

2020 Economic & Market Outlook

January 23, 2020

Presented by

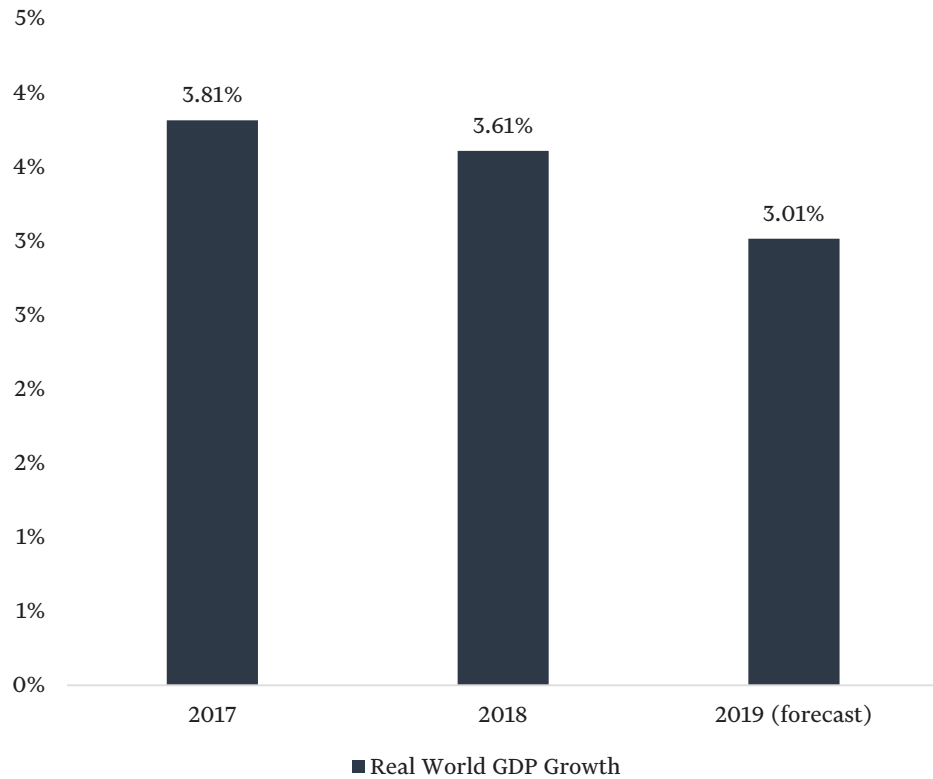
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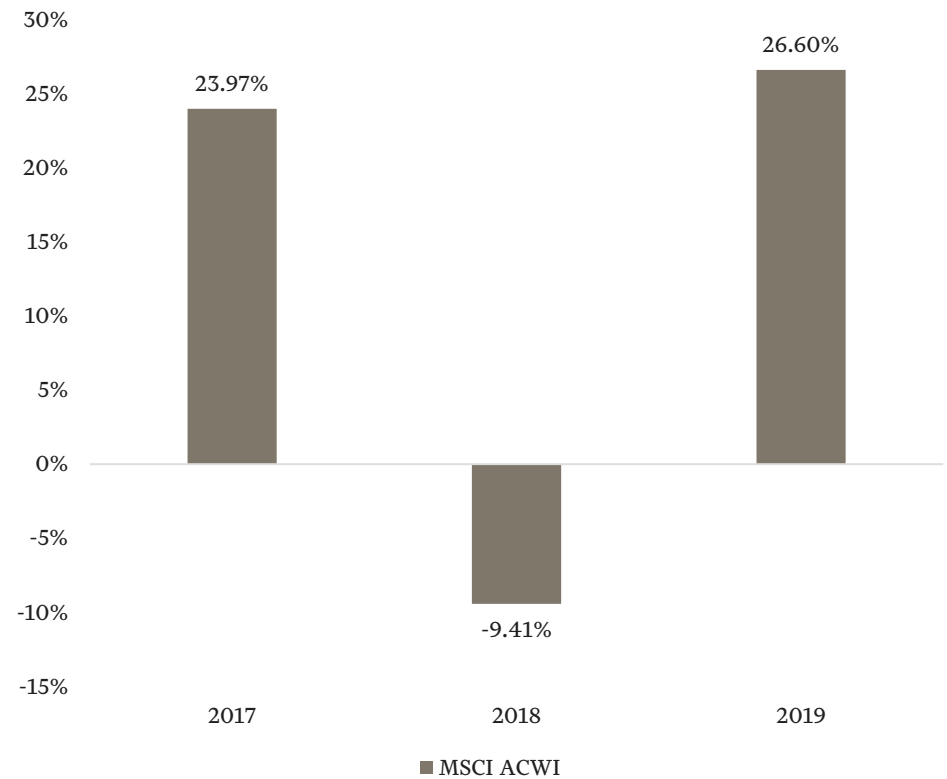
Review of 2019

Weaker growth, stronger returns

Global GDP Growth



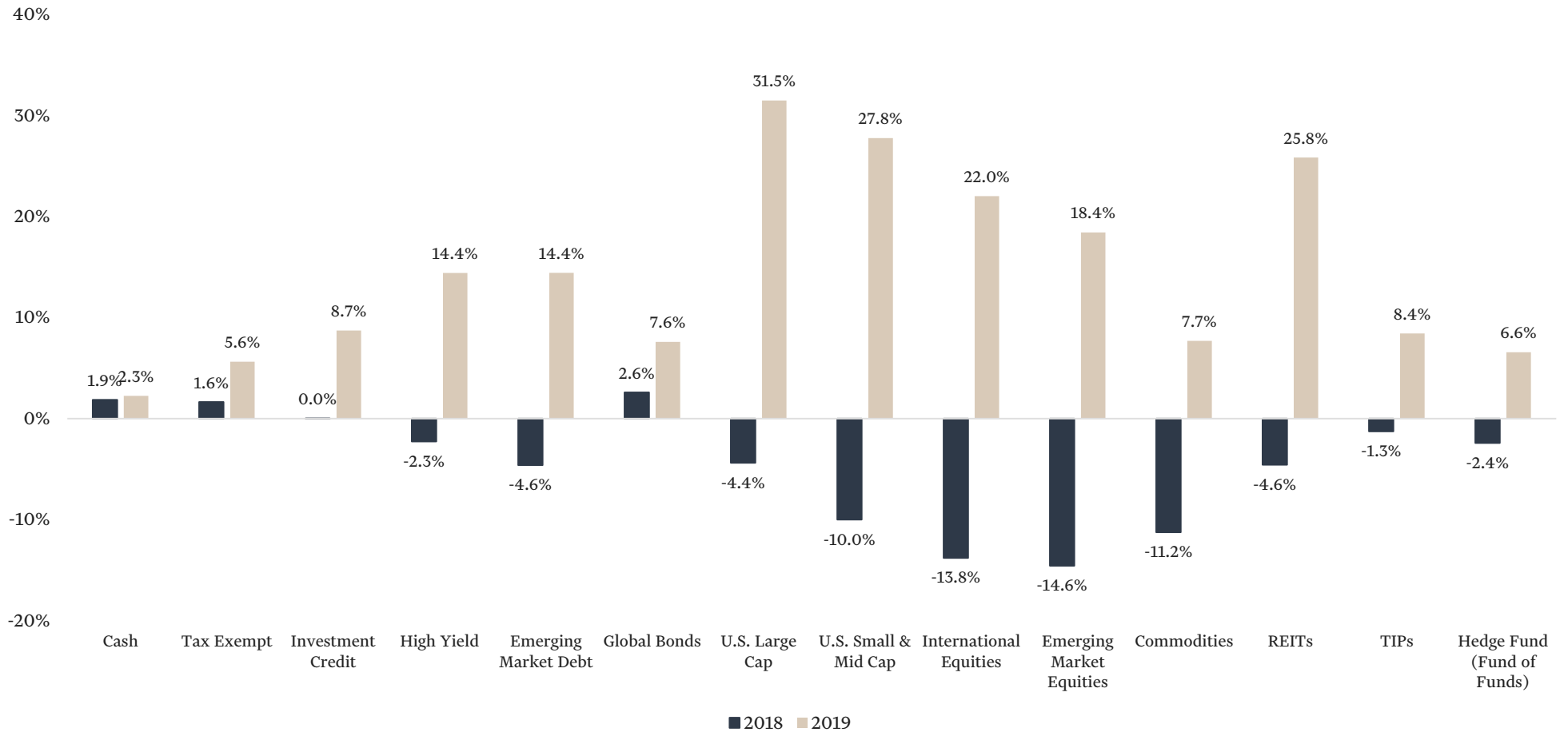
Global Stock Returns



Source: IMF, Factset

Asset Class Review

2019: A rally for all asset classes



Source: Factset

Scorecard for 2019 Themes

Theme	Were We Right?
The global growth expansion continues.	Yes
Volatility is back in the picture.	Mostly
The dollar's bull run may be finally ending.	Partly
Cash is competitive again. And bonds are not just for income.	Mostly
Favor credit over duration in fixed income.	Yes
Equities are likely to rebound and offer compelling value.	Yes
Favor emerging markets over developed markets.	No
Limited upside for commodities in 2019.	Yes
Alternative investments have a big role in portfolios.	Partly
Diversification remains a critical tool for controlling risk.	Yes

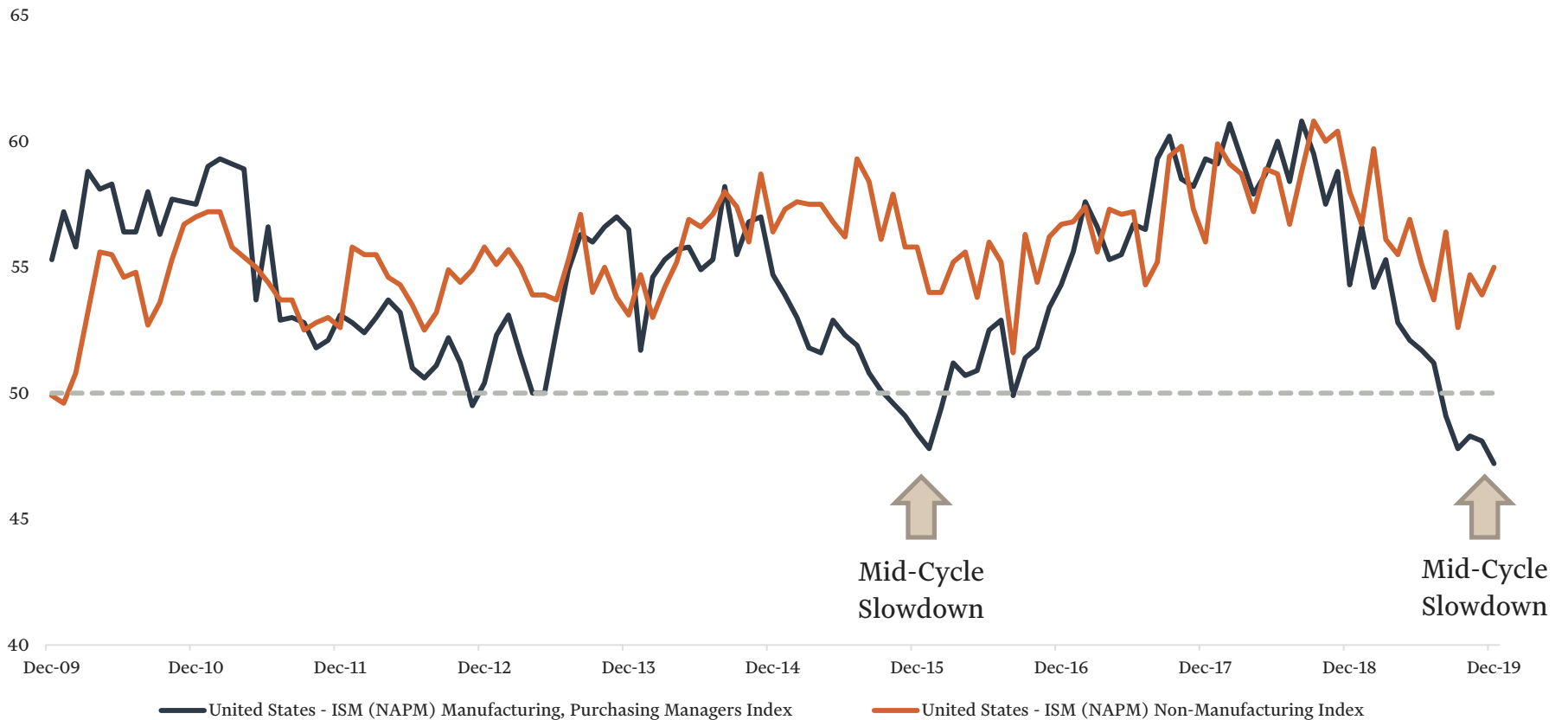
Key Themes for 2020

1. No recession in 2020
2. U.S. equities positioned for continued appreciation
3. Stabilization in global fundamentals
4. Cautious on fixed income after strong gains in 2019
5. U.S. dollar stays range bound

Theme 1: No Recession in 2020

An acceleration in capital spending likely offsets slower, but still comfortably positive consumption and allows economic growth to hit 2.0% for the year.

Contraction in Manufacturing, Not Services



Source: Factset

Tech Capital Expenditures Drive Growth in 2020

Look for tech, research and development (R&D), and the buildout of the cloud to drive capital spending as opposed to more PCs and servers.

Software + R&D as a % of Total Investment (nominal)

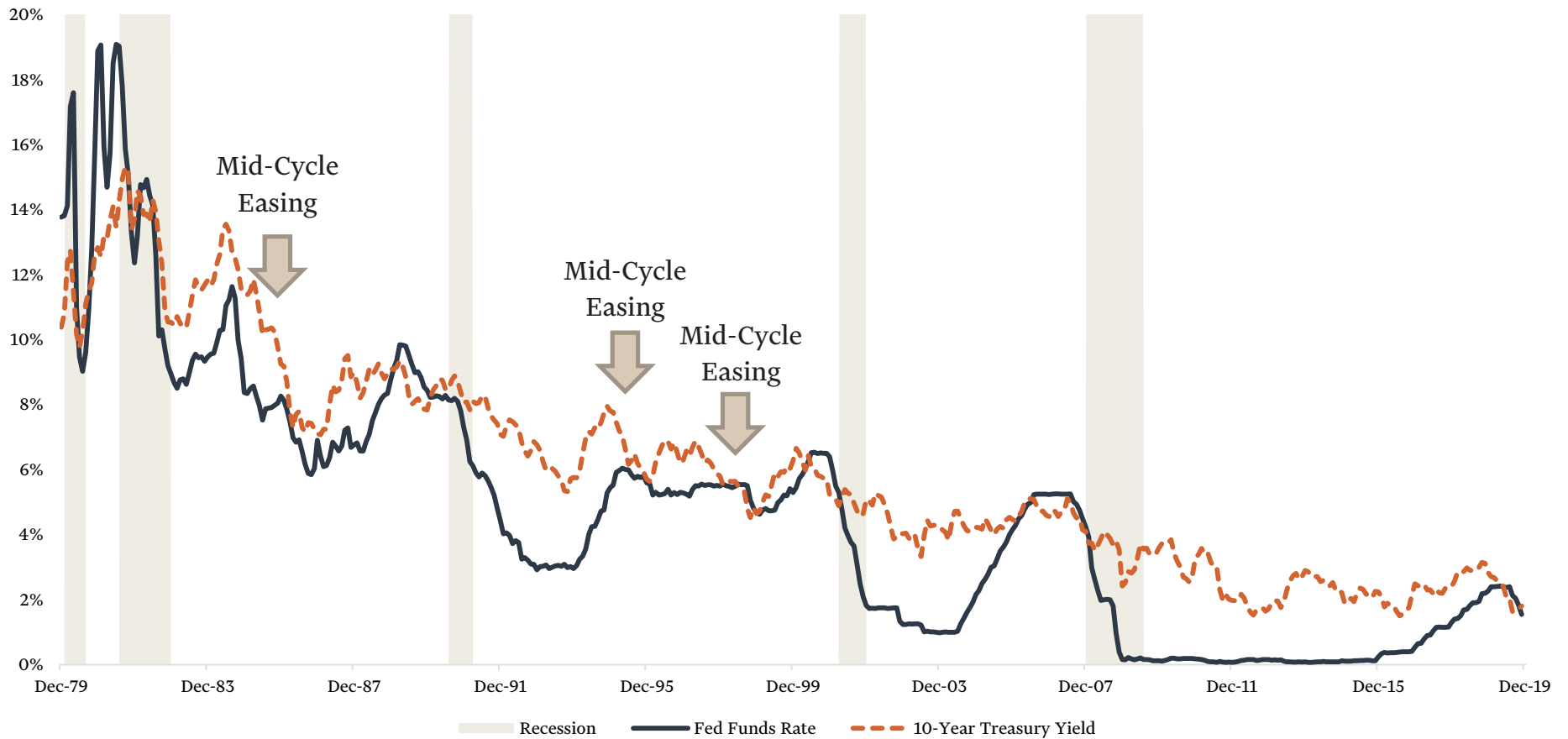


Source: Factset

Accommodative Fed Policy

“Mid-cycle adjustment” likely over given 2% GDP growth forecast.

Fed Policy & Recessions

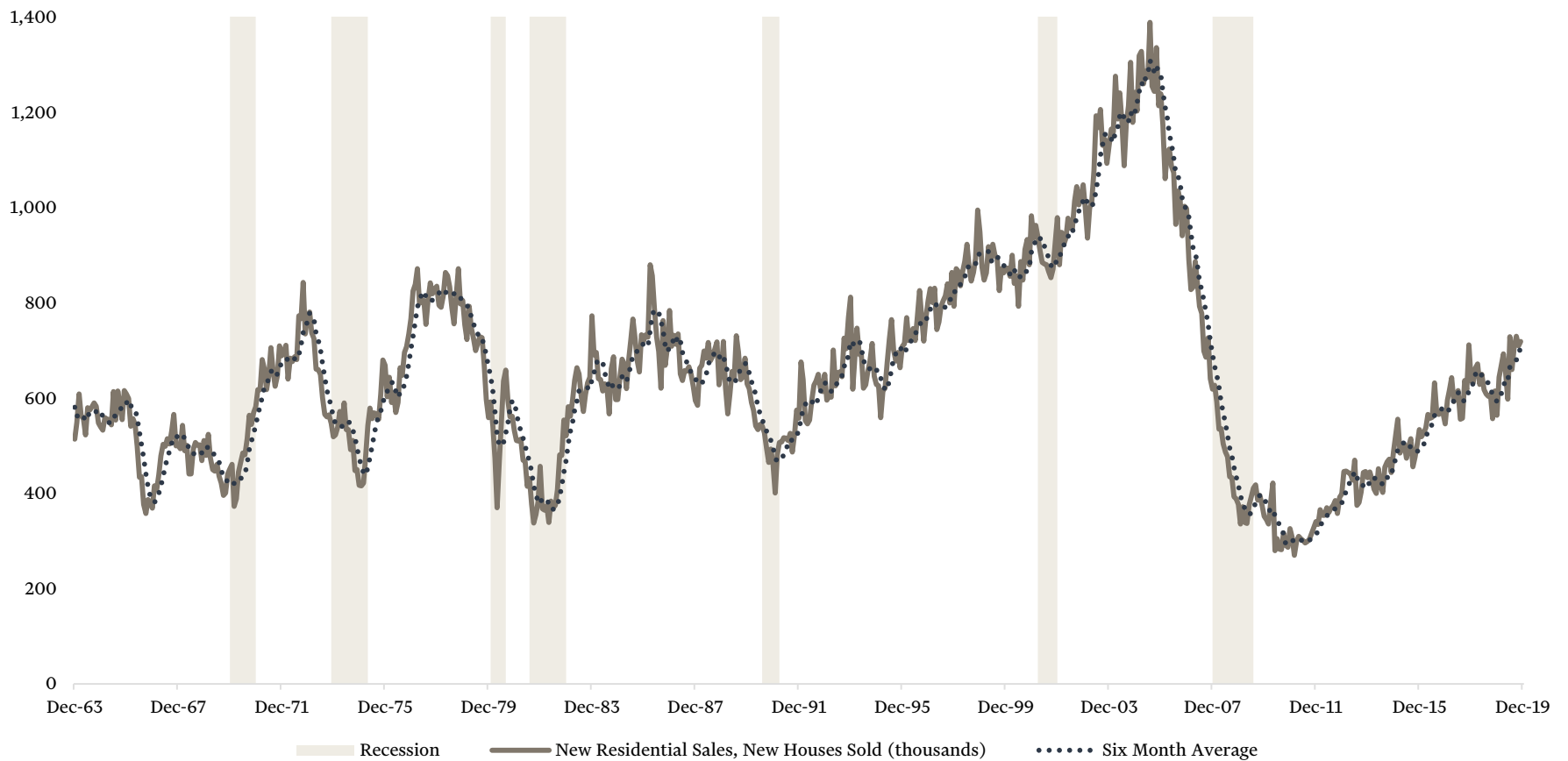


Source: FRED

Housing Market Rebound

Looser monetary policy already flowing through to the housing market.

The Recovery in the Housing Market

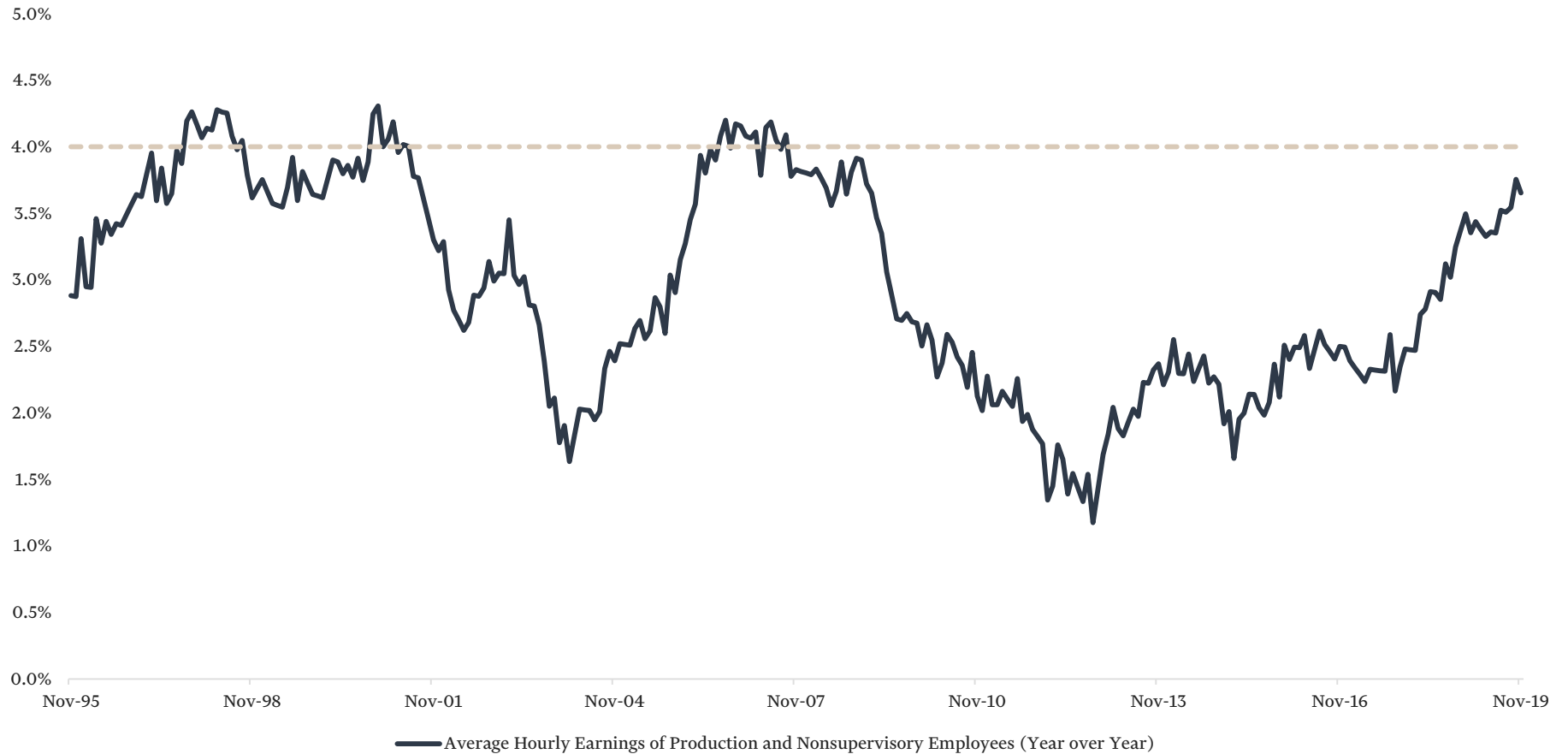


Source: Factset

The U.S. Consumer Remains Resilient

Despite a few signs of slowdown in U.S. consumption in Q3, most data points to continued growth in 2020.

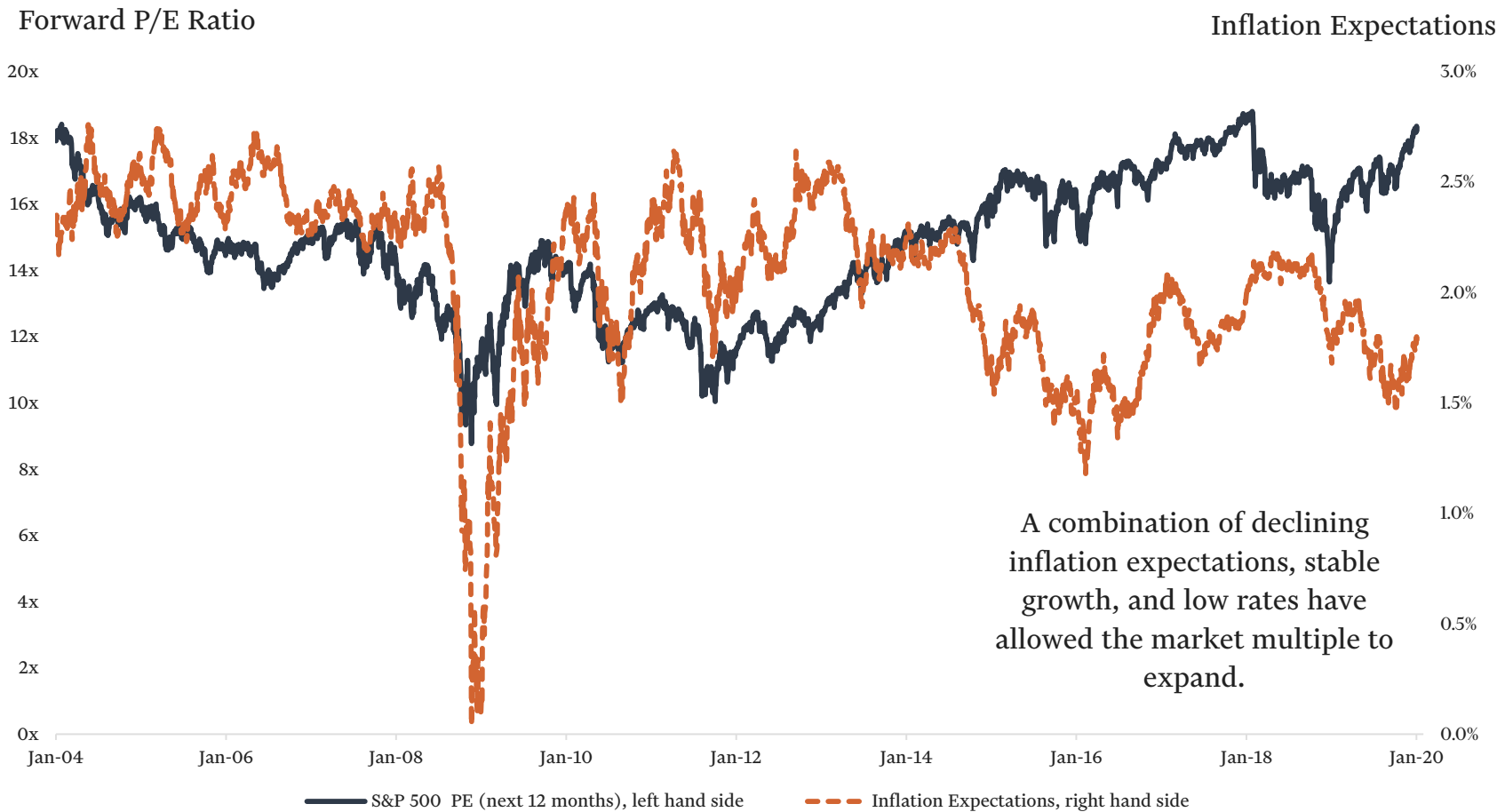
Wage Growth



Source: Factset

Theme 2: U.S. Equities Positioned for Continued Appreciation

Mid-single digit revenue and earnings per share (EPS) growth are expected. There is potential for further multiple expansion with interest rates and inflation remaining low.

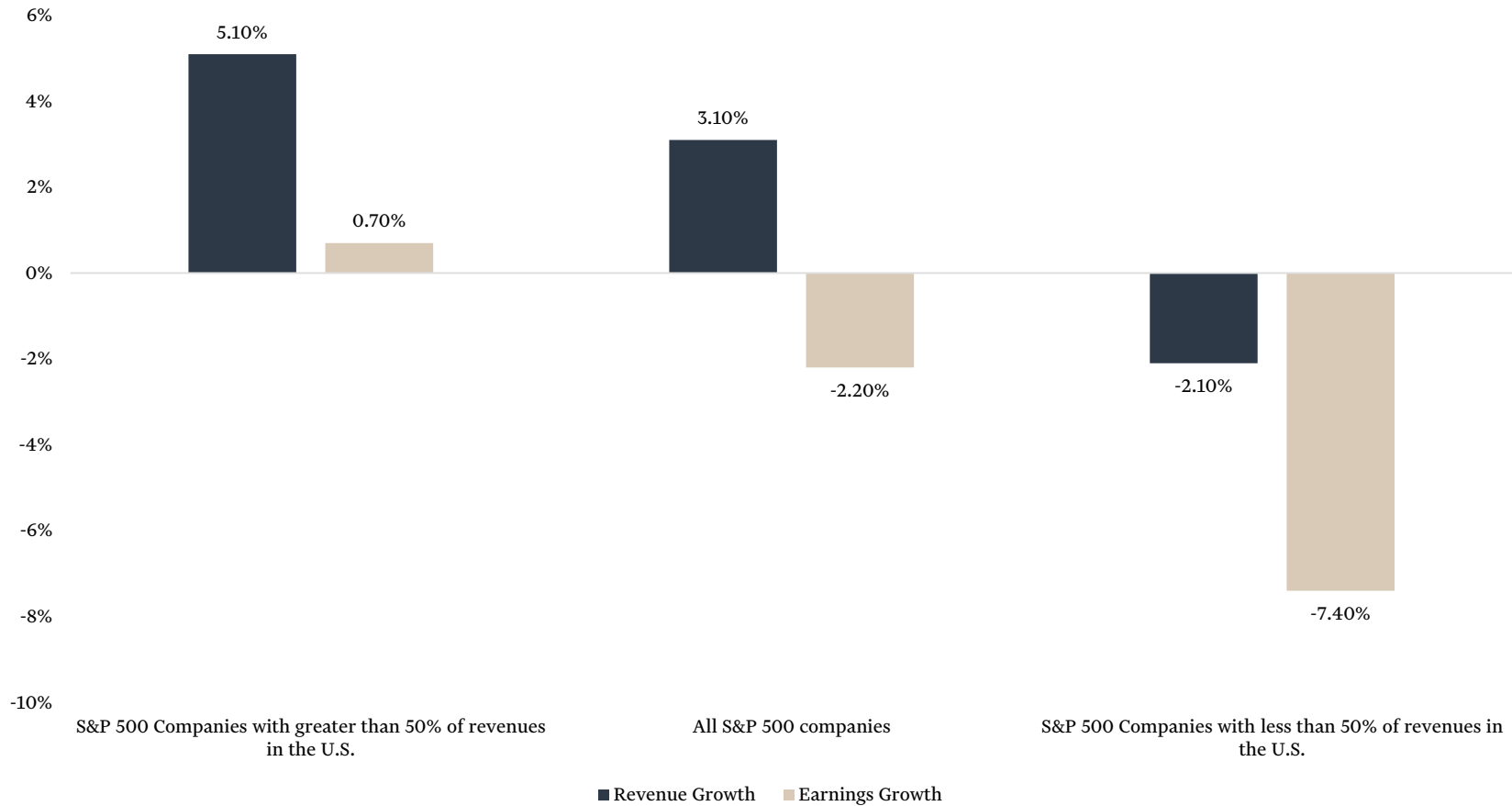


Source: Factset

Domestic-Oriented Firms Experience Robust Sales Growth

Domestic revenue has remained strong even as international sales have declined and earnings growth has decelerated.

Q3 S&P 500 Revenue & Earnings Growth



Source: Factset

Theme 3: Stabilization in Global Markets

While valuations look cheaper outside the U.S., pressure from a slowdown in the trade and manufacturing sectors will likely prevent a significant closure in the valuation gap.

P/E Ratios (Next 12 Months)

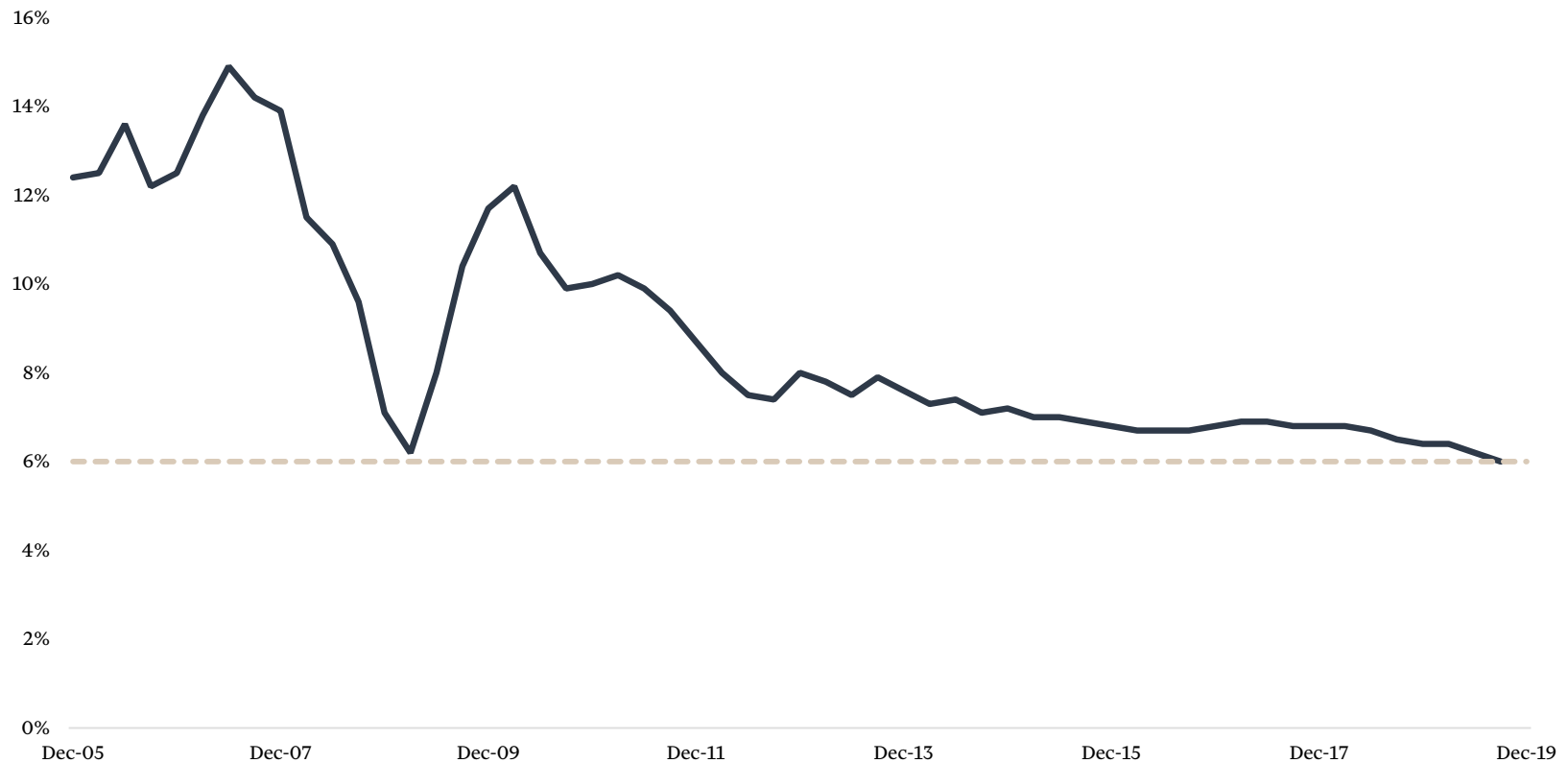


Source: Factset

China, A Controlled Slowdown

China's economy continues to decline from its high growth rates of the last decade. The trade wars are hindering the government's efforts to control the magnitude of the slowdown. Poor demographics will add to the complexity of the situation.

Chinese Real GDP Growth

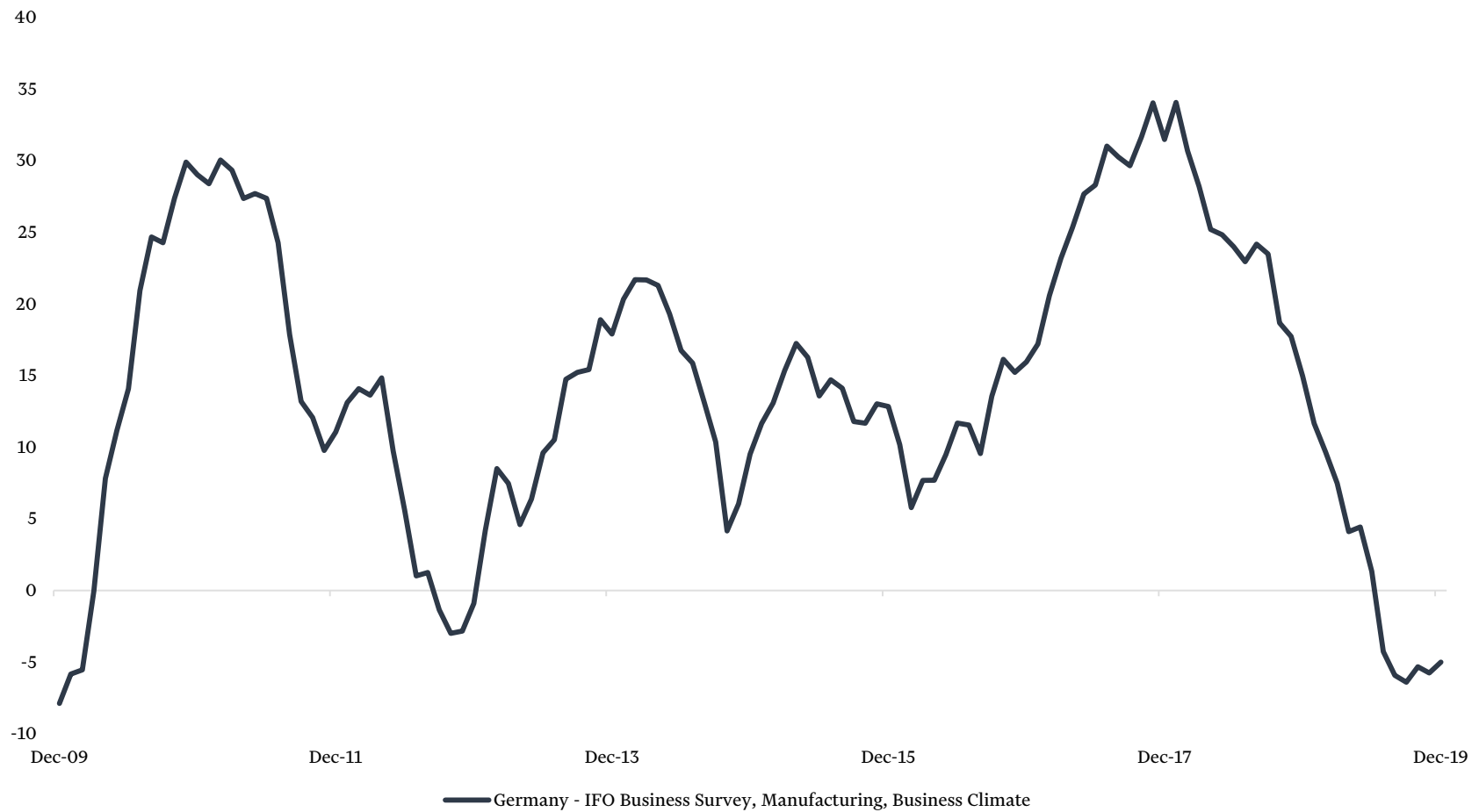


Source: JPM Guide to the Markets, Capital Economics

Germany, The Key to the Eurozone

Too soon to say whether Germany's manufacturing data has reached its bottom.

German Manufacturing Business Survey Data

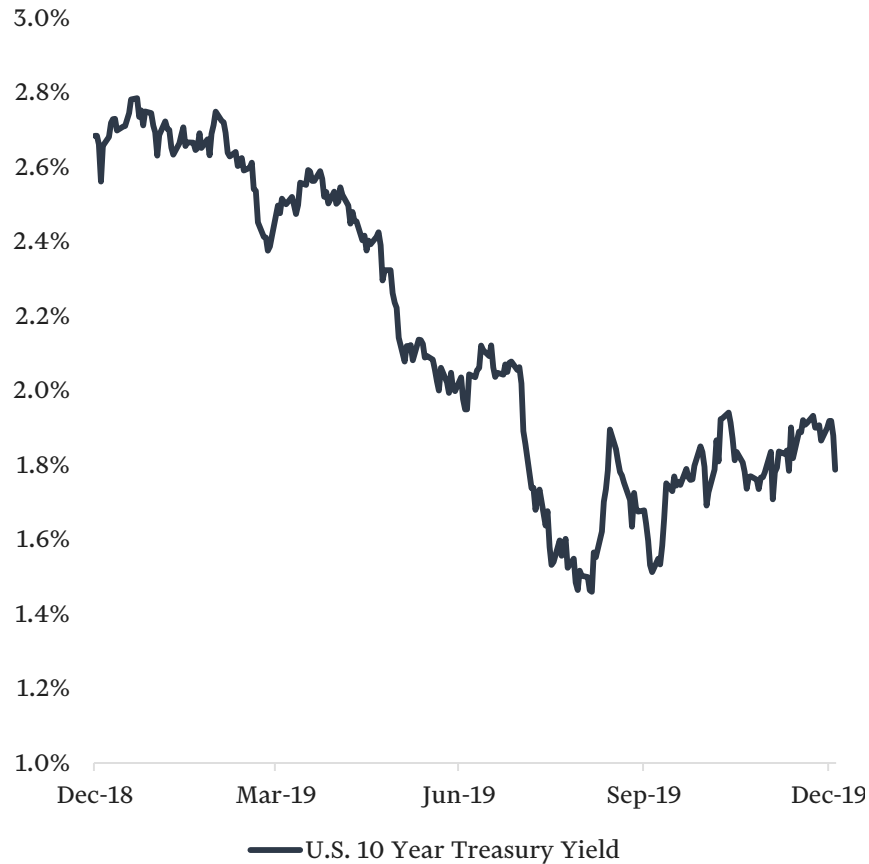


Source: Factset

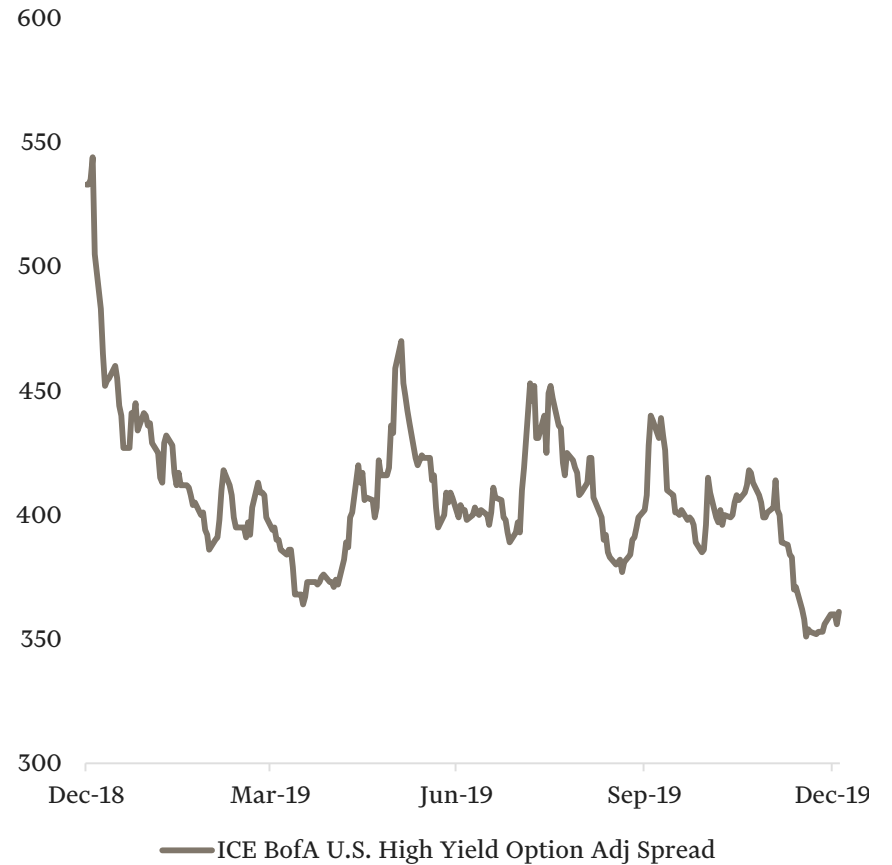
Theme 4: Cautious on Fixed Income

With both duration and credit risk working so well in 2019, investors would be wise to heed risk heading into 2020.

Government Yield



High-Yield Spreads

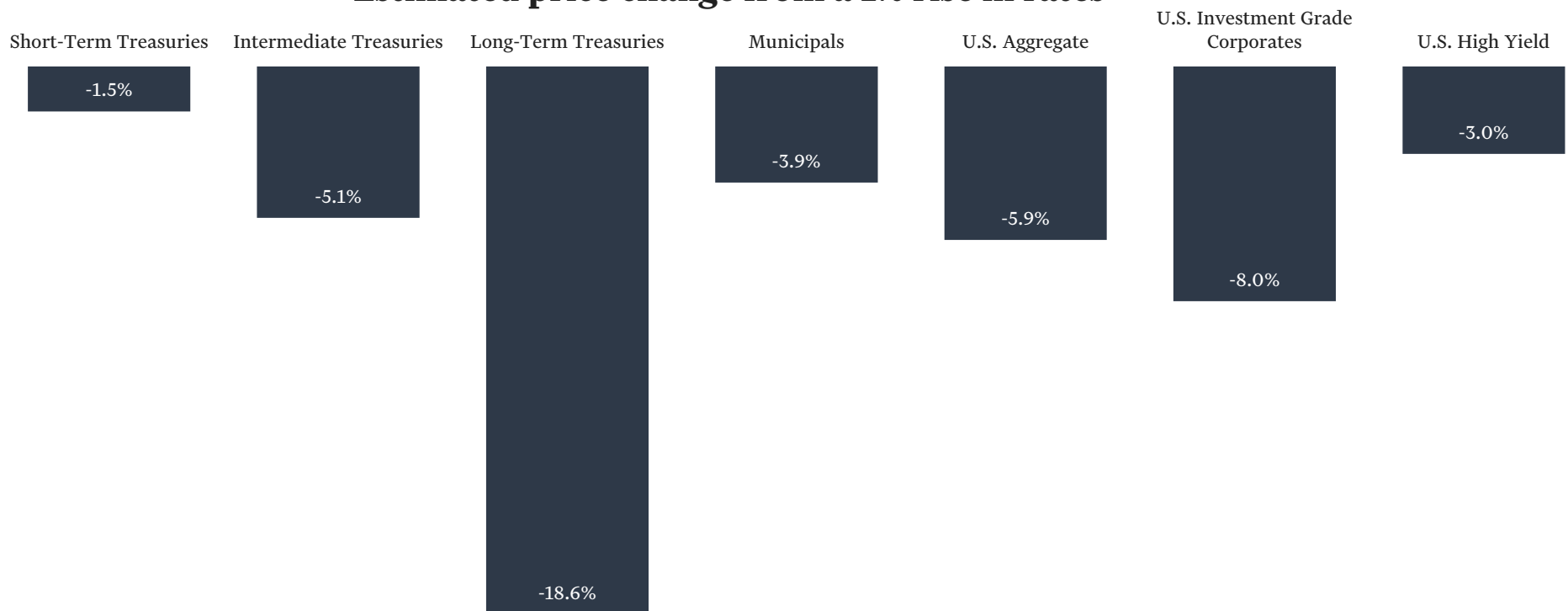


Source: Factset

Be Cautious on the Long-End of the Curve

With longer-term rates dropping well over 1% in 2019, investors who took on more duration risk have been rewarded with equity like returns. However, they subject their portfolios to a potentially steep price decline if the rate environment reverses.

Estimated price change from a 1% rise in rates



Source: Factset

High Yield, A Market Neither Too Cheap nor Too Expensive

Corporate defaults rates remain low, but so do spreads.

U.S. High-Yield Credit Spreads



Source: Factset

Theme 5: U.S. Dollar Enters A Trading Range

Dollar should stop appreciating, but likely won't fall much.

Trade Weighted U.S. Dollar Index: Broad, Goods, Index

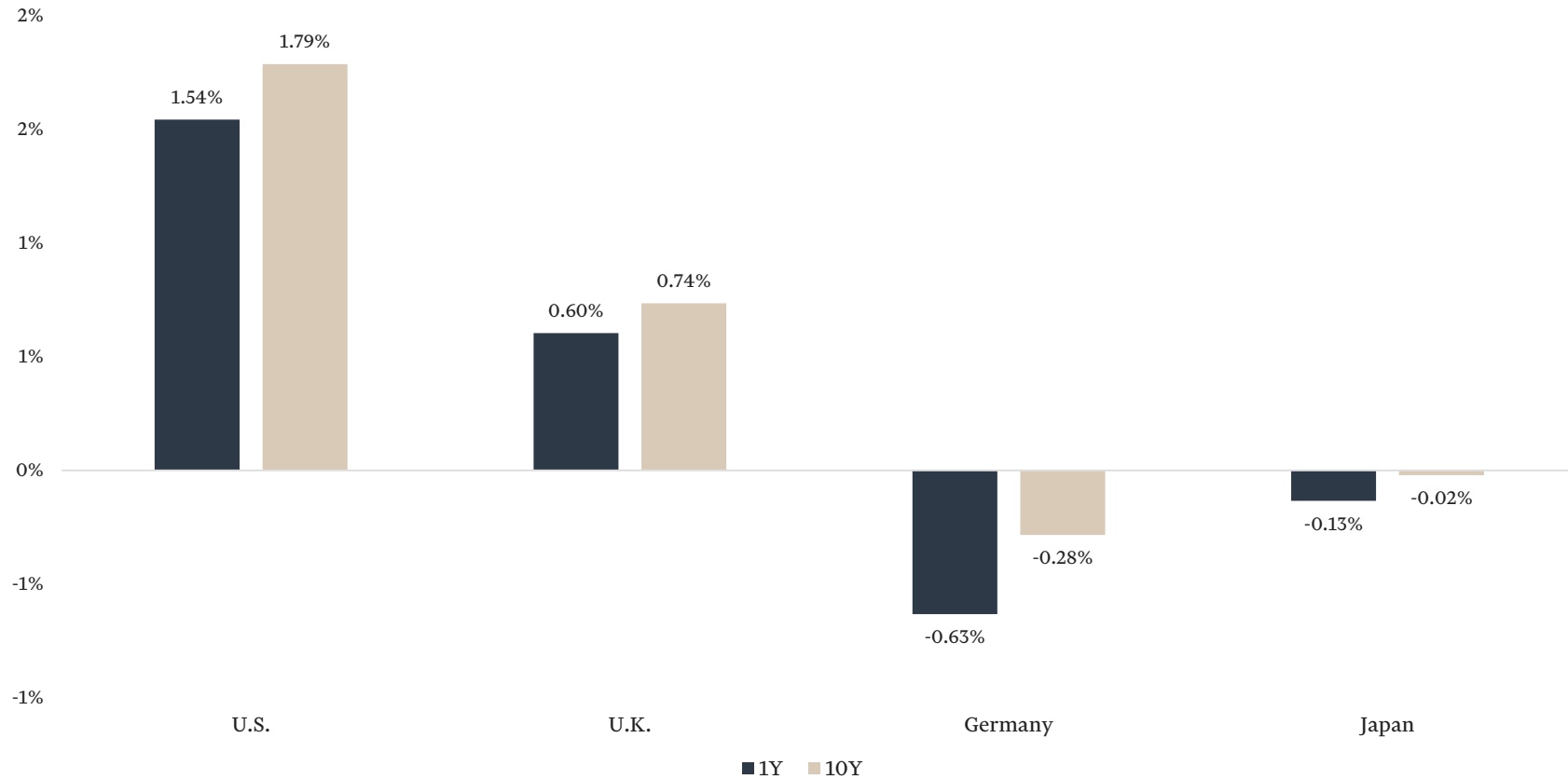


Source: FRED

U.S. Dollar Enters a Trading Range

Relative interest rates and economic growth still in dollar's favor.

Government Yields



Source: Factset

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