2019 Economic & Market Outlook

January 17, 2019

Presented by
Benjamin A. Pace, III
Chief Investment Officer
Key Themes for 2019

- Equities are likely to resume the bull market.
- The economic expansion continues.
- Recession risk remains low for this year.
- Capital spending is an important factor for 2019 GDP growth.
- Fed ends tightening cycle in a benign inflationary environment.
- China pulls policy levers to stabilize growth.
- Resolution of U.S./China trade dispute is a risk to the outlook.
- Favor credit over duration in fixed income.
Review of 2018

No where to escape low returns

Equities

Fixed Income

Source: Factset

Advice-driven financial service.
Even with the slowdown in international markets, robust global growth is forecasted for 2019.

Global Real GDP Growth

Source: IMF

Advice-driven financial service.
Nearing the End of the Economic Cycle

Expansion could extend further based on its inherently anemic nature, aging capital stock and corporate tax reform.

### Length of Economic Expansions Since World War II

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Number of Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 1949 to July 1953</td>
<td>37</td>
</tr>
<tr>
<td>May 1954 to August 1957</td>
<td>45</td>
</tr>
<tr>
<td>May 1954 to April 1960</td>
<td>39</td>
</tr>
<tr>
<td>April 1958 to February 1961</td>
<td>24</td>
</tr>
<tr>
<td>February 1961 to December 1969</td>
<td>106</td>
</tr>
<tr>
<td>November 1970 to January 1980</td>
<td>36</td>
</tr>
<tr>
<td>March 1975 to July 1980</td>
<td>58</td>
</tr>
<tr>
<td>July 1980 to July 1981</td>
<td>12</td>
</tr>
<tr>
<td>November 1982 to March 1991</td>
<td>92</td>
</tr>
<tr>
<td>March 1991 to November 2001</td>
<td>120</td>
</tr>
<tr>
<td>November 2001 to December 2008</td>
<td>73</td>
</tr>
<tr>
<td>June 2009 to Current</td>
<td>114</td>
</tr>
</tbody>
</table>

Source: NBER
Drivers of Growth – Capital Spending & Productivity

Capital spending and productivity increases will be vital to a continuation of the current expansion.

Private Nonresidential Fixed Investment

Source: FRED

Advice-driven financial service.
The U.S. Consumer

A stalwart for both the U.S. and global economy - employment is strong with more job openings than those looking for jobs

U.S. Consumption Growth

Source: Factset

Advice-driven financial service.
Rate of Change

There is a large difference between the slowdown in the growth rate and a directional change in sales, earnings and GDP. A recession does not seem to be an immediate risk.

S&P 500 Sales Growth

Source: Factset

Advice-driven financial service
China’s Rebalancing Act

Beyond the headlines of the tariffs, China is attempting a delicate rebalancing of its economic growth drivers.

Investment as a % of GDP

Source: Factset
China & Tariffs

So far, the U.S. has “won” the trade war in market terms.

**Relative Performance of the U.S./Chinese Stock Market & U.S. Dollar/Yuan Exchange Rate**

Source: Factset
Europe Falling

Growth rates in the Eurozone have been falling since the end of 2017 with Italy at the epicenter.

European Manufacturing Surveys

Expanding

Contracting

Source: Factset
The Biggest Risk: The Fed

Monetary policy is now viewed as tight with real rates above zero. Watch the yield curve, but also watch inflation indicators. Without real price pressures, the Fed should be able to pause and then end rate increases.
Inflation

The Fed is in a unique position of raising rates in an environment without meaningful inflation pressures.

Inflation Rates

Source: Factset
Fiscal Policy

The effectiveness of tax cuts and spending increases may be called into question given the impact on the deficit. Watch for the crowding out effect of higher deficits on real interest rates.

Federal Budget Surplus/Deficit as a % of GDP

Source: FRED

Advice-driven financial service.
Fixed Income

Interest rate “normalcy” close to being achieved - maybe the Fed can achieve a soft landing, but rising deficits may awaken the bond vigilantes.

10-Year Treasury Yield

Source: Factset
Credit Over Duration

Spreads continue to reflect the low default environment.

U.S. High Yield Spread

Source: Factset
Volatility Rising

Heightened volatility should be the norm in a Fed tightening cycle.

VIX (CBOE Volatility Index)

Source: Factset
Multiple Contraction

Earnings will be key. They will be slower than 2018, but still positive. How positive? Mid to high single digits vs. mid to low could make a big difference in equity returns.

Forward P/E Ratio of the S&P 500
International Equities

The current U.S. / International equity cycle has lasted longer than previous cycles.

U.S. Equities vs. Developed International Equities

Source: Morningstar Direct
Notes: U.S. index is the S&P 500, Developed International index is the MSCI World ex USA
Emerging Market (EM) Equities

The dollar’s rise has been a headwind for emerging markets. The effect, however, is not uniform across EM countries.

Relative Performance of the MSCI EM/S&P 500 & The Dollar Index

Source: Factset, FRED
Commodities

Poor performance this year may signal a rebound as global growth stabilizes at still high rates.
Important Notes

Cerity Partners LLC ("Cerity Partners") is an SEC-registered investment adviser with offices in New York, Illinois, Ohio, Michigan and California. This commentary is limited to general information about Cerity Partners' services and its financial market outlook, which may not be suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this brochure will come to pass. Investing in the financial markets involves risk, including the risk of loss of the principal amount invested; and may not be appropriate for everyone. The information presented is subject to change without notice and should not be considered as an offer to sell or a solicitation of an offer to buy any security. All information is deemed reliable but is not guaranteed. For information pertaining to the registration status of Cerity Partners, please contact us or refer to the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov). For additional information about Cerity Partners, including fees and services, send for our disclosure statement as set forth on Form ADV Part 2A using the contact information herein. Please read the disclosure statement carefully before you invest or send money.

©2019 Cerity Partners LLC, an SEC-registered investment adviser. All Rights Reserved. (01/19)