

THE WEIGHT OF THE EVIDENCE: -1 (CAUTIOUS)

CYCLICAL HEADWINDS CARRYING INTO NEW YEAR

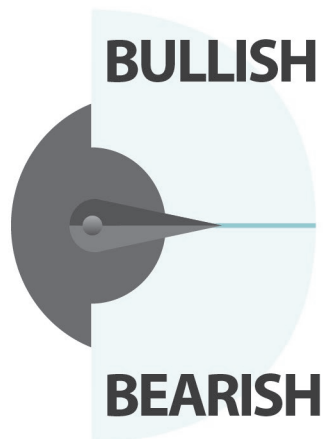
BAIRD

December 11, 2018

Please refer to Appendix – Important Disclosures.

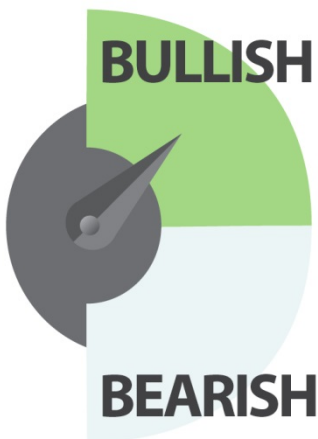
MACRO FACTORS (WHAT COULD HAPPEN):

FED POLICY



After a likely four rate hikes in 2018, the Fed could slow the pace of tightening in 2019.

ECONOMIC FUNDAMENTALS



Economic growth could moderate in the year ahead, but improving productivity growth trends are a longer-term tailwind.

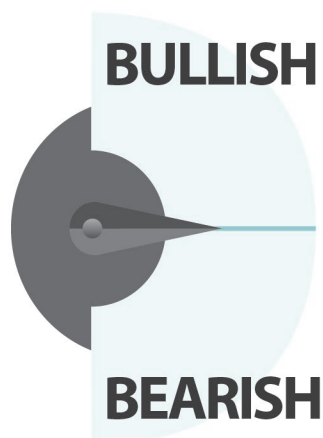
VALUATIONS



Valuations have moved in an encouraging direction, but stocks are not historically cheap and earnings growth may have already peaked.

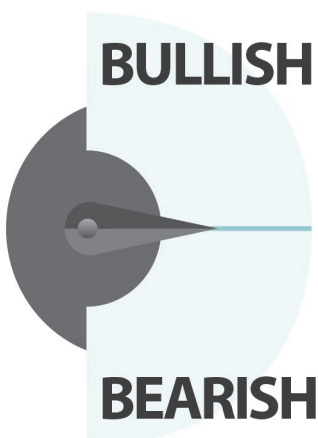
MARKET FACTORS (WHAT IS HAPPENING):

SENTIMENT



Bullish investors have been slow to throw in the towel on stocks and that has delayed the bottoming process.

SEASONAL PATTERNS AND TRENDS



Seasonal leadership trends have been slow to develop, despite favorable calendar considerations.

BREADTH



The new low list remains elevated and industry group trends show fewer areas of the market in up-trends.

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