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Liquidity Trumps Growth!

January 16, 2020

2020 Key Expectations

- Politics dominate policy making and markets
- Stable interest rates
- Economic growth will pick-up
- Reduce business and investment risk
- Seek alternatives to public markets

Structure vs. Cycle

Structure

- Regionalization of trade
- Demographics lead developed countries toward political polarization
- China a rising power, taking on the U.S. as world leader
- Technology fueled disinflation

Cycle

- Economic growth will remain muted
- Debt growth will continue
- Asset returns will be below average

Investment Points to Ponder

Structure

- Reduce risk
- Long vs short plays
- Don't abandon bonds
- Seek alternatives

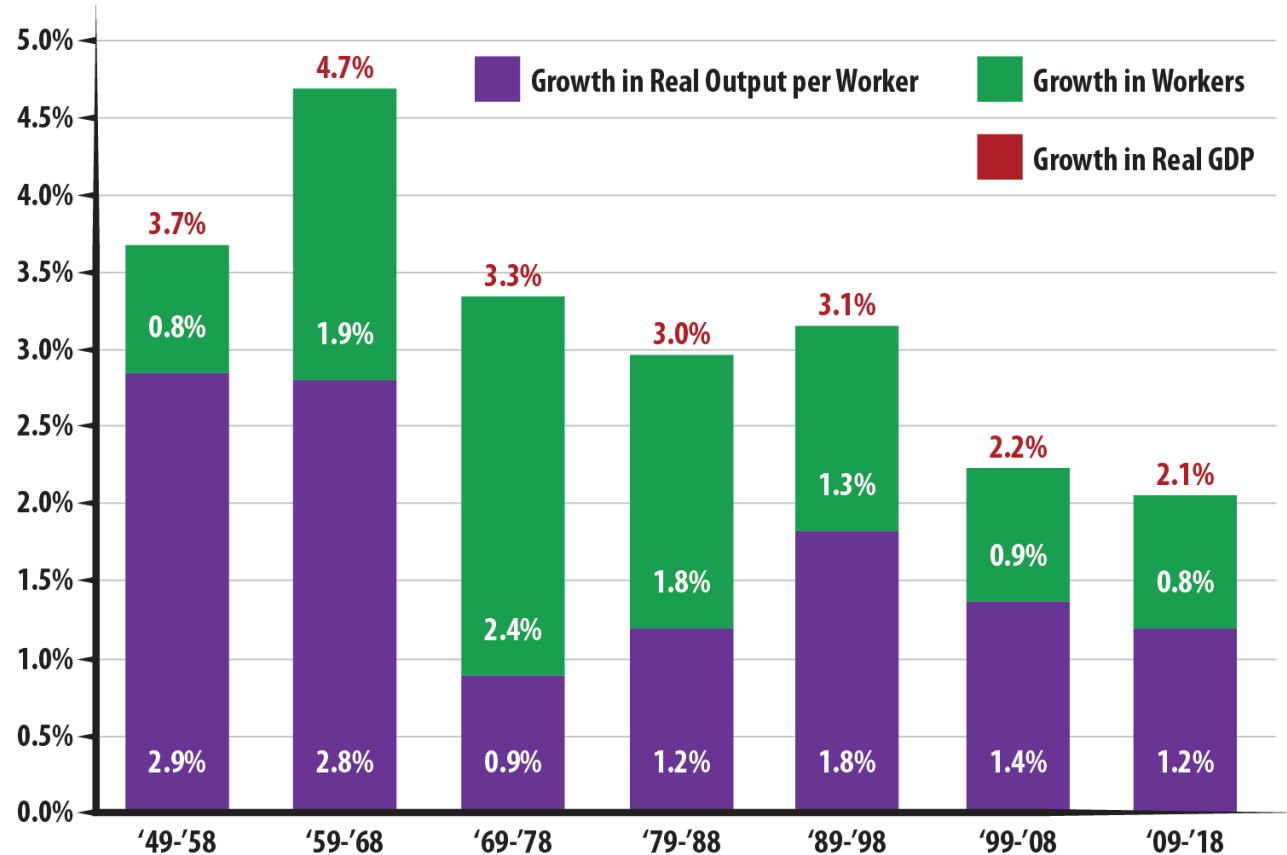
Cycle

- Value stocks are less expensive
- Defensive stocks are not
- Moderate late cycle growth pick-up

U.S. Economic Growth

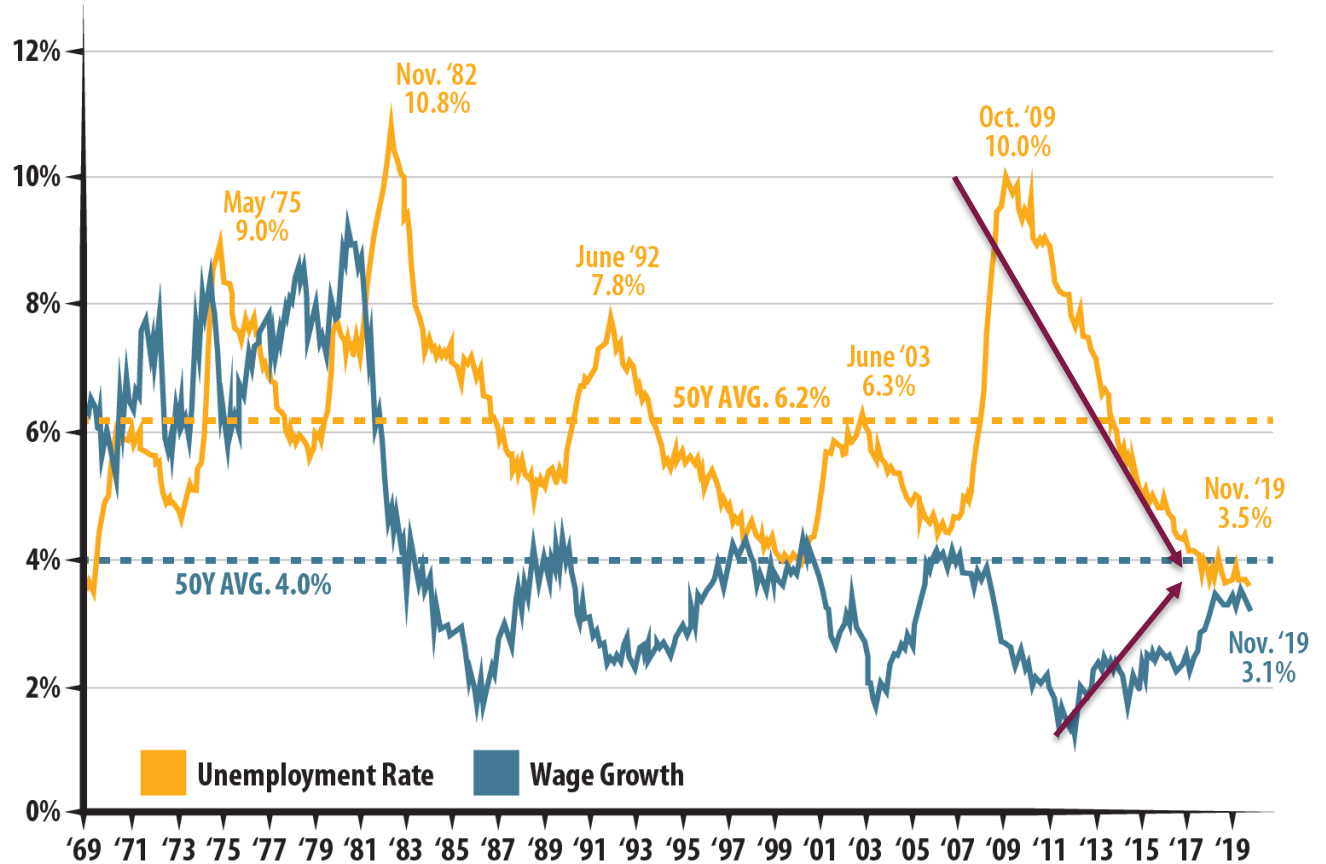
- Average 2.1% growth
- Labor force growth + growth in productivity

Drivers of GDP Growth average year-over-year percent change



Unemployment vs. Wage Growth

Civilian Unemployment Rate & Year-Over-Year Wage Growth private production & non-supervisory workers

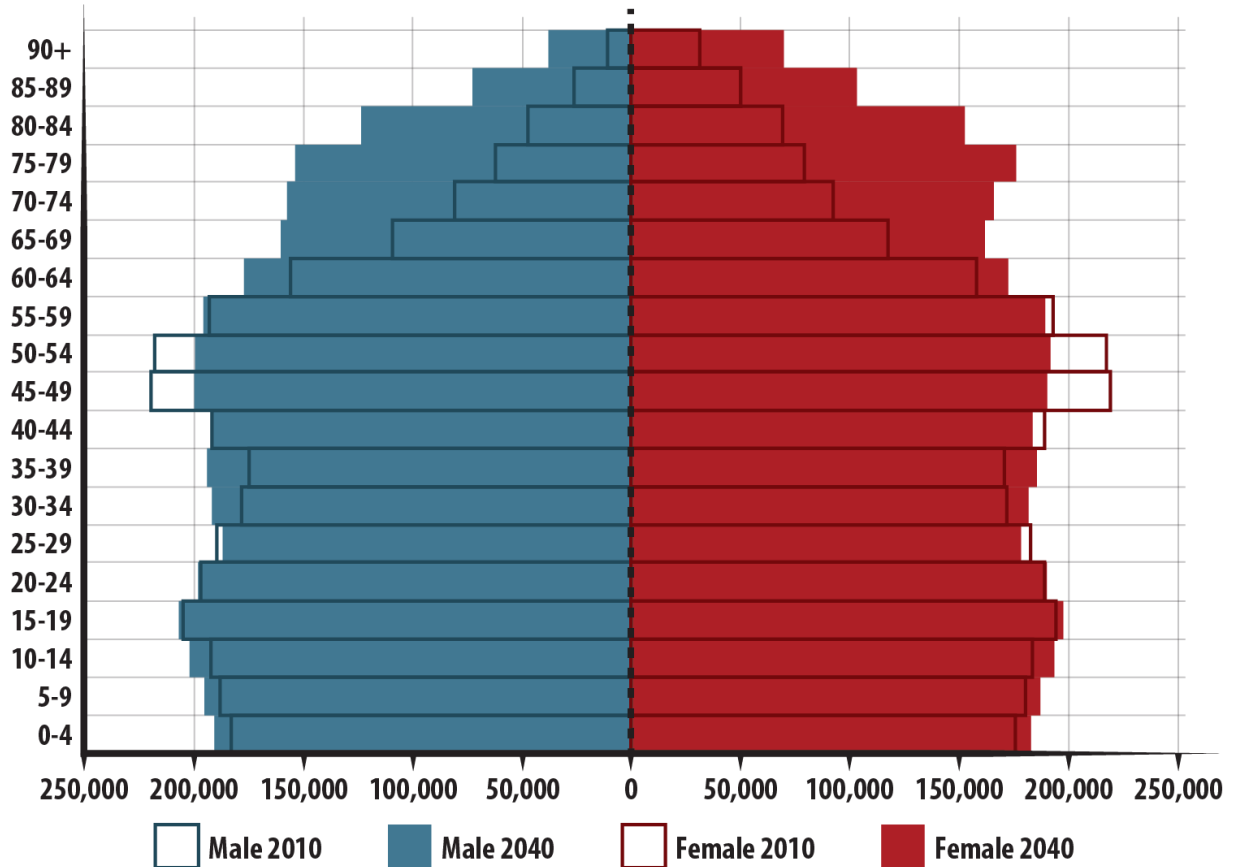


Source: BLS; Factset and JP Morgan GTM

Wisconsin Labor Growth

- Shrinkage in ages 45 to 54
- Flat growth – except for ages 65+

Age-Sex Pyramid in Wisconsin 2010 and 2040 final projections



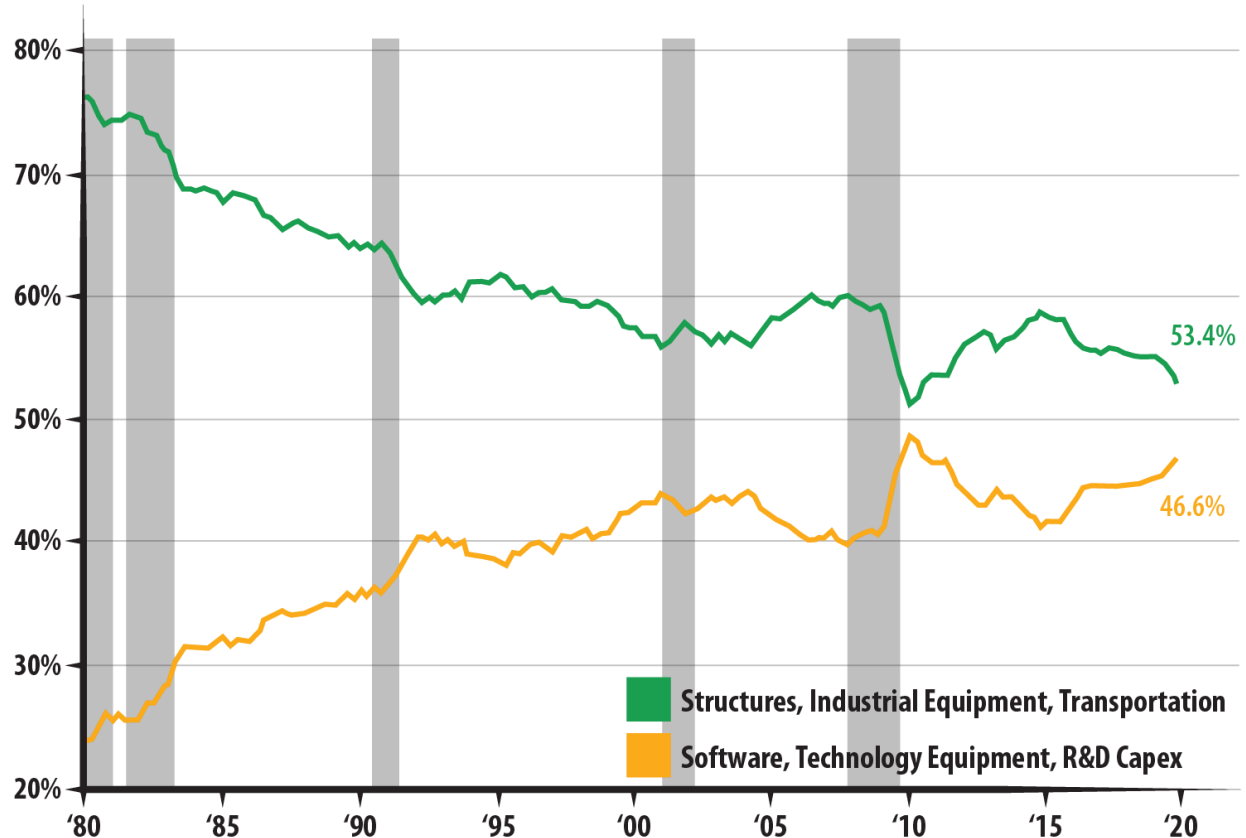
Source: U.W. Applied Population Lab, 2013
Census Data

Capital Expenses

- Growth in technology spending
- Growth in productivity from tech spending

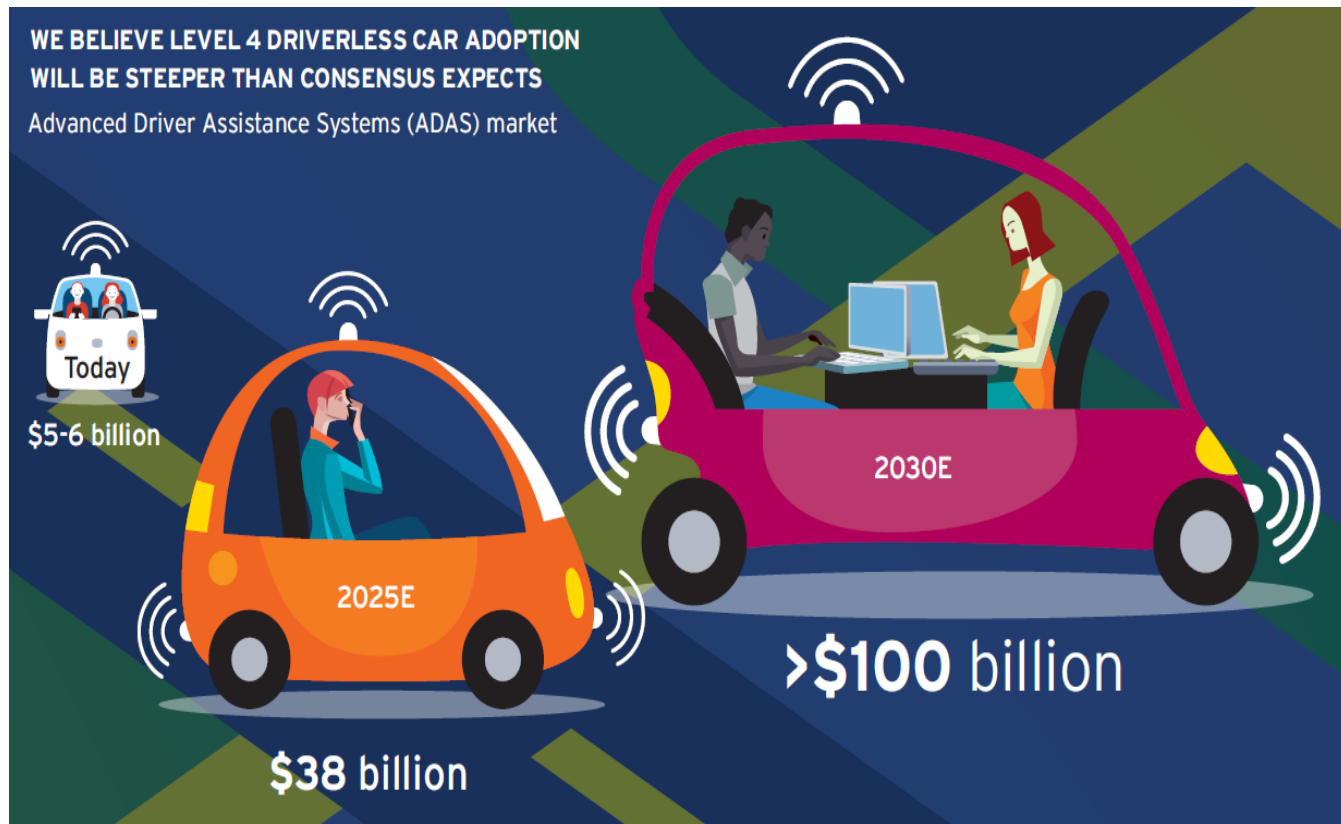
Capex Components

percent total capex, 2019: 3Q



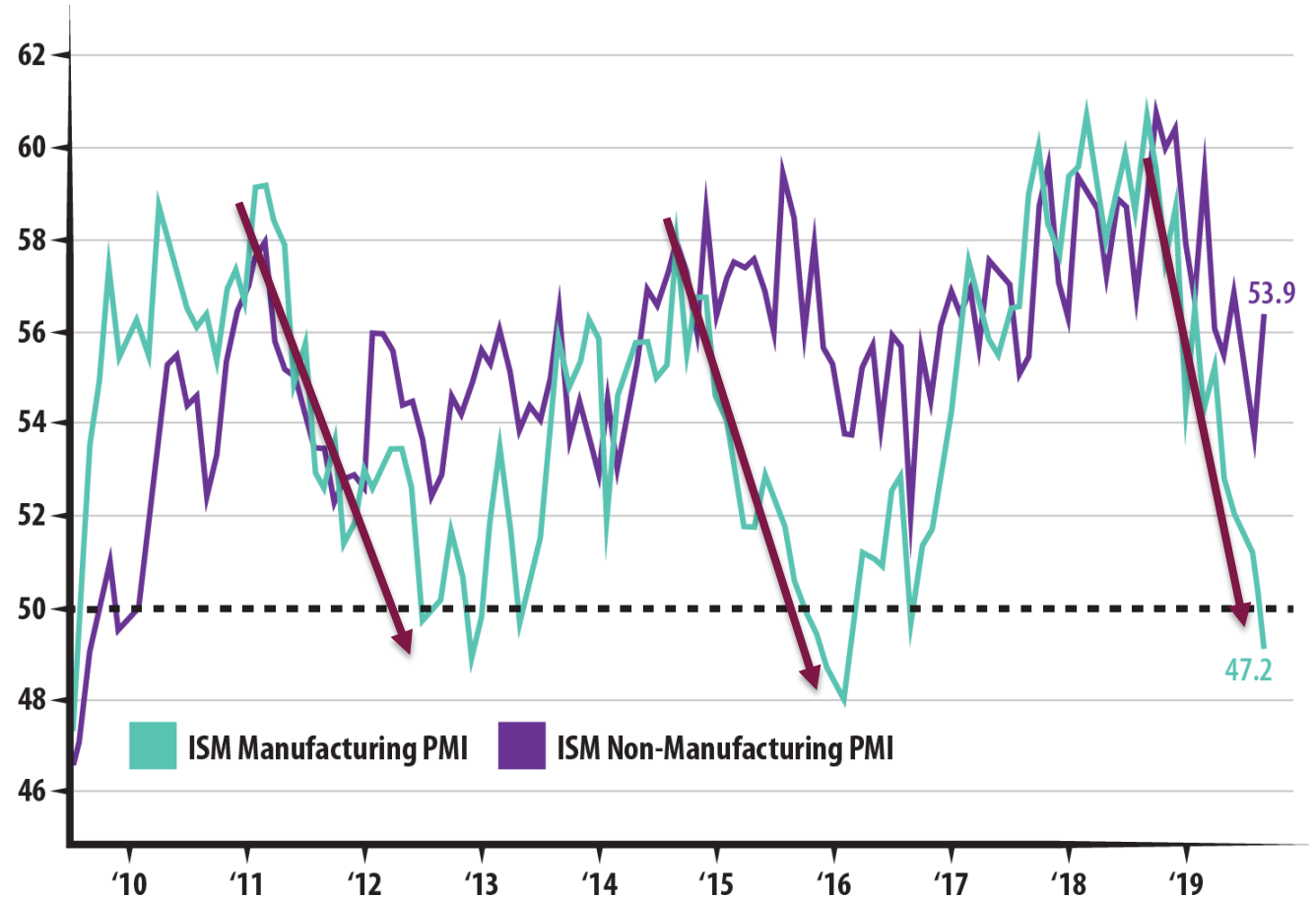
New Technology Drivers

- Autonomous vehicles benefit from 5G roll-out
- Retraining 500,000 people



ISM Manufacturing vs Services

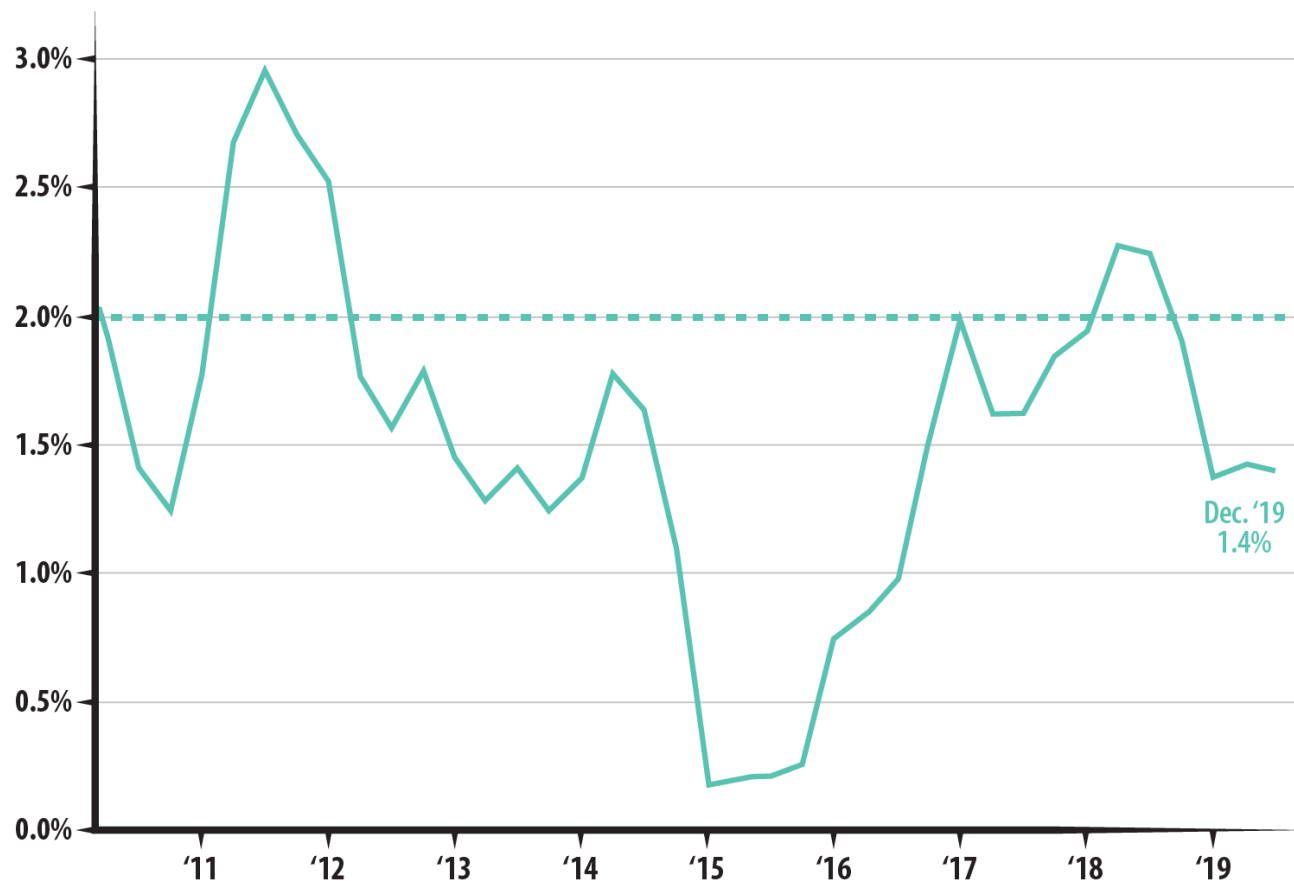
- Above 50 means expansion
- Looks a lot like 2011-'12 and 2015-'16



Core Inflation

- Personal consumption expenditures deflator
- Inflation drives interest rates
- Core inflation has been stable

Fed Target

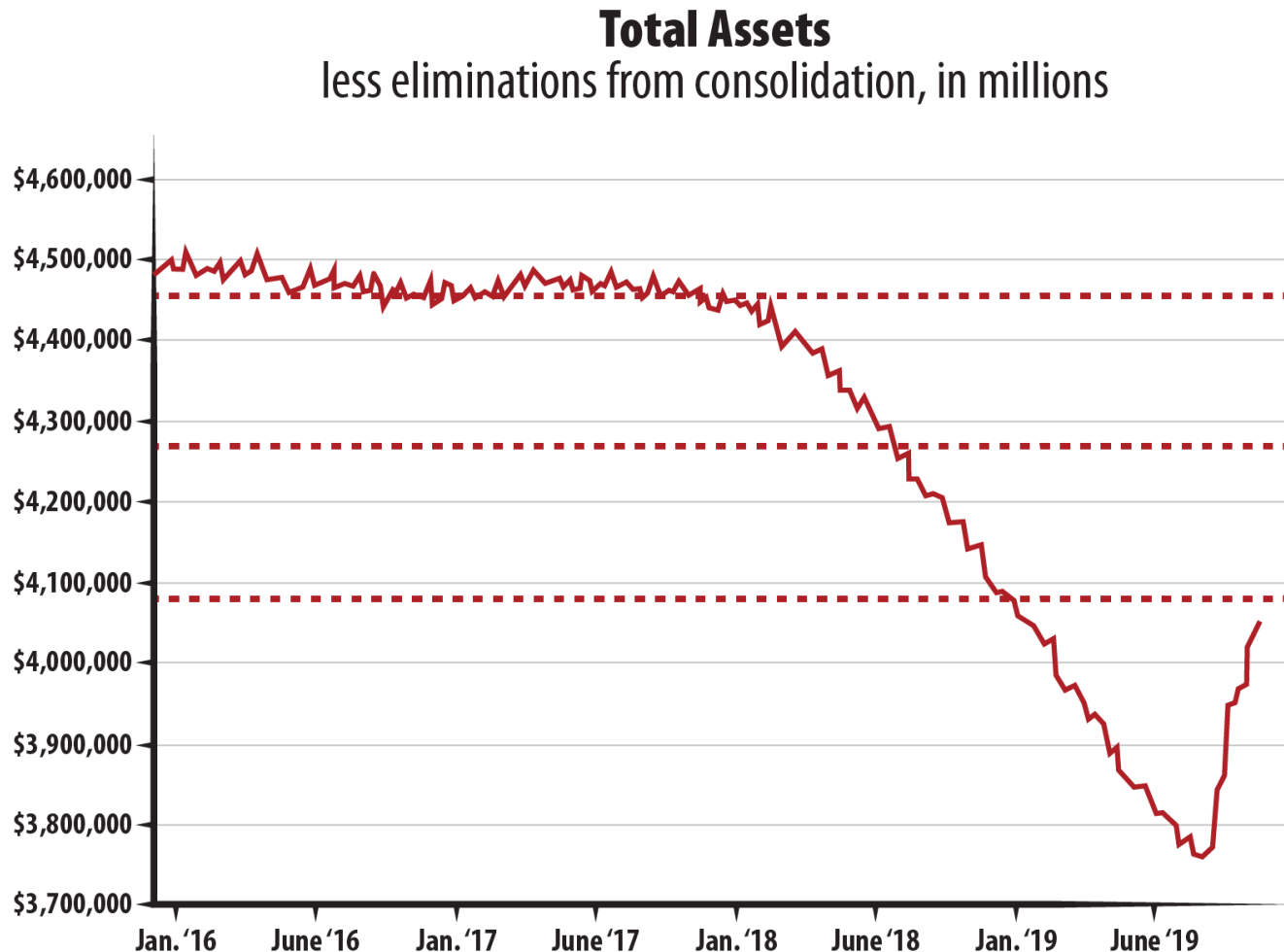


Source: U.S. Bureau of Economic Analysis

Liquidity! Fed's Balance Sheet Growth

- QE or not?
- 40% in 3 months
- Another \$600 bil by June?

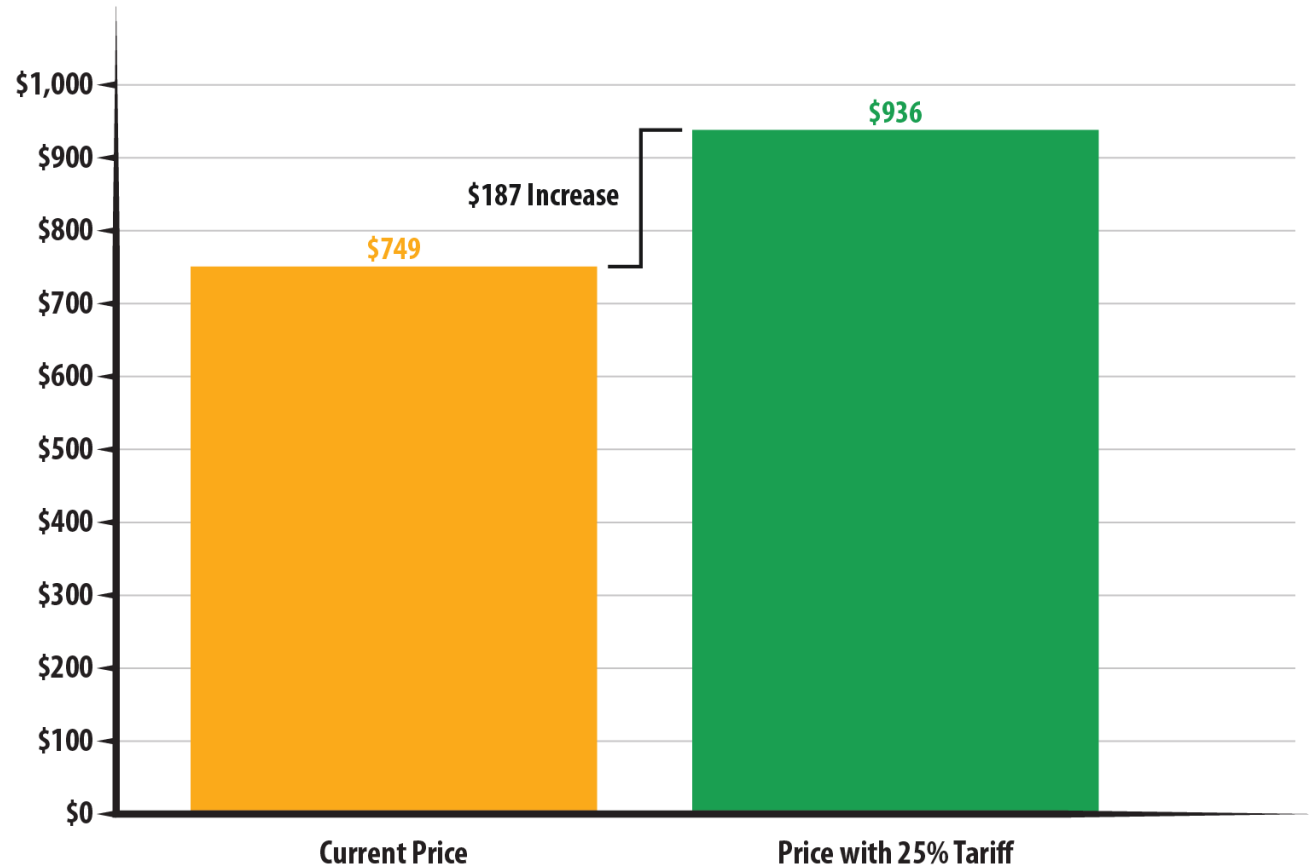
Source: Federal Reserve St. Louis



Visualizing Trade With China

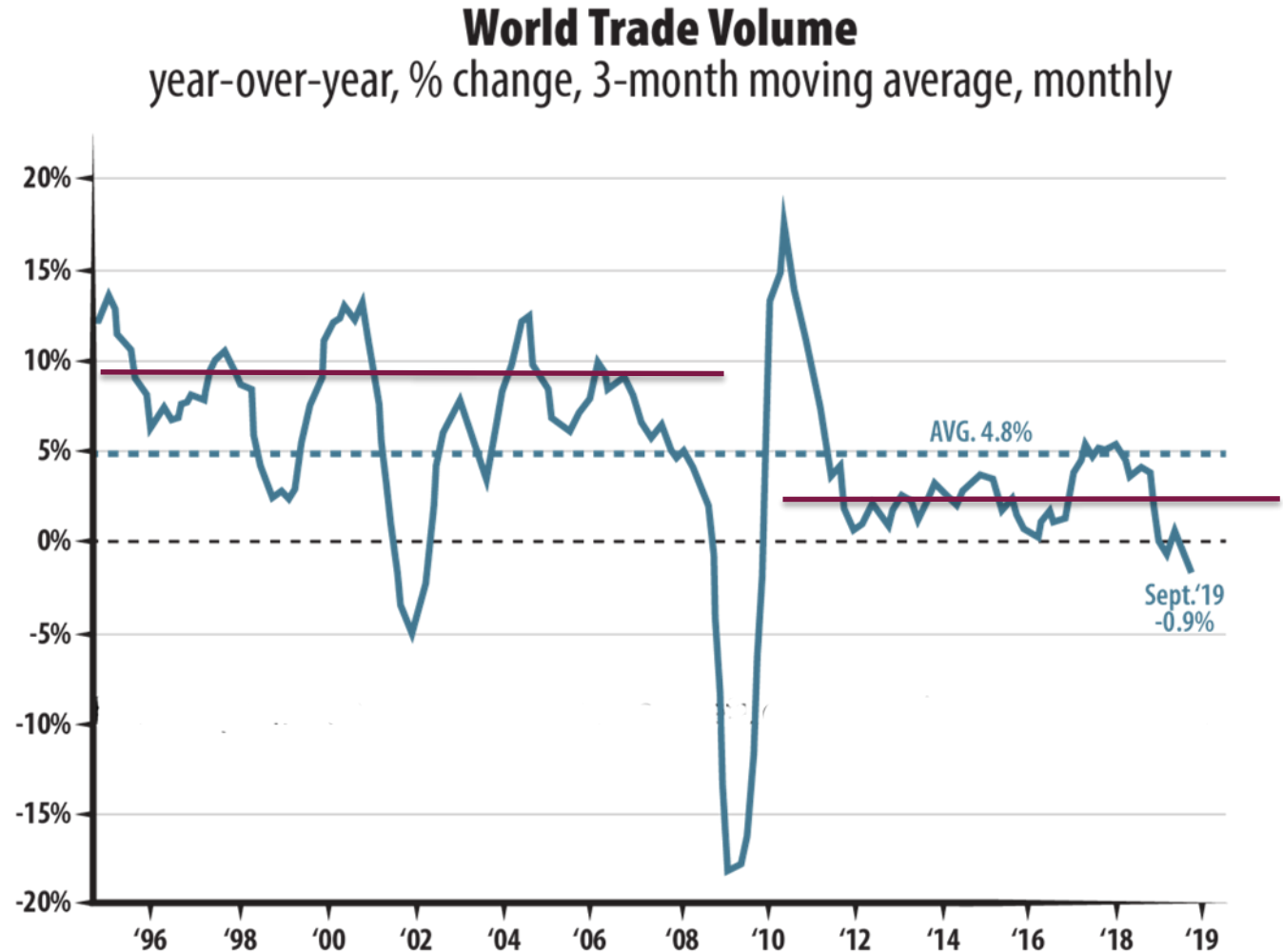
- Next round of tariffs affect consumers much more

Apple iPhone XR



Global Trade

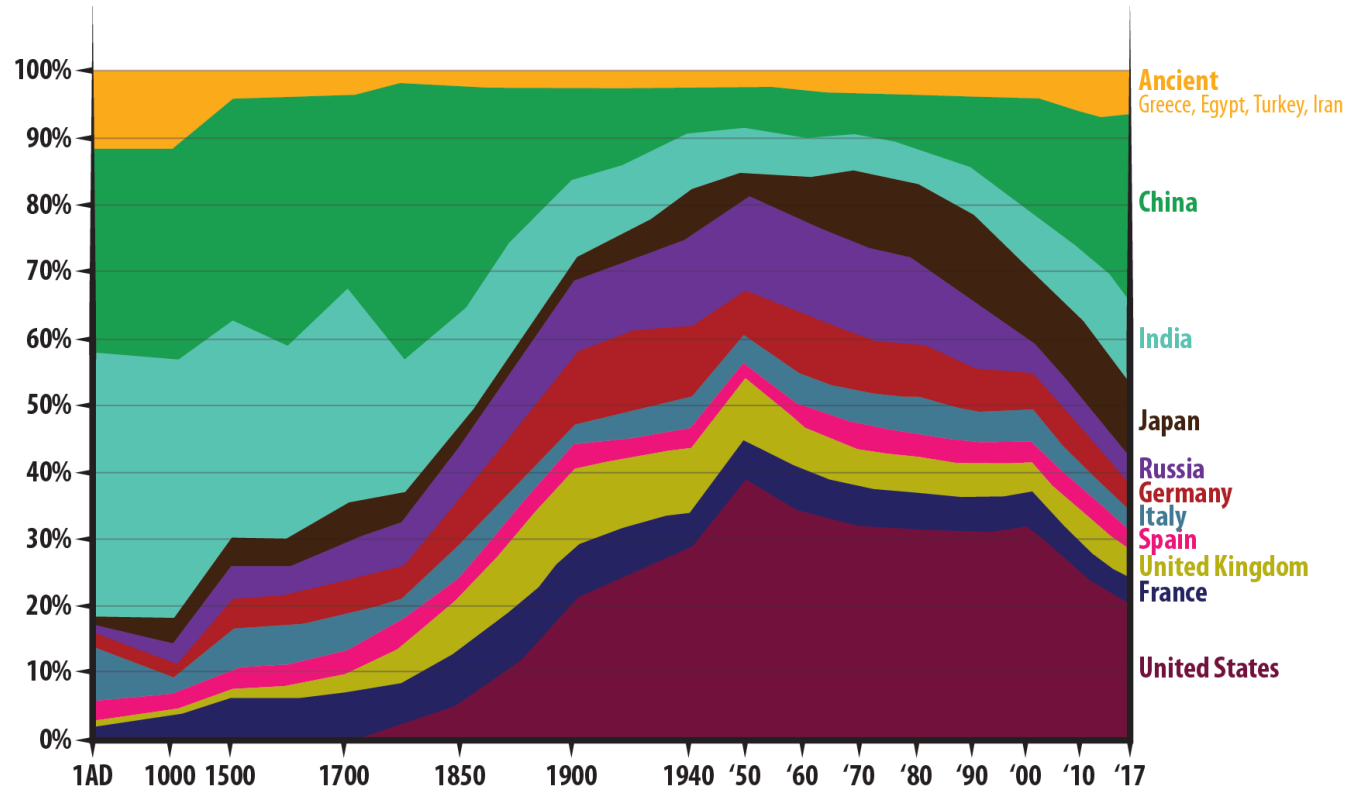
- World trade volume growth has declined



Share of World Economy

- China's desire for growth is cultural
- Policies are long-term oriented

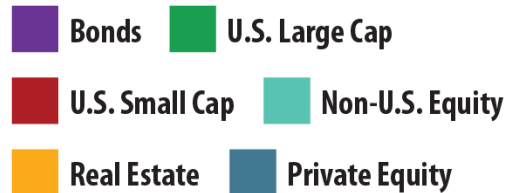
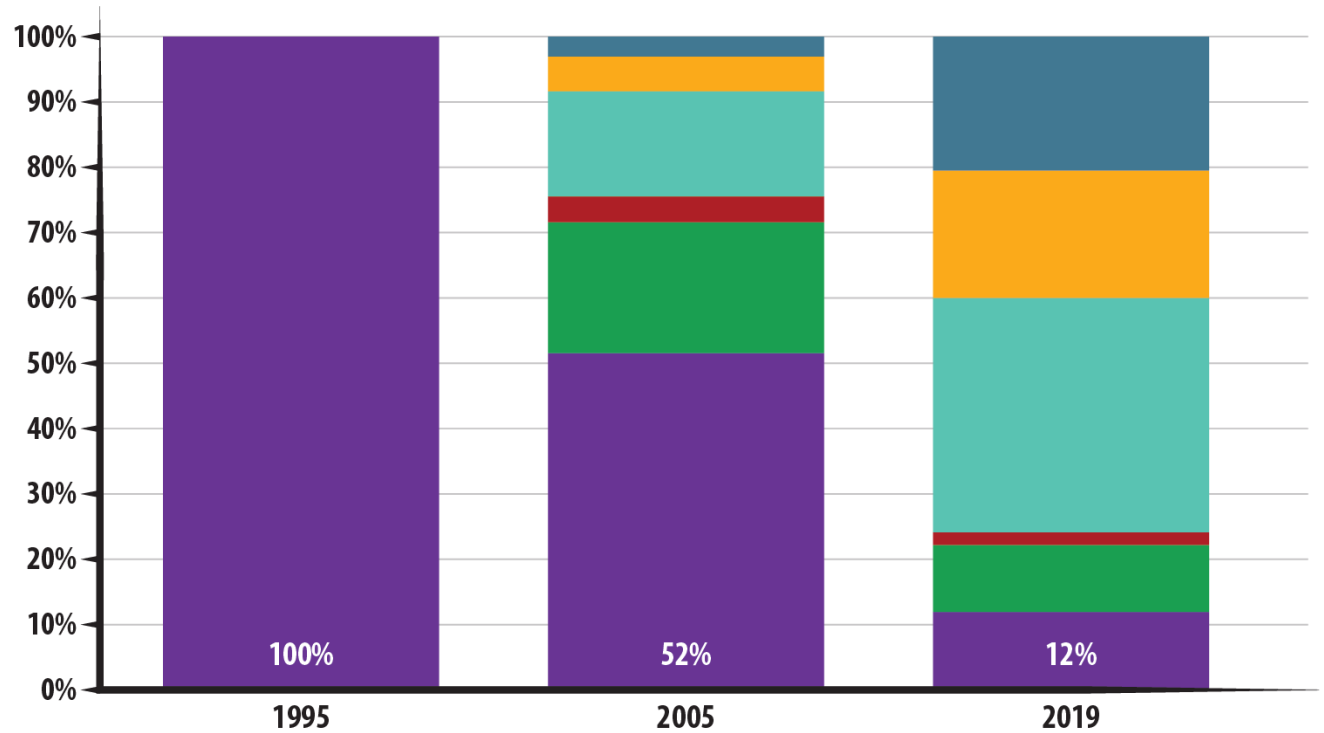
All Major Powers Compared by GDP



Source: Statistics on World Population, GDP and Per Capita GDP. 1-2008 AD* Angus Maddison, IMF

Asset Allocation

- What's needed to earn 7.5%
- 1995 versus 2019



| | 1995 | 2005 | 2019 |
|---------------------------|------|------|-------|
| Expected Return | 7.5% | 7.5% | 7.5% |
| Standard Deviation | 6.0% | 8.9% | 13.3% |

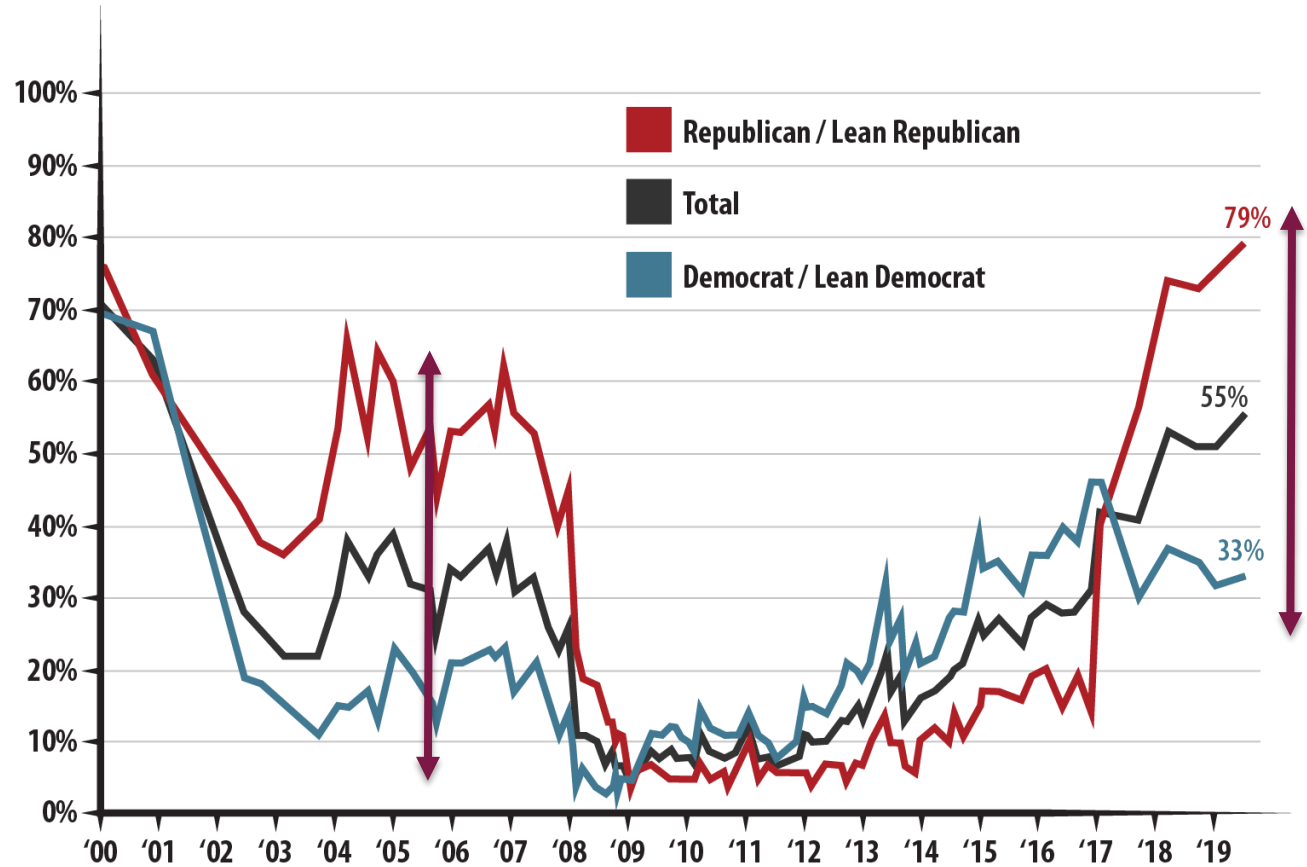
Politics & Markets

- Not the only lens to view markets
- Fiscal and foreign policy matter, not everything
- Progressive policies on the campaign trail aren't the same once in office
- Structural issues require long-term thinking

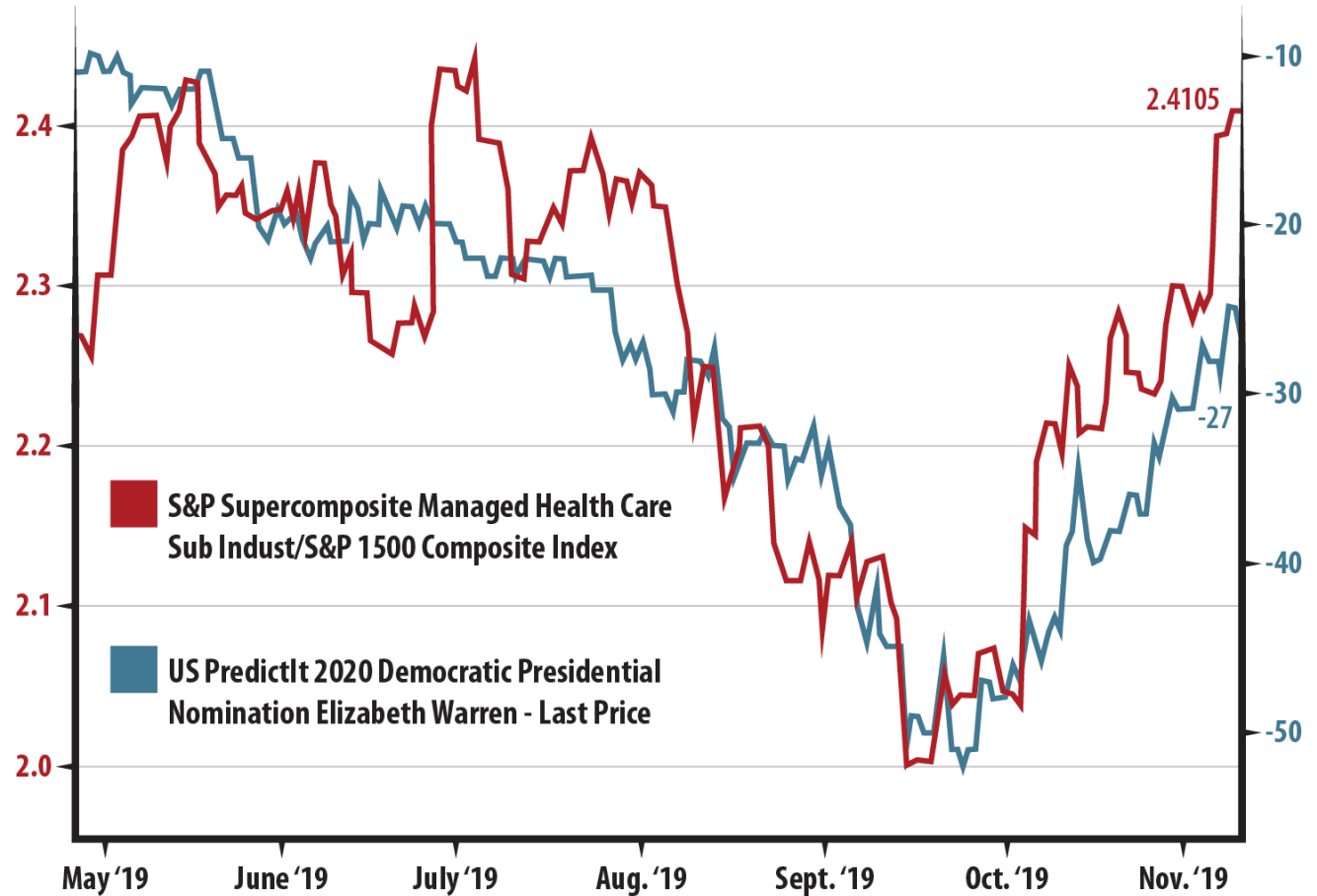
Politics Influence Sentiment

- Periods of partisanship
- Sentiment can drive business and personal investment

People Who Rate Economic Conditions as Excellent or Good



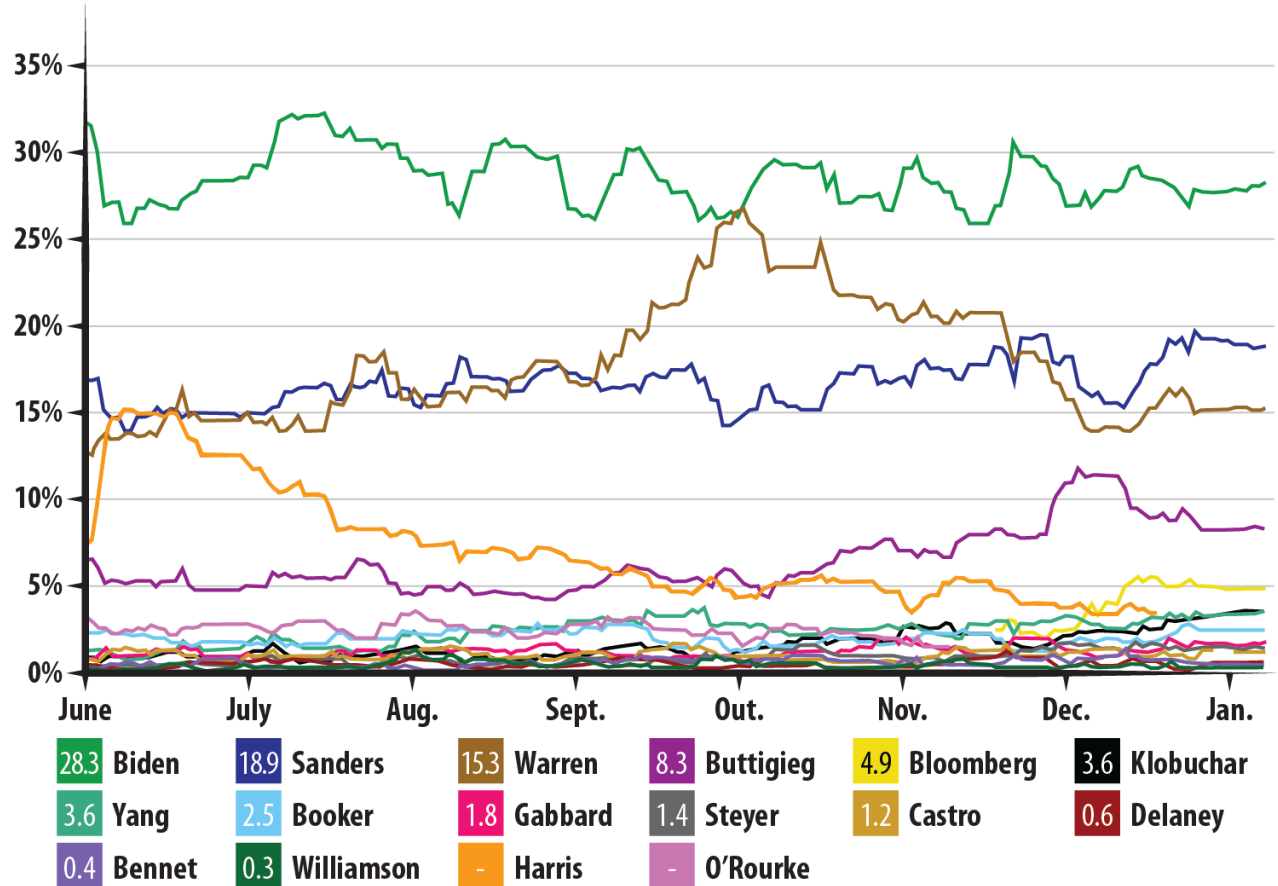
Managed Care and Warren's Prospects



Source: Cornerstone Macro

Potential Nominees

2020 Democratic Presidential Nomination rcp poll average



Source: RealClearPolitics Dec '19

Conclusions

- **Easier monetary policy** benefits stocks and bonds – stable interest rates
- **China policy** efforts aid global growth
- Market returns are **ahead** of fundamentals
- Growth pick-up – time to prepare
- Keep political climate in perspective – **take advantage of volatility**



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Thank You

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