BRIDGES | INVESTMENT MANAGEMENT

Think Forward

Market Comments

December 1, 2015

S&P 500	2090
10 year Treasury	2.15%

Summary of current capital markets conditions and 2015-17 outlook/playbook

1. Stocks are more attractive than bonds or cash over the next five years – we continue to overweight stocks versus bonds relative to long term asset allocation targets

2. U.S. equities are close to fair value, and priced to provide average annual returns of 6-9%

3. We prefer U.S. to international equities

4. We prefer growth over value until we enter the next recession – emphasis on technology, health care, and consumer discretionary companies

5. Bonds remain unattractive given historically low nominal and real yields and narrow credit spreads; we prefer credit risk to interest rate risk, but are defensively positioned in bond portfolios

6. Primary risks are: 1) sluggish global economic risk/China slowdown; 2) weak commodity sector; 3) persistently strong dollar (affects earnings for U.S. multi-nationals); 4) rise in terrorism; 5) uncertainty regarding effects of Fed tightening; 6) potential credit problems from low interest rate environment

7. Expect increased capital markets volatility – S&P 500 range of 1700-2400 possible over next 12 months

8. Equities are very undervalued if interest rates remain at or below current levels for an extended period of time

9. Themes: "old v. new", "U.S. v. ROW", "aggregate data can be misleading – dig deeper", "power of brand equity, margins, and cash flow"

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