CAPITAL ADVISORS

January 13, 2020

Berman Capital Advisors Investment Review and 2020 Outlook

Russ Allen, CIO

Summary Outlook

- While 2018 proved a challenging year for almost all major asset classes, 2019 decisively reversed the trend. Gains were widespread, and it was the best year for U.S. stocks since 2013.
- Investors have enjoyed good news on several fronts: the trade war, global central bank policy, and perhaps most notably, unemployment remains very low.
- The global economy remains mixed. Current growth in much of the developed world is still low, although there are "green shoots" that are cause for optimism. Emerging market growth is notably better and may be further helped by reduced trade uncertainty.
- At the highest level, we take a balanced approach to the stock vs bond allocation. On one hand, stocks are relatively cheaper than bonds and the overall backdrop is supportive. On the other, valuations are stretched, and investor sentiment is currently showing excessive optimism. We expect much weaker, although still positive, returns this year from equities.
- We are on watch for signs the global economy is strengthening. This outcome could have significant implications for high quality bonds (negative) and international markets (positive).

2019 Review: Asset Reflation

Total Index Return	Q4 2019	FY 2019
S&P 500	9.1%	31.5%
Russell 1000 Growth	10.6%	36.4%
Russell 1000 Value	7.4%	26.5%
Russell Small Cap	9.9%	25.5%
MSCI EAFE (Int'l)	5.2%	22.7%
MSCI Emerging Markets	9.6%	18.9%
US Aggregate Bond	0.2%	8.7%
High Yield Bonds	2.6%	14.3%

Source: Factset Research; data through 12/31/2019

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

At the end of 2018, stocks cratered, entering a technical bear market by declining 20%. Fear of a policy mistake (Fed too tight), weak economic data and a record-long government shutdown proved a toxic combination. But if 2018 was the year that taking any risk failed, 2019 turned out to be the opposite.

Critically, the Fed saw its mistake and reversed course. In a policy speech on January 4th, Chairman Powell indicated the new easing bias. The Fed cut rates three times in the second half of 2019 and aggressively stabilized the repo market. Other global central banks followed course, setting the stage for asset reflation.

For the year, the S&P 500 rose 31.5%, a phenomenal return that was the best since 2013, another exceptional year. Large cap technology and less volatile (low beta) companies still performed the best. However, investor returns were broad based, giving global and all cap investors a healthy return. U.S. stocks unquestionably dominated the full year performance, but emerging market stocks outperformed in the fourth quarter as the dollar weakened.

Bonds participated in the rally as well, as the Barclays Aggregate Bond Index rose 8.7%. Falling rates during the middle part of the year helped longer-dated bonds. With rates declining, investment grade bonds outperformed junk during the rally, but only slightly. Bank loans performed about the same as the overall index, but below junk and investment grade bonds. Shorter duration bonds, unsurprisingly, were weaker performers. Gold and oil also rallied, but equities tied to them fared poorly.

2020 Outlook

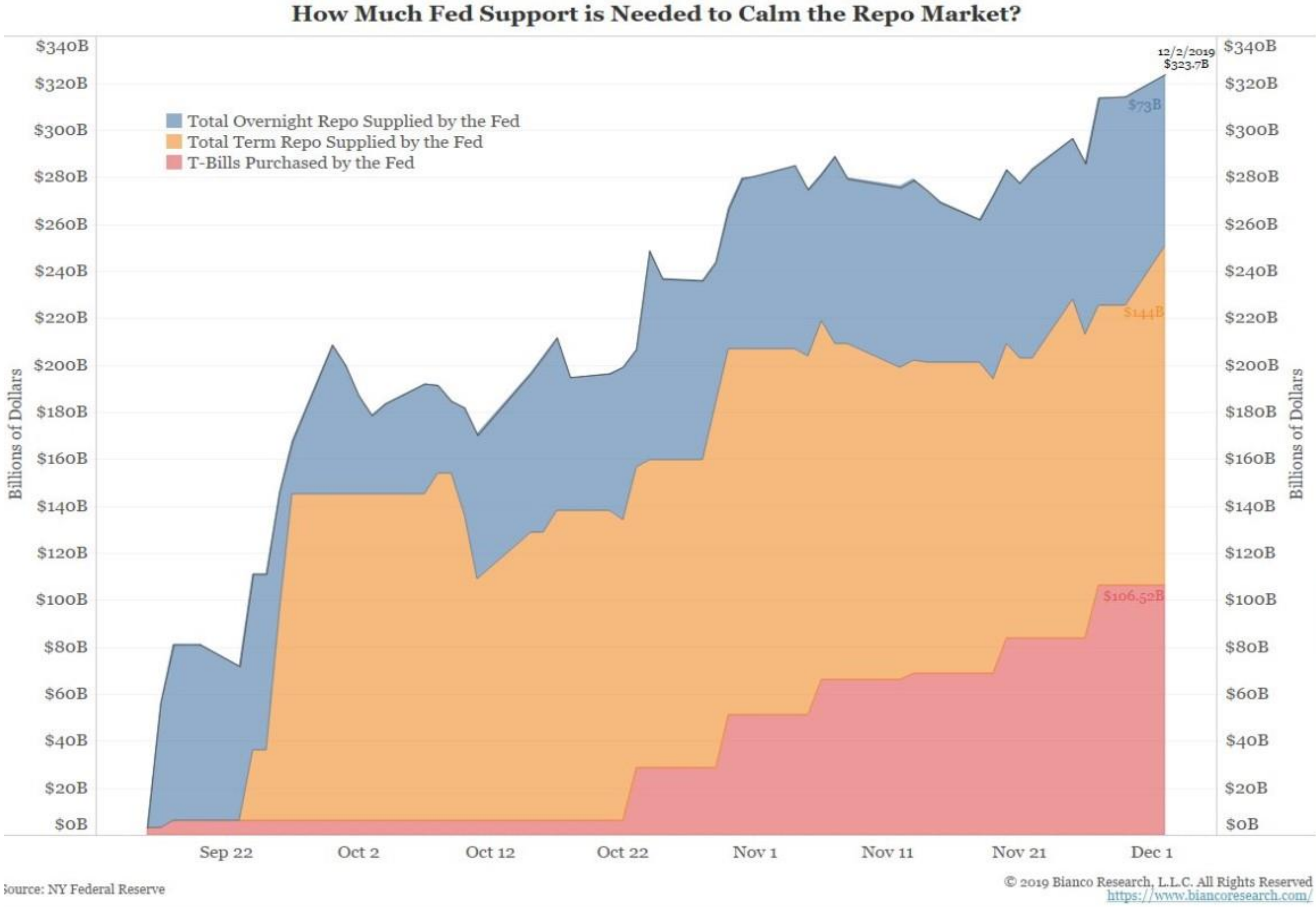
Better News but Lower Returns

As we enter 2020, investors see better news in several important areas. The ongoing trade war between the U.S. and China has been a major source of uncertainty for the markets. In addition to the direct costs of the trade war, business investment has also been impacted. Yet now China and the U.S. have agreed to a "Phase One" deal, seemingly turning a corner in the conflict. The Trump Administration also allowed the threat of European auto tariffs to lapse, another positive development. On December 19, the House of Representatives ratified NAFTA's successor, the USMCA.

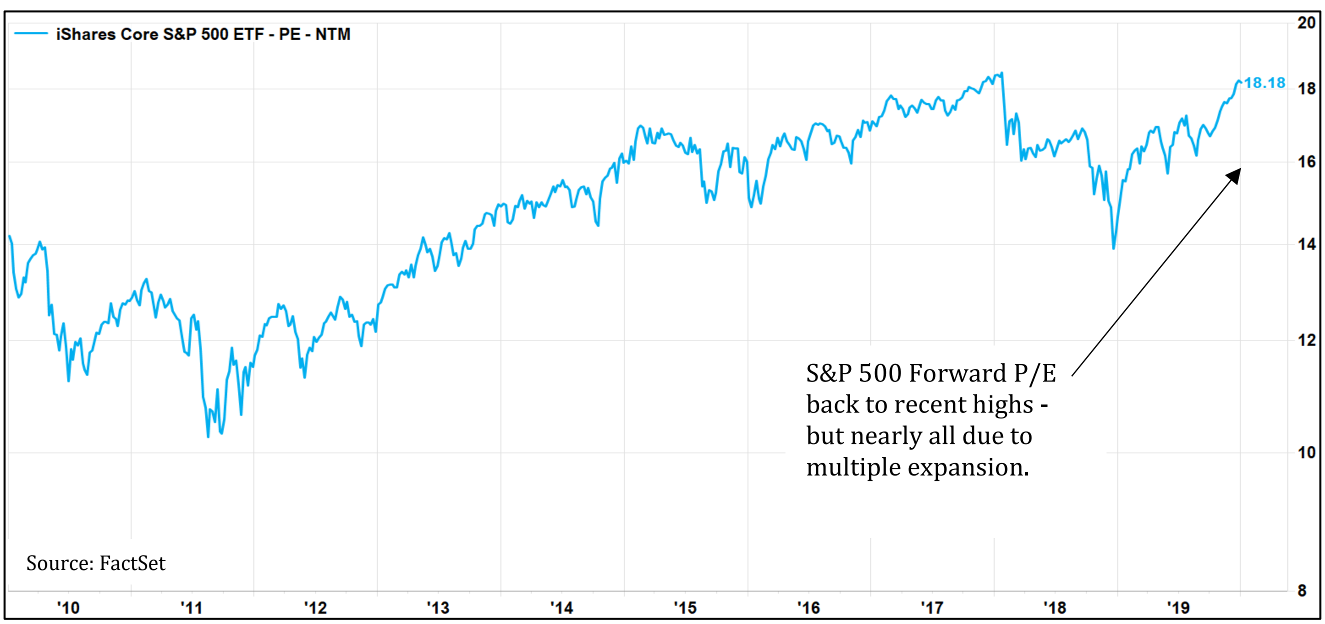
The risk of a "hard Brexit" has also receded. British voters recently gave a solid majority to Boris Johnson's Conservative Party, clarifying that Brexit will indeed happen. Johnson will still have to reach a deal with the EU, but all sides seem to be slowly converging on an imperfect but workable solution.

2020 is a Presidential election year, which always creates some uncertainty. The election of a candidate with truly anti-market policies would concern investors, and the stock market may be taking comfort in the rise of candidate Joe Biden's poll numbers relative to Elizabeth Warren and Bernie Sanders. The odds of a large economic policy shift were never great, but they seem to be fading further.

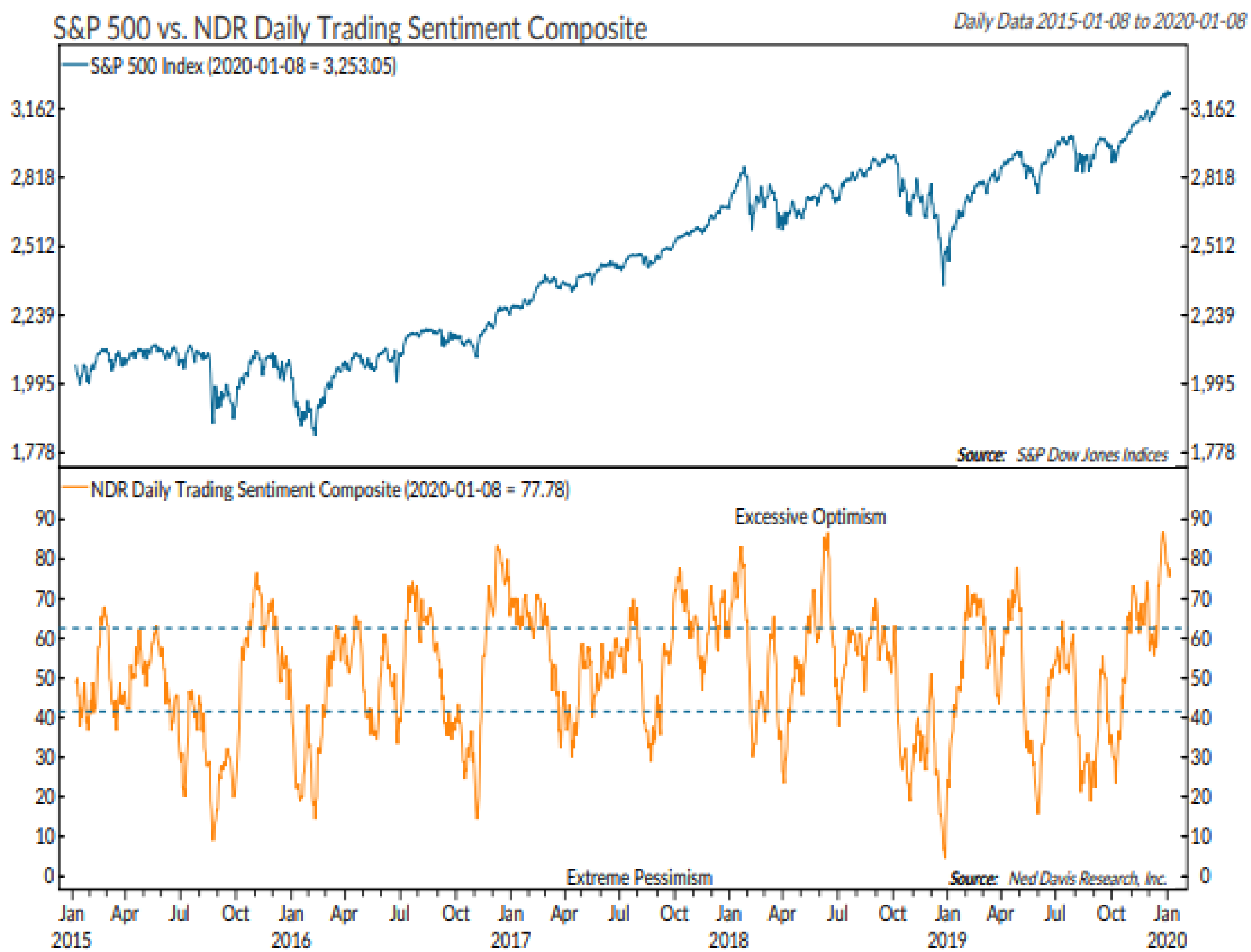
Perhaps most importantly, the Fed continues to support the markets, reviving investors' implicit belief in a "Fed put" underpinning the market. In mid-September the "repo" rate - an overnight interest rate for large borrowers - began to widen sharply. The Fed responded by buying a huge amount of Treasury bills, pushing the rate back down. The Fed has now bought back half of the dollar amount it had allowed to run off its balance sheet. One can argue whether this is technically QE, but regardless, it signals the Fed is willing to sharply expand its balance sheet to prevent disruption, even in contradiction to its stated preferences.



While there are several near-term factors supporting the stock market, there are two important offsets that should limit gains ahead. First, sentiment is now getting stretched on the upside. While no indicator is perfect, sentiment is often a good contrarian predictor at extremes.



BERMAN
CAPITAL ADVISORS



Global Economy – Set to Improve?

Regardless of sentiment, momentum and liquidity, stocks ultimately must reflect fundamental corporate profit trends, which are tied to the overall growth of the economy. For this rally to become sustainable, we will need to see better global growth. Today, the global economy is still growing slowly. However, there are some signs things should pick up.

While European growth was weak in 2019, the weakness has been concentrated in Germany (manufacturing recession) and Italy (political uncertainty, debt overhang). France and Spain have grown at a trend-like 1.5-2% pace.

Germany is highly exposed to global trade, which should strengthen now that major trade conflicts are on the back burner. Central bank easing should, with a lag, start to support growth in 2020. Germany would benefit from a recovery in automobile production, which has been slumping. The recent rebound in the German Purchasing Managers' Index, as well as improved corporate investment surveys provide some more grounds for hope.

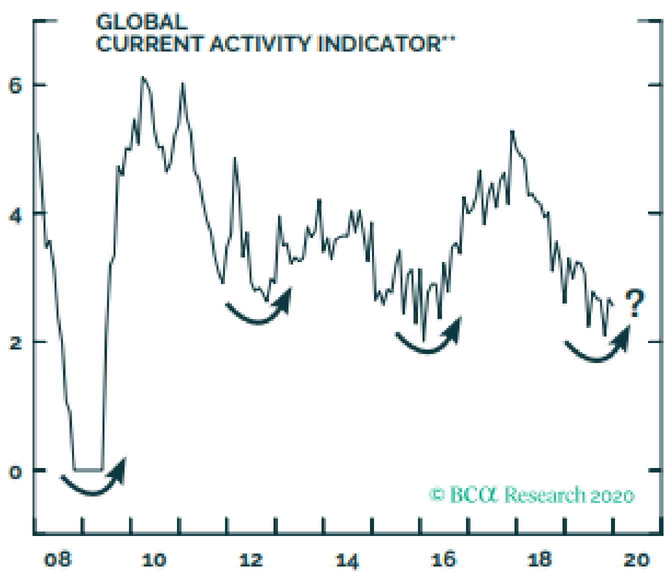
BERMAN
CAPITAL ADVISORS

Fiscal policy across the Eurozone is becoming more stimulative after a long period of austerity. The swing in fiscal spending rose to 0.4% of GDP this year mainly due to French budget deficits, but the thrust should remain positive in 2020.

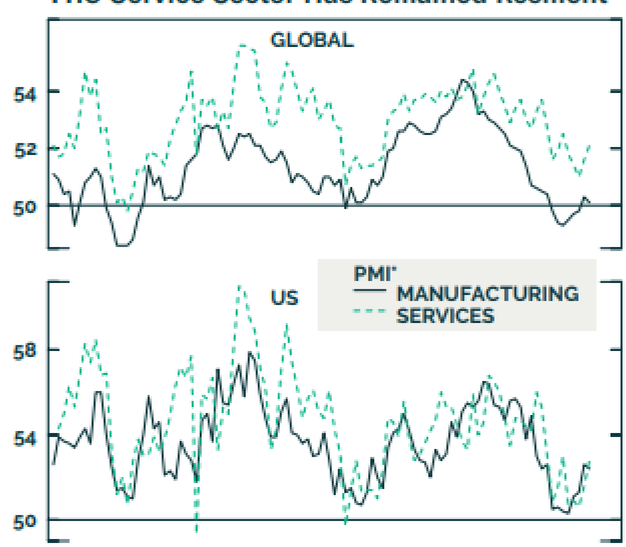
Even the famously conservative Germans are likely to run budget deficits in 2020. German competitiveness is eroding as wage growth remains faster than its Euro peers. Weaker GDP contribution from exports could force German policymakers to ratchet up fiscal stimulus in order to support domestic demand. Amidst current struggles to form a new majority coalition, increased spending proposals are becoming more prominent.

China's growth continues to gradually slow, yet is arguably more sustainable as consumers become a larger part of the economy (vs. government investment). By cutting rates and backing off a deleveraging campaign, the government is still actively supporting the economy. Most likely, the authorities will continue shifting the composition of credit growth from the riskier shadow banking sector to the safer formal banking sector, while increasingly leaning on fiscal policy to buttress growth. Indeed, China's general government deficit has climbed from around 3% of GDP in mid-2018 to 6.5% of GDP now. Some of this stimulus has been used to finance tax cuts for households. Some of it has also been used to finance infrastructure spending.

The charts below illustrate two main points. First, recent weakness has been much worse in manufacturing, not services. Second, following central bank easing and the fiscal stimulus discussed above, global growth may be set to strengthen.



The Service Sector Has Remained Resilient

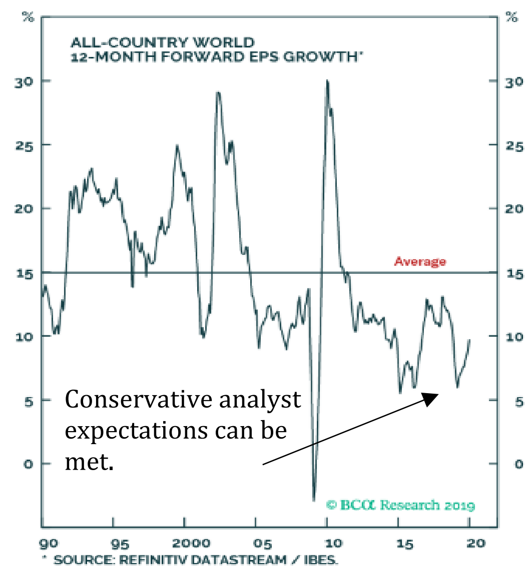


BERMAN
CAPITAL ADVISORS

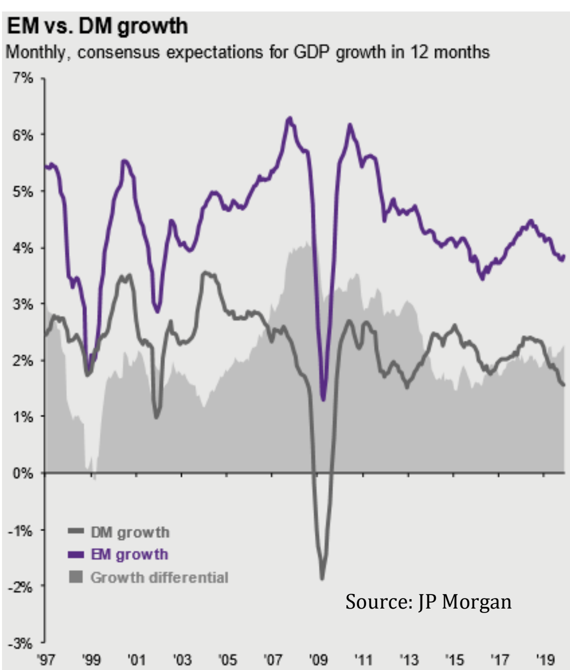
Asset Allocation

Recapping, we expect global growth to rebound thanks to easier financial conditions, continued central bank easing, reduced trade uncertainty and modest Chinese stimulus. On the other side are extended U.S. stock valuations, complacent sentiment and the reduced, but still existing threat that the global economy underperforms. This keeps us at a balanced stock/bond positioning where client risk tolerance is the main driver for differences in allocation.

Stocks usually outperform bonds when global growth improves. Stock and bond yields continue to have a positive correlation, which tells us the market is worried about recession and not inflation. We expect S&P 500 EPS to increase modestly in 2020, roughly high single digits. We think stocks can perform somewhere near that range, but are unlikely to see the P/E multiple expansion of 2019 repeat. Unlike most years, analyst expectations appear achievable.



We think we are far from a rising rate cycle; tepid growth and massive demand from negative rates abroad will continue to support bond prices. A significant acceleration in global growth would bring stronger earnings growth and increased pressure on bonds.

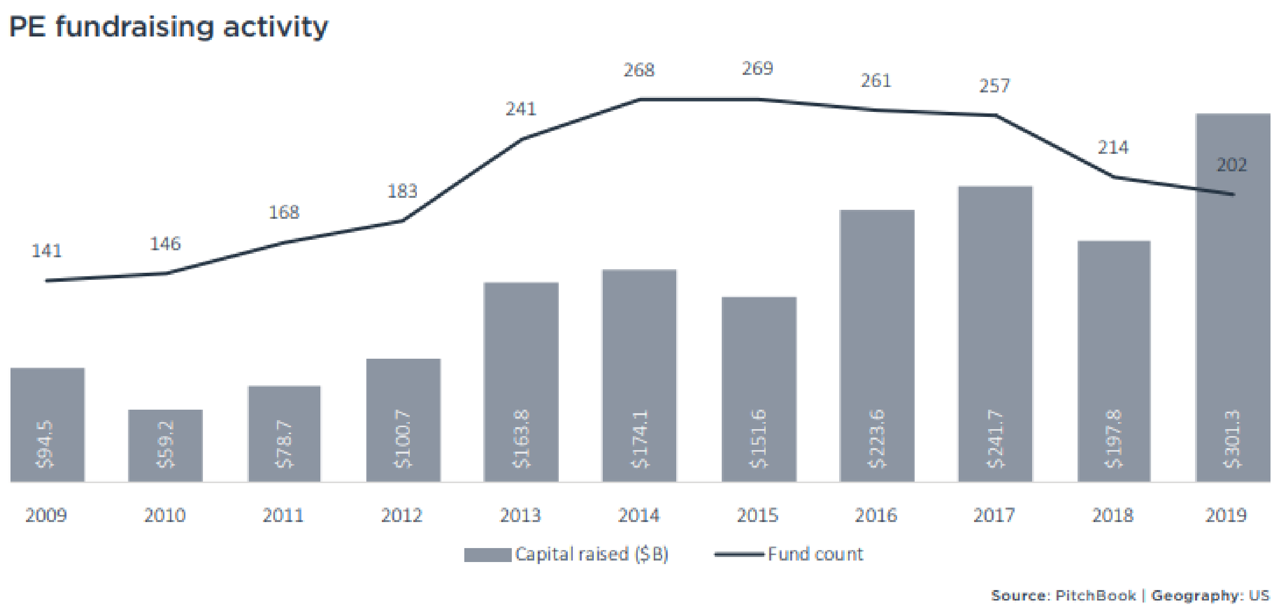


Relative valuations favor stocks over bonds. Despite the stock market rally this year, the MSCI All-Country World Index currently trades at a reasonable 15.8-times forward earnings. Higher P/Es are largely a U.S. phenomenon, although earnings growth and margins have been better in the U.S. as well.

Hope springs eternal for emerging markets, which have really been in the doldrums the past several years. The reasons for this include trade tensions, the more cyclical nature of their economies and the slower growth trend, as well as the strength of the U.S. dollar. Investors have also been more interested in high tech investing, which is still dominated by Silicon Valley. Yet overall GDP growth continues to be much stronger in the emerging markets. Increased confidence in the global economy would likely result in continued EM strength, which has just begun to manifest in the past two months.

Alternative Investments

We expect private equity investments to outpace public equity, but somewhat more narrowly than the oft-cited 5% over the S&P. This is largely a function of record fundraising, which will translate into more money chasing the same pool of deals. That said, Private Equity will continue to play an important role in producing returns while giving investors access to the large private market they are otherwise unable to invest in. Venture Capital may have a wider variety of outcomes going forward, as more markets in software seem to be "winner take all." VC is always a high risk, high reward proposition, and this may be even more the case for today's vintages.



Berman Capital launched a Hedge Fund portfolio vehicle this year. We did this for several reasons: we expect future equity returns to be limited, we believe highly active strategies have a better chance of success now that so much money is allocated to passive strategies and hedge fund outflows mean we have better access to quality, capacity-constrained managers than before. Your Wealth Advisor would be pleased to speak with you about the characteristics of the strategy if you would like details.

Conclusion

For the coming full investment cycle, we expect lower returns ahead for public and private equity, and even expect most bond strategies to see minimal returns. We believe emerging markets and niche equity opportunities can provide returns, but require patience and selectivity. Niche opportunities continue to be a major theme in private investing as well. We recommend a balanced exposure but are watching for changes in the global growth picture.

Thank you again for trusting Berman Capital to be your investment advisor. We encourage you to contact your Wealth Advisor with any questions or concerns.

Important Disclosures:

This information is for discussion purposes only and is being furnished on January 13, 2020. This information is not to be re-transmitted in whole or in part without the prior consent of Berman Capital Advisors. While all the information prepared in this presentation is believed to be accurate, Berman Capital Advisors makes no express warranty as to its completeness or accuracy nor can it accept responsibility for errors appearing in the presentation. No information provided herein shall constitute, or be construed as, an offer to sell or a solicitation of an offer to acquire any security, investment product or service, nor shall any such security, product or service be offered or sold in any jurisdiction where such an offer or solicitation is prohibited by law or registration.

Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product will be profitable or be suitable for your portfolio or individual situation. Please contact BCA to discuss your individual situation.

*Berman Capital uses a variety of third-party data services for research and analysis. These include BCA Research, Ned Davis Research, Factset, Morningstar, among others. Berman Capital makes no express warranty regarding the accuracy or completeness of the data from these services.