

2020 Economic & Stock Market Outlook:

Cyclical Strength Emerges Amid Ongoing Uncertainty

Supplemental Chart Pack

December 12, 2019

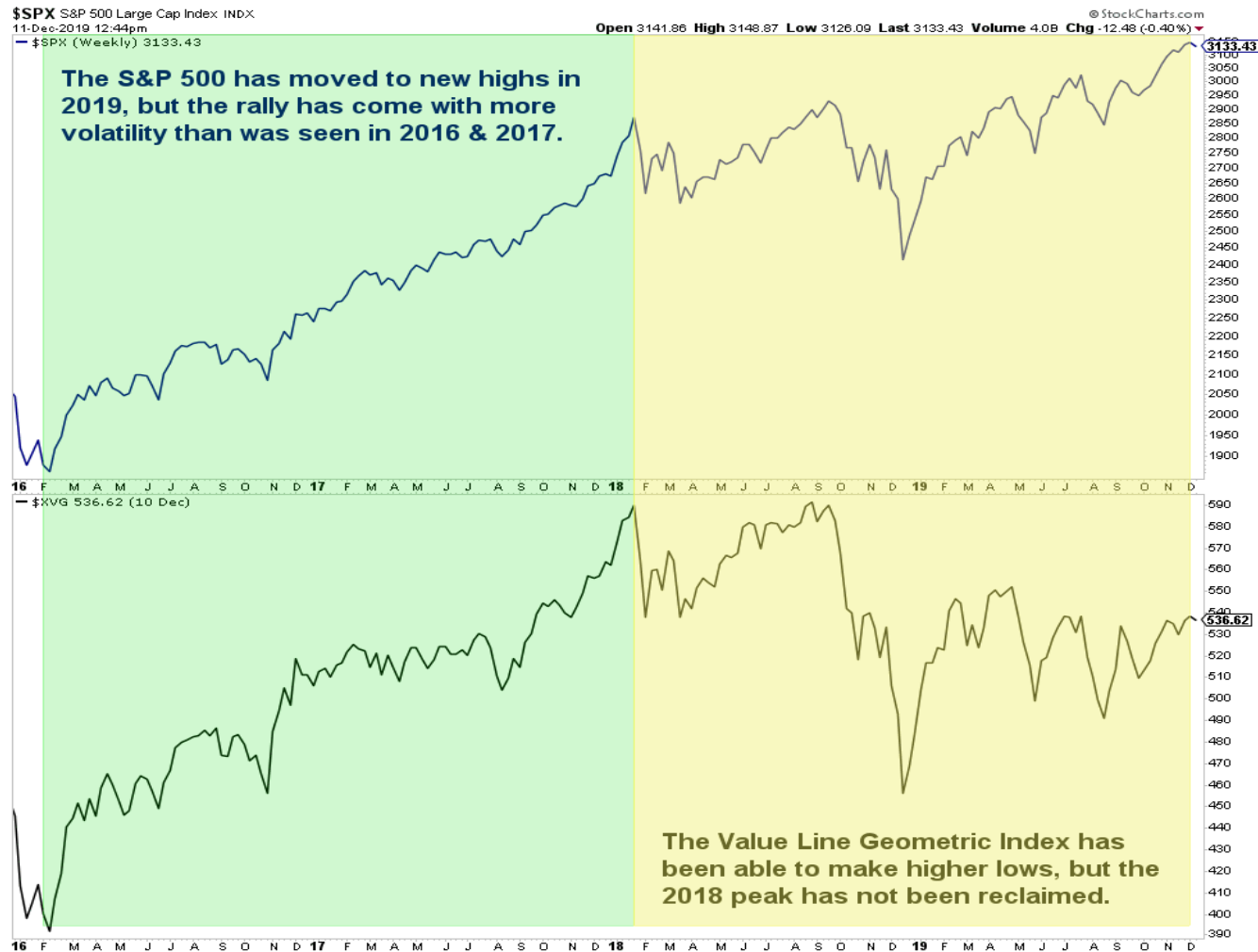
The background of the bottom section is a blurred image of a stock market chart with multiple colored lines (red, green, yellow, blue) representing different data series over time.

Bruce Bittles
Chief Investment Strategist
(941) 906-2830
bbittles@rwbaird.com

William Delwiche, CMT, CFA
Investment Strategist
(414) 298-7802
wdelwiche@rwbaird.com
Twitter: @WillieDelwiche

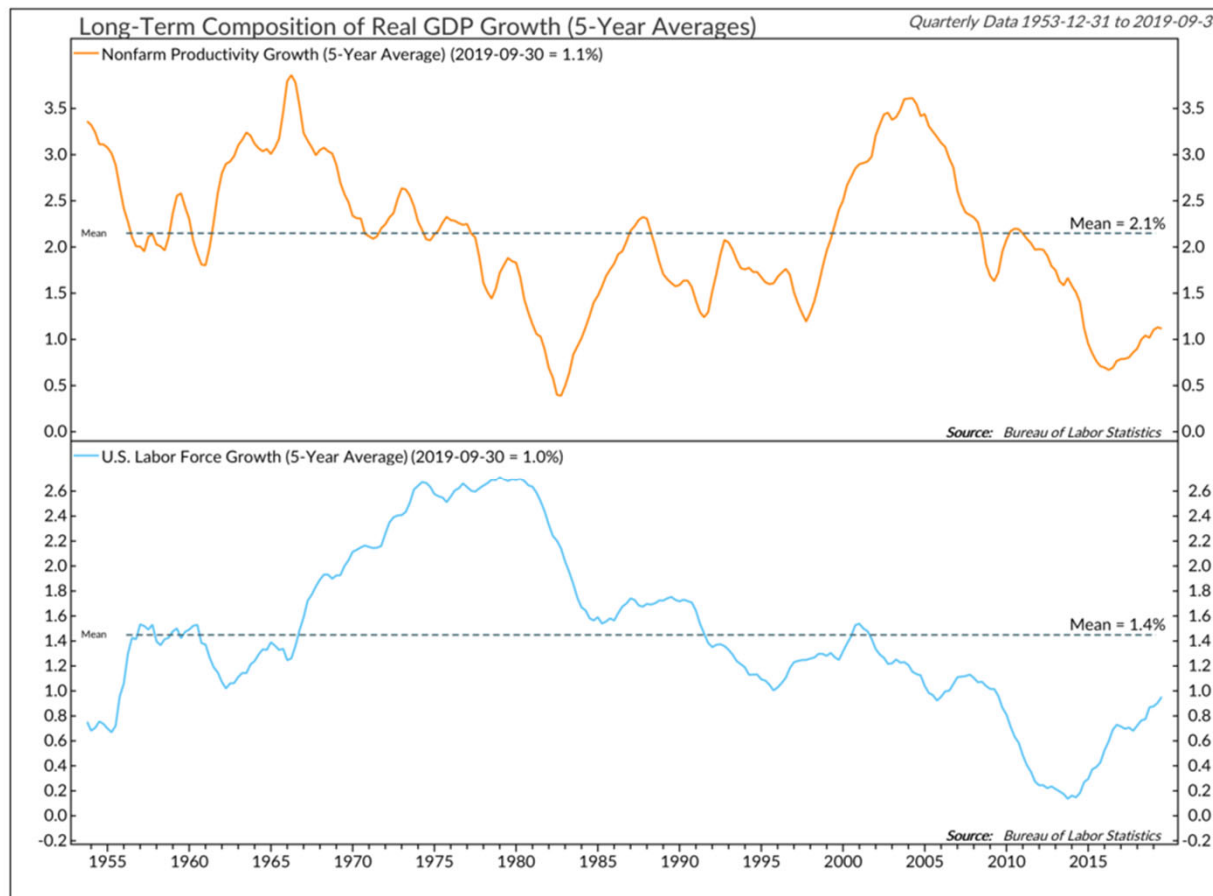
Despite ongoing volatility, cyclical strength re-emerged and the S&P 500 made new highs in 2019.

BAIRD



While below their long-term averages, both productivity and labor force growth trends are rising.

BAIRD

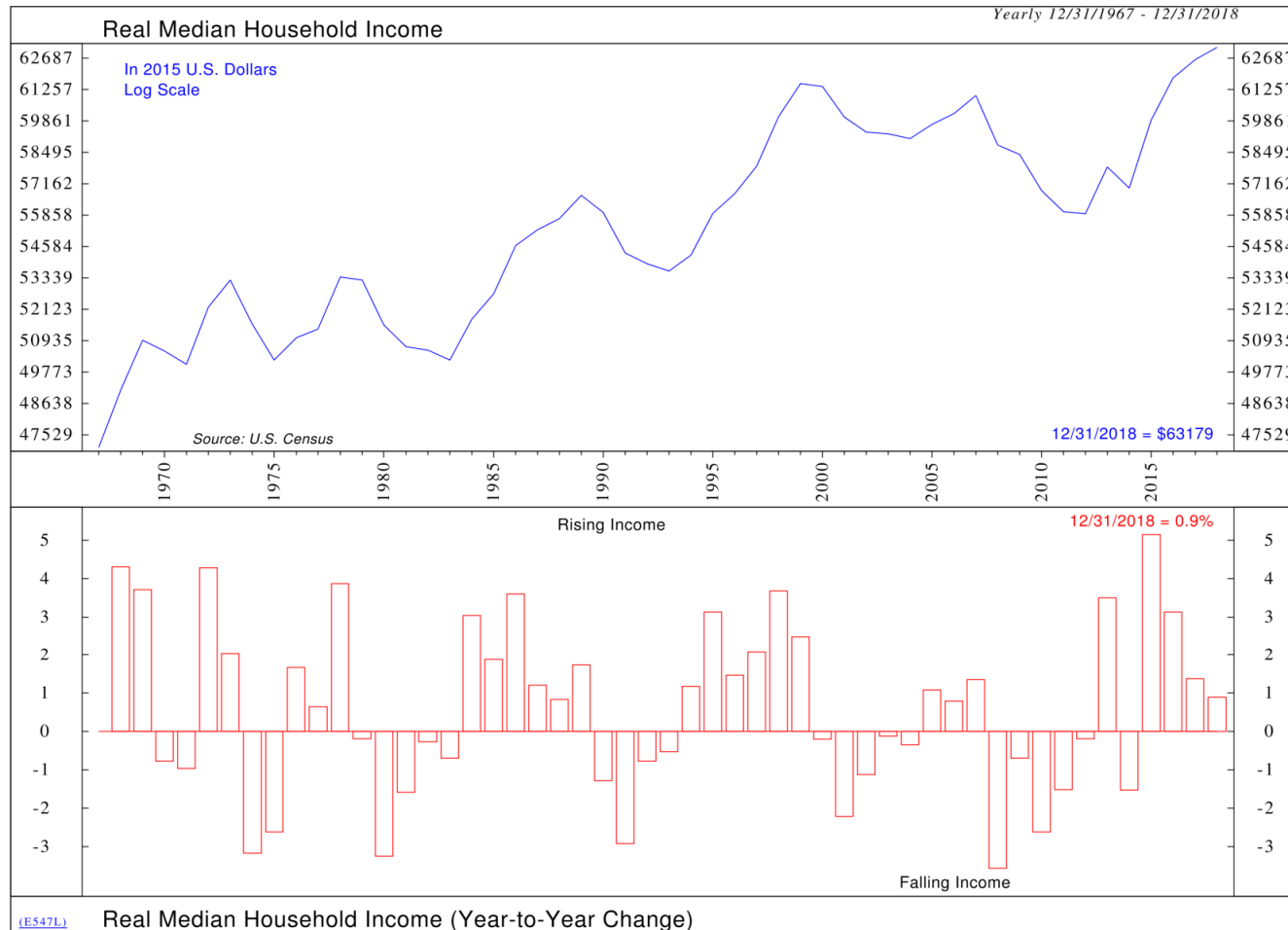


Customized client version of: E0070_CUSTOM



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/

Real median household income reached a new high in 2018.



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/.

The weight of the evidence improved over the course of 2019, fueled by improving broad market trends.

BAIRD

Macro Factors (What Could Happen)

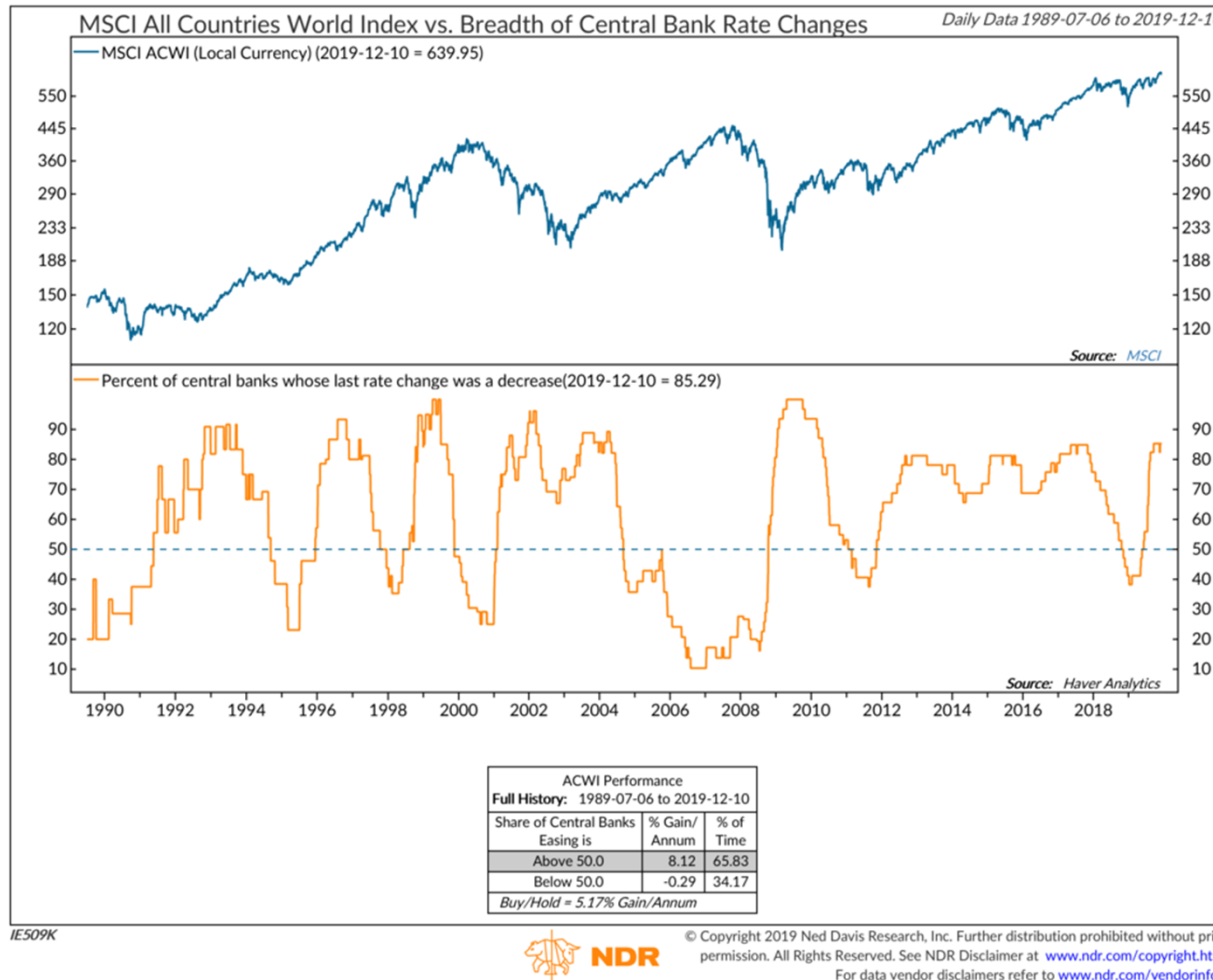
| | | |
|--------------------------|---------|----|
| • Federal Reserve Policy | Bullish | +1 |
| • Economic Fundamentals | Neutral | 0 |
| • Valuations | Bearish | -1 |

Market Factors (What Is Happening)

| | | |
|----------------------------|---------|----|
| • Investor Sentiment | Neutral | 0 |
| • Seasonal Patterns/Trends | Neutral | 0 |
| • Tape (Breadth) | Bullish | +1 |

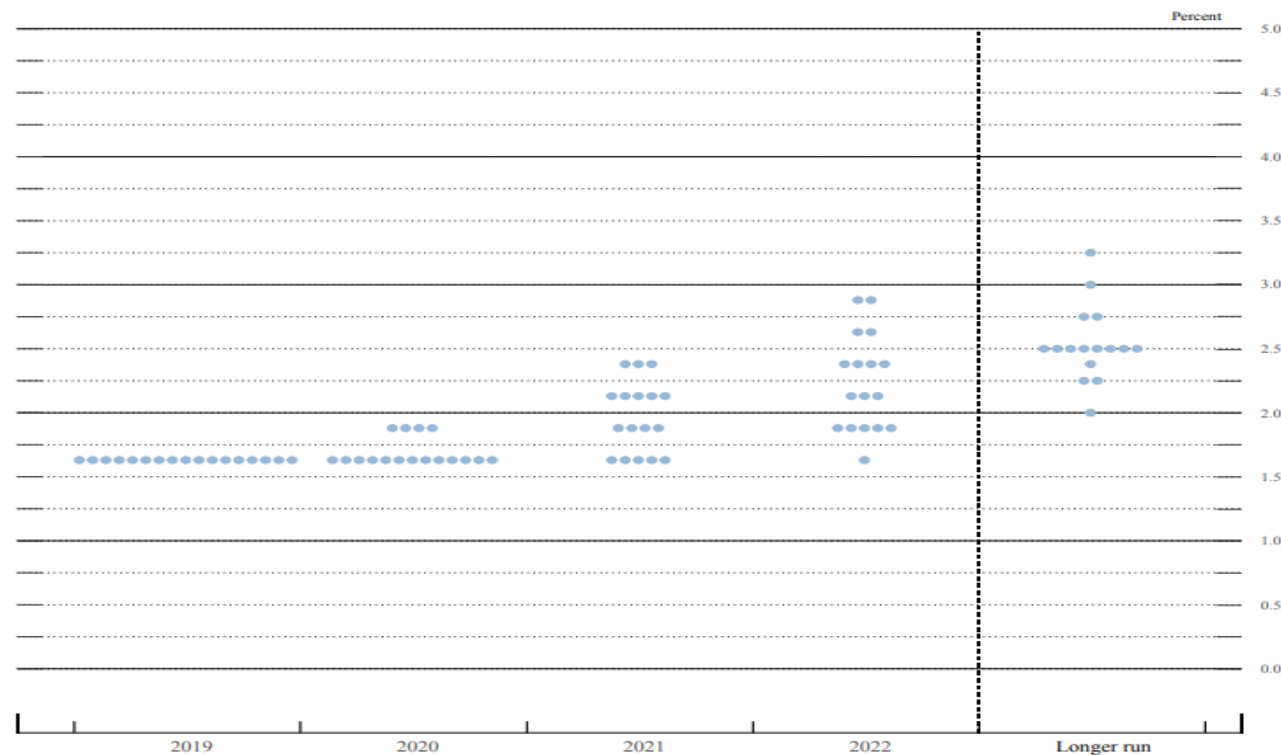
| | | |
|--------------------------|---------|----|
| Weight of the Evidence = | Bullish | +1 |
|--------------------------|---------|----|

Central bank rate cuts supported stocks in 2019 and this tailwind carries into 2020.



BAIRD

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



The favorable stock market reaction to Fed rate cuts diminishes after the third cut

The logo for BAIRD, featuring the word "BAIRD" in white, uppercase, serif font on a dark blue, parallelogram-shaped background.

Stock Market Performance After a Federal Reserve Rate Cut
Using Discount Rate from 1/03/1928 to 12/30/1988
Using Fed Funds Rate from 1/03/1989 to 12/10/2019
Index Data Starts 1/03/1928

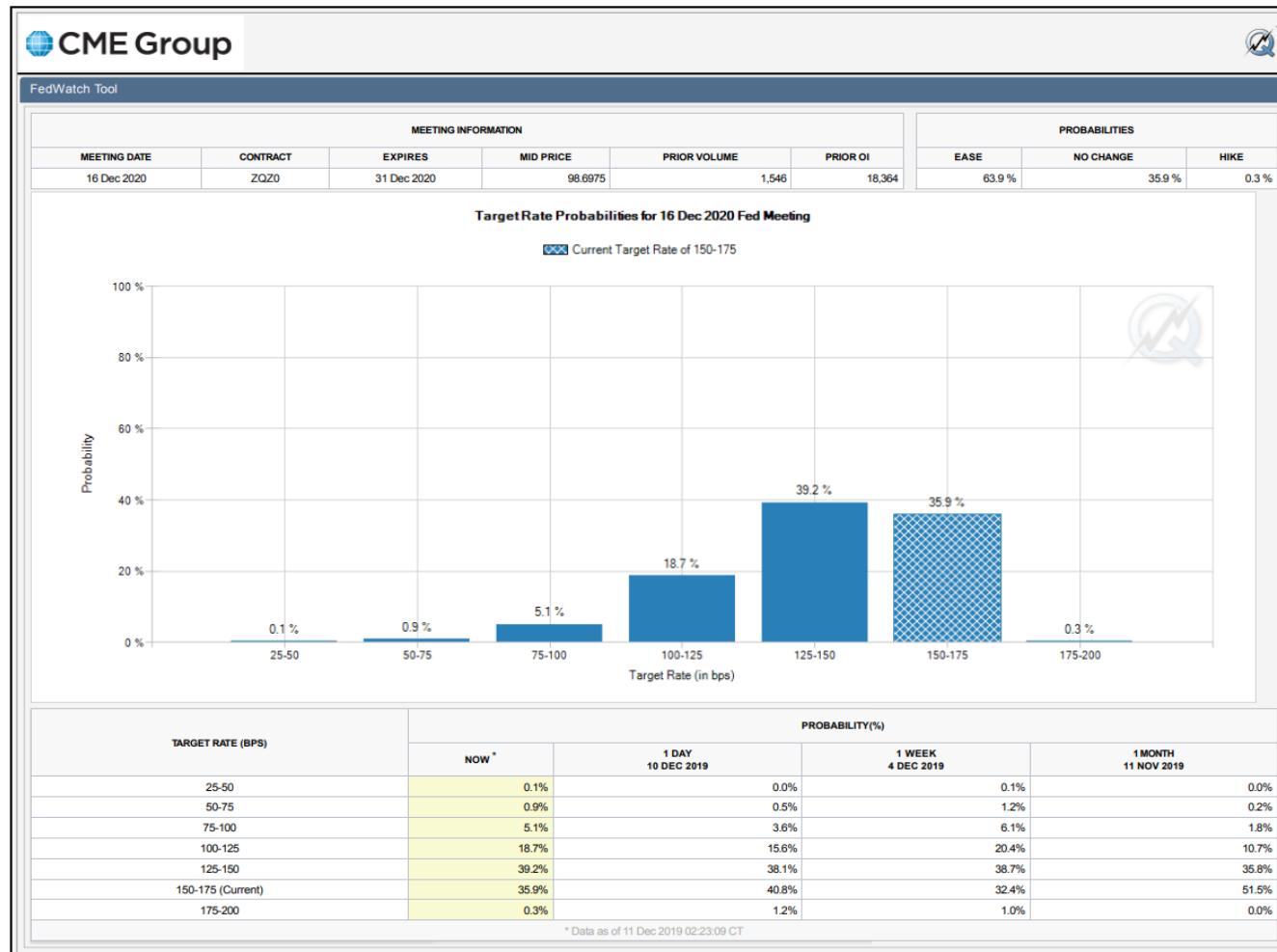
| | S&P 500 Index Percent Gain After | | | | | |
|----------|----------------------------------|------------|------------|-------------|-------------|-------------|
| | # Cases | 22 Days | 63 Days | 126 Days | 190 Days | 252 Days |
| 1st Cut | 20 | 4.00 | 7.05 | 11.74 | 10.48 | 14.84 |
| 2nd Cut | 18 | 2.74 | 10.64 | 11.18 | 12.10 | 16.66 |
| 3rd Cut | 14 | 3.05 | 6.55 | 6.20 | 9.24 | 10.14 |
| 4th Cut | 10 | 2.71 | 5.79 | 2.43 | 1.03 | 3.18 |
| 5th Cut | 9 | 0.99 | -0.70 | -2.35 | -4.51 | -1.68 |
| 6th Cut | 8 | 1.93 | 2.12 | 5.14 | 3.24 | 0.87 |
| Mean | | 2.57 | 5.24 | 5.72 | 5.26 | 7.33 |
| Buy/Hold | | 0.61 | 1.76 | 3.51 | 5.34 | 7.22 |

Days = Market Days

The number of Federal Reserve Rate cuts equals consecutive cuts until an intervening Federal Reserve Rate increase is encountered at which point the count is started over.

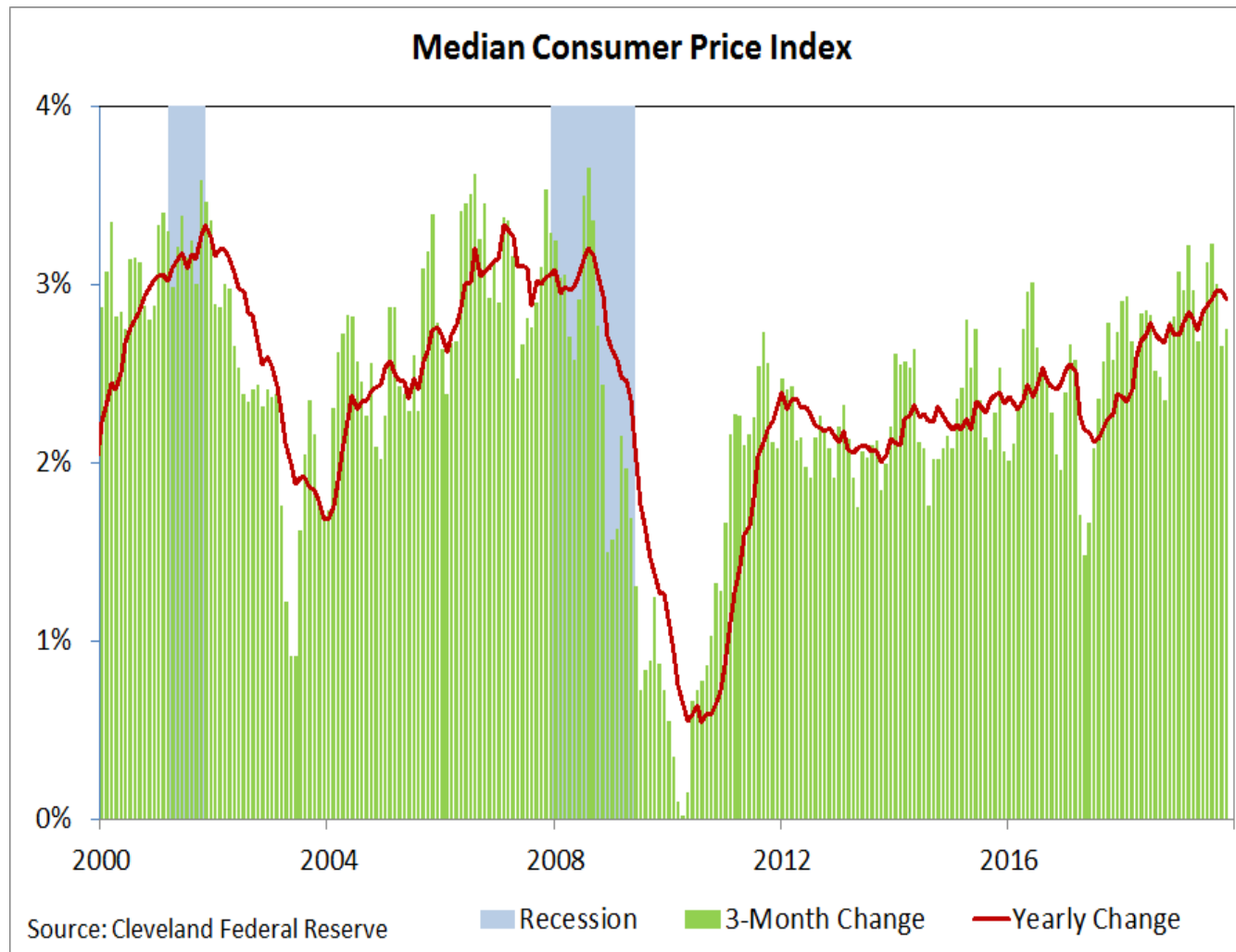
Futures traders see the possibility of additional cuts in 2020.

BAIRD



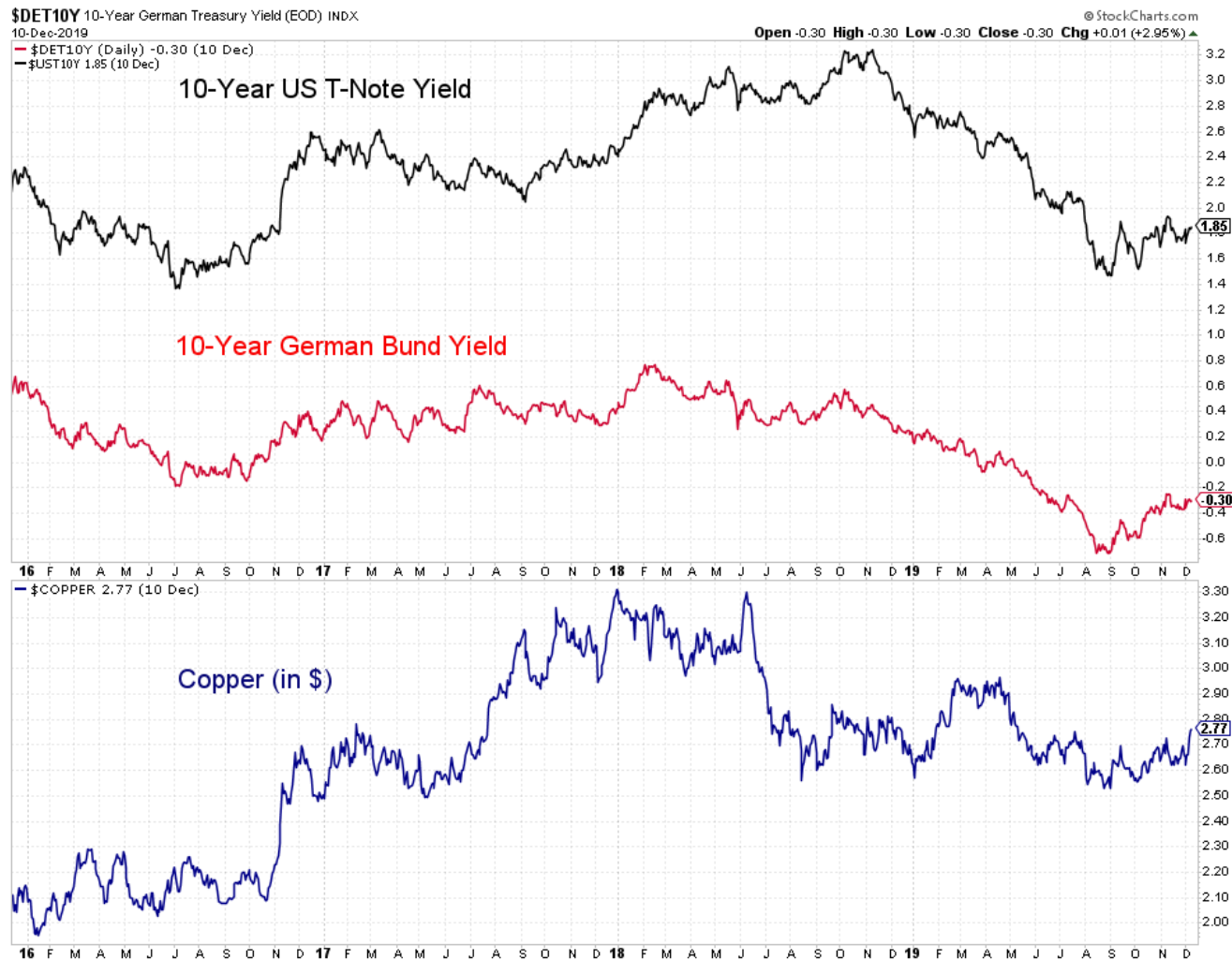
While the Fed has discussed muted inflation, the median CPI moved to its highest level in a decade.

BAIRD



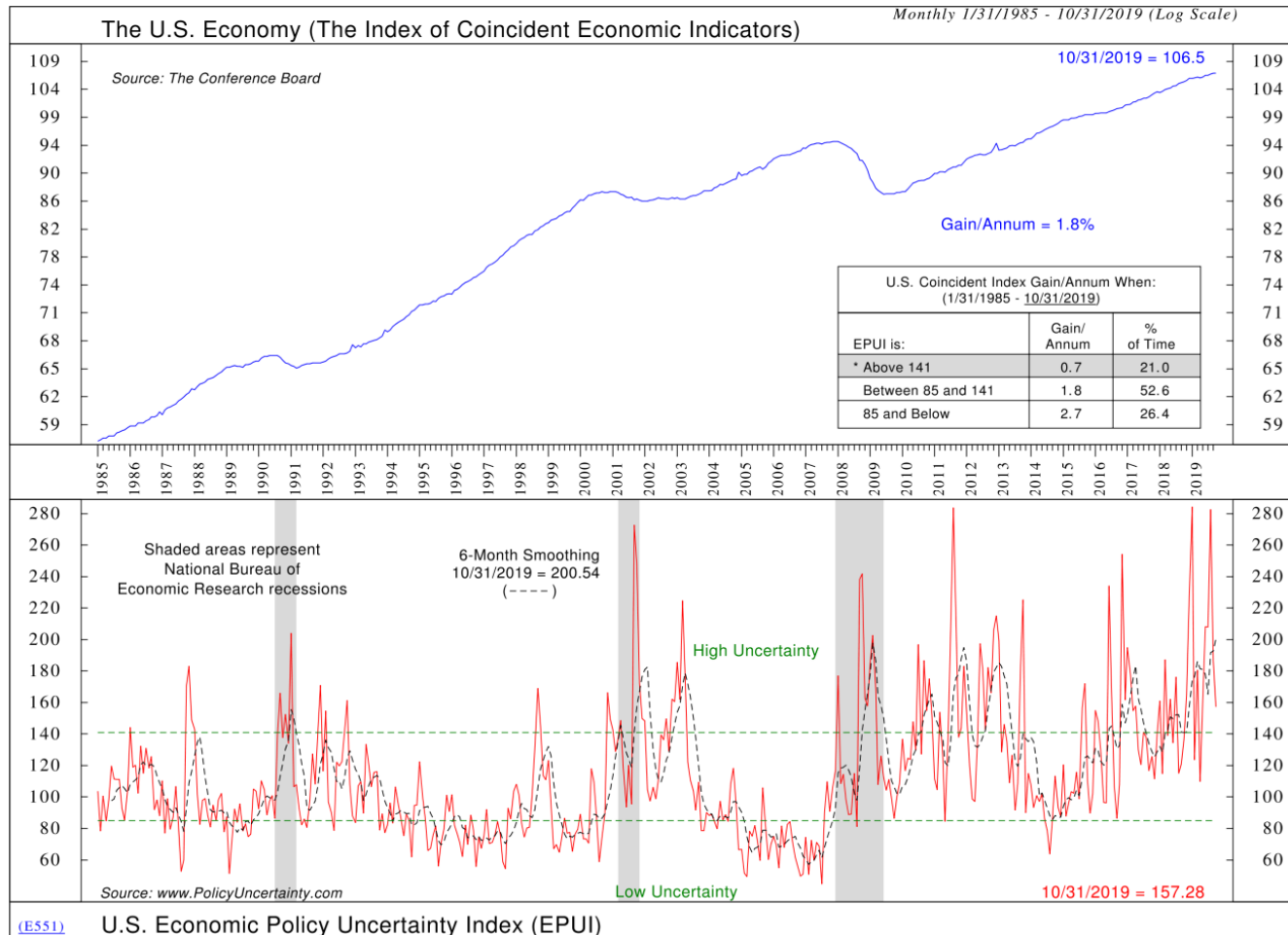
*Bond yields and copper have moved off mid-2019 lows
– further gains could keep the Fed on the sidelines.*

BAIRD



Uncertainty will never go away entirely, but elevated levels (like we saw in 2019) can weigh on the economy.

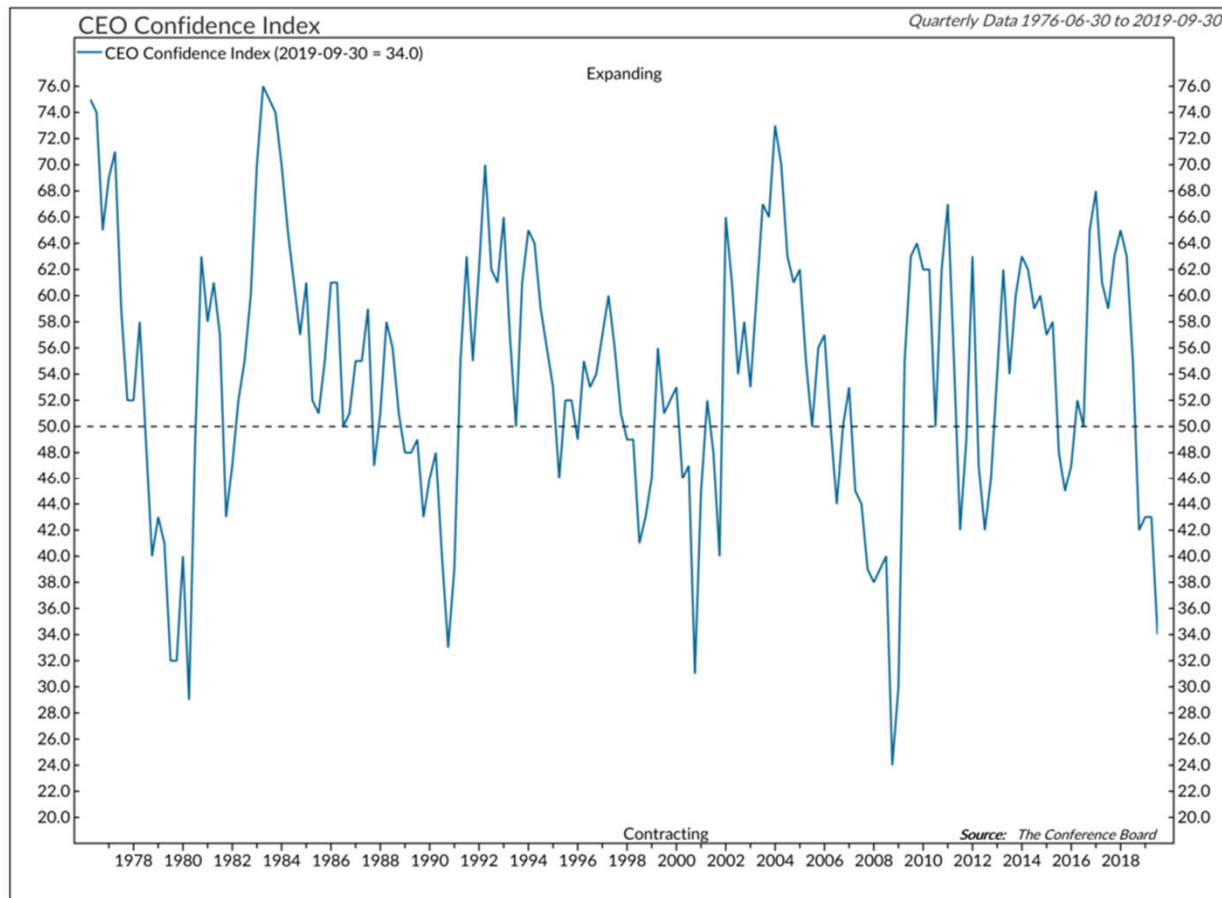
BAIRD



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/.

Uncertainty seems to be weighing on CEO confidence, which is at its lowest level in a decade.

BAIRD



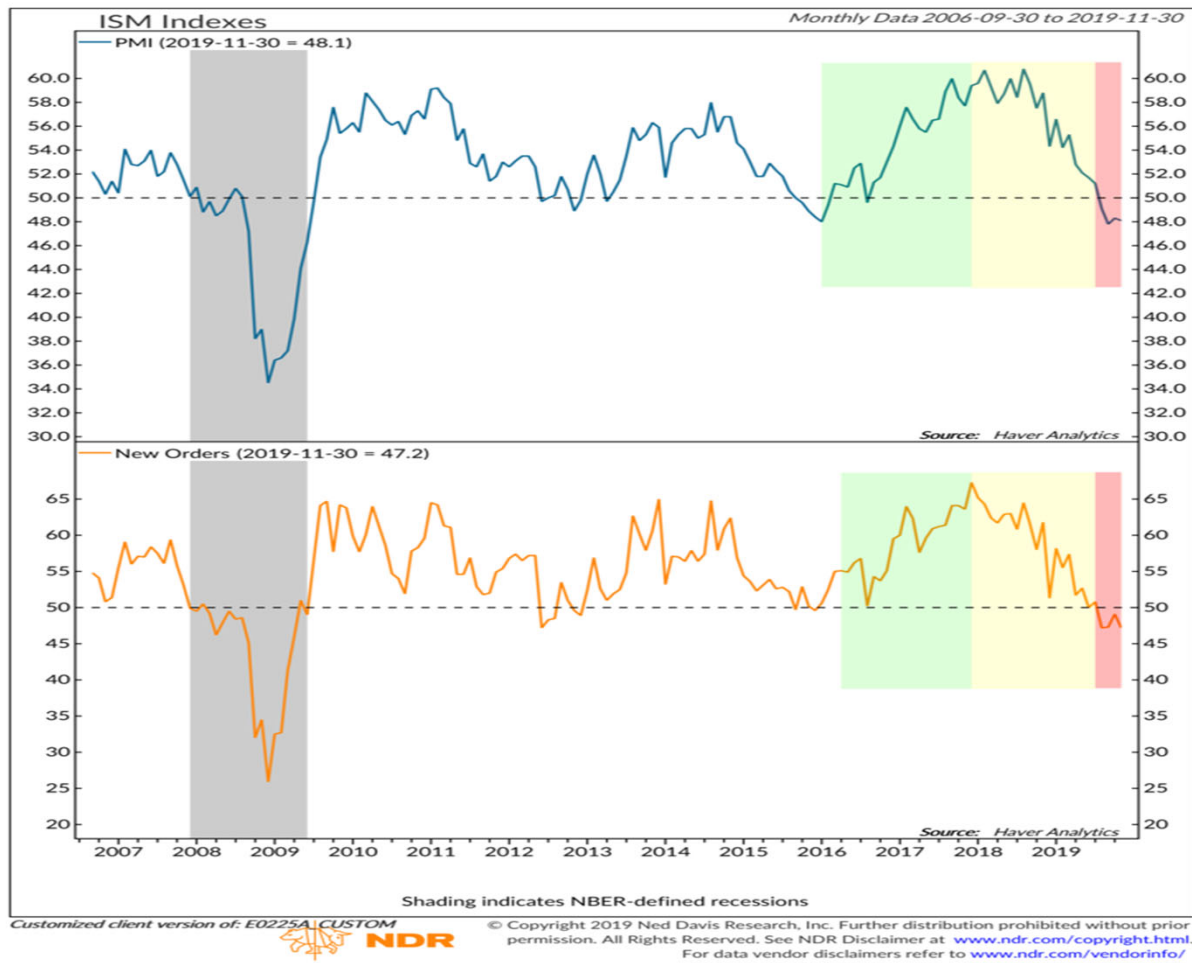
Customized client version of E0276



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/

Domestic manufacturing data continued to weaken in 2019 and now show activity is contracting.

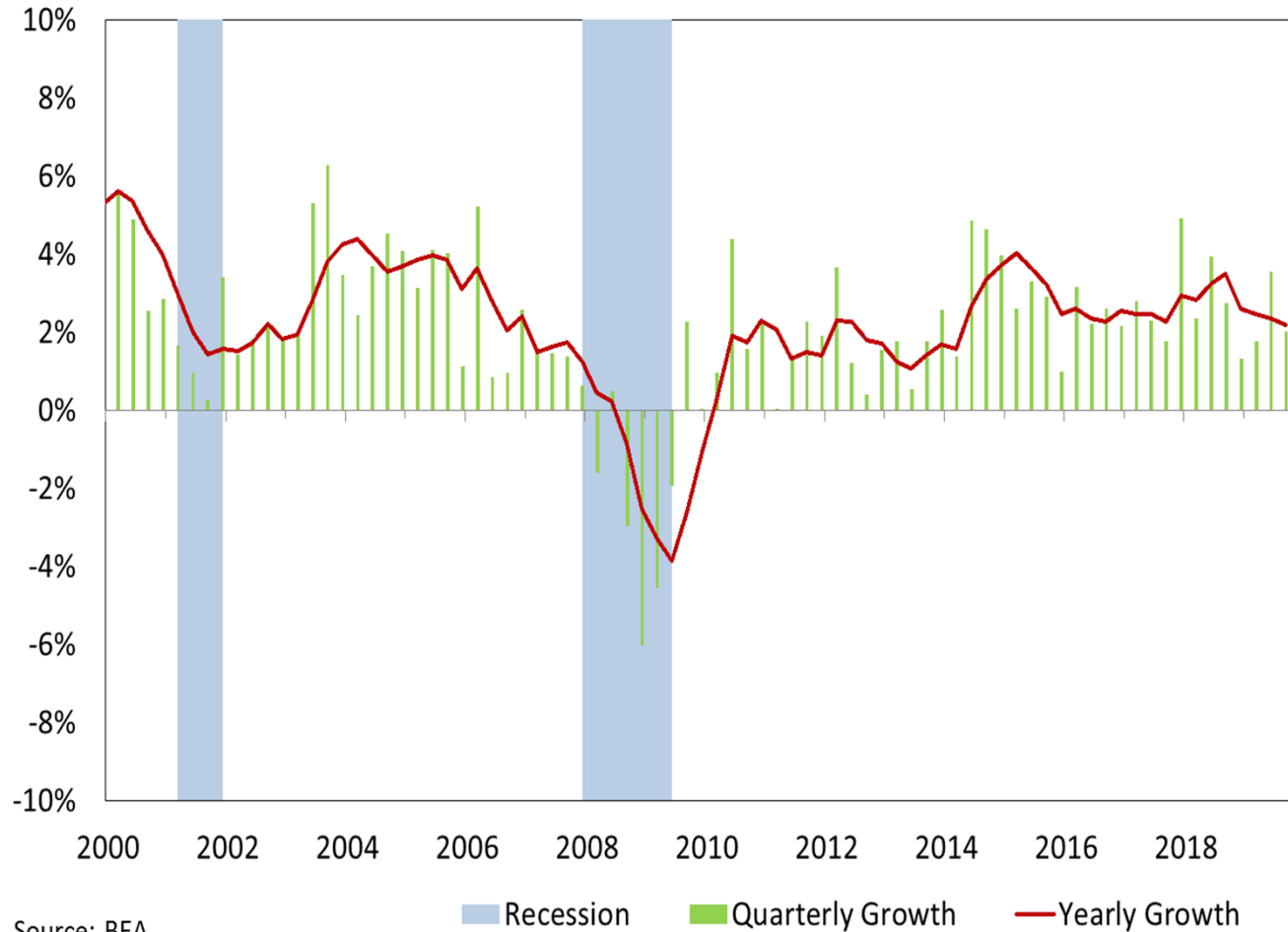
BAIRD



While the consumer has been resilient, growth in domestic demand is still at lowest level sine 2014.

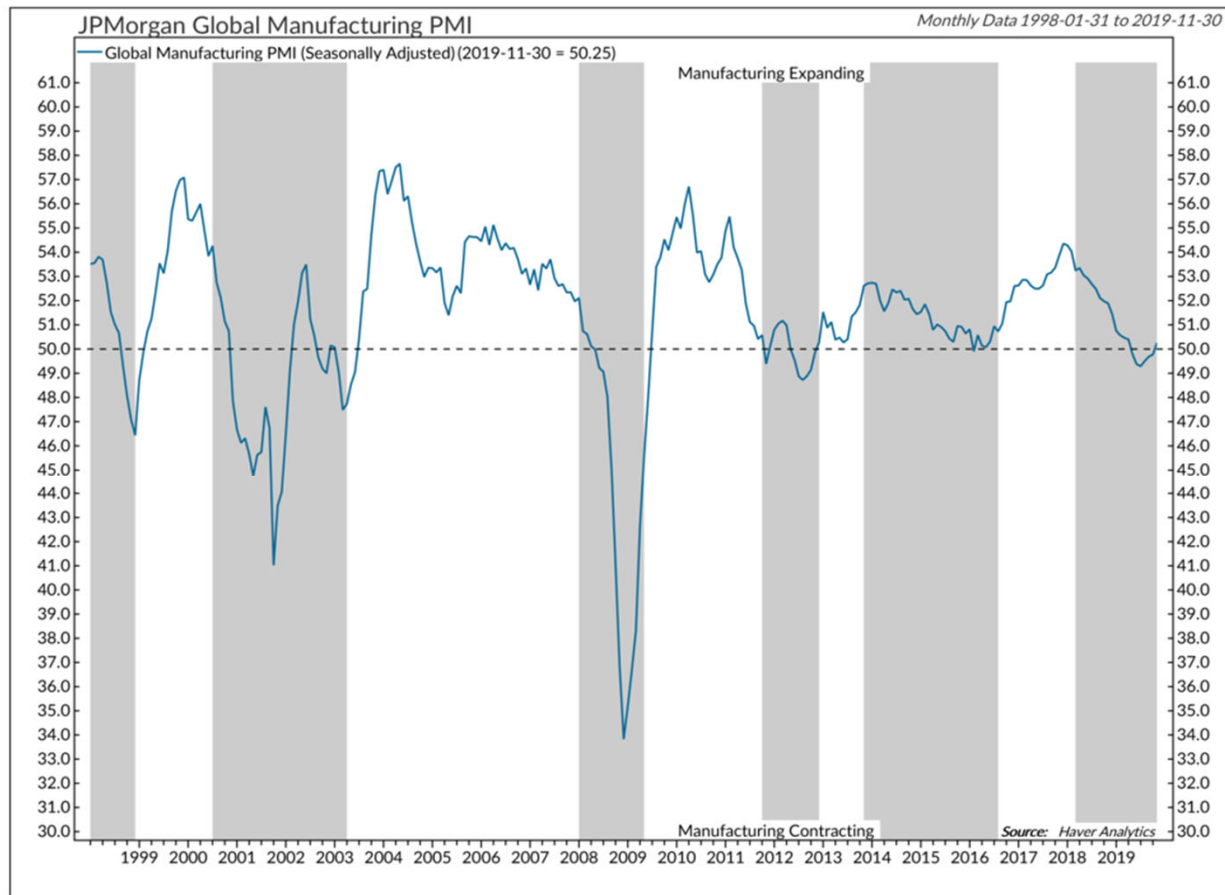
BAIRD

Real Final Sales to Domestic Purchasers



Globally there is (again) evidence of green shoots emerging.

BAIRD



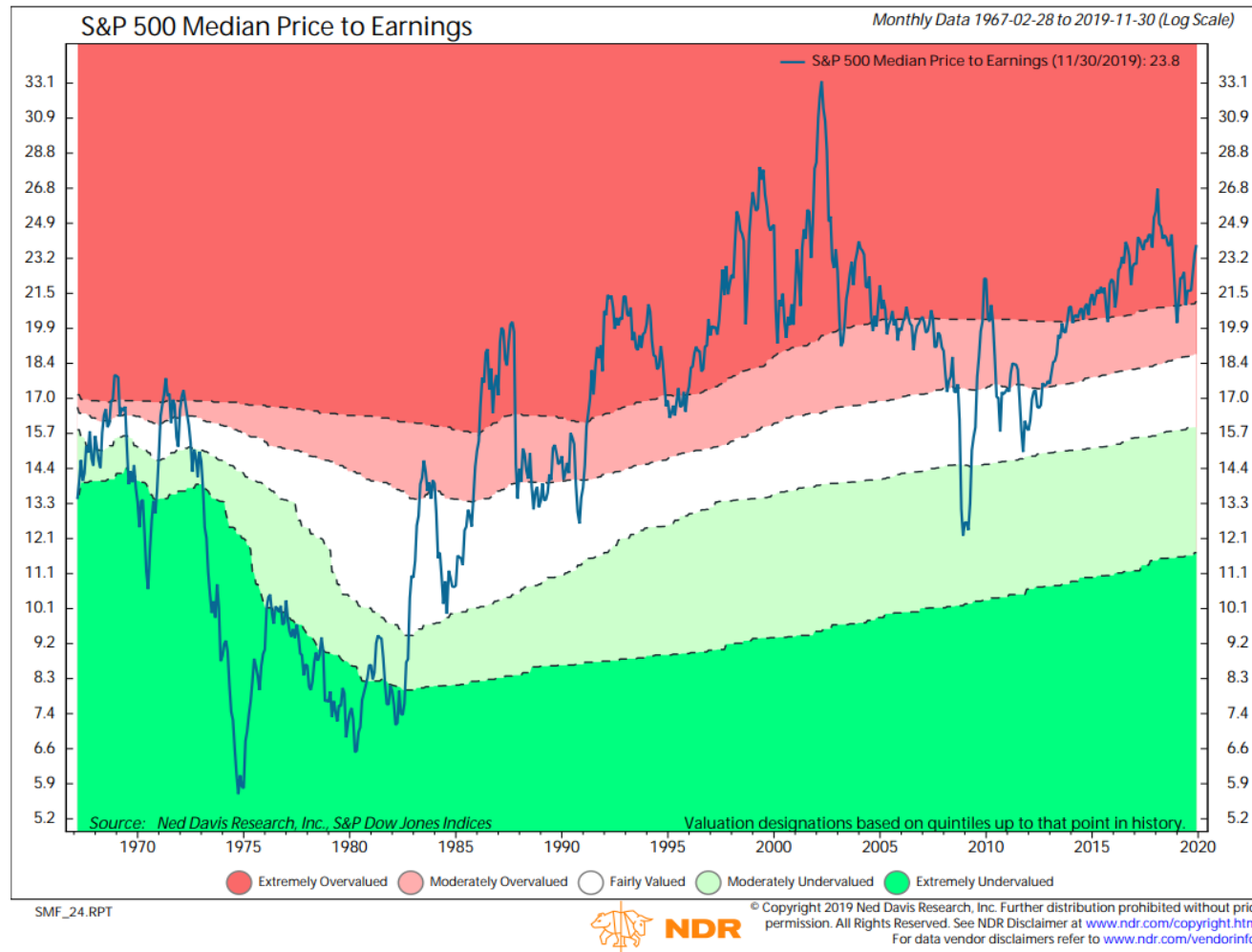
Customized client version of: IE250_CUSTOM



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/

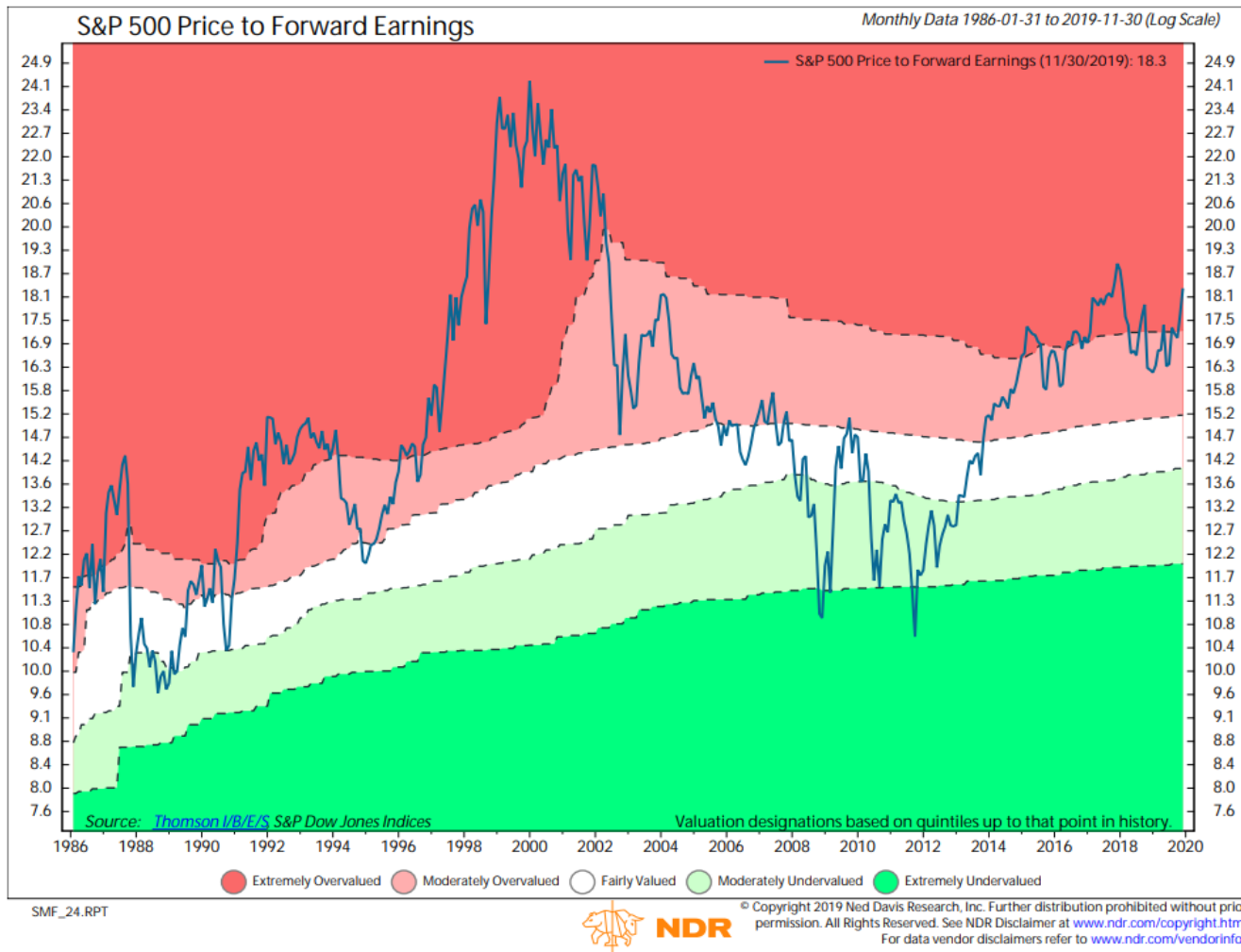
Price gains in 2019 outpaced earnings growth, keeping valuations at elevated levels on a trailing basis.

BAIRD



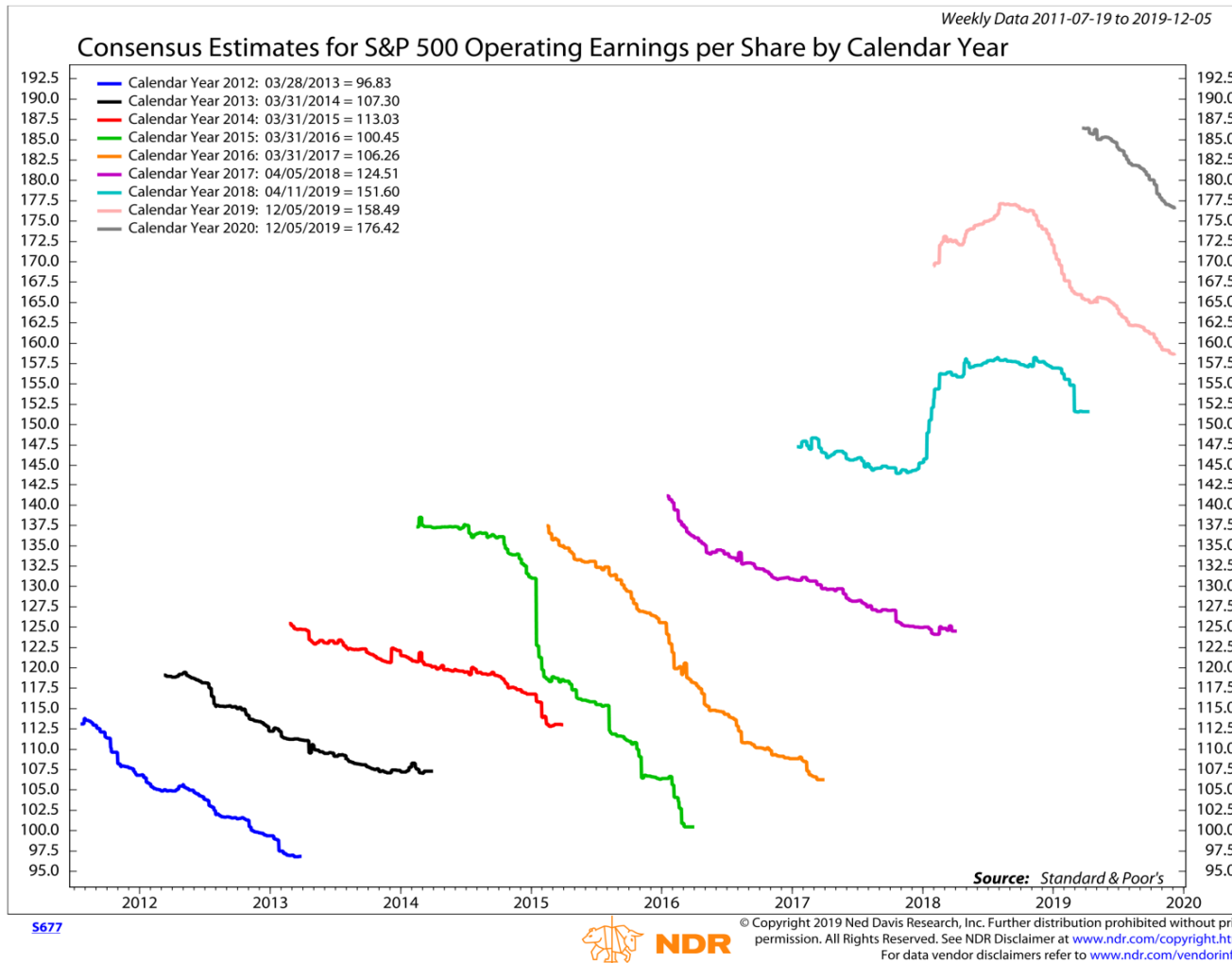
Valuations are also stretched relative to forward earnings.

BAIRD



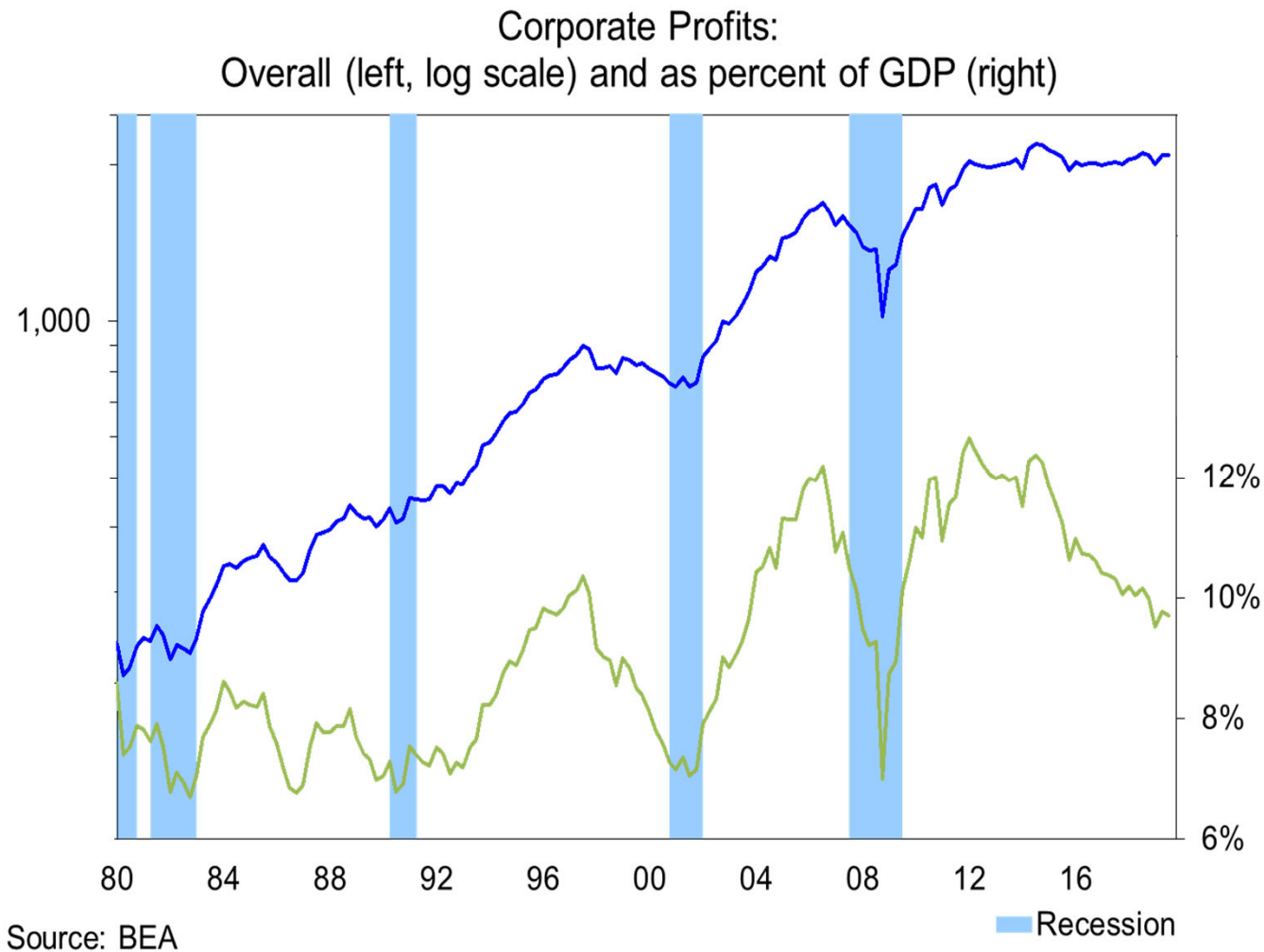
Expectations tend to fall as the year progresses, but earnings growth is expected to rebound in 2020.

BAIRD



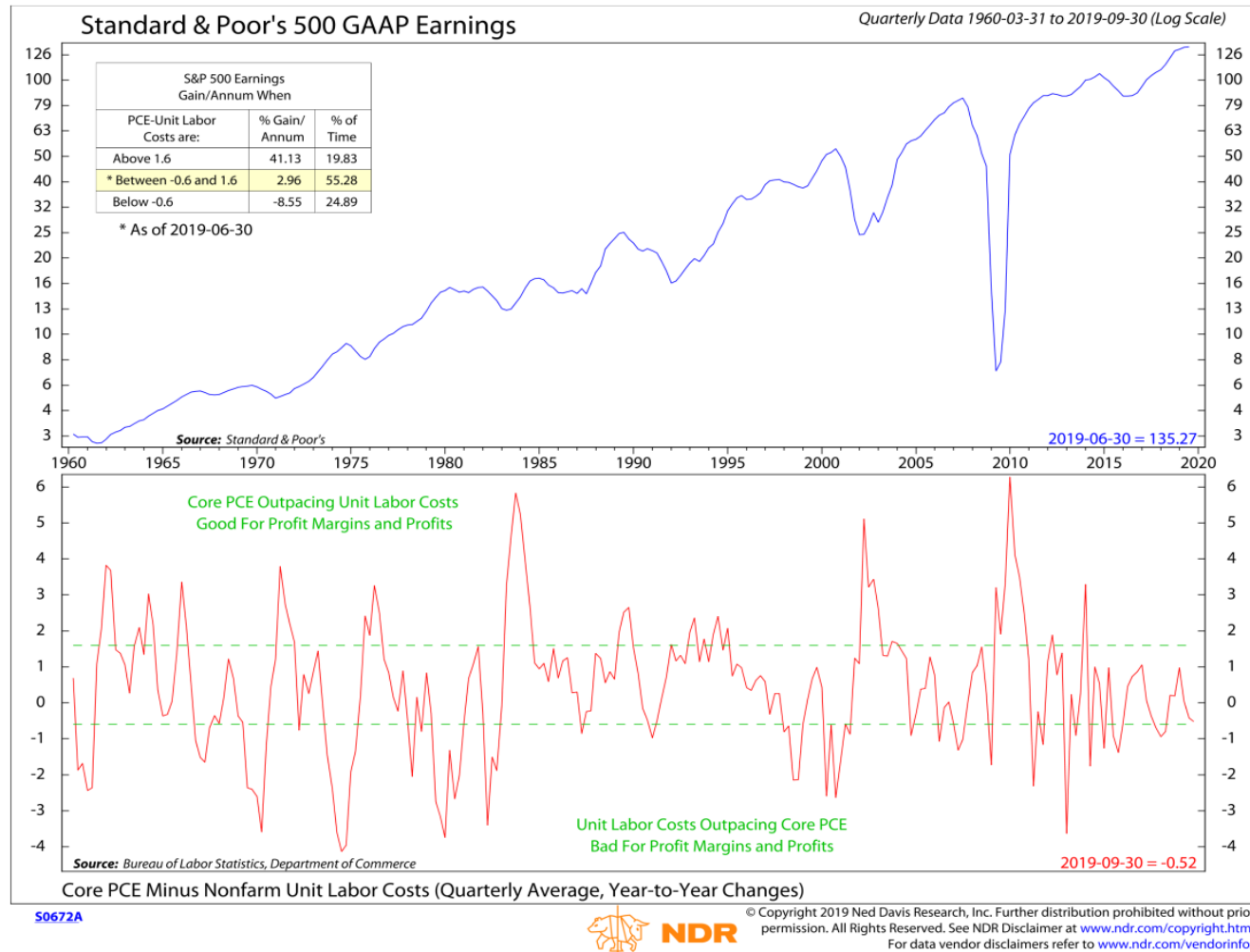
As measured in the GDP data, corporate profits have not risen in 5 years while margins have deteriorated.

BAIRD



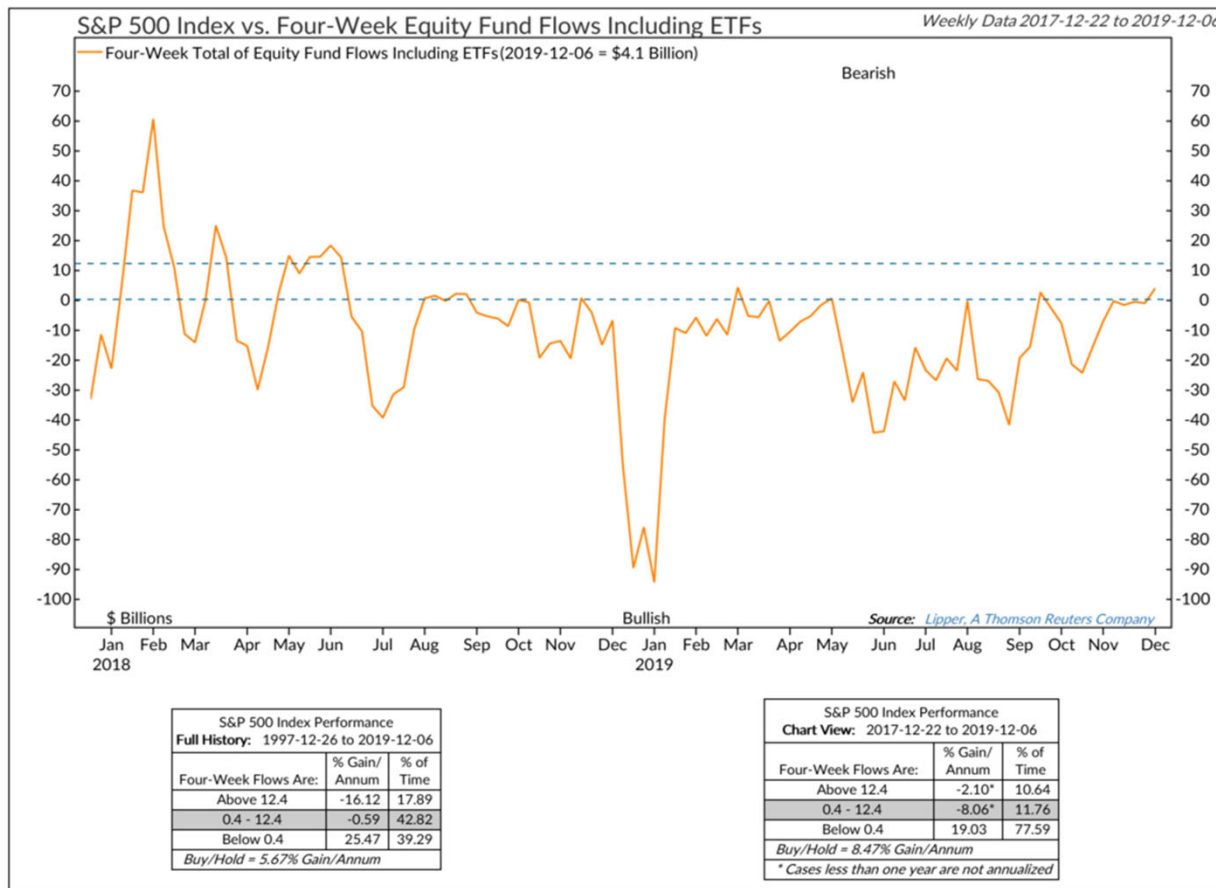
Labor costs outpacing inflation tends to weigh on earnings growth.

BAIRD



The latest fund flow data suggest recent investor skepticism may be fading.

BAIRD



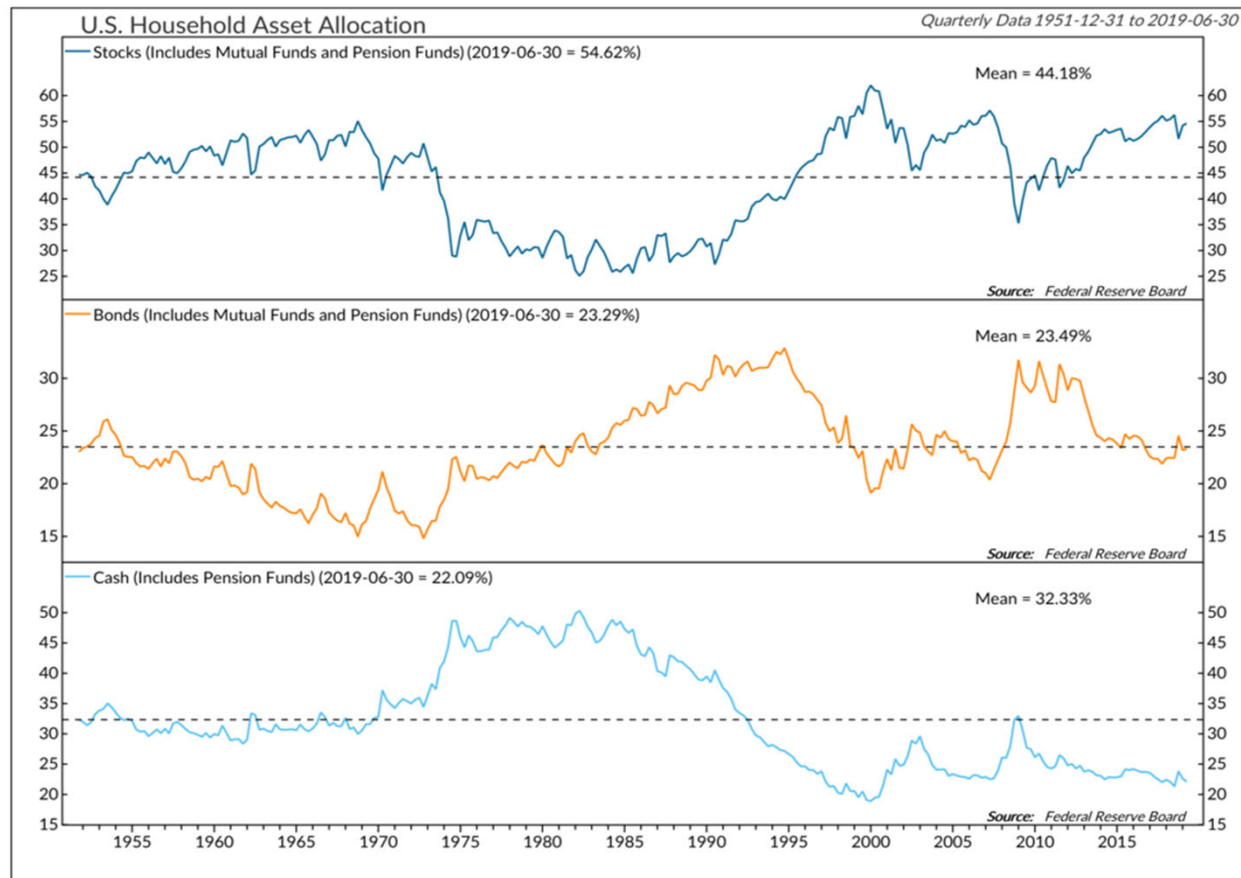
Customized client version of DAVIS207A



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/

After a decade of gains, elevated household exposure to equities reflects a deep-seated complacency.

BAIRD



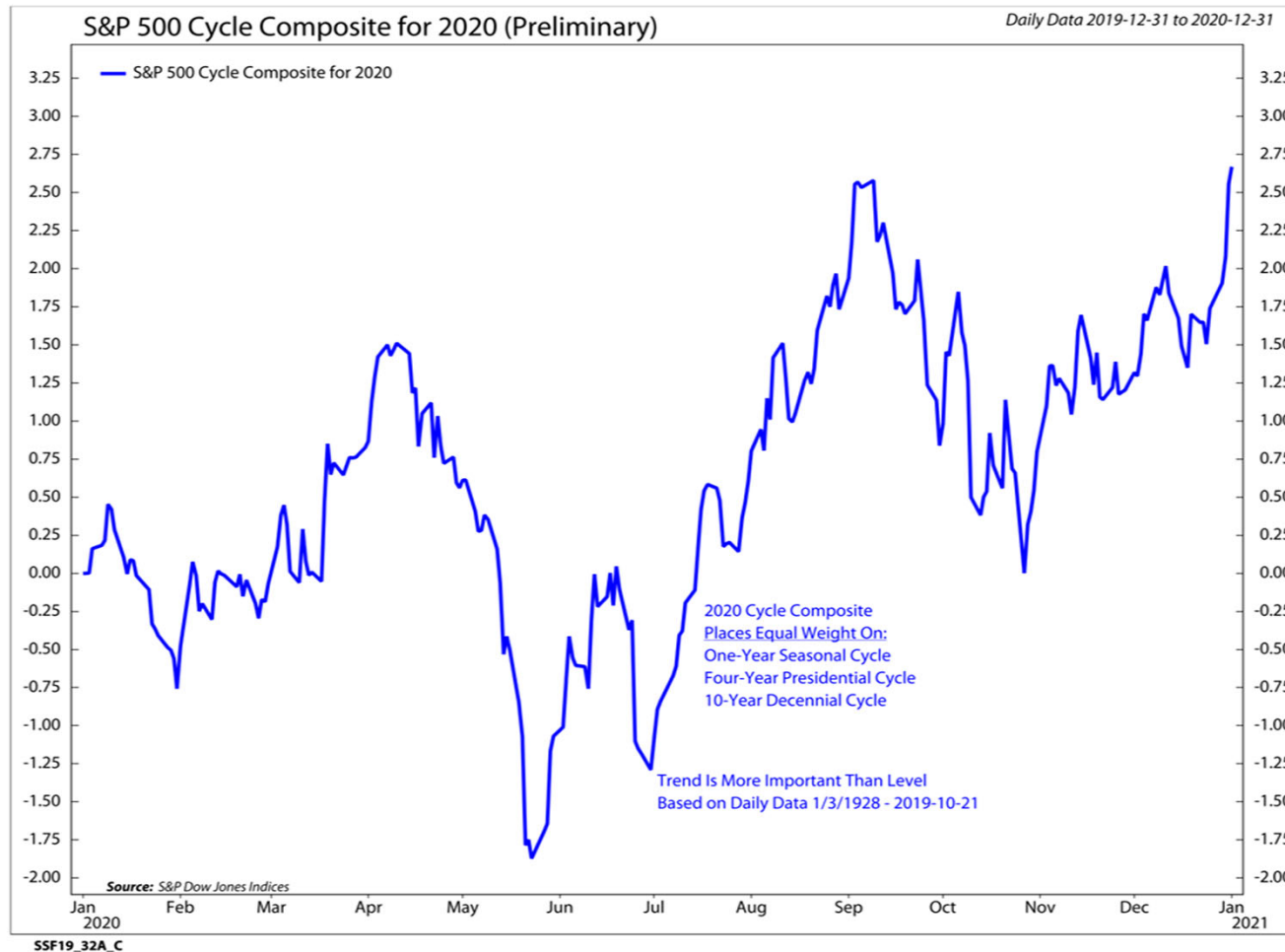
DAVIS188



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/

If seasonal patterns hold, election uncertainty could add to volatility but not derail cyclical strength.

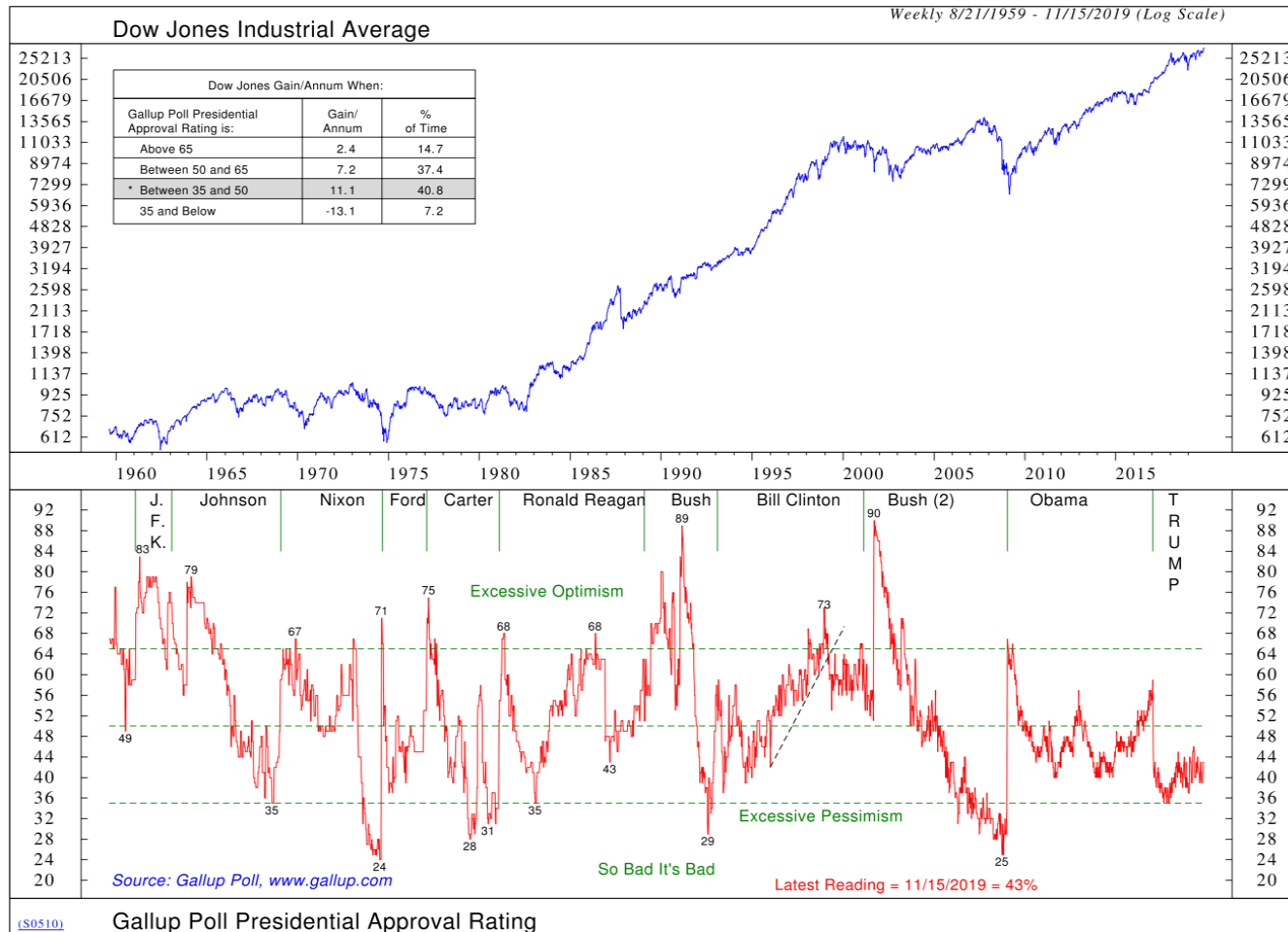
BAIRD



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
See NDR Disclaimer at www.ndr.com/copyright.html For data vendor disclaimers refer to www.ndr.com/vendorinfo/

If President Trump's approval rating holds steady, impeachment is likely to be more noise than news.

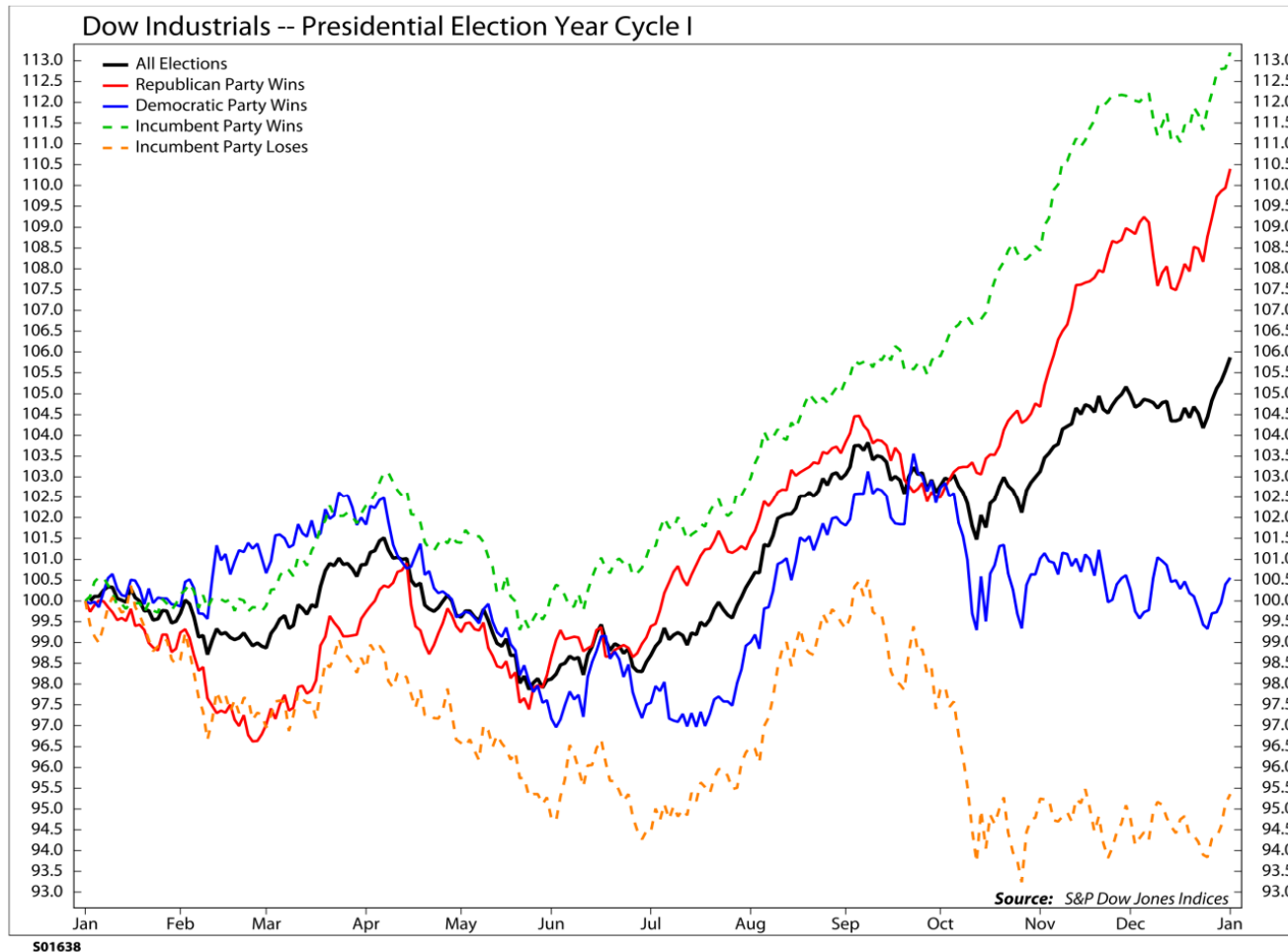
BAIRD



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/.

Stocks have tended to rally in advance of incumbent party victories in Presidential elections.

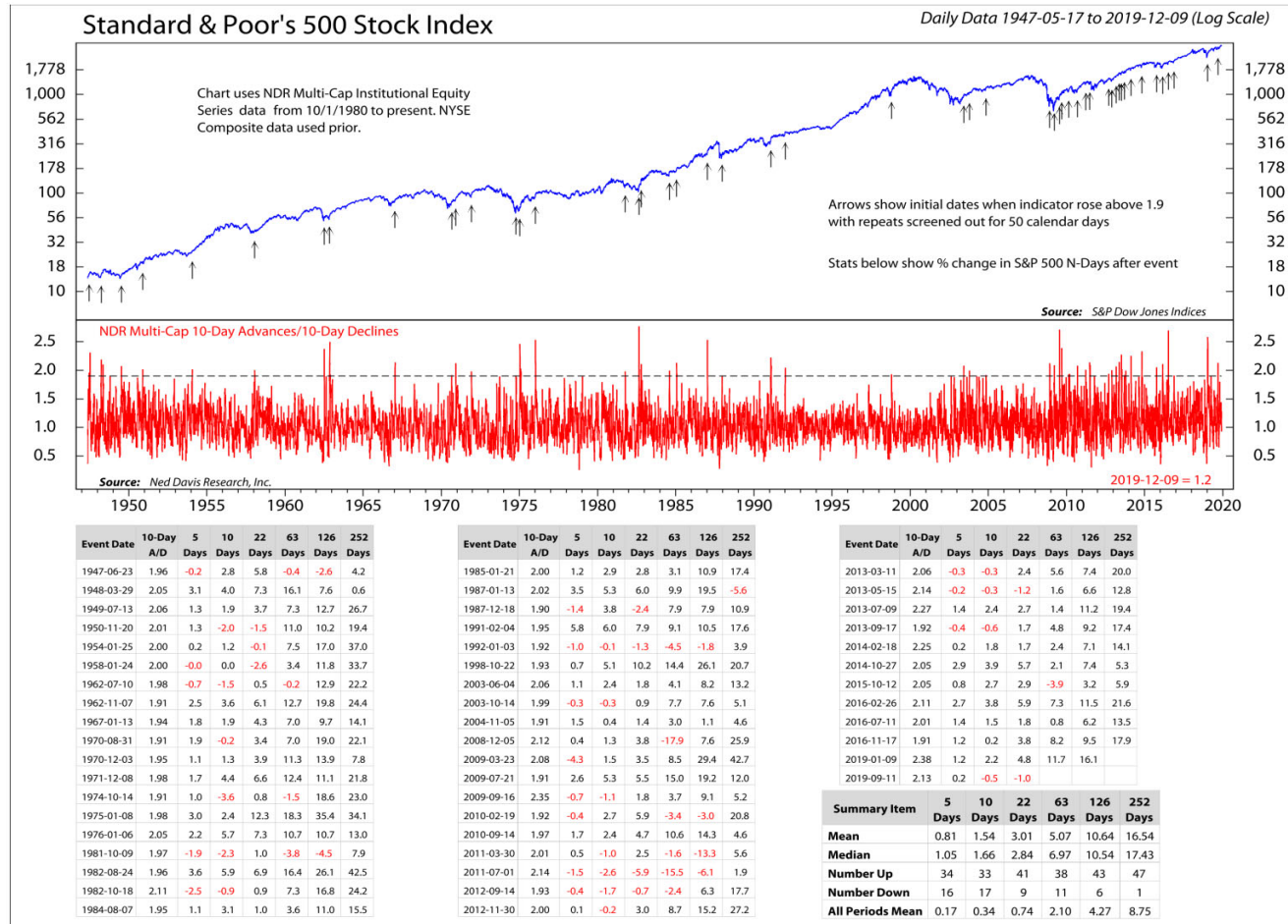
BAIRD



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
See NDR Disclaimer at www.ndr.com/copyright.html For data vendor disclaimers refer to www.ndr.com/vendorinfo/

Breadth thrusts in early 2019 spelled an end to late-2018 weakness and have helped sustain the rally.

BAIRD



S48

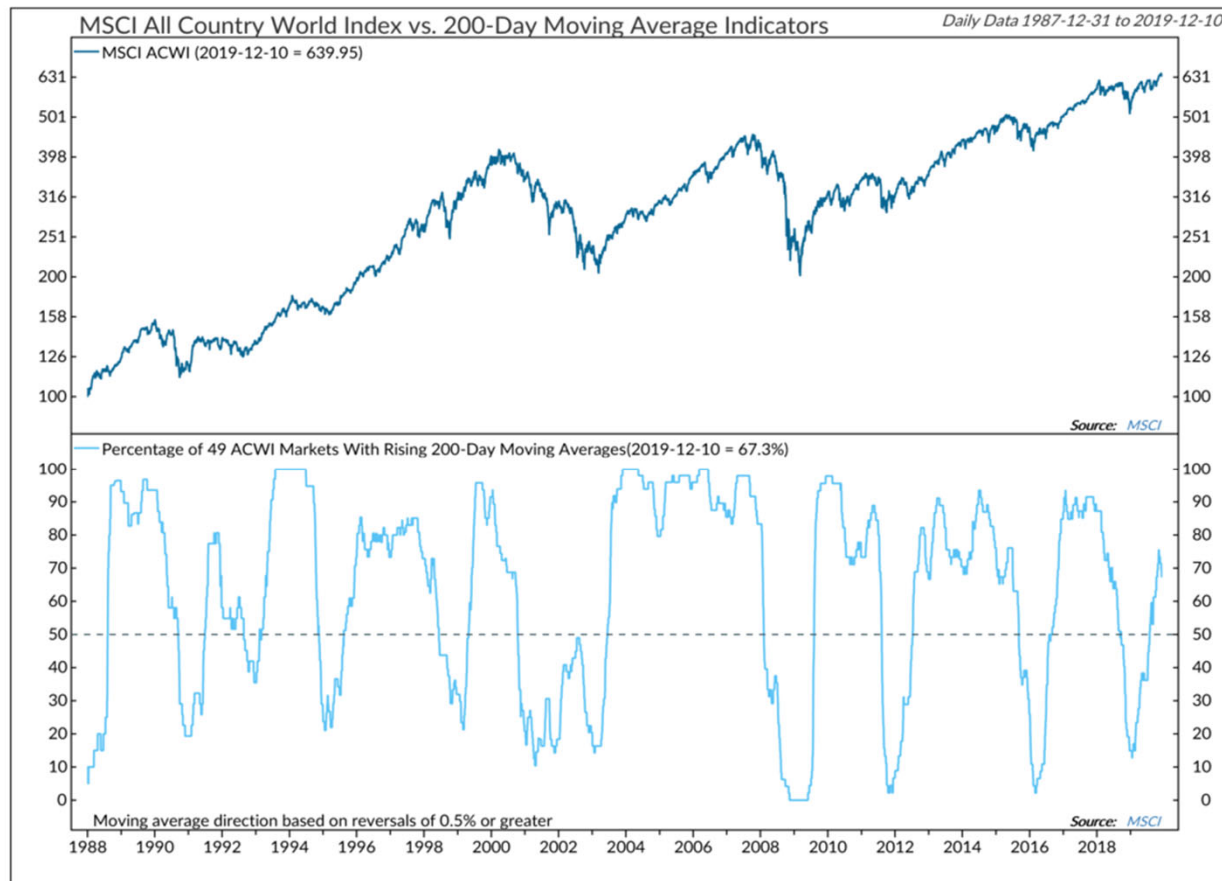


NDR

© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html For data vendor disclaimers refer to www.ndr.com/vendorinfo/

Rally participation has become a global trend – two-thirds of global markets have rising 200-day averages.

BAIRD



Customized client version of: 1138B_CUSTOM

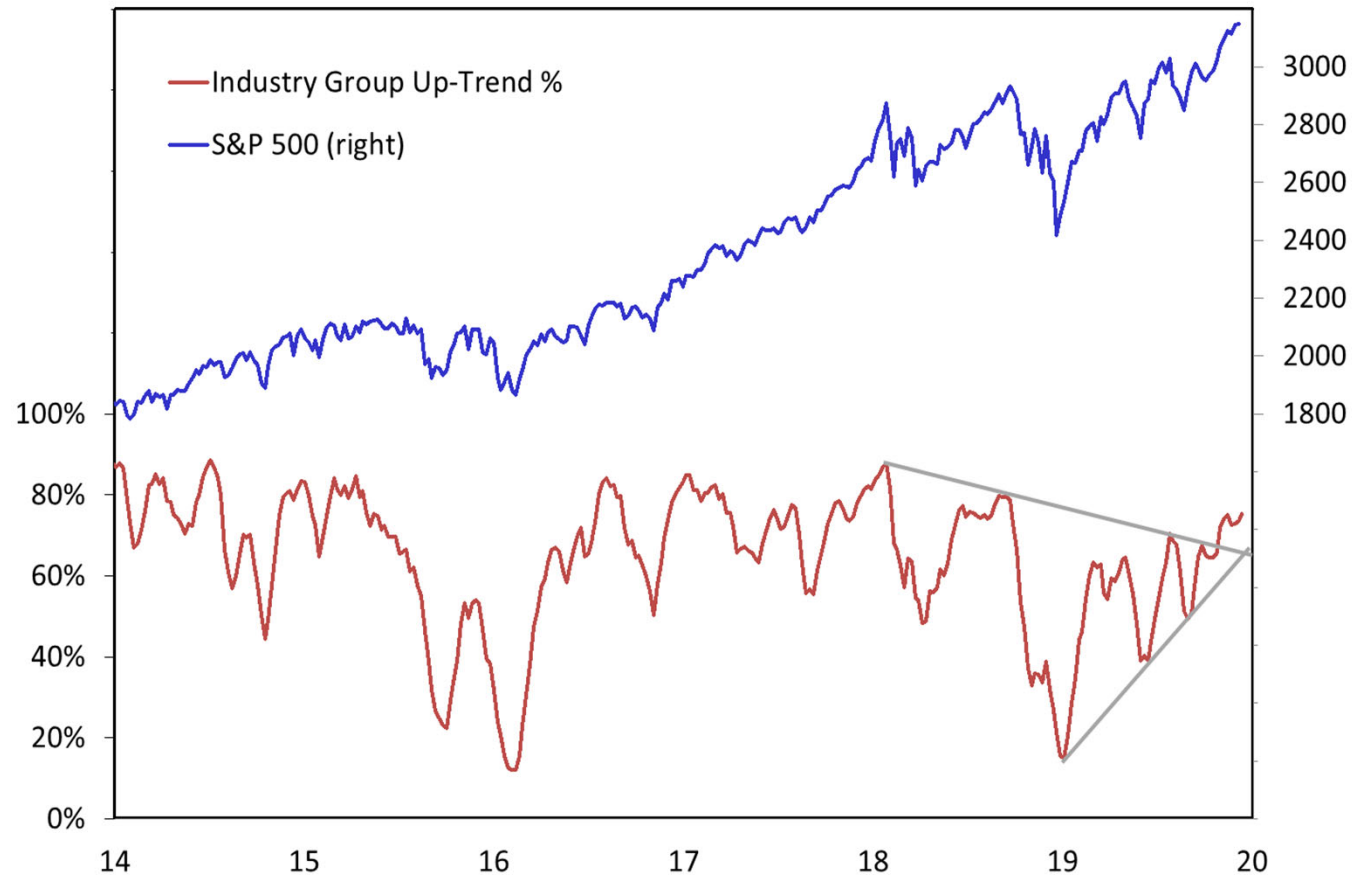


© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/

Domestics industry group trends have switched from making lower highs to making higher lows.

BAIRD

S&P 500 and Industry Group Breadth

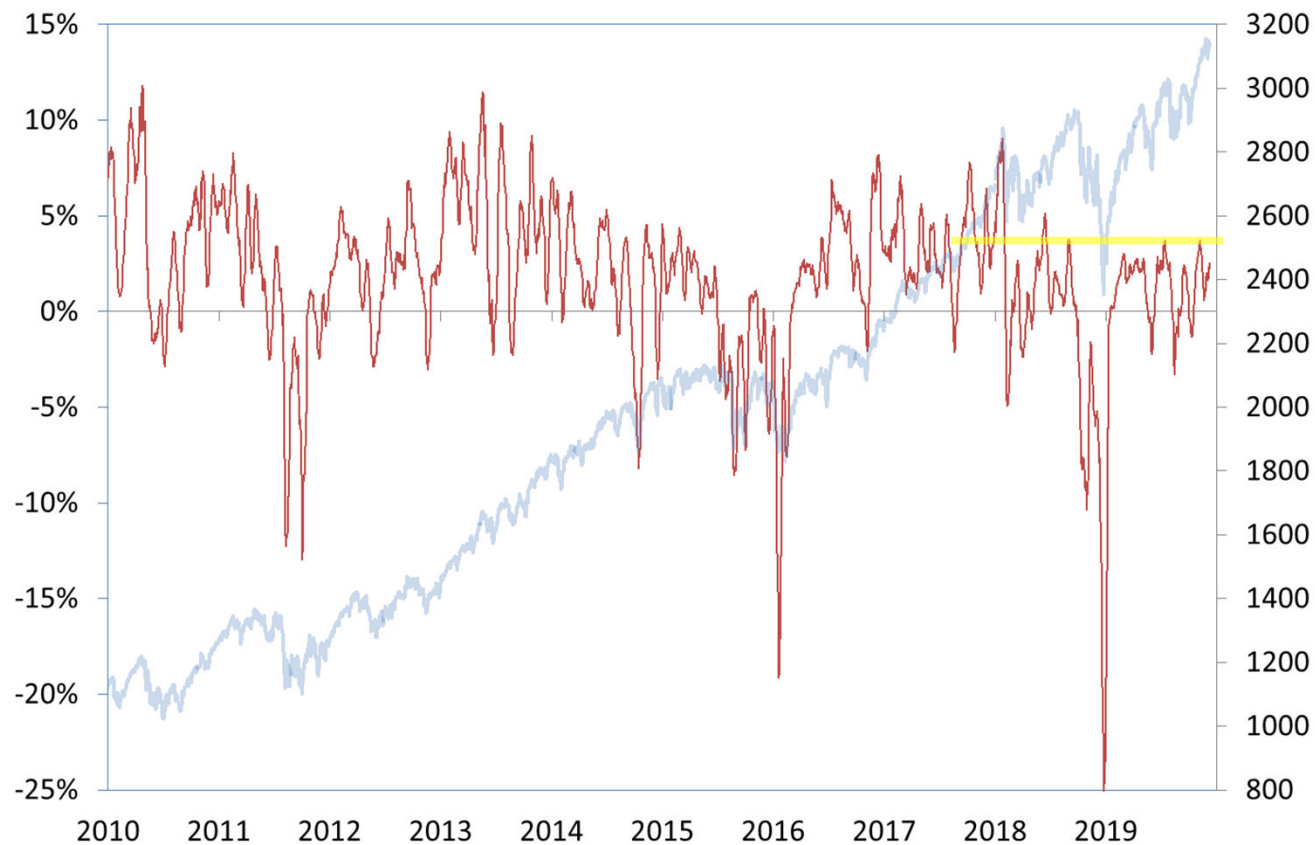


Source: FactSet, RWB Calculations

New lows have faded, but the number of stocks making new highs leaves room for improvement.

BAIRD

Breadth and S&P 500



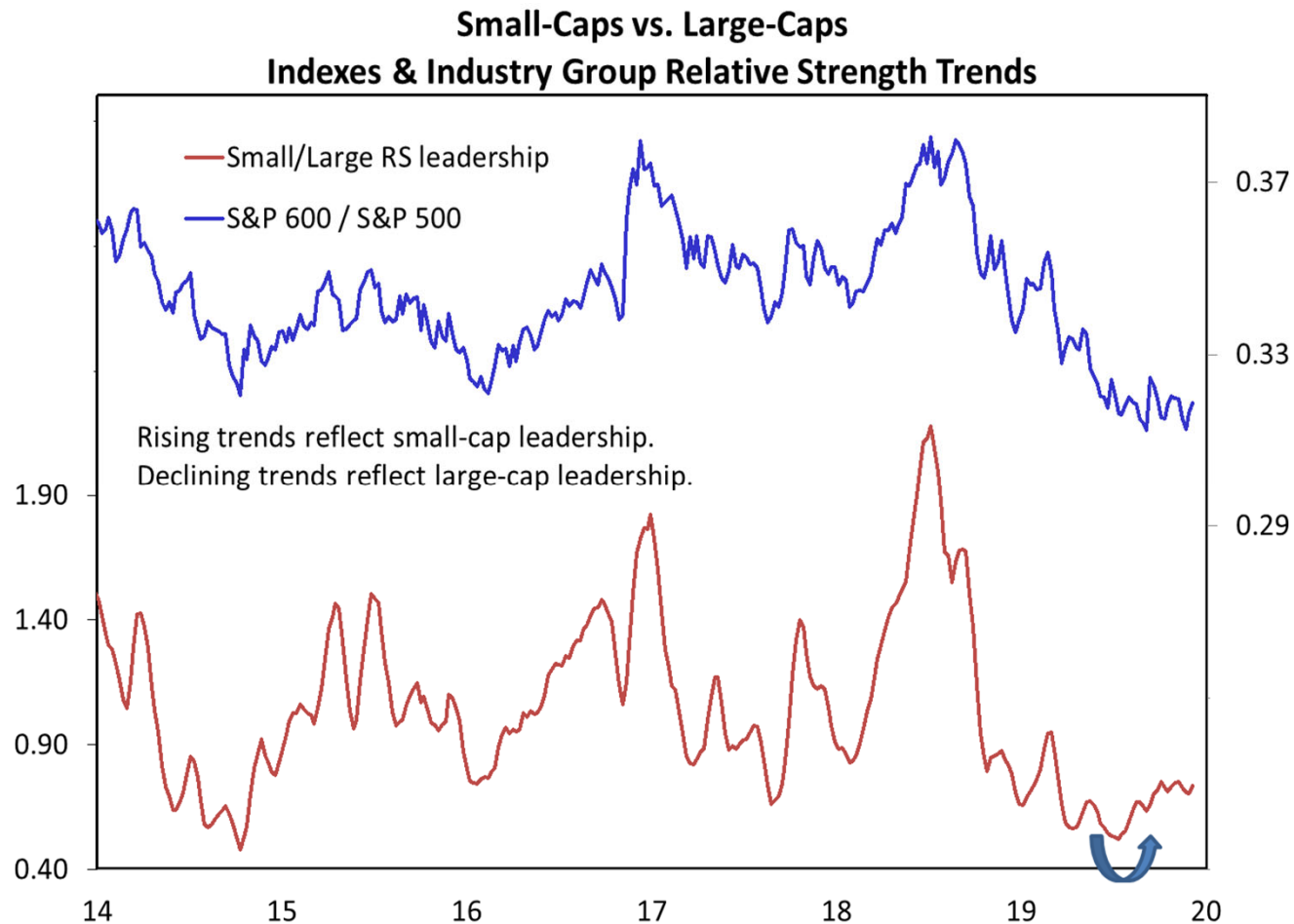
Source: Wall Street Journal

— 10-Day Total New Highs - New Lows

— S&P 500 (right)

Industry group leadership is moving in the direction of small-cap strength.

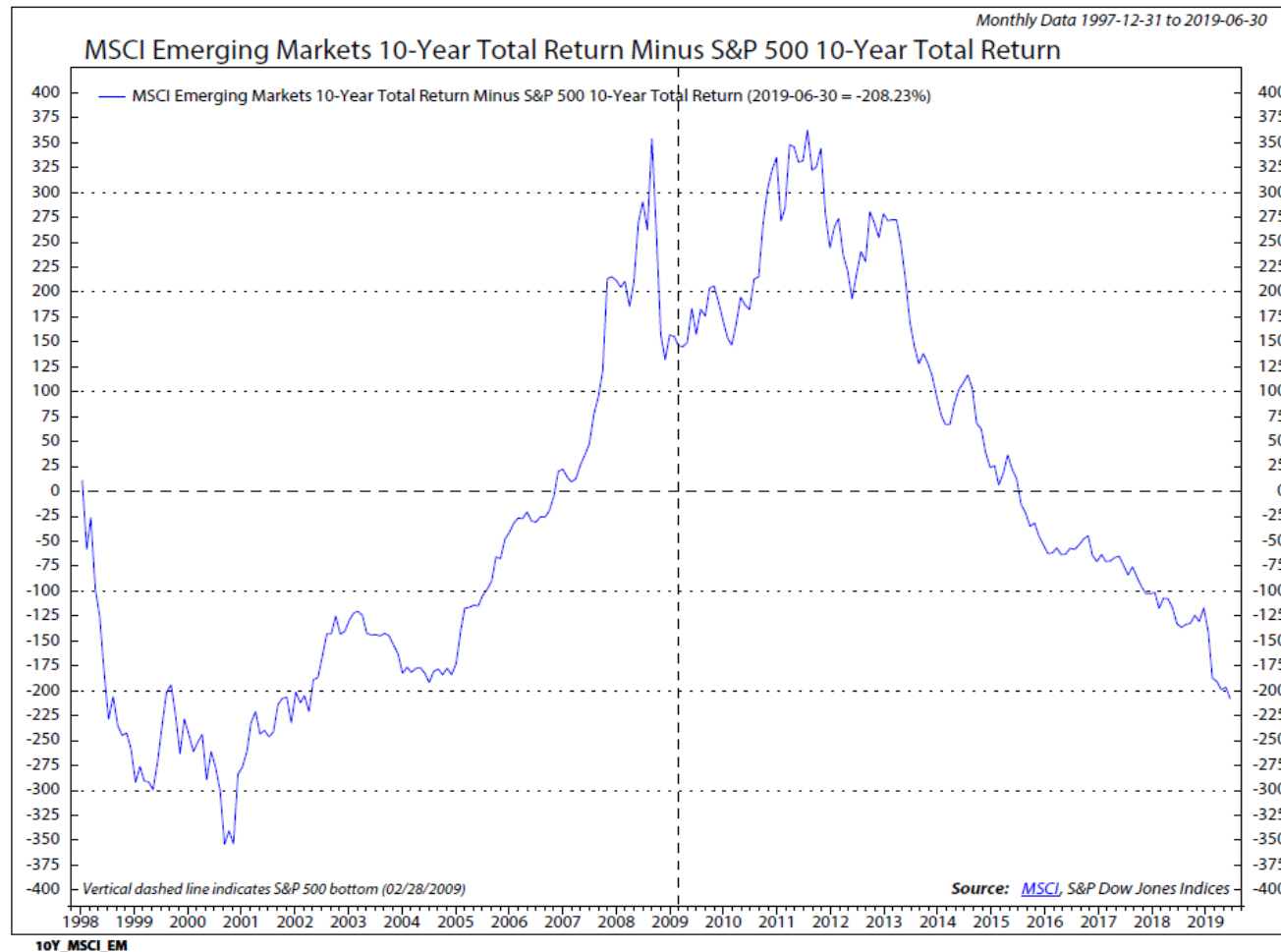
BAIRD



Source: FactSet, RWB Calculations

Emerging markets have lost considerable ground to the S&P 500 over the past decade.

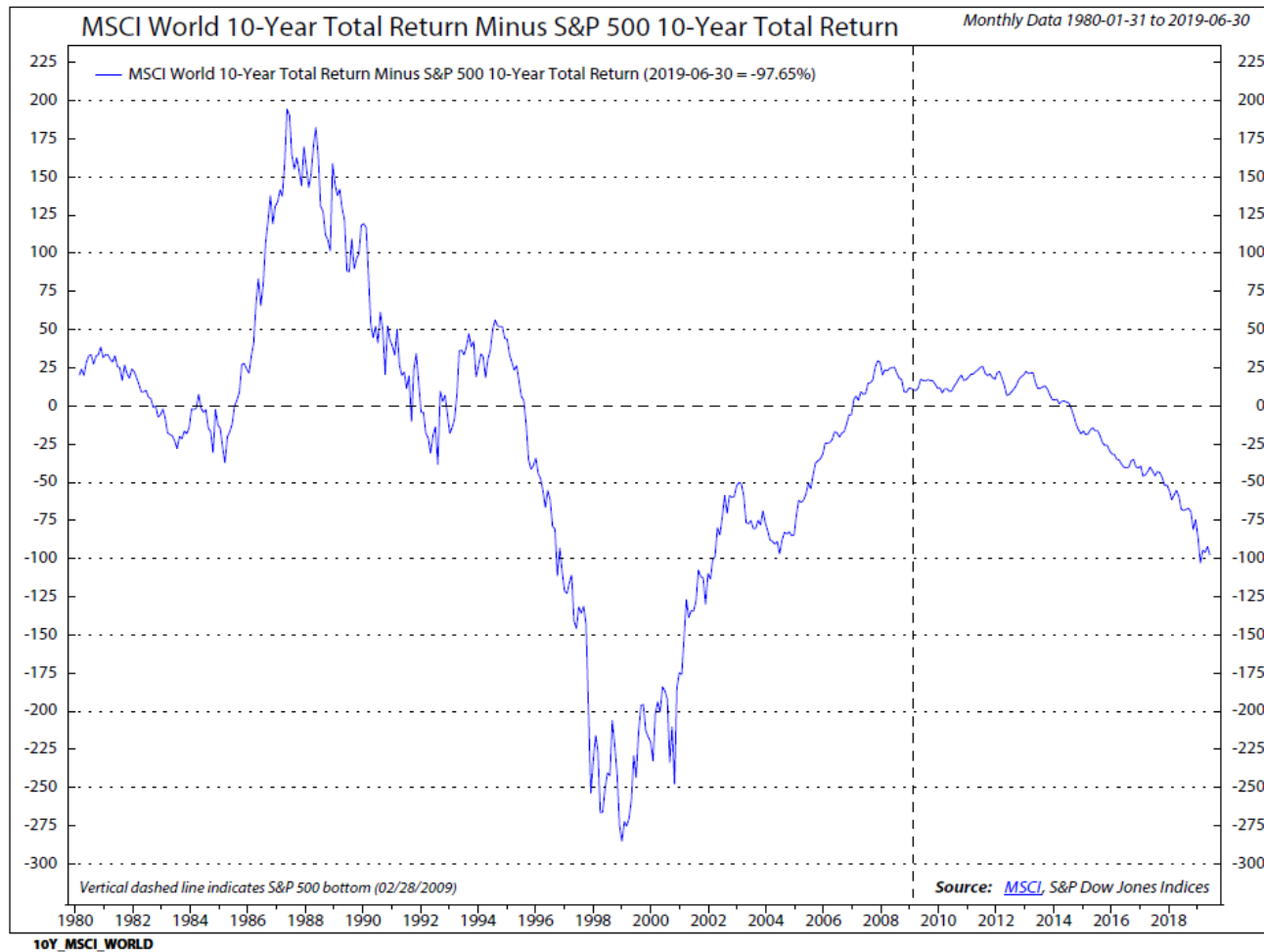
BAIRD



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
See NDR Disclaimer at www.ndr.com/copyright.html For data vendor disclaimers refer to www.ndr.com/vendorinfo/

Gains in the S&P 500 over the past decade have not been matched by the rest of the world.

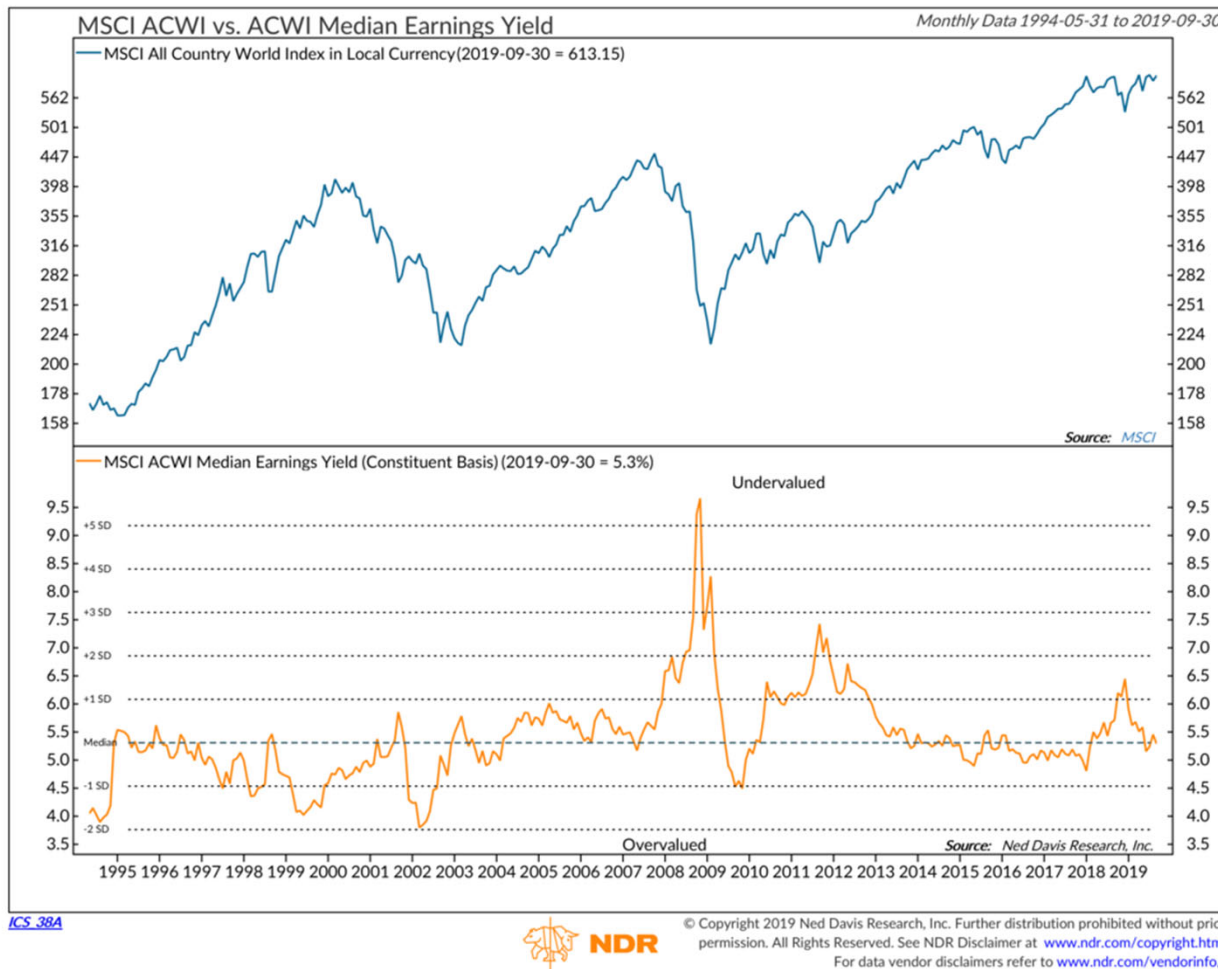
BAIRD



© Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
See NDR Disclaimer at www.ndr.com/copyright.html For data vendor disclaimers refer to www.ndr.com/vendorinfo/

US valuations may be stretched, but global valuations appear less extreme.

BAIRD



Appendix - Important Disclosures



Analyst Certification

The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclaimers

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 and any other indices mentioned are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available. Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

United Kingdom ("UK") disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds a MiFID passport.



The contents of this report may contain an "investment recommendation", as defined by the Market Abuse Regulation EU No 596/2014 ("MAR"). This report does not contain a "personal recommendation" or "investment advice", as defined by the Market in Financial Instruments Directive 2014/65/EU ("MiFID"). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. The views contained in this report: (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated; and (ii) may differ from the views of another individual of Robert W. Baird Limited.

This material is distributed in the UK and the European Economic Area ("EEA") by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB and is authorized and regulated by the Financial Conduct Authority ("FCA") in the UK.

For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. This material is only directed at and is only made available to persons in the EEA who would satisfy the criteria of being "Professional" investors under MiFID and to persons in the UK falling within Articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). Accordingly, this document is intended only for persons regarded as investment professionals (or equivalent) and is not to be distributed to or passed onto any other person (such as persons who would be classified as Retail clients under MiFID).

All substantially material sources of the information contained in this report are disclosed. All sources of information in this report are reliable, but where there is any doubt as to reliability of a particular source, this is clearly indicated. There is no intention to update this report in future. Where, for any reason, an update is made, this will be made clear in writing on the research report. Such instances will be occasional only.

Investment involves risk. The price of securities may fluctuate and past performance is not indicative of future results. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.



Robert W. Baird Limited and Robert W. Baird & Co. Incorporated have in place organisational and administrative arrangements for the prevention, avoidance, and disclosure of conflicts of interest with respect to research recommendations. Robert W. Baird Limited's Conflicts of Interest Policy, available [here](#), outlines the approach Robert W. Baird Limited takes in relation to conflicts of interest and includes detail as to its procedures in place to identify, manage and control conflicts of interest. Robert W. Baird Limited and or one of its affiliates may be party to an agreement with the issuer that is the subject of this report relating to the provision of services of investment firms. Robert W. Baird & Co. Incorporated's policies and procedures are designed to identify and effectively manage conflicts of interest related to the preparation and content of research reports and to promote objective and reliable research that reflects the truly held opinions of research analysts. Robert W. Baird & Co. Incorporated's research analysts certify on a quarterly basis that such research reports accurately reflect their personal views. This material is strictly confidential to the recipient and not intended for persons in jurisdictions where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such jurisdiction.

Robert W. Baird Limited is exempt from the requirement to hold an Australian financial services license and is regulated by the FCA under UK laws, which may differ from Australian laws. As such, this document has not been prepared in accordance with Australian laws.

Copyright 2019 Robert W. Baird & Co. Incorporated

