ELECTION PREDICTIONS

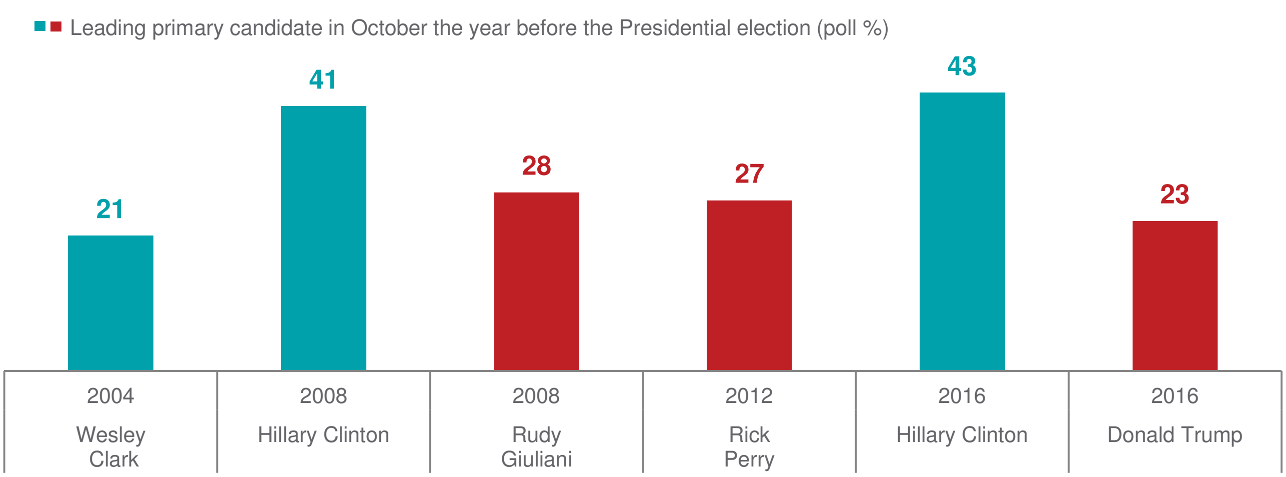
In addition to assessing the severity of the global economic slowdown, markets are wrestling with the U.S./China trade war, Brexit and the 2020 U.S. presidential election. The rising poll numbers of Senator Elizabeth Warren are starting to bring into focus the potential choice between her proposed agenda and a second term of President Trump. While a President Warren could be somewhat limited by the makeup of Congress, new policies aimed towards energy, healthcare, financials and large technology companies could jostle markets. Alternatively, a second term of President Trump could find him unrestrained by reelection concerns. But we caution that it is too early to make an election bet – as the chart below shows. At this point in prior election cycles, Wesley Clark, Rudy Giuliani and Rick Perry were leading their primary races – and all faded rapidly. We will likely approach the 2020 election as we did the 2016 election – with scenario analyses in hand to facilitate rapid action once the outcome is clear.

Developments in early October have brought some improved market sentiment toward both the U.S./China trade war and Brexit. Late last week, the U.S. announced the contours of a "Phase 1" deal that would avoid the incremental tariffs planned for October 15th in exchange for increased agricultural purchases. While the Phase 1 deal (which is not yet agreed) may deescalate current tensions, we remind readers of our "Irreconcilable Differences" theme, which forecasts continued trade and political hostility between the world's two largest economies for the foreseeable future. With the October 31st deadline for Brexit approaching, the recent conciliation between the U.K. and Ireland over the Irish border question is a positive step as this has proved so far to be an intractable problem.

We moved to a moderate overweight to risk in January of this year, wanting to participate in potential market upside but in a measured way given the slowing economy and geopolitical risks. Our deliberations this month did not lead to any changes in the positioning of our Global Policy Model (shown on the last page). We expect continued volatility over the next year along with a global easing cycle, leading to our favoring of "lower-risk risk assets". We maintain our risk case of higher inflation, as subdued inflation has been a key support to easy monetary policy and asset valuations in recent years. Our new risk case, "U.S. Election Clairvoyance," captures our expectations for a highly competitive and disagreeable 2020 election cycle. As the outcome becomes clearer, we expect significant shifts in investor flows and asset prices.

EARLY LEADERS DON'T ALWAYS FINISH STRONG

Clark, Clinton, Giuliani and Perry all lost their early leads, and the eventual nomination.



Source: Northern Trust Global Asset Allocation, Real Clear Politics, Gallup; Concept from Cornerstone Macro.

BASE CASE

Fundamentals vs Geopolitics

The economy's underpinnings, especially in the U.S., remain "good enough" to support asset valuations, though geopolitical risks will weigh on investor sentiment as the U.S. election approaches. This is a recipe for continued market volatility. We retain overweights to "less risky" risk assets.

Global Easing Cycle

Central banks are back into a synchronized easing cycle as uncertainties rise and growth slows. Further monetary easing will remove a modest headwind to growth, but should not be considered a major catalyst for higher risk asset returns. Investors have fully priced-in further moves on the monetary policy front.

RISK CASES

Inflation

Subdued inflation has been a key driver of favorable risk asset returns over the last few years; an unexpected jump in cyclical inflation would put at risk the global easing cycle, resulting in lower risk asset returns.

U.S. Election Clairvoyance

Investors fully expect a nasty, highly competitive 2020 election cycle. Events that solidify the expected outcome would reduce the uncertainty and cause significant shifts in asset prices and flows.

INVESTMENT PROCESS

The asset allocation process develops both long-term (strategic) and shorter-term (tactical) recommendations. The strategic returns are developed using five-year risk, return and correlation projections to generate the highest expected return for a given level of risk. The objective of the tactical recommendations is to highlight investment opportunities during the next 12 months where the Investment Policy Committee sees either increased opportunity or risk.

The asset allocation recommendations are developed through the Tactical Asset Allocation, Capital Markets Assumptions and Investment Policy Committees.

ViewPoints reflects data as of 10/15/19.

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