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*Prepared as of 3/28/2016*

# FI on False Fears

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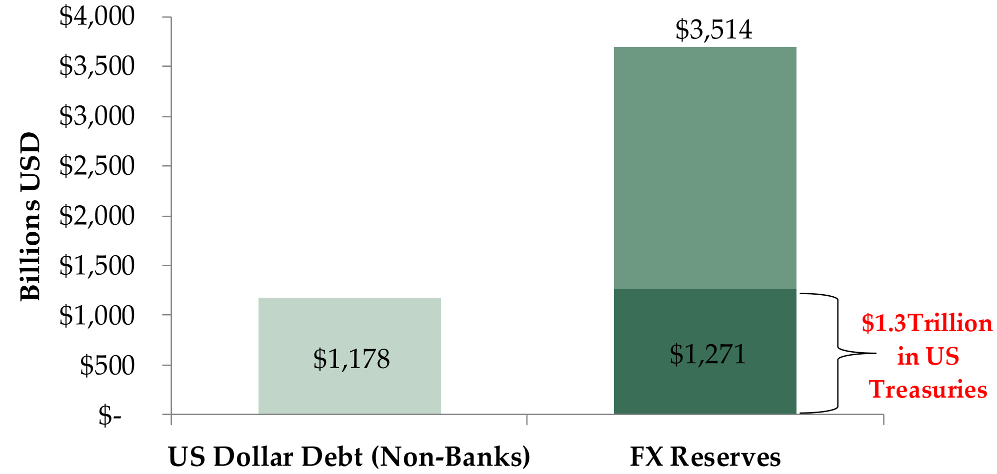
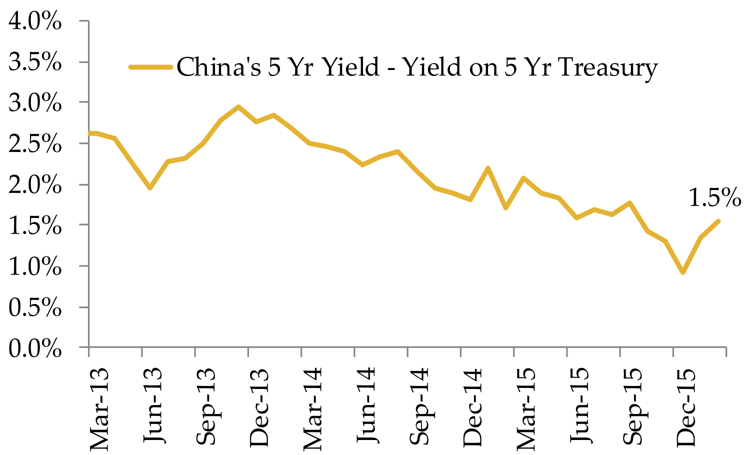
# CHINA'S FX RESERVES OVERSHADOW USD DENOMINATED DEBT

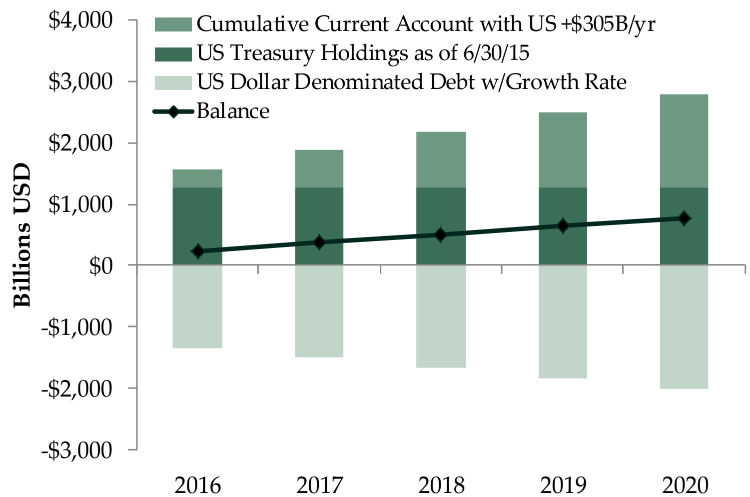
Most of China's debt is denominated in local currency. China maintains ~$3T in FX reserves, $1.3T of which are US Treasuries, while the BIS estimates China's USD denominated debt to be around $1.2T.




Interest from US treasuries offsets interest payments.




China's UST and current account surplus offset USD denominated debt.

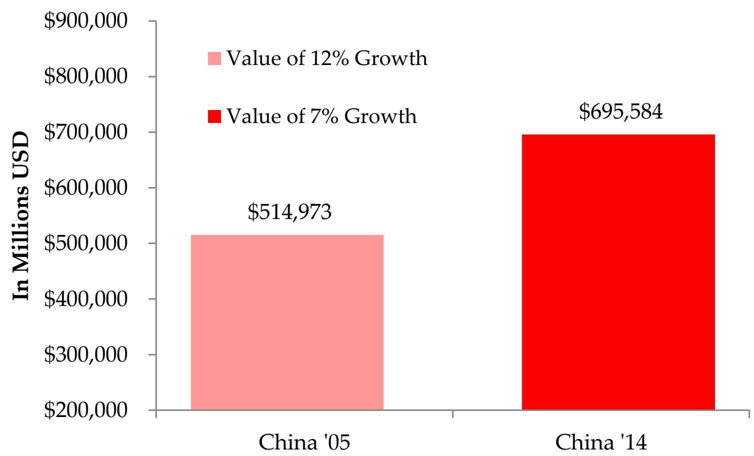



*"Dollar credit to emerging market economies", Bank of International Settlements (BIS) Quarterly Review, December 2015 as of 6/30/2015. US dollar denominated debt comprised of non-bank financial entities, non-financial corporations, governments, household and international organizations.*
*Top chart – all data as of 6/30/2015, FX reserves from People's Bank of China, China's US Treasury holdings from US Treasury Department, China's US Dollar Denominated Debt from BIS. Bottom left chart – from FactSet as of 2/28/2016. Bottom right chart – cumulative current account surplus is based on 10 year average annual current account surplus between China and the US, debt growth rate based on Q2 2015 y/y growth decelerating each year, China's US Treasury Holdings and US Dollar Denominated Debt as of 6/30/2015 Ibid.*

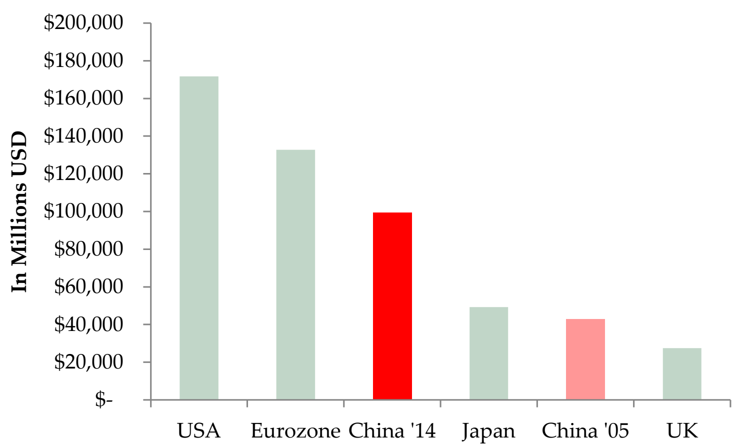
# PUTTING "ONLY 7%" GROWTH INTO PERSPECTIVE

While headlines lament the new norm of "only 7%", few realize the lower growth rate is off a much higher base. As a result, not only does China add more to its own GDP, but significantly contributes to global GDP growth.

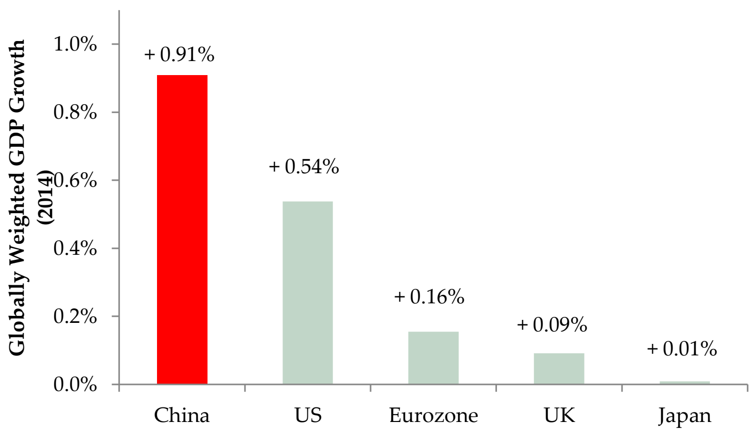
### Double Digit Growth vs "Only 7%"




### The New League – Value of 1% Growth




### Pulling More Than Its Fair Share for Global GDP




*Source: Oxford Economics as of 12/31/2015. Value of 12%, 7% and 1% growth is based on multiplying GDP as of year end 2015 (or 2005) by the given percentage. GDP is in constant prices, based on the latest year exchange rate, in USD. Contribution to global GDP calculated by multiplying the given country's 2015 GDP growth by its weight in the world (by GDP) at year end 2014.*

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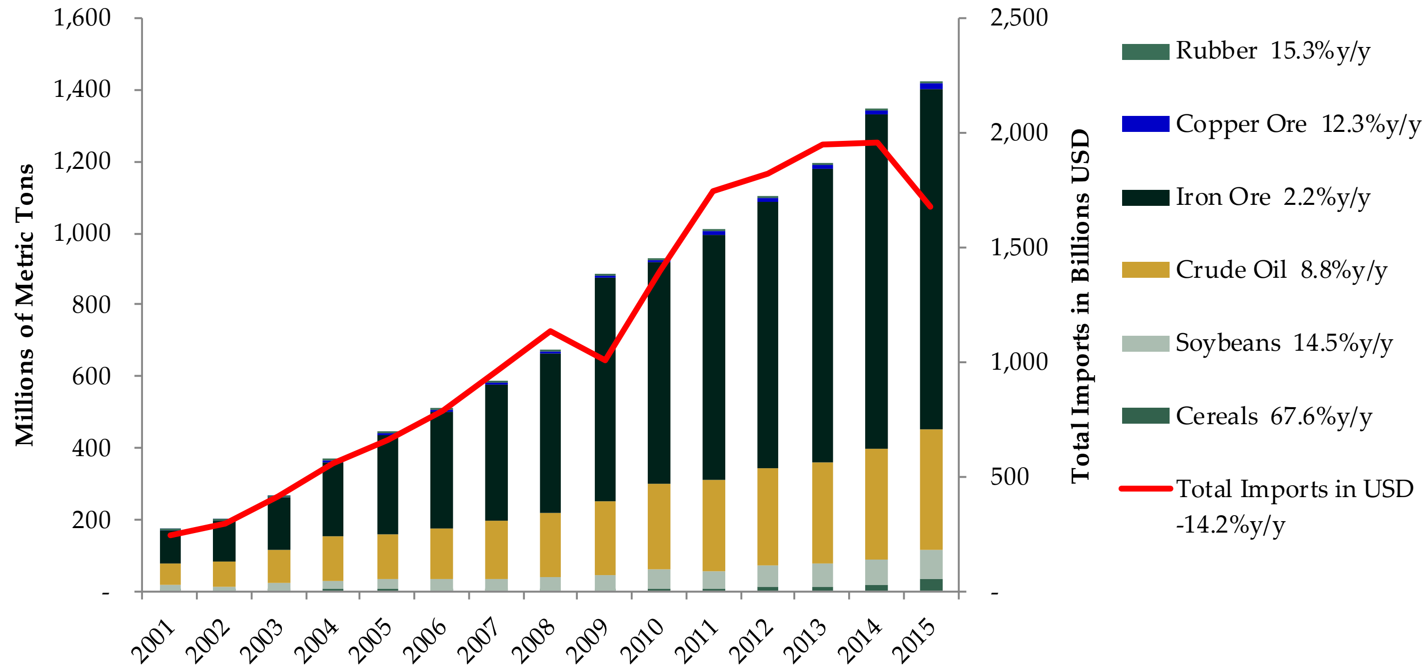
# TRADE BY VOLUME IS BOOMING

Decreasing Chinese imports, as measured by dollars, is a reflection of falling commodity prices—NOT falling Chinese demand. Measuring imports *by volume* shows Chinese consumption of commodities is voracious as ever.




*Source: China Customs and National Bureau of Statistics of China as of 12/31/2015. Not all commodities listed.*

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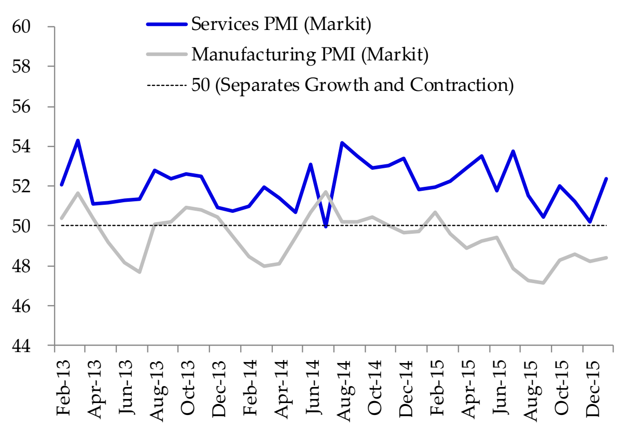
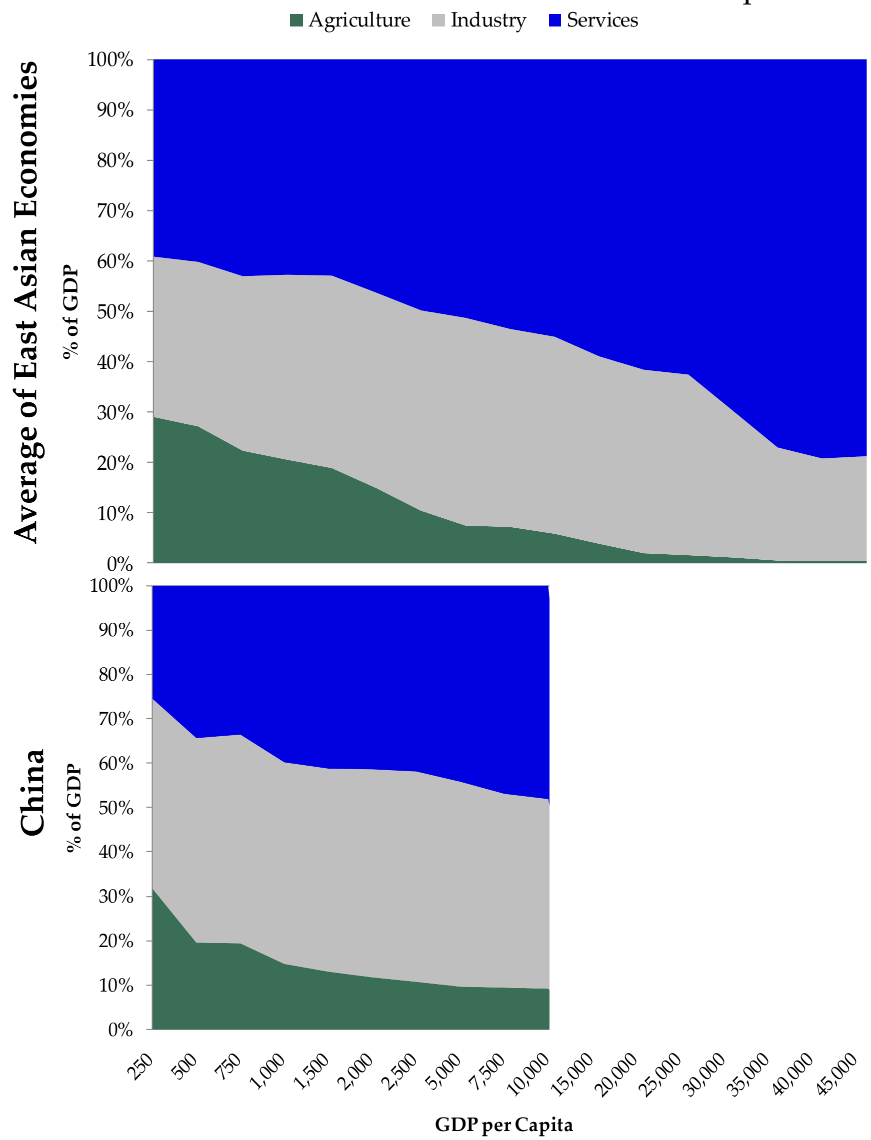
# THE GROWING ROLE OF THE SERVICES SECTOR

While manufacturing PMI has been lackluster, investors should pay heed to the growing role the service sector plays in the Chinese economy as it shifts from manufacturing to services.

Chinese services continue to grow.



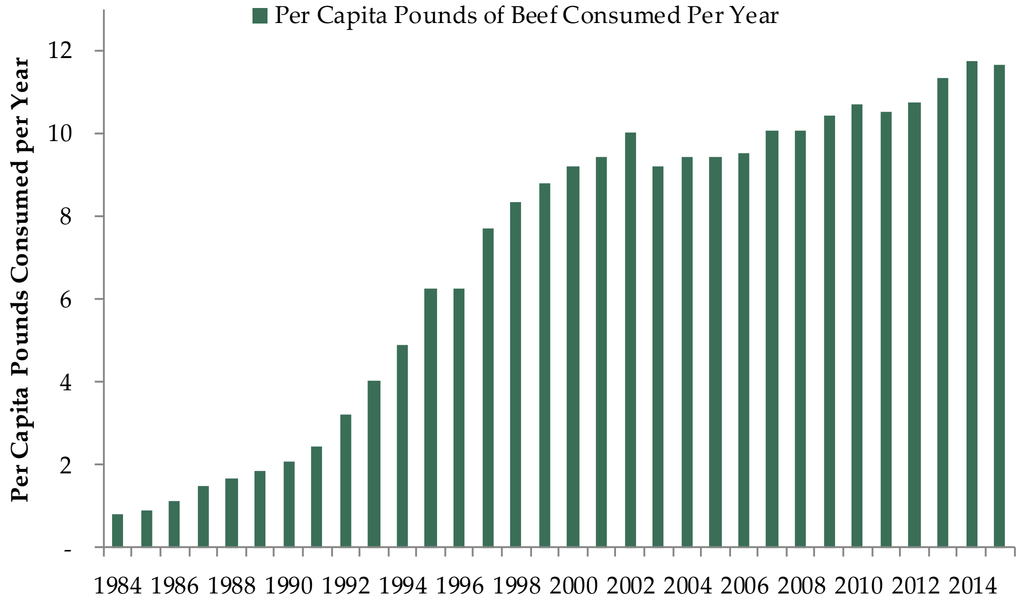

Average historical trajectory of GDP composition by sector as East Asian economies develop.

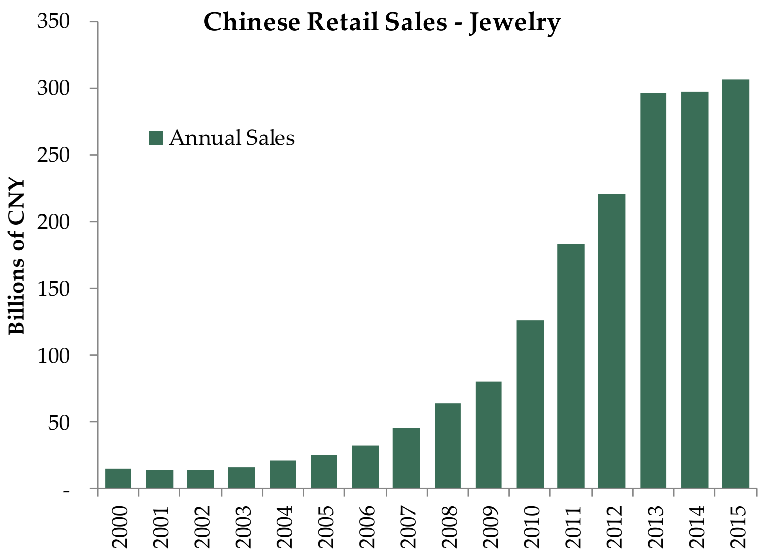


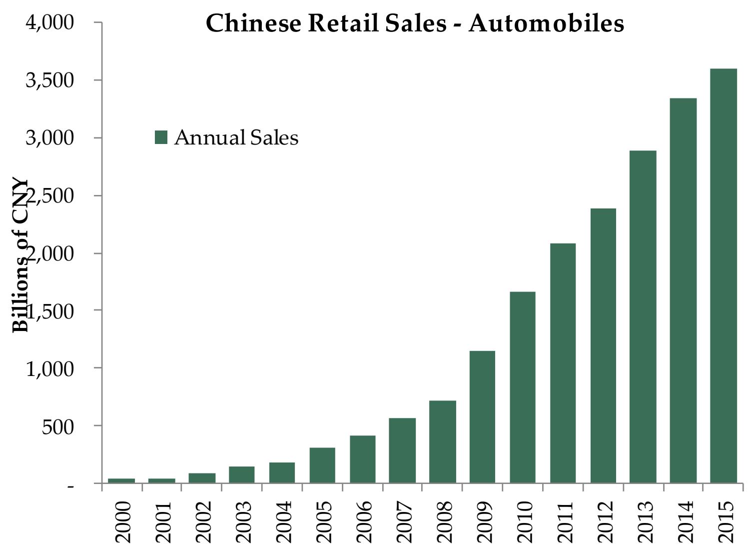

*Source: Left chart – Seasonally adjusted Caixin PMI Index from Markit Economics as of 1/31/2016. Right charts – GDP value added by sector as a % of GDP and GDP per capita (current, USD) from World Development Indicators, World Bank as of 12/31/2014. % GDP composition by GDP per Capita is the average of East Asian countries GDP makeup observed at a given GDP per capita. Number of observations at each GDP per Capita varies based on data availability. Example: GDP composition at $45,000 is the average of Hong Kong, Japan and Singapore.*

# CHINA'S RISING MIDDLE CLASS FLEXES THEIR MUSCLE

Whether it is beef, jewelry, or automobiles—China's rising middle class is purchasing more luxurious goods.




*Source: Top charts— meat consumption from OECD and population from FactSet Economics as of 12/31/2015. Bottom charts – sales data from National Bureau of Statistics of China as of 12/31/2015.*

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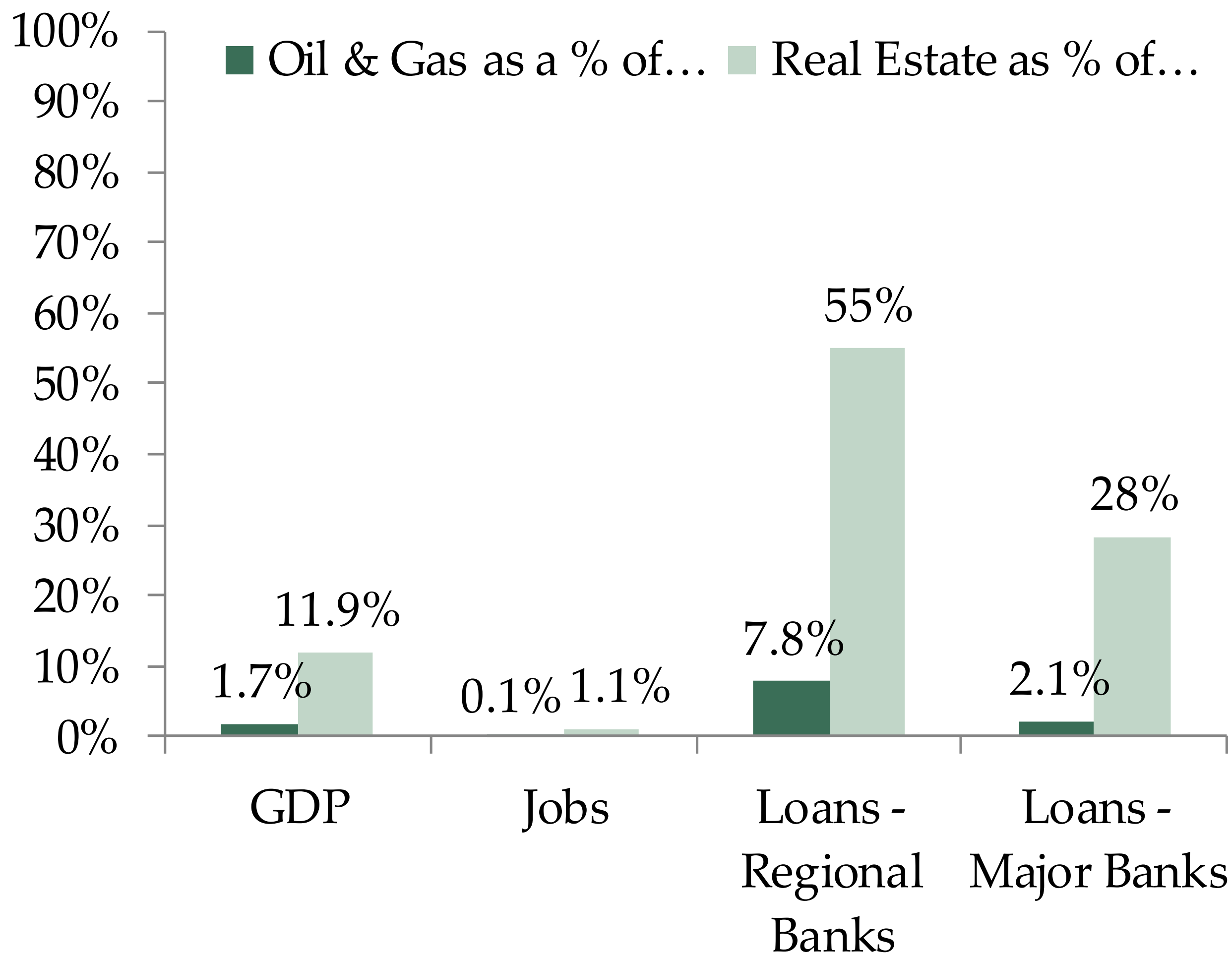
# THE SIZE OF THE US OIL INDUSTRY IN PERSPECTIVE

Few recognize how relatively small the US oil industry is—making parallels between the oil industry and mortgage crisis far fetched.




*Source: GDP from the US Bureau of Economic Analysis, jobs from US Department of Labor, loans from bank 10Q on SEC EDGAR, revenue and market capitalization from FactSet. Data as of 12/31/2014. Exact definition of industries may vary between data providers.*

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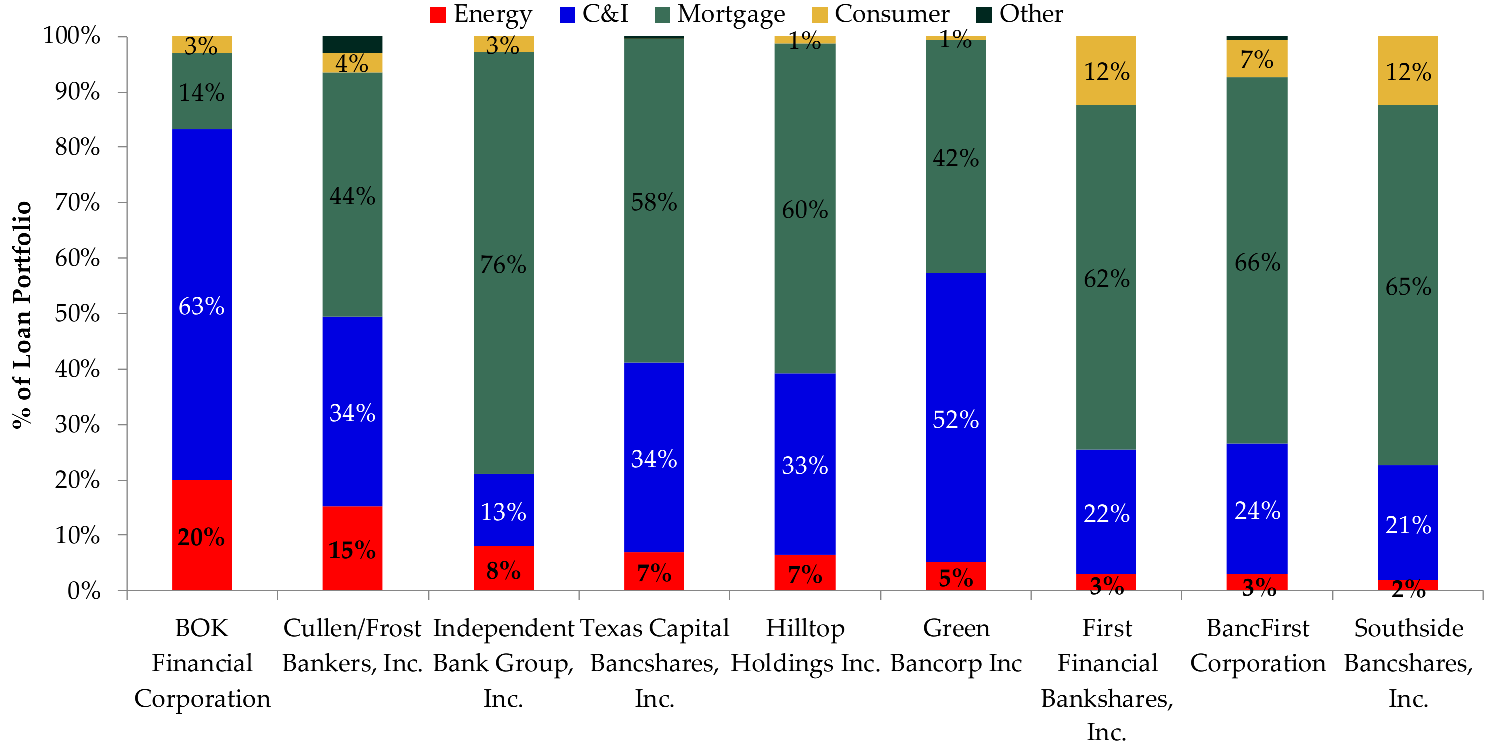
# BANKS' LOAN PORTFOLIO EXPOSURE TO OIL

Banks' diversified loan portfolios have a very minor exposure to oil. Even when we look at the loan portfolio of regional banks in Texas and Oklahoma, Oil's weight is relatively small.



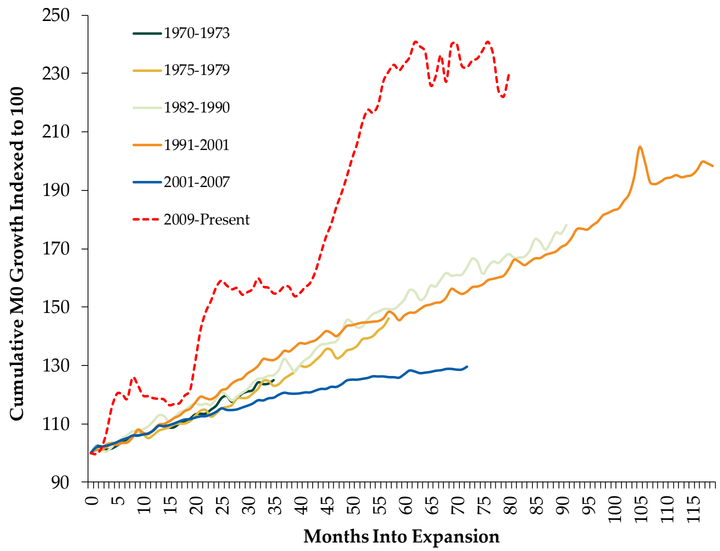

| | Citigroup Inc. | Wells Fargo & Company | JPMorgan Chase & Co. | Bank of America Corporation |
|---|---|---|---|---|
| **Energy** | **3%** | **2%** | **2%** | **1%** |
| C&I | 3% | 29% | 19% | 25% |
| Mortgage | 20% | 53% | 11% | 30% |
| Consumer | 24% | 14% | 57% | 29% |
| Other | 49% | 1% | 12% | 15% |

*Source: Company reported 10-Q on SEC EDGAR for Fiscal Year 2014. Definition of energy and other categories may vary from firm to firm. Bank of America percentage energy is proxy based on its provided total exposure to energy (non-loan exposure). Only publically traded, Texas and Oklahoma domiciled regional banks with reported energy exposure shown above.*

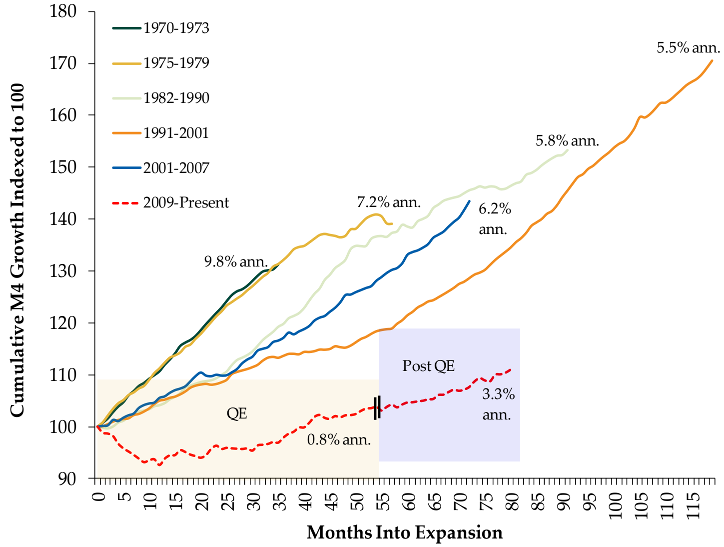
# THE FED'S BALANCE SHEET AND MONEY SUPPLY

Some fear a maturing Fed balance sheet—or asset sale—will contract money supply and stifle lending. QE expanded the monetary base but did not translate to an increase in broader money supply or lending.

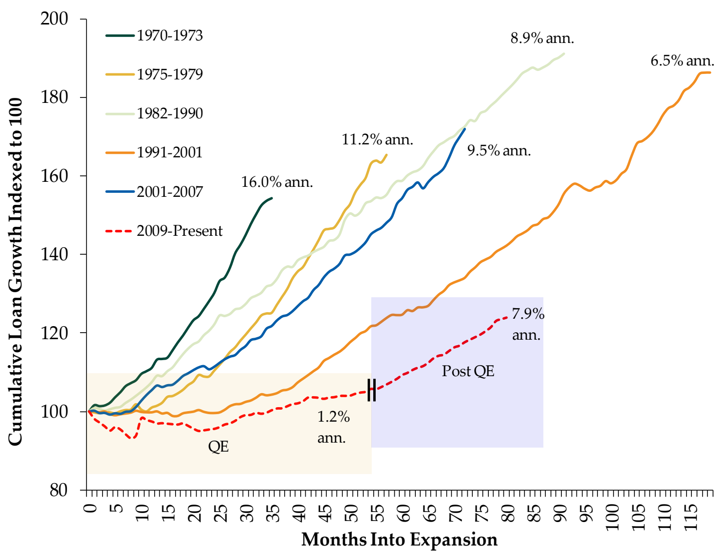
QE's unprecedented expansion of the **monetary base**…



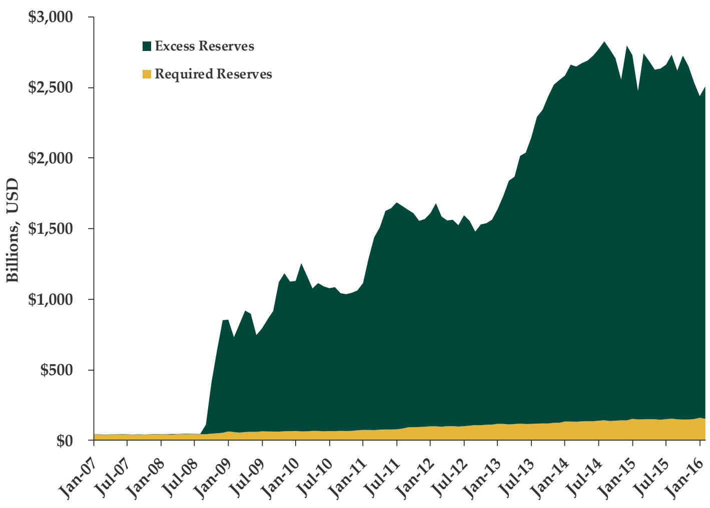

Did not translate to broader **money supply**…




Or **lending**—which accelerated *after* Fed tapering.




As such, most of the money banks' received from the Fed sits idle on bank balance sheets.




*Source: Federal Reserve and Center for Financial Stability as of 2/29/2016.*

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# HISTORICALLY RATE HIKES DO NOT HURT EQUITIES

Investors often presume rising rates will slow US economic growth and, consequently, equity returns. However, US interest rate hikes do not necessarily dictate long-term negative returns for US, global, EM or non-US equities.

### S&P 500

| Date of First Rate Hike | Percent Change 12 Months Prior | Percent Change 6 Months After | Percent Change 12 Months After | Percent Change 18 Months After |
|---|---|---|---|---|
| 7/16/1971 | 26.7% | 10.5% | 15.8% | 26.8% |
| 8/16/1977 | -1.9% | -7.7% | 12.3% | 7.4% |
| 10/21/1980 | 31.8% | 6.6% | 0.4% | -1.3% |
| 3/27/1984 | 8.7% | 6.8% | 18.7% | 22.2% |
| 12/16/1986 | 18.6% | 27.4% | 5.2% | 18.6% |
| 3/29/1988 | -8.4% | 7.0% | 18.1% | 42.3% |
| 2/4/1994 | 8.3% | 3.3% | 7.4% | 25.4% |
| 6/30/1999 | 22.8% | 7.7% | 7.2% | -2.1% |
| 6/30/2004 | 19.1% | 7.2% | 6.3% | 12.5% |
| Average | 14.0% | 7.6% | 10.2% | 16.9% |
| % Up | 77.8% | 88.9% | 100.0% | 77.8% |

### MSCI World

| Date of First Rate Hike | Percent Change 12 Months Prior | Percent Change 6 Months After | Percent Change 12 Months After | Percent Change 18 Months After |
|---|---|---|---|---|
| 7/16/1971 | 26.0% | 11.5% | 20.9% | 33.2% |
| 8/16/1977 | 3.4% | -0.3% | 22.9% | 23.1% |
| 10/21/1980 | 32.7% | 3.5% | -6.3% | -6.3% |
| 3/27/1984 | 18.5% | -1.3% | 11.4% | 23.6% |
| 12/16/1986 | 42.8% | 30.0% | 16.8% | 29.3% |
| 3/29/1988 | 6.4% | -0.4% | 13.6% | 25.3% |
| 2/4/1994 | 26.1% | 3.6% | 0.3% | 12.7% |
| 6/30/1999 | 16.2% | 15.2% | 12.5% | 0.3% |
| 6/30/2004 | 24.6% | 11.0% | 10.6% | 22.2% |
| Average | 21.9% | 8.1% | 11.4% | 18.1% |
| % Up | 100.0% | 66.7% | 88.9% | 88.9% |

### MSCI EM

| Date of First Rate Hike | Percent Change 12 Months Prior | Percent Change 6 Months After | Percent Change 12 Months After | Percent Change 18 Months After |
|---|---|---|---|---|
| 7/16/1971 | 74.4% | -9.3% | -5.4% | 26.2% |
| 8/16/1977 | 16.3% | 22.0% | 45.8% | 35.5% |
| 10/21/1980 | 51.6% | -2.9% | -18.0% | -23.8% |
| 3/27/1984 | 27.8% | -7.4% | -2.3% | 25.7% |
| 12/16/1986 | 11.1% | 38.0% | 22.7% | 68.0% |
| 3/29/1988 | 30.2% | 13.3% | 34.5% | 75.0% |
| 2/4/1994 | 71.1% | 7.0% | -19.3% | -10.5% |
| 6/30/1999 | 28.9% | 19.0% | 9.4% | -17.6% |
| 6/30/2004 | 33.5% | 26.9% | 34.9% | 70.8% |
| Average | 38.3% | 11.8% | 11.4% | 27.7% |
| % Up | 100.0% | 66.7% | 55.6% | 66.7% |

### MSCI EAFE

| Date of First Rate Hike | Percent Change 12 Months Prior | Percent Change 6 Months After | Percent Change 12 Months After | Percent Change 18 Months After |
|---|---|---|---|---|
| 7/16/1971 | 16.8% | 9.9% | 29.1% | 40.9% |
| 8/16/1977 | 9.3% | 9.0% | 34.8% | 37.5% |
| 10/21/1980 | 26.5% | 0.0% | -14.9% | -13.4% |
| 3/27/1984 | 32.0% | -12.2% | -0.2% | 20.9% |
| 12/16/1986 | 66.8% | 31.2% | 23.2% | 34.9% |
| 3/29/1988 | 15.1% | -4.4% | 10.2% | 15.6% |
| 2/4/1994 | 37.1% | 3.2% | -5.9% | 2.1% |
| 6/30/1999 | 6.1% | 21.3% | 15.7% | 2.9% |
| 6/30/2004 | 29.5% | 14.1% | 11.0% | 26.5% |
| Average | 26.6% | 8.0% | 11.5% | 18.6% |
| % Up | 100.0% | 66.7% | 66.7% | 88.9% |

*Source: Federal Reserve, Global Financial Data, Inc., S&P 500, MSCI EAFE, MSCI World, MSCI EM Total Returns. Returns are cumulative and include returns for the entire month when the rate hikes were first announced.*

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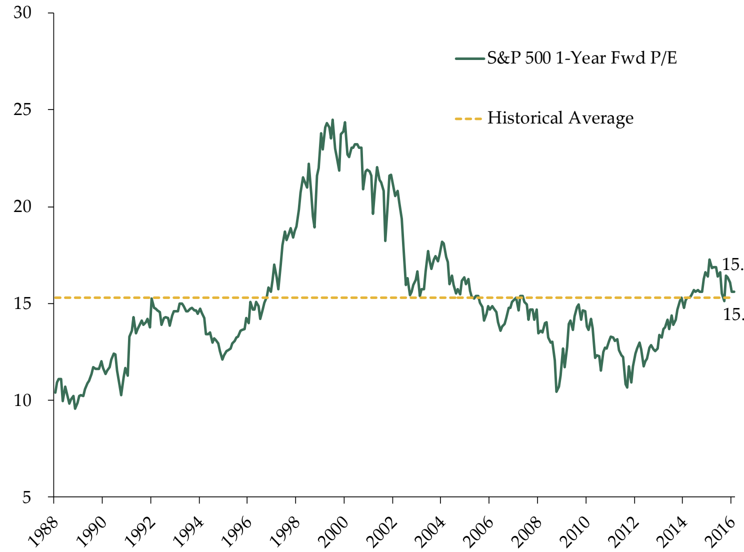
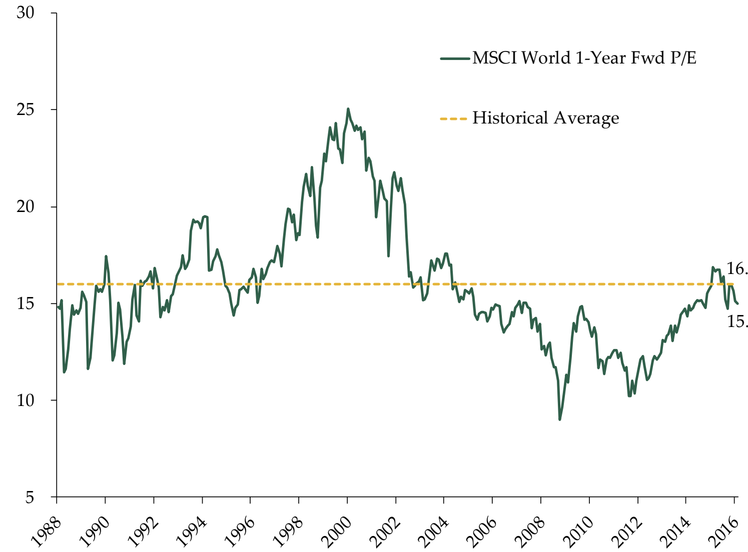
# DOUR SENTIMENT REFLECTED BY VALUATIONS

Equity indexes across categories are at or below their respective historical average—reflecting dour sentiment among investors despite positive fundamentals.

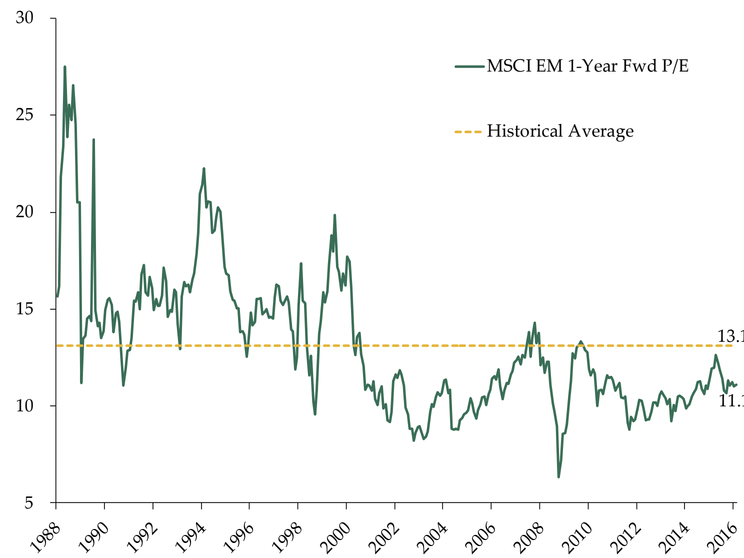
### S&P 500 Forward PE vs. Long Term Average



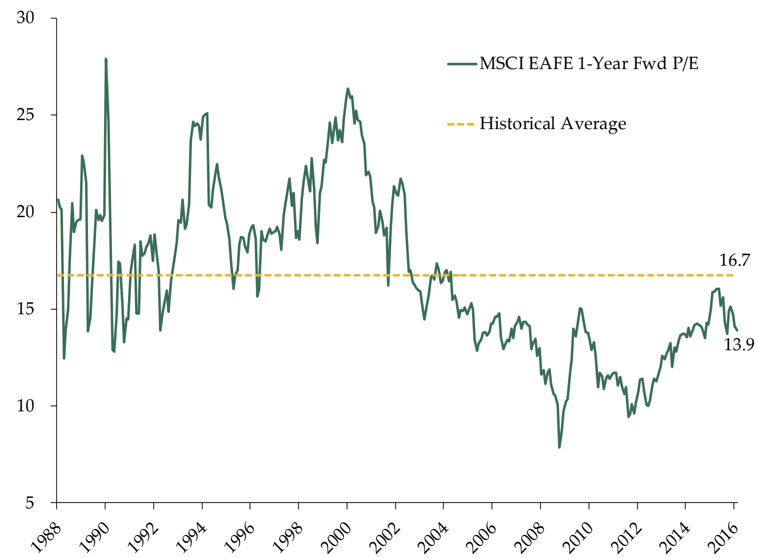

### MSCI World Forward PE vs. Long Term Average




### MSCI EM Forward PE vs. Long Term Average




### MSCI EAFE Forward PE vs. Long Term Average




*Source: FactSet and Thomson Reuters as of 2/29/2016.*

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