

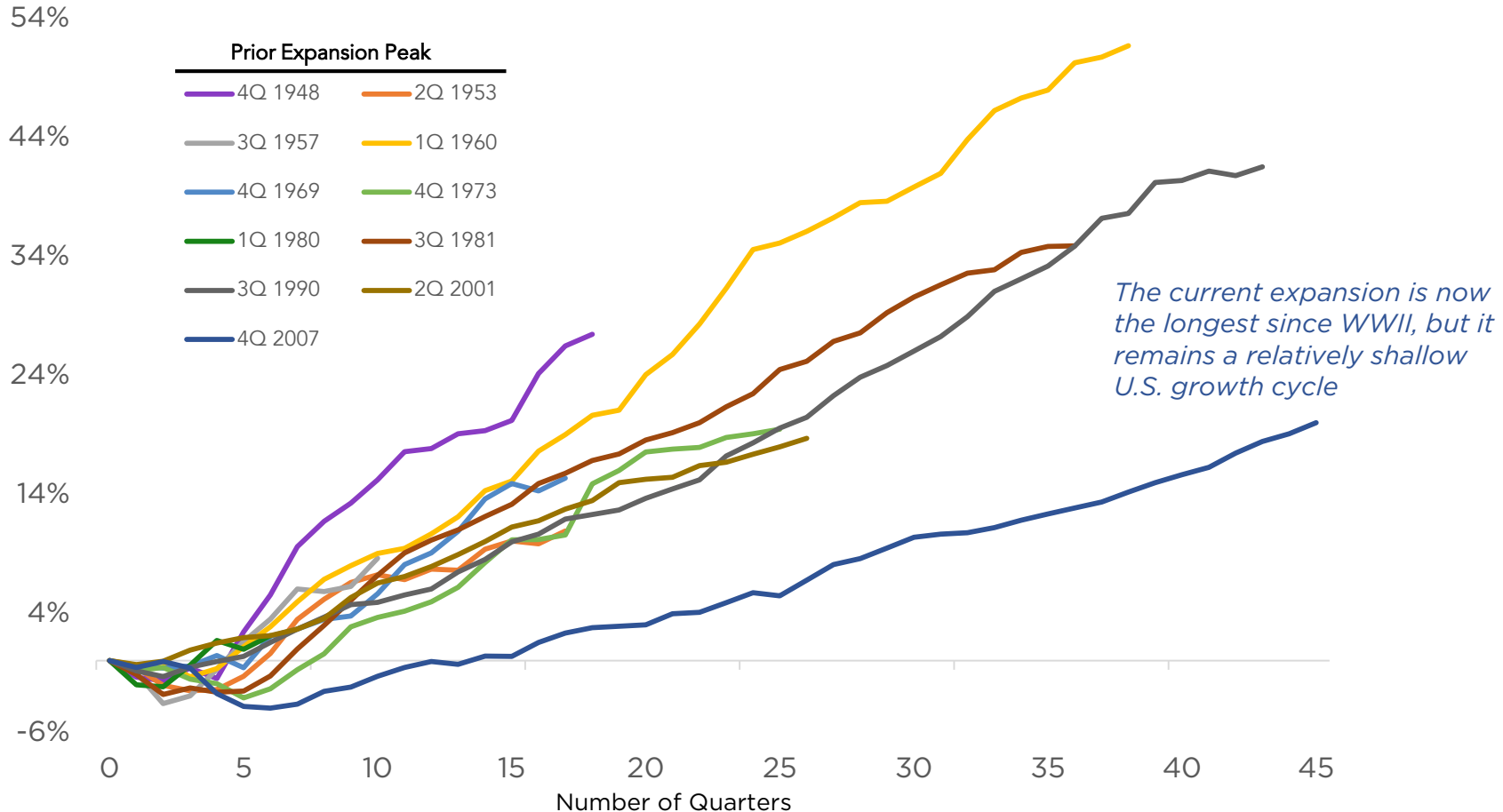


# HEADWINDS, TAILWINDS AND EMERGING THEMES

BRANDON ZUREICK, CFA  
PORTFOLIO MANAGER, PRINCIPAL

JOHNSON ASSET MANAGEMENT

# CUMULATIVE REAL GDP GROWTH FROM ECONOMIC PRIOR PEAK



» SOURCE: Bloomberg

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# ECONOMIC TAILWINDS



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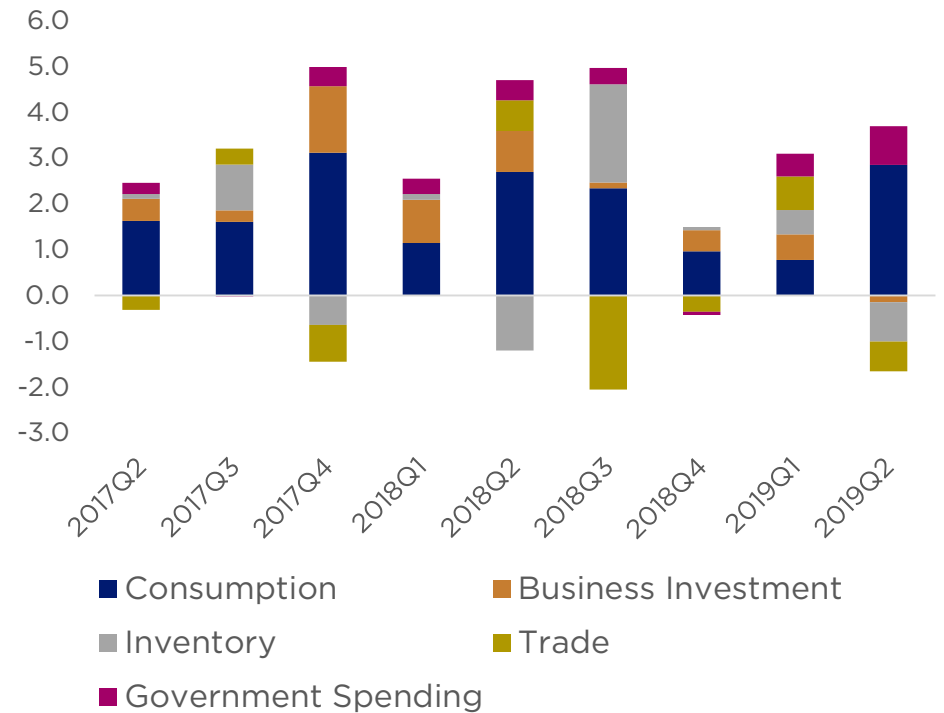
*\*Data as of March 2019*

# ECONOMIC TAILWINDS

Retail Sales Control Group (Y/Y%)



Contribution to Real GDP (%)

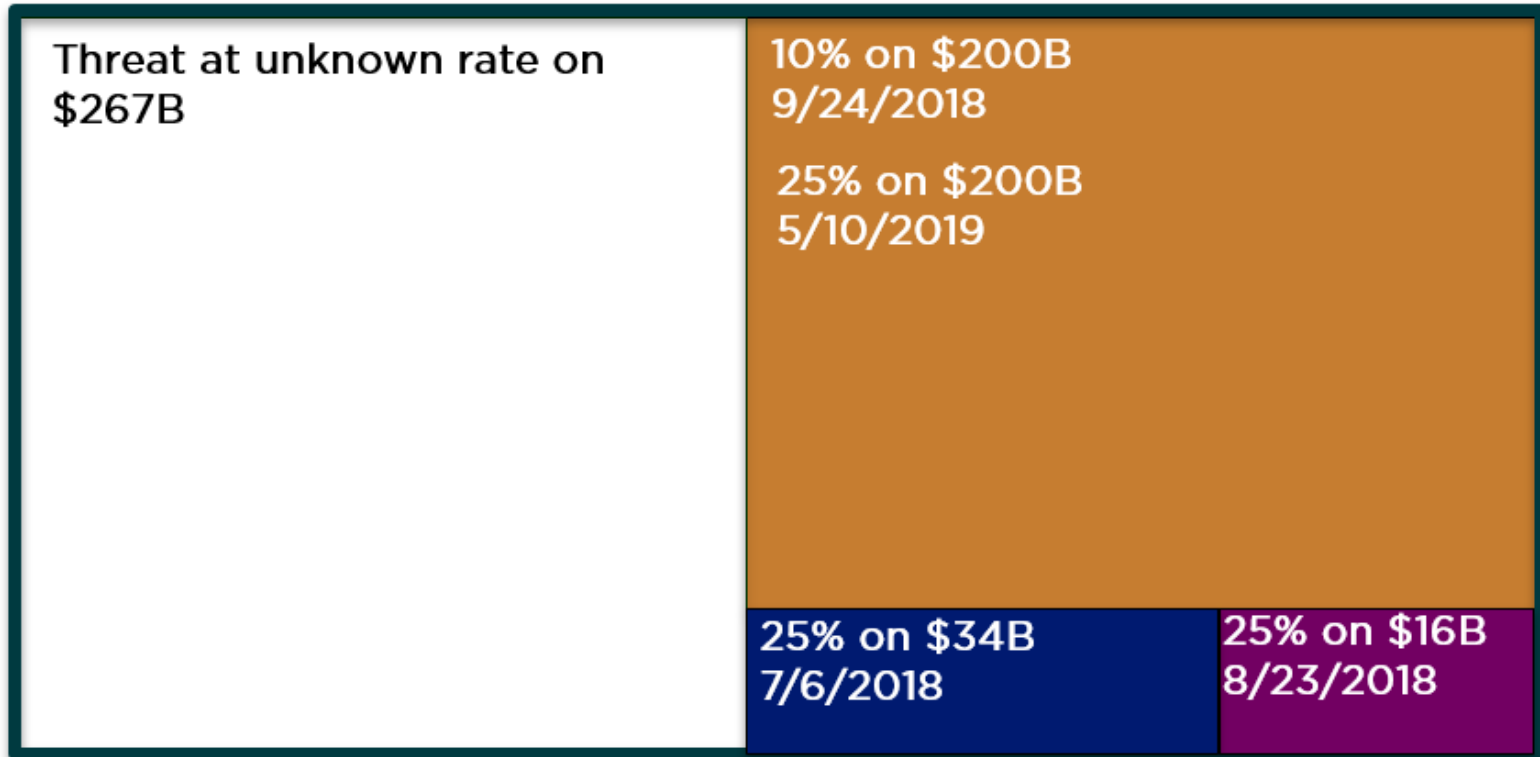


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# ECONOMIC HEADWINDS



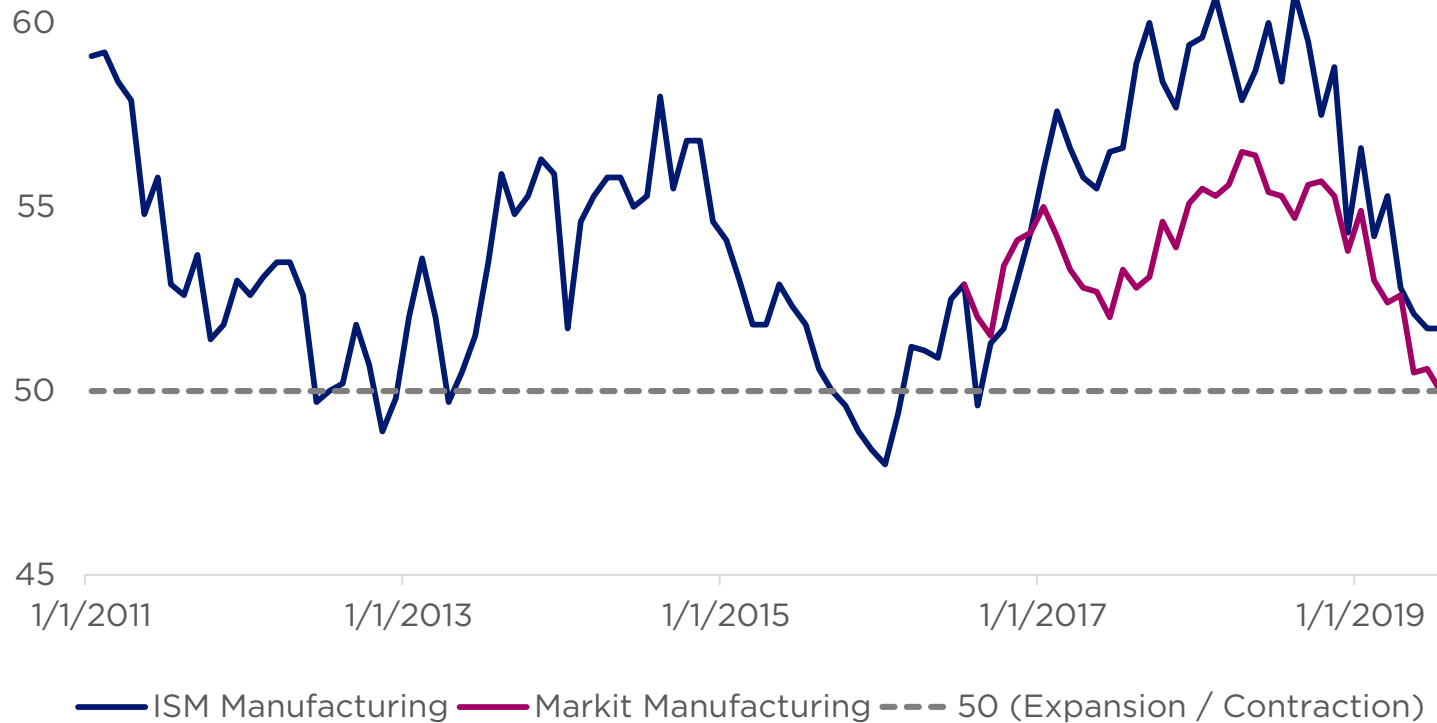
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# ECONOMIC HEADWINDS

## Manufacturing Surveys



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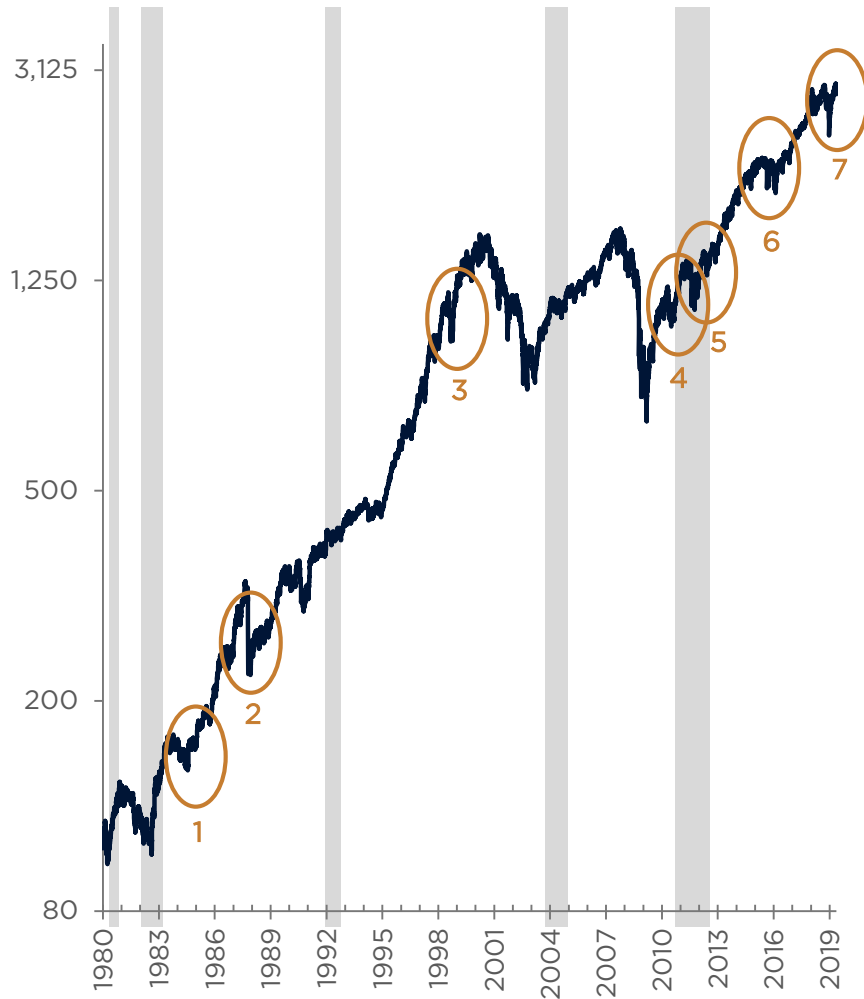
# RECESSION SCORECARD\*

INDICATOR	RECESSION RULE	REGENT SIGNAL	RECESSION Y/N	2018	2007	2001	1990
<b>MARKET-BASED:</b>							
YIELD CURVE	10YR - FF IS NEGATIVE	-35	YES	NO	YES	YES	NO
IG CORP SPREADS	ABOVE 150	108	NO	NO	YES	YES	NO
HY CORP SPREADS	ABOVE 500	371	NO	NO	YES	YES	NO
STOCK MARKET	DECLINE 11% FROM PEAK	-0.0%	NO	NO	NO	YES	NO
<b>LABOR MARKET:</b>							
JOBLESS CLAIMS (4 WK AVG)	ABOVE 360K	213	NO	NO	NO	YES	YES
UNEMPLOYMENT RATE	+0.5% FROM BOTTOM	0.1%	NO	NO	YES	NO	NO
TEMP EMPLOYMENT	BELOW -1% YOY	1.3%	NO	NO	YES	YES	NO
AVG WEEKLY HOURS	-0.5% YOY	-0.3%	NO	NO	NO	YES	YES
<b>BROAD ECONOMY:</b>							
LEADING INDICATORS	-2% YOY	1.6%	NO	NO	YES	YES	NO
COIN/LAGGING INDEX	96.3 OR BELOW	98.3%	NO	NO	NO	NO	NO
ECRI	-10% OR BELOW	0.0%	NO	NO	NO	NO	NO
<b>MANUFACTURING:</b>							
ISM MANUFACTURING	BELOW 47	51.7	NO	NO	NO	YES	YES
CAPACITY UTILIZATION	4 PTS BELOW PEAK	-1.7	NO	NO	NO	YES	NO
NONDEFENCE CAP GOODS EX. AIRCRAFT	3-MTH AR -10% OR BELOW	0.3%	NO	NO	NO	YES	NO
<b>CONSUMER:</b>							
HOUSING STARTS	-35% YOY	6.2%	NO	NO	YES	NO	NO
RETAIL SALES EX. GAS	3-MTH RATE BELOW 0%	6.9%	NO	NO	YES	YES	NO
CONSUMER SENTIMENT	15 PTS BELOW PEAK	-3.0	NO	NO	YES	NO	NO

» SOURCE: Bloomberg

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# STOCK MARKET CORRECTIONS AND RECOVERIES



» SOURCE: Bloomberg

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## *Non-Recessionary Corrections*

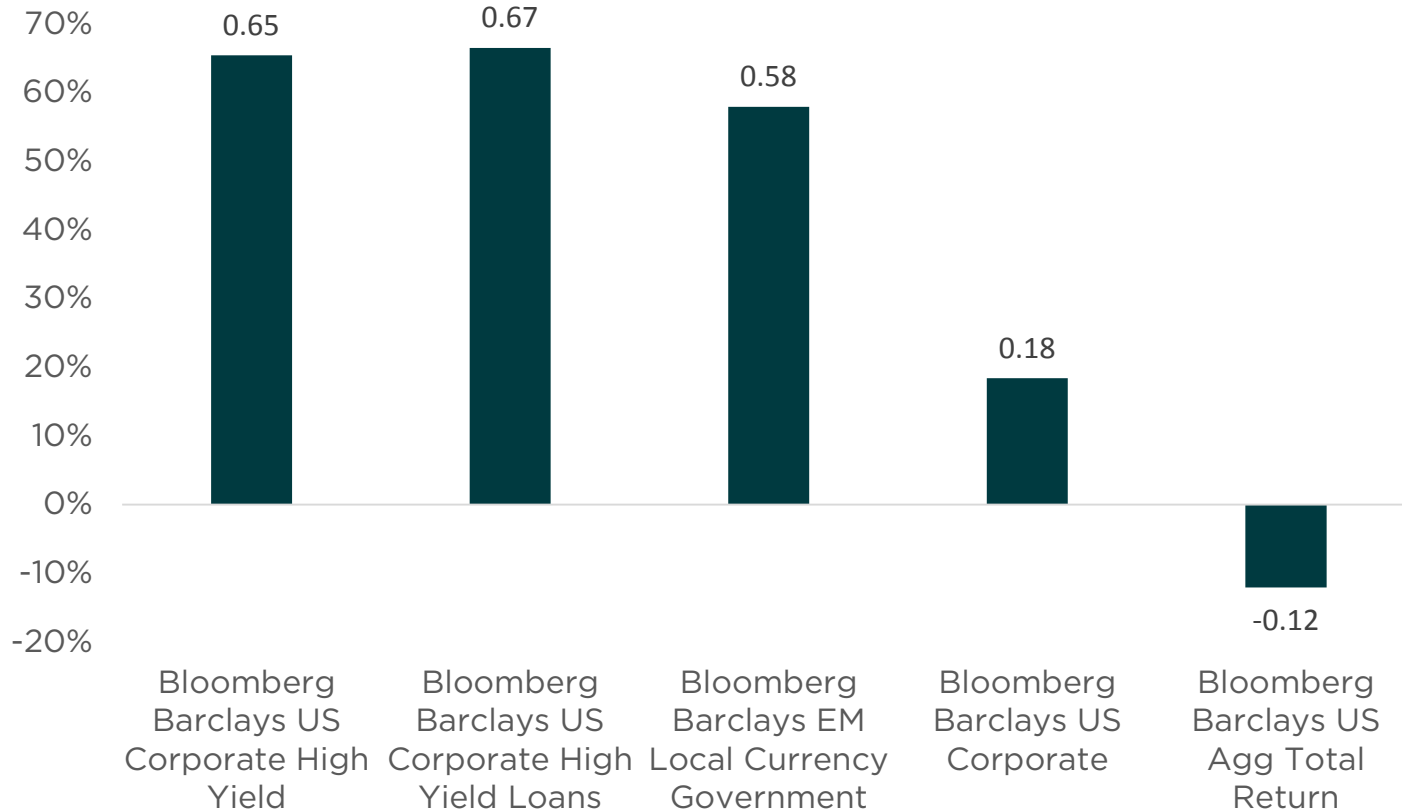
	Market Correction	Central Bank Response	# Months to Recover Losses
1. 1984	-14%	Fed funds cut	6
2. 1988	-34%	Fed funds cut	20
3. 1998	-19%	Fed funds cut	2
4. 2010	-16%	QE2 & PBoC eased	5
5. 2011	-19%	QE/OT announced	5
6. 2016	-13%	Fed paused	4
7. 2018/19	-20%	Fed paused	7
Average	-19%		7

## *Recessions*

	Market Correction	Central Bank Response	# Months to Recover Losses
1. 1990	-20%	Fed funds cut	5
2. 2000	-49%	Fed funds cut	55
3. 2007	-57%	Fed funds cut	48
	-42%		36



# CORRELATION WITH S&P 500 INDEX

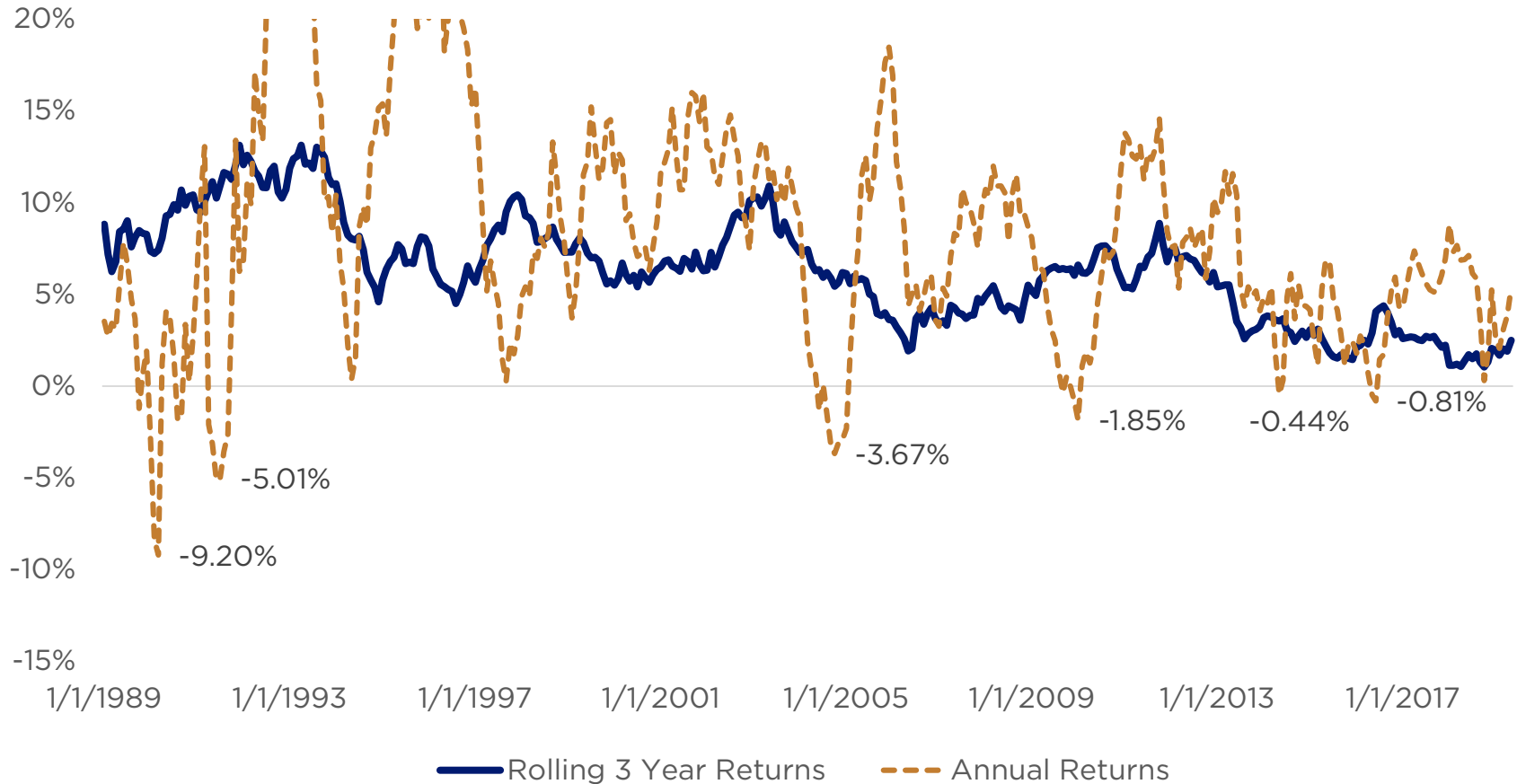


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# DON'T FEAR DURATION

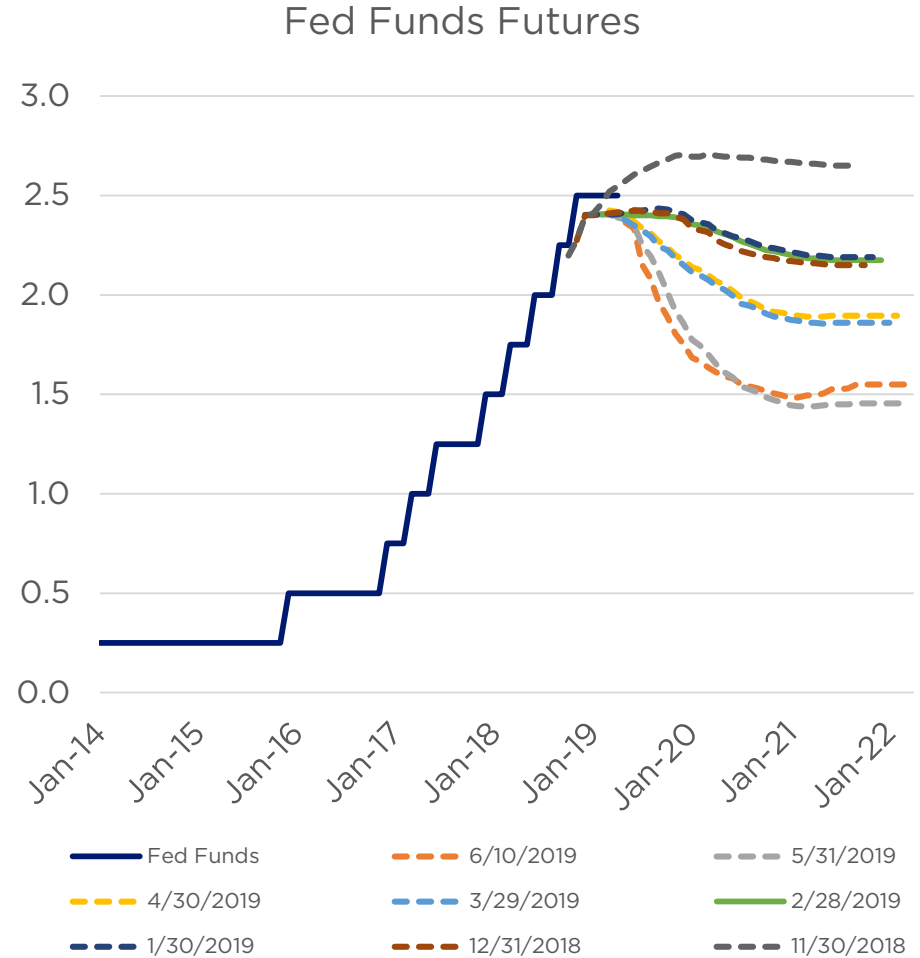
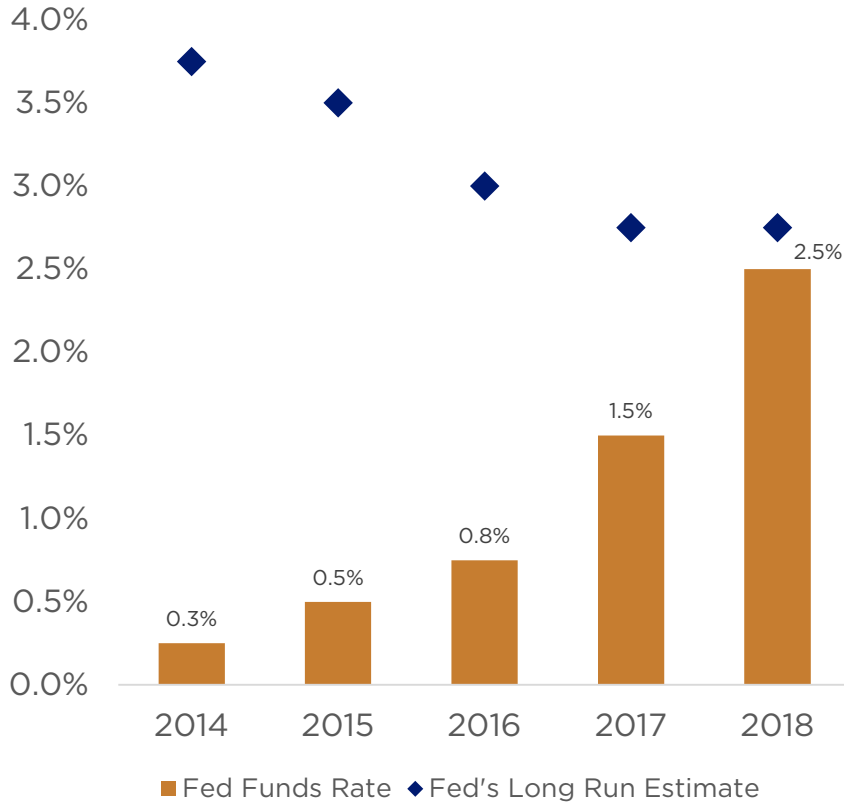
Returns of the Bloomberg Barclays Aggregate Bond Index



➤ SOURCE: Bloomberg

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# THE FED AND INTEREST RATES

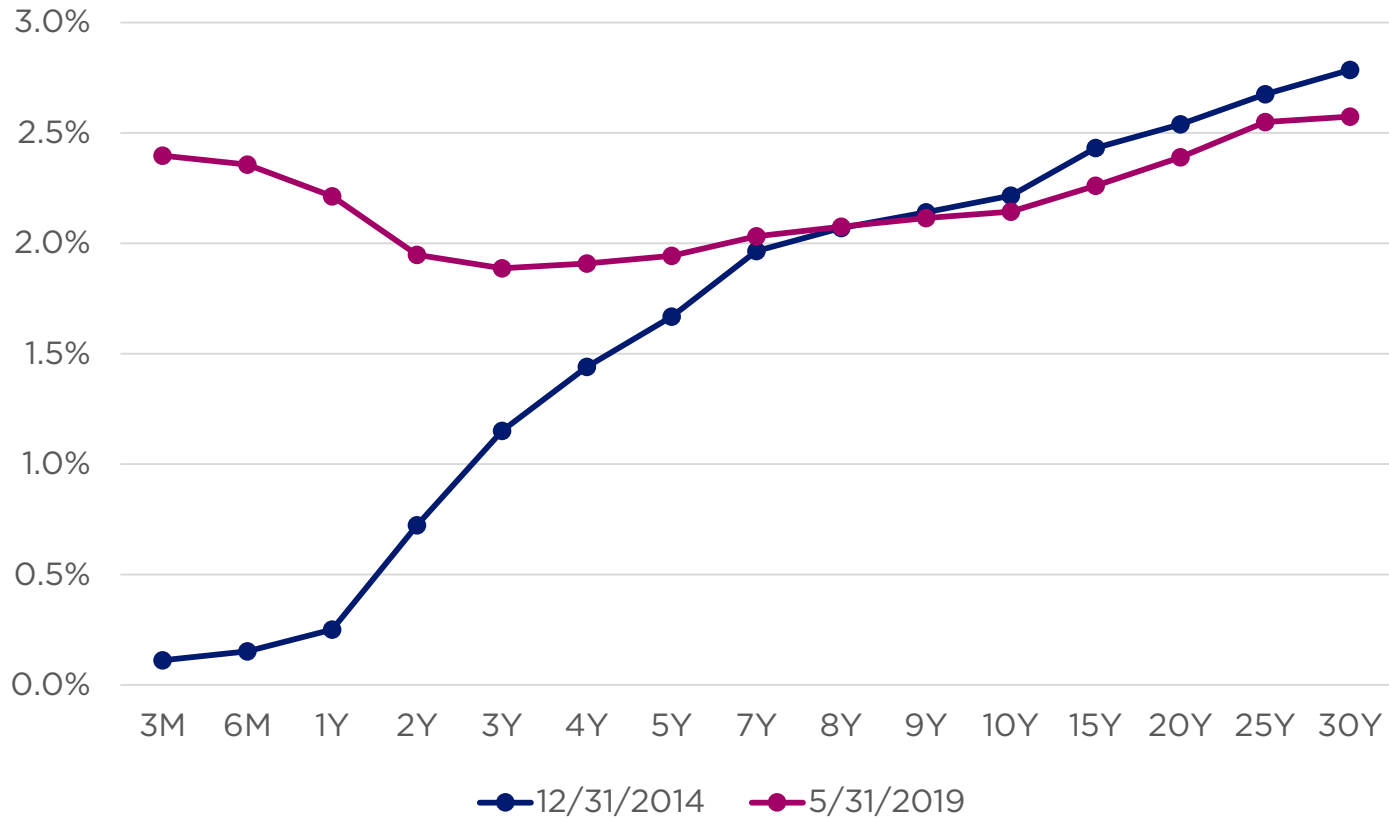


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# THE YIELD CURVE

Treasury Yield Curve

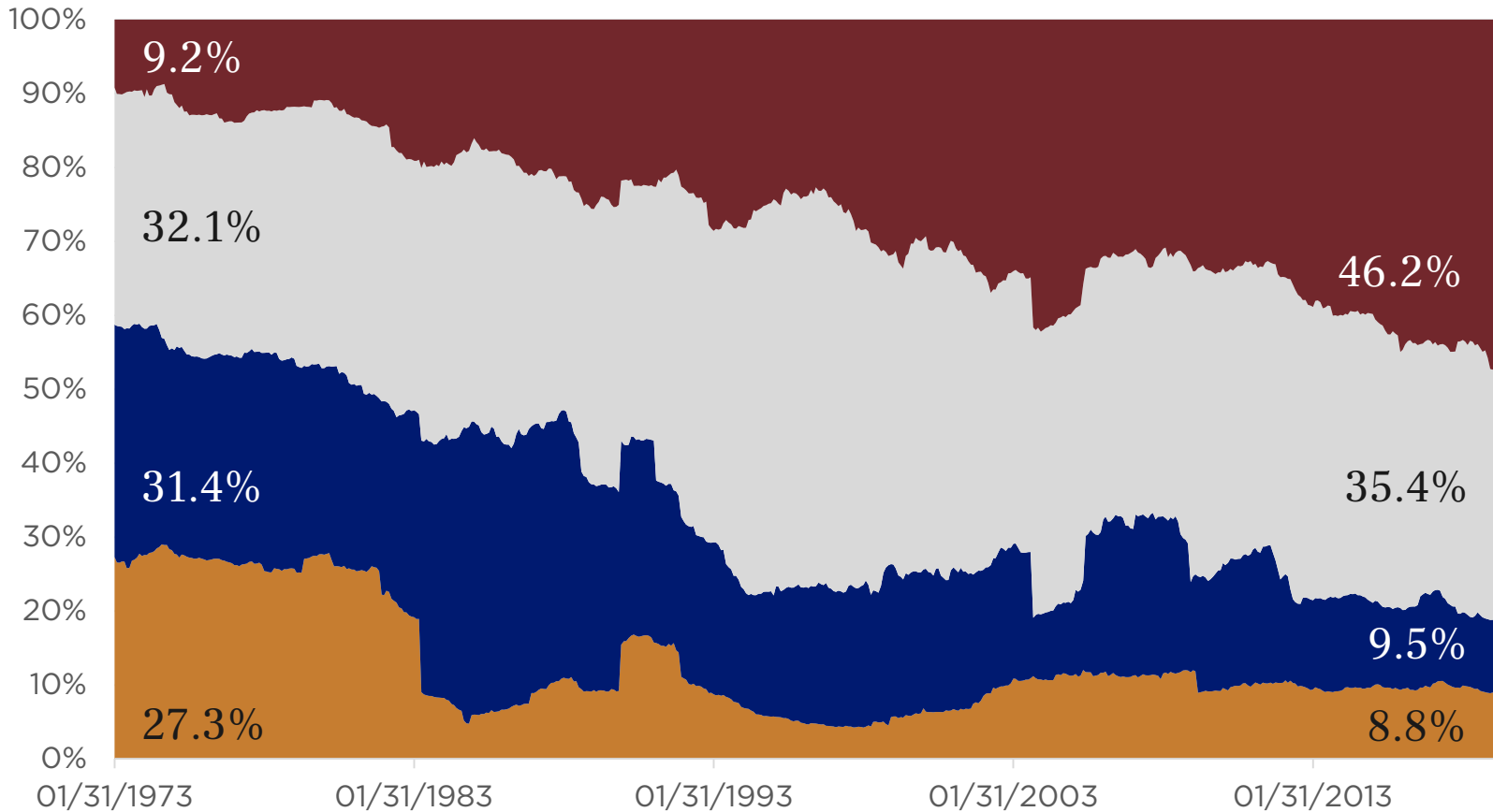


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# ARE BBB'S A TICKING TIME BOMB?

Composition of Credit Index

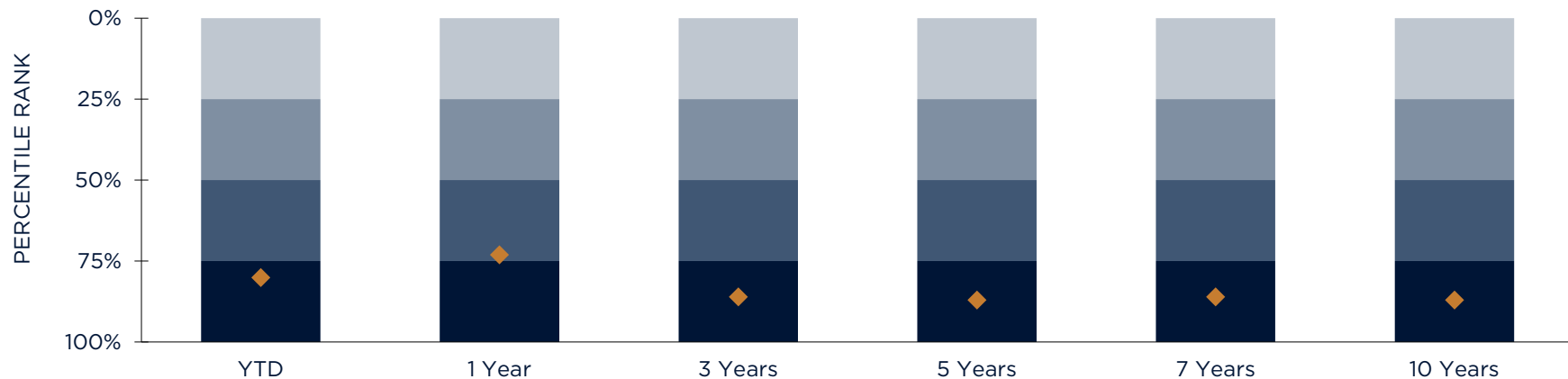


■ AAA ■ AA ■ A ■ BBB

» SOURCE: Bloomberg

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# ACTIVE VS. PASSIVE



	YTD	1 YEAR	3 YEARS	5 YEARS	7 YEARS	10 YEARS
<b>5<sup>TH</sup> PERCENTILE</b>	3.97	5.36	3.61	3.87	3.95	6.25
<b>25<sup>TH</sup> PERCENTILE</b>	3.47	4.89	2.85	3.32	3.28	5.16
<b>MEDIAN</b>	3.26	4.68	2.49	3.05	2.95	4.64
<b>75<sup>TH</sup> PERCENTILE</b>	3.00	4.47	2.22	2.88	2.71	4.17
<b>95<sup>TH</sup> PERCENTILE</b>	2.45	3.91	1.82	2.61	2.39	3.58
<b># OF OBSERVATIONS</b>	262	261	256	250	248	229

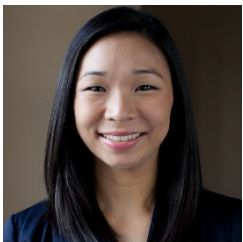
FIRM/PRODUCT	YTD	RANK	1 YEAR	RANK	3 YEAR	RANK	5 YEAR	RANK	7 YEAR	RANK	10 YEAR	RANK
<b>BARCLAY'S AGGREGATE BOND INDEX</b>	2.94	80	4.48	73	2.03	86	2.74	87	2.48	93	3.77	93



## CONCLUSION

- **Currently the longest expansion since WWII**
  - Consumer and employment remain important tailwinds
  - Trade policy is a headwind
- **Need a disciplined framework to evaluate economic outlook**
  - Odds of near term recession remain low, but risk is rising
- **Fixed income remains an important part of diversified portfolios to protect against unforeseen volatility**
  - No replacement for the benefit of high quality core bond portfolio
  - Rate hike cycle nearing the end

## QUESTIONS? PLEASE CONTACT



**Irene Tsai, CFA, CFP<sup>®</sup>, ChFC<sup>®</sup>, CLU<sup>®</sup>**

DIRECTOR, INTERMEDIARIES & CLIENT SERVICE

M: 614.806.3867

O: 513.661.3100

ITSAI@JOHNSONASSET.COM

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