

Quadrennial  
Benefits  
Conference



# Economic and Investment Outlook



**Wespath**  
BENEFITS | INVESTMENTS

# Agenda



**Joys and Challenges for Pension Trustees**



**Investment Return Assumptions**



**Economic Overview**



**Top 10 Economic Issues for 2016**

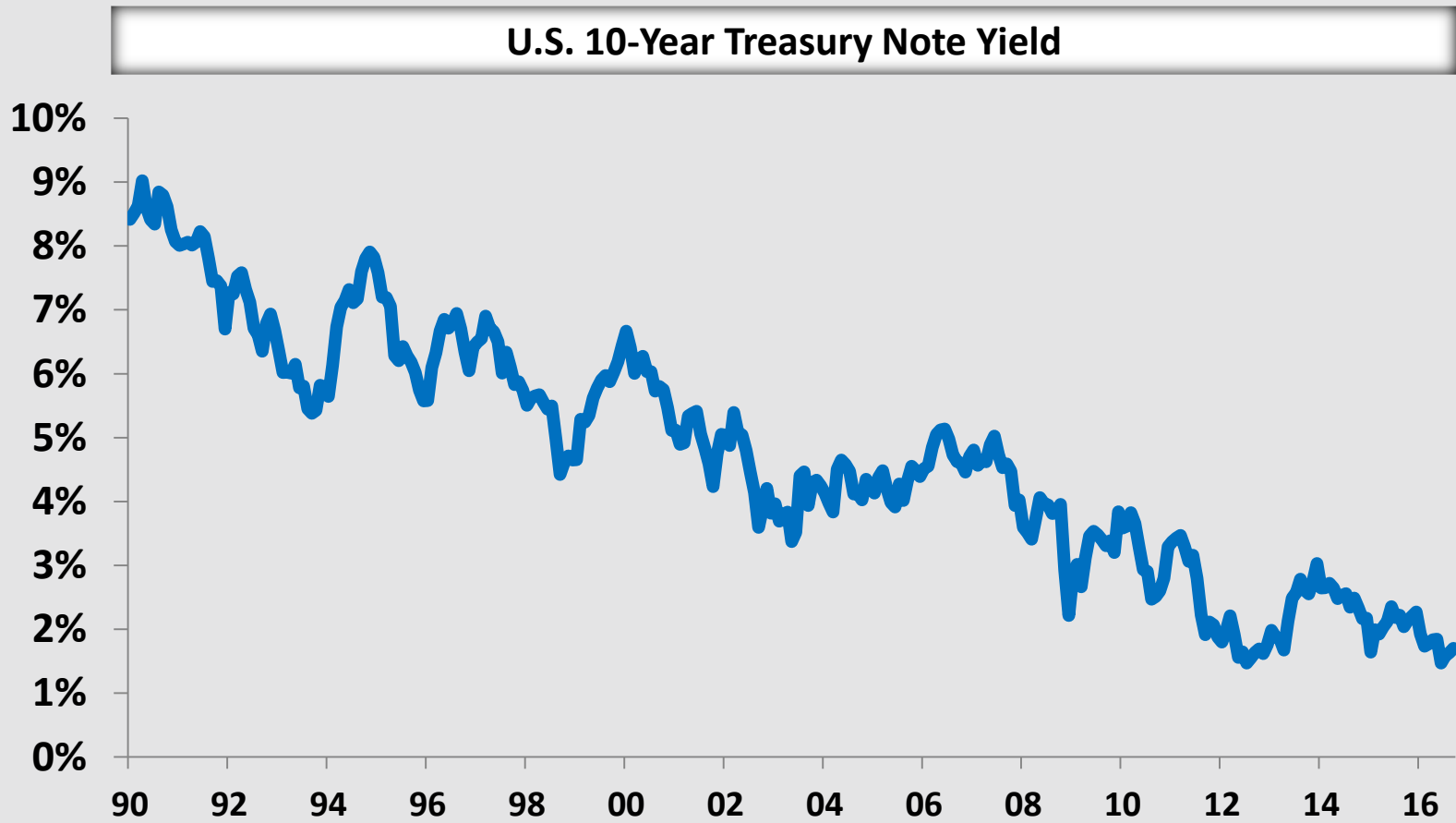
# Joys



# Joys



# Interest Rates Near Historic Lows



Source: Bloomberg  
Data as of September 14, 2016

# Challenges



# Challenges



# Longer Lives = Greater Liability

## Non-Ministerial Pension Plan Annuities

### Estimated Payments for 2026

Benefit Payment Forecast Date	Amount
January 1, 2006	\$16.551 Million
January 1, 2016	\$24.139 Million

Source: Wespath

**+45.8%**



# Investment Return Assumptions



# U.K. Nominal and Real Equity Returns 1701 – 2015

Period	Nominal	Inflation	Real
1701–1800	5.1%	0.6%	4.5%
1801–1900	4.6%	-0.5%	5.1%
1901–2015	8.2%	3.7%	4.5%
<b>1701–2015</b>	<b>6.1%</b>	<b>1.4%</b>	<b>4.7%</b>

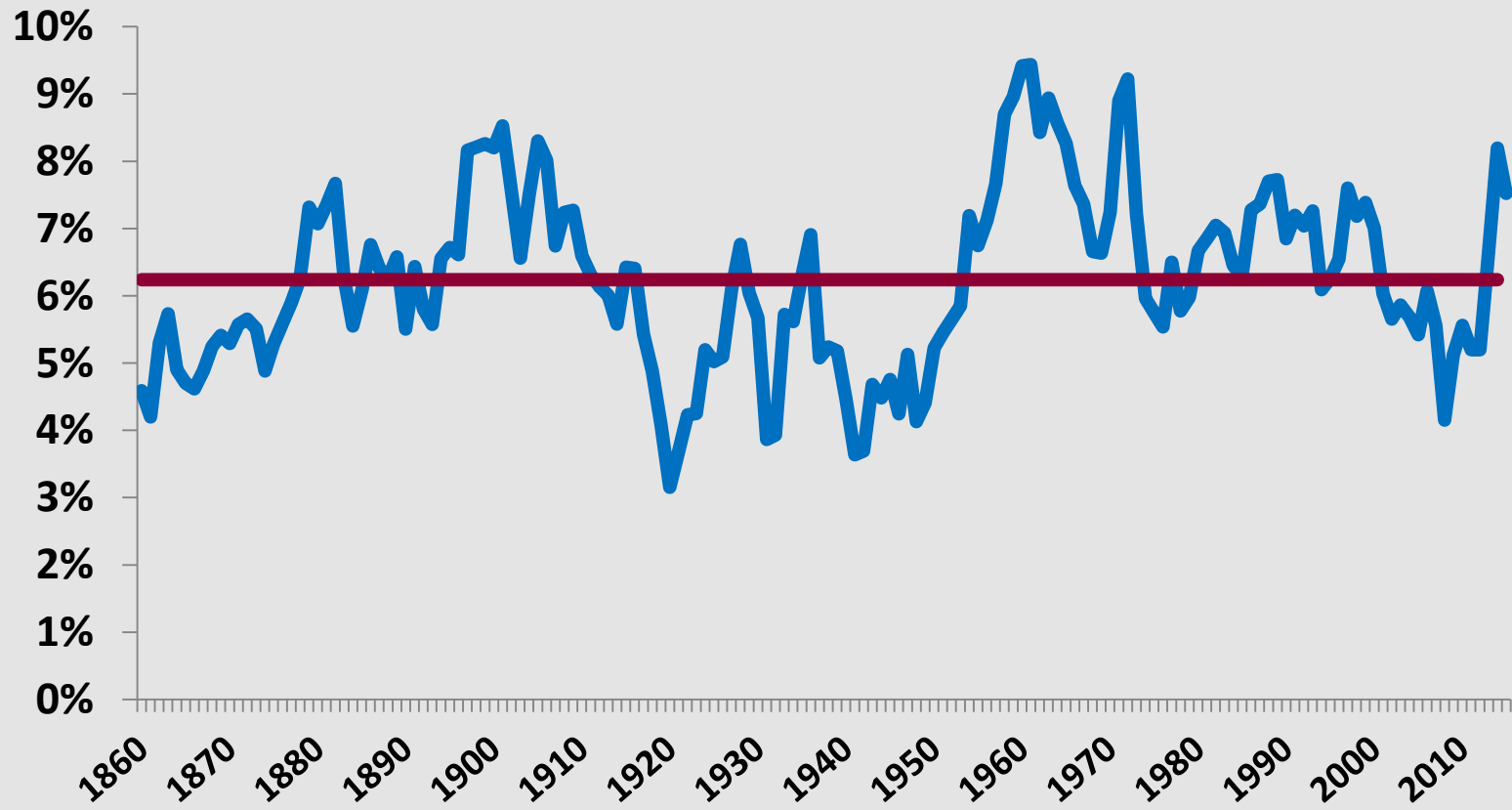
Source: Global Financial Data; Gregory Clark, "What Were the British Earnings and Prices Then? (New Series)," *MeasuringWorth*, 2015; MSCI; Inflation.eu; Wilshire; Wespath

# U.S. Nominal and Real Equity Returns 1821–2015

Period	Nominal	Inflation	Real
1821–1900	6.6%	0.2%	6.4%
1901–2015	9.4%	3.1%	6.3%
<b>1821–2015</b>	<b>8.2%</b>	<b>1.9%</b>	<b>6.3%</b>

Source: Global Financial Data, MSCI, U.S. Bureau of Labor Statistics, Wilshire, Wespath

# 40-Year Trailing U.S. Equity Risk Premium 1821–2015



Source: Global Financial Data, MSCI, U.S. Bureau of Labor Statistics, Wilshire, Wespath

# Treasury Inflation Protected Securities Real Yields

Maturity	Yield
5 Year	-0.15%
10 Year	+0.21%
20 Year	+0.47%
30 Year	+0.75%
<b>Average</b>	<b>+0.32%</b>

As of September 15, 2016

Source: Bloomberg, Wespath

# U.S. Long-Term Corporation and Government Bond Returns 1926–2015

Period	Nominal	Inflation	Real
Long-Term Corporate Bonds	5.9%	2.9%	3.0%
Long-Term Government Bonds	5.5%	2.9%	2.6%
Intermediate-Term Government Bonds	5.4%	2.9%	2.5%
<b>Long-Term Spread</b>			<b>0.4%</b>

Source: Global Financial Data, MSCI, U.S. Bureau of Labor Statistics, Wilshire, Wespath

# Fixed Income Real Return Assumption

Element	Yield
Real Yield	0.40%
Spread	0.40%
<b>Total</b>	<b>0.80%</b>

Source: Wespath

# Inflation Protection— Real Return Assumption

Element	Yield
Real Yield	0.40%
Spread	0.20%
<b>Total</b>	<b>0.60%</b>

Source: Wespath



# Investment Return Assumptions

Asset Class	Nominal	Real	Risk
U.S. Equities	8.00%	5.50%	16%
Non-U.S. Equities	8.25%	5.75%	20%
Fixed Income (Global)	3.30%	0.80%	5%
Inflation Protection	3.10%	0.60%	7%
<b>Diversified Mix</b>	<b>6.38%</b>	<b>3.88%</b>	<b>13%</b>

## Inflation assumption: 2.5%

- 30-40 year horizon; compounded geometric mean return
- Market returns only (i.e., excludes more aggressive strategies, alternative asset classes and added value from active management)

Source: Wespath

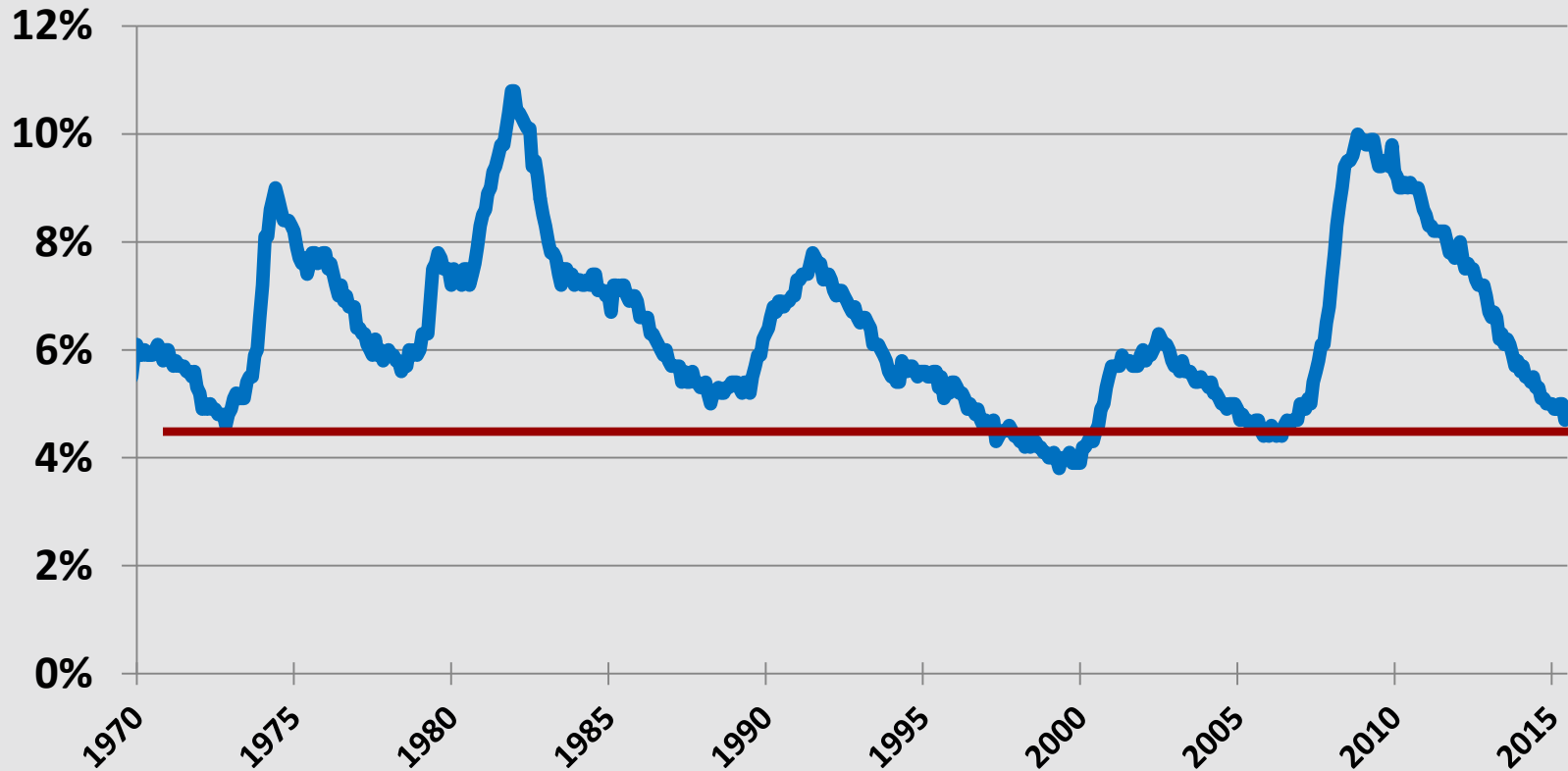
# U.S. Economic Update



# Employment

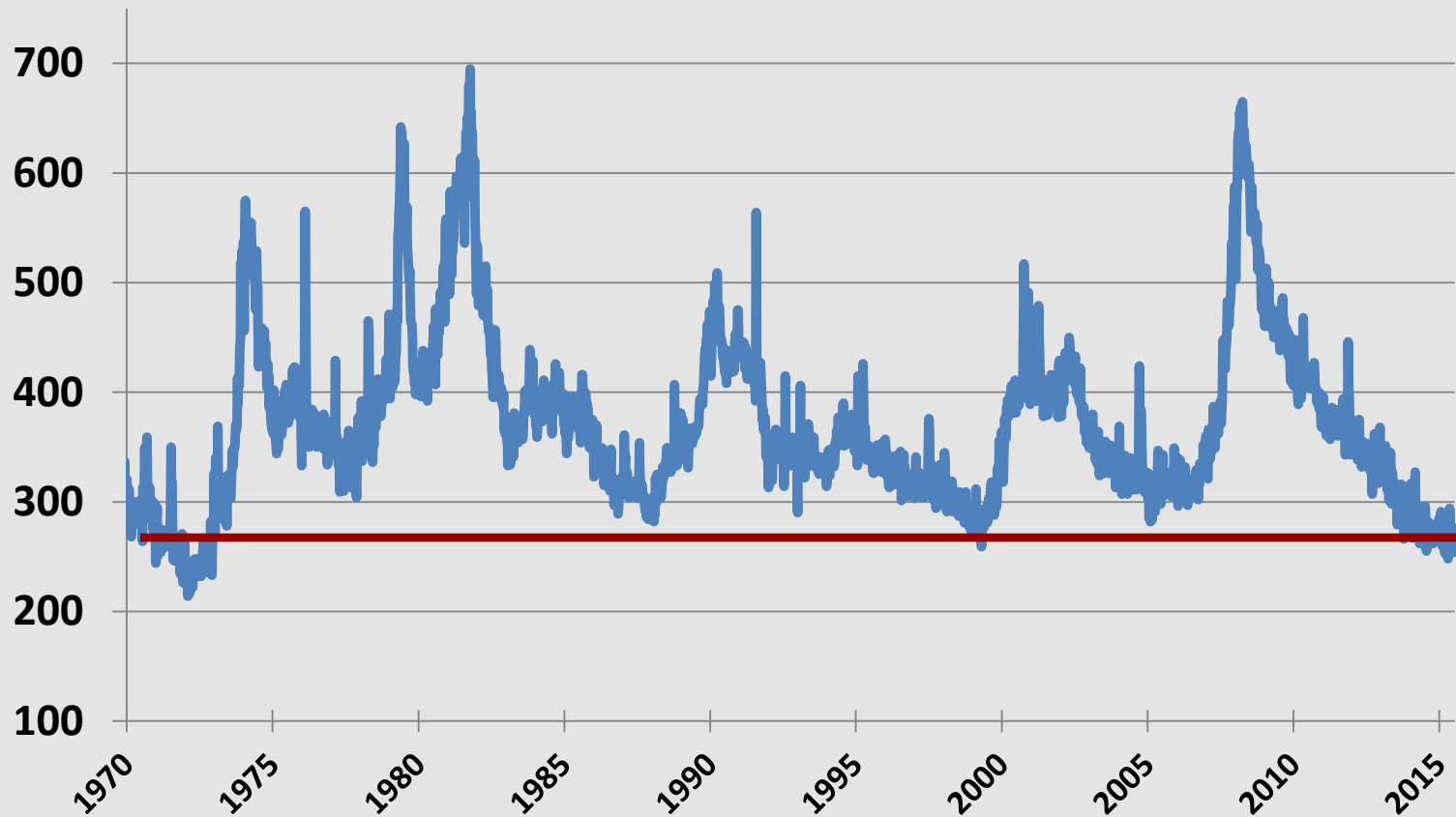


# Unemployment Rate Approaching Multi-Year Lows



Source: U.S. Department of Labor, FactSet  
Data as of August 31, 2016

# Jobless Claims Approaching Multi-Year Lows

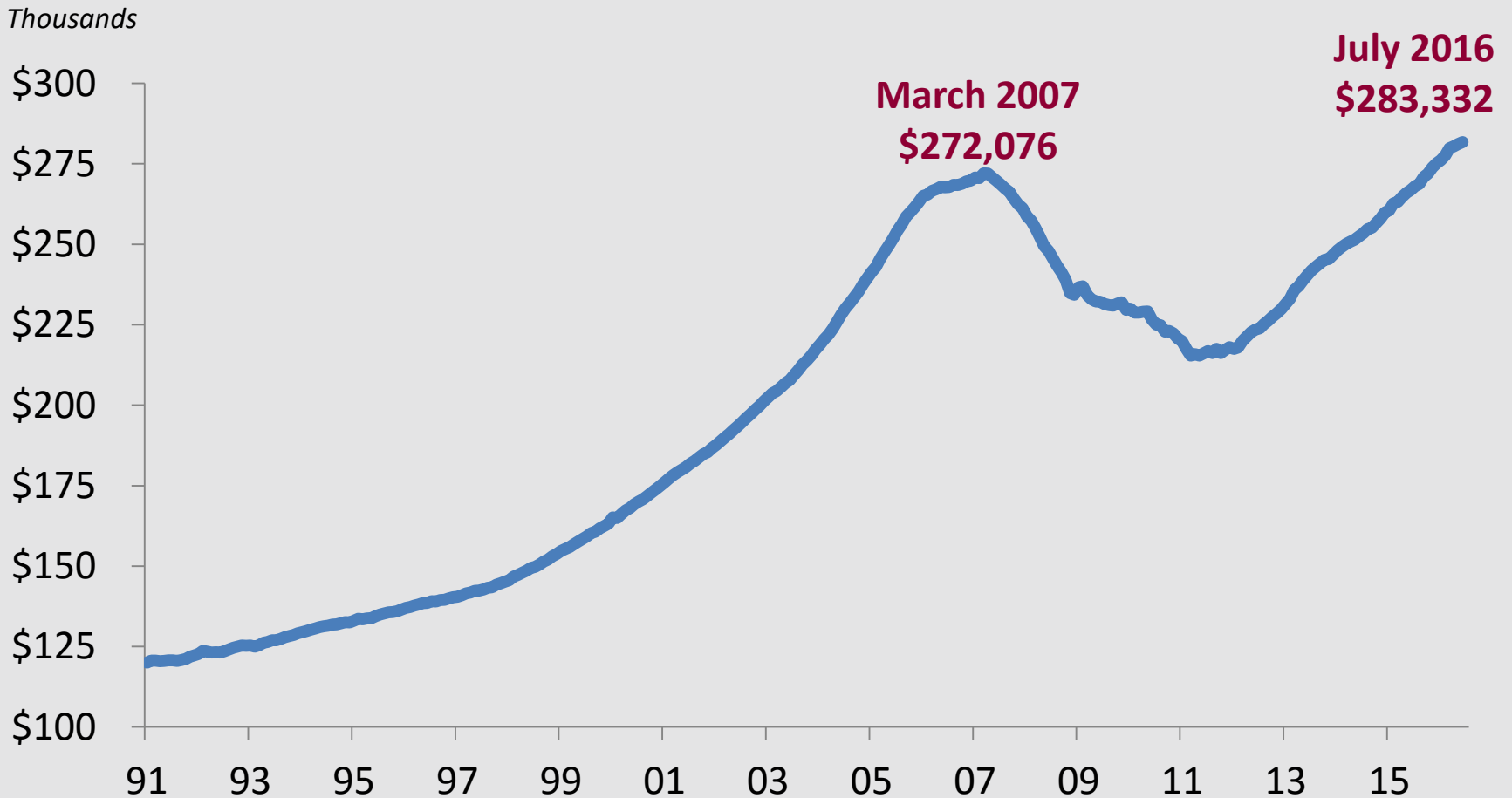


Source: U.S. Department of Labor, FactSet  
Data as of September 15, 2016

# Consumer



# Home Prices at Record Highs

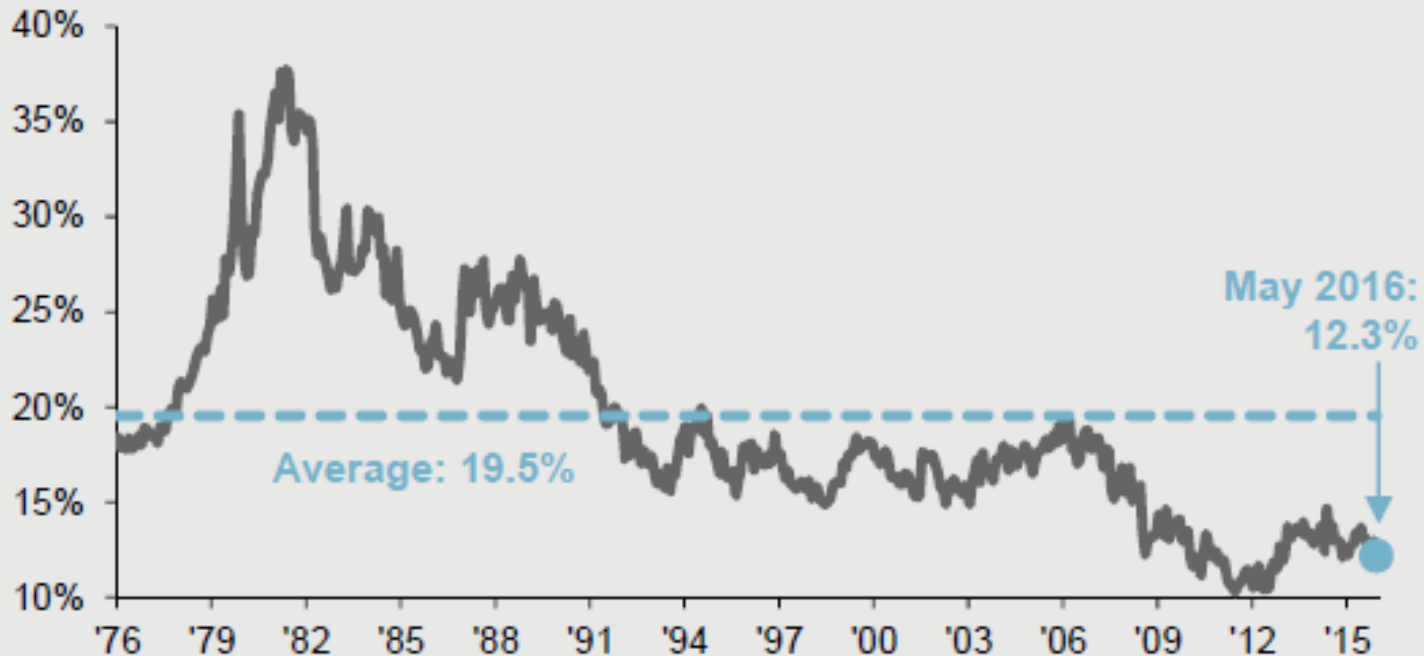


Source: Federal Reserve Bank of St. Louis, U.S. Census Bureau, Wespath  
Data as of July 31, 2016

# Yet Housing Remains Affordable

## Housing Affordability Index

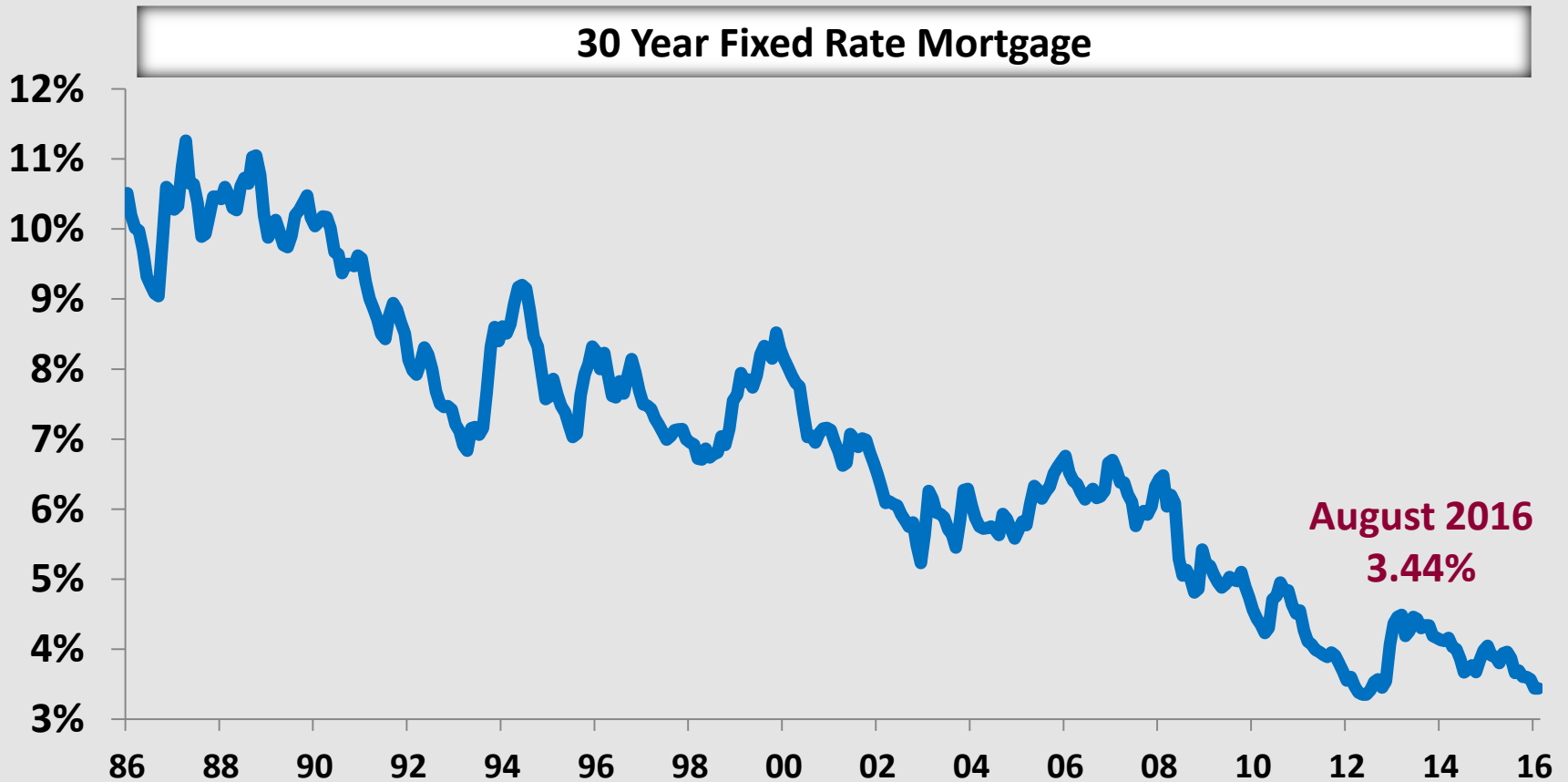
Avg. mortgage payment as a % of household income



Source: Freddie Mac, FactSet, J.P. Morgan Asset Management  
Data as of June 30, 2016



# Because Mortgage Rates Remain Near Record Lows

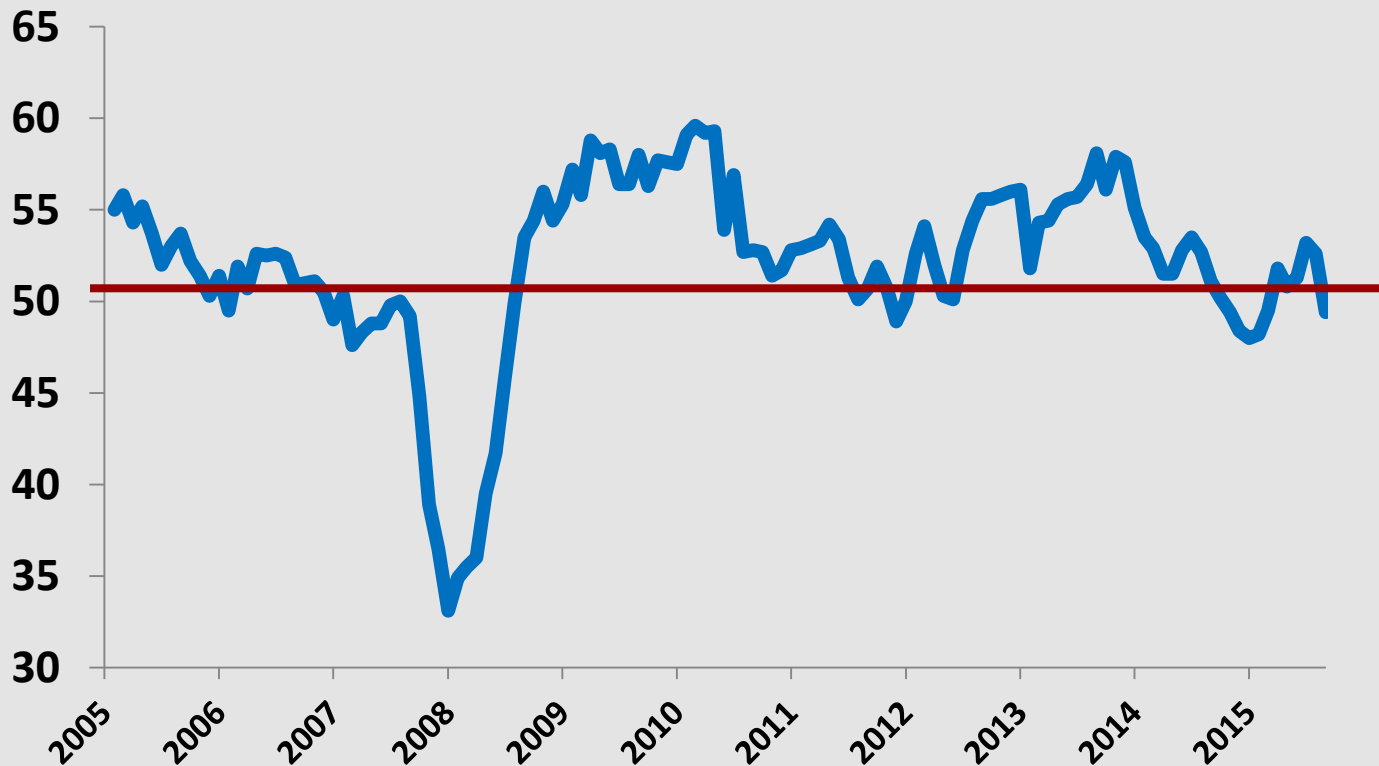


Source: National Association of Realtors  
Data as of August 31, 2016

# Business

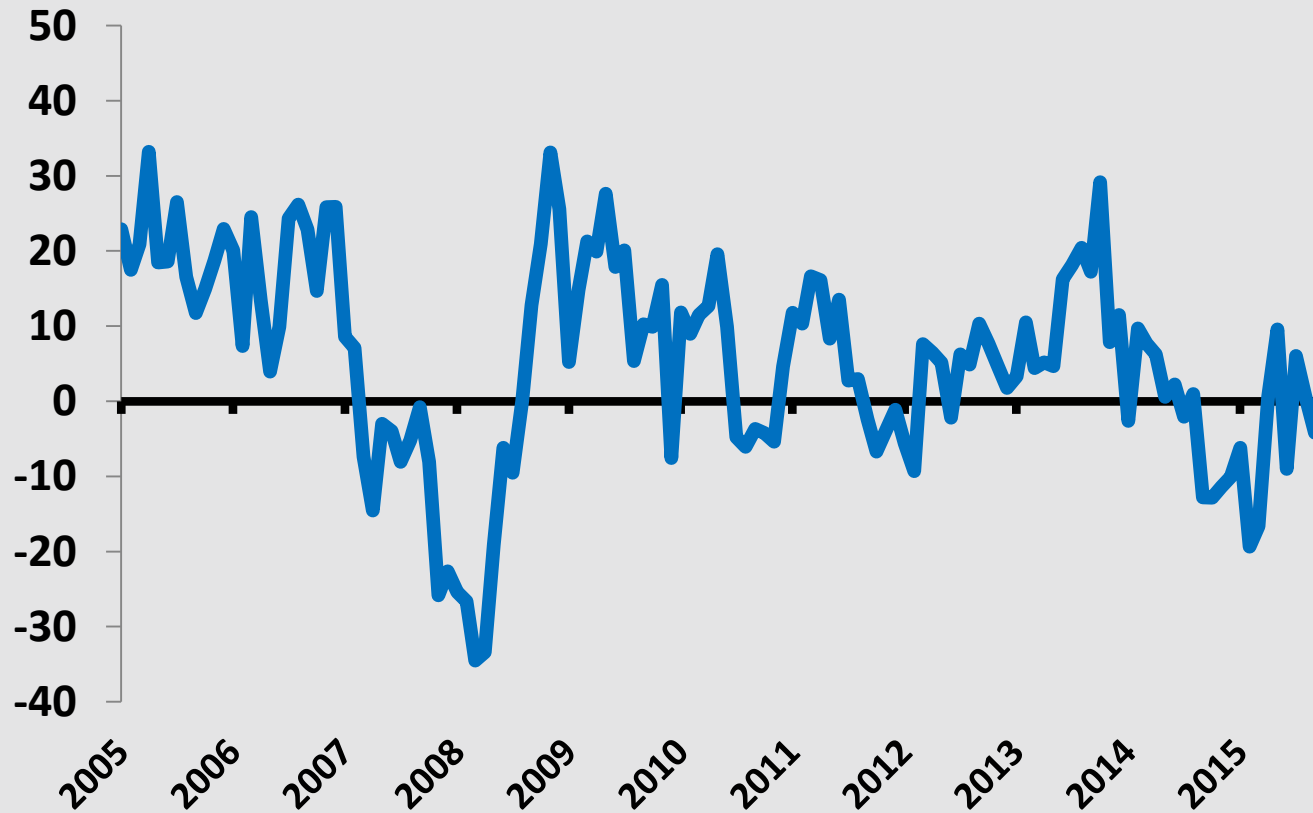


# Purchasing Managers Index Less than Optimistic



Source: Institute of Supply Management, FactSet  
Data as of August 31, 2016

# Manufacturing Outlook Mixed



Source: Federal Reserve Bank of New York, FactSet  
Data as of September 15, 2016

**Dave's List**

# **Top 10**

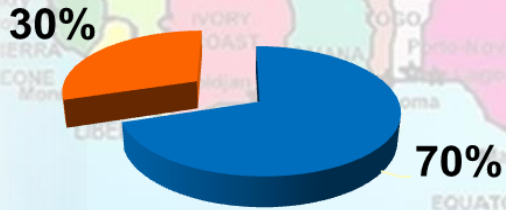
**World Economic Issues  
and Concerns for 2016**

# Emergence of Africa

10

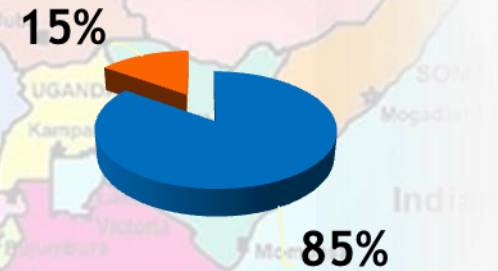


## Natural Resources



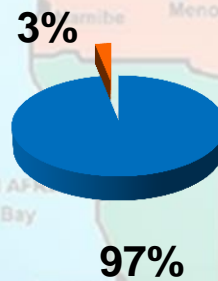
■ World ex Africa ■ Africa

## Population



■ World ex Africa ■ Africa

## GDP



■ World ex Africa ■ Africa

Source: African Development Bank Group, Population Reference Bureau, World Bank, Wikipedia

# Ongoing Refugee Crisis

9



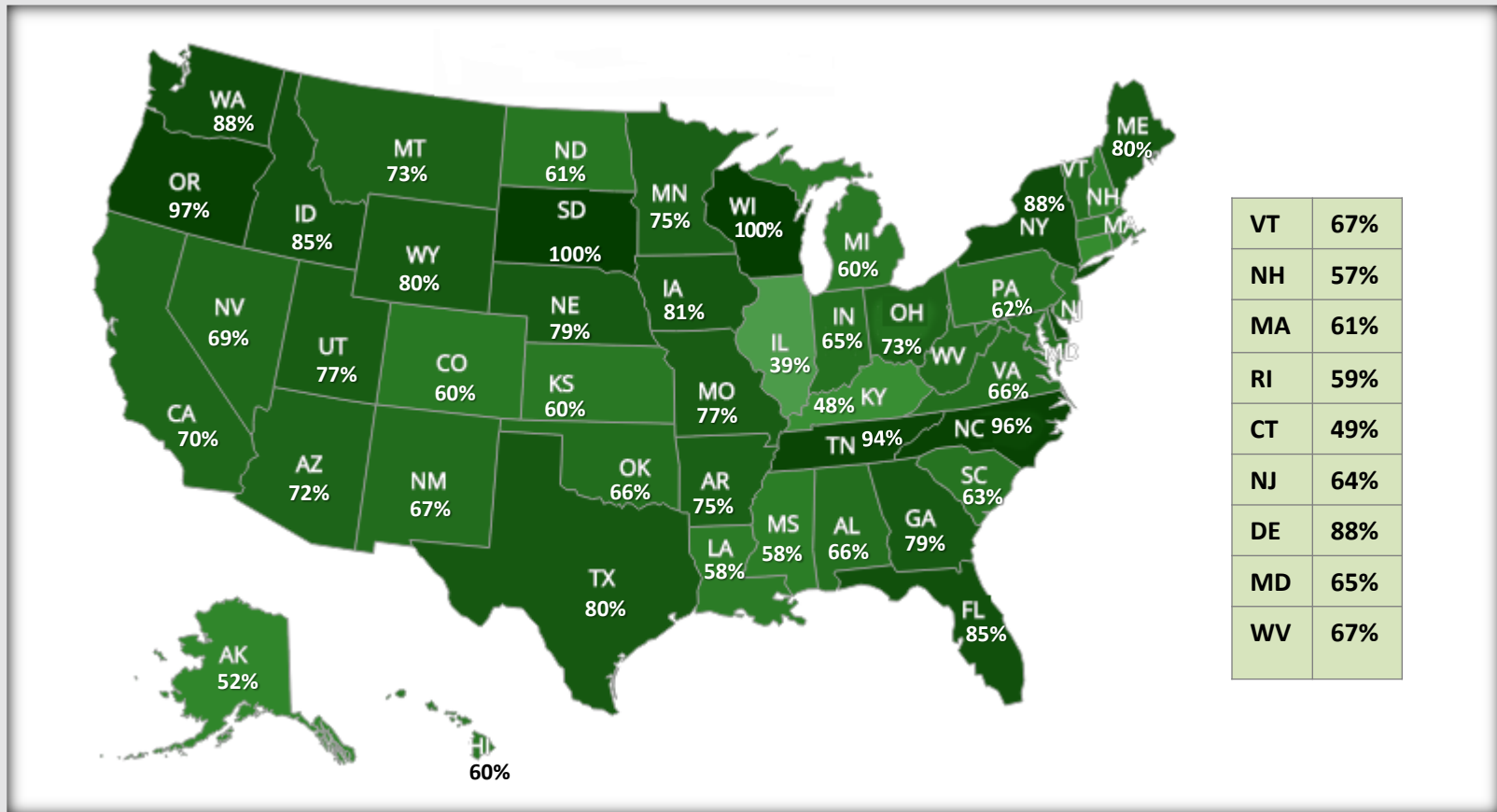


# U.S. Public Pension Funding Crisis

8



# U.S. Public Pension Funding Crisis



Source: National Conference of State Legislatures; S&P; *Pensions and Investments*, July 2015

# Response to Paris Climate Accords

7



# U.S. Presidential Election

6



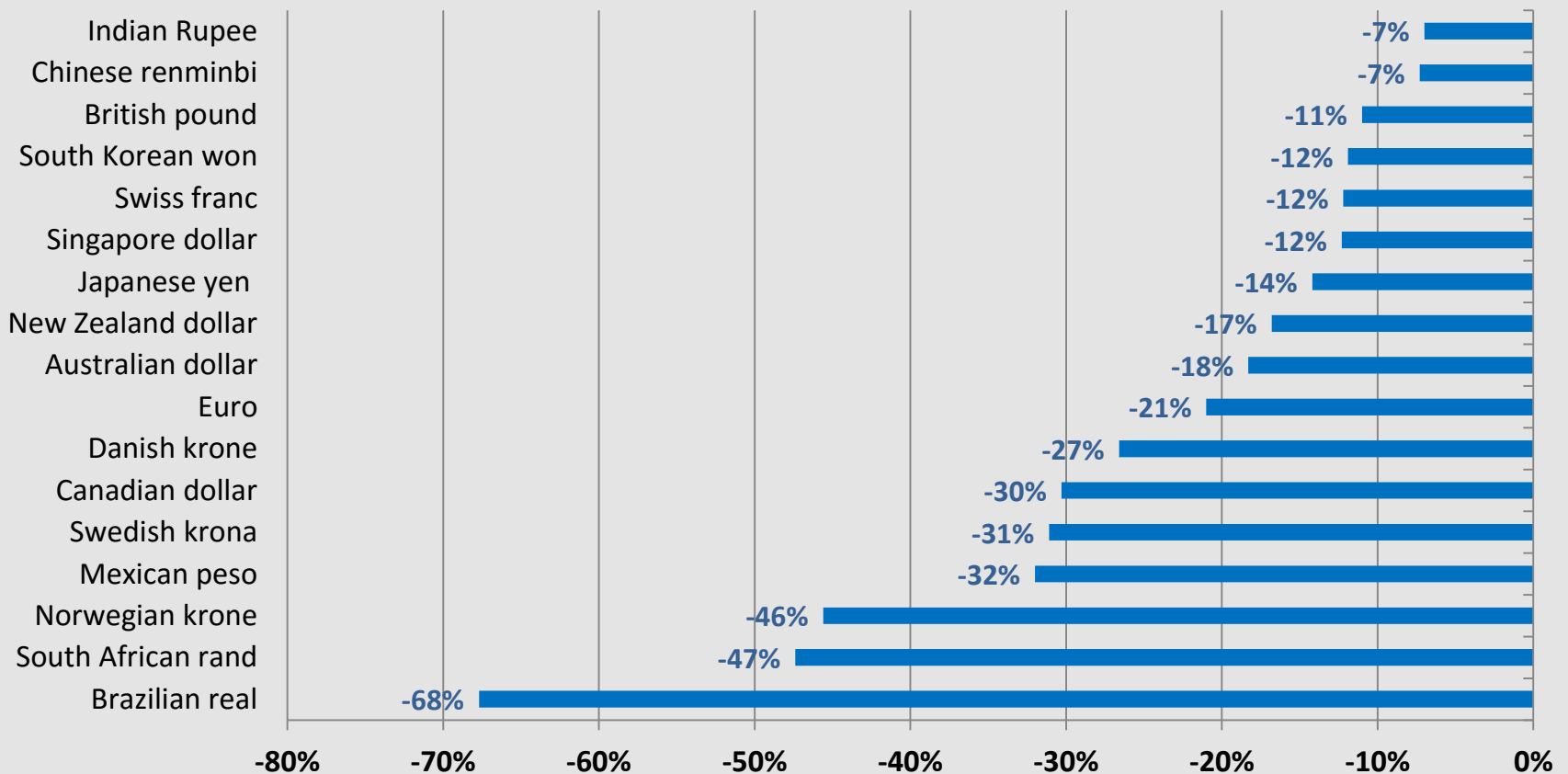
# U.S. Dollar

5



# Dollar Appreciation Not Sustainable

Two-Year Change in U.S. Dollar Terms (2014-2015)



Source: Factset; data as of December 31, 2015

# European Economic Recovery

4



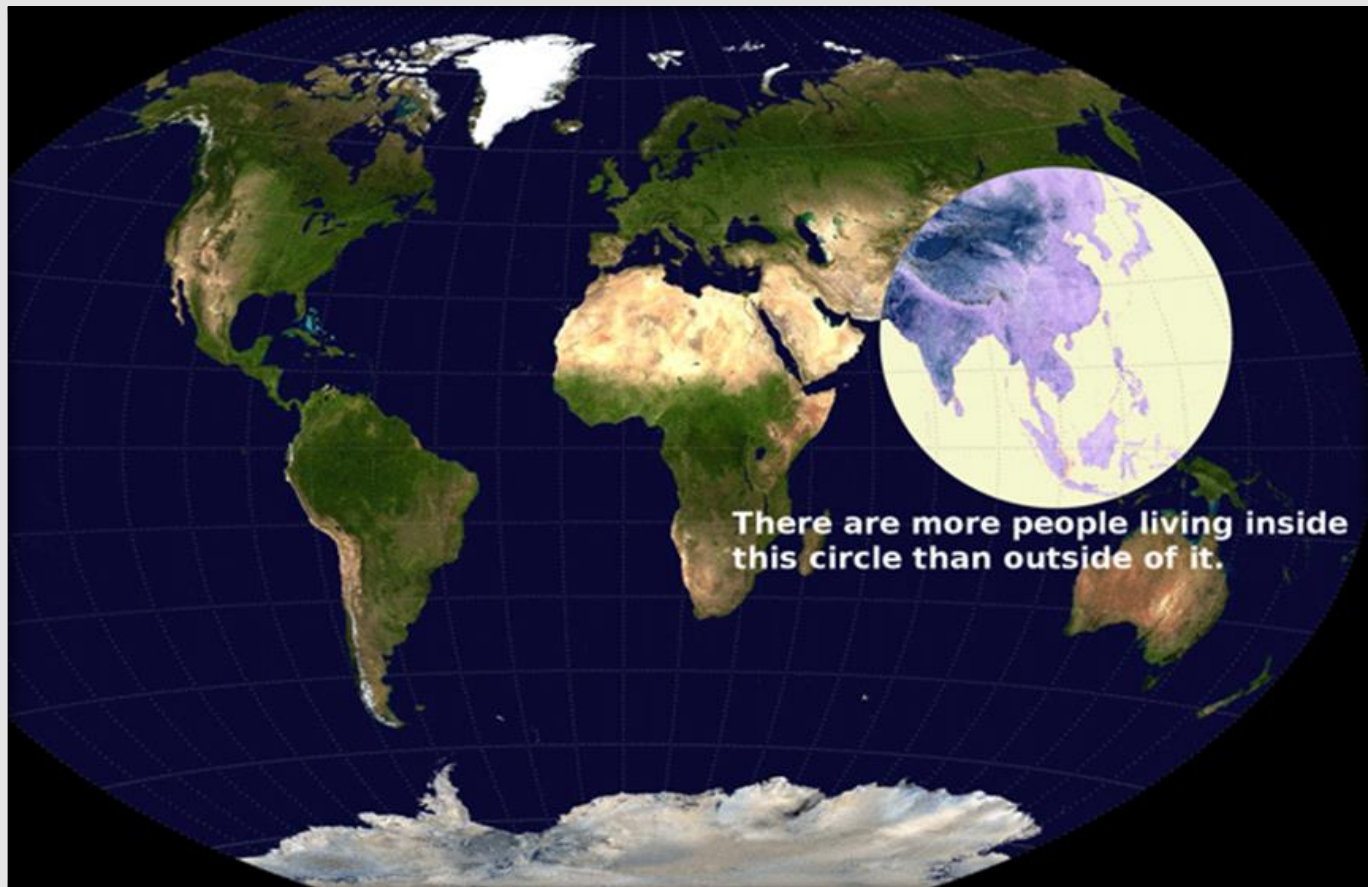
# China Growth

3



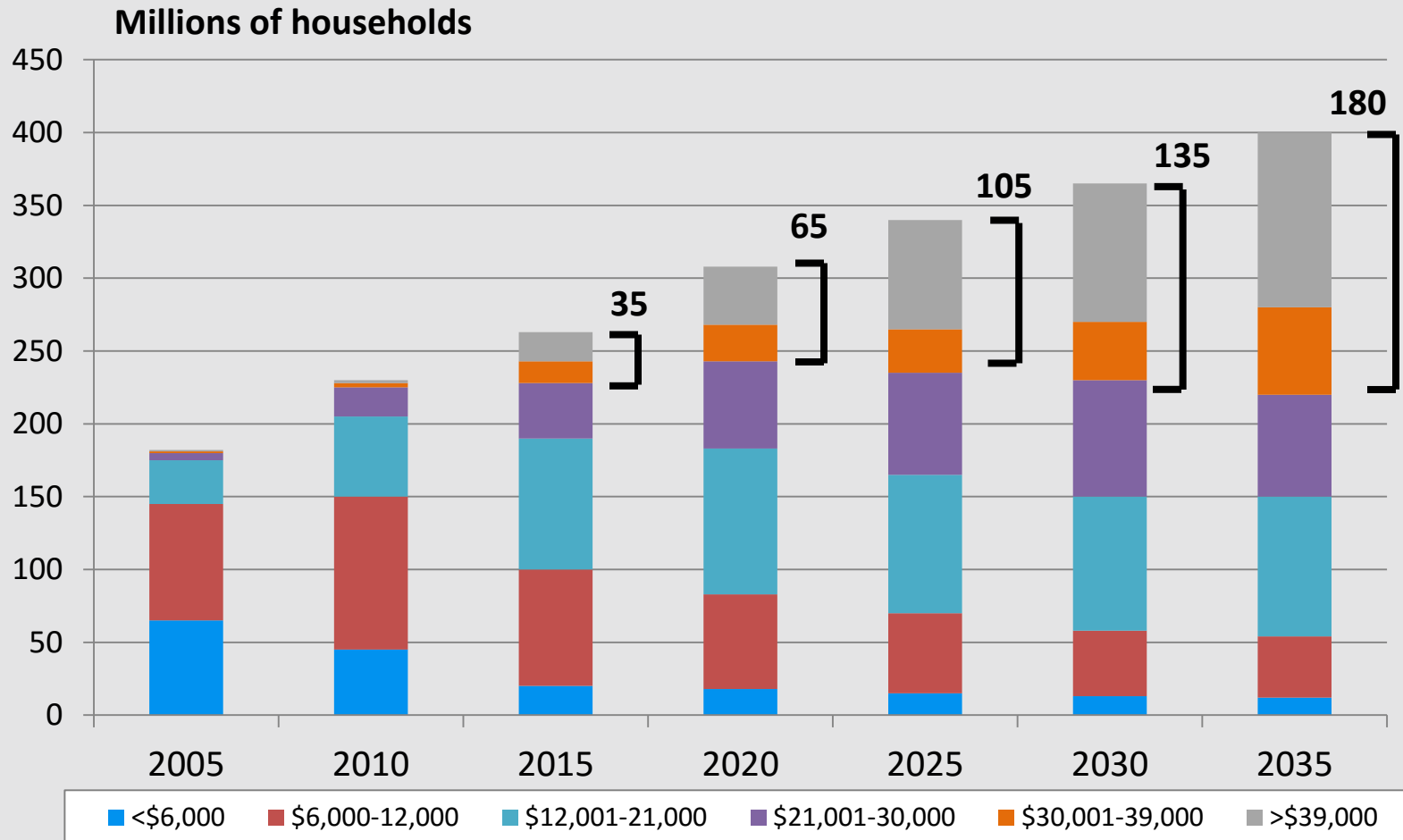


# Growth from Developing World



Source: [www.twicsy.com](http://www.twicsy.com)

# China: Distribution of Household Income 2005 – 2035



Source: GlobalDemographics, December 15, 2015

# Price of Oil

2

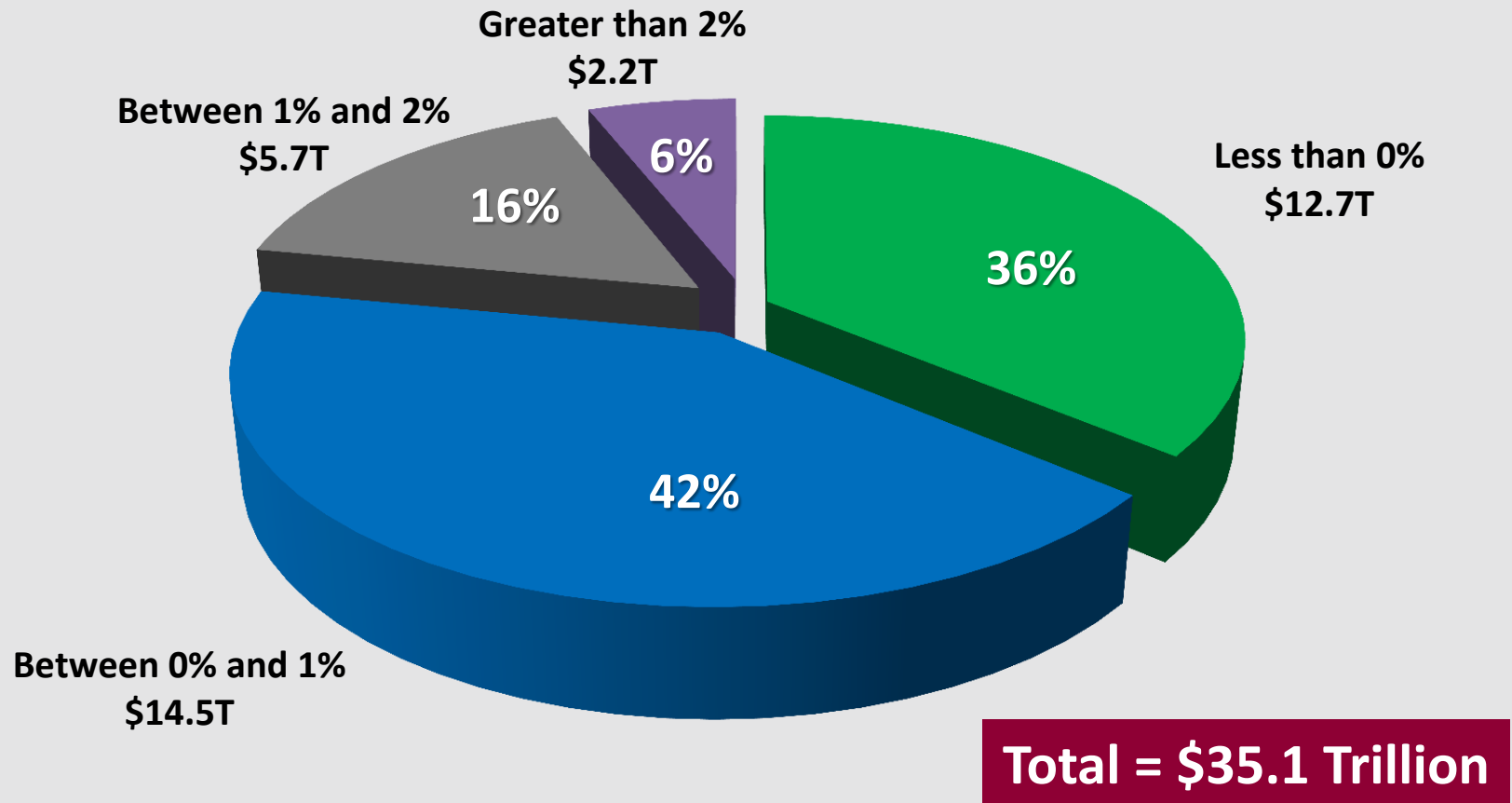


# Federal Reserve Action

1



# Sovereign Debt Interest Rate Ranges



Source: Bianco Research and Byron Wien, Blackstone  
Data as of June 27, 2016

# Wespath Investment Communications



## Mark Your Calendars!

**WHAT:** Webinar—Quarterly Update

**WHEN:** Tuesday, October 25

**TIME:** 1:30 p.m., Central time

E-mail us at [wespathupdate@wespath.org](mailto:wespathupdate@wespath.org)  
to join our mailing list.





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