

Update on the Economy and Capital Markets



THE PRIVATE CLIENT RESERVE



Investment products and services are:

NOT A DEPOSIT

NOT FDIC INSURED

MAY LOSE VALUE

NOT BANK GUARANTEED

NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Presented to:

AGA Northern Utah Chapter Spring Conference

Presented on: May 25, 2016

Presented by:

Jeffrey Kravetz, CFA — Regional Investment Director

Today's Discussion

"The" Key Question

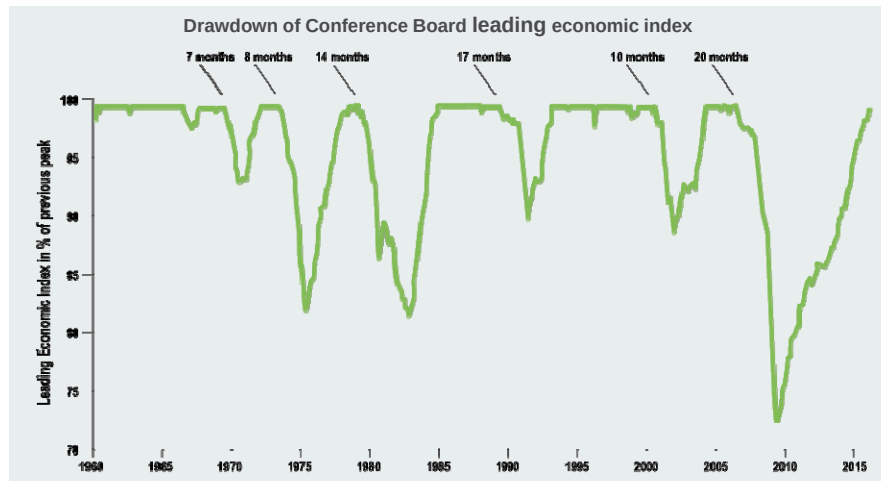
Three Sources of Recent Volatility

Remembering the Fundamentals

Outlook and Potential Opportunities

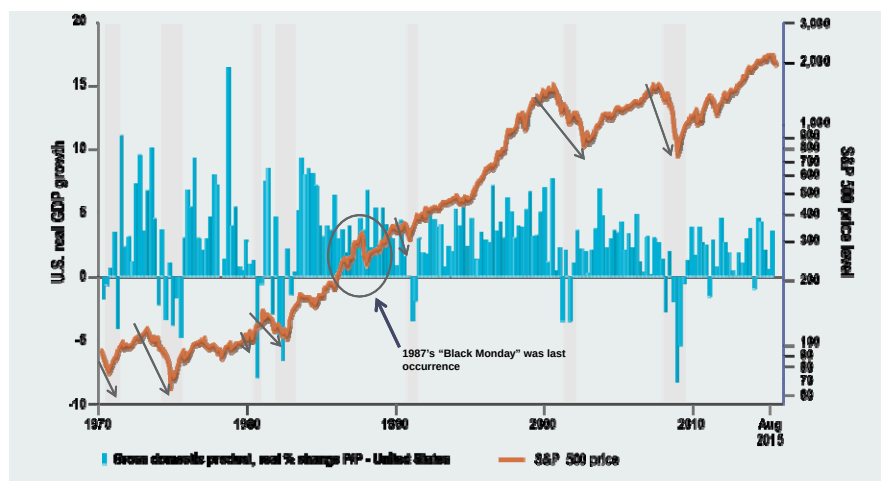
"The" Key Question:
Will the United States enter a Recession?

Leading Indicators Point To Low Recession Risk



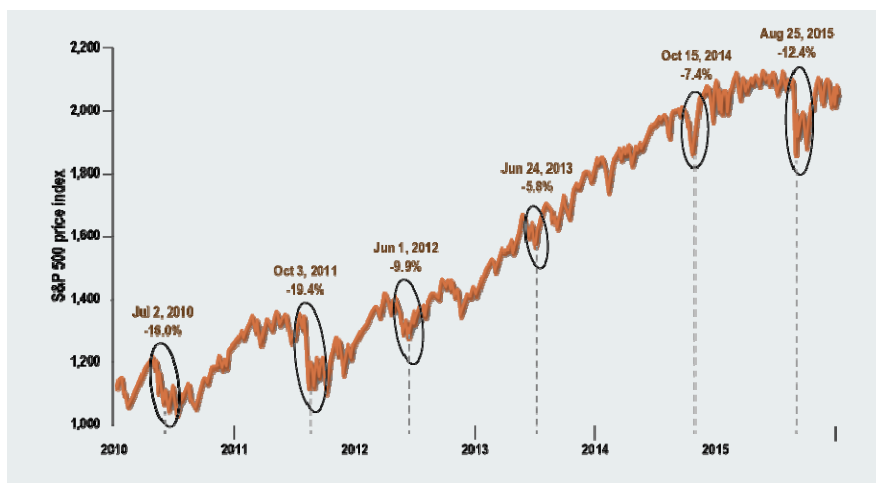
Source: Ieichen Research & Management. Data: June 2015. Gray bars indicate recessionary periods.

Without A Recession, Bear Markets Rarely Occur



Source: FactSet Research Systems. Data: 12/31/69-9/04/15. Gray bars indicate recessionary periods.

Major Pullbacks During Current Market Cycle

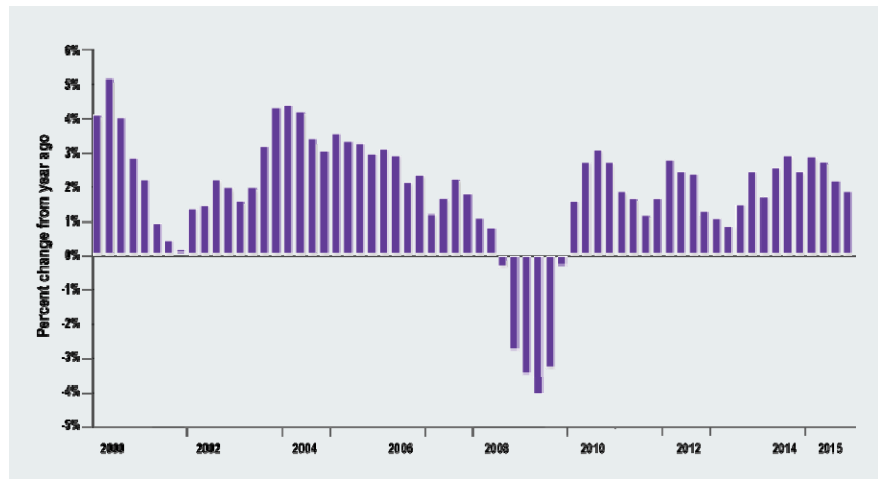


Sources: FactSet; Standard & Poor's; J.P. Morgan Asset Management. Data: 12/31/15.

U.S. Economic Scorecard

- Growth
 - Employment
 - Inflation
 - Wages
 - Housing
 - Sentiment
- ➔
- Steady

Real Gross Domestic Product

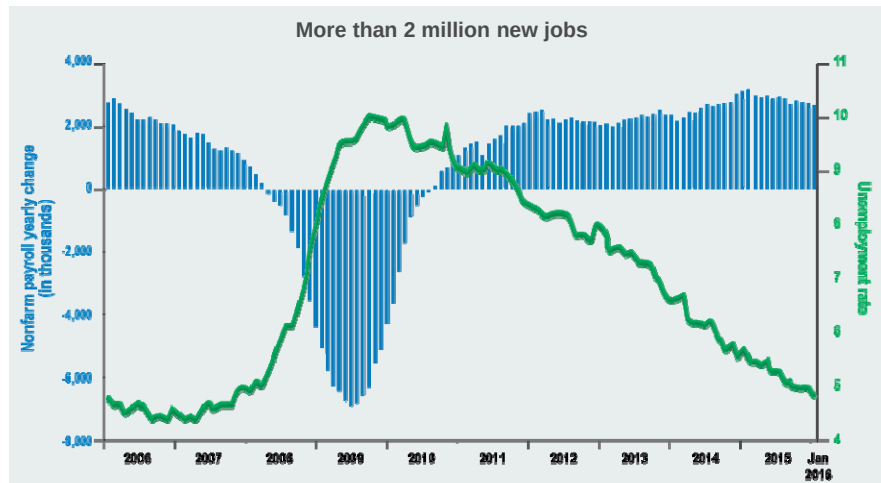


Source: U.S. Bureau of Economic Analysis. Data: 1/01/00-12/31/15. Gray bars indicate recessionary periods.

U.S. Economic Scorecard

- Growth → • Steady
- Employment → • Increasing
- Inflation
- Wages
- Housing
- Sentiment

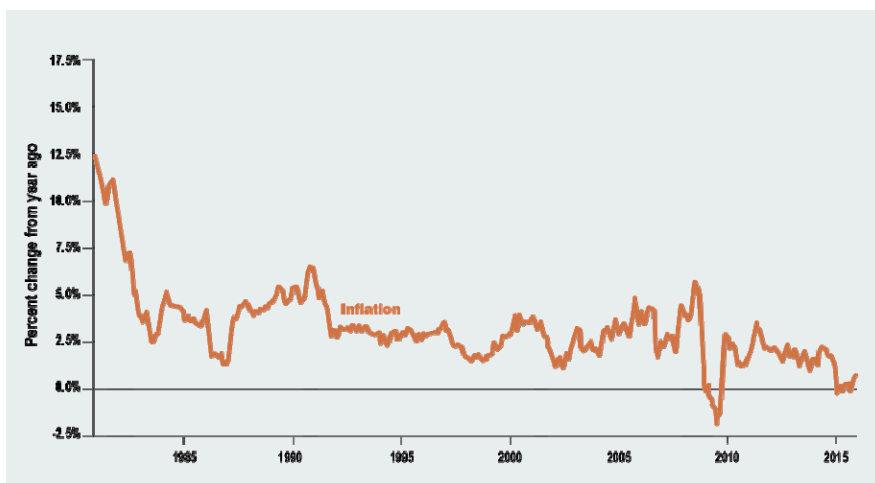
United States: Adding More Jobs



U.S. Economic Scorecard

- | | | |
|--------------|---|--------------|
| • Growth | ➡ | • Steady |
| • Employment | ➡ | • Increasing |
| • Inflation | ➡ | • Tame |
| • Wages | | |
| • Housing | | |
| • Sentiment | | |

How Low Can Inflation Go?

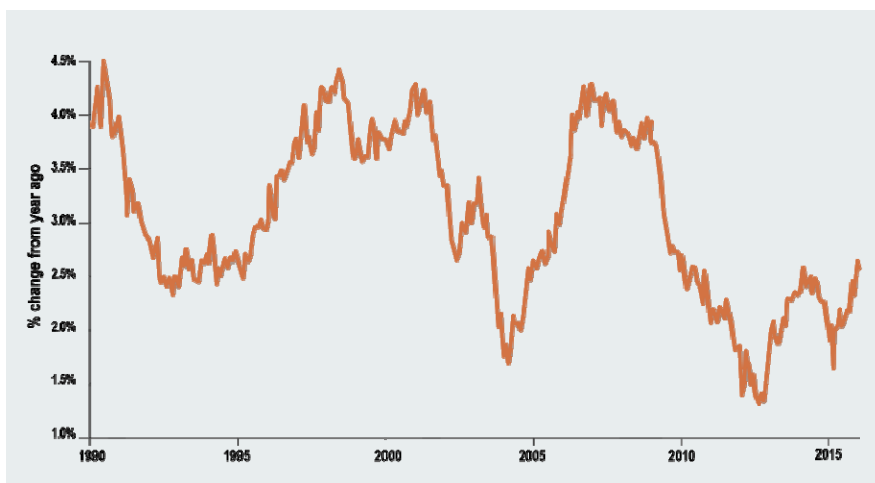


Source: Federal Reserve. Data: 12/31/15. Gray bars indicate recessionary periods.

U.S. Economic Scorecard

- | | | |
|--------------|---|---------------|
| • Growth | ➡ | • Steady |
| • Employment | ➡ | • Increasing |
| • Inflation | ➡ | • Tame |
| • Wages | ➡ | • On the mend |
| • Housing | | |
| • Sentiment | | |

Wages Are Beginning To Increase



Sources: Federal Reserve, Bureau of Labor Statistics . Data: 1/1/2001-01/31/2016. Gray bars indicate recessionary periods.

U.S. Economic Scorecard

- | | | |
|---------------------|---|-----------------------------|
| • Growth | ➡ | • Steady |
| • Employment | ➡ | • Increasing |
| • Inflation | ➡ | • Tame |
| • Wages | ➡ | • On the mend |
| • Housing | ➡ | • Continued strength |
| • Sentiment | | |

New Home Sales Growing, Albeit Slowly

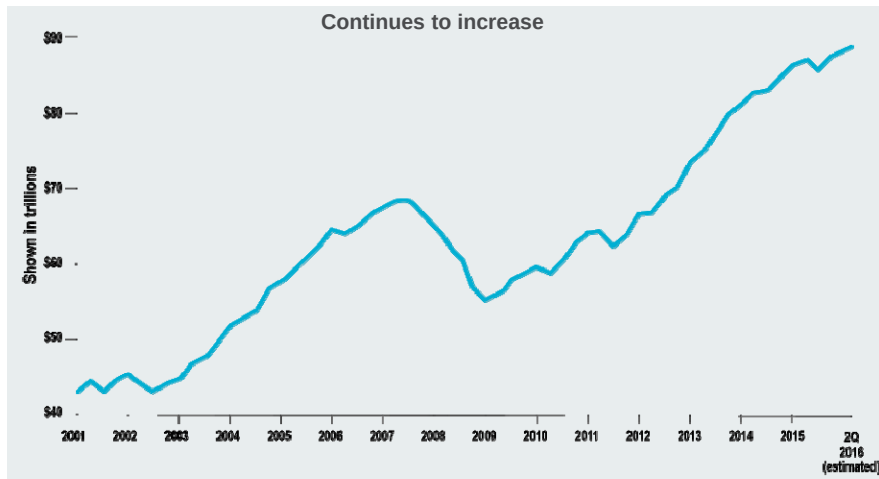


Sources: Federal Reserve, National Association of Home Builders . Data: 1/1/2005-12/31/2015.

U.S. Economic Scorecard

- | | | |
|--------------|---|----------------------|
| • Growth | ➡ | • Steady |
| • Employment | ➡ | • Increasing |
| • Inflation | ➡ | • Tame |
| • Wages | ➡ | • On the mend |
| • Housing | ➡ | • Continued strength |
| • Sentiment | ➡ | • Resilient |

U.S. Consumer Net Worth



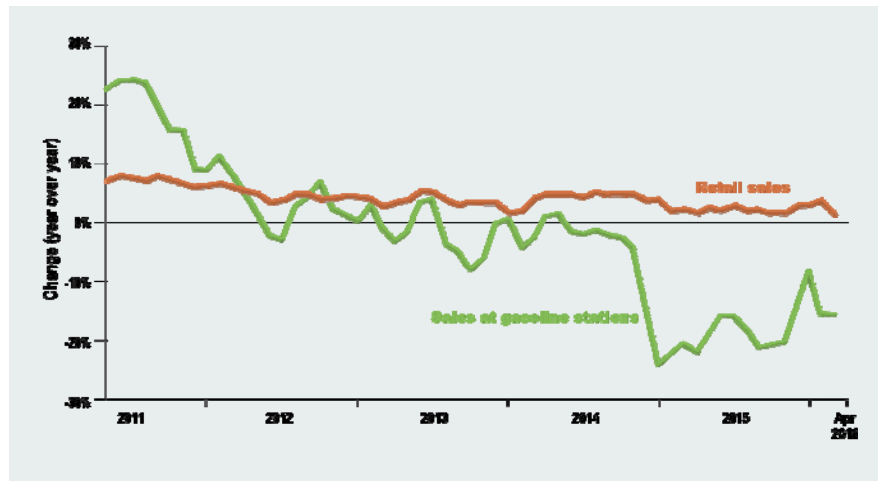
Source: Evercore ISI. Data: 3/31/16. Gray bar represents recessionary period.

Households Find Fiscal Prudence Post Financial Crisis



Sources: Factset Research Systems. Data: Jun 1986-Dec 2015.

Soft Retail Sales: More About Oil Collapse



Sources: Factset Research Systems. Data: May 2011-April 2016.

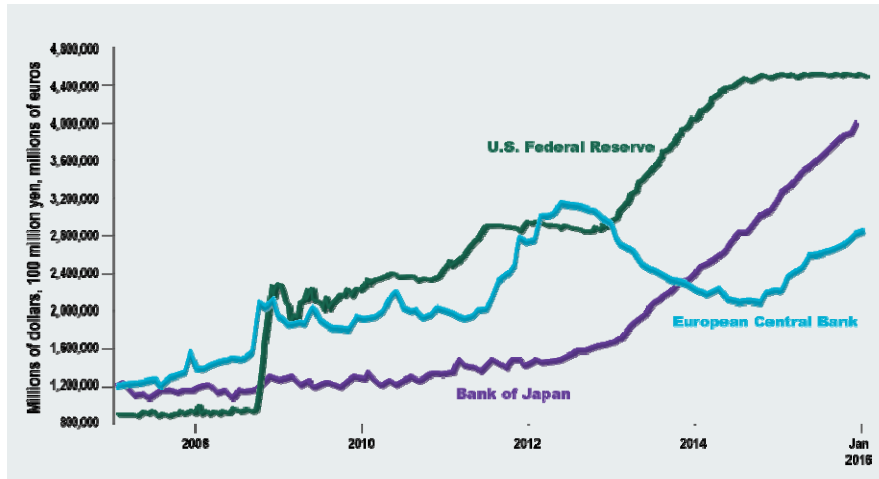
Three Sources Of Recent Volatility

Central Banks and the Effects of Massive Quantitative Easing

Developments in Europe, Japan and China

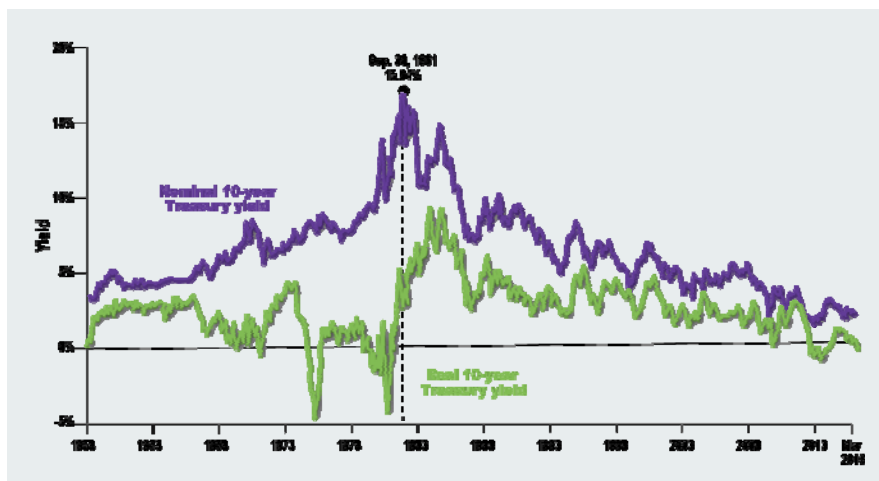
The Energy Revolution and the Collapse in Oil Prices

Massive Growth Of Central Bank Balance Sheets



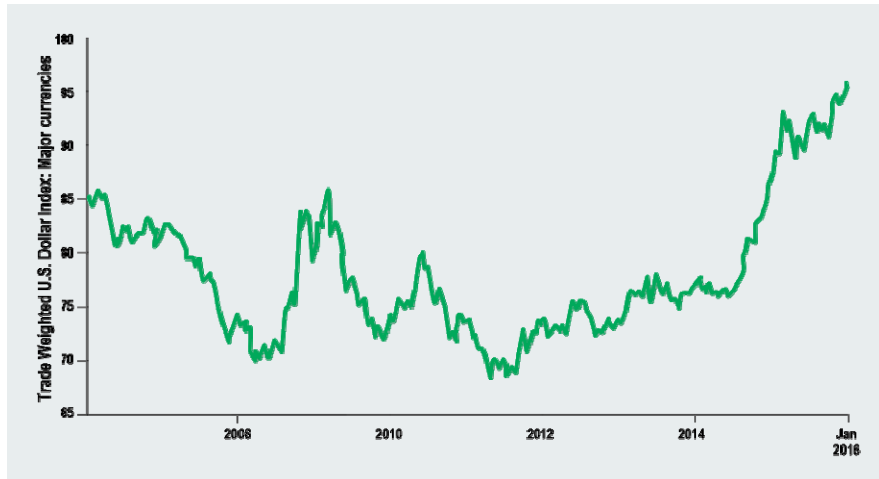
Source: Federal Reserve. Data: 1/01/08-1/31/16. Gray bar indicates recessionary period.

Interest Rates



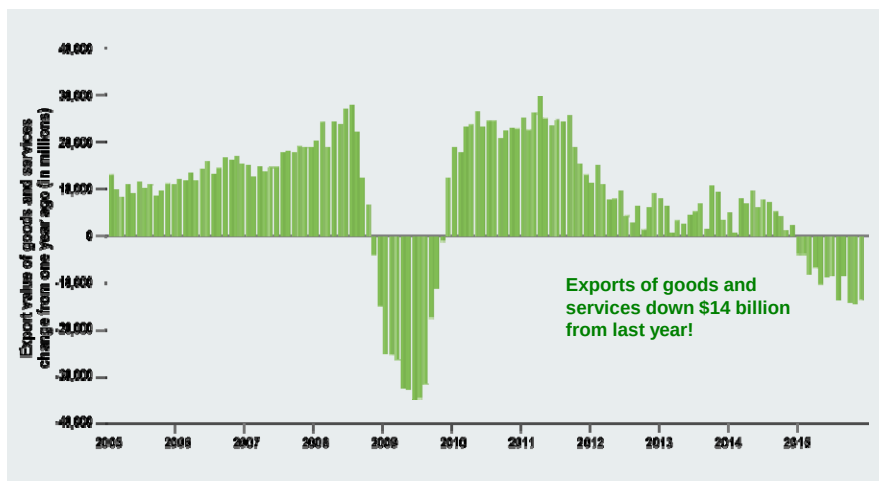
Source: J.P.Morgan Asset Management. Data: 3/31/16. Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month, except for March 2016, where real yields are calculated by subtracting out February 2016 year-over-year core inflation.

Unintended Consequences: The U.S. Dollar Has Been On Fire



Source: Federal Reserve. Data: 1/01/06-1/31/16. Gray bar indicates recessionary period.

Dollar Strength Weighing On Exports



Source: U.S. Census Bureau. Data: 1/01/05-12/31/15.

Sources Of Recent Volatility

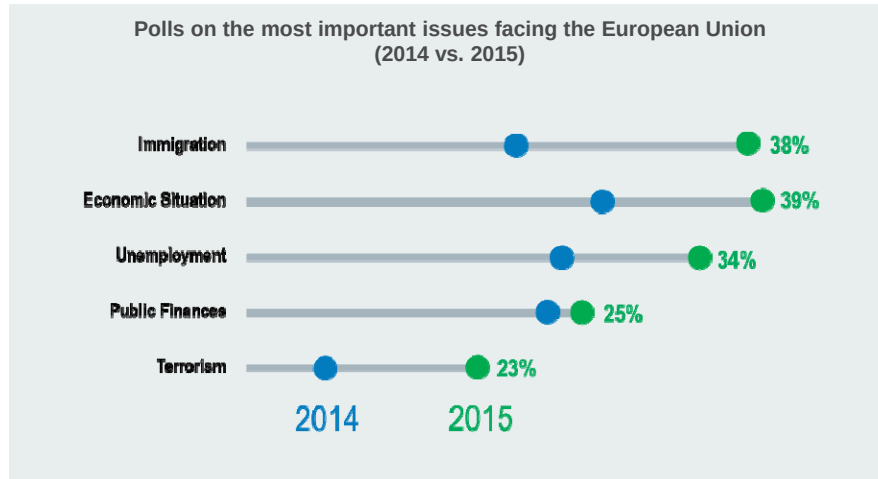
The Eurozone and China



The Eurozone



Europe Faces Pressing Concerns



Source: BlackRock. Data: December 2015.

Euro Area Bank Lending Is Tepid



Source: Cornerstone Macro Research. Data: 1/01/08-12/31/15.

Euro Area Banks: **THE** Lending Source

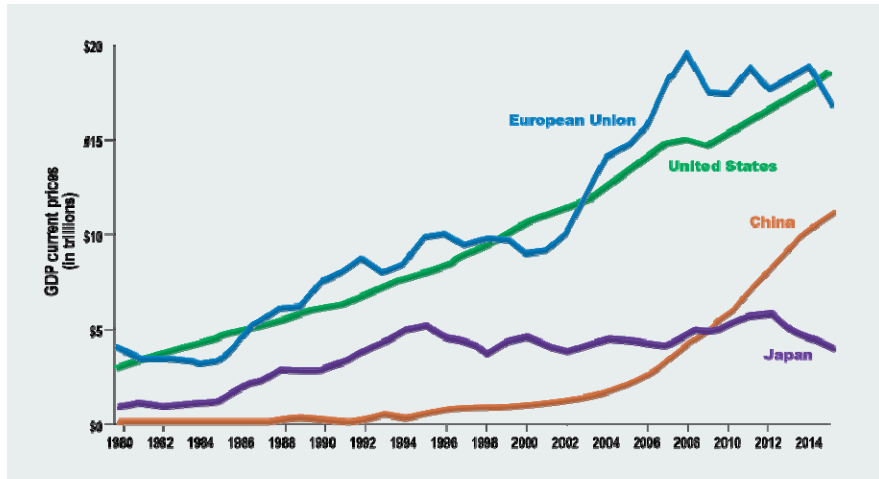


Source: Marathon Asset Management. Data: January 2016.

China



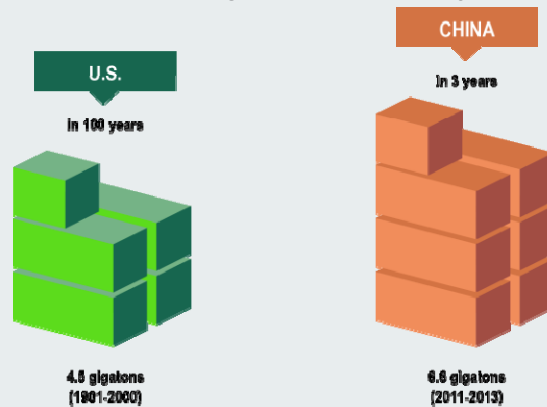
China's Global Emergence Has Been Spectacular



Source: International Monetary Fund (IMF). Data: 1/01/80-12/31/15.

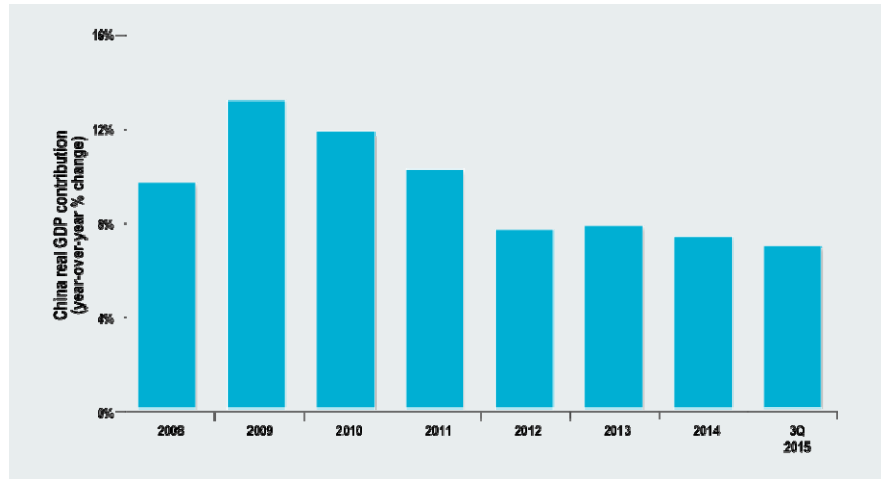
China Using Huge Amounts Of Cement

China used more cement in 3 years than the United States used during the entire 20th Century



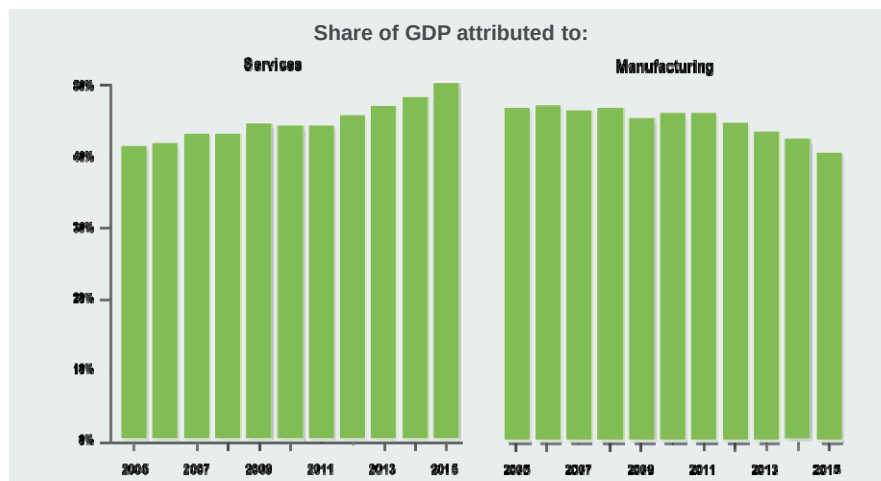
Sources: USGS, Cement Statistics for U.S. data 1900-2012; USGS, Mineral Industry of China for data 1990-2013.

But Chinese Growth Has Been Slowing



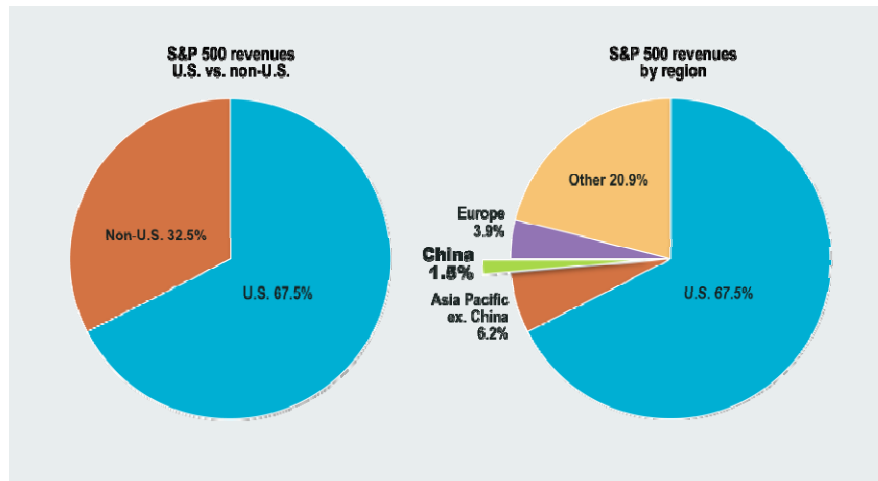
Source: JPMorgan. Data: 1/01/2008 – 9/30/2015.

China Transitioning To A Domestically Driven Economy



Sources: The Wall Street Journal, National Bureau of Statistics. Data: 2005-2015.

U.S. Companies Revenue: Exposure To China Is Muted

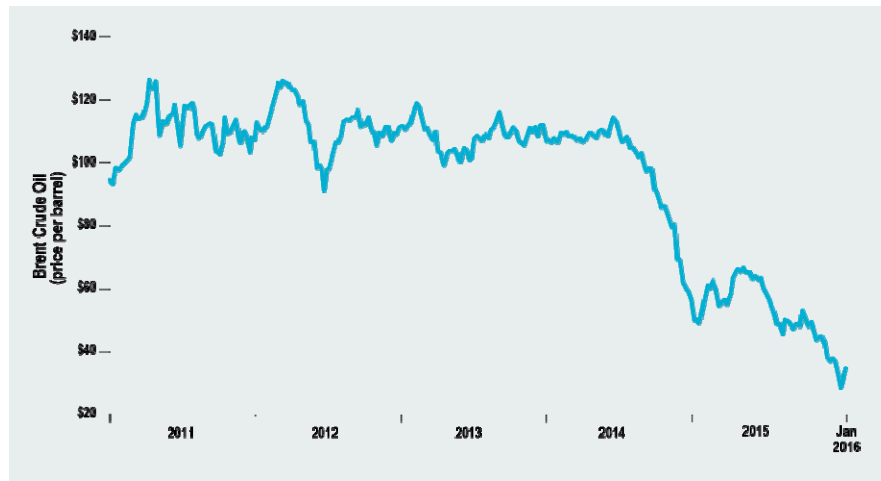


Source: FactSet Research Systems. Data: 2Q 2015.

Sources Of Recent Volatility

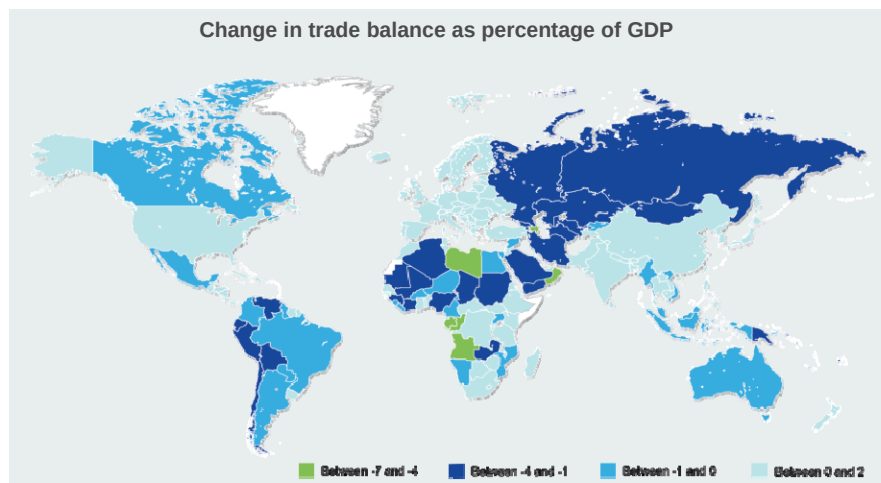
The Energy Revolution and the
Collapse of Oil Prices

Oil Prices In Steep Decline



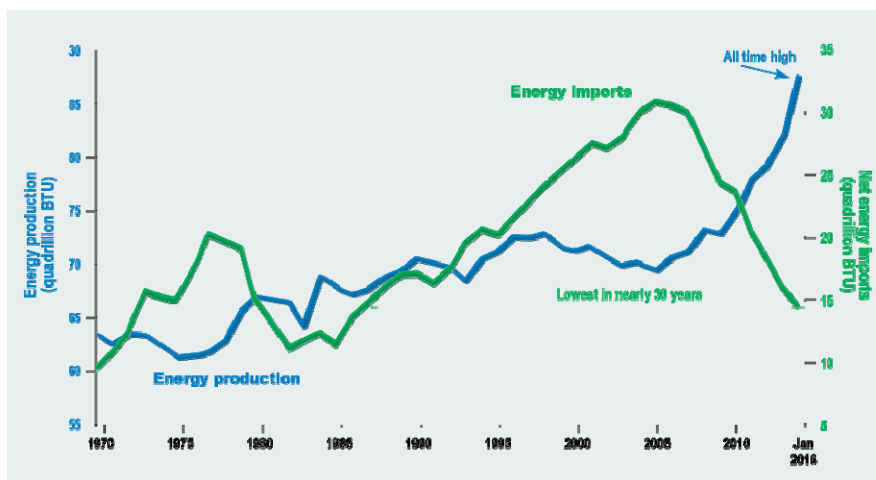
Source: FactSet Research System. Data: 1/1/2011-01/31/2016.

U.S. Global \$2 Trillion Wealth Transfer: From Oil Exporters To Oil Importers



Source: BCA Research. Data: 1/01/2014-12/31/2014.

U.S. Energy Independence Continues To Make Strides



Source: Energy Information Association. Data: 1/1/1970 - 01/31/2016.

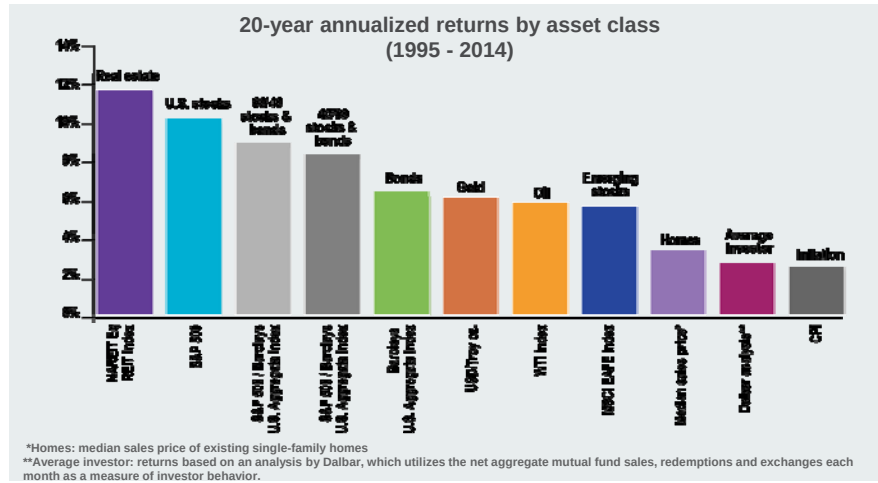
What We Think Investors Should Do — Or Not Do

Stay With a Long Term Plan

Don't Try to "Time" the Market

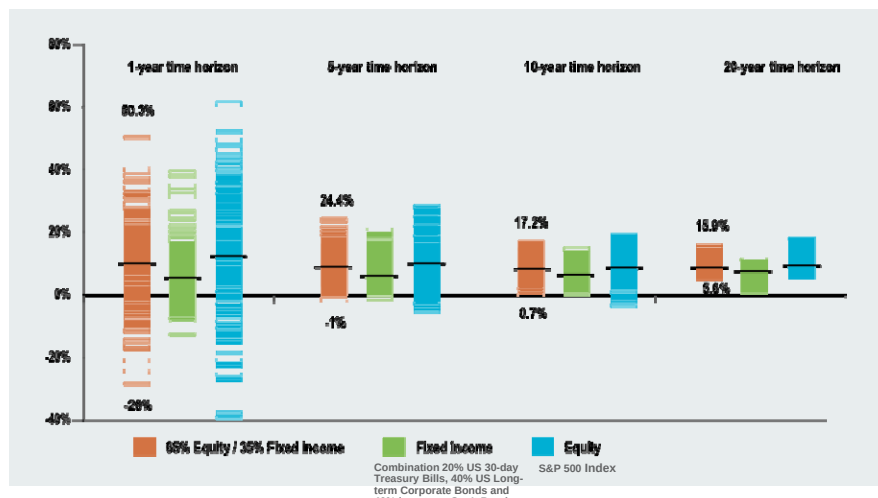
Understand What Has Caused Previous Bear Markets

Stay With A Long-term Plan



Source: Dalbar, Inc.

Range Of Returns



Source: Morningstar. Data: 1950-2015. Equity=S&P 500 Index; Fixed Income=combination of 20% U.S. 30-day Treasury bills, 40% U.S. long-term Corporate Bonds, 40% long-term government bonds.

Where Are The Potential Opportunities?

Active vs. Passive Management

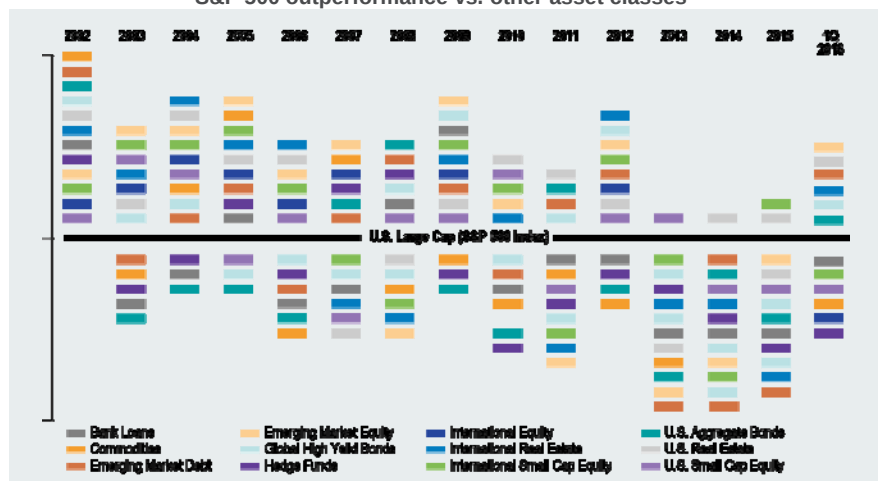
Dividend Paying and Non-U.S. Stocks

Municipal Bonds

THE PRIVATE CLIENT RESERVE | **usbank**

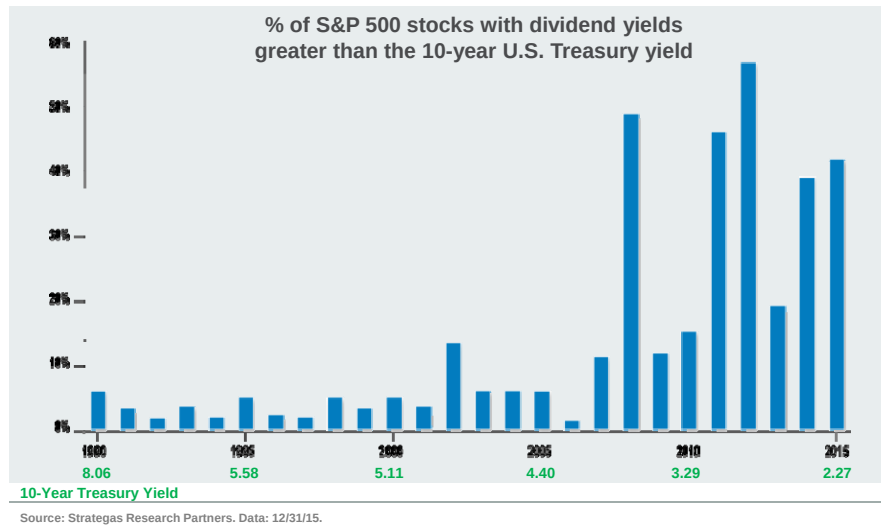
As The World Turns: Global Diversification Beginning to Show Promise

S&P 500 outperformance vs. other asset classes

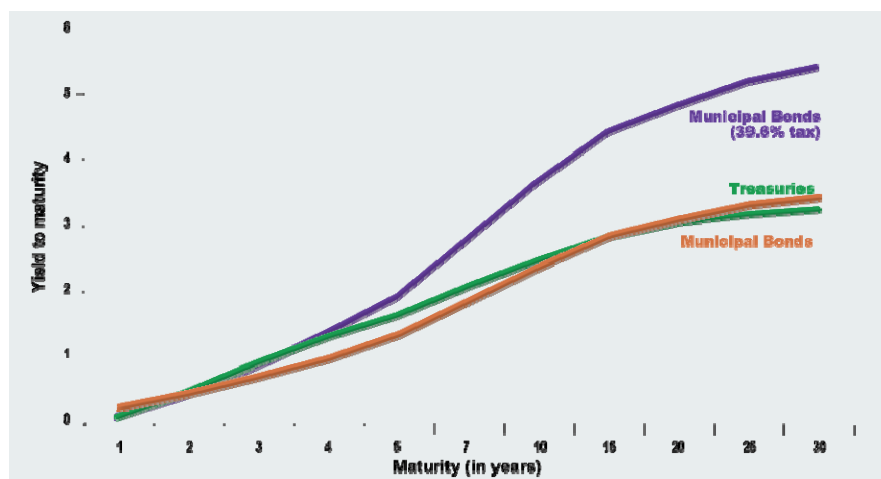


Sources: Bloomberg, Barclays and Goldman Sachs. Data: through 3/31/16. Past performance does not guarantee future results.

Dividend Paying Stocks Deserve A Look



Municipal Bonds Still Compelling



Source: FactSet. Data: 12/31/15. Purple line represents the taxable equivalent yield at the top federal tax marginal tax rate

Disclosures

This information represents the opinion of U.S. Bank. The views are subject to change at any time based on market or other conditions and are current as of the date indicated on the materials. This is not intended to be a forecast of future events or guarantee of future results. It is not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable, but is not guaranteed as to accuracy or completeness. Any organizations mentioned in this commentary are not affiliated or associated with U.S. Bank in any way. U.S. Bank and its representatives do not provide tax or legal advice. Your tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation.

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Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. **Equity securities** are subject to stock market fluctuations that occur in response to economic and business developments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investments in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in fixed income securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes, but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with an investment in **commodities**, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors. Investments in **real estate securities** can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties, such as rental defaults. **Alternative investments** very often use speculative investment and trading strategies. There is no guarantee that the investment program will be successful. Alternative investments are designed only for investors who are able to tolerate the full loss of an investment. These products are not suitable for every investor even if the investor does meet the financial requirements. It is important to consult with your investment professional to determine how these investments might fit your asset allocation, risk profile and tax situation.

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