



Portfolio Manager Weekly Meeting Notes

February 8, 2016



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Senior Vice President, Chief Investment Officer

“The only big things I’ve purchased are my dad’s heart valve and a Rolls-Royce for my parents, for their anniversary. And that was only because my dad had a Lady Gaga license plate on our old car and it was making me crazy because he was getting followed everywhere, so I bought him a new car.”

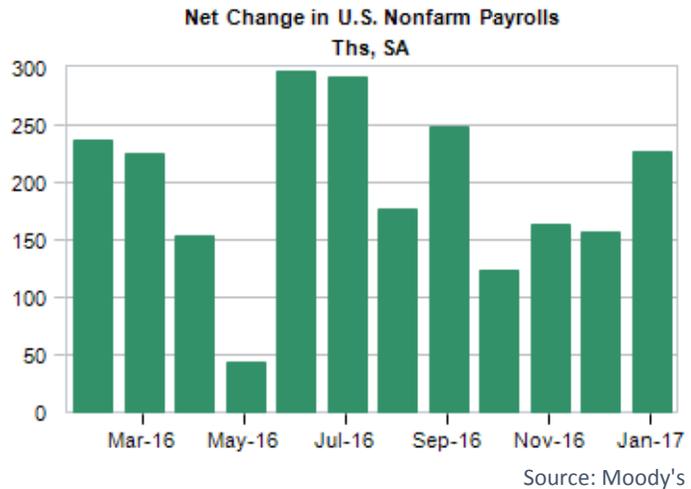
-Lady Gaga

- Vehicle sales started off the year on a robust note. Although the overall pace dropped a bit in January to 17.6 million annual units from 18.42 million in December, it was a bit stronger than expected. Total car sales fell 12% year over year and 9% month over month, while truck sales fell only 1.3% from December, but are nearly 6% higher year over year. Overall truck sales are 63% of total sales thanks to full employment, rising wages, and low financing rates.
- The monthly sales report from Motor Intelligence, shows year over year sales at GM are down 3.9% with car sales down 21% to 51,805 for the month, while truck sales rose 4.3% to 144,000 units. Sales of Ford vehicles were down 0.7% year over year. Ford car sales declined 17.5% while truck sales grew 6.1%.
- In contrast, sales of premium automobiles are doing quite well. As the table below shows, consumers are buying everything from Audis to Teslas at a healthy clip. According to the Spectrum Group, the number of households with a net worth of \$1 million or more has risen 300,000 to over 10.4 million as of 2015, the most recent accurate count available.

Brand	Jan '17	Jan '16	% Change
Tesla	4,000	2,200	81.8%
Audi	13,201	11,850	11.4%
Bentley	148	81	82.7%
Lamborghini	52	66	-21.2%
BMW	18,109	18,082	0.1%
Rolls Royce	119	70	70.0%
Mercedes-Benz	27,576	26,563	3.8%
Jaguar	2,939	1,352	117.4%
Land Rover	6,163	5,655	9.0%
Porsche	1,292	1,490	-13.3%
Ferrari	200	141	41.8%
Maserati	889	525	69.3%
Average Premium Brand			37.7%
Average for all passenger cars			-12.2%
Average for all light trucks			5.7%

Labor market firm, wage growth less than expected.

- Non-farm payrolls increased 227,000 in January, ahead of expectations. Increase of 171,000 and 70,000 higher than December. The unemployment rate ticked up slightly to 4.8% from 4.7%, but for a good reason. The size of the labor force increased and the participation rate also moved higher to 62.9 from 62.7.
- Wages did not grow as much as thought or hoped for, but nonetheless were much higher. Depending on how you want to look at it, it gives the Fed more breathing room to keep rates lower for longer. It means less inflation pressure.
- The December JOLTS report was also solid, although not record setting. Job openings are up 4.2% year over year, although down just a bit from November to 3.6% of the labor force. Hiring continues to run behind job openings. There were 5.5 million openings in December, but only 5.2 million hires.
- The quits rate, or the percentage of total quits to total separations, is holding steady at 60%. Total layoffs are flat for the last six months. This tells us that workers are reasonably confident about finding another job quickly if they choose to quit.



The trade deficit in the fourth quarter of 2016 will put a drag on 4Q GDP growth rates.

- The trade deficit narrowed just a bit in December to \$44.3 billion, but still above trend compared to most of 2016. Both imports and exports increased in December; but obviously, the larger deficits in November and December will be a drag on 4Q GDP growth.

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