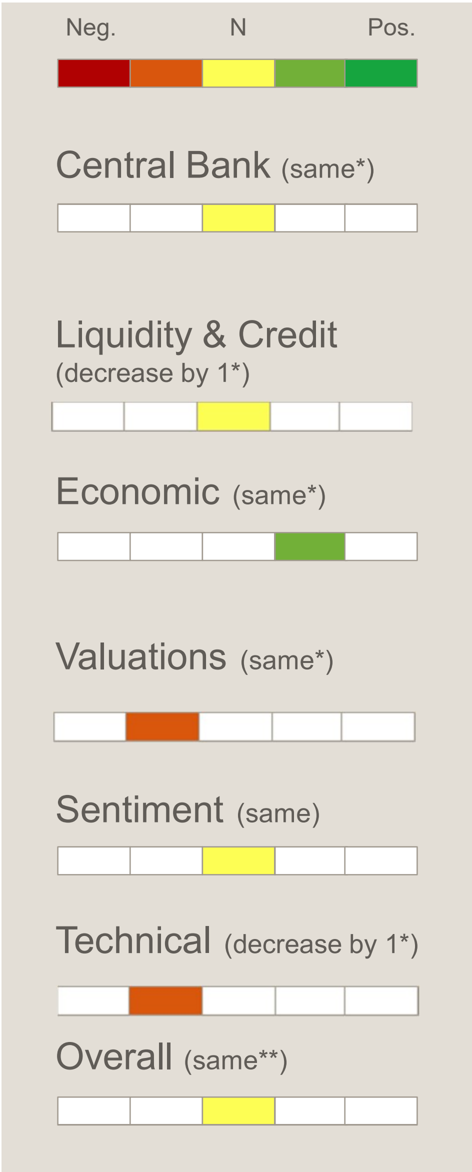

ARGUS Wealth Management

Macro and Market Outlook – as of 30 September 2018

(12-month outlook, updated quarterly)

- Interest rates are clearly heading higher, with the US Federal Reserve leading the way and likely to hike rates again before year end.
- While rates are still accommodative, the removal of quantitative easing around the globe and higher interest rates are making fixed income a more viable alternative to equities.

- Financial conditions vary by region, creating significant disparity.
- Spreads are tight, perhaps being a contrarian indication as the next move will be wider.
- Global debt has increased substantially over the past 10 years to 2.5 times global GDP. Higher rates will identify companies with weak balance sheets and weak business models. Unanticipated inflation could cause a shock.

- The US economy is strong by any measure, but the rest of the world is not as fortunate.
- The strong US dollar is impacting Emerging Markets
- Trade tariffs and geopolitical posturing are reducing global growth. NAFTA 2.0 (USMCA) improve trade terms for the US. Higher oil prices could slow growth.

- Entering the fourth quarter, US earnings are expected to be high double digits, allowing prices to tolerate higher interest rates, typically used as a discount rate to value earnings. But increasing bond yields makes fixed income more attractive.
- Long-term measures of valuations are clearly stretched, as seen by the Shiller P/E ratio or S&P market cap to GNP, both of which are in extreme territory.

- US consumer confidence is at an all-time high, but the joy is not spread evenly, as European and Asian confidence is falling.
- Geopolitical events are being shrugged off, a sign of a positive (and perhaps naïve) outlook.
- Institutional investors are reducing their equity holdings, becoming increasingly cautious.

- While the US market is in a strong momentum driven upward cycle, bearish signals are coming to fore. The Technology sector, a leading indicator, is weakening.
- Fewer companies are reaching new highs.

Conclusion:

Our outlook remains neutral. While either a stock market correction or a re-alignment of equity markets in the US and the rest of the world is likely, a change of the longer term trend appears unlikely over the next year.

*Change from the previous 12-month outlook.
** The weights to calculate the Overall rating are determined by Argus Wealth at its discretion based on market conditions.

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