

Deflationary Fears Subside

April 2016



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REFERENCED CHARTS

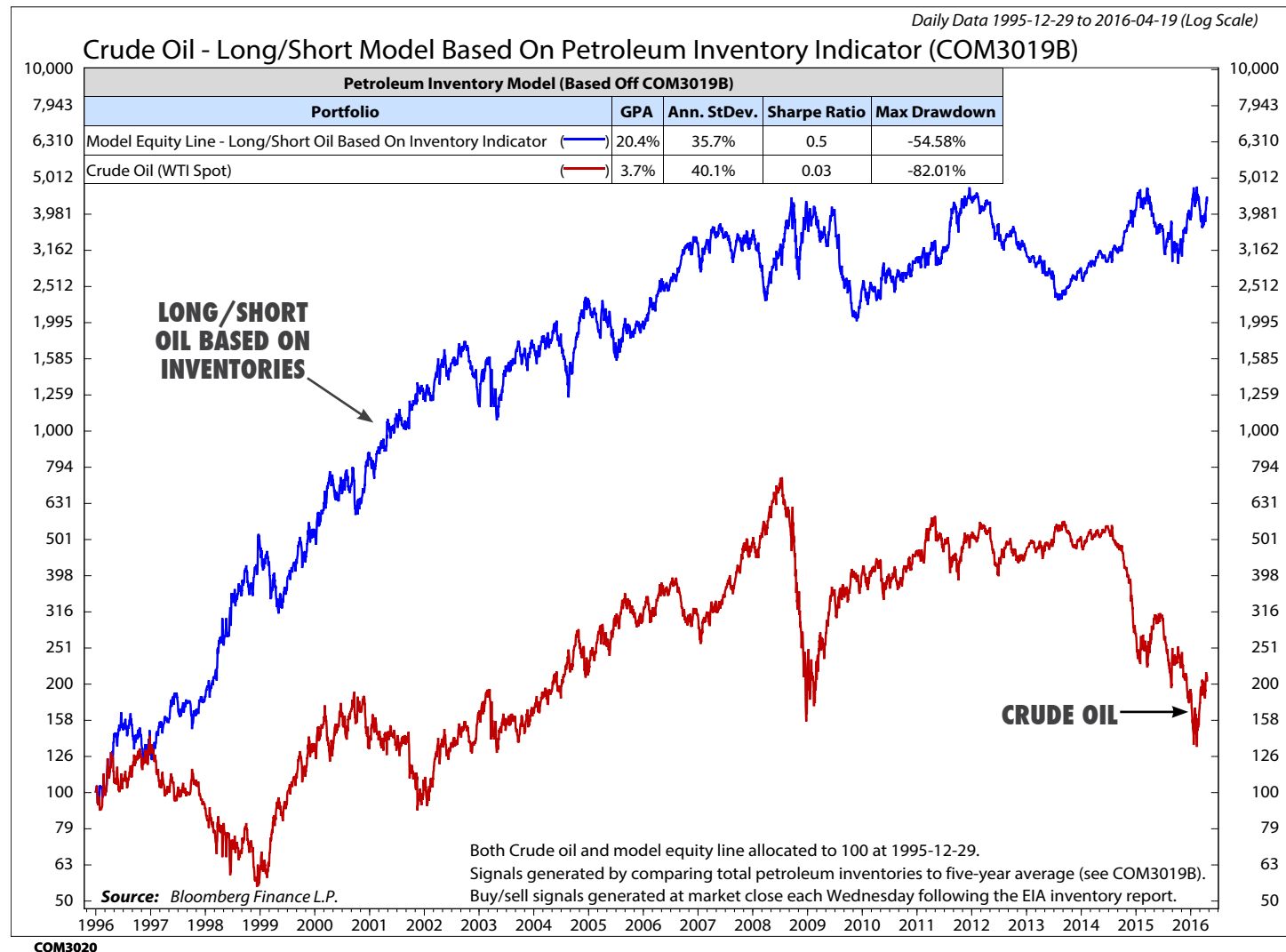
Energy Outlook



- » Post-Doha, crude oil's price action has been impressive.
- » Fundamentals are beginning to confirm technicals.
- » The oil rally should continue.

Key Chart: [COM3020](#)

- » Our main oil inventory indicator is now signaling a buy.
- » Going back to the mid-90s, total petroleum inventories have produced a stellar track record in calling oil prices.

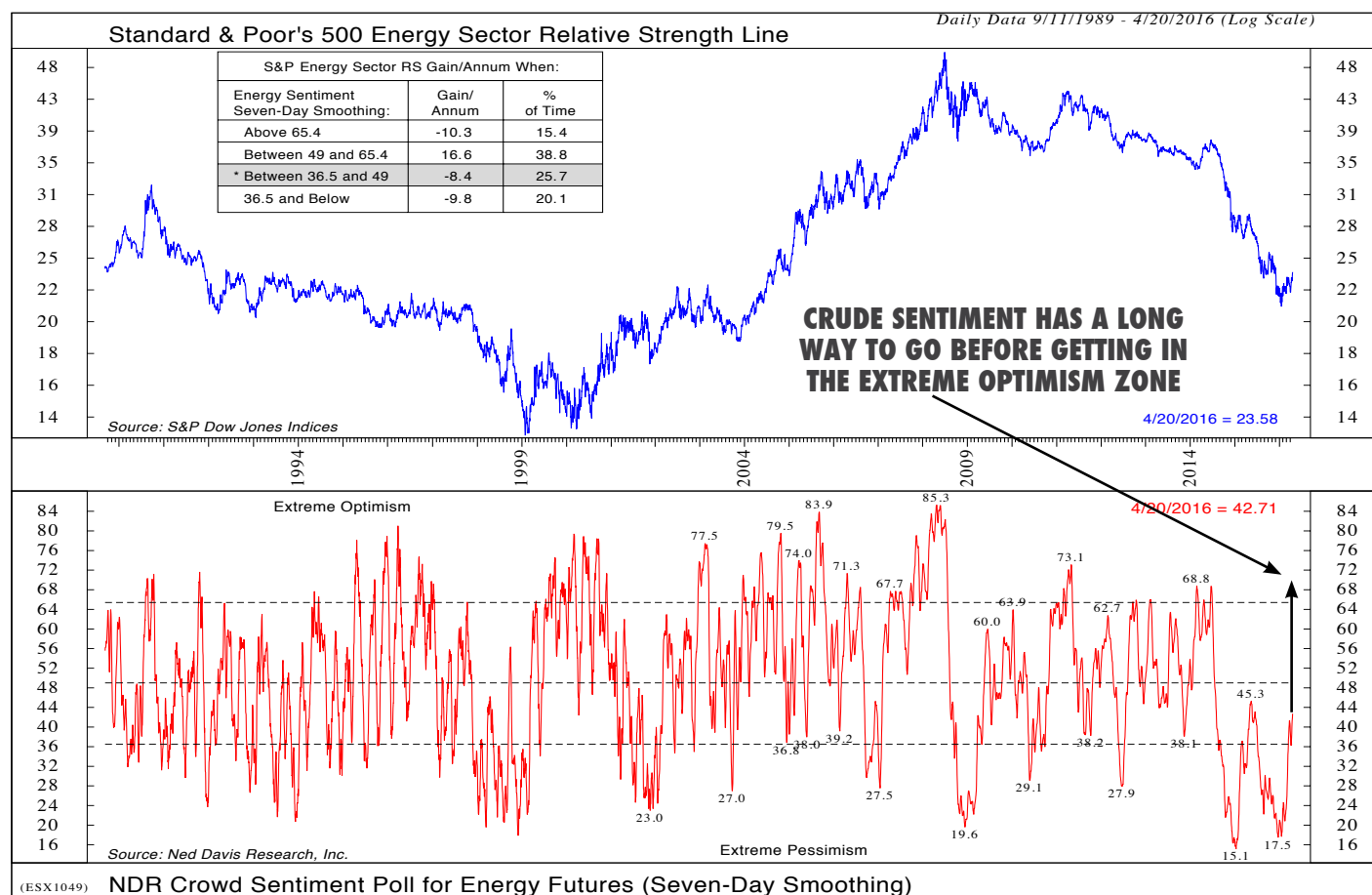




- » Owning Consumer over Commodity sectors has been a secular theme of ours. But last month we highlighted several macro variables were indicating a turn to more of an inflationary environment.
- » Bullish oil inventory reports added to our conviction that oil and commodities have momentum and we lifted Energy and Materials to marketweight.
- » We also lowered Consumer Staples to marketweight and Health Care to underweight. This not only neutralizes our Consumer over Commodity trade, but also helps us get more cyclically positioned.

Key Chart: [ESX1049](#)

- » We believe a counter-trend rally in our Consumer over Commodity theme started on January 25.
- » The Energy sector is still in a sweet spot where sentiment for energy is low but rising and the outlook remains bullish at least until we reach extreme optimism levels.



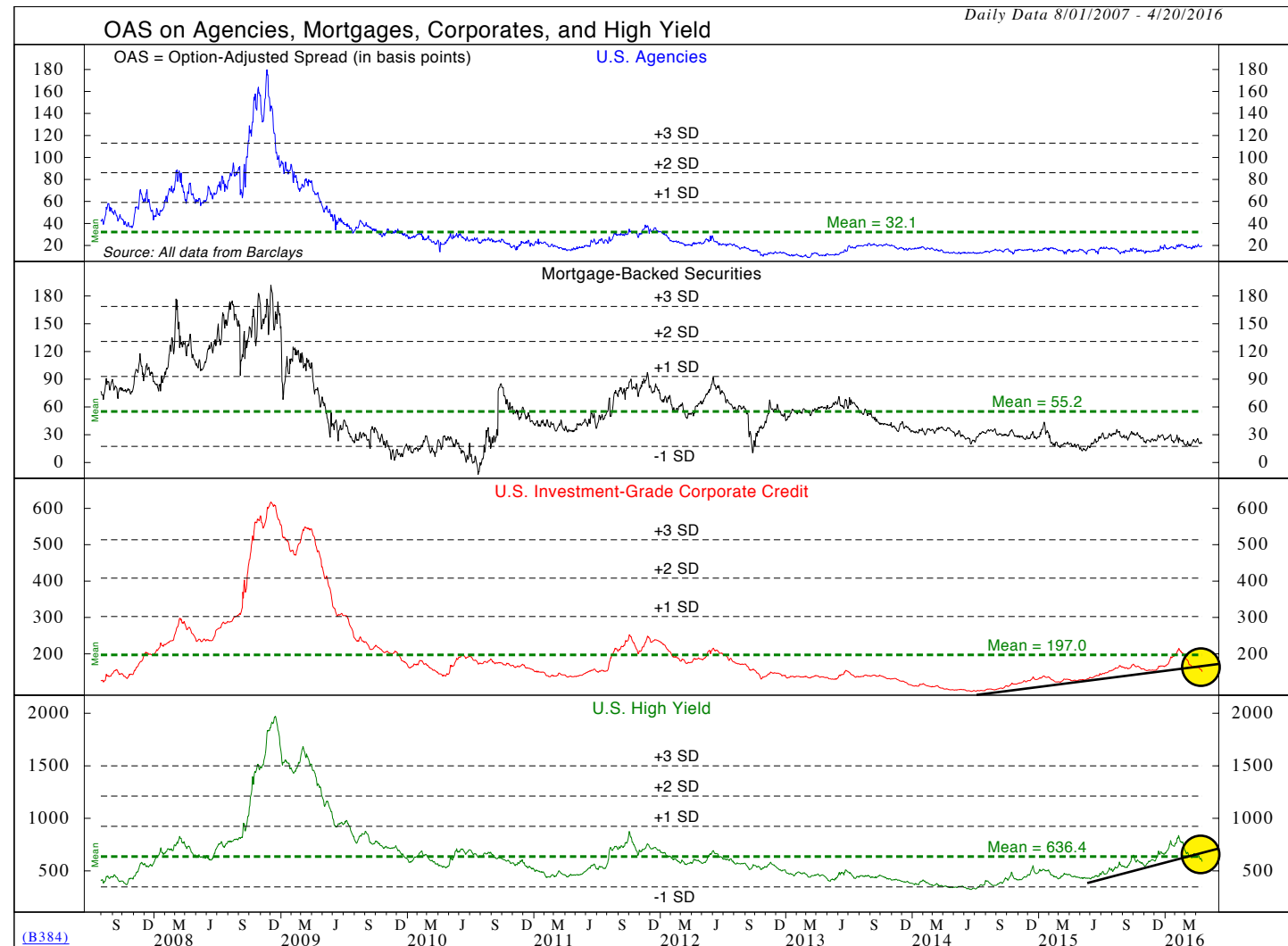
U.S. Fixed Income Outlook |



- » We are upgrading credit to overweight from neutral and favoring high yield over investment grade.
- » We view this upgrade as tactical, not strategic.
- » The improvement has been broad-based in both industry and credit quality perspectives.

Key Chart: [B384](#)

- » Chart shows option-adjusted spreads for major bond sectors, including investment grade (IG) corporates and high yield (HY) corporates.
- » Both IG and HY spreads have broken intermediate-term uptrend lines.



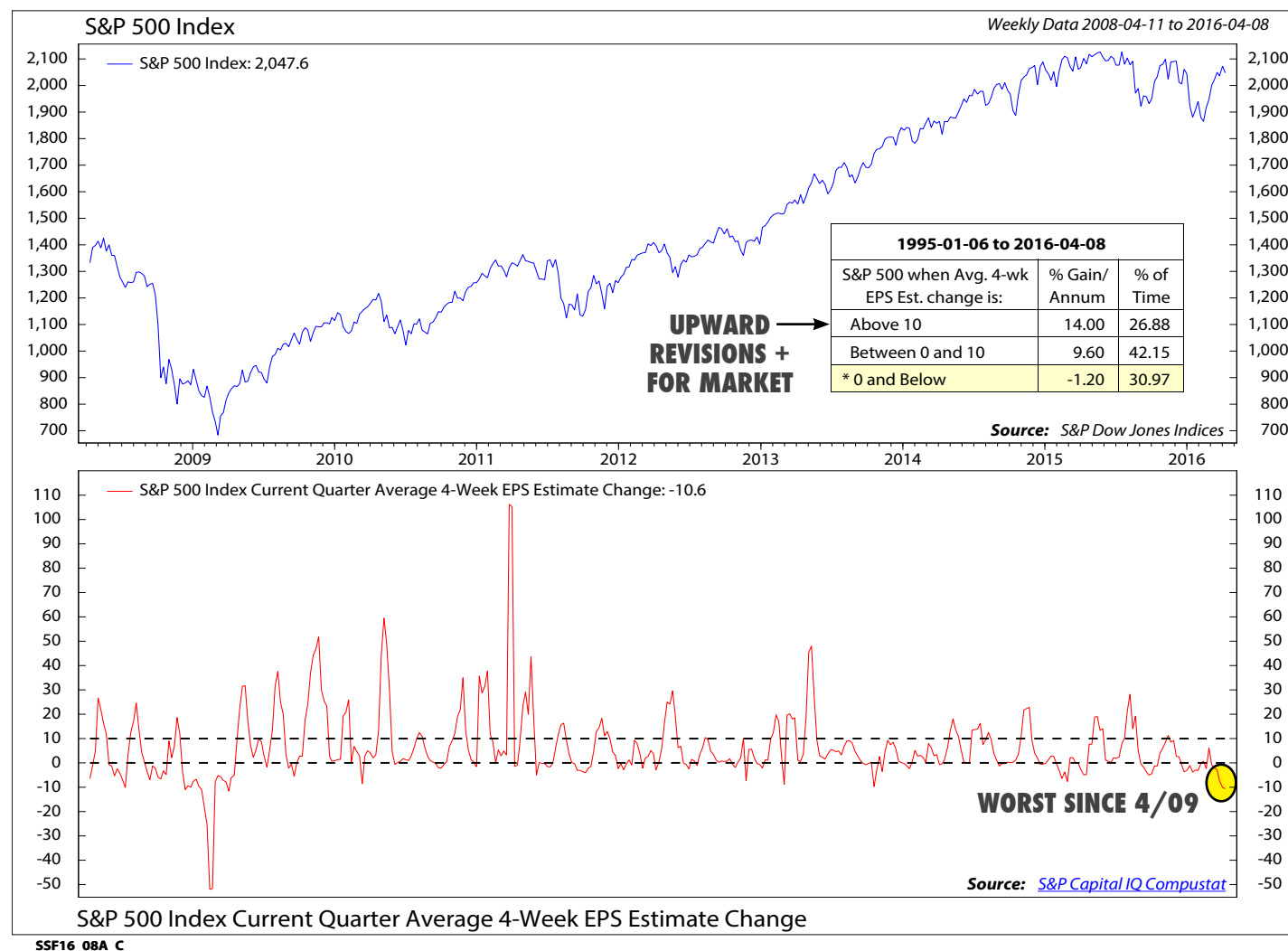
U.S. Equity Outlook



- » Negative earnings revisions could be near extreme.
- » Weak dollar, higher crude, and reduced recession fears suggest earnings momentum could be near inflection point.
- » Unless economy accelerates, modest earnings growth and high valuations could limit the pace of the advance in late 2016/2017.

Key Chart: [SSF16_08A_C](#)

- » Four-week earnings revisions were lowest since April 2009.
- » Extreme readings bullish outside recessions.
- » Strongest message has come after revisions reverse higher.



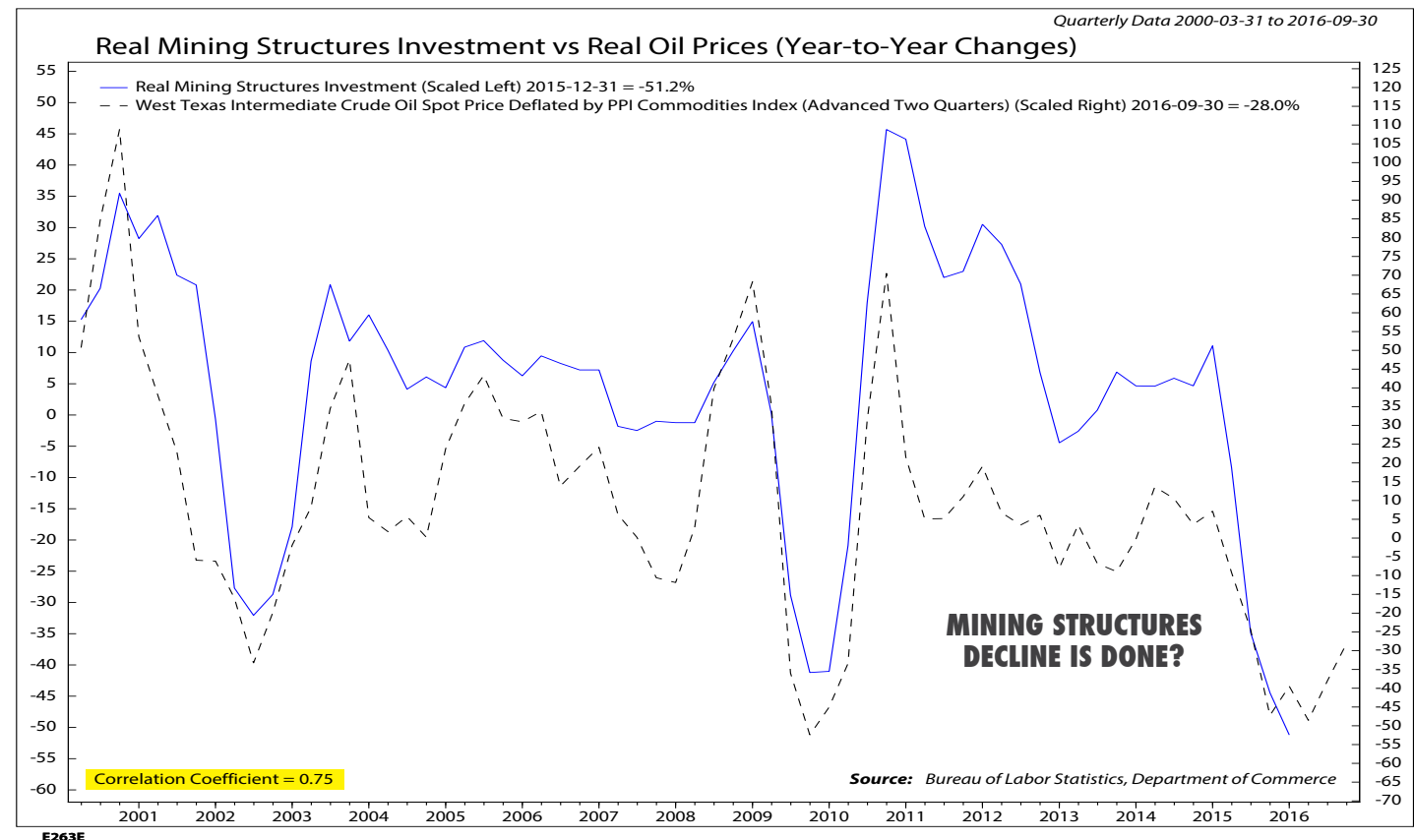
U.S. Economic Outlook |



- » With the economy on a slow growth path and a myriad of uncertainties facing businesses, we project a modest 2.5% increase in real private nonresidential fixed investment (capex) in 2016.
- » Slow manufacturing activity, weak business confidence and corporate profits growth, and soft gauges of future demand feed into a tepid outlook for capex.
- » Unless energy prices decline significantly from here and U.S. dollar strength reasserts itself, we expect their negative impact on capex will diminish.
- » Our projection supports a continuation of the Consumer/Capex secular bull theme this year.

Key Chart: [E263E](#)

- » Mining was a major drag on capex growth in 2015. With energy prices near current levels, investment in mining structures should stabilize.



Global Equity Outlook

PDF PUBLICATION

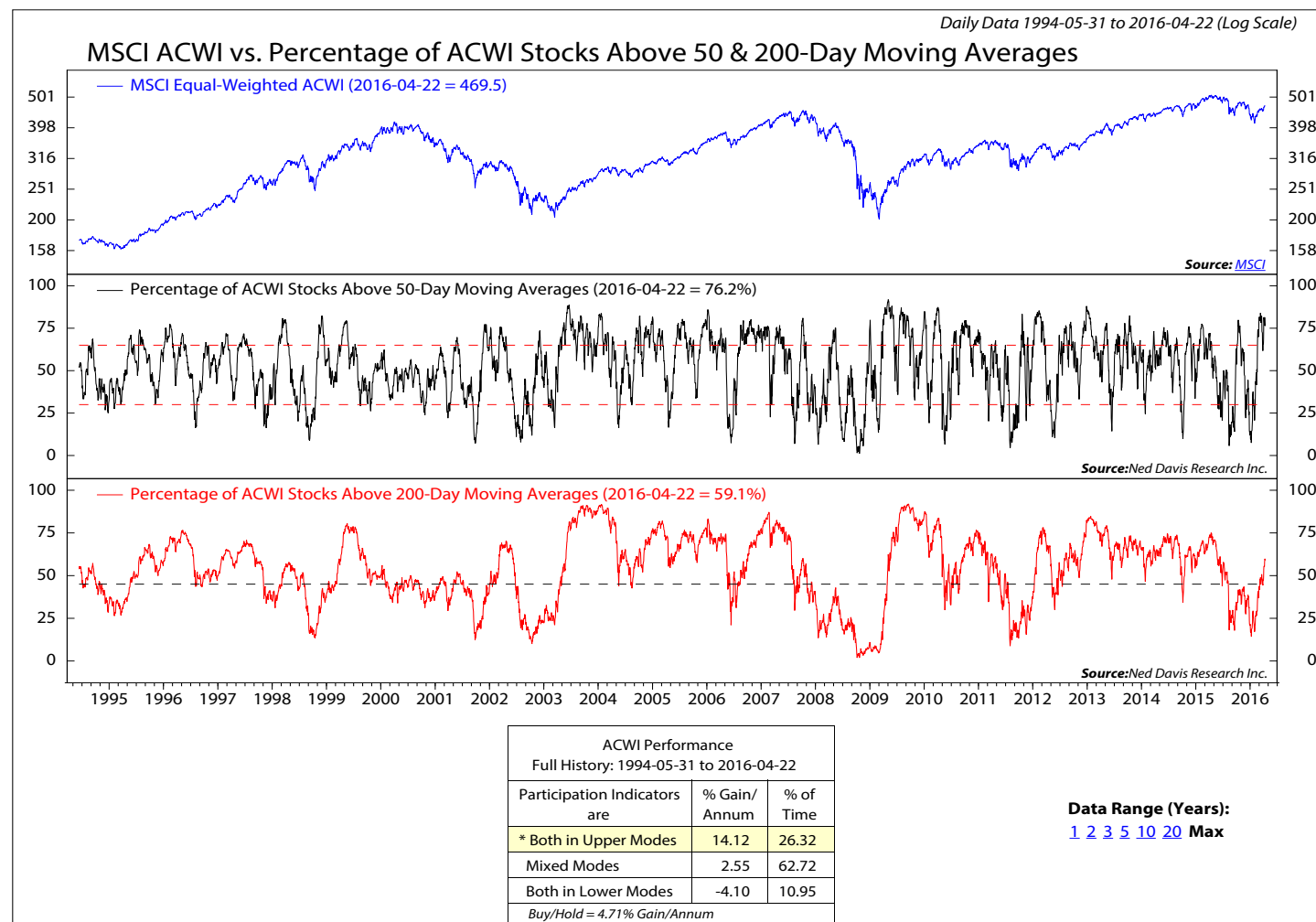
RESEARCH PAGE



- » Our maximum overweight equities call continues to be supported by bullish readings in both the Global Balanced Account Model and the Rally Watch Report.
- » We remain overweight the U.S. within our seven-way framework. It remains likely that a new cyclical bull market is underway, developing within a seven-year secular bull that has been characterized by U.S. relative strength.

Key Chart: [IGP2000](#)

- » The latest Rally Watch indicator to join the bullish contingent is the percentage of ACWI stocks above 50 & 200-day moving averages.
- » Historically, the ACWI has gained over 14% when both indicators are in the upper modes.



IGP2000

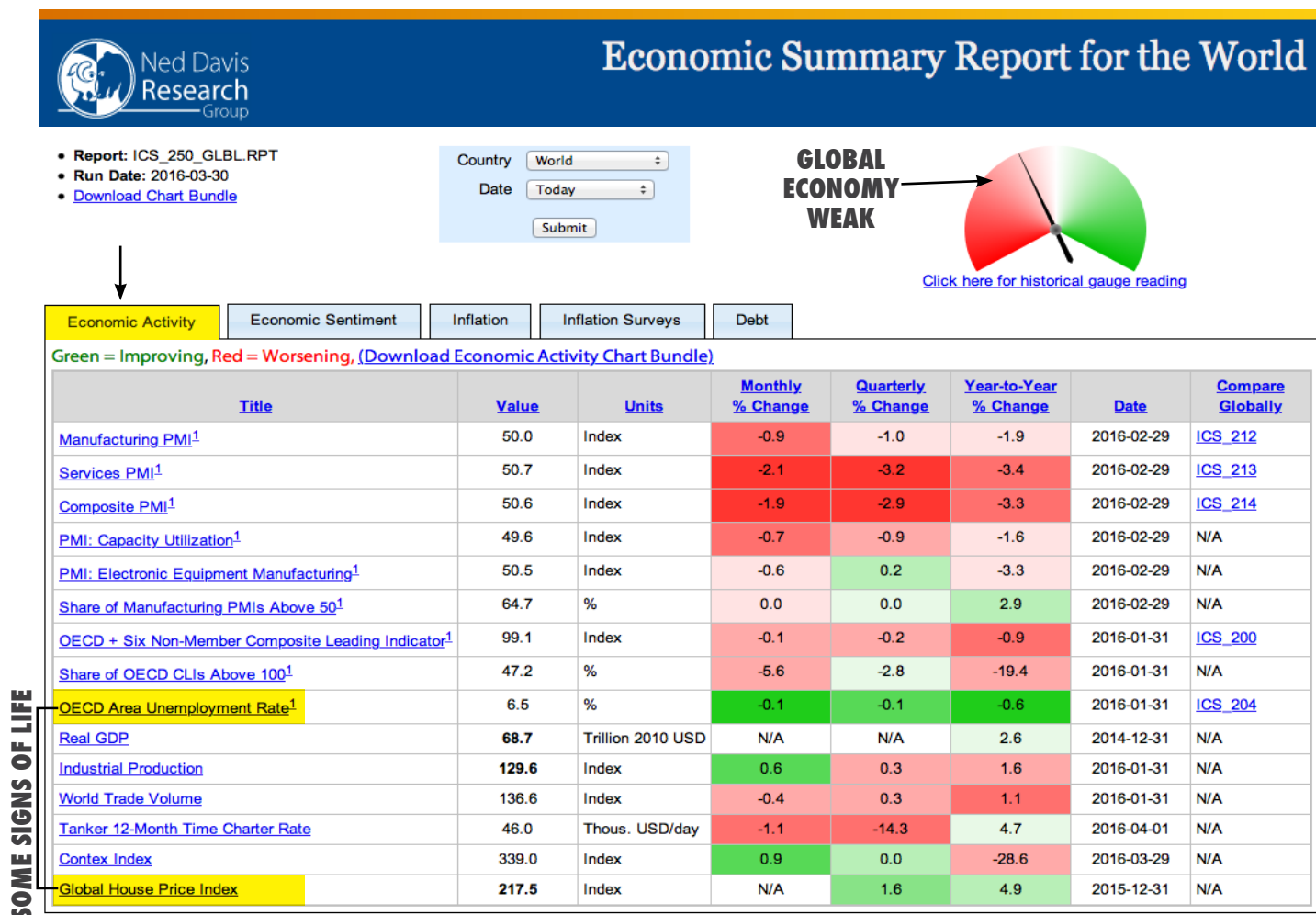
Global Economic Outlook



- » We introduce the Global Economic Summary Report, which gives clients a one-stop place to quickly and effectively gauge the world's economic activity, sentiment, inflation, and debt.
- » Based on the report, the global economic environment looks dour, there are strong disinflationary trends, and debt is rising to all-time highs.

Key Report: [ICS_250_GLBL](#)

- » The gauge in the top-right corner of the Economic Activity tab suggests below-trend global growth.
- » But near-term stabilization in many of the indicators suggest some early signs of life.



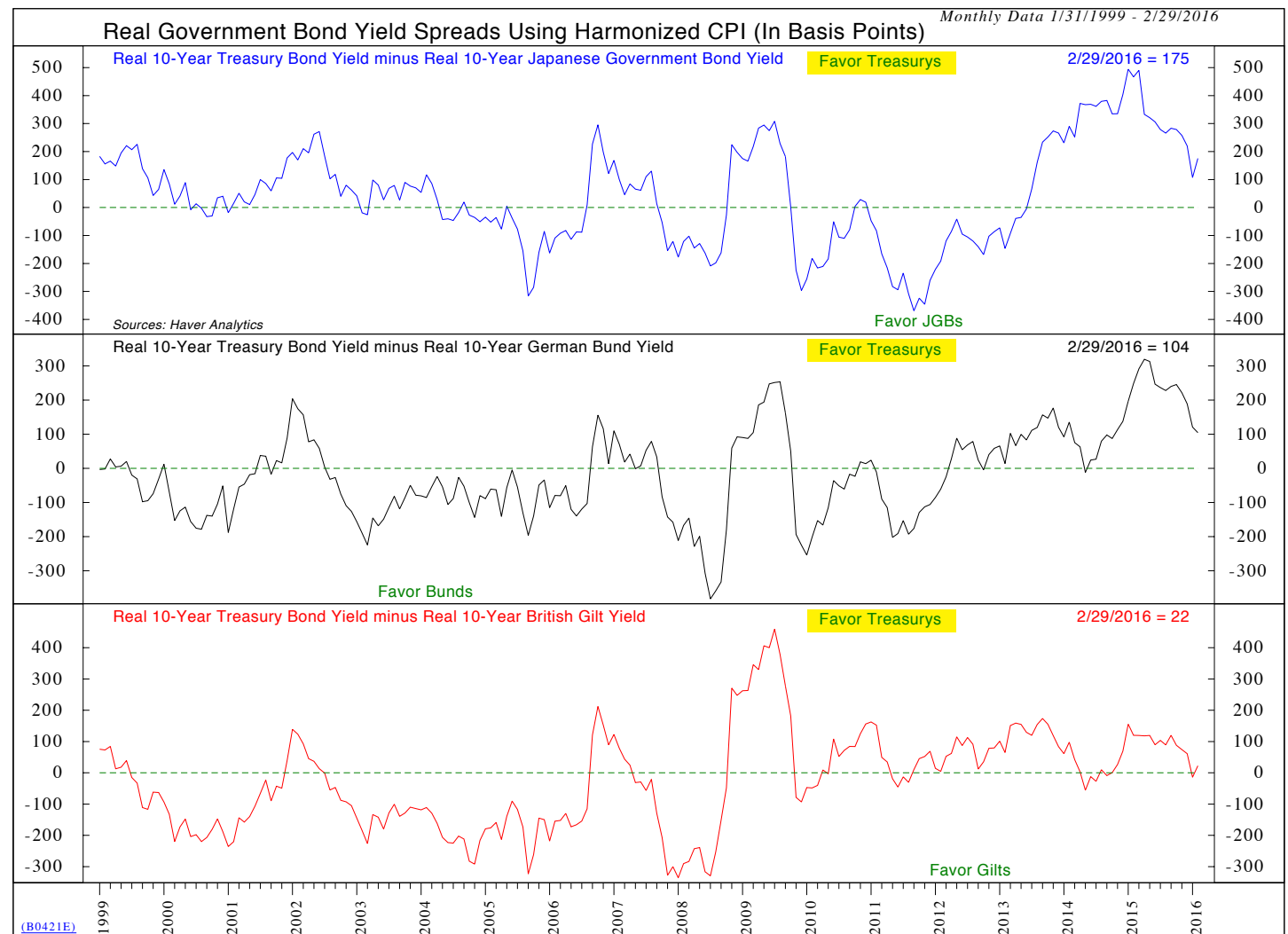
Global Fixed Income Outlook



- » The only way to make a positive return when buying a negative yielding security is for yields to go more negative.
- » Negative yielding securities can outperform positive-yielding securities if yields on the latter are rising.
- » Buy-and-hold investors should place greater emphasis on nominal and relative valuation.

Key Chart: [B0421E](#)

- » Investors holding to maturity should emphasize relative valuation.
- » On a real (and nominal) yield basis, investors should generally be favoring Treasurys.



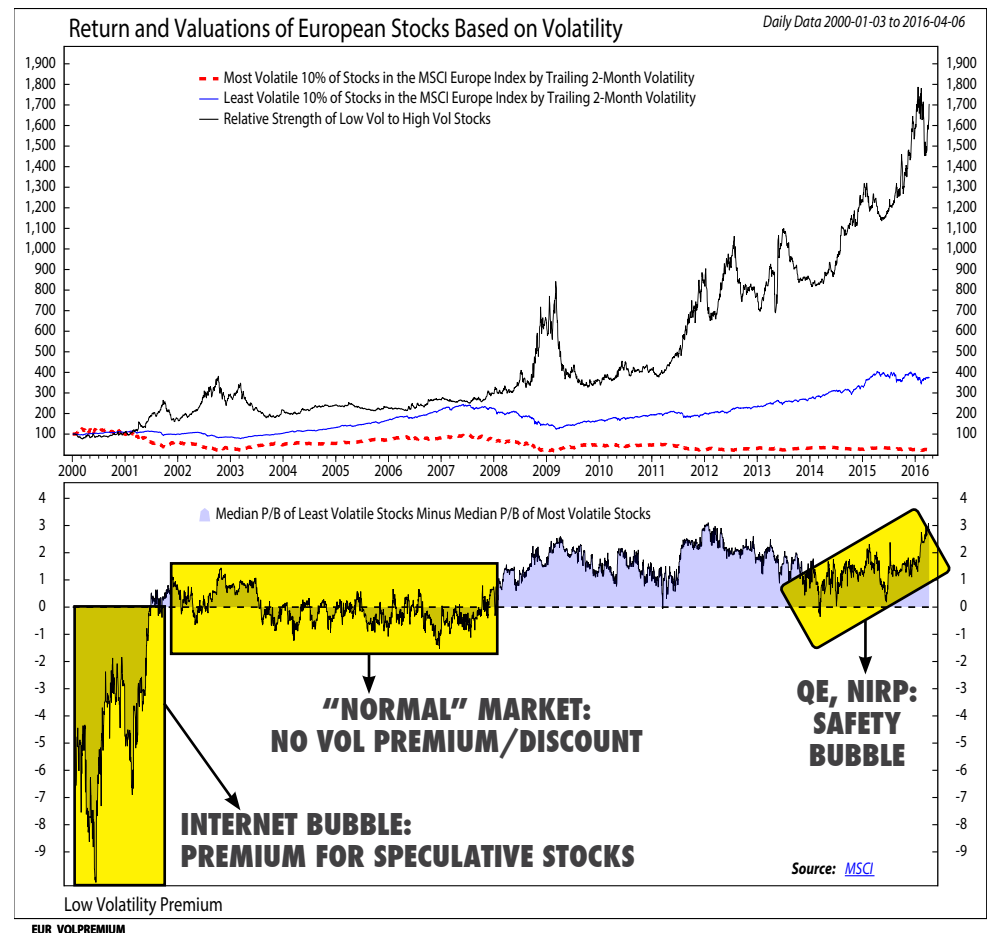


Rather than enticing investors to take more risk, QE and NIRP have led investors to bid up safe, bond-like stocks, leading to obscene valuations in the consumer staples and healthcare sectors:

- » The MSCI Europe Consumer Staples trades for 4 times book value, versus 1.7 for the broad index.
- » Health Care and Consumer Staples account for a record 13% and 16% of the MSCI Europe Index, respectively.
- » Household & Personal Products are the most expensive industry group in Europe, trading for 18.7 times operating cash flow, versus 18.5 for Software and Services.

Key Chart: [EUR_VOLPREMIUM](#)

- » During the internet bubble, the “safety premium” was negative: investors were so risk-seeking that they paid a premium for the most volatile stocks, in the hope that all these start-ups with no earnings or book value would turn out to be the next Microsoft.
- » During 2002 to 2007, there was no volatility premium or discount. This is what the Capital Asset Pricing Model would predict: investors should not be rewarded, or penalized, for taking non-systematic risk.
- » Since global rates fell to zero in 2008, “safe” stocks have commanded a large premium. The least volatile European stocks traded at a median price-to-book of 3.5, versus 0.7 for the most volatile stocks.



Featured Report



(Mis)Uses of Cash. How Low Growth and Fed Policy Are Distorting Capital Allocation.:

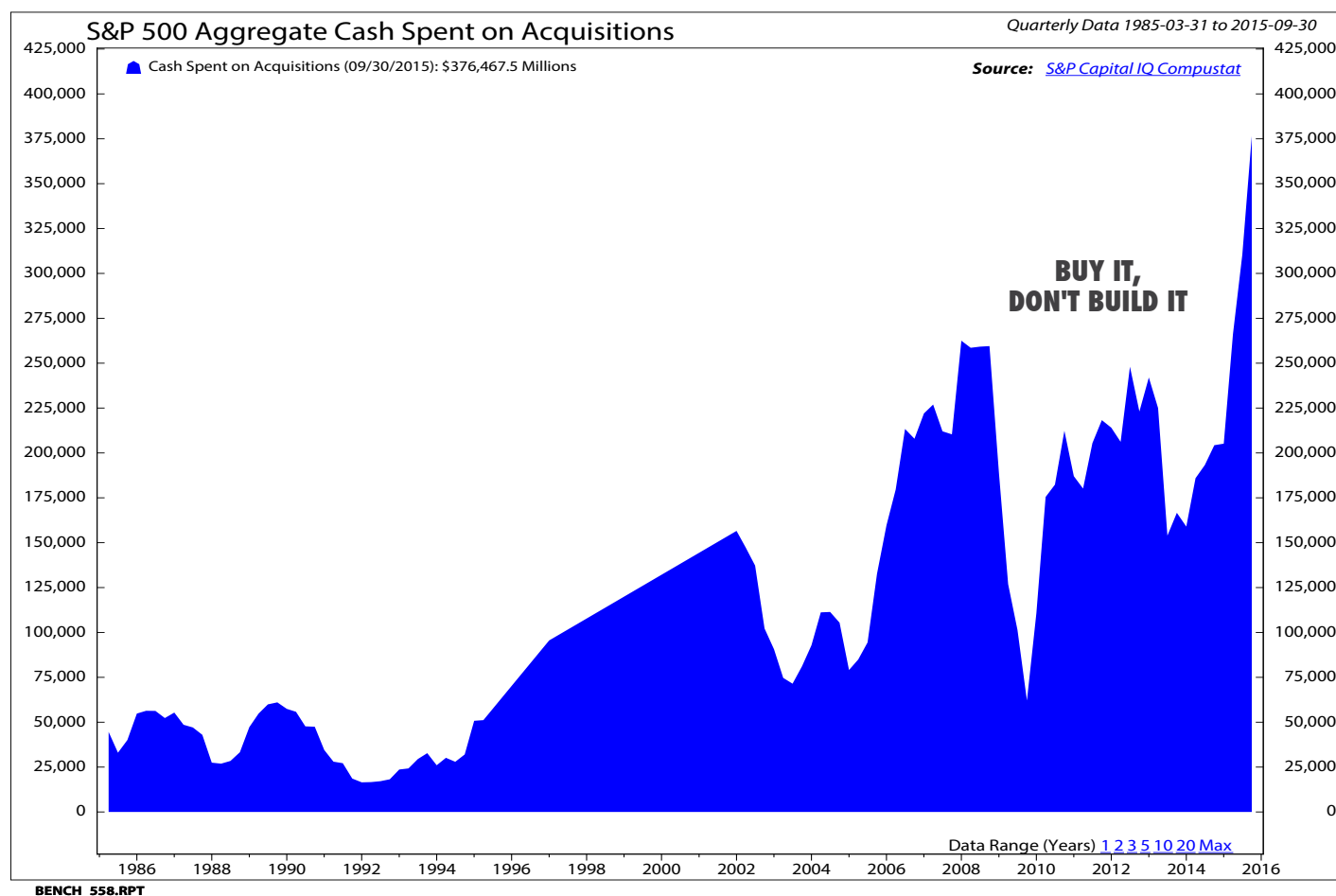
- » Sluggish recovery and government policies have discouraged investment.
- » New reports track performance of stocks based on how they allocate capital.
- » After mean reversion in capex stocks, watch for return to leadership from companies with high cash/assets, M&A/assets, net repurchase yields, and dividend yields.

Key Report: [BENCH_558](#)

- » Cash spent on M&A a record \$409 billion in 2015.
- » Lack of growth and low interest rates encourage companies to buy growth instead of building it via internal investments.

Webinar Replay:

- » [\(Mis\)Uses of Cash](#)



NDR CURRENT POSITIONS

OVERWEIGHT		MARKETWEIGHT		UNDERWEIGHT	
GLOBAL ASSET ALLOCATION				Effective Date	
Equities	Stocks (70%)		<div></div>		03/23/2016
	Bonds (25%)		<div></div>		03/23/2016
	Cash (5%)		<div></div>		02/06/2014
	U.S. (55%)		<div></div>		11/12/2015
	Europe ex. U.K. (9%)		<div></div>		04/07/2016
	Emerging Markets (10%)		<div></div>		04/07/2016
	U.K. (3%)		<div></div>		02/12/2016
	Japan (7%)		<div></div>		02/12/2016
	Pacific ex. Japan (11%)		<div></div>		04/07/2016
	Canada (5%)		<div></div>		04/07/2016
Bonds	U.S. (43%)		<div></div>		03/15/2016
	Europe (24%)		<div></div>		01/12/2016
	Japan (25%)		<div></div>		03/15/2016
	U.K. (8%)		<div></div>		02/02/2016
	Commodities		<div></div>		03/31/2016
Global Economy				Moderate Growth	

OVERWEIGHT		MARKETWEIGHT		UNDERWEIGHT	
U.S. ALLOCATION				Effective Date	
Equities	Stocks (70%)		<div></div>		03/23/2016
	Bonds (25%)		<div></div>		03/23/2016
	Cash (5%)		<div></div>		02/06/2014
	Large-Cap/Small-Cap		<div></div>		01/21/2016
	Growth/Value		<div></div>		08/25/2015
	Consumer Discretionary		<div></div>		04/01/2015
	Information Technology		<div></div>		10/14/2015
	Consumer Staples		<div></div>		04/21/2016
	Energy		<div></div>		04/21/2016
	Financials		<div></div>		12/03/2014
Sectors	Industrials		<div></div>		03/05/2014
	Materials		<div></div>		04/21/2016
	Telecommunication Services		<div></div>		01/21/2016
	Utilities		<div></div>		10/14/2015
	Health Care		<div></div>		04/21/2016
Bond Exposure				<div></div> 02/04/2016	
Spread Product		<div></div>		04/21/2016	
U.S. Economy		Trend Growth			
U.S. Inflation		Subdued			

Overweight Marketweight Underweight

○ Overweight ○ Marketweight ○ Underweight

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