LEVEL FOUR® Advisory Services

MARKET OUTLOOK 2019

There is no shortage of opinions when it comes to the market and projections for 2019. Below you will find a compilation of opinions, followed by insight from the investment committee.

Bank of America[1]:

- Continues to believe the US economy should grow at trend levels (2.5%) or higher in 2019, but recognizes investor sentiment continues to be affected by Fed Policy, Italy's budget concerns with the EC, Brexit, Oil price signals and the uncertainty surrounding a trade relationship with China.
- Not a fan of market timing particularly as it relates to individuals and long-term institutional investors, because it is extremely difficult and also involves many decisions, tax implications, and additional costs which could erode returns.
- Believes we are in a sharp consolidation period that is close to ending, and although caution is warranted due to possible downside risk, they remain slightly overweight equities.
- Would not completely abandon exposure to international investments as they possess attractive attributes for long term patient investors, cheaper valuations and weak fund flows. Remains negative on Europe.
- Would move to higher quality names across portfolios and remains uncommitted on Growth vs Value despite Value gaining momentum given the later stage of the cycle.
- Unemployment rate continues to head lower as job growth remains healthy.
- A heavy equity market environment that contains multiple headwinds produces returns that track earnings growth around 5% or slightly higher, which will likely lead to muted returns in equities.
- US dollar weakness.
- Geopolitical and US political landscapes remain volatile and uncertain; market volatility is episodic (driven by trade, debt ceiling, fed meeting related headlines, Brexit) and rises to more normalized levels.
- Emerging markets remain dependent on US-China trade negotiations in the near-term, but will then shift to China's growth prospect and the Yuan's direction in the medium term.
- **Predictions:**
  - WTI oil prices rise back toward $60/ barrel
  - Potential Surprises Include: US GDP growth surprised to the upside
  - Fed pauses early in the year as inflation rolls over further
  - US/China trade deal is signed
  - US infrastructure bill is drafted
  - China's growth falls further due to additional tariff impacts or escalation of trade war

Blackrock[2]:

- Prefers stocks over bonds, but conviction remains tempered.
- In Equities they like quality, cash flow, sustainable growth and clean balance sheets.
- The US remains the favored region and sees Emerging Market equities offering improved compensation for risk.
- In Bonds, they are turning "more positive" on duration and favor quality in credit.

BTIG[3]:

- With solid GDP growth and interest rates near generational lows, they anticipate a run higher with the S&P closing out the year at 3,000 and an index EPS of $172.
- Views recession as unlikely in 2019.
- Believes the path to 3K will look a lot like the rollercoaster of the 4Q 2018.
- Expects 2019 to be a volatile path for stocks due to macro considerations, which could result in multiple "Compressions Without a Recession" carrying a downside risk to 2,100. Considerations include:
    - Political instability arising from ongoing trade disputes
    - Rising global nationalism
    - Partisan contentiousness surrounding US government funding
    - Special Counsel's investigation
    - Start of the 2020 Presidential Campaign
- Conversely, a true rapprochement with other nations and the economic cycle could be extended, keeping confidence elevated driving upside risk on the S&P to 3,400.
- Expects geopolitical developments to continue to move stocks in unpredictable ways in 2019 as valuation carries more importance as an "investible edge."
- Overweight: Energy (As recent volatility drove multiples to multi-year troughs), Financials (Have over-discounted a yield curve flattening), Healthcare (Which will be insulated by any trade war concerns).
- Underweight: Discretionary (as rates rise this will challenge an already lackluster 3Q guidance), Staples and Utilities.
- Believes 2019 will be much better for active management performance due to volatility, correlation and technology.

Weeden[4]:

- Expects 1-2 hikes next year, a maximum 10-year yield of 3.50, very low treasury volatility, and a range-bound 2's and 10's yield curve.
- Anticipates a range-bound to weaker US dollar in 2019.
- SPX to close at 2,700 by 12/31/2019. Forecasting earnings of $168 for the year and $177 in 2020, while seeing modest P/E expansion.
- If trade tensions are constructively resolved in the near term (by end of Q1), they expect an average VIX of 16 next year.
- Economic growth will moderate but a recession in 2019, and even 2020, is unlikely. This slowdown represents a return to the low nominal GDP condition that defined the economy before the tax deal was completed a year ago.

Level Four:

We do not limit our research to any one provider, but rather aggregate insight and data from a number of sources in order to ensure that our investment process remains robust and data driven. One component of our quantitative and fundamental-based investment process, is the Intrinsic Value (IV) Model Price estimates. Based on our conservative projections, we have arrived at the following intrinsic value model price estimates. It is important to note that our estimates cover full market cycles and could change with new or updated information. That said, while we do not expect to see double-digit growth as we saw in 2018, we believe 2019 has the potential to be a solid year from these undervalued levels.

INDEX	LATEST PRICE	LFAM IV MODEL PRICE	% TO IV PRICE
S&P 500 Index	$2,516.20	$3,088.98	-18.54%
Russell 1000 Value Index	$1,096.32	$1,460.44	-24.93%
Russell 1000 Growth Index	$1,319.13	$1,611.70	-18.15%
MSCI EAFE Index	$1,719.94	$1,828.94	-5.96%

IMPORTANT INFORMATION

[1] Bank Of America - "Investment Strategy Overview — Executive Summary Chief Investment Office." Merrill Lynch Bank of America Corporation, 7 Dec. 2018.

[2] Blackrock - "Global Investment Outlook 2019." BlackRock Investment Institute, 10 Dec. 2018, www.blackrock.com/investing/insights/blackrock-investment-institute/outlook.

[3] BTIG - Emanuel, Julian, and Michael Chu, CFA, CMT. "2019 The Year of Living Dangerously." BTIG, 9 Dec. 2018.

[4] Weeden - Purves, Michael. "2019 Cross Asset Market Framework." Weeden & Co, LP, 20 Dec. 2018.

The Standard & Poor's 500 index is a market capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Russell 1000 Index is an index of approximately 1,000 of the largest companies in the U.S. equity market. The Russell 1000 typically comprises approximately 90% of the total market capitalization of all listed U.S. stocks. Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. 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.