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AMBLING ALONG IN 2020

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U.S. economic growth has slowed in 2019. However, the economy is still growing, and we believe it will continue growing through 2020. As we highlighted in our *Outlook 2020: Bringing Markets Into Focus*, we're projecting real GDP growth of 1.75% in 2020, slightly below average for this economic expansion.

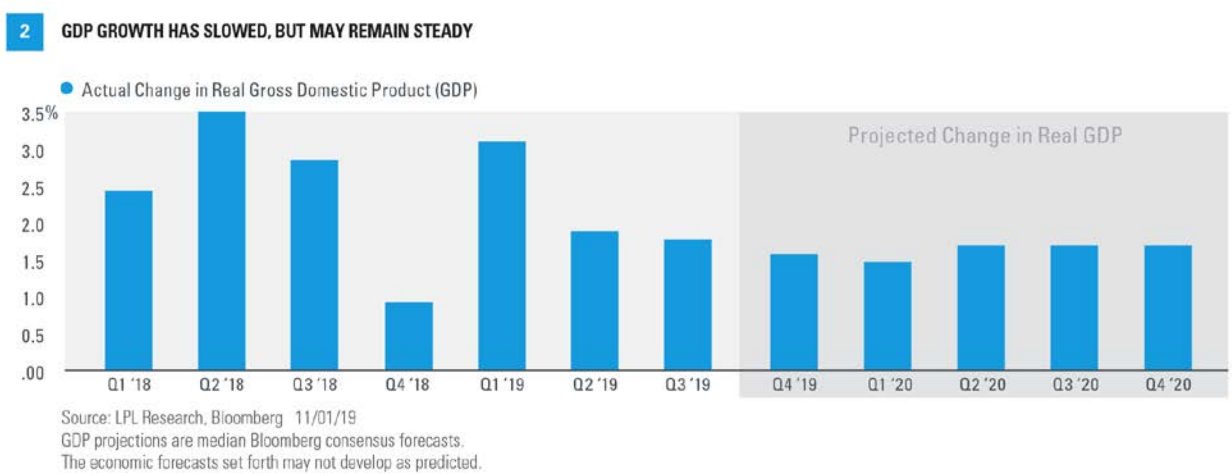
THE YEAR IN REVIEW

The U.S. economy has made it out of a volatile year relatively unscathed, based on data we've seen. Gross domestic product (GDP) grew an average of 2.4% in the first three quarters of 2019, higher than the 2.3% average quarterly growth in this 10-year economic expansion **[Figure 2]**. Output growth was helped by strong consumer spending, an uptick in government spending, and improved housing demand. Businesses held onto their cash, capital expenditures (capex) growth stalled, and non-residential investment dragged on second- and third-quarter GDP.

As the U.S.-China trade dispute drags on, we expect the U.S. consumer will continue to drive economic growth. U.S. companies will likely hold off on investment, waiting for more clarity on trade before they resume investing. If we get that clarity, we expect capex growth to pick up amid favorable tax rates, repatriation of internationally sourced profits, and immediate capital expensing provisions from the *Tax Cuts and Jobs Act of 2017* fiscal stimulus package.

THE STRONG CONSUMER

The U.S. consumer has remained resilient this year, even as other parts of the economy have succumbed to global uncertainty. We've attributed recent consumer strength to a solid job market. Payrolls have grown at



This chart is labeled "Figure 2" because it is Figure 2 from *Outlook 2020: Bringing Markets Into Focus.*

an above-average pace for the expansion, and wages have been rising at a 3% year over year clip—enough to buoy personal incomes without concern of overheating the economy. We expect the labor market to remain strong in 2020 with a low unemployment rate and contained unemployment claims, even if payrolls growth moderates. Low interest rates and tax cuts could also continue to pad consumers' wallets.

HEALTHY INFLATION

Inflationary pressures have been healthy and a sign of economic strength recently. Consumer inflation also has picked up, showing U.S. companies still have ample pricing power, even though international trade tensions and slower global growth have weighed on producer prices. We believe economic factors currently benefiting consumers and businesses—full employment, moderate wage growth, and low interest rates—will help sustain healthy but manageable inflation going forward.

FED ON HOLD, BUT FLEXIBLE

Generally, we're expecting the economic trends of 2019 to continue in 2020. If the economy chugs along and inflation remains manageable, we think the Federal Reserve (Fed) will stay in wait-and-see mode and keep its policy rate unchanged. Policymakers made it clear in the Fed's last post-meeting statement that October's 25 basis point (0.25%) rate cut—the third consecutive cut this year—would be the last for a while.

However, the Fed kept its options open by also stating that current monetary policy was appropriate as long as the U.S. economy performs as expected, and the policy could be changed if there is a "material reassessment of the economic outlook." That specific language was included to reflect the Fed's continued commitment to flexibility, especially in what could be a year of trade and political surprises. We think the Fed's flexibility could continue to support consumer and business confidence, and policymakers will be ready to adjust if conditions turn.

ACROSS THE POND

The U.S. economy has ambled along at trend growth this year, but other global economies haven't fared as well. Germany has teetered on the cusp of recession, and Brexit (the United Kingdom's exit from the European Union) indecision continues to cloud the U.K.'s economic outlook. Deficit spending remains a challenge—particularly in Italy—and the benefits of monetary policy have dwindled, despite the best efforts by the European Central Bank.

The picture has been no better in Japan. The U.S.-Japan trade agreement was encouraging, but the Japanese manufacturing sector has contracted for several months now, signaling growth could remain elusive. Auto tariffs continue to be a risk, and the consumption tax enacted October 1 further complicates matters.

We anticipate more growth opportunities in emerging markets' economies than developed as Europe and Japan continue to struggle with trade uncertainty, geopolitical concerns, and sluggish growth. In emerging markets, countries outside China may play a growing role.

RECESSION WATCH

The U.S. economy remains on solid footing as 2020 approaches. However, we are bound to have a recession at some time. When a recession does settle in eventually, we suspect it could be from a convergence of global events, including a highly charged U.S. elections season, prolonged trade uncertainty, and continued weak economic growth in international developed countries. A recession starting in the fourth quarter of 2020 or first quarter of 2021 could be possible, but we don't think it's probable.

OUTLOOK 2020

For more investment insights, read our newly released *Outlook 2020: Bringing Markets Into Focus*.

WEEKLY MARKET PERFORMANCE REPORT

Please see our new *Weekly Market Performance* report with insights on major asset classes.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results.

The economic forecasts set forth in this material may not develop as predicted.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

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Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.