OppenheimerFunds®
The Right Way
to Invest

2016 Outlook: Modest Growth with Volatility Ahead, and Oh Yes, the Election

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Chief Economist

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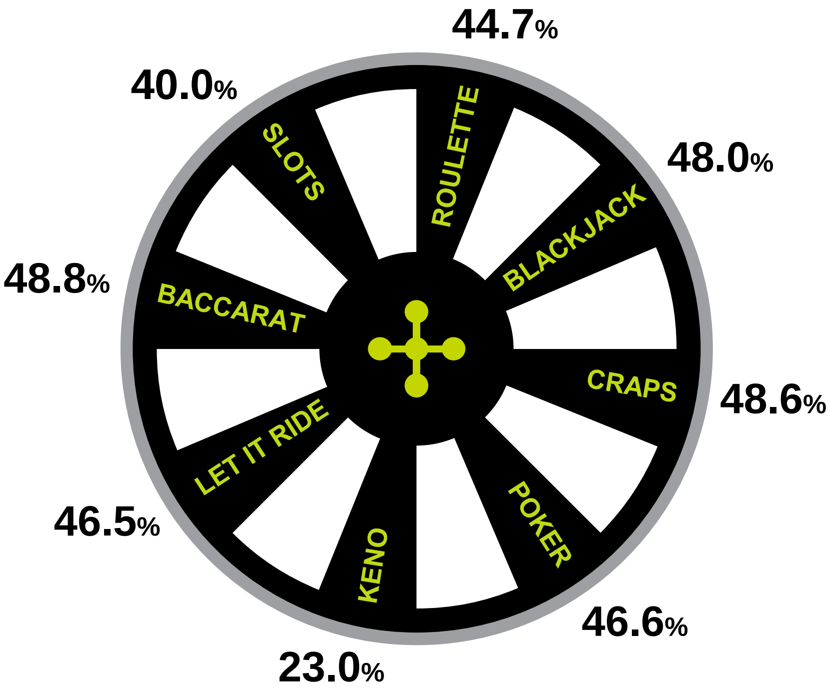
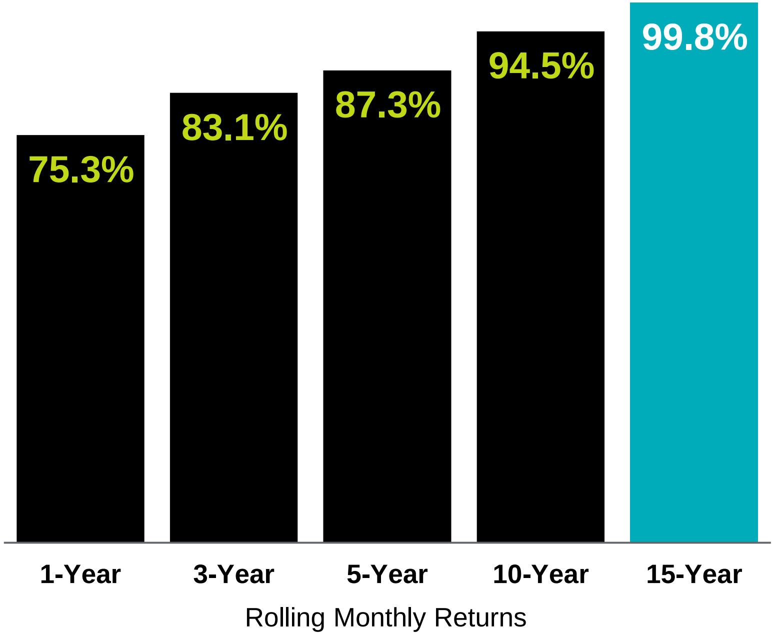
Is the Market Really Like a Casino?

Odds of Winning at Various Casino Games

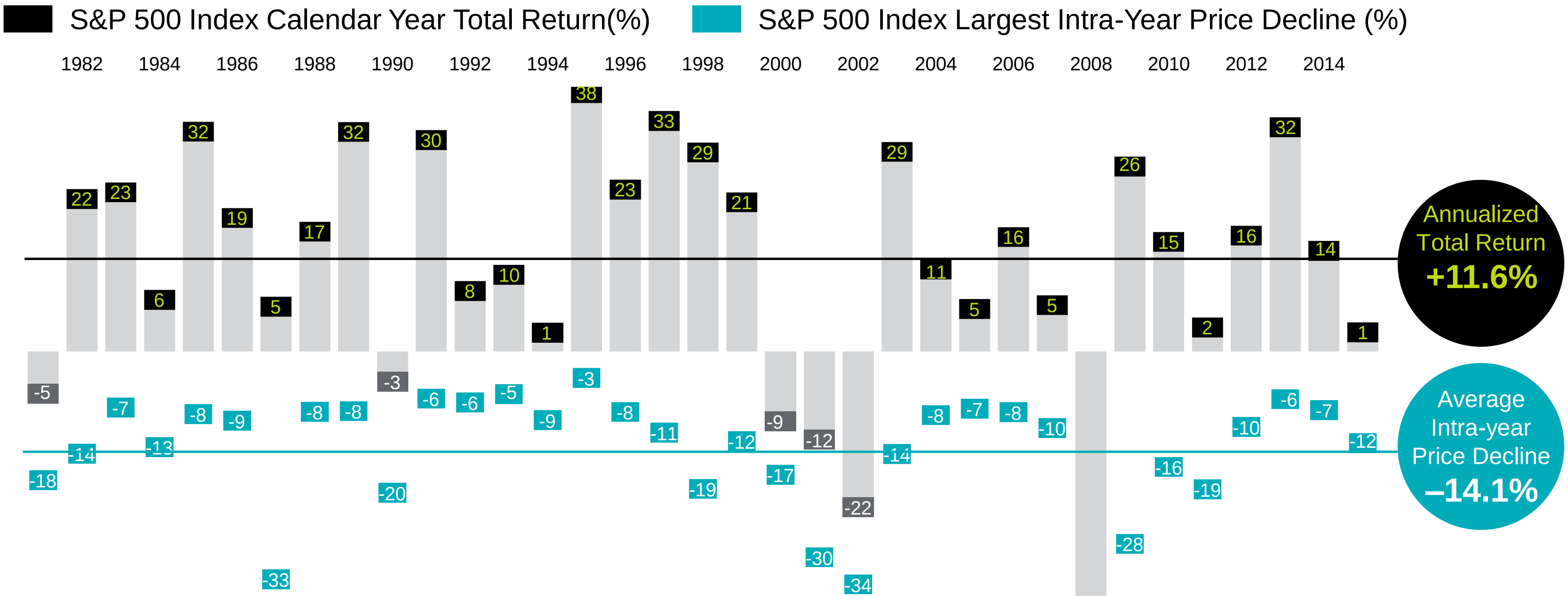


Percentage of Years U.S. Stocks Posted Positive Returns Over Rolling Periods (1926–2015)



Source: Morningstar Direct, 12/31/15. Chart is for illustrative purposes only and is not intended as investment advice. U.S. stocks are represented by the S&P 500 Index. Source of Casino odds: Wizard of Odds. The charts are hypothetical examples which are shown for illustrative purposes only and do not predict or depict the performance of any investment. Index definitions can be found on Page 31. **Past performance does not guarantee future results.**

Volatility Does Not Equal Loss Unless You Sell

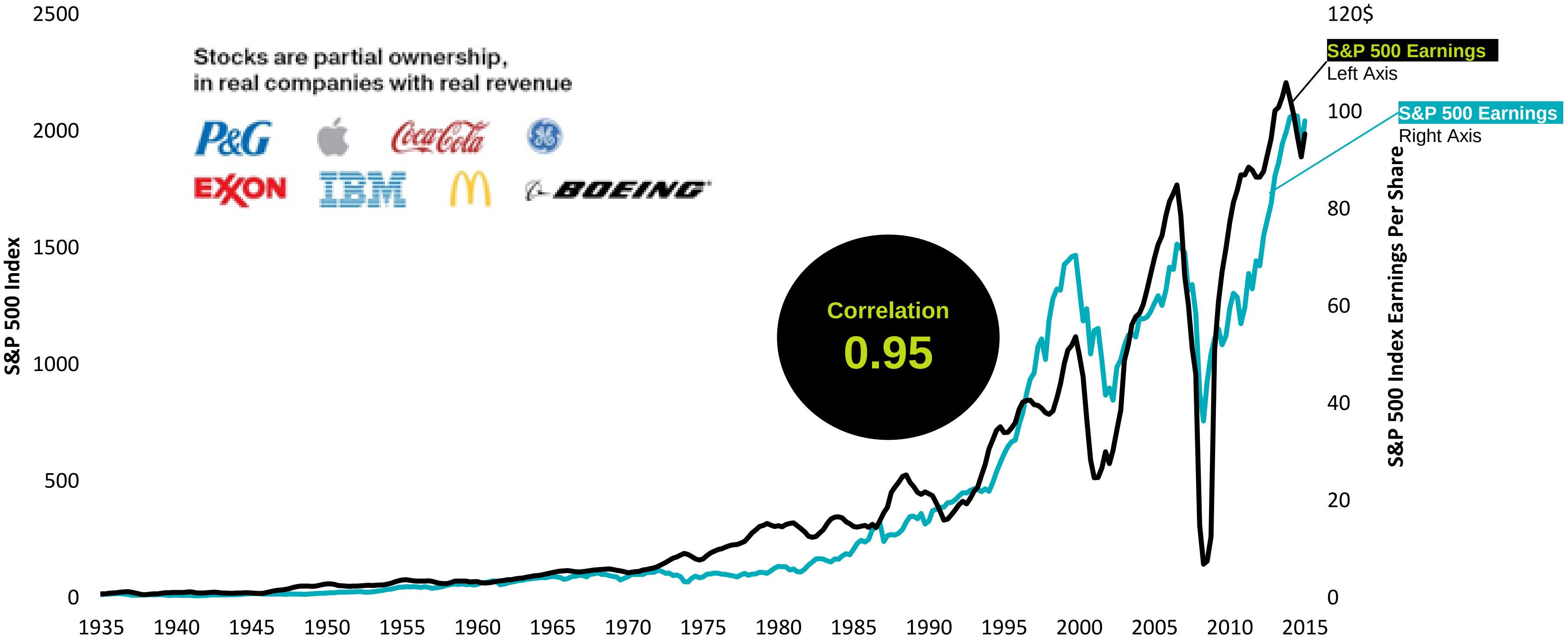


"I've lived through some terrible things in my life some of which have actually happened."

—Mark Twain

Source: Bloomberg, 12/31/15. Calendar year returns are price returns, meaning that they do not include the reinvestment of dividends. The index is unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Index definitions can be found on Page 31. **Past performance does not guarantee future results.**

Stocks Go Up Because Earnings Improve



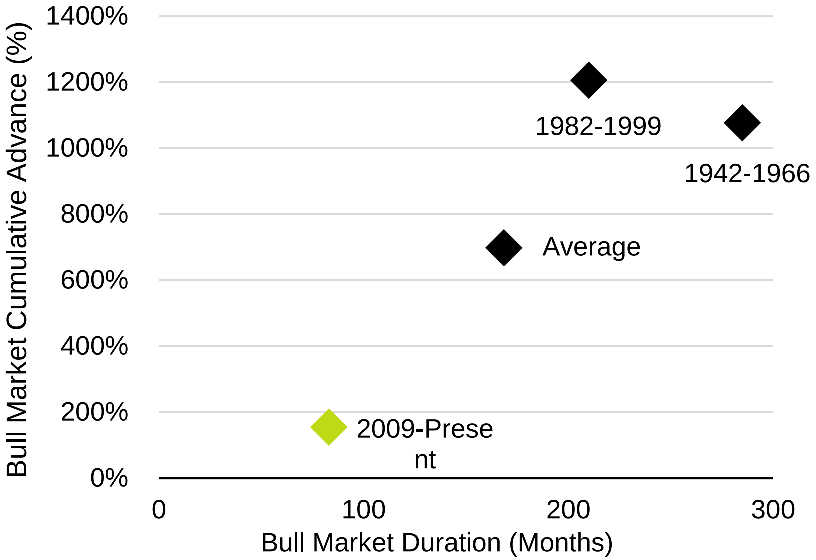
Source: Bloomberg, as of 12/31/15. Company logos are for illustrative purposes only and are not intended as investment advice. The mention of specific companies does not constitute a recommendation on behalf of any fund or OppenheimerFunds, Inc. Correlation expresses the strength of relationship between distribution of returns of two sets of data. The correlation coefficient is always between +1 (perfect positive correlation) and –1 (perfect negative correlation). A perfect correlation occurs when the two series being compared behave in exactly the same manner. Index definitions can be found on Page 31. **Past performance does not guarantee future results.**

Long-Term Views

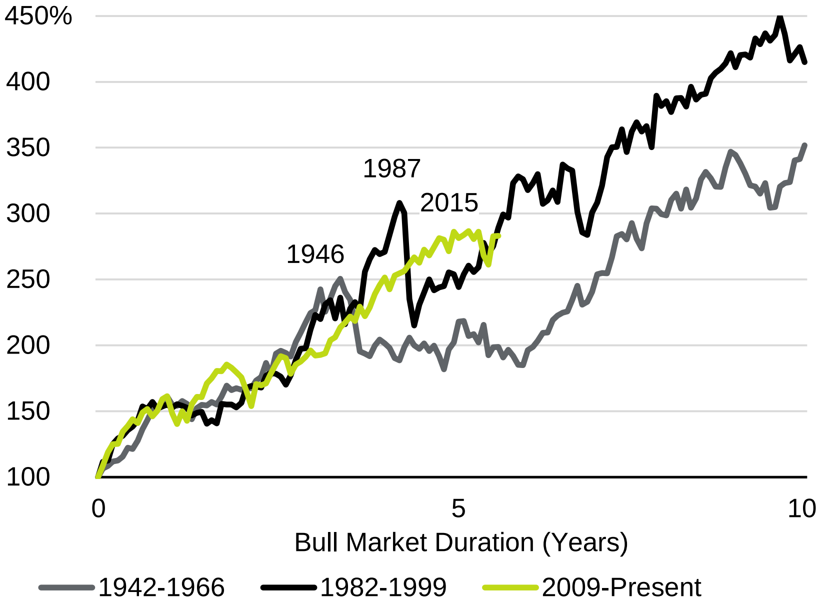
- The secular bull in developed markets is intact
- The next years won’t look like the last 5 years
- Rates (still) low for long
- Credit down, but not out
- The EM transition
- The election

The duration and magnitude of the current bull market pales in comparison to those of the past

Duration and Magnitude of Past Secular Bulls
S&P 500 Index



Growth of 100 from Start of Secular Bull Markets
S&P 500 Index



Source: Bloomberg, 12/31/15. Index definitions can be found on Page 31. **Past performance does not guarantee future results.**

U.S. recession unlikely, consumer doing better

University of Michigan Consumer Sentiment Index

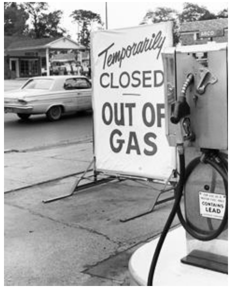
Average Hourly Earnings
+2% Y/Y

Gasoline Prices
Since April 2014
-46%

Home Prices
+5.5% Y/Y

Source: Bloomberg, University of Michigan, Bureau of Labor Statistics, American Automobile Association, S&P-Case/Shiller 20 City Home Price Index.

No signs of the excesses found at end of past cycles

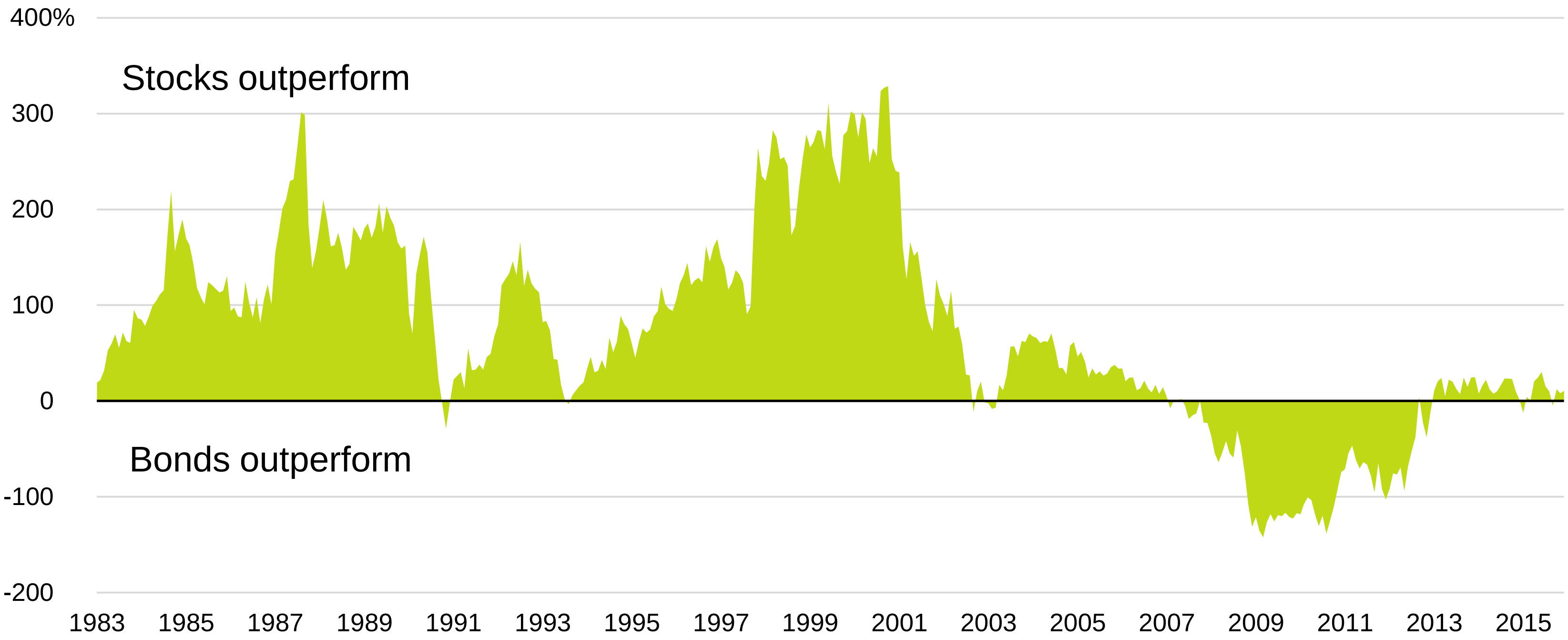




	1929	1980	2000	2008	Today
Bank Credit	20.9%	11.03%	10.97%	10.05%	7.4%
Inflation	1.2%	14.8%	3.7%	5.6%	0.2%
Valuation	20.2x	9.9x	30.4x	17.7x	17.1x
Household Debt as a % of Disposable Personal Income	51%	68.7%	97.8%	132.3%	104.4% and falling

Source: Robert Shiller, the Federal Reserve and Haver Analytics, 12/31/15. **Past performance does not guarantee future results.**

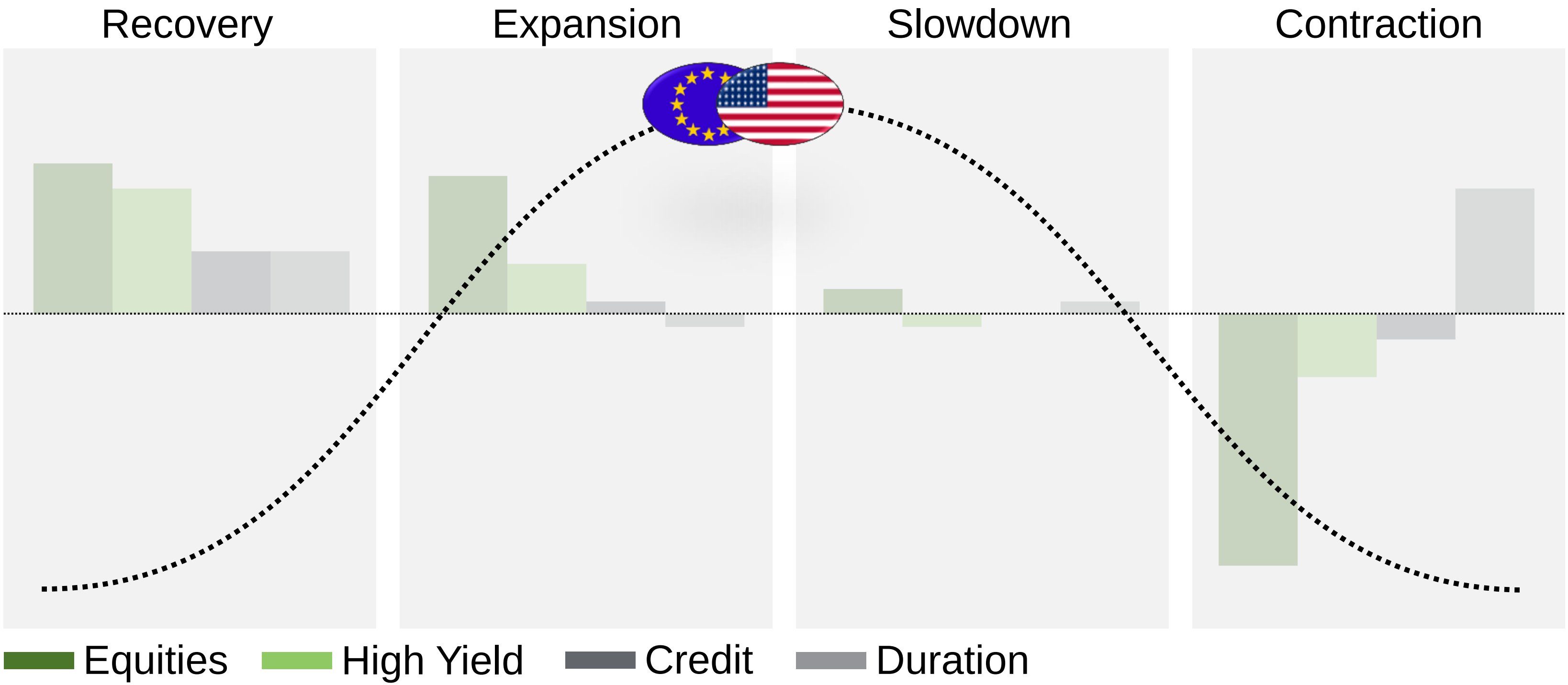
Few signs of equity market exuberance

S&P 500 10-Year Total Return Minus Barclays LT Treasury Bonds 10-Year Total Return



Source: Bloomberg, 12/31/15. Index definitions can be found on Page 31. **Past performance does not guarantee future results.**

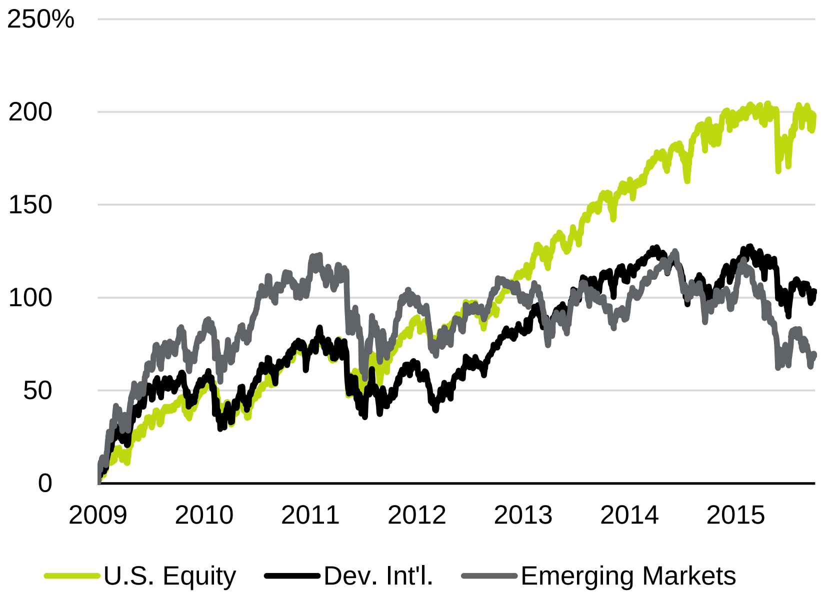
Expansion in Europe, U.S. teetering on Slowdown



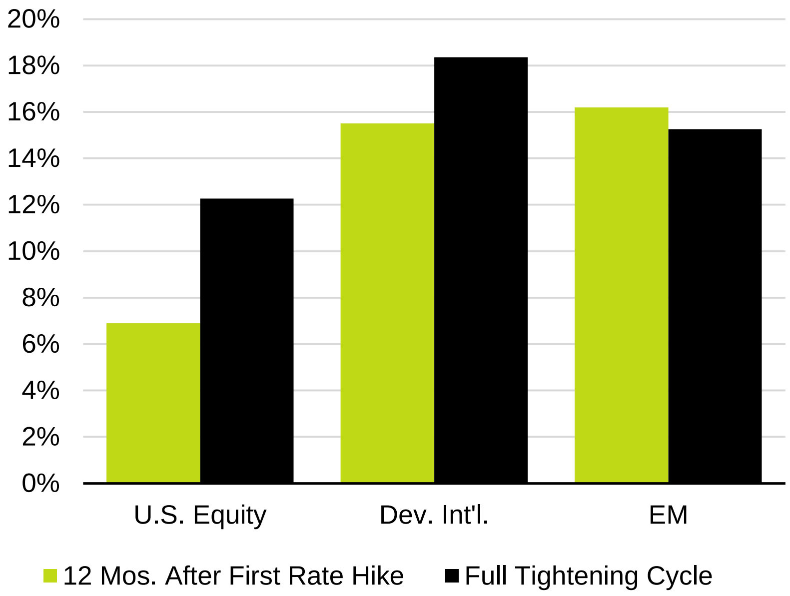
Source: OppenheimerFunds' proprietary research of the U.S. Business Cycle Leading Indicator, 12/31/15. Annualized monthly returns of the defined risk premia from January 1970 – December 2013. Risk Premia are defined as follows: US Equity Premium = S&P 500 - Citigroup US 7-10 YR Treasury. High Yield Premium = Citigroup High Yield Cash Pay BB Rated (7-10)YR - Citigroup USBIG Corp BBB Rated (7-10)YR. Credit Premium = Citigroup USBIG Corp BBB Rated - Citigroup US 7-10 YR Treasury. Duration Premium = Citigroup US 7-10 YR Treasury – Citigroup 90day T-Bill. Please see page 31 for index definitions. **Past performance does not guarantee future results.**

Prolonged bout of international underperformance unlikely to repeat

Index Total Returns



Equity Performance During Fed Tightening Cycles (1977-2004)

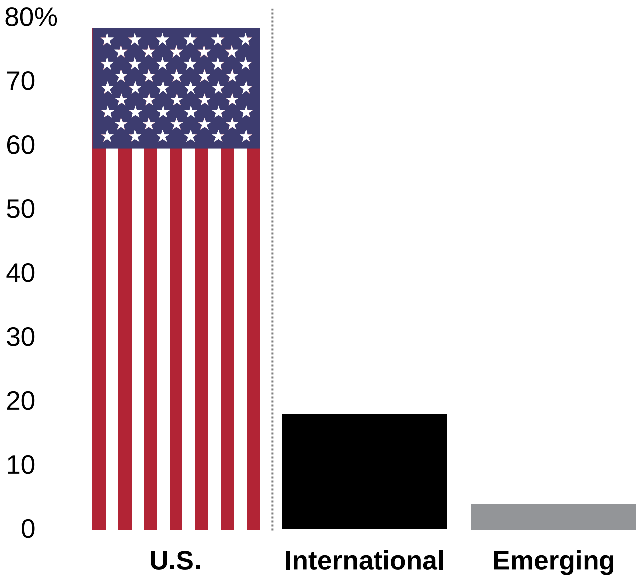


Source: Bloomberg 12/31/15 U.S. equity represented by S&P 500 Index, developed international represented by MSCI EAFE Index, emerging markets represented by MSCI EM Index. Index definitions can be found on Page 31. **Past performance does not guarantee future results.**

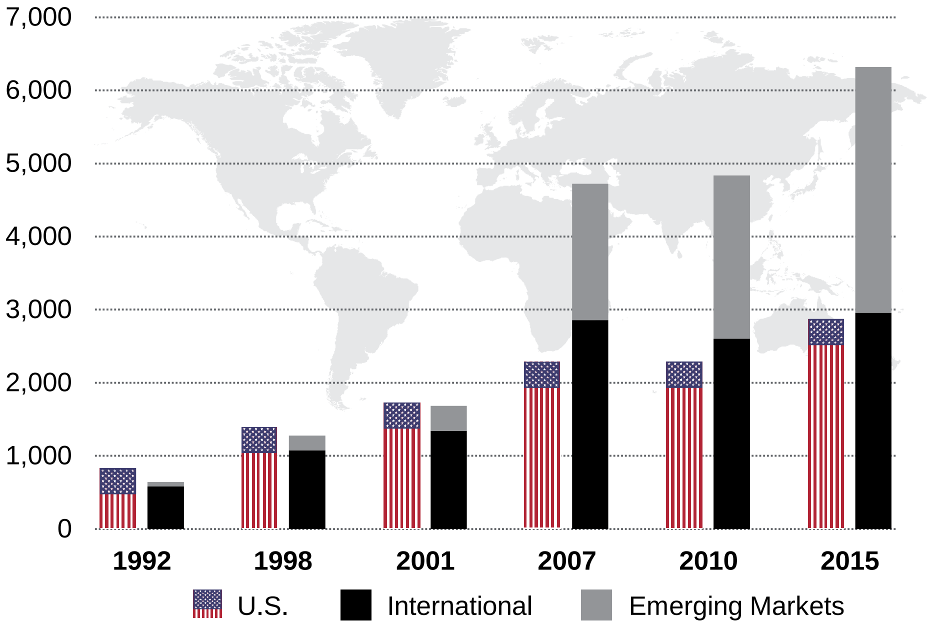
Imbalance: The Home Bias

Typical U.S. Investor Portfolio

Morningstar Equity Mutual Fund Assets by Category



Stocks with a Market Cap Over $1 Billion



Source: Morningstar, Bloomberg, 12/31/15. Does not include target date funds or funds of funds. Global funds are classified as international. Chart is for illustrative purposes only.

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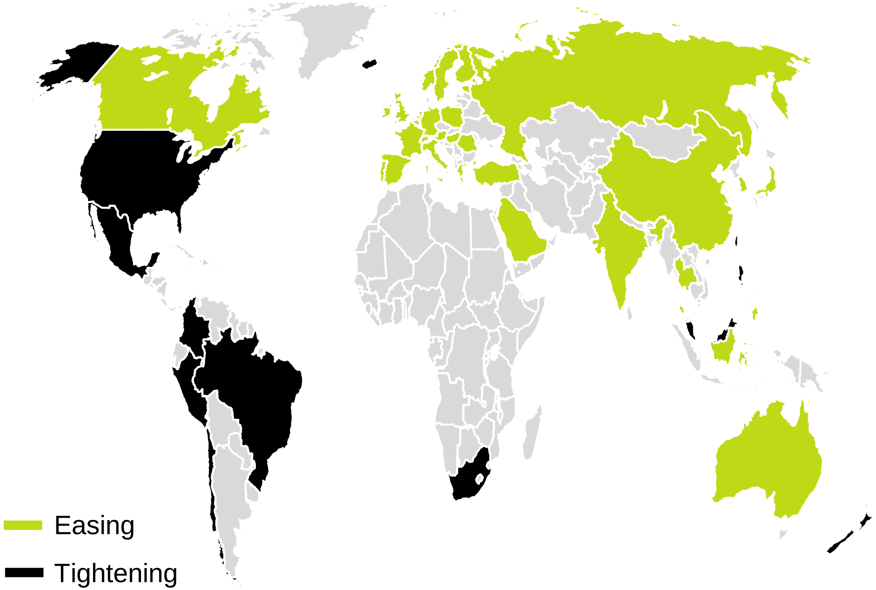
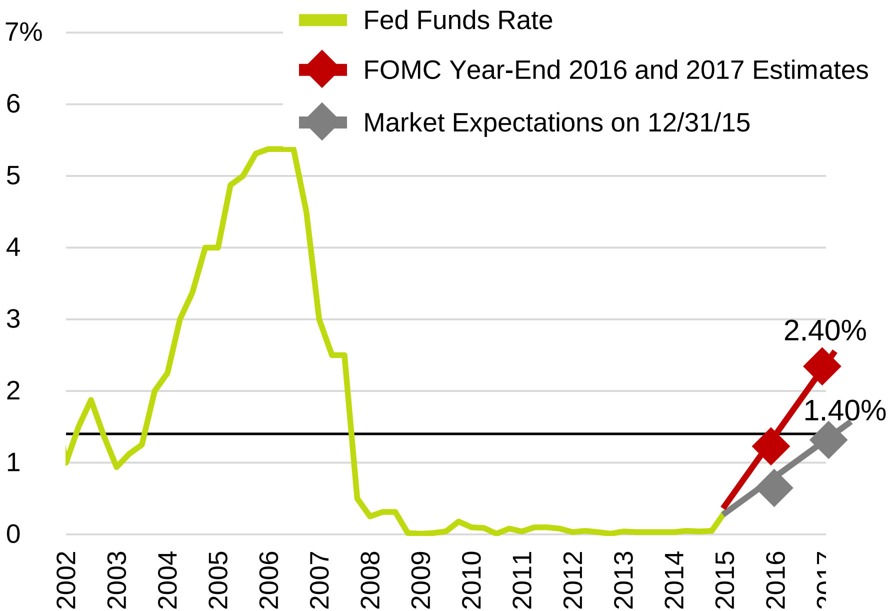
Diverging policy creates near-term volatility U.S. markets underestimating Fed moves?

Global central banks still accommodative

Central Bank Interest Rate Policy By Country: Last Rate Move



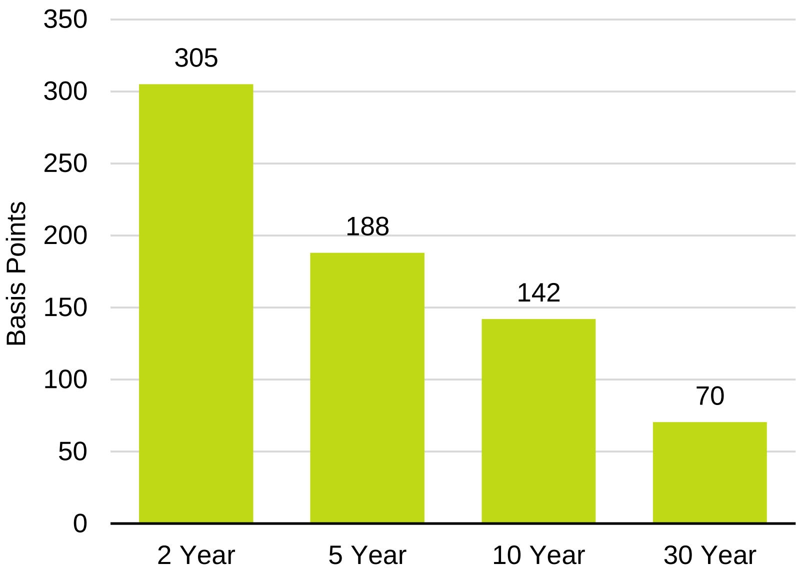
Fed Funds Rate and Market Expectation



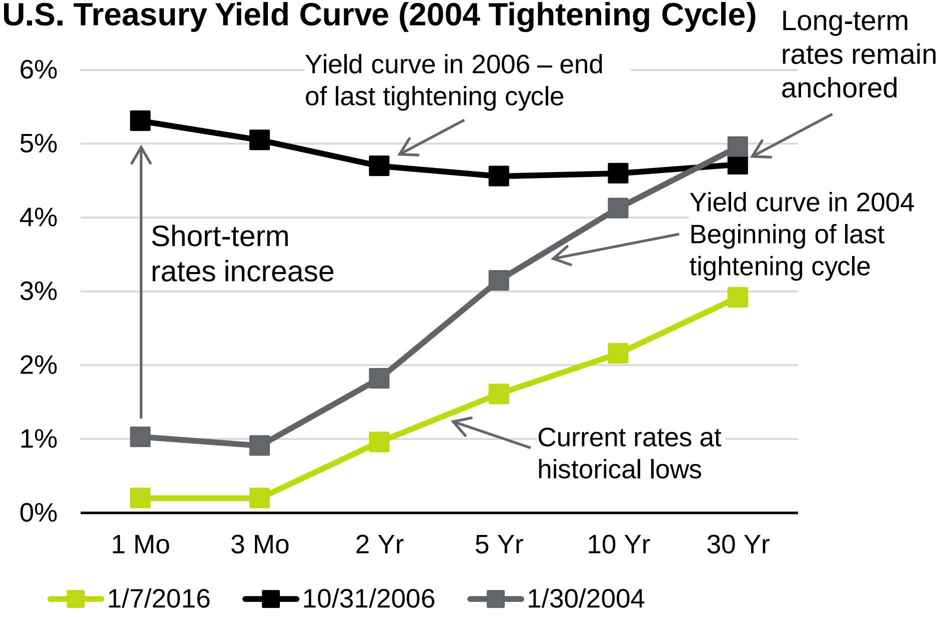
Source: Ned Davis Research, 12/31/15.

Long-Term Rates to Remain Anchored During Tightening Cycle

Average U.S. Treasury Yield Changes During Fed Rate Hike Cycles (Since 1965)



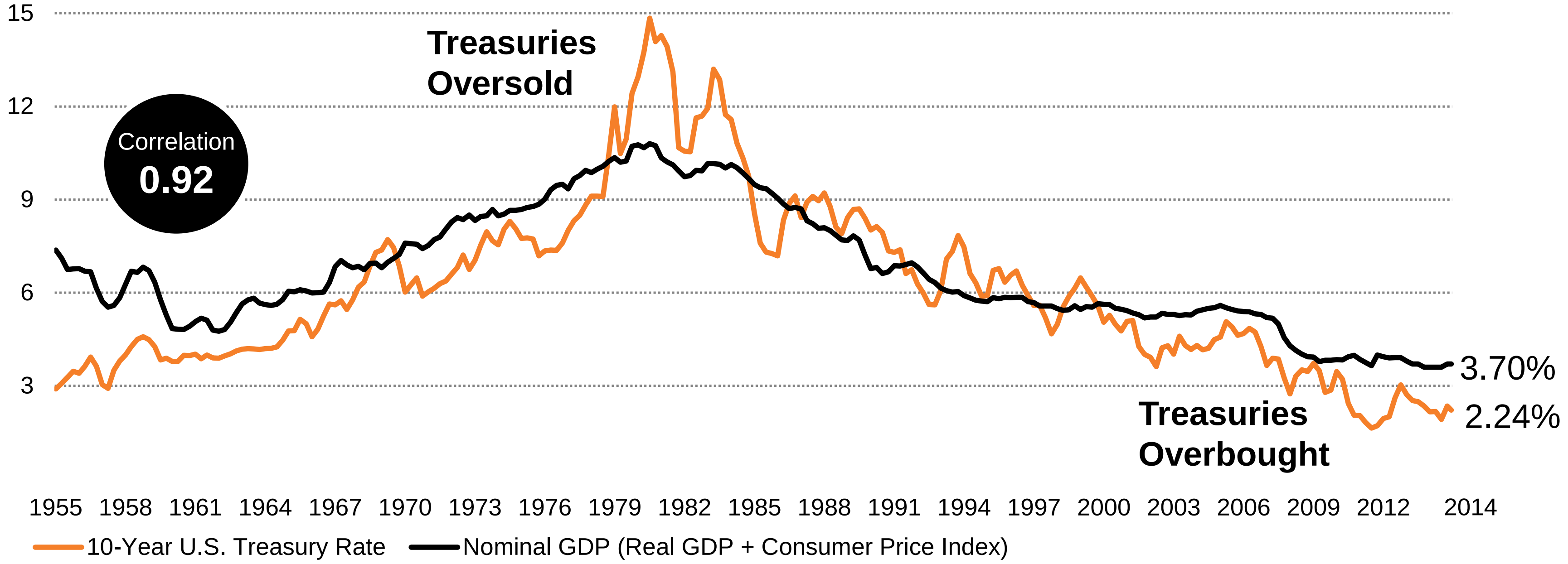
U.S. Treasury Yield Curve (2004 Tightening Cycle)



Source: Bloomberg. For illustrative purposes only. A yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The Treasury yield curve plotted above compares the one-day, three-month, two-year, five-year, ten-year, and 30-year U.S. Treasury date. Index definitions can be found on page 31. **Past performance does not guarantee future results.**

Interest Rates Likely to Stay Low for a Long Time

10-Year Treasury Rate and Nominal Gross Domestic Product (GDP) Y/Y Percent Change (10-Year Moving Average)



Sources: U.S. Bureau of Economic Analysis and Bloomberg, as of 12/31/15. Nominal GDP is smoothed over 10 years, and as of 6/30/15. Forecasts may not be achieved. GDP (gross domestic product) is the total value of all final goods and services produced in a country in a given year. Correlation expresses the strength of relationship between distribution of returns of two sets of data. The correlation coefficient is always between +1 (perfect positive correlation) and –1 (perfect negative correlation). A perfect correlation occurs when the two series being compared behave in exactly the same manner. Index definitions can be found on Page 35. **Past performance does not guarantee future results.**

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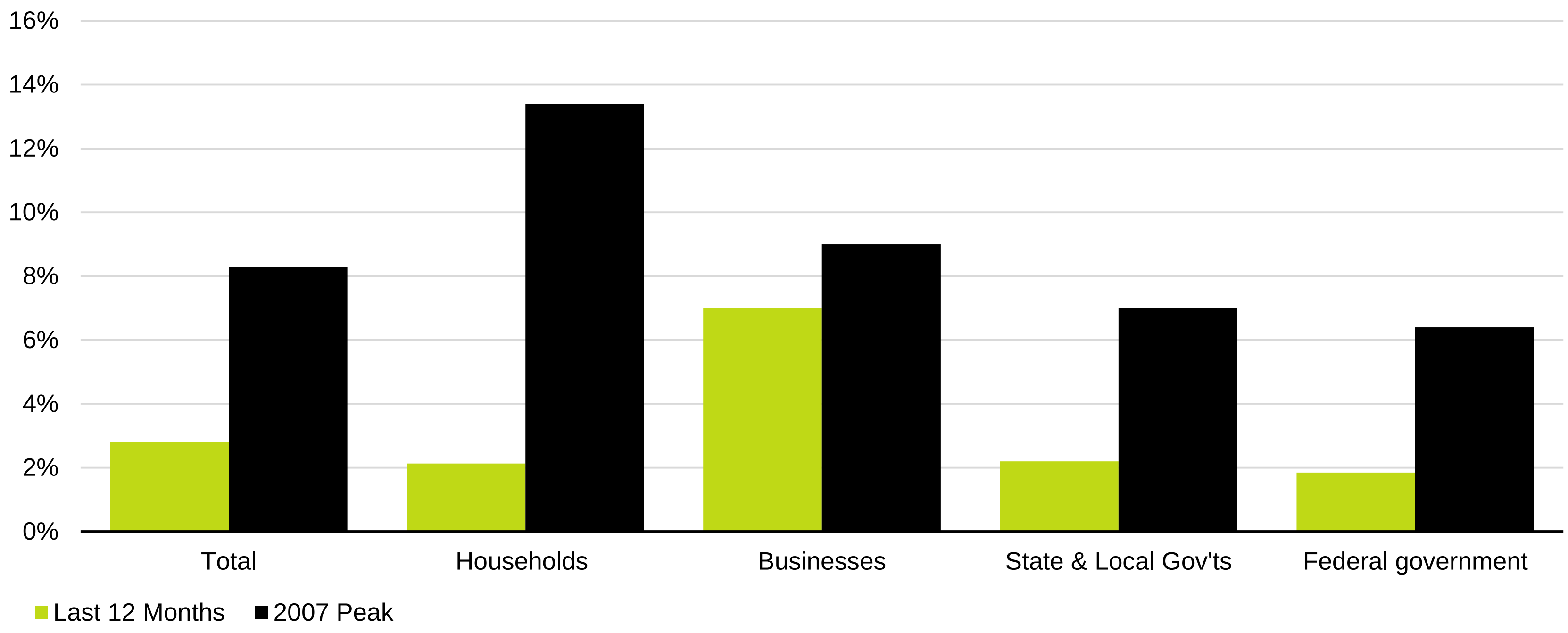
Credit growth not excessive

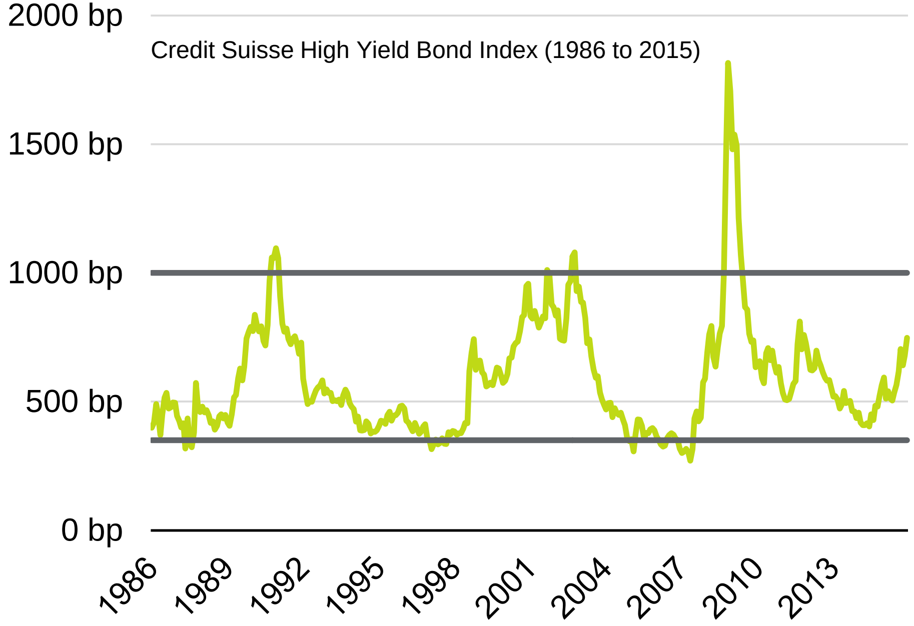
Growth of Domestic Non Financial Debt



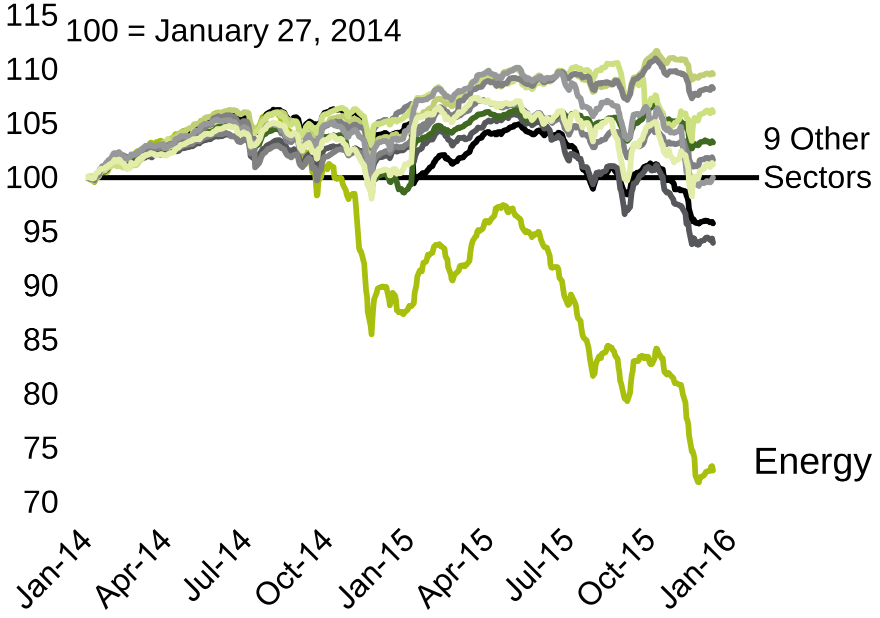
Source: Federal Reserve 9/30/15. Latest data available.

Credit a source of volatility but the cycle is not over

Spread of High Yield over Treasuries



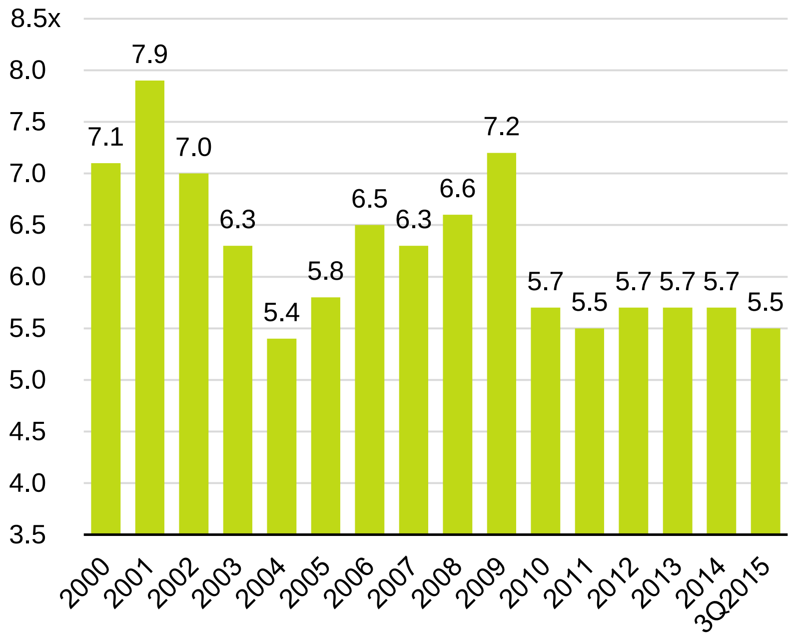
Barclays High Yield Bond Index Sector Performance 1/14 – 1/16



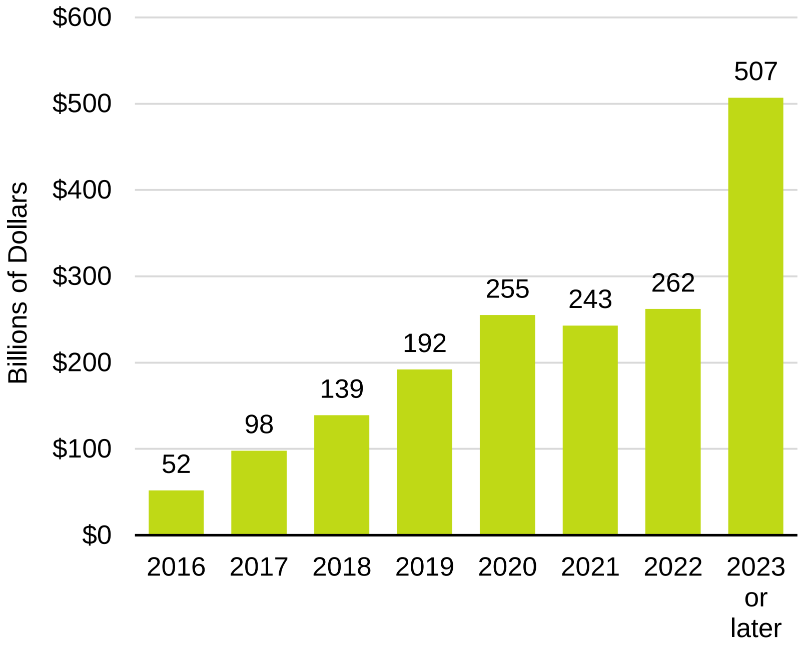
Source of chart data: Credit Suisse Research, 12/31/2015. The Credit Suisse High Yield Bond Index is designed to mirror the investable universe of the $US-denominated high yield debt market. The Credit Suisse Leveraged Loan Index is an unmanaged index that tracks the performance of senior floating rate bank loans. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any particular investment. Indices are unmanaged and cannot be purchased directly by investors. Index definitions can be found on page 27. **Past performance does not guarantee future results.**

Credit fundamentals still sound, no wall of maturities

Barclays U.S. High Yield Index
Weighted Average Leverage Ratio



JP Morgan High Yield Index Maturities by Year



Source: Bloomberg. For illustrative purposes only. A yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The Treasury yield curve plotted above compares the one-day, three-month, two-year, five-year, ten-year, and 30-year U.S. Treasury date. Index definitions can be found on Page 31. **Past performance does not guarantee future results.**

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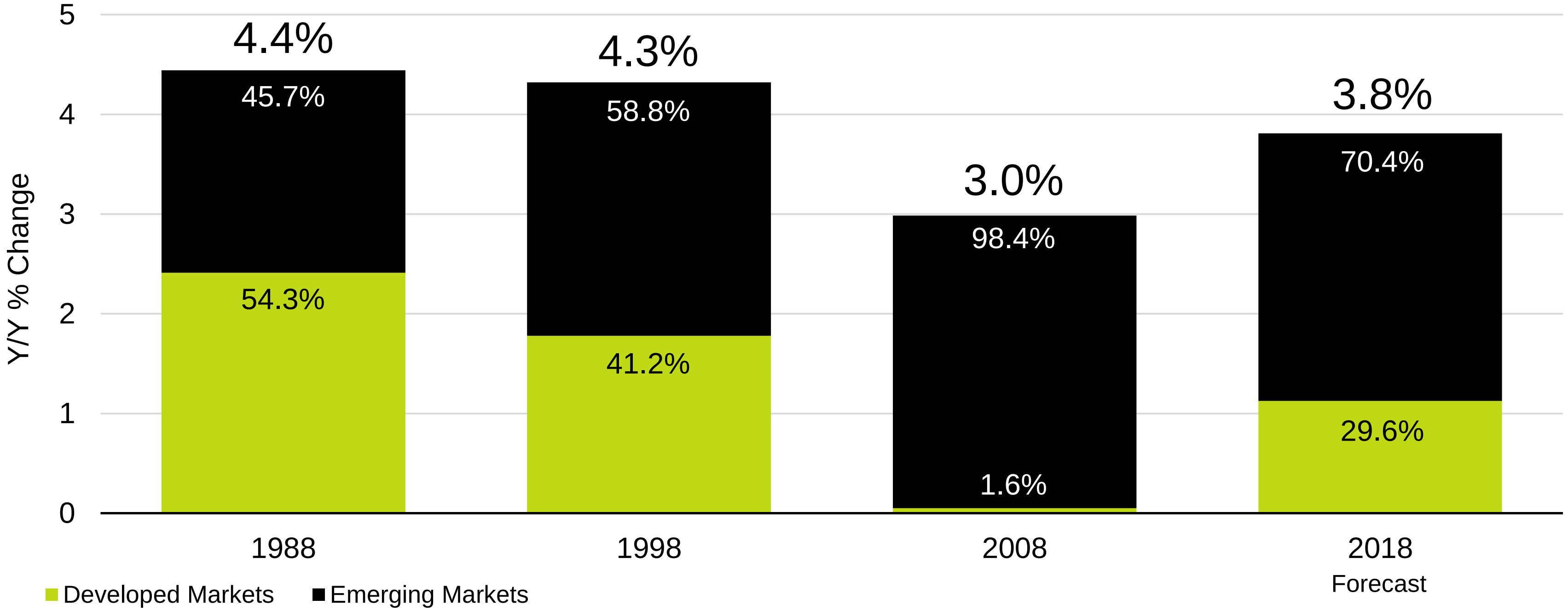
EM is Projected to be the Driver of Global Growth

EM Contribution to Global GDP Growth

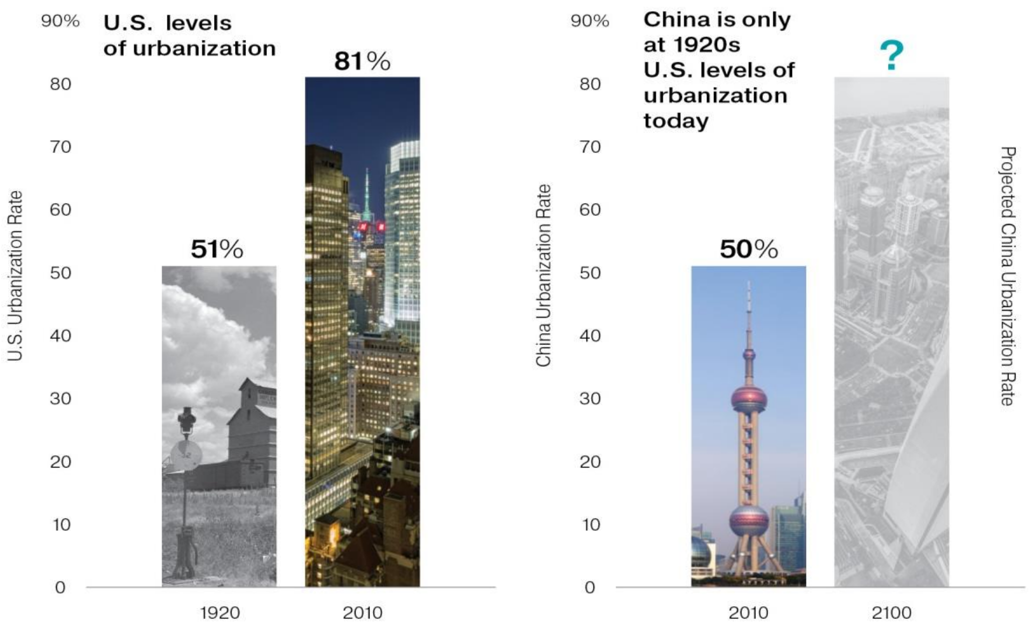


Source: Bloomberg and bank credit analyst (BCA), 12/31/15. Index definitions can be found on Page 31. **Past performance does not guarantee future results.**

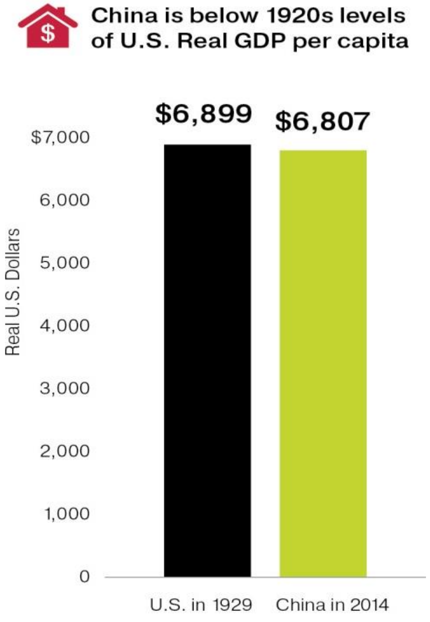
EM: The Long-Term Story

Is This 1929 in China? Not in the Way You Might Think.

Urbanization Rate by Decade, China vs. U.S.



Real GDP per Capita, China vs. U.S.



Source: U.S. Census Bureau and China National Bureau of Statistics. **Past performance does not guarantee future results.**

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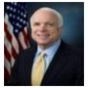
Economy Predicts Elections

Misery Index (Unemployment Rate + Inflation)
Up in Last Year of Term: Opposition Wins

	Misery Index Up or Down	Incumbent Party Candidate	Opposition Party Candidate	
1960	↑			✓
1968	↑			✓
1980	↑			✓
2000	↑			✓
2008	↑			✓

Exceptions

1976	↓			✓
1992	↓			✓

Misery Index (Unemployment Rate + Inflation)
Down in Last Year of Term: Incumbent Wins

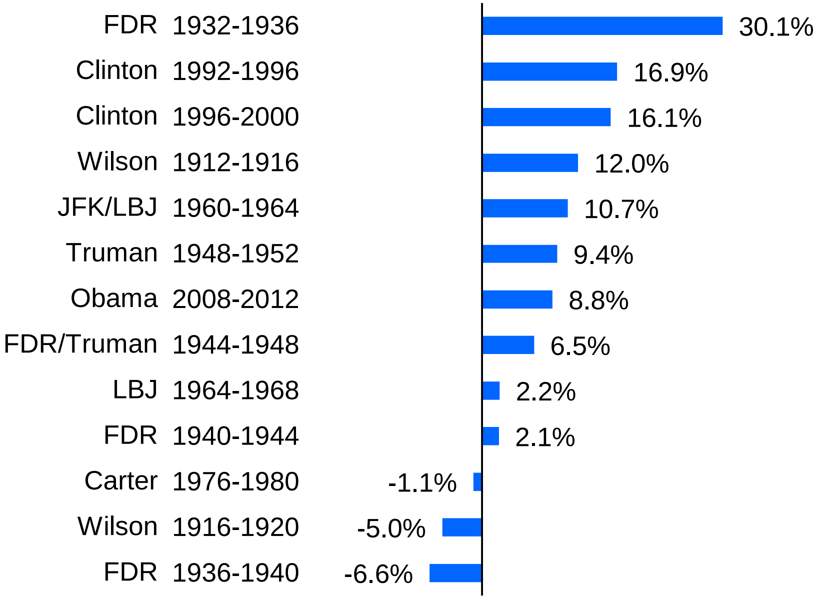
	Misery Index Up or Down	Incumbent Party Candidate	Opposition Party Candidate	
1964	Unchanged			✓
1972	↓			✓
1984	↓			✓
1988	↓			✓
1996	↓			✓
2004	↓			✓

Source: Bloomberg, 12/31/15

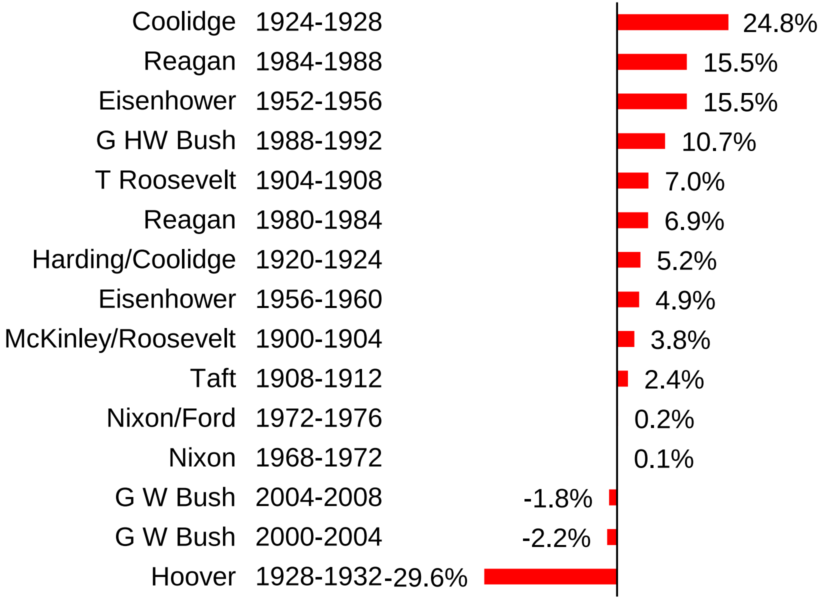
But Elections Don’t Predict markets

DJIA Annualized Return during each party’s 4 year terms since 1928

Democrats



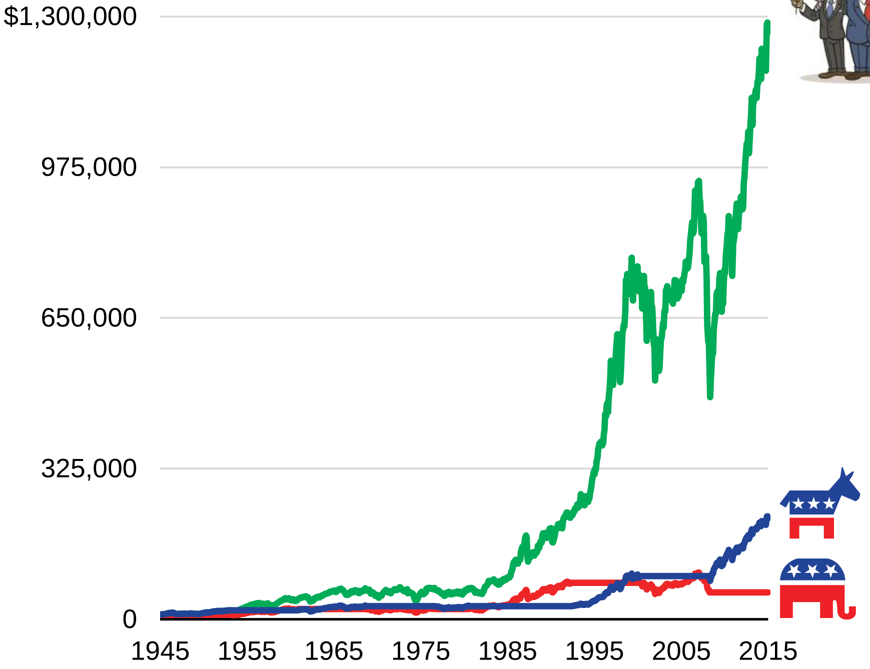
Republican



Source: Bloomberg, 12/31/15. Index definitions can be found on Page 31. **Past performance does not guarantee future results.**

Waiting for "Your Team" to Win Before You Invest?

Growth of $10,000 Since 1945 in the Dow

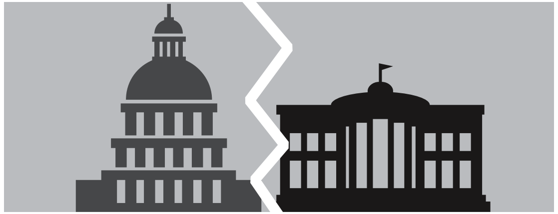


The Markets Actually Like Divided Government

Gains for Stocks (DJIA) 1901–2014

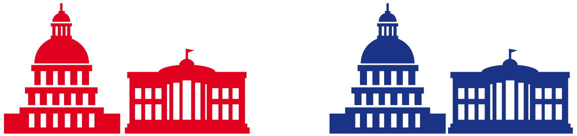
Divided Government

7.0% Annualized Returns



Unified Government

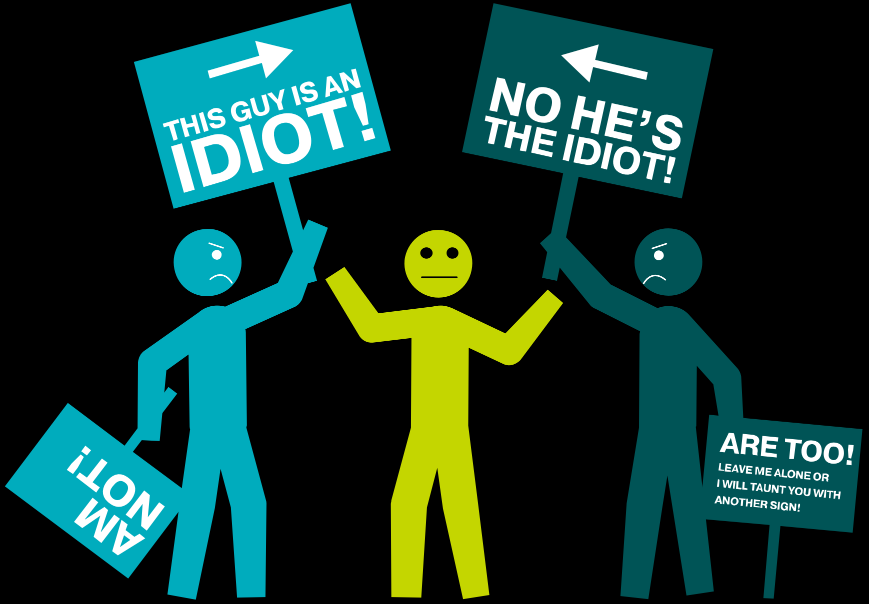
4.6% Annualized Returns



Source: Bloomberg, 12/31/15. Index definitions can be found on Page 31. **Past performance does not guarantee future results.**

Conclusion

Hating the Government Is Not an **Investment Strategy**



"Americans always do the right thing but only after exhausting all other options."
— Winston Churchill

Next Steps

1. Maintain a 3-5 year time horizon

- Credit cycle isn't over
- Interest rates to remain low for long
- Stocks more attractive than most other asset classes

2. Be more tactical

- Defend against market volatility and drawdowns
- Volatility will create dislocations
- Regional opportunities will present themselves

Index Definitions

The S&P 500 Index is a market capitalization weighted index of the 500 largest domestic U.S. Stocks.

The Barclays Long Term Bond Index is an index of U.S. Government bonds that includes reinvestment of dividends.

The Credit Suisse High Yield Bond Index covers the universe of fixed rate, non-investment grade debt.

The MSCI Emerging Market Index is a free-float weighted equity index designed to measure the equity market performance of the emerging markets.

The MSCI EAFE Index is designed to measure developed market equity performance, excluding the U.S. and Canada.

GMAG Risk Premia:

1. US Duration Premium: US Treasuries 10Yr – US T-bills 3-month. For the 10Yr Treasuries, Citigroup UST 10Yr total return index is used from 1980 onward. Prior to 1980, history is backfilled with estimated total returns using 10Yr yields from Bloomberg between 1970 and 1980.

2. US High Yield Premium: US High Yield – US Investment Grade Credit, using the Credit Suisse US High Yield Index and the Barclays US Aggregate Credit Index.

3. US Credit Premium: US Investment Grade – US Treasuries, using the Barclays Capital US Aggregate Credit excess return index from 1988 onward. Prior to 1988, we backfill the excess returns using the Barclays Capital US Aggregate Credit Total Return Index minus estimated duration-equivalent US Treasury total returns.

4. US Equity Premium: MSCI US Total Return index – US Treasuries 10Yr.

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Disclosures

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