Economic Market Performance and Outlook 2019

2018 Performance

2018 was a challenging year for investors as “Long Bull" markets in both U.S. equities and fixed-income encountered strong headwinds, while international stocks underperformed following a very strong 2017. Nevertheless, there were some bright spots. The tax cuts in the U.S. led to increased consumer spending and business spending; in addition, economic activity was fairly strong in Europe and China. Stock performance ended the year below expectations, mainly due to concerns about trade policy, Brexit, and other geopolitical issues. Inflation and interest rate concerns were the main drivers behind the market decline that we experienced in Q4 of 2018.

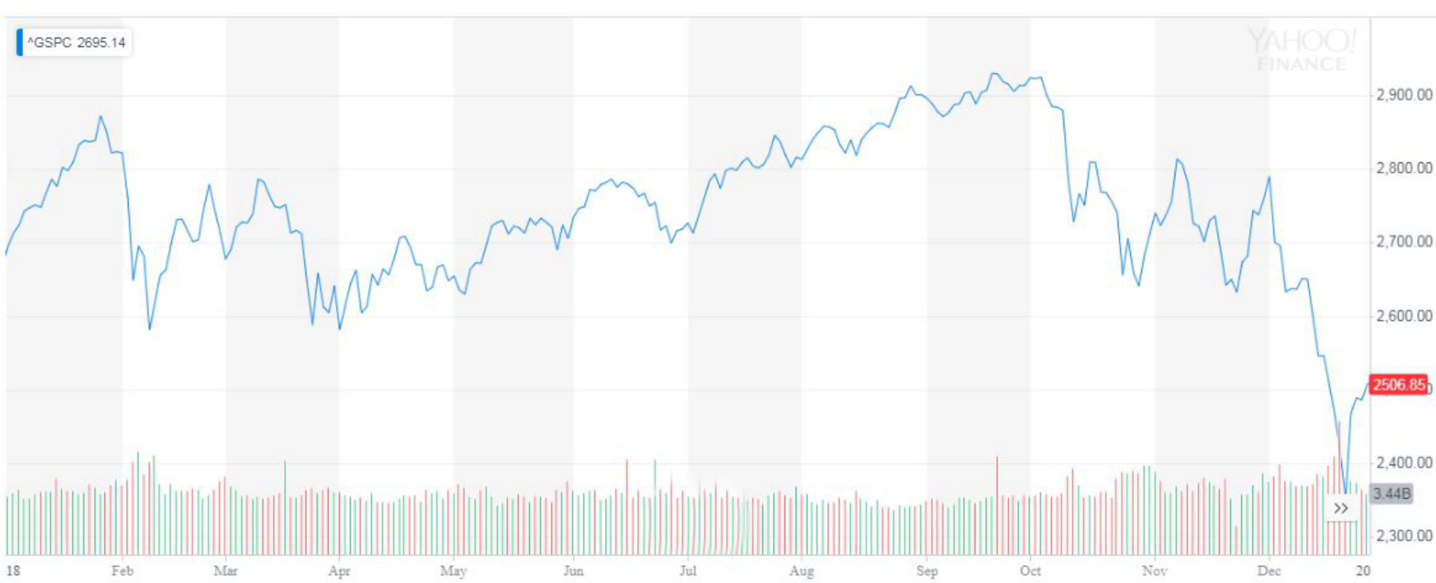
Globally, the manufacturing sector showed signs of stability especially among the emerging markets. Russia, Brazil and India moved up and Europe stabilized.

While the economy maintains a slow-but-steady pace of growth, the labor market has continued to tighten. This reflects two key trends:

- Low productivity growth
- Low labor force growth

Profit growth was extremely strong in 2018, with the operating earnings per share of S&P 500 companies rising by over 30% year-over-year in the third quarter[1]. Revenues were boosted by a surge in oil prices and above-trend GDP growth. Margins also rose, thanks to corporate tax cuts, persistently low inflation, and interest rates. Share buybacks, a product of excess cash, also modestly boosted earnings per share.

The graph below shows how the S&P 500 performed over 2018



Source: https://finance.yahoo.com/

[1] Voya Global Perspectives Forecast 2019

Equity markets faced periods of significant volatility in 2018. Most notably, the S&P 500 reached its peak in September 2018 and fell sharply until the end of December. Overall, the S&P 500 declined by 6.24%, Dow by 5.63% and NASDAQ by 3.88%.

2019 Outlook

U.S. economic growth is expected to slow slightly in 2019 after a robust 2018, with the risk of recession rising only moderately. Trade tensions still remain a risk until a final resolution is reached with China and other trade partners. The Federal Reserve likely will continue to raise short-term interest rates, but at a slower pace than in the past and may pause or end rate hikes by mid-2019. The Fed has recently signaled a “wait-and-see” approach, which we view as very constructive to the markets and alleviate many concerns that market participants had during Q4. Global growth may slow in 2019 as the economic cycle nears a peak, with increasing drag from worsening financial conditions combining with full-employment and rising prices.

Entering 2019, the U.S. economy looks remarkably healthy, with a recent acceleration in economic growth, unemployment near a 50-year low and inflation still low and steady.[2] On growth, real GDP has accelerated in recent quarters and is now tracking a roughly 3% year-over-year pace. GDP growth in 2019 is expected to slow down slightly.

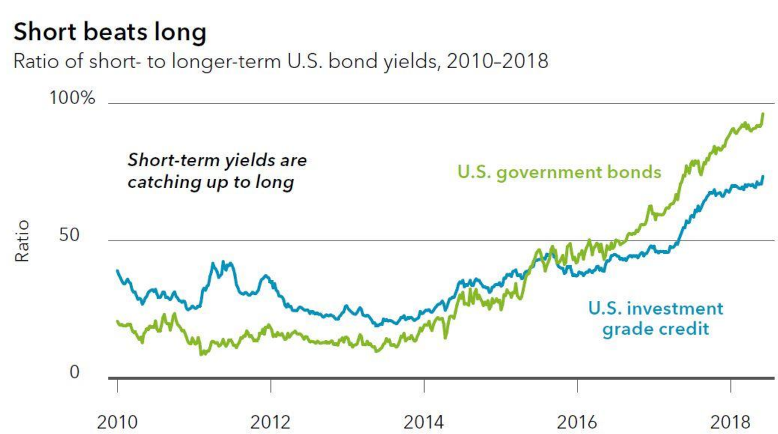
Rate/Sector/Metric	2019 Forecast
S&P500 EPS	$178
S&P500 Index Level	2850
Oil	$60/bbl.
10 Year UST Yield	3.00%
Global Growth	3.60%
U.S. GDP Growth	2.60%
Gold	$999/oz

Source: Voya Investment Management

Analysts at Blackrock forecast a slowdown in global growth and corporate earnings in 2019. We view stocks as preferable to bonds in 2019. In equities, stocks with good quality cash flows, sustainable growth and clean balance sheets are more in favor. Global growth looks set to be a key driver of returns as the cycle ages, yet we view there to be little near-term risk of a U.S. recession. Corporate earnings growth is slowing, but still decent. Bonds are looking more attractive, both as a source of income and as portfolio ballast against any late-cycle growth scares. [3]

U.S. financial conditions are still relatively loose, but they are tightening. Emerging market assets have depreciated, and they also offer better compensation for risk in 2019. Turkey and Argentina have overcome the EM Elections and currency crises in 2018. China is easing policy to stabilize its economy, marking a sea change from 2018’s clampdown on credit growth.

U.S. bonds are an attractive source of income. Rising rates have made shorter-term Short-term Treasuries now offer almost as much yield as the 10-year Treasury, as shown in the "Short beats



2 https://am.jpmorgan.com/us/en/asset-management/gim/adv/ins

3 https://www.blackrock.com/corporate/literature/whitepaper/bii-2

Advisory services through ARCH Global Advisors, LLC, a Regist
Cambridge Investment Research Inc., a broker-dealer, member

long" chart.[4]

There are signs of late cycle in credit. Financing costs are on the rise, input costs are up, and companies at the low end of the investment grade spectrum (BBB-rated) have been issuing more bonds to fund share buybacks and acquisitions.

U.S. and EM equities are considered more favorable in the global investing landscape and an underweight in Europe is recommended. The Health Care sector is also recommended for its appealing late-cycle potential, while Energy equities are also expected to perform well and look like an attractive investment at these levels due to macroeconomic issues. The Technology sector reached its peak in October and then declined sharply till the end of December 2018. We expect a sharp bounce back in 2019 based on valuation. Technology is our most recommended sector in 2019, followed by Industrials.

Going forward to 2019, investors should note that the U.S. economy heated up in 2018 due to the rollout of tax cuts, but should resume a slower and steady pace in 2019. Unemployment continues to fall, and wage growth has moved modestly. Corporate profits have been strong, but will slow down slightly. Inflation should remain stable over the year.

Taking all these factors into account, it is expected that investors should feel more positive going forward in 2019 and take into account the risk and volatility factors in their investment decision making.

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[4] https://www.blackrock.com/corporate/literature/whitepaper/bii-2019-investment-outlook-international.pdf