

2015 Economic & Financial Market Outlook

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CUNA Mutual Fiduciary Consultants

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CUNA Mutual Group Proprietary

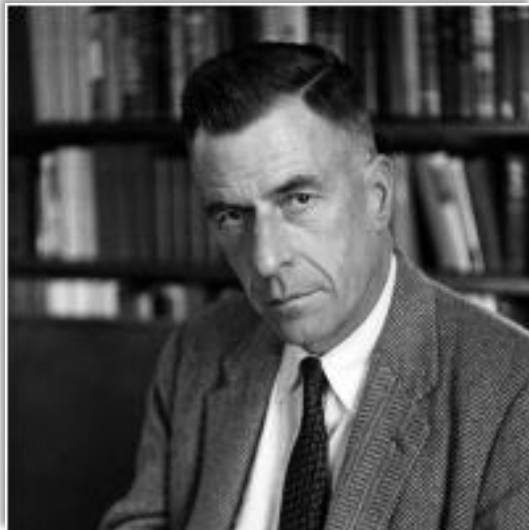
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Common Purpose. Uncommon Commitment.

Disclaimer



“The only function of economic forecasting is to make astrology look respectable.”

John Kenneth Galbraith

Current Conditions

Markets Up!

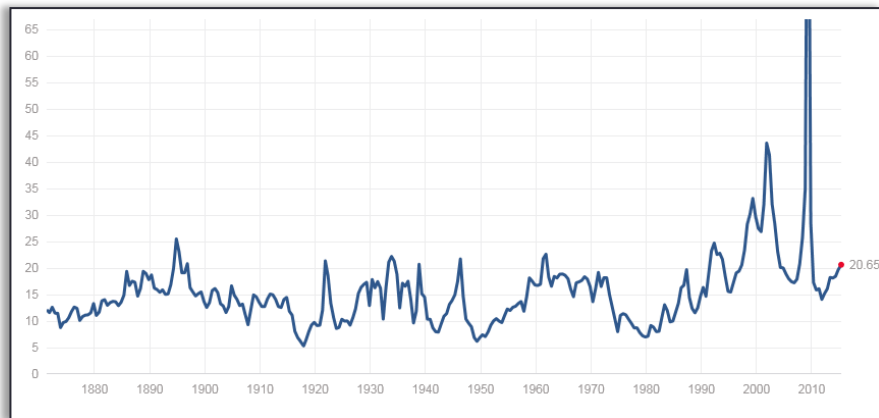
Asset Class % Returns as of May 31, 2015

Asset Class	Index	3 Mos.	YTD	1 Year	3 Year	5 Year
U.S. Large-Cap Stock	Russell 1000	0.76	3.65	11.91	19.97	16.68
U.S. Mid-Cap Stock	Russell Midcap	0.60	4.52	12.47	21.21	17.20
U.S. Small-Cap Stock	Russell 2000	1.41	3.98	11.32	19.45	15.04
International Stock	MSCI EAFE USD	2.27	8.93	-0.06	16.13	10.44
Emerging Market Stock	MSCI EM USD	1.97	5.78	0.33	6.32	4.41
Investment Grade Bond	Barclays Aggregate	-0.14	1.00	3.03	2.21	3.90
High Yield Bond	Barclays High Yield	0.96	4.07	1.95	8.10	9.21

Source: Bloomberg

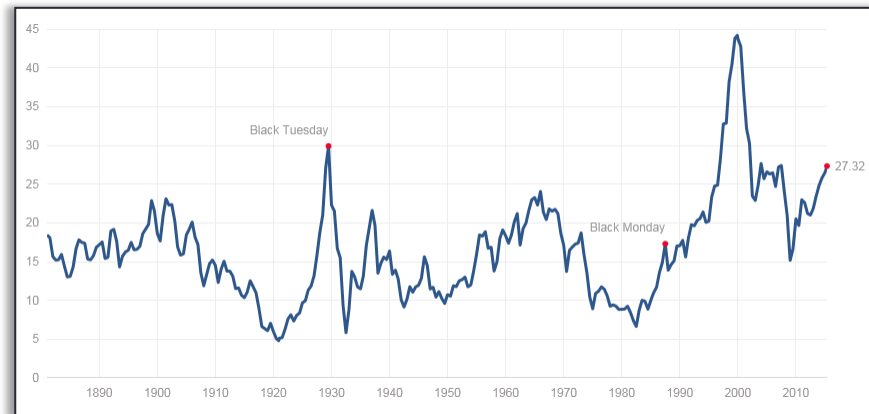
Stock Valuations – Also up!

Standard Lagging PE



Source: Mutpl.com

Shiller CAPE PE

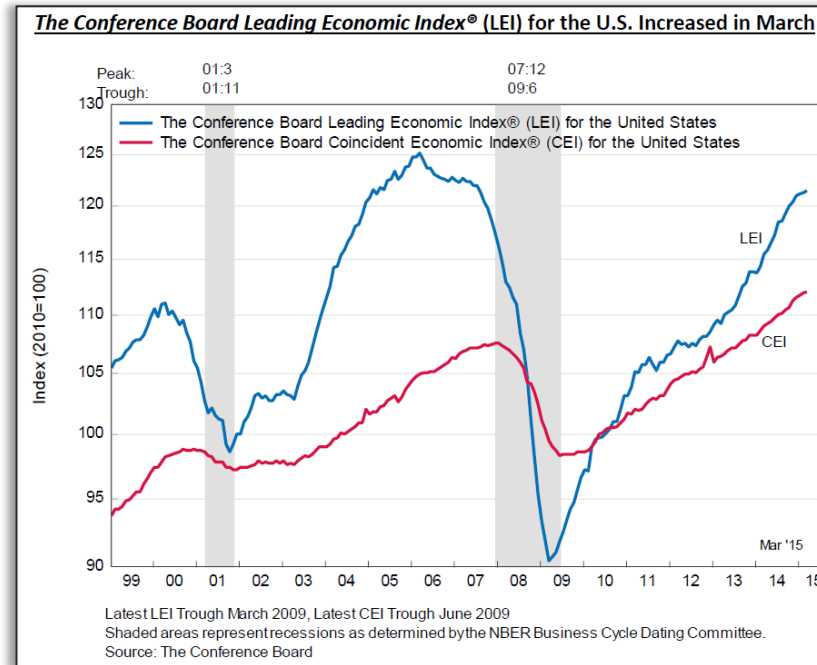


Source: Mutpl.com

Standard Lagging Average: 15.54

Shiller CAPE Average: 16.60

Near-Term Outlook Still Positive



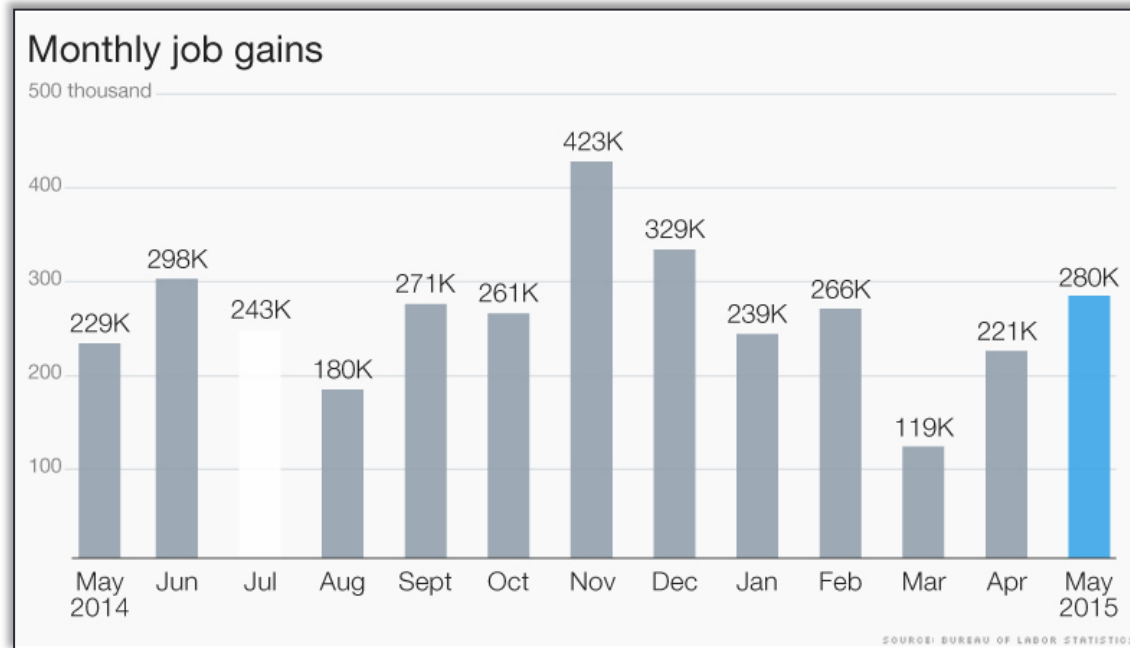
Remember this during the remainder of the presentation.

“Mostly Transitory Factors” Hurt 1Q 2015 Growth



Bad weather? West Coast port strike? Something more?

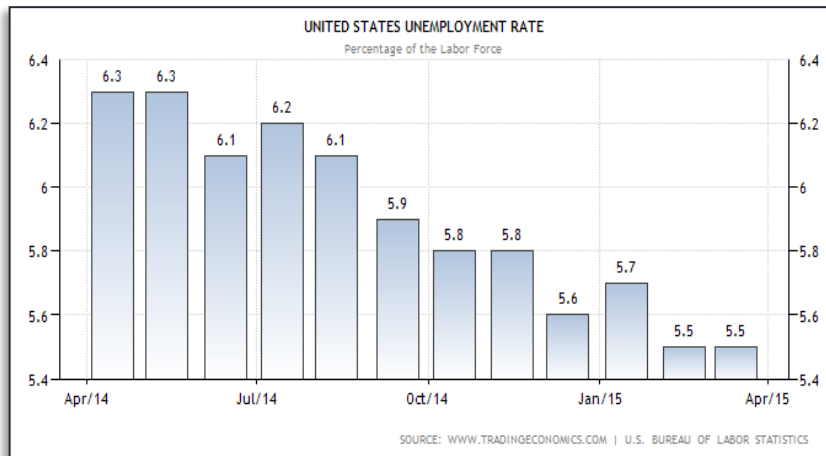
Employment Growth Solid in 1Q 2015



Energy sector weighing down new job creation.

Trending Toward Full Employment

U-3 “Headline” Unemployment



U-6 “Real” Unemployment



Real improvement, not a calculation trick.

Declaring (Currency) War



Source: JP Morgan Asset Management

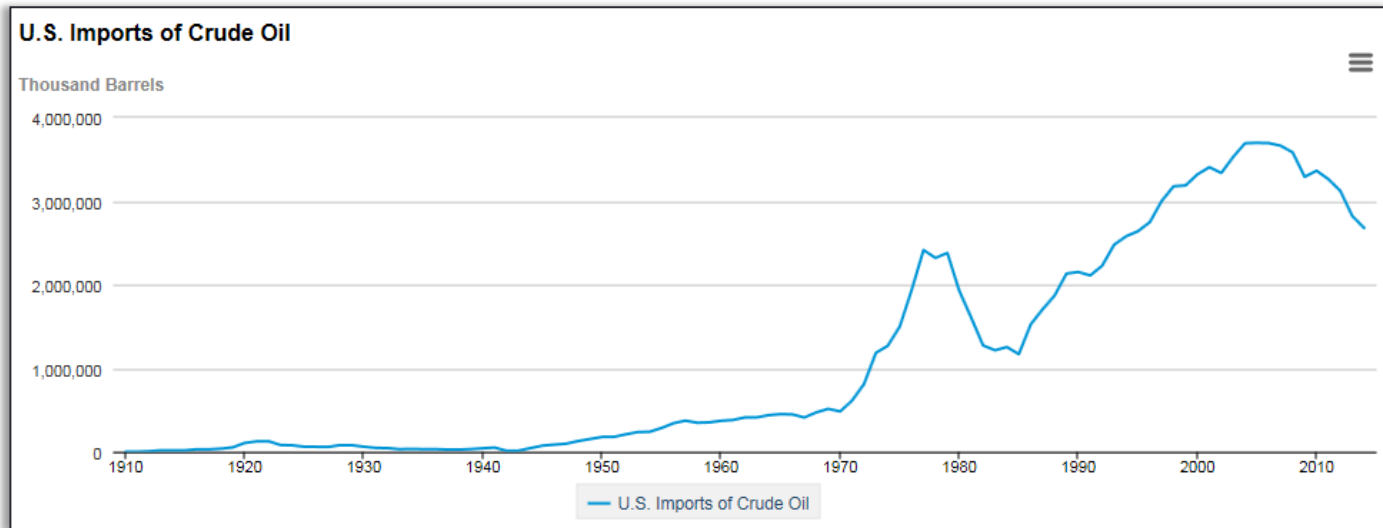
Global competitors playing hardball.

Oil Prices Collapse



Why the collapse? Falloff in demand? Glut in supply?

Oil Imports Fall



Source U.S. Energy Information Administration

Reliance on external sources falls.

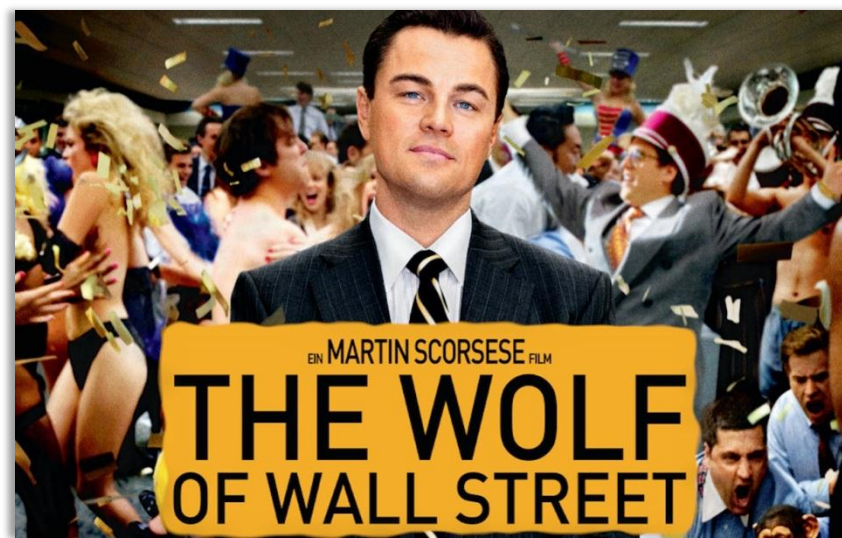
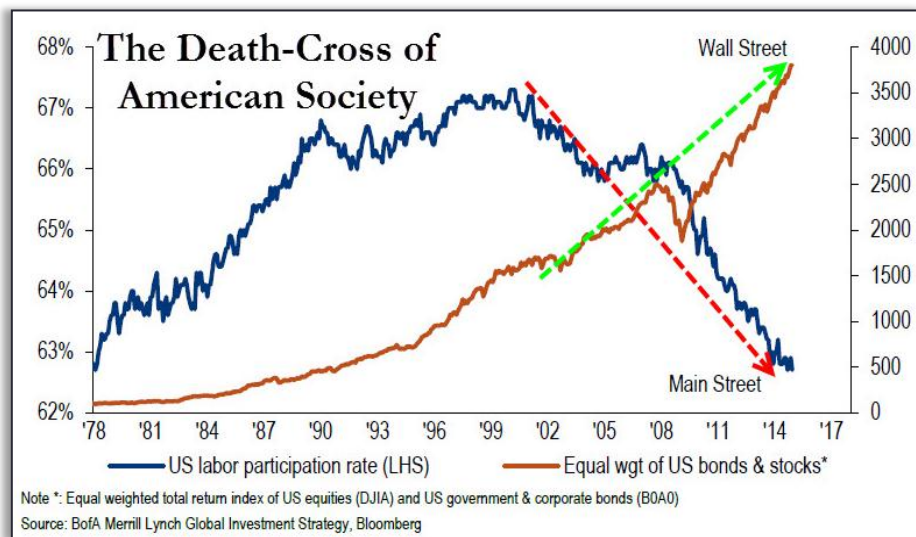
Near-Term Summary

- Economy continues to experience a sluggish recovery that still looks sustainable.
- Employment growth continues, but real wages are still stagnant.
- Inflation is nowhere to be seen.
- The U.S. Federal Reserve is likely to increase short-term rates in 3Q.
- Financial markets have performed well, but stock valuations are stretched and susceptible to meaningful corrections.
- International economies are mixed: China has slowed and the EU has accelerated.
- Currency manipulation is rampant and currently hurting the U.S. economy.
- Oil prices have stabilized, but structural change has permanently altered the market.

Long-Term Challenge:

What will cause the economy to grow?

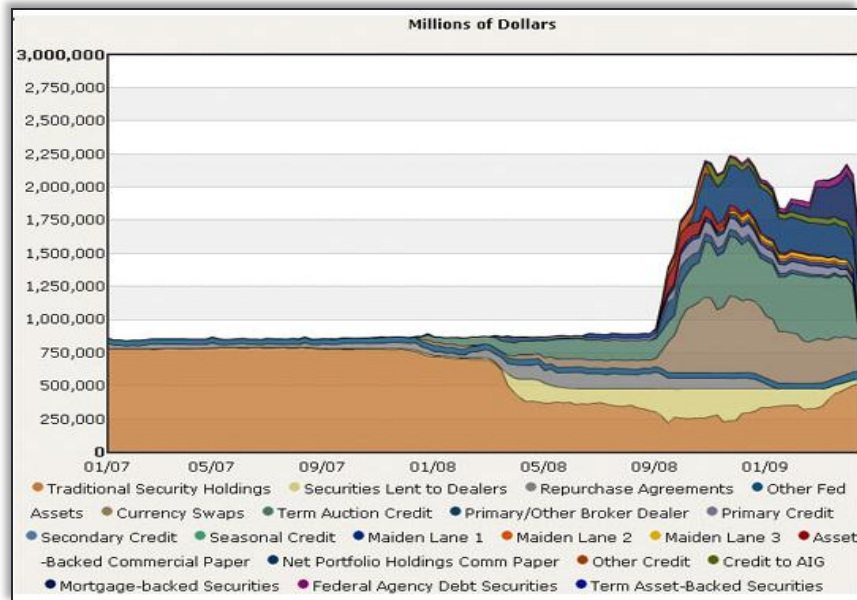
Wall Street vs. Main Street?



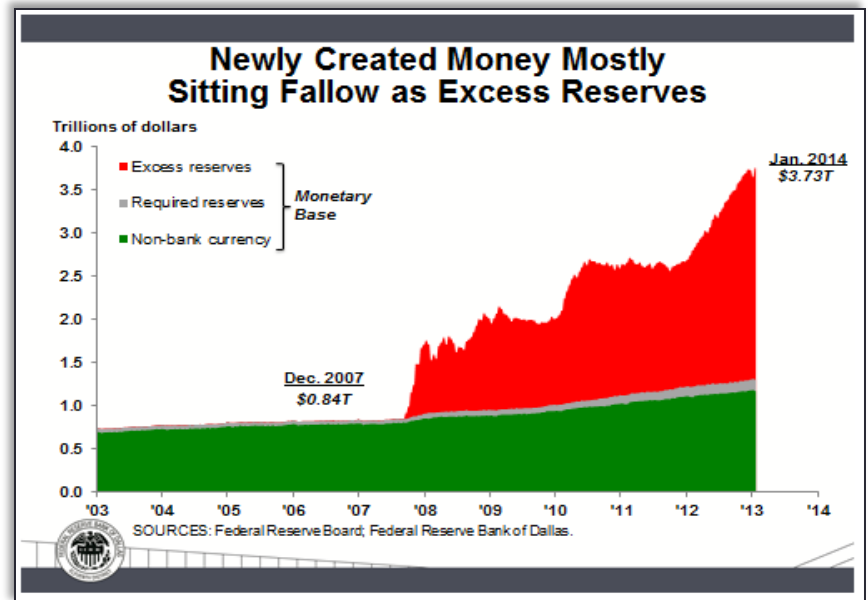
When culture and politics reflect current conditions.

Quantitative Easing

Assets

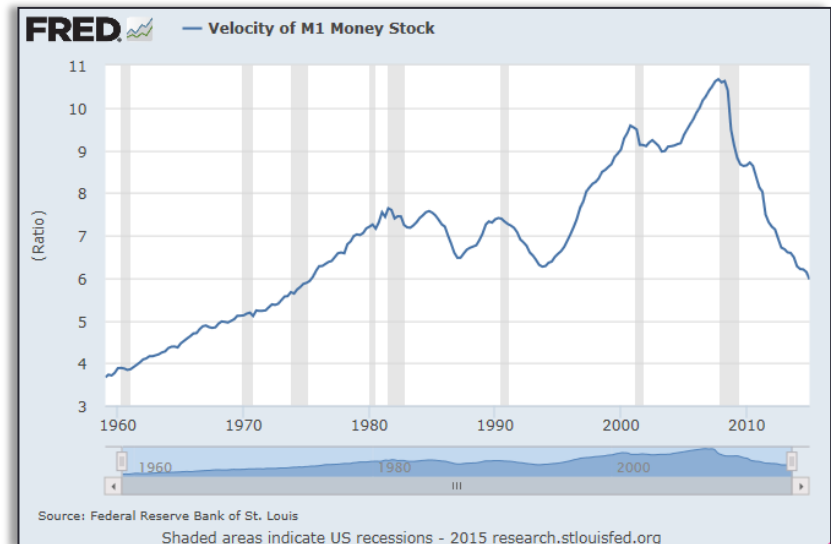
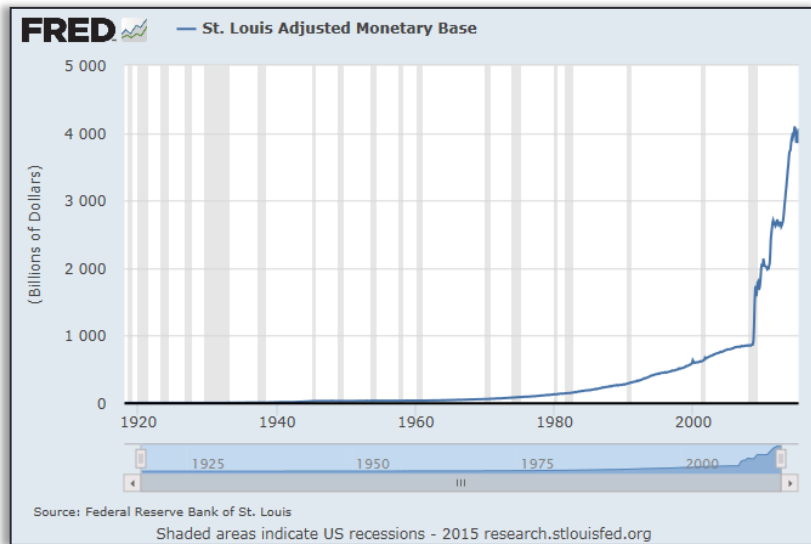


Liabilities



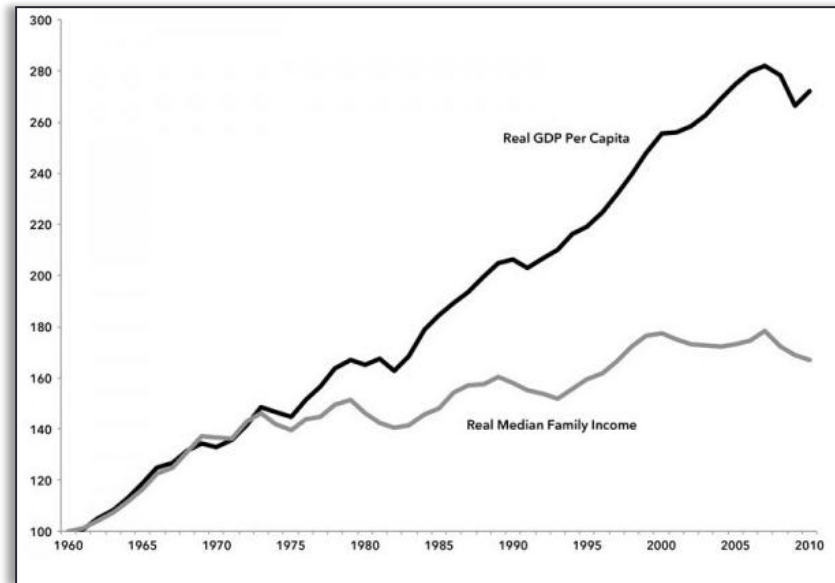
Extraordinary times, extraordinary measures.

Easy Money But Little Real Benefit



Printed money did not circulate in the real economy.

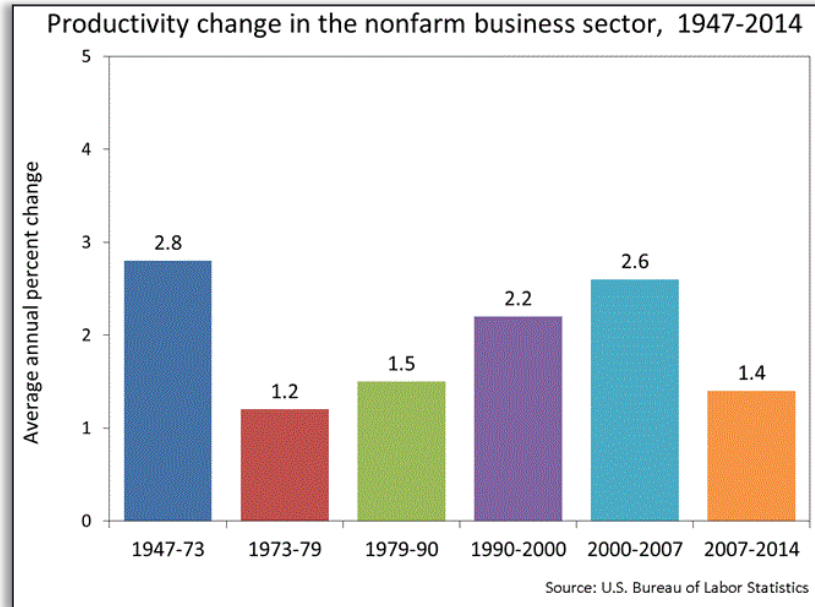
Land, Labor, or Capital: Who Wins?



Source: US Bureau of Labor Statistics, US Commerce Department

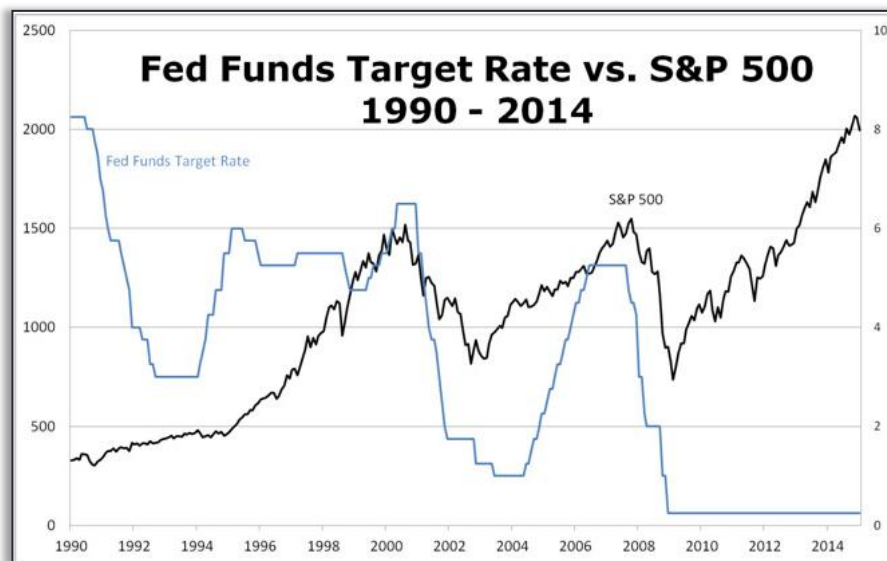
Family incomes not keeping up with GDP growth...

Land, Labor, or Capital: Who Wins?



...and the difference won't narrow until productivity increases.

Land, Labor, or Capital: Who Wins?



Falling interest rates lead to increases in financial asset prices.

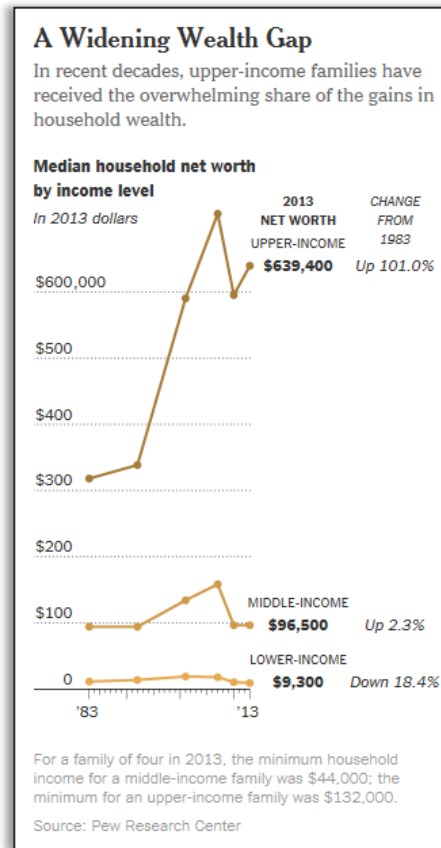
Capital Wins!

The New York Times

ECONOMY

Fueled by Recession, U.S. Wealth Gap Is Widest in Decades, Study Finds

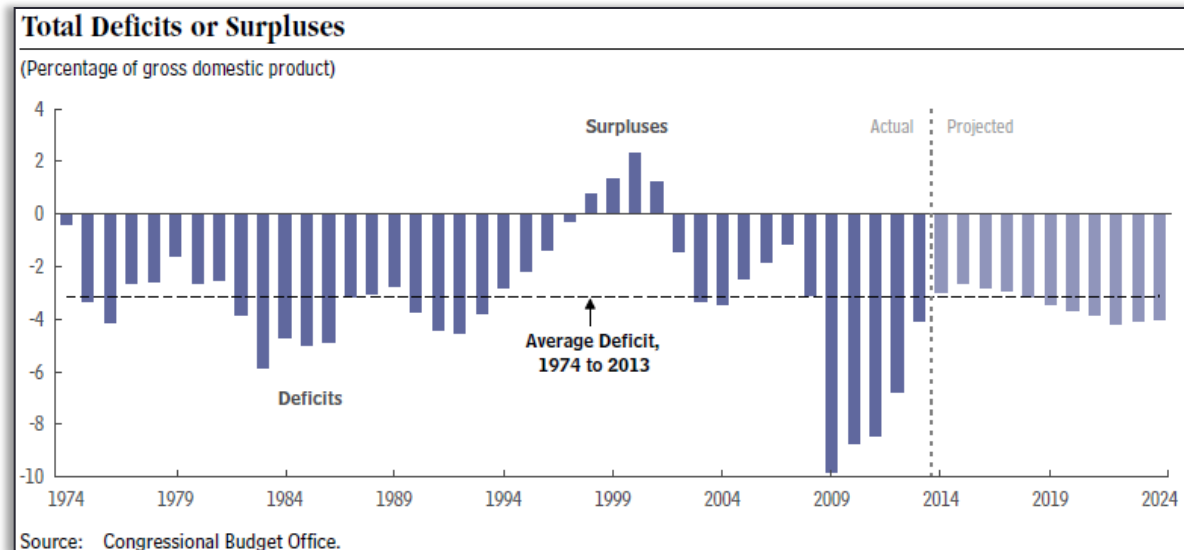
By PATRICIA COHEN DEC. 17, 2014



Wall Street vs. Main Street - Summary

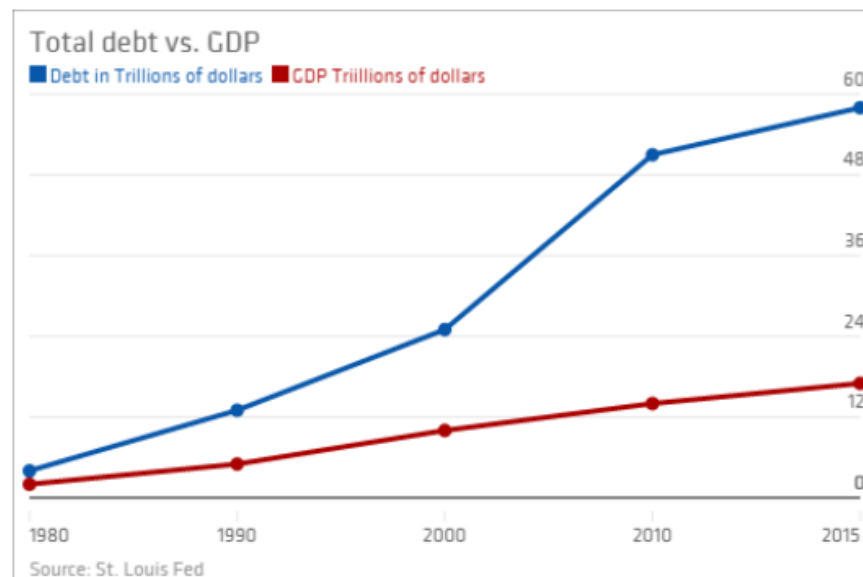
- Capital Wins! Conditions have led to rising financial markets rather than wage growth.
- Disparities between incomes and wealth must be narrowed if the U.S. economy is to produce maximum social benefit:
 - Over 60% of change in U.S. GDP is driven by consumption
- Remedial strategies and policies:
 - Redistribution of income
 - Redistribution of wealth
 - Stimulate economic growth and/or remove obstacles
 - All of the above
- Most agree that economic growth is beneficial regardless of strategy or policy.
- Structural challenges will make growth difficult to achieve.

Falling U.S. Budget Deficit

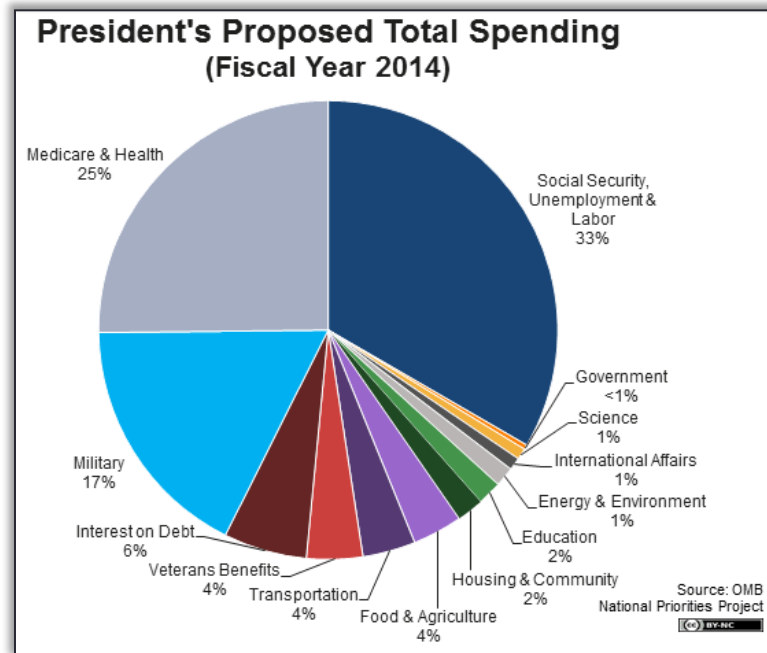


What happens after 2024?

Explosion In Debt

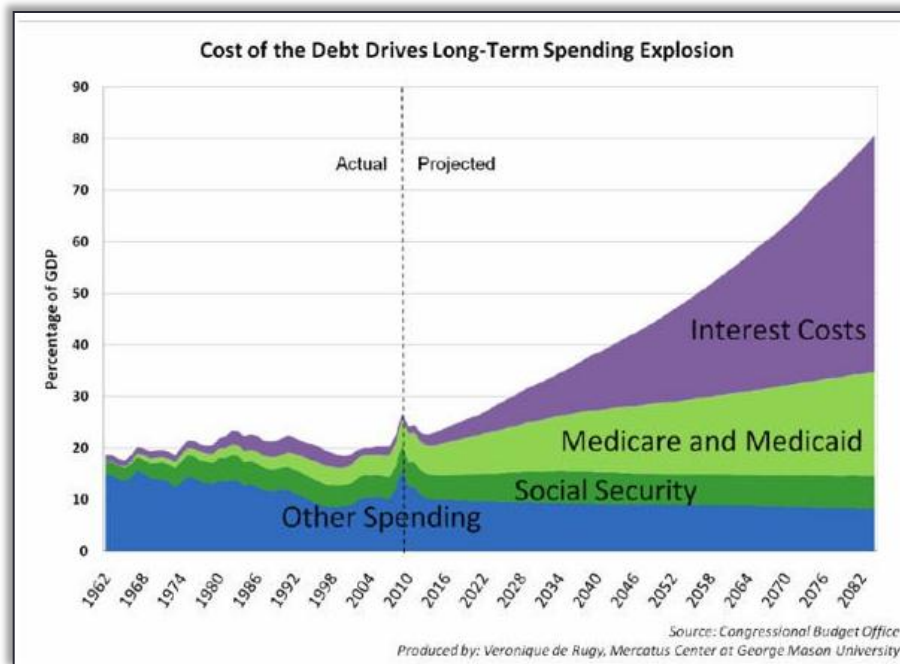


Unsustainable Federal Spending



Focus: Medicare & Medicaid, Social Security, Military, Interest on Debt.

Unsustainable Federal Spending



What happens when interest rates normalize?

Long-Term Summary

- The net benefit from the energy revolution is resoundingly positive and will likely lift economic growth.
- Income and wealth disparity must narrow if the economy is to provide optimal benefits to society.
 - Economic growth is the most effective remedy to disparities
- Structural impediments to growth are very large:
 - Demographics are not helpful
 - Government debt service could crowd out private investment
 - Regulatory burden continues to grow at alarming rates
- A near-term change in trajectory can send a positive self-reinforcing signal.
- Expected returns from financial assets are being reset to well below historic averages.

Disclosure

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