



**THE U.S. ECONOMIC AND FINANCIAL
MARKET OUTLOOK INTO 2016:
*Challenges And Opportunities In The
Post-''Meltdown'' Economy***

A Presentation To CACTTC June Conference

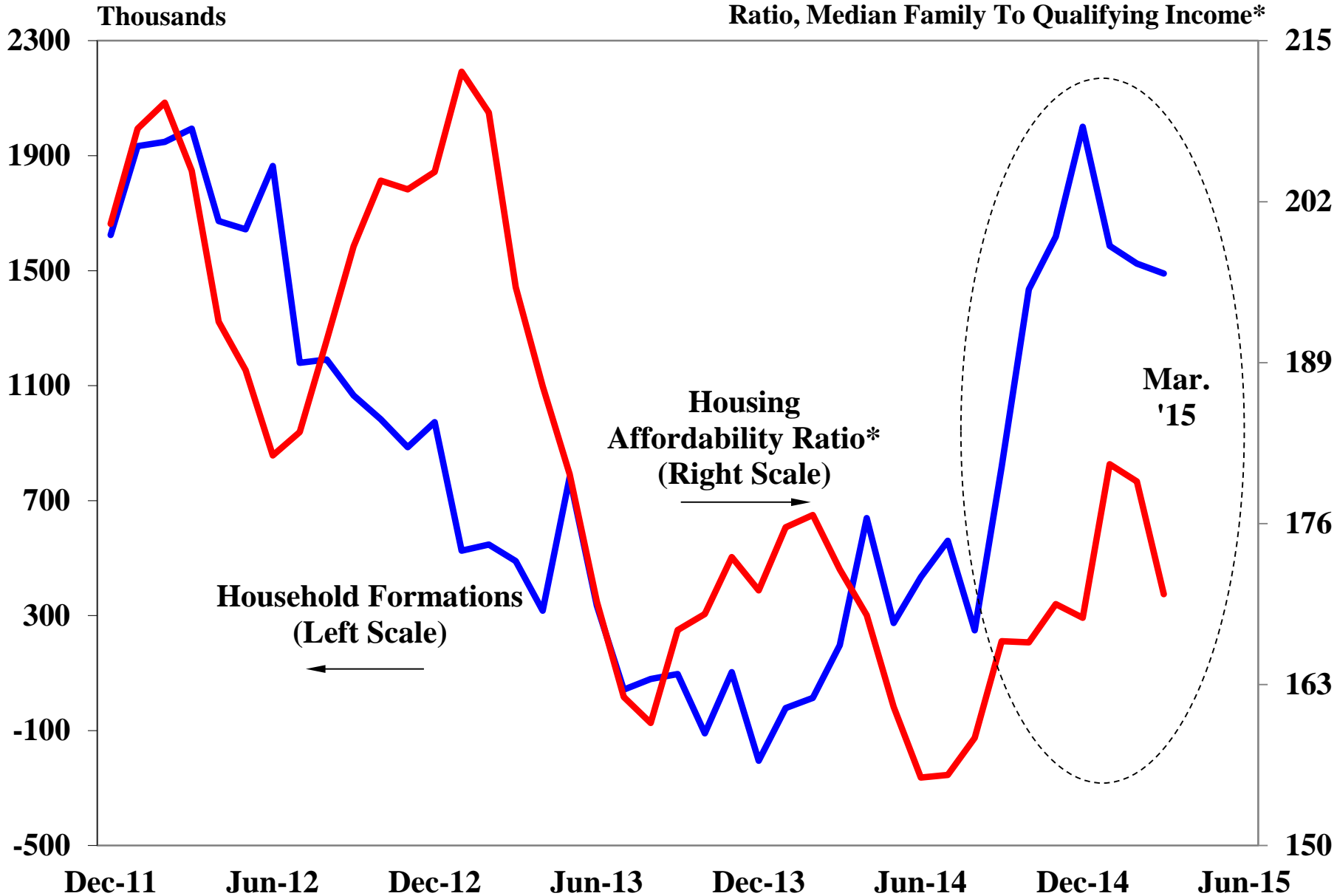
Napa, California

June 10, 2015

FORECAST HIGHLIGHTS

- **A Muted Growth Recovery**
 - All Eyes On The Consumer*
- **California's Tech-Led Recovery Out-Paces The U.S. Average**
- **Inflation's Slow Turn Higher**
 - What Next For Fuel Prices?*
- **A Gradual—But “Bumpy”—Rise In U.S. Interest Rates**
- **“New” Vs. “Old Normal” In the Longer-Term Outlook**

DUAL SUPPORTS FOR HOUSING DURING THE CRITICAL HOME BUYING SEASON...



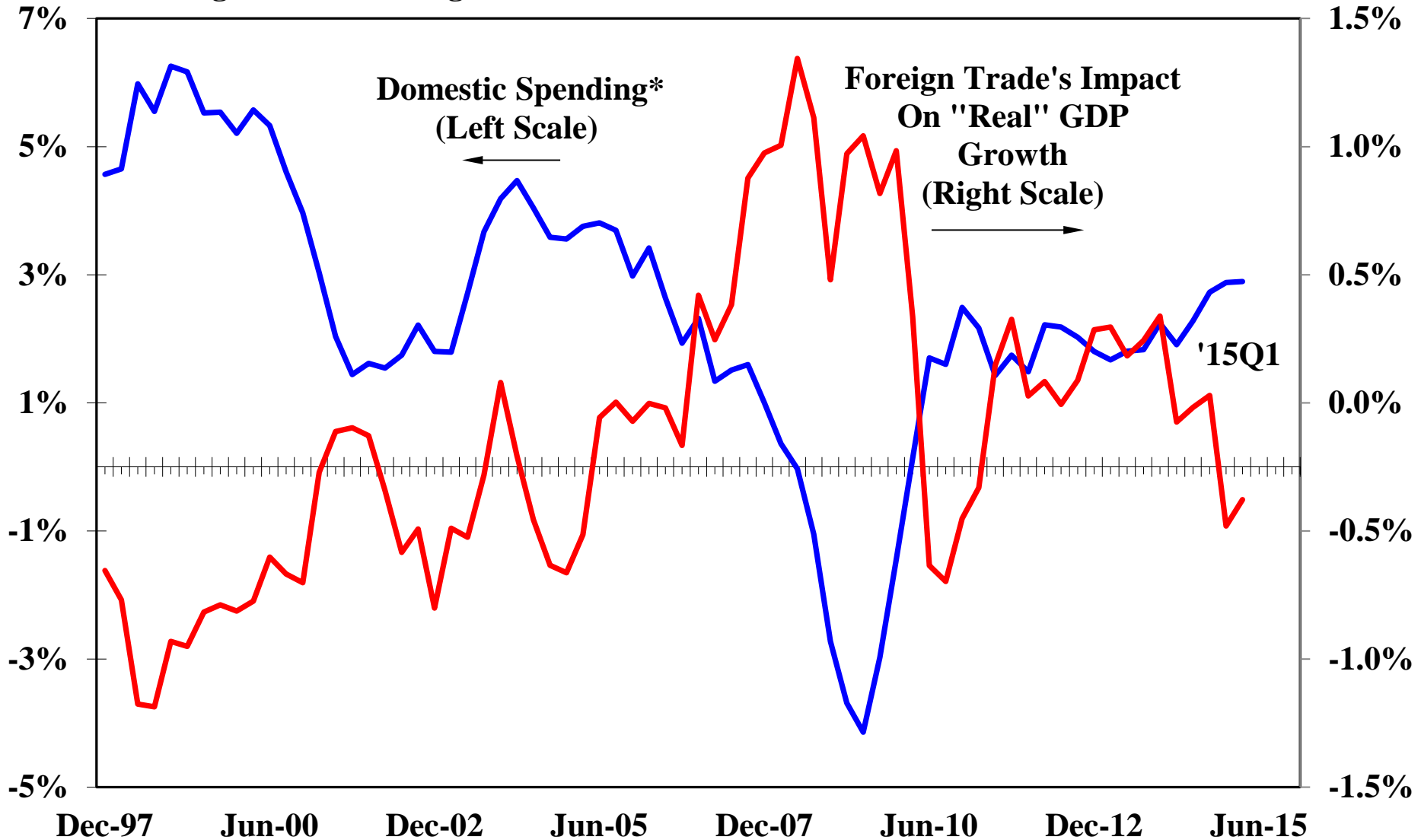
* Ratio, median family income to the income needed to qualify for the median-priced home.

Sources: The Mortgage Bankers Association; U.S. Census Bureau

WORSENING FOREIGN TRADE AGRAVATED BY STRONG DOMESTIC SPENDING

Year-Ago Percent Change

Percentage Points



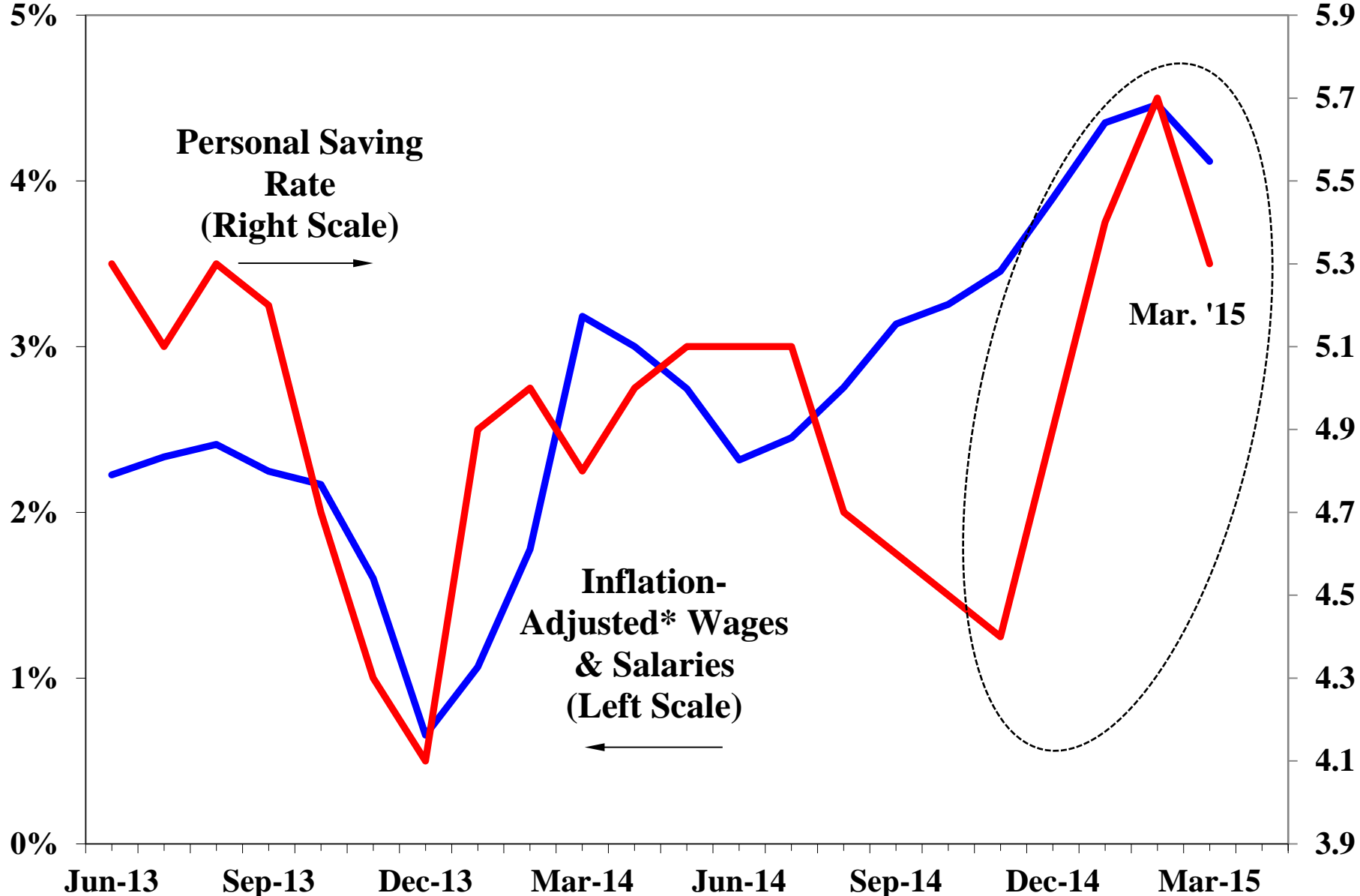
* Including consumer spending, business investment, housing and government spending.

Source: U.S. Commerce Department

"TAILWINDS" FOR CONSUMER SPENDING

Year-Ago % Chg., 3-Month Moving Averages

Percent of After-Tax Income

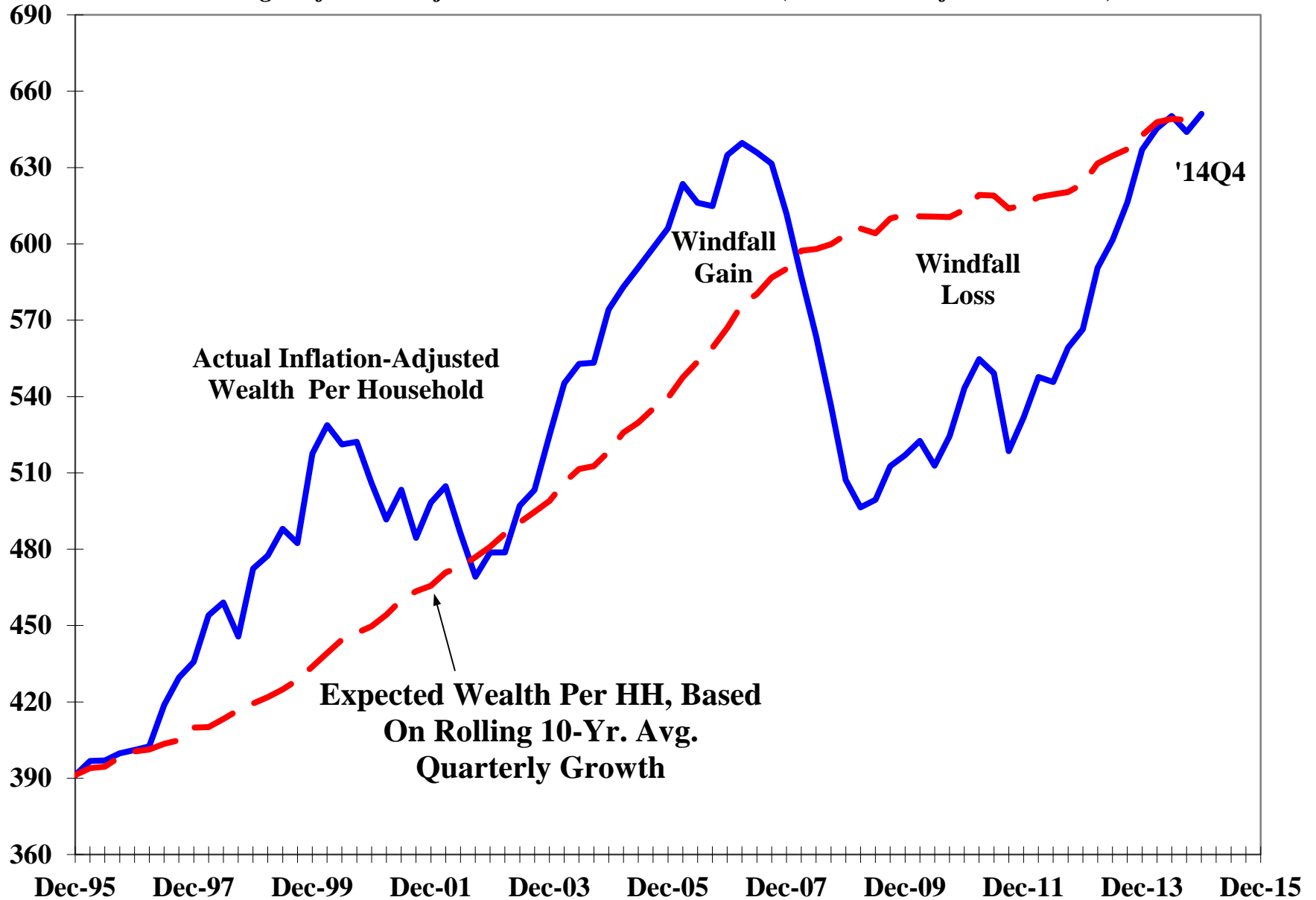


* Inflation as measured by the PCE deflator.

Sources: U.S. Commerce Department

CLOSING THE BOOK ON THE "MELTDOWN'S" "HIT" TO HOUSEHOLD WEALTH

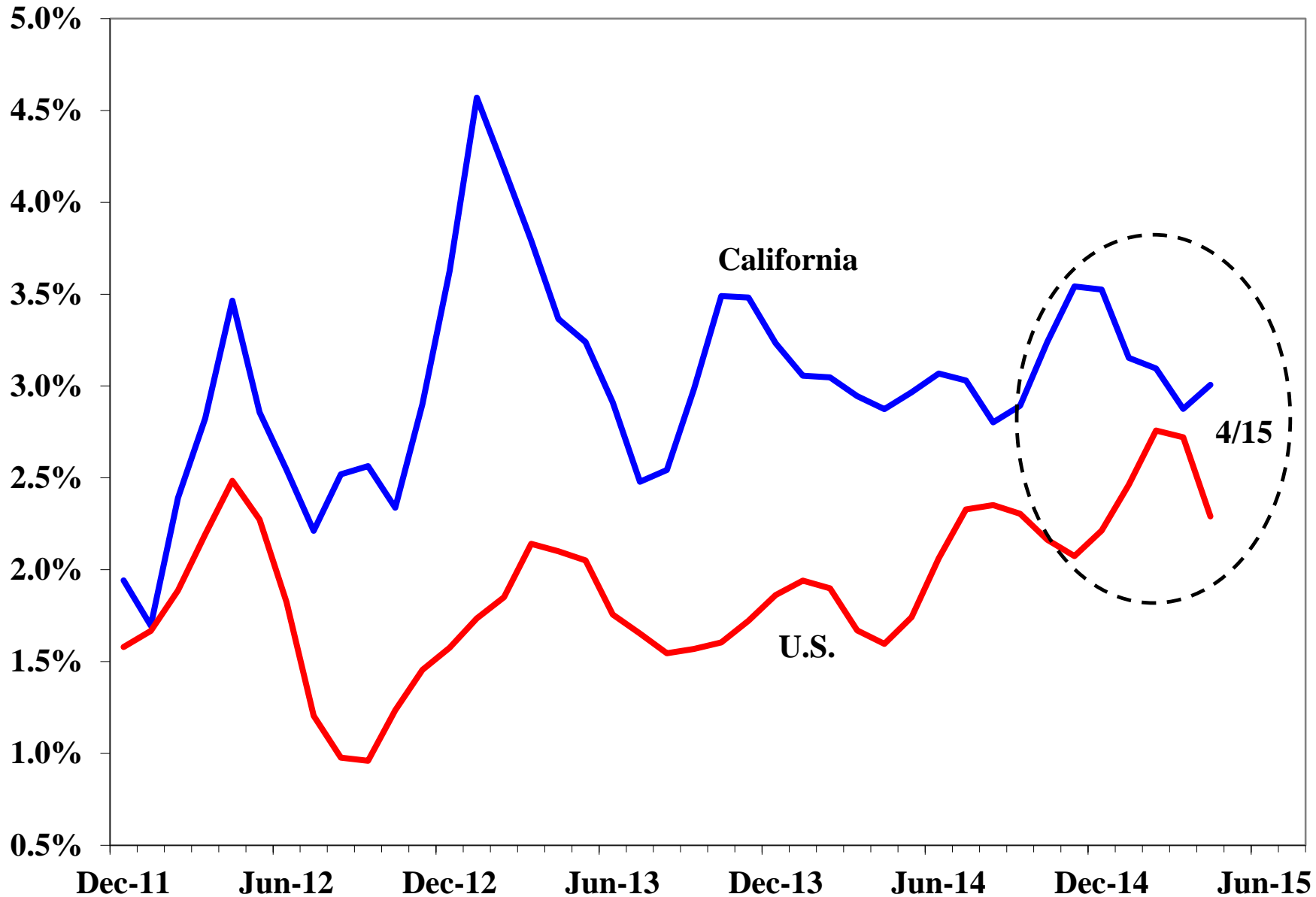
Average Inflation-Adjusted Wealth Per Household (Thousands Of 2005 Dollars)



Sources: Federal Reserve Board; U.S. Commerce Department; WCM estimates

CALIFORNIA JOB GROWTH RUNNING AHEAD OF THE U.S. AVERAGE

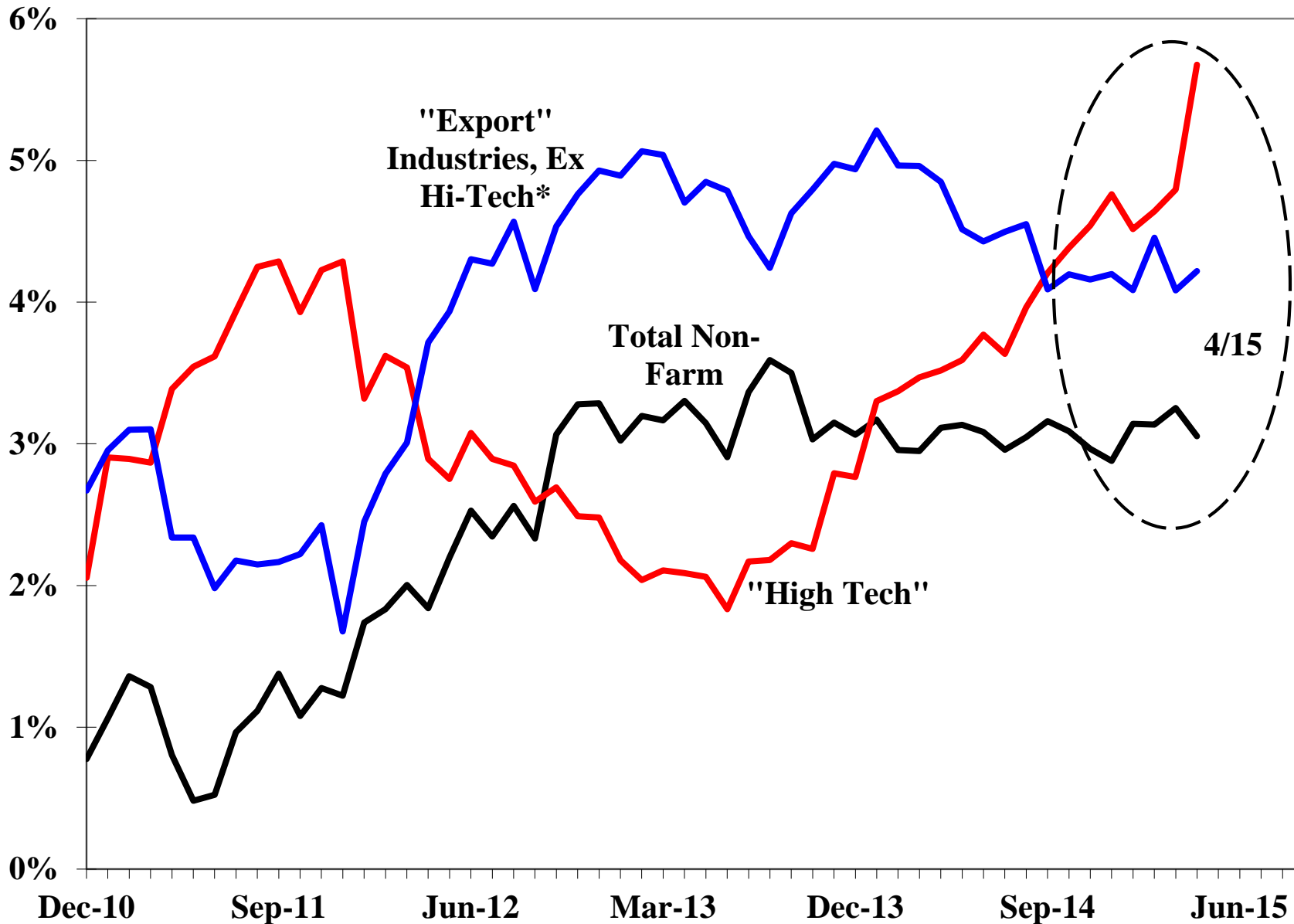
Annualized % Chg. In Seasonally Adjusted Non-Farm Payrolls From 3 Months Ago; 3-Mo. Moving Avgs.



Sources: U.S. Labor Department; California Employment

"EXPORT"-LED JOB GROWTH IN CALIFORNIA PACED BY HIGH-TECH INDUSTRIES

Year-Ago Percent Change In Non-Farm Payroll Employment

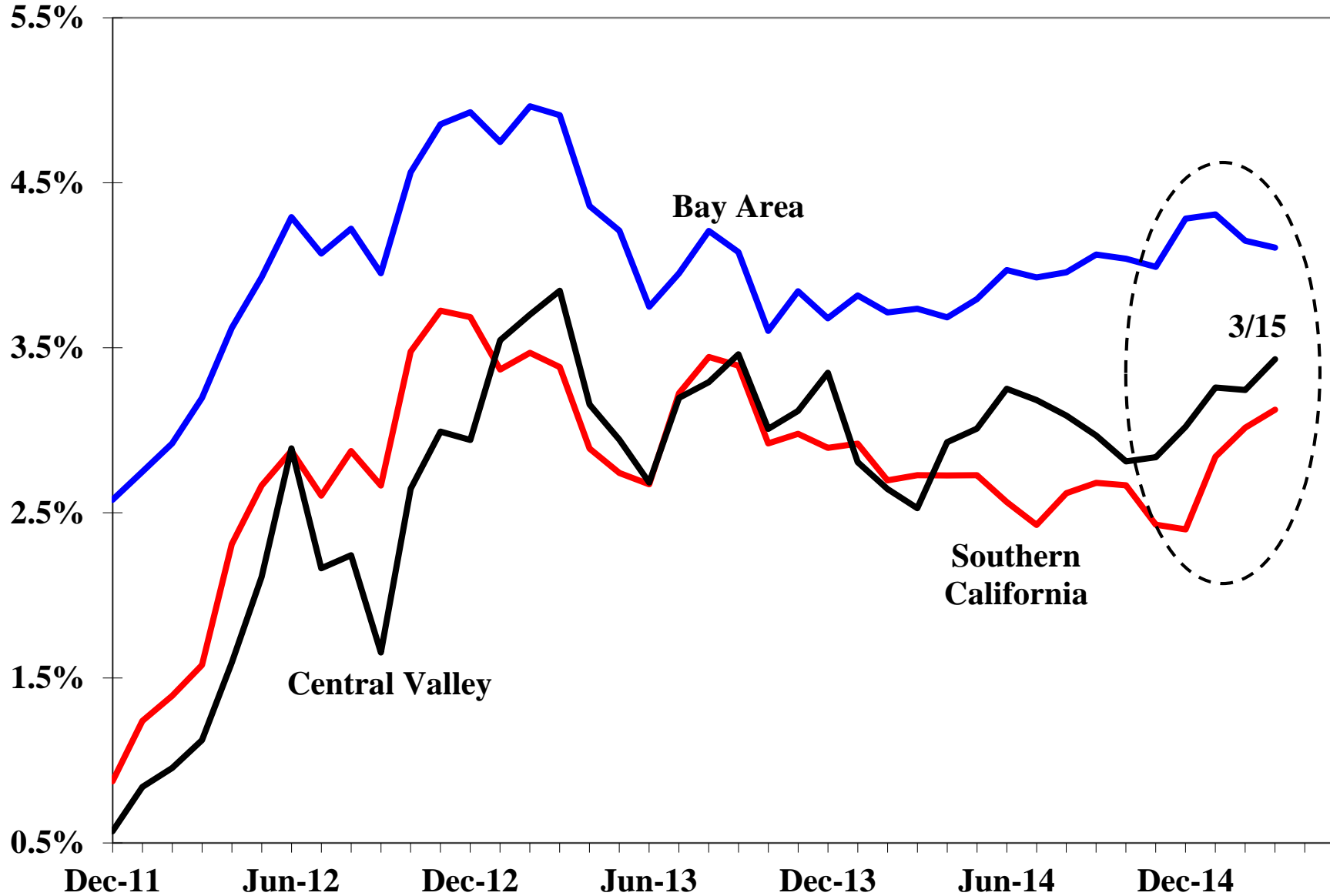


* Aerospace, travel and tourism, motion pictures and sound recording.

Source: California Employment Development Department

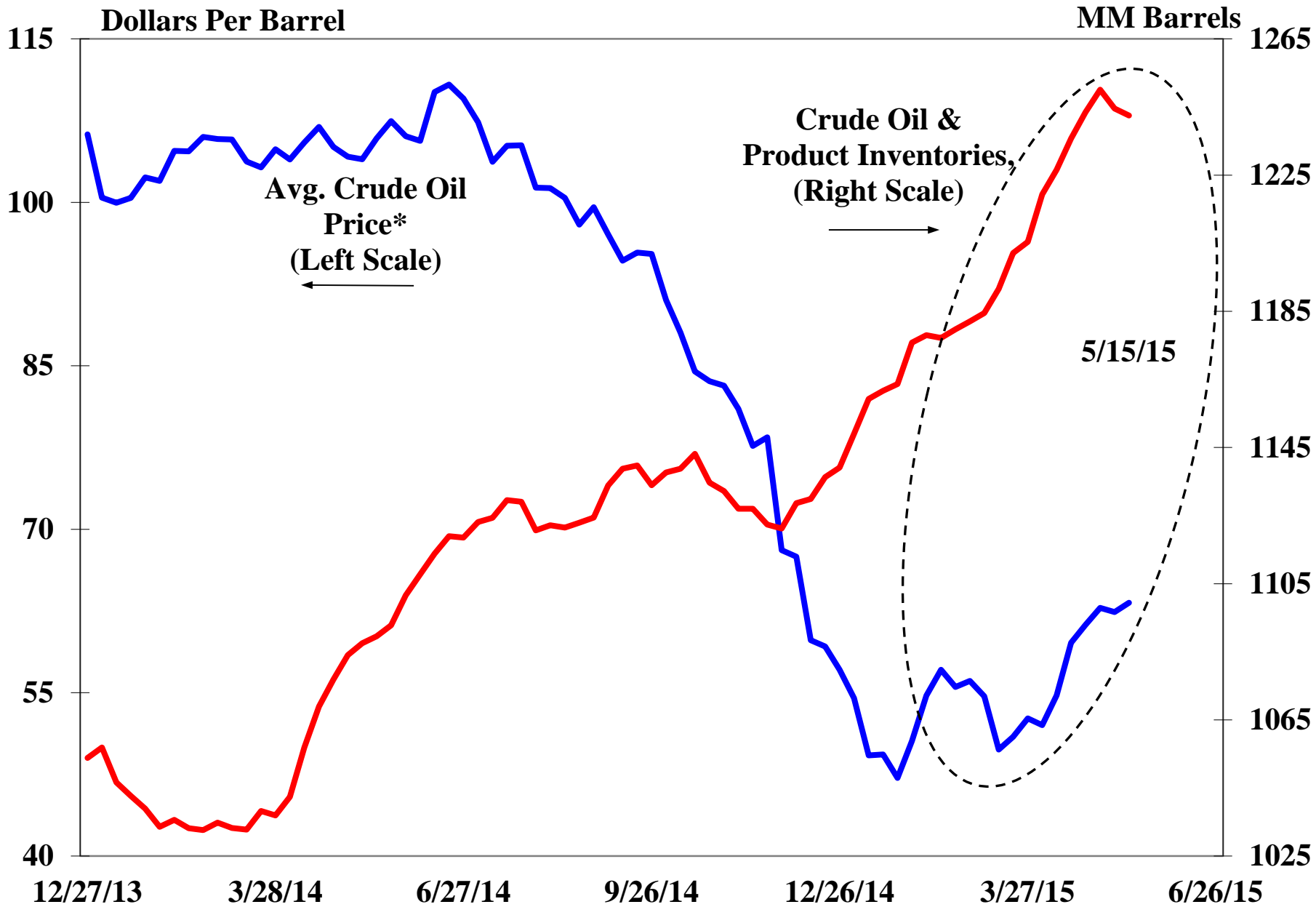
THE TECH-LED RECOVERY KEEPS THE BAY AREA ON THE LEADING EDGE OF STATEWIDE JOB GROWTH

Yr-Ago % Change In Non-Farm Payrolls; Three-Month Moving Average Data



Source: U.S. Department Of Labor

WHO WINS THE STAND-OFF BETWEEN CRUDE-OIL PRICES AND INVENTORIES?



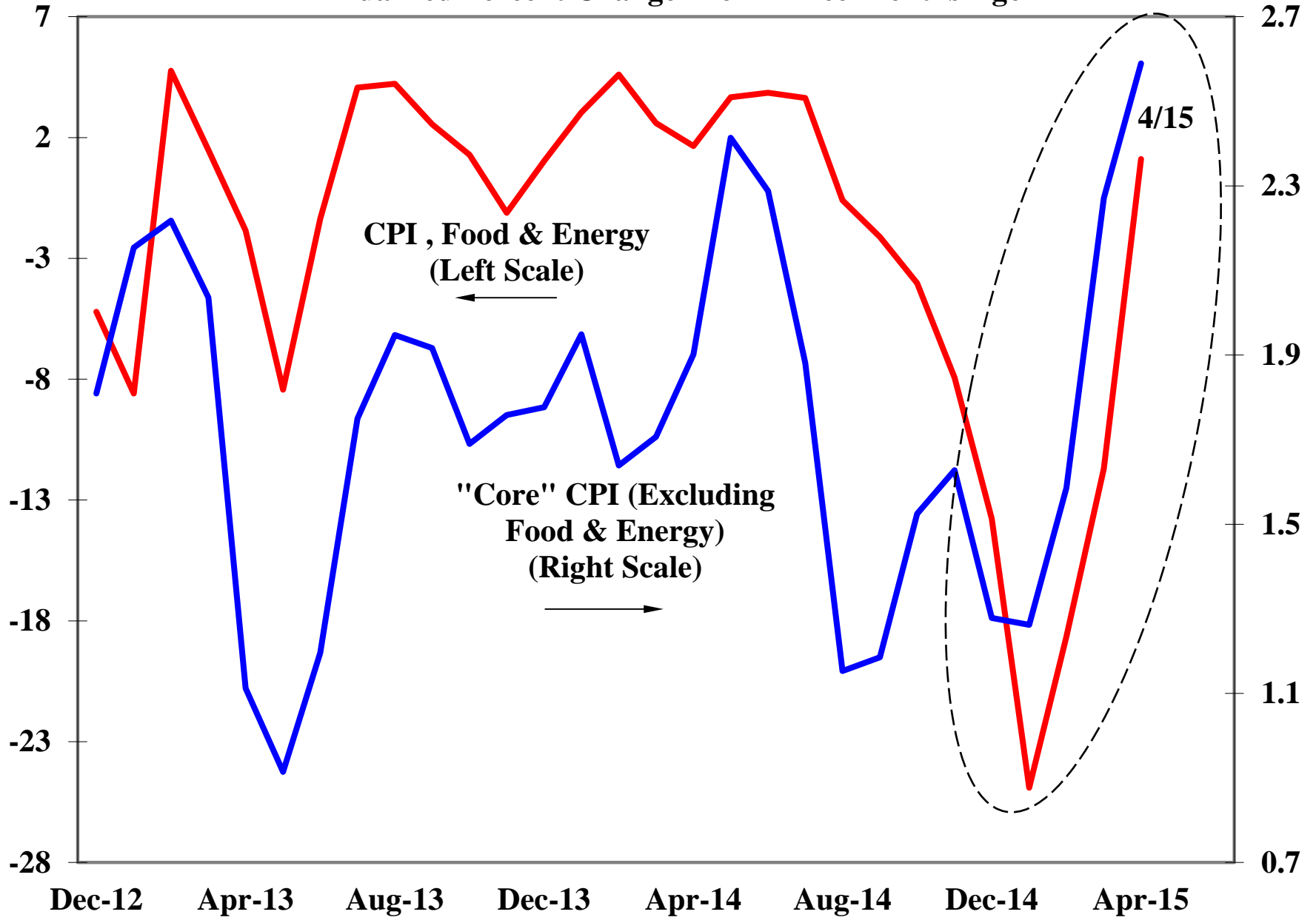
Source: U.S. Energy Department

AN UNUSUAL INTEREST-RATE CYCLE IN 2015?

- **A Cautious “Sea Change” In Monetary Policy**
- **A Still-”Friendly” Backdrop For Long-Term Rates**
 - Moderate Growth, A Slow Transition From “Disinflation”*
 - Elevated, But Still-Subdued Inflation Expectations*
 - Foreign “Flight-” And Yield-Driven Demand For U.S. Debt*
 - Yield Increases More Policy- Than Inflation-Driven*
- **A “Bumpy” Ride Higher?**
 - Artificially Low Yield Premiums, Untested Policy Tools And An Unwinding Of Financial-Market Distortions*

IS INFLATION ON THE WAY BACK?

Annualized Percent Change From Three Months Ago

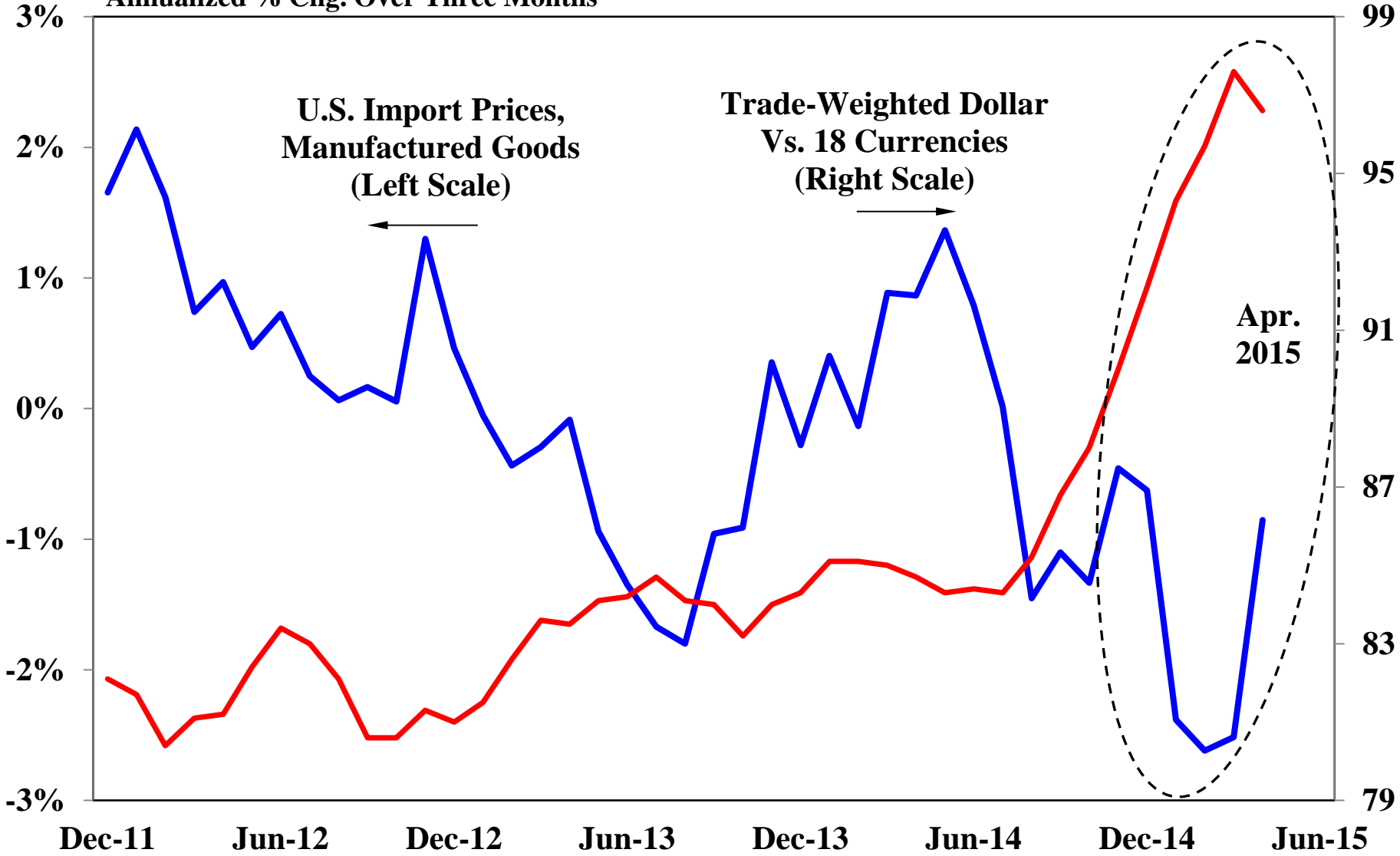


Source: U.S. Dep't Of Labor

IMPORT-PRICE "DEFLATION," REINFORCED BY A STRENGTHENING DOLLAR

Annualized % Chg. Over Three Months

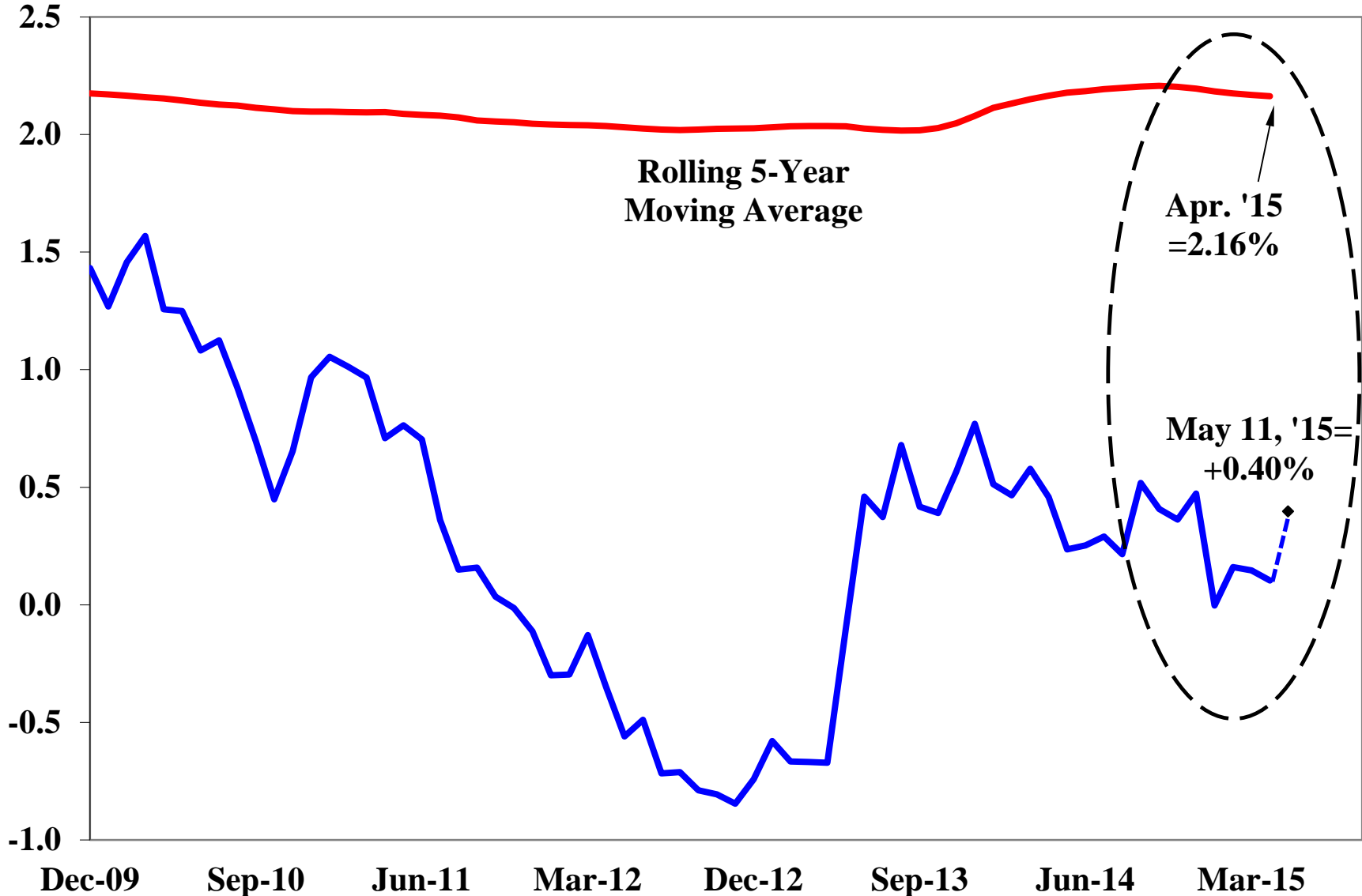
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Sources: U.S. Labor Dep't; JP MorganChase, Inc.; WCM Estimates

"LEAN" INFLATION PREMIUMS: AN ANCHOR OR A COILED SPRING FOR FUTURE INTEREST RATE CHANGES?

The Yield On A Ten-Year Treasury Inflation-Protected Security (Or "TIPS"), In Percent



* As measured by the stated yield on a ten-year "TIPS."

Source: Bloomberg Financial News, Inc.

A REPLAY OF LAST DECADE'S "BOOM-BUST" CYCLE?¹⁵

- **The Good News...**

- No Housing "Bubble"

- Less Leveraged, Better Capitalized Banks

- More Manageable Household Debt Burdens

- **...And The Bad**

- "Shadow Banking" Fills The Traditional-Banking Vacuum

- "Illiquidity" Risk Amid Ample "Liquidity"

- Weakening Underwriting Standards

- Increased Portfolio Leveraging

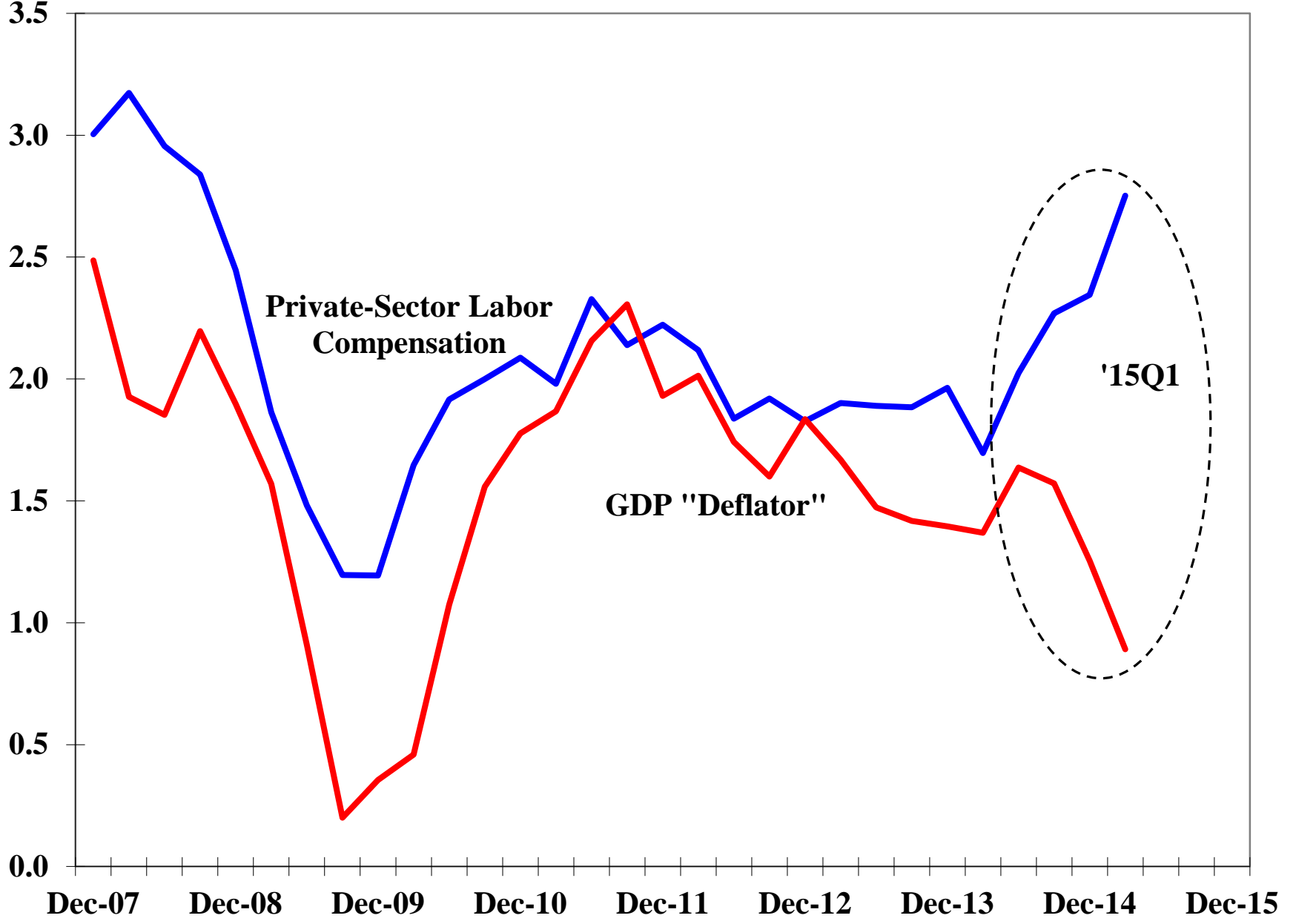
- Inflated Asset Values

A “NEW NORMAL” FOR THE U.S. ECONOMY?

- **An Aging, Slower-Growing Workforce**
- **Lingering Fall-Out From The 2008-09 Financial “Meltdown”**
- **Policy Uncertainties In The U.S., Structural Adjustment Abroad**
- **Weak “Pricing Power” In A Highly Competitive Economy**
 - Bracing For Further Dollar Increases Pressuring U.S. Competitiveness*
- **A Jobs Mismatch Between Skilled And Less Skilled Workers**
- **Potentially Volatile, “Asset-Driven” Economic Cycles**

LABOR COMPENSATION AND BUSINESS "PRICING POWER" PART COMPANY

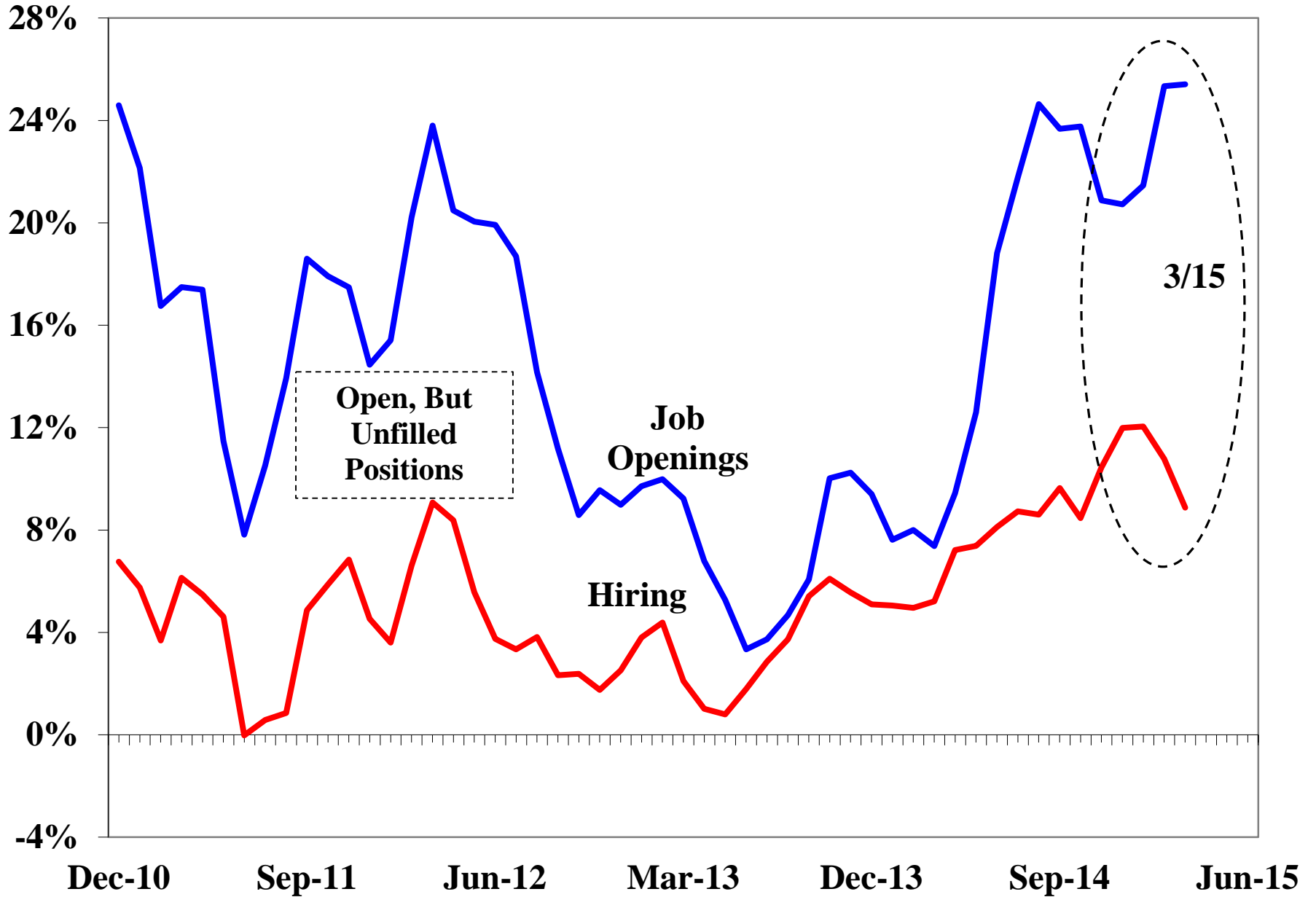
Year-Ago Percent Changes



Source: U.S. Bureau Of Labor Statistics

IS A LABOR MISMATCH LEAVING THE JOB MARKET "TIGHTER" THAN IT APPEARS? ¹⁸

Year-Ago Percent Change; Three-Month Moving Average Data



Source: U.S. Bureau of Labor Statistics

A FEW SUPPORTS IN THE STRUGGLE FOR “OLD NORMALCY”

- **Changing Consumption Patterns For An Aging Population**
- **Infrastructure Upgrades At Home, Expansion Abroad**
- **Commercializing, Integrating Technological Innovations**
- **The Energy Renaissance—Promise And Implications**
- **Well-Positioned In A Highly Competitive Global Economy**
 - U.S. Entrepreneurial, Innovative Strengths*
 - Demonstrated Cost-Cutting, Efficiency-Raising Ability*
- **Emerging-Market Opportunities**
 - Middle-Class Growth, Urbanization, Human Capital Development*