Lunch & Keynote Address:
Alternative Thinking About ETFs: The Endowment Perspective

Presenter:
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The Macro Halftime Report:  
An Update on the 10 Potential Surprises of 2015  

June 17, 2015
“Making predictions is hard, especially about the future…”

Yogi Berra

“The financial markets generally are unpredictable. So that one has to have different scenarios... The idea that you can actually predict what's going to happen contradicts my way of looking at the market.”

George Soros

“Those who have knowledge, don't predict. Those who predict, don't have knowledge.”

Lao Tzu
An Update on the 10 Surprises
Definition: A Surprise is a variant perception (an idea that is materially different from consensus) that I believe has a better than 50% chance of occurring in the current year.

Disclaimer: I have intentionally not read any of the other lists of 2015 Surprises (most importantly Byron’s), so any similarity between the Surprises in this presentation and any of those predictions is coincidental or evidence (if they match the Blackstone list) that there was some channeling actually going on…

Qualifier: There is much wisdom about the folly of prediction and it would probably have been wise to decline the request to produce this list… That said, the process of thinking about Variant Perceptions and Scenarios is valuable to our investment process and it was actually kind of fun to spend some extra time thinking outside the box.
In a déjà vu experience harkening back to the 2002 Brazil elections, the radical Syriza Party wins the Greek Election (not really a surprise since it happened Sunday), but Alexis Tsipras turns out not to be as extreme to the left as expected (just like Lula) and the Greek equity market surges (just like Brazil did for next five years), turning out to be one of the best performing markets for 2015.
Leftist Lula to Destroy Brazil If Elected; Tsipras Same?

Brazilian Stocks surge 800% over next five years

Brazilian Stocks fall nearly 50% in months leading up to election

Greek Stocks fell 40% in months leading up to election

Source(s): BigCharts.com, The Economist, greekreporter.com.
Greek Economy Growing, Budget & Debt Issues Better

Greece Travel & Tourism
Total Contribution to GDP (%)

Total Travelers to Greece likely to hit new record, 25mm in 2015

Source(s): Tradingeconomics.com, BigCharts.com, Yahoo Finance.

Greece GDP Annual Growth Rate
Percent Change In Gross Domestic Product

Greece Government Debt to GDP
Percentage of the GDP

Source(s): Tradingeconomics.com, National Statistical Service of Greece, Eurostat.
Greece Rallied After Election, Turned Down, Bottom 4/17?

Source(s): TradingEconomics.com, seekingalpha.com, BigCharts.com.
Despite the BOJ and the ECB picking up the QE baton from the Fed and committing to purchase $80B and $65B of government bonds each month respectively, Deflation reemerges as the primary economic challenge in the developed world, GDP growth stalls and global interest rates continue to fall.
Killer Ds (Deflation) Driving DM GDP Expectations Lower

Source(s): NeubergerBerman, Zerohedge.
DM PMIs Turned Down, Financial Conditions Rolling Over

Source(s): NeubergerBerman.

Source: Neuberger Berman; Mkt; HSBC; Bloomberg.

Financial Conditions – US & EU

Source: Bloomberg, Monthly data January 2009 – April 2015

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Global Bonds Are Low, And Now 20% EA Bonds Neg Yield

Low Fixed Income Yields

10-Year Sovereign Bond Yields for Developed Economies (US, Germany, Japan, UK, Canada, Australia)

Figure 1: Euro area government bonds trading at negative interest rates

Source(s): NeubergerBerman, Zero Hedge.
Bond Kings Talked Their Books, But, No Change in Trend

In 2015 nominal GDP growth should be above EU bond yields for first time since 07 – powerful positive signal for equities

Don’t Fight The Central Banks, EAFE Equities Look Good

Source(s): BigCharts.com.
Contrary to the Fed Dots (new, new thing), the preponderance of Economists’ predictions (just like in 2014) and the continually upward sloping Fed Funds futures curves (since 2009), the Fed does not raise rates in 2015 and long bond rates take out the 2012 lows in yield.
Post-Crisis Deleveraging Historically Measured in Decades

Long-Term Government Bond Yields Starting with Historic Panic Years: Japan 1989, U.S. 1873 and 1929

Annual average

U.S. panic year 1873 = year 1
U.S. panic year 1929 = year 1
Japan panic year 1989 = year 1

Debt Induced Panic Years and Long-Term Government Bond Yields

1. Average low level of interest rates after panic: 2.0%
2. Average number of years after panic to lowest level of interest rates: 13.7 years
3. Average level of interest rates 20 years after panic: 2.5%
4. Change from low level of interest rates to 20th year: 0.5%

Sources: Federal Reserve Board, Homer & Sylla. Bank of Japan.

Source(s): Hoisington Capital Management.
Fed Convinced World Higher Rates Coming; Promises…

Source(s): PNC Bank, Zero Hedge.
Fed Passed QE Baton to BOJ, ECB; Dollar Was Surging

BATTLE ROYALE

Assets on Central Bank Balance Sheets
(Indexed to 100 in Jan-'07, Local Currency)

DOLLAR LIKELY GETTING CLOSER TO A LOW

U.S. Dollar Index (DXY)
50 & 200-Day MA

It may take some more time to turn up, but we suspect the $ is getting closer to putting in an important low.

Strategas Overbought/Oversold Indicator

Source(s): Strategas.
Thought History Might Not Repeat, But Would Rhyme

Path of 10-Year rate looks eerily similar to beginning of 2011, More downside if follows path of 1H 2012

Now Target 2012 Lows in 2015

Source: Bloomberg

Source(s): CLSA, BigCharts.com.
U.S. Rates Very Low, Appear To Be Locked in Channel

U.S. Fixed Income Yields Remain Low

U.S. Yields Remain at Historic Lows

YIELDS CONTINUE TO BOUNCE - RESISTANCE 2.50-2.75

U.S. 10-Year Yield
Weekly

Source(s): NeubergerBerman, Strategas.
Confounding the conventional wisdom that the convergence of the 3\textsuperscript{rd} year of a Presidential Cycle (average 16\% return) and the 5\textsuperscript{th} year of a decade (no down years since 1905) virtually guarantees a positive return for U.S. equities, the S&P 500 breaks the string of 6 consecutive up years and suffers its first losing year since 2008.
3\textsuperscript{rd} Year of Presidential Cycle Produces Strong Returns

Source(s): Strategas.

Would normally be up 11.4\% by now, Actual 3\%
Trend Model + “5” Says Positive 2015 Nearly Guaranteed

Source(s): Strategas.
2015 Following Bradley Date Script Well; Choppy Summer

Donald Bradley Siderograph 2015

Source(s): The Institutional Strategist (“TIS”) Group, BigCharts.com.
Seven Year Business Cycle, Not Different This Time...

Since 1871, US Equities Have Never Risen 7 Consecutive Years in a Row...
June 30, 1874 through December 31, 2014

Number of consecutive years of positive returns on the S&P 500

Six years
1898-1903
1904
-18% price correction!

Six years
2009-2014

Source: Robert Shiller, Yale University [https://www.yale.edu/college/soa/shiller]
S&P 500 index definition can be found in the appendix.
You cannot invest directly in an index.

Source(s): Doubleline, Robert Shiller, Strategas.
Despite an ongoing military conflict in Ukraine, the impact of coordinated global economic sanctions, rapidly falling oil prices, reduced government tax revenues, a collapsing currency and a looming economic downturn and downgrades of their government debt and consensus that Russia is simply “un-investable”, Sir John Templeton turns out to be right that Bull Markets are born on Pessimism and Russian equities turn out to be one of the best global markets in 2015.
Oil Price Drop Likely Pushes Russia Into Recession…

Russian GDP and the oil price

Russian GDP growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>4.5%</td>
</tr>
<tr>
<td>2011</td>
<td>4.3%</td>
</tr>
<tr>
<td>2012</td>
<td>3.4%</td>
</tr>
<tr>
<td>2013</td>
<td>1.3%</td>
</tr>
<tr>
<td>2014*</td>
<td>0.6%</td>
</tr>
<tr>
<td>2015*</td>
<td>-0.8%</td>
</tr>
</tbody>
</table>

*2014 and 2015 figures are forecasts from the Russian economy ministry

Source(s): Reuters, SprottMoney Blog.com, Financial Times.
Déjà vu: Russia Collapsed w/ Oil in ’08, Very Similar Now

Source(s): BigCharts.com.
History Repeats? Russian Crisis = Danger + Opportunity

Russian Stocks Were Amazing Buy in 2009

Great Start in 2015...

Source(s): TIS Group, BigCharts.com.
Russian CB Acted Decisively 12/15 => Strong Recovery

Despite Solid 2015, Lots of Headroom

Source(s): Strategas, BigCharts.com.
The acceleration of the Global Currency War reignites the demand for the ultimate currency, Gold, and the Barbarous Relic surges to new highs in 2015, carrying the miners along for the ride.
Suddenly Precious Metals Looking More Like Currencies

Source(s): KimbleChartingServices, BigCharts.com.
Everyone On Same Side of S.S. King Dollar => Caution

Source(s): Strategas.
WE REMAIN EURO BEARS, SELL BOUNCES

This chart has all the signs of a structural bear market. We would continue to use any oversold bounces as a selling opportunity.

Source(s): Strategas.

DOLLAR CALL IS FLUID - EURO STILL A CROWDED SHORT...

We would rather sell the Euro near 1.20 vs. 1.10.

Source(s): Strategas.
Gold Trend Turning Toward Positive, Now Breaking Out?

Source(s): Strategas.
Gold Miners vs Gold Reached Lowest Ever; Rebounding
Central Banks in the Emerging Markets are forced to stimulate their economies in response to the massive BOJ and ECB bond purchase programs and the resulting expansion of liquidity unlocks the extreme value in Emerging Market equities leading them to outperform the developed markets for the first time since 2012.
Global Deflation Allows Central Banks to Lower Rates

Source(s): Strategas.
EM Growth Continues > DM Growth, Yet Equitization Lags

**Emerging Markets Share of Global GDP**

Emerging market’s share of global GDP has grown from 20% to 39% in the last decade, and it is estimated to reach 40% by 2016.

High level of Emerging Markets GDP growth makes EM equities attractive as a higher GDP growth is likely to improve EPS growth of EM equities which in turn can produce better performance for EM equities.

**Global Equitization Ratios**

High equitization ratios indicate expensive equity markets or where there is a premium paid for consistency, stability or high real growth rates.

**SELECT ECONOMIES EQUITIZATION RATIOS**

<table>
<thead>
<tr>
<th>Country</th>
<th>Equity Market Capitalization (USD Trillions)</th>
<th>2016 GDP Estimate (USD Trillions)</th>
<th>Equitization Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>0.07</td>
<td>0.56</td>
<td>0.12</td>
</tr>
<tr>
<td>Peru</td>
<td>0.07</td>
<td>0.19</td>
<td>0.39</td>
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<tr>
<td>Brazil</td>
<td>0.77</td>
<td>1.90</td>
<td>0.41</td>
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<tr>
<td>Colombia</td>
<td>0.14</td>
<td>0.33</td>
<td>0.42</td>
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<tr>
<td>Russia</td>
<td>0.50</td>
<td>1.18</td>
<td>0.43</td>
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<tr>
<td>Germany</td>
<td>1.99</td>
<td>3.41</td>
<td>0.58</td>
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<tr>
<td>GCC Countries</td>
<td>0.54</td>
<td>0.90</td>
<td>0.61</td>
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<tr>
<td>India</td>
<td>1.59</td>
<td>2.31</td>
<td>0.69</td>
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<tr>
<td>China</td>
<td>7.76</td>
<td>11.21</td>
<td>0.69</td>
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<tr>
<td>Philippines</td>
<td>0.27</td>
<td>0.31</td>
<td>0.89</td>
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<td>Korea</td>
<td>1.36</td>
<td>1.44</td>
<td>0.95</td>
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<tr>
<td>Chile</td>
<td>0.24</td>
<td>0.25</td>
<td>0.96</td>
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<td>World</td>
<td>71.59</td>
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<td>Australia</td>
<td>1.27</td>
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<td>Thailand</td>
<td>0.43</td>
<td>0.39</td>
<td>1.10</td>
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<tr>
<td>Japan</td>
<td>4.07</td>
<td>4.21</td>
<td>1.88</td>
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<td>United Kingdom</td>
<td>3.80</td>
<td>2.85</td>
<td>1.33</td>
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<td>United States</td>
<td>24.96</td>
<td>18.12</td>
<td>1.38</td>
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<td>Malaysia</td>
<td>0.46</td>
<td>0.33</td>
<td>1.42</td>
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<td>South Africa</td>
<td>0.54</td>
<td>0.32</td>
<td>1.68</td>
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<td>Taiwan</td>
<td>1.06</td>
<td>0.53</td>
<td>2.00</td>
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<tr>
<td>Singapore</td>
<td>0.59</td>
<td>0.30</td>
<td>2.00</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1.71</td>
<td>0.69</td>
<td>2.49</td>
</tr>
</tbody>
</table>

Source(s): NeubergerBerman.
EM Has Higher Growth & Lower Valuation => Value Buy

Where are Valuations Currently?

EM has 22% higher EPS growth at a 26% discount in P/E

Relative Valuation – Emerging Versus Developed Market Equities

EM vs. DM at second most attractive relative valuation in decade

Source(s): NeubergerBerman.
EM Are Significantly Cheaper Than DM; BRIC Intriguing

Source(s): JPMorgan.
Contrary to the current consensus that Oil prices have bottomed and will rebound back to $70-$80 by year end, continuing liquidation of speculative long futures positions drives Oil down close to the 2008 lows ($30) and prices stay in the $40-$50 range much longer than expected as structural challenges in the U.S. and OPEC make it difficult for market participants to move supply/demand back into balance.
EIA Predicts No Excess Supply By YE, WTI Rises to $70

Source(s): U.S. Energy Information Administration ("EIA").
But EIA ALWAYS Predicts Balanced Mkt, Smooth Prices

Source(s): EIA.
History: Oil Dislocations Short; Not One Forecast < $60?

WTI Crude Oil % Above/Below 200-Day MA

Everyone expecting 40%+ rebound in prices...

WTI FORECASTS...

WTI Crude Oil Forecast Among Wall Street Analysts
Year End 2015, 27 Forecasts

History may not be a helpful guide for the current situation, but here goes. WTI has dropped more than 50% inside of six months. This has happened five times since 1980. Over the subsequent six months, oil prices rallied by an average of 52%. (1) The S&P 500 rose during four of the five subsequent 6-month periods with modest gains, about 3% to 4% on average. (2) So, the best way to play oil's recovery in the past was to buy crude, relative to buying the stock market.

Source(s): TIS Group, Strategas.
Supply Shocks Are Very Different From Demand Shocks

Source(s): ShaneObata, Goldman Sachs Research.

You Are Here =>

Last Five Months Tracked History Well

Question is: 1987 or 1999

...while a similar supply-driven price decline of the late '80s kept prices lower for longer

Source(s): Goldman Sachs Global Investment Research.
No Clear Relationship Between Surplus/Deficit & Oil Price

Figure 1. World liquids relative surplus or deficit (production minus consumption) and WTI crude oil price adjusted using the consumer price index (CPI) to real February 2015 U.S. dollars, 2003-2015. Source: EIA, U.S. Bureau of Labor Statistics, and Labyrinth Consulting Services, Inc.

Source(s): DavidStockmansContraCorner.com.
Oil & Energy Equities Hitting Resistance, Rolling Over

Source(s): Strategas.
Kuroda-san and the BOJ pull out the bazooka again in 2015 taking aim at a USDJPY level of 140 in an attempt to stimulate profits of Japan Inc. so they will raise wages, triggering a virtuous circle to break deflation and achieve the 2% target inflation rate. Japanese equities tag along for the ride and the Nikkei reaches 22,000 by year end.
Abenomics: Inflation Rising, Yen Falling, Stocks Rising

Source(s): JPMorgan.
BOJ Commitment to QQE Translating Into Real Inflation

Source(s): Mizhuo.

Macroeconomic Statistics for Japan

BOJ BALANCE SHEET

INFLATION

Source(s): Mizhuo.
Sun Has Barely Risen Over Horizon, Long Day Ahead…

Is the good news now in the price? Only a small rebound considering the potential change.

- Foreign investors appear to have discounted the yen reversal, but not much more given the continued high correlation with the currency market.
- Japanese institutions have been consistent sellers into the rise in 2013.
- Individuals have turned aggressive buyers in 2014, helped by NISA.

Source(s): BNY Mellon, BigCharts.com.
Yen Resistance 123, Target 140; Nikkei 18,400 & 22,000

Source(s): StockCharts.com.
In spite of the cacophony of bad news about slowing GDP growth, an impending economic hard landing, a potential currency collapse, a looming banking crisis and a pervasive real estate bubble, coupled with fears that huge returns in the Shanghai market in 2014 have pushed equity markets too far, too fast, China officially enters a new Bull Market and equities (both Hong Kong and Shanghai) rally strongly again in 2015.
Third Plenum Reforms Set Stage For New Bull Market

- Markets will determine pricing and resource allocation.
- SOE's will be reforms and the playing field leveled for private and foreign enterprises.
- Administrative reforms will reduce red tape and simplify many processes and lower barriers to entry in many areas.
- Local government budgets will follow a unified system and clear division of responsibilities between the central and local governments will be defined.
- Tax reform will re-allocate fiscal revenues according to residence and consumption.
- Land reform will provide land use leasing, rights transfer and mortgage capability to give rural residents greater wealth from their ownership of collective land use rights.
- The finance sector will be opened to private and foreign institutions to improve, credit allocation, products and services and efficiency through competition.(1)

- Chinese equities may be starting a major bull run.

Source(s): TIS Group, BigCharts.com.
As Inflation Falls, PBoC Expands Money Supply Again

Source(s): TradingEconomics.com.
China Allowing RMB To Weaken To Boost Exports

WATCH THE YUAN TO GAUGE THE HARD-LANDING RISK IN CHINA...

A-Shares Dominated 2014, HK & SOEs Catch Up In ’15?

Source(s): BigCharts.com.
In contrast to the powerful narrative, the huge windfall for U.S. consumers from lower gasoline prices fails to materialize as some of the savings are applied to reduce debt and increase savings and the loss of jobs from the economic downturn in the Oil States counteracts the positive impact of the balance. U.S. Real GDP growth hovers around 2% (for the 6th consecutive year) and talk of QE4 begins in the fall.
In Theory Collapse in Oil Price => $200B in Extra Cash...

Source(s): Strategas.
Gas Prices Collapsed, Spending Only Back to 12/13 Level

U.S. Gasoline and Crude Oil Prices

<table>
<thead>
<tr>
<th>Price difference</th>
<th>Retail regular gasoline</th>
<th>Crude oil</th>
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<tbody>
<tr>
<td>5.00</td>
<td>4.50</td>
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</table>

Crude oil price is composite refiner acquisition cost. Retail prices include state and federal taxes.

Source: Short-Term Energy Outlook, May 2015.

Source(s): EIA, TIS Group.
Decline in Retail Sales Growth Only Seen in Recessions

Monthly Retail & Food Services Sales
Year-over-Year with Recessions Highlighted

Source(s): AdvisorPerspectives.com.
Morgan Creek Capital Management, LLC
301 W. Barbee Chapel Road, Suite 200
Chapel Hill, NC 27517

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Email: InvestorRelations@morgancreekcap.com
Web: www.morgancreekcap.com
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**NASDAQ Index (CCMP)** -- The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

**MSCI Emerging Markets Index** -- this is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index currently consists of 21 emerging market country indices.

**Nikkei-225 Index** -- This is an index consisting of the price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The Nikkei Stock Average was first published on May 16, 1949, where the average price was Yen176.21 with a divisor of 225.

**Russell 2000 Index** -- this index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. Definition is from the Russell Investment Group.

**Gold** -- Spot, or real-time, price of gold.

**GSCI Commodity Index** -- this is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully collateralized basis with full reinvestment. The combination of these attributes provides investors with a representative and realistic picture of realizable returns attainable in the commodities markets. Definition is from Goldman Sachs.

**S&P 500 Index** -- this is an index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The index is a market-value weighted index – each stock’s weight in the index is proportionate to its market value. Definition is from Standard and Poor’s.