

The Great Escape: Exiting a Zero Interest Rate Environment

Investment Implications in the Face of Rising Rates

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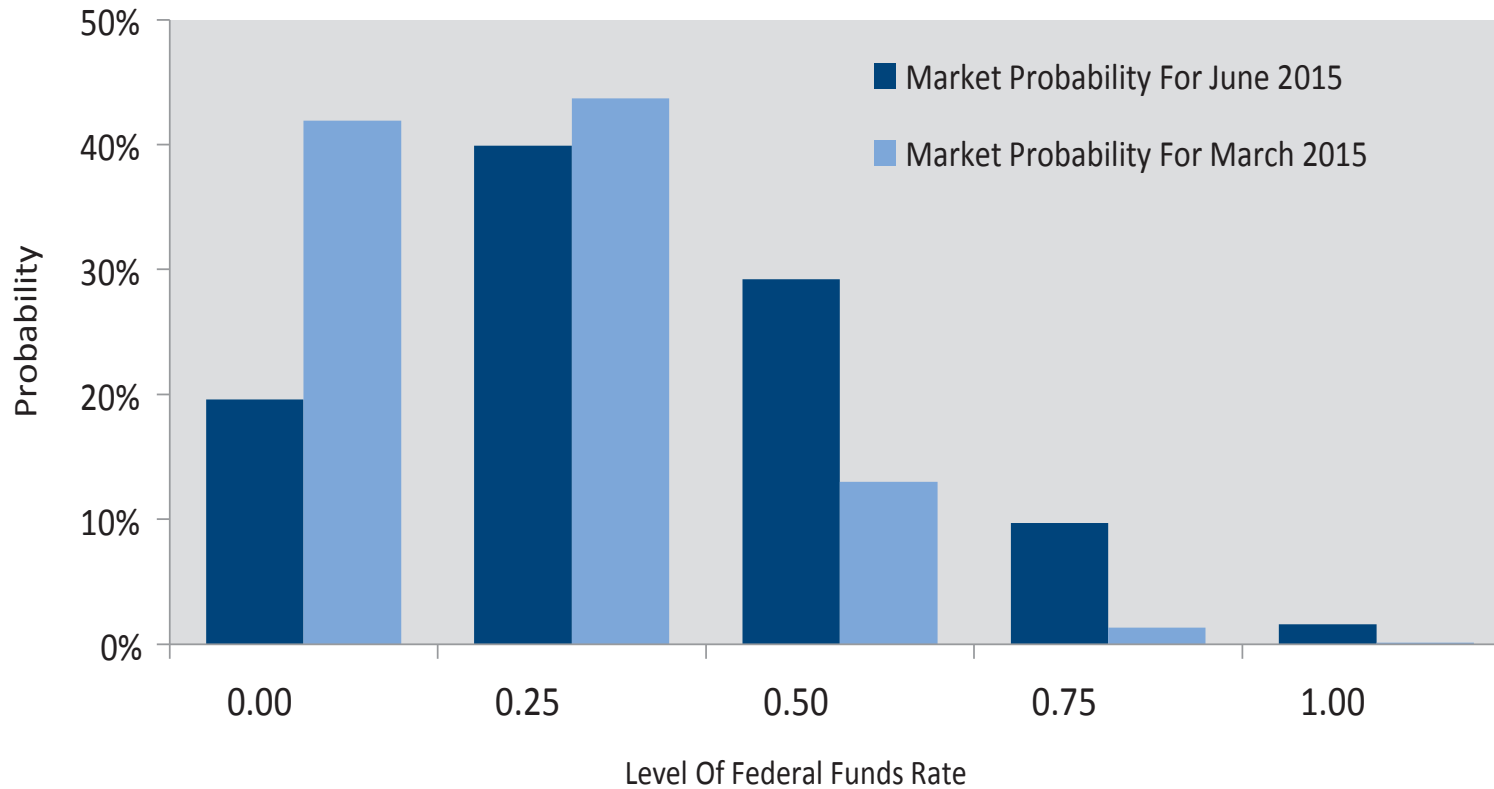
35 YEAR HISTORICAL PERSPECTIVE



Source: Bloomberg; Cornerstone Macro; WEDGE Capital Management

WHAT IS MARKET TELLING US ABOUT TIMING OF FED TIGHTENING

The Market Agrees With The Fed In Terms Of The Timing Of The First Rate Hike



Sources: Bloomberg; Cornerstone Macro; WEDGE Capital Management

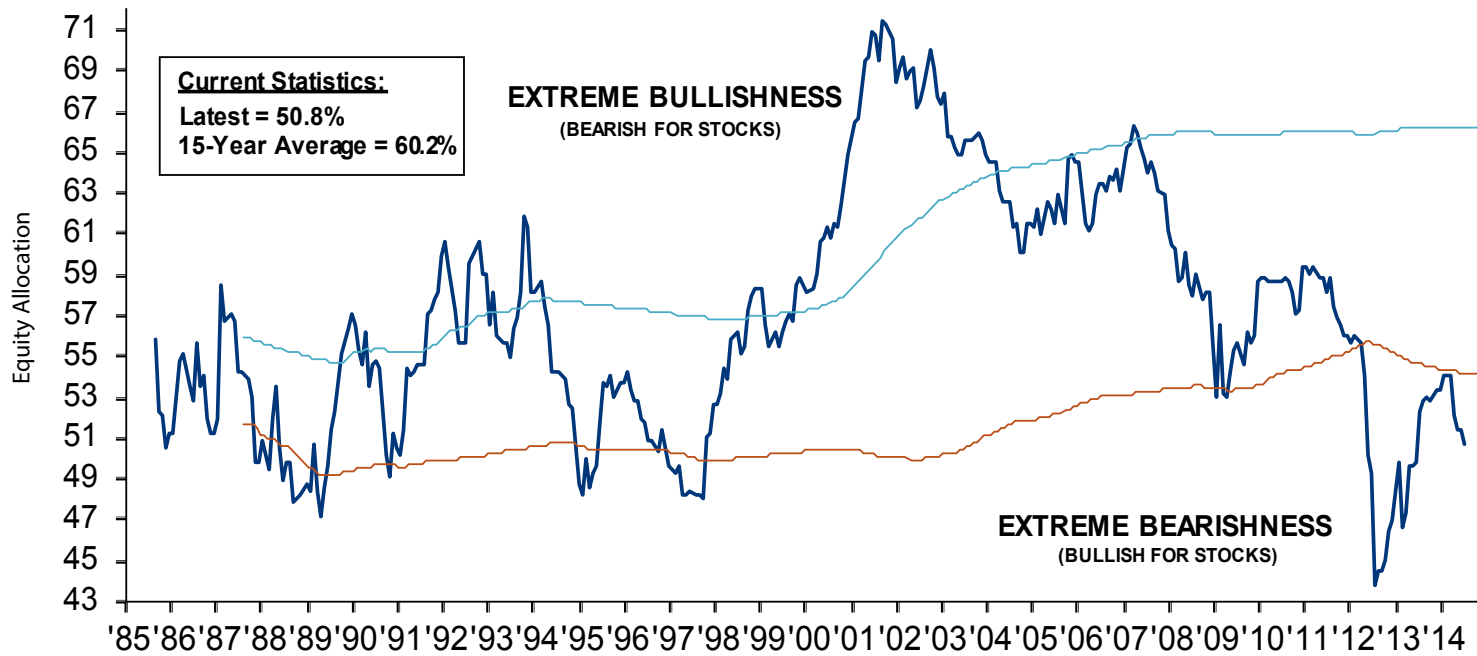
MARKET REACTION TO PAST FEDERAL RESERVE TIGHTENINGS

	1986-87	1988-89	1994-95	1999-00	2004-06	Average
Two-year Treasury						
Reaction started (# weeks before 1st rate hike)	3	7	1	11	15	7
One-month interest rate change (bps)	8	11	49	30	47	29
Two-months interest rate change (bps)	10	31	119	70	102	66
S&P 500						
Reaction started (# weeks before 1st rate hike)	2	2	0	11	9	5
Peak to trough (*)	-1.9%	-6.7%	-7.5%	-5.4%	-6.7%	-5.6%
Duration of decline (weeks)	5	9	21	27	15	15
Trough to end of tightening (**)	27.8%	14.2%	13.1%	15.6%	20.2%	18.2%

(*) change between pre-tightening peak and subsequent trough; (**) change between trough and first FOMC meeting with no tightening.

Sources: Bloomberg and Cornerstone Macro; WEDGE Capital Management

SELL SIDE RESEARCH MARKET INDICATOR (AS OF 7/31/14)

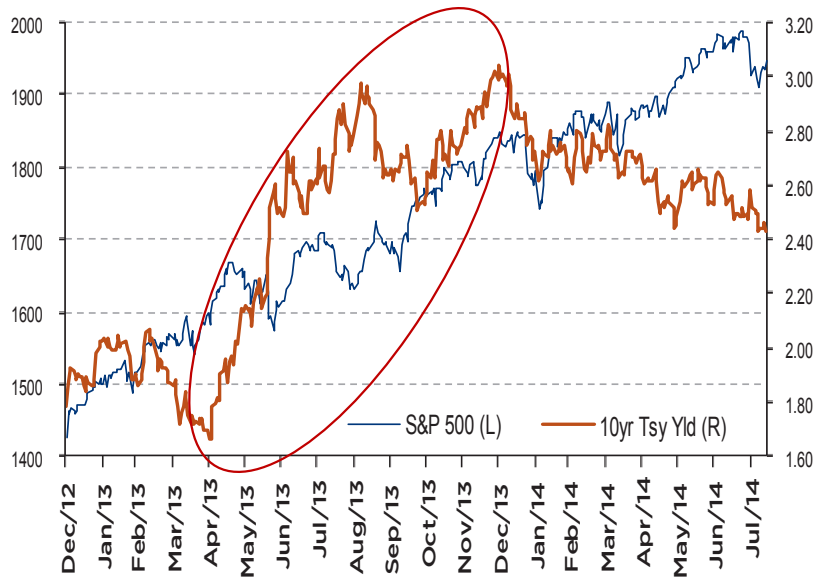


Source: BofA Merrill Lynch US Equity & US Quant Strategy; WEDGE Capital Management

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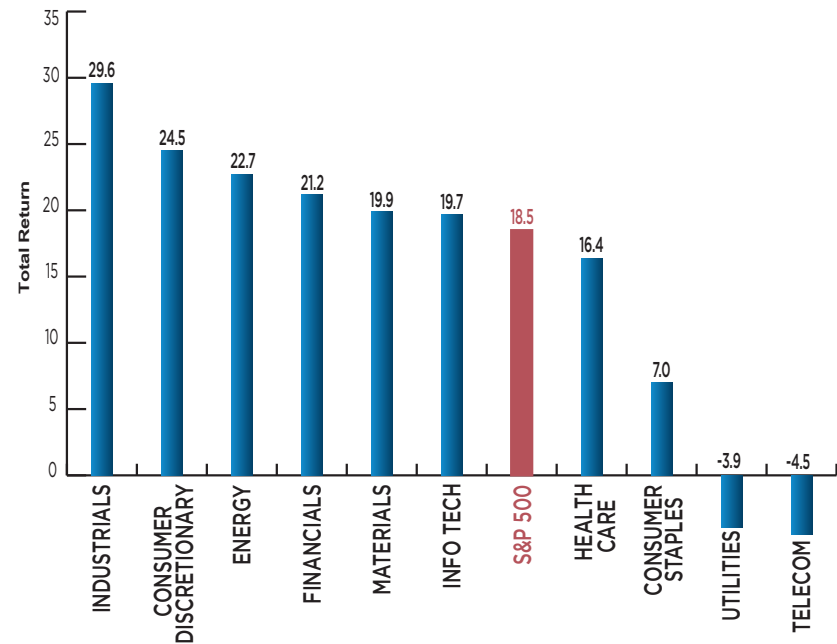
AREAS OF INTEREST DURING RISING INTEREST RATE ENVIRONMENT

S&P 500 vs. 10-year Treasury yield, 2013 - present



Source: FRB, S&P, BofA Merrill Lynch US Equity & US Quant Strategy; WEDGE Capital Management

S&P 500 Sector Performance from May-December 2013

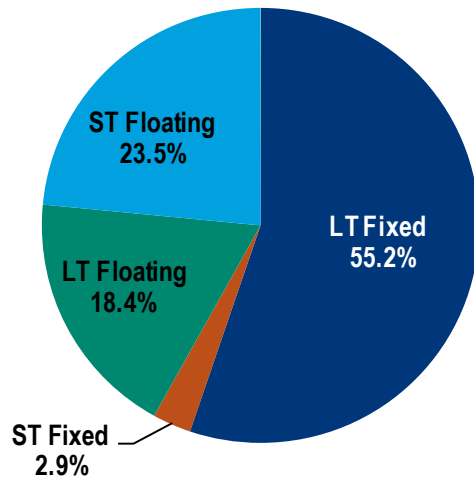


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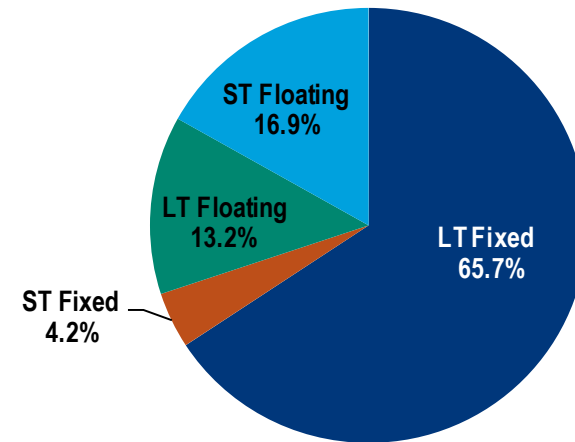
IMPACT TO CORPORATE BALANCE SHEETS - A FUNDAMENTAL CONCERN?

Debt Structure: 2007



Source: BofAML US Equity & Quant Strategy, FactSet, Moody's, Federal Reserve; WEDGE Capital Management

Debt Structure: Current



Source: BofAML US Equity & Quant Strategy, FactSet, Moody's, Federal Reserve; WEDGE Capital Management

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