Research Outlook for 3Q 2013:
"When Does Risk Revisit the U.S.?"

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In this presentation, we discuss certain economic and market factors that we think investors should focus on in the medium term. This presentation is not meant to be an exhaustive economic overview. Outlook as of August, 2013.

Research Outlook for August 2013: *"Does Risk Revisit the U.S.?"*

Our mildly positive macro outlook continues but has now been largely priced into U.S. equity markets. Our inclination is to be cautious about sentiment and valuations. Compared to earlier this year, there seems to be universal comfort with the U.S. economic revival. We believe there is potential for an equity market correction this fall. However, we do not see a major risk.

- Again, no major changes to our mildly positive macro outlook. We do not expect any major policy changes this fall, but there is uncertainty over the Federal Reserve ("Fed") chair nominee and potential for policy turbulence as further U.S. fiscal contraction and tax reform are debated.

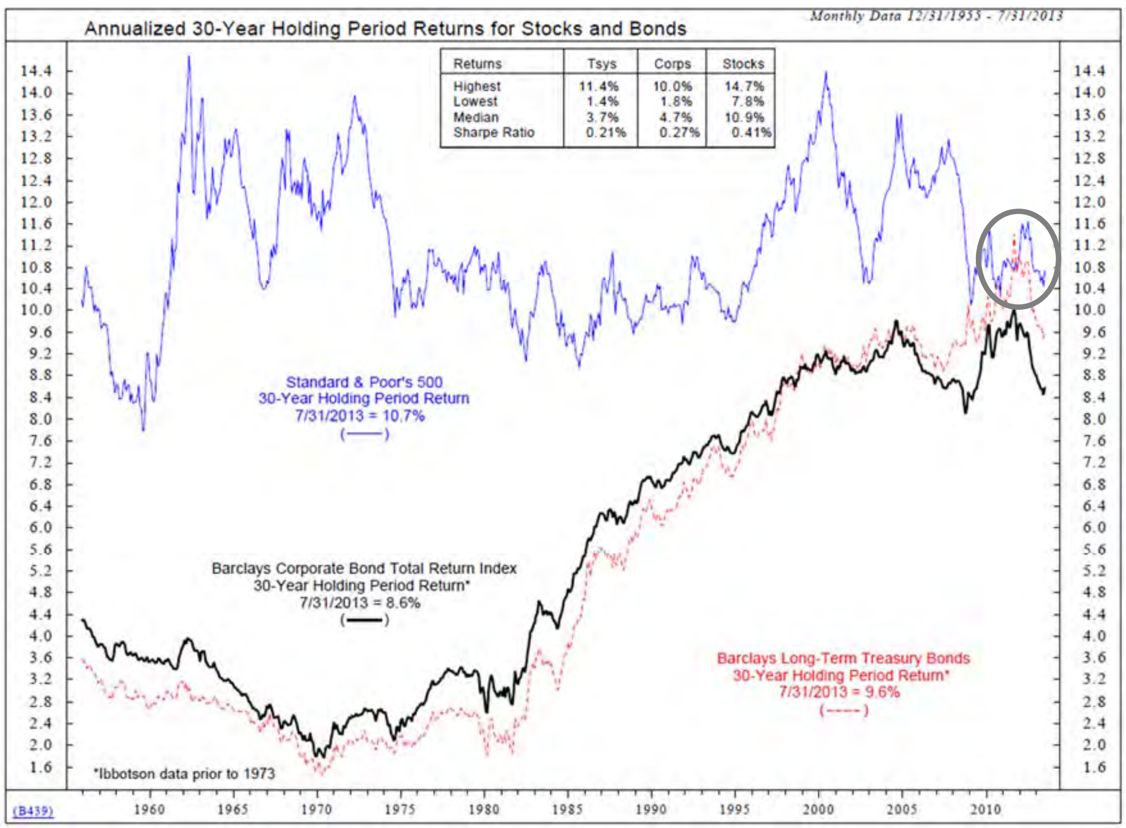
- The spike in the Shanghai interbank offering rate (Shibor) in June was another of many tests for China and the government's response demonstrated its capability of handling crises. This could be a reason why the Chinese do not appear to be concerned with slower economic growth.

- Some emerging markets currencies have crashed to 2008 levels, just as gold shares did in the second quarter. We believe there is value here, but *selectivity* may add value.

- Commodity equities started the relative outperformance that we called for last quarter. Trailing returns show there could be further appreciation.

Long Term, Stocks Better Positioned Than Bonds

- This chart illustrates again our view that the era of tremendous bond returns is likely over.
- However, battles in Washington over budgets, the debt ceiling, Obamacare funding, new Fed leadership and IRS scandals add uncertainty and risk to the fall outlook, even though both sides seem to want to avoid a shutdown.



Source: Ned Davis Research Group. As of July 31, 2013. Please see important disclosure at the end of this presentation.
Note: Government bonds and Treasury Bills are guaranteed as to the timely payment of principal and interest.

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Revisiting the Chinese Financial System

- Last quarter the one global risk we discussed—and discounted—was overleverage in the Chinese financial system. We stated that we did *not* view this as a risk to global growth. Our thesis was tested when Shibor spiked. In our opinion, the spike was a sign that policy makers are taking steps to lower the risk of funding mechanisms and to eliminate bubbles in the financial system. It is possible we are approaching the half-way mark in this process as we believe a full cycle of defaults will be the final test.

- Many of our investment professionals travel frequently to China and never cease to be amazed at the negative perceptions of some western investors. As evidenced in the chart below, 4% annual growth in China today has more impact than the 8% growth that was taking place when the iPhone was released in 2007.

Impact on Chinese Growth

		10%	*8%*	*6%*	*4%*	*2%*
Year / Event	**GDP (USD Trillions)**	**Units of growth (USD Billions; given GDP rates above)**				
2011	$7.3	$730	$584	$438	$292	$146
2007 / iPhone Release	$3.5	$350	$280	$210	$140	$70
2001 / iPod Release	$1.3	$130	$104	$78	$52	$26

Source: China National Bureau of Statistics, Van Eck Research. As of April 30, 2013. Please see important disclosure at the end of this presentation.

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Today's Rubble: EM Currencies

- In a solid economic outlook, high yield and EM credits can do well
  - Higher rates do not necessarily mean there is no value in fixed income, we believe high yield markets are attractive
  - High yield indices typically have lower duration than "investment grade" funds (4.2 for high yield to 6.6 for investment grade)*
  - The U.S. 10-year Treasury yield needs to test 3%, in our opinion
  - When the dust settles, we believe many EM credits will acquit themselves, as in 2008/2009

- FX: The truly bad camp
  - India has low growth, low rates, high inflation, and big external funding needs
  - Malaysia has large foreign ownership and its debt could potentially be downgraded

- FX: Worse-before-better camp
  - Mexican peso, Chilean peso, Peruvian sol, and Philippine peso all have potential value but are facing technical and economic headwinds

- FX: Is-it-over-yet camp *(or, could it be time to buy?)*
  - Brazilian real, and possibly even the Russian rubble and Indonesian rupiah

*Source: Creditsites, an independent research provider

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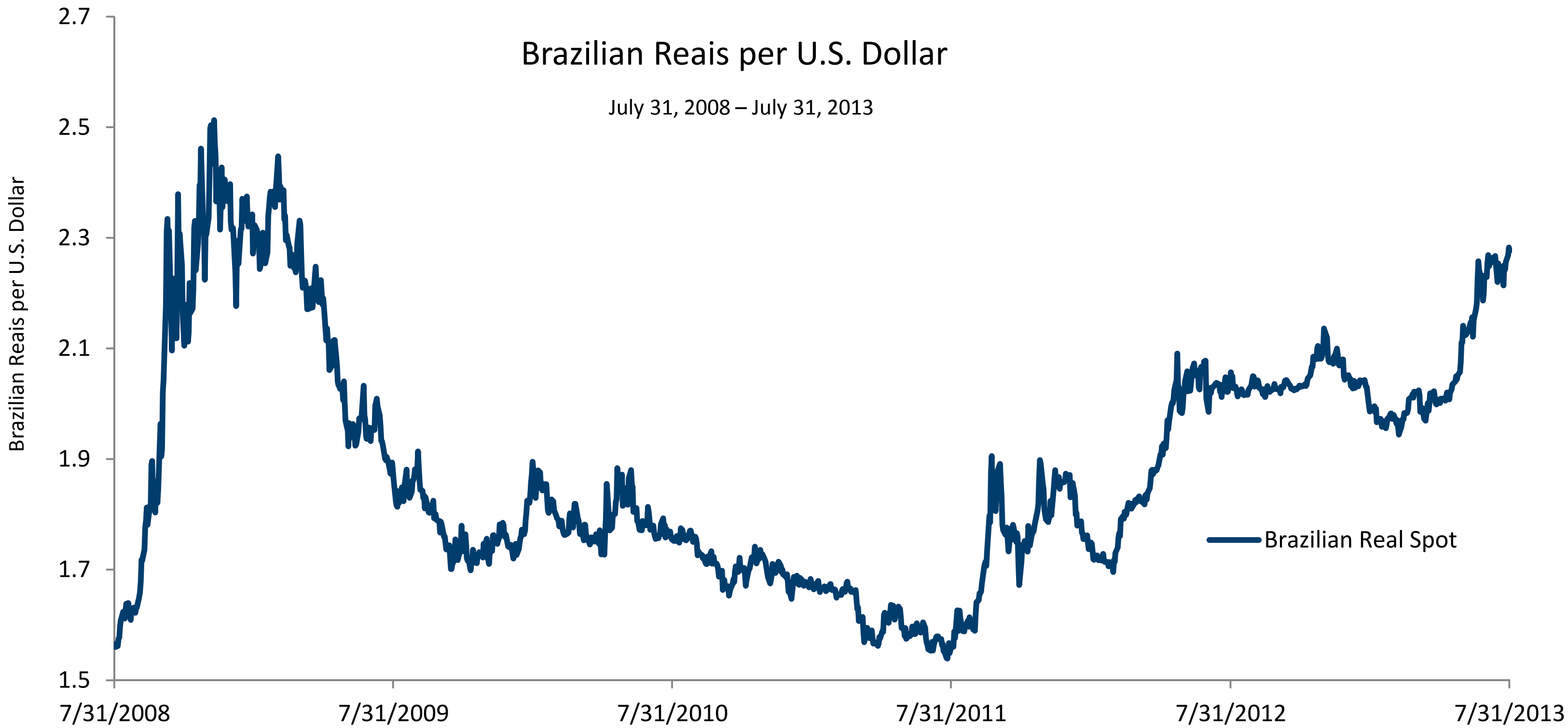
Is It Over Yet?

- The Brazilian real is revisiting its 2008 crisis levels and is approaching a buying opportunity, in our opinion.



Source: Bloomberg. As of July 31, 2013. Please see important disclosure at the end of this presentation.

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Commodity Stocks as The Most Attractive "Real Asset"

- We believe that the debt levels of developed countries are a significant long-term risk and that investors should seek diversification away from this risk through precious metals, hard assets, and strong non-USD currencies.

- To protect against this fat tail risk*, commodity stocks may be a hedge that do not carry a large opportunity cost—i.e. they have performed well in decades when that risk did not manifest itself– the '80s and '90s. (We include the components of commodity futures because the components are so important –which is why we favor a constant maturity approach).

Average Annual Total Returns/Volatility (%)

	1970s		1980s		1990s		2000s		2010s (YTD)	
	Return	Volatility	Return	Volatility	Return	Volatility	Return	Volatility	Return	Volatility
S&P GSCI Total Return Index	21.2	21.4	10.7	13.8	3.9	17.6	5.1	25.3	1.0	19.9
S&P NA Natural Resources Index	13.7	14.0	**15.0**	14.0	**10.4**	15.0	9.2	23.5	6.0	22.5
NYSE Arca Gold Miners Index	14.5	30.7	8.1	34.2	-1.8	33.2	16.5	38.3	-10.8	34.3
S&P 500 Index	5.9	16.0	**17.6**	16.4	**18.2**	13.4	-1.0	16.1	13.8	14.8
BarCap U.S. Agg Bond Index	4.9	4.9	2.4	8.5	7.7	3.9	6.3	3.8	5.8	2.4
S&P GSCI Spot Return	8.9	22.3	-1.4	13.8	-0.6	17.0	10.4	24.9	5.4	19.9
S&P GSCI Roll Yield	4.8	--	2.4	--	-0.5	--	-8.3	--	-4.4	--
S&P GSCI Cash Yield	7.6	--	9.6	--	5.0	--	2.9	--	0.0	--

Commodity Equities ("labeled as S&P NA Natural Resources Index") use a subset of the Goldman Sachs Natural Resources Index constituents from 1970-1999 and the S&P North American Natural Resources Sector Index (SPGINRTR) from 2000-present.
Gold Shares ("labeled as "NYSE Arca Gold Miners Index ") use the World Gold Index from 1970-1999; Amex Gold Miner's Index (GDM) from 2000-present.
For the BarCap Global Aggregate Bond Index, 1970's data is from February 29, 1976 through December 31, 1979, due to data unavailability.

Source: Bloomberg. As of April 30, 2013. Please see important disclosure and index disclaimers at the end of this presentation.
* Tail risk arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution.

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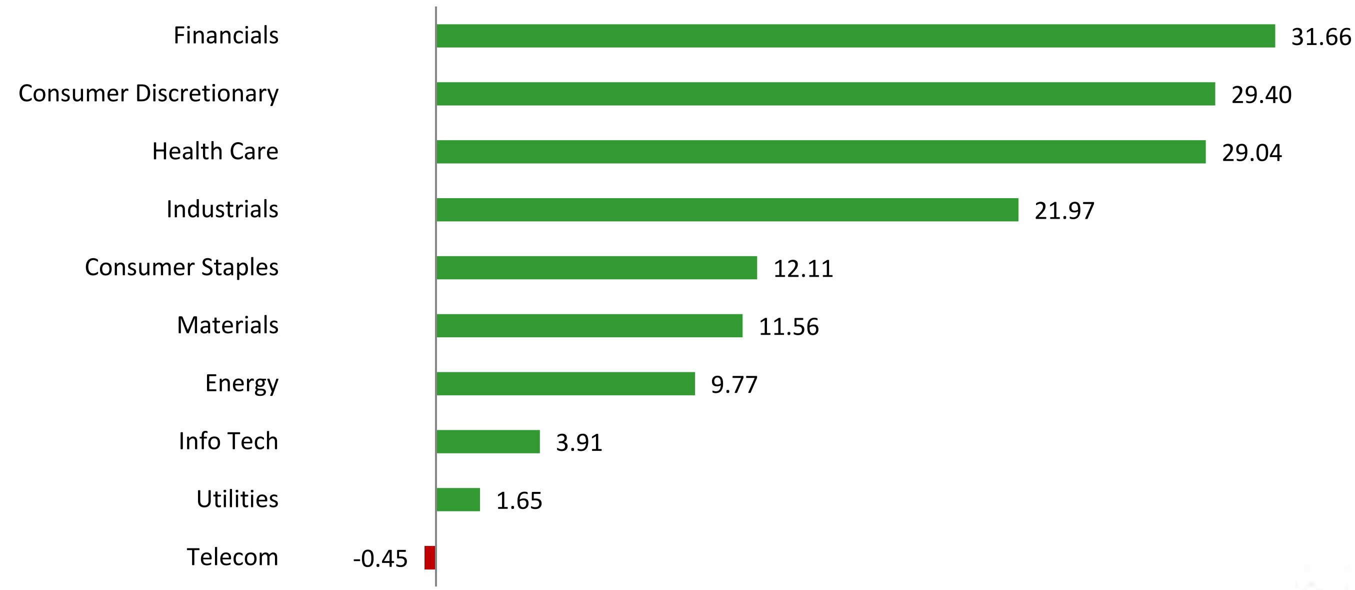
Cyclicals on Their Way Back

- Last quarter, we pointed out that cyclical stock valuations relative to defensive stocks are at their lowest levels in decades and were correct that materials and energy would start outperforming on a relative basis.
- We expect further mean-reversion but, as indicated by the chart below, this trend has a long way to go to reverse the performance over the past twelve months.
- In line with our cautious tone, however, we would not be surprised if the “hot” sectors fell and cyclicals rose while the S&P stayed the same (+/- 10%).

12-Month Trailing Returns for S&P 500 Sectors



Source: Bloomberg. Data As of July 31, 2013. Please see important disclosure at the end of this presentation.

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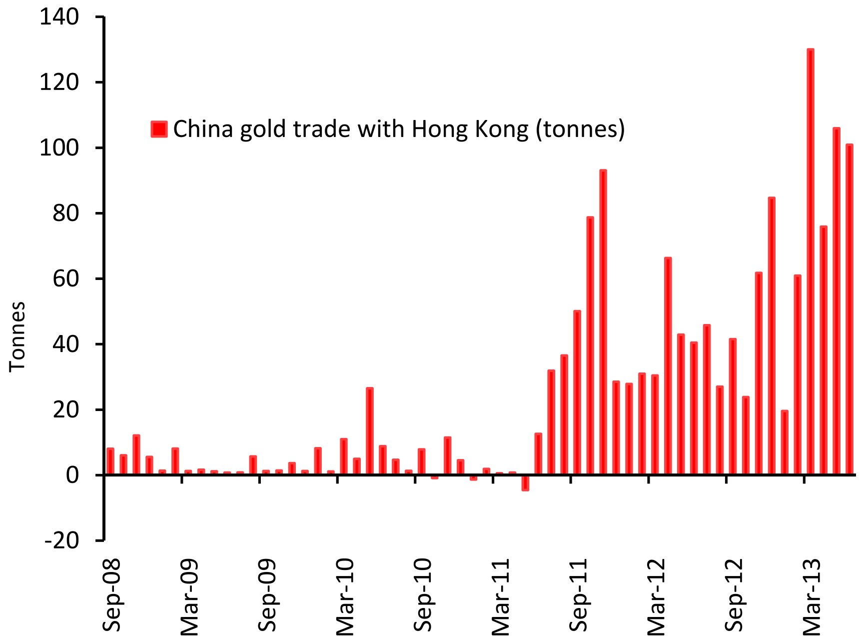
A Re-Shuffling of Factors in The Gold Market

- In the first half of 2013 Chinese physical gold consumption rose 50%. In a U.S.-centric world, higher real interest rates would stifle gold; today Asia's wealth demand is a strong independent force.
- There may not be sentiment indicators for gold, but stabilization in bullion ETF holdings indicates selling is bottoming out.



Chinese Citizens Wait in Line to Purchase Gold

Source: zerohedge.com 6/14/2013

Source: Compustat, I/B/E/S, and Goldman Sachs Global ECS Research. As of May 2, 2013. Please see important disclosure at the end of this presentation.

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The **Barclays Capital Aggregate Bond Index** is a market capitalization-weighted index representing most U.S. traded investment grade bonds. The index comprises government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturity of the bonds in the index are over one year.

The **NYSE Arca Gold Miners Index** is a modified market capitalization-weighted index composed of publicly traded companies involved primarily in the mining for gold. The Index is calculated and maintained by the New York Stock Exchange.

The **S&P® GSCI Total Return Index** is a world production-weighted commodity index comprised of 24 liquid, exchange-traded futures contracts.

The **S&P® North American Natural Resources Sector (SPGINRTR) Index** is a modified capitalization-weighted index which includes companies involved in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations.

The **S&P® 500 Index** is a market value-weighted index that consists of 500 widely held common stocks, covering four broad sectors (industrials, utilities, financial and transportation). Full list of sector indices include financials, consumer discretionary, healthcare, industrials, consumer staples, materials, energy, info tech, utilities, telecom.

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