



 **PERSPECTIVES  
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ENTERPRISE  
SUCCESS**

3<sup>RD</sup> QUARTER 2015  
Investment Landscape  
Conference Call

# Call instructions

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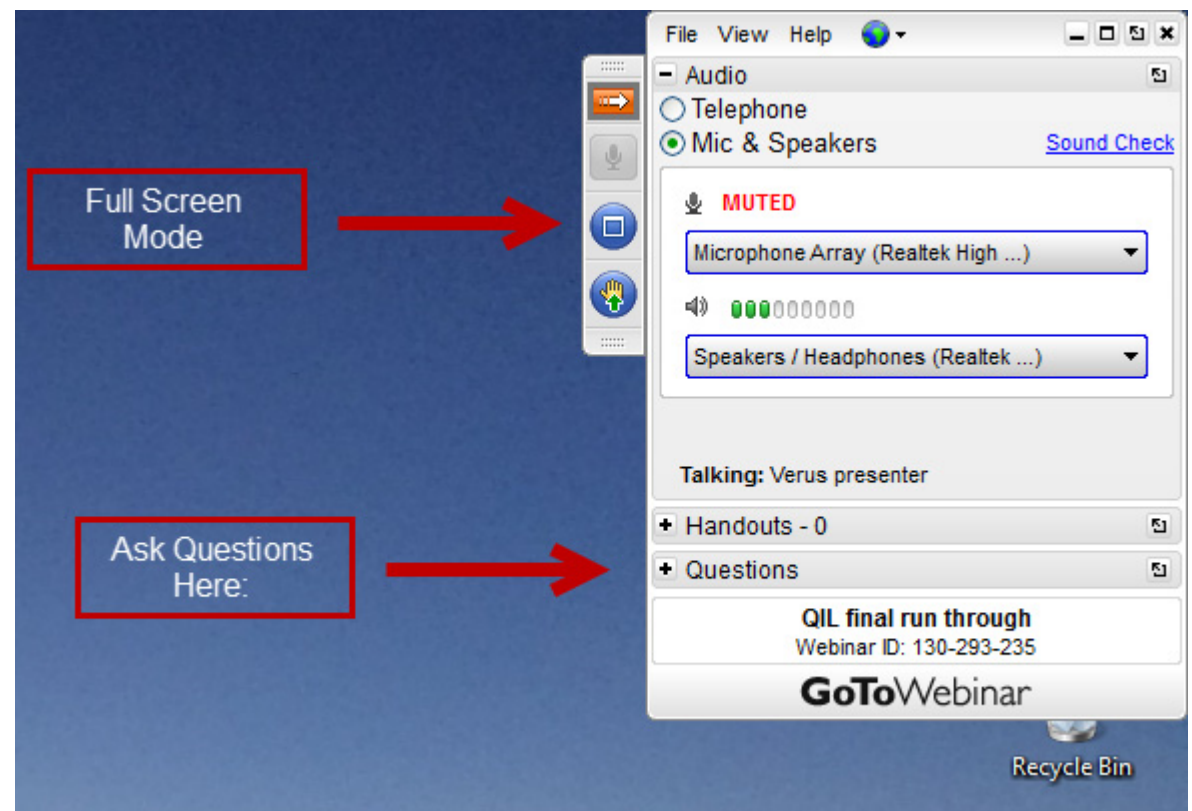
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Ask questions for the Q&A session in the Questions window.



# 3<sup>rd</sup> quarter conference call

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## IMPORTANT INFORMATION

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Access Code: 748-390-292

Playback Info: Will be available on the website after the call [www.verusinvestments.com](http://www.verusinvestments.com)

Audio Options: You may choose to listen through the webcast on your computer *or* dial in.

Instructions: Please register and login to the above website *and/or* dial in the number above and use the provided access code. Questions can be asked by using the question feature on the control panel.

Introduction by: Jeffrey MacLean, Chief Executive Officer

Presented by: Ian Toner, CFA, Managing Director  
Scott Day, CFA, Managing Director



**Jeffrey J. MacLean**  
Chief Executive Officer



**Scott Day, CFA**  
Managing Director



**Ian Toner, CFA**  
Managing Director

# 3<sup>rd</sup> quarter summary

## THE ECONOMIC CLIMATE

- The US economy continues to progress in a way which indicates a small interest rate by year-end.
- Core Eurozone economies making progress while the periphery continues to struggle.
- Global low inflation persists while US inflation expectations have been flat over the quarter.

## MARKET PORTFOLIO IMPACTS

- Moderated dollar strength has mitigated Q1 effect on foreign asset values but continuing trend retains effect on earnings.
- Retracement of very low global interest rate environment with negative impacts on fixed income prices.
- Emerging markets remain volatile in the face of commodity and economic challenges.

## THE INVESTMENT CLIMATE

- Risk markets remain expensive relative to history.
- Durations continue to be extended due to low interest rates, which has driven fixed income volatility.

## ASSET ALLOCATION ISSUES

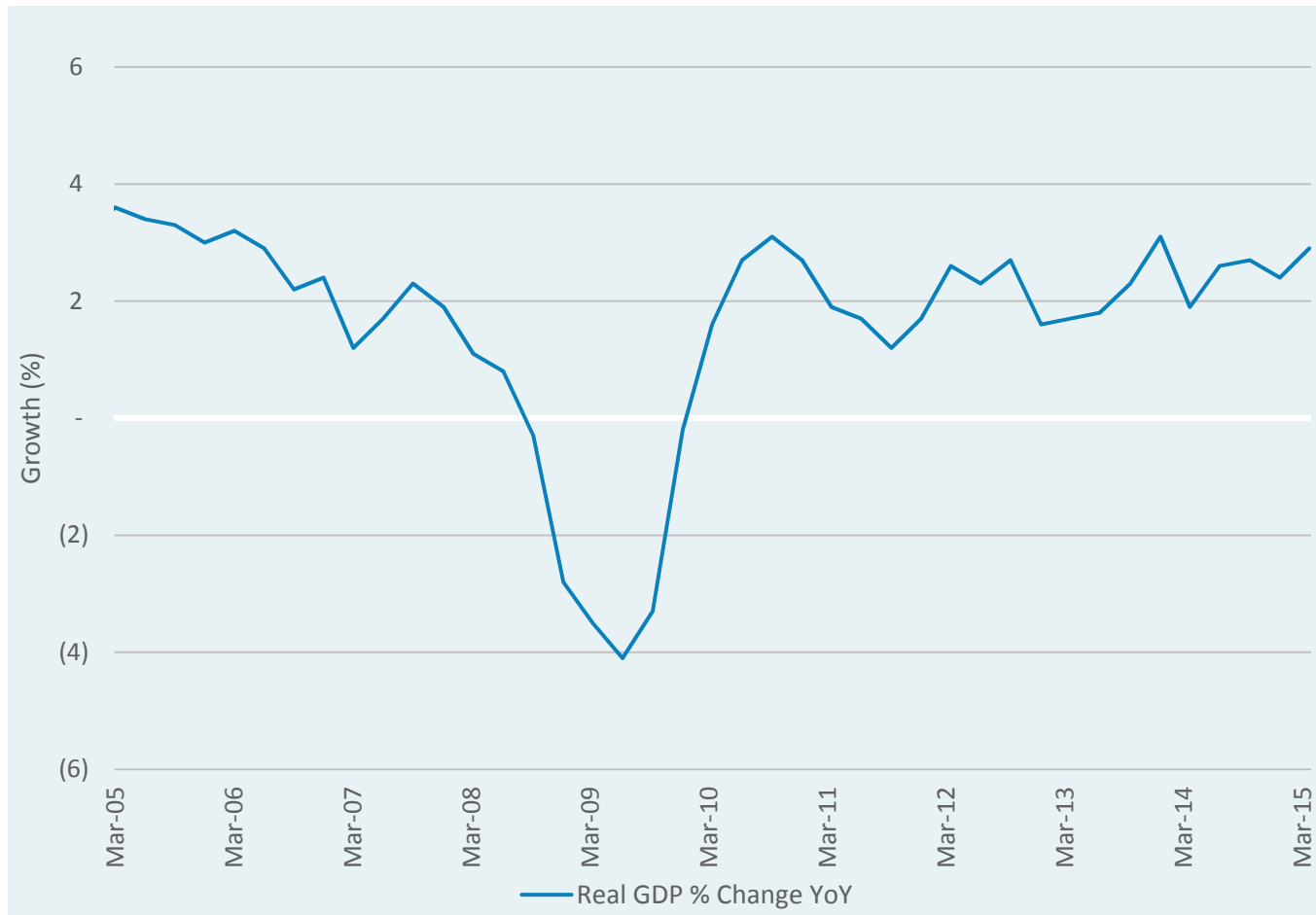
- Investors remain structurally underweight Japan, despite positive structural changes and attractive valuations.
- Careful consideration of credit exposure is warranted to ensure risks are adequately compensated.

We remain neutral in risk terms.

There are continuing signs of economic progress.

These balance with some signs of a short-term slowing in certain markets.

# U.S. GDP growth



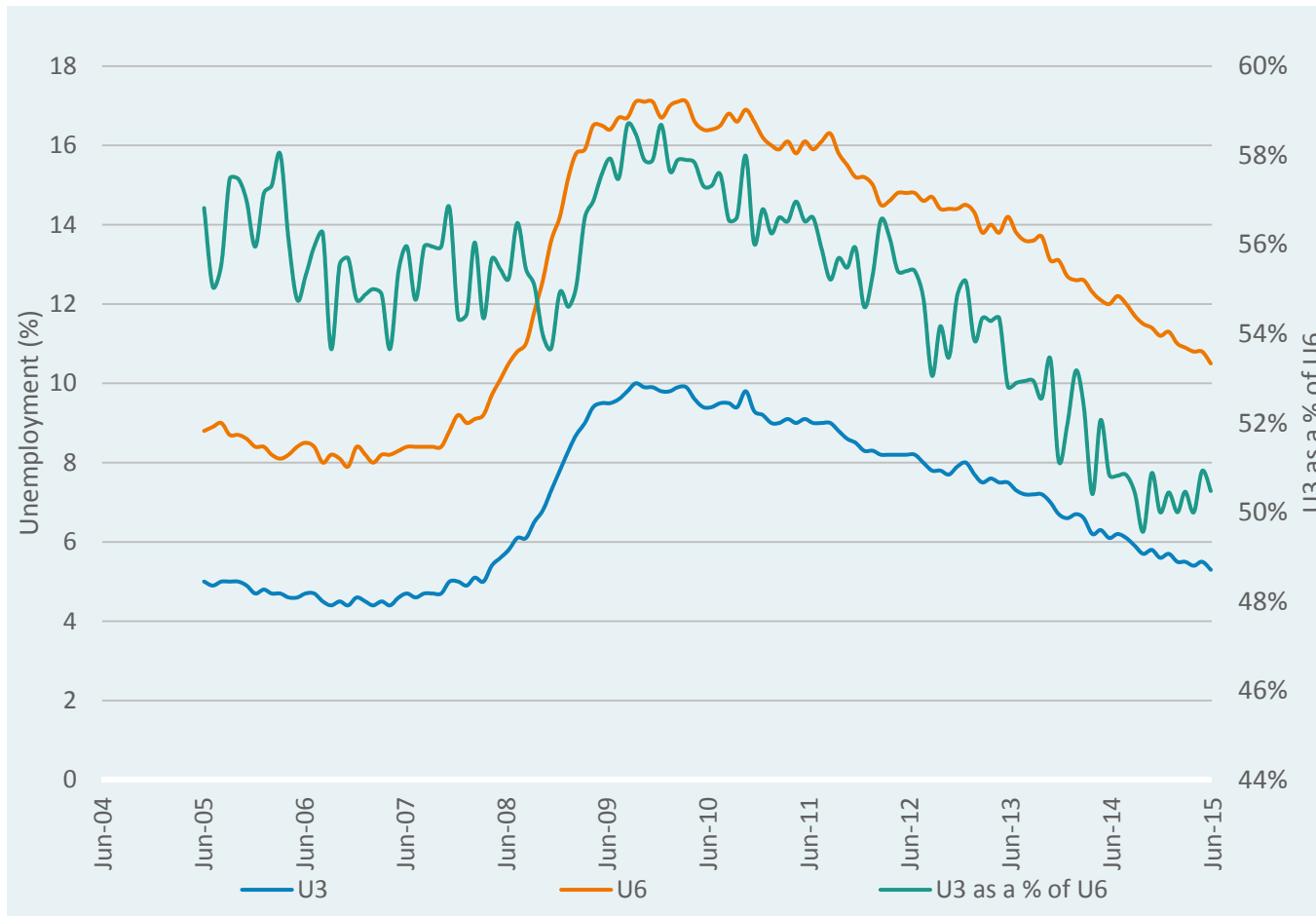
US GDP growth continues positively

The US remains stronger than most

GDP growth remains in the mid range of history

Source: FRED, as of 3/31/15

# U.S. unemployment



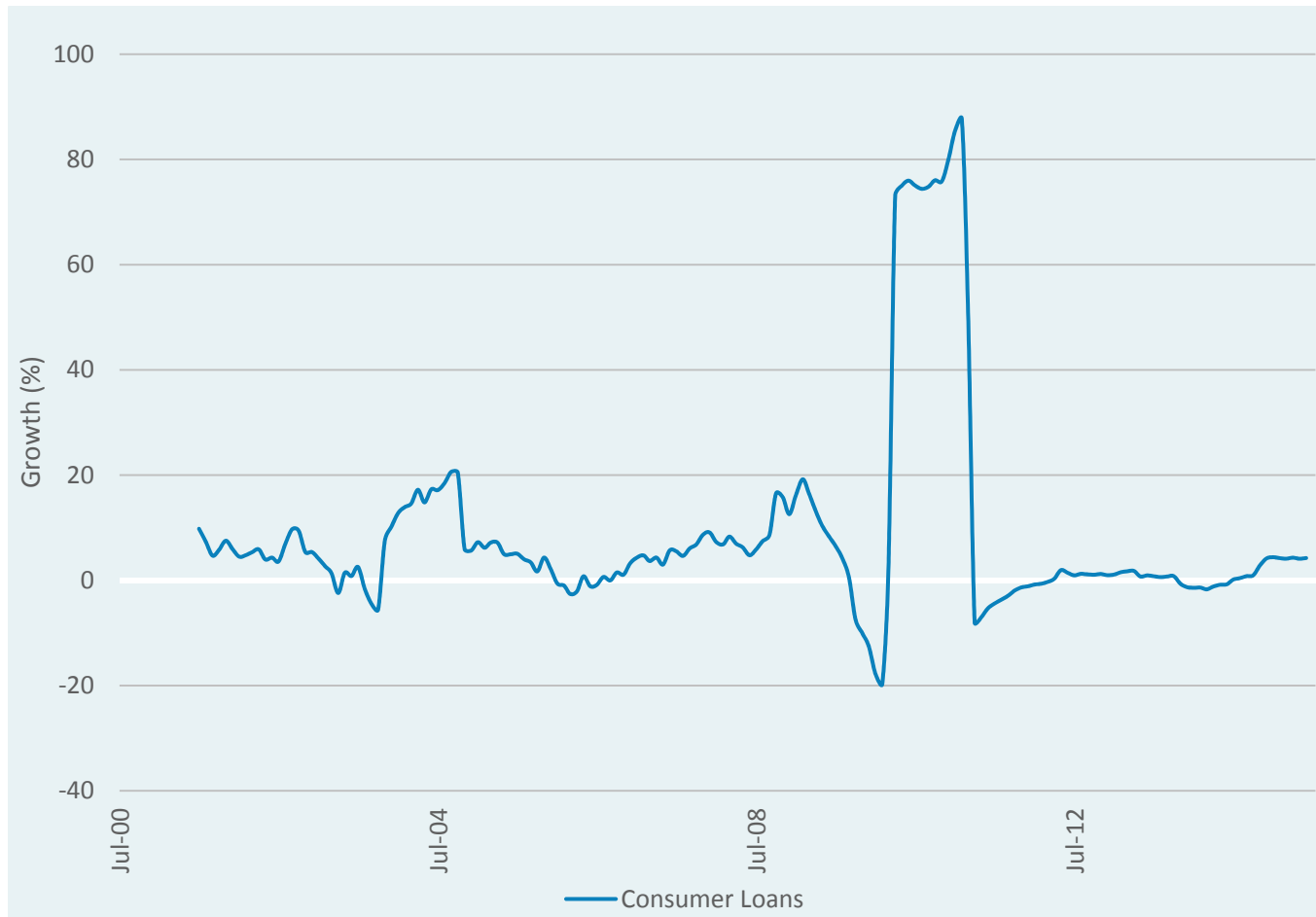
Improving  
employment

Fewer  
discouraged  
workers

A long way to go  
to full labor  
market efficiency

Source: FRED, as of 6/1/15

# Consumer credit expansion

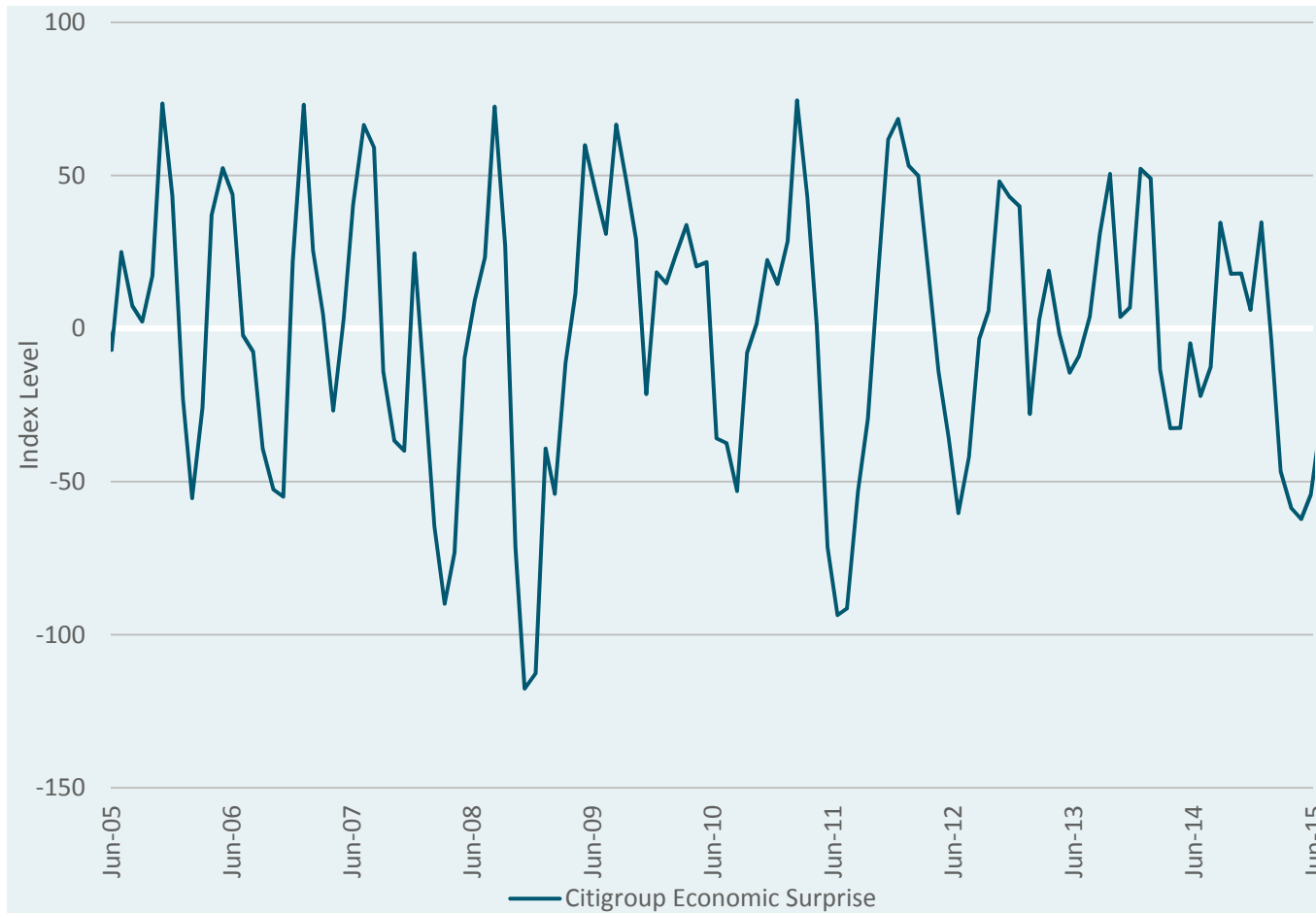


Consumer credit growth sits at historically acceptable levels

This combines with a reasonable savings rate

Source: FRED, as of 6/1/15

# Don't be surprised by surprise

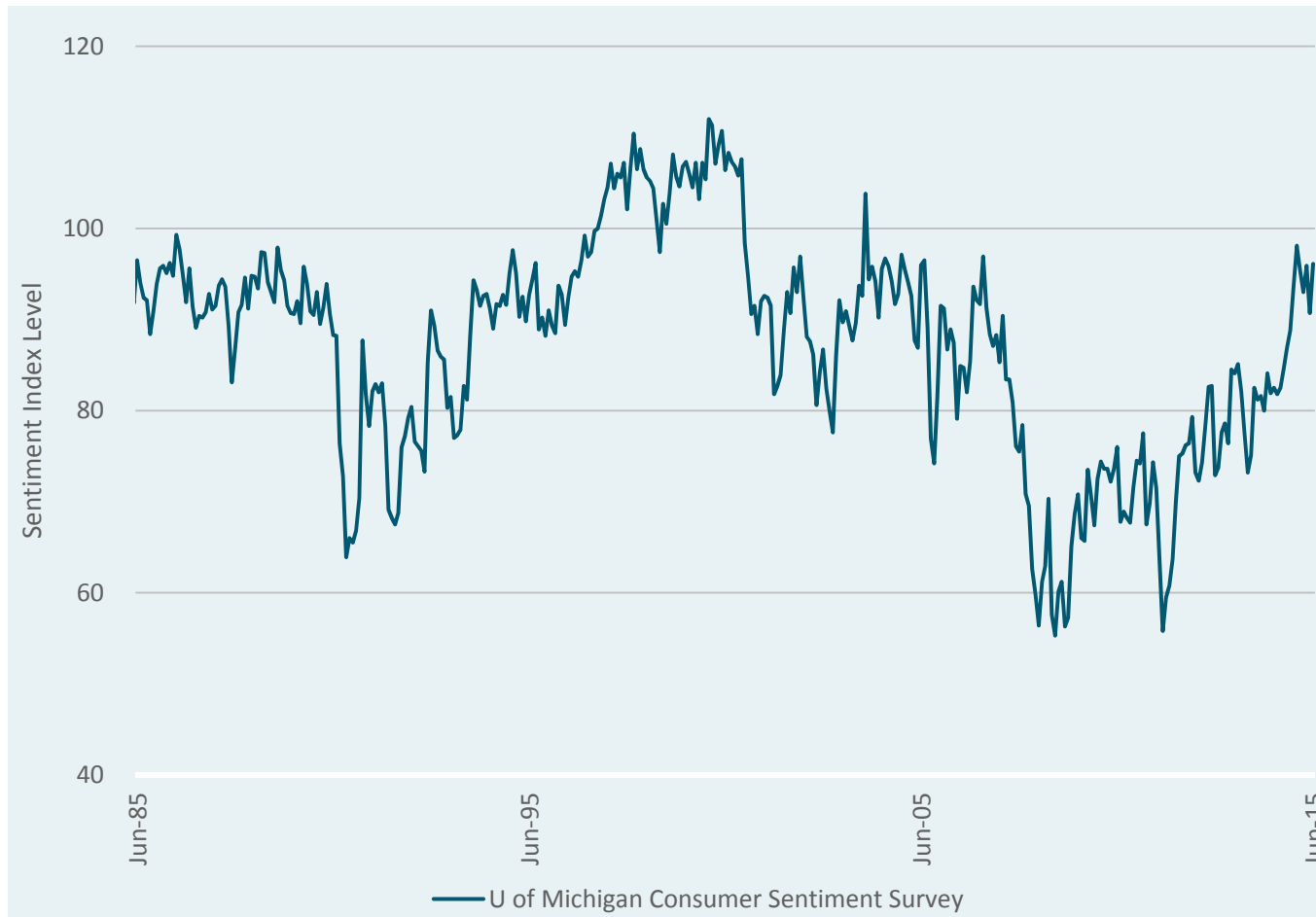


Economic surprise is a regular feature of markets

News flow such as we saw in Q1 should always be placed in that context

Source: Bloomberg, as of 6/30/15

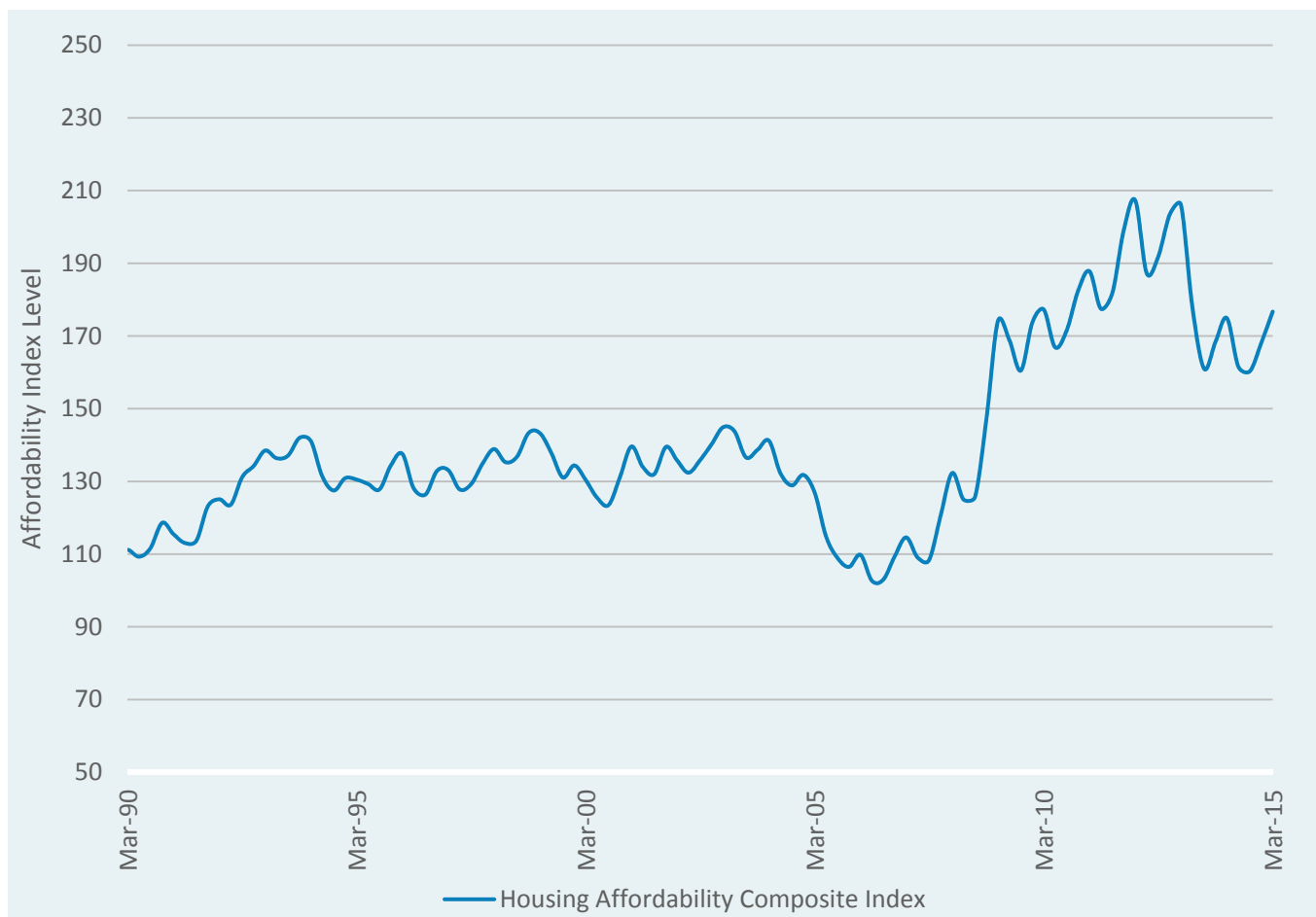
# Consumer sentiment



Consumer sentiment at good levels and towards the higher end of the normal range

Source: University of Michigan, as of 6/30/15

# Home affordability

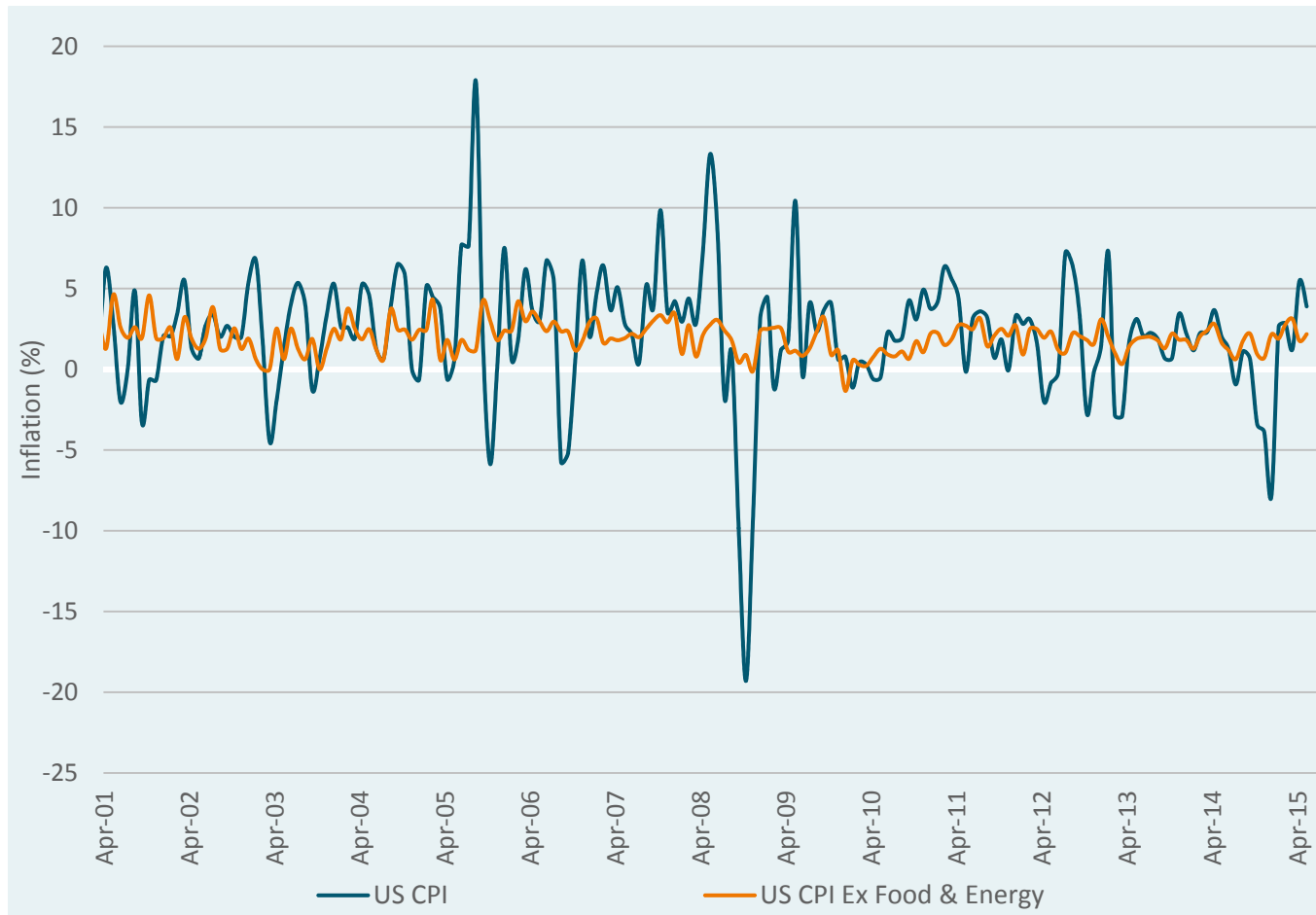


Home affordability relatively good

Competition for borrowing capacity still important

Source: FRED, as of 5/1/15

# U.S. inflation

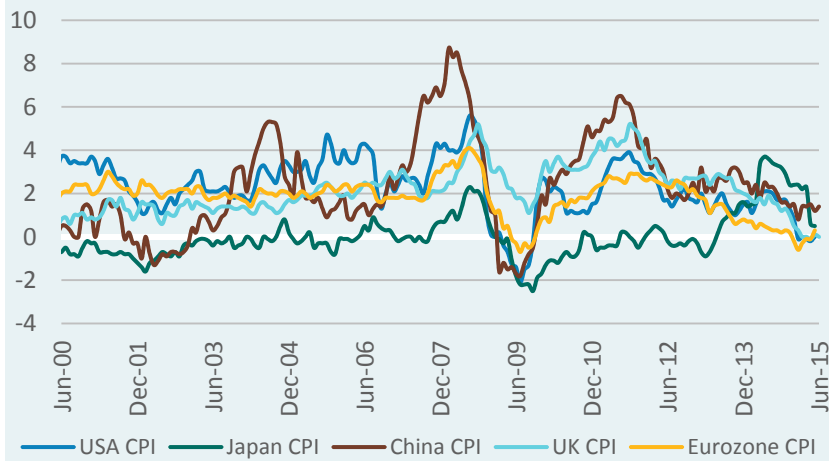


This is not a  
high  
inflation  
environment

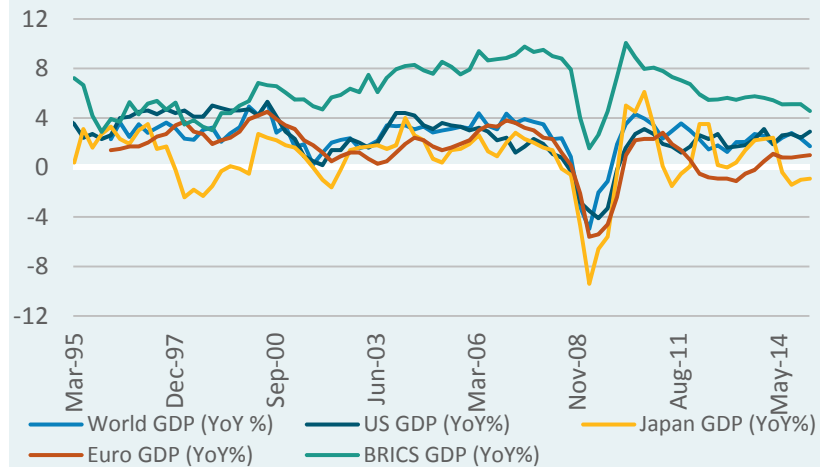
Source: FRED, as of 6/1/15

# International economics

## INFLATION



## GDP

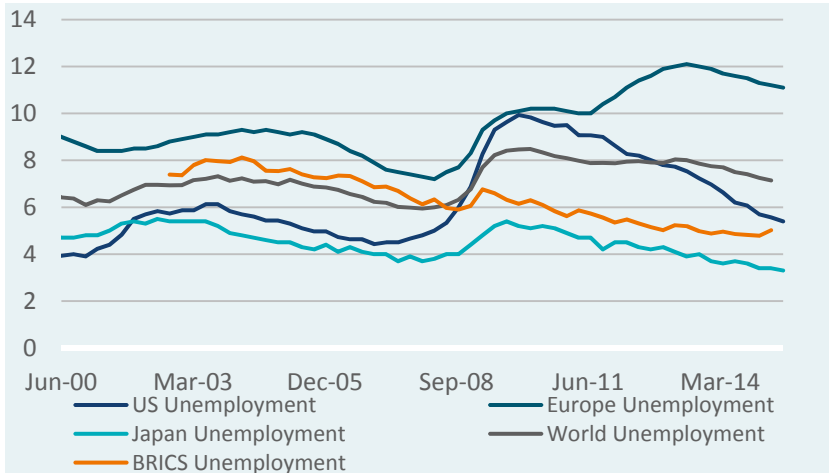


Global growth remains slow

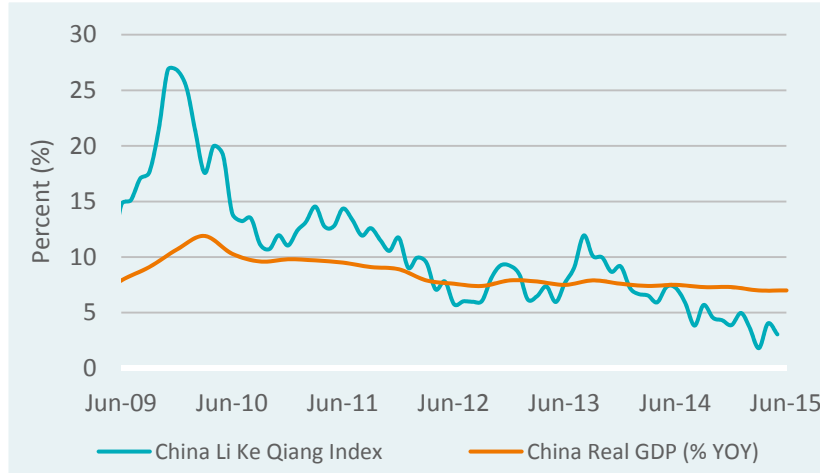
Employment rising

China GDP a complex story

## UNEMPLOYMENT



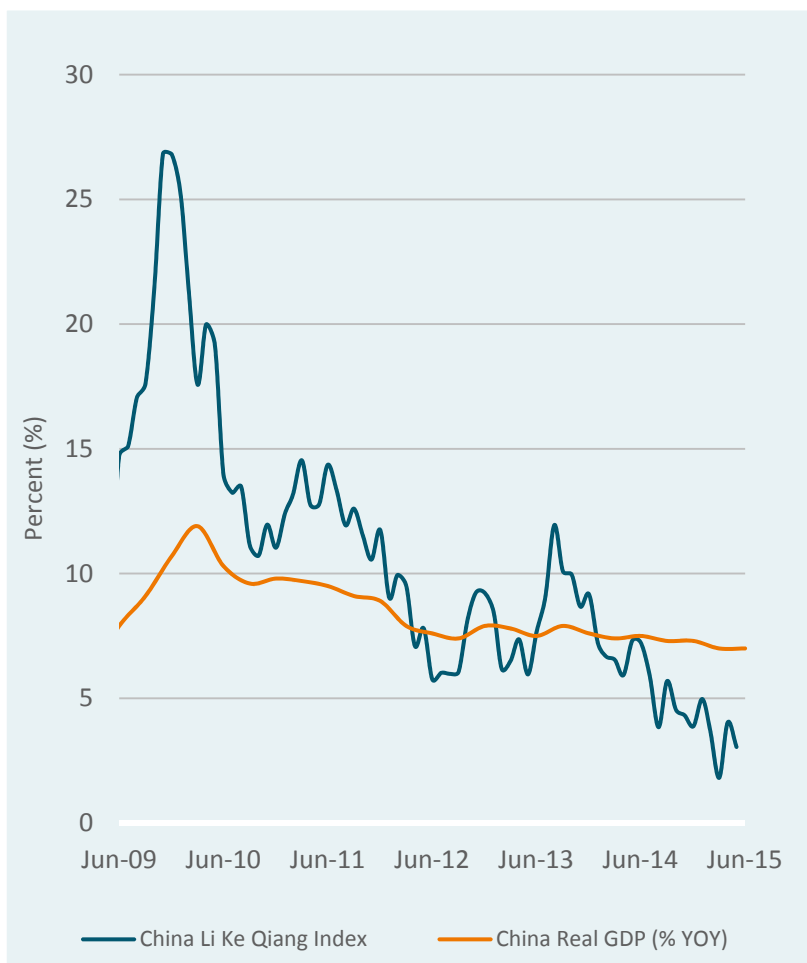
## PERFORMANCE



Source: Bloomberg

# China

The economy and the market are different things



Source: MSCI, as of 6/30/15

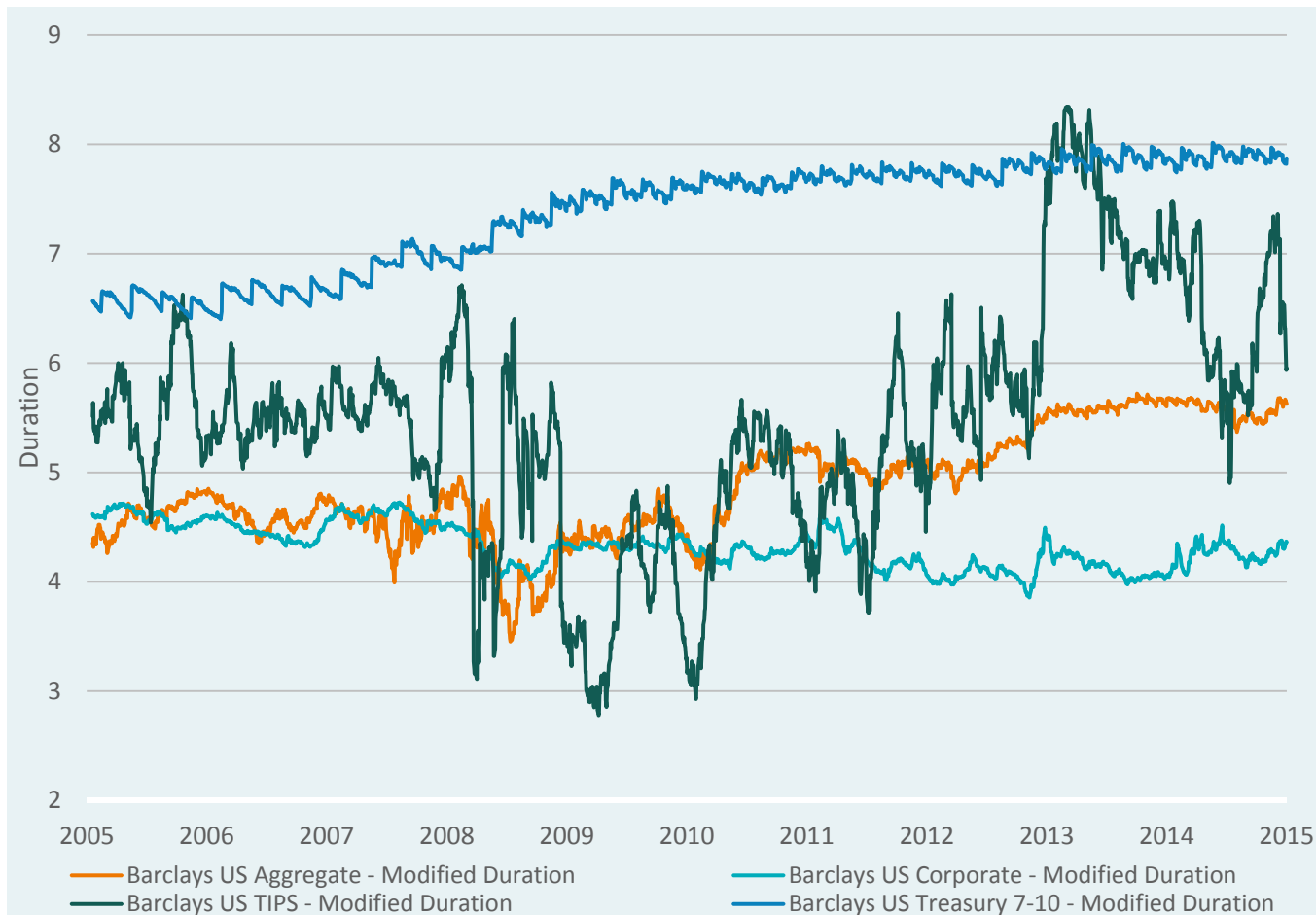


Source: Bloomberg, as of 6/30/15

China growth concerns are real, but are not the likely explanation of an equity downturn – which has continued into H2

Possible longer term knock-on impact could cause trouble

# Rising durations

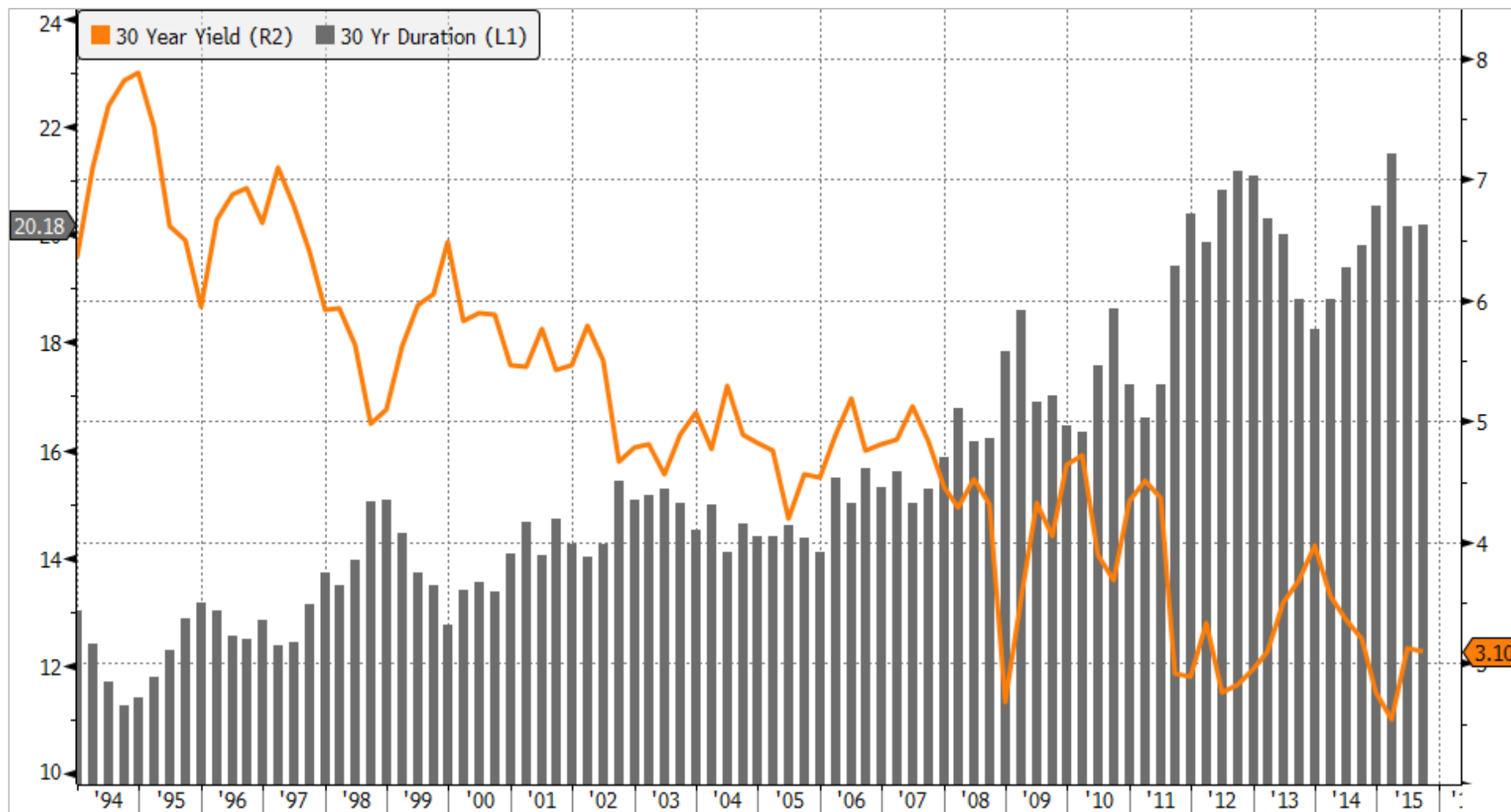


As yields drop durations rise

This changes the way in which fixed income exposures behave in investment portfolios

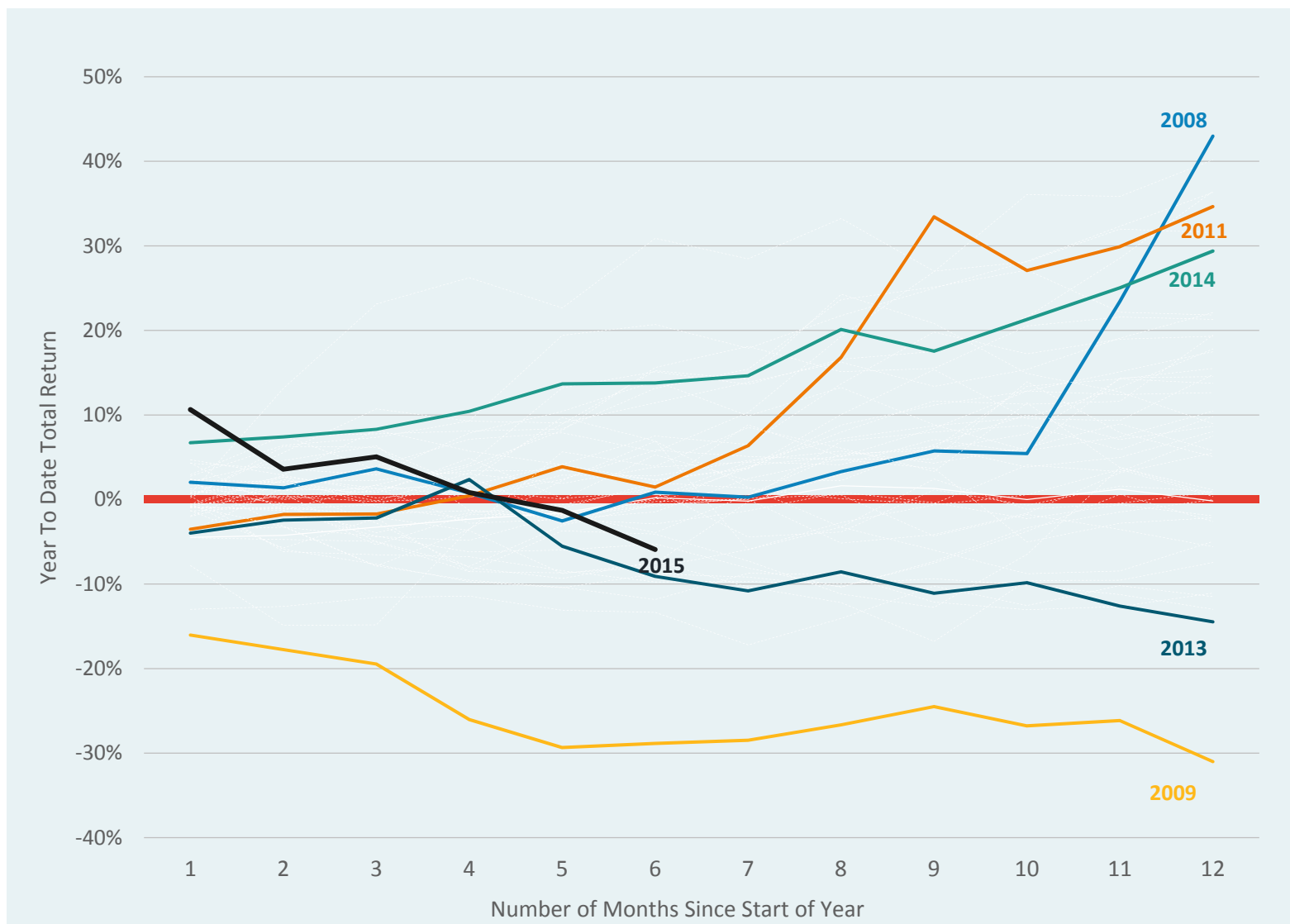
Source: Barclays, as of 6/30/15

# 30 year bond yield & duration



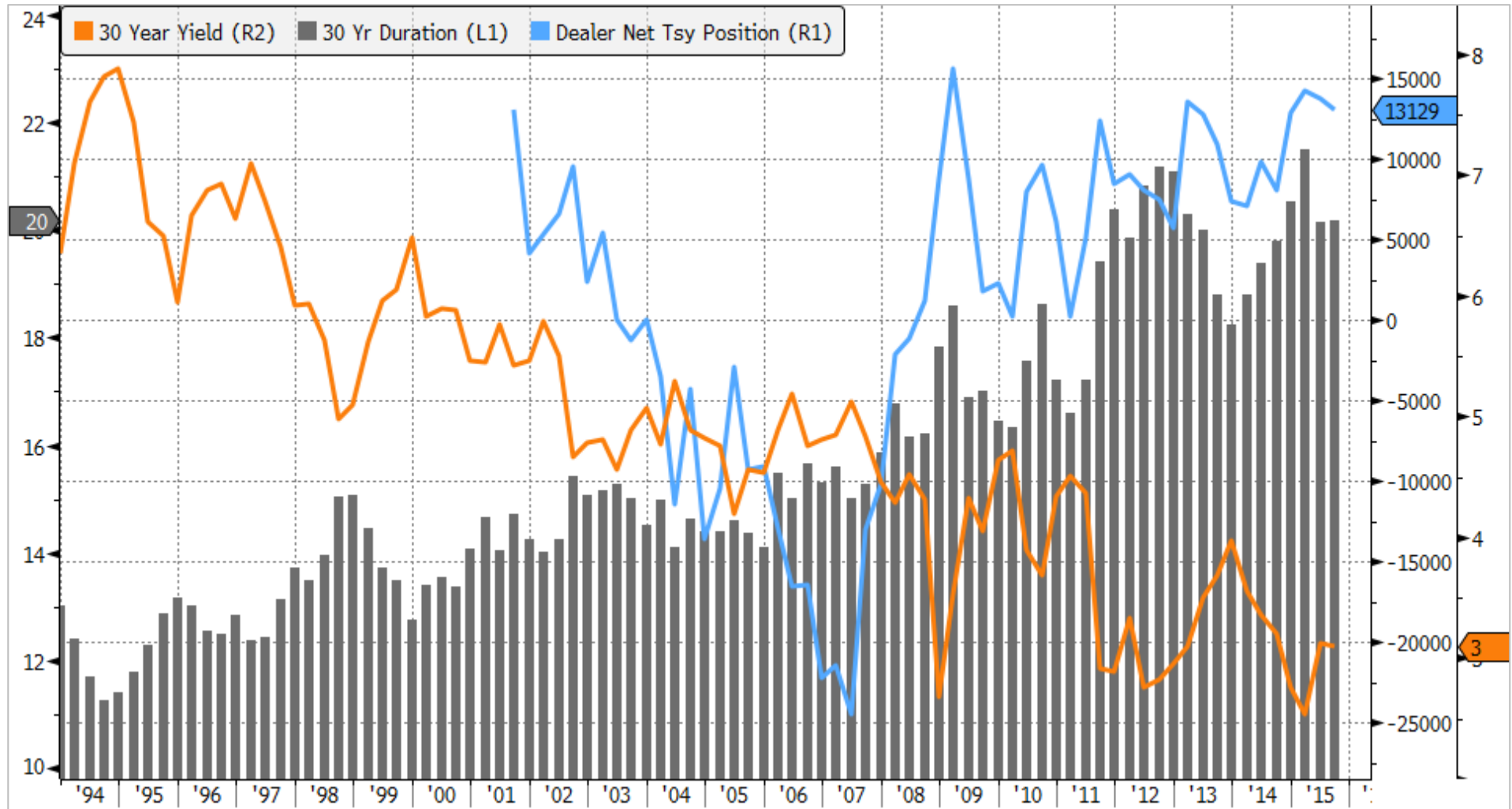
Source: U.S. Treasury, Bloomberg, Verus

# 30 year bond total return (1978 – present)



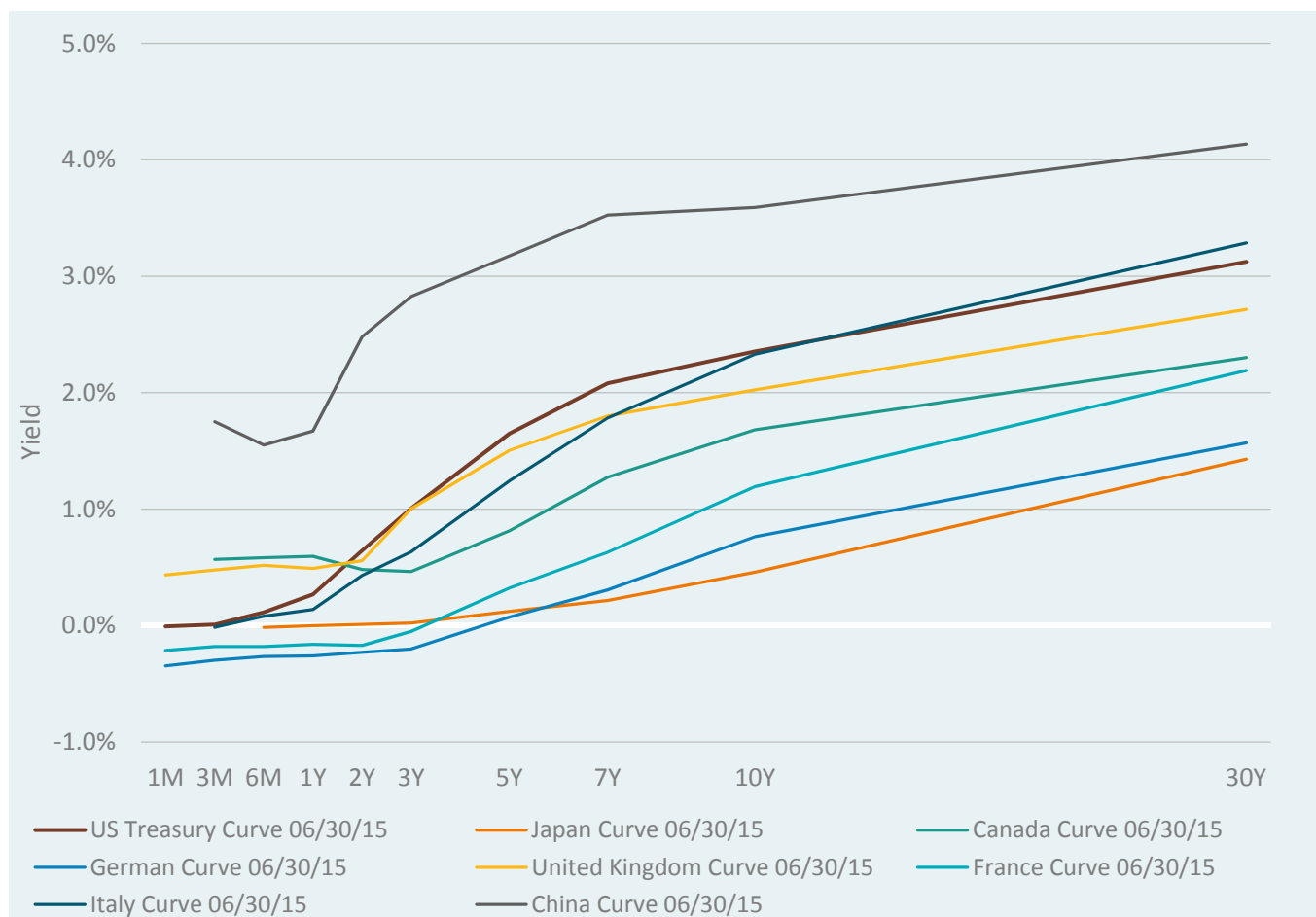
Source: U.S. Treasury, Bloomberg, Verus

# 30 year yield, duration & positions



Source: U.S. Treasury, Bloomberg, Verus

# Global government yield curves



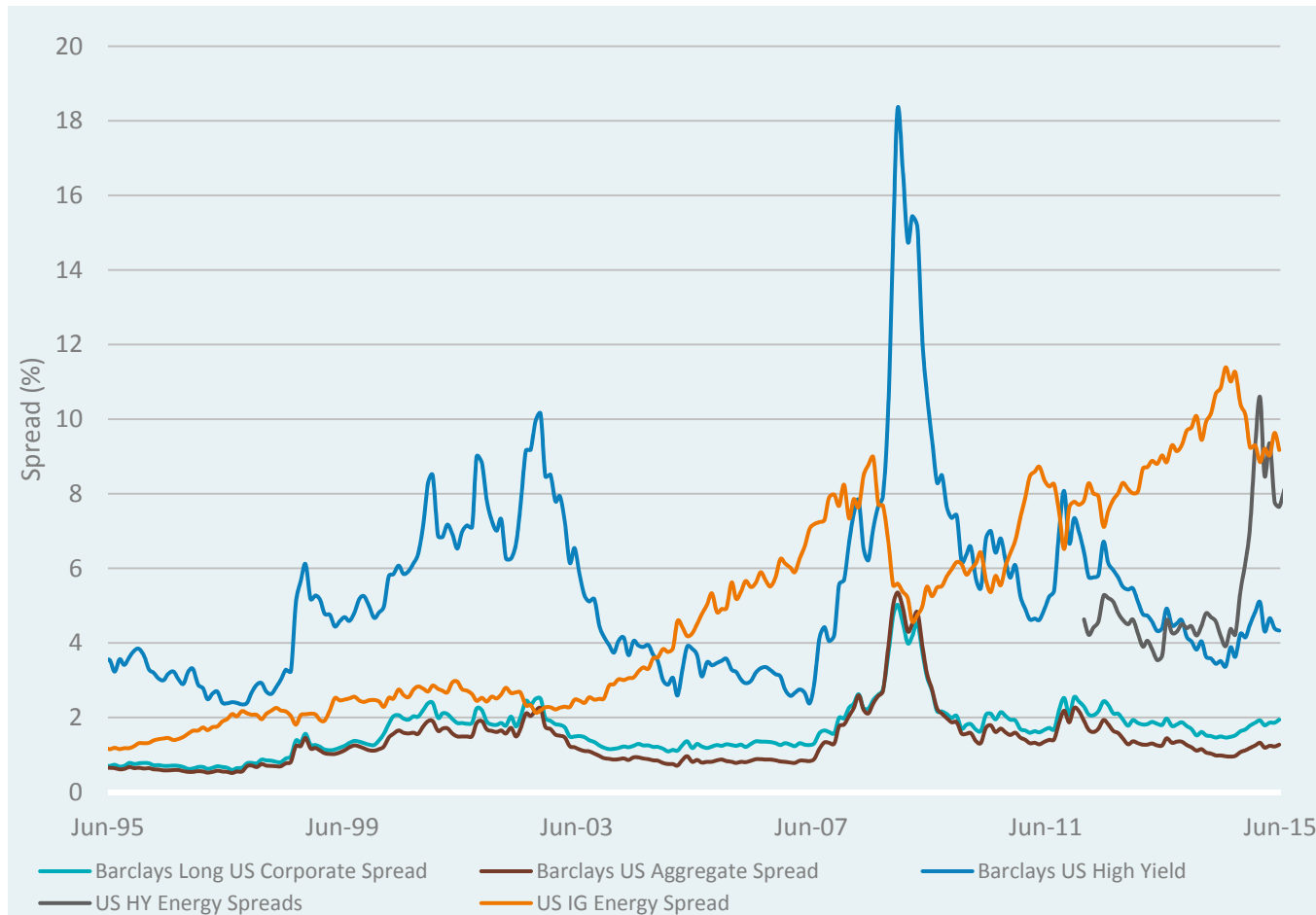
US remains  
high carry

Some broad  
increases in  
interest rates

Negative  
nominal rates  
still present

Source: Bloomberg, as of 6/30/15

# Credit spreads



Spreads roughly stable and within historically normal range with some obvious exceptions

This is not a sign of lack of risk

Source: Barclays Capital Indices, Bloomberg, as of 6/30/15

# Default and recovery trends

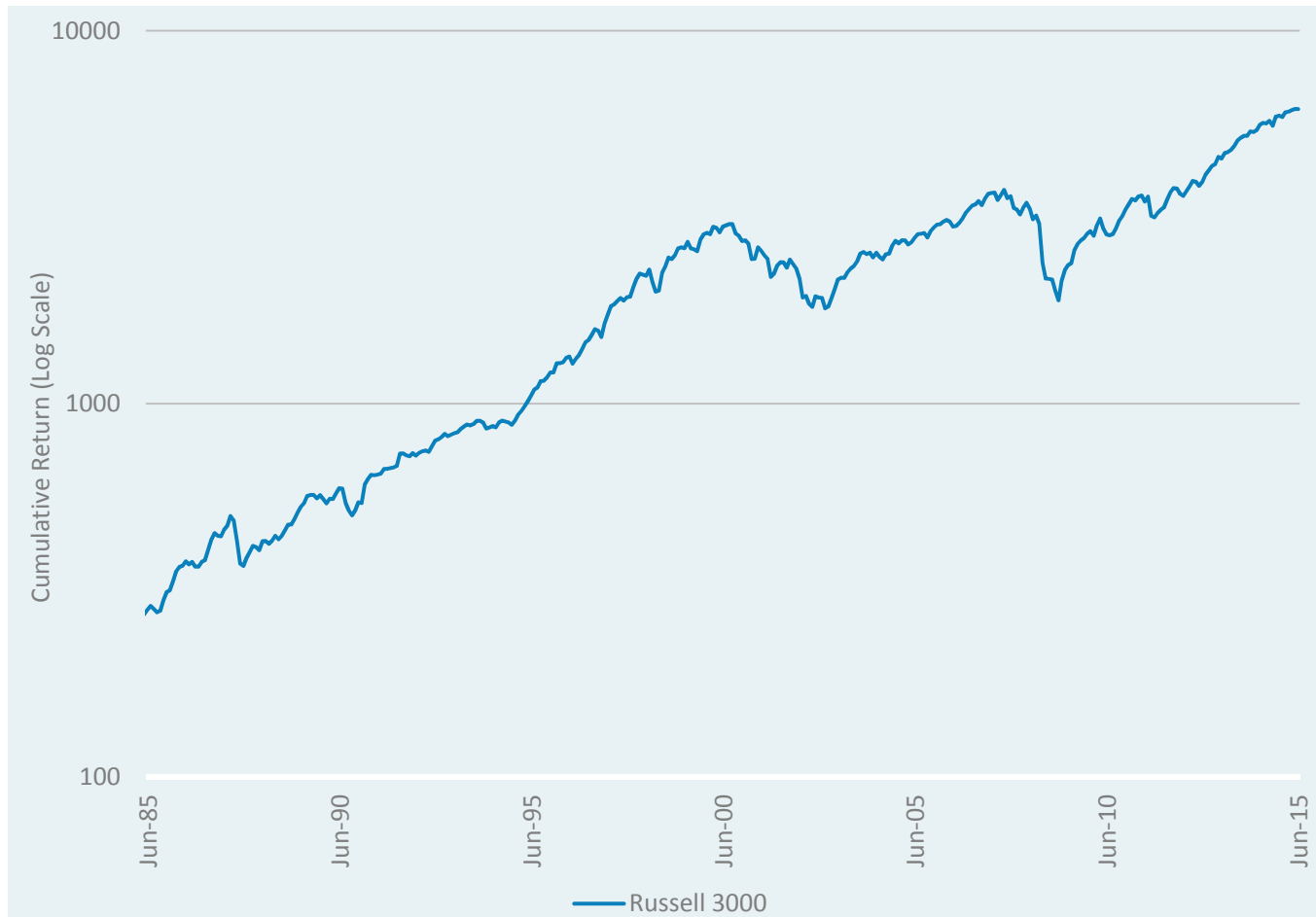


Defaults remain low

A recent drop in recovery rates although not outside normal range

Source: Credit Suisse, BofA, as of 6/30/15

# U.S. equity market



US equity market positive return this year

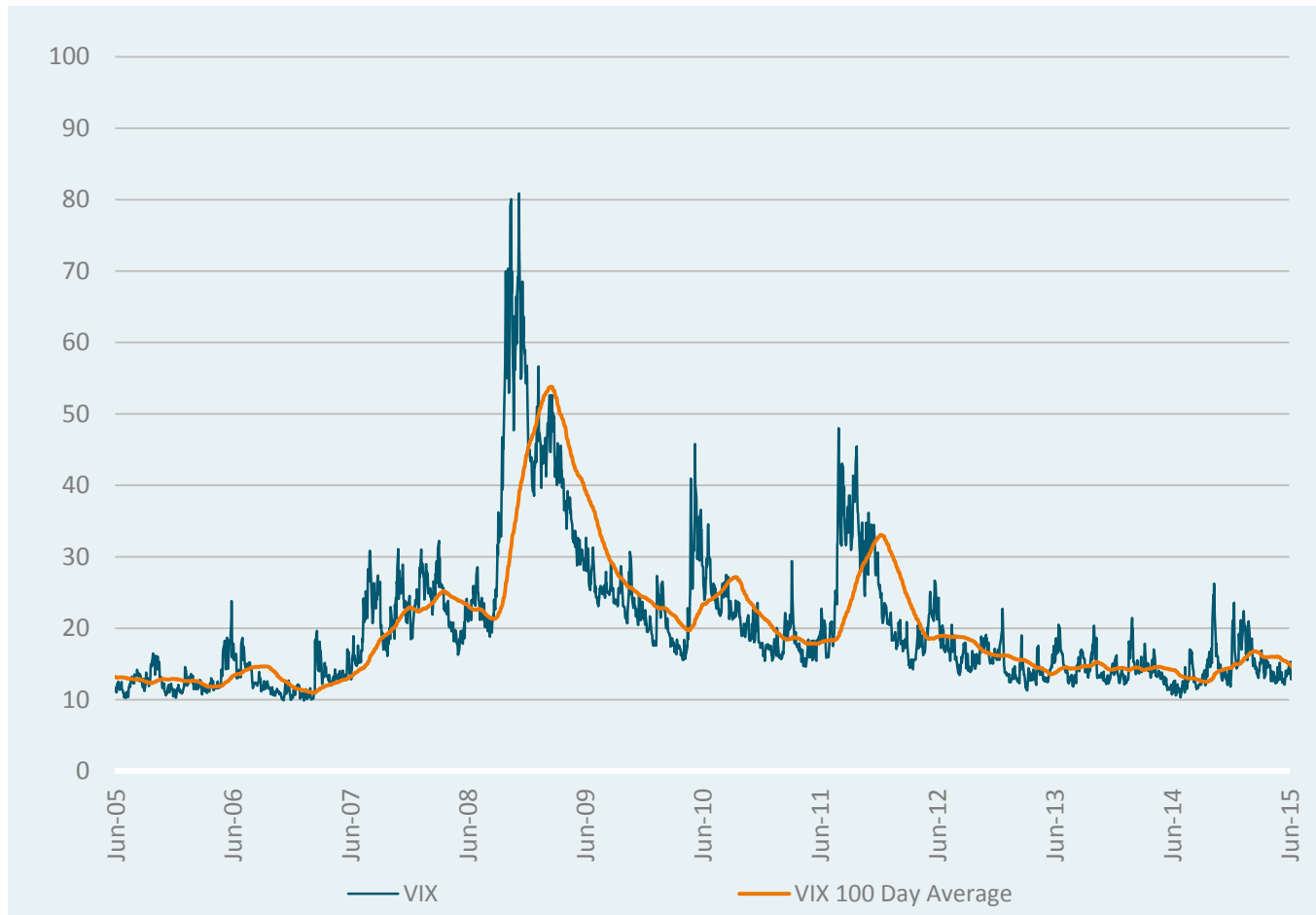
Some slowing in pace for large cap

Small cap doing better

Source: Russell, as of 6/30/15

# Equity volatility

## INTERMEDIATE TERM EQUITY VOLATILITY



Equity volatility remains constrained, and well within historically normal ranges

Source: CBOE, as of 7/13/15

# U.S. equity valuations

SHILLER P/E LONG TERM

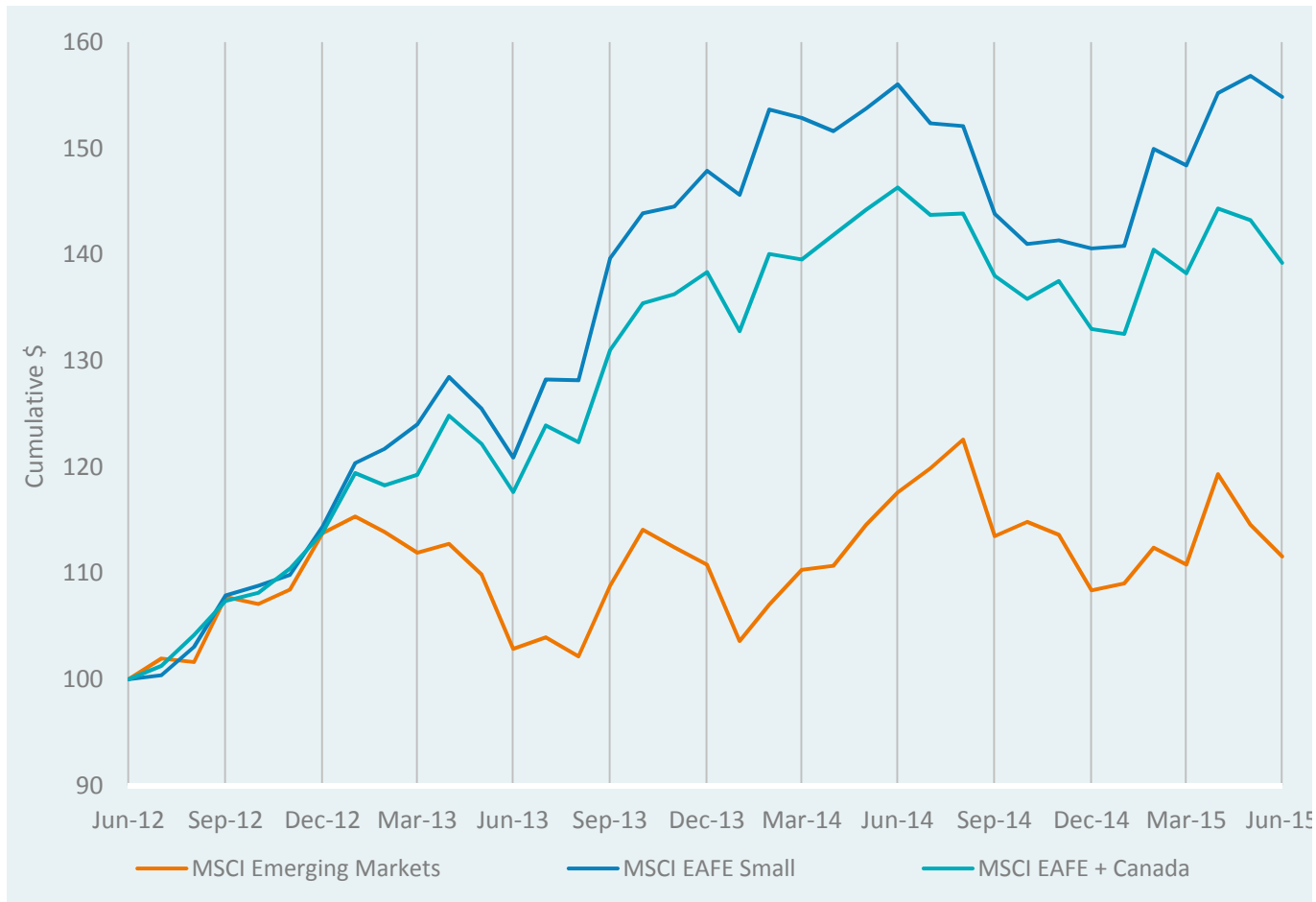


Valuations appear high, although not necessarily at levels that presage an immediate correction

Source: Robert Shiller, as of 3/31/15

# International equity

## MSCI EAFE SHORT TERM PERFORMANCE



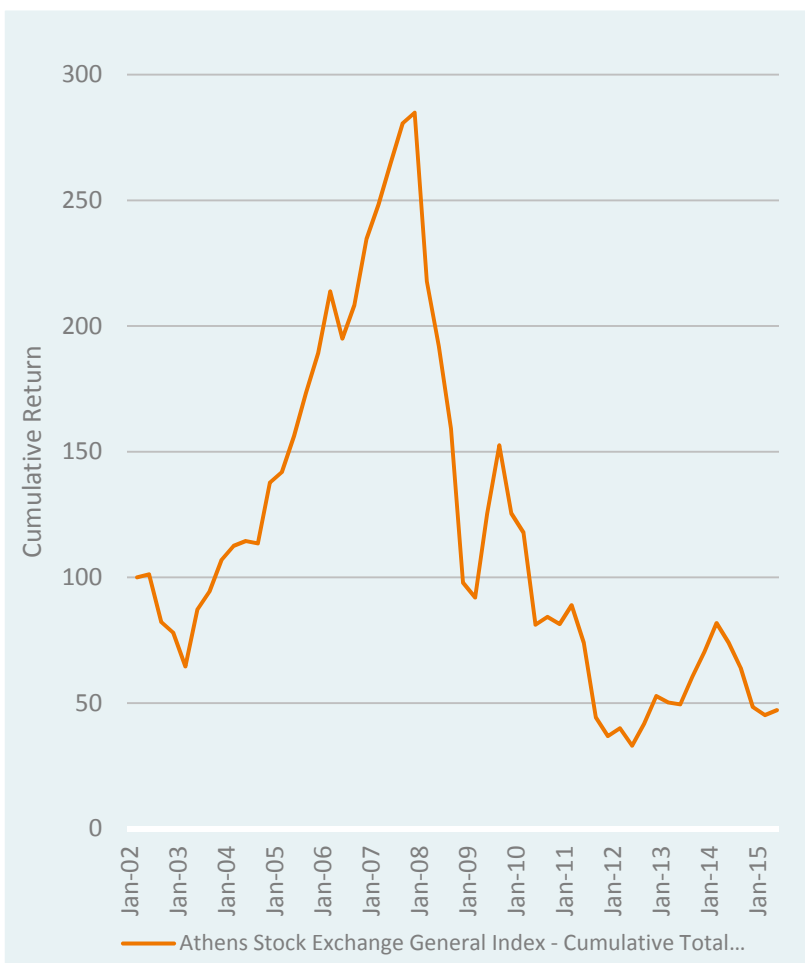
Foreign equity exposures have been rewarded during 2015

Emerging markets remain volatile although flat in US dollar terms

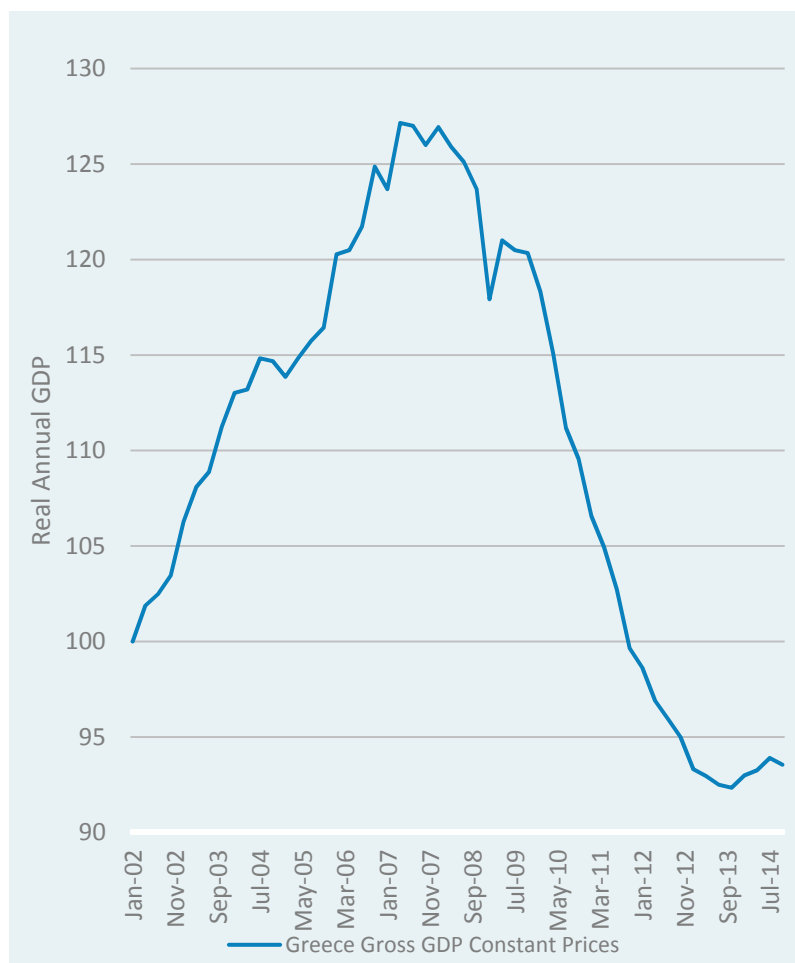
Source: MSCI, as of 6/30/15

# Greece

## The nature of contagion



Source: Bloomberg, as of 6/30/15



Source: Bloomberg, as of 3/31/15

Economic contagion and political contagion are different things

Over the medium term, political contagion has broad implications

Note the equity multiplier effect

# Currency matters

## ROLLING 3 YEAR RETURNS

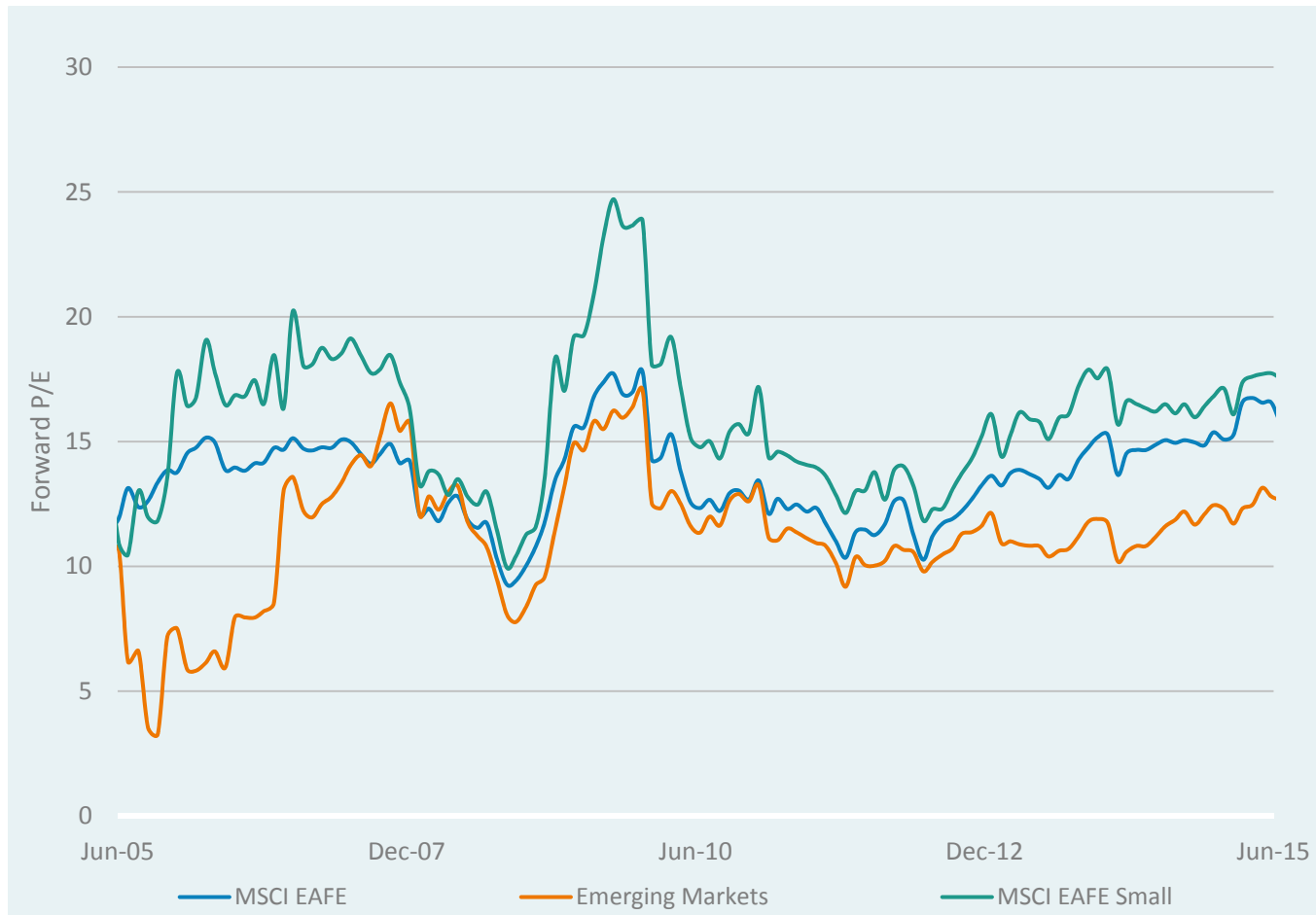


The effect of the embedded currency portfolio associated with unhedged equity exposures has been significant

Source: MSCI, as of 6/30/15

# International valuations

## INTERNATIONAL EQUITY FORWARD P/E



Foreign equity valuations appear relatively attractive

The long term case for Emerging remains intact

Source: MSCI, as of 6/30/15

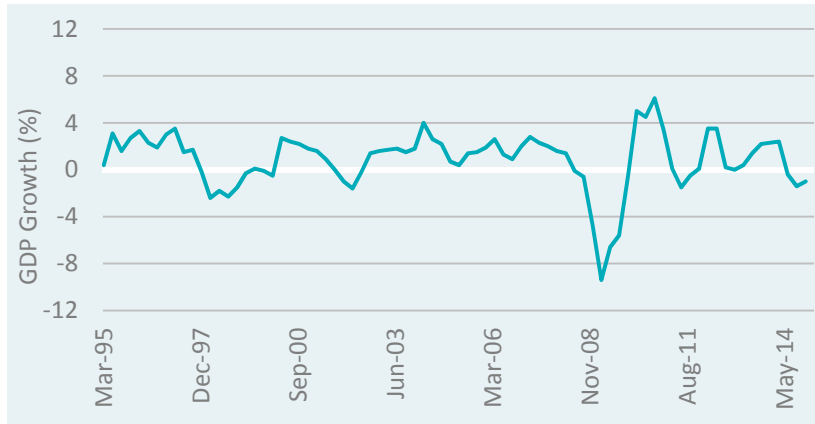
# Japan

Small progress is big progress

JAPAN EQUITY PERFORMANCE

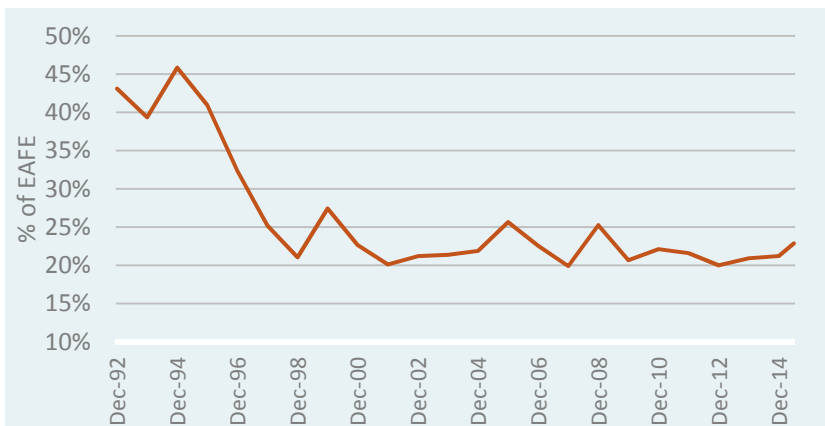


JAPAN GDP GROWTH



Japan remains an attractive opportunity despite recent good performance

JAPAN AS A % OF EAFE



JAPAN INFLATION



Success is the difference between expectation and reality

Source: Nikkei, MSCI

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# Q&A

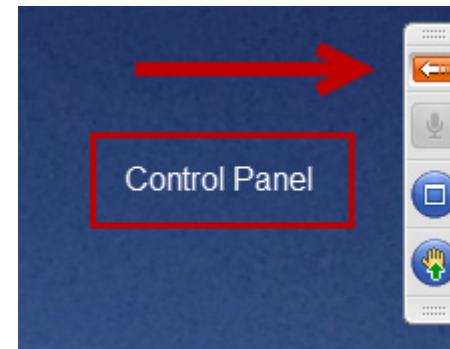
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