



Economic Review and Outlook

3Q19

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The Economy; Slowing Down but Not Out

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- ❖ U.S. consumer and jobs data was softer during the quarter, supporting moderate, albeit slower, GDP growth. Expectations for third quarter real GDP are around 2.0%.
 - Unemployment ended the quarter at 3.5% but non-farm payrolls, an important measure of the employment situation and ultimately consumption, was off the 200,000+ pace seen for the past year.
 - Consumer confidence was marginally lower this quarter, as was consumer spending the first two months. Record low unemployment rates provided support to spending and growth.
- ❖ Trade issues influenced business activity. Manufacturing, although less than 15% of GDP, continued to contract especially in export sectors. The service sector, while still expanding, did so at a slower pace.
- ❖ Trade tariffs had a slight impact on inflation, but lower demand provided a cap to input prices, including wages. Average hourly earnings ended the quarter up 2.9% y-o-y, which is below the previous quarter's 3.1%. Core PCE inflation was 1.4% as of August 2019.
- ❖ Business confidence, including for small businesses, remained a concern and uncertainty is behind lower spending and capital investment.
- ❖ Global manufacturing contracted, particularly in Germany and other parts of the EU. Japan, South Korea, Taiwan, and Indonesia production activity was also weak. International trade continued to shrink, and business optimism declined in the third quarter.
- ❖ China's manufacturing sector rebounded modestly in September, despite weaker local business optimism. Export growth continued to slow. The government continued to stimulate domestic consumption and business spending. Third quarter GDP was 6.0%, the lowest level since 1992.
- ❖ Weaker global economic data, and sub-target inflation is behind accommodative monetary policy. The Federal Reserve lowered the Fed Funds rate twice during the quarter to 1.75-2.00%. The ECB also restarted QE programs to provide monetary accommodation.

Market Performance During the Third Quarter

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- ❖ Performance was mixed in the third quarter, as economic data weakened but interest rate cuts, easing global monetary policy, and the overall improved prospects for a trade deal provided financial market support.
- ❖ Federal Reserve Open Market Committee members turned more dovish during the quarter, and for the first time since 2008, initiated two interest rate cuts.
 - The 10-year Treasury ended the quarter at 1.68%. The 10 year-3 month yield curve was inverted throughout the quarter. With the drop in yields at the longer end of the curve, fixed income was one of the better performing asset classes over this time period. Real estate was the home run for the quarter, as was the defensive utility sector.
 - Given the shift from riskier assets, high yield bonds did not perform as well.
- ❖ The U.S. economy is still the growth engine of the global economy. Contracting economic conditions abroad caused international stocks to underperform U.S equities.
 - Brexit uncertainty added to market concerns.
 - Driven by global economic concerns, export-leaning emerging markets and commodities were the worst performing asset classes, despite a temporary oil price spike after the bombing of a Saudi oil facility.
 - In U.S. markets, large caps continue to outperform, while value stocks enjoyed a late-cycle resurgence in September.
- ❖ Second quarter profits reported in July declined about -0.70%, and analysts are expecting a greater decline for the S&P 500 for the third quarter.

	3Q19 Return
S&P 500	1.70%
Russell 2000	-2.40%
MSCI EAFE	-1.07%
MSCI EM	-4.25%
BBgBarc US Aggregate	2.27%
FTSE NAREIT	7.80%
S&P GSCI	-4.18%

Key Considerations to the Global Outlook

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- ❖ Most forecasters expect U.S. growth to be about 2% for the balance of 2019 as there does not appear to be a quick solution for a sweeping trade deal between the U.S. and China. After the end of the quarter, news of “Phase One” of an agreement encouraged markets but analysts were less optimistic. Overall, global growth is expected to be lower this year, but around 3.2-3.4% in 2020.
 - Looking to 2020, the analyst’s probability of a U.S. recession is below 50%, given the Fed’s interest in making a “mid-cycle adjustment” to interest rates. Also a lack of financial market excess, such as asset price bubbles or rapidly rising inflation supports the case for the U.S. avoiding a recession in the next year. Regardless of the timing, if there is a recession, most analysts expect it to be shallow for these reasons.
 - However, jobs data will have to be watched closely, and any impact it can have on consumption should be monitored.
 - China’s growth has weakened, but the government has used stimulus programs such as tax and interest rate cuts to encourage domestic consumption. Early data suggests GDP growth could be leveling out.
- ❖ So far, the Congressional inquiry into the impeachment of President Trump has had limited impact on financial markets. It is also early to fully analyze possible election outcomes.
- ❖ Geopolitical risks seem to increase each day, with tensions in the Middle East rising. Brexit is still confusing; will it be a hard exit or a deadline extension or a new election? While the market reacts to news events in isolation, there has not been a wholesale pricing of these many risks into asset prices.
- ❖ Given the many facets of uncertainty, businesses have curtailed investment and spending. Will that spill over into hiring policies? What impact does a lack of investment have on long-term earnings potential?
- ❖ Long-term structural issues also do not favor a high growth scenario in the future. Investment in technology is slowing and aging populations around the world will put a drag on productivity. Debt levels and large underfunded liabilities can also do the same.

Global Economic Growth

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- ❖ EU manufacturing activity continues to decline as the U.S. achieves the highest level since April. Rising demand in China lifts activity to the highest level in 19 months:

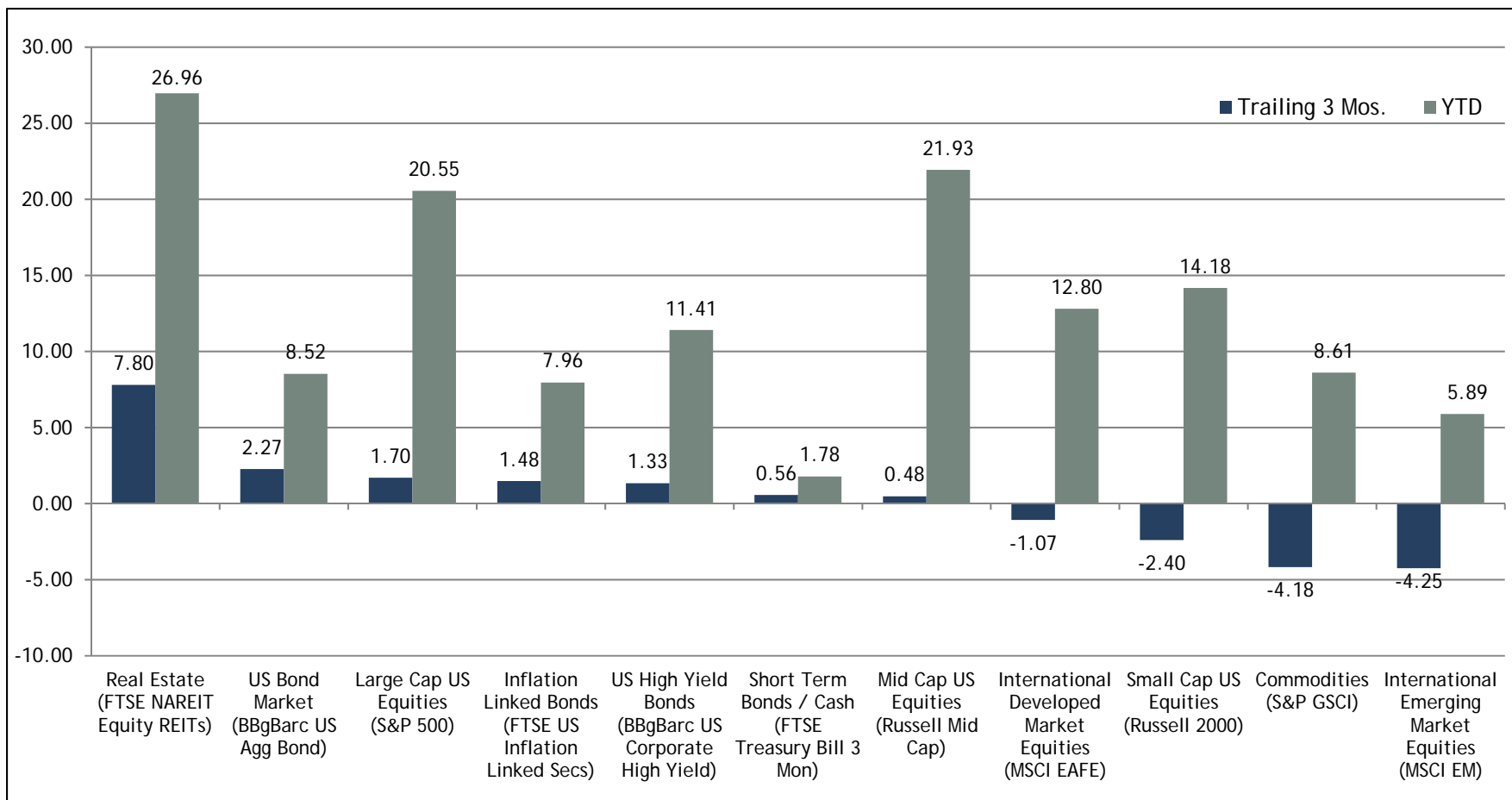
Global Purchasing Managers' Index for Manufacturing

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
<i>JPM Global</i>	54.4	54.1	53.4	53.5	53.4	53.0	52.7	52.6	52.2	52.1	52.0	51.4	50.7	50.6	50.6	50.4	49.8	49.4	49.3	49.5	49.7
<i>Developed</i>	56.0	55.7	54.9	54.6	54.7	54.4	54.0	53.8	53.6	53.2	52.8	52.3	51.5	50.4	50.0	50.2	49.2	48.9	48.6	48.7	48.6
<i>Emerging</i>	52.0	51.9	51.3	51.2	51.1	51.2	51.0	50.8	50.3	50.5	50.8	50.3	50.0	50.6	51.0	50.5	50.4	49.9	50.1	50.4	51.0
<i>US</i>	55.3	55.3	55.6	56.4	56.4	55.4	55.3	54.7	55.6	55.7	55.3	53.8	54.9	53.0	52.4	52.6	50.5	50.6	50.4	50.3	51.1
<i>Canada</i>	55.6	55.6	55.7	56.2	56.2	57.1	56.9	56.8	54.8	53.9	54.9	53.6	53.0	52.6	50.5	49.7	49.1	49.2	50.2	49.1	51.0
<i>Japan</i>	54.1	54.1	53.1	52.8	52.8	53.0	52.3	52.5	52.5	52.9	52.2	52.6	50.3	48.9	49.2	50.2	49.8	49.3	49.4	49.3	48.9
<i>UK</i>	54.9	55.0	55.1	54.3	54.3	54.4	54.0	53.0	53.6	51.1	53.6	54.2	52.8	52.1	55.1	53.1	49.4	48.0	48.0	47.4	48.3
<i>Euro Area</i>	58.6	58.6	56.6	55.5	55.5	54.9	55.0	54.6	53.2	52.0	51.8	51.4	50.5	49.3	47.5	47.9	47.7	47.6	46.5	47.0	45.7
<i>Germany</i>	60.6	60.6	58.2	56.9	56.9	55.9	57.0	55.9	53.7	52.2	51.8	51.5	49.7	47.6	44.1	44.4	44.3	45.0	43.2	43.5	41.7
<i>France</i>	55.9	55.9	53.7	54.4	54.4	52.5	53.3	53.5	52.5	51.2	50.8	49.7	51.2	51.5	49.7	50.0	50.6	51.9	49.7	51.1	50.1
<i>Italy</i>	56.8	56.8	55.1	52.7	52.7	53.3	51.3	50.1	50.0	49.2	48.6	49.2	47.8	47.7	47.4	49.1	49.7	48.4	48.5	48.7	47.8
<i>Spain</i>	56.0	56.0	54.8	53.4	53.4	53.4	52.9	53.0	51.4	51.8	52.6	51.1	52.4	49.9	50.9	51.8	50.1	47.9	48.2	48.8	57.7
<i>China</i>	51.6	51.6	51.0	51.1	51.1	51.0	50.8	50.6	50.0	50.1	50.2	49.7	48.3	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4
<i>India</i>	52.1	52.1	51.0	51.2	51.2	53.1	52.3	51.7	52.2	53.1	54.0	53.2	53.9	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4
<i>Brazil</i>	53.2	53.2	53.4	50.7	50.7	49.8	50.5	51.1	50.9	51.1	52.7	52.6	52.7	53.4	52.8	51.5	50.2	51.0	49.9	52.5	53.4
<i>Mexico</i>	51.6	51.6	52.4	51.0	51.0	52.1	52.1	50.7	51.7	50.7	49.7	49.7	50.9	52.6	49.8	50.1	50.0	49.2	49.8	49.0	49.1
<i>Russia</i>	50.2	50.2	50.6	49.8	49.8	49.5	48.1	48.9	50.0	51.3	52.6	51.7	50.9	50.1	52.8	51.8	49.8	48.6	49.3	49.1	46.3

Source: Trading Economics and Markit Economics

Financial Market Performance Over the Quarter

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Source: Morningstar

Financial Market Performance

Economic Review and Outlook, 3Q19

Data as of 9/30/2019

DOMESTIC EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market	DJ Industrial Average	1.83	17.51	4.21	16.44	12.28	13.56
	S&P 500	1.70	20.55	4.25	13.39	10.84	13.24
	NASDAQ Composite	0.18	21.54	0.52	15.88	13.51	15.49
	Wilshire 5000 Total Market	1.23	20.11	2.95	12.91	10.58	13.09
Large Cap	Russell 1000	1.42	20.53	3.87	13.19	10.62	13.23
	Russell 1000 Growth	1.49	23.30	3.71	16.89	13.39	14.94
	Russell 1000 Value	1.36	17.81	4.00	9.43	7.79	11.46
Mid Cap	Russell Mid Cap	0.48	21.93	3.19	10.69	9.10	13.07
	Russell Mid Cap Growth	-0.67	25.23	5.20	14.50	11.12	14.08
	Russell Mid Cap Value	1.22	19.47	1.60	7.82	7.55	12.29
Small Cap	Russell 2000	-2.40	14.18	-8.89	8.23	8.19	11.19
	Russell 2000 Growth	-4.17	15.34	-9.63	9.79	9.08	12.25
	Russell 2000 Value	-0.57	12.82	-8.24	6.54	7.17	10.06

Source: Morningstar

INTERNATIONAL EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Developed	MSCI ACWI	-0.03	16.20	1.38	9.71	6.65	8.35
	MSCI ACWI Ex USA	-1.80	11.56	-1.23	6.33	2.90	4.45
	MSCI EAFE	-1.07	12.80	-1.34	6.48	3.27	4.90
	MSCI EAFE Growth	-0.45	17.94	2.21	7.77	5.49	6.52
	MSCI EAFE Value	-1.74	7.67	-4.92	5.10	0.99	3.23
	MSCI EAFE Small Cap	-0.44	12.05	-5.93	5.94	6.02	7.45
	MSCI Europe	-1.80	13.72	-0.75	6.57	2.38	4.61
	MSCI Europe Ex UK	-1.55	15.07	0.02	7.31	3.18	4.46
	MSCI Pacific Free	0.23	11.43	-2.17	6.54	5.11	5.61
	MSCI Pacific Free Ex Japan	-5.20	11.89	3.01	7.12	4.20	5.75
Emerging	MSCI Japan	3.13	11.12	-4.69	6.22	5.61	5.51
	MSCI EM	-4.25	5.89	-2.02	5.97	2.33	3.37
	MSCI BRIC	-4.56	8.57	2.79	8.63	4.40	2.63
	MSCI EM Latin America	-5.61	6.32	6.70	6.80	-0.78	-0.48
	MSCI EM Europe	-2.63	17.26	10.09	10.79	1.17	0.74
MSCI EM Asia	-3.41	5.98	-3.87	6.33	4.09	5.20	

Source: Morningstar

FIXED INCOME

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
BBqBarc US Agg Bond		2.27	8.52	10.30	2.92	3.38	3.75
BBqBarc US Government		2.39	7.66	10.40	2.27	2.90	3.00
BBqBarc US Credit		2.98	12.61	12.63	4.33	4.54	5.32
BBqBarc US Govt/Credit Interm		1.37	6.41	8.17	2.40	2.68	3.05
BBqBarc US Govt/Credit Long		6.58	20.93	21.88	5.56	6.81	7.42
FTSE US Inflation Linked Secs		1.48	7.96	7.41	2.27	2.57	3.60
BBqBarc EM USD Aggregate		1.28	10.79	10.60	4.42	5.04	6.66
BBqBarc ABS		0.92	4.13	5.42	2.24	2.25	2.82
BBqBarc US MBS		1.37	5.60	7.80	2.32	2.80	3.14
FTSE Treasury Bill 3 Mon		0.56	1.78	2.36	1.52	0.96	0.52
ICE BofAML 1-3Y US Trsy		0.58	3.03	4.36	1.52	1.32	1.18
BBqBarc US Corp Aaa		4.21	14.96	16.60	4.96	5.43	5.12
BBqBarc US Corp A		2.93	12.27	12.58	3.96	4.53	5.23
BBqBarc US Corp Baa		3.13	14.33	13.40	5.07	4.92	6.23
BBqBarc US Corporate High Yield		1.33	11.41	6.36	6.07	5.37	7.94
BBqBarc US HY Caa		-1.76	5.57	-4.22	5.47	4.46	8.24

Source: Morningstar

STABLE VALUE & MONEY MARKET

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Median Taxable Money Market Fund		0.56	1.79	2.37	1.52	0.96	0.57
Median Stable Value Fund		0.64	1.87	2.47	2.17	2.01	2.20
Consumer Price Index		0.16	2.13	1.40	1.97	1.47	1.72

Source: PEI

REAL ASSETS

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
FTSE NAREIT Equity REITs		7.80	26.96	18.42	7.36	10.26	13.04
Bloomberg Commodity		-1.84	3.13	-6.57	-1.50	-7.18	-4.32
S&P GSCI		-4.18	8.61	-16.31	1.54	-11.74	-5.43

Source: Morningstar

Survey Data: Outlook and Forecasts

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	Third Quarter 2019*	Fourth Quarter 2019*
U.S. GDP	1.82%	1.77%
Unemployment	-	3.61%
CPI	-	2.02%
Fed Funds	1.50-1.75%	1.50-1.75%

"Global growth in 2020 is projected to improve modestly to 3.4 percent, a downward revision of 0.2 percent from our April projections. However, unlike the synchronized slowdown, this recovery is not broad based and is precarious.."

-IMF,
October 2019

Other Projections as of October 15, 2019

	3Q19 U.S. GDP	4Q19 U.S. GDP	2019 Global GDP	2020 U.S. GDP	2020 Global GDP
<i>Atlanta Federal Reserve Bank</i>	1.70%	-	-	-	-
<i>New York Federal Reserve Bank</i>	2.00%	1.30%	-	-	-
<i>International Monetary Fund</i>			3.00%	1.70%	3.40%

*Source: *The Wall Street Journal*, October 1, 2019; survey average of 76 economists