

Unconstrained Fixed Income Summit

Chicago: February 10 | New York: February 12

Damn the End of QE! Buy the Dollar and Treasurys!

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President

A. Gary Shilling & Company, Inc.

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Economic Consultants

Chart 1

Historic Inflation and Deflation

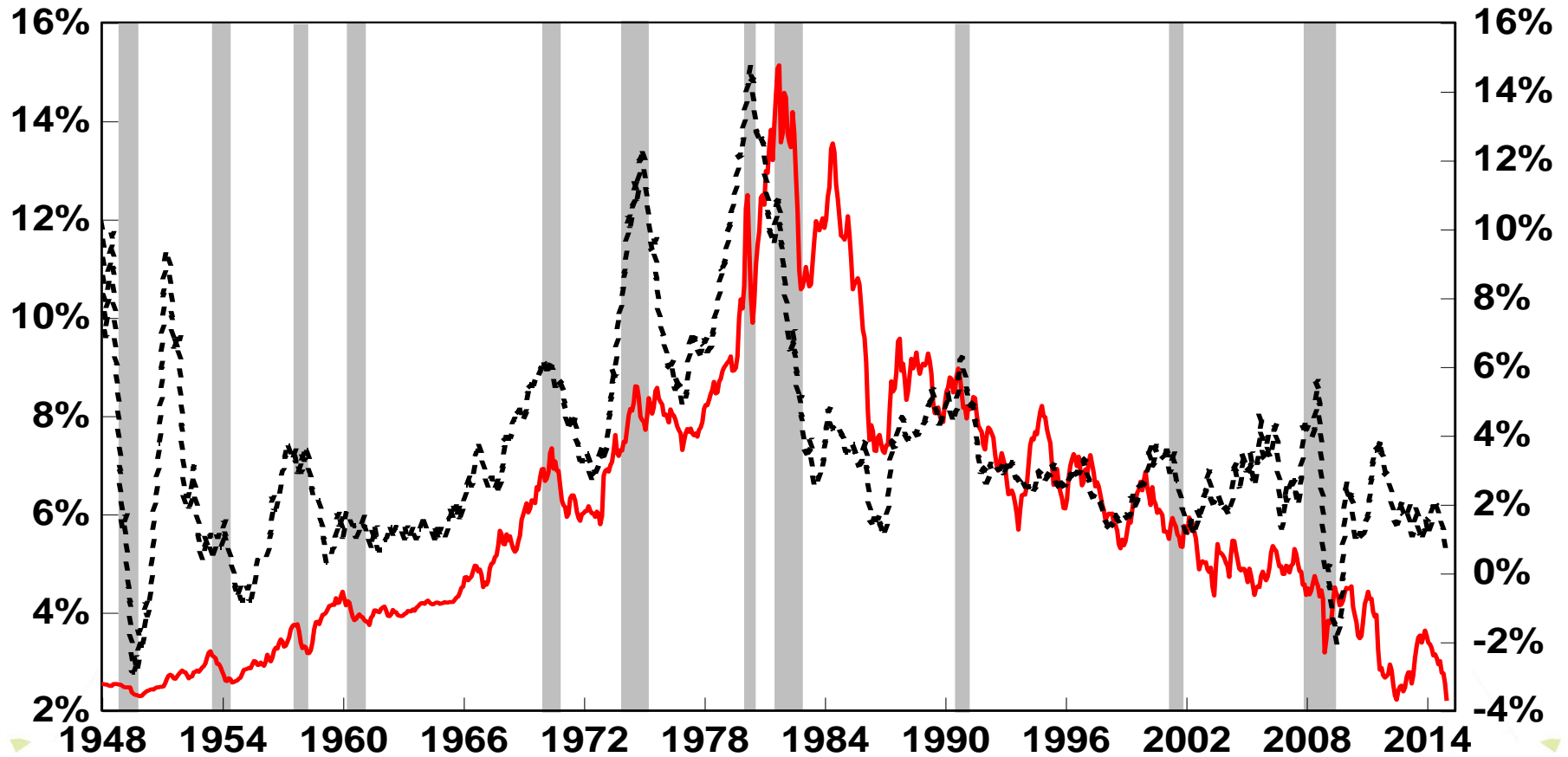
Period	Military Engagement	No. of Years	Annualized Wholesale Price Change
1749-1755	Peacetime	6	-0.50%
1756-1763	French-Indian War	8	2.27%
1764-1774	Peacetime	11	-0.35%
1775-1783	American Revolution	9	12.31%
1784-1811	Peacetime	28	-1.91%
1812-1815	War of 1812	4	7.78%
1816-1845	Peacetime	30	-2.36%
1846-1848	Mexican-American War	3	-0.40%
1849-1860	Peacetime	12	1.05%
1861-1865	Civil War	5	14.75%
1866-1916	Peacetime	51	-0.74%
1917-1918	World War I	2	23.92%
1919-1940	Peacetime	22	-2.31%
1941-1945	World War II	5	6.12%
1946-1992	Cold War	47	4.20%
1993-2000	Peacetime	8	1.43%
2001-2014	War on Terror	13	2.81%

	<u>No. of Years</u>	<u>Avg. Price Change</u>
Wartime:	97	5.64%
Peacetime:	168	-1.16%
Years Total:	265	1.29%

Chart 2

20-Year Treasury Yield and Consumer Prices

Last Points - CPI 12/14: 0.8%, Treasury Yield 01/15: 2.20



— 20 Year Treasury Yield - left axis

- - - Consumer Price Index (Yr/Yr % Change) - right axis

Source: Federal Reserve Board,
Bureau of Labor Statistics.

Chart 3 Federal Budget Balance \$ Bil.

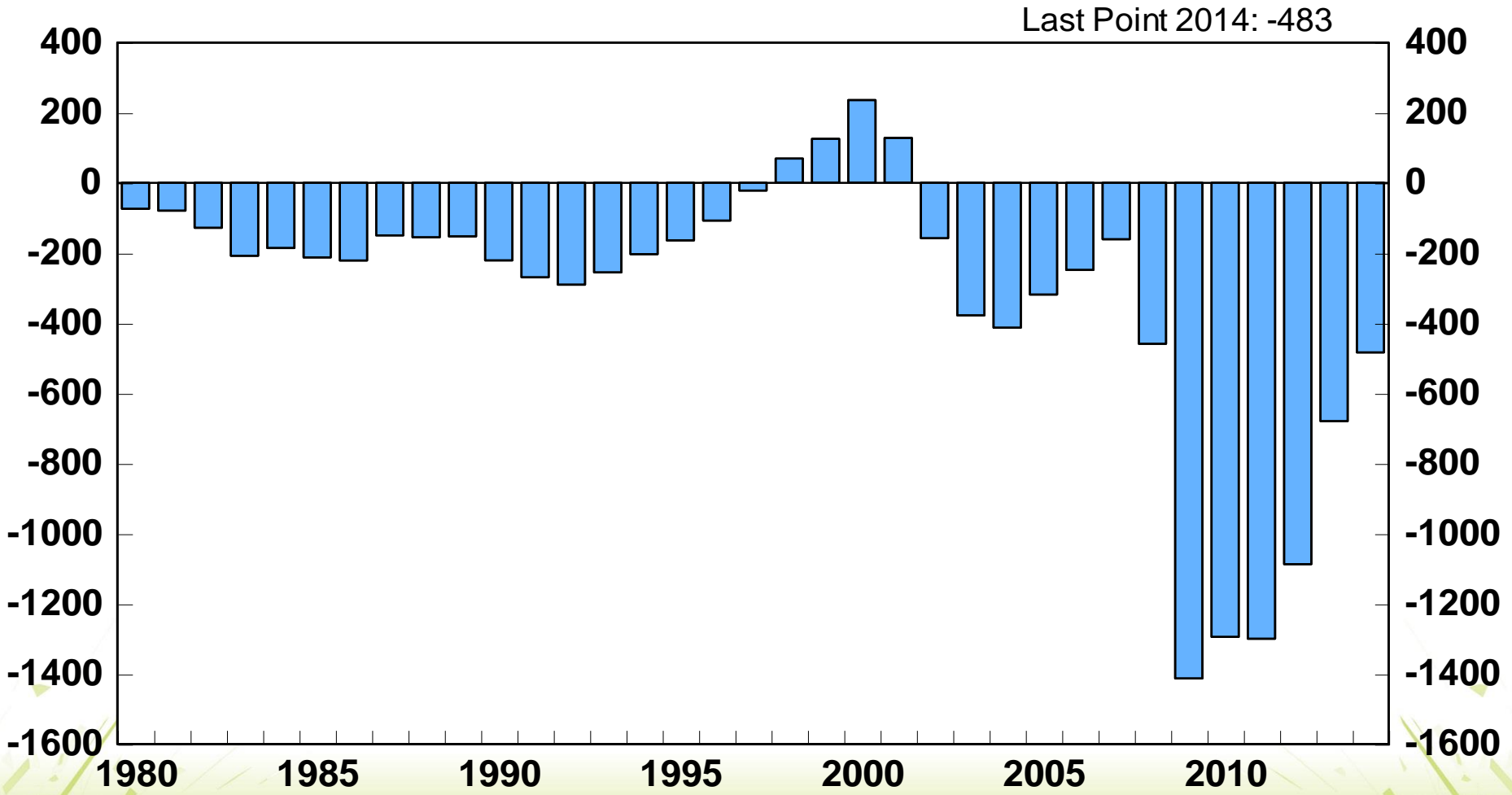


Chart 4

Monthly Federal Reserve QE Purchase Announcements

billions of dollars

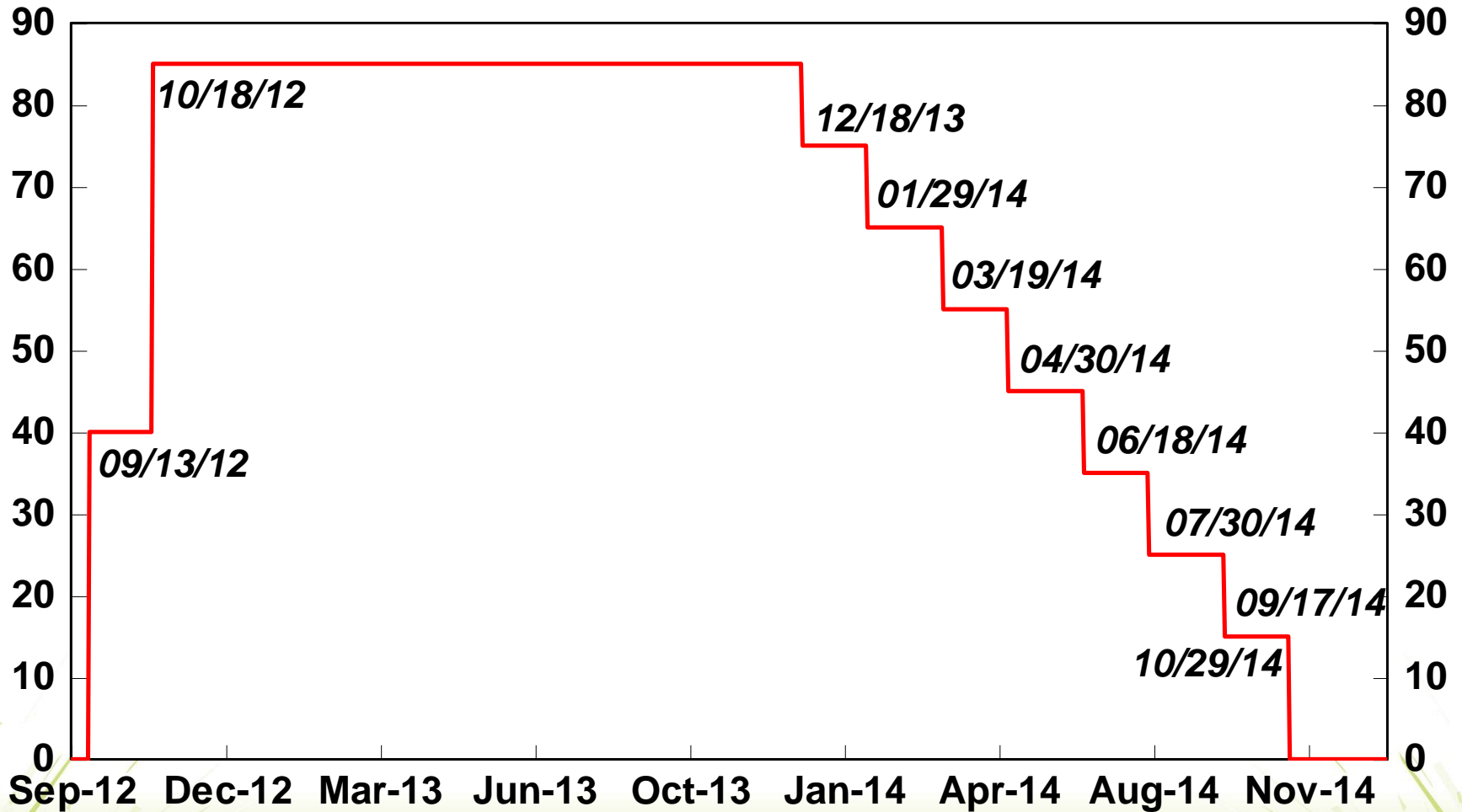


Chart 5

Real GDP Growth During Expansions

annualized rates of expansion from NBER trough-to-peak

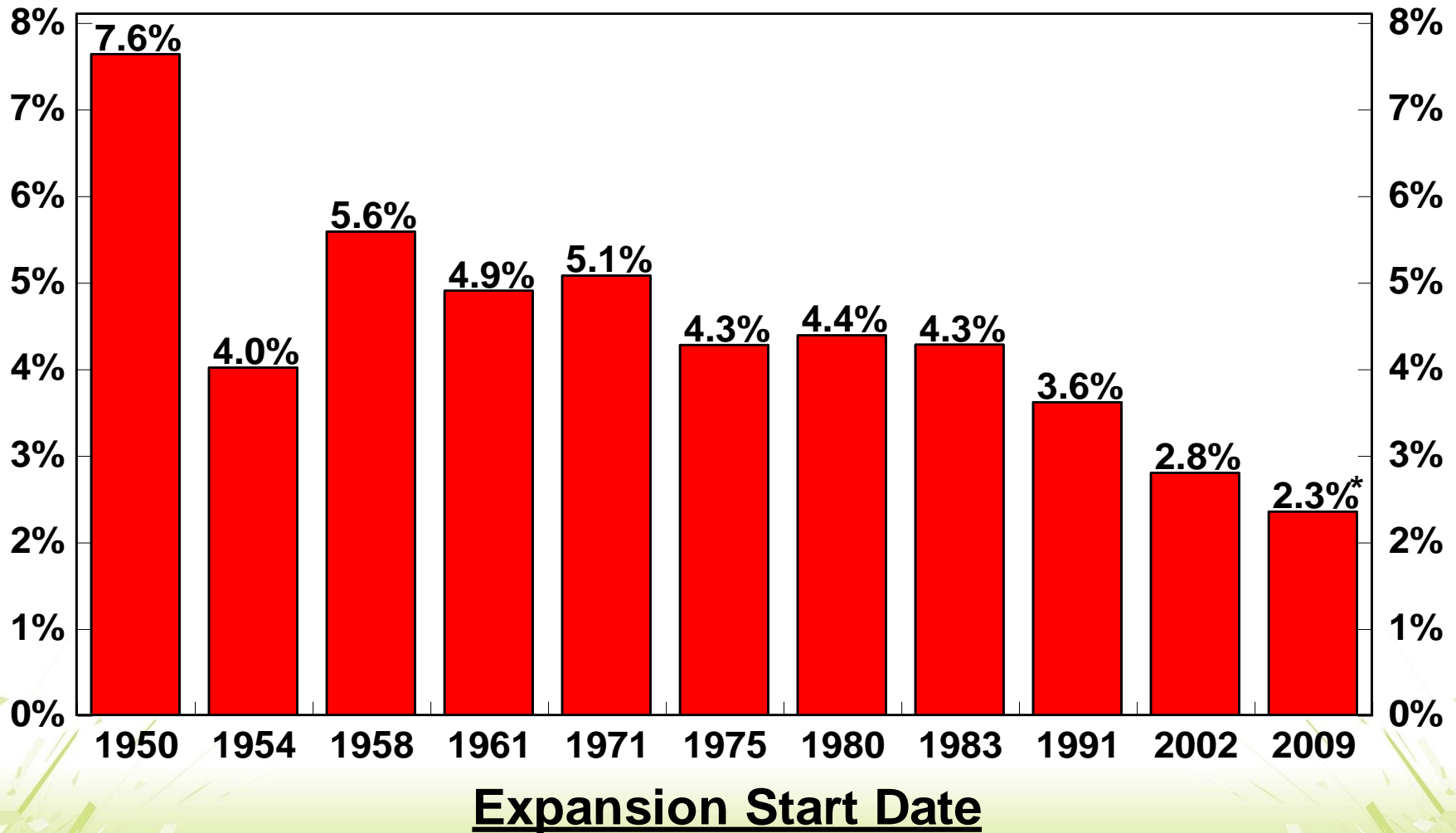
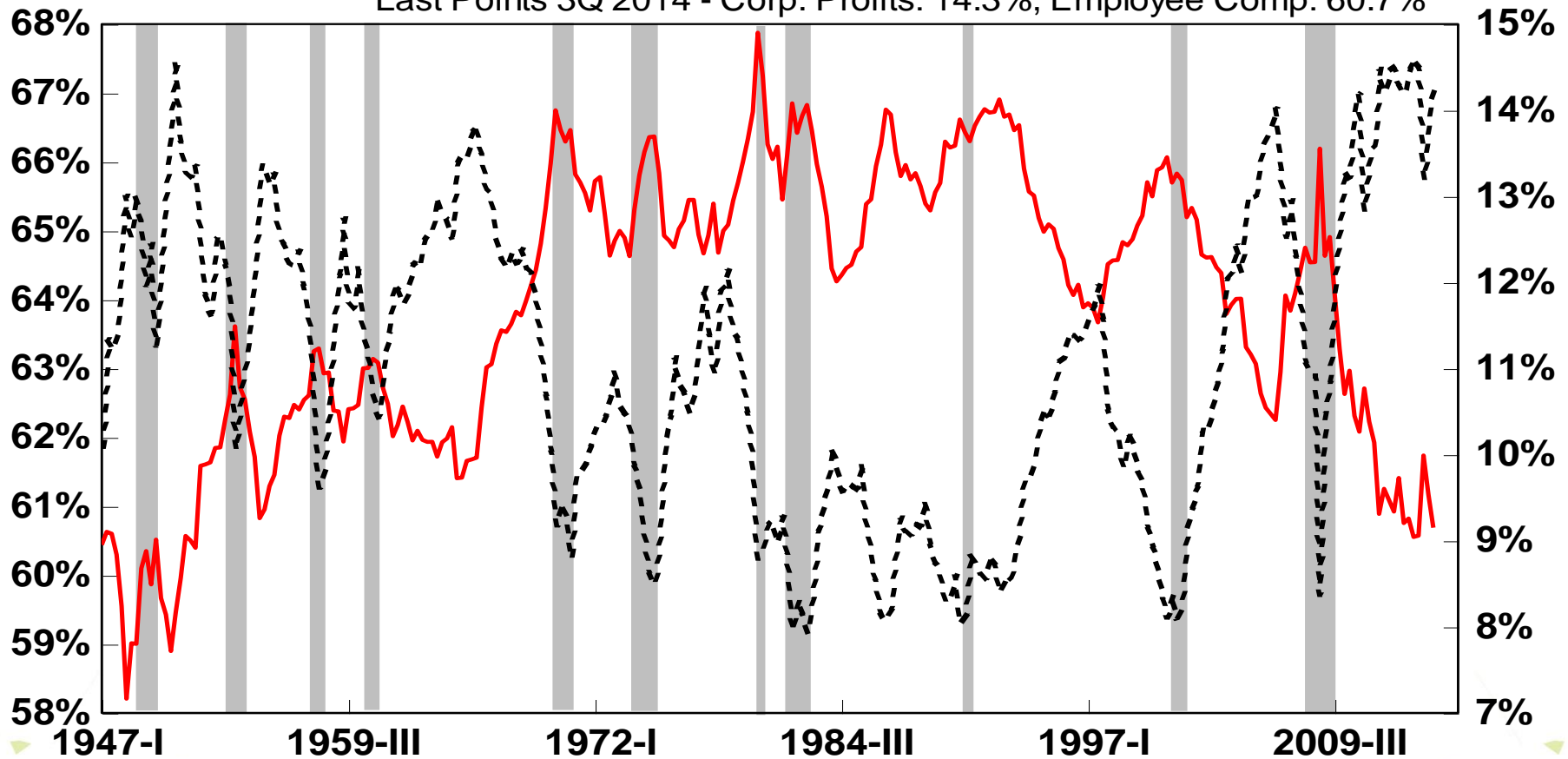


Chart 6 Corporate Profits and Employee Compensation as a percentage of National Income

Last Points 3Q 2014 - Corp. Profits: 14.3%, Employee Comp: 60.7%



— Compensation of Employees - left axis
 - - - - Corp. Profits with IVA and CCAdj - right axis

Chart 7

Real Average Family Income by Income Bracket

thous. \$2012

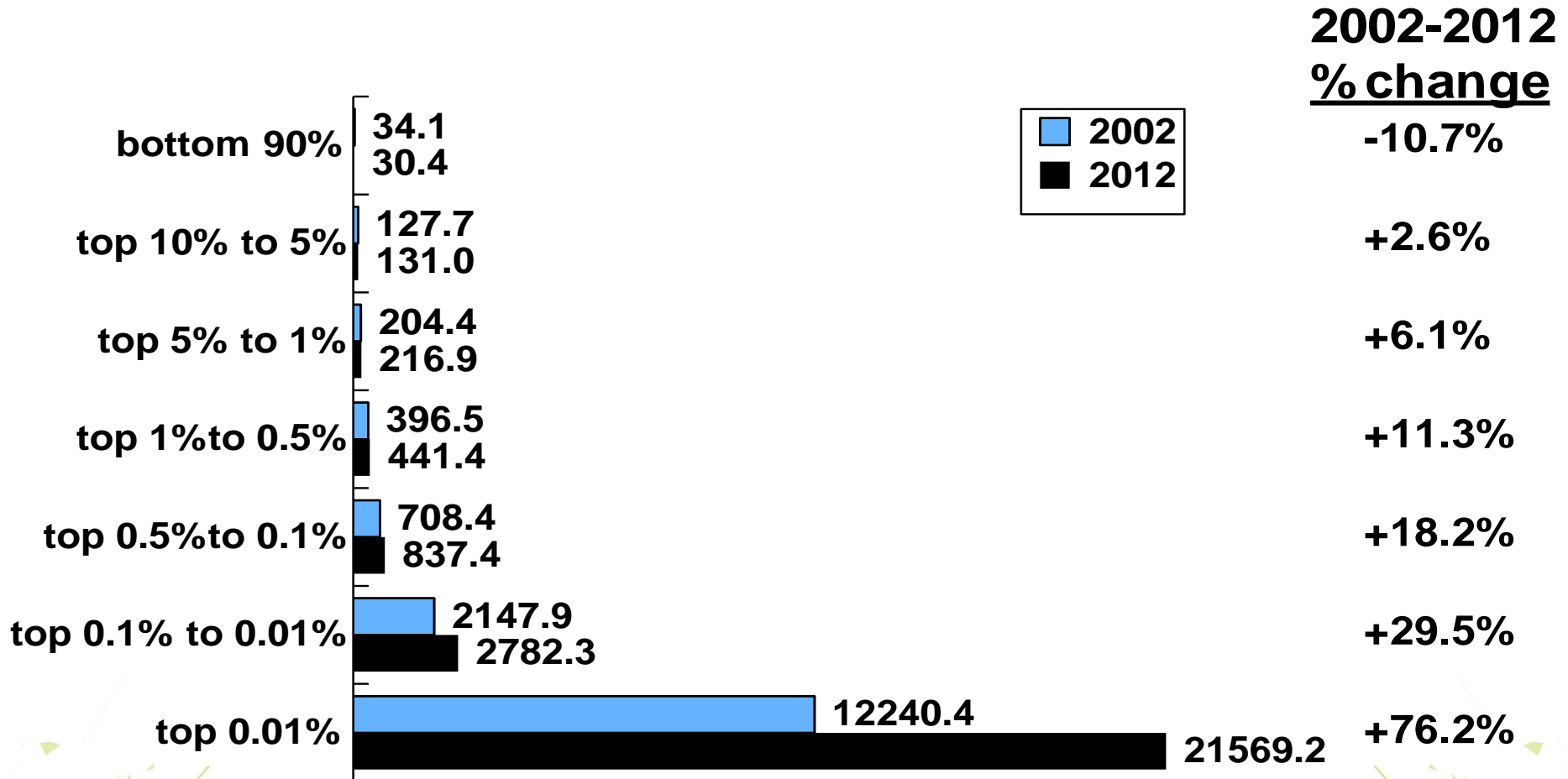


Chart 8

Real Weekly Wages and Household Incomes

year/year percent changes

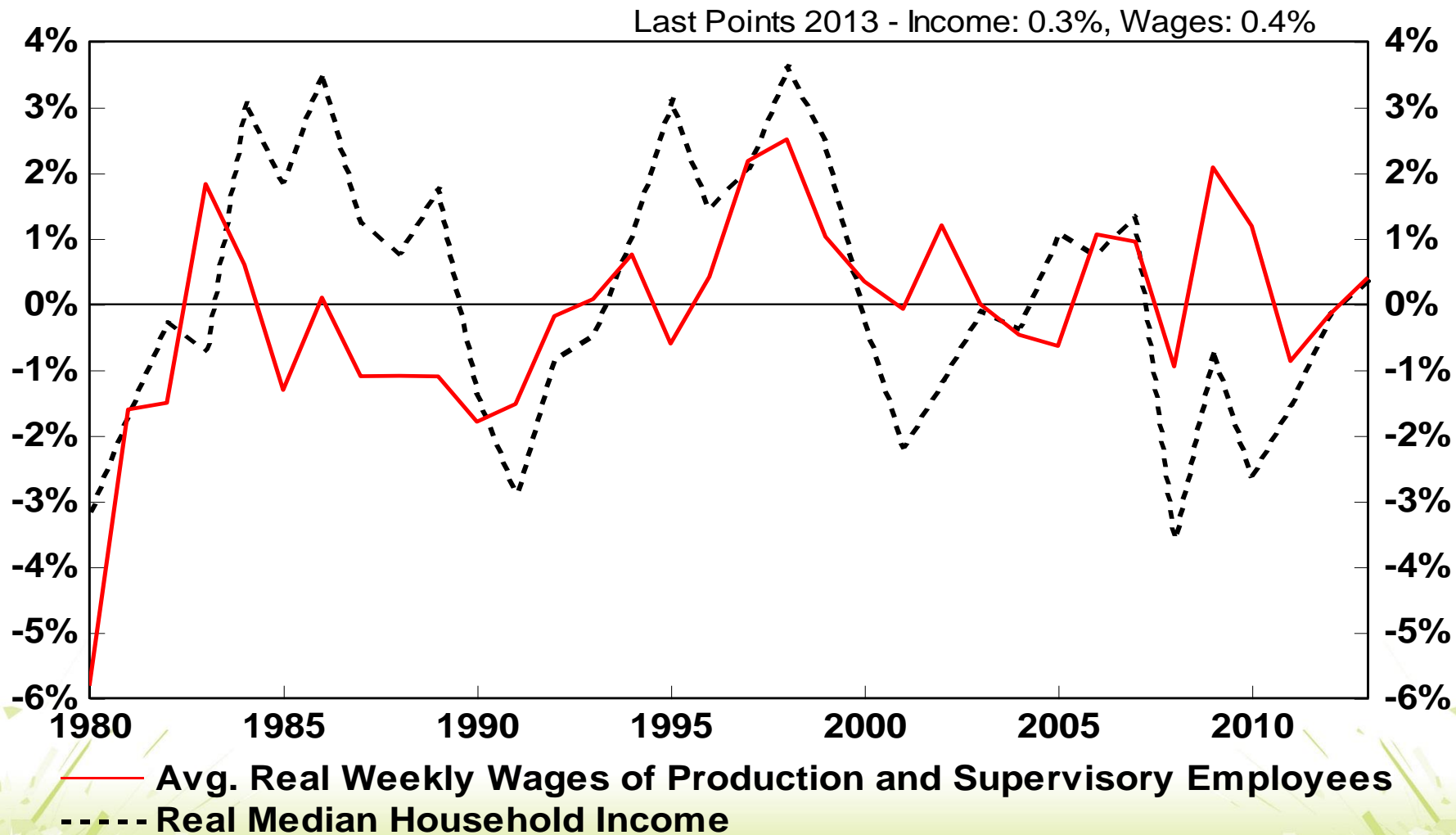


Chart 9

Chinese Gross Domestic Product

year/year percent change

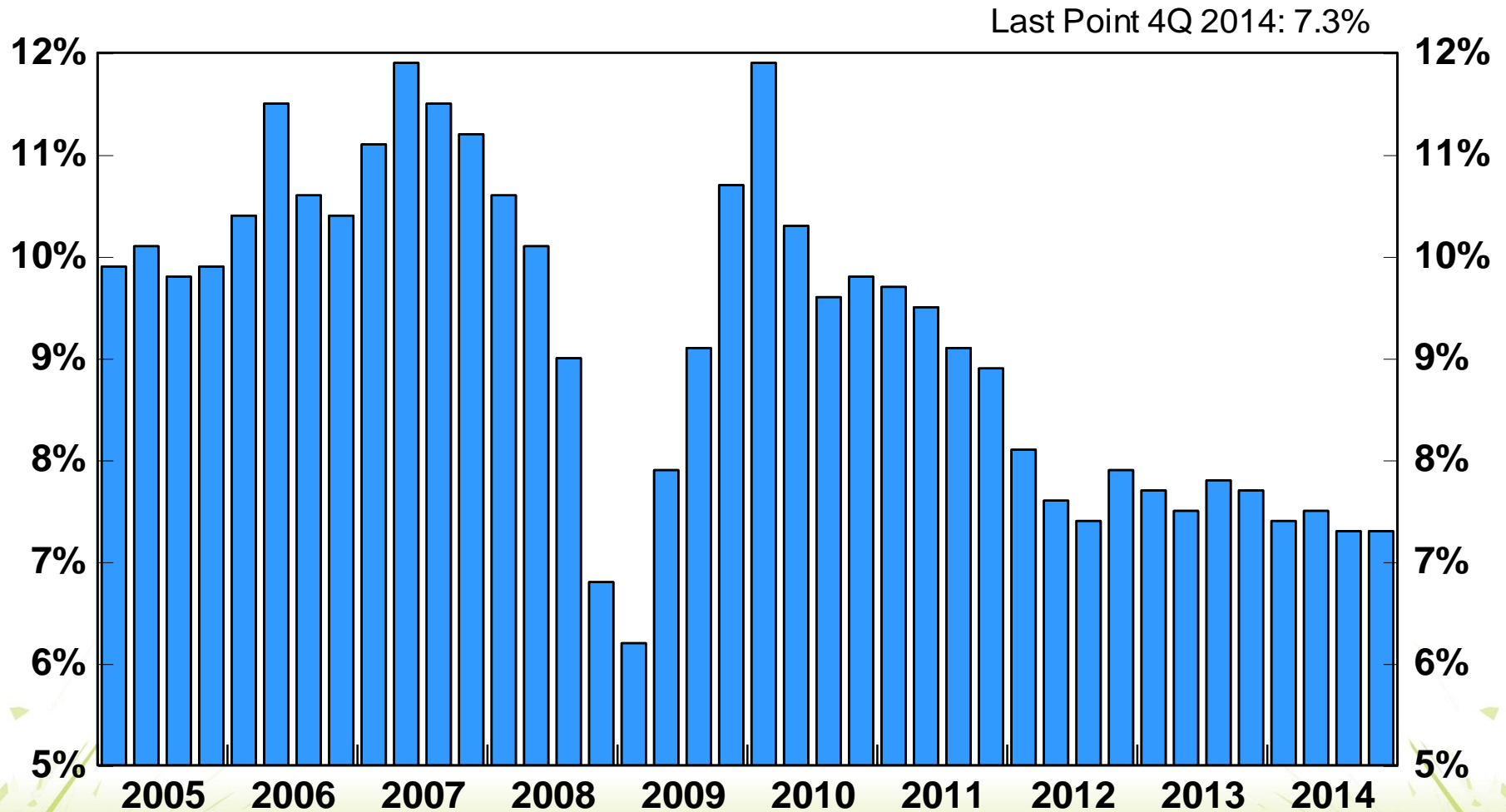
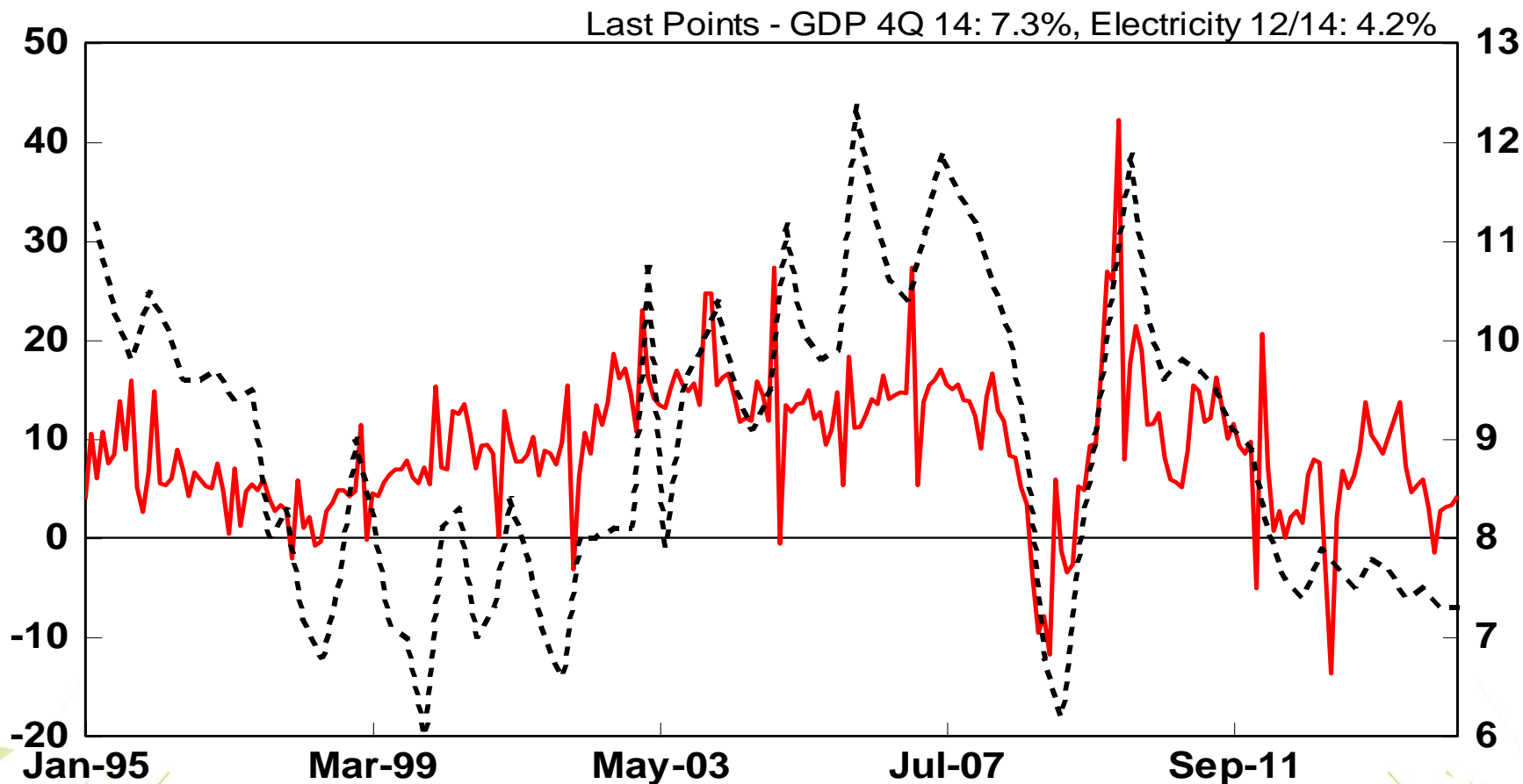


Chart 10

Chinese GDP and Electricity Consumption

year/year percent change



— Chinese Electricity Consumption - left axis
 - - - Chinese GDP - right axis

Chart 11

Chinese Population Aged 15-24

millions

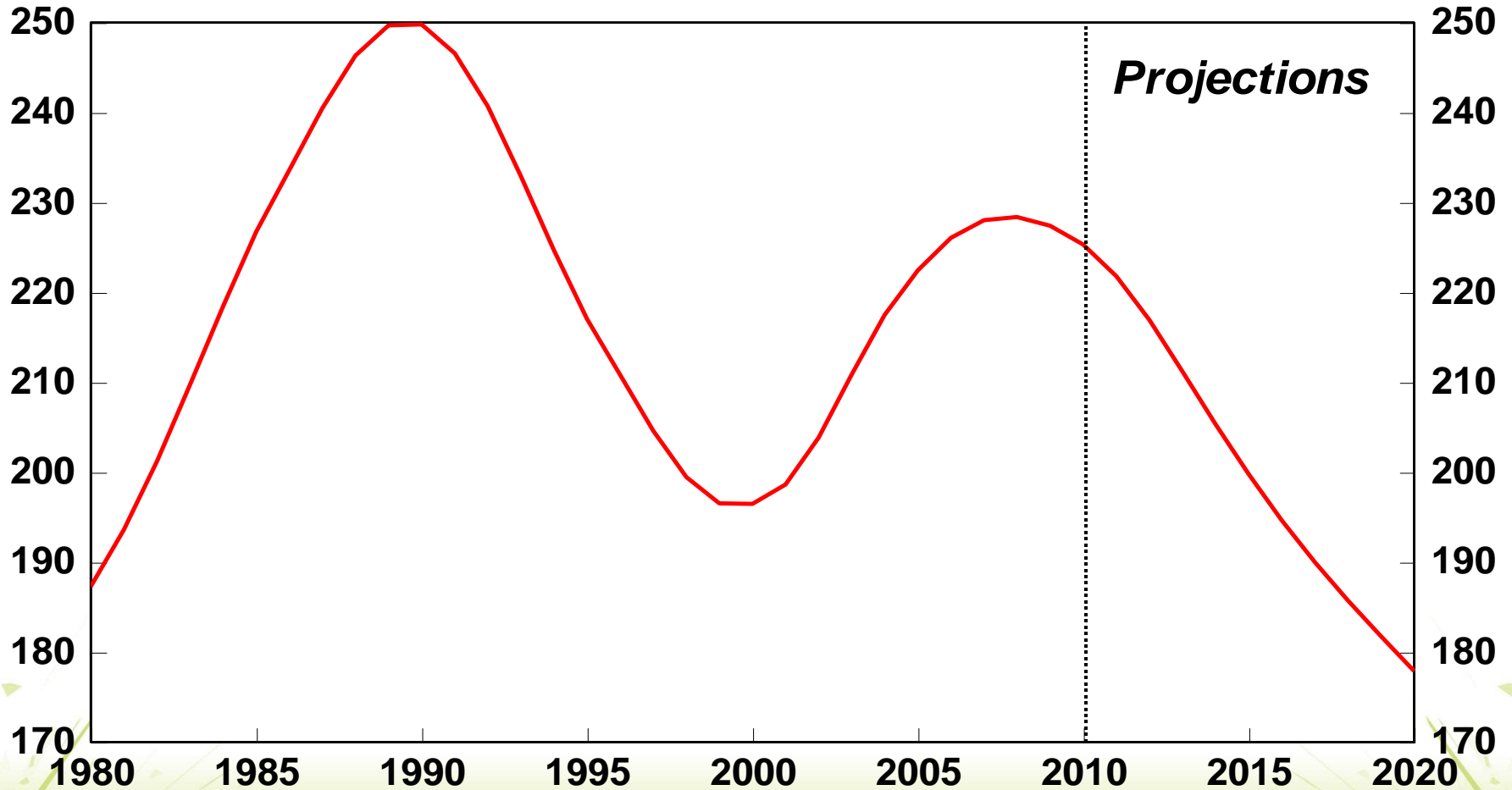


Chart 12

Problems in China

1. **Slowing economic growth**
2. **Transition from export-led to domestic-driven economy**
3. **Rising militarism**
4. **Anti-corruption campaign**
5. **Manipulation of the yuan**
6. **Shadow banking risks**
7. **Interest rate deregulation**
8. **Real estate bubble**

Chart 13 Japanese Real GDP

Last Point 3Q 2014 - Q/Q: -1.9%, Y/Y: -1.2%

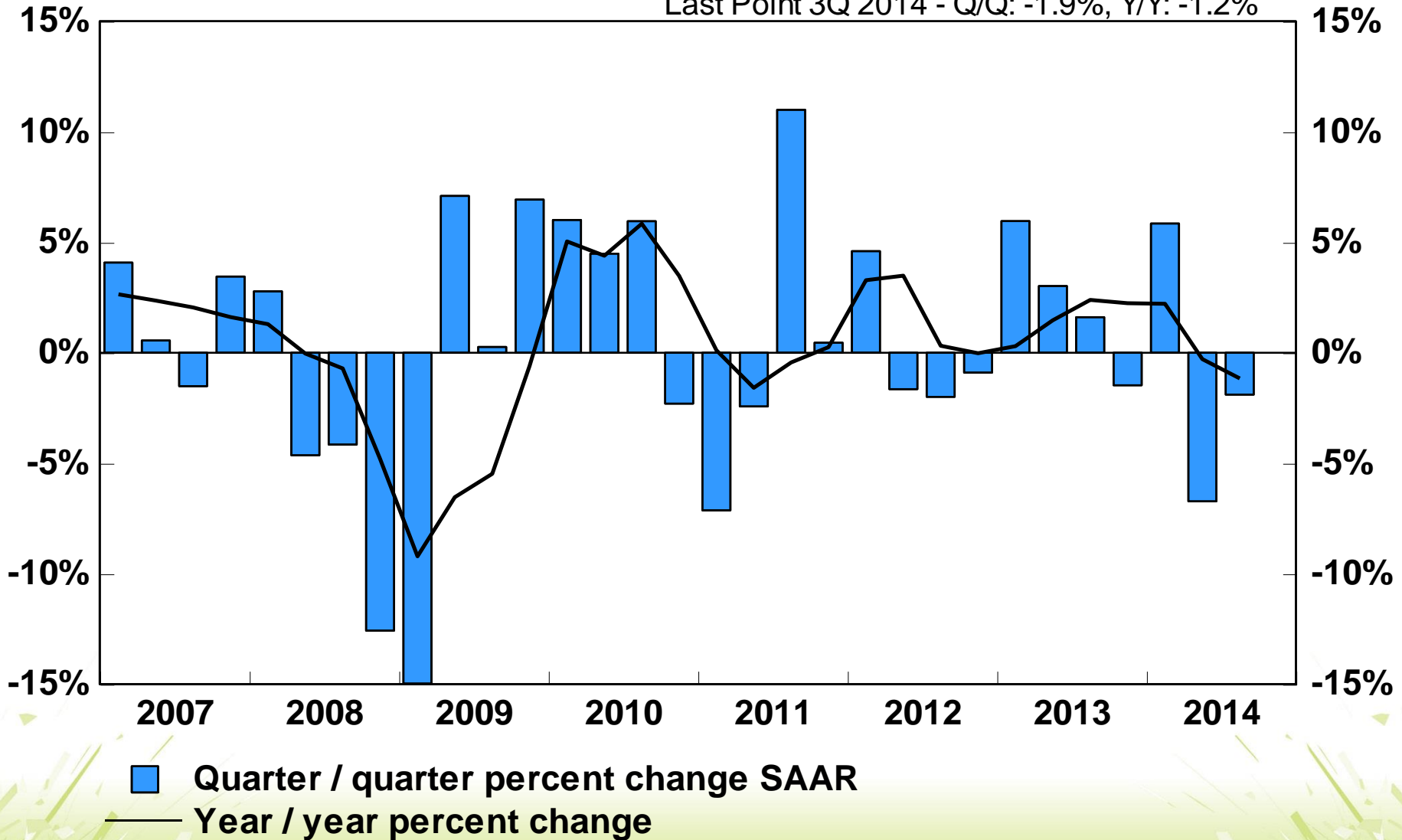
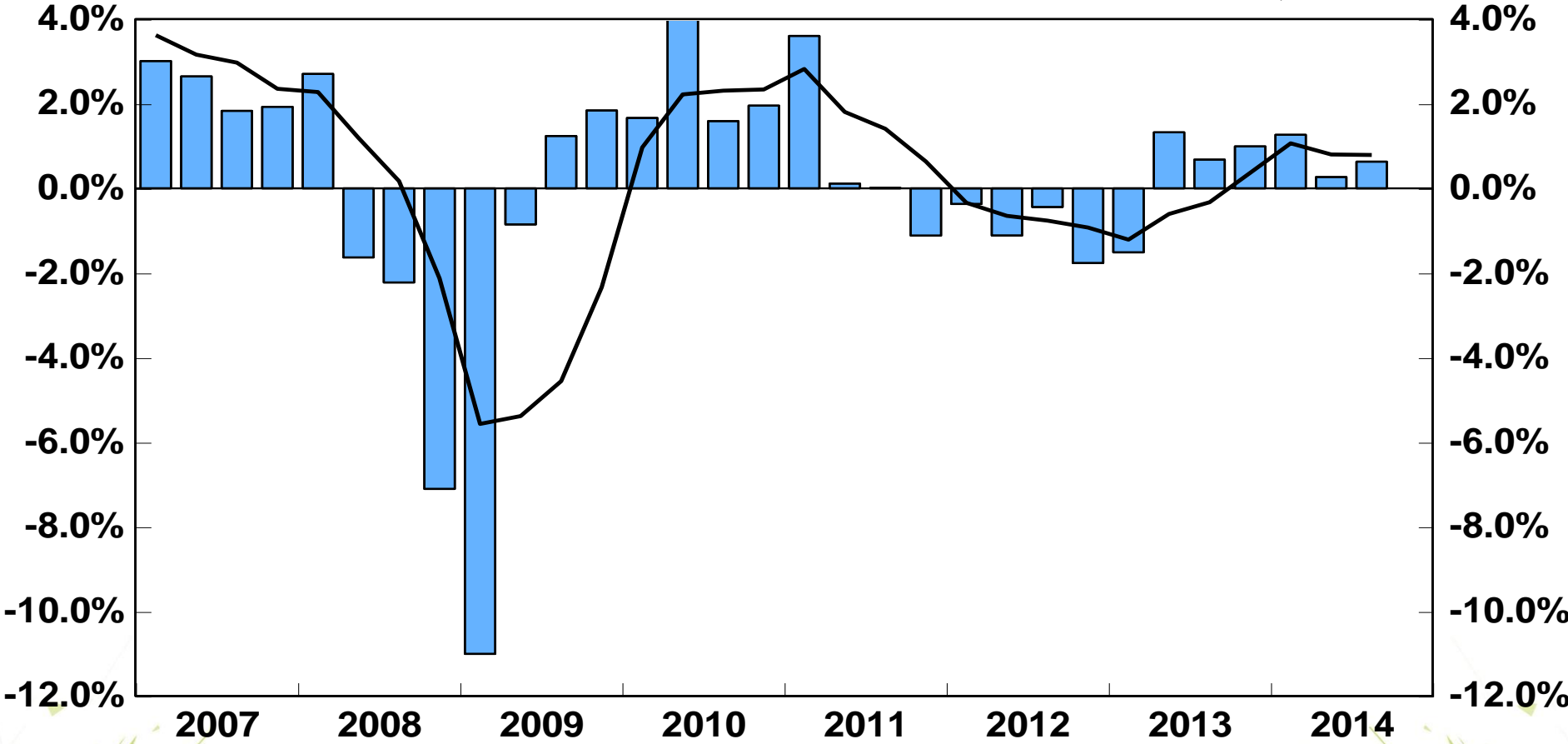


Chart 14

Eurozone Real GDP Growth

Last Point Q3 2014: Q/Q 0.6; Y/Y 0.8



■ quarter/quarter % change, seas. adj. annual rates
— year/year % change

Chart 15 Reuters/Jefferies CRB Index

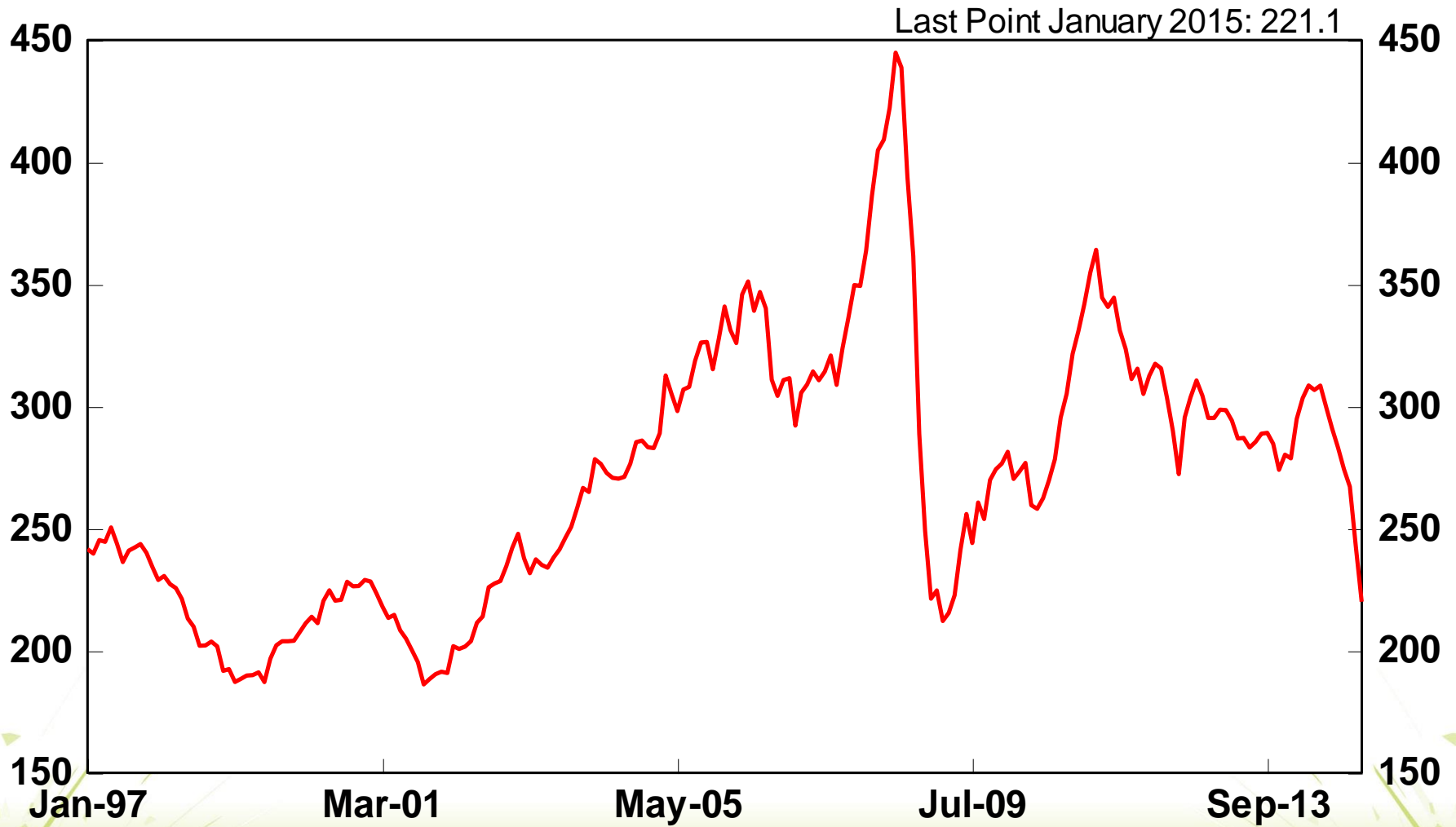


Chart 16 Copper Prices

nearest futures contract; dollars per pound

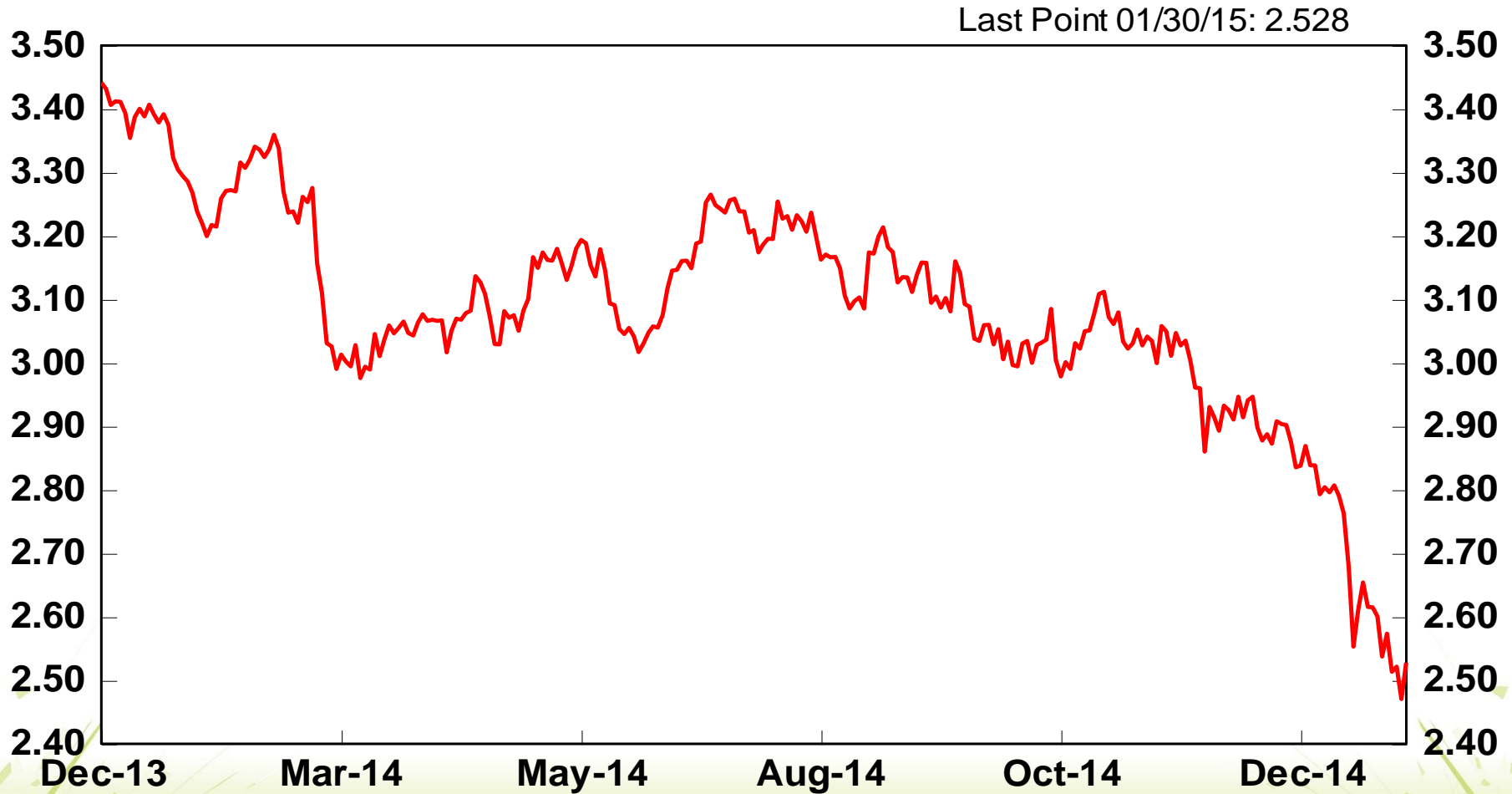


Chart 17

Real U.S. Commodity Prices

CRB Index Deflated by CPI

Last Point December 2014: 102.89

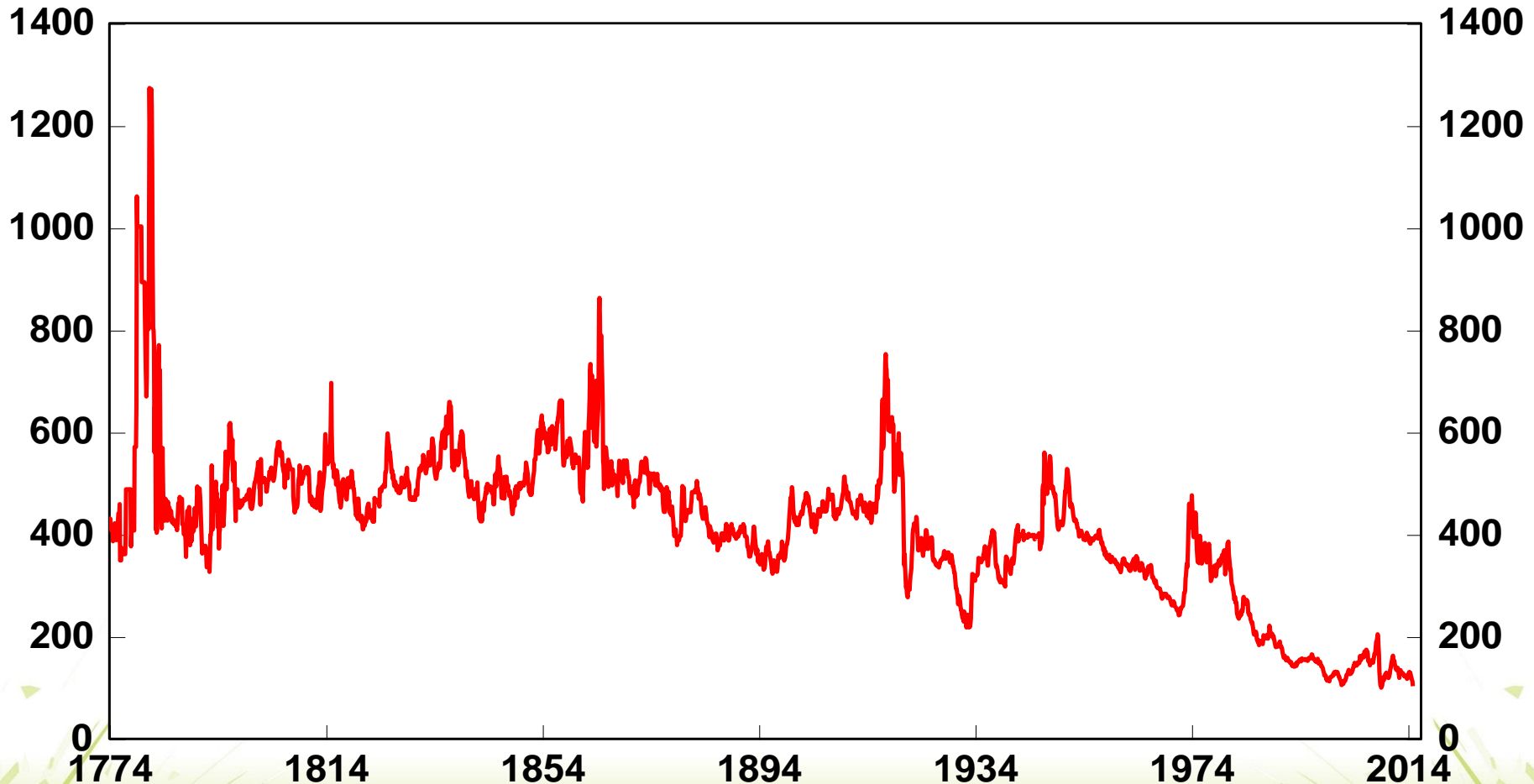
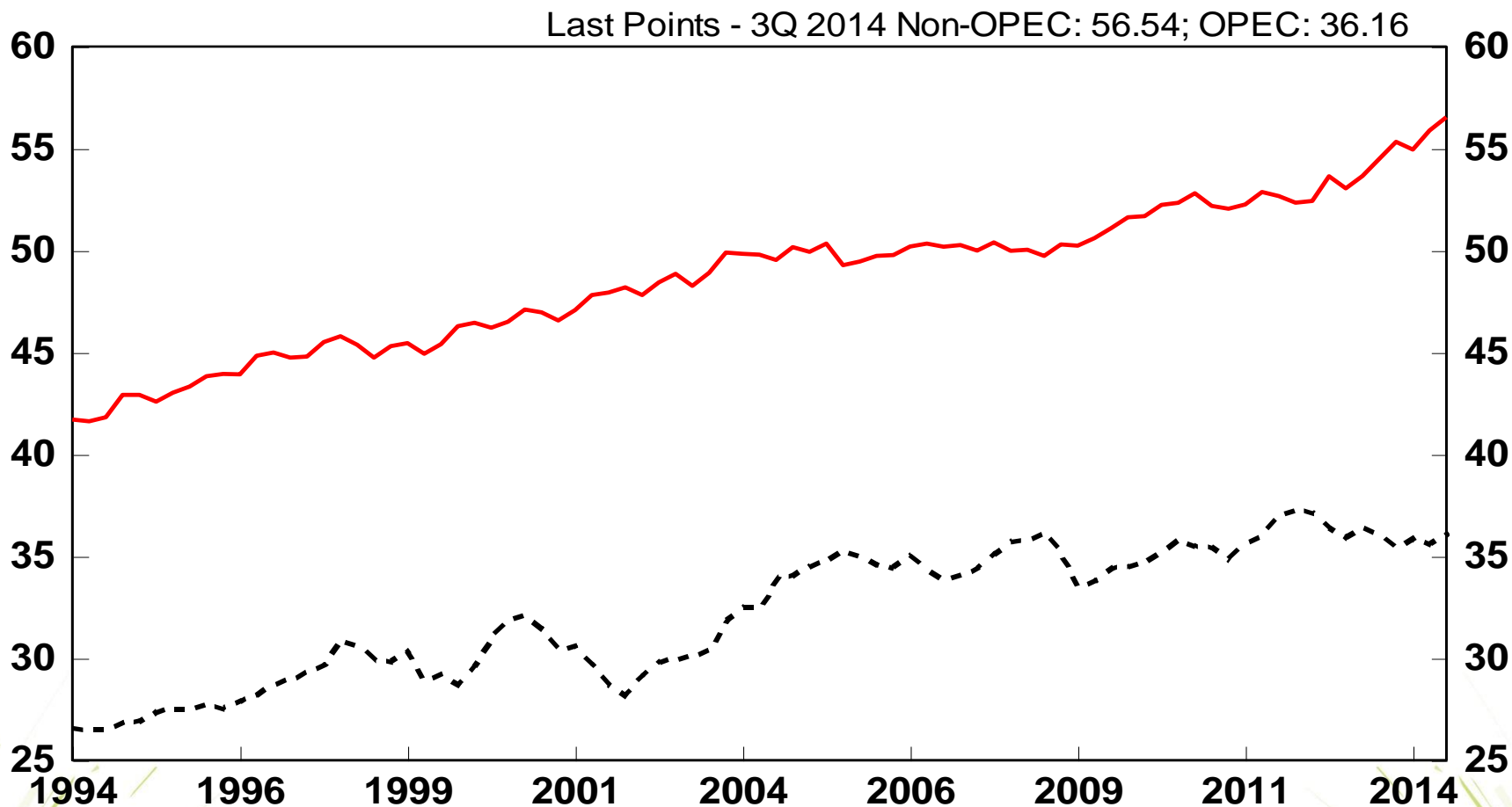


Chart 18

Crude Oil Output for Non-OPEC and OPEC Countries

million barrels per day

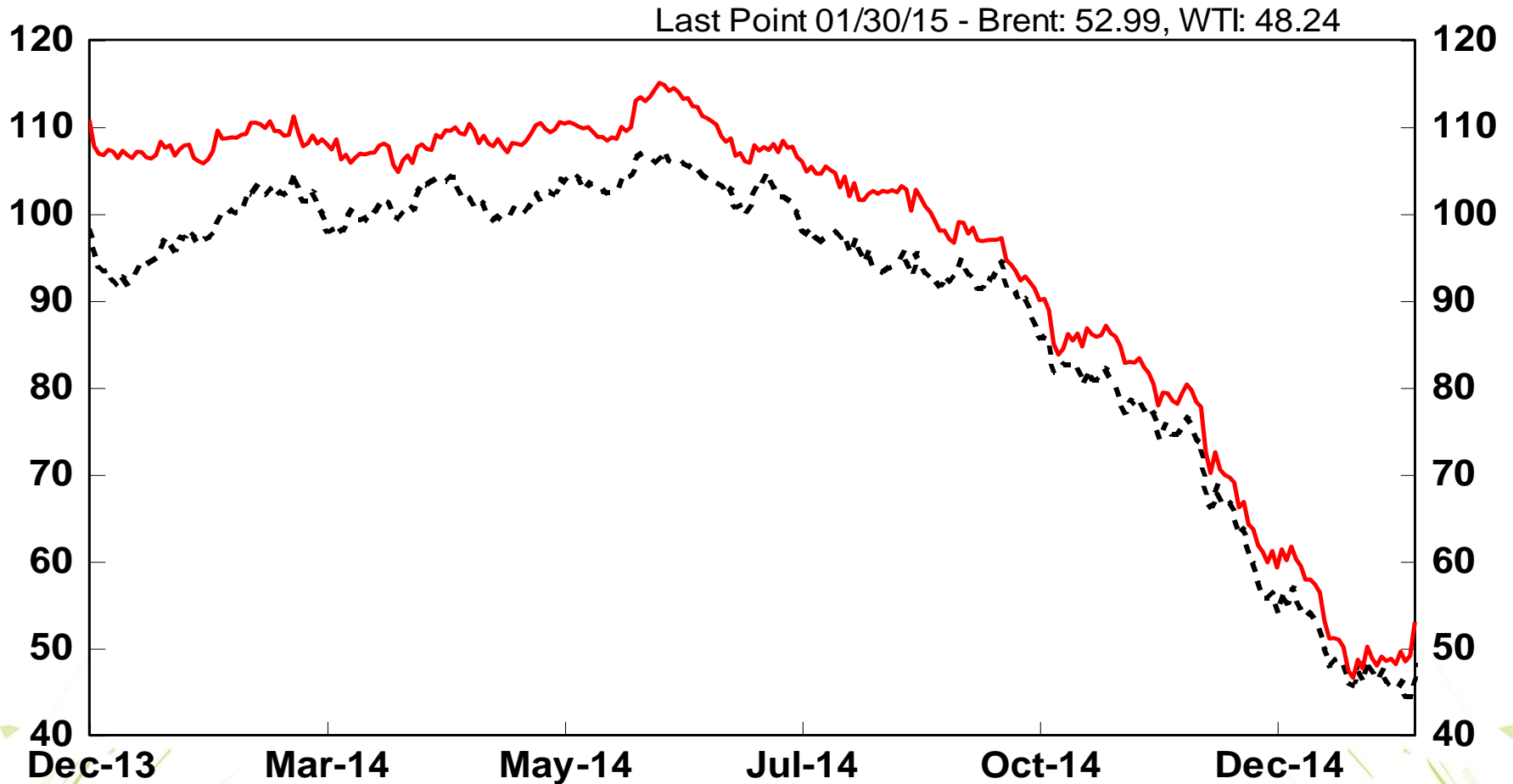


Source: Energy Information Administration

Chart 19

Brent and WTI Crude Oil

dollars per barrel, nearest futures contracts



— Brent Crude Oil
- - - - WTI Crude Oil

Source: Thomson Reuters

Chart 20

U.S. Personal Saving Rate

seasonally-adjusted annual rate

Last Point December 2014: 4.9%

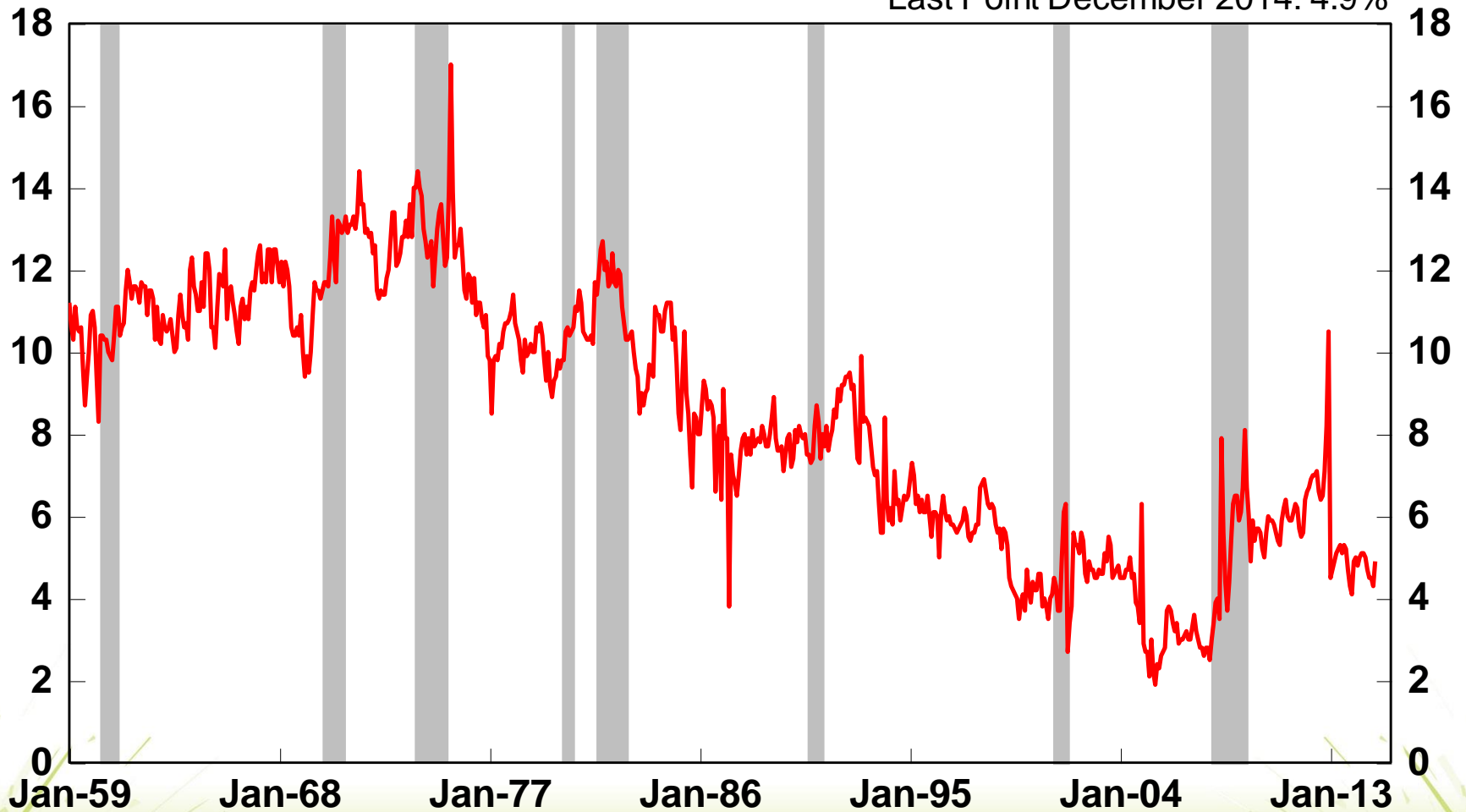
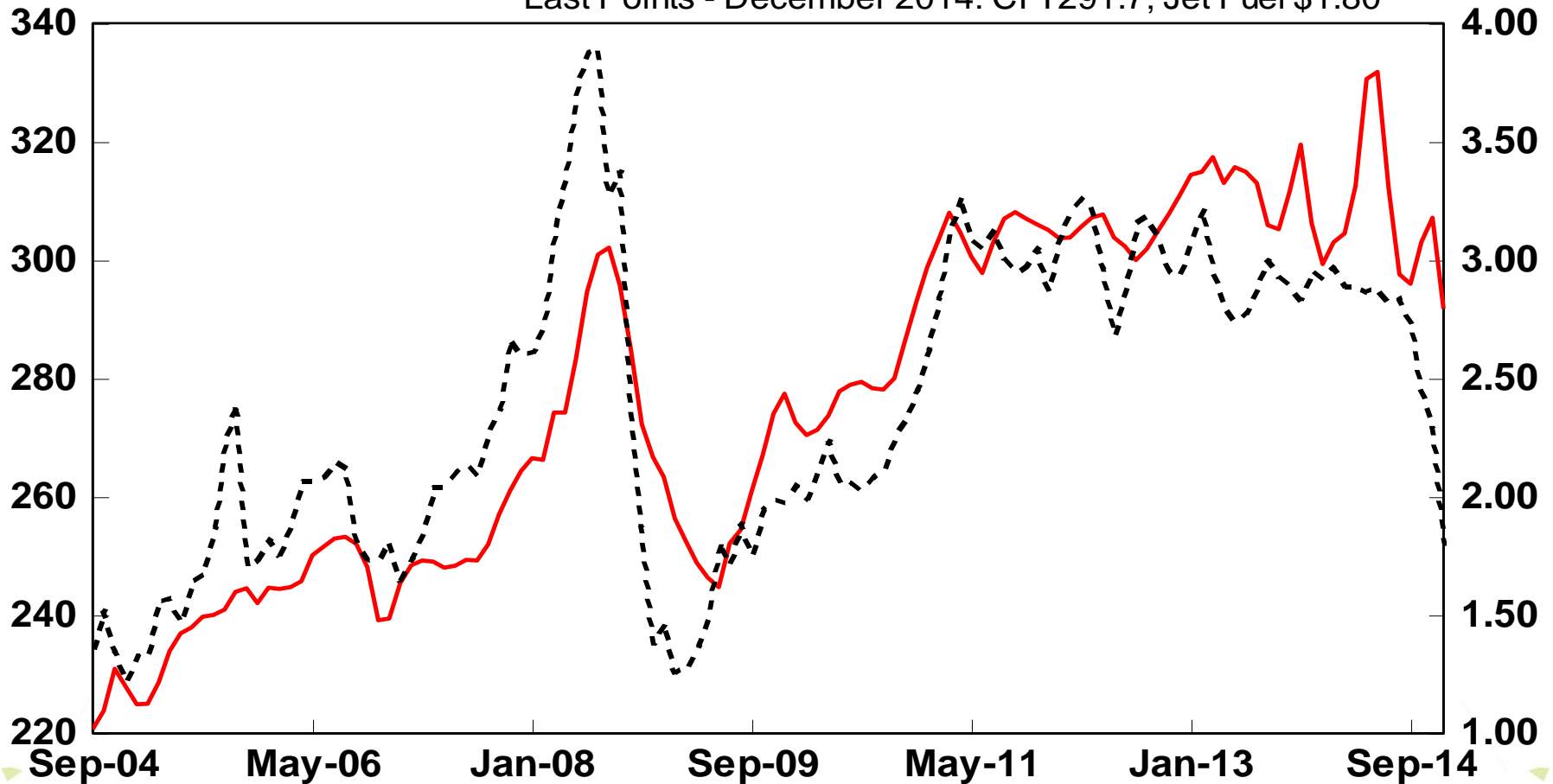


Chart 21

Airline Fares and Jet Fuel Prices

Last Points - December 2014: CPI 291.7; Jet Fuel \$1.80



— CPI, Airline Fare (1982-84=100) - left axis
 - - - Jet Fuel Price (\$/gal.) - right axis

Chart 22

Junk Bond Option Adjusted Spread

Bank of America Merrill Lynch High Yield Master II Index

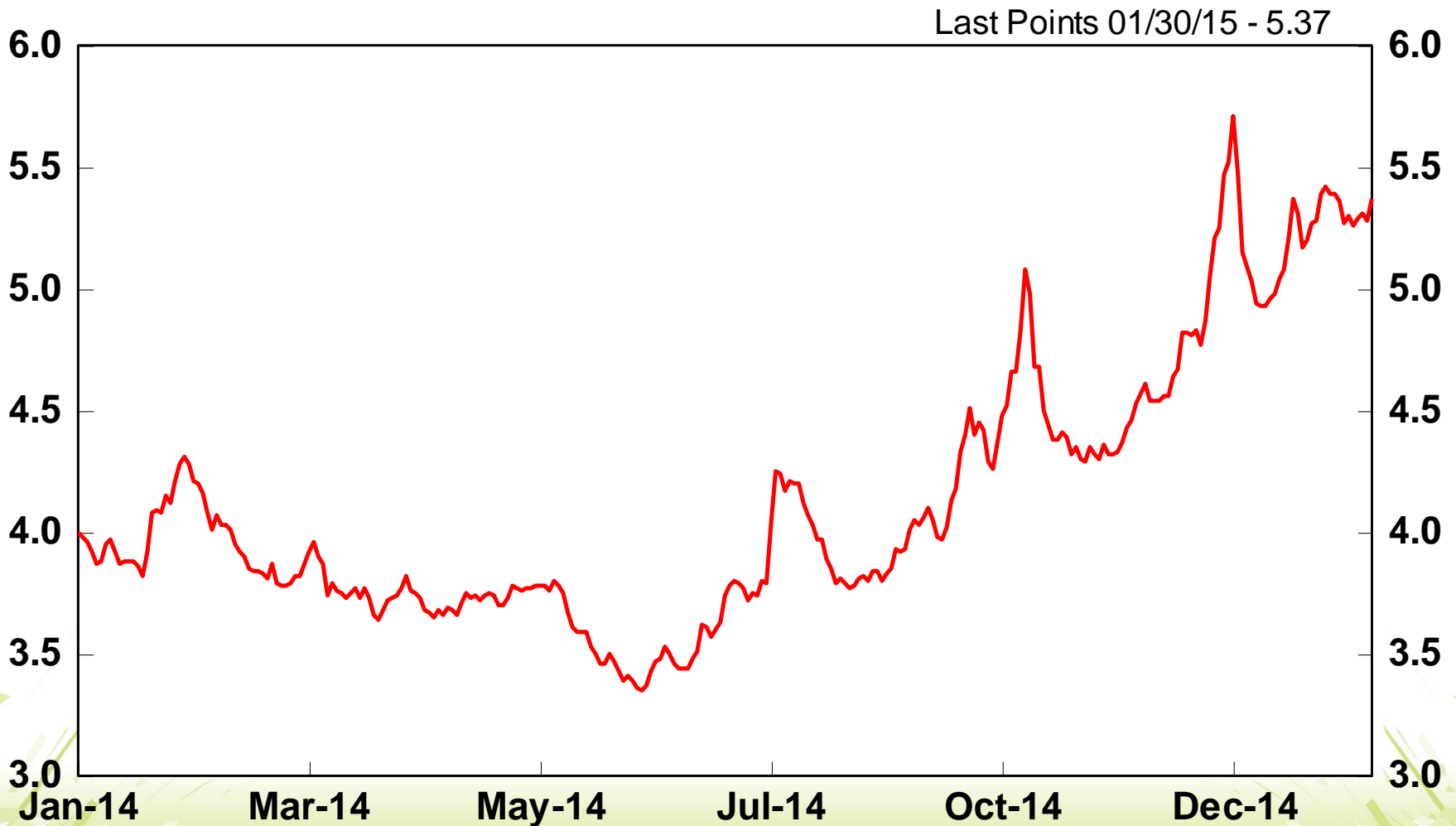
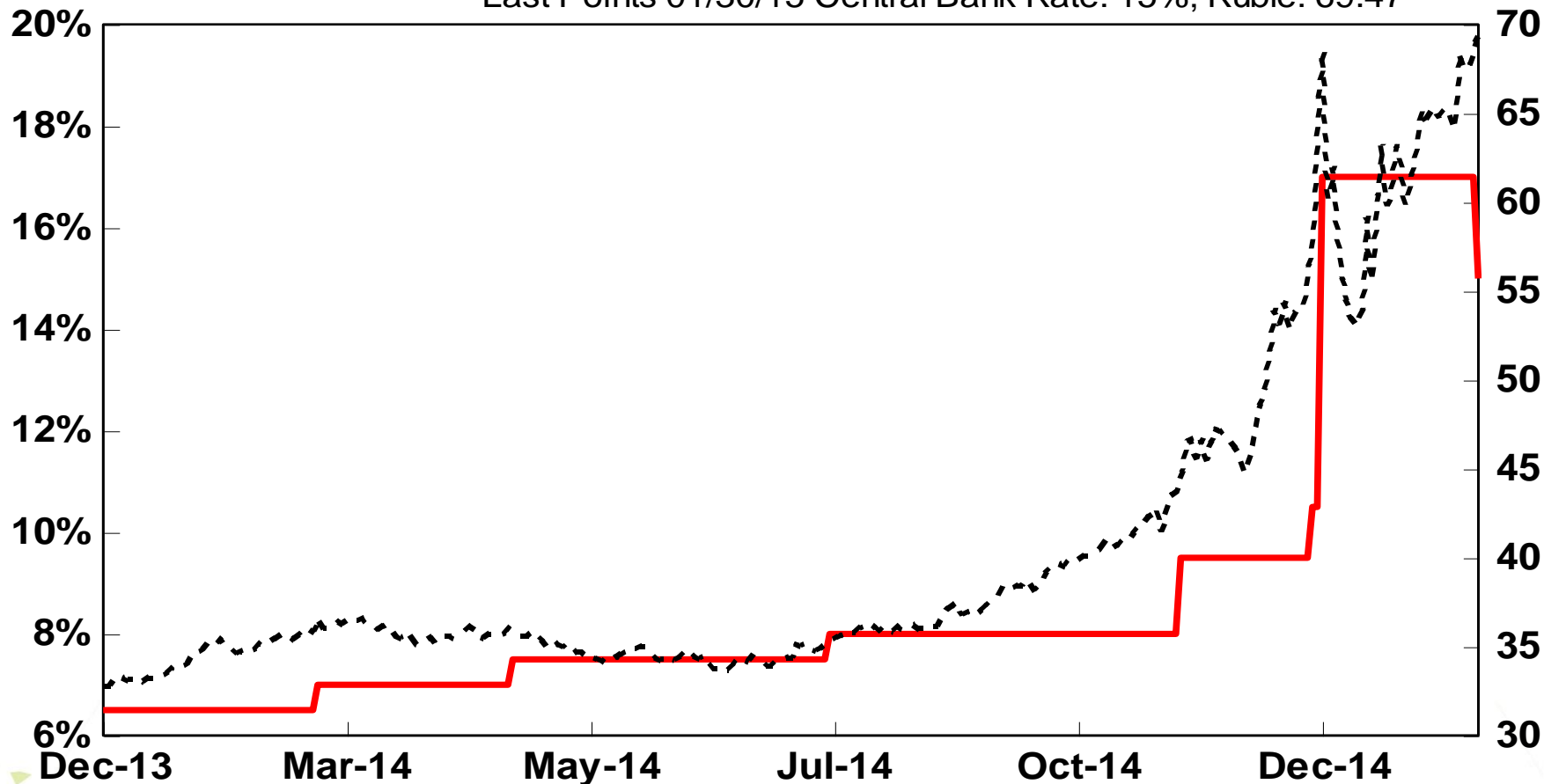


Chart 23 Russian Central Bank Rate and Rubles per USD

Last Points 01/30/15 Central Bank Rate: 15%; Ruble: 69.47



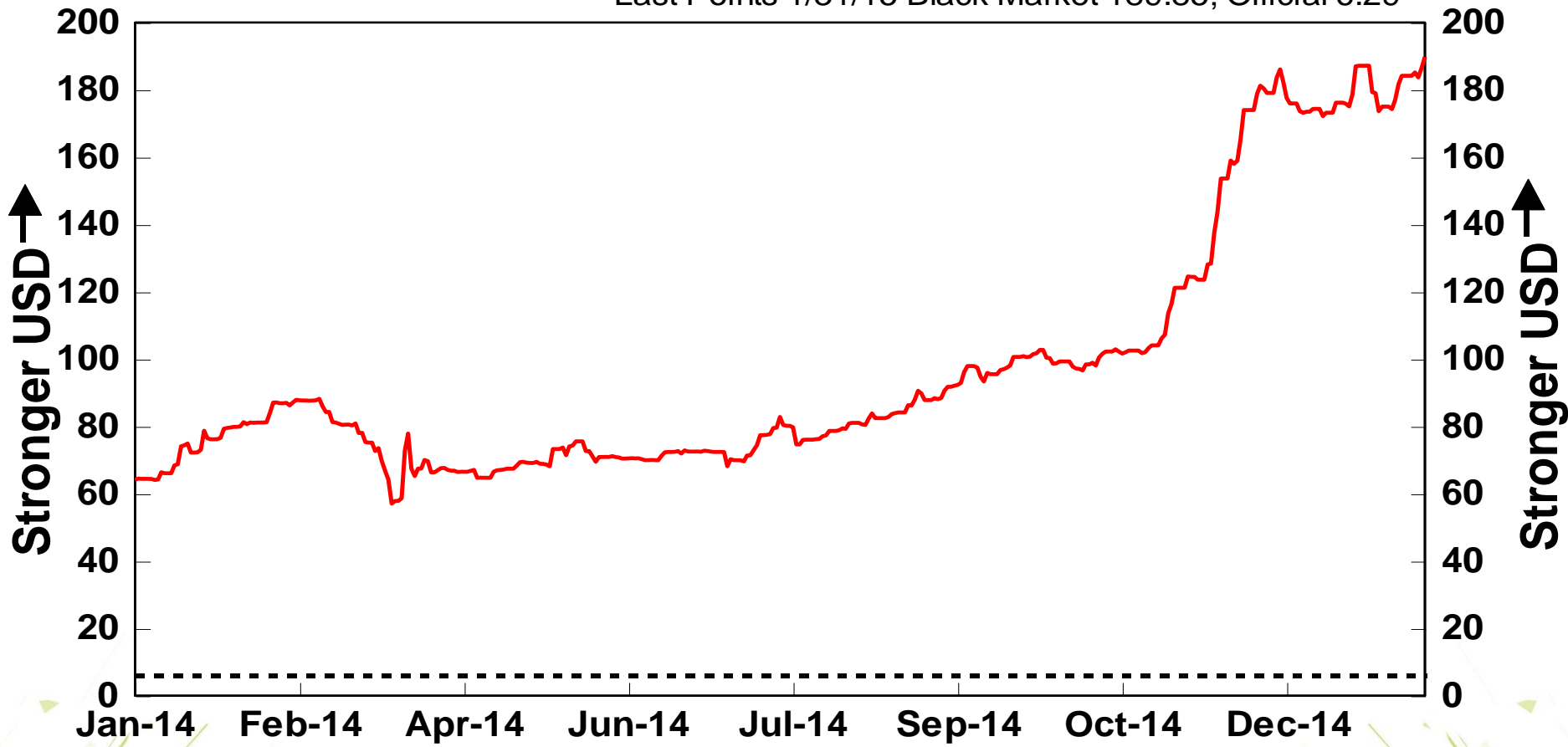
— Central Bank Rate
- - - Russian Rubles per U.S. dollar (right axis)

Chart 24

Venezuelan Official and Black Market FX Rates

Bolivar per USD

Last Points 1/31/15 Black Market 189.85; Official 6.29



Source: Dolar Today Venezuela

— Black Market Exchange Rate
- - - Official Exchange Rate

Chart 25

Global Consumer Price Indices

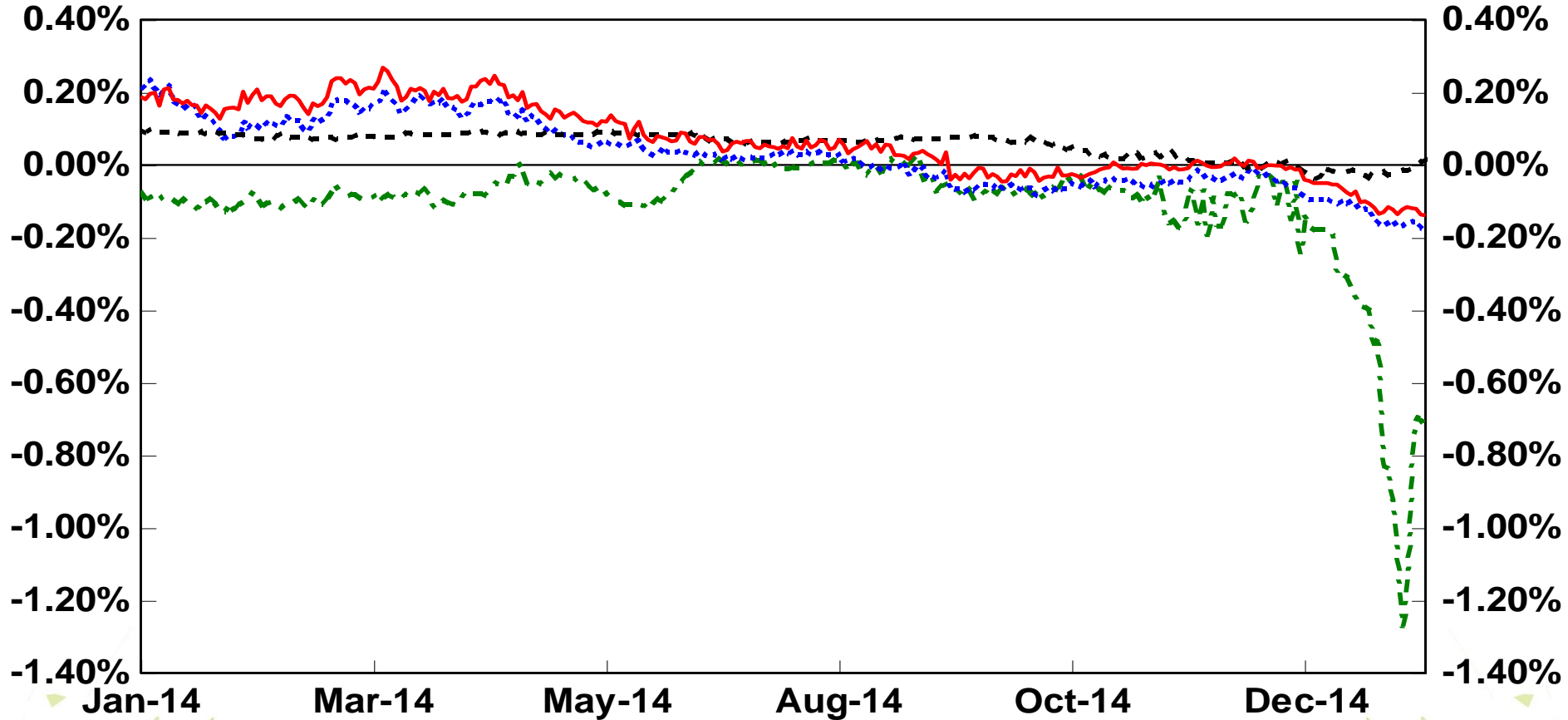
year/year percent change

Country	Latest Data	as of:	Country	Latest Data	as of:
Greece	-2.6	Dec-14	Finland	0.5	Dec-14
Spain	-1.0	Dec-14	United Kingdom	0.5	Dec-14
Hungary	-0.9	Dec-14	Netherlands	0.7	Dec-14
Poland	-0.9	Dec-14	Iceland	0.8	Dec-14
Luxembourg	-0.6	Dec-14	Korea	0.8	Dec-14
Estonia	-0.5	Dec-14	New Zealand	0.8	Q4-14
Belgium	-0.4	Dec-14	United States	0.8	Dec-14
Portugal	-0.4	Dec-14	Austria	1.0	Dec-14
Ireland	-0.3	Dec-14	Canada	1.5	Dec-14
Sweden	-0.3	Dec-14	Australia	1.7	Q3-14
Switzerland	-0.3	Dec-14	Norway	2.1	Dec-14
Israel	-0.2	Dec-14	Japan	2.4	Dec-14
Slovak Republic	-0.1	Dec-14	Mexico	4.1	Dec-14
Italy	0.0	Dec-14	Chile	4.6	Dec-14
Czech Republic	0.1	Dec-14	Turkey	8.2	Dec-14
France	0.1	Dec-14			
Germany	0.2	Dec-14	G7	0.8	Dec-14
Slovenia	0.2	Dec-14	eurozone	-0.2	Dec-14
Denmark	0.3	Dec-14	OECD - Total	1.1	Dec-14

Chart 26

2-Year Sovereign Bond Yields

Last Points 01/30/15: Fin. -0.13%; Jap. 0.02%; Ger. -0.18%; Swiz. -0.75%



Source: Fusion Media Limited

— Finland ····· Germany
- - - - Japan - · - · - Switzerland

Chart 27

Gold Spot Price

dollars per troy ounce

Last Point 01/30/15: 1283

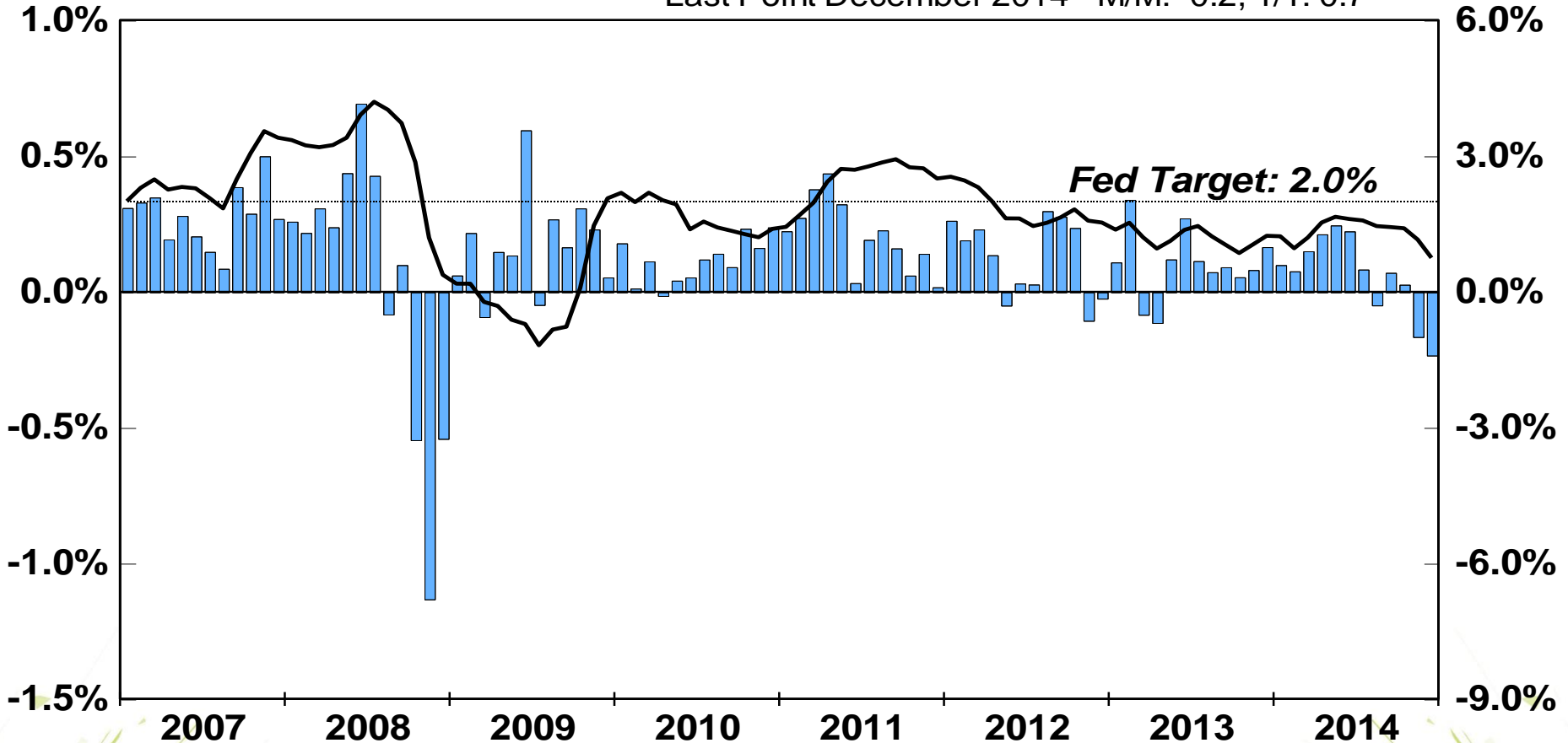


Chart 28

PCE Deflator

seasonally-adjusted

Last Point December 2014 - M/M: -0.2, Y/Y: 0.7



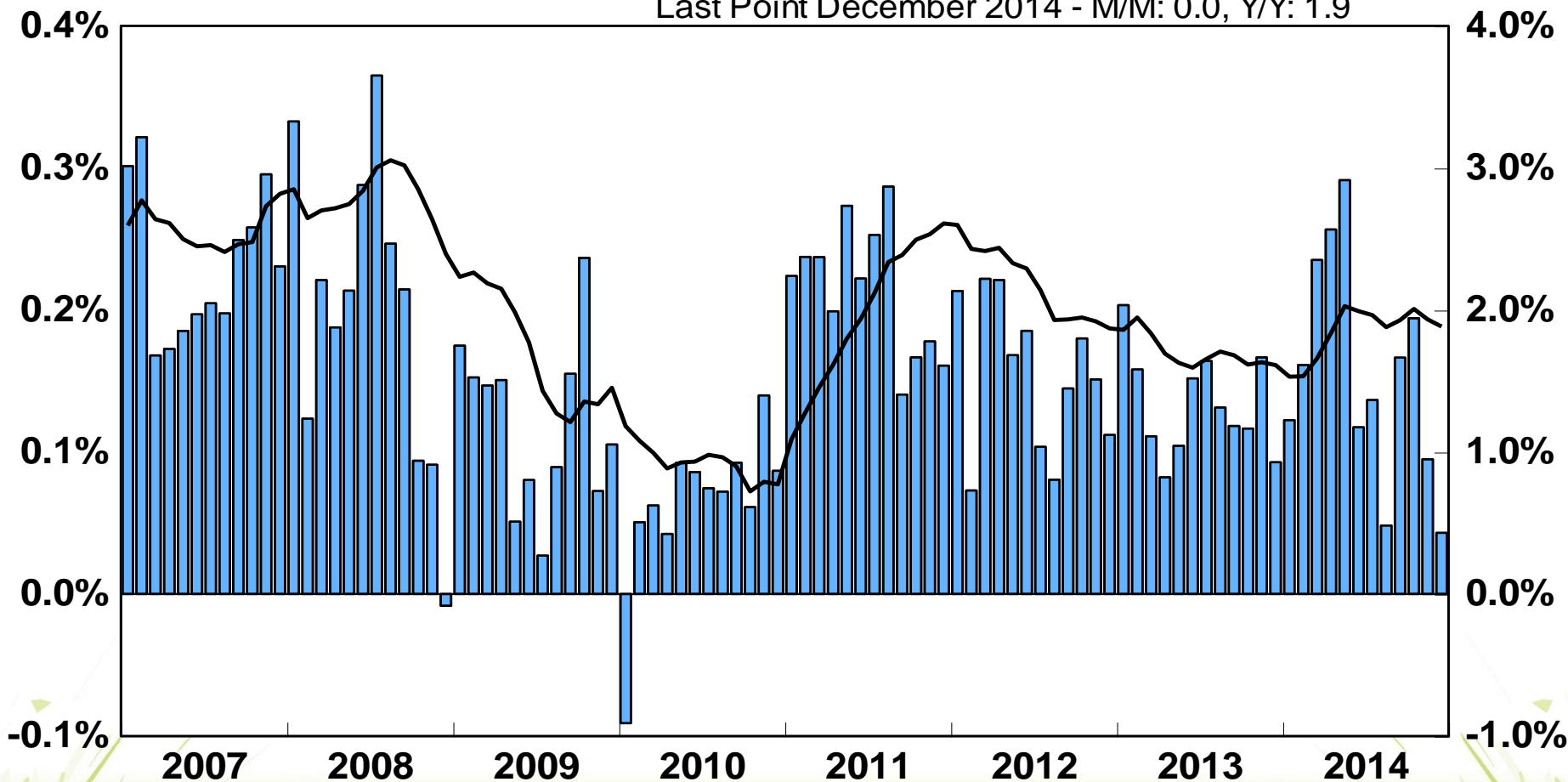
■ Month/Month % Change - left axis
— Year/Year % Change - right axis

Chart 29

Consumer Price Index ex. Energy

all items ex. Energy, seasonally-adjusted

Last Point December 2014 - M/M: 0.0, Y/Y: 1.9



■ Month/Month % Change - left axis
— Year/Year % Change - right axis

Chart 30 Consumer Price Index and Crude Oil

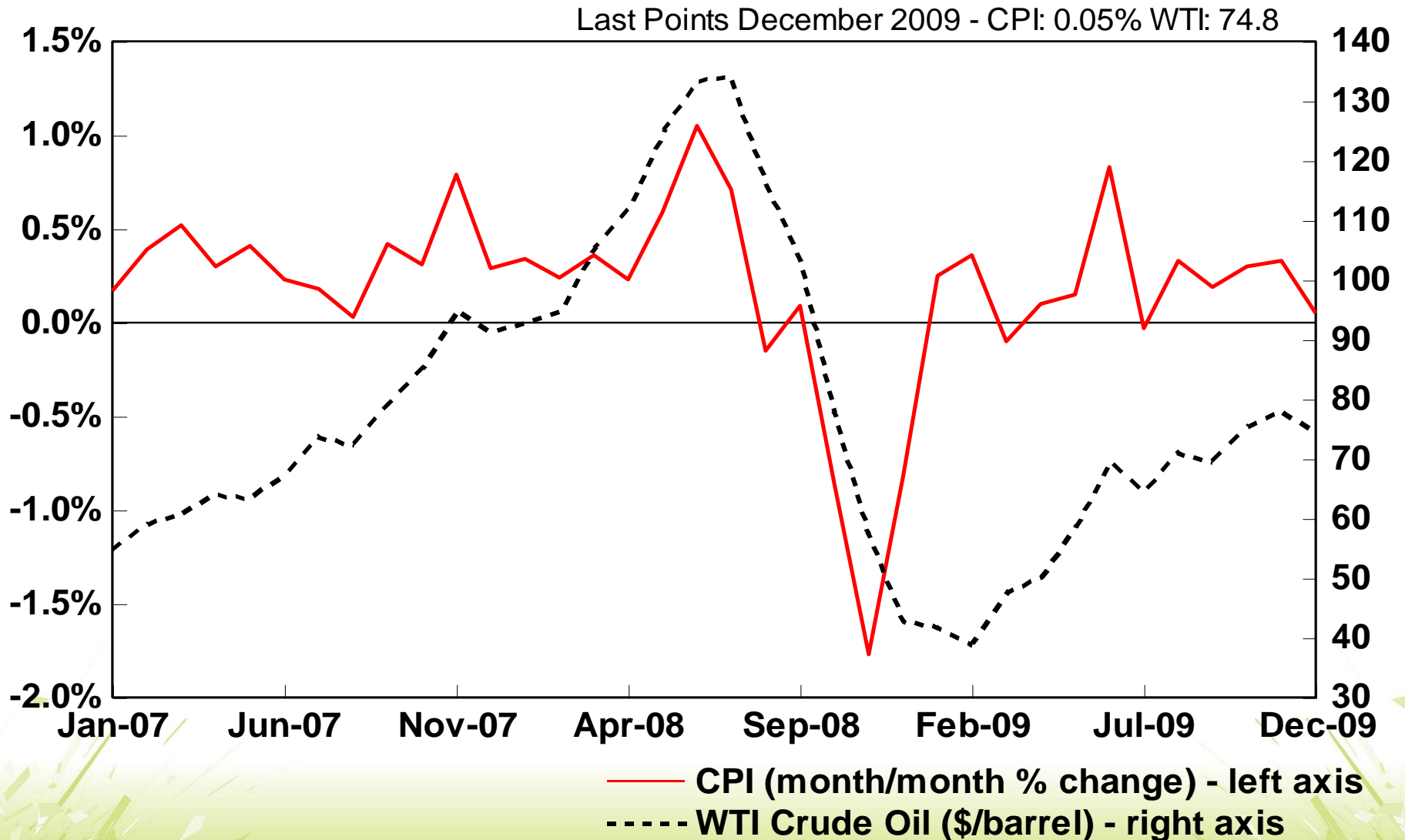


Chart 31 Consumer Price Index and Crude Oil

Last Points December 1987- CPI: 0.17% WTI: 17.35

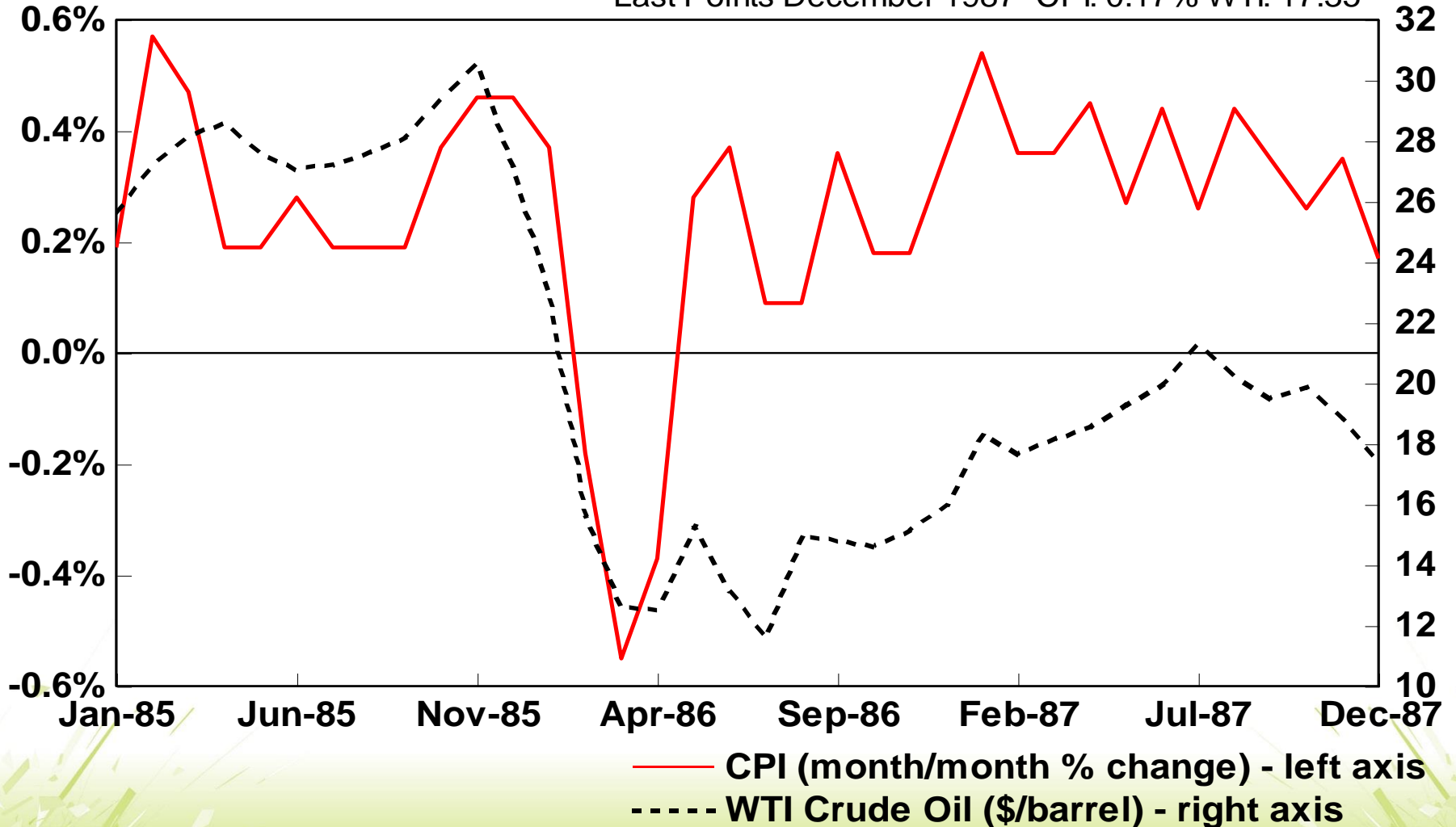
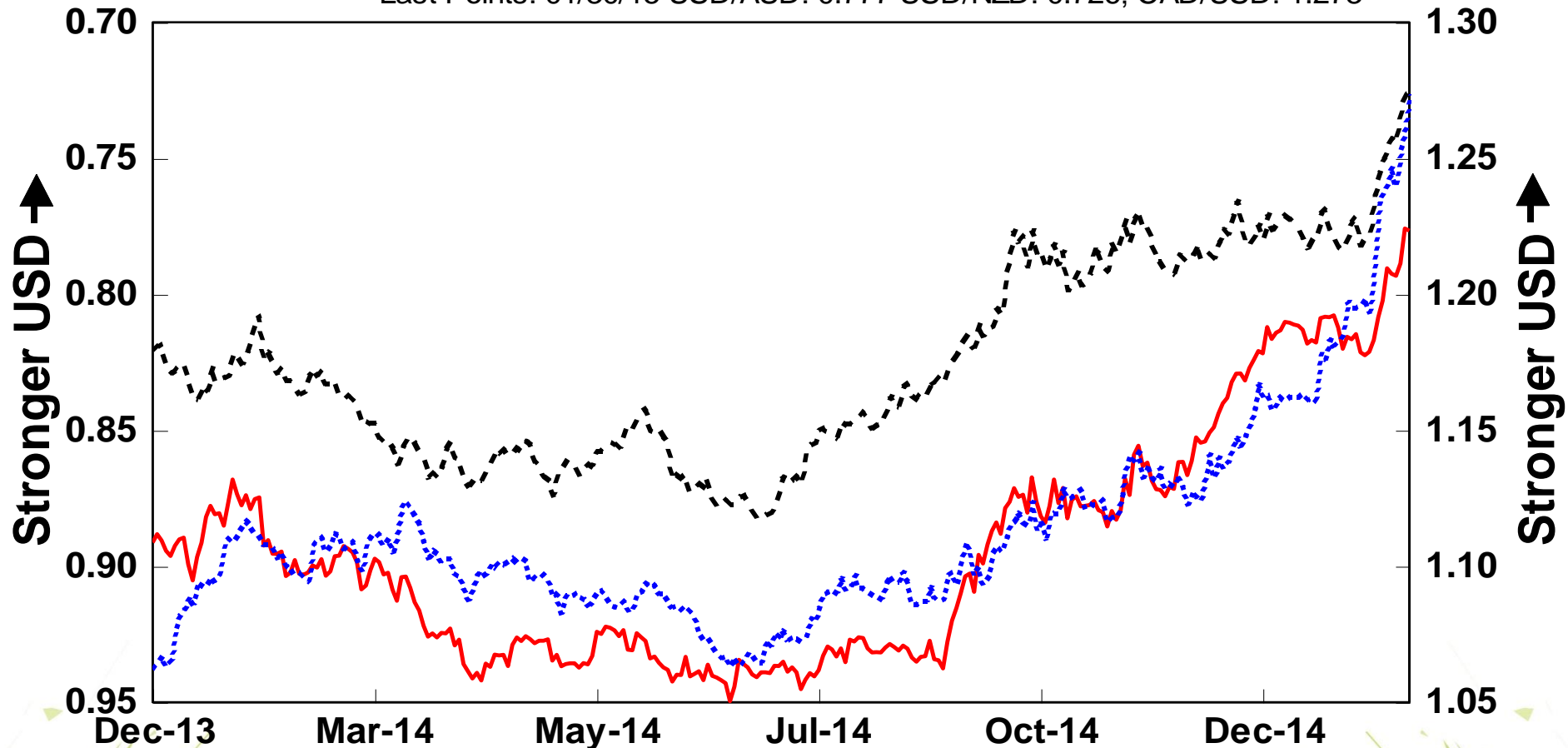


Chart 32

Aussie, Kiwi, and Loonie Exchange Rates

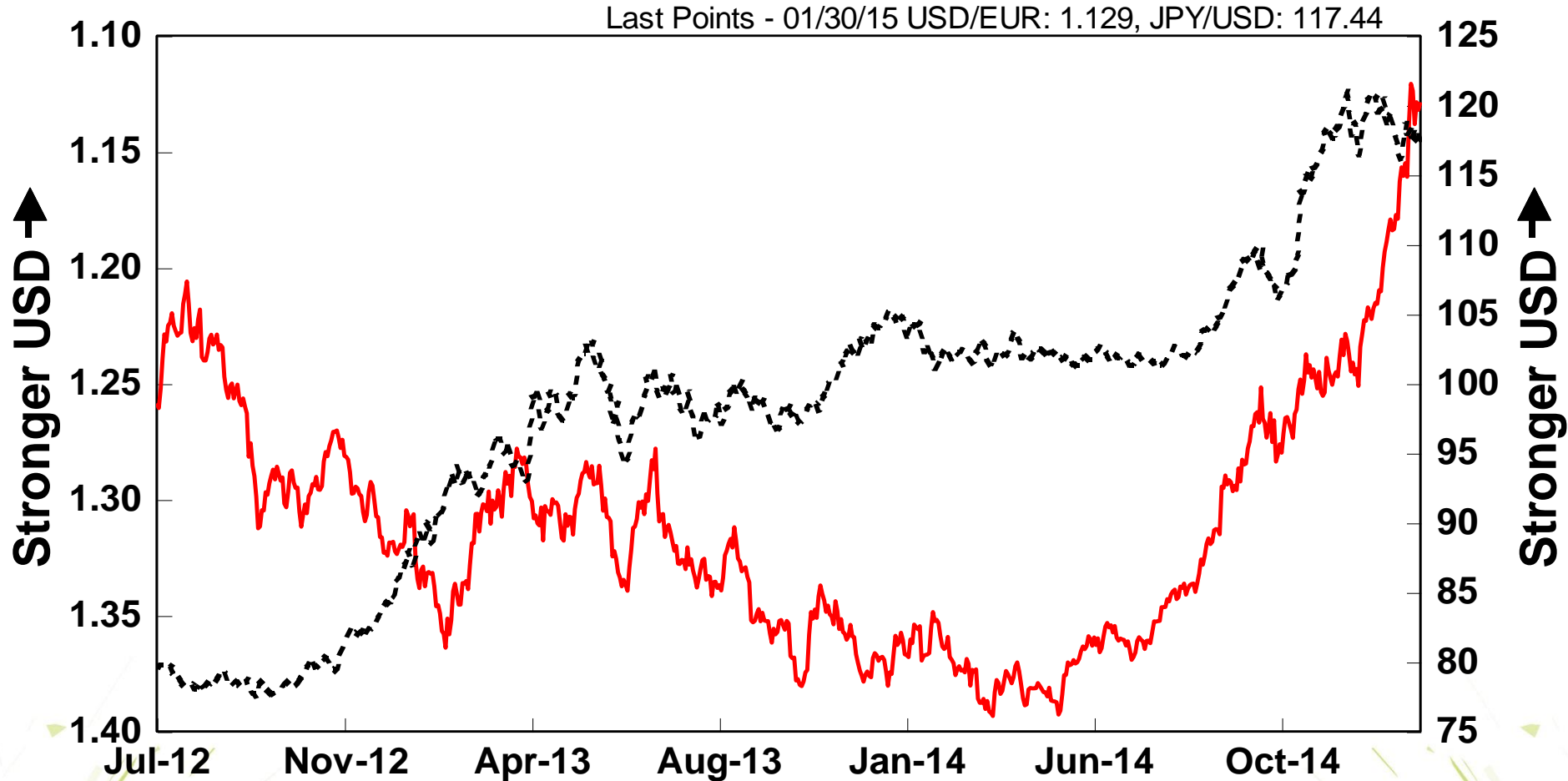
Last Points: 01/30/15 USD/AUD: 0.777 USD/NZD: 0.726; CAD/USD: 1.273



Source: Thomson Reuters

- USD/AUD - left axis (inverted)
- - - USD/NZD - left axis (inverted)
- CAD/USD - right axis

Chart 33 Euro and Yen Exchange Rates



Source: Thomson Reuters

— USD/EUR - left axis (inverted)
- - - JPY/USD - right axis

Chart 34

Japanese Monetary Base

trillion yen

Last Point December 2014: 267.402

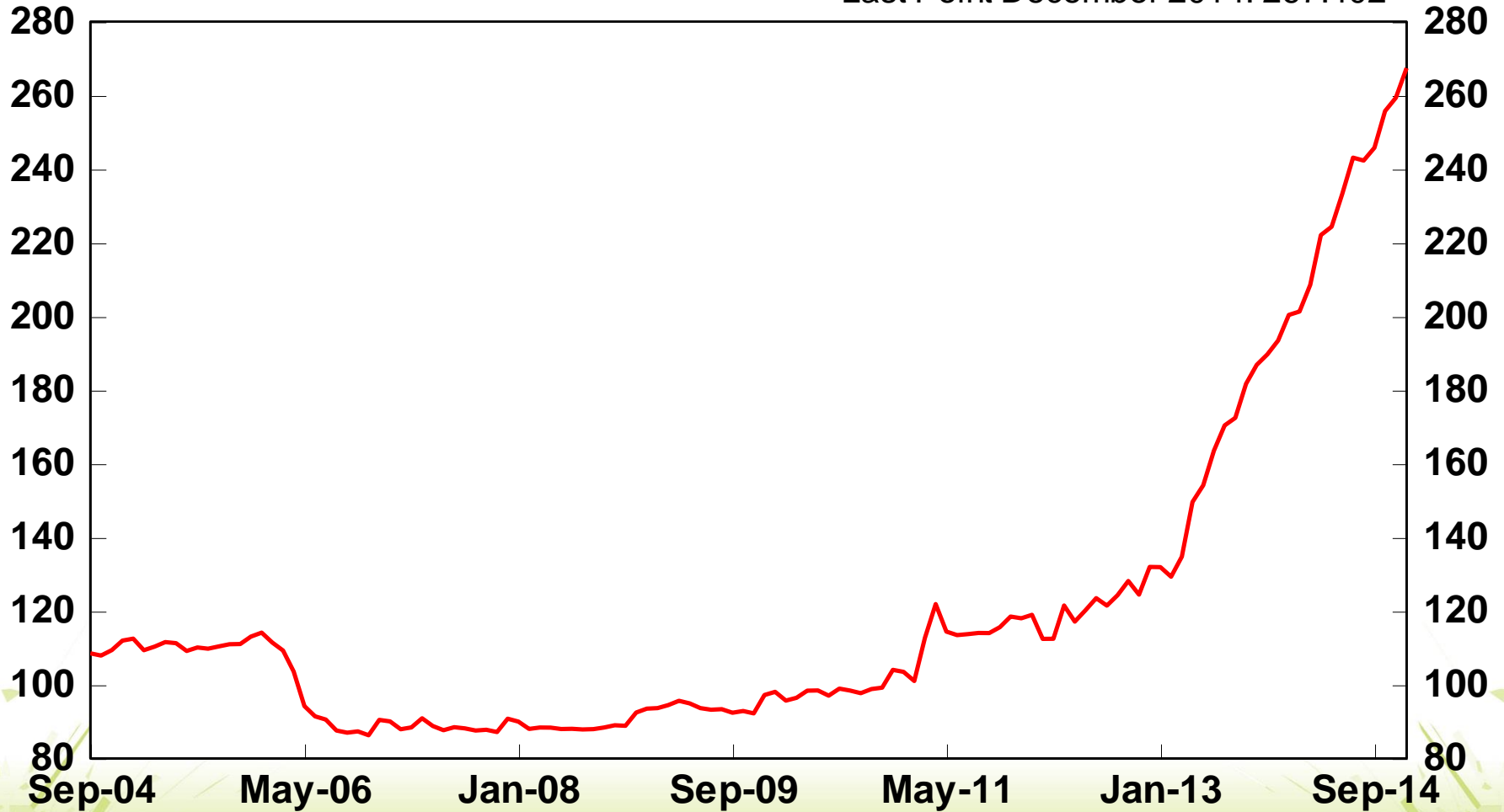


Chart 35

Japanese Real GDP

year/year percent change

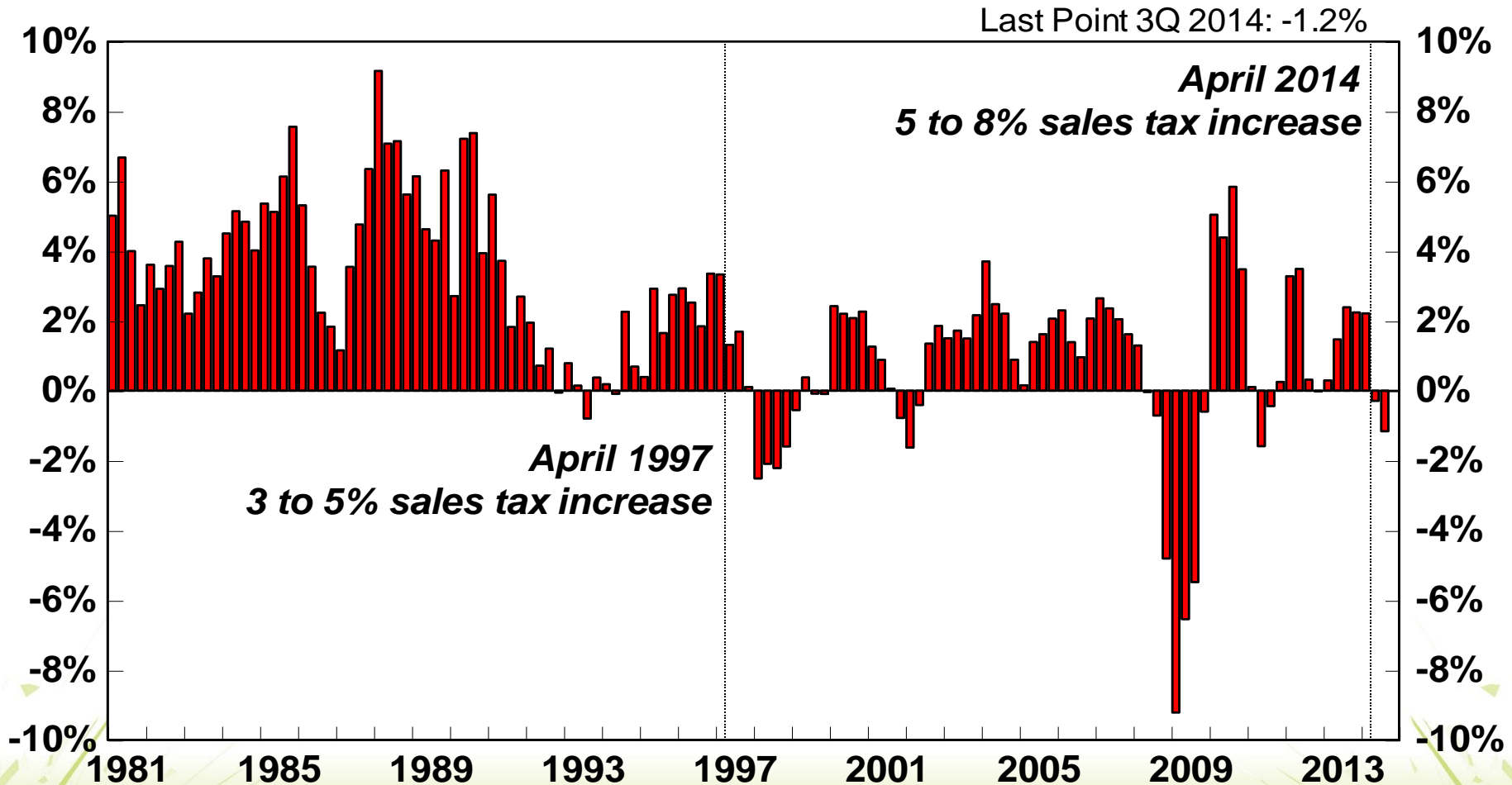


Chart 36

Japanese Population

year/year percentage change

Last Point 2013: -0.2%

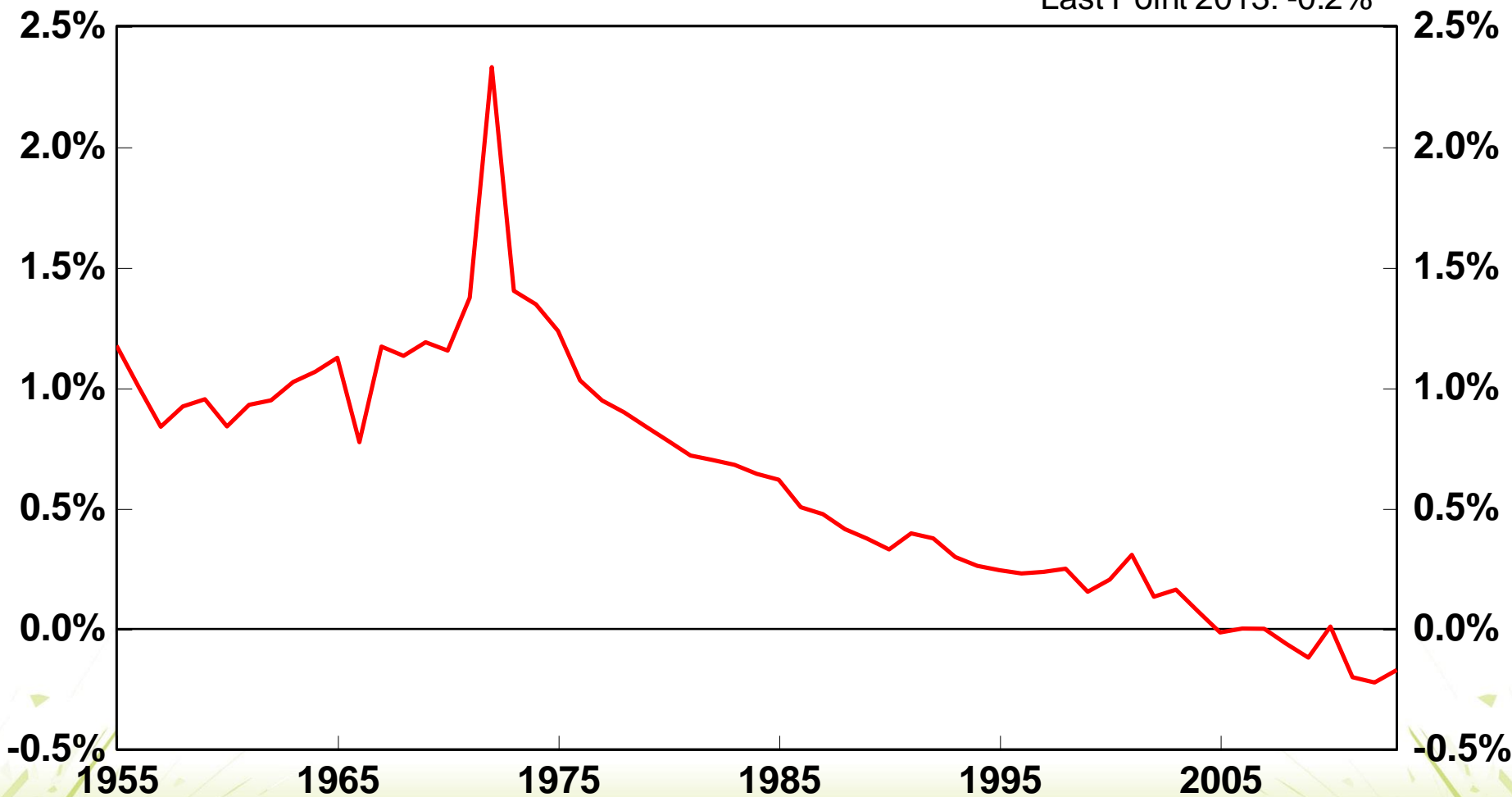


Chart 37

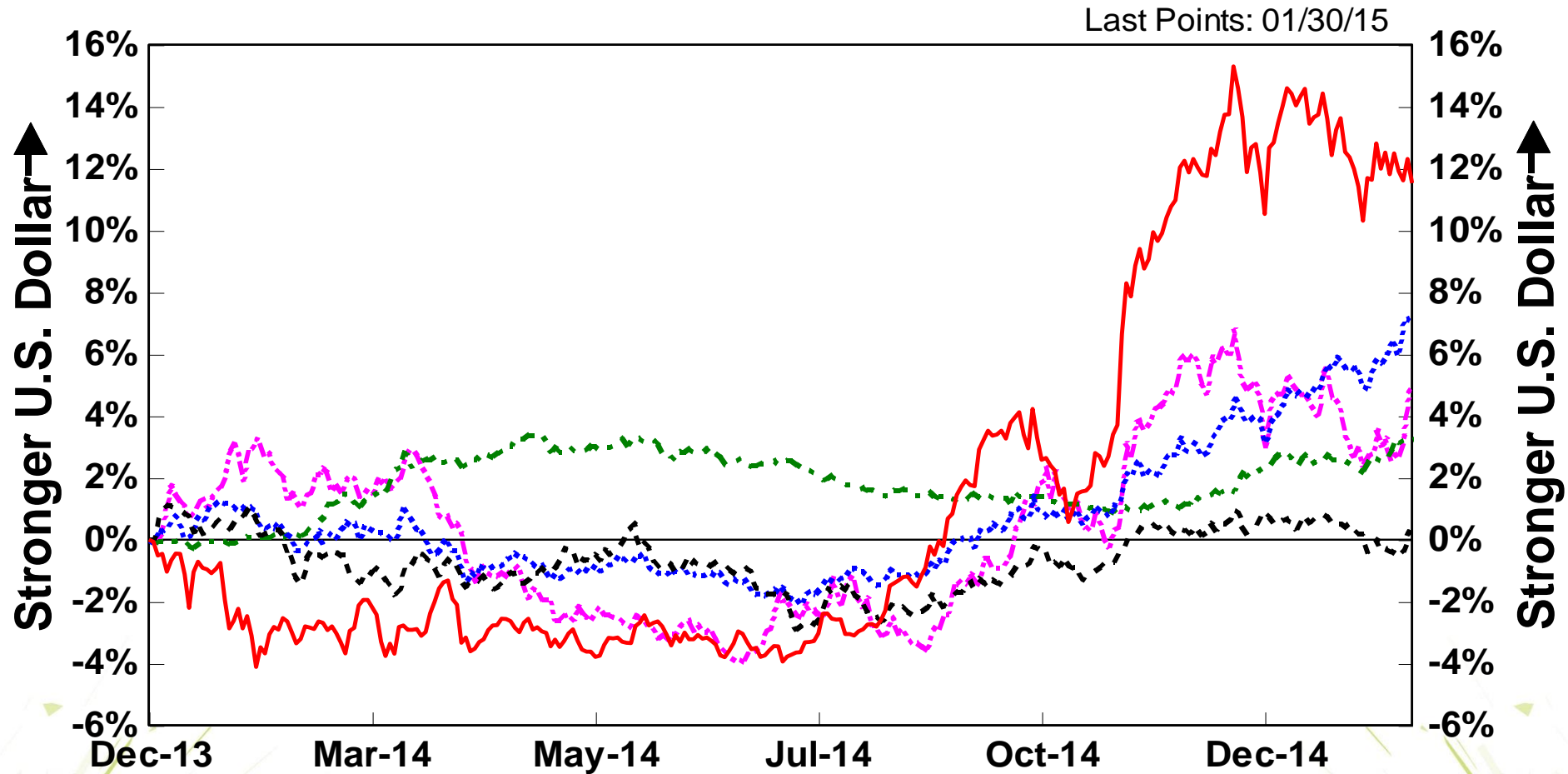
G-7 Female Labor Force Participation Rates - 2012

Canada	62.1%
U.S.	59.9%
U.K.	57.2%
Germany	53.2%
France	51.2%
Japan	47.7%
Italy	39.7%

Chart 38

Asian Foreign Exchange Rates

change vs. U.S. dollar since 12/31/13



Source: Thomson Reuters

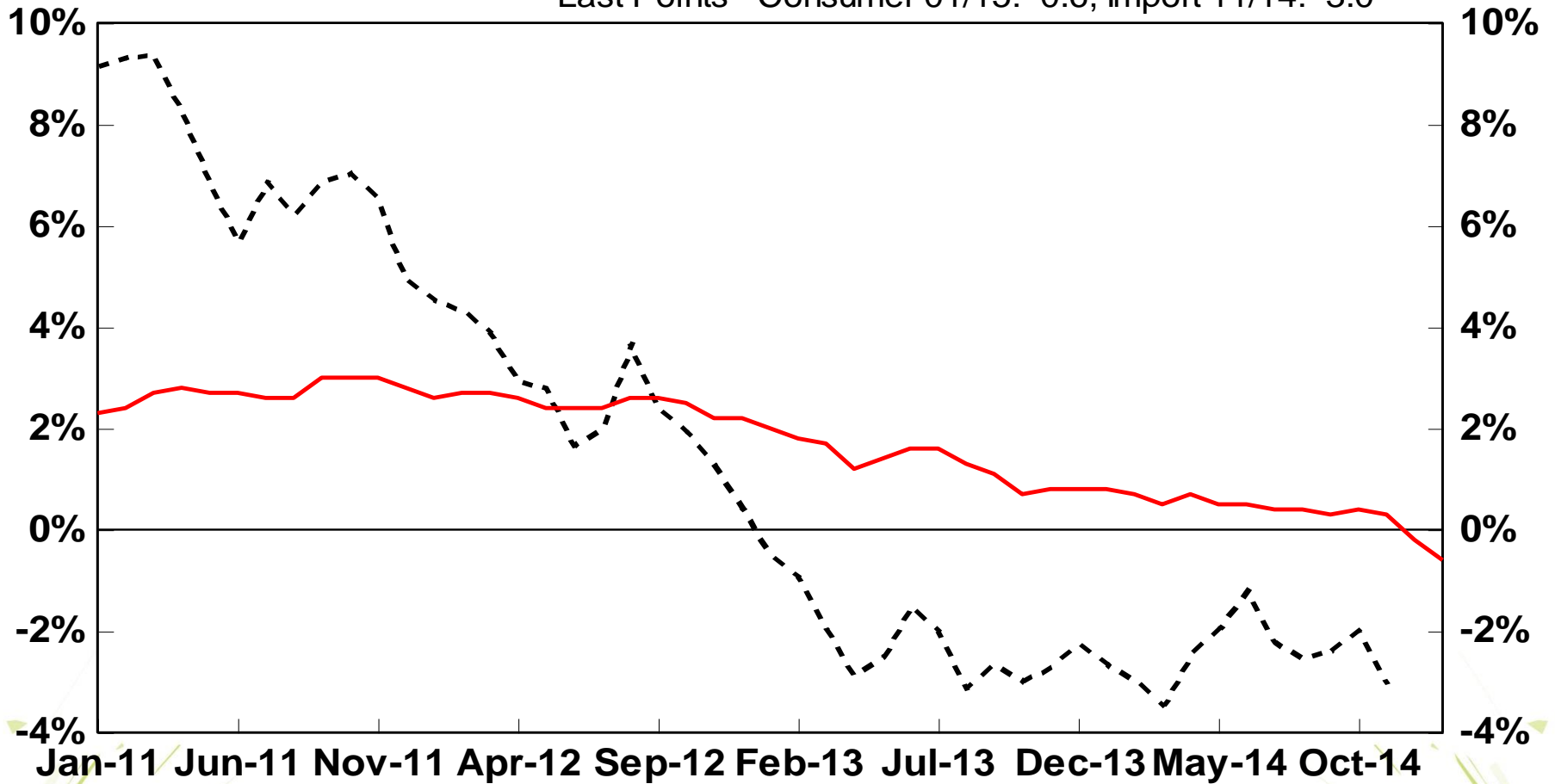
- Japanese Yen
- - - Thai Bhat
- Chinese Yuan
- Korean Won
- Singapore Dollar

Chart 39

Eurozone Consumer and Import Prices

year/year percent change

Last Points - Consumer 01/15: -0.6, Import 11/14: -3.0



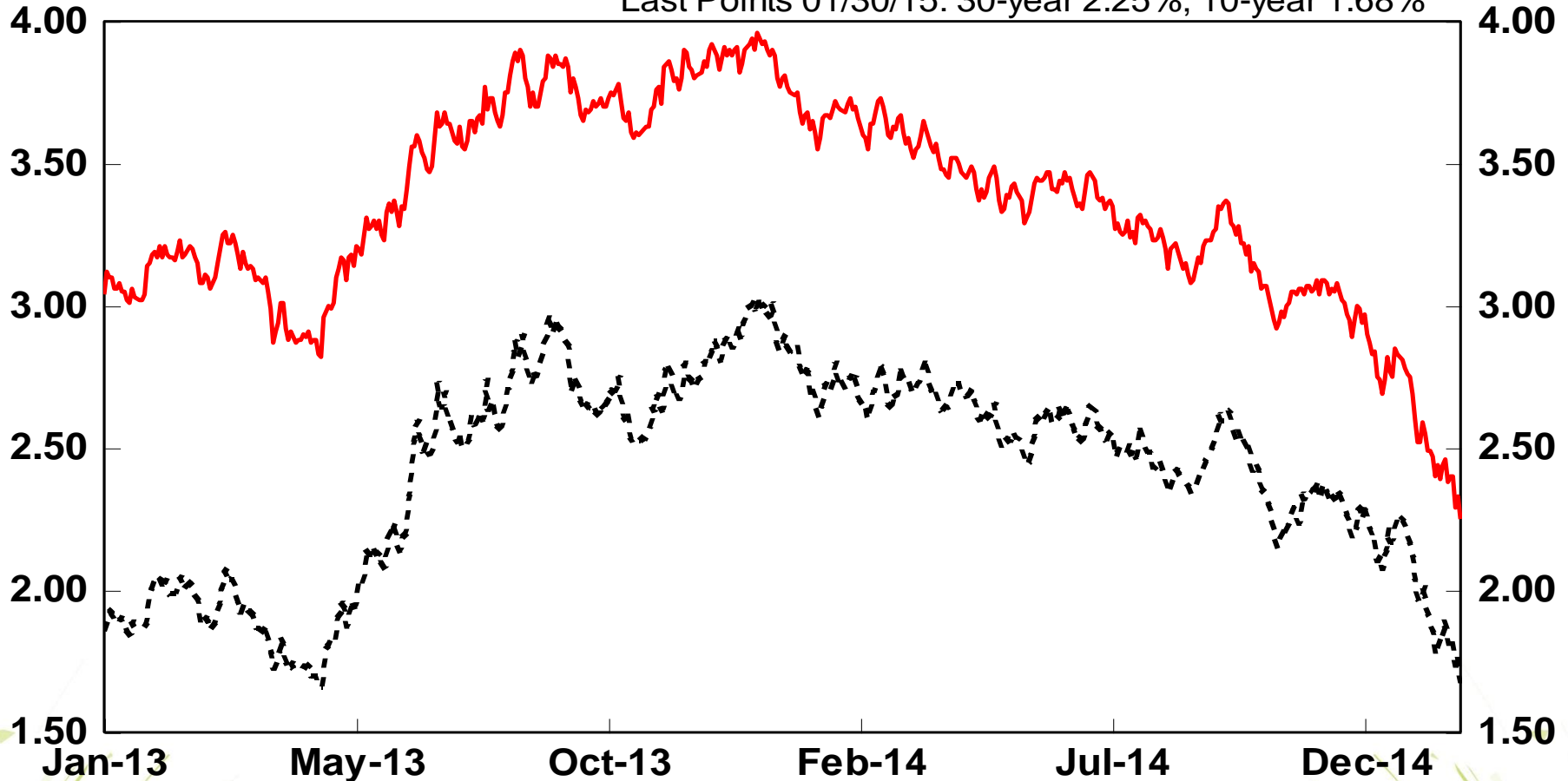
Source: eurostat

— Consumer Prices
- - - - Import Prices

Chart 40

10 and 30 Year Treasury Yields

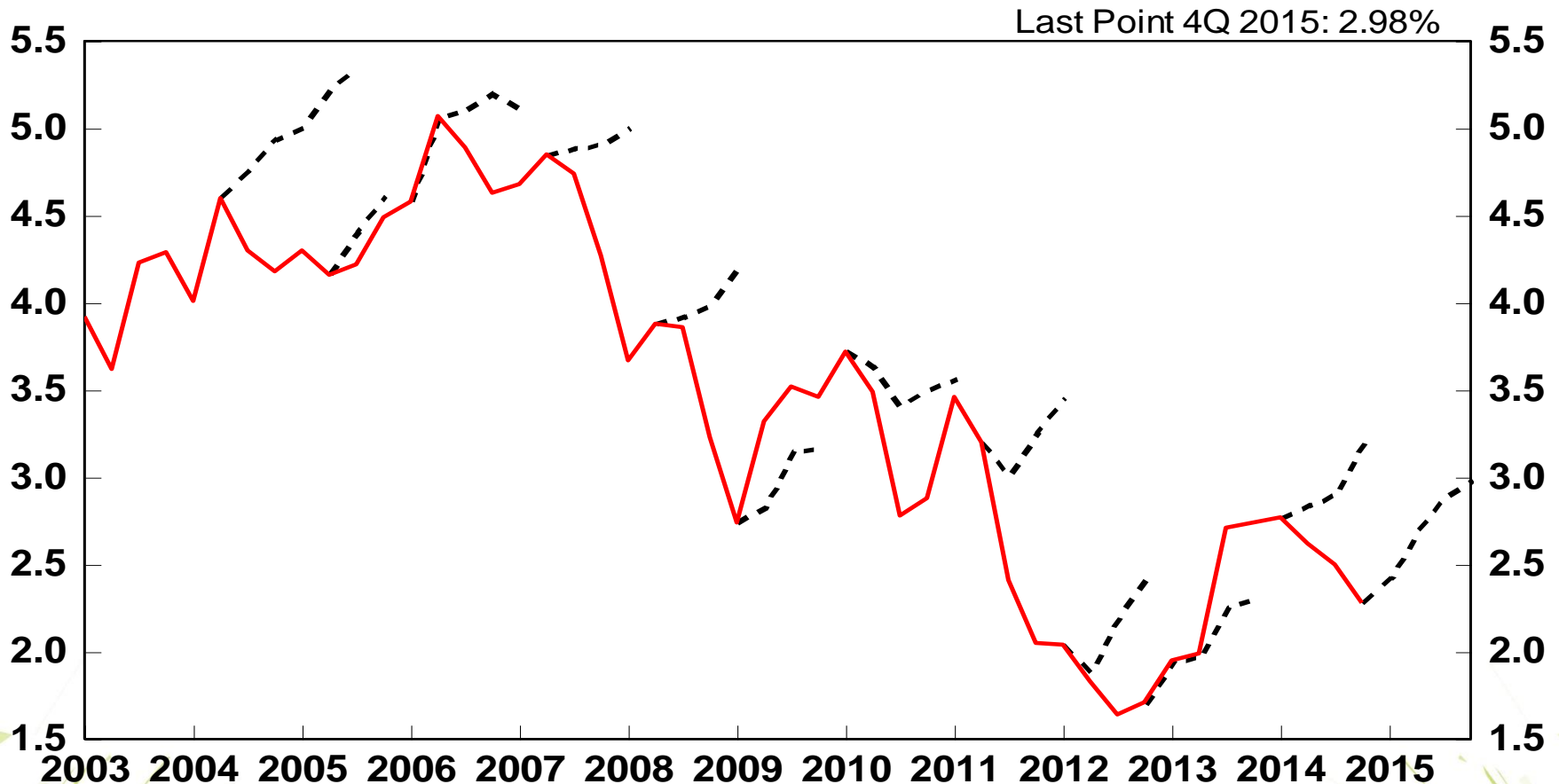
Last Points 01/30/15: 30-year 2.25%; 10-year 1.68%



Source: Federal Reserve

Chart 41

Survey of Professional Forecasters: Average 12-month Forecast for 10-Year Treasury Yield



Source: Federal Reserve Bank of Philadelphia

— 10-Year Treasury Rate
- - - 12-Month Forecast

Chart 42

10-Year Treasury Note Forecasts for January 2015

forecasts made June 8, 2014

David Blanchflower	2.00
Marc Faber	2.40
Larry Lindsey	3.05
David Rosenberg	3.25
Gary Shilling	1.80
Ed Yardeni	3.05

Chart 43

10-Year Sovereign Bond Yields

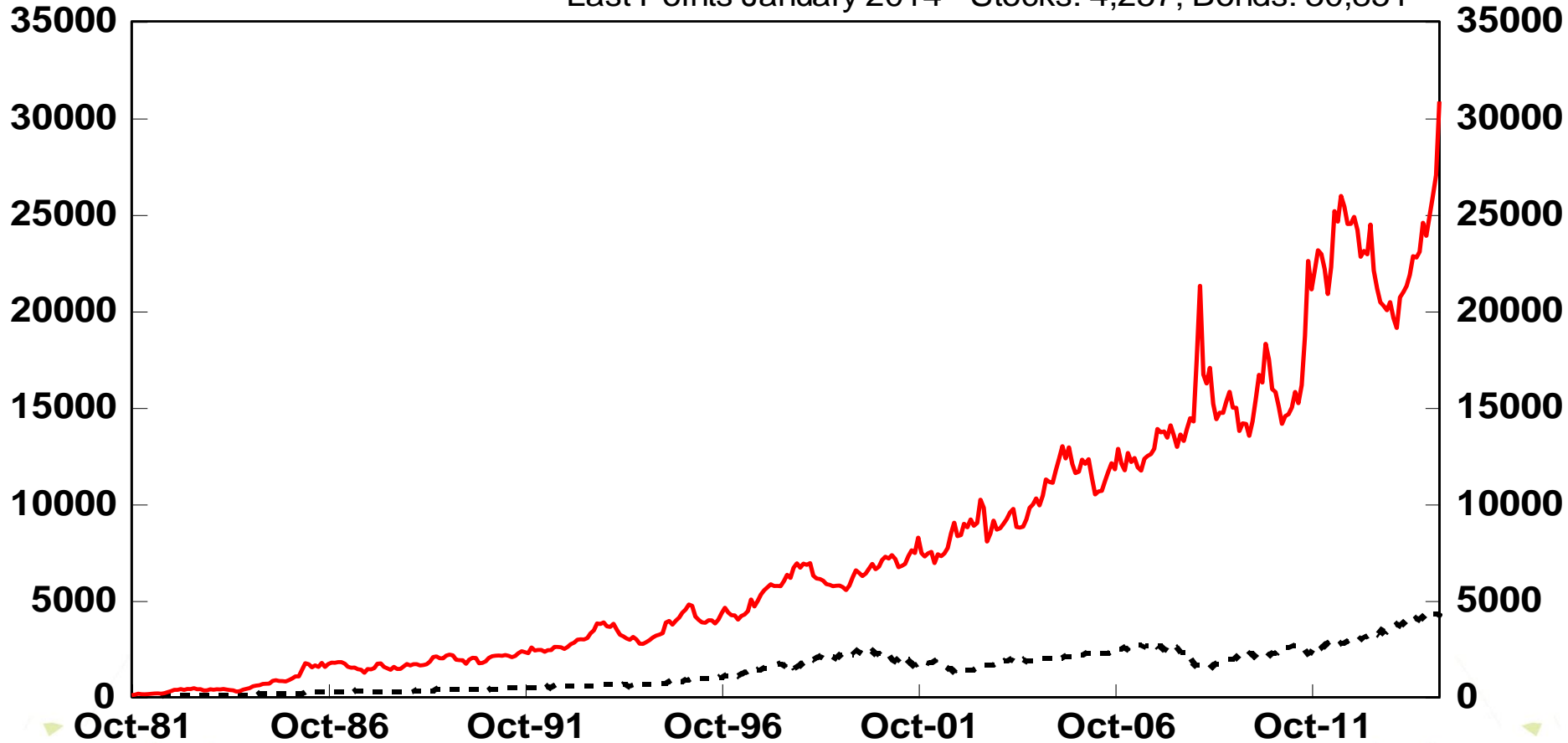
as of 01/30/15

	<u>Yield</u>	<u>Spread vs. Treasurys</u>
Switzerland	-0.05	-1.71
Japan	0.28	-1.38
Germany	0.31	-1.35
Denmark	0.36	-1.3
Netherlands	0.38	-1.28
Australia	0.41	-1.25
Finland	0.44	-1.22
France	0.54	-1.12
Belgium	0.69	-0.97
Ireland	0.94	-0.72
Norway	1.24	-0.42
Canada	1.28	-0.38
U.K.	1.33	-0.33
Spain	1.53	-0.13
Italy	1.60	-0.06
U.S.	1.66	--
Australia	2.45	0.79
Portugal	2.63	0.97
Greece	10.78	9.12

Chart 44

Comparative Stock and Bond Performances

Last Points January 2014 - Stocks: 4,257; Bonds: 30,851



— 25 Year Zero Coupon Bond (Oct-81=100) 30,851 or 18.8% Annual Return
- - - S&P 500 Total Return (July-82=100) 4,257 or 12.2% Annual Return

Chart 45 Dollar Index vs. Major Currencies

Last Point January 2015: 87.38

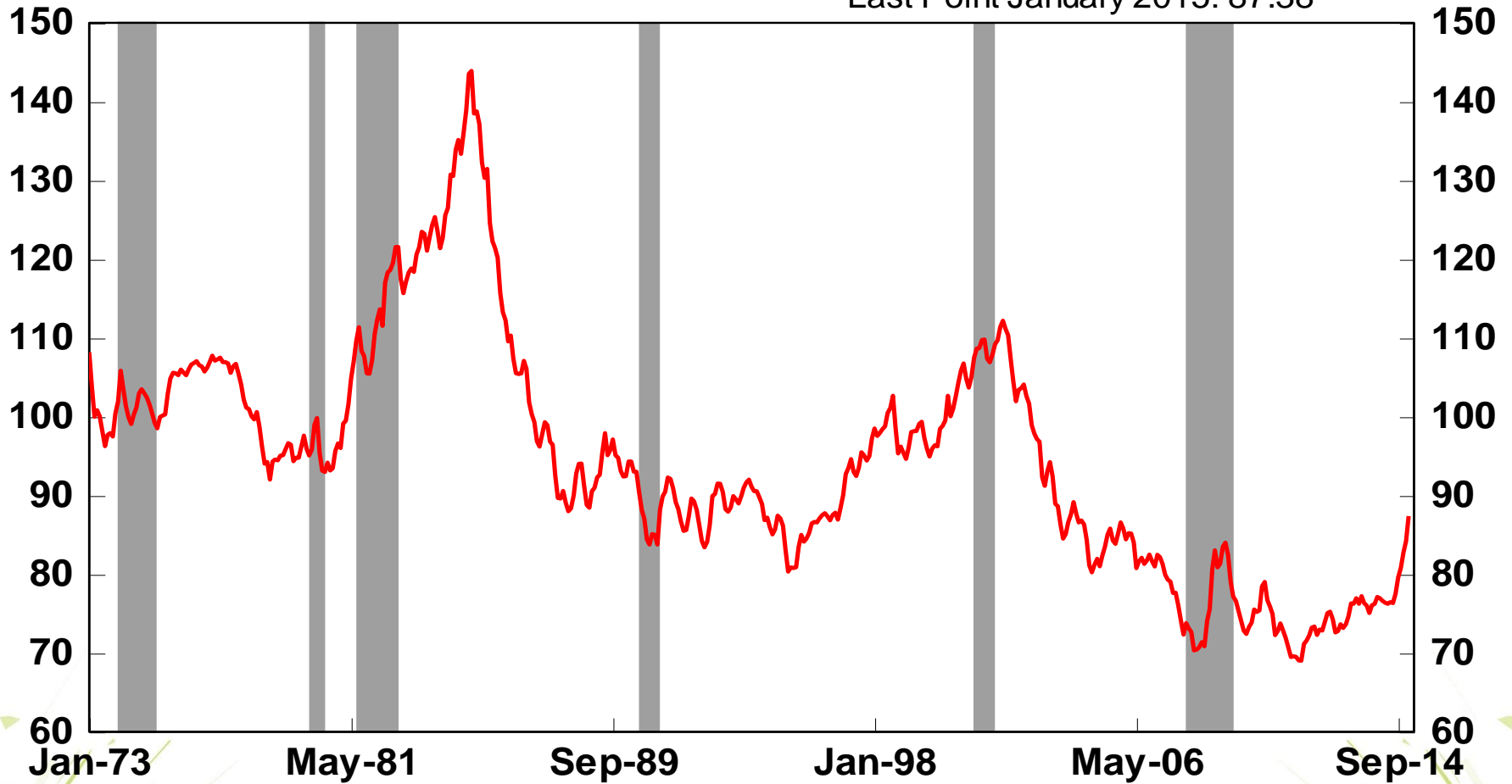


Chart 46

2014 S&P 500 Sector Performance

<u>S&P 500</u>	<u>Close</u>	<u>2014 % Change</u>
12/31/2014	2058.90	11.39%
12/31/2013	1848.36	

S&P 500 Sectors	2014 % Change
Utilities	24.3%
Health Care	23.3%
Information Technology	18.2%
Financials	13.1%
Consumer Staples	12.9%
Consumer Discretionary	8.1%
Industrials	7.5%
Materials	4.7%
Telecommunication Services	-1.9%
Energy	-10.0%

Chart 47 S&P 500 Index

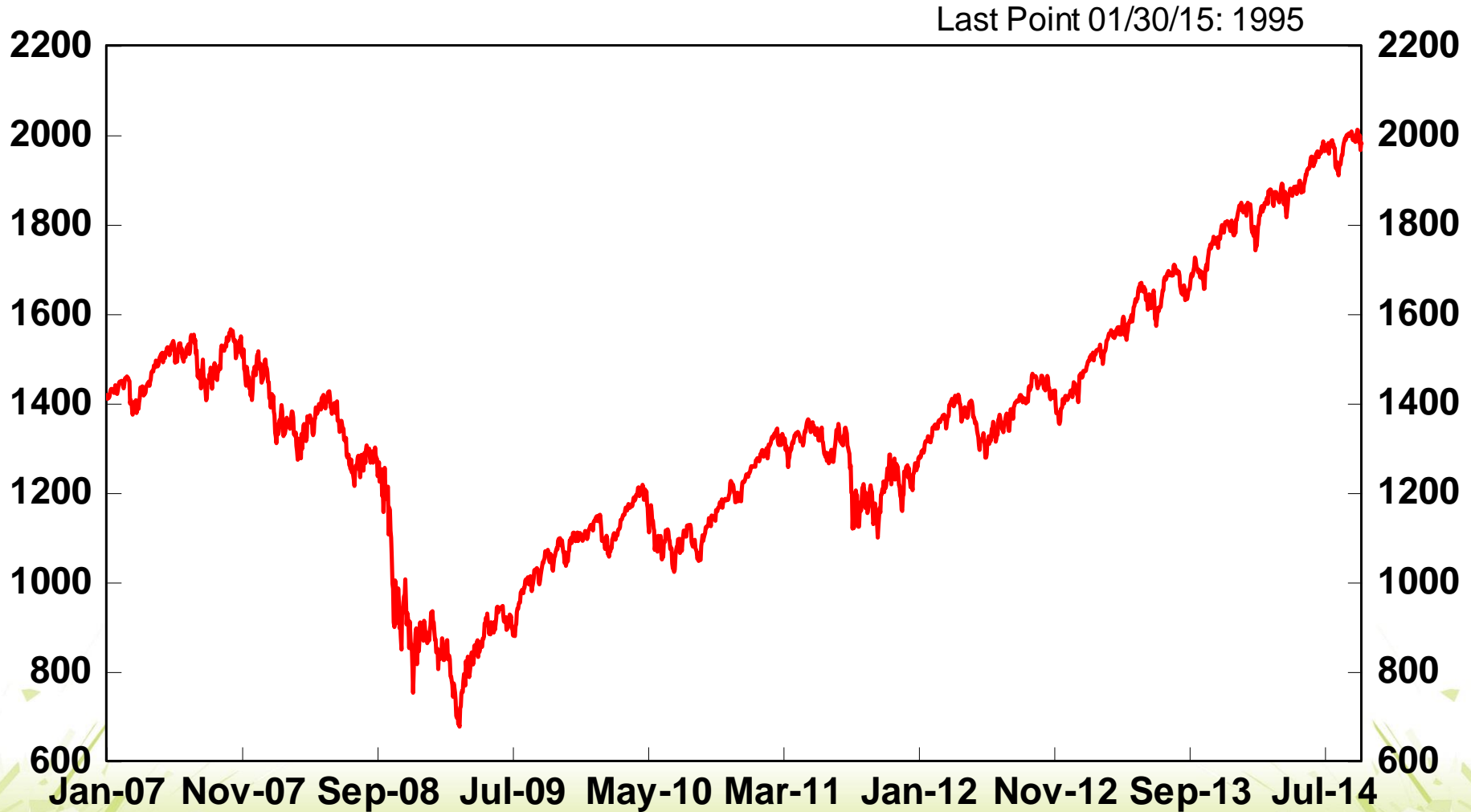
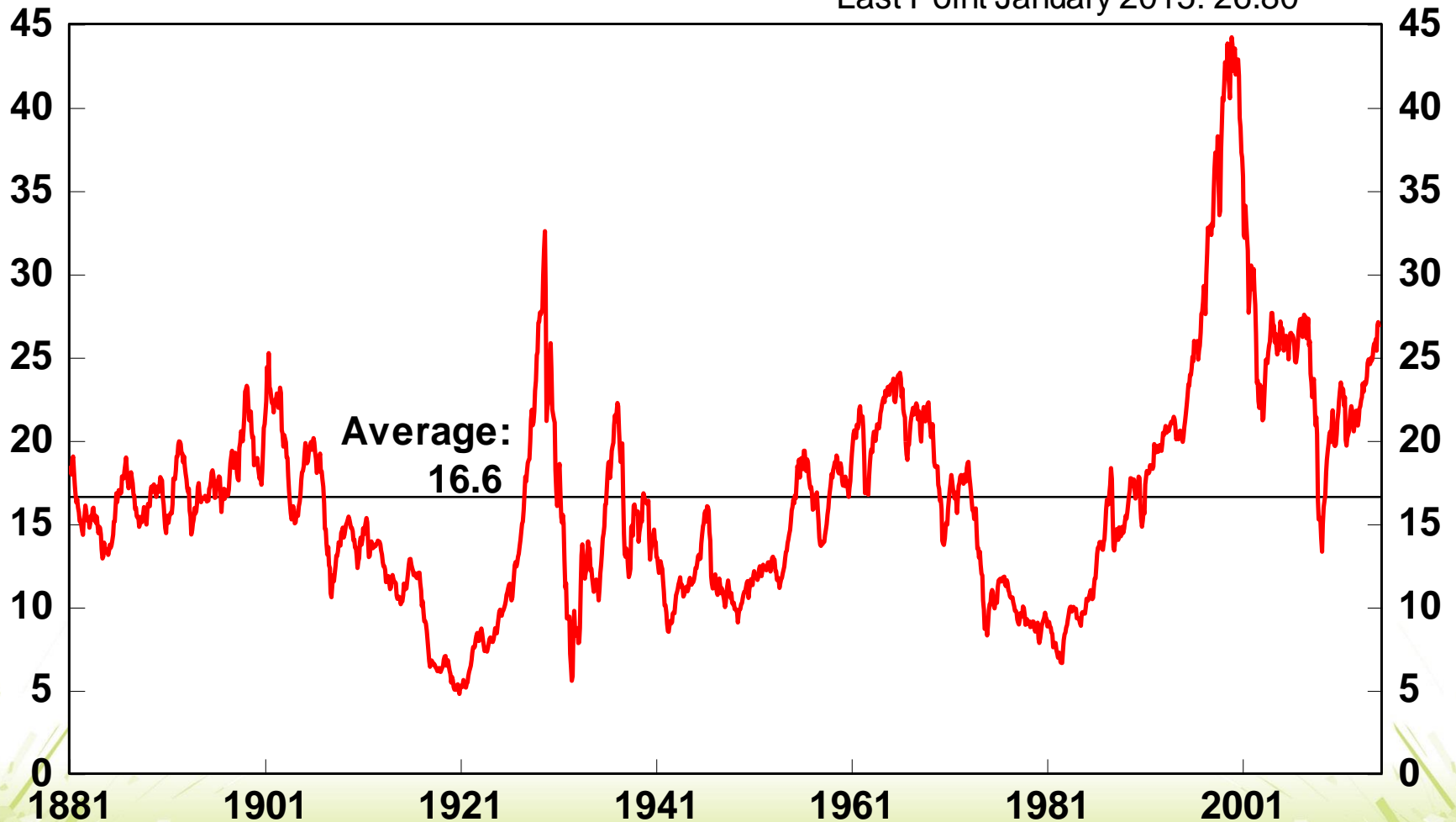


Chart 48

Cyclically Adjusted Stock Price to Earnings Ratio

S&P 500 price / avg. earnings from previous 10 years

Last Point January 2015: 26.80



Average:
16.6