

Please refer to Appendix – Important Disclosures.

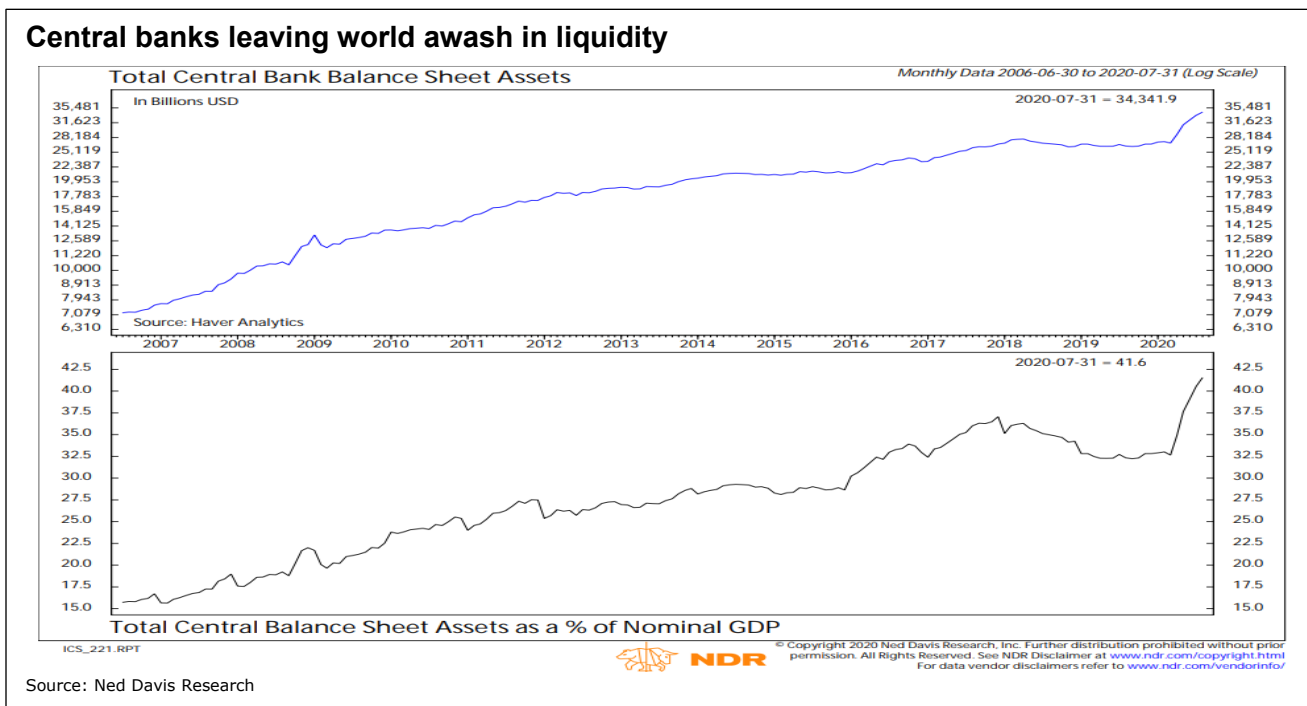
**Mixed Macro Messages Provide Unclear Path for Stocks**

- Key Takeaways:**
- Federal Reserve policy remains a bullish backstop for stocks
  - Economy struggling to sustain momentum of initial recovery
  - Stocks fairly valued relative to bonds but far from cheap on absolute basis

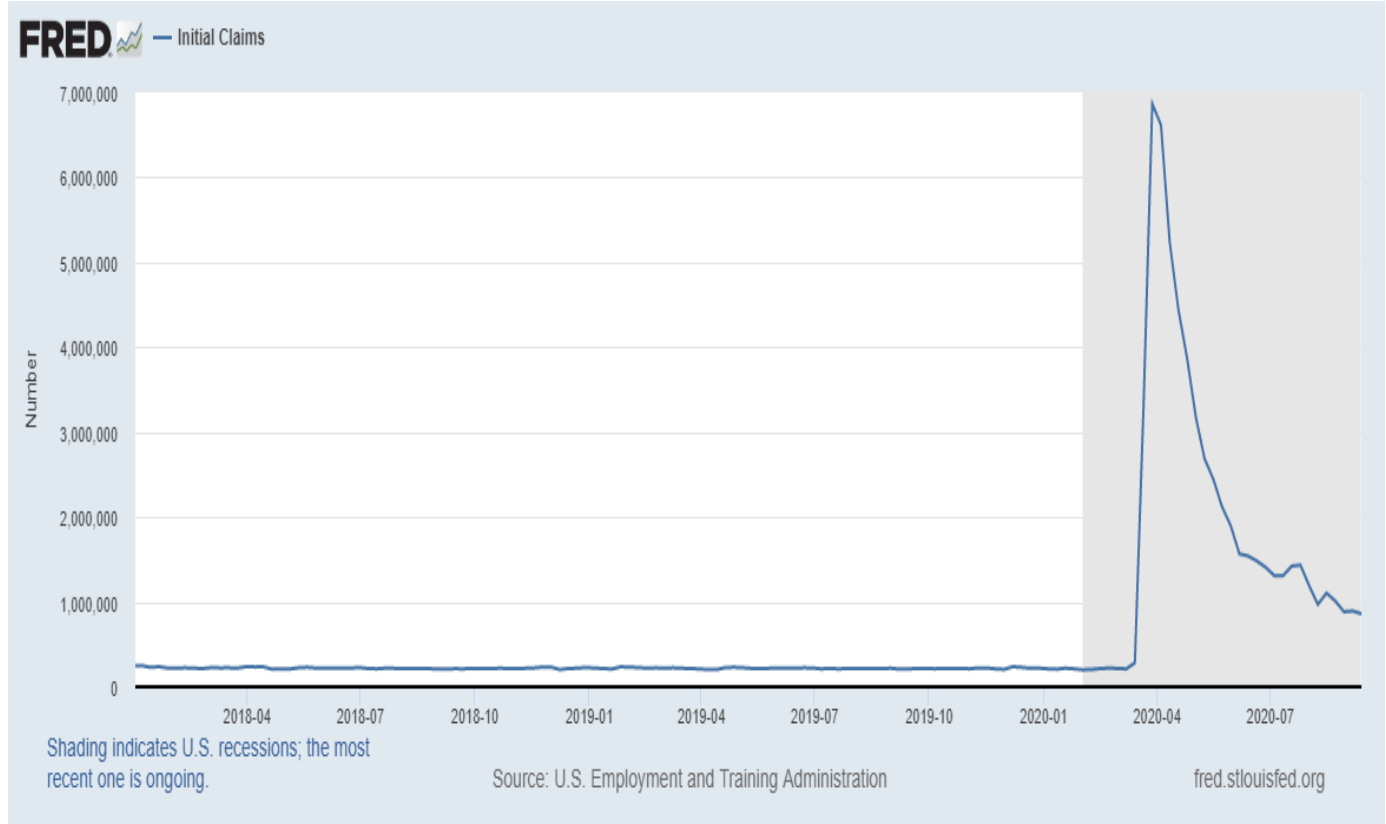
Fiscal authorities debate the merits of further stimulus and are having trouble reaching consensus. This has not been a problem for central banks. The most recent interest rate change for 97% of global central banks has been to cut (the exception, Sweden, abandoned negative rates in early 2020). Total global central bank balance sheet assets have soared to more than 40% of GDP, doubling in just over a decade. In the US, the FOMC is making clear that interest rates will be low for an extended period of time even if inflation picks up.

The question of additional fiscal stimulus in the US is being framed by political rather than policy interests. This comes at a critical time for the economy, which is seeing the initial momentum of the recovery stall and the path for growth going forward becoming rockier. Initial jobless claims remain at historically high levels that are not consistent with sustained economic strength. While some degree of uncertainty is always present, elevated uncertainty (stimulus, COVID, elections – pick the source) can weigh on confidence and hamper recovery efforts.

Fed-supplied liquidity has supported a recovery in stock prices that has not been matched by economic fundamentals. This is not uncommon at this point in the cycle, but a failure for fundamental improvement to emerge later this year could leave stocks struggling under the weight of stretched valuations. For now we have valuations at neutral in our [weight of the evidence](#) framework given how stocks are priced relative to corporate bonds. On an absolute basis neither stocks nor bonds appear cheap. Goods and services inflation may be subdued, but the same cannot be said about asset prices overall.

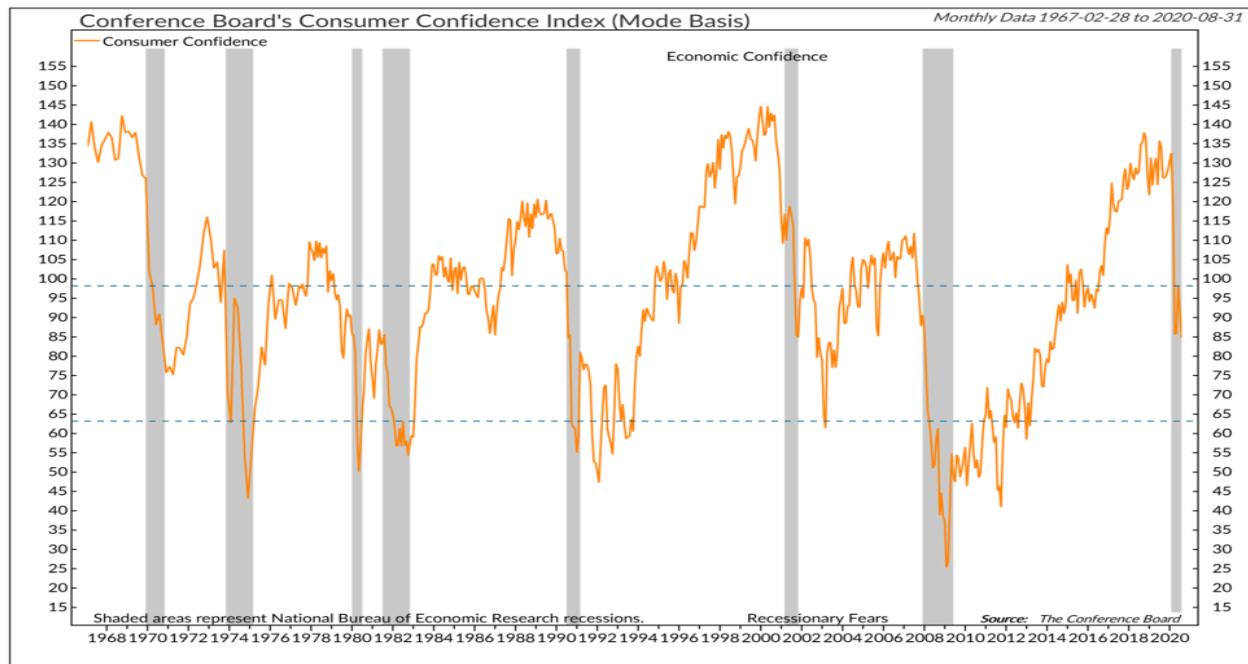


### Jobless claims are still high by non-2020 standards as economic recovery remains uneven



Source: St. Louis Federal Reserve

### Uncertainty weighing on confidence could slow the pace of the economic recovery



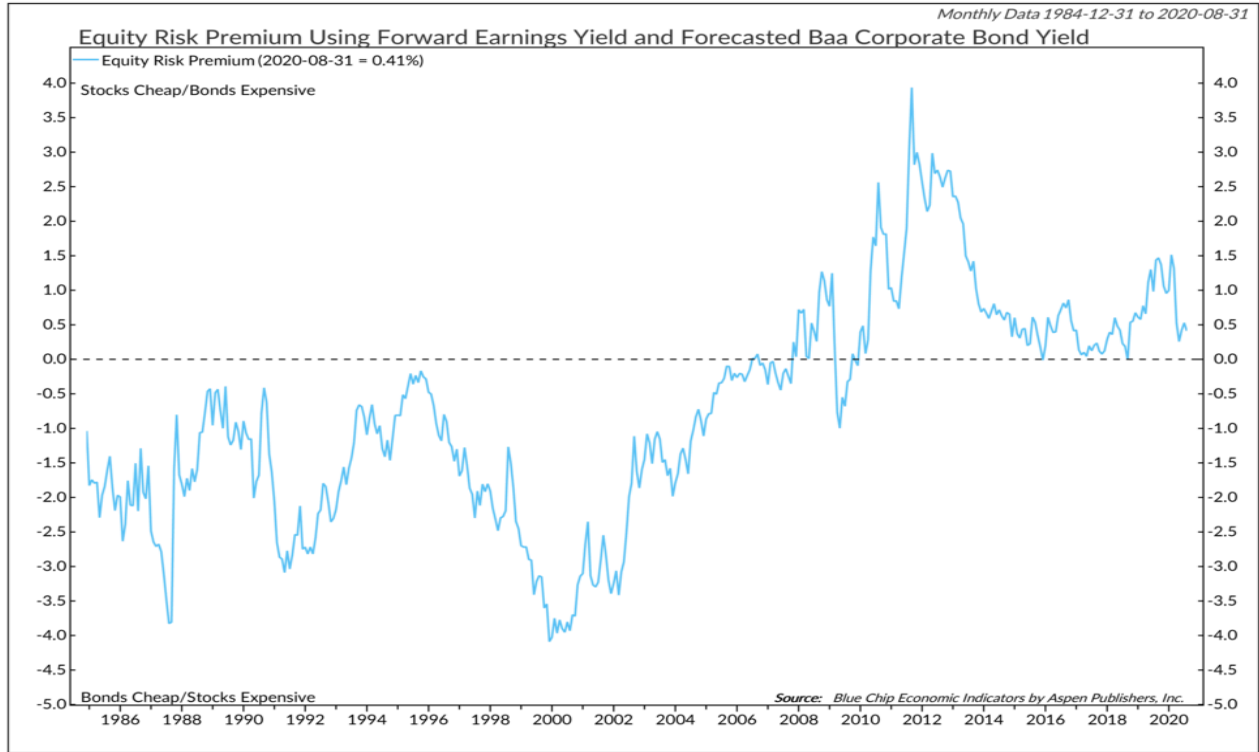
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Source: Ned Davis Research

### Relative to corporate bonds yields, stocks are near fair value



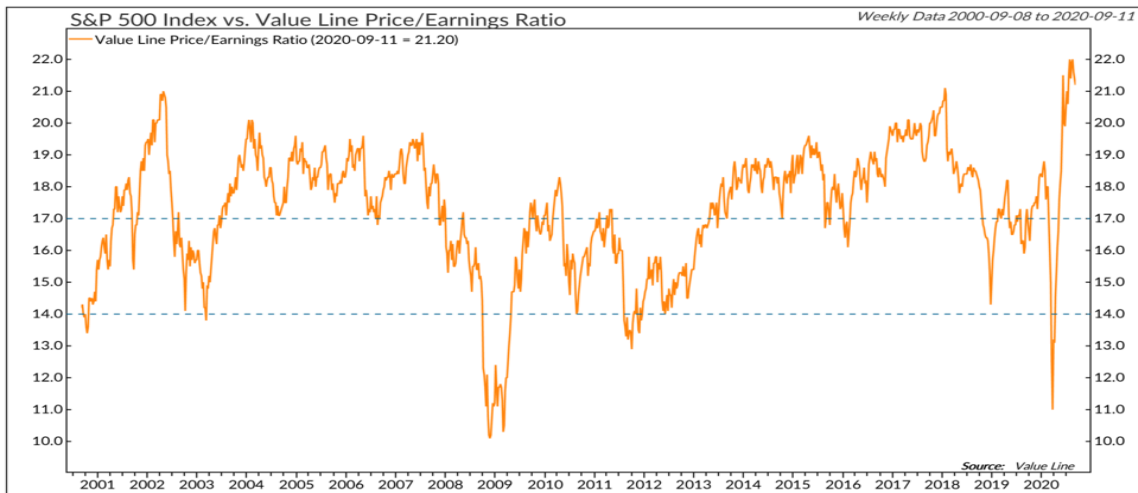
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Source: Ned Davis Research

### P/E ratios do not suggest stocks are a good long-term value as currently priced



S&P 500 Index Performance		
Full History: 1980-05-23 to 2020-09-11		
Value Line P/E Ratio is	% Gain/Annum	% of Time
Above 17.0	1.46	34.24
14.0 - 17.0	8.26	38.37
Below 14.0	19.62	27.39
Buy/Hold = 8.82% Gain/Annum		

S&P 500 Index Performance		
Chart View: 2000-09-08 to 2020-09-11		
Value Line P/E Ratio is	% Gain/Annum	% of Time
Above 17.0	0.69	61.89
14.0 - 17.0	3.13	32.84
Below 14.0	63.12	5.27
Buy/Hold = 4.10% Gain/Annum		

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Source: Ned Davis Research

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