



HERITAGE
FINANCIAL

Every detail matters.

Global Market Outlook

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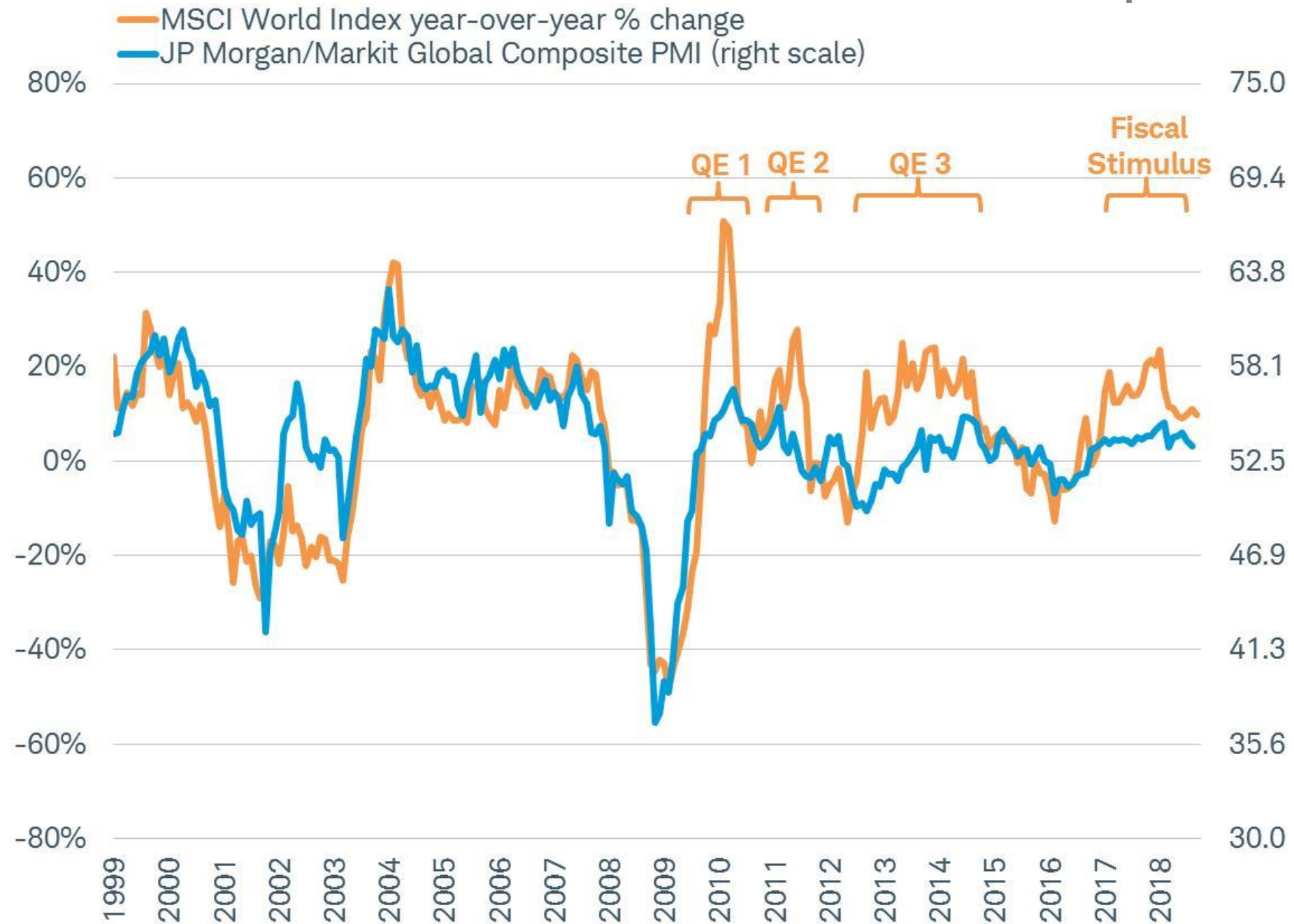
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Tariffs or Tax cuts?

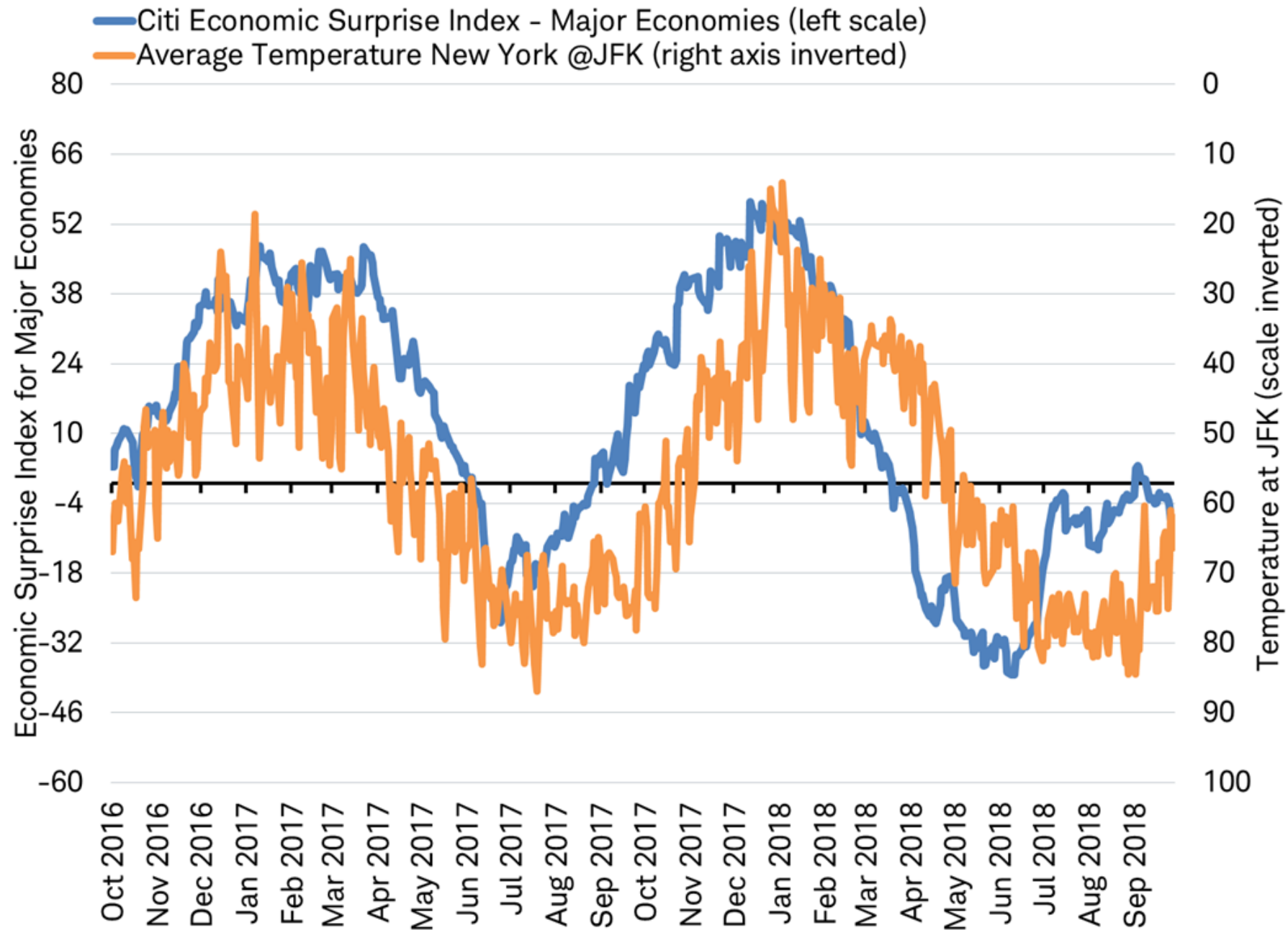
Digesting Stimulus

Temporary disconnects between market and economic performance



Blaming the weather

Seasonal (mis)adjustment?



The next bear market?

Recession risk?

Inflation vs Unemployment Rates

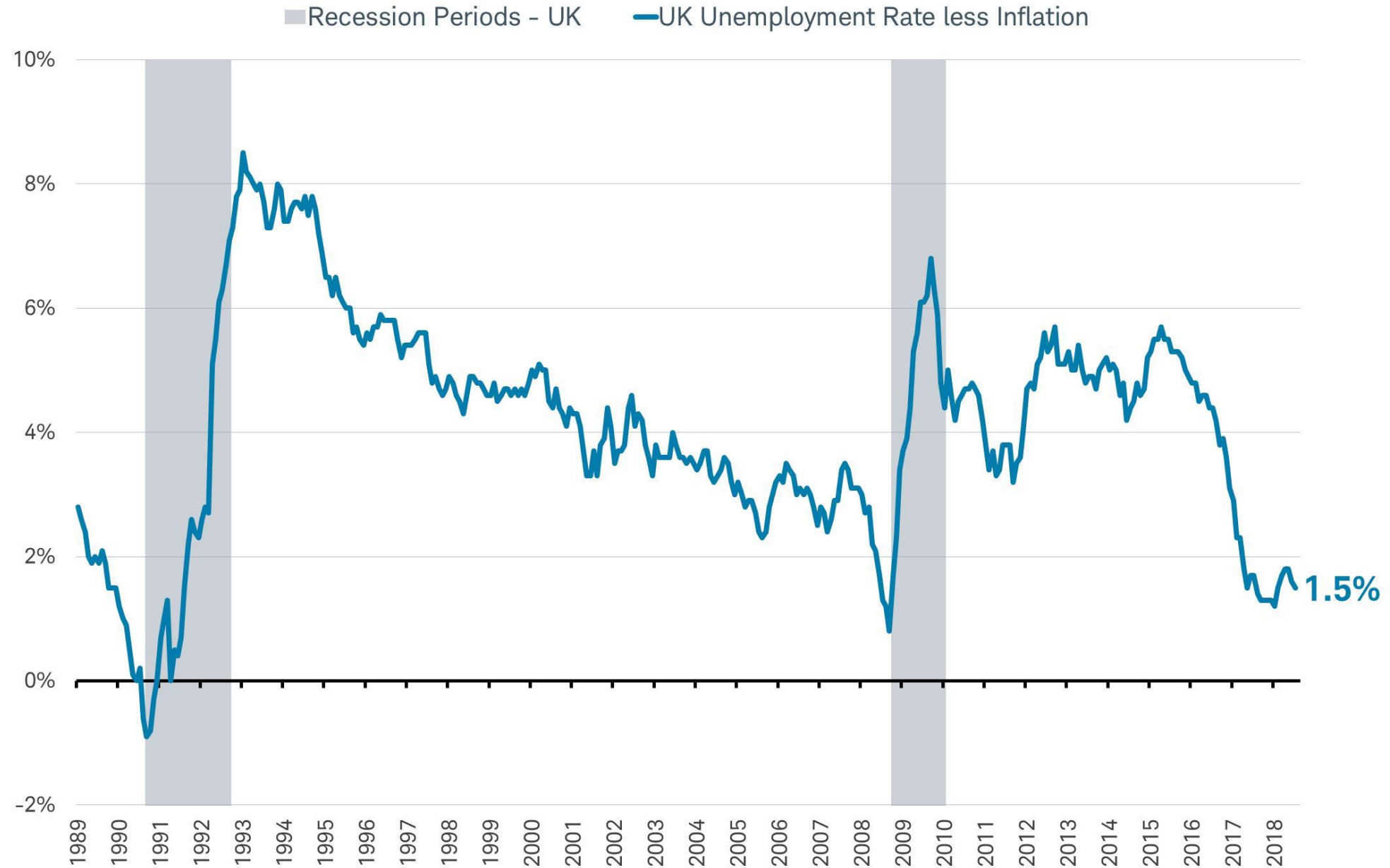


Source: Charles Schwab, Factset data as of 9/20/2018. Inflation measured by Consumer Price Index.

Past Performance is no guarantee of future results.

Recession risk?

Inflation vs Unemployment Rates

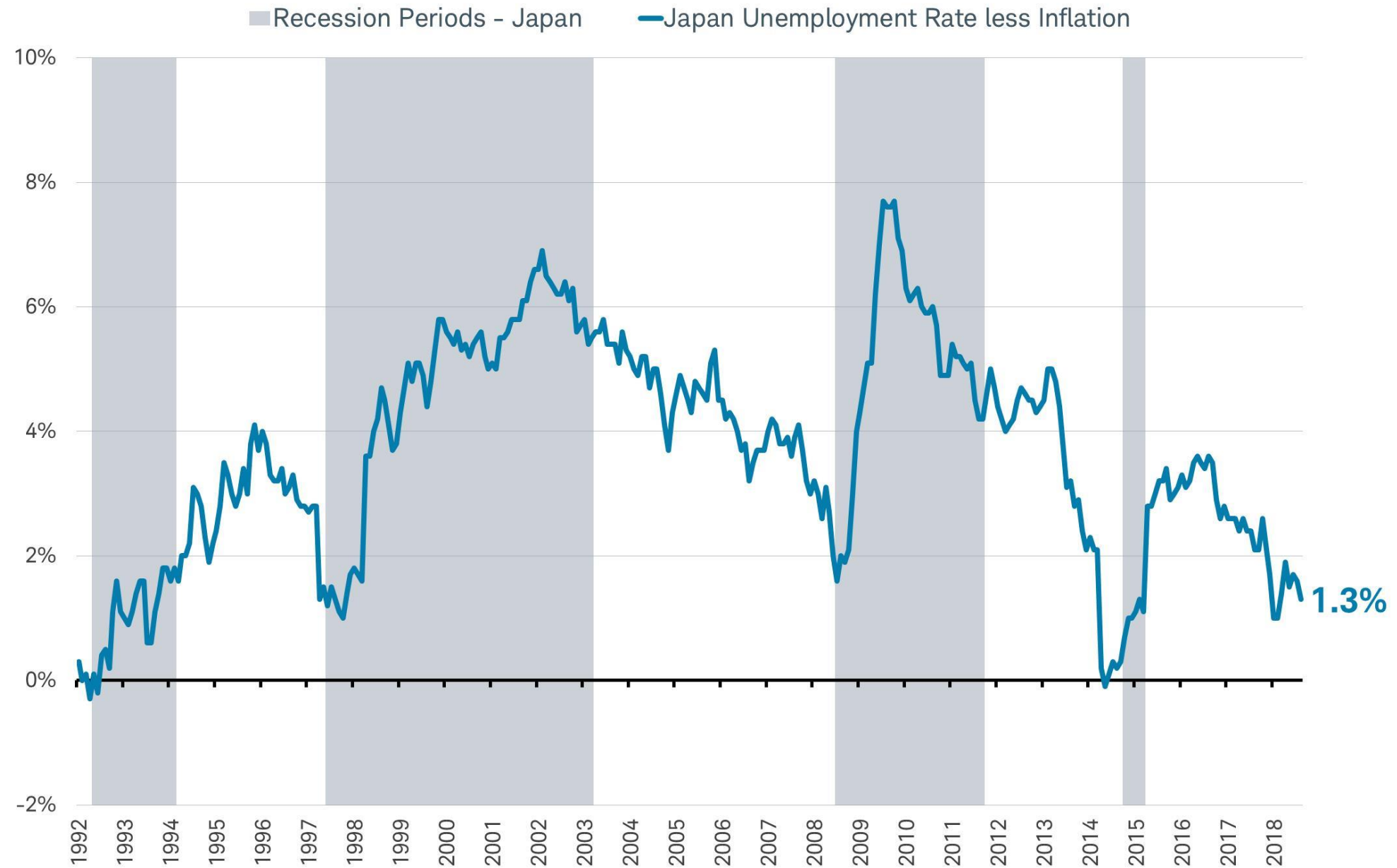


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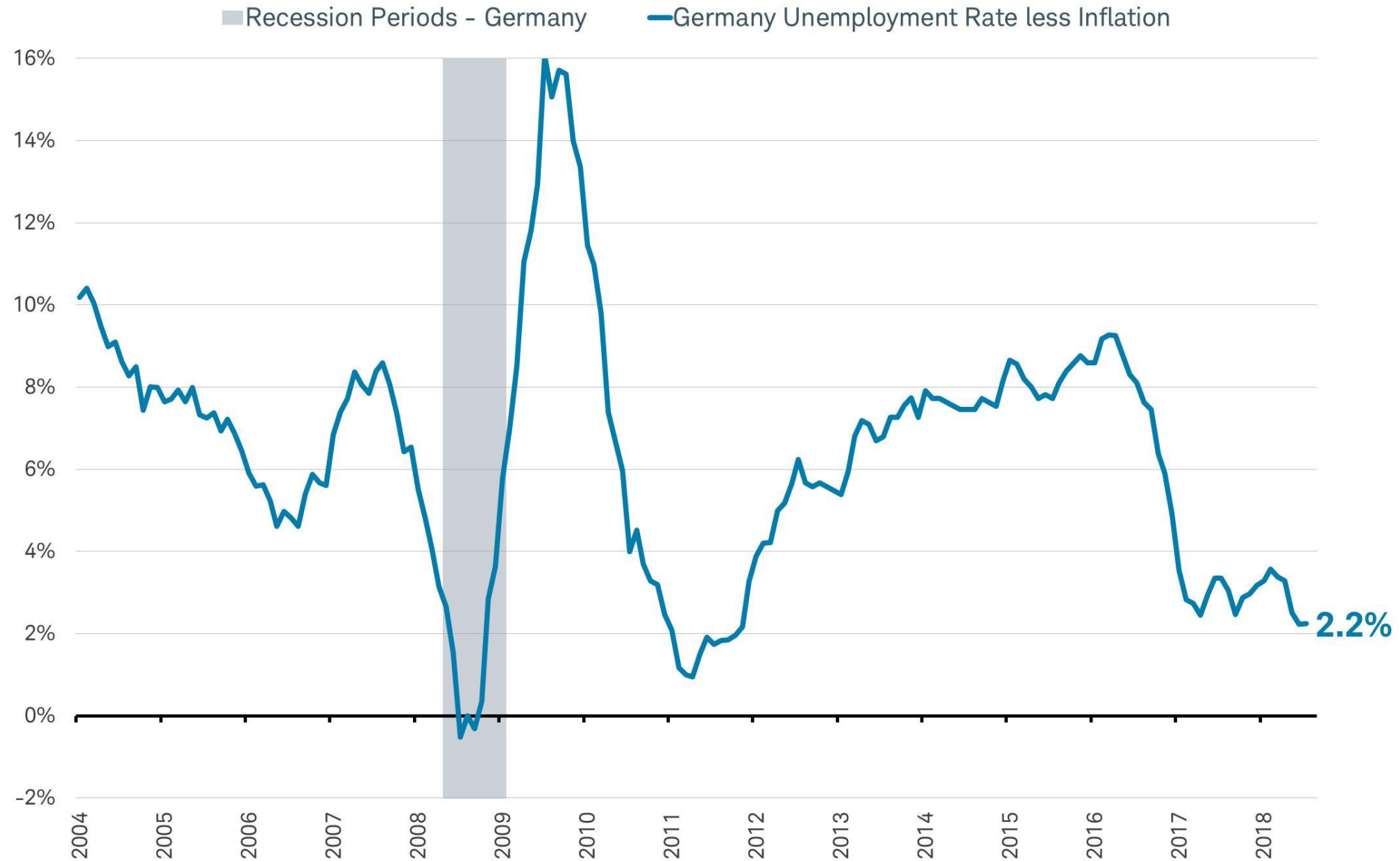
Recession risk?

Inflation vs Unemployment Rates



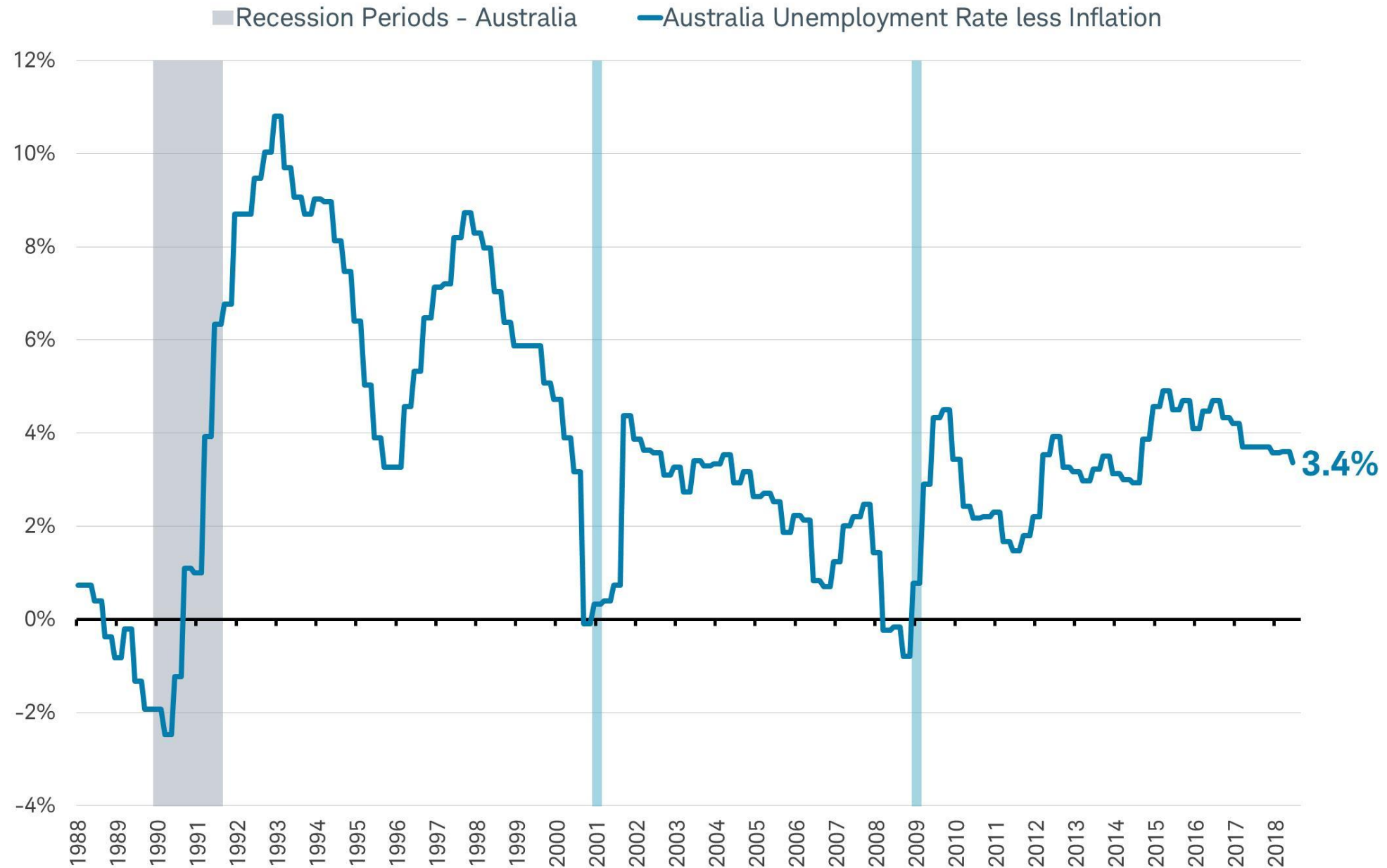
Recession risk?

Inflation vs Unemployment Rates



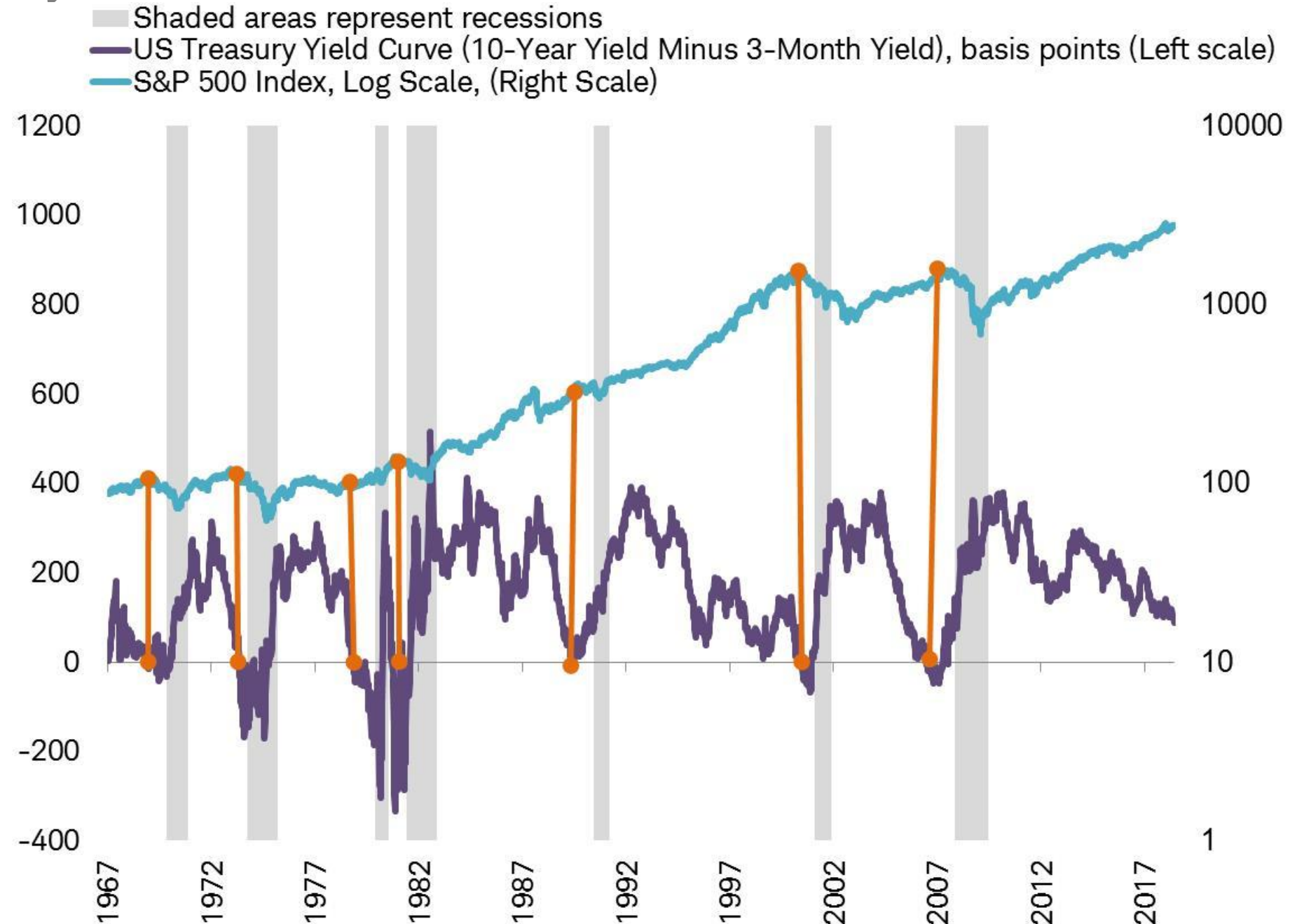
Recession risk?

Inflation vs Unemployment Rates



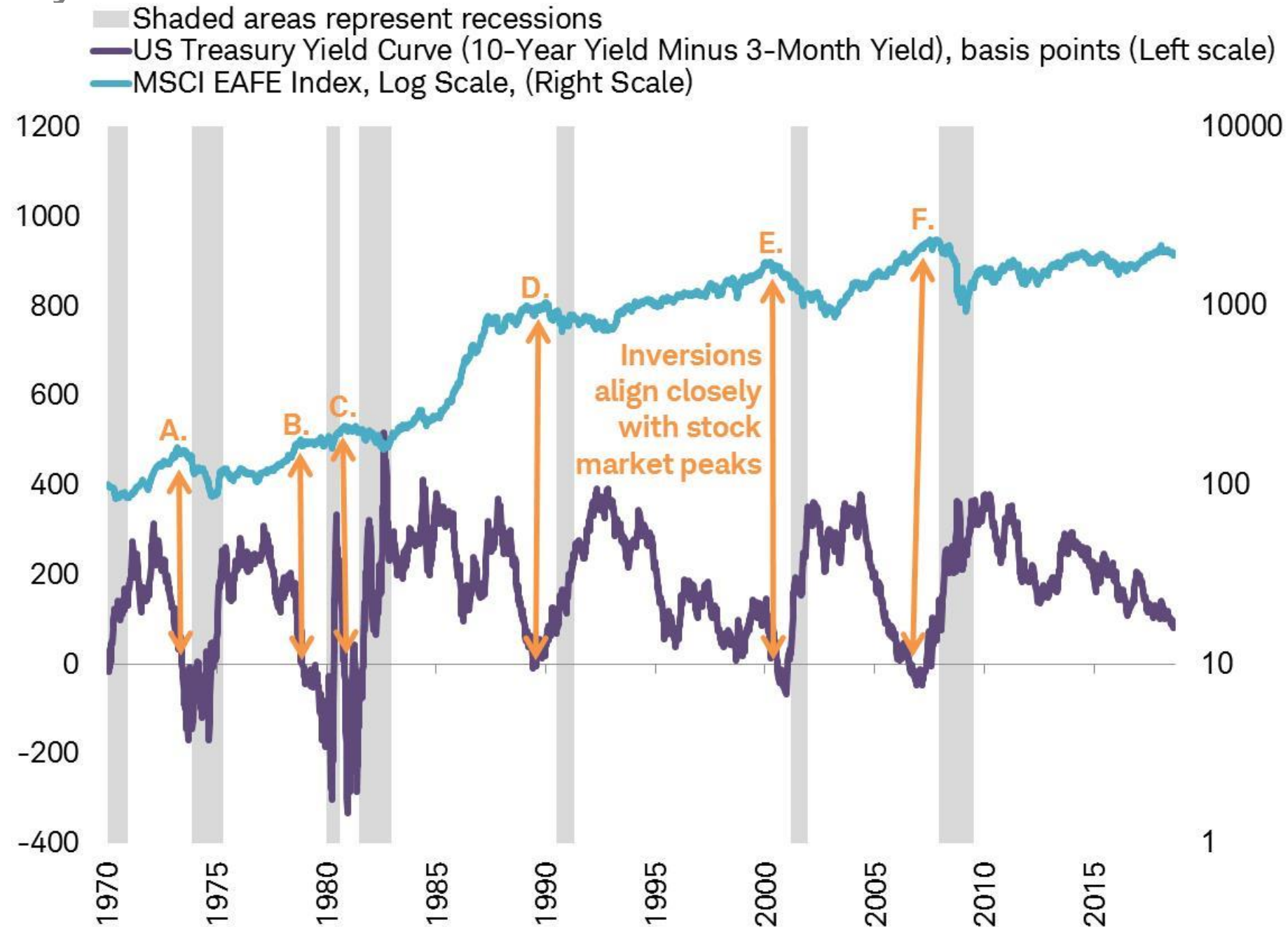
Recession risk?

Watch the US yield curve



Recession risk?

Watch the US yield curve



Late-cycle: Stocks and yield curve inversions

Historically international stocks have outperformed U.S. stocks during the year before the yield curve inverts

Date of US Yield Curve Inversion	MSCI World	MSCI USA	MSCI EAFE	MSCI EAFE Small cap	MSCI Emerging Markets
6/1/1973	1.7%	-8.5%	17.2%	—	—
11/1/1978	20.0%	5.2%	39.5%	—	—
10/24/1980	26.8%	25.3%	25.6%	—	—
5/31/1989	11.7%	22.2%	7.1%	—	43.6%
7/13/2000	10.7%	6.0%	14.0%	8.1%	7.7%
7/31/2006	14.3%	5.3%	24.6%	20.0%	28.7%
Average	14.2%	9.3%	21.3%	14.1%	26.7%

Source: Charles Schwab, Bloomberg data as of 6/8/2018.

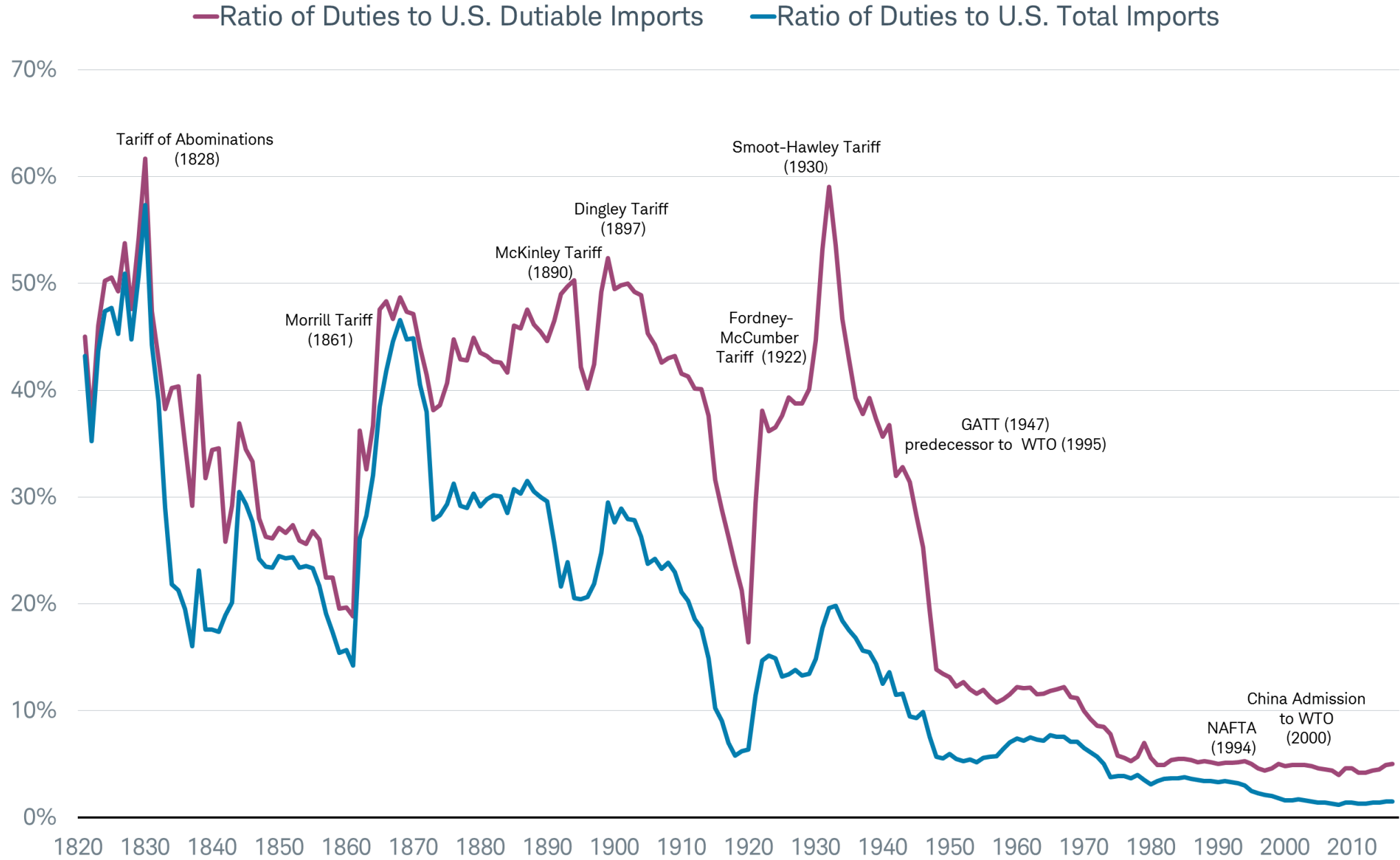
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Risks?

Protectionism

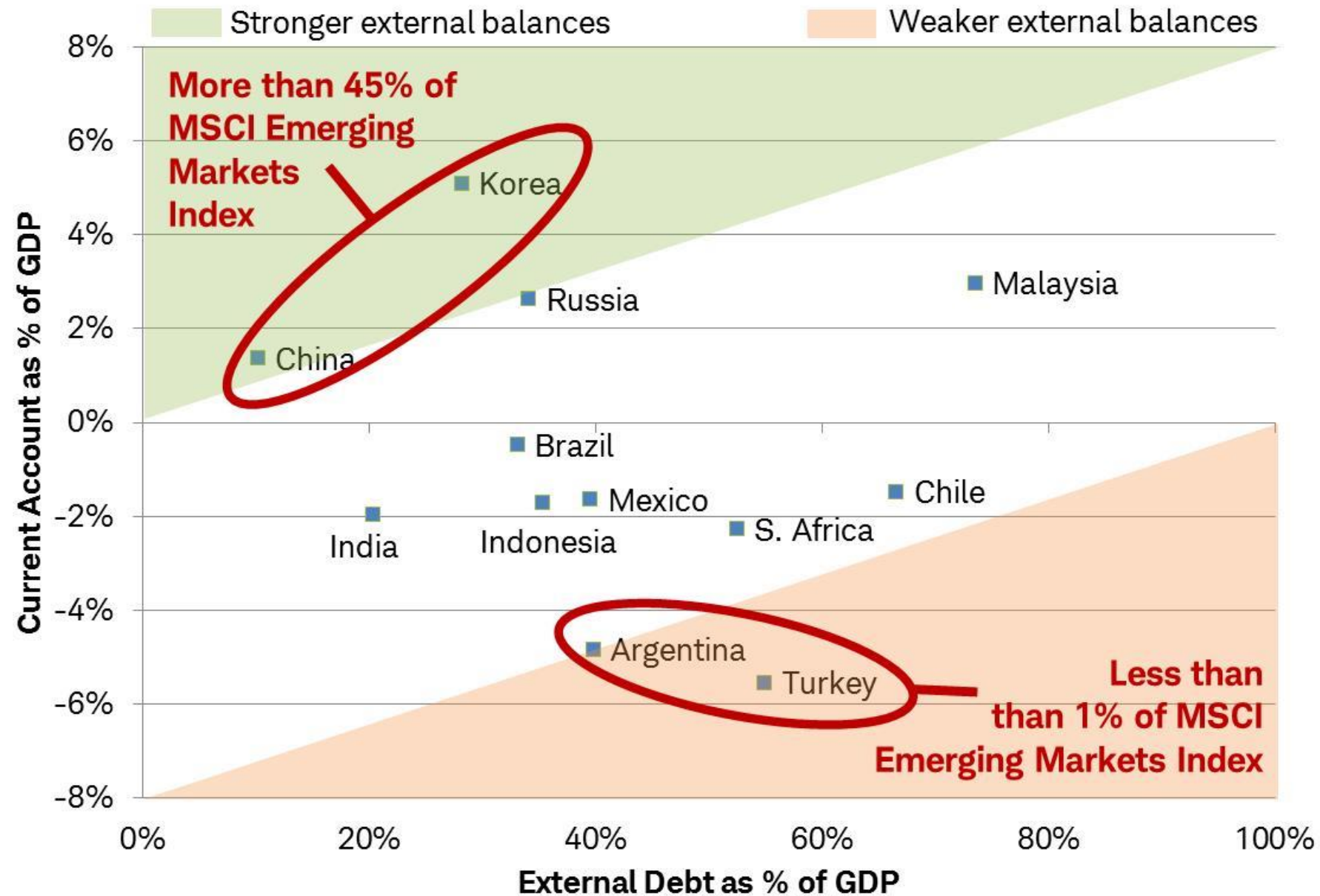
Almost 200 years' of U.S. tariff history



Source: Charles Schwab, U.S. Bureau of the Census and U.S. International Trade Commission 6/18/2018

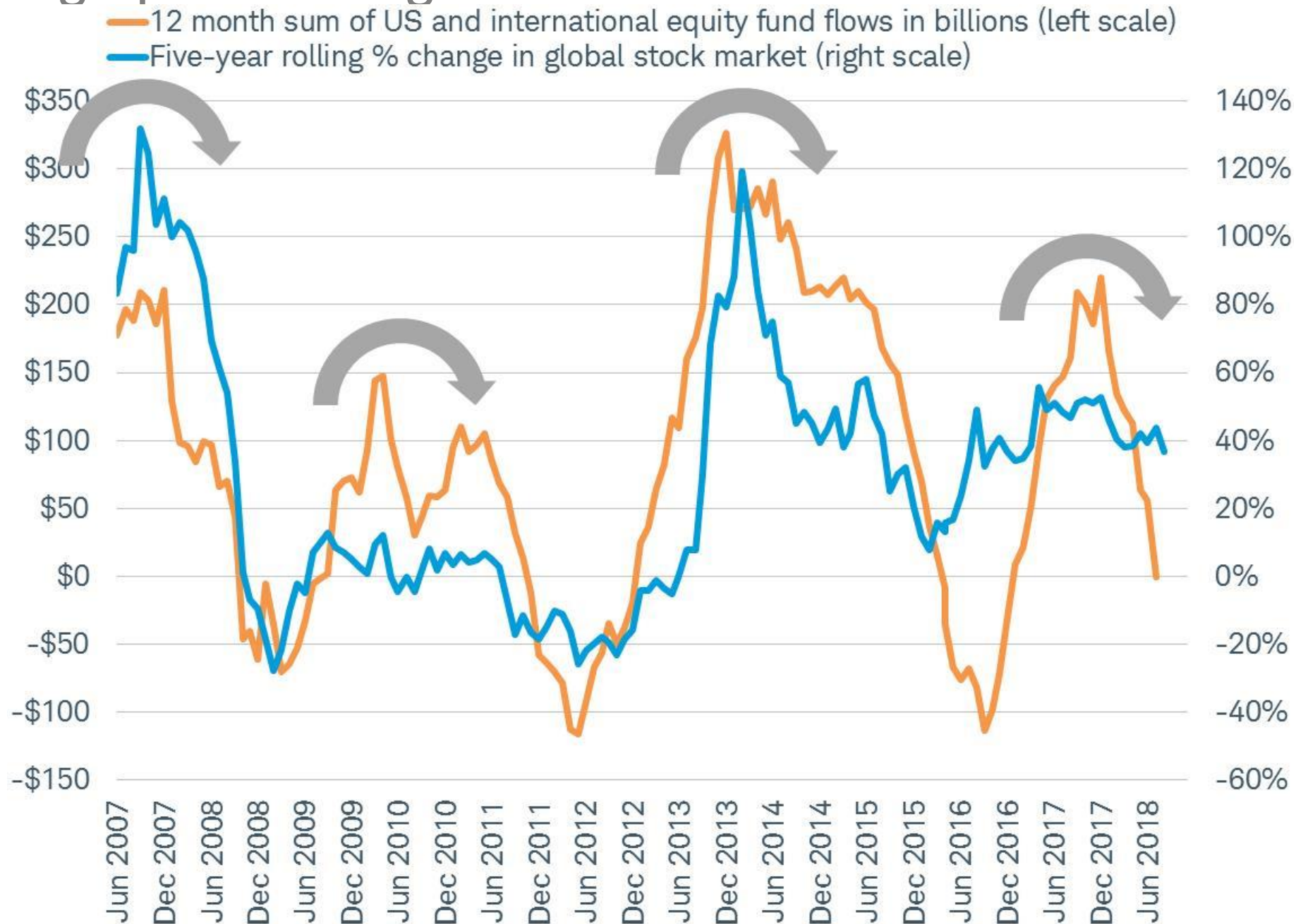
Emerging market imbalances

Not all EMs share the same burdens



Chasing returns

Investors buying spree fading in 2018

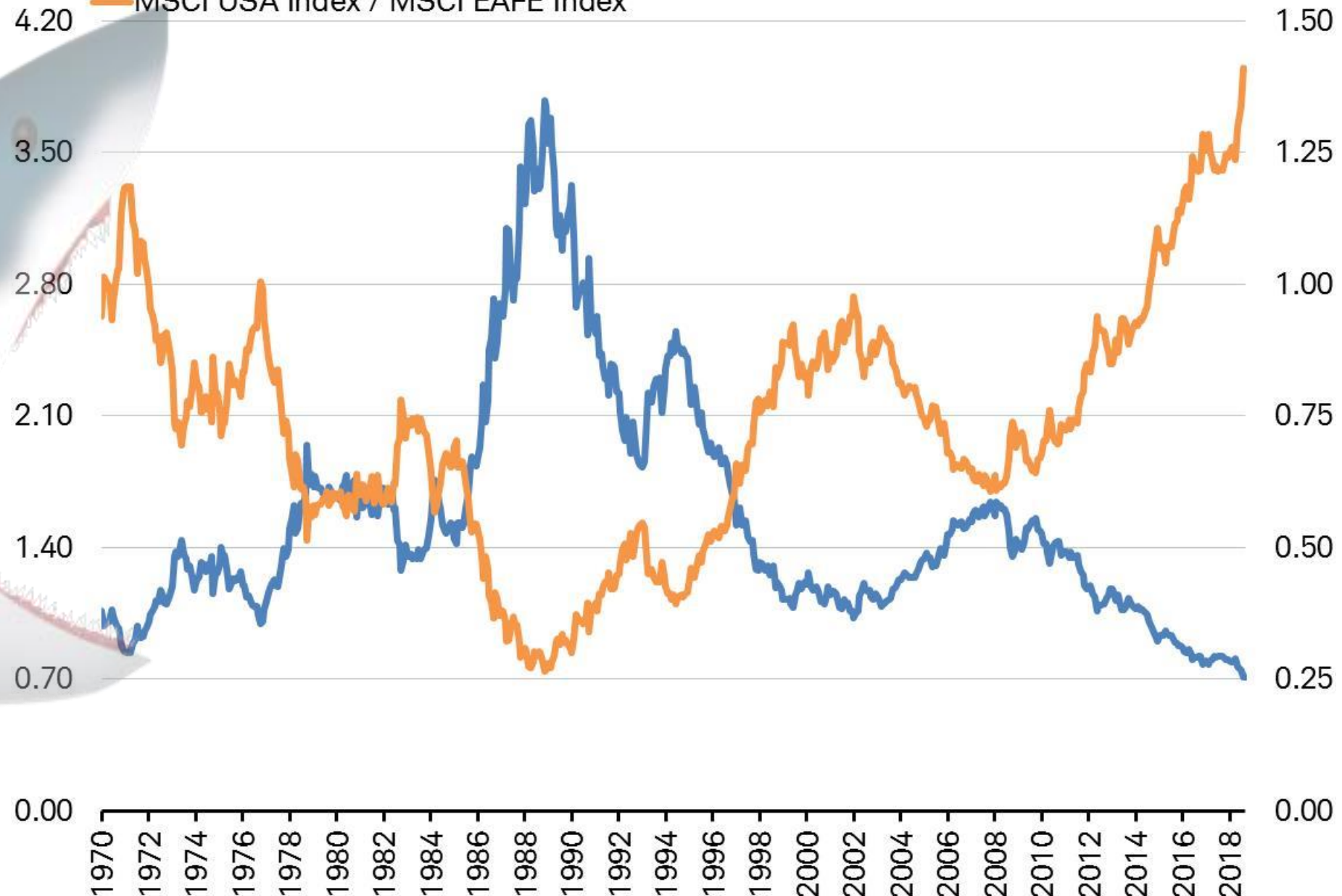


Where to invest?

Avoiding a Shark Attack

International vs U.S.

— MSCI EAFE Index / MSCI USA Index
— MSCI USA Index / MSCI EAFE Index



Source: Charles Schwab, Bloomberg data as of 9/20/2018.

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Avoiding a Shark Attack

International vs U.S.

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Avoiding a Shark Attack

International vs U.S.



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Avoiding a Shark Attack

Growth vs Value



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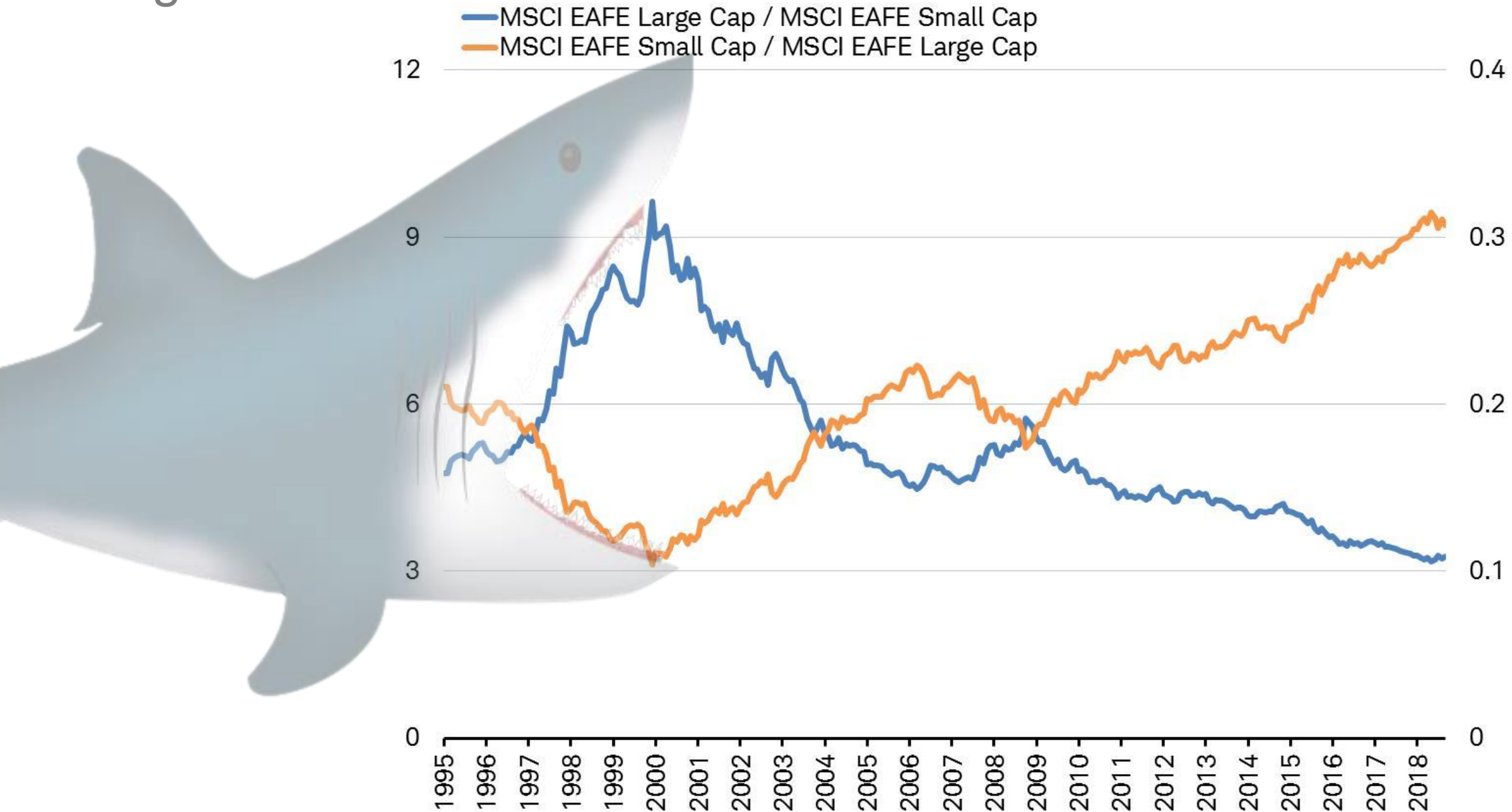


Source: Charles Schwab, Bloomberg data as of 9/20/2018

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Avoiding a Shark Attack

Large vs Small

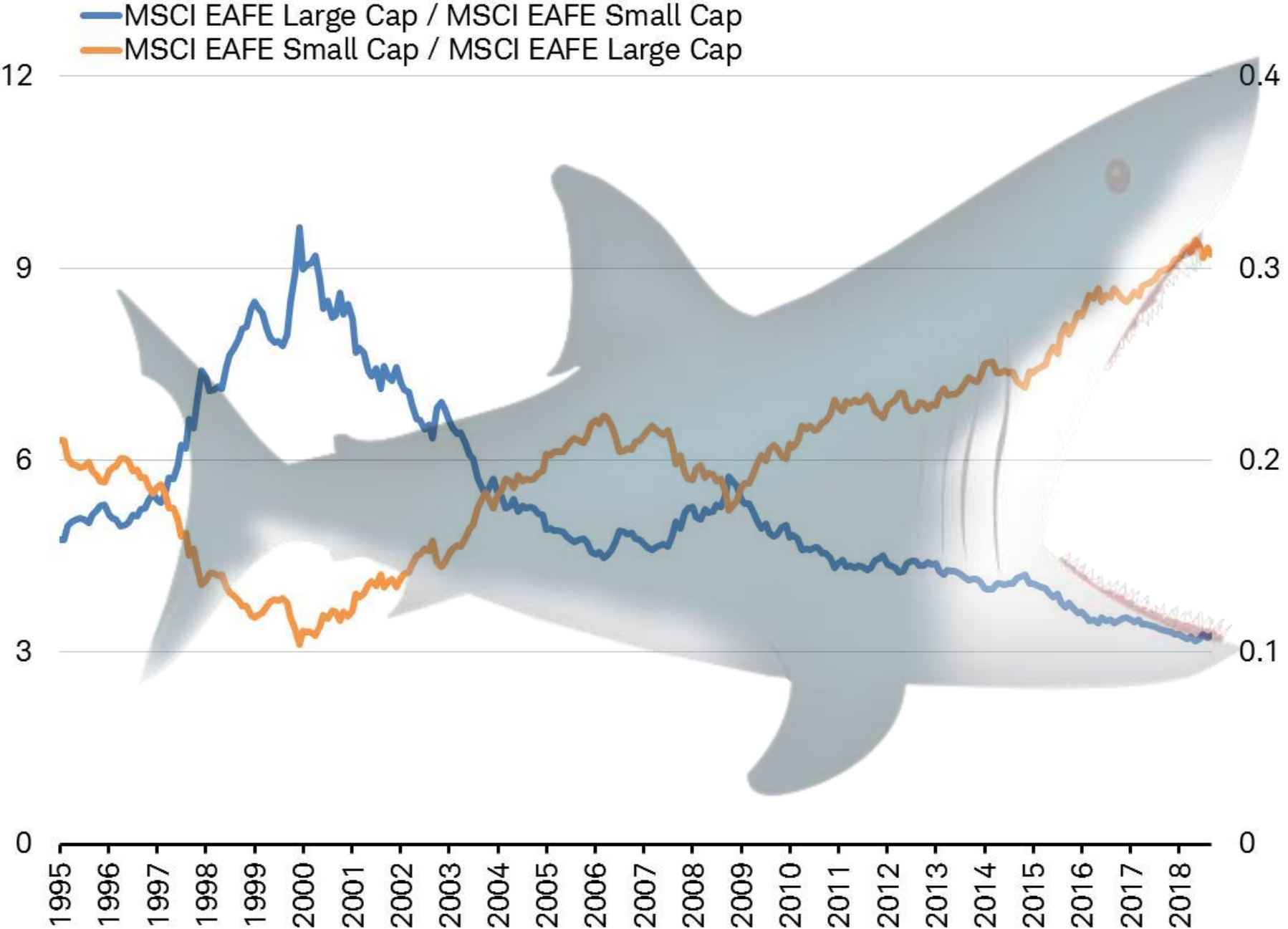


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Avoiding a Shark Attack

Large vs Small



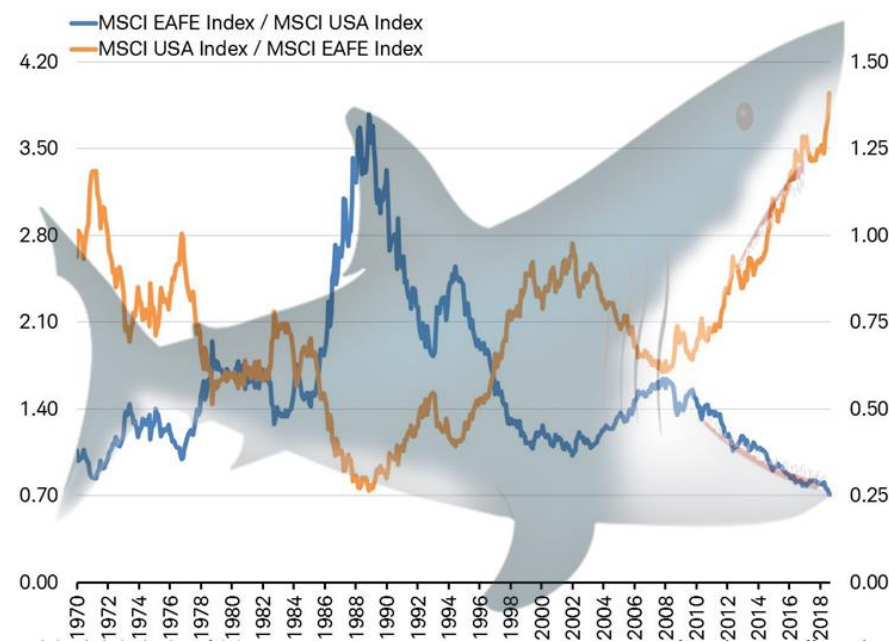
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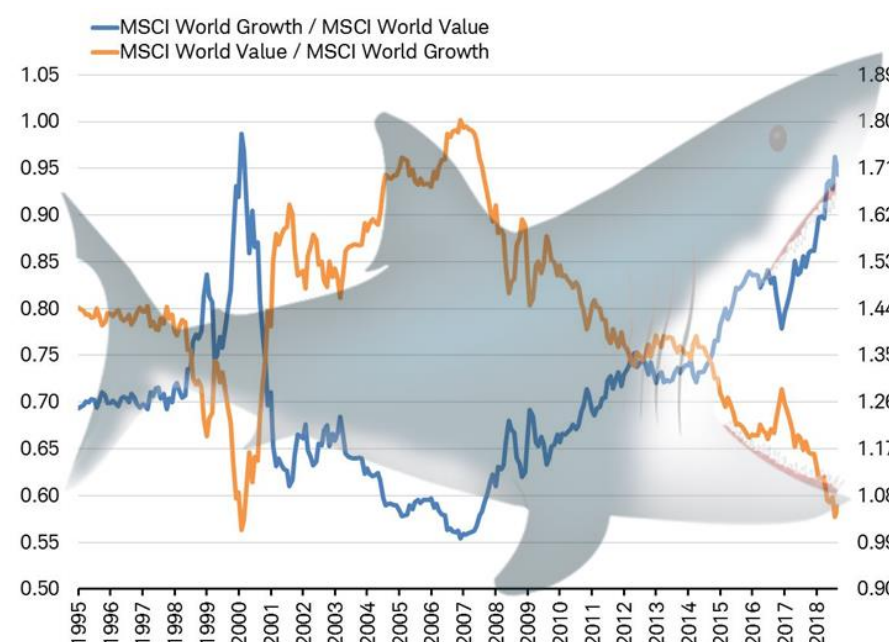
Avoiding a Shark Attack

Jaws wide open

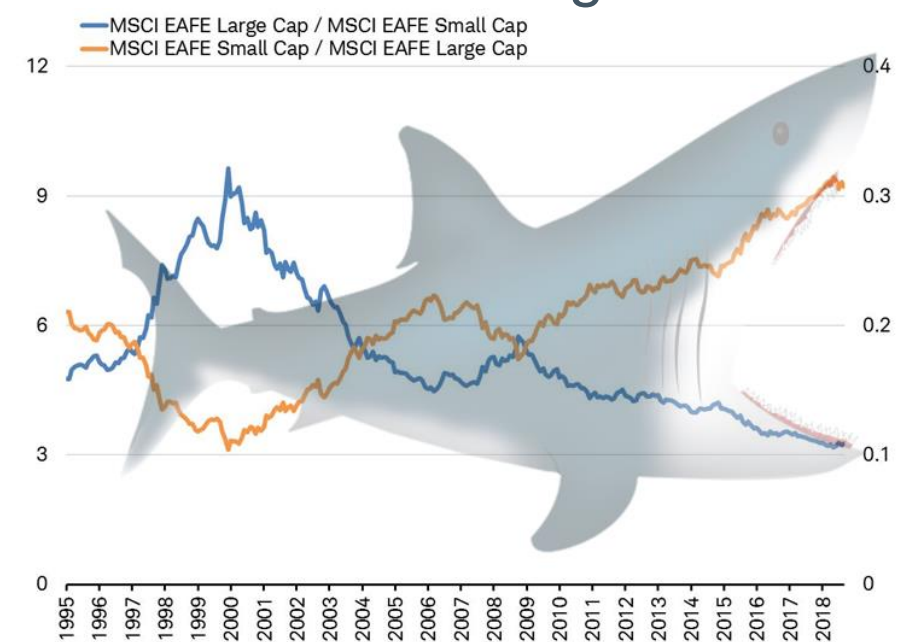
US vs International



Growth vs Value



Small vs Large



Takeaways

- The stimulus “sugar high” correction may have run its course: Watch the PMI.
- The cycle isn’t over yet, but the next bear market isn’t that far away: Watch the yield curve
- Risks include protectionism, emerging market imbalances, and chasing returns.
- US and International, Growth and Value, and Small-cap and Large-cap long-term trends may be near an inflection point: Rebalance.

Thank you

@Jeffrey Kleintop

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Indexes are unmanaged, do not incur fees or expenses and cannot be invested in directly.

Diversification and rebalancing strategies do not ensure a profit and do not protect against losses in declining markets. Rebalancing may cause investors to incur transaction costs and, when rebalancing a non-retirement account, taxable events may be created that may affect your tax liability

International investments involve additional risks, which include differences in financial accounting standards, currency fluctuations, geopolitical risk, foreign taxes and regulations, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks.

Small cap investments are subject to greater volatility than those in other asset categories.

The MSCI AC World Index captures large and mid-cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries. With 2,484 constituents, the index covers approximately 85% of the global investable equity opportunity set. The MSCI World Index captures large and mid cap representation across 23 Developed Markets countries. With 1,634 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market. With 622 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

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The MSCI EAFE Index is an equity index which captures large and mid cap representation across Developed Markets countries around the world, excluding the US and Canada. With 928 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.



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Definitions

The MSCI EAFE Small Cap Index is an equity index which captures small cap representation across Developed Markets countries around the world, excluding the US and Canada. With 2,307 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country.

The MSCI EAFE Large Cap Index is an equity index which captures large cap representation across Developed Markets countries around the world, excluding the US and Canada. With 404 constituents, the index covers approximately 70% of the free float-adjusted market capitalization in each country.

The MSCI World Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries*. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

The MSCI World Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets (DM) countries*. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

JP Morgan/Markit Global Composite PMI gives an overview of the global manufacturing and services sectors. It is based on non-opinion based monthly surveys of over 16,00 purchasing executives from 32 of the world's top economies, including the U.S., Japan, Germany, France and China which together account for over 85 percent of global GDP. It reflects changes in global output, employment, new business, backlogs and prices. The Global Composite PMI is seasonally adjusted at the national level to control for varying seasonal patterns in each country and is produced by J.P. Morgan and Markit in association with ISM and the International Federation of Purchasing and supply Management (IFPSM).

The Citi Economic Surprise Index measure data surprises relative to market expectations. A positive reading means that the data releases have been stronger than expected and a negative reading means that the data releases have been worse than expected.

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