

2019 Economic & Market Outlook

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Presented by

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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.

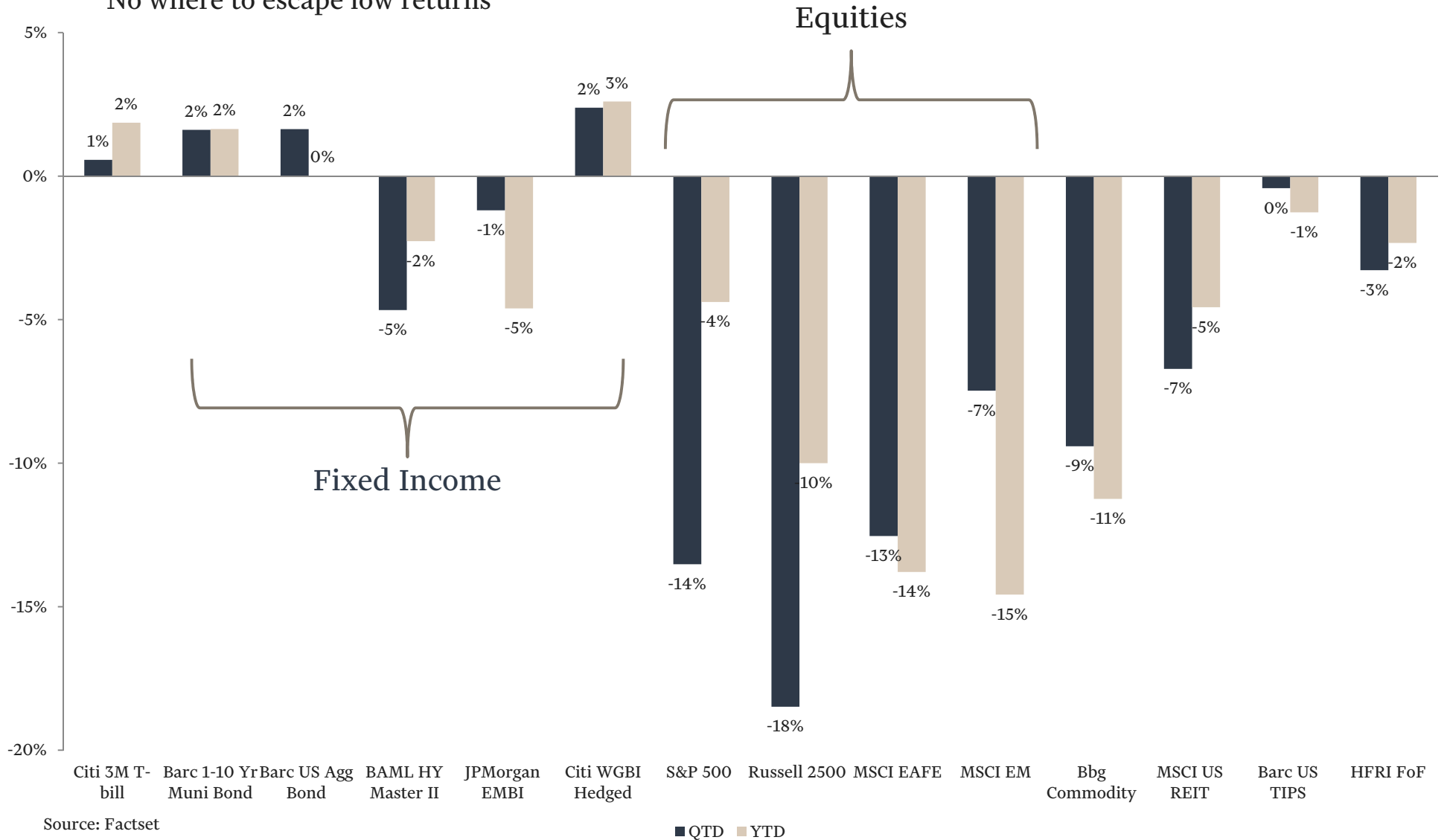
China pulls policy levers to stabilize growth.

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



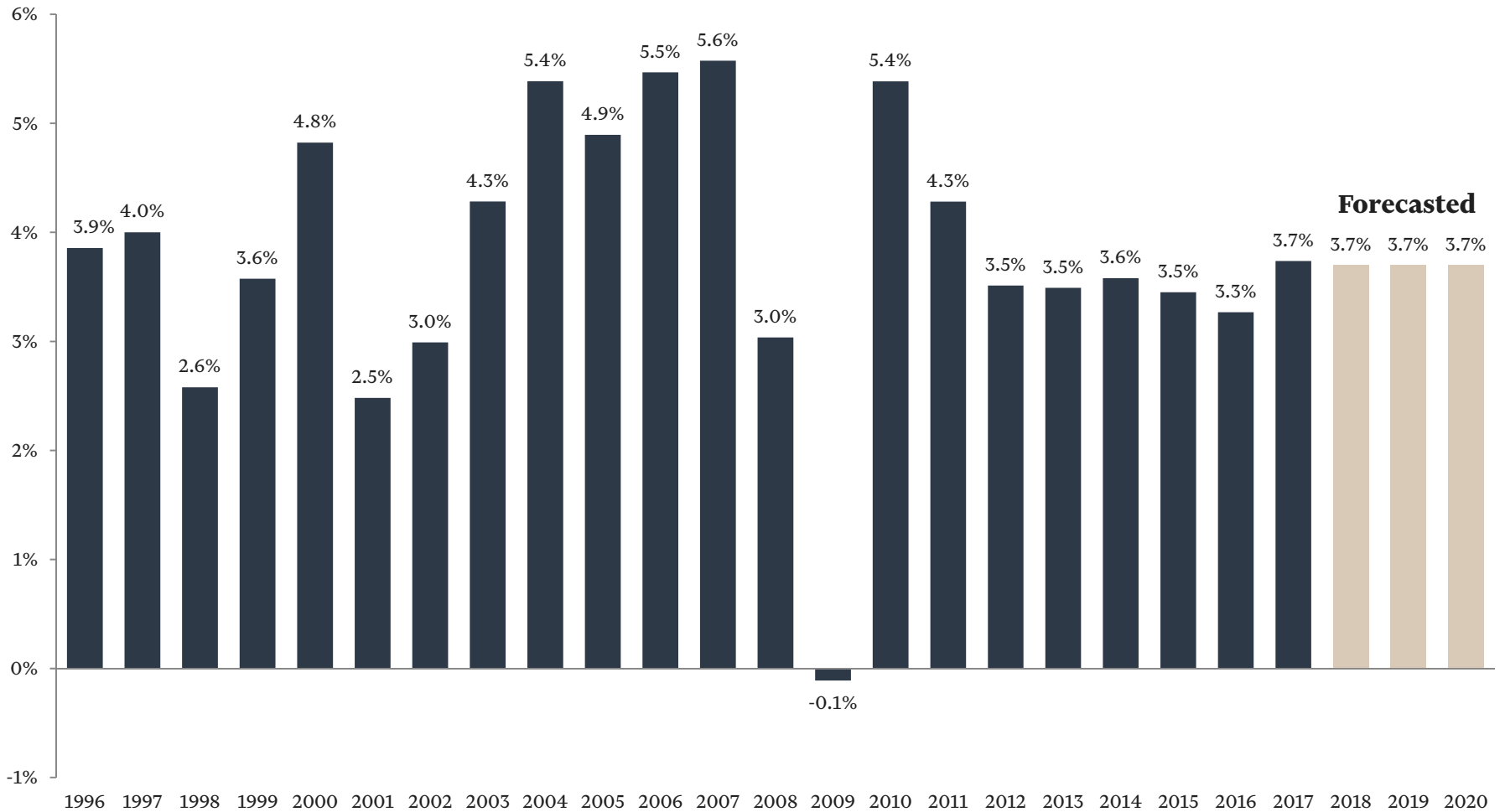
Source: Factset

■ QTD ■ YTD

Global Growth

Even with the slowdown in international markets, robust global growth is forecasted for 2019.

Global Real GDP Growth

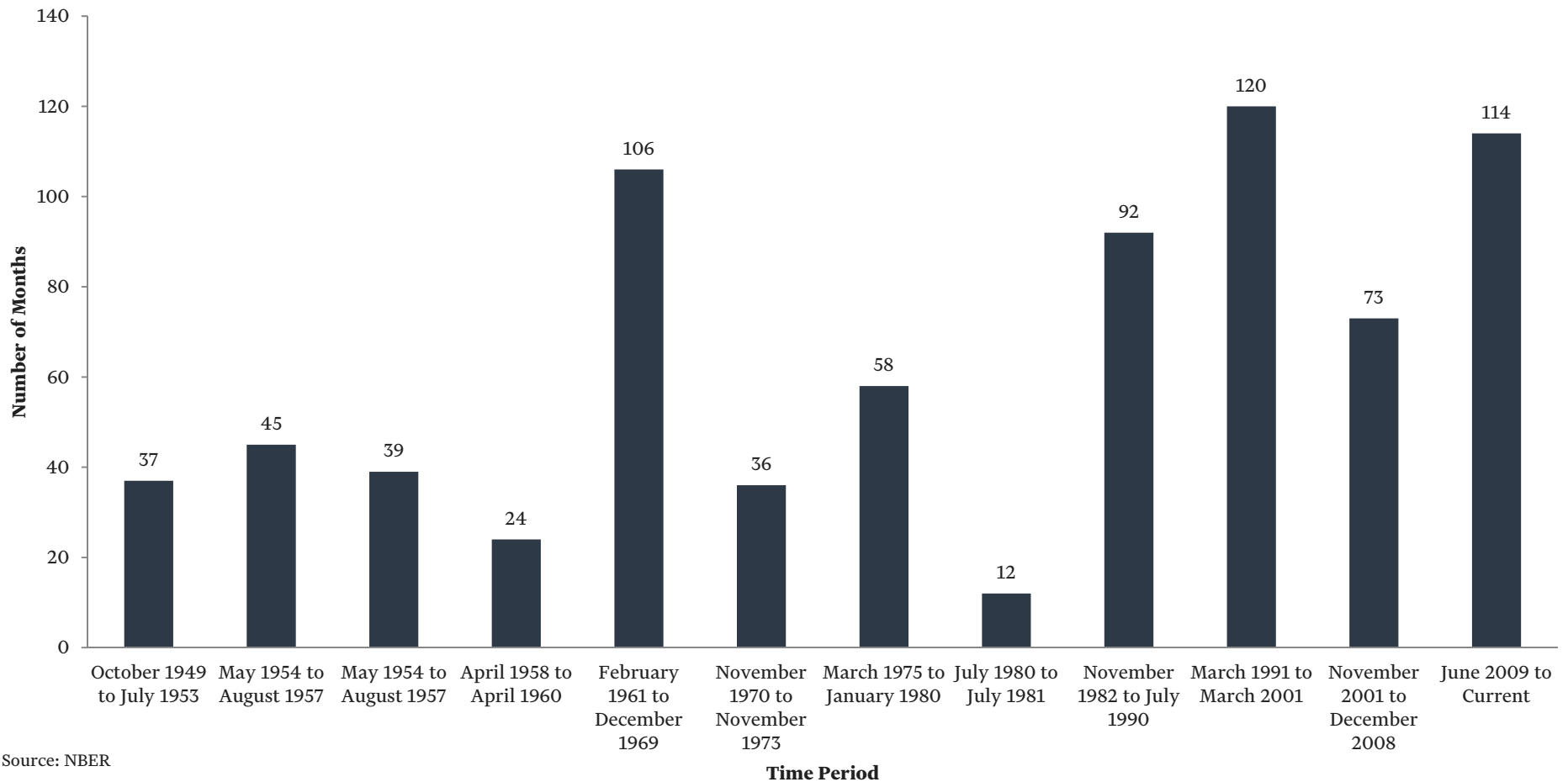


Source: IMF

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

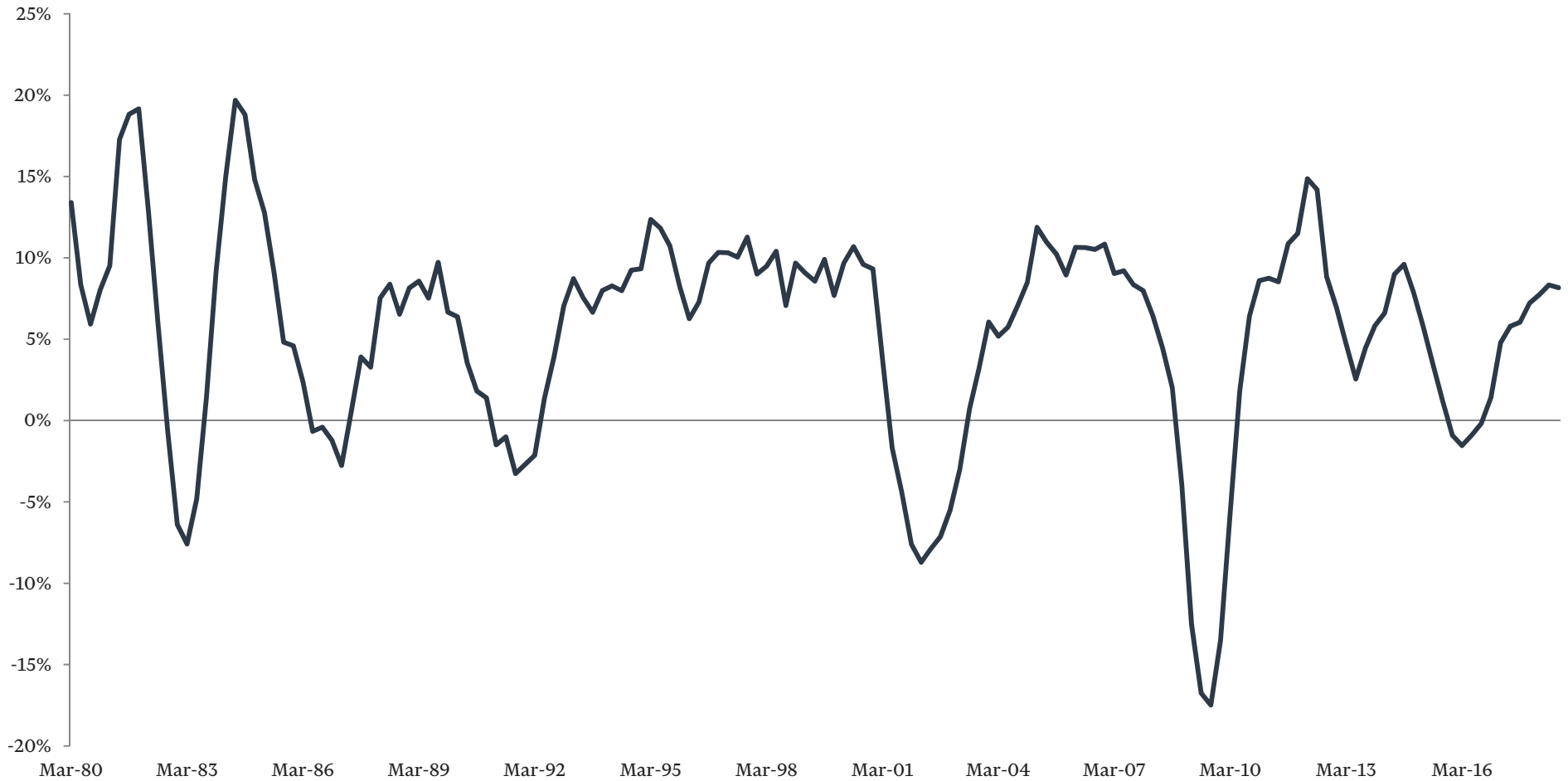


Source: NBER

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



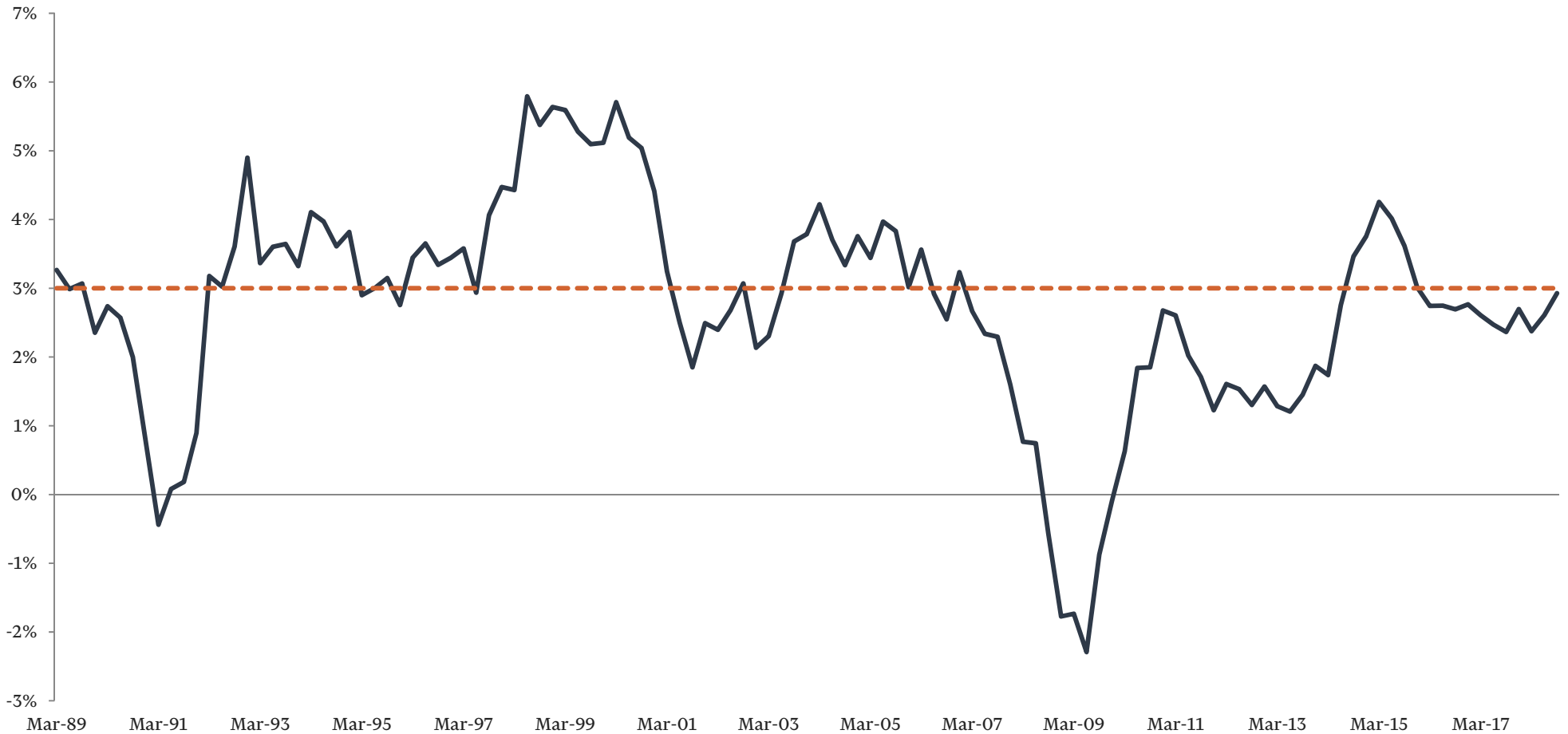
Source: FRED

— Private Nonresidential Fixed Investment (year over year %)

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



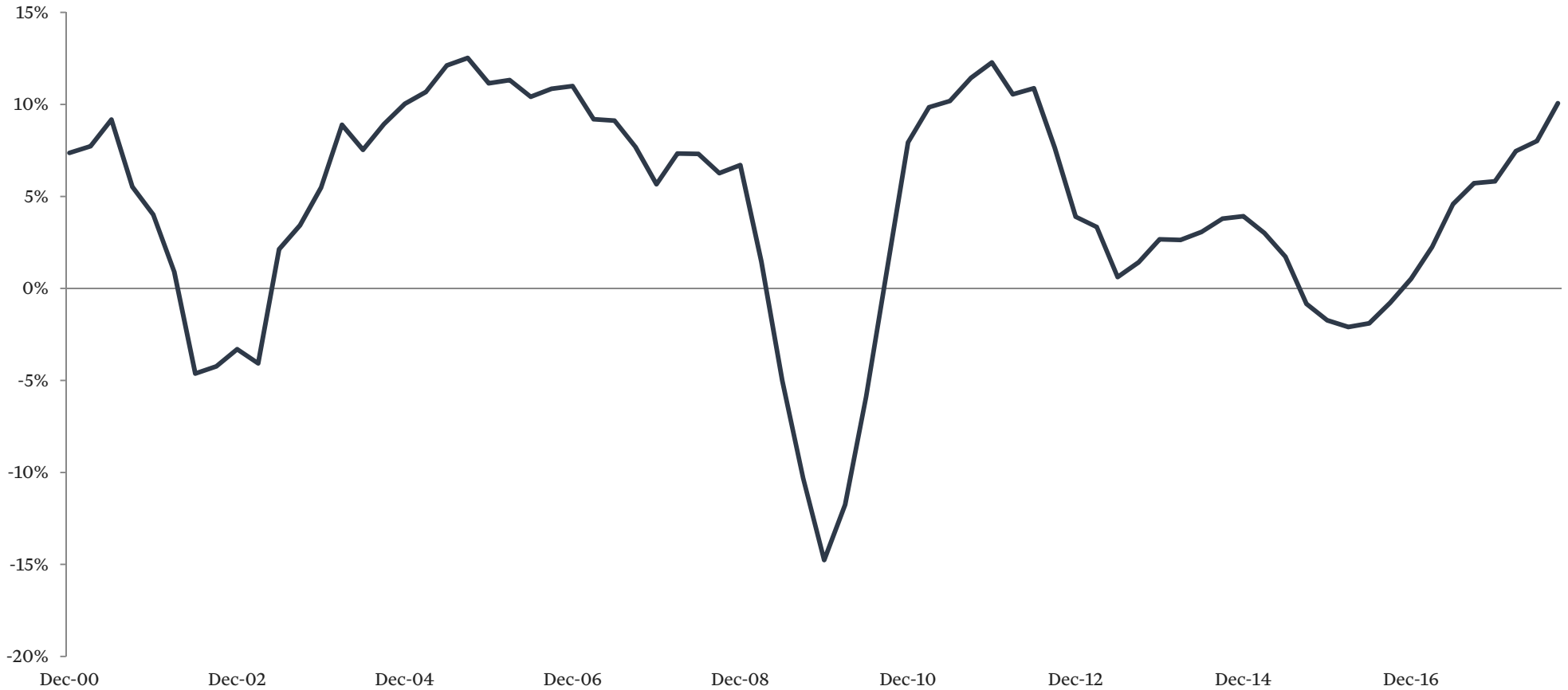
Source: Factset

— United States - Personal Consumption Expenditures, Bil Chained 2009, SAAR, Bil USD

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



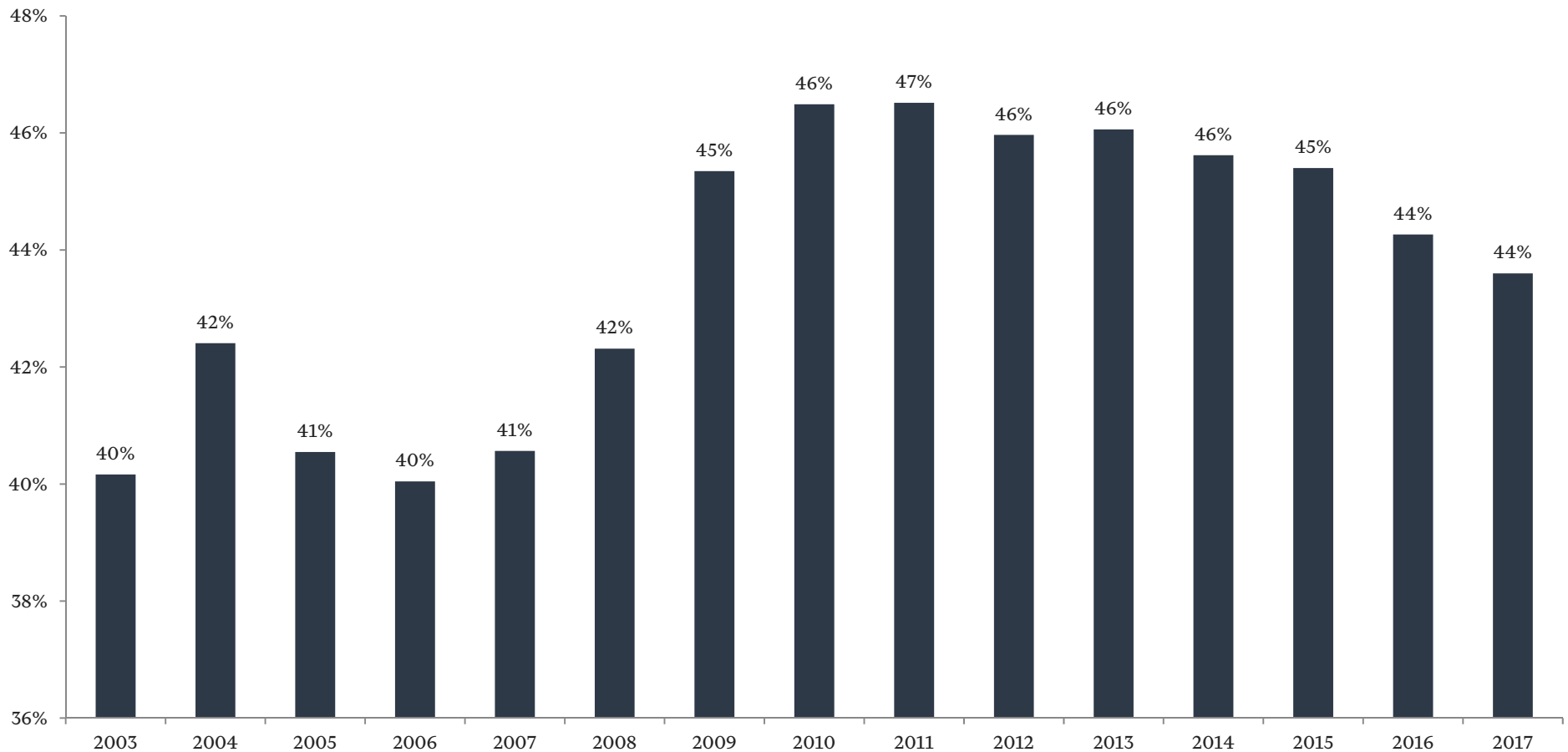
Source: Factset

— 12 Month Sales per Share Growth (year over year %)

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



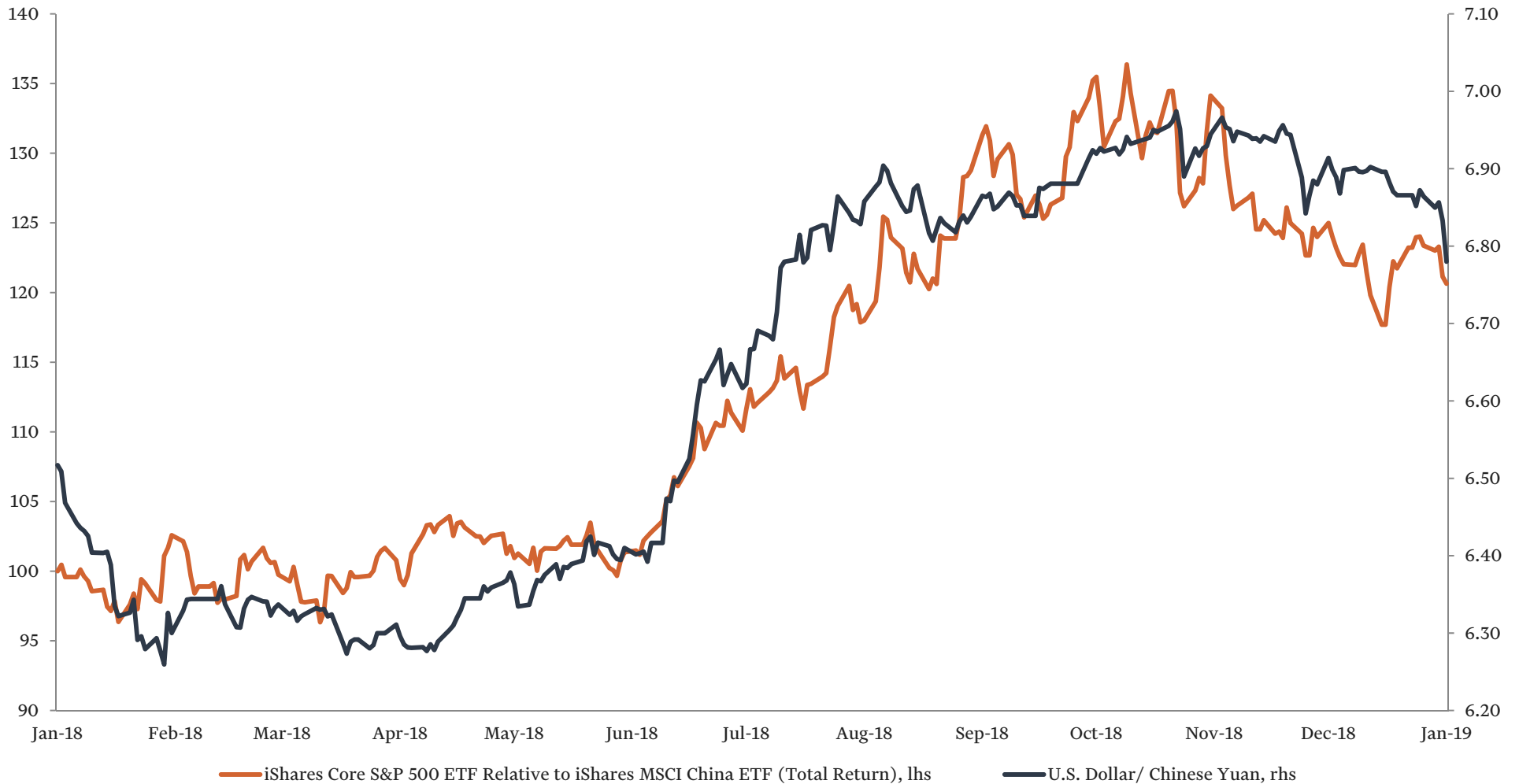
Source: Factset

■ Gross Capital Formation as a % of Nominal GDP

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

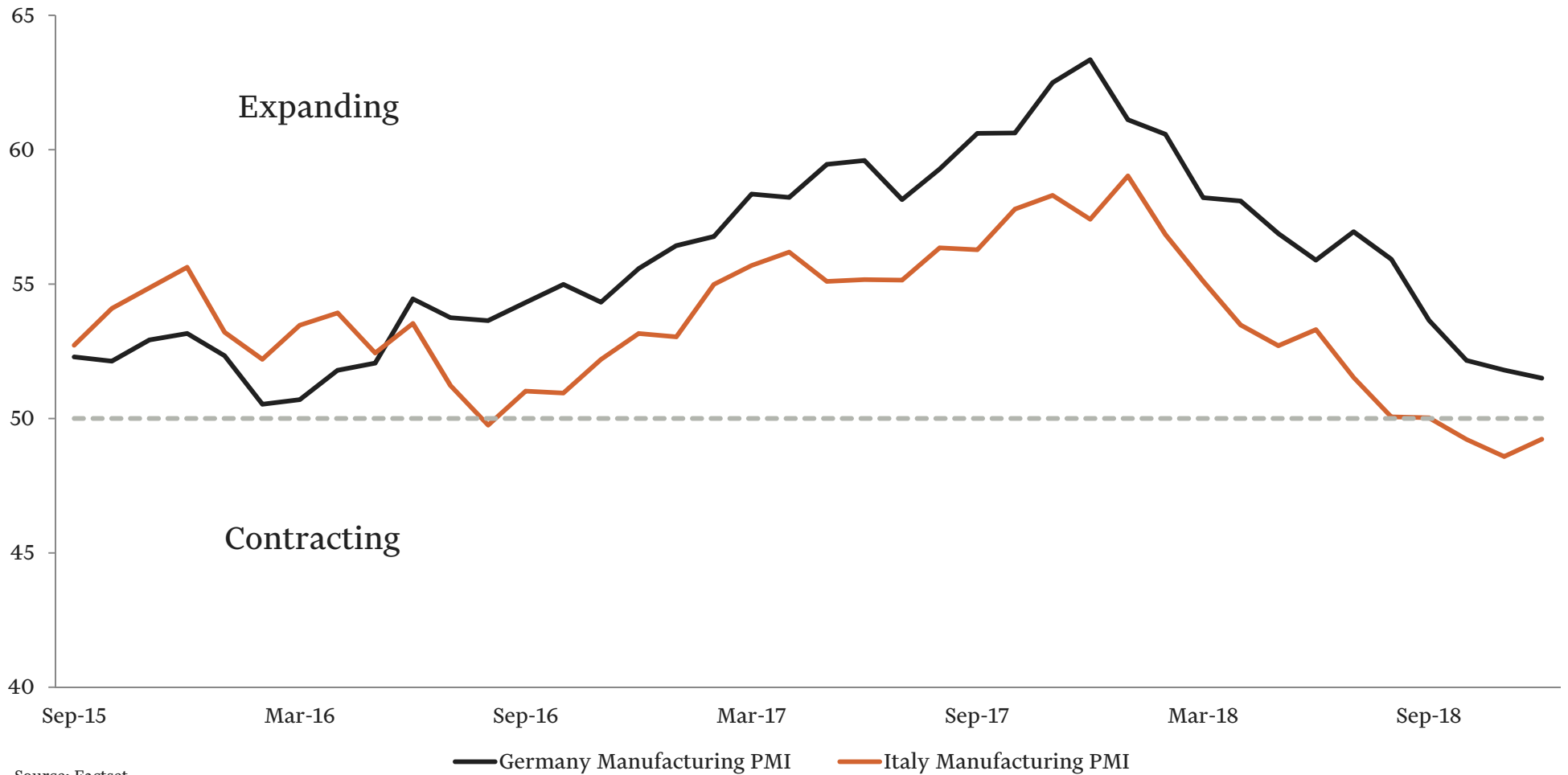


Source: Factset

Europe Falling

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

European Manufacturing Surveys

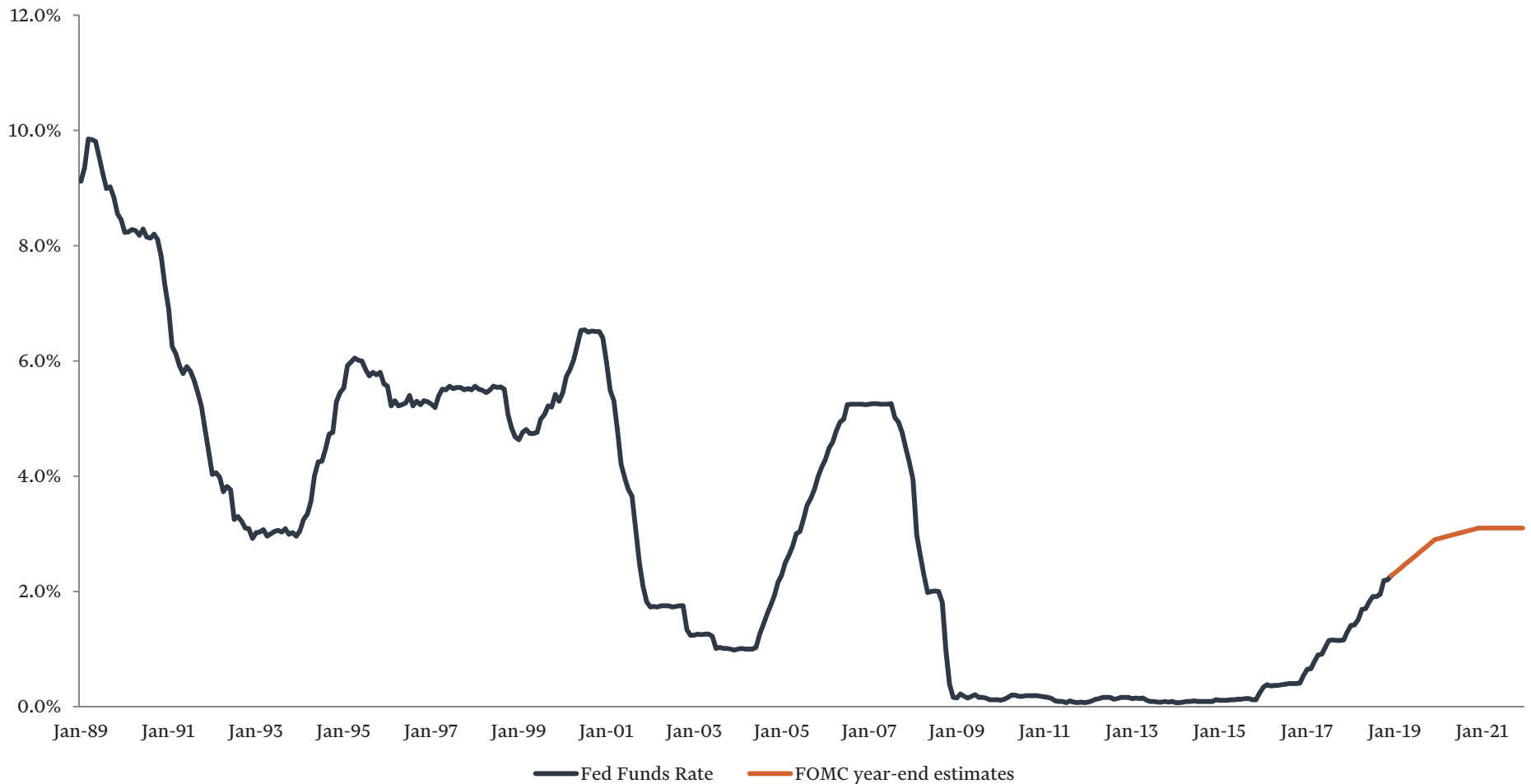


Source: Factset

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.

Fed Funds Rate

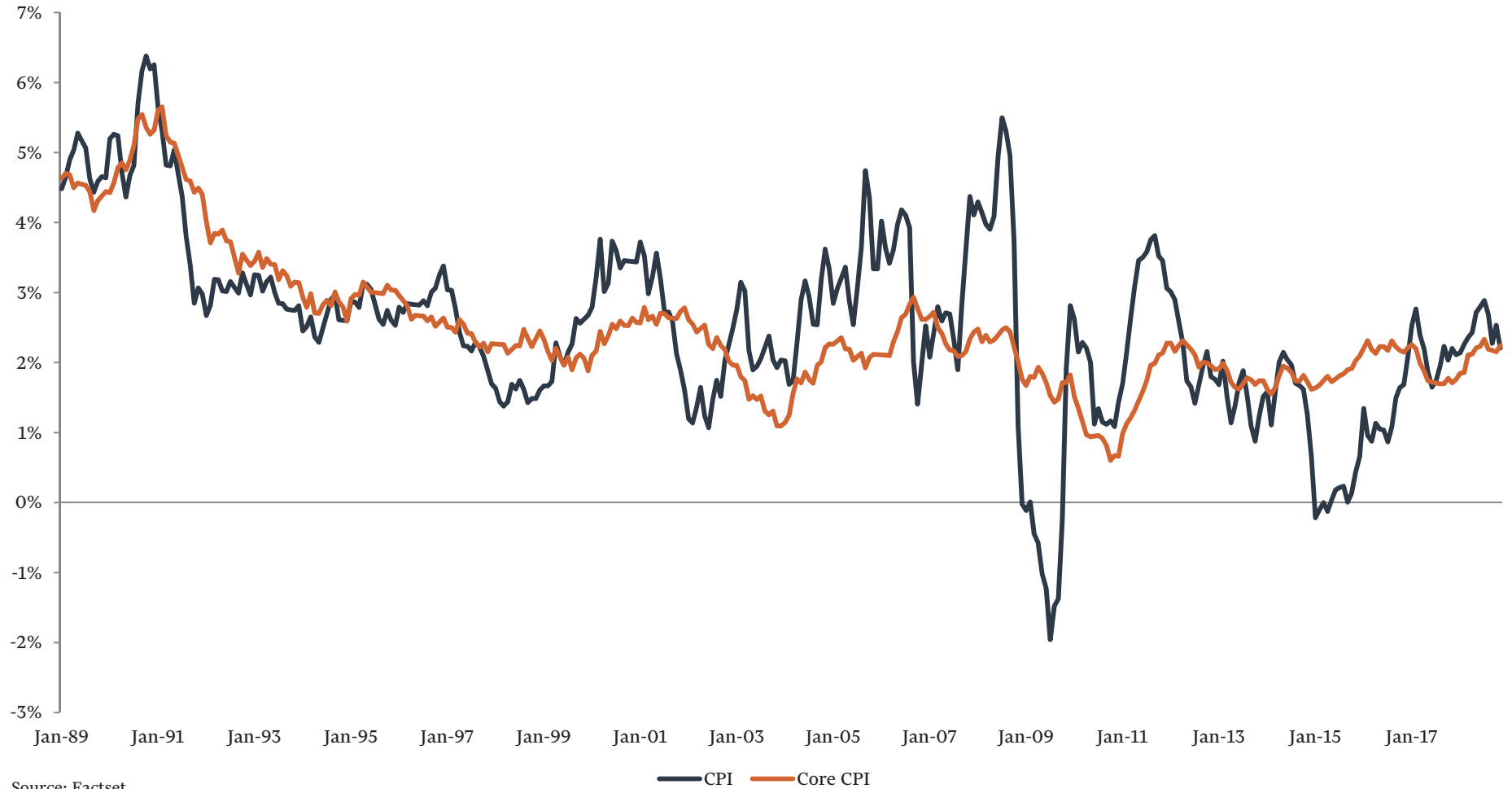


Source: FRED

Inflation

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

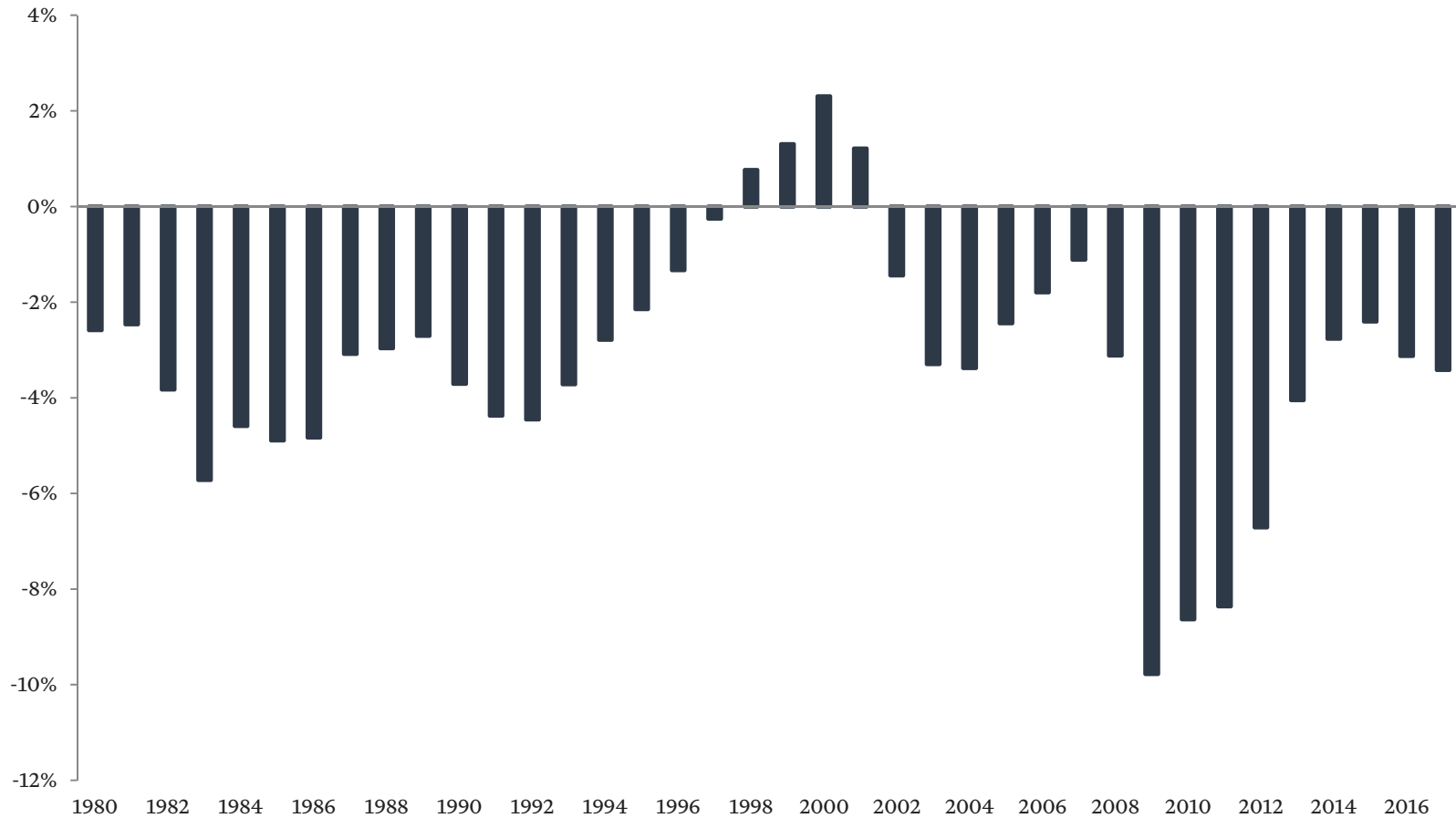
Inflation Rates



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

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

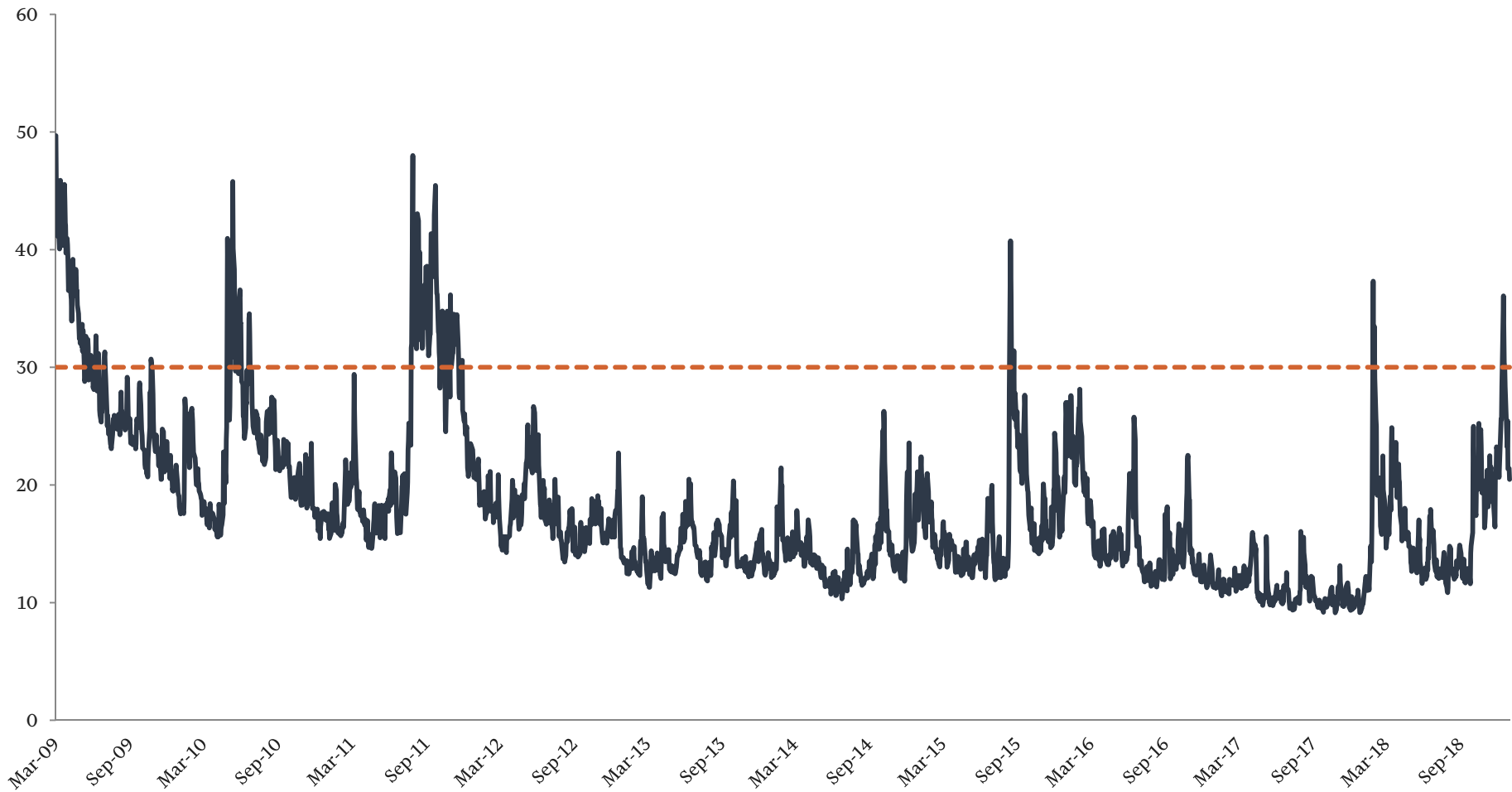


Source: Factset

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



Source: Factset

— S&P 500 - PE - NTM - - - Average

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.

Crude Oil Price



Source: Factset

— Crude Oil (NYM \$/bbl) - Price

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