Baird Market & Investment Strategy

2015 Economic & Stock Market Outlook

Supplemental Chart Pack

December 12, 2014

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Please refer to Appendix – Important Disclosures.

The following charts and comments are meant to augment the positions laid out in our 2015 Economic and Stock Market Outlook (Weight of the Evidence Pointing North).

Except where otherwise noted, the source for these charts is Ned Davis Research.

Our approach is more about managing risk than making forecasts and the current evidence tilts bullish

Fundamental Factors		
• Federal Reserve Policy	Bullish	+1
• Economic Fundamentals	Bullish	+1
• Valuations	Bearish	-1
Technical Factors		
• Investor Sentiment	Neutral	0
• Seasonal Influences	Bullish	+1
• Tape	Neutral	0

Weight of the Evidence = +2 Mildly Bullish

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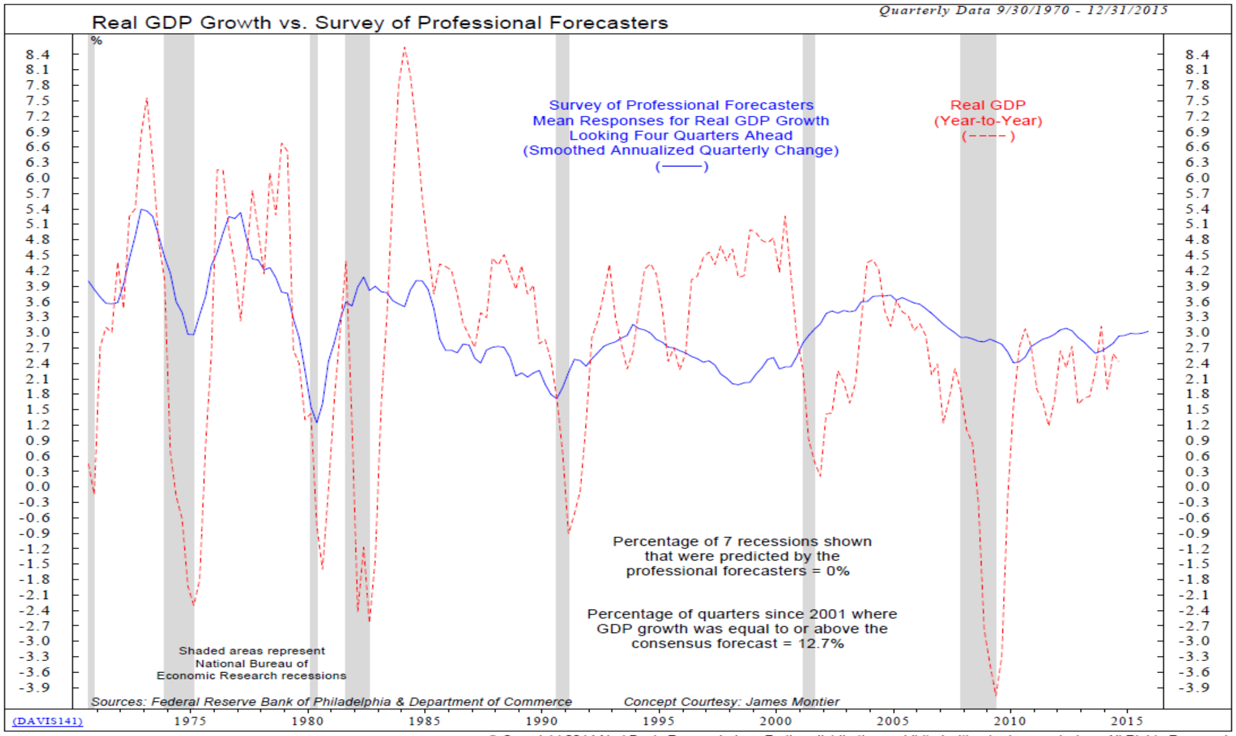
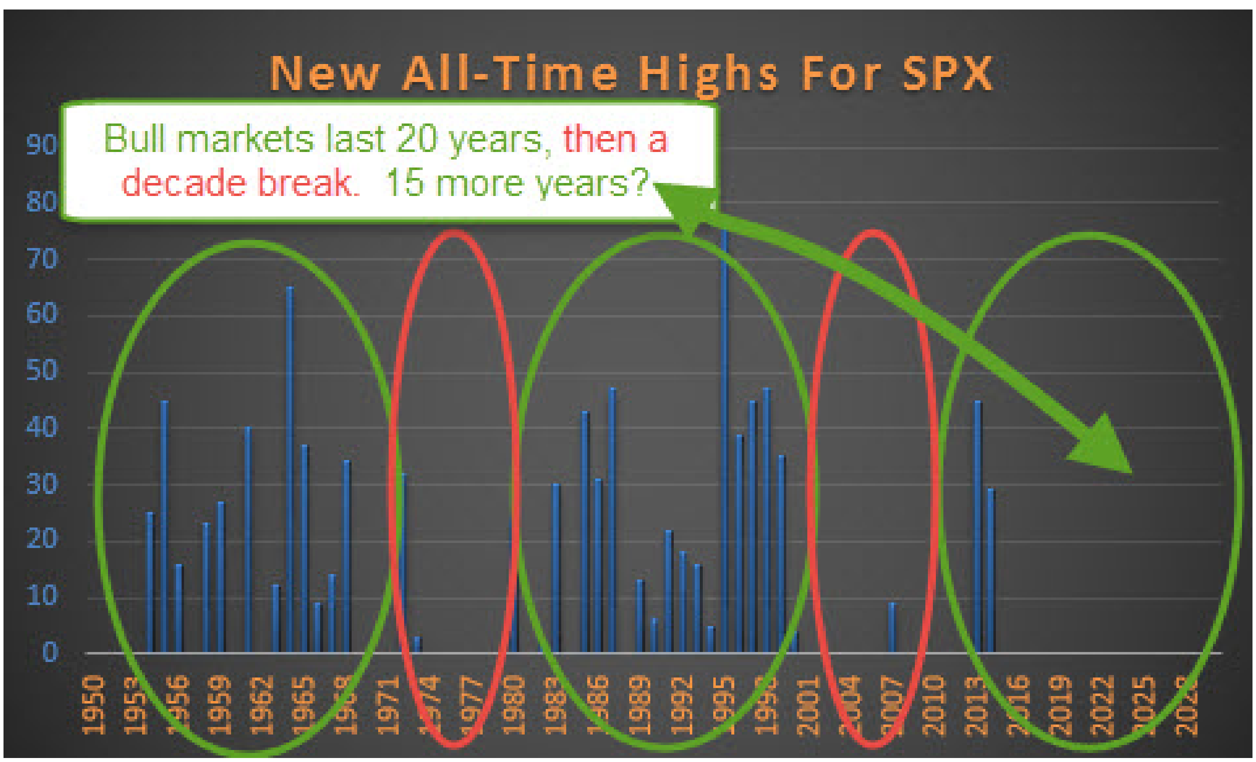
In a secular bull, forecasts go from being consistently too optimistic to too pessimistic

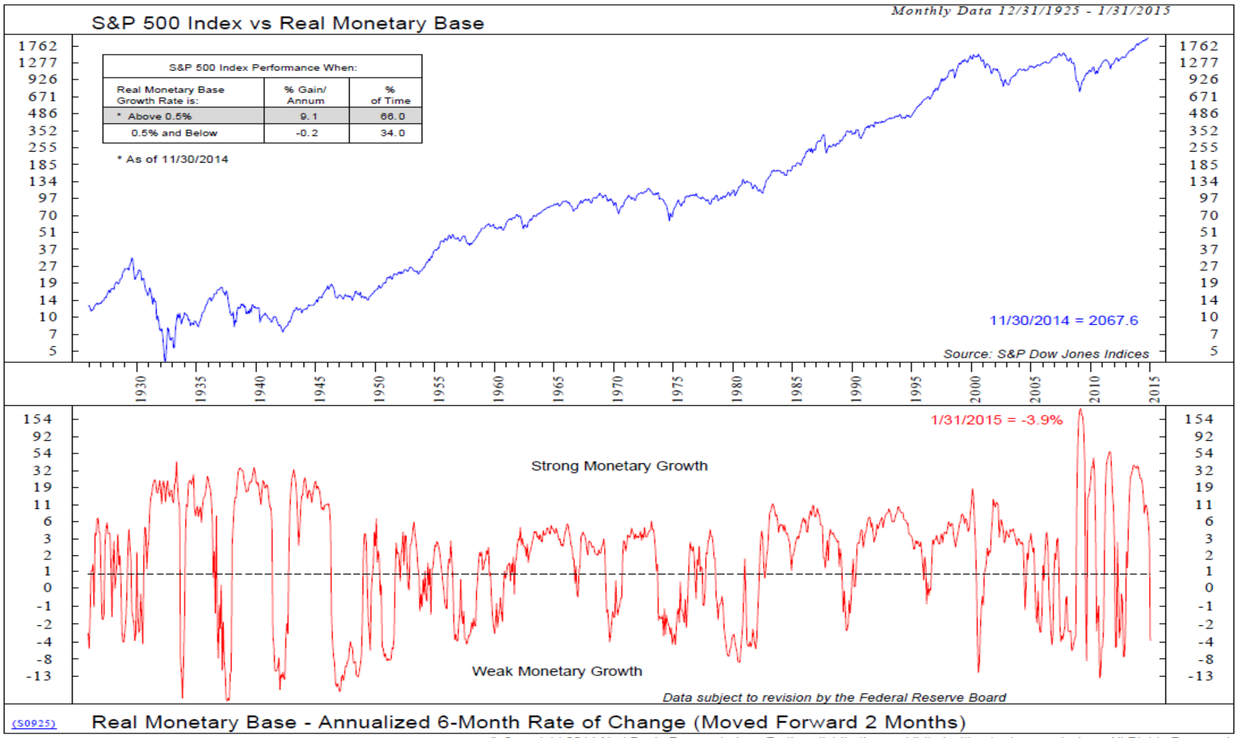


Secular bull markets are also marked by clusters of new market highs

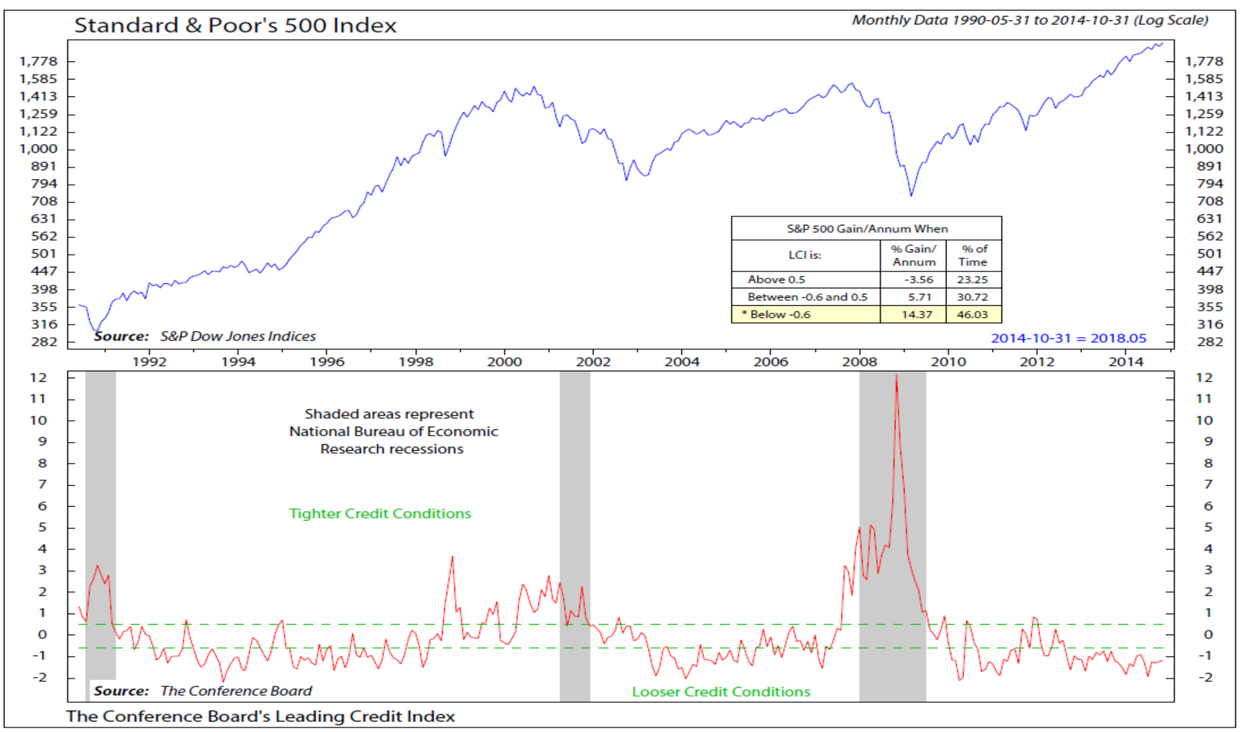


Source: Ryan Detrick

With QE done with and the Fed now on the sidelines, monetary growth is cooling



Credit conditions remain favorable however



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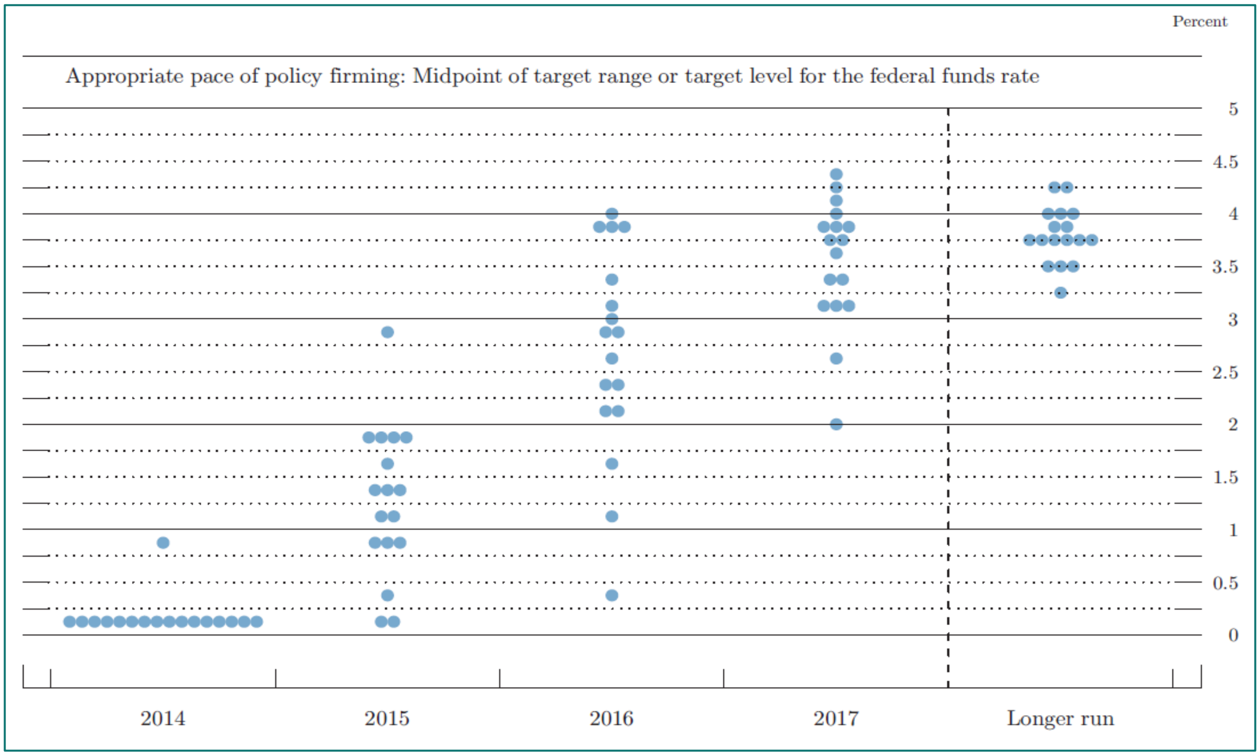
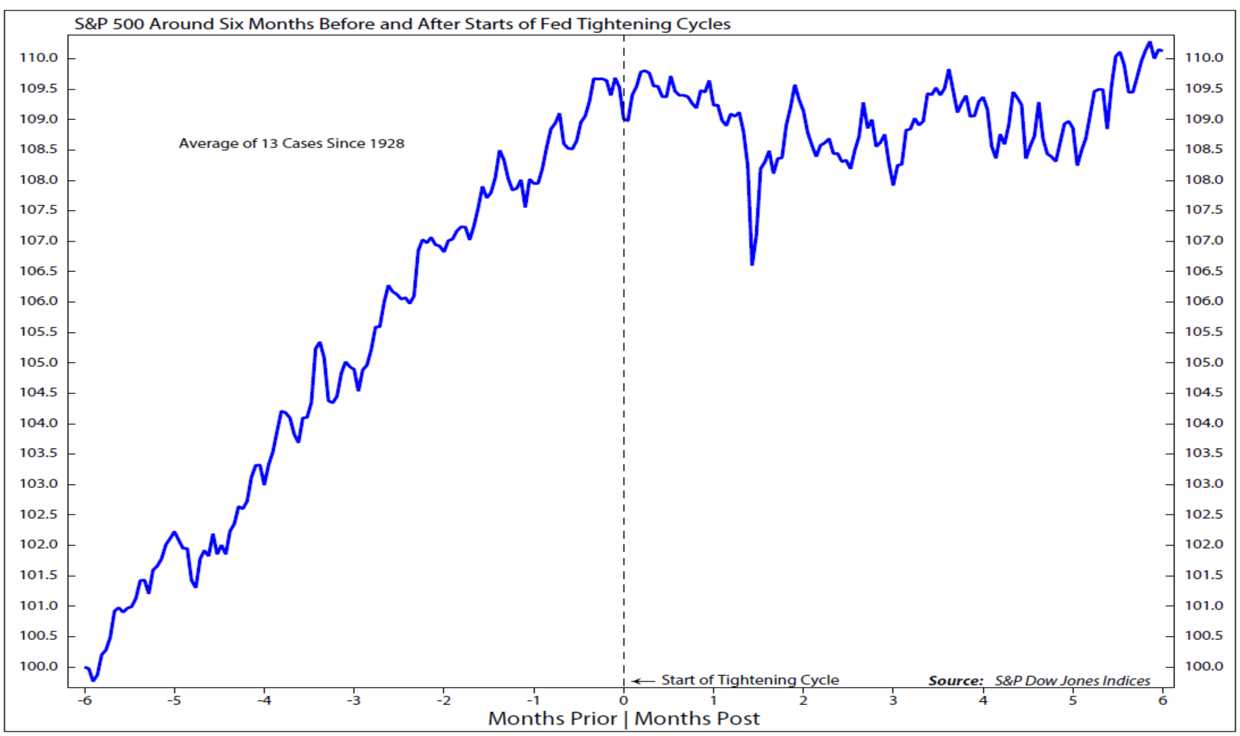
FOMC members think the Fed may begin raising rates in 2015 – we are skeptical

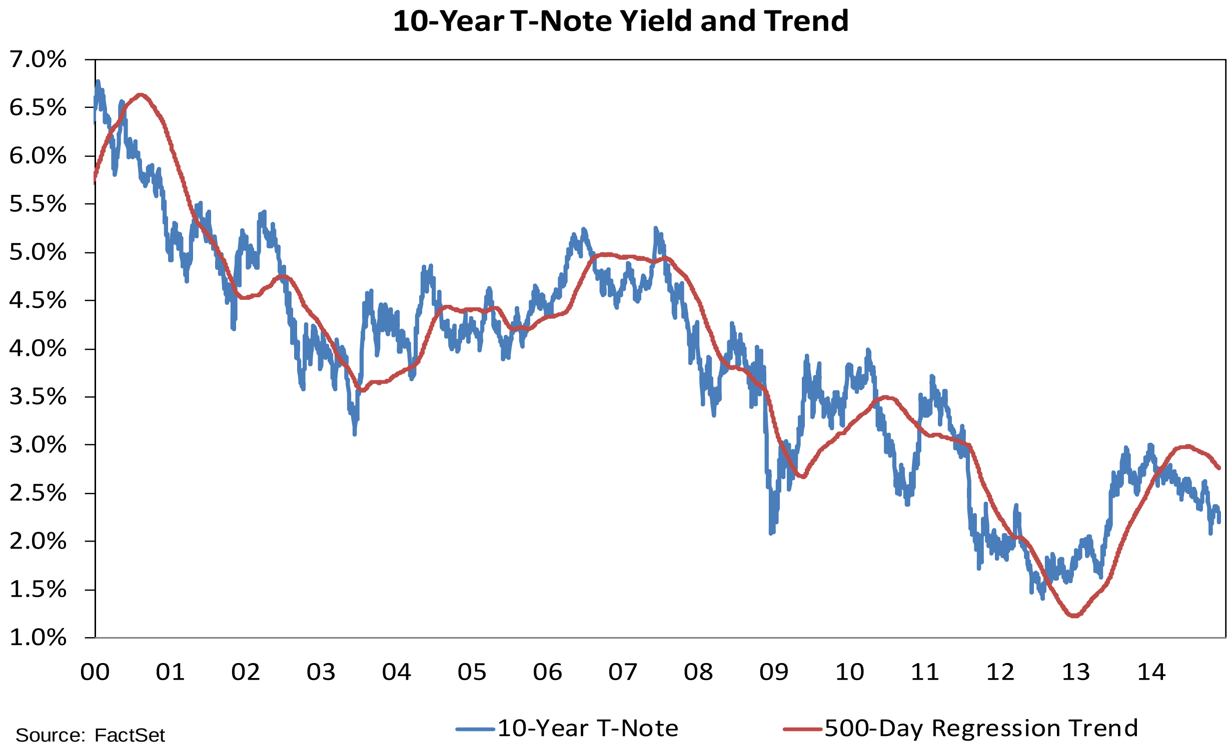


Source: Federal Reserve

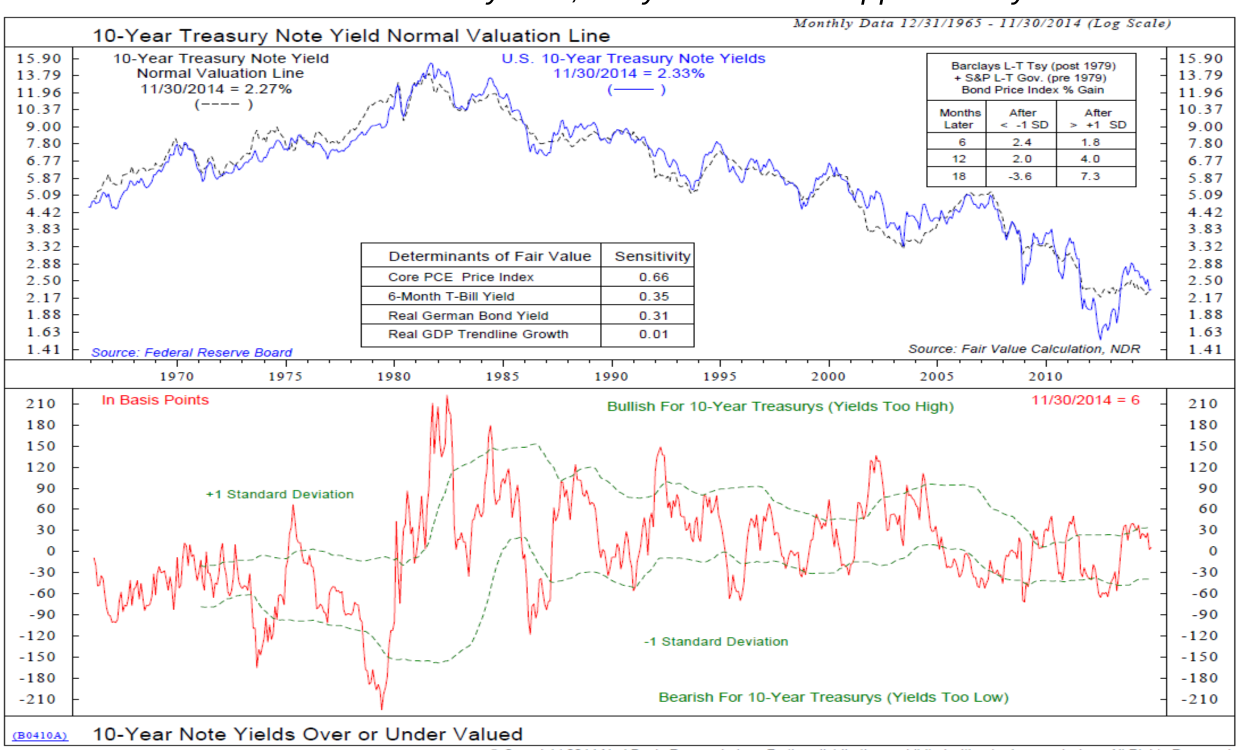
History suggests stocks could rally into and in the wake of initial rate hikes



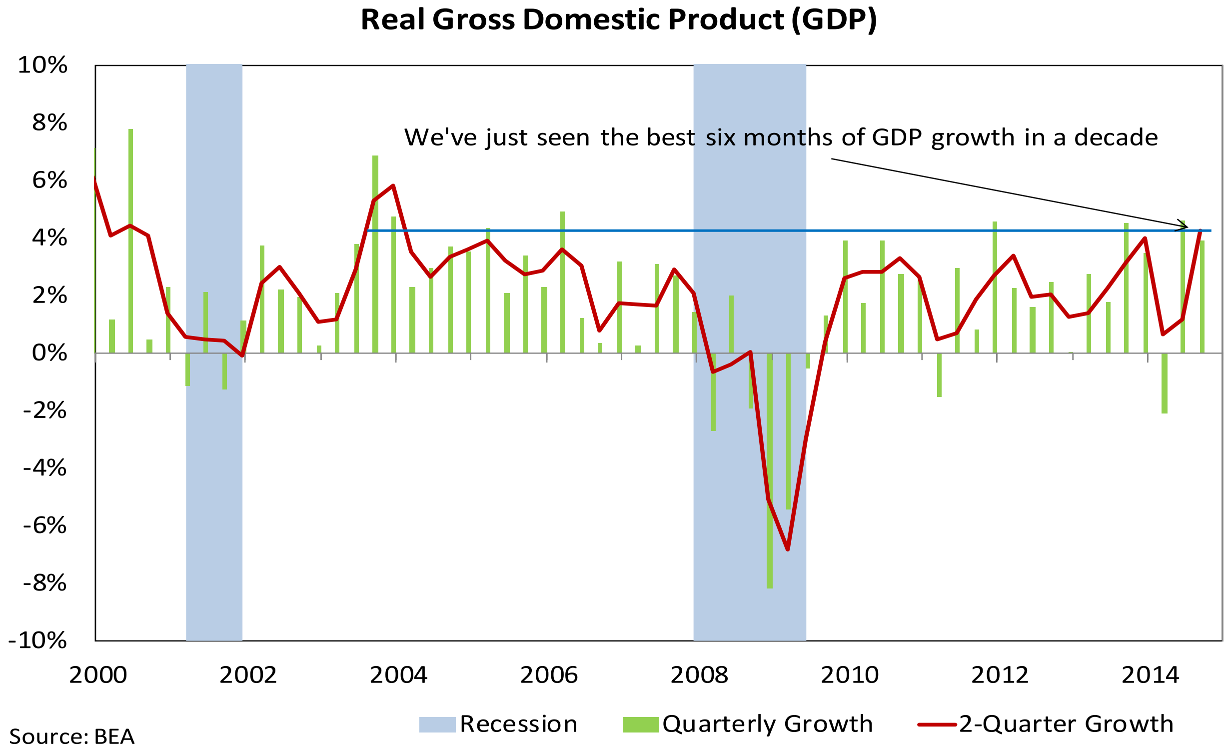
Despite many investors looking for it, a rising rate environment remains elusive



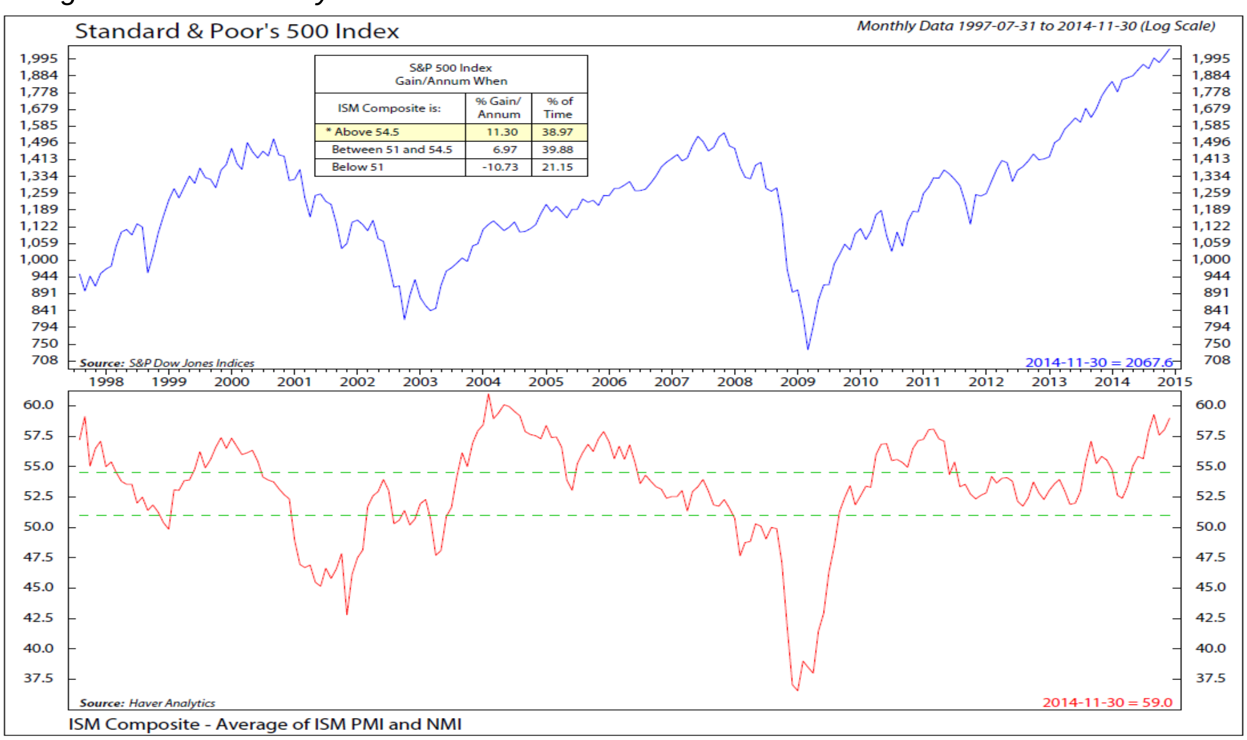
Based on inflation and other bond yields, 10-year T-Notes appear fairly valued



Economic growth is improving but putting multiple quarters of strength together is key

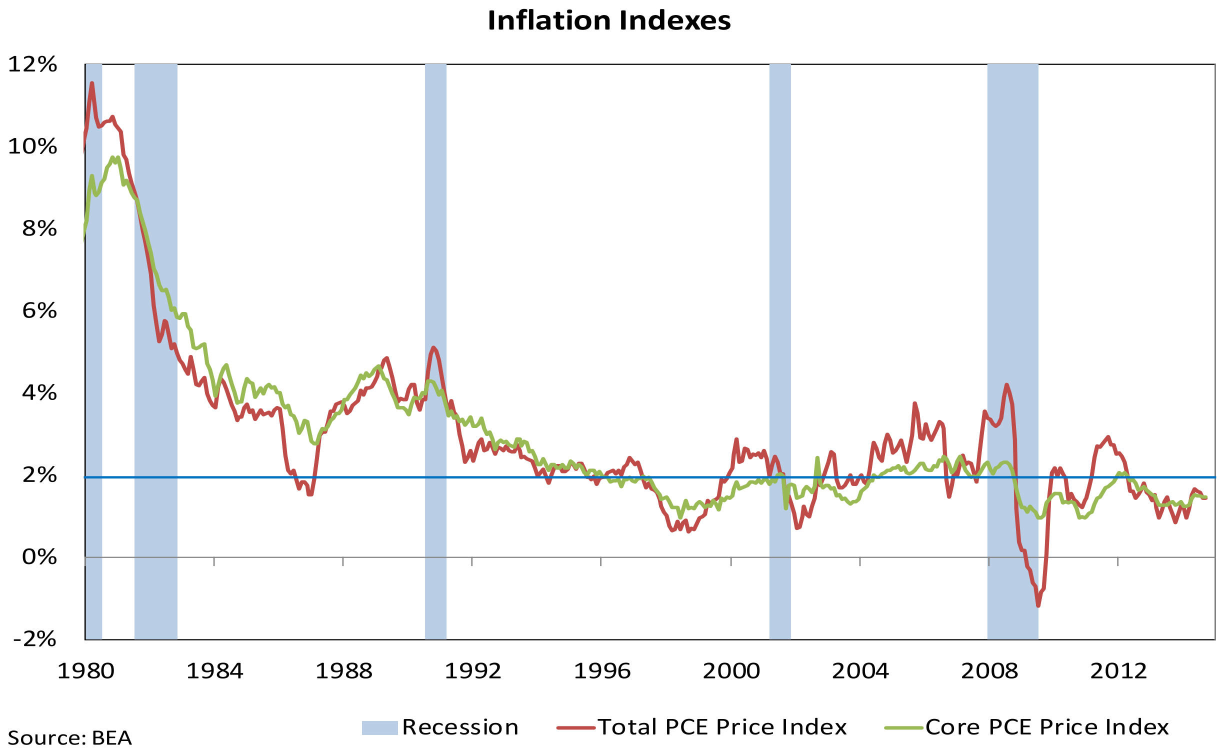


Strong business activity reflected in the ISM data is bullish for stocks

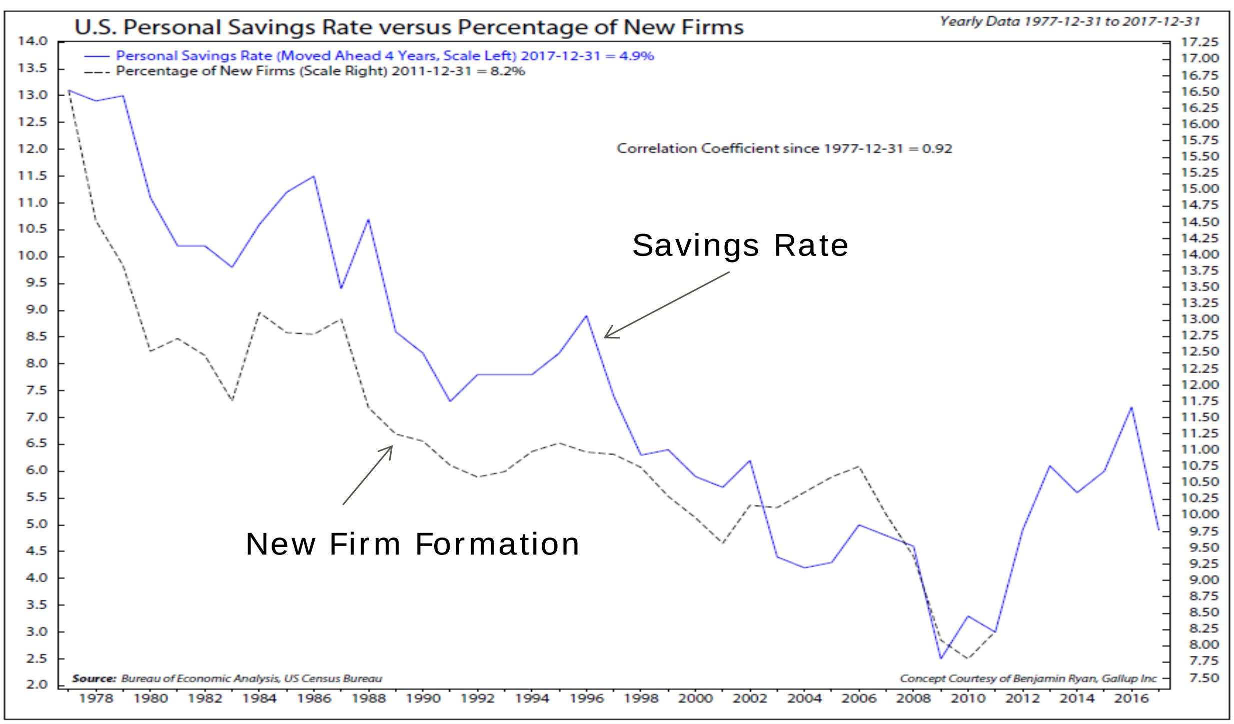


S&P 500 Index Gain/Annum When		
ISM Composite is:	% Gain/ Annum	% of Time
* Above 54.5	11.30	38.97
Between 51 and 54.5	6.97	39.88
Below 51	-10.73	21.15

Inflation remains below the Fed's 2% target



Better savings rates could help new firm formation, and the economy overall



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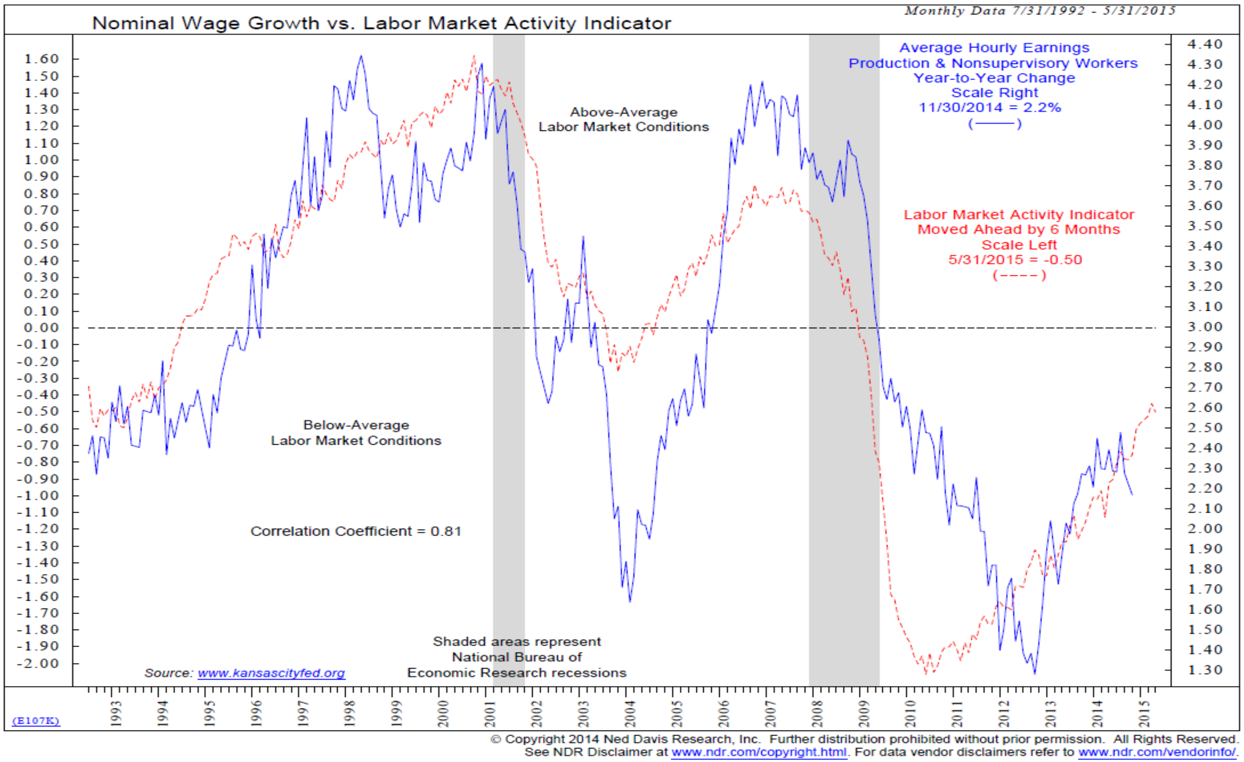
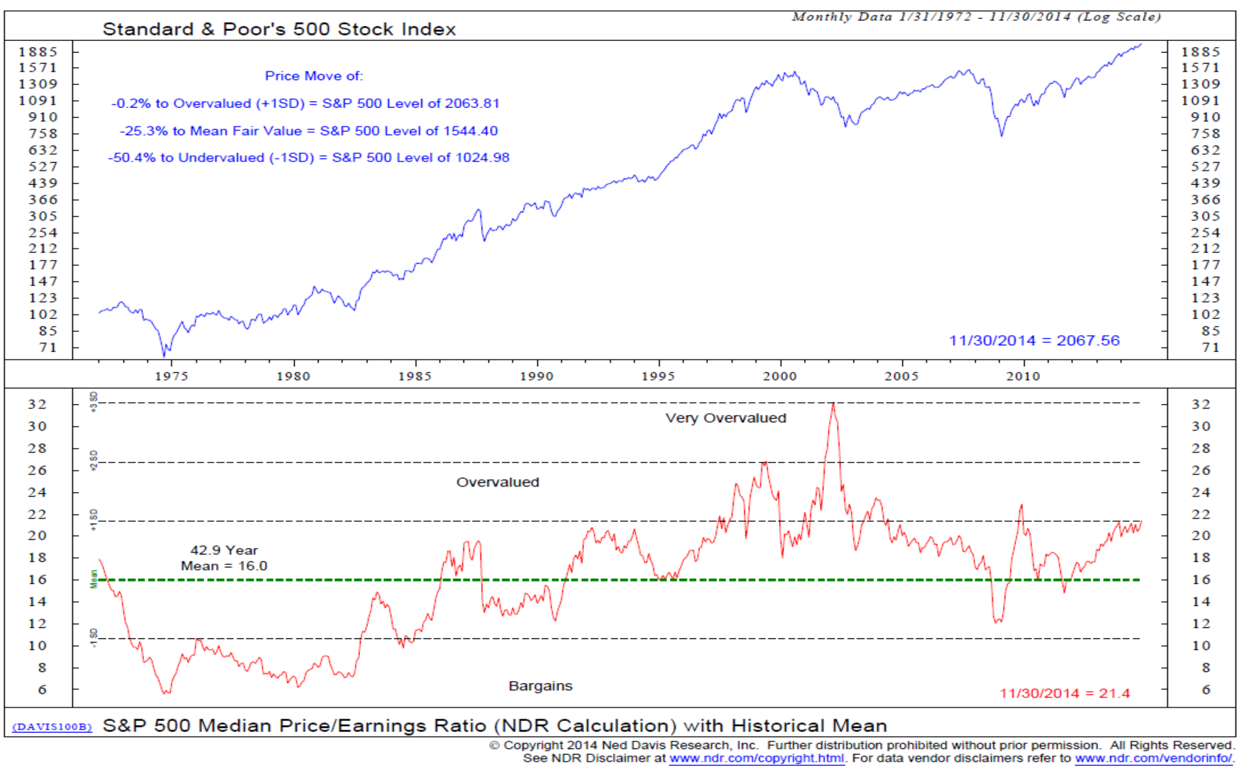
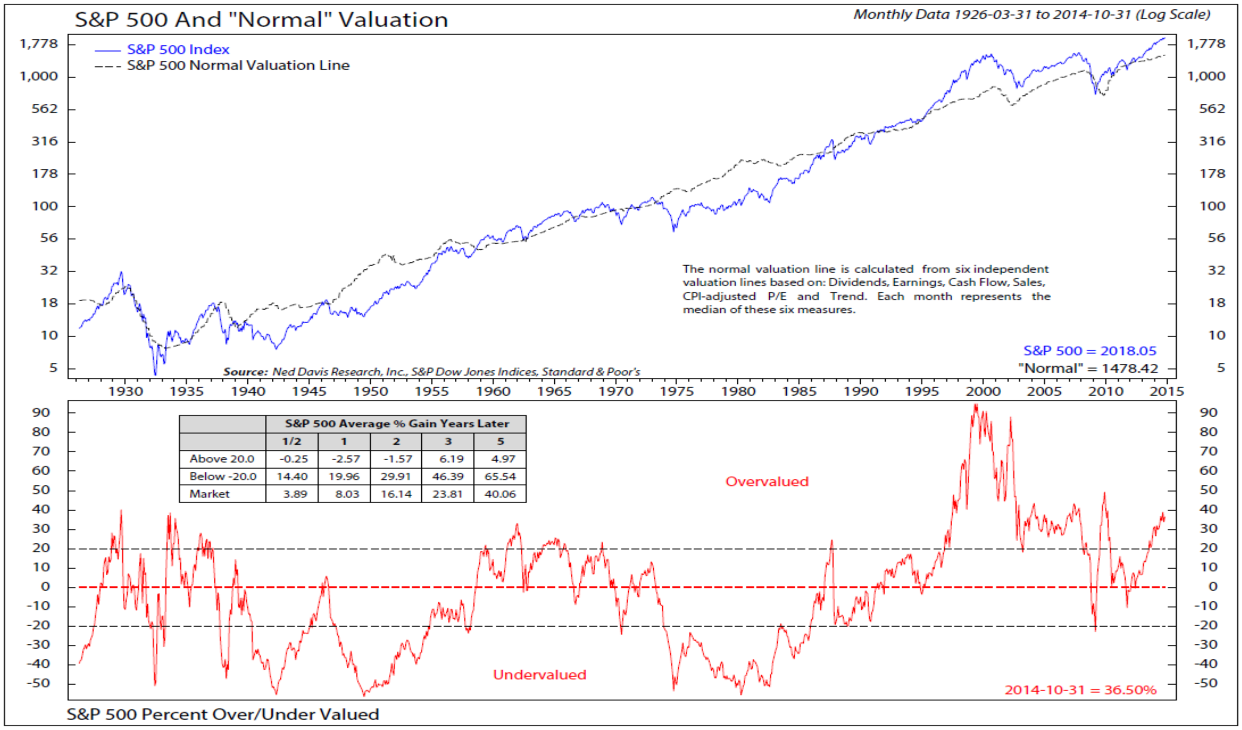
Wage growth remains lackluster, although it could drift higher in 2015



Valuations suggest stock prices are overbought relative to fundamentals



Overvaluation may depress forward returns, and is a primary risk for stocks in 2015



	S&P 500 Average % Gain Years Later				
	1/2	1	2	3	5
Above 20.0	-0.25	-2.57	-1.57	6.19	4.97
Below -20.0	14.40	19.96	29.91	46.39	65.54
Market	3.89	8.03	16.14	23.81	40.06

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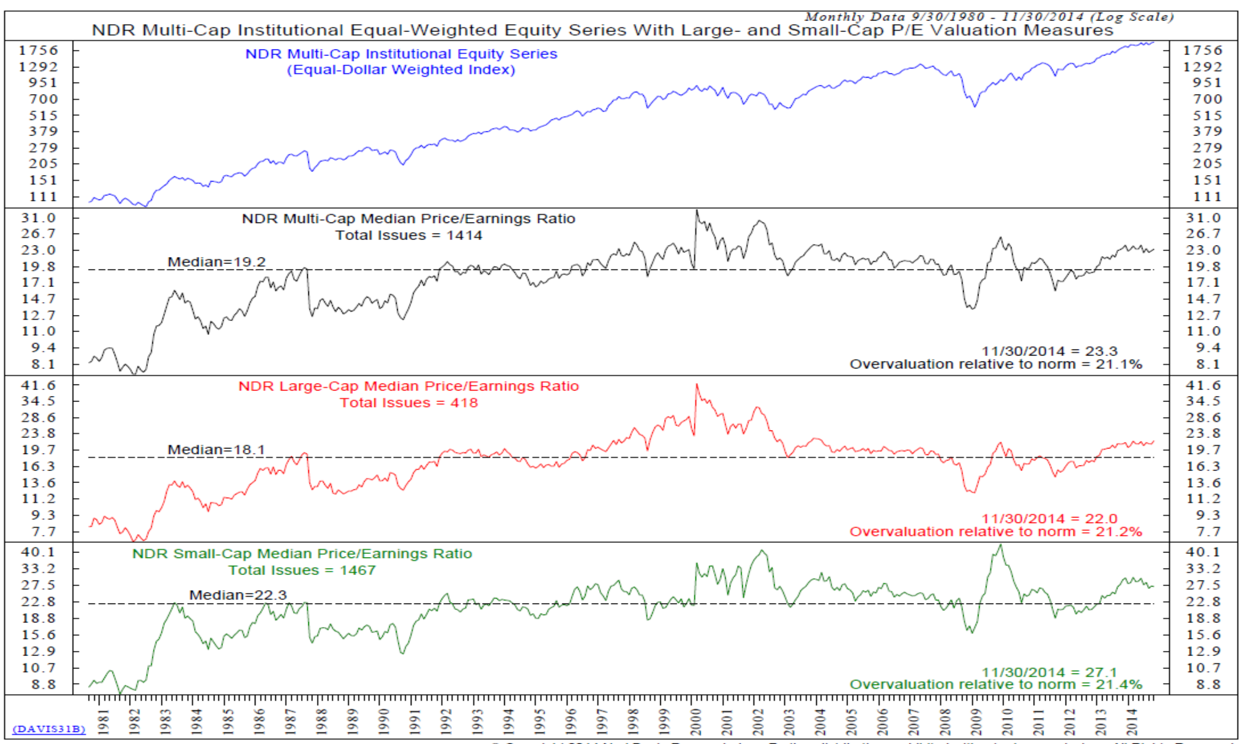
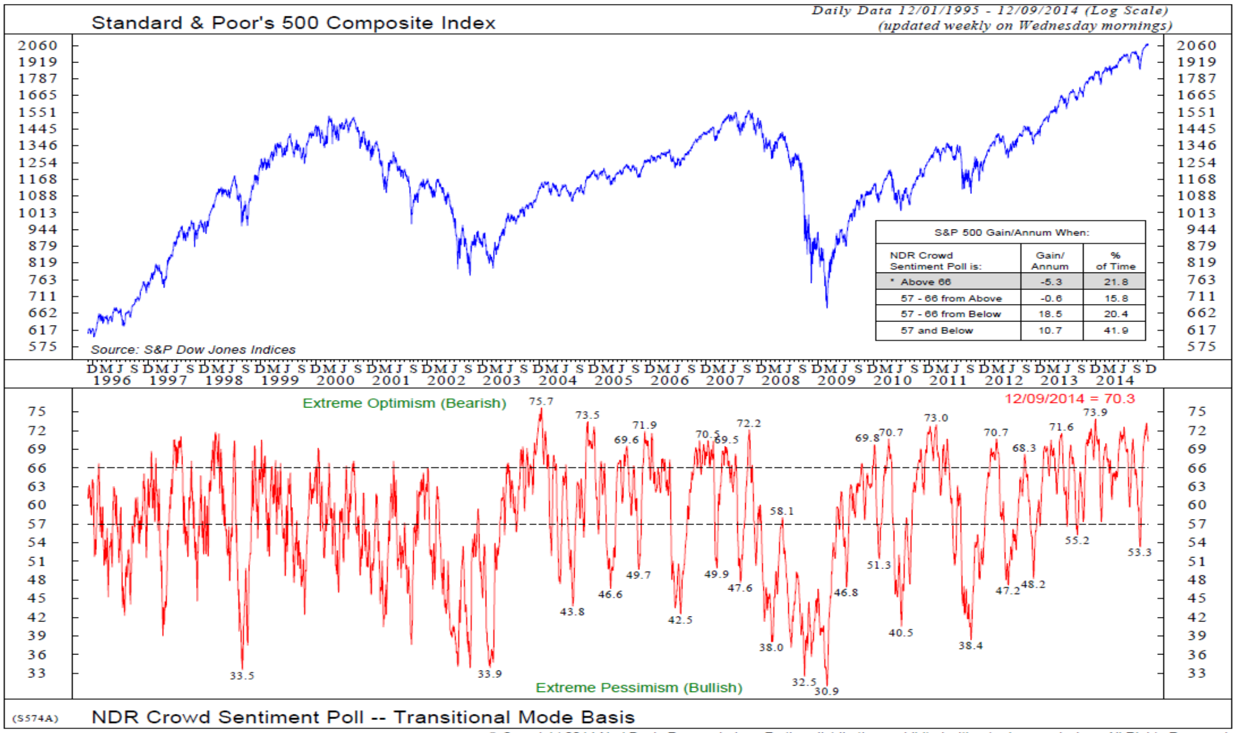
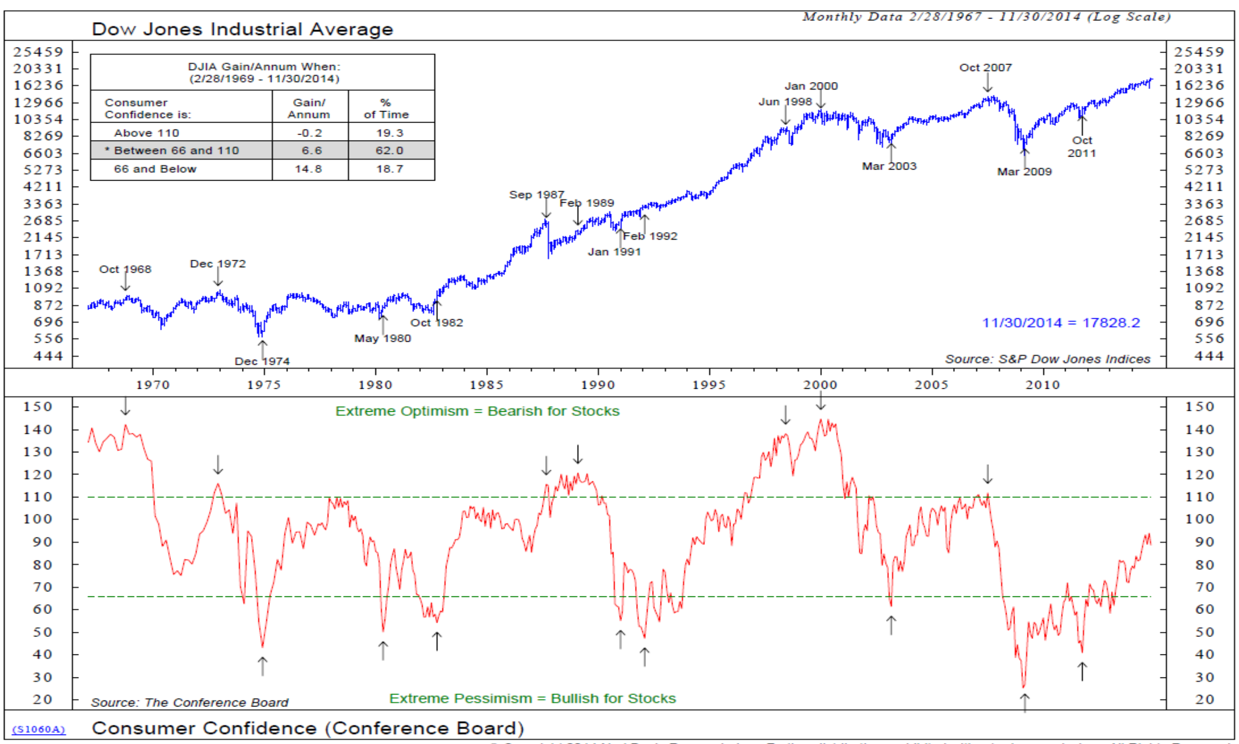
Relative weakness in small-caps in 2014 removed the large-cap valuation advantage



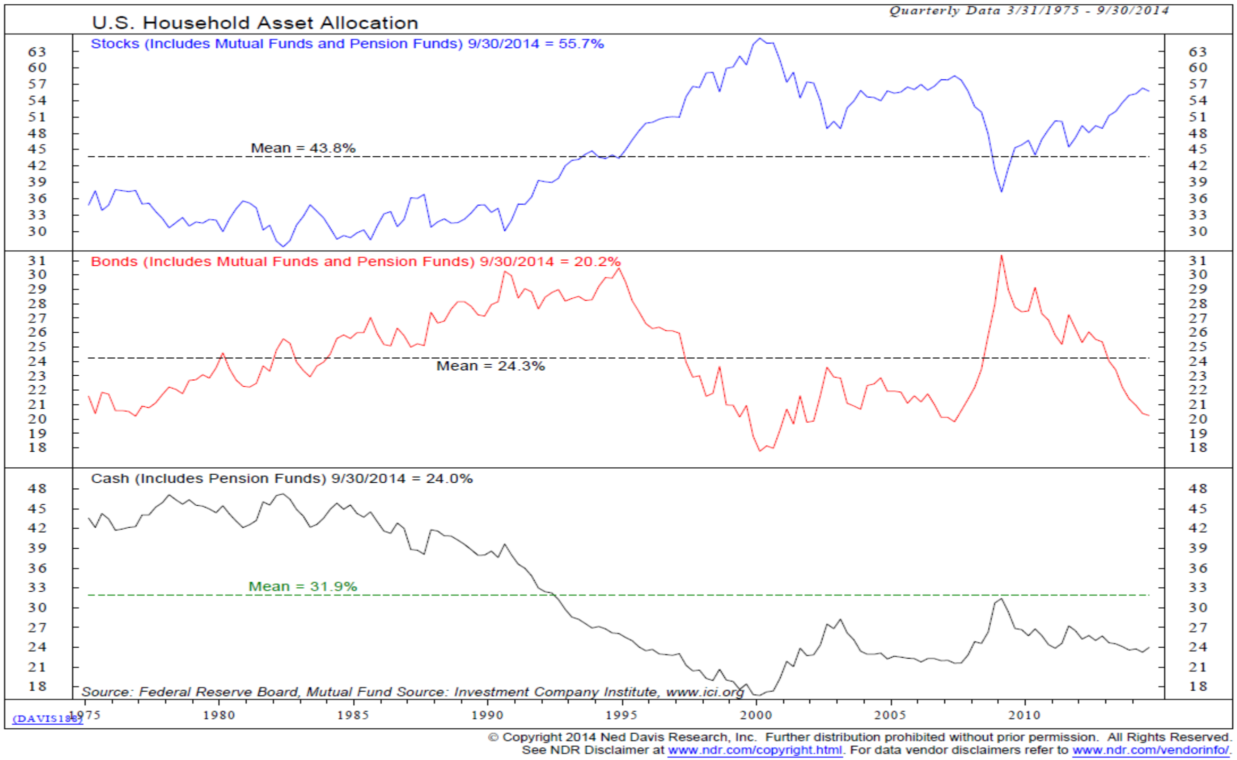
The crowd is showing excessive optimism as we head into 2015



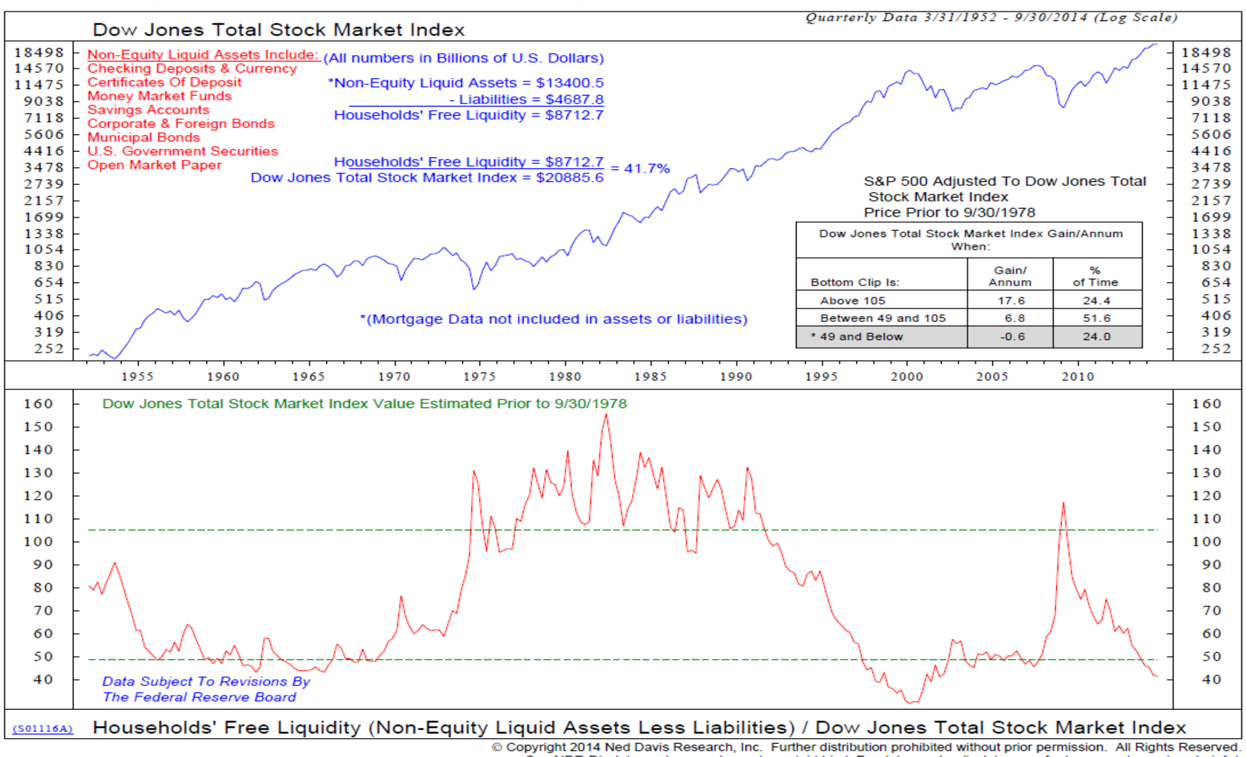
Views on Main Street are improving, but confidence remains muted



Household exposure to equities is approaching levels seen in 2000 and 2007



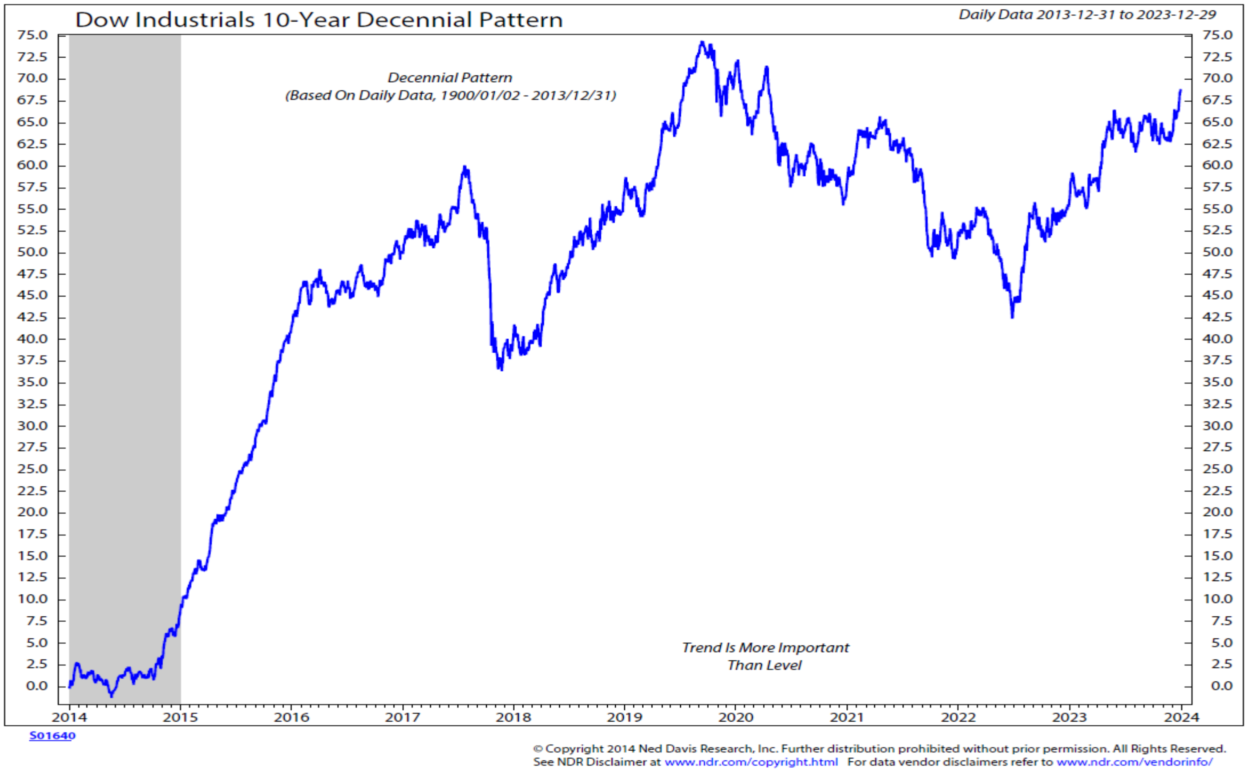
Investor illiquidity could make for a bumpy ride in 2015



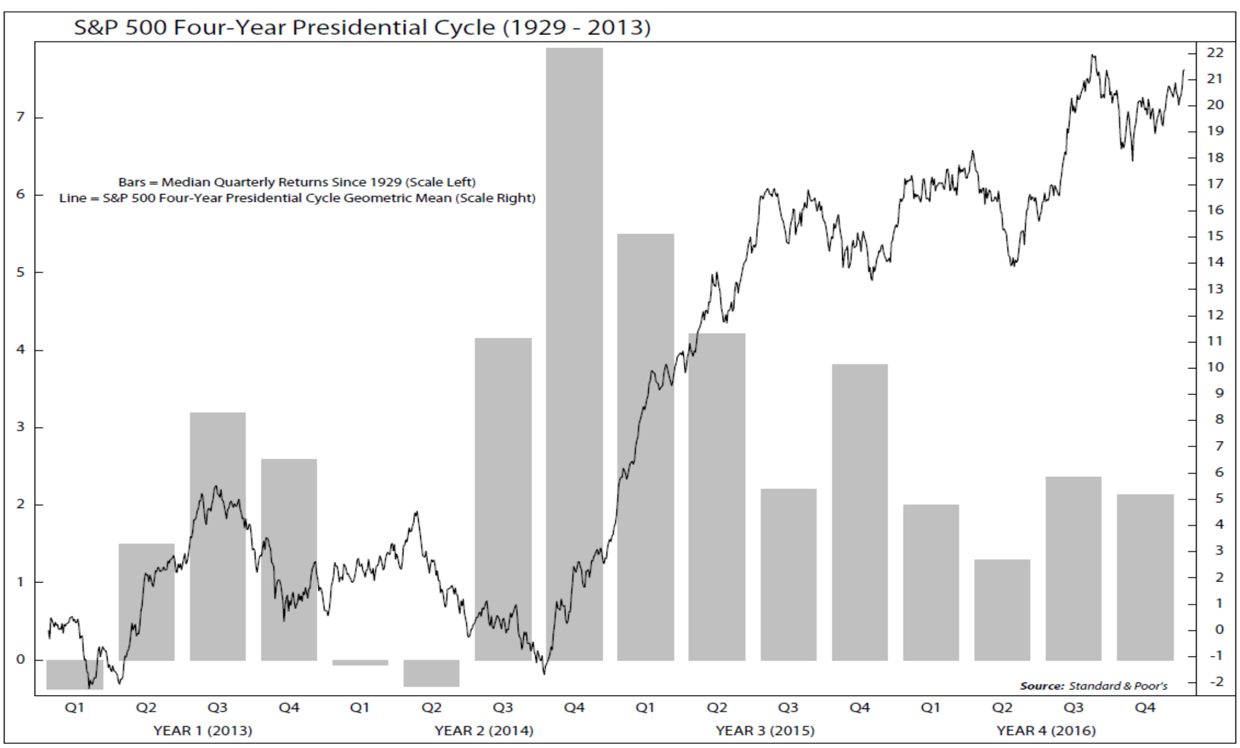
Dow Jones Total Stock Market Index Gain/Annum When:

Bottom Clip Is:	Gain/ Annum	% of Time
Above 105	17.6	24.4
Between 49 and 105	6.8	51.6
* 49 and Below	-0.6	24.0

Years ending in "5" have not been down over the past century-plus

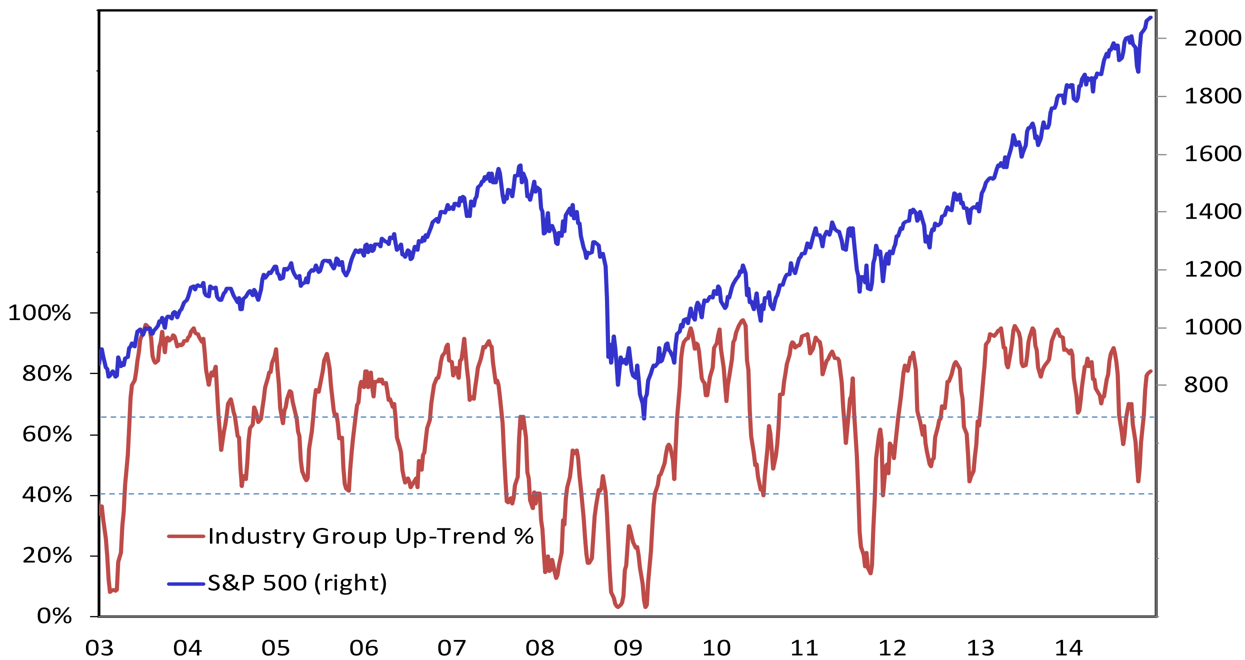


The strongest part of the entire Presidential Cycle persists into mid-2015



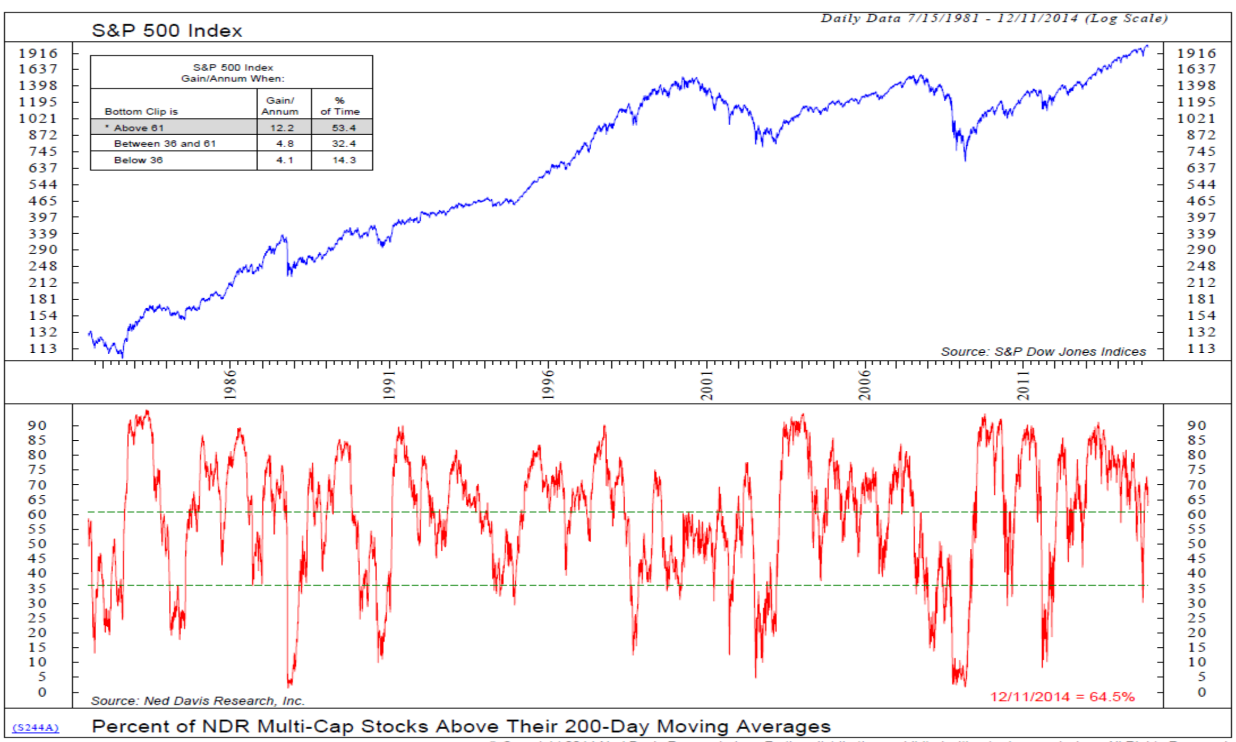
Breadth deteriorated over the course of 2014 but is now showing signs of improving

S&P 500 and Industry Group Breadth

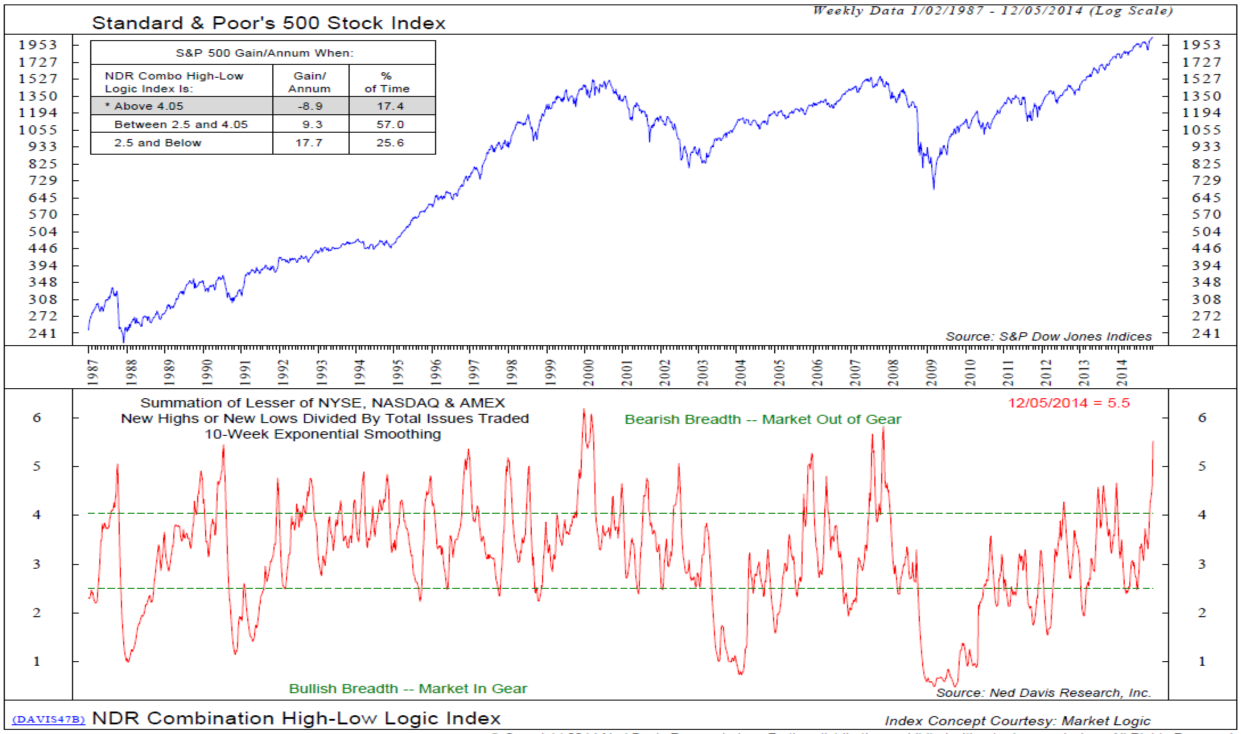


Source: FactSet, RWB Calculations

Increased rally participation late in 2014 bodes well for 2015



Based on new highs/lows, breadth remains out of gear heading into 2015



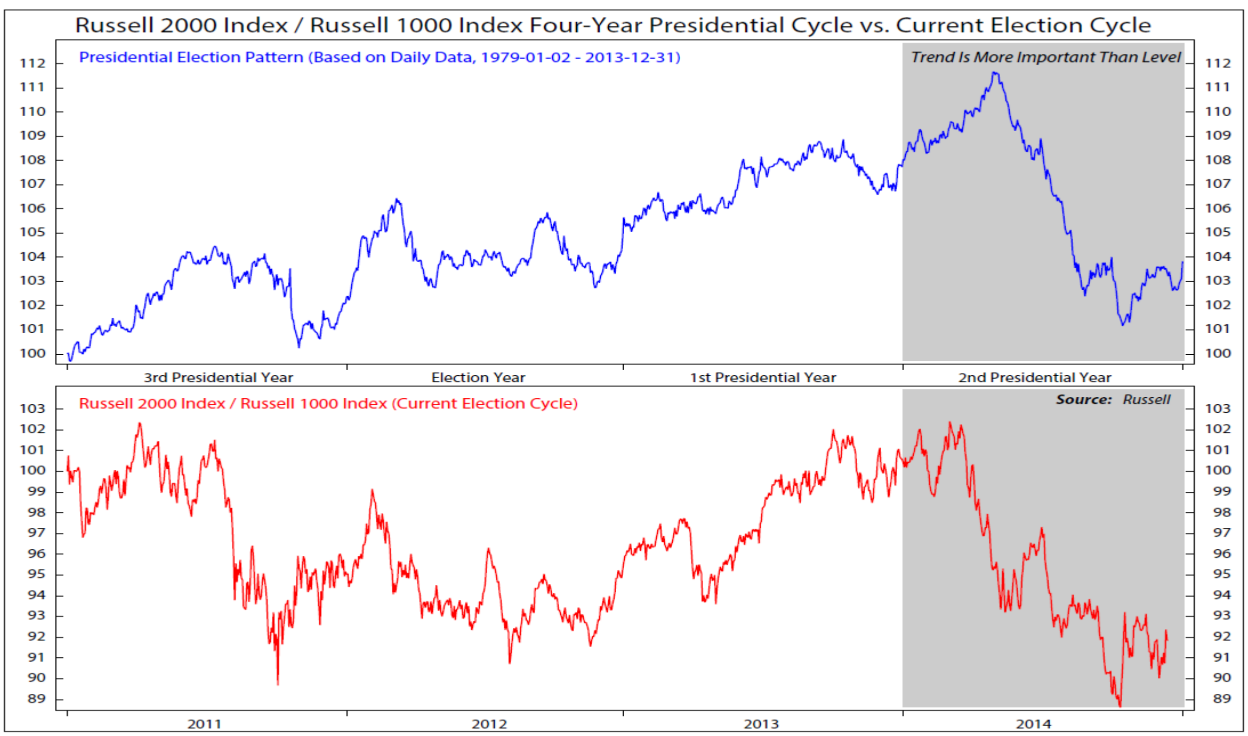
U.S. stocks remain in an up-trend versus the rest of the world

Source: StockCharts

Small-caps underperformed large-caps in 2014, but 2015 could be different

Source: StockCharts

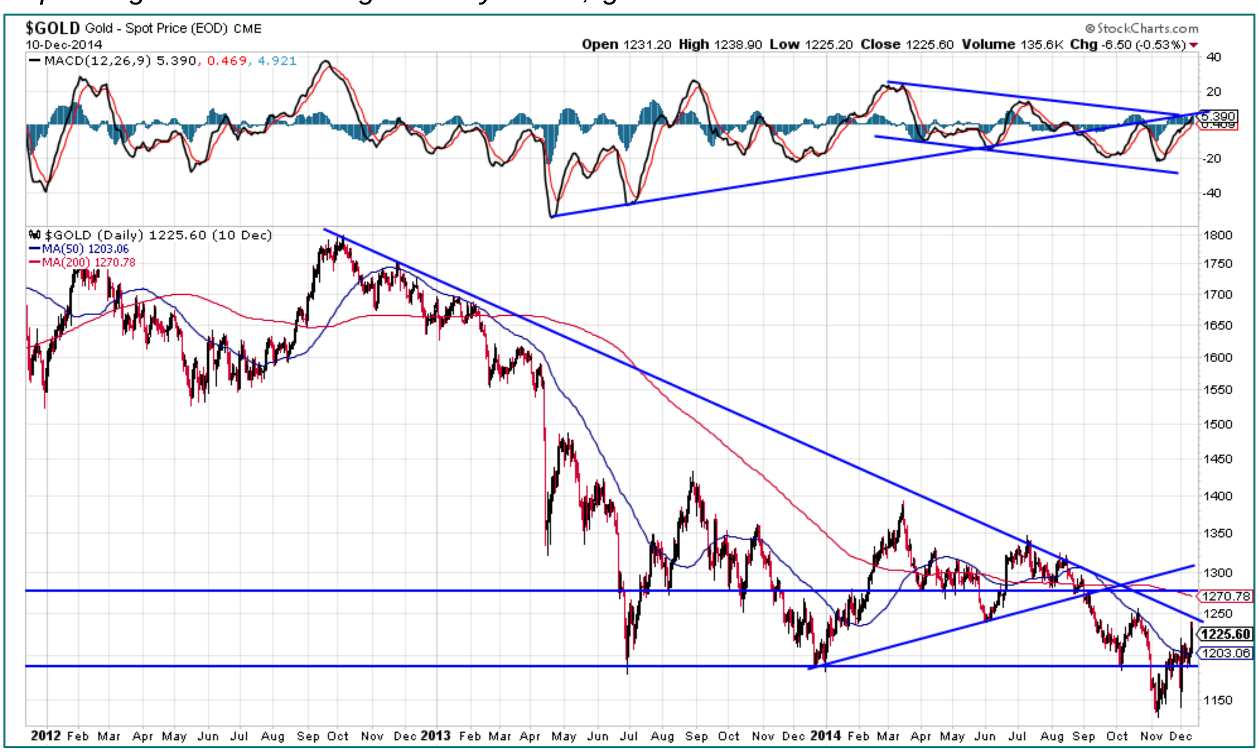
If the Presidential Cycle holds, small-caps could lead large-caps in the H1 2015



Emerging markets are struggling to assert leadership relative to Developed markets

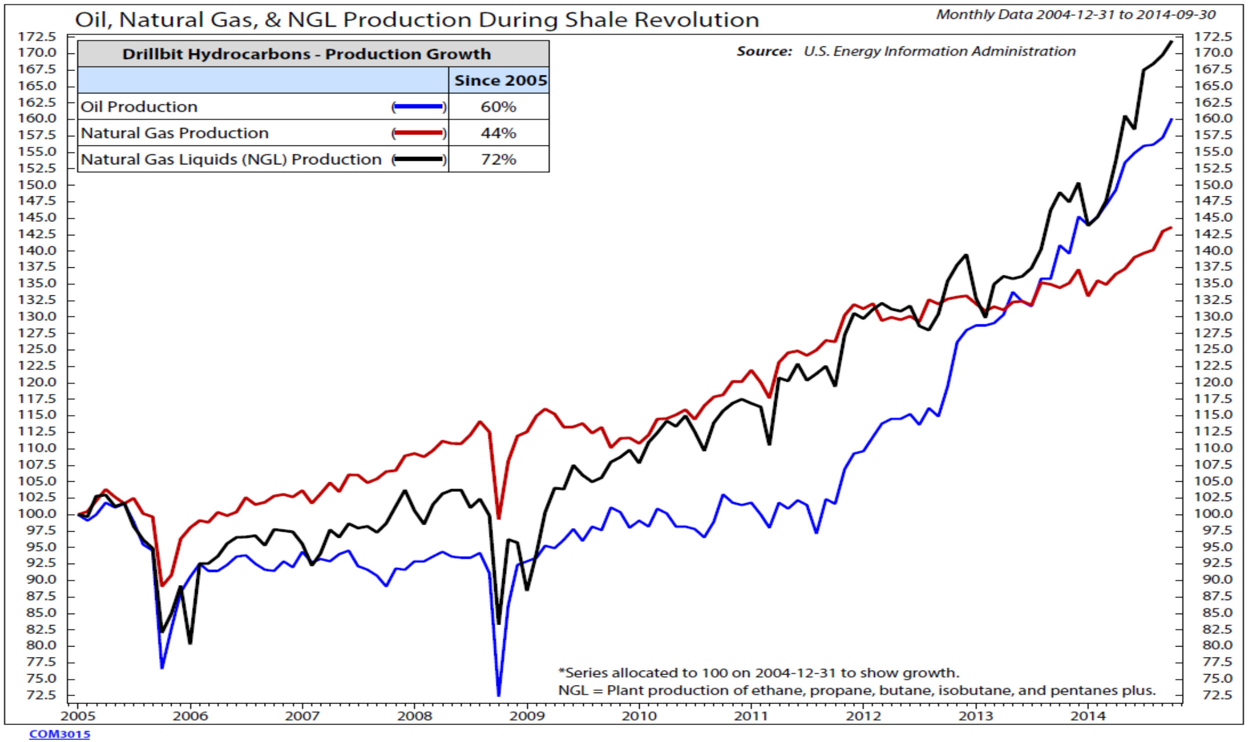
Source: StockCharts

Despite signs of stabilizing in early 2014, gold remains in a downtrend

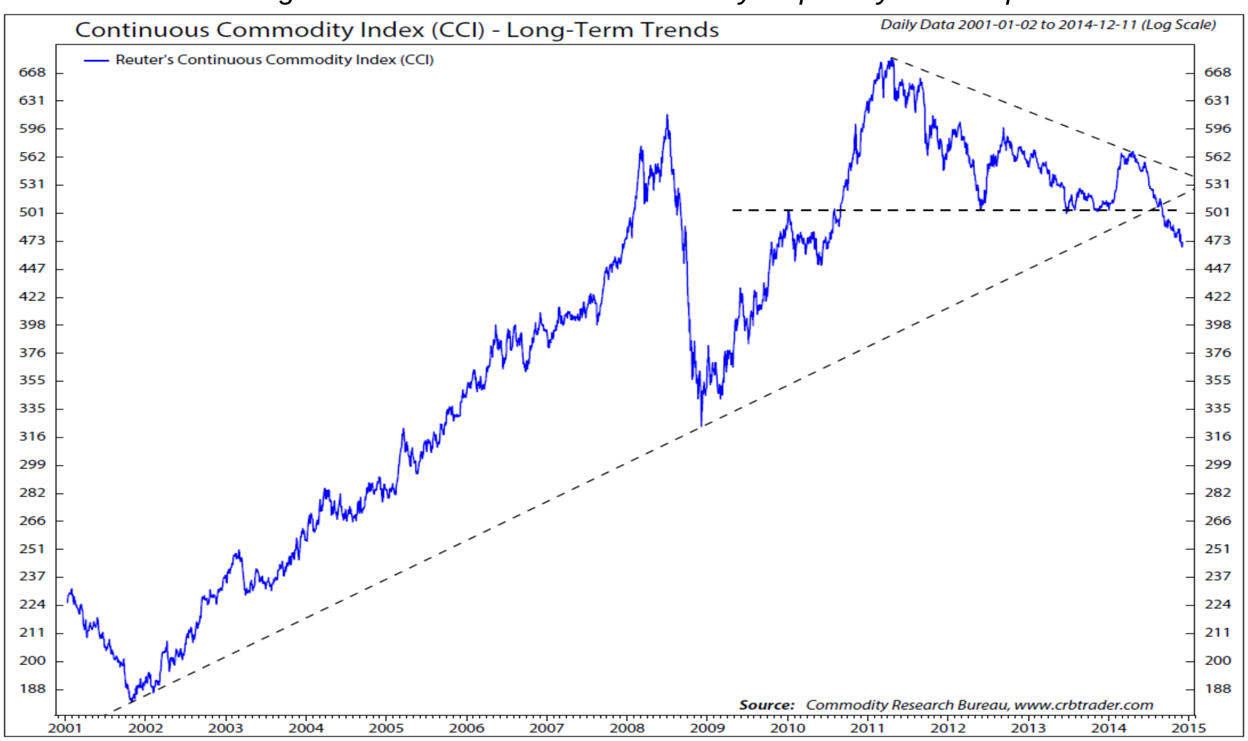


Source: StockCharts

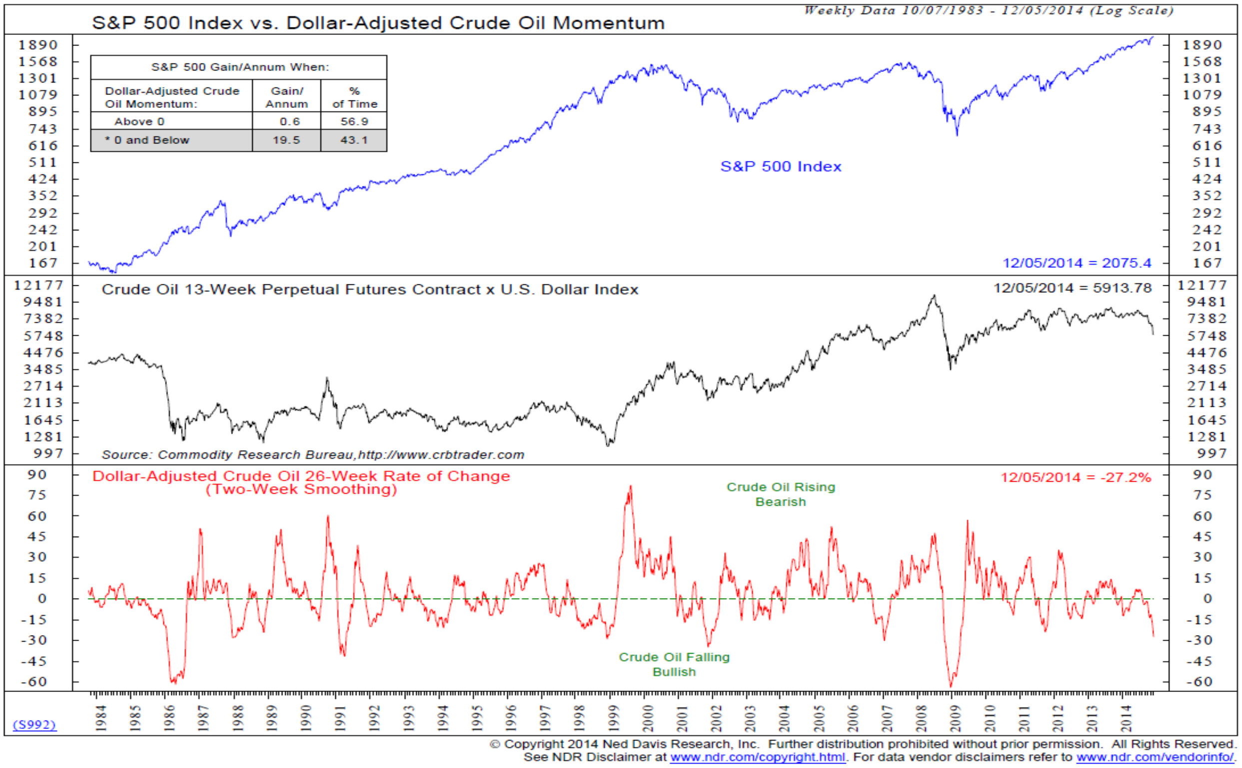
Domestic energy production has soared in recent years



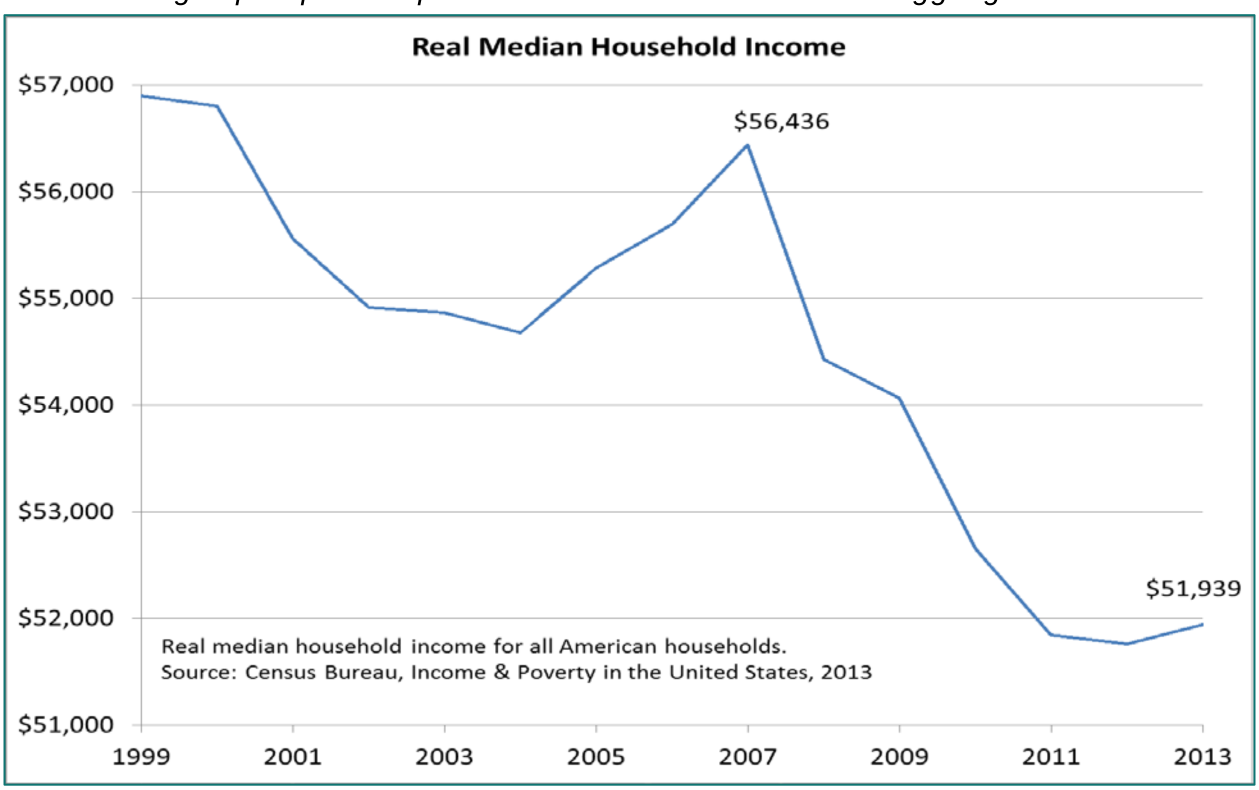
More evidence emerged in 2014 that the commodity super-cycle has peaked



The drop in oil prices provides a boost to the economy and the stock market



Relief at the gas pump could provide a real boost to a still-struggling middle class



Appendix – Important Disclosures and Analyst Certification

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST
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