INVESTMENT ADVISORY GROUP

2020 OUTLOOK

THE DANCE CONTINUES TWO STEPS FORWARD, ONE STEP BACK

In 2020, we see a slightly better global economic growth environment but modest capital market returns relative to the stellar gains of 2019.

We expect the global economy and markets to take two steps forward as stimulus measures lead to firming global growth, but policy uncertainty will cause markets to periodically take a step back. Easing US-China tensions are likely to be interrupted by periodic flare ups. The US elections will come into focus, and markets will ebb and flow with the changing dynamics of the race. Equities should outperform fixed income, but investors will need to decipher how much of the improved earnings backdrop and fading headwinds, such as receding recession risks, are already discounted into stock prices. The push and pull interest rate environment is set to continue.

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2020 Outlook: The Dance Continues
Two Steps Forward, One Step Back

Global Economy
Modest Growth Uptick

- Global growth should increase, driven by the lagged effect of aggressive monetary stimulus measures and easing geopolitical tensions.
- We anticipate steady growth in the US of around 2.3% as the resilient consumer continues to carry the economy forward.
- Growth in international developed markets is expected to stabilize, while activity in the emerging markets should see a slight pickup.

Global Equity
Glass Half Full

- Following the strong gains seen in 2019, we anticipate more average-like stock returns in 2020.
- Stocks should be well supported by a modest global recovery, accommodative monetary policy and improved earnings trends. However, this improved backdrop is already partially reflected in equity prices.
- Stocks still remain attractive on a relative basis and should be among the better performing asset classes.

Fixed Income
Push and Pull

- We expect fixed income returns in 2020 to be muted after the stellar returns of 2019.
- US rates should gyrate given the push of firming global growth and easing geopolitical tensions against the pull of low inflation, aging demographics and the strong demand for yield and safe-haven assets.
- We anticipate opportunities to lengthen portfolio duration closer to neutral as rates rise.

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2020 Asset Class Views and Forecasts

- **Equity tilt relative to fixed income**
- **Maintain US equity bias:**
  - Size: Large Cap bias
  - Style: Neutral growth/value
  - Favored Sectors: Financials and Industrials
- **International Developed Markets:**
  Less attractive but relative opportunity in small caps
- **Emerging Markets:**
  Neutral; active management is key
- **Bonds:**
  Maintain high quality bias along with modest high yield position
  - Look for tactical opportunities to increase duration and credit
  - Avoid International Developed Markets Bonds
  - Favor EM hard currency over EM local currency bonds
- **Non-Traditional Strategies:**
  Generally, favor less directional managers

Asset Classes	Less Attractive			More Attractive	
Equity				●	
Fixed Income		●			
Commodities	●				
Cash			●		

Global Equity	Less Attractive			More Attractive	
US Large Cap					●
US Mid Cap			●		
US Small Cap			●		
International Developed Markets		●			
Int'l Developed Markets Small Caps				●	
Emerging Markets (EM)			●		
Growth & Value Style			●		

US Fixed Income	Less Attractive			More Attractive	
US Government	●				
US Mortgage-Backed Securities				●	
US Investment Grade Corporate (IG)			●		
US High Yield Corporates (HY)				●	
Floating-Rate Bank Loans		●			
Duration		●			

Key 2020 Forecasts

2020 Global GDP Forecast**	3.1%
IAG Forecast US GDP Range	2.2% - 2.4%
IAG Forecast Fed Funds Rate Range	1.50% - 1.75%
IAG Forecast 10-Year US Treasury Yield	1.50% - 2.50%
IAG S&P 500 P/E Ratio Range	16x - 19x
S&P 500 12-Month Forward EPS***	$177.27

**Bloomberg Consensus ***FactSet Estimates

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Important Disclosures

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International investments are subject to special risks, such as political unrest, economic instability, and currency fluctuations. Investments in small-sized companies may involve greater risks than in those of larger, better known companies. Returns on investments in stocks of small companies could trail the returns on investments in stocks of larger companies.

Description of arithmetic and geometric mean: an arithmetic is the sum of a series of numbers divided by the count of that series of numbers while a geometric mean is used to calculate the average rate per period on investments that are compounded over multiple periods.

Asset classes are represented by the following indexes. An investment cannot be made directly into an index.

Equity is represented by the MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries*. With 2,757 constituents, the index covers approximately 85% of the global investable equity opportunity set

Fixed Income is represented by the Barclays Aggregate Index. The index measures the performance of the U.S. investment grade bond market. The index invests in a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States – including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.

Commodities are represented by the Bloomberg Commodity Index which is a composition of futures contracts on physical commodities. It currently includes a diversified mix of commodities in five sectors including energy, agriculture, industrial metals, precious metals and livestock. The weightings of the commodities are calculated in accordance with rules that ensure that the relative proportion of each of the underlying individual commodities reflects its global economic significance and market liquidity.

Cash is represented by the ICE BofAML US Treasury Bill 3 Month Index which is a subset of the ICE BofAML 0-1 Year US Treasury Index including all securities with a remaining term to final maturity less than 3 months.

US Large Cap Equity is represented by the S&P 500 Index which is an unmanaged index comprised of 500 widely-held securities considered to be representative of the stock market in general.

US Mid Cap is represented by the S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

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Important Disclosures

US Small Cap Core Equity is represented by the Russell 2000 Index which is a measure of the performance of the small-cap segment of the US equity universe. The Russell 2000 is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

International Developed Markets is represented by the MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries* around the world, excluding the US and Canada. With 921 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Emerging Markets is represented by the MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries*. With 1,125 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Growth is represented by the Russell 1000® Growth Index measures the performance of those Russell 1000® Index companies with lower price-to-book

ratios and lower forecasted growth values.

Value is represented by the Russell 1000® Value Index measures the performance of those Russell 1000® Index companies with higher price-to-book

ratios and higher forecasted growth values

US Government Bonds are represented by the Bloomberg Barclays US Government Index which is an unmanaged index comprised of all publicly issued, non-convertible domestic debt of the US government or any agency thereof, or any quasi-federal corporation and of corporate debt guaranteed by the US government

US Mortgage-Backed Securities are represented by the US Mortgage-Backed Securities (MBS) Index which covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

US Investment Grade Corporate Bonds are represented by the Bloomberg Barclays US Corporate Investment Grade Index which is an unmanaged index consisting of publicly issued US Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB- or higher) by at least two ratings agencies, have at least one year to final maturity and have at least $250 million par amount outstanding.

US High Yield Corp is represented by the ICE BofAML U.S. High Yield Index tracks the performance of below investment grade, but not in default, US dollar denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

Floating Rate Bank Loans are represented by the Credit Suisse Leveraged Loan Index. The index represents tradable, senior-secured, U.S.-dollar-denominated non-investment-grade loans.

Global Equity is represented by the MSCI All World Country (ACWI) Index which is defined as a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI Index consists of 48 country indices comprising 24 developed markets countries and 24 emerging markets countries.

Emerging Markets Equity is represented by the MSCI EM Index which is defined as a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets countries

Intermediate Term Municipal Bonds are represented by the Bloomberg Barclays Municipal Bond Blend 1-15 Year (1-17 Yr) is an unmanaged index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least $50 million, that have a maturity value of at least $5 million and a maturity range of 12 to 17 years.

US Core Taxable Bonds are represented by the Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

US Government Bonds are represented by the Bloomberg Barclays US Government Index which is an unmanaged index comprised of all publicly issued, non-convertible domestic debt of the US government or any agency thereof, or any quasi-federal corporation and of corporate debt guaranteed by the US government.

US IG Corporate Bonds are represented by the Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

US High Yield Corporate Bonds are represented by the ICE BofAML US HY Master Index which is an index that tracks US dollar denominated debt below investment grade corporate debt publicly issued in the US domestic market.

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