

# A PRESENTATION TO PAPERS

## THE GREAT (RE)BALANCING ACT: GROWTH REBALANCING, TRADE REBALANCING, PORTFOLIO REBALANCING

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Rick Harrell  
Vice President, Sovereign Analyst  
Loomis, Sayles & Company, L.P.

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# the great (re)balancing act

## GROWTH REBALANCING

Is our growth model sustainable? Where are the opportunities for growth?

## TRADE REBALANCING

What does China's new growth model mean for global trade?

Who is vulnerable and who could stand to benefit?

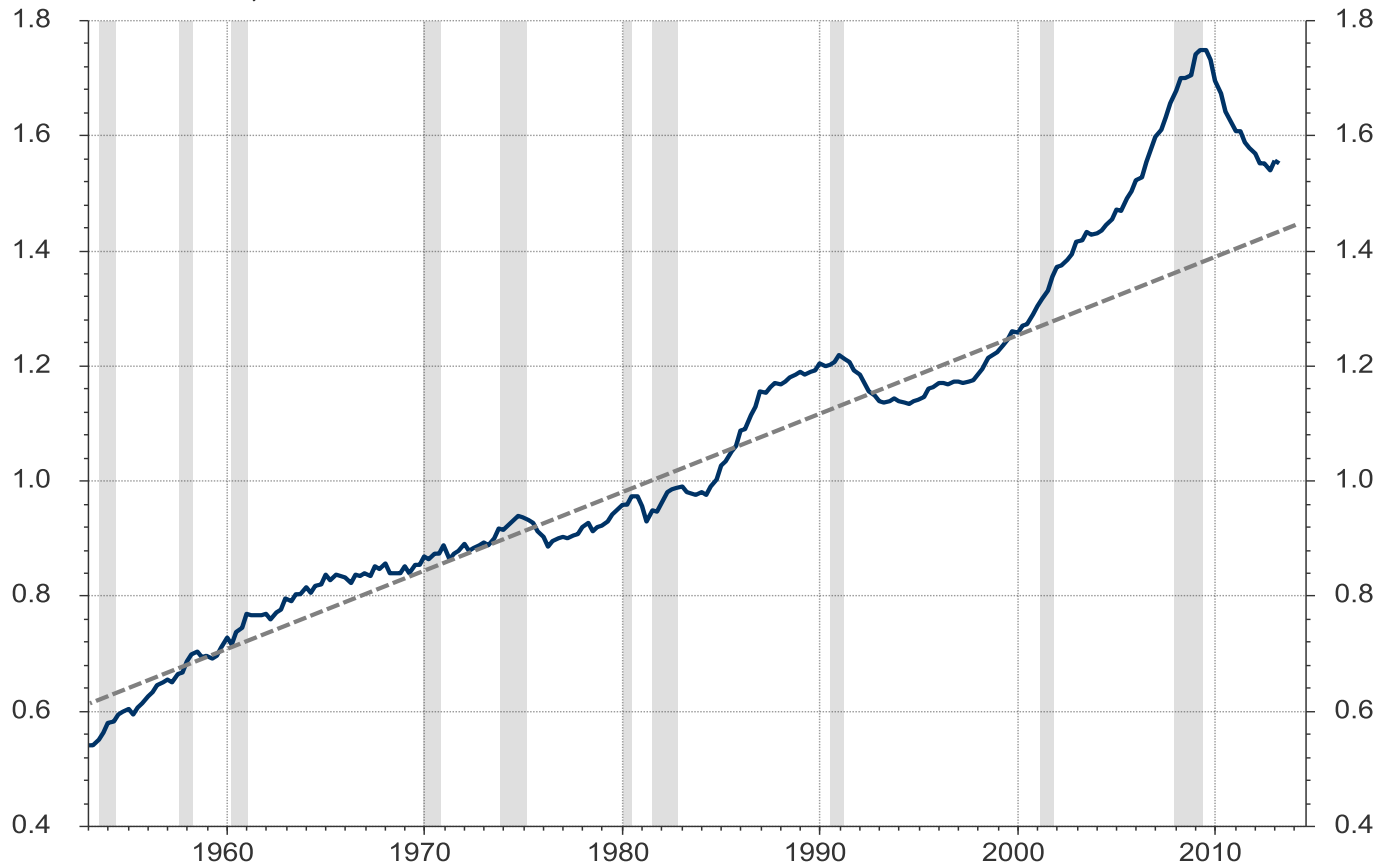
## PORTFOLIO REBALANCING

How can investors position to seek to take advantage of rebalancing in the global economy?

# growth rebalancing

DEBT-FUELED CONSUMPTION IS NOT A SUSTAINABLE GROWTH MODEL...

Credit to Nominal GDP, with trend line from 1950-2000

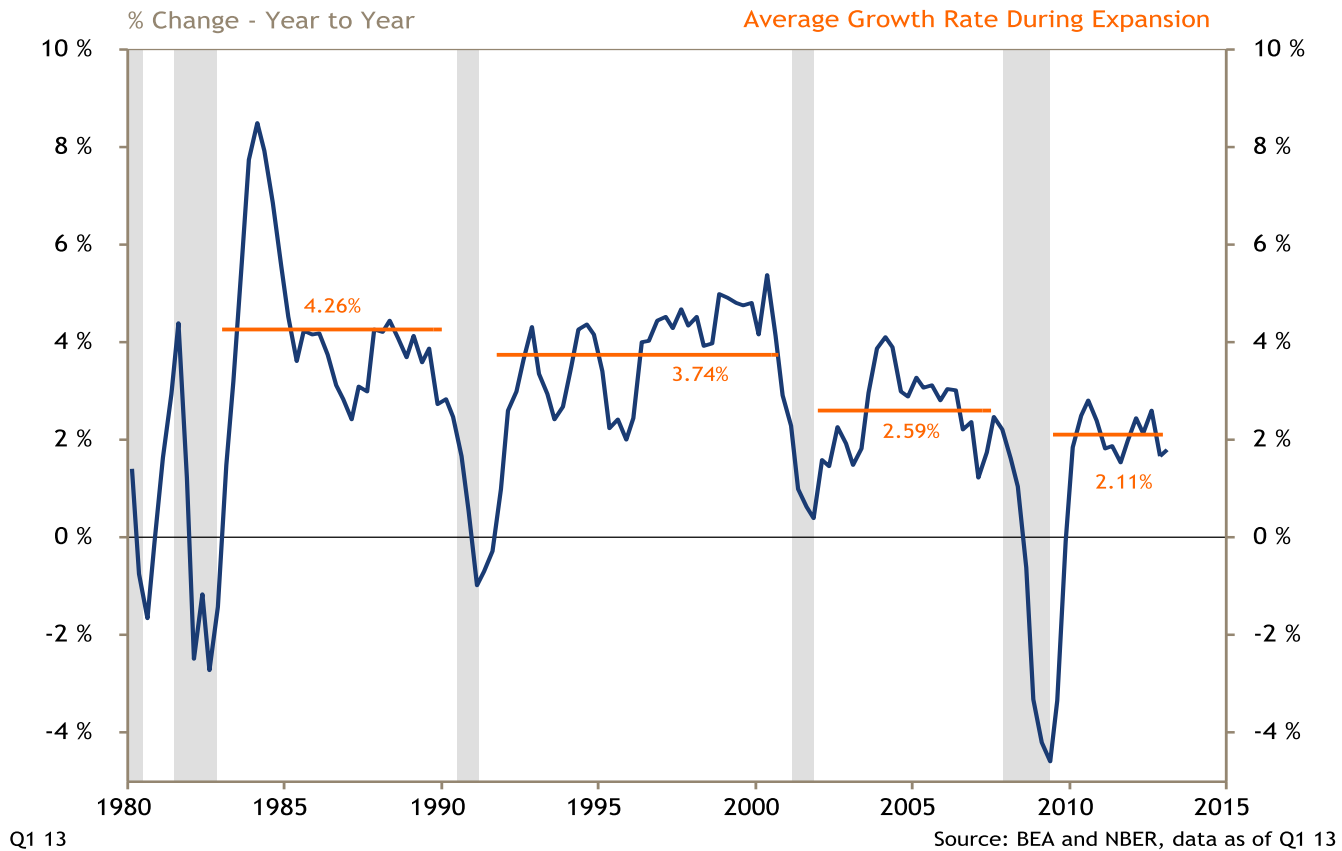


Source: Thomson Reuters Datastream, Federal Reserve, Q1 2013. Shaded for US recessions.

# growth rebalancing

...A ROOT CAUSE OF OUR SUB-PAR ECONOMIC GROWTH

## US Real Gross Domestic Product



Shaded for US recessions.

# growth rebalancing

## HOUSEHOLDS HAVE BEEN NET SAVERS SINCE 2008

### US Net Borrowing (-) or Net Saving (+)

Source: OECD Forecast for 2013, shown as a % of GDP

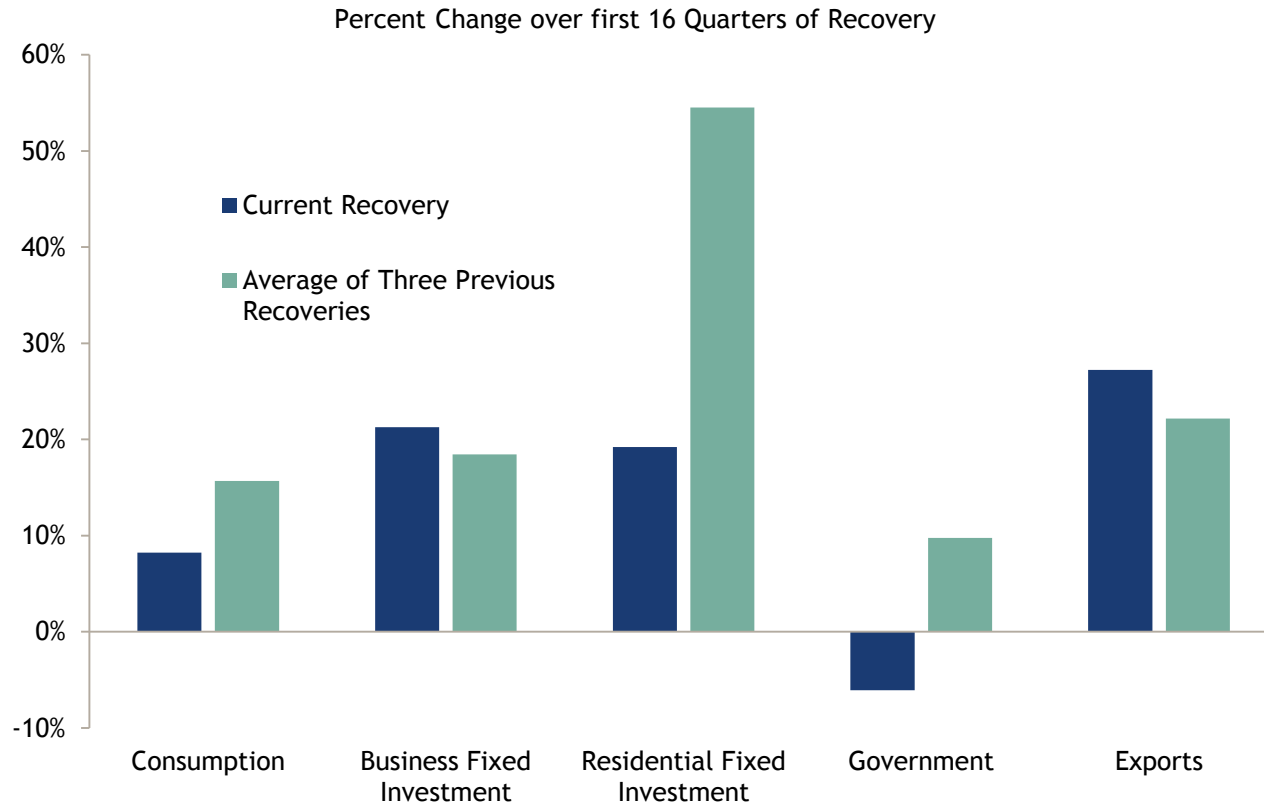


Source: Thomson Reuters Datastream, Data as of 8/5/2013

# growth rebalancing

## FACTORS CONTRIBUTING TO THE WEAK EXPANSION

### Growth in Real GDP Components: Current and Three Previous Recoveries



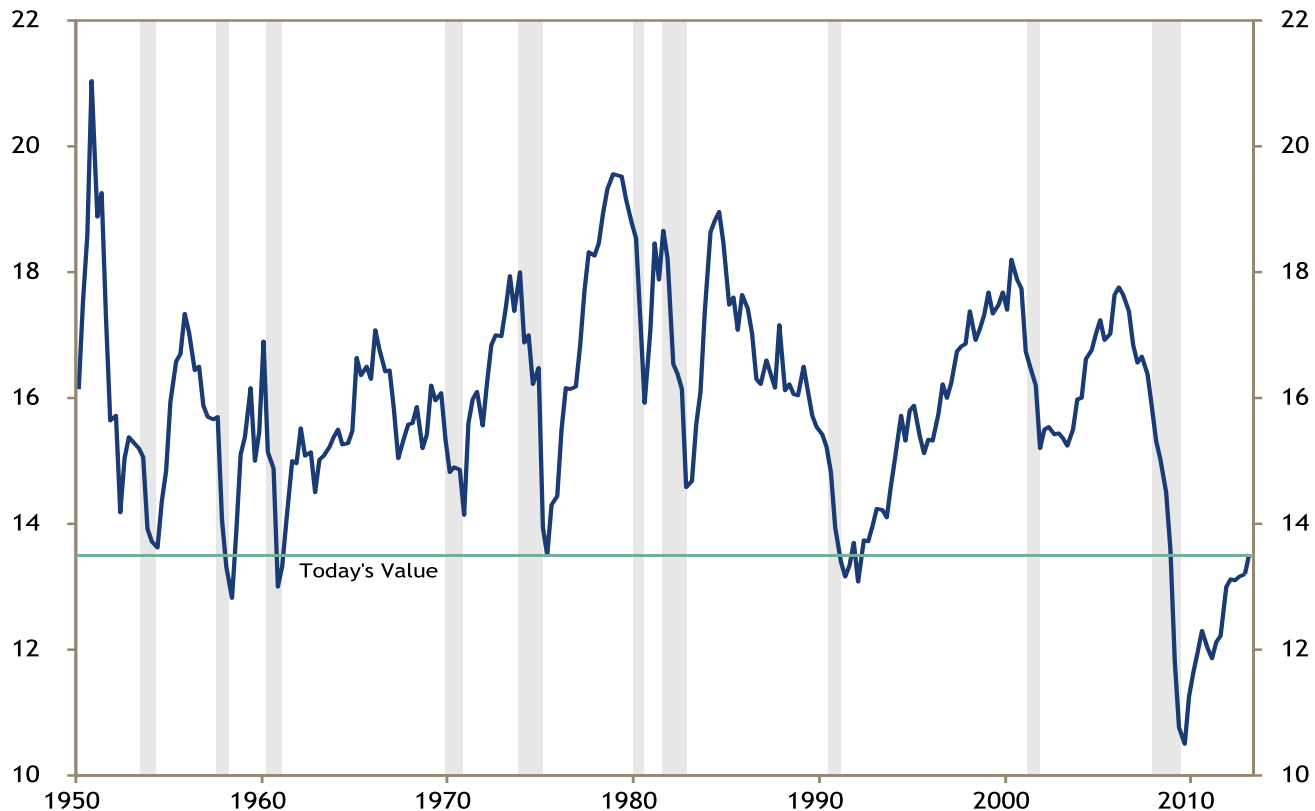
Source: Haver, Bureau of Economic Analysis. Current Recovery - Q2'09; Previous Recoveries - Q3'82, Q1'91, Q3'01

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# growth rebalancing

## INVESTMENT HAS SIGNIFICANT POTENTIAL TO DRIVE GROWTH

### US Gross Private Domestic Investment as a % of GDP



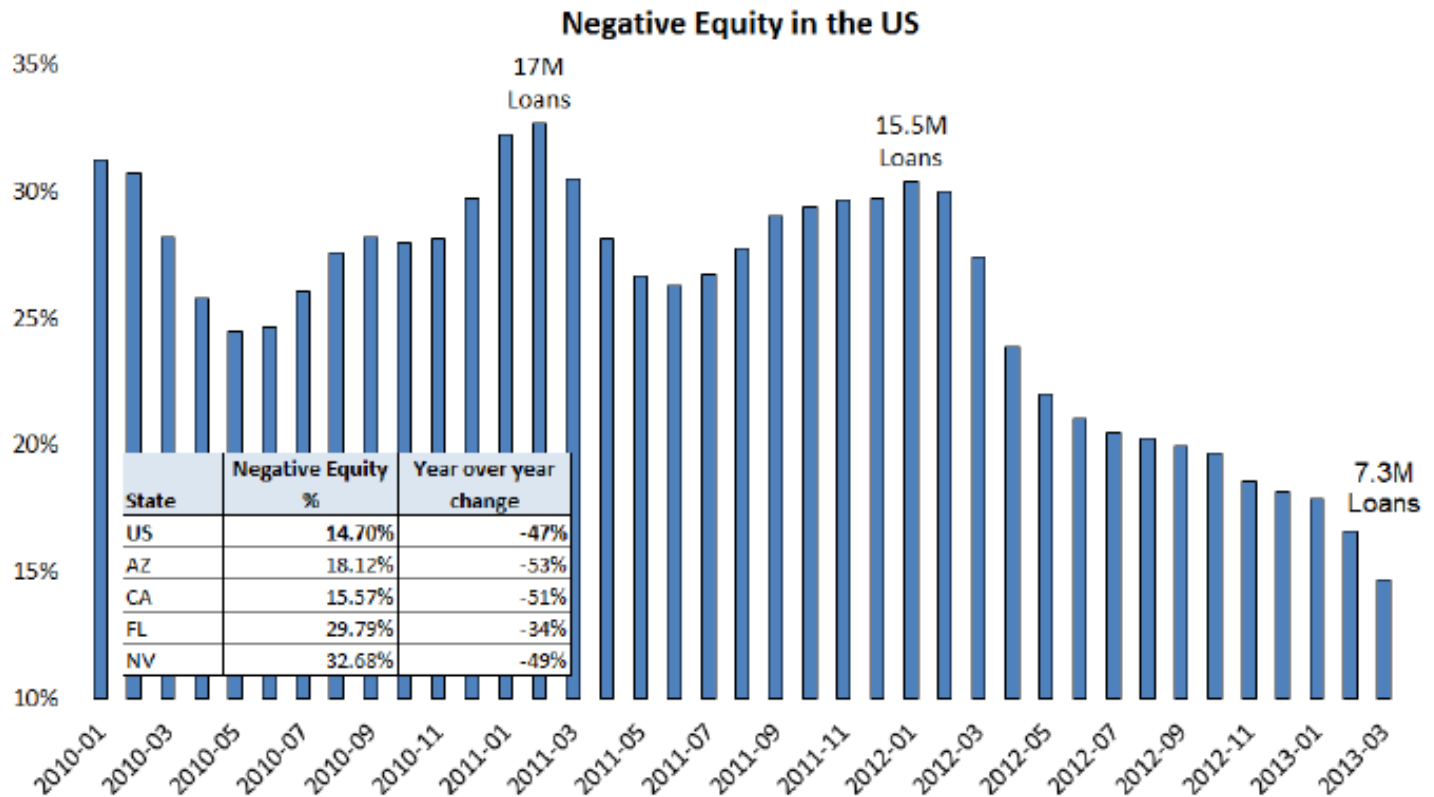
Source: Thomson Reuters Datastream, Data as of Q1 13

*Shaded for US recessions.*

# growth rebalancing

## CONSUMPTION SPENDING MAY COME BACK AS HOUSEHOLD NET WORTH RECOVERS

Negative equity percentage has dropped below 15% nationally



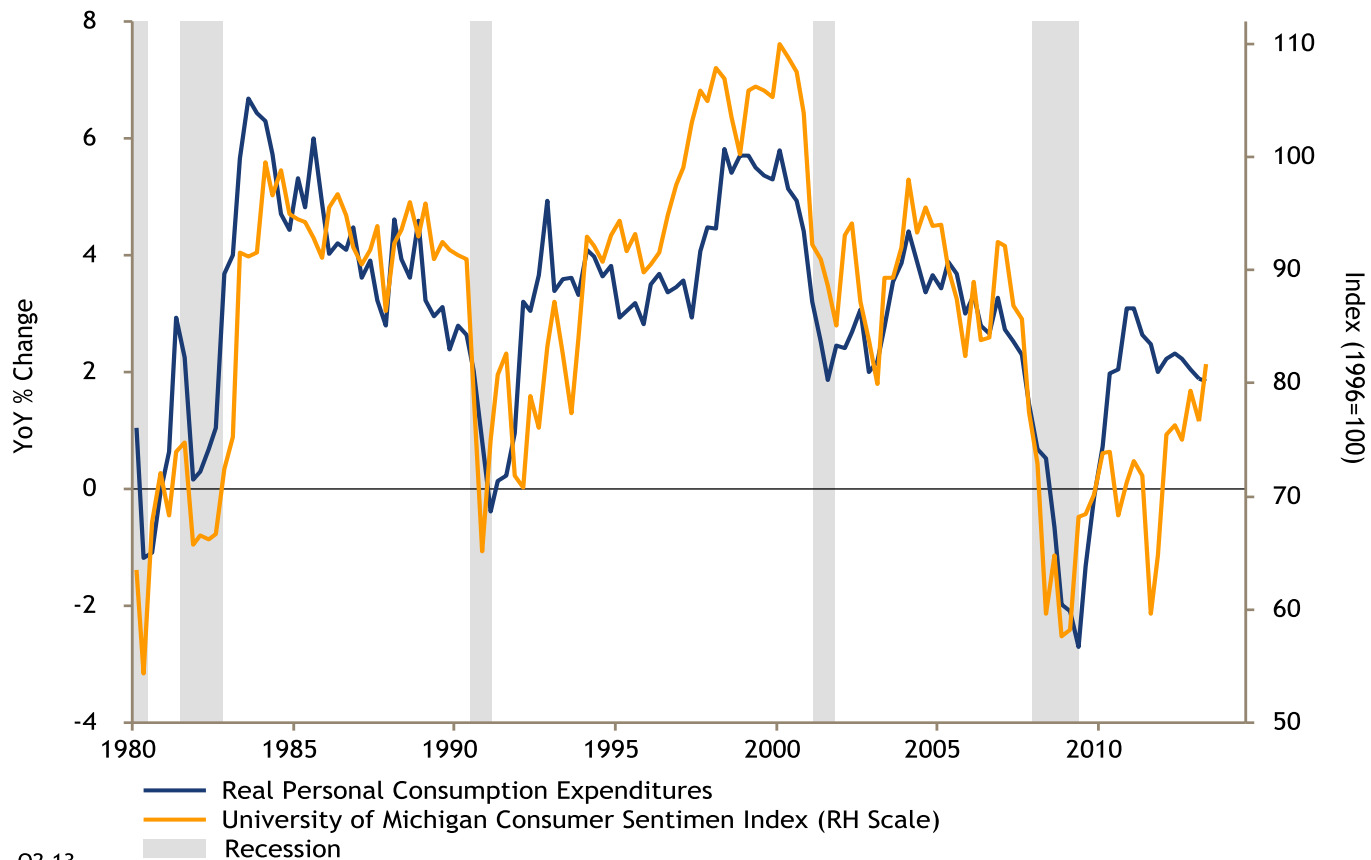
Source: Lender Processing Services, as of May 31, 2013.



# growth rebalancing

## THE CONSUMER IS A KEY SECTOR OF THE US ECONOMY

### US Real Consumer Spending & Sentiment



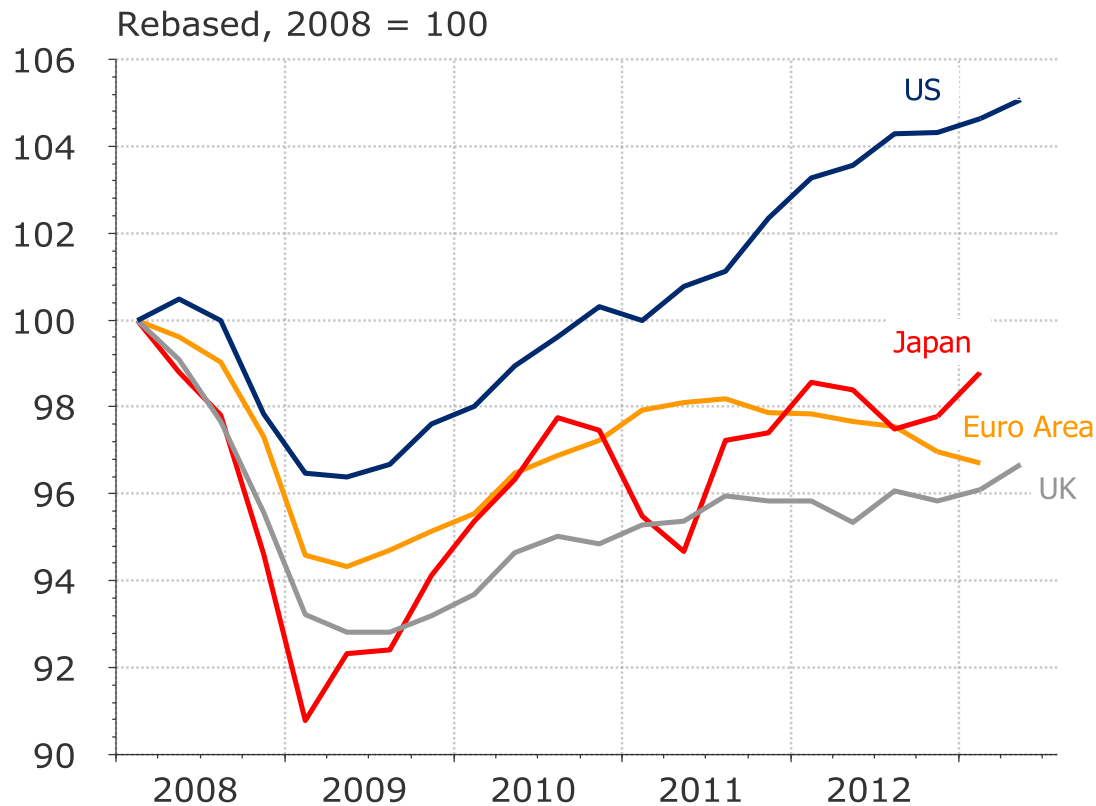
Q2 13

Source: Thomson Reuters Datastream, Data as of Q2 13

# growth rebalancing

THE US ECONOMY HAS EMERGED MUCH QUICKER THAN ITS LARGER DEVELOPED PEERS

## GDP Levels

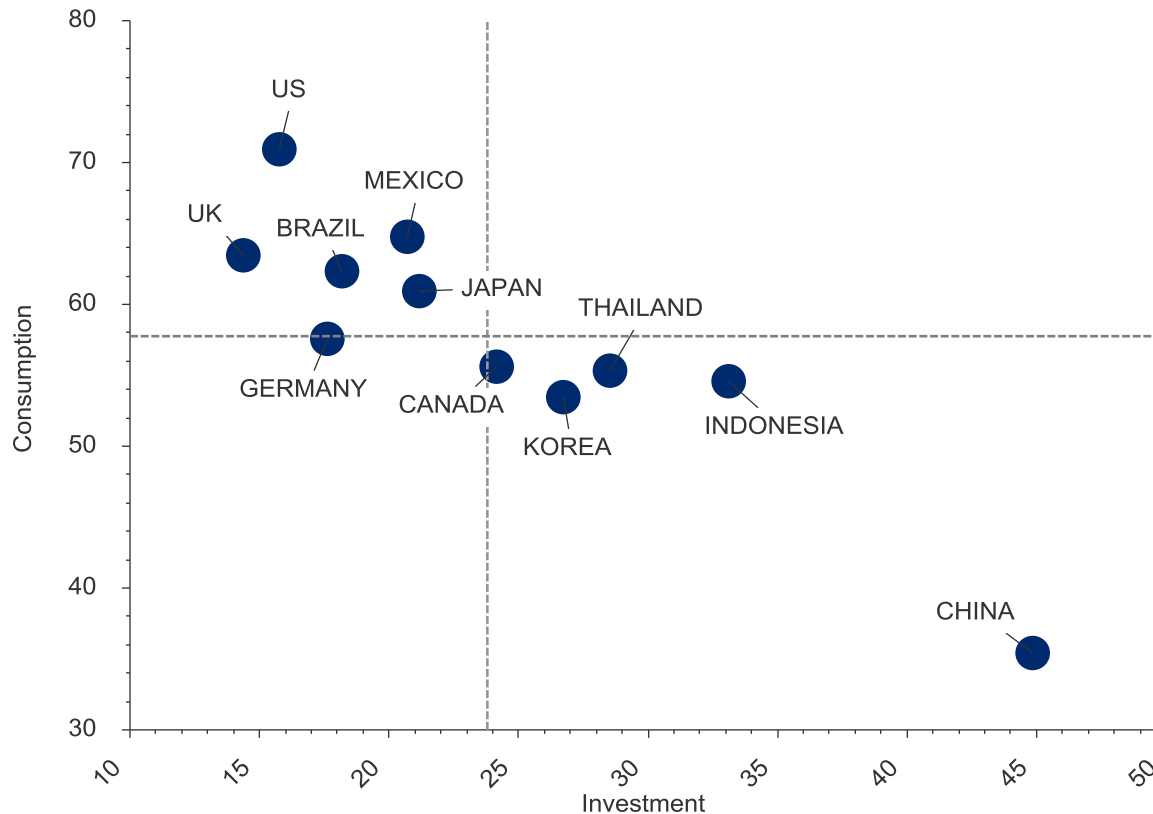


Source: Thomson Reuters Datastream, Federal Reserve, Eurostat, Cabinet Office of Japan, UK ONS, BEA, Q1 2013.

# growth rebalancing

## CHINA'S NEW GROWTH MODEL: LESS INVESTMENT, MORE CONSUMPTION

### Consumption & Investment Balance, % of GDP

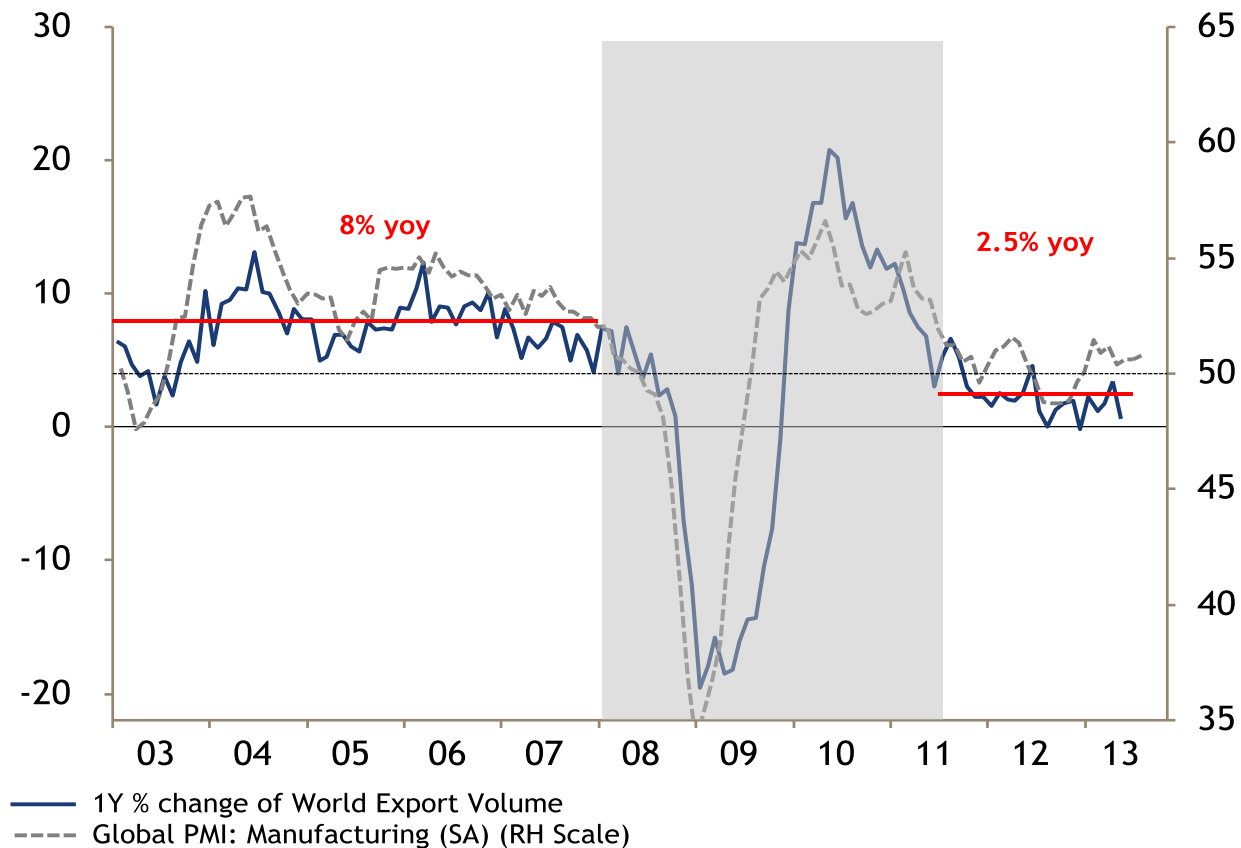


Source: Oxford Economics, data as of Q4 2012.

# trade rebalancing

CHINA HAS BEEN A BOON FOR GLOBAL TRADE, BUT THAT MAY BE COMING TO AN END

Global Trade & Manufacturing PMI

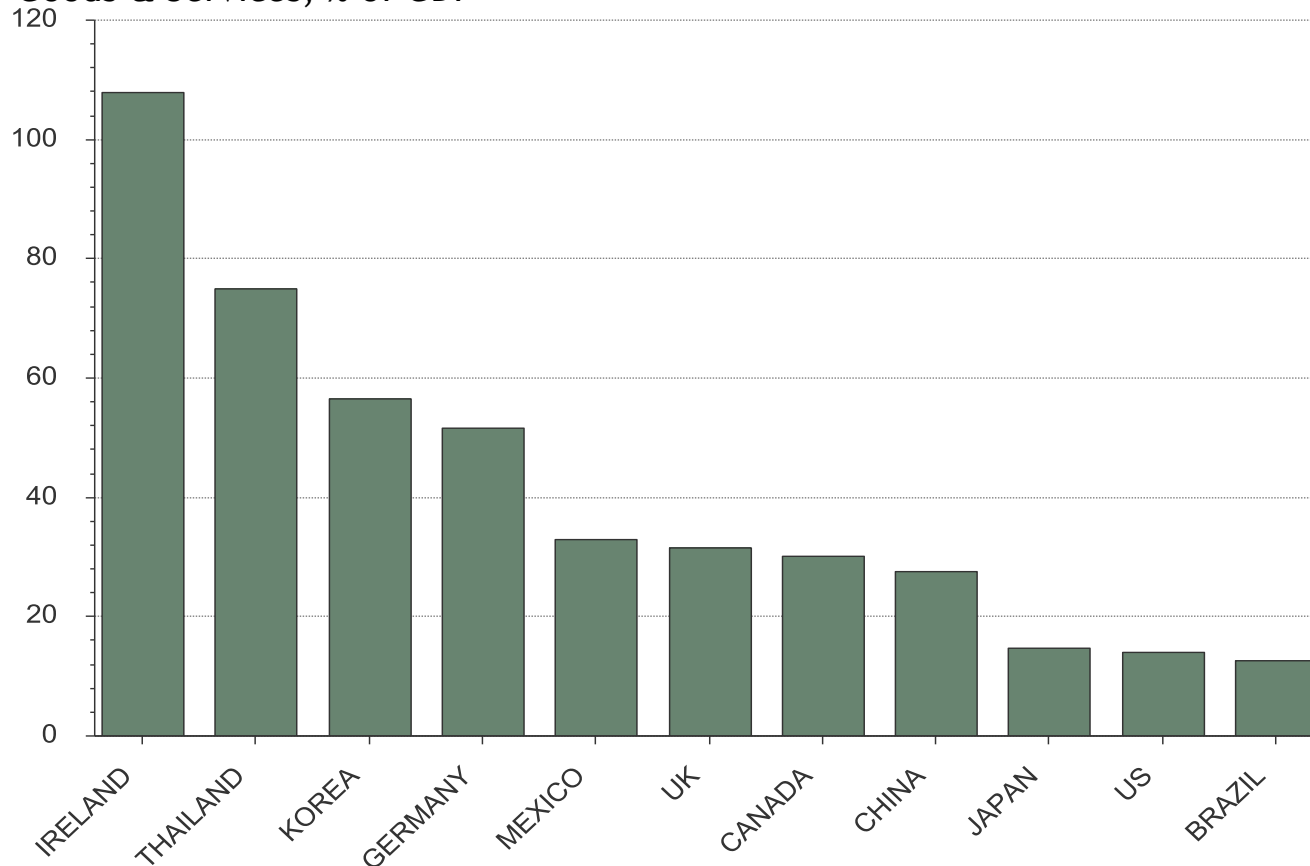


Source: Netherlands Bureau for Economic Policy Analysis (CPB), JP Morgan, July 31, 2013.

# trade rebalancing

## COUNTRIES THAT RELY HEAVILY ON TRADE CAN BE VULNERABLE

Exports of Goods & Services, % of GDP

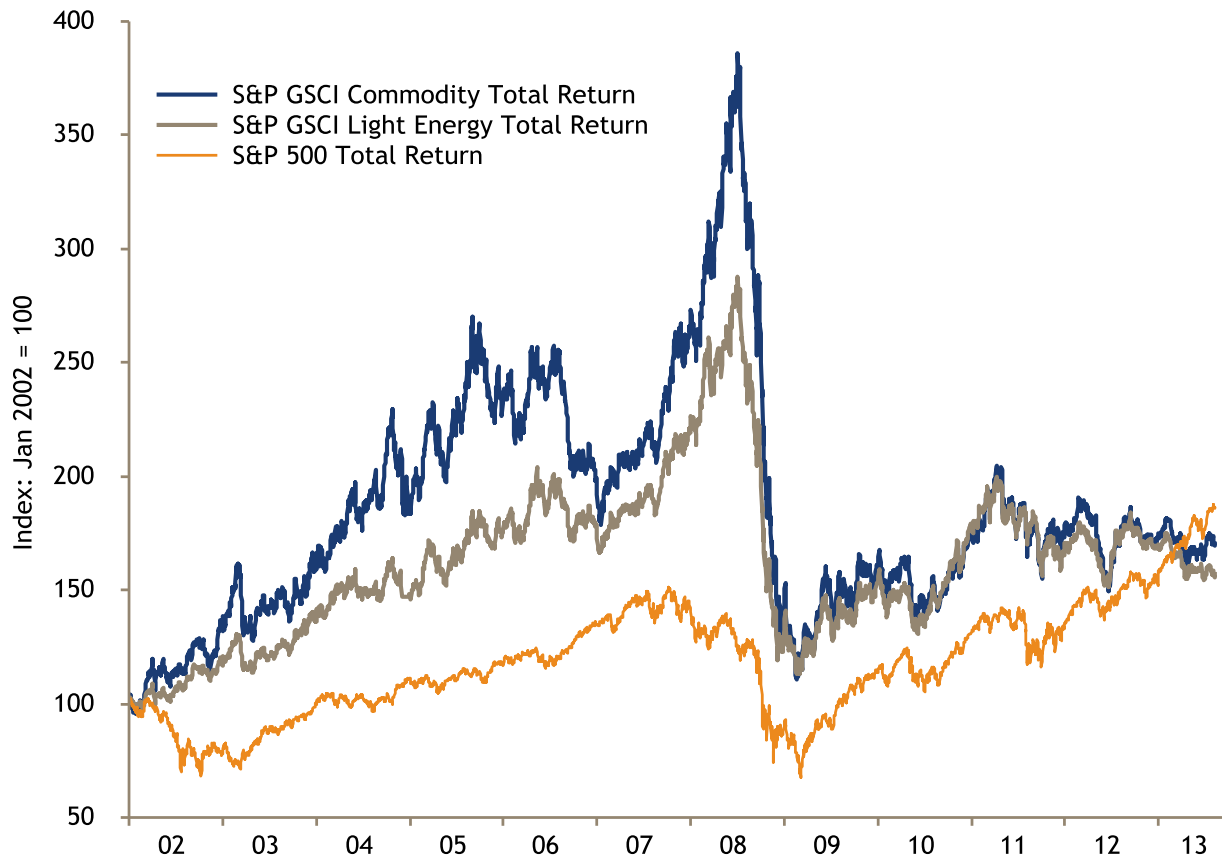


Source: Oxford Economics, data as of Q4 2012.

# trade rebalancing

## CHINA'S NEW GROWTH MODEL HAS SERIOUS IMPLICATIONS FOR COMMODITIES

Commodities vs. Equities, rebased to 100 from 2002

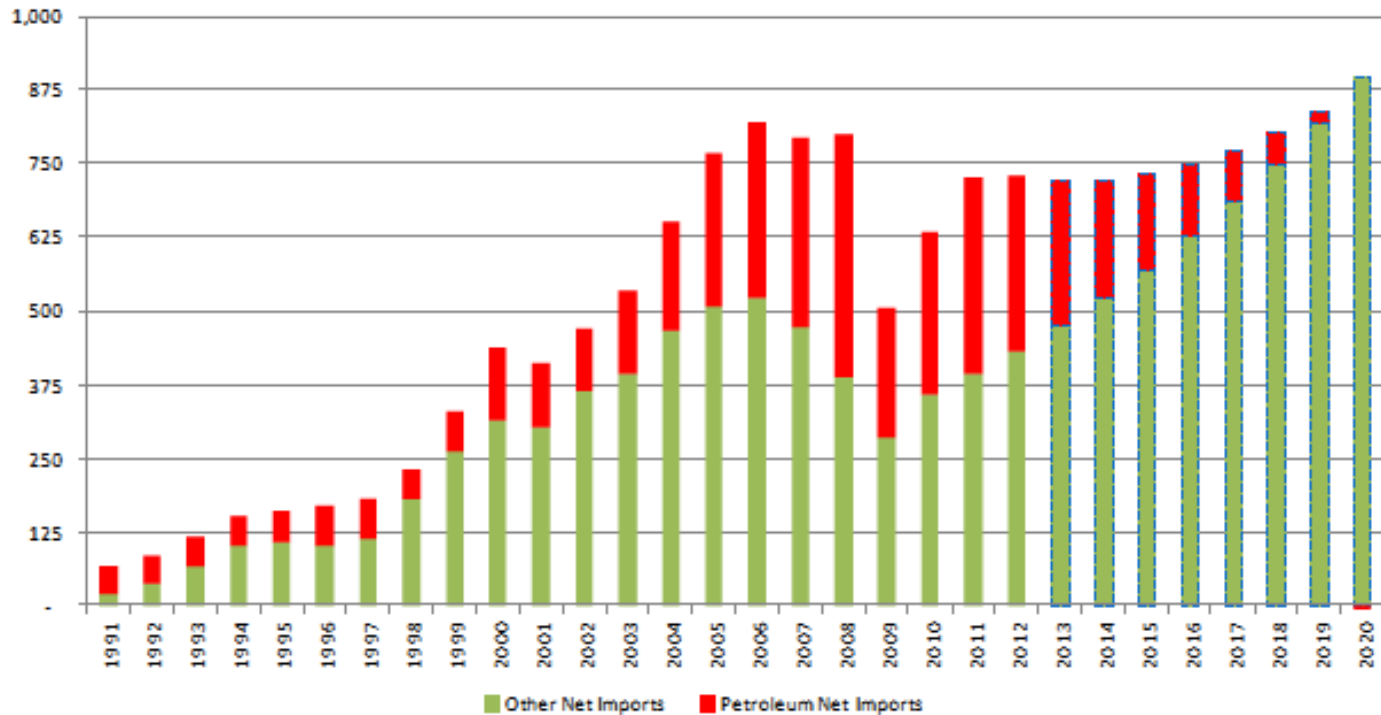


Source: Thomson Reuters Datastream, Data as of 8/9/2013

# trade rebalancing

THE SHALE OIL BOOM: US TERMS OF TRADE COULD IMPROVE DRAMATICALLY IN THE COMING YEARS

Net Imports ( billions)

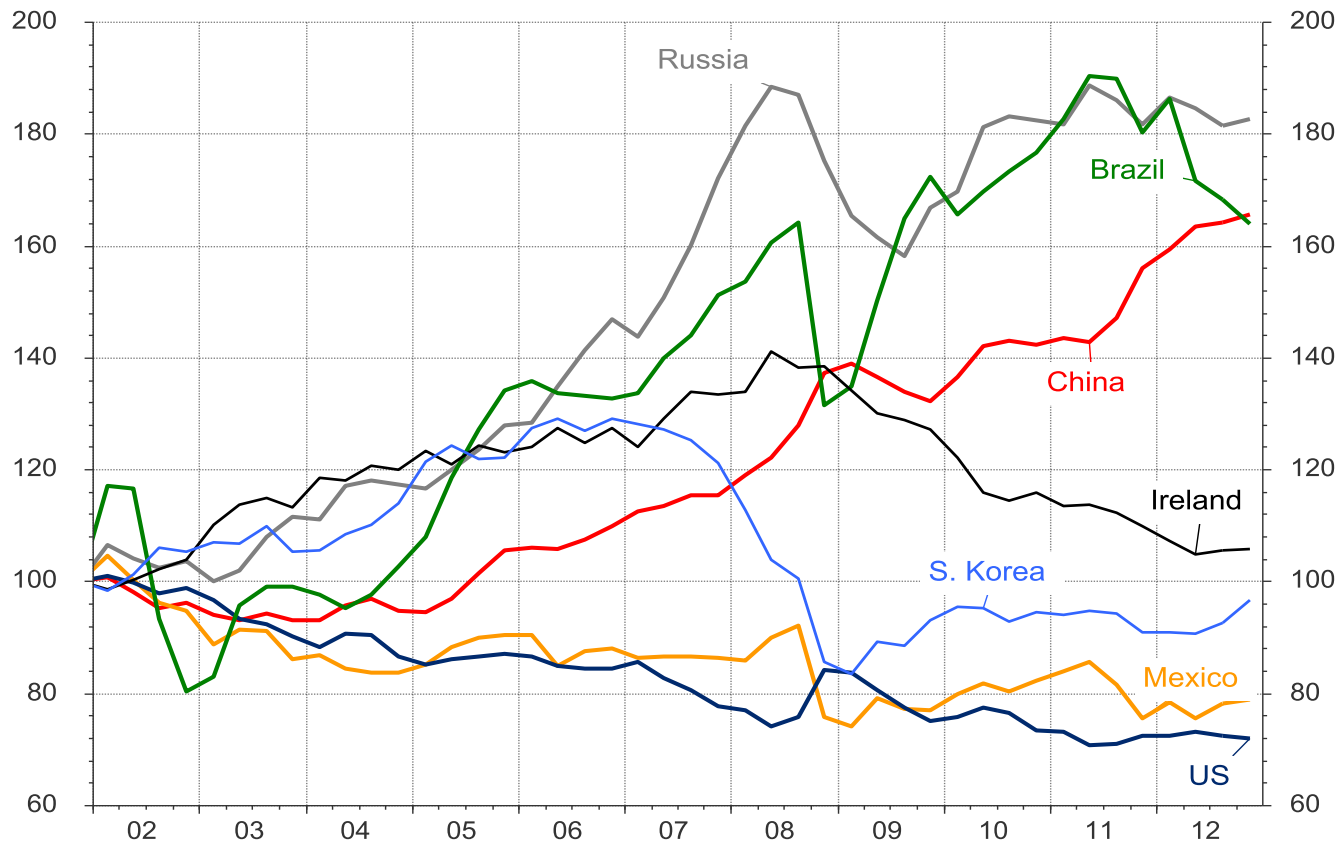


Source: US Census Bureau, Loomis Sayles Forecast 2013-2020.

# trade rebalancing

## KEEPING COSTS UNDER CONTROL

### Global Competitiveness: Relative Unit Labor Costs



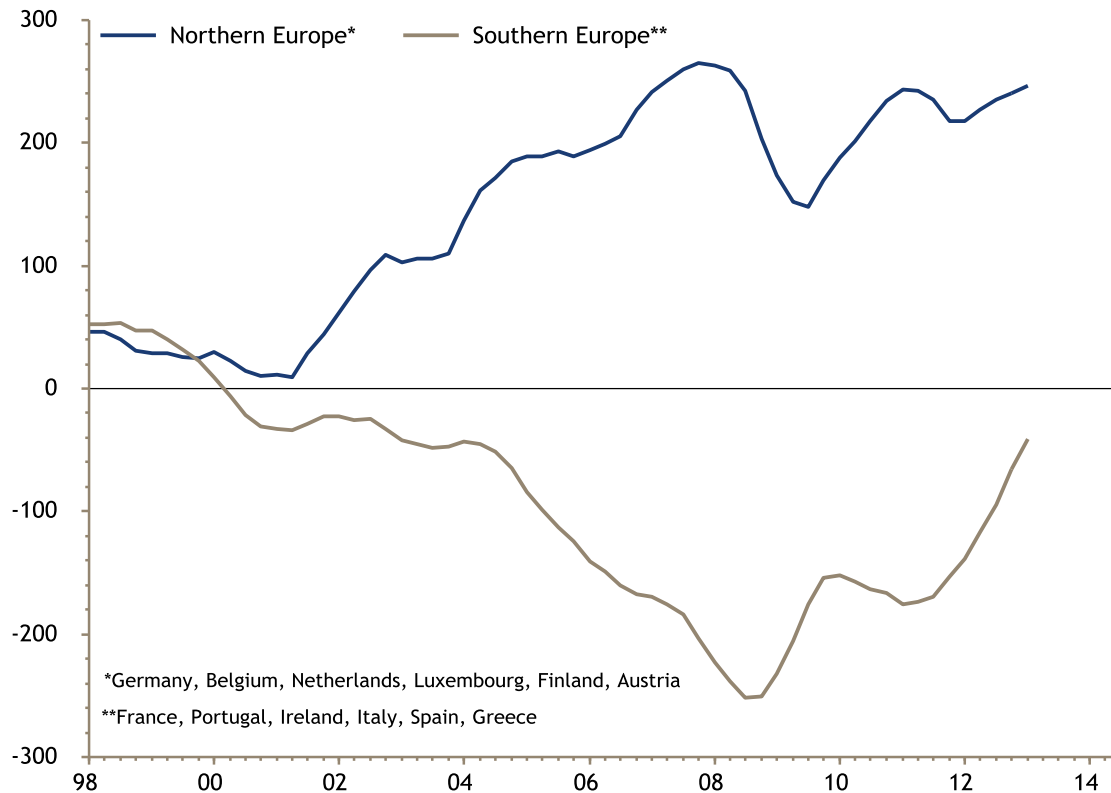
Source: Thomson Reuters Datastream, Organisation for Economic Co-operation and Development, Q1 2013.



# trade rebalancing

COST ADJUSTMENTS IN THE EUROZONE HAVE COME A LONG WAY, BUT THERE IS MORE TO BE DONE

Euro Area Divergence: The Foreign Savings Balance, Current Account Balances, € Billions

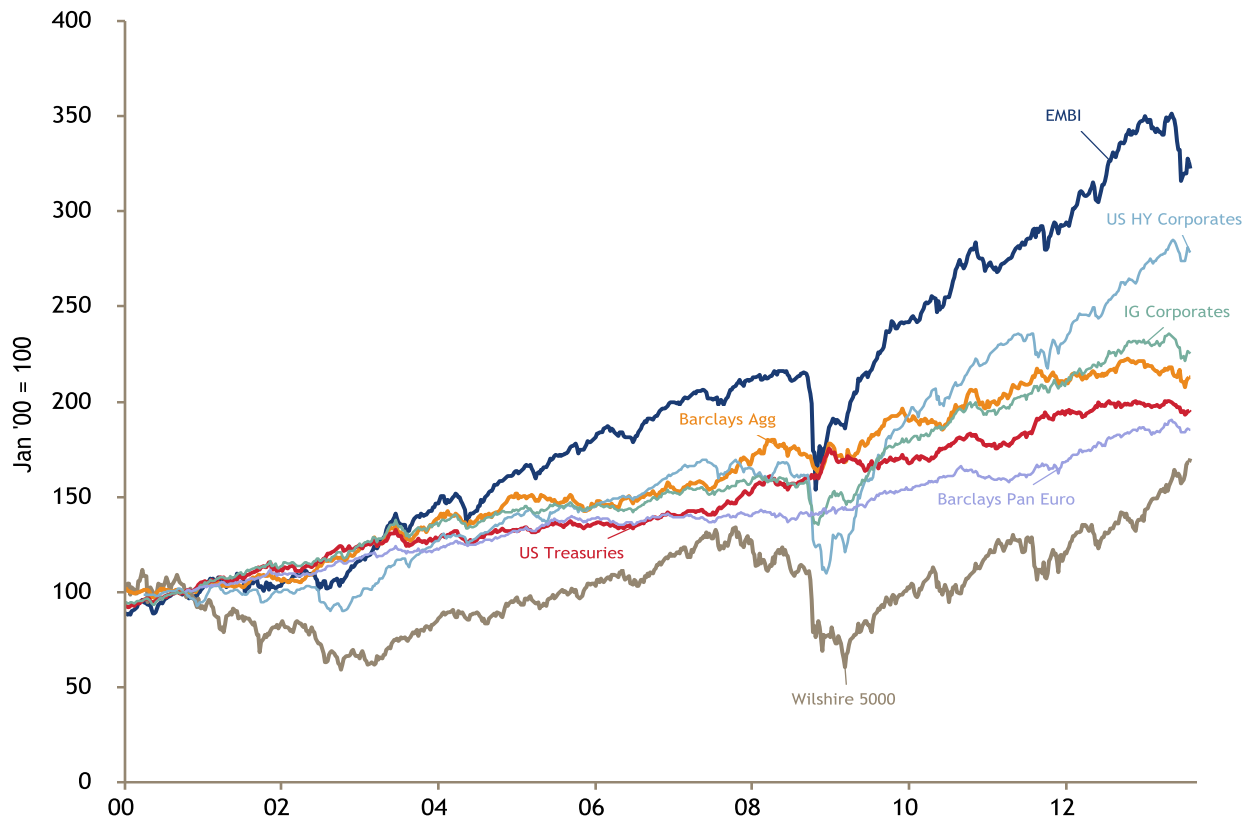


Source: Thomson Reuters Datastream, Data as of Q2 13

# portfolio rebalancing

## WHERE IN THE WORLD WILL ALPHA COME FROM?

### Cumulative Return by Asset Class, Since 2000



Source: Thomson Reuters Datastream, data as of 8/2/2013

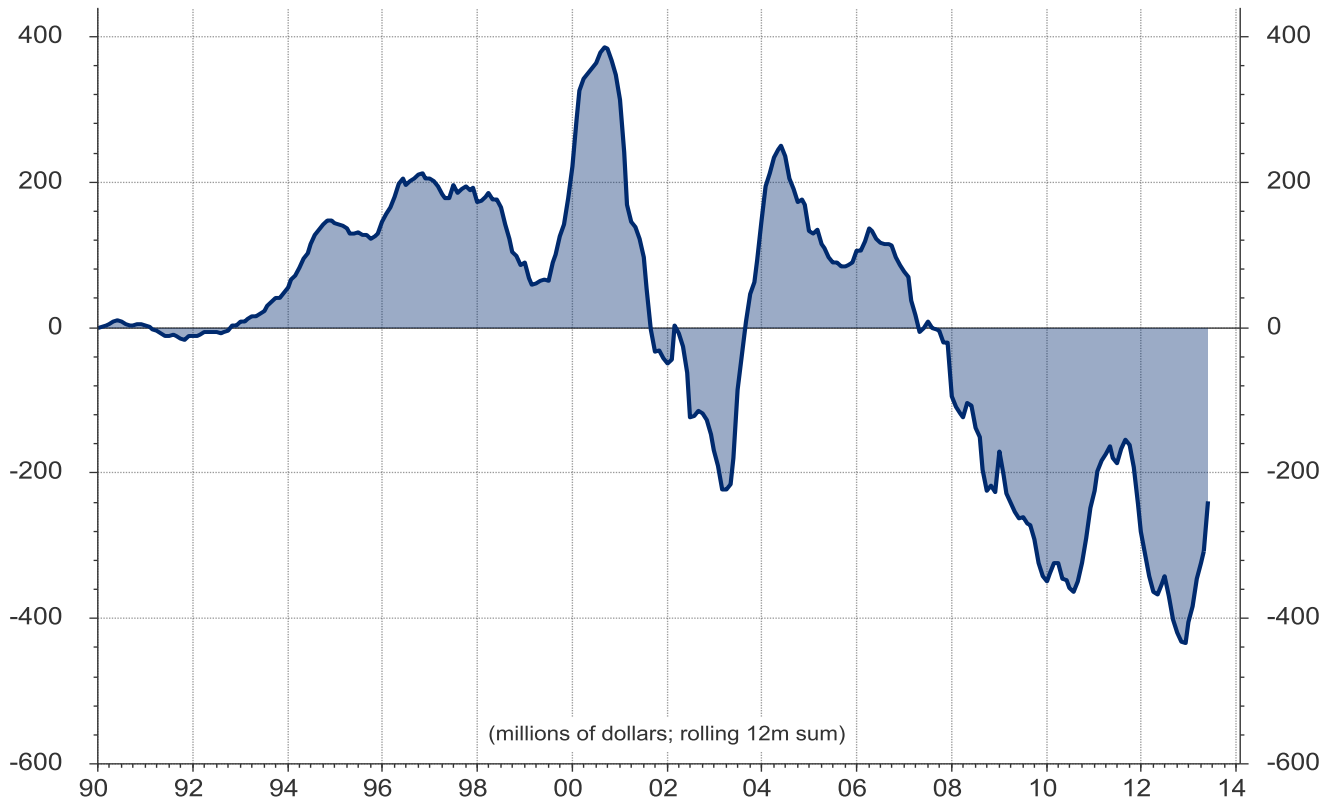
***Past performance is no guarantee of future results.***

*Indexes are unmanaged and do not incur fees. It is not possible to directly invest in an index.*

# portfolio rebalancing

FLows INTO BONDS HAVE CONSISTENTLY BEEN HIGHER THAN EQUITIES...IS A REVERSAL IN ORDER?

US Mutual Fund Flows, Bonds and Equities

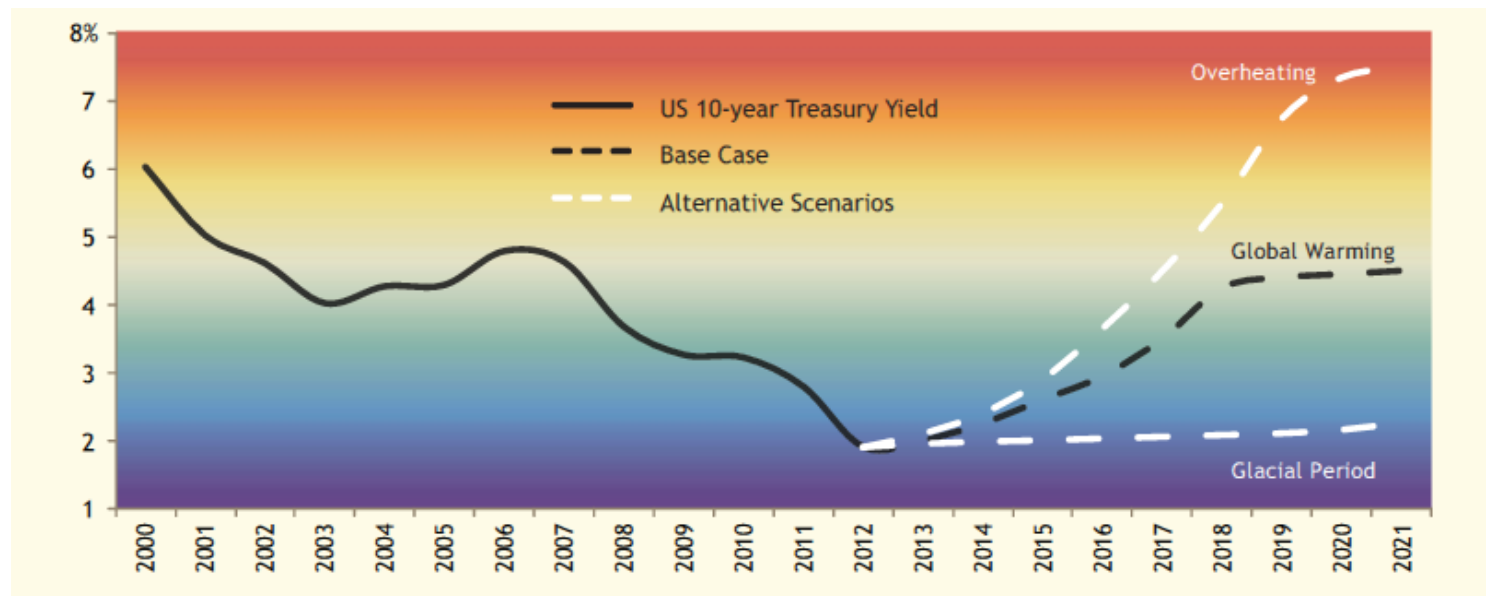


Source: Investment Company Institute (ICI), June 30, 2013.

# conclusion

## OUTLOOK FOR TREASURY YIELDS: GRADUAL NORMALIZATION OUR POSSIBLE SCENARIOS:

1. Glacial Period: US 10-year Treasury 1-3%
2. Global Warming (our base case): US 10-year Treasury 3-5%
3. Overheating: US 10-year Treasury 6%+



Source: Loomis Sayles estimates as of August 2013. The chart above is illustrative for presentation purposes only. Scenarios have inherent limitations and should not be viewed as predictions of future events. The scenarios shown do not represent the actual or expected future performance of any Loomis Sayles product.

**Past market performance is no guarantee of future results.**

# conclusion

Growth must come from more sustainable means

In the US, housing and energy sectors will likely be key drivers

Europe appears to be slowly adjusting, but there is still more pain and political challenges to come

China's new growth model has implications for commodity prices and trade worldwide

Emerging market countries are vulnerable to both a slowing China and flagging commodity prices

Some nations are better prepared to navigate a re-balancing globe than others

Country selection may be increasingly important when rebalancing portfolios

Yields will likely normalize gradually as economies rebalance and growth improves

*Source: Loomis Sayles opinion, as of August 12, 2013.*

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