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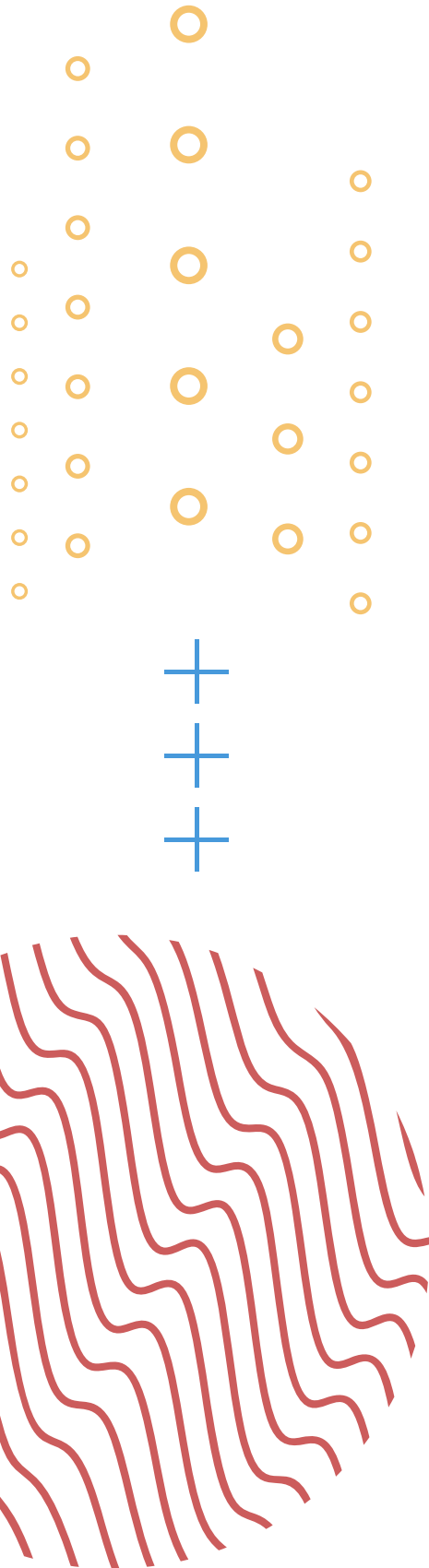
✕ It's Always a Matter of Perspective

- Economic data is telling more than one story
- The majority of equity markets have higher-than-average valuations, so returns may be muted
- A diversified portfolio may be the best option to mitigate risk in both bonds and stocks

Whether flipping through the news feed on your phone or flipping the channels on your TV, it can be hard to decide what to make of the economic forecast. One outlet may say there's nothing to worry about, and two minutes later, another is painting a picture of doom and gloom. It can be a challenge getting a handle on what to feel about your investments, let alone deciding what to do with them. The reality is that things can rarely be encapsulated in a sound bite, or through the lens of one country's actions, a single market event, or a lone government report. When only one perspective is considered, it can be easy to distort perception and hide the reality of a situation. In our 2020 Outlook, we evaluate opposing viewpoints to try to get a better perspective of the future.

What You See Depends on Where You Look

It is true that economic growth is slowing around the world, including the United States. Real GDP grew by nearly 3% in 2018, but is expected to drop to about 2% for 2019. It is easy to look at this pessimistically and read into it that a recession is coming. However, looking at it another way, average GDP growth for this entire expansion—the longest in U.S. history—is only 2.3%. As we tend to have a bias for considering data only in the short run, this decline in GDP seems bound to be a disappointment compared to last year. But taking a broader perspective over a longer period of time, it appears pretty average, with 2018's growth more the anomaly. GDP is also a lagging indicator: we should also consider more forward-looking measures to gauge expectations for next year.



Surveys of business leaders can be just such useful leading indicators, because they tell us how decision-makers feel about the future direction of the economy as they plan to make (or not make) investments in both labor and capital. Manufacturing surveys have been falling for some time and even indicating growth in manufacturing could be negative. Business leaders in the service sector, while not super optimistic, have at least been less pessimistic. As the service sector employs roughly 75% of workers in the U.S., we see this as a positive sign.

That brings us to employment data, where unemployment is near 50-year lows. Sounds great, right? A deeper dive into the numbers may give a less definitive answer, though. The trend in unemployment is important, because labor markets tend to bottom out before a recession: companies tend not to lay people off until after a recession has begun. The catch here is that new claims for unemployment benefits have been inching up recently, so we will be closely watching them, along with any slowing in new hiring, in 2020.

You Can Still Chart a Clear Path to the Future—It Just Might Be a Bumpy One

Looking to equity markets, we continue to think volatility will increase, in part thanks to uncertainty around elections and Brexit. Also, price-to-earnings ratios in large cap equity are on the higher end of historical averages. A lot of earnings growth is factored into current prices, and we believe 2020 earnings projections may be a little too high. If indeed they need to be revised lower, we could see volatility as companies report those revised earnings.

Bond markets are also mixed. Higher-quality-bond investors have shown a bit more pessimism and have been driving down yields as they hedge equity risks, while high-yield investors are comfortable with the risks and have not demanded much more additional yield (i.e., compensation) for the risks they are taking.

Of course, there are risks to our outlook. Next year is an election year in the United States and there will be a lot of noise out of Washington. We anticipate plenty of political twists and turns in 2020, but urge you to focus on what you can control and not let optimism or pessimism about potential outcomes steer you from pursuing your own financial goals. Fiscal and trade policies do have an impact to the economy, but the Fed can offset positive and negative impacts, and things are rarely as bad—or as good—as they seem. There is a significant chance we'll simply see more congressional gridlock, regardless of whichever ideology captures the executive branch, so that there will likely be little legislation to drive sweeping changes.

One thing is for sure: we do expect volatility to pick up in 2020. Lately it has been low, and if the current economic expansion stalls, volatility could pick up as it has during the end of the past few business cycles. Being diversified with a long-term plan is still the best hedge against uncertainty and unease.

Your financial professional can help you ensure your plan, financial objectives, and life circumstances are in alignment and help you chart a clear path for the future—no matter what happens around you.

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Glossary

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The MSCI EAFE is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

MSCI Turkey Index measures the performance of the large and mid cap segments of the Turkish stock market. It is composed of 24 constituents and covers approximately 85% of the Turkey equity universe.

Russell 1000 Value Index measures the performance of the large cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 1000 Growth Index measures the performance of the large cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Nasdaq composite is an index that tracks more than 3,000 domestic and international based companies that trade on the Nasdaq Stock Market. This index has a high weight of information technology stocks.

