TIAA-CREF Asset Management

2016 Economic and Investment Outlook: Modest global growth and market returns

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Executive summary

- In the U.S., economic growth should increase slightly, from an estimated 2.5% in 2015 to 2.6% in 2016, with rising employment, wage growth and consumer spending countered by lagging capital investment and manufacturing.
- U.S. equity markets have potential for modest returns in low single digits, with bouts of volatility as interest rates move higher. We favor economically sensitive sectors, such as industrials, materials and consumer-oriented stocks.
- European equities could outperform U.S. stocks based on more attractive valuations and potential earnings growth. China's continuing slowdown suggests a selective approach to emerging markets.
- We expect U.S. investment-grade bonds to offer modestly positive returns, while opportunities in high-yield bonds are more likely to be found in higher-quality issues.

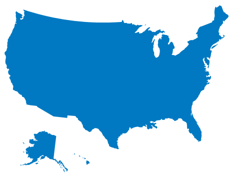
Asset class preferences

Equities ↔	**Fixed income ↔**
U.S. equities ↓	U.S. Treasuries ↓
Non-U.S. developed markets ↑	Corporate bonds ↑
Emerging markets ↑	High-Yield bonds ↑
	Emerging markets ↔

Data as of December 31, 2015. ↑ = overweight; ↓ = underweight. Please note the forecasts above concern asset classes only, and do not reflect the experience of any product or service offered by TIAA-CREF. These forecasts are for informational purposes only and should not be considered investment advice or constitute a recommendation to purchase or sell securities. Market forecasts are subject to uncertainty and may change based on varying market conditions, political and economic developments. Past performance is not an indicator of future results.

TIAA CREF
Financial Services

United States



Economy

The U.S. recovery should continue at a modest pace. Rising employment, wages and consumer spending will be offset by lagging capital investment and manufacturing.

Stocks

U.S. stock valuations are near their historical averages and are not overvalued, in our view. We see the potential for low single-digit returns, with opportunities in the industrials, materials, and consumer discretionary sectors.

Bonds

U.S. investment-grade, intermediate-term bonds may offer modestly positive total returns as yields rise. High yield overall may be choppy, although select higher-quality BB and B rated bonds may offer attractive opportunities.

Non-U.S. developed markets

Eurozone and Japan

Economy

The eurozone recovery should continue, aided by the central bank's stimulus program, but economic reform is vital to stronger sustainable growth. In Japan, further reforms are key to bolstering the fragile economy.

Stocks

European stocks are expected to outperform the U.S. market, based on more attractive valuations and earnings growth potential. Japanese stocks should benefit if the yen remains weak and interest rates remain low.

Bonds

Interest rates abroad will remain low compared to the U.S., with European bond yields remaining fairly stable. Longer-term Japanese government bonds are likely to outperform eurozone government issues.

Emerging markets

China

Economy

China's economic slowdown is expected to continue, with growth dropping to 6.7% in 2016. Emerging markets generally will remain sluggish due to low oil and commodity prices and a strong dollar.

Stocks

EM stocks dropped sharply in 2015, exacerbated by local currency declines. Stronger markets, including Korea, Taiwan and Mexico, may hold opportunities in 2016. Prudent stock selection is essential across the asset class.

Bonds

EM debt has also struggled but may see some improvement over 2015. With varying conditions across countries and regions, caution and a highly selective approach are critical.

Learn more.

For in-depth analysis, please see our full 2016 Investment Outlook.

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