

THE WEIGHT OF THE EVIDENCE: -1 (CAUTIOUS)

DETERIORATING BREADTH OFFSET BY IMPROVING SEASONAL TRENDS

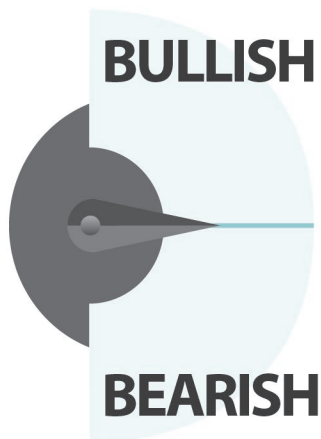
BAIRD

October 31, 2018

Please refer to Appendix – Important Disclosures.

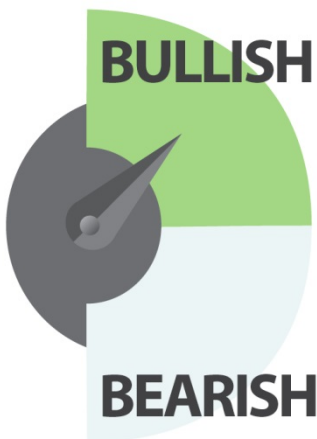
MACRO FACTORS (WHAT COULD HAPPEN):

FED POLICY



Fed expects to raise rates once more in 2018 and follow that with three more rate hikes in 2019.

ECONOMIC FUNDAMENTALS



Yearly GDP growth has exceeded forecasts in each of the past four quarters, the longest such string in nearly 20 years.

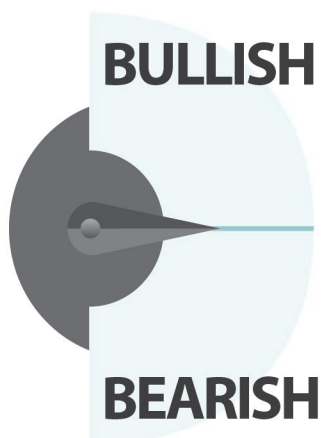
VALUATIONS



Valuations have been improving as prices have stalled and earnings growth has soared, but stocks are still not cheap.

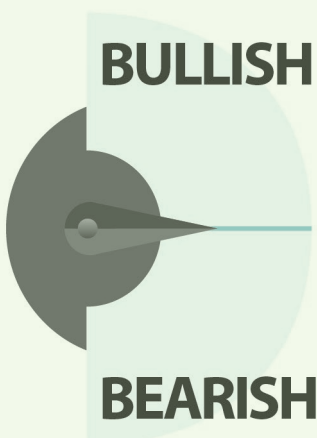
MARKET FACTORS (WHAT IS HAPPENING):

SENTIMENT



Investor optimism is waning but pessimism not widespread enough to suggest sentiment is washed out.

SEASONAL PATTERNS AND TRENDS



Passing of elections is typically a seasonal tailwind but lack of leadership confirmation is keeping us neutral.

BREADTH



Industry group trend deterioration has prompted a downgrade in our view of stock market breadth.

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