



UNC
KENAN-FLAGLER
BUSINESS SCHOOL

2015 Finance Development Program

Tracking the Markets

Using General Economic Knowledge to Ace Interviews

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Finance

Today's Agenda

- Program overview
- Tracking the Markets
 - What you need to watch
- Tracking the U.S. economy
 - Macro overview and current indicators

FDP Workshop Goals

- Designed to get students interested in finance careers up the learning curve ASAP.
 - Some workshops are career/profession oriented
 - Some are learning to speak the language and what is expected of you
- Please put them on your schedule

We bend over backwards to get students in the best finance jobs...

... but most of the work you must do yourself.

Finance Development Program

Career Paths in Finance	August 14 th (5 – 7pm)	These classes are useful for all students!
Tracking the Markets - Using General Economic Knowledge to Ace Interviews	August 17 th (12:30 – 1:45pm)	
Excel Best Practices	August 19 th (5 – 9pm)	
Intro to Financial Modeling	September 4 th (9am – 1pm)	
M&A Strategy and Corporate Valuation	September 11 th (9am – 5pm)	These classes delve deeper into specific topics
Anatomy of a Deal	October 2 nd (10am – 4pm)	
LBO Modeling Workshop	October 20 th (4:30 – 8:30pm)	
Restructuring & Credit Analysis	November 5 th (9am – 5pm)	
Private Equity Interview Prep	December 5 th (9 – 11:30am)	
Finance (primarily IB) Interview Prep	December 5 th (12 – 3:30pm)	
Company Analysis, Products & Structuring Seminar	May 9 – 12, 2016	

- Many different tracks in sell-side and buy-side
 - Investment Banking (also Sales and Trading)
 - Direct Portfolio Mgmt (mutual funds, hedge funds, etc.)
 - Private Wealth Management
 - Family Offices (including Multi-family)
 - Private Investment Funds (PE, VC, RE, FoF)
 - Foundations / Endowments / Pensions
 - Risk Management, Financial Ops, Middle-office
 - Financial Marketing and Client Services
- Have a Plan A and a Plan B

- Many employers will expect you to be current with:
 - Financial market conditions
 - Stocks
 - Bonds, Money, & Interest Rates (including monetary policy)
 - Currency
 - Commodity
 - Major economic indicators covering things like
 - Economic Output (GDP, industrial production, etc.)
 - Employment
 - Inflation



Sample questions you should be able to answer (and discuss intelligently)

- What is the current level of the DJIA, S&P 500, USD/EUR, 10yr U.S. Treasury-Note, Oil, Gold, etc... ?
 - What has happened to each recently (and why)?
- What is a stock/company you like / don't like? Another? Another?
- What is the expected path of U.S. monetary policy?
- What is the unemployment rate? What happened to it last month?
- What is the economic outlook for the rest of this year? next year?
- Is last week's devaluation of the Yuan a logical policy move or a sign of desperation/panic by Chinese officials?
- Is Europe coming out of its recession now or going back in?

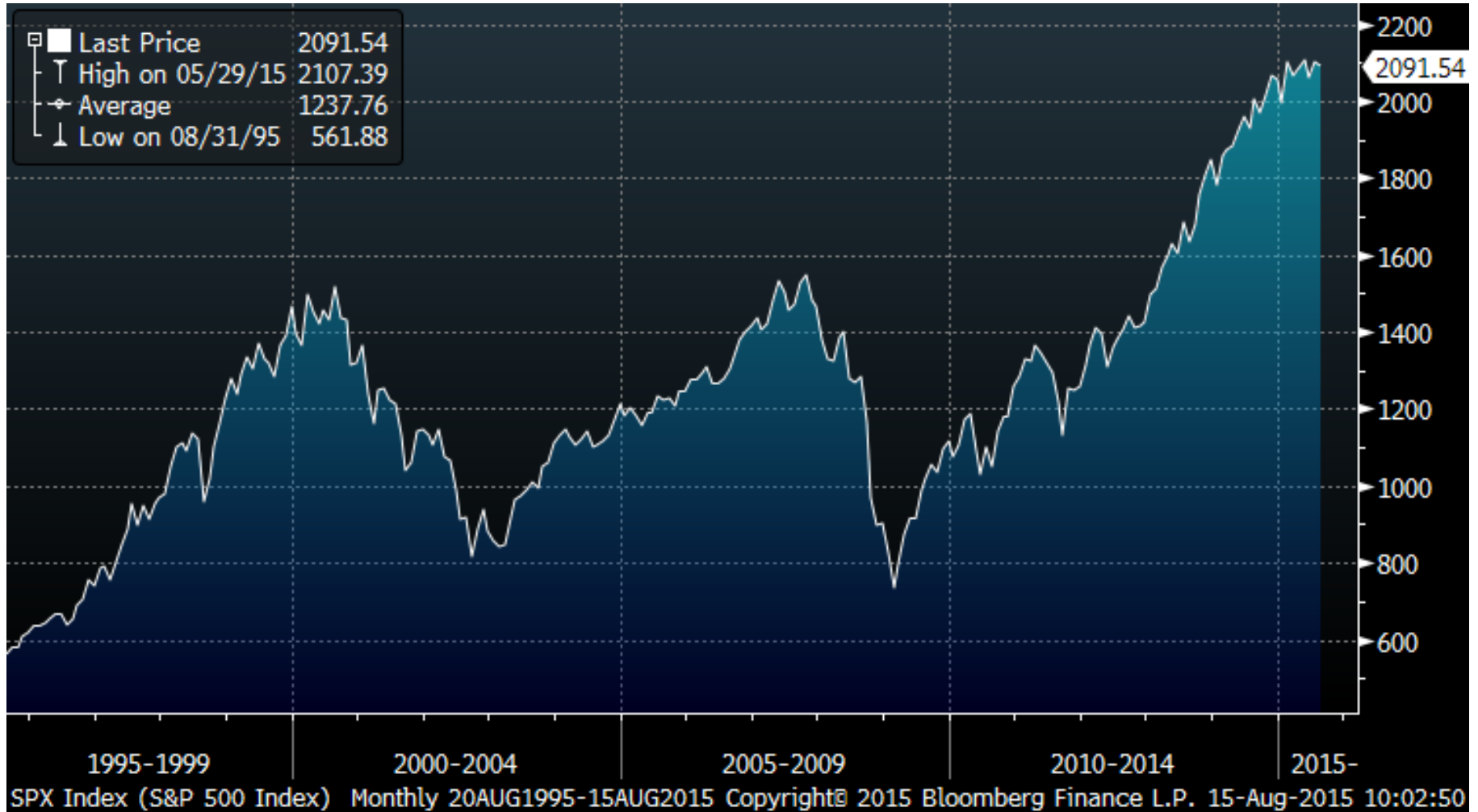


- Wall Street Journal
 - Single best resource, but more U.S. focused
- Financial Times
 - Good for global financial and economic news
- The Economist
 - Tables on last 3 pages are good international summary
- Bloomberg and FactSet (CML)
 - Bloomberg Summary Pages: WEI, WB, GLCO, ECO
- FRED (research.stlouisfed.org/fred2/)
 - Great for economic data and graphs
 - Just Google "Fred ii"

- Major Stock Indices
 - US: DJIA, S&P 500, NASDAQ, Russell 2000, VIX Index
 - International: FTSE 100, Nikkei, and those with big moves/news
- Bonds, money, and interest rates
 - US Treasuries: yields 2-year note, 10-year note, 30-year Bond
 - Treasury and LIBOR/swap yield curve
 - Federal Reserve Policy (maybe international target rates too)
- Currency Markets
 - Euro, Yen, Pound, Swiss Franc, Yuan
- Commodities
 - Oil, Gold, Natural Gas
 - Any that are currently in the news (e.g., industrial metals)



Equity Markets - S&P 500



Money and Bond Markets

- You should be familiar with commonly referenced interest rates
- Federal Reserve provides a daily table at:
 - www.federalreserve.gov/releases/h15/update/
- Most important rates are:
 - Fed Funds
 - U.S. Government Rates
 - Corporate Bond Rates (spreads)
 - LIBOR (Eurodollar Deposits) and swaps
 - Commercial Paper



Fed Funds Rate

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— Effective Federal Funds Rate



Source: Board of Governors of the Federal Reserve System (US)

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

10-year T-Note Yield

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— 10-Year Treasury Constant Maturity Rate



Source: Board of Governors of the Federal Reserve System (US)

Shaded areas indicate US recessions - 2015 research.stlouisfed.org



Corporate Bond Spreads

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— BofA Merrill Lynch US High Yield Master II Option-Adjusted Spread[®]



Source: BofA Merrill Lynch

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

Foreign Exchange Rates

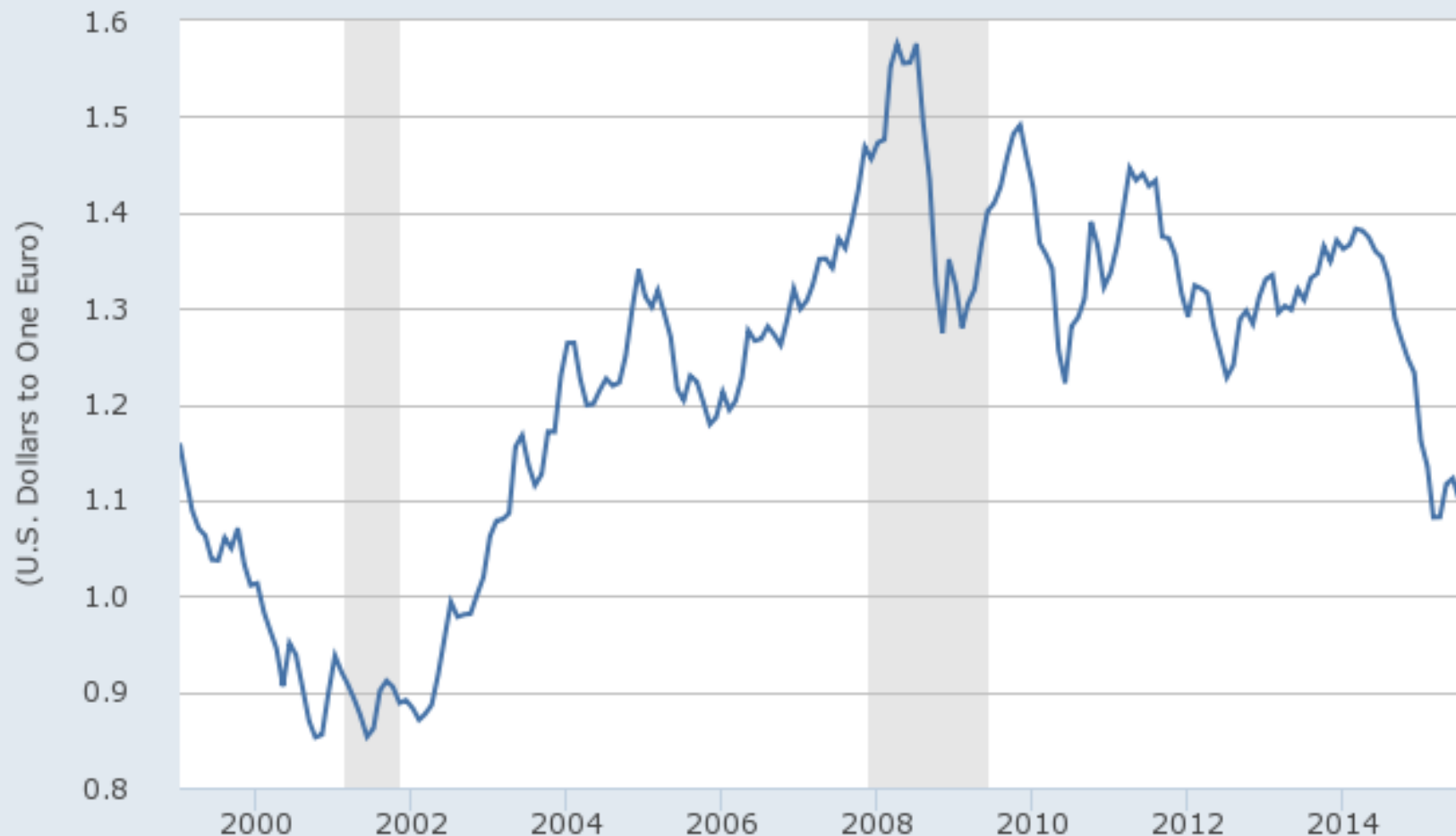
- The exchange rate is the price of one country's currency in terms of another country's currency
- Quoted exchange rates can be either *direct* or *indirect*, one method is usually the convention
 - Direct: home currency per unit of foreign currency
 - Examples from US perspective:
 - 1.676 US Dollars (USD) per British Pound (GBP)
 - 1.152 US Dollars (USD) per Euro (EUR)
 - Indirect: foreign currency per unit of home currency
 - Examples from US perspective:
 - 109.58 Japanese Yen (JPY) per US Dollar (USD)
 - 1.3664 Swiss Francs (CHF) per US Dollar (USD)



USD per EUR

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— U.S. / Euro Foreign Exchange Rate

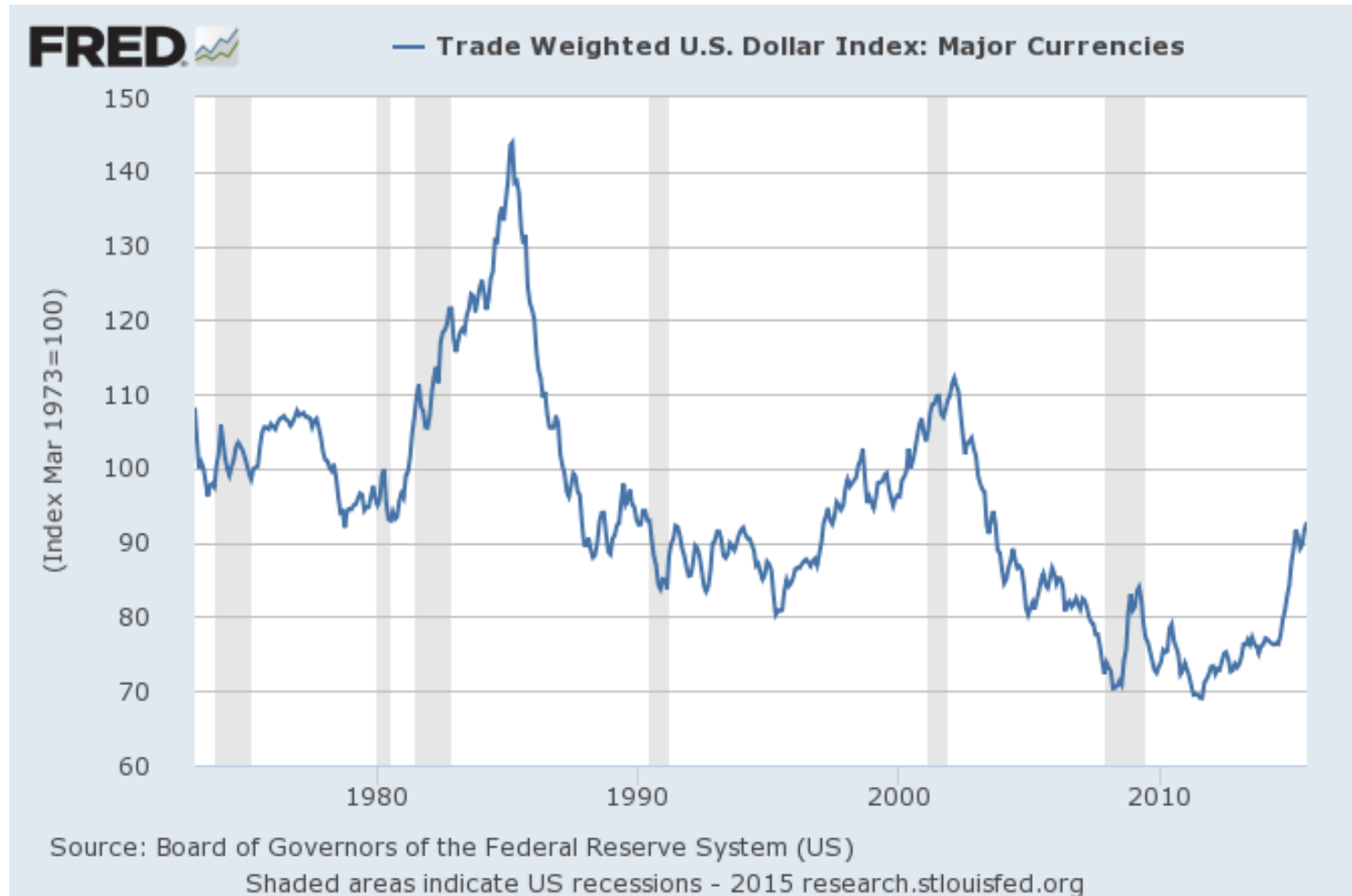


Source: Board of Governors of the Federal Reserve System (US)

Shaded areas indicate US recessions - 2015 research.stlouisfed.org



Trade-Weighted USD Exchange Rate

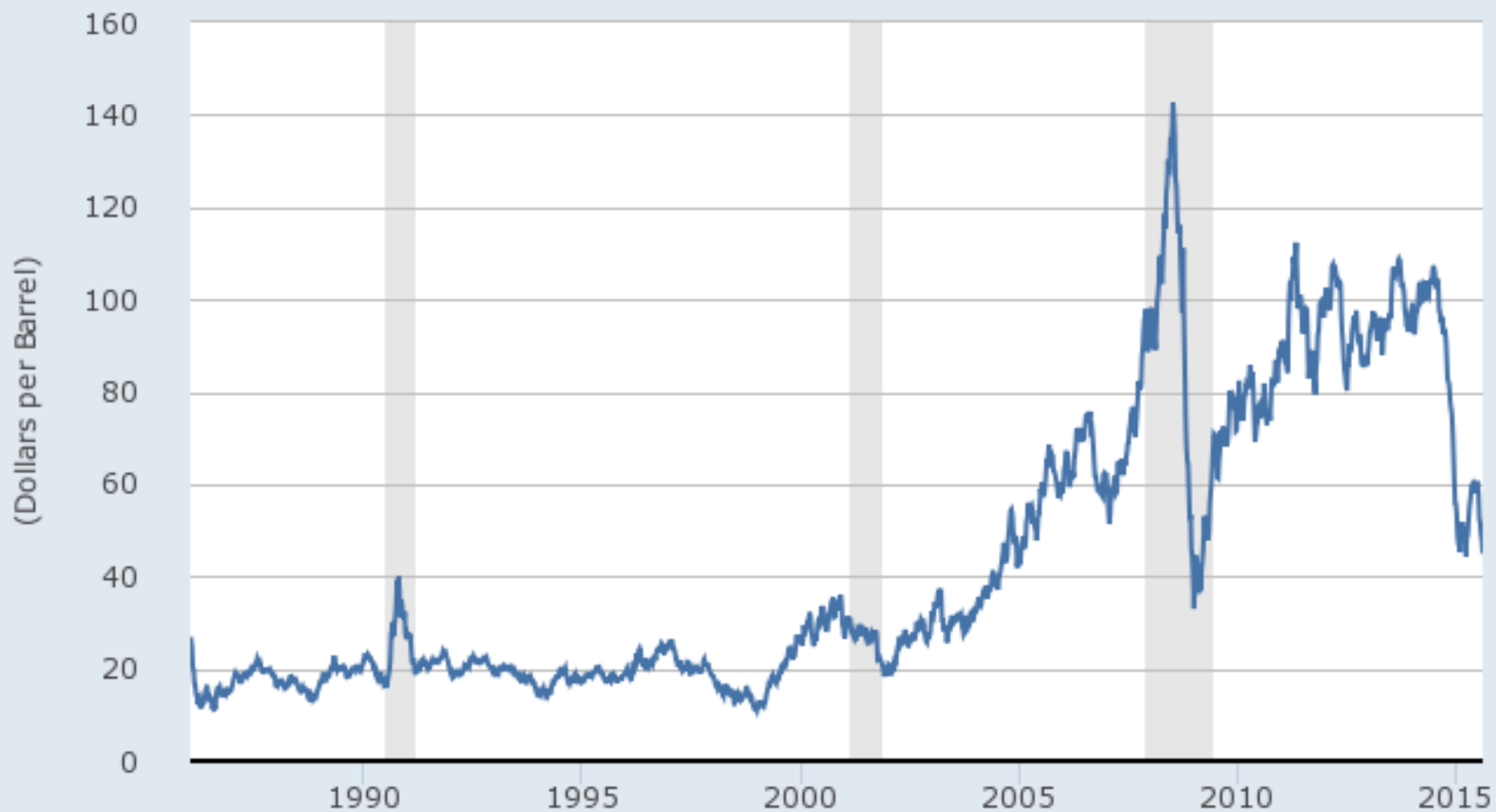


The index is a weighted average of the foreign exchange values of the U.S. dollar against other major currencies. The index weights, which change over time, are derived from U.S. export shares. The index is calculated in indirect terms so higher values imply a stronger USD.

Commodities - Oil

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— Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma



Source: US. Energy Information Administration

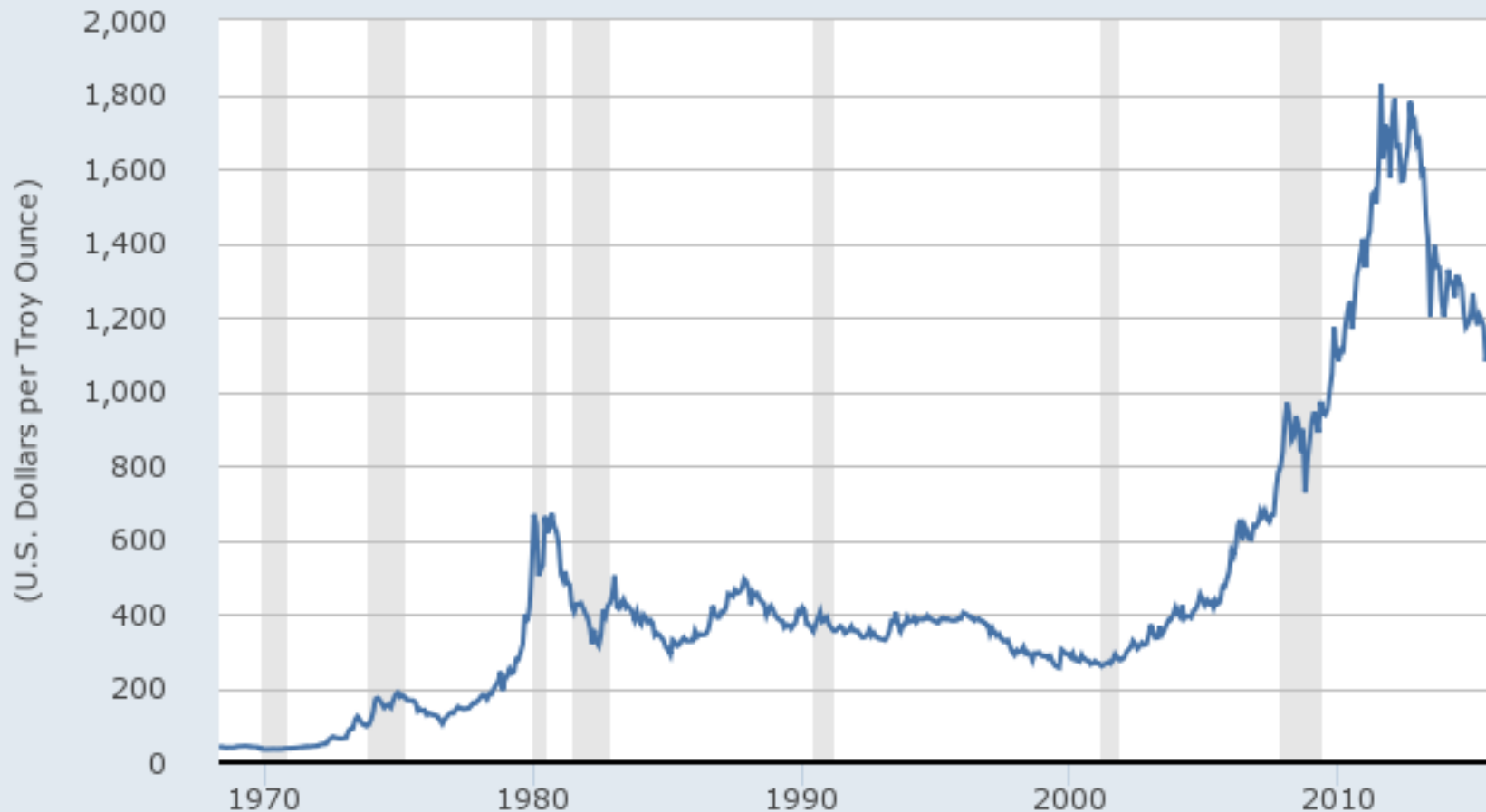
Shaded areas indicate US recessions - 2015 research.stlouisfed.org



Commodities - Gold

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— Gold Fixing Price 10:30 A.M. (London time) in London Bullion Market, based in U.S. Dollars



Source: London Bullion Market Association

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

- Gross Domestic Product (GDP) measures aggregate output

$$\underline{\text{GDP} = \text{Consumption} + \text{Investment} + \text{Net Exports} + \text{Gov}}$$

- Consumption

- Personal income and consumption expenditures
- Retail sales
- Consumer sentiment

- Investment

- Business: ISM surveys
- Household: Housing starts and home prices

- Net Exports

- Trade deficit

- Government

- Federal
- State and local

- Labor Markets
 - Change in nonfarm payrolls and unemployment rate
 - Weekly initial claims for unemployment insurance
- Inflation
 - Consumer price index (CPI)
 - Producer price index (PPI)
- There are lots of other economic indicators that are closely followed by investors
 - Reading WSJ economy page will help make you familiar with these

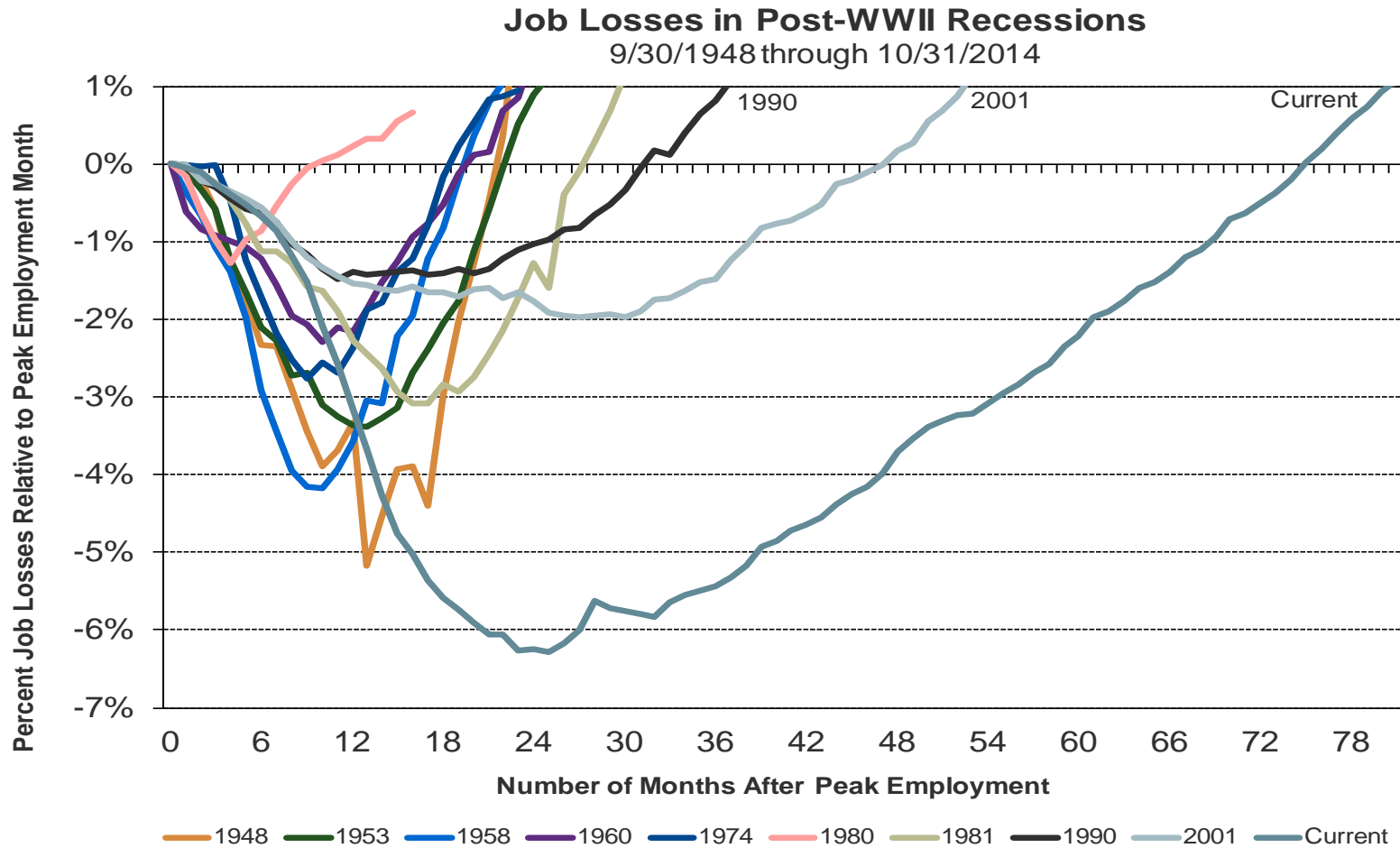
- GDP Growth
 - Consumers are spending again but the growth rate is low
 - Housing has recovered off the bottom, but recent growth is choppy. Prices have rebounded in most markets.
 - Businesses are in very good financial shape but have delayed capital spending given low (global) GDP growth.
 - Export growth has been good since 2008, but imports have been growing more rapidly lately. (Stronger USD)
 - Federal government spending has been contractionary, but state and local governments are growing again.
- Inflation is low (below Fed target) but core disinflation has stopped
- Labor markets are strong with recent monthly gains that are consistent with a strong recovery

Gross Domestic Product

Contributions to Percent Change in Real Gross Domestic Product						
	2014-I	2014-II	2014-III	2014-IV	2015-I	2015-II
Gross domestic product	-0.9	4.6	4.3	2.1	0.6	2.3
Percentage points at annual rates:						
Personal consumption expenditures	0.9	2.6	2.3	2.9	1.2	2.0
Durable goods	0.2	1.0	0.5	0.4	0.1	0.5
Nondurable goods	0.1	0.5	0.4	0.5	0.1	0.5
Services	0.6	1.1	1.4	2.0	0.9	1.0
Gross private domestic investment	-0.4	2.0	1.2	0.4	1.4	0.1
Fixed investment	0.9	0.9	1.2	0.4	0.5	0.1
Nonresidential	1.0	0.6	1.1	0.1	0.2	-0.1
Structures	0.5	0.0	-0.1	0.1	-0.2	0.0
Equipment	0.2	0.4	0.9	-0.3	0.1	-0.3
Intellectual Property	0.3	0.2	0.3	0.3	0.3	0.2
Residential	-0.1	0.3	0.1	0.3	0.3	0.2
Change in private inventories	-1.3	1.1	0.0	0.0	0.9	-0.1
Net exports of goods and services	-1.4	-0.2	0.4	-0.9	-1.9	0.1
Exports	-1.0	1.3	0.2	0.7	-0.8	0.7
Imports	-0.4	-1.5	0.2	-1.6	-1.1	-0.5
Government expenditures	0.0	0.2	0.3	-0.3	0.0	0.1
Federal	0.0	-0.1	0.3	-0.4	0.1	-0.1
State and local	0.0	0.3	0.1	0.2	-0.1	0.2



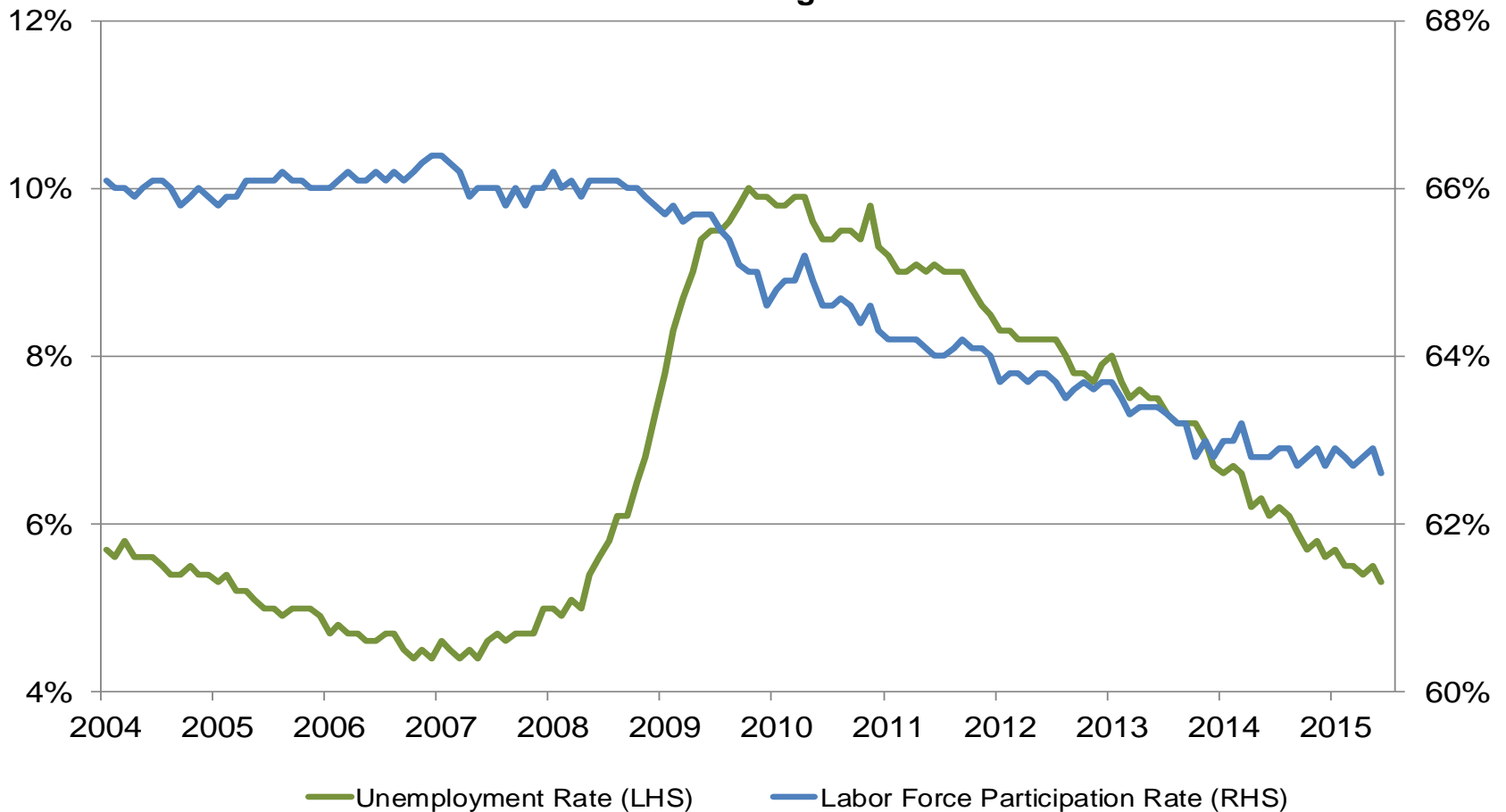
Nonfarm Payroll Employment





Unemployment Rate

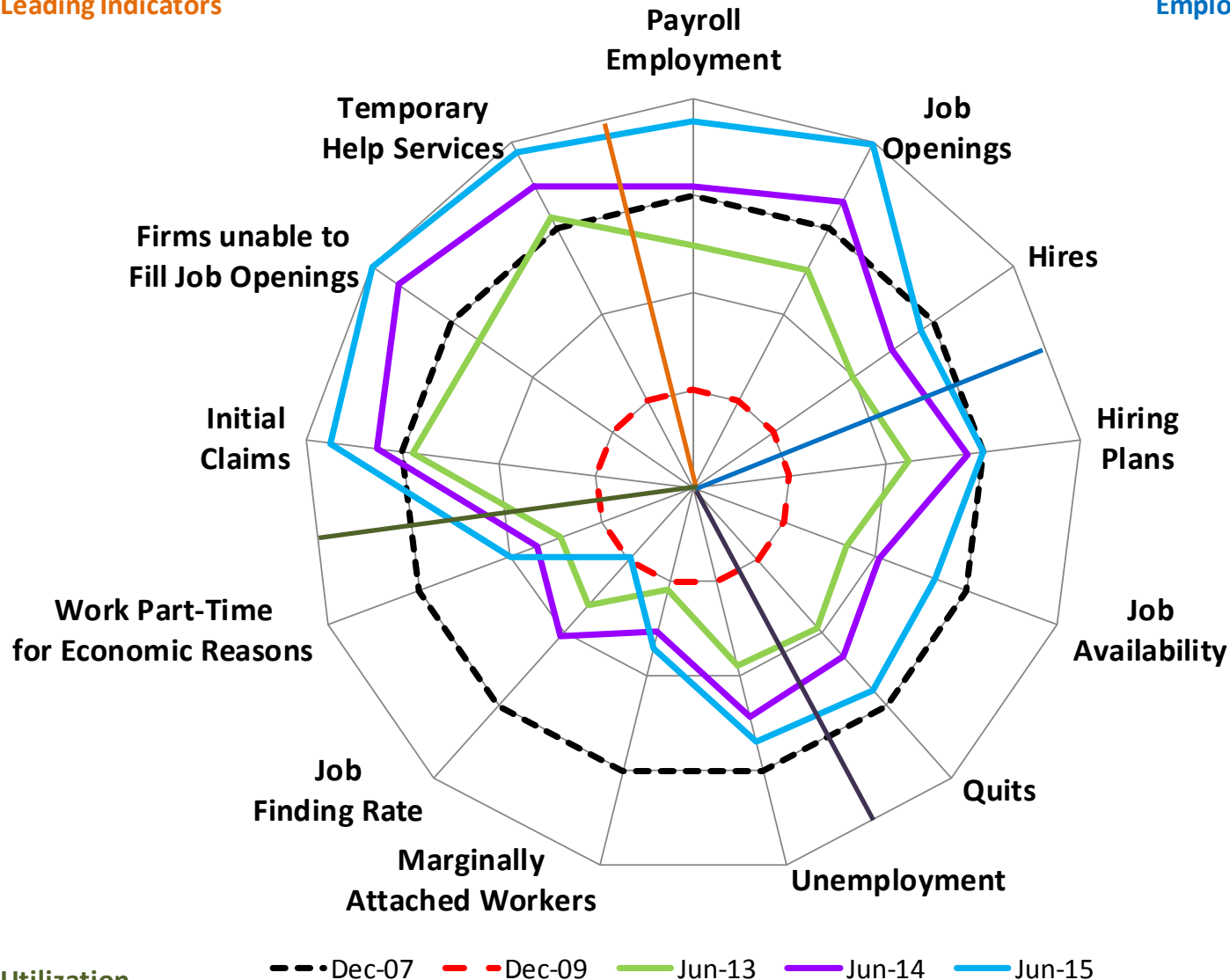
Labor Force Participation and Unemployment Rates
1/31/2004 through 6/30/2015



Many Facets of Labor Markets

Leading Indicators

Employer Behavior



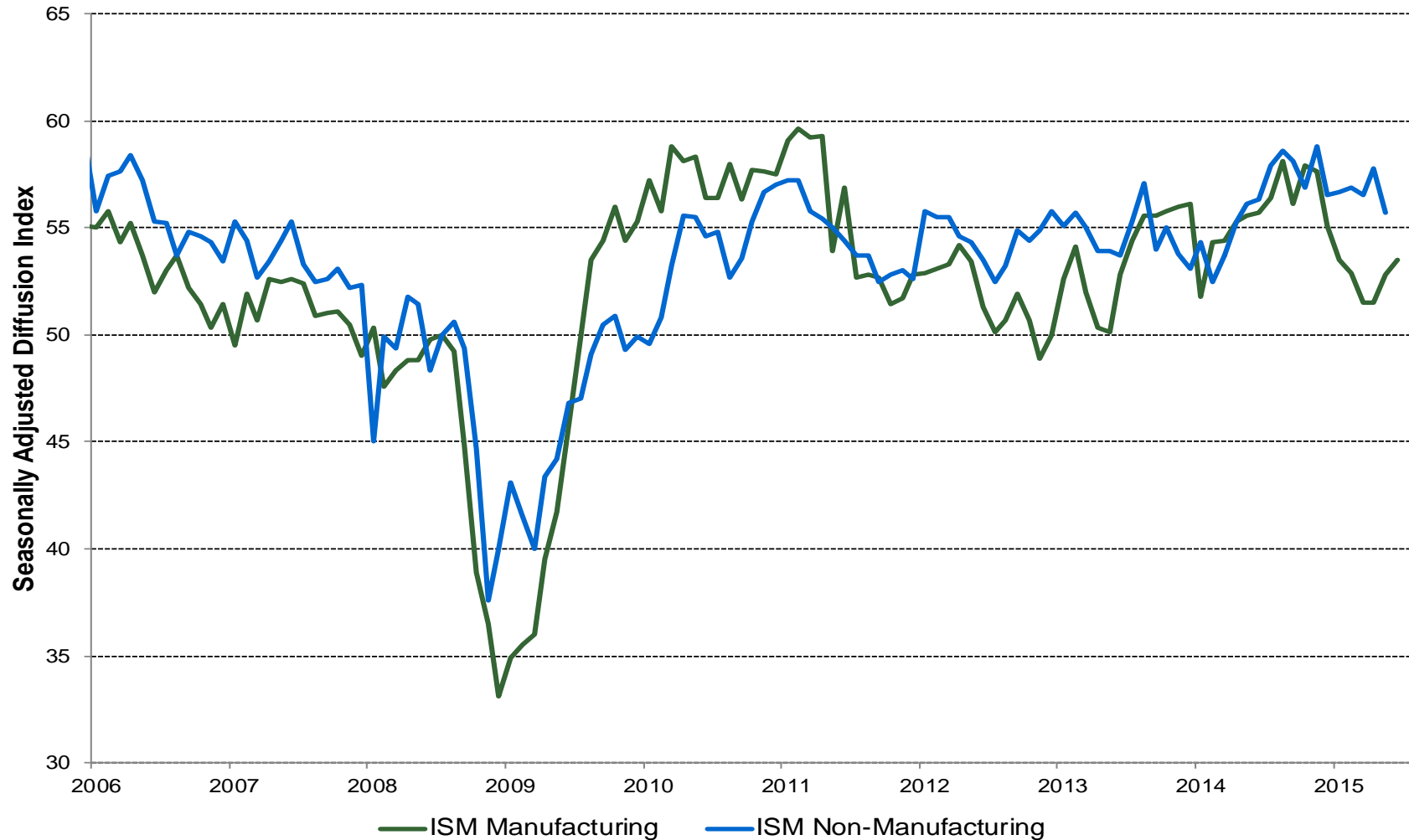
Utilization

Confidence



ISM Surveys

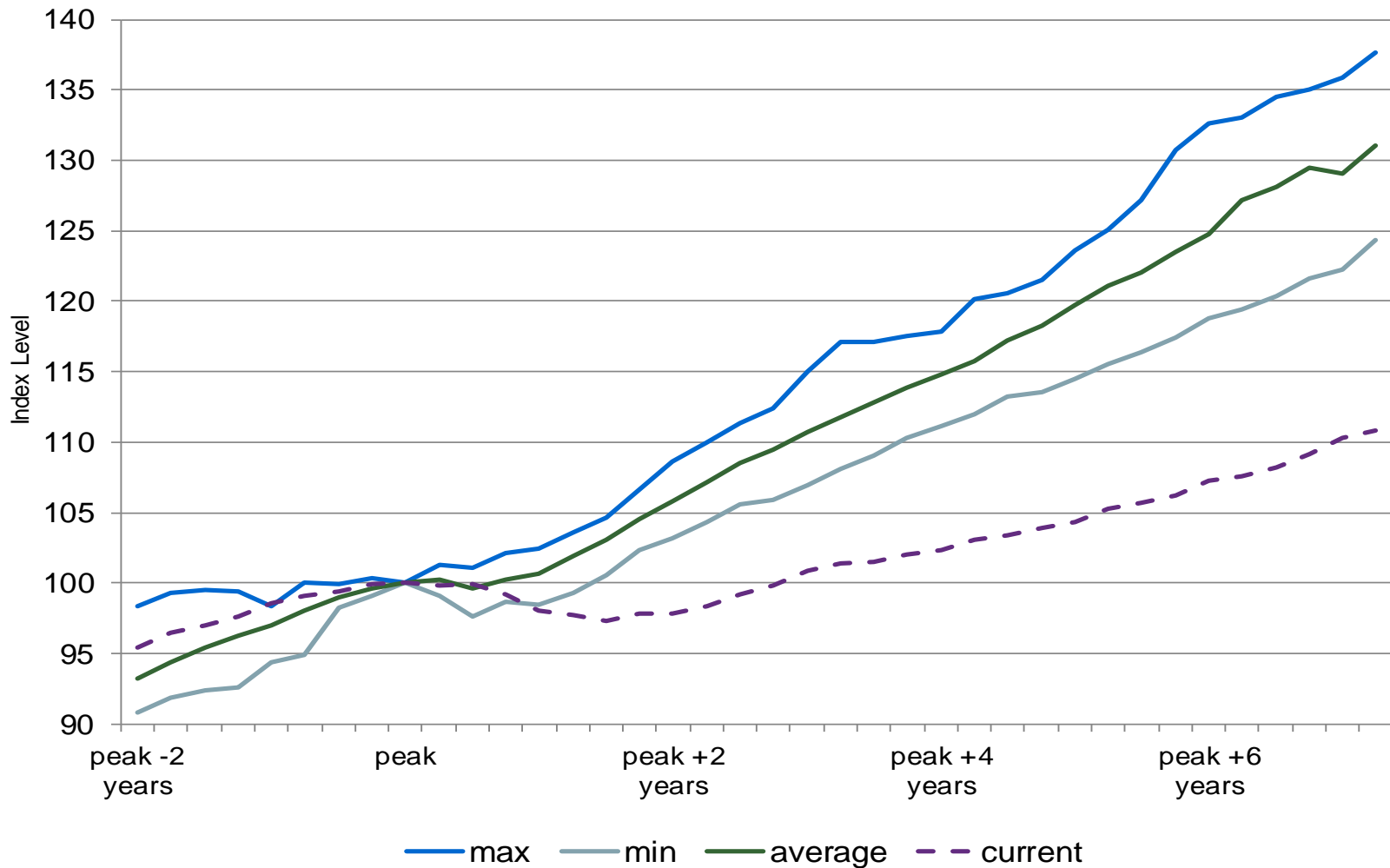
ISM Manufacturing and ISM Non-Manufacturing
1/31/2006 through 6/30/2015





Household Spending

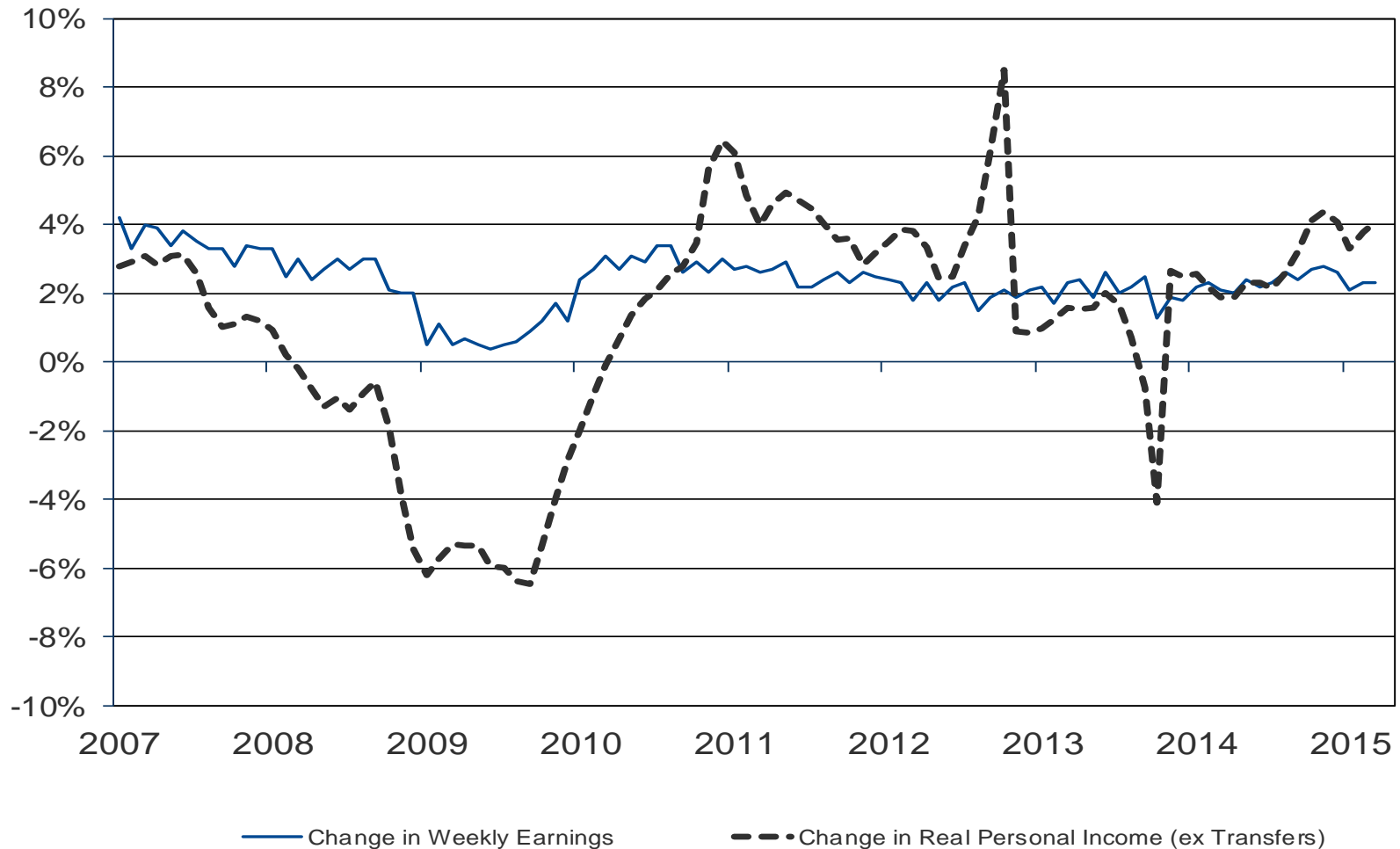
Real Personal Consumption in Post-WWII Recessions





Wages and Income

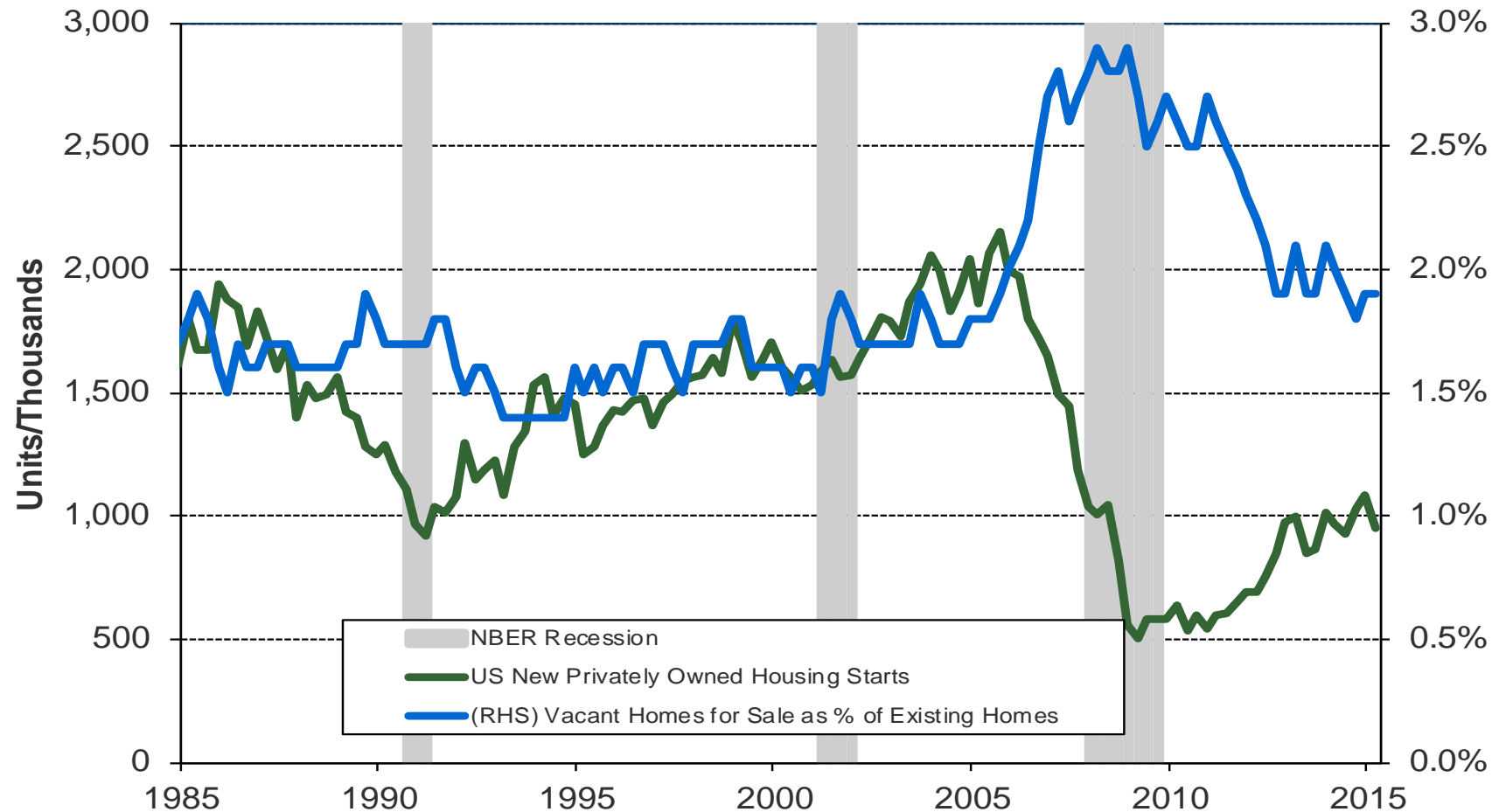
Change in Weekly Earnings and Personal Income
3/31/2007 through 5/31/2015





U.S. Housing Market

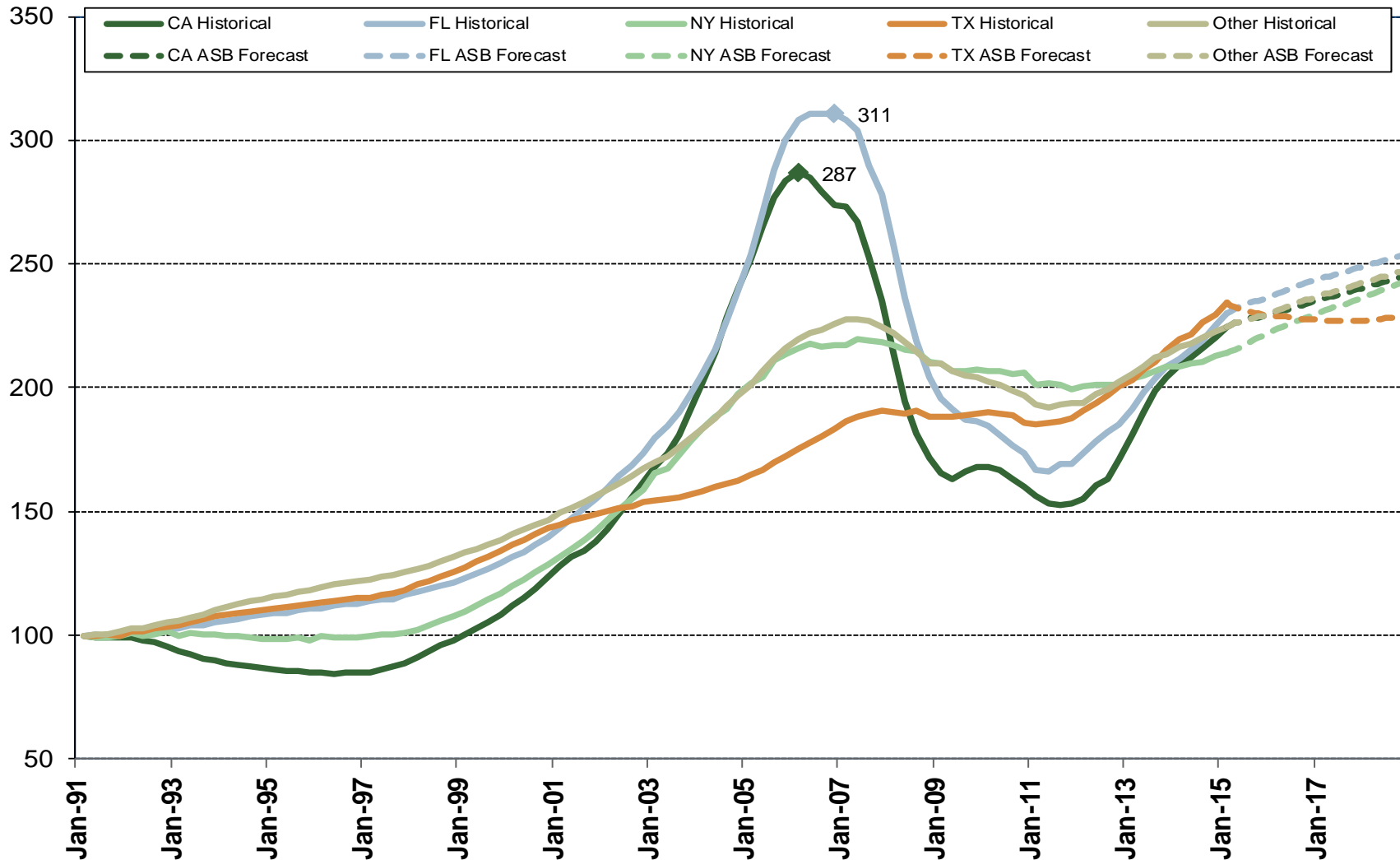
New Housing Starts and Vacant Homes for Sale
3/31/1985 through 3/31/2015





House Prices

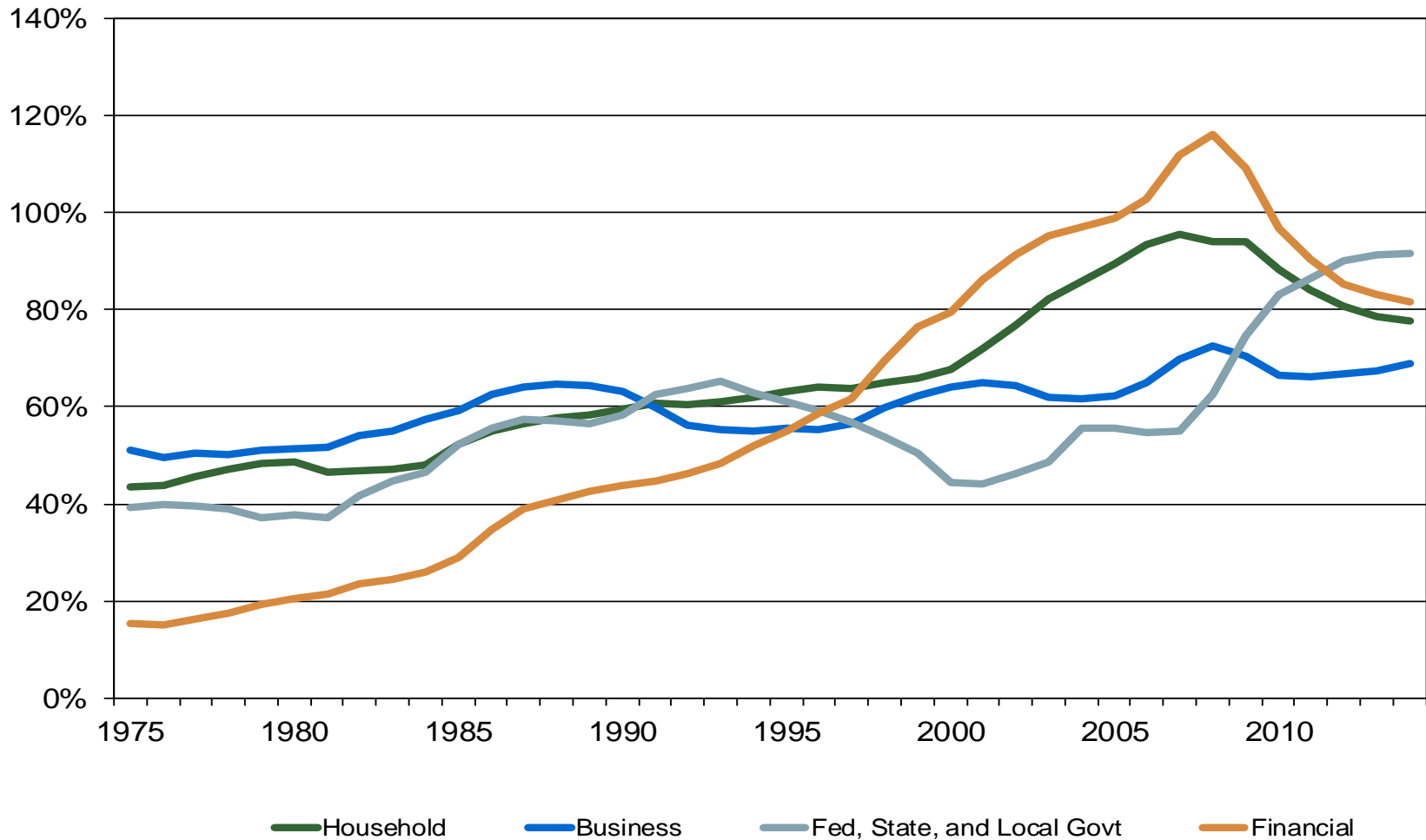
FHFA Purchase Only Home Price Indices by State (Seasonally Adjusted)





Debt by Sector

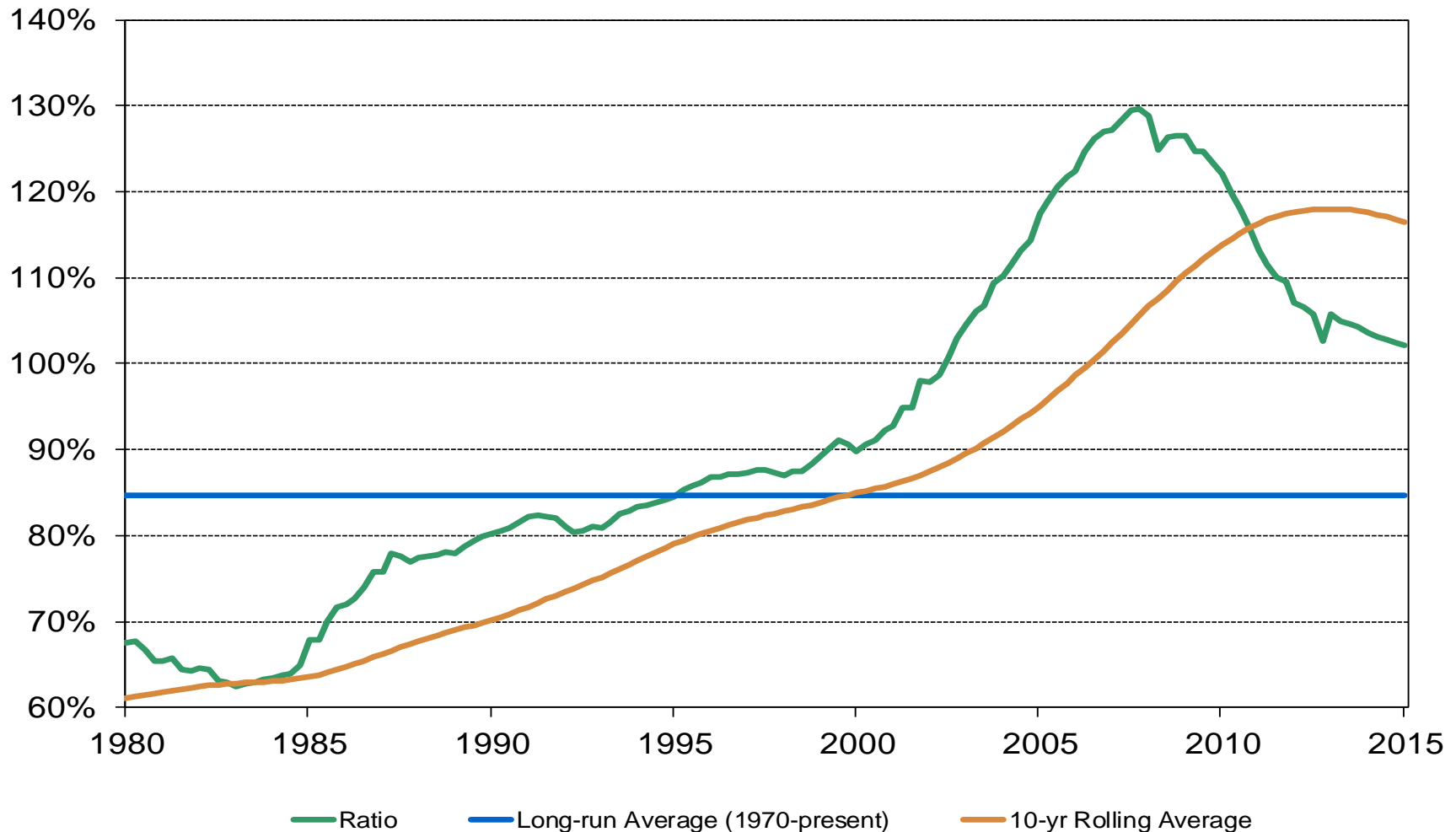
Total Debt as a % of GDP
1975 through 2014





Household Debt

Household Debt as % of Disposable Income
3/31/1980 through 3/31/2015





FOMC Decision

- So what will Fed do with short-term rates in 2015?
 - September, December, nothing...

