

Economic Outlook

Fundamentals Still Matter

Presentation to the AFWA

11/7/19

Mark Fleck, CFA

Markets

Year to date and historical performance of various asset classes

	YTD	1 year	Annualized Total Returns		
			3 year	Since Trough*	Since Peak*
Domestic Equities					
S&P 500	19.94	14.02	14.41	13.14	8.58
Dow Jones Ind. Avg.	17.81	10.53	16.79	13.14	8.96
NASDAQ Comp	25.29	13.90	17.26	15.57	11.41
Russell 2000 (IWM)	16.89	5.33	10.06	11.51	7.54
International Equities					
Shanghai Composite (CIN)	20.81	21.17	2.31	NA	NA
Hedged Japan (DXJ)	14.85	3.02	8.20	5.77	3.14
Hedged Europe (HEDJ)	22.85	18.00	10.00	NA	NA
Asia Pacific ex. Japan (EPP)	14.93	16.74	7.57	6.23	3.51
Emerging Markets (EEM)	10.15	11.62	6.26	3.58	1.75
Brazil (EWZ)	18.43	17.77	8.05	0.31	0.58
Canada (EWC)	21.76	12.52	6.45	3.84	1.81
India (EPI)	-1.97	10.57	4.28	3.26	NA
Mexico (EWW)	10.91	0.12	-2.61	2.31	-0.08
Bonds					
Long Treasuries (TLT)	16.09	24.29	3.97	6.36	6.88
Inv. Grade Corporates (LQD)	15.73	16.93	4.88	5.56	5.81
High Yield Corporates (HYG)	12.06	8.94	5.31	6.82	5.71
Commodities					
Gold (GLD)	17.00	21.87	5.31	3.59	6.09
Silver (SLV)	16.32	22.93	0.20	0.59	2.54

*Stock market trough at 03/09/2009. Stock market peak at 10/09/2007. YTD through 10/27/2019

Source: Thomson Reuters Datastream

Year to date and historical performance equity sectors

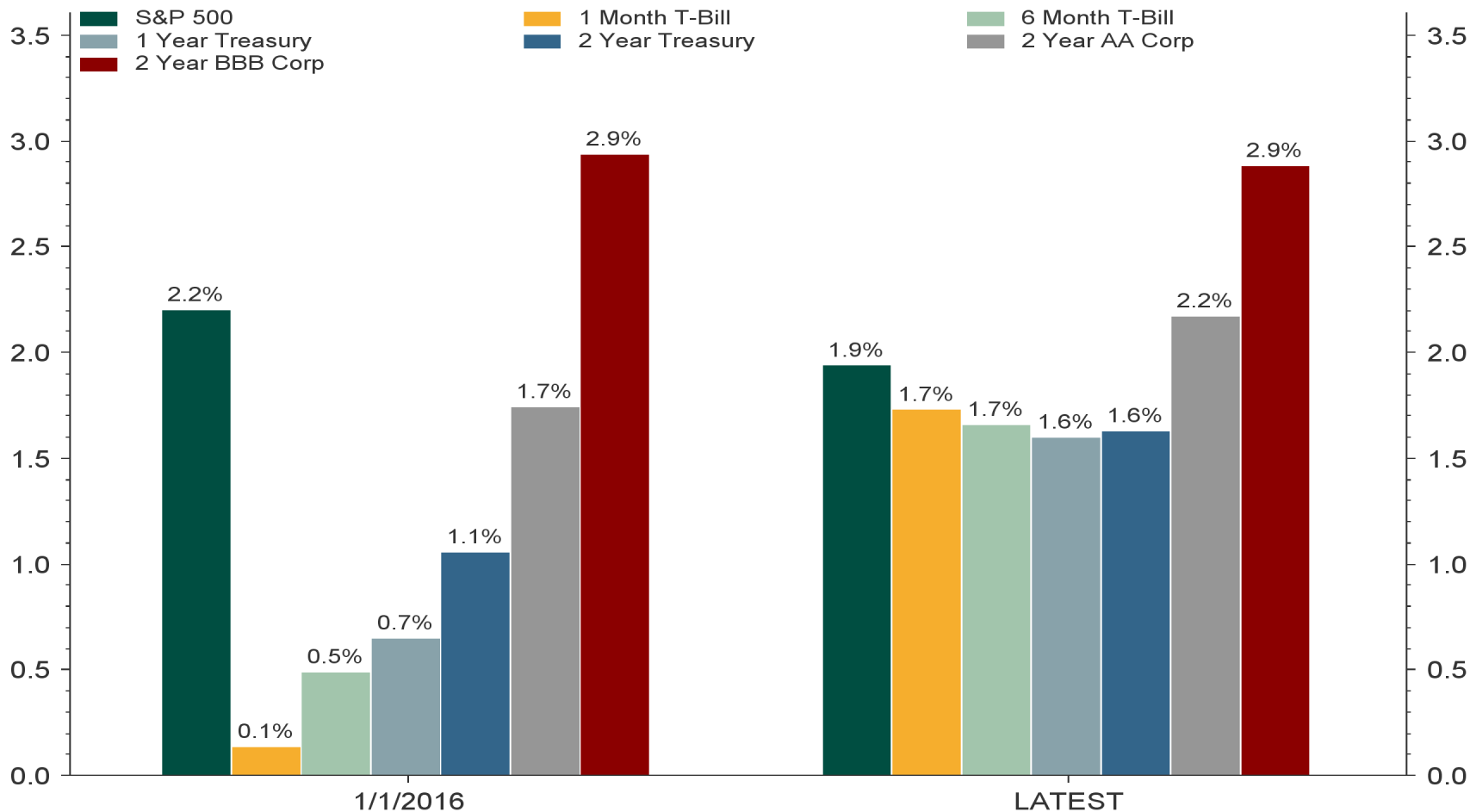
Domestic Equity Sectors	YTD	1 year	Annualized Total Returns		
			3 year	Since Trough*	Since Peak*
Domestic Equities					
Consumer Discretionary	24.22	15.06	15.58	16.36	11.66
Retail (XRT)	9.59	-3.80	2.69	11.44	8.88
Consumer Staples	20.18	12.12	6.87	11.28	9.05
Energy	5.31	-10.97	-3.09	2.44	-0.58
Oil & Gas Exploration (XOP)	-16.90	-39.16	-15.16	-3.23	-4.76
Financial Services	22.79	15.45	13.87	10.58	4.33
Regional Banks (KRE)	18.29	6.88	9.81	11.60	4.14
Health Care	8.68	5.50	12.59	14.26	11.29
Industrials	25.95	16.66	13.78	14.08	8.16
Materials	19.82	16.29	9.74	9.55	6.33
Technology	32.44	19.50	22.70	16.52	12.41
Telecom	22.95	17.73	9.14	10.63	5.59
Utilities	23.07	20.79	13.62	12.01	8.37
Transportation (IYT)	19.42	8.95	11.90	11.91	8.56
Real Estate	28.66	22.86	10.70	13.70	7.33

*Stock market trough at 03/09/2009. Stock market peak at 10/09/2007. YTD through 10/27/2019

Source: Thomson Reuters Datastream

Options for Income Investors

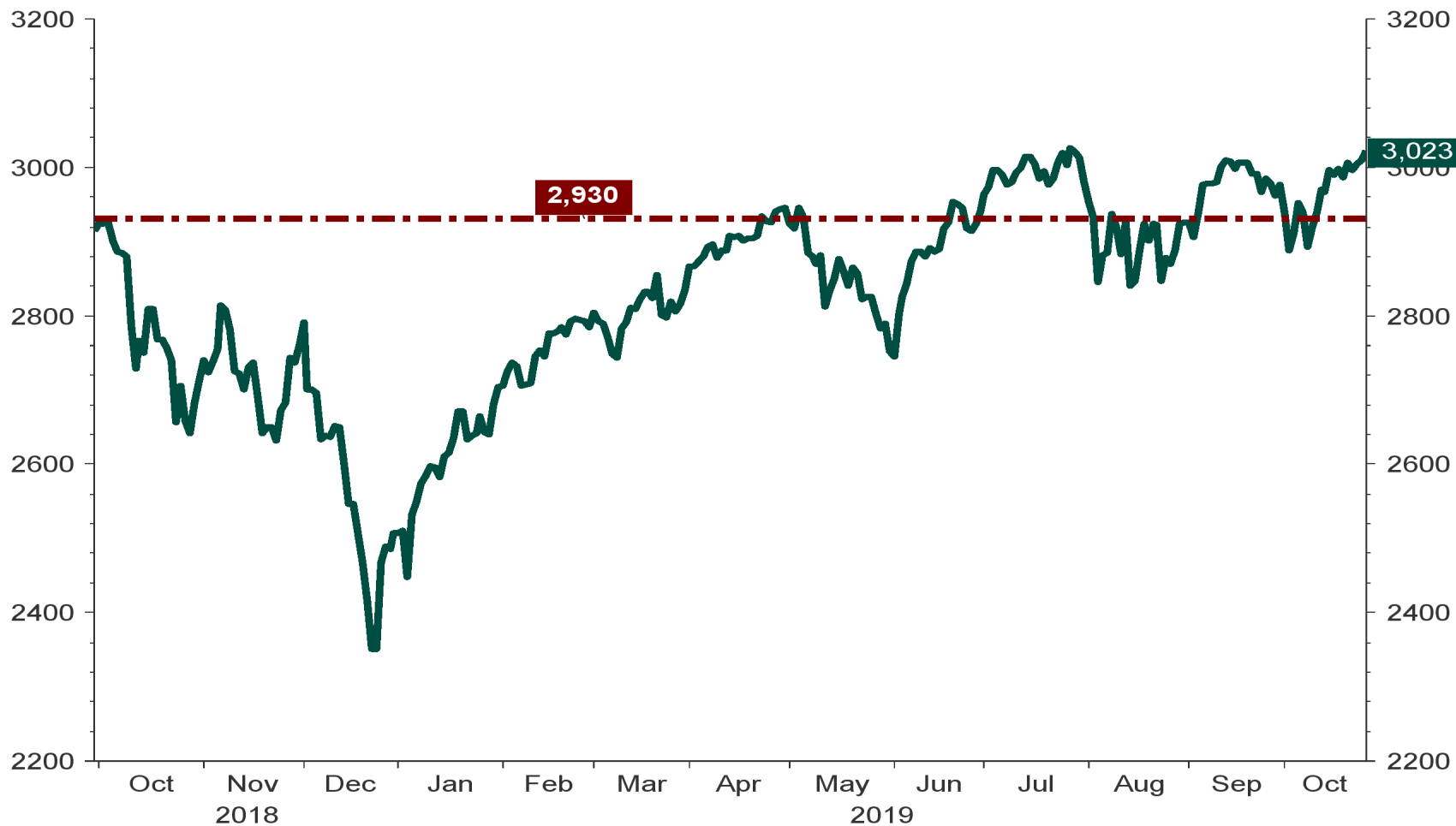
S&P 500 Dividend Yield versus Treasuries and Corporate Bonds



Source: Refinitiv Datastream

Equity Markets Little Changed Over the Past Year

S&P 500: 9/16/18-Present



Source: Refinitiv Datastream

S&P 500 Valuation

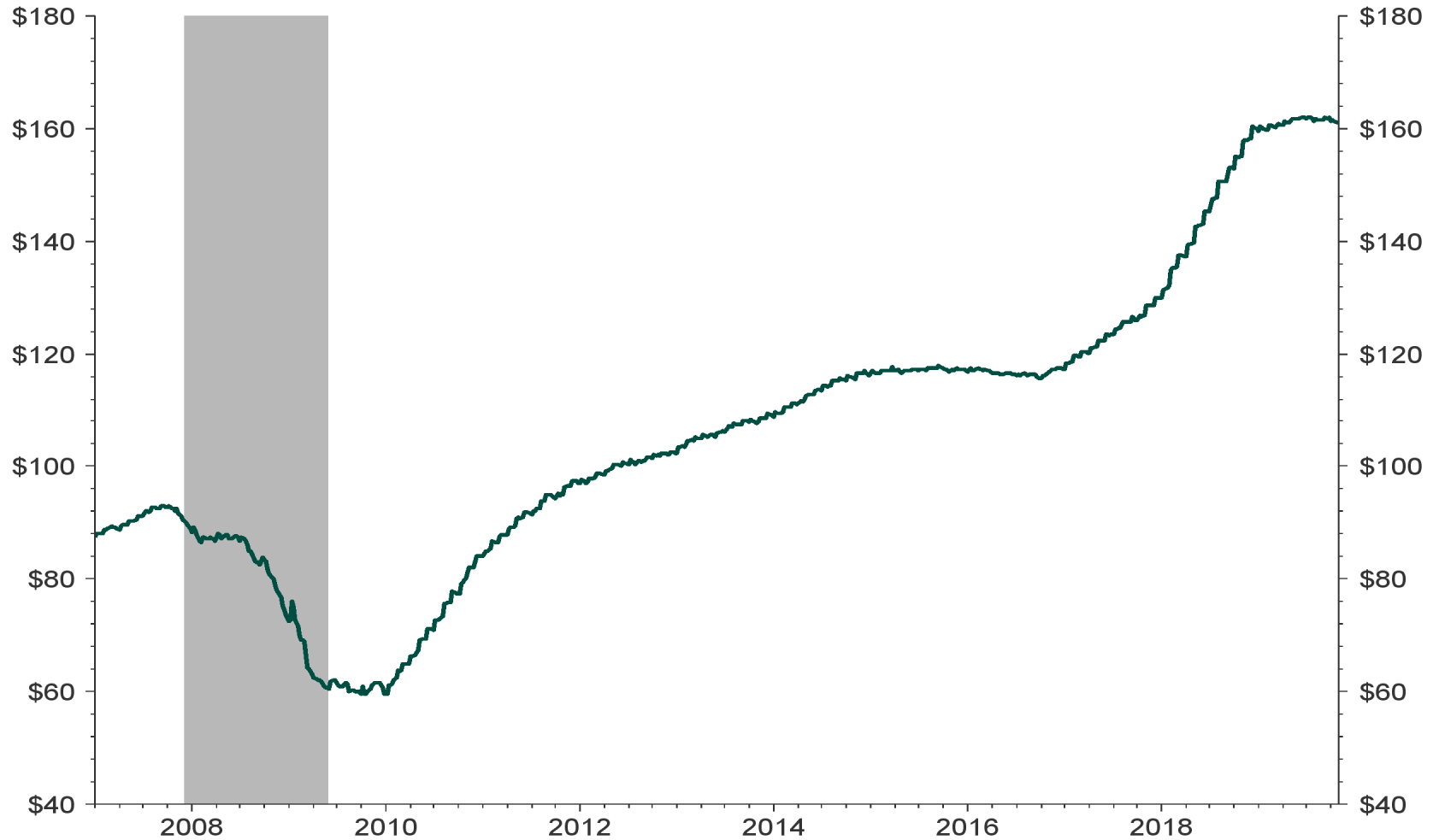
S&P 500 – PE NTM



Source: Refinitiv Datastream

S&P 500 Earnings

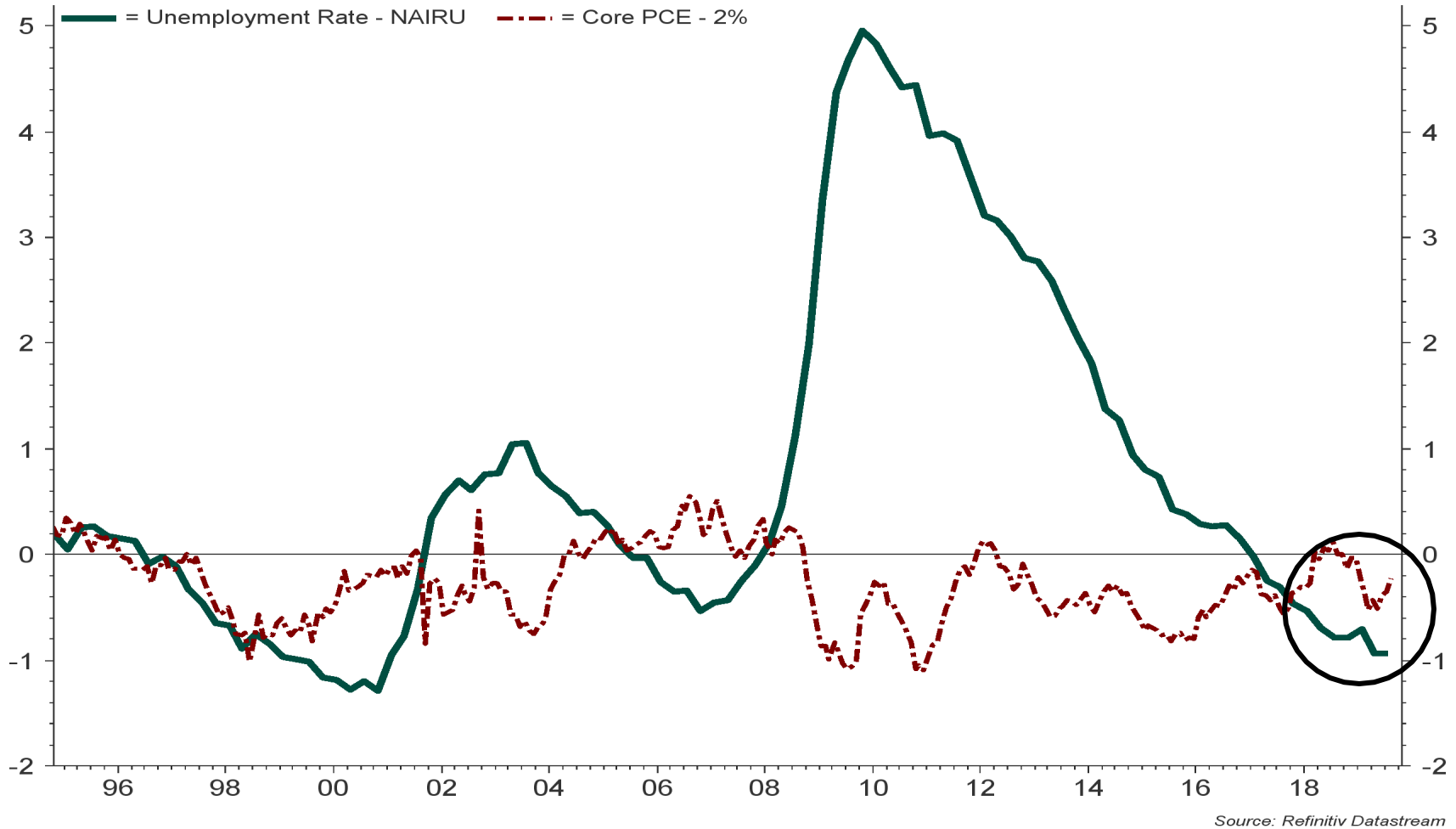
S&P 500 Trailing EPS



Source: Refinitiv Datastream

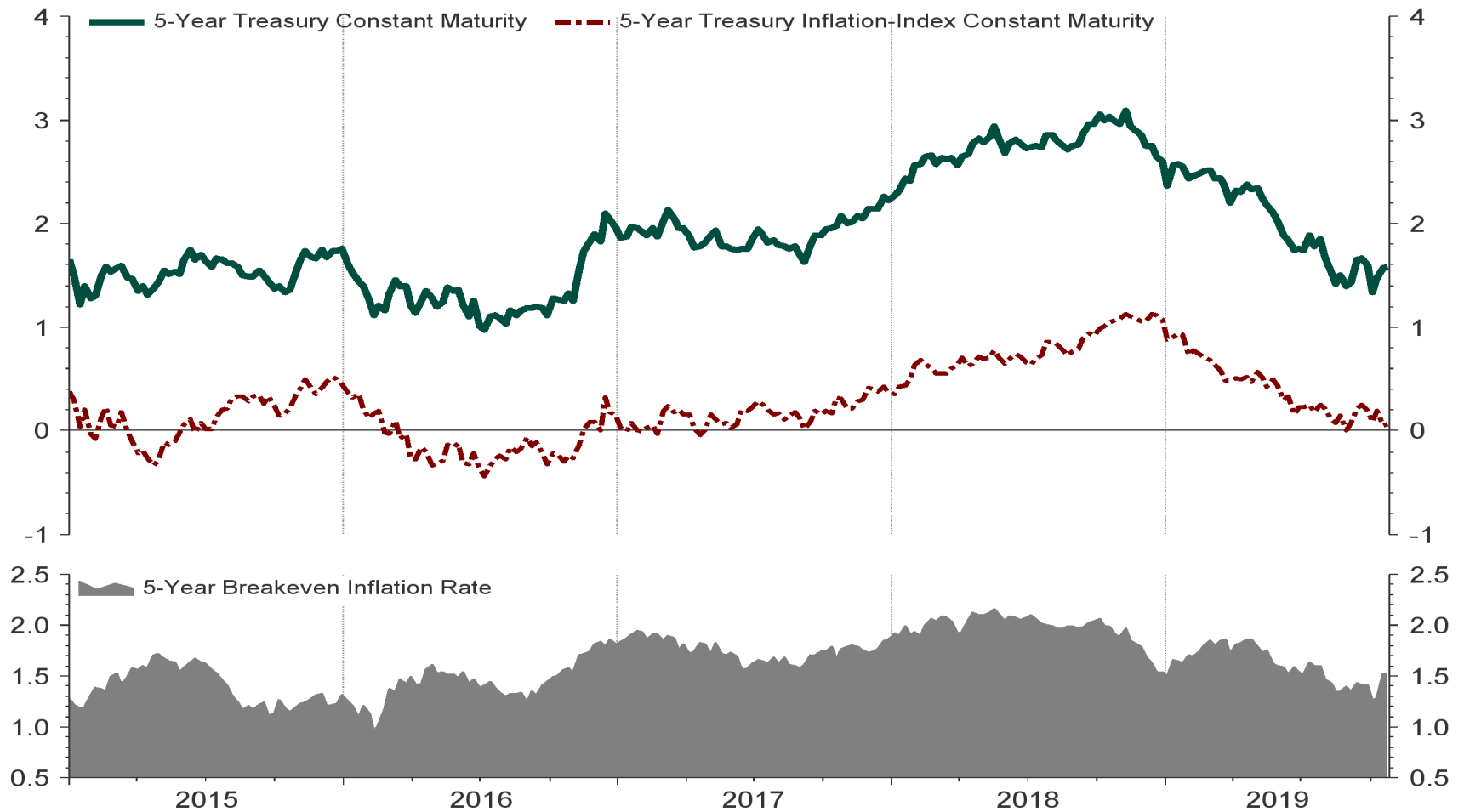
Interest Rate Outlook

Federal Reserve targets



Falling inflation expectations

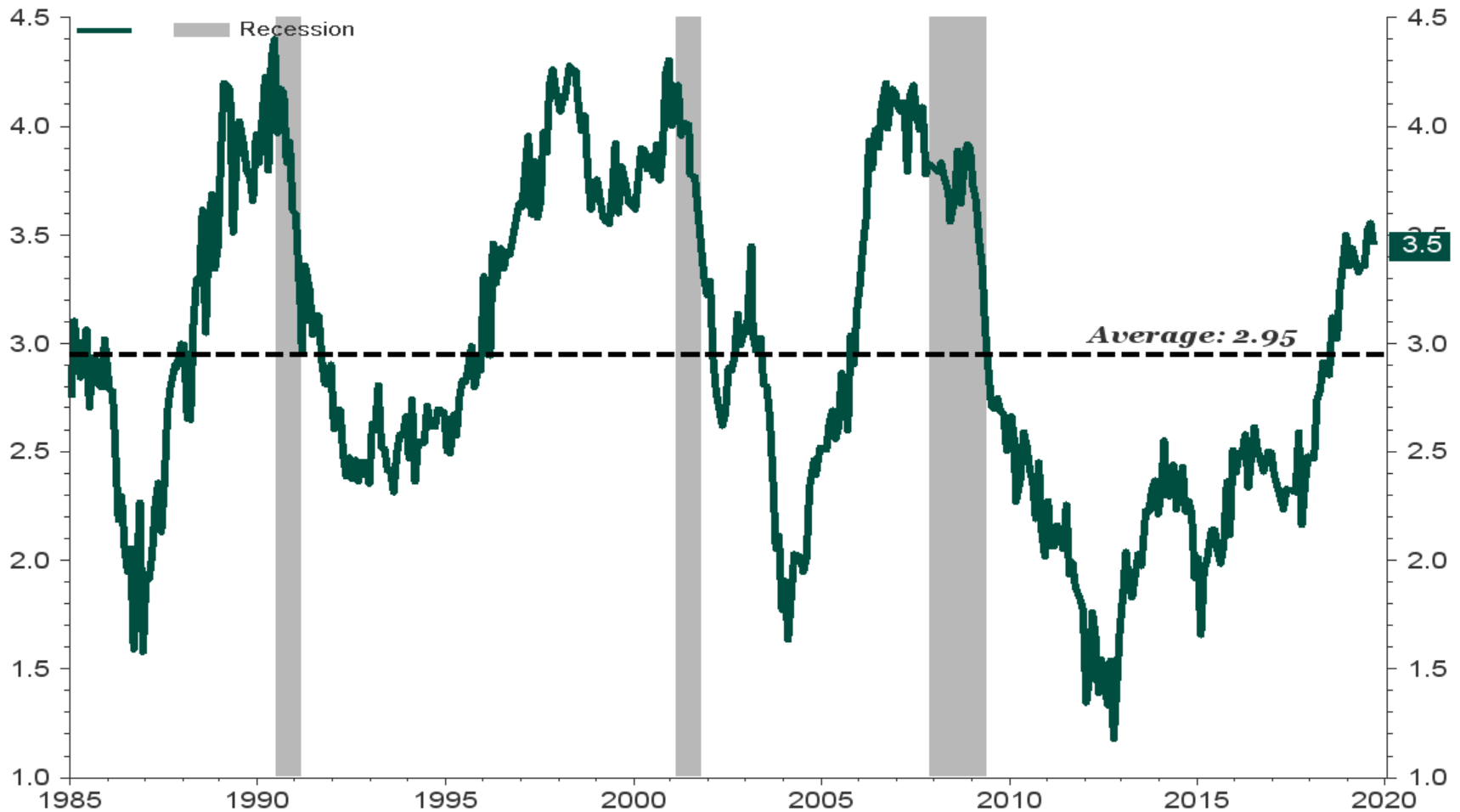
5-Year Breakeven Inflation Rate



Source: Refinitiv Datastream

Labor: Wage growth

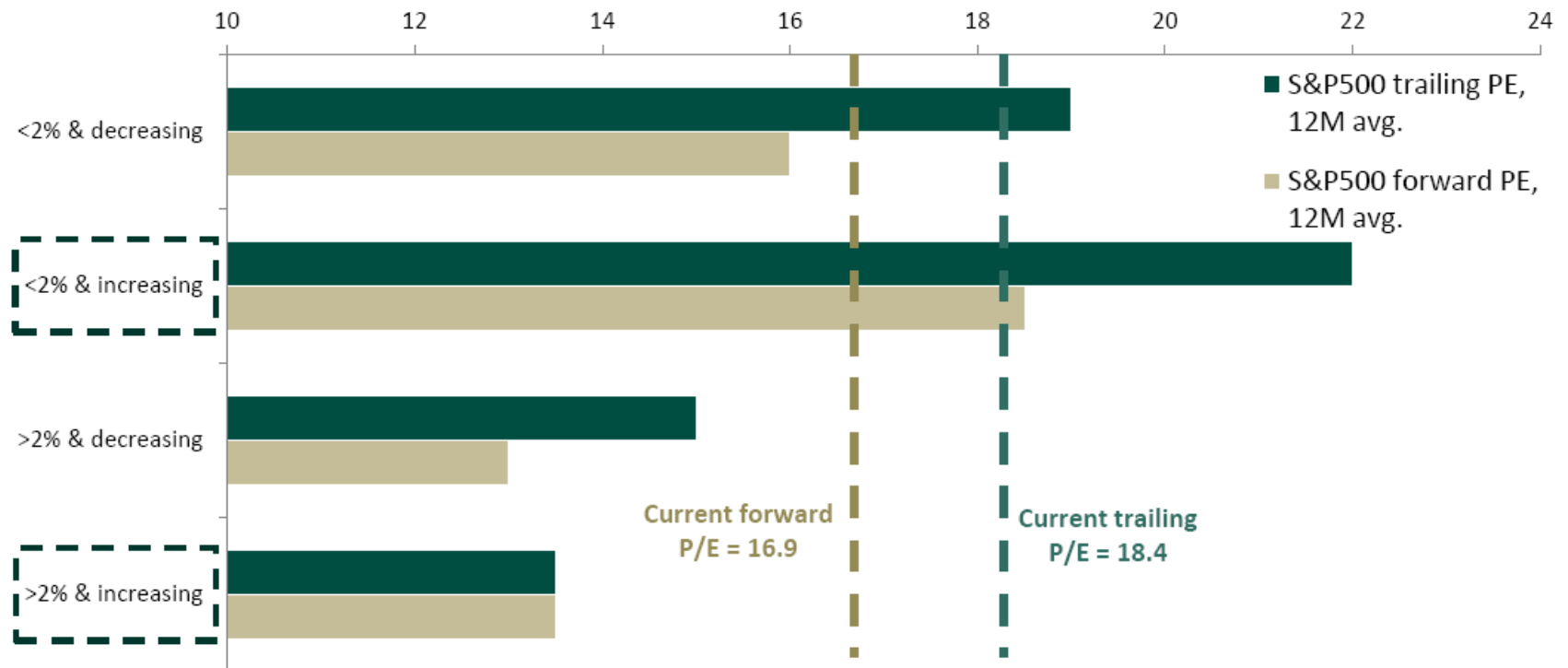
Average hourly earnings of production and non-supervisory workers – year-over-year percent change



Source: Refinitiv Datastream

Stock Market Correlation with Inflation Trends

Average S&P 500 1Y forward PE (since 1989) and Trailing PE (since 1970) in four US core PCE inflation environments



Source: JP Morgan

Global Interest Rates

Global Bond Yields on October 28, 2019

Maturity	US	Canada	UK	Germany	Switzerland	Japan	Spain	Italy	Brazil	Greece
2 year	1.654	1.707	0.539	-0.645	-0.775	-0.205	-0.410	-0.062	4.775	NA
5 year	1.673	1.631	0.501	-0.604	-0.701	-0.246	-0.160	0.375	5.945	0.494
10 year	1.853	1.619	0.714	-0.331	-0.522	-0.126	0.308	1.092	6.520	1.242
30 year	2.341	1.746	1.214	0.177	-0.118	0.404	1.206	2.113	NA	NA

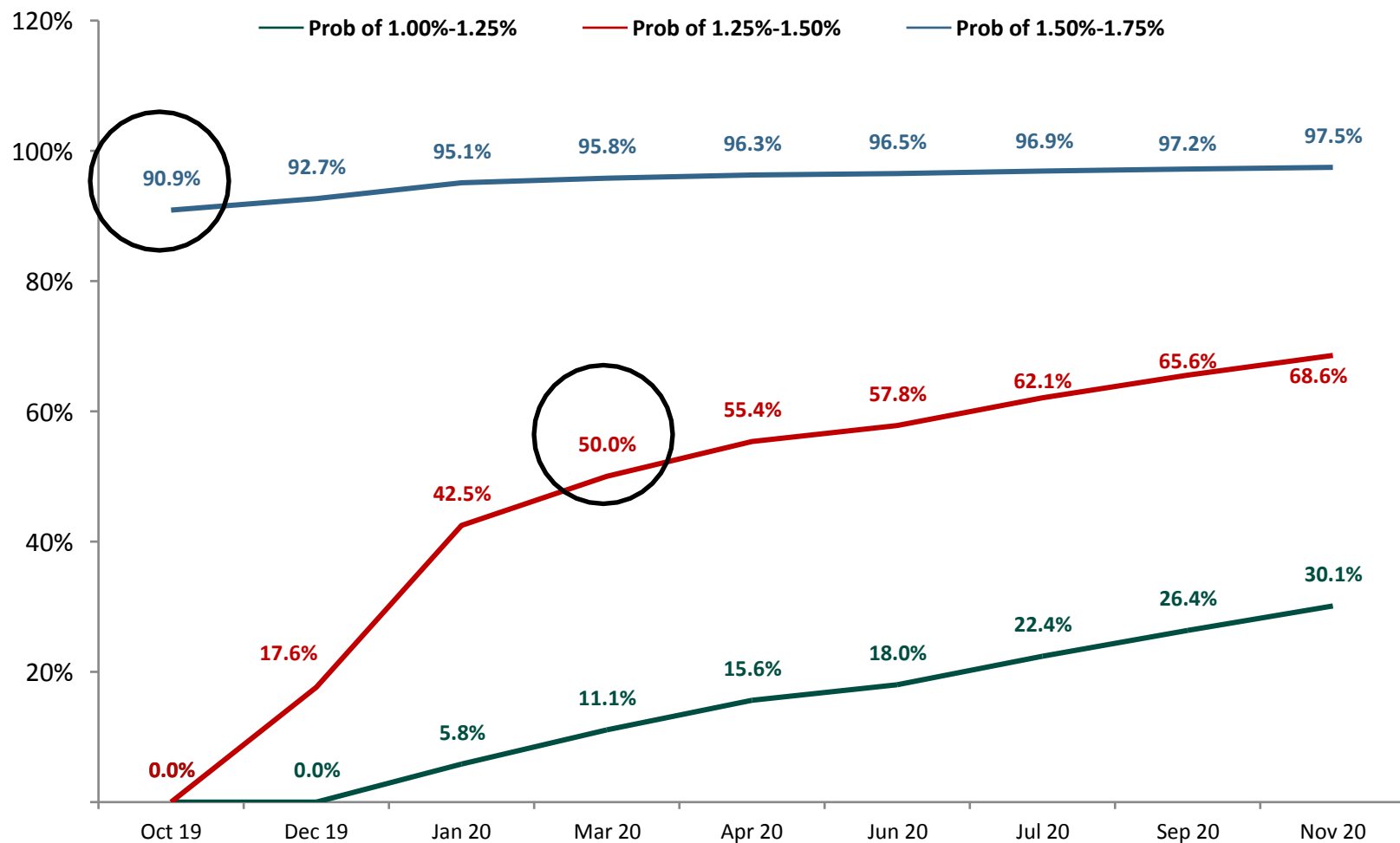
Change in Global Bond Yields since October 21, 2019

Maturity	US	Canada	UK	Germany	Switzerland	Japan	Spain	Italy	Brazil	Greece
2 year	0.026	0.047	0.024	0.004	-0.113	0.033	0.000	0.028	-0.095	NA
5 year	0.046	0.060	0.038	0.021	0.002	0.027	0.022	0.043	-0.025	0.026
10 year	0.051	0.076	0.047	0.035	0.026	0.021	0.034	0.040	-0.020	0.022
30 year	0.049	0.078	0.055	0.049	0.009	0.011	0.042	0.033	NA	NA

Source: Data provided by Thomson Reuters

More rate cuts likely

Implied probability using Fed Funds futures for change in policy



Source: Data provided by Thomson Reuters

Forward interest rates

Forward Rate Analysis US Dollar Swap Curves

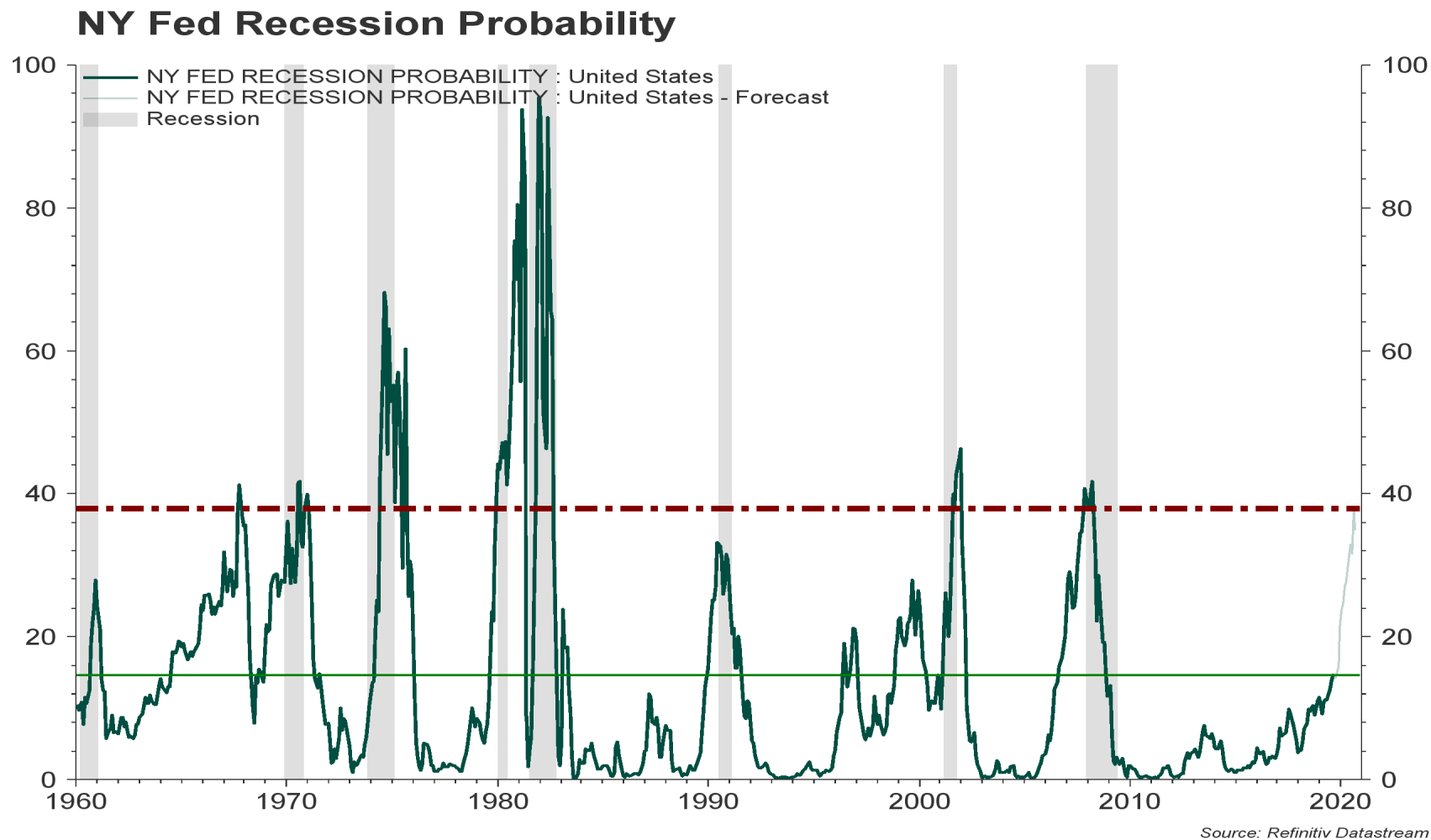
		Forward Rates					
Maturity	Current	6 Mo	1 year	2 year	5 year	10 year	Chg (in bp)
1 year	1.772%	1.639%	1.581%	1.576%	1.751%	2.071%	30
2 year	1.669%	1.607%	1.578%	1.589%	1.791%	2.097%	43
3 year	1.633%	1.599%	1.586%	1.613%	1.834%	2.096%	46
5 year	1.622%	1.626%	1.633%	1.683%	1.909%	2.115%	49
10 year	1.751%	1.777%	1.796%	1.850%	2.007%	2.126%	38
30 year	1.941%	1.960%	1.965%	1.979%	2.018%	2.019%	8
2 - 10 Curve	8	17	22	26	22	3	
1 - 30 Curve	17	32	38	40	27	(5)	

*market rates as of 10/28/2019 and based on 3 month LIBOR.

Source: Data provided by Thomson Reuters

Metrics to Track for the End of the Bull Market

NY Fed Recession Probability



Recessionary indicators point to limited downside risk

Recession Dashboard

Start of Recession	Yield Curve	Inflation Trends	Labor Market	Credit Platform	ISM Mfg.	Earnings Quality	Housing Market
Nov-73	↓	↓	↑	--	↑	--	↓
Jan-80	↓	↓	↓	--	↓	--	↓
Jul-81	↓	↑	↑	--	↓	--	↓
Jul-90	↓	↓	↓	↓	↓	↓	↓
Mar-01	↓	↓	↓	↓	↓	↓	↔
Dec-07	↓	↓	↔	↓	↓	↓	↓
Present	↓	↔	↑	↑	↓	↑	↔

Key:



Recessionary



Expansionary

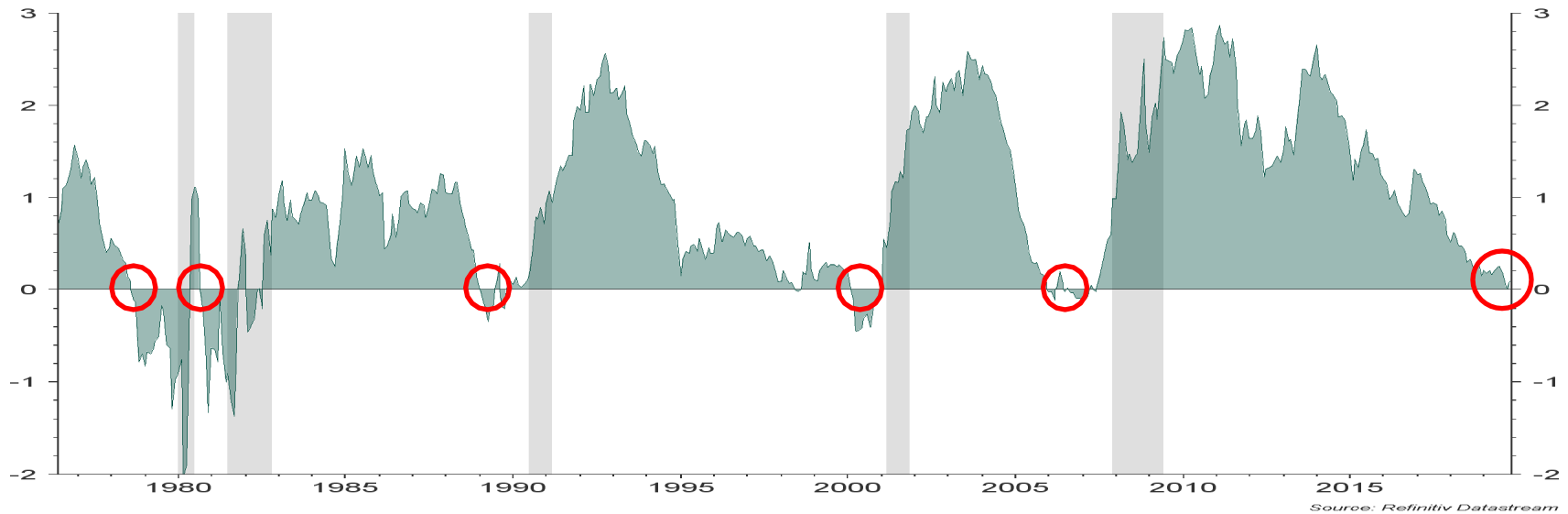


Neutral

Source: '80-'07, Credit Suisse; '73 & Present, Patten & Patten

Yield Curve Indicator

US 2Y-10Y Spread



Yield Curve Inversion	Recession Lag	S&P 500 Peak Lag	S&P 500 Return post Yield Curve Inversion
8/1978	17 months	19 months	17.7%
9/1980	10 months	3 months	13.6%
12/1988	19 months	20 months	35.7%
2/2000	13 months	2 months	8.4%
12/2005	24 months	23 months	23.5%

Source: Data provided by Thomson Reuters

Slowing Global Growth

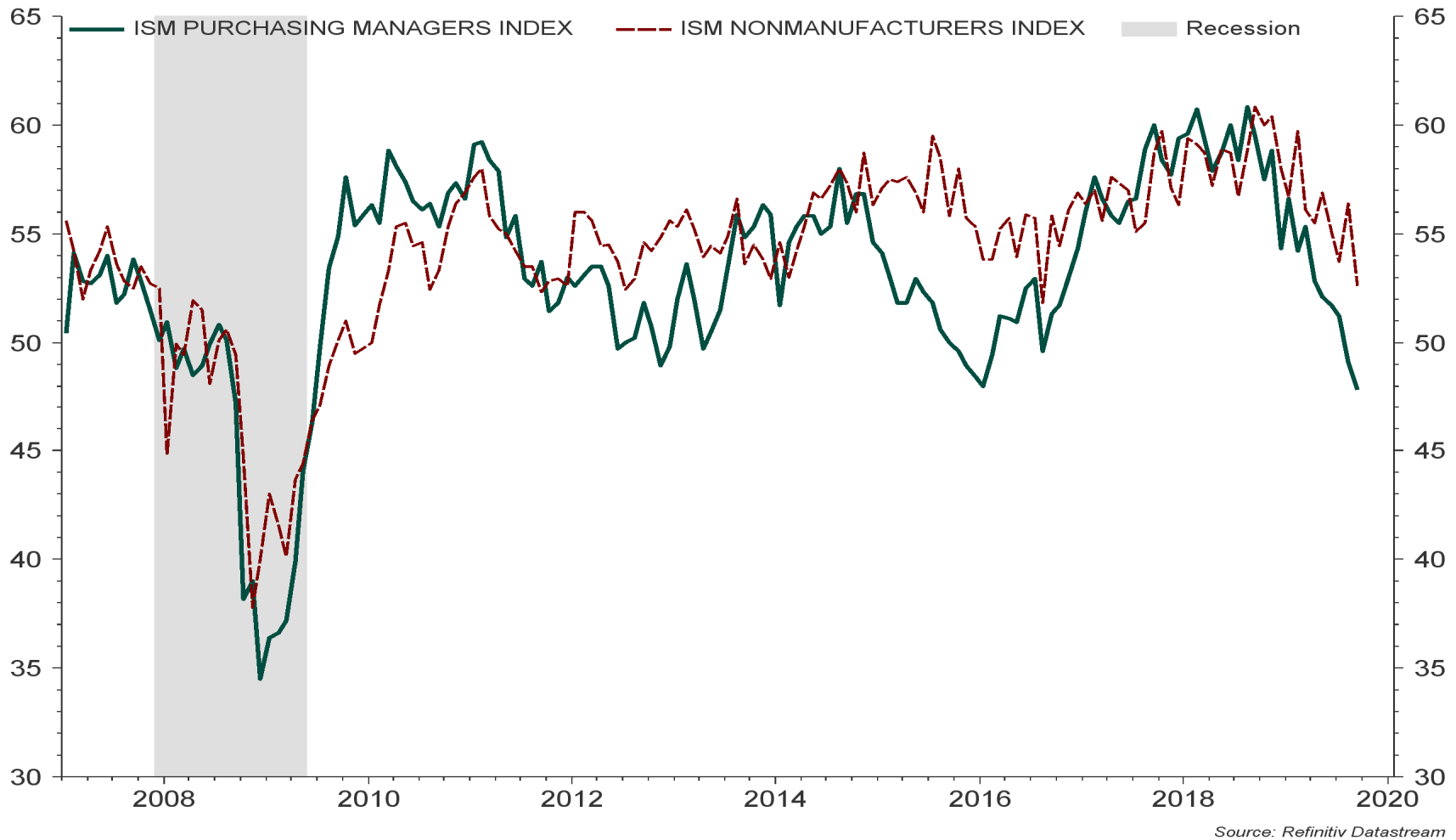
Markit Manufacturing PMI by Country / Region

		02/28/2017	03/31/2017	04/30/2017	05/31/2017	06/30/2017	07/31/2017	08/31/2017	09/30/2017	10/31/2017	11/30/2017	12/31/2017	01/31/2018	02/28/2018	03/31/2018	04/30/2018	05/31/2018	06/30/2018	07/31/2018	08/31/2018	09/30/2018	10/31/2018	11/30/2018	12/31/2018	01/31/2019	02/28/2019	03/31/2019	04/30/2019	05/31/2019	06/30/2019	07/31/2019	08/31/2019	09/30/2019	
	World	52.0	52.6	52.6	52.9	52.9	52.6	52.5	52.5	52.6	53.1	53.2	53.4	53.9	54.4	54.3	54.0	53.2	53.4	53.0	52.9	52.7	52.5	52.1	52.0	51.9	51.4	50.8	50.6	50.5	50.4	49.3	49.5	
	Developed Markets	52.9	53.7	54.1	54.1	53.9	54.1	54.1	53.9	53.9	54.2	54.6	55.2	55.8	56.2	56.3	55.7	54.8	55.1	54.7	54.4	54	53.8	53.6	53.2	52.8	52.3	51.8	50.4	49.9	50.2	49.2	48.9	
	Emerging Markets	50.8	51.1	50.8	51.3	51.6	50.9	50.5	50.8	50.9	51.7	51.4	51.2	51.5	52.1	51.8	51.9	51.3	51.3	51.1	51.2	51	50.8	50.3	50.5	50.7	50.2	49.5	50.6	51	50.5	50.4	49.9	
Americas	United States	54.1	54.3	55	54.2	53.3	52.8	52.7	52	53.3	52.8	53.1	54.6	53.9	55.1	55.5	55.3	55.6	56.5	56.4	55.4	55.3	54.7	55.6	55.7	55.3	53.8	54.9	53	52.4	52.6	50.5	50.3	
	Brazil	46.2	45.2	44	46.9	49.6	50.1	52	50.5	50	50.9	50.9	51.2	53.5	52.4	51.2	53.2	53.4	52.3	50.7	49.8	50.5	51.1	50.9	51.1	52.7	52.6	52.7	53.4	52.8	51.5	49.9	52.5	
	Canada	51.5	51.8	53.5	54.7	55.5	55.9	55.1	54.7	55.5	54.6	55	54.3	54.4	54.7	55.9	55.6	55.7	55.5	56.2	57.1	56.9	56.8	54.8	53.9	54.9	53.6	53	52.6	50.5	49.7	49.1	49.1	
ASIA PACIFIC	Mexico	51.1	50.2	50.8	50.6	51.5	50.7	51.2	52.3	51.2	52.2	52.8	49.2	52.4	51.7	52.6	51.6	52.4	51.6	51	52.1	52.1	50.7	51.7	50.7	49.7	49.7	50.9	52.6	49.8	50.1	49.8	49.0	
	Australia	53.0	56	52	59.6	54.1	56.9	54.3	53.8	57.2	57.5	54.4	51.2	57	57	58.2	56.4	62.5	58.6	56.8	55.6	52.5	55.9	57.1	54.7	50.8	50	52.5	54	51	54.8	51.6	50.9	
	China	50.9	51.9	51	51.7	51.2	50.3	49.6	50.4	51.1	51.6	51	51	50.8	51.5	51.5	51.6	51	51.1	51.1	51	50.8	50.6	50	50.1	50.2	49.7	48.3	49.9	50.8	50.2	49.9	50.4	
	India	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9	47.9	51.2	51.2	50.3	52.6	54.7	52.4	52.1	51	51.6	51.2	53.1	52.3	51.7	52.2	53.1	54	53.2	53.9	54.3	52.6	51.8	52.5	51.4	
	Indonesia	49.7	49	50.4	49.3	50.5	51.2	50.6	49.5	48.6	50.7	50.4	50.1	50.4	49.3	49.9	51.4	50.7	51.6	51.7	50.3	50.5	51.9	50.7	50.5	50.4	51.2	49.9	50.1	51.2	50.4	49.6	49.0	
	Japan	51.3	52.4	52.7	53.3	52.4	52.7	53.1	52.4	52.1	52.2	52.9	52.8	53.6	54	54.8	54.1	53.1	53.8	52.8	53	52.3	52.5	52.5	52.9	52.2	52.6	50.3	48.9	49.2	50.2	49.4	49.3	
	New Zealand	54.3	54.2	53.3	55.9	59.1	56.2	57.8	56	55.9	58	57.7	56.9	57.4	50.5	55.6	53.3	53.5	58.7	54.6	52.8	51.3	52.2	52	53.6	53.4	54.8	52.9	53.4	51.7	52.7	50.2	NA	
	Singapore	50.2	50.6	51	50.9	51.2	51.1	50.8	50.9	51	51.8	52	52.6	52.9	52.8	53.1	52.7	53	52.9	52.7	52.5	52.3	52.6	52.4	51.9	51.5	51.1	50.7	50.4	50.8	50.3	49.9	49.9	
	South Korea	48.0	49.4	49	49.2	48.4	49.4	49.2	50.1	49.1	49.9	50.6	50.2	51.2	49.9	50.7	50.3	49.1	48.4	48.9	49.8	48.3	49.9	51.3	51	48.6	49.8	48.3	47.2	48.8	50.2	47.3	49.0	
	Taiwan	54.7	56.2	55.6	54.5	56.2	54.4	53.1	53.3	53.3	53.6	54.3	54.2	53.6	56.3	56.6	56.9	56	55.3	54.8	53.4	54.5	53.1	53	50.8	48.7	48.4	47.7	47.5	46.3	49	48.2	48.1	47.9
	Vietnam	54.0	52.4	51.9	54.2	54.6	54.1	51.6	52.5	51.7	51.8	53.3	51.6	51.4	52.5	53.4	53.5	51.6	52.7	53.9	55.7	54.9	53.7	51.5	53.9	56.5	53.8	51.9	51.2	51.9	52.5	52.6	51.4	
EUROPE	European Union (EU)	53.5	54.9	55.2	55.4	55.9	56.7	56.8	56.8	56.3	57.1	57.6	58.1	59.6	59.8	58.9	58.1	56.3	55.9	55.3	54.9	54.9	54.3	53.1	51.8	51.5	50.6	49.5	48.3	48.4	47.9	47.1		
	Euro Zone	53.7	54.9	55.2	55.4	56.2	56.7	57.0	57.4	56.6	57.4	58.1	58.5	60.1	60.6	59.6	58.6	56.6	56.2	55.5	54.9	55.1	54.6	53.2	52.0	51.8	51.4	50.5	49.3	47.5	47.9	47.7	47.0	
	Austria	55.4	56.3	57.3	57.2	56.8	58.1	58.0	60.7	60.0	61.1	59.4	59.4	61.9	64.3	61.3	59.2	58.0	58.0	57.3	56.6	56.8	56.4	55.0	53.8	54.9	53.9	52.7	51.8	50.0	49.2	47.0	47.9	
	France	51.7	53.5	53.6	52.2	53.3	55.1	53.8	54.8	54.9	55.8	56.1	56.1	57.7	58.8	58.4	55.9	53.7	53.8	54.4	52.5	53.3	53.5	52.5	51.2	50.8	49.7	51.2	51.5	49.7	50.0	50.6	51.1	
	Germany	54.3	55.6	56.4	56.8	58.3	58.2	59.5	59.6	58.1	59.3	60.6	60.6	62.5	63.3	61.1	60.6	58.2	58.1	56.9	55.9	56.9	55.9	53.7	52.2	51.8	51.5	49.7	47.6	44.1	44.4	44.3	43.5	
	Greece	48.3	49.3	46.6	47.7	46.7	48.2	49.6	50.5	50.5	52.2	52.8	52.1	52.2	53.1	55.2	56.1	55.0	52.9	54.2	53.5	53.5	53.9	53.6	53.1	54.0	53.8	53.7	54.2	54.7	56.6	54.2	54.9	
	Ireland	53.7	55.7	55.5	53.8	53.6	55.0	55.9	56.0	54.6	56.1	55.4	54.4	58.1	59.1	57.6	56.2	54.1	55.3	55.4	56.6	56.3	57.5	56.3	54.9	55.4	54.5	52.6	54.0	53.9	52.5	50.4	48.6	
	Italy	52.2	53.2	53.0	55.0	55.7	56.2	55.1	55.2	55.1	56.3	56.3	57.8	58.3	57.4	59.0	56.8	55.1	53.5	52.7	53.3	51.5	50.1	50.0	49.2	48.6	49.2	47.8	47.7	47.4	49.1	49.7	48.7	
	Netherlands	57.0	57.3	56.5	58.3	57.8	57.8	57.6	58.6	58.9	59.7	60.0	60.4	62.4	62.2	62.5	63.4	61.5	60.7	60.3	60.1	58.0	59.1	59.8	57.1	56.1	57.2	55.1	52.7	52.5	52.0	52.2	51.6	
	Spain	54.5	55.3	55.6	54.8	53.9	54.5	55.4	54.7	54.0	52.4	54.3	55.8	56.1	55.8	55.2	56.0	54.8	54.4	53.4	53.4	52.9	53.0	51.4	51.8	52.6	51.1	52.4	49.9	50.9	51.8	50.1	48.8	
	Czech Republic	52.2	53.8	55.7	57.6	57.5	57.5	56.4	56.4	55.3	54.9	56.6	58.5	58.7	59.8	59.8	58.8	57.3	57.2	56.5	54.4	54.9	53.4	52.5	51.8	49.7	49.0	48.6	47.3	46.6	46.6	44.9	44.9	
	Denmark	57.4	61.7	57.7	51.9	56.4	48.2	61.2	65.4	64.7	61.2	62.2	58.4	58.5	59.7	66.9	65.0	60.5	53.1	52.2	52.7	56.7	59.8	54.0	66.6	57.6	57.4	50.1	61.1	55.3	57.8	49.1	48.7	
	Poland	51.9	54.3	54.8	54.2	53.5	54.1	52.7	53.1	52.3	52.5	53.7	53.4	54.2	55.0	54.6	53.7	53.7	53.9	53.3	54.2	52.9	51.4	50.5	50.4	49.5	47.6	48.2	47.6	48.7	49.0	47.4	48.8	
	Sweden	56.5	59.2	61.0	60.7	64.6	62.8	58.6	63.3	59.6	57.7	63.8	58.2	59.1	56.0	59.5	55.3	55.1	55.6	55.1	56.7	55.4	55.2	55.0	54.5	52.1	51.7	50.9	50.1	52.8	51.8	49.3	52.4	
	United Kingdom	53.2	55.5	55.3	54.9	54.1	57.7	56.5	54.2	55.5	57.0	55.5	56.6	58.2	55.7	55.2	55.3	54.8	53.8	54.3	54.0	53.9	52.9	53.7	51.1	53.3	54.3	52.8	52.1	55.1	53.1	49.4	47.4	
	Norway	48.2	52.4	51.1	53.5	55.6	54.8	54.6	56.2	60.1	55.0	52.4	54.4	57.7	57.6	57.4	56.7	54.4	56.6	55.9	57.1	48.2	60.2	56.2	56.4	55.9	55.6	57.9	55.9	56.1	53.8	54.1	49.1	
	Russia	53.6	53.7	54.7	52.5	52.4	50.8	52.4	50.3	52.7	51.6	51.9	51.1	51.5	52.0	52.1	50.2	50.6	51.3	49.8	49.5	48.1	48.9	50.0	51.3	52.6	51.7	50.9	50.1	52.8	51.8	49.3	47.2	
	Switzerland	55.5	55.7	54.6	57.9	57.9	58.4	55.8	60.2	60.3	61.4	62.1	61.9	64.6	65.2	64.6	65.1	61.4	62.8	62.8	61.8	61.7	64.6	59.9	57.8	57.7	57.5	54.3	55.4	50.3	48.5	48.6	48.0	
	Turkey	48.8	47.7	48.7	49.7	52.3	51.7	53.5	54.7	53.6	55.3	53.5	52.8	52.9	54.9	55.7	55.6	51.8	48.9	46.4	46.8	49.0	46.4	42.7	44.3	44.7	44.2	44.2	46.4	47.2	46.8			

Source: Data provided by Refinitiv

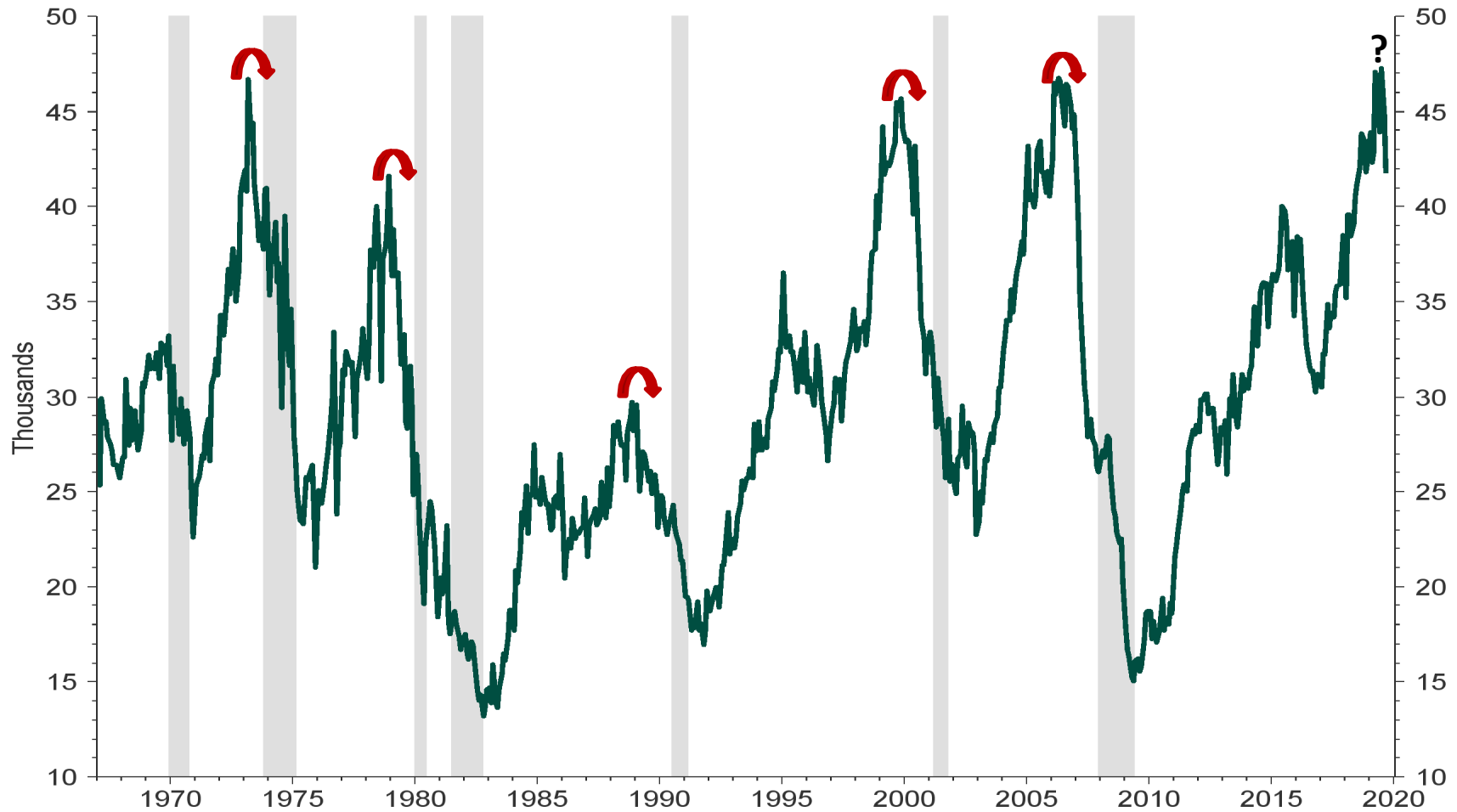
Manufacturing and Services sector growth deceleration

ISM Manufacturing PMI and Non-Manufacturing NMI



Truck demand is a lead indicator

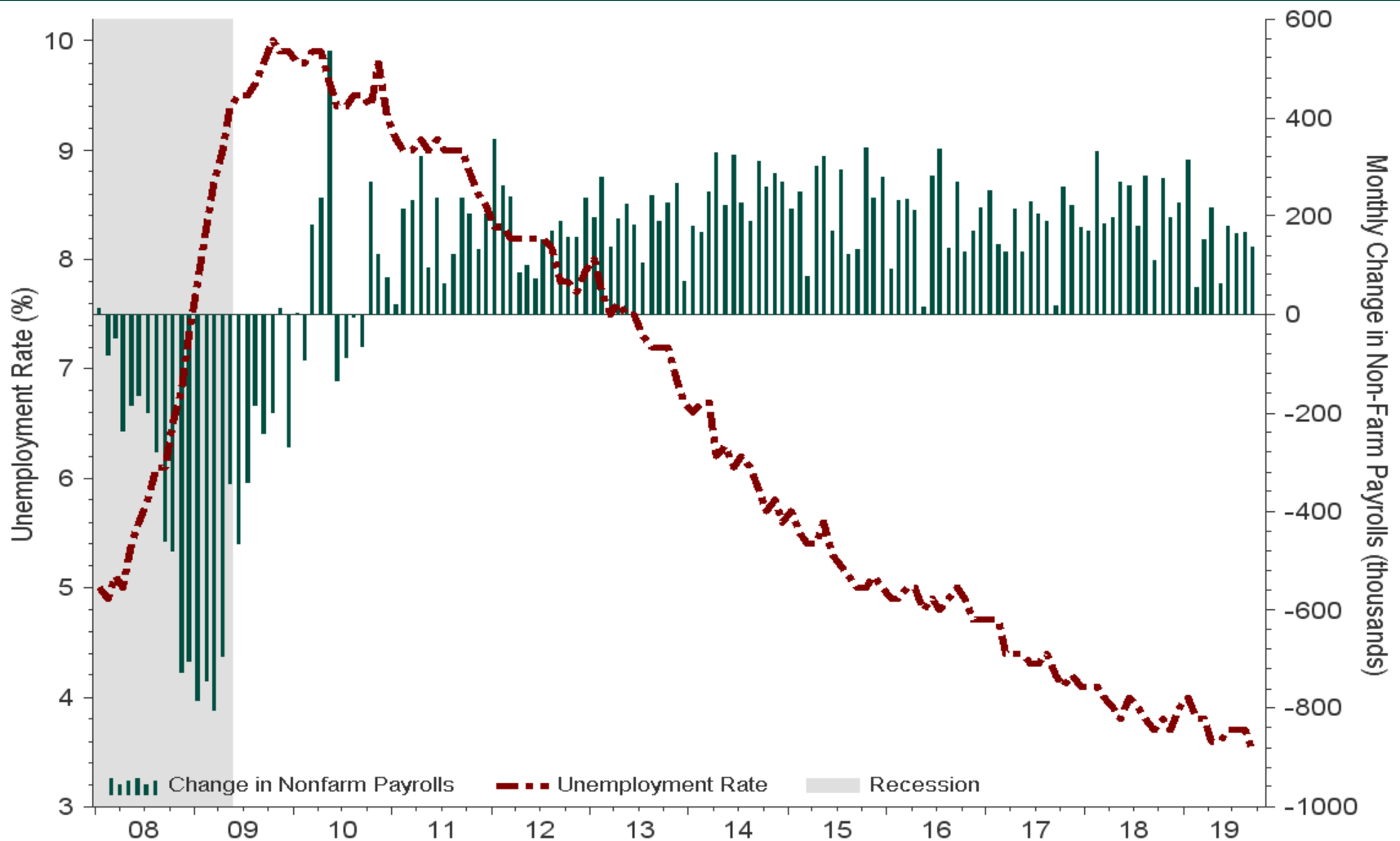
US New Heavy Truck Sales



Source: Refinitiv Datastream

Labor: The Jobs Picture since 2008

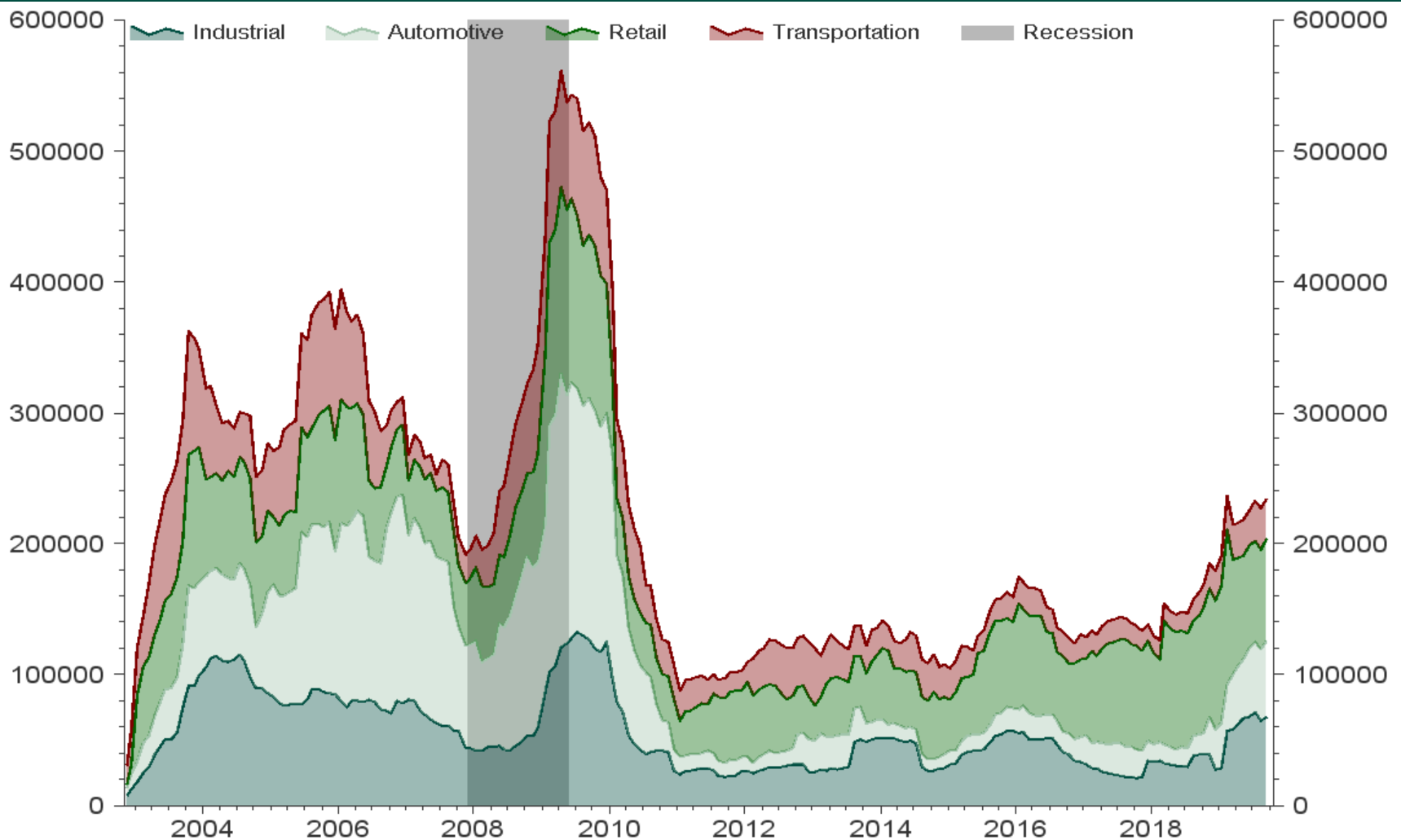
The Jobs Picture since 2008



Source: Refinitiv Datastream

Labor: More Layoffs

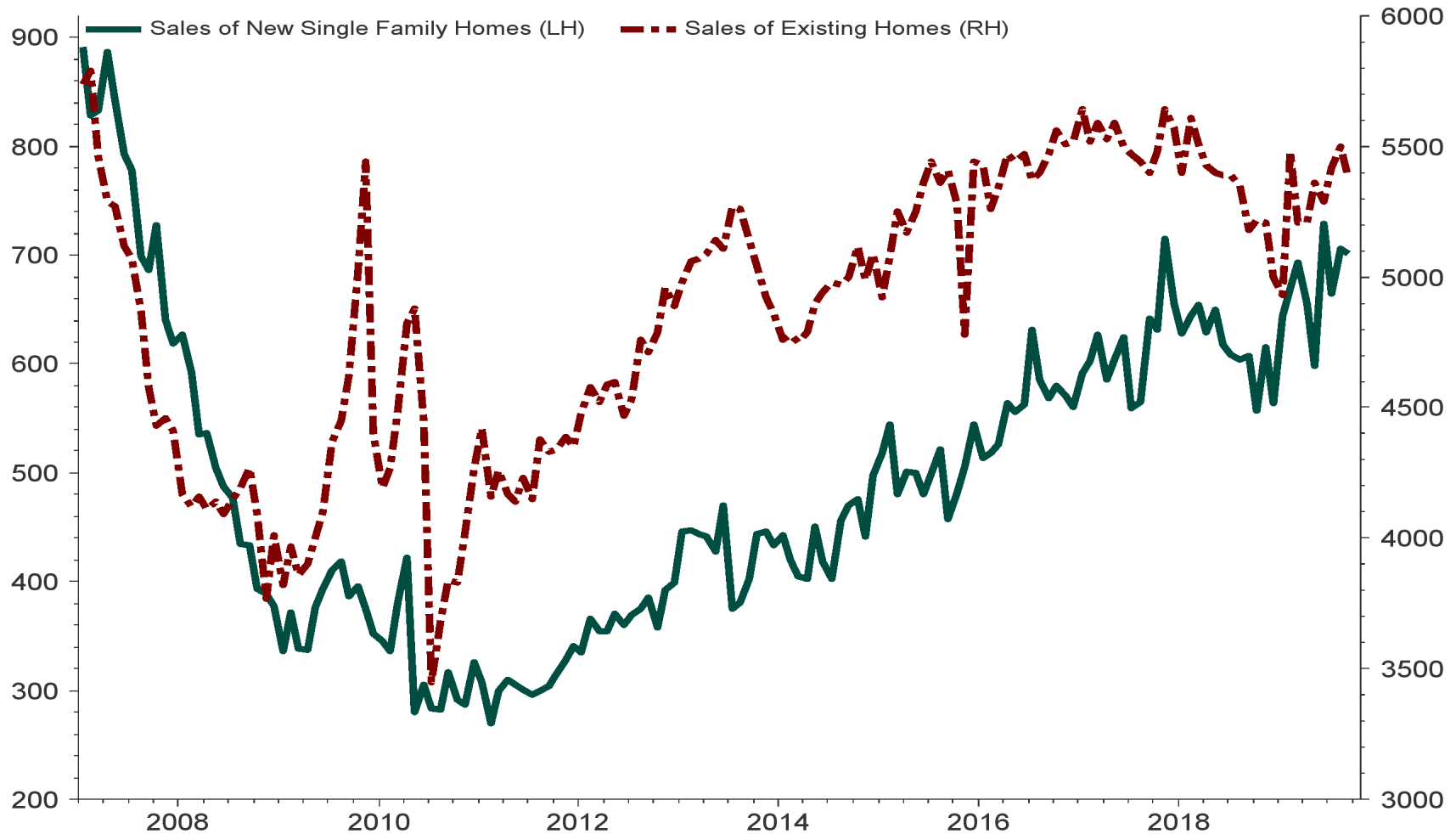
Industrial, Auto, Retail, and Transportation Layoff Announcements 12-Month Rolling Sum



Source: Refinitiv Datastream

US Home Sales

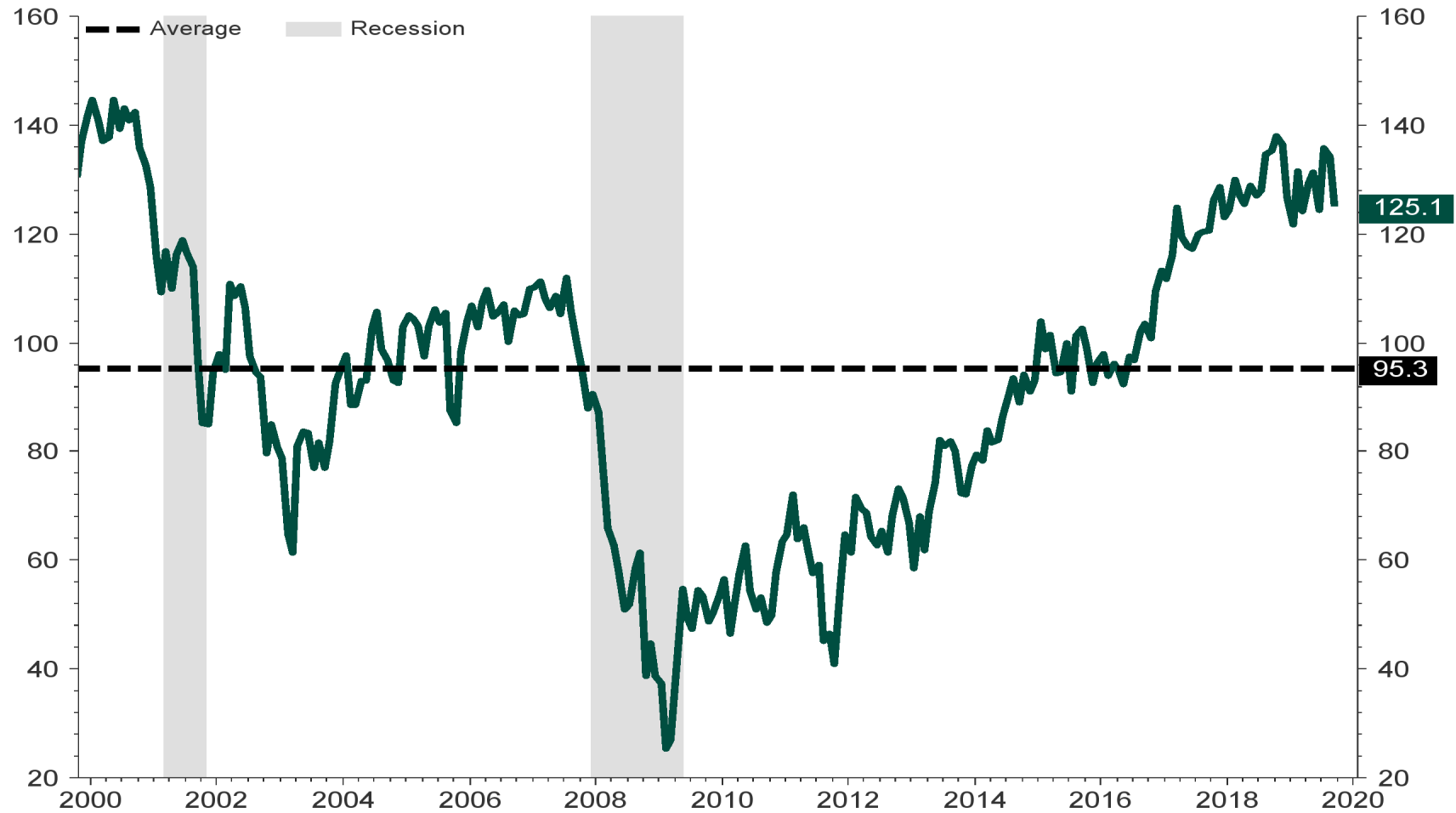
Sales of New and Existing Homes – Annualized Rate in Thousands



Source: Refinitiv Datastream

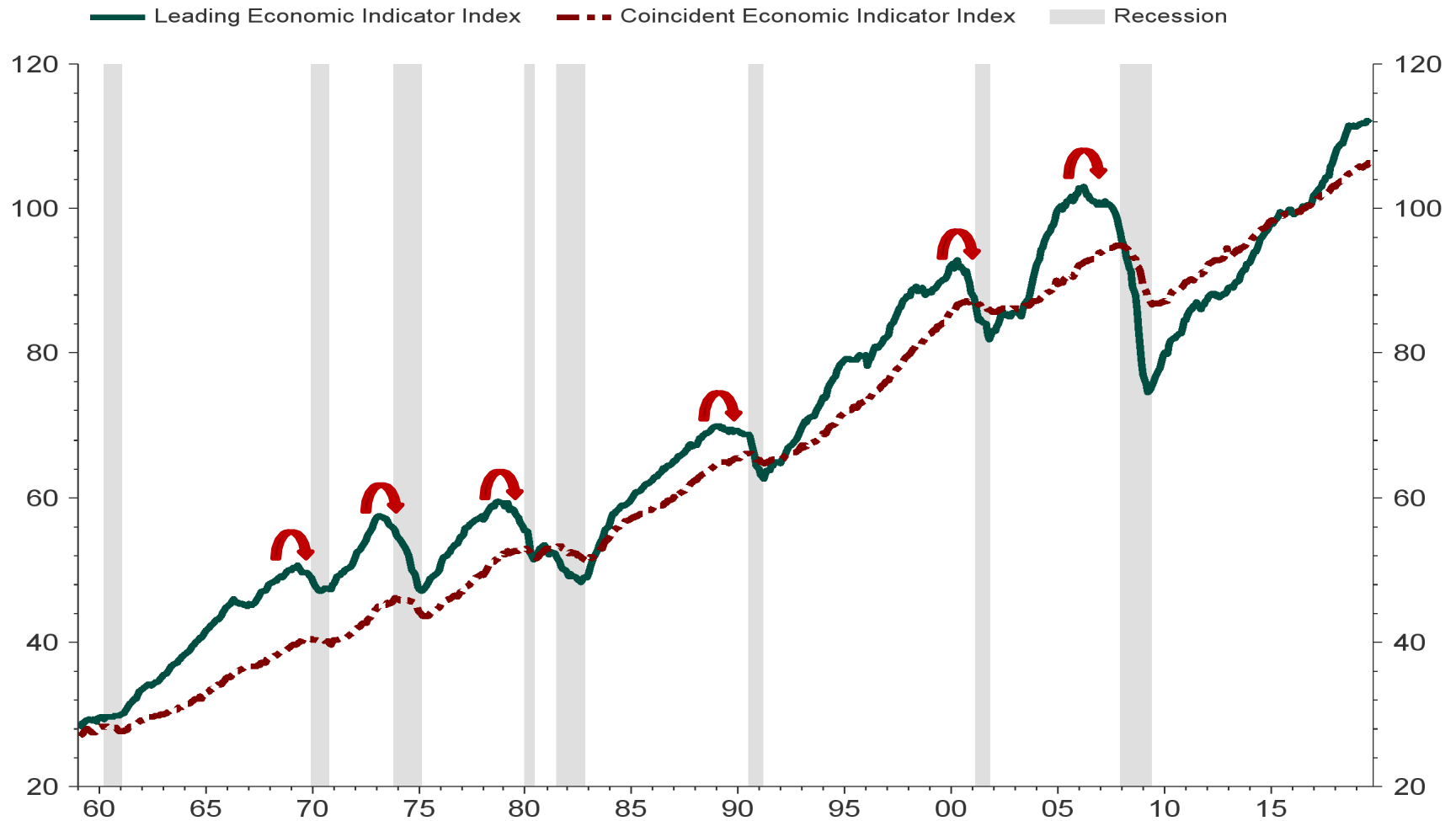
Consumer: High confidence but rattled by 2018 market volatility

Conference Board Consumer Confidence



Leading economic indicators are stable

Leading and Coincident Economic Indicators



Source: Refinitiv Datastream

What to do

Financial markets react to changes in policies over the long run

Politics:

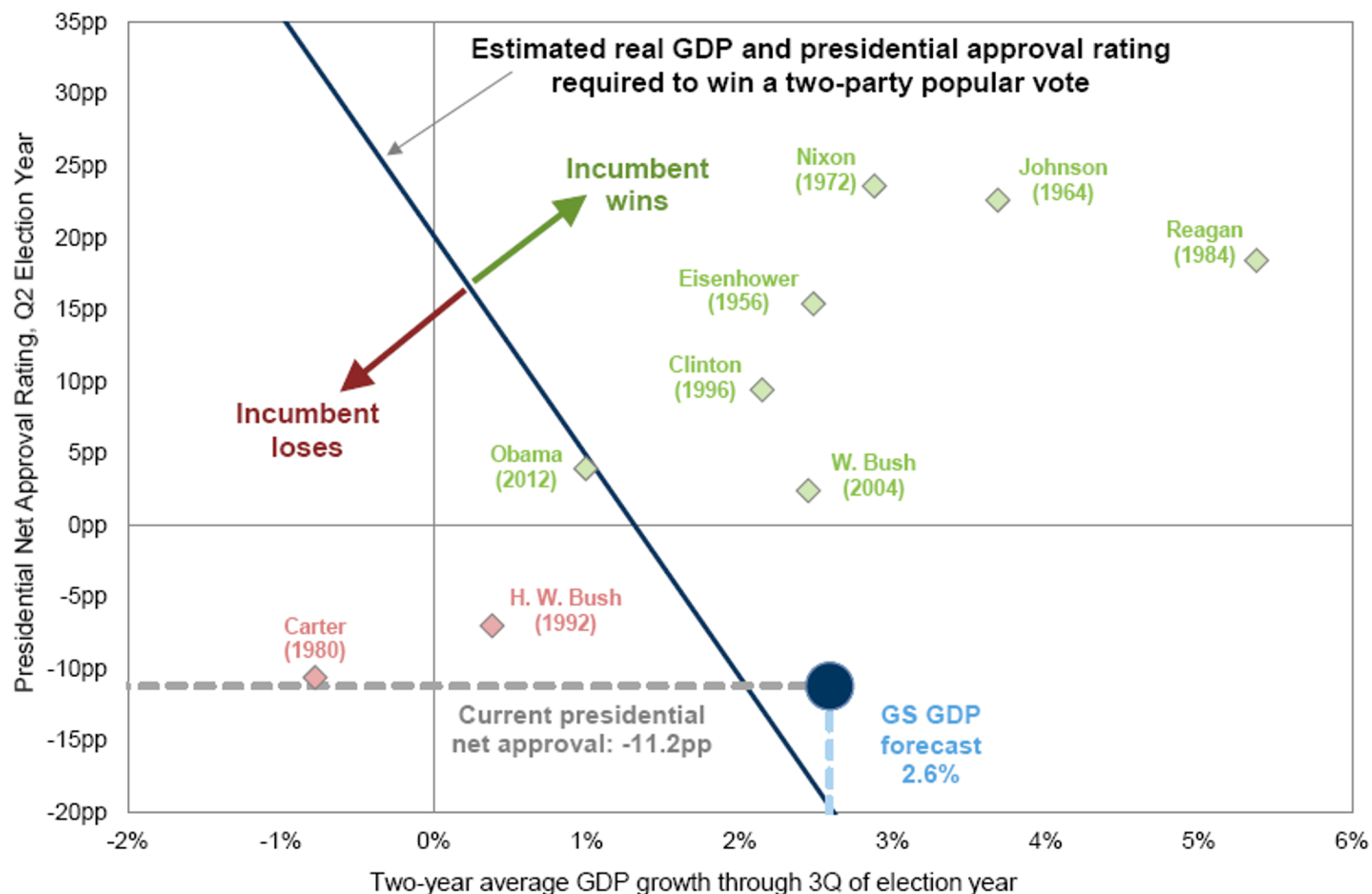
- Brexit
- Election Season
- Impeachment

Policies:

- Tax Policy
- Monetary Policy
- Trade Policy

Politics: “It’s the economy, stupid”

Economic growth forecast suggests popular vote victory for Trump



Source: Goldman Sachs

What we are telling clients:

- Be prepared for heightened volatility
- Don't expect interest rates to rise significantly
- Rising risk of recession but not imminent
- Raise cash now for known needs over next 12 months
- Be watchful for the formation of a bubble