

# Q4 2018 Tactical Update

November 12, 2018

Please refer to Appendix – Important Disclosures.

*In this piece, we provide a series of near-term tactical calls within the context of the current message from the Weight of the Evidence and our other tactical indicators. Operating from this premise, we offer a series of tactical allocation calls, beginning with a macro call on stocks versus bonds versus cash. On the next page, these calls are further distilled. For example, we make distinctions from a size, style and sector perspective for domestic equities, and suggest tilts toward or away from the various satellite asset classes. These calls are made in light of the long-term outlook and summarize our expectations for the coming quarter.*

## The Weight of the Evidence (as of October 31): **-1 (Cautious)**

### MACRO FACTORS (WHAT COULD HAPPEN):

#### FED POLICY



#### ECONOMIC FUNDAMENTALS



#### VALUATIONS



### MARKET FACTORS (WHAT IS HAPPENING):

#### SENTIMENT



#### SEASONAL PATTERNS AND TRENDS



#### BREADTH



Tactical Investment Decision	Baird's Call <sup>1</sup>	Date of First Call <sup>2</sup>	Level of Conviction <sup>3</sup>	Rationale
<b>Stocks vs. Bonds vs. Cash?</b>	Cash over Stocks and Bonds	Q2 18	High	<ul style="list-style-type: none"> <li>Improving seasonal trends are offset by deteriorating momentum and poor rally participation.</li> <li>We would get more constructive on stocks if we were to see evidence that a sustainable low is in place.</li> </ul>

<sup>1</sup> Tactical over- or under-weight relative to Baird's strategic asset allocation models. Please ask your Baird advisor for more information on the strategic model most applicable to you.

<sup>2</sup> Date when Baird first made this call.

<sup>3</sup> Level of conviction in the tactical investment call: low, medium, high.

Tactical Investment Decision	Baird's Call <sup>1</sup>	Date of First Call <sup>2</sup>	Level of Conviction <sup>3</sup>	Notes
<b>Domestic Stocks: Size</b>	Large-Caps Over Mid-Caps and Small-Caps	Q3 18	High	<ul style="list-style-type: none"> <li>Large-caps remain in a leadership position.</li> <li>Seasonals point to small-cap leadership but industry group trends do not yet show that developing in meaningful way.</li> </ul>
<b>Domestic Stocks: Style</b>	Value Over Growth	Q2 18	Low	<ul style="list-style-type: none"> <li>Crowded Growth trend appears to be unwinding.</li> <li>Price and momentum trends continue to shift toward Value.</li> </ul>
<b>Domestic Stocks: Sector</b>	Health Care Consumer Staples Financials	Q2 18 Q3 18 Q4 18	Medium	<ul style="list-style-type: none"> <li>Value leadership trends showing up in sector-level relative strength rankings.</li> <li>Financials trying to establish a relative bottom after losing strength for much of 2018.</li> </ul>
<b>Global Stocks: Region</b>	Emerging Markets Pacific ex Japan	Q4 18 Q4 18	Medium	<ul style="list-style-type: none"> <li>Both areas heating up after sustained relative down-trends, both price and momentum starting to improve.</li> <li>With trends moving in their favor, the focus can shift toward their relative valuation advantages.</li> </ul>
<b>Global Stocks: Developed vs. Emerging Markets</b>	Emerging Markets	Q4 18	Low	<ul style="list-style-type: none"> <li>Price trends shifting in favor of emerging markets following improving momentum backdrop.</li> <li>Favorable growth and valuations could keep this going.</li> </ul>
<b>Global Developed Stocks: Domestic vs. International</b>	International	Q4 18	Low	<ul style="list-style-type: none"> <li>Trend favoring U.S. leadership has stalled and momentum in that direction has deteriorated.</li> <li>Relative leadership from international stocks could build if U.S. prices catch down to global weakness.</li> </ul>
<b>Bonds: Treasury vs. Spread Product</b>	Treasuries	Q4 18	Low	<ul style="list-style-type: none"> <li>After trend toward narrowing, yield spreads starting to widen again, which could mean underperformance by corporates.</li> </ul>
<b>Bonds: Intermediate vs. Short-Term</b>	Short-Term	Q4 18	Medium	<ul style="list-style-type: none"> <li>Bond market is seeing upward pressure on yields.</li> <li>Yields did not give up much even when stocks struggled in October and have been quick to rebound.</li> </ul>
<b>Bonds: High-Grade vs. High-Yield</b>	High-Grade	Q4 17	Low	<ul style="list-style-type: none"> <li>High yield market remains crowded even with some evidence of stress emerging.</li> <li>Momentum shifting in favor of high grade.</li> </ul>
<b>International Real Estate</b>	Bullish	Q2 17	Medium	<ul style="list-style-type: none"> <li>Real Estate faces a headwind from rising interest rates, but tailwind from strong growth (especially domestically).</li> </ul>

<b>Commodities</b>	Neutral on Commodities	Q4 18	High	<ul style="list-style-type: none"> <li>Global economic weakness is weighing on commodities.</li> <li>Price and momentum trends have deteriorated, though support is holding.</li> </ul>
<b>Currencies</b>	Neutral on Dollar	Q2 18	Medium	<ul style="list-style-type: none"> <li>Dollar has drifted higher, but upside momentum is lacking.</li> </ul>
<b>Gold</b>	Neutral	Q4 18	Medium	<ul style="list-style-type: none"> <li>Gold has bounced off of its lows on better momentum, but is struggling to find any follow through.</li> </ul>
<b>Hedges</b>	NASDAQ 100	Q2 18	High	<ul style="list-style-type: none"> <li>Technology is rapidly losing relative strength, but not seeing evidence that it is washed out.</li> <li>Unwind early year strength is still ongoing.</li> </ul>

<sup>1</sup> Tactical over- or under-weight relative to Baird's strategic asset allocation models. Please ask your Baird advisor for more information on the strategic model most applicable to you.

<sup>2</sup> Date when Baird first made this call.

<sup>3</sup> Level of conviction in the tactical investment call: low, medium, high.

### BAIRD STRATEGIC ASSET ALLOCATION MODEL PORTFOLIOS

Baird offers six strategic asset allocation model portfolios for consideration (see table below), four of which have a mix of equity and fixed income. An individual's personal situation, preferences and objectives may suggest an allocation more suitable than those shown below. Please consult a Baird Financial Advisor in determining an asset allocation that will meet your needs.

Model Portfolio	Mix: Stocks / (Bonds + Cash)	Risk Tolerance	Strategic Asset Allocation Model Summary
All Growth	100 / 0	Well above average	Emphasis on providing aggressive growth of capital with high fluctuations in the annual returns and overall market value of the portfolio.
Capital Growth	80 / 20	Above average	Emphasis on providing growth of capital with moderately high fluctuations in the annual returns and overall market value of the portfolio.
Growth with Income	60 / 40	Average	Emphasis on providing moderate growth of capital and some current income with moderate fluctuations in annual returns and overall market value of the portfolio.
Income with Growth	40 / 60	Below average	Emphasis on providing high current income and some growth of capital with moderate fluctuations in the annual returns and overall market value of the portfolio.
Conservative Income	20 / 80	Well below average	Emphasis on providing high current income with relatively small fluctuations in the annual returns and overall market value of the portfolio.
Capital Preservation	0 / 100	Well below average	Emphasis on preserving capital while generating current income with relatively small fluctuations in the annual returns and overall market value of the portfolio.

## Appendix – Important Disclosures and Analyst Certification

### Analyst Certification

The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

### Disclaimers

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

### **ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST**

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available. Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

### Other Disclosures

The information and rating included in this report represent the research analyst's views based on a time horizon of 12 months, as described above, unless otherwise stated. In our standard company-specific research reports, the subject company may be designated as a "Fresh Pick", representing that the research analyst believes the company to be a high-conviction investment idea based on a subjective review of one or more fundamental or quantitative factors until an expiration date specified by the analyst but not to exceed nine months. The Fresh Pick designation and specified expiration date will be displayed in standard company-specific research reports on the company until the occurrence of the expiration date or such time as the analyst removes the Fresh Pick designation from the company in a subsequent, standard company-specific research report. The research analyst(s) named in this report may, at times and at the request of clients or their Baird representatives, provide particular investment perspectives or trading strategies based primarily on the analyst's understanding of the individual client's objectives. These perspectives or trading strategies generally are responsive to client inquiries and based on criteria the research analyst considers relevant to the client. As such, these perspectives and strategies may differ from the research analyst's views contained in this report.

Baird and/or its affiliates may provide to certain clients additional or research supplemental products or services, such as outlooks, commentaries and other detailed analyses, which focus on covered stocks, companies, industries or sectors. Not all clients who receive our standard company-specific research reports are eligible to receive these additional or supplemental products or services. Baird determines in its sole discretion the clients who will receive additional or supplemental products or services, in light of various factors including the size and scope of the client relationships. These additional or

supplemental products or services may feature different analytical or research techniques and information than are contained in Baird's standard research reports. Any ratings and recommendations contained in such additional or research supplemental products are consistent with the research analyst's ratings and recommendations contained in more broadly disseminated standard research reports. Baird research analysts may provide incremental data points or views regarding covered companies in the form of Research Posts and Flash Reports. All Posts and Flash Reports are available to clients via <https://bol.rwbaird.com/Login>, but not all are sent directly to clients. Baird Associates may, at their discretion, choose whether to send these Posts and Flash Reports to Baird clients after they are posted online. Such decisions are based on, among other things, client interest, coverage, stock ownership and indicated email preferences. The incremental content and/or analysis contained in these pieces may be useful to investors as part of a broader investment thesis, but is not sufficient to warrant a change in the research analyst's published opinion, including rating, estimates and price targets. Access to <https://bol.rwbaird.com/Login> is available to all Baird Clients. Contact your Baird representative if you would like access to <https://bol.rwbaird.com/Login>.

**United Kingdom ("UK") disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds a MiFID passport.**

The contents of this report may contain an "investment recommendation", as defined by the Market Abuse Regulation EU No 596/2014 ("MAR"). This report does not contain a "personal recommendation" or "investment advice", as defined by the Market in Financial Instruments Directive 2014/65/EU ("MiFID"). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. The views contained in this report: (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated; and (ii) may differ from the views of another individual of Robert W. Baird Limited.

This material is distributed in the UK and the European Economic Area ("EEA") by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB and is authorized and regulated by the Financial Conduct Authority ("FCA") in the UK.

For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. This material is only directed at and is only made available to persons in the EEA who would satisfy the criteria of being "Professional" investors under MiFID and to persons in the UK falling within Articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). Accordingly, this document is intended only for persons regarded as investment professionals (or equivalent) and is not to be distributed to or passed onto any other person (such as persons who would be classified as Retail clients under MiFID).

All substantially material sources of the information contained in this report are disclosed. All sources of information in this report are reliable, but where there is any doubt as to reliability of a particular source, this is clearly indicated. There is no intention to update this report in future. Where, for any reason, an update is made, this will be made clear in writing on the research report. Such instances will be occasional only.

Please note that this report may provide views which differ from previous recommendations made by the same individual in respect of the same financial instrument or issuer in the last 12 months. Information and details regarding previous recommendations in relation to the financial instruments or issuer referred to in this report are available at <https://baird.bluematrix.com/sellside/MAR.action>.

Robert W. Baird Limited or one of its affiliates may at any time have a long or short position in the company or companies mentioned in this report. Where Robert W. Baird Limited or one of its affiliates holds a long or short position exceeding 0.5% of the total issued share capital of the issuer, this will be disclosed separately by your Robert W. Baird Limited representative upon request.

Investment involves risk. The price of securities may fluctuate and past performance is not indicative of future results. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Robert W. Baird Limited and Robert W. Baird & Co. Incorporated have in place organisational and administrative arrangements for the prevention, avoidance, and disclosure of conflicts of interest with respect to research recommendations. Robert W. Baird Limited's Conflicts of Interest Policy, available [here](#), outlines the approach Robert W. Baird Limited takes in relation to conflicts of interest and includes detail as to its procedures in place to identify, manage and control conflicts of interest. Robert W. Baird Limited and or one of its affiliates may be party to an agreement with the issuer that is the subject of this report relating to the provision of services of investment firms. Robert W. Baird & Co. Incorporated's policies and procedures are designed to identify and effectively manage conflicts of interest related to the preparation and content of research reports and to promote objective and reliable research that reflects the truly held opinions of research analysts. Robert W. Baird & Co. Incorporated's research analysts certify on a quarterly basis that such research reports accurately reflect their personal views.

This material is strictly confidential to the recipient and not intended for persons in jurisdictions where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such jurisdiction.

Robert W. Baird Limited is exempt from the requirement to hold an Australian financial services license and is regulated by the FCA under UK laws, which may differ from Australian laws. As such, this document has not been prepared in accordance with Australian laws.

**Copyright 2018 Robert W. Baird & Co. Incorporated**