

Economic and Fixed Income Market Outlook

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Manning & Napier Top Down Philosophy

What we focus on:

- Major trends
- Key themes
- Extremes
- Inflection points

Avoid the noise:

- Point forecasts
- Market timing

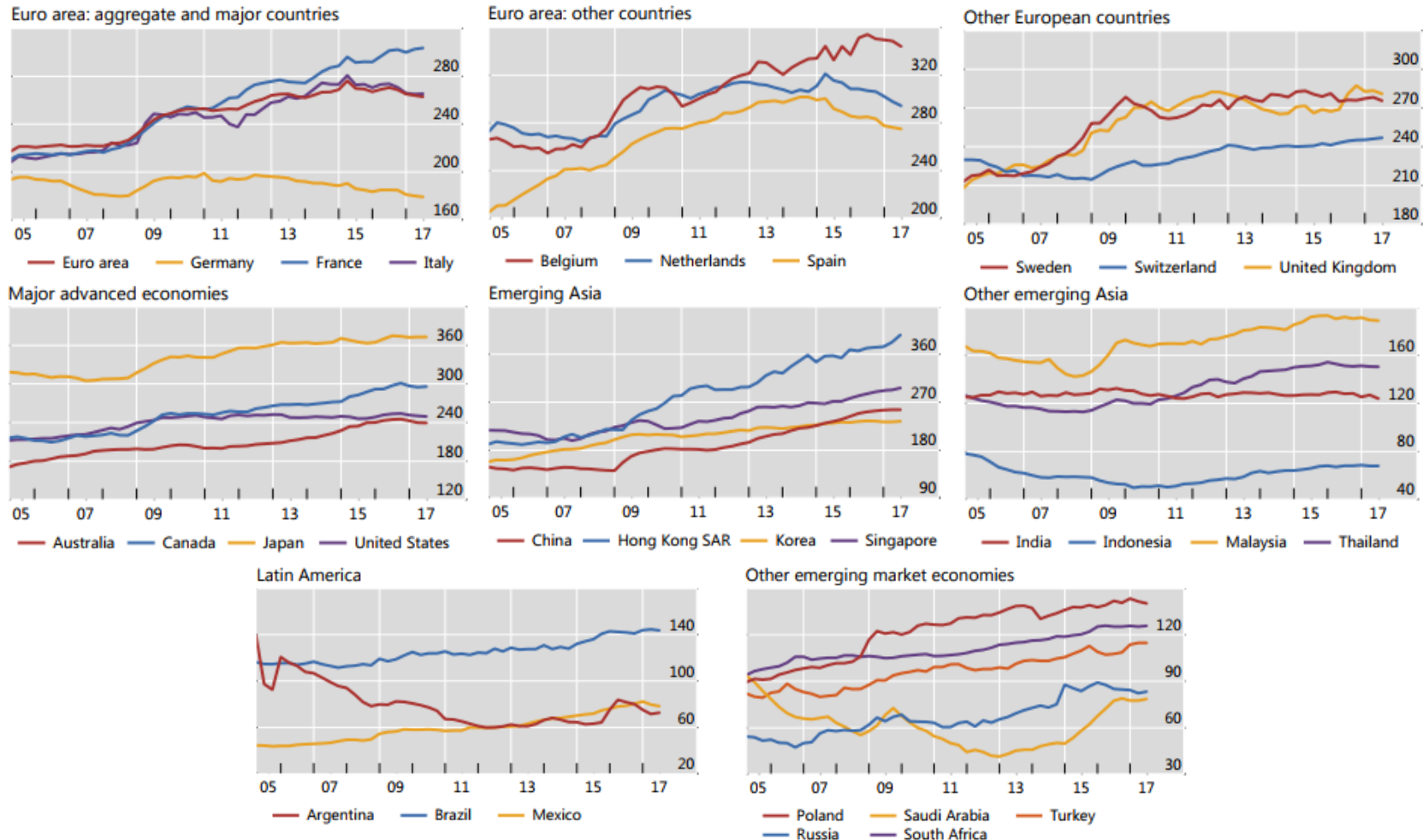
Manning & Napier Overview – Secular Drivers

Slow growth secular overview – post-global financial crisis

- Build-up of debt globally
- Poor demographics in many developed markets
- Increasing regulation and rising policy uncertainty

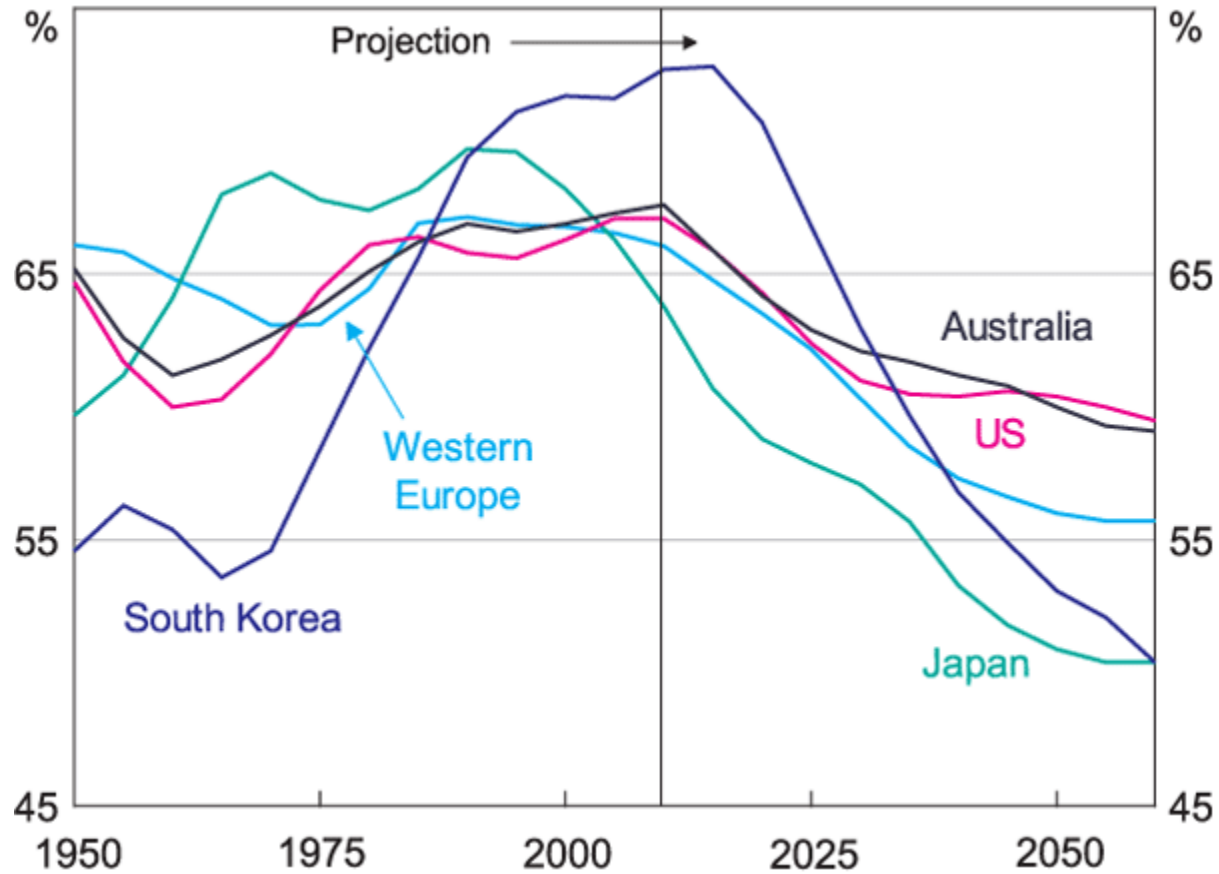
Global Debt Levels

Total credit to the non-financial sector (core debt) As a percentage of GDP



Demographics

Population Aged 15 to 64 Percent of Total Population



Manning & Napier Overview – Cyclical Drivers

Cyclical upside to our growth outlook

- Synchronized global economic growth
- End of supply induced dis-inflationary forces
- Inflection in global monetary policy
- Governments pursuing structural reform
- Governments undertaking a definitive shift in policy

Key Drivers of Cyclical Outlook

Consumption

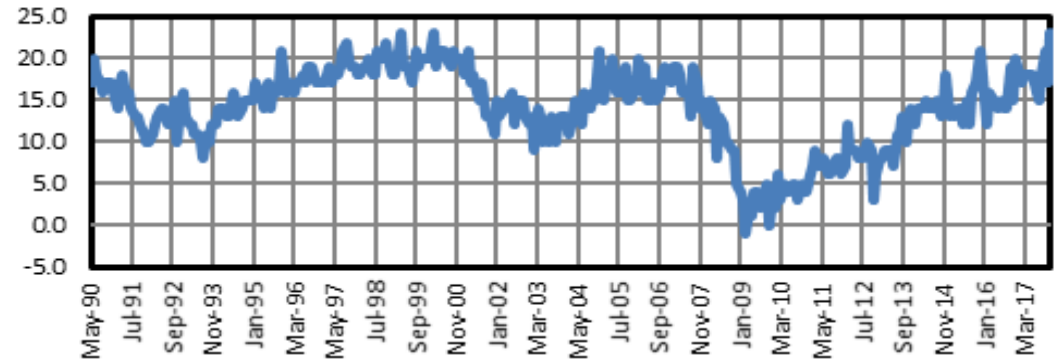
Income

- Employment
- Wages
- Taxes

Savings Rate

- Confidence
- Credit availability

NFIB Compensation Plans



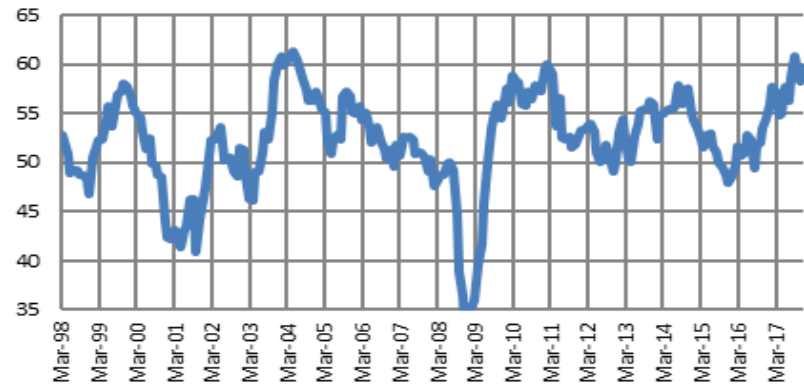
Atlanta Fed Wage Tracker vs. Employment to Population Ratio



Investment

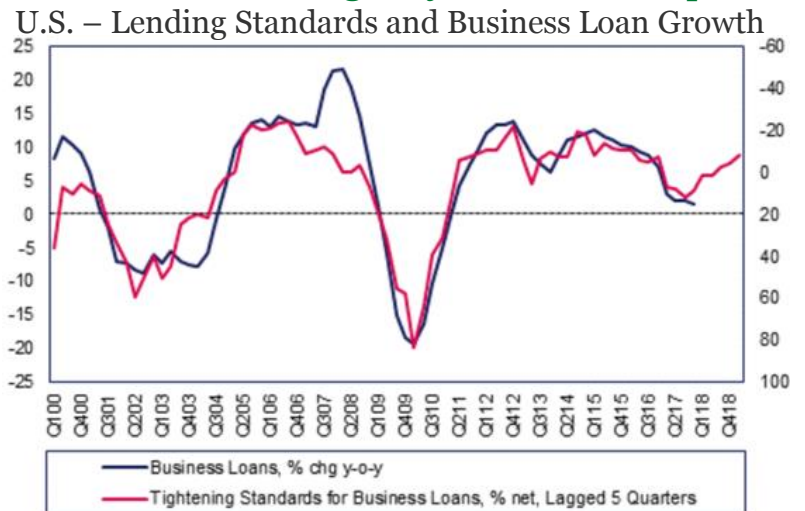
- Demand
- Corporate profitability
- Cost and availability of capital
- Capacity
- Confidence

ISM Manufacturing



Source: Bloomberg.

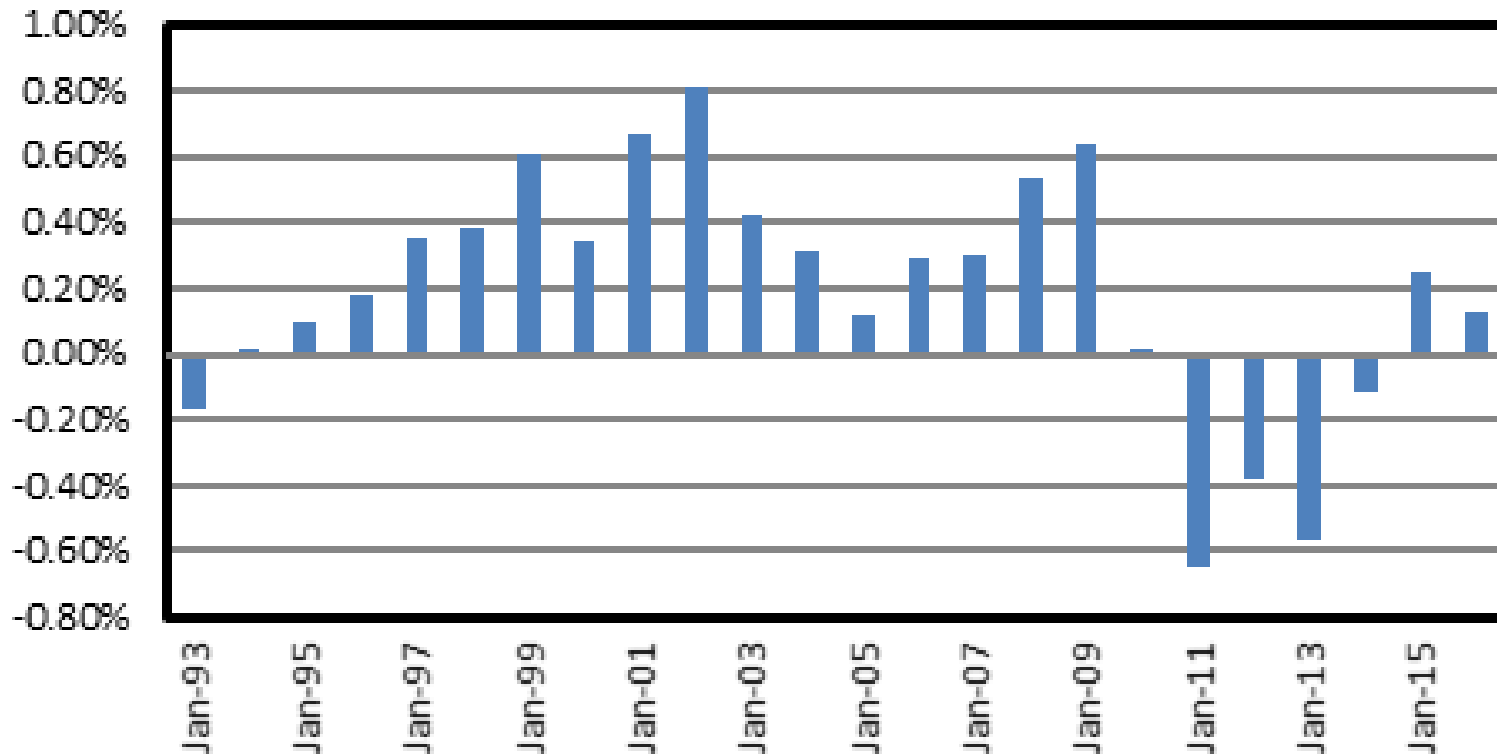
Business Lending Projected to Pick Up



Source Federal Reserve Senior Loan Office Survey, BMI

Government Spending: Headwind to Tailwind

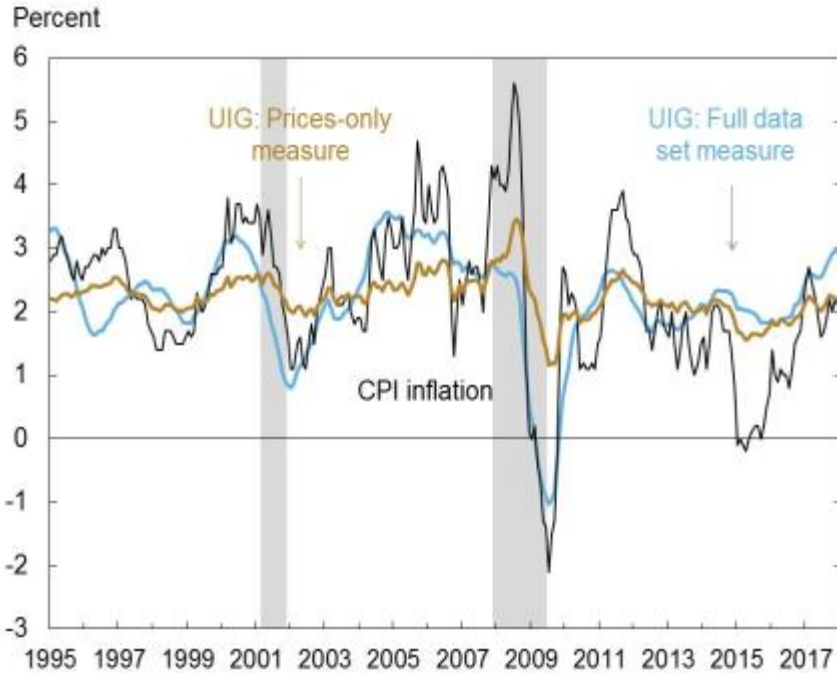
Government Spending Contribution to % Change in Real GDP



Source: Bloomberg. Data shown is from 01/01/1993 – 01/01/2016.

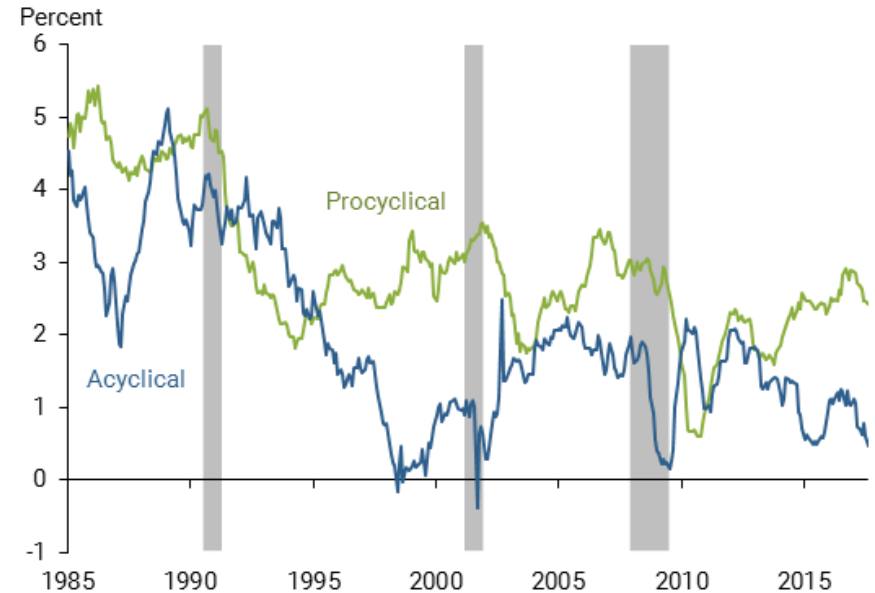
Inflation

UIG Measures and 12-Month Change in the CPI



Source: Haver Analytics. UIG represents Underlying Inflation Gauge.
 Note: The shaded areas indicate NBER recession periods.

Procyclical and acyclical core PCE inflation



Source: Federal Reserve Bank of San Francisco.
 Note: The shaded areas indicate NBER recession periods.

Risks to Our Overview

1

Trade and immigration policies

2

Geopolitical risk – Europe

3

China stability

Investment Implications

Asset Allocation

Fixed Income

- Duration
- Yield curve positioning
- Sector allocations
- Individual security selection

Equity

- Sector
- Security selection

Currency

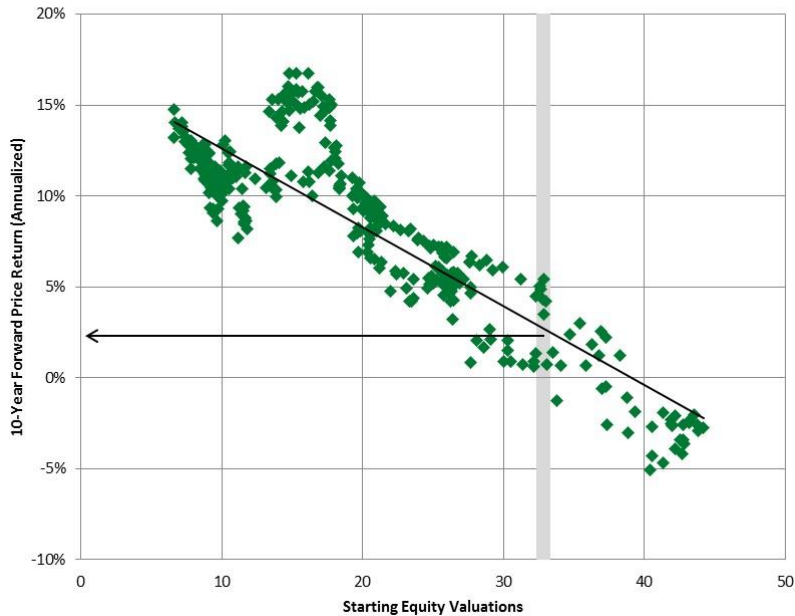
Valuations

Equity Valuations vs. S&P 500 10-Year Forward Price Return

January 1976-December 2017

Source: FactSet, Robert Shiller

Shaded region shows the current valuation.



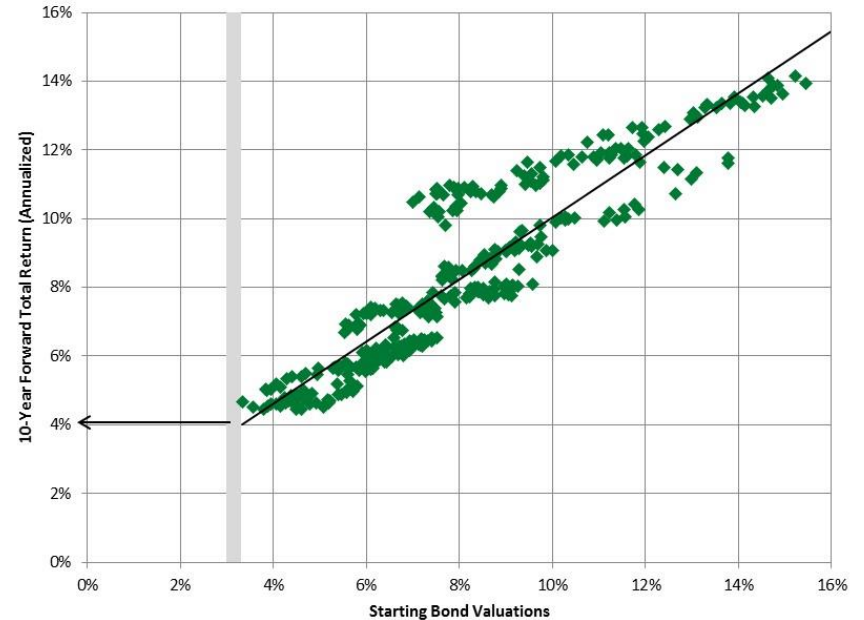
Equity valuations as measured by cyclically adjusted price-to-earnings.

Bond Valuations vs. Barclays U.S. Aggregate Bond 10-Year Forward Total Return

January 1976-December 2017

Source: FactSet

Shaded region shows the current valuation.



Bond valuations as measured by yield-to-worst.

Fixed Income – Interest Rates

Breaking down interest rates into components

Real rates

+ Inflation expectations

Nominal treasury

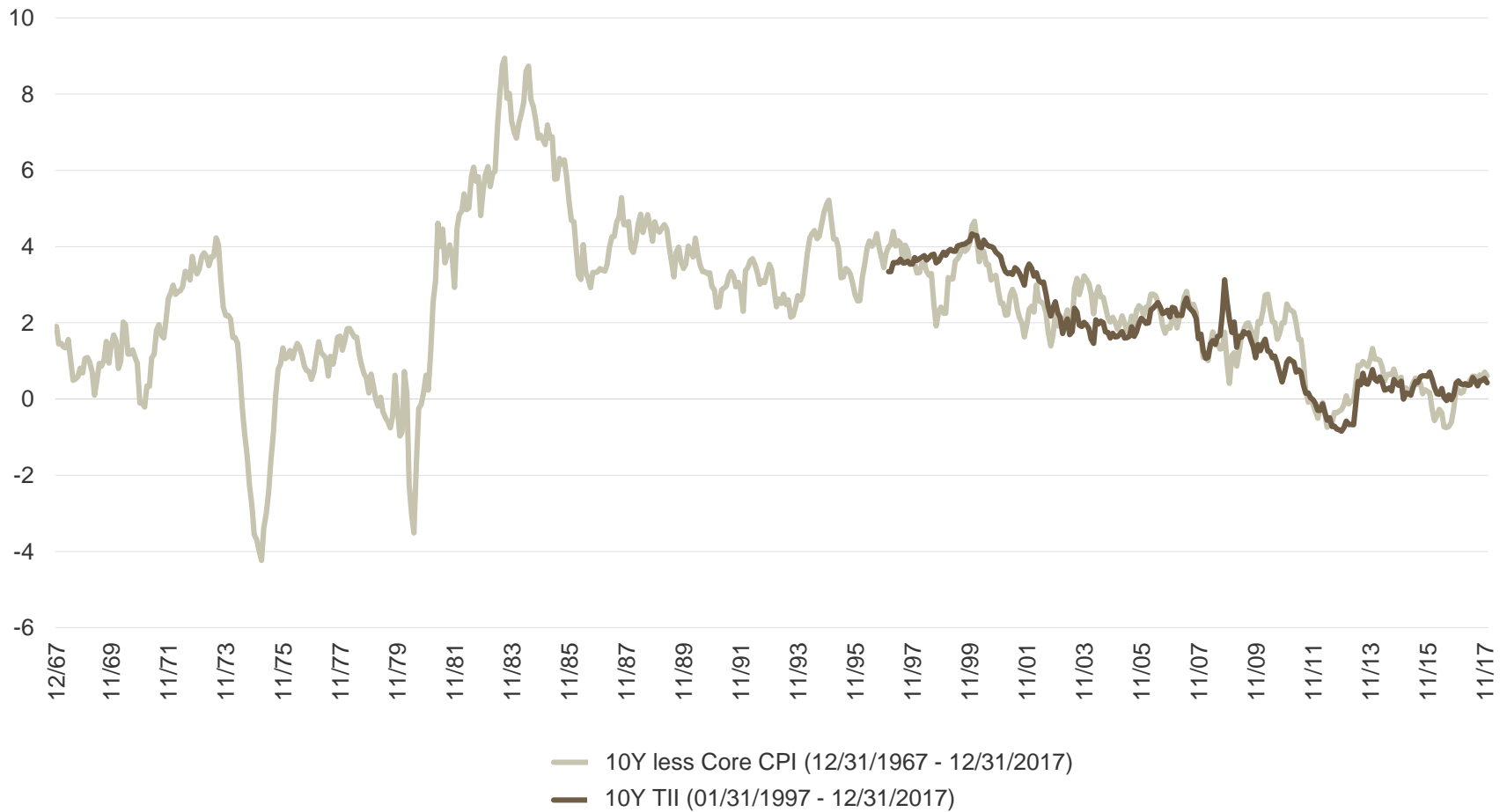
Path of short-term rates

+ Term premium

Nominal treasury

Real Rates

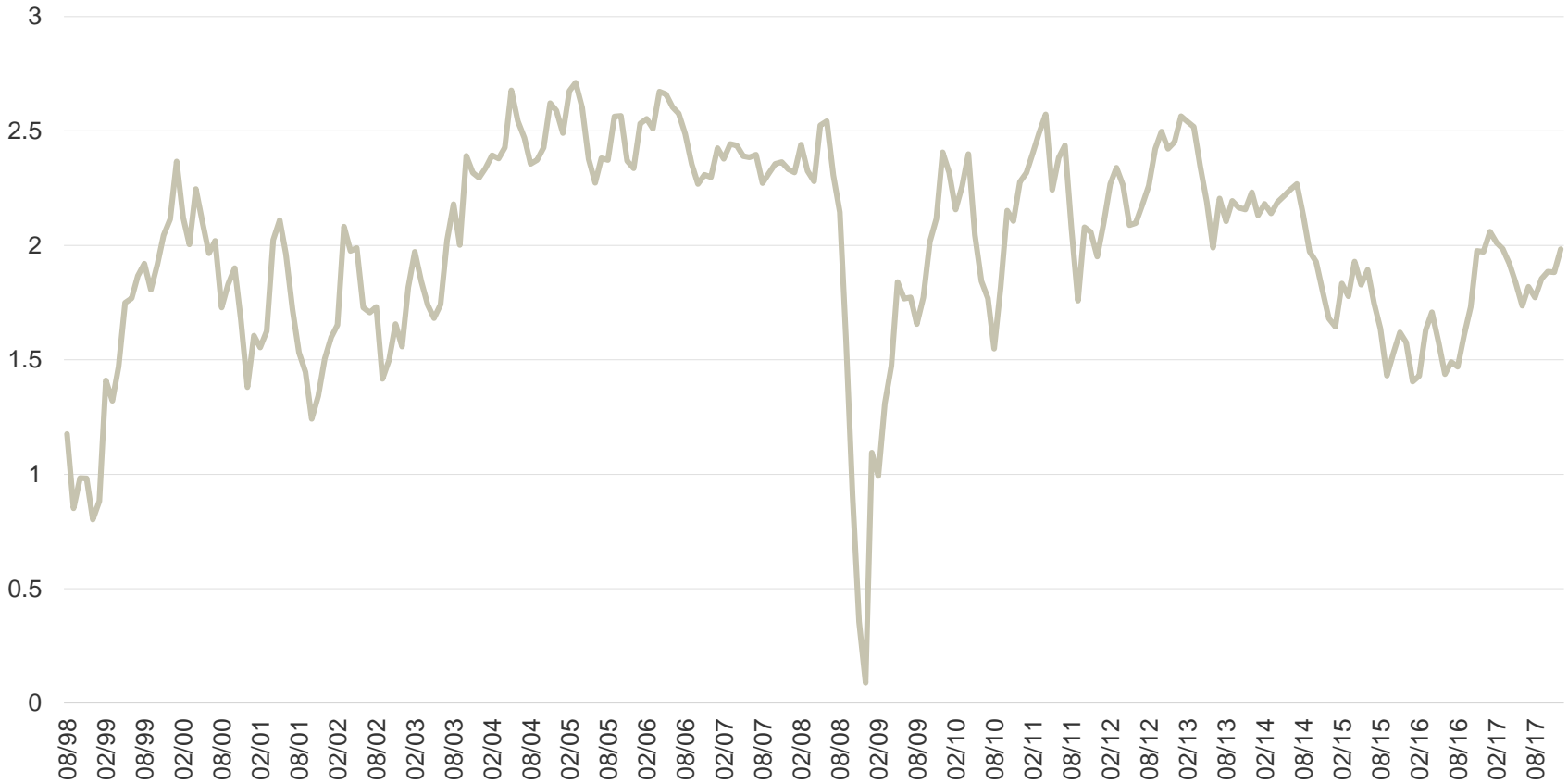
Real Yields - 10Y (%)



Source: Bloomberg.

Inflation Breakeven (Expectations)

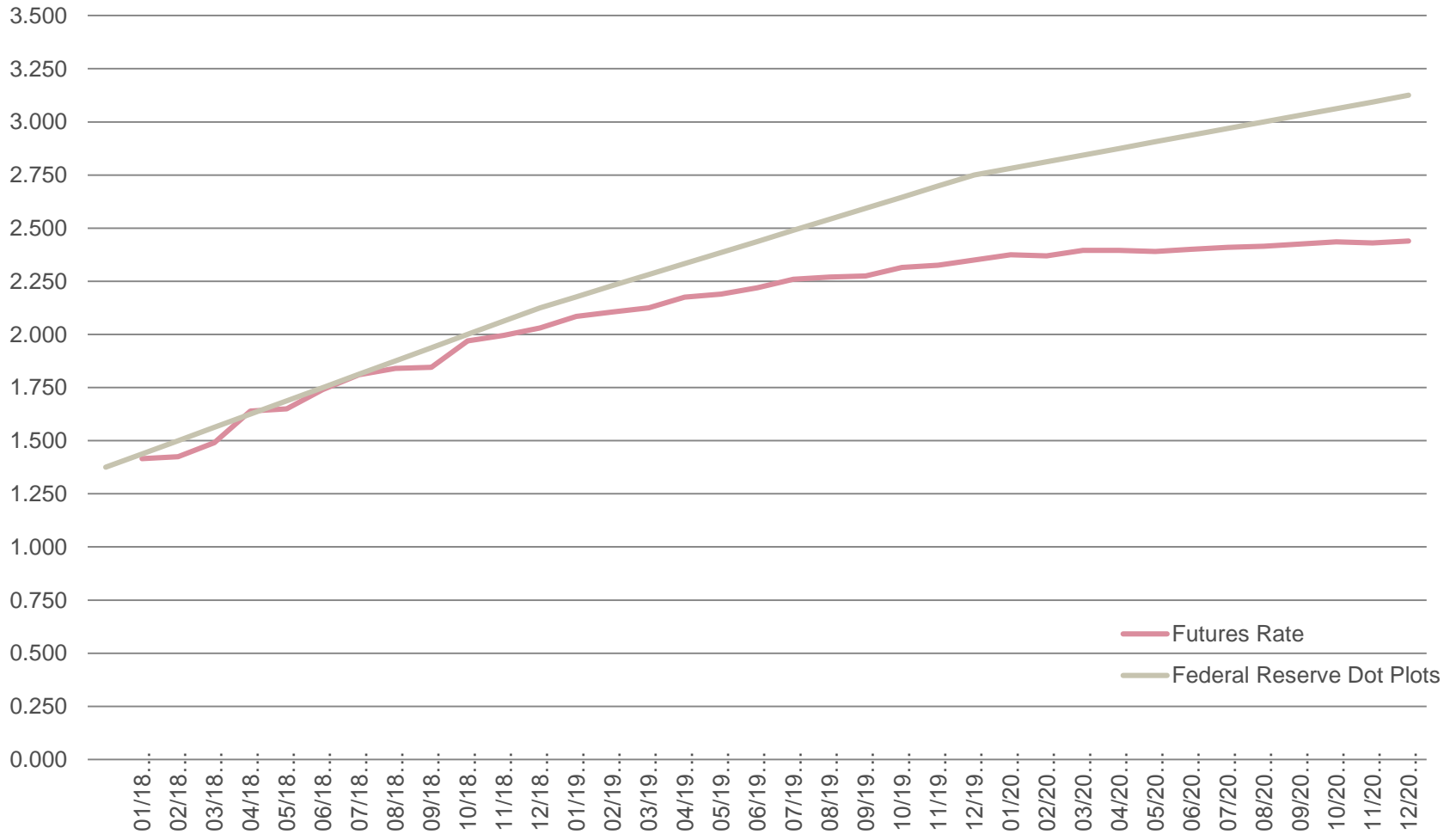
Inflation Breakevens - 10Y (%) (08/31/1998 – 12/31/2017)



Source: Bloomberg.

Projected Path of Short-Term Rates

Federal Funds Rate - Fed Projections vs. Futures



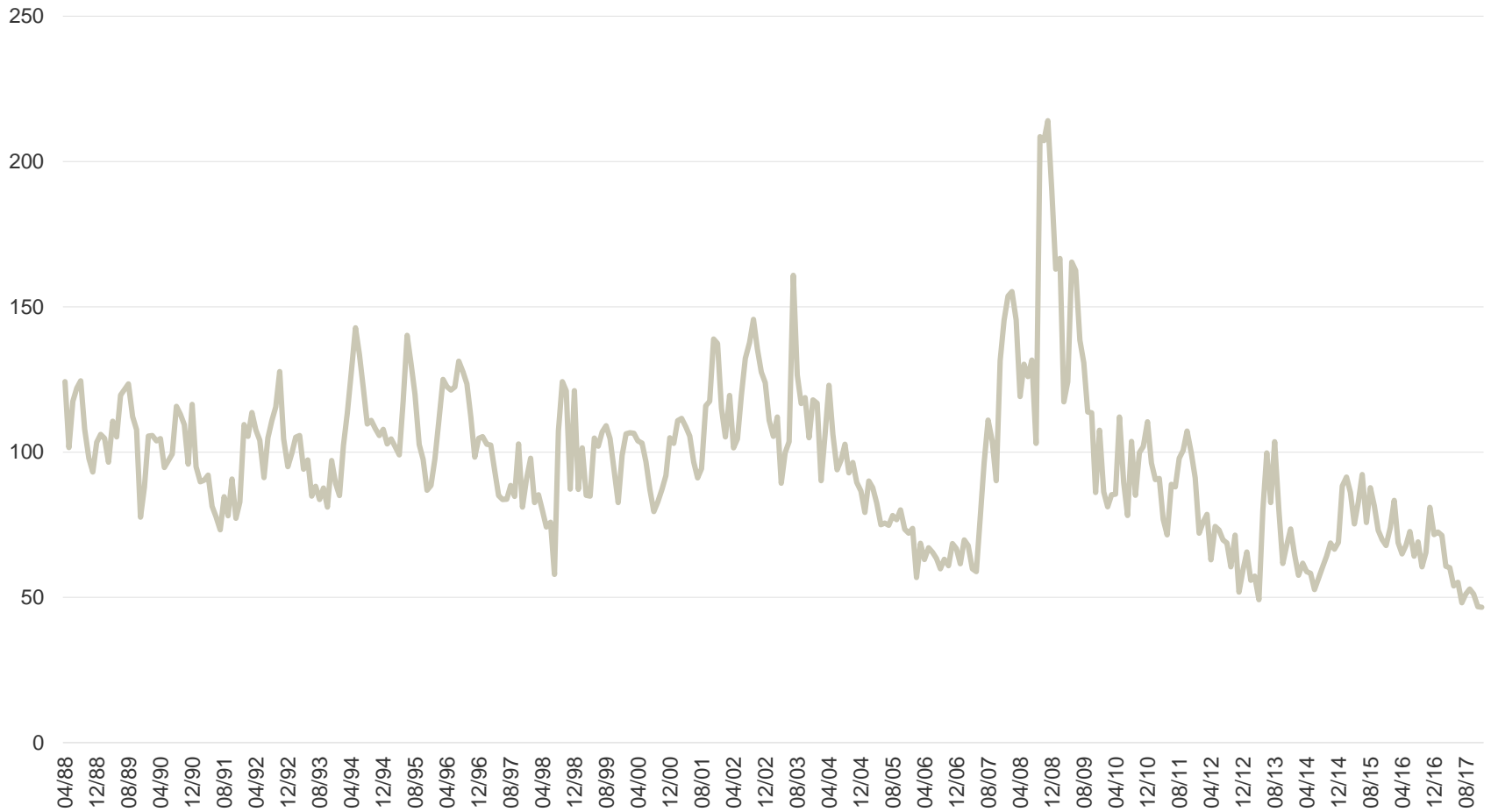
Source: Bloomberg. Data shown is from 01/31/2018 – 12/31/2019.)

ACM Term Premium

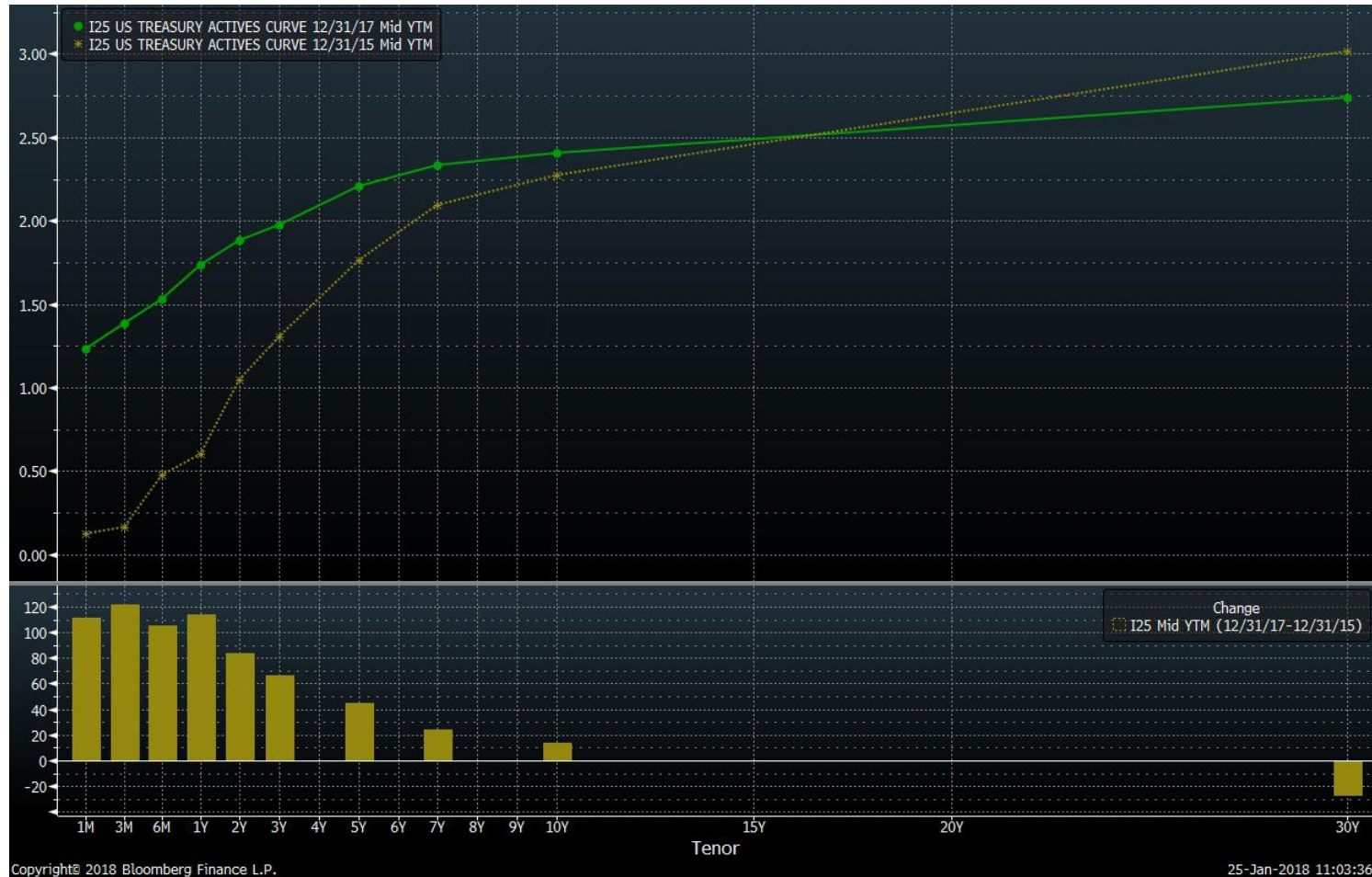


Source: Bloomberg. Data shown is from 06/30/1961 – 12/31/2017.

Interest Rate Volatility – MOVE Index



Yield Curve



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Interest Rates – Other Considerations

Technical drivers

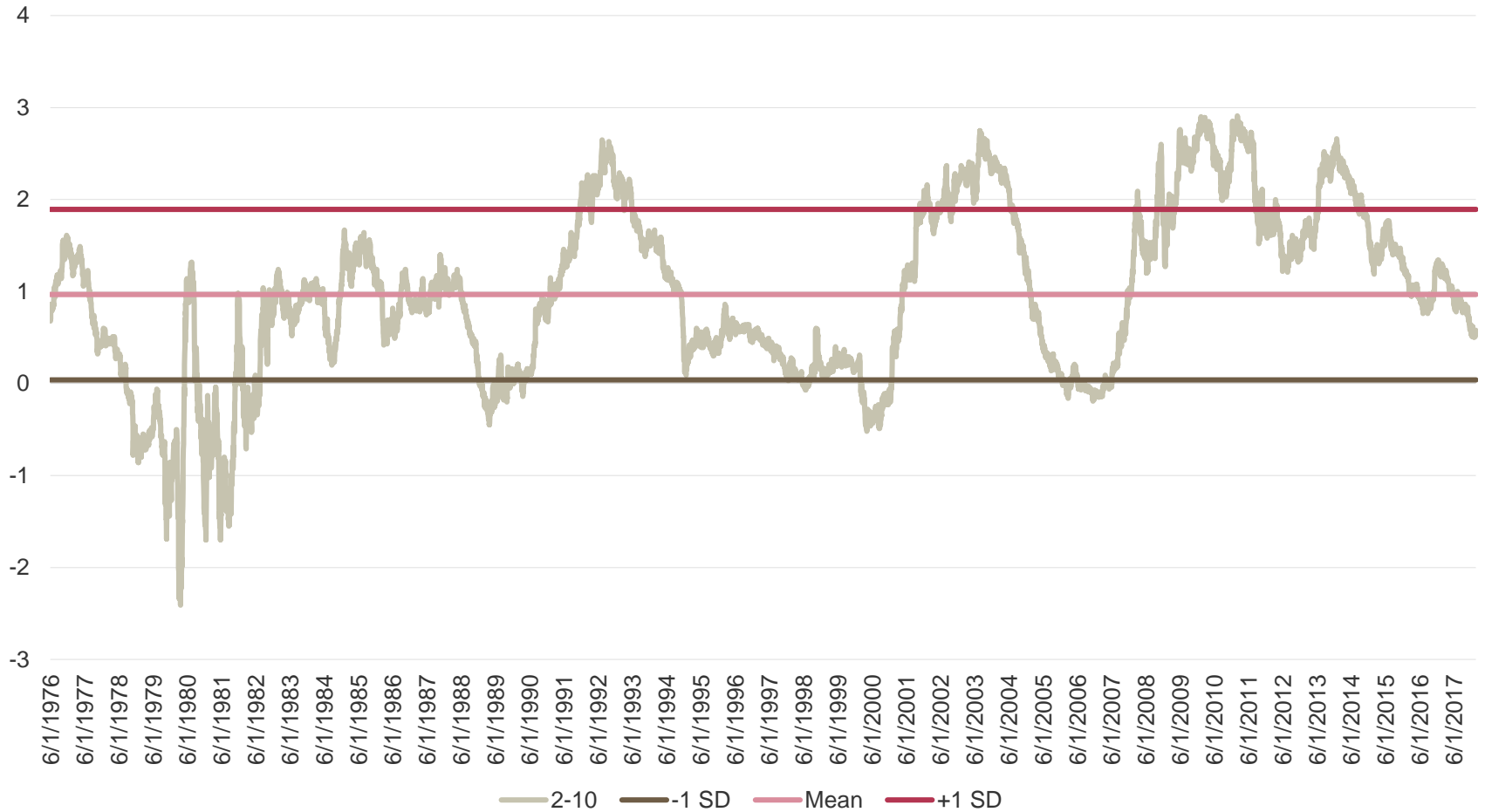
- Supply/demand for risk free debt
- Investor positioning

Inflection in the implementation of monetary policy globally

- United States
 - Increase in Federal Funds rate – December 2015
 - Tapering of the Federal Reserve Balance Sheet – September 2017
- Japan – QE to Yield Curve Control in July 2016
- UK – Post Brexit
 - Ruled out negative rates
 - Explicitly supported banks
- ECB
 - Taper purchase 1st
 - Policy rate 2nd

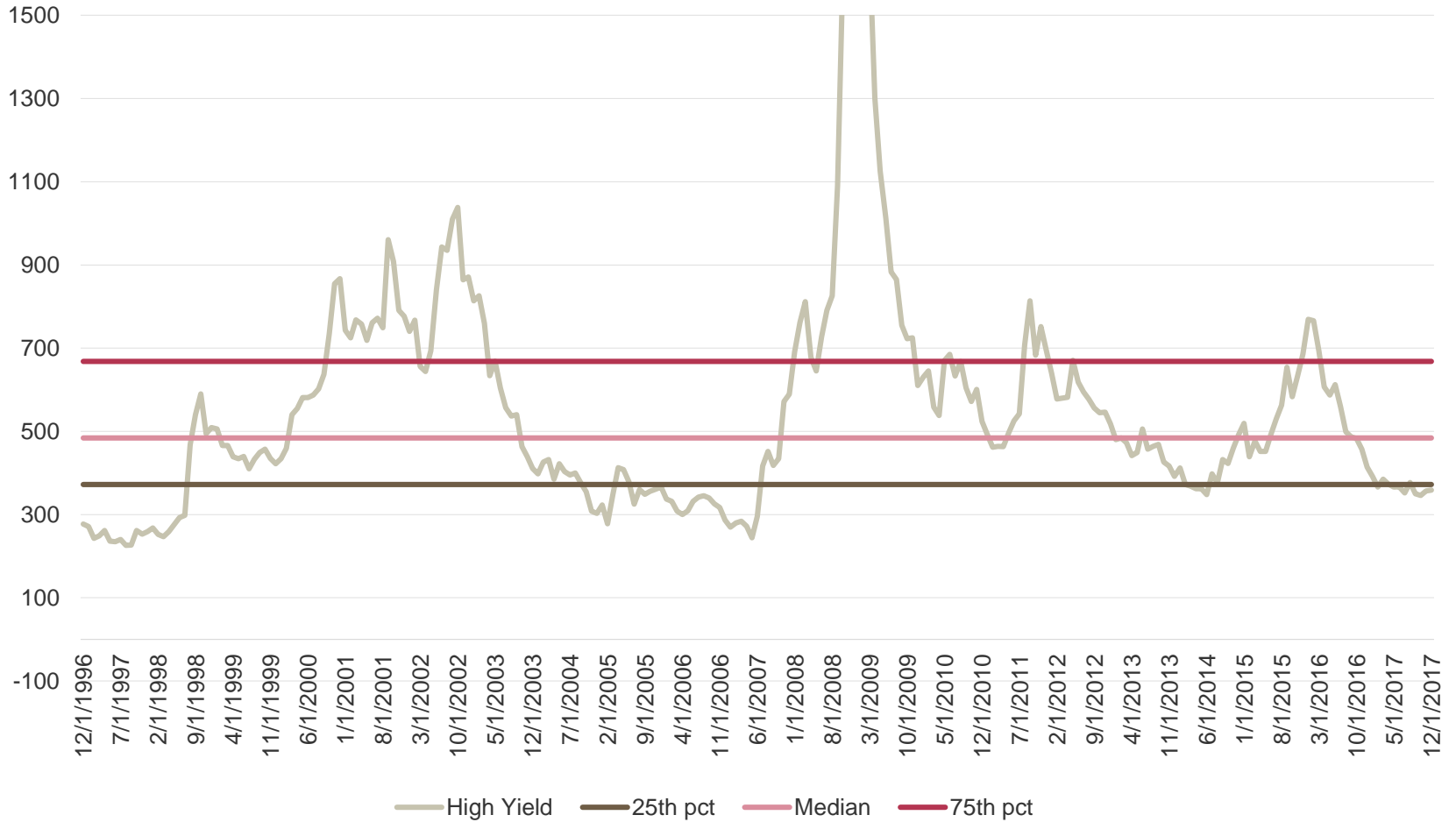
Yield Curve

Curve (2-10s)



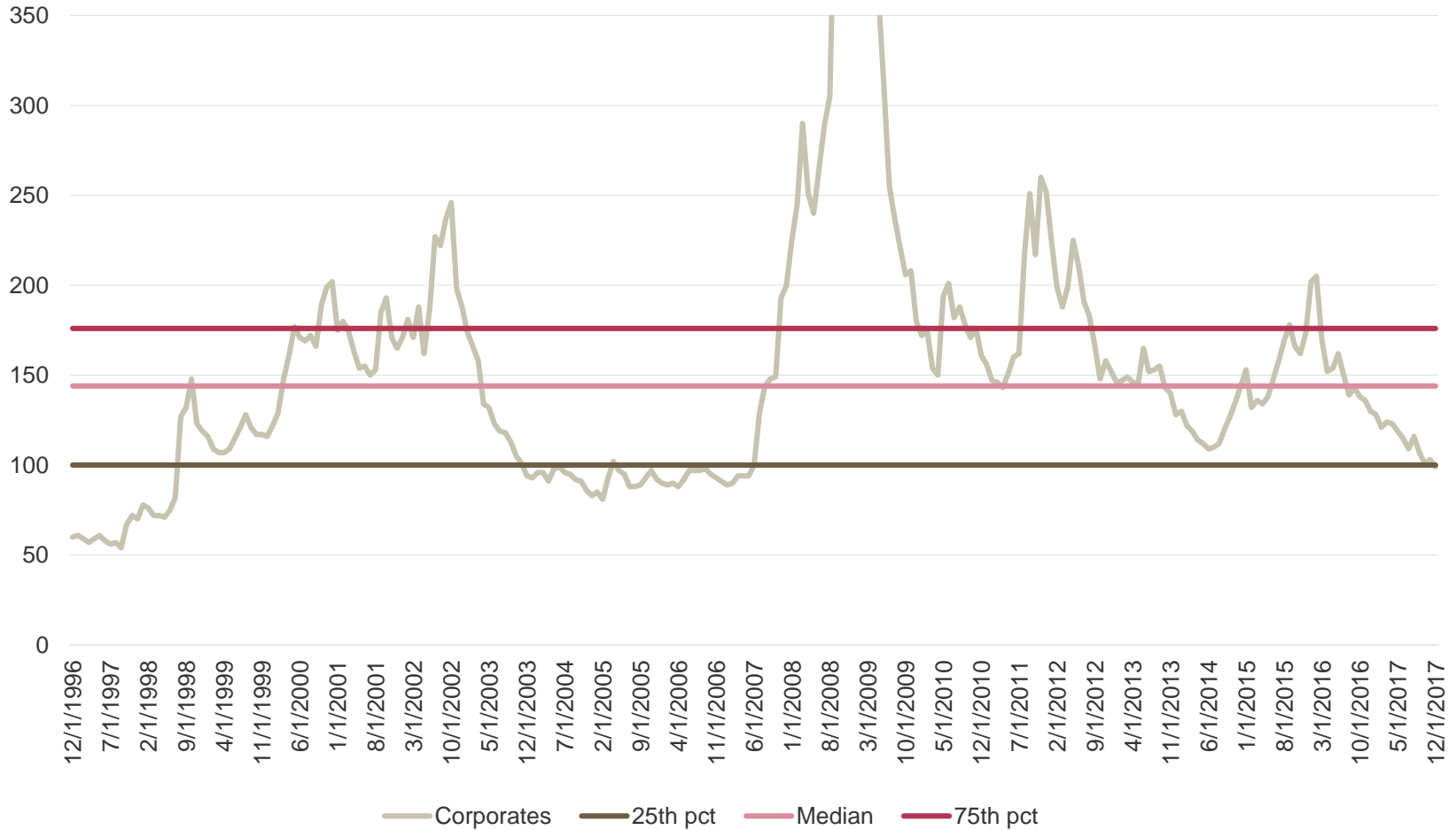
Source: Bloomberg. Data is 06/01/1976 – 01/24/2018.

High Yield



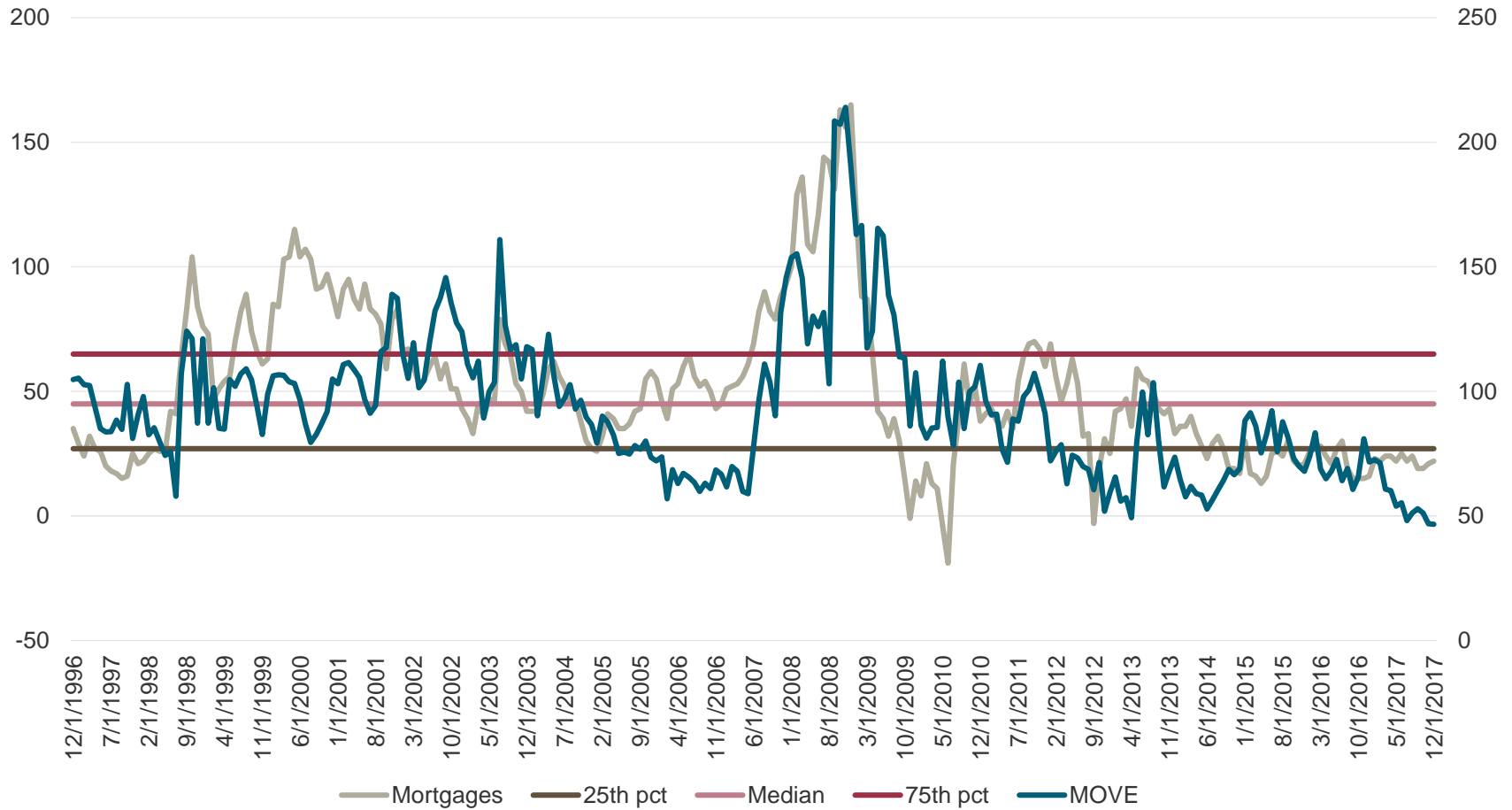
Source: Bloomberg. Data is 12/31/1996 – 12/31/2017.

Investment-Grade Corporate Debt



Source: Bloomberg. Data is 12/31/1996 – 12/31/2017.

Mortgage-Backed Securities



Source: Bloomberg. Data is 12/31/1996 – 12/31/2017.

Equity Market Outlook

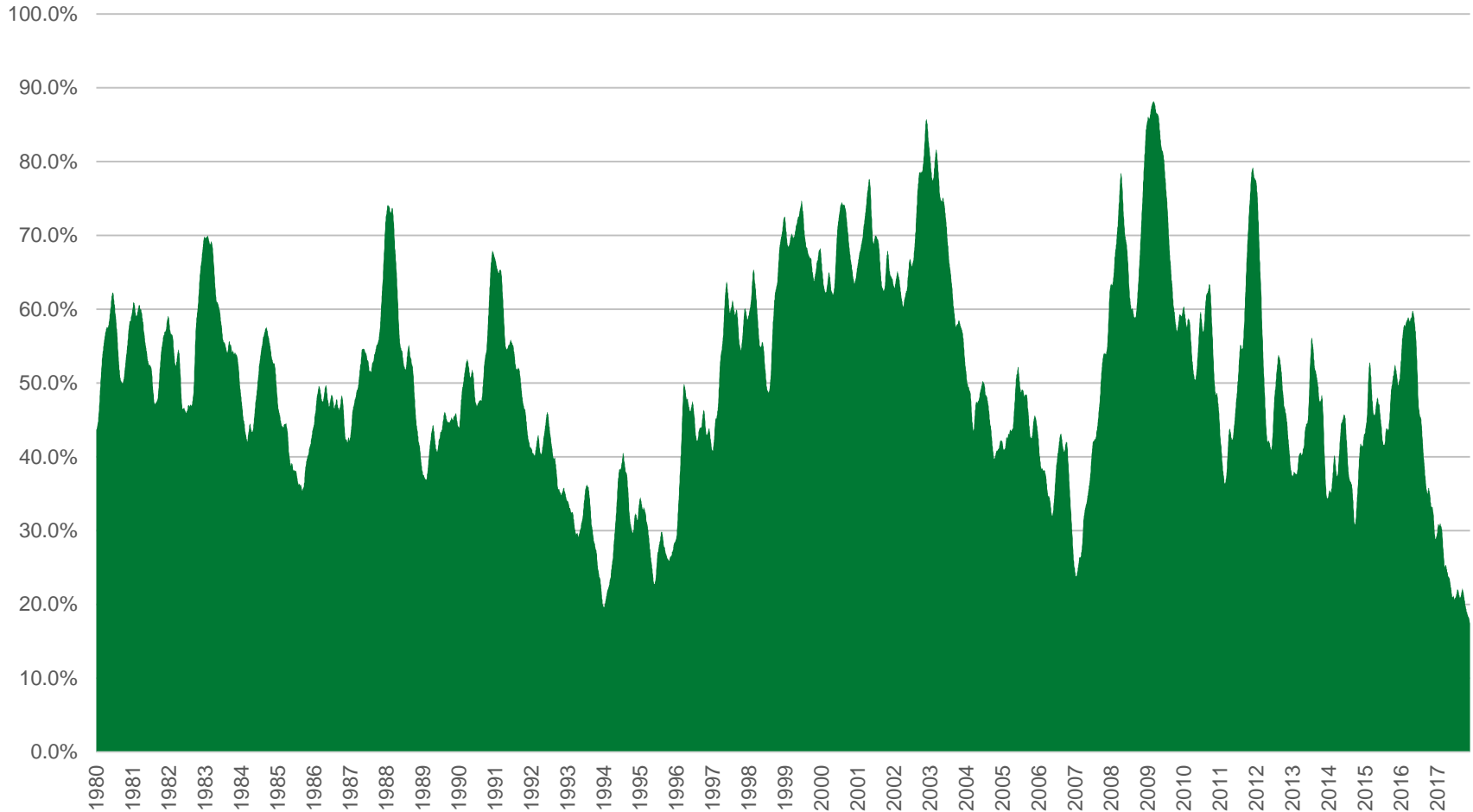
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Vice President/Client Consultant

February 2, 2018



Stock market volatility near 35+ year lows

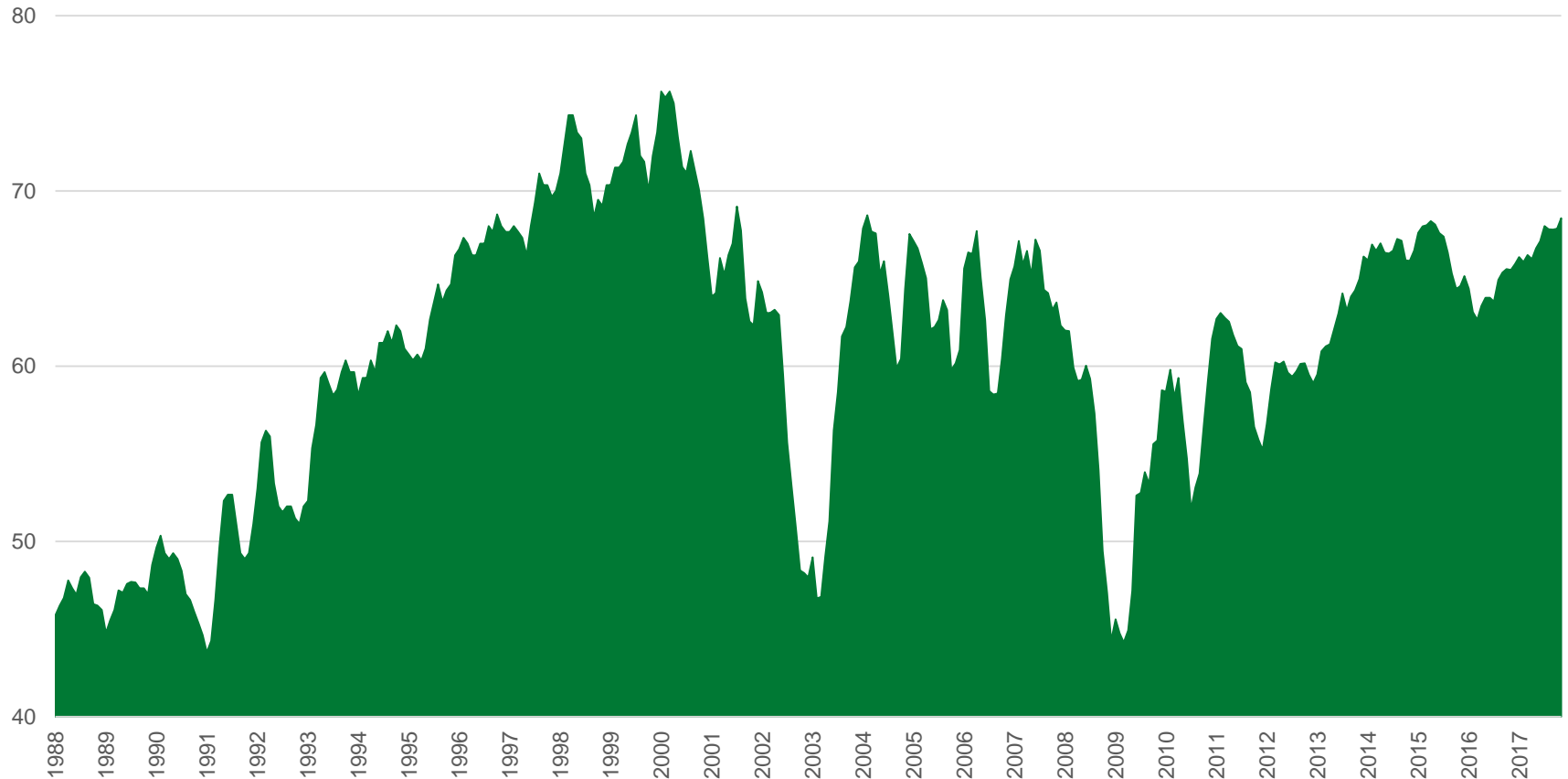
S&P 500 Index (Percent of Trailing 100 Days with Price Return > +/- 0.50%)



Source: FactSet for periods prior to 08/31/2017. For 09/01/2017 and later, the source is Thomson Reuters. Data shown is from 01/02/1980 -11/30/2017.
Analysis: Manning & Napier.

Fear is long gone, greed is building

AAll Survey: Allocation to Equities and Equity Funds

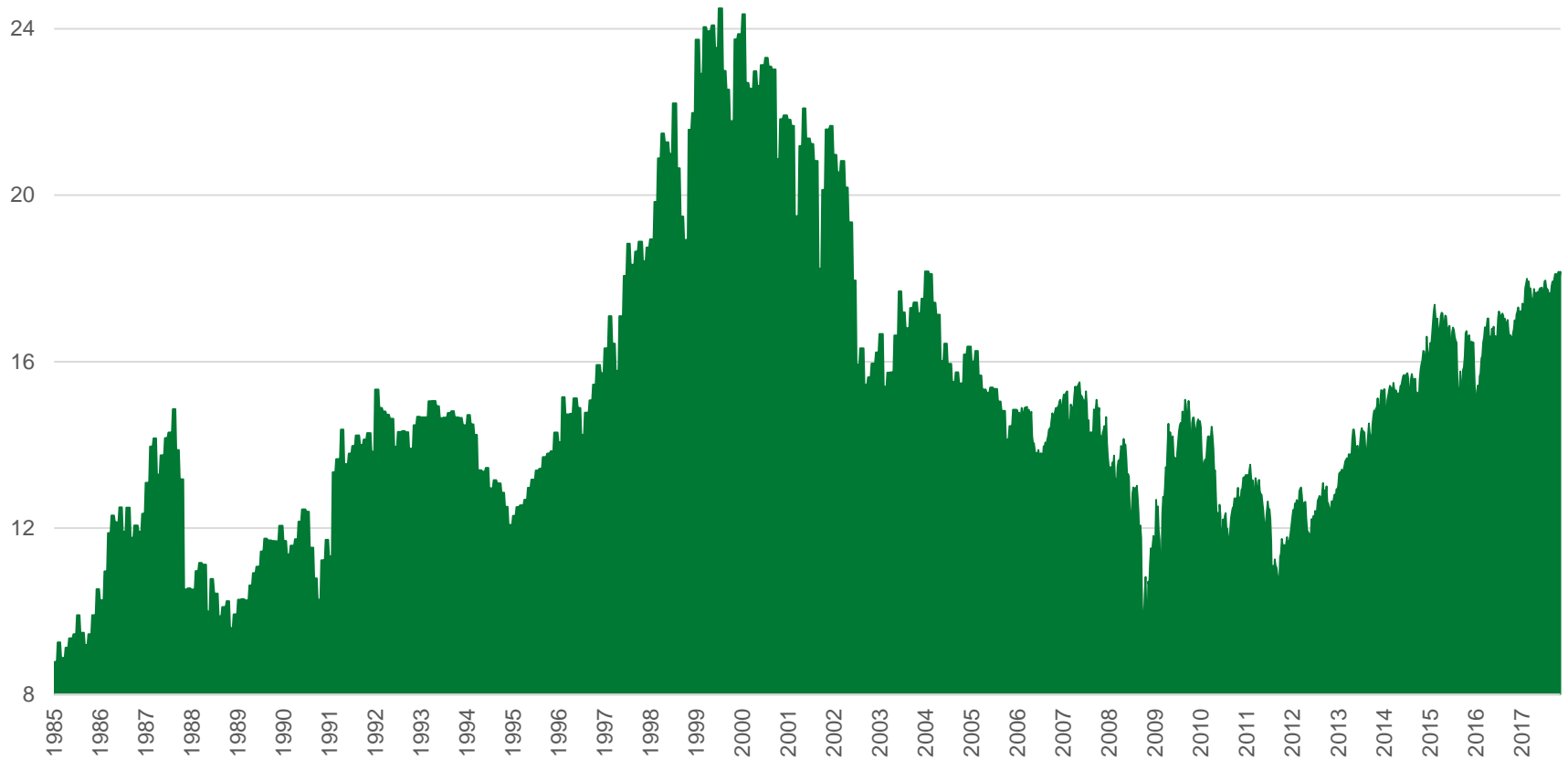


Data smoothed using a 3-month moving average.

Source: Thomson Reuters. Data shown is from 01/29/1988 – 11/30/2017.
Analysis: Manning & Napier.

High valuations limit upside potential

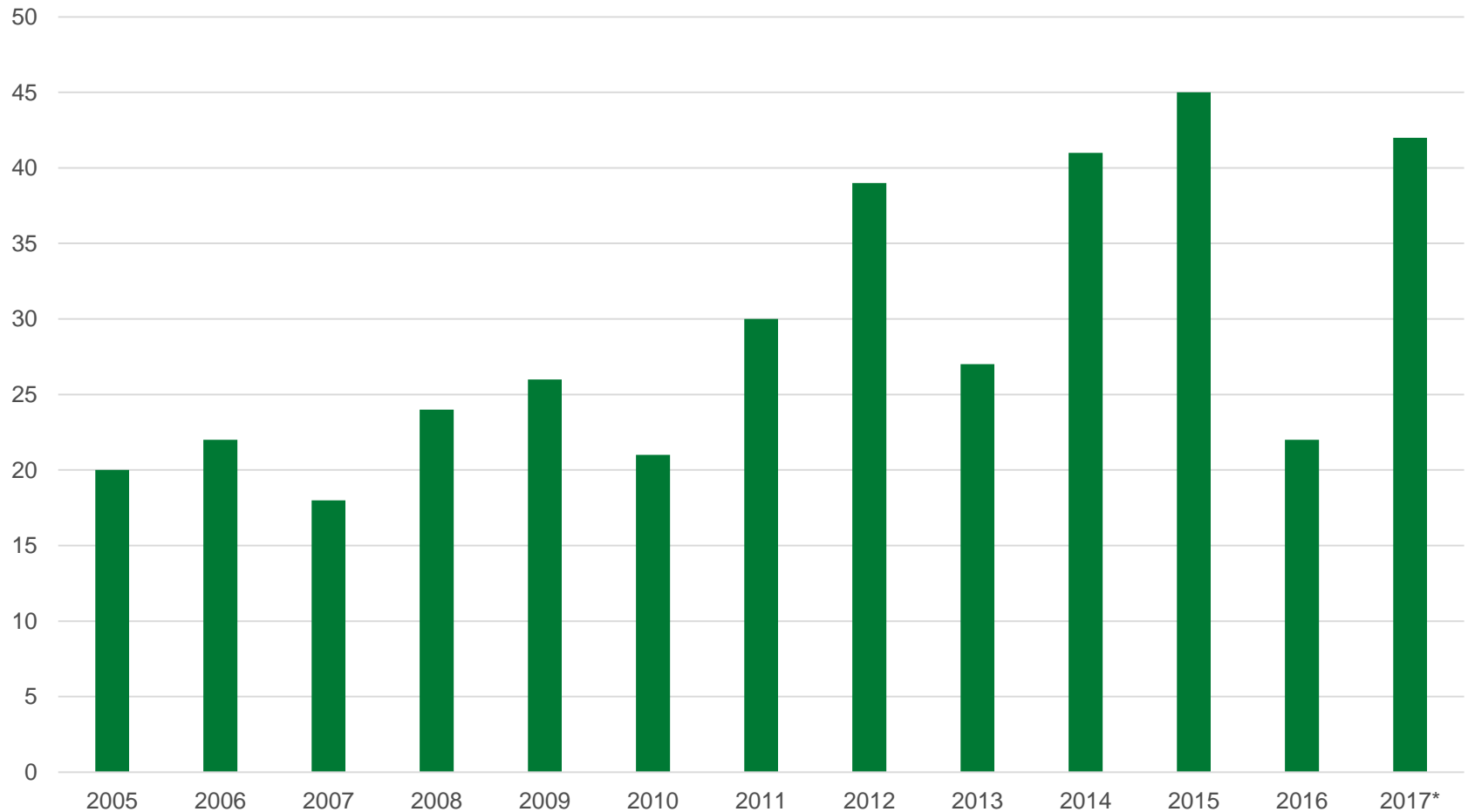
S&P 500 Forward P/E



Source: Thomson Reuters. Data shown is from 01/22/1985 – 11/28/2017.
Analysis: Manning & Napier.

Biotechnology – A Secular Growth Story

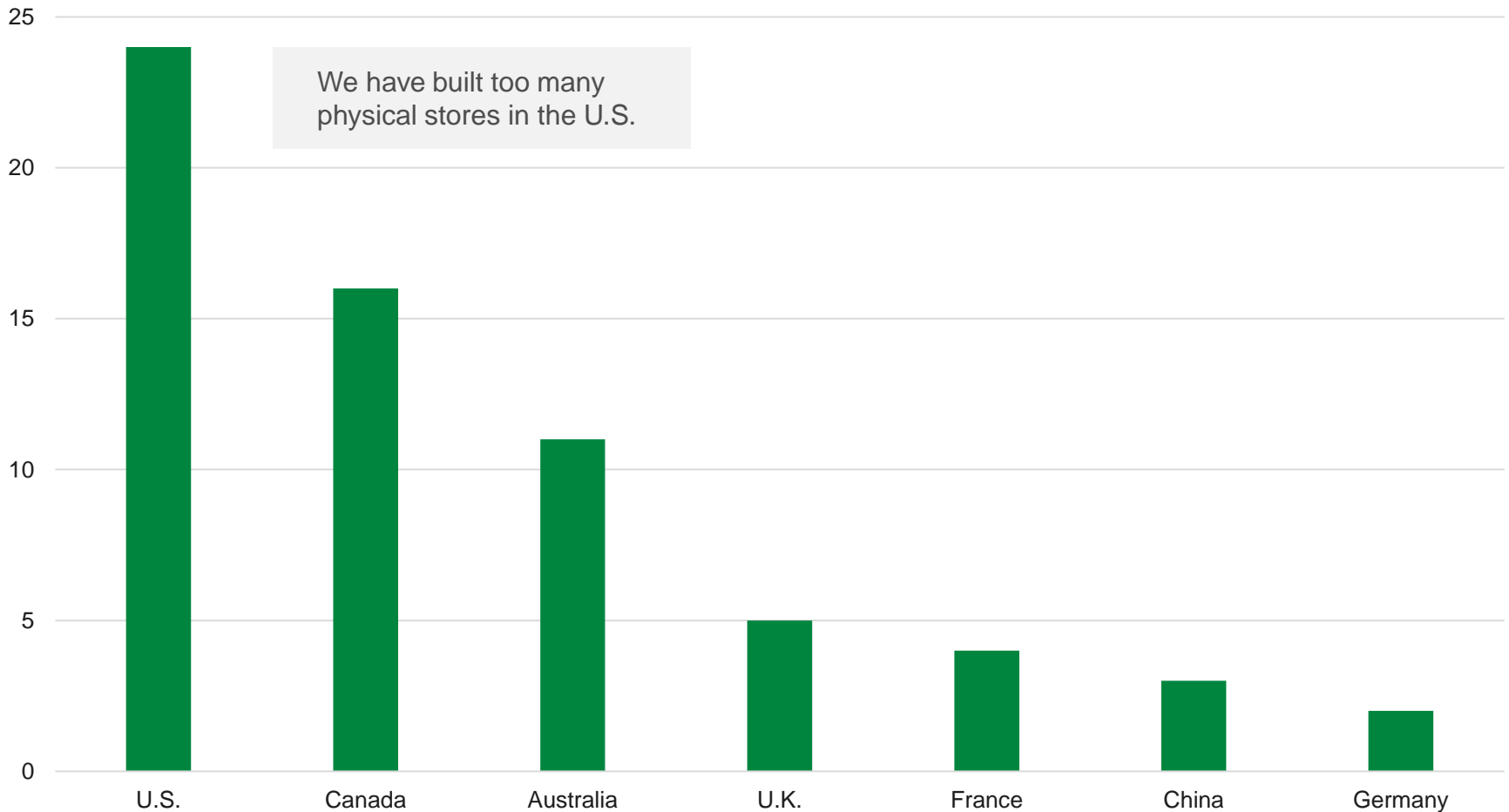
Novel Drug Approvals



*Projected Run Rate
Source: U.S. Food and Drug Administration.

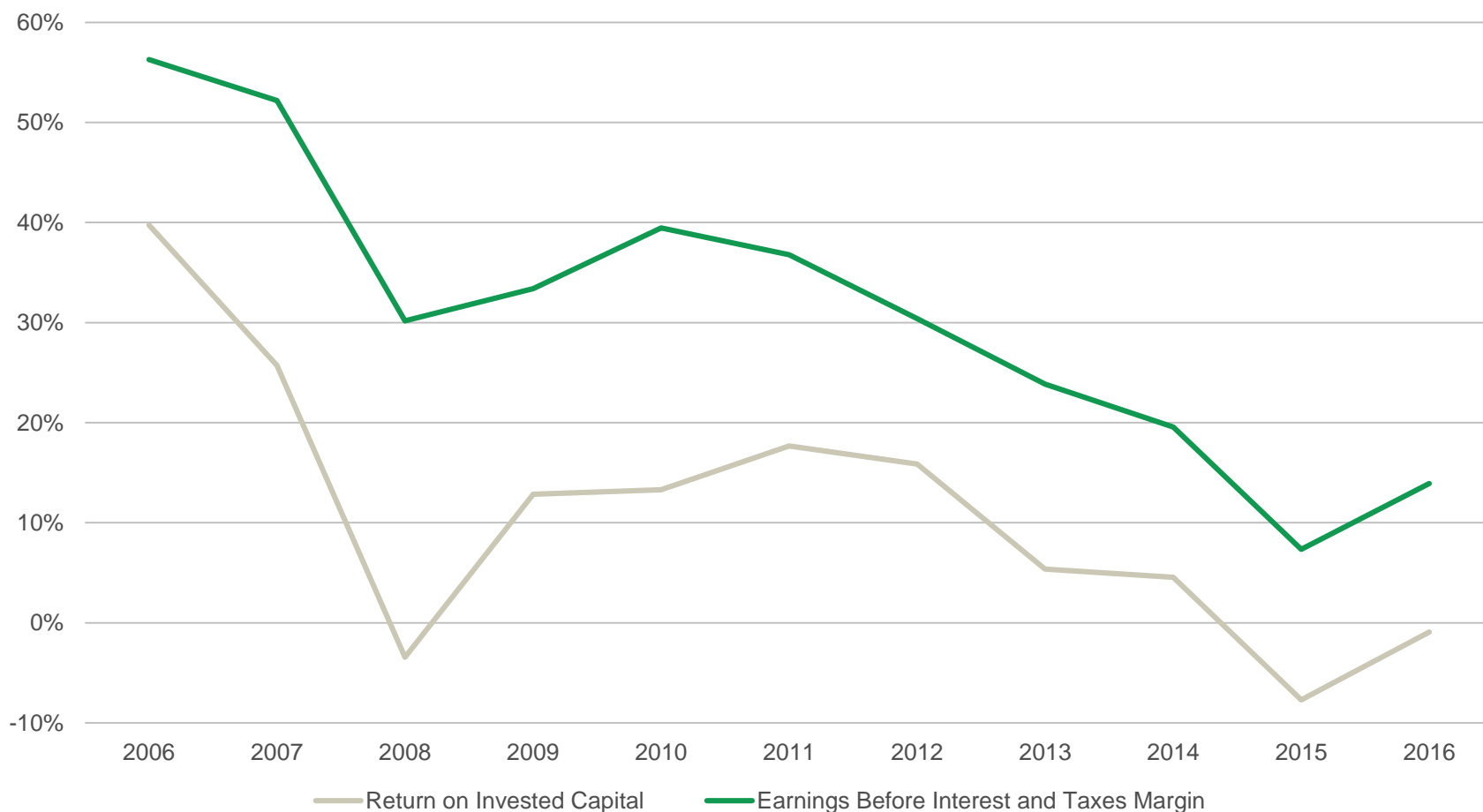
Retail – Finding Opportunity in Disruption

Retail Square Footage per Capita



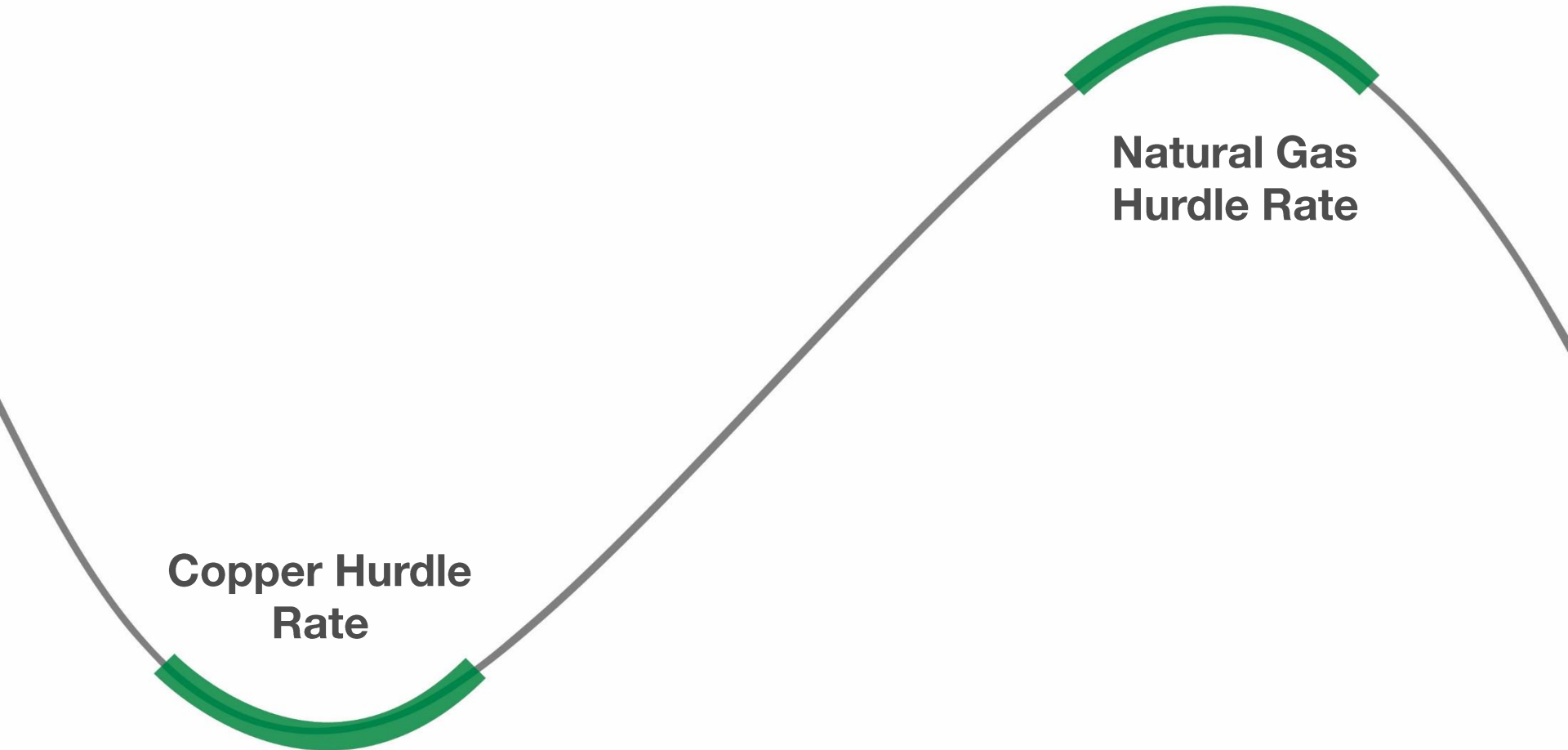
Mining & Materials – Surfing the Highs and Lows

Copper Composite: Average Profitability & Returns



*Composite includes Freeport-McMoRan, Antofagasta, Southern Copper, Glencore, First Quantum Minerals, Lundin Mining.
Source: FactSet.

Mining & Materials – Surfing the Highs and Lows



For illustrative purposes only.

Questions?

Disclosures



The S&P 500 Total Return Index is an unmanaged, capitalization-weighted measure of 500 widely held common stocks listed on the New York Stock Exchange, American Stock Exchange, and the Over-the-Counter market. The Index returns assume daily reinvestment of dividends and do not reflect any fees or expenses. S&P Dow Jones Indices LLC, a subsidiary of the McGraw Hill Financial, Inc., is the publisher of various index based data products and services and has licensed certain of its products and services for use by Manning & Napier. All such content Copyright © 2018 by S&P Dow Jones Indices LLC and/or its affiliates. All rights reserved. Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and none of these parties shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.

The Bloomberg Barclays U.S. Aggregate Bond Index (Barclays U.S. Aggregate Bond) is an unmanaged, market-value weighted index of U.S. domestic investment-grade debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of one year or more. Index returns do not reflect any fees or expenses.

The Bank of America Merrill Option Volatility Estimate (MOVE) Index is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options. It is the weighted average of volatilities on the CT2, CT5, CT10, and CT30. 'MOVE' is a trademark product of Merrill Lynch (weighted average of 1m2y, 1m5y, 1m10y and 1m30y Treasury implied vols with weights 0.2/0.2/0.4/0.2, respectively).