CERITY PARTNERS

Confidential & Proprietary

Outlook for September 2019

WORLD ECONOMY

United States

- The U.S. consumer continues to drive growth in this country and may serve as an important buffer for preventing a global recession. Pending tariffs on Chinese imports may impact demand to some extent. However, spending should remain strong through year-end due to continued job and wage growth and a high savings rate.
- Business spending has stalled amid uncertainty about the trade dispute with China and the potential for these tensions to spread to other countries. Technology spending that enhances worker productivity remains one of the keys to extending this economic expansion. Stable energy prices should help spending in that important sector.

Developed Markets

- 2019 European GDP is now in the 1% range due to an apparent recession in Germany and rising risks that the U.K. will exit the European Union without a signed agreement. On a positive note, the tentative agreement to form a new Italian government and the expected fiscal stimulus from Germany may help prevent further deterioration.
- The recent uptick in Japanese GDP growth is probably the result of increased spending in advance of the October consumption tax increase and not a sign of growing economic momentum.

Emerging Markets

- The trade conflict with the U.S. will likely impact China's growth for the remainder of this year into 2020. Fiscal and monetary policy initiatives may temper the slowdown, but the magnitude of the tariffs' impact remains uncertain.

MONETARY POLICY & CURRENCIES

United States

- Markets are calling for an additional 0.75% to 1.00% (75-100 basis points) rate reduction over the next 12 months. Whether this happens remains to be seen. There is some disagreement among Fed members about monetary easing. Even so, we still expect two more 0.25% (25 basis point) cuts by year-end with the next one coming at this month's meeting.
- The dollar should continue to trade around current levels thanks in part to the Fed dissonance and the relative strength of U.S. economy compared to other developed markets. We do not anticipate significant appreciation from these levels for the remainder of 2019.

Developed Markets

- The European Central Bank will likely decrease its benchmark interest rates by 0.10% (10 basis points) this fall, moving deeper into negative territory. Weakness in Germany may also cause the bank to resume purchasing intermediate-maturity bonds.
- The Bank of Japan stands ready to offset upcoming fiscal tightening with some form of monetary response, most likely a 0.10% - 0.20% (10-20 basis points) reduction in its benchmark rate.

Emerging Markets

- Even though the Peoples Bank of China is in a better position to ease monetary policy, it needs to remain cautious about devaluing the renminbi too much. Otherwise, it could provoke large capital outflows.

BOND MARKETS

United States

- The virtually complete inversion of the Treasury yield curve is a call from markets for additional monetary ease. Assuming the Fed answers this call, intermediate-term maturity rates should stop falling and would likely move higher in this current growth environment.
- Growing economic uncertainty and volatile equity markets have caused some spread widening in the high-yield debt market. However, the asset class' relatively strong performance seems to confirm there is no impending economic contraction that would cause a spike in default rates.

Developed Markets

- Developed international bonds have experienced even deeper yield contractions in anticipation of further central bank purchases. As many of these markets maintain negative yields across the maturity spectrum, they should be viewed primarily as speculative and not investable at this time.

Emerging Markets

- Emerging markets bonds have benefitted from the overall decline in global interest rates, although local currency debt has underperformed due to growing trade tensions. While there may be more value in local currency debt, the risks are difficult to assess, and dollar-based debt is likely a better alternative for the next few months.

Outlook for September 2019

EQUITY MARKETS

United States

- Volatility has increased due primarily to the intensification of the trade conflict with China. At this point, this appears to be another pullback in the ongoing bull market. Lower interest rates should provide ample cushion on the downside.
- Q2 earnings growth was positive, once again defying recessionary predictions. We expect similar results for the third quarter.

Developed Markets

- Slower German growth and the ongoing Brexit drama will likely impede the performance of European equities through the fall. Monetary and expected fiscal easing in a few countries may prevent further underperformance.
- An apparent trade agreement between the U.S. and Japan has led to the relative outperformance of Japanese equities. This asset class would benefit from some level of currency depreciation or at least stabilization against the dollar.

Emerging Markets

- The abrupt collapse of trade negotiations and subsequent currency declines have understandably hurt emerging markets equities more than other equity markets around the world. Given the increased economic risks, only fiscal and monetary ease may be able to stop the relative underperformance absent a more permanent trade agreement.

ALTERNATIVES & COMMODITIES

Oil

- Concerns about falling demand in a potentially recessionary environment caused oil prices to drop briefly below the $55-$65 trading range that has persisted for most of the year. Barring a global recession, prices should remain in that range through year-end.

Gold

- Despite low inflation around the world, gold is viewed as a haven in volatile markets. It's also serving as an alternative investment to the bonds of countries with negative interest rates. Continued low inflation should cap upward price movements around current levels.

Industrial Metals

- Industrial metals are caught in the crosshairs of the U.S.-China trade dispute. The economic slowdown in China caused by the tariffs may impact the country's normally voracious demand for commodities.

Hedge Funds

- Our outlook for this market remains the same as reported in August. After a difficult period characterized by abnormally low market volatility, high intra-asset correlations and historically low interest rates, the return to more normal market conditions has allowed hedge fund managers to demonstrate their value-add in both good and bad markets. Defensive strategies provided beneficial downside protection during the Q4 2018 downturn while directional strategies participated strongly in the Q1 2019 rebound.

Private Equity

- Our outlook for this market remains the same as reported in August. High asset valuations and fierce competition to invest the rising backlog of committed funds awaiting deployment remain a major challenge for the category, particularly in buyouts. These risks can be mitigated by focusing on specialist managers with a demonstrated record of generating outstanding returns in different market cycles while maintaining investment discipline.

Important Information

Benjamin Pace
Chief Investment Officer

Ben Pace is the Chief Investment Officer and a member of the Investment Committee. Prior to joining Cerity Partners, Benjamin Pace was Chief Investment Officer and Head of Global Investment Solutions for Deutsche Bank Private Wealth Management in the U.S. Ben has more than 25 years of experience in investment management. Prior to joining Deutsche Bank in 1994, he managed equity income funds for two investment organizations.

Cerity Partners LLC ("Cerity Partners") is an SEC-registered investment adviser with offices in California, Colorado, Illinois, Ohio, Michigan, New York and Texas. This commentary is limited to general information about Cerity Partners' services and its financial market outlook, which may not be suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this brochure will come to pass. Investing in the financial markets involves risk, including the risk of loss of the principal amount invested; and may not be appropriate for everyone. The information presented is subject to change without notice and should not be considered as an offer to sell or a solicitation of an offer to buy any security. All information is deemed reliable but is not guaranteed. For information pertaining to the registration status of Cerity Partners, please contact us or refer to the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov). For additional information about Cerity Partners, including fees and services, send for our disclosure statement as set forth on Form ADV Part 2A using the contact information herein. Please read the disclosure statement carefully before you invest or send money.

©2019 Cerity Partners LLC, an SEC-registered investment adviser. All Rights Reserved. (09/19)