

Economic & Market Outlook: It All Depends On Your Time Horizon

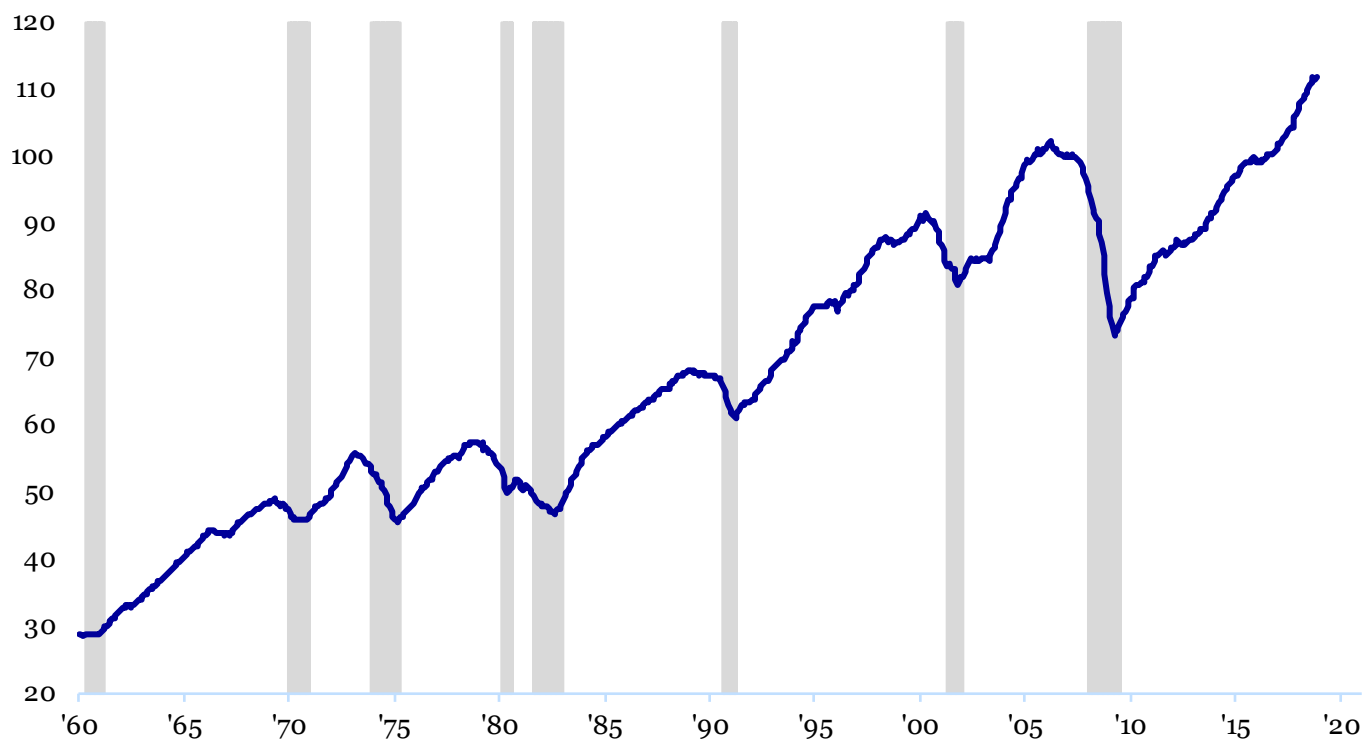
Linda A. Duessel, CFA®, CPA, CFP®

Senior Equity Strategist

Senior Vice President

This Could Be The Longest Economic Cycle In U.S. History

Conference Board Leading Economic Indicator
(SA, 2010 = 100)

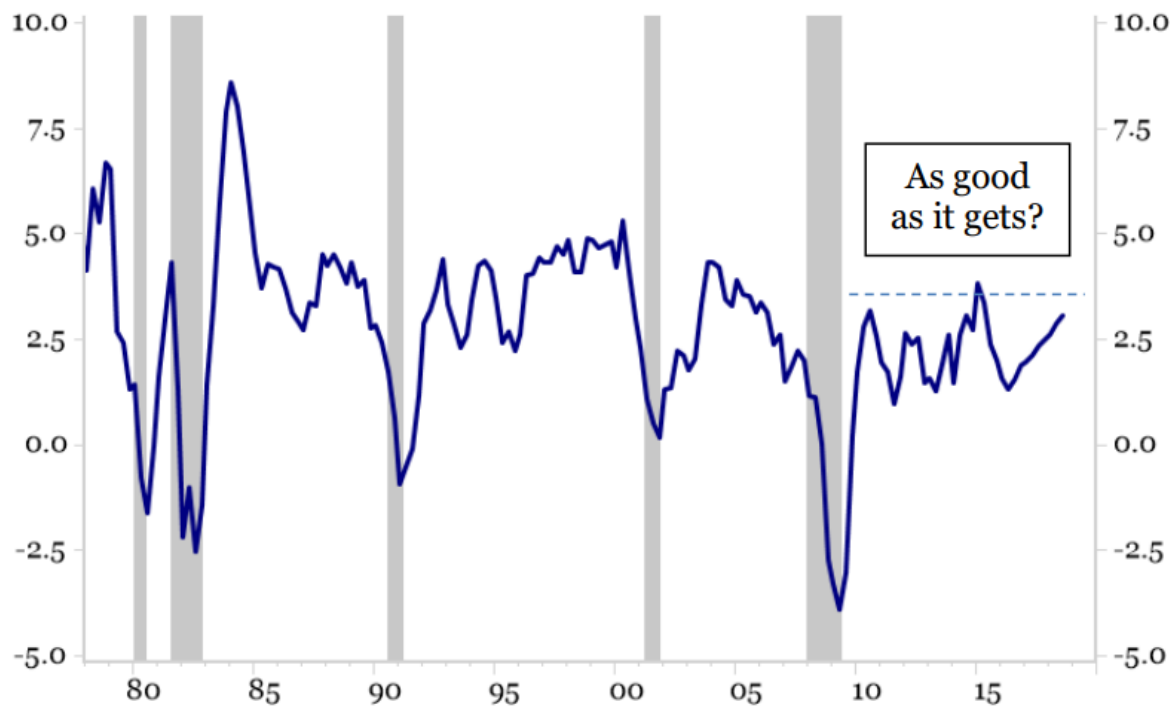


The shaded areas represent recession.

Source: Strategas – January 2019

So What Should We Worry About?

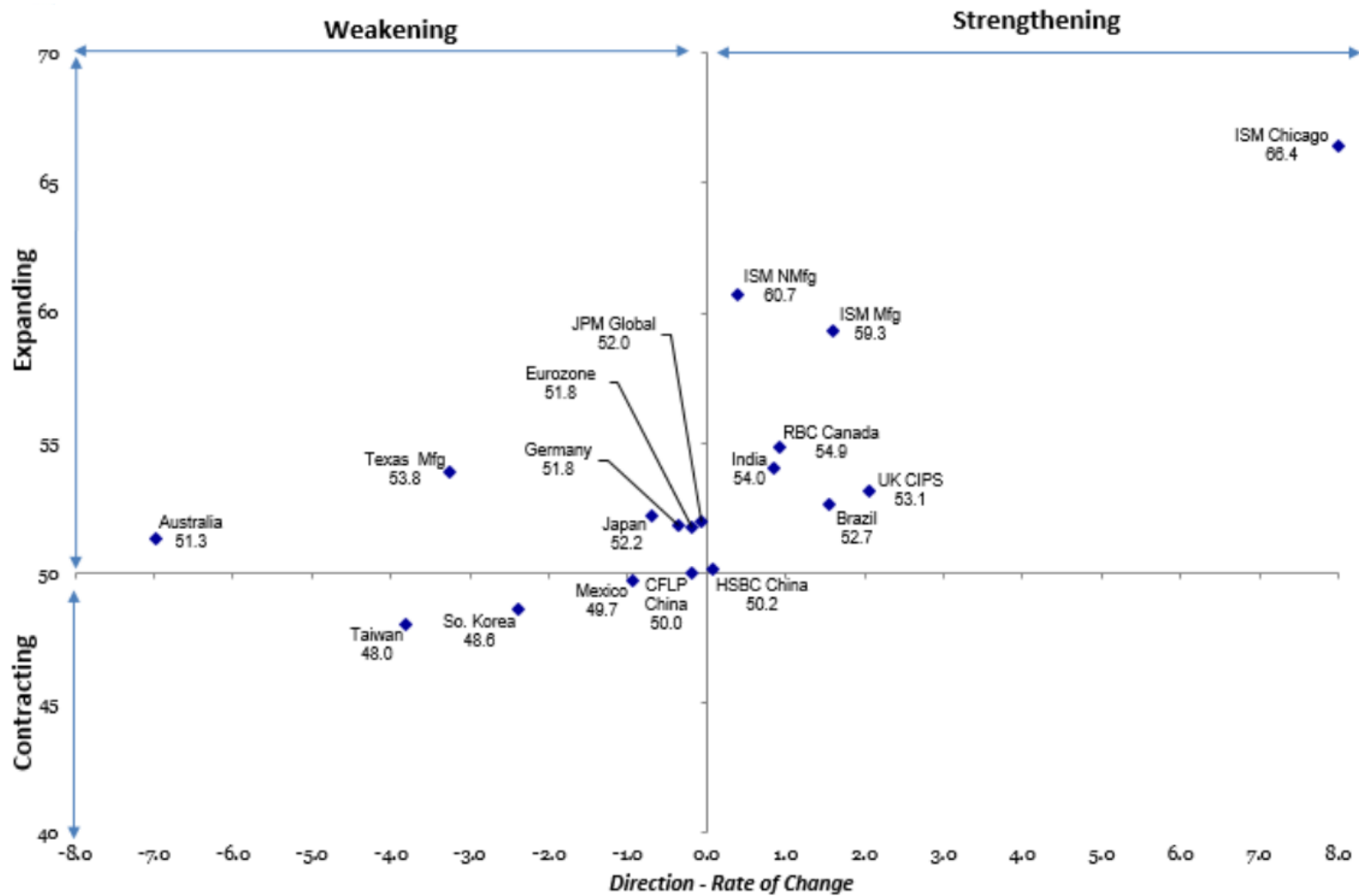
U.S. Real Gross Domestic Product
% Change – Year to Year SAAR, Bil. Chn. 2012\$



The shaded areas represent recession.

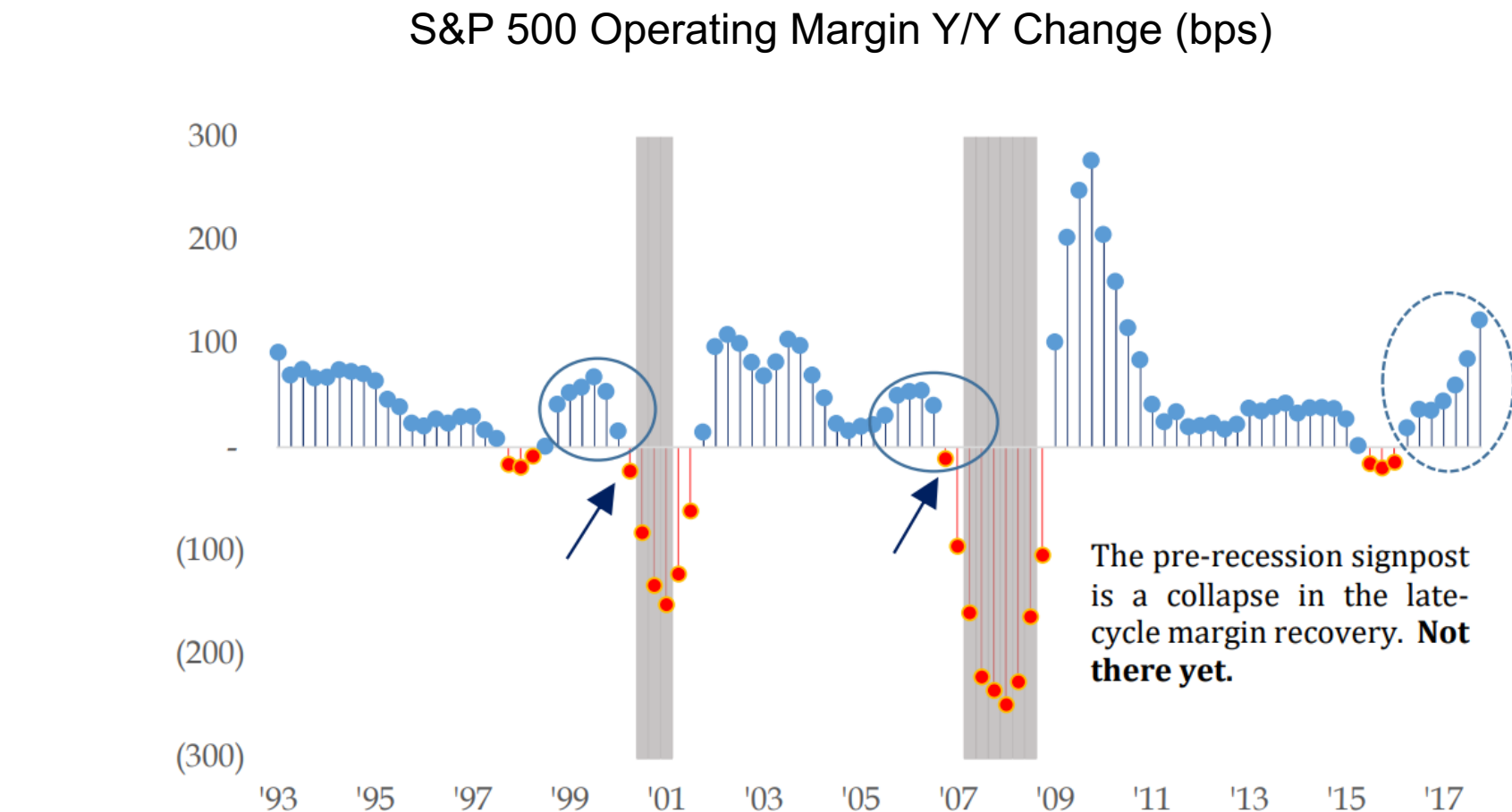
Source: Bureau of Economic Analysis, Strategas – October 2018

Synchronous Global Recovery No More



Source: Strategas – January 2019

Profitability Has Traditionally Fallen Hard Before Recession

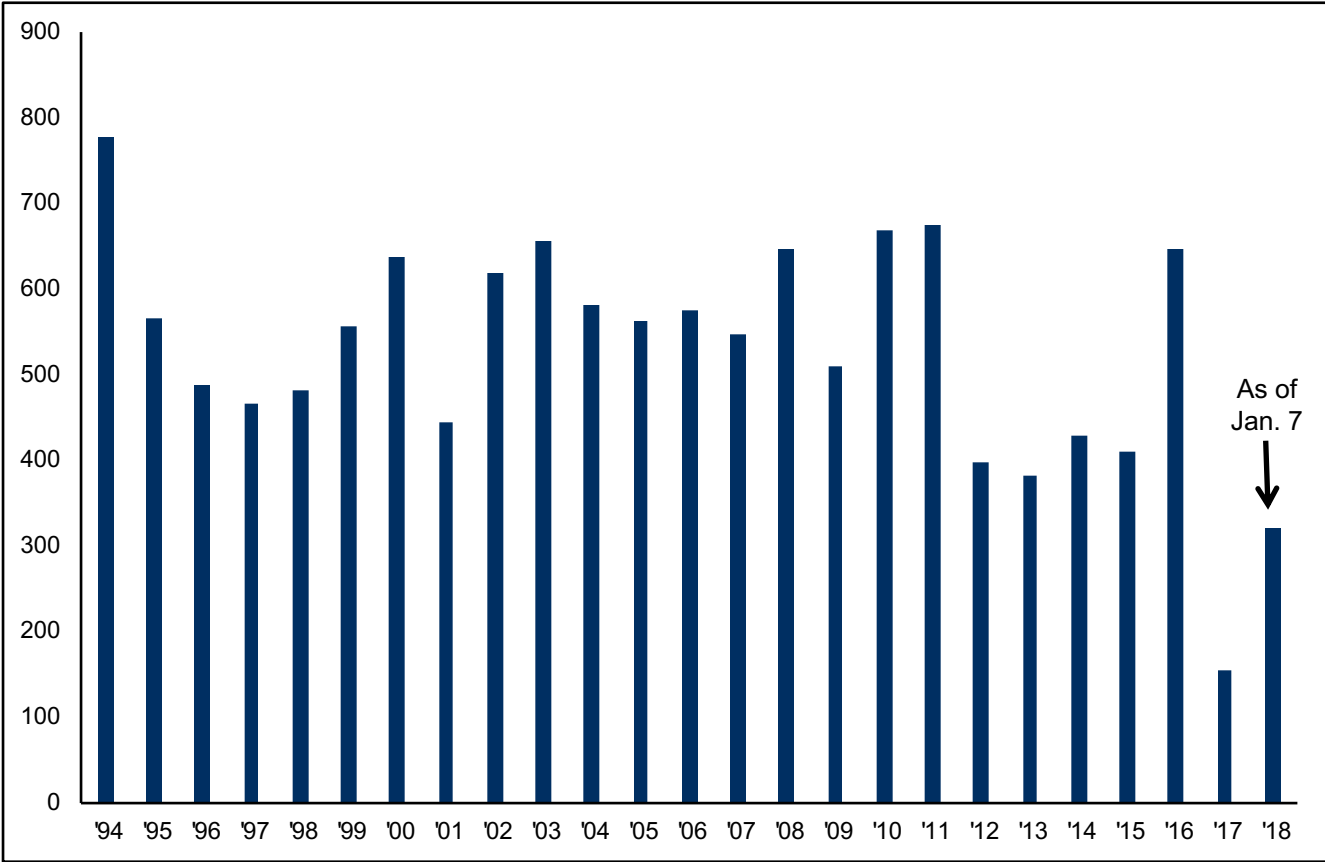


Shaded bars represent recessions.

Source: Strategas – January 2019

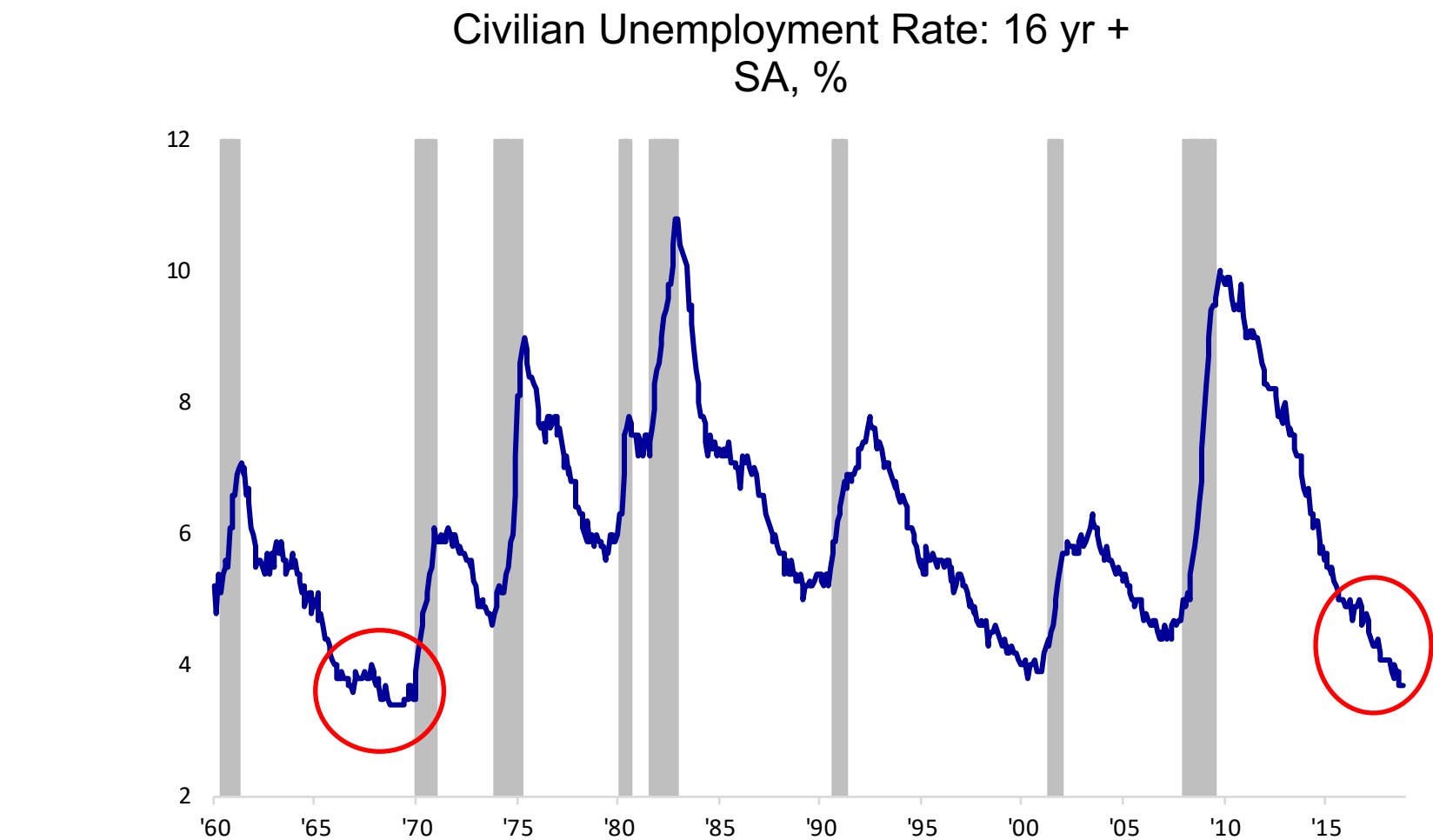
Businesses No Longer Complaining About Regulations

Major Regulations
By The Office of Information and Regulatory Affairs,
Measures Jan 20-Jan19 Of Following Year



Source: Strategas Securities, LLC – Investment Strategy – January 2019

The Unemployment Rate Is At Historical Lows

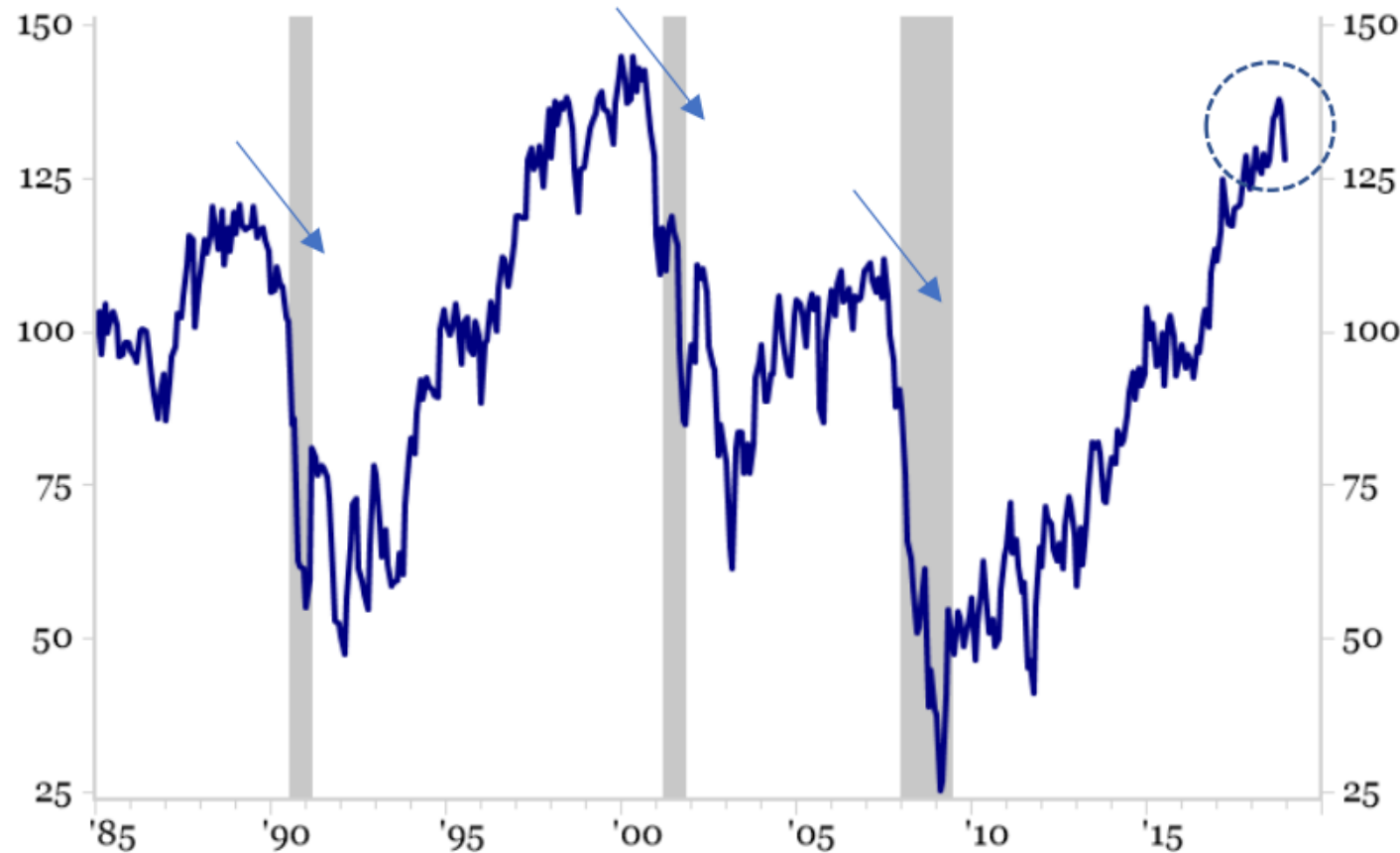


The shaded areas represent recession.

Source: Bureau of Labor Statistics, Strategas – January 2019

Sharp Consumer Confidence Drop Typically Leads Recession By About A Year

Conference Board: Consumer Confidence
SA, 1985=100

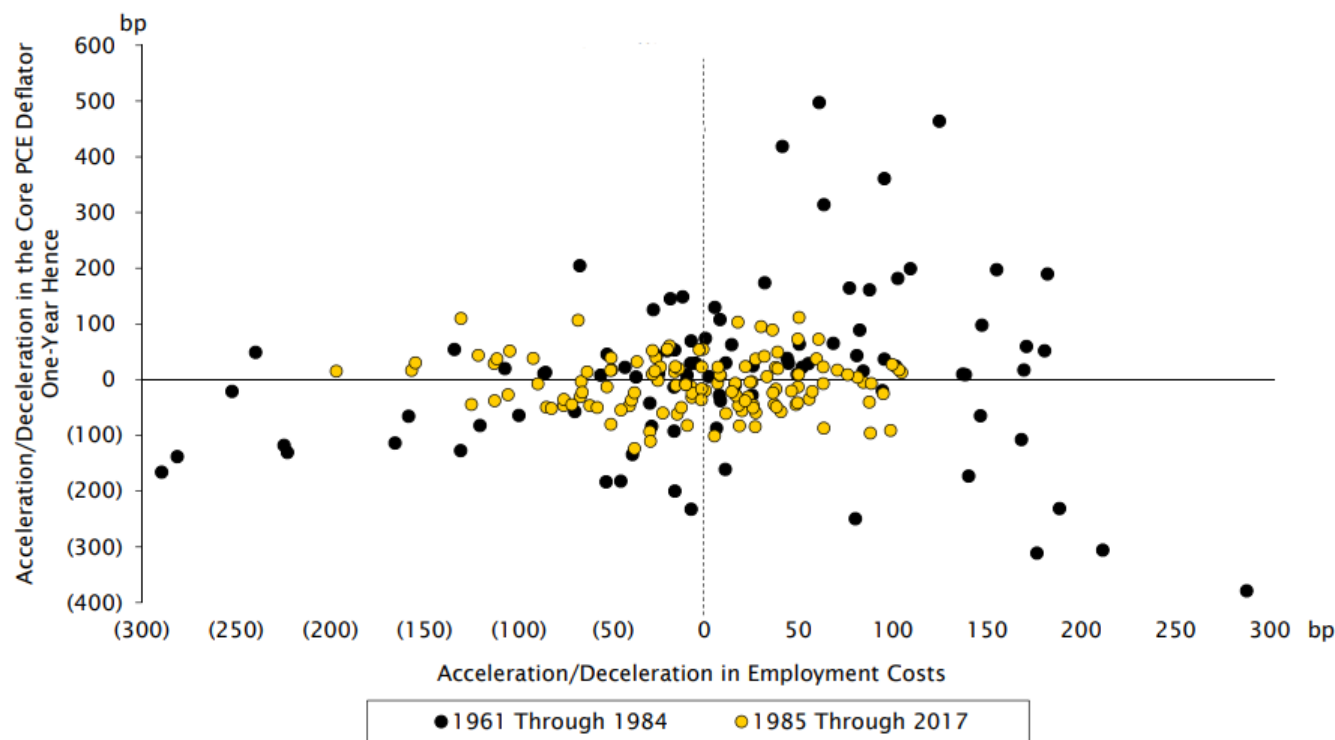


Shaded bars represent recessions.

Source: The Conference Board, Strategas – January 2019

Should We Worry About Inflation?

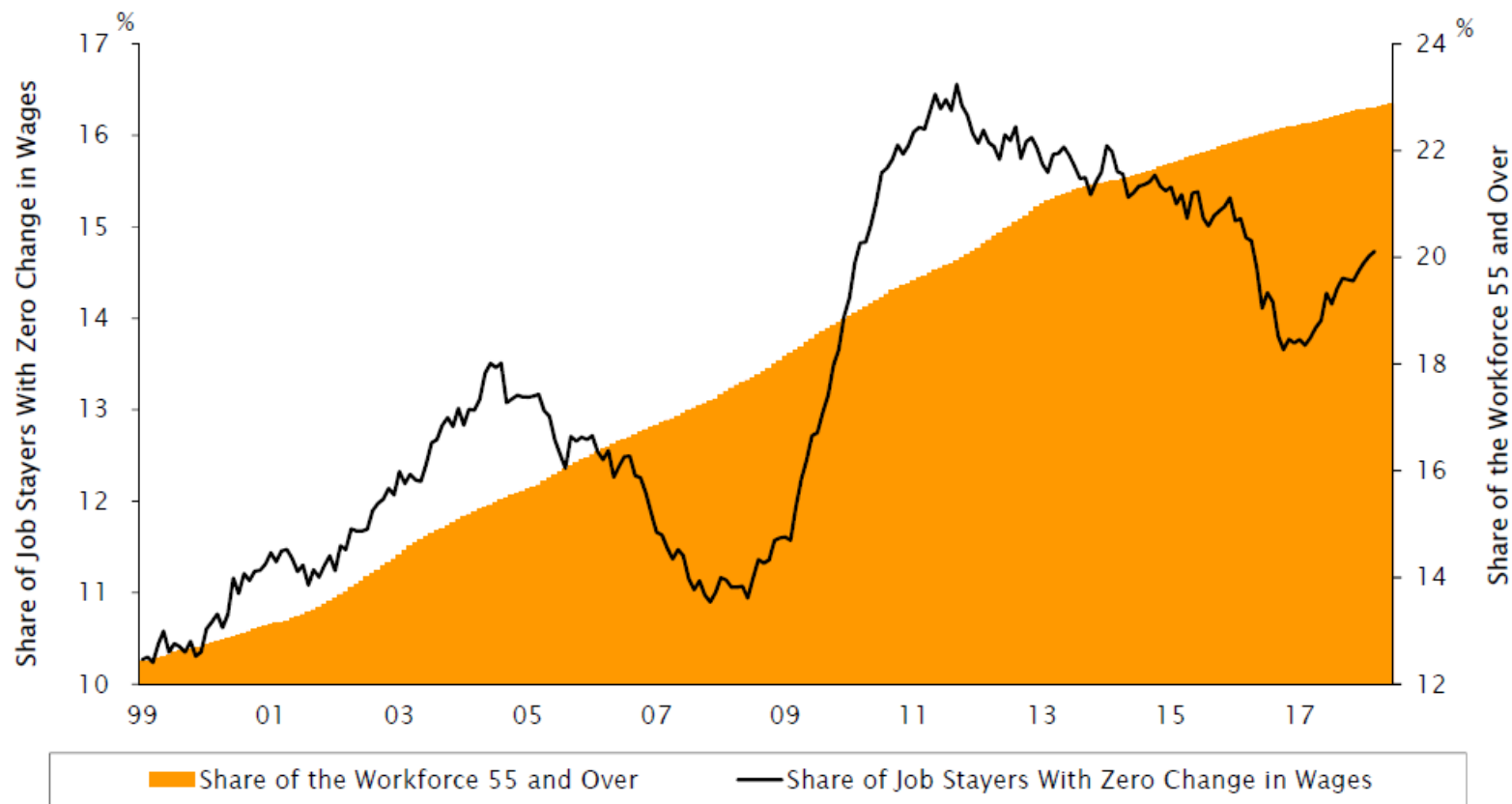
Acceleration/Deceleration in the Employment Cost Index and in the Core PCE Deflator, One-Year Hence¹ 1961 Through 2017



¹For all private sector employees excluding bonuses; measured on a year-over-year basis.

Baby Boomers Aren't Asking For A Raise

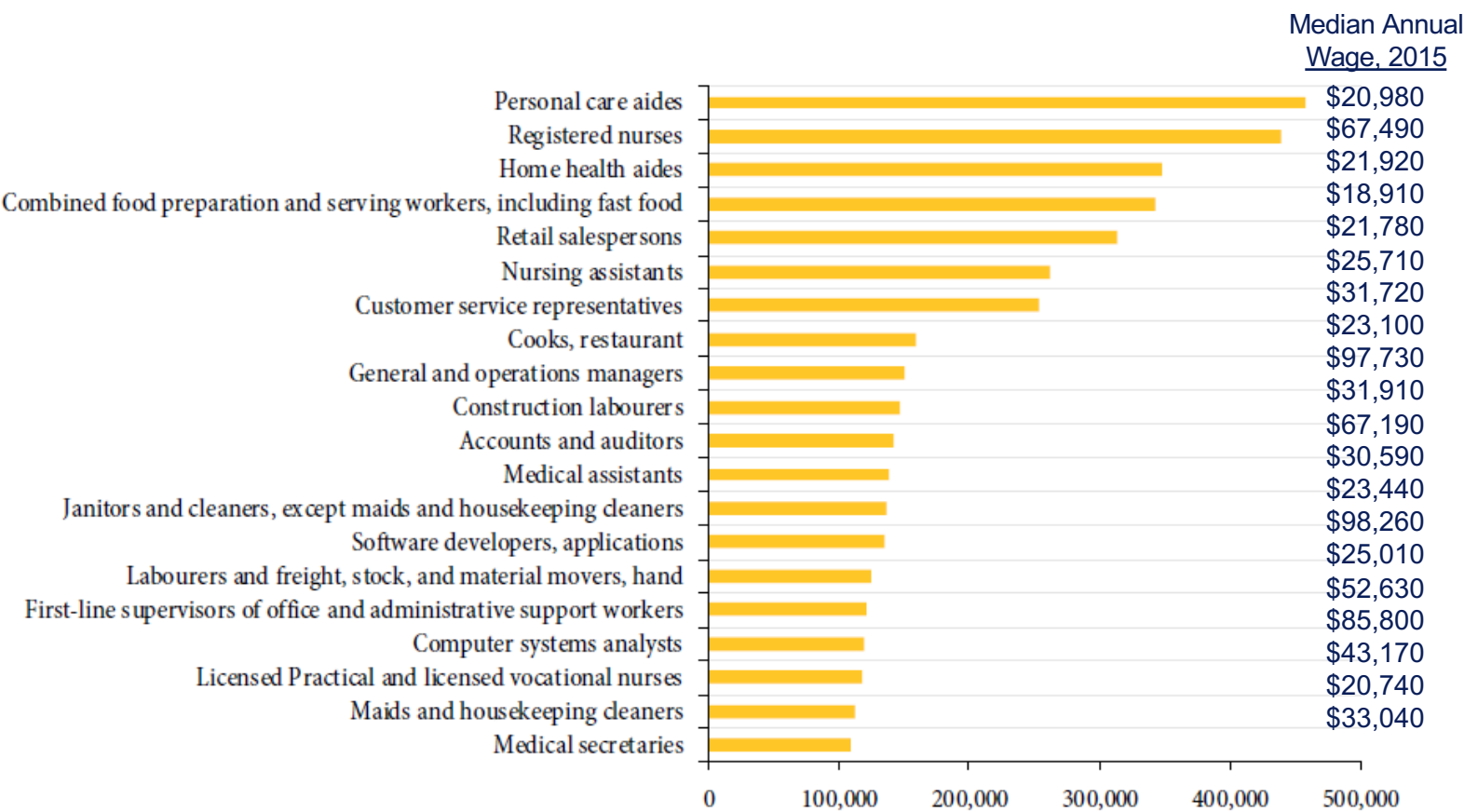
Share of the Workforce 55 and Over
and Share of Job Stayers With Zero Change in Wages
1999 Through June 2018



Source: Empirical Research Partners – July 2018

Demographic And Structural Forces Argue Against A Longer Term Inflation Problem

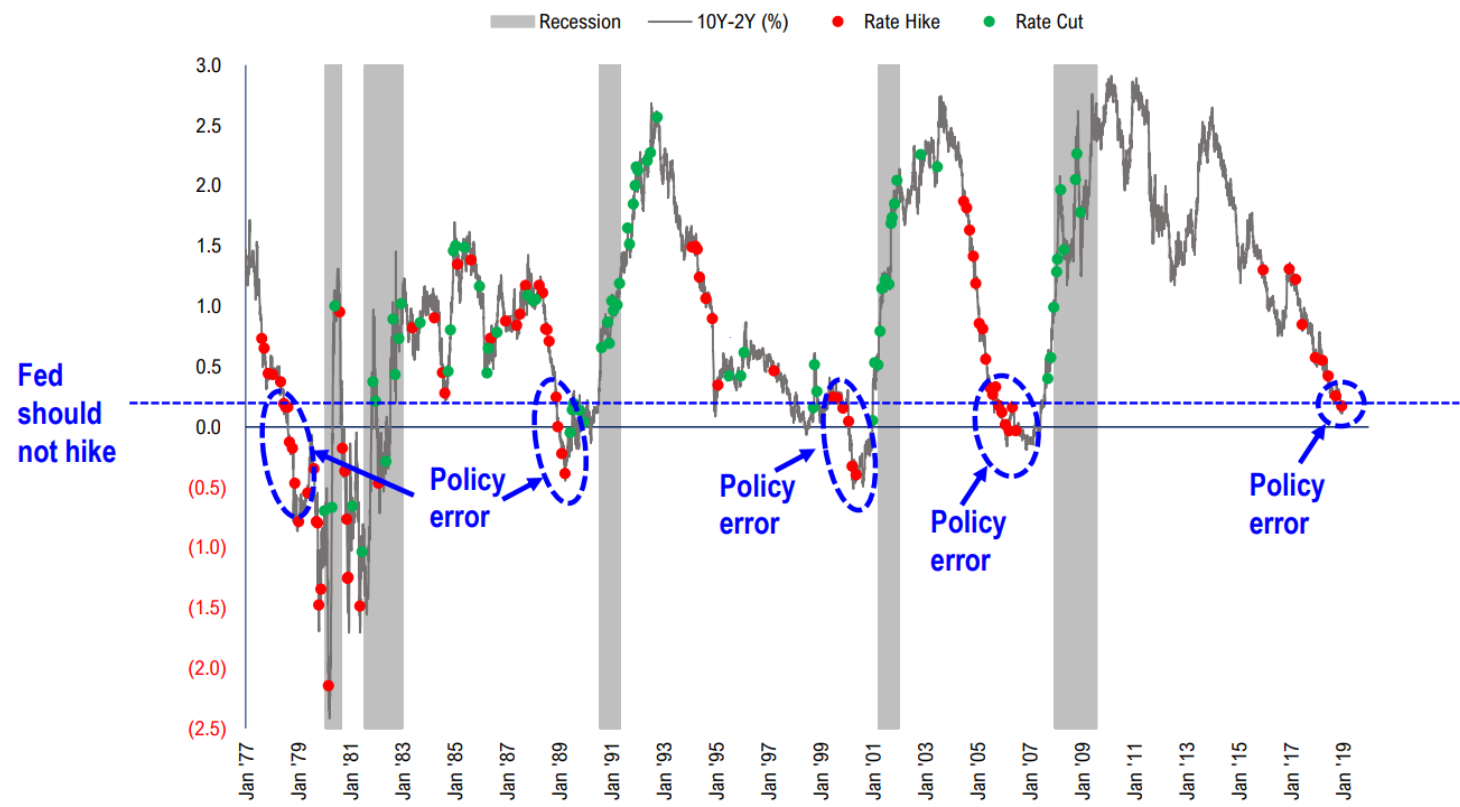
Sectors Forecast To Create The Most New Jobs, U.S., 2014-2024



Source: U.S. Bureau of Labor Statistics – June 2018

Fed Hikes Caused Every Recession Since 1950

Fed Hikes And Cuts Overlaid On The 10Y less 2Y Yield Curve

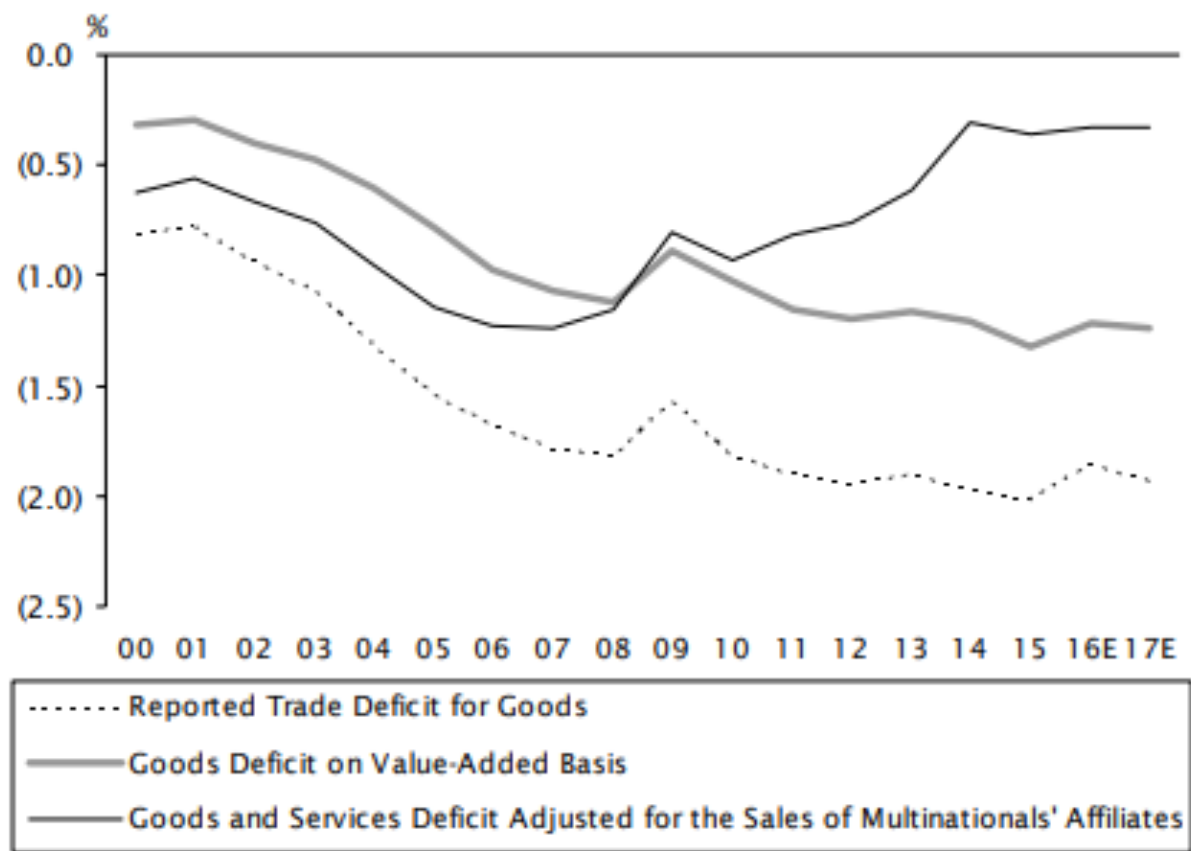


Shaded bars represent recession.

Source: Fundstrat, Bloomberg, FactSet – January 2019

Should We Worry About A Trade War?

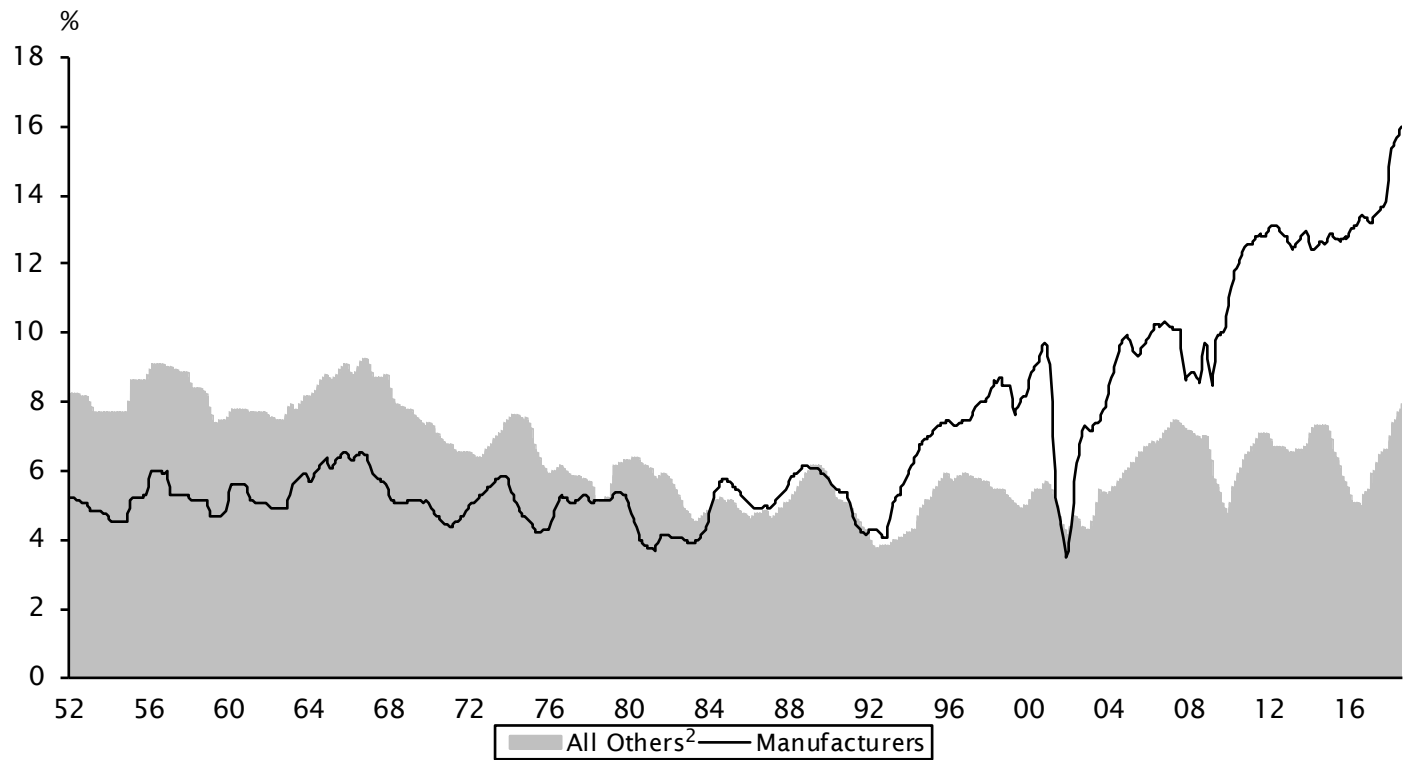
The U.S. Trade Deficit With China As Reported,
on Value-Added Basis and Adjusted for the Sales of
Multinationals' Affiliates As a Share of U.S. GDP
2000 Through 2017E



Source: Bureau of Economic Analysis, Census Bureau, OECD, Empirical Research Partners Analysis – June 2018

The Consequences Of Globalization Are Hard To Miss

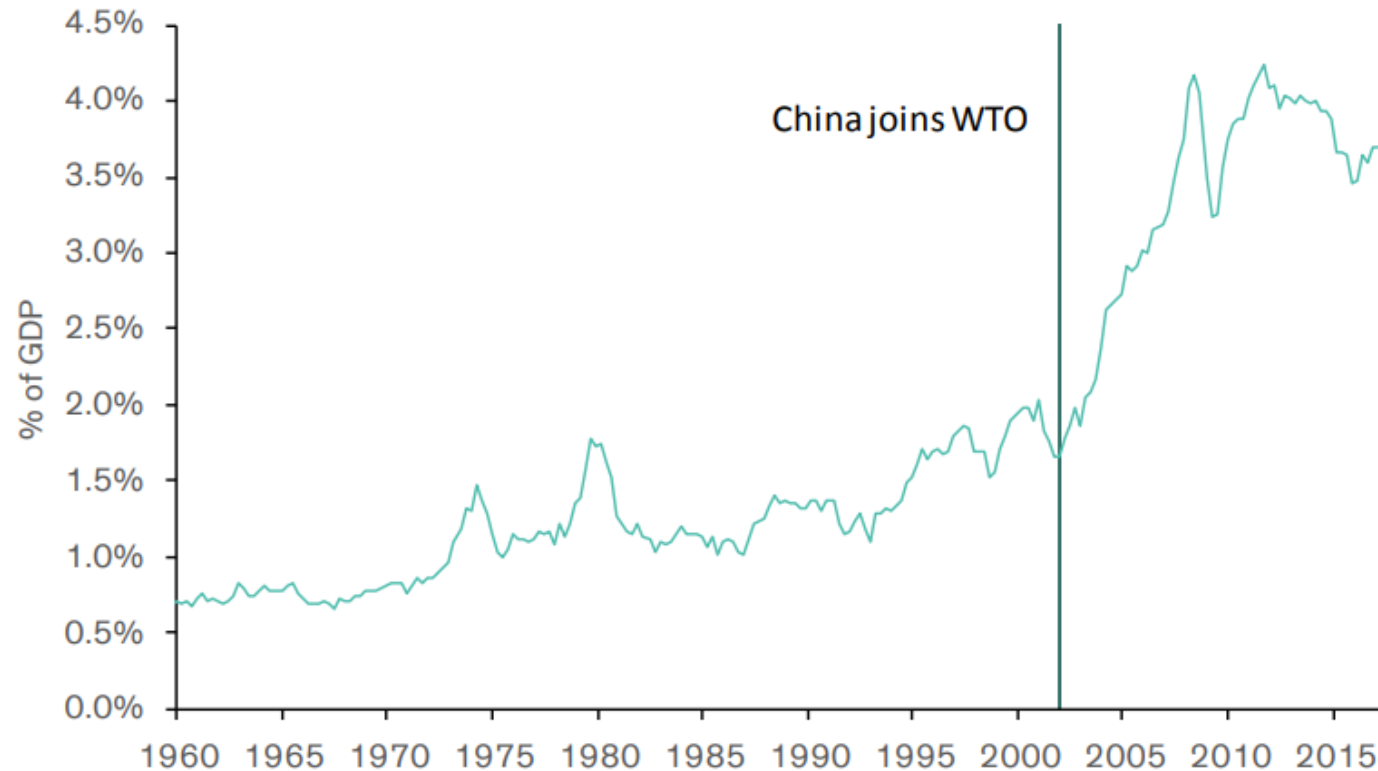
The S&P 500:
Manufacturers and All Others Net Profit Margins¹
1952 Through Q3 2018



¹Based on trailing four-quarter data smoothed on a trailing three-month basis
²Excludes financials and REITs

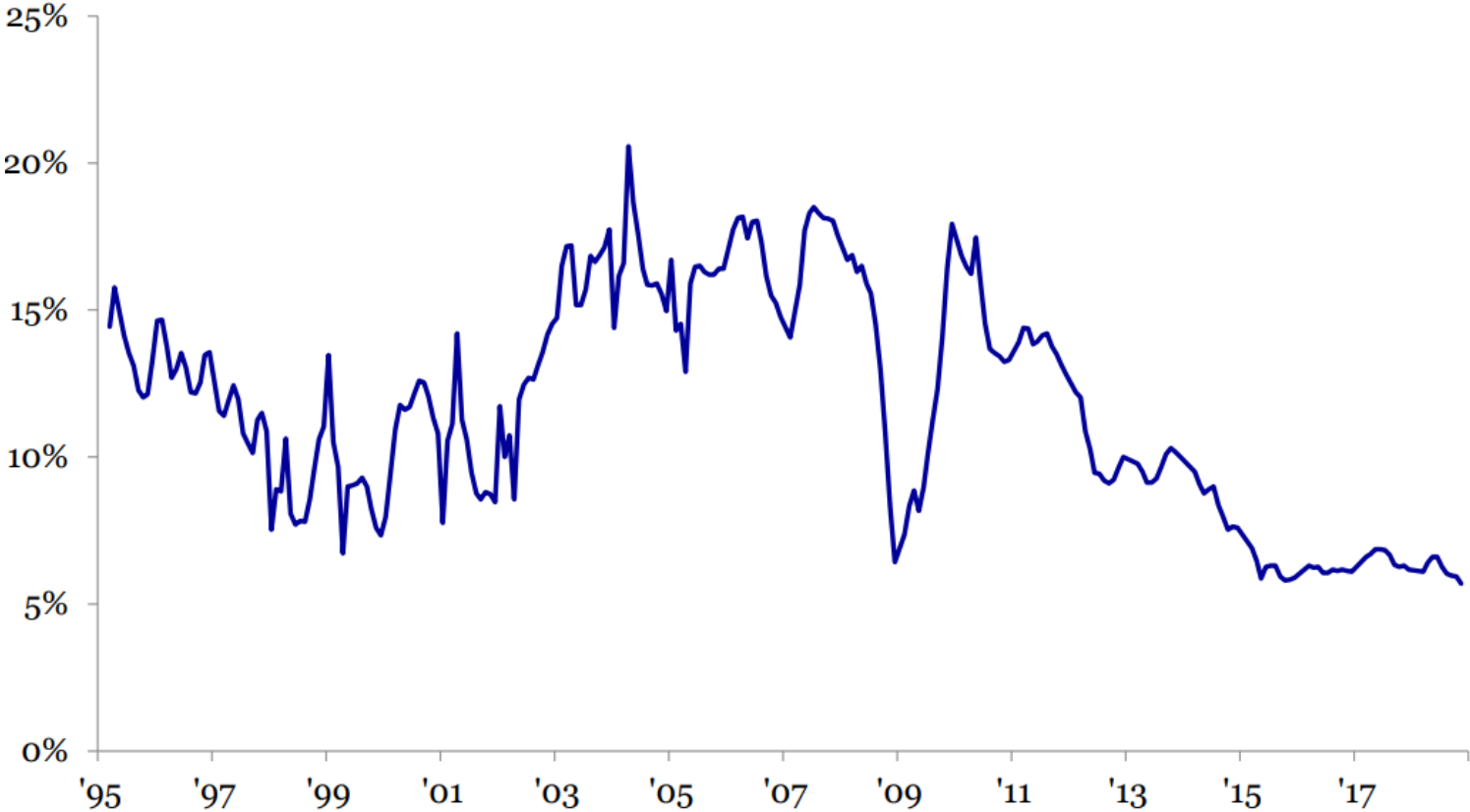
A Trade War Would Pressure Profits As Foreign Market Access Would Be Curtailed And Value Chains Disintermediated

Foreign Profits of US Corporates Have Grown Rapidly



Nobody Wants A China Recession

China Industrial Production
(NSA, 3Mo MA, YoY%)



Source: Strategas – January 2019

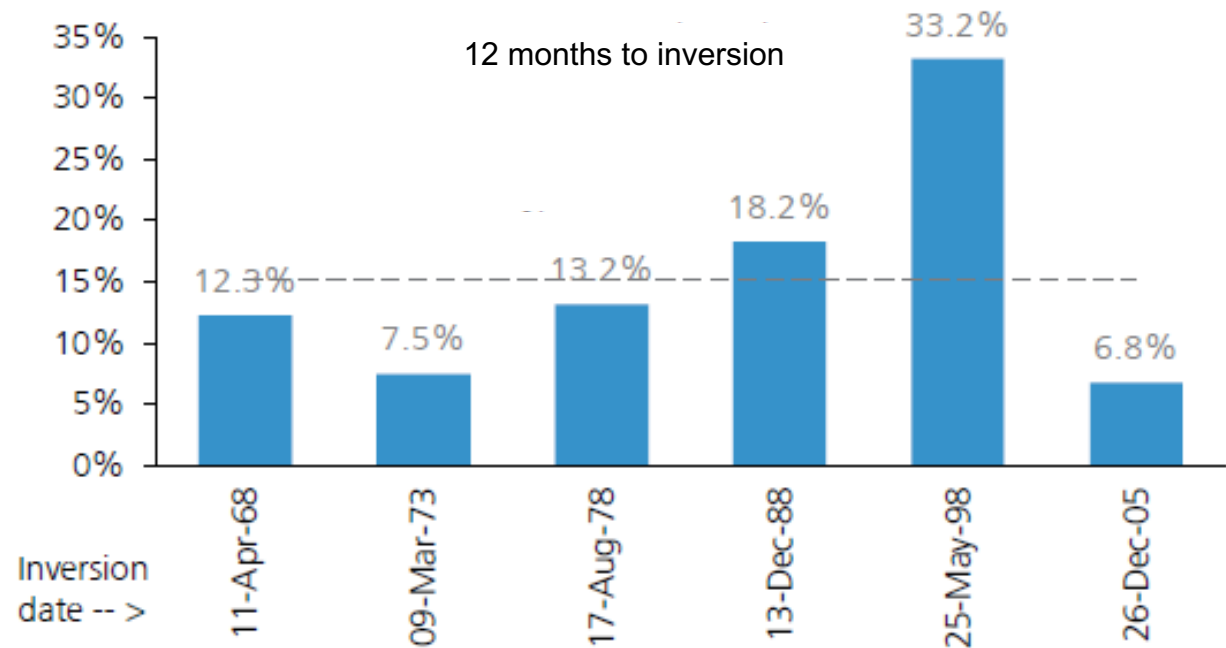
Where Are We In The Economic Cycle?

Sectors Around The Business Cycle



Say The Yield Curve Inverts in 12 Months Time

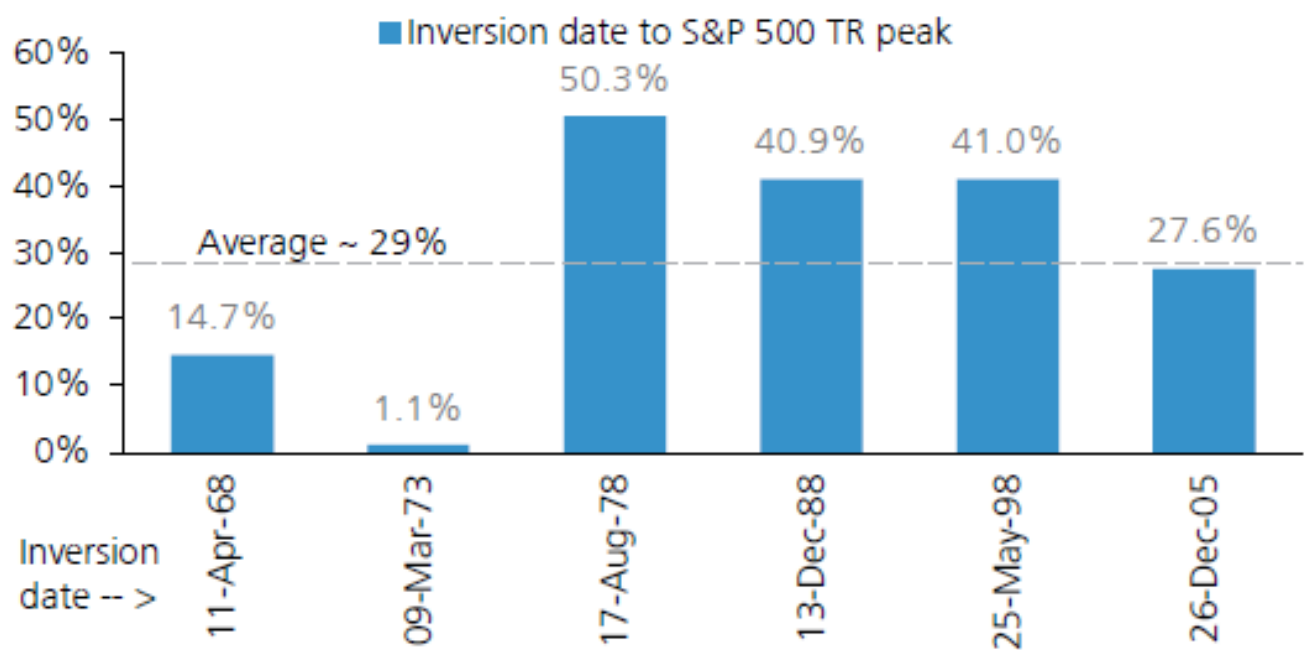
S&P 500 Returns Before Curve Inverts...



Note: UST 10yr minus UST 1yr from 1961 to March 1976 and UST 10 yr minus UST 2yr after March 1976.
Source: Haver, UBS – July 2018

Then What?

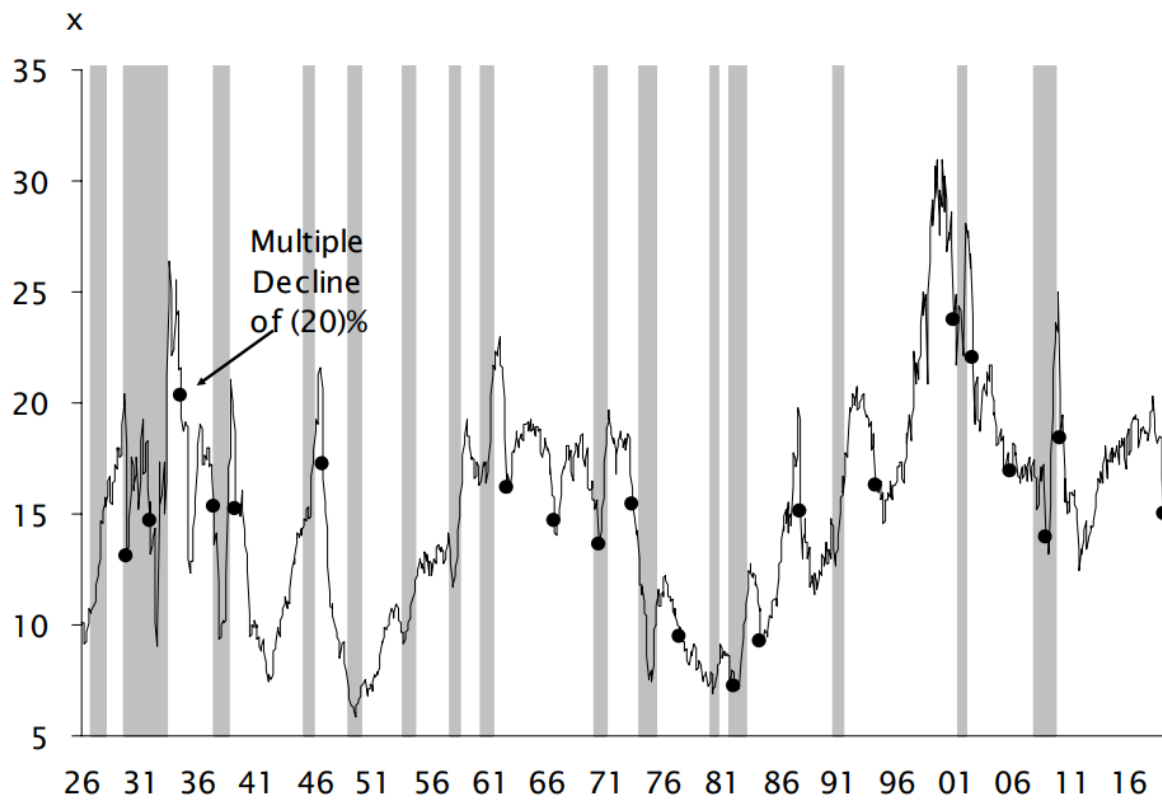
... and After the Curve Inverts



Note: UST 10yr minus UST 1yr from 1961 to March 1976 and UST 10 yr minus UST 2yr after March 1976.
Source: Haver, UBS – July 2018

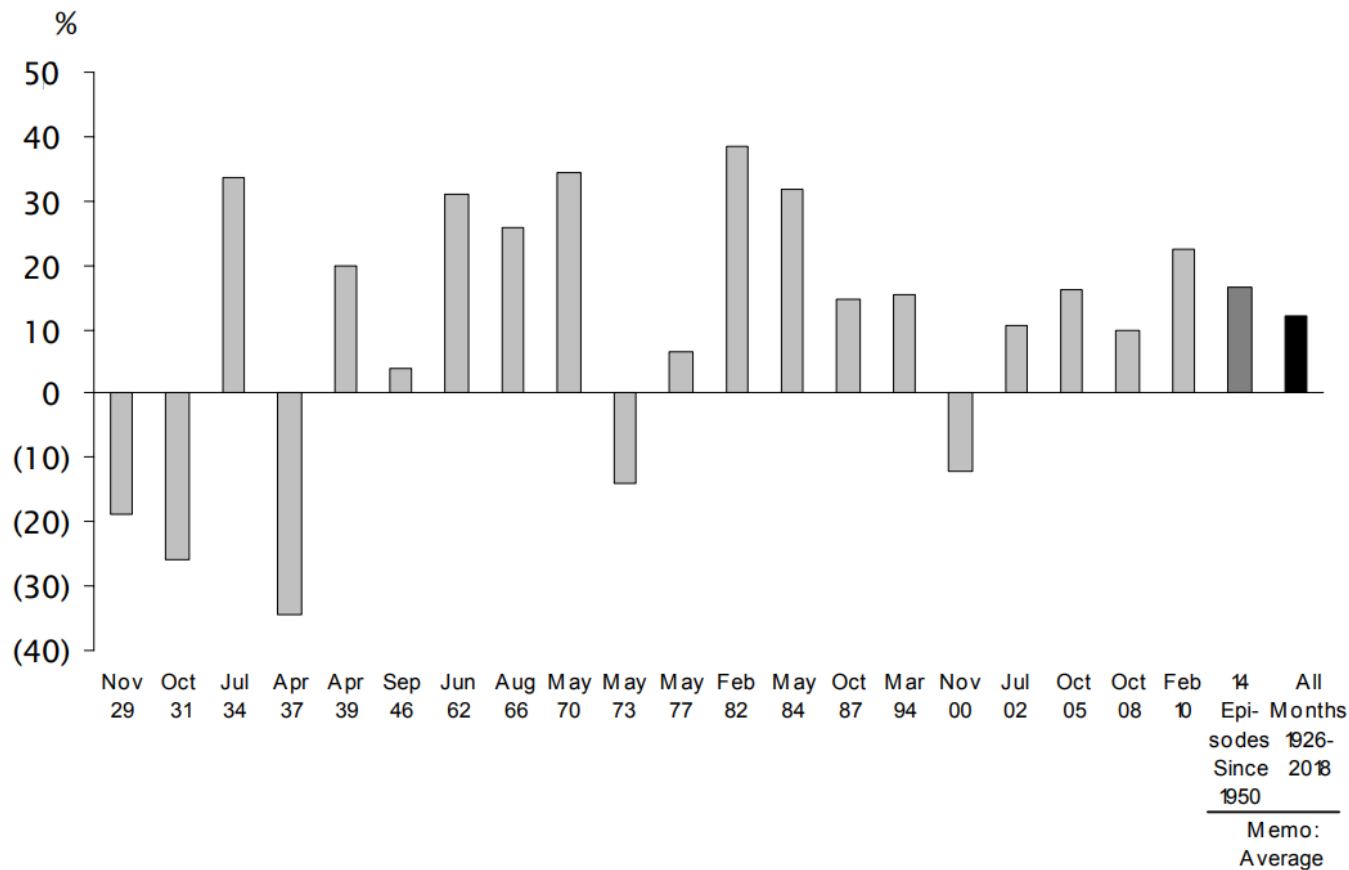
Historically, Most Valuation Corrections Didn't Foretell Recession

The S&P 500¹
Trailing-P/E Ratios
1926 Through Mid-December 2018



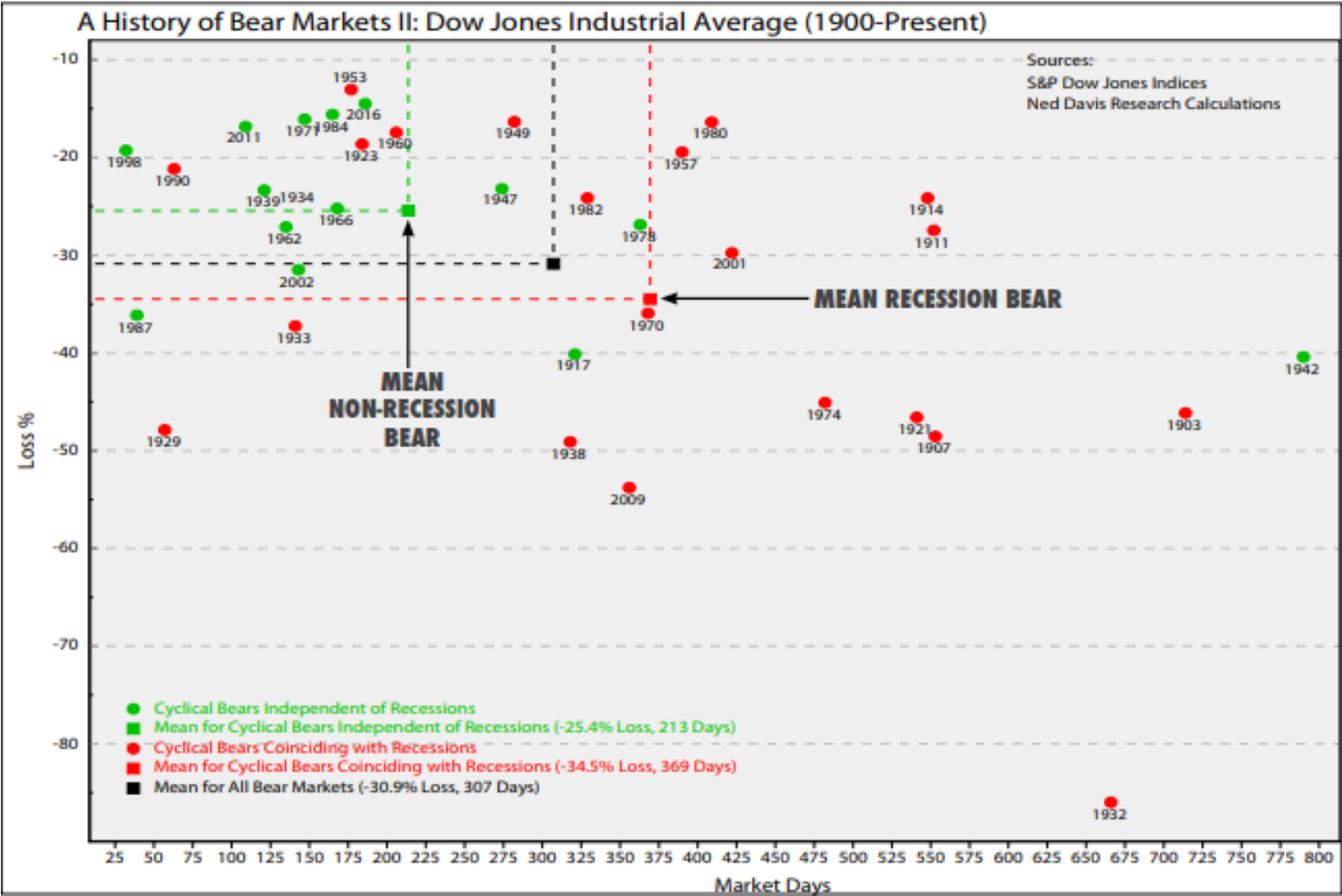
¹ And predecessor indices.
Shaded areas represent recessions

The S&P 500
Total Returns in the Year Following a (20)% Decline in Trailing-P/E Ratios
1926 Through Mid-December 2018



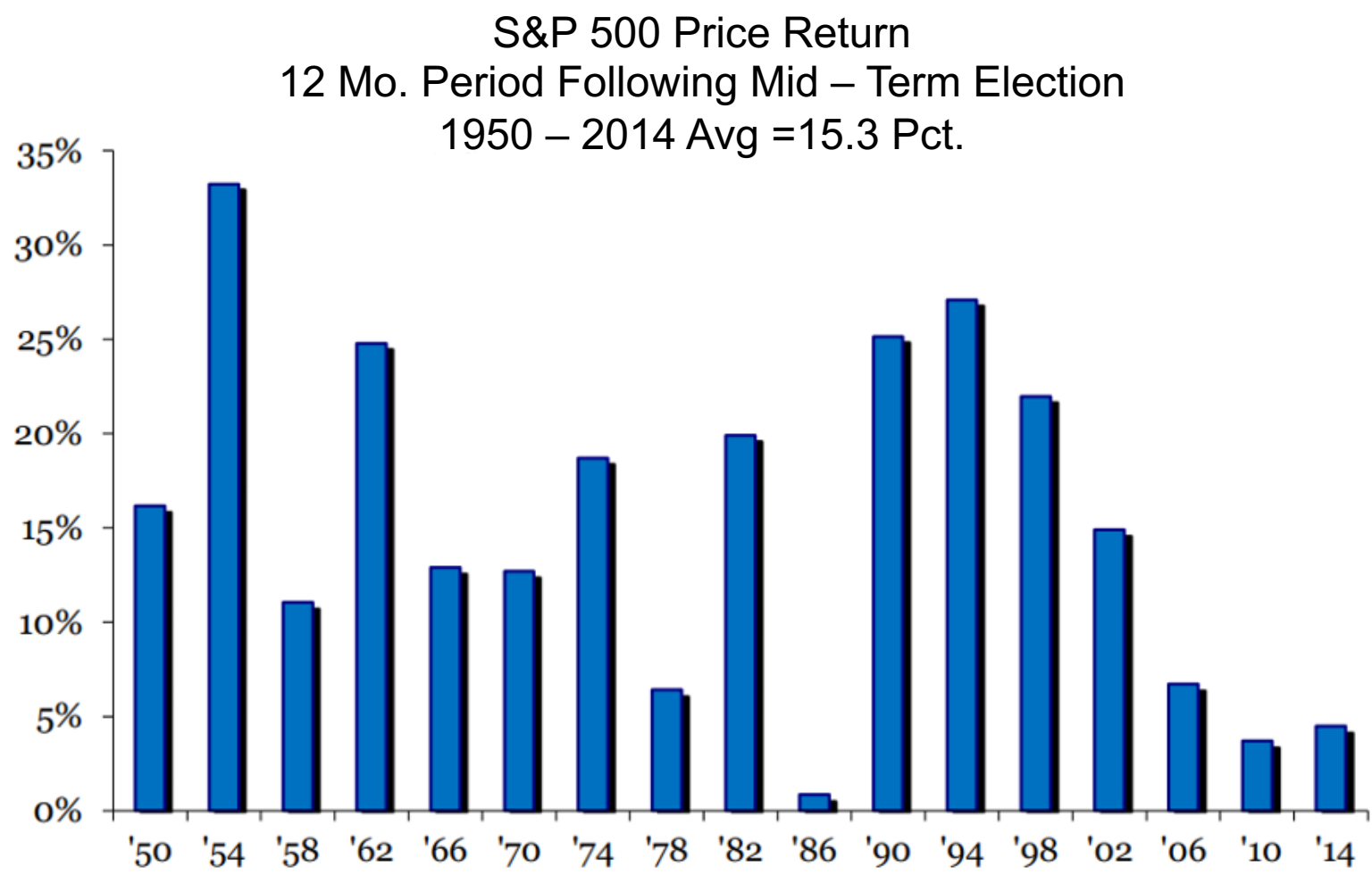
Source: Empirical Research Partners Analysis – December 2018

If No Recession, We Should Be Good



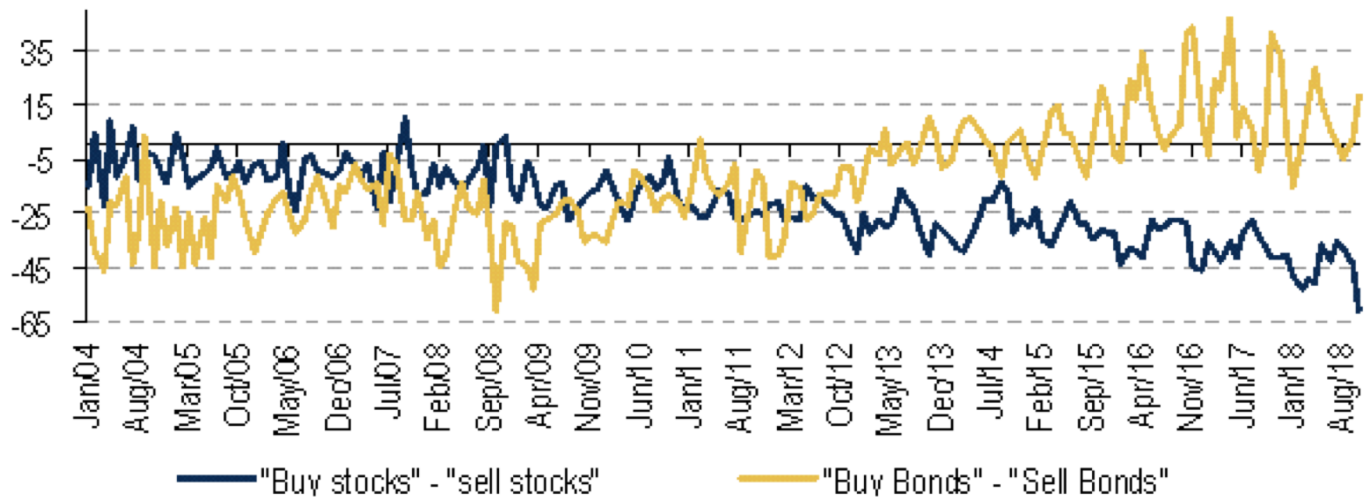
Source: Ned Davis – December 2018

The S&P 500 Has Not Declined In The 12 Months Following The Midterm Election Since 1946



Stocks Are More Hated Than Ever

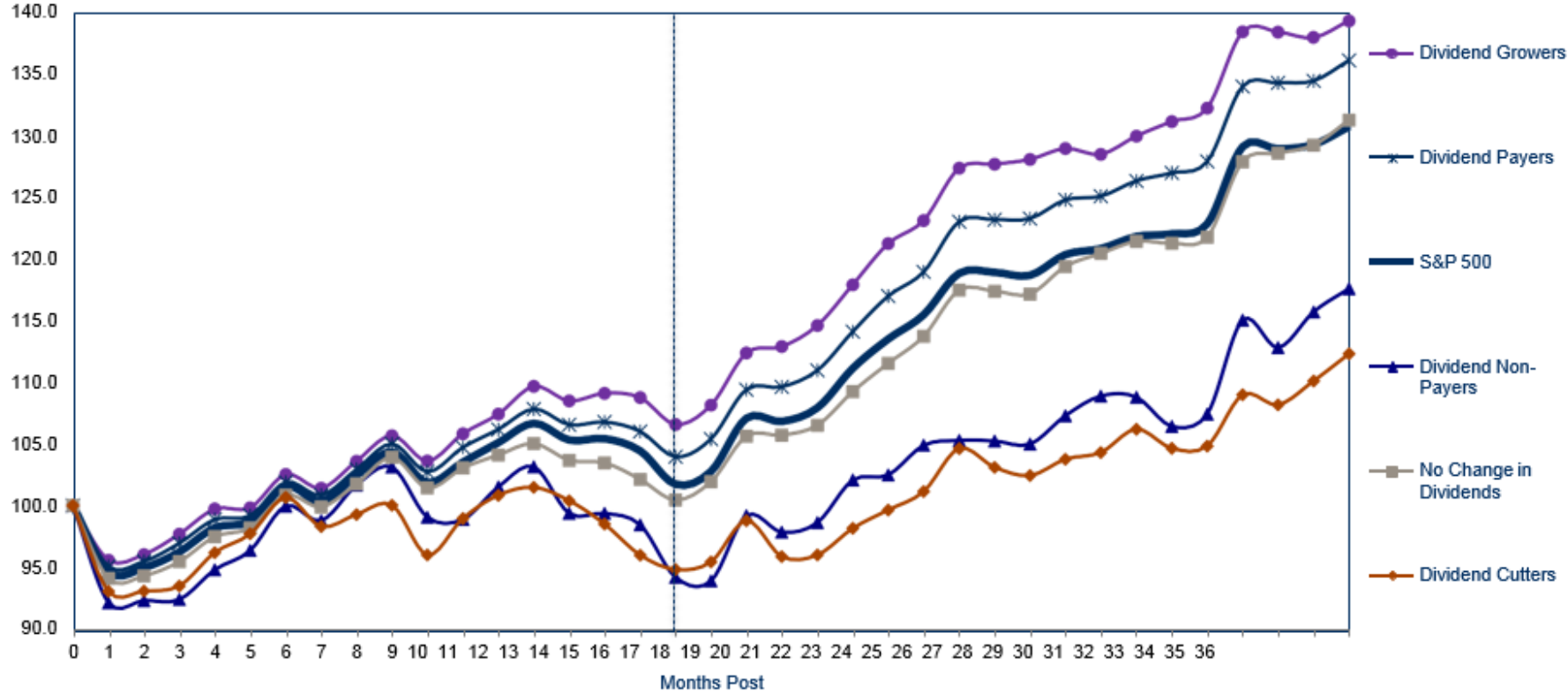
Google Search Trends: “Buy Stocks” minus “Sell Stocks”
vs. “Buy Bonds” minus “Sell Bonds”
(2004 – 10/18)



Source: Google Trends, BofA Merrill Lynch US Equity & US Quant Strategy – October 2018

Whither The Income Strategy?

S&P 500 by Dividend Policy Total Return Performance
After First Federal Reserve Rate Hikes

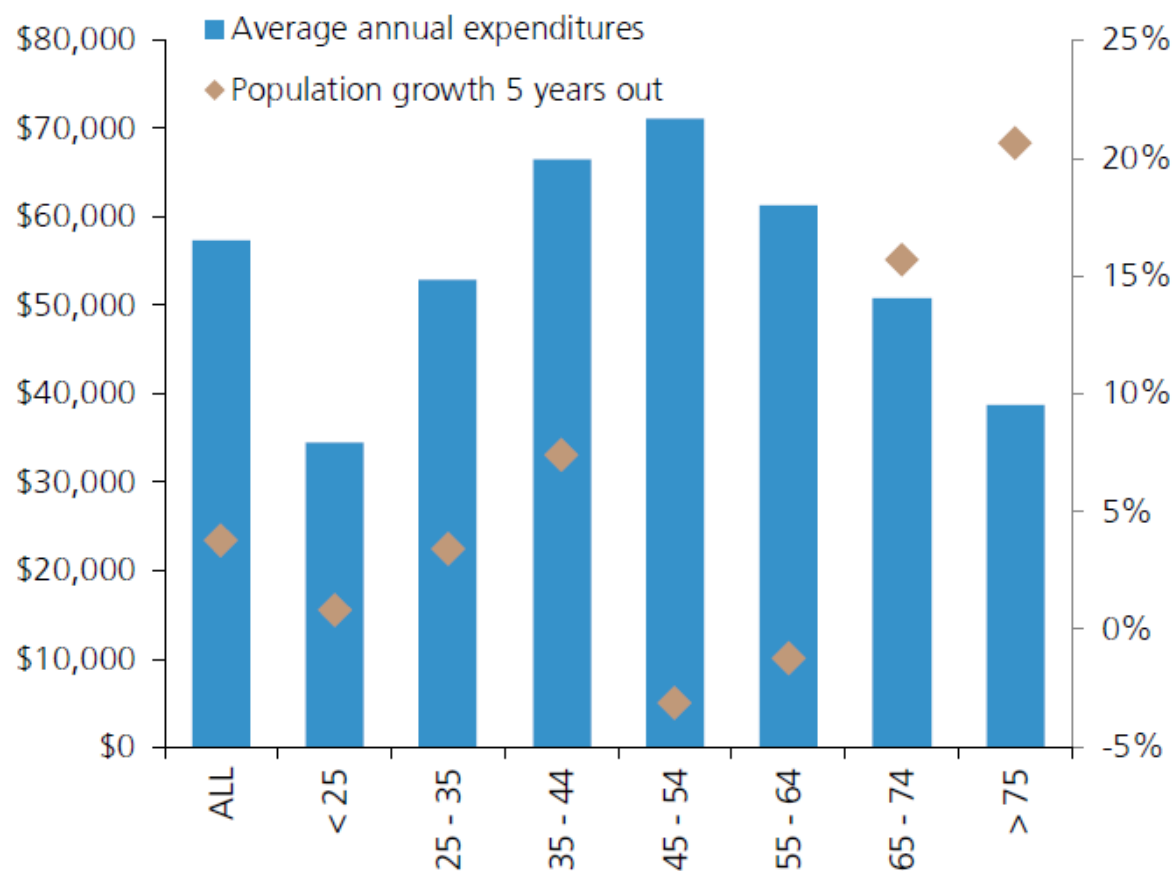


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As of 12/31/16. This chart is for illustrative purposes only and is not representative of performance for any specific investment. Past performance does not guarantee future results. Data shown is based on the average performance after all rate hikes since 1972 which occurred on the following dates: 1/15/1973, 8/31/1977, 9/26/1980, 4/9/1984, 9/4/1987, 2/4/1994, 3/25/1997, 6/30/1999, 6/30/2004, 12/16/2015, 12/14/2016.

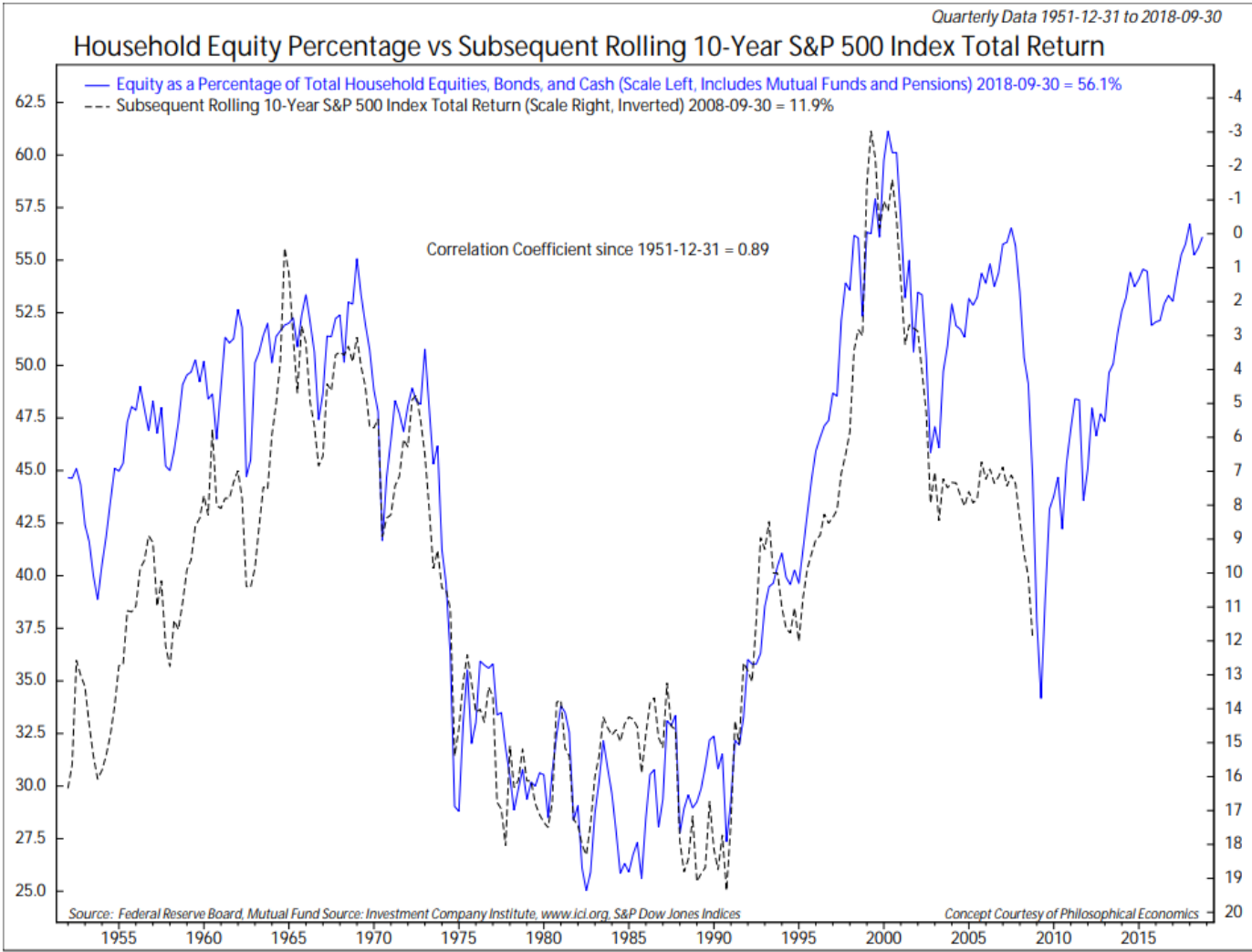
Demographics Suggest We Should Temper Our Intermediate Term Growth Expectations

Ageing Consumer Impacts Spending Growth Forecasts by Category



Source: BLS, Haver, UBS – July 2018

We Should Temper Our Return Expectations For Stocks



Past performance is no guarantee of future results.
Indexes are unmanaged and it is not possible to invest directly in an index.
Source: Ned Davis Research – December 2018

We Should Temper Return Expectations for Bonds

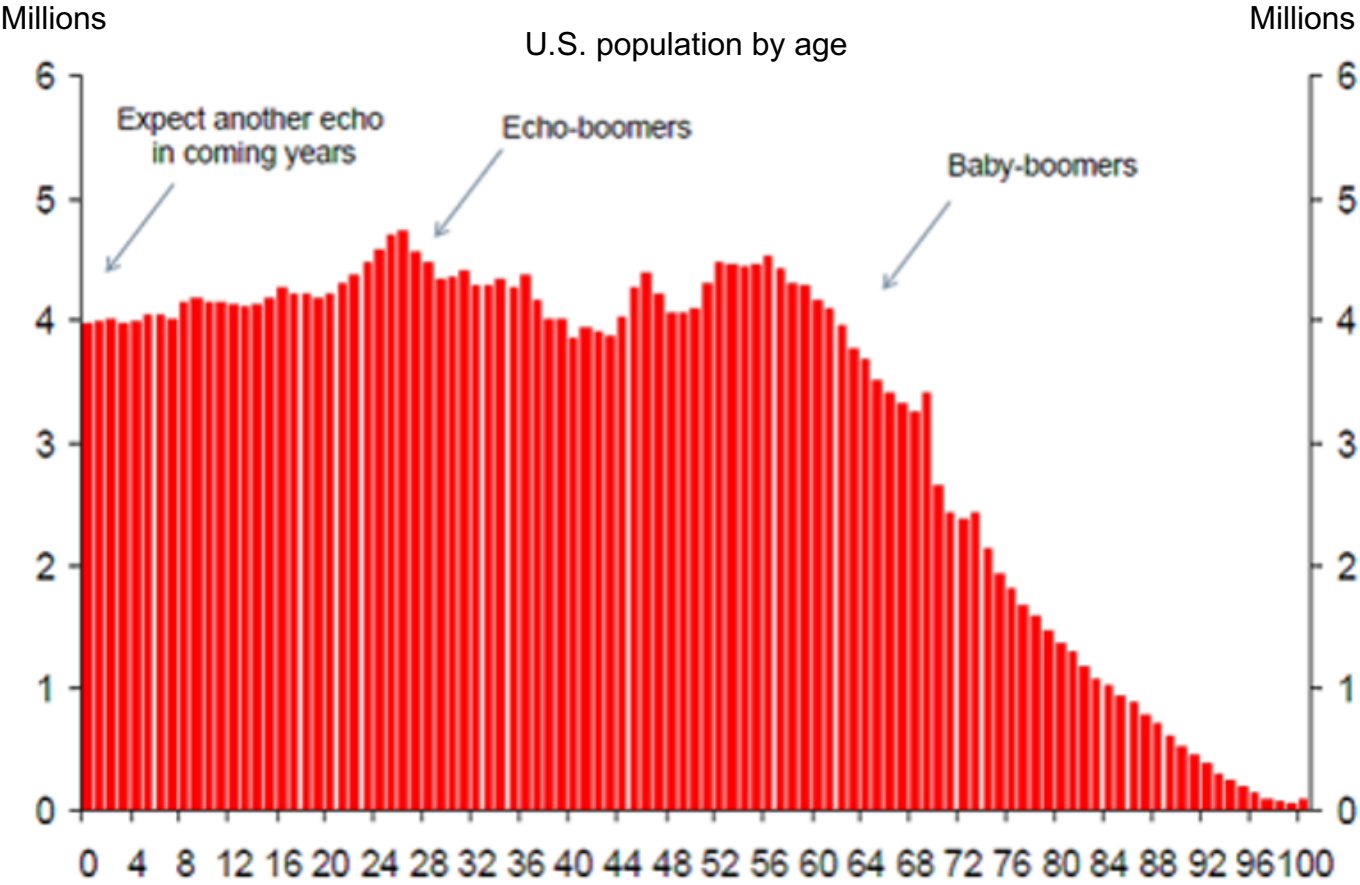
Asset Allocation: The 10y Yield Has Historically Been A Good Predictor Of Subsequent Total Returns



Shaded bars indicate recessions.
Source: FRB, Haver, Deutsche Bank – September 2017

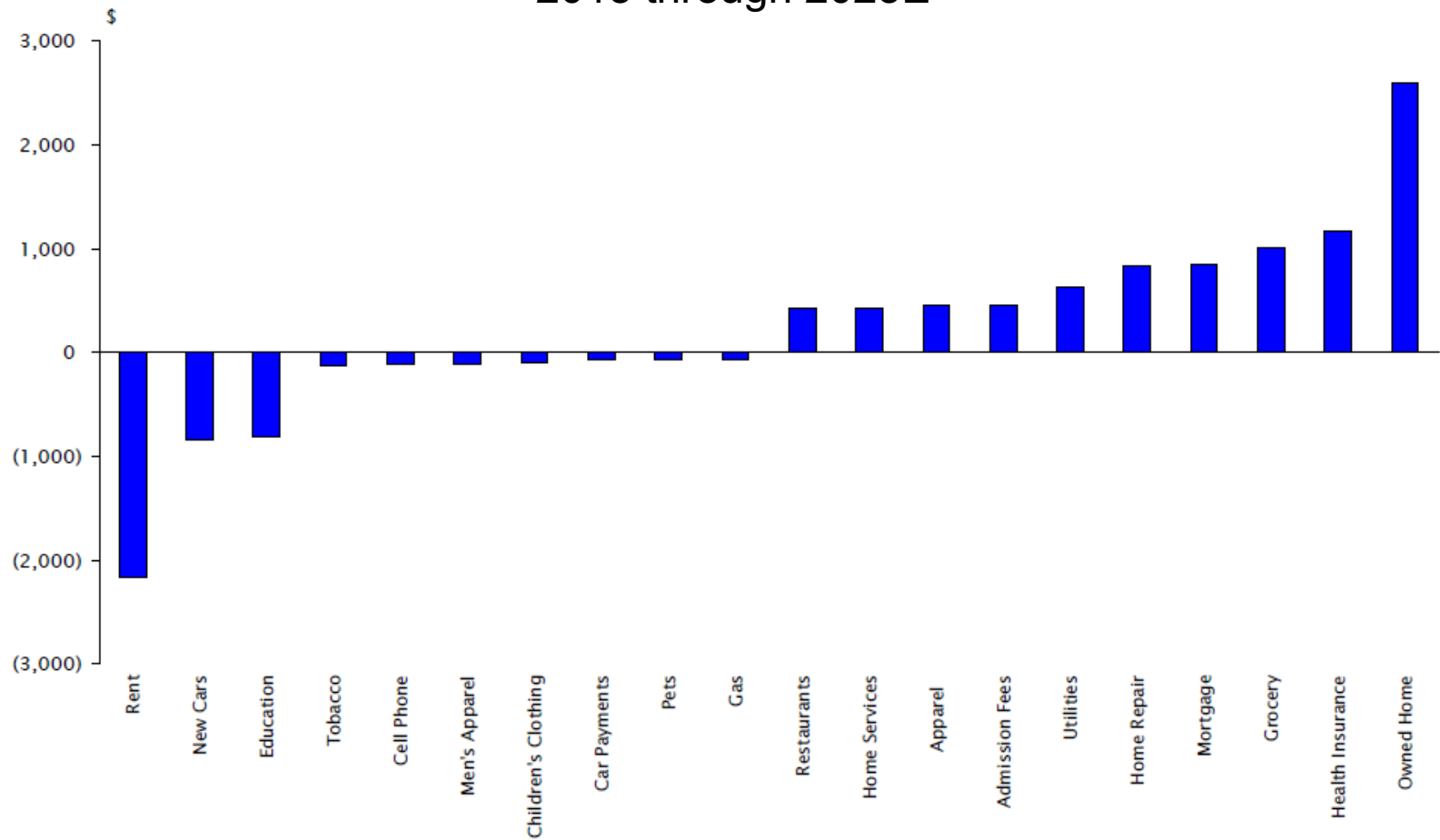
Millennials!!!

There Are 4.6mn 28-Year Olds In The U.S.,
More Than Any Other Age Group



Source: Census, Haver Analytics, DB Global Markets Research – October 2016

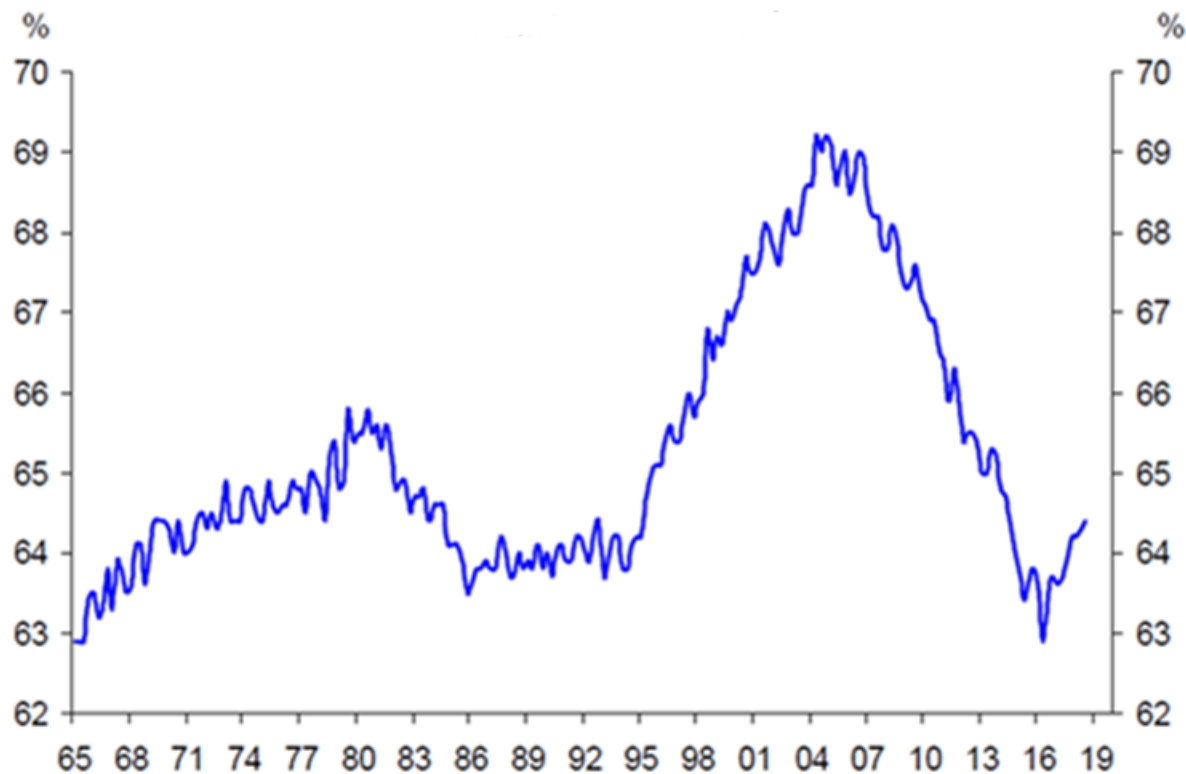
U.S. Consumption Patterns
Net Dollar Shift Due to Aging of Boomers and Millennials
2015 through 2025E



Source: Bureau of Labor Statistics Consumer Expenditure Survey, Empirical Research Partners Analysis – June 2017

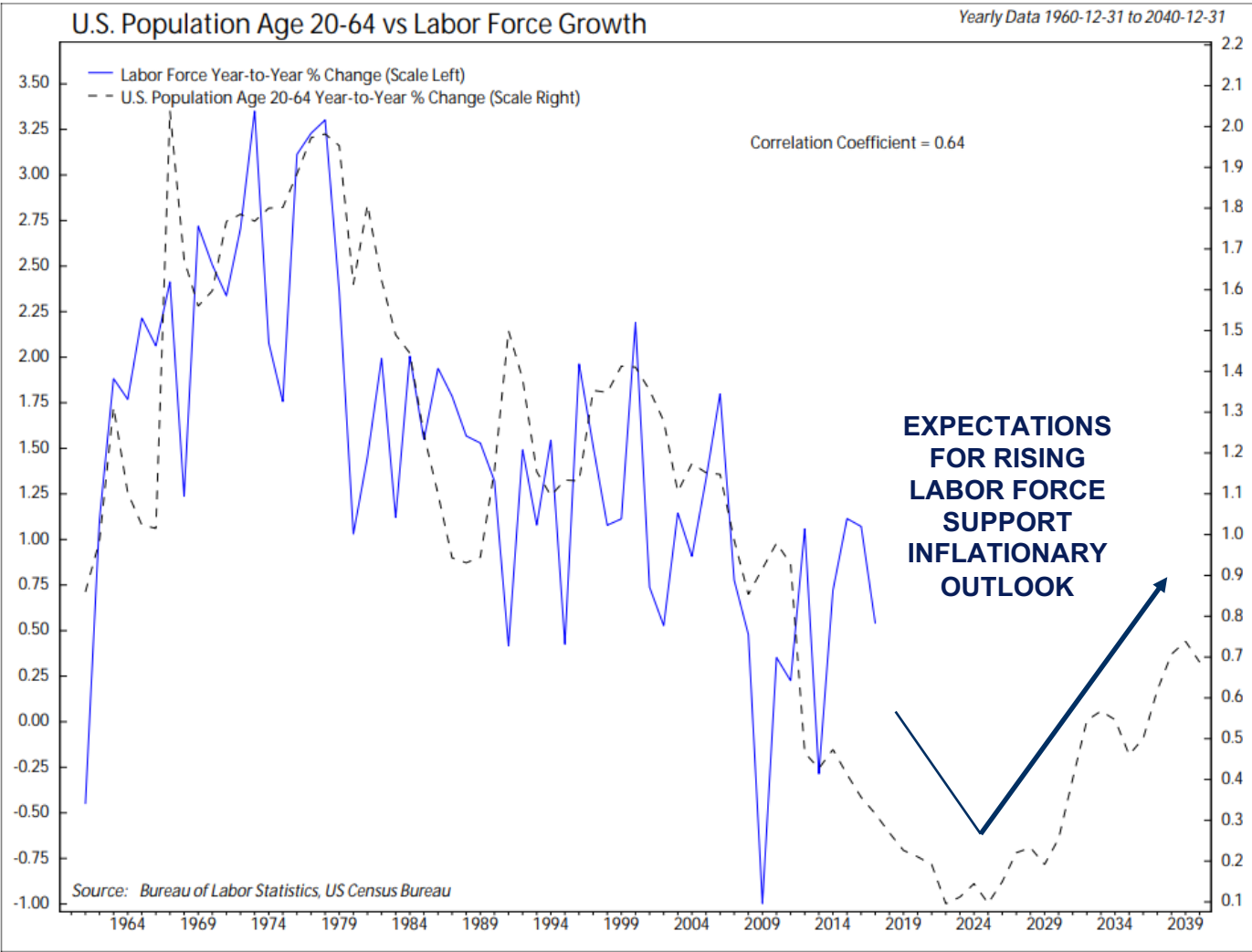
Millennials Will Want A House Eventually

Home Ownership Rate



Source: Census, Haver Analytics, DB Global Research – January 2019

Demographics Trump Everything



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Mind on the Market

With more than 30 years of experience, Linda Duessel is nationally recognized for her expertise in analyzing equity market conditions. Linda discusses personal finance with investor groups across the country on topics of interest ranging from the impact of the alternative minimum tax to investing for retirement. Additionally, Linda has been extensively quoted by Associated Press, *The Wall Street Journal* and *Barron's*, as well as featured in the annual roundtable for *USA Today*.

Interested in hearing more from Linda? Here are two ways:

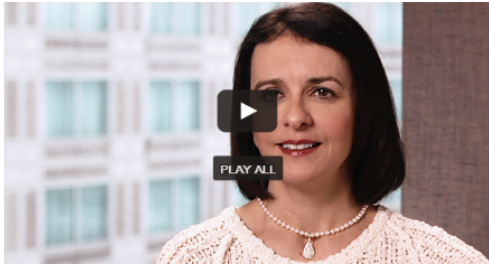
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Linda A. Duessel
CFA, CPA, CFP

As senior equity market strategist, Linda Duessel is part of the equity income team, which is responsible for formulating Federated's views about the market and the firm's positioning strategies within the equity income team. As senior client portfolio manager, she is responsible for articulating the strategy, process, positioning and performance of Federated's equity income products.

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