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Date: February 5, 2016

TO: MEMBERS, INVESTMENT COMMITTEE

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 4 - Market Outlook and Economic Update
II. NAME AND PROGRAM:	Treasury and Investments
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

The purpose of the attached is to illustrate the current dynamics of the economic and capital markets, with a particular focus on the implications that global issues (high debt levels, ageing populations, and China) will have on the U.S. outlook and Federal Reserve policy.

VI. ANALYSIS

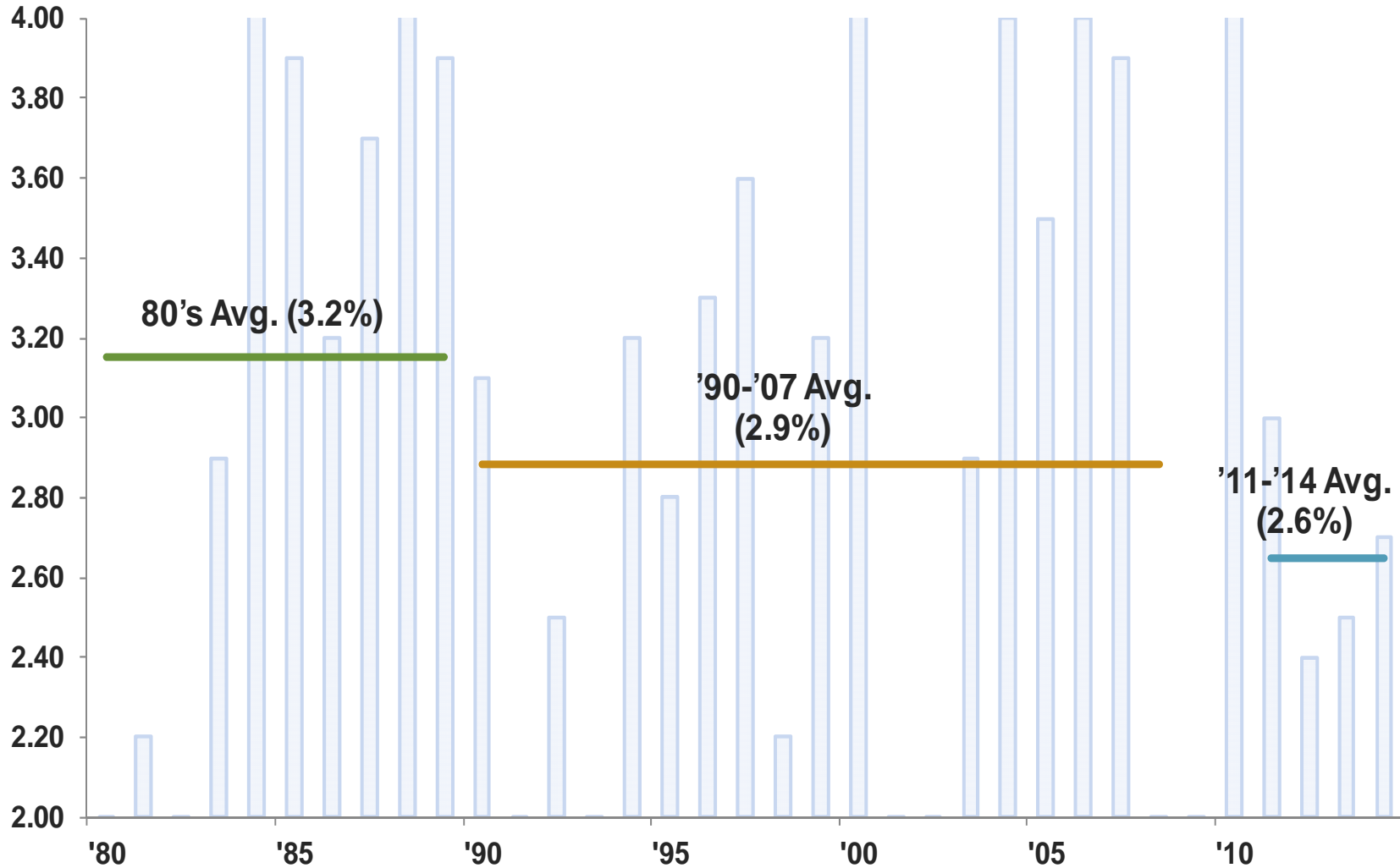
U.S. economic indicators continue to highlight a moderately expanding economy with restrained inflation readings. Real GDP has averaged around 2+% for the past 5 years, and slightly over 2.5% since the end of Quantitative Easing (QE). We believe this is sustainable, absent exogenous shocks. Additionally, job growth continues and household formations are heading back to longer term historic averages. Business investment continues to grow albeit at a slower pace than in previous expansions. On balance, the U.S. economy is on solid footing. We expect that 2016 should bring modestly higher interest rates and continued bouts of volatility that will pressure risk markets.

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Global Growth

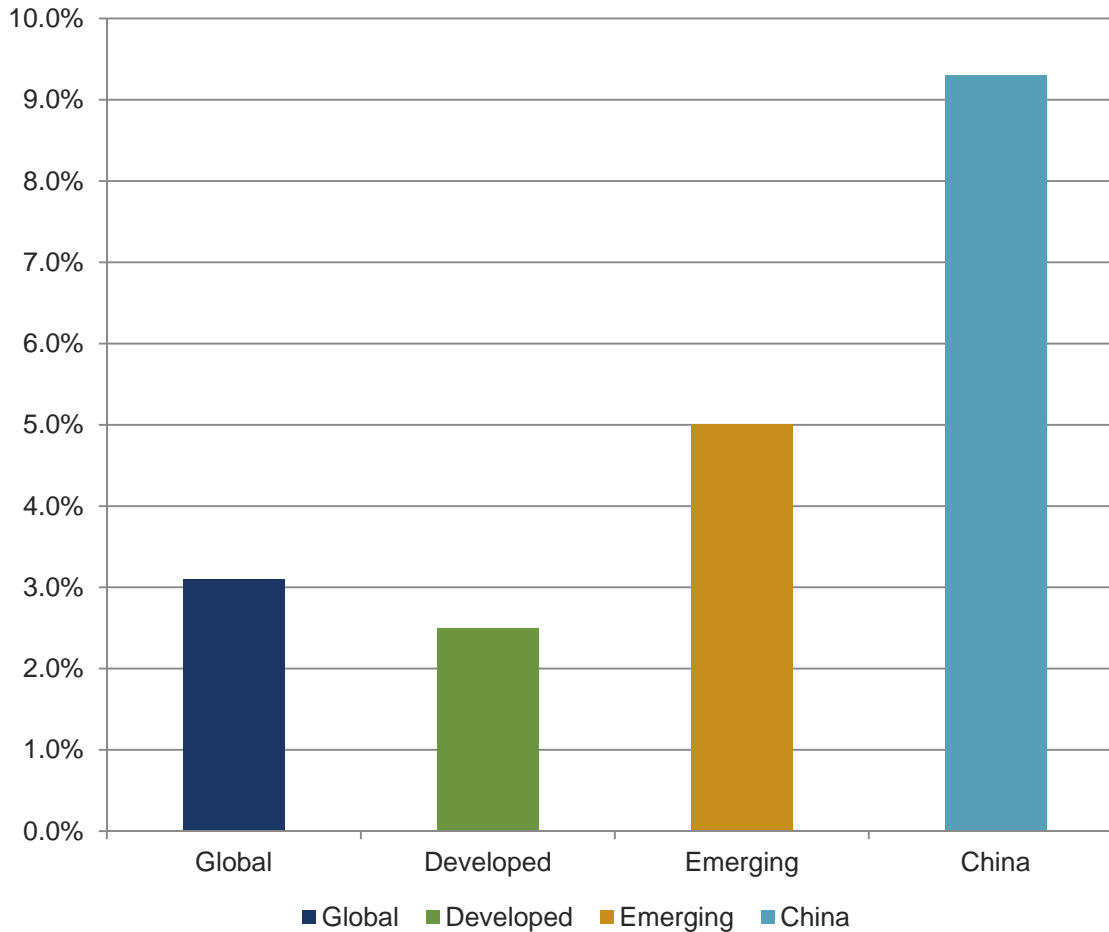
World Global Growth Rates



Source: International Monetary Fund, Haver Analytics, GR-NEAM Analytics

The Old Growth Model is Broken

GDP Growth Rate



1970 -2014

Global 3.1%

Developed 2.5%

Emerging 5.0%

China 9.3%

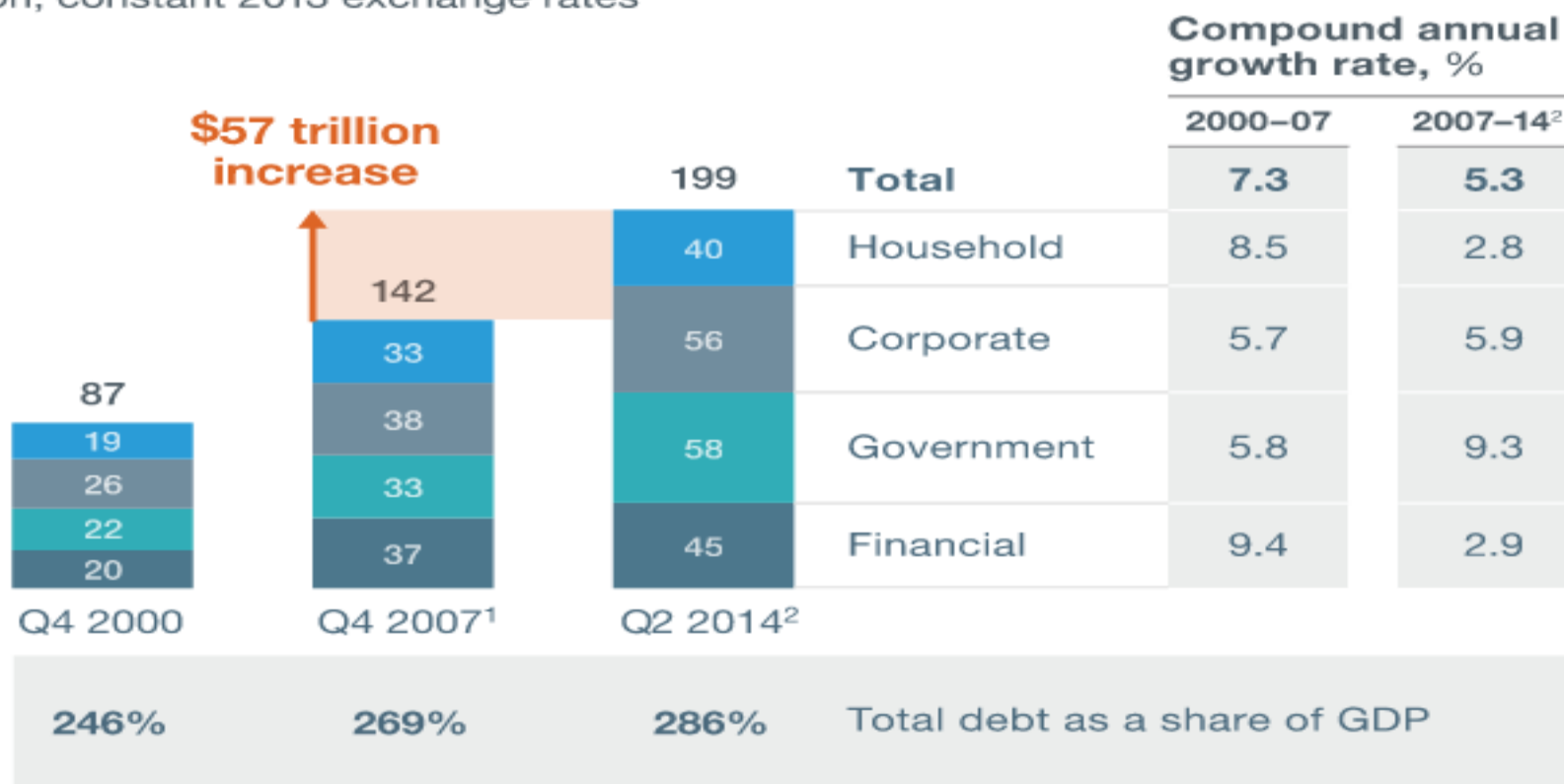
Source: IMF

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Debt

Debt Continues to Grow Globally

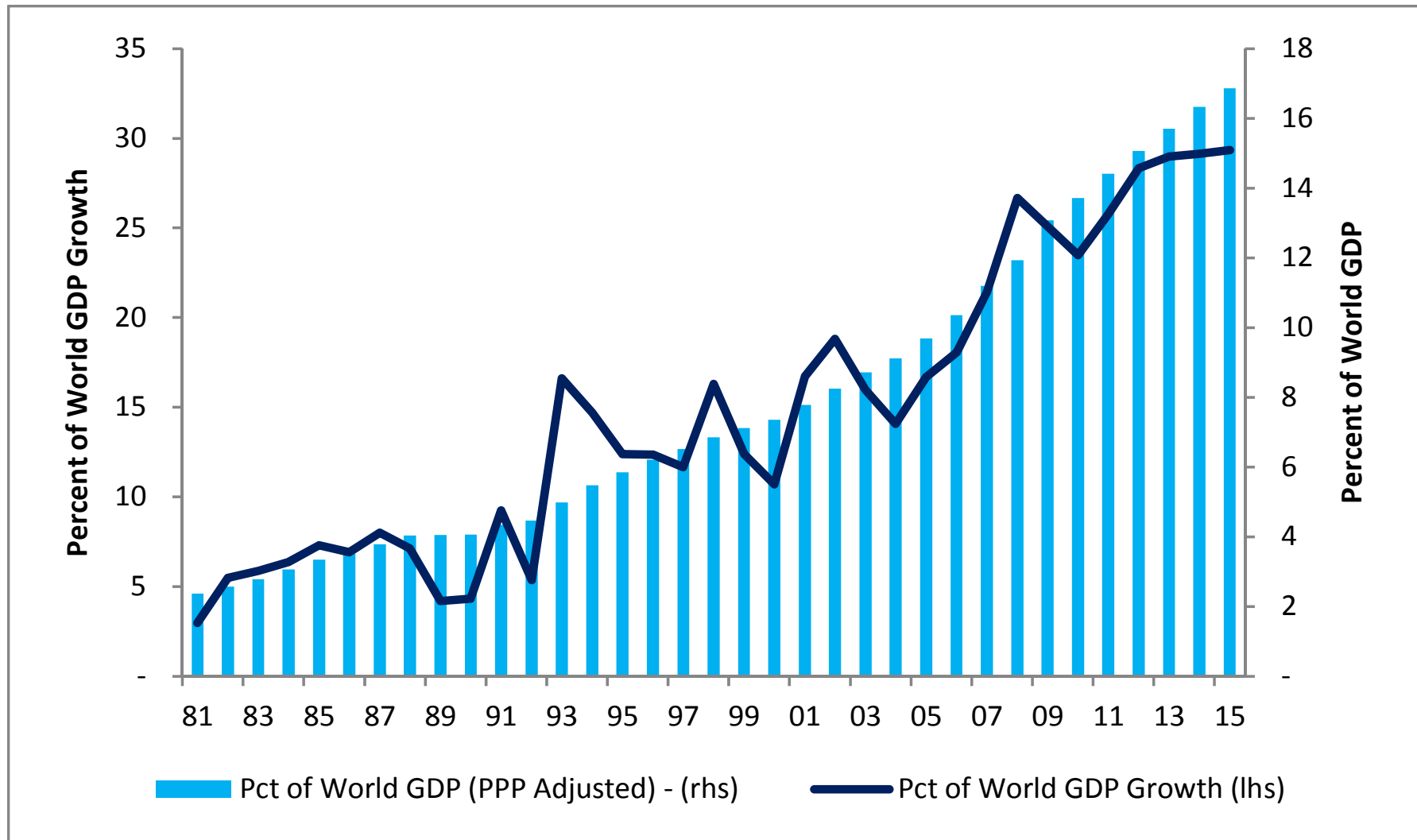
Global stock of debt outstanding,
\$ trillion, constant 2013 exchange rates



Source: McKinsey Global Institute, "Debt and (not much) Deleveraging"

China

China's Share of World GDP

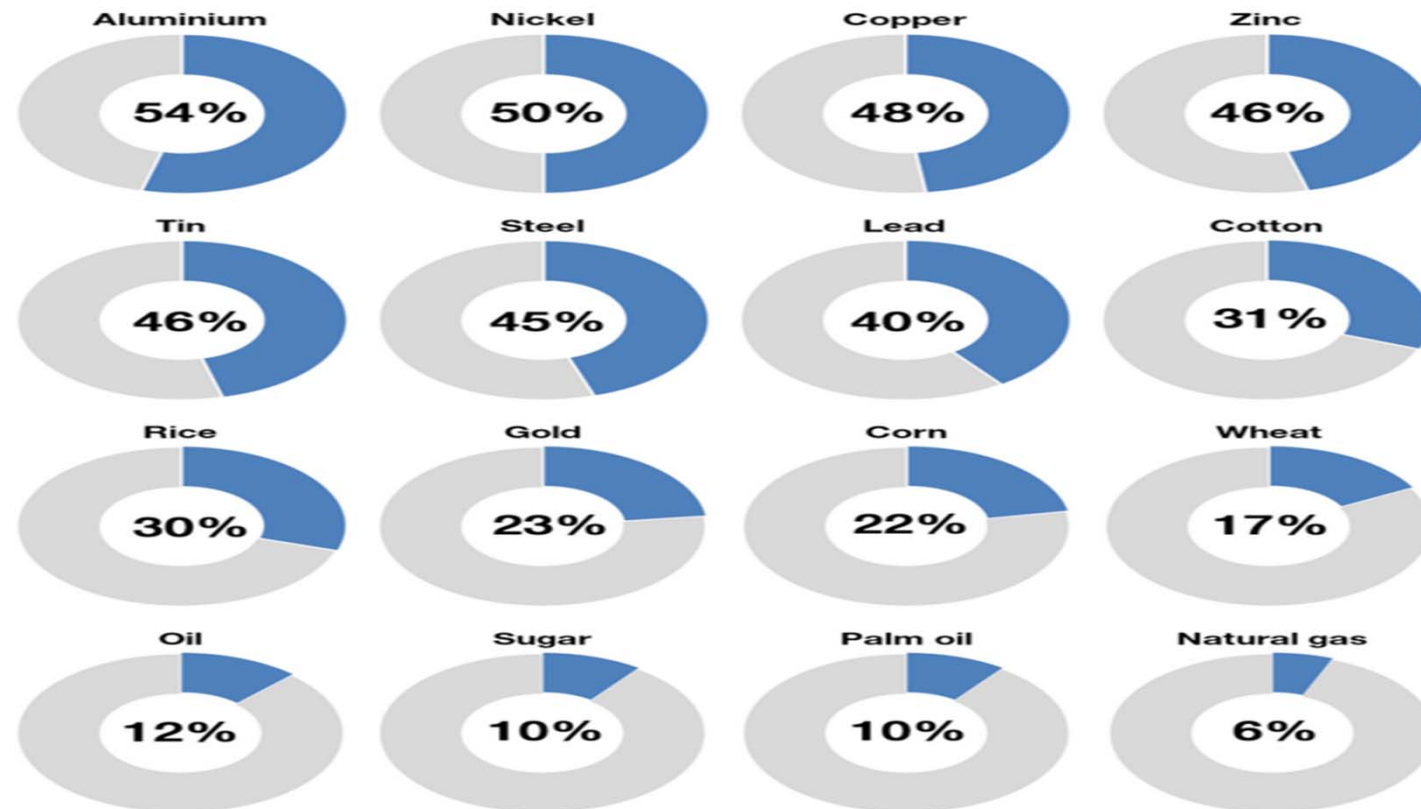


Source: IMFWEO / Haver / GR-NEAM

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China – Major Consumer

How much does China consume? China's share of global consumption

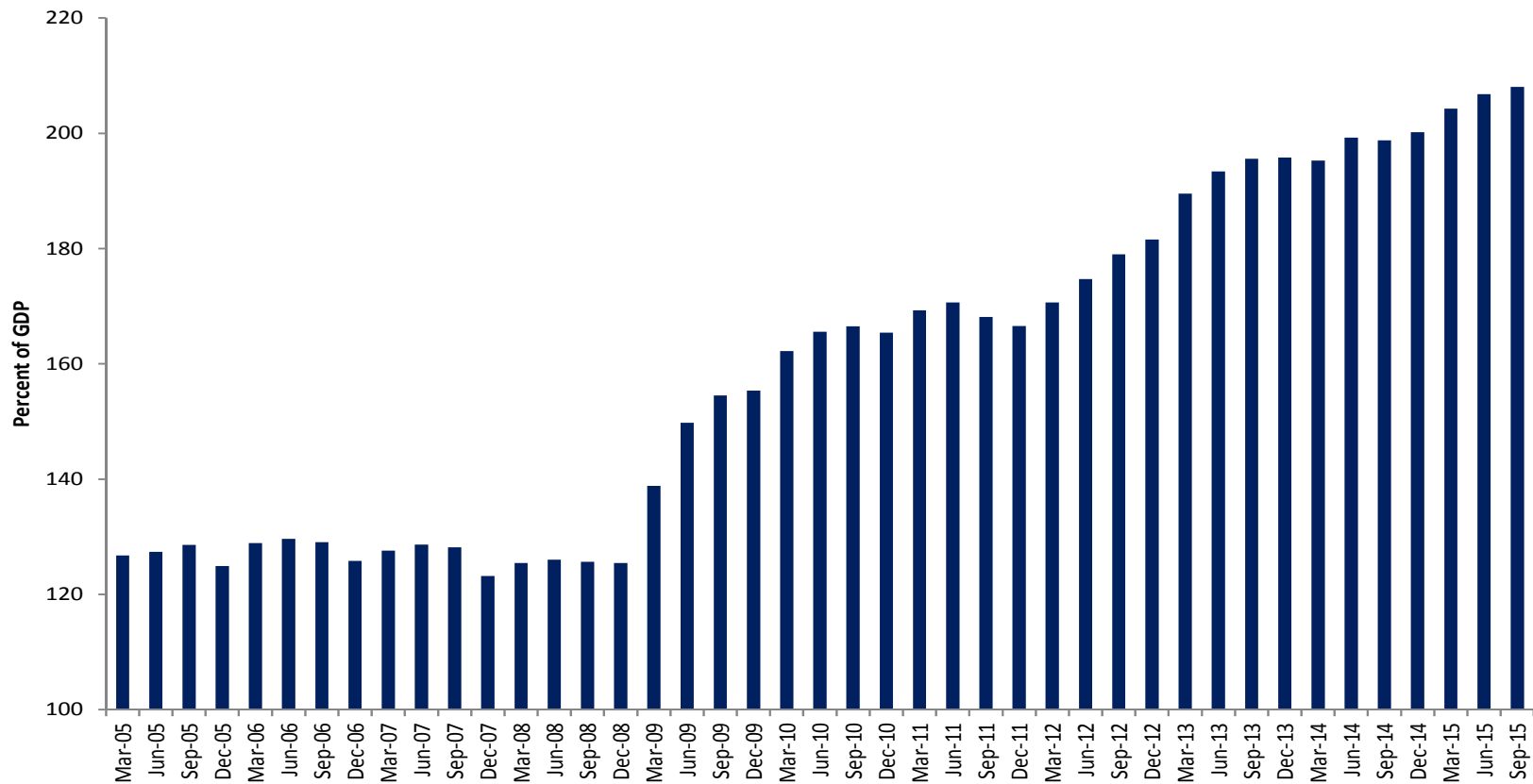


Source: The Wall Street Journal, World Bureau of Metal Statistics, World Gold Council, BP Statistical Review of World Energy 2015, Metalytics via Morgan Stanley, US Department of Agriculture.

Source: World Economic Forum

China – Over Leveraged

Debt as a % of GDP

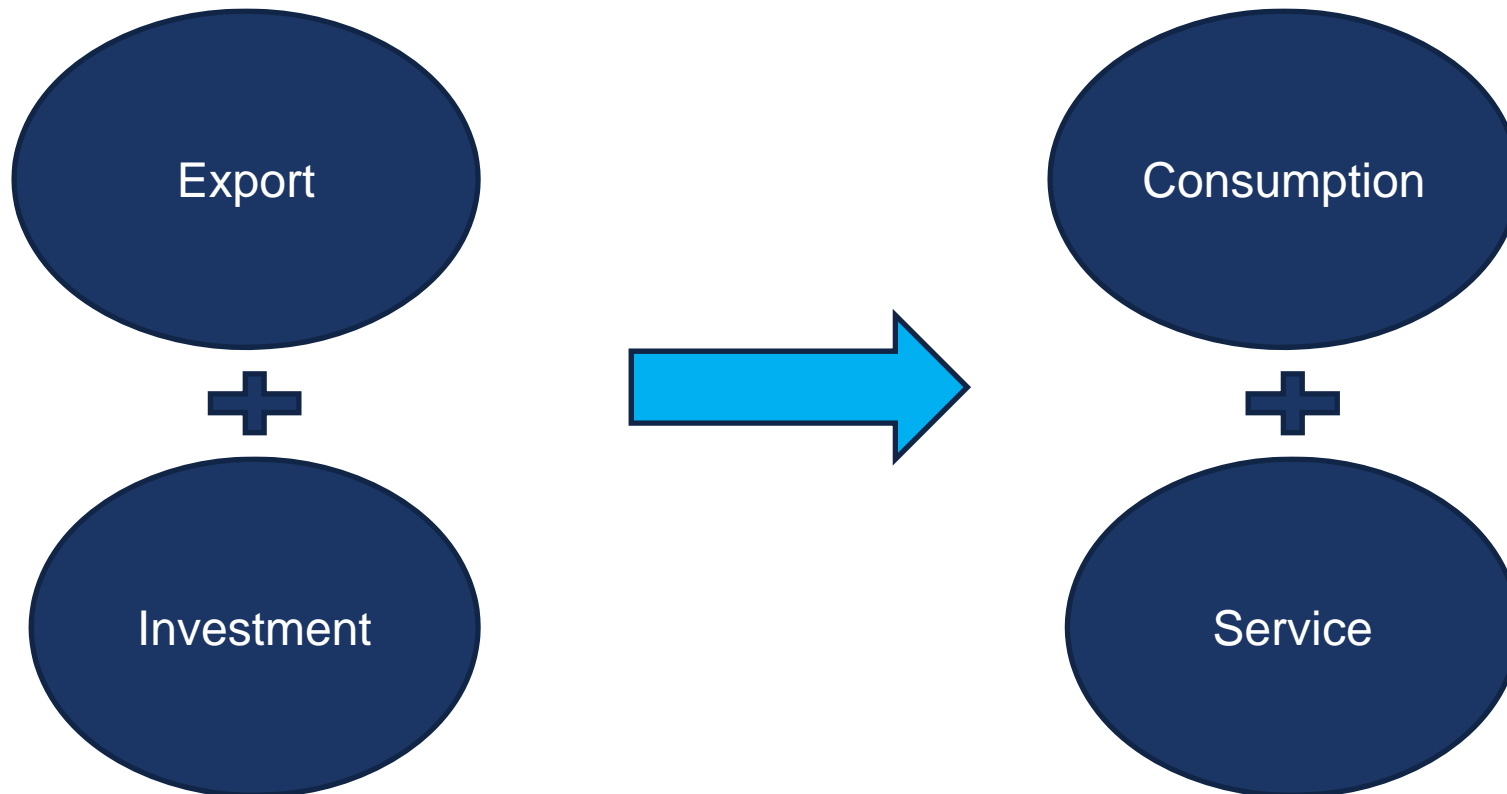


Source: Bloomberg/ GR-NEAM

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China – Economic Transition

GDP Drivers

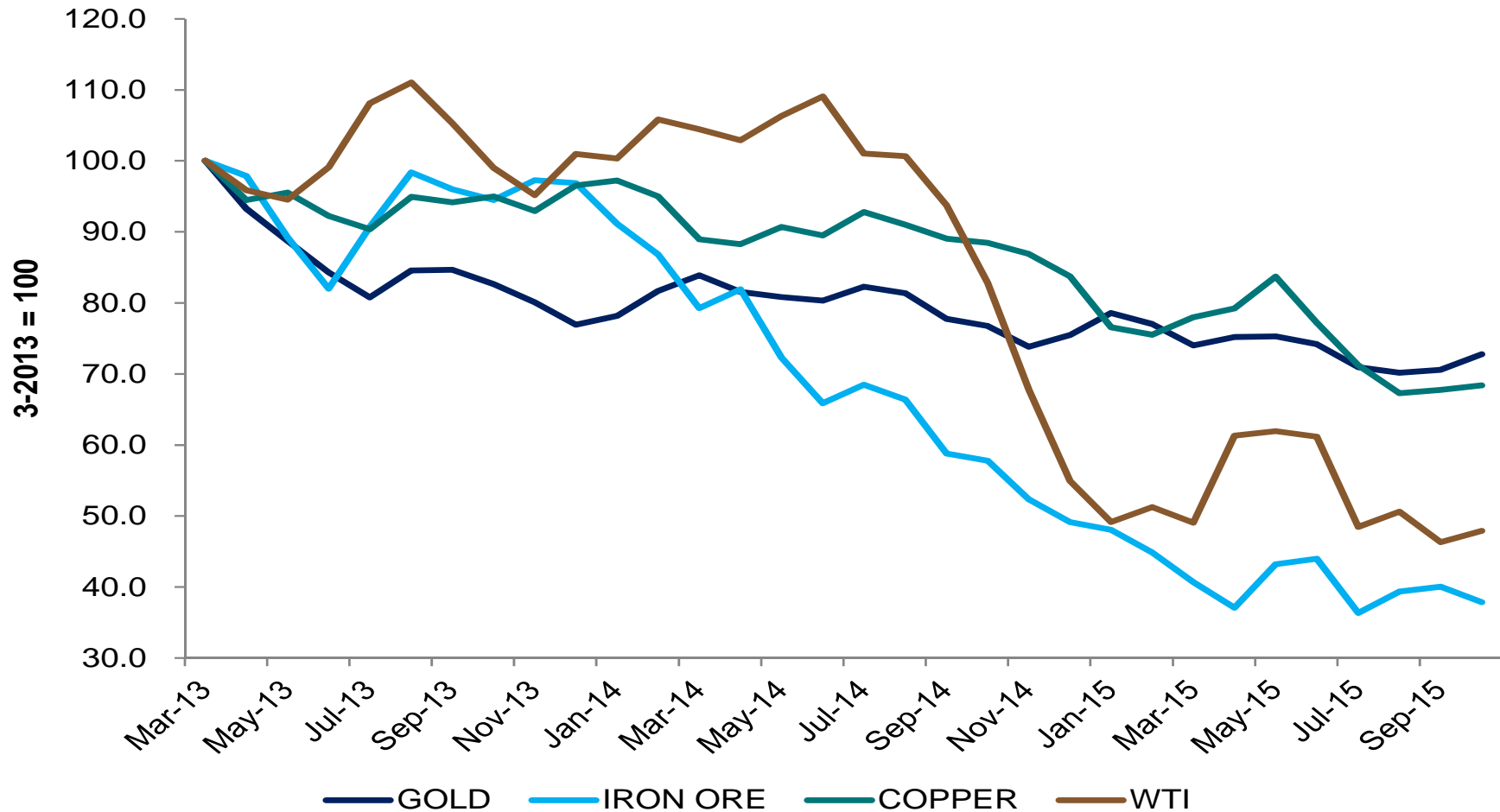


Source: IMF/ Haver/ GR-NEAM

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Slowdown in China Has Dramatic Effect on Commodities

Index of Major Commodity Prices



Source: EIA/ WSJ/ Haver/ GR-NEAM

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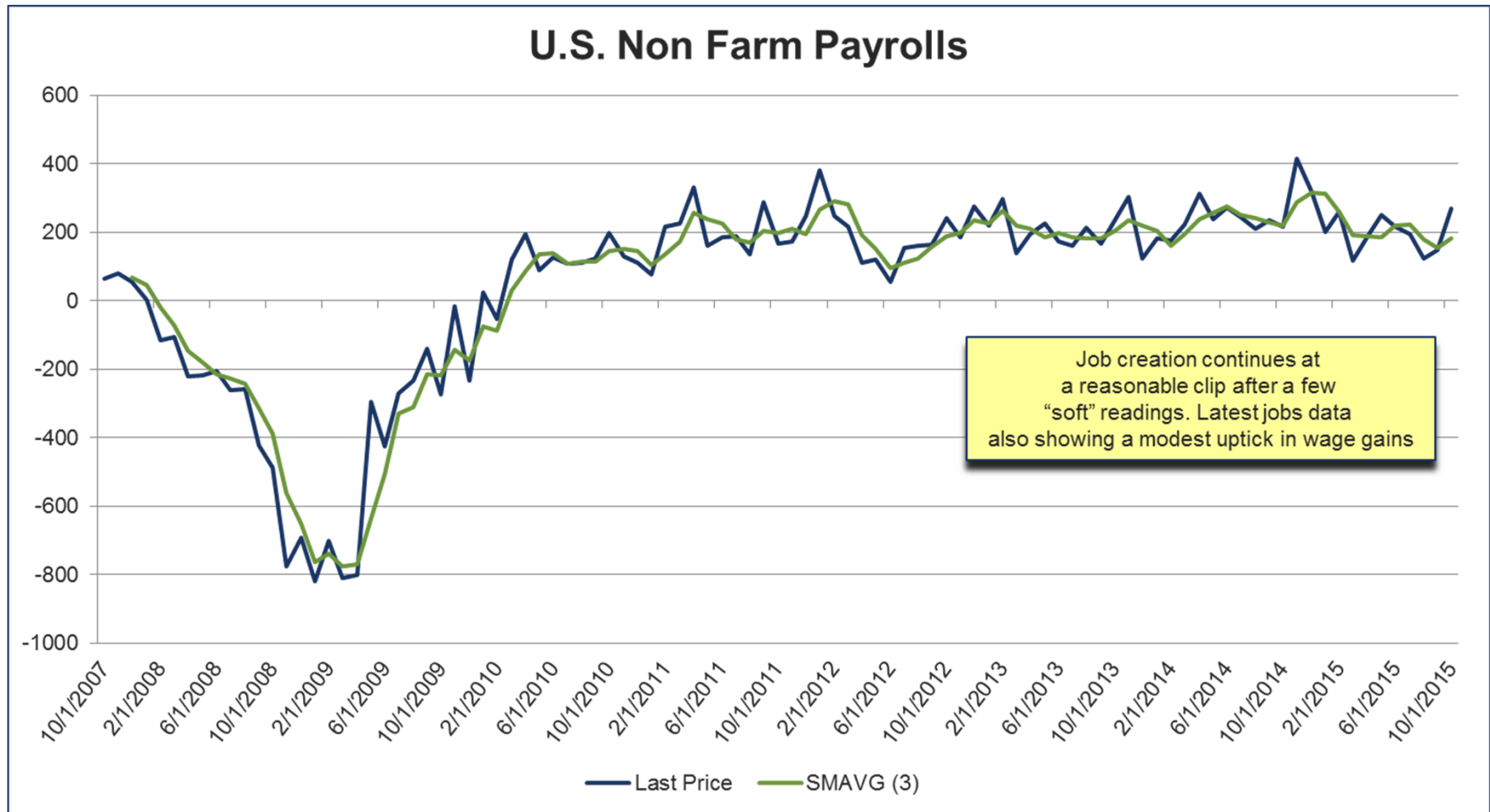
U.S. Economic Conditions

Despite Our Issues, the U.S. Stands Out Among Advanced Economies



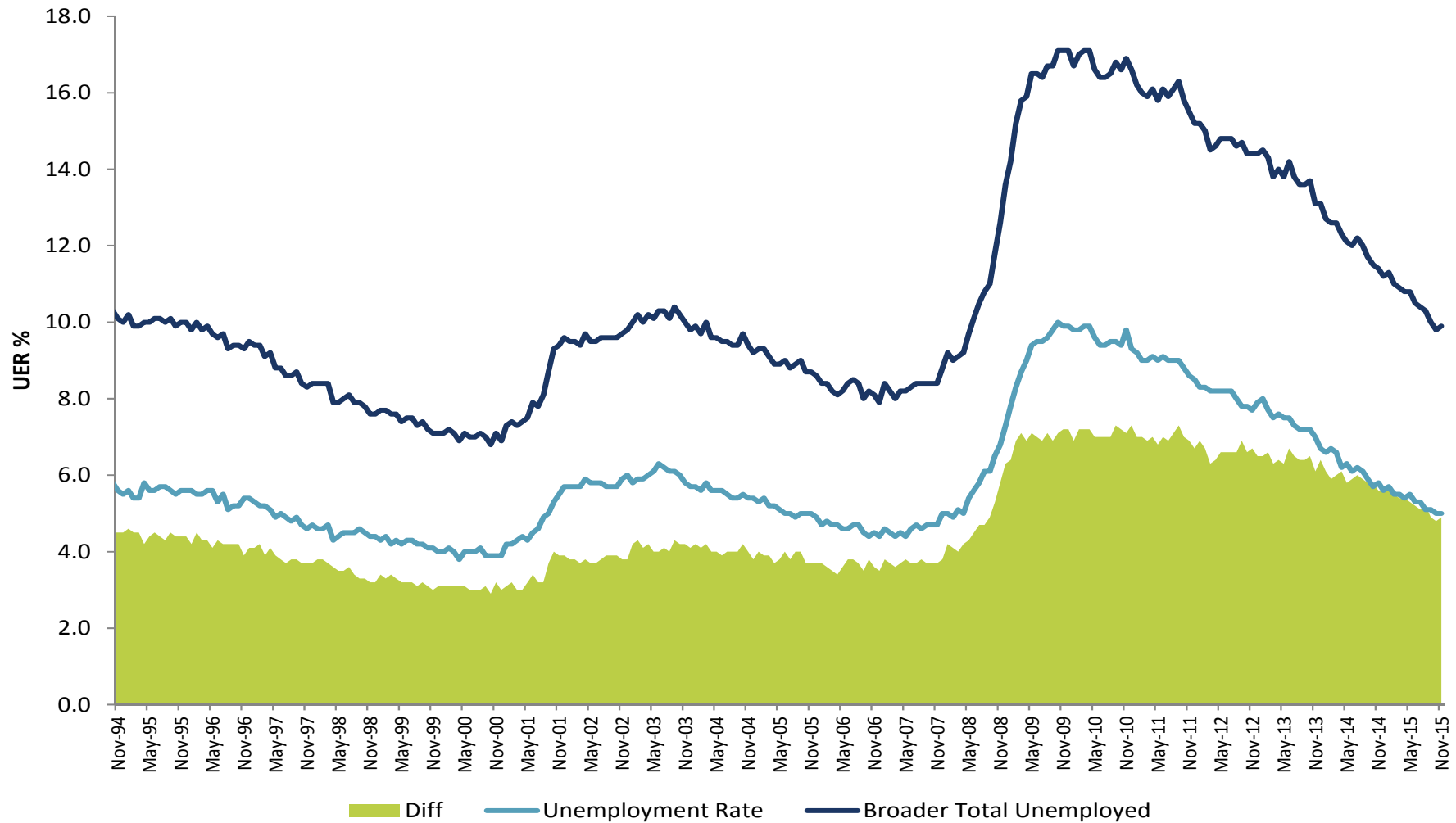
- **Rapid response to financial crisis**
 - **Fiscal stimulus**
 - **Monetary stimulus**
- **Financial system is strong and well capitalized**
- **Consumer driven economy benefitting from cheap oil and gas**
- **Relative advantages due to domestic energy development**
- **GDP growing at a rate that is “subpar” relative to history but it is stable. History is history.**

Payrolls Continue to Grow at a Solid Pace



Source: Bloomberg, GR-NEAM

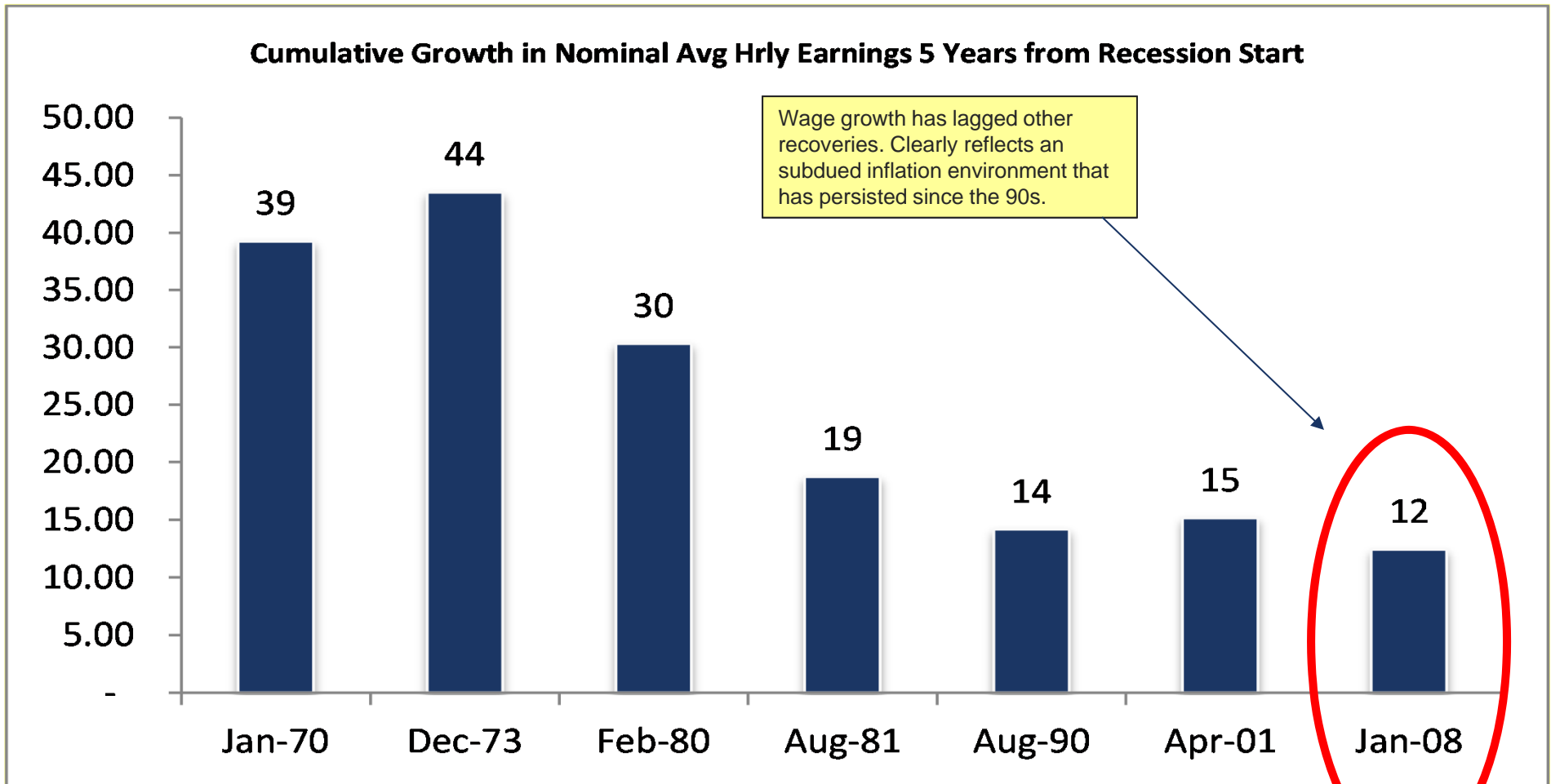
“NAIRU” – Non Accelerating Inflation Rate of Unemployment Are We There Yet?



Source: BLS / Haver / GR-NEAM

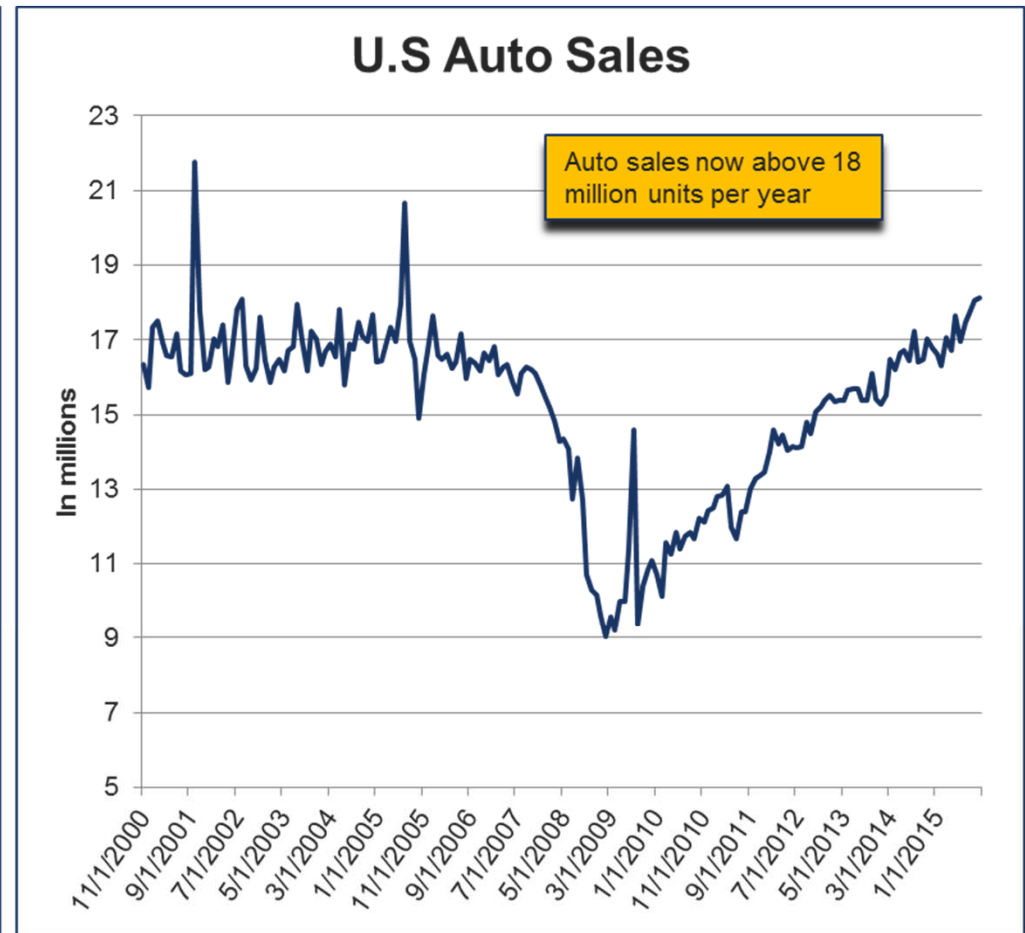
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Nominal Wage Growth Comparison



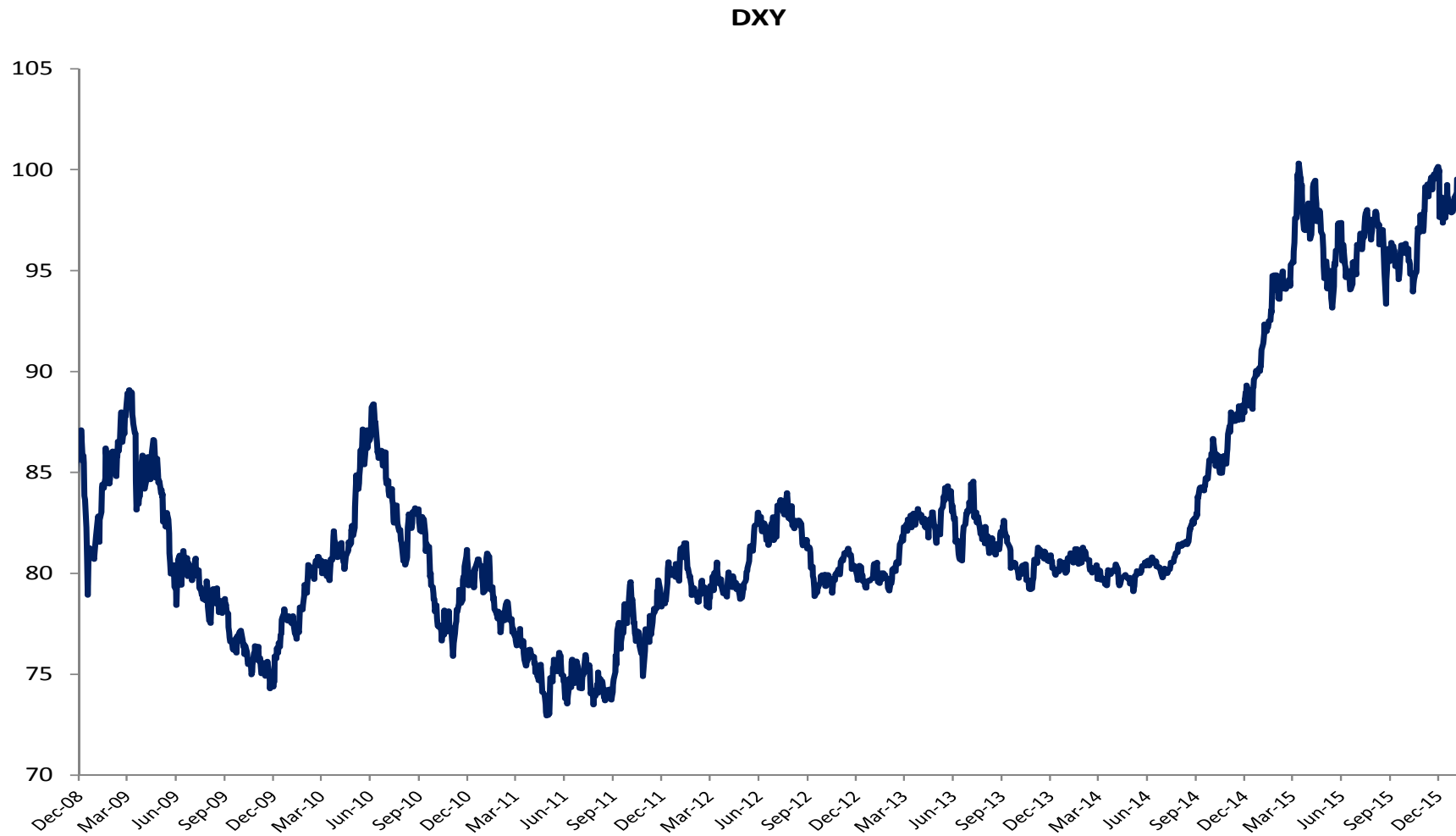
Source: BLS, NBER, Haver, GR-NEAM

Sales of “Big Ticket” Items in U.S. Continue to Improve



Source: Bloomberg, GR-NEAM

Dollar Strength Has Created Somewhat Tighter Financial Conditions In U.S. *Corporations Lose, But Consumers Win*

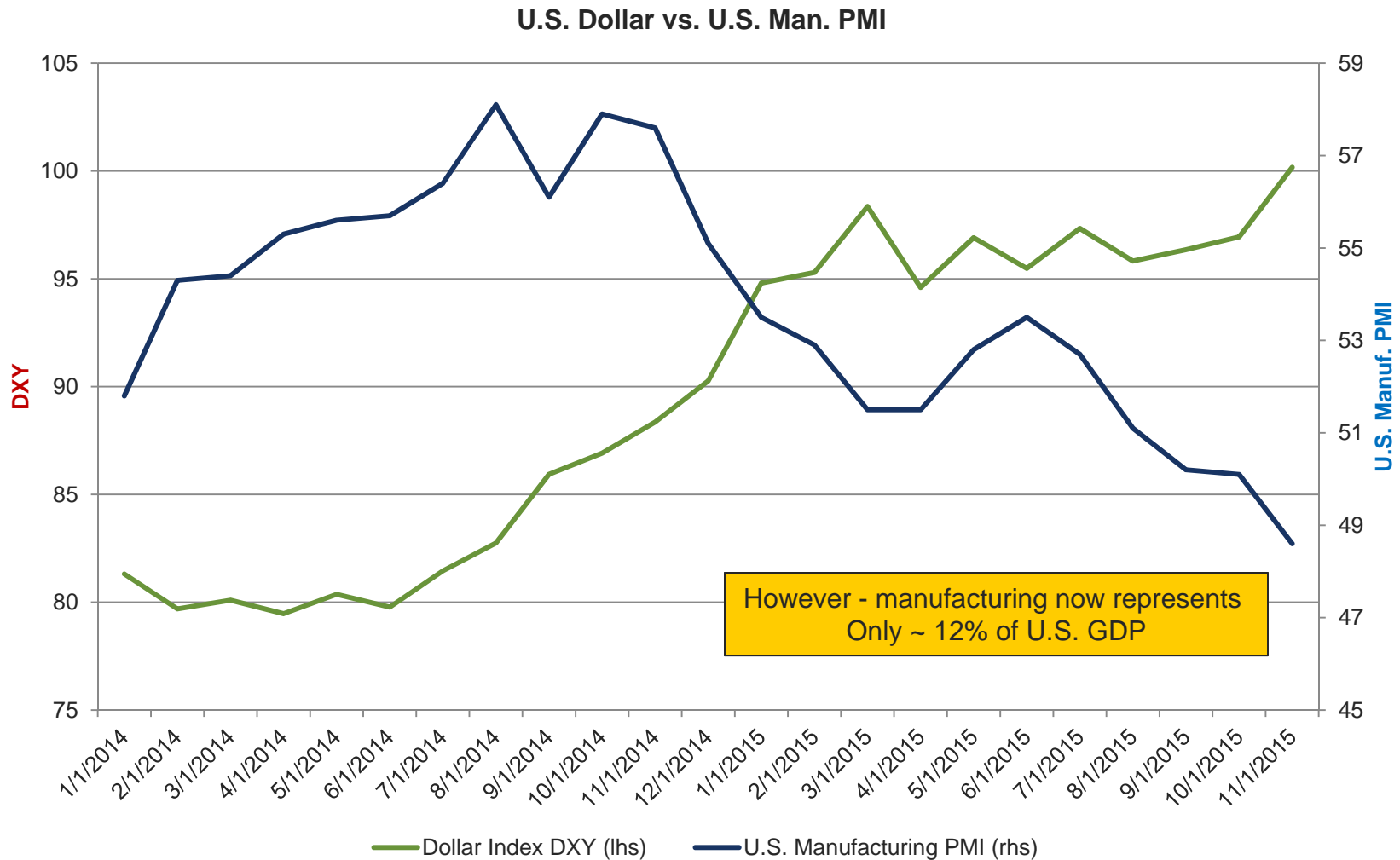


Source: Bloomberg/ GR-NEAM

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Some Relationships Are Complicated – Not This One

U.S. Manufacturing Has Rolled Over Due to Dollar Strength

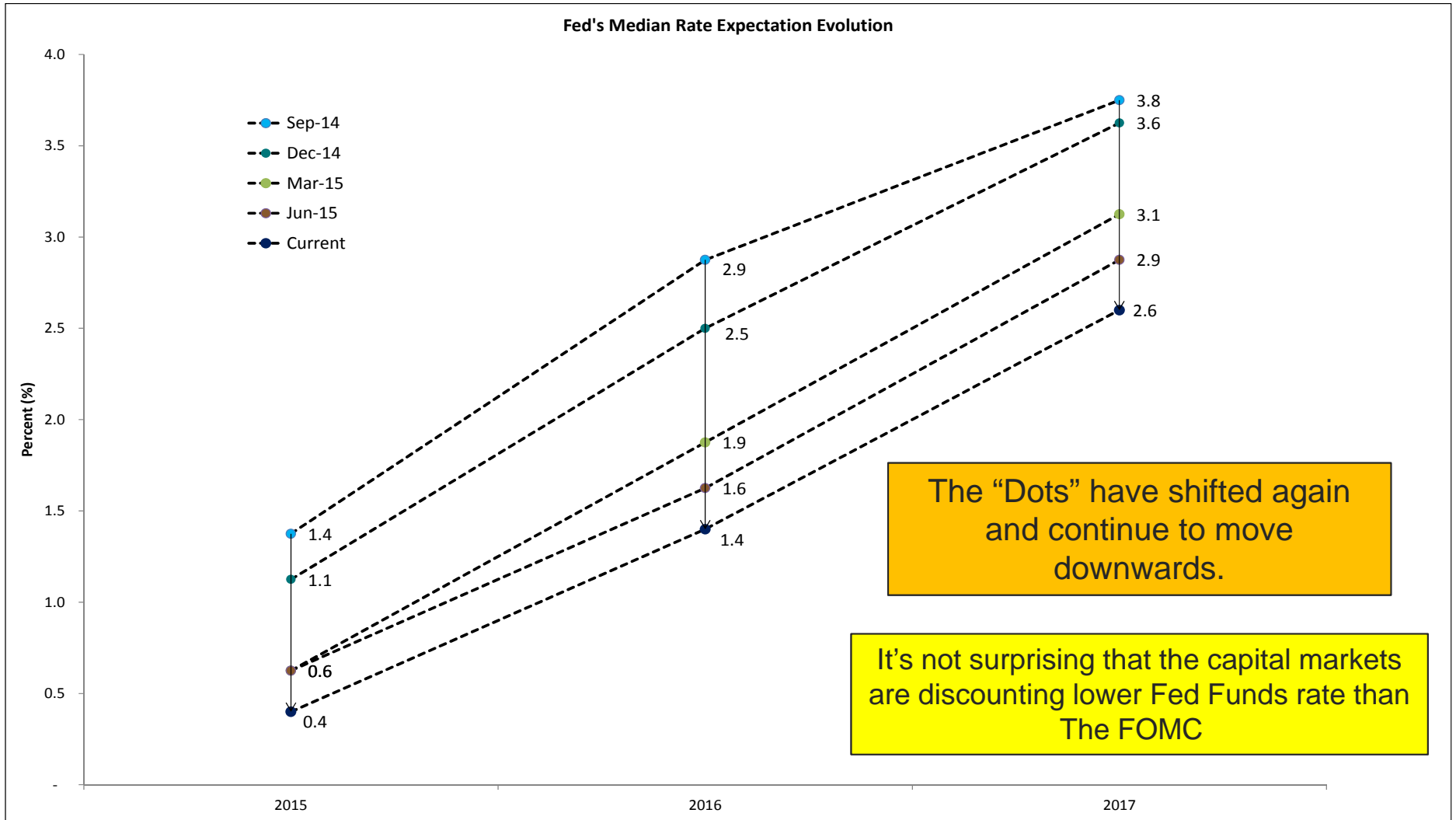


Source: Bloomberg, GR-NEAM



The Fed, Interest Rates and (the Lack of) Inflation

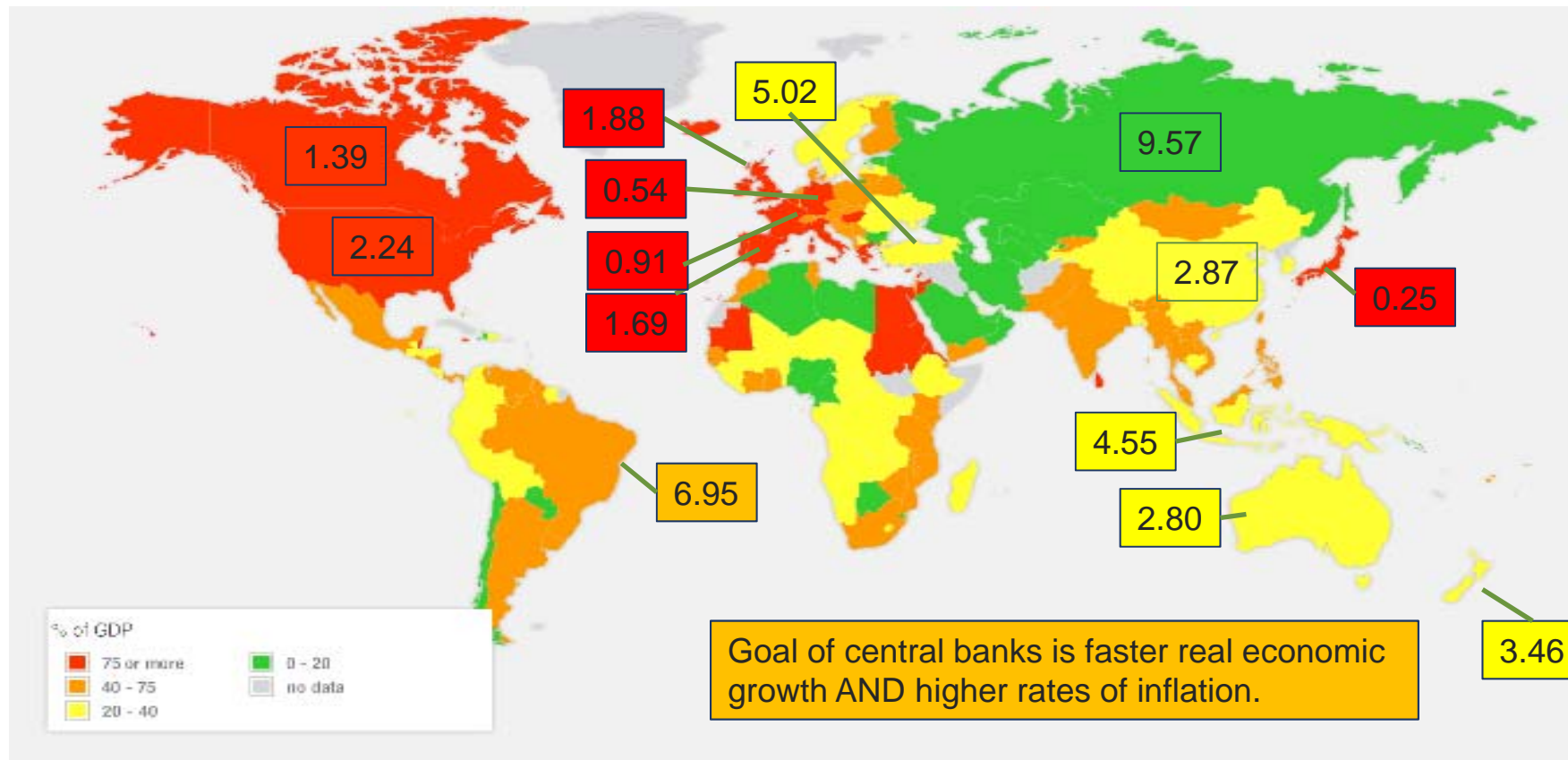
Fed "Lifts Off" – Now What?



Source: FRB, Haver, GR-NEAM

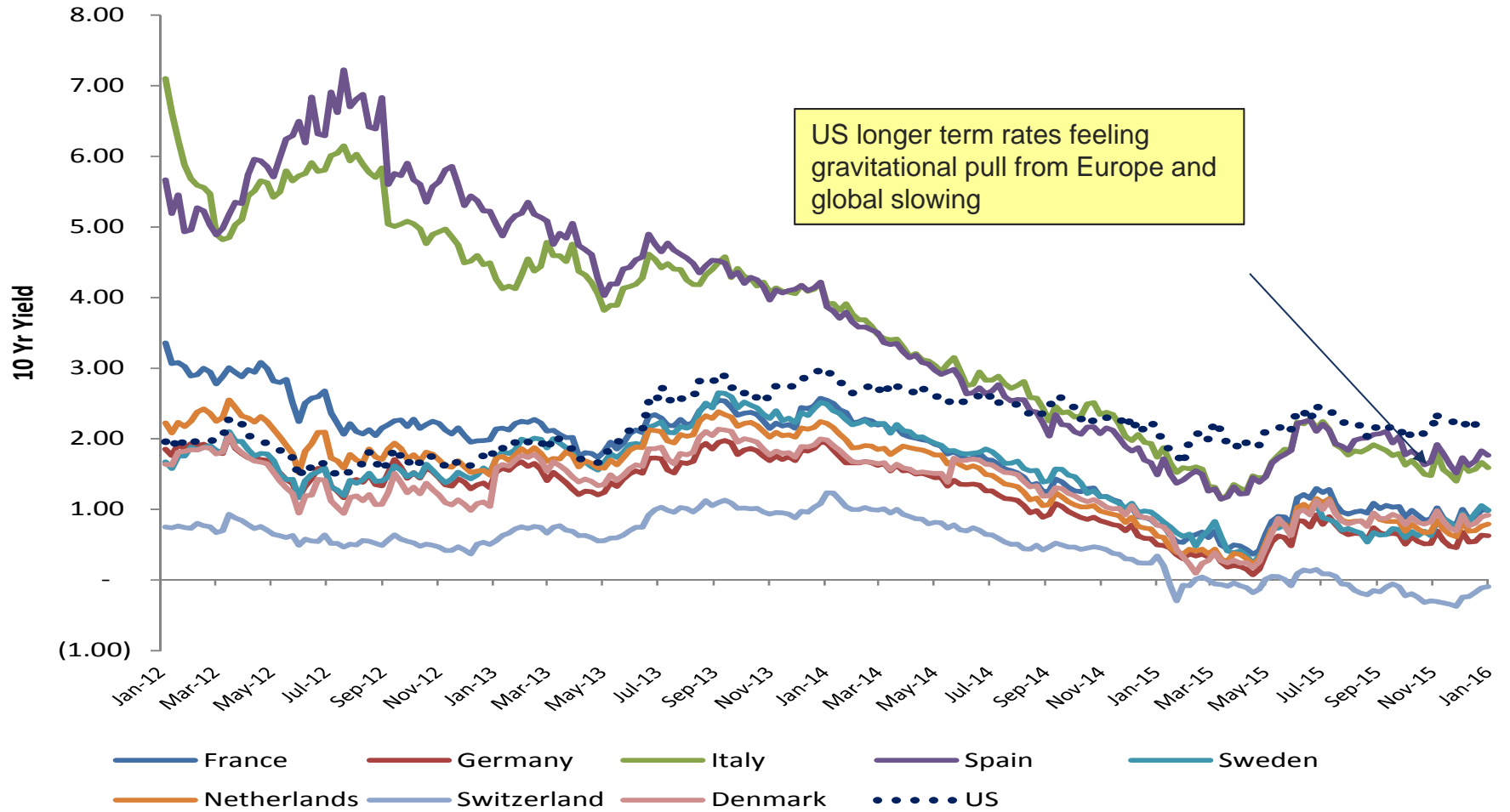
Global Debt to GDP – The Most Indebted Countries Have Lowest Rates

- Growth in debt burden has been a singular achievement for the entire G-7.
- EM countries are leveraging up as well, but with higher growth rates (for now) they can better afford to do so.
- Aging Population in G-7 countries increases demand for fixed income instruments



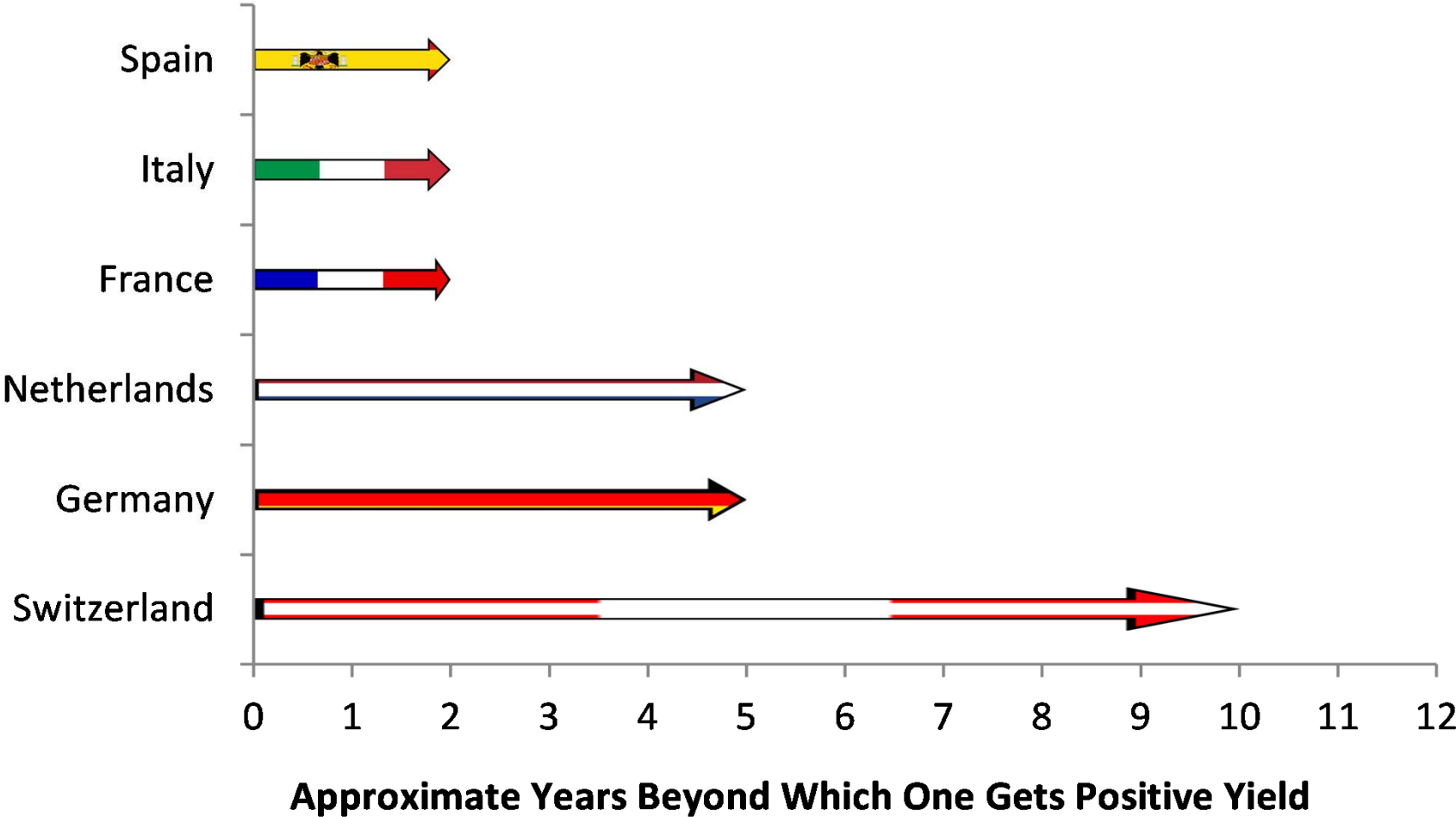
Source: International Monetary Fund

Global Yield Convergence



Source: Bloomberg/ GR-NEAM

Negative Rates in Europe



Source: Bloomberg/ GR-NEAM

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Inflation Expectations Heading Downward Again



Source: Bloomberg/ GR-NEAM

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U.S. Summary

U.S. economy showing moderate growth

Consumer spending, housing, business investment up

Labor market expanding, but “skills mismatch”, and job quality are blurring data

Inflation remains in check

Manufacturing and multinationals under pressure as a result of strong dollar
