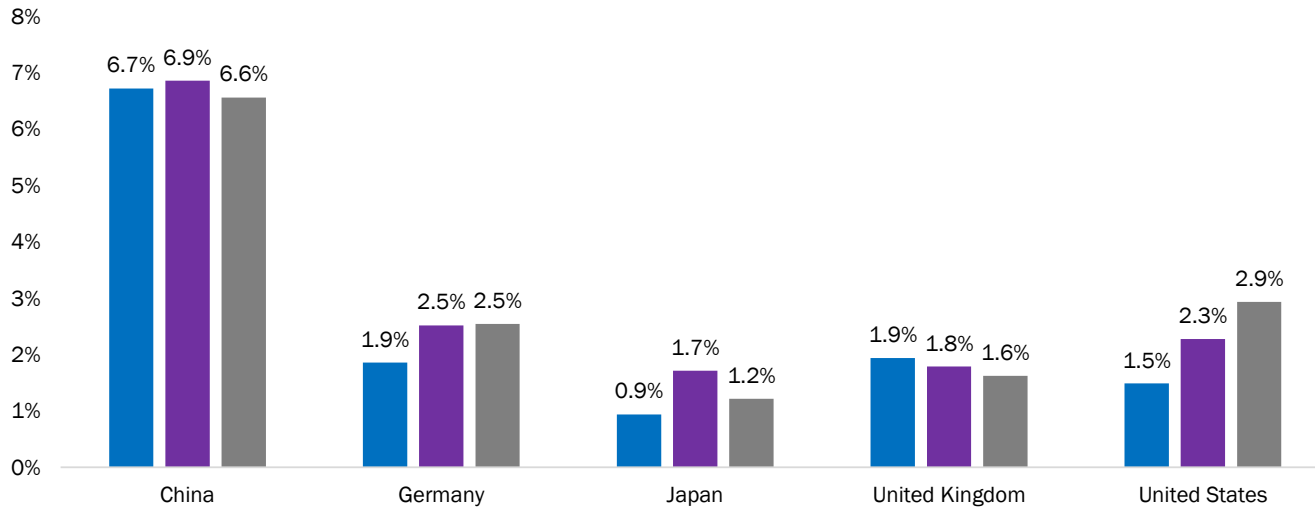


# Economic Outlook and Market Forecast

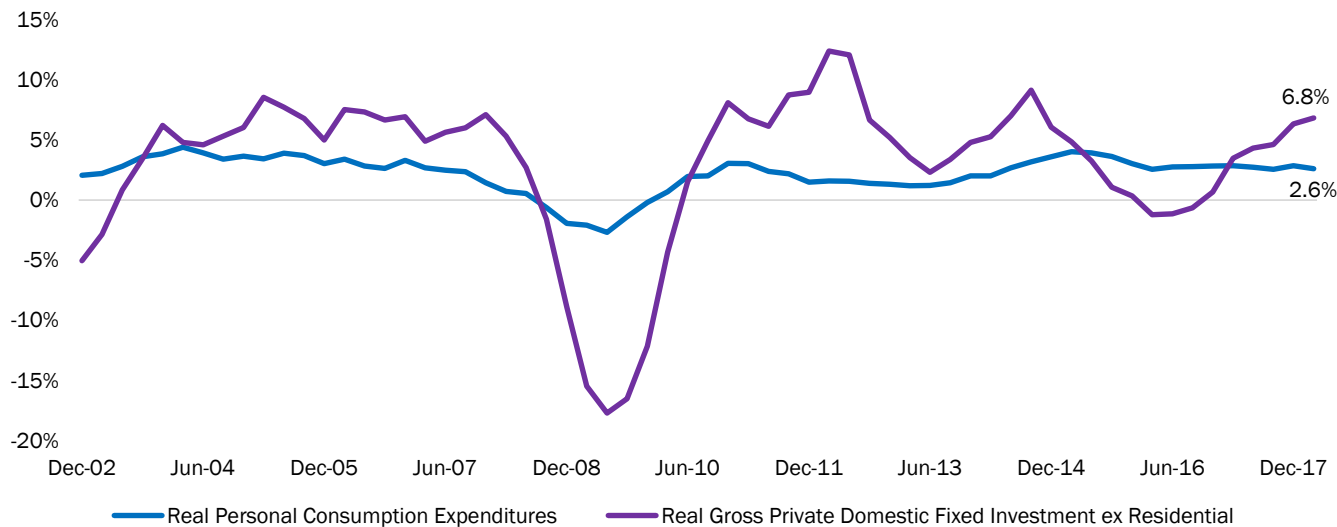
July 2018

# The Global Economic Backdrop

Real GDP Growth



U.S. Investment & Consumption Continue to Grow



Worsening trade tensions and the actual implementation of tariffs are threatening to slow global growth in the second half of the year, although US economic momentum should allow global economic growth to improve somewhat year-over-year.

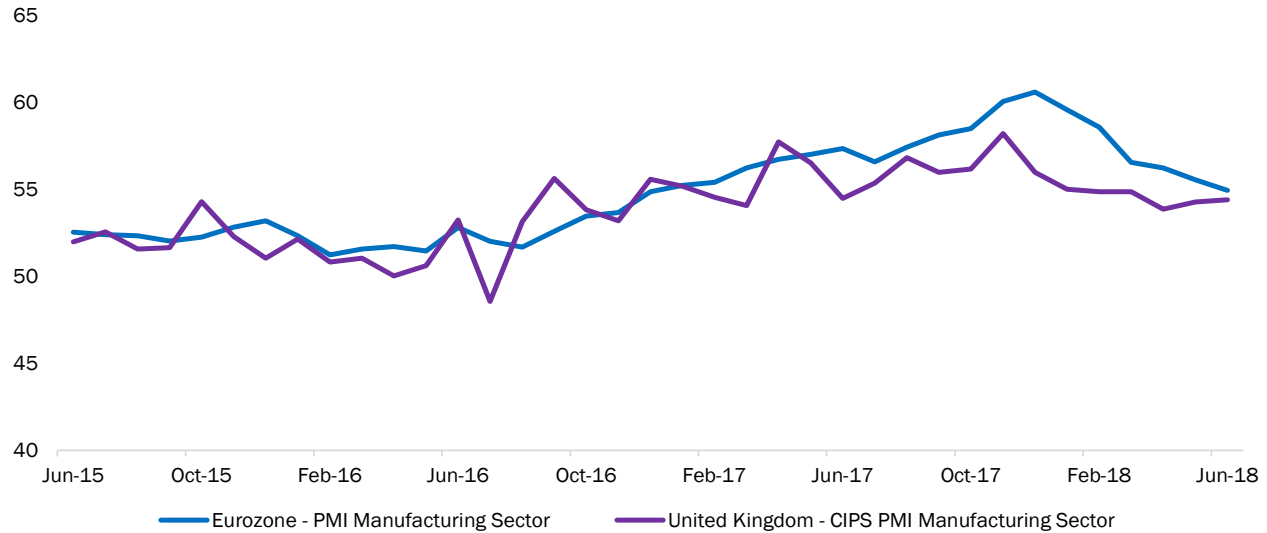
While capital spending is forecast to be the primary driver of US economic growth this year, US consumer spending has been surprisingly resilient, aided by rising after-tax income from strong job growth and lower taxes.

# Developed Economies

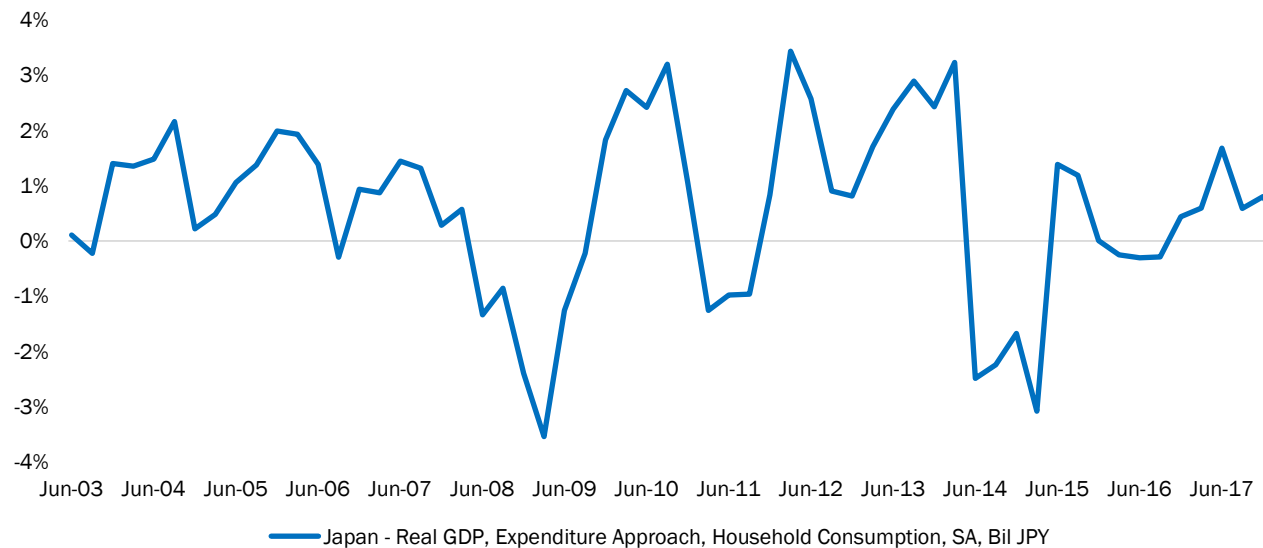
For both the UK and the Eurozone, weaker growth in Q1 has extended into Q2. The recent currency declines will provide crucial support to exporters, with the exception of Germany, which is targeted for higher US tariffs.

The Japanese economy likely achieved slightly positive second quarter growth following the first quarter contraction, but domestic spending continues to disappoint. As in Europe, the weaker yen will help second half growth, but a pending sales tax increase will heighten consumer angst.

PMI Manufacturing



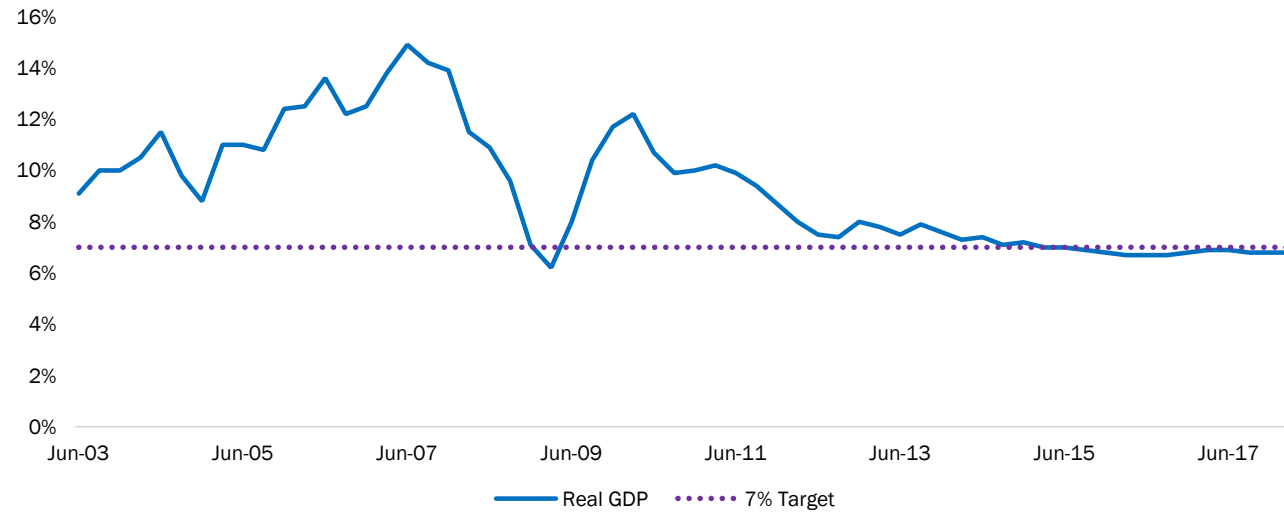
Japanese Consumer Spending



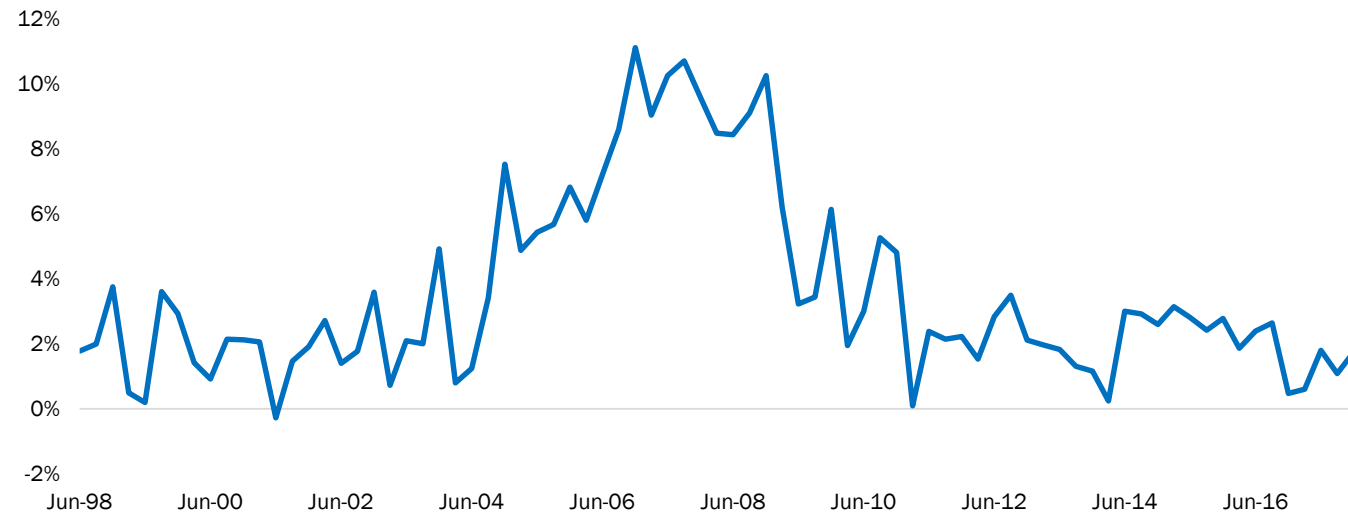
# Emerging Market Economies

The Chinese economy has yet to be seriously affected by the exchange of trade barbs with the US administration. However, the rollout of higher tariffs this month will put pressure on the government as it attempts to maneuver a controlled growth slowdown.

Chinese Real GDP Growth



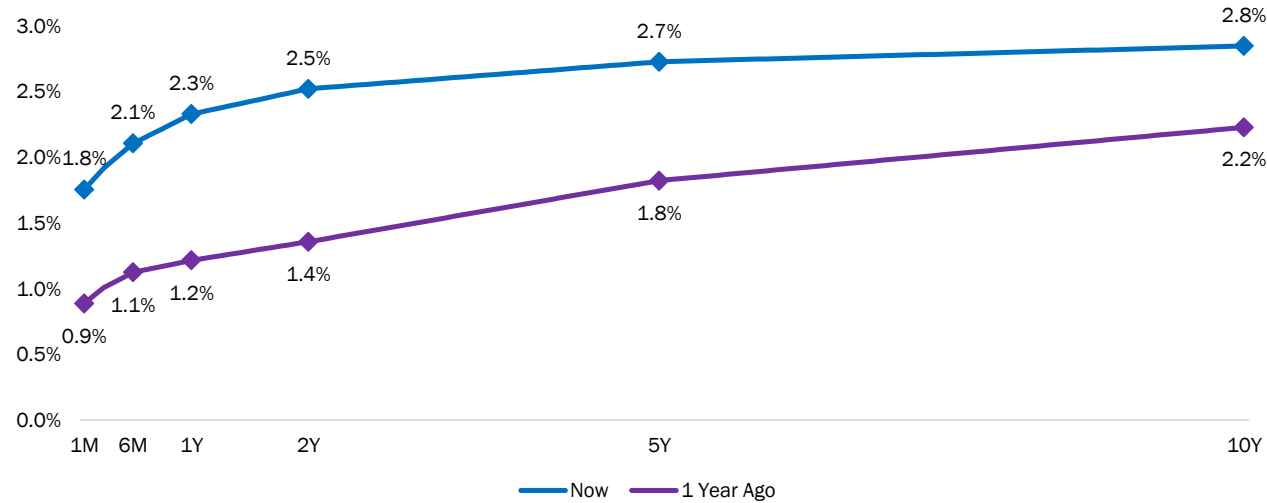
China- Current Account as a % of GDP



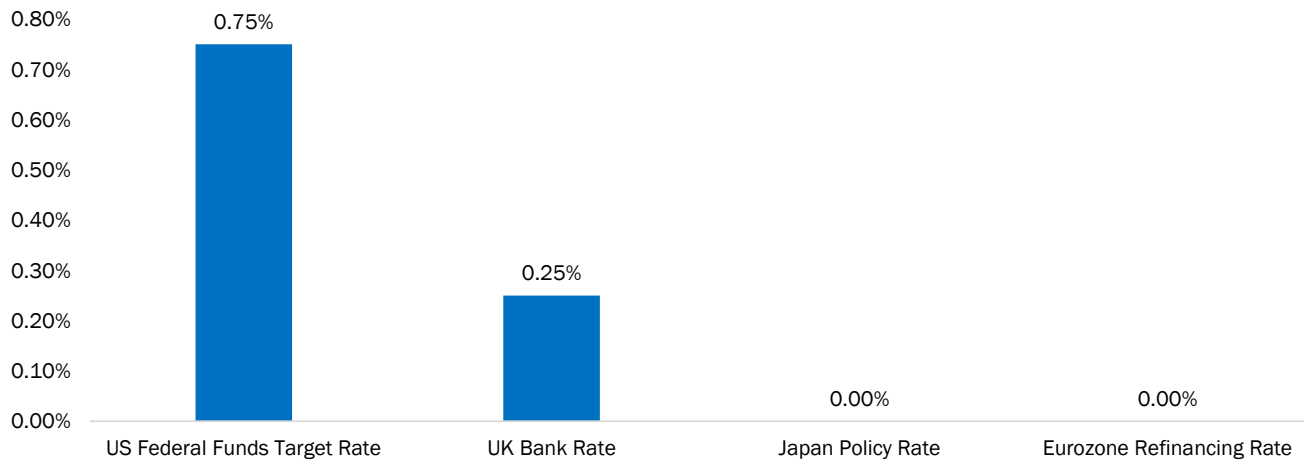
Source: Factset

# Monetary Policy

U.S. Yield Curve



One Year Change in Policy Rates



Source: Factset

The Federal Reserve is signaling two further interest rate hikes in 2018. Given the near-absence of inflationary pressures and continued flattening of the yield curve, we suspect the Fed may be nearing the end of this tightening cycle.

The ECB finally announced the plan to taper, and then end by December, the massive quantitative easing program induced by the financial crisis. Lower growth forecasts across the region and lack of a tangible inflation threat will postpone any actual rate hikes until well into 2019.

# U.S. Fixed Income

10 Year Treasury Yield



Inflation Expectations



Source: FRED

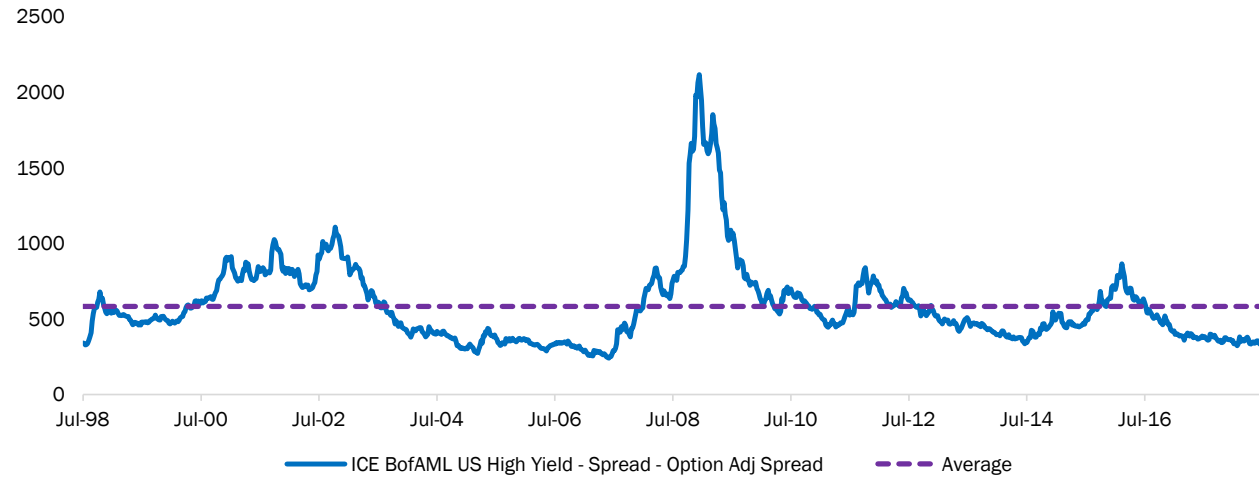
Lack of a sustained move above 3% in the 10-year US Treasury yield may be a sign that inflation remains contained, despite the economy being at full employment. Recent data readings also indicate that uncertainty around further trade protectionism is causing US corporations to refrain from major capital expenditures for the time being.

# Credit Markets

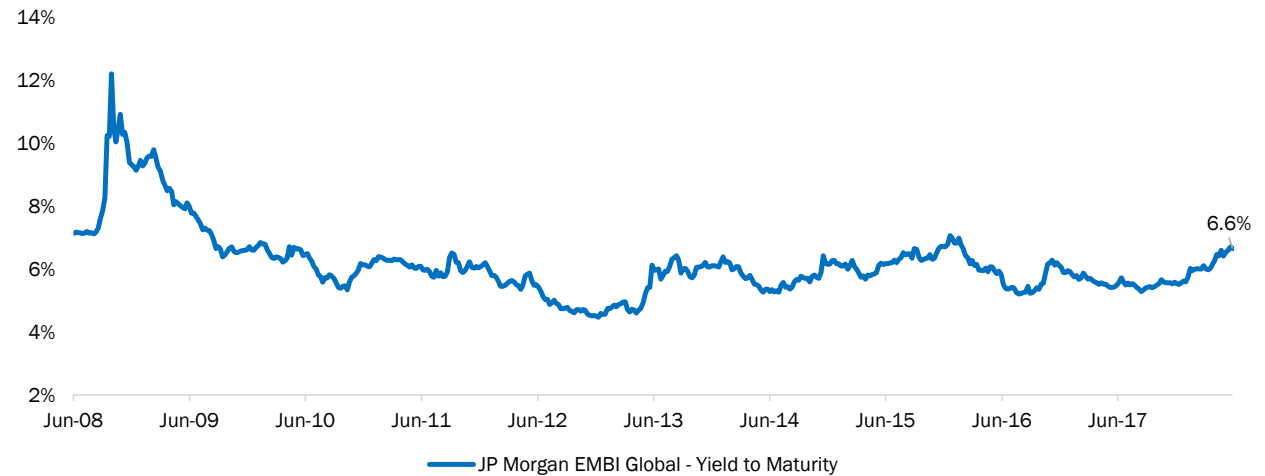
Further contraction in high yield rate spreads against like-maturity US Treasuries in recent months is another indication of the continued health of the US economy. However, it also renders these issues fairly valued, if not overvalued, at current levels.

Emerging markets countries with higher levels of externally-financed debt are feeling the pressure on their currencies from continued Fed tightening. The resulting selloff in the entire asset class has rendered attractive the debt of countries with lower fiscal deficits that have been able to finance with longer maturities and in local currency

US High Yield Credit Spreads



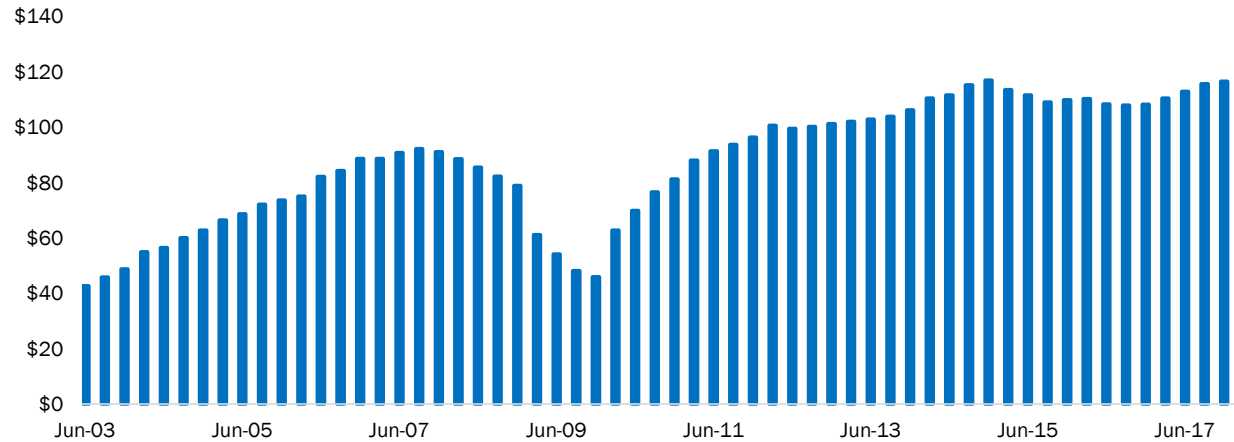
Emerging Market Debt Yield



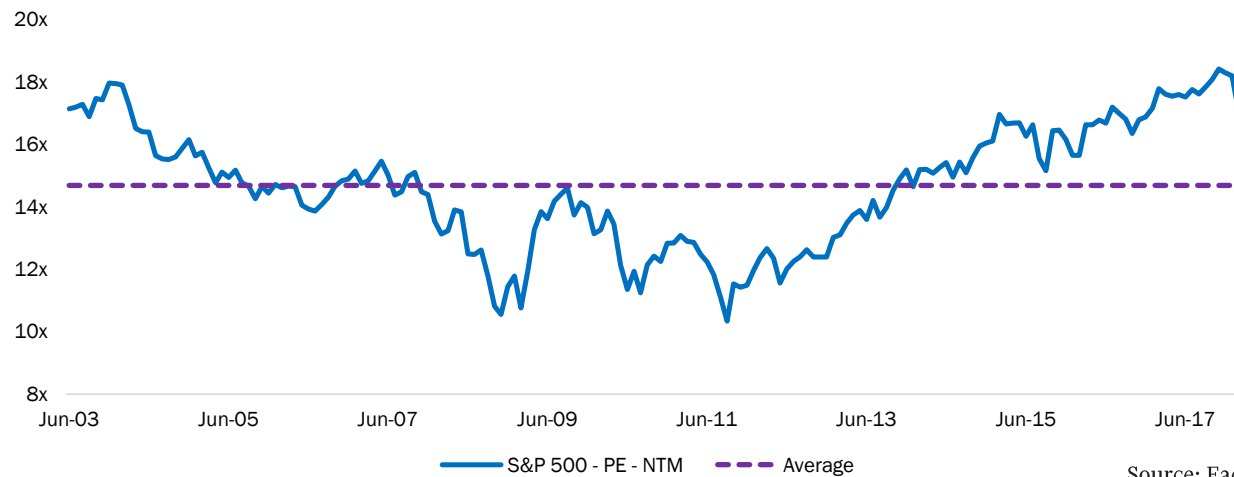
Source: Factset

# U.S. Equities

S&P 500 EPS LTM



S&P 500 PE Ratio



Source: Factset

Despite trading in a rather narrow trading range since the first quarter correction, US equities are expected to break out to the upside on the back of still-strong second half sales and earnings growth. US small and mid cap equities are more fully valued, but continue to be greater beneficiaries of tax reform and less exposed to protectionist trade policies.



# International Equities

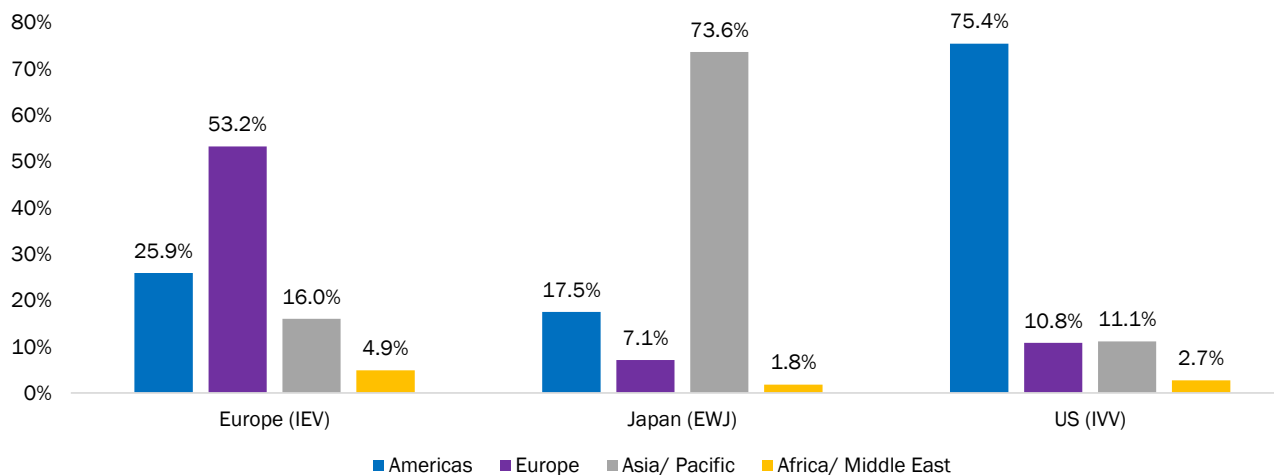
Unless the trade situation deteriorates markedly over the summer months, weaker currencies should help drive better sales and earnings growth for European equities. Lower relative valuations versus other markets are an added attraction for prospective buyers.

Among developed markets, Japanese equities are perhaps the most exposed to the ongoing trade battle between the US and China. Japan's trading proximity to China and the yen's safe haven currency status could combine to pressure their very important export industries if large inflows cause the yen to strengthen.

P/E Ratios NTM



Revenue Exposure by Region

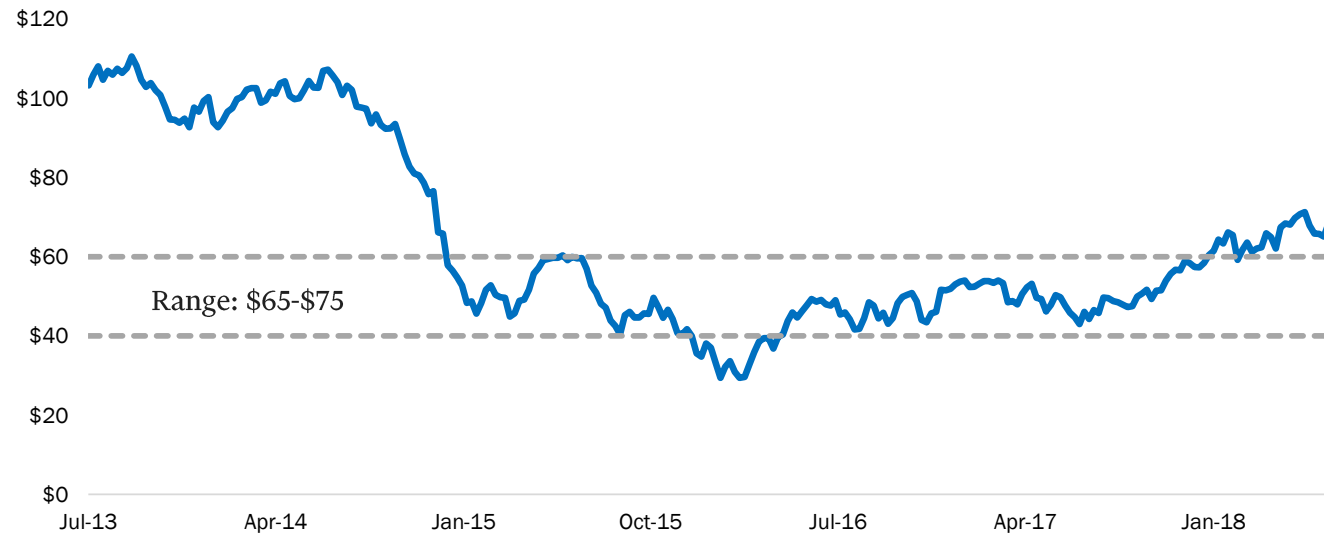


Source: Factset

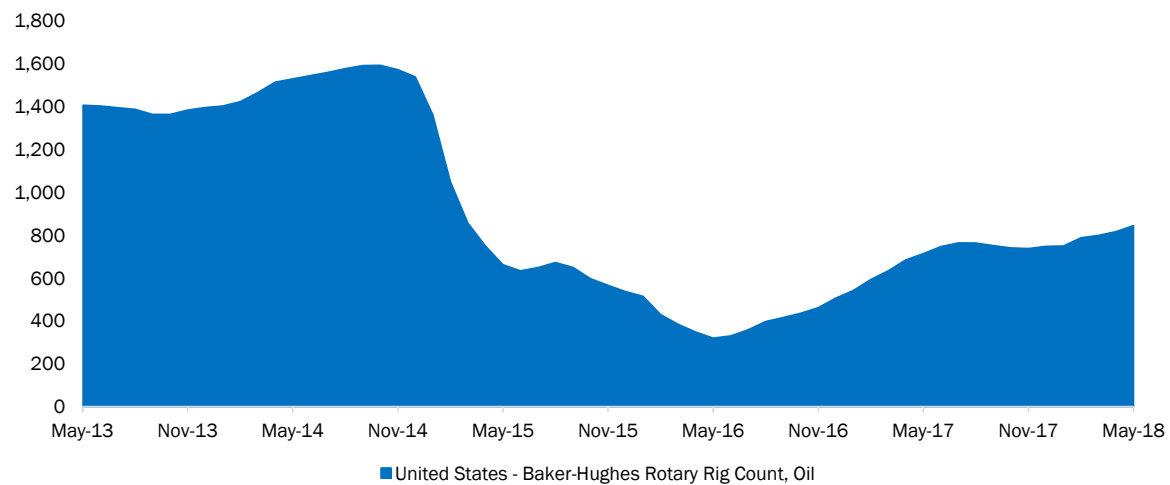
# Oil

The loss of a large portion of Iranian and Venezuelan oil production to international sanctions should be filled by higher output from Saudi Arabia, Russia, and the US shale sector. WTI crude should remain in a \$65-\$75 trading range over the coming months.

Crude Oil (NYM \$/bbl) - Price



United States - Baker-Hughes Rotary Rig Count, Oil



Source: Factset

# Gold and Commodities

Continued Fed tightening and the near-absence of inflationary pressures have been major headwinds for gold this year, and will likely keep prices from rising appreciably for the balance of 2018.

Tariff-induced price increases for industrial metals have led to lower demand, especially in the very important Chinese economy. We expect price pressures to continue over the summer, until more clarity develops over the ultimate economic impact of the simmering trade battles.

NY Gold (NYM \$/ozt) - Price



Bloomberg Copper Subindex - Price



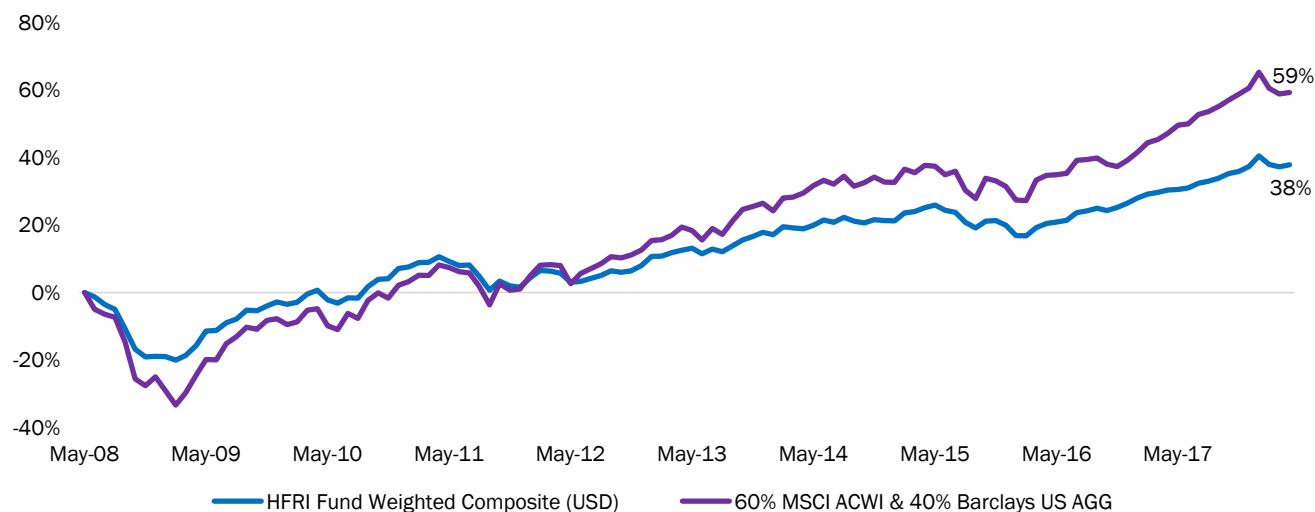
Source: Factset

# Hedge Funds & Private Equity

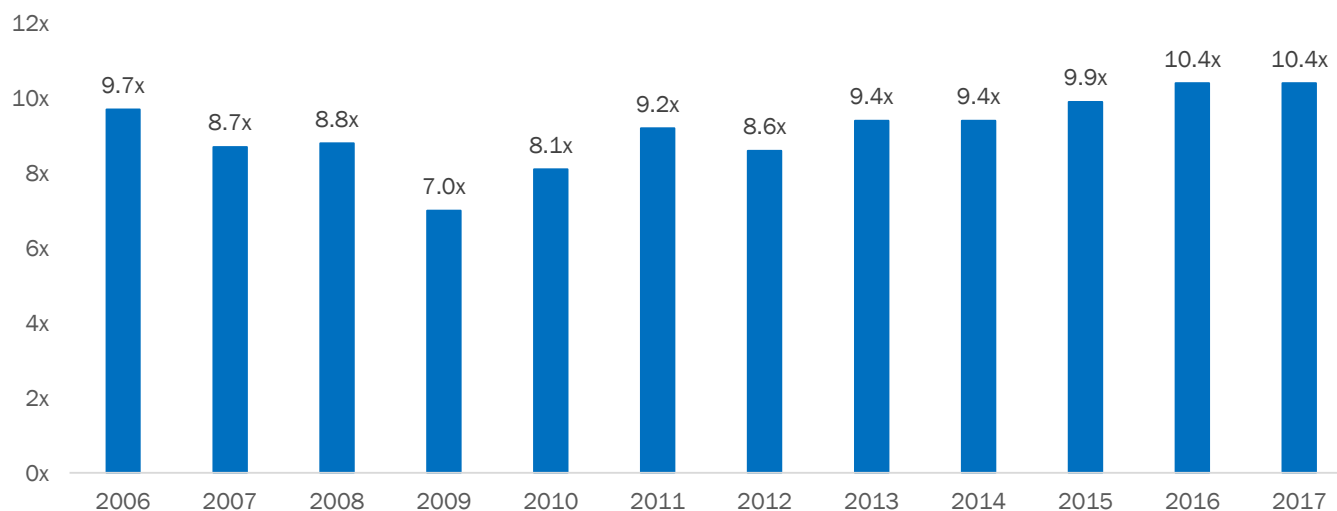
Persistently low market volatility and high correlations have been a challenge for hedge funds over the last decade. The pickup in market volatility and asset class dispersion in recent months has begun to benefit managers pursuing differentiated strategies and has allowed investors to hedge portfolio risks more easily.

Rising asset values are a continuing challenge for private equity managers seeking to buy good companies at reasonable prices. We aim to overcome these challenges by focusing on seasoned, disciplined managers, and by seeking value in niche markets or sectors experiencing disruption from technological or regulatory change.

Cumulative Returns of Hedge Funds and a 60/40 Portfolio



US Middle Market M&A Transaction Multiples



Source: Factset, Pitchbook

## Important Information

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