SAGE | INVEST WITH WISDOM

Five Key Themes in 2020

Year Ahead Outlook

First Quarter 2020

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Five Key Themes In 2020

- **2019 was an incredible year for investors as most asset classes globally posted high risk-adjusted returns.**
- **Credit spreads are trading near all-time low levels while equities were driven higher by multiple expansion rather than earnings. The bar is high for markets to repeat their 2019 performance this year.**

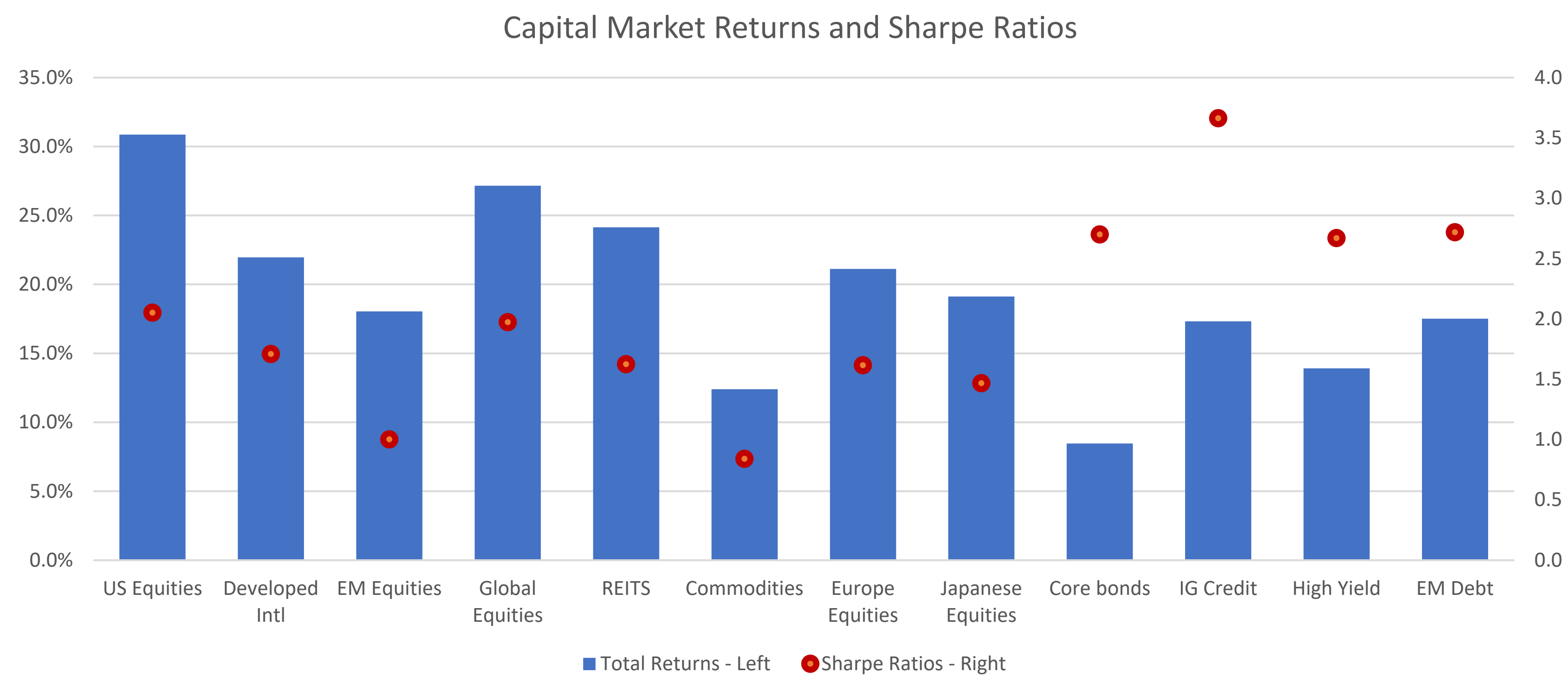
Our base case going into 2020 is a market environment marked by stabilizing growth, low inflation, and continued monetary and fiscal policy support. The five key themes driving markets in 2020 are:

- **U.S. Consumer:** The domestic household sector remains the engine of U.S. economic growth.
- **Trade War:** U.S./China trade relations have cooled. If the status quo holds, trade issues should remain in the background.
- **Central Bank Accommodation:** The provision of central bank support continues to underpin financial markets.
- **Presidential Election:** Over the past 90 years, equities and fixed income experienced positive returns in years where a presidential election took place.
- **Corporate Earnings:** A recovery in economic activity coupled with low inflation will be required for strong corporate earnings growth.

 Source: Sage

2019 IN REVIEW: STRONG RETURNS ACROSS GLOBAL ASSET CLASSES

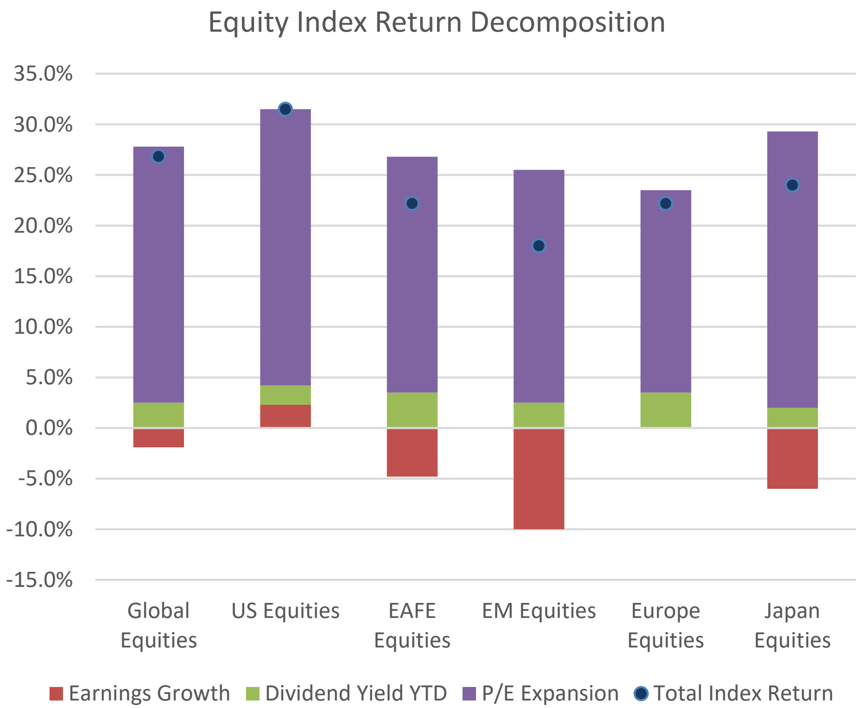
- 2019 was an exceptional year for returns, with positive returns across all major asset classes
- Investment Grade Corporate Bonds had the best year from a risk-adjusted standpoint

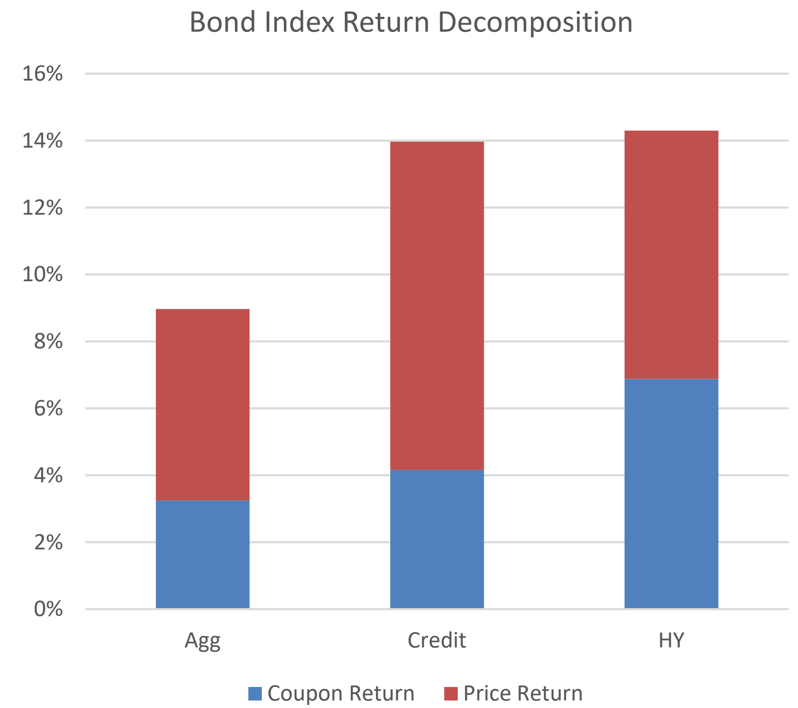


 Source: Sage, Data as of 12/31/2019

DRIVERS OF ASSET CLASS RETURNS IN 2019

- Global earnings were negative last year – equity returns were driven purely by multiple expansion
- Fixed income performance came from lower bond yields and declining credit spreads





 Source: Sage, Data as of 12/31/2019

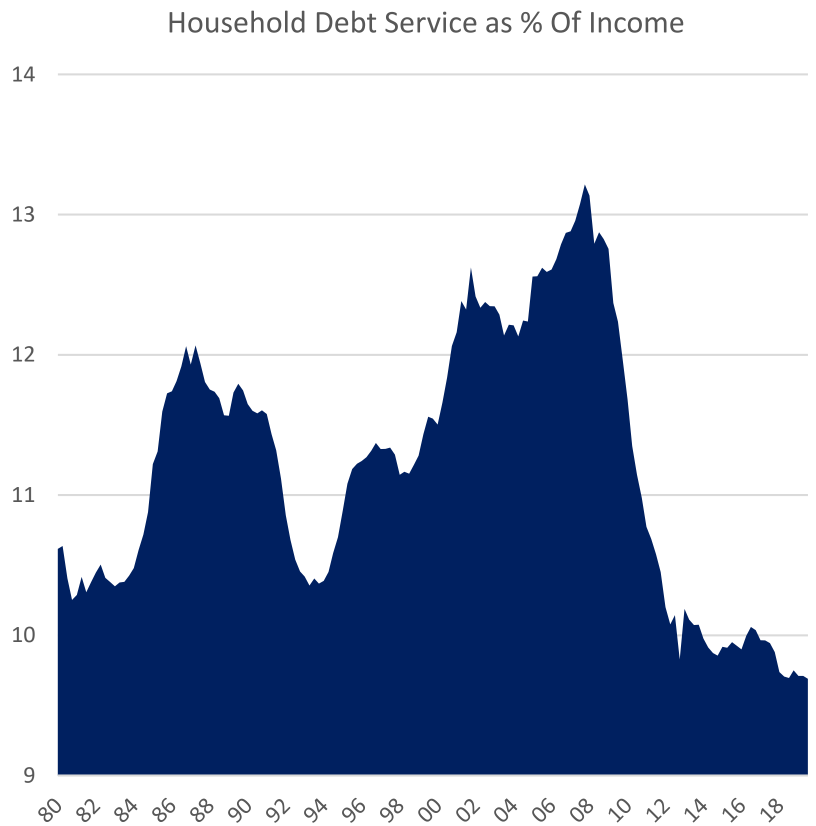
SAGE'S 2020 OUTLOOK

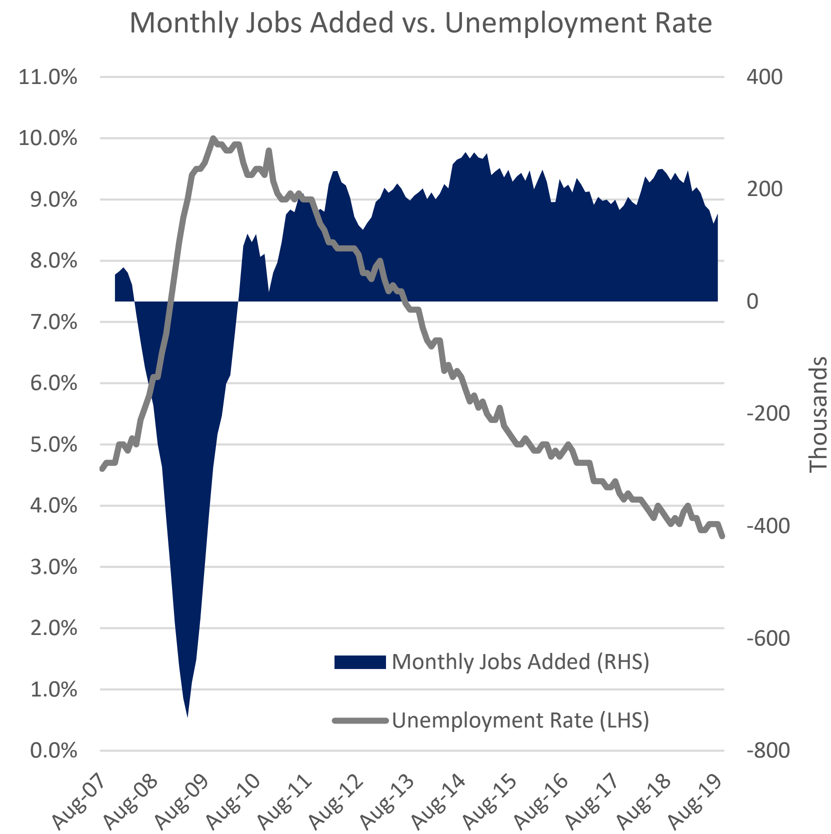
Scenario	Probability	Growth/Inflation	Rates/Curve	Spreads	Equities	Indicators to Watch
Growth Acceleration Above Trend	15%	Business confidence returns, growth accelerates above trend, which lifts inflation	Higher rates across the curve	Due to expectation of improving fundamentals, spreads compress through all-time lows	Equities continue to make all-time highs and turn in another double-digit year	➢ Economic activity accelerates to upside while central banks remain easy ➢ New fiscal stimulus from the world's largest economies
Stabilizing economic activity, low inflation, and continued policy support	70% (Base case)	Trend growth, low inflation (below 2% in developed countries)	Range-bound rates with big ranges/ steeper curve	Stable, could widen due to flows but supported by stronger economic activity	Equities perform positively in line with growing corporate earnings and hopeful election rhetoric	➢ Global central banks indicate easier or "on hold" policies ➢ Positive corporate earnings growth ➢ Manufacturing activity stabilizes
Global Recession	15%	Below-trend or negative GDP growth globally, risk of deflation	Rates sharply lower, curve steepens as Fed cuts rates	Widen due to credit events (defaults and downgrades)	Lower	➢ Global trade activity accelerates to downside ➢ Anemic labor and earnings growth ➢ Geopolitical crisis

Source: Sage

Households Remain the Engine of U.S. Economy

- Household debt service capabilities remain healthiest in over 30 years
- Labor force expands with unemployment rate continuing to fall to cycle lows





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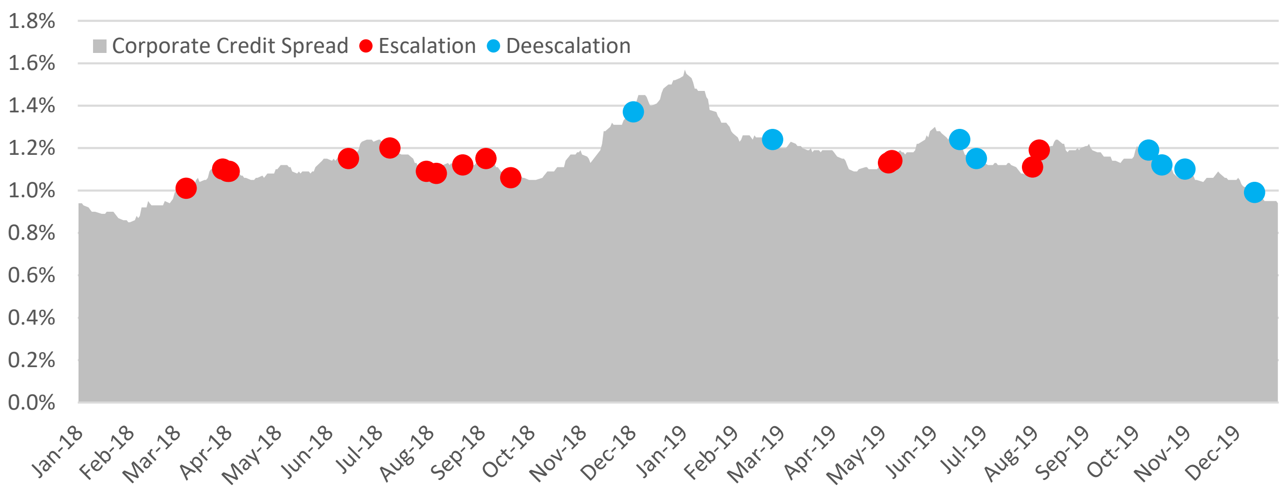
 Source: Sage

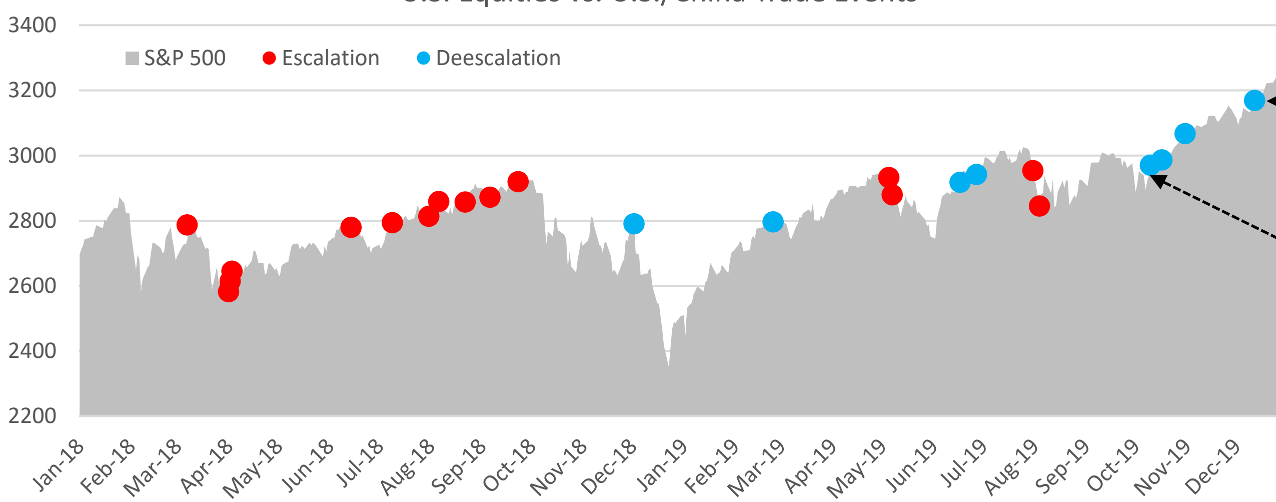
Will Trade Tensions Fade Into The Background?

Corporate Credit Spreads amid U.S./China Trade Events



- 2019 was a year of de-escalating trade tensions, culminating in a "phase one" trade deal between the U.S. and China.
- Easing of trade tensions was a contributing factor in the late-year rally.
- A quiet period of trade rhetoric would dampen volatility and lift economic sentiment.

U.S. Equities vs. U.S./China Trade Events



***December 13, 2019**: U.S., China agree to "phase one" deal*

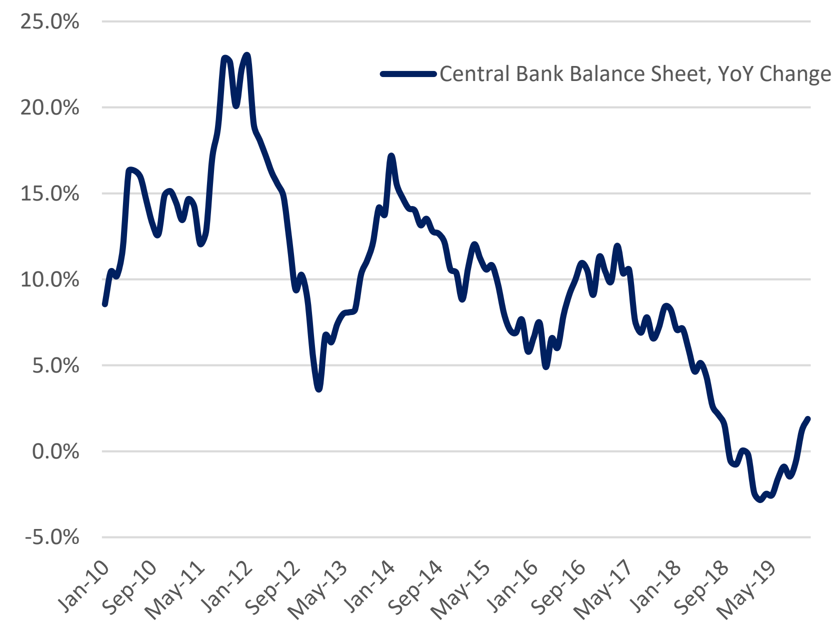
***October 11, 2019**: U.S. announces "phase one" deal and delays tariffs for Chinese goods planned for October 15*

 Source: Sage, Bloomberg, Reuters, as of 12/30/2019

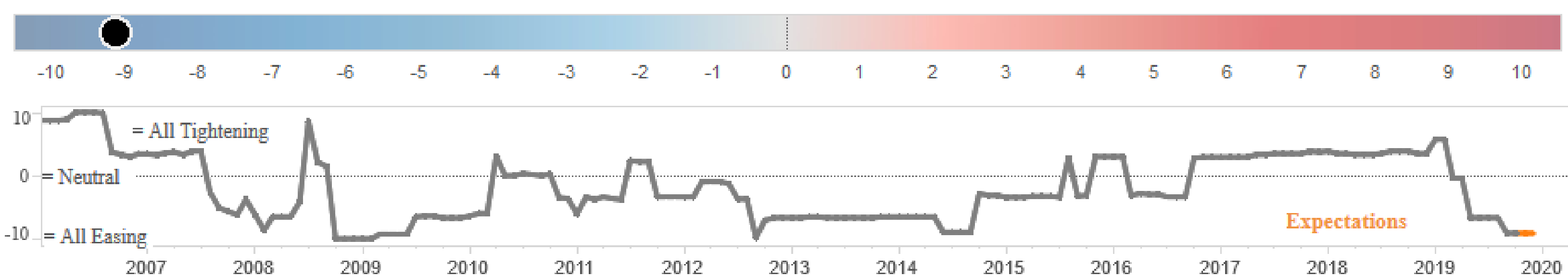
Monetary Policy Continues to Underpin Financial Markets

- After years of balance sheet contraction due to tighter monetary policy, global central bank balance sheets have started to expand as global central banks enact easy money policies in the face of slowing economic growth in 2019.
- The Council on Foreign Relations' Global Monetary Policy Tracker of 54 central banks globally signals an extremely accommodative stance.
- Central Banks are not expected to change policy course in 2020, which should continue to provide support to financial assets.

Global Central Bank Balance Sheet Change



Council on Foreign Relations' Global Monetary Policy Tracker – Index of Easing/Tightening



 Source: Council on Foreign Relations as of 12/30/2019, Bloomberg, Sage

U.S. Presidential Election Years Typically Fare Well For Risk Assets

S&P 500 and Treasuries Returns (23 Presidential Elections 1928-2016)

	S&P 500 Total Return	10Y U.S. Treasury Note Total Return	Election
1928	43.81%	0.84%	Hoover vs. Smith
1932	-8.64%	8.79%	Roosevelt vs. Hoover
1936	31.94%	5.02%	Roosevelt vs. Landon
1940	-10.67%	5.40%	Roosevelt vs. Willkie
1944	19.03%	2.58%	Roosevelt vs. Dewey
1948	5.70%	1.95%	Truman vs. Dewey
1952	18.15%	2.27%	Eisenhower vs. Stevenson
1956	7.44%	-2.26%	Eisenhower vs. Stevenson
1960	0.34%	11.64%	Kennedy vs. Nixon
1964	16.42%	3.73%	Johnson vs. Goldwater
1968	10.81%	3.27%	Nixon vs. Humphrey
1972	18.76%	2.82%	Nixon vs. McGovern
1976	23.83%	15.98%	Carter vs. Ford
1980	31.74%	-2.99%	Reagan vs. Carter
1984	6.15%	13.73%	Reagan vs. Mondale
1988	16.54%	8.22%	Bush vs. Dukakis
1992	7.49%	9.36%	Clinton vs. Bush
1996	22.68%	1.43%	Clinton vs. Dole
2000	-9.03%	16.66%	Bush vs. Gore
2004	10.74%	4.49%	Bush vs. Kerry
2008	-36.55%	20.10%	Obama vs. McCain
2012	15.89%	2.97%	Obama vs. Romney
2016	11.77%	0.69%	Trump vs. Clinton

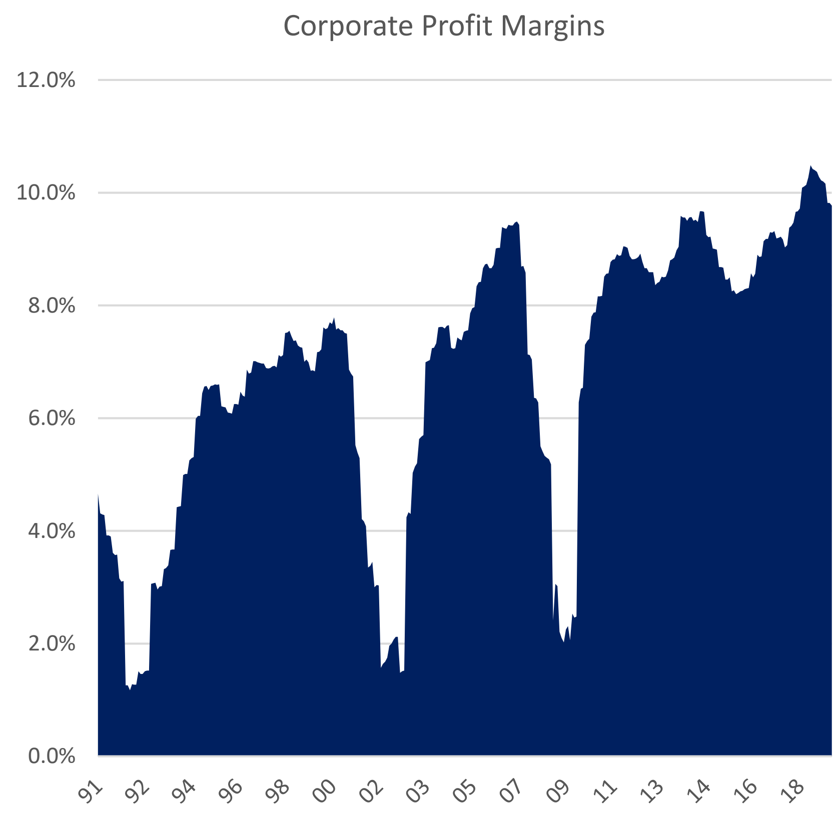
	S&P 500	10Y U.S. Treasury Note
Average (Election Years)	11.06%	5.94%
% Positive (Election Years)	82.6%	91.3%
Average (All Years)	11.36%	5.10%
% Positive (All Years)	72.5%	81.3%

Equities and fixed income have typically fared well during presidential election years, with 19 of 23 election years resulting in positive equity returns and 21 of 23 years resulting in positive returns for U.S. Treasuries

 Source: Sage, Damodaran Online (NYU)

Corporate Earnings Dependent on Growth Recovery, Low Inflation

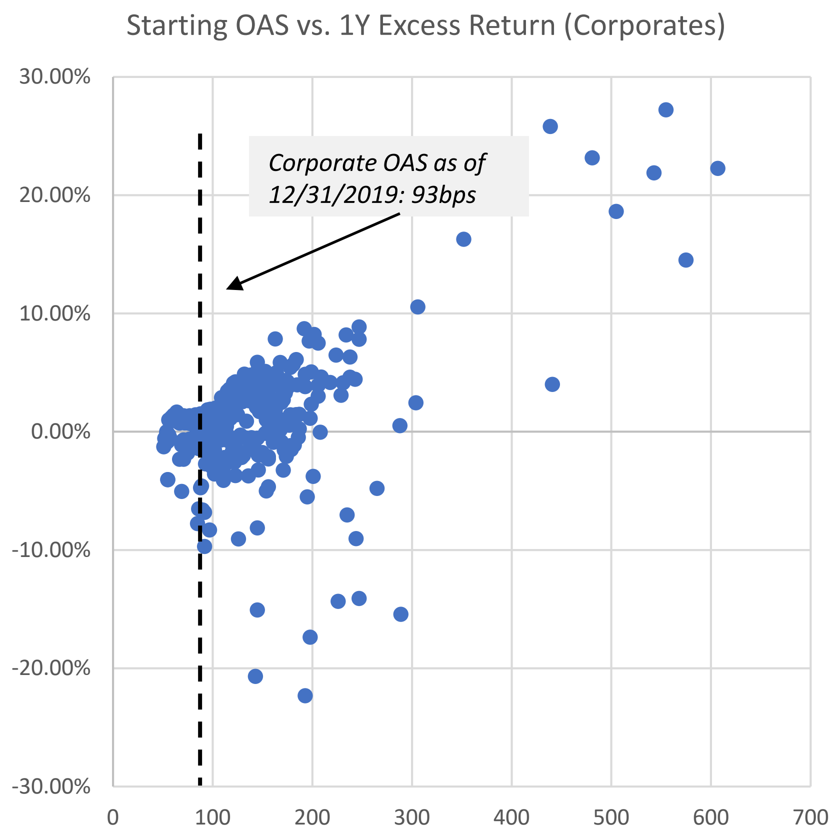
- A recovery in corporate earnings is dependent on a recovery in economic activity
- With corporate profit margins at a 30-year high, inflation could raise costs and affect corporate profitability

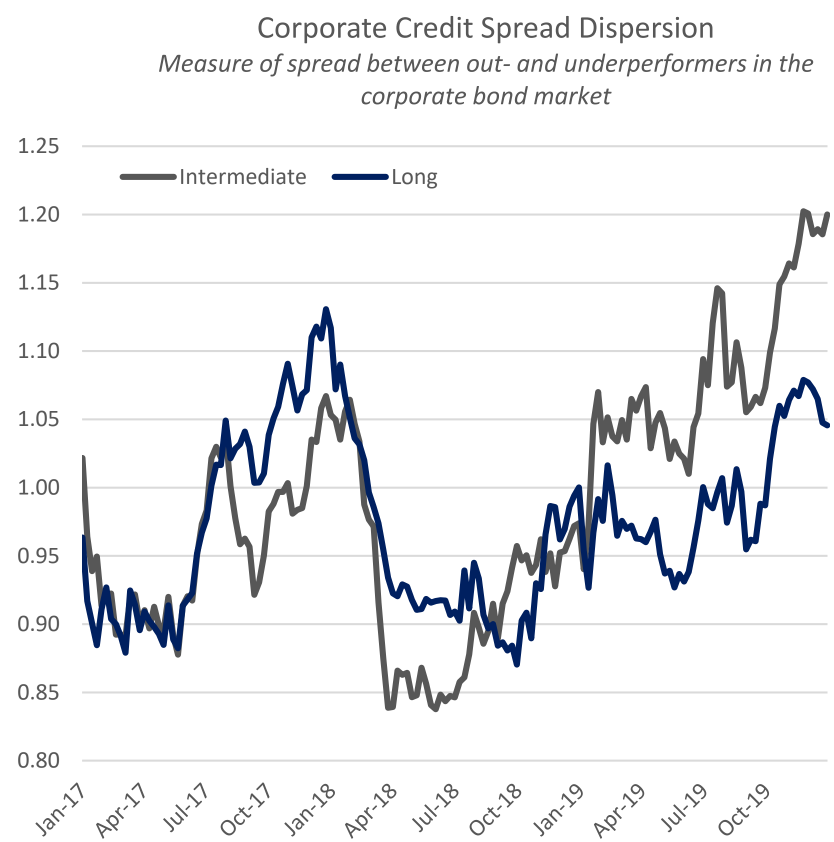


 Source: Sage, Bloomberg as of 12/31/2019

Fixed Income Positioning – Micro Over Macro

- Credit spreads near all-time lows do not present attractive risk/reward at a macro level; however, there will be opportunities for bond selection as dispersion increases
- We are maintaining a modest level of credit risk while increasing our focus on bond selection while also looking to take advantage of spread widening events in what is expected to be an eventful year

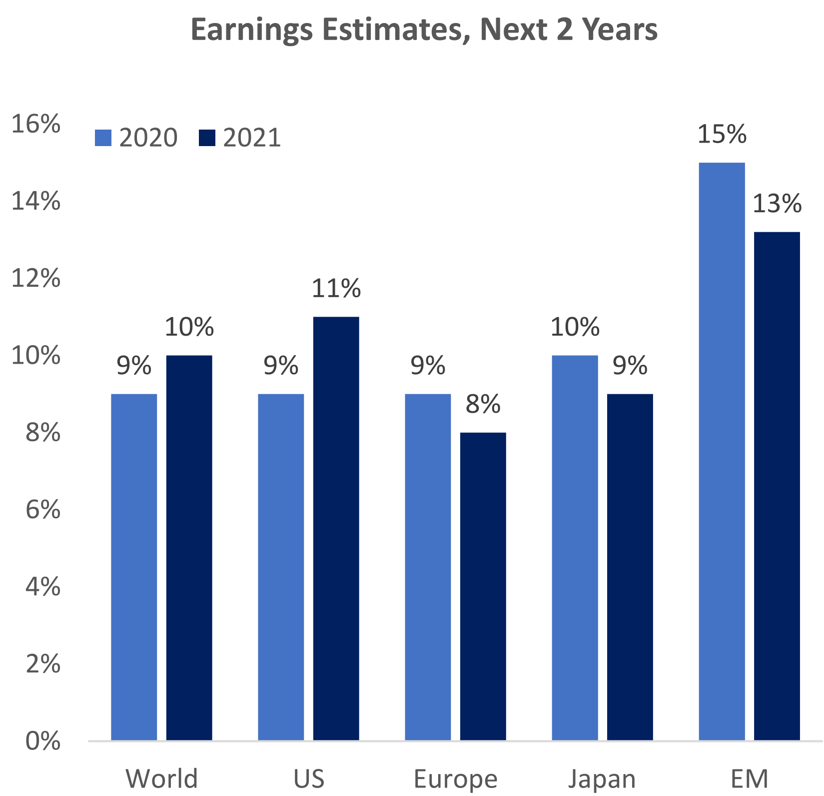


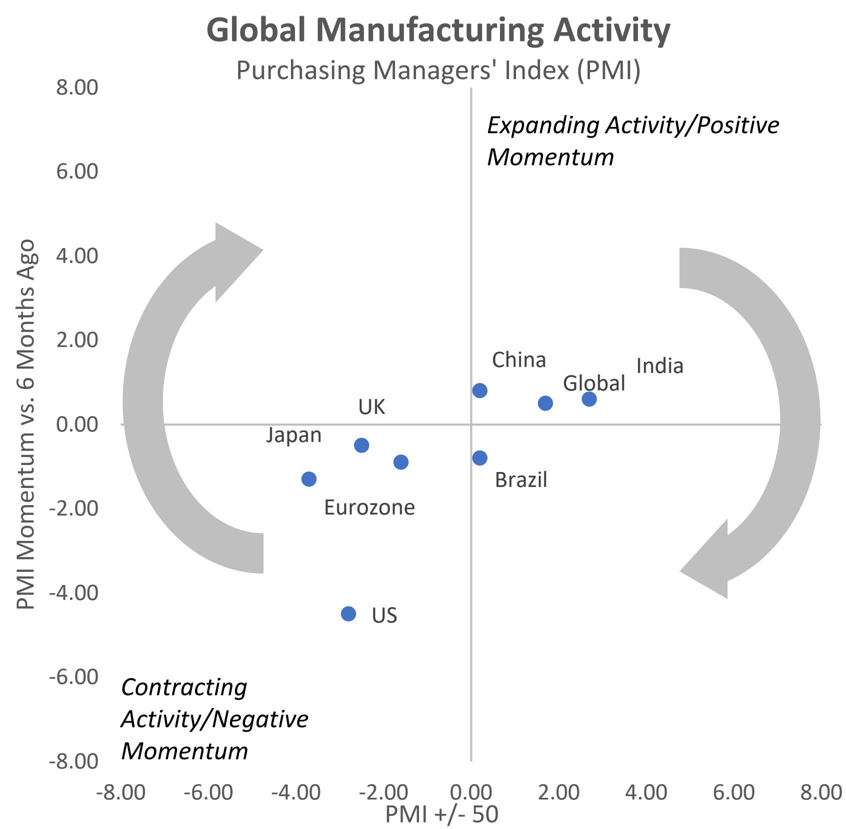


 Source: Sage, Data as of 12/31/2019

EM Asia Should Benefit from Stabilization of Economic Activity

- With trade risks subsiding and expectation of stabilizing economic activity, EM Asia should be beneficiary in 2020
- Manufacturing activity in China is showing signs of recovery which is a positive bellwether for the region

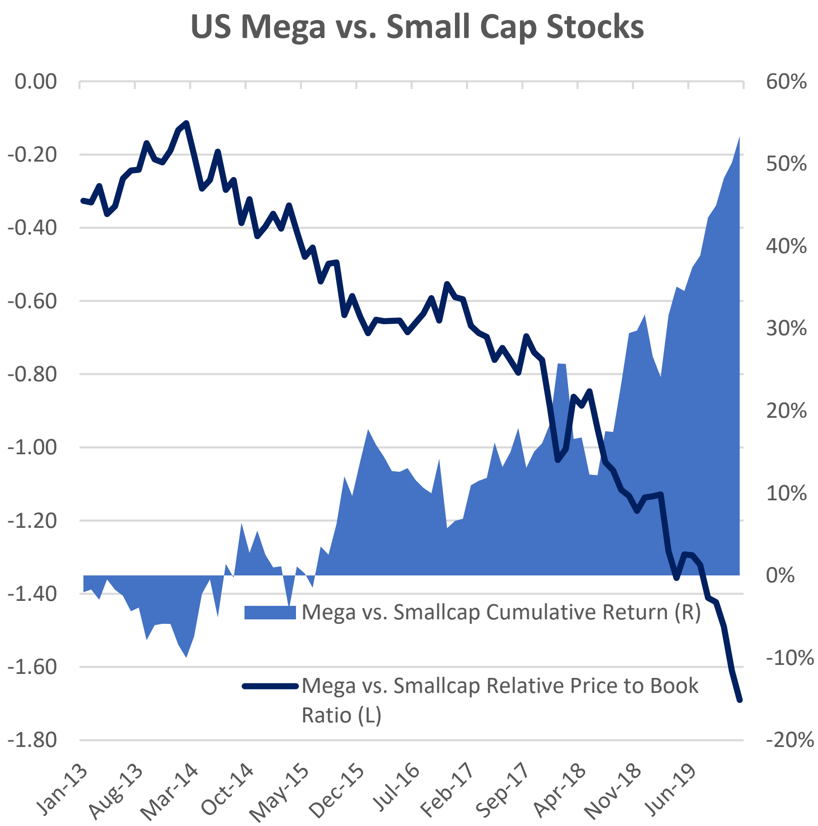


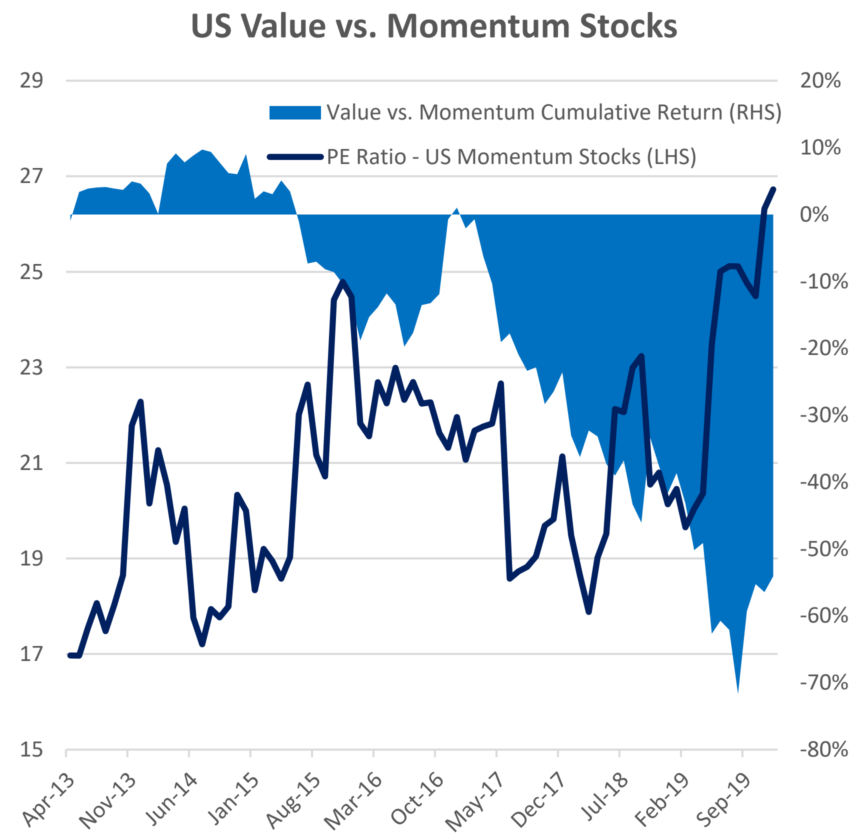


 Source: Sage, IBES, Bloomberg, Data as of 12/31/2019

Factor Rotation Presents An Opportunity Given Valuations

- Mega cap and momentum style equities have outperformed significantly over the past five years
- Given regulatory risk around big tech during the campaign season and attractive valuations, we think an allocation to smaller sized and value stocks are warranted in 2020





 Source: Sage, Bloomberg, Data as of 12/31/2019

Strategies For Markets Supported by Fragile Stabilization

- Our base case going into 2020 is a market environment marked by stabilizing growth, low inflation, and continued monetary and fiscal policy support.

Fixed Income Strategy

- We remain modest in both duration and credit risk at a macro level while maintaining "dry powder" to take advantage of interim dislocations
- We are focused on security selection given the low risk premium offered in credit markets, focusing on higher-quality, liquid issues
- Mortgaged Backed Securities lagged other fixed income sectors last year given the sharp move lower in yield. We think that this sector could present an interesting opportunity for risk-adjusted outperformance this year

Asset Allocation/Equity Strategy

- Given economic stabilization and our expectation of continued monetary policy support and market-friendly political rhetoric, we remain fully invested in equities within our asset allocation strategies
- EM Asia presents an opportunity given its underperformance throughout 2019, attractive valuations, as well as its high sensitivity to a recovering global trade and manufacturing picture
- Within equity styles, we are overweight both value and small capitalization equities given attractive relative valuations, their sensitivity to economic recovery regimes, as well as a sentiment shift for big-tech companies during the campaign season

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