

EVERGREEN INSIGHTS: A WEEKLY SNAPSHOT

SEPTEMBER 14, 2015

Top News Headlines

- 1) Economists Split on September Rate Hike Given Low Inflation Expectations
- 2) IMF, World Bank, and BIS Economists Warn a Fed Hike Could Trigger a Panic in Emerging Markets
- 3) Goldman Sachs Report Shows \$20 Oil a Distinct Possibility

Economic News

- US small business confidence missed expectations in August indicating a weakening outlook for smaller companies
- US job openings rose to the highest levels on record as labor market keeps Fed on track for tightening
- Eurozone Q2 GDP rose a better than expected 1.5% as regional data continues to show improvement
- Chinese industrial production missed expectations in August as data continues to weaken
- Japanese machine tool orders slowed to a 2.8% YoY pace, a sign global demand is weakening

Thought of the Week

After months of watching the incoming economic data and waiting for some kind of policy clarity, the Federal Open Market Committee (FOMC) meets this week to vote on what *may* be its first interest rate hike in more than nine years. What happens now is still very much up in the air considering the policy conflict between tight labor market conditions and falling inflation expectations. While the last several months of strong employment data seem to satisfy the Fed's June 2015 condition for "further tightening in the labor market," the un-anchoring of China's currency and subsequent explosion in global financial market volatility has set the stage for a serious debate in the upcoming meeting over whether the committee can still be "reasonably confident that inflation will move back to its 2 percent objective over the medium term." Considering the enormous risks further Fed tightening poses to global growth, a hike this week—or later this fall—could mark a serious turning point for global financial markets. We remain defensively positioned for a meaningful correction and are well prepared to mobilize our historically large cash positions in the event that global markets "go on sale."

Chart of the Week

US Unemployment Rate and 5 Year Breakeven Inflation Rate



Source: Bloomberg, Evergreen Gavekal

| Index Levels | Friday Close 9/11/15 | Prior Week 9/4/15 | Year End 12/31/14 | Year Ago 9/11/14 |
|--------------|-------------------------|----------------------|----------------------|---------------------|
| S&P 500 | 1961 | 1921 | 2059 | 1997 |
| Dow Jones 30 | 16433 | 16102 | 17823 | 17049 |
| Nasdaq | 4822 | 4684 | 4736 | 4592 |
| Russell 2000 | 1158 | 1136 | 1205 | 1172 |

| Market Returns | 1 week | 1 month | YTD | 1 Year |
|-----------------------|--------|---------|--------|--------|
| S&P 500 | 2.1% | -5.8% | -3.3% | 0.2% |
| Russell 2000 | 1.9% | -4.1% | -3.1% | 0.1% |
| Barclays Agg | -0.2% | -0.1% | 0.5% | 2.7% |
| MSCI World | 2.0% | -6.4% | -3.0% | -4.0% |
| MSCI Europe | 0.7% | -7.2% | 5.7% | 5.3% |
| MSCI Japan | 2.4% | -11.3% | 4.9% | 14.2% |
| MSCI China | 4.7% | -10.2% | -9.6% | -9.9% |
| MSCI Brazil | -2.9% | -14.4% | -36.3% | -52.9% |
| MSCI Emerging Markets | 1.9% | -6.6% | -14.3% | -22.9% |

| Market Valuations | P/E Trailing | P/E Forward | P/Sales | Dividend Yield |
|-----------------------|--------------|-------------|---------|----------------|
| S&P 500 | 17.3 | 16.5 | 1.7 | 2.2 |
| Russell 2000 | 19.0 | 15.8 | 1.2 | 1.6 |
| FTSE 100 (Europe) | 22.2 | 15.1 | 1.0 | 4.3 |
| Hang Seng (Hong Kong) | 9.3 | 10.7 | 1.6 | 3.8 |

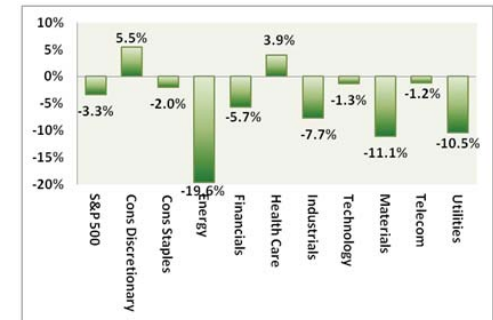
| Bond Yields | Friday Close 9/11/15 | Prior Week 9/4/15 | Year End 12/31/14 | Year Ago 9/11/14 |
|------------------|-------------------------|----------------------|----------------------|---------------------|
| Fed Funds Target | 0.25 | 0.25 | 0.25 | 0.25 |
| 2 Year Treasury | 0.71 | 0.71 | 0.67 | 0.56 |
| 10 Year Treasury | 2.19 | 2.13 | 2.17 | 2.55 |
| Investment Grade | 3.95 | 3.92 | 3.70 | 3.59 |
| Muni Yield | 2.52 | 2.51 | 2.32 | 2.77 |
| High Yield | 7.09 | 7.15 | 6.80 | 5.86 |

| Consumer Rates | | | | |
|---------------------|--------|--------|-------|-------|
| 15 Year Mortgage | 2.98 | 2.95 | 3.09 | 3.24 |
| 30 Year Mortgage | 3.84 | 3.83 | 3.99 | 4.16 |
| Consumer Confidence | 101.54 | 101.54 | 93.06 | 93.42 |

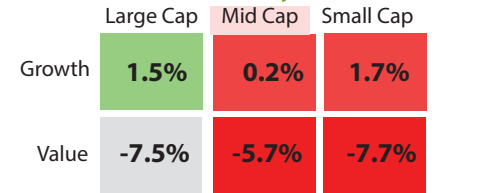
| Commodities | | | | |
|---------------|--------|--------|--------|--------|
| Gold | 1107.8 | 1123.5 | 1184.9 | 1240.9 |
| Silver | 14.6 | 14.6 | 15.7 | 18.7 |
| WTI Crude Oil | 44.6 | 46.1 | 53.3 | 92.8 |
| Natural Gas | 2.7 | 2.7 | 2.9 | 3.8 |

| Currency | | | | |
|--------------|--------|--------|--------|--------|
| Dollar Index | 95.19 | 96.23 | 90.27 | 84.30 |
| \$ per Euro | 1.134 | 1.114 | 1.210 | 1.292 |
| Yen per \$ | 120.59 | 119.01 | 119.68 | 107.11 |
| CAD per \$ | 1.326 | 1.328 | 1.162 | 1.104 |

S&P 500 YTD Sector Returns

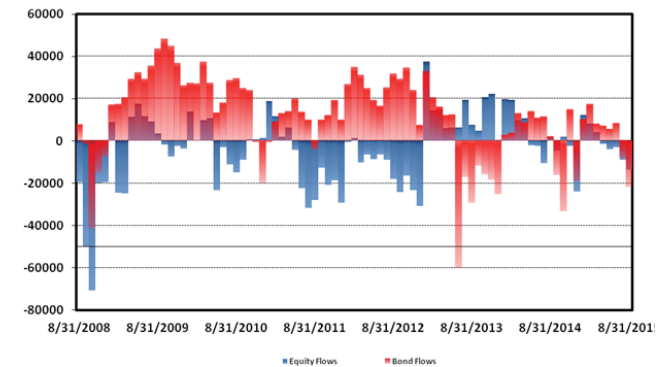


YTD Market Style Returns



Like Dislike

Monthly Fund Flows (\$ millions)



Market question of the week:

As university tuition costs continue to vastly outpace inflation, student loan volumes have continued their rapid increase. How much was believed to be owed last year by students and former students in the US? (Source: US Education Department)

- a) \$600 billion b) \$1.2 trillion c) \$2.5 trillion

Trivia question of the week:

The American Gaming Association estimated Americans will bet \$95 billion on the NFL and college football this season. What % of this total is predicted to be wagered legally?

- a) 4% b) 18% c) 32%

Answers: b) \$1.2 trillion a) 4%

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Benchmark indices are provided in this material for comparison with well-known and widely recognized indices from various market capitalizations, asset classes, markets around the world, and economic data. You cannot invest directly in an index. Index results assume the re-investment of all dividends and capital gains.

The S&P 500 is a market-capitalization weighted index that includes the 500 most widely held companies chosen with respect to market size, liquidity, and industry. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The National Association of Securities Dealers Automated Quotation (NASDAQ) System is a nationwide computerized quotation system for over 5,500 over-the-counter stocks. The index is compiled of more than 4,800 stocks that are traded via this system. The FTSE 100 Index is an index of the 100 largest companies (by market capitalization) in the United Kingdom. A market capitalization-weighted index of 40 of the largest companies that trade on the Hong Kong Exchange. The Hang Seng Index is maintained by a subsidiary of Hang Seng Bank, and has been published since 1969. The index aims to capture the leadership of the Hong Kong exchange, and covers approximately 65% of its total market capitalization. The Hang Seng members are also classified into one of four sub-indexes based on the main lines of business including commerce and industry, finance, utilities and properties.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market. The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Value Index contains those Russell 1000 companies that have higher book-to-price ratios, and thus a less-than-average growth orientation, than the remaining companies in the Russell 1000 Index that encompass the Russell 1000 Growth Index. The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index. The Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth rates. The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Index is an unmanaged index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer of the small-cap value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine value probability approximates the aggregate small-cap value manager's opportunity set. The Russell 3000 Index is a market capitalization weighted index that measures the performance of the 3,000 largest U.S. companies representing approximately 98% of the investable U.S. equity market.

The Morgan Stanley Capital International (MSCI) World Index is a market capitalization weighted index composed of companies representative of the market structure of 23 Developed Market countries in North America, Europe and the Asia/Pacific Region. The MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. The MSCI China Index covers the large and mid cap segments in the China and is constructed according to the MSCI Global Investable Market Indices Methodology. The MSCI China Index is part of the MSCI Emerging Markets Index. The MSCI Brazil Index is designed to measure the performance of the large and mid cap segments of the Brazilian market with 81 constituents. The MSCI Brazil Index covers about 84% of the Brazilian equity universe. The volatility of these indices may be materially different from that of the representative account.