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!??!

Since WA Population Growth Has Downshifted...

... Economic Recoveries Have Been Slower!!?
Weak Labor Force Growth and Slow Productivity!?!
Jobs & Confidence Recoveries Delayed!?!?

U.S Unemployment Rate & Recoveries

Consumer Confidence Index* & Recoveries
*Confidence Boards Consumer Confidence Index
Shown on a natural log scale
Core Private Economic Growth Better Than Perceived???

U.S. Real GDP Growth
Overall vs. Private Sector

- Total Real GDP
- Private Real GDP

![Bar chart showing U.S. Real GDP Growth Overall vs. Private Sector.](chart.png)
Biz & HH “Fundaments for the Future” Are Up!!?

Real Consumption Growth vs. Household Fundamental Indicator*

*Fundamental Indicator: Annual Change in disposable income plus annual change in household net worth as a ratio of nominal personal consumption. 2nd Quarter 2013 estimated for

Real Business Investment vs. Cash Flow To Capital Spending Ratio*

*Corporate Net Cash Flow divided by Nominal Nonresidential Investment.
GEARING JOBS & BALANCE SHEETS!!

**Total U.S. Household Employment**

**U.S. Labor Force**

**U.S. Household NET WORTH**

**U.S. Household DEBT SERVICE BURDEN**

NEW ALL-TIME HIGH!!

NEW ALL-TIME LOW!!
GEARING Housing, Manufacturing & Confidence!!

- Total U.S. Housing Starts
- Case-Shiller U.S. Home Price Index
- ISM Manufacturing NEW ORDERS Index
- Conference Board U.S. Consumer Confidence Index

Diagrams show trends over time with various annotations such as "Popped!" and "First Time... Housing Manufacturing BOTH Rising!!"
GEARING Profits, Lending, Stock Market & Fears!!

Total U.S. Corporate Profits

Total U.S. Bank Loans
Trillions U.S. Dollars

S&P 500 Composite Stock Price Index

Stock Market VIX Volatility Index
Help For Economic Growth!?!?

- Less Restrictive Fiscal Policy
- Steepening Yield Curve
- Key Monetary Variable ..... Rising Velocity
- Homebuyer Affordability Still Near Record High
- Renewed Balance Sheet Strength
- Real Broad U.S. Dollar Near All-Time Record Low
- Low Inflation Rate .... Improving Purchasing Power
- Energy Independence Dividend
- HH & BIZ Pent-up Demands
- Global Economic Synchronization
- BIGGEST STIMULUS .... RISING CONFIDENCE
U.S.A. is a Mighty GOOD BARGAIN!!?

U.S. Real Broad Trade-Weighted U.S. Dollar Index


80 85 90 95 100 105 110 115 120 125 130

VERY CHEAP U.S. Dollar!!
PENT-UP DEMAND!!!?

U.S. PENT-UP Demand*
*Sum of Real U.S. Gross Private Investment and Household Durable
DRAGHINOMICS is WORKING!!!

EUROZONE ANNUAL REAL GROWTH vs. Regression Model*
*Based on a one-year relationship with financial, currency and leading indicators
ABEnomics IS WORKING!!!
Emerging World Economic Growth “Hopefully” Improves?!?

CHINA
Annual Real GDP Growth vs. Regression Model*

*Model based on lagged M2 Money Supply growth, lagged Shibor Interest Rate
And lagged real trade-weighted China Currency Index
STAGES OF CONFIDENCE?!

Conference Board Consumer Confidence
Present Situation Index

#1) We ARE DEAD!

#2) GIVING up THE ARMAGEDDON GHOST!!

#3) EXITING STRUGGLE SPEED!!

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

G-10* Global REAL GDP
*Includes Canada, Sweden, Switzerland, U.K., Japan, U.S., Italy, France, Germany, & Australia
Invisible Hand Enacted the Emerging Market MARSHALL PLAN!!!
Global REAL GDP
G-10 Economies vs. Rest of Global Economy
What? Real Global Growth Has Accelerated???

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!!?

Annual Growth in S&P 400 Sales per Share

Large Cap (S&P 500) vs. Small Cap (Russell 2000)
Per Share Annual Sales Growth
Invisible Hand… Taking Care of the Deficit!!?

U.S. Government Deficit as a Percent of Nominal GDP*
*Trailing 4-Quarter Deficit Sum as a Percent of Current Quarterly GDP
Shaded Areas Represents Recessions
Invisible Hand .... Making U.S. Energy Independent!!?

Baker Hughes U.S. Crude Oil Rig Count

BIG

Supply Response!!?
What Oil Crisis???

U.S. Oil Production
Million Barrels per Day – 12 Month Moving Averages

U.S. Net Imports of Crude Oil
Million Barrels per Day – 12 Month Moving Averages
Is “Invisible Hand” Solving Healthcare???

Ratio of Consumer Healthcare Price Index to Overall PCE Consumer Price Index

U.S. PCE Healthcare Deflator Price Index Annual Inflation Rate

- Healthcare Prices Rising "More Slowly" Than Overall Prices in this Recovery!!
- NEW Low!!
What About the FEDERAL RESERVE???

• Accommodation is O.K....
  ...MASSIVE CRISIS-POLICIES ARE NOT OK!

• Done TREATING FUNDAMENTALS ...
  ...Now Needs to TREAT CONFIDENCE!

• The Stock Market is Not Scared of “Tapering”!

• Bond Vigilante to “Direct the FED”!
“DELAYED” WAGE GAINS WILL SOON END?!??

Annual WAGE Inflation Rate

Note: Shaded areas represent recessions.
Repricing Bond Yields Post Armageddon Fears!!!

Real 10-Year Treasury Bond Yield*
*10-Year Bond Yield Less Core CPI Inflation Rate.
FEAR Has Been Bond Market’s Best Friend!!?
AGING Demographics & the Bond Market?!?

U.S. 10-Year Treasury Bond Yield
vs. U.S. Labor Force Growth

Graph showing the comparison between U.S. 10-Year Treasury Bond Yield and U.S. Labor Force Growth from 1950 to 2015.
CONFIDENCE Is Key For Stock Market!?!
Confidence Runs Through the Financial Market!!!
Stock Investors Need Not Fear Bonds ... For a While?!?

Price-Earnings Multiples and Treasury Yields When Yields are ABOVE 6 Percent
Scatter Plot
1950 to 2013

Price-Earnings Multiples and Treasury Yields When Yields are BELOW 6 Percent
Scatter Plot
1950 to 2013

Price-Earnings Multiples and Treasury Bond Yields
1950 to 2013
Will Rising Yields Hurt Economy & Stock Market??

**Average Annualized S&P 500 Price Percentage Change when Bond Yields Rise Since 1967**
For Months when Consumer Confidence Rises and Declines

- Confidence Rises: 12.81%
- Confidence Falls: -8.36%

**Percent of Months when S&P 500 Index Declines when Bond Yields Rose Since 1967**
For Months when Consumer Confidence Rises and Declines

- Confidence Rises: 53.11%
- Confidence Falls: 49.85%
Confidence & Sector Performance??!

Relative S&P 500 Sector Performances* vs. Consumer Confidence Index
Correlation Coefficients of Monthly Percent Changes

- Since 2007
- Before 2007
It Is Not About Earnings?!?

S&P 500 Trailing Reported Earnings Per Share
Natural Log Scale

S&P 500 Composite Stock Price Index
High, Low, and Close Chart
POST-WAR STOCK MARKET STORY!??!

U.S. Stock Market vs. Long-Term Trend line Level
S&P 500 Stock Price Index (Solid)
Trend line Level (Dotted)

Total U.S. Corporate Profits
Actual Level (Solid) vs. Trend line (Dotted)
CULTURAL “GLOOM TO GLEE” CYCLE!!?

U.S. Stock Market
Percent Above/Below Long-Term Trend Line
Could A Return To “NORMAL CONFIDENCE” Double the Stock Market???
A “Confidence-Driven” Secular Bull à la 1950s-60s!??!

U.S. Stock Market vs. Long-Term Bond Yields*
*Sources: Robert Schiller’s database, Bloomberg.
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-year Treasury bond yield and Annual CPI Inflation Rate
Where Wall Street Meets Main Street …
…Corner of Capital & Labor?!?

U.S. Capital-Labor Ratio*
*Annual Average of Monthly Series
Total Capacity Index divided by U.S. Labor Force
Natural Log Scale
A Rising K/L Ratio is Good For Stocks!!

Relative Stock-Bond Return Performance vs. Capital-Labor Ratio*
*Both Series are shown on a Natural Log

**Source -- Ibbotson.
***Capacity Index is US Manufacturing Index unitil 1967 and Total Industry Thereafter.
A Rising K/L Ratio Also Good for Main Street!!

**Real U.S. Wage Rate**

- Average Hourly Earnings of Manufacturing Industry divided by CPI Index.
- Average Hourly Earnings of Total Private Nonfarm Payrolls divided by CPI Index.

**Gini Ratio of Income Inequality**

- Ratio ranges from 0 to 1. The closer to 1.0 the greater the level of income inequality.

Periods when K/L Ratio Rises
Investment Themes???

- 10-Year Bond Yield to 3% in 2013 .... Then 4%ish in 2014
- S&P Pauses for Rest of 2013 .... Another up-leg in 2014
- U.S. Dollar “WEAKNESS” in Next Year
- Commodities Get A Bid
- Overweight International Developed & Emerging Markets
- Favorite U.S. Sectors
  - Manufacturing ... Industrials & Materials
  - Technology
  - Financials
2013-14 Possibilities???

- U.S. Economy Enjoys “GEAR YEAR”
- Real GDP to Rise by 3%ish
- U.R. Exhibits “Slow but Steady” Decline
- H.H. & Biz Confidence Improve
- Both Manufacturing Industry and Housing Market Add to Growth
- Japan Returns
- Euro Crisis Calms and Euro Zone Economy Improves
- Emerging World Growth Improves
- National Conversation Moves from Fiscal to Monetary Issues
- Stock Market Driver Changes from “Better than Feared” to “Better than Expected”
- Rising Confidence also Runs through Bond MARKET...10yr @ 3%ish and then to 4%ish??
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