

# Gluskin Sheff + Associates Inc.

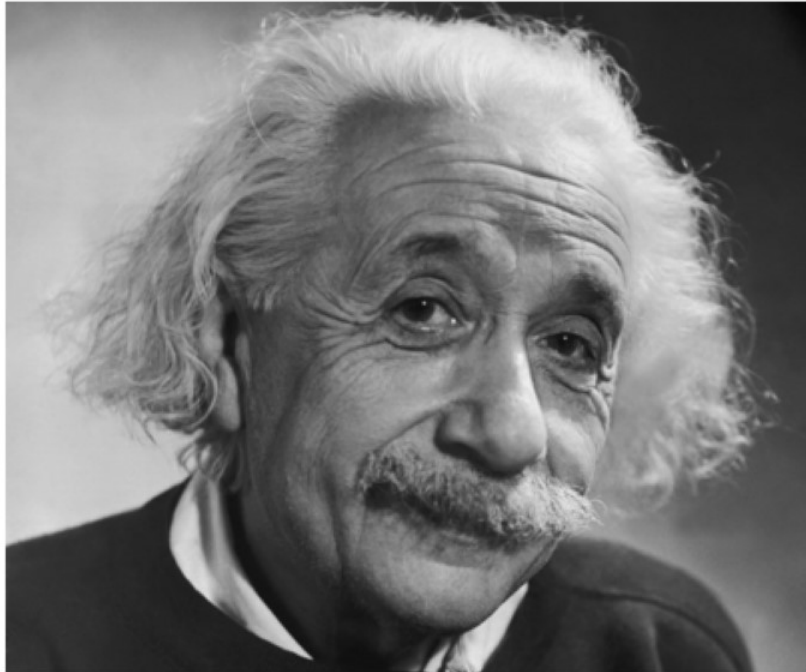
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**What Went Wrong?  
David A. Rosenberg**

**May 2016**

## GREATEST ECONOMIST EVER?

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*“Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it”*

**-Albert Einstein**

**D'OH!**

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**Consensus said...**

**... exactly a year ago that:**

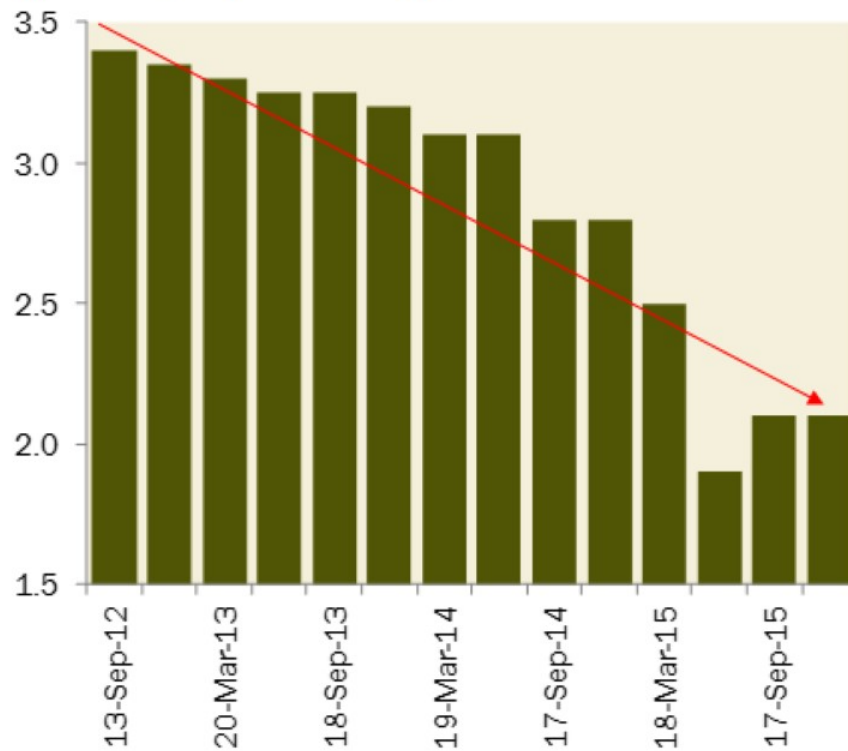
- **The fed funds rate would be 1.25%**
- **The 10-year T-note yield would be 3.0%**
- **WTI would be US\$75 per barrel**
- **The S&P 500 would be at 2,233**
- **Canadian dollar would trade at C\$1.16 or 86.2 cents U.S.**

# PERPETUALLY OPTIMISTIC – BUT A DOSE OF REALITY SETS IN

## FOMC Real GDP Forecast

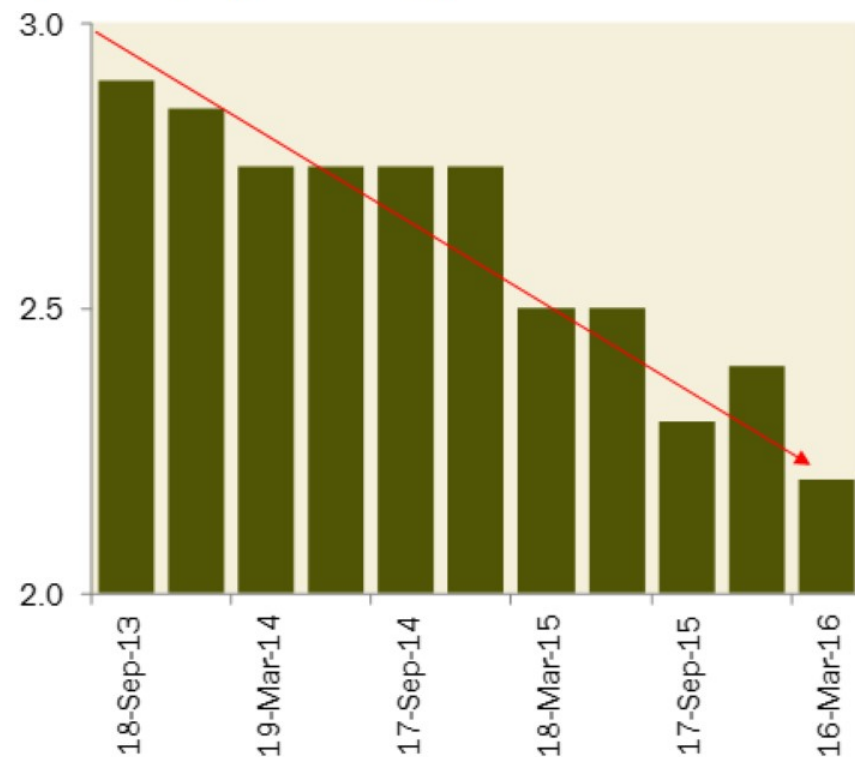
### Q4 2015

(year-over-year percent change)



### Q4 2016

(year-over-year percent change)



**Notes:**

Source: Federal Reserve Board, Gluskin Sheff

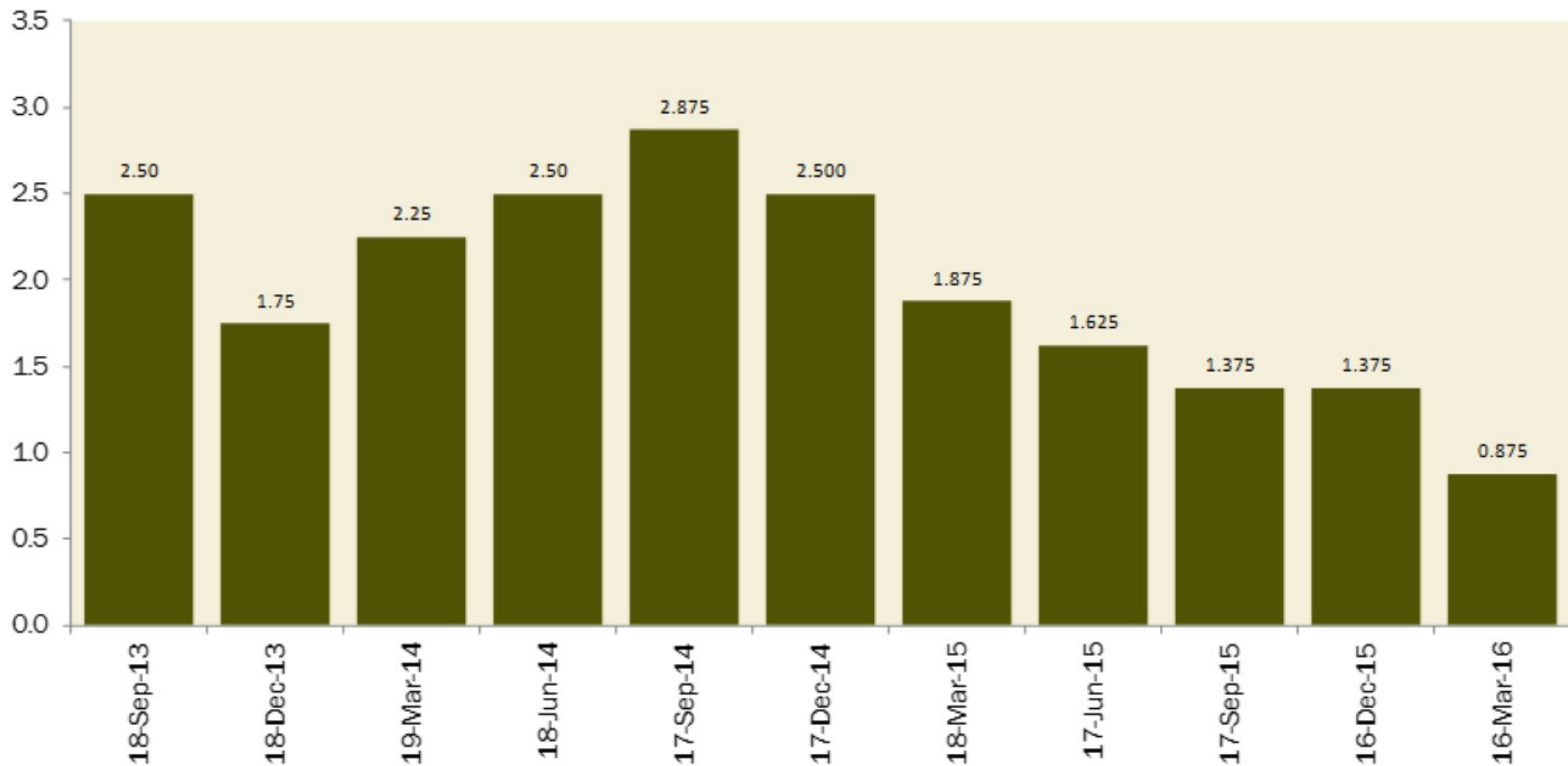
FOMC real GDP forecast uses central tendency of Federal Reserve Board members



## MOVING THE GOALPOSTS ON THE 'DOTS'

### Year-End 2016 Fed Funds Rate Forecast

(median FOMC forecast from 'dot plot', percent)



**Notes:**

Source: Federal Reserve Board, Gluskin Sheff

## THE OUTLOOK, UNCERTAINTY, AND MONETARY POLICY

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**Notes:**

*Fed Chairperson Janet Yellen at the Economic Club of New York - March 29<sup>th</sup> 2016*

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## IS THIS AN APOLOGY FOR THE DECEMBER RATE HIKE?

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*"Given the risks to the outlook, I consider it appropriate for the Committee to proceed cautiously in adjusting policy"*

*"The current stance of monetary policy appears to be consistent with actual economic growth modestly outpacing potential growth and further improvements in the labor market."*

*"Looking forward however, we have to take into account the potential fallout from recent global economic and financial developments, which have been marked by bouts of turbulence since the turn of the year."*

*"It is still my judgment that inflation expectations are well anchored, but as I will shortly discuss, continued low readings for some indicators of expected inflation do concern me."*

**Notes:**

Fed Chairperson Janet Yellen at Economic Club of New York - March 29<sup>th</sup> 2016





## MCKINSEY ON FINANCE: PERSPECTIVE ON CORPORATE FINANCE & STRATEGY

McKinsey&Company

### McKinsey on Finance

Number 35,  
Spring 2010  
  
Perspectives on  
Corporate Finance  
and Strategy

2  
Why value value?  
  
9  
Thinking longer  
term during a  
crisis: An interview  
with Hewlett  
Packard's CFO

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Equity analysts:  
Still too bullish  
  
18  
Board directors and  
experience: A  
lesson from private  
equity

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A better way to  
measure bank risk  
  
24  
A new look at carbon  
offsets

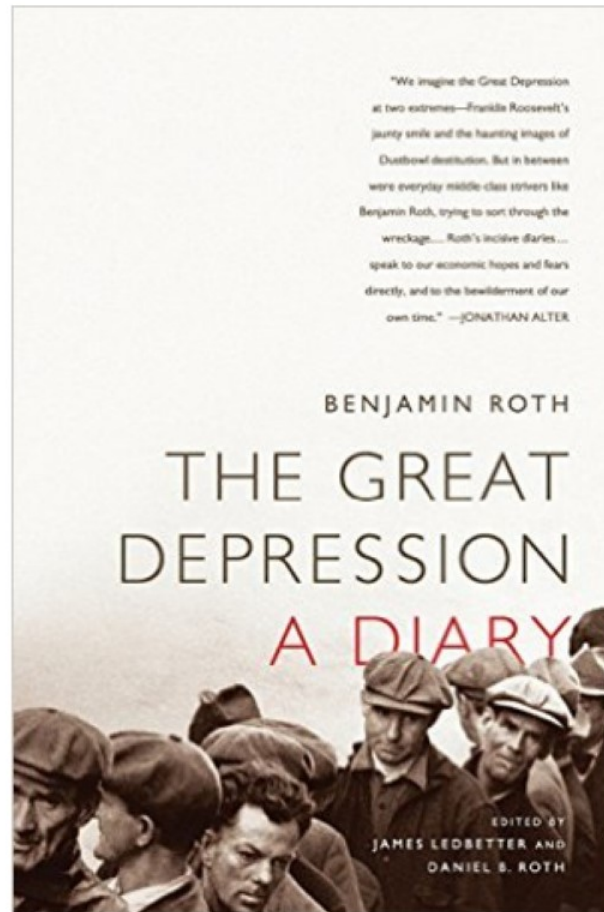


#### Findings from McKinsey & Company:

*“While we cannot say for certain whether these sectors will deleverage, we do know that nearly every significant financial crisis in the post-World War II period was followed by a lengthy and painful period of deleveraging. **These episodes lasted on average six to seven years, with total debt as a percentage of GDP declining by roughly 25 percent. GDP contracted in the initial years of deleveraging but rebounded in the later years.** If history is a guide, therefore, we would expect a significant period of deleveraging to come, which will dampen GDP growth.”*

## THIS SHOULD BE ON EVERYONE'S DESK

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**Notes:**

*The Great Depression: A Diary: Benjamin Roth*



# THE WALL STREET JOURNAL.

*World-Wide*

◆ Trump sought to clarify his stances on tax policy and the national debt, moving to tamp down concerns that he might push to renegotiate U.S. debt in a downturn. **A1**

Clinton is expected to lose West Virginia primary if she could end May with a re-election losing streak. **A6**

North Carolina and the administration filed lawsuits over the law on bathroom use for transgender people. **A1**

Obama's chancellor quit, ending the political sweeping Europe migration crisis. **A8**

The finance chiefs are seeking debt relief.

## RECESSION'S FALLOUT: ENDURING WAGE SCARS

Effects of job loss linger, including lower pay and home-ownership rates

BY BEN LEUBSDORF

Gary Reece was earning six figures when he lost his tech-industry job in 2000. He was making about half his old salary when he was laid off again in 2008. Now 61 years old, unemployed and looking to improve his odds in the job market, he left his family in San Jose, Calif., for a few months this year to live in a college dormitory and finish a long-abandoned bachelor's degree.

He is looking for more than a paycheck. "Everywhere you go, when you meet people it's, 'What do you do?'" Mr. Reece said. "You don't

### Paycheck Pain

U.S. workers who are laid off earn less even decades later.

Year 0 is the last calendar year of earnings from original employer.

← Years before displacement      Years after displacement

Note: Data from 1980 to 2005 for men 50 and younger when they were displaced and held at least three years.  
Source: Steven J. Davis and Till von Wachter

THE WALL STREET JOURNAL

Please see WAGES page A12

**Notes:**

Wall Street Journal - May 10<sup>th</sup> 2016

# Household income tumbles in majority of US cities this century

◆ More than 80% suffer fall ◆ Decline fuels election discontent ◆ Industrial areas hard hit

SAM FLEMING AND SHAWN DONNAN  
WASHINGTON

More than four-fifths of US urban areas have seen declines in household income since the turn of the century, according to research that exposes the middle class decline at the heart of this year's presidential election campaign.

The research on urban centres boasting three-quarters of the US population shows that median household incomes, adjusted for the cost of living in the area, grew in only 39 out of 229 metro areas between 1999 and 2014.

The figures prepared by the non-partisan Pew Research Center in consultation with the Financial Times highlight the drivers of economic discontent that have fuelled the rise of Donald Trump, the likely Republican presiden-

tial nominee, and Bernie Sanders, the Democratic challenger to frontrunner Hillary Clinton. Both men have tapped into deep-seated concerns among middle class voters on both the right and the left in the campaign ahead of November's White House election.

Pew's research illuminates a major source of that anxiety but also raises questions about some of America's most celebrated economic success stories.

It reveals a steady erosion of the middle class across the US map, with 203 out of the 229 metro areas experiencing a decline in the share of their populations that are middle income. At the same time, 172 metro areas saw increases in the share of their population that is upper income, and 160 saw a rising lower-income share.

"We find the shrinking of the American middle class was a pervasive local phenomenon from 2000 to 2014," said Rakesh Kochhar at Pew. "In that sense American communities share common ground – they are reflecting the national trend."

Middle-income Americans are defined by Pew as adults who earn two-thirds to double the national median, adjusted for household size.

The drivers of the middle class squeeze vary, but some of the steepest income declines were seen in cities hit by industrial job losses in recent decades. Springfield, Ohio, saw incomes fall by 27 per cent over the period, and the Detroit-Warren-Dearborn area of Michigan recorded an 18 per cent drop in incomes. Nationwide the number of

27%

Drop in incomes in Springfield, Ohio, between 1999 and 2014

\$76,000

Median household income in Denver in 2014, from \$83,500 in 1999

manufacturing jobs shrank 29 per cent.

Oil towns in Texas and other states that experienced fracking booms saw some of the strongest growth in income – but those stories have suffered a major blow more recently with the commodity-price slide. Even in cities celebrated as new centres of the so-called knowledge economy such as Raleigh, North Carolina, and Austin, Texas, the Pew research found median incomes falling and a shrinking middle class.

The area around Denver, Colorado, has attracted more than 600,000 people since the turn of the century. But adjusted for inflation the median income for a household of three fell from almost \$83,500 in 1999 to just under \$76,000 in 2014.

Big Read page 7

## Notes:

Financial Times – May 12<sup>th</sup> 2016



## Recession-scarred Millennials fuel growing interest in tiny homes



Millennials, some of whom watched their parents struggle to pay mortgages or hold onto their homes and jobs — or lose them — during the Great Recession, often relish the chance to funnel money toward paying off student loans and to live debt free.

A small, but growing number of them are opting for a pared-down way of life residing in structures no bigger than roughly 400 square feet.

**Notes:**

U.S.A. Today - May 19<sup>th</sup> 2016



## The scary reason so many people are working beyond 65



Increasingly, American seniors are putting off the golden years of retirement. Nearly 20% of Americans over 65 are punching a clock, rather than hitting the links — the highest percentage since the 1960s. The reason for this trend is clear and worrisome: Too many Americans haven't saved enough money to retire comfortably.

The finding backs up survey results showing that more American workers are planning to continue working past the age we typically think of as "retirement age."

**Notes:**

U.S.A. Today - May 20<sup>th</sup> 2016

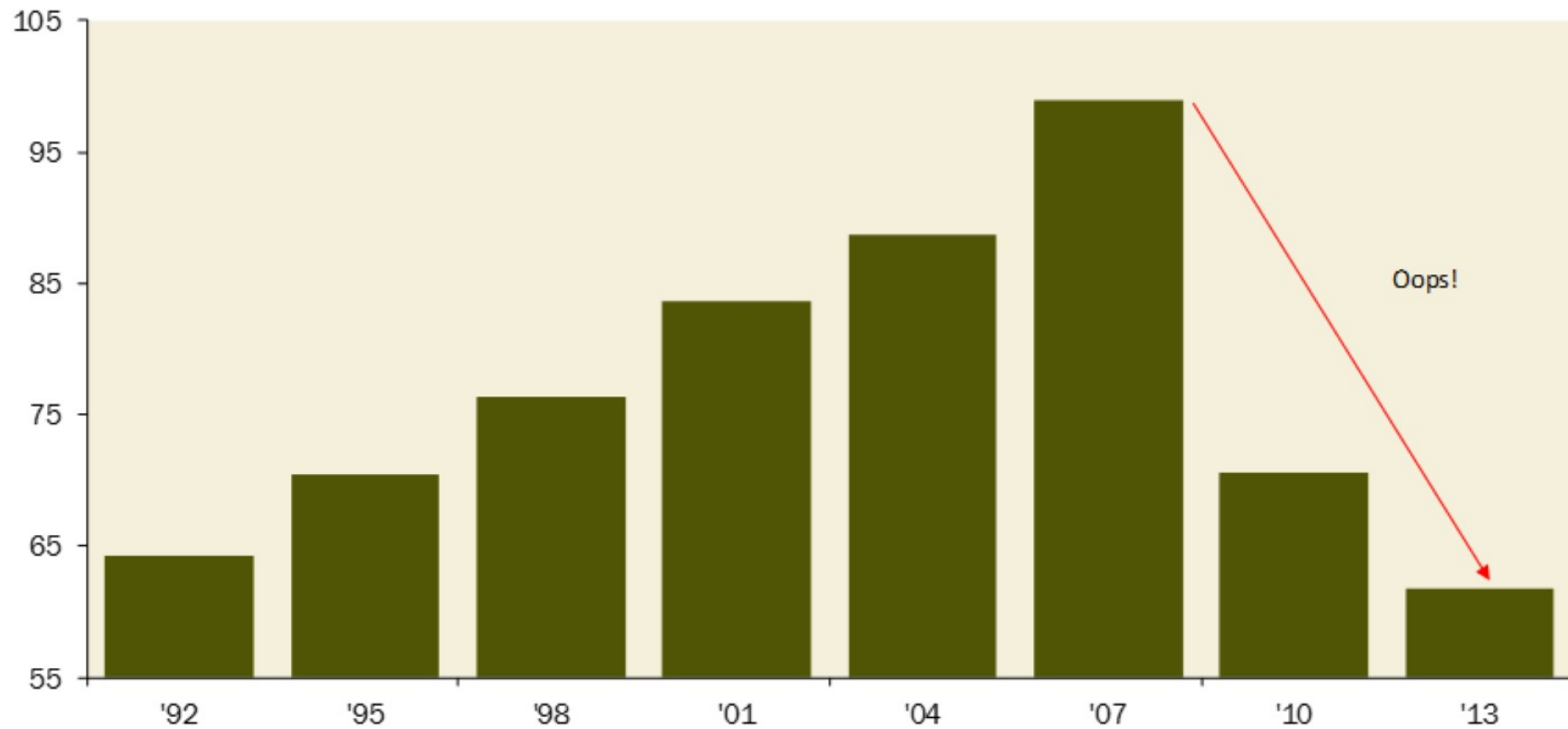
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## THE EFFECTS OF THE CRISIS LINGER ON TODAY

### United States: Median Family Net Worth, Middle Class

(thousands of U.S. dollars)



**Notes:**

Source: Haver Analytics, Gluskin Sheff

Middle class defined as those in the 40<sup>th</sup> to 60<sup>th</sup> income percentile

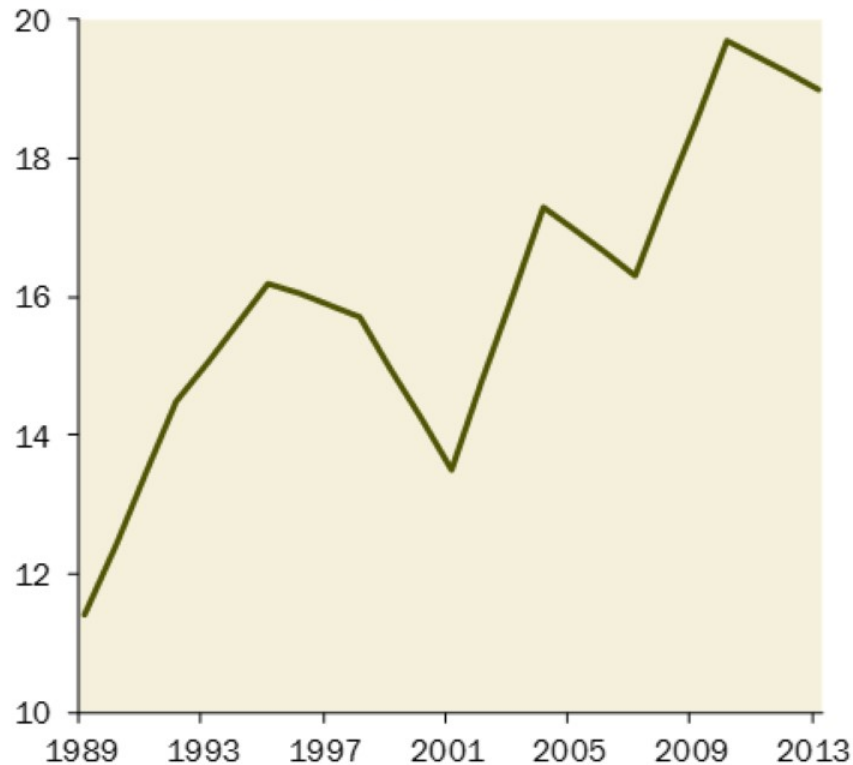


# FOR THE “MIDDLE MEDIAN” THE DELEVERAGING CYCLE IS JUST BEGINNING

## United States: Leverage Ratio

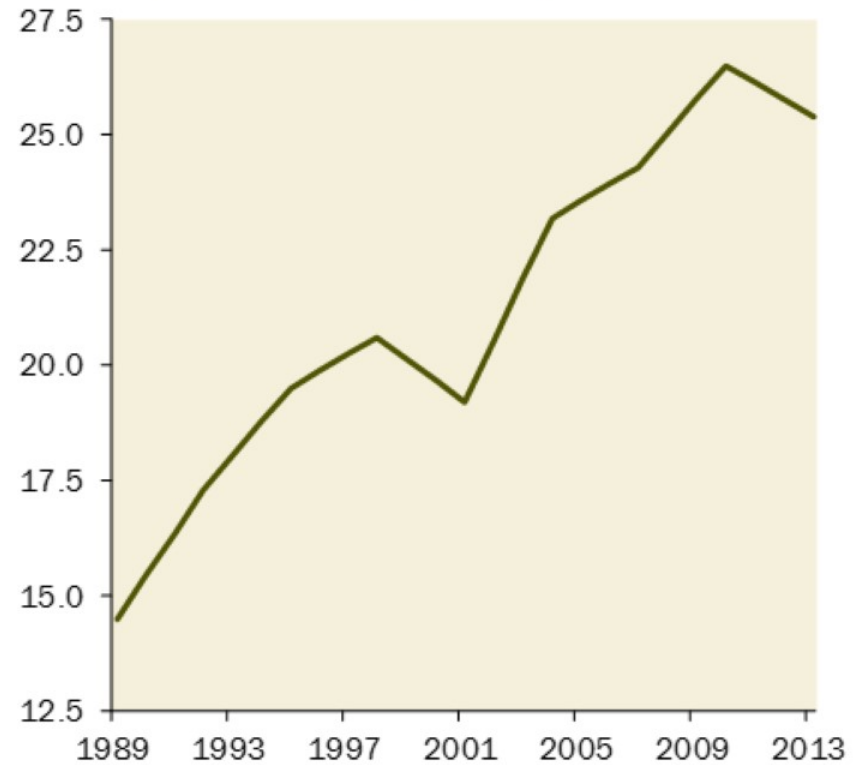
### Middle Aged

(percent; 45-54 years of age)



### Middle Class

(percent; 40%-60% income percentile)



**Notes:**

Source: Haver Analytics, Gluskin Sheff

Leverage ratio defined as household debt-to-assets

## IT'S NOT A WONDERFUL WORLD



# THE MASSIVE GLOBAL DEBT OVERHANG HAS YET TO BE RESOLVED

## Nonfinancial Debt

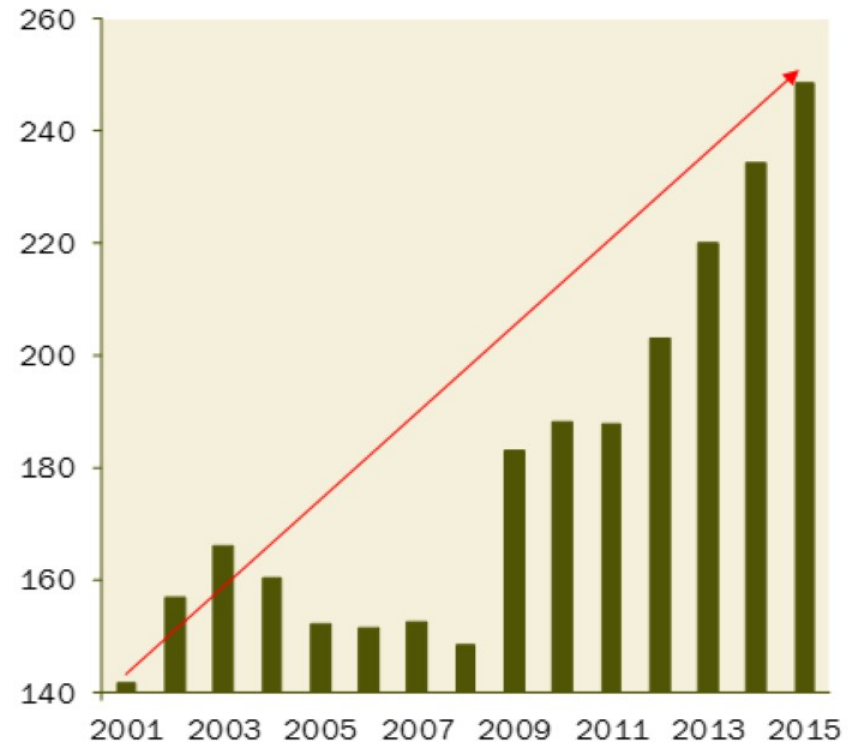
### Global

(percent of GDP)



### China

(percent of GDP)



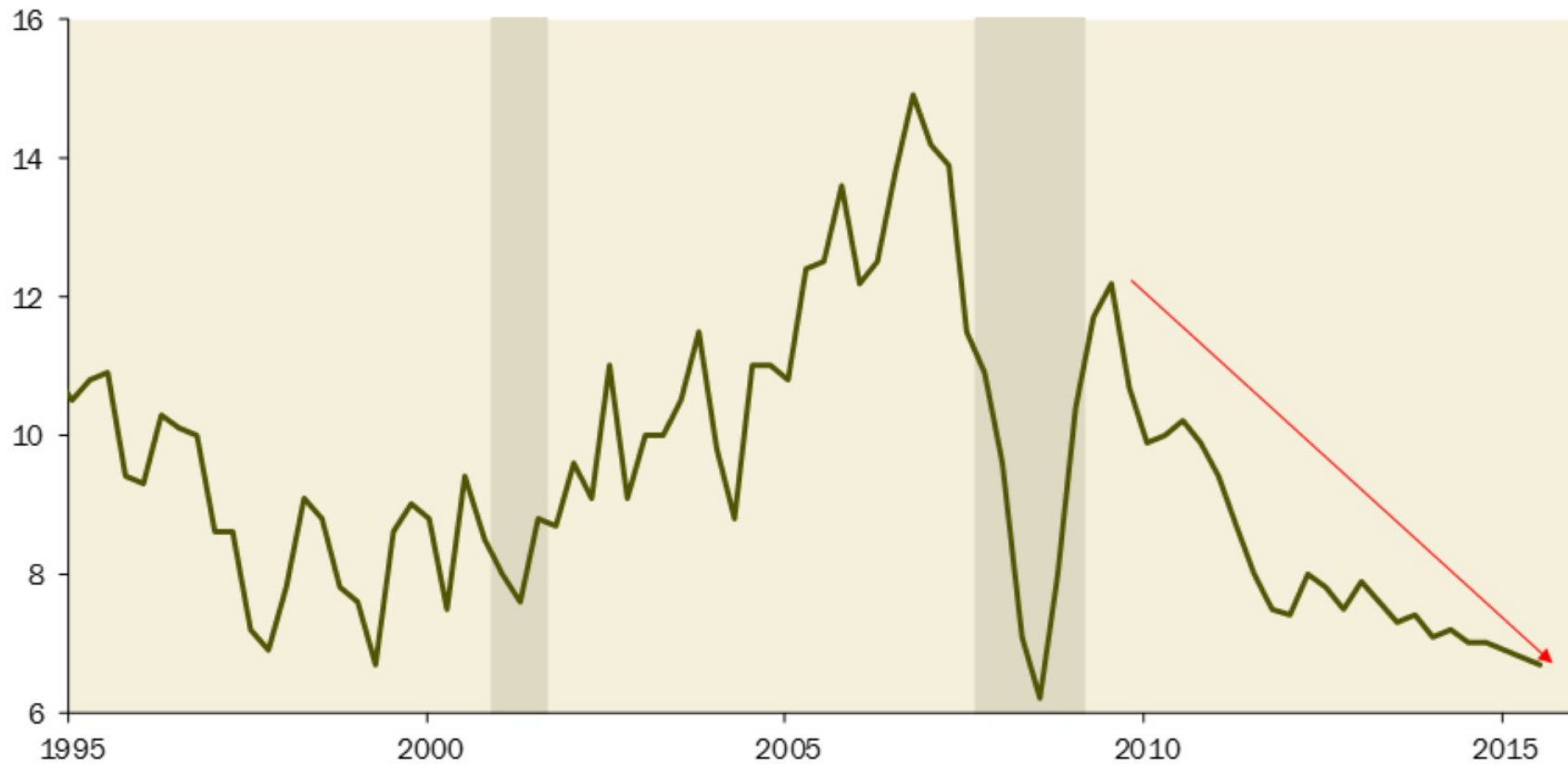
**Notes:**

Source: Bank for International Settlements, International Monetary Fund, Gluskin Sheff

## WHAT CAN THE FED DO TO STOP CHINA FROM SLOWING?

### China: Real GDP

(year-over-year percent change)



Notes:

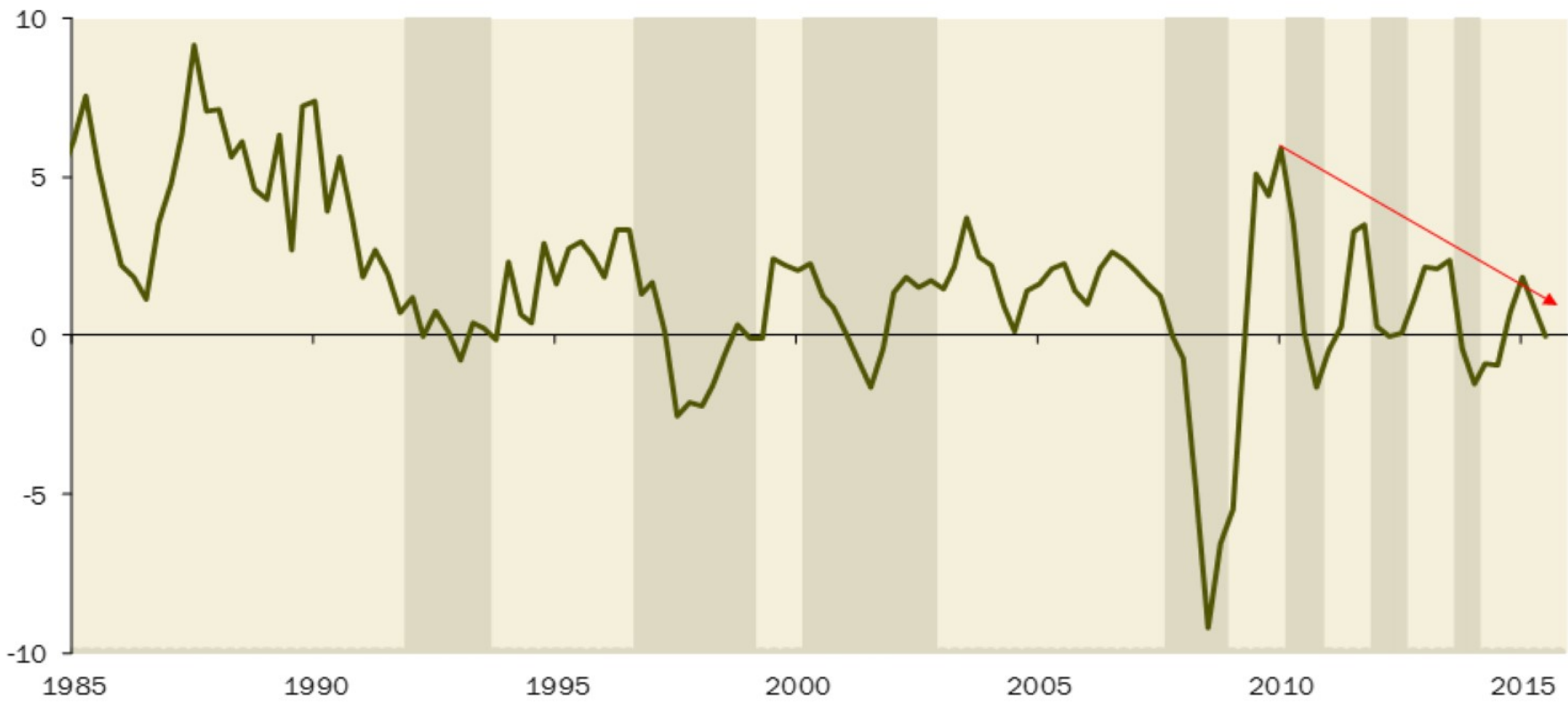
Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

## IS THIS THE BEST ABENOMICS CAN DO?

### Japan: Real GDP

(year-over-year percent change)



**Notes:**  
Shaded regions represent periods of Japanese recession  
Source: Haver Analytics, Gluskin Sheff

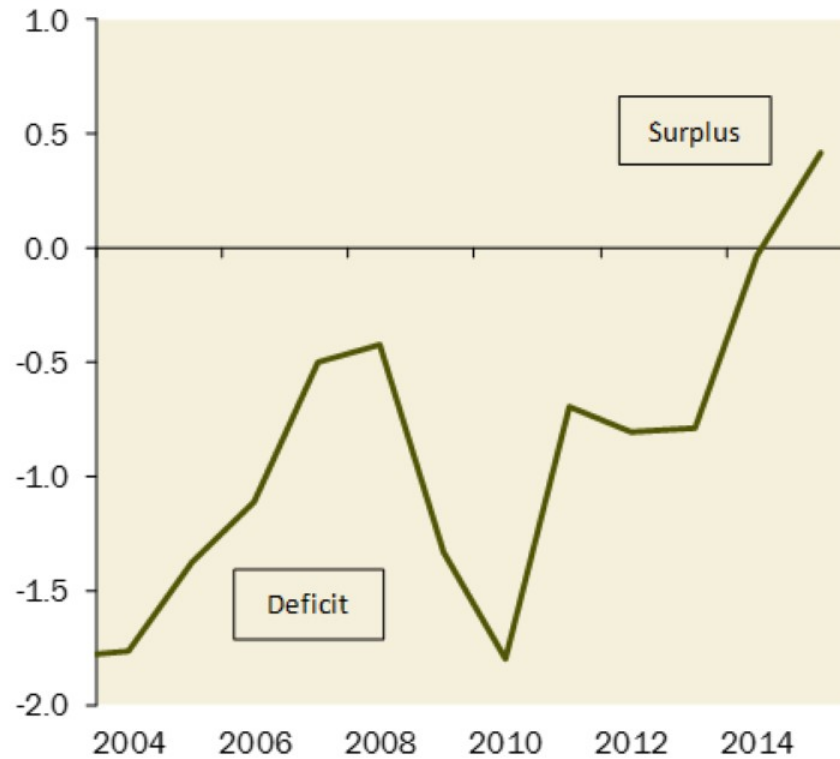


# GERMANY RUNNING TWIN SURPLUSES - NOT EXACTLY AN OPTIMAL POLICY MIX

## Germany

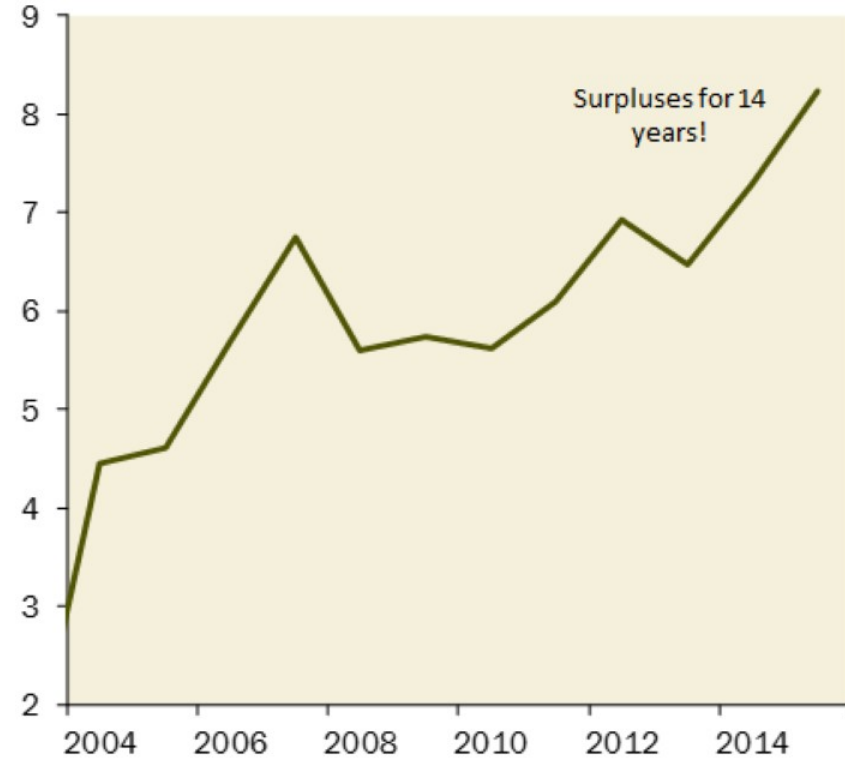
### Federal Government Balance

(percent of GDP)



### Current Account Balance

(percent of GDP)



Notes:

Source: Haver Analytics, Gluskin Sheff

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# THE WALL STREET JOURNAL.



**Notes:**

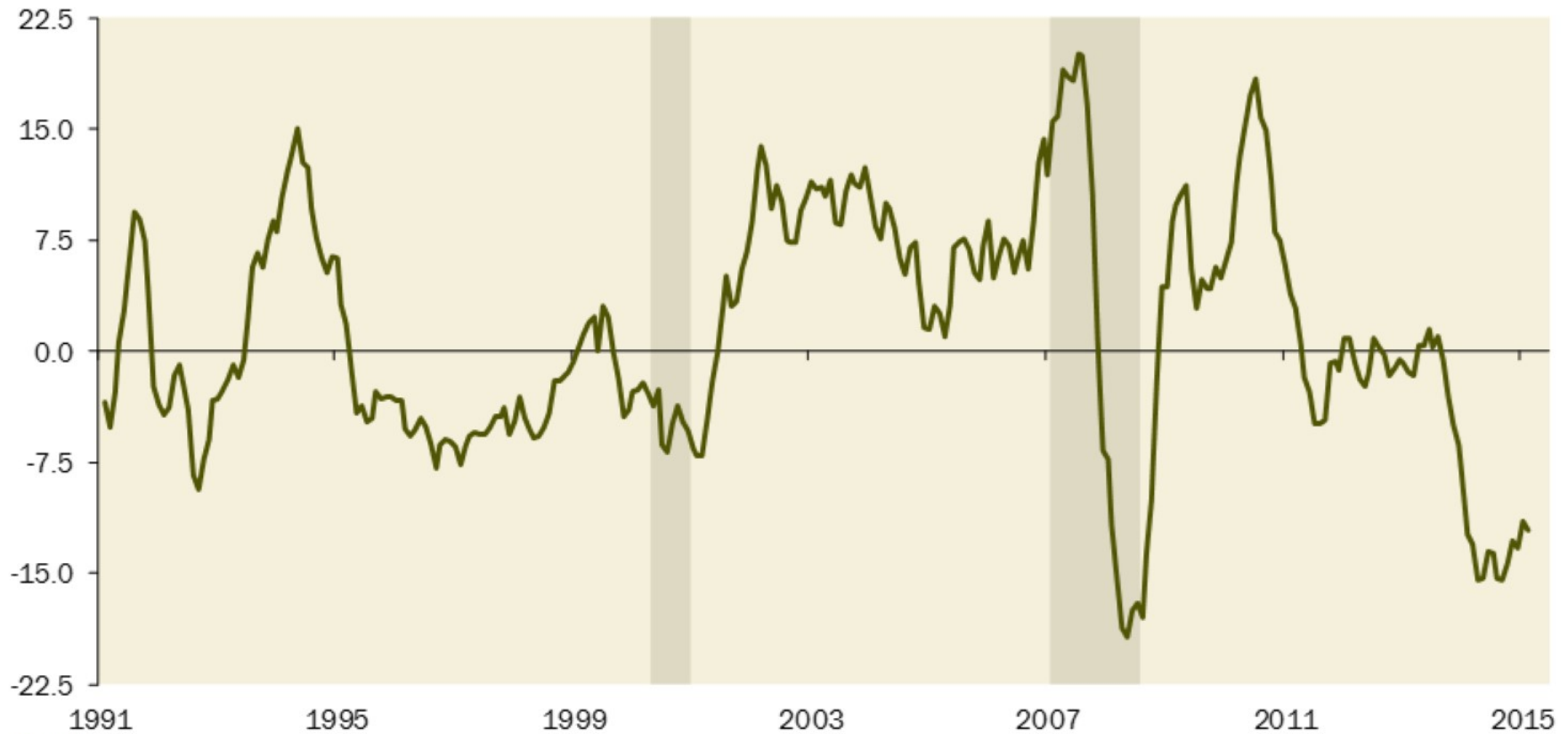
*Wall Street Journal - May 5<sup>th</sup> 2016*

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## WEAK GLOBAL DEMAND DEPRESSES WORLD TRADE FLOWS

### Total World Exports

(year-over-year percent change; nominal basis)



**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

## YELLEN AND SCREAMIN' OVER THE CAPEX SHORTFALL

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***“... the slow recovery has depressed the pace of capital accumulation, and it may also have hindered new business formation and innovation, developments that would have an adverse effect on structural productivity.”***



***Janet L. Yellen  
2013 National Association for Business  
Economics Policy Conference  
Washington, D.C.  
March 4, 2013***



# THE WALL STREET JOURNAL.

coups, and its own dysfunctional government. Economists actually argued against membership: EEC technocrats

Greece's underdeveloped, overprotected economy was poorly prepared for life inside the EU. A study led by Nauro

and a six-year depression. Yet Greeks still don't want to give up the euro. "Anglo-Saxons think the euro is only

took Britain into the EEC in 1973 largely for its trade benefits, a decision voters overwhelmingly approved in

like a stretch. Nor would it compensate for the loss of tariff-free access to Europe. The British Treasury esti-

## Declining Productivity Growth Poses Threat

By HARRIET TORRY

One of the worst stretches ever for American productivity growth is getting even worse. Worker productivity—the output of goods and services for each hour of labor—slid in the opening months of the year as companies shelled out more on wages. The trend, if it continues, poses a challenge to the economy's potential amid weak global growth and declining corporate profits.

Declining productivity growth means companies need more workers to keep up with demand and helps explain why millions of people have been able to rejoin the job market in recent years despite a slow-growing economy.

But poor productivity can also crimp companies' profits and threaten workers' wage growth and living standards over the longer run.

"For productivity growth to pick up, output has to pick up," said Joshua Shapiro, chief U.S. economist at consultancy MFR Inc. "We need stronger demand. I don't see where that's going to come from in the global economy."

The current economic expansion, which wraps up its seventh year next month, has been driven largely by rising employment rather than gains in productivity. Since the economic recovery began in mid-2009, output per hour worked has expanded at an average annual rate of 1.3%. That was the worst performance over a seven-year stretch since the late-1970s to mid-1980s, which were marked by back-to-back recessions.

In the first quarter, the picture worsened: Productivity in the nonfarm business sector declined at a 1% seasonally adjusted annual rate, the Labor Department said Wednesday. From a year earlier, productivity was up just 0.6%. The quarterly drop marked the fourth

decline in the past six quarters.

Productivity usually grows fastest in the early stages of a recovery while companies catch up to a rise in demand with a leaner workforce, and then it typically slows. Economists are divided about why productivity gains have frequently stalled in recent quarters. Federal Reserve Chairwoman Janet Yellen in late March said the reasons for "very disappointing" productivity are difficult to understand.

Factors often cited for the slump run from a regulatory and tax environment that some economists say discourages entrepreneurship to mis-measurement of the data to technological change and persistently weak demand throughout the expansion.

"Part of the story is how far things fell in the recession and how long it took to make up lost ground," Barclays economist Jesse Hurlwitz said. Meanwhile, firms struggling

**Labor Pains**  
A key gauge of compensation costs shows the impact of a tightening labor market.

**Unit labor costs**  
Change from a year earlier

Source: Labor Department  
THE WALL STREET JOURNAL

told investors Wednesday. Dropping productivity is another worry for the broader U.S. economy, which barely managed to eke out growth in the first quarter.

Gross domestic product, the broadest measure of goods and services produced across the economy, increased at a tepid 0.5% seasonally adjusted annual rate in the first three months of the year, the Commerce Department said last week. Business spending tumbled, while exports fell and consumers showed signs of caution.

That is a concern for the Federal Reserve as it attempts to move away from extraordinary easy-money policies without undermining the fragile U.S. expansion.

The confidence about economic strength that led Fed officials to raise short-term interest rates late last year has been tempered by concerns about weak global growth, subpar inflation and slow productivity growth. Since the

### Notes:

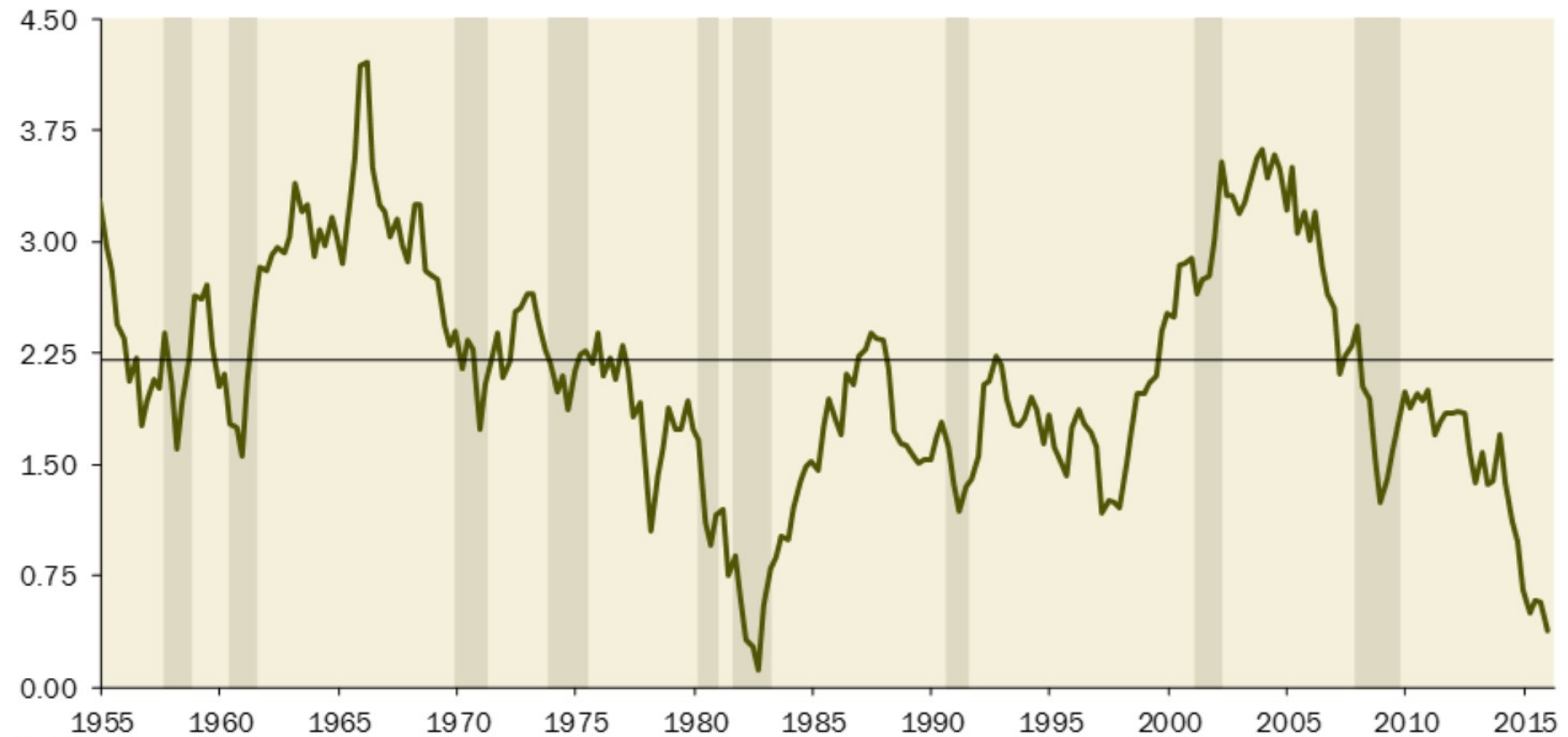
Wall Street Journal - May 5<sup>th</sup> 2016



## PRODUCTIVITY GROWTH COLLAPSES

### United States: Real Output per Hour

(20-quarter percent change annualized)



**Notes:**

Shaded regions represent periods of U.S. recession

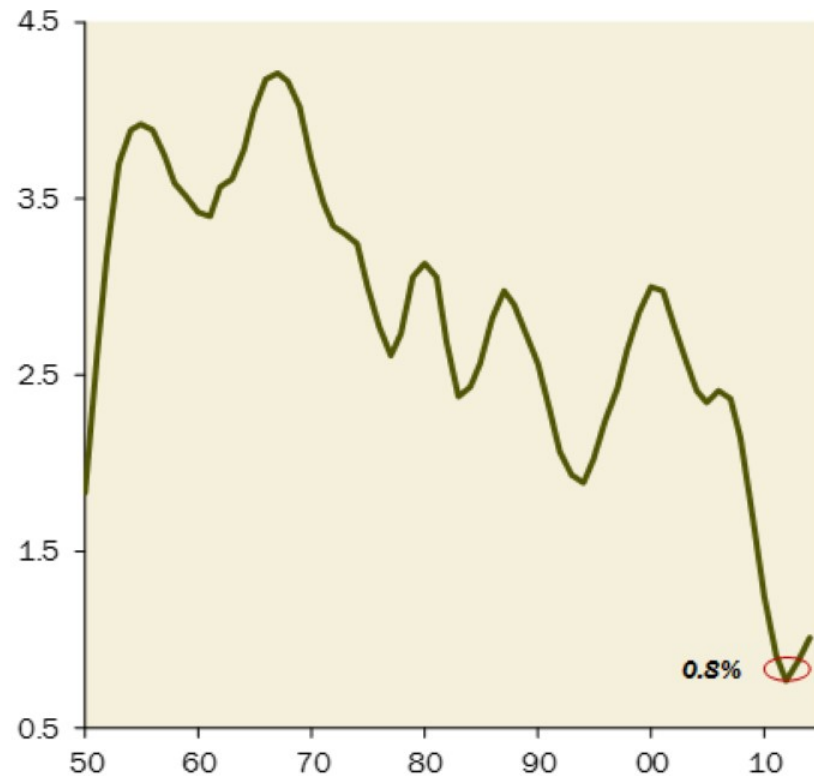
Source: Haver Analytics, Gluskin Sheff

# WEAKEST GROWTH IN THE PRIVATE CAPITAL STOCK IN SIX DECADES

## United States

### Real Net Private Capital Stock

(four-year percent change at an annual rate)



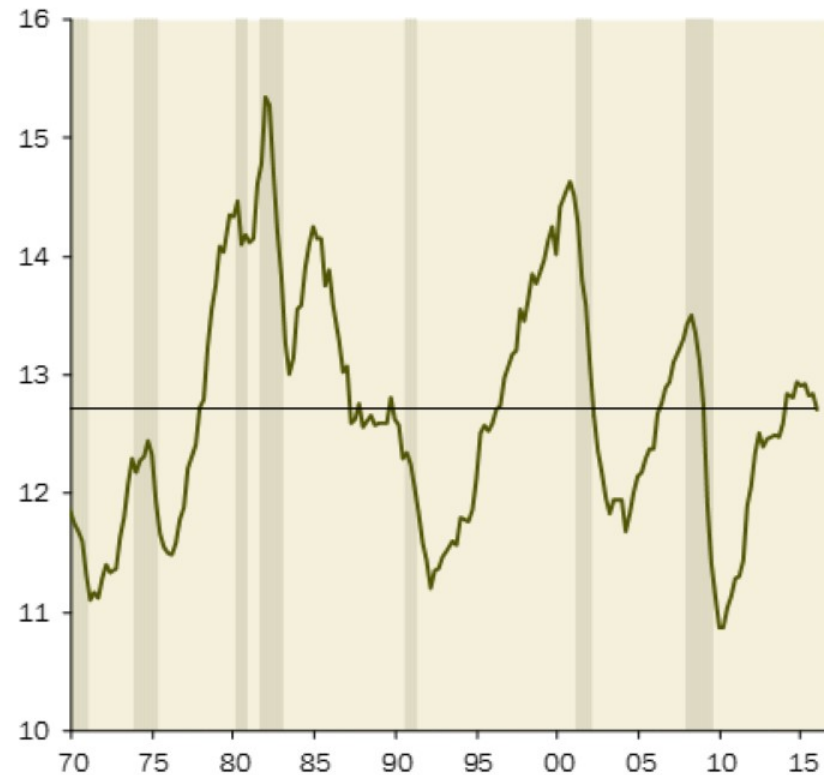
**Note:**

Shaded regions represent periods of U.S. recession

Source: National Bureau of Economic Research, Federal Reserve Board, Haver Analytics, Gluskin Sheff

### Business Spending as a Share of GDP

(percent)

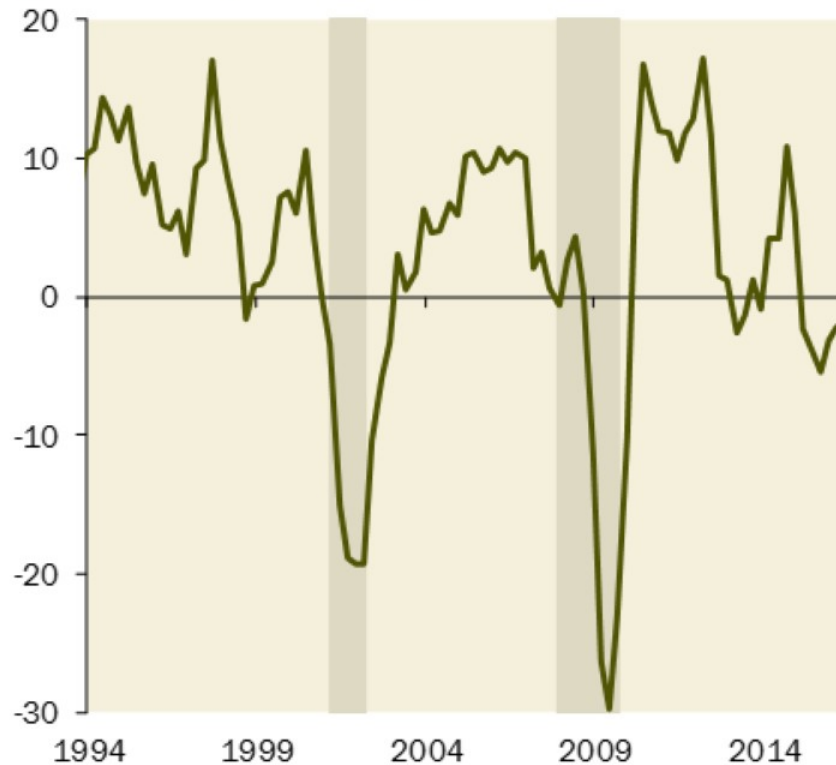


# CAPITAL SPENDING IS RETRENCHING AGAIN

## United States: Core Capex

### New Orders

(year-over-year percent change)



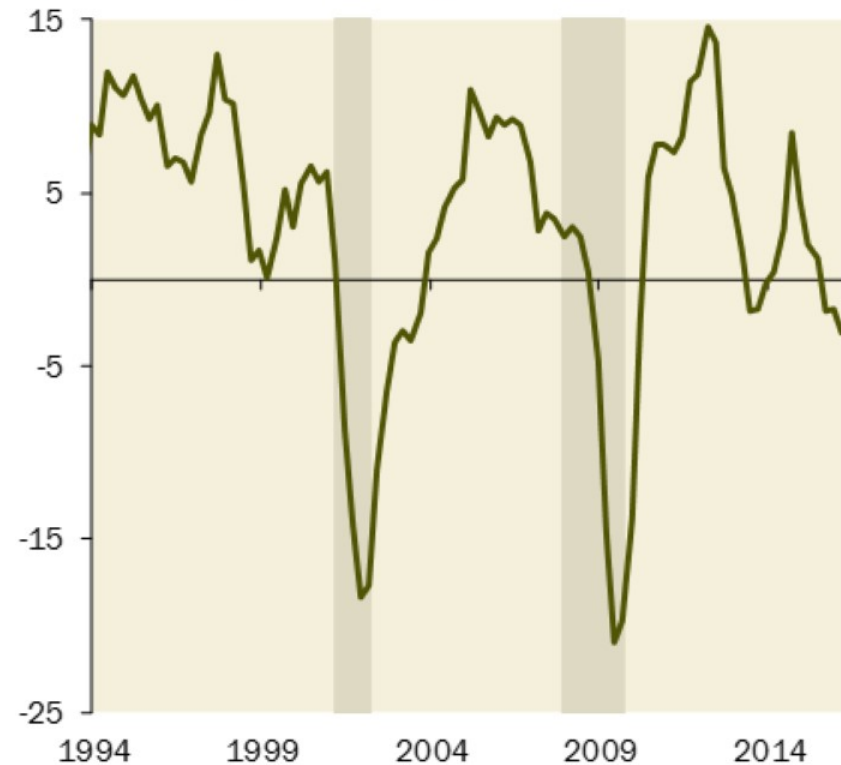
**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

### Shipments

(year-over-year percent change)





# THE WALL STREET JOURNAL.

DOW JONES | News Corp. \*\*\*\*\*

WEDNESDAY, MARCH 4, 2015 - VOL. CCLXV NO. 51

WSJ.com

★★★ \$3.00

DJIA 18203.37 ▼ 85.26 0.5% NASDAQ 4979.90 ▼ 0.6% NIKKEI 18815.16 ▼ 0.1% STOXX 600 387.68 ▼ 0.9% 10-YR. TREAS. 11/32, yield 2.122% OIL \$50.52 ▲ \$0.93 GOLD \$1,204.00 ▼ \$3.70 EURO \$1.1176 YEN 119.73

## A Recovery Waiting to Be Liberated

By John B. Taylor

Hope flickered last year when the economy grew at more than a 4% clip in the second and third quarters. But then came last week's news that fourth-quarter growth slowed to 2.2%, a gloomy revelation that the rebound was temporary. Economic growth for 2014 clocked in at about 2.3%—the same disappointing pace since the recession officially ended in 2009. What is the problem?

For years I and many others have argued that a return to the principles of economic freedom would convert this not-so-great recovery into a great one. But Washington has not seriously considered pro-growth policy—no tax reform to lower tax rates and spur hiring, no regulatory reform to scale back costly regulations, no new free-trade agreements, no entitlement reform to stop the debt explosion, and at best only a hint at monetary normalization to reduce uncertainty.

One reason: There is growing skepticism that these tried and true policies will boost growth rates. It is too late now, pessimists say. The economy missed the 6% or 7% 1980s-style growth at the start of the recovery, and it is impossible to make it up. Or even more pessimistically, an incurable

“secular stagnation” plagues the economy with permanently diminished rates of return on investment and ever-increasing income inequality. Why bother with difficult reforms if they won't make much difference? At least we're doing better than Europe.

**Bad government policy has kept the economy caged. Here's how to spur growth quickly.**

But a sharp acceleration in growth is a real possibility in the U.S. if policy makers take the necessary steps. Rapid growth following a recession usually occurs as people return to the labor force and productivity accelerates, boosted by higher investment. Labor-force participation—the percentage of the population that is looking for work or employed—is now lower than at the end of the recession. There is a lot of room to grow. And the growth of productivity—the amount of goods and services produced per worker-hour—has hovered around 1% for the past five years, less than half the nearly 2.5% average of the previous 20 years. There is room for

acceleration there, too.

As a matter of arithmetic, the growth of the economy equals employment growth plus productivity growth. Simply reversing the decline in the labor-force participation rate—it fell every year of the so-called recovery, to 62.9% in 2014 from 66% in 2008—would cause a 5% increase in employment, or 1% growth for five years. Adding about 1% for population growth from Census projections equals employment growth of 2% a year. The percentage of the working-age population that is working would thereby finally exceed 2009 levels, and the U.S. would begin seeing promising changes.

Some argue that the recent decline in labor-force participation is simply due to the baby-boom generation retiring, but the decline is larger for teenagers and young adults and has even increased for those 65 years of age and older. Were it not for the unusual drop in the labor force, the unemployment rate would be three percentage points higher, according to work by economists Chris Ercog of the Federal Reserve Board and Andrew Levin of the International Monetary Fund. They found in an October study that the slow recovery accounts for the “bulk of the recent decline in the labor-force participation rate.” Faster growth, they ar-

gue, would reverse the decline.

The same rebound possibilities pertain to productivity growth, which history suggests could return to 2.5%. The IT revolution, which Harvard economist Dale Jorgenson and his colleagues show has been key to productivity growth in the past, is not over—as is clear to anyone observing the innovation coming out of Silicon Valley and elsewhere.

With 2.5% productivity growth added to 2% employment growth, economic growth would be 4.5%. That is far above the forecasts of most economists who have written off the pro-growth policies suggested here. This growth rate could be sustained for several catch-up years before leveling out to a 3% longer-run growth path.

The U.S. economy is not a turtle, but a caged eagle ready to soar if released from the captivity of bad government policy. By putting the right policies in place—particularly personal and business tax reform with marginal rate cuts—the U.S. can turn the economy around quickly.

Mr. Taylor, a professor of economics at Stanford University and a senior fellow at the Hoover Institution, is author of “First Principles: Five Keys to Restoring America's Prosperity” (Norton, 2013).

*“The U.S. economy is not a turtle but a caged eagle ready to soar if released from the captivity of bad government policy. By putting the right policies in place—particularly personal and business tax reform with marginal rate cuts—the U.S. can turn the economy around quickly.”*

Source: The Wall Street Journal (Wednesday, March 4, 2015)

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# ONE NATION, INDIVISIBLE:



# The New York Times

*Inaction  
Holds Down  
The Pace  
Of Growth*

Back when "Gunsmoke" was on TV and Lyndon Johnson was president, the United States economy managed to storm ahead by nearly 5 percent a year for nearly a decade. What we would give to recover some of that power!

**EDUARDO PORTER**  
ECONOMIC SCENE

During Ronald Reagan's presidency two decades later, the

# THE WALL STREET JOURNAL

★ ELECTION 2016 ★

## How Political Dysfunction Gave Rise to Trump



**Capital Journal**  
CELESTE E. DESS

I have not, there is a consequence for political dysfunction that resonates in Donald Trump. Which is to say that, of all the recent forces behind the

"Being effective and getting things done" that are other. The sentiment also comes through in some of the more thoughtful messages a columnist receives from voters, John C. Strasko, a lawyer in New York who describes himself as a "moderate" Trump supporter, wrote recently: "The party is also giving a prize for failing to deliver coherent governance when they held the presidency and both houses of Congress after George W. Bush's final election. Per-

should be, replied privately: I share many of Barack Obama's positions, but I actually know how to get things done.

While she was in the Senate, Mrs. Clinton surprised colleagues on both sides of the aisle with her willingness to dive into the legislative trenches to find bipartisan plans. Voters seem to have a sense of that. In the most recent Journal/ABC News poll, given in the qualities of Mr. Trump and Mrs. Clinton varied widely in most other ar-

knows as a cabinet member, which ends debate if it gets the support of 60 senators. The best way to track the use of filibusters is to look at the number of cloture motions filed to end them. Clinton received said to be back in the two-year congressional term of 2009 and 2010, just seven cloture motions were filed, Senate records show. Twenty years later, the number had risen to 38.

In the most recent full Senate term, for the years 2013 and 2014, a staggering 104 cloture motions were

Supporters rally to Donald Trump at a rally in Spokane, Wash.

## Tallying the Economic Toll of Political Upheaval

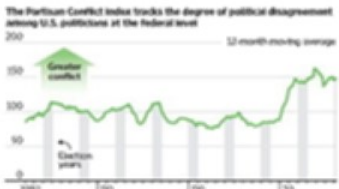
**D**onald Trump and Hillary Clinton promise to rejuvenate the nation's economy. Meanwhile, the process of electing one of them to the presidency will likely bring in the two leading presidential candidates, who sit far apart on the ideological spectrum, have prescribed either divergent or vague plans for trade, taxes, immigration and other policies that deeply influence the economy. That is shaking uncertainty, something business don't like and consumers can find unsettling.

policy and more—are responsible for broad shifts in the economy. The U.K.'s potential exit from the European Union and the Federal Reserve's next steps on interest rates, for example, are seen by many investors and commentators as more significant.

"The Fed is far more important to the global economy than U.S. presidential elections," said Brian Levitt, senior investment strategist at OppenheimerFunds. Heightened political uncertainty appears to depress economic activity at least until an election ends. Stanford's Mr. Slovic estimates a tight campaign, particularly among candidates with very different policy platforms,

**Election Effect**  
Divergent policy proposals from presidential candidates can fuel economic uncertainty and weigh on business, consumers and financial markets. The market impact is especially noticeable in years when an incumbent isn't running.

**The Partisan Conflict Index tracks the degree of political disagreement among U.S. politicians at the federal level**



strategy at Wells Fargo. "If you are sure, you may put off purchases, whether you are a consumer or whether you are a business."

Add in a lack of clarity over which party will control Congress and who will be confirmed for an open seat on the Supreme Court, and it's an exceptional year for political uncertainty. Already, headlines from cars to guitars have noted the effects of campaign rhetoric alongside an uncertain political environment.

"I have observed in the past when there's very controversial elections—and it looks like we're on the road to having one of those this year—that consumers sometimes hesitate around big

**Notes:**

New York Times - May 10<sup>th</sup>; Wall Street Journal May 16<sup>th</sup> / 18<sup>th</sup> 2016

## REGULATION IS STIFLING GROWTH

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# Obama Readies A Wave of Rules

By NICK TIMIRAOS

The Obama administration is racing to make final a flurry of regulations affecting broad swaths of the economy, further riling U.S. businesses in an election season that has already been tough on corporate interests.

Planned moves—across labor, health, finance and the environment—range from overtime pay for white-collar workers to more obscure matters such as requiring food makers to disclose added sugar on cartons of flavored milk.

restrictions on company relations with union organizers.

The moves have drawn sharp reactions from business groups. After the tax rules, a top U.S. Chamber of Commerce official lamented “politicians bullying America’s job creators.” The head of the Business Roundtable, which represents big-company CEOs, criticized “unilateral action” by the administration.

The rush reflects President Barack Obama’s aim to use his final months in office to cement a progressive domestic-policy legacy using executive

### Notes:

Source: Wall Street Journal - April 8<sup>th</sup> 2016



## BEATING THE POPULIST DRUM

# The New York Times

March 11, 2016

NEW YORK, MONDAY, APRIL 25, 2016

## Sanders Seeks To Shape Party After Primary

By NICHOLAS CONFESSORE

Even as his chances of winning the Democratic presidential nomination slip away, Senator Bernie Sanders and his allies are trying to use his popularity to expand his political influence, setting up an ideological struggle for the soul of the Democratic Party in the post-Obama era.

Aides to Mr. Sanders have been pressing party officials for a significant role in drafting the platform for the Democratic convention in July, aiming to lock in strong planks on issues like a \$15-an-hour federal minimum wage, breaking up Wall Street banks and banning natural gas “fracking.”

... “Senator Bernie Sanders and his allies are trying to use his popularity to expand his political influence, setting up an ideological struggle for the soul of the Democratic Party” ...

# THE WALL STREET JOURNAL

## Populist Tone Rankles America’s Executives

By NICK TIMERAOS AND TED MANN

Chief executives at big American companies are increasingly frustrated by the populist tone of the presidential campaign, and concerns are mounting in boardrooms and corner offices that anti-business rhetoric may solidify even after the November election.

Some business groups had looked to a Republican administration next January that might peel back some Obama administration regulations. But that hope now is in doubt, and such groups are instead focused on key Senate and House races.

While some observers believe candidates may soften their stances once elected, ex-

ecutives worry that for now, the rhetoric of the election discussion could weigh on consumer confidence, thwart any immigration overhaul and derail a sweeping trade pact, the Trans-Pacific Partnership, that the U.S. struck last year and that many businesses support.

“The precipitousness of the political debate is a little scary right now,” said Jim Mc-Nerney, who served as chief executive of Boeing Co. until last year and as chairman until February, at a recent industry conference.

Rhetoric from Republican candidates has grown more populist and less friendly to big business than at any time in decades, while the Democratic race is being influenced

Please see RACE page A4

... “rhetoric from Republican candidates has grown more populist and less friendly to big business than at any time in decades, while the Democratic race is being influenced by the rise of liberal Vermont Sen. Bernie Sanders” ...

### Notes:

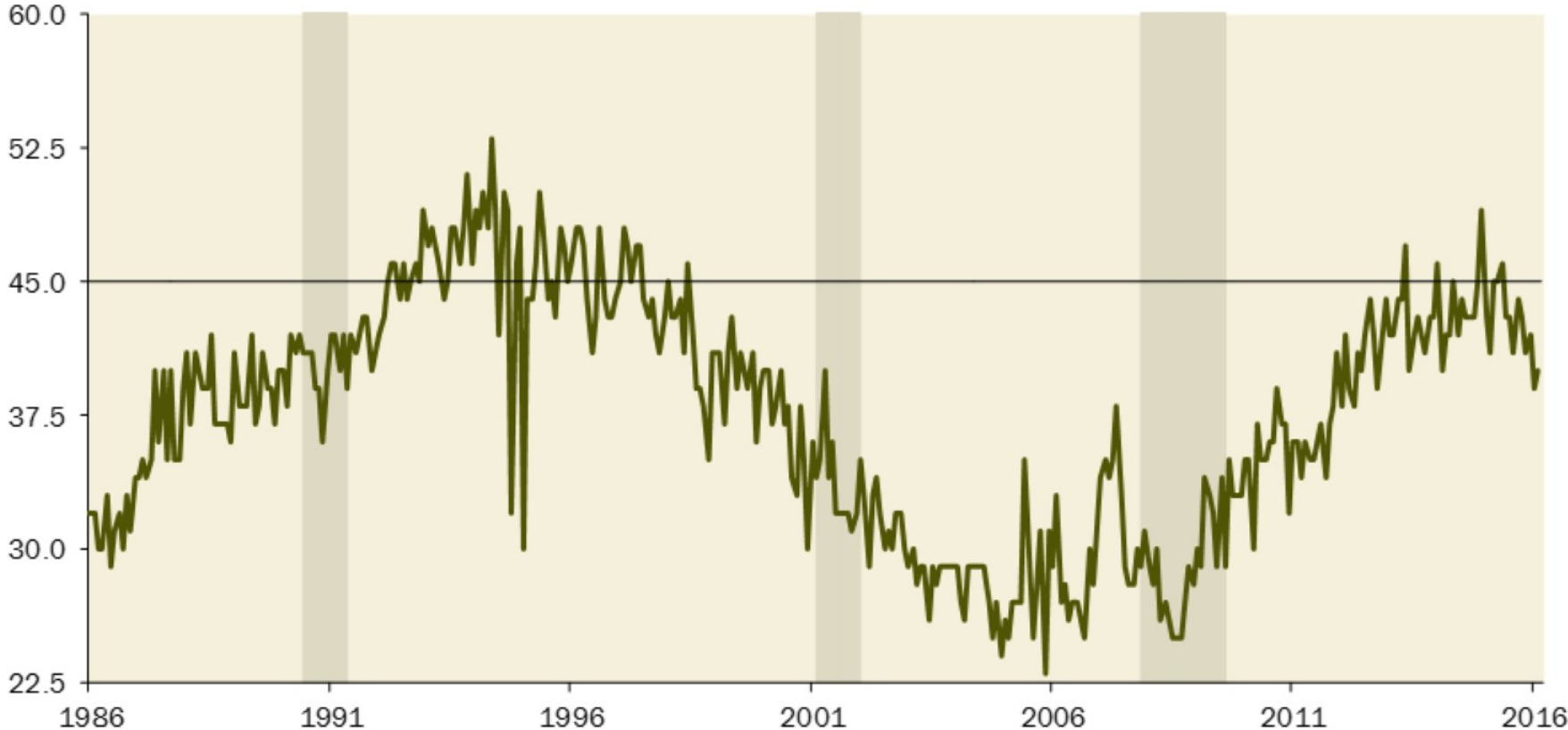
Source: New York Times, Monday April 26<sup>th</sup> 2016 , Wall Street Journal – April 24<sup>th</sup> 2016



# REGULATION AND TAXATION ARE TOP CONCERNS

## United States: Businesses Reporting Taxation/Regulation as Their Largest Problem

(percent of respondents)



**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff

## The New Normal

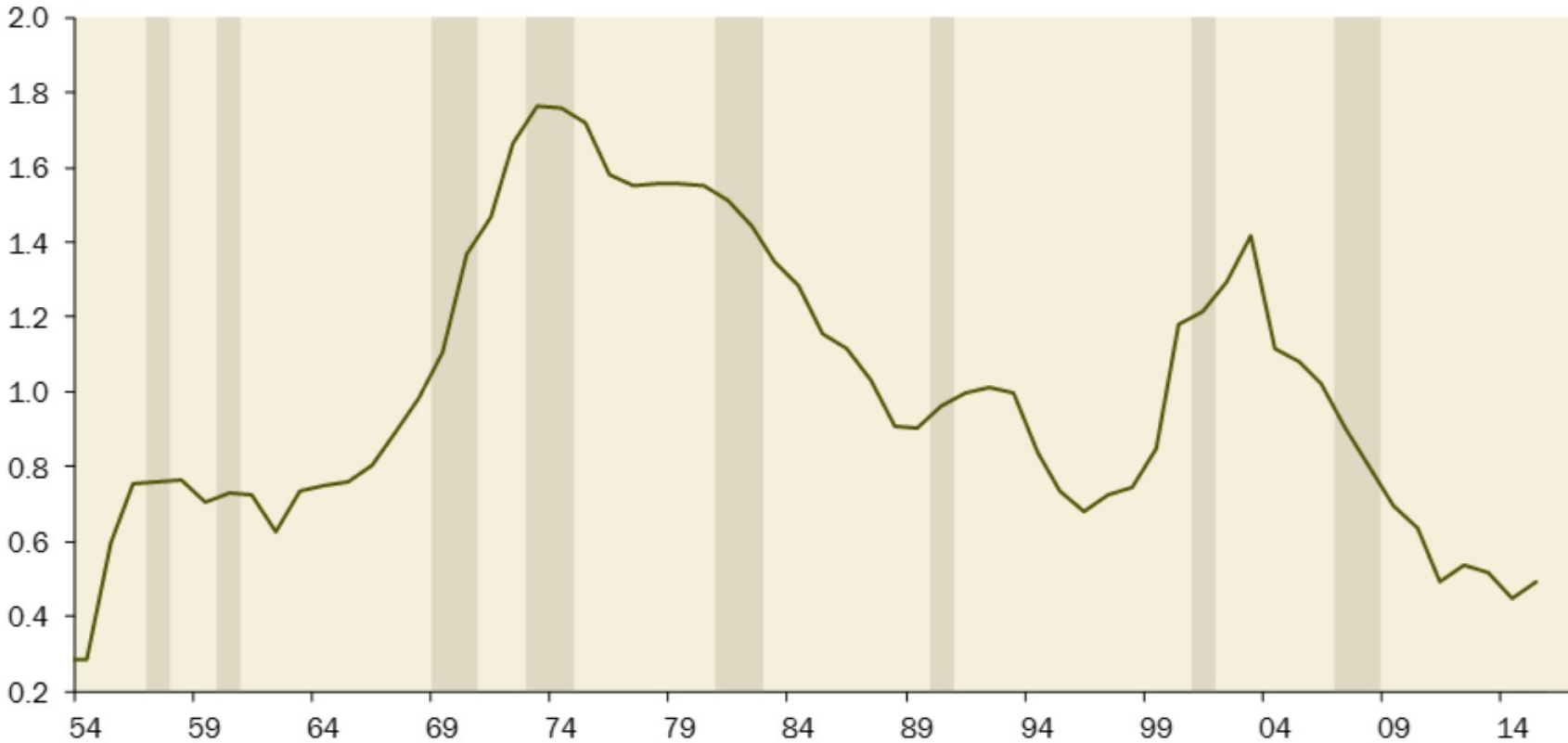


33

# WORKING-AGE POPULATION GROWTH VANISHING

## United States: Population Aged 20 to 64 Years

(annualized five-year percent change)



**Note:**  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff

# The Economist



**Notes:**

*The Economist* - April 30<sup>th</sup> 2016

## The strange case of the missing baby

In the decade to 2008, the total fertility rate rose in much of the rich world. In Britain it went up from 1.68 to 1.91; in Australia from 1.76 to 2.02; and in Sweden from 1.5 to 1.91.

America even managed to reach the “replacement rate” of 2.1, meaning its population was sustaining itself, without taking migration into account.

The financial crisis abruptly turned the boom to bust.

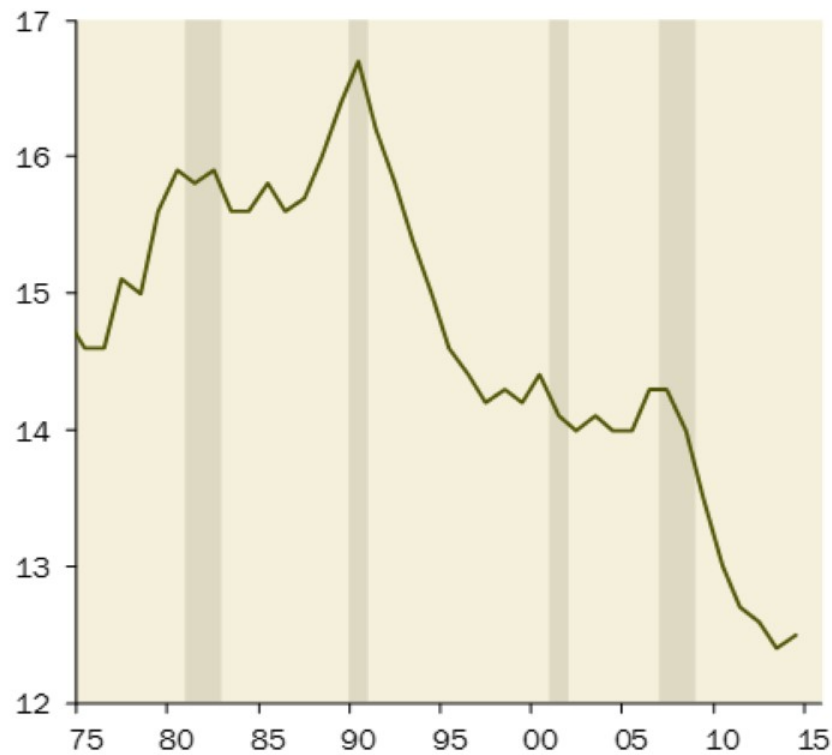


# BABY BUST?

## United States

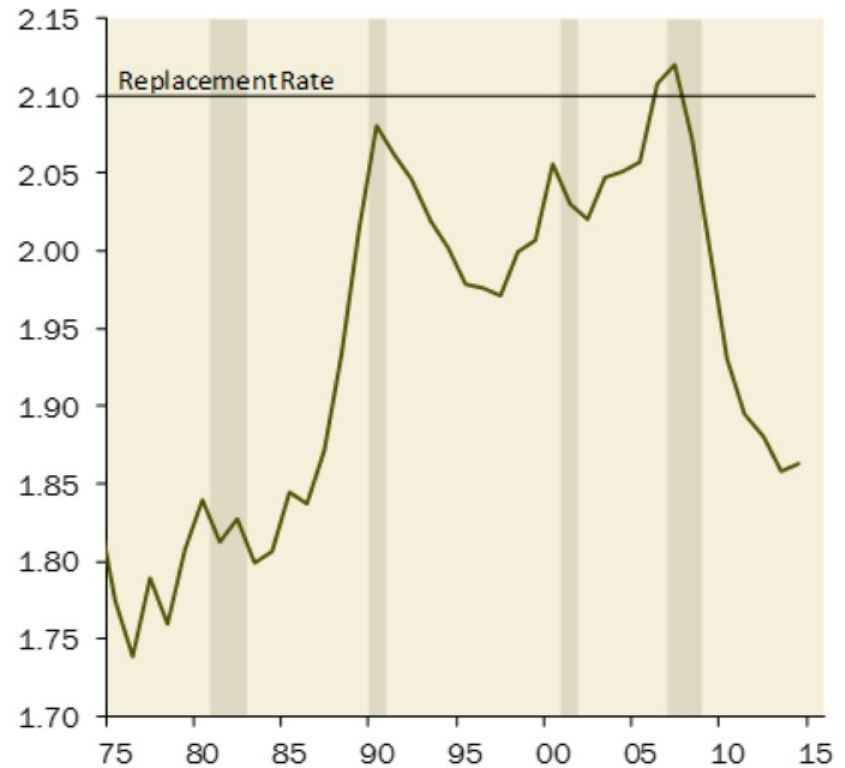
### Birth rate

(births per 1,000 people)



### Fertility rate

(births per woman)



**Notes:**

Shaded regions represent periods of U.S. recession; replacement rate is the level required to maintain current population

Source: National Vital Statistics System, Gluskin Sheff

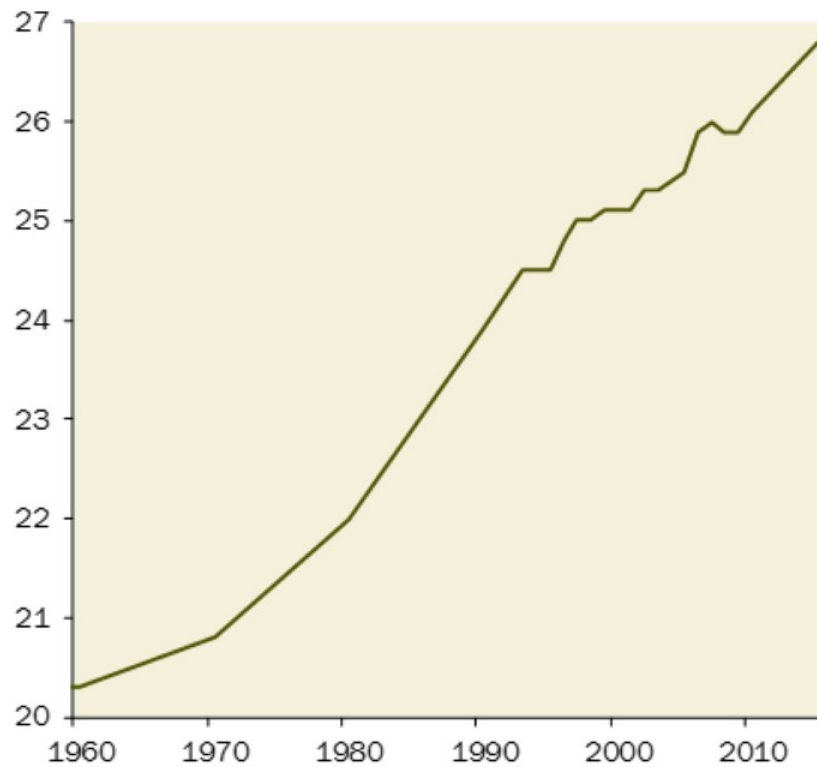


## THE WAITING GAME, NOT THE DATING GAME

### United States

#### Age of First Marriage

(years, female)

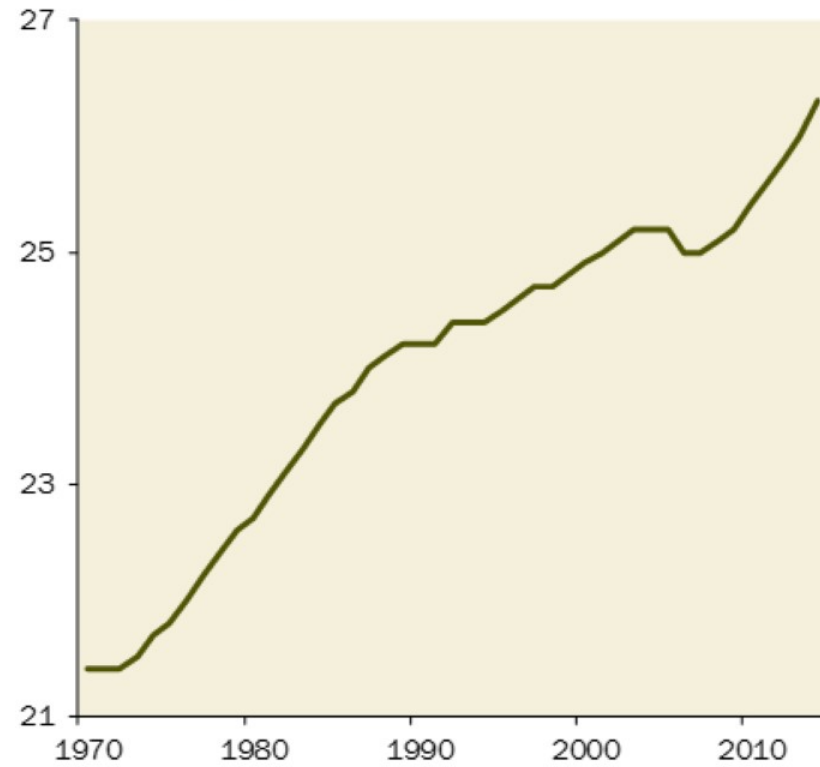


Notes:

Source: Census Bureau, CDC, Haver Analytics, Gluskin Sheff

#### Age of First Birth

(years, female)



# The Economist

Single women are reshaping America from marriage to politics to the economy

**“I** MARRIED for the first time at 37. I got the man I wanted,” crowed Helen Gurley Brown on the first page of “Sex and the Single Girl”, a runaway bestseller in 1962. She snagged a brainy, sexy, fabulously successful beau despite being neither “bosomy” nor brilliant, she added. But by the time they met, she was worldly enough to beguile him, having spent almost two decades living by her wits as a single woman, sharpening her skills in the office and the bedroom. “Marriage is insurance for the

**All the Single Ladies: Unmarried Women and the Rise of an Independent Nation.** By Rebecca Traister. *Simon & Schuster*; 352 pages; \$27 and £16.99

**Enter Helen: Helen Gurley Brown and the Rise of the Modern Single Woman.** By Brooke Hauser. *Harper*; 480 pages; \$28.99 and £20

**Spinster.** By Kate Bolick. *Crown*; 336 pages; \$26

**Notes:**

*The Economist* - April 16<sup>th</sup> 2016



Single women

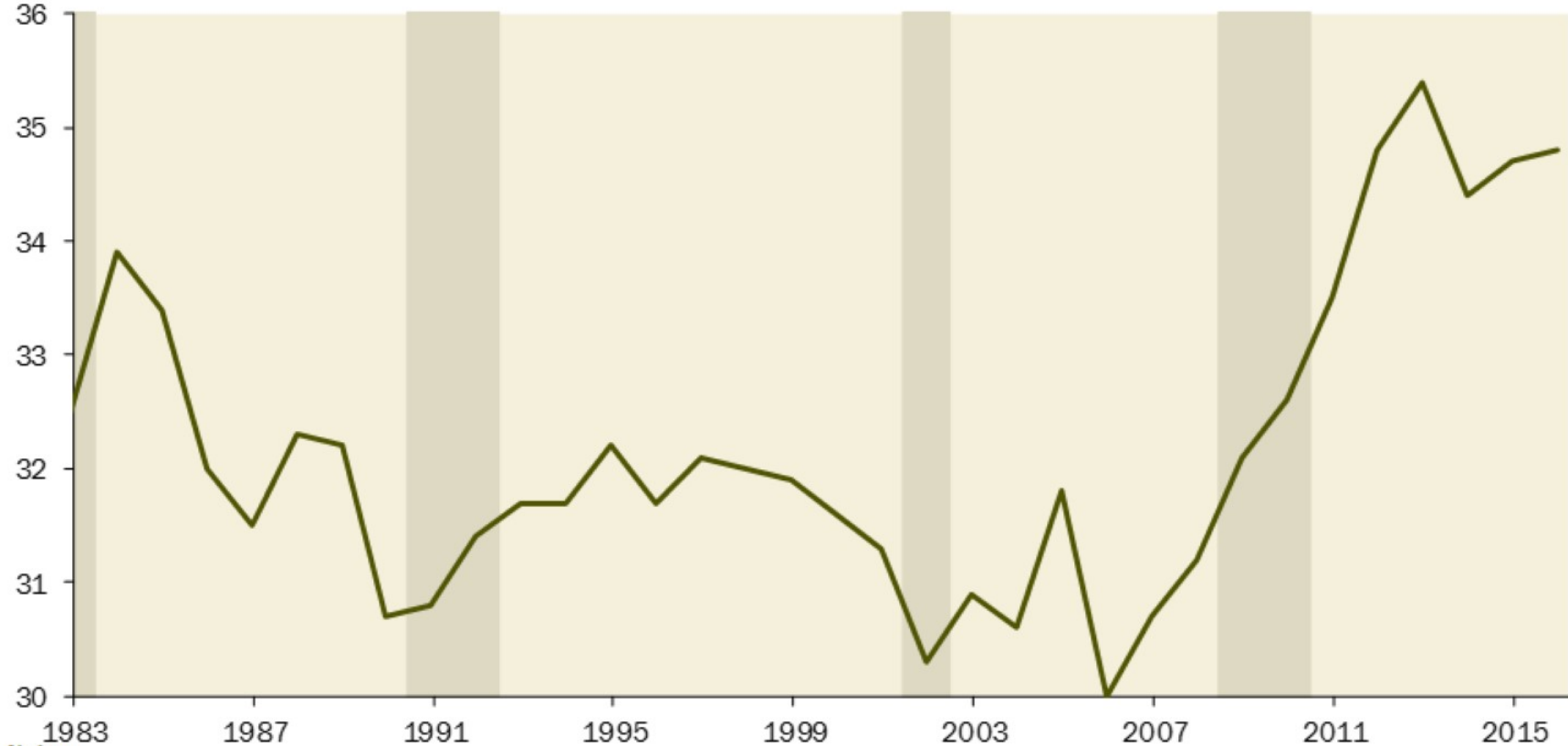
**Why put a ring on it?**



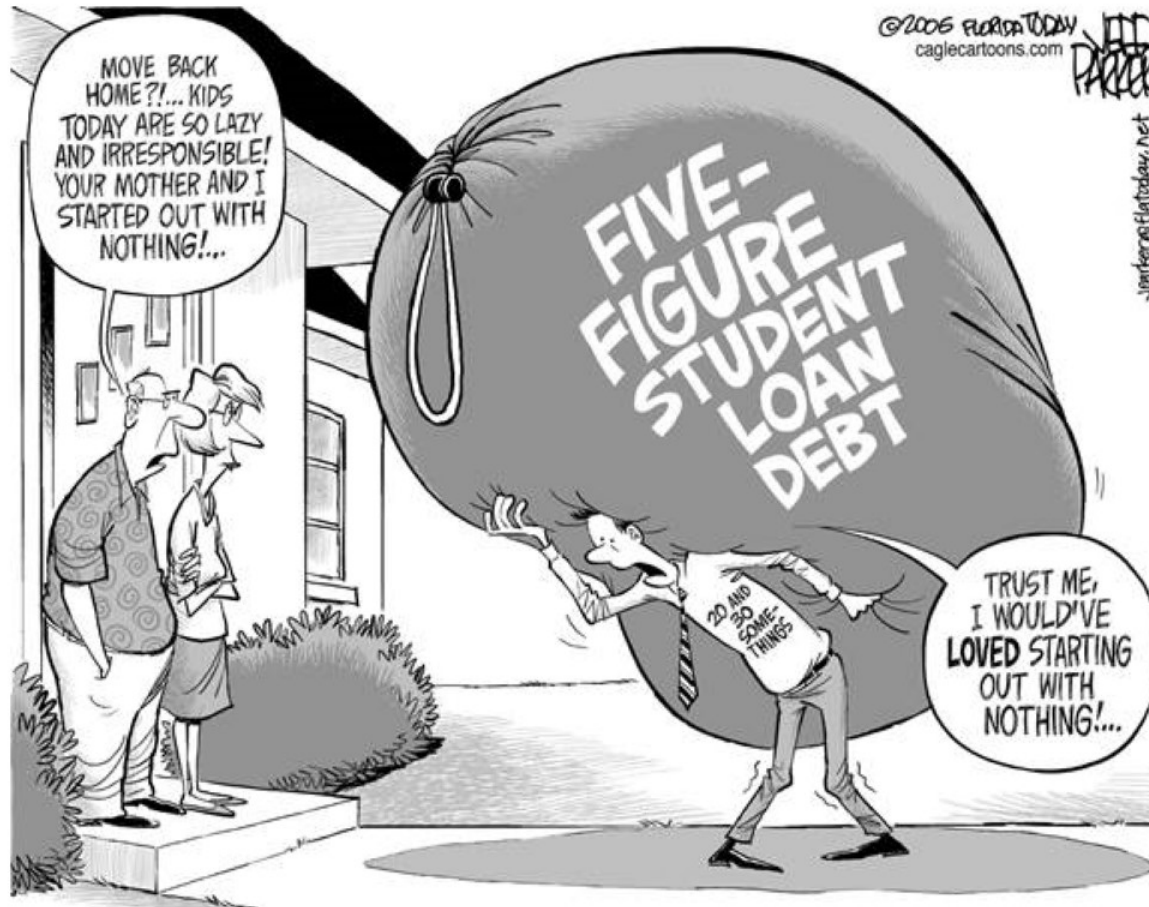
# MA! WHERE'S THE MEATLOAF?!

## United States: Male Adults Living At Home

(percent of total male adults aged 18-34)



Notes:  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff

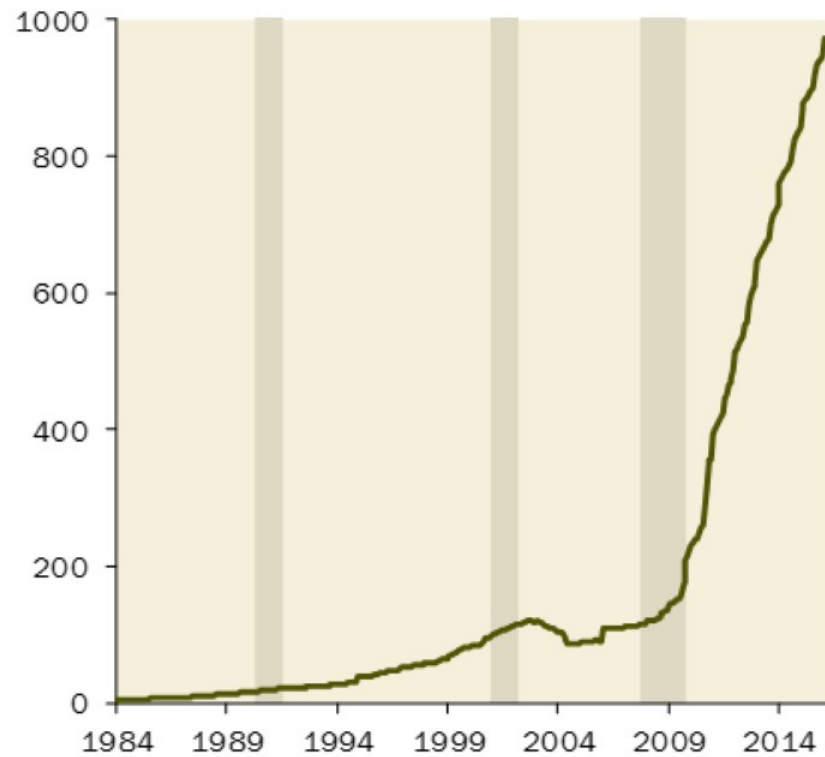


# STUDENT DEBT GETS A FAILING GRADE

## United States: Student Loans Outstanding

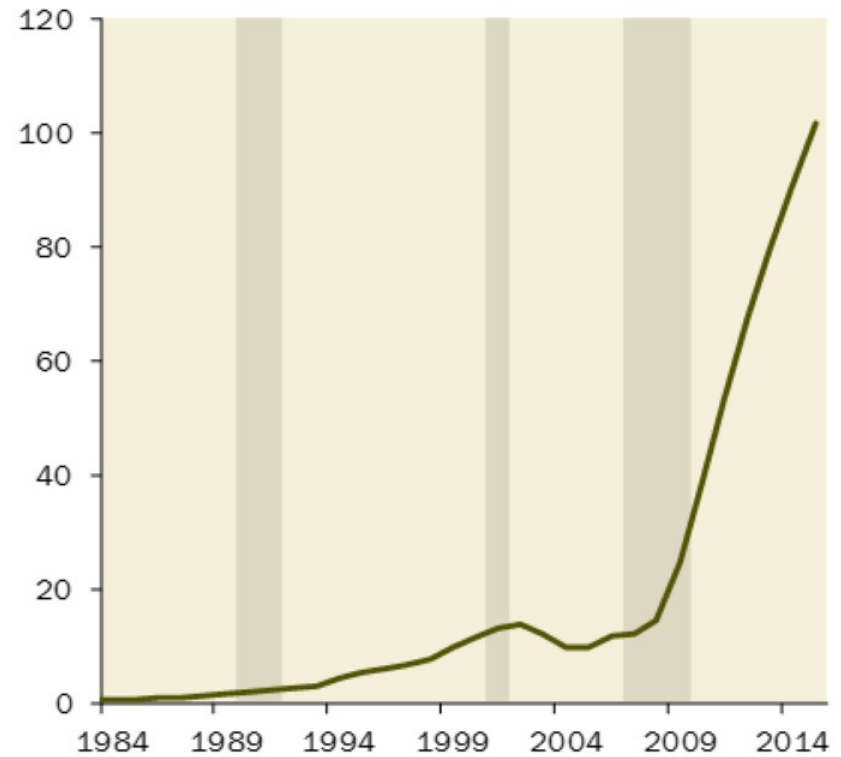
### Total

(billions)



### Per College Grad

(thousands)



**Notes:**

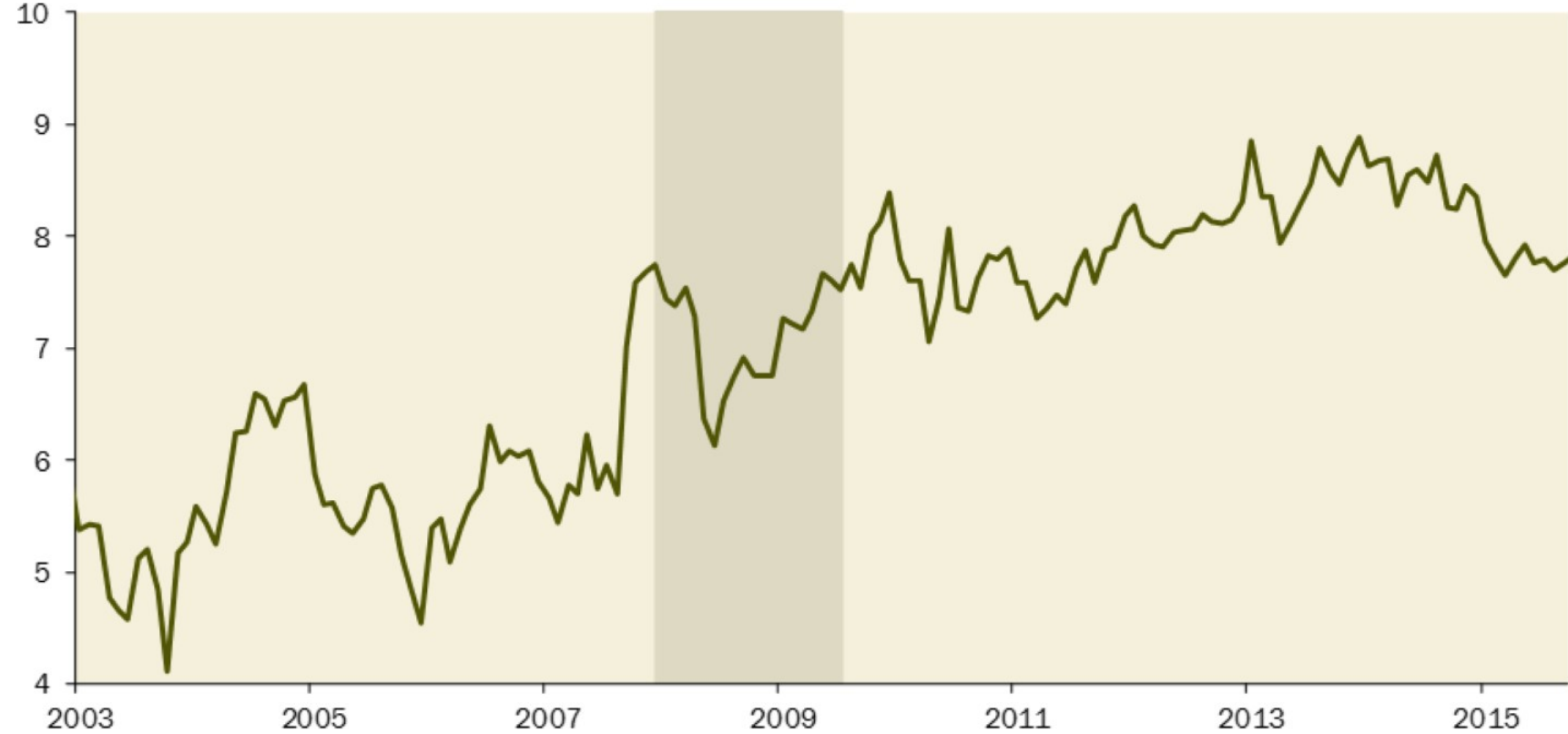
Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

# DELINQUENT STUDENT LOANS

## United States

(percent of student loans outstanding)



**Notes:**  
Shaded region represents period of U.S. recession  
Source: Haver Analytics, Gluskin Sheff



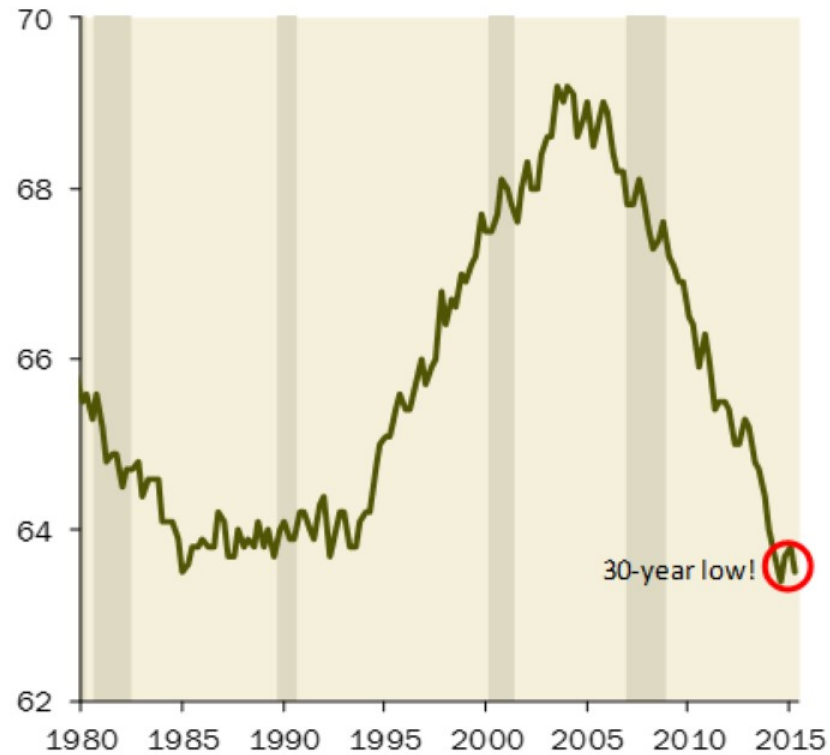


# THE AMERICAN DREAM (NIGHTMARE?) ...

## United States: Homeownership Rate

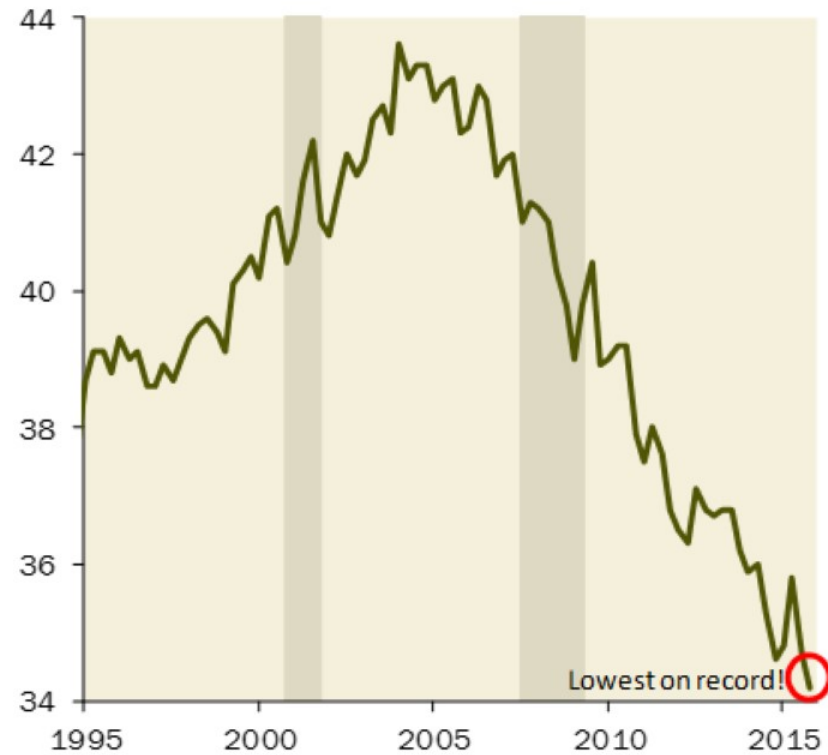
### All Ages

(percent)



### <35 Years of Age

(percent)



**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

## HOME SALES STILL AT RECESSIONARY LEVELS

### United States: New One-Family Homes Sold

(millions)



**Notes:**

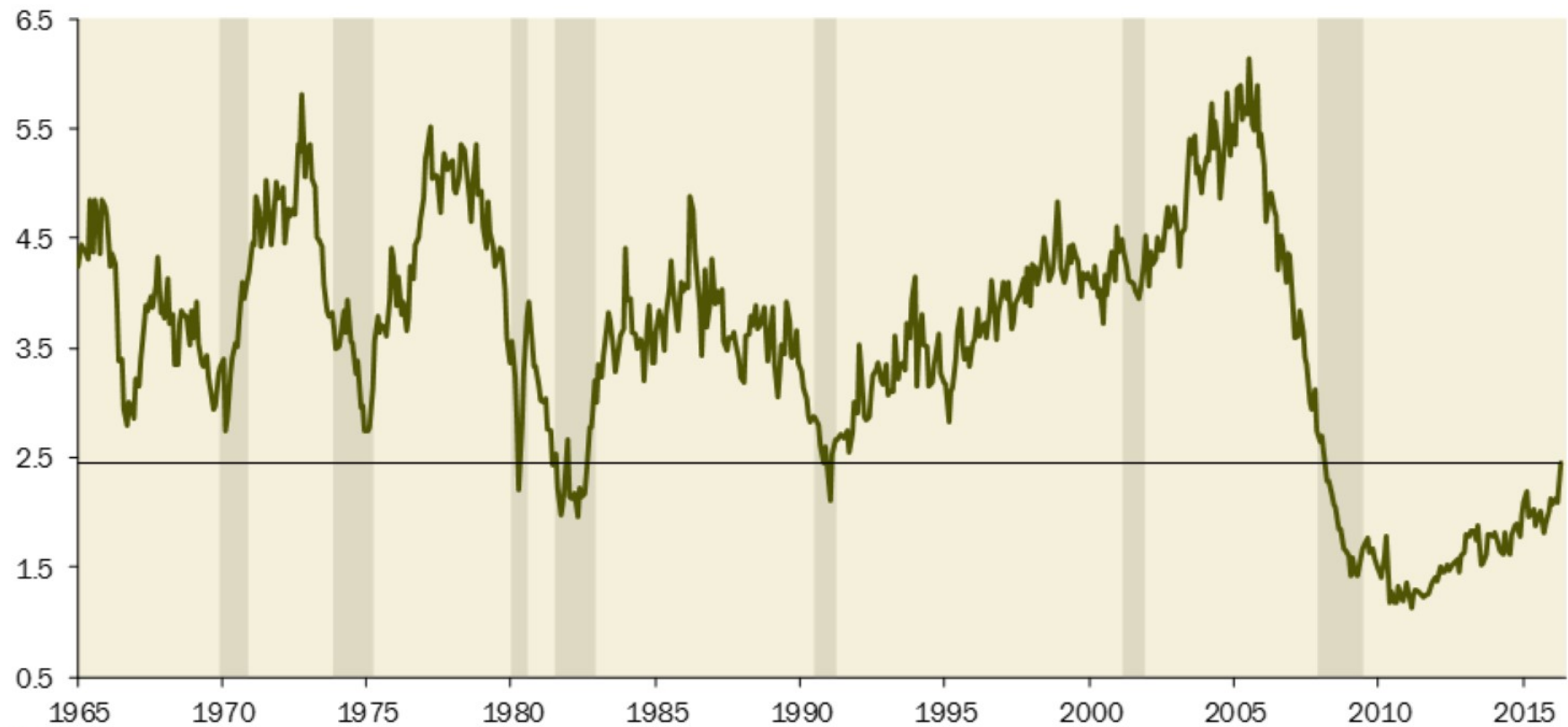
Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

## FOR MORE PERSPECTIVE: HOW NEW HOME SALES LOOK ON A PER CAPITA BASIS

### United States: New One-Family Homes Sold

(sales per 1000 people)



**Notes:**

Shaded regions represent periods of U.S. recession

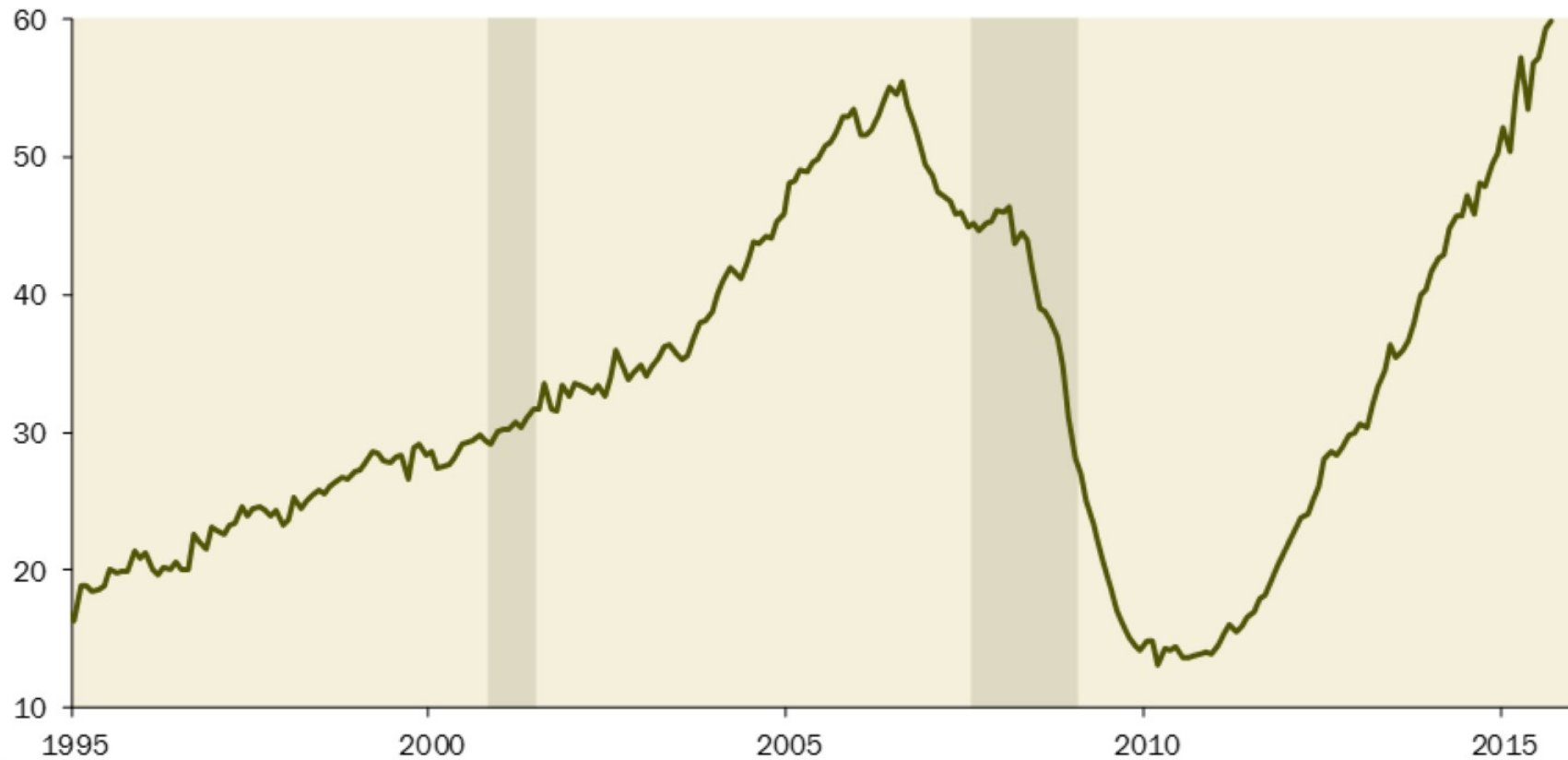
Source: Haver Analytics, Gluskin Sheff



## THE BULL MARKET IS IN RENTAL HOUSING

### United States: Multiple-Family Residential Construction Spending

(billions of U.S. dollars)



**Notes:**

Shaded regions represent periods of U.S. recession

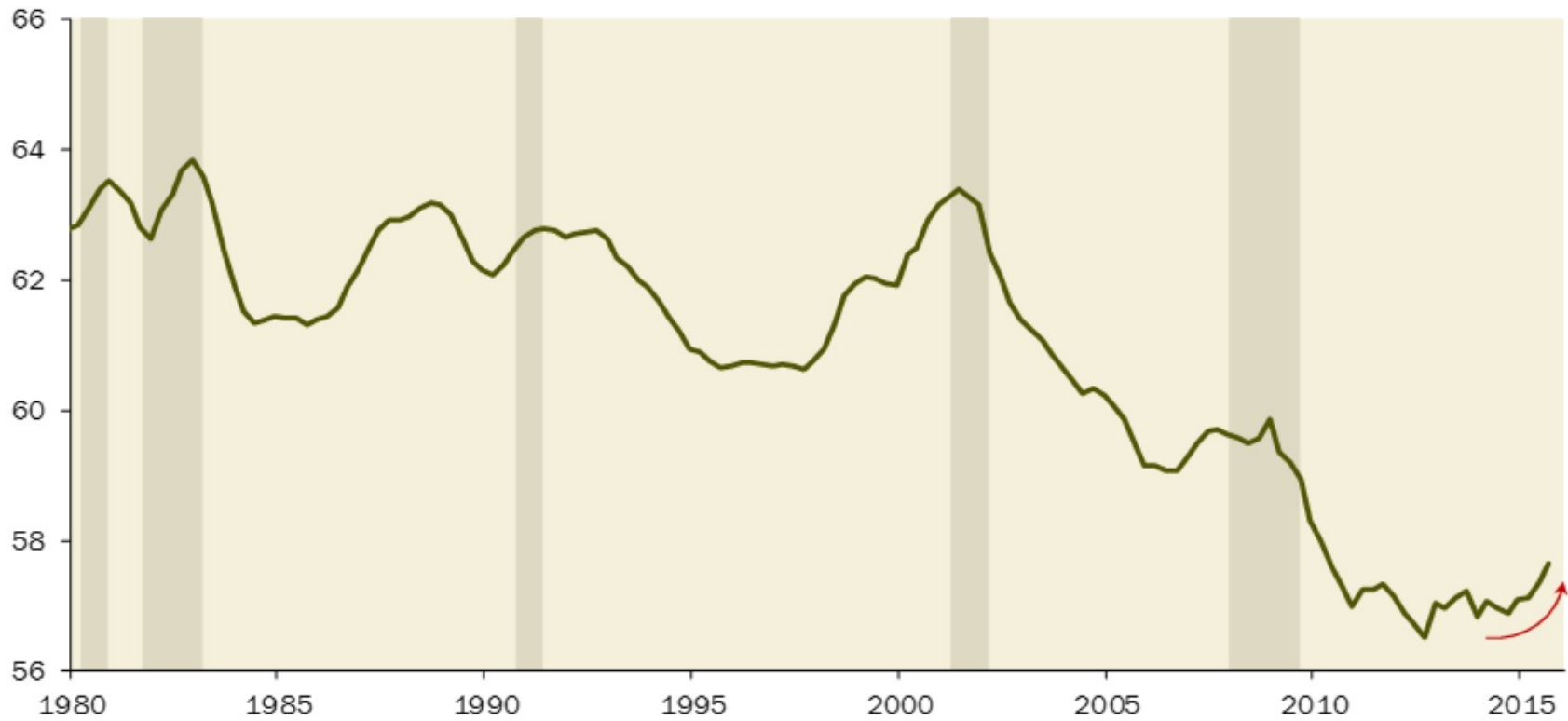
Source: Haver Analytics, Gluskin Sheff



# LABOR PAINS TO COME TO AN END?

## United States: Labour Share of National Income

(percent, four-quarter average)



**Notes:**

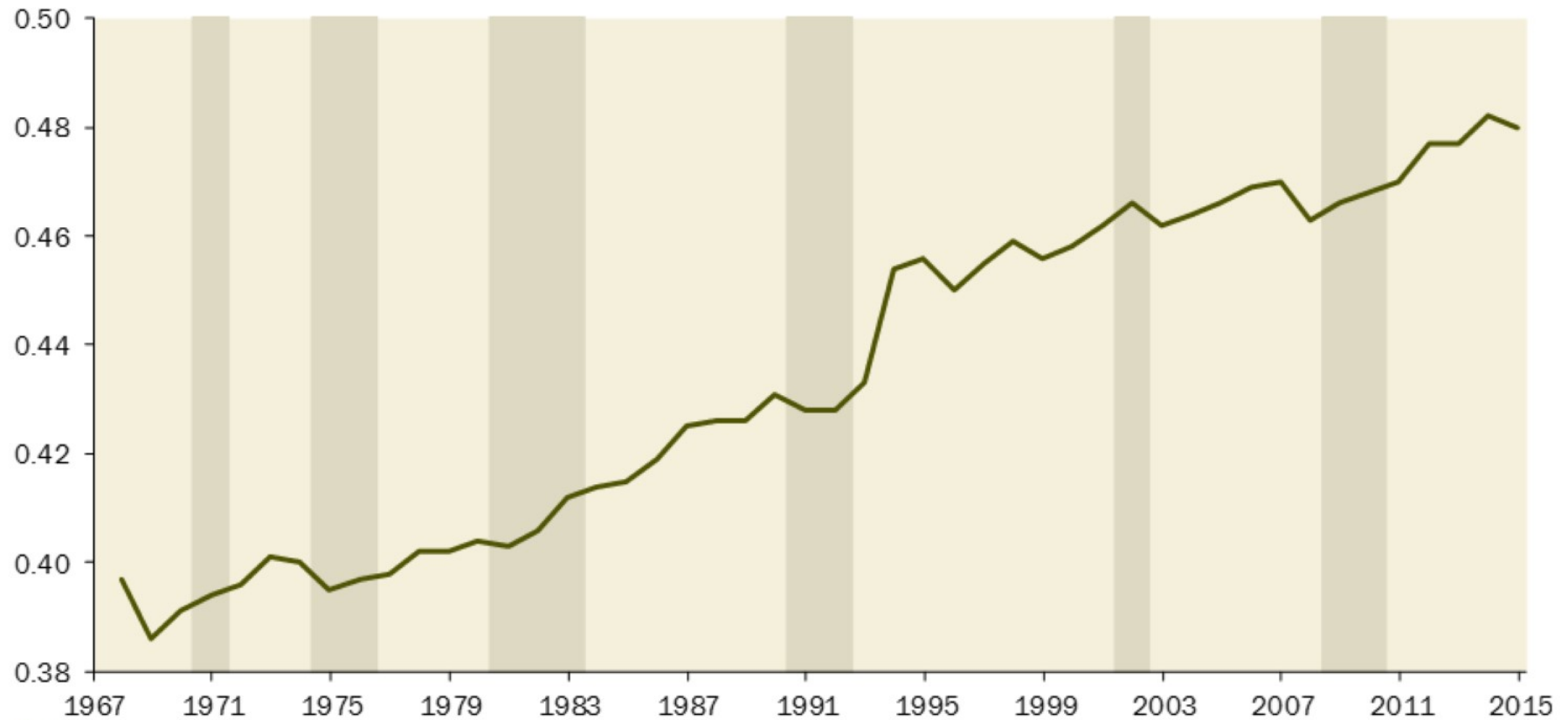
Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

## INCOME INEQUALITY WIDENS FURTHER (LET THEM EAT CAKE?)

### United States: Gini Coefficient

(ratio; 0 represents perfect equality, 1 represents perfect inequality)



**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

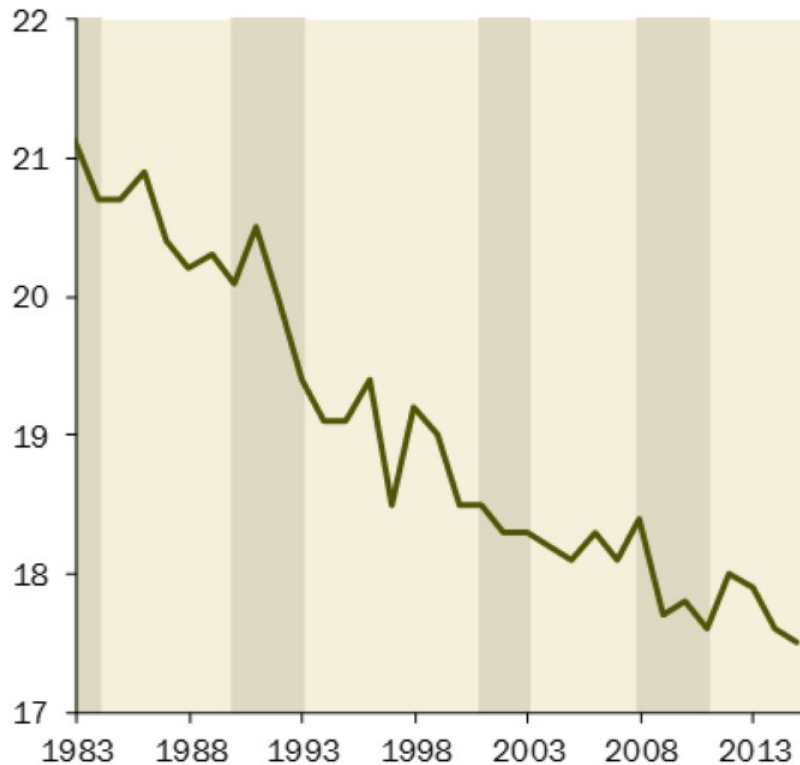


## AND THESE CHARTS COME TO THE SAME CONCLUSION

### United States: Share of Income

#### Those Earning \$50,000 - \$75,000

(percent)



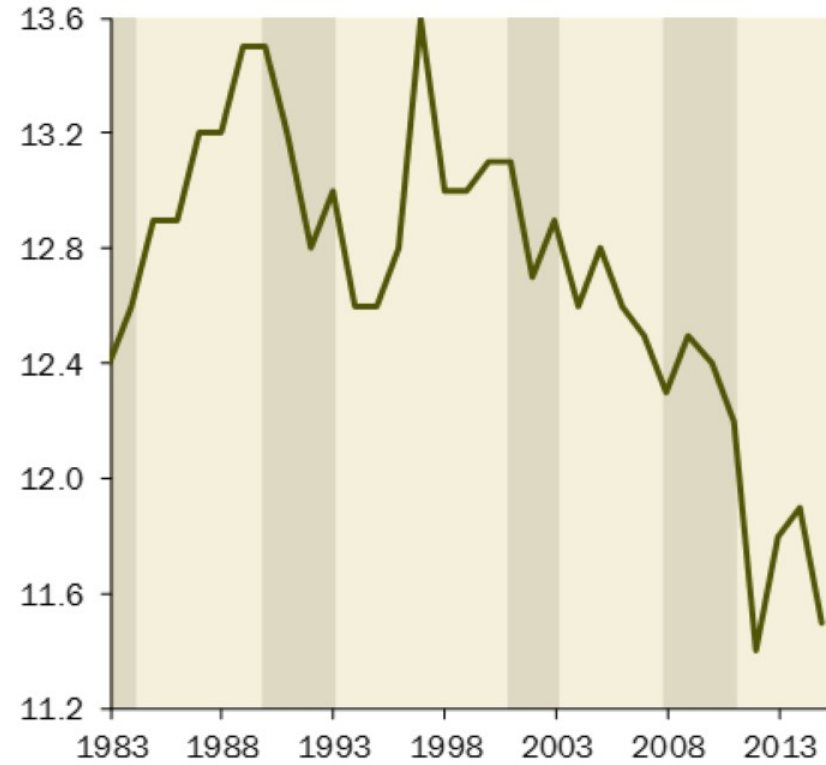
**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

#### Those Earning \$75,000 - \$100,000

(percent)

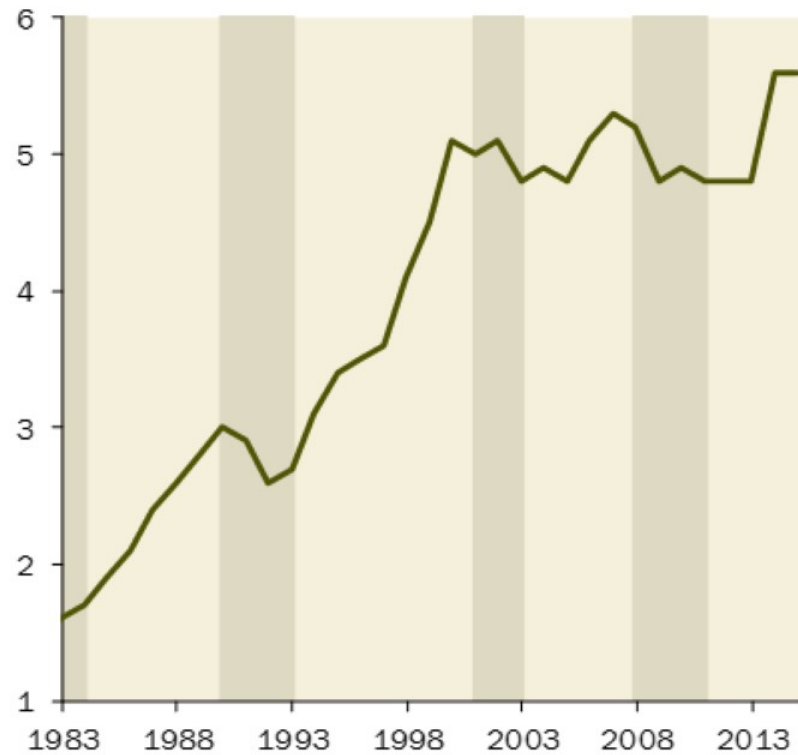


# THE FAT CATS GET FATTER

## United States: Share of Income

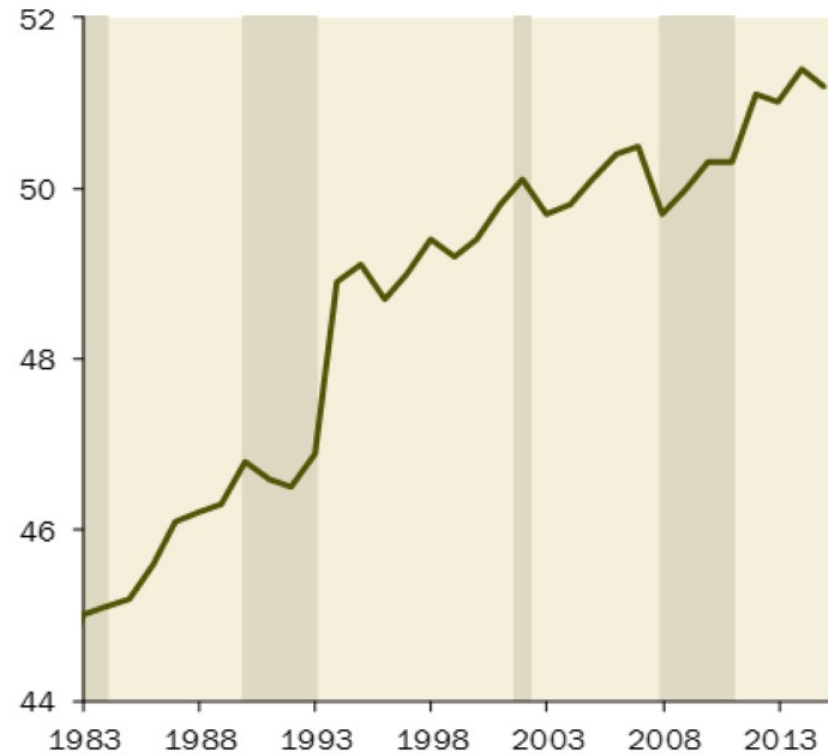
### Those Earning >\$200,000

(percent)



### Top 20% of Income Earners

(percent)



**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

## THE TEN COMMANDMENTS – CHECK OUT NUMBER TEN

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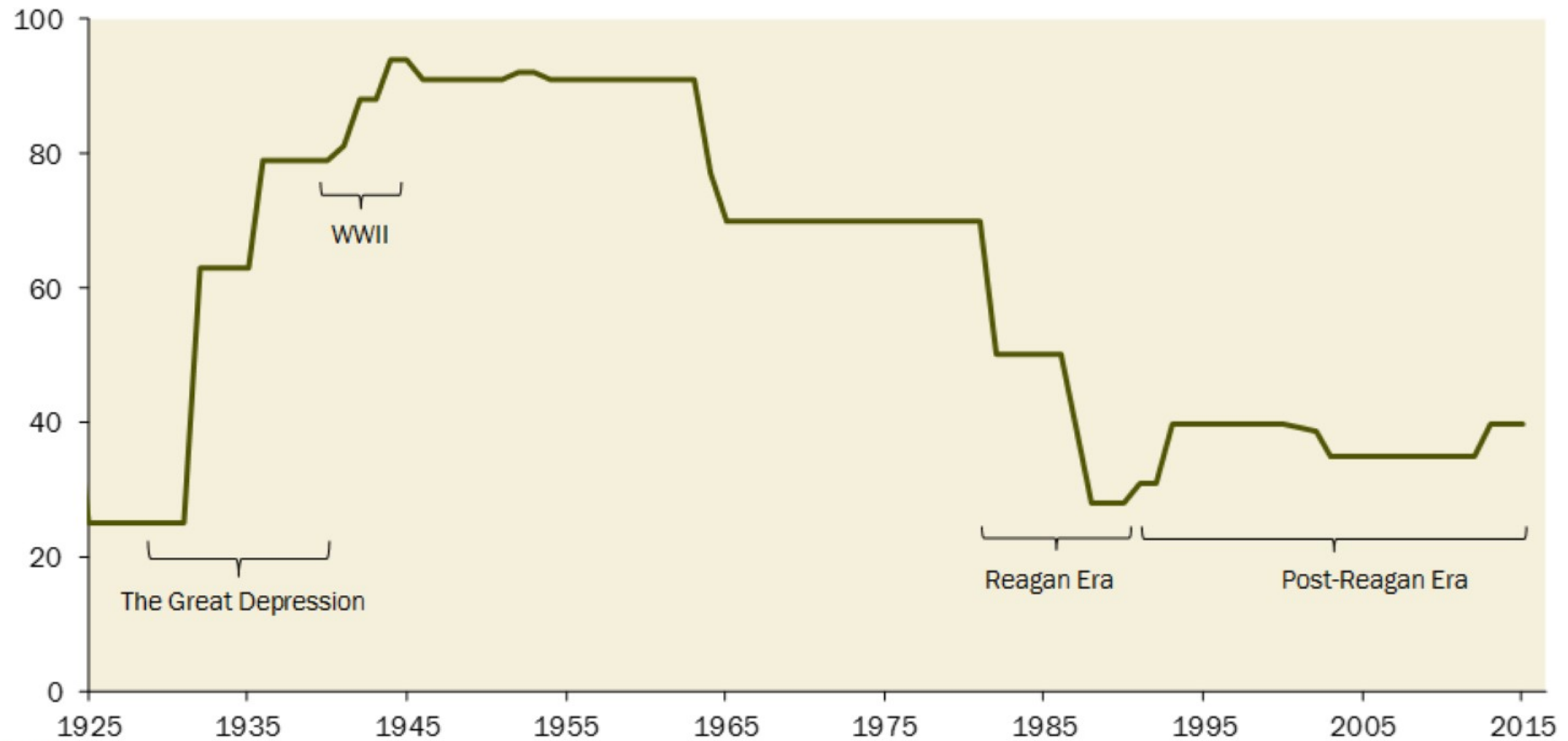
One	Do not worship any other gods
Two	Do not make any idols
Three	Do not misuse God's name
Four	Keep the Sabbath holy
Five	Honor your father and mother
Six	Do not commit murder
Seven	Do not commit adultery
Eight	Do not steal
Nine	Do not bear false witness
<b><u>Ten</u></b>	<b><u>Do not covet thy neighbor's house</u></b>



# TOP PERSONAL MARGINAL TAX RATE: WAS IN THE NINETIES IN THE THIRTIES

## United States

(percent)



Notes:

Source: Internal Revenue Service, Gluskin Sheff



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# FORTUNE



**Notes:**

*Fortune* - March 22<sup>nd</sup> 2016

## **These Millionaires Are Begging New York State to Raise Their Taxes**

“We can well afford to pay our current taxes, and we can afford to pay even more.”

A group of about 50 New York State millionaires, according to the Associated Press, have sent an open letter to Governor Andrew Cuomo and “legislative leaders” supporting higher taxes for the wealthy to fund programs to address income inequality and infrastructure investment. The group is backing a tax policy proposal from the Fiscal Policy Institute, a New York-based liberal think tank.

## PIKETTY THE PICK-POCKET

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“When it comes to decreasing inequalities of wealth for good or reducing unusually high levels of public debt, a progressive tax on capital is generally a better tool than inflation.”

–T. Piketty



**Notes:**

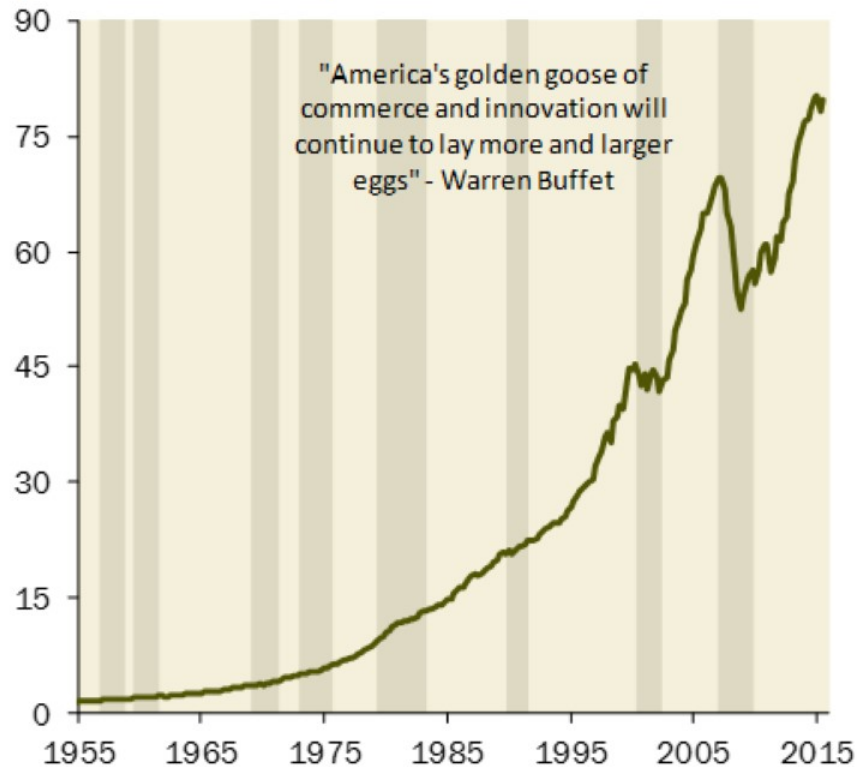
Source: Thomas Piketty, *Capital in the Twenty-First Century*

# AMERICA'S GOLDEN GOOSE

## United States

### Net Wealth

(trillions of U.S. dollars)



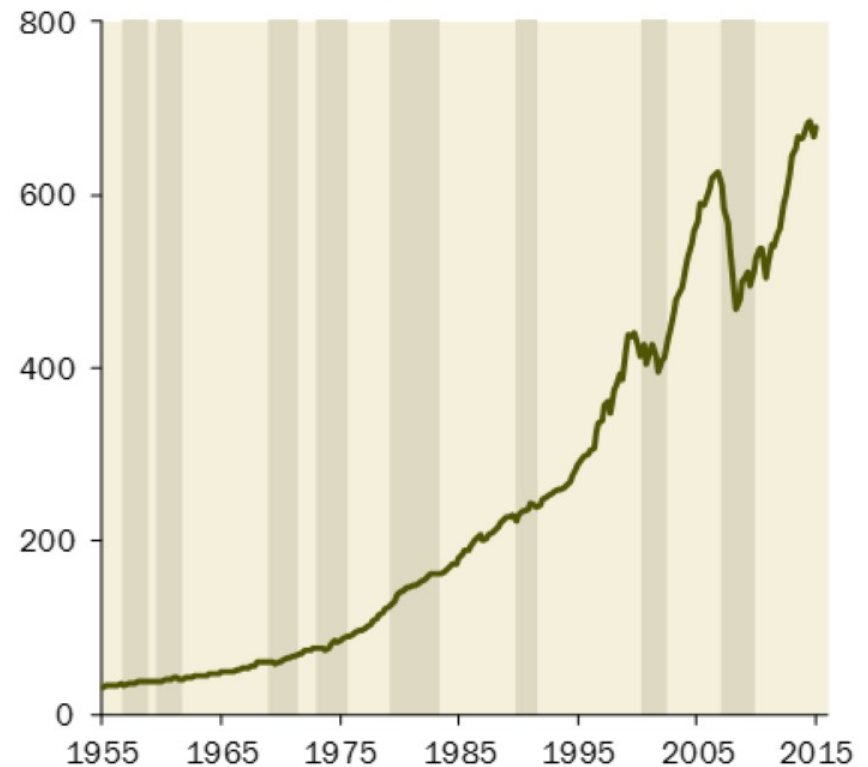
**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

### Net Wealth per Household

(thousands of U.S. dollars)





# UNCLE SAM'S LONG ARM (A.K.A. CONFISCATION HAS A PRECEDENCE!)





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# THE WALL STREET JOURNAL.

## Trump, Sanders and the Populist Anti-Policy Surge

By Pete Peterson

If there's one thing that unites the populist campaigns of Donald Trump and Bernie Sanders, it's a desire to put the "public" back into "public policy." Many Americans apparently feel that policy is something done to them, rather than with them. They disdain the unknown "experts" in distant Washington, D.C., who devise everything from trade deals to overtime rules.

As the dean of a graduate school in public policy, I've been thinking: Are programs like mine partly responsible for this state of affairs? How should graduates in the Class of 2016 react as they enter a world increasingly skeptical of their expertise?

It's true that government has often failed to engage citizens. During a recent conference on land use at Pepperdine, the planning director of a large California city explained it this way: "The problem is that we always put people up in front of the public who are the least prepared to be there."

Her staff were experts in the technical aspects of their work—from limits on building heights to requirements for setbacks. But she recognized that when her planners met

ago in *Public Administration Review*, "privilege bureaucratic expertise and marginalize the deliberative role of unorganized interests and citizens in agency deliberations."

The general tendencies of these academic programs toward quantitative knowledge and standardized solutions has created what we see today: from local planners who don't listen, to White House advisers who believe that ObamaCare passed because of the "stupidity of the American voter."

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Washington 'experts' stir many Americans' loathing. Time to put the public back into public policy.

---

At Pepperdine, we host a training series titled "Public Engagement: The Vital Leadership Skill." More than 1,000 public officials have taken part, learning the basics of facilitating input from citizens. We developed the program about five years ago after realizing that many midcareer public leaders never learned these skills in college and graduate school.

political particles." That was in 1953.

Public-policy programs should integrate essential quantitative coursework into a liberal-arts approach. Students should read what the *Great Books* say about the role of a citizen in a democracy, while studying what the latest social-psychology research shows about the myriad biases people bring to "fact based" decision-making. These will help them see that the policy they develop for Rome, Ga., may not work in Rome, N.Y. (or Rome, Italy, for that matter) and that some government services might be better provided by a local nonprofit or through collaboration with the private sector.

Second, schools must teach a set of skills—how to facilitate public meetings or publicize them to increase participation. The "public comment" process by which local boards and councils usually involve citizens does not succeed at informing either the public or policy makers. In 2013 Pepperdine, working with the League of California Cities, surveyed over 900 public officials. Seventy-six percent said that their public meetings were "typically dominated by people with narrow agendas."

It's the same phenomenon that played out in the conflagrations

known as town halls when ObamaCare was being passed. Citizens came out in force against the bill, but Congress passed it anyway. Some argue that these failed public meetings led to the creation of America's last populist movement: the tea party.

Finally, students of public policy should be taught about the role of technology in mediating the relationship between the citizen and his government. A couple of months ago, my hometown of Santa Monica invited me via Facebook to complete an online survey regarding a downtown building project. Tomorrow's public leaders must be prepared to involve and inform residents in ways the private sector has employed for decades—engaging them on social media, or posting budget data online to increase transparency.

In the months ahead, thousands of future leaders will be awarded degrees in public policy. Meanwhile, graduate schools should ponder the role they play in American democracy—and how they can respond to the populist moment that is upending politics (and policy) as usual.

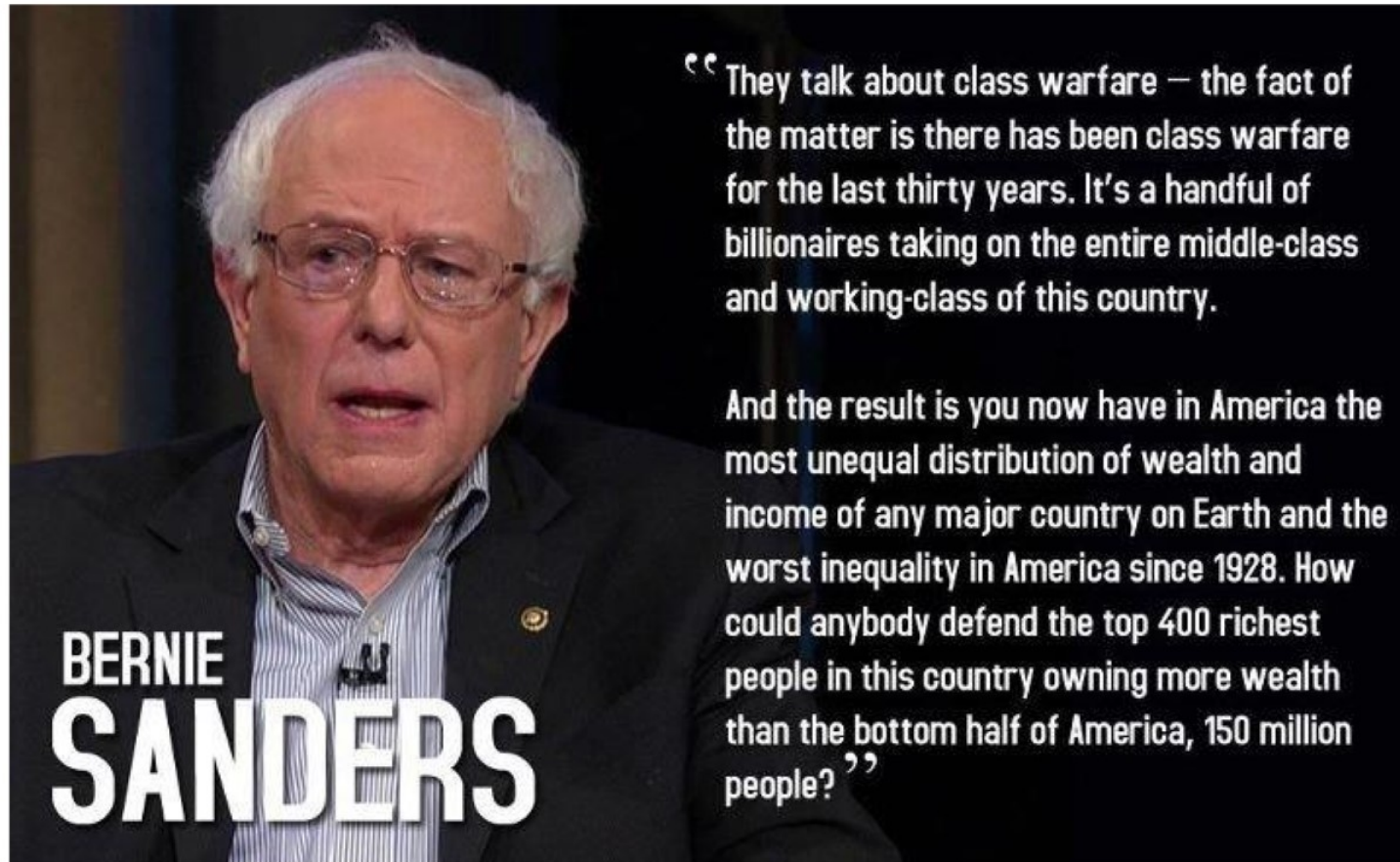
*Mr. Peterson is the dean of the Pepperdine School of Public Policy.*

### Notes:

Wall Street Journal - May 20<sup>th</sup> 2016

## FEEL THE BERN!

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“They talk about class warfare – the fact of the matter is there has been class warfare for the last thirty years. It’s a handful of billionaires taking on the entire middle-class and working-class of this country.

And the result is you now have in America the most unequal distribution of wealth and income of any major country on Earth and the worst inequality in America since 1928. How could anybody defend the top 400 richest people in this country owning more wealth than the bottom half of America, 150 million people?”



Hillary Clinton is making income inequality a central theme in her campaign. Yeah, for example, today she pointed out that her husband makes \$300 million a year. She has to get by on \$200 million a year, and that's not fair.

— Conan O'Brien —

AZ QUOTES



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# THE WALL STREET JOURNAL.

## Businessman Says Wealthy Could See Their Taxes Rise

By ROBECCA BALLHAUS  
AND RICHARD RUBIN

Donald Trump said his ambitious package of across-the-board tax cuts is meant to serve as a starting point for negotiations with Congress, and that taxes actually could rise for upper-income households if needed to win cuts for the middle class.

"I'll tell you what the real concept is," the presumptive Republican presidential nominee said in an ABC interview that aired Sunday. "Lower taxes for business, lower taxes for the middle class, lower taxes for everybody and then we're going to start negotiating."

On tax rates for the wealthy, Mr. Trump said, "In my plan they're going down, but by the time it's negotiated, they'll go up," due to pressure from Democratic lawmakers.

Asked about high-income individuals such as himself, he said: "I have a feeling we may pay some more.... We've got to do something. I mean I wouldn't mind paying more."

In a separate interview on NBC that also aired Sunday, Mr. Trump said his tax proposal was essentially a starting point for negotia-

tions, and he didn't expect Congress to pass it as is. "I have no illusion. I don't think that's going to be the final plan," he said.

How far Mr. Trump is willing to negotiate on his tax plan remained murky. He told NBC that "the middle class has to be protected. The rich is probably going to end up paying more. And business might have to pay a little bit more. But we're giving a massive business tax cut."

When asked to explain that how businesses could get a tax increase and reduction, he said businesses "might have to pay a little bit more than my proposal, not more than they pay now." His campaign didn't respond to a request for further clarification.

Last week, Mr. Trump indicated to CNBC that his priority was to protect tax cuts for the middle class, that he wasn't "necessarily a huge fan" of the way the cuts in his plan were distributed and could see some rates rise in a negotiation.

Mr. Trump's tax proposal, released last fall, would lower rates for all income groups. It would drop the top rate on business income for individuals to 15% from 39.6%, and the top rate on corporations to

15% from 35%. He also would repeal the estate tax and remove millions of middle-income families from the income-tax rolls.

The plan was estimated to boost the after-tax incomes of the wealthiest households by an average of more than \$1.3 million a year, according to analysis by the nonpartisan Tax Policy Center. The analysis said the plan would reduce tax collections by \$9.5 trillion over a decade, making it several times as large as President George W. Bush's cuts in 2001 and 2003 while removing 22% of projected federal revenue.

Mr. Trump also appeared to be hashing out conflicting instincts on the federal minimum wage, currently \$7.25 an hour. In past months, he forcefully opposed raising it, saying higher wages would make the U.S. less competitive. But in the ABC interview, he said, "I haven't decided in terms of numbers. But I think people have to get more."

On NBC Mr. Trump said: "I don't know how people make it on \$7.25 an hour. Now, with that being said, I would like to see an increase of some magnitude. But I'd rather leave it to the states."

### Notes:

Wall Street Journal - May 9<sup>th</sup> 2016

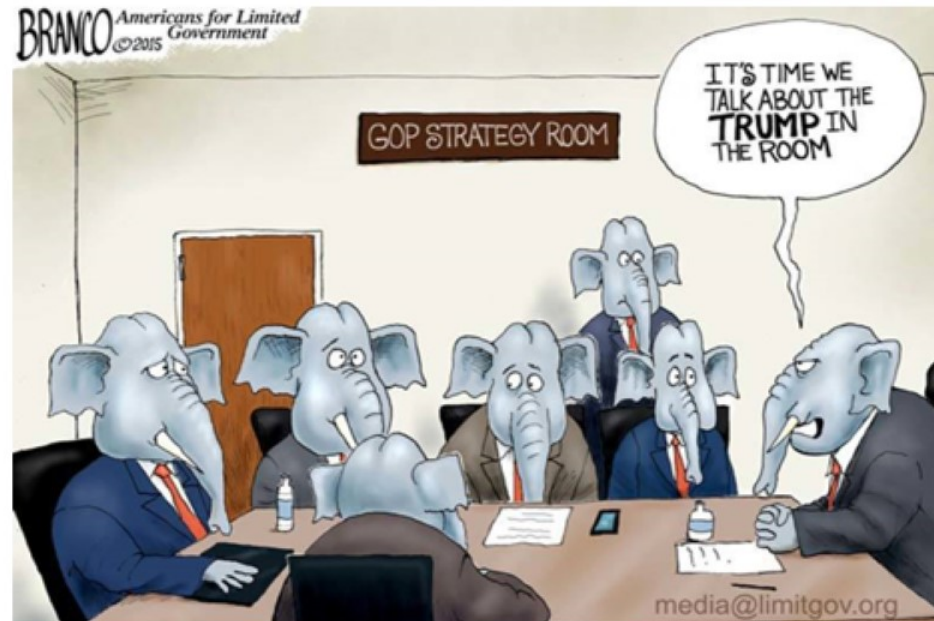


## TRUMP THE TAXMAN?

“For the wealthy, I think, frankly, it’s going to go up. And you know what? It really should go up.” – The Donald

“Now, when it comes time to negotiate, I feel less concerned with the rich than I do with the middle class.” – The Donald

“We lower the taxes on the middle class, on business. And we lower the taxes on everybody, very substantially.” – The Donald



**Notes:**

NBC News, Meet the Press, May 8<sup>th</sup> 2016

**PRESS HERE FOR 'DEFEASANCE'**

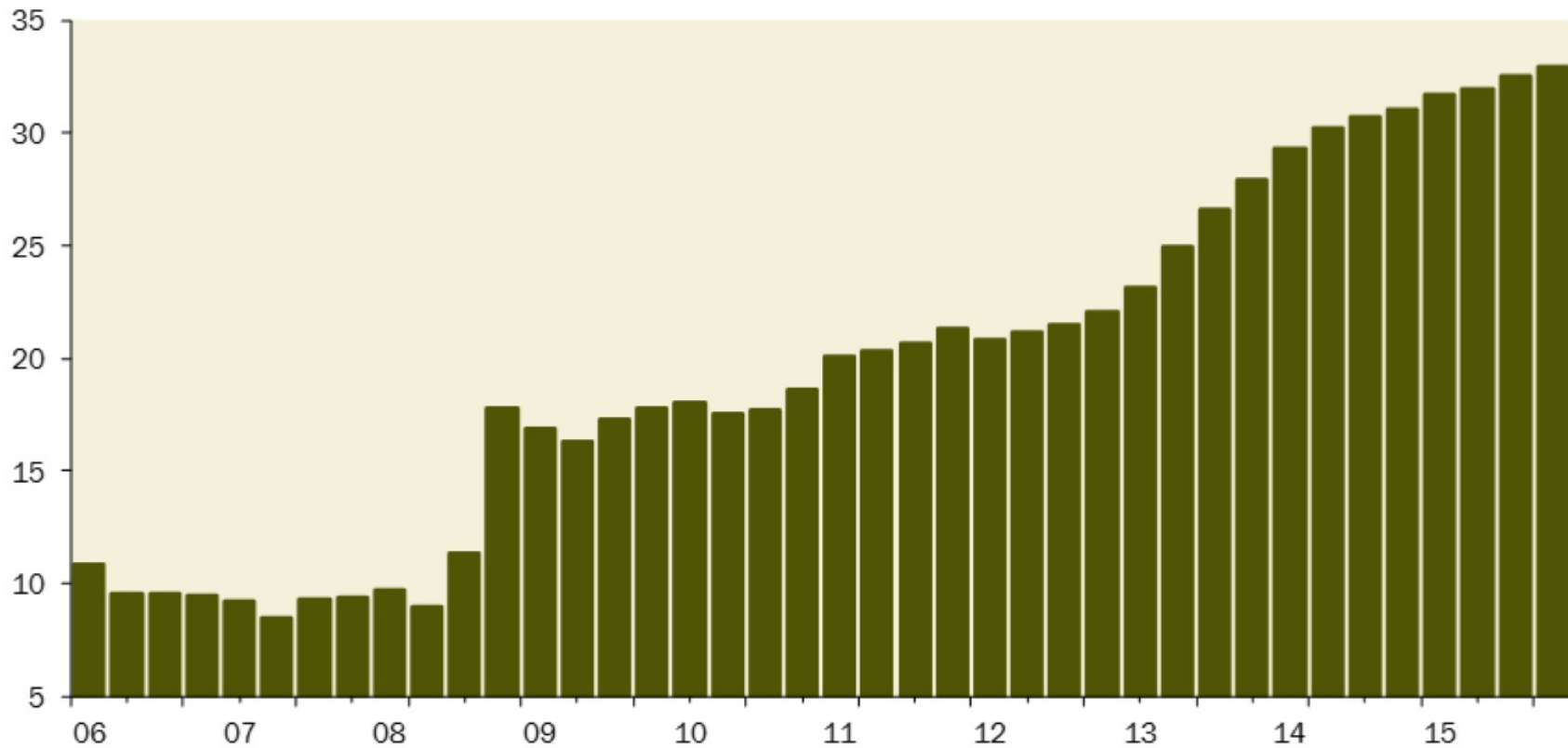
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## CENTRAL BANKS GOBBLING UP THE BOND MARKET

### Bank of England, European Central Bank, Bank of Japan & Federal Reserve Assets

(percent of nominal GDP)



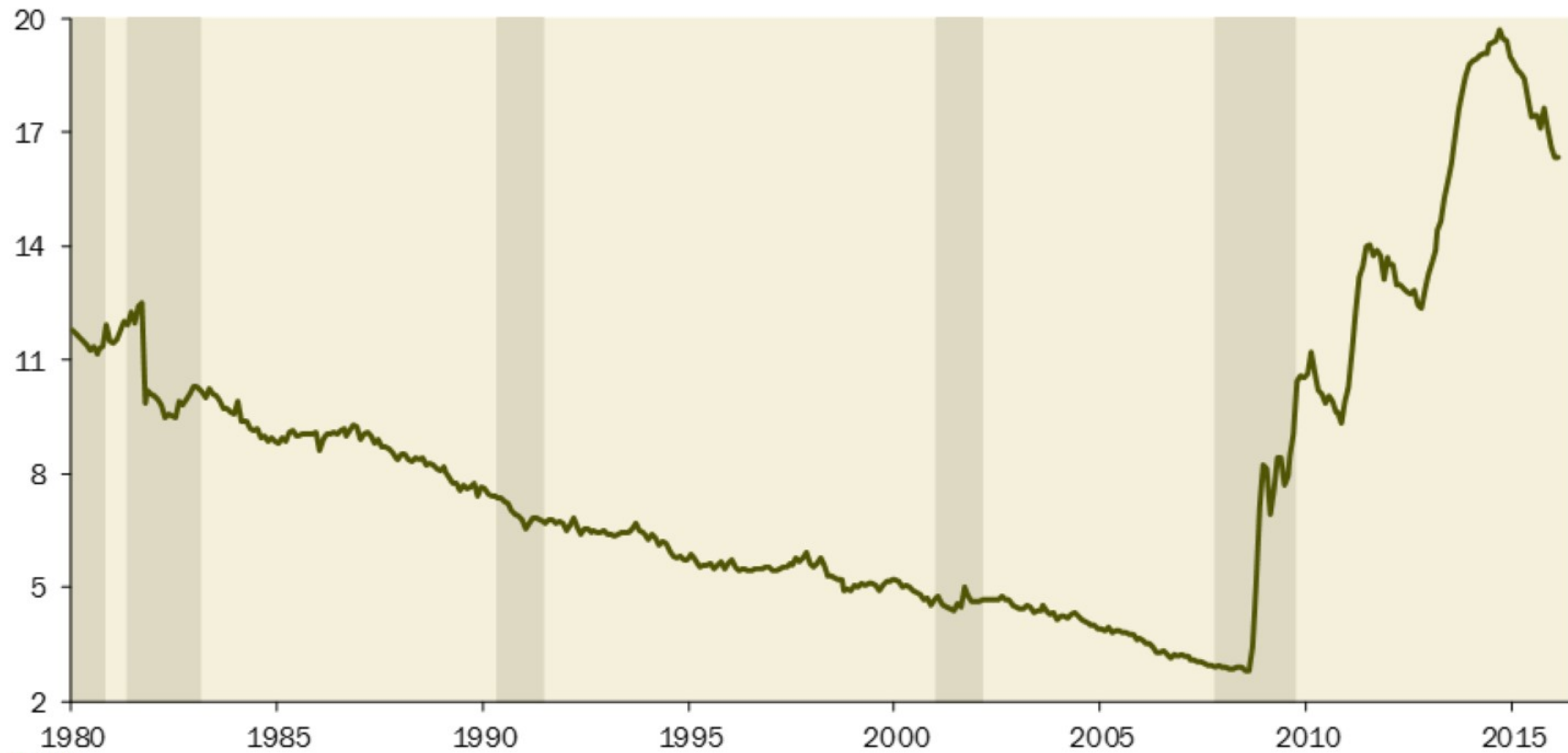
Notes:

Source: Haver Analytics, Gluskin Sheff

## CASH AS A SHARE OF TOTAL BANK ASSETS

### United States

(percent)



**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

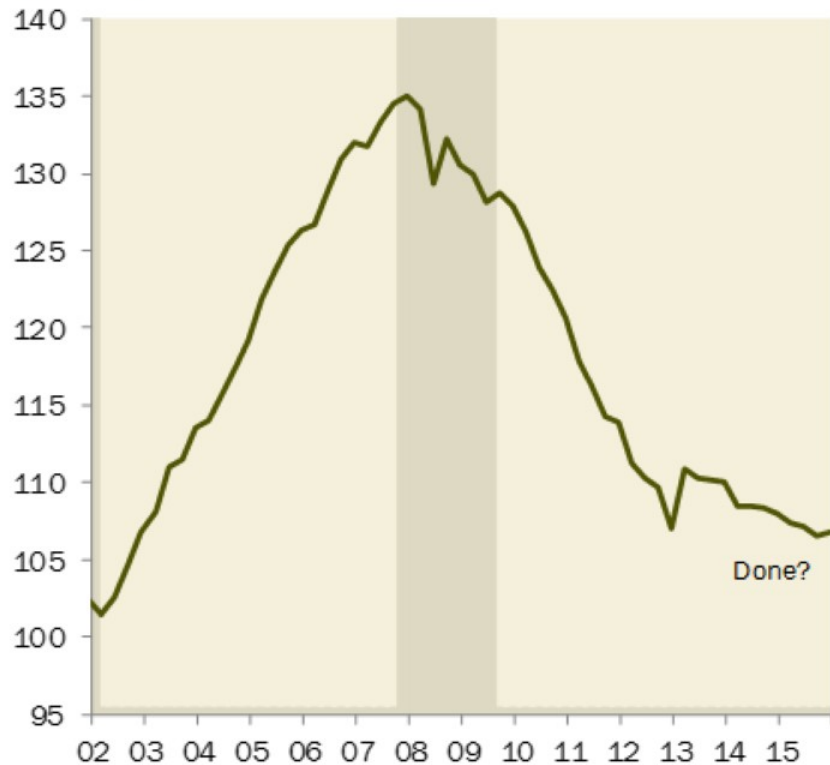


# A MULTI-YEAR DELEVERAGING PROCESS

## United States: Household Debt-to-Income

### Near-Term View

(percent)



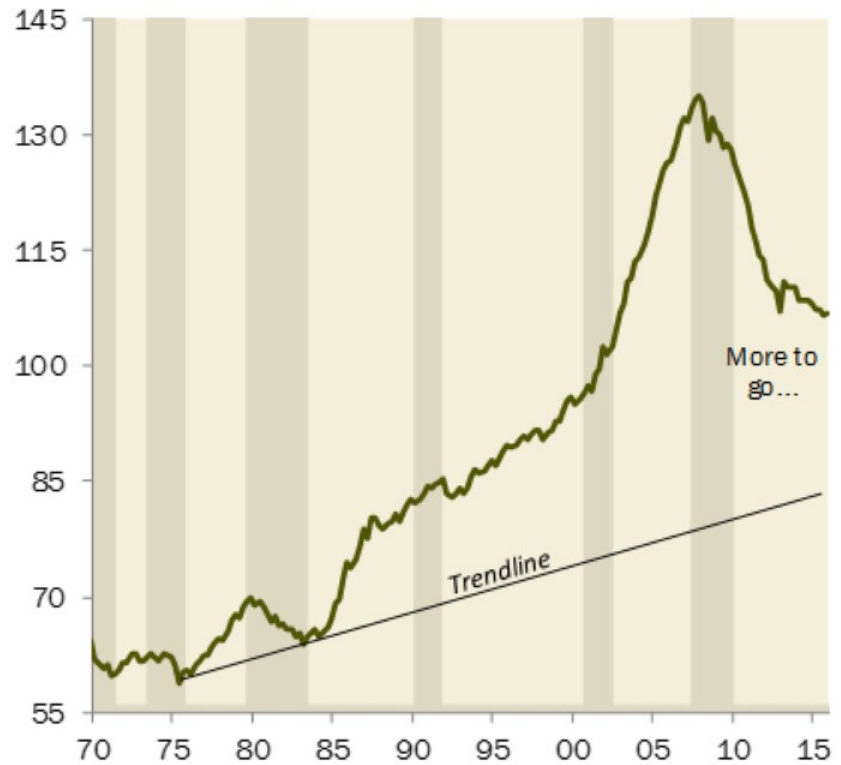
**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

### Long-Term View

(percent)



## A LOSS OF VELOCITY

### Velocity of Money: Nominal GDP/Money Supply

#### M1 Velocity

(ratio)

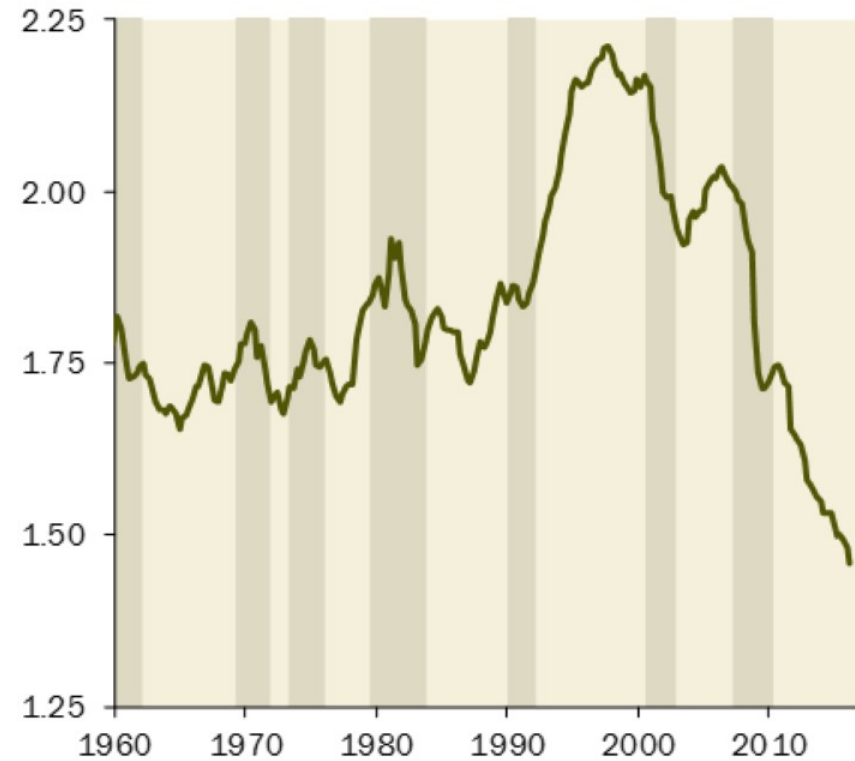


Notes:

Source: Haver Analytics, Gluskin Sheff

#### M2 Velocity

(ratio)





# THE WALL STREET JOURNAL

## Negative Rates Upend the World

A Swiss bank enters uncharted territory, and signs are positive

**Accentuating the Negative: a Global Phenomenon**  
Governments have issued more than \$1 trillion of debt that now trades at negative rates.

By Alex Lipton

**NEGATIVE-YIELDING BONDS BY COUNTRY**

Country	Percentage of Total Government Debt
Belgium	20%
Sweden	15%
Finland	10%
Denmark	5%
Netherlands	5%
Ireland	5%

German life insurers feel pain of low rates and face pressure to boost capital levels

By Matthew Soberg Shue and Paul J. Davis

Central life insurers are caught in a pincer that could eventually threaten their survival. Regulators are forcing them to boost capital levels at the same time that low rates make it hard to make money with their investments.

The question is how far before the tide turns here.

## Would Negative Rates Work in the U.S.?

With rates near zero, hypothetical question could turn real if economy needs boost

By Kate Dossman

The debate over negative interest rates is heating up. On the other side are economists such as former Fed Chairman Ben Bernanke who say pushing U.S. rates a bit lower wouldn't be enough to get growth going. There's a lot of debate over negative interest rates, though the extent varied by institution from one-quarter of a percentage point to more than 4%.

A new percentage-point decline in rates could reduce earnings per share by 2% at Citigroup Inc., while a decline of one-quarter of a point would lower Wells Fargo Corp.'s earnings per share by 2%.

Some Fed governors, however, say that lower rates would be a net benefit to the U.S. economy. They argue that banks could lend less if their rates drop, but, he said, "It's not obvious to me that it's a net benefit."

If the goal of negative rates is to stimulate lower inflation rates to the wider economy, banks' negative rates could be a net benefit, says the Fed's chief economist, Brian Buntin. "If negative policy puts

## Japan's Subzero Rates Cast Chill Over Markets

BY ELEANOR WARNOCK AND MAYUMI NEGISHI

TOKYO—Japan's two-month experiment with negative interest rates as it attempts to bolster economic growth. The BOJ "will not hesitate to take additional easing measures in response to developments in

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THE WALL STREET JOURNAL

Last Week: **DJA** 17535.32 ▼ 205.31 1.16% **S&P** 2046.61 ▼ 0.51% **NASDAQ** 4717.68 ▼ 0.39% **10-YR. TREAS.** (new), yield 1.74%

## Negative-Rate Fight Brews

Spanish, Portuguese bankers debate whether lenders should ever pay mortgage holders

As interest rates in Europe fall near or below zero, lawmakers and consumer advocates in Spain and Portugal are attacking an ancient tenet of finance by insisting that lenders can't charge borrowers more than the cost of funds.

Portugal's central-bank governor, in a reversal, has rushed to defend the banks against a proposed law that would require them to pay borrowers when interest rates turn negative. Banks in both countries are now from each other. In addition, interest rates in both countries include a fixed percentage of the loan, called the spread. In much of Europe, by contrast, fixed mortgage rates are common.

Further down the road, the last year after the European Central Bank cut interest rates below zero—charging lenders to hold deposits—to stimulate the Continent's economy. That has

while lenders consider further steep drops unlikely, they are taking steps to protect themselves just in case.

Europe already has a precedent: Banks in Denmark are paying thousands of borrowers interest on their home loans, nearly four years after the central bank introduced negative rates. Danish banks have increased some fees to compensate but never mounted serious

**Notes:**

Wall Street Journal - April 15 2016 / May 18<sup>th</sup> 2016





FEDERAL RESERVE BANK *of* ST. LOUIS  
CENTRAL to AMERICA'S ECONOMY®

## Negative Interest Rates: A Tax in Sheep's Clothing

Monday, May 02, 2016

By Christopher J. Waller, Executive Vice President and Director of Research

**“But a negative interest rate is just a tax on the banks’ reserves. The tax has to be borne by someone:**

- The banks can choose not to pass it on and just have lower after-tax profits. This will depress the share price of banks and weaken their balance sheets by having lower equity values.
- The banks can pass the tax onto depositors by paying a lower interest rate on deposits or charging them fees for holding the deposits. In either case, depositors have less income to spend on goods and services.
- The bank can pass the tax onto borrowers by charging them a higher interest rate on a loan or higher fees for processing the loan. In either case, it is more costly to finance purchases of goods and services by borrowing.

**None of this sounds very “stimulative” for consumer spending. But then, no tax ever is.”**

**Notes:**

St. Louis Federal Reserve Board – May 2<sup>nd</sup> 2016

72

## DEUTERONOMY 15: THE DEBT JUBILEE!

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1. **At the end of every seven years you must cancel debts.** 2. This is the manner of remission: every creditor shall release what he has loaned to his neighbor; he shall not exact it of his neighbor and his brother, because the LORD'S remission has been proclaimed. 3. **Beware that there is no base thought in your heart, saying, 'The seventh year, the year of remission, is near,' and your eye is hostile toward your poor brother, and you give him nothing; then he may cry to the LORD against you, and it will be a sin in you.** 4. However, there need be no poor people among you, for in the land the LORD your God is giving you to possess as your inheritance, he will richly bless you, if only you fully obey the LORD your God and are careful to follow all these commands I am giving you today. 5. For the LORD your God will bless you as he has promised. 6. If anyone is poor among your fellow citizens in any of the towns of the land the LORD your God is giving you, do not be hardhearted or tightfisted toward them. 7. Rather, be openhanded and freely lend them whatever they need.



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# THE WALL STREET JOURNAL.

## The Next Step: A 'Helicopter Drop'

When modern banking first emerged in medieval Italy, European mathematicians regarded negative numbers as absurd. Six hundred years on, the successors to the Medicis and Peruzzis face negative interest rates, and while negative numbers



**STREETWISE**  
**JAMES**  
**MACKINTOSH**

are widely accepted now, negative rates aren't.

Negative rates invert the norms of banking.

Borrowers are paid for

lending thanks to quantitative easing. Any bank might try to pass on the reserves, but for the system as a whole they can't be passed on.

Another perverse effect is visible in Switzerland, which has pursued negative rates most aggressively in its efforts to hold down the value of the franc. Most banks have been unwilling to pass on negative rates to individual depositors and have tried to compensate for profits by jacking up mortgage rates, even as headline interest rates fall.

The Swiss National Bank is quite happy with higher

rates than Sweden.

That country, which is close behind Switzerland in the aggressiveness of its monetary policy, is struggling to contain a house-price boom stoked by negative rates. Japan's shift to marginally negative rates has pushed investors to take extraordinary risks in long-dated bonds, pushing the yield on 40-year government debt down from 1.3% to 0.43%. One result: When the yield rose a little last month, holders lost almost 11 years of income in less than a day's trading.

At least these are signs

of physical cash by savers, draining money out of the system. Negative rates have pushed some to hold bank notes, with circulation of the Swiss 1,000-franc note rising at 10% a year, something it has done in the past three decades only when global fear was running high. But the scale of the shift isn't so big as to worry the central bank, so far.

Mathematicians moved on from negative numbers to imaginary numbers. For central banks, fantasy monetary policy would mean handing out money directly to the population in what econo-

### Notes:

Wall Street Journal - April 15 2016





## The Federal Reserve Board

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### Remarks by Governor Ben S. Bernanke

Before the National Economists Club, Washington, D.C.

November 21, 2002

#### Deflation: Making Sure "It" Doesn't Happen Here

*"Each of the policy options I have discussed so far involves the Fed's acting on its own. In practice, the effectiveness of anti-deflation policy could be significantly enhanced by cooperation between the monetary and fiscal authorities. A broad-based tax cut, for example, accommodated by a program of open-market purchases to alleviate any tendency for interest rates to increase, would almost certainly be an effective stimulant to consumption and hence to prices. Even if households decided not to increase consumption but instead re-balanced their portfolios by using their extra cash to acquire real and financial assets, the resulting increase in asset values would lower the cost of capital and improve the balance sheet positions of potential borrowers. A money-financed tax cut is essentially equivalent to Milton Friedman's famous "helicopter drop" of money.*

**Notes:**

Source: Federal Reserve Board, Gluskin Sheff

75





## The Federal Reserve Board

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### Remarks by Governor Ben S. Bernanke

Before the Japan Society of Monetary Economics, Tokyo, Japan

May 31, 2003

#### Some Thoughts on Monetary Policy in Japan

*“My thesis here is that cooperation between the monetary and fiscal authorities in Japan could help solve the problems that each policymaker faces on its own. Consider for example **a tax cut for households and businesses that is explicitly coupled with incremental BOJ purchases of government debt—so that the tax cut is in effect financed by money creation.** Moreover, assume that the Bank of Japan has made a commitment, by announcing a price-level target, to reflate the economy, so that much or all of the increase in the money stock is viewed as permanent.”*

**Notes:**

Source: Federal Reserve Board, Gluskin Sheff

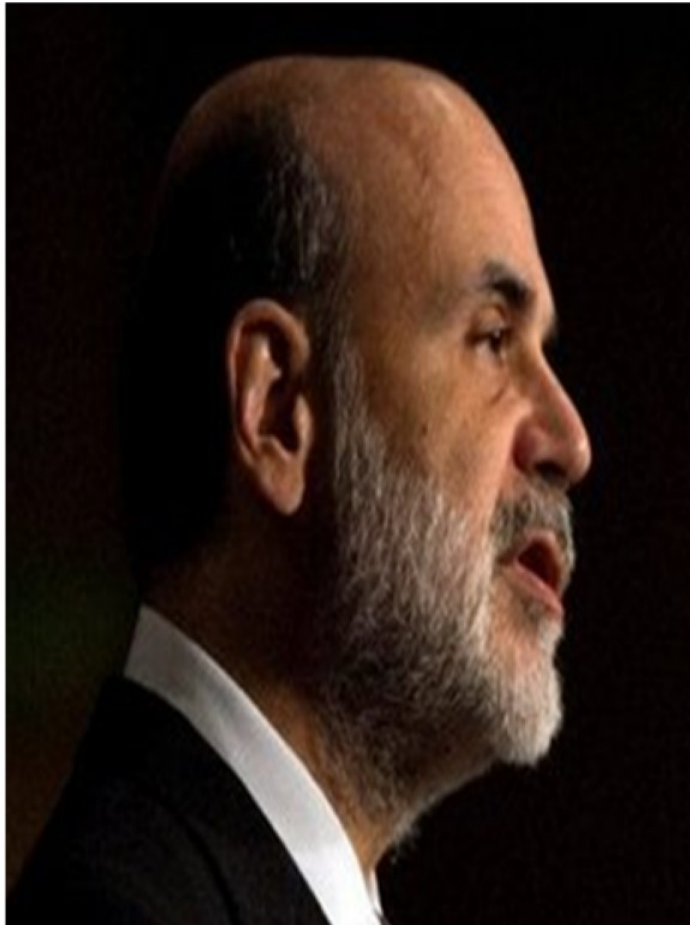
**THAT'S NOT ENOUGH WE WANT MORE INFLATION!!!**

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## HE SAID WHAT??

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**“But we are very committed to making sure that inflation does not stay too low, and we are continuing to monitor that very carefully and to take whatever actions necessary to achieve that.”**

**Ben Bernanke  
The Post-FOMC Meeting Press Conference  
December 18, 2013**

# Business Day

Y B1

WEDNESDAY, APRIL 29, 2015

The New York Times

NEWS ANALYSIS

## Issue for Fed: Is a 2% Inflation Rate High Enough?

By BINYAMIN APPELBAUM

WASHINGTON

The cardinal rule of central banking, in the United States and in most other industrial nations, is that annual inflation should run around 2 percent.

But as the Federal Reserve prepares

to start raising its benchmark interest rate later this year to keep future inflation from exceeding that pace, it is facing persistent questions about the wisdom of the rule and the possible benefits of significantly increasing its target.

Higher inflation could disrupt eco-

nomie activity, but it also would enhance the Fed's power to stimulate the economy during recessions. And some experts say the struggles of the Fed and other central banks to provide enough stimulus since the Great Recession suggest they could use more room

for maneuvering.

"Most developed countries' central banks have experienced difficulty in providing sufficient monetary stimulus to spur a robust recovery in their economies," Eric Rosengren, president of

*Continued on Page 4*





**“Rule #1: never ask for a raise during hard times.  
Rule #2: it’s always a hard time somewhere.”**

## YELLEN ABOUT WAGE GROWTH

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*I know there is perhaps one isolated measure of wage growth that suggests some uptick, but most measures of wage increase are running at very low levels. In fact, with the productivity growth we have and 2 percent inflation, one would probably expect to see, on an ongoing basis, something between — perhaps 3 and 4 percent wage inflation would be normal. Wage inflation has been running at 2 percent. So not only is it depressed, signaling weakness in the labor market, but it is certainly not flashing.*

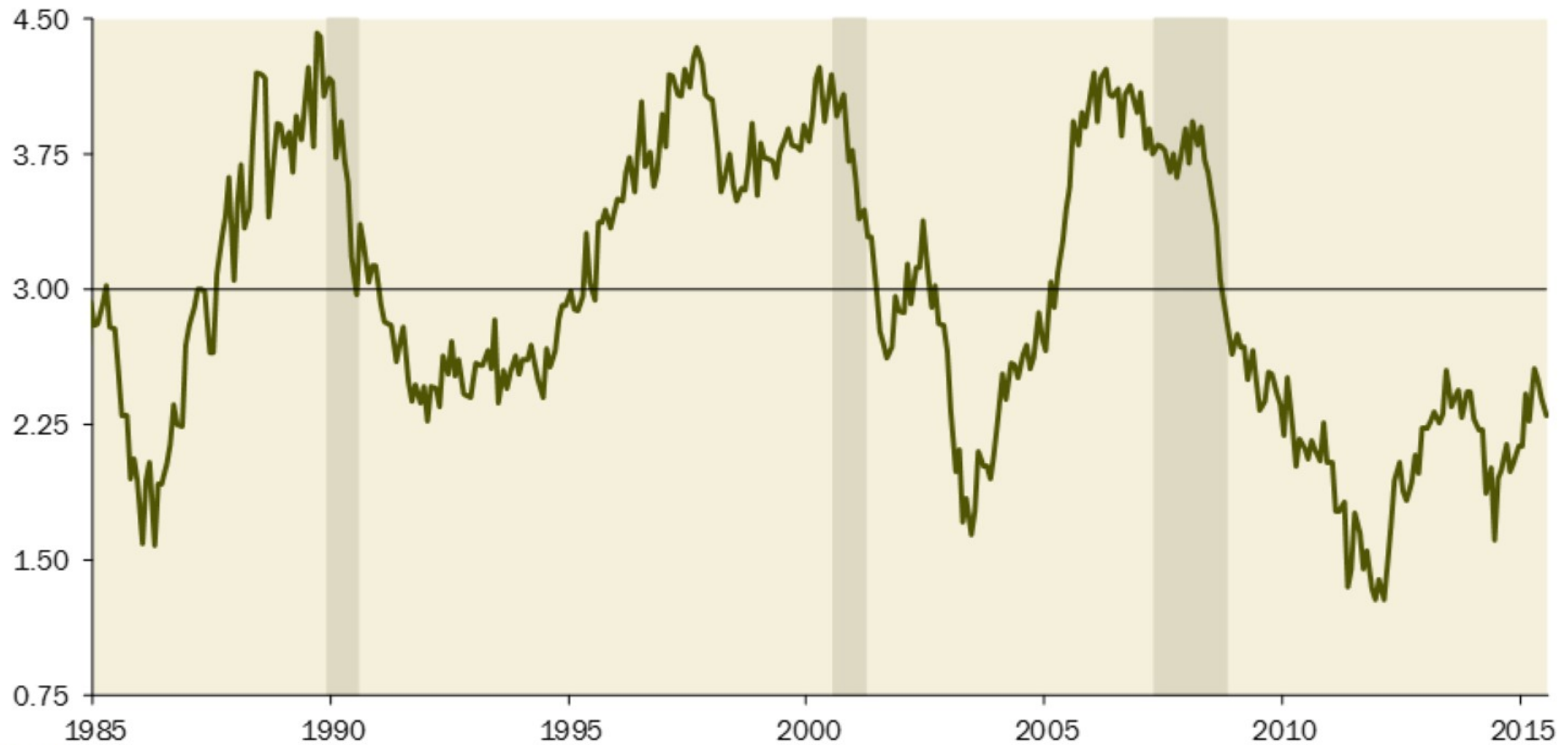
**Janet L. Yellen**  
**Post-FOMC Press Conference**  
**March 19, 2014**



## WAGE GROWTH REMAINS SUBDUED

### United States: Average Hourly Earnings

(year-over-year percent change)



**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

# Anemic Wage Growth Restraining Economy

By ERIC MORATH

Years of solid job gains are failing to produce a breakout in wages, suppressing the spark needed for a sustained pickup in economic growth.

U.S. employers for the past four years created more than 200,000 jobs a month on average. That has driven the unemployment rate down to 5% last month from above 8% in early 2012.

But wages have shown little progress. Wages and salaries for private-sectors workers advanced 2% in the first quarter from a year earlier, the Labor Department said Friday. The measure has grown near that rate, on average, since the start of 2012.

The U.S. economy, like much of the globe, is stuck in a slow-growth rut. Turmoil overseas and still-weak commodity prices are preventing the manufacturing, trade and energy sectors



Wage pressures are "nothing really any different than we've seen in the past," Jeff Shaw, executive vice president for store operations at O'Reilly Automotive Inc., told investors Thursday. "There's always a scramble for great people in the market."

Several factors are constraining wage growth.

The unemployment rate might not fully reflect the degree of slack in the labor market. Some older workers and those displaced during the recession have returned to the workforce recently, and that makes it difficult for existing workers to demand higher pay.

And productivity growth in many service fields has been low, meaning even small wage gains can feel expensive to employers in those sectors, said BNP's Ms. Rosner.

Weak wage gains are at least partially responsible for

Without growing wages, consumers aren't boosting growth. Here, a Sacramento, Calif., grocery store.

PHOTO: JEFFREY M. HORN/GETTY IMAGES/ASSOCIATED PRESS

## Notes:

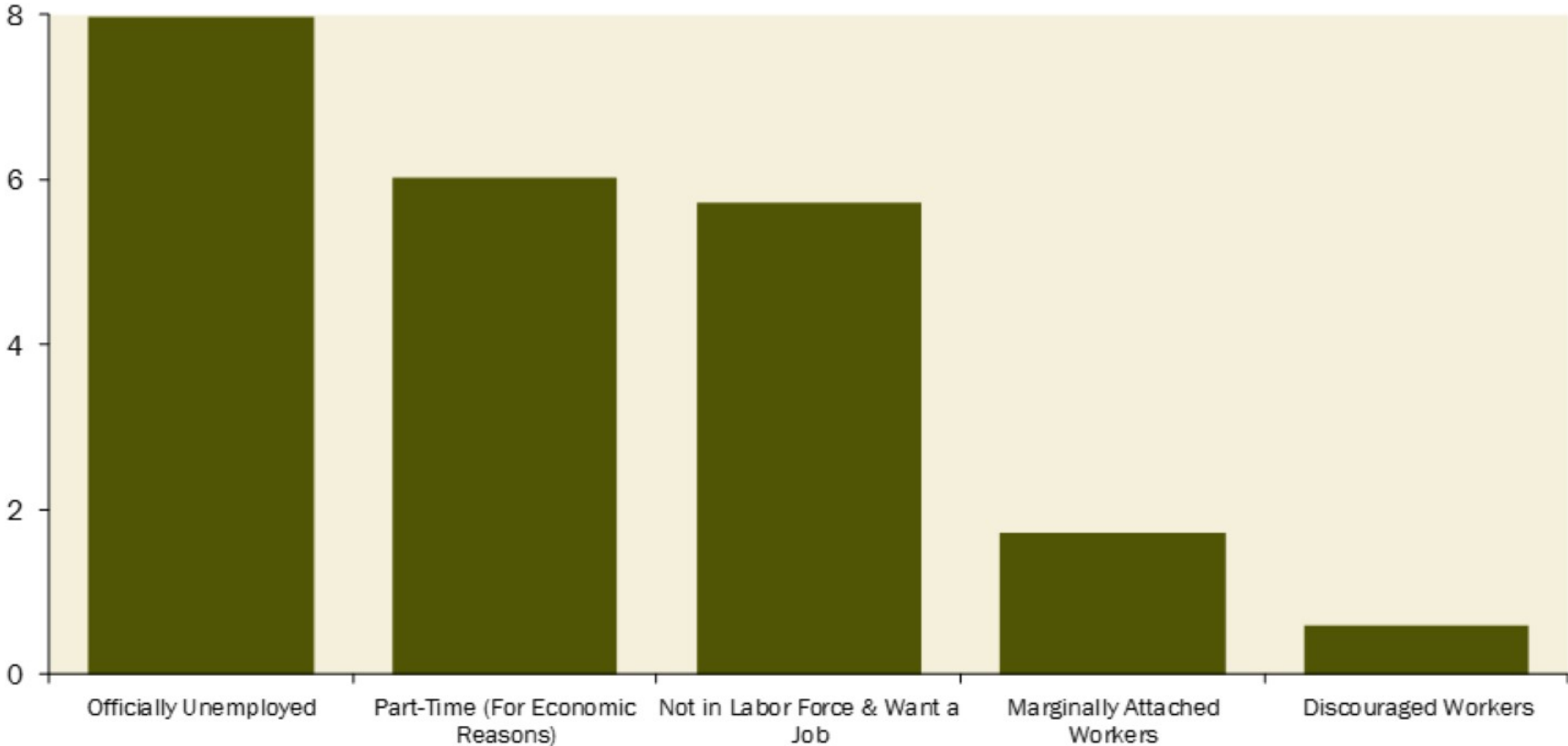
Wall Street Journal - May 1<sup>st</sup> 2016



# MORE LABOR MARKET SLACK THAN MEETS THE EYE

## United States

(millions)



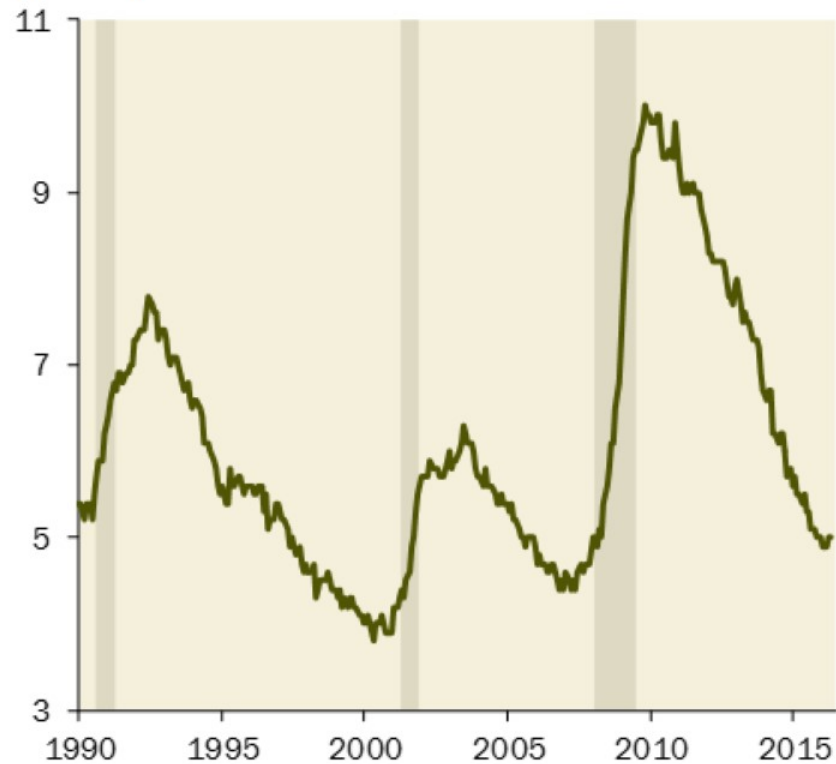
Notes:  
Source: Haver Analytics, Gluskin Sheff

# UNEMPLOYMENT RATE NOT TELLING THE WHOLE STORY

## United States

### U-3 Unemployment Rate

(percent)



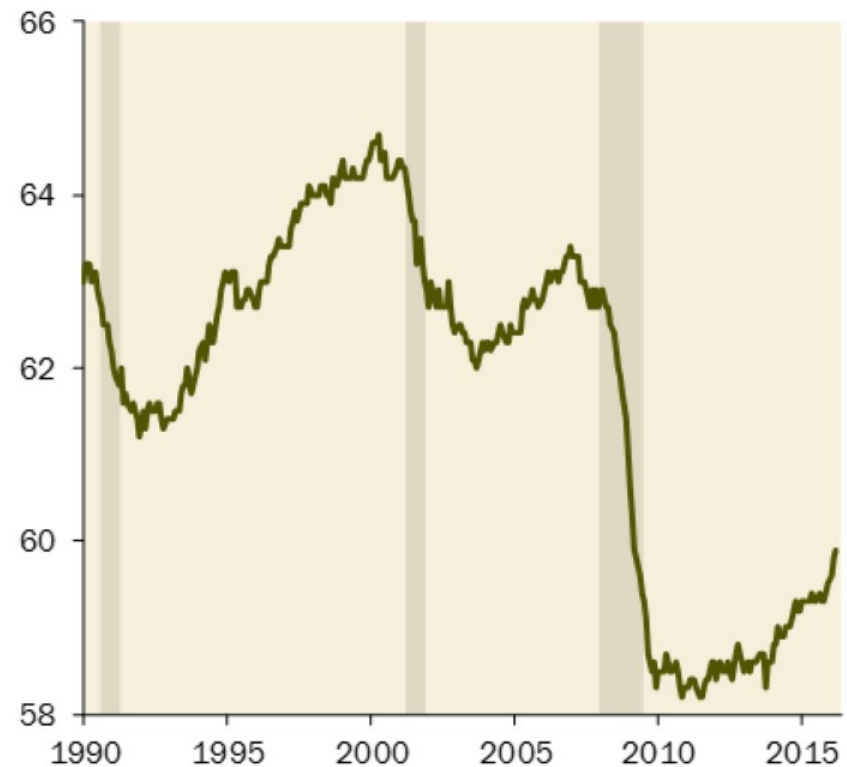
**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

### Employment-to-Population Ratio

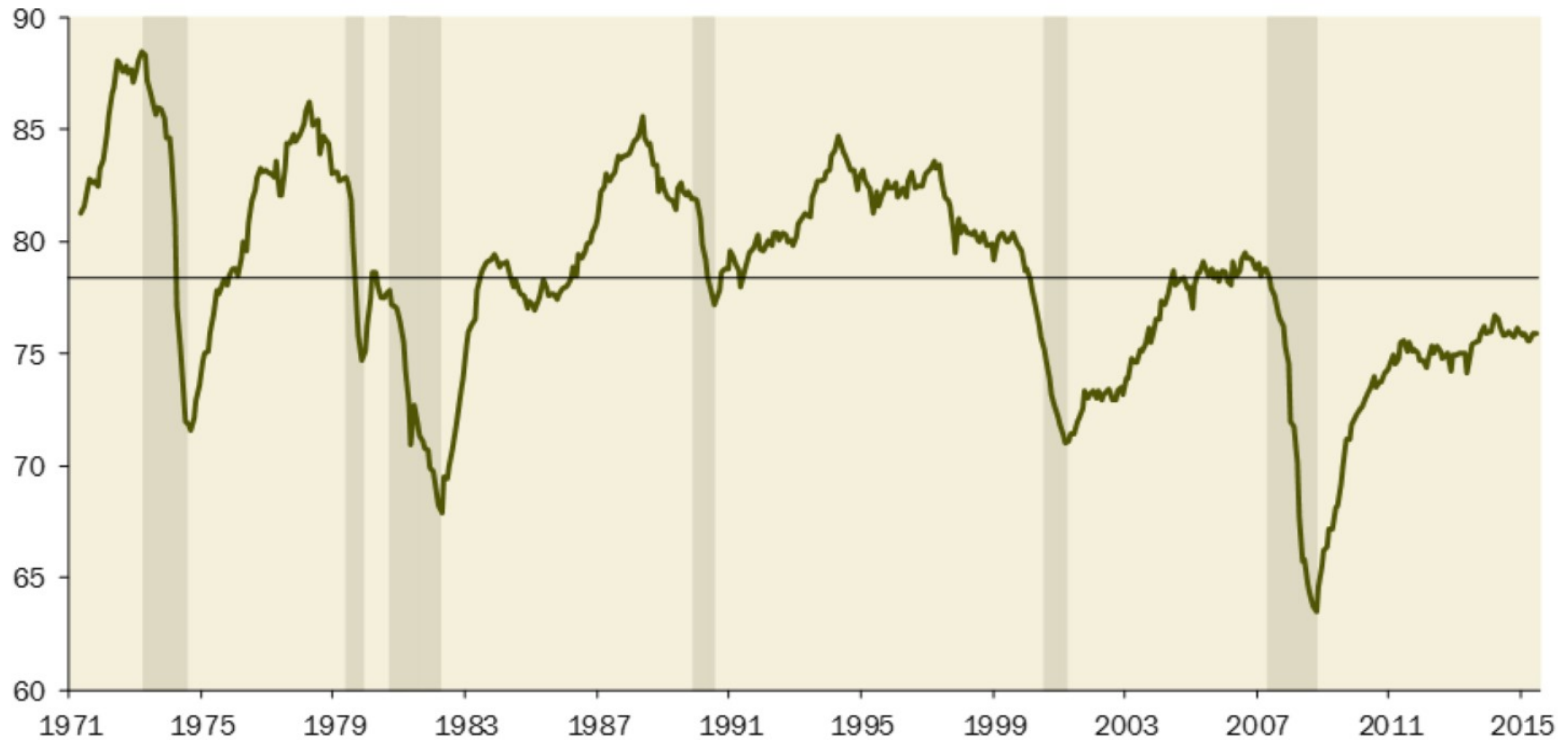
(ratio)



## STILL PLENTY OF EXCESS CAPACITY

### United States: Manufacturing Capacity Utilization

(percent, horizontal line represents series average)



**Notes:**

Shaded regions represent periods of U.S. recession

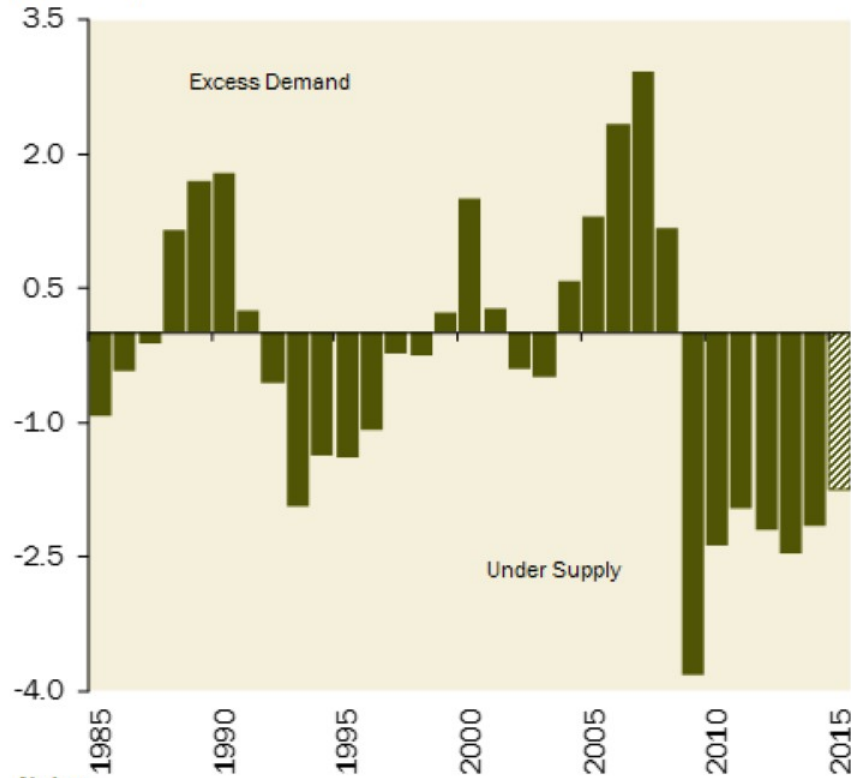
Source: Haver Analytics, Gluskin Sheff

# OUTPUT GAPS CLOSING, BUT NOT YET CLOSED

## Output Gap

### OECD

(percent)

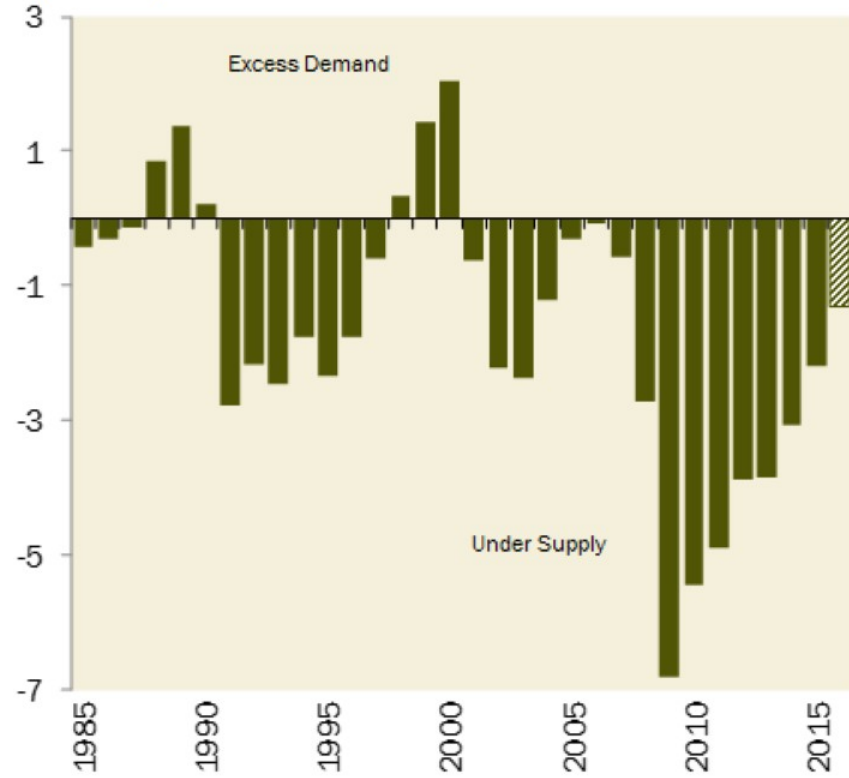


Notes:

Source: Haver Analytics, Gluskin Sheff

### U.S.A.

(percent)

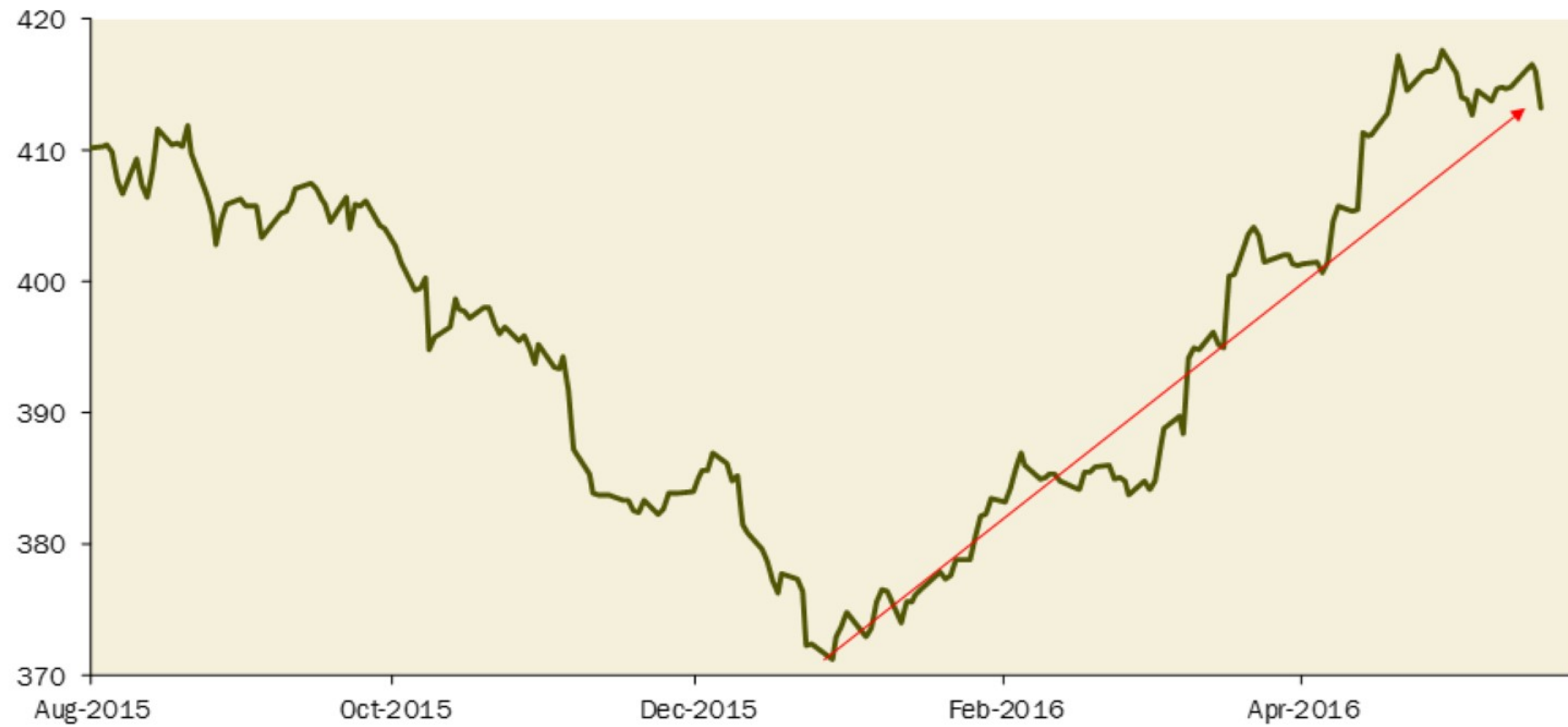




## WILL SNAPBACK IN COMMODITIES CAUSE INFLATION?

### United States: CRB Commodity Prices

(index)



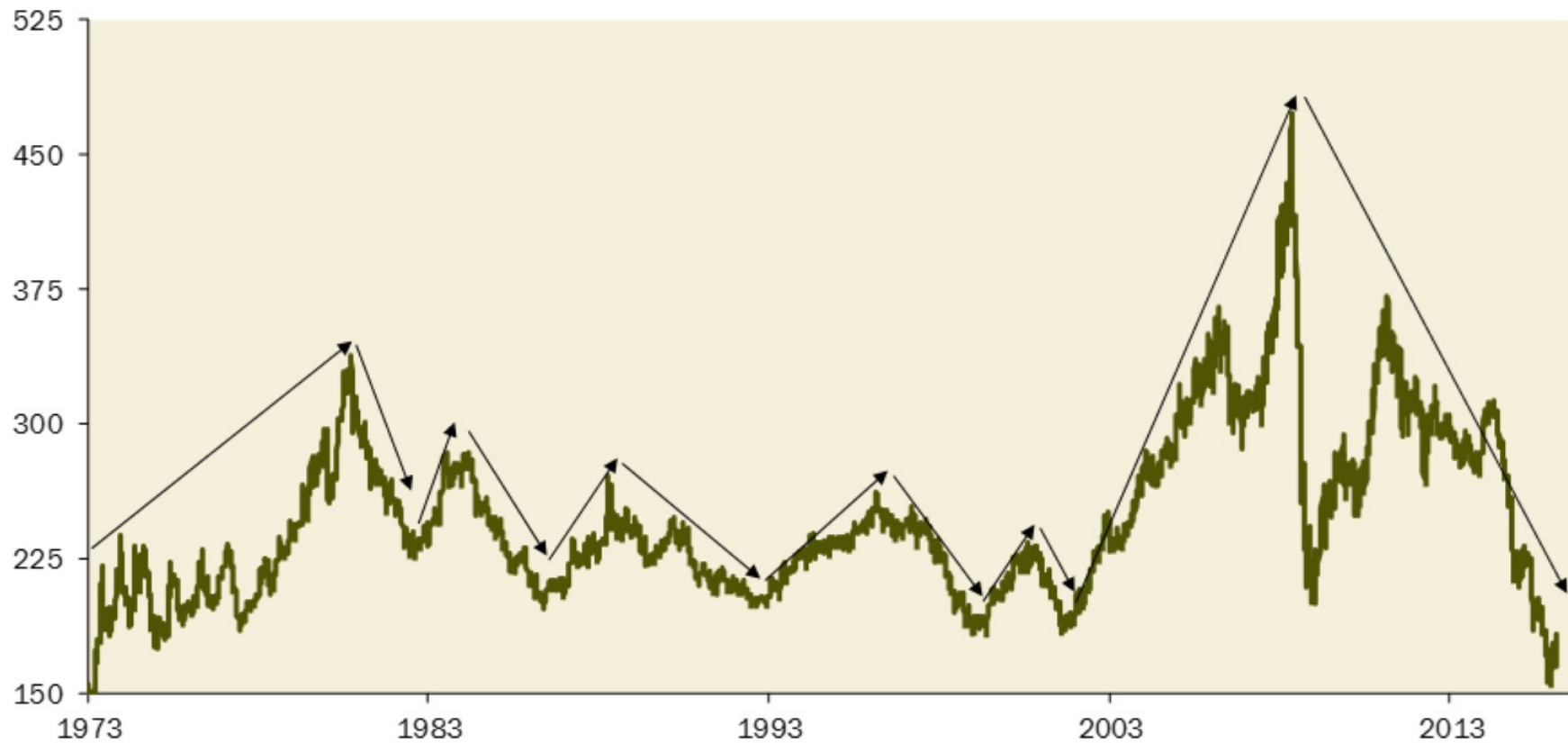
**Notes:**

Source: Haver Analytics, Gluskin Sheff

## COMMODITY CYCLES COME AND GO, BUT DO NOT POSE INFLATION THREAT

### United States: CRB Commodity Prices

(index)



Notes:

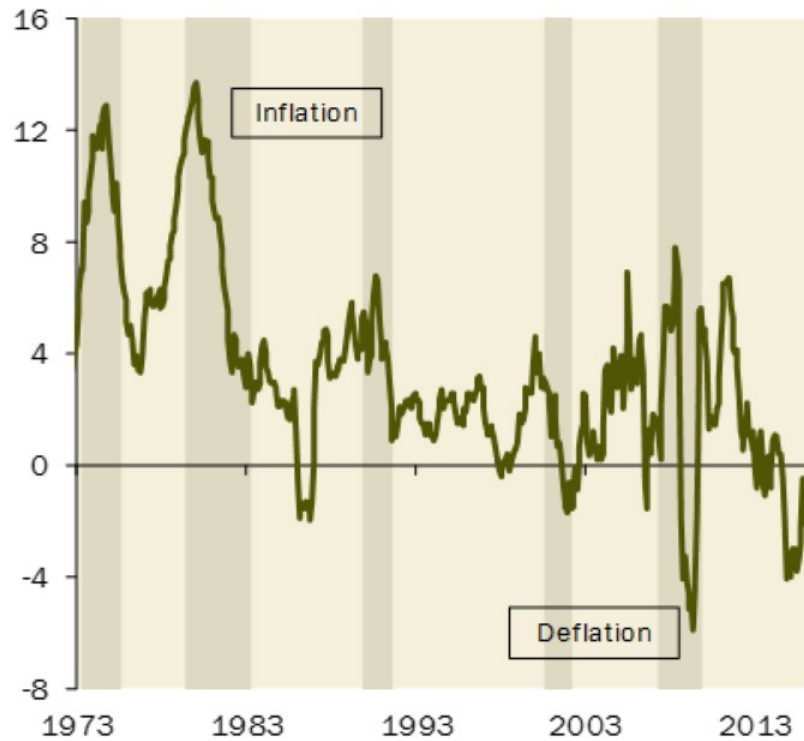
Source: Haver Analytics, Gluskin Sheff

# ANYTHING WE CAN TOUCH OR FEEL IS DEFLATING

## United States

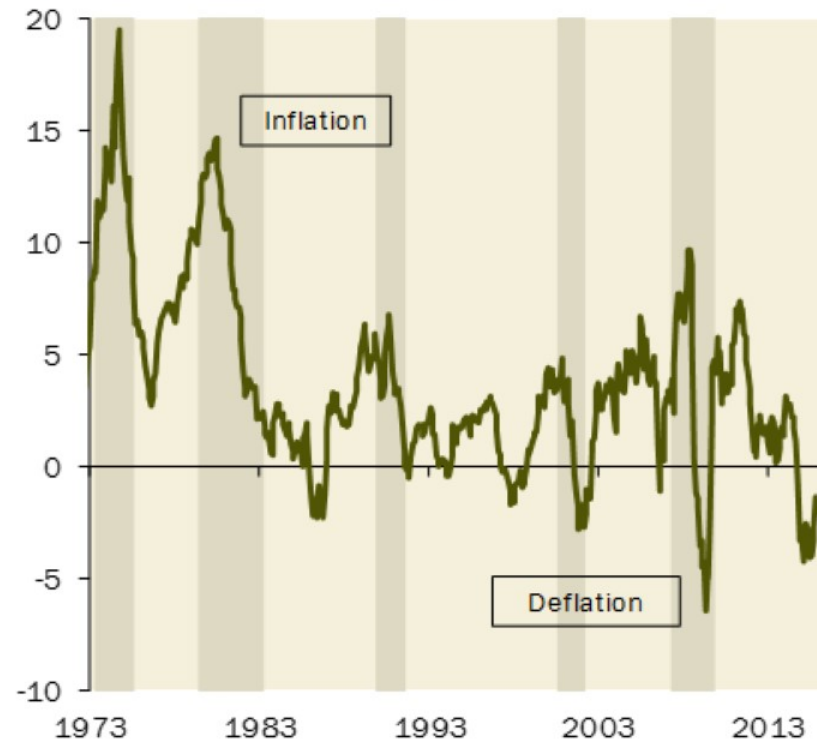
### Consumer Goods

(year-over-year percent change)



### Finished Producer Goods

(year-over-year percent change)



**Notes:**

Shaded regions represent periods of U.S. recession

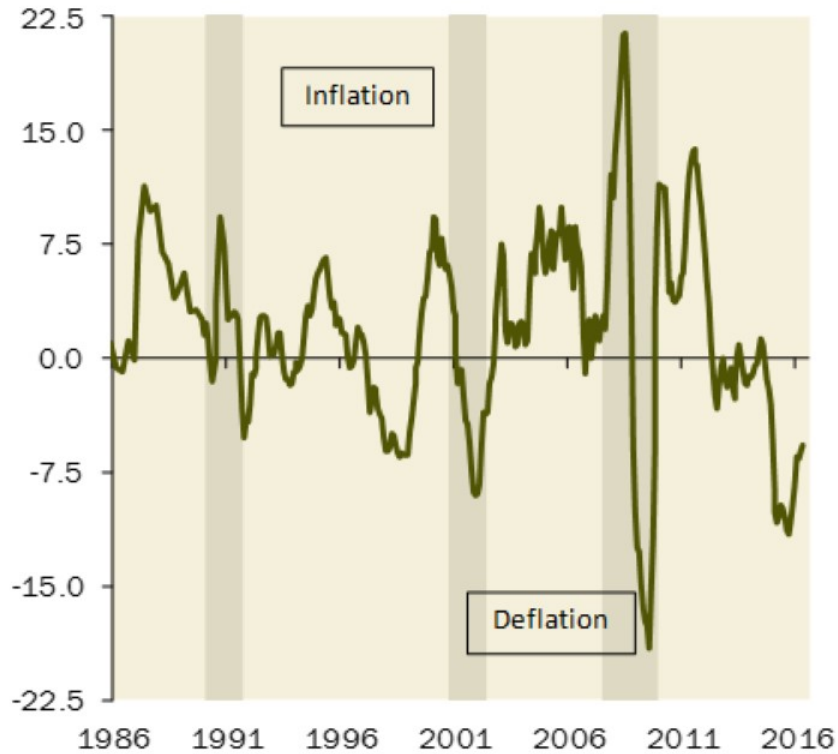
Source: Haver Analytics, Gluskin Sheff

# THE DEFLATIONARY IMPACT OF THE DOLLAR LINGERS ON

## United States: Import Prices

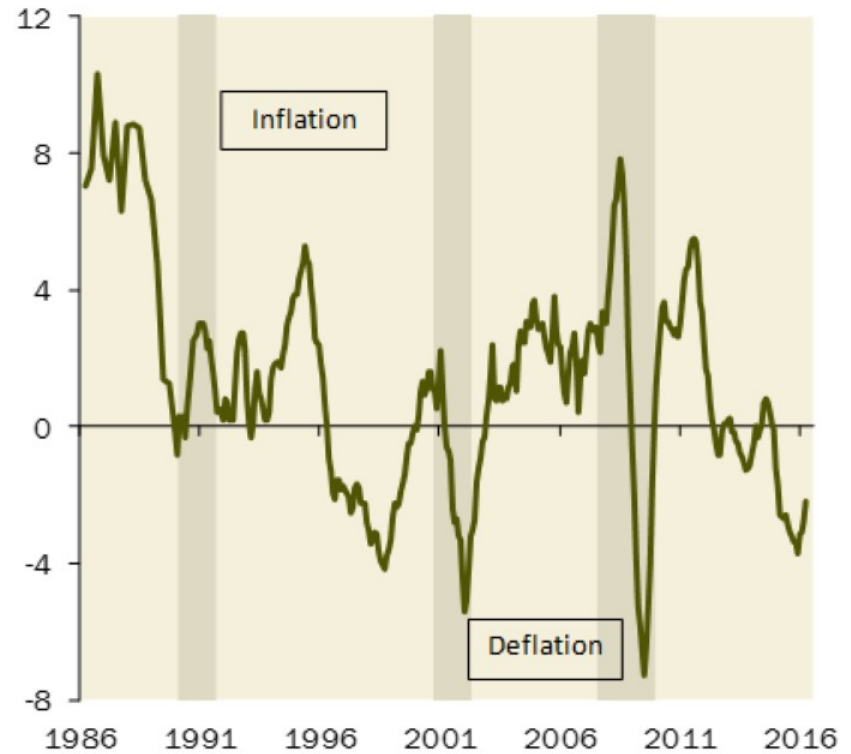
### Total

(year-over-year percent change)



### Non-Energy

(year-over-year percent change)



**Notes:**

Shaded regions represent periods of U.S. recession

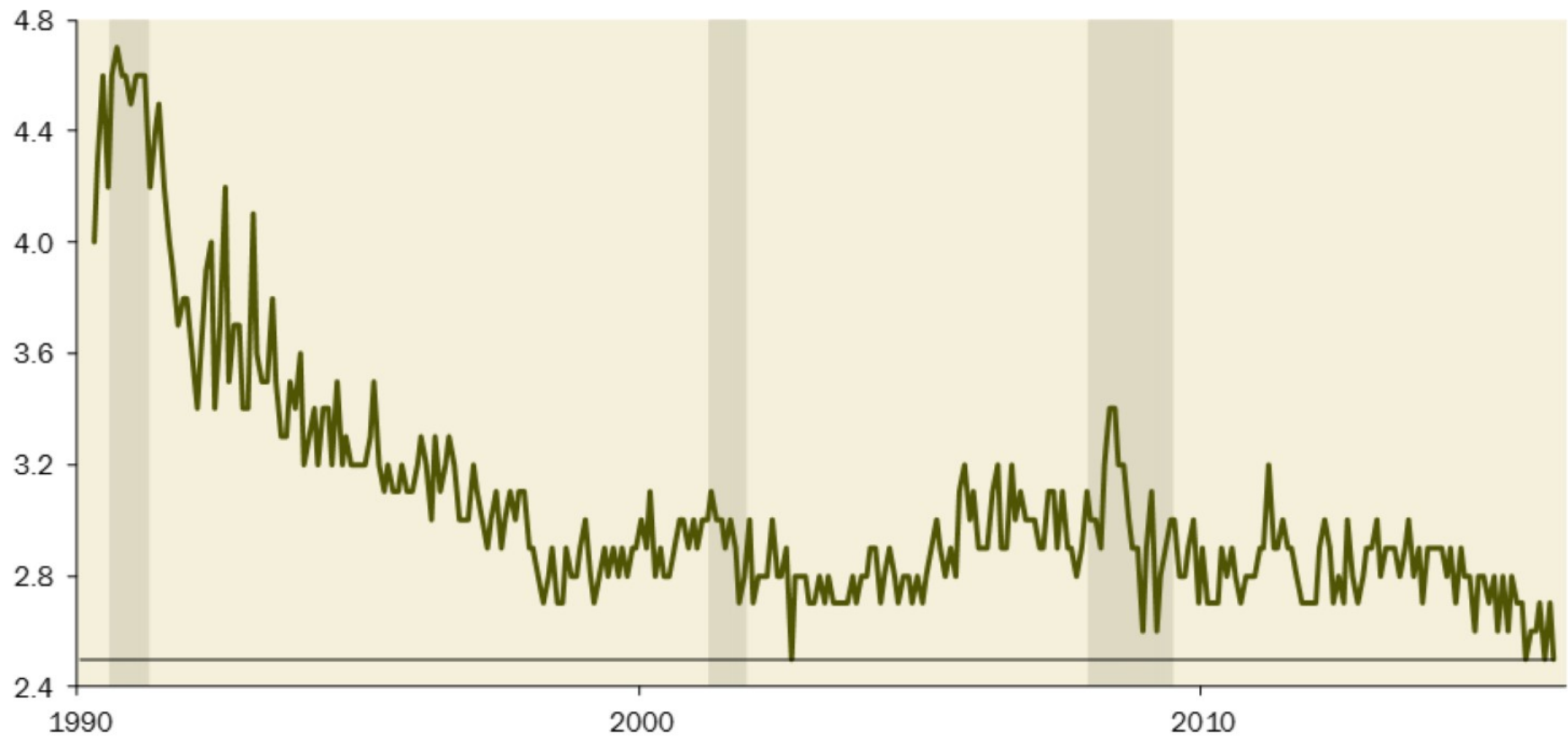
Source: Haver Analytics, Gluskin Sheff



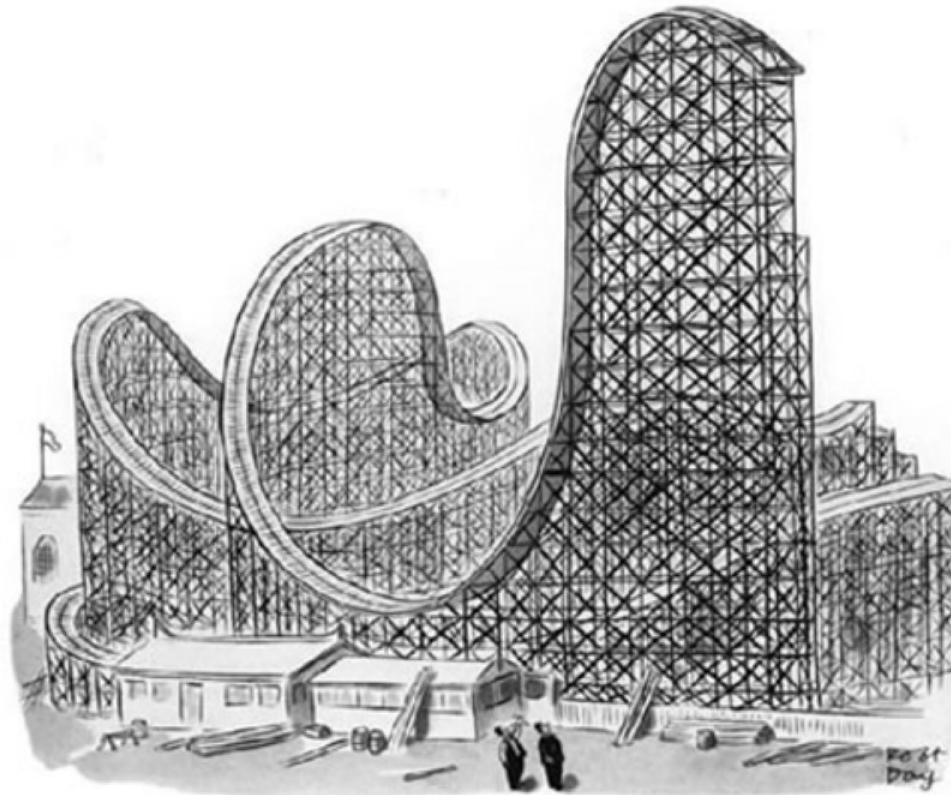
## CONSUMERS DON'T SEE THE INFLATION RATE LIKE THE GOLD BUGS DO

### United States: Long-Term Consumer Inflation Expectations

(percent)



**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff



# STOCK MARKET. THE RIDE

# Yellen rides to the rescue of markets

Fed chair puts to rest loose talk of negative interest rates

Paul Davidson  
USA TODAY

Federal Reserve Chair Janet Yellen signaled in no uncertain terms Tuesday that she's in control of U.S. interest rate policy, adopting a decidedly pro-growth stance that pushed stocks to their high-water mark for the year.

The Dow Jones industrial average, which had been down 100 points early, bounced back to end the day up 98 points — and nearly 13% from its 2016 low — as investors took comfort from Yellen's assurance that the Fed will “pro-

ceed cautiously” as it considers rate hikes in coming months.

Markets had been jittery since two key Fed officials said last week the central bank could raise its benchmark interest rate as early as April after financial markets settled down recently following a sell-off early in the year.

But Yellen returned to the message she and the Fed expressed after its March meeting: Policymakers are still worried about weakness overseas and its effect on markets, as well as persistently low inflation. That almost certainly means no April hike, and June is a question mark.

“Given the risks to the outlook, I consider it appropriate for the (Fed's policymaking committee) to proceed cautiously in adjusting policy,” Yellen said in a speech to



SHAWN THEW, EUROPEAN PRESSPHOTO AGENCY

Janet Yellen cast the Fed as the hero of a defiant economy.

the Economic Club of New York.

“We see the chair's comments today as an effort to exert control over the message, and in doing so, filled expectations for policy rate hikes in a decidedly dovish direction,” Barclays economist Michael Gapen wrote to clients.

Yellen acknowledged that stocks and oil prices have re-

bounded, the dollar has fallen, and corporate borrowing costs have stabilized, all positives for the economy. But she said she's still worried about a rocky global economy, particularly the risks posed by China's slowdown, noting that could further disrupt markets. And she said an oil industry slump that has been eased by rising prices could intensify again while the dollar and corporate credit costs rise anew.

In other words, Yellen doesn't want to react to such a scenario but cushion the potential blow. “Ideally, we want to get ahead of that development,” she said.

She added that risks of raising rates too soon and derailing growth outweigh the hazards of the Fed needing to catch up to a sizzling economy, largely because

policymakers have fewer weapons to jolt growth with its benchmark rate still near zero. The Fed raised the rate in December for the first time in nine years.

It was noteworthy that Yellen said the Fed has tools if the economy falters, such as buying bonds to push down long-term rates. But she failed to cite negative rates, which are being used by several countries to jolt growth.

Yellen even cast the Fed as the hero of an economy that has defied the overseas troubles. She said they've been offset by investors' belief the Fed will raise rates more gradually, pushing down long-term rates.

The Fed's March forecast showed policymakers expect rate hikes this year, down from estimate in December of four

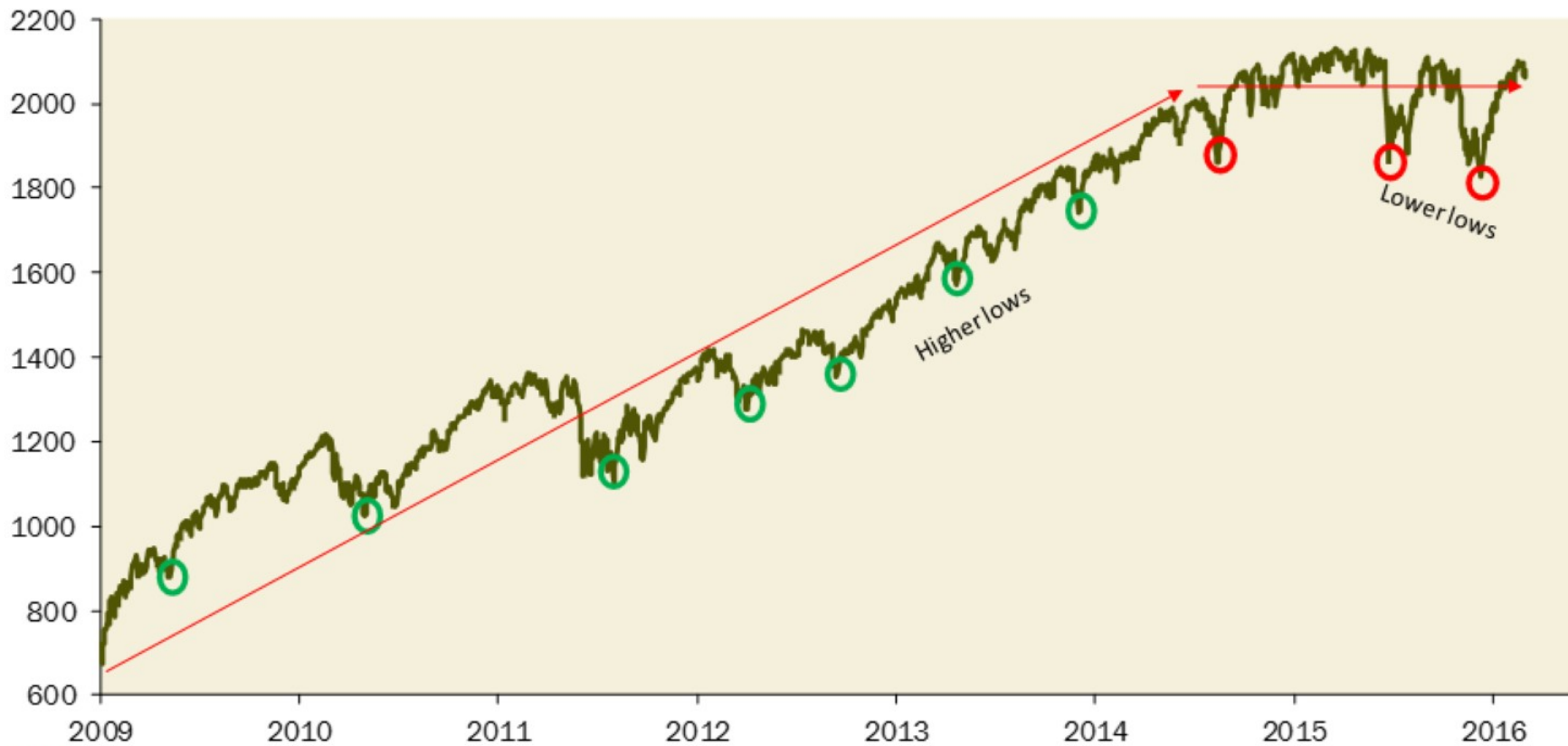
## Notes:

Source: USA Today - March 30th 2016

## FROM HIGHER LOWS TO LOWER LOWS

### United States: S&P 500 Price Index

(index)



Notes:

Source: Haver Analytics, Gluskin Sheff

95

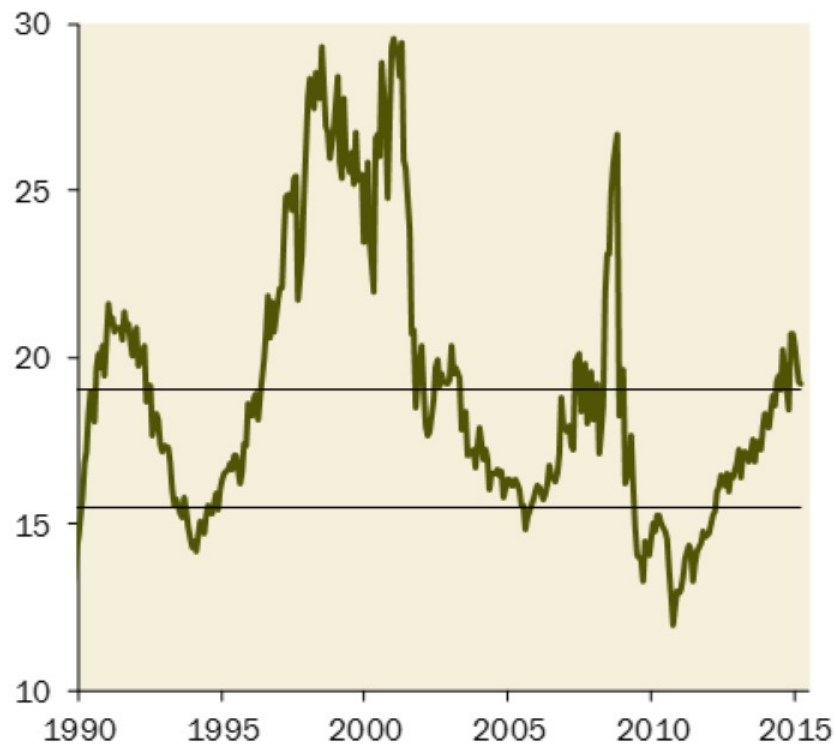


## EQUITY MARKETS LOOKING A TAD PRICEY

### United States: S&P 500

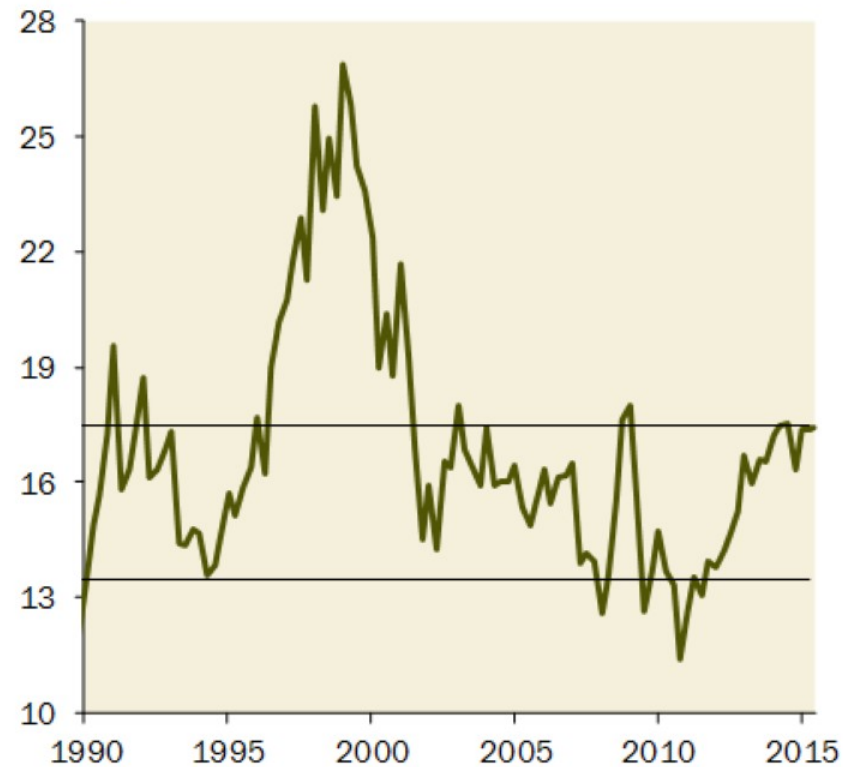
#### Trailing Price-to-Earnings

(ratio)



#### Forward Price-to-Earnings

(ratio)



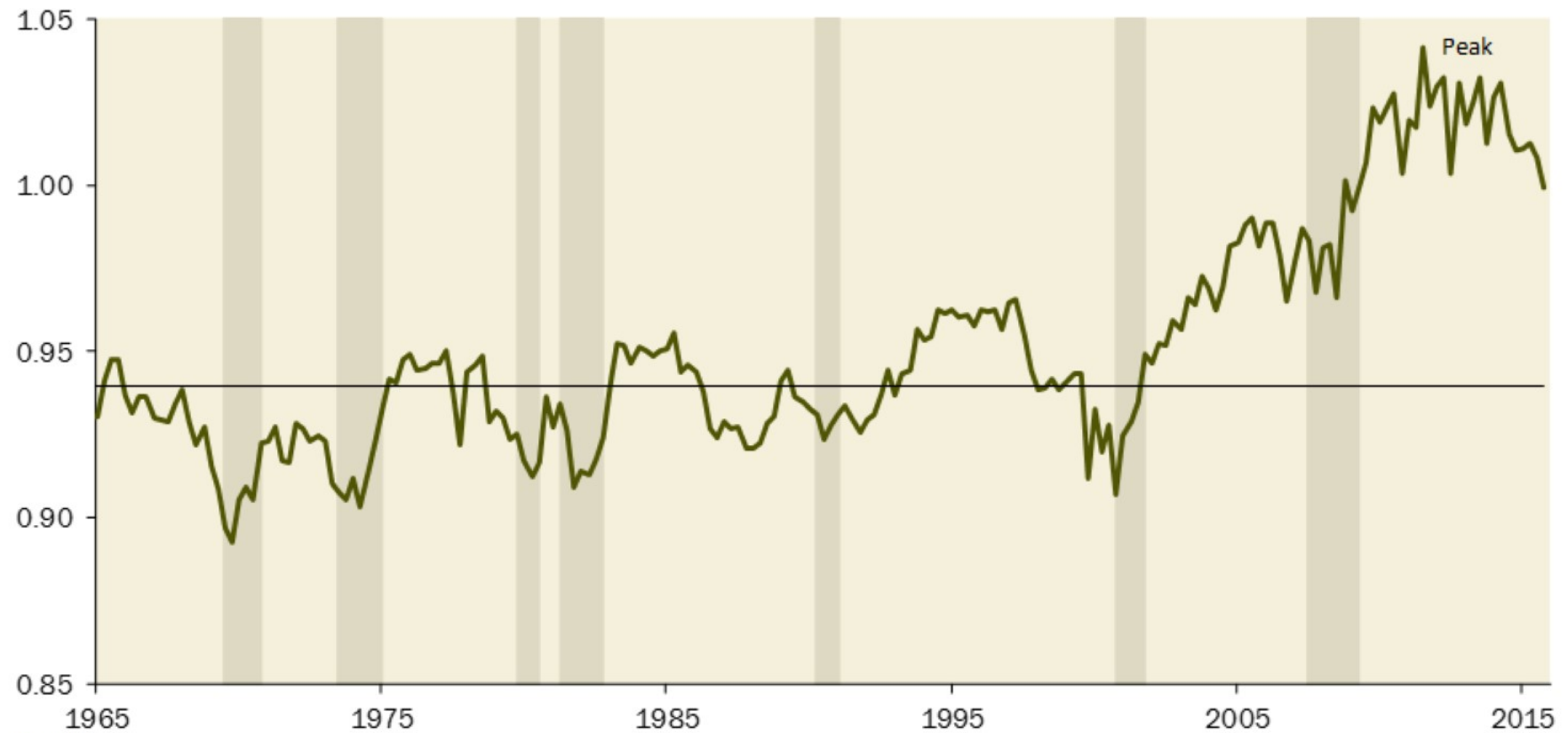
**Notes:**

Source: Bloomberg, Haver Analytics, Gluskin Sheff

## PROFIT MARGINS FINALLY GETTING SQUEEZED AND MORE TO COME

### United States: Price Deflator Divided by Unit Labor Costs

(ratio)



**Notes:**

Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

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# THE WALL STREET JOURNAL.

## How Productivity Squeezes Corporate Profits

U.S. productivity doesn't look likely to strike back anytime soon. That may be good news for workers, but it is bad news for the growth of corporate profits.

The Labor Department on Wednesday reported that productivity, as measured by the average worker's output per hour, was up just 0.6% in the first quarter from a year earlier. That matched the measure's average pace over the past three years and compared with a 2% average annual rate over the previous five decades.

Productivity matters because it sets the speed at

benefits to the recent bout of low productivity. Ultimately, though, the higher that U.S. productivity is, the better off Americans will be.

Pessimists argue that productivity has been lower lately because the U.S. economy isn't as innovative as it once was. Optimists counter that productivity statistics have gotten worse at capturing innovation.

But much of the recent extreme weakness in productivity probably is owed to something else entirely: hangover effects from companies' deep job and capital-spending cuts in the wake of the recession. It is a hang-

By cutting their labor forces sharply, and adding back workers only slowly in the early stages of the recovery, companies spent years running extremely lean. Now, many of the people they have been hiring are coming back to work after long periods of unemployment or, in the case of many young people, never having worked.

As a result, they aren't as productive as they might otherwise have been. Similarly, capital spending has been subdued, with a pronounced slowdown in spending on high-tech equipment relative to before the recession, much less the 1990s

even incremental increases in demand, companies have had to step up hiring.

That may be why job growth has been strong even as the economy has expanded slowly. And it is why labor costs have been going up, putting the squeeze on profit margins.

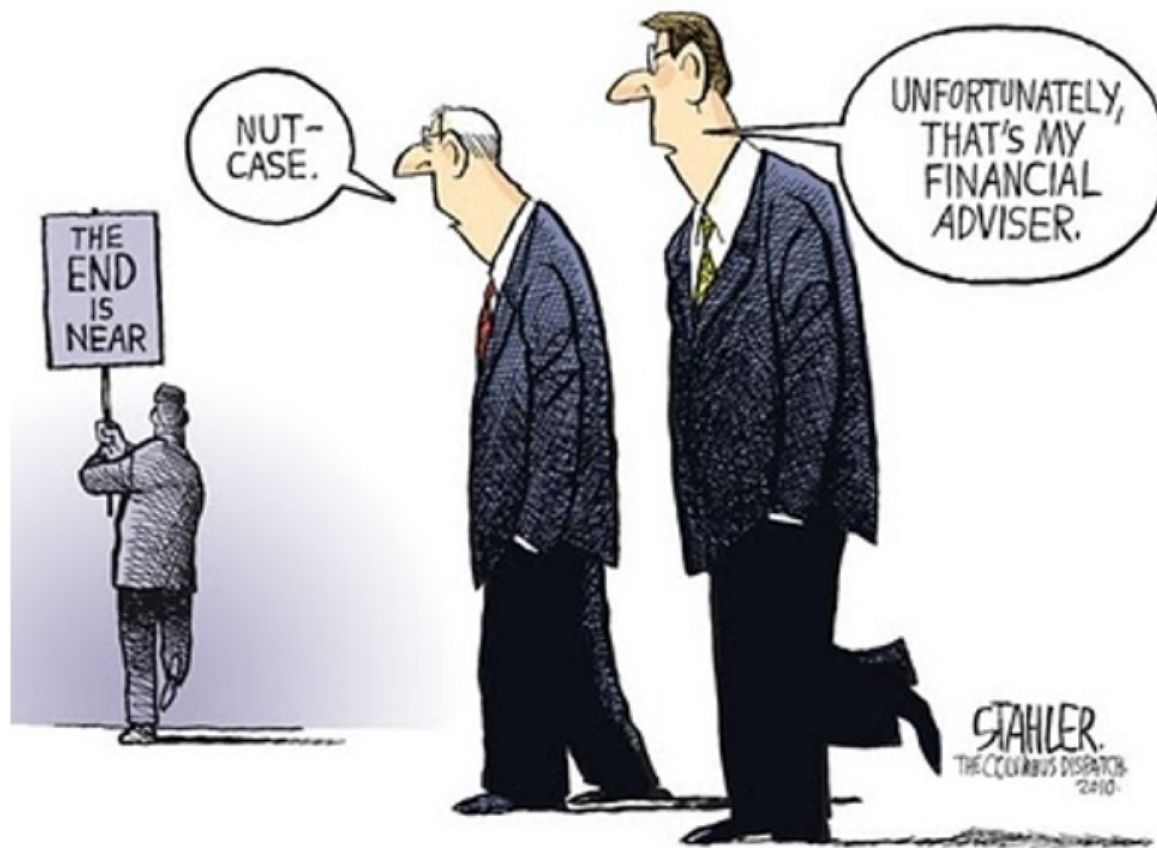
Eventually, recently hired workers will become more seasoned, and productive. And eventually, companies may step up their spending on labor-saving tech equipment—and provide technology companies with stronger incentives to innovate.

But, for investors, eventually will take a while to

### Notes:

Wall Street Journal - May 5<sup>th</sup> 2016

98

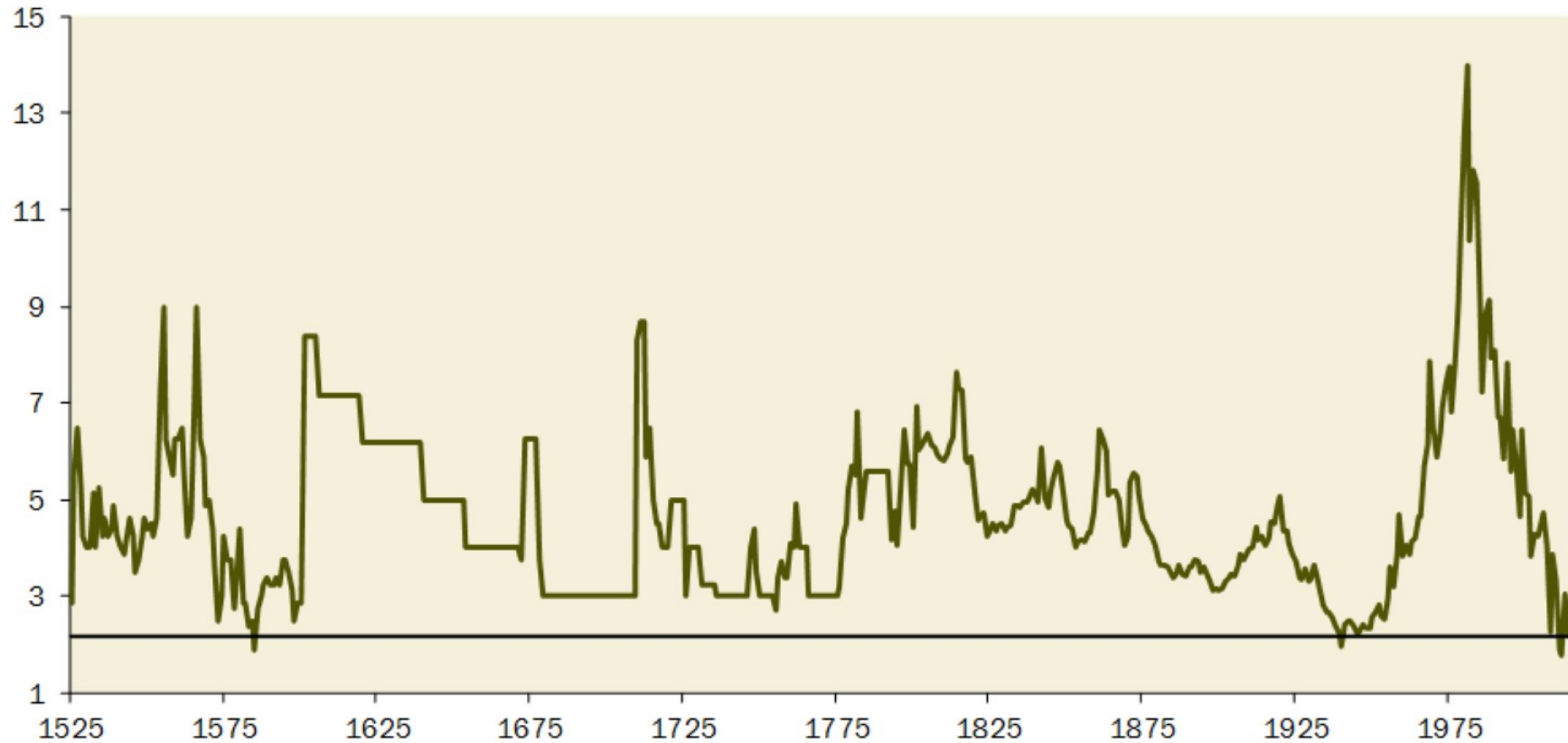




## INTEREST RATES AT HISTORICAL LOWS

### Historic Global Interest Rates

(percent)



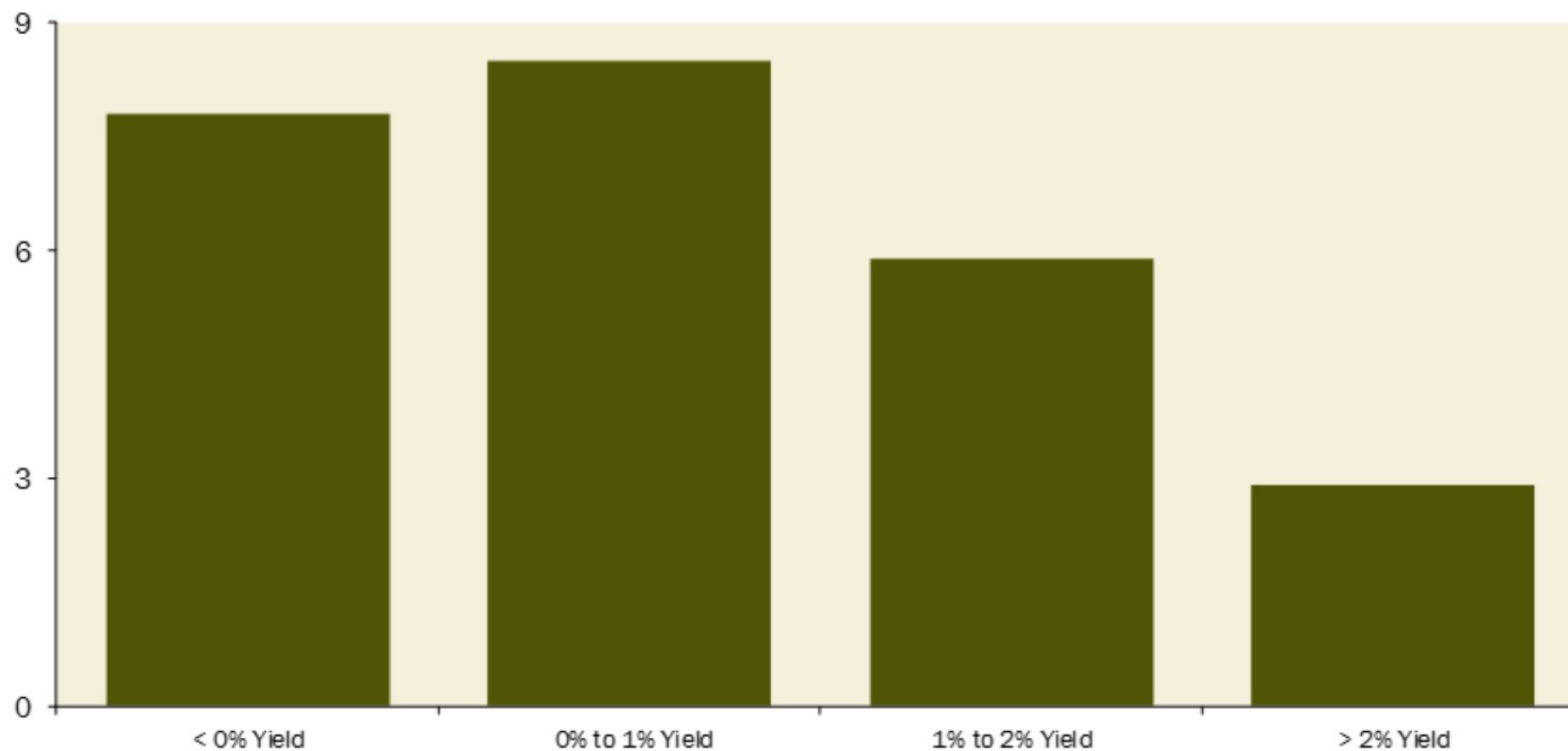
**Notes:**

Source: Homer & Sylla's "A History of Interest Rates", Shiller's "Irrational Exuberance", Gluskin Sheff

## \$8 TRILLION OF NEGATIVE-YIELDING BONDS

### Global: Government Bonds

(trillions of dollars)



**Notes:**

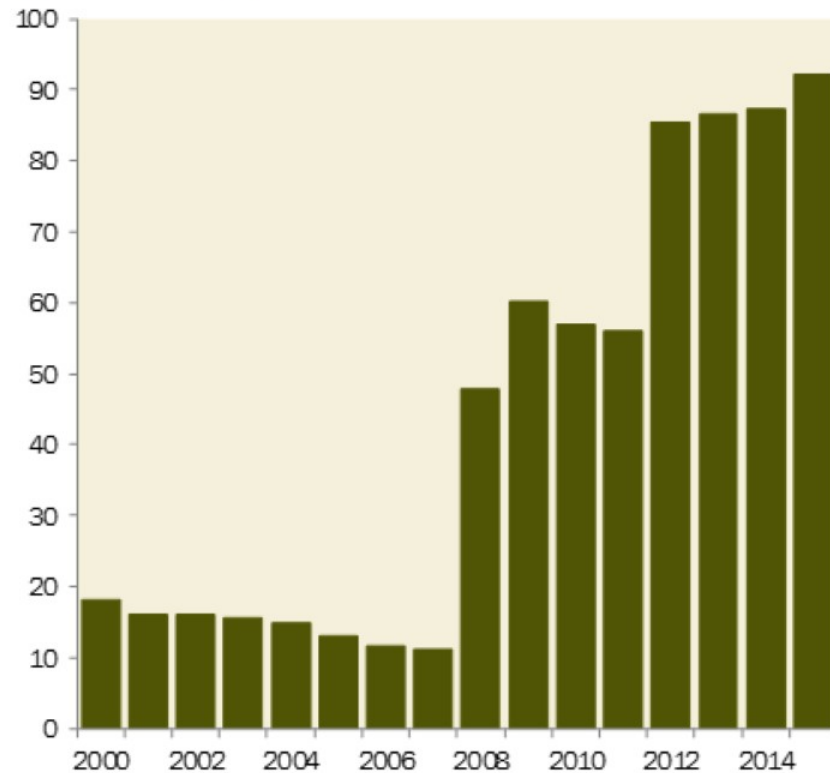
Source: Bloomberg Global Developed Sovereign Bond Index, Gluskin Sheff

## THE NEW WORLD OF MICROSCOPIC RATES

### World: Industrialized Economies

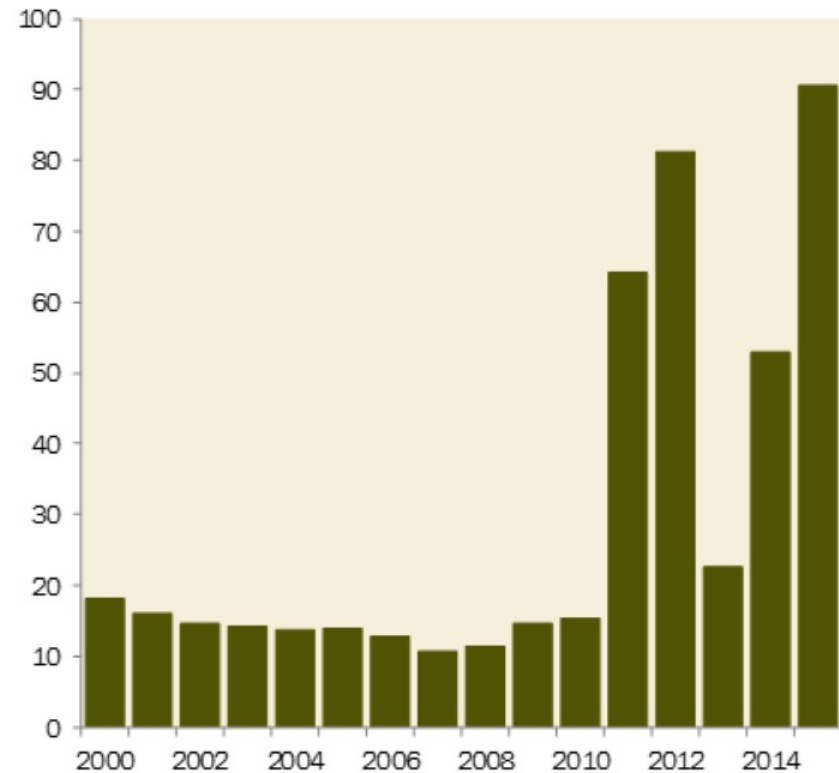
#### Industrialized GDP anchored to ~0% policy rates

(percent of total)



#### Industrialized GDP with bond yields of 2% or lower

(percent of total)



**Notes:**

Source: International Monetary Fund, Bloomberg, Haver Analytics, Gluskin Sheff



*“Even if the federal funds rate were to return to near zero, the FOMC would still have considerable scope to provide additional accommodation. In particular, we could use the approaches that we and other central banks successfully employed in the wake of the financial crisis to put additional downward pressure on long-term interest rates and so support the economy -- specifically, forward guidance about the future path of the federal funds rate and increases in the size or duration of our holdings of long-term securities.”*



**Notes:**

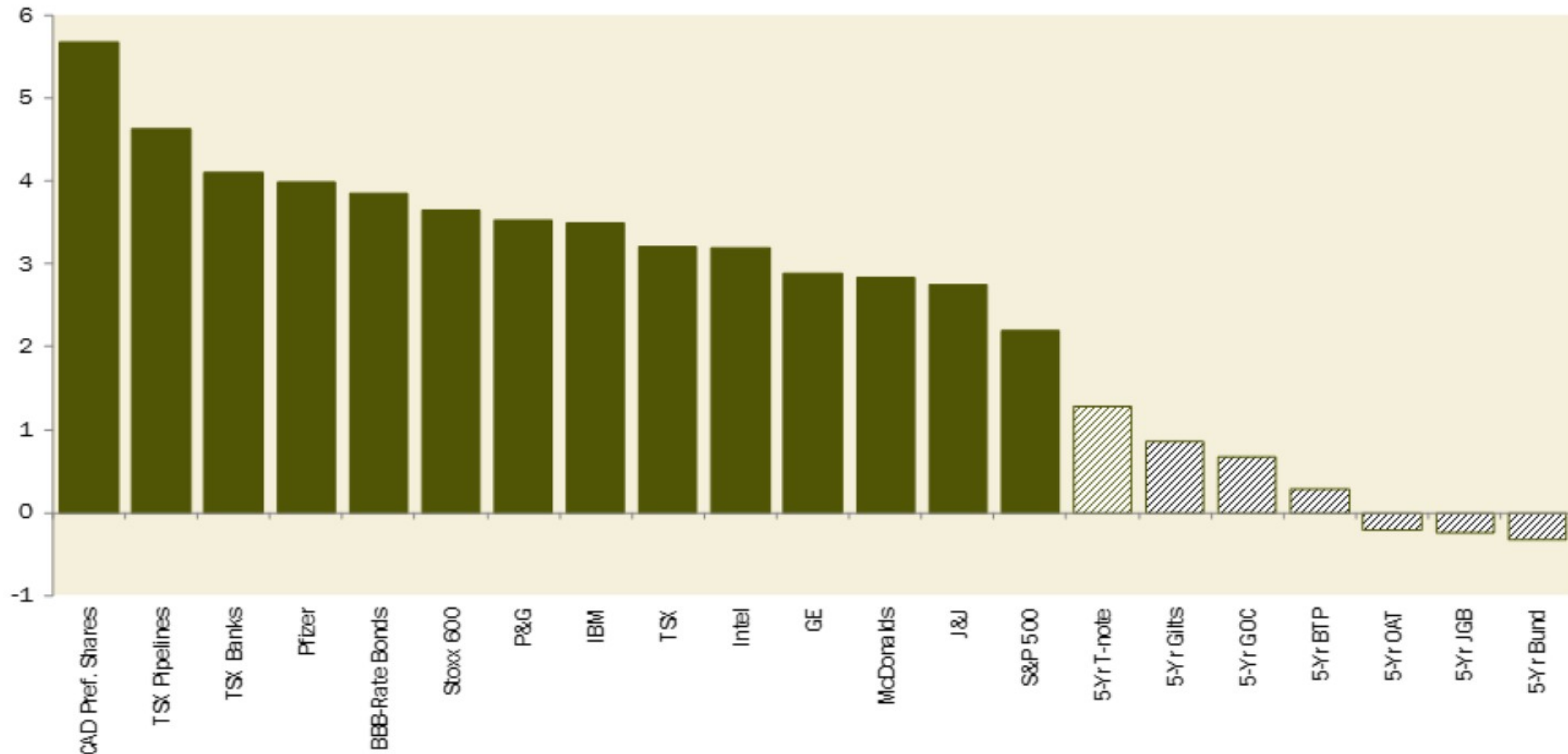
Fed Chairperson Janet Yellen at Economic Club of New York - March 29<sup>th</sup> 2016



## A YIELD-STARVED WORLD

### Bond Yields & Dividend Yields

(percent)



Notes:

Source: Bloomberg, Gluskin Sheff

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