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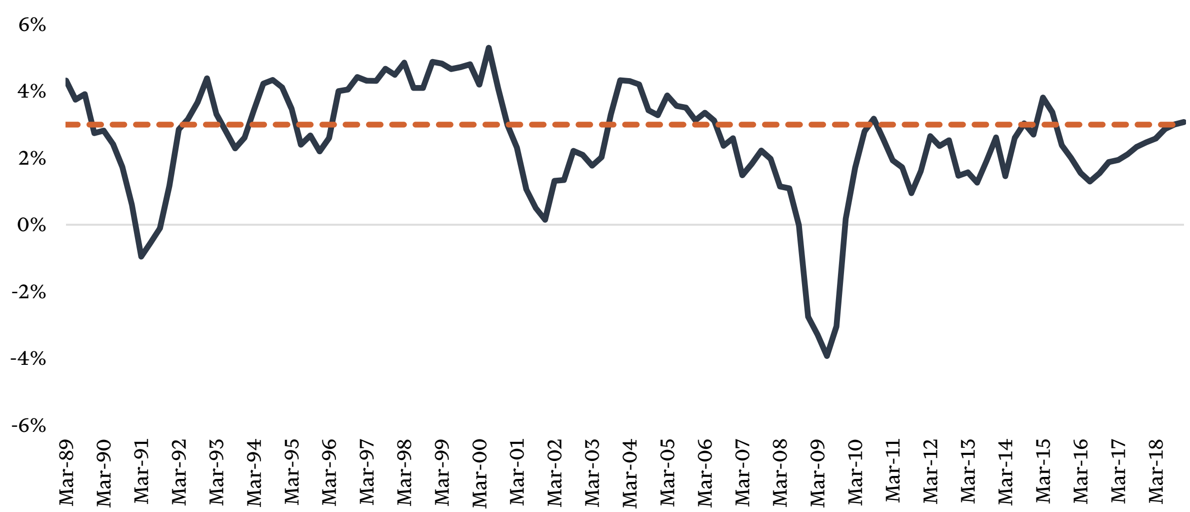
Economic Outlook and Market Forecast

March 2019

Advice-driven financial service.

The Global Economic Backdrop

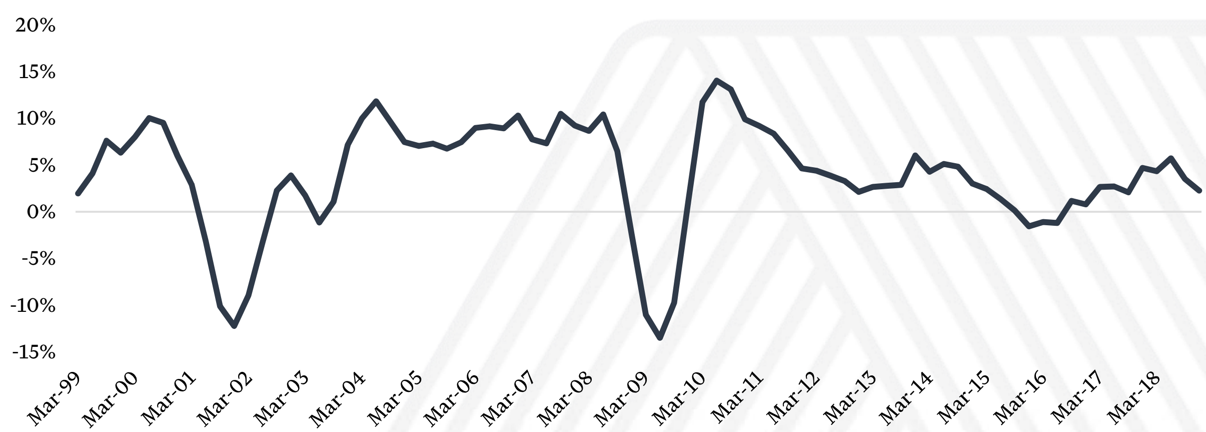
U.S. Real GDP Growth (year over year)



While it is slowing down, U.S. GDP should grow 2.5% in 2019 due to a healthy consumer and an expected revival in capital spending.

Easing trade tensions and a stabilizing dollar could produce a positive surprise in net exports over the second half of the year.

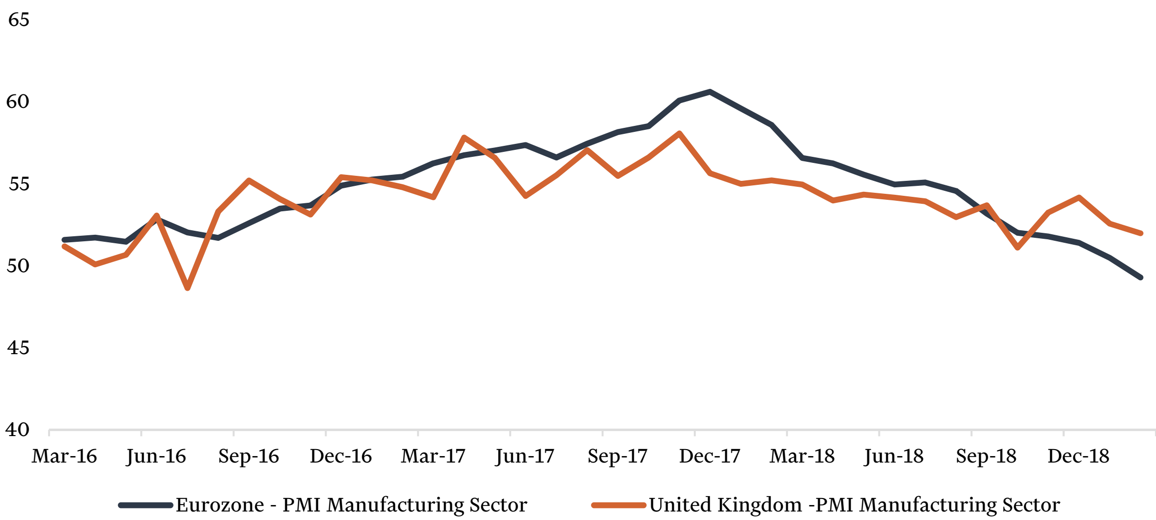
U.S. Exports (year over year %)



Source: Factset

Developed Economies

Purchasing Managers' Index (PMI) Manufacturing



Japanese Real Year Over Year Export & Import Growth

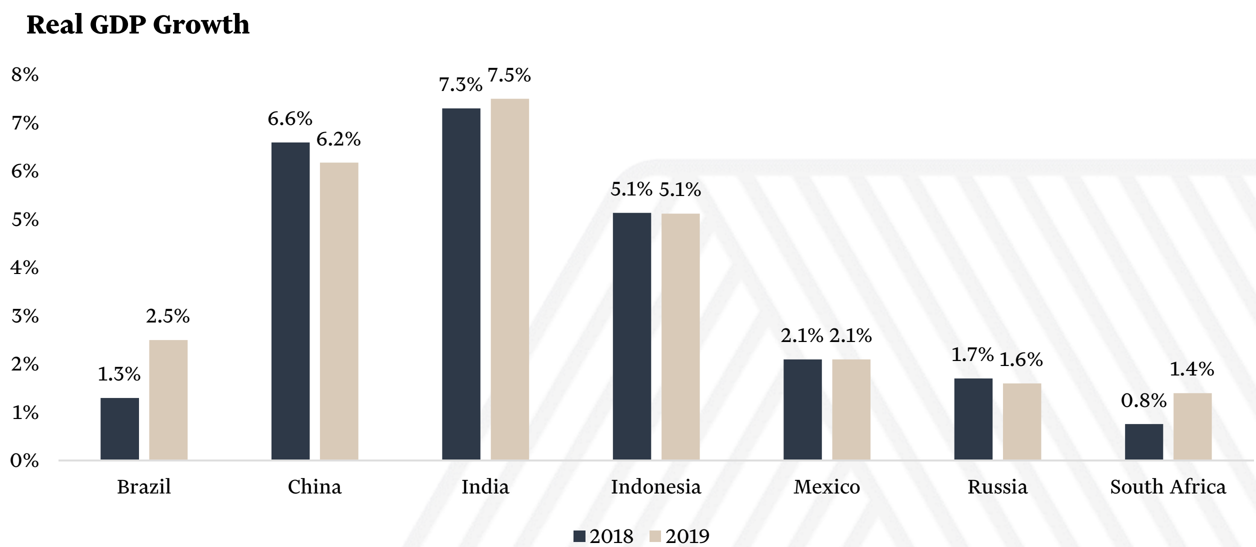
Source: Factset

Three events should pull the European economy from the brink of a recession: the currency depreciation in 2018, fiscal stimulus domestically and in important export destinations such as China, and a successfully-negotiated Brexit agreement. One tangible risk to this recovery is renewed U.S. focus on trade, particularly German auto tariffs.

Chinese fiscal stimulus should bolster Japanese exports. However, the government will likely need to scrap its proposed sales tax hike. In its current state, the Japanese economy wouldn't be able to absorb any tightening measures.

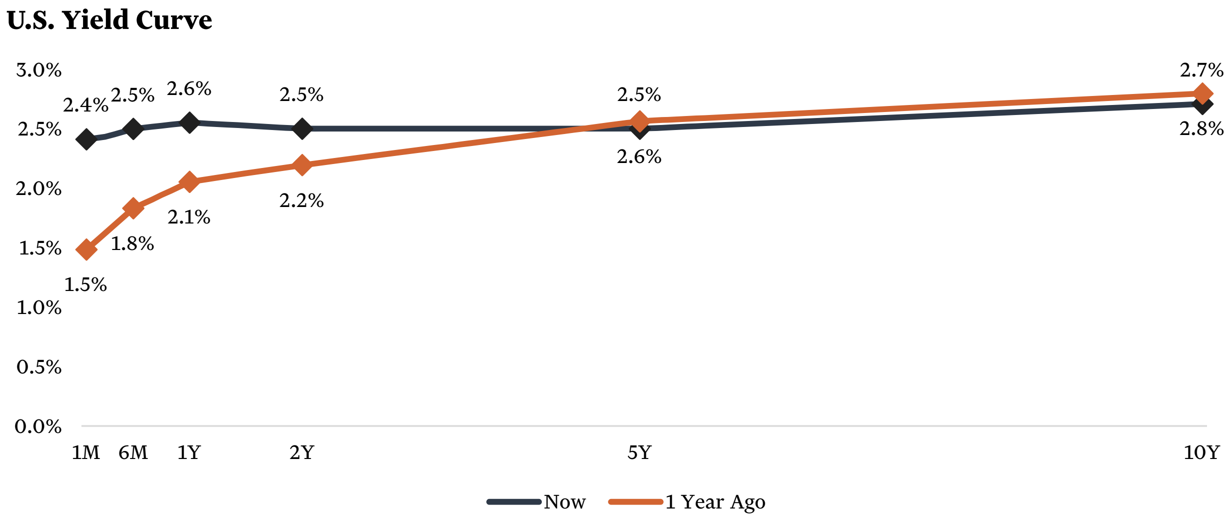
Emerging Market Economies

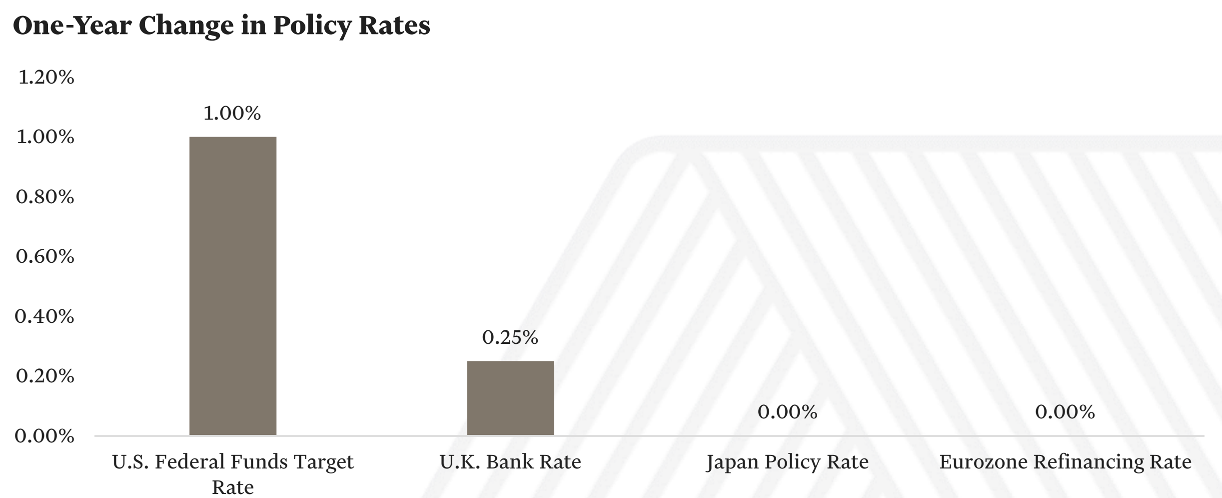
If trade negotiations result in fewer tariffs or tariff threats, then the spending and tax measures introduced over the last few months should allow the Chinese government to achieve its target of roughly 6.0% growth for 2019.



Source: IMF & Factset; 2018 & 2019 GDP Growth Rates are forecasts

Monetary Policy





Data as of 3/1/2019

Source: Factset

With the approaching end to Fed tightening, the U.S. Treasury yield curve has stopped flattening, and the threat of actual inversion has lessened.

Even the more hawkish members of the European Central Bank concede that the Eurozone economy isn't strong enough to begin tightening rates in 2019.

The Bank of Japan has little choice but to maintain monetary policy at its extremely easy levels. The bank's biggest concern is its perceived lack of tools to react to any economic downturn in the future.

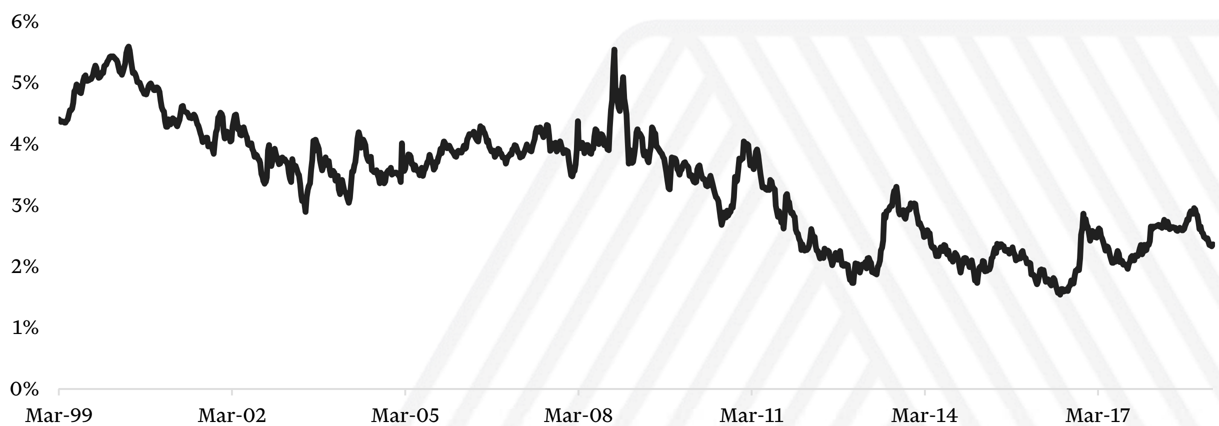
U.S. Fixed Income

10-Year Treasury Yield

Longer term rates are expected to increase gradually as the year progresses with the 10-year note hitting 3.0% by year-end.

Municipal bonds should travel a similar path as their taxable counterparts with yields meandering higher throughout the year. However, the slowdown in issuance should prevent any meaningful price depreciation.

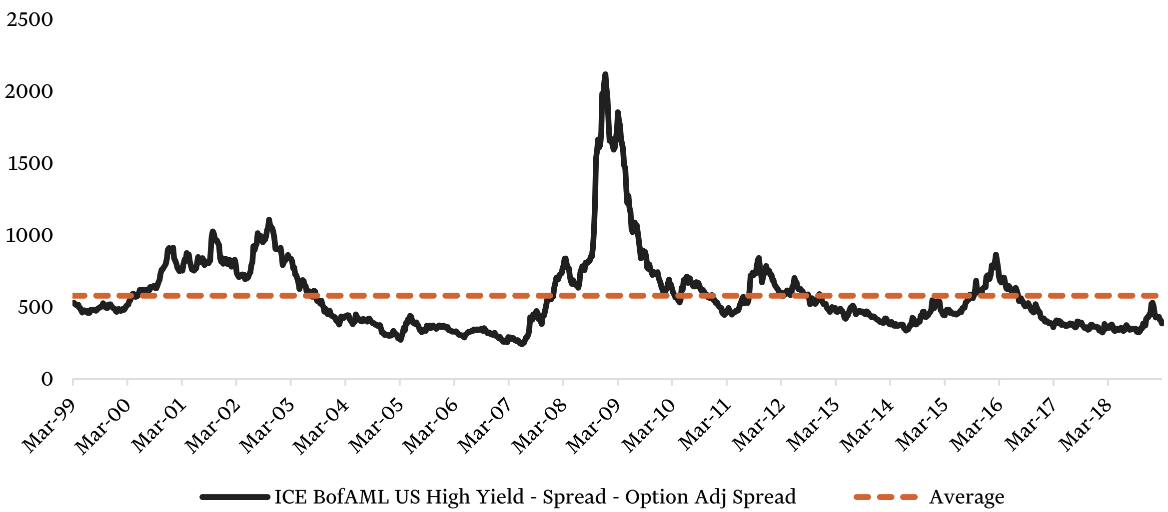
Bloomberg Barclays Municipal Bond 10-Year Yield



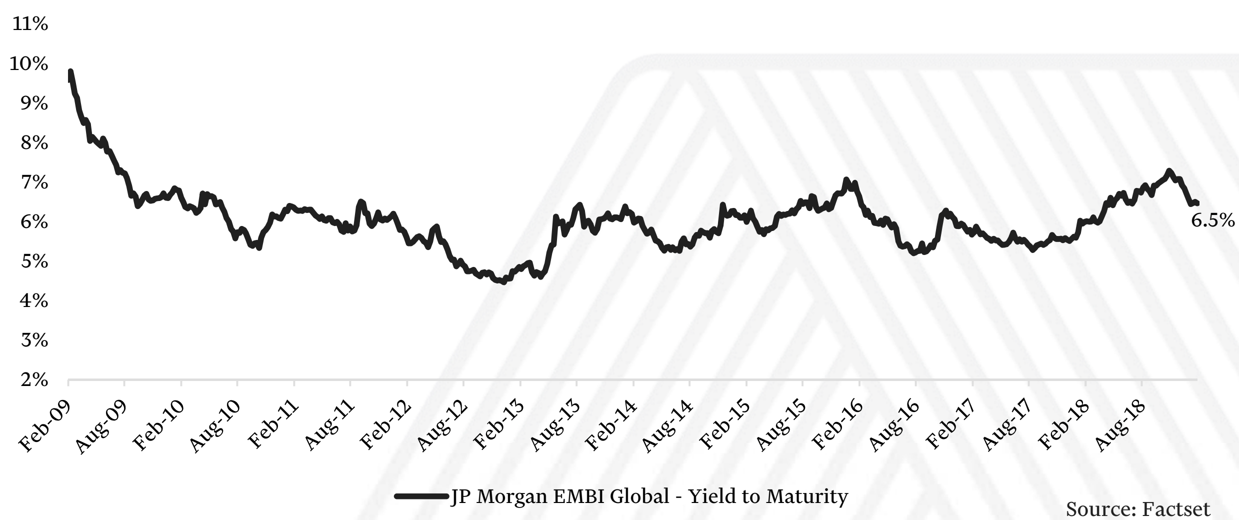
Source: Factset

Credit Markets

U.S. High-Yield Credit Spreads



Emerging Market Debt Yield



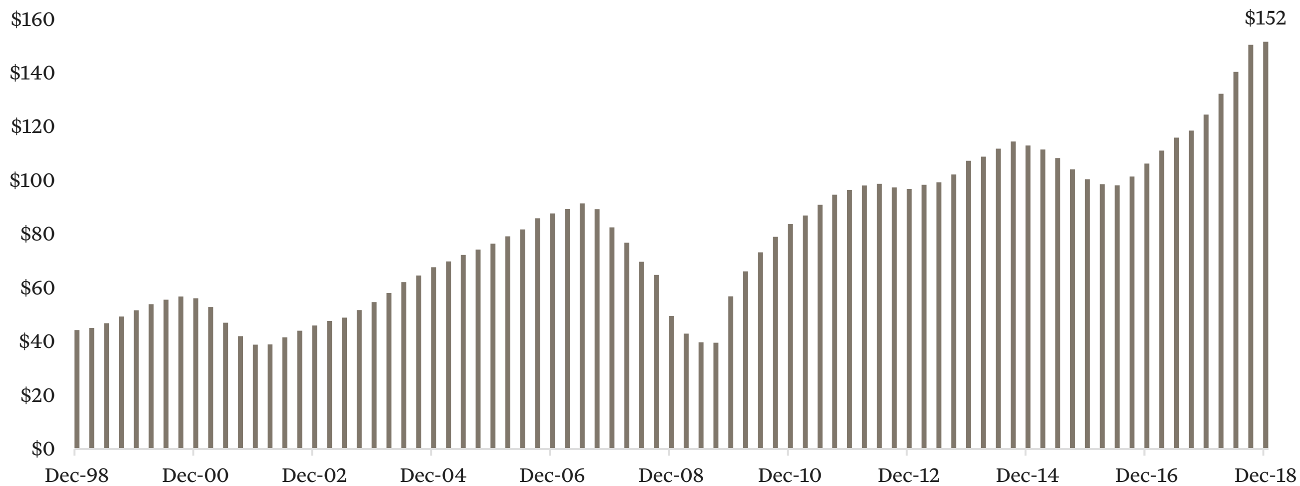
Source: Factset

The prospect of continued U.S. economic growth and the stabilization of oil prices have brought the yields of high-yield bonds to levels that are no longer considered cheap, but better reflect the continued low default rates forecasted over the next twelve months.

Chinese fiscal stimulus, higher oil prices, and the impending end of Fed tightening have driven emerging market debt prices higher in both dollars and local currency. A reduction in tariffs and tariff threats may be needed to drive further price appreciation.

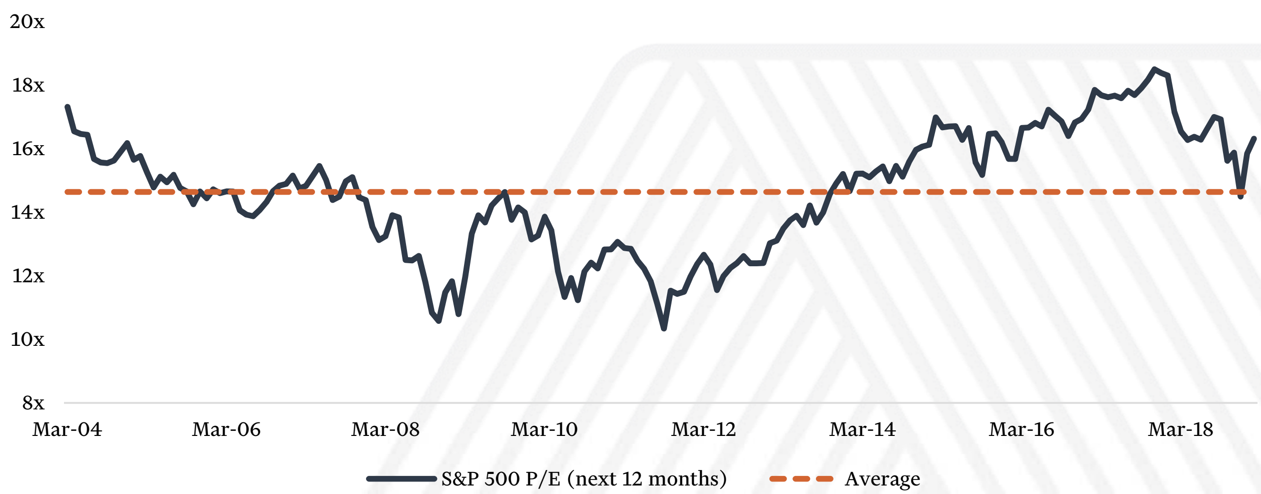
U.S. Equities

S&P 500 12-Month EPS



The recovery from last year's sharp Q4 decline has been surprisingly swift and largely indicative of a U.S. economy still growing at a healthy rate with little inflationary pressure. Valuation may again become a barrier, but with rates remaining relatively low, further price appreciation is expected.

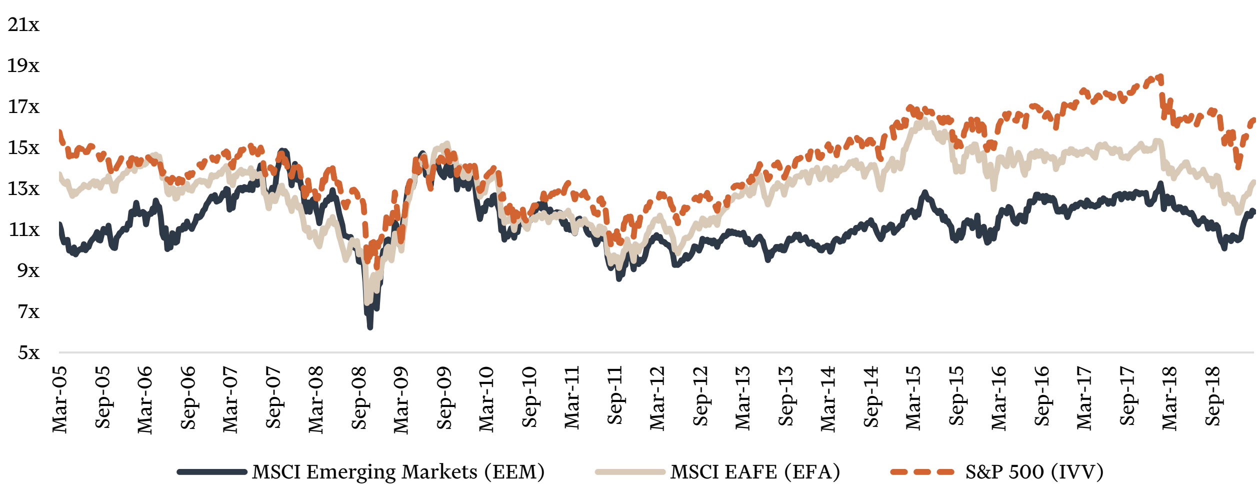
S&P 500 PE Ratio



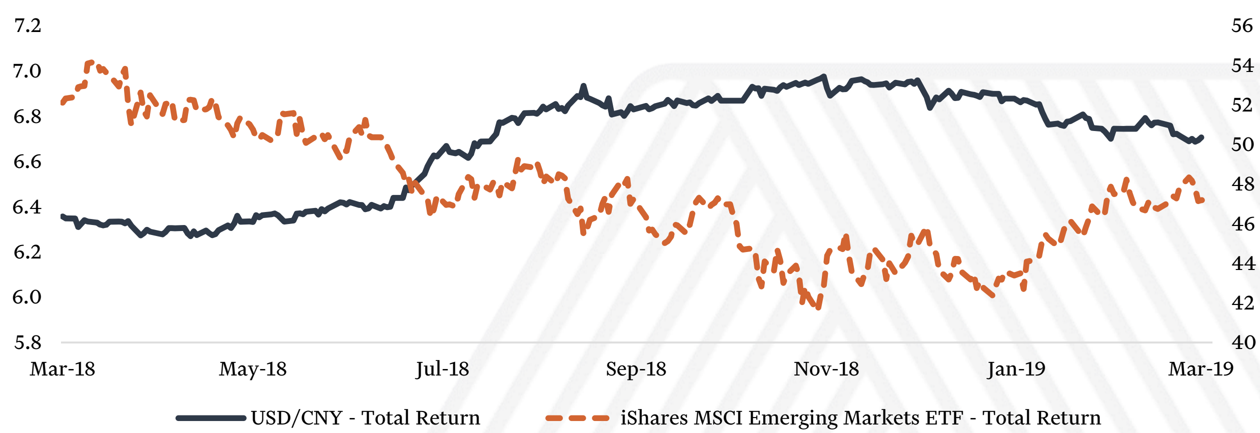
Source: Factset

International Equities

P/E Ratios Next Twelve Months (NTM)



The Renminbi & Emerging Markets Equities



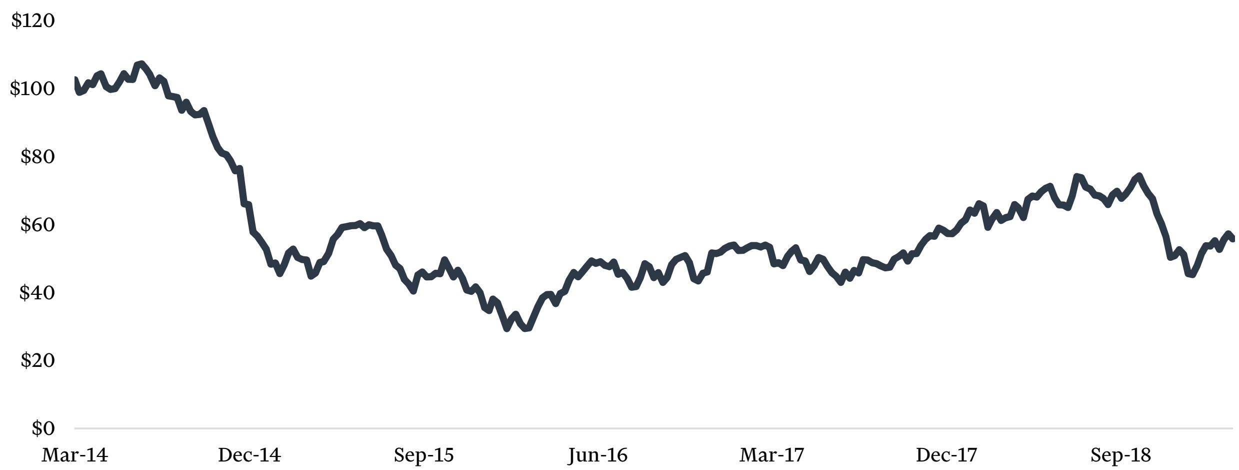
Source: Factset

European equities have benefited from continued monetary ease and reduced concern about a global recession. Further upside will depend in part on the resolution of domestic issues, including Brexit, the Italian budget, French protests, and Spanish unity.

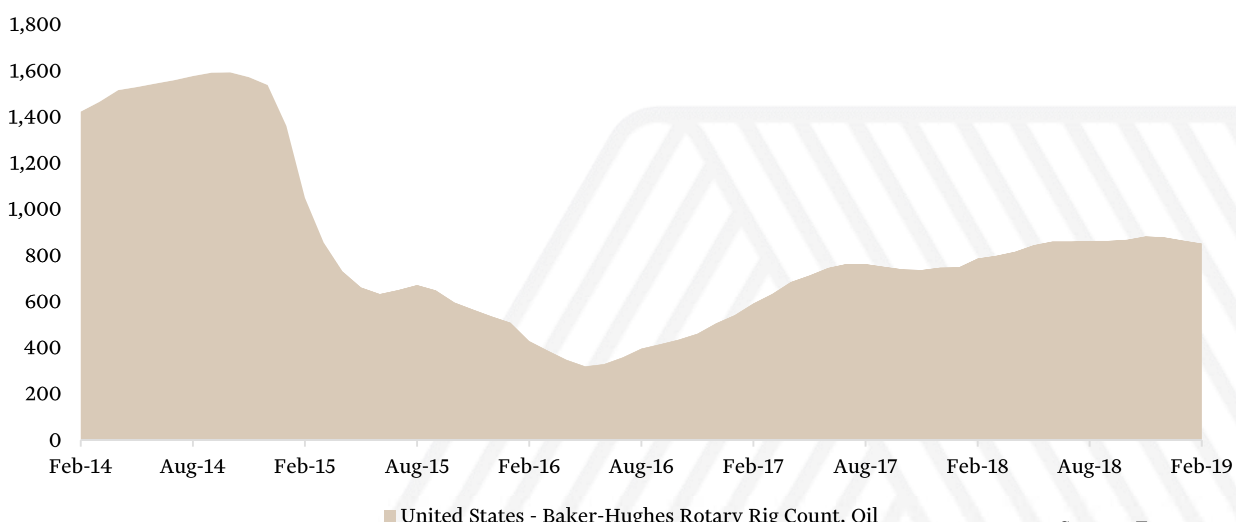
Despite the strong year-to-date price performance, emerging markets equities remain very cheap relative to developed markets. Now that oil prices have stabilized and the Fed has tabled further rate hikes, any signs that the Chinese fiscal stimulus is taking hold and U.S. - China trade relations are thawing should set the stage for emerging markets equities to rebound and potentially outperform other international equities this year.

Oil

Crude Oil (NYM $/bbl) - Price



United States - Baker-Hughes Rotary Rig Count, Oil



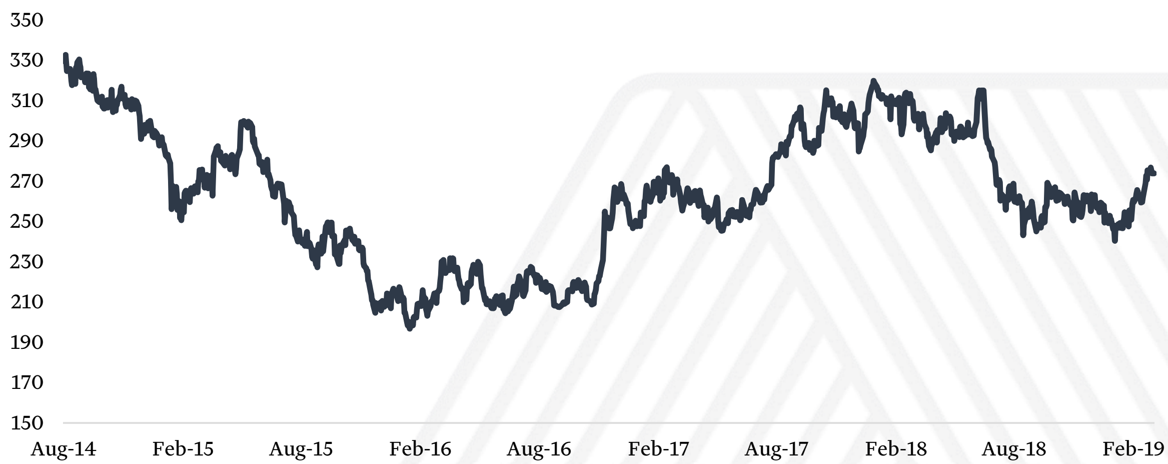
Source: Factset

Reduced concerns about a global recession and the magnitude of the Chinese slowdown have heightened confidence in the outlook for oil demand and driven prices higher. U.S. supply should react positively to these higher prices, preventing them from increasing meaningfully above current levels.

Gold and Commodities

NY Gold (NYM $/ozt) - Price

Bloomberg Copper Subindex - Price



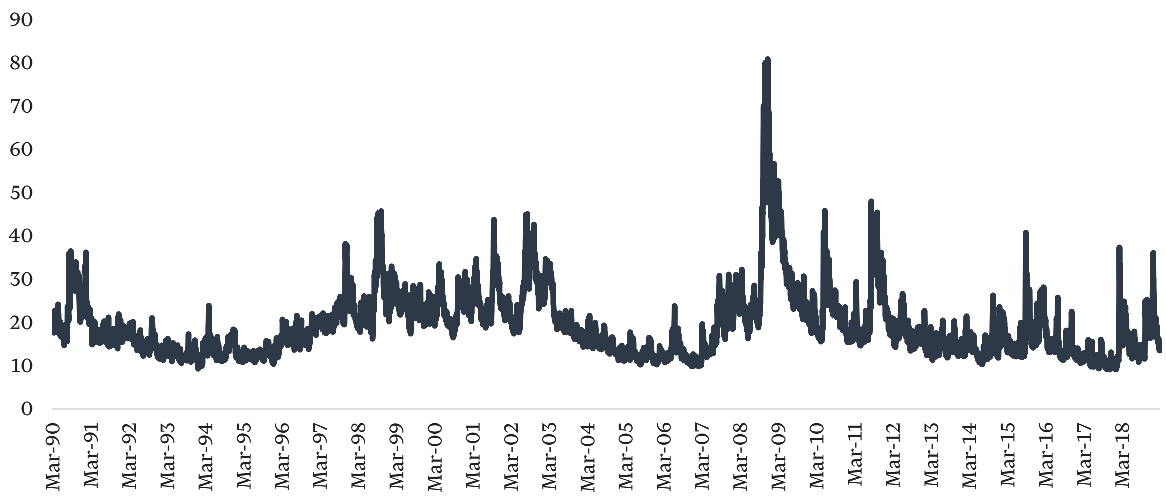
Source: Factset

Gold has reacted positively to what appears to be the end of Fed tightening. Look for the price to drift down in the coming months given the continued lack of global inflation.

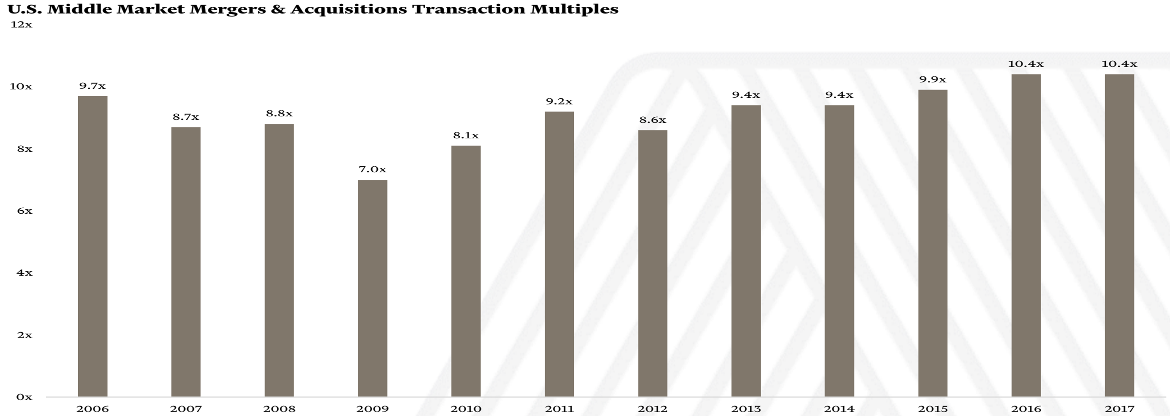
Industrial metals, especially copper, should benefit from the level of growth expected in both China and the U.S. Reduction and delays in current and future tariffs, while still uncertain, should further boost the prices of these metals.

Hedge Funds & Private Equity

VIX (CBOE Volatility Index)



U.S. Middle Market Mergers & Acquisitions Transaction Multiples



Source: Factset, Pitchbook

The global market sell-off and resulting spike in market volatility during Q4 2018 demonstrated the benefit of exposure to categories such as equity long/short, global macro and multi-strategy managers to help protect capital during turbulent markets.

After a challenging period of ever-rising valuations, the Q4 2018 market sell-off reduced public market comparables, which should help private equity managers acquire good companies at more reasonable valuations than in recent years.

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