

# MACRO AND MARKETS OUTLOOK: 2019 INVESTMENT *THEMES* AND *CATALYSTS*

FEBRUARY 7, 2019

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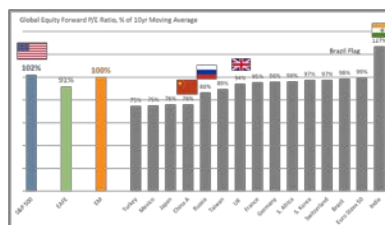
- Investment **Themes**
  - Global monetary policy transition
  - Policy uncertainty
  - Capital market volatility
  - US and Global growth outlook warning: *Most economies have limited tools to deal with recession*
- Market **Catalysts**
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  - Global Equity valuations
  - Global Fixed Income yields
  - Commodities
- Concluding Remarks

# BEACON POINTE INVESTMENT PROCESS

Macroeconomic  
Forecasting

Valuation and  
Asset Allocation

Manager Research  
and Analysis



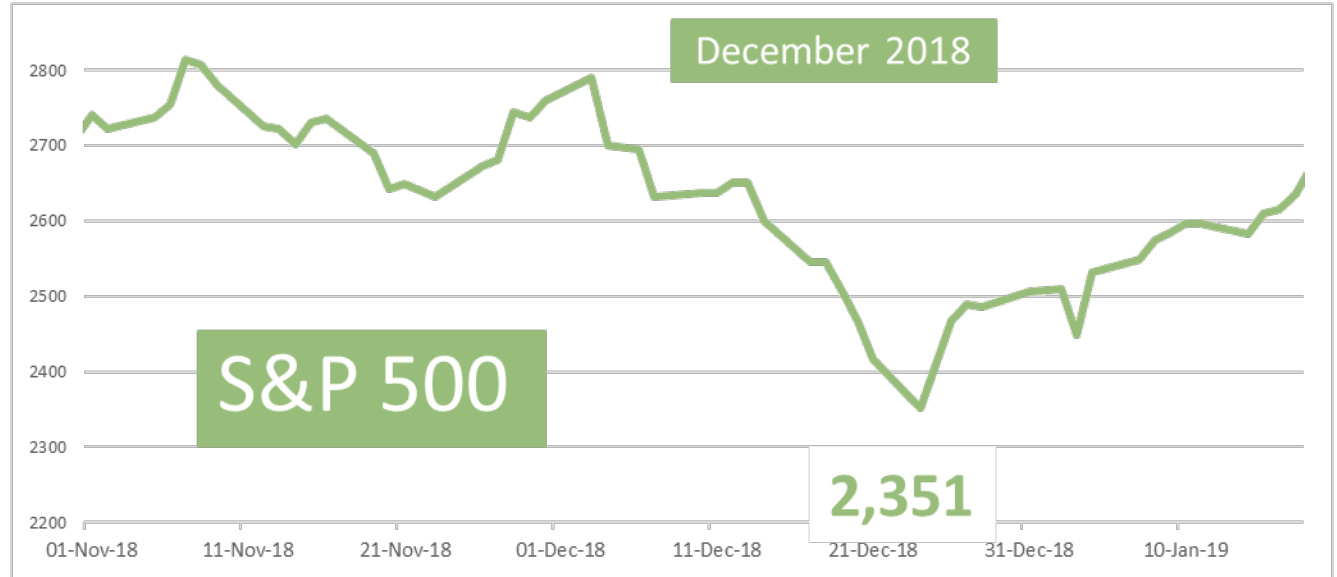
Investment  
*Themes*

Market  
*Catalysts*

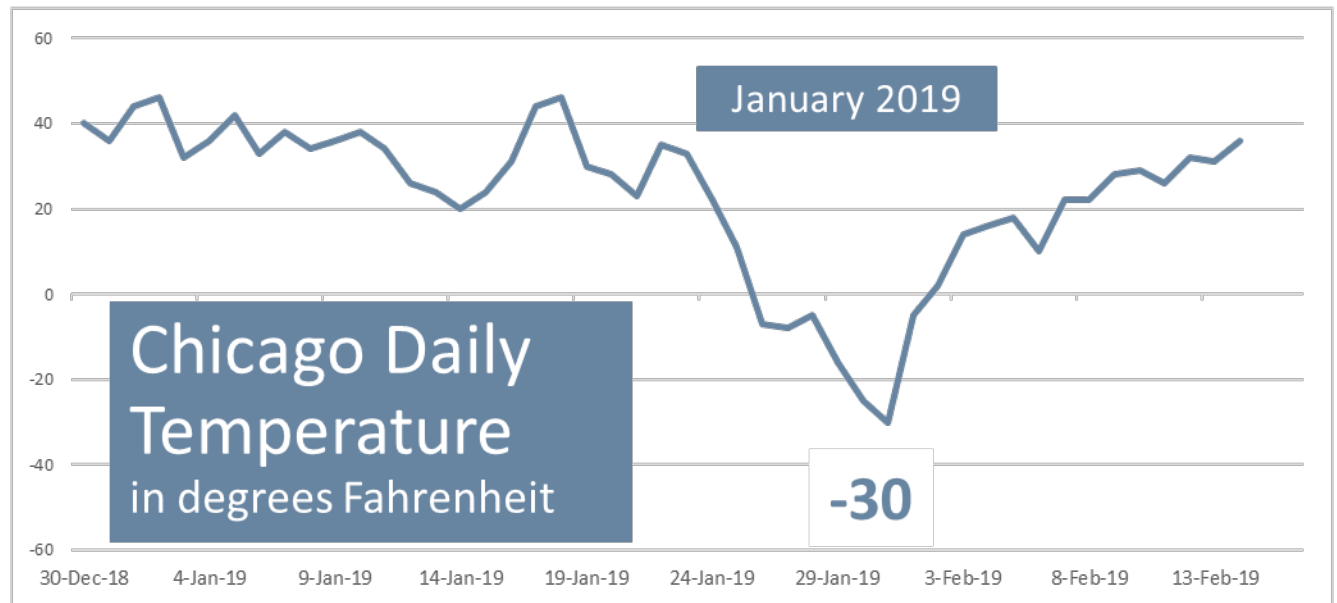
# BEACON POINTE INVESTMENT “PROCESS”

We're always looking for useful economic relationships to help guide our investment decision-making....

What is this data series?



What is this data series?



As of January 31, 2019

SOURCE: Beacon Pointe Advisors, National Weather Service

# 2019 MARKET THEMES AND CATALYSTS



# CURRENT MARKET CATALYSTS - POLICY AND GROWTH

## Catalysts

- **China Trade Tensions** [Resolved in 1H 2019]

- POSITIVE:
- NEGATIVE

*“Policy”*



- **Fed Policy:** Recession. “Soft Landing”. Or Inflation [2019]

- POSITIVE:
- NEGATIVE



- **US Corporate Earnings Outlook** [1Q 2019]

- POSITIVE:
- NEGATIVE:

*“Growth”*



- **Global Growth Outlook** [2019]

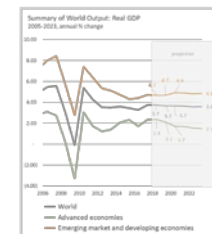
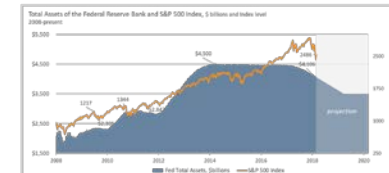
- POSITIVE:
- NEGATIVE:



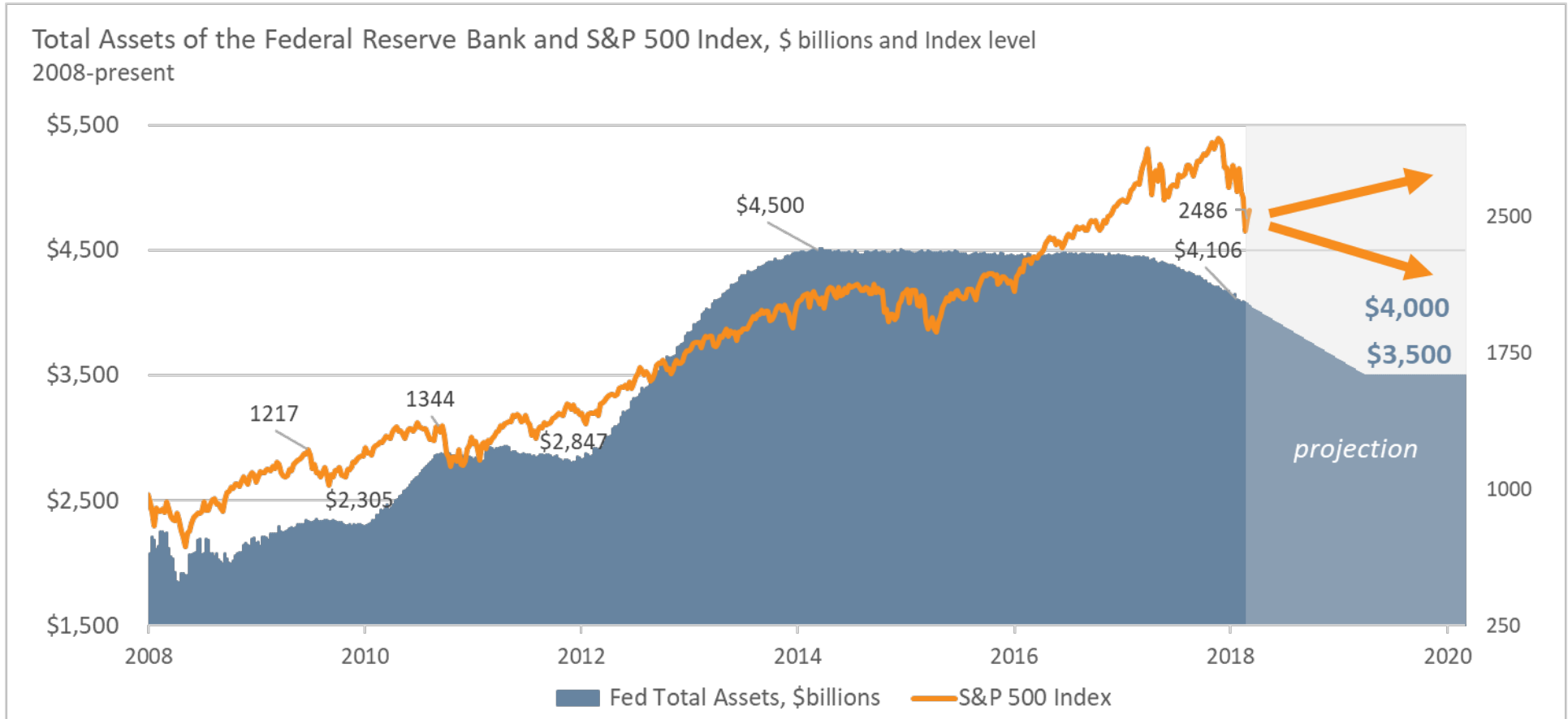
# CURRENT INVESTMENT THEMES

## Themes

- Global monetary policy is transitioning from accommodative → neutral.
- Global capital market volatility is rising with “policy uncertainty”.
- We expect a synchronized global economic slowdown in 2019.
  - U.S. growth will slow to 2% by year end.
- There are limited fiscal and monetary buffers available to stimulate growth globally.



# US STOCK PRICES VERSUS CB ASSETS



The stock market rose as the Fed's balance sheet grew

Stock market outlook more uncertain during Quantitative Tightening (QT)

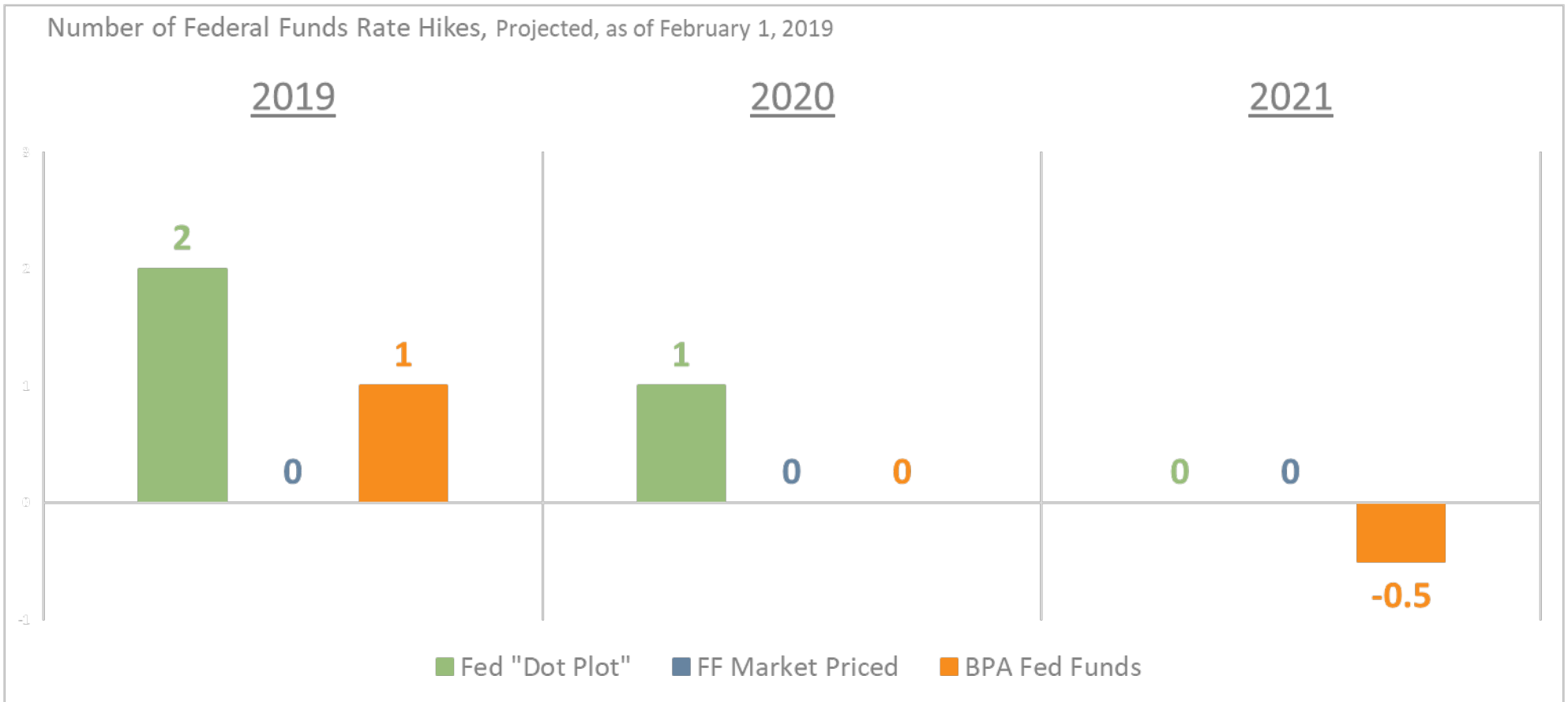
If the stock market declines the Fed will stop the balance sheet run-off





# WHAT WILL THE FEDERAL RESERVE DO?

Number of Federal Funds Rate Hikes, Projected, as of February 1, 2019



The Fed forecasts two rate hikes in 2019 and one in 2020

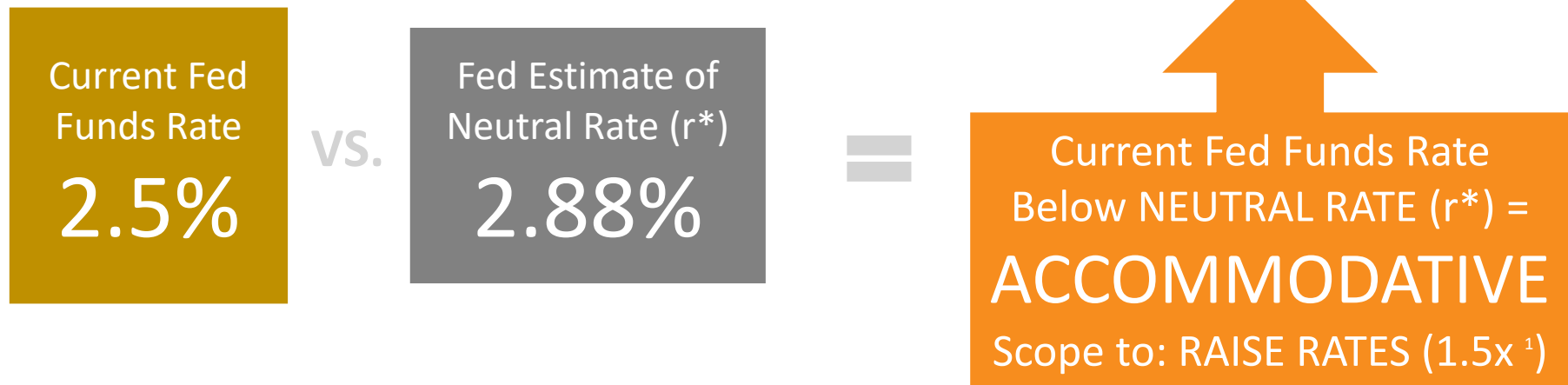
The market currently forecasts NO more rate hikes

BPA forecasts one rate hike in 2019 and a 50% probability of a rate cut in 2021



# THE FED'S CURRENT POLICY STANCE

## *The Fed's Current Policy Stance: Accommodative, Restrictive or Neutral?*

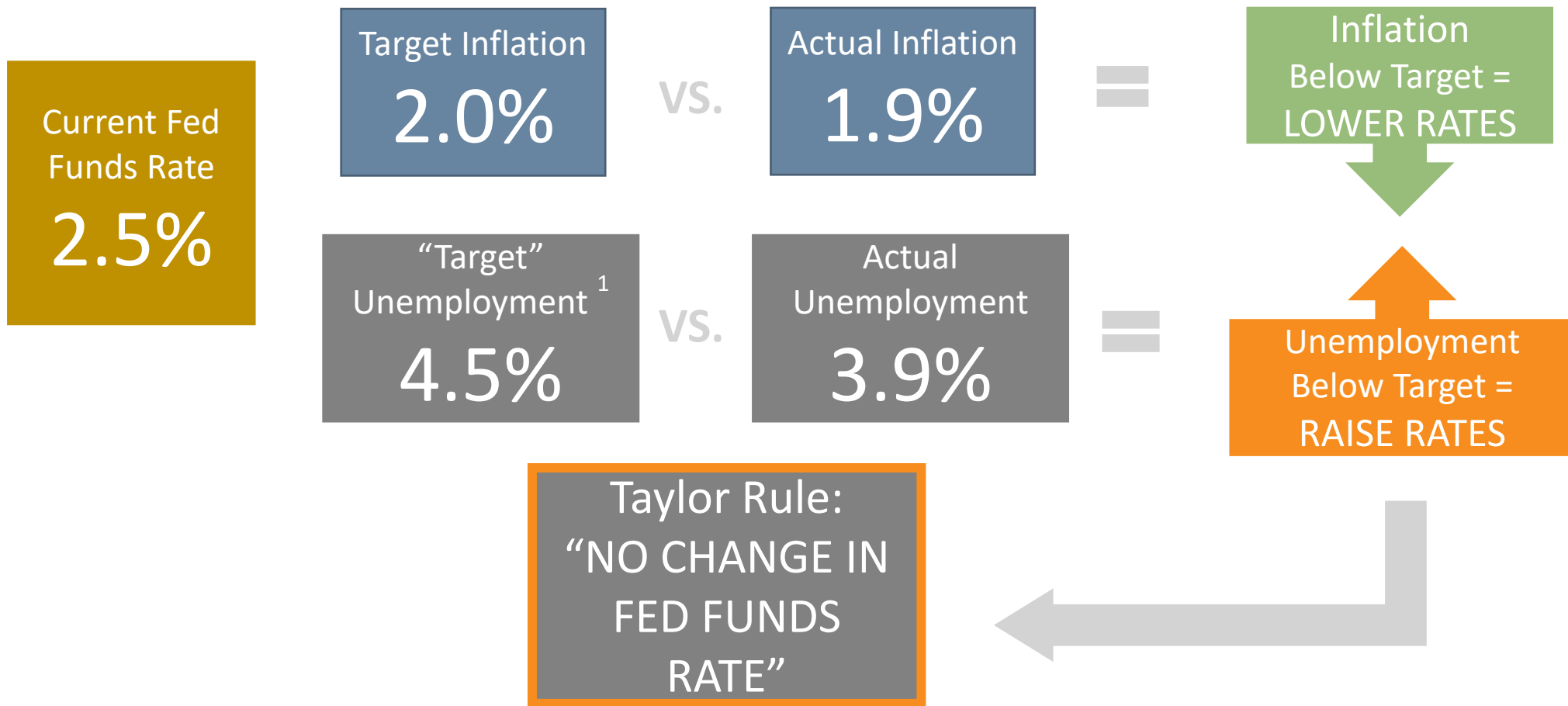


<sup>1</sup> To reach NEUTRAL, the Fed will have to raise rates .375%, or 1 ½ times at .25% per hike



# WHAT WILL THE FED DO IN 2019?

## The "Taylor Rule"



Taylor Rule Estimate =

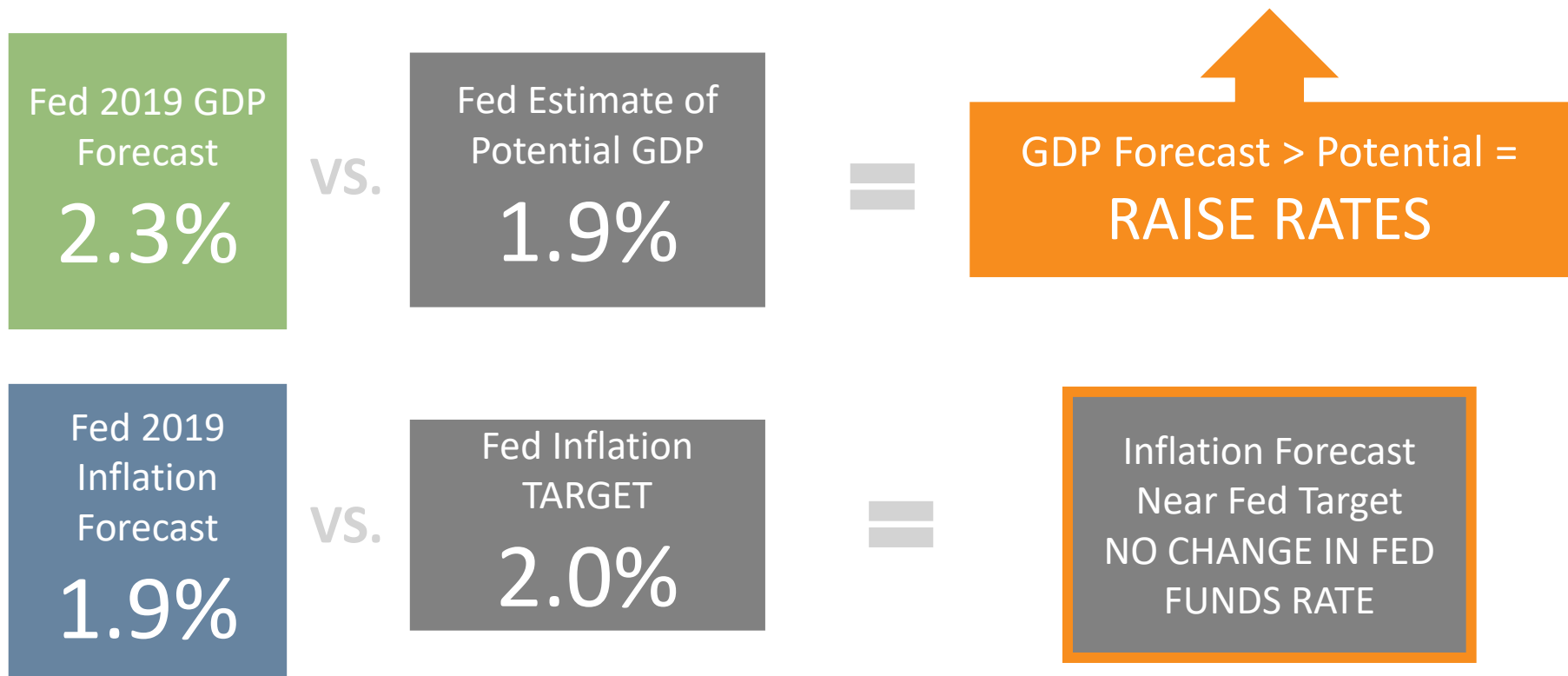
$$\text{Neutral Real Rate} + \text{Inflation} + [\text{Alpha} * (\text{Inflation} - \text{Target})] + [\text{Beta} * (\text{NAIRU} - \text{Unemployment Rate})]$$

<sup>1</sup> "Target Unemployment" is the NAIRU, or Non-Accelerating Inflation Rate of Unemployment, and refers to a level of unemployment below which inflation rises.



# WHAT WILL THE FED DO IN 2019?

## The Fed's Economic Forecast "Reaction Function"





# WHAT WILL THE FED DO IN 2019? SUMMARY

## Current Policy Stance

CURRENT Fed Funds Rate  
Below NEUTRAL RATE ( $r^*$ ) =  
RAISE RATES

## The "Taylor Rule"

Taylor Rule Says  
"NO CHANGE IN  
FED FUNDS RATE"

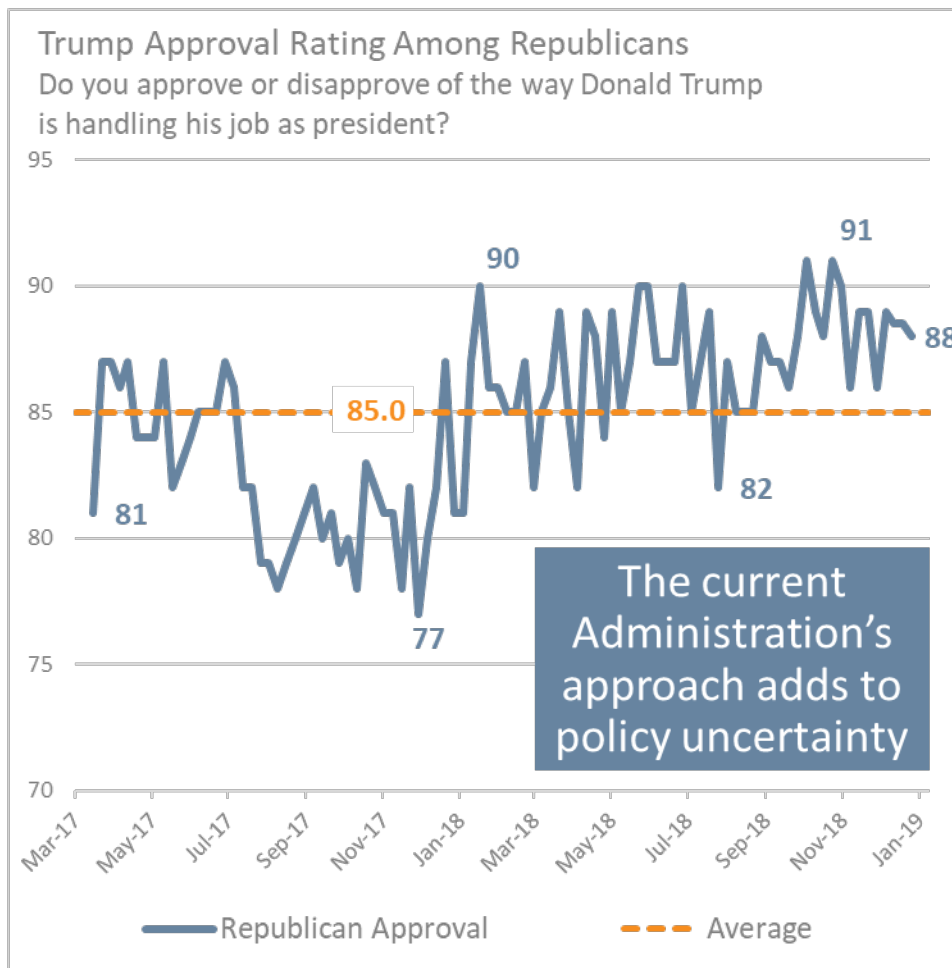
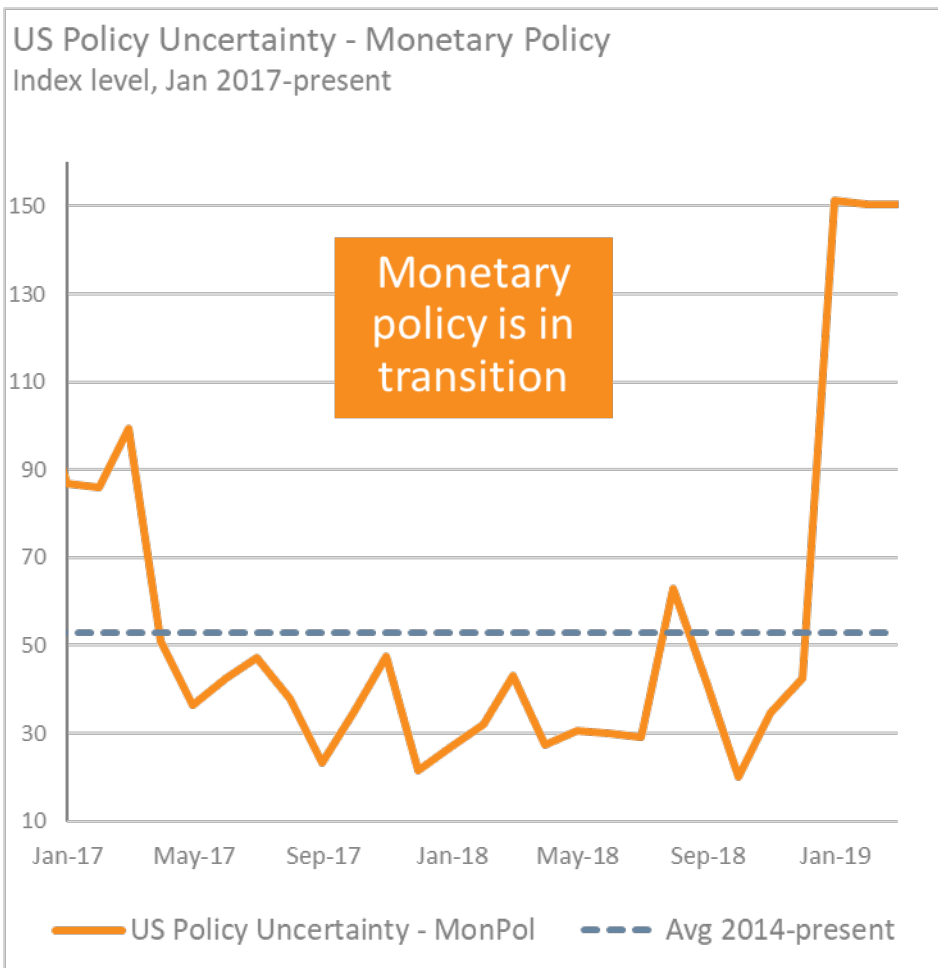
## "Reaction Function"

Fed GDP Forecast >  
POTENTIAL =  
RAISE RATES

Inflation Forecast  
Near Fed Target  
NO CHANGE IN FED  
FUNDS RATE

*We think the  
macroeconomic  
environment will  
allow the Fed to  
raise rates in 2019*

# MONPOL AND ADMINISTRATION RISK RISING



“Approval Among Republicans” is key to determine possible risks to the current Administration

Congressional investigations will certainly increase...

...“noise” from Washington D.C. has the potential to move the market.

# “BREXIT” – A SELF-INFLICTED WOUND

“Majority of Brits now against Brexit [51% say ‘bad for economy’]and back second EU referendum” – January 2019 Sky Data poll

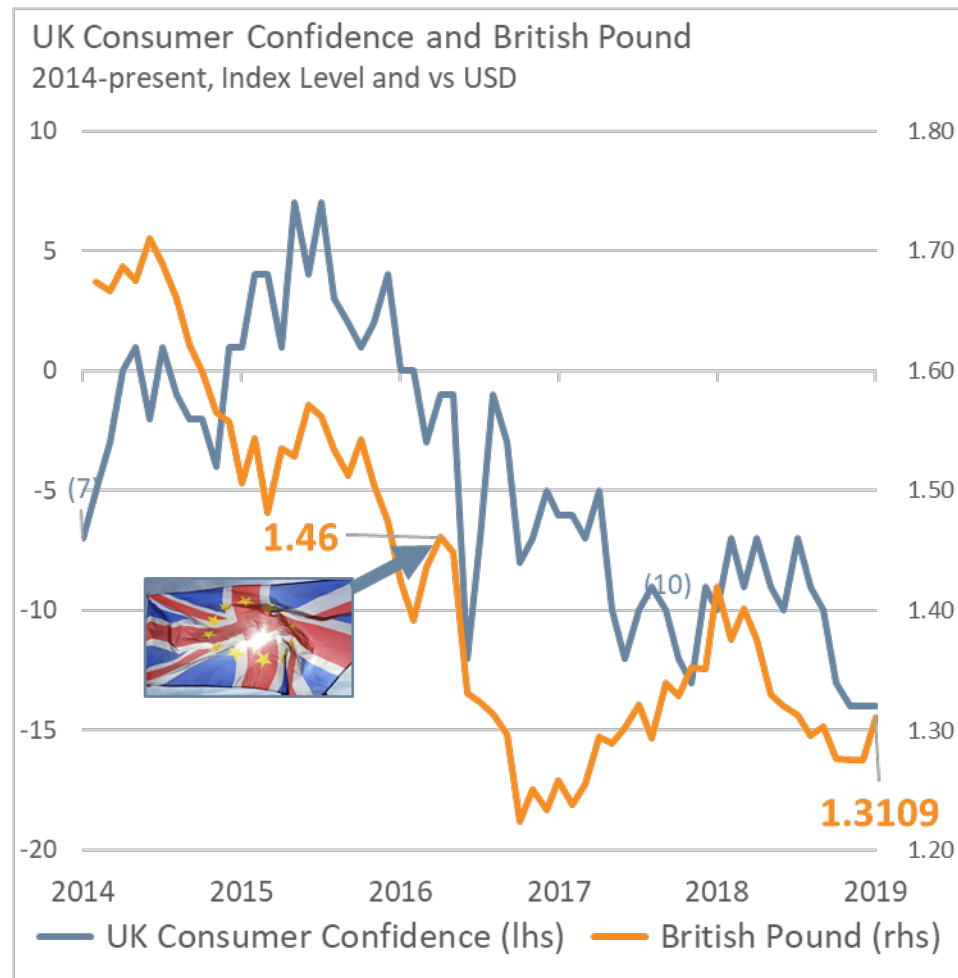
“Britain would now vote to stay in the EU, new poll shows” – Sky News September 4, 2018

**Consumer confidence at five-year low as Brexit concerns persist**

In: Brexit, Business & finance, Custom Research, Economy & work, Politics & current affairs, Retail & consumer  
January 29, 2019, 7:37 a.m.

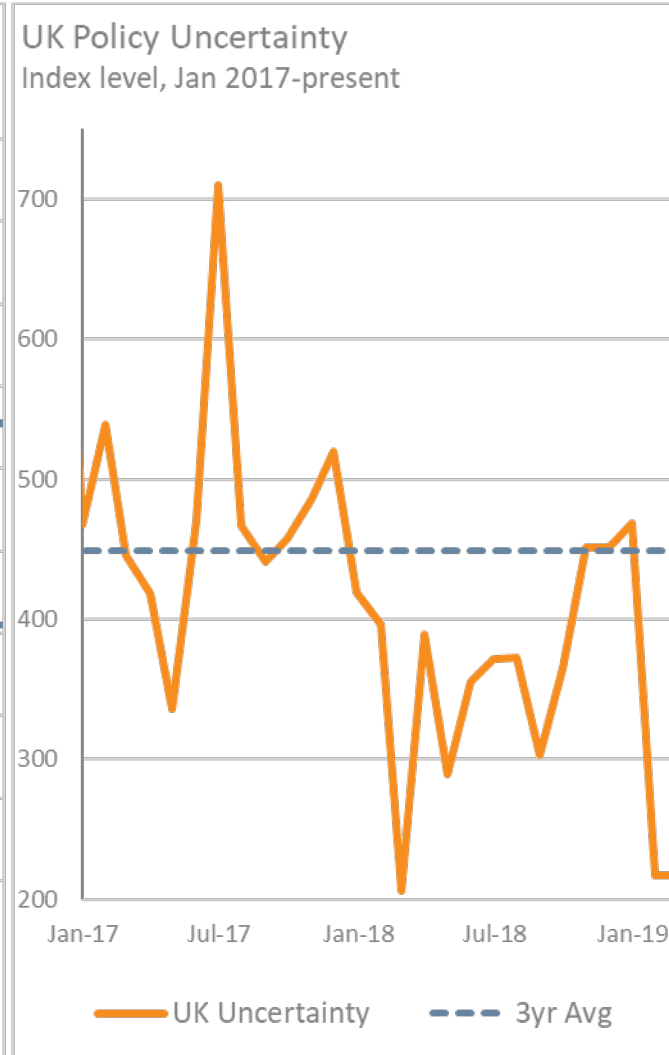
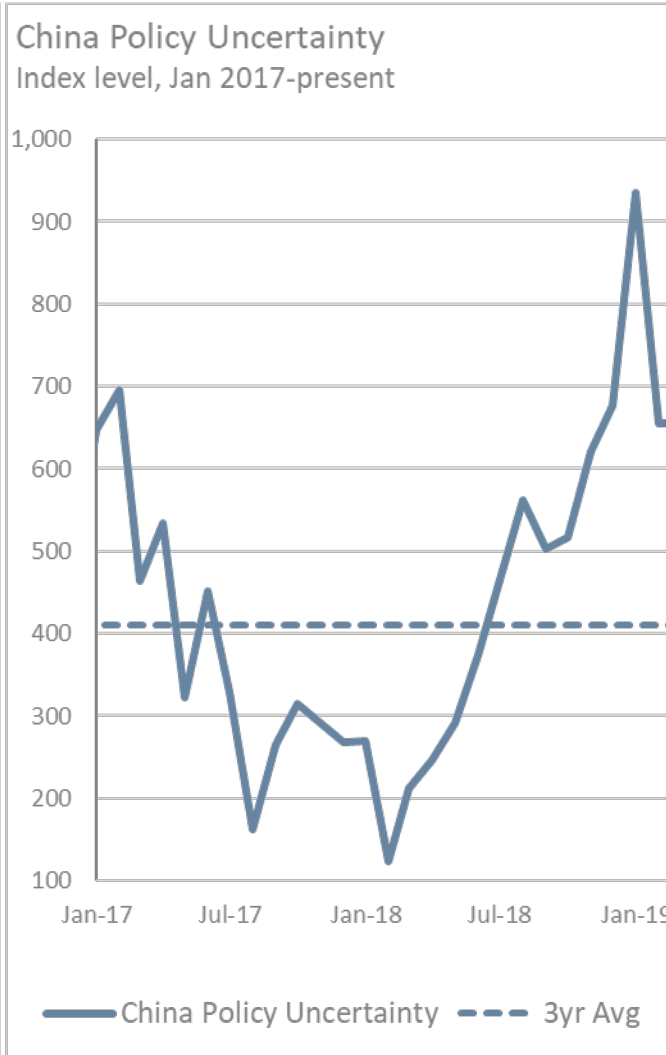
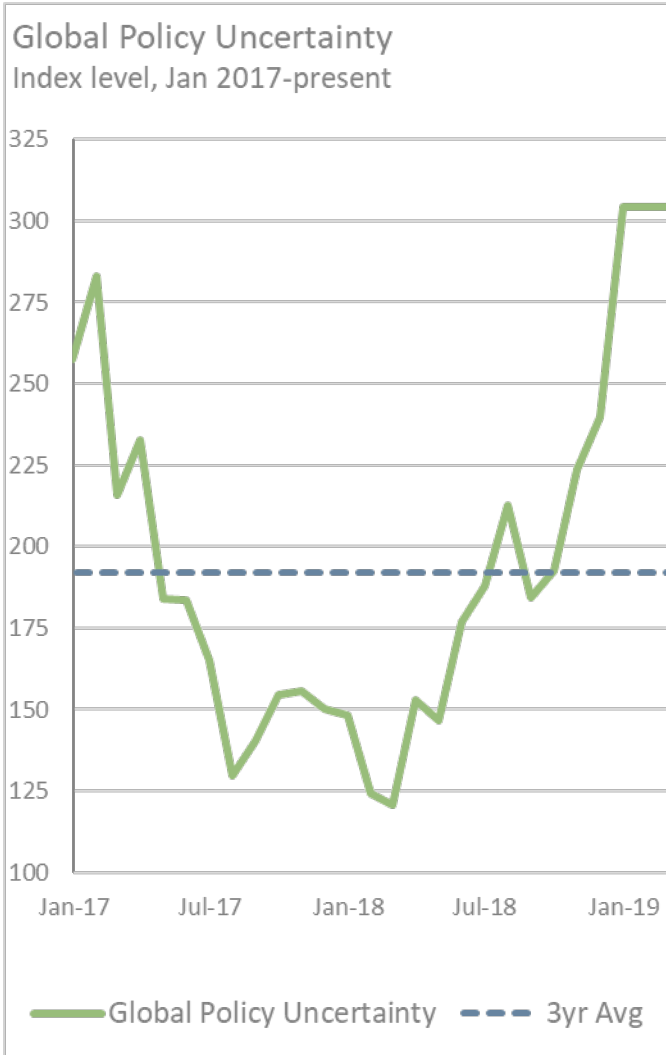
“Brexit” – and the policy uncertainty that surrounds it – is damaging the UK economy...

Recession probabilities in the UK spiked to 50% immediately after the 2016 Brexit vote...now 20%



It now appears that the UK could reverse course and vote again...

# POLICY UNCERTAINTY RISING GLOBALLY



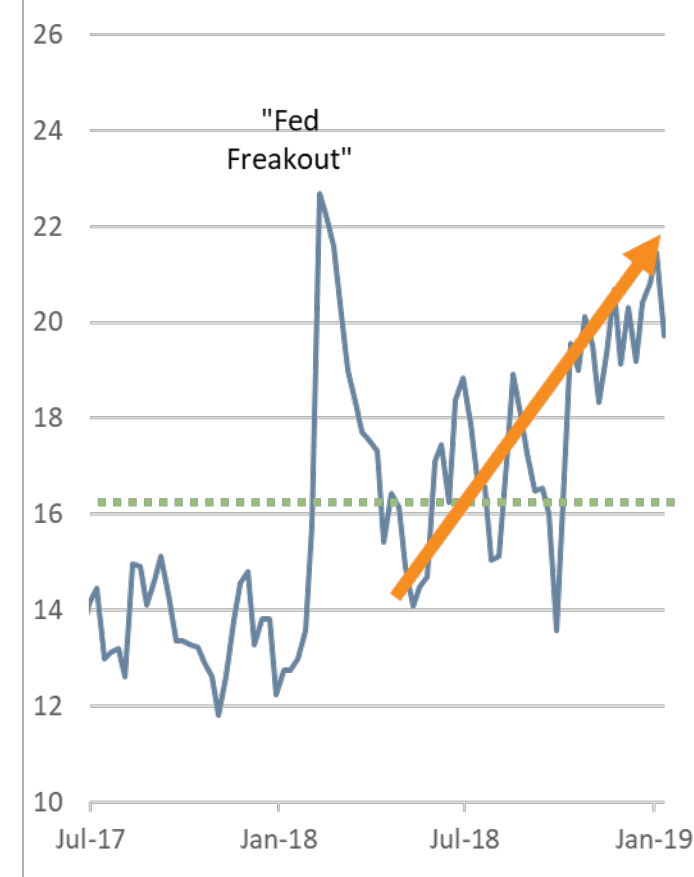
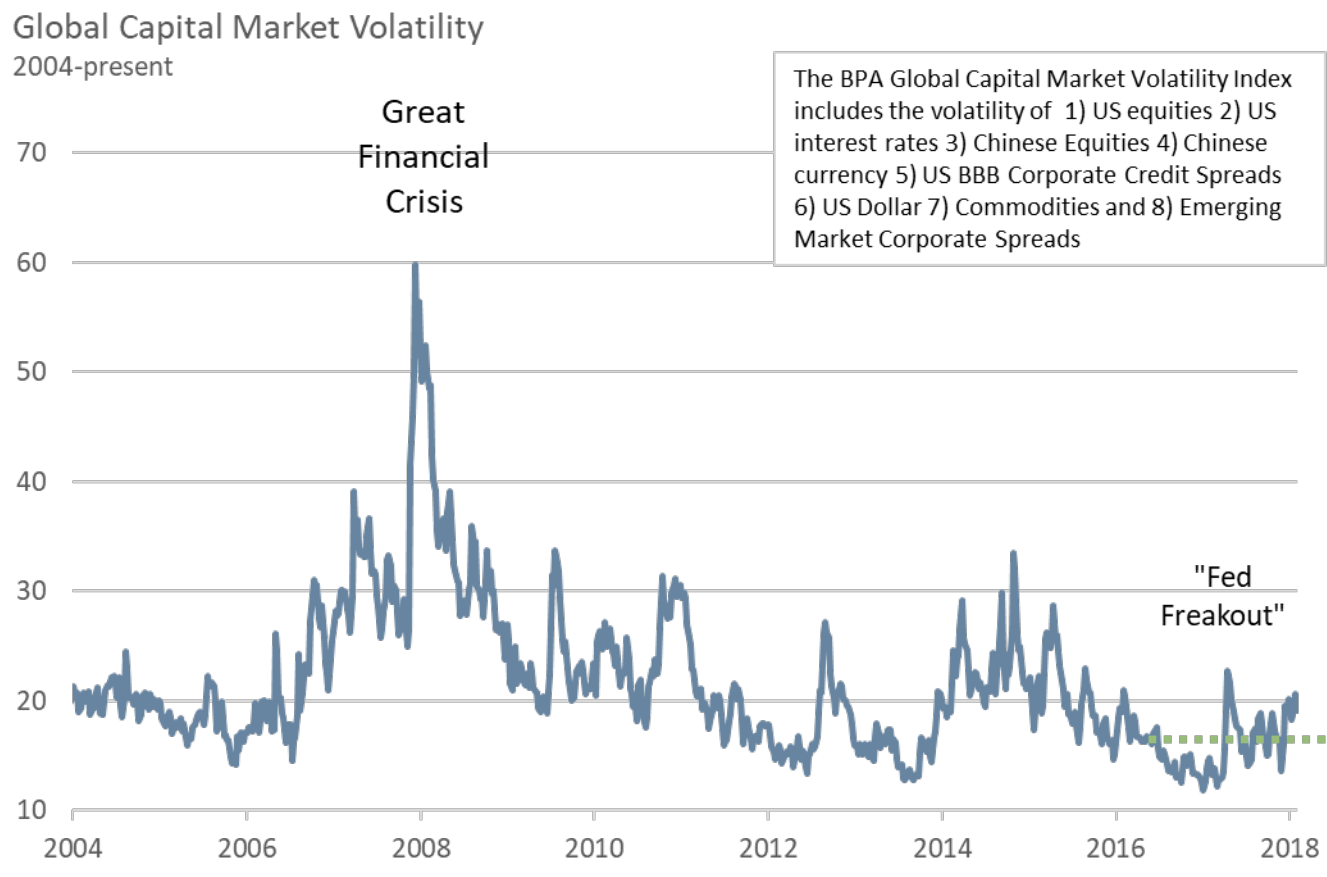
Global economic policy uncertainty is rising...

...driven by China trade concerns and US MonPol uncertainty

Surprisingly, policy uncertainty in UK has abated. New vote?



# GLOBAL VOLATILITY INCREASING



The withdrawal of monetary policy accommodation and "late-cycle" dynamics

Increasing trade uncertainty and political risk

The result is higher required risk premiums for stocks and bonds

As of January 31, 2018

SOURCE: Bloomberg LLC, Beacon Pointe Advisors

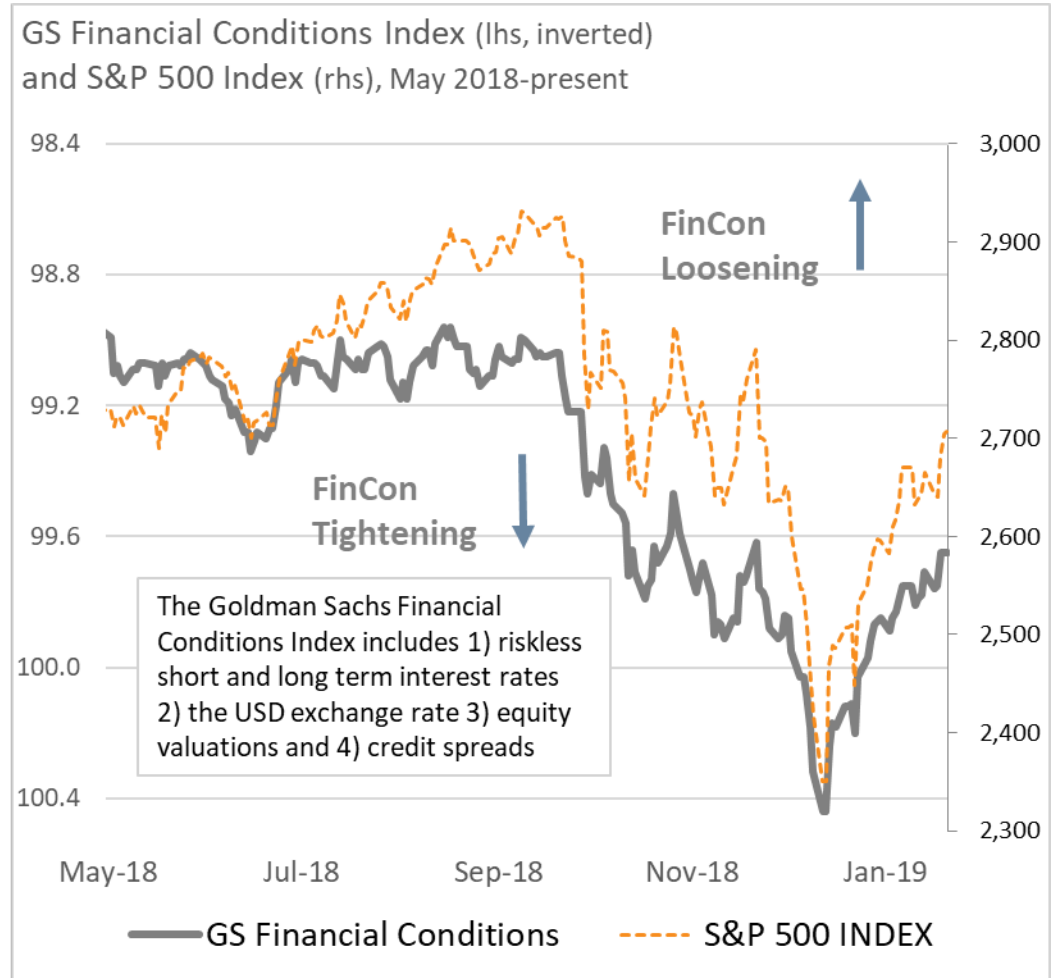
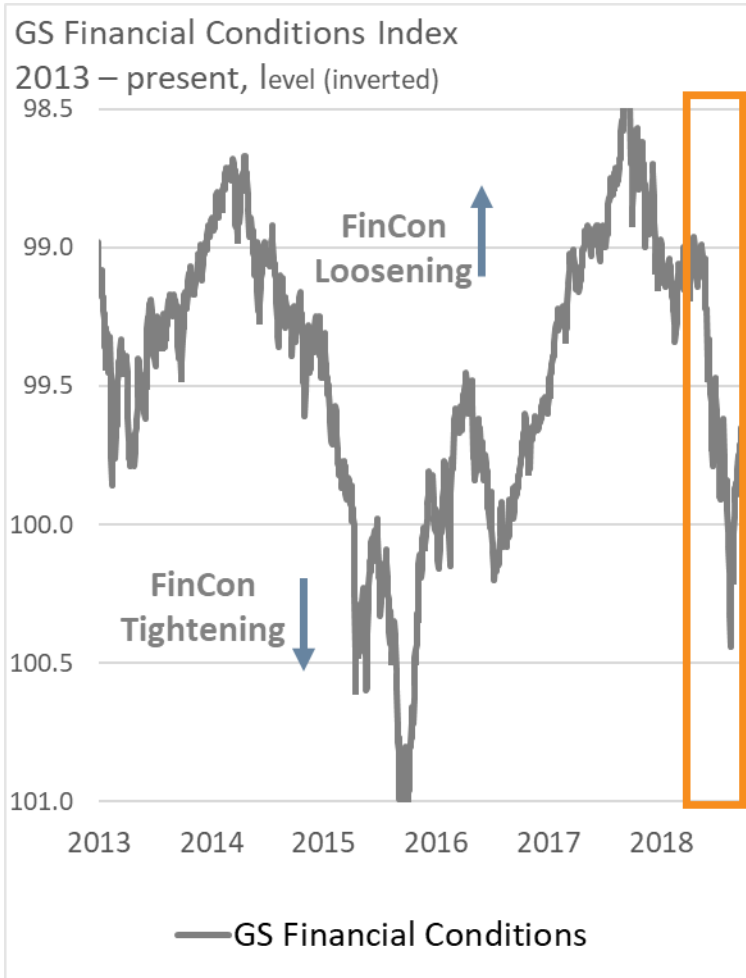
NOTE: the components of our proprietary BPA GloCapVol Index include volatility of US equities, US interest rates, Chinese Equities, Chinese currency, US BBB Corporate Credit Spreads, US Dollar, Commodities, and EM Corporate Spreads



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# US FINANCIAL CONDITIONS – TIGHTER THEN LOOSER



Financial Conditions lead economic growth by two to four quarters...

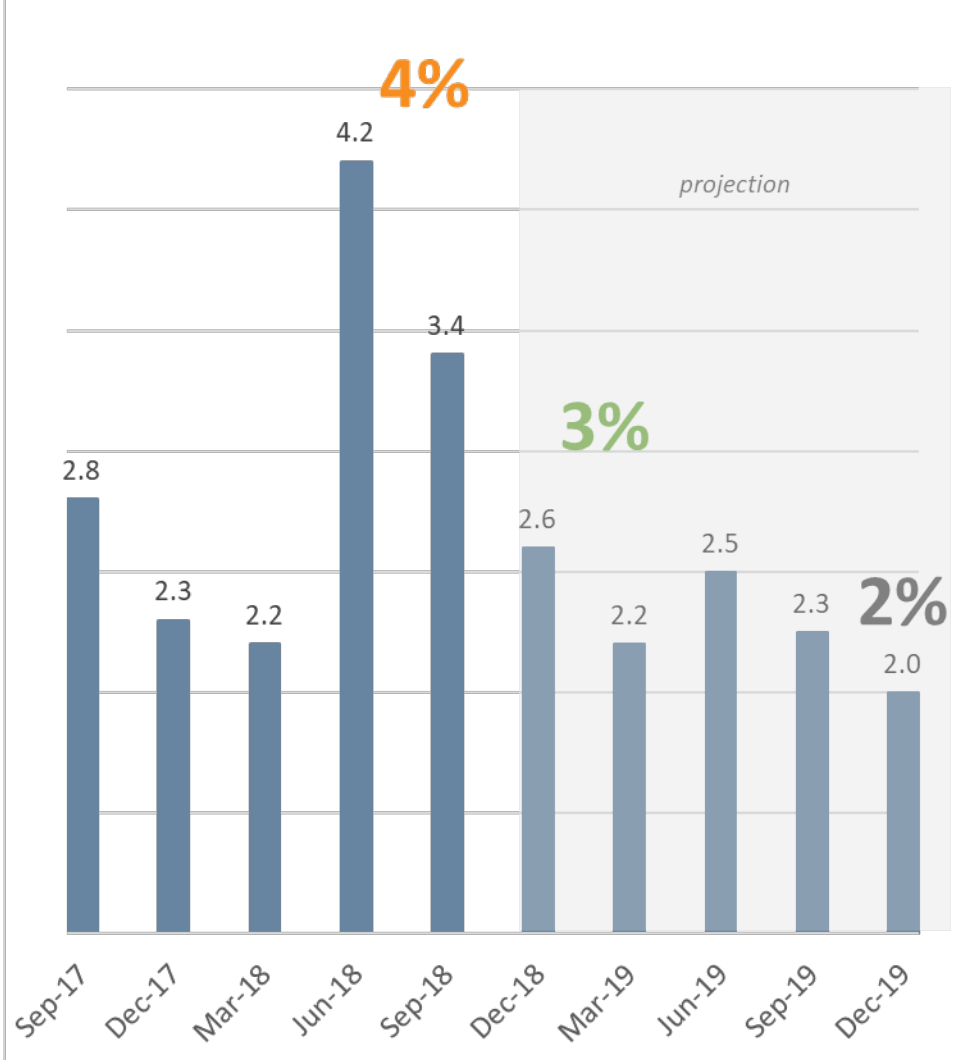
...tighter Financial Conditions = lower future economic growth

FinCon tightened dramatically in Dec '18, loosened in Jan '19

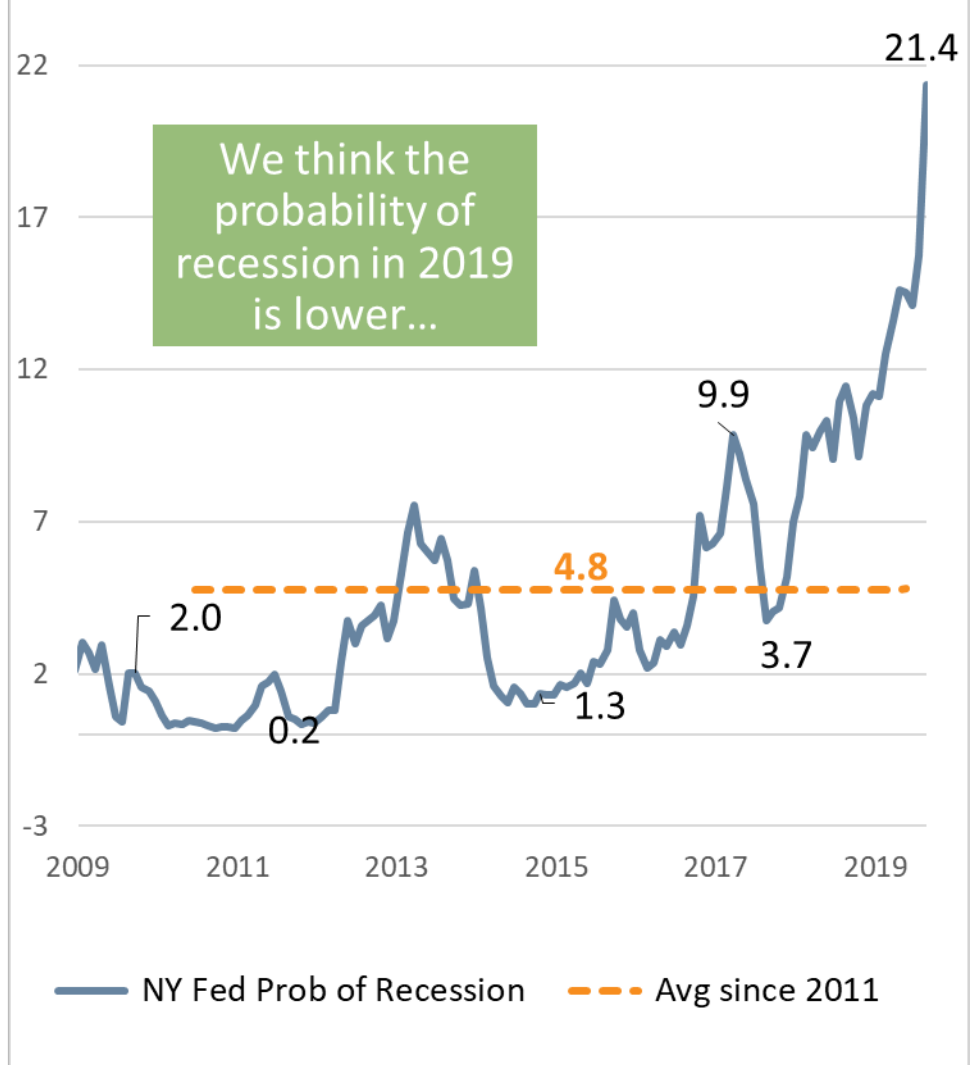


# US GDP GROWTH TO SLOW

GDP US Real GDP, QoQ



Fed Probability of Recession in 1 year, %



As of January 31, 2019

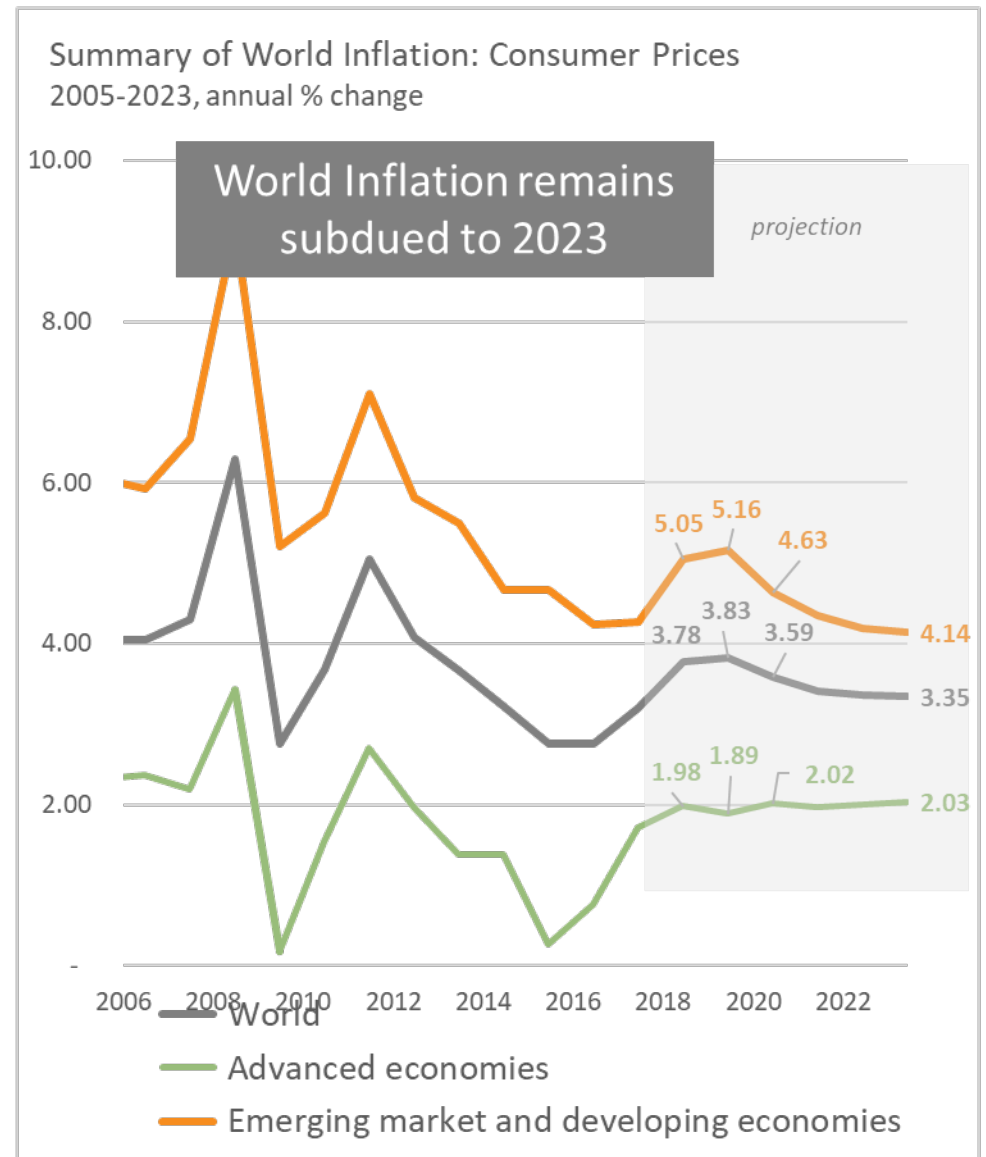
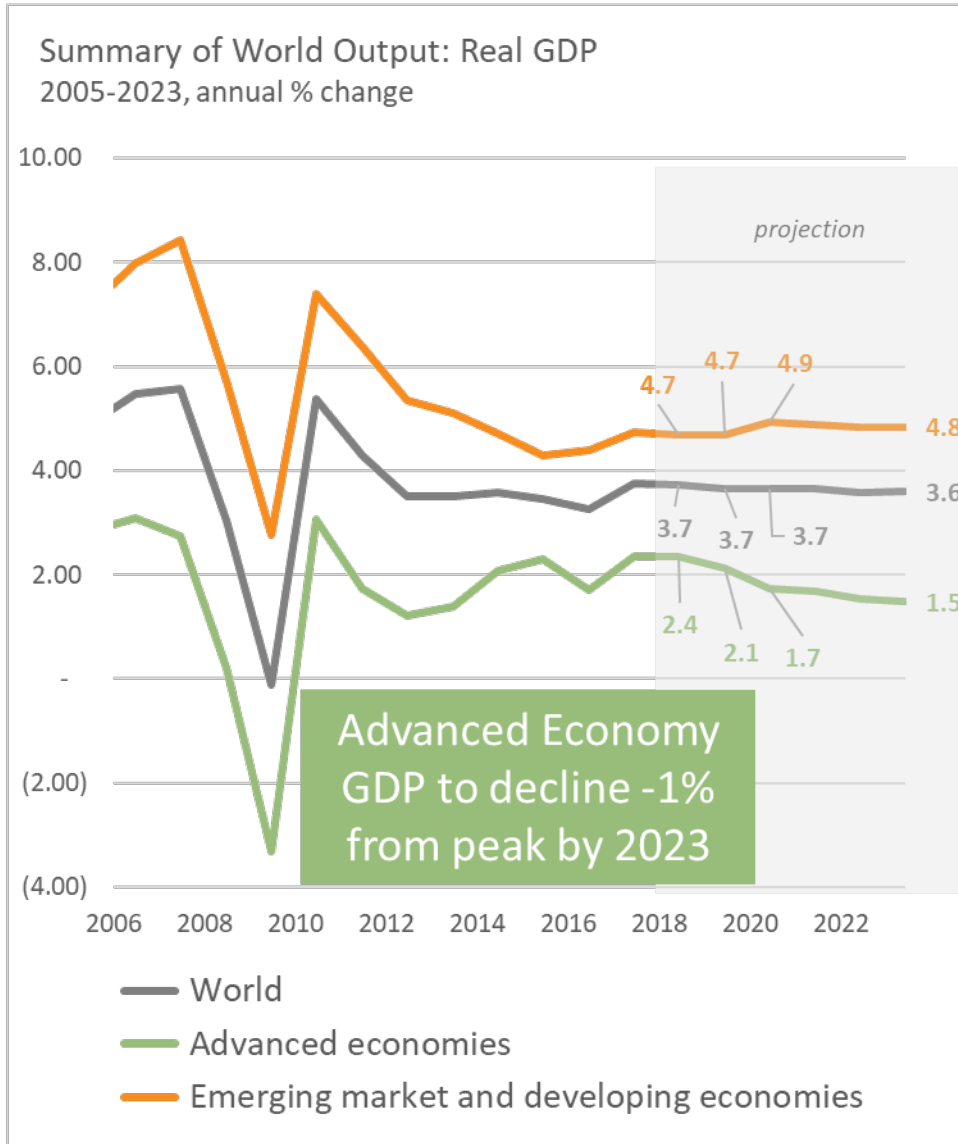
SOURCE: Bloomberg LLC, Beacon Pointe Advisors



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# GLOBAL GROWTH TO SLOW, INFLATION SUBDUED

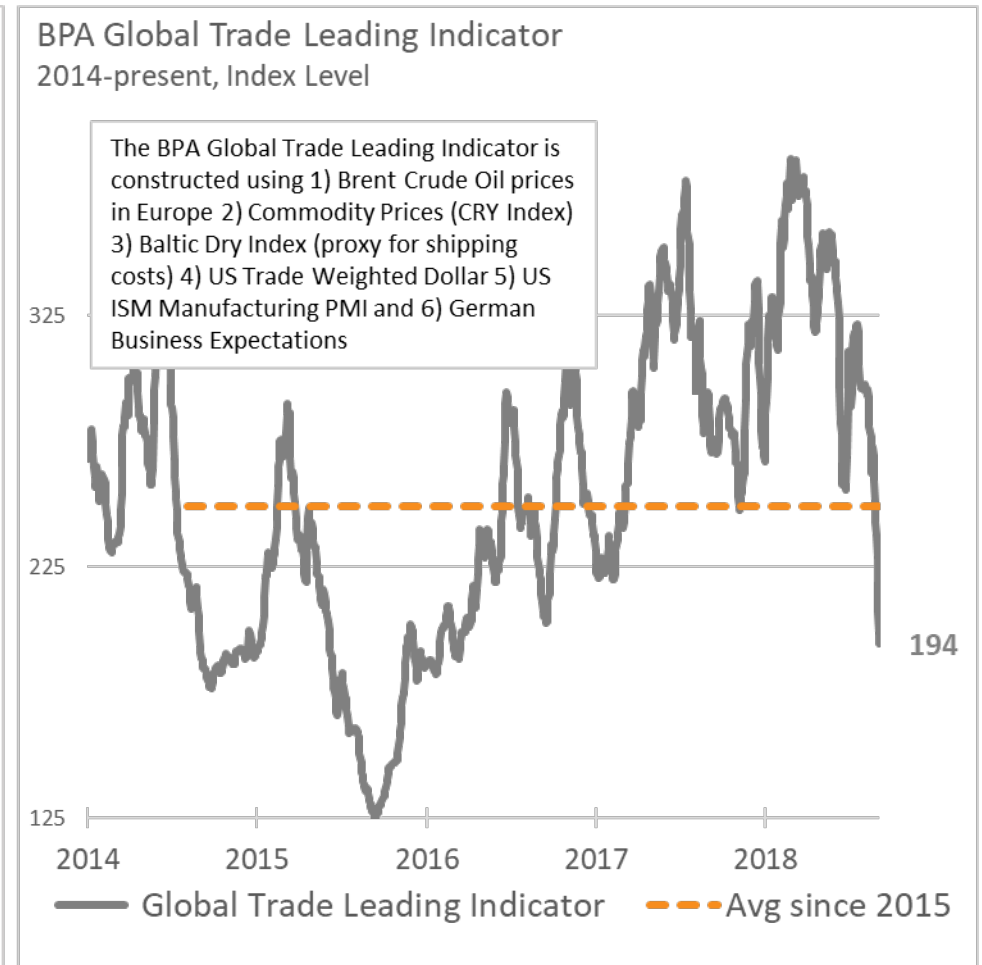
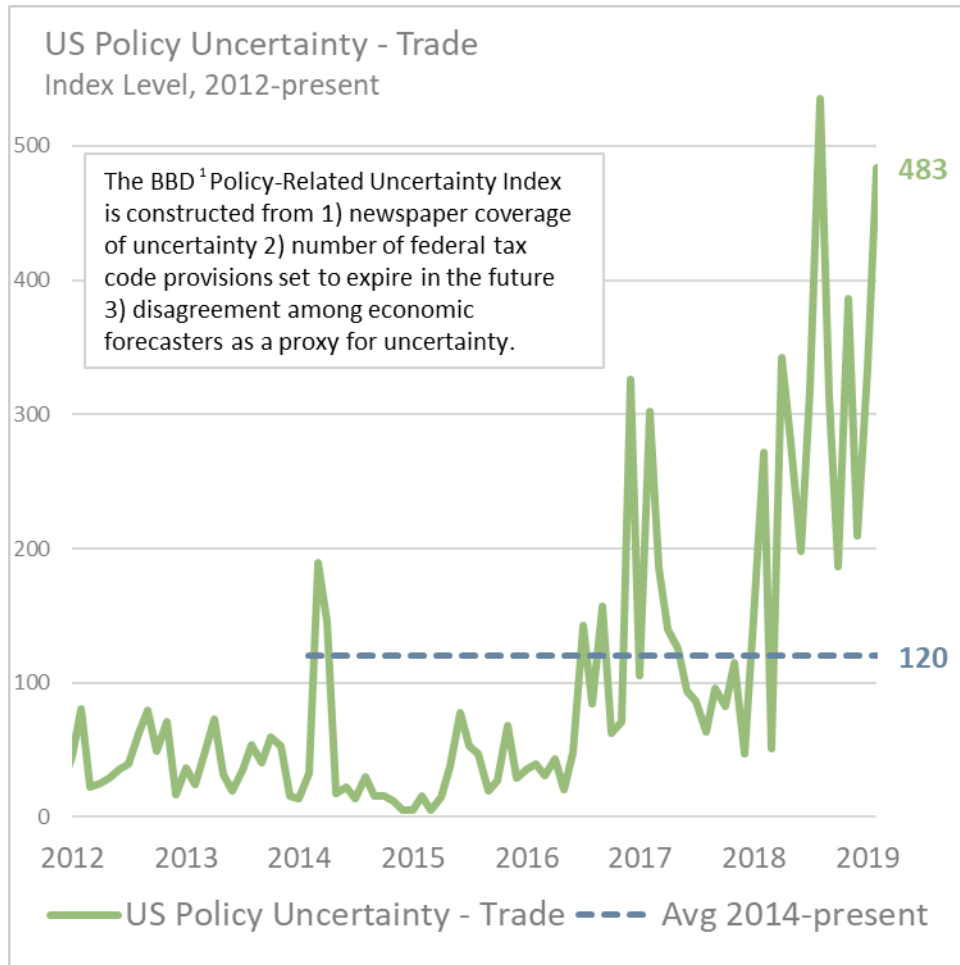


Data as of January 31, 2019

SOURCE: International Monetary Fund, January 2019 WEO Update



# TRADE POLICY UNCERTAINTY WILL DAMPEN GLOBAL GROWTH



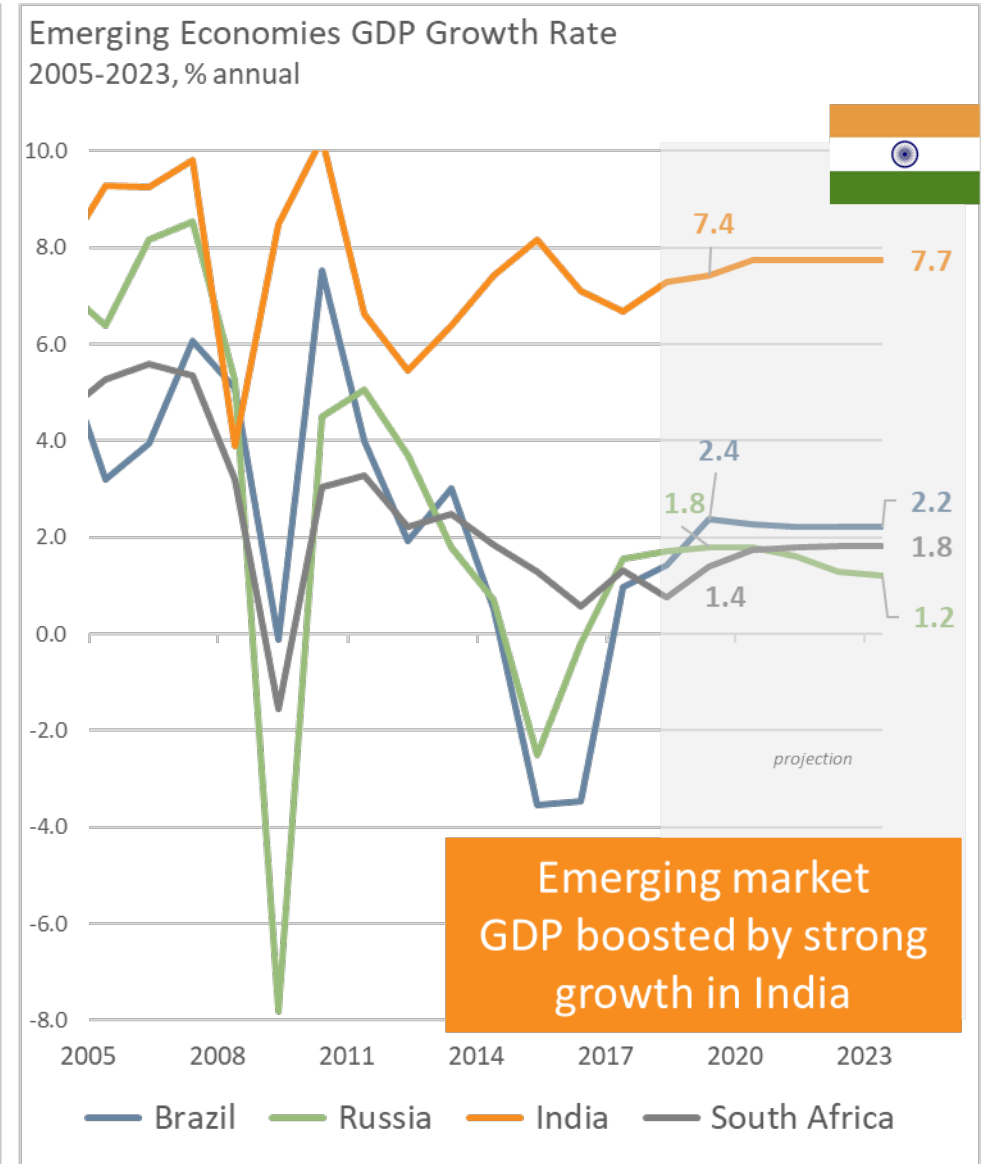
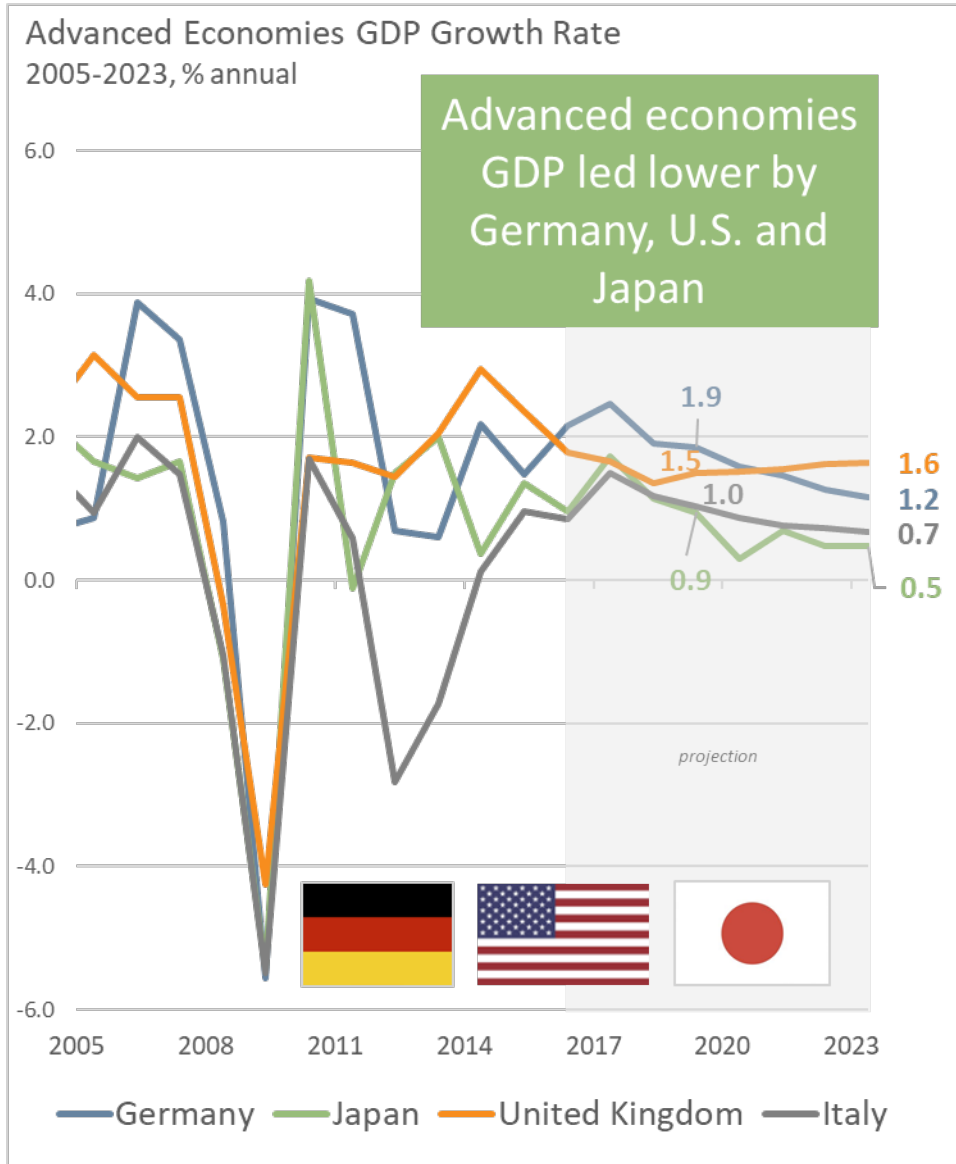
Lack of political cohesiveness and widening divisions in Washington

Uncertain outcome of US-China trade dispute

Uncertainty about trade policy leads to a steep decline in global trade



# GLOBAL GROWTH OUTLOOK – INDIA IS THE STAR

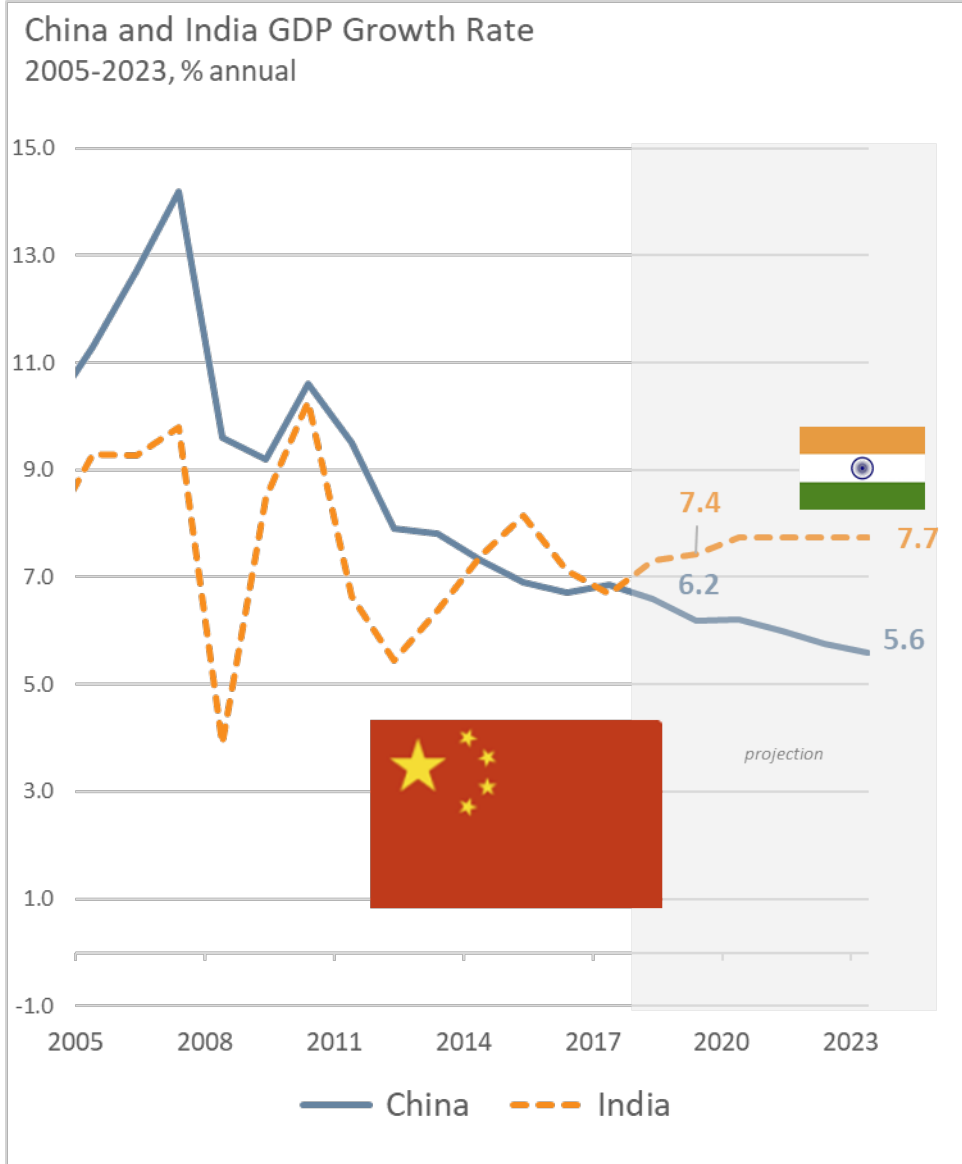


Data as of January 31, 2019

SOURCE: International Monetary Fund, January 2019 WEO Update



# GLOBAL GROWTH OUTLOOK – A CLOSER LOOK AT CHINA

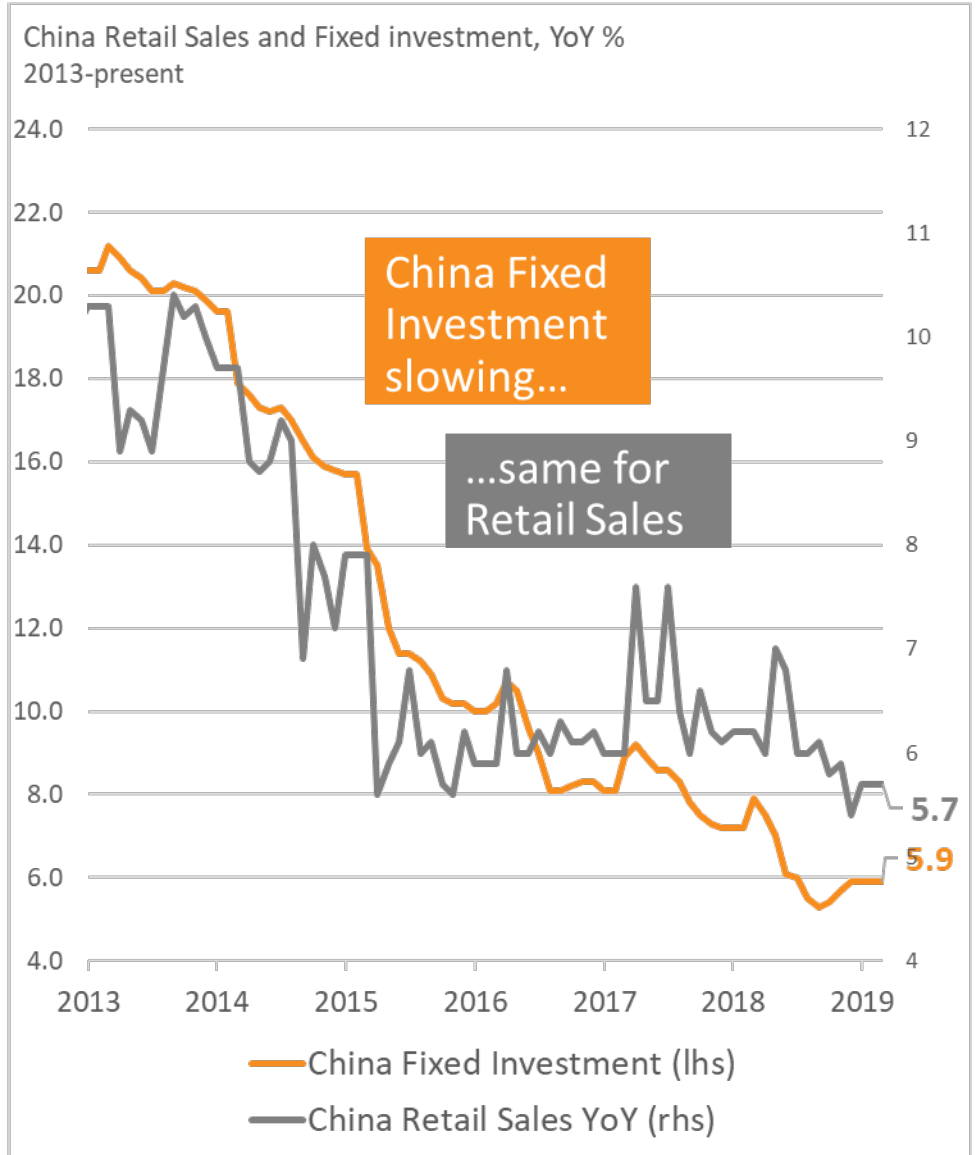


As of January 31, 2019

SOURCE: Bloomberg LLC, International Monetary Fund, January 2019 WEO Update



# GLOBAL GROWTH OUTLOOK – A CLOSER LOOK AT CHINA



As of January 31, 2019

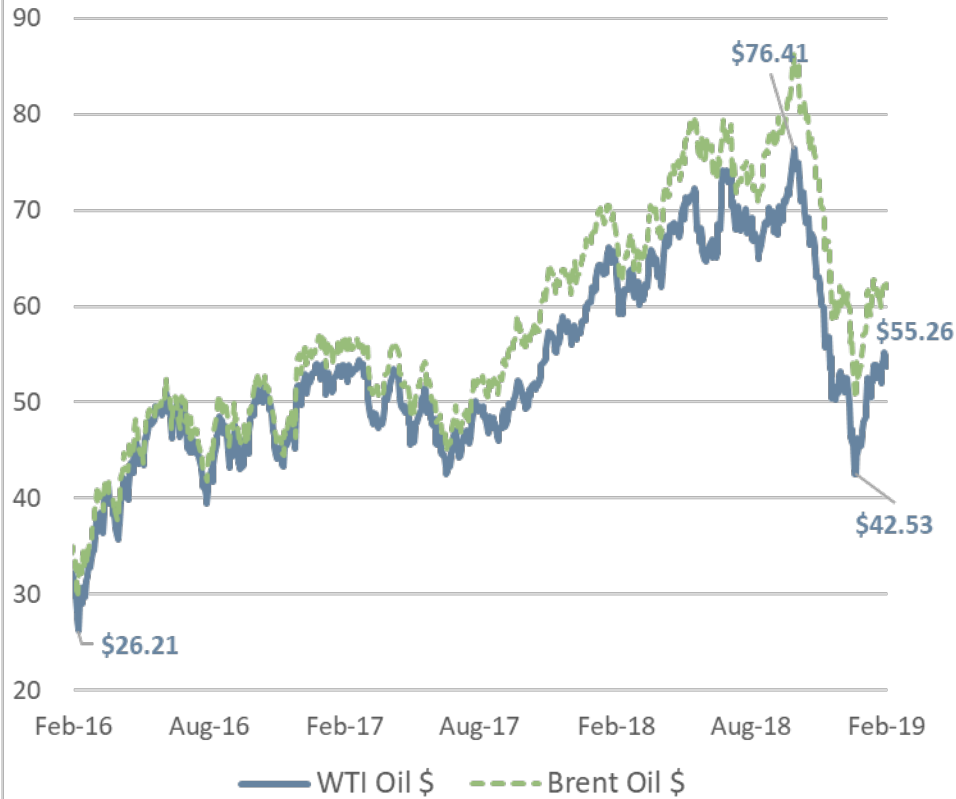
SOURCE: Bloomberg LLC, Beacon Pointe Advisors





# COMMODITIES – OIL AND COPPER

Global Oil Prices, \$ USD / bbl.  
2016 to present



Copper and Iron Ore Prices, \$ USD/metric ton  
Sep 2017 - present



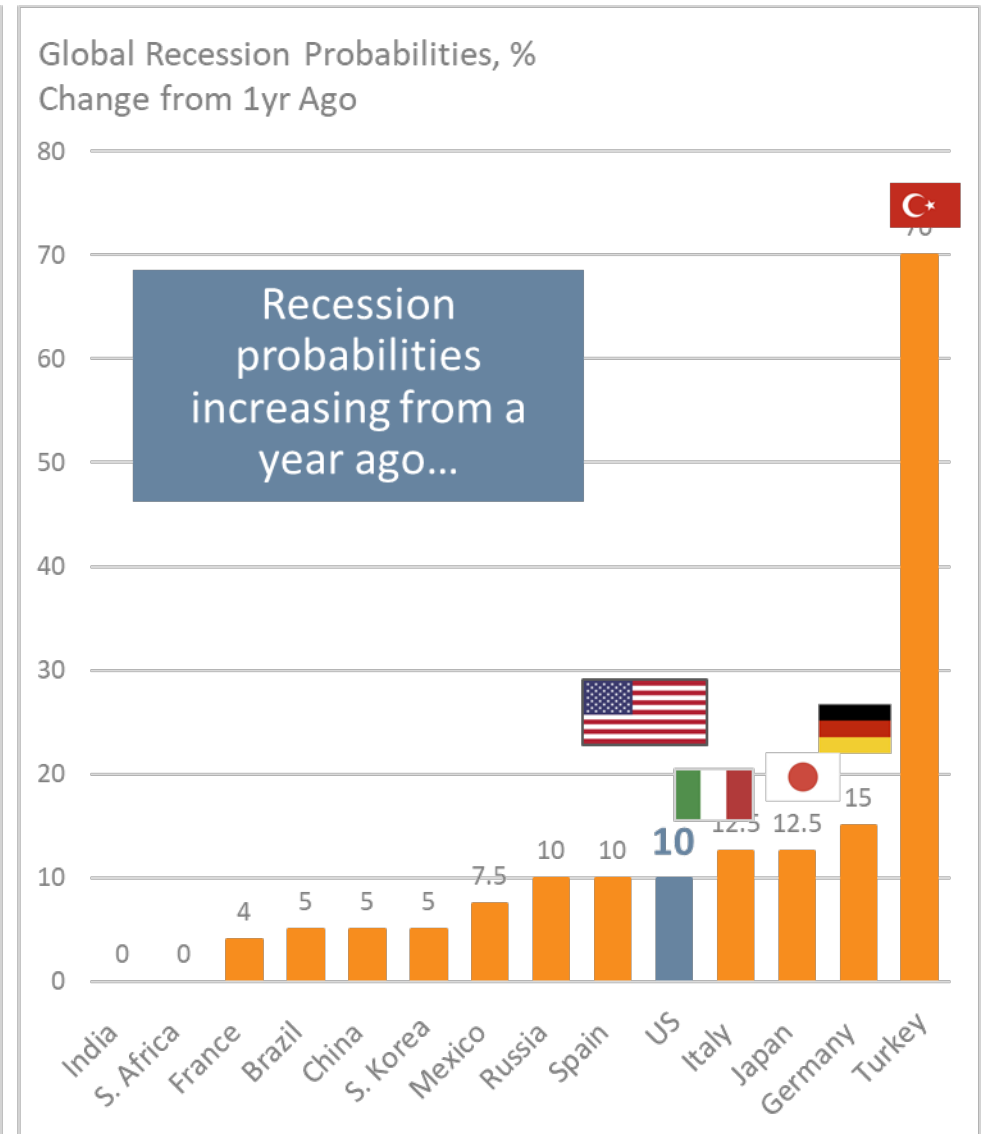
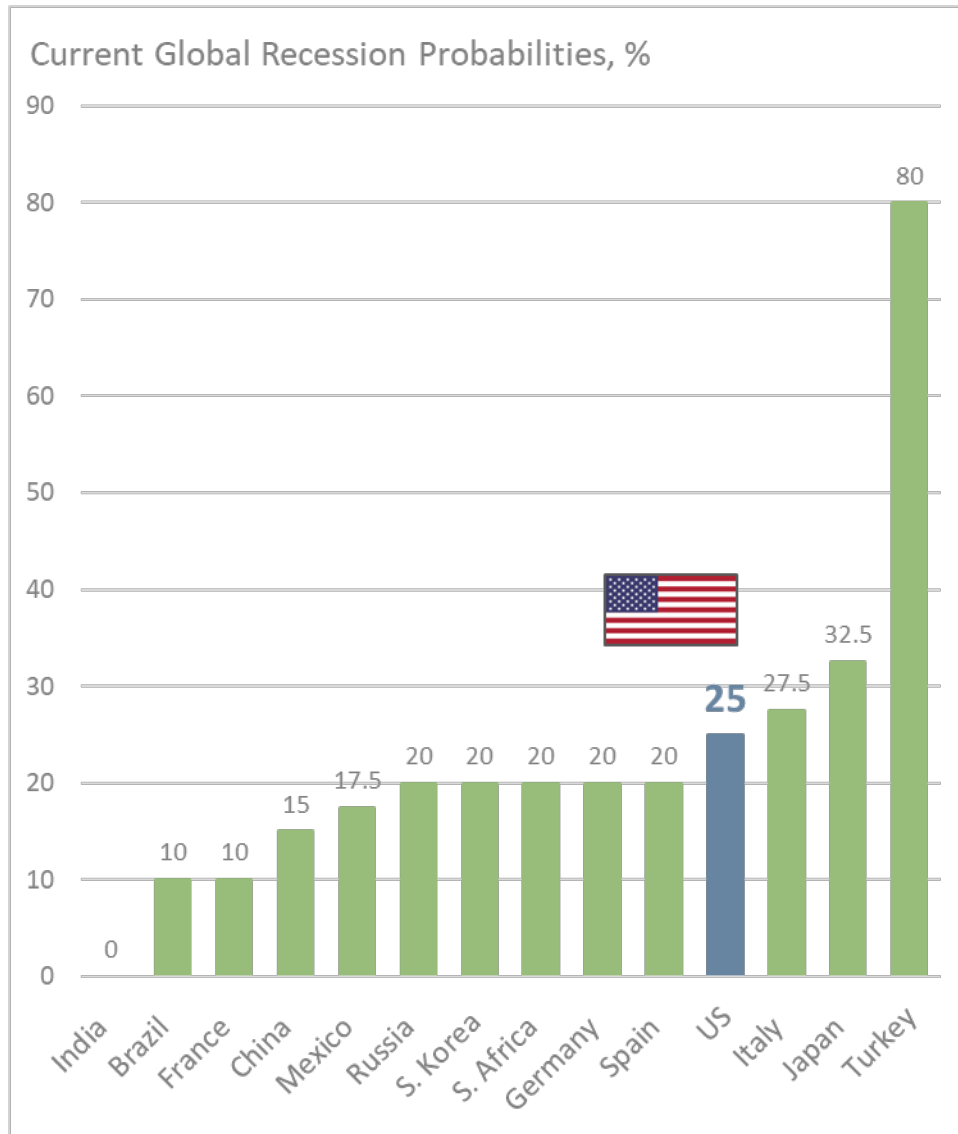
Energy and industrial metal prices track global growth expectations

Copper suffered in 2H2018 on trade fears, great start to 2019

Global economic growth fundamentals NOT supportive of commodity prices



# GLOBAL RECESSION PROBABILITIES - INCREASING



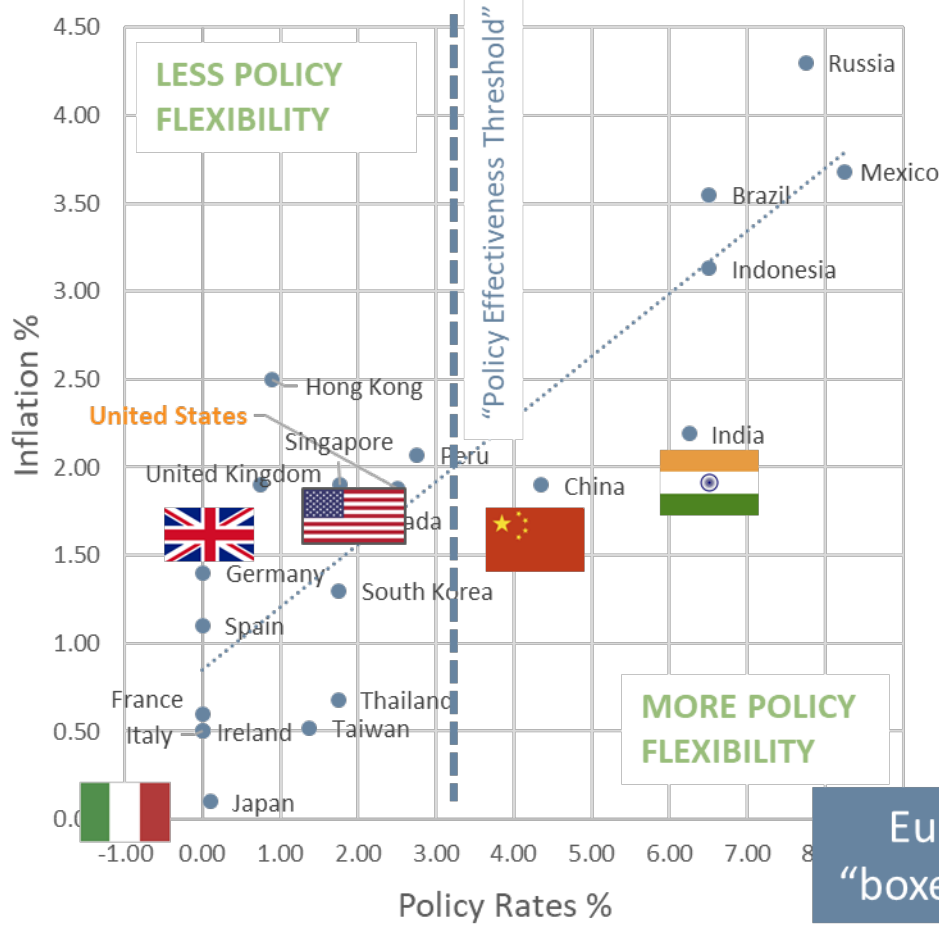
As of January 31, 2019

SOURCE: Bloomberg LLC, Beacon Pointe Advisors

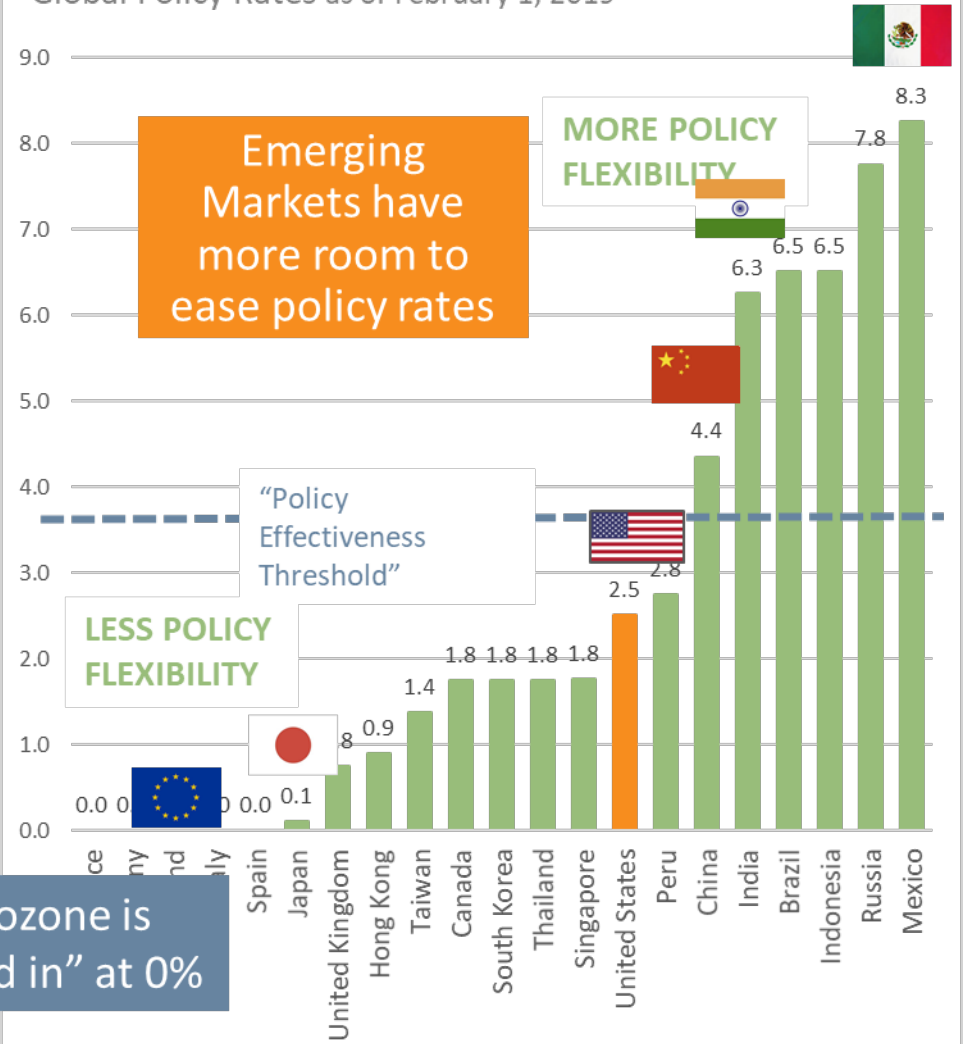


# ABILITY TO FIGHT RECESSION – MONETARY POLICY

"Degrees of Freedom" to Fight an Economic Slowdown w/Monetary Policy



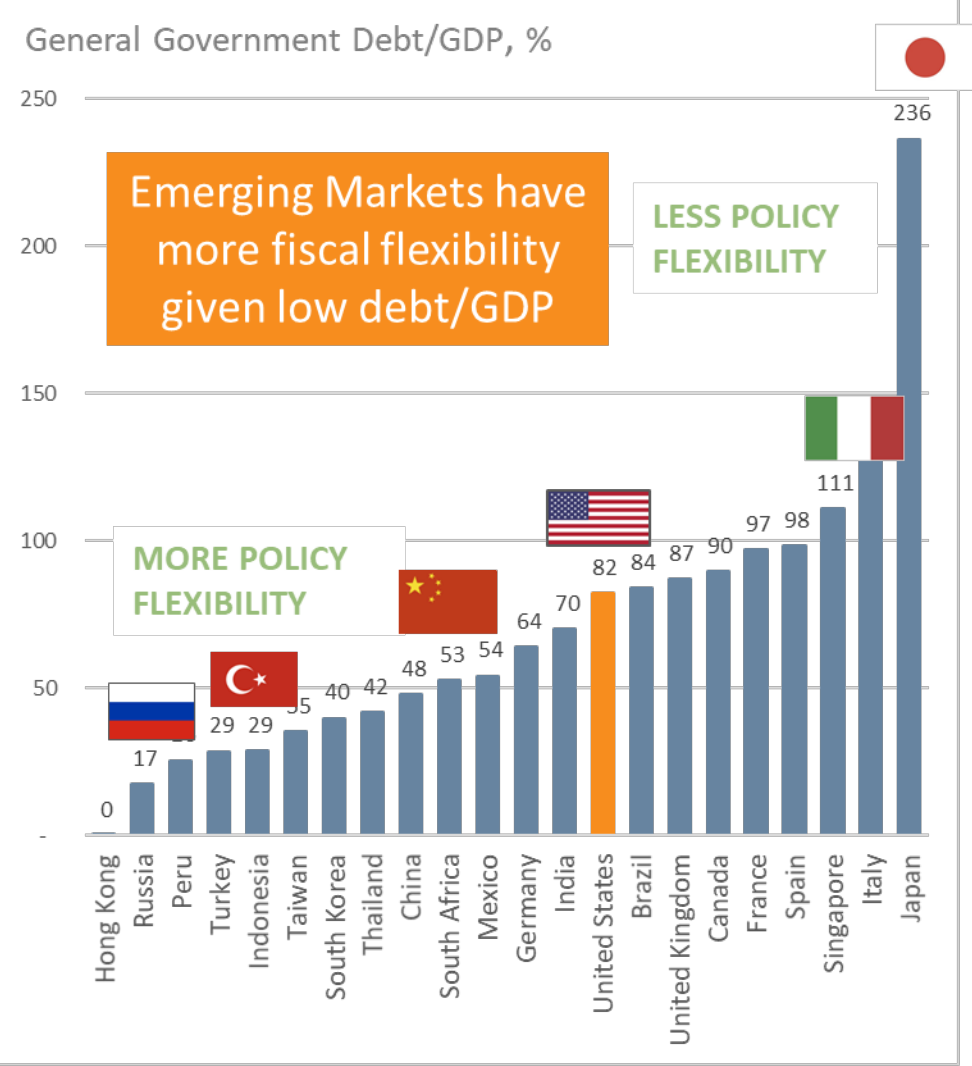
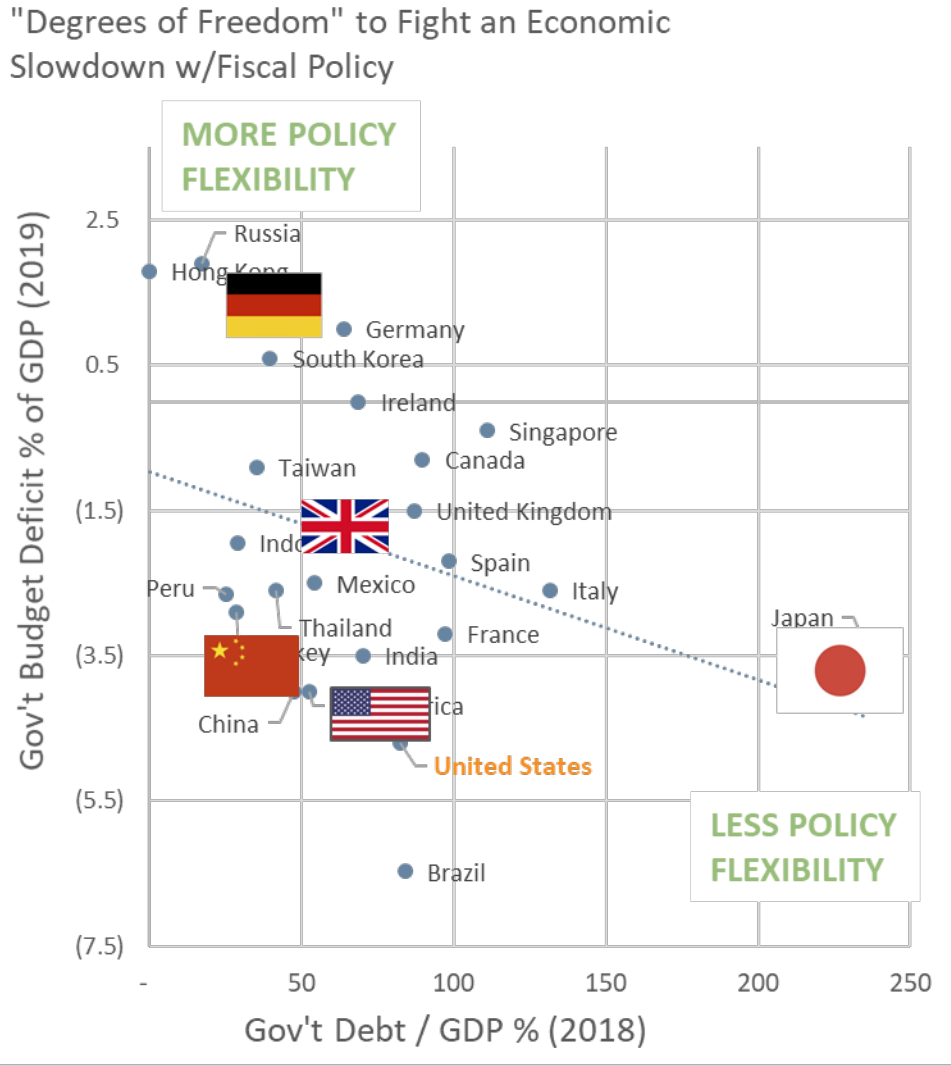
Global Policy Rates as of February 1, 2019



Monetary Policy Flexibility is a function of each country's ability to lower interest rates



# ABILITY TO FIGHT RECESSION INDICATORS – FISCAL POLICY



Fiscal Policy Flexibility is a function of each country's ability to *run budget deficits to spur growth*

# CURRENT MARKET CATALYSTS - POLICY AND GROWTH

## Catalysts

### “Policy”

- **China Trade Tensions** are Resolved in 1H 2019 [40%]

- POSITIVE: **70%**

- NEGATIVE: **30%**



Positive Catalyst

- **Fed Policy:** Recession. “Soft Landing”. Or Inflation [2019]

- POSITIVE: **70%**

- NEGATIVE: **30%**



Positive Catalyst

- **“Brexit – no deal”** on March 29, 2019

- POSITIVE: **60%**

- NEGATIVE: **40%**



First Negative, then  
Positive Catalyst

# 2019 CATALYSTS FOR MARKETS

## Catalysts

### “Growth”

- **Corporate Earnings Outlook [1Q 2019]**

- POSITIVE: **70%**
- NEGATIVE: **30%**

\$ EPS



First Positive, then  
Neutral Catalyst

- **Global Growth Outlook [2019]**

- POSITIVE: **20%**
- NEGATIVE: **80%**



GDP



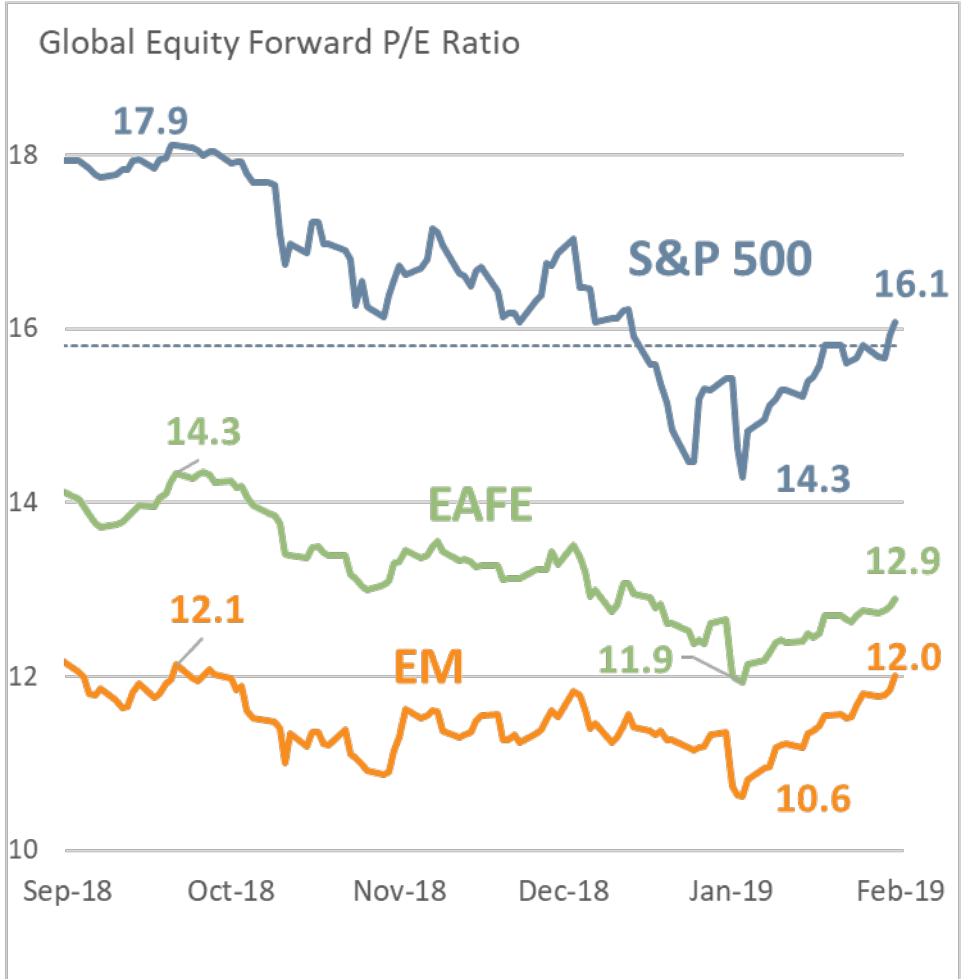
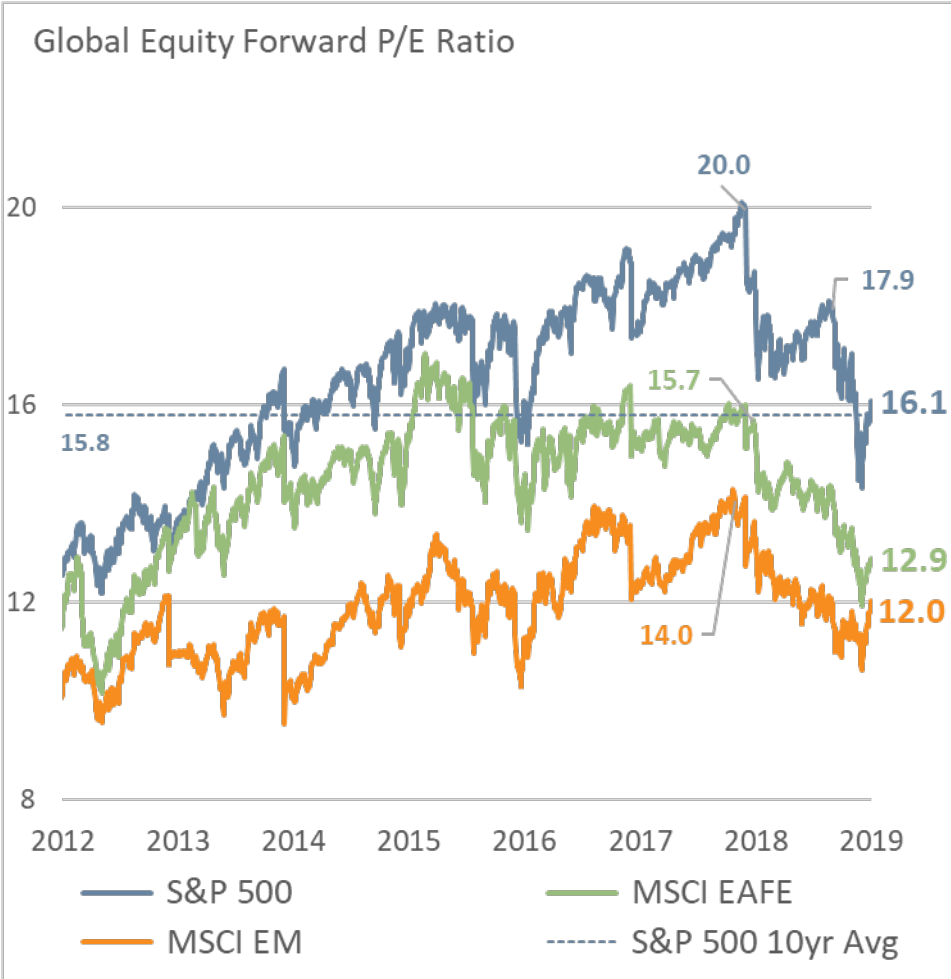
Negative Catalyst

# INVESTMENT VALUATION





# GLOBAL EQUITY VALUATION



US stocks now trading close to historical average (16x)

International Stocks look inexpensive but uncertainty in EZ is high

Emerging Markets were "cheap" but have recovered quickly after December sell-off

As of January 31, 2019

SOURCE: Bloomberg LLC, Beacon Pointe Advisors

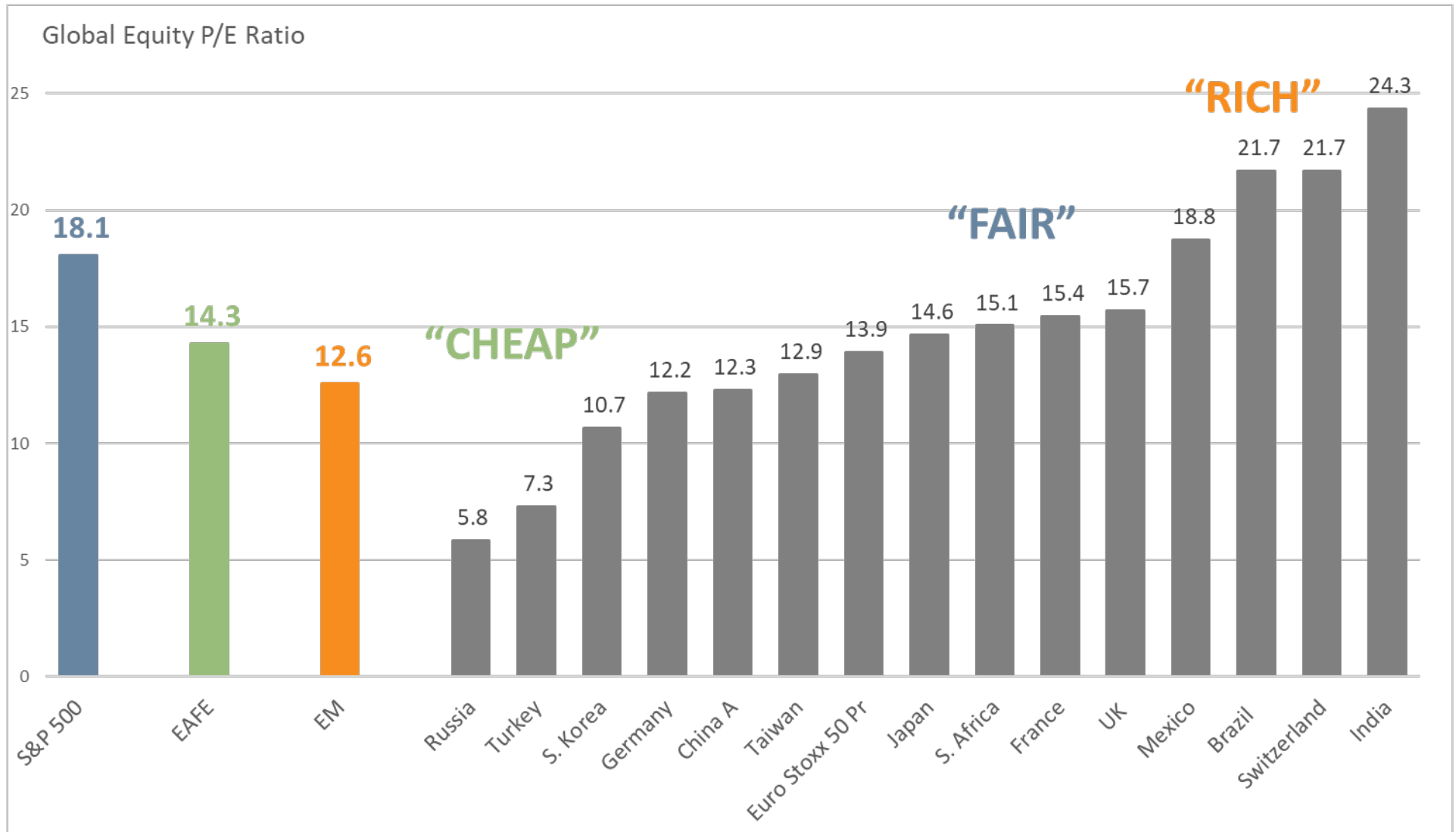


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# GLOBAL EQUITY VALUATIONS – CURRENT P/E RATIOS

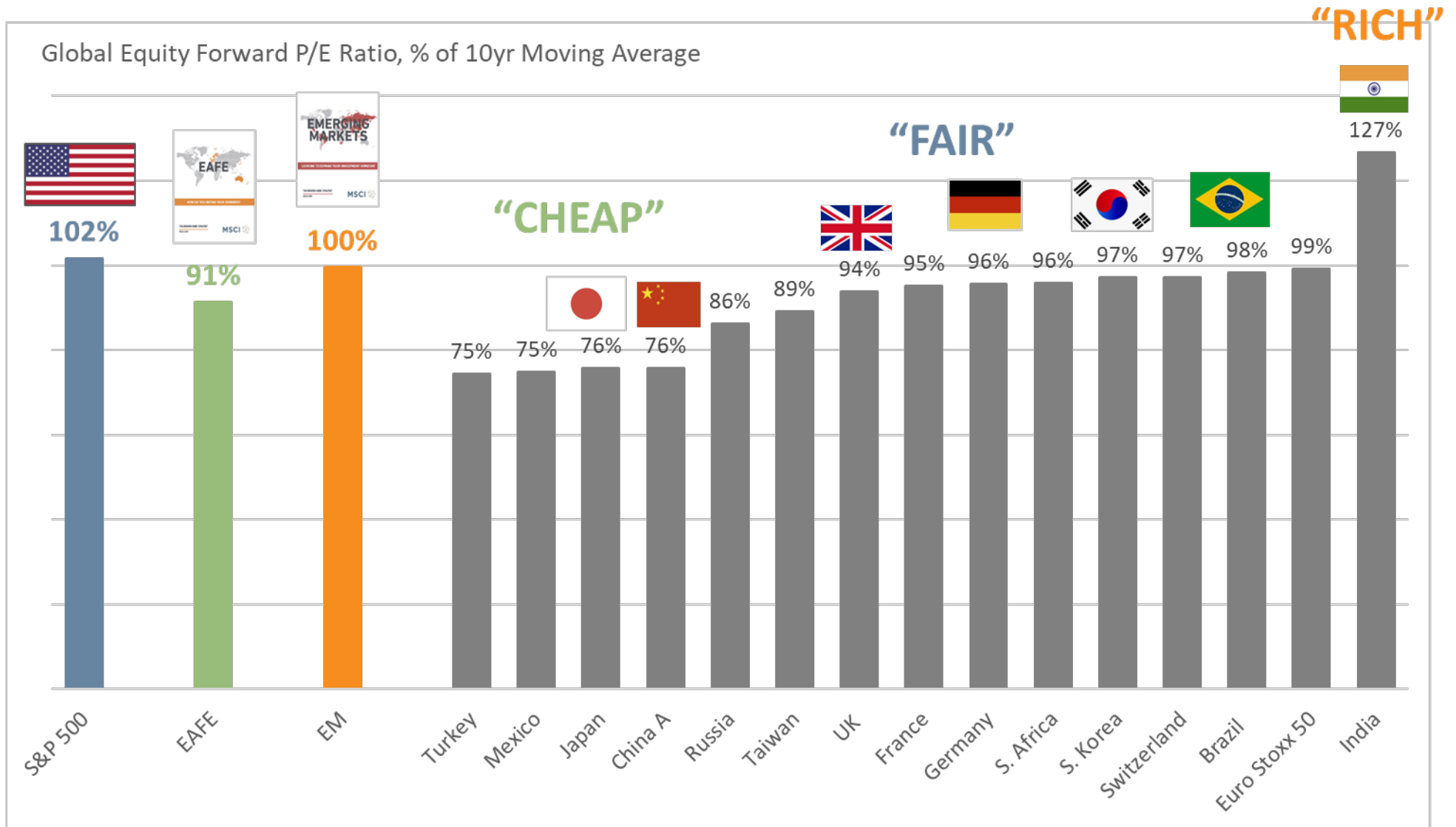


As of January 31, 2019

SOURCE: Bloomberg LLC, Beacon Pointe Advisors



# GLOBAL EQUITY VALUATIONS -P/E RATIOS VS 10YR AVERAGE



As of January 31, 2019

SOURCE: Bloomberg LLC, Beacon Pointe Advisors



# GLOBAL EQUITY VALUATION – 200 DAY M.A.

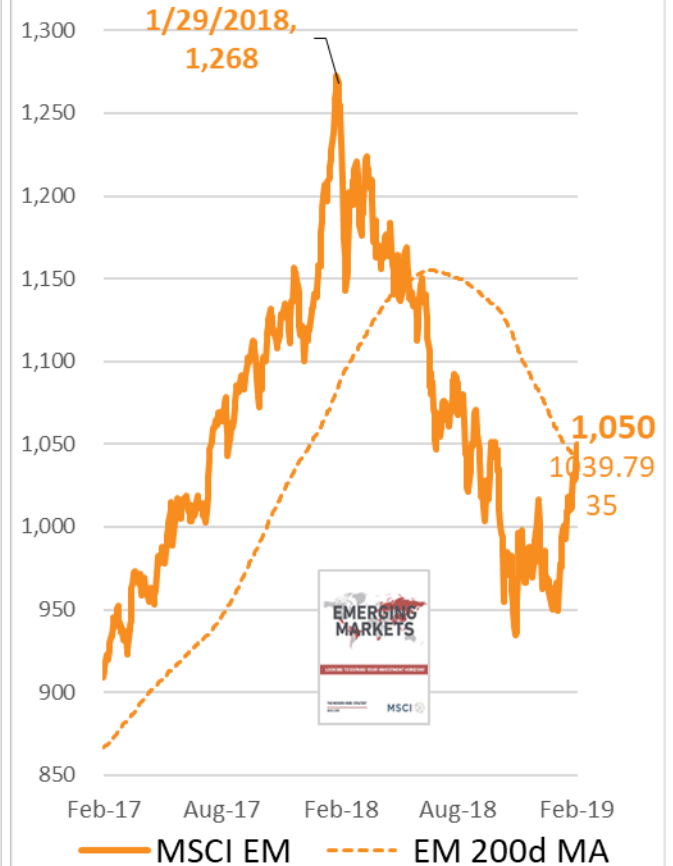
### S&P 500 Index and 200 day Moving Average



### MSCI EAFE Index and 200 day Moving Average



### MSCI Emerging Market Index and 200 day Moving Average



S&P 500 back to 200d moving average

EAFE stocks below 200d moving average

Emerging Stocks above 200d moving average

As of January 31, 2019

SOURCE: Bloomberg LLC, Beacon Pointe Advisors

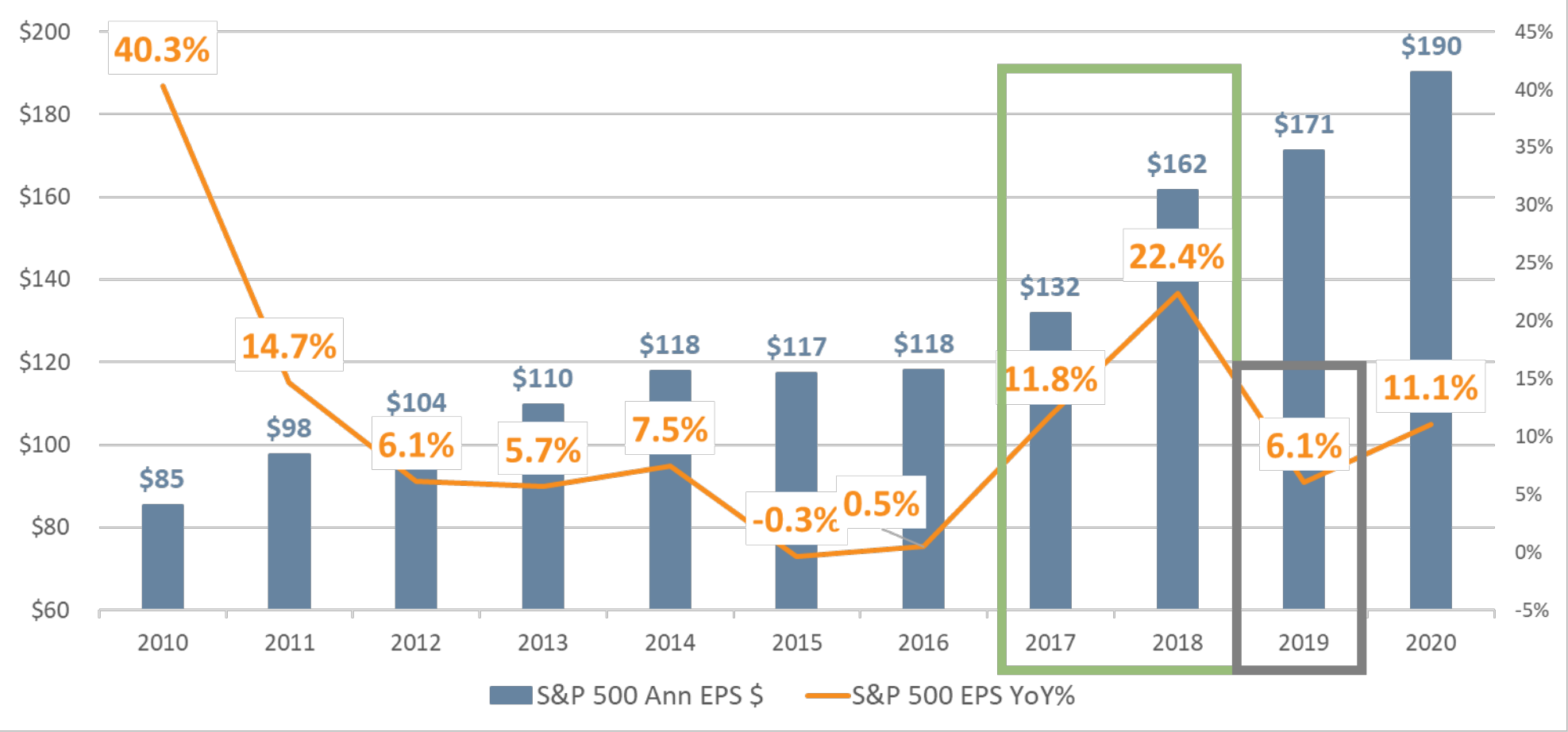


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# US EQUITY VALUATION – CORPORATE EARNINGS SET TO SLOW

S&P 500 Earnings Per Share, \$ and YoY % growth 2010-present



Solid EPS growth rates in 2017 and 2018

We expect a slowdown in the pace of growth in 2019

EPS growth comparisons will get tougher later in 2019...

As of January 31, 2019

SOURCE: Bloomberg LLC, Beacon Pointe Advisors

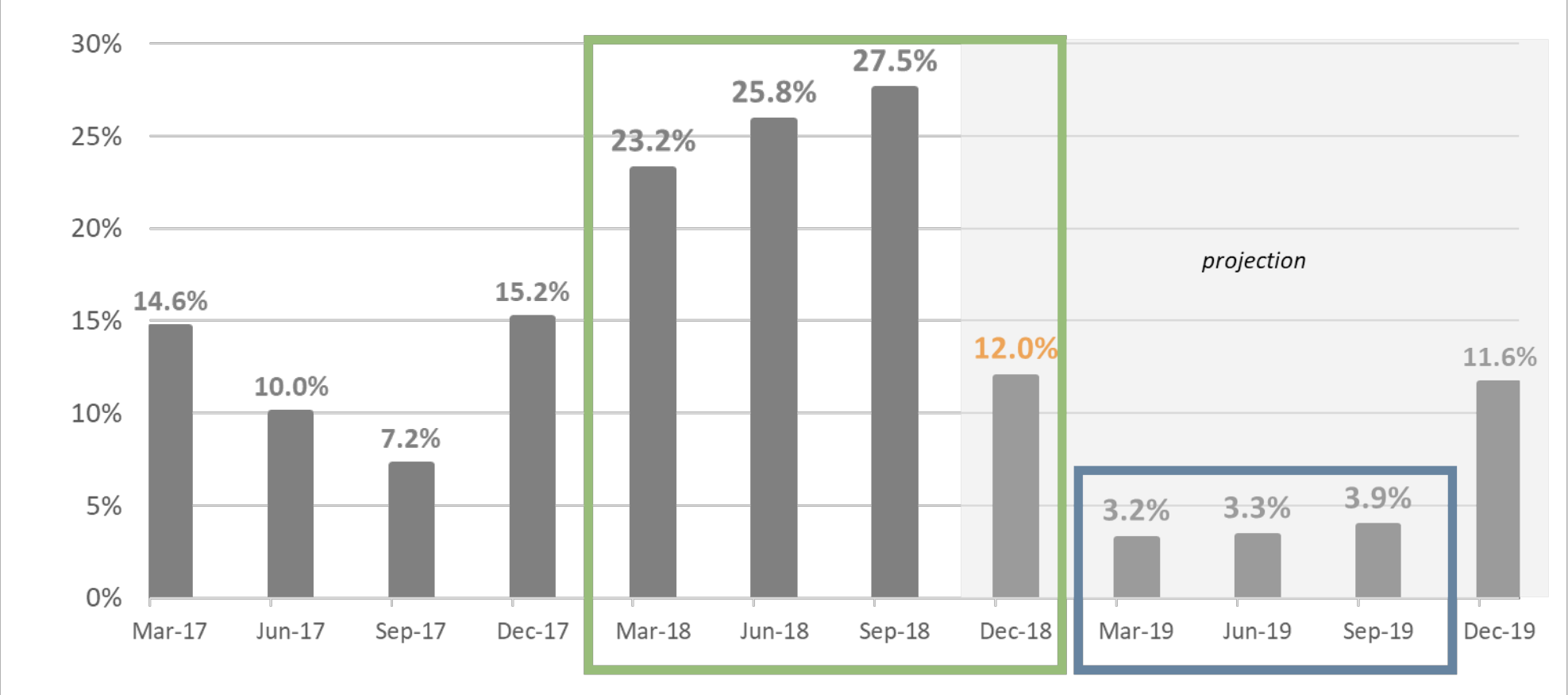


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# US EQUITY VALUATION – CORPORATE EARNINGS SET TO SLOW

S&P 500 Earnings Per Share YoY% quarterly growth 1Q2017-present



EPS growth rates in 2018 were powered by corporate tax reform

We expect a slowdown in the pace of EPS growth in 2019

EPS growth comparisons will get tougher during 2019...

As of January 31, 2019

SOURCE: Bloomberg LLC, Beacon Pointe Advisors

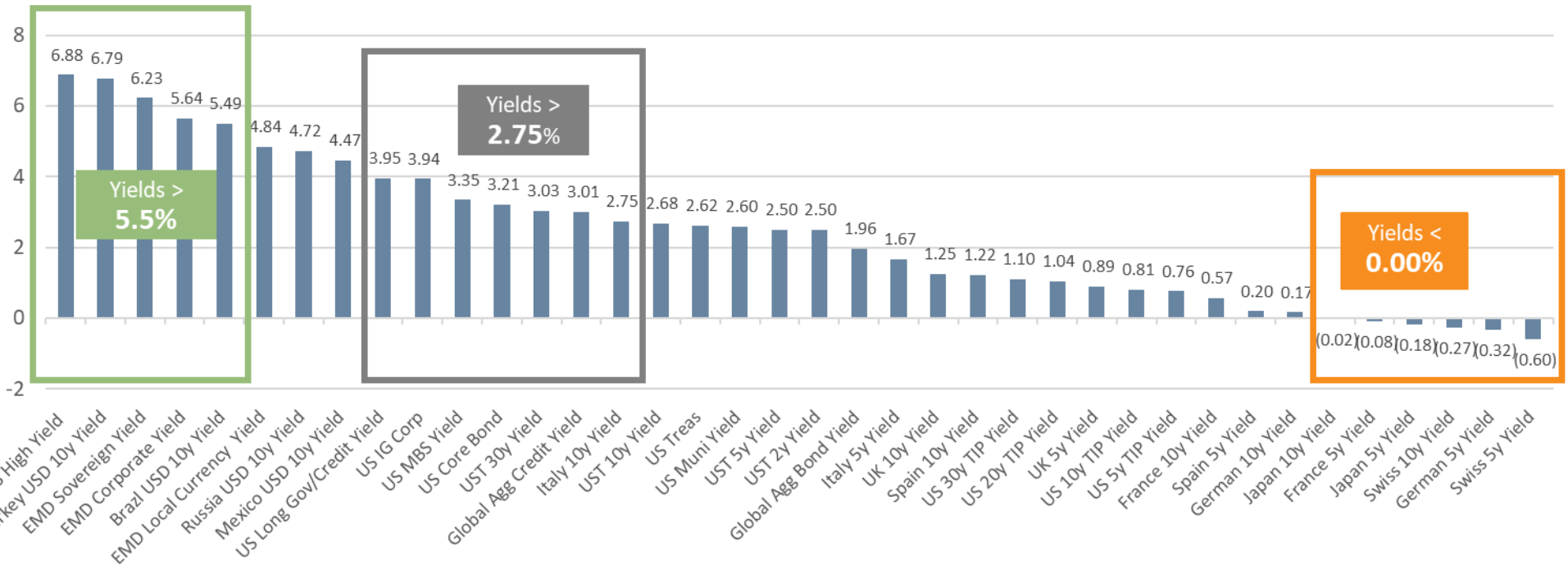


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# GLOBAL FIXED INCOME – CURRENT YIELDS

Global Fixed Income Markets, Yield %



Yields > 5.5%

- US High Yield Corporate
- Emerging Mkt Corporate
- Emerging Mkt Sovereign

Yields > 2.75%

- US Core Bond
- Global Aggregate Credit
- Italy 10yr Bond

Yields < 0.00%

- Japan 10yr Bond
- German 5yr Bond
- Swiss 5yr and 10yr Bond

Data as of January 31, 2019

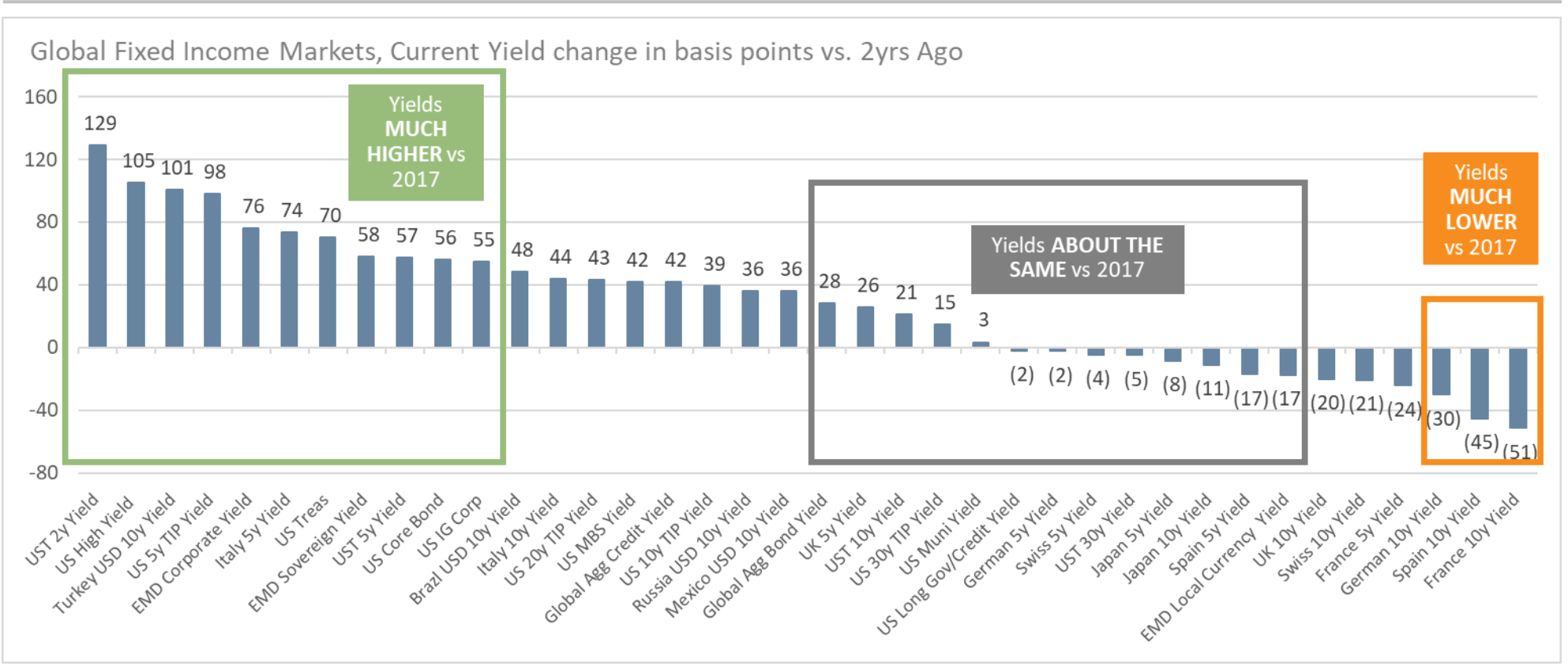
SOURCE: Bloomberg LLC



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# GLOBAL FIXED INCOME – CHANGE IN YIELD VS 2YRS AGO



**Yields MUCH HIGHER vs 2017**

- US Treasury 2yr Note
- US High Yield Corporate Bond
- Emerging Market Corporate and Sovereign Debt

**Yields ABOUT THE SAME vs 2017**

- US Municipal Bonds
- US Treasury 10yr Yield
- US Long Gov/Credit

**Yields MUCH LOWER vs 2017**

- German 10yr Bond
- Spain 10yr Bond
- France 10yr Bond

Data as of January 31, 2019

SOURCE: Bloomberg LLC

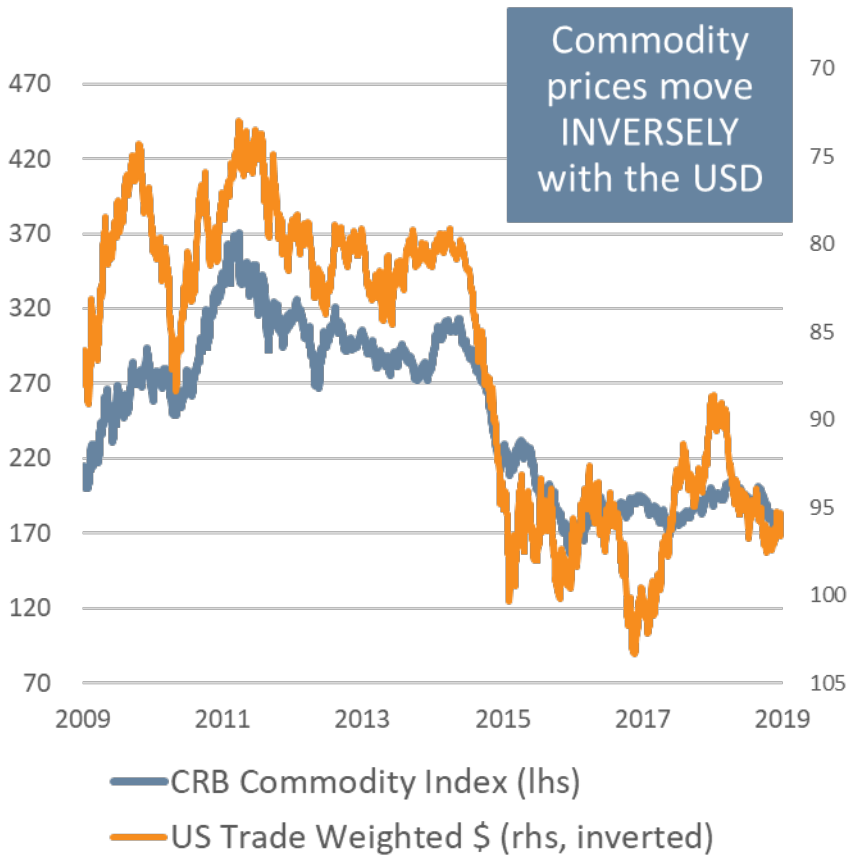


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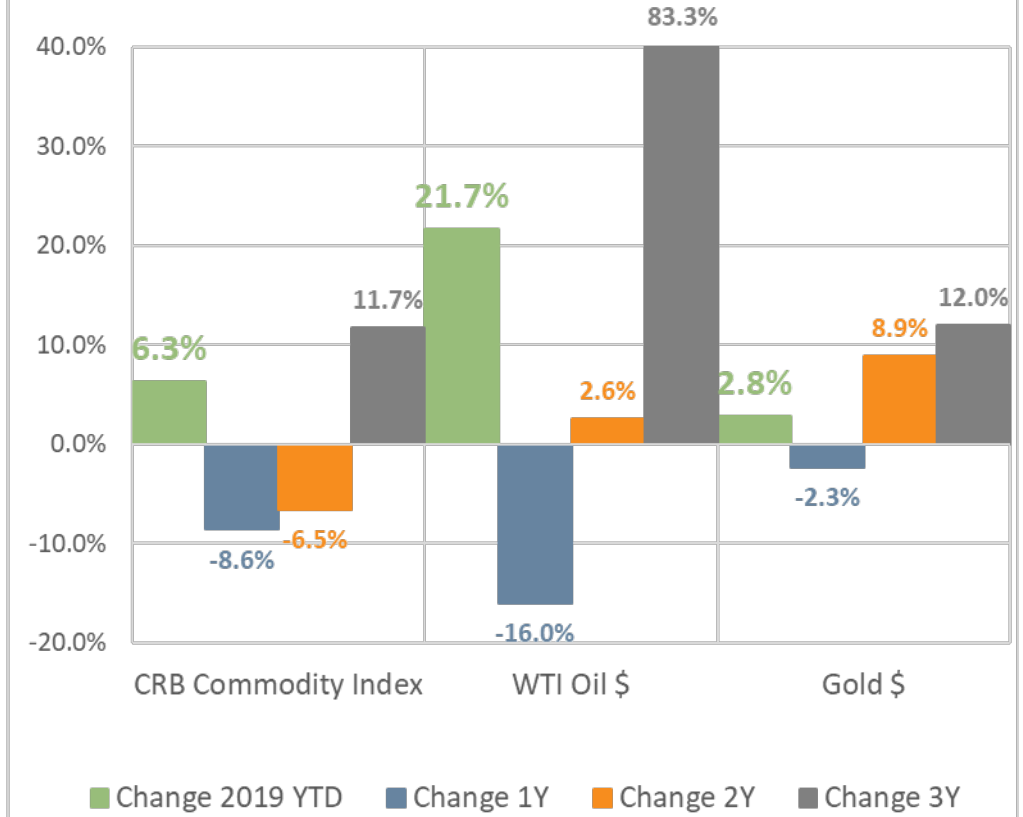


# COMMODITIES AND THE US DOLLAR

Commodity Prices (lhs) and US Trade-Weighted Dollar (inverted, rhs) 2009-present



Commodity Price, % Change YTD - 3yr change



Commodities have been volatile - mostly to the downside for past 5 years

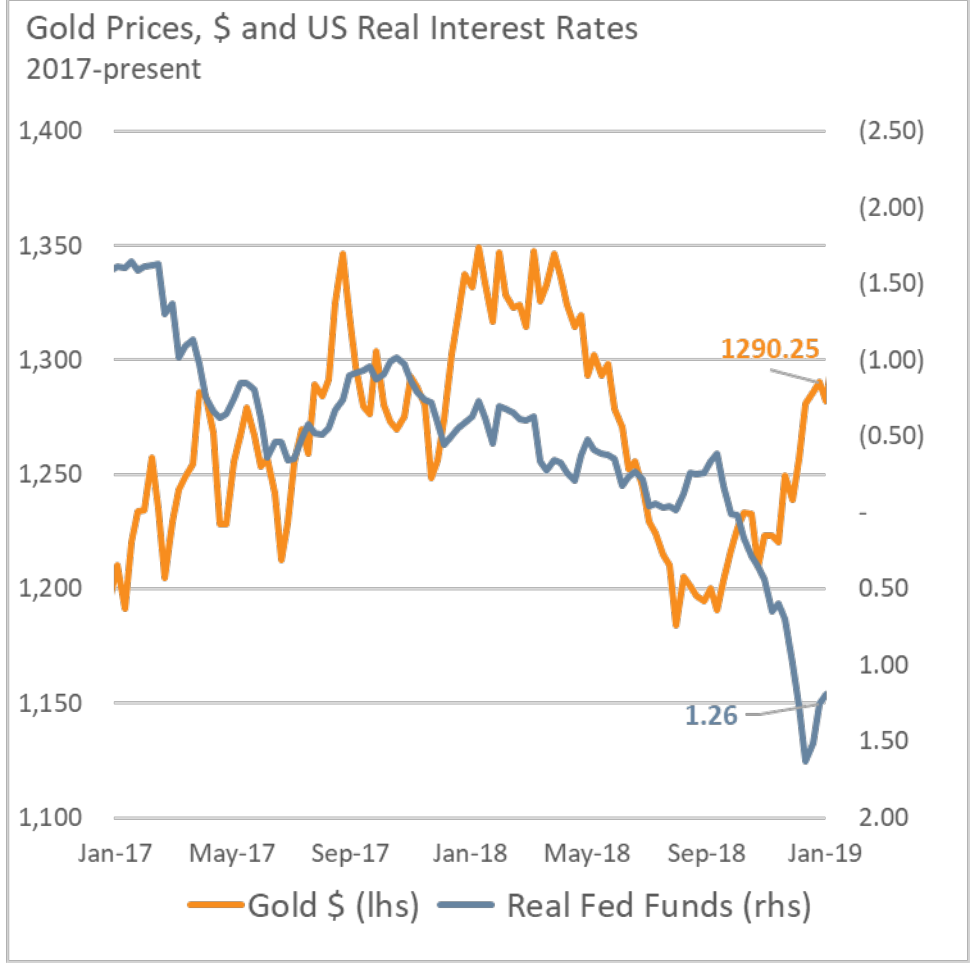
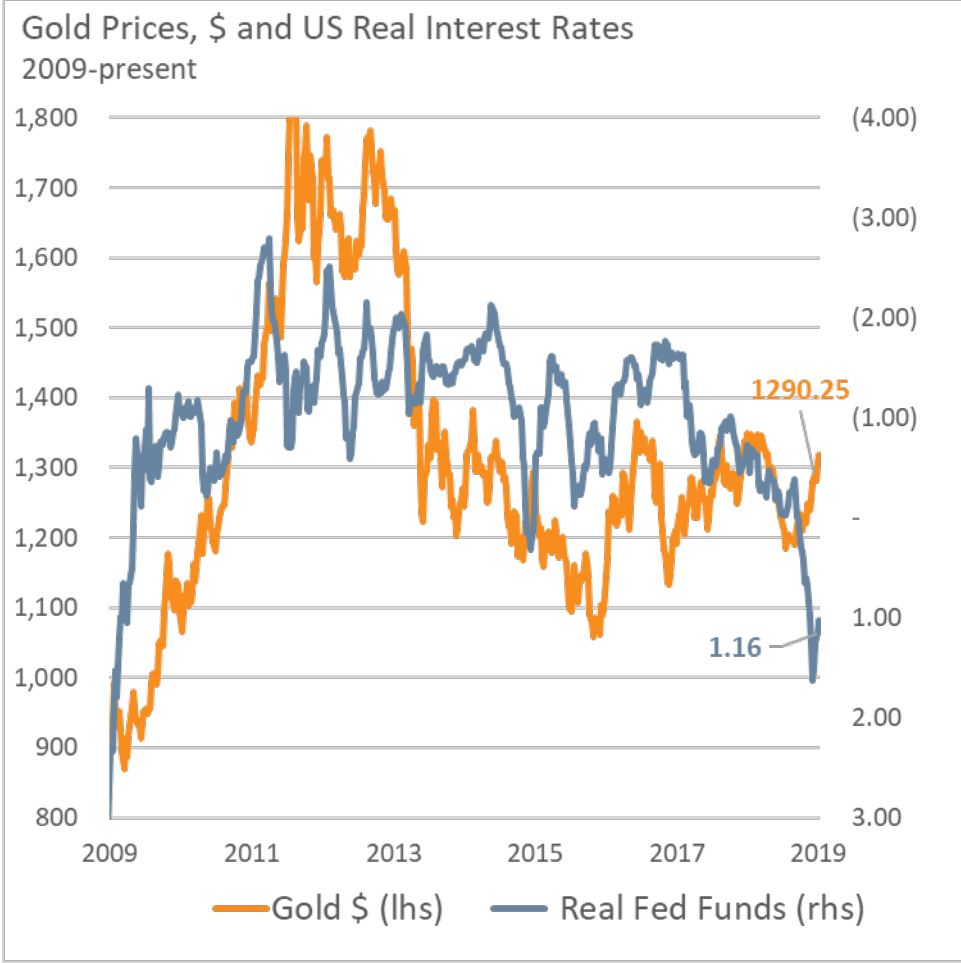
The outlook for the US Dollar is supportive of Commodities going forward

2019 YTD has been good for commodities - especially energy





# COMMODITIES – GOLD



Gold prices move inversely with real interest rates...

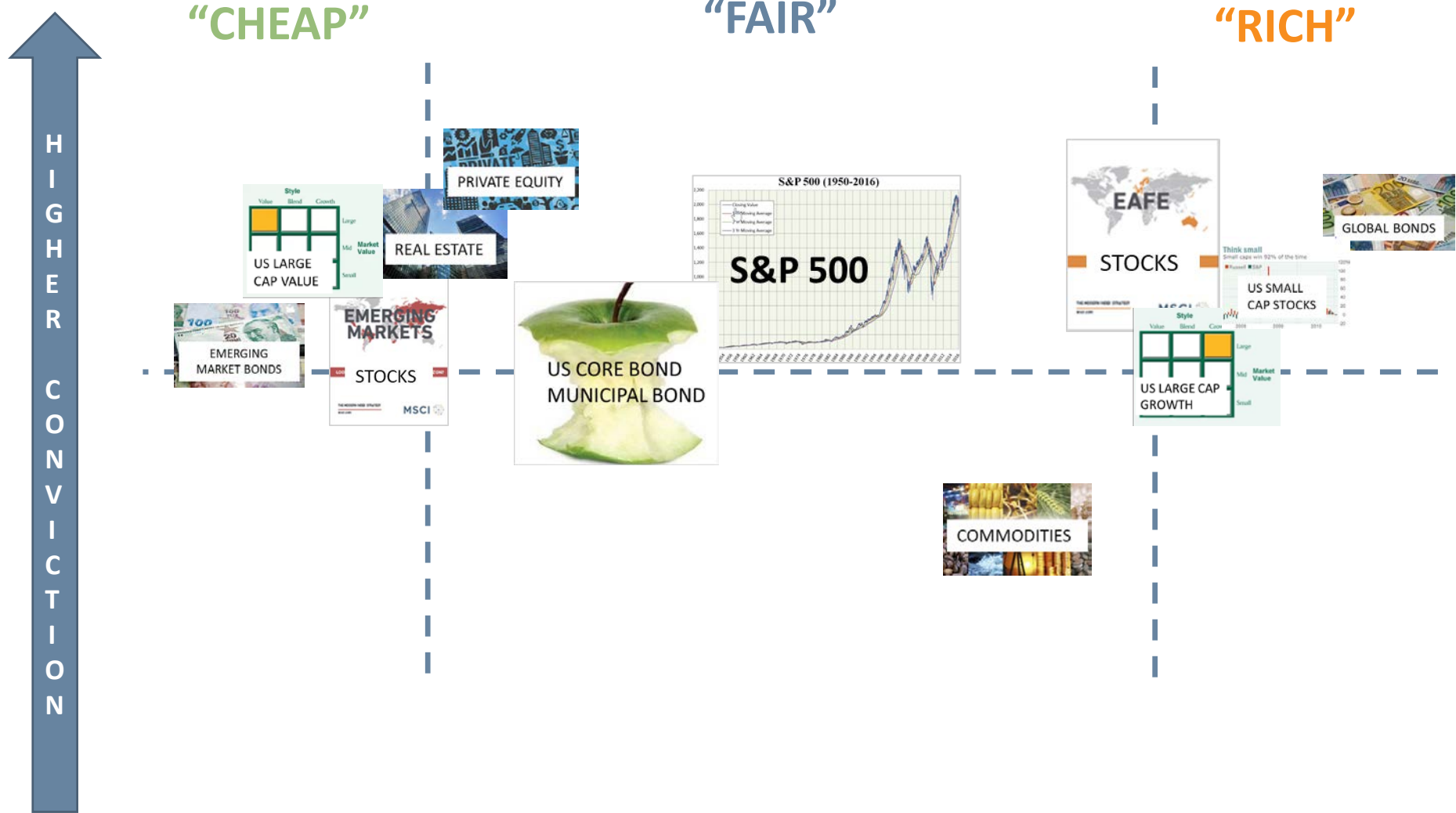
...because gold doesn't generate income - no interest or dividend earned

Gold prices will face headwinds IF real interest rates remain on an upward trend

# INVESTMENT CONCLUSIONS



# ASSET CLASS PREFERENCES



Data as of December 31, 2018

SOURCE: Bloomberg LLC

# QUESTIONS?

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# GENERAL DISCLOSURES

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