

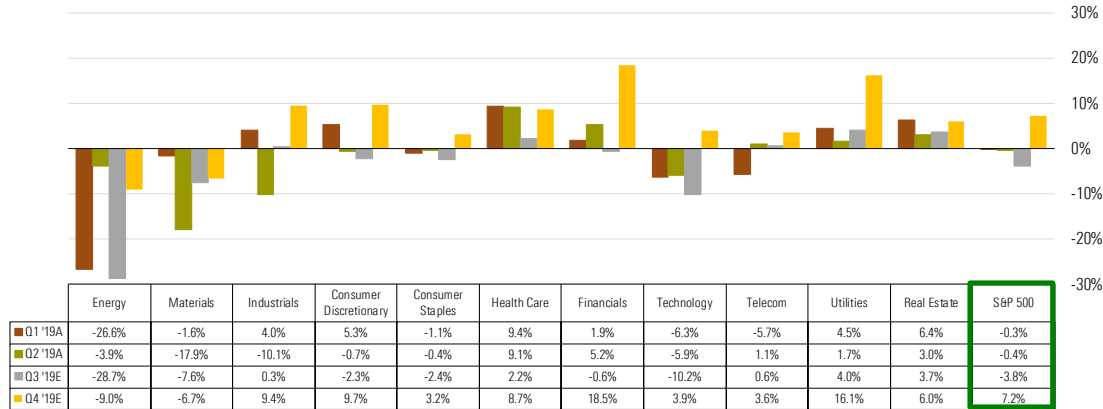
Q4 2019 LOOK AHEAD

Disclaimer

Certain information in this presentation constitutes forward-looking statements. Due to various risks, uncertainties, and assumptions made in our analysis, actual events or results or actual performance of the markets covered by this presentation may differ materially from those described. The information herein reflects our current views only, is subject to change, and is not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as presented. Data are from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Earnings Recession – Turnaround in Sight

S&P 500 Earnings Growth: Calendar Year 2019

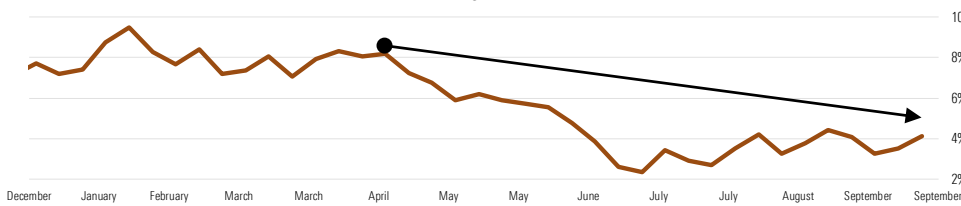


Source: FactSet Earnings Insight as of September 27, 2019.

Brent Crude Oil: YTD 2019 Performance



Trade-Weighted U.S. Dollar: Year-over-Year Percent Change



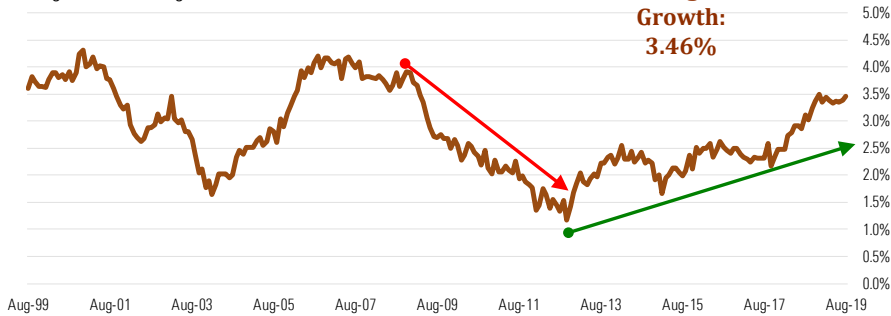
Source: Bloomberg as of September 30, 2019.

- S&P 500 earnings are expected to decline again in Q3 2019**, marking the first time the index has reported three straight quarters of year-over-year declines since Q4 2015 through Q2 2016.
- Despite a potentially stagnant third quarter for earnings, analysts are anticipating a return to growth in Q4 2019 and the first half of 2020**, specifically within the Energy and Basic Materials sectors.
- In our view, the key drivers of an earnings recovery are going to be focused on clarity regarding ongoing trade disputes, the already-underway rebound in energy prices, and a weaker U.S. dollar which should benefit large, multi-national companies.**

U.S. Consumer Strength

Average Hourly Earnings: Year-over-Year Percent Change

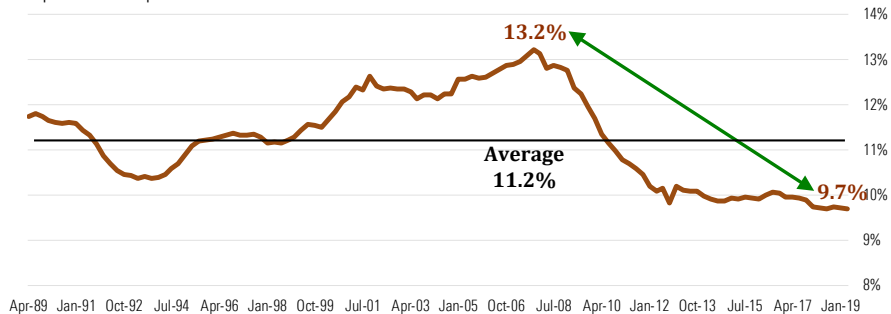
August 1999 to August 2019



Source: U.S. Bureau of Labor Statistics as of August 2019.

Household Debt Service Payments as a % of Disposable Income

April 1989 to April 2019

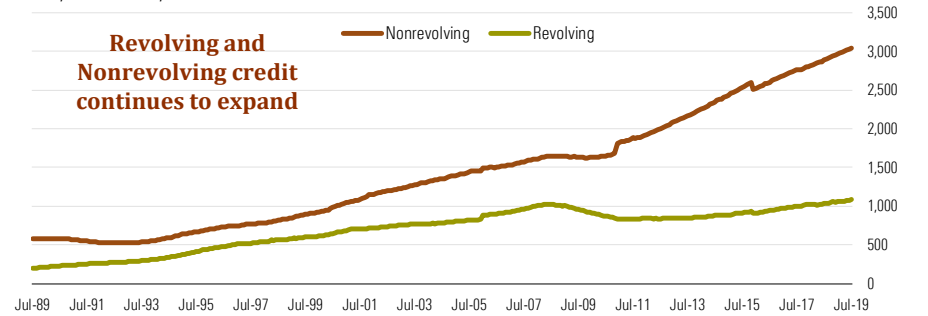


Source: Federal Reserve as of April 2019.

- ❑ **The amount of disposable income consumers spend on debt service remains well below both the peak level seen in 2007 (13.2%) and the long-term historical average (11.2%),** suggesting consumers have plenty of room to service their household liabilities.
- ❑ **After the government change in calculating the Personal Savings Rate, it has shown limited declines over the past half decade,** further suggesting that the U.S. consumer has ample room to increase spending; prior to the change in calculation, the Personal Savings Rate matched the lows recorded prior to the Financial Crisis.

Consumer Credit Outstanding

July 1989 to July 2019



Source: Board of Governors of the Federal Reserve System as of July 2019.

Personal Savings Rate

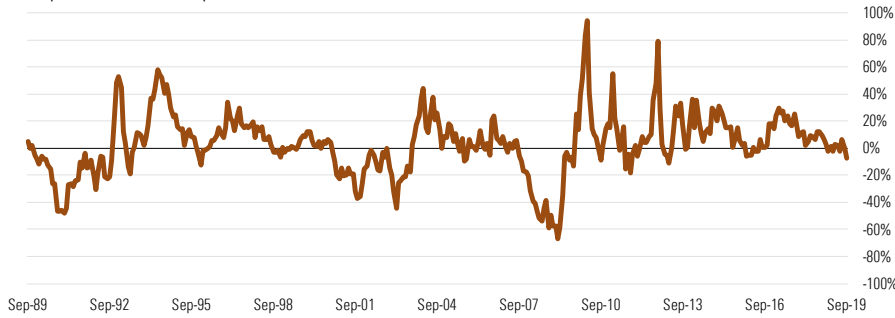
July 1989 to July 2019



Source: U.S. Bureau of Economic Analysis as of July 2019.

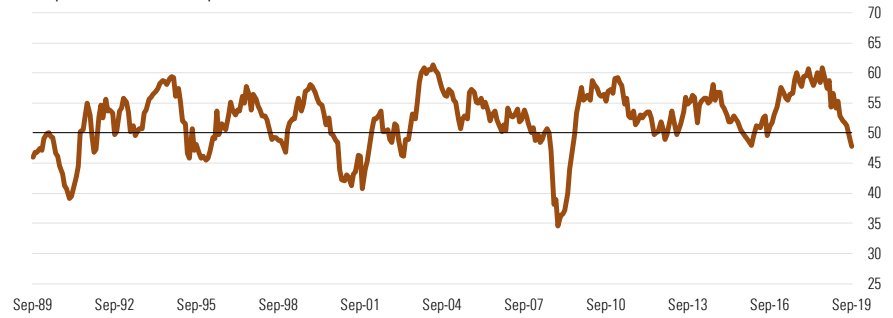
There are Some Clouds Ahead

Consumer Confidence: Year-over-Year Percent Change
September 1989 to September 2019



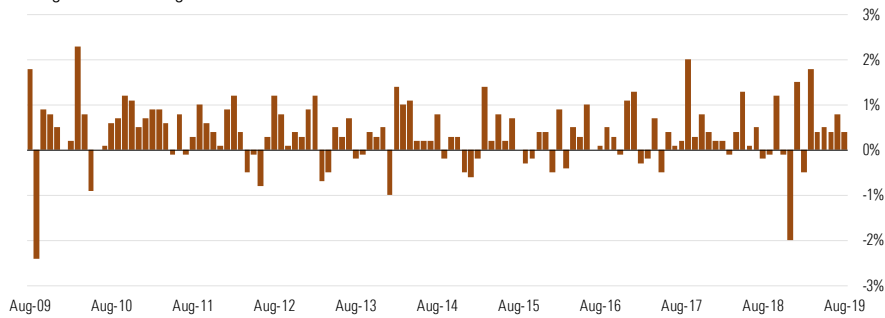
Source: The Conference Board as of September 2019.

ISM Manufacturing Index
September 1989 to September 2019



Source: Institute for Supply Management as of September 2019.

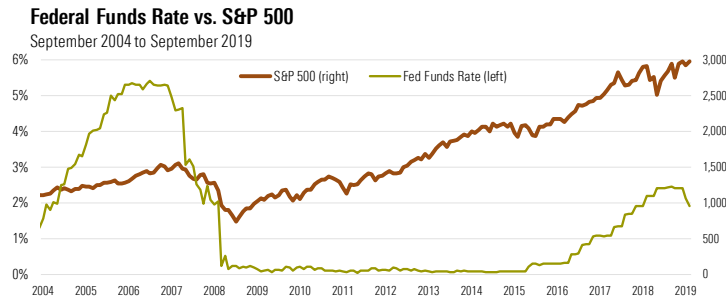
Retail Sales: Month-over-Month Percent Change
August 2009 to August 2019



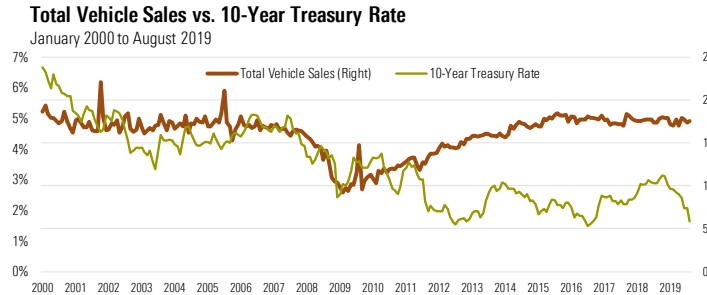
Source: U.S. Census Bureau as of August 2019.

- ❑ **Consumer confidence has been falling on a year-over-year basis in recent months** as trade war headwinds, oil supply shocks, and political uncertainty all weigh on consumers' minds as we inch toward the 2020 election.
- ❑ **The ISM Manufacturing Index for September checked in at 47.8**, down from 49.1 in August, as manufacturing activity continues to weaken for the fourth month in a row.
- ❑ **Retail sales slowed throughout the summer** and although month-over-month growth has not turned negative, the slowdown is something to keep an eye on as a barometer of the consumer's spending mindset.

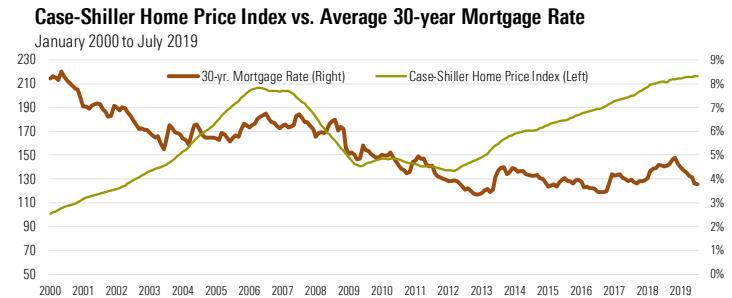
Interest Rates: Helicopters of Money



Source: Bloomberg as of September 27, 2019.



Sources: U.S. Bureau of Economic Analysis, Federal Reserve as of August 2019.



Interest Rate Increases & Decreases since '08

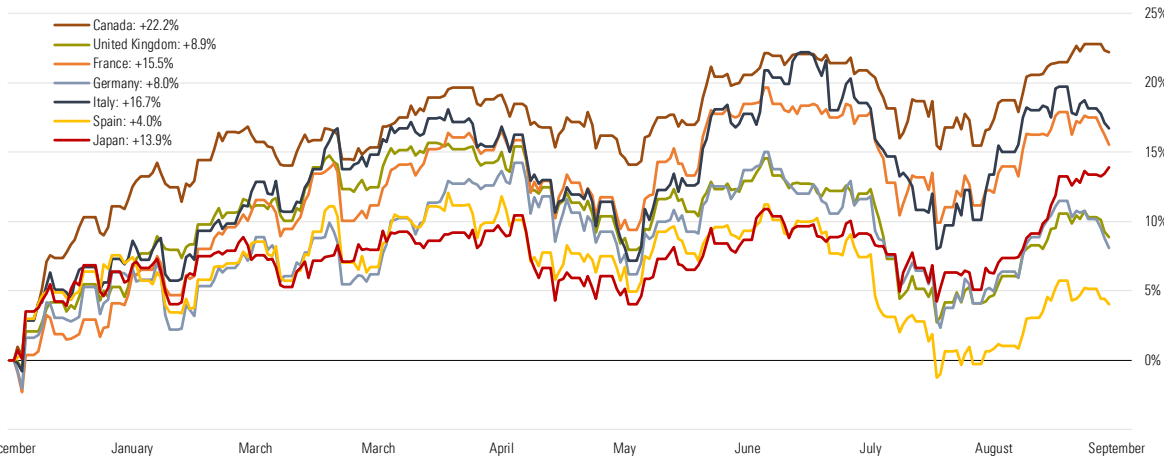
Date	Rate Increase or Decrease (bps)	Level (%)
2008		
January 22	-75	3.50
January 30	-50	3.00
March 18	-75	2.25
April 30	-25	2.00
October 8	-50	1.50
October 29	-50	1.00
December 16	-75 to 100	0-0.25
2015		
December 17	+25	0.25 to 0.50
2016		
December 15	+25	0.50 to 0.75
2017		
March 16	+25	0.75 to 1.00
June 15	+25	1.00 to 1.25
December 14	+25	1.25 to 1.50
2018		
March 22	+25	1.50 to 1.75
June 14	+25	1.75 to 2.00
September 27	+25	2.00 to 2.25
December 20	+25	2.25 to 2.50
2019		
August 1	-25	2.00 to 2.25
September 19	-25	1.75 to 2.00

Source: Federal Reserve as of September 2019.

- ❑ **The Federal Reserve continues to pump up the economy with lower interest rates**, as shown in the top-left chart comparing the S&P 500 to the Federal Funds Rate.
- ❑ **Historically, lower rates also lead to improved housing metrics and consumer spending**; this inverse relationship is shown in the top-right chart comparing the 30-year mortgage rate to the Case-Shiller Home Price Index and in the lower-left chart plotting the 10-year treasury against aggregate vehicle sales on a monthly basis.
- ❑ **We anticipate further easing of U.S. monetary policy in the fourth quarter**, with one to two additional rate cuts by year-end.

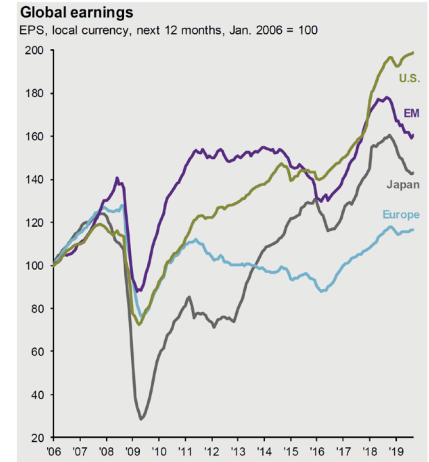
International Developed Markets

Developed Market Countries: Year-to-Date Stock Market Performance



Source: Bloomberg as of September 27, 2019.

- ❑ **The United Kingdom has lagged significantly this year** as Brexit uncertainties continue to weigh on consumption and the overall British economy.
- ❑ **The Japanese economy continues to grow at a snails pace**, with Q2 2019 GDP increasing just 0.83% year-over-year. Japanese unemployment remains historically low at just 2.2%.
- ❑ **In the Eurozone, the ECB policy rate, 10-year German yields, and now 30-year German yields have all turned negative**, well below their equivalents in the U.S., the U.K., and even below Japan; negative yields have pushed investors to reach for yield, but have failed to boost growth/inflation meaningfully, and with nominal growth remaining low, valuations look expensive, which poses the risk of a sudden correction in the future



Selected Country Year-over-Year GDP Growth

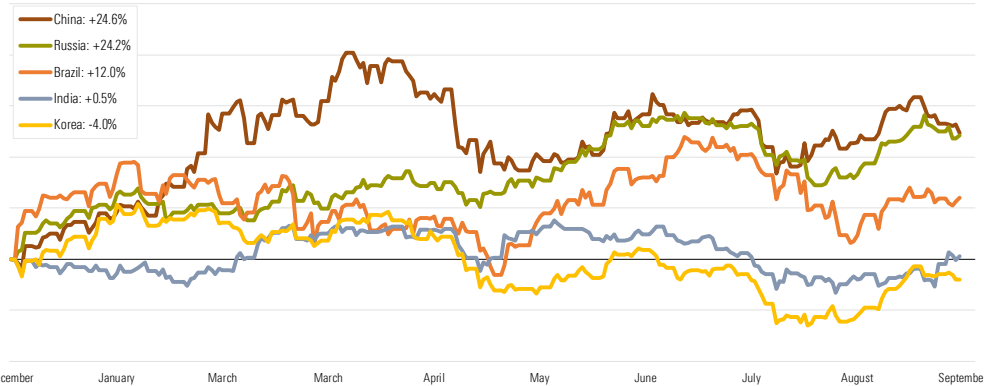
Country		Current Reading (%)	Previous Reading (%)
Canada	↑	1.50%	1.40%
France	↑	1.38%	1.28%
Germany	↓	0.41%	0.88%
Italy	↑	-0.05%	-0.06%
Japan	↓	0.83%	0.96%
Spain	↓	2.03%	2.17%
United Kingdom	↓	1.31%	2.07%

Source: Bloomberg as of September 30, 2019.

Emerging Markets

The World is Slowing but Not Stopping

Emerging Market Countries: Year-to-Date Stock Market Performance

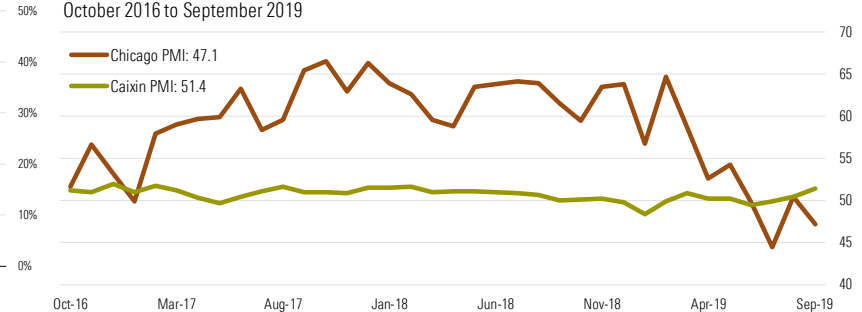


Source: Bloomberg as of September 27, 2019.

- ❑ **Given election year pressures for President Trump, we expect some sort of resolution to the U.S.-China trade impasse before year-end;** whether that resolution is an interim deal while the two sides hammer out other hard issues, or an all-encompassing pact, remains to be seen.
- ❑ **The manufacturing sectors of the U.S. and China have been moving in opposite directions recently, as measured by purchasing manager surveys in both countries;** this fresh data reflects a Chinese economy that is stronger than most think and confirms that the modest stimulus deployed by the Chinese government has had a positive effect its economy.
- ❑ **The inclusion of China A-Shares into MSCI indices continues, with the 20% inclusion rate expected to be met in November;** if this occurs, China A-Shares should make up almost 43% of the total market capitalization of the MSCI Emerging Markets index and will have attracted north of \$80 billion in new foreign assets from various index funds into the world's second largest economy.
- ❑ **Russian equities have outperformed so far in 2019,** mainly due to central bank easing; Western sanctions and overall global economic health remain key risks for Russian stocks.
- ❑ **Performance across Latin America was positive in Q3,** led by Brazil, amid positive trends regarding pension reform, while elsewhere, volatile commodity prices caused weaker markets in Chile, Colombia, and Peru.

U.S. Chicago PMI vs. China Caixin PMI

October 2016 to September 2019



Sources: Caixin, Institute of Supply Management as of September 2019.

Emerging Market Countries Year-over-Year GDP Growth

Country		Current Reading (%)	Previous Reading (%)
Brazil	↑	1.00%	0.46%
China	↓	6.20%	6.40%
India	↓	5.01%	5.83%
Korea	↑	2.07%	1.60%
Russia	↓	0.81%	0.98%

Source: Bloomberg as of September 30, 2019.

Globally-Coordinated Central Banks

Selected Country Rate Cuts in 2019

Country	Current Rate	Latest Rate Cut	Latest Rate Cut Date	Total Rate Cuts in 2019
Australia	1.00%	-25	7/2/19	-50
Brazil	5.50%	-50	9/18/19	-100
Chile	2.00%	-50	9/3/19	-100
China	4.20%	-5	9/20/19	-11
Denmark	-0.75%	-10	9/12/19	-10
Egypt	13.25%	-100	9/26/19	-350
Hong Kong	2.25%	-25	9/19/19	-50
Iceland	3.50%	-25	8/28/19	-100
India	5.40%	-35	8/7/19	-110
Indonesia	5.25%	-25	9/19/19	-75
Malaysia	3.00%	-25	5/7/19	-25
Mexico	7.75%	-25	9/26/19	-50
New Zealand	1.00%	-50	8/7/19	-75
Peru	2.50%	-25	8/8/19	-25
Philippines	4.00%	-25	9/26/19	-75
Qatar	4.50%	-25	9/19/19	-50
Russia	7.00%	-25	9/6/19	-75
Saudi Arabia	2.50%	-25	9/18/19	-50
Serbia	2.50%	-25	8/8/19	-50
South Africa	6.50%	-25	7/18/19	-25
South Korea	1.50%	-25	7/18/19	-25
Thailand	1.50%	-25	8/7/19	-25
Turkey	16.50%	-325	9/12/19	-750
Ukraine	16.50%	-50	9/6/19	-150
United States	2.00%	-25	9/18/19	-50
Vietnam	6.00%	-25	9/13/19	-25

Selected Countries with Negative Bond Yields

	1 Year	2 Year	5 Year	10 Year	30 Year
Switzerland	-0.98	-0.96	-0.94	-0.81	-0.39
Japan	-0.29	-0.30	-0.30	-0.17	0.39
Germany	-0.72	-0.78	-0.78	-0.57	-0.07
Austria	-0.67	-0.74	-0.62	-0.33	0.25
Netherlands	-	-0.78	-0.72	-0.43	-0.08
Belgium	-0.65	-0.70	-0.57	-0.25	0.57
Finland	-0.73	-0.76	-0.68	-0.30	0.16
France	-0.64	-0.72	-0.65	-0.27	0.56
Sweden	-	-0.64	-0.65	-0.29	-
Denmark	-0.87	-0.84	-0.76	-0.55	-
Ireland	-0.51	-0.53	-0.46	-0.01	0.79
Italy	-0.28	-0.28	0.22	0.85	1.95
Spain	-0.52	-0.52	-0.31	0.15	1.05
United States	1.71	1.55	1.50	1.64	2.10

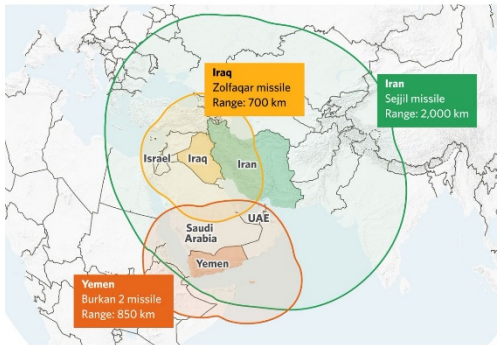
Source: Bloomberg as of September 30, 2019.

Within the Barclays Global Aggregate Bond Index, there is approximately \$14.76 trillion tied up in negative-yielding debt issues representing about 17.2% of overall global GDP (\$85.8 trillion).

External Threats Can Derail Economic Expansions

Iran and Its Allies' Missile Threats

Iran's allies in Iraq and Yemen give Iran extra layers of deterrence against an attack on its nuclear facilities by Israel, Saudi Arabia, the United Arab Emirates or the United States.

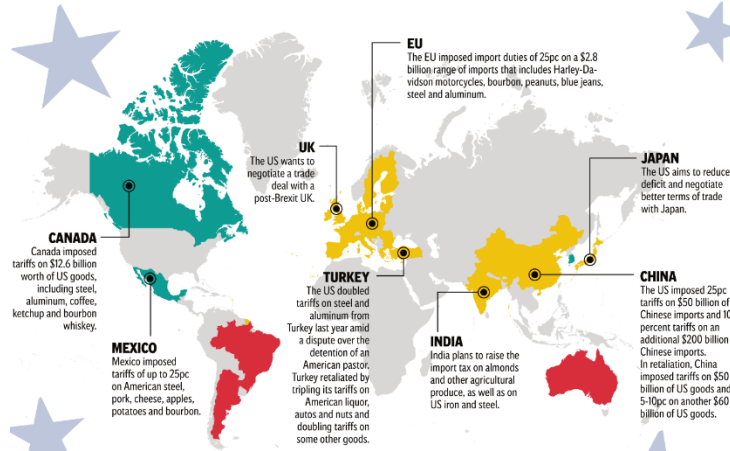


Source: Center for Strategic International Studies, Reuters

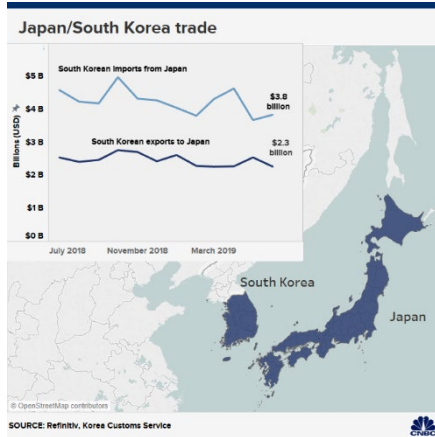
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US trade disputes around the world

Active trade conflicts Completed renegotiations Exemptions granted in exchange for quotas

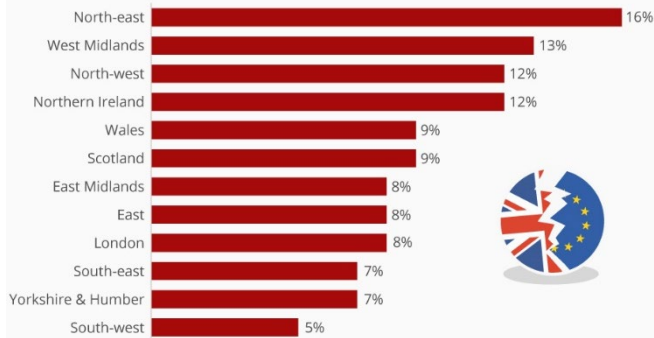


Note: South Korea is also included in the group of countries that negotiated exemptions from US tariffs. Source: Reuters



A hard Brexit could cost the UK £80 billion

Expected % decrease in GDP by region in the case of a hard Brexit



Source: Department for Exiting the European Union via Sky News

statista

- ❑ Threat of Iranian brinkmanship could disrupt the oil supply and cause an oil shock.
- ❑ A hard Brexit could create significant uncertainty within the EU.
- ❑ Achieving a smaller trade resolution with China, with a focus on farming, could be implemented, as it should benefit Trumps re-election bid.
- ❑ U.S. – E.U. trade disputes may escalate as Japan, China, and Mexico disputes get resolved, which may possibly drive Germany into recession.
- ❑ Japan/South Korea trade war will hinder U.S. military influence within the region.

Mean Reversion Dashboard

Style Current P/E as a % of 20-Yr Avg. P/E

	Value	Blend	Growth
Large	103.3%	106.8%	107.7%
Mid	102.4%	106.0%	107.3%
Small	88.5%	103.7%	123.3%

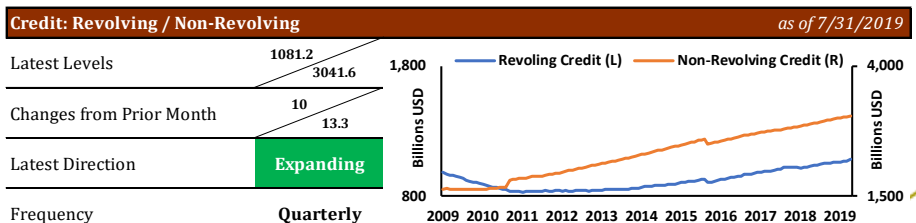
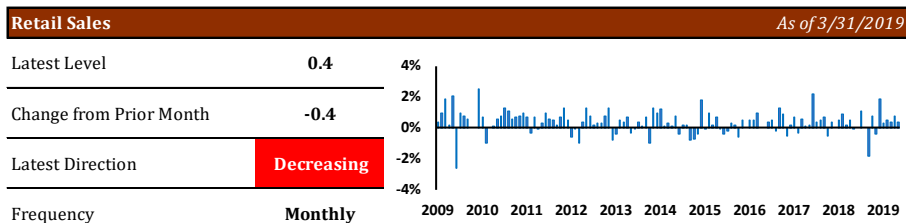
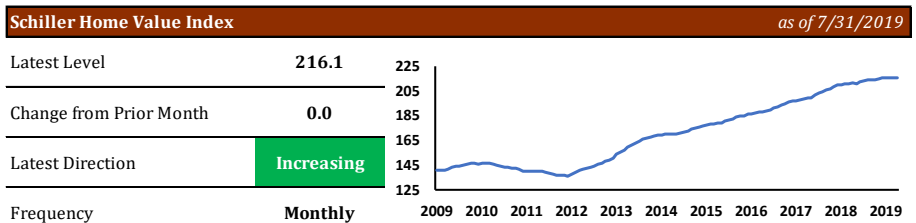
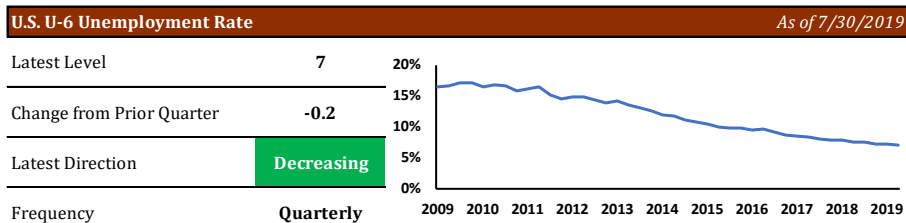
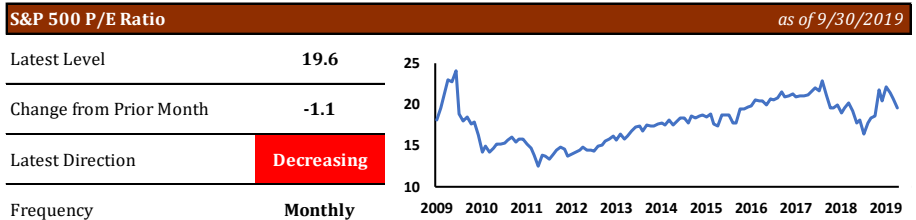
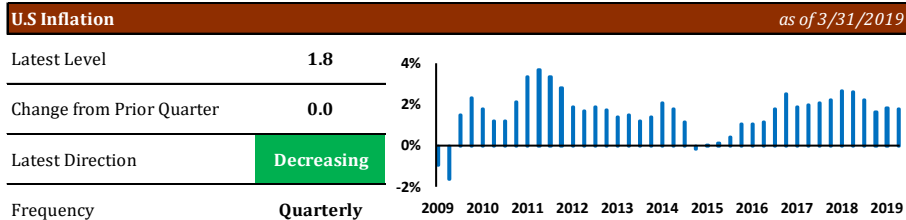
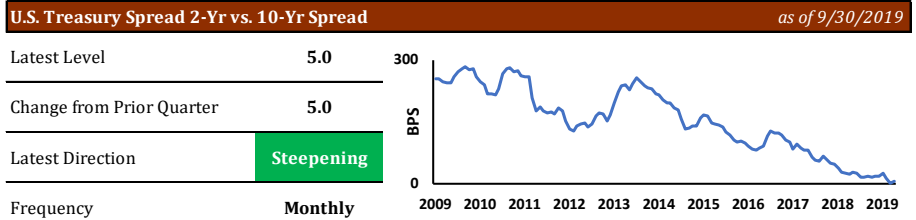
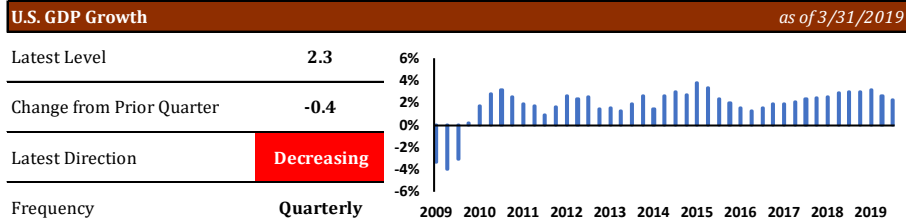
Regional Fwd P/E as a % of 10-Yr Avg. Fwd P/E

ACWI	EAFE Index	EM Index	United States	Germany	United Kingdom	China	Brazil	India	Russia
104.2%	97.6%	99.1%	110.5%	99.4%	97.2%	91.5%	96.1%	105.0%	78.5%

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

Materials	Industrials	Financials	Energy	Consumer Discretionary	Technology	Comm. Services	Real Estate	Health Care	Consumer Staples	Utilities
124.5%	99.4%	94.4%	93.1%	118.4%	95.0%	97.3%	125.3%	93.3%	114.3%	131.5%

Economic Dashboard



Data Sources: Bloomberg, Federal Reserve Bank of St. Louis
 No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Our View and Recommendations

Our View

- ❑ We expect risk assets to begin to benefit from better Q4 earnings-per-share growth.
- ❑ A rally in Chinese equities should recommence as the Trade War overhang is lifted.
- ❑ We expect one to two additional interest rate cuts by year-end 2019.
- ❑ We expect to see the Quantitative Easing policies of the last decade being re-examined.
- ❑ Developed Markets should continue to languish, with Brexit and slowing economies being the dominant forces.
- ❑ Emerging Market economies should strengthen on better earnings and forward-looking valuations.
- ❑ Central banks around the world will continue to act as a safety net for slowing economies.
- ❑ With forward-looking returns getting smaller by the day, investors are likely to stretch for return through private equity and other U.S. growth assets.

Recommendations

- ❑ Investors should maintain a slight overweight allocation to Emerging Markets and Chinese equities.
- ❑ U.S. Small Cap Value stocks should offer compelling mean-reverting opportunities compared to Mid- and Large Cap names.
- ❑ Continue to tilt to yield as rate cuts will support the Utilities, Energy, and Telecom sectors of the economy.

THANK YOU

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