

Economic & Financial Market Update

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James W. Paulsen, Ph.D., Chief Investment Strategist

WELLS CAPITAL MANAGEMENT



Older Demographics Have Altered Economic Recoveries in Three Major Ways!!!

1. Slower SPEED LIMIT!

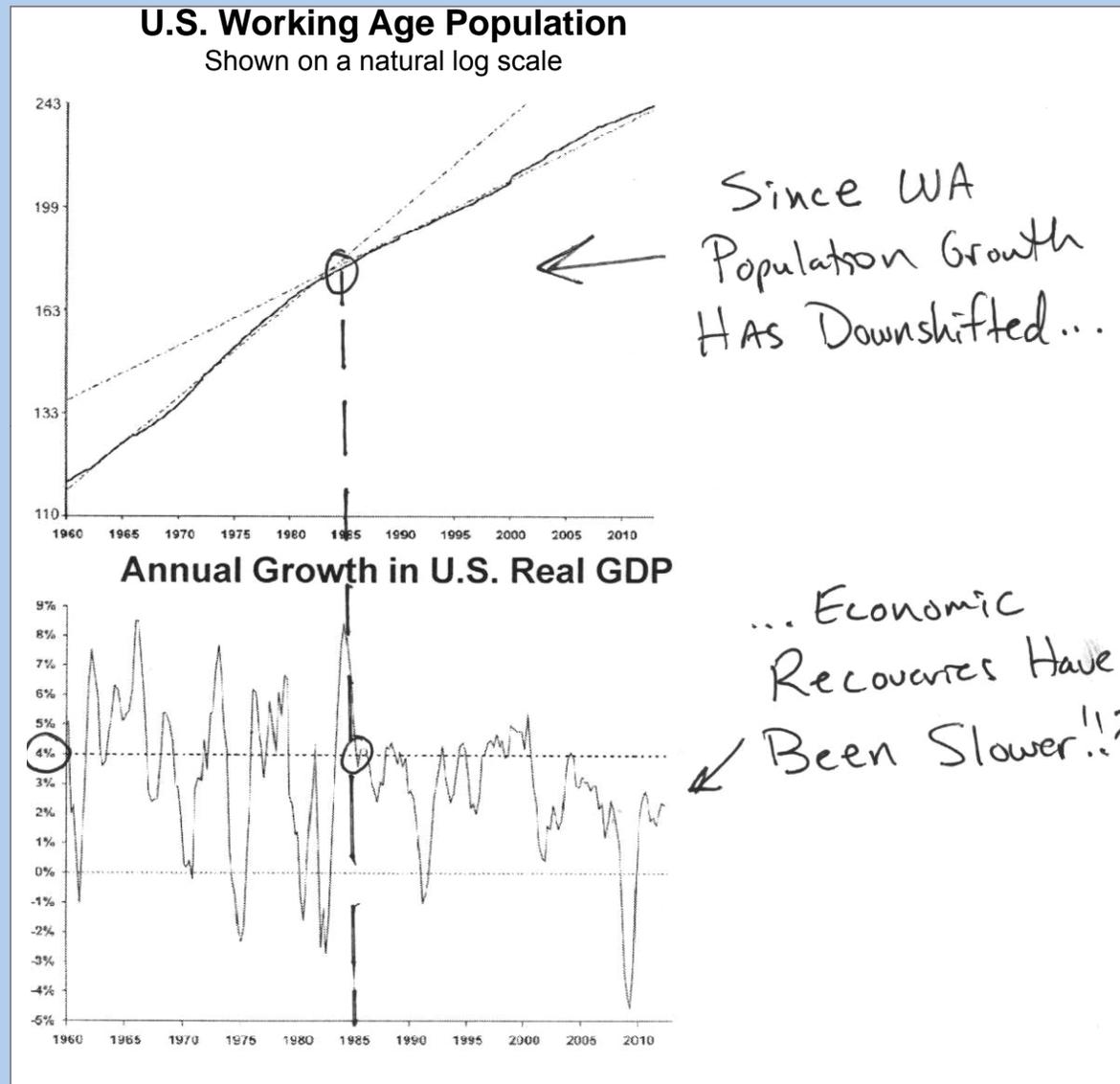
2. Delayed Recoveries!!

“Slow Starters... But, Long FINISHERS”

3. YEAR “4” GEARING!!?

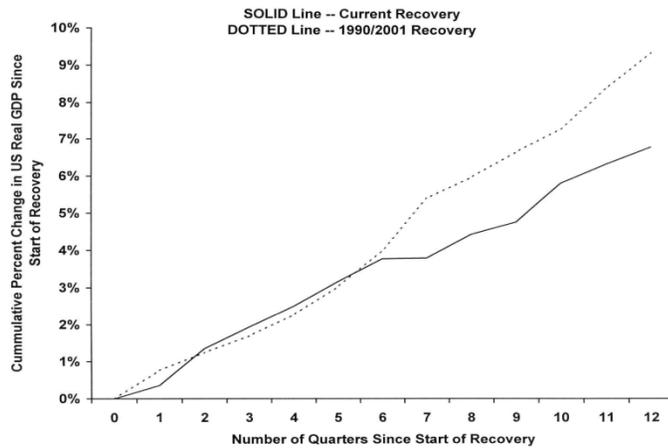


“New-Normal” Working-Age Population Growth!??!

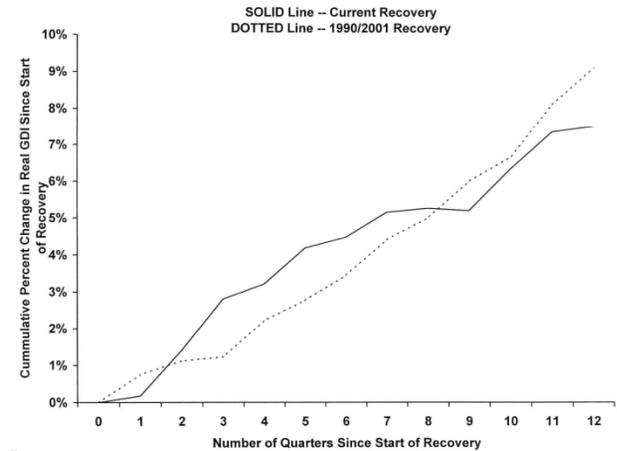


Contemporary Recovery Weaker, But Similar to 1991/2001 Pattern!?

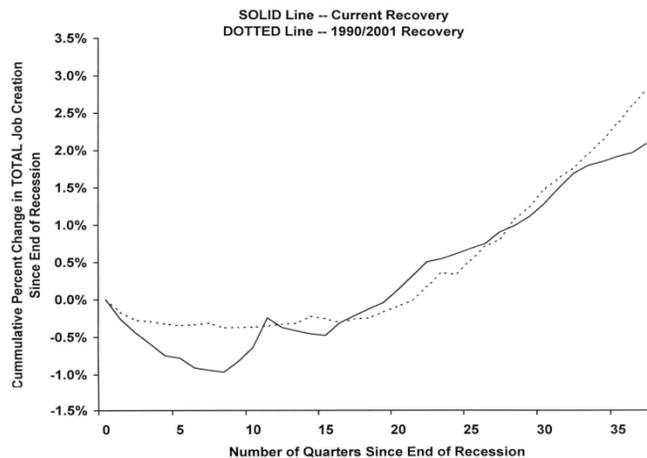
**Cummulative Percent Recovery Gain in Real GDP
Current Recovery vs. 1990/2001 Average**



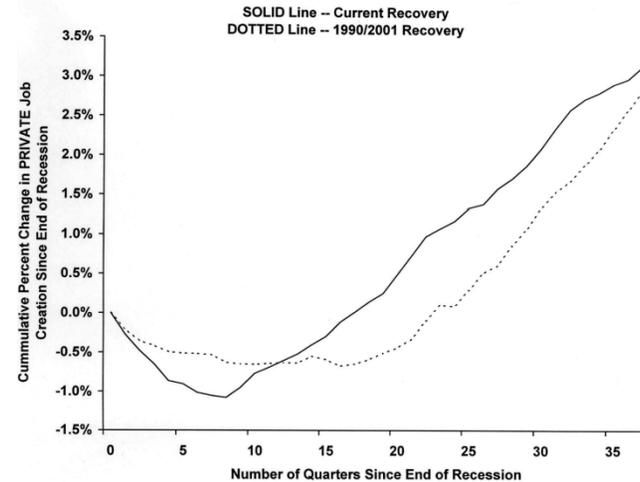
**Cummulative Percent Recovery Gain in Real GDI
Current Recovery vs. 1990/2001 Average**



**TOTAL Cummulative Percent Job Creation
Current Recovery vs. 1990/2001**

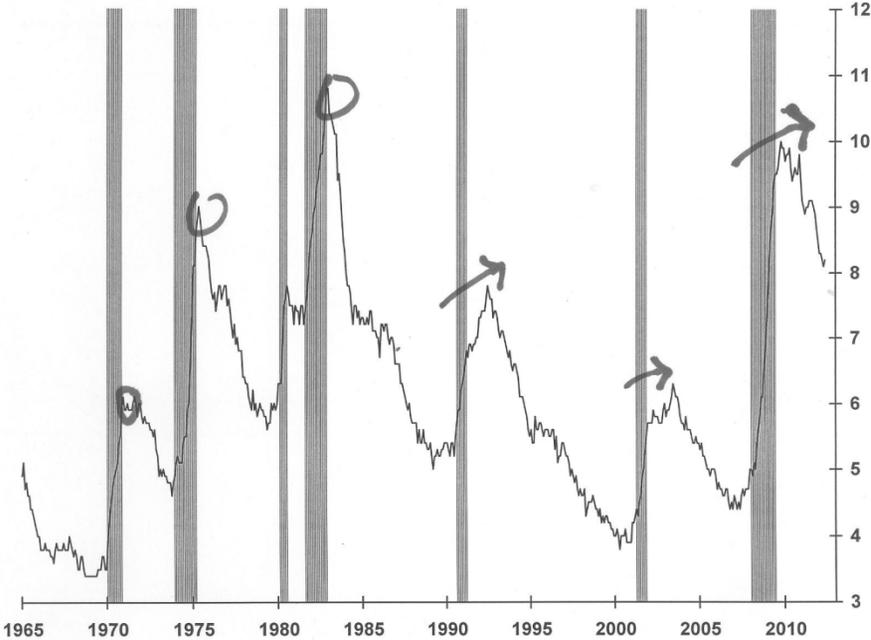


**Private Cummulative Percent Job Creation
Current Recovery vs. 1990/2001 Average**



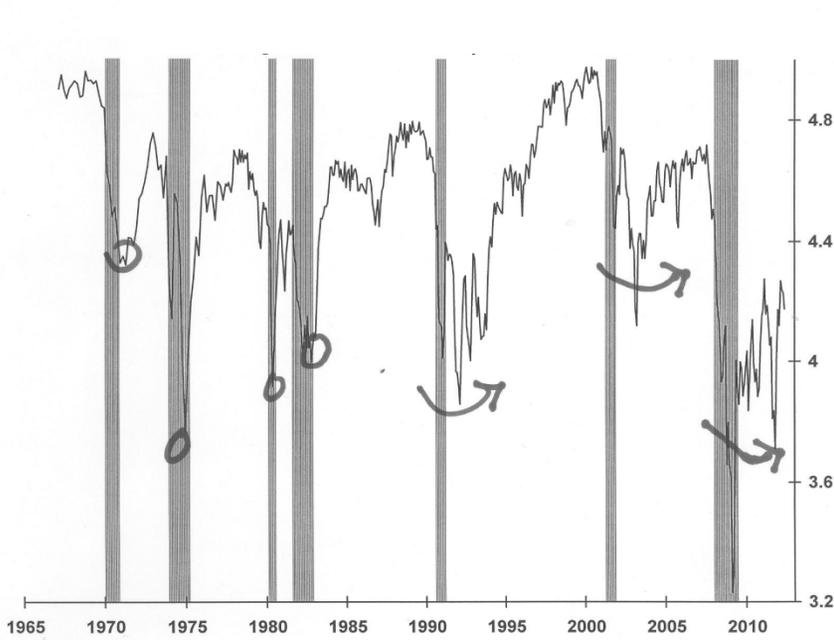
Jobs & Confidence Recoveries Delayed!?!

U.S. Unemployment Rate & Recoveries

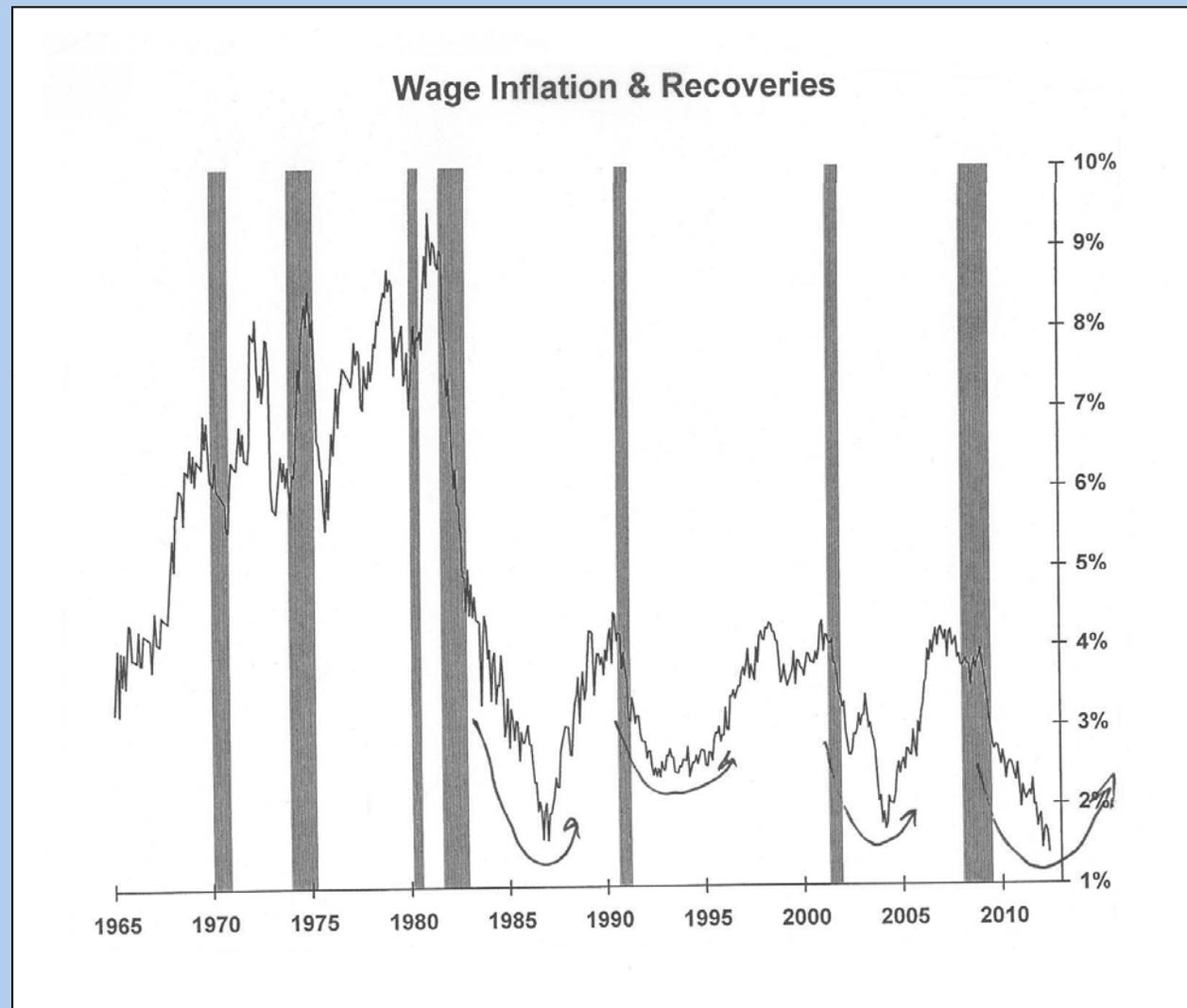


Consumer Confidence Index* & Recoveries

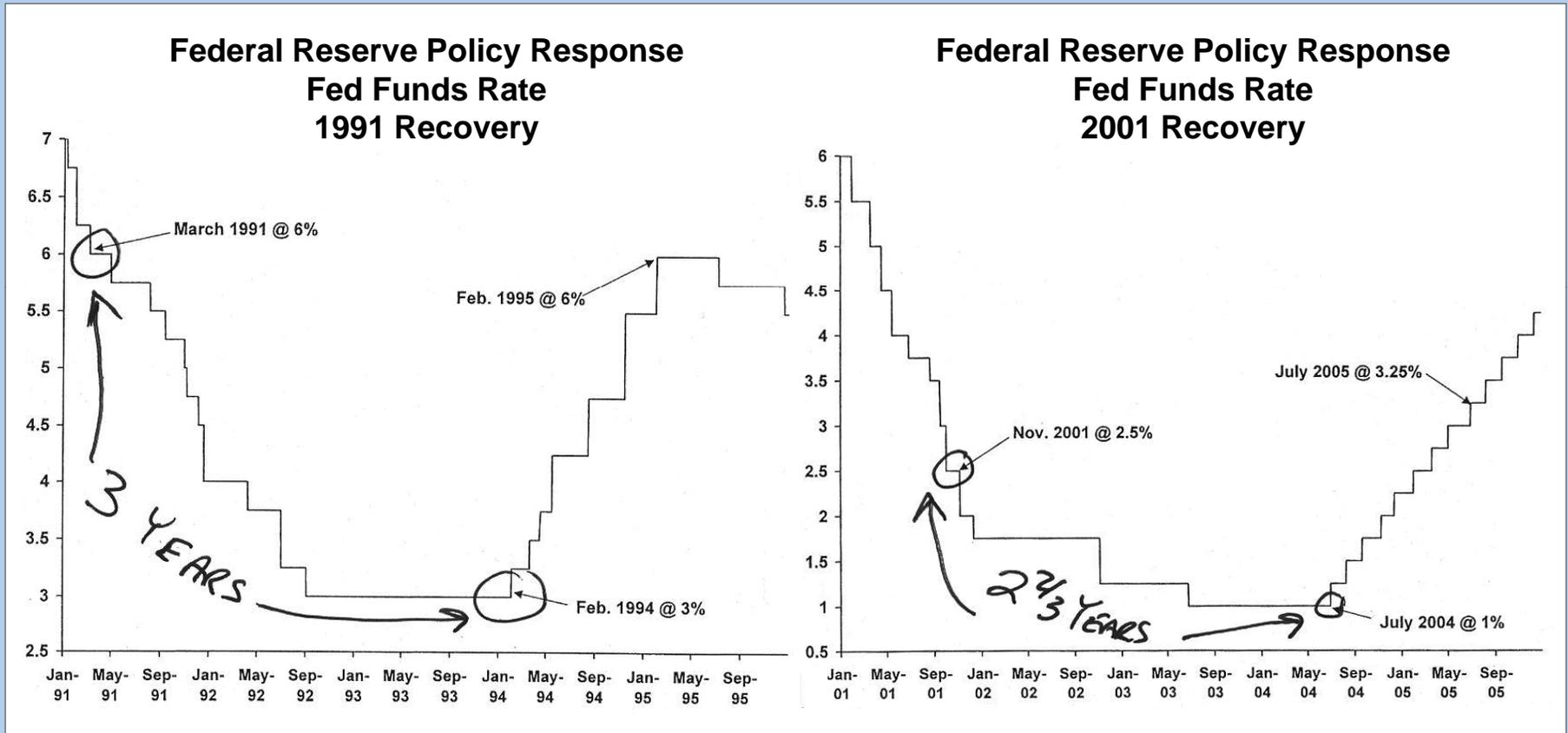
*Conference Boards Consumer Confidence Index. Shown on a natural log scale.



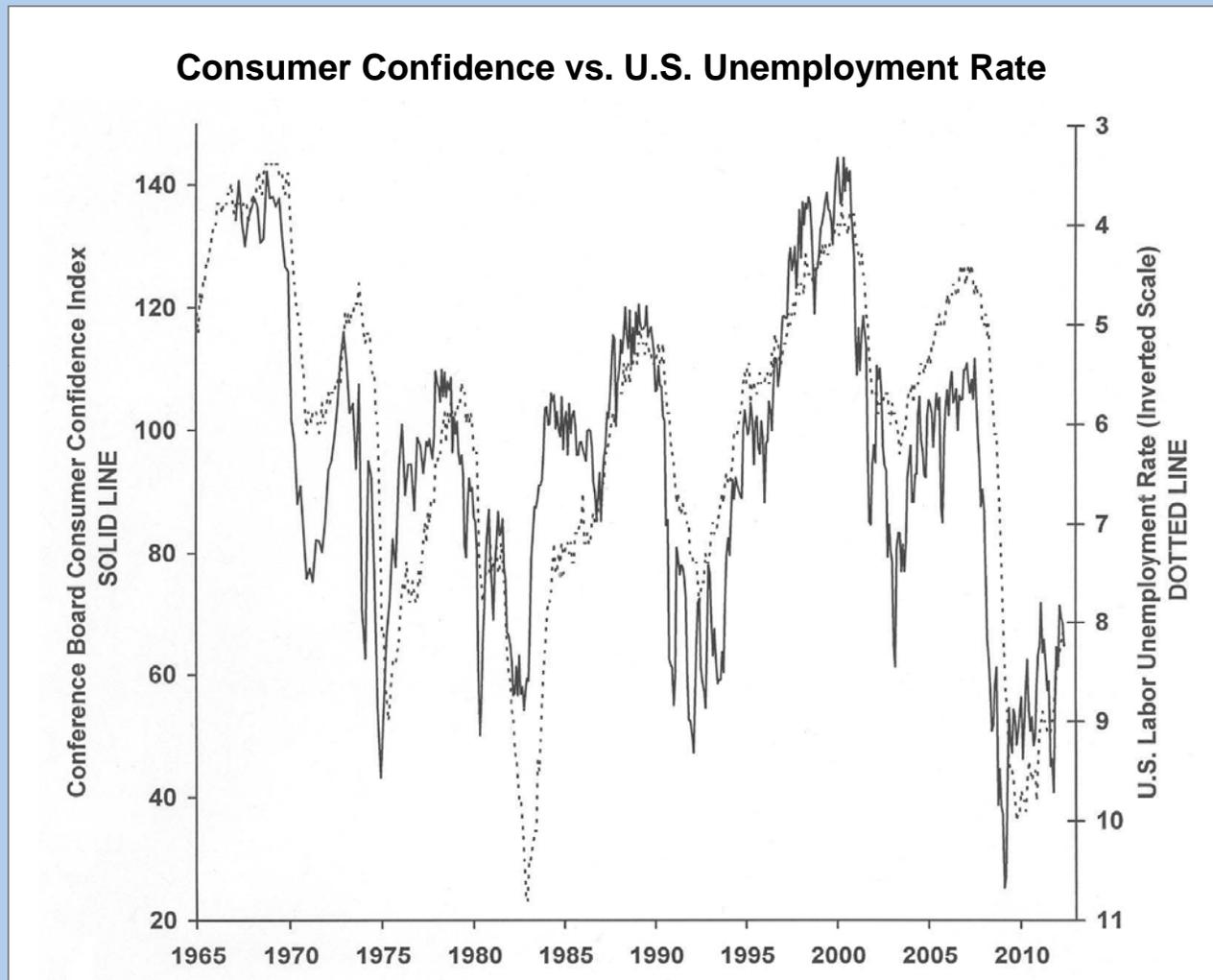
“DELAYED” WAGE/GAINS WILL SOON END?!??



Federal Reserve Following Playbook of Last Two Recoveries!?!

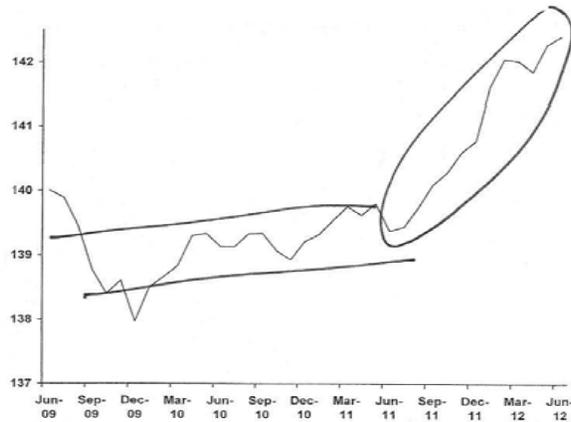


How to GEAR?? Jobs & Confidence!!!

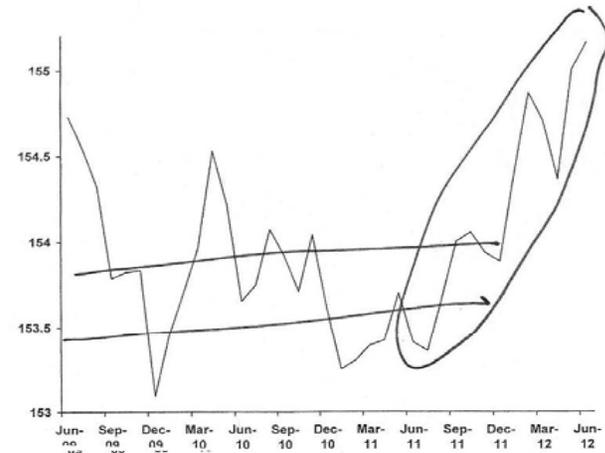


ECONOMY is GEARING: #1 JOB MARKET!!

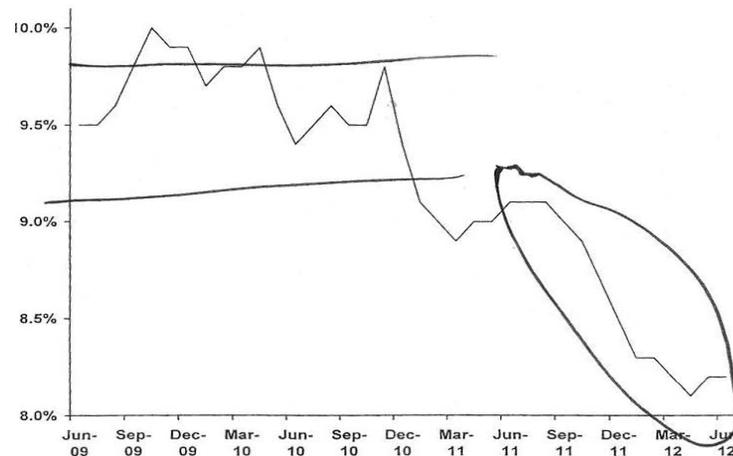
Total U.S. Household Employment In Millions



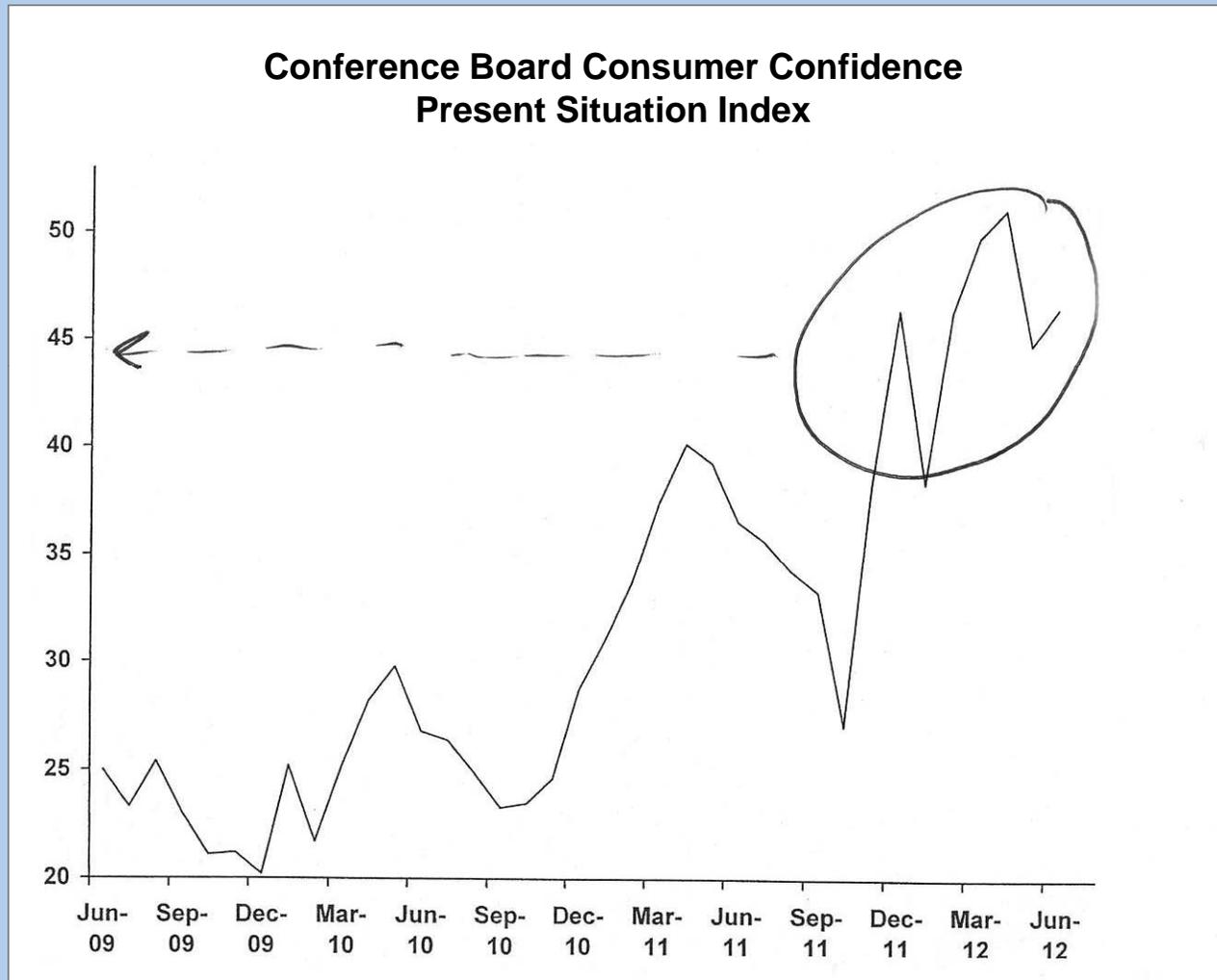
Total U.S. Labor Force In Millions



U.S. Labor Unemployment Rate

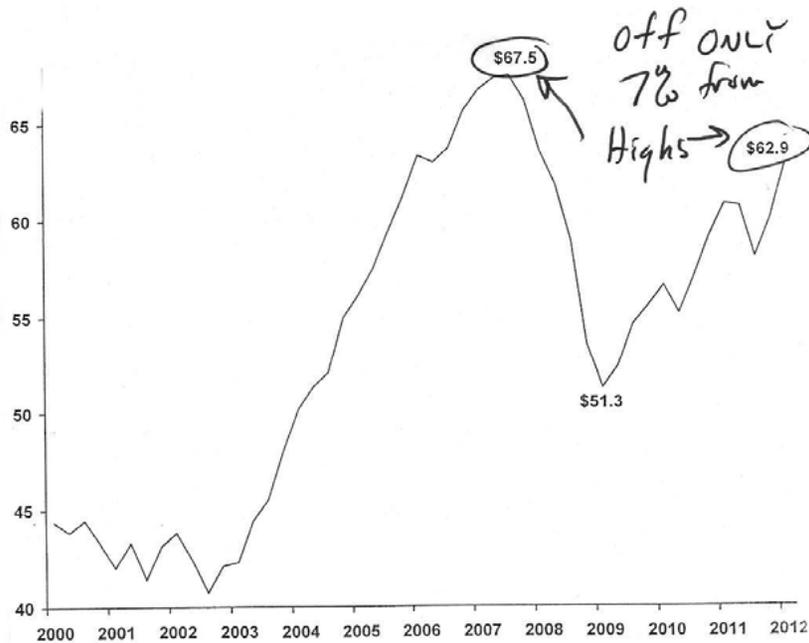


ECONOMY is GEARING: #2 CONFIDENCE!!

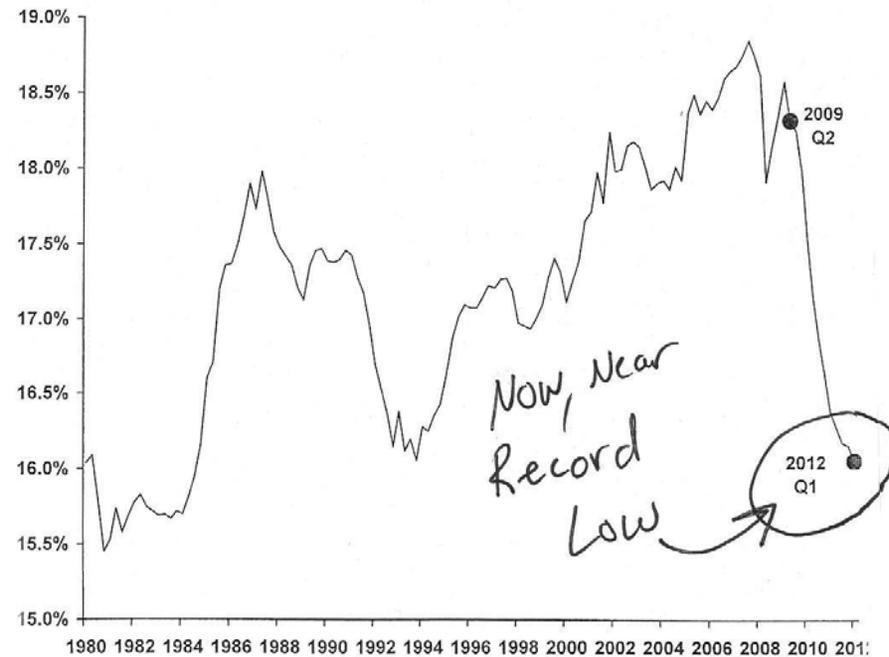


ECONOMY IS GEARING: #3 Net WORTHS & #4 Debt BURDENS!!

Total Household Net Worth
In Trillions of U.S. Dollars



U.S. Household Financial Obligations Ratio



ECONOMY is GEARING: #5 Housing Activity & #6 Home Prices!!

**National Association of Homebuilders
Market Survey Index**

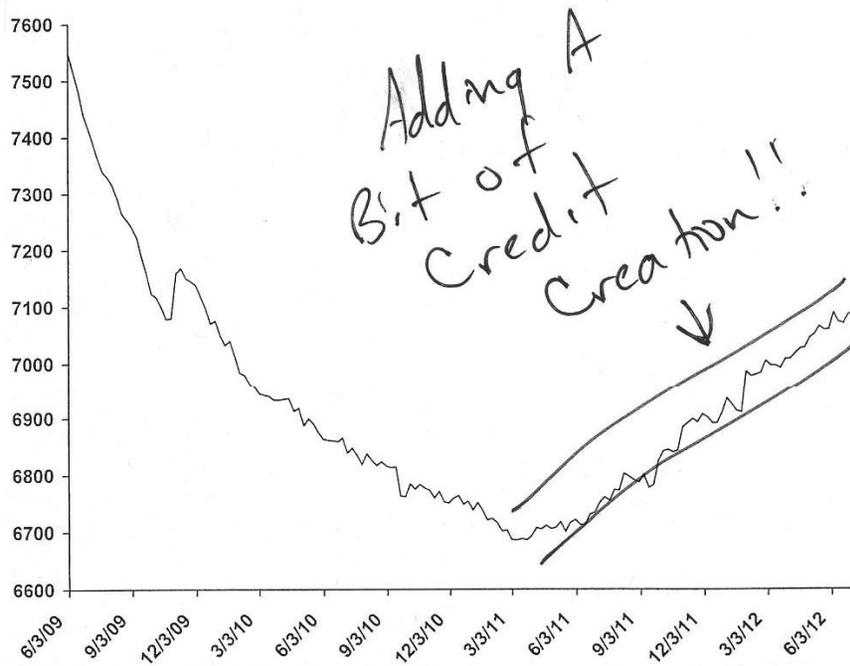


FHFA U.S. House Price Index

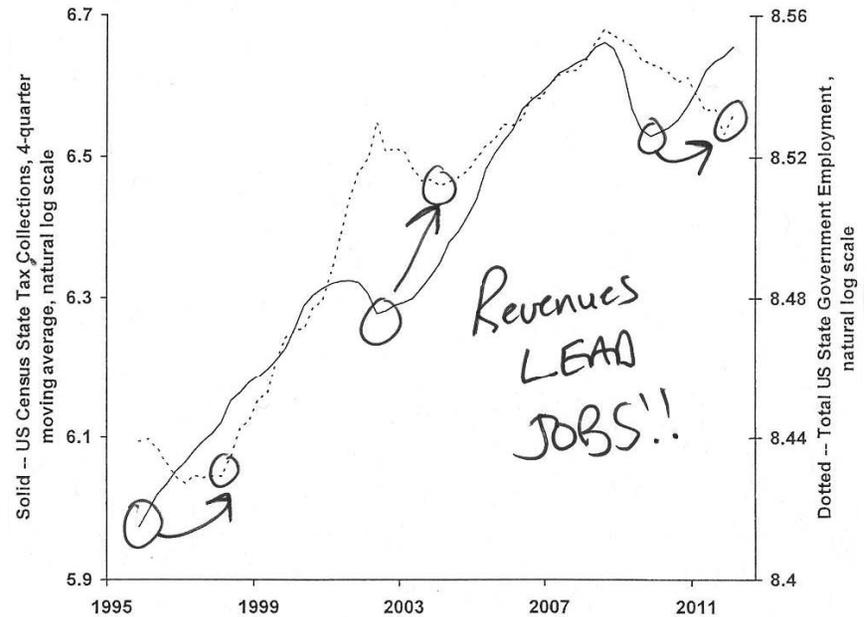


ECONOMY is GEARING: #7 Bank Lending & #8 State Jobs !!!

Total U.S. Bank Loans

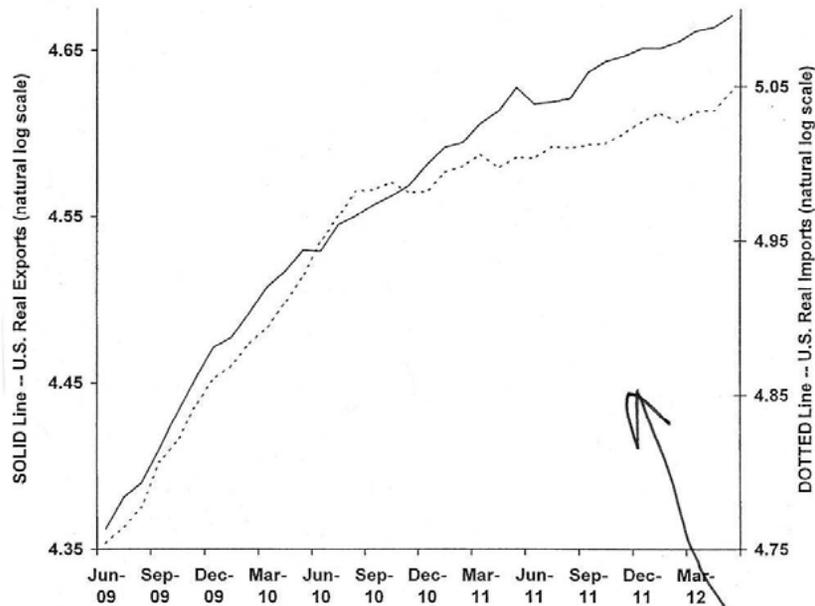


State Government Total Tax Collections vs. State Government Employment

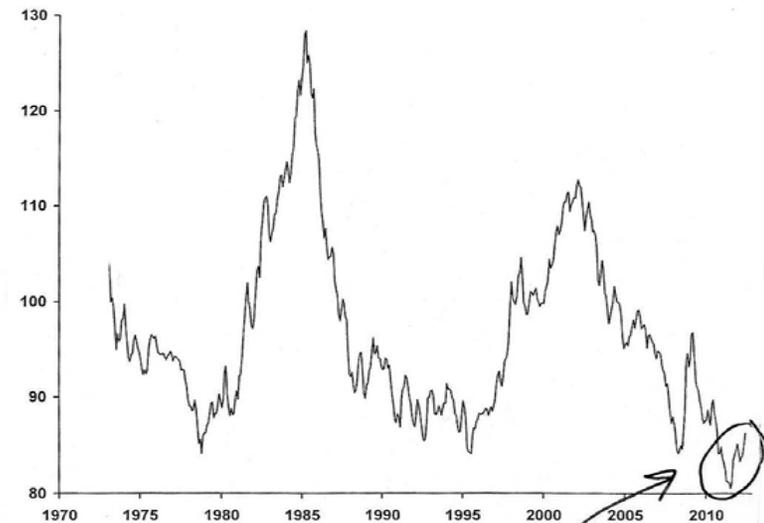


ECONOMY is GEARING: #9 Net Exports!!!

U. S. Real Exports vs. Real Imports



U. S. REAL Broad Trade-Weighted Dollar Index

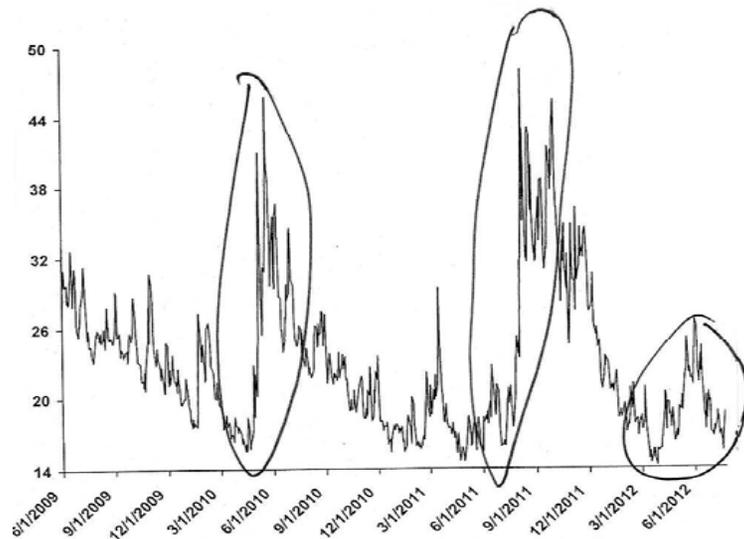


Really Competitive US Dollar
Should Drive US TRADE!?!

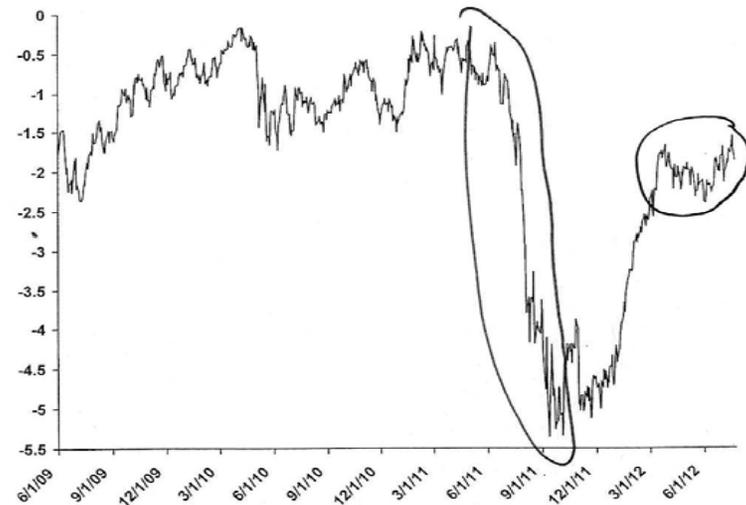


ECONOMY is GEARING: #10 Sensitivity to Crises!!

CBOE VIX VOLATILITY Index



Bloomberg European Financial Conditions Index

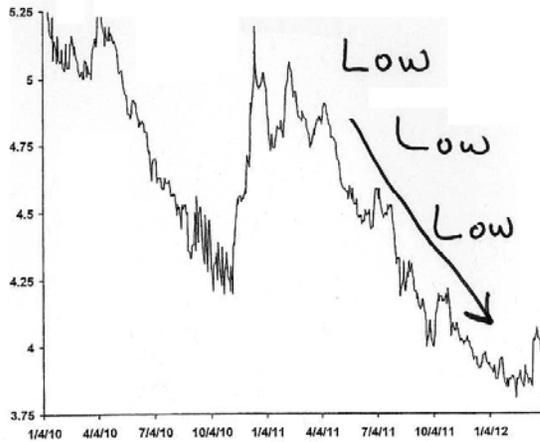


Has the "Boy Cried Wolf"
Too often??!

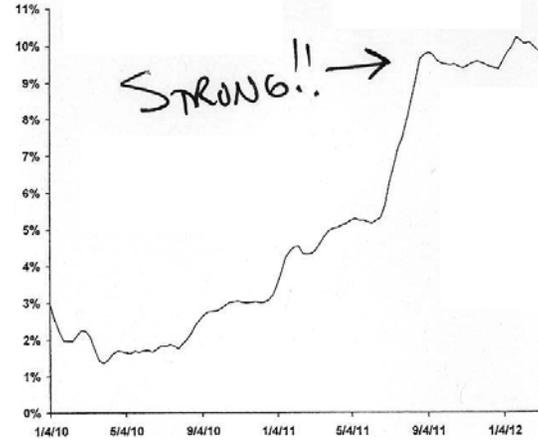


U.S. Economy is Self-Medicating!!!

30-Year National Average Mortgage Interest Rate



Annual Growth in the M2 Money Supply



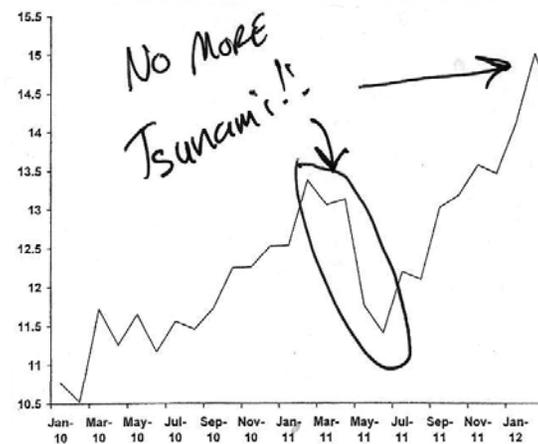
Trade-Weighted U.S. Dollar Index



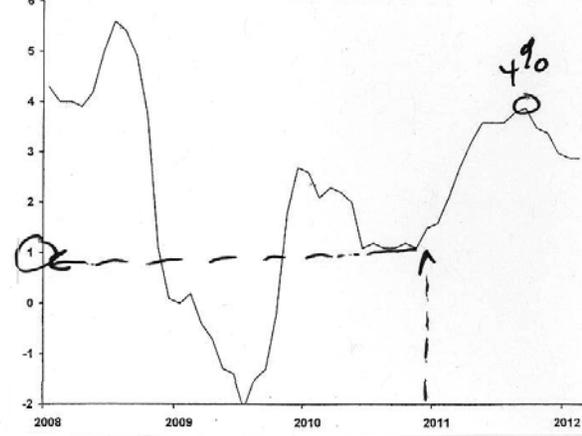
**Commodity Prices
Crude Oil vs. Non-Energy Commodities**



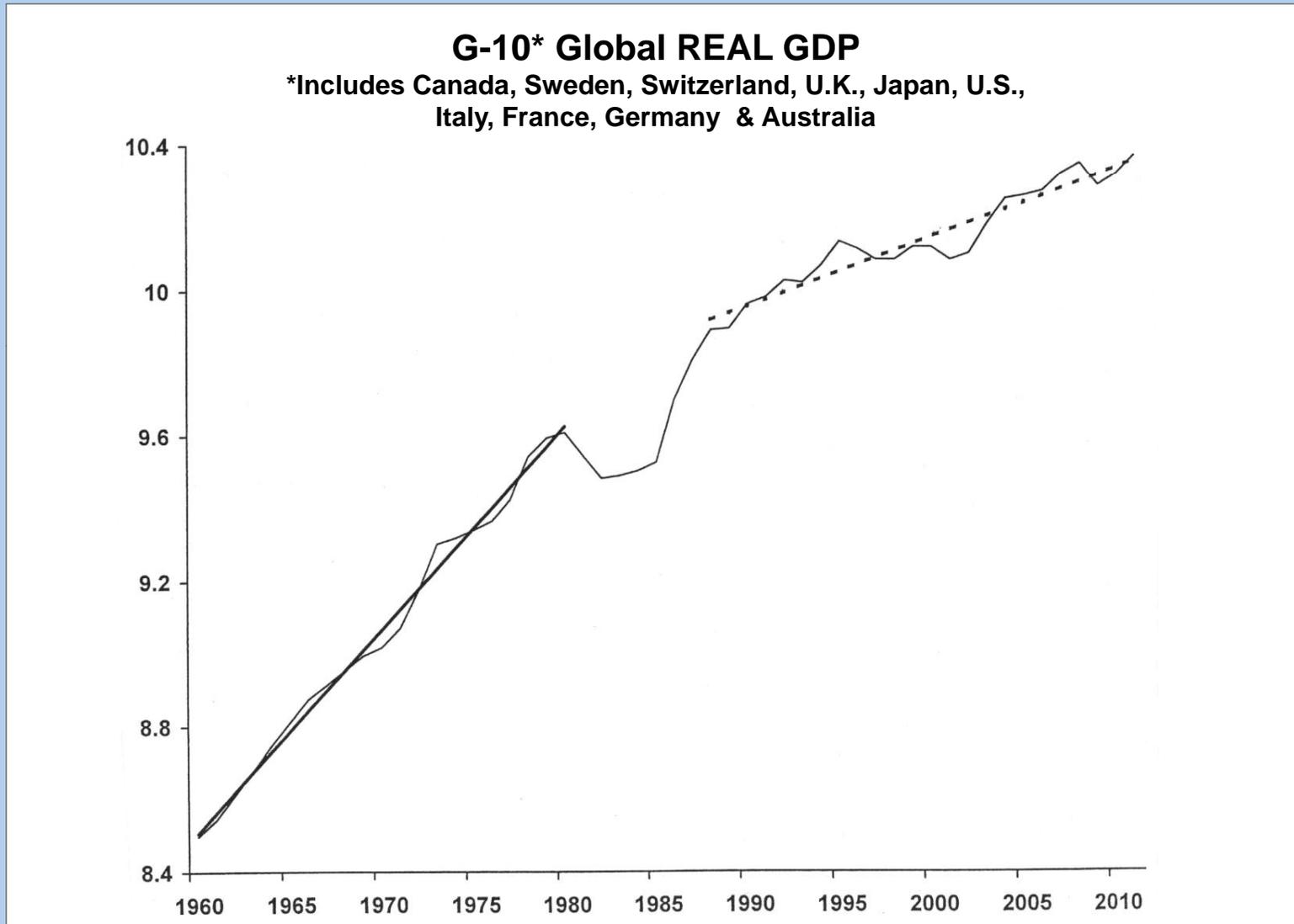
Total Annualized U.S. Auto Sales



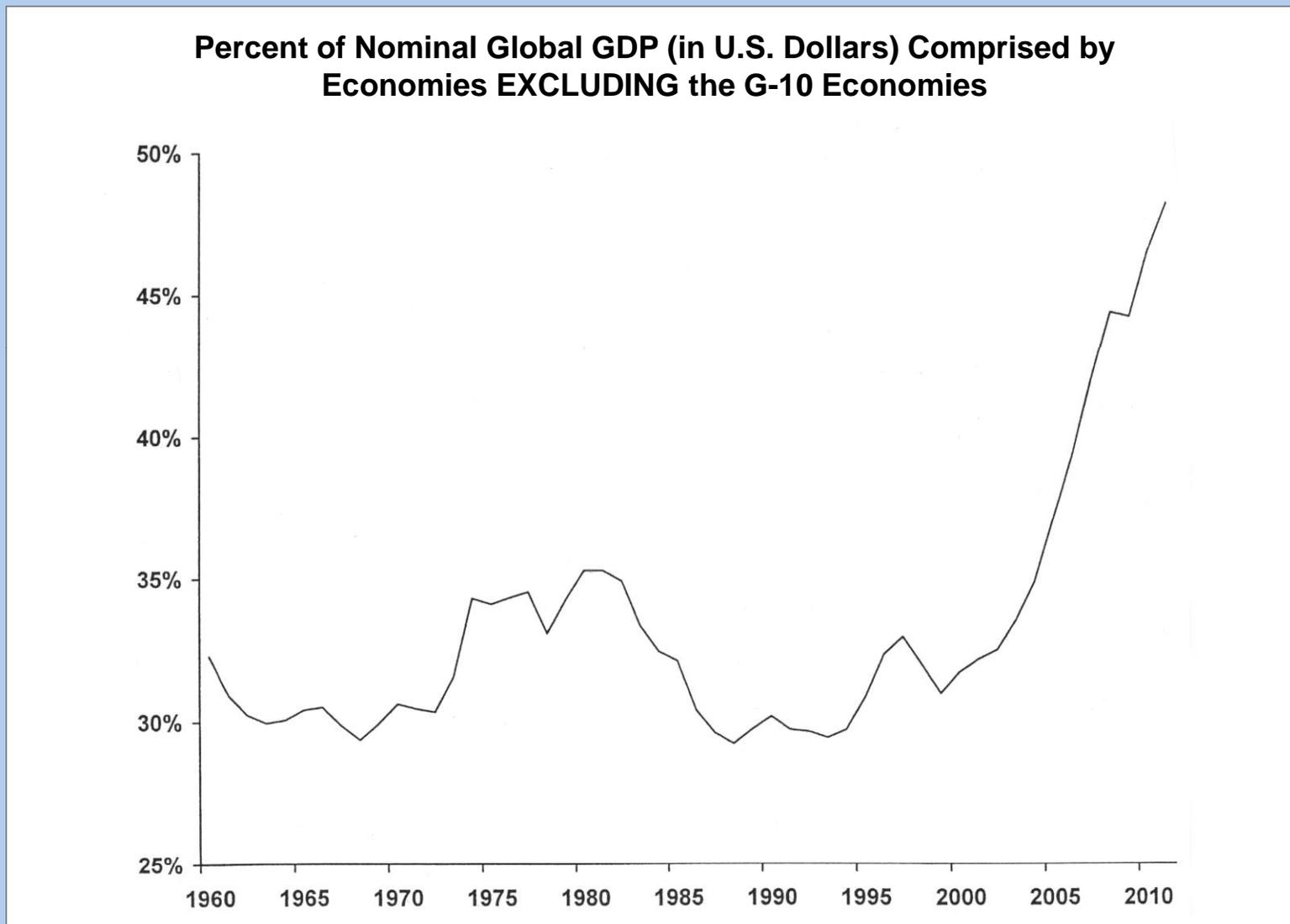
Annual Consumer Price Inflation Rate



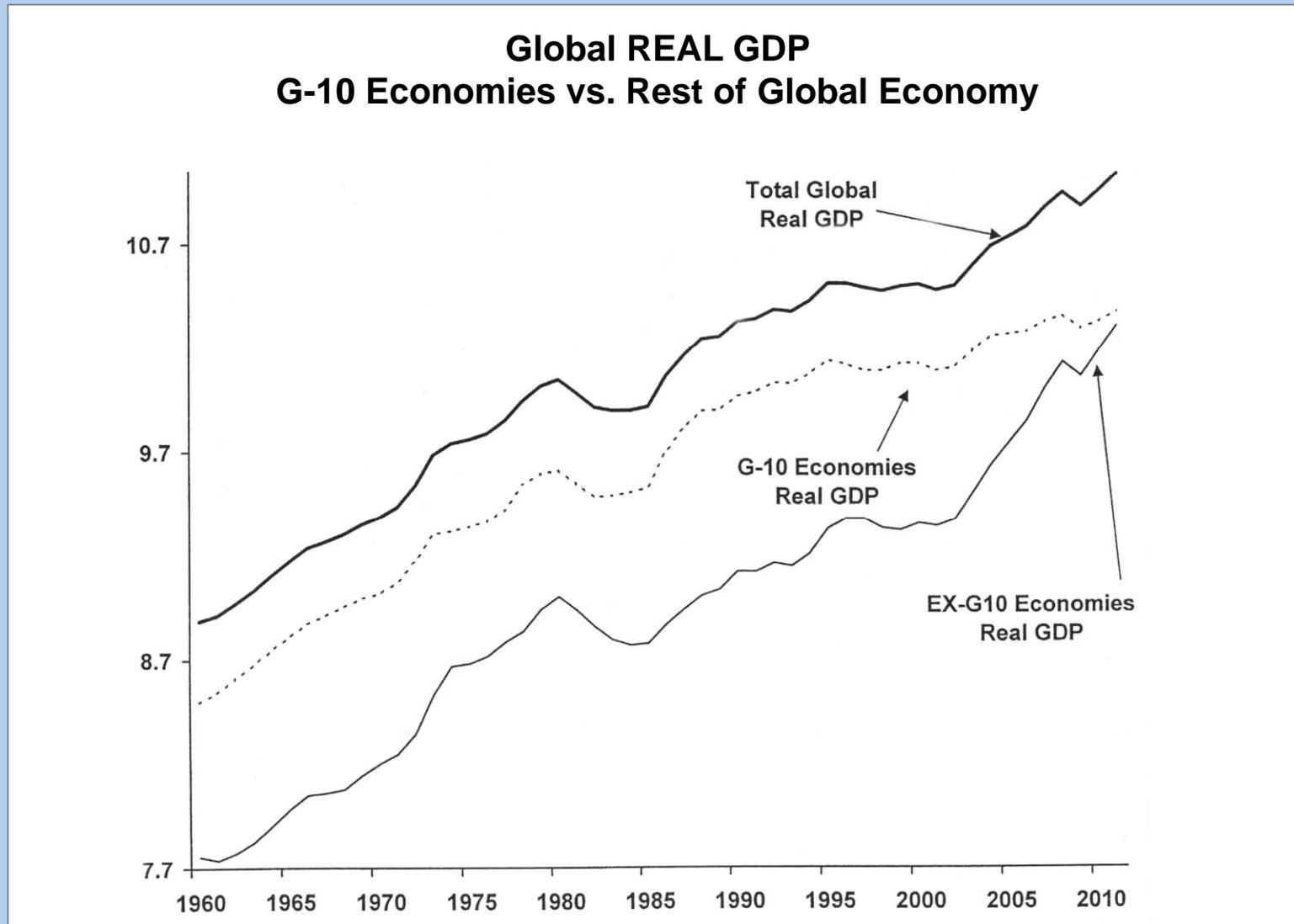
SAME Demographic New-NORMAL Hits Entire G-10!??



Fortunately, the U.S. Enacted the Emerging Market MARSHALL PLAN!!!

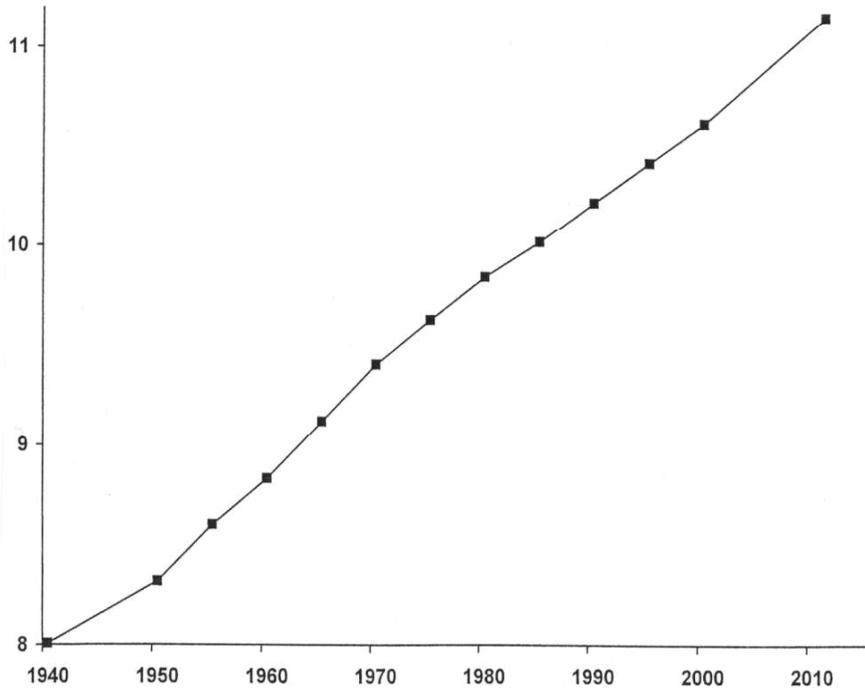


GLOBAL GROWTH IS STILL O.K.?!?



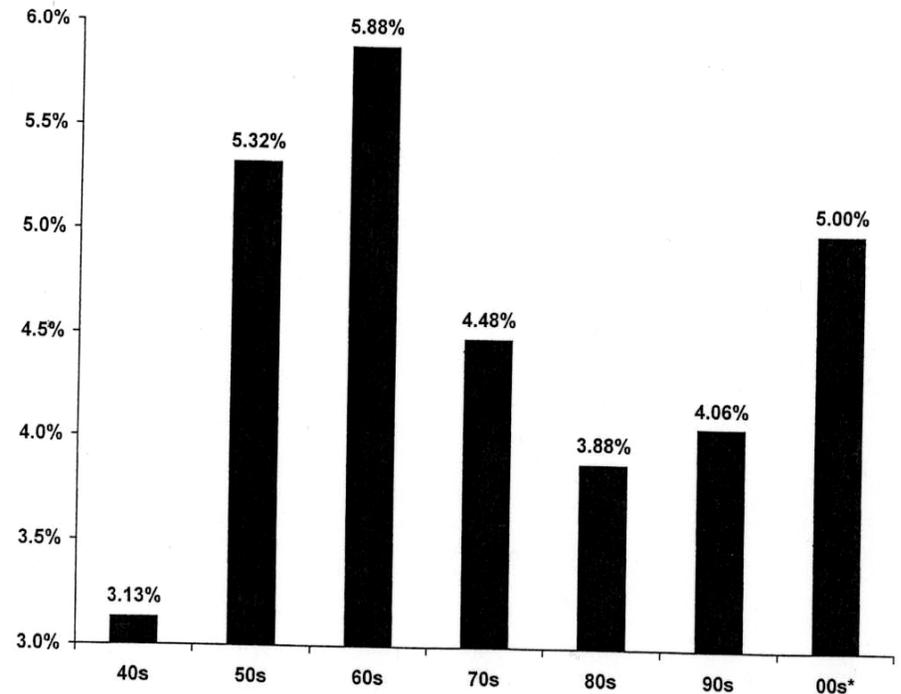
What? Real Global Growth Has Accelerated???

Real Global World Product
2011 U.S. Dollars, natural log scale



Annualized Real Gross World Product Growth by Decade*

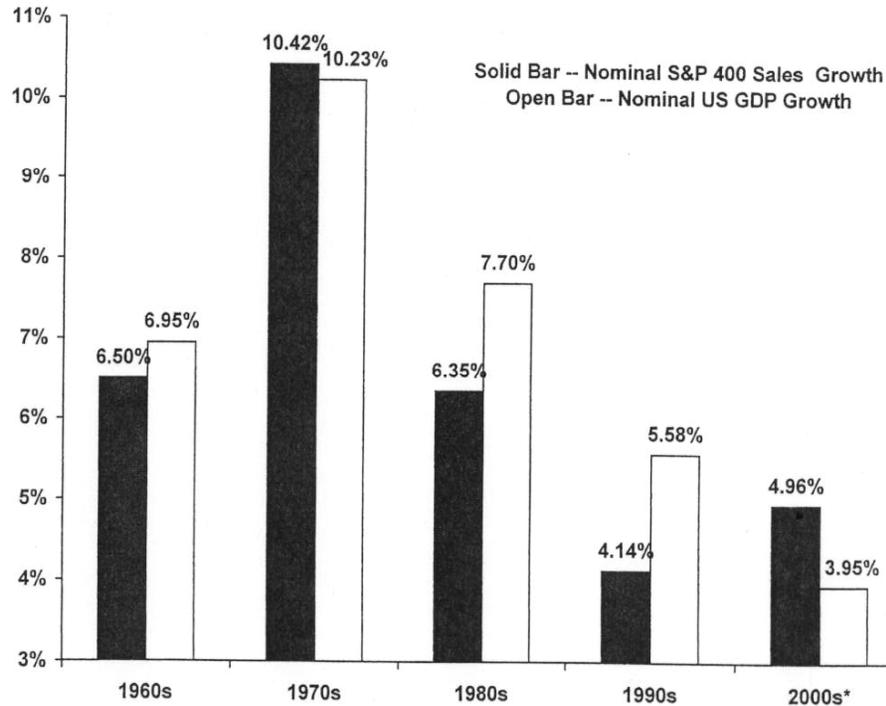
Note: The 00s decade is the annualized growth for 11 years from 2000 to 2011



Finding Top-LINE GROWTH?!?

S&P 400 Nominal Sales Per Share vs. U.S. Nominal GDP Annualized Growth by Decade*

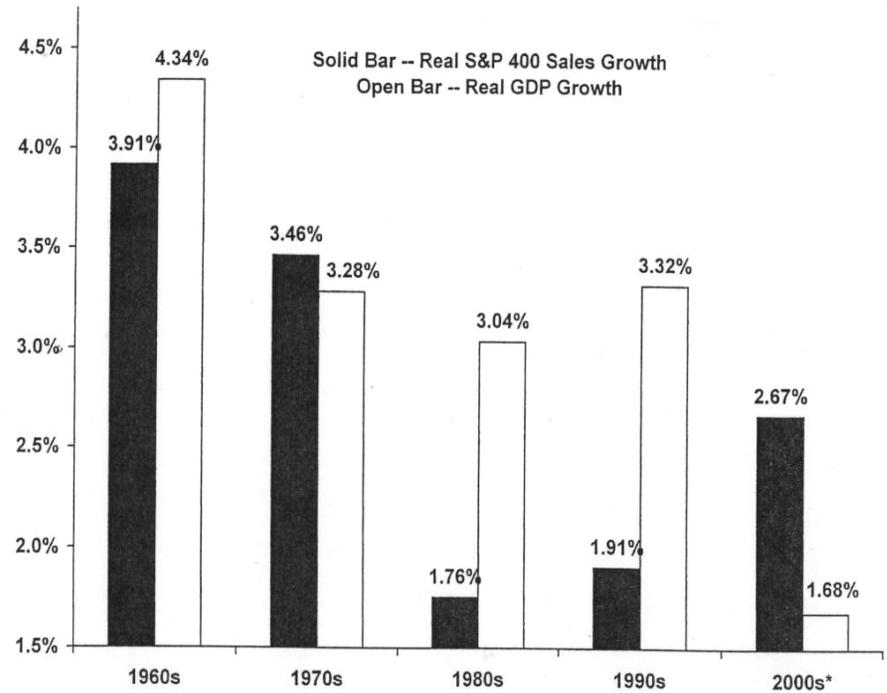
* The 2000s decade is actually from 1999Q4 to 2012Q2



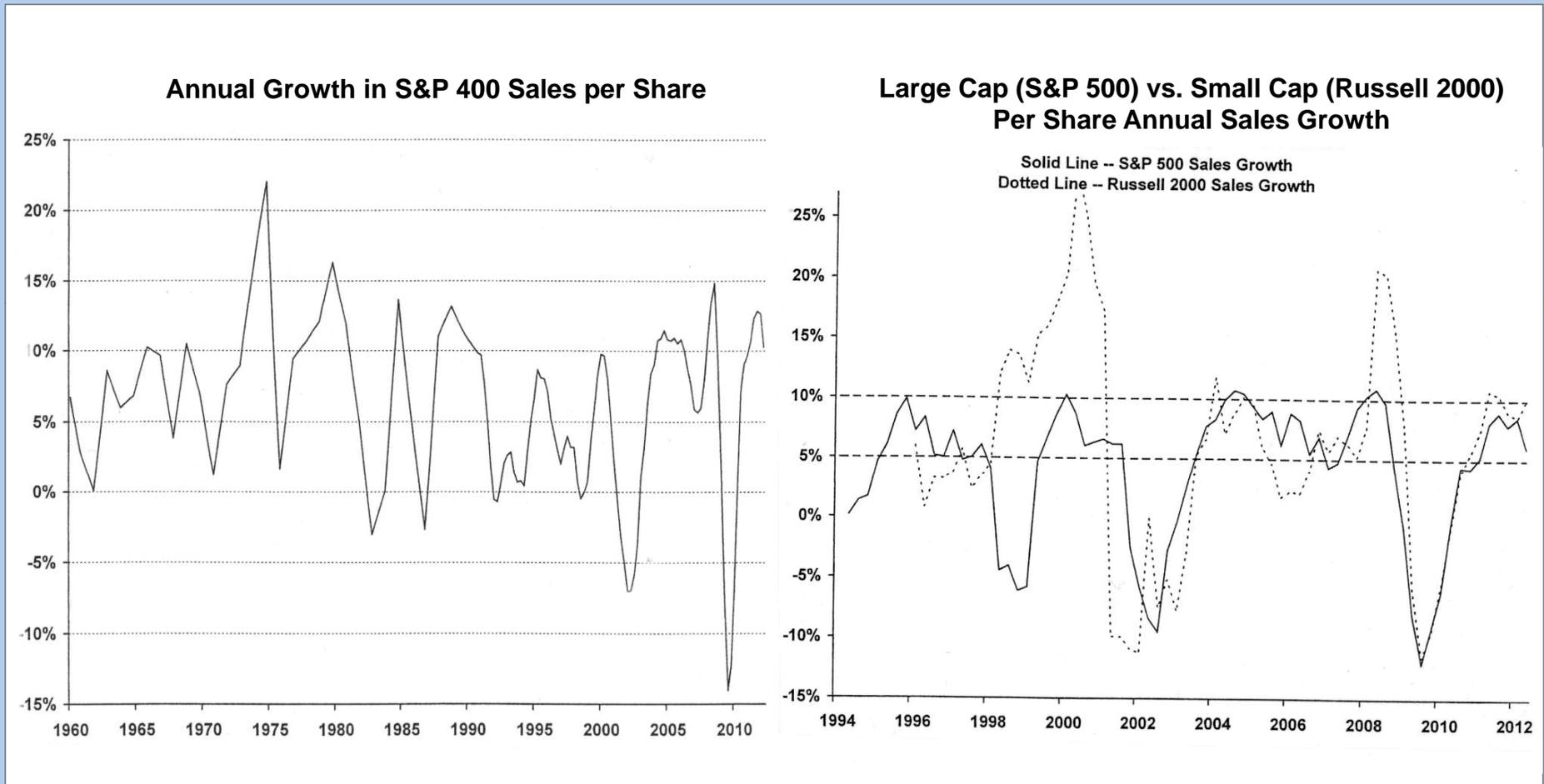
S&P 400 Real Sales Per Share vs. U.S. Real GDP Annualized Growth by Decade***

** S&P 400 Sales Per Share Adjusted by GDP Price Deflator Index

* The 2000s decade is actually from 1999Q4 to 2012Q2



Earnings Story Is Not Just Margins!?!?



What About Europe???

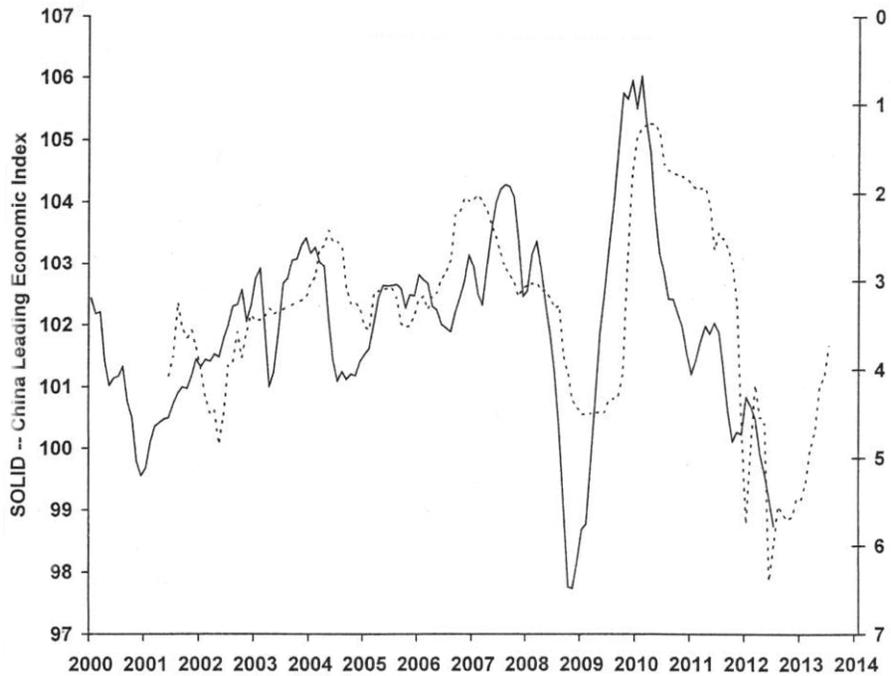
- **Solution is Growth ... Not Austerity**
- **Finally, an “Economic Union”**
- **Moving Euro zone from “Imminent Calamity” to “Chronic Problem”**
- **Fallout is Slower/No Growth from Euro zone**
- **“Financial” Contagion Unlikely**
- **In 1990, Global Recovery Proceeded Without Japan**
- **Investor Sensitivity is Decaying**



What About CHINA???

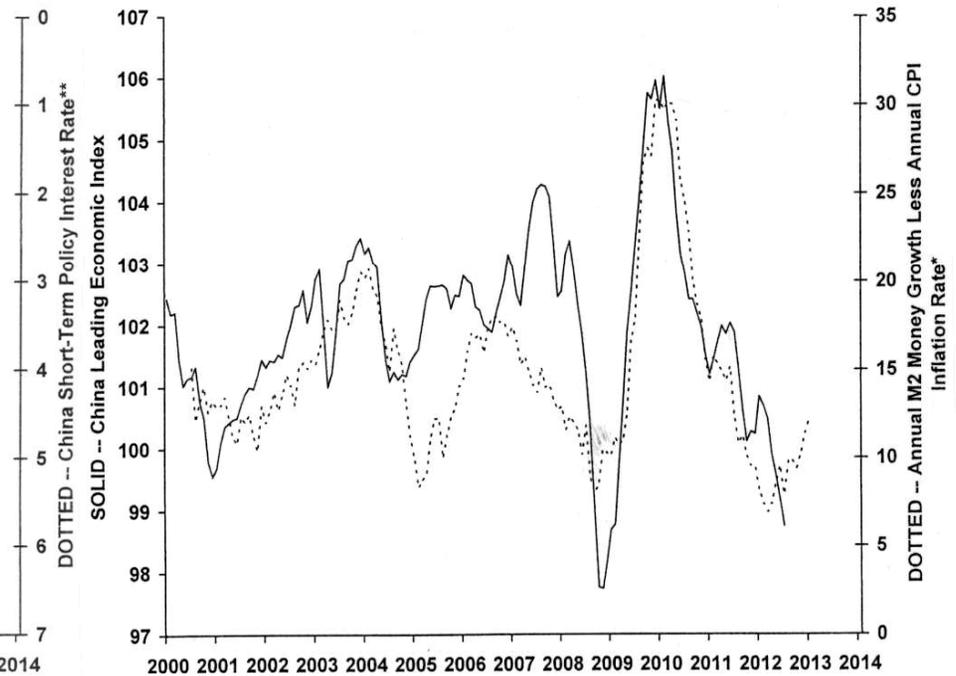
China Leading Economic Index vs. Short-Term Policy Interest Rate**

** China CHIBOR 3 month interest rate (six month moving average) Until 7/2002 and China SHIBOR 3 month interest rate thereafter.
NOTE: Interest Rate LEADS by One Year



China Leading Economic Index vs. Real Annual M2 Money Growth*

NOTE: Annual Real Money Growth (dotted line) LEADING by Six Months



Inflation Story??

Unstoppable Forces Meet Immovable Objects!?!

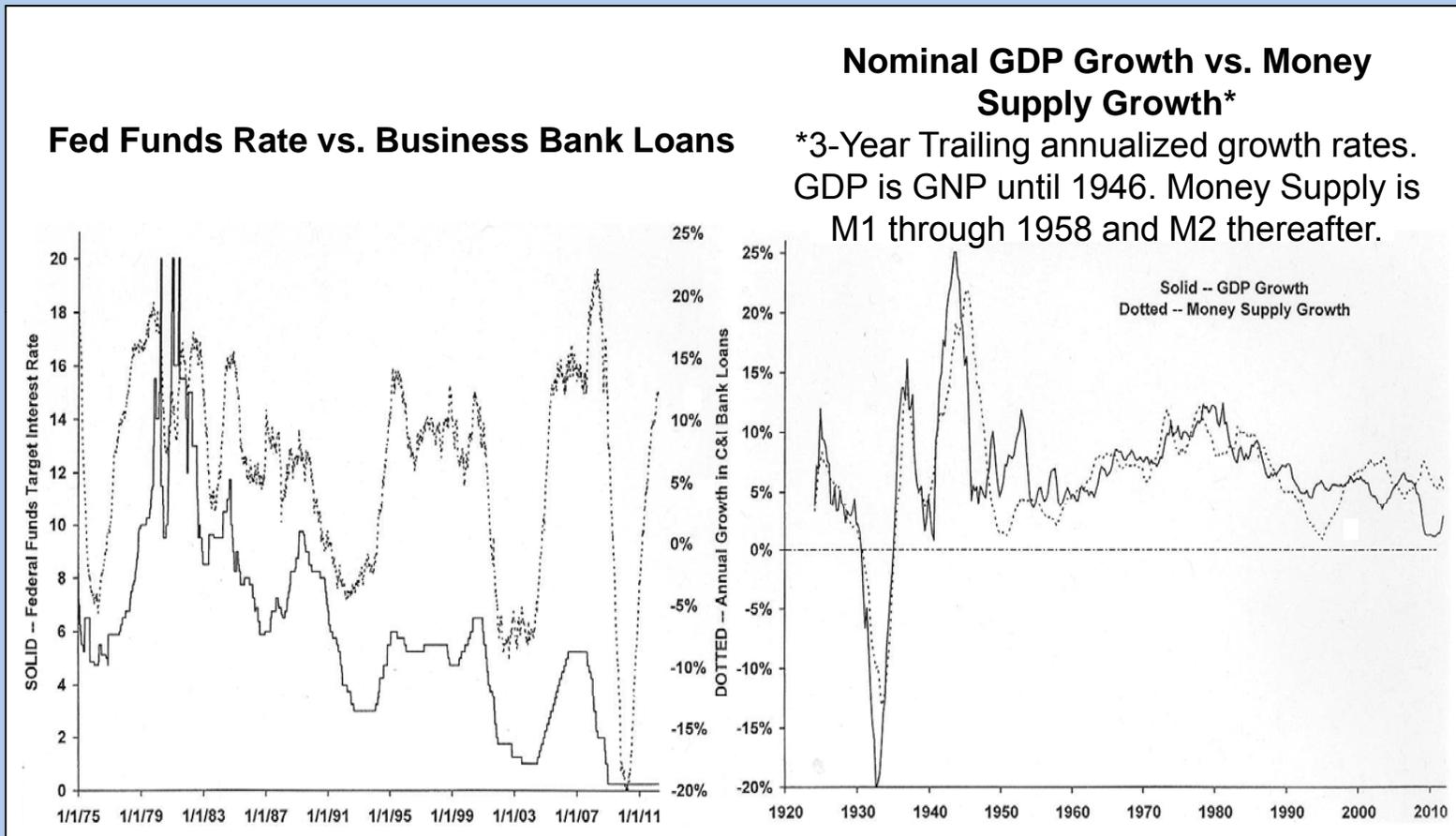
Inflation Forces

Deflation Forces

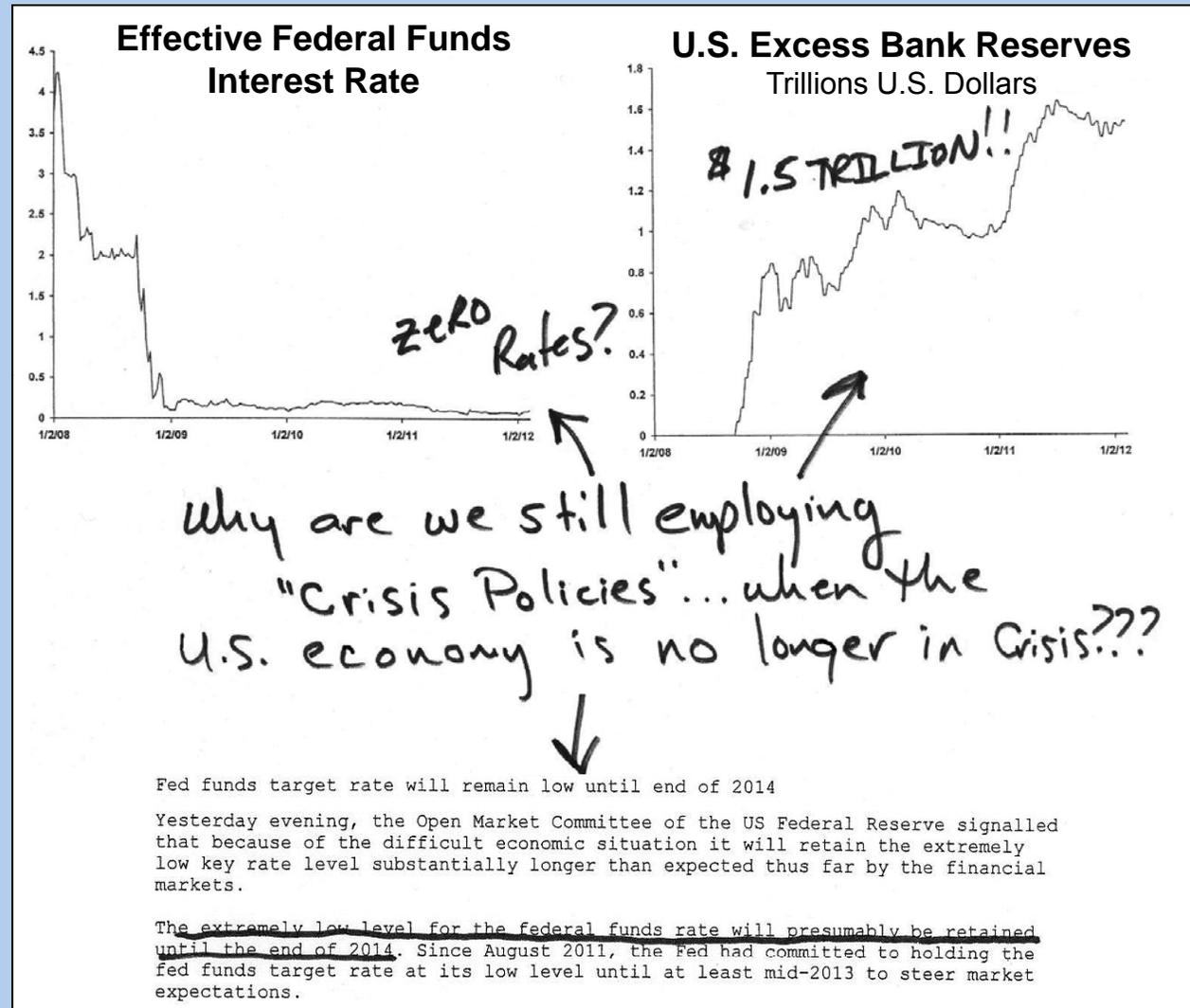
- **Massive Newly-Developing Demand Force**
 - **Excess Liquidity Everywhere**
 - **Monetary /Fiscal Overkill**
 - **Pent-Up Demands**
 - **Improving Balance Sheets**
 - **Government Solutions**
- **30-Year Disinflationary Culture**
 - **Tech-Induced Productivity Surge**
 - **New-found Global Competition**
 - **Impaired Balance Sheets**
 - **Resource/Potential GDP Slack**



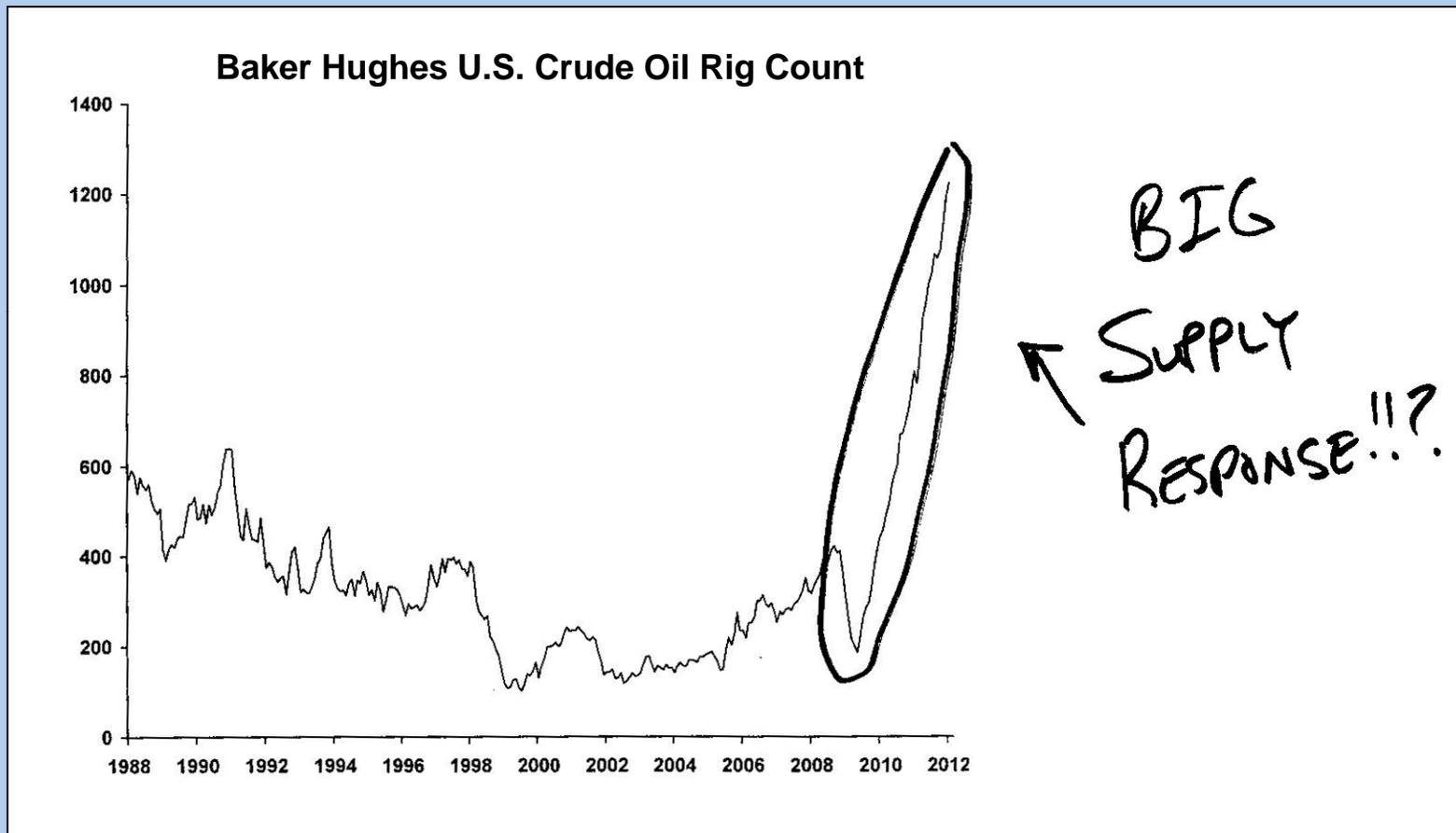
Time to Start Normalizing Monetary Policy!!?!



Fed Needs to Get Beyond its Crisis Mindset???

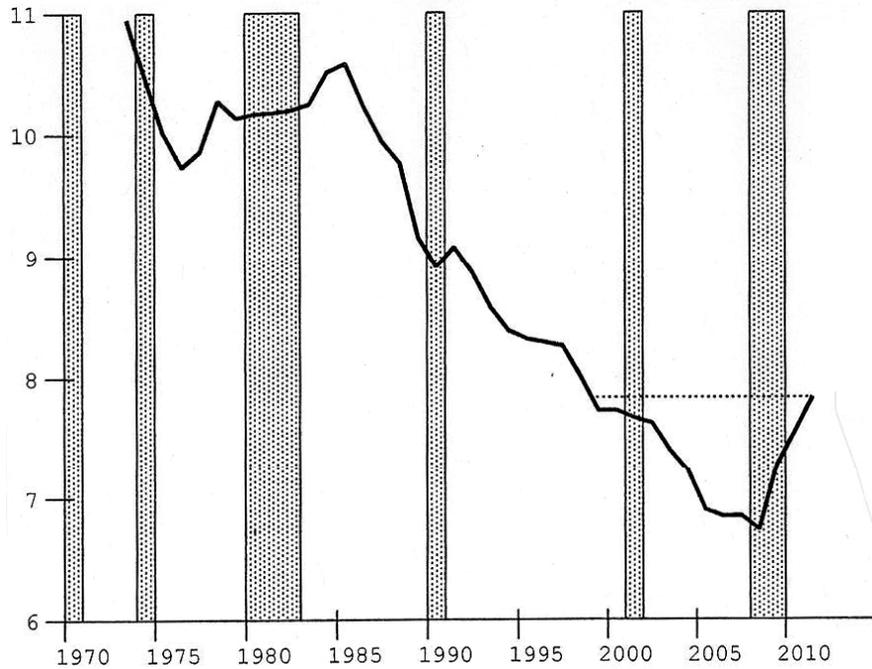


Oil? Supply Catching Demand???

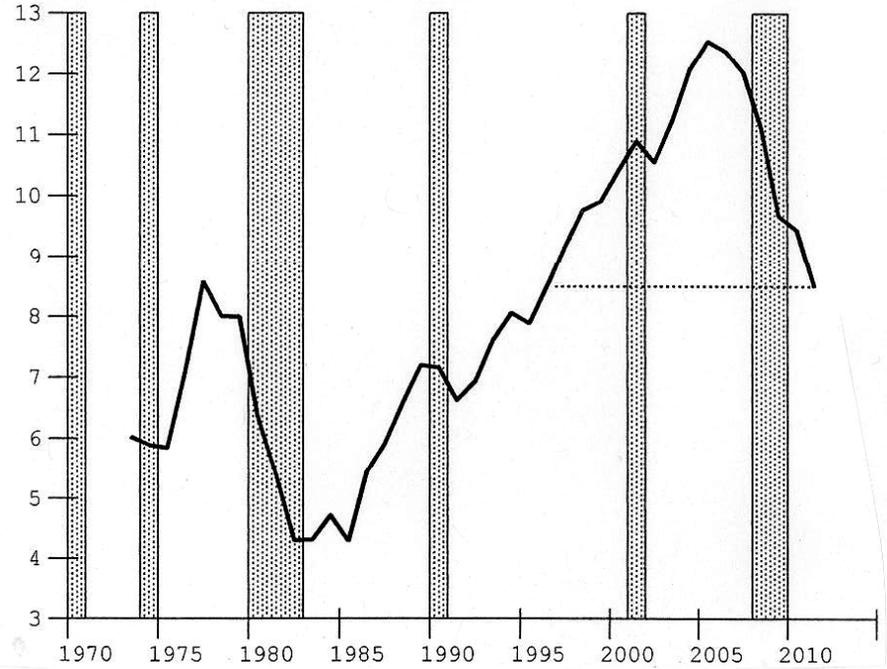


What Oil Crisis???

U.S. Oil Production (Mil. Barrels per day)
2011 7.84

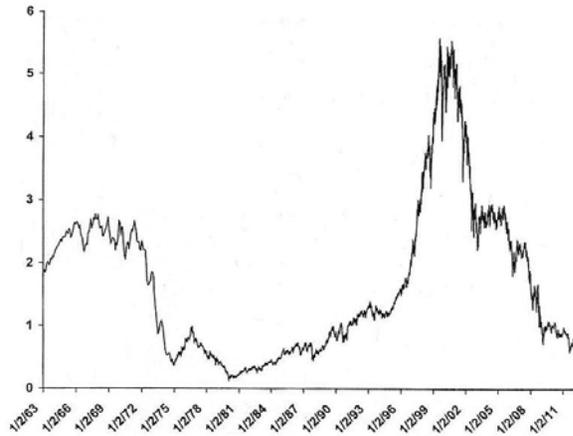


U.S. Net Imports Crude Oil (Mil. Barrels per day)
2011 8.48

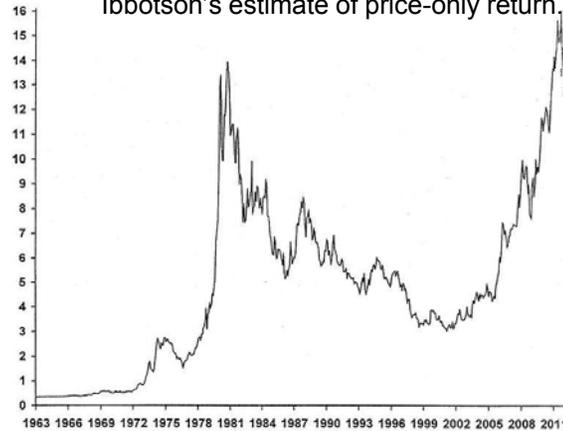


So ... You Like Gold, Huh??!

Price of S&P 500 Stock Index in Ounces of Gold*
 *Relative Price of S&P 500 divided by Price of Gold. Number of Ounces of gold it takes to purchase the S&P 500 Stock Price Index.



Price of Gold Relative to U.S. Treasury Bond*
 *Price of gold divided by Long-term U.S. Treasury Bond Prices. Bond Price set at \$100 in December 1962 and then rose or fell each month based on Ibbotson's estimate of price-only return.



Price of Gold Relative to U.S. House Price*
 *Price of gold divided by U.S. House Price Index. House Price Index is based on the Median New Home Sales Price Index until March 1987 and the Case-Shiller National U.S. House Price Index thereafter.



Number of Hours of Work Required to Purchase an Ounce of Gold*
 *Price of Gold Price divided by the Average Hourly Earnings Index.



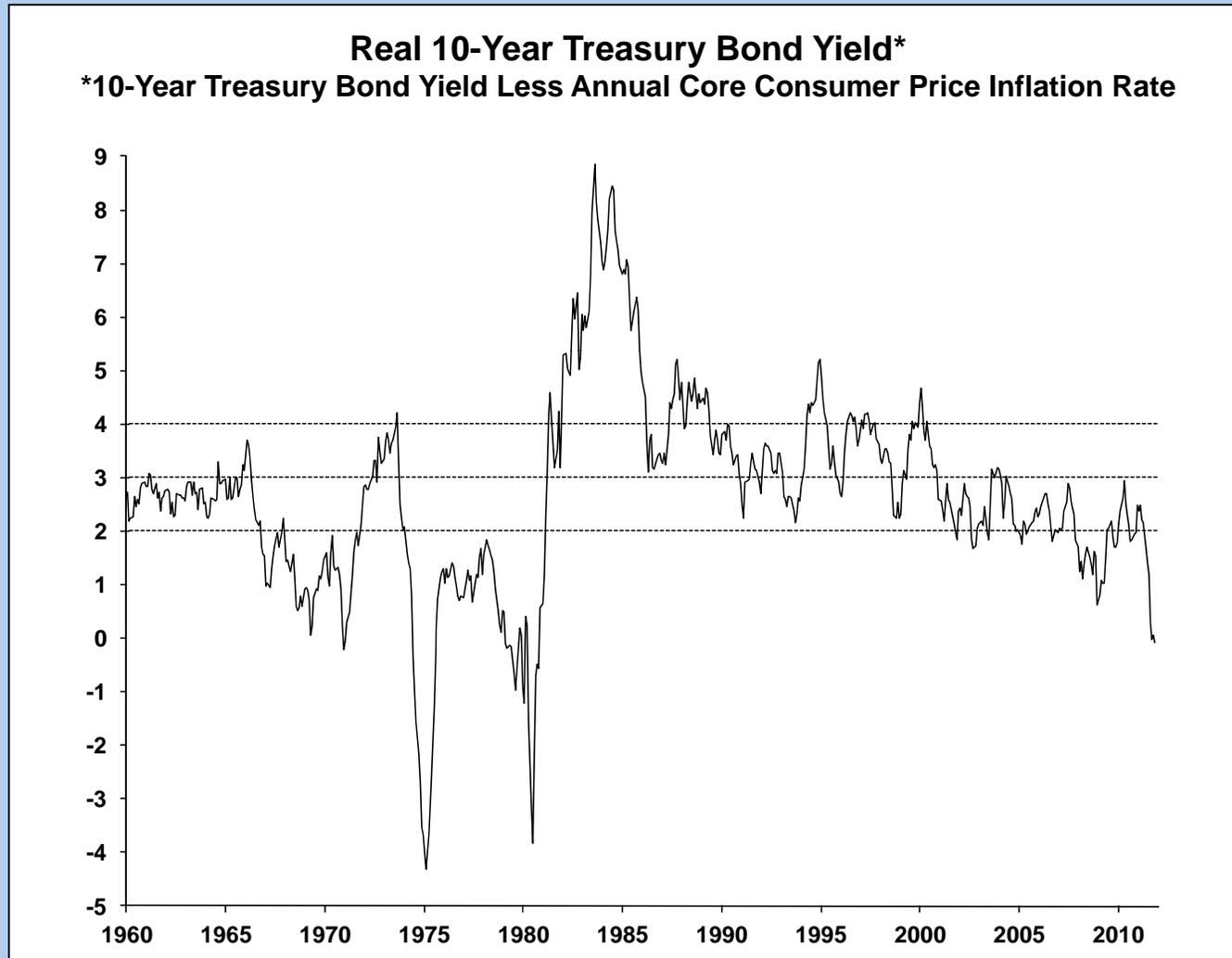
Price of Gold Relative to Consumer Price Index Basket of Consumer Goods and Services



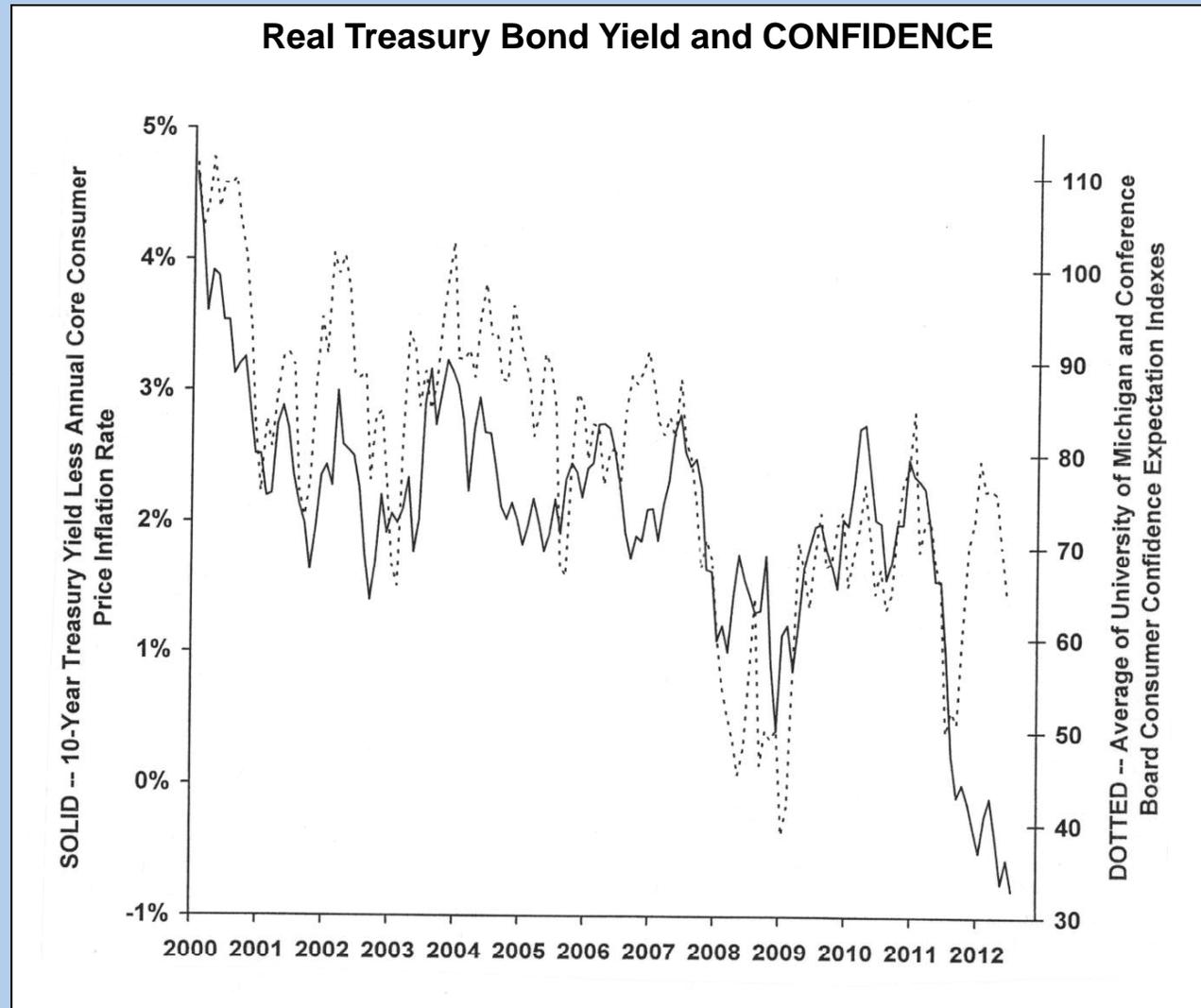
Price of Gold Relative to Overall Commodity Prices*



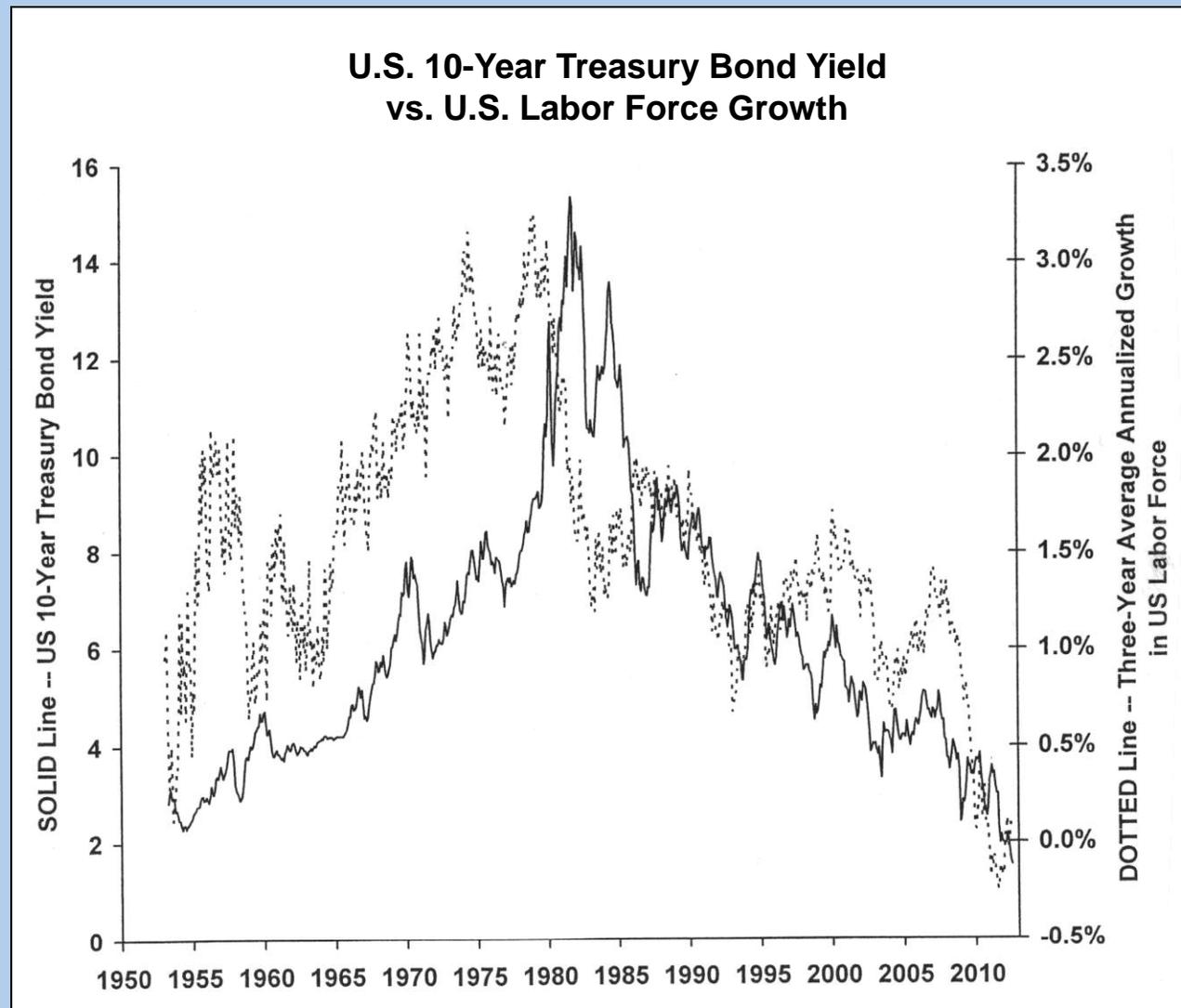
Will Bonds Be Bloodied???



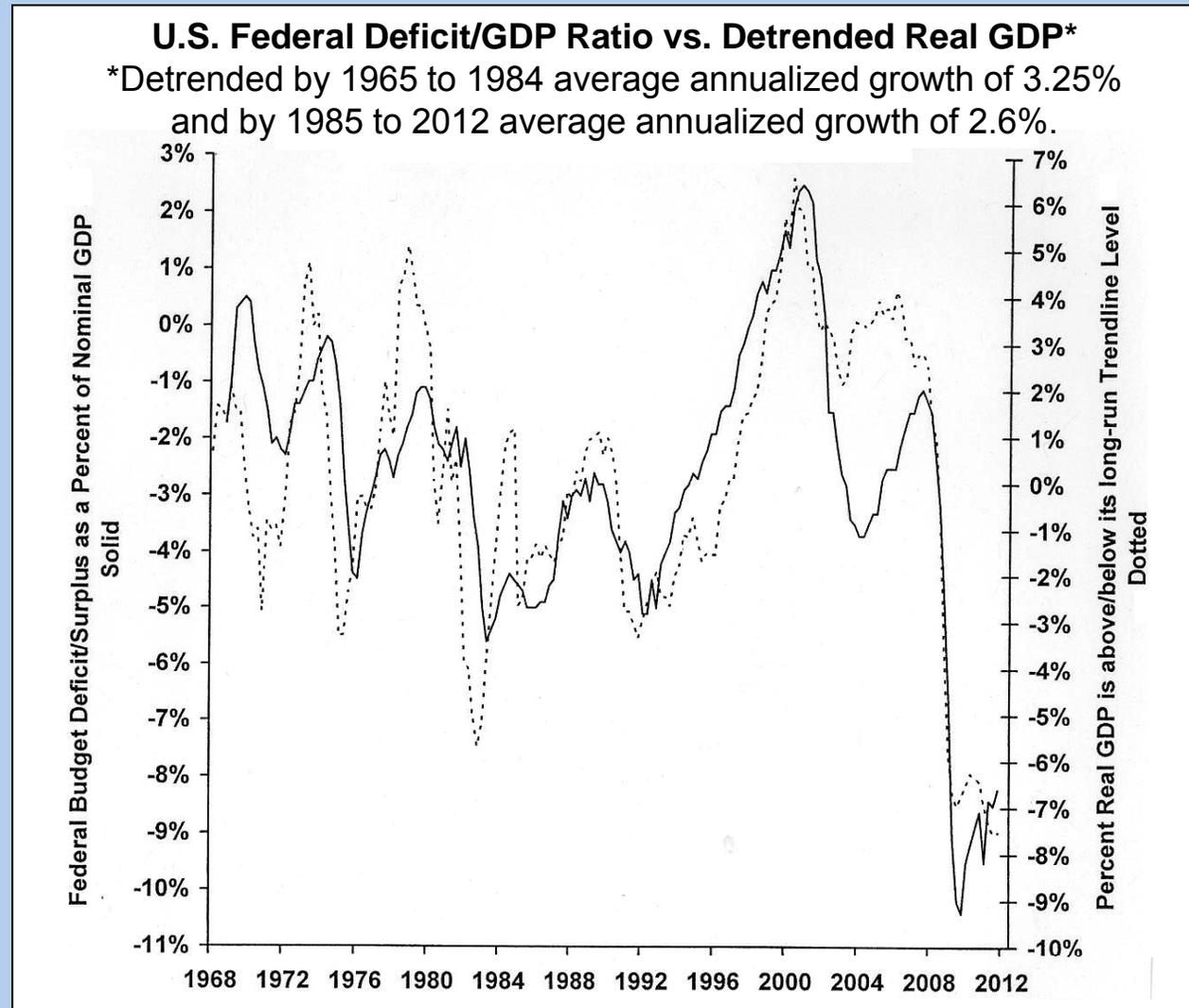
FEAR Has Been Bond Market's Best Friend!!?



AGING Demographics & the Bond Market?!?

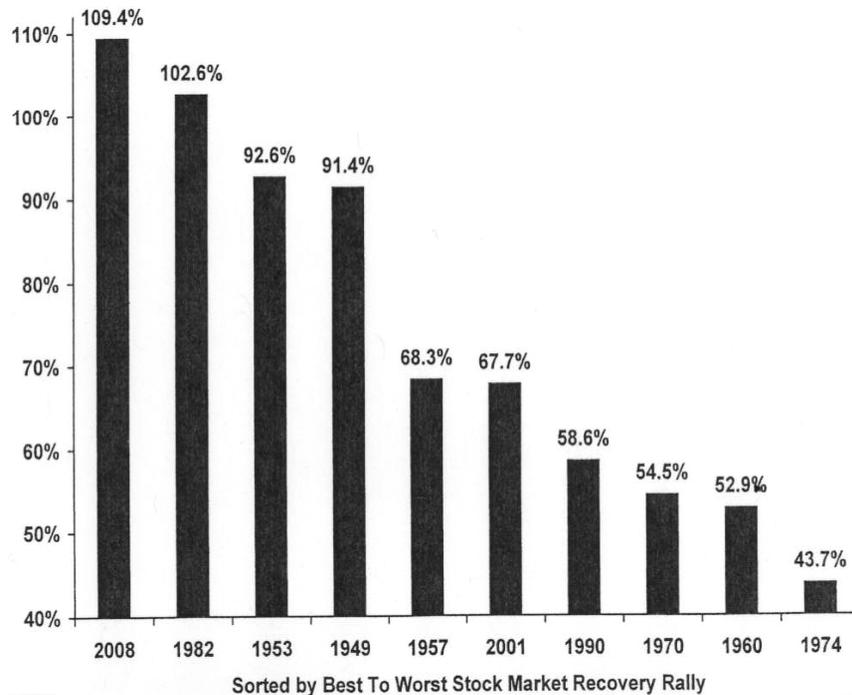


U.S. Deficit... More Cyclical Than Structural?!?!



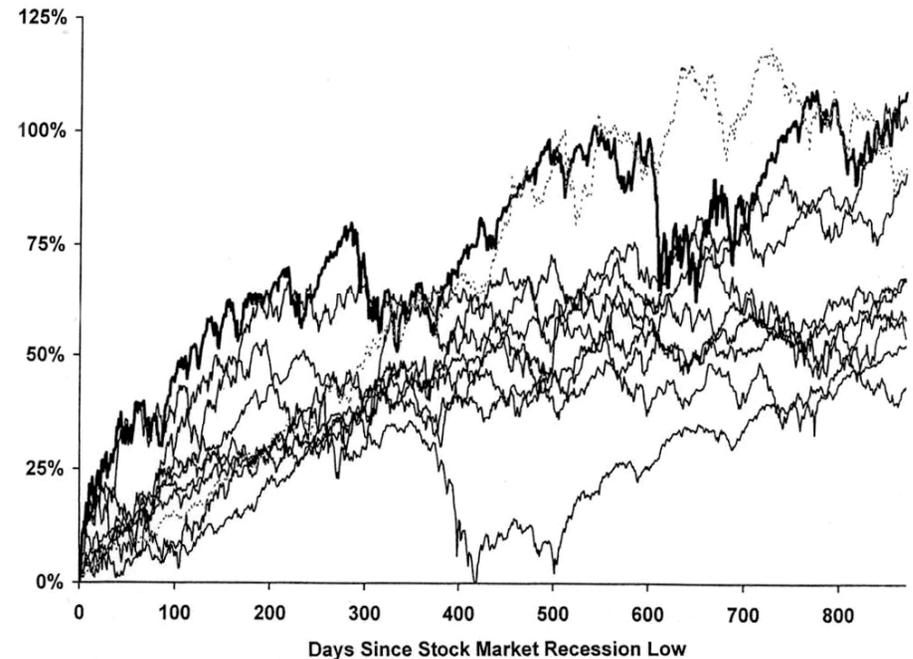
Huh.... Best Post-Recession Stock Market Rally Ever???

**Post-War Stock Market Rallies
Cummulative Price-Only Percent Returns
From Recession
Low During First 870 Days**



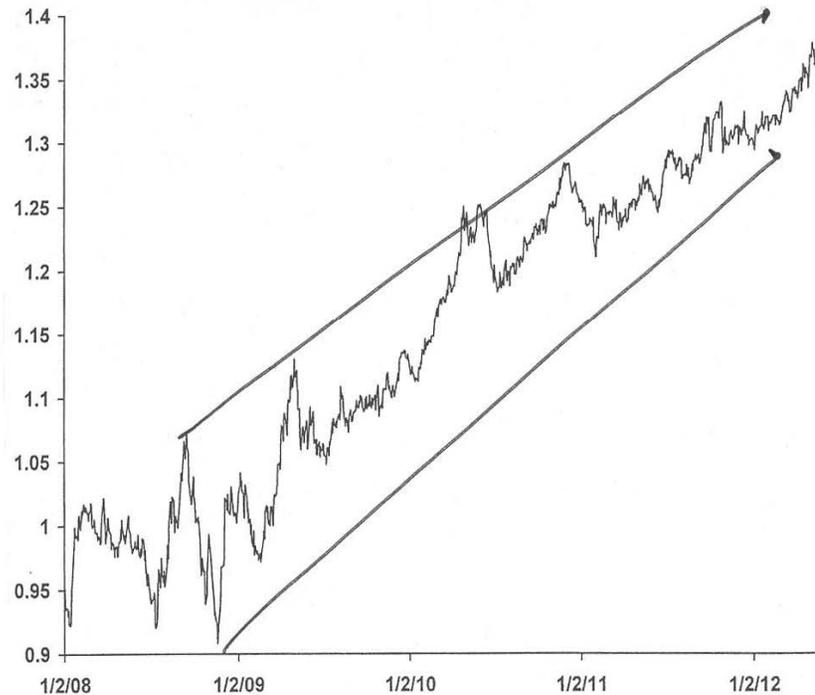
**Post-War Stock Market Rallies
Cummulative Percent Price Only Return
from Recession Low**

NOTE: BOLD Line is the Current Recovery Stock Market Rally



“DOA” Sectors LEAD Stock MARKET!?!

**S&P 500 Consumer Discretionary Stock Index
RELATIVE Total Return Performance**



Ranked Returns: Index Groups

Index: SPXL1		S&P 500 ECO SECT	Base Currency USD
All Group Performances		1) S&P 500 CONS DISCRET IDX	172.59
		2) S&P 500 INDUSTRIALS IDX	128.19
		3) S&P 500 FINANCIALS INDEX	126.06
		4) S&P 500 INFO TECH INDEX	124.71
		5) S&P 500 MATERIALS INDEX	96.88
		6) S&P 500 CONS STAPLES IDX	75.04
		7) S&P 500 HEALTH CARE IDX	66.38
		8) S&P 500 UTILITIES INDEX	58.83
		9) S&P 500 ENERGY INDEX	57.56
		10) S&P 500 TELECOM SERV IDX	57.26

10 Groups	
Start Date	End Date
3/ 9/09 -	5/25/12
676.53 -	1320.59
Return: 95.20%	

Index: SPXL1		S&P 500 ECO SECT	Base Currency USD
All Group Performances		1) S&P 500 CONS DISCRET IDX	45.77
		2) S&P 500 CONS STAPLES IDX	27.49
		3) S&P 500 INDUSTRIALS IDX	24.72
		4) S&P 500 INFO TECH INDEX	21.00
		5) S&P 500 TELECOM SERV IDX	20.86
		6) S&P 500 HEALTH CARE IDX	16.34
		7) S&P 500 UTILITIES INDEX	14.41
		8) S&P 500 ENERGY INDEX	13.96
		9) S&P 500 MATERIALS INDEX	7.24
		10) S&P 500 FINANCIALS INDEX	-2.27

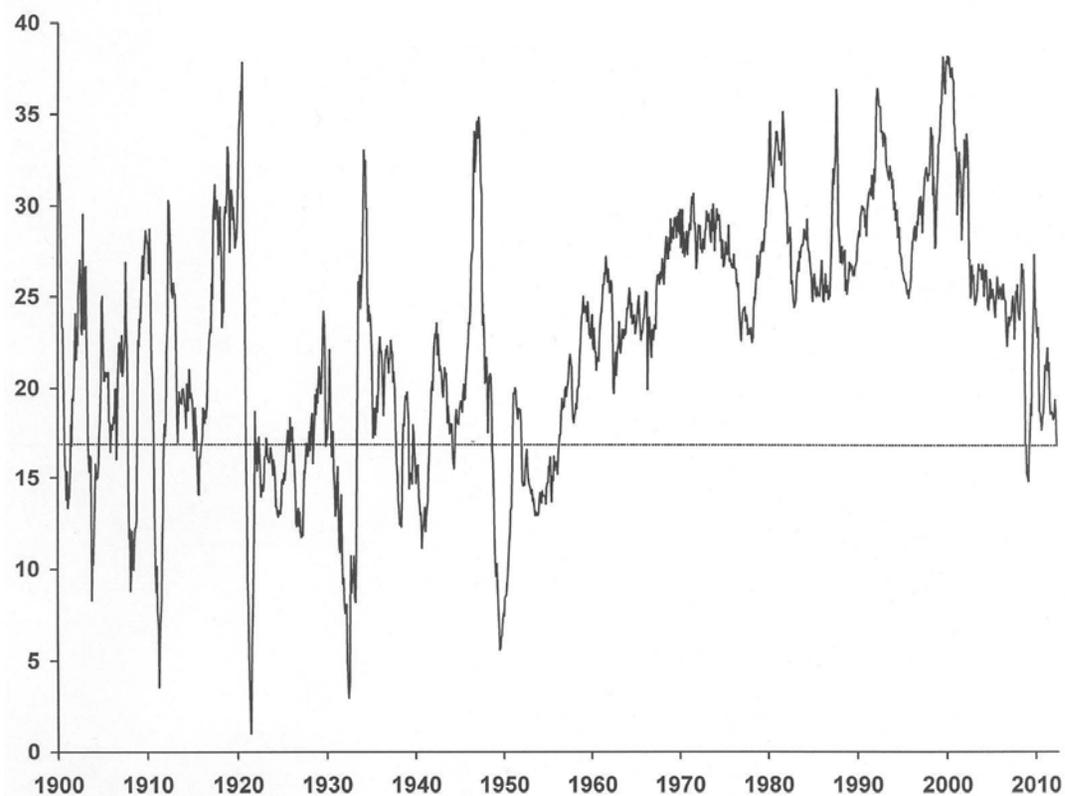
10 Groups	
Start Date	End Date
12/31/09 -	5/25/12
1115.10 -	1320.54
Return: 18.42%	



IF INFLATION STAYS LOW...LOTS OF VALUATION ROOM!?!

U.S. Stock Market Environmental PE Valuation*

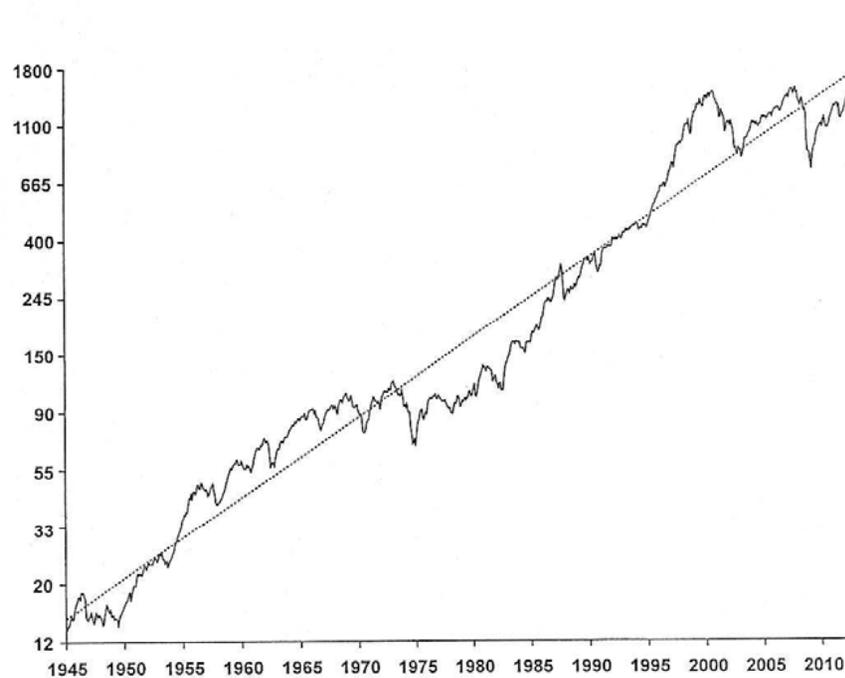
*Sum of PE ratio (based on trailing 12-month eps),
10-yr Treasury bond yield and Annual CPI Inflation Rate



POST-WAR STOCK MARKET STORY!??!

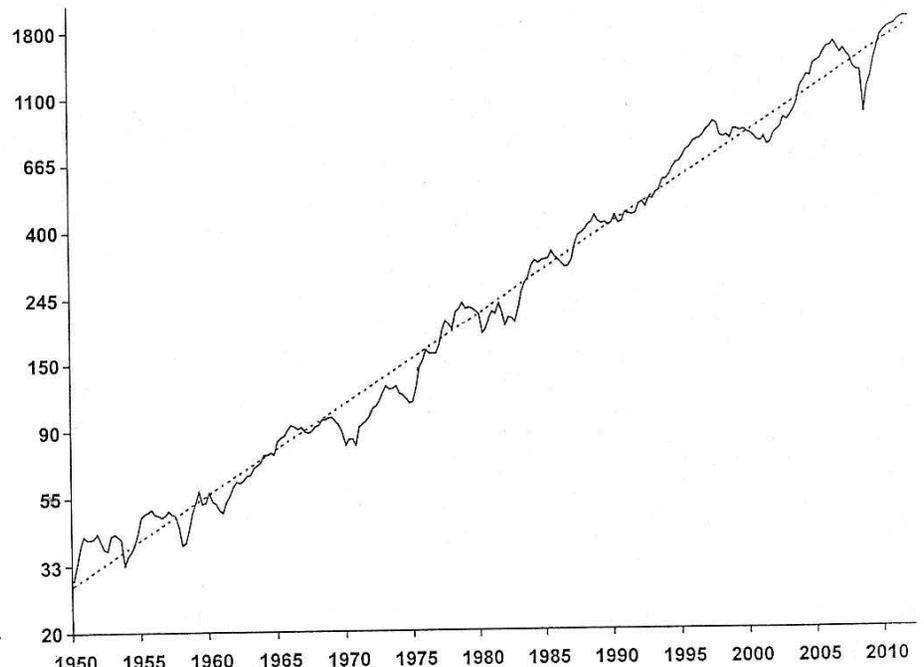
U.S. Stock Market vs. Long-Term Trendline Level

S&P 500 Stock Price Index (Solid)
Trendline Level (Dotted)

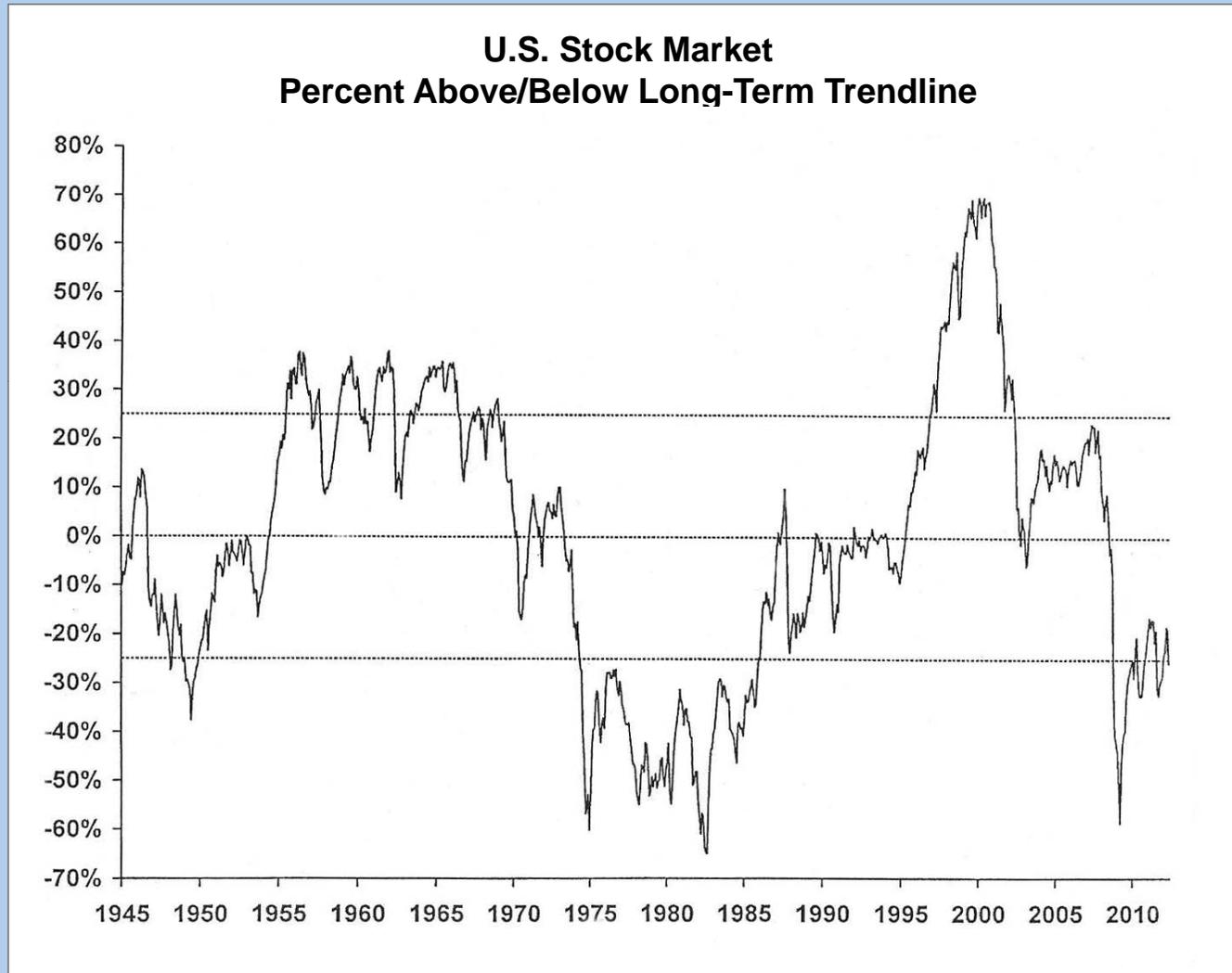


Total U.S. Corporate Profits

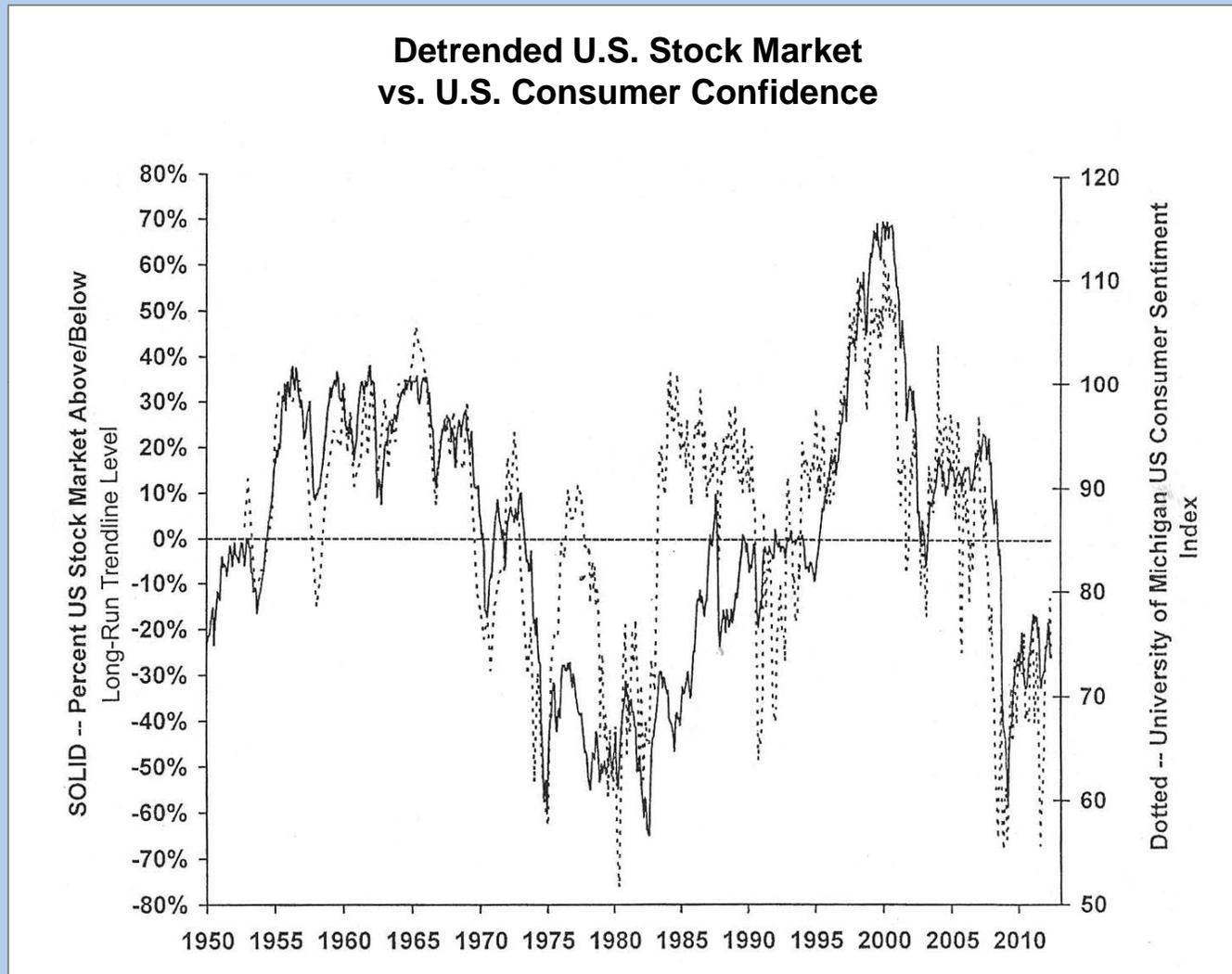
Actual Level (Solid) vs. Trendline (Dotted)



CULTURAL “GLOOM TO GLEE” CYCLE!?!?



Could A Return To “NORMAL CONFIDENCE” Double the Stock Market???



Mania to Mania!!?

New-Era → Mania of OPTIMISM

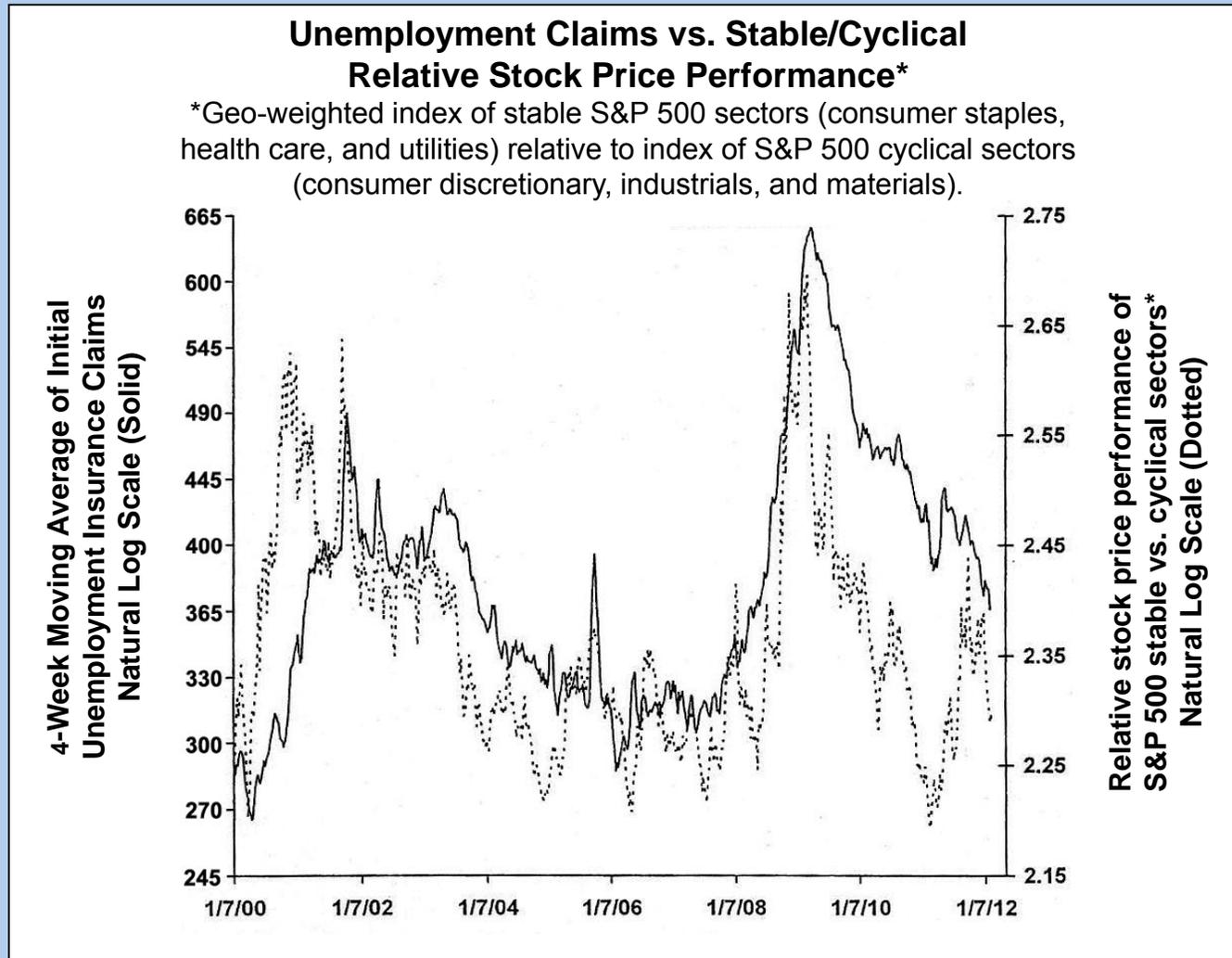
New-Normal → Mania of PESSIMISM



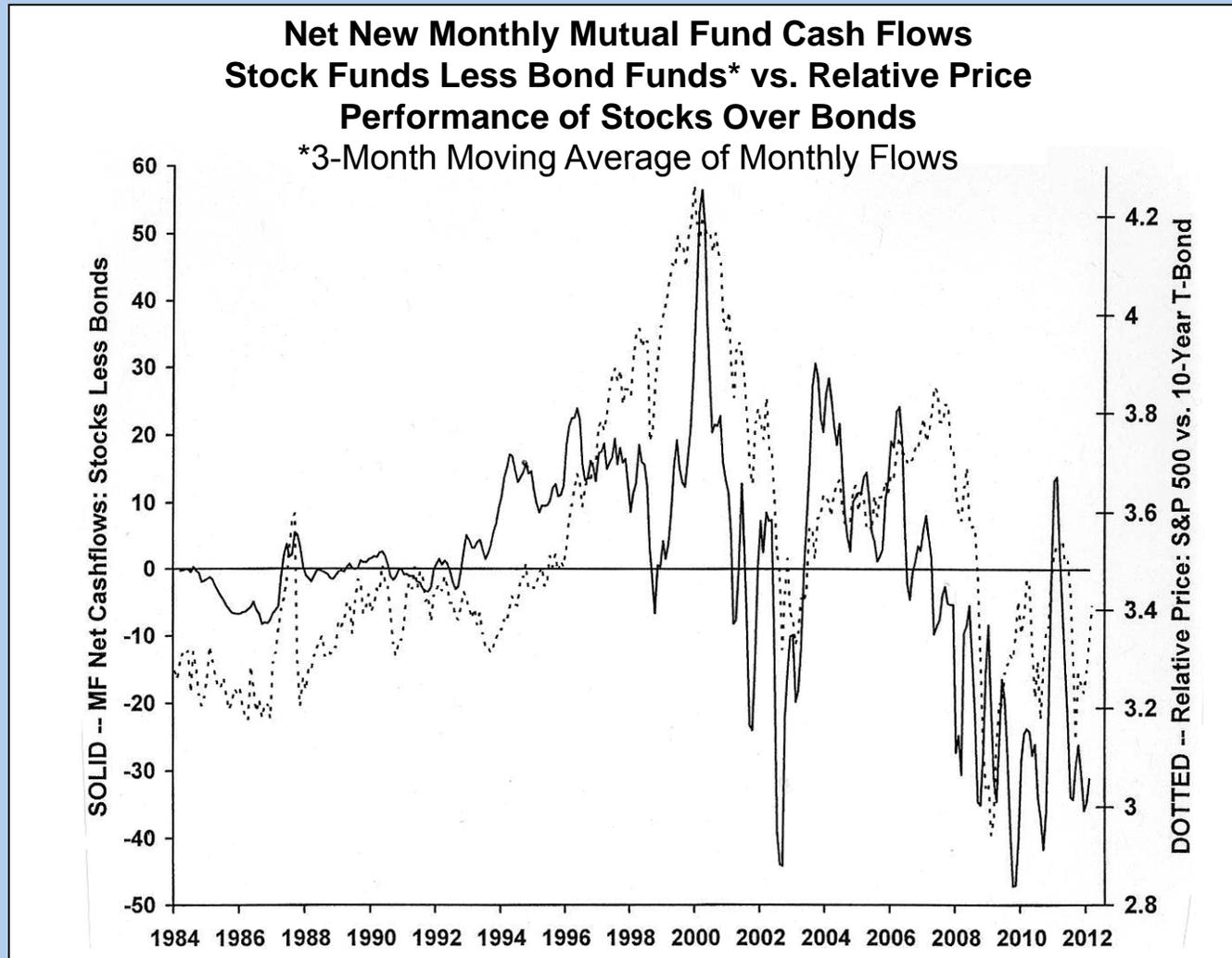
A “Confidence-Driven” Secular Bull à la 1950s-60s!??!



Stay With Cyclical Stocks?!?

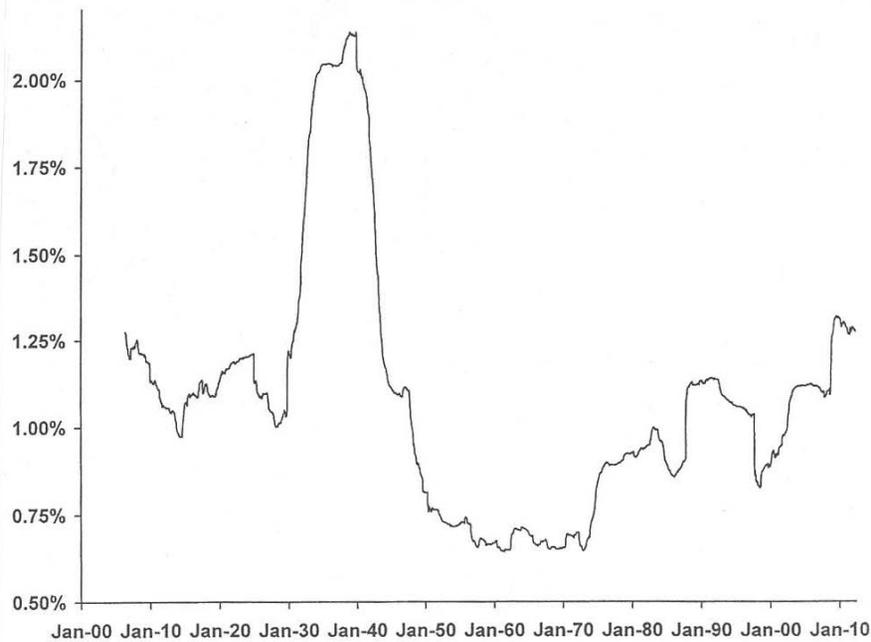


Wait for the Flow!!!?

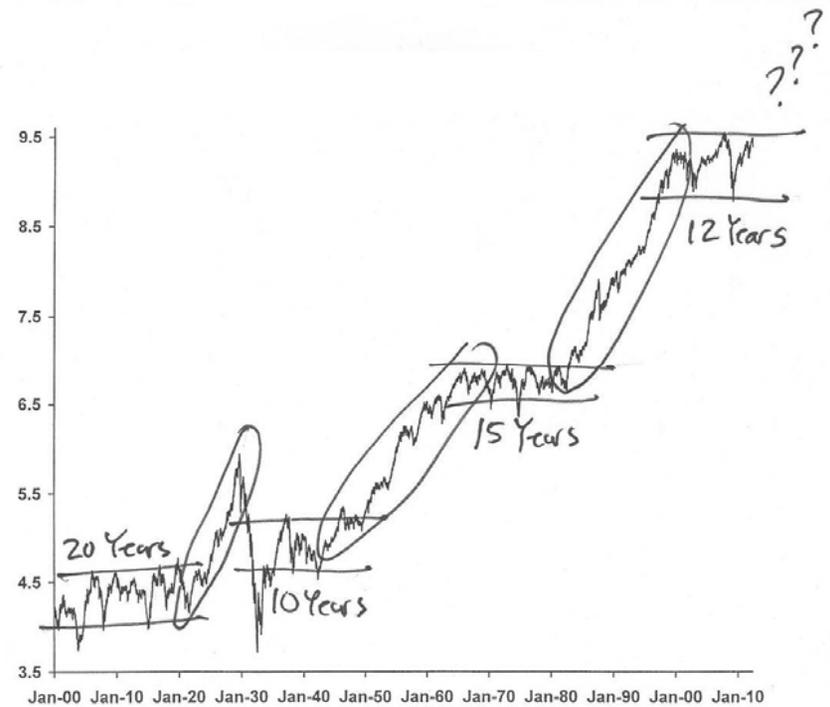


BUY & "HOLD YOUR NOSE" !!??

Rolling 10-Year Standard Deviations of Daily Percent Stock Market Changes

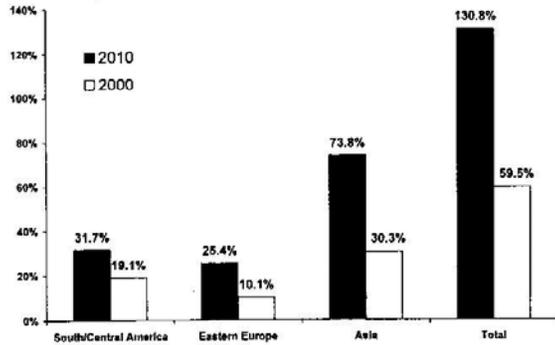


Dow Jones Industrial Average – 1900 to 2012 Shown on a Natural Log Scale



A Lost Decade?? Hardly!!!

Emerging World Economies' Nominal U.S. Dollar GDP Percent of U.S. Nominal GDP 2000 vs. 2010



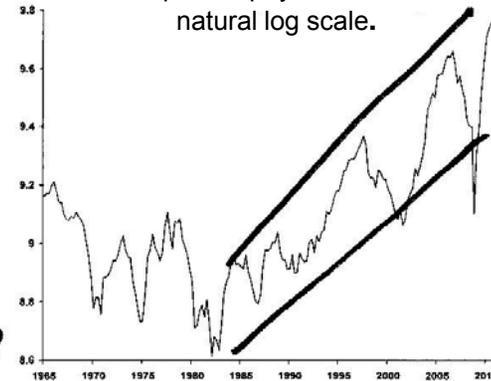
#1. CREATION OF EMERGING WORLD!!

#2. BIGGEST TECHNOLOGICAL LEAP IN U.S. HISTORY!!

#3. GLOBAL EMBRACEMENT OF CAPITALISM!!!

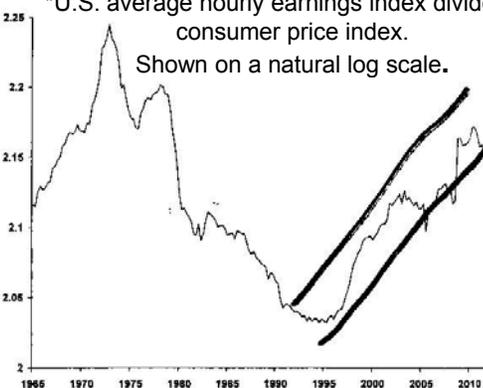
Real Corporate Profit Per Job*

*Total U.S. corporate profits adjusted for GDP deflator inflation index and divided by nonfarm private payrolls. Shown on a natural log scale.

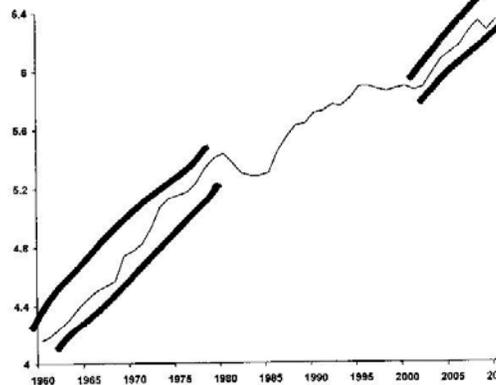


Real U.S. Wage Rate*

*U.S. average hourly earnings index divided by consumer price index. Shown on a natural log scale.



Inflation-Adjusted Total Global GDP Real U.S. Dollars



2012-2013 Possibilities???

- ▶ **U.S. Economy has a “GEAR YEAR”**
 - ▶ Real GDP Rises by 3%ish
 - ▶ U.R. Exhibits “Slow but Steady” Decline
 - ▶ H.H. & Biz Confidence Improve
 - ▶ Housing Market “Pops” a Little
 - ▶ Biz Spend Some of \$2 Trillion Cash Hoard
- ▶ **Euro Crisis Mutates from “Imminent Calamity” to “Chronic Problem”**
- ▶ **Emerging World Soft Landing... Accelerates in 2nd Half**
- ▶ **U.S. Politics Moves to a “Happier Middle”**
- ▶ **Talk of a “New All-Time” Stock Market High**
- ▶ **T-Bond Market Gets Drilled**



Questions?

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