Q4 2018 LOOK AHEAD

Disclaimer

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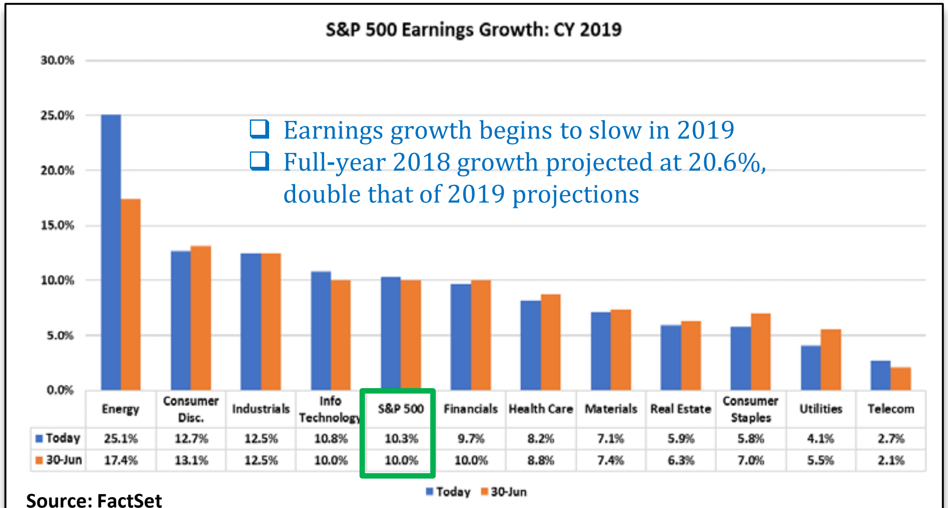
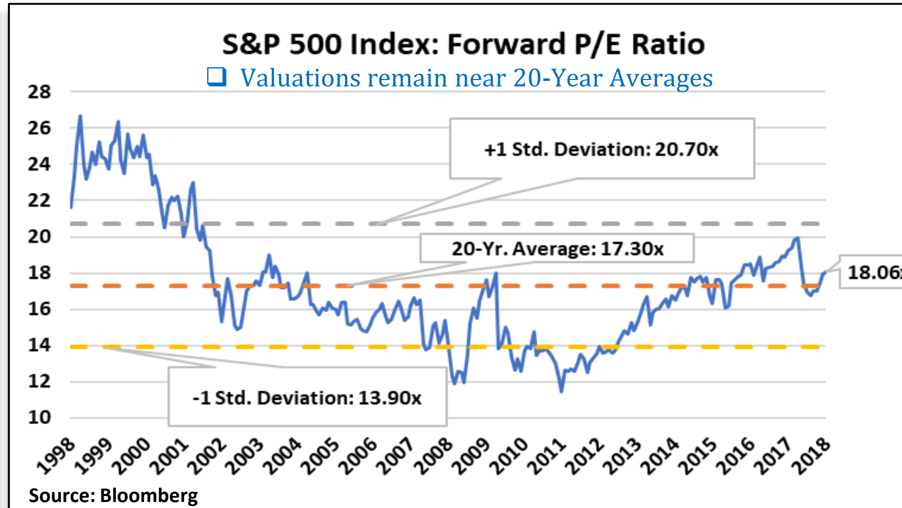
Corporate Earnings

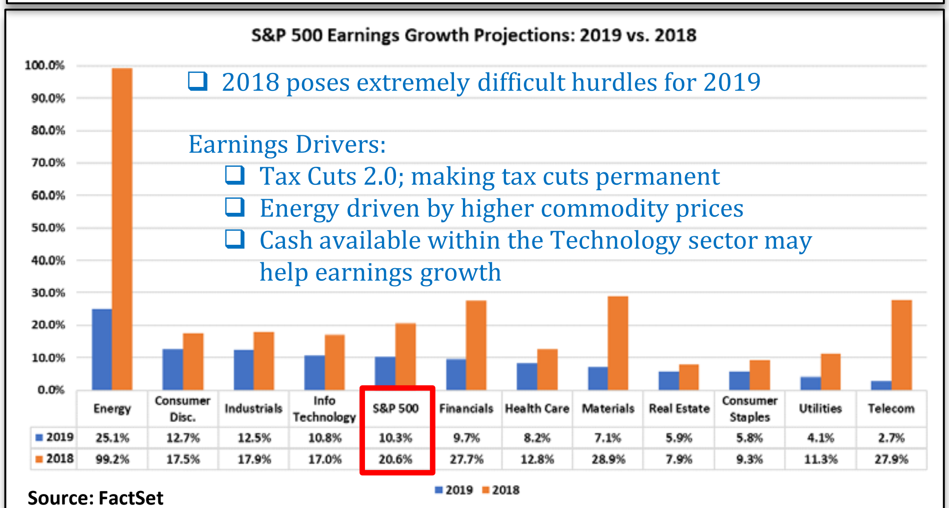


	Energy	Consumer Disc.	Industrials	Info Technology	S&P 500	Financials	Health Care	Materials	Real Estate	Consumer Staples	Utilities	Telecom
Today	25.1%	12.7%	12.5%	10.8%	10.3%	9.7%	8.2%	7.1%	5.9%	5.8%	4.1%	2.7%
30-Jun	17.4%	13.1%	12.5%	10.0%	10.0%	10.0%	8.8%	7.4%	6.3%	7.0%	5.5%	2.1%

Source: FactSet

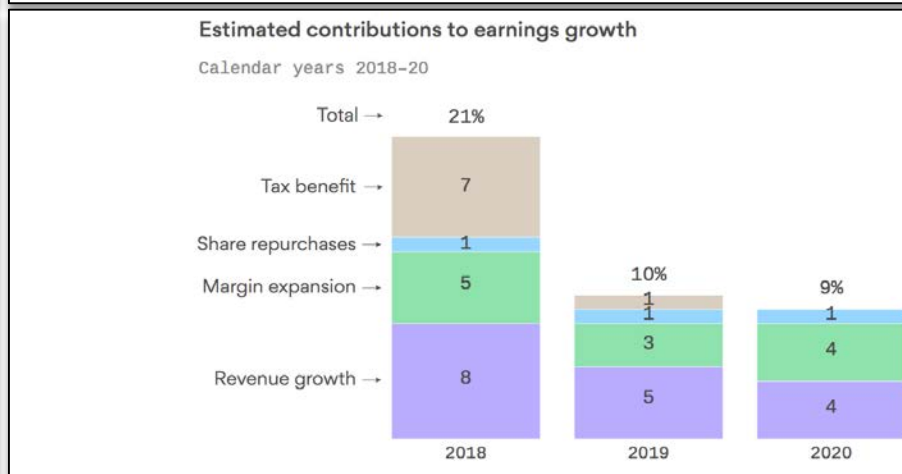


Source: Bloomberg



	Energy	Consumer Disc.	Industrials	Info Technology	S&P 500	Financials	Health Care	Materials	Real Estate	Consumer Staples	Utilities	Telecom
2019	25.1%	12.7%	12.5%	10.8%	10.3%	9.7%	8.2%	7.1%	5.9%	5.8%	4.1%	2.7%
2018	99.2%	17.5%	17.9%	17.0%	20.6%	27.7%	12.8%	28.9%	7.9%	9.3%	11.3%	27.9%

Source: FactSet

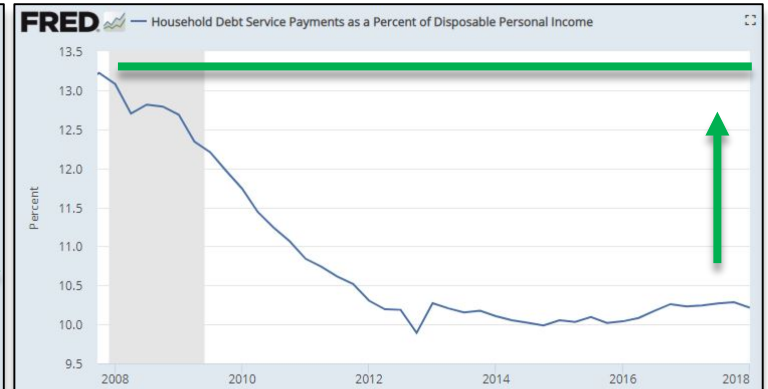


Reproduced from FactSet. Nationwide estimates for August 2018. Chart: Axios Visuals

Data Source: Phillips & Co., Bloomberg, https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_091418.pdf, https://www.axios.com/end-sugar-rush-tax-reform-212b820c-bcc6-429e-894c-17a3894edb51.html. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

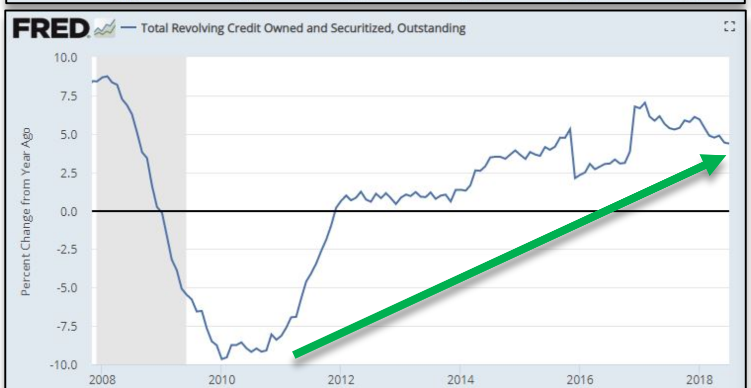
U.S. Consumer Strength

Wage Growth: 2.9%



Household Debt Service Payments as a % of Disposable Personal Income

Total Revolving Credit

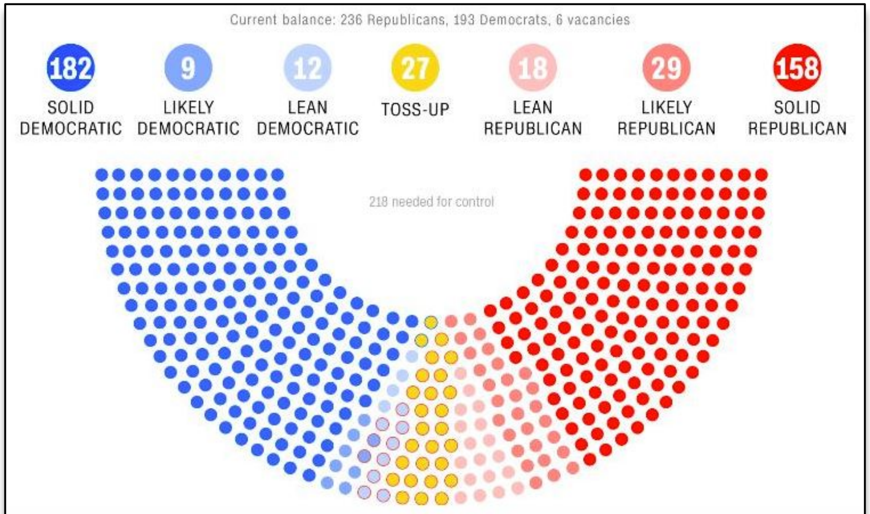


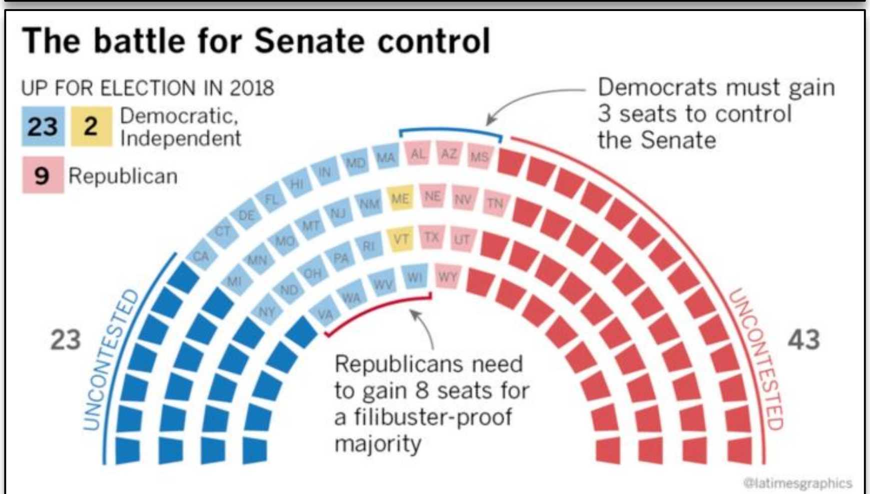
Personal Savings Rate

- ❑ Continued declines in unemployment, matched by a stabilizing low labor force participation, is likely adding to muted wage inflation.
- ❑ A return to peak levels of debt service payments as a percent of disposable income could add as much as $5.9 trillion in consumption over the next 10 years.
- ❑ After the government change in calculating the Personal Savings Rate, the Personal Savings Rate shows limited declines over the past five years, further suggesting the U.S. Consumer has ample room to increase spending; before the change in calculation the Personal Savings Rate had matched the sub 2% low in 2018 prior to the Great Financial Crisis.

Data Source: Economic Research Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/CES0500000003, https://fred.stlouisfed.org/series/UNRATE, https://fred.stlouisfed.org/series/TDSP, https://fred.stlouisfed.org/series/PSAVERT, Phillips & Co. http://phillipsandco.com/blog/questions-for-2018/

Political Outcomes





President in Office	Total Return During 4-Year Term	Annualized Return During 4-Year Term
Republican Average	18.07%	3.22%
Democrat Average	58.73%	10.91%

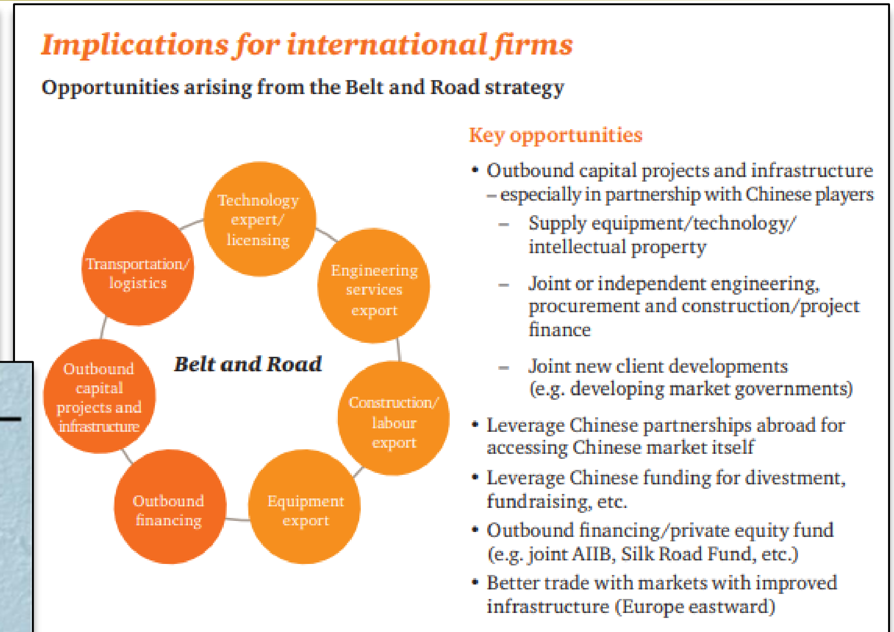
Source: Bloomberg, Plancorp

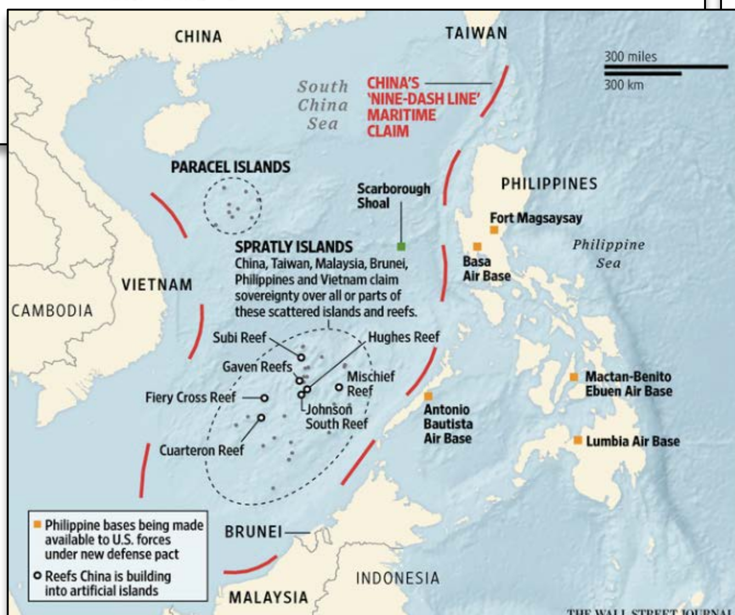
	House & Senate are Split w/ Republican President	House & Senate are Split w/ either Democrat or Republican President	Single Party Control
# of Years Since 1929	8	12	45
% of Time Since 1929	9%	13%	51%
% Positive Stock Market Returns	63%	67%	64%
Average Annual Stock Market Return	3.53%	6.89%	6.72%

Source: Bloomberg, Wiredpen.com

- The House leans in favor of the Democrats.
- The Senate leans in favor of the Republicans.
- This type of bifurcation between branches of government has only happened 9% of the time, dating back to 1929.
- It's important to note that we've seen positive stock market returns in this type of environment 63% of the time, with an average stock market return of 3.53%.
- Keep in mind that the best average annual stock market returns occur when the House and Senate are split.

Ticking Trade War





❑ Tensions continue to rise in the South China sea, a major trade route for global shipping, as military presence on Chinese artificial islands could help them lay claim to more than 80% of the South China Sea.

❑ The U.S. has officially imposed tariffs on a total of $250 billion worth of Chinese goods, with additional tariffs threatened on $267 billion worth of Chinese goods.

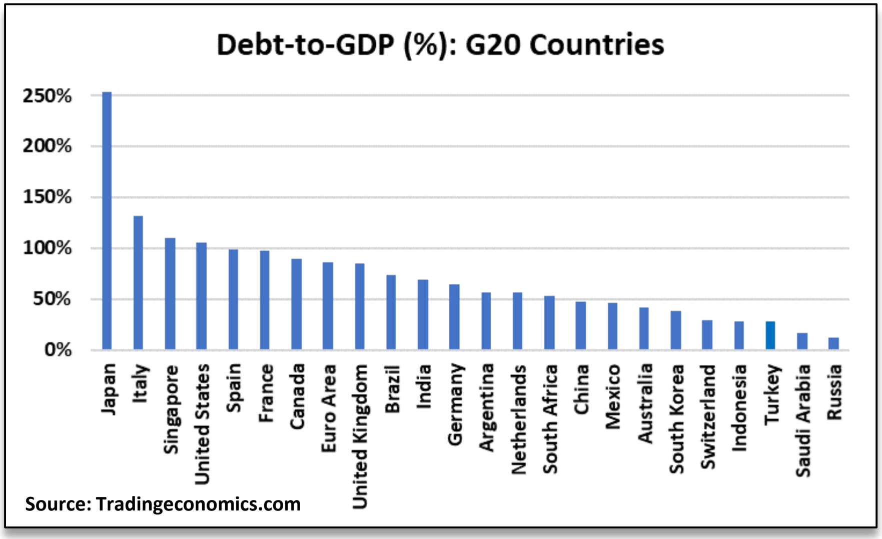
❑ China has imposed tariffs on $53 billion worth of U.S. goods, with additional tariffs threatened on another $60 billion.

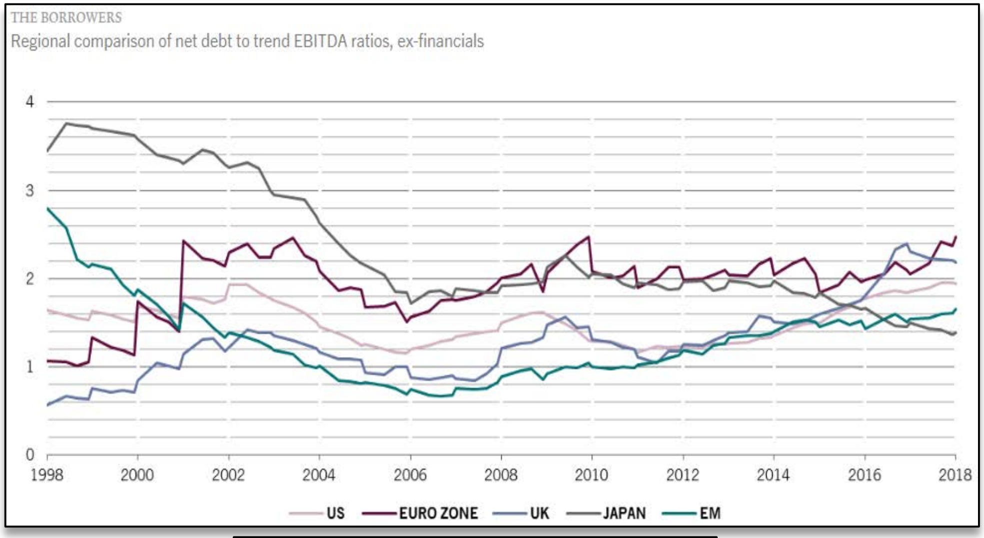
❑ USMCA, the NAFTA replacement, reaches tri-lateral agreement and moves to Congress for approval.

❑ Meanwhile, China's Belt and Road Initiative plans to connect trade routes and infrastructure to 30% of the global economy.

Data Source: Wall Street Journal (Subscription),Phillips & Co., https://www.taxpayer.net/agriculture/the-trump-trade-and-tariffs-timelines-and-trackers/, https://www.pwc.com/gx/en/growth-markets-center/assets/pdf/china-new-silk-route.pdf. Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

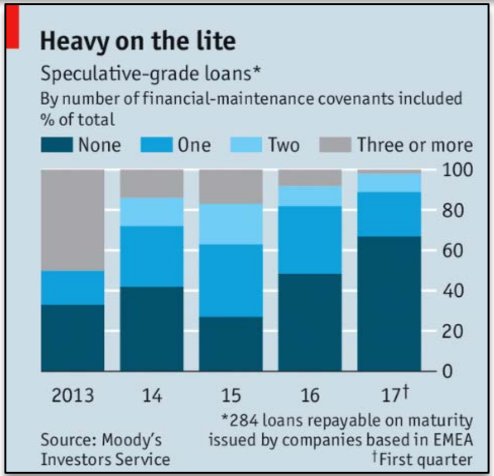
Race to the Back of the Line





Increases to global credit risk:

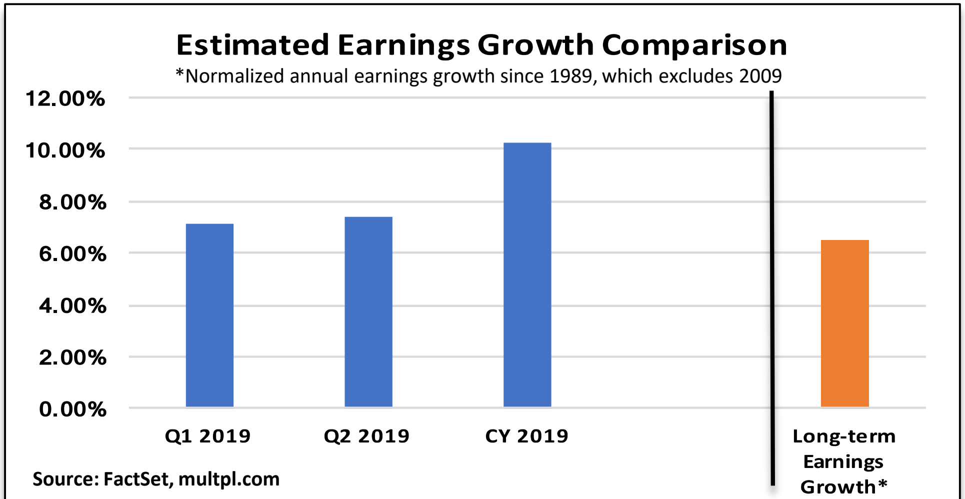
- More than half of G20 countries have debt-to-GDP greater than 50%, with 25% of G20 countries having debt-to-GDP greater than 100%
- Net debt to EBITDA ratios are sharply on the rise: U.S., Euro Zone, and the UK have matched or exceeded peak levels of leverage.
- New loan issuance is heavy on the lite: More than 60% of new issuance have zero financial maintenance covenants attached, more than triple the number in 2013.
- In 2018, covenant-lite issuance swelled to 80% of the global bank loan market

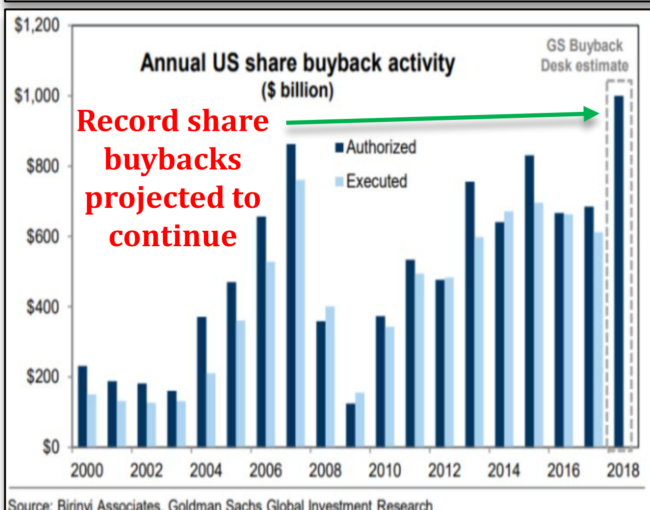


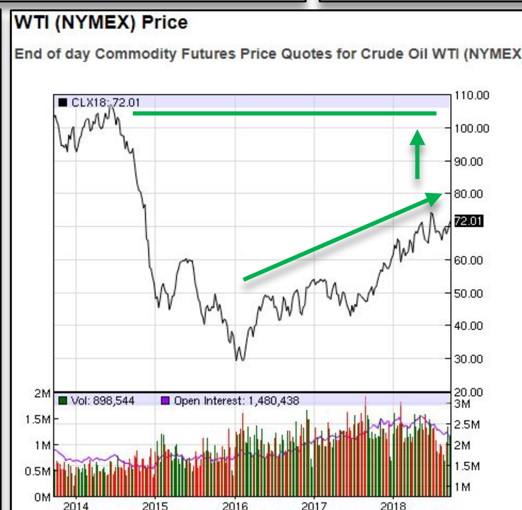
Data Source: Bloomberg, Phillips & Co., https://tradingeconomics.com/turkey/government-debt-to-gdp, https://www.am.pictet/en/us/global-articles/2018/market-views/in-brief/corporate-debt-problem, https://www.economist.com/finance-and-economics/2017/07/01/alarm-grows-about-over-exuberance-in-corporate-lending.

What's It Going to Take For 2019?

"Keep the Good Going"





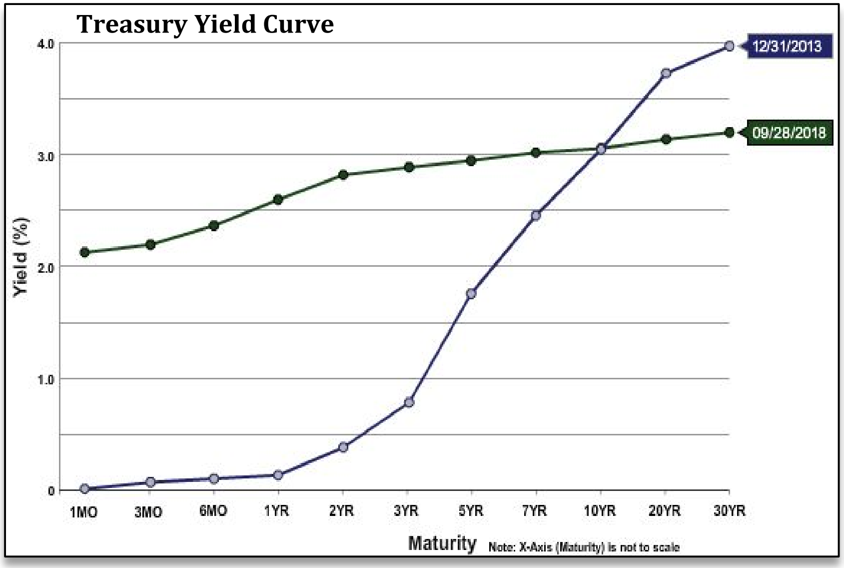


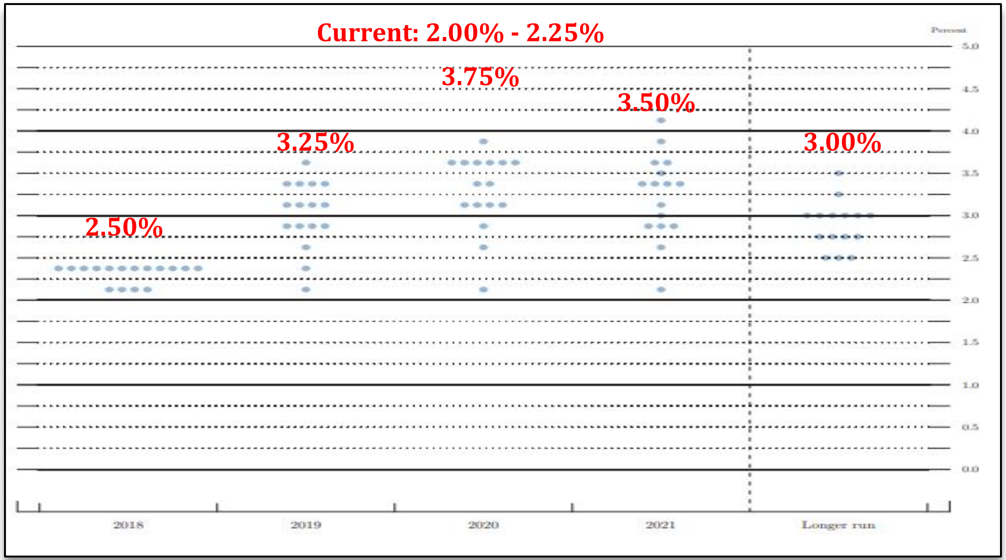
Support to keep the good going:

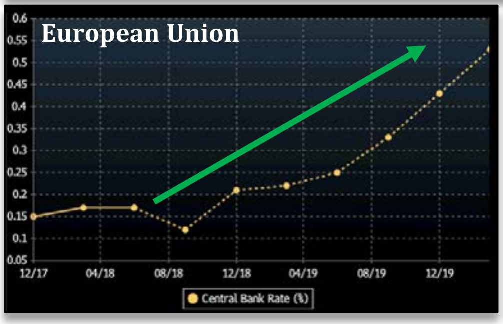
- Tax Cuts 2.0 are likely to continue to support share buybacks.
- Movements toward a NAFTA replacement could soften the fear of potential restrictions on capital flows, as well as easing trade war tensions.
- Continued strength in oil prices benefit energy companies which are 7% of the S&P 500.
- Earnings growth projections remain positive and above the long-term average.
- Despite gains in the U.S. dollar through 2018, the trend remains lower and is likely to fuel export growth and benefit the 39% of S&P 500 companies with international revenues.

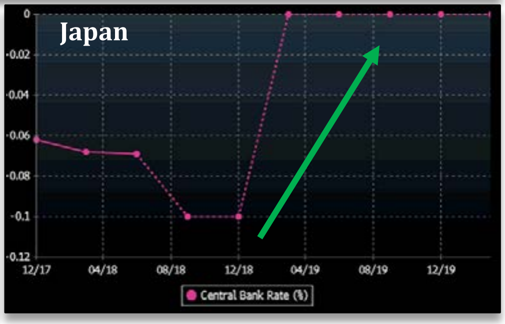
Data Source: Bloomberg L.P., http://www.multpl.com/s-p-500-real-earnings-growth/table/by-year, https://www.ft.com/content/00d3d748-9974-11e8-ab77-f854c65a4465, https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_092818B.pdf?hsCtaTracking=31d0f488-5c02-4193-b93b-f1708067f4fa%7Cb994622e-6b82-4c98-ad34-76c848088314, https://fred.stlouisfed.org/series/TWEXB, https://www.bloomberg.com/news/articles/2018-03-02/-800-billion-buyback-guess-is-latest-bombshell-in-tax-cut-debate. Economic Research Federal Reserve Bank of St. Louis, Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Interest Rates





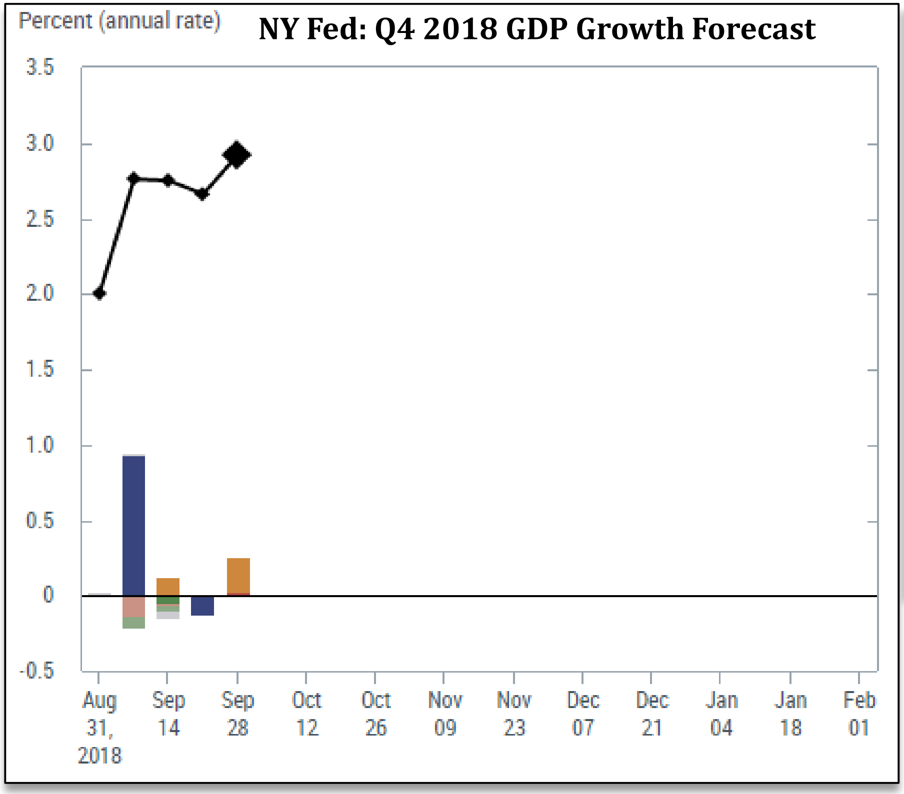


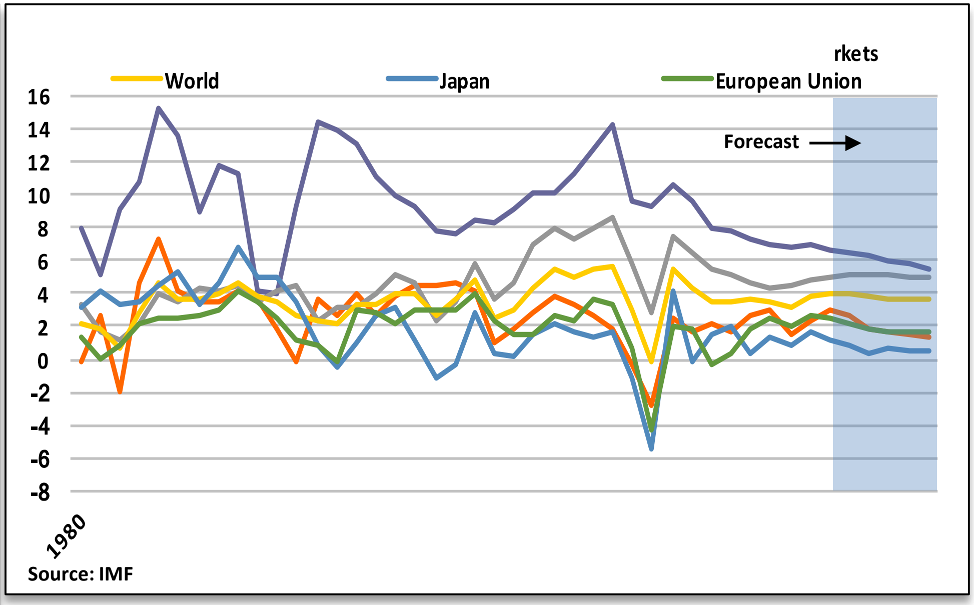


- Rate expectations for the remainder of 2018 project the Fed Funds Rate to be 2.5%, suggesting one additional rate hike during the fourth quarter.
- The Fed Funds Rate is projected to be 3.25% by the end of 2019, suggesting three rate hikes throughout 2019; 2020 Fed Funds Rate is projected to be 3.75%, suggesting only two rates hikes in 2020.
- The yield curve continues its course of flattening.
- BOE and BOJ both have forecasted rising interest rates; this is likely to boost the value of their respective currencies, and further cause weakness to the U.S. dollar which could help boost exports in 2019.

Data Source: Bloomberg, Economic Research Federal Reserve Bank of St. Louis, https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20180926.pdf, https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/Historic-Yield-Data-Visualization.aspx. Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

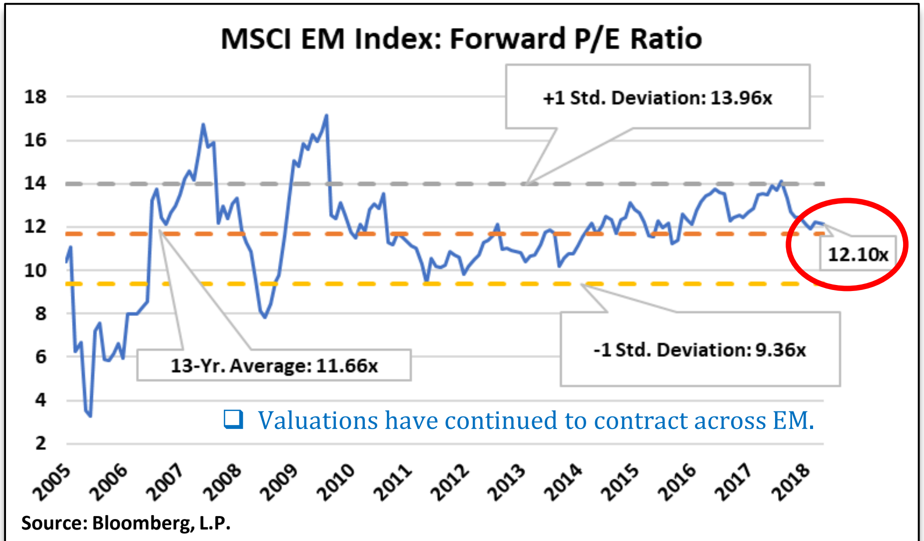
U.S. & Global GDP Projections

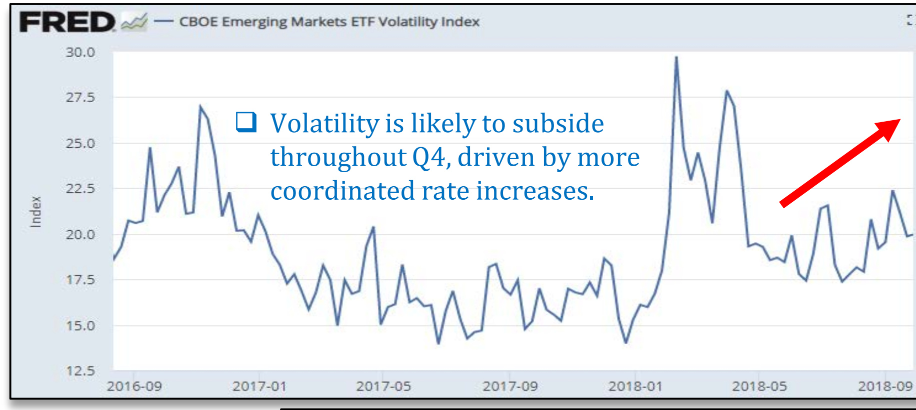


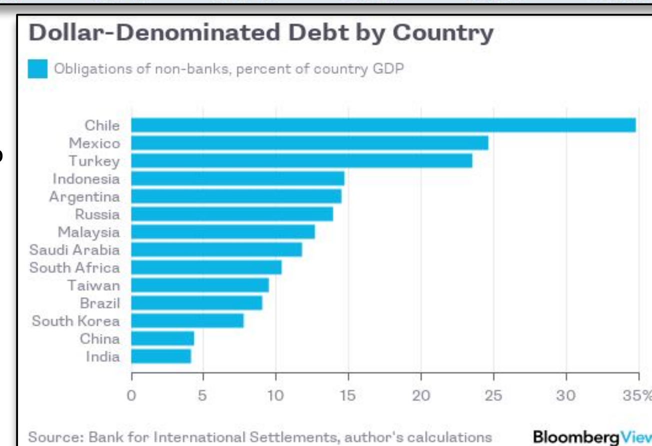


- ❑ The Federal Reserve Bank of New York is currently projecting Q4 2018 GDP growth of 3.0%.
- ❑ World GDP Growth is projected to reach 4%, and to remain there through 2020, suggesting continued strength in global consumption.
- ❑ A weakening U.S. dollar is likely to add fuel to U.S. exports, further suggesting continued strength in U.S. GDP.

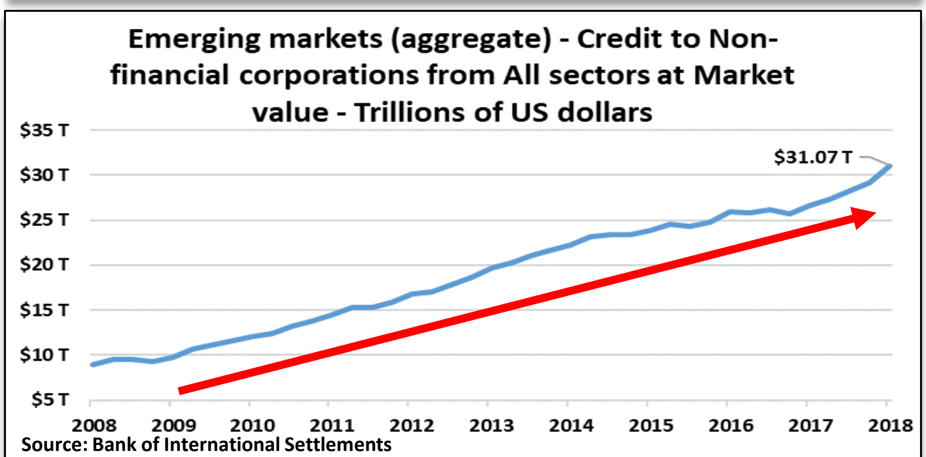
Emerging Markets (EM)







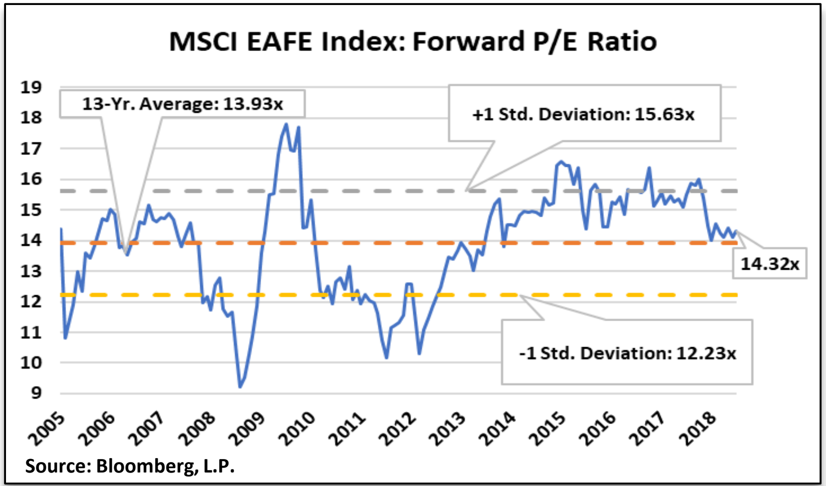
- ❑ Continued threats to stability are being driven by the strength of the U.S. Dollar.
- ❑ Dollar denominated debt by EM corporations reach an all-time high of $31 trillion.

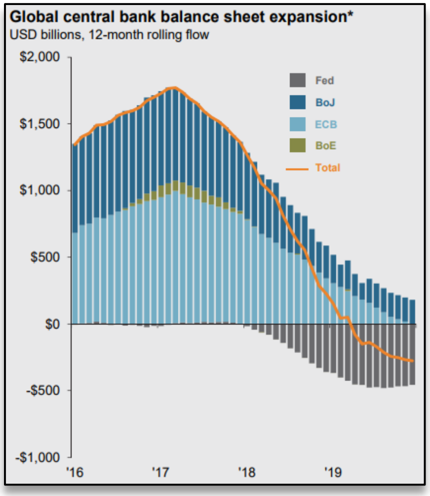


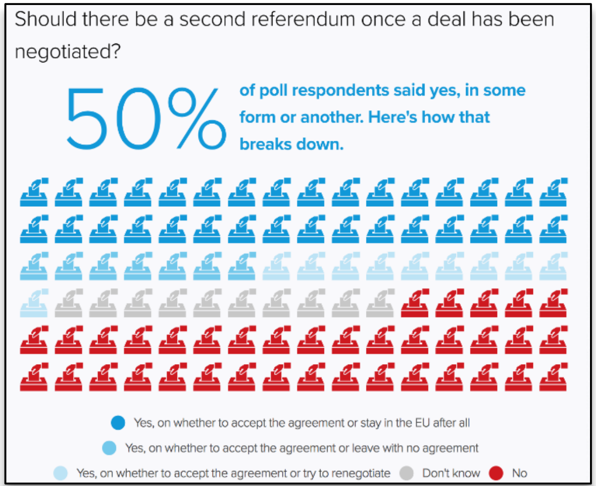
- ❑ Dollar denominated debt-to-GDP in Turkey, Mexico, and Chile exceed 20%; the good news is that these countries only make up 4% of the index, as well as world GDP.

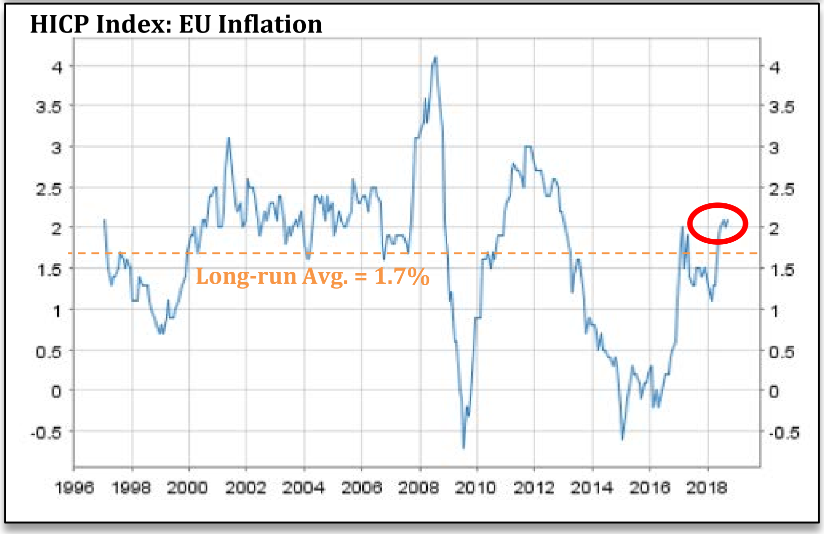
Data Source: Bloomberg, Bank of International Settlements, https://www.bis.org/statistics/totcredit.htm?m=6%7C380%7C669, Federal Reserve Bank of St. Louis FRED- https://fred.stlouisfed.org/series/VXEEMCLS, https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/WEOWORLD/USA/CHN. Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

International Developed Markets

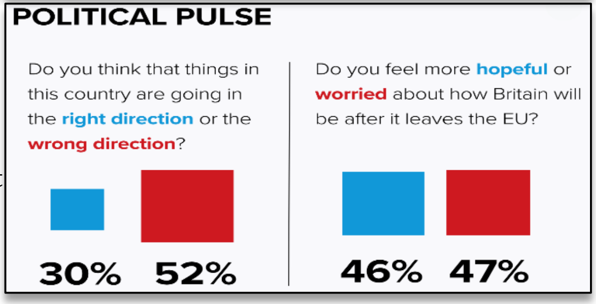








- Valuations have remained at their 13-year average across International Developed Markets.
- International Developed Market Central Banks follow the U.S. Fed in balance sheet normalization.



- Due to increasing worries over Britain leaving the EU, a growing second referendum is likely to gain widespread acceptance among voters over the course of Q4, leading to further instability for the EU.
- With inflation moving above the EU long-run average of 1.7%, the ECB may be forced to move interest rates higher at a more rapid pace, which could prove troublesome for already stifled GDP growth expectations.

Data Source: Phillips & Co., Bloomberg, L.P, https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_spring_030518_overview_en_0.pdf, http://phillipsandco.com/files/6115/3874/7436/MI-GTM_3Q18_August_v2.pdf, http://sdw.ecb.europa.eu/browse.do?node=9691209, https://www.politico.eu/article/brexit-poll-results-united-kingdom-support-grows-for-second-brexit-vote-on-staying-in-eu-or-backing-an-exit-deal/. Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Mean Reversion Dashboard

Style Current P/E as a % of 15-Yr Avg. P/E

	Value	Blend	Growth
Large	103.0%	105.7%	108.3%
Mid	103.7%	105.7%	106.4%
Small	100.0%	113.4%	130.8%

Regional Fwd P/E as a % of 10-Yr Avg. Fwd P/E

ACWI	EAFE Index	EM Index	United States	Germany	U.K.	China	Brazil	India	Russia
107.7%	100.9%	100.0%	114.1%	109.4%	103.6%	106.4%	98.2%	111.7%	94.0%

Sector Fwd P/E as a % of 20-Yr Avg. P/E

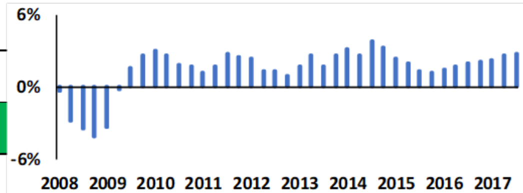
Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Real Estate	Materials
98.4%	92.8%	95.3%	101.2%	96.0%	120.6%	105.3%	63.6%	117.6%	117.8%	109.3%

Data Source: Bloomberg LP; JP Morgan Asset Management - http://phillipsandco.com/files/6115/3874/7436/MI-GTM_3Q18_August_v2.pdf. Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Economic Dashboard

U.S. GDP Growth — *As of 6/30/2018*

Latest Level	2.9
Change from Prior Quarter	0.1
Latest Direction	Improving
Frequency	Quarterly

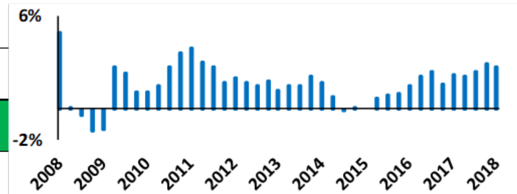


U.S. Treasury Spread 2-Yr vs. 10-Yr Spread — *As of 9/28/2018*

Latest Level	24.2
Change from Prior Quarter	-9.0
Latest Direction	Flattening
Frequency	Quarterly

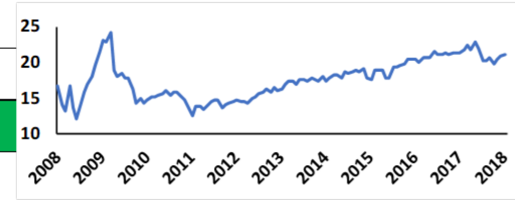
U.S Inflation — *As of 9/28/2018*

Latest Level	2.7
Change from Prior Quarter	-0.2
Latest Direction	Decreasing
Frequency	Quarterly



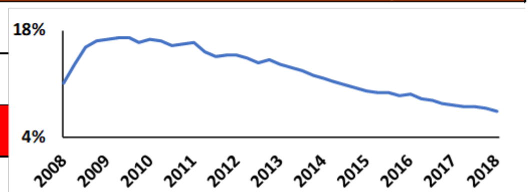
S&P 500 P/E Ratio — *As of 9/28/2018*

Latest Level	21.1
Change from Prior Month	0.1
Latest Direction	Increasing
Frequency	Monthly



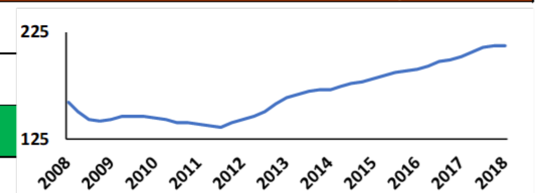
U.S. U-6 Unemployment Rate — *As of 9/28/2018*

Latest Level	7.4
Change from Prior Quarter	-0.4
Latest Direction	Decreasing
Frequency	Quarterly



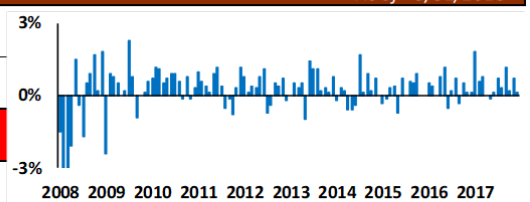
Schiller Home Value Index — *As of 9/28/2018*

Latest Level	211.6
Change from Prior Quarter	0.2
Latest Direction	Increasing
Frequency	Quarterly



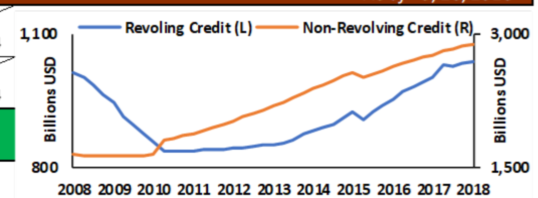
Retail Sales — *As of 8/31/2018*

Latest Level	0.1
Change from Prior Month	-0.6
Latest Direction	Decreasing
Frequency	Monthly



Credit: Revolving / Non-Revolving — *As of 9/28/2018*

Latest Levels	1036.6 / 2881.4
Changes from Prior Quarter	1.3 / 15.4
Latest Direction	Expanding
Frequency	Quarterly



Data Source: Bloomberg LP. Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Phillips & Company

Our View and Recommendations

Our View

- The U.S. consumer remains the global leader.
- Expect continued volatility as the rhetoric becomes reality ahead of mid-term elections.
- China and U.S. markets may not find a resolution, as a result of China's Belt and Road Initiative.
- The EM is likely to recover as Central Banks follow the Federal Reserve's lead in unwinding global stimulus – caution in the near-term, as cracks form due to growing dollar denominated debt.
- Weakness in International Developed Markets to remain, specifically EU weakness in the growing support for a second Brexit referendum.
- Rates likely to continue rising alongside wage-push inflation.
- The flattening yield curve adds an early warning sign for investors.

Recommendations

- Continue U.S. portfolio weightings to policy targets of +/- 2%.
- Tilt-to-value over growth as a defensive posture.
- Rebalance back to target for EM.
- Underweight Developed Markets to policy.
- Remain active in Fixed Income, but be mindful of where you sit in the capital structure and the covenants associated with what you own.
- Continue to favor moderate durations close to the benchmark as Fed action will likely impact short-term rates, and the flight to safety will likely impact long-term rates.
- Look for opportunity in noncorrelated assets to help mitigate risk and reduce beta in the overall portfolio.

Data Source: Phillips & Co.

THANK YOU

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