

TEN THEMES FOR



Providing Clarity & Color Around Our 2020 Views

January, 2020

Lawrence V. Adam III, CFA, CIMA®, CFP®
Chief Investment Officer



1

ECONOMY

Keeping a Close Eye on the Economy

INSIGHT:

US economy continues its record long expansion; US economic growth will continue to be driven by strength in the consumer. Focus on real-time indicators as we near election for any potential post-election weakness.

BOTTOM LINE:

US economic growth is expected to remain relatively robust with only a small probability of recession over the next 12 months.

KEEPING YOUR EYE ON THE BALL



1.8%

2020 US GDP Estimate



~26%

Cumulative GDP Growth
This Cycle; 5th Strongest



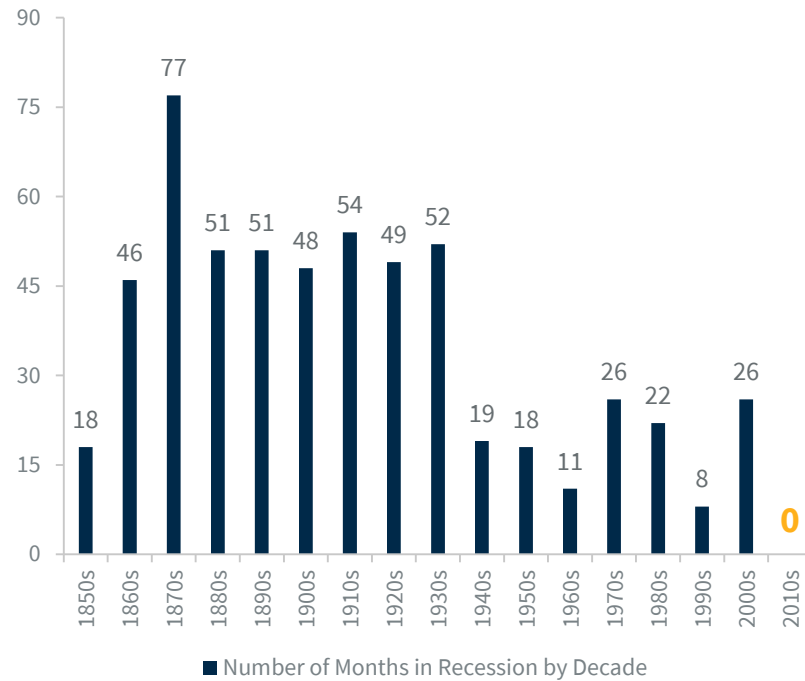
Zero

Fed 2020 Interest Rate
Adjustments Expected

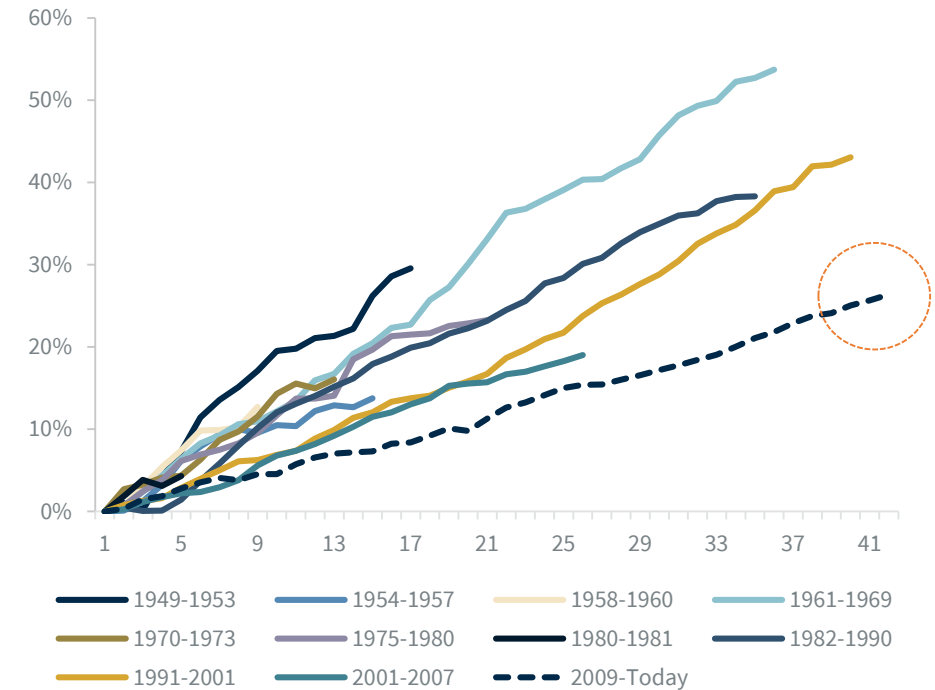
ENDING A DECADE OF PROSPERITY WITH THE RECORD EXPANSION INTACT

- The 2010s ended as the only decade since at least the 1850s without entering or experiencing one day of recession.
- While the current expansion has been the longest from a duration perspective, it is only the fifth strongest from a magnitude perspective.

Ending a Decade of Prosperity



But Magnitude and Power of Expansion Lags

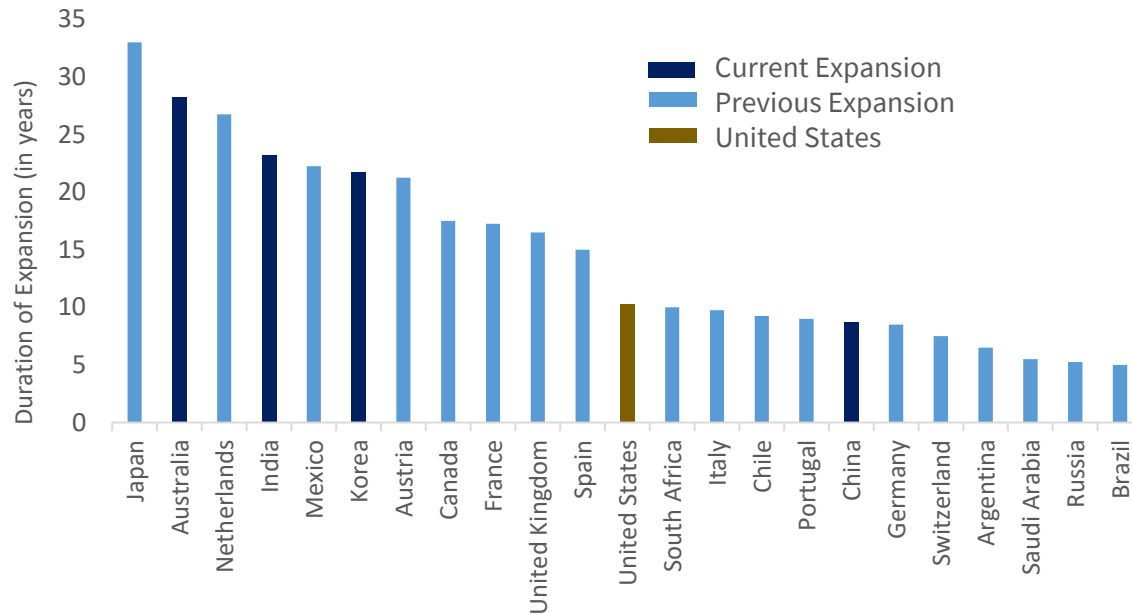


KEEPING YOUR EYE ON THE BALL

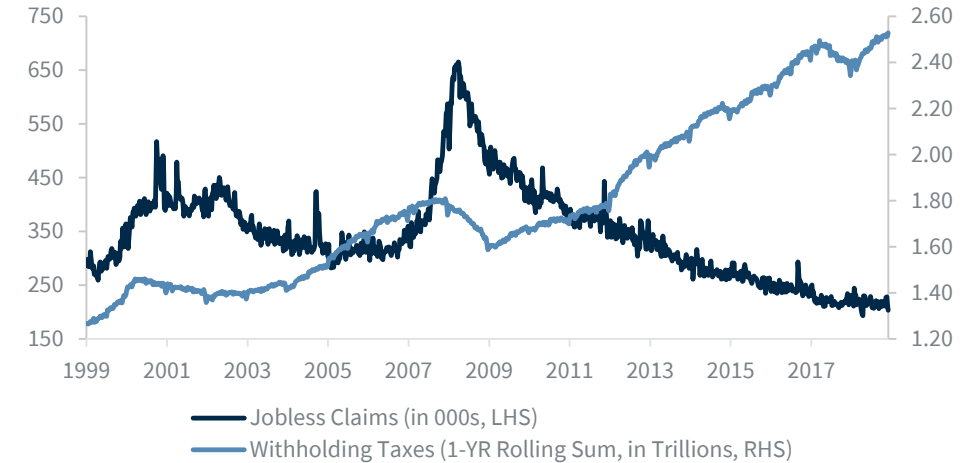
US RECORD ECONOMIC EXPANSION, NOT A GLOBAL RECORD

- While the US economic expansion is the longest in US history, from an international perspective, it is only the 11th longest expansion in history. In addition, it is only the fourth longest active streak without a recession.
- This suggests that the current US expansion has scope to expand further, which is consistent with economic fundamentals as continued strength in the labor market and solid real-time activity metrics (trucking and freight activity) reflect continued economic strength.

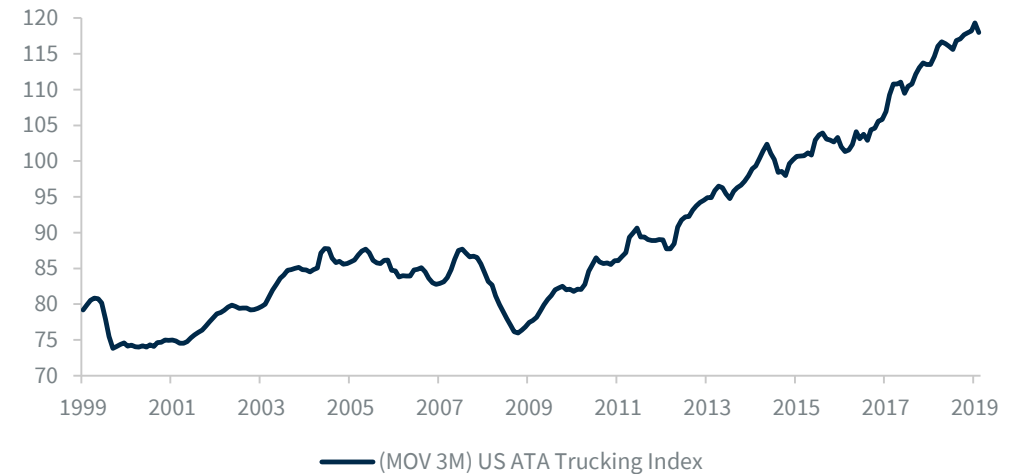
Long Dated Expansions Not Unprecedented



Withholding Taxes and Claims Solid



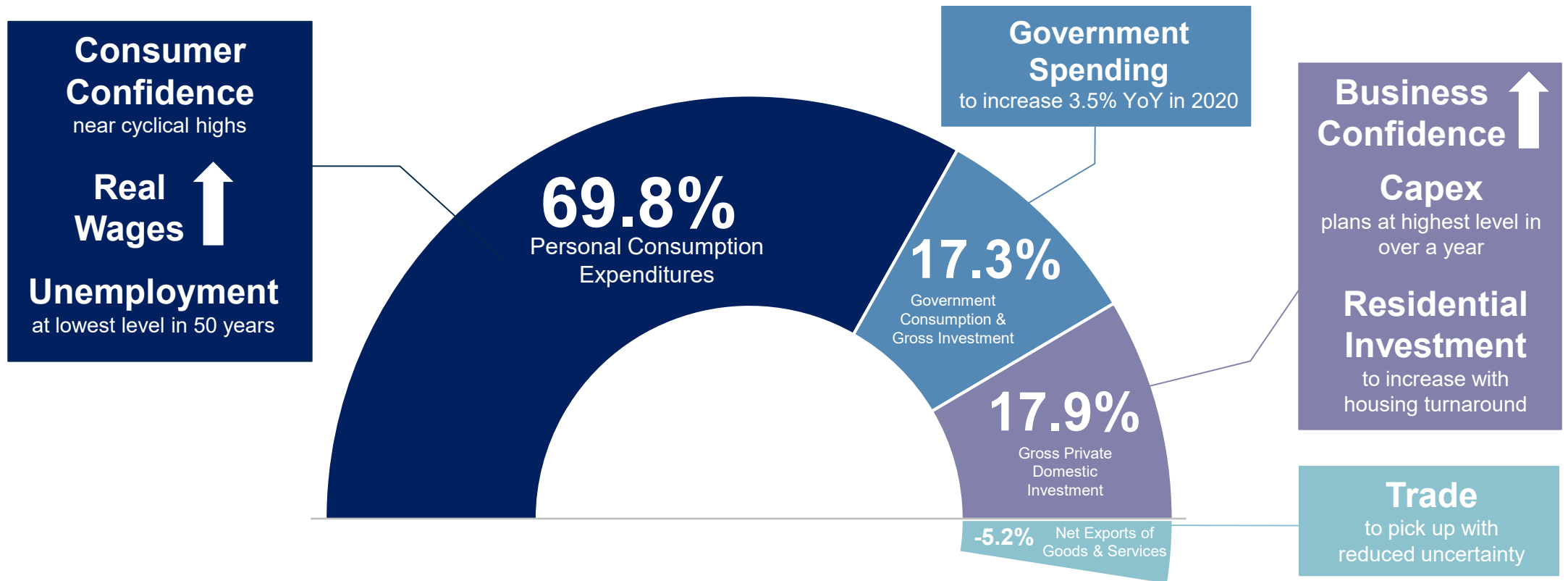
Trucking Conditions Near Record Highs



KEEPING YOUR EYE ON THE BALL

CONSUMER SPENDING THE KEY DRIVER OF ECONOMIC GROWTH

- The US consumer continues to be the primary driver of US economic growth. While fixed investment and government spending have been headwinds in recent years, these are set to be tailwinds to economic growth in 2020.

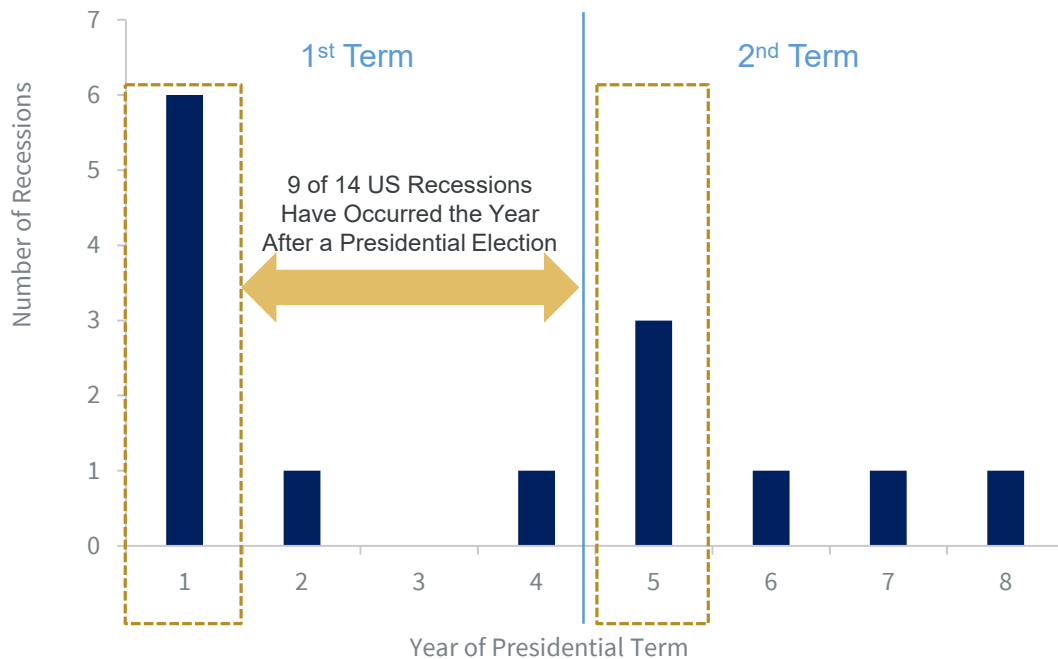


KEEPING YOUR EYE ON THE BALL

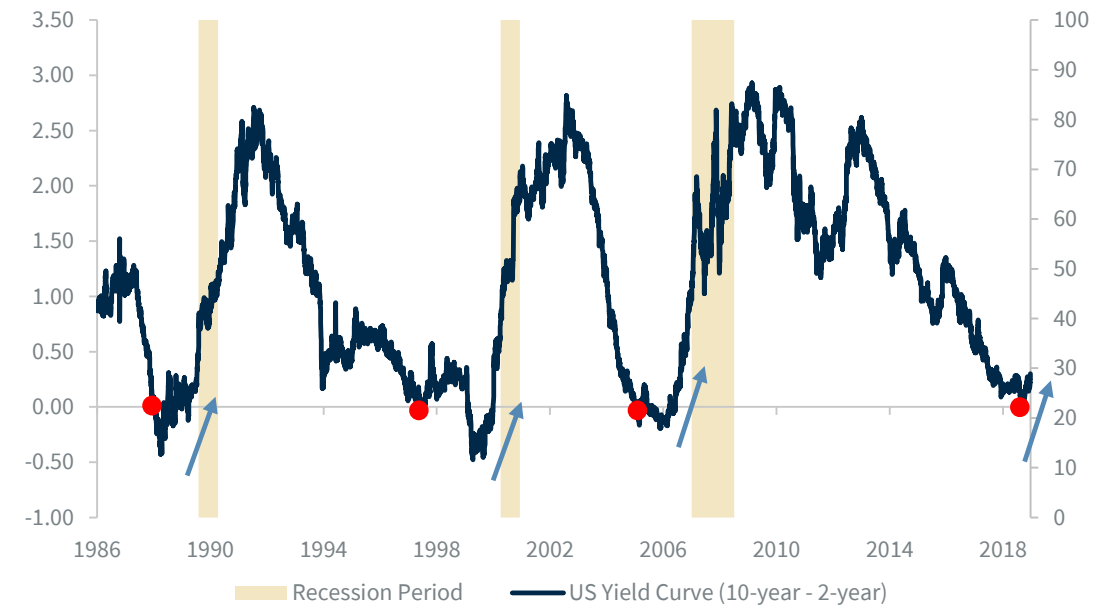
RECESSIONS ARE HISTORICALLY UNCOMMON IN THE FOURTH YEAR OF A PRESIDENTIAL CYCLE

- The US economy has entered a recession only one time during the fourth year of a presidential cycle. However, the risks increase as we pass through the election as 9 out of the 14 US recessions have occurred in the first (new president) or fifth year (successful re-election) of a presidential cycle.
- US yield curve historically inverts, on average, ~22 months before the recession begins and then steepens into the recession.

Recession Unusual in Fourth Year of Election Cycle

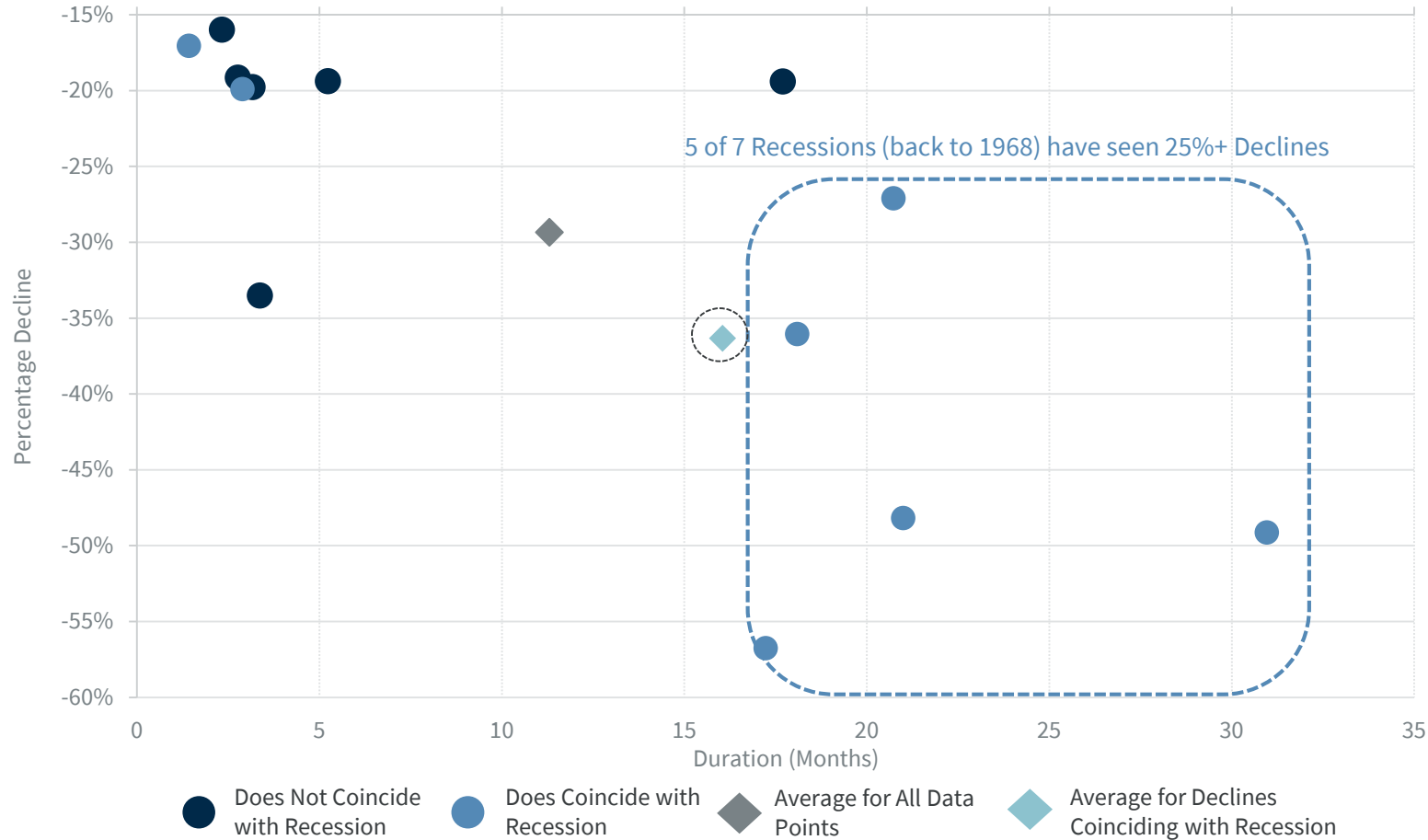


Yield Curve Inverts ~22 Months Before Recession



KEEPING YOUR EYE ON THE BALL

WHY DO WE FOCUS SO MUCH ON RECESSIONS? THEY HAVE SIGNIFICANT IMPACT.



11.3

Months. The Average Duration of a 15%+ Decline

-1.8%

The Average Decline in GDP During a Recession

16.1

Months. The Average Duration of a Decline Coinciding with a Recession

~2.2

Million. The Average Number of Jobs Lost During a Recession

36.3%

The Average Magnitude of a Decline Coinciding With a Recession

+7.3%

Performance of 10-Year Treasury During a Recession

45

Number of Months It Takes to Recover Bear Market Losses

+8.7%

Performance of Gold During a Recession



2 Central Banks

The Fed's Corrective Surgery

INSIGHT:

The corrective 'easing' measures by global central banks helped to stabilize global growth in 2019. These easing measures should provide a tailwind for growth in 2020 as the Federal Reserve (Fed) remains on the sideline.

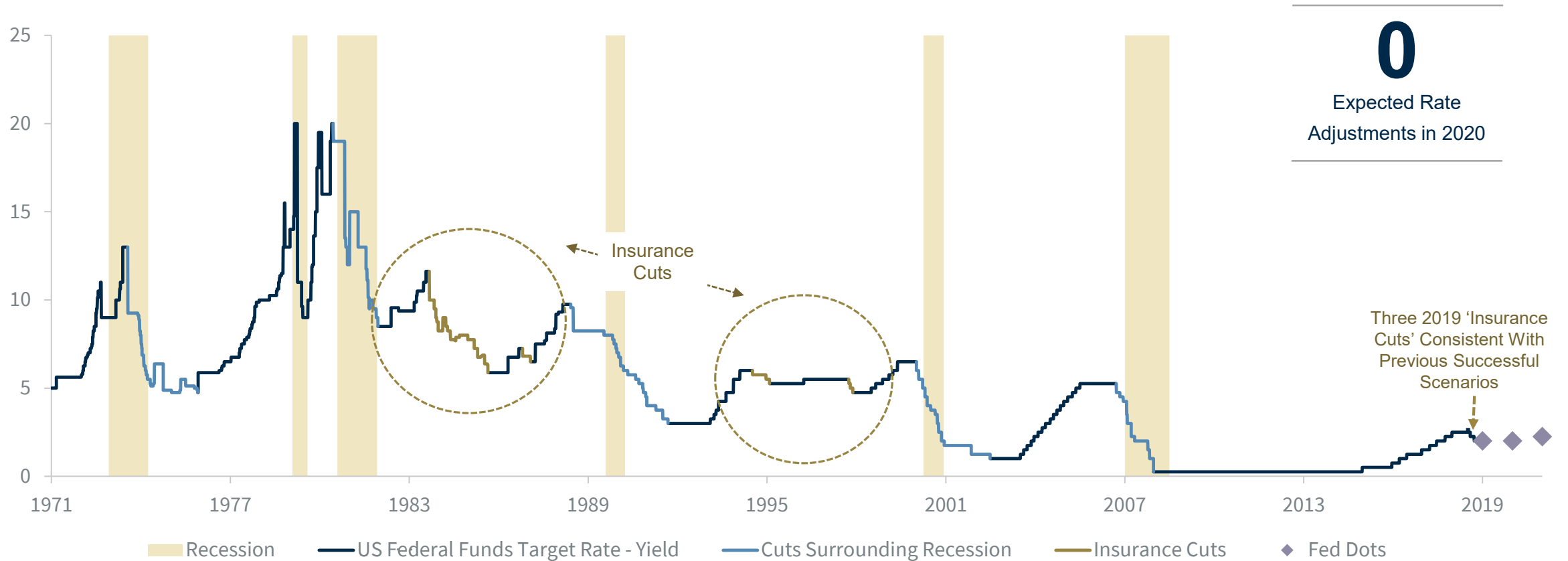
BOTTOM LINE:

As inflation remains below the Fed's 2% target, Fed policy should remain accommodative for future economic activity. The Fed believes monetary policy in a "good place" but will remain flexible as economic conditions change.

CORRECTIVE SURGERY

INSURANCE FED FUND CUTS VERSUS FED FUND CUTS THAT CANNOT AVOID A RECESSION

- Since 1970, the Fed has embarked on nine different easing cycles.
- On four occasions, the Fed staved off a recession with 'insurance' rate cuts, while the economy has entered a recession during the other five easing cycles.



CORRECTIVE SURGERY

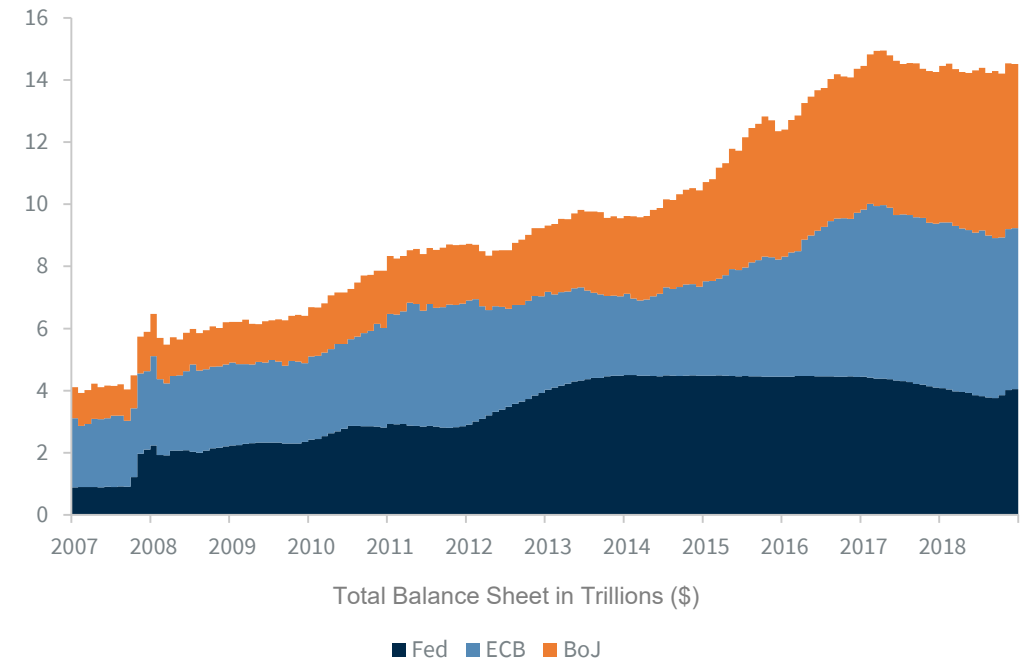
SYNCHRONIZED EASING FROM GLOBAL CENTRAL BANKS BOOSTS GLOBAL ECONOMY

- After tightening monetary policy (led by the Fed) throughout 2018, a slowdown in global growth in 2019 led to synchronized easing by global central banks in 2019. In fact, 65% of central banks eased monetary policy over the past 12 months, the most since the Great Recession.
- Global monetary policy easing has led to a turnaround in central bank balance sheets, as all three major central banks (Fed, ECB, BOJ) have increased their balance sheets over the past three months for the first time since 2017 and are expected to do so throughout 2020.

Synchronized Easing in Global Central Bank Policy Rates



Central Bank Balance Sheets Increasing



CORRECTIVE SURGERY

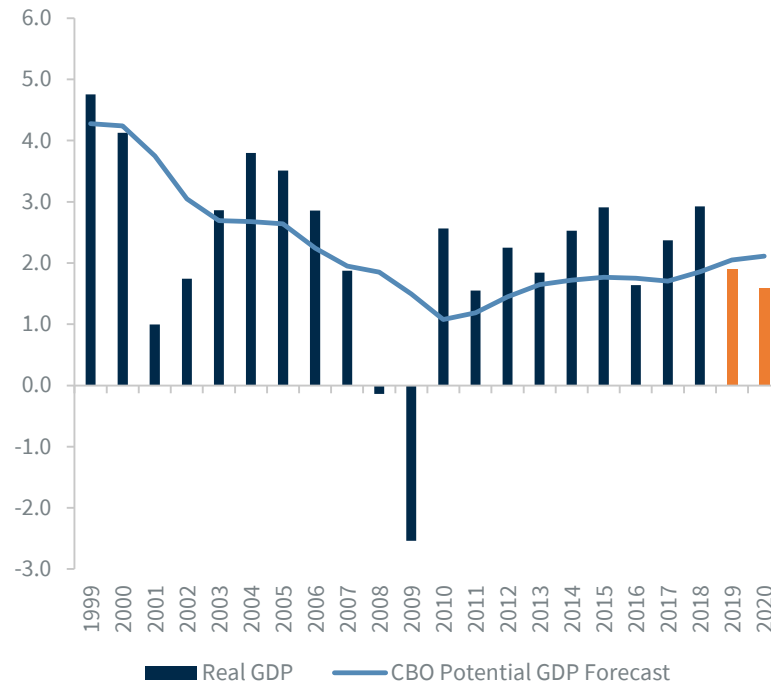
FED LIKELY TO REMAIN ON THE SIDELINES WITH RESPECT TO FUTURE RATE HIKES

- As inflation remains below the Fed's target of 2% and leading indicators suggest further moderation in growth in 2020, the Fed will likely remain on hold as inflation remains muted.
- Additionally, our forecast (2020 GDP estimate: 1.8%) of slightly below potential growth over the next 12 months should keep the Fed on the sidelines.

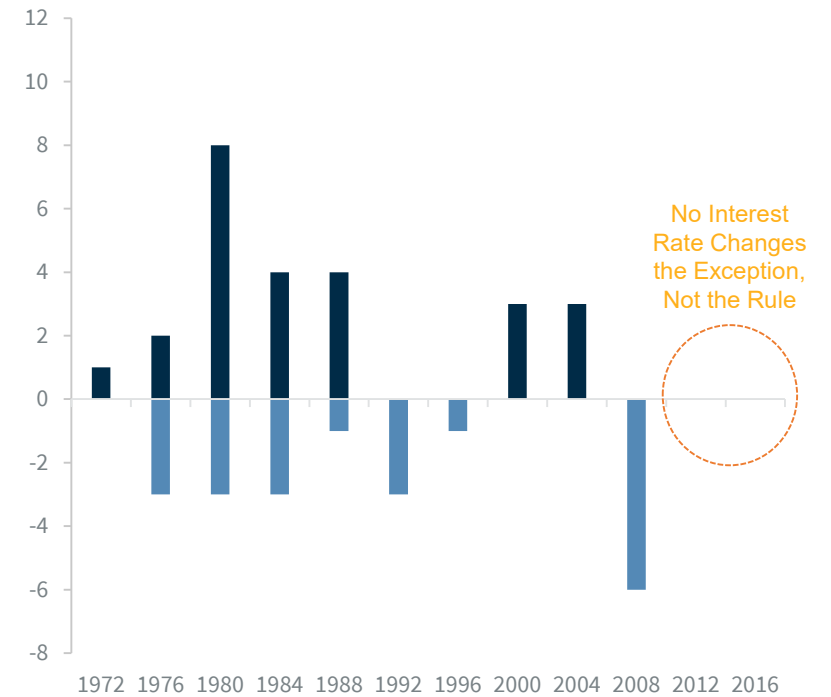
Inflation Likely to Decelerate in 2020



US Growth Expected to Grow Below Potential



Fed Action Ahead of Presidential Election





3 Politics

Tunnel Vision on the US Presidential Election

INSIGHT:

If history serves as a precedent, positive economic data leads to a favorable outcome for the incumbent. But given the level of division across the country, the election may be determined by two key swing states: Pennsylvania and Wisconsin.

BOTTOM LINE:

Major policy changes will be unlikely if Congress remains split (Democratic House/Republican Senate), which is our base case. Early indicators for the potential presidential winner are the unemployment rate and three-month pre-election performance of the equity market.

TUNNEL VISION



4 SEATS NEEDED

For Democrats to Flip Control of Senate



20 SEATS NEEDED

For Republicans to Flip Control of House

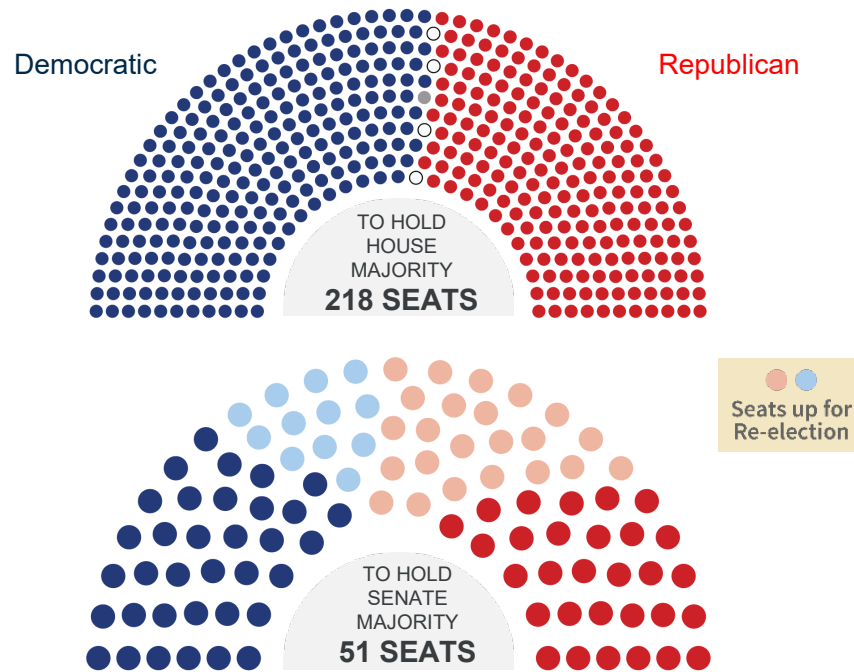


Wisconsin & Pennsylvania Swing States Likely to Decide Presidency

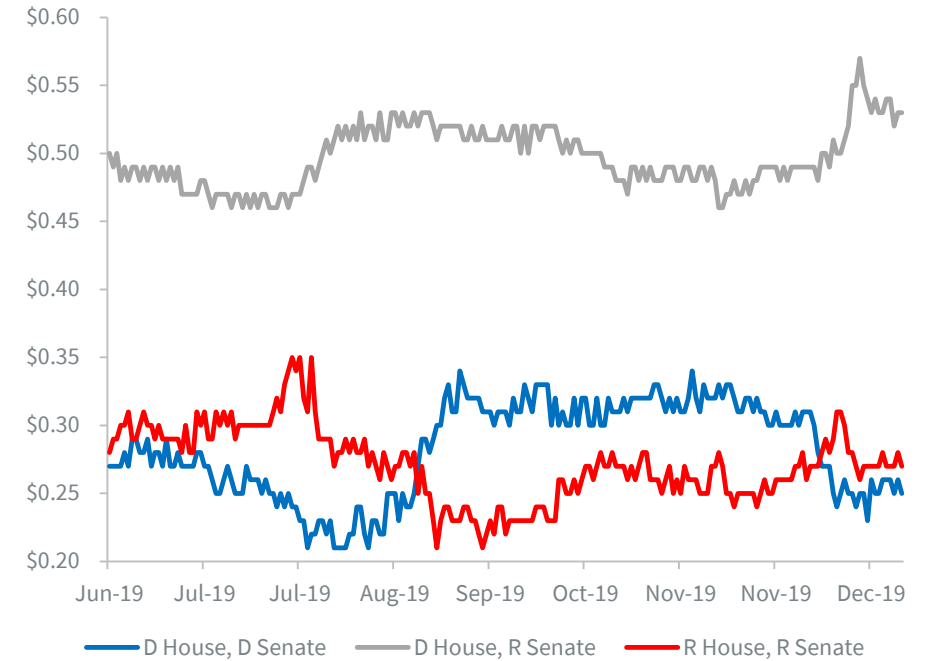
2020 ELECTION A KEY FOCUS IN THE YEAR AHEAD

- Outside of the presidential election at the top of the ticket, important races remain in the House and Senate as a number of key seats remain competitive and undecided.
- Currently, the market is pricing in a 54% probability that the overall makeup of Congress will remain unchanged with Democrats maintaining control of the House of Representatives and Republicans maintaining control of the Senate.

House and Senate Election Maps



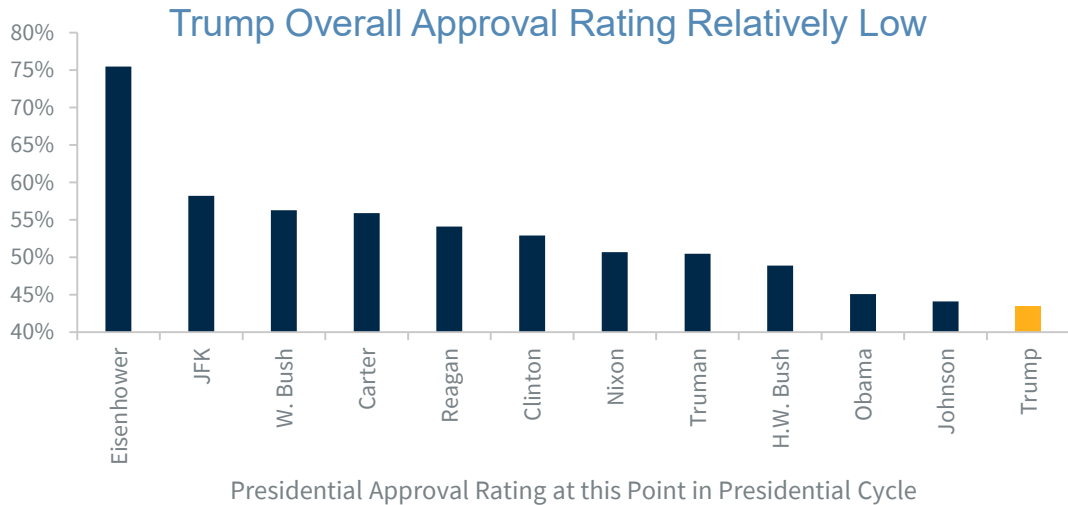
What Will Be the Composition of Congress



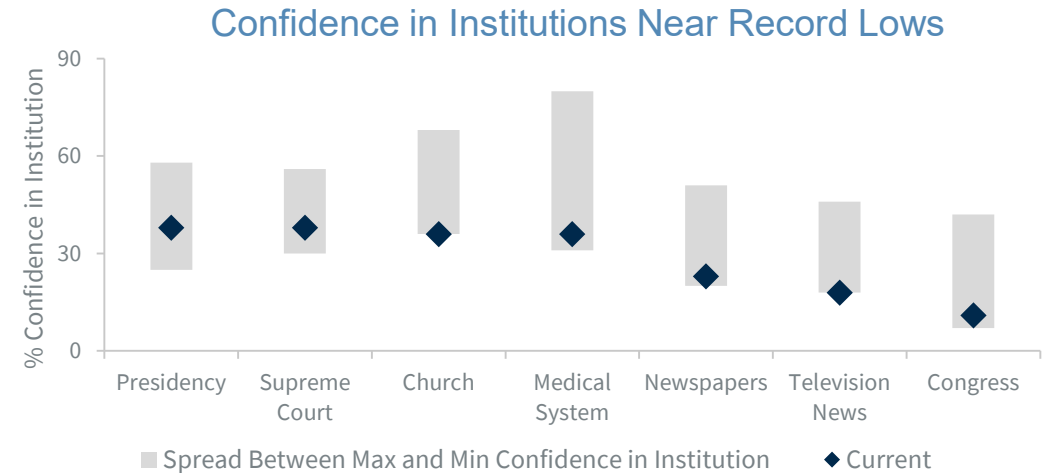
TUNNEL VISION

WHILE PRESIDENT TRUMP'S APPROVAL RATING IS POOR FROM AN HISTORICAL STANDPOINT, THE OVERALL LEVEL DOES NOT TELL THE FULL STORY.

- The depressed level in President Trump's approval rating is consistent with confidence in other institutions, as public confidence in institutions is near record lows for a number of different institutions.
- However, as a positive for President Trump, confidence in the presidency is not as low as other institutions and he has high approval on the economy.

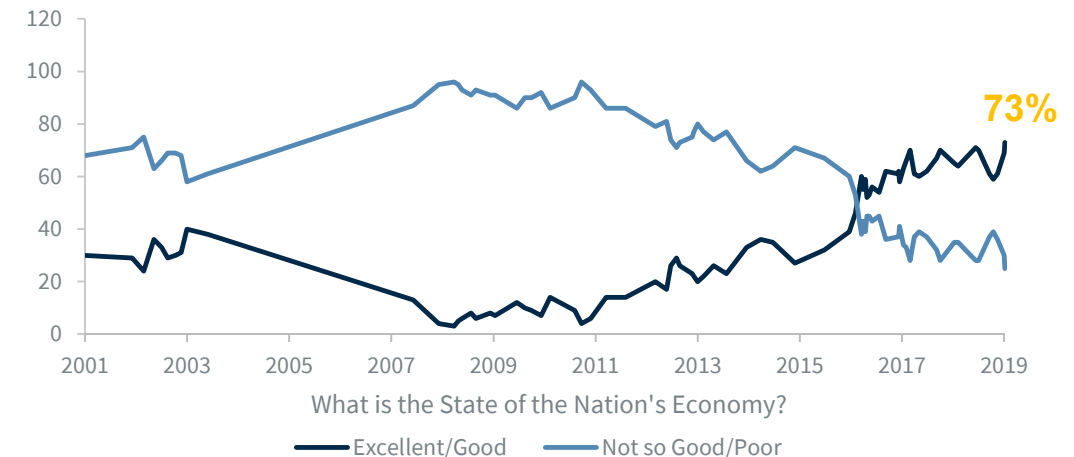


Source: fivethirtyeight.com



Source: Gallup polling. Data ranges from 1973-2019.

President Trump Has Strong Approval Rating on Economy



TUNNEL VISION

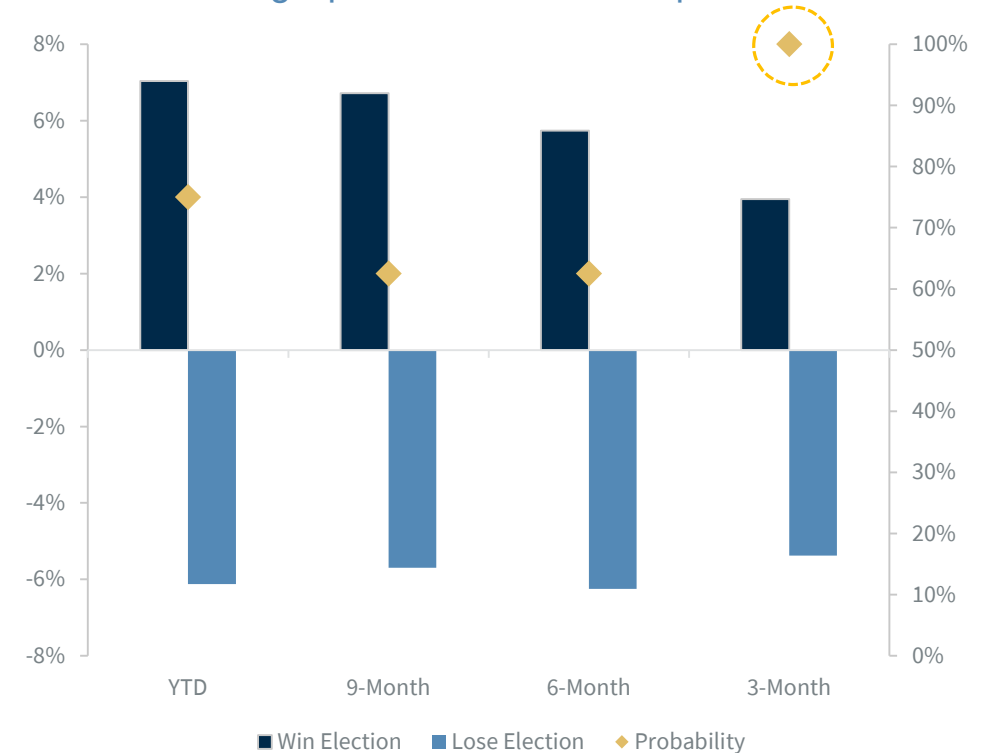
KEY ECONOMIC AND MARKET DATA POINTS TO WATCH THAT COULD DECIDE THE ELECTION

- The change in the unemployment rate in the 12 months leading up to the election has historically been a solid predictor of a presidential re-election bid. As the unemployment rate was 3.6% in November (one year before actual voting day), this will be a key benchmark to watch.
- The stock market has also been an excellent predictor, as positive gains in the equity market have historically preceded a re-election victory.

Employment a Key Indicator for Election

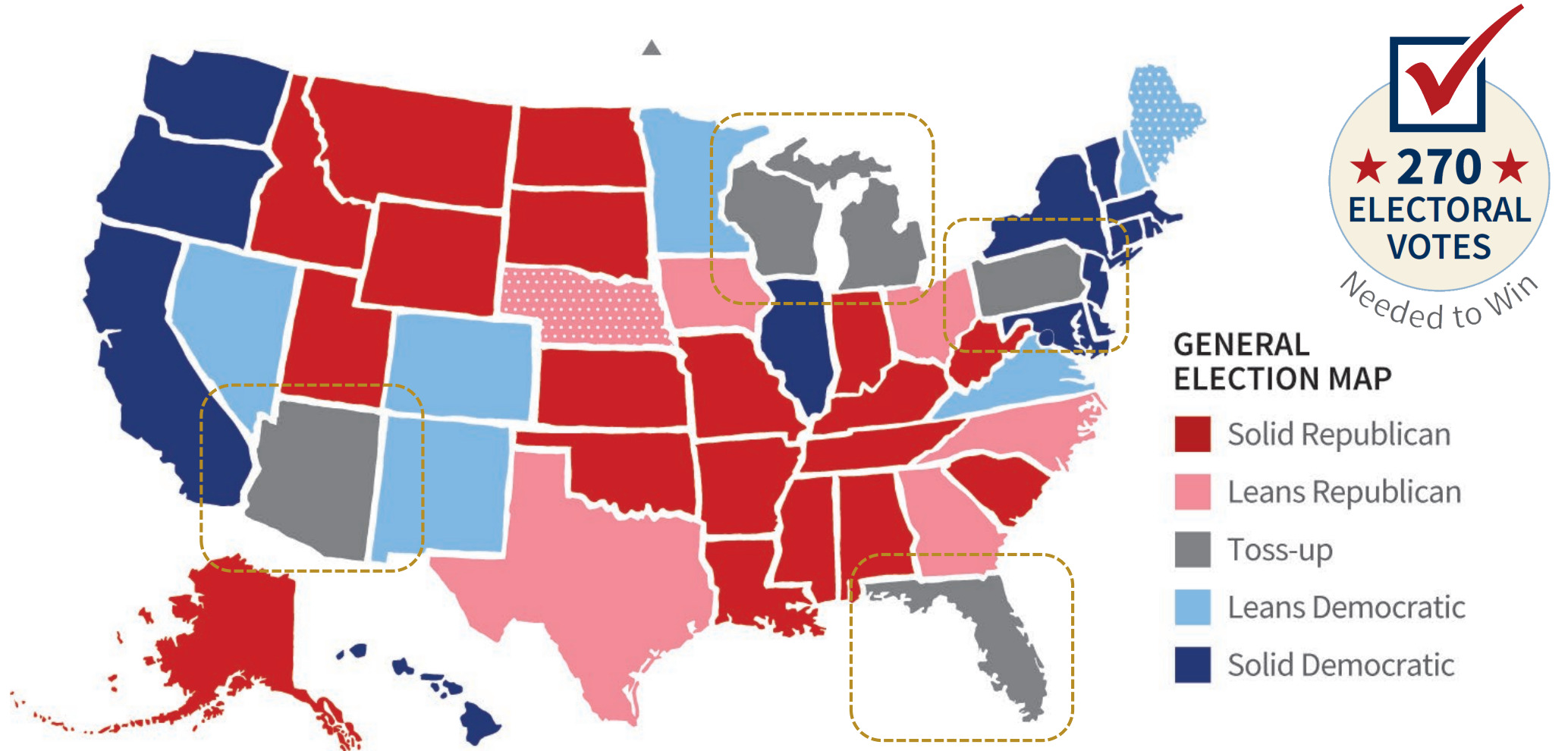


Performance Leading Up to Election With Republican Incumbent



TUNNEL VISION

2020 ELECTION WILL LIKELY COME DOWN TO KEY BATTLEGROUND STATES



TUNNEL VISION

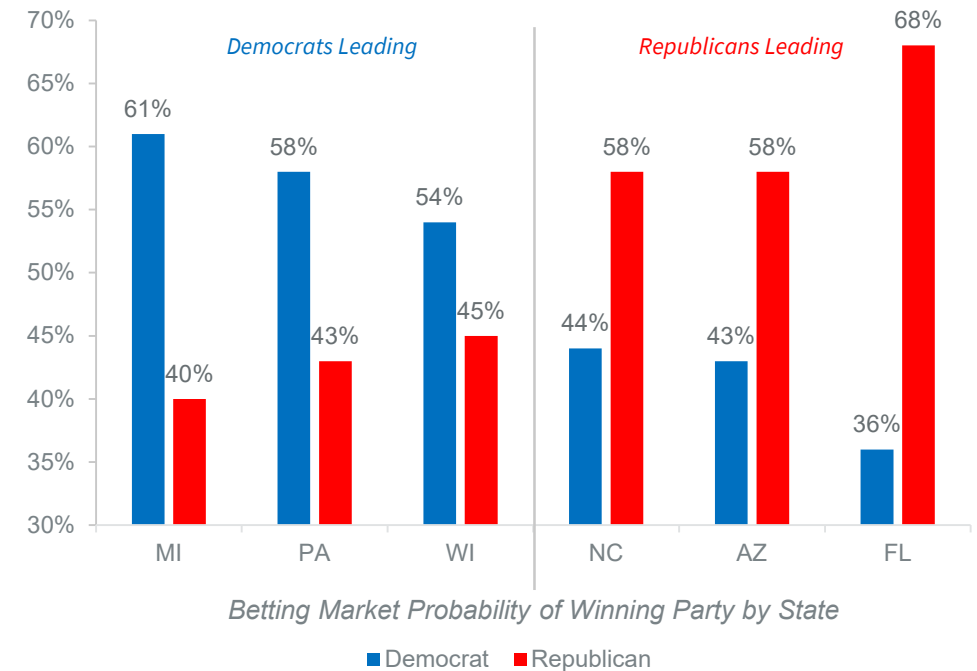
LIKELY CLOSE RACE LEADS TO INTERESTING DYNAMICS

- The 2016 presidential election was extremely close with President Trump winning the electoral college (304 vs 227) while losing the popular vote by ~2.9 million votes.
- History suggests incumbents are difficult to beat. Two characteristics that have caused incumbents to lose include a credible, strong primary challenger (unlikely this cycle as President Trump has solid Republican party backing) or a weakening economy (yet to be determined).

Key Dynamics In the Upcoming Election

- **Popular Vote vs Electoral College**
 - 2 of last 5 presidential election winners lost popular vote
- **Swing State Significance**
 - Election most likely decided by Pennsylvania or Wisconsin
- **Brokered Democratic Convention**
 - Last time: 1952, Adlai Stevenson won the Democratic nomination on the 3rd ballot
- **Third Party Impact**
 - President Trump won seven states without winning the majority
- **Senate Swings**
 - Control has changed once (1980) during a presidential election since 1952
- **House Changes**
 - Control has not changed during a presidential election since 1952

Betting Market Probability by State



Source: Predictit. Data as of January 2, 2020.



4 Fixed Income

Looking Through the Magnifying Glass

INSIGHT:

Treasury yields are likely to remain lower for longer, primarily as a result of the search for income. However, lower interest rates have increased the price sensitivity of bonds to even small changes in interest rates. When stretching for higher yields, make sure the risks of the bonds are fully understood.

BOTTOM LINE:

10-year Treasury yields should remain below 2% for the next 12 months on the back of declining inflation expectations, increasing global demand, and favorable demographic conditions. Continue to favor investment-grade and EM bonds over high-yield bonds.

LOOKING THROUGH THE MAGNIFYING GLASS



1.75%

Year-End 10-Year
Treasury Yield Target



\$11.5 Trillion

Dollar Value of Global
Negative-Yielding Debt



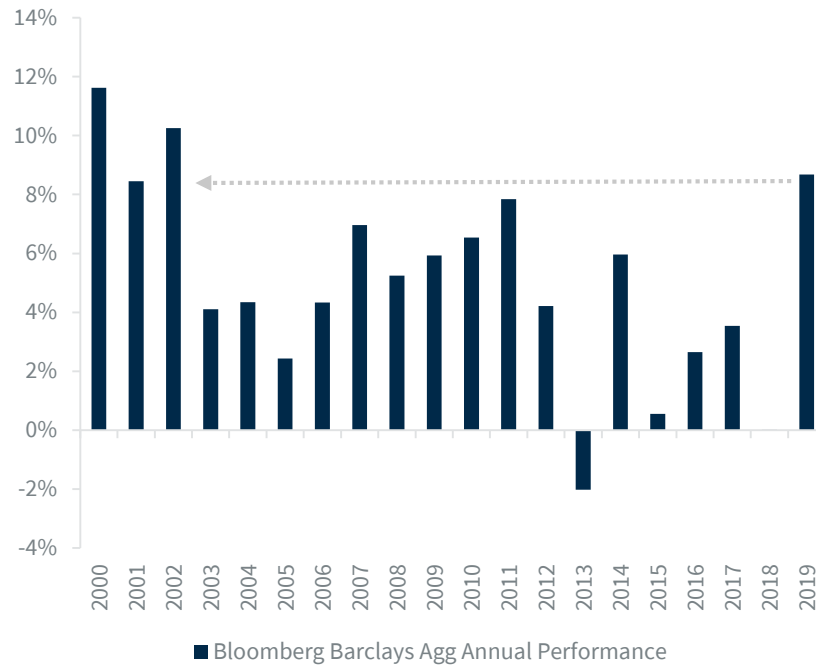
2.2%

Record Low Inflation
Expectations

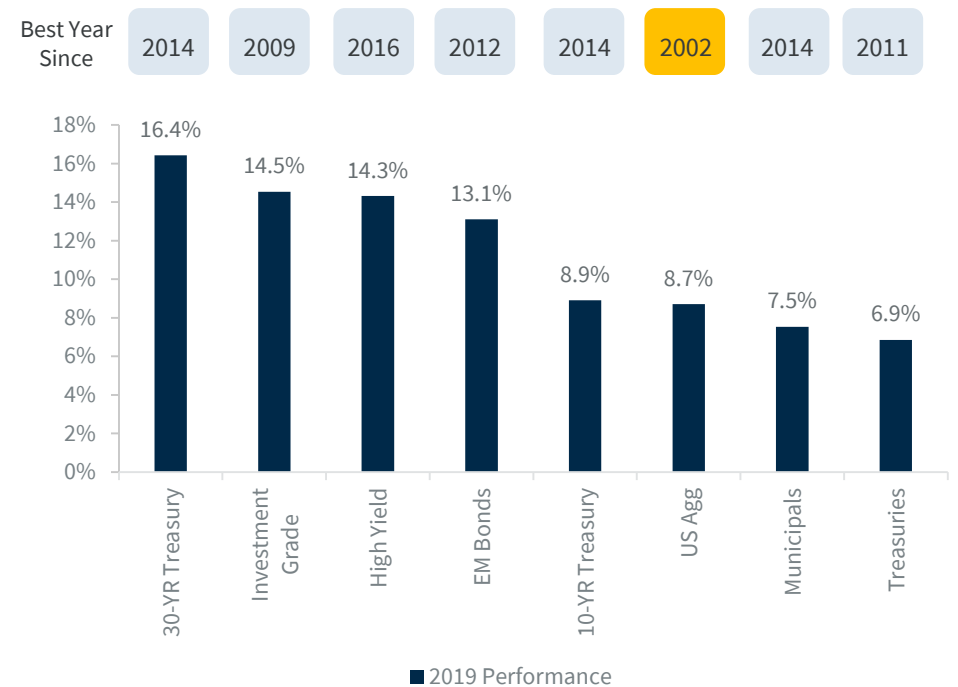
2019 A BANNER YEAR FOR FIXED INCOME INVESTORS

- As a result of continued easing from global central banks, trade concerns and slowing global economic growth, interest rates moved sharply lower in 2019 leading the Barclays Agg to post its best year since 2002.
- All fixed income sectors were in positive territory led by credit sectors and longer-duration bonds.

2019 a Banner Year for Fixed Income



All Fixed Income Sectors Positive

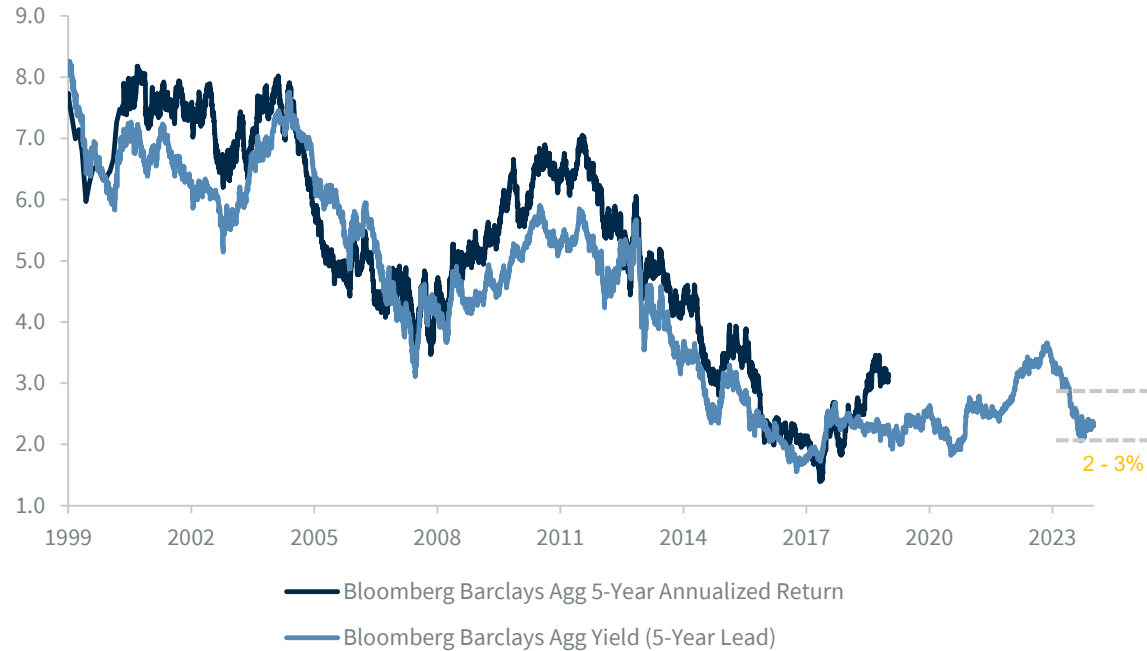


LOOKING THROUGH THE MAGNIFYING GLASS

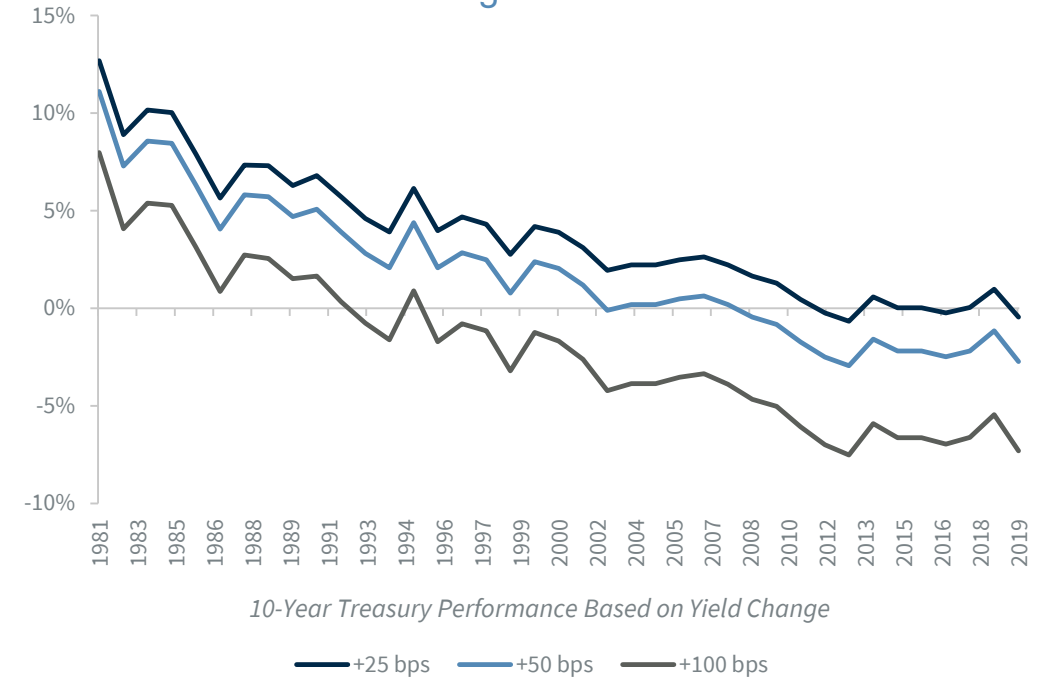
RISKS AROUND IN FIXED INCOME

- While 2019 was a broadly strong year for fixed income, risks remain for fixed income investors.
- As yields have declined to near record lows, duration (bond price sensitivity to changes in interest rates) in fixed income assets has moved to multi-year highs. As a result, investors are exposed to more extreme moves in bond portfolio valuations with just a small movement in interest rates (either up or down).

Low Yields Portend Muted Future Fixed Income Returns

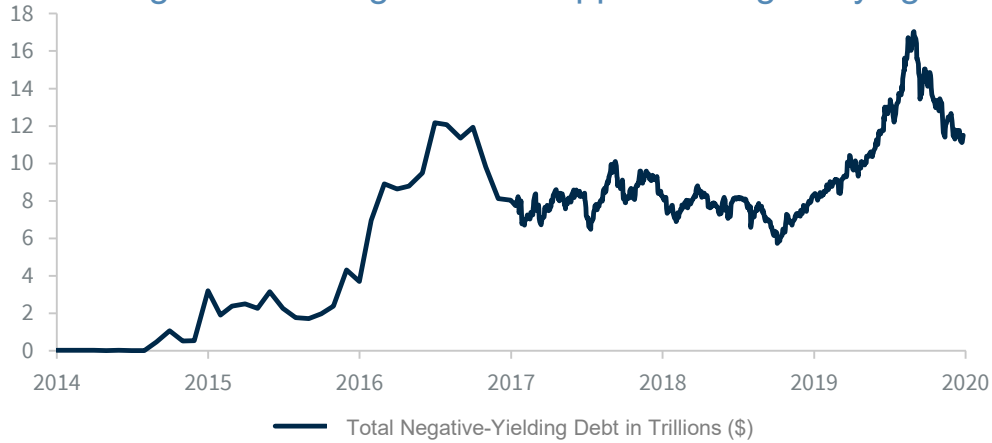


Risks Increasing Within Fixed Income



LOOKING THROUGH THE MAGNIFYING GLASS

Negative Yielding Debt to Support Foreign Buying



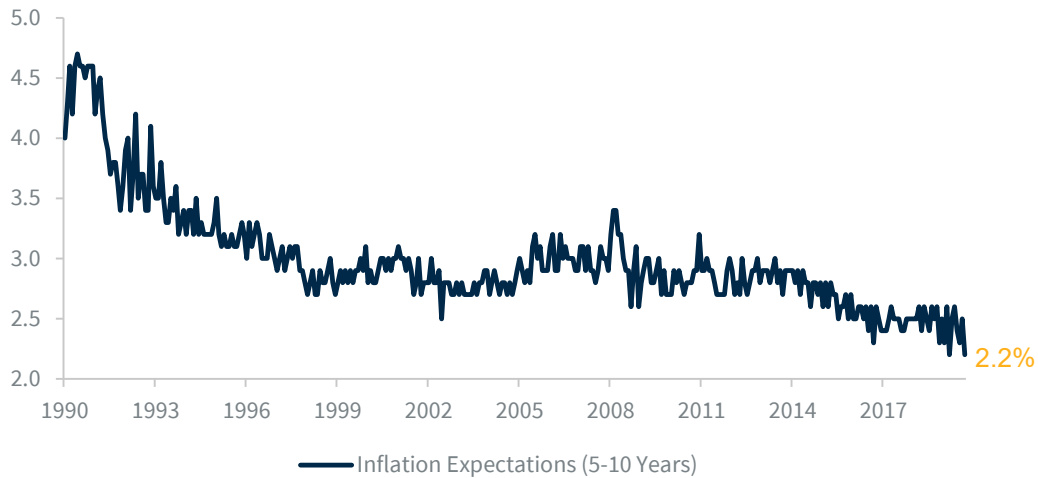
Upcoming Treasury Maturity Wall



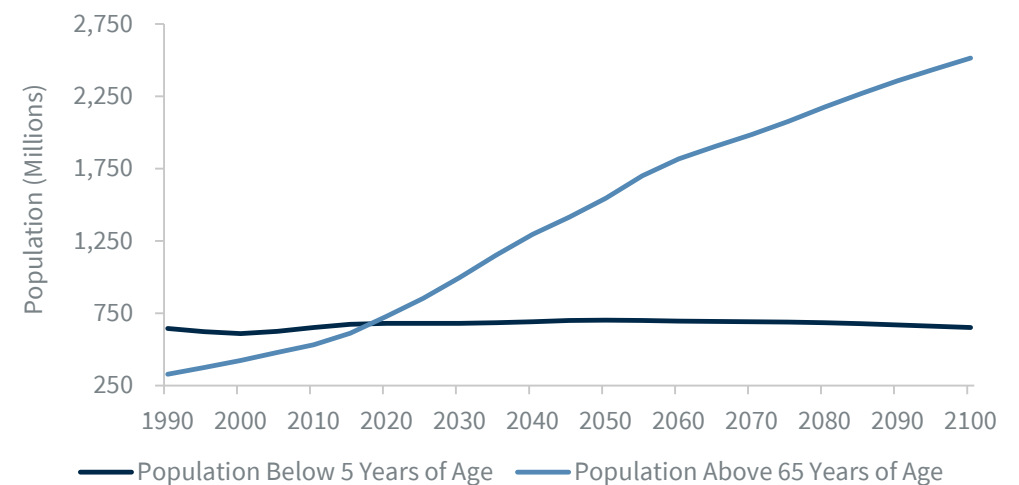
4

Reasons Yields Are Not Likely to Move Materially Higher

Inflation Expectations at Record Lows



Demographics Likely to Weigh on Rates

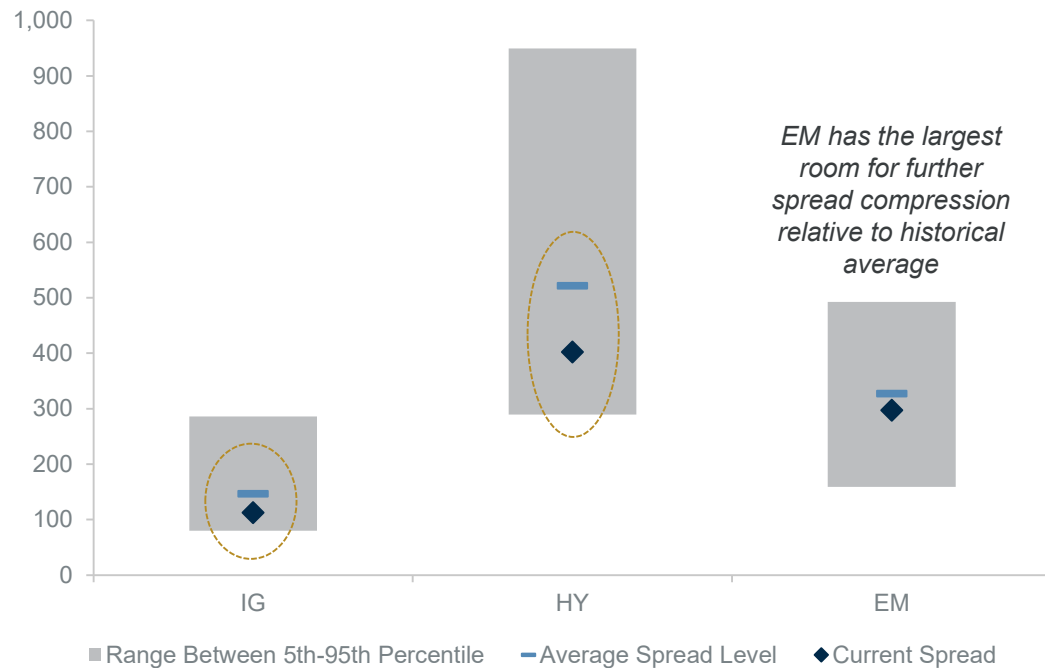


LOOKING THROUGH THE MAGNIFYING GLASS

ROOM FOR FURTHER SPREAD COMPRESSION LIMITED

- After the sharp compression in credit spreads during the risk-asset rally in 2019, credit spreads are now well below historical averages (particularly in the high-yield space) and are near multi-year lows.
- The largest amount of value is in the emerging market space, where spread compression has lagged and is near historical averages.

Outside of EM, Credit Spreads Near Record Lows



Source: Data reflects Bloomberg Barclays indices and is daily over the past 15 years.

Energy Needed for Further HY Spread Narrowing

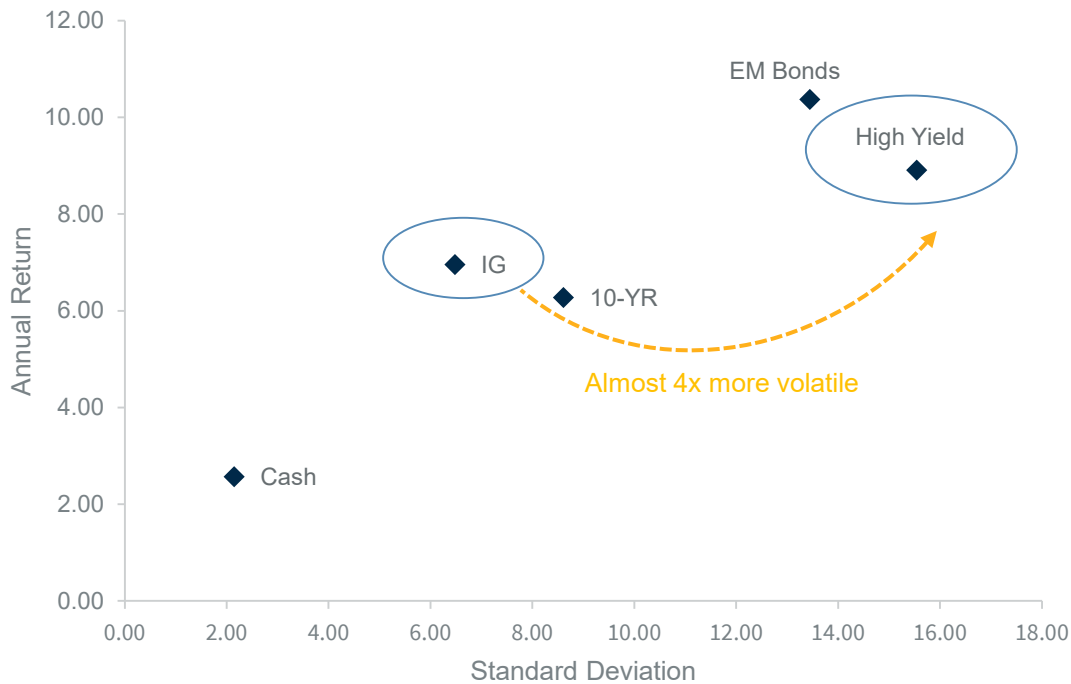


LOOKING THROUGH THE MAGNIFYING GLASS

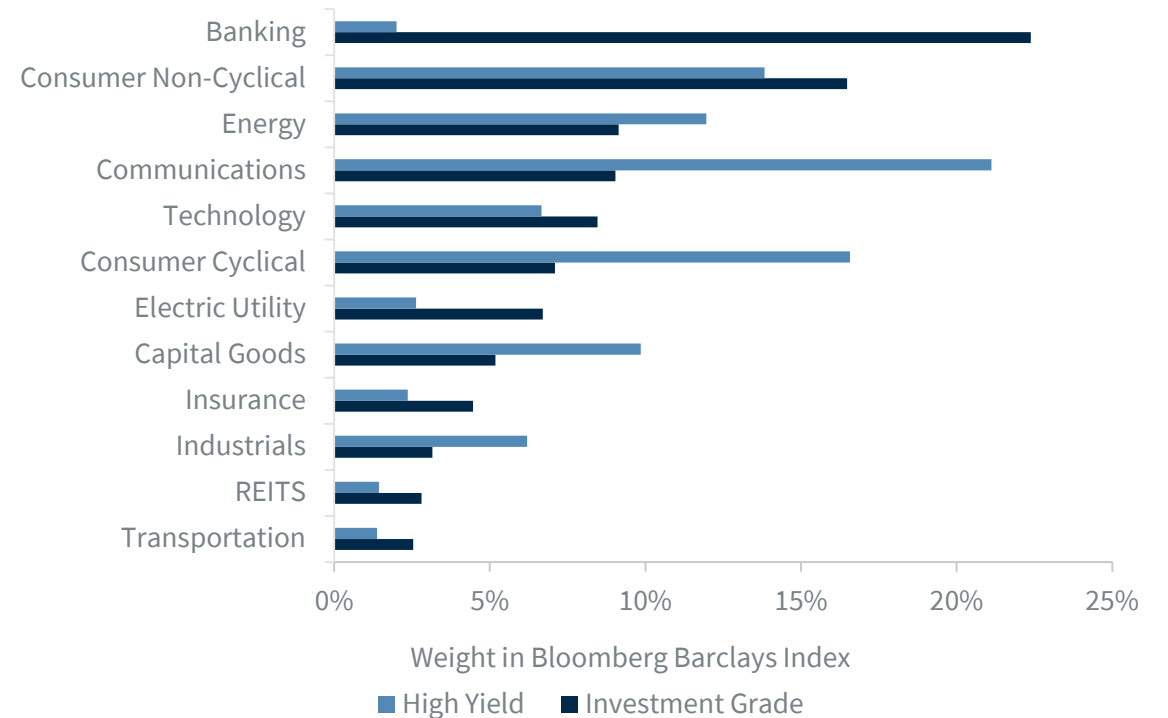
RISK/REWARD FOR HIGH YIELD NOT AS BRIGHT

- With spreads near record lows, we do not believe that high-yield investors are being adequately compensated for the additional risks they assume.
- In addition, high-yield investors are more exposed to volatile industries such as energy, communications, and retail.

High Yield Risky With Not Much Additional Reward



Breakdown of High Yield vs Investment Grade





5 Equities

See the Bigger Picture for US Equities

INSIGHT:

US corporate earnings are expected to grow 5-6% and reach another record in 2020, supporting the upward march of equity prices to record highs.

BOTTOM LINE:

Continued economic growth, solid earnings, fair valuations, healthy corporate activity (dividend and buyback growth), and low interest rates support equities. Earnings will be the primary driver of equity prices (whereas P/E expansion led the rally in 2019). Selectivity remains critical.

SEE THE BIGGER PICTURE FOR US EQUITIES



19.5x

2020 Target P/E



\$174

2020 Expected
S&P 500 Earnings



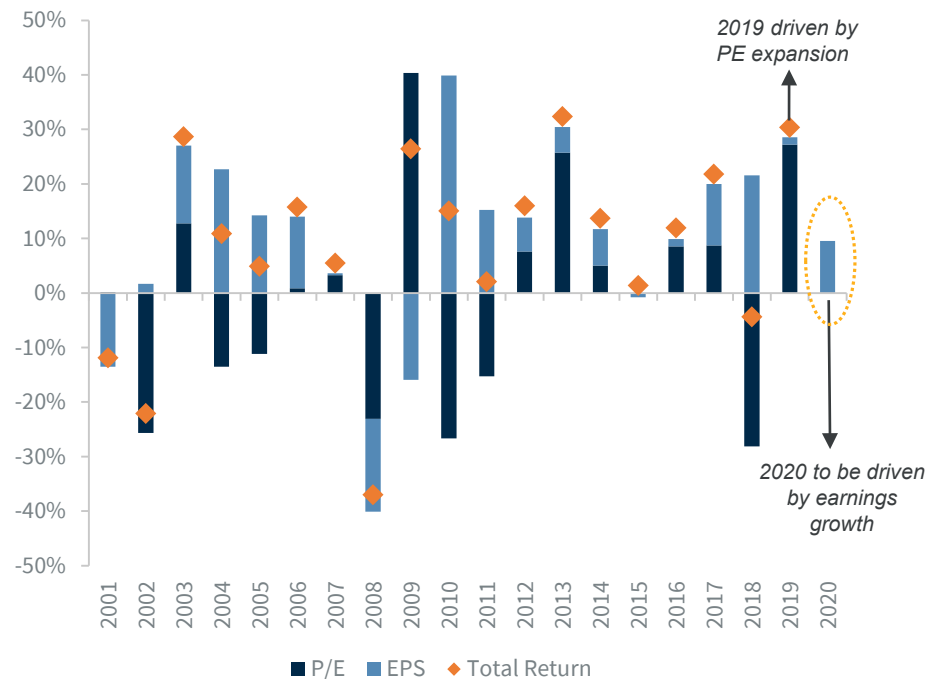
3,400

S&P 500
Year-End Target

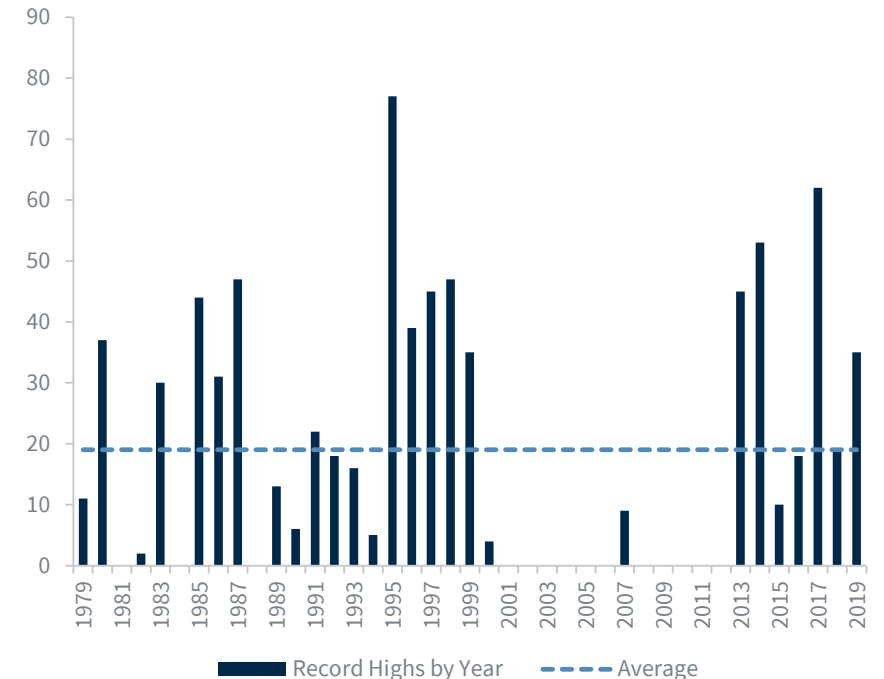
ALONG WITH FIXED INCOME, A BANNER YEAR FOR EQUITIES

- Driven by P/E expansion, the S&P 500 posted its best annual return since 2013 in 2019.
- The S&P 500 notched 35 record highs in 2019, well above the previous 40-year average of 19.

2019 Was the Best Annual Return Since 2013

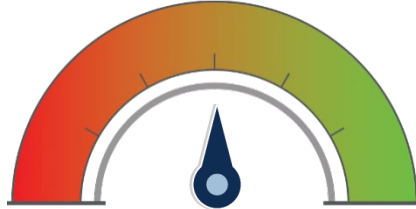
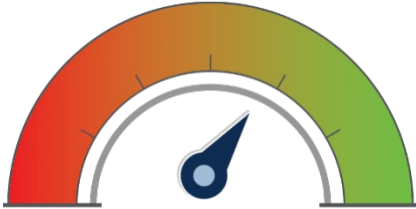


35 Record Highs Notched in 2019



SEE THE BIGGER PICTURE FOR US EQUITIES

Bull Market Checklist

Economy	Valuations	Corporate Activity	Seasonality	Sentiment
 <p data-bbox="147 748 545 786">Bear Bull</p>	 <p data-bbox="611 748 1009 786">Bear Bull</p>	 <p data-bbox="1075 748 1472 786">Bear Bull</p>	 <p data-bbox="1546 748 1944 786">Bear Bull</p>	 <p data-bbox="2010 748 2407 786">Bear Bull</p>
<p data-bbox="132 879 555 1253">Given our expectation for moderate economic growth with muted recession risk over the next 12 months, the economic landscape should provide an environment for positive earnings growth and for equities to continue to move higher. Historically, the S&P 500 has peaked ~8 months, on average, prior to the next recession.</p>	<p data-bbox="598 879 1021 1253">Valuations are not yet stretched and are in line with what we deem to be fair value (~19.25x LTM P/E). In addition, equities look particularly attractive relative to bonds as the S&P 500 dividend yield outpaces that of most other global developed market sovereign bond yields. We expect the P/E to remain stable over the next 12 months.</p>	<p data-bbox="1062 915 1485 1222">Corporations continue to enact shareholder-friendly actions and return cash to shareholders, as dividends and buybacks continue to be a support for the equity market. In addition, M&A activity should continue to be supportive as we move through the later stages of this economic expansion.</p>	<p data-bbox="1533 896 1956 1239">Seasonality should be constructive over the medium term. The fourth year of a presidential cycle has been strong, on average. That strength is regardless of the incumbent or challenger winning the presidency. Healthy 20%+ returns in one year has historically led to continued positive momentum in the next year.</p>	<p data-bbox="1997 896 2420 1239">Despite the ~500% rally during the current bull market, fund flows and sentiment remain fairly muted from a historical standpoint. Money market balances are at the highest levels since 2007. With sentiment remaining around historical averages, this suggests that the current bull market is likely to have further room to run.</p>

SEE THE BIGGER PICTURE FOR US EQUITIES

Muted Risk of Recession in 2020



Valuations in Line With Fair Value



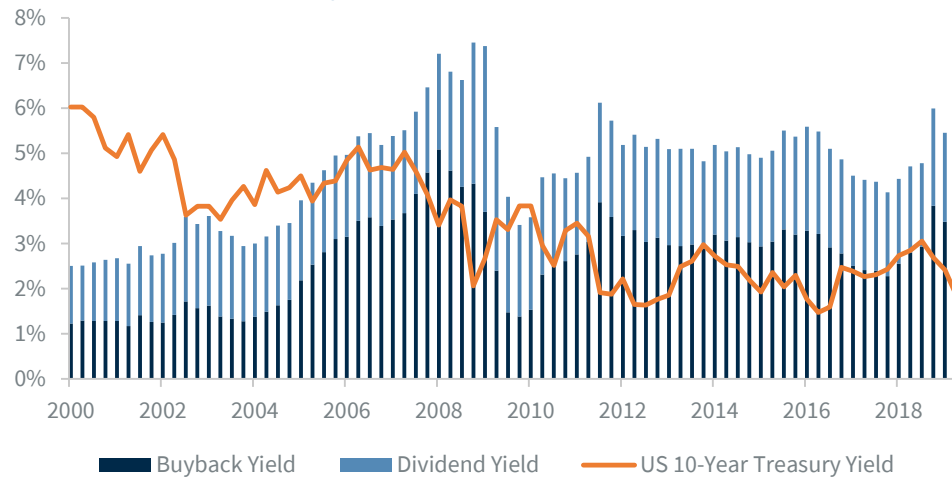
\$3.6

Trillion in Money
Market Mutual Funds

Nearly Record High Cash on Sidelines



Dividend and Buyback Yield Outpaces Treasuries

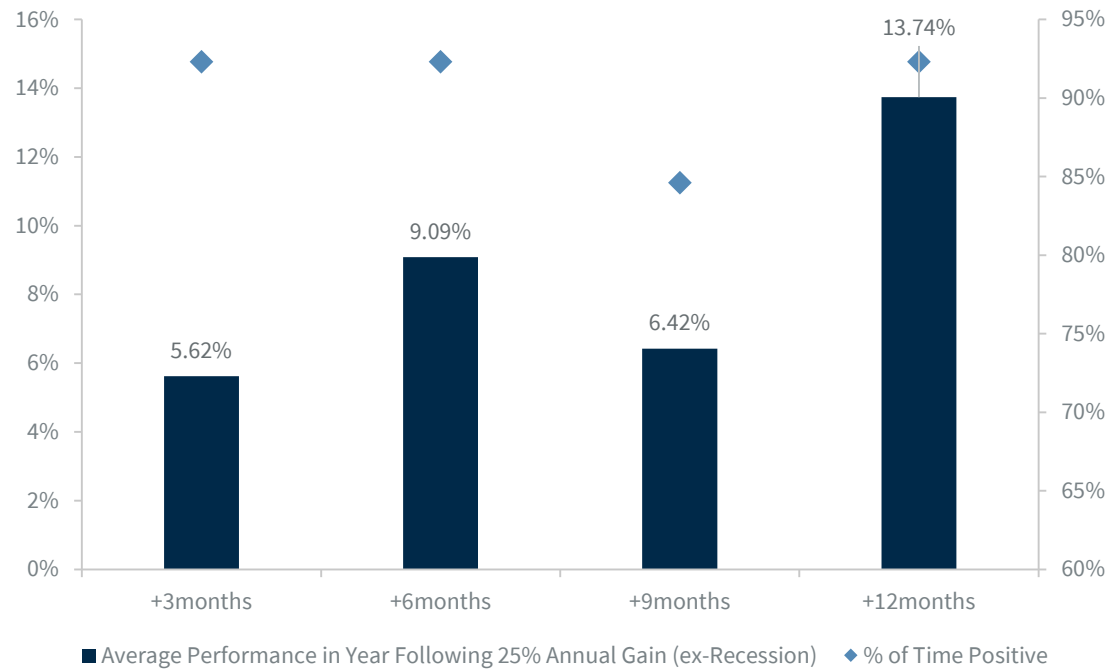


SEE THE BIGGER PICTURE FOR US EQUITIES

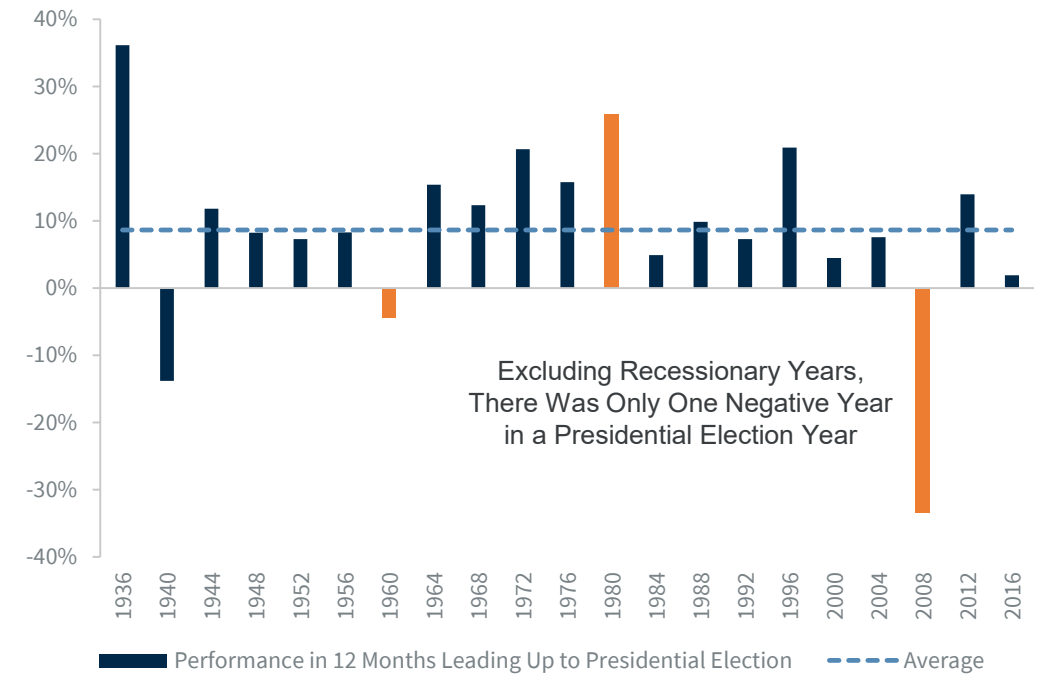
SEASONALITY A POSITIVE FOR EQUITIES

- Historically, strong returns have continued in the year following a 25% annual gain, as the S&P 500 is up ~14% and is positive over 90% of the time in the following year.
- The fourth year of a presidential cycle is also positive for equities, as the S&P 500 is up ~9% on average and is positive ~90% of the time.

25%+ Annual Return Typically Followed by Strength



4th Year of Presidential Cycle Historically Positive





6 Equity Sectors

Double Vision of Favorite Sectors

INSIGHT:

The cyclical sectors and one defensive sector that we favor in the large-cap space make up more than a majority of the earnings and revenues of the small-cap index, leading us to upgrade our view of small caps.

BOTTOM LINE:

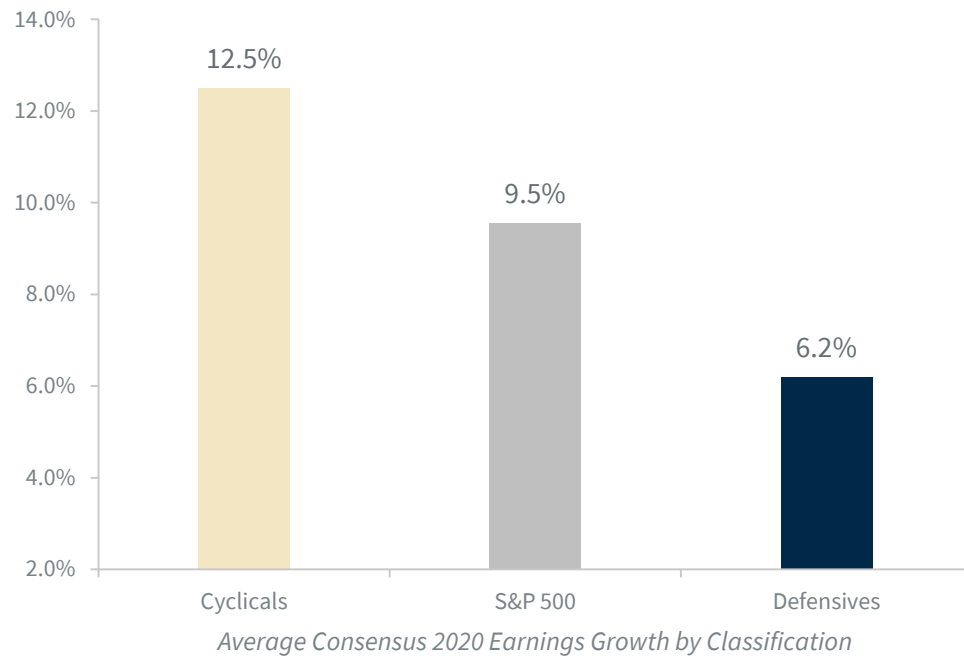
Our favorite sectors include Technology, Financials, Industrials, Communication Services, and Health Care. Favorable fundamentals and potential catalysts increase the likelihood of outperformance for these sectors.

DOUBLE VISION OF FAVORITE SECTORS

FAVOR CYCLICALS OVER DEFENSIVES

- From an earnings and valuation perspective, cyclical sectors remain more attractive than defensive sectors.
- As a result, we continue to overweight more cyclically-oriented sectors while we are more cautious on defensive sectors.

Cyclicals Have Stronger Earnings Growth in 2020



Sector Positioning Summary

Overweight	Equal Weight	Underweight
Information Technology	Consumer Discretionary	Materials
Industrials	Energy	Utilities
Communication Services		Real Estate
Financials		Consumer Staples
Health Care		

DOUBLE VISION OF FAVORITE SECTORS

FIVE OVERWEIGHT SECTORS HEADING INTO 2020

- Info Tech, Communication Services, Industrials, Financials and Health Care are our five favorite sectors heading into 2020.



Info Tech & Communication Services

Industrials

Financials

Health Care

Reasons for Optimism

1. Tech-related fixed investment growing ~8% annually (far stronger than overall investment).
2. Second strongest dividend and buyback yield of any sector.
3. Largest cash stockpile for shareholder friendly actions.

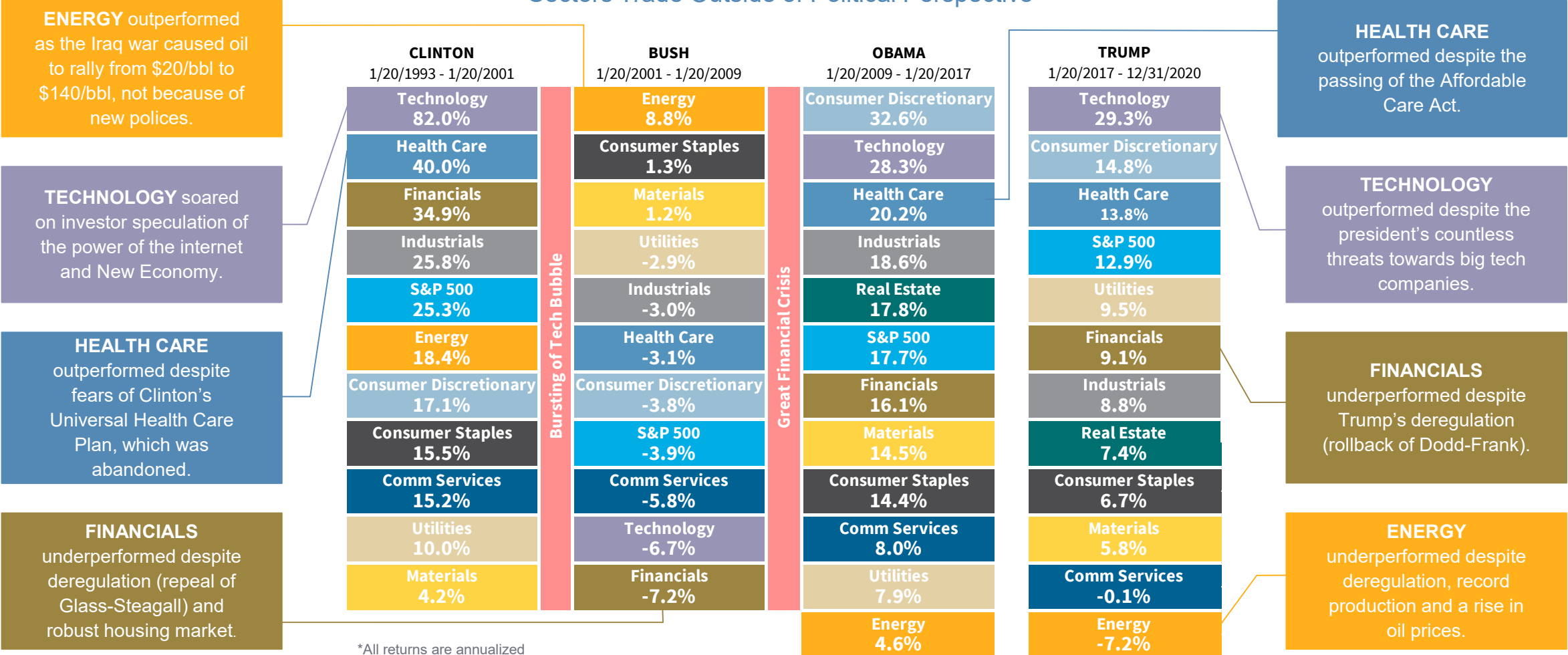
1. Expected to see second strongest earnings growth of any sector throughout 2019.
2. Given global exposure, will benefit from turnaround in global growth.
3. Trade uncertainty less of a headwind over next 12 months.

1. Strongest dividend and buyback yield of any sector.
2. Will benefit from a steeper yield curve (after inversion in 2019).
3. Strong capital market activity (e.g., IPOs, M&A, structured finance, etc.) a benefit.

1. Aging demographics to support overall Health Care sector.
2. Historically cheap on a relative basis to the S&P 500.
3. Strong and stable earnings and sales growth.

DOUBLE VISION OF FAVORITE SECTORS

Sectors Trade Outside of Political Perspective

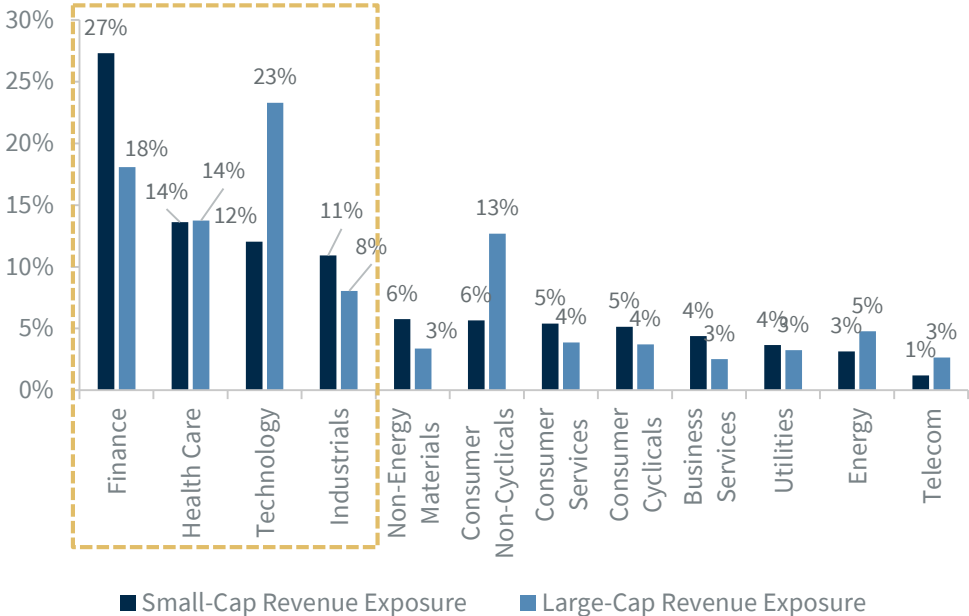


DOUBLE VISION OF FAVORITE SECTORS

OUR SECTOR PREFERENCES SHOULD SUPPORT SMALL CAP THROUGHOUT 2020.

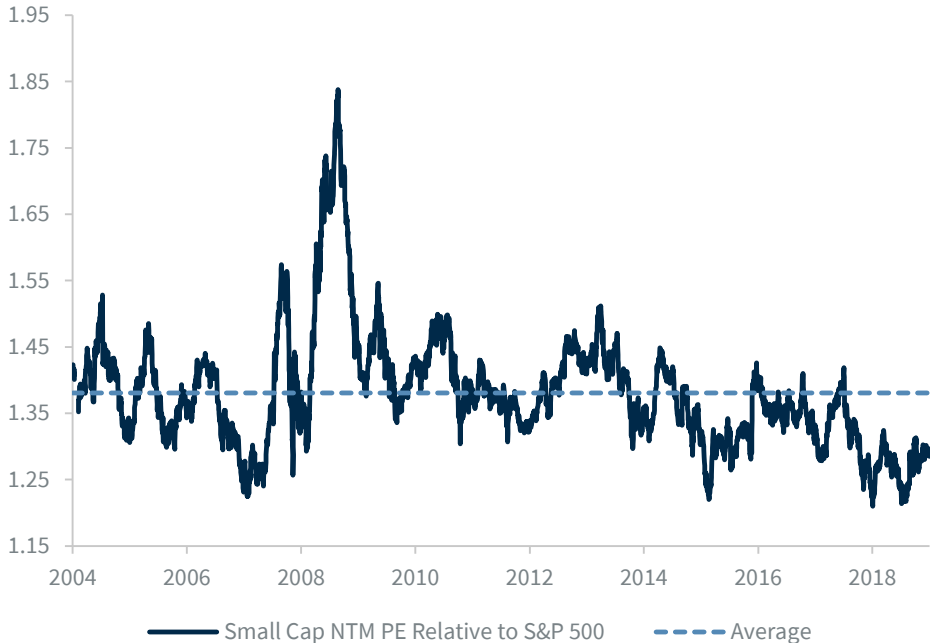
- Small-cap equities have more sector exposure to some of our favorite sectors such as Financials, Health Care, Info Tech, and Industrials.
- Additionally, given the recent underperformance of small-cap equities relative to large-cap equities, small caps are more attractive relative to large-cap equities.

Revenue Exposure Favors Large-Cap Earnings



65%
of Small-Cap Revenue
Derived from Our
Overweight Sectors

Small Caps Attractive From Valuation Perspective





7 5G NETWORK

Near and Far Sight for Technology Sector

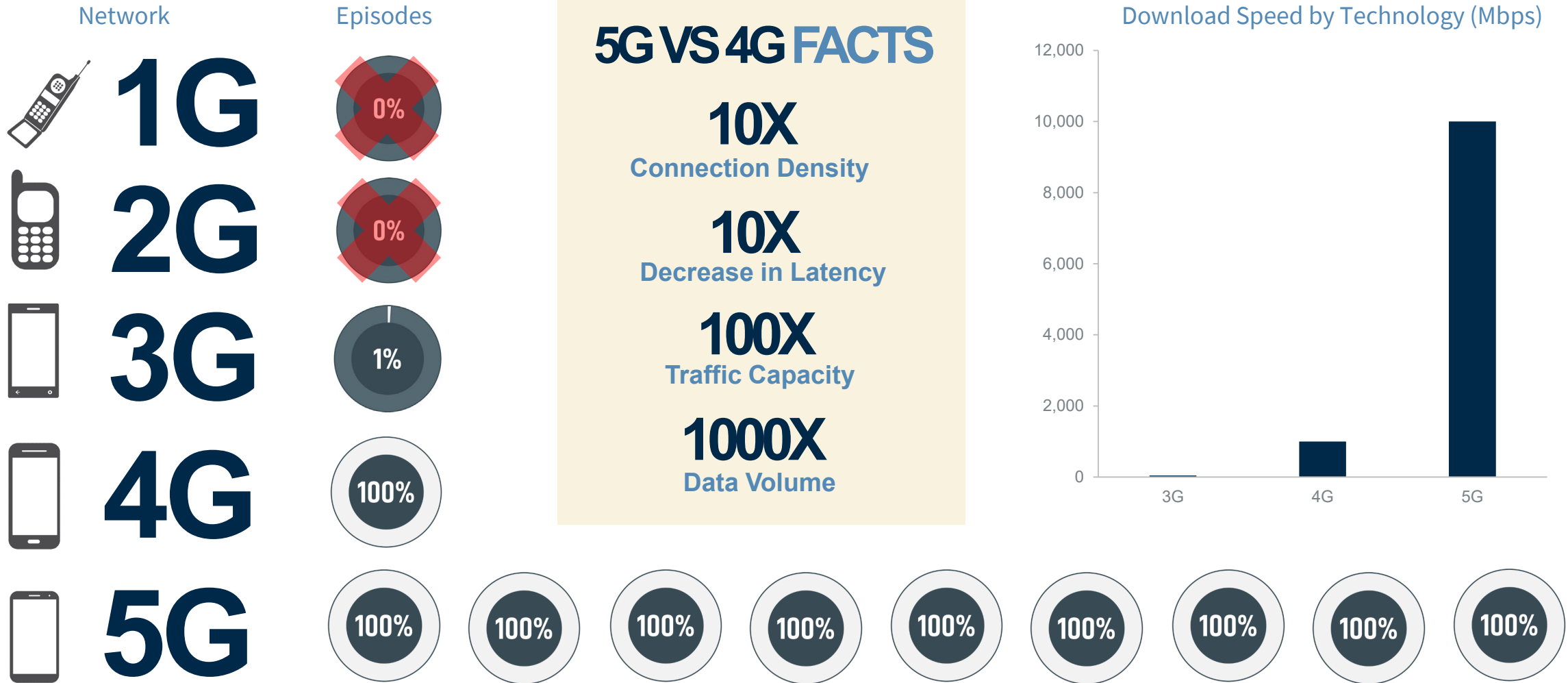
INSIGHT:

We envision the Technology sector being a stand out again this year. Our near sights are focused on earnings visibility, which remains strong with the anticipated rollout of 5G.

BOTTOM LINE:

The transition from 4G to 5G is the biggest enhancement in wireless technology in a decade, so our farsights believe this will be a multi-year catalyst for everything from semiconductors to phone carriers.

5G NETWORK (FIFTH GENERATION)

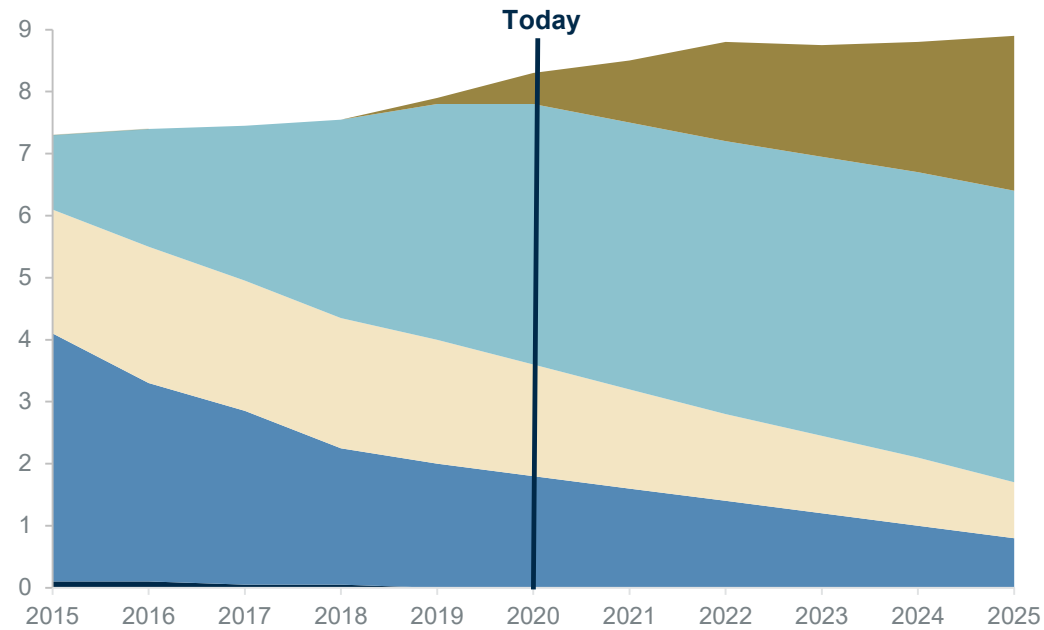


5G NETWORK (FIFTH GENERATION)

THE UPGRADE TO 5G SHOULD GENERATE DEMAND FOR INCREASED SPEED, STORAGE, SOFTWARE, AND APPLICATIONS.

- In the United States in 2019, 4G accounted for 91% of all subscriptions, the highest share globally.
- In the United States in 2019, 5G accounted for 1% of all mobile subscriptions. In 2025, this number is expected to jump to 74%.
- In 2025, there will be an estimated 2.6 Billion 5G subscriptions globally.

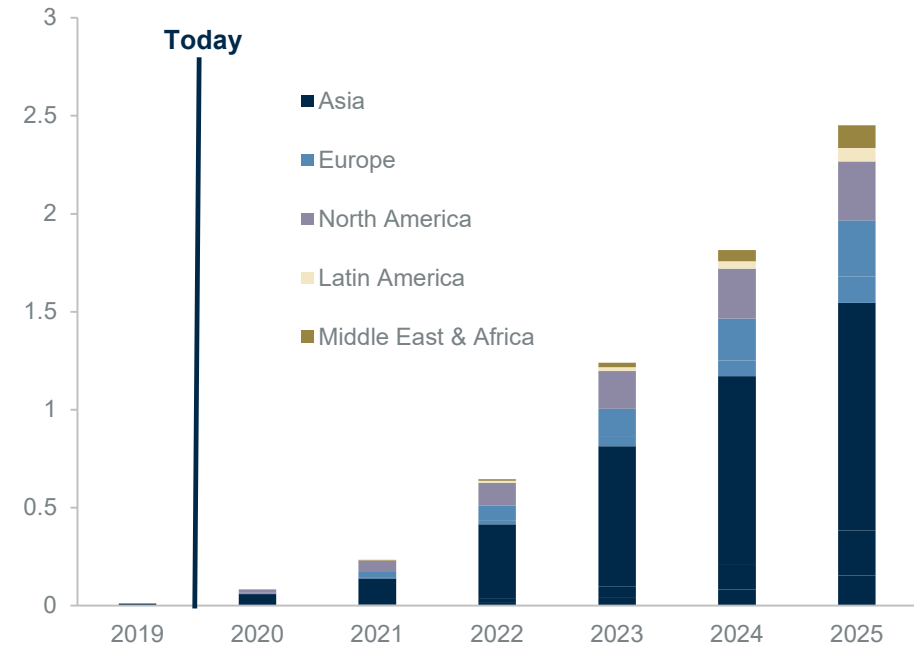
Global Mobile Subscriptions (Billions)



Source: Ericsson

■ 1G ■ 2G ■ 3G ■ 4G ■ 5G

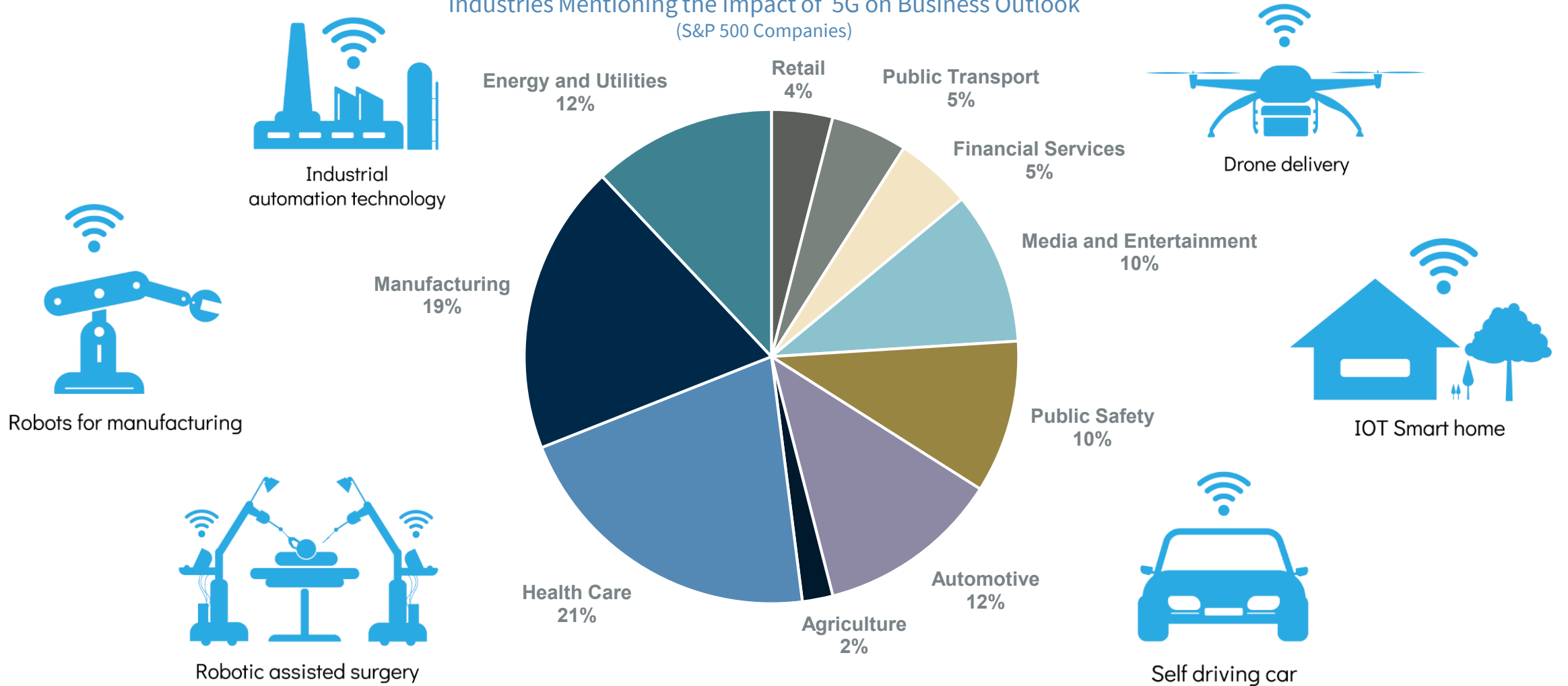
Global Adoption of 5G (Billions)



Source: Ericsson

5G NETWORK (FIFTH GENERATION)

Industries Mentioning the Impact of 5G on Business Outlook
(S&P 500 Companies)





8 International Equities

Blurred Vision for International Equities

INSIGHT:

Sector composition, better economic growth, and superior earnings growth remain supportive of US equities in the developed market equity space. However, attractive valuations and near-term catalysts suggest that international markets will keep pace with the US equity market in the short run.

BOTTOM LINE:

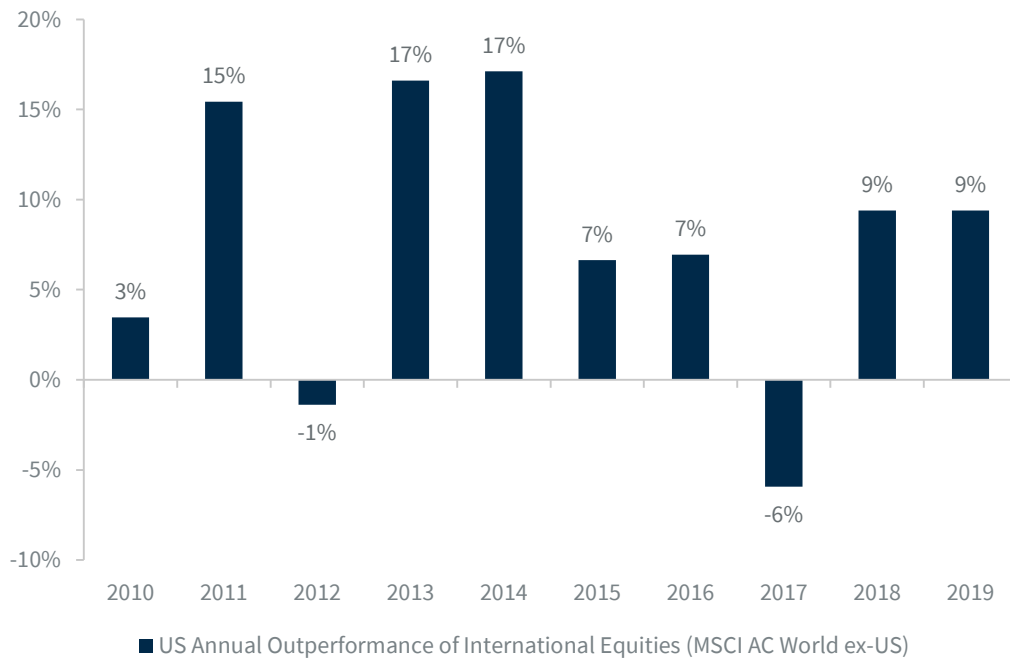
Internationally, we are neutral the US versus other developed markets. However, we maintain our long-term preference for EM equities based on superior growth, demographics, and potential benefits from the trade detente.

BLURRED VISION FOR INTERNATIONAL EQUITIES

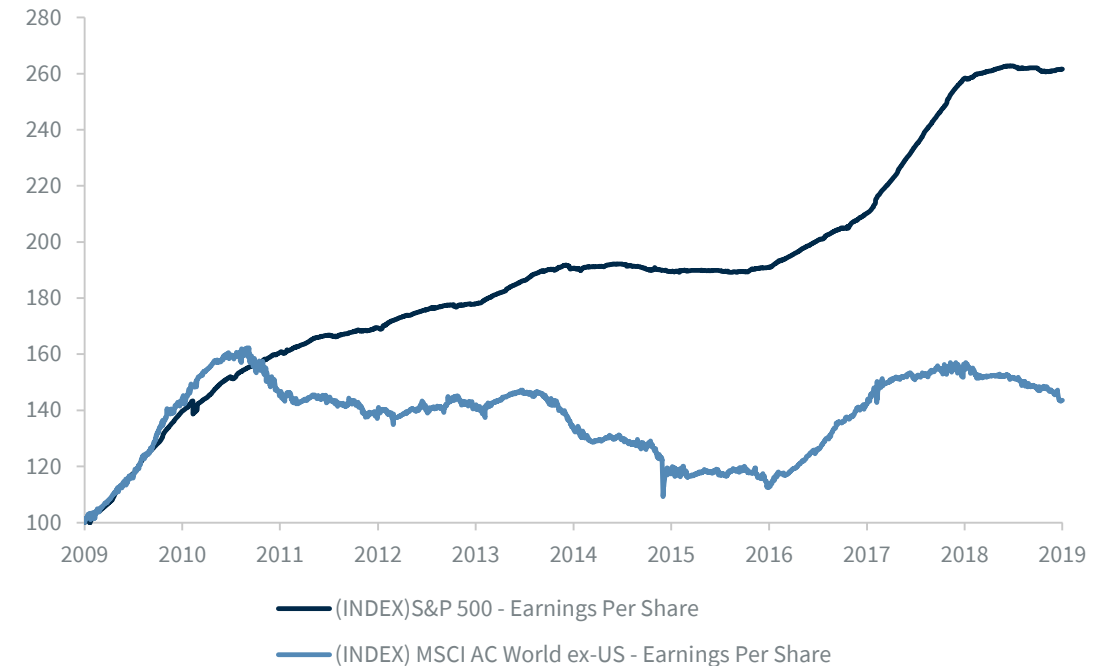
INTERNATIONAL EQUITIES CONTINUE TO LAG US EQUITIES

- In 2019 US equities continued to outperform international equities (MSCI AC World ex-US). The S&P 500 has now outperformed international equities for the eighth time in the past 10 years. Over that time period, the S&P 500 has outperformed international equities by ~180% on a total return basis.
- This outperformance is consistent with fundamentals, as S&P 500 earnings have outpaced international earnings by ~125% over that time period.

2019 Another Year of US Outperformance

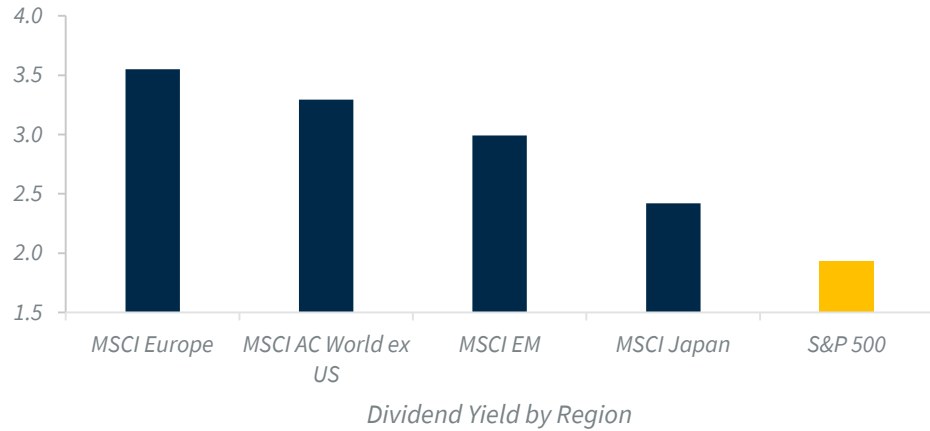


US Outperformance Driven by Earnings



BLURRED VISION FOR INTERNATIONAL EQUITIES

International Has Higher Dividend Yields than US



Valuations Not Cheap from Historical Perspective



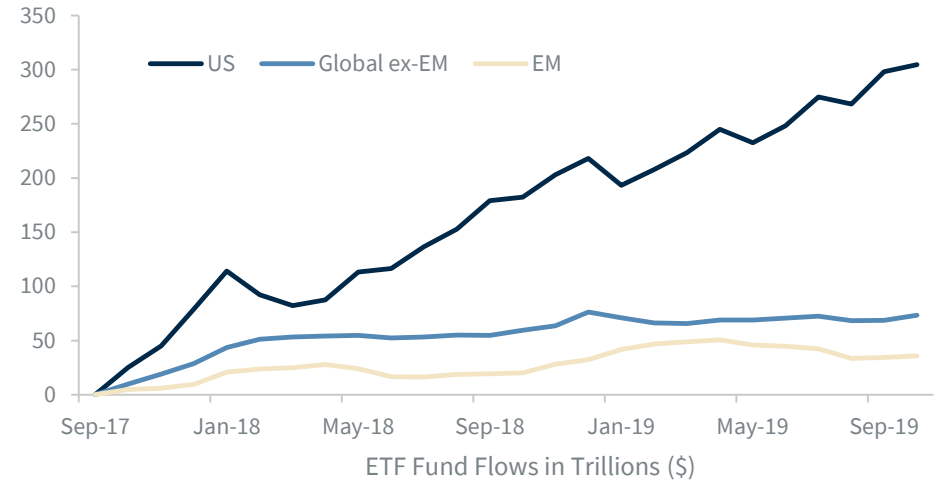
15%

Earnings Growth for Emerging Markets in 2020

EM to See the Strongest Earnings Growth



International Fund Flows Lagging US

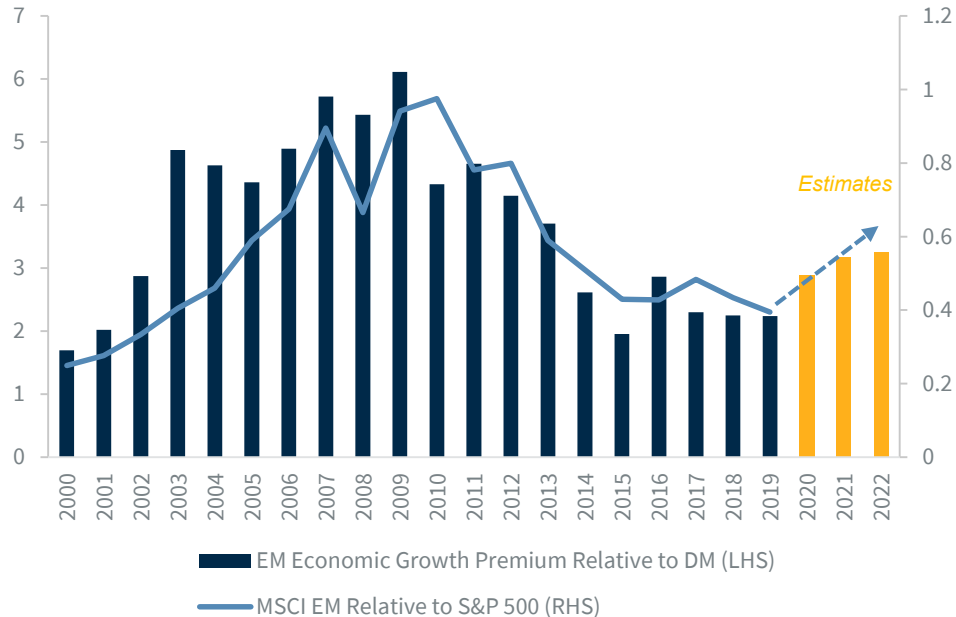


BLURRED VISION FOR INTERNATIONAL EQUITIES

WITHIN INTERNATIONAL, WE FAVOR EMERGING MARKETS OVER DEVELOPED MARKET EQUITIES FOR A FEW REASONS.

1. EM equities should benefit from a turnaround in global and EM growth.
2. Given the underperformance of EM equities and our expectation for an acceleration in future earnings, EM is cheap relative to global equities.
3. EM is more exposed to Asian countries, which will benefit from population growth and favorable demographics.
4. EM is highly concentrated within our favorite sectors.

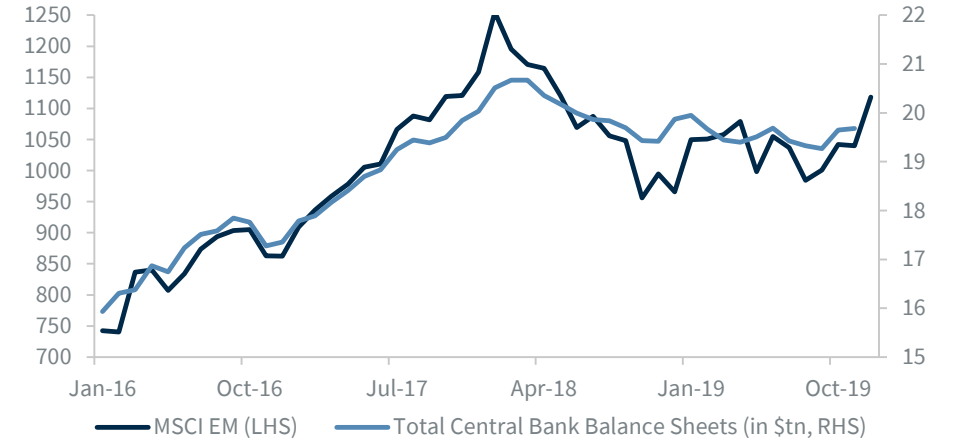
EM Growth Rebound Favors EM Equities



60%

Concentration Within
Our Overweight
Sectors

EM Benefits from Accommodative Central Banks



Valuations Attractive for EM





9 Dollar & Commodities

A Panoramic View of the Dollar and Oil

INSIGHT:

The dollar is unlikely to continue its longstanding rally as the Fed remains on hold, US economic growth differentials shrink, and interest rate differentials narrow. Oil is likely to rally modestly on favorable supply/demand dynamics.

BOTTOM LINE:

The dollar is likely to stabilize and decline slightly over the next twelve months, particularly versus the euro. Oil should continue to grind higher as global demand continues to grow in the face of a reduction of production growth by US oil producers.

A PANORAMIC VIEW OF THE DOLLAR AND OIL



\$65/Bbl

2020 WTI Crude Estimate



1.15

2020 EUR/USD Target



8 out of 10

Number of Years the US Dollar Has Rallied

THE LONGEST DOLLAR BULL MARKET APPEARS TO BE LOSING ITS MOMENTUM

- Taking a long-term perspective, the US dollar has been stable over the last four years.
- Following a long range-bound trading range, the US dollar is likely to trade lower based on unfavorable fundamentals.



A PANORAMIC VIEW OF THE DOLLAR AND OIL

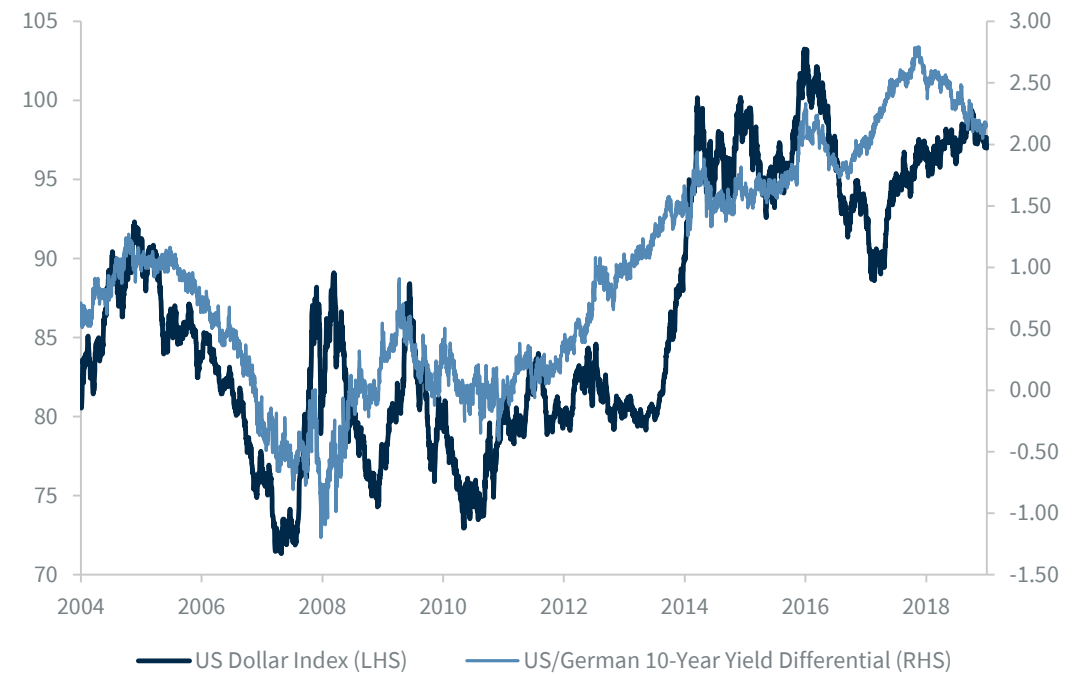
DOLLAR HEADWINDS GOING FORWARD

- Rising twin deficits (falling capital account in conjunction with a fiscal deficit) have historically been a headwind for the dollar. As the US capital account declines also with an increasing fiscal budget deficit, this should hamper dollar strength.
- Additionally, falling interest rate differentials should limit further dollar strength going forward.

Twin Deficits a Headwind for Dollar Strength



Interest Rates Differentials Narrowing

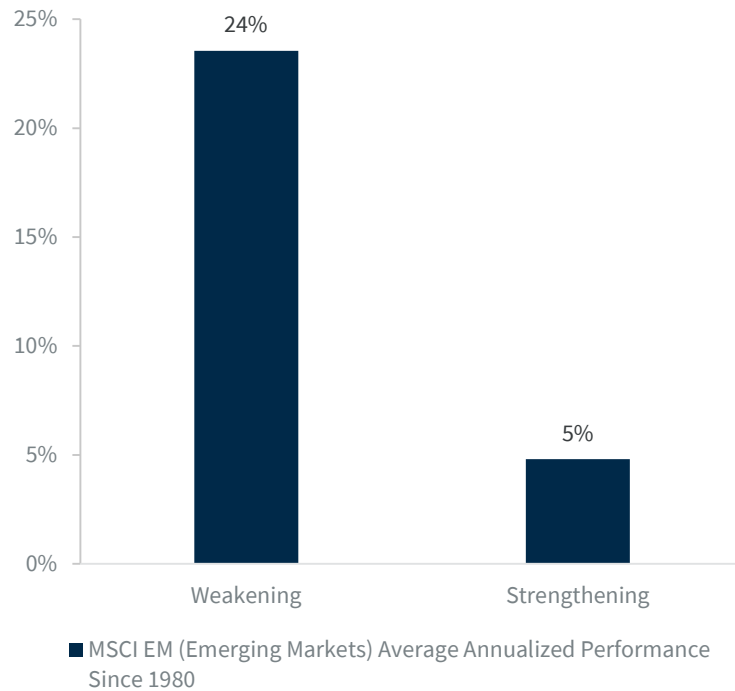


A PANORAMIC VIEW OF THE DOLLAR AND OIL

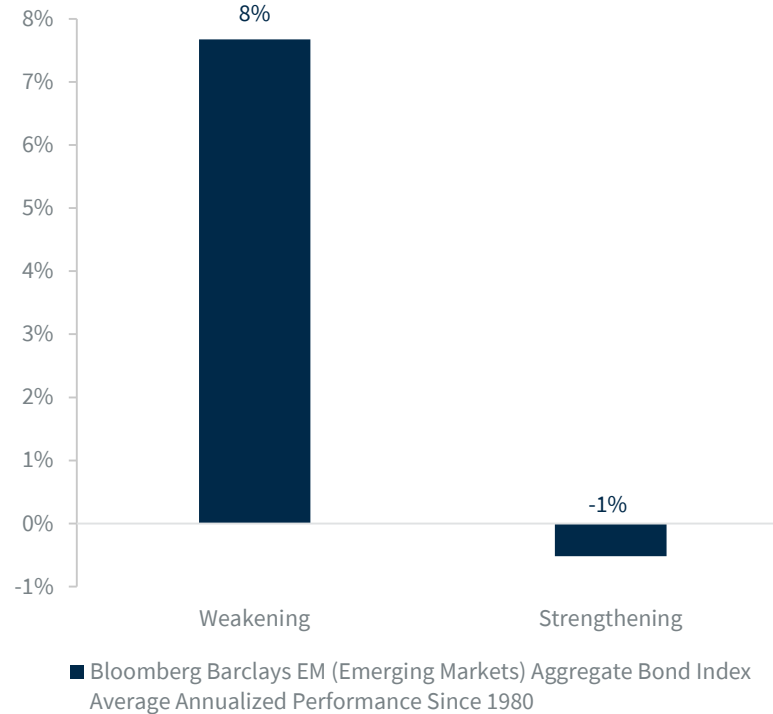
THE IMPACT OF THE US DOLLAR ON VARIOUS ASSET CLASSES

- Given their negative correlation to the US dollar, EM equities, EM bonds, and commodities should benefit from our expectation of a slight weakening in the dollar over the next 12 months.

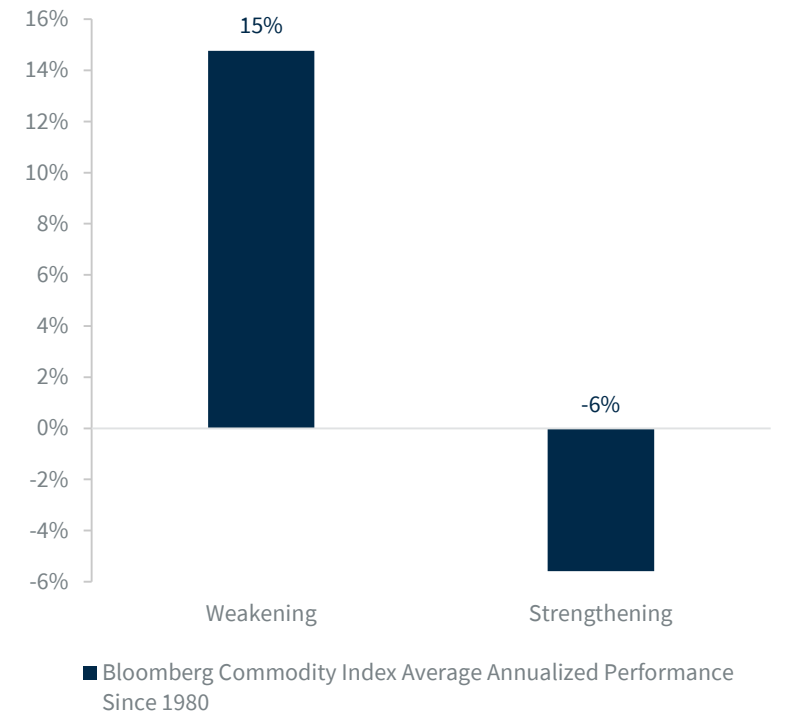
Impact of Dollar Direction on EM Equities



Impact of Dollar Direction on EM Bonds



Impact of Dollar Direction on Commodities

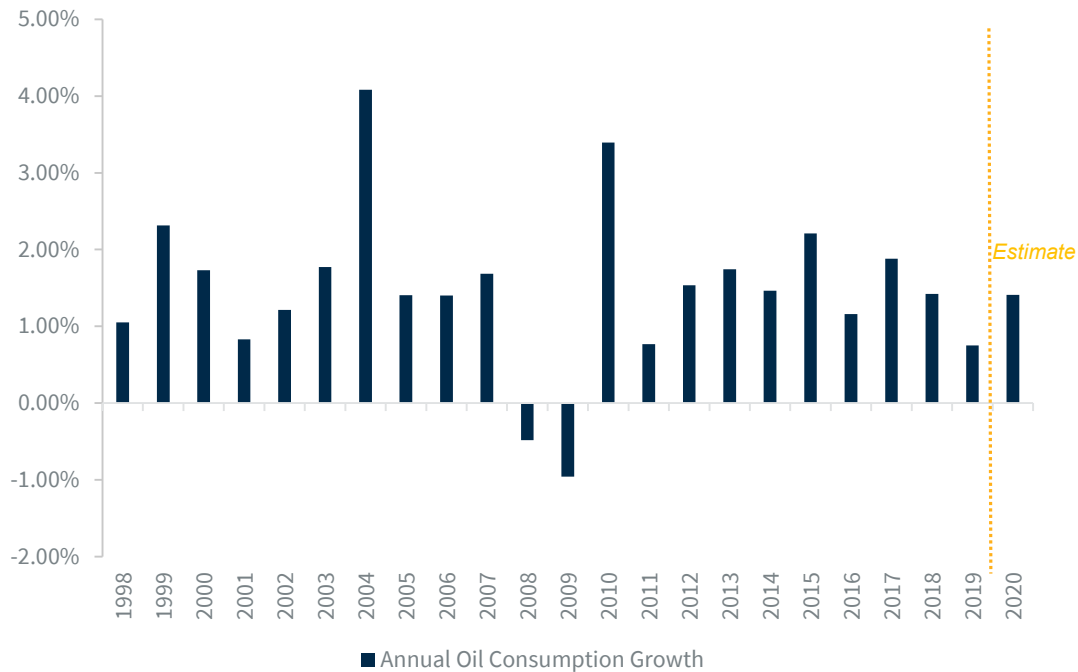


A PANORAMIC VIEW OF THE DOLLAR AND OIL

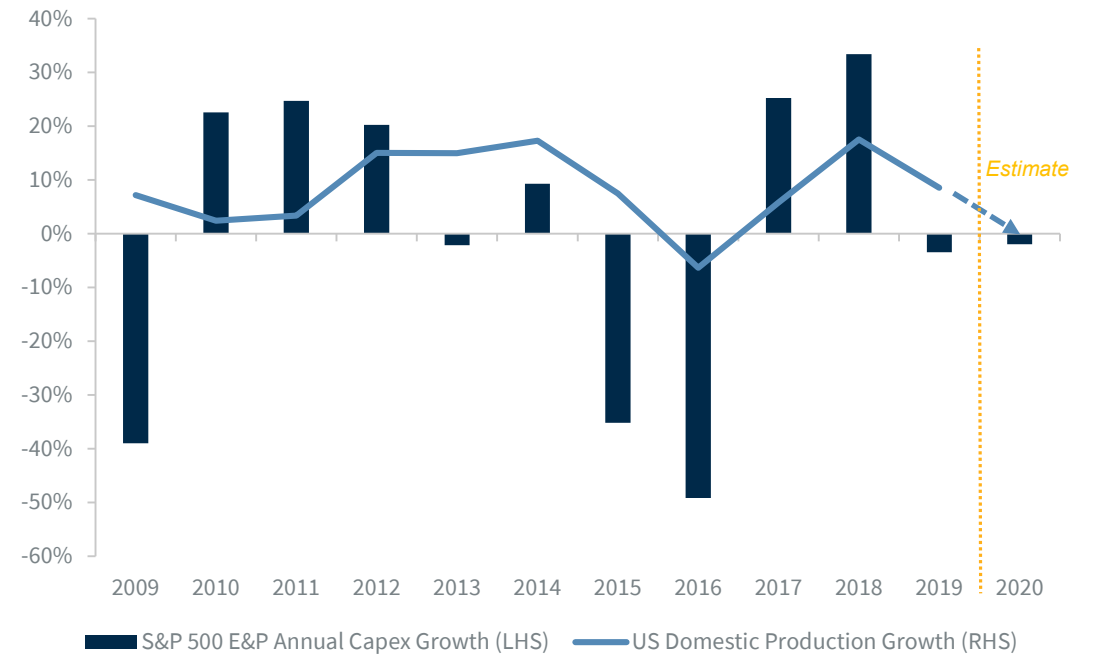
OIL TO BENEFIT FROM IMPROVING DEMAND AND REDUCED CAPEX

- A turnaround in global growth should support global oil demand, with growth dipping to its lowest level since 2011 in 2019.
- Crude oil should also benefit from slowing US production growth, as US production growth should decline alongside slowing capital expenditures from US energy companies.

Global Oil Demand Growth to Accelerate



Reduced E&P Capex to Limit US Production Growth





10 Market Volatility

Volatility is Hiding in Plain Sight

INSIGHT:

Economic and political uncertainty remain elevated; however, investors have become complacent and are overly optimistic about favorable outcomes. Even marginal disappointments are likely to increase volatility.

BOTTOM LINE:

We expect volatility to be elevated over the next 12 months as we move through the latter stages of the business cycle and the 2020 election. Asset allocation remains critical to portfolio performance. Investors should maintain their long-term investment strategies.

HIDING IN PLAIN SIGHT



95%

No Recession in 2020



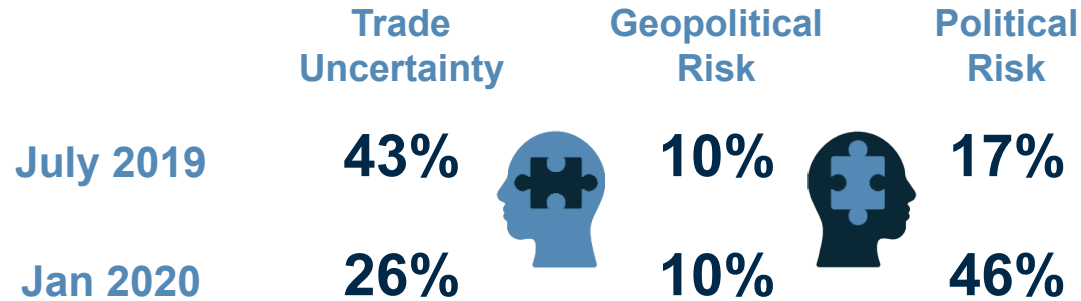
86%

Trump Reelected

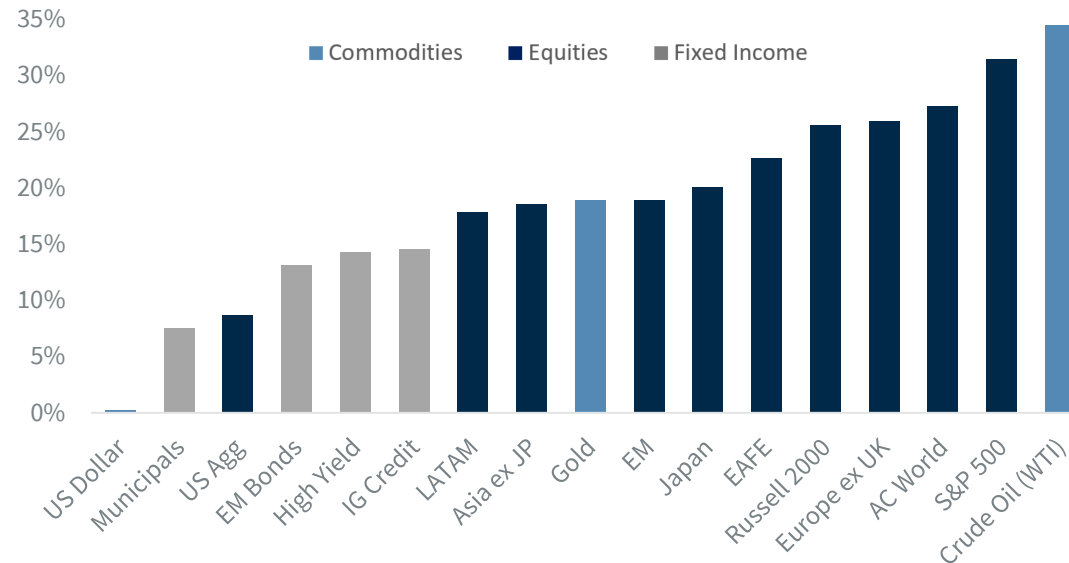


78%

Active Managers Will Outperform



2019 Asset Class Performance



3,443

S&P 500 Year-End 2020



82%

Favorite Equity Sector: Technology



80%


Favorite Asset Class: Equities


HIDING IN PLAIN SIGHT


TWEETER-IN-CHIEF

- President Trump oftentimes announces major policy decisions through Twitter, bringing significant attention to his Twitter account.
- However, President Trump often struggles to stay on message as a large percentage of his tweets are not policy related.

	October	November	December	4Q19
Total Tweets	598	410	443	1,451
% Policy Related	14%	4%	9%	10%

 **Donald J. Trump** @realDonaldTrump
 I think that Crooked Hillary Clinton should enter the race to try and steal it away from Uber Left Elizabeth Warren. Only one condition. The Crooked one must explain all of her high crimes and misdemeanors including how & why she deleted 33,000 Emails AFTER getting "C" Subpoena!

 **Donald J. Trump** @realDonaldTrump
 Where is Hunter Biden? He has disappeared while the Fake News protects his Crooked daddy!

 **Donald J. Trump** @realDonaldTrump
 Nancy Pelosi needs help fast! There is either something wrong with her "upstairs," or she just plain doesn't like our great Country. She had a total meltdown in the White House today. It was very sad to watch. Pray for her, she is a very sick person!

 **Donald J. Trump** @realDonaldTrump


 **Donald J. Trump** @realDonaldTrump
 So ridiculous. Greta must work on her Anger Management problem, then go to a good old fashioned movie with a friend! Chill Greta, Chill!

 **Donald J. Trump** @realDonaldTrump
 Too bad. We will miss you Kamala!

 **Donald J. Trump** @realDonaldTrump
 New Stock Market high! I will never get bored of telling you that – and we will never get tired of winning!

 **Donald J. Trump** @realDonaldTrump
 I look very much forward to debating whoever the lucky person is who stumbles across the finish line in the little watched Do Nothing Democrat Debates. My record is so good on the Economy and all else, including debating, that perhaps I would consider more than 3 debates.....

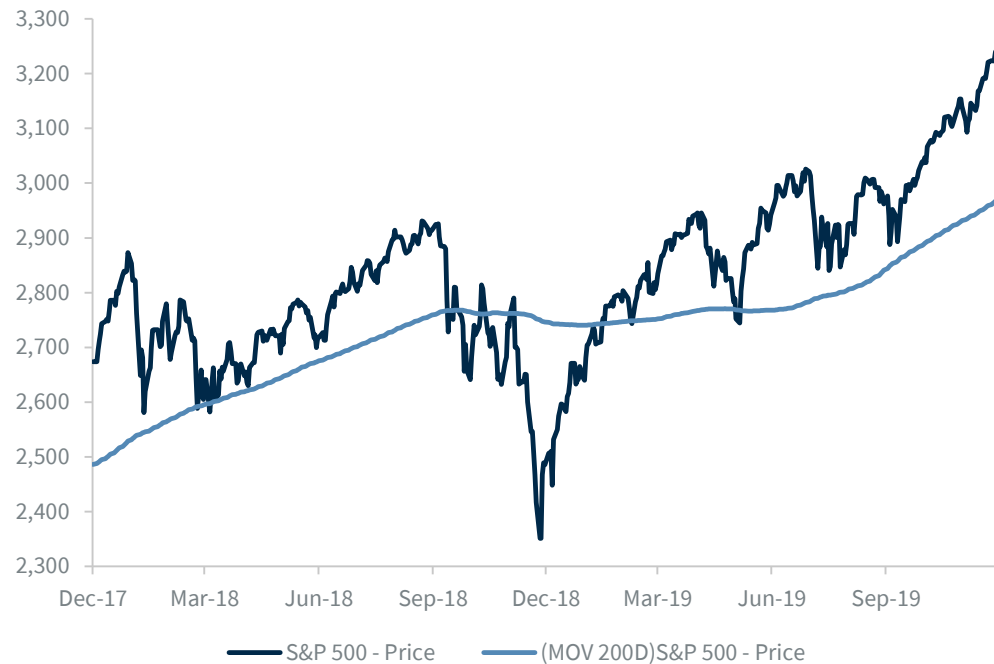
 **Donald J. Trump** @realDonaldTrump


HIDING IN PLAIN SIGHT

DESPITE SHARP SWINGS SINCE LAST SEPTEMBER, THE S&P 500 HAS MOVED HIGHER.

- While the S&P 500 oftentimes experiences volatile swings intra-year, when looking at a longer-term historical perspective (200-day moving average for example), price action is much more stable.
- The S&P 500 experienced two 5% pullbacks during 2019, which was below the historical average of four.

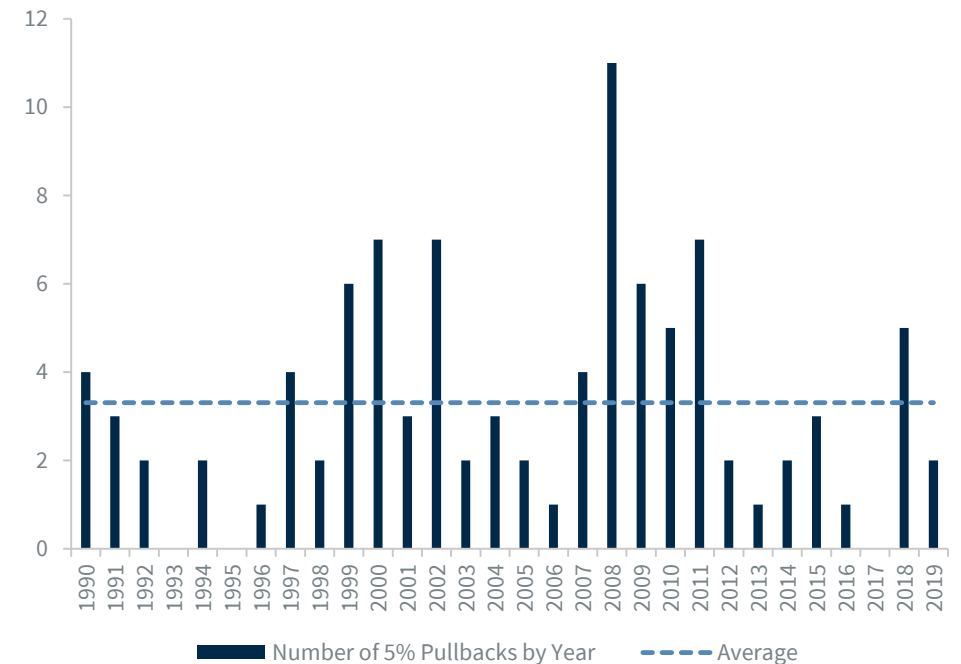
S&P 500 vs 200-Day Moving Average



~4

Number of 5% S&P 500
Pullbacks, on Average,
Annually

5% Pullbacks by Year

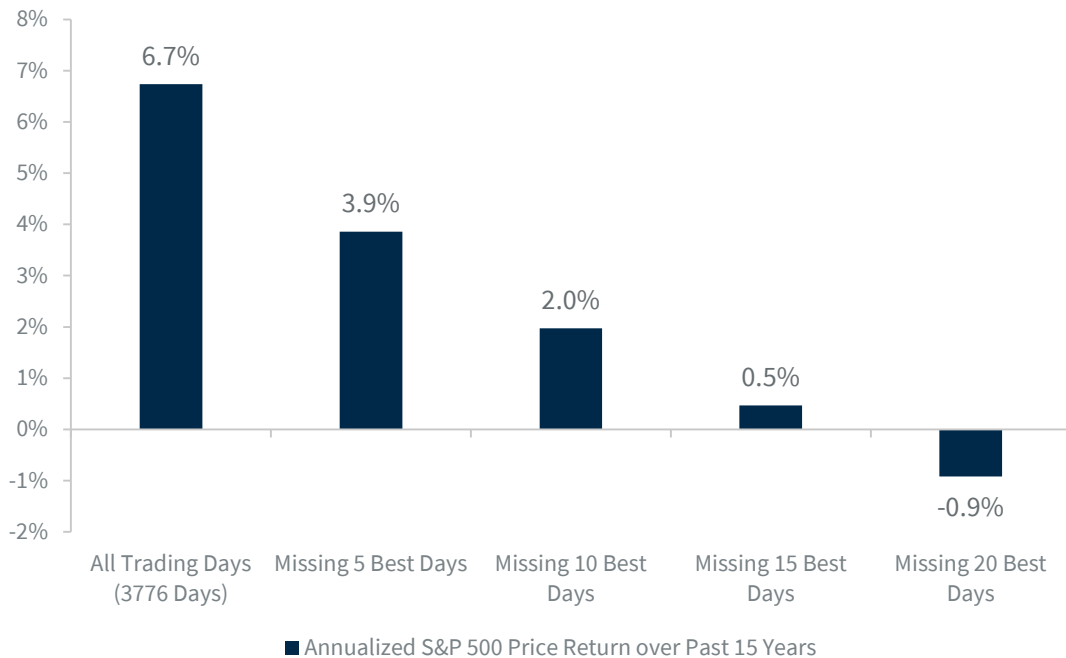


HIDING IN PLAIN SIGHT

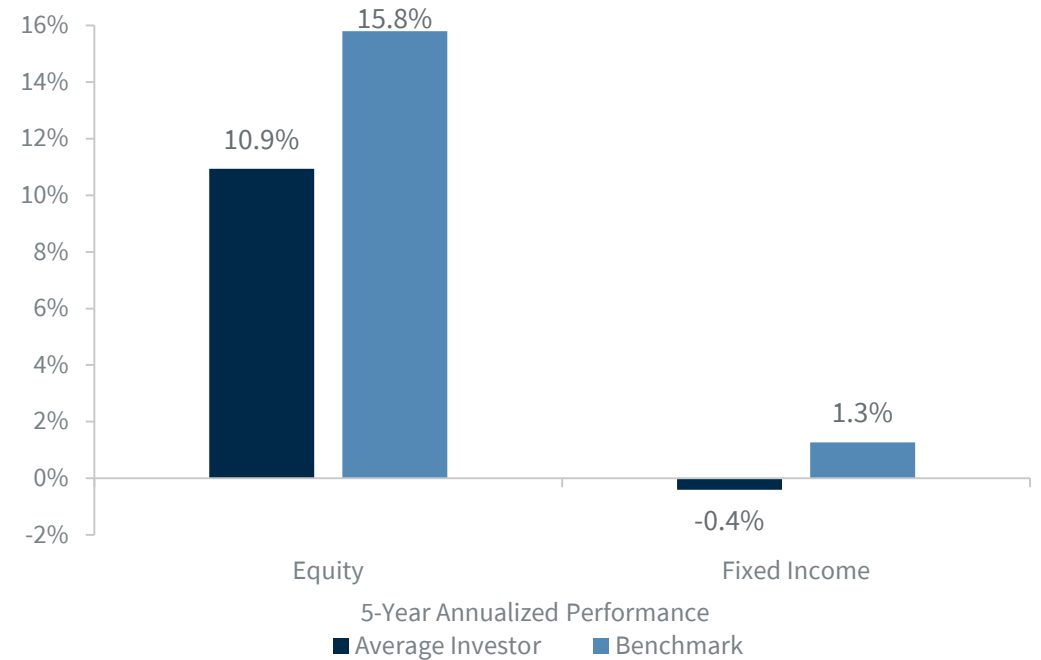
AVERAGE INVESTORS TEND TO UNDERPERFORM THEIR RESPECTIVE BENCHMARKS

- Average investors typically underperform their respective benchmarks, as a recent DALBAR study reflected that the average equity investor underperformed their respective benchmark by ~500 bps on an annualized basis.
- This underperformance may be due to investors trying to time the market. If you missed the best 10 days over the past 15 years, an equity investor would have underperformed the S&P 500 by ~470 bps on an annualized basis relative to being invested over that entire 15-year time horizon.

Annualized 15-Year Performance if Top Days Missed



Average Investor Historically Underperforms the Market



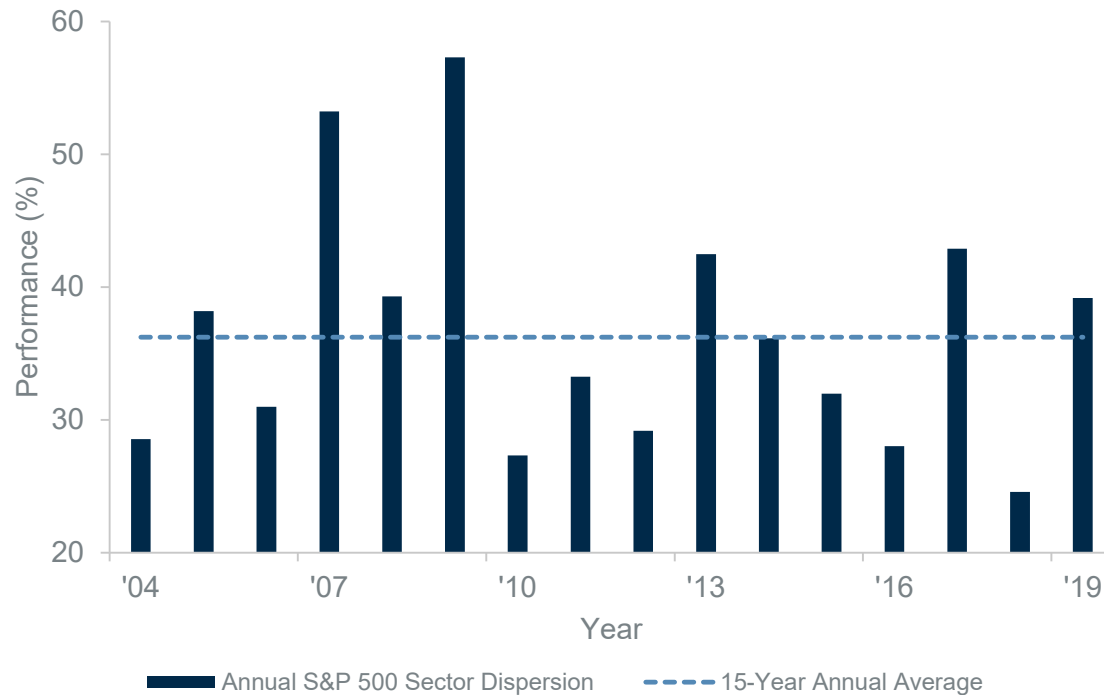
Source: 2018 DALBAR study

HIDING IN PLAIN SIGHT

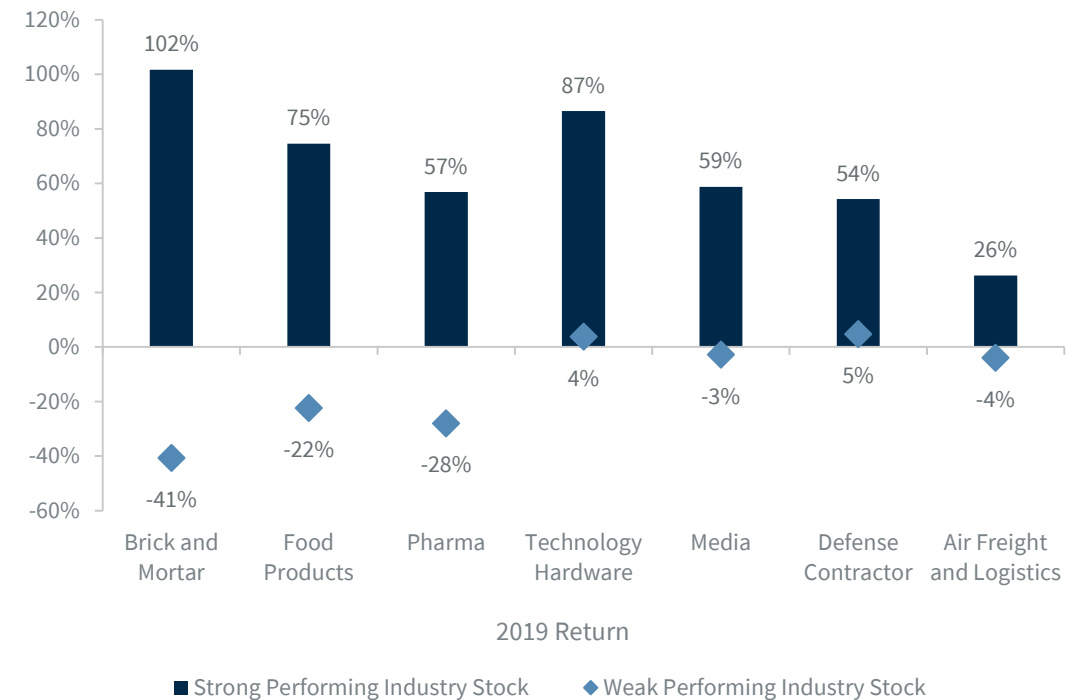
DESPITE BELOW AVERAGE PULLBACKS IN 2019, SELECTIVITY REMAINS CRITICAL

- While all sectors were positive in 2019, sector dispersion rose significantly in 2019 and was above the previous 15-year average. Intra-industry dispersion was even higher, as a number of different industries saw heightened dispersion throughout the year.
- As we expect volatility to be elevated in 2020, selectivity will be critical as dispersion will likely remain high.

Dispersion Widens in 2019



Intra-Sector Dispersion Even Wider



SUMMARY | VIEWS AND KEY 2020 YEAR-END TARGETS

1 ECONOMY Keeping a Close Eye on the Economy

2020 US GDP: 1.8%

The US economy continues its record long expansion with only a small probability of recession over the next 12 months. US economic growth will continue to be driven by strength in the consumer. Focus on real-time indicators as we near election for any potential post-election weakness.

2 BOND MARKET Looking Through the Magnifying Glass

2020 10-Year Treasury: 1.75%

Treasury yields should remain below 2% for the next 12 months on the back of declining inflation expectations, increasing global demand, and favorable demographic conditions. Continue to favor investment-grade and EM bonds over high-yield bonds.

3 EQUITIES See the Bigger Picture

2020 S&P 500: 3,400

Solid economic growth, a rebound in earnings growth, fair valuations, healthy corporate activity, and low interest rates support equities. Earnings will be the primary driver of equity prices rather than P/E expansion. Favorite sectors include Tech, Communication Services, Industrials, Financials and Health Care. Internationally, favor EM.

4 DOLLAR DIRECTION A Panoramic View

2020 EUR/USD: 1.15

The dollar is unlikely to continue its longstanding rally as the Fed remains on hold, US economic growth differentials shrink and interest rate differentials narrow. The dollar is likely to stabilize and decline slightly over the next twelve months, particularly versus the euro.

5 OIL Focus on Favorable Supply/Demand Dynamics

2020 WTI: \$65/bbl

Oil should continue to grind higher as global demand continues to grow (the 11th year in a row) in the face of a reduction of production growth by US oil producers, continued OPEC production cuts, and new global emission standards for marine transportation that take effect in January 2020.

6 INCREASED VOLATILITY Volatility is Hiding in Plain Sight

Volatility: ↑

We expect volatility to be elevated over the next 12 months as we move through the latter stages of the business cycle and the 2020 election. Asset allocation remains critical to portfolio performance. Investors should maintain their long-term investment strategies. An uptick in volatility and an emphasis on selectivity should help active managers outperform.

2019 IN REVIEW | GRADING OUR 2019 TEN THEMES

	Themes	Rationale	Grade
1	US Economy Notches Record Eclectic Expansion: US expansion to notch the longest on record and continue to grow at an above-trend (albeit slower) pace.	Driven by robust consumer spending, the US economy grew for four consecutive quarters and set the longest expansion on record.	
2	Fed Policy - One Step at a Time: Fed will remain “data-dependent” and flexible as inflation is contained and growth challenges mount.	A ‘patient’ Fed cut interest rates three times throughout 2019 to recalibrate monetary policy and reinvigorate the economy and markets.	
3	Increased Volatility – On the Edge: Volatility will increase throughout as a result of elevated geopolitical risks and global growth concerns.	Along with the global economic policy uncertainty rising to the highest level on record, sector and stock dispersion rose from 2018.	
4	Fixed Income – Bearing Down on Bonds; Cashing In: Yields will modestly rise in 2019 but be contained below 3.50%. Favor IG and EM over high yield.	While Treasury yields retreated more than originally anticipated, our preferred credit sectors (IG and EM) were up double digits in 2019.	
5	Equities – Mind the ‘E’ Gap: Strong economic fundamentals with still positive earnings growth will lead to strong equity gains in 2019.	US equities were up ~32% throughout 2019 and posted their best year of equity returns since 2013.	
6	Equity Sectors – Biased to Cyclical Sectors: Favor cyclicals over defensives as above trend economic growth supports cyclical sectors.	Cyclicals outperformed defensive sectors as Info Tech, Industrials and Communication Services were the three best performing sectors.	
7	International Equities – International Intrigue Emerging: Favor US over other developed market equities; Favor EM over DM.	While the US continued to outperform developed market equities, EM underperformed DM.	
8	FX – Dynamite Dollar Dynamic Drying Up: A less aggressive Fed, less upside potential for US economic growth and rising twin deficits limit dollar strength.	While the US dollar rose due to stronger US economic growth and higher sovereign rates, the rise was limited due to a more dovish Fed.	
9	Crude Oil – Leaping Higher: Oil prices to rise due to OPEC production cuts, US production growth slowing and structural changes (IMO 2020).	Crude oil prices rose more than 30% in 2019, but the rise in prices was limited due to still elevated US production.	
10	Technology – A Sustainable Revolution: The continued revolution in the sector will drive earnings and continue its leadership for market performance.	The Technology sector (+50%) was the best performing sector and posted its best yearly gain since 2009 in 2019.	
2019 Ten Themes Grade			90%

INVESTMENT STRATEGY GROUP

Lawrence V. Adam III

Managing Director, Chief Investment Officer

T. 410.525.6217

larry.adam@raymondjames.com

Scott Brown

Senior Vice President, Chief Economist

T.727.567.2603

scott.j.brown@raymondjames.com

J. Michael Gibbs

Managing Director, Equity Portfolio & Technical Strategy

T. 901.579.4346

michael.gibbs@raymondjames.com

Anne B. Platt

Vice President, Investment Strategy & Product Positioning

T. 727.567.2190

anne.platt@raymondjames.com

Matt Barry

Investment Strategy Analyst

T. 410. 525. 6228

matt.barry@raymondjames.com

Liz Colgan

Investment Strategy Analyst

T. 410.525.6232

liz.colgan@raymondjames.com

Giampiero Fuentes

Investment Strategy Analyst

T. 727.567.5776

giampiero.fuentes@raymondjames.com

Taylor Krystkowiak

Investment Strategy Analyst

T. 727.567.2211

taylor.krystkowiak@raymondjames.com

Mitch Clayton

Senior Technical Analyst

T.901.524.4313

mitch.clayton@raymondjames.com

Kevin Giddis

Chief Fixed Income Strategist

T.901.578.4769

kevin.giddis@raymondjames.com

Joey Madere

Senior Portfolio Analyst

T.901.529.5331

joey.madere@raymondjames.com

Richard Sewell

Senior Portfolio Analyst

T.901.524.4194

richard.sewell@raymondjames.com

SOCIAL MEDIA



**FOLLOW OUR CIO
ON TWITTER**

#LARRYADAMRJ

DISCLOSURES

The views expressed in this commentary are the current opinion of the Chief Investment Office, but not necessarily those of Raymond James & Associates, and are subject to change. Information contained in this report was received from sources believed to be reliable, but accuracy is not guaranteed. Past performance is not indicative of future results. No investment strategy can guarantee success. There is no assurance any of the trends mentioned will continue or that any of the forecasts mentioned will occur. Economic and market conditions are subject to change. Investing involves risks including the possible loss of capital. Material is provided for informational purposes only and does not constitute a recommendation. Asset allocation do not ensure a profit or protect against a loss.

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Investing in emerging markets can be riskier than investing in well-established foreign markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

DESIGNATIONS

Certified Financial Planner Board of Standards Inc. owns the certification marks CFP® and CERTIFIED FINANCIAL PLANNER™ in the U.S.

Investments & Wealth Institute™ (The Institute) is the owner of the certification marks “CIMA” and “Certified Investment Management Analyst.” Use of CIMA and/or Certified Investment Management Analyst signifies that the user has successfully completed The Institute's initial and ongoing credentialing requirements for investment management professionals.

FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg Barclays US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg Barclays US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

US DOLLAR | The U.S. Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" (value) when compared to other currencies.

200 DAY MOVING AVERAGE | The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days

US INDEXES AND EQUITY SECTORS DEFINITION

S&P 500 | The **S&P 500 Total Return Index**: The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

RUSSELL 2000 | **Russell 2000 Total Return Index**: This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index**: The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index**: This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

GERMAN BUND | A bund is a debt security issued by Germany's federal government, and it is the German equivalent of a U.S. Treasury bond.

SMALL CAP | Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks.

LARGE-CAP STOCK | also known as big caps are shares that trade for corporations with a market capitalization of \$10 billion or more. Large-cap stocks tend to be less volatile during rough markets as investors fly to quality and stability and become more risk-averse

MSCI AC WORLD EX-US | **The MSCI AC ex USA** Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries*. With 2,215 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

LATAM | **MSCI EM Latin America Net Return Index**: The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

ASIA EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index**: The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index**: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

COMMODITIES DEFINITION

BLOOMBERG BARCLAYS COMMODITY INDEX | Bloomberg Barclays Commodity Index is a commodity group sub index of the Bloomberg CTR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

BLOOMBERG BARCLAYS EMERGING MARKETS AGGREGATE BOND INDEX | The Bloomberg Barclays Emerging Markets Aggregate Bond Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

DATA SOURCES:

FactSet and Bloomberg.

INTERNATIONAL DISCLOSURES

[FOR CLIENTS IN THE UNITED KINGDOM](#) | For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients. [FOR CLIENTS OF RAYMOND JAMES INVESTMENT SERVICES, LTD.](#): This document is for the use of professional investment advisers and managers and is not intended for use by clients. [FOR CLIENTS IN FRANCE](#) | This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monetaire et Financier" and Reglement General de l'Autorite des marches Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients. [FOR CLIENTS OF RAYMOND JAMES EURO EQUITIES](#) | Raymond James Euro Equities is authorised and regulated by the Autorite de Controle Prudentiel et de Resolution and the Autorite des Marches Financiers. [FOR INSTITUTIONAL CLIENTS IN THE EUROPEAN ECONOMIC AREA \(EE\) OUTSIDE OF THE UNITED KINGDOM](#) | This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted. [FOR CANADIAN CLIENTS](#) | This document is not prepared subject to Canadian disclosure requirements, unless a Canadian has contributed to the content of the document. In the case where there is Canadian contribution, the document meets all applicable IIROC disclosure requirements.

DATA SOURCES:

FactSet and Bloomberg.

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER

880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863

RAYMONDJAMES.COM

Investment products are: not deposits, not FDIC/NCUA insured, not insured by any government agency, not bank guaranteed, subject to risk and may lose value.

© 2020 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. © 2020 Raymond James Financial Services, Inc., member FINRA/SIPC.

Raymond James® is a registered trademark of Raymond James Financial, Inc.