



2019 Financial Review and Outlook

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LIVE BUIGSM

Overview

- The economy and the markets in 2018
- Markets year-to-date in 2019
- Risks and underlying challenges
- The global landscape going forward
- Personal moves

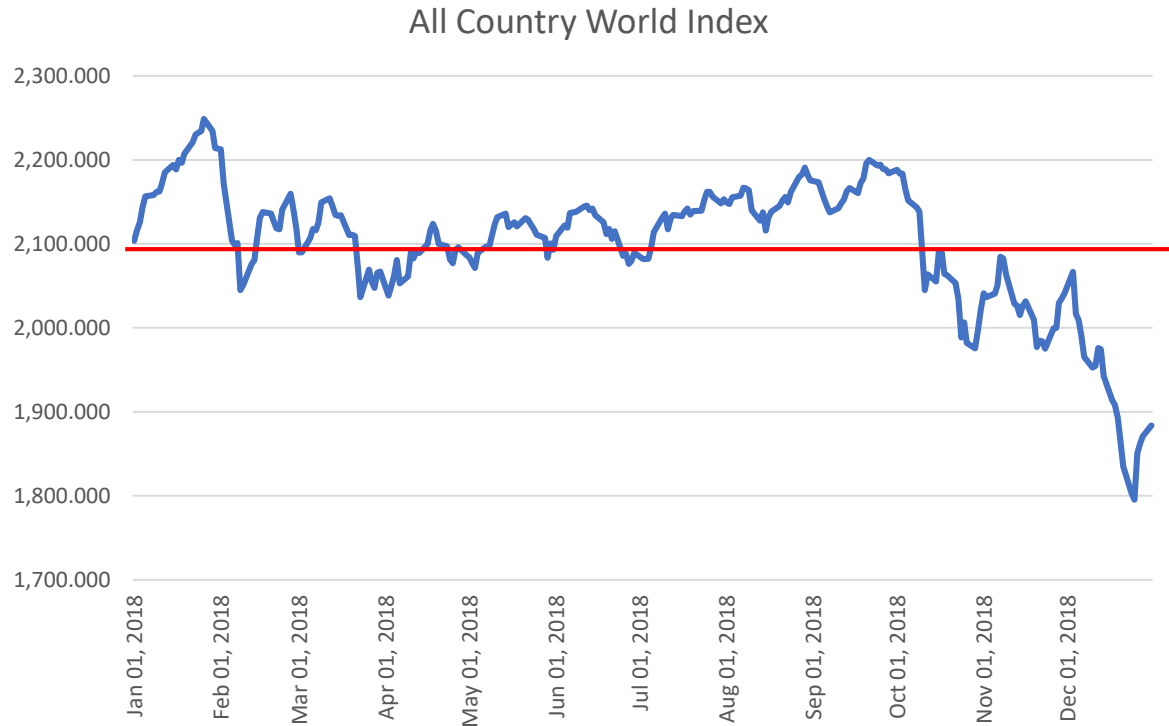


2018 Recap

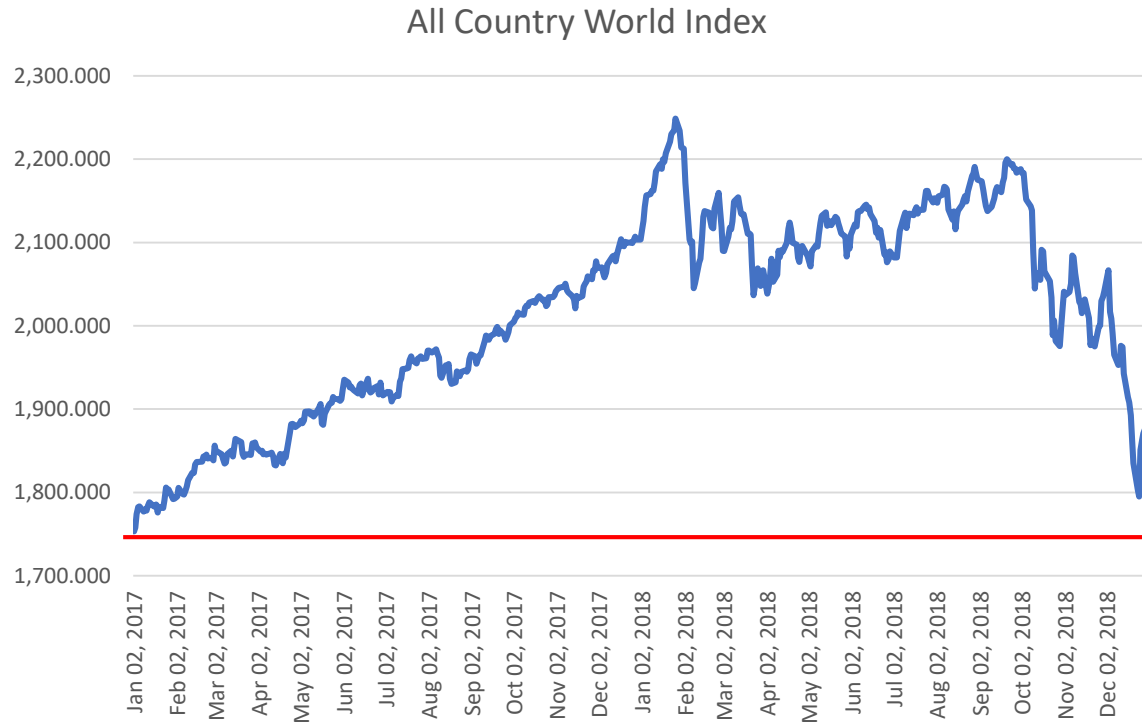
- Healthy economic growth in the US
- Growing trade concerns
- Fed raised rates four times
- Brexit gets messier



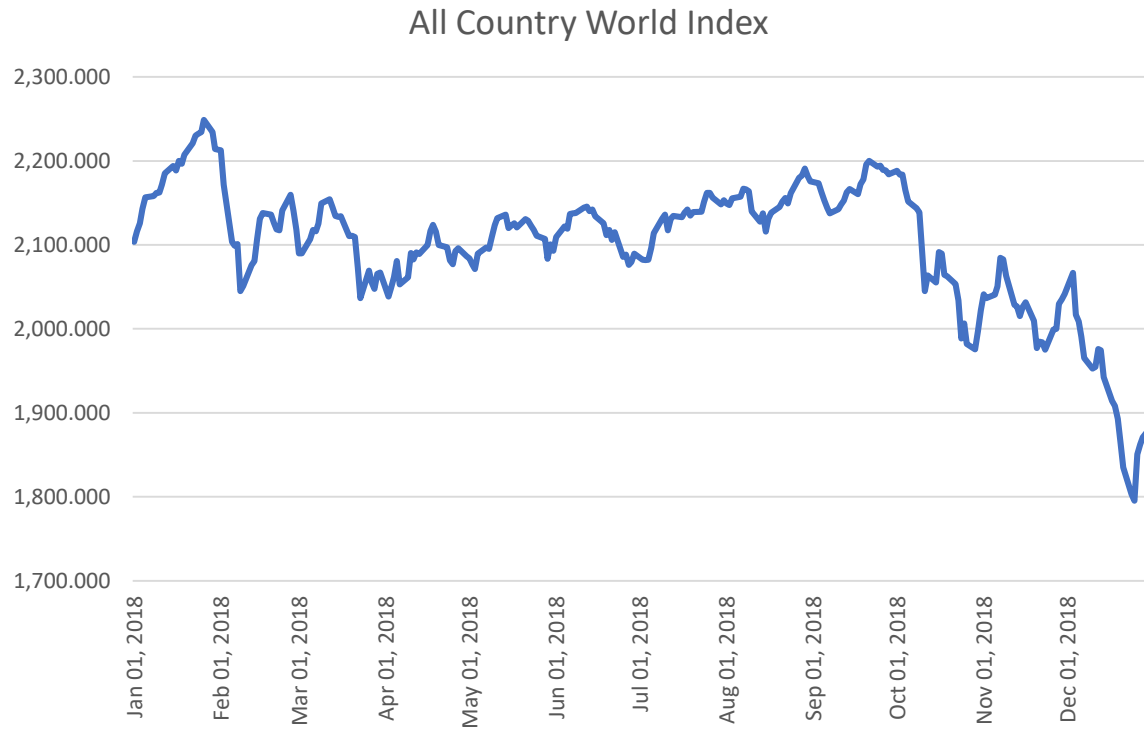
Stock Markets



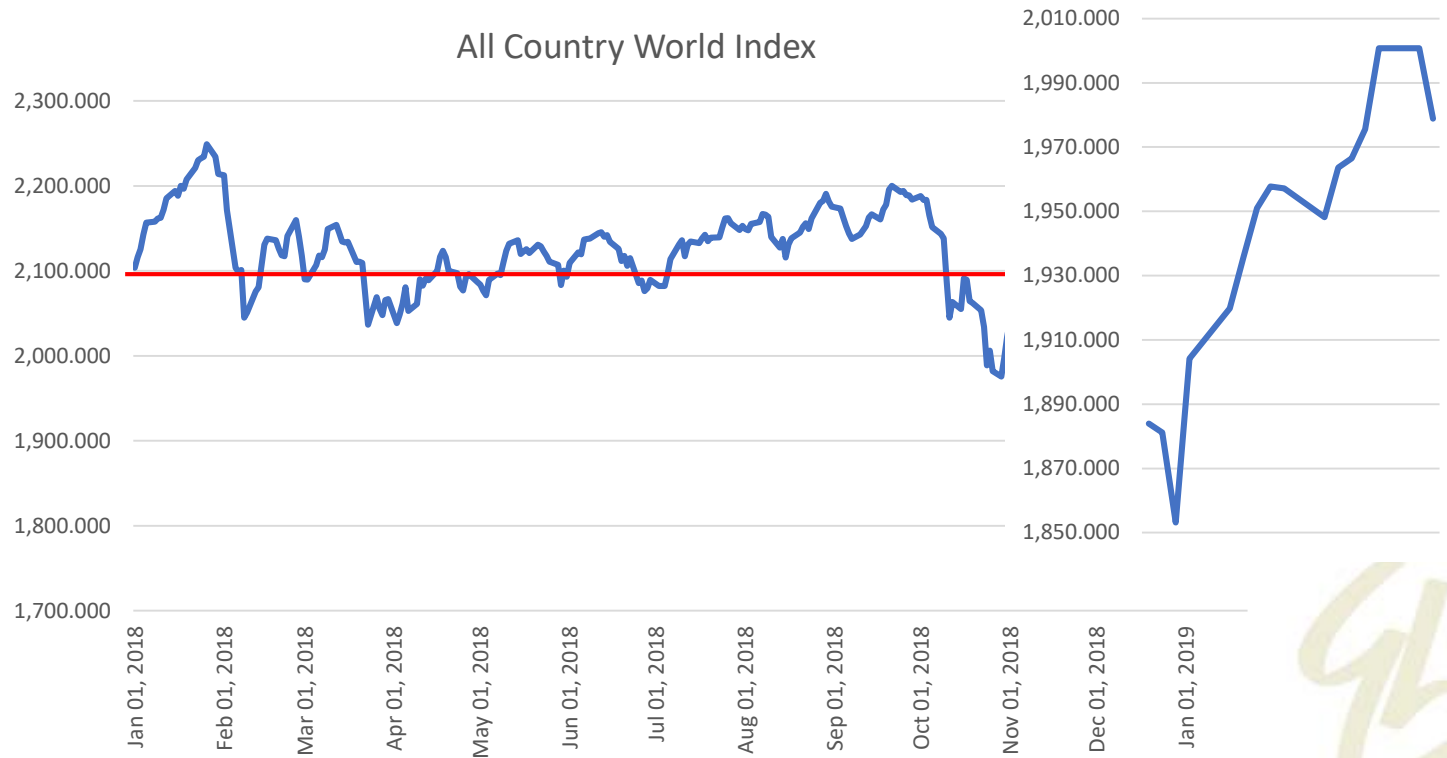
Stock Markets



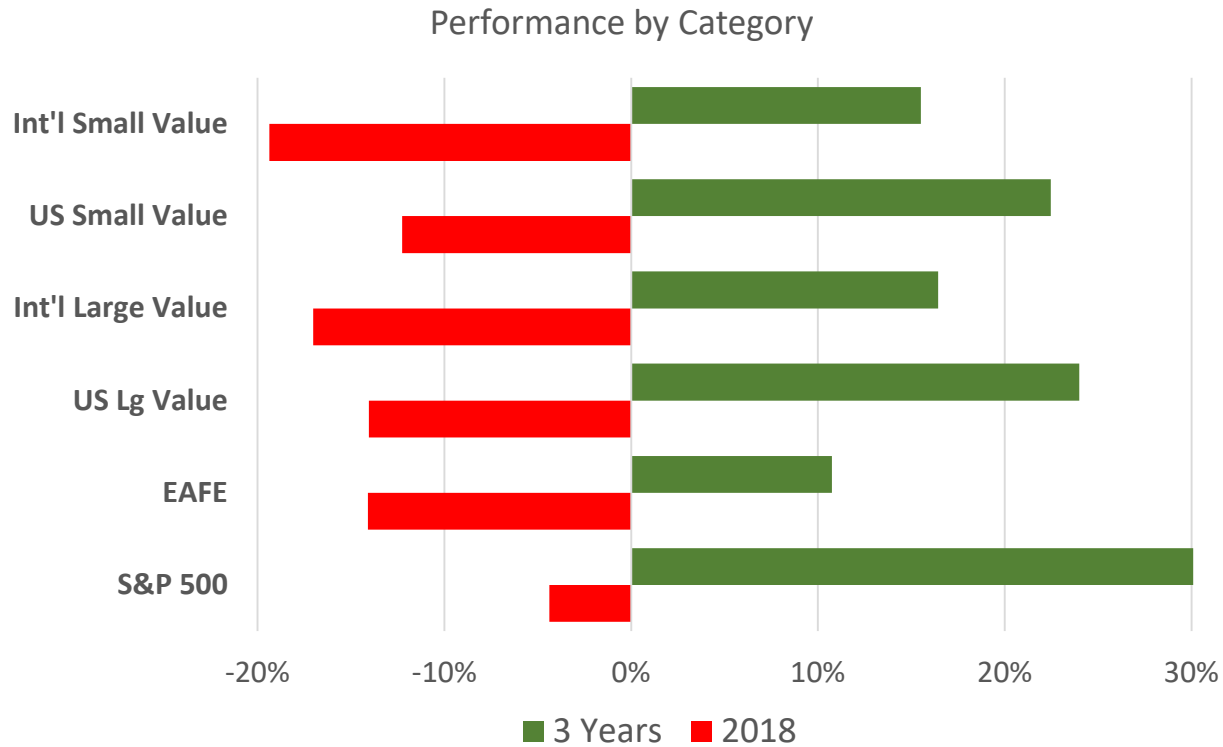
Stock Markets



Stock Markets

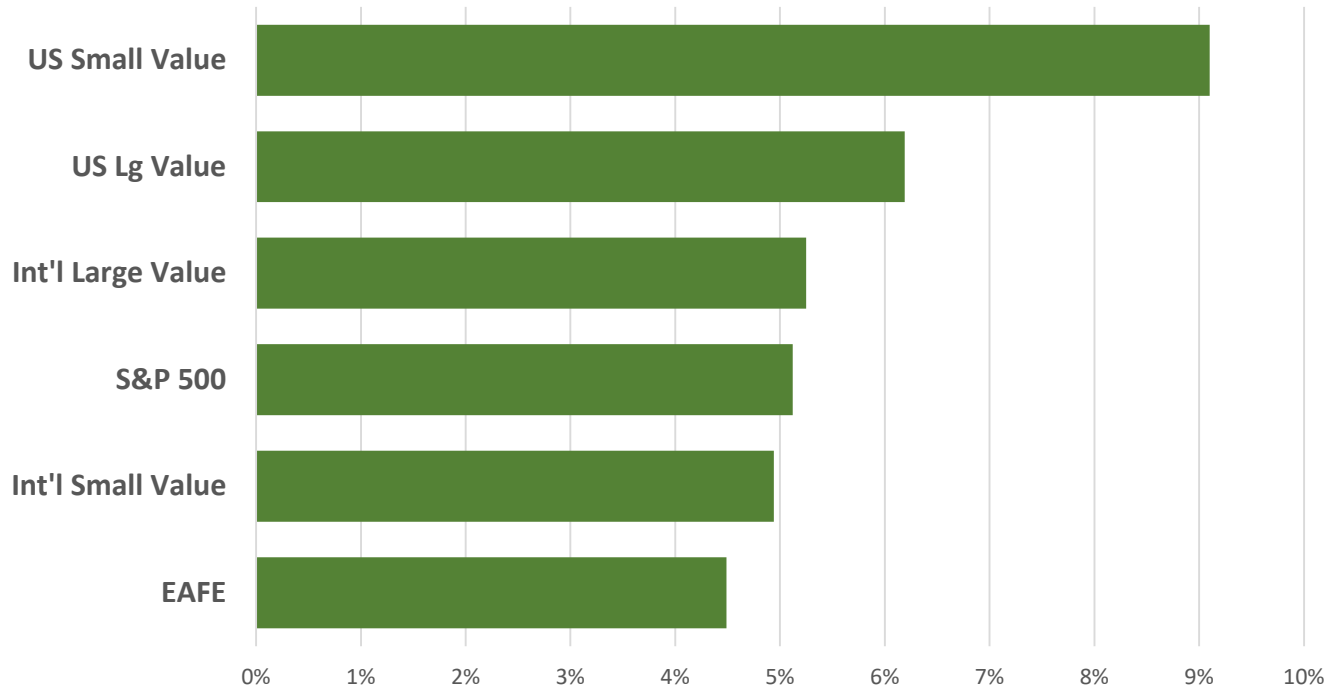


Stock Markets



Stock Markets

Category Performance YTD 2019



Stock Markets

MARKETS

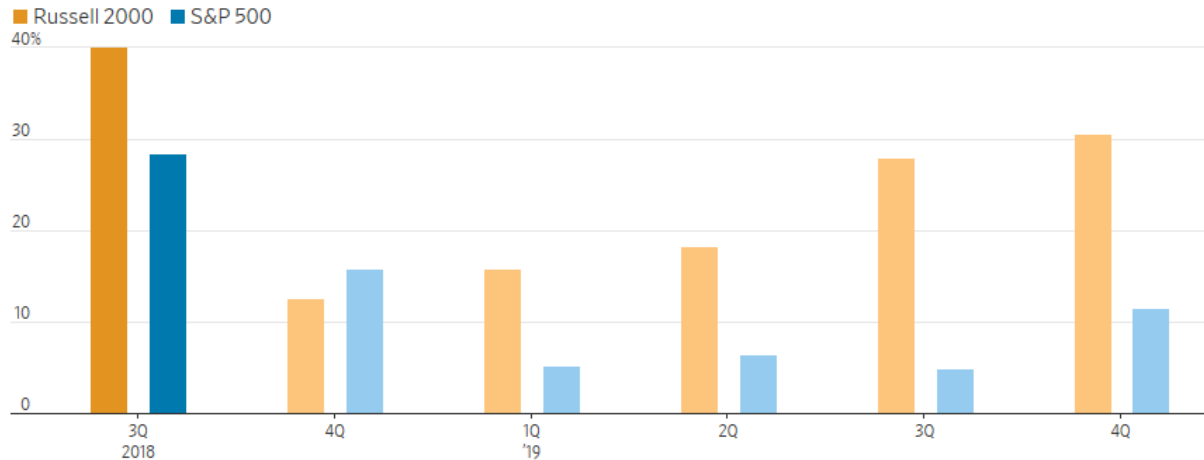
Small-Cap Stocks Take On New Shine as Markets Slump

Profits across the Russell 2000 are seen growing nearly 16% in quarter, far outpacing earnings growth for

Small but Mighty

Profit growth of Russell 2000 companies is set to outpace that of S&P 500 firms in 2019.

Earnings growth, change from a year earlier



Note: Data for fourth quarter 2018 and beyond are estimates.

Source: Refinitiv



Headwinds

- Decaying social cohesion around the world
- Slowing world growth
- Trade wars, tariffs,
- Brexit
- US government shutdown
- Federal Reserve policy



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Headwinds

The buzz at Davos

Seth A. Klarman, in a 22 page letter to investors, said:

“It can’t be business as usual amid constant protests, riots, shutdowns and escalating social tensions,”

(however)

“since the worst does not frequently happen,

you cannot let the fear of a monster storm completely paralyze you.”

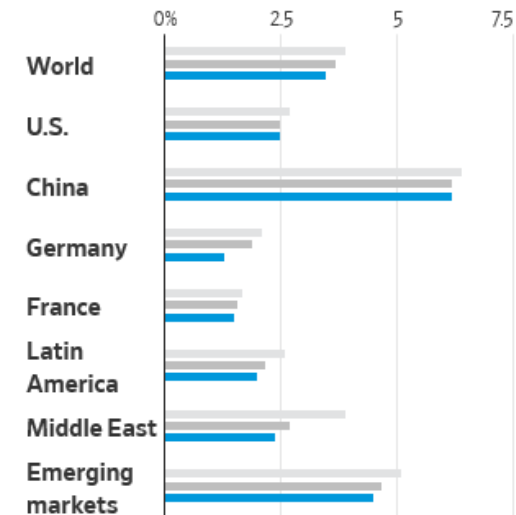


Headwinds

- International Monetary Fund (IMF) growth projections
- Lowered global growth projection from 3.7% to 3.5%, citing:
 - Risk of a no-deal Brexit
 - Risk of escalating trade wars, esp. between US and China
 - US government shutdown
- IMF Mng Director, Christine Lagarde:
 - *“Does that mean a global recession is around the corner?”*
No.”

Forecasts for real GDP growth in 2019

■ July ■ October ■ New forecast



Source: International Monetary Fund

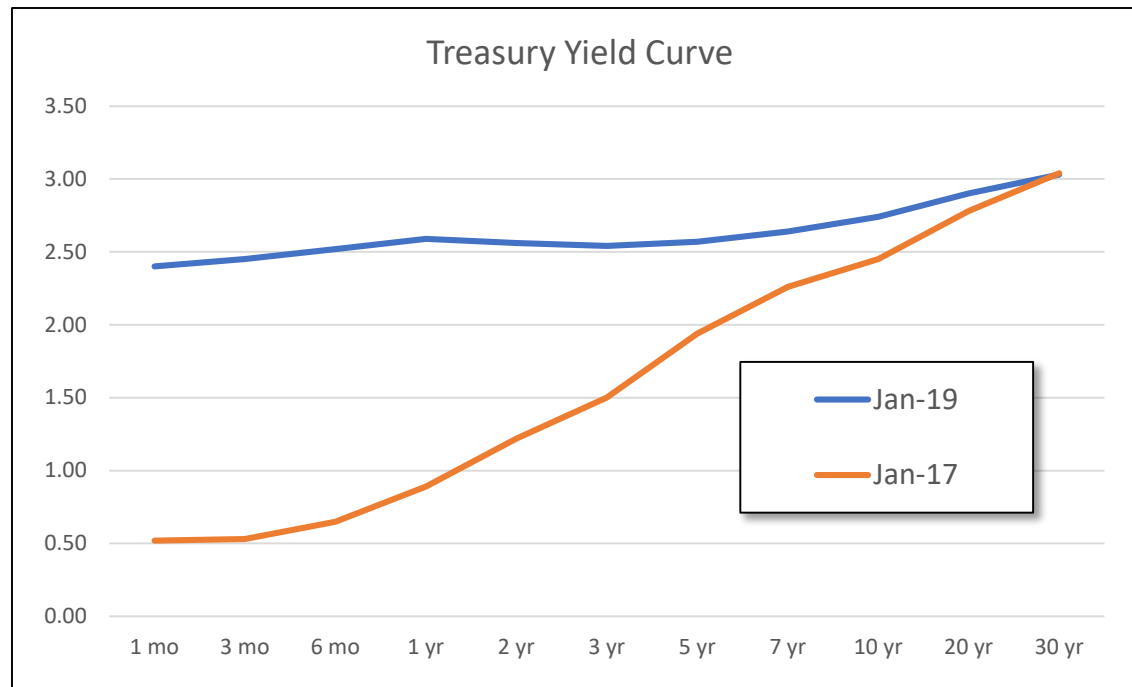
Headwinds

- Federal Reserve policy
- Raised Fed Funds rates four times in 2018 to 2.25%- 2.5%
- In response to market turmoil . . .
- Fed lowered its projected rate increases in '19 from 3 to 2
- Fed Chairman Powell said the Fed would take a “patient” approach to raising rates and unwinding its balance sheet, being “sensitive” to market signals
- Markets rallied on Powell’s comments



Headwinds

- And speaking of the Fed, what about the risk of an “inverted yield curve”?



Headwinds

- Brexit: will it be a “hard” Brexit or soft?
- Brexit: another referendum?
- US government shutdown, now in its 32nd day, the longest ever . . . and counting
- Impact on economy is and will be real, with many ripple effects
- How much longer? Is there movement toward compromise?



Muddling Through

- 2010 First Greek Debt Crisis
- 2012 Second Greek Debt Crisis
- 2013 the “Fiscal Cliff”
- 2013 government shutdown (16 days)
- 2013-14 Ukrainian Crisis
- 2015 Chinese stock market crash
- 2016 Brexit vote



Muddling Through

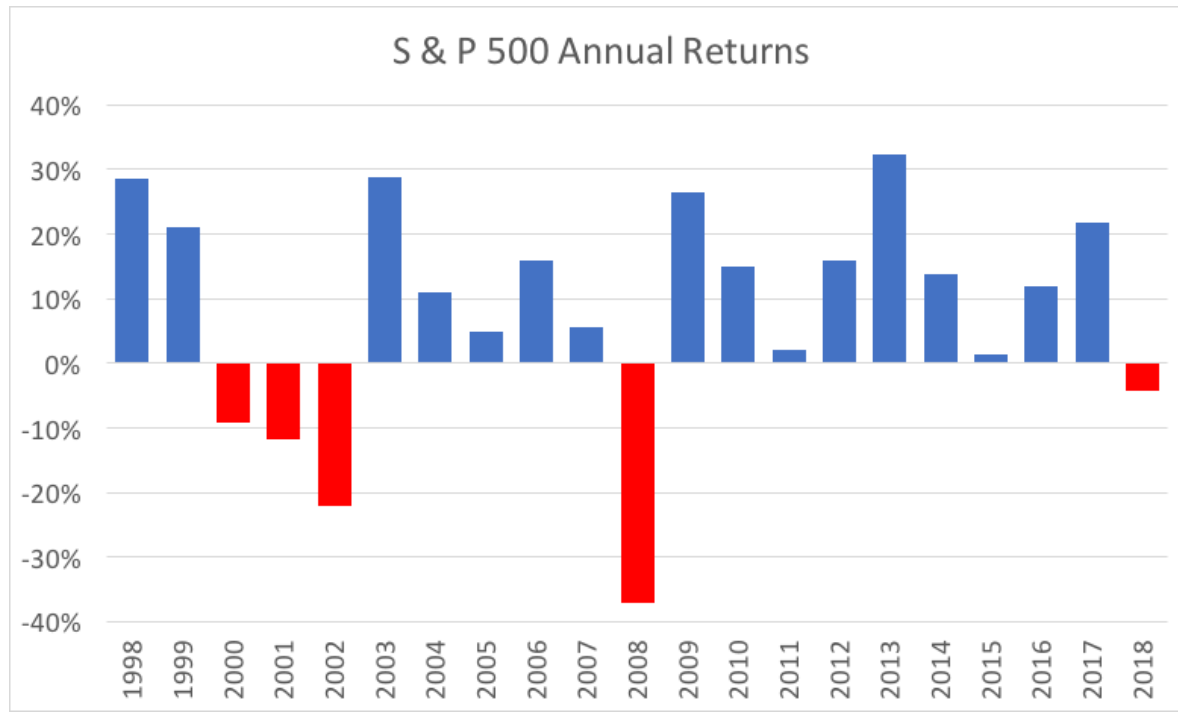
Paraphrasing Churchill:

US and global policymakers tend to do the right thing in the end, but only after exhausting every other possibility . . .



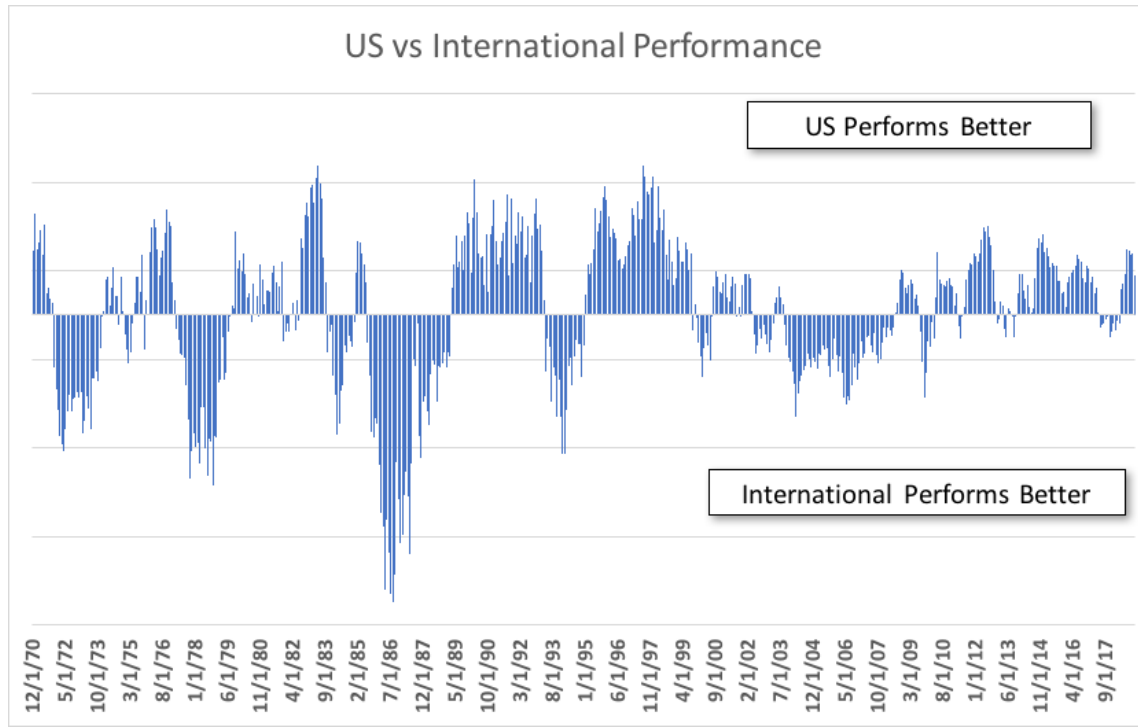
Global Landscape Going Forward

- 2018 was the “worst” decline in a decade, also the “first” decline in a decade.



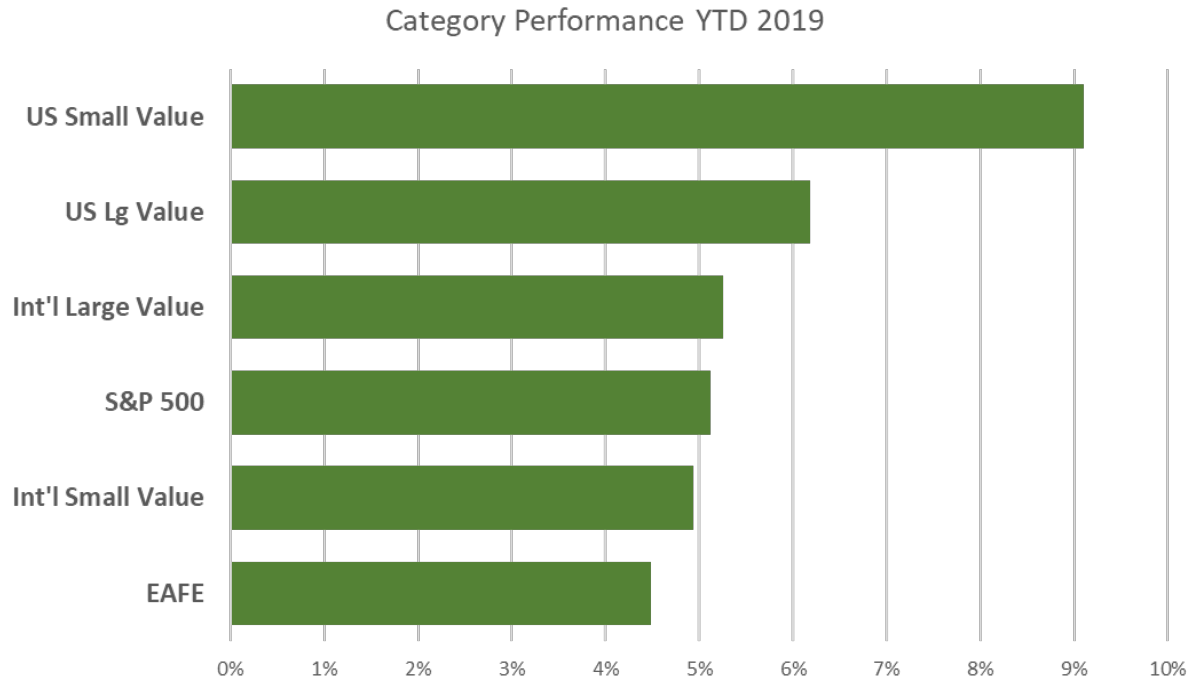
Global Landscape Going Forward

- It may be time for a shift in market leadership:
US versus International markets.



Global Landscape Going Forward

- It may be time for a shift in market leadership:
Large versus Small and Growth versus Value.



Focus on the Deep Regularities

- Human beings are fundamentally growth-seeking and resilient, as a consequence of which
- The U.S. and world economy are ultimately resilient and biased toward growth, thus
- The stock market, which represents ownership of the productive assets of the economy, is biased toward growth over the long run.
- Finally, the workings of the economy and markets are too complex and chaotic for short-term prediction.

Summary

- 2018 was a challenging year in the markets, but completely in line with long-term norms
- We face many policy headwinds in 2019, many self-inflicted.
- History suggests that policy-makers will muddle-through in the end, though not without some turmoil
- Trends in earnings suggest a shift toward small-company and value stocks may be coming
- Global diversification is still justified by the diversity of economic conditions worldwide
- Resilience is the watchword



Questions or Comments?

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