

Economic and Stock Market Outlooks

Overall Outlook

Investors have a lot to worry about over the coming month, including general economic data and their impact on the Fed's decision to lower rates at the mid-month FOMC meeting, to the ongoing trade dispute and the continued softening of Q3 S&P 500 EPS growth expectations. Indeed, S&P 500 Q3 EPS are now projected to decline 3.3%, year on year, according to S&P Capital IQ consensus estimates, versus the 0.2% shortfall anticipated on June 30. What's more, mid- and small-cap benchmarks experienced even deeper reductions to estimates, while 10 of 11 sectors saw downward revisions to their Q3 growth forecasts, led by the consumer discretionary, energy and materials sectors. Only the real estate sector saw an improvement in expectations. We don't see an EPS recession, however, as Q4's growth estimate of 3.8% should more than offset Q3's weakness.

Economic Update

The Fed continues to send mixed signals ahead of the upcoming FOMC meeting. Richmond Fed President Tom Barkin, a non-voter this year and next, reiterated that last month's rate cut was a "mid-cycle reduction" designed to provide a little insurance. Meanwhile, Fed voters Eric Rosengren and James Bullard delivered conflicting views, according to Action Economics. The dovish Bullard said a 50bp easing would get ahead of market expectations, as the trade war has become a broader "reckoning" to the global economy and could trigger a global shock. On the other hand, the hawk Rosengren said no immediate rate action is necessary. He acknowledges that risks are elevated but have yet to become a reality, as the U.S. remains resilient thanks to the strong labor market and modestly rising wages.

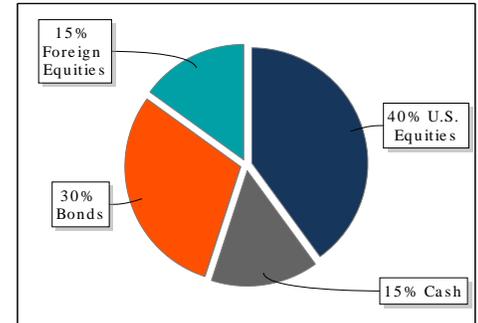
Fundamental Update

S&P DJ Indices recently reported that over the past three decades, corporations in the private sector have successfully shifted the responsibility of retirement to individuals, with 401(k)-type saving programs acting as substitutes. For now, both S&P 500 pensions and OPEB remain a manageable cost with sufficient resources and cash flow to support them - even as decreasing interest rates could worsen the funding levels and ratios via higher discounted liabilities for 2019. For 2018, corporate pension underfunding stood at \$270 billion - 11.2% lower than the \$304 billion level of 2017, as markets declined and interest rates used for liability discounting increased. The funding level increased to 86.35% in 2018 from 85.62% in 2017, 80.75% in 2016, 81.14% in 2015 and 81.12% in 2014. The most recent low-funding level was in 2012, at 77.26%, with the last full funding level occurring in 2007, at 104.40%.

Technical Update

The S&P 500 (SPX) continues to traverse the range between support at 2834 and resistance at 2940. The bias remains neutral, according to i10Research. With the back and forth oscillations of the last few weeks, a break from the August range should define the next near-term direction in the SPX. The Nasdaq-100 has also continued to rotate between resistance at 7801-7969 and nearby support at 7485. Lower support remains at 6936-7161 on any decline and the bias remains neutral while between these zones. The Russell 2000 is again within striking distance of critical support at 1459. A move below this level would shift the bias to bearish and would be a significant negative for the stock indices overall. Nearby resistance is established at 1504 with higher resistance remaining at 1532 and 1550. If there is trouble ahead for stocks on the whole, i10 thinks the Russell is positioned to be the first to break lower.

Recommended Moderate Allocation



S&P 500 EPS changes as of 09/04/19

S&P 500 Sector	EPS Growth %			
	Q2 2019e	Q3 2019e	2019e	2020e
Comm. Svcs.	(38.3)	0.4	(23.3)	8.5
Cons Disc	(1.1)	0.5	1.3	12.9
Cons Staples	1.5	(0.6)	0.8	7.3
Energy	(13.1)	(26.1)	(21.3)	33.1
Financials	9.4	3.0	8.3	6.3
Health Care	9.3	2.0	6.9	8.4
Industrials	(8.7)	1.7	0.9	17.1
Info Tech	1.5	(8.3)	(0.8)	12.2
Materials	(17.7)	(19.5)	(15.6)	14.8
Real Estate	55.4	(16.8)	4.7	(12.7)
Utilities	(8.0)	(3.8)	(1.8)	5.8
S&P 500	2.1	(3.3)	1.2	10.8

Source: S&P Global Market Intelligence

Targets

12-Month S&P 500:3100
S&P 500 EPS 2019E:163.78, 2020E:181.40
S&P 500 Revenues 2019E:4.6, 2020E:6.9
Real GDP Growth Avg. 2019E:2.4, 2020E:2.3
Core PCE Avg. 2019E:1.7, 2020E:2.0
Fed Funds Rate Avg. 2019E:2.17, 2020E:1.88
10-Year T-Note Avg. 2019E:2.10, 2020E:1.95
Exchange Rate 2019E:109.3, 2020E:110.6
WTI/BBL Avg. 2019E:56.53, 2020E:59.97

S&P 500 GICS Sector Performance and Recommended Sector Weightings

09/04/2019

S&P 500 Sector	% Change			P/E on '20e EPS	'20e P/E to Proj. 5-Yr. EPS Grth.	Sector % Weightings	Sector Emphasis	Over/Under Weight
	Sep	YTD	2018					
Communication Svcs.	(1.0)	18.8	(16.4)	17.6	1.3	10.4	Overweight	0.1
Consumer Discretionary	(0.4)	19.9	(0.5)	21.6	1.0	10.2	Marketweight	0.0
Consumer Staples	0.5	19.6	(11.2)	20.1	2.8	7.7	Marketweight	0.0
Energy	(0.6)	(1.0)	(20.5)	15.0	1.4	4.4	Marketweight	0.0
Financials	(1.1)	11.3	(14.7)	11.7	1.2	12.7	Underweight	0.2
Health Care	(0.6)	3.9	4.7	15.1	1.4	13.9	Overweight	0.1
Industrials	(1.4)	15.7	(15.0)	15.6	1.4	9.2	Marketweight	0.0
Information Technology	(1.3)	26.4	(1.6)	19.8	1.6	21.9	Overweight	0.1
Materials	(0.9)	10.9	(16.4)	17.1	1.8	2.7	Underweight	0.1
Real Estate	1.3	27.7	(5.6)	46.4	5.8	3.3	Marketweight	0.0
Utilities	1.8	19.7	0.5	20.1	3.6	3.6	Marketweight	0.0

S&P Composite 1500	(0.7)	15.4	(6.8)	17.0	1.4
S&P 500	(0.7)	15.9	(6.2)	17.1	1.4
S&P MidCap 400	(1.2)	11.7	(12.5)	16.6	1.5
S&P SmallCap 600	(1.4)	7.2	(9.8)	16.3	1.3

Sector recommendations are market-cap weighted, influenced by economic, fundamental and technical considerations

Glossary

★★★★★ 5-STARS (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ 4-STARS (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ 3-STARS (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ 2-STARS (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

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Overweight rankings are assigned to approximately the top quartile of the asset class.

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Ranking	North America	Europe	Asia	Global
Buy	38.94%	34.13%	46.55%	39.03%
Hold	55.97%	51.81%	44.83%	53.99%
Sell	5.09%	14.06%	8.62%	6.98%
Total	100.00%	100.00%	100.00%	100.00%

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