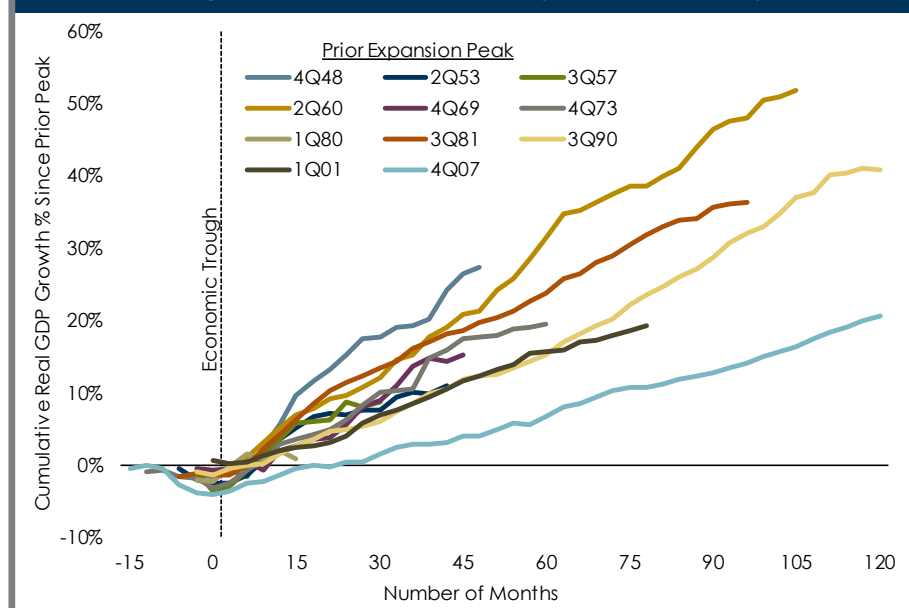


## US

- **1Q-19 Real GDP grew at an annualized rate of 3.1%**, up moderately from initial estimates. The increase in real GDP reflected greater inventory buildup and exports pulled forward amid tariff fears. Forecasts for 2Q-19 are measurably lower, with consensus between 1.5% and 2.0%.
- **Labor conditions remain strong**, with the unemployment rate at 3.7% in June. New job creation has slowed from the pace witnessed in 2018, with average hourly wage increases staying well-contained at 3.1%.
- **Sentiment indicators have softened**, with consumer confidence trending down as forward expectations trail the appraisal of current conditions. CFO surveys of projected CapEx suggest a declining trend, and the level of stock buybacks has now contracted for the first time in seven quarters.
- While taking no action on short-term interest rates, the **Federal Reserve's** messaging turned increasingly dovish. The latest dot-plot showed slightly less than half of the members are expecting at least one rate cut in 2019. The futures market is pricing in at least three cuts over the next 12-months.

### Longest Expansion in US History is Slow & Steady

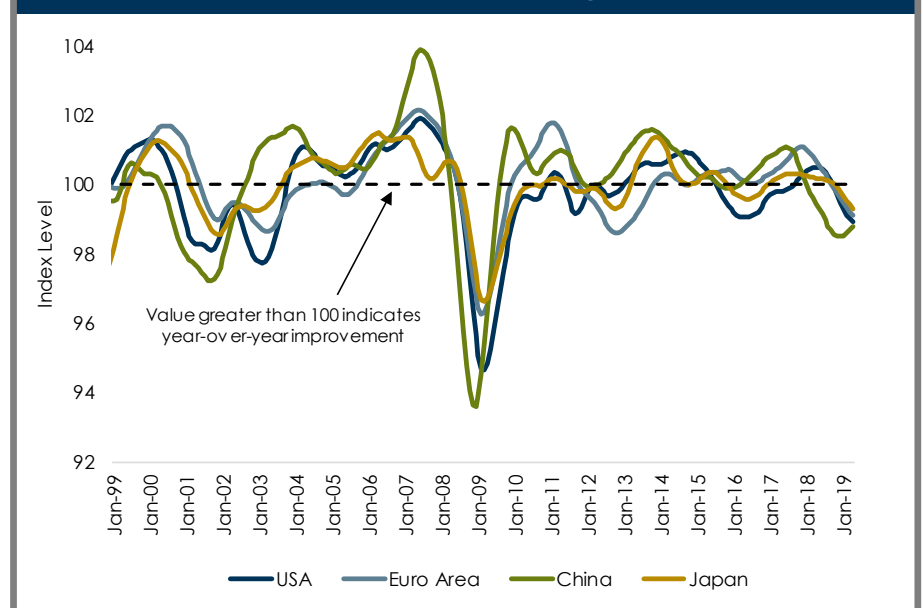


Source: ACG Research, St. Louis Federal Reserve (FRED database), Bloomberg

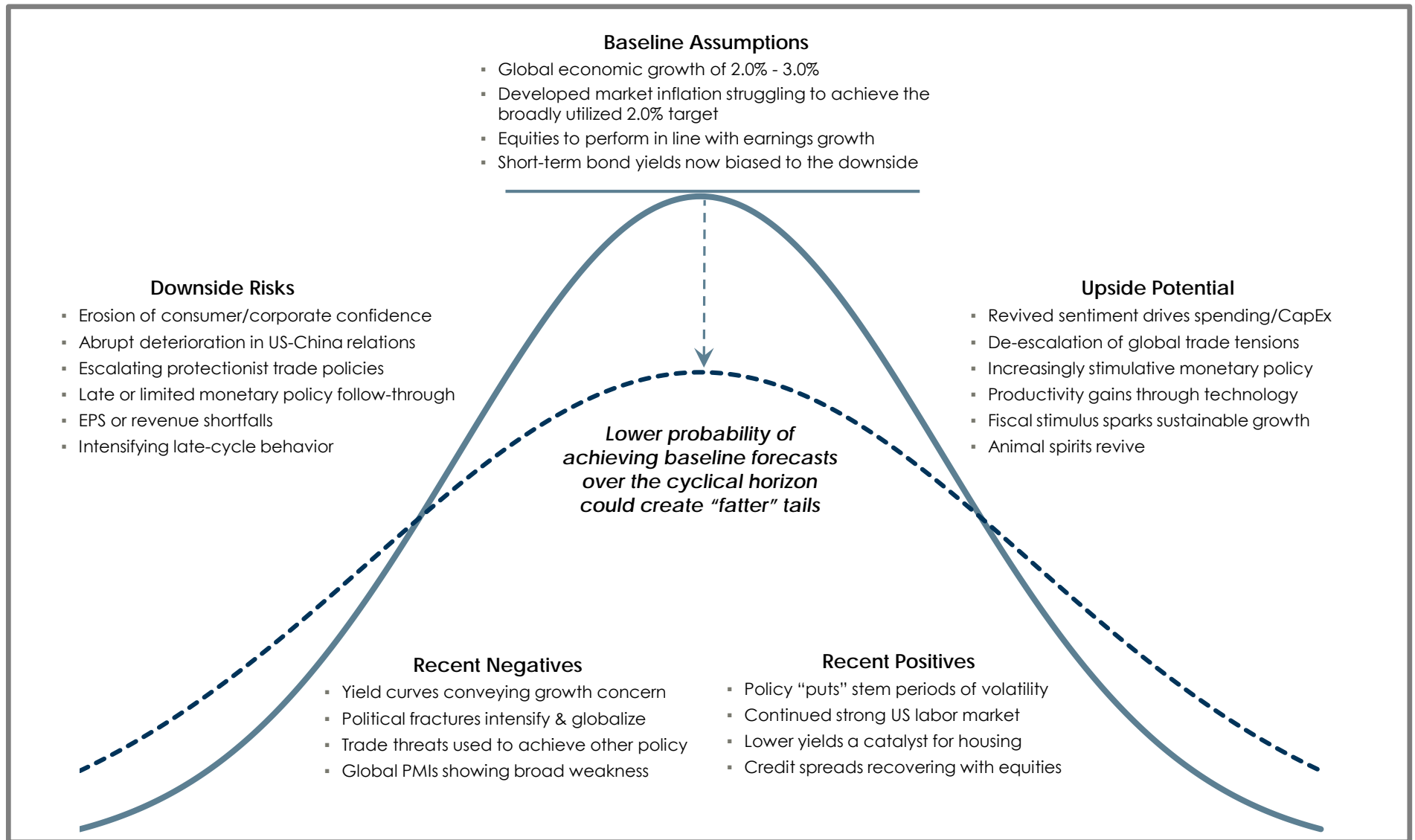
## Global/Non-US

- **Focus on US-China relations** goes beyond unresolved trade/tariff issues. Despite another "truce" agreement at the G20 Summit in late-June, the strategic nature of the rivalry between these global powers could certainly weigh on trend growth and induce periodic bouts of volatility.
- The **European economy continues to show signs of weakness**, most notably as it relates to export-dependent manufacturing and subdued inflation. The ECB's outgoing President Mario Draghi has responded, indicating both an ability and willingness to employ further monetary policy tools.
- **Leading indicators are trending lower** in most major economies. China may still be an exception, as their stimulative policy began in mid-2018 and has continued as President Xi's overarching priority remains the "Chinese Dream" of becoming a high-income country by 2021.
- **Geopolitical tensions** remain a source of potential volatility, as heightened conflict with Iran recently impacted oil markets. The Brexit situation remains fluid, while the Eurozone faces other coordination issues on fiscal policy.

### Widespread Decline In Leading Indicators



Source: ACG Research, Bloomberg



## Investment Themes

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ACG's Investment Committee identifies key themes and portfolio strategies that will drive investment returns **over the intermediate term**. In this semi-annual update, we highlight specific **considerations** and outline recommended **implementation strategies** to enhance risk-adjusted outcomes.

### Growth

- Longest expansion in US history remains slow and steady, even as late-cycle conditions increasingly appear
- Contraction in global manufacturing necessitates ongoing shifts toward a service-based economy

### Yield Environment

- Longer-term rates signaling a shift in global monetary policy, back to an accommodative stance
- Supply/demand dynamics in government debt and liquidity challenges in credit may increase yield volatility

### Inflation

- Labor market tightness intensifies, yet inflation expectations routinely falling short of the common 2% central bank target
- Difficult to fully gauge the influence of technology, worker productivity, and global trade policy

### Risk & Uncertainty

- Markets facing long-term constraint from high government debt and secular demographic trends
- Political polarization and rising inequality top the list of persistent big-picture concerns

### Return Expectations

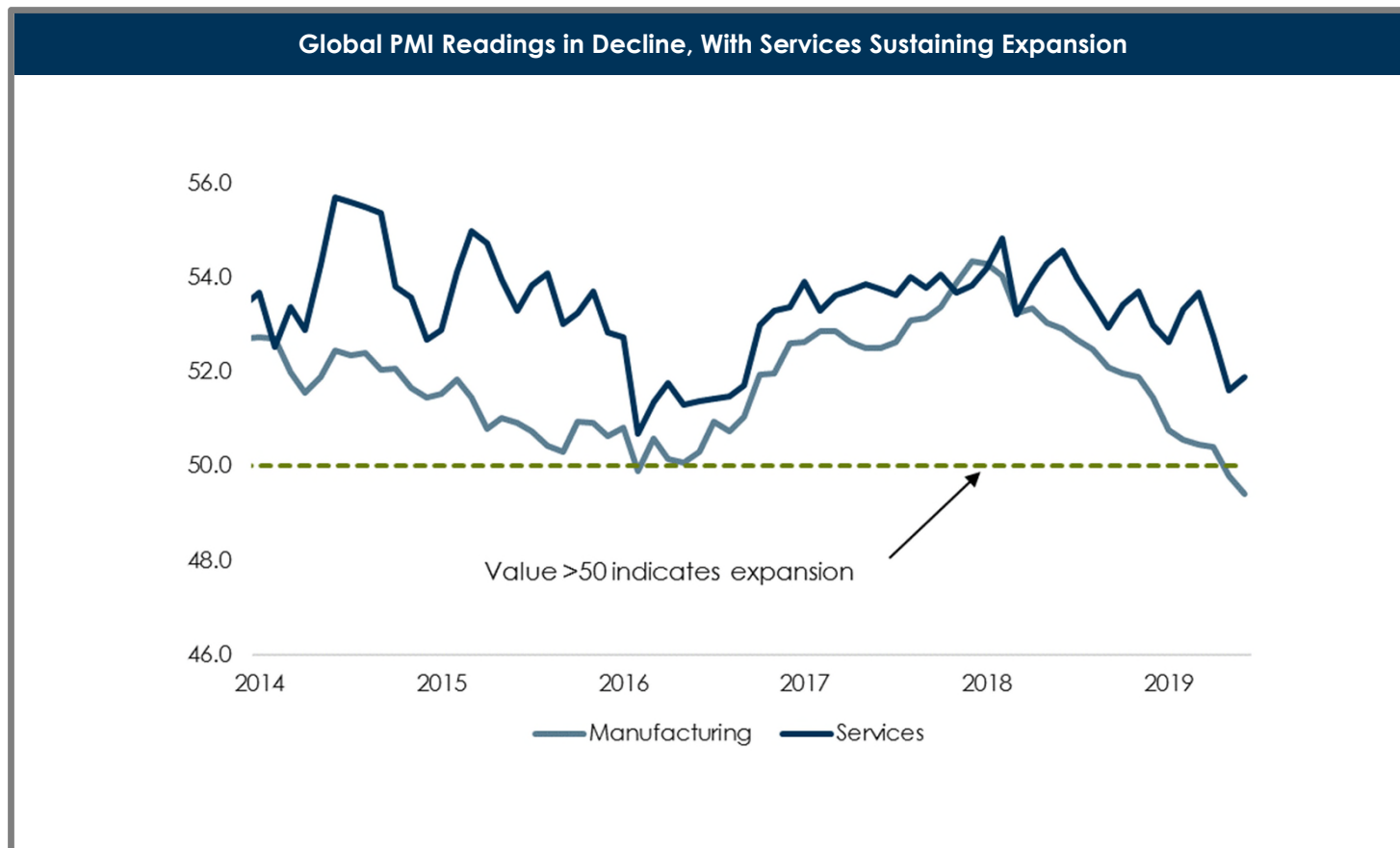
- Portfolio returns to remain below long-term averages given low rates and potentially capped equity valuations
- Potential for increased market volatility puts portfolio diversification at a premium

### Key Considerations

- Late-cycle conditions, 10-year US expansion
- Consumer confidence high but moderating
- Global manufacturing contracting
- Leading economic indicators softening
- China's growth path plays increasing role

### Implementation Strategy

- Maintain long-term strategic allocations
- Passive exposure in efficient markets
- Active/focused/opportunistic in less efficient areas
- High-quality orientation



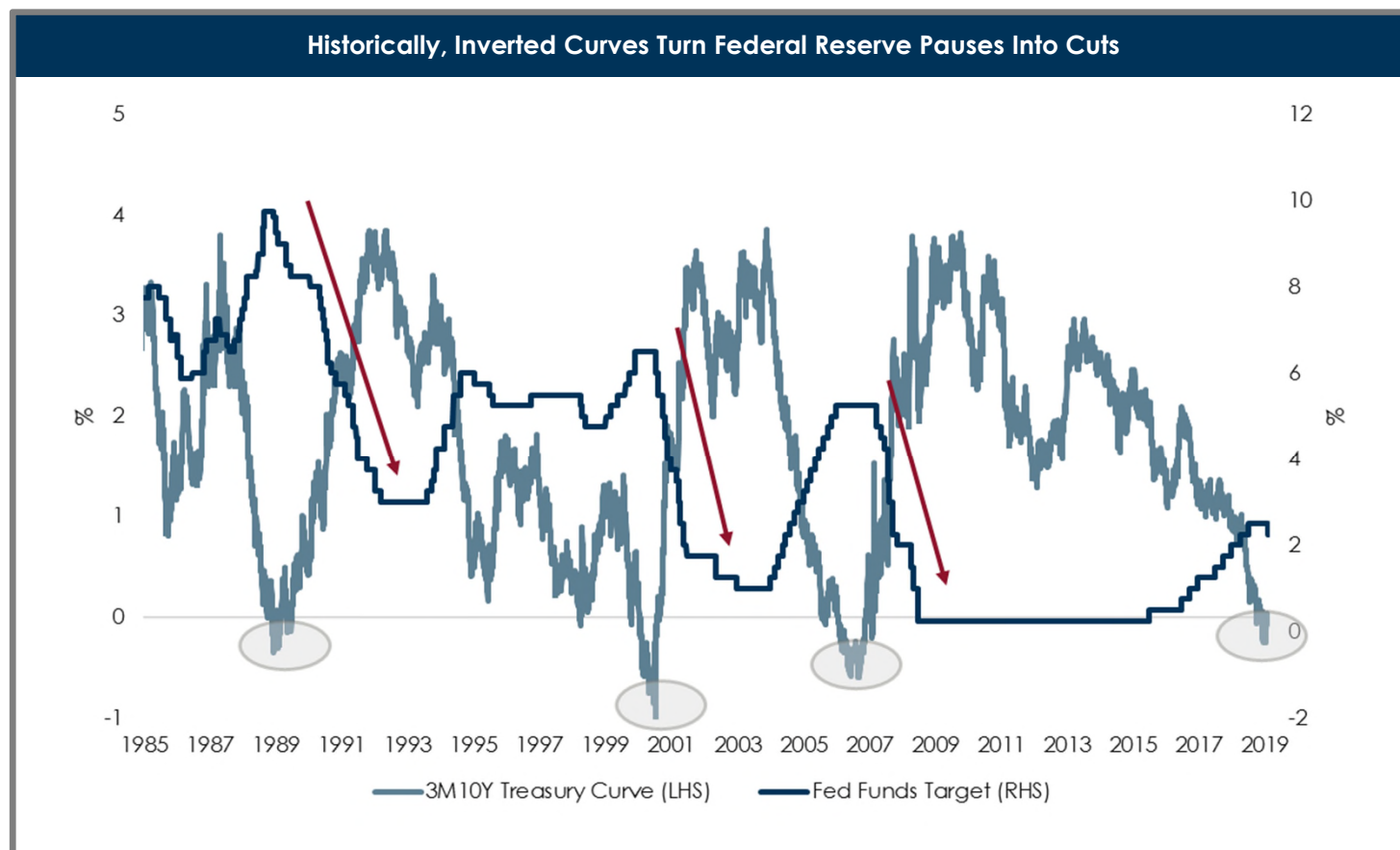
Source: ACG Research, J.P. Morgan Markets

### Key Considerations

- Yield curve flat to inverted (3mo – 10yr)
- Longer-term rates signaling shift in policy
- Futures market expecting rate cuts
- Underwriting standards a late-cycle risk
- Liquidity challenges may increase volatility

### Implementation Strategy

- Maintain high-quality core fixed income exposure
- Shorter-dated assets still provide attractive yield
- Yield enhancement via private debt or opportunistic strategies (e.g. HY, bank loans, EM debt)
- Incorporate "non-traditional" strategies



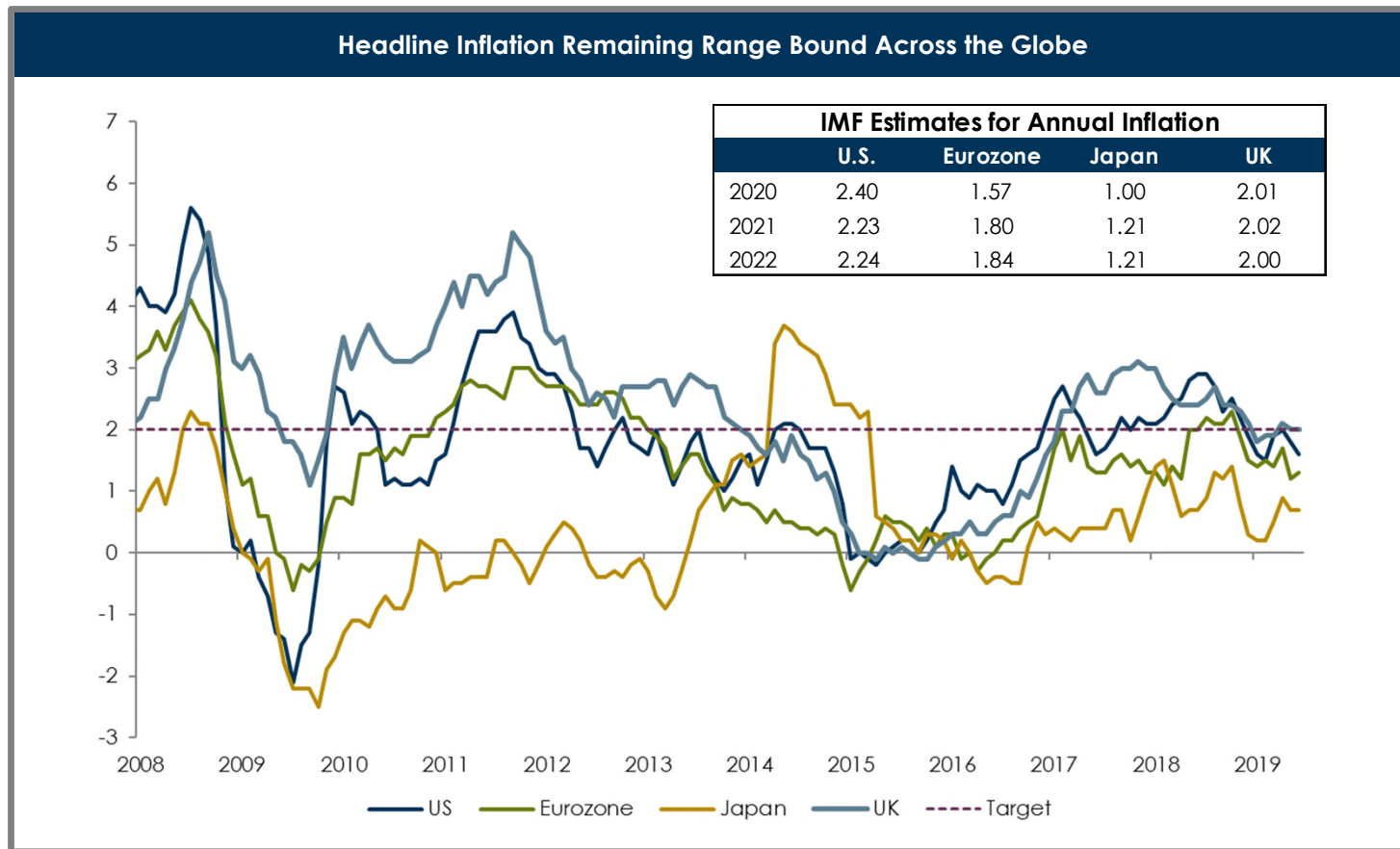
Source: ACG Research, Bloomberg

**Key Considerations**

- Tight labor markets - building wage pressure
- Inflation expectations still falling short of common 2% target
- Uncertain impact of technology, worker productivity, demographic trends, and trade policy

**Implementation Strategy**

- Core real estate – rent escalation
- Short-dated fixed income – positive real yield
- Floating rate securities – protect against surprise
- Active managers with niche alpha strategies



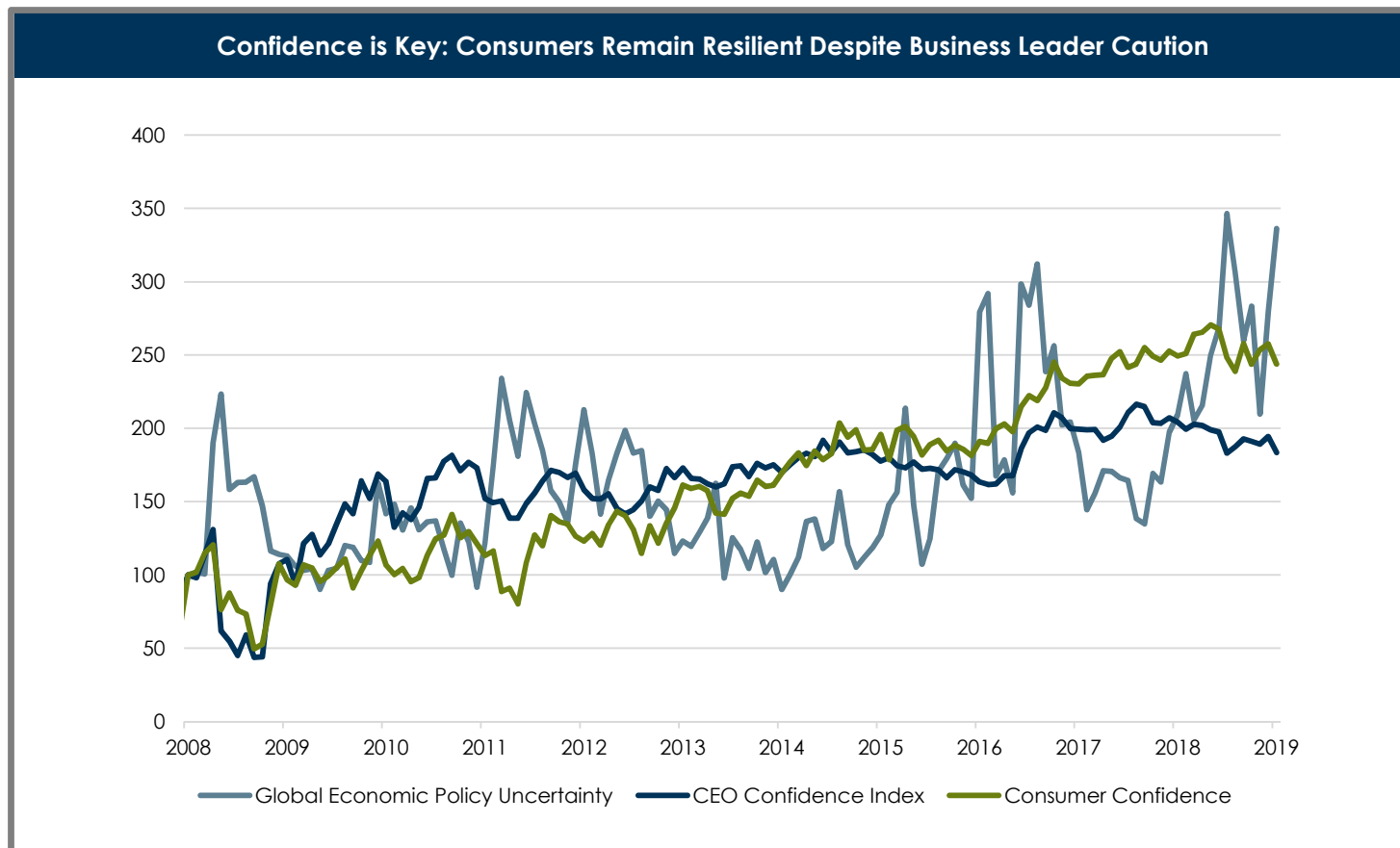
Source: ACG Research, Bloomberg, International Monetary Fund (IMF)

### Key Considerations

- Waning government influence – high debt, demographics
- Trends toward protectionism – trade disruption
- Political polarization and rising inequality
- Immigration, war, climate change, social media, cyber attacks, terrorist activity

### Implementation Strategy

- Global diversification
- Private strategies can limit near-term price impacts
- Enhanced short-term liquidity
- Disciplined rebalancing



Source: ACG Research, Bloomberg

**Key Considerations**

- Portfolio returns to remain below long-term average
- Low rates, potentially capped equity valuations
- Potential for increased market volatility
- Lower correlations between asset classes

**Implementation Strategy**

- Revisit risk tolerance and investment objectives
- Focus on strategic plan vs. tactical shifts
- Employ risk-reducing/hedged strategies
- Maintain liquid and illiquid assets exposure
- Seek active strategies with enhanced flexibility

