

2020 ECONOMIC OUTLOOK AND FINANCIAL MARKET UPDATE

February 26, 2020

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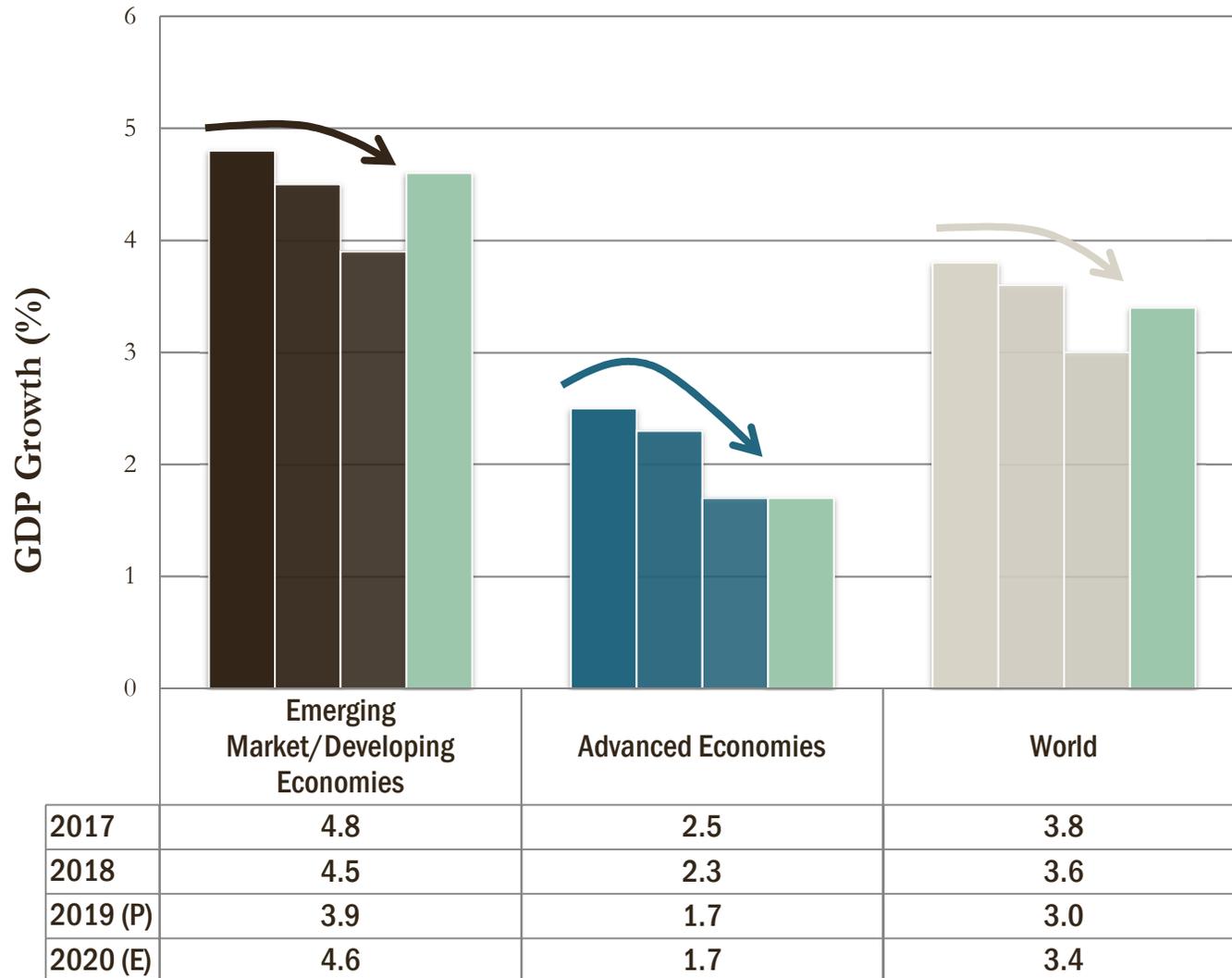
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Commerce Trust Company

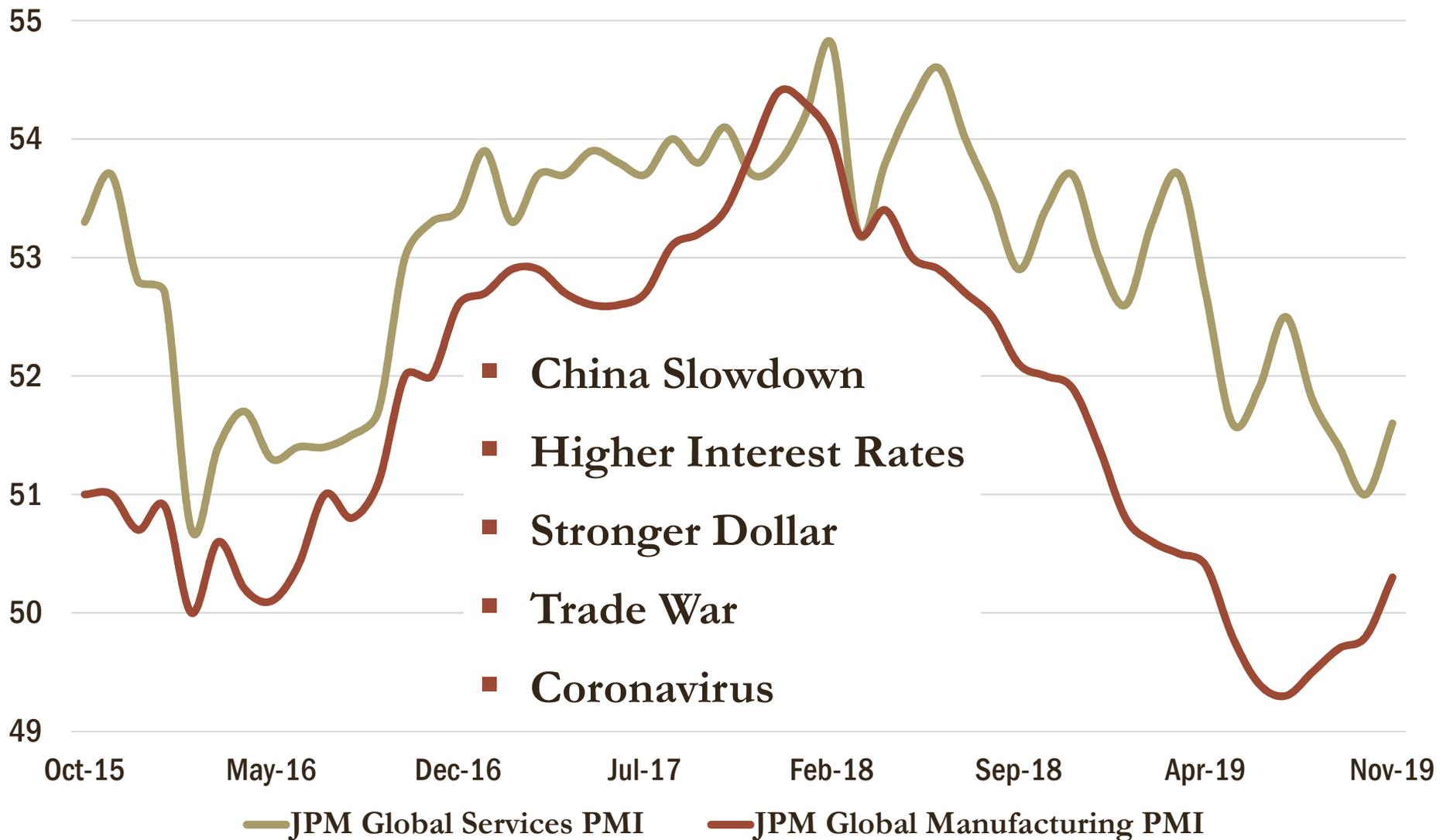
Wealth | Investments | Planning

GLOBAL GROWTH HAS SLOWED



Source: International Monetary Fund

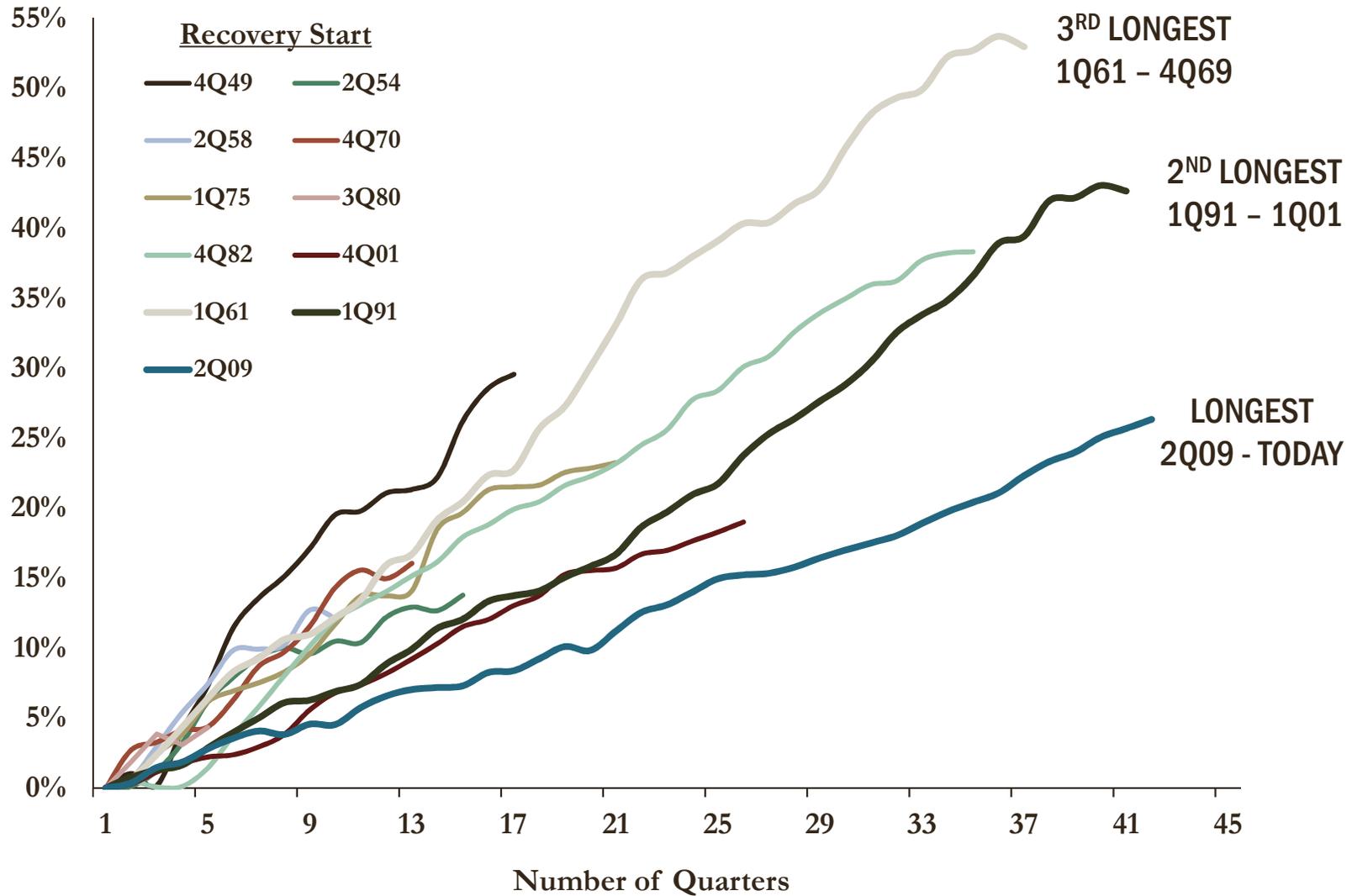
GLOBAL PURCHASING MANAGERS' INDEX INDICATES REBOUND



Source: Bloomberg

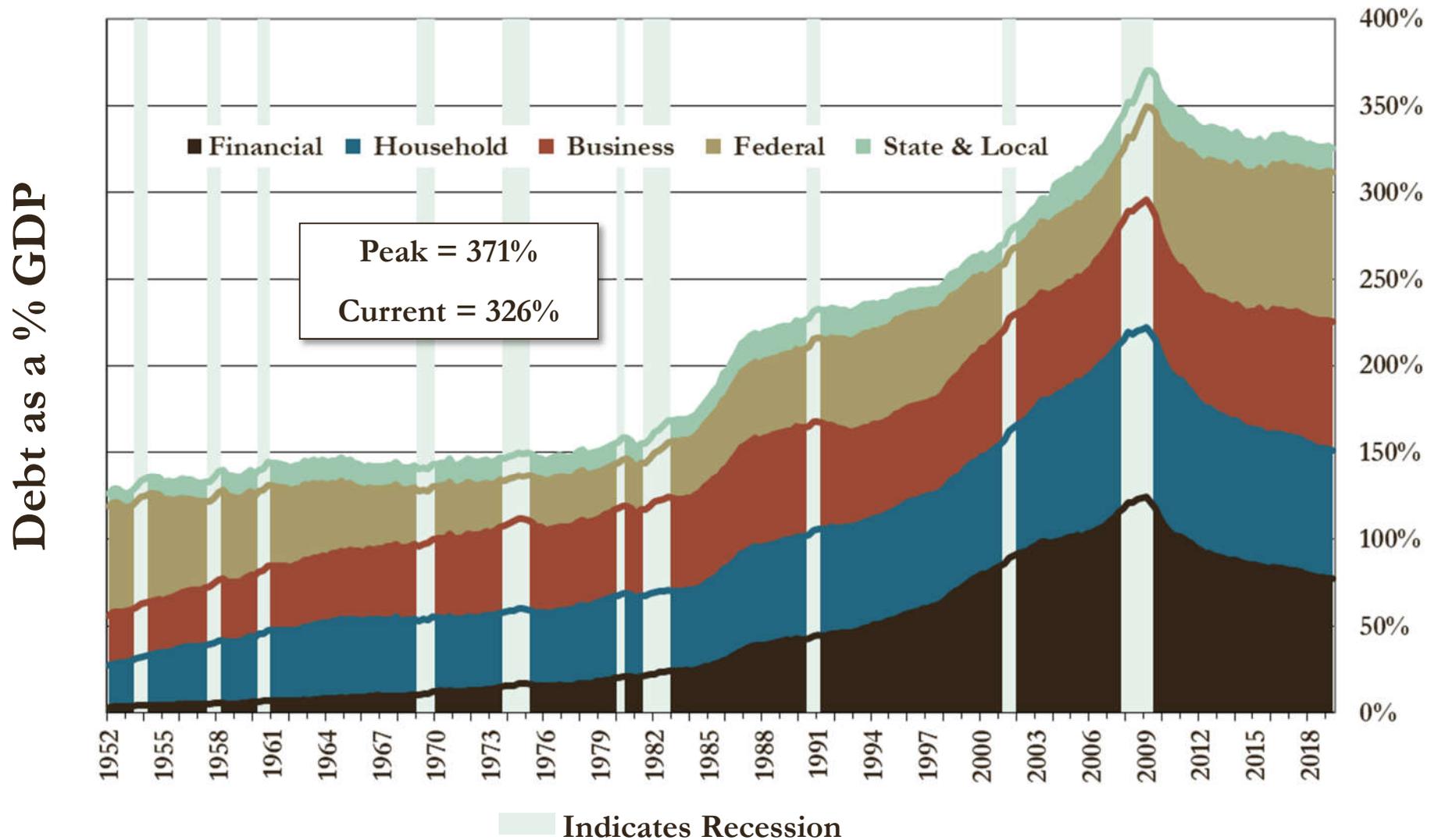
THE LENGTH AND STRENGTH OF EXPANSIONS

Cumulative Real GDP Growth After Recession, Percent



Source: NBER, FRED, BEA, JP Morgan

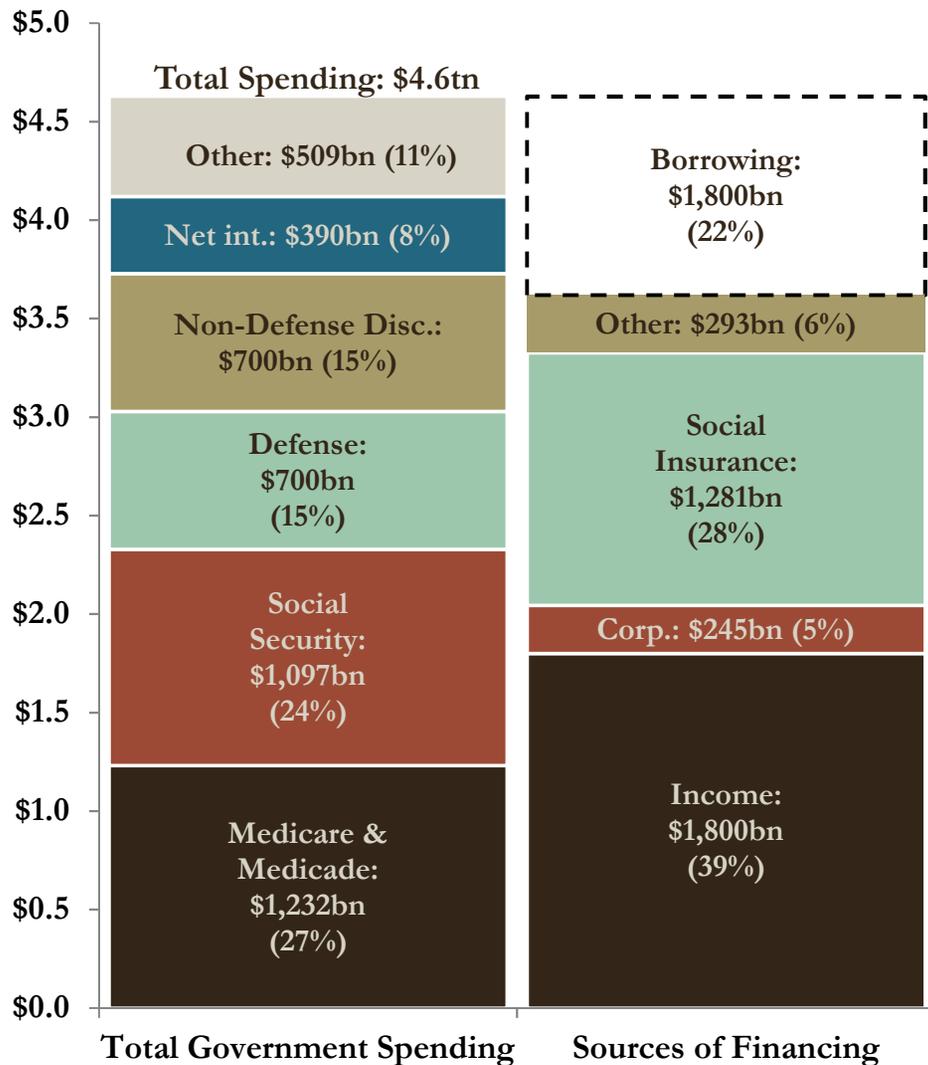
U.S. TOTAL DOMESTIC DEBT – GDP HEADWIND



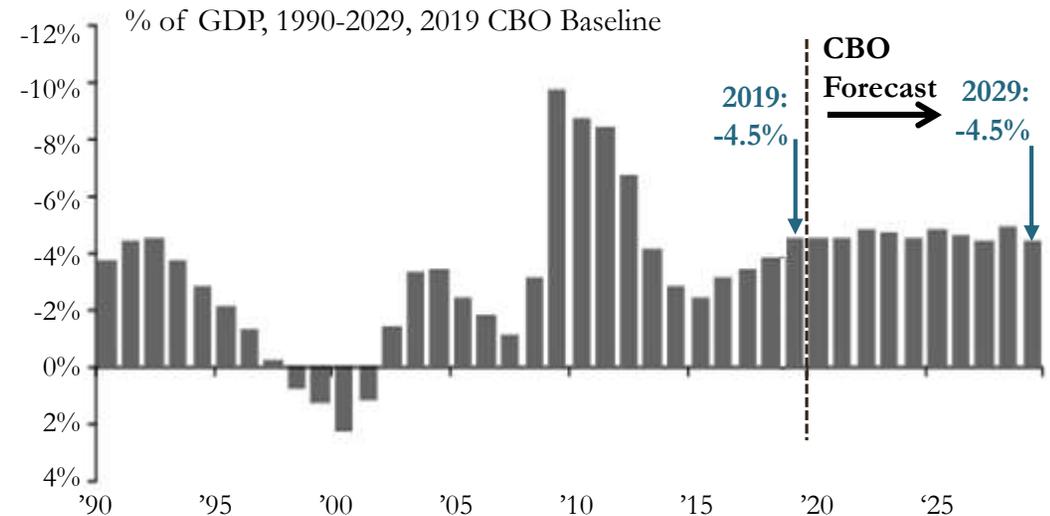
Source: Flow of Funds Accounts, Federal Reserve

LIMITATIONS ON FISCAL POLICY

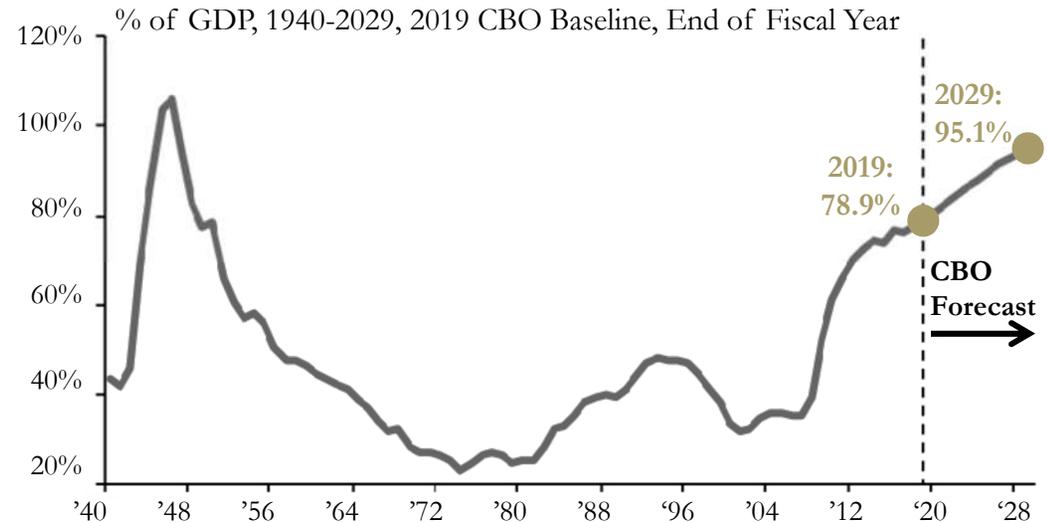
The 2020 Federal Budget, CBO Baseline Forecast, USD Trillions



Federal Budget Surplus/Deficit



Federal Net Debt (accumulated deficits)

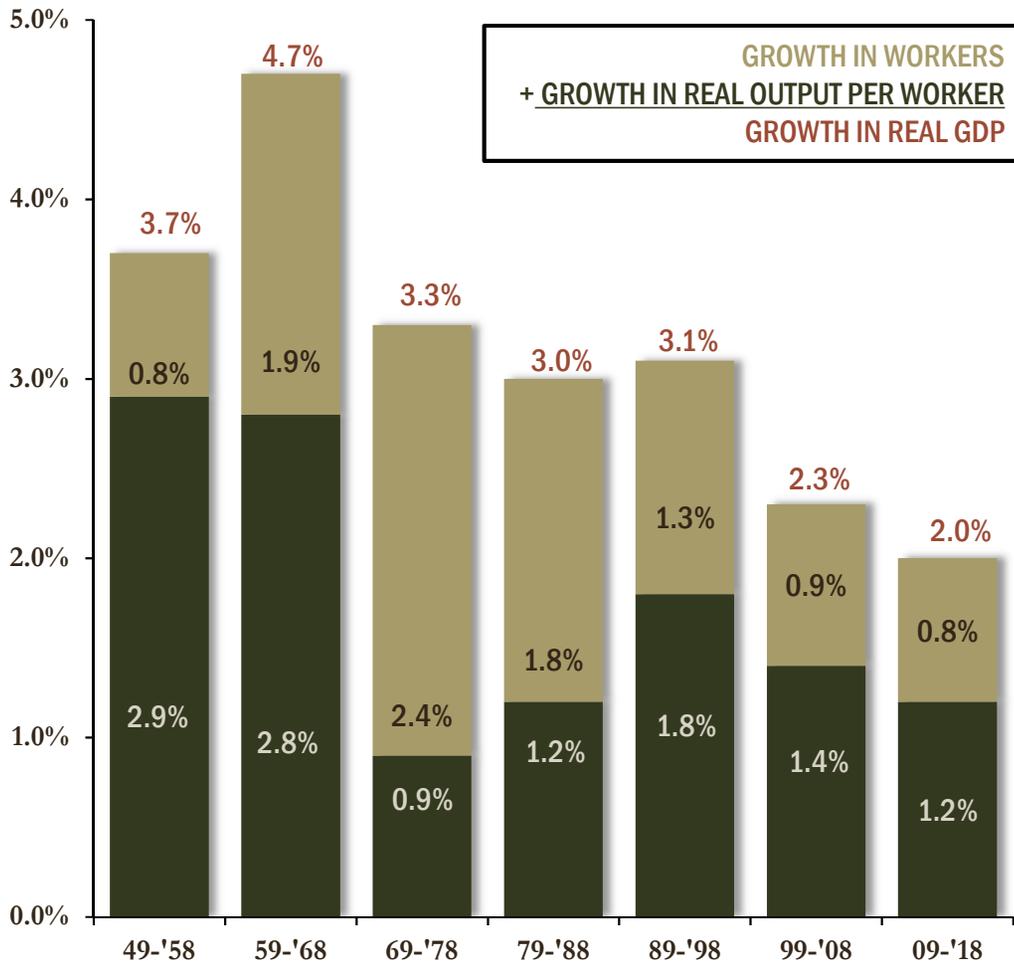


Source: JP Morgan, CBO, BEA, Treasury Dept

DEMOGRAPHICS AND PRODUCTIVITY – DRIVERS OF ECONOMIC GROWTH

DRIVERS OF GDP GROWTH – U.S.

AVERAGE YEAR-OVER-YEAR PERCENT CHANGE



Labor Forces Ages...and Exits

	Median Age	Participation Rate
1994	37.7	62.7%
2004	40.3	65.9%
2014	41.9	62.7%
2024*	42.4	60.9%

*BLS Estimate

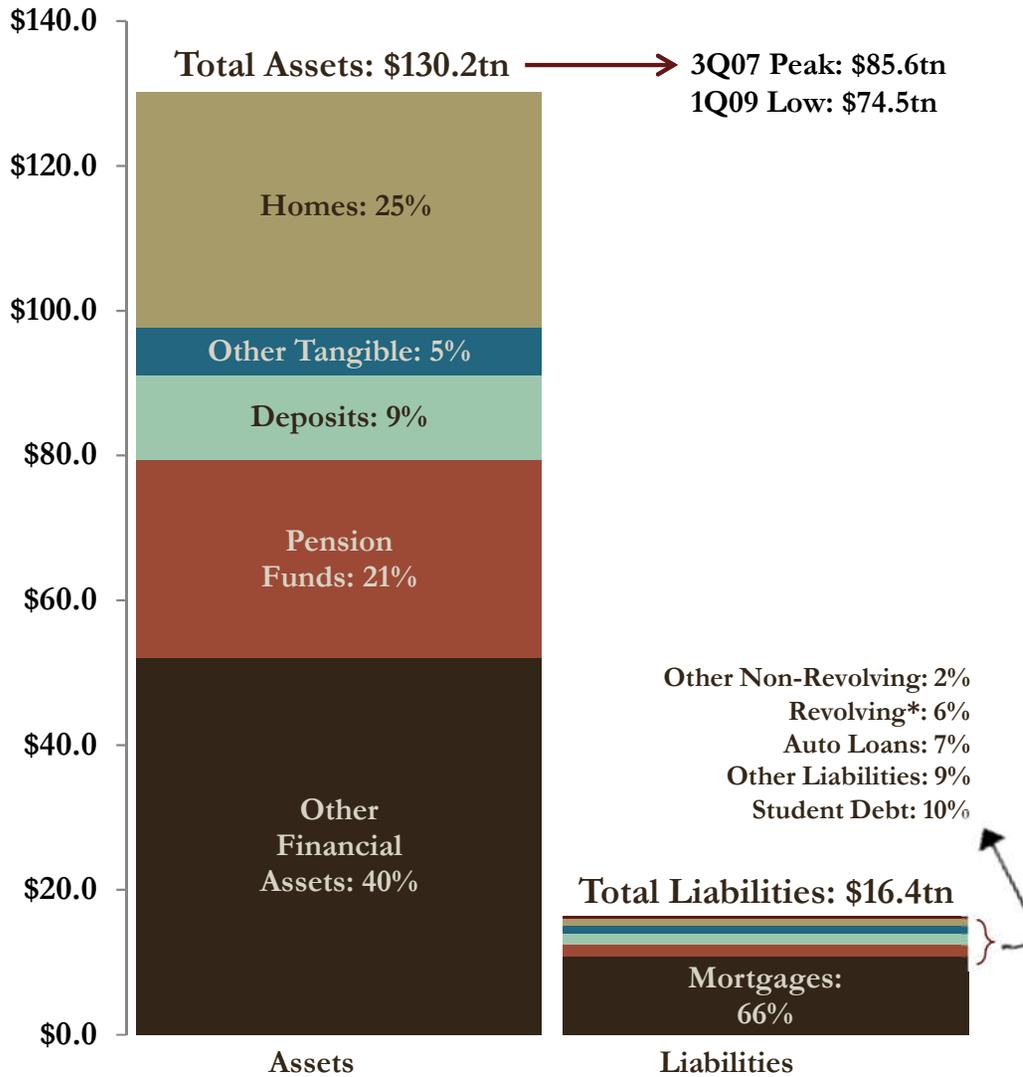
BLS Estimates

Avg Annual Growth 2014-24	
Labor Force	0.4%
Real GDP	2.2%

Source: JP Morgan, Bureau of Labor Statistics

CONSUMER FINANCES – POSITIVE WEALTH EFFECT

3Q19, Trillions of Dollars Outstanding, Not Seasonally Adjusted

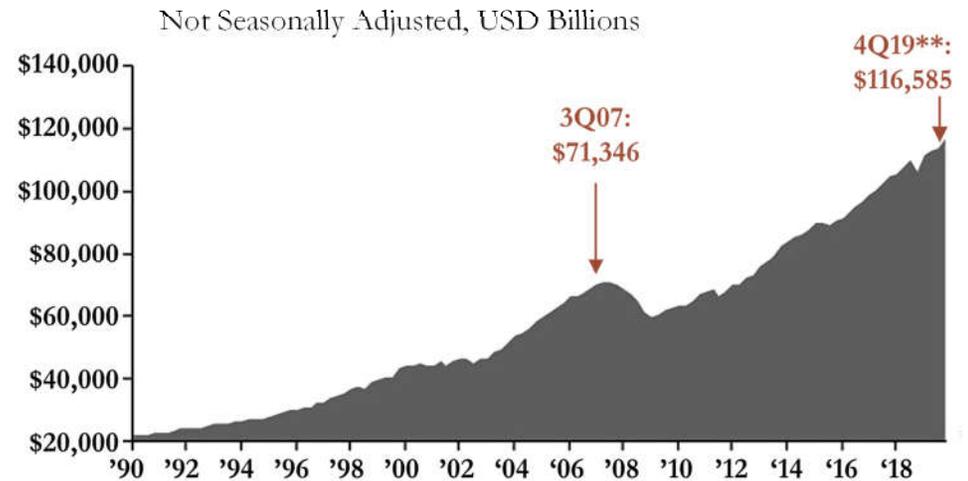


Source: JP Morgan, BEA
*Revolving includes credit cards

Household Debt Service Ratio

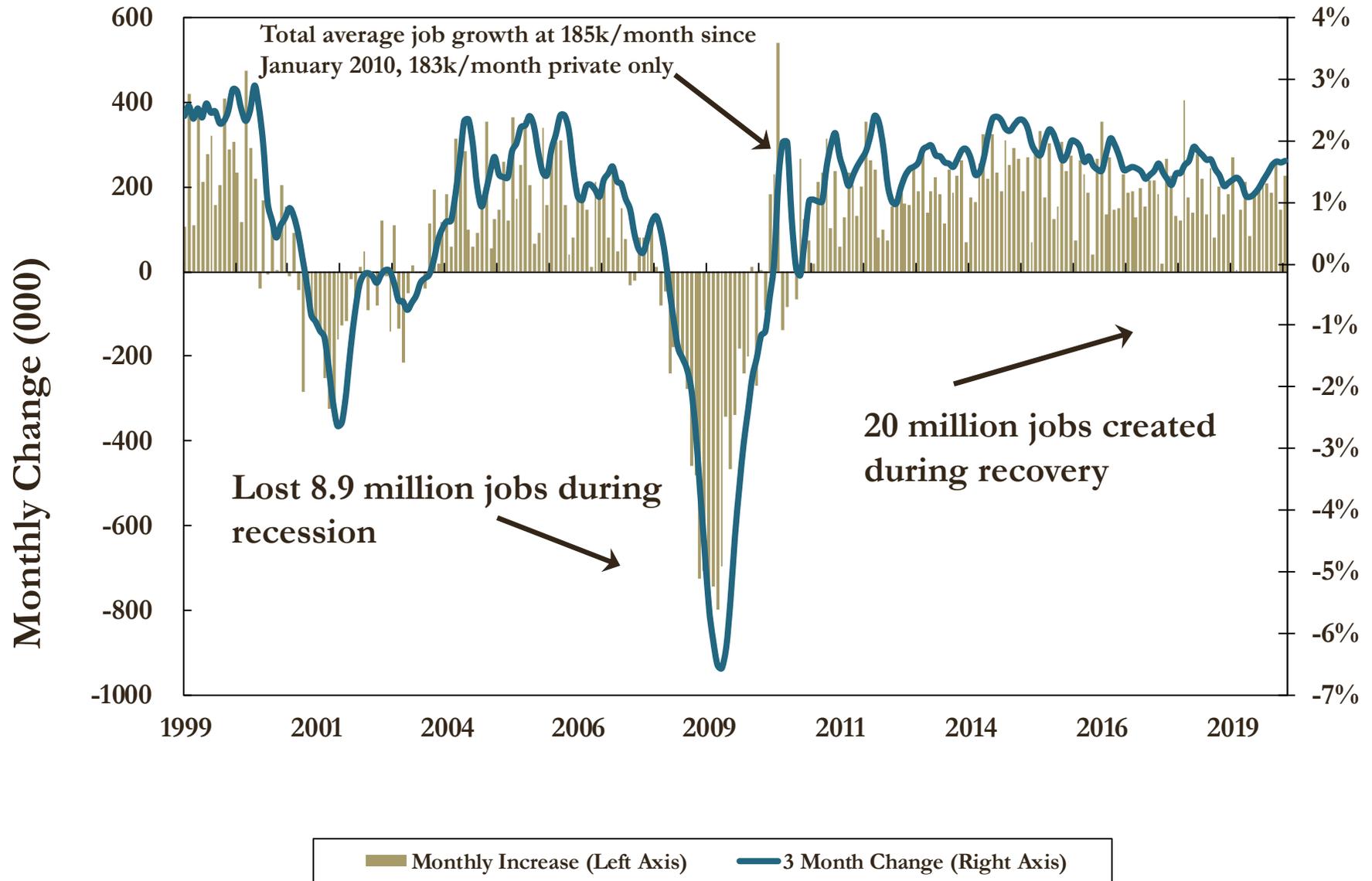


Household Net Worth



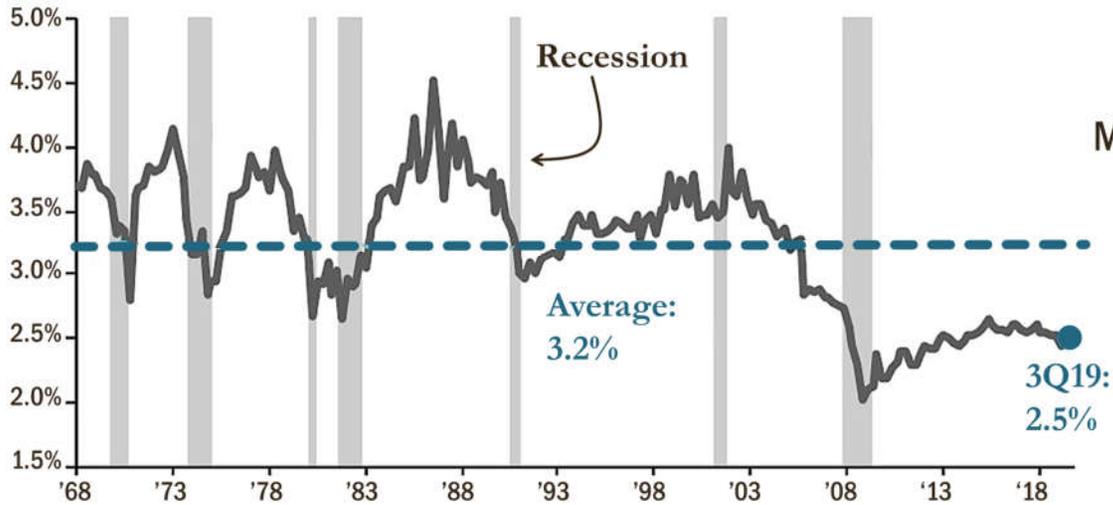
**4Q19 figures for debt service ratio and household net worth are J.P. Morgan Asset Management estimates.

EMPLOYMENT – REMARKABLY RESILIENT



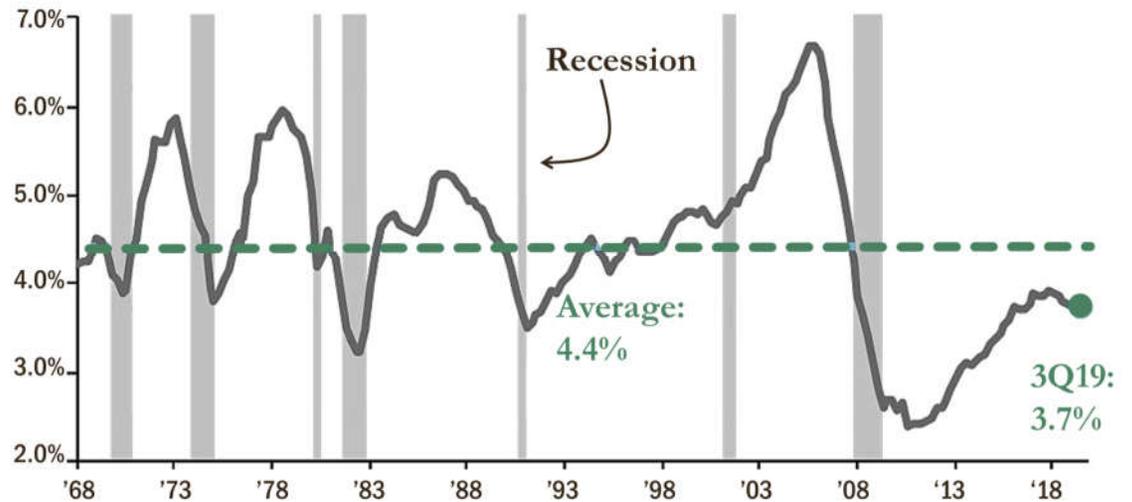
Source: Bureau of Labor Statistics

THE ECONOMIC CYCLE HAS PEAKED



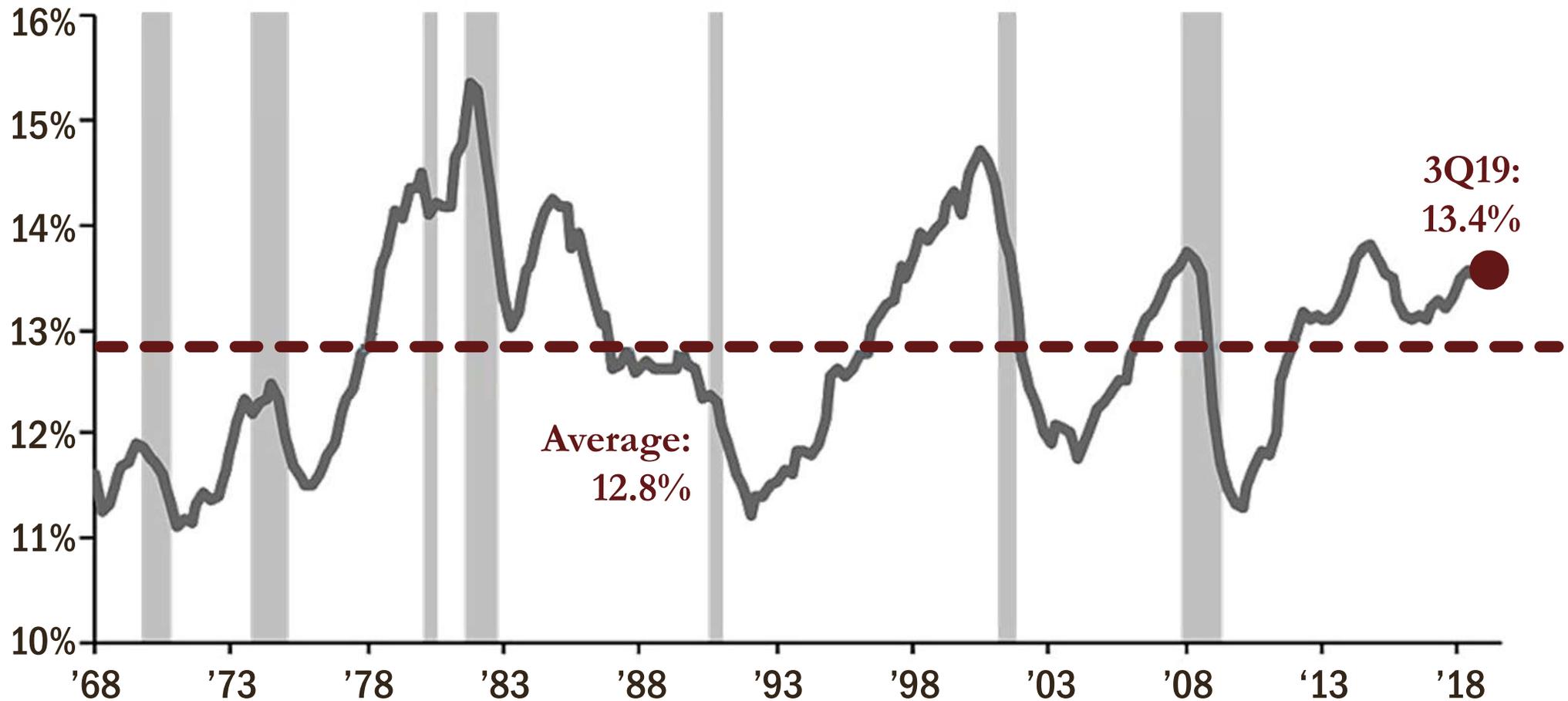
MOTOR VEHICLE AND PARTS CONSUMPTION AS A % OF GDP
Quarterly, Seasonally Adjusted

RESIDENTIAL INVESTMENT AS A % OF GDP
Quarterly, Seasonally Adjusted



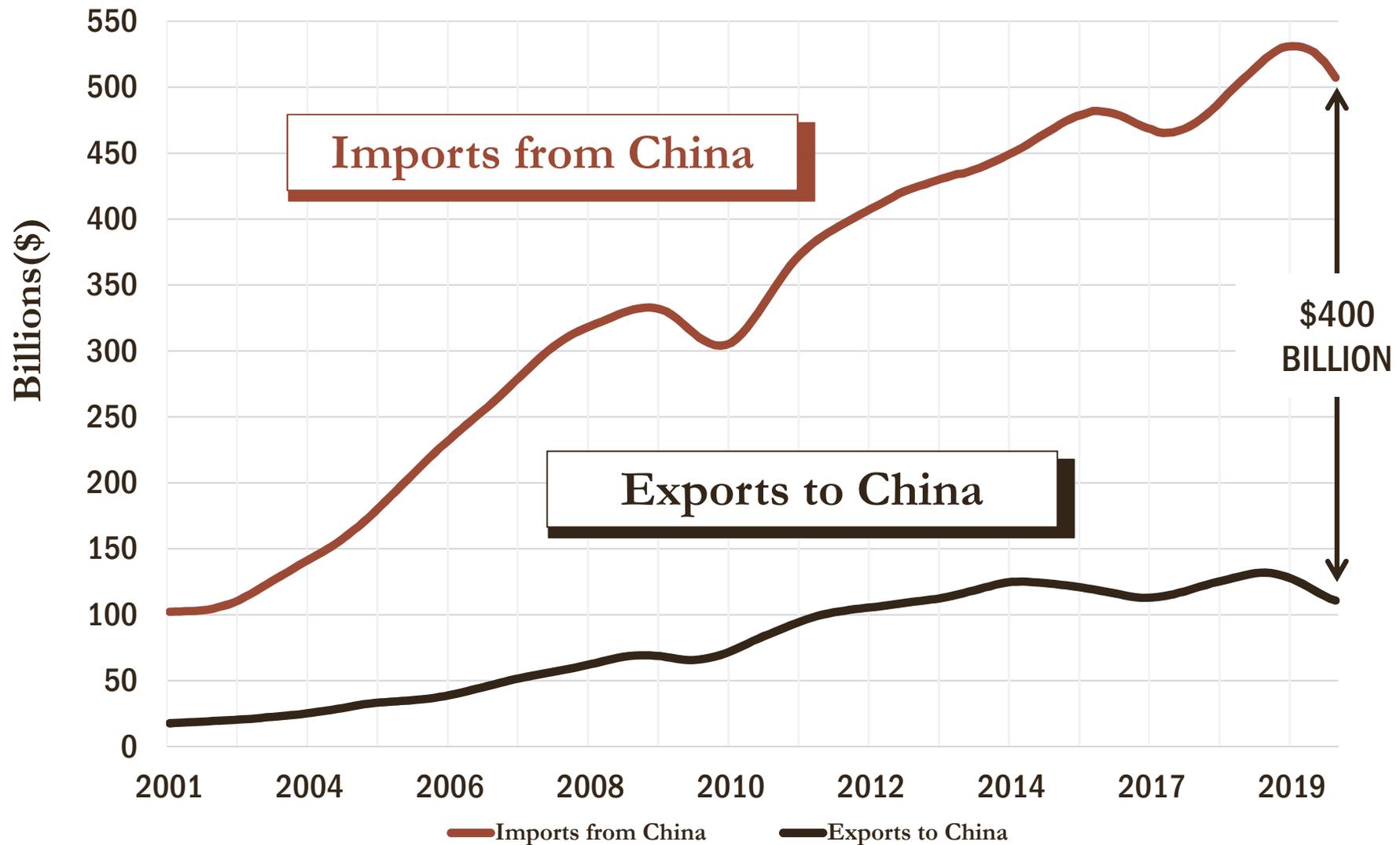
Source: JP Morgan, BEA, FactSet

BUSINESS FIXED INVESTMENT % GDP



Source: JP Morgan, BEA, FactSet

U.S./CHINA TRADE DEFICIT PEAKED AT 2% GDP

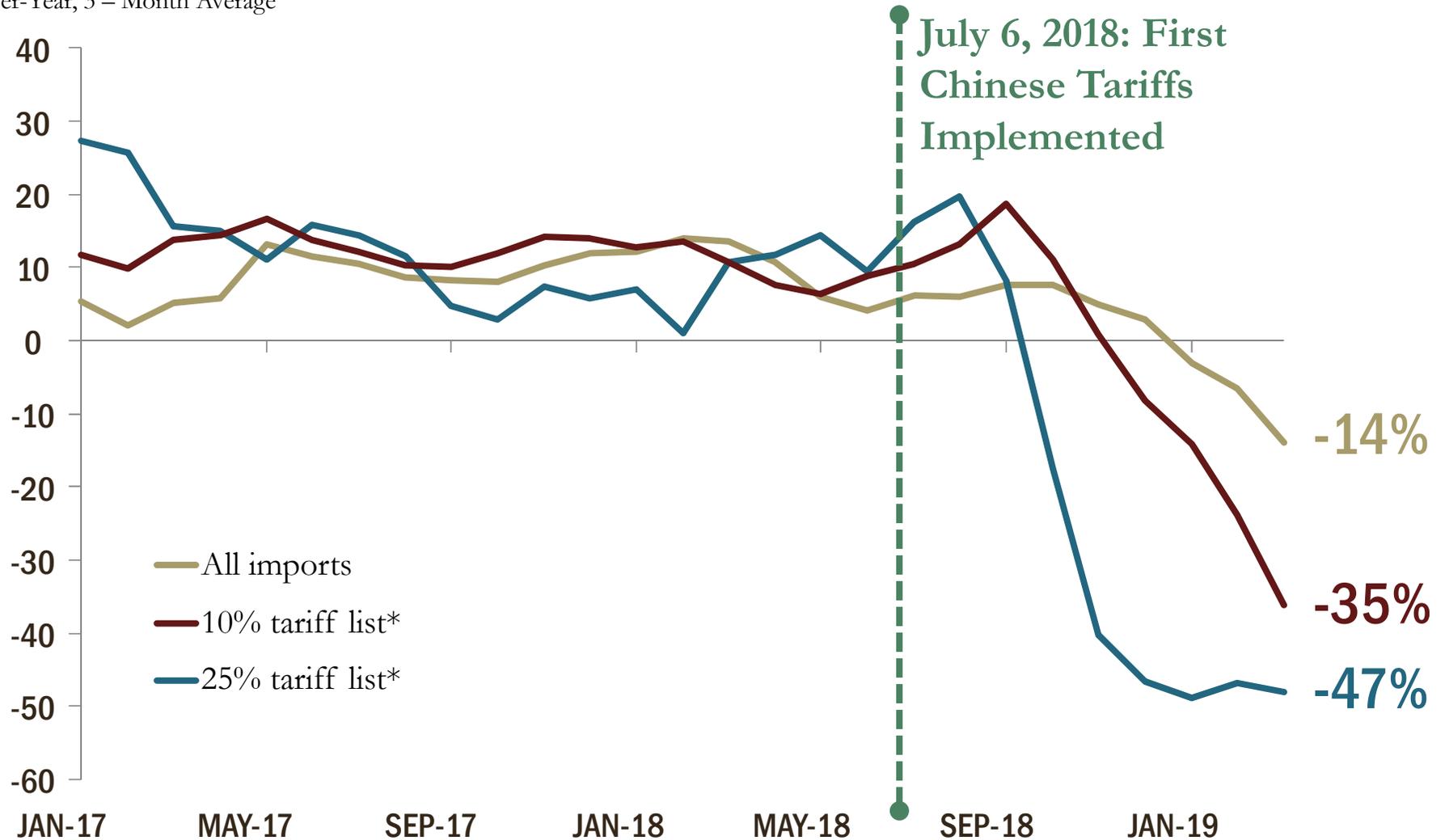


Source: Bloomberg

ESPECIALLY FOR GOODS WITH LARGEST TARIFFS

US: IMPORTS FROM CHINA

Year-Over-Year, 3 – Month Average



* selected sectors

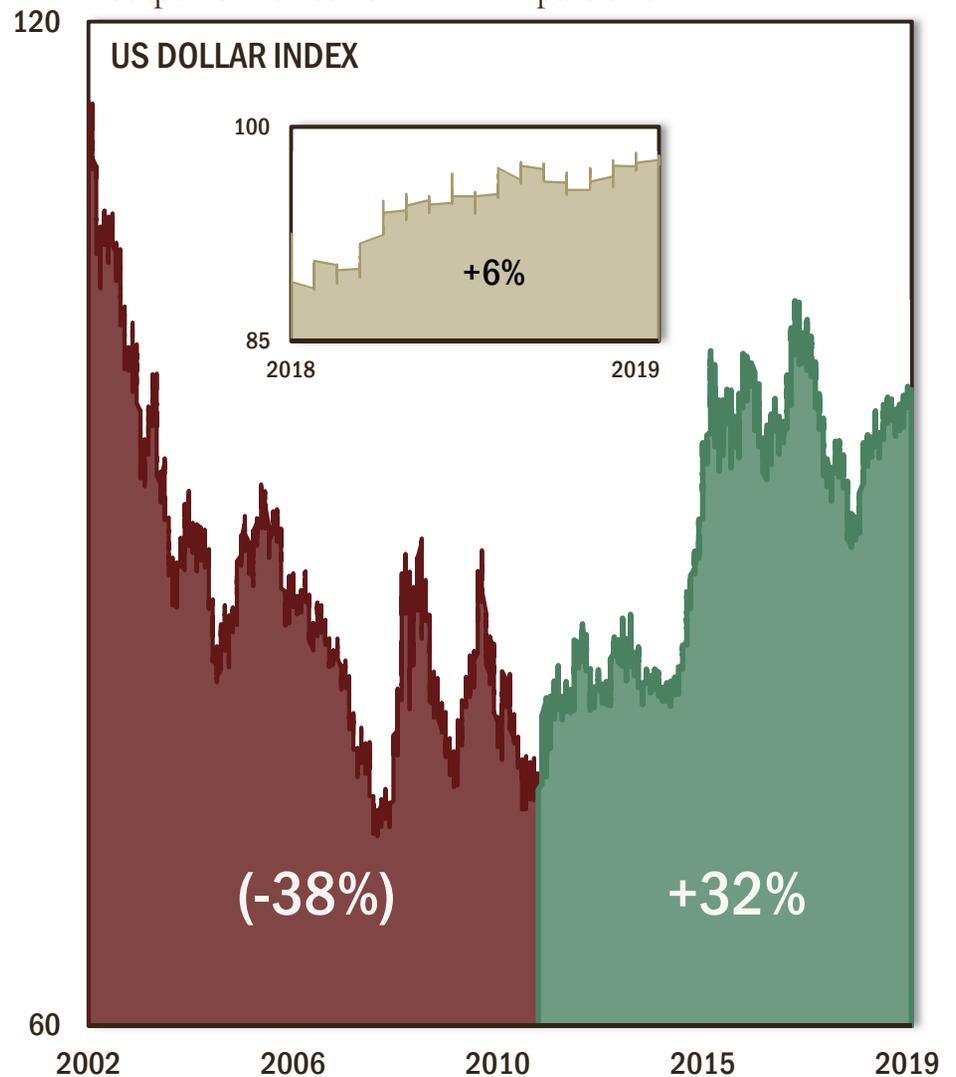
Source: Oxford Economics/US Census Bureau

THE DANGER OF DOLLAR STRENGTH

As we saw in 2015 and 2018, a strong US Dollar creates tightening for a global financial system that is largely US Dollar based.

63%	% of global central bank reserves in US Dollars
40%	% of \$240 trillion of global debt in US Dollars
1/3	Approximate # of 185 global currencies pegged or managed to the US Dollar
>95%	% of global oil priced and traded in US Dollars

Global trade policy escalation will lead to USD outperformance vs EMFX in particular



Source: Deutsche Bank, Bloomberg

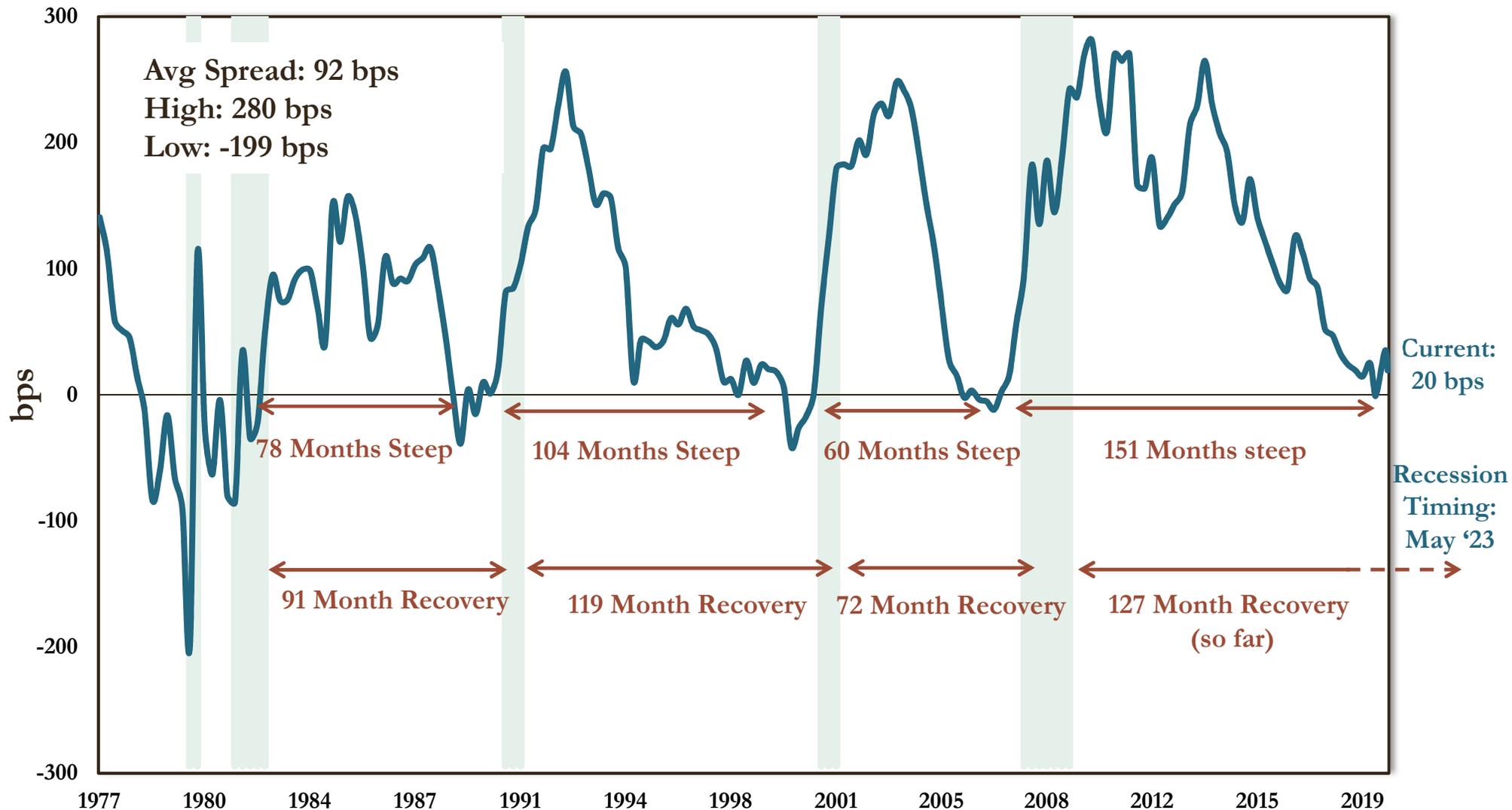
LEADING ECONOMIC INDICATORS – TIMING FOR THE NEXT RECESSION



Source: Bloomberg

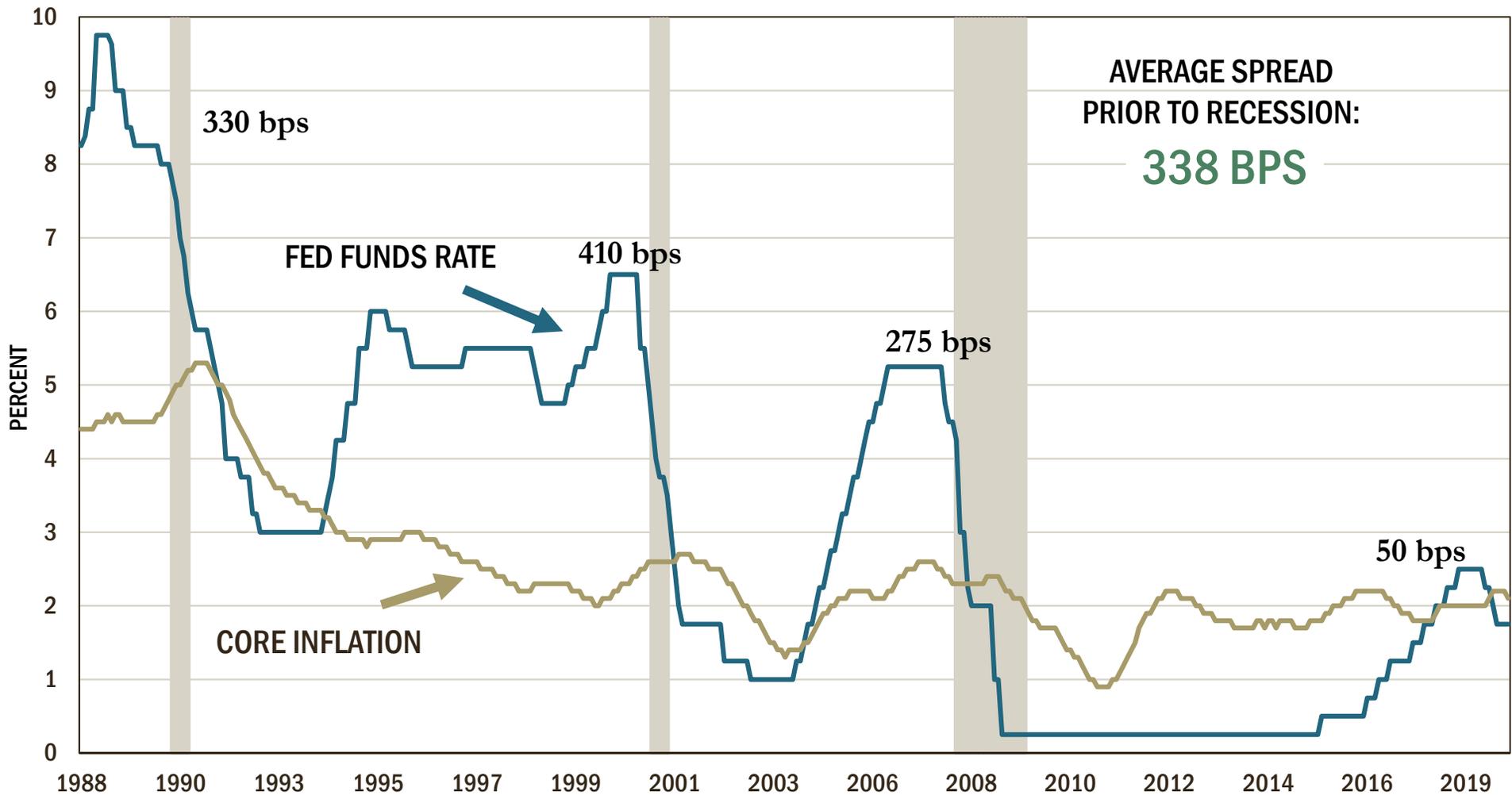
INVERTED CURVE – TIMING FOR THE NEXT RECESSION

(10 YR – 2 YR YIELD)



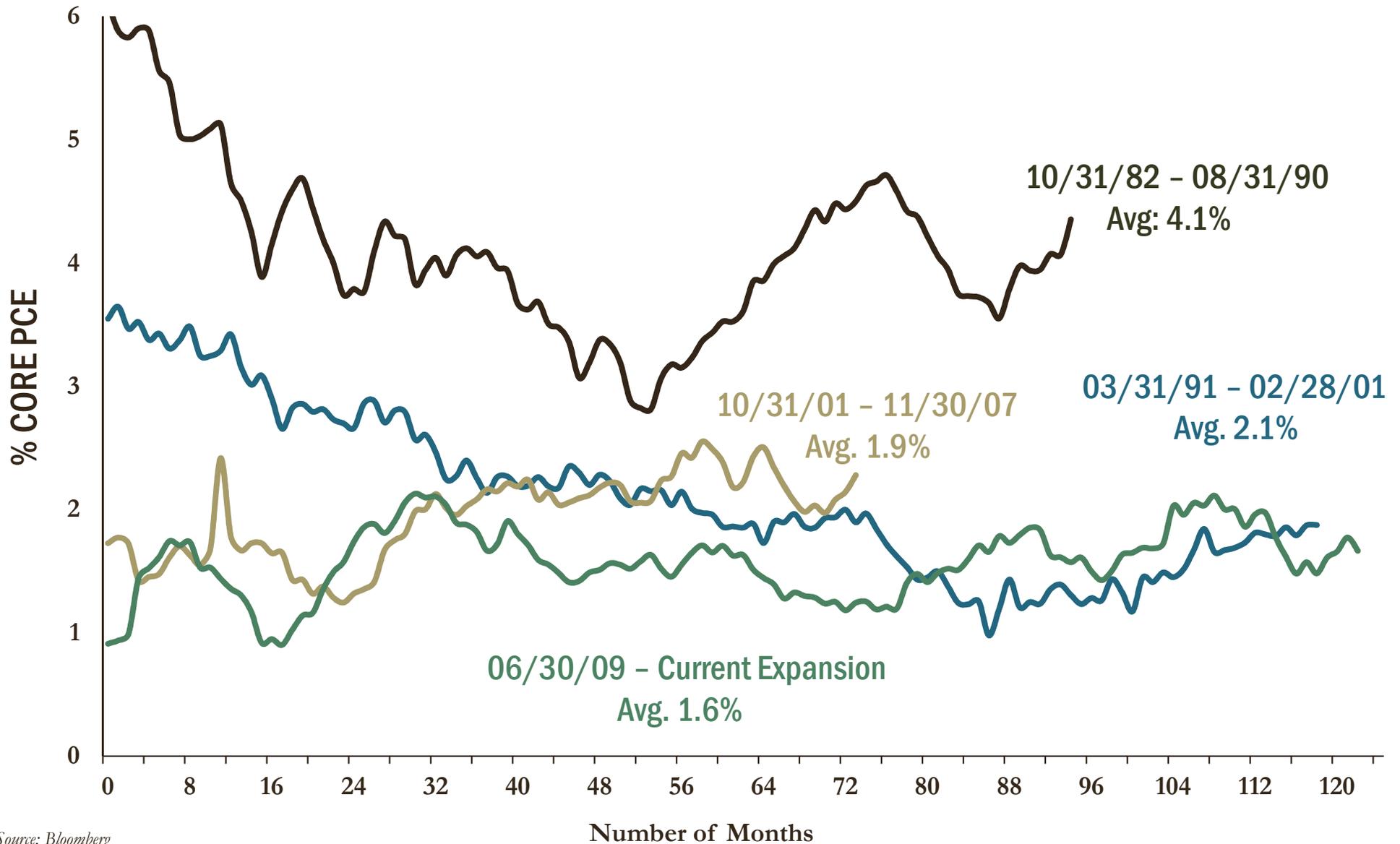
Source: Bloomberg

FED FUNDS RATE VS INFLATION – NOT RESTRICTIVE



Source: Bloomberg

INFLATION DURING RECENT EXPANSIONS

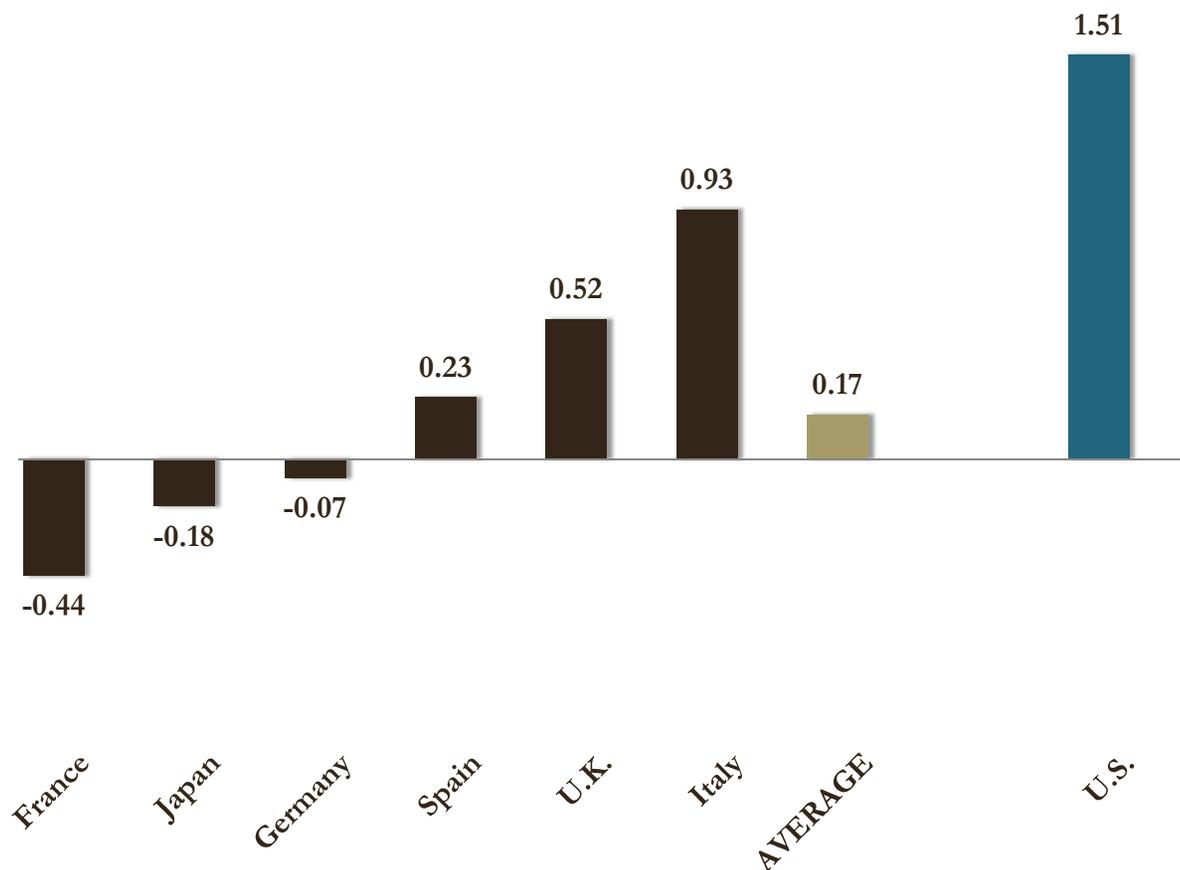


Source: Bloomberg

CENTRAL BANKS IMPACT ON GOVERNMENT BOND YIELDS

10-YEAR GOVERNMENT BOND YIELDS (%)

■ 1/31/2020

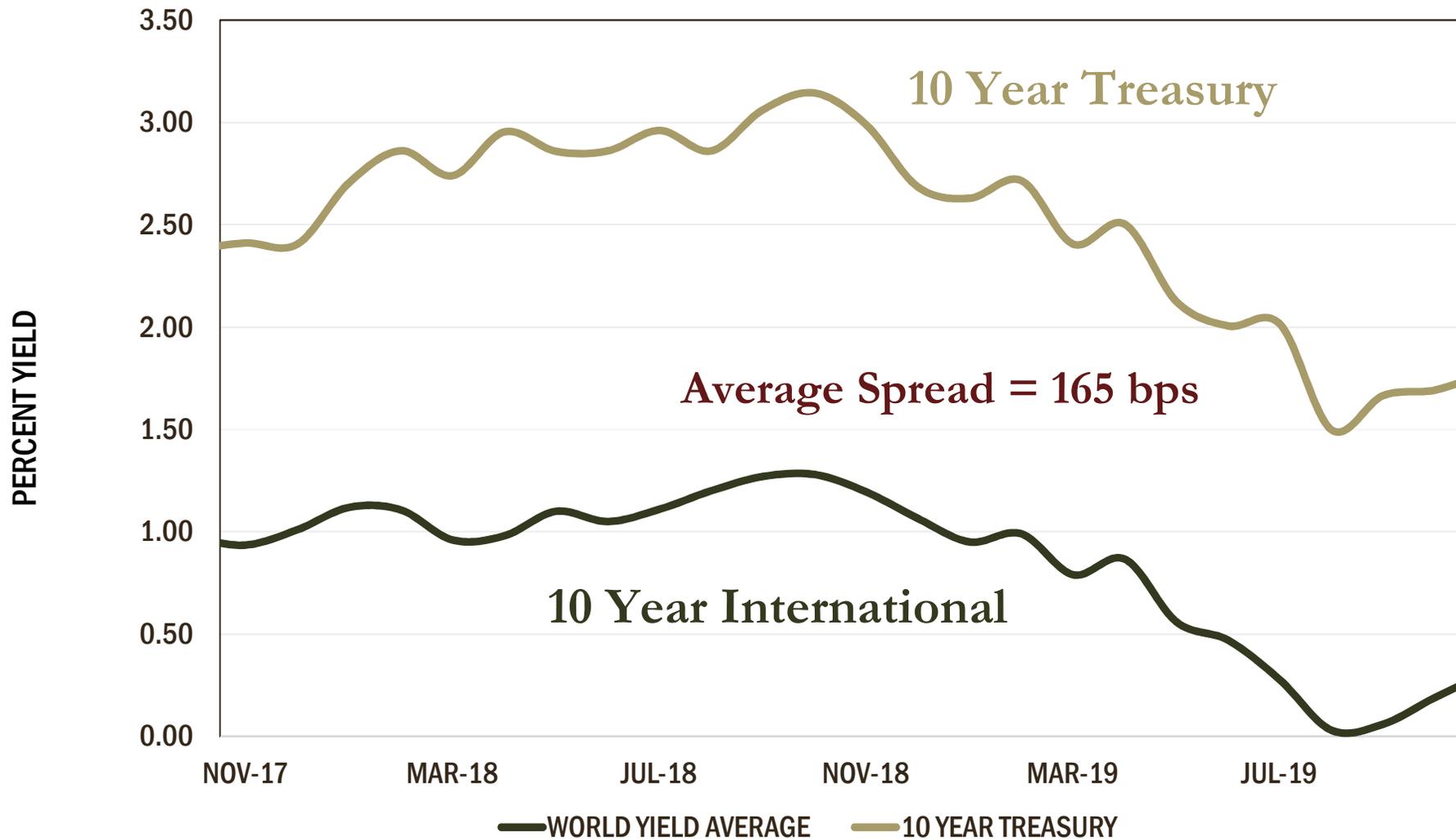


CENTRAL BANK HOLDINGS/MARKET CAPITALIZATION*		
US		GOV'T
	Fed holdings (\$bn)	2,097
	US market size (\$bn)	12,291
	<i>% of market</i>	17.1%
	<i>% of GDP</i>	18.0%
EUROZONE	ECB holdings (€bn)	2,089
	EZ market size (€bn)	8,010
	<i>% of market</i>	26.1%
	<i>% of GDP</i>	39.6%
JAPAN	BoJ holdings (¥tn)	486.5
	Japan market size (¥tn)	943.9
	<i>% of market</i>	51.5%
	<i>% of GDP</i>	101.5%
UK	BoE holdings (£bn)	435
	UK market size (£bn)	2,341
	<i>% of market</i>	18.6%
	<i>% of GDP</i>	37.1%

*Market Data collected during calendar year 2019
GDP % as of 2Q19

Source: Bloomberg; Federal Reserve, ECB, Bank of Japan; Bank of England; Barclays Capital; Yardeni Research

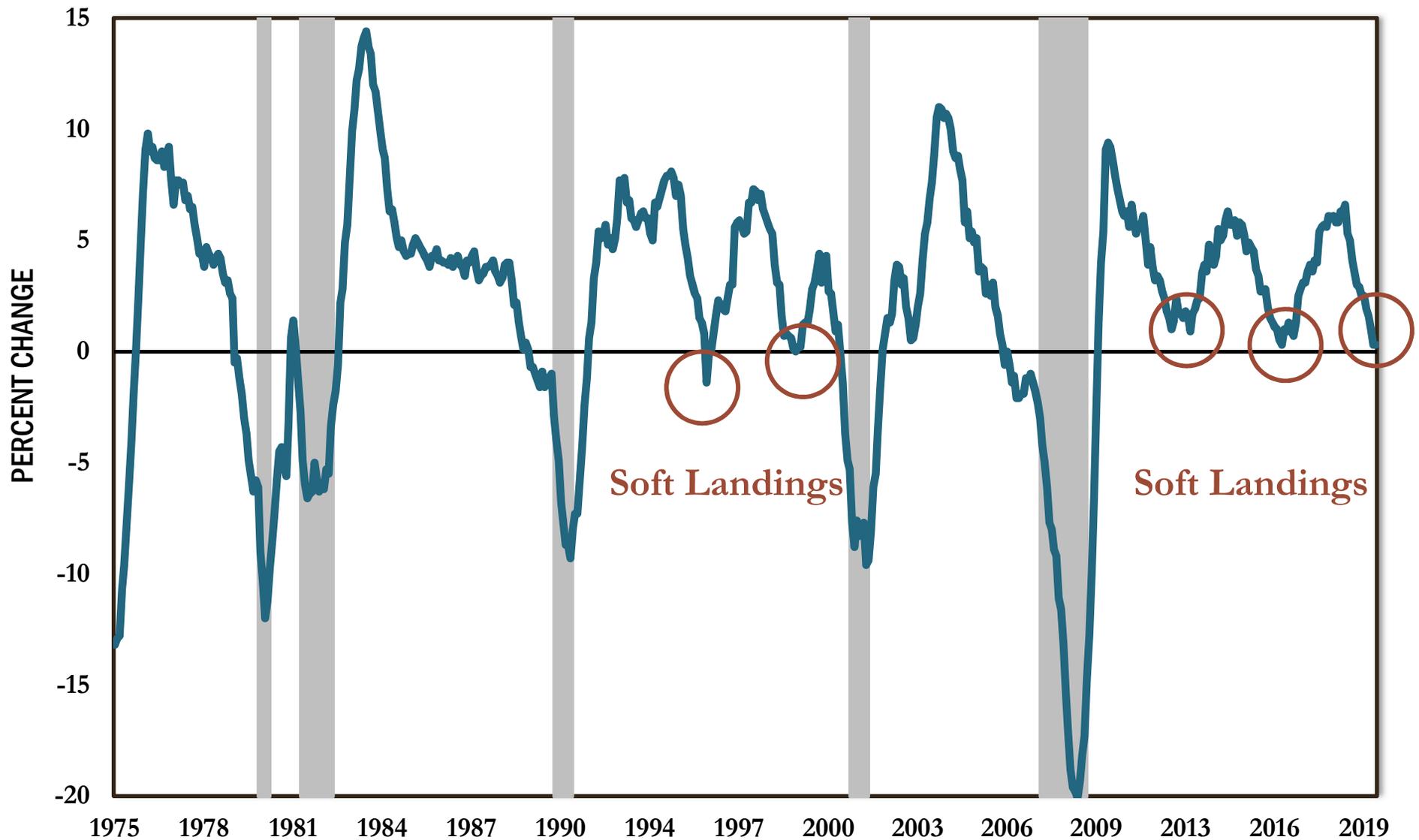
WORLD YIELD AVERAGE YIELDS VS. 10 YEAR TREASURY



Source: Source: Bloomberg; World Yield Averages Include Germany, Japan, France, Spain, United Kingdom

LEADING ECONOMIC INDICATORS Y-O-Y

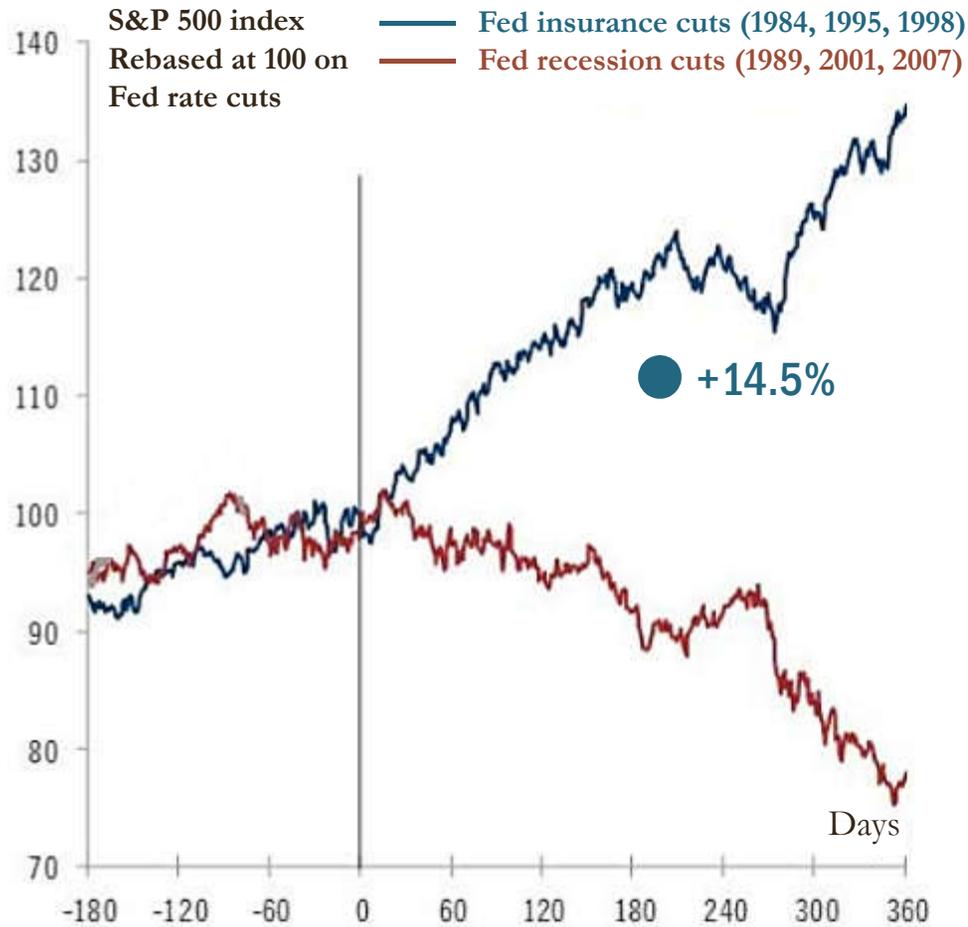
SOFT LANDINGS



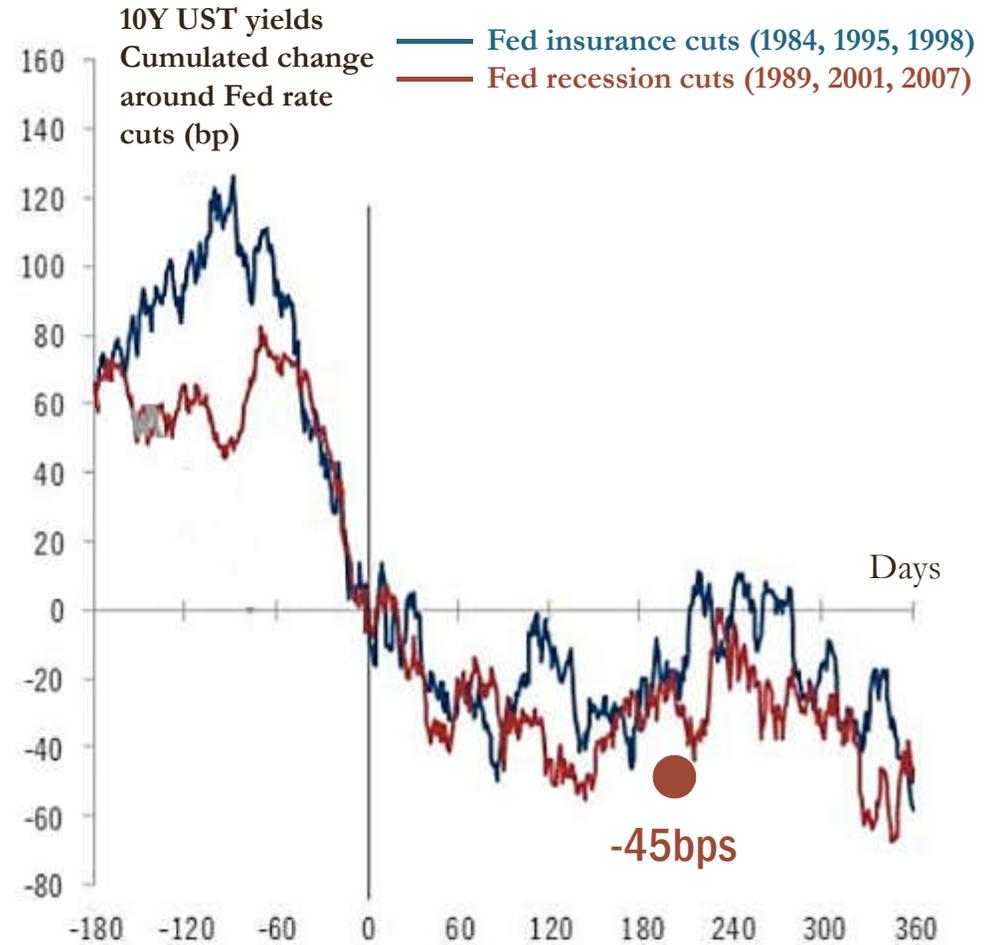
Source: Bloomberg

MARKET REACTION TO FED CUTS

US: Fed rate cuts and S&P 500 response



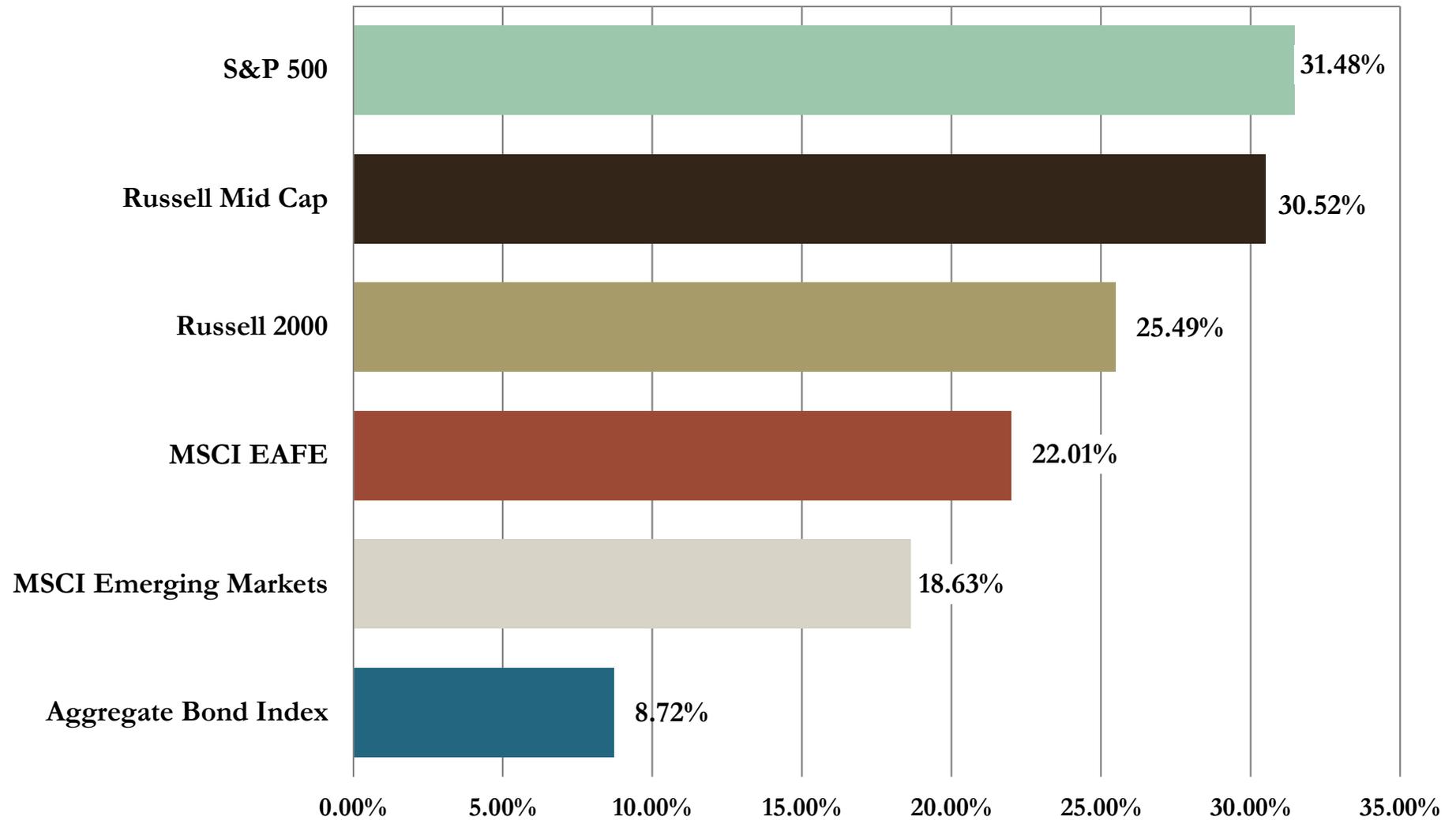
US: Fed rate cuts and 10-year UST response



Source: Pictet WM – CIO Office, Fed, Bloomberg

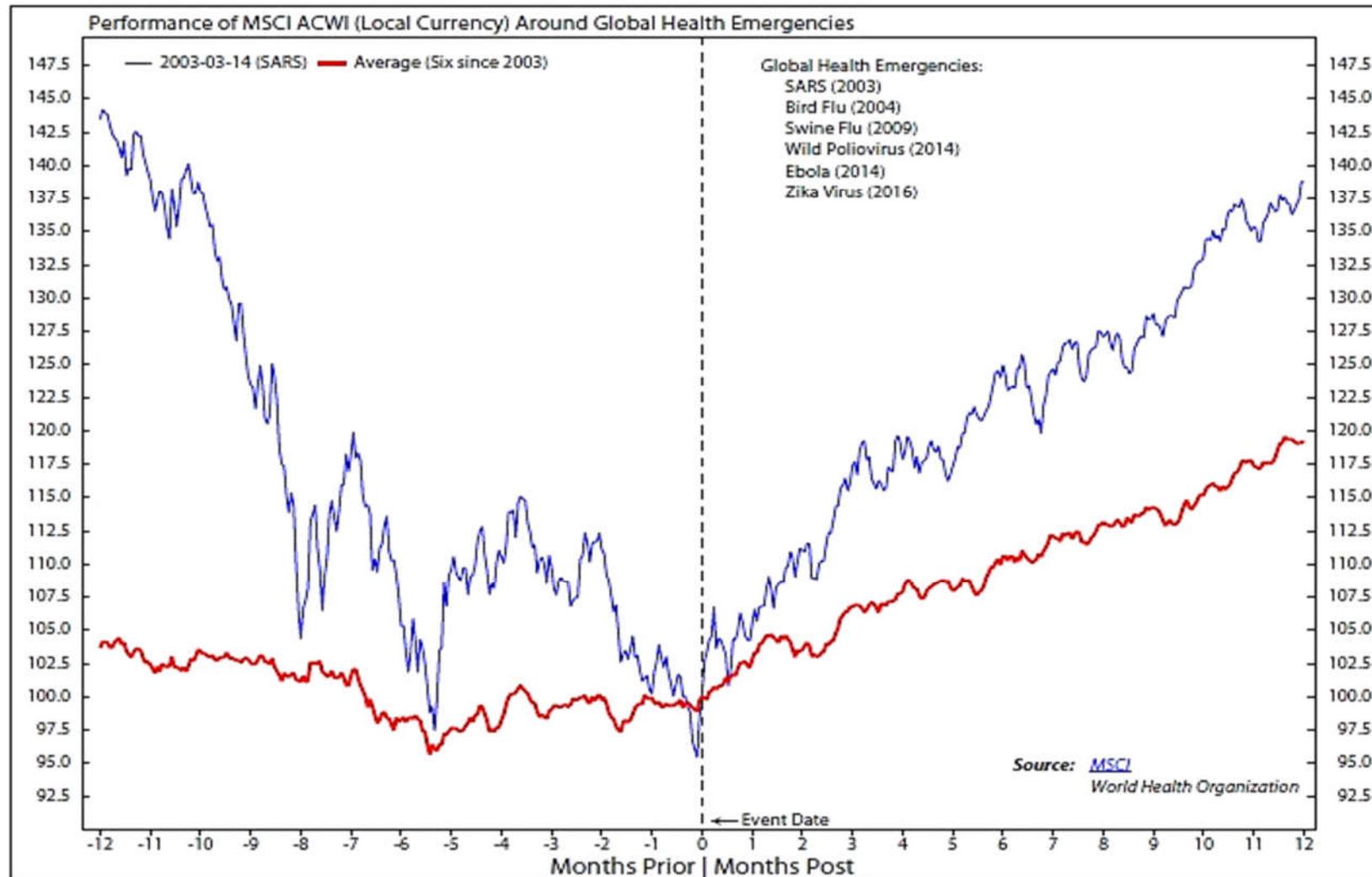
2019 MARKET RETURNS

as of December 31, 2019



Source: Bloomberg

MARKET REACTION TO WORLD HEALTH DECLARED EMERGENCIES



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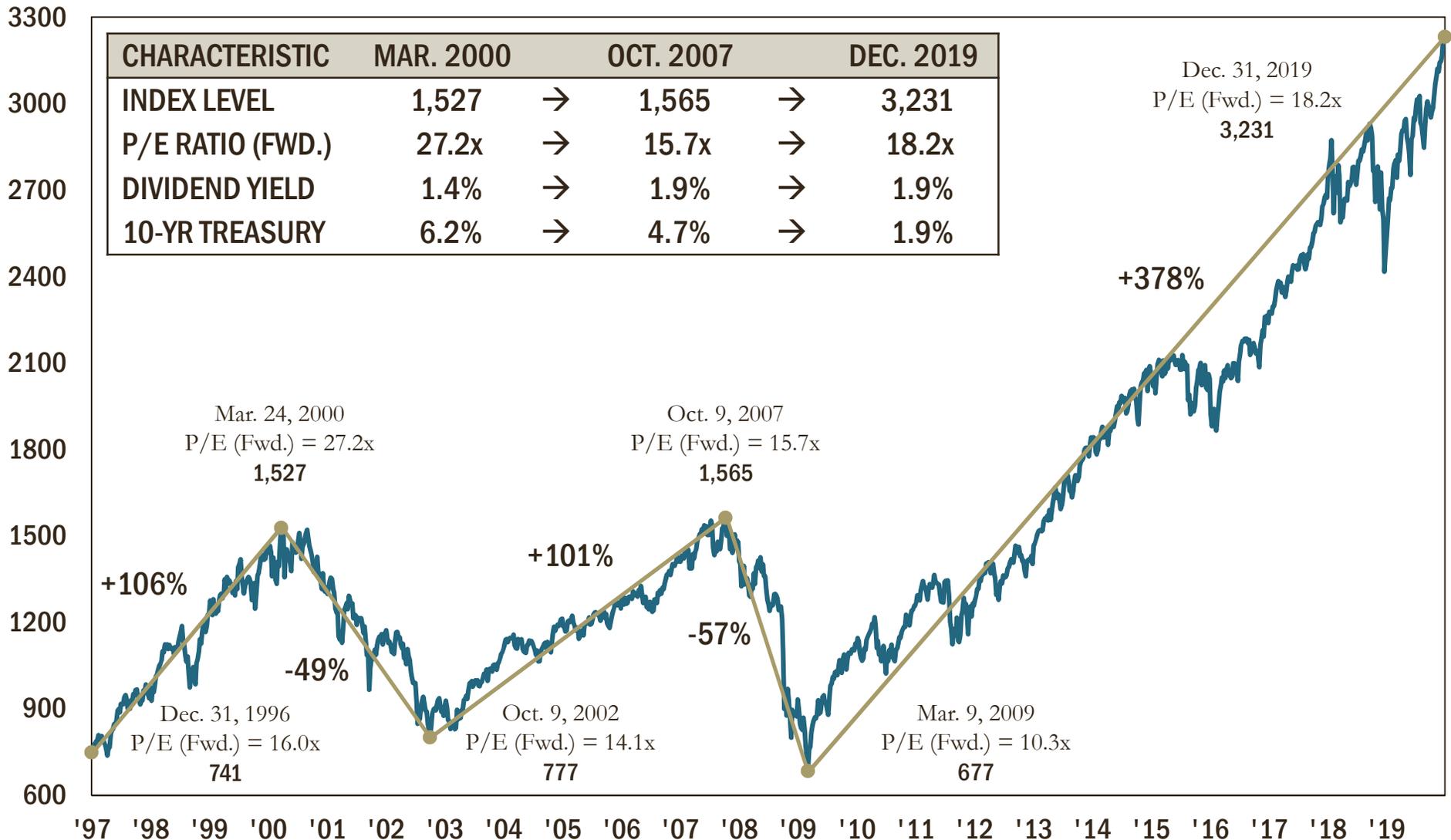
HOW DO STOCKS DO FOLLOWING A 30%+ RETURN?

TABLE 1: S&P 500 GAINS of 30% OR MORE SINCE 1950 (DIVIDENDS INCLUDED)			
YEAR	+/-	FOLLOWING YEAR	+/-
1950	+31.4%	1951	+23.3%
1954	+51.2%	1955	+30.9%
1955	+30.9%	1956	+6.4%
1958	+42.4%	1959	+11.8%
1975	+36.9%	1976	+23.6%
1980	+31.5%	1981	-4.8%
1985	+31.0%	1986	+18.5%
1989	+31.2%	1990	-3.2%
1995	+37.1%	1996	+22.6%
1997	+33.1%	1998	+28.3%
2013	+32.0%	2014	+13.5%
2019	+31.5%	2020	?

AVERAGE = 15.5%

Source: The Chartist

S&P 500 PRICE INDEX



Source: J.P. Morgan, Bloomberg

S&P 500 INDEX: FORWARD P/E RATIO



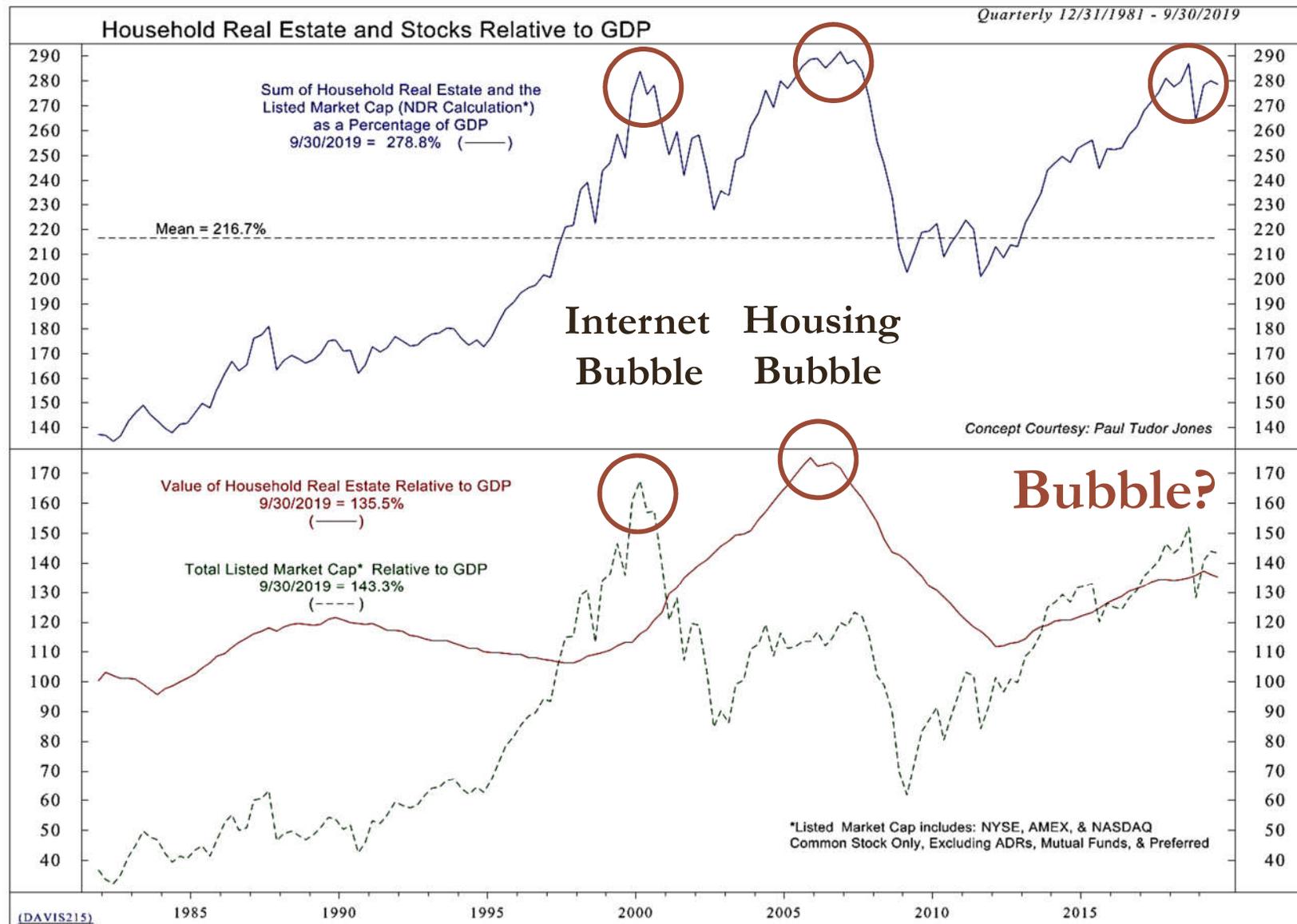
Source: J.P. Morgan, FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters

S&P 500 INDEX: VALUATION METRICS

VALUE MEASURE	DESCRIPTION	LATEST	25-YEAR AVG*	STD.DEV. OVER/UNDER VALUED
P/E	Forward P/E	18.18x	16.26x	0.60
CAPE	Shiller's P/E	30.78	27.16	0.58
DIVIDEND YIELD	Dividend Yield	1.93%	2.09%	0.41
P/B	Price to Book	3.32	2.96	0.49
P/CF	Price to Cash Flow	12.97	10.61	1.28
EY SPREAD	EY minus Baa Yield	1.65%	-0.03%	-0.85

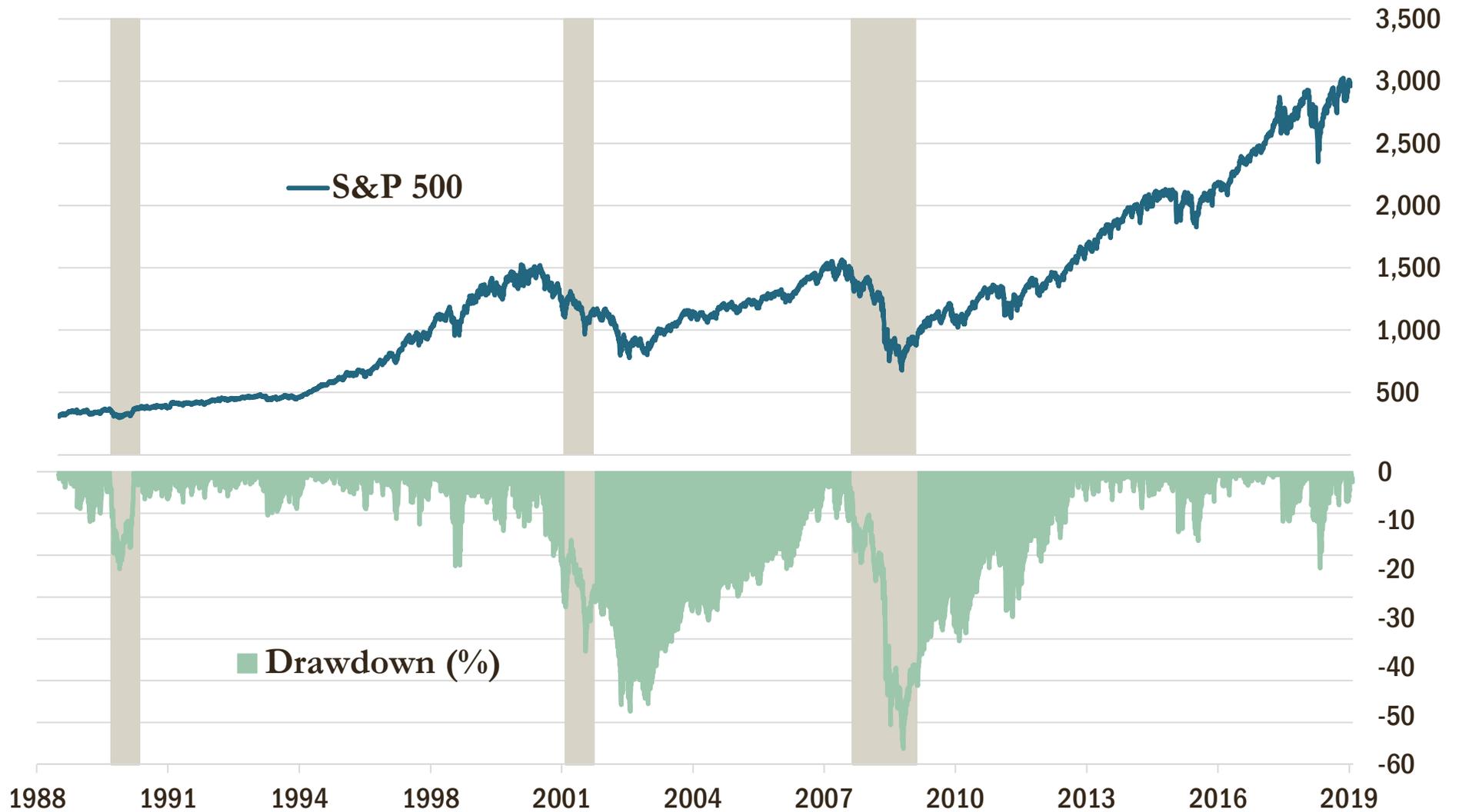
Source: JP Morgan

HOUSING AND STOCKS VS. GDP (EXPENSIVE)



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S&P 500: 30-YEAR HISTORY OF CORRECTIONS



Source: Bloomberg