2017 Oklahoma State University Economic Outlook Conference

Tuesday, December 6, 2016
Brian Henderson, President | Cavanal Hill Investment Management
Labor Market Vastly Improved

- Unemployment down to 4.9%, but...job growth is clearly slowing.
- Employment okay, but moving sideways.
Gross Domestic Product
Positive…but

- U.S. gross domestic product positive…but with little momentum.
Consumer Confidence

- Consumer confidence overall solid.

University of Michigan: Consumer Sentiment
NSA, Q1-66=100

Source: University of Michigan/Haver Analytics
Wage Pressure Modestly Moves Up

- Economy at full employment. Wage pressure developing and could help the case for inflation.

- ECI measures wage inflation and employer paid benefits.

- Average hourly earnings finally moving up.
Bull Markets

- Second longest lasting bull market.
- Fourth best performing bull market.

S&P 500 Historical Bull Markets
1928 to Present

- Second longest lasting bull market.
- Fourth best performing bull market.

Source: Strategies Research Partners, LLC
### Investment Flows Since End Of Recession

- Few signs of speculative excess in domestic equities.

#### Net Flows into Mutual Funds + ETFs ($BN)

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity Domestic</th>
<th>Equity International</th>
<th>Bond</th>
<th>Money Mkt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3.3</td>
<td>69.2</td>
<td>417.2</td>
<td>-539.1</td>
</tr>
<tr>
<td>2010</td>
<td>-34.4</td>
<td>98.2</td>
<td>262.0</td>
<td>-525.1</td>
</tr>
<tr>
<td>2011</td>
<td>-86.0</td>
<td>28.3</td>
<td>163.7</td>
<td>-124.1</td>
</tr>
<tr>
<td>2012</td>
<td>-78.2</td>
<td>58.3</td>
<td>358.5</td>
<td>-0.2</td>
</tr>
<tr>
<td>2013</td>
<td>122.2</td>
<td>204.2</td>
<td>-59.0</td>
<td>15.0</td>
</tr>
<tr>
<td>2014</td>
<td>81.4</td>
<td>132.0</td>
<td>94.5</td>
<td>6.2</td>
</tr>
<tr>
<td>2015</td>
<td>-105.5</td>
<td>203.6</td>
<td>29.5</td>
<td>21.5</td>
</tr>
<tr>
<td>2016 YTD</td>
<td>-51.0</td>
<td>6.7</td>
<td>148.8</td>
<td>-47.1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-148.2</td>
<td>800.5</td>
<td>1415.2</td>
<td>-1192.9</td>
</tr>
</tbody>
</table>

Source: Strategies Research Partners, LLC
Disruptors Become The Disrupted

- One of the great challenges for the U.S. in the 21st century will be the ability to balance the country’s technological prowess with the need to “create job.”

- A country reliant upon services (about 85% of the economy) and consumption (about 70%) presents a challenge for workers without high value-added skills to prosper and thrive.

- This tension could indeed be the question of our times.

Amazon vs. Wal-Mart
(Price Per Share Since 2006)

<table>
<thead>
<tr>
<th></th>
<th>AMZN</th>
<th>WMT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Cap</td>
<td>$342 BN</td>
<td>$222 BN</td>
</tr>
<tr>
<td># of Employees</td>
<td>230,800</td>
<td>1,500,000</td>
</tr>
</tbody>
</table>

Source: Strategies Research Partners, LLC
Central Bank Centric

- Over last eight years, central banks have taken center stage, replacing the private economy.

“If you put the federal government in charge of the Sahara desert, in five years, there’d be a shortage of sand.”

- Milton Friedman
Big Potential Upside & Downside Risks With Trump

**Potential Upside**

- Cut tax rates and reform tax code.
- Regulatory freeze and rollback.
- Repatriation.
- Infrastructure/Efficiencies.
- Pro-business climate.

**Potential Risks**

- Trade/Tariffs/Protectionism.
- Unsustainable Deficits.
- Geopolitical risk.
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