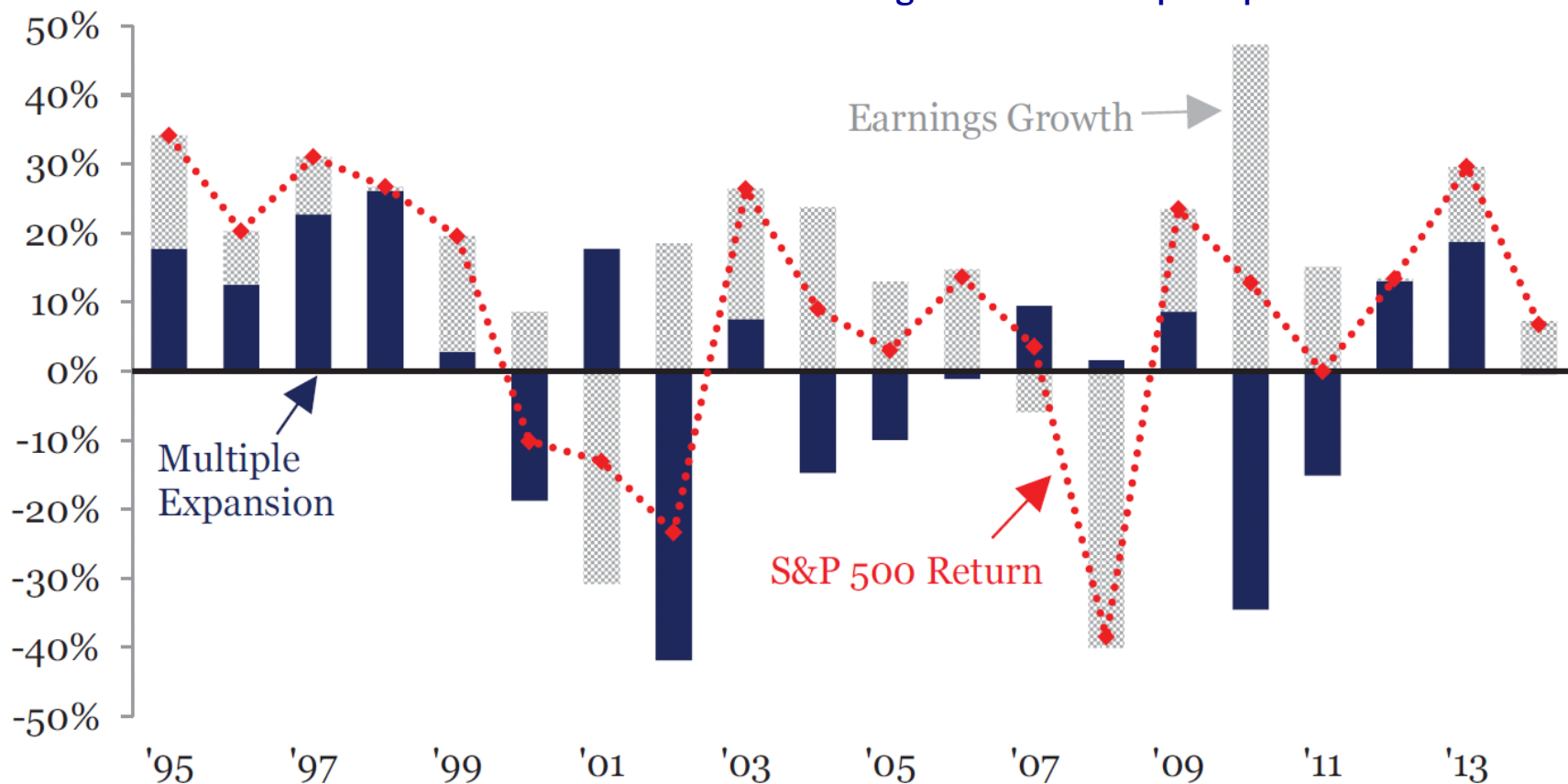
### S&P 500 12-Month Trailing P/E



Source: Neuberger Berman. Bloomberg. As of September 30, 2014.

**We expect multiple expansion to persist, given low interest rates and a very low probability of negative earnings in 2015.**

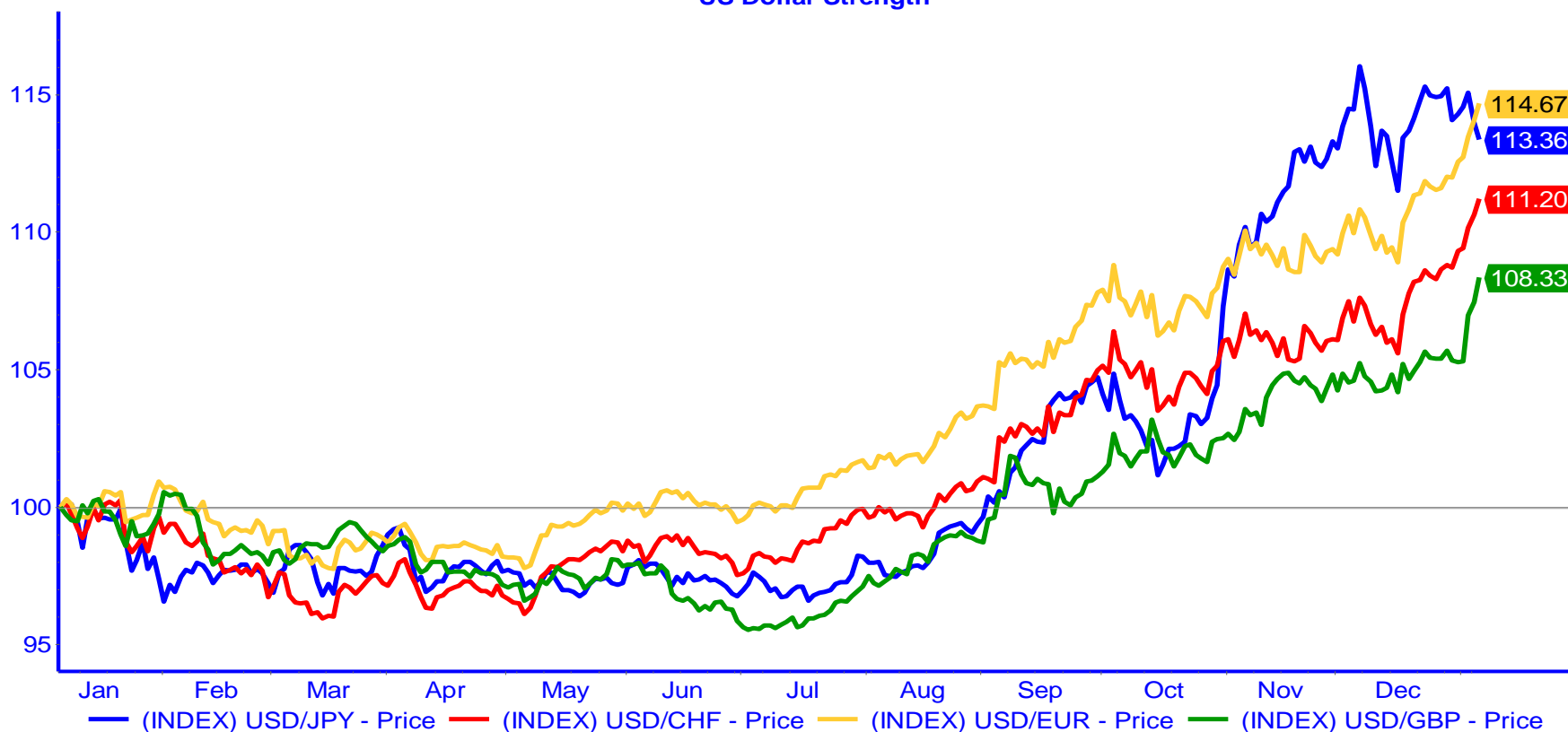
**Contribution to S&P 500 Return: Earnings Growth v. Multiple Expansion**



Source: Strategas. As of September 30, 2014.

Together, the relative strength of the US economy and expectations of Fed tightening favor the dollar over all other developed market currencies, and most emerging market countries. Currency hedging will be an important consideration for US investor in markets whose currencies are forecast to weaken versus the dollar.

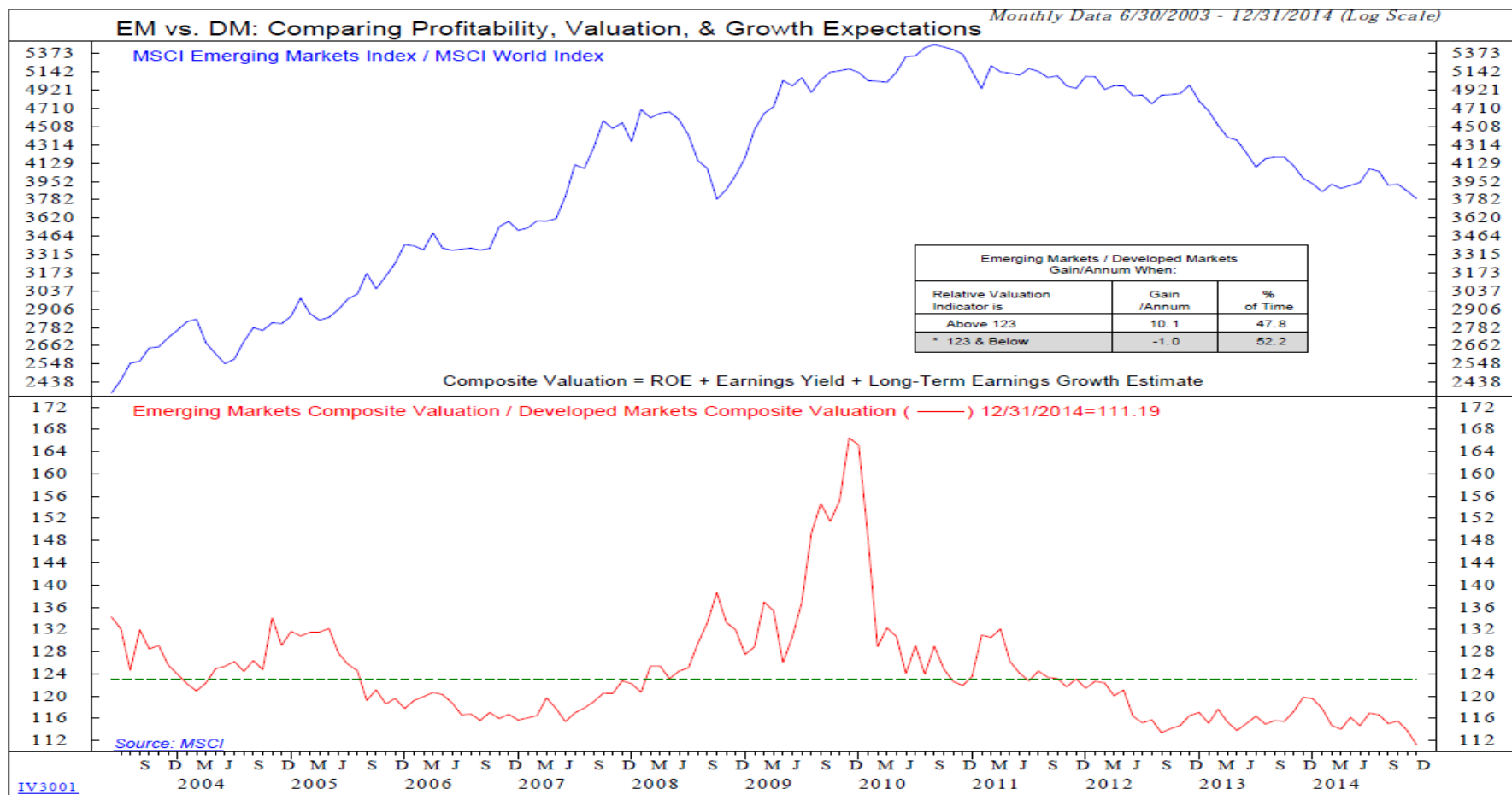
US Dollar Strength



Source: FactSet. As of January 7, 2015.



Overall, emerging markets are relatively cheap. However, the growth dynamics among regions and countries are very inconsistent, heightening the need for greater selectivity in where to invest.



Source: Ned Davis Research. As of December 31, 2014.

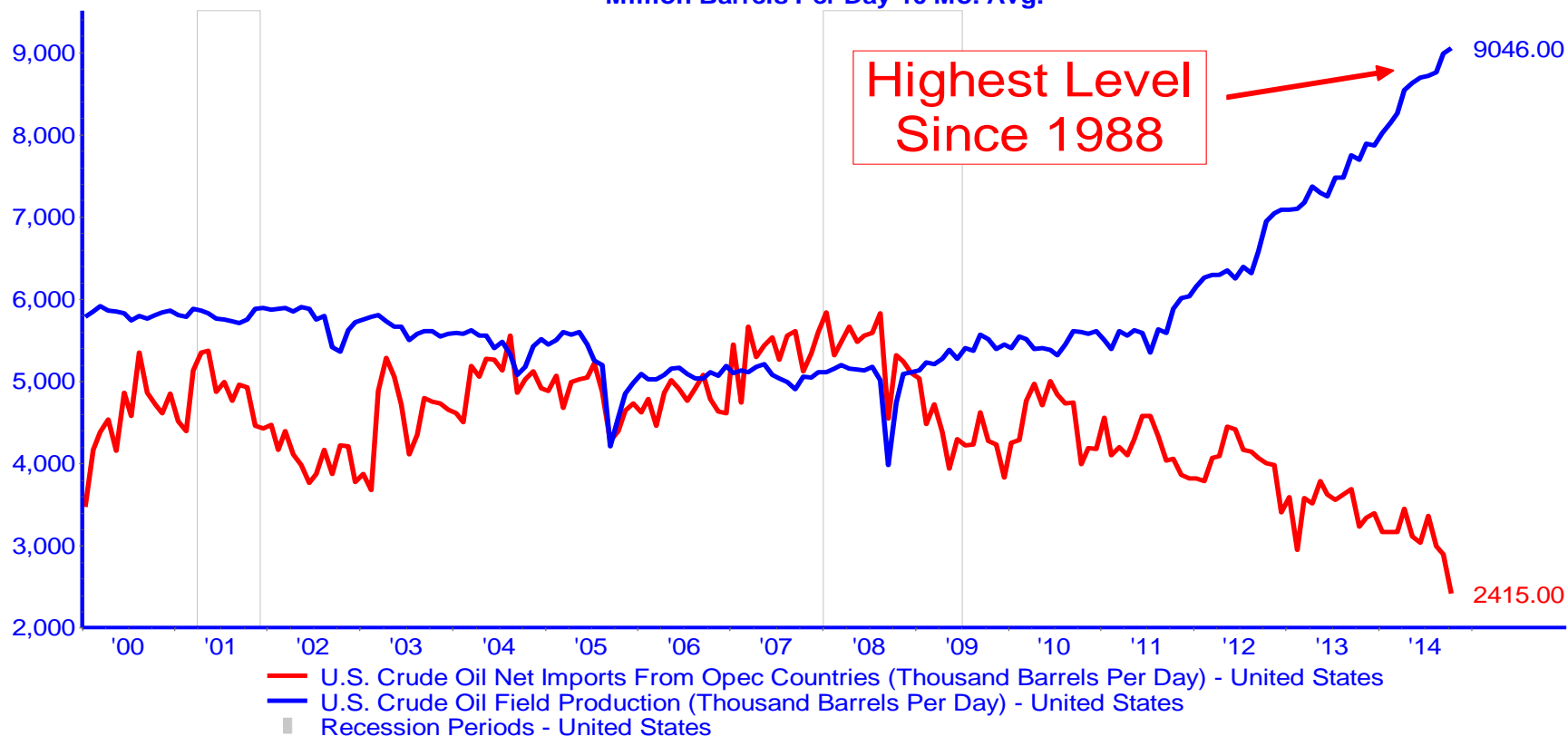
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## **Alternatives & Commodities**

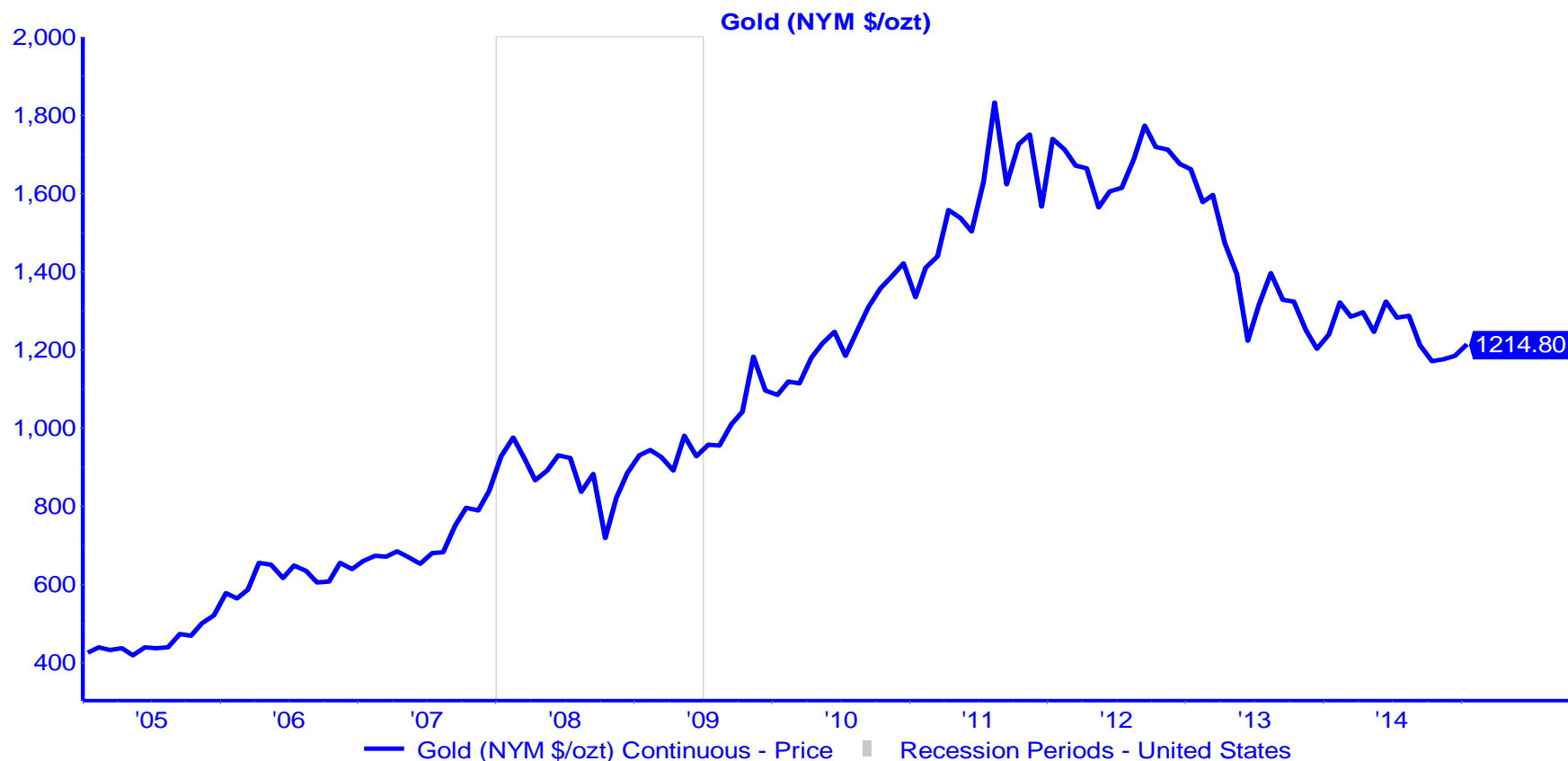
Production from U.S. shale fields is now a major swing factor in global supply. Although the U.S. is unlikely to curtail output to maintain prices, it may become uneconomic for higher cost shale producers to continue pumping if prices drop below their production costs.

Million Barrels Per Day 10 Mo. Avg.



Source: FactSet. As of January 7, 2015.

We believe US Fed policy will be the primary influence on gold price movements in the coming months and that the anticipated rise in US interest rates in mid-2015 should provide a ceiling not too far from current levels.



# Important Notes

HPM Partners LLC (“we” or “us”) has created this proposal by request solely for presentation to you and relies on the accuracy of the information you have provided without independent verification. This proposal is for informational purposes only. It is not intended to be personalized investment advice, an offer or solicitation or the basis for any contract to purchase or sell any security or other instrument, or for any transaction. The products and services described in this document are not appropriate for everyone. You must make your own independent legal, tax, accounting and financial evaluation of merits and risks. We assume no responsibility to advise a recipient of this document of changes in our views unless such recipient engages us for investment advisory services.

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## Performance Data Disclosures

We derived any historical performance presented herein by retroactively comparing the proposed allocation displayed to historical market pricing data. The results are for illustrative purposes only, reflect performance of a strategy that we did not necessarily offer to clients at the times for which we are showing performance, do NOT represent returns that any HPM client actually attained, and are not indicative of future results. Back-tested performance data is theoretical and does not involve market risk. If we had been managing actual accounts according to the proposed allocation throughout the period, ongoing research might have resulted in changes to the allocation, which may have altered returns.

There are inherent limitations in showing data derived from the retroactive application of an allocation. Back-testing allows an advisor to adjust the security and manager selection methodology to maximize past returns. Unlike actual performance, back-tested performance may not accurately reflect the effect of certain material economic or market factors, and therefore, may be over or understated due to the impact of these factors. Factors include but are not limited to, availability and liquidity of securities and availability of managers. Because these results do not represent actual trading or manager selection, it is unknown what effects these factors might have had on our decision-making if we were actually managing money according to the proposed allocation during the entire period.

Comparison of the proposed allocation to any hypothetical portfolio or index (a “Comparison Portfolio”) is for illustrative purposes only. The investment profile and volatility of a Comparison Portfolio may be materially different from the investment profile and volatility of the proposed allocation due to varying degrees of diversification and other factors. Indexes are unmanaged and do not bear fees or expenses. You cannot invest directly in an index.

Any performance and wealth projections portrayed in this proposal do not reflect the deduction of our advisory fees, third-party manager fees, transaction costs, taxes and other fees and expenses. The inclusion of fees, taxes and expenses would reduce the results portrayed. A 1.0% advisory fee represents a typical estimate of the fee a similar client may have been charged during the period shown. Over time, the deduction of fees, taxes and expenses materially reduces investment returns. We have made certain assumptions for modeling purposes including but not limited to the reinvestment of dividends and other income and the absence of cash flows. We make no representations or warranties as to the reasonableness of these assumptions. It is unlikely that these assumptions will hold true in an actual client account for the length of time displayed in this performance report.

## Third Party Manager Summaries

If we have included manager fact sheets to provide general information about the third-party money managers described in this proposal, the data included in these fact sheets is taken from publically available sources and third party providers that we deem reliable; however, the information is not guaranteed and is subject to change without notice. The performance data provided is not indicative of the performance of any particular HPM client. Our clients may have had materially different investment results from the data provided based on the complete investment allocation of their portfolio. The fees charged by the manager profiled herein are separate and in addition to our fees. These fees will reduce your portfolio’s overall performance. The fact sheets are not an offer to sell or a solicitation of an offer to buy any security offered or managed by the profiled manager or its affiliates. All fact sheets were developed independently and without assistance from the profiled manager. Past performance is not indicative of future results.