

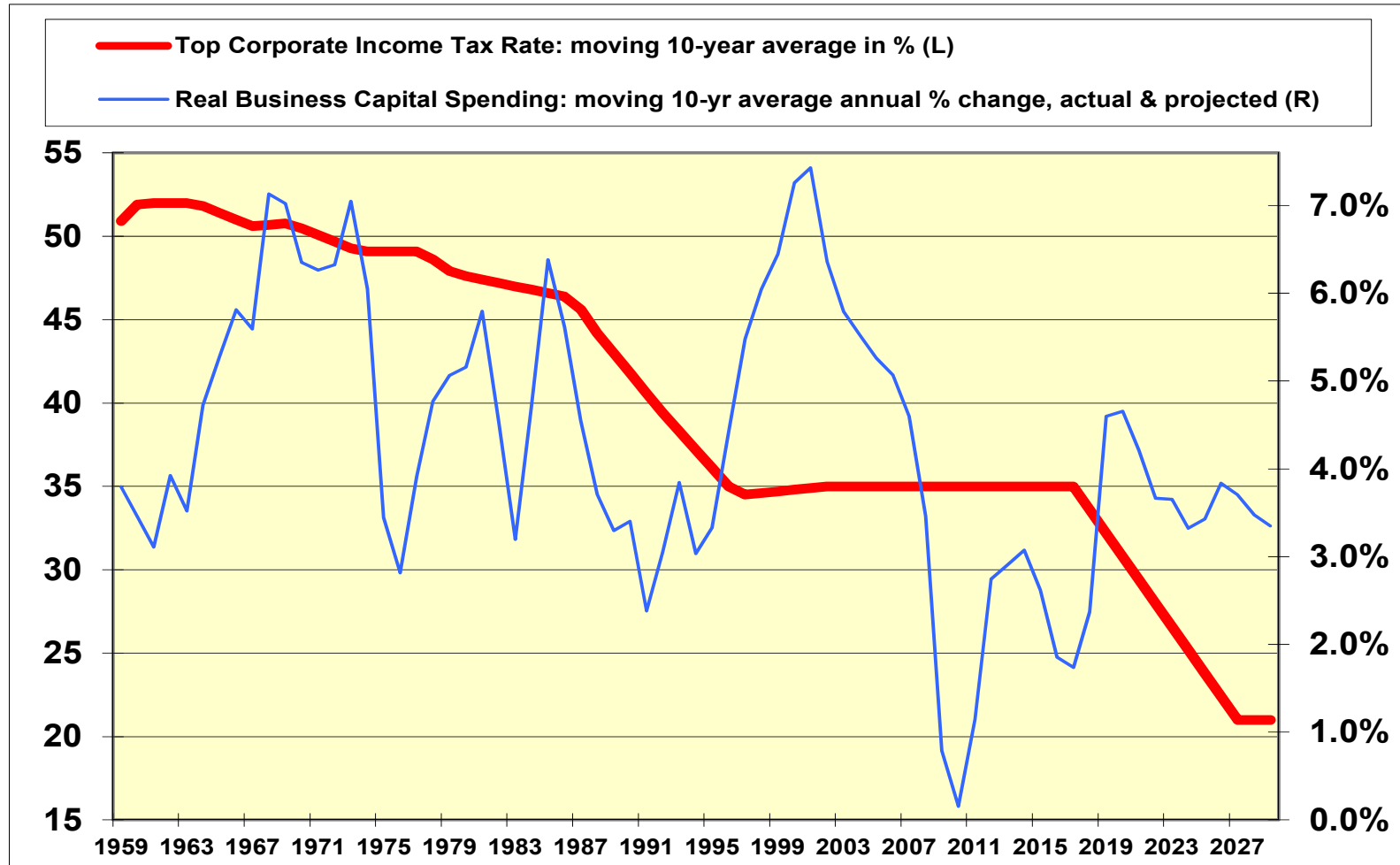
Will Tax Reform and Deregulation End Secular Stagnation?

1

Capital Spending Will Make or Break Supply- Side Economics

Drop in Top Corporate Income Tax Rate to 21%, Immediate Expensing of Capital Outlays, and Repatriation of Overseas Cash May Keep Real Capital Spending's Underlying Annual Growth Rate Above Long-Term Average of 4%

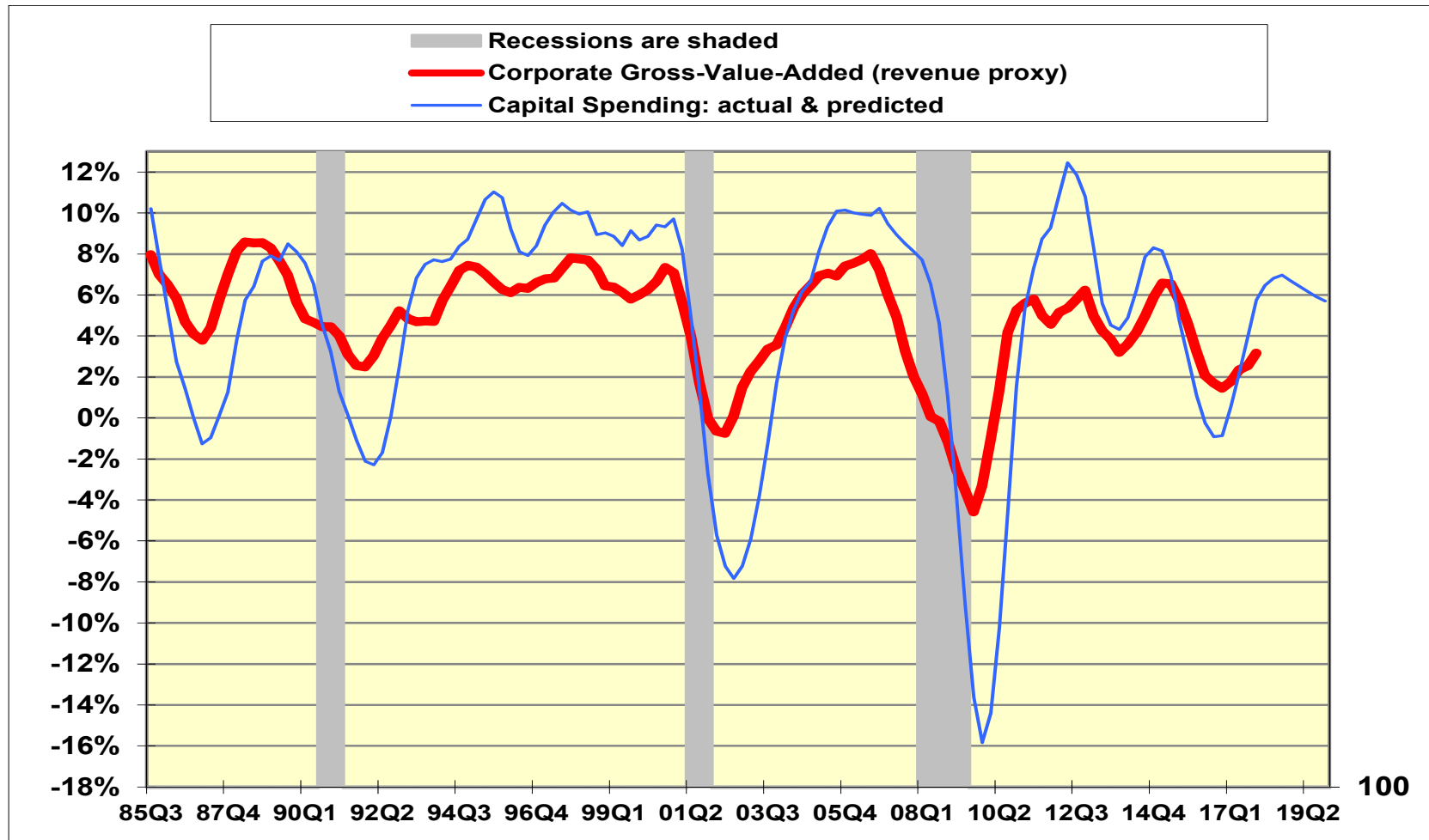
sources: Bureau of Economic Analysis, Blue Chip, Moody's Analytics



Among All Macro Drivers, Capital Spending's Highest Correlation Is the 0.79 With Corporate Net Revenues, or Gross Value Added

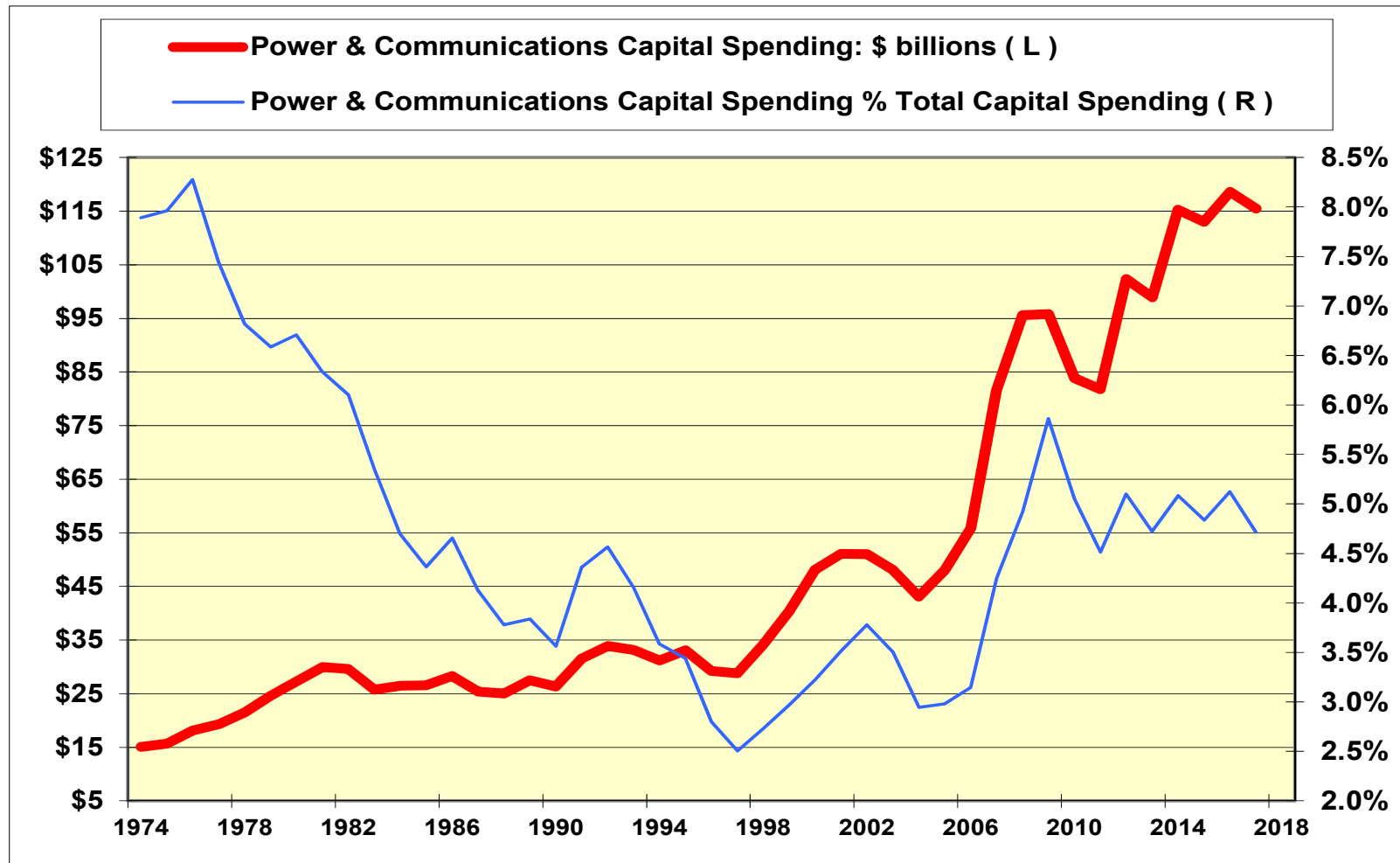
yy % changes for yearlong averages

source: Bureau of Economic Analysis, Blue Chip Economic Indicators, Moody's Analytics

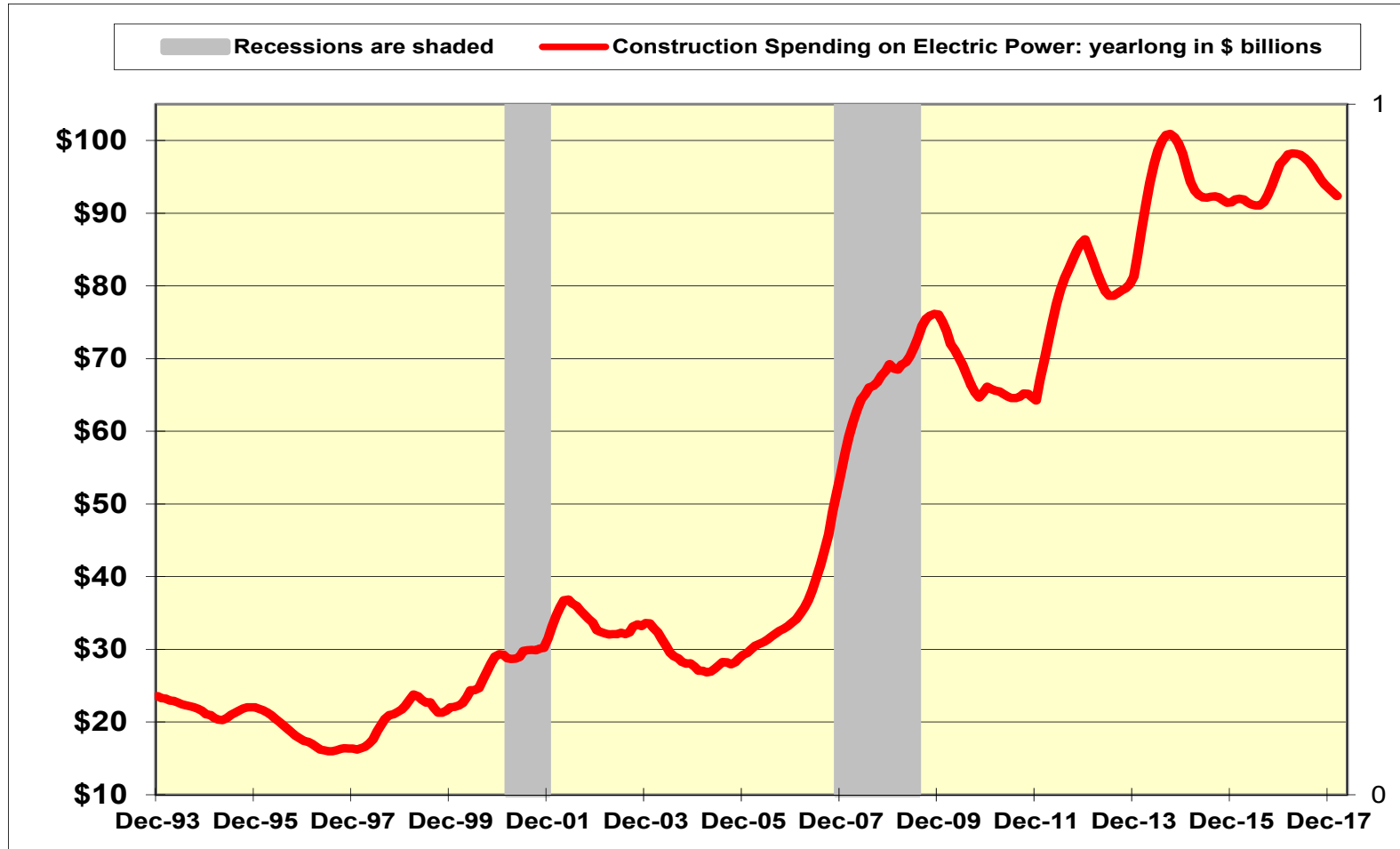


Capital Spending on Power & Communications Slows from 2004-2012's 11.4% Average Annual Growth to 2.4% since 2012

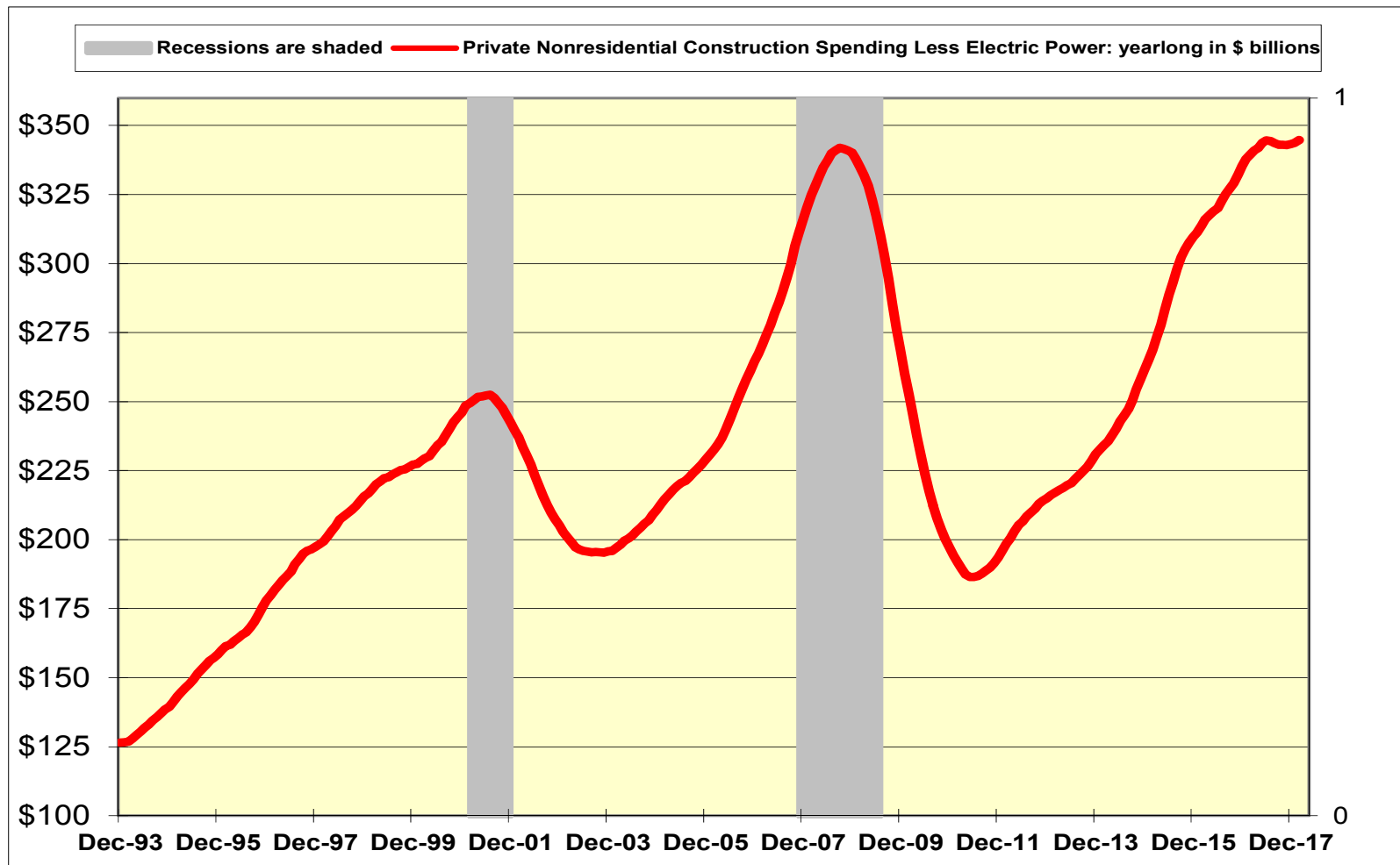
source: Bureau of Economic Analysis, Moody's Analytics



Construction Spending on Electric Power Grows by 4.5% Annually, on Average, During Past 10 Years Versus 2.5% for All Business Capital Spending



Private-Sector's Non-Residential Construction Spending Excluding Electric Power Barely Rose by 0.6% Annually Over the Last 10 Years



2

Tax Cuts Will Not Make America Young Again

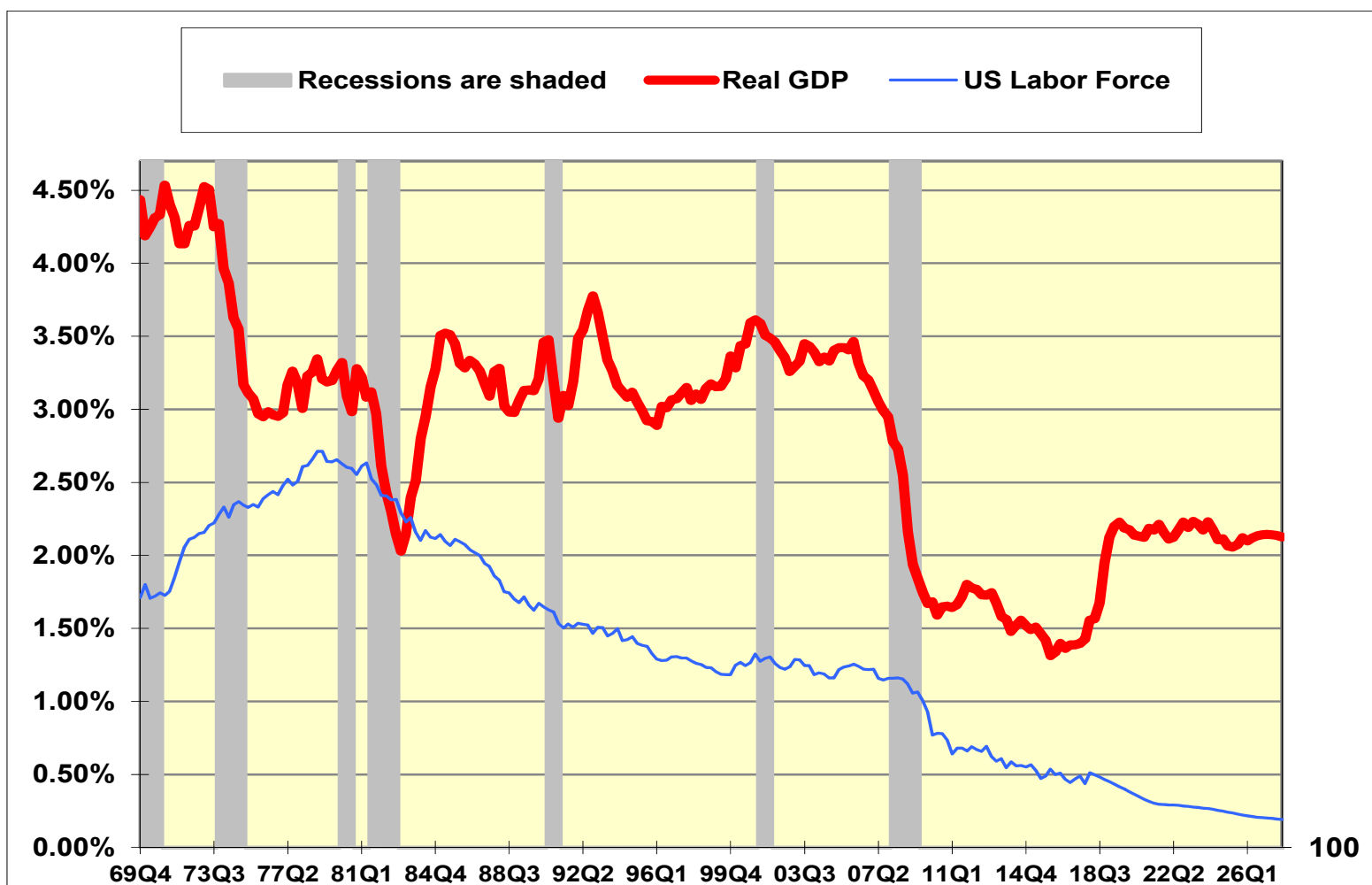
Unprecedented Aging of US Population to Influence Business Activity and Financial Markets for Years to Come

source: US Bureau of the Census, Moody's Analytics

	Average Annual Increase in the Number Aged 16 to 64 Years	Average Annual Increase in the Number Aged 65 Years and Older
	1	2
Upturn of 1991-2000	2,240,000	360,000
Upturn of 2002-2007	2,150,000	480,000
Current Upturn (post Jun-09)	950,000	1,430,000
Forecast: 2019 through 2028	400,000	1,760,000

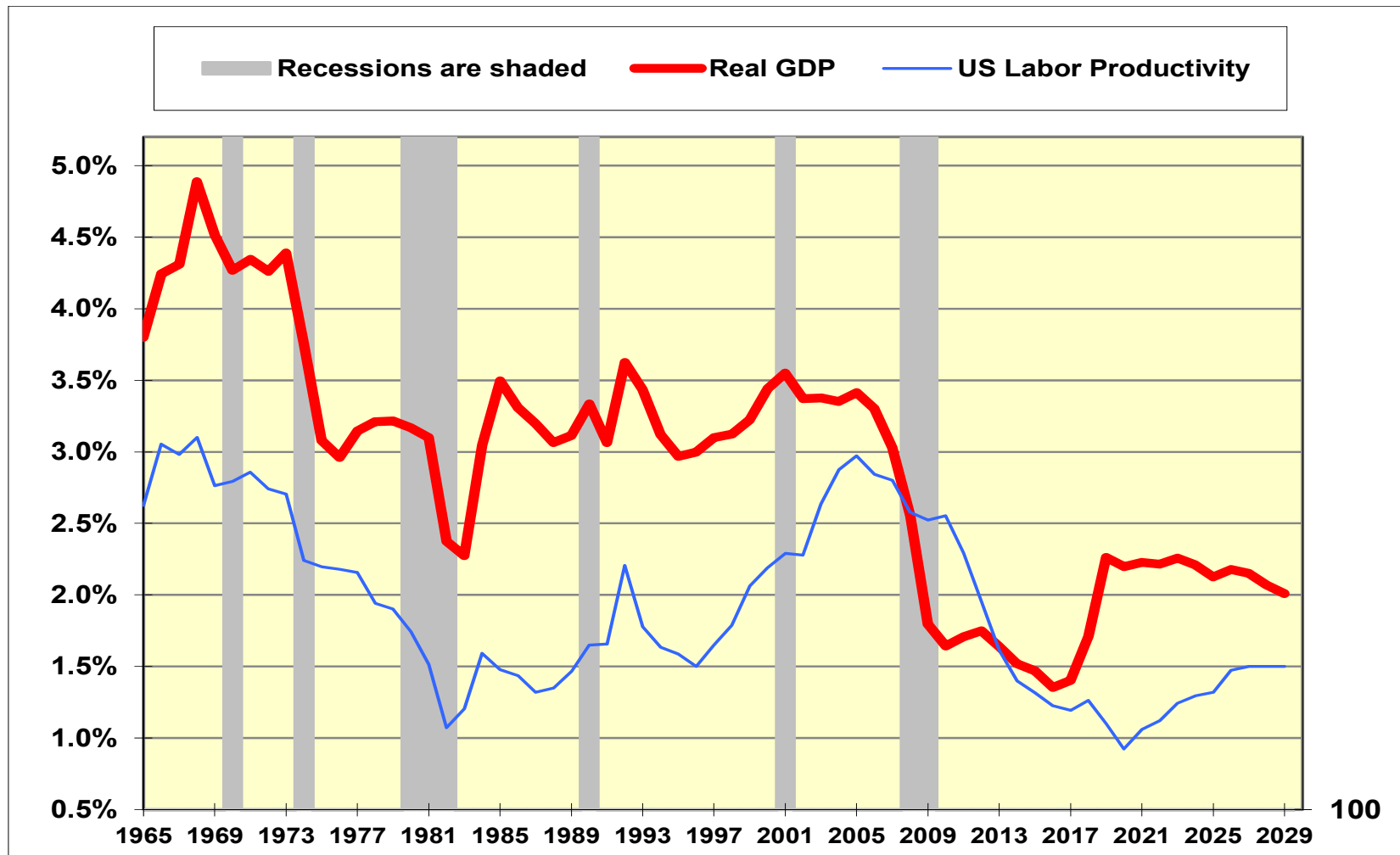
Slower Growth of US Labor Force Impedes the Return of 3% to 3.5% Real GDP Growth on a Recurring Basis

10-year average annual growth rates, actual & projected



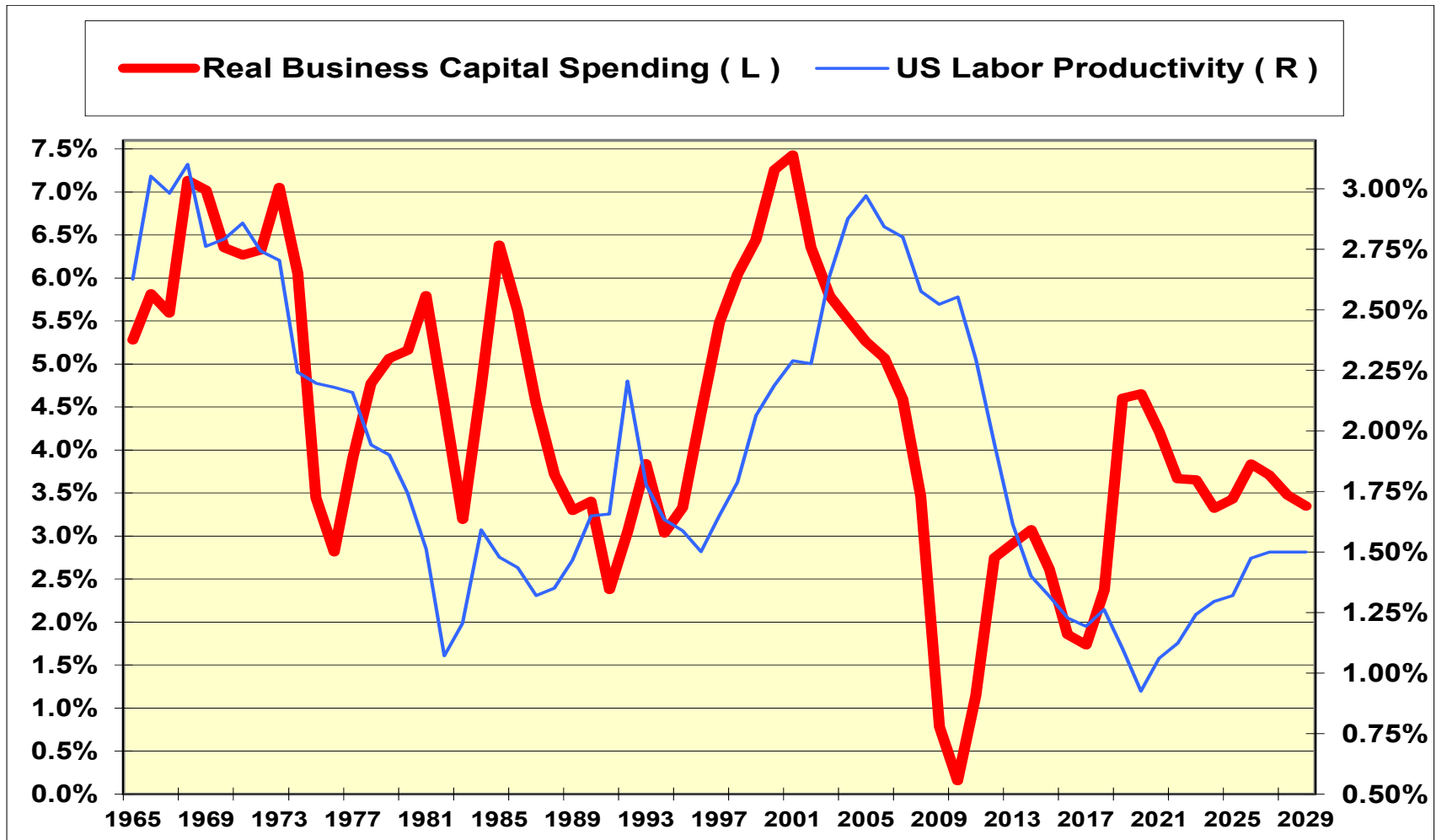
Consensus Forecast of 2% Real GDP Growth During Next 10 Years Assumes 1.5% Productivity Growth ... 3% Real GDP Growth May Require 2.5% Productivity Growth

10-year average annual growth rates, actual & projected



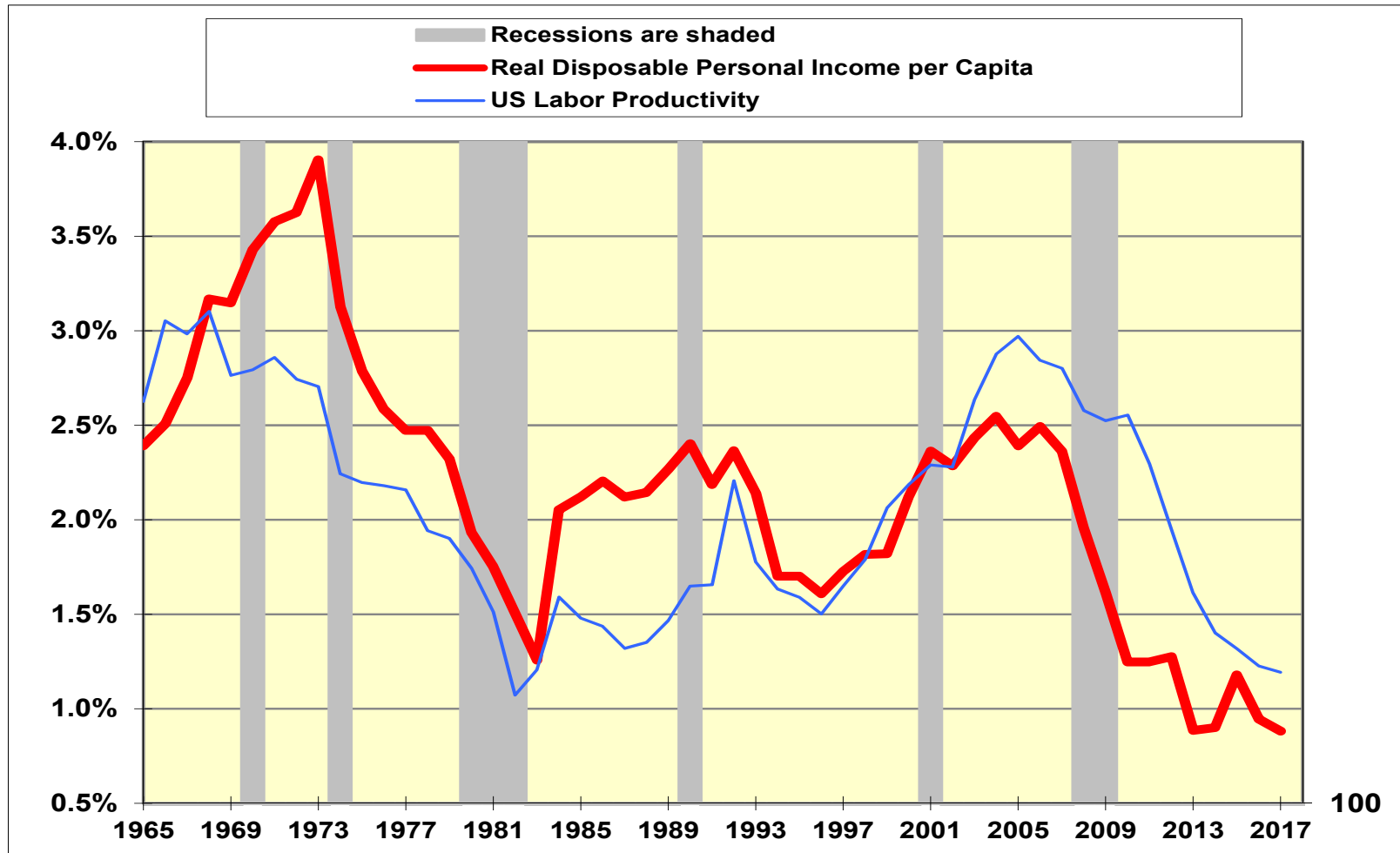
Theory Predicts Labor Productivity Growth Benefits from a Faster Climb by Real Business Investment Spending

10-year average annualized growth rates; source: Bureau of Labor Statistics, BEA, Blue Chip Indicators, Moody's



Faster Productivity Growth Will Boost Living Standards, or the Growth of Real Disposable Personal Income per Capita

10-year average annualized growth rates in %
source: BEA, BLS, Moody's Analytics

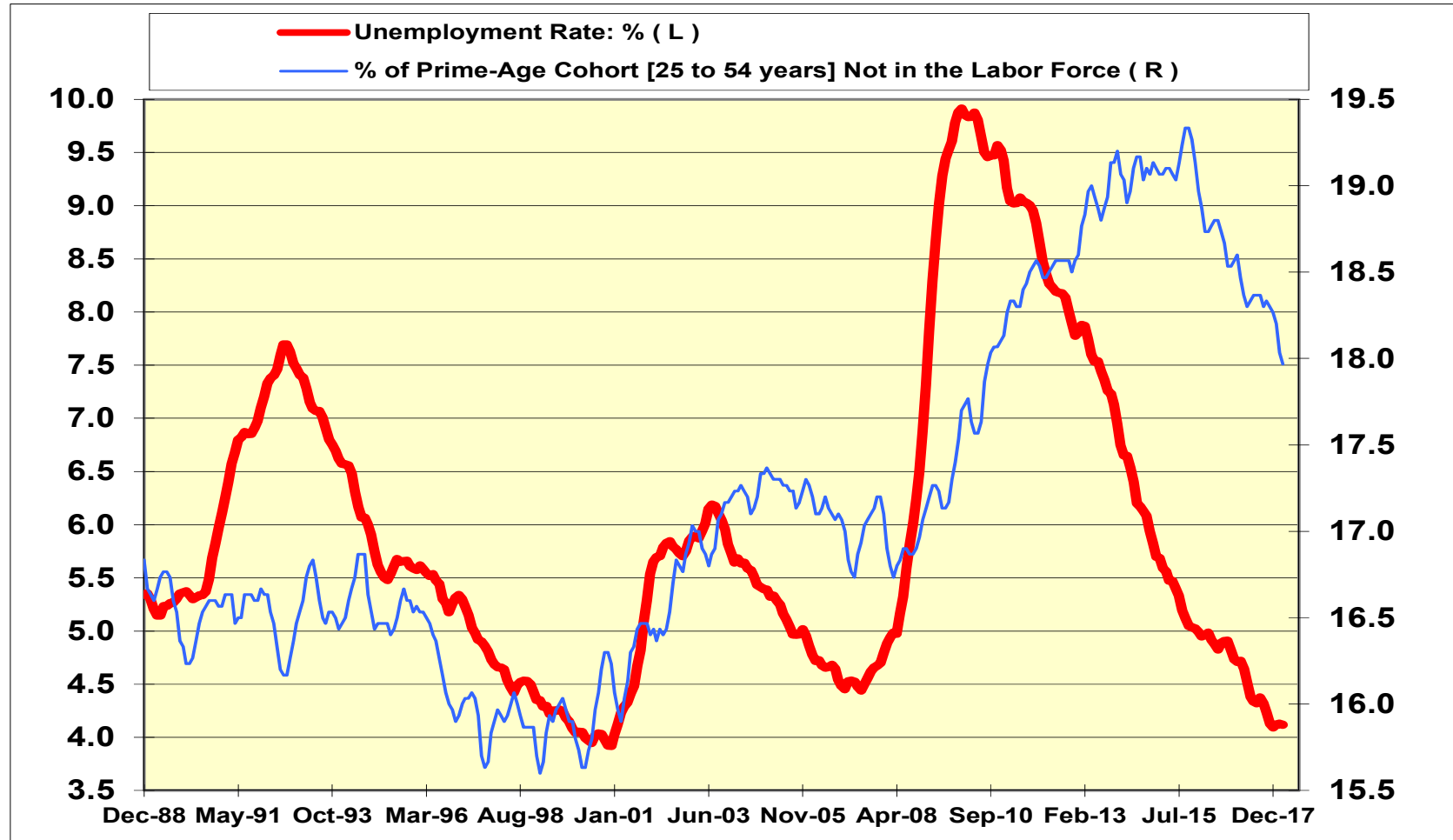


3

Inflation Fears May Be Overdone

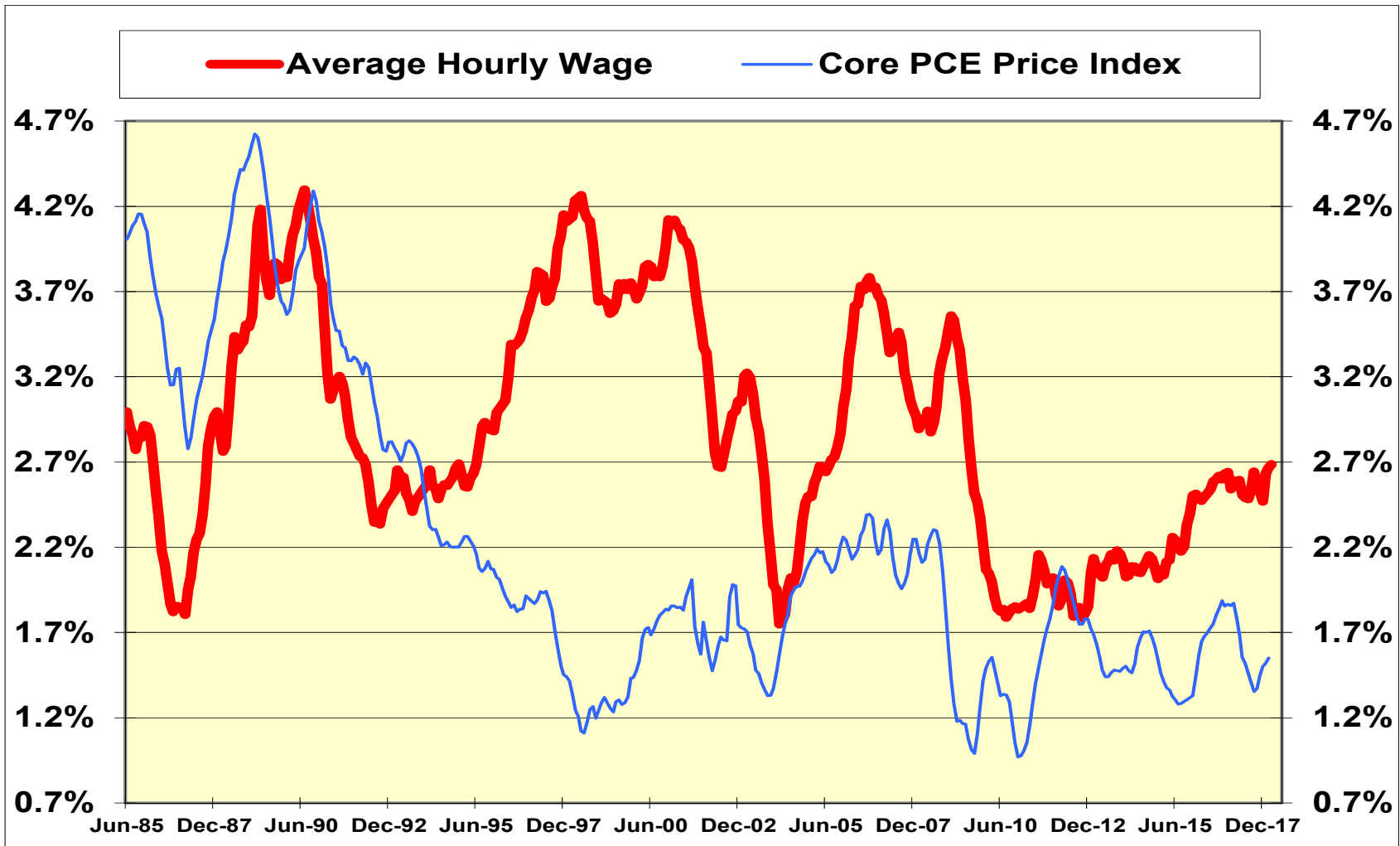
Relatively High Percent of Those 25 to 54 Years of Age Neither Working nor Looking for Work Suggests 4.1% Unemployment Rate Overstates Labor Market Tightness

three-month averages; source: Bureau of Labor Statistics (BLS), Moody's Analytics



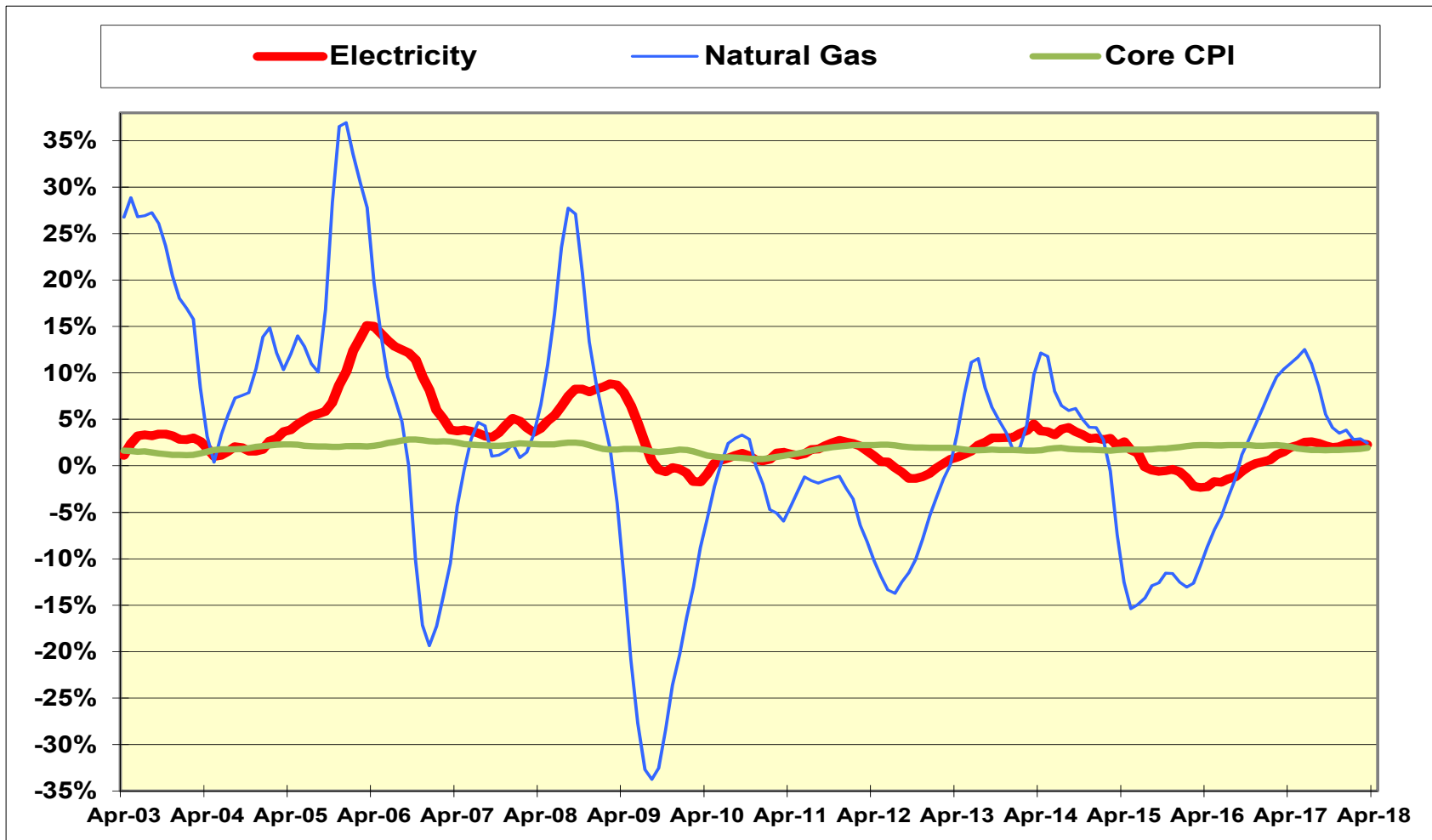
Core PCE Price Index Inflation Can Slow When the Average Hourly Wage Accelerates (correlation = 0.21)

yy % change of moving 3-month averages; source: Moody's Analytics



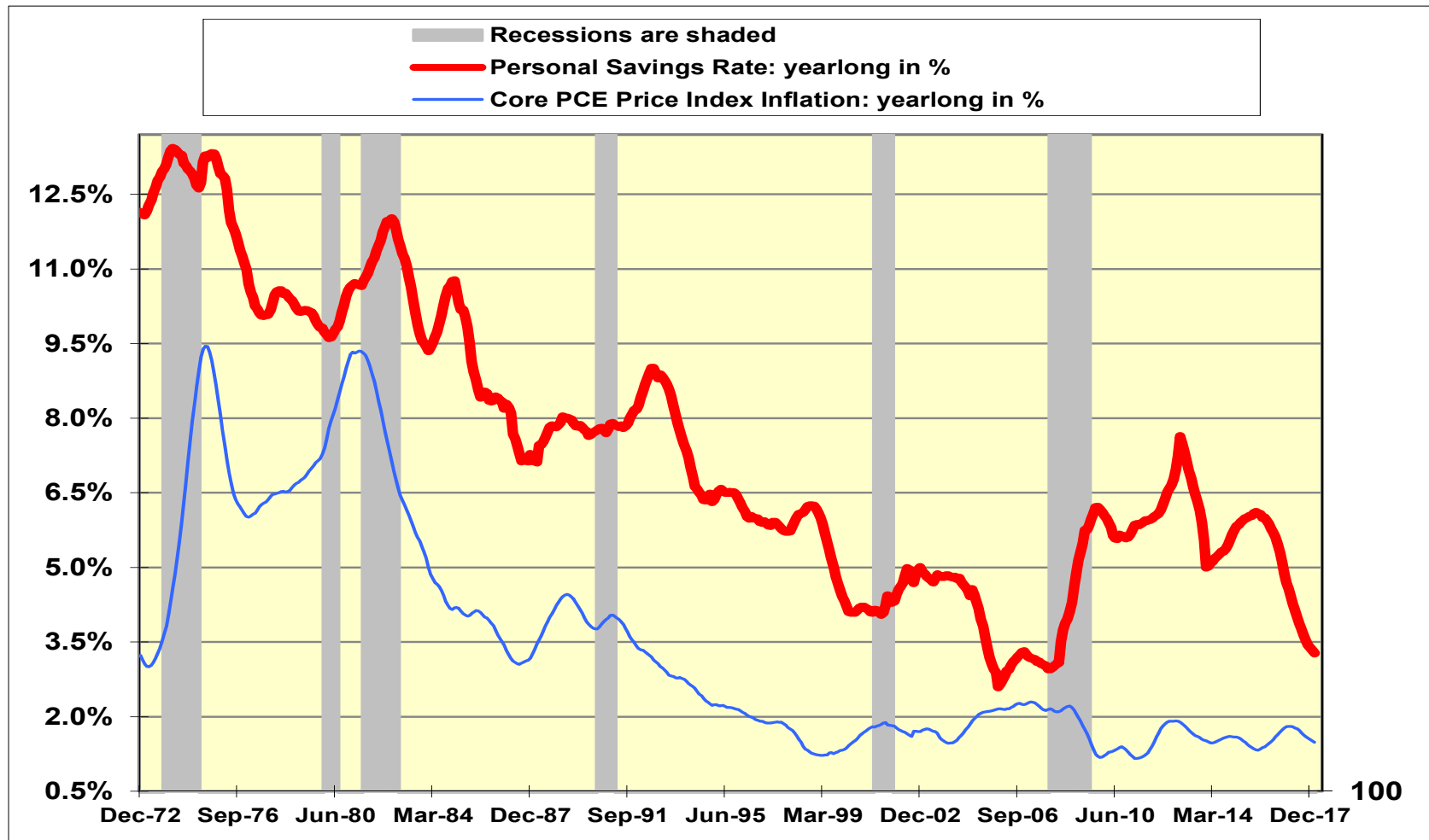
CPI Shows Electric and Natural Gas Prices Are Highly Volatile Compared to the Core CPI, or CPI excluding Food & Energy Prices

year-over-year % change of moving three-month averages
source: Bureau of Labor Statistics, Moody's Analytics



Long-Term Slide by Core PCE Price Index Inflation May Be Linked to Personal Savings Rate's Declining Trend

source: Bureau of Economic Analysis, Moody's Analytics

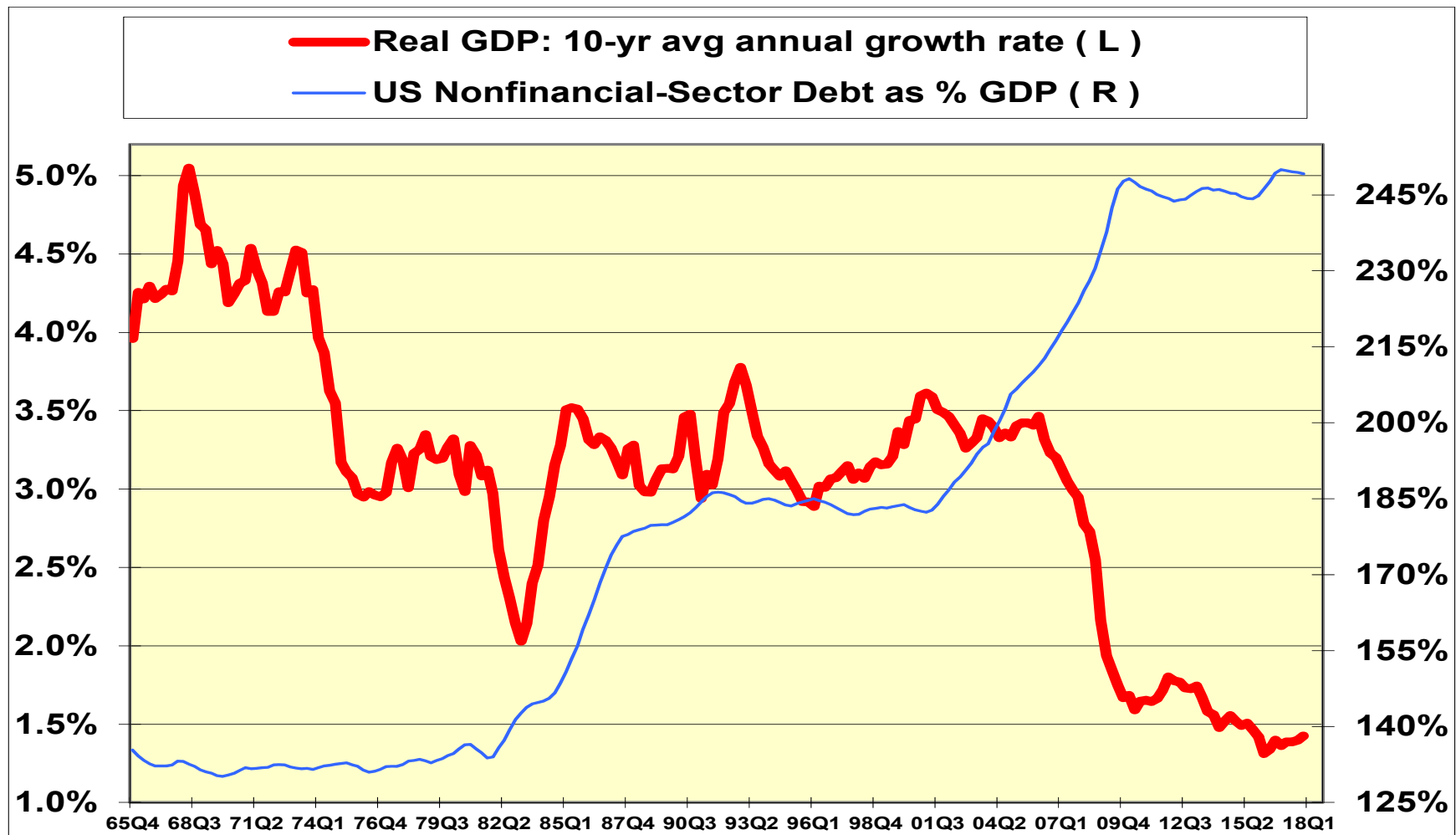


4

Borrowing Takes Up the Slack

US' Ratio of Private & Public Nonfinancial-Sector Debt to GDP Climbs Higher as Economic Growth Trends Lower

source: Federal Reserve, Moody's Analytics



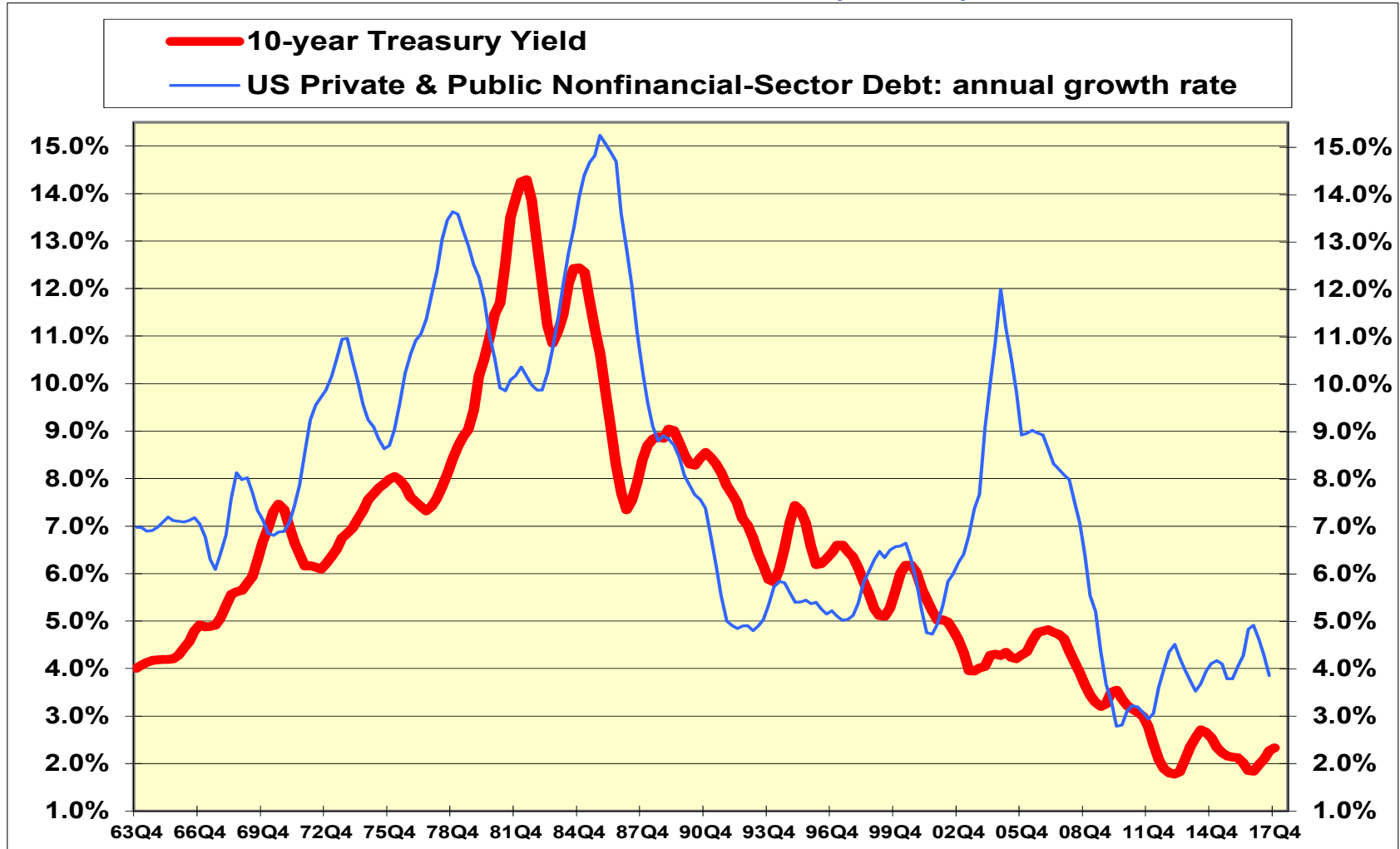
US Government Debt Has Outpaced GDP by a Wide Margin

source: Federal Reserve, Moody's Analytics

	End of 2017: \$ trillions	End of 2007: \$ trillions	% of GDP as of 2017	Average annual growth rate from 2007 to 2017
	1	2	3	4
Total US Nonfinancial-Sector Debt	\$ 49.05	\$ 33.28	253%	4.0%
Nonfinancial Private-Sector Debt	\$ 29.51	\$ 24.27	152%	2.0%
Households	\$ 15.25	\$ 14.17	79%	0.7%
Unincorporated Businesses	\$ 5.31	\$ 3.78	27%	3.5%
Corporations	\$ 8.95	\$ 6.32	46%	3.5%
Nonfinancial Public-Sector Debt	\$ 19.54	\$ 9.01	101%	8.1%
US Government	\$ 16.46	\$ 6.07	85%	10.5%
State & Local Governments	\$ 3.08	\$ 2.93	16%	0.5%
Nominal GDP	\$ 19.39	\$ 14.48	100%	3.0%

Below-Trend Growth of Non-Federal Debt May Offset Forthcoming Climb by US Government Debt

source: Federal Reserve, Moody's Analytics



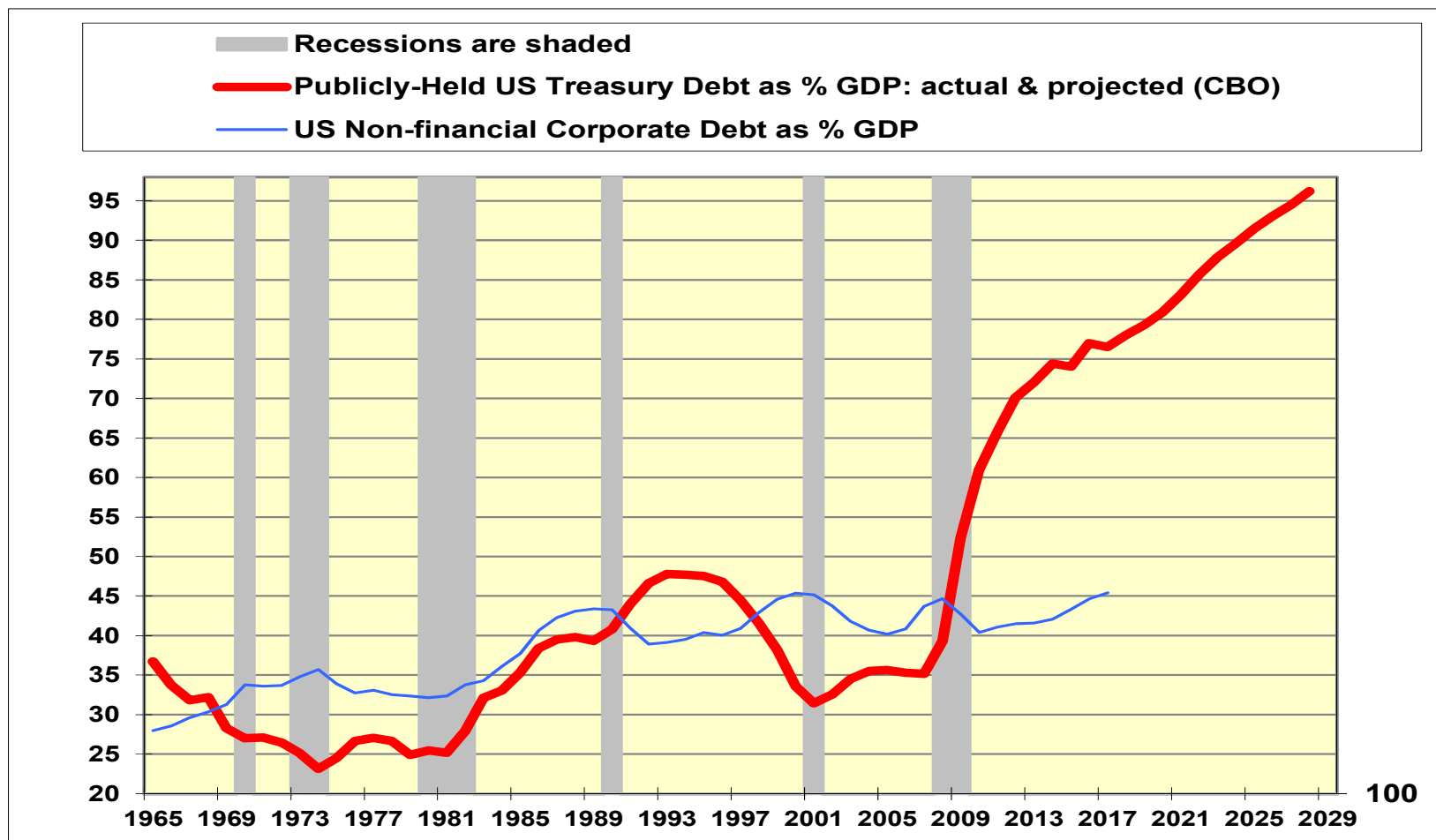
Never Before Has the Supply of Tradable US Treasury Notes & Bonds Increased by so Great of an Amount Amid Such a Low Unemployment Rate

source: Federal Reserve, CBO, Moody's Analytics

	Increase in Tradable Treasury Notes & Bonds	Increase in Tradable Treasury Notes & Bonds	Unemployment Rate	10-year Treasury Yield
	\$ billions	% of GDP	yearlong avg in %	yearlong avg in %
	1	2	3	4
2007	\$ 126	0.9%	4.6	4.63
2008	\$ 457	3.1%	5.8	3.67
2009	\$ 1,250	8.7%	9.3	3.26
2010	\$ 1,366	9.1%	9.6	3.21
2011	\$ 693	4.5%	8.9	2.79
2012	\$ 995	6.2%	8.1	1.80
2013	\$ 292	1.7%	7.4	2.35
2014	\$ 529	3.0%	6.2	2.54
2015	\$ 632	3.5%	5.3	2.14
2016	\$ 407	2.2%	4.9	1.84
2017	\$ 428	2.2%	4.4	2.33
E2018	\$ 975	4.8%	3.9	2.90
E2019	\$ 1,150	5.4%	3.6	3.40

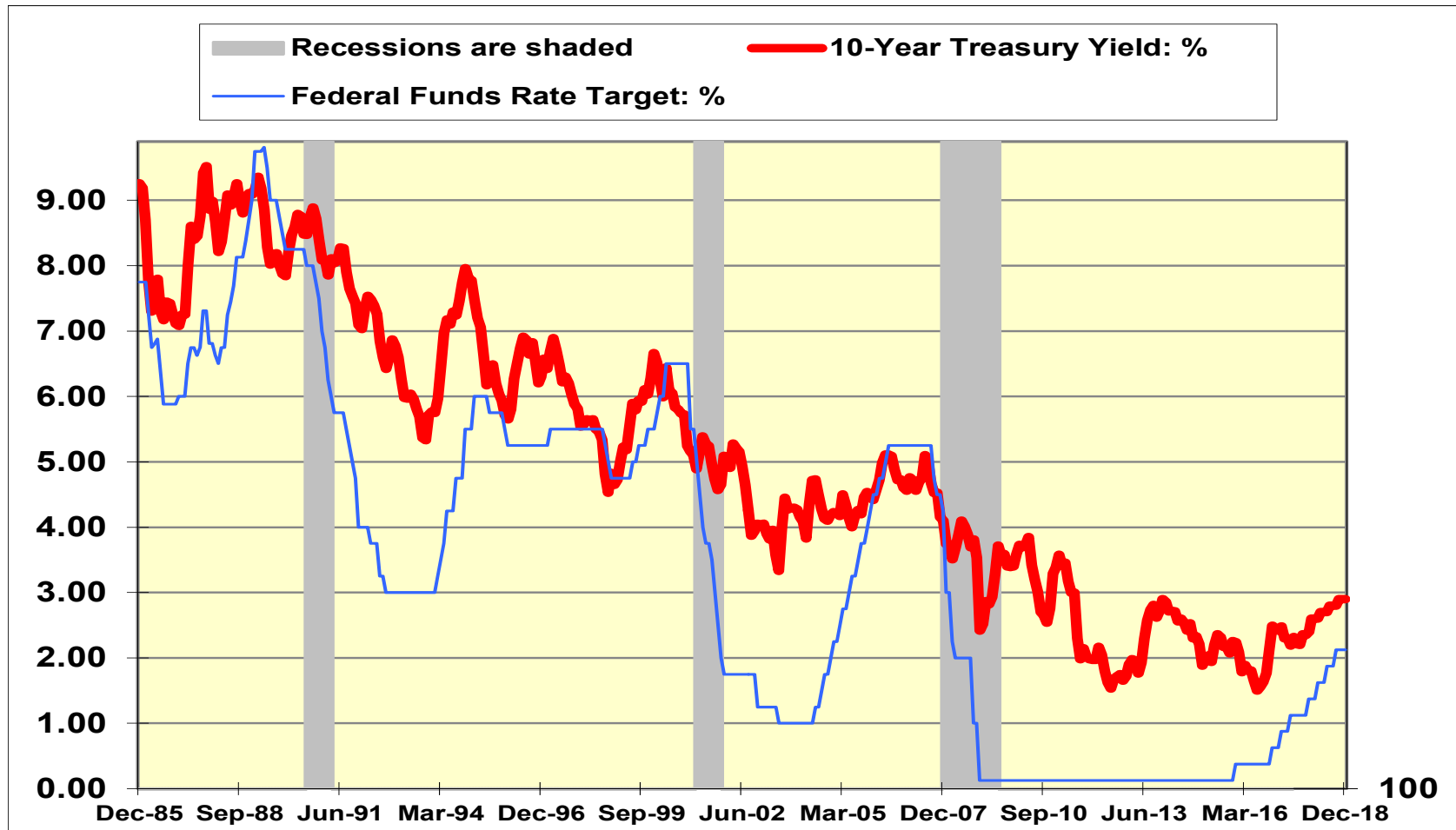
Mandatory Spending Requirements (Social Security & Medicare) Stemming from Aging Population Is Expected to Drive US Treasury Debt Up to 90% of GDP by 2024 ... Limited Scope for Fiscal Stimulus

source: CBO, Federal Reserve, Moody's Analytics

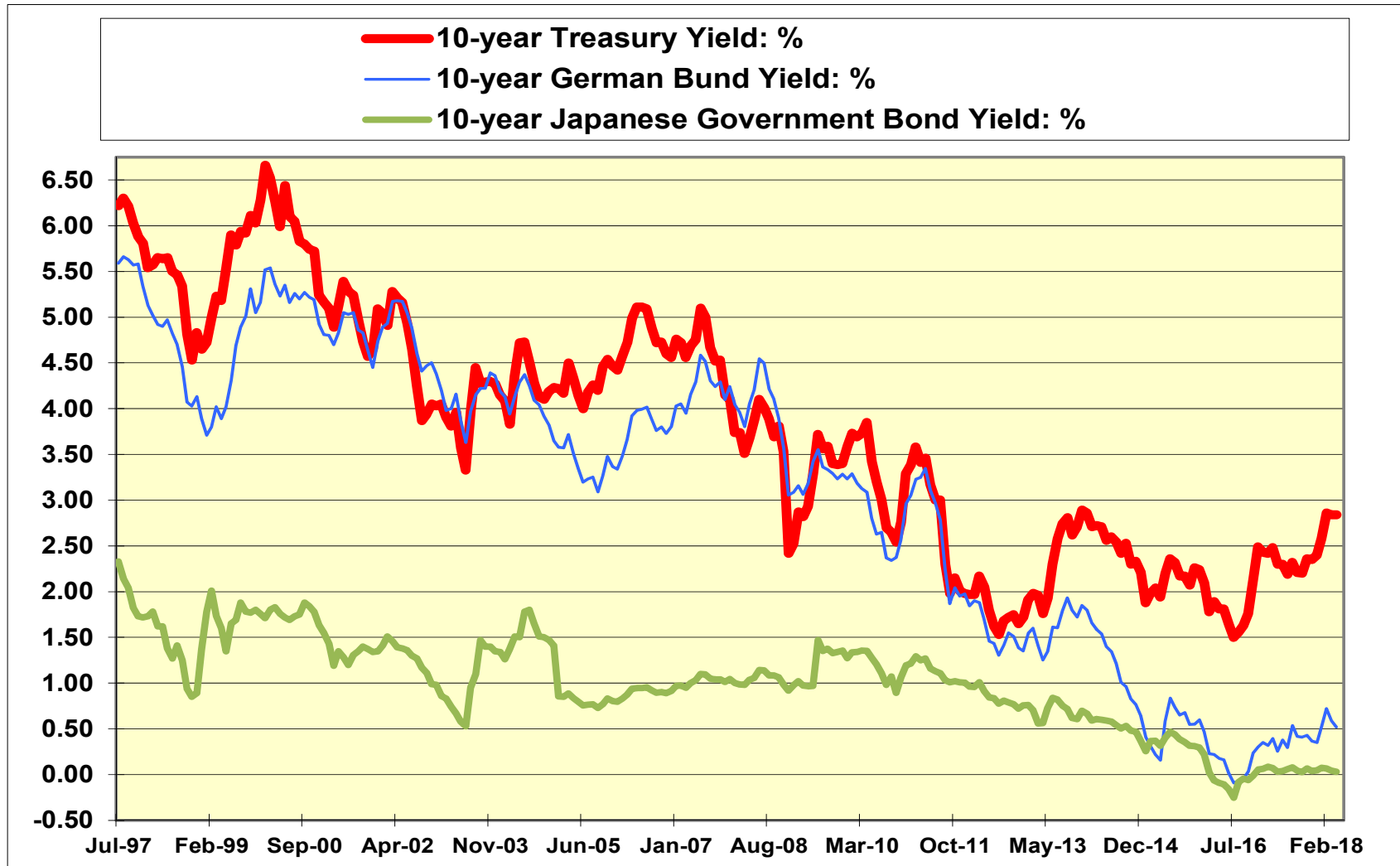


Fed Policy Seems Unlikely to Risk an Inverted Yield Curve ... Last Three Recessions Averaged a Five Percentage Point Drop by Fed Funds

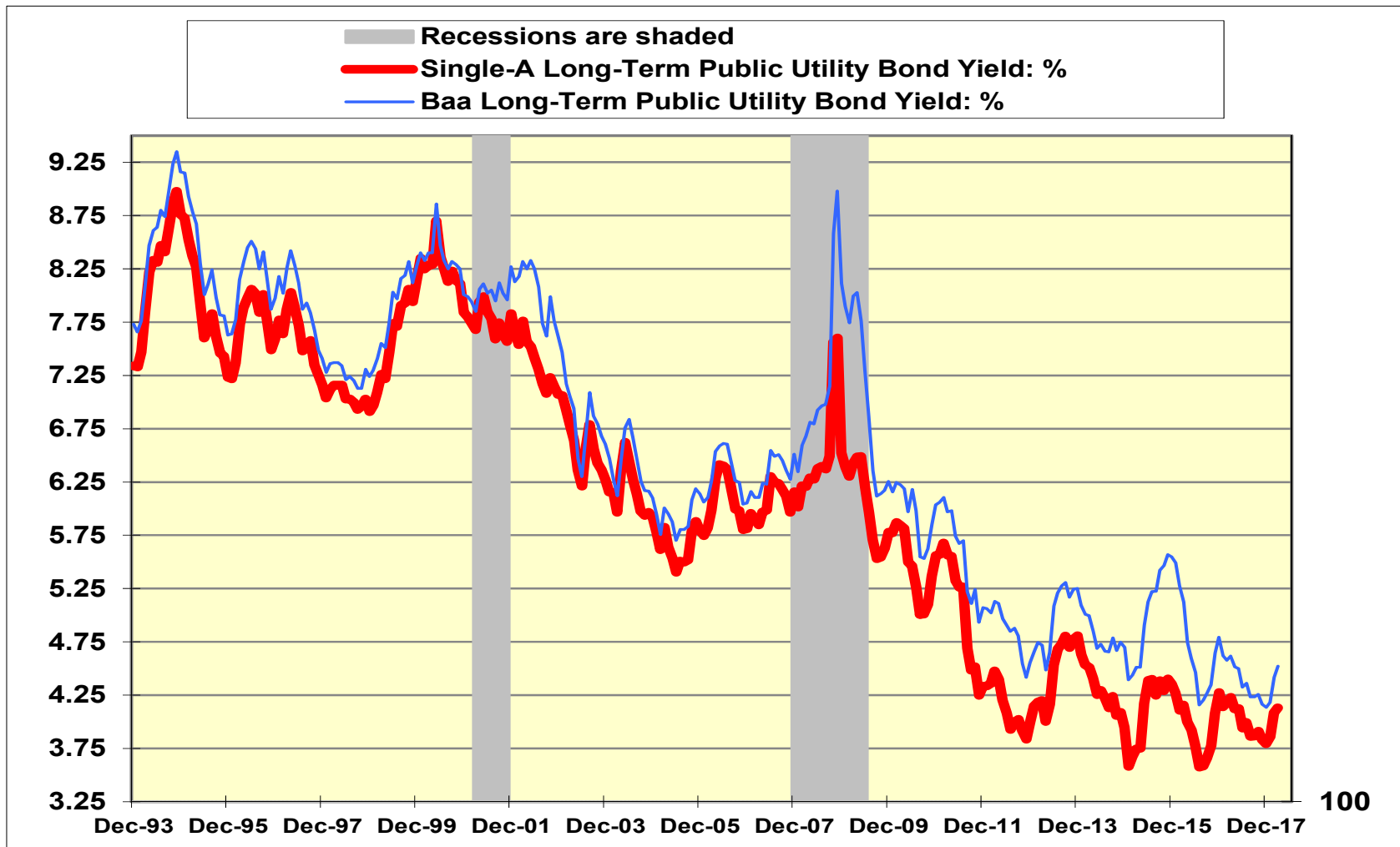
actual & predicted values; source: Federal Reserve, Blue Chip Economic Indicators, Moody's Analytics



Very Low Yields of Other Advanced Economies Limit Upside for US Treasury Yields ... Foreigners Hold 56% of US Treasury Notes & Bonds ... Dollar Exchange Rate Expectations Are Important



As Derived from Consensus Projections for 10-year Treasury Yield, Single-A and Baa Utility Yields May Average (i) 4.35% and 4.75% during Q4-2018 and (ii) 4.75% and 5.15% during Q4-2019

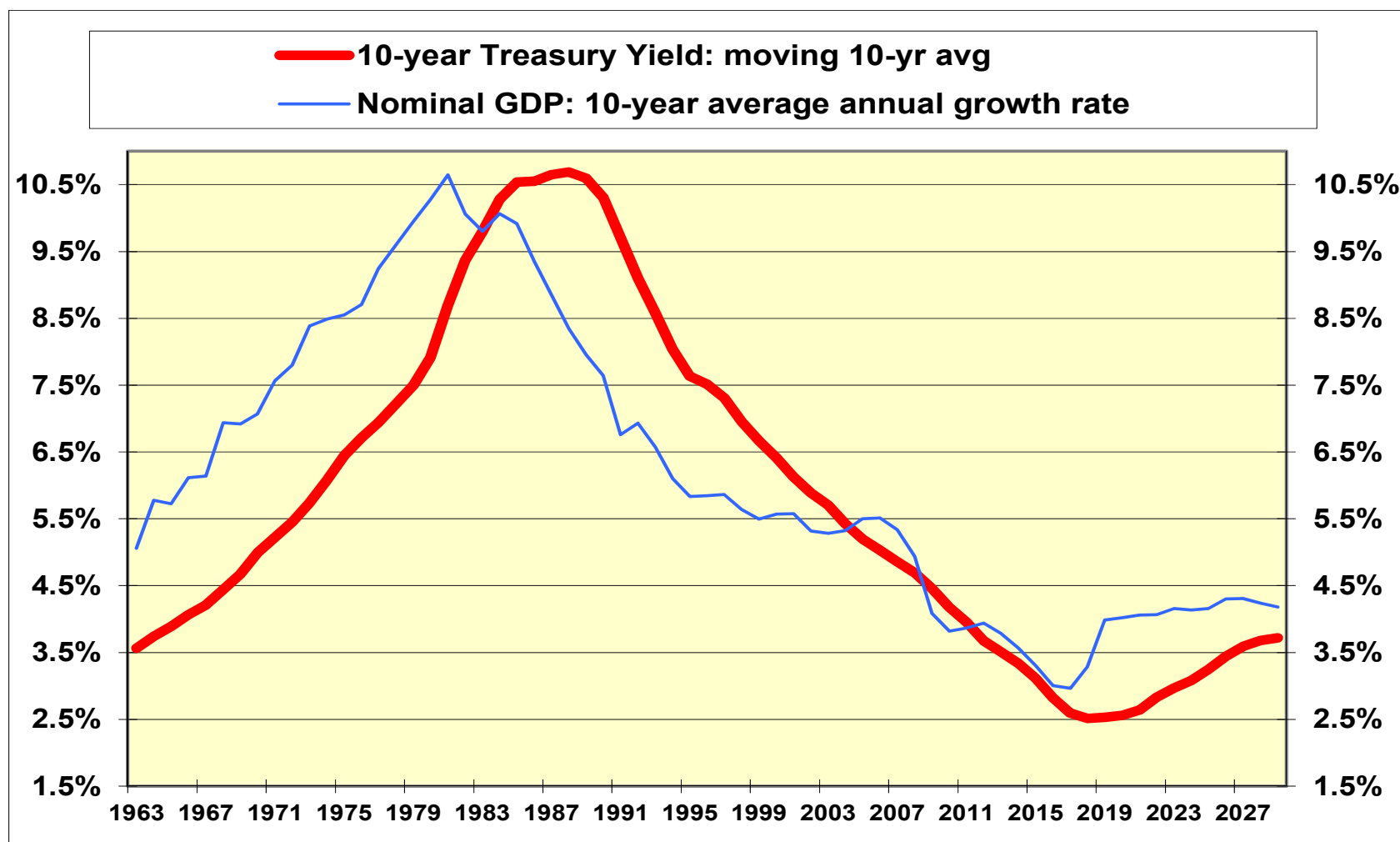


5

Modest Long-Term Outlooks for Bonds and Stocks

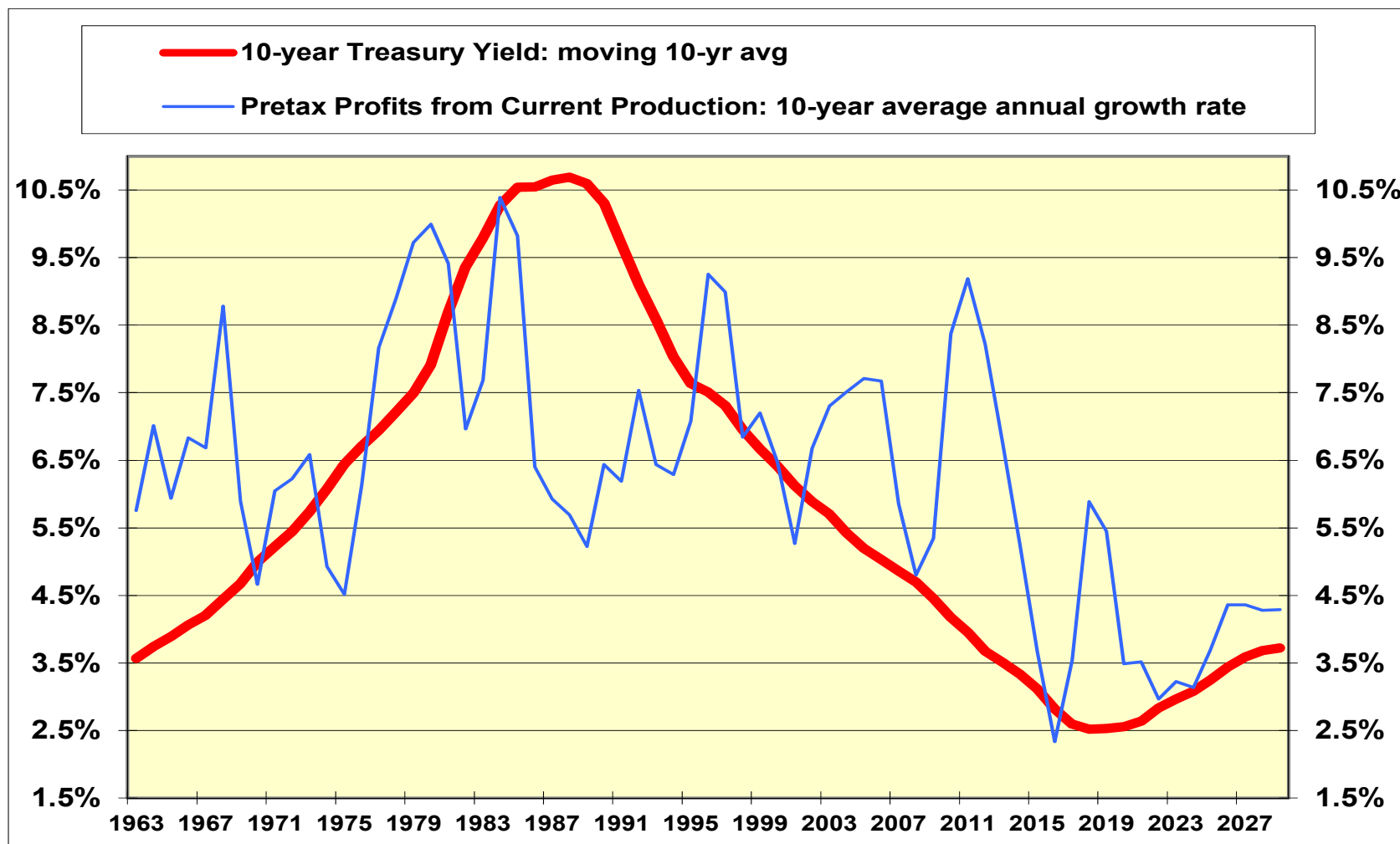
Blue Chip Consensus Puts Averages for Next 10 Years at 4.2% for Nominal GDP Growth and 3.7% for the 10-year Treasury Yield

10-year observations, actual & predicted; source: BEA, Blue Chip, Moody's



Blue Chip Consensus Puts Averages for Next 10 Years At 4.3% for Pretax Profits Growth and 3.7% for the 10-year Treasury Yield

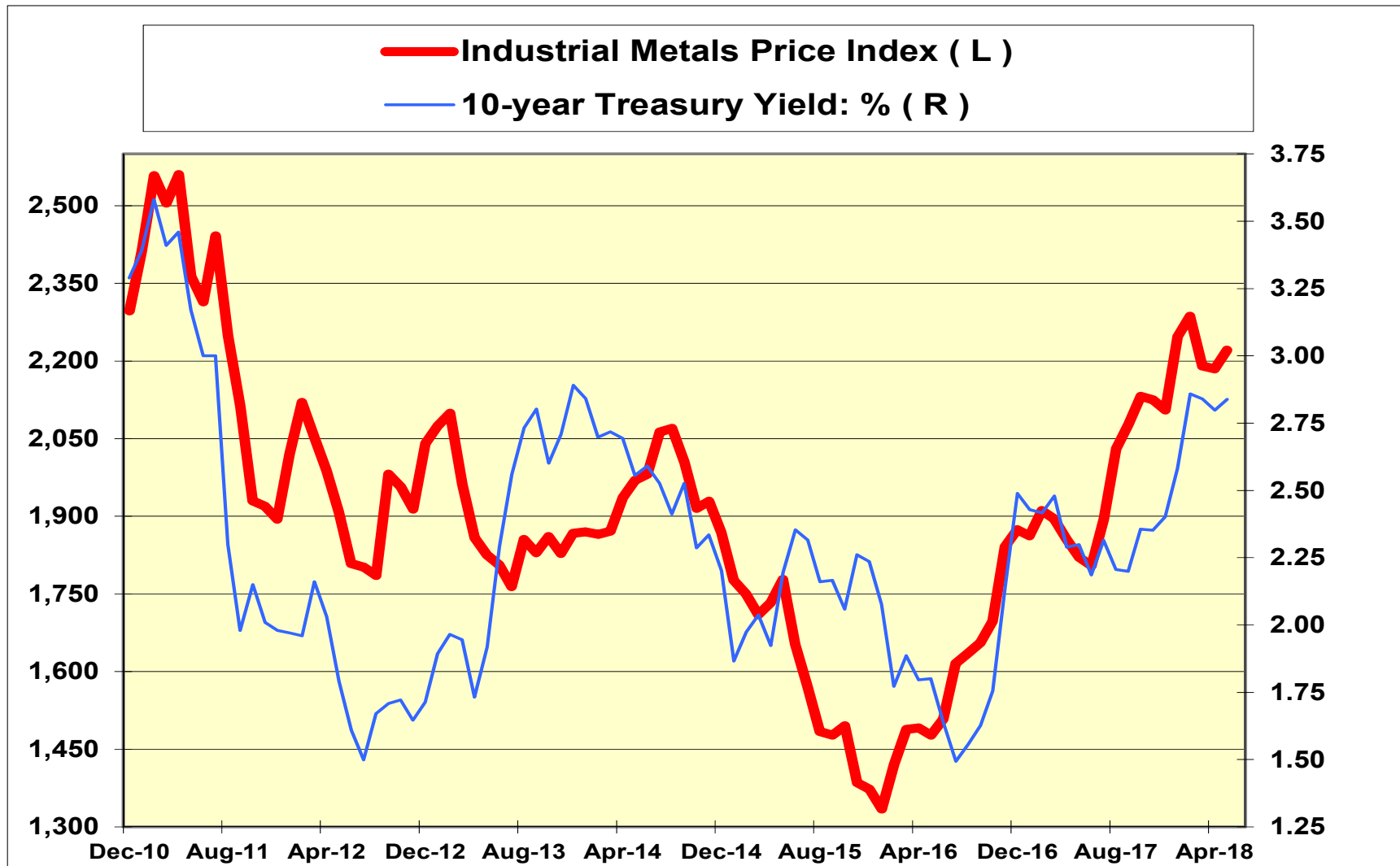
10-year observations, actual & predicted; source: BEA, Blue Chip, Moody's



6

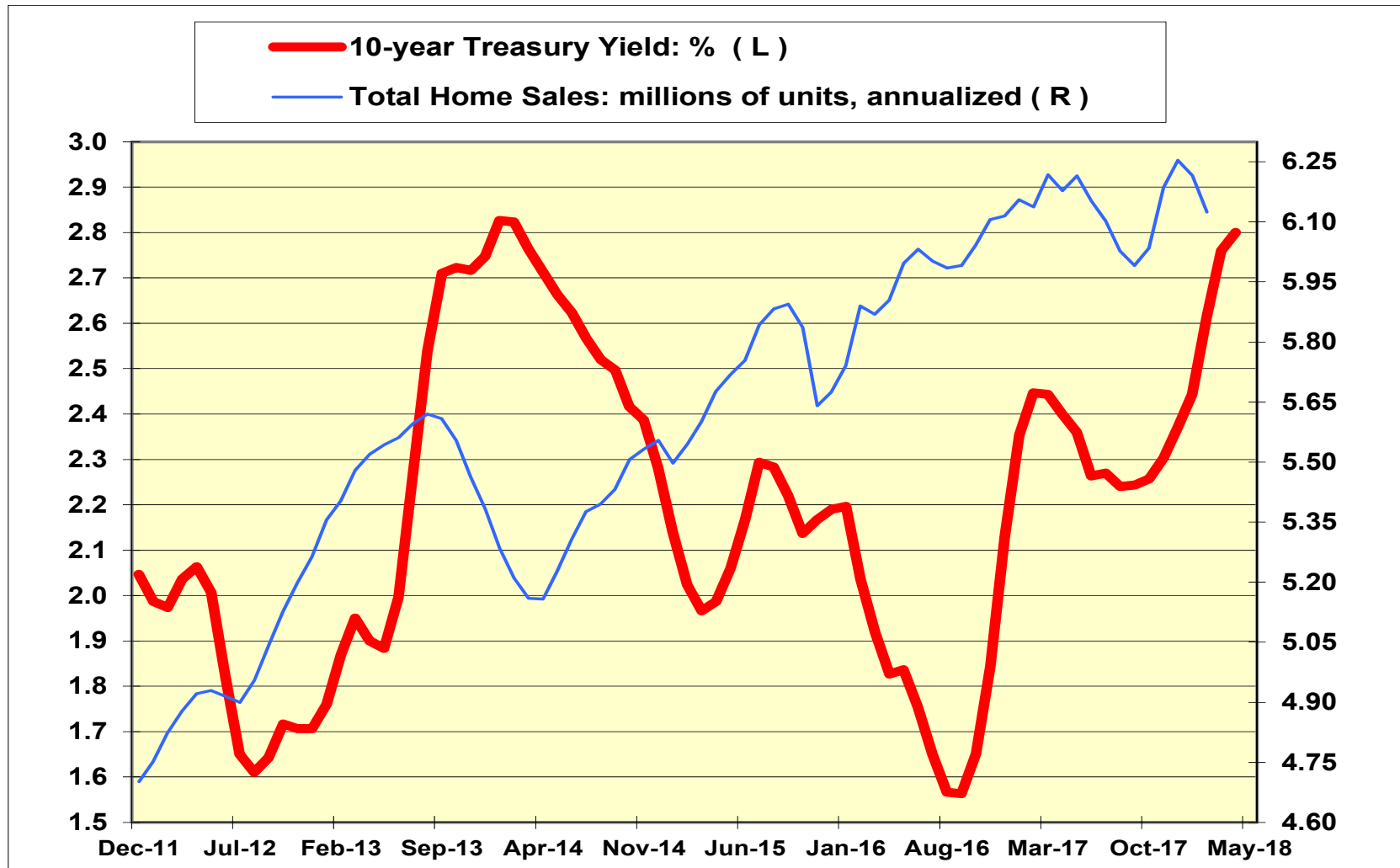
A Few Other Things to Consider for Now

Further Climb by Industrial Metals Price Index Would Favor Higher Treasury Bond Yields



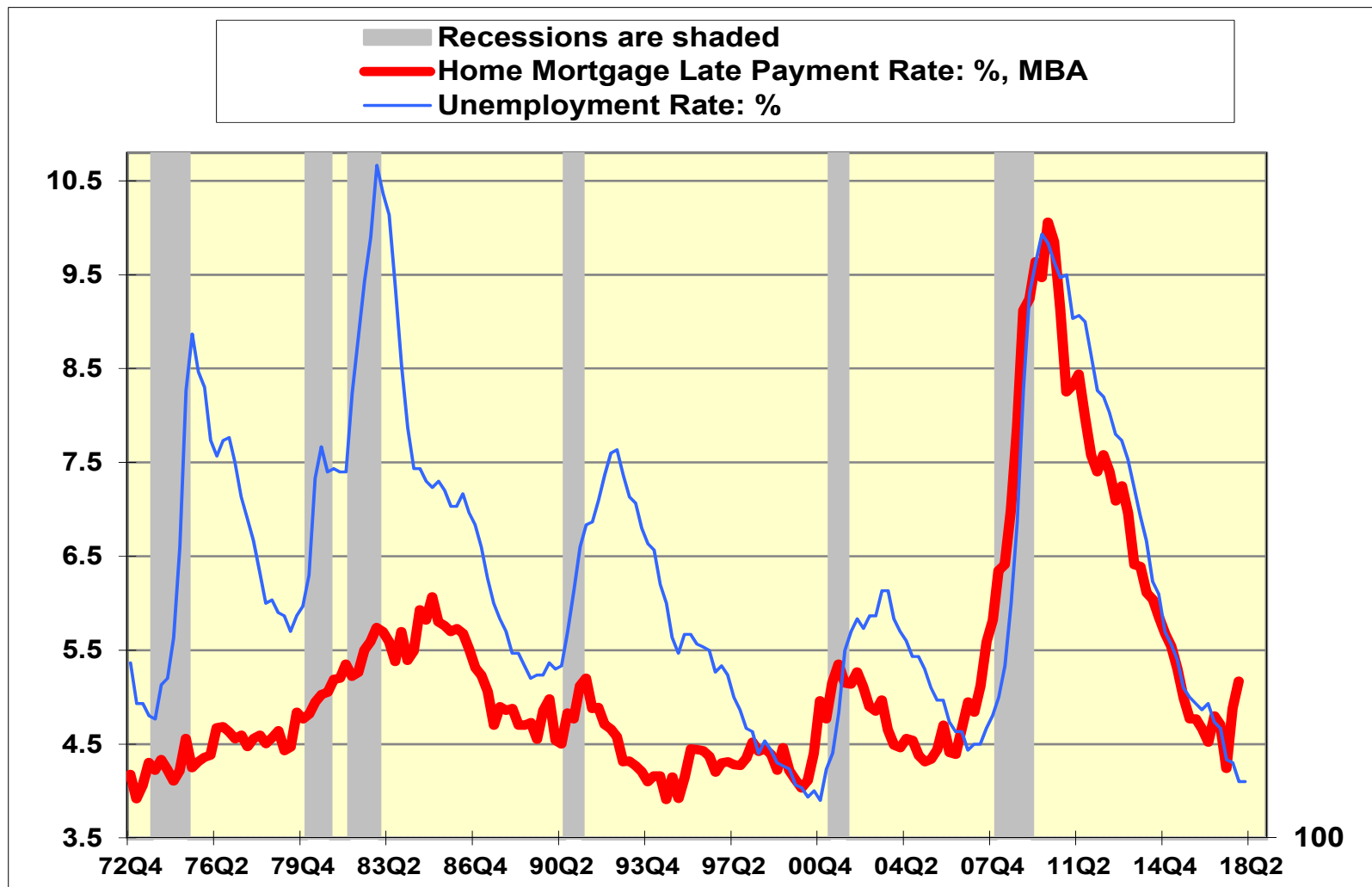
Drop by Home Sales Brought an End to 2013-2014's Taper Tantrum ... US Government Now Backs 62% of Home Mortgage Debt

source: National Association of Realtors, US Census Bureau, Moody's Analytics



Mortgage Late Payment Rate Previously Rose Amid Declining Jobless Rate in 2006 and 2000

source: Bureau of Labor Statistics (BLS), Mortgage Bankers Association, Moody's Analytics



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