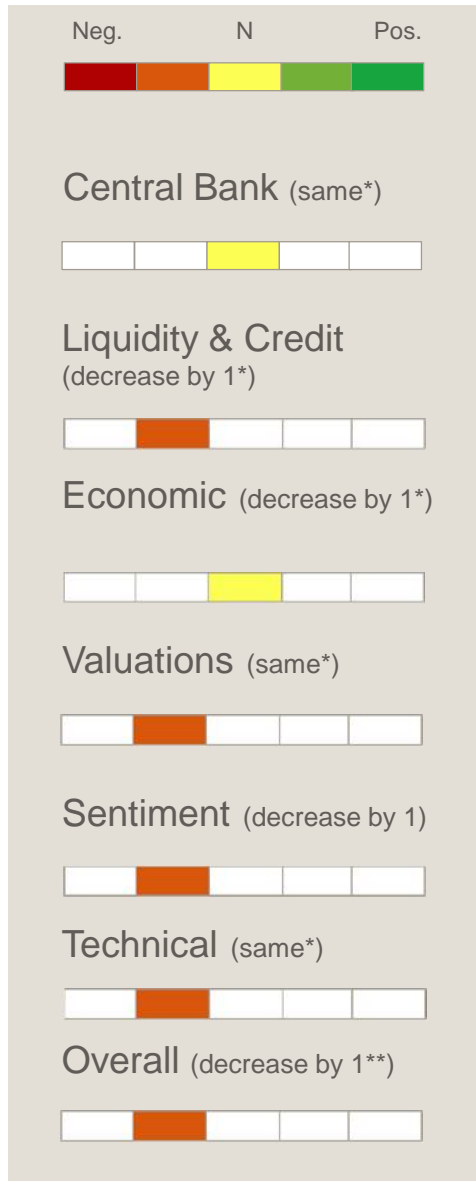


Macro and Market Outlook – as of 31 December 2018

(12-month outlook, updated quarterly)



While the US Federal Reserve has indicated it will not come to the rescue of declining stock prices, its willingness to pause previously expected interest rate increases indicates otherwise. The European Central Bank is expected to end quantitative easing and the Bank of Japan is purchasing fewer bonds.

Financial conditions have generally been getting tighter.

Credit spreads are widening and the yield curve is still very flat.

Global debt is substantial, and US government debt at approximately \$21 trillion creates vulnerability to higher rates.

Investment grade companies with weak balance sheets could be downgraded to junk status.

The global economy will continue to grow, but at a slower pace.

US – China trade relations need to be resolved to remove uncertainty in the markets.

Lower oil prices and rising wages will increase purchasing power of consumers.

The probability of a US recession within 12 – 18 months has risen, but is still below 50%

With the benefits of the tax cut fading, earnings growth still will be positive, but lower than 2018. Increasing bond yields makes fixed income more attractive. Only one third of S&P 500 has a dividend yield above the two year treasury yield.

Long-term measures of valuations continue to be stretched.

Investor sentiment has clearly turned negative. While this is not surprising, the speed of the deterioration was highly unusual. Small cap and technology shares have underperformed, clearly defining a risk off phase.

Volatility has significantly increased and net long positions have been reduced.

Geopolitical issues are adding uncertainty, and being reflected in market prices.

In the short term stocks and corporate bonds have been oversold, but an upturn correction would not be unusual. However, failure to take out the old highs and a triple-top formation indicate that the US stock market could fall further over the medium term.

Conclusion:

If there is no recession or major geopolitical event, then risk should be rewarded.

However, we have downgraded our outlook to cautious. This means we will be more selective on where to accept portfolio risk, and may use market strength to reduce risk.

*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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