Q1 2020 LOOK AHEAD

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Wall Street Parlor Tricks

Market Comparison: 2019 Predictions to Present	S&P 500	S&P 500 Price Return (%)	U.S. GDP Growth	10-Year Treasury Yield
Avg. Est. (January 2019)	2,980	18.85%	2.37%	1.92%
Actual*	3,231	28.88%	2.10%	1.78%

*Actual data as of market close on December 31, 2019. GDP data as of the third estimate for Q3 2019 ending 9/30/19. Data sourced from Bloomberg, L.P.

2020 Predictions

Wall Street's 2020 Market Predictions Firm	Predicted S&P 500 Target	Predicted S&P 500 Price Return (%)*
Credit Suisse	3,425	6.01%
Goldman Sachs	3,400	5.24%
Wells Fargo	3,388	4.87%
Citi	3,375	4.46%
RBC	3,350	3.69%
Jefferies	3,300	2.14%
Bank of America	3,300	2.14%
Barclays	3,300	2.14%
Stifel Nicolaus	3,265	1.06%
Deutsche Bank	3,250	0.59%
Morgan Stanley	3,000	-7.14%
UBS	3,000	-7.14%
Average	**3,279**	**1.51%**

*Based on the closing price on December 31, 2019

- Last year's predictions underestimated market returns by 10.03%
- GDP growth came in below analyst estimates by 0.27%
- Analysts projections for 2020 are pointing to muted returns after impressive performance in 2019

2020 Projected GDP Growth	United States	China	Japan	Euro Area	Global
U.S. Federal Reserve	2.00%	-	-	-	-
IMF	2.10%	5.80%	0.50%	1.40%	3.40%
World Bank	2.00%	6.20%	0.80%	1.40%	2.70%
Average	**2.03%**	**6.00%**	**0.65%**	**1.40%**	**3.05%**

Data Sources: Bloomberg, International Monetary Fund, World Bank
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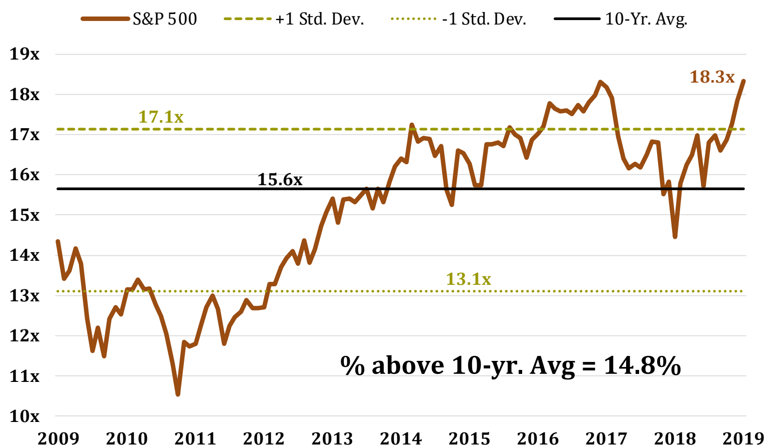
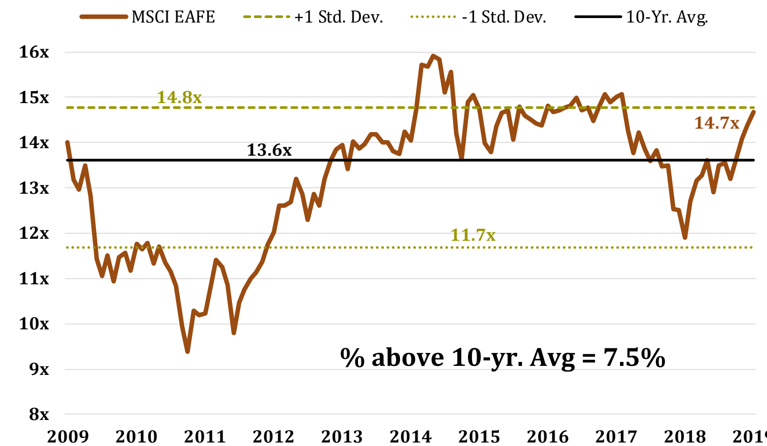
Phillips & Company

Managing For Mean Reversion

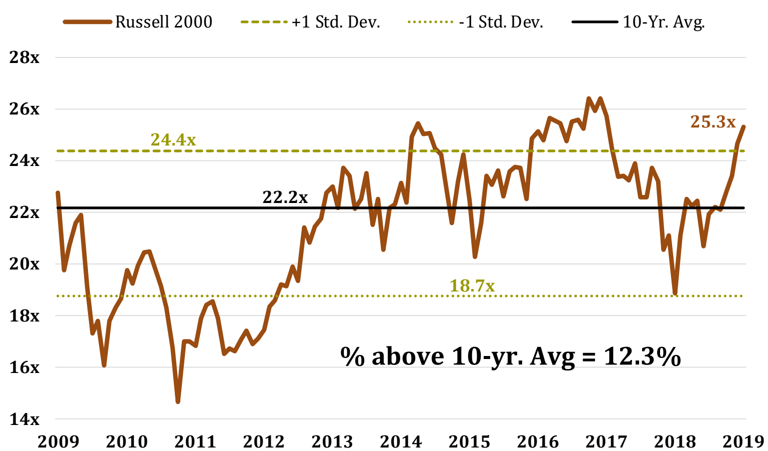
S&P 500 FWD P/E Ratio



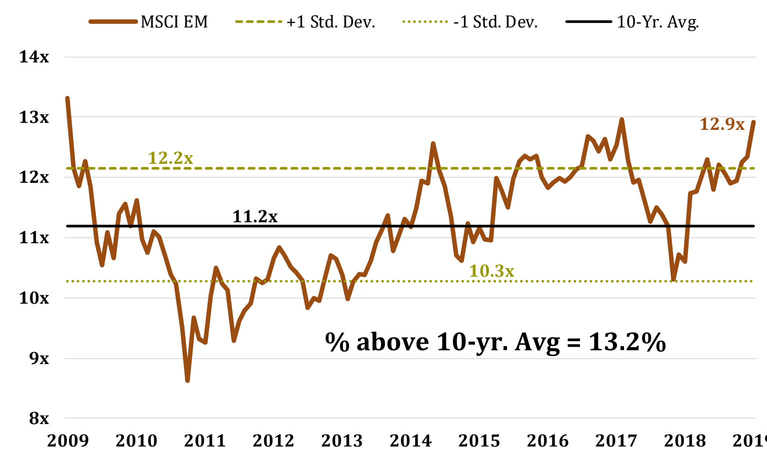
MSCI EAFE FWD P/E Ratio



Russell 2000 FWD P/E Ratio



MSCI EM FWD P/E Ratio



Data Sources: Bloomberg, Phillips & Co.
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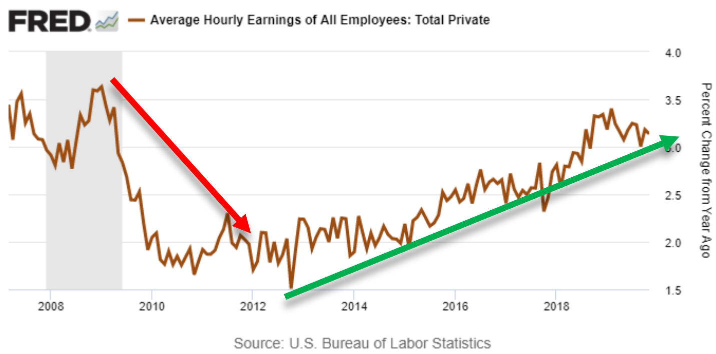
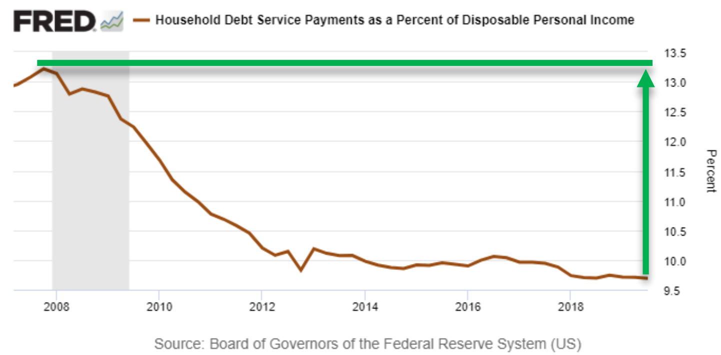
Phillips & Company

U.S. Consumer Strength

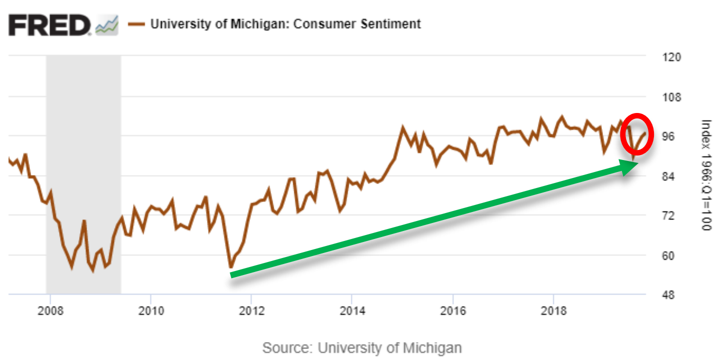
Wage Growth: 3.1%





Household Debt Service Payments as a % of Disposable Personal Income

Consumer Sentiment



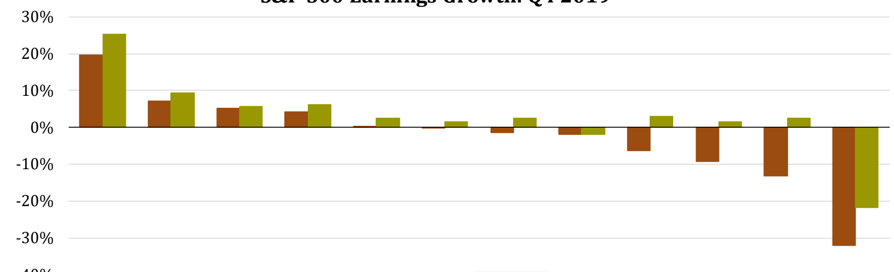
Personal Savings Rate

- Wage growth remains above 3 percent for the first time in over a decade, further supporting the consumers' appetite to spend
- A return to peak levels of debt service payments as a percent of disposable income could add $5 – $6 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 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 Great Financial Crisis
- Consumer Sentiment remains at elevated levels, despite a slight downtick year-over-year, which suggests that the consumer remains confident and likely to continue their appetite for spending

Data Source: Federal Reserve Bank of St. Louis

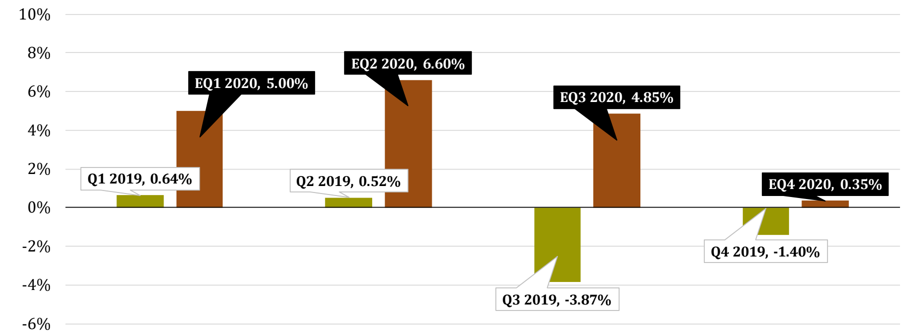
Corporate Earnings: Small Hurdles

S&P 500 Earnings Growth: Q4 2019

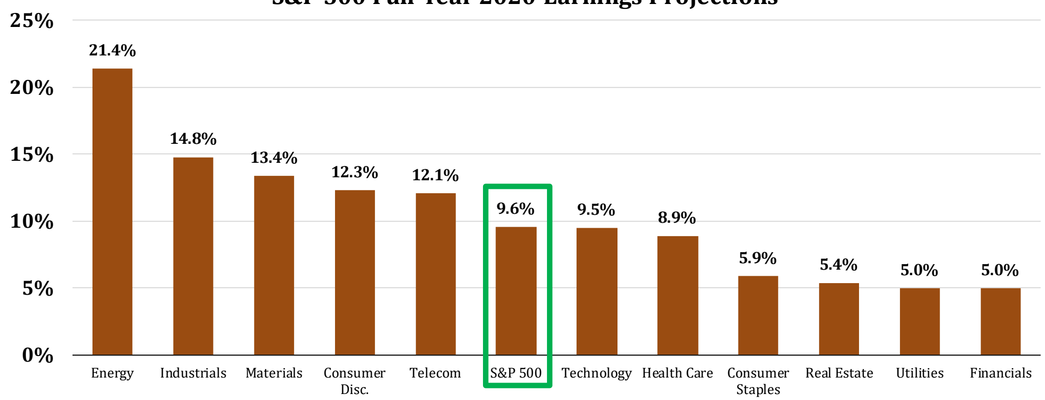


	Utilities	Financials	Health Care	Telecom	Real Estate	Consumer Staples	S&P 500	Technology	Industrials	Materials	Consumer Disc.	Energy
Today	19.6%	7.2%	5.3%	4.3%	0.3%	-0.2%	-1.4%	-1.9%	-6.2%	-9.2%	-13.1%	-32.0%
9/30/19	25.3%	9.5%	5.7%	6.1%	2.5%	1.6%	2.5%	-1.8%	3.0%	1.5%	2.5%	-21.8%

YoY Comparison S&P 500 EPS Growth w/ Projections



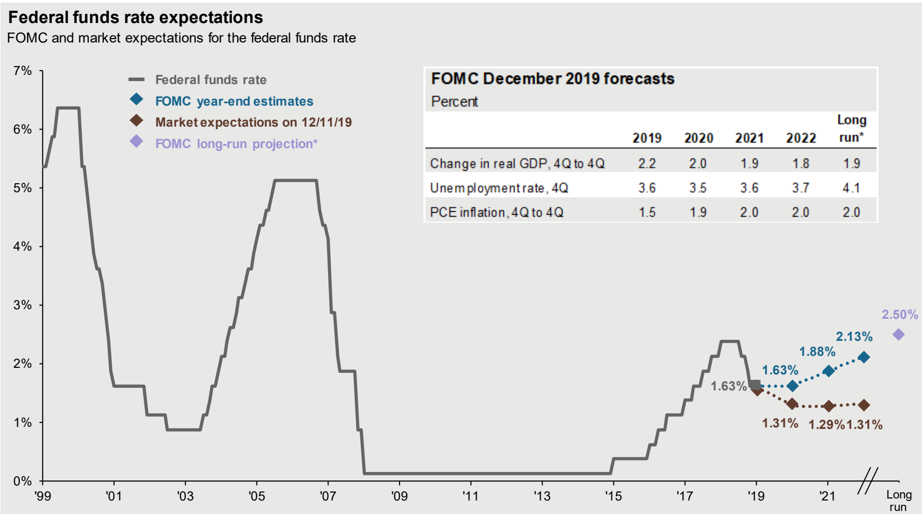
S&P 500 Full-Year 2020 Earnings Projections

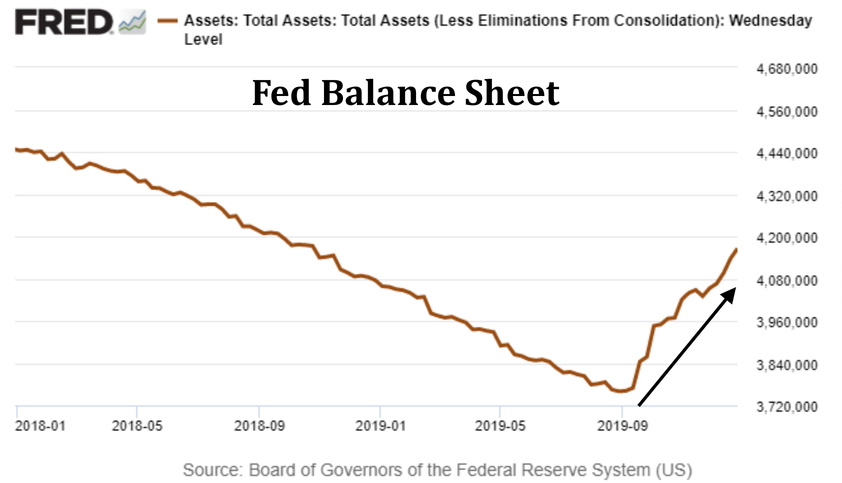


- Full-year 2019 earnings growth projections are still expected to be slightly negative; however, projections for earnings growth in 2020 are significantly higher as the effects of tax reform continue to wane and investors focus more on fundamentals.
- Over the last three months, analysts have trimmed their earnings growth projections for 2020, potentially opening up a window for companies to outperform expectations

Data Sources: Bloomberg, FactSet, Phillips & Co.

U.S. Interest Rates: Lower, Longer Continues





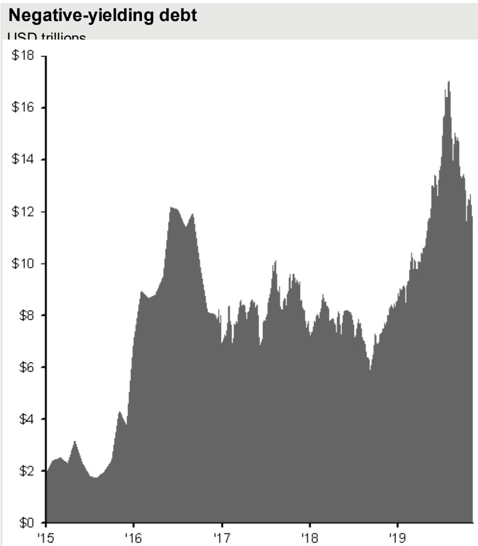
- ❑ The Fed has made clear that it plans to stand pat on rates barring a material change in the domestic economic outlook. Policymakers in Washington will assess how the three interest rate cuts implemented this year, most recently in October, filter through the economy in 2020.

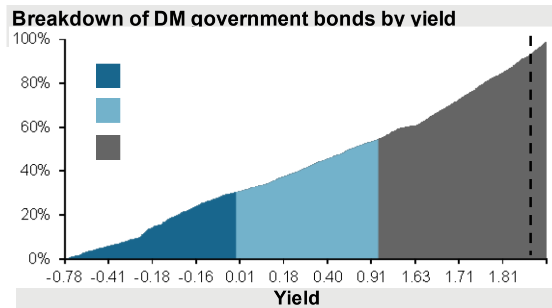
- ❑ So far, interest rate cuts seem to be working. U.S. job growth increased by the most in 10 months in December and recent data on housing and orders for big-ticket products have offered an upbeat assessment of the economy.

- ❑ The Fed has been pumping money back into the banking system through repurchase agreements to stabilize liquidity when banks have been restrictive.

Data Source: J.P. Morgan Asset Management

Global Interest Rates





- Sub-zero borrowing costs in some major Eurozone countries are expected to remain a persistent feature of the year ahead given weak inflation, structural long-term demand for government debt, and expectations for the European Central Bank rates to stay below 0%.
- The persistent negative rate environment is being fueled by many factors, such as:
  - Speculators thinking rates will continue to push lower
  - Hedge fund managers buying the bonds, while simultaneously shorting the currency to create a positive trade
  - Central banks continue to buy their bonds to drive rates lower to fend off threats of deflation
- Globally, the pile of negative-yield bonds including corporate debt has shrunk to $12.5 trillion from a record of high of $17 trillion just two months ago, according to Bloomberg.
- In early December, Sweden's central bank became the first country to end the zero interest rate policy; but it signaled caution, indicating it has no plans to raise its key rate further in the coming year.

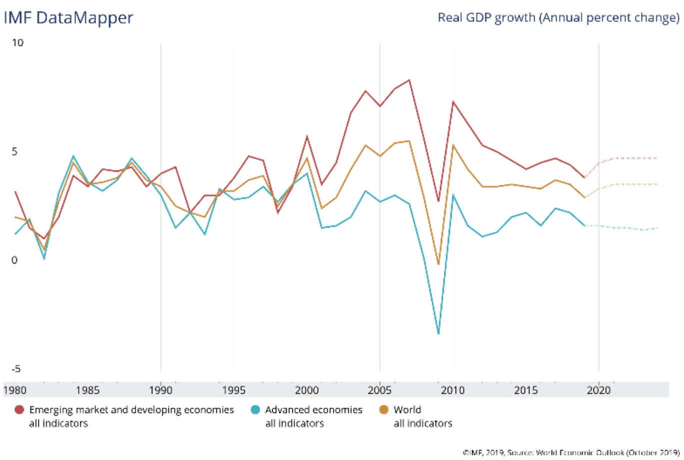
Selected Countries with Negative Bond Yields

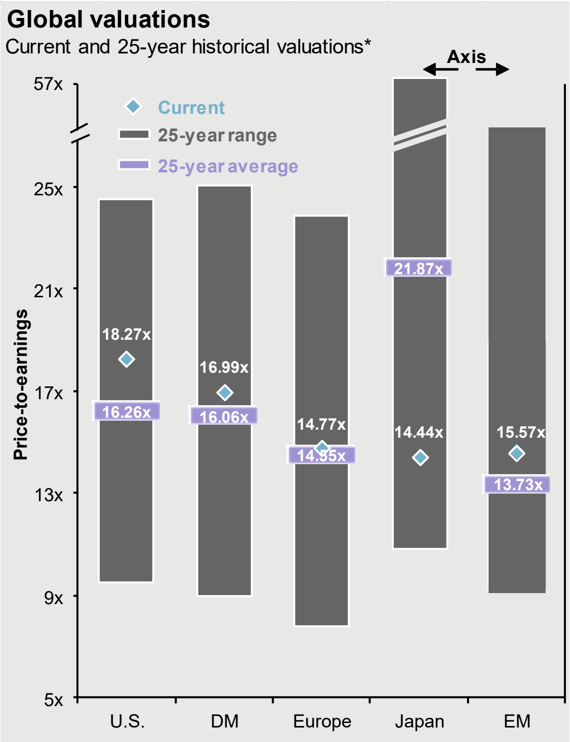
	2 Year	5 Year	10 Year	30 Year
Switzerland	-0.82	-0.72	-0.58	-0.24
Japan	-0.13	-0.12	-0.02	0.42
Germany	-0.65	-0.54	-0.26	0.27
Austria	-0.66	-0.45	-0.08	0.54
Netherlands	-0.68	-0.50	-0.14	0.27
Belgium	-0.65	-0.40	0.01	0.85
Finland	-0.71	-0.49	-0.03	0.47
France	-0.65	-0.37	0.04	0.84
Sweden	-0.34	-0.28	0.09	–
Denmark	-0.67	-0.48	-0.23	–
Ireland	–	-0.38	0.03	0.86
Italy	-0.09	0.64	1.37	2.43
Spain	-0.41	-0.13	0.40	1.25
United States	1.60	1.68	1.87	2.31

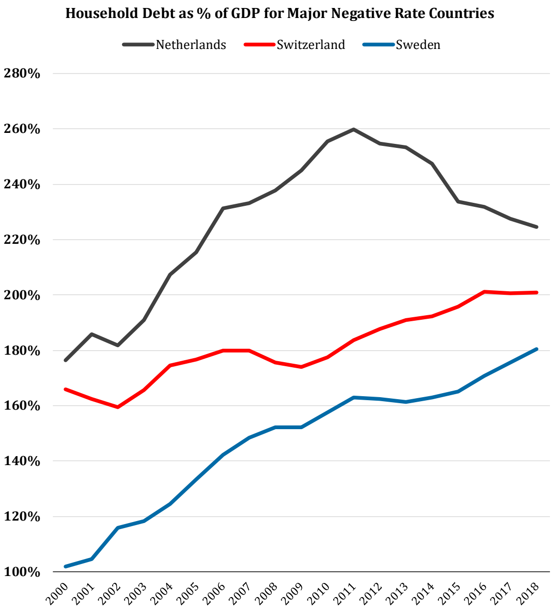
Source: Bloomberg as of December 27, 2019.

Data Sources: Bloomberg, J.P. Morgan Asset Management

International Developed: Is the Coast Clear?







- Lower expectations for GDP growth paired with lower inflation and easier valuations could boost International Developed returns in 2020.
- In some countries with negative interest rates, high levels of household debt remain a major vulnerability to growth.

Data Sources: International Monetary Fund, J.P. Morgan Asset Management, Bloomberg
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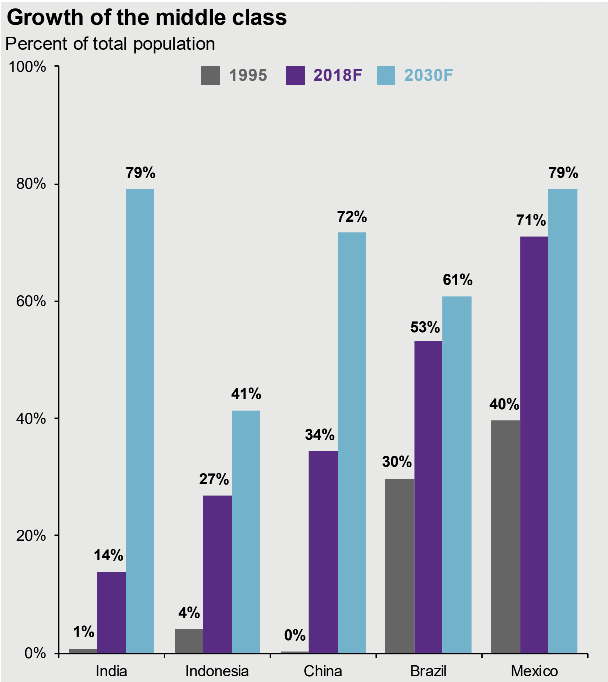
Emerging Markets: Time to Overweight?



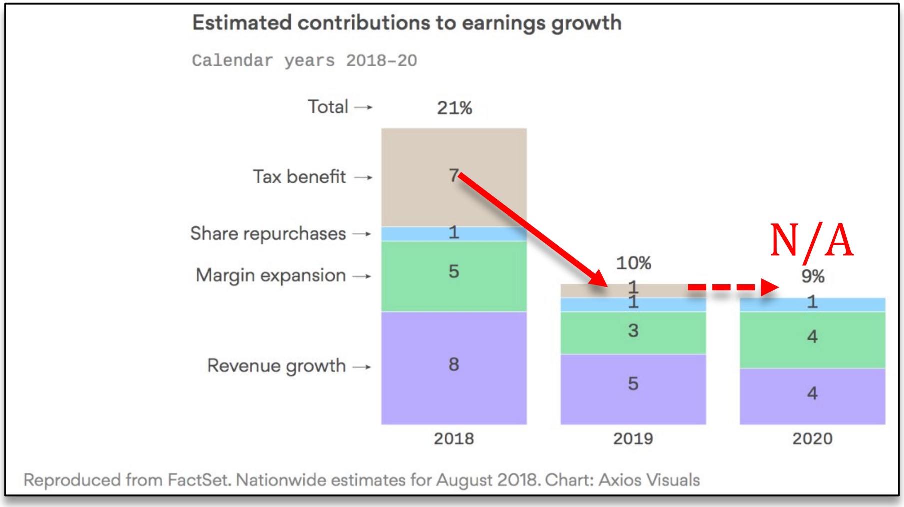
Country PEG Ratios

Country	ETF	Current P/E	Est. 2020 GDP Growth	P/E to GDP Growth
China	ASHR	14.42	5.90	2.44
Russia	RSX	6.68	1.60	4.18
Malaysia	EWM	18.41	4.30	4.28
India	INP	29.63	5.60	5.29
South Korea	EWY	17.06	2.20	7.76
Singapore	EWS	12.16	1.50	8.10
Australia	EWA	20.31	2.40	8.46
Brazil	EWZ	17.91	2.10	8.53
Spain	EWP	15.63	1.70	9.20
Taiwan	EWT	19.66	2.10	9.36
Canada	EWC	17.27	1.60	10.79
United States	SPY	**21.25**	**1.80**	**11.80**
South Africa	EZA	14.55	1.10	13.23
Mexico	EWW	17.54	1.20	14.62
Sweden	EWD	18.96	1.20	15.80
France	EWQ	21.35	1.20	17.79
UK	EWU	18.23	1.00	18.23
Switzerland	EWL	24.66	1.20	20.55
Italy	EWI	14.23	0.50	28.46
Germany	EWG	24.45	0.70	34.93
Japan	EWJ	19.05	0.30	63.49
Hong Kong	EWH	10.87	0.10	108.69
Average		*17.92*	*1.88*	*19.36*
Median		*18.07*	*1.55*	*11.30*

- Growth rates in Emerging Markets remain the best in the world, with consensus GDP growth estimates approximately 200 basis points higher than Developed Market economies.
- The projected growth of the middle class in large Emerging Market countries, paired with a recovery in China is likely to support sustained economic and corporate earnings growth
- For an in-depth look at China and its growth prospects, please see our Q1 2020 China Look Ahead presentation

Data Source: J.P. Morgan Asset Management

Still Waiting on Productivity

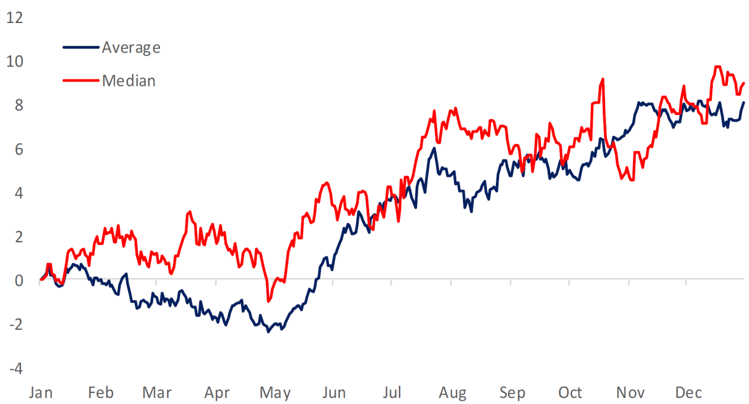


- Tax reform was a large contributor to the earnings growth in 2018, but the effects began to taper in 2019
- As this effect continues to wear off on earnings, we'll be looking for revenue growth and margin expansion to be the primary contributors
- As productivity rebounds off its lows in 2016, the increase in productivity is likely to support further margin expansion and revenue growth

Data Sources: Axios, Federal Reserve Bank of St. Louis.

Political Silly Season in Full Swing

S&P 500 Performance During 4th Year of President's Term in Office



- The chart above shows a composite of the S&P 500 during the fourth year of each President's tenure in office.
- The S&P 500's average gain has been 7.9% (median: 8.7%) with gains 11 out of 13 times. More importantly, there hasn't been a down fourth year of a term since Truman.
- Since 1944, if the S&P 500 rose in price from July 31 through October 31 of a presidential election year, the incumbent party was re-elected 80% of the time. This was the case in 2012 when President Barack Obama was re-elected. If the market is down during the period, the incumbent party lost the White House 86% of the time.

President	Year	Change (%)
Hoover	1932	-14.8
FDR	1936	27.9
FDR	1940	-15.1
FDR	1944	13.8
Truman	1948	-0.7
Truman	1952	11.8
Eisenhower	1956	2.6
Eisenhower	1960	-3.0
JFK/LBJ	1964	13.0
Johnson	1968	7.7
Nixon	1972	15.6
Nixon/Ford	1976	19.1
Carter	1980	25.8
Reagan	1984	1.4
Reagan	1988	12.4
Bush I	1992	4.5
Clinton	1996	20.3
Clinton	2000	-10.1
Bush II	2004	9.0
Bush II	2008	-38.5
Obama	2012	13.4
Obama	2015	9.5
Median (All Year 4s)		**9.3**
Republicans		3.5
Democrats		**12.4**

- In terms of returns based on political party, trends in year four are even more lopsided than they are overall.
- The median gain of the S&P 500 during year four of a Democratic administration is 12.4%, while for Republicans, it is just 3.5%.

S&P 500 Sector Performance in Year 4 of the Election Cycle: 1940-Present

Year	S&P 500	Cons Discret.	Cons. Staples	Energy	Finl's	Health Care	Industr.	Materials	Real Estate	Tech	Telecom Services	Utilities
1944	13.8	22.6	16.8	4.4	18.9	2.5	12.4	6.7		13.4		12.5
1948	-0.7	2.7	-12.8	-0.6	-0.4	-16.3	-0.4	2.0		2.0		-1.5
1952	11.8	21.6	13.5	8.9	13.5	-13.0	10.9	8.1		11.5		13.0
1956	2.6	3.3	-8.0	16.4	1.4	12.9	3.4	-7.0		48.9		0.2
1960	-3.0	-12.0	33.7	-9.3	-10.2	3.8	-4.7	-22.5		32.7		15.7
1964	13.0	22.3	8.7	22.6	9.3	13.2	13.1	15.0		1.6	-0.7	12.2
1968	7.7	38.2	13.5	19.2	40.0	6.9	7.5	4.1		-0.6	4.8	5.5
1972	15.6	-2.0	18.4	15.8	25.0	30.1	17.0	16.6		18.9	14.8	2.0
1976	19.1	25.3	9.6	29.0	13.1	-6.9	18.4	2.0		21.5	25.5	22.0
1980	25.8	5.4	4.6	56.0	12.8	20.3	27.6	4.9		6.2	-9.4	4.4
1984	1.4	7.1	9.8	11.3	10.2	11.3	0.1	-16.6	9.3	-2.2	20.7	14.7
1988	12.4	22.8	27.8	13.0	22.5	12.3	12.4	2.7	4.8	-4.8	12.5	10.3
1992	4.5	17.5	3.0	-2.3	19.8	-18.1	6.8	7.2	6.4	0.6	11.0	0.3
1996	20.3	10.5	23.2	21.7	31.9	18.8	22.7	13.4	26.3	43.3	-2.2	0.2
2000	-10.1	-20.7	14.5	13.2	23.4	35.5	4.5	-17.7	16.5	-41.0	-39.7	51.7
2004	9.0	12.1	6.0	28.8	8.2	0.2	15.9	10.8	21.9	2.1	16.0	19.6
2008	-38.5	-34.7	-17.7	-35.9	-57.0	-24.5	-41.5	-47.0	-45.0	-43.7	-33.6	-31.5
2012	13.4	21.9	7.5	2.3	26.3	15.2	12.5	12.2	16.2	13.1	12.5	-2.9
2016	9.5	4.3	2.6	23.7	20.1	-4.4	16.1	14.1	0.0	12.0	17.8	12.2
Median Year 4	9.5	10.5	9.6	13.2	13.5	6.9	12.4	4.9	9.3	6.2	11.7	10.3
Median All Years	11.1	6.6	2.6	8.0	12.3	11.6	10.5	11.9	11.4	9.5	6.9	9.3
Yr 4 vs All Years	-1.6	3.9	7.0	5.3	1.2	-4.7	1.9	-7.0	-2.1	-3.3	4.8	1.0

- As shown above, all eleven sectors have seen positive returns during the fourth year of a presidential term.
- Energy and Financials have led the way higher, with median gains above 13%. Behind these two sectors, Industrials, Telecom, Consumer Discretionary, and Utilities have all had median gains of over 10%. While Energy has been the best performing sector, Materials has been the biggest laggard, rising less than 5%.
- Sectors that have outperformed the most during year four relative their median returns for all years are Consumer Staples, Energy, Telecom, and Consumer Discretionary.

Data Source: Bespoke Investment Research

Mean Reversion Dashboard

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

	Value	Blend	Growth
Large	110.8%	116.1%	119.8%
Mid	107.7%	111.8%	120.1%
Small	97.6%	114.4%	145.3%

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
112.5%	106.2%	104.8%	119.5%	112.1%	102.7%	98.9%	100.8%	109.6%	90.0%

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

Materials	Industrials	Financials	Energy	Consumer Discretionary	Technology	Comm. Services	Real Estate	Health Care	Consumer Staples	Utilities
129.3%	105.7%	106.4%	102.3%	124.2%	108.6%	103.3%	125.0%	99.4%	120.2%	137.5%

Data Sources: J.P. Morgan Asset Management, Bloomberg
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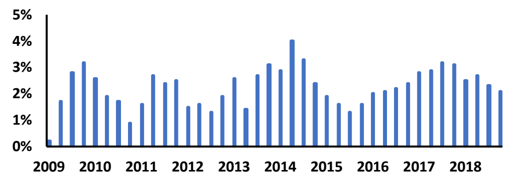
Phillips & Company

Economic Dashboard

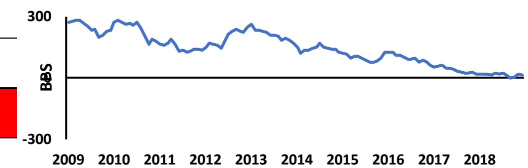
U.S. GDP Growth *as of 9/30/2019*

Latest Level	2.1
Change from Prior Quarter	-0.2
Latest Direction	Decreasing
Frequency	Quarterly



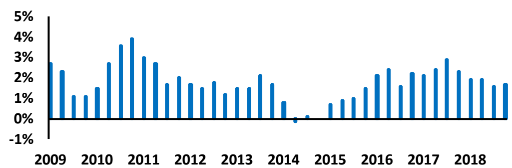
U.S. Treasury Spread 2-Yr vs. 10-Yr Spread *as of 11/30/2019*

Latest Level	16.4
Change from Prior Quarter	-0.3
Latest Direction	Flattening
Frequency	Monthly



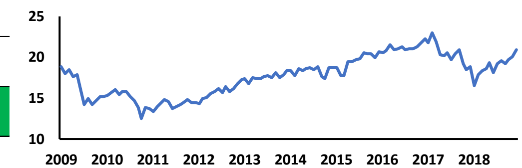
U.S Inflation *as of 9/30/2019*

Latest Level	1.7
Change from Prior Quarter	0.1
Latest Direction	Increasing
Frequency	Quarterly



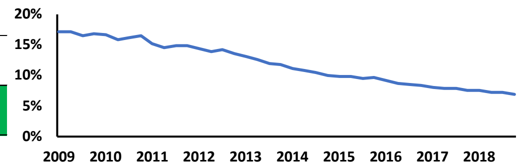
S&P 500 P/E Ratio *as of 11/30/2019*

Latest Level	20.9
Change from Prior Month	0.8
Latest Direction	Increasing
Frequency	Monthly



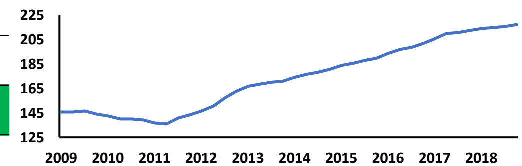
U.S. U-6 Unemployment Rate *As of 9/30/2019*

Latest Level	6.9
Change from Prior Quarter	-0.3
Latest Direction	Decreasing
Frequency	Quarterly



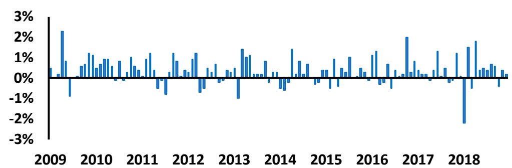
Schiller Home Value Index *as of 9/30/2019*

Latest Level	217.1
Change from Prior Month	1.2
Latest Direction	Increasing
Frequency	Monthly



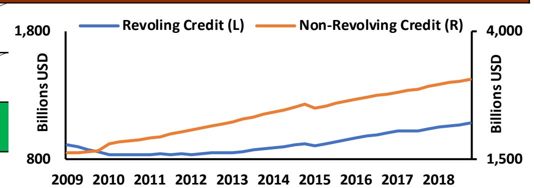
Retail Sales *As of 11/30/2019*

Latest Level	0.2
Change from Prior Month	-0.2
Latest Direction	Decreasing
Frequency	Monthly



Credit: Revolving / Non-Revolving *as of 9/30/2019*

Latest Levels	1080.8 / 3065.6
Changes from Prior Month	9.7 / 42.1
Latest Direction	Expanding
Frequency	Quarterly



Data Source: Bloomberg

Our View and Recommendations

Our View

- The Trump administration will do everything possible to pump more fuel into the economy, especially as we approach the second half of 2020
- We expect an escalated trade war with the European Union to be used as a tool to hold rates down with the Fed
- We expect a hypersensitive U.S. equity market environment as investors become acutely aware of the political "silly season"
- We expect continued stock market volatility driven by political instability throughout the United States
- Our expectation is for the Fed to remain on hold regarding interest rates during the first quarter and likely throughout much of 2020
- We expect U.S. equity valuations to remain elevated as earnings catch up to the recent price rally. If equity valuations revert closer to the mean with improved earnings and low single digit equity price appreciation, valuations may contract
- We anticipate Developed Markets to remain undervalued, with a solidified Brexit timeframe and Central Banks determining the next steps in their economic cycle
- A weaker U.S. dollar relative to China and Europe will drive more export driven earnings with multinationals and energy-focused companies

Recommendations

- Rebalancing back to policy is critical for asset classes trading above their mean
- Consider increasing Energy exposure to slightly above policy
- Tilt towards Value versus Growth stocks
- Increase exposure to China and the China A share market as they return to reliable growth with the easing of trade tensions and Chinese government policy interventions
- Return Developed Markets back to policy allocation levels during the first quarter as clarity around European Central Bank interest rates and Brexit become more clear
- Remain active in Fixed Income, but be mindful of where you sit in the capital structure and the covenants associated with what you own
- Review exposure to lower-correlated and non-correlated asset classes (High Yield Municipals, Private Equity in Health Care, China A shares)

Data Source: Phillips & Co.

Please click here for our **Q1 2020 China Look Ahead**

THANK YOU

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