



Q3 Investment Review & Outlook

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Presentation Outline

- I. Summary of Q3 and YTD Performance
- II. Macroeconomic Overview
- III. Investment Outlook
- IV. Conclusion



Summary Outlook

- Economic growth abroad has slowed, but global growth is generally better than appreciated. As fiscal stimulus wears off next year, U.S. growth seems more likely to slow than to grow at a pace that will require an even more aggressive Fed.
- There isn't a clock on the U.S. economy or financial markets. While the current expansion is the second longest on record, growth has not been very rapid. Without excesses built up in the system, the markets are less vulnerable to sharp pullbacks.
- The outlook for corporate credit remains very positive. However, there is a high level of corporate debt in the system. We will be watching for signs of moderation on this front.
- Trade concerns remain front and center for investors. While the US has reached agreement with Mexico and Canada, and there is a hopeful outlook with Europe, tensions remain high with China.



Major Asset Class Performance

- Stocks rose in the second quarter, with sector and style winners largely unchanged.
- U.S. markets were clear leaders. Emerging markets suffered in the quarter. Growth outperformed Value and Small-cap outperformed Large.
- Bonds had slightly negative returns. High yield outperformed.
- Oil rose again as the effort to limit supply and takeaway constraints in Texas impacted prices.

Index	Total Return	
	2018 YTD	Q3 2018
S&P 500	10.6%	7.7%
Russell 1000 Growth	17.1%	9.2%
Russell 1000 Value	3.9%	5.7%
Russell Midcap	7.5%	5.0%
Russell Small Cap	11.5%	3.6%
MSCI EAFE (International)	-1.0%	1.4%
MSCI Europe	-1.9%	0.8%
MSCI Emerging Markets	-7.4%	-0.9%
MSCI Japan	1.9%	3.8%
US Aggregate Bond	-1.6%	0.0%
Long Term Treasury Bonds	-5.9%	-3.0%
High Yield Bonds	2.6%	2.4%
Gold	-8.6%	-4.6%
Crude Oil	21.2%	-1.2%

Source: Factset Research

Note: Int'l market returns reported in U.S. Dollars, not local currency



U.S. Economy - Low Recession Risk

Recession risks remain low in U.S.

RECESSION WATCH REPORT				
Indicator	Key Recession Level	Current Level	Median Lead Time to Peak/Trough to Recession	Median Months Since Recent Peak/Trough in Current Cycle
NDR Recession Probability Model ¹	50	1.4	11	[No Title] 3
Breadth of Philly Fed State Leading Indexes ²	70	94	13	1
NDR Economic Timing Model ²	0	22	9	0
NDR Composite Leading Index ²	-2.6	3.3	9	0
National Financial Conditions Index ¹	0.9	-0.9	8	LITTLE EVIDENCE OF RECESSION 0
Initial Claims for Unemployment Insurance (4-wk Avg) ¹	500	209.5	8	1
Conference Board's Consumer Confidence Index ²	63.2	138.4	11	0
Conference Board's Business Confidence Index ²	43	55	21	6
ISM Manufacturing Index ²	48.0	59.8	11	2
ISM Non-Manufacturing Index ²	51.4	61.6	16	0

¹Reaching a trough before a recession
²Reaching a peak before a recession

Ned Davis Research, Inc. ECON_20A.RPT

RECESSION AND NON-RECESSION CYCLICAL BEAR MARKETS		
Metric	Recession Bears	Non-Recession Bears
% Change	-29.7	-18.0
# Months	24.4	6.8

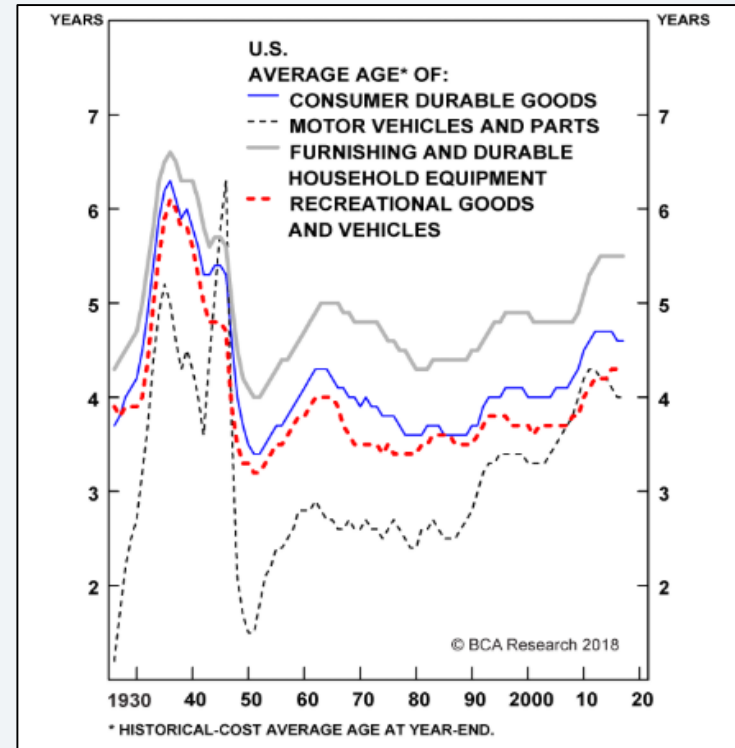
Ned Davis Research, Inc. T_203.RPT (excerpt)



U.S. Economy – Growth Drivers



Source: BCA Research

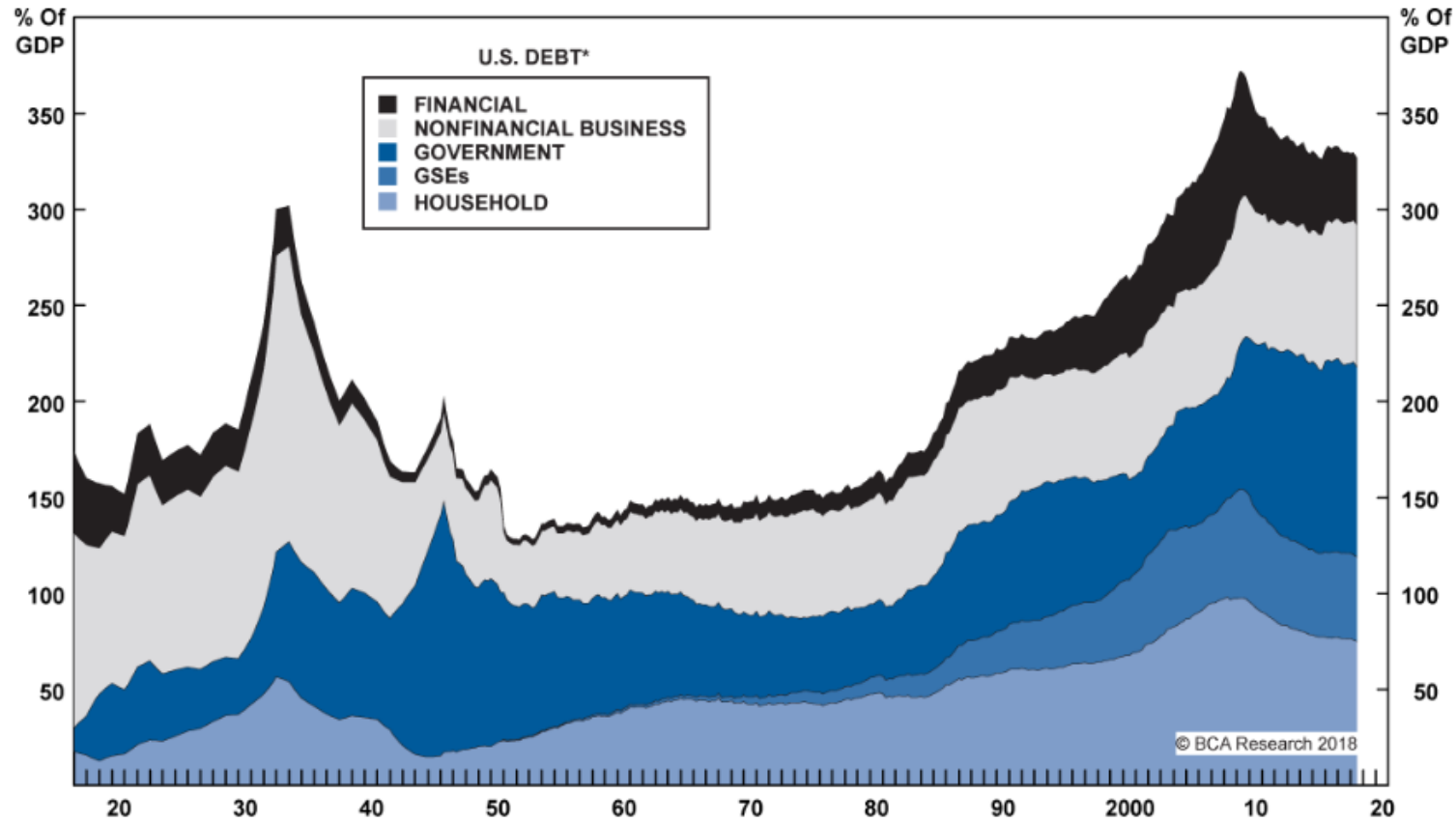


Source: BCA Research



Leverage Buildup Not Repeating

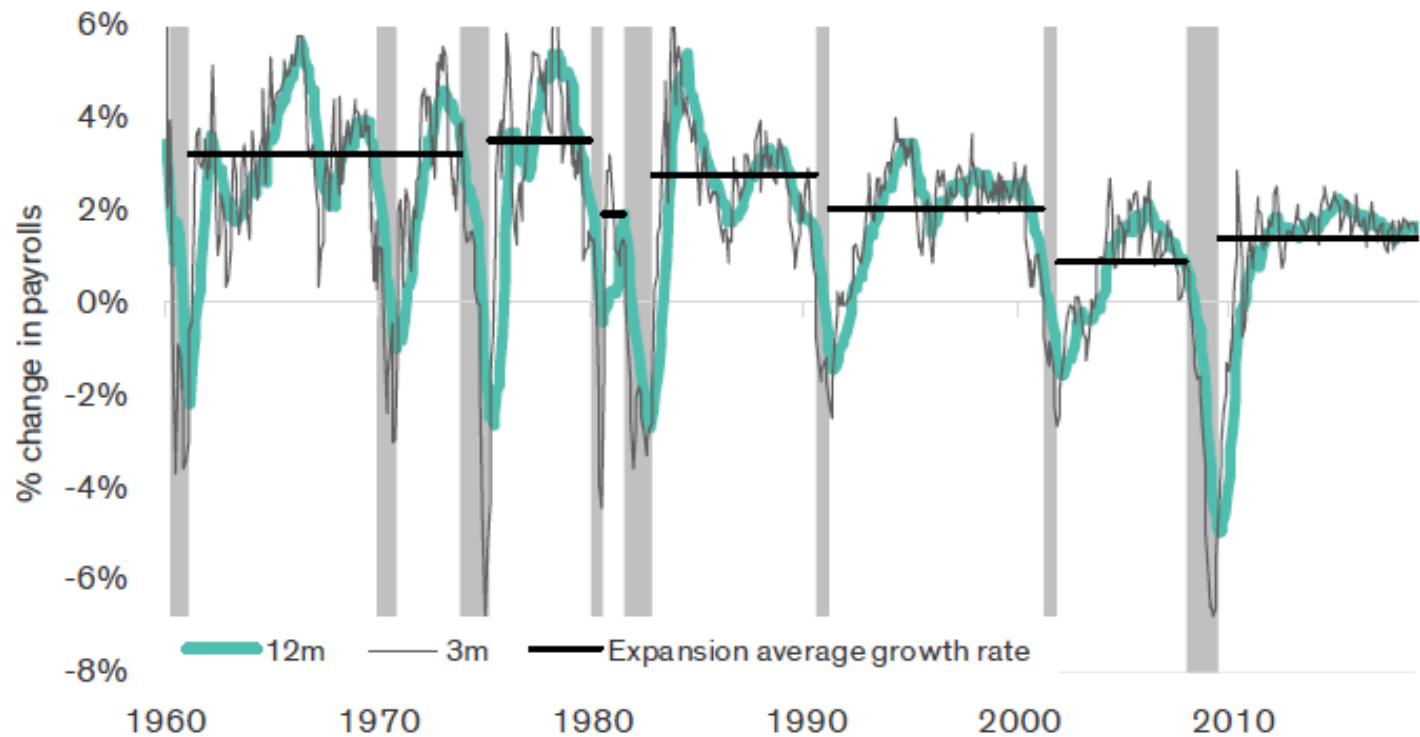
Large Increases In Leverage Occurred During The Lead-Up To The 1929 & 2008 Crashes



* SOURCE: FINANCIAL ACCOUNTS OF THE UNITED STATES (FEDERAL RESERVE).



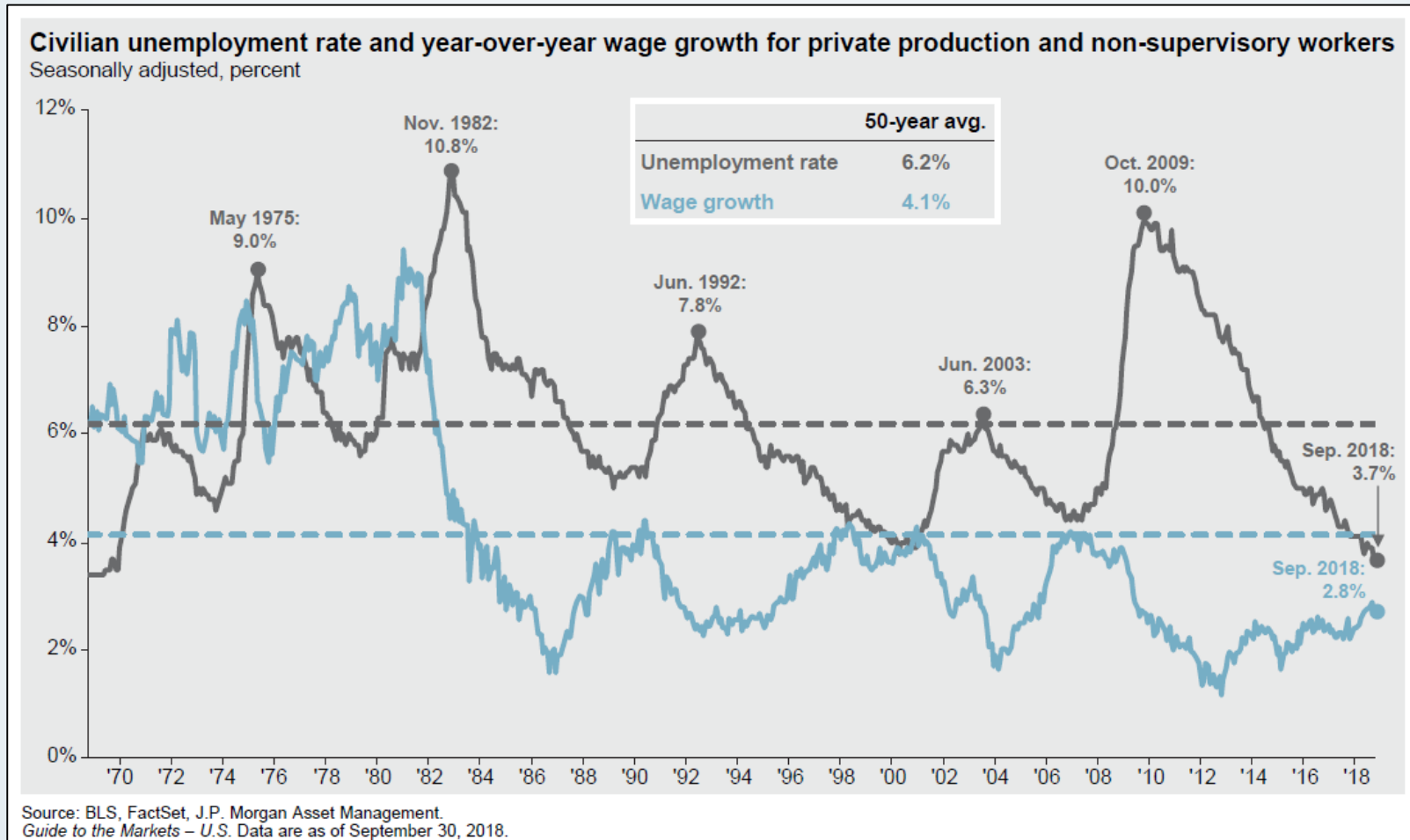
U.S. Economy – Not Overheated



Source: NBER, BLS, and Bernstein U.S. Economics analysis



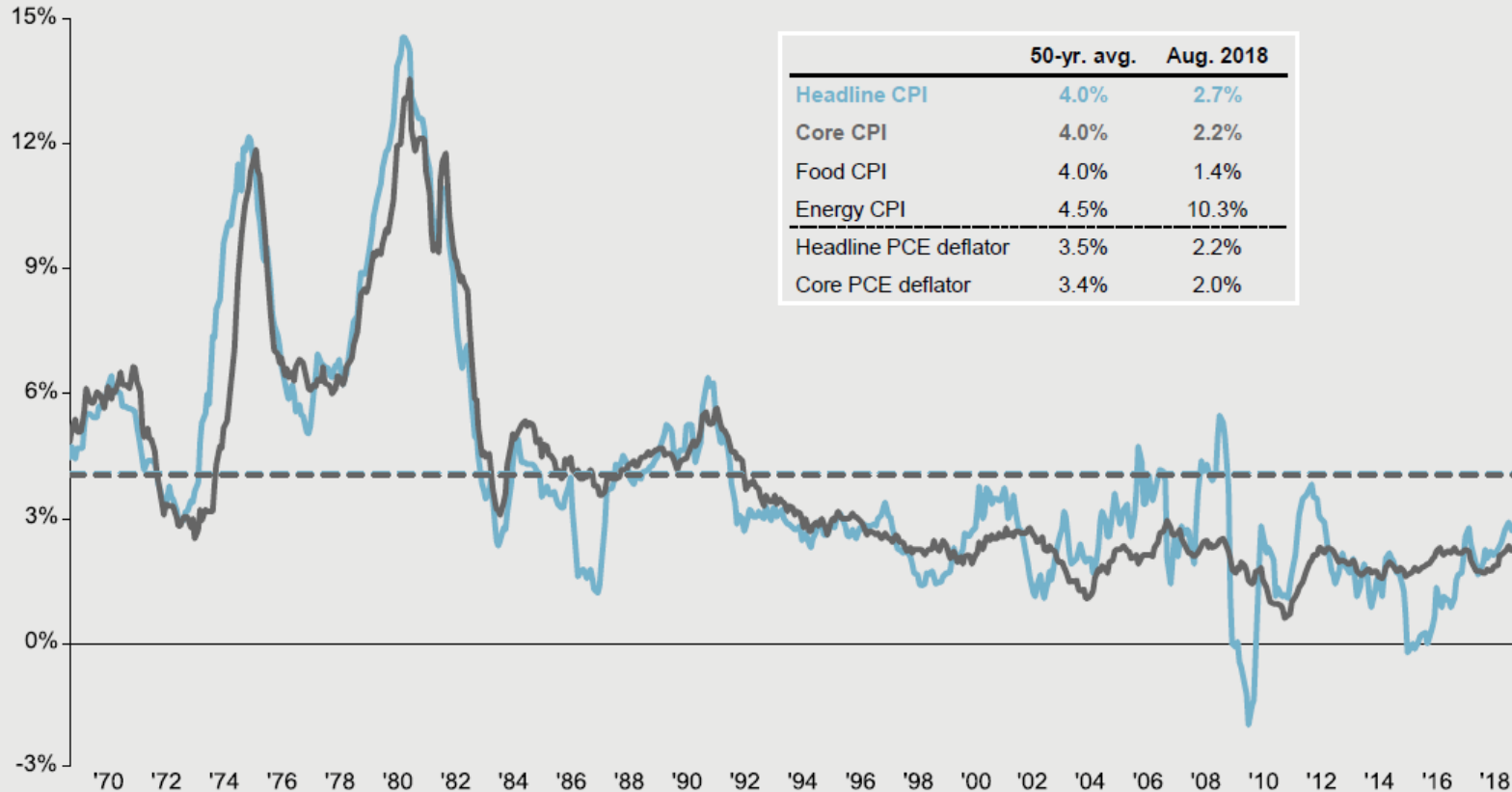
U.S. Economy – Employment & Wages



U.S. Economy - Inflation

CPI and core CPI

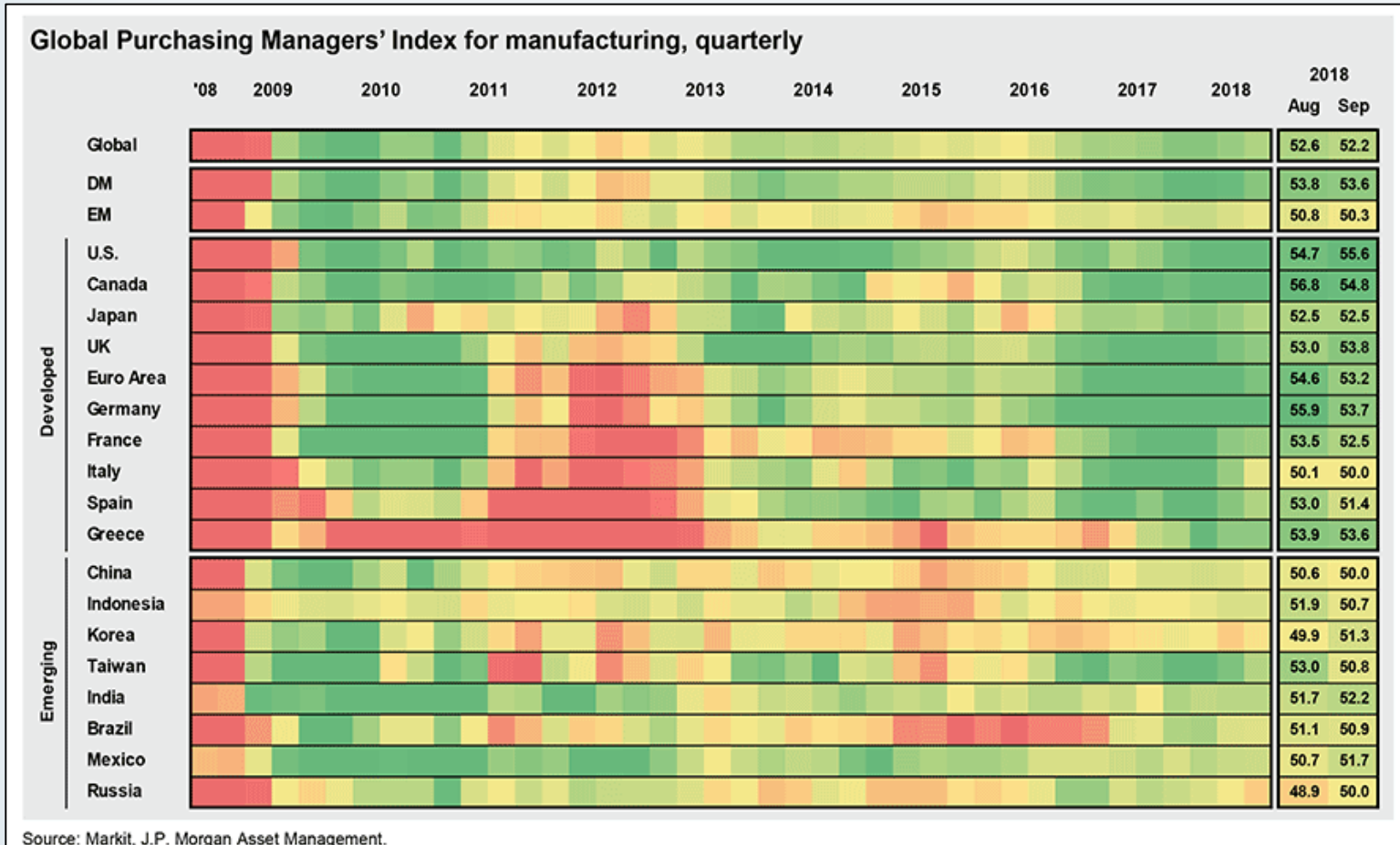
% change vs. prior year, seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management.



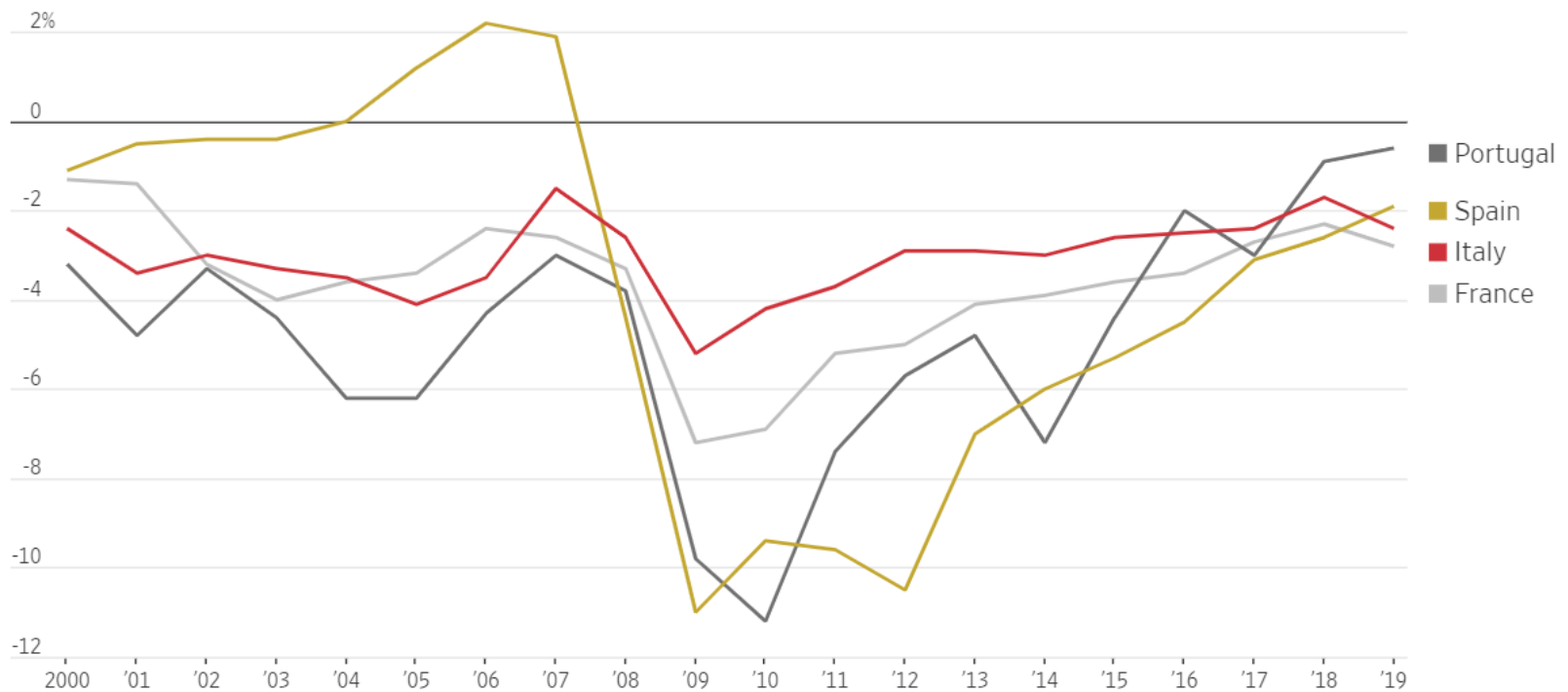
Global Growth - Intact



E.U. - Italy Budget Conflict

Mamma Mia?

Government budget balance as a percentage of gross domestic product

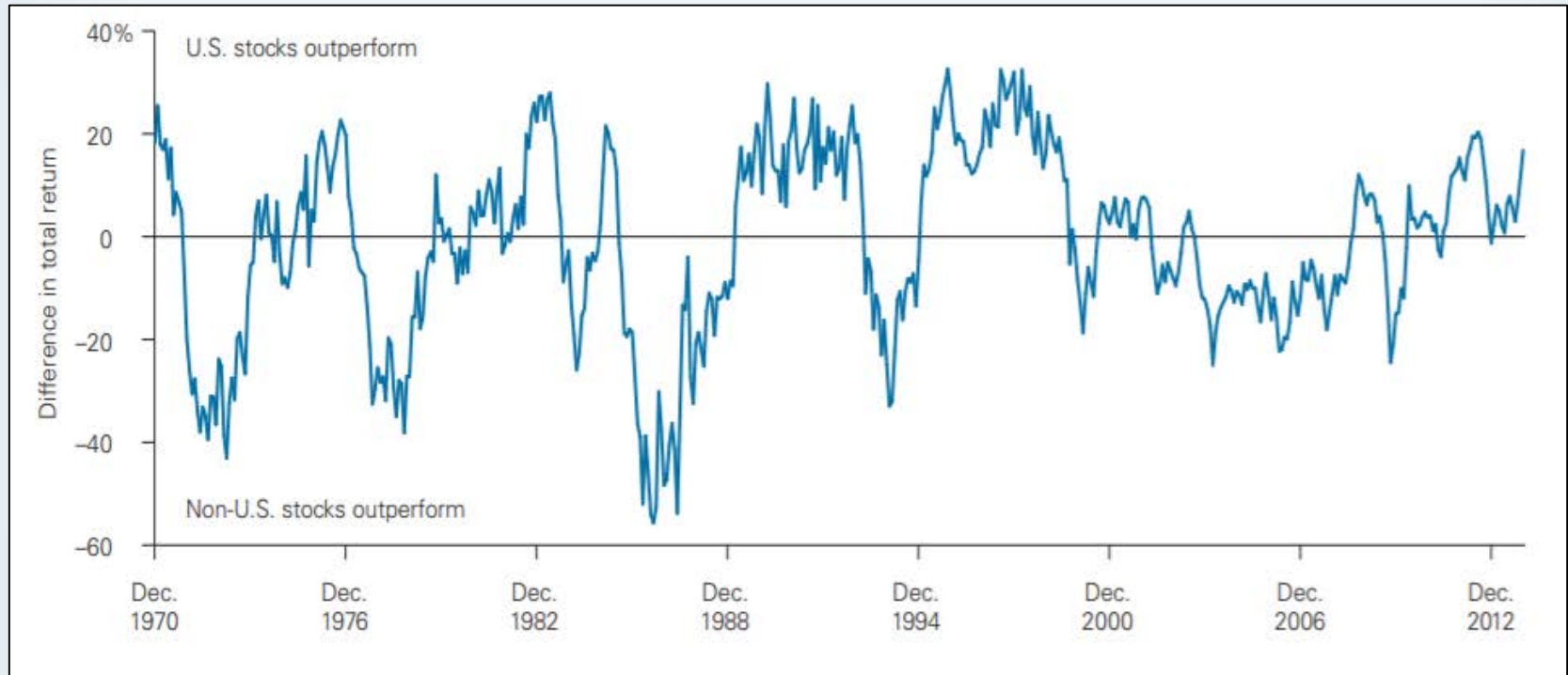


Note: Figures for 2018 and 2019 are estimates

Source: Eurostat



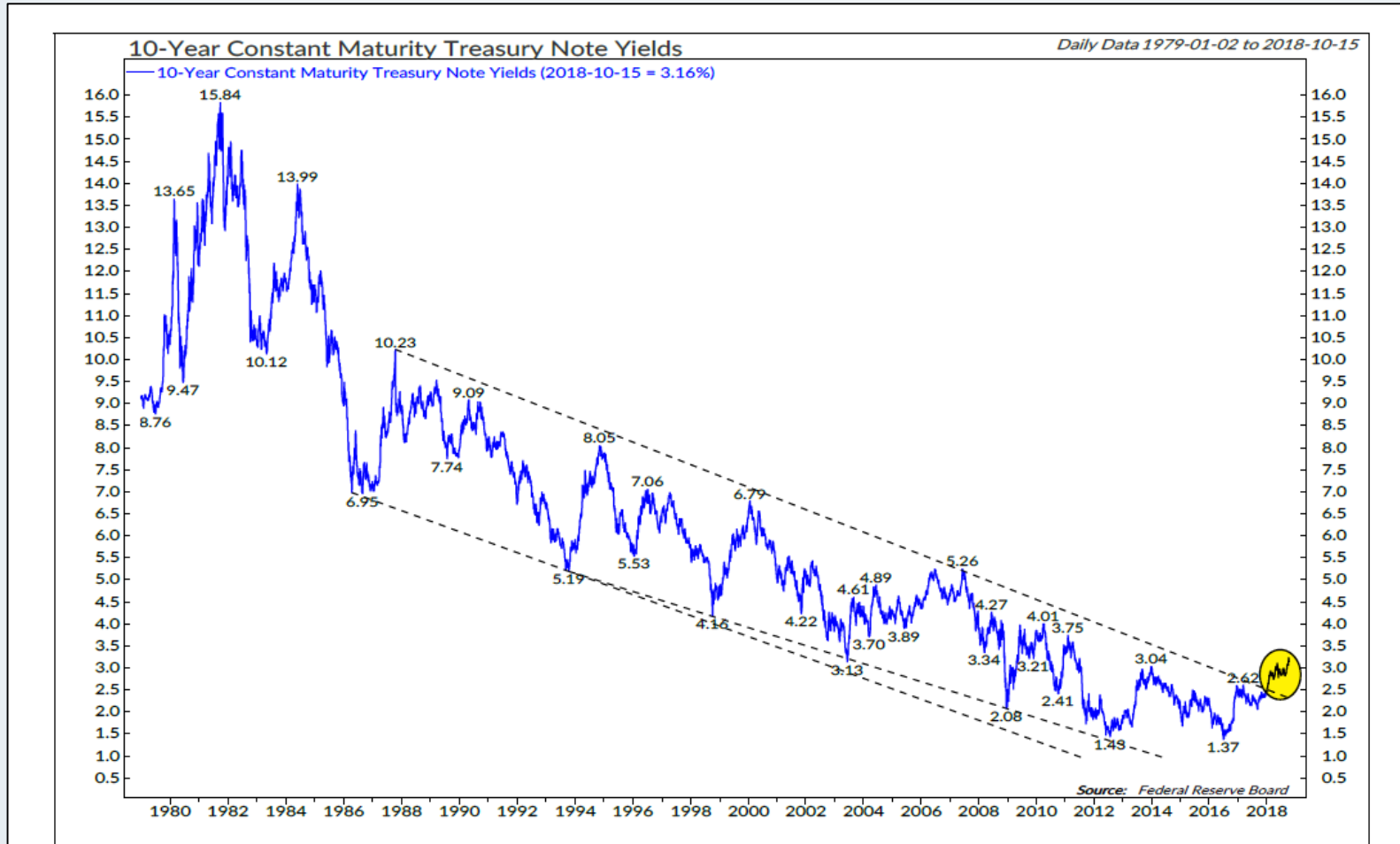
U.S. and International Equities



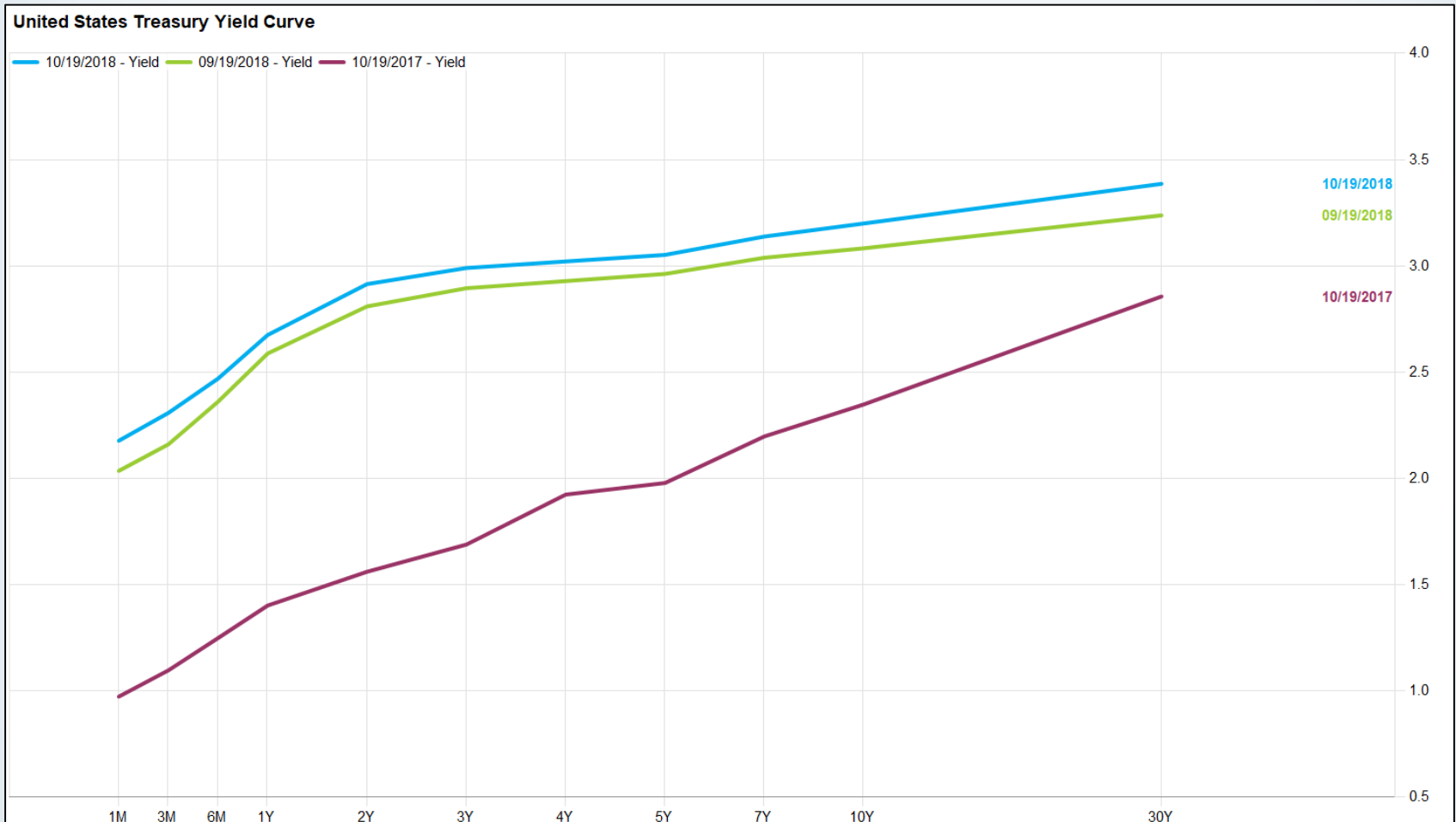
Source: Vanguard



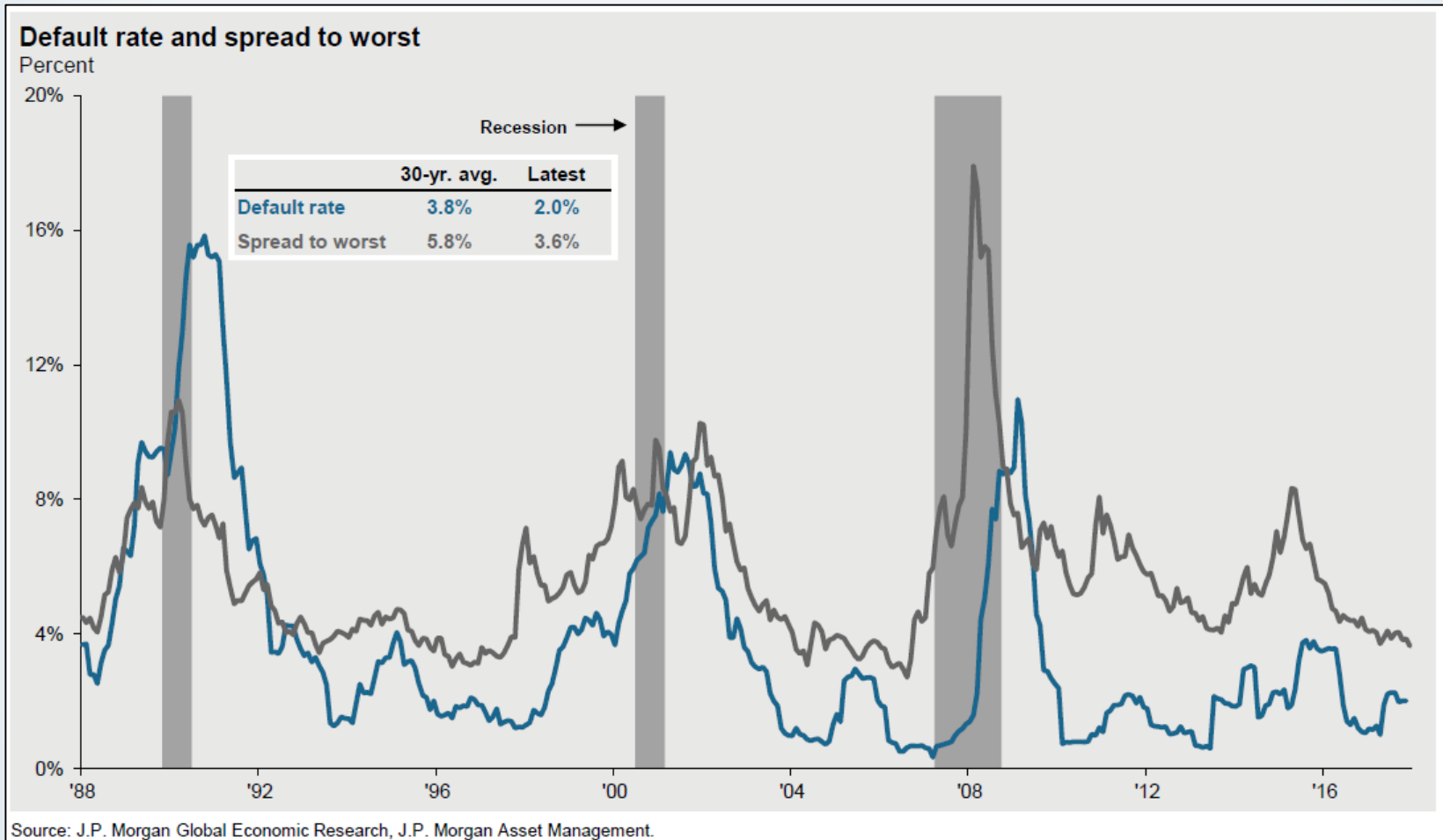
10 Year Treasury Yield Breakout



Yield Curve – Flatter, not Inverted



Credit Outlook – Still Positive



Conclusion

- The current environment favors equities, although we are incrementally more cautious than in recent quarters.
- Uncertainty regarding trade continues to be an issue, but we won't know how it turns out until at least after the midterm elections.
- We believe investors should favor shorter duration securities.
- Because prices for assets everywhere are high, we favor smaller funds and more niche strategies especially in less liquid investments.





Thank You

