2020 Economic & Stock Market Outlook:

Cyclical Strength Emerges Amid Ongoing Uncertainty

Supplemental Chart Pack

December 12, 2019

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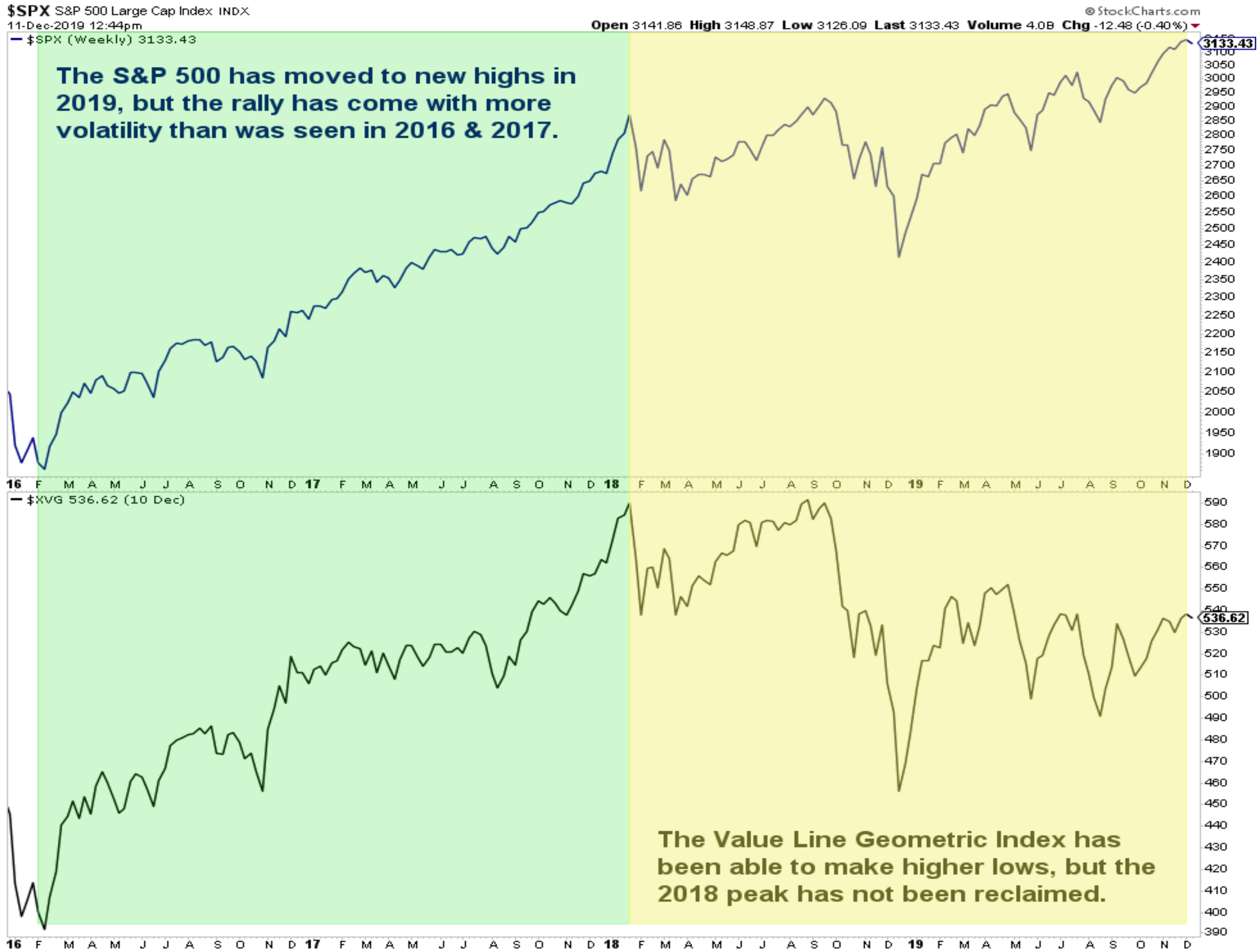
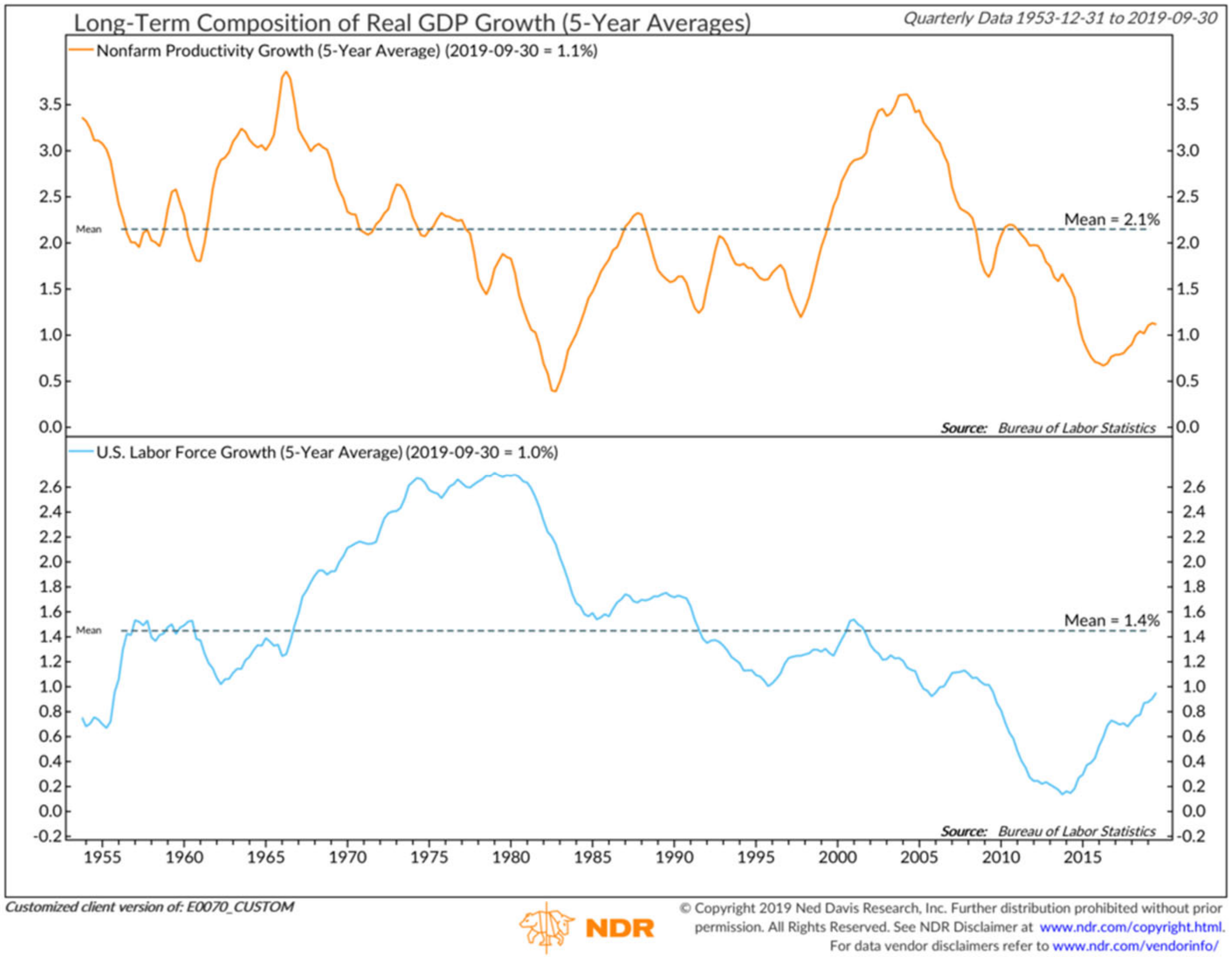
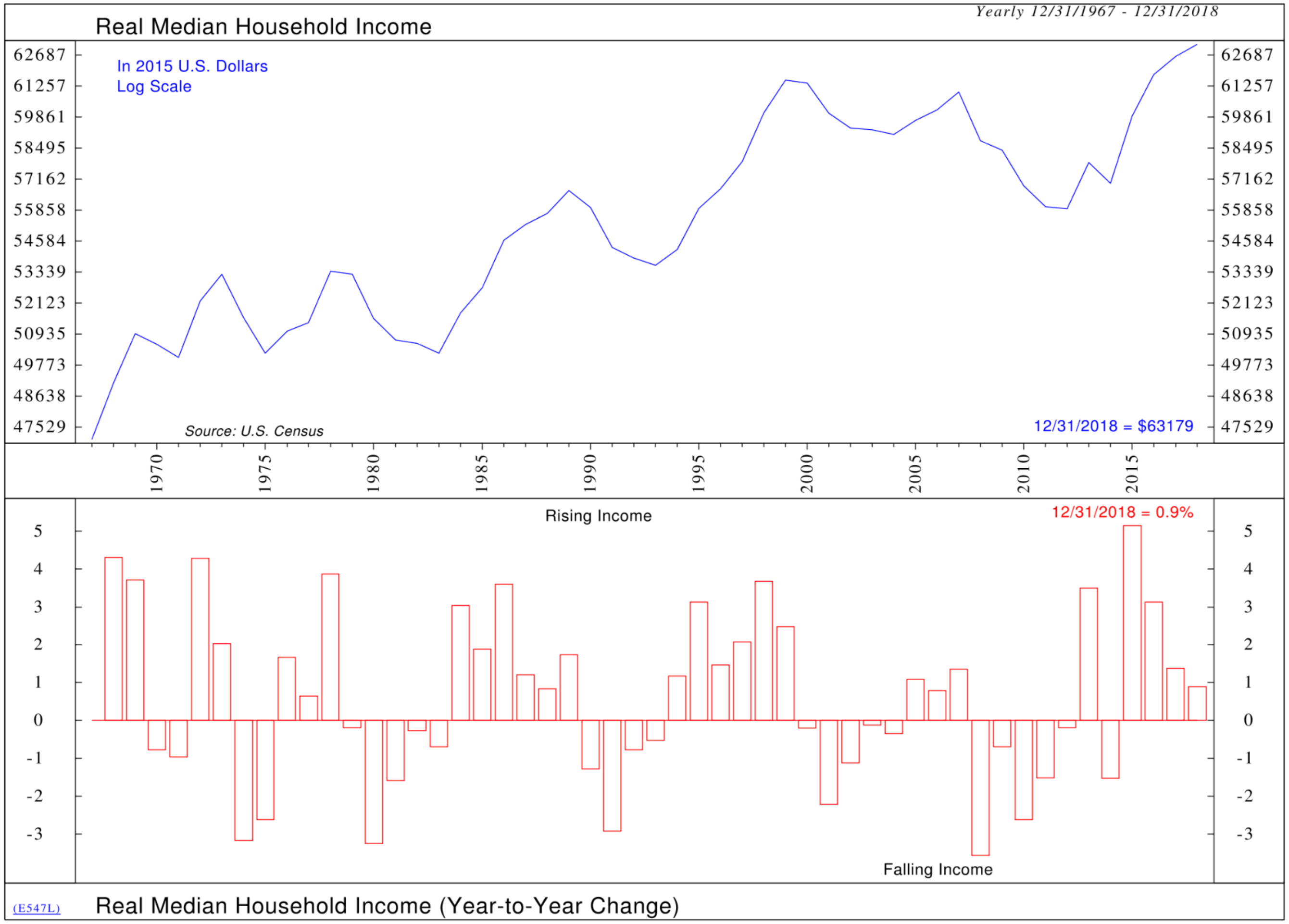
Despite ongoing volatility, cyclical strength re-emerged and the S&P 500 made new highs in 2019.



While below their long-term averages, both productivity and labor force growth trends are rising.



Real median household income reached a new high in 2018.



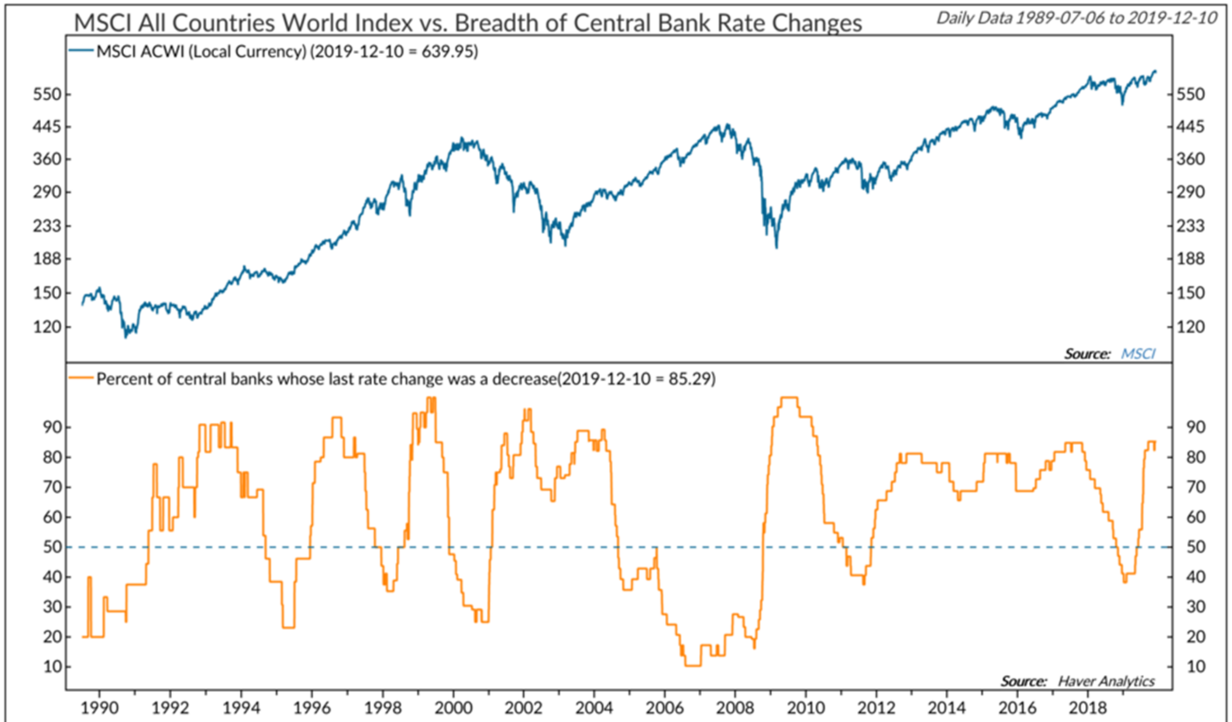
Source: Ned Davis Research

The weight of the evidence improved over the course of 2019, fueled by improving broad market trends.

Macro Factors (What Could Happen)		
• Federal Reserve Policy	Bullish	+1
• Economic Fundamentals	Neutral	0
• Valuations	Bearish	-1
Market Factors (What Is Happening)		
• Investor Sentiment	Neutral	0
• Seasonal Patterns/Trends	Neutral	0
• Tape (Breadth)	Bullish	+1
Weight of the Evidence =	Bullish	+1

Source: Baird

Central bank rate cuts supported stocks in 2019 and this tailwind carries into 2020.



ACWI Performance
Full History: 1989-07-06 to 2019-12-10

Share of Central Banks Easing is	% Gain/ Annum	% of Time
Above 50.0	8.12	65.83
Below 50.0	-0.29	34.17

Buy/Hold = 5.17% Gain/Annum

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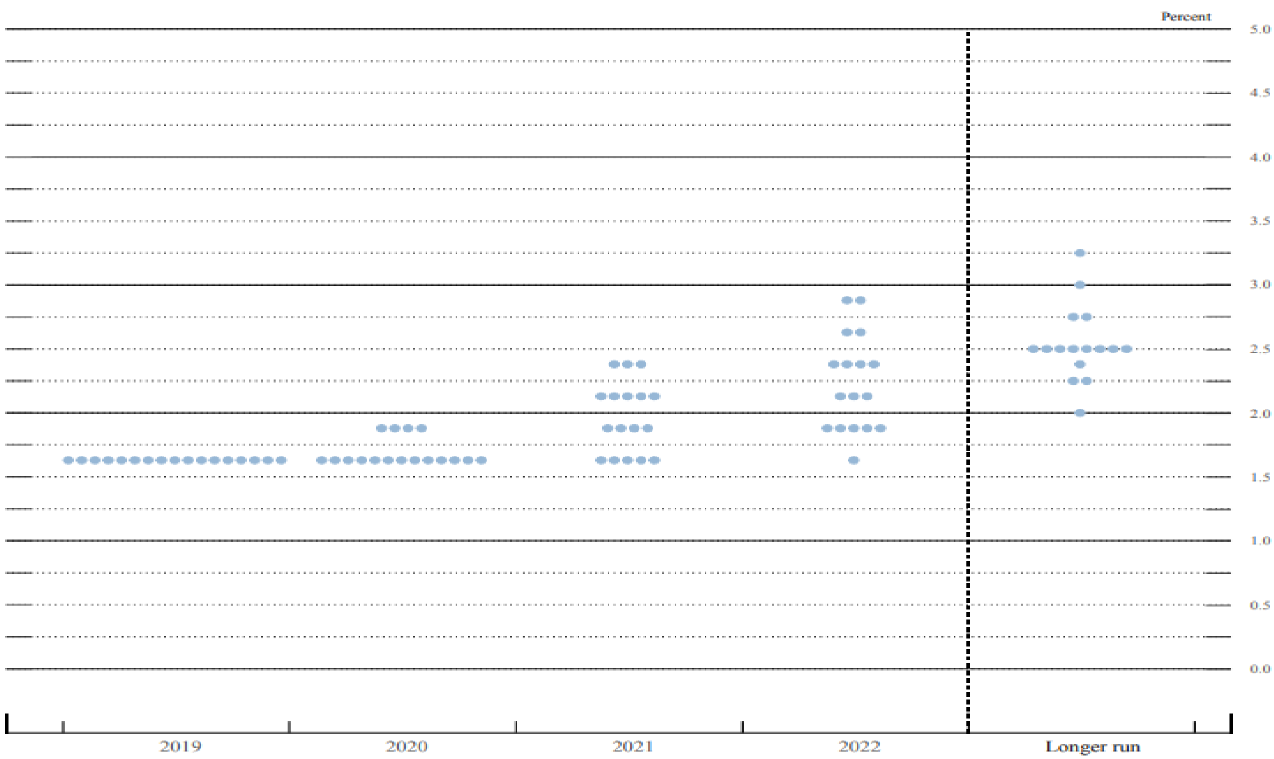
The latest dot plot from the Fed suggests the mid-cycle rate adjustment is over after three rate cuts.

For release at 2:00 p.m., EST, December 11, 2019

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



The favorable stock market reaction to Fed rate cuts diminishes after the third cut

Stock Market Performance After a Federal Reserve Rate Cut
Using Discount Rate from 1/03/1928 to 12/30/1988
Using Fed Funds Rate from 1/03/1989 to 12/10/2019
Index Data Starts 1/03/1928

_________ S&P 500 Index Percent Gain After _________

	# Cases	22 Days	63 Days	126 Days	190 Days	252 Days
1st Cut	20	4.00	7.05	11.74	10.48	14.84
2nd Cut	18	2.74	10.64	11.18	12.10	16.66
3rd Cut	14	3.05	6.55	6.20	9.24	10.14
4th Cut	10	2.71	5.79	2.43	1.03	3.18
5th Cut	9	0.99	-0.70	-2.35	-4.51	-1.68
6th Cut	8	1.93	2.12	5.14	3.24	0.87
Mean		2.57	5.24	5.72	5.26	7.33
Buy/Hold		0.61	1.76	3.51	5.34	7.22

Days = Market Days

The number of Federal Reserve Rate cuts equals consecutive cuts until an intervening Federal Reserve Rate increase is encountered at which point the count is started over.

Source: Ned Davis Research

Futures traders see the possibility of additional cuts in 2020.

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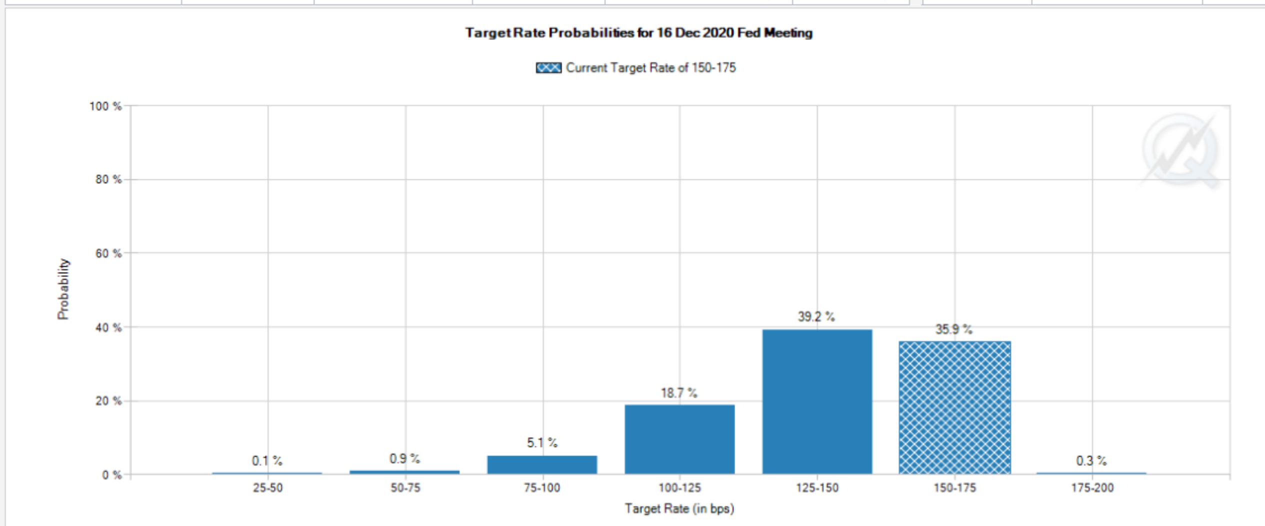
CME Group

FedWatch Tool

MEETING INFORMATION						PROBABILITIES		
MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
16 Dec 2020	ZQZ0	31 Dec 2020	98.6975	1,546	18,364	63.9 %	35.9 %	0.3 %

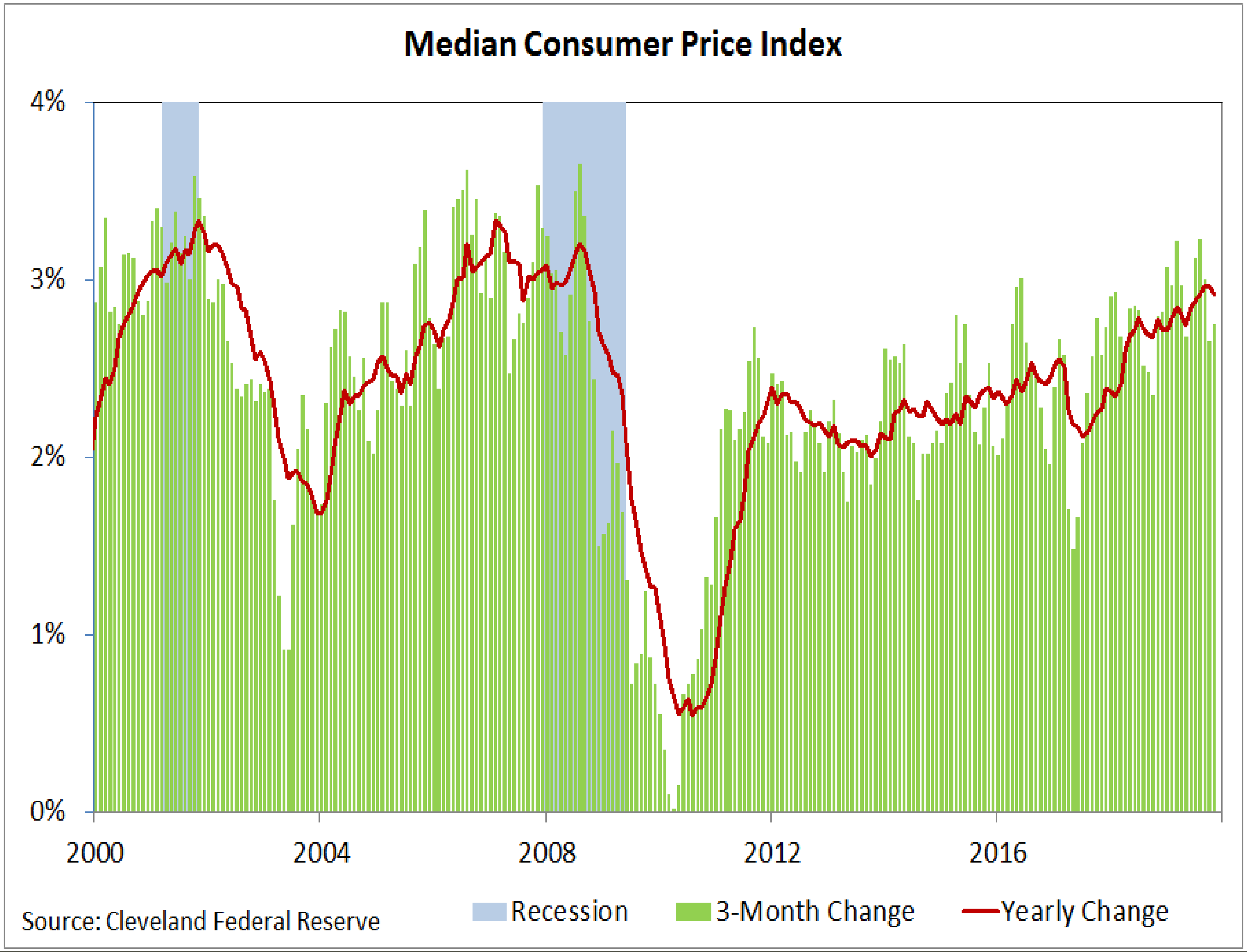


TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 10 DEC 2019	1 WEEK 4 DEC 2019	1 MONTH 11 NOV 2019
25-50	0.1%	0.0%	0.1%	0.0%
50-75	0.9%	0.5%	1.2%	0.2%
75-100	5.1%	3.6%	6.1%	1.8%
100-125	18.7%	15.6%	20.4%	10.7%
125-150	39.2%	38.1%	38.7%	35.8%
150-175 (Current)	35.9%	40.8%	32.4%	51.5%
175-200	0.3%	1.2%	1.0%	0.0%

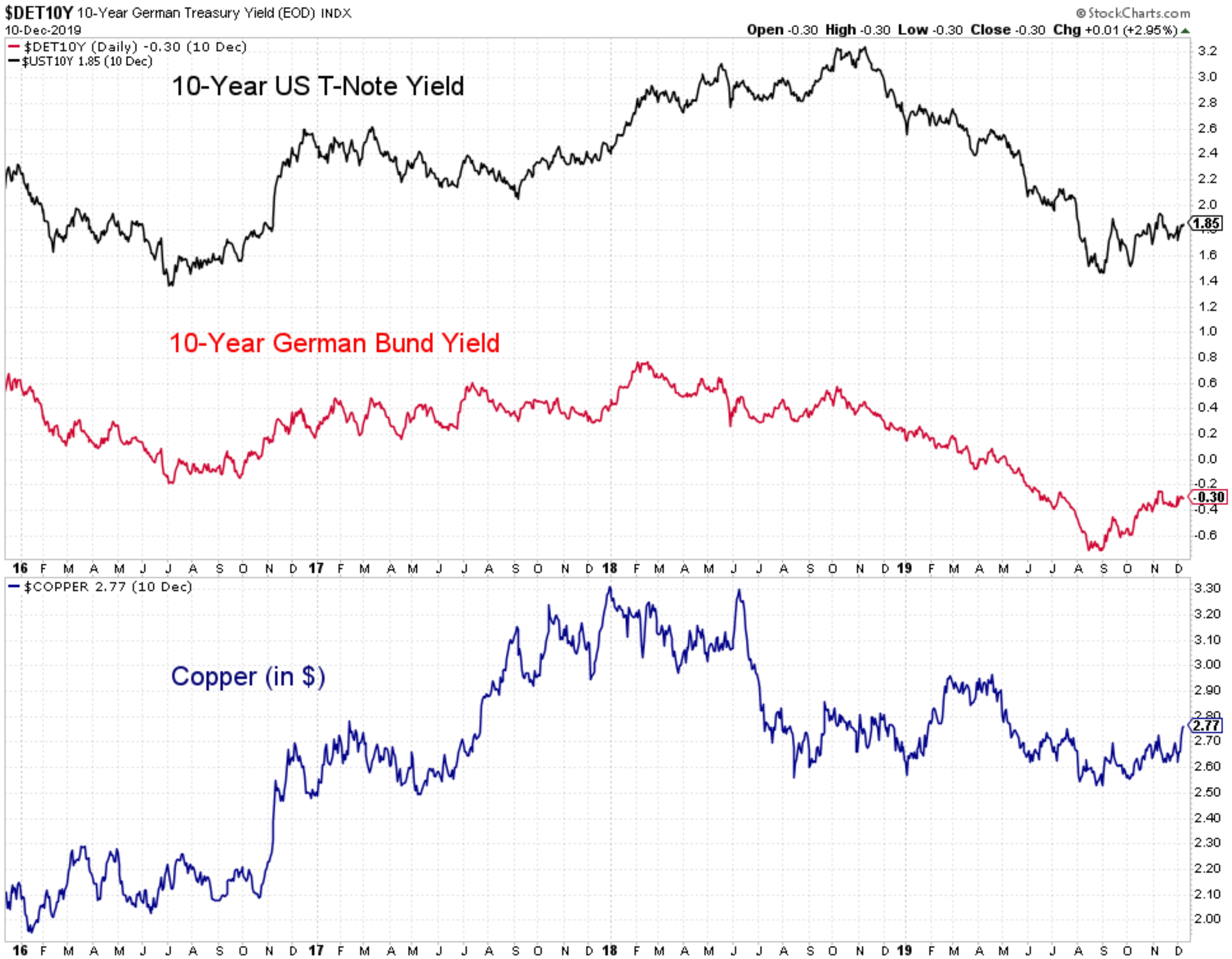
* Data as of 11 Dec 2019 02:23:09 CT

Source: CME Group

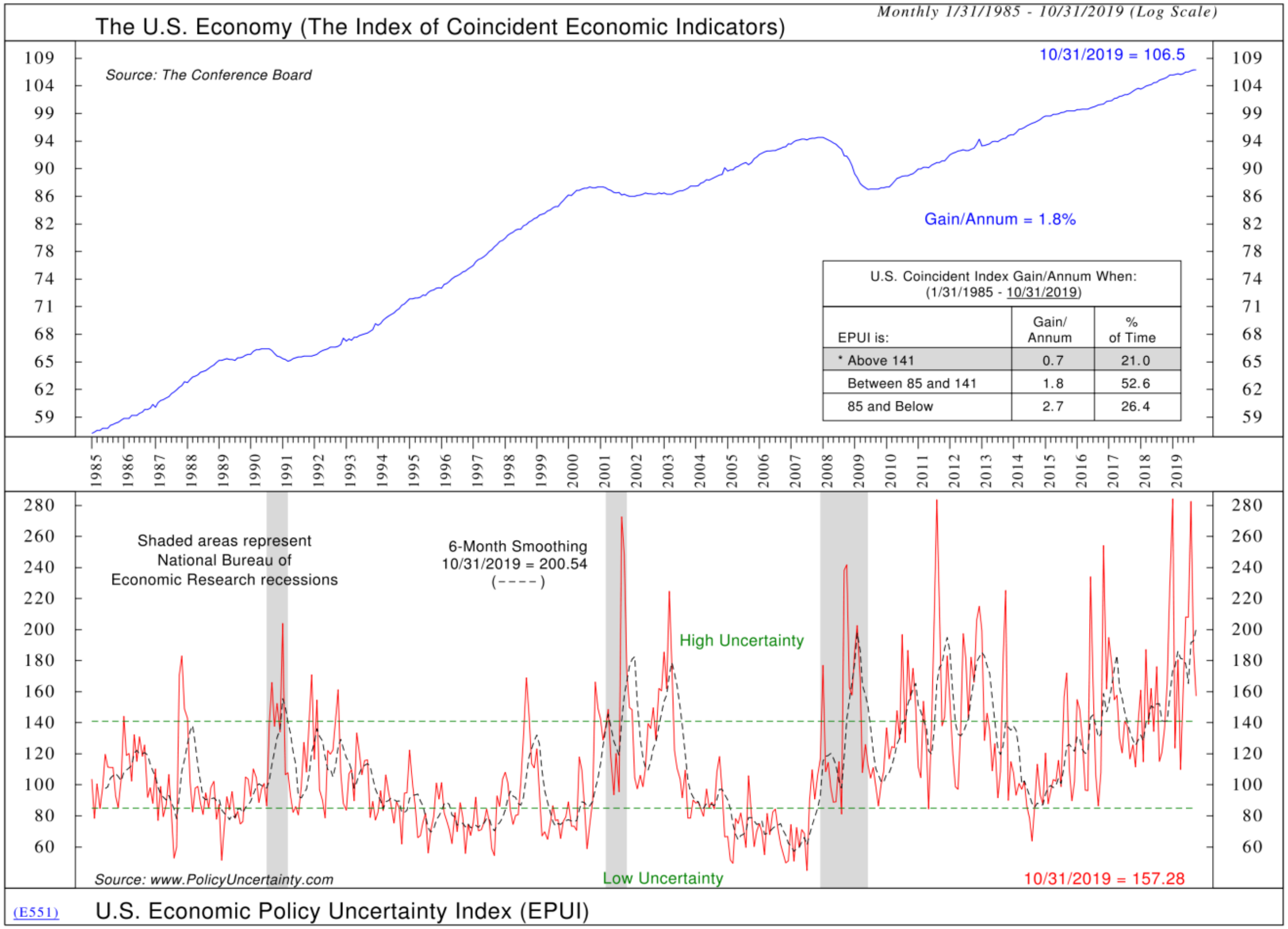
While the Fed has discussed muted inflation, the median CPI moved to its highest level in a decade.



Bond yields and copper have moved off mid-2019 lows – further gains could keep the Fed on the sidelines.

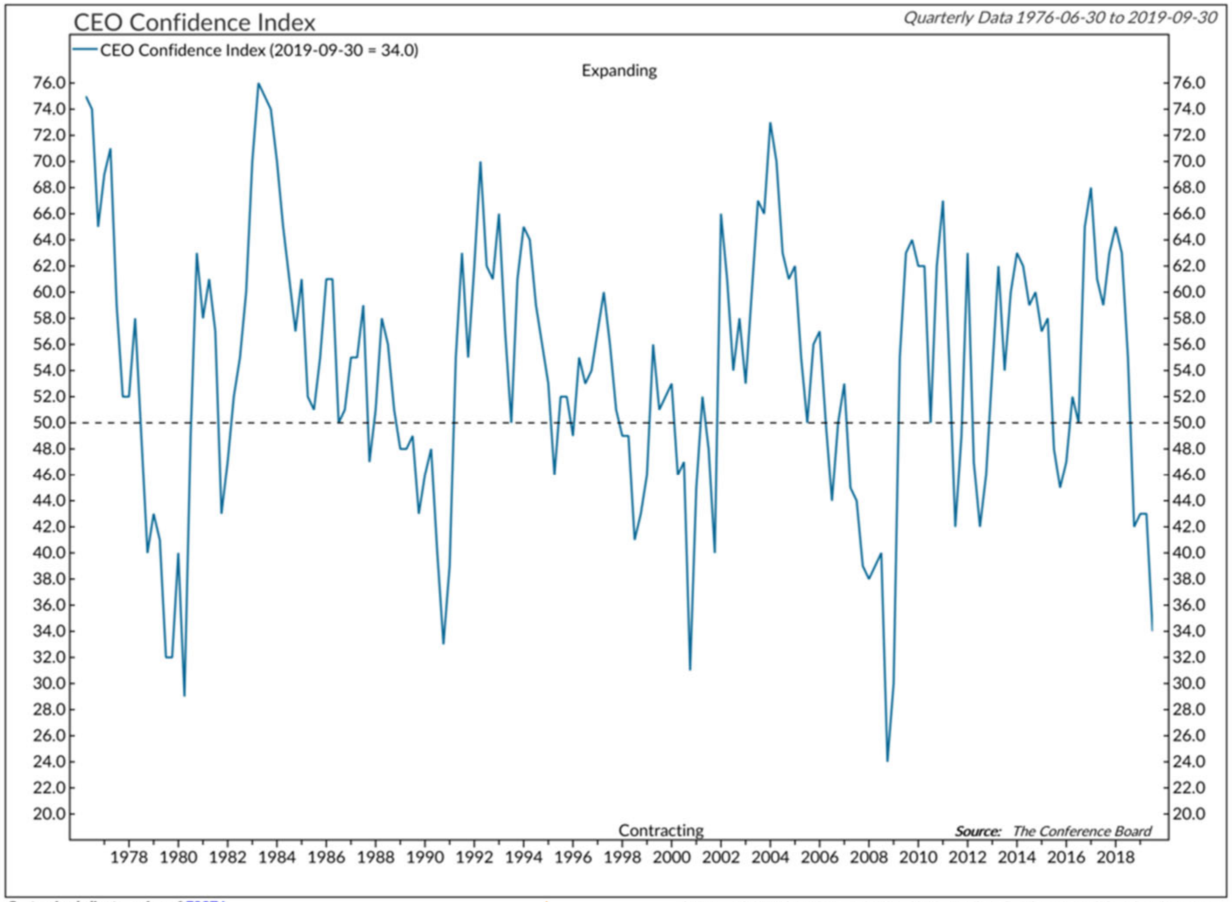


Uncertainty will never go away entirely, but elevated levels (like we saw in 2019) can weigh on the economy.



Source: Ned Davis Research

Uncertainty seems to be weighing on CEO confidence, which is at its lowest level in a decade.



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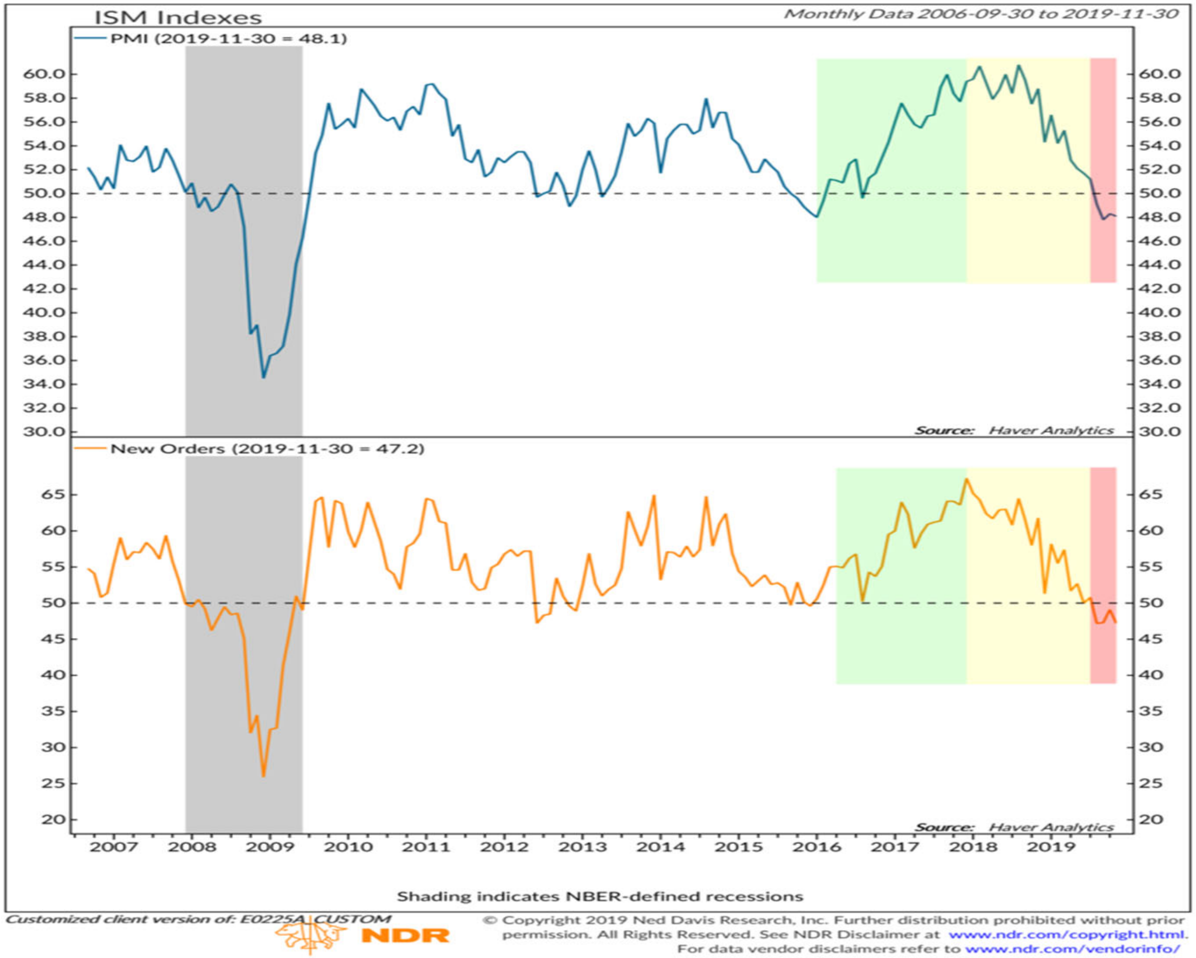
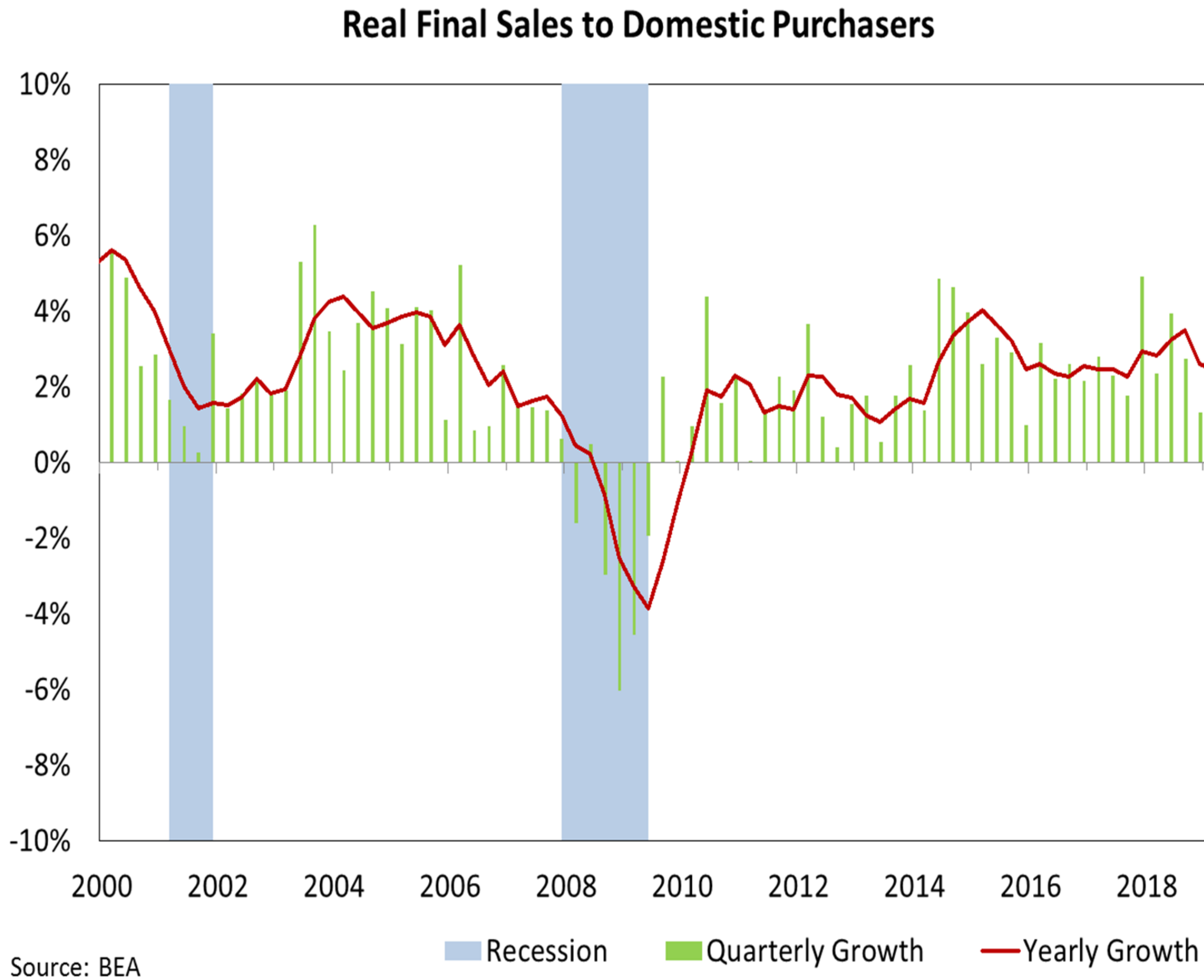
Source: Ned Davis Research

Domestic manufacturing data continued to weaken in 2019 and now show activity is contracting.



While the consumer has been resilient, growth in domestic demand is still at lowest level sine 2014.



Globally there is (again) evidence of green shoots emerging.

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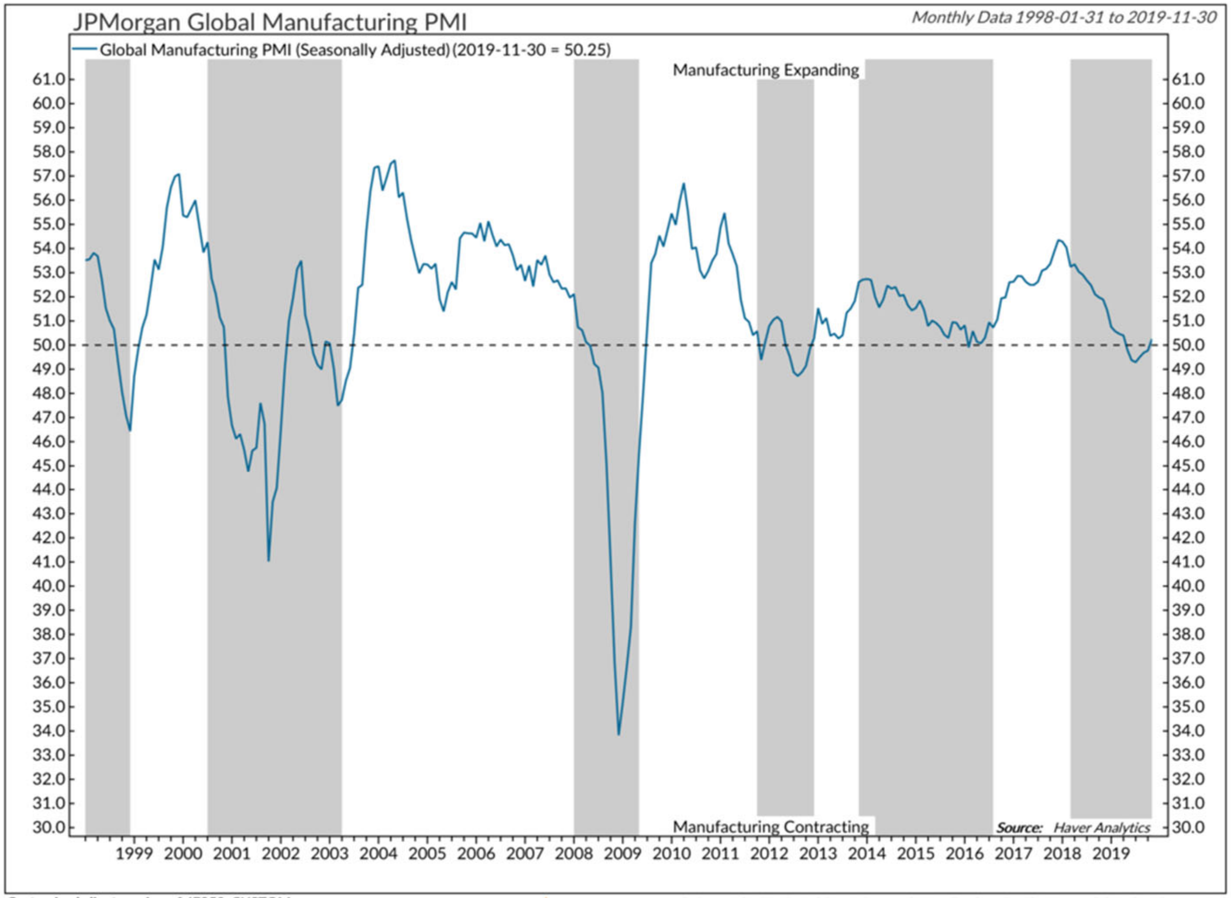

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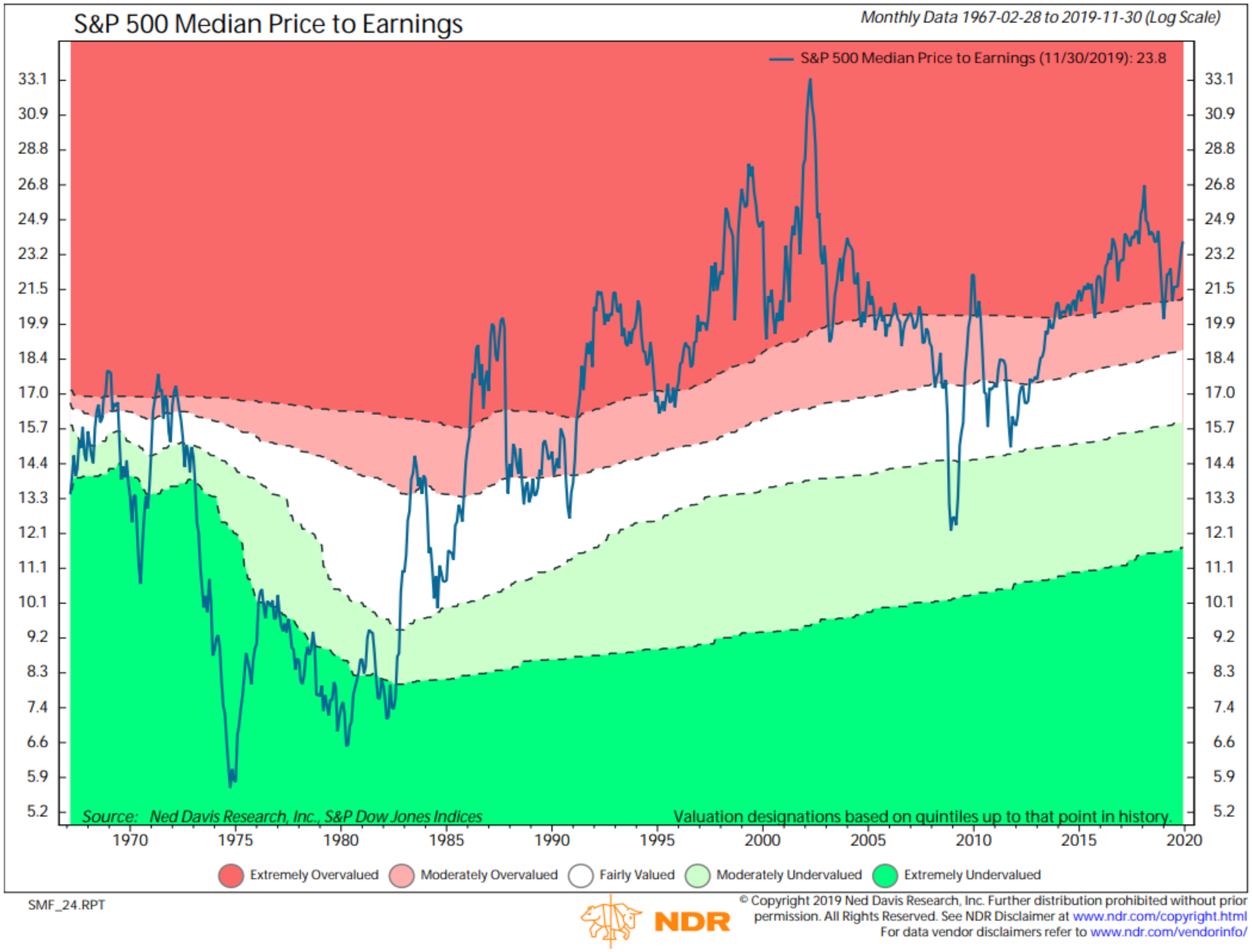
Price gains in 2019 outpaced earnings growth, keeping valuations at elevated levels on a trailing basis.



Source: Ned Davis Research

Valuations are also stretched relative to forward earnings.

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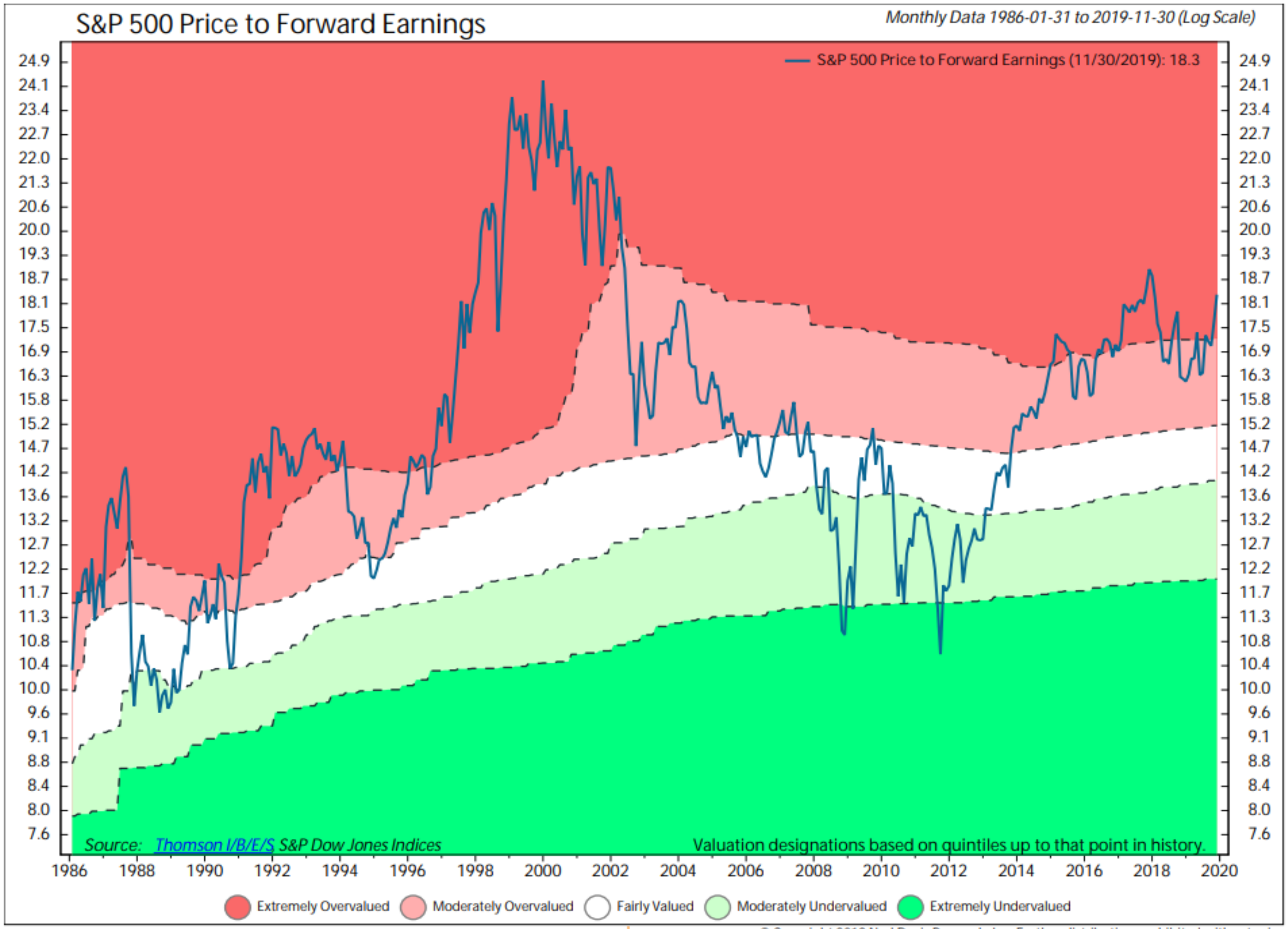

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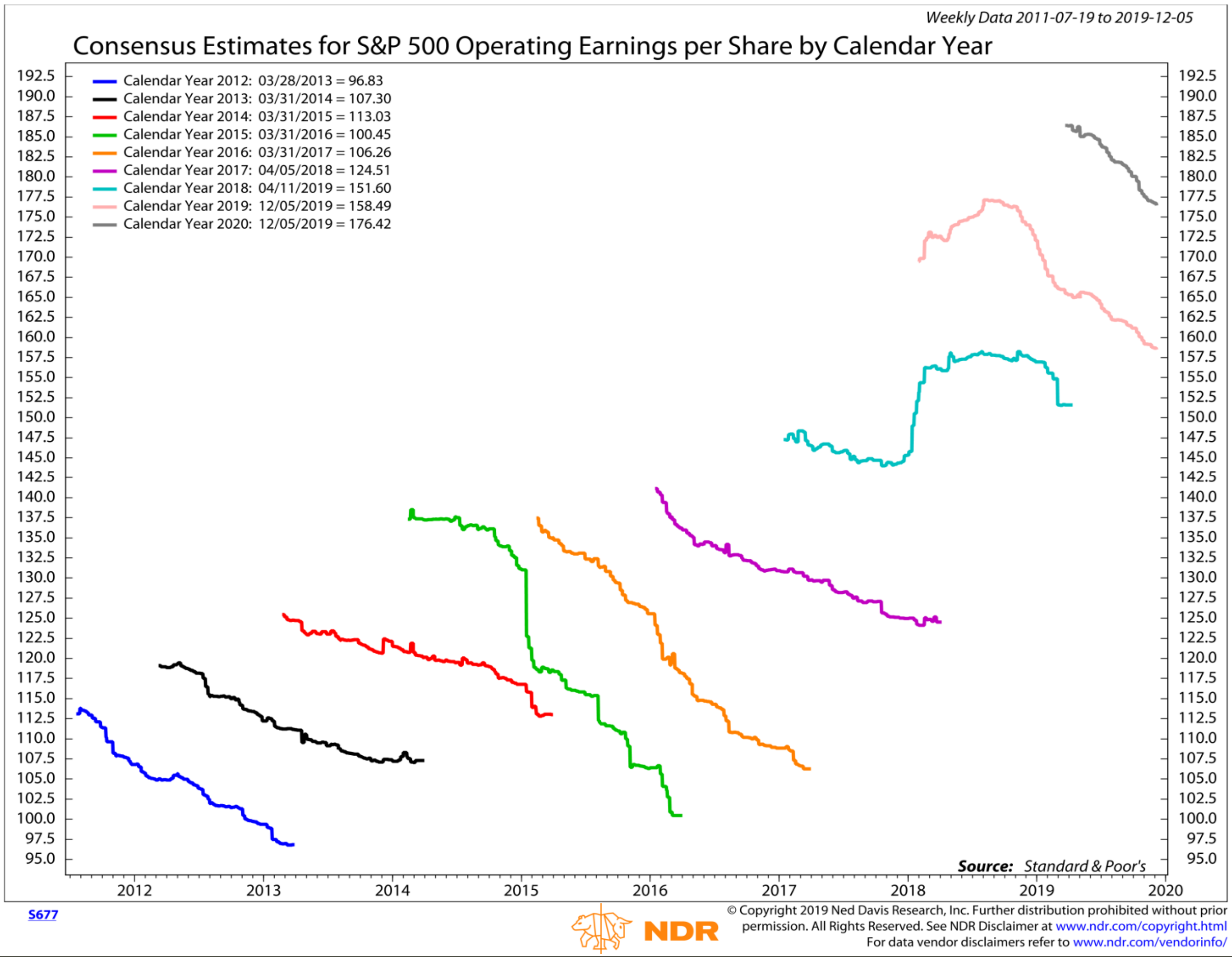
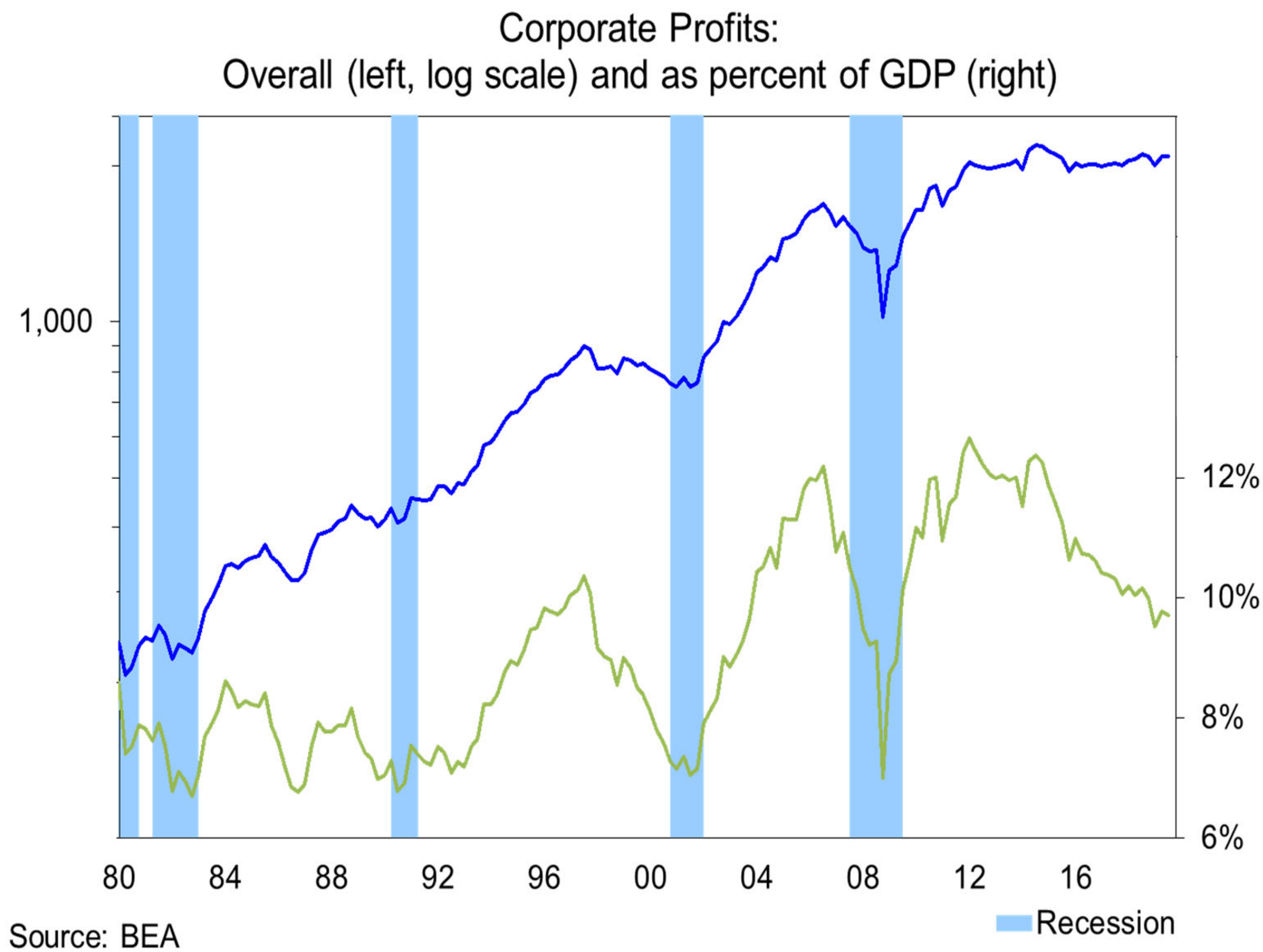
Expectations tend to fall as the year progresses, but earnings growth is expected to rebound in 2020.

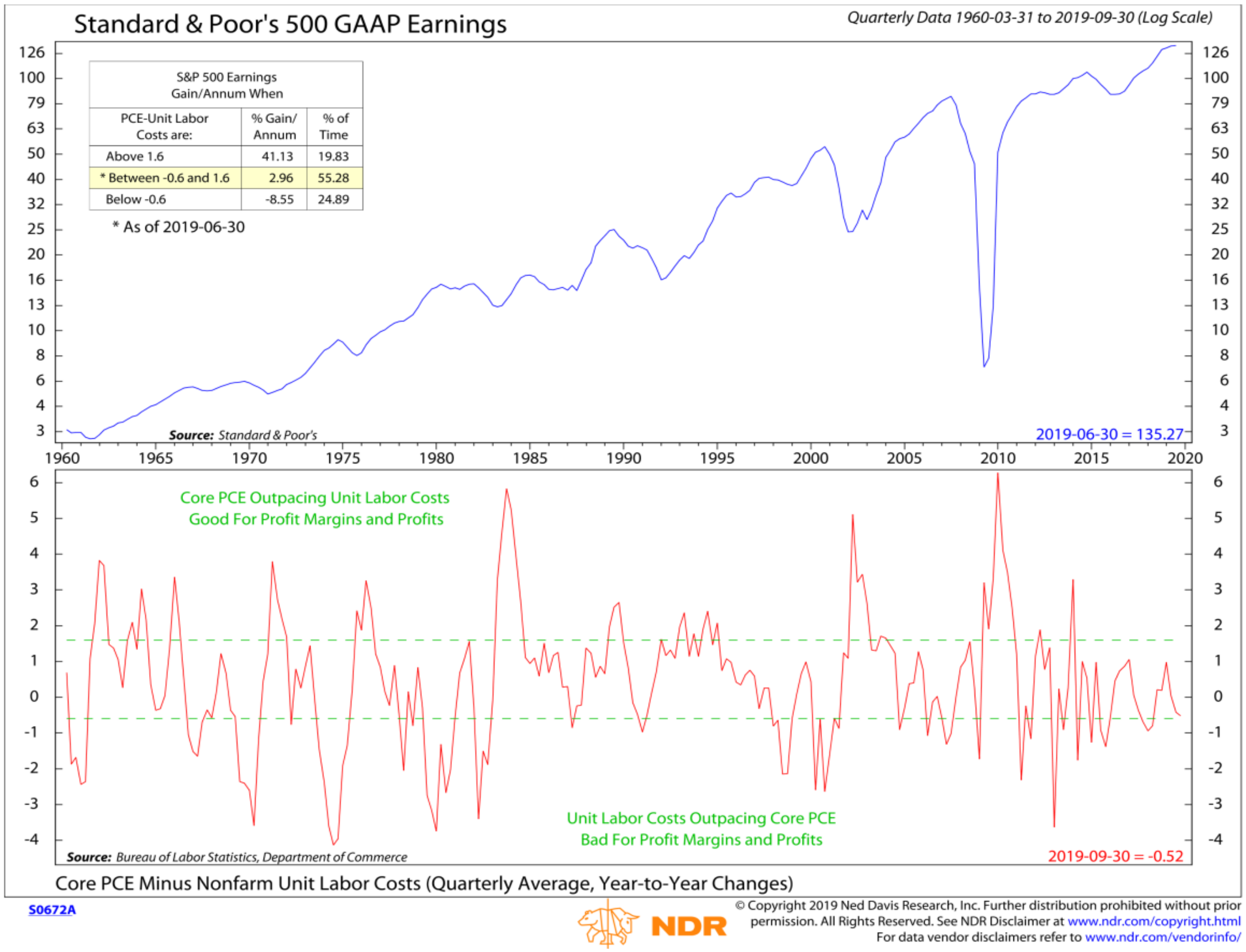


Source: Ned Davis Research

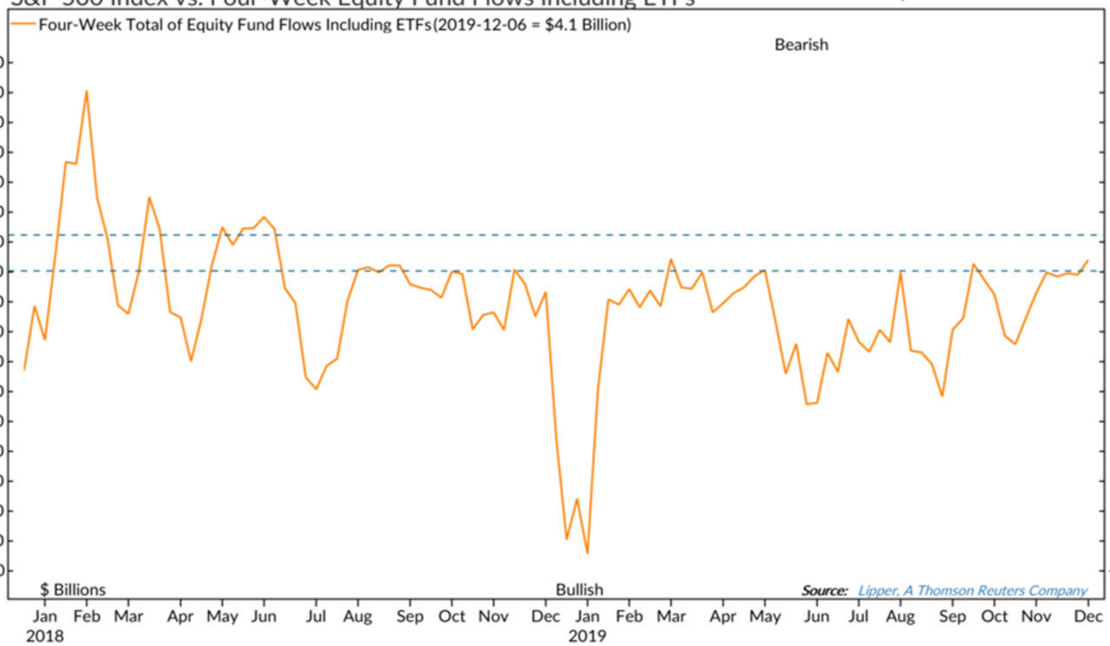
As measured in the GDP data, corporate profits have not risen in 5 years while margins have deteriorated.



Labor costs outpacing inflation tends to weigh on earnings growth.



The latest fund flow data suggest recent investor skepticism may be fading.



S&P 500 Index Performance **Full History:** 1997-12-26 to 2019-12-06		
Four-Week Flows Are:	% Gain/ Annum	% of Time
Above 12.4	-16.12	17.89
0.4 - 12.4	-0.59	42.82
Below 0.4	25.47	39.29
Buy/Hold = 5.67% Gain/Annum		

S&P 500 Index Performance **Chart View:** 2017-12-22 to 2019-12-06		
Four-Week Flows Are:	% Gain/ Annum	% of Time
Above 12.4	-2.10*	10.64
0.4 - 12.4	-8.06*	11.76
Below 0.4	19.03	77.59
Buy/Hold = 8.47% Gain/Annum		
** Cases less than one year are not annualized*		

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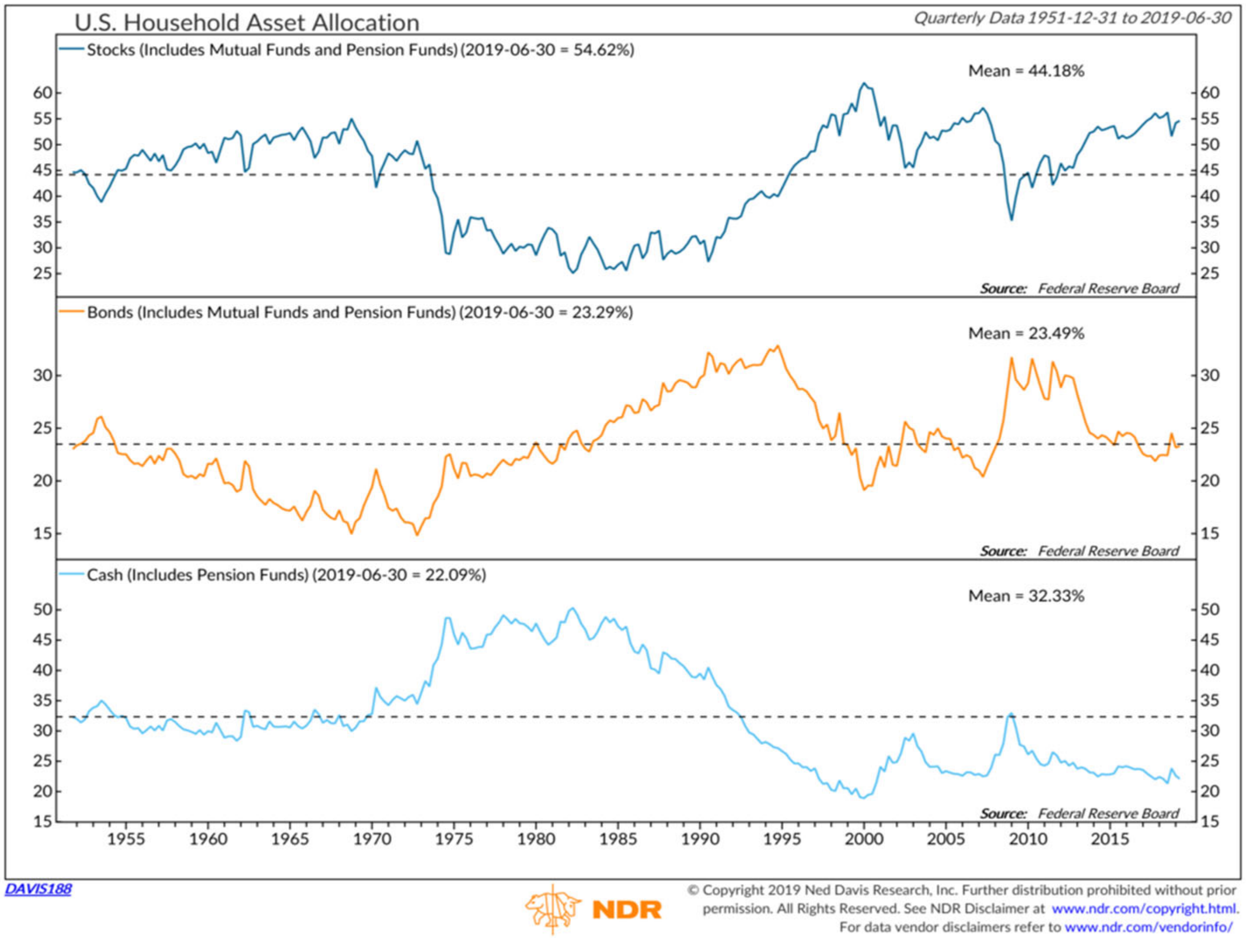
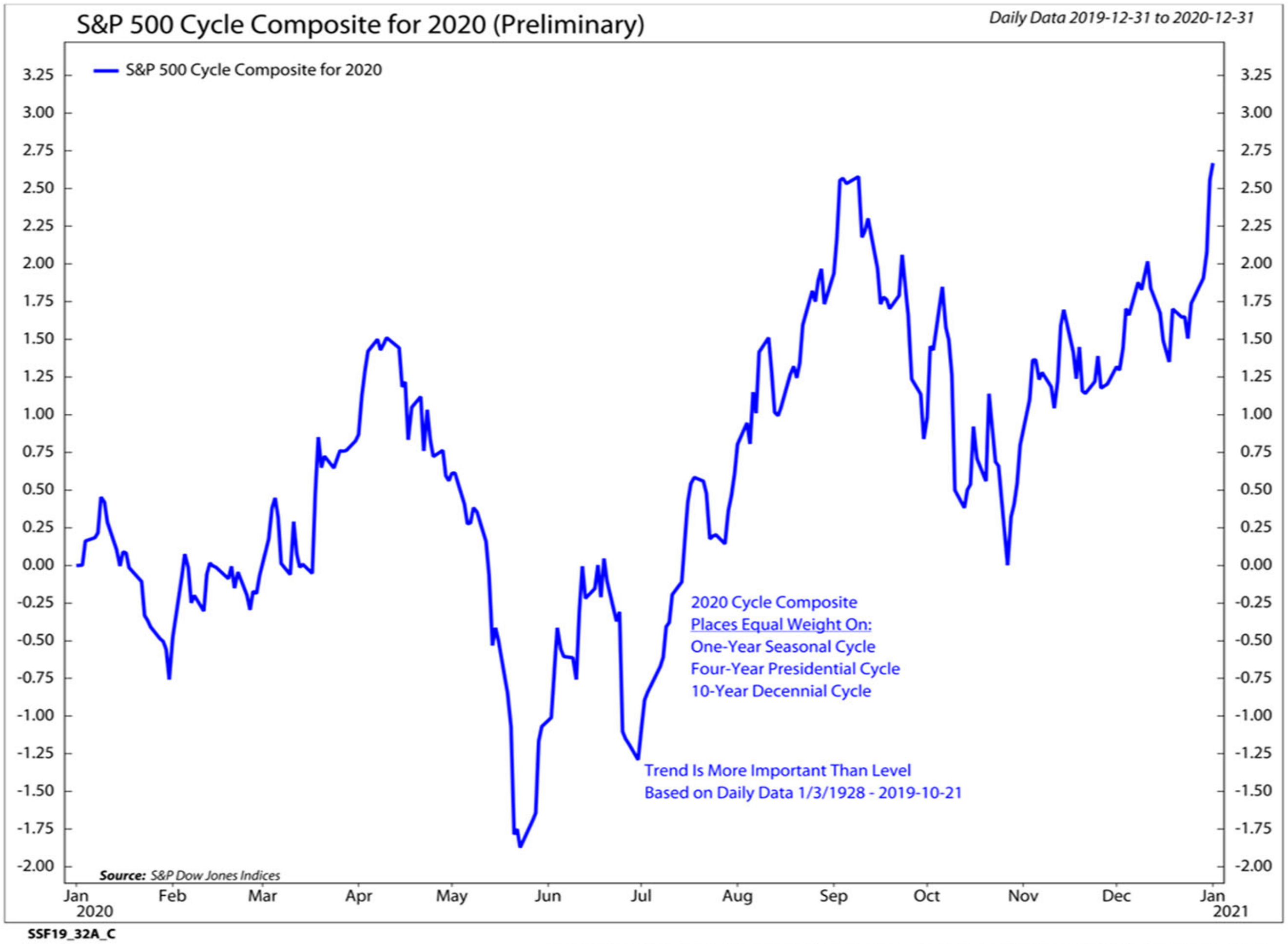
After a decade of gains, elevated household exposure to equities reflects a deep-seated complacency.



Source: Ned Davis Research

If seasonal patterns hold, election uncertainty could add to volatility but not derail cyclical strength.



Source: Ned Davis Research

If President Trump's approval rating holds steady, impeachment is likely to be more noise than news.

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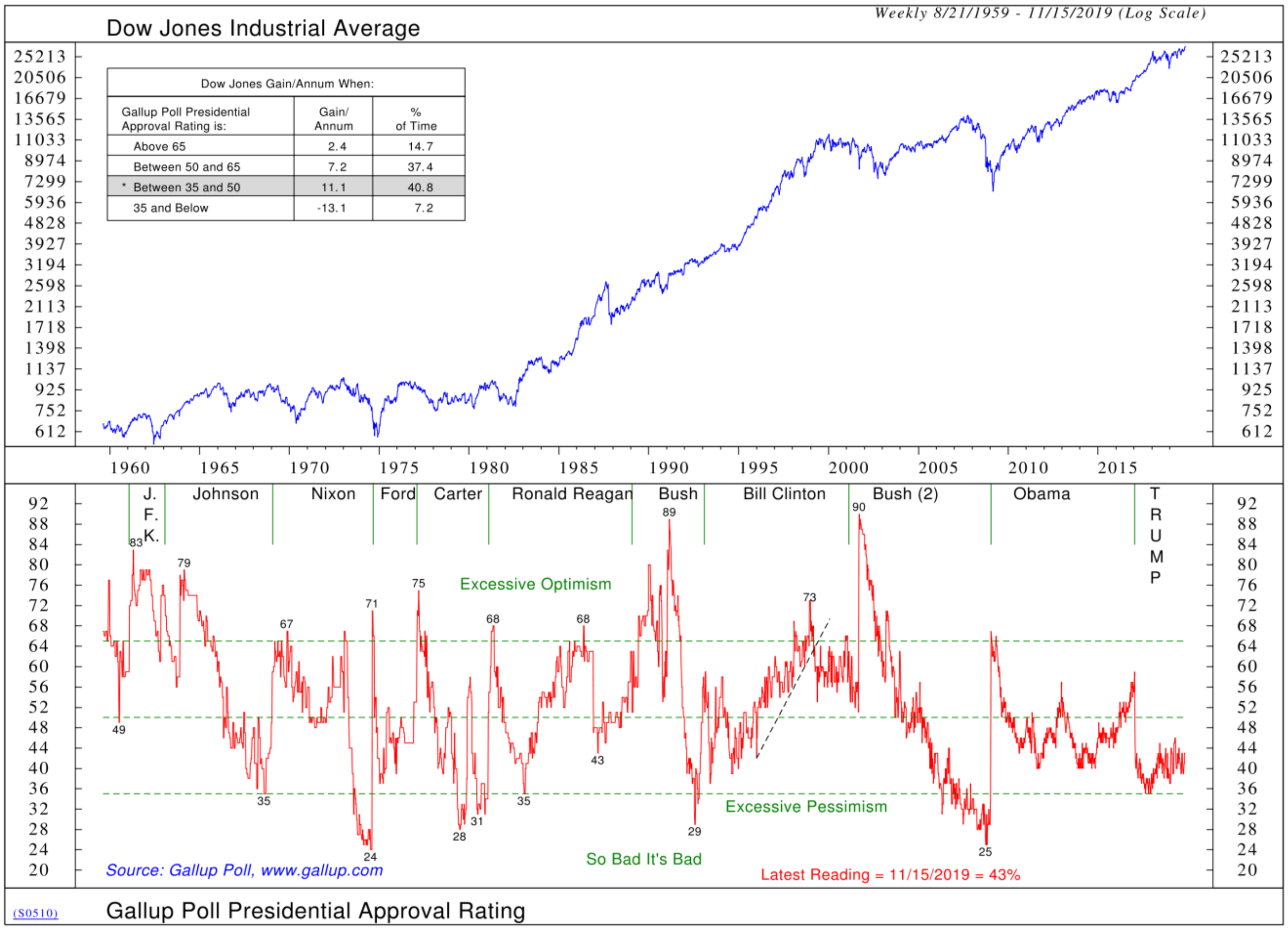
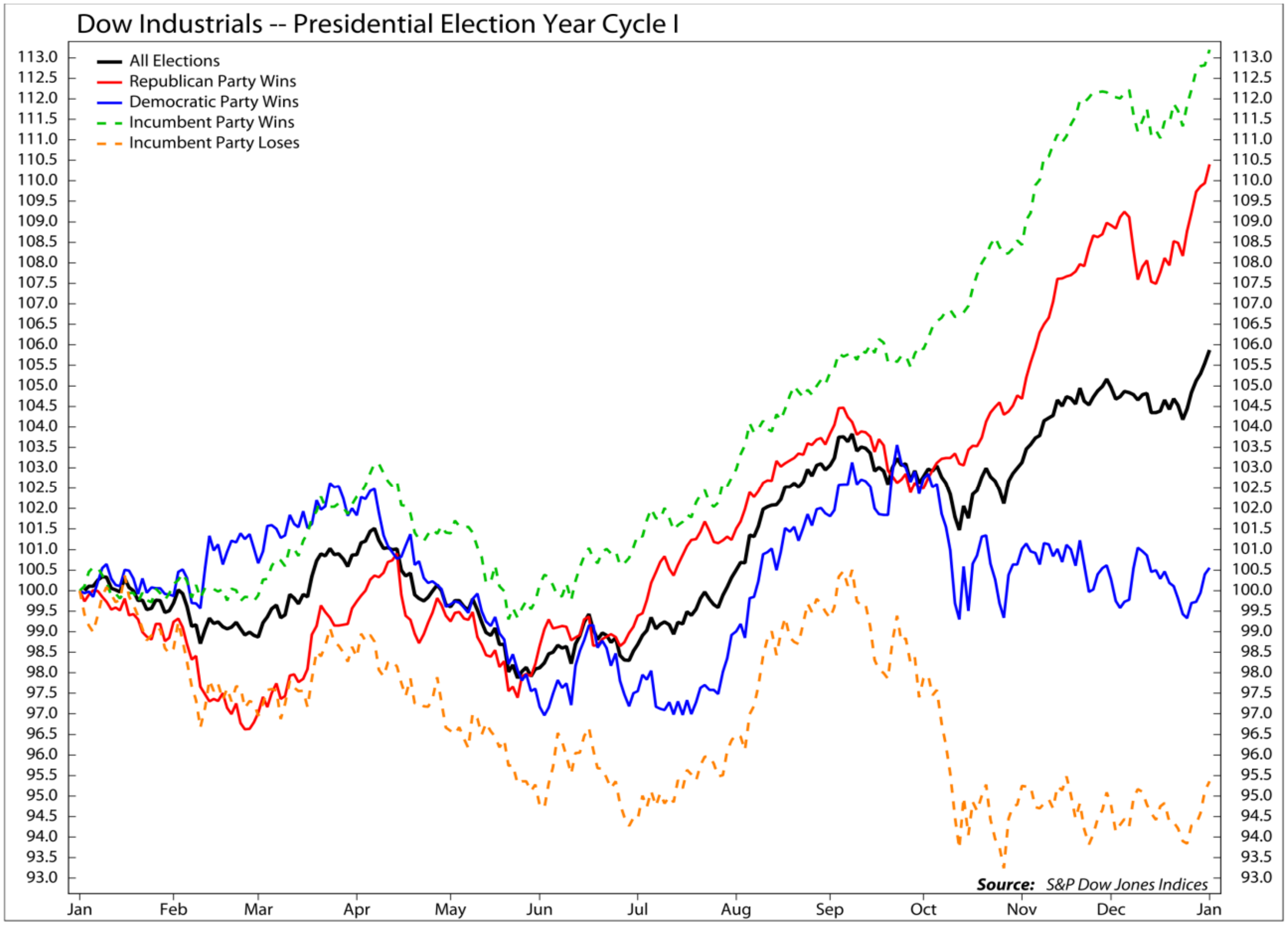


Source: Ned Davis Research

Stocks have tended to rally in advance of incumbent party victories in Presidential elections.



Source: Ned Davis Research

Breadth thrusts in early 2019 spelled an end to late-2018 weakness and have helped sustain the rally.

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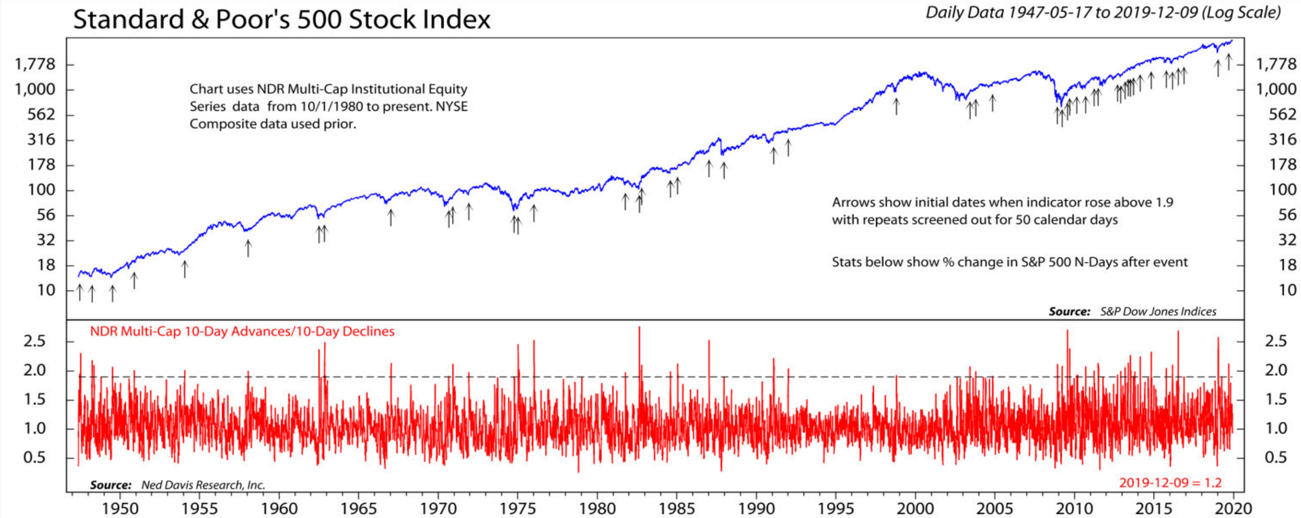

Event Date	10-Day A/D	5 Days	10 Days	22 Days	63 Days	126 Days	252 Days
1947-06-23	1.96	-0.2	2.8	5.8	-0.4	-2.6	4.2
1948-03-29	2.05	3.1	4.0	7.3	16.1	7.6	0.6
1949-07-13	2.06	1.3	1.9	3.7	7.3	12.7	26.7
1950-11-20	2.01	1.3	-2.0	-1.5	11.0	10.2	19.4
1954-01-25	2.00	0.2	1.2	-0.1	7.5	17.0	37.0
1958-01-24	2.00	-0.0	0.0	-2.6	3.4	11.8	33.7
1962-07-10	1.98	-0.7	-1.5	0.5	-0.2	12.9	22.2
1962-11-07	1.91	2.5	3.6	6.1	12.7	19.8	24.4
1967-01-13	1.94	1.8	1.9	4.3	7.0	9.7	14.1
1970-08-31	1.91	1.9	-0.2	3.4	7.0	19.0	22.1
1970-12-03	1.95	1.1	1.3	3.9	11.3	13.9	7.8
1971-12-08	1.98	1.7	4.4	6.6	12.4	11.1	21.8
1974-10-14	1.91	1.0	-3.6	0.8	-1.5	18.6	23.0
1975-01-08	1.98	3.0	2.4	12.3	18.3	35.4	34.1
1976-01-06	2.05	2.2	5.7	7.3	10.7	10.7	13.0
1981-10-09	1.97	-1.9	-2.3	1.0	-3.8	-4.5	7.9
1982-08-24	1.96	3.6	5.9	6.9	16.4	26.1	42.5
1982-10-18	2.11	-2.5	-0.9	0.9	7.3	16.8	24.2
1984-08-07	1.95	1.1	3.1	1.0	3.6	11.0	15.5
1985-01-21	2.00	1.2	2.9	2.8	3.1	10.9	17.4
1987-01-13	2.02	3.5	5.3	6.0	9.9	19.5	-5.6
1987-12-18	1.90	-1.4	3.8	-2.4	7.9	7.9	10.9
1991-02-04	1.95	5.8	6.0	7.9	9.1	10.5	17.6
1992-01-03	1.92	-1.0	-0.1	-1.3	-4.5	-1.8	3.9
1998-10-22	1.93	0.7	5.1	10.2	14.4	26.1	20.7
2003-06-04	2.06	1.1	2.4	1.8	4.1	8.2	13.2
2003-10-14	1.99	-0.3	-0.3	0.9	7.7	7.6	5.1
2004-11-05	1.91	1.5	0.4	1.4	3.0	1.1	4.6
2008-12-05	2.12	0.4	1.3	3.8	-17.9	7.6	25.9
2009-03-23	2.08	-4.3	1.5	3.5	8.5	29.4	42.7
2009-07-21	1.91	2.6	5.3	5.5	15.0	19.2	12.0
2009-09-16	2.35	-0.7	-1.1	1.8	3.7	9.1	5.2
2010-02-19	1.92	-0.4	2.7	5.9	-3.4	-3.0	20.8
2010-09-14	1.97	1.7	2.4	4.7	10.6	14.3	4.6
2011-03-30	2.01	0.5	-1.0	2.5	-1.6	-13.3	5.6
2011-07-01	2.14	-1.5	-2.6	-5.9	-15.5	-6.1	1.9
2012-09-14	1.93	-0.4	-1.7	-0.7	-2.4	6.3	17.7
2012-11-30	2.00	0.1	-0.2	3.0	8.7	15.2	27.2
2013-03-11	2.06	-0.3	-0.3	2.4	5.6	7.4	20.0
2013-05-15	2.14	-0.2	-0.3	-1.2	1.6	6.6	12.8
2013-07-09	2.27	1.4	2.4	2.7	1.4	11.2	19.4
2013-09-17	1.92	-0.4	-0.6	1.7	4.8	9.2	17.4
2014-02-18	2.25	0.2	1.8	1.7	2.4	7.1	14.1
2014-10-27	2.05	2.9	3.9	5.7	2.1	7.4	5.3
2015-10-12	2.05	0.8	2.7	2.9	-3.9	3.2	5.9
2016-02-26	2.11	2.7	3.8	5.9	7.3	11.5	21.6
2016-07-11	2.01	1.4	1.5	1.8	0.8	6.2	13.5
2016-11-17	1.91	1.2	0.2	3.8	8.2	9.5	17.9
2019-01-09	2.38	1.2	2.2	4.8	11.7	16.1	
2019-09-11	2.13	0.2	-0.5	-1.0			

Summary Item	5 Days	10 Days	22 Days	63 Days	126 Days	252 Days
Mean	0.81	1.54	3.01	5.07	10.64	16.54
Median	1.05	1.66	2.84	6.97	10.54	17.43
Number Up	34	33	41	38	43	47
Number Down	16	17	9	11	6	1
All Periods Mean	0.17	0.34	0.74	2.10	4.27	8.75

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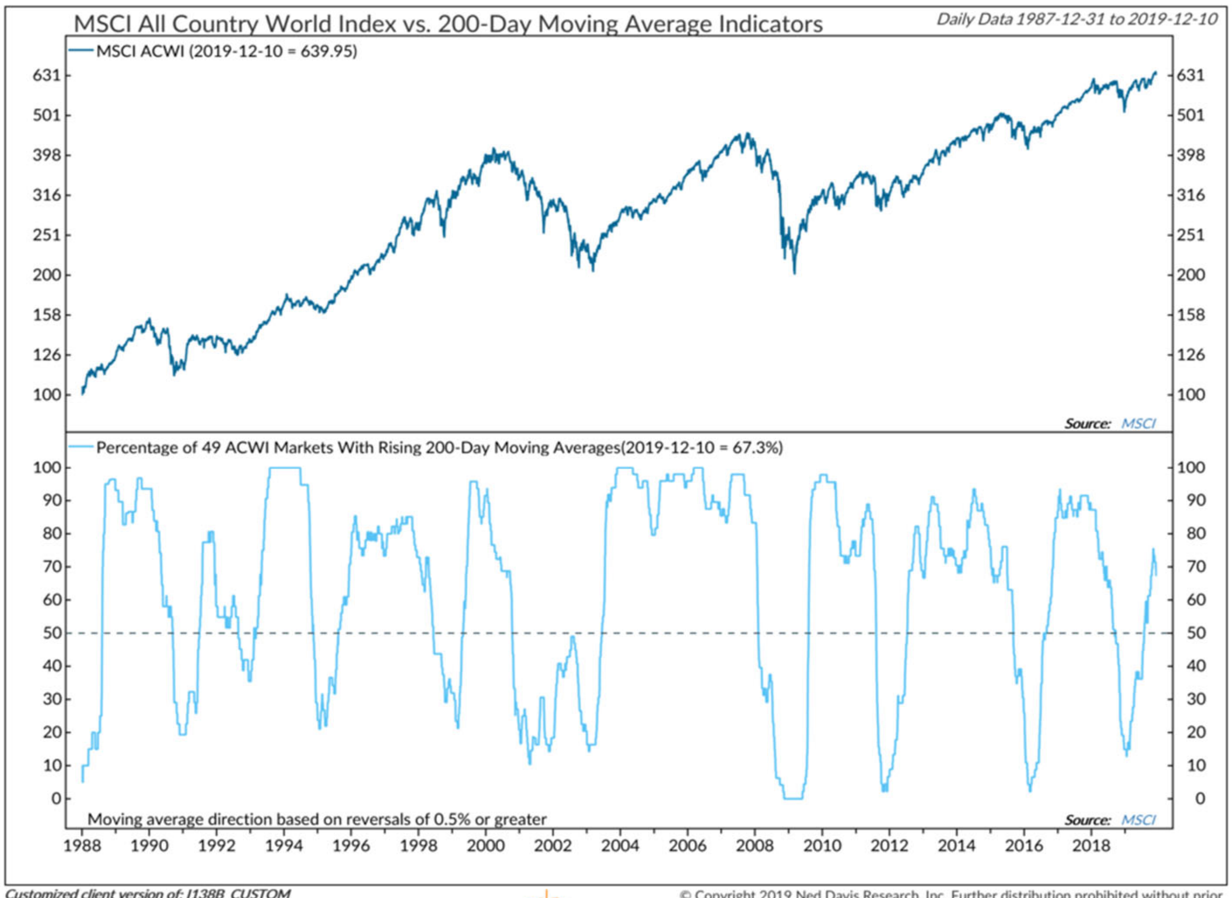
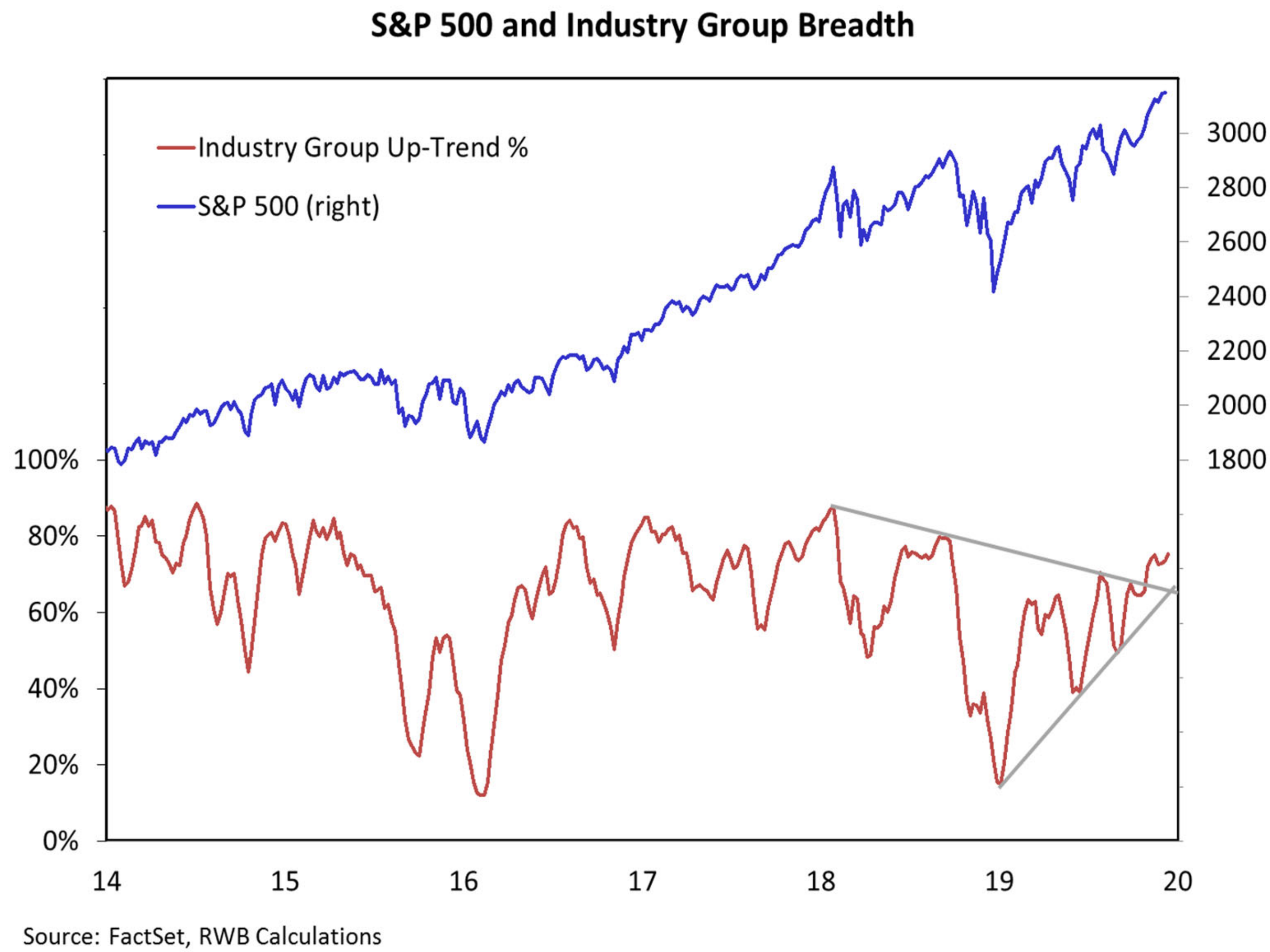
Source: Ned Davis Research

Rally participation has become a global trend – two-thirds of global markets have rising 200-day averages.

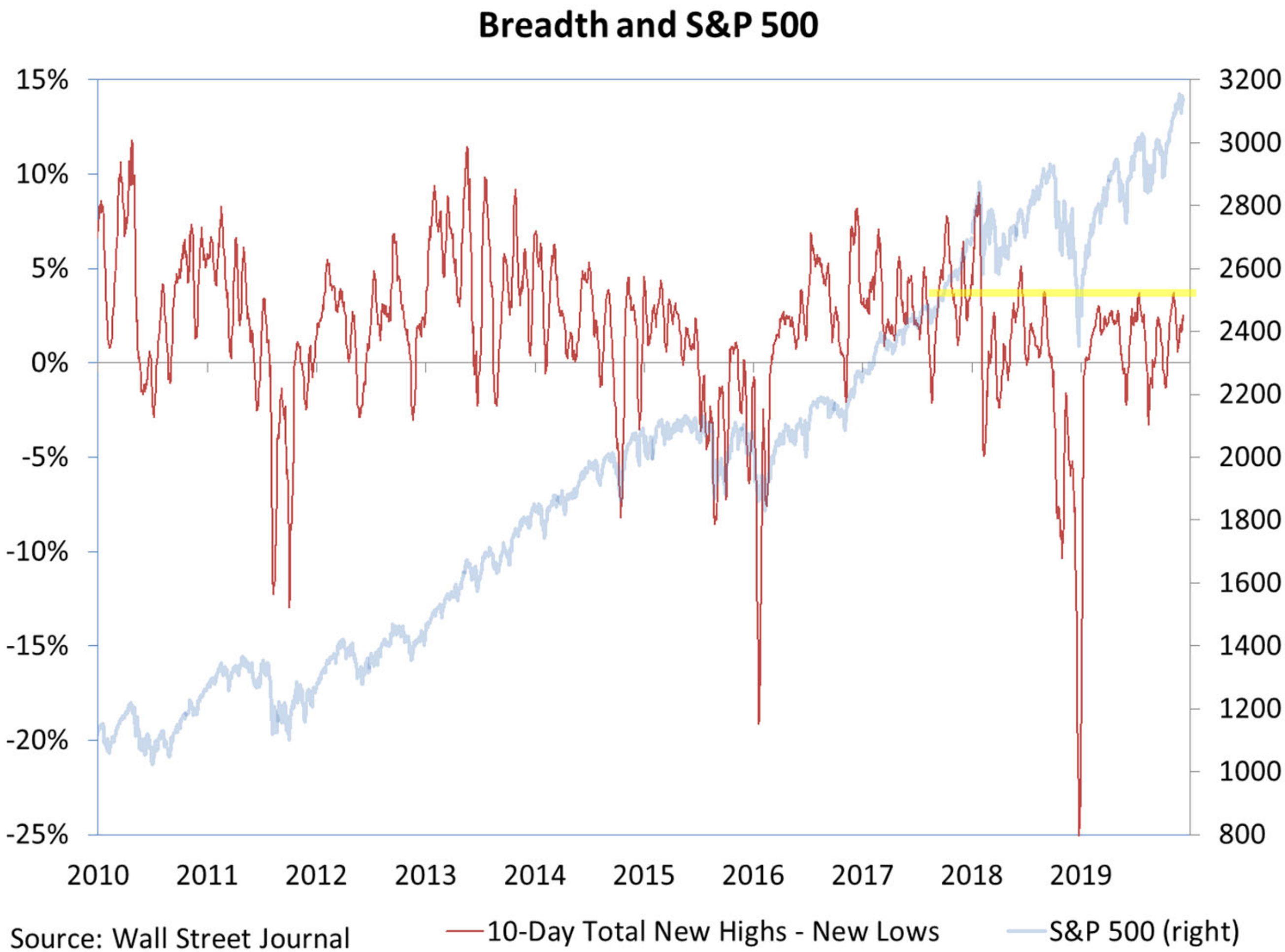


Source: Ned Davis Research

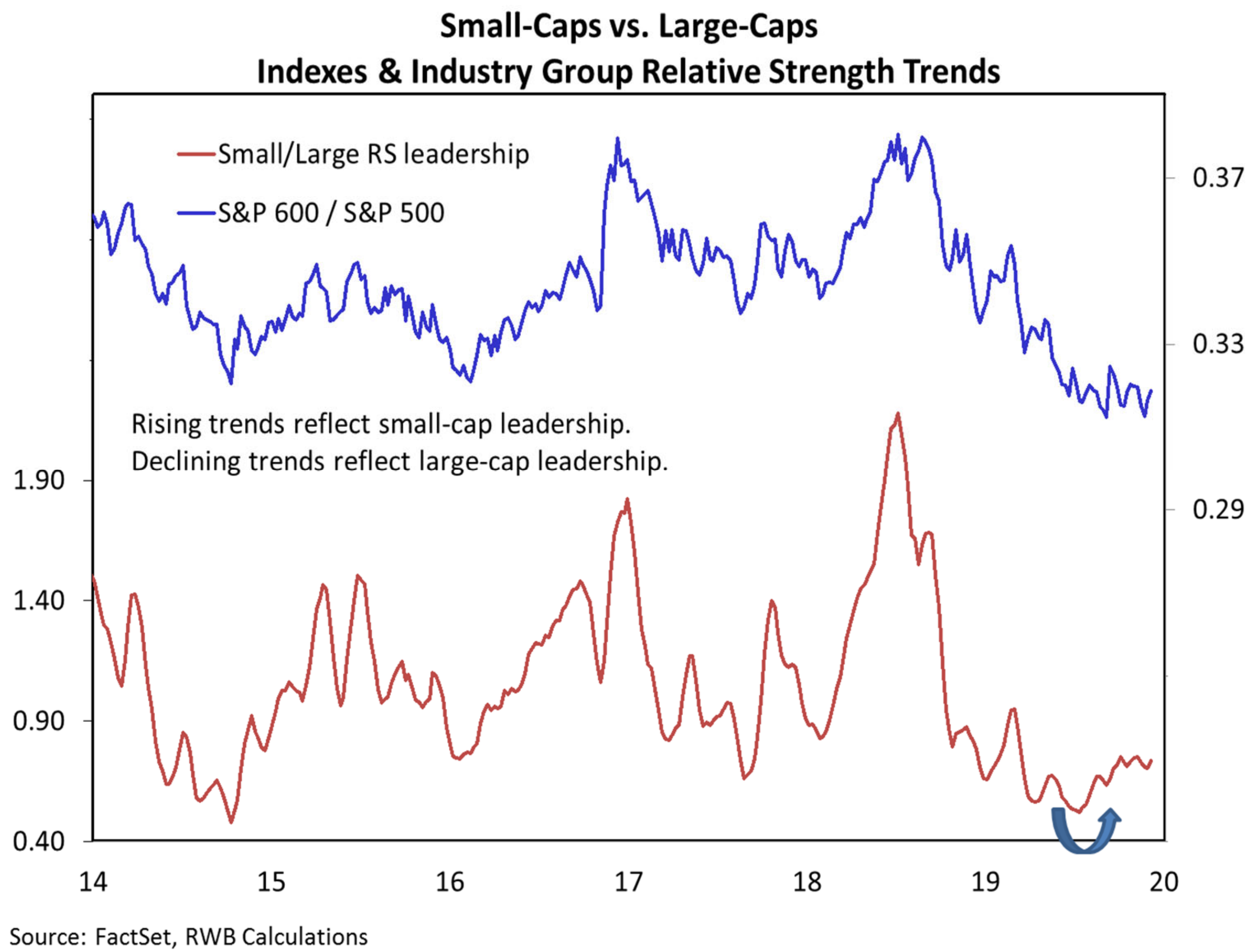
Domestics industry group trends have switched from making lower highs to making higher lows.



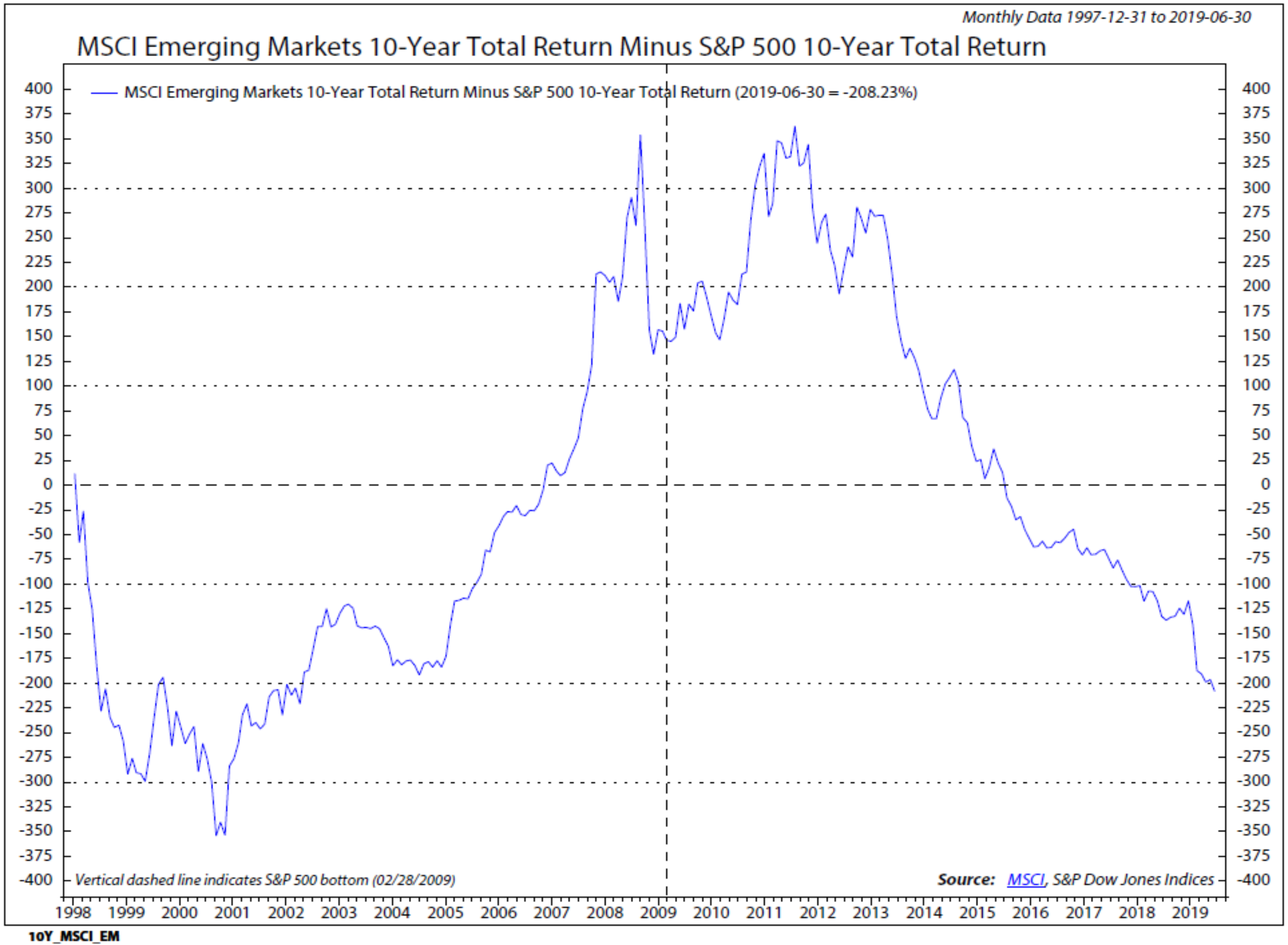
New lows have faded, but the number of stocks making new highs leaves room for improvement.



Industry group leadership is moving in the direction of small-cap strength.

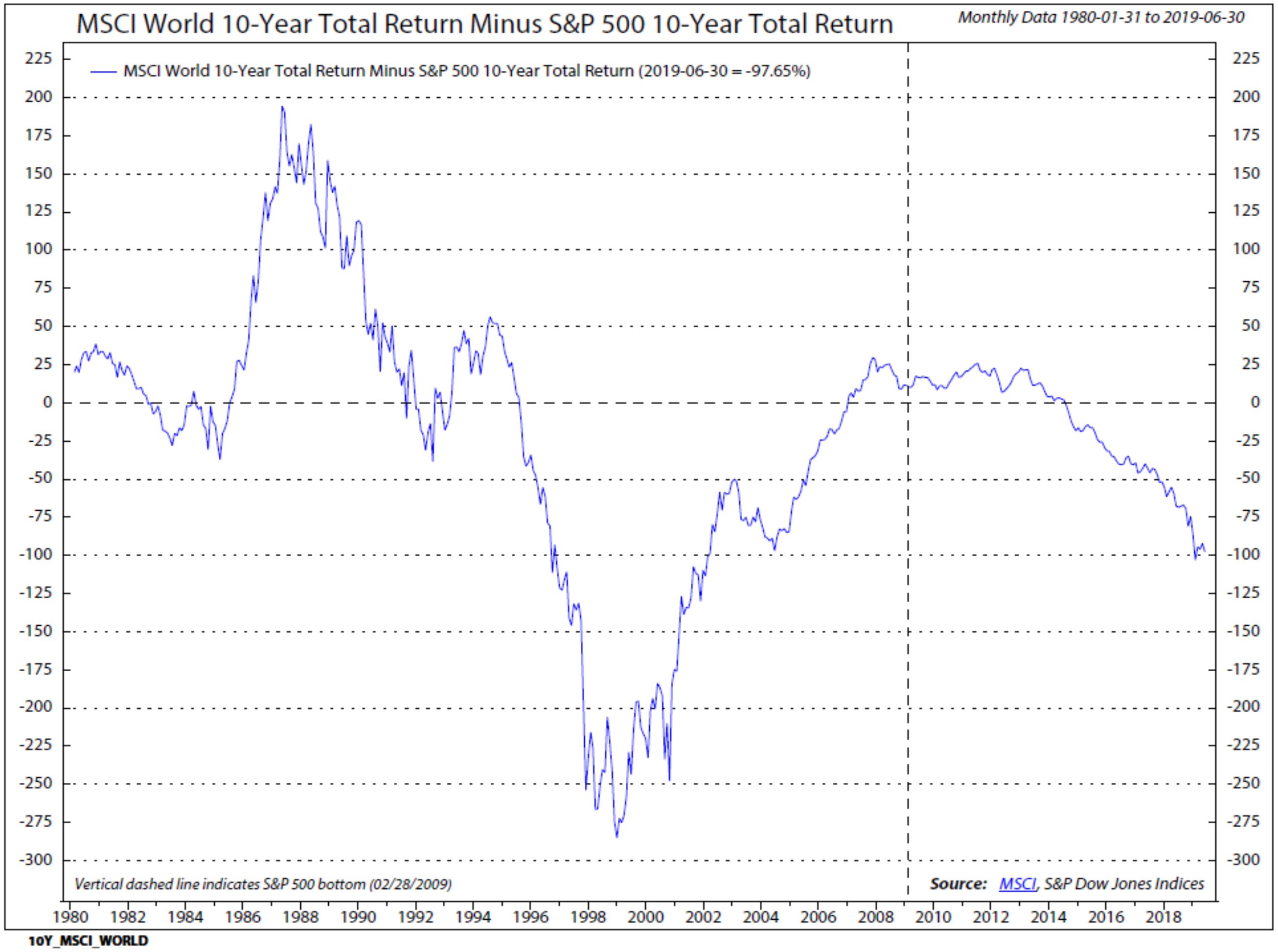


Emerging markets have lost considerable ground to the S&P 500 over the past decade.

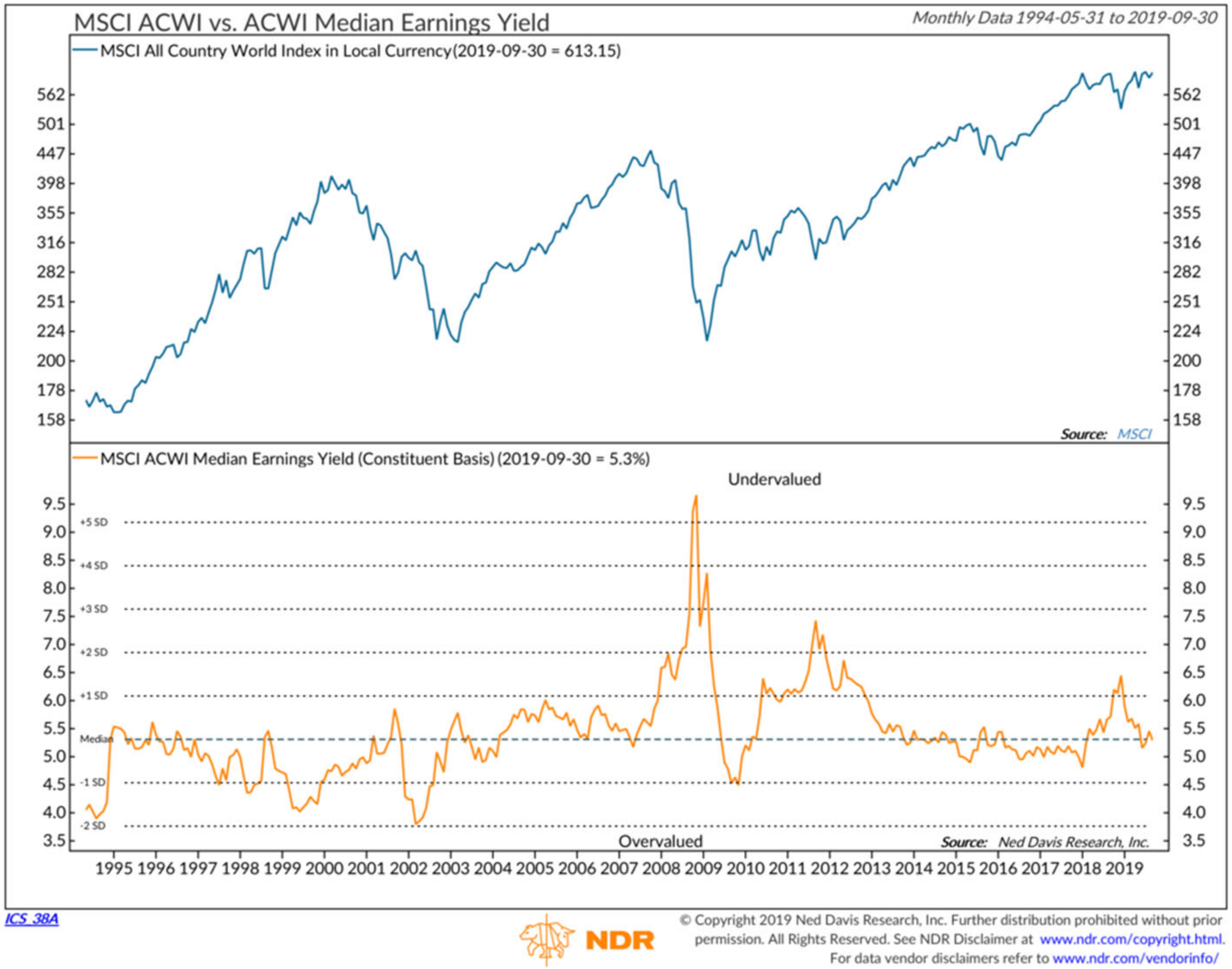


Source: Ned Davis Research

Gains in the S&P 500 over the past decade have not been matched by the rest of the world.



US valuations may be stretched, but global valuations appear less extreme.



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