

Economic & Market Outlook: It All Depends On Your Time Horizon

Linda A. Duessel, CFA, CPA, CFP

Senior Equity Strategist

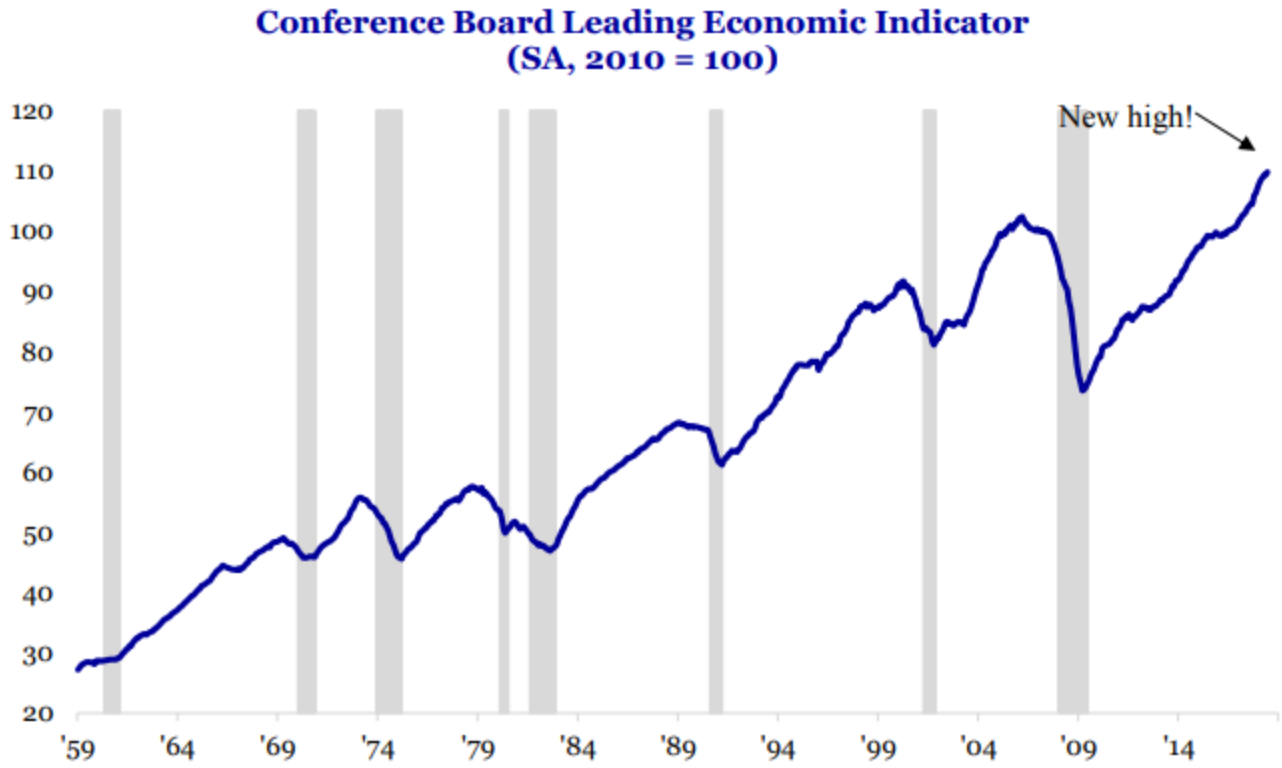
Senior Vice President

Federated Equity Forecasts

	2016	2017	2018	2019
Real GDP	1.50%	2.30%	2.90%	3.00%
Core PCE	1.60%	1.50%	2.00%	2.20%
Benchmark 10yr Treasury Yield	2.50%	2.40%	3.25%	3.75%
Fed Funds Rate	0.50-0.75%	1.25-1.50%	2.00-2.25%	2.75-3.00%
S&P 500 EPS	\$118	\$130	\$160	\$175
Target P/E	19.5x	20.8x	19.4x	20.0x
S&P 500 Target Price	\$2,250	\$2,700	\$3,100	\$3,500

PCE = Personal Consumption Expenditures.
 2016 and 2017 is actual.
 Views are as of July 2018

This Could Be The Longest Economic Cycle In U.S. History

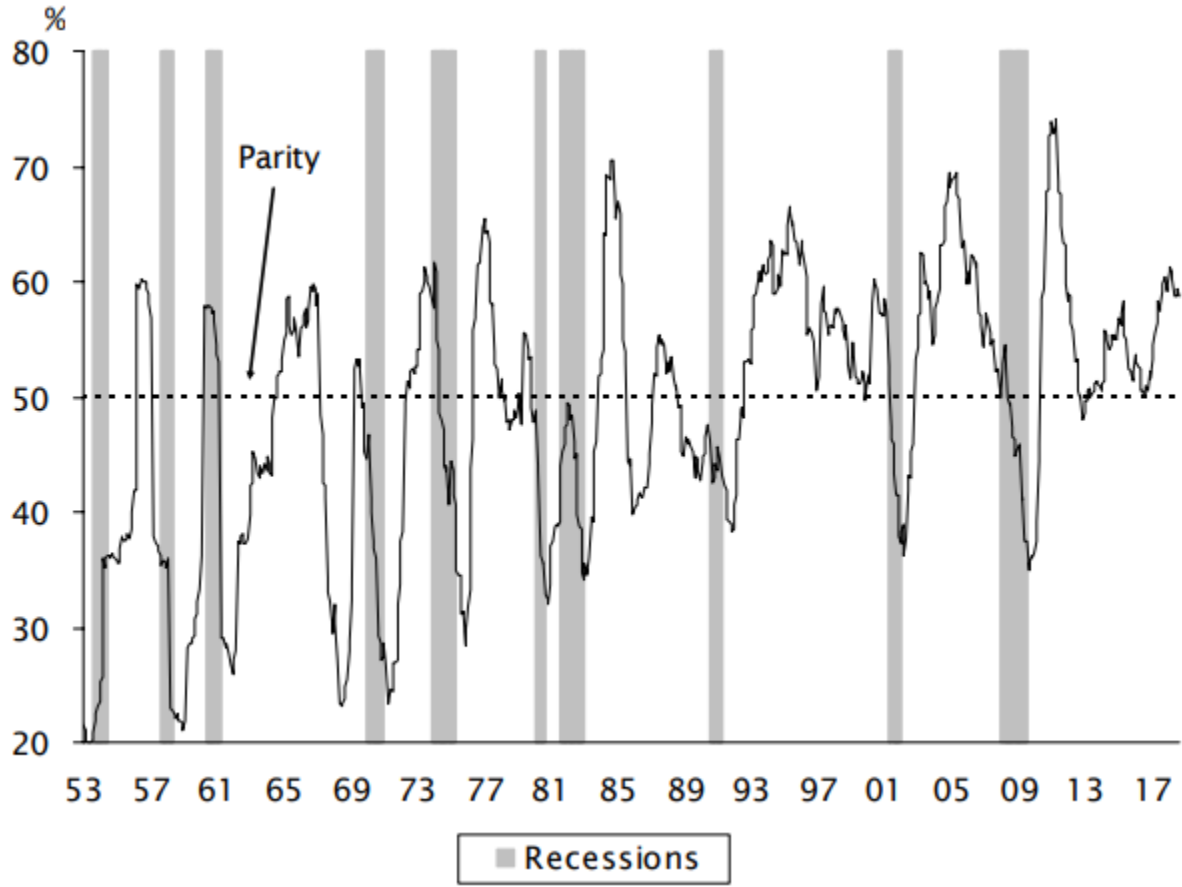


Shaded bars represent recession.

Source: Strategas – July 2018

Profitability Still Rising, A Rarity More Than 9 Years From the Recovery's Start

Large-Capitalization Stocks Share with Rising Profit Margins¹
1953 Through Early-August 2018

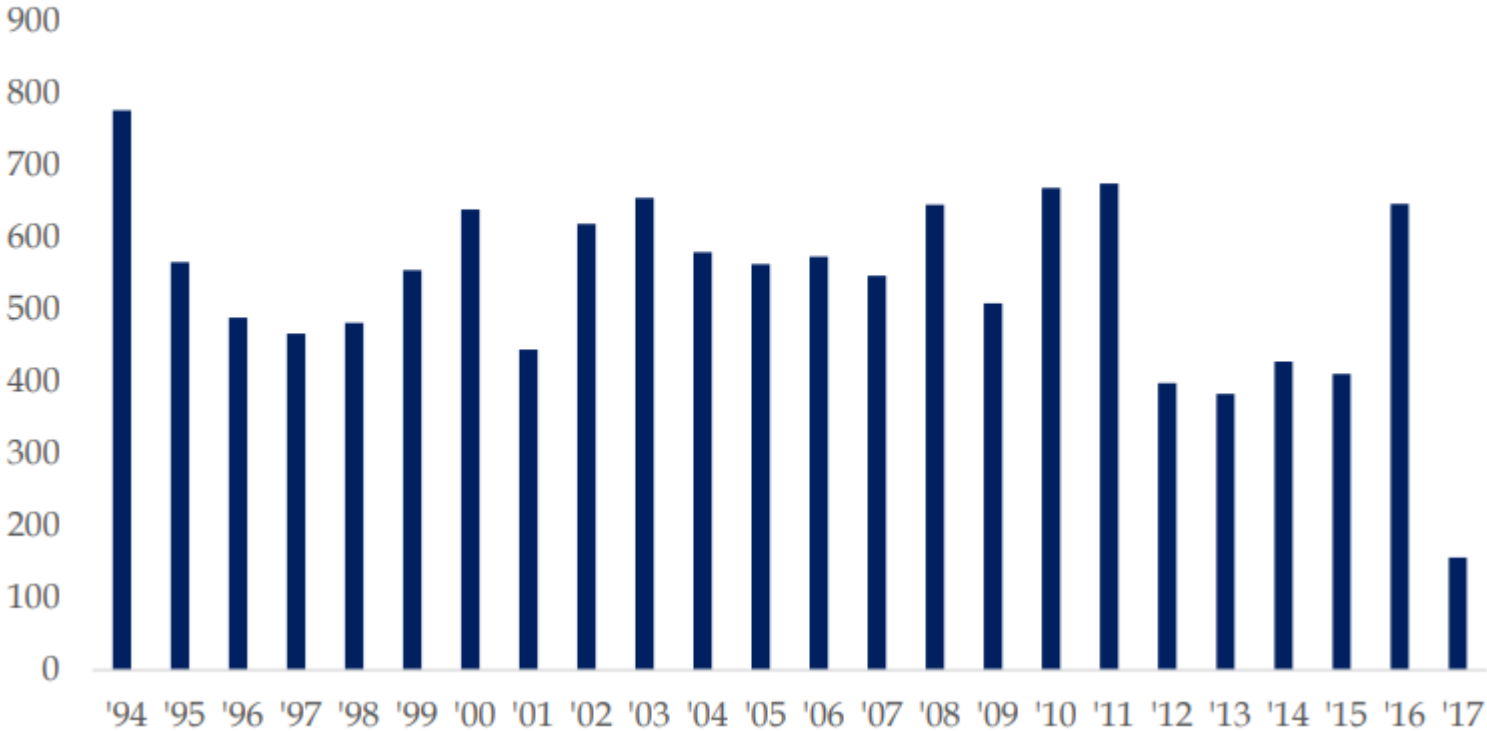


¹Excludes financials; margins measured versus the same quarter in the prior year.

Businesses No Longer Complaining About Regulations

Major Regulations

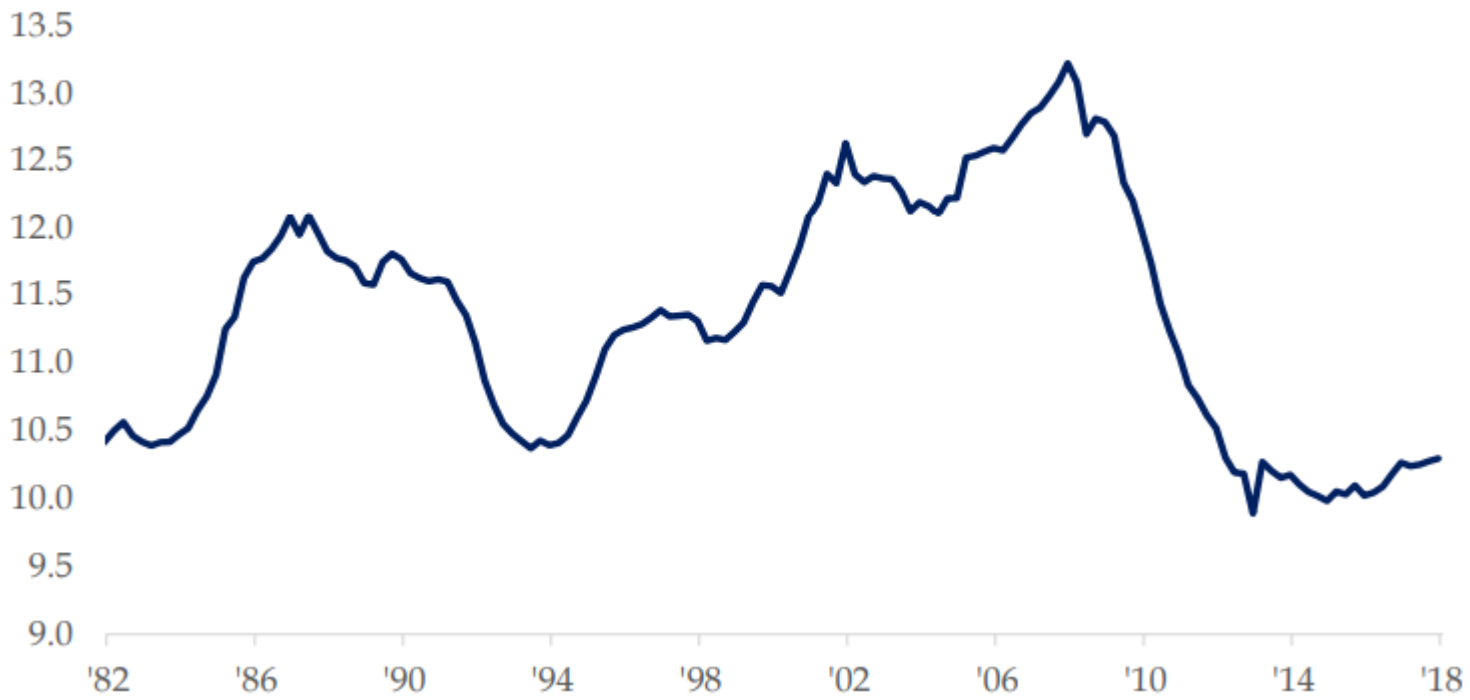
By The OIRA, Measures Jan 20-Jan 19 Of Following Year



Source: Strategas Securities, LLC – Investment Strategy – May 2018

Consumers Have Capacity To Spend

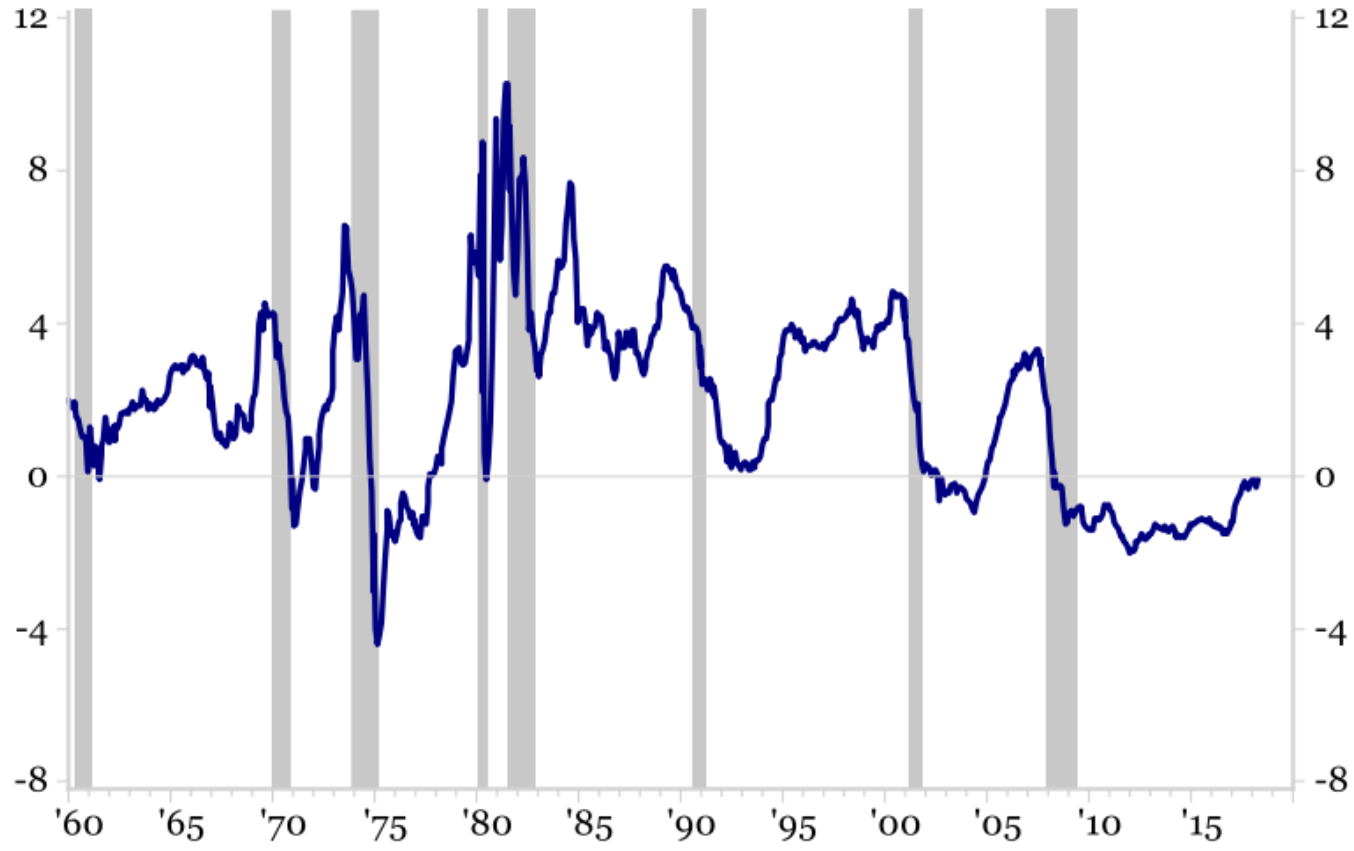
U.S. Household Debt Service Ratio (%)
(Total Household Debt Payments to Total Disposable Income)



Source: Strategas Securities, LLC – Investment Strategy – May 2018

Significantly Positive Real Fed Funds Typically Precede A Recession

Fed Funds Rate Minus Core PCE YoY%

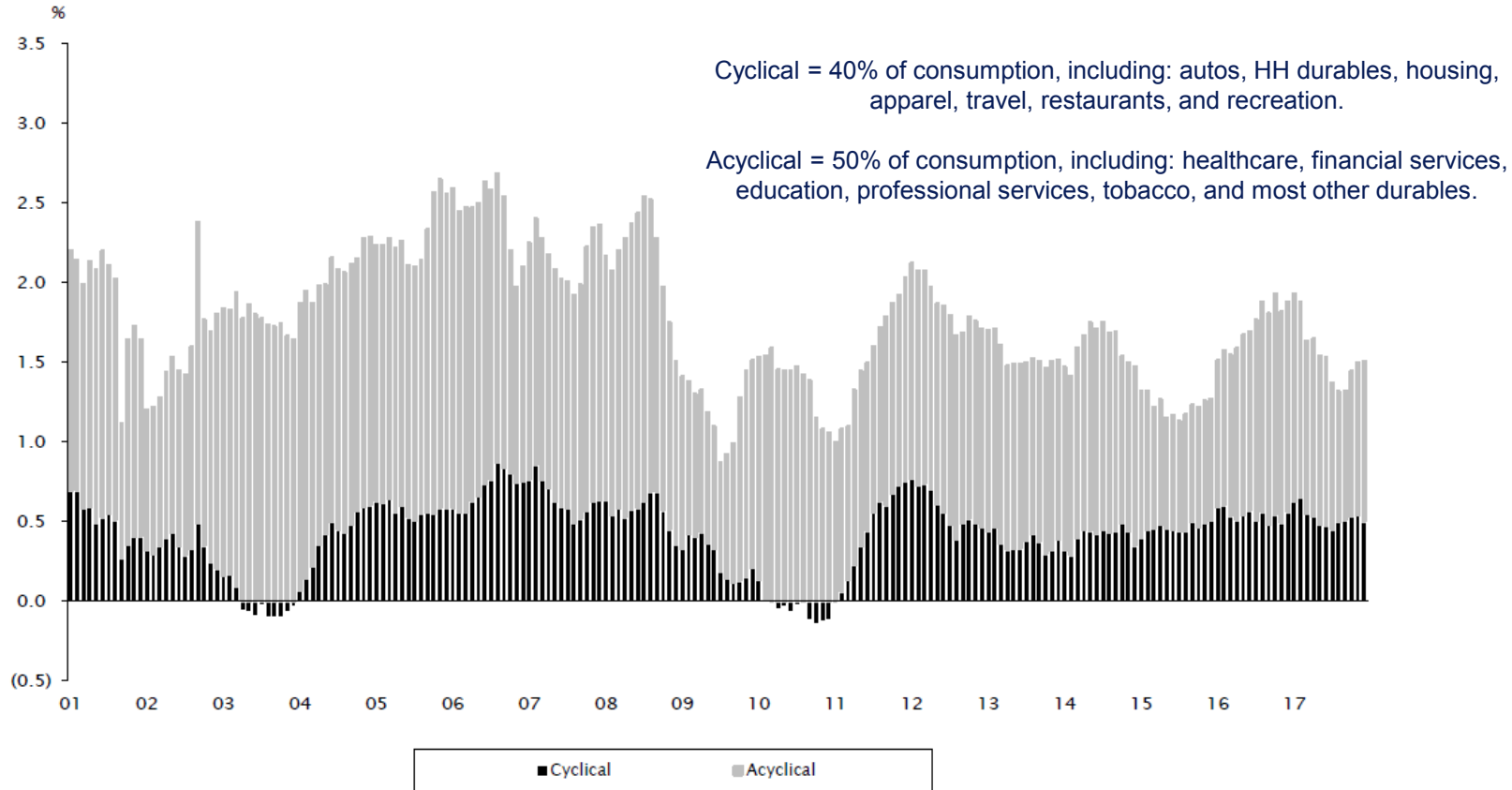


Shaded bars represent recession.

Source: Haver Analytics, Strategas – July 2018

Should We Worry About Inflation?

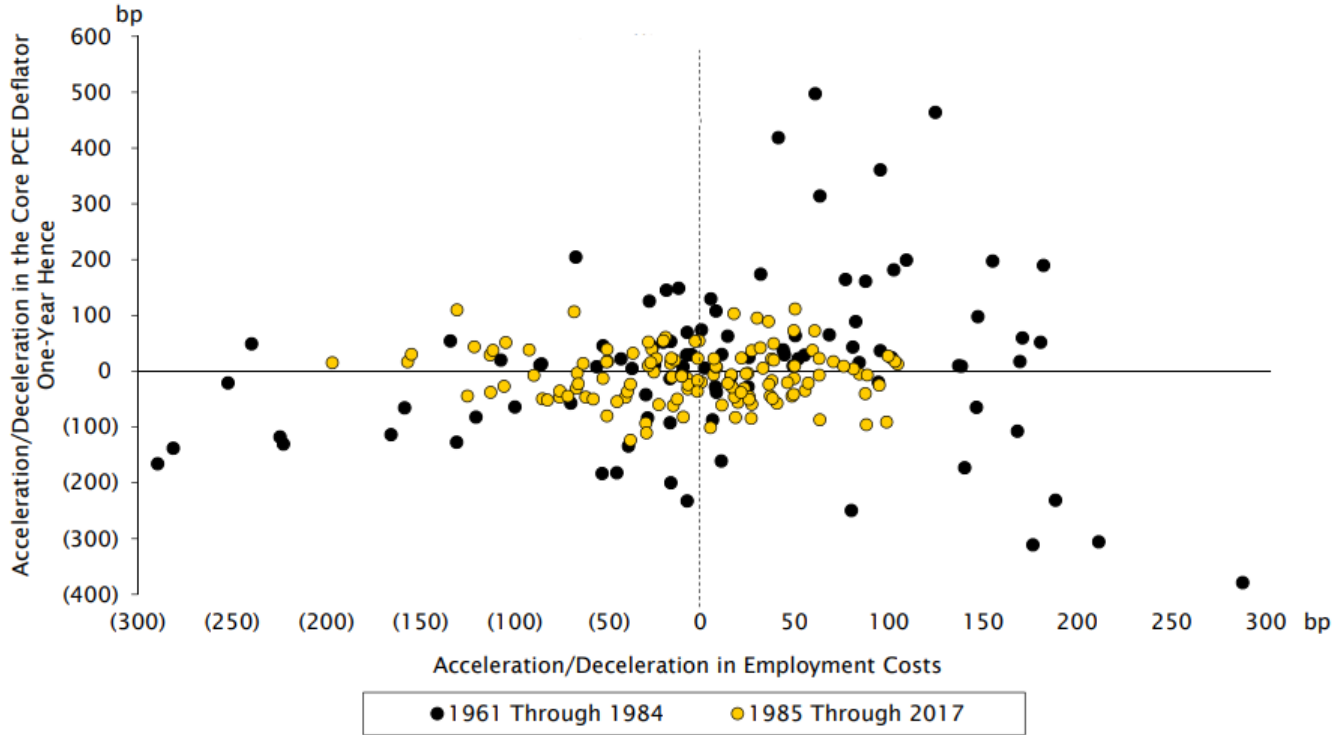
Cyclical and Acyclical Price Movements Contribution to Core Inflation¹ 2001 Through 2017



¹Excluding gasoline and food at home.

The Phillips Curve¹ Has Been Dormant For A Long Time...

Acceleration/Deceleration in the Employment Cost Index and in the Core PCE Deflator, One-Year Hence² 1961 Through 2017

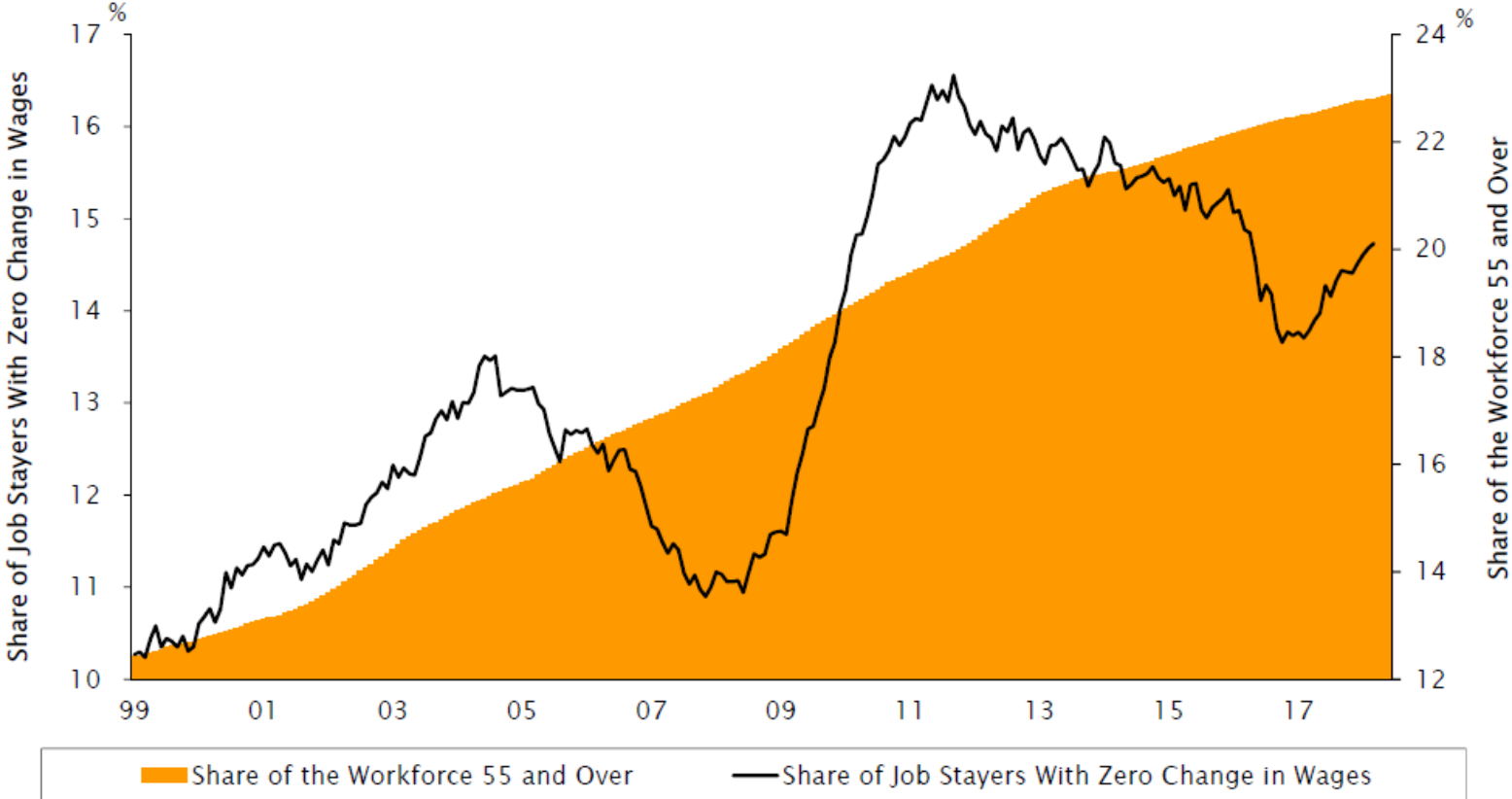


¹The Phillips Curve is an economic indicator developed by A.W. Phillips stating that inflation and unemployment have a stable and inverse relationship.

²For all private sector employees excluding bonuses; measured on a year-over-year basis.

Baby Boomers Aren't Asking For A Raise

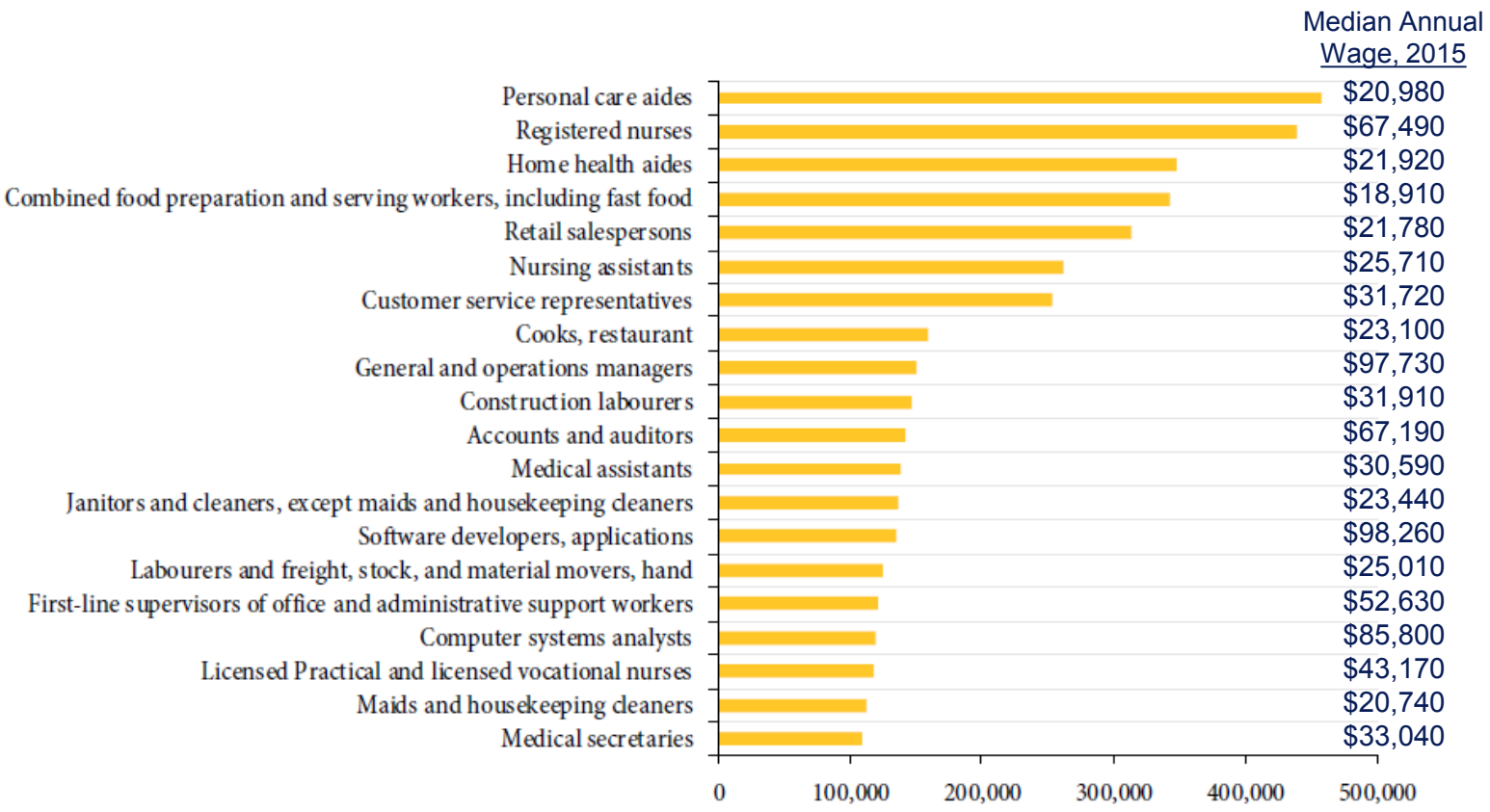
Share of the Workforce 55 and Over
and Share of Job Stayers With Zero Change in Wages
1999 Through June 2018



Source: Empirical Research Partners – July 2018

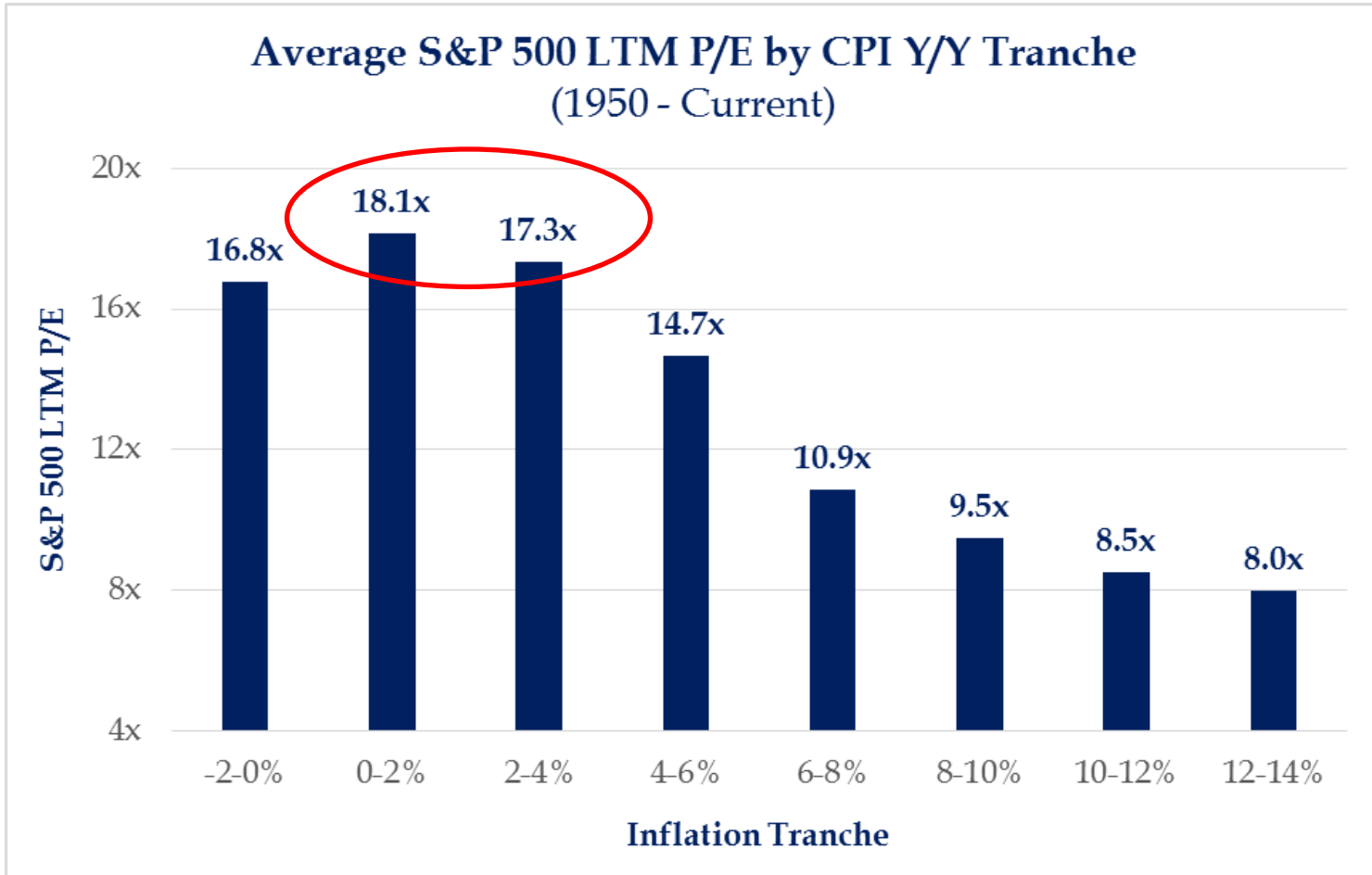
Demographic And Structural Forces Argue Against A Longer Term Inflation Problem

Sectors Forecast To Create The Most New Jobs, U.S., 2014-2024



Source: U.S. Bureau of Labor Statistics – June 2018

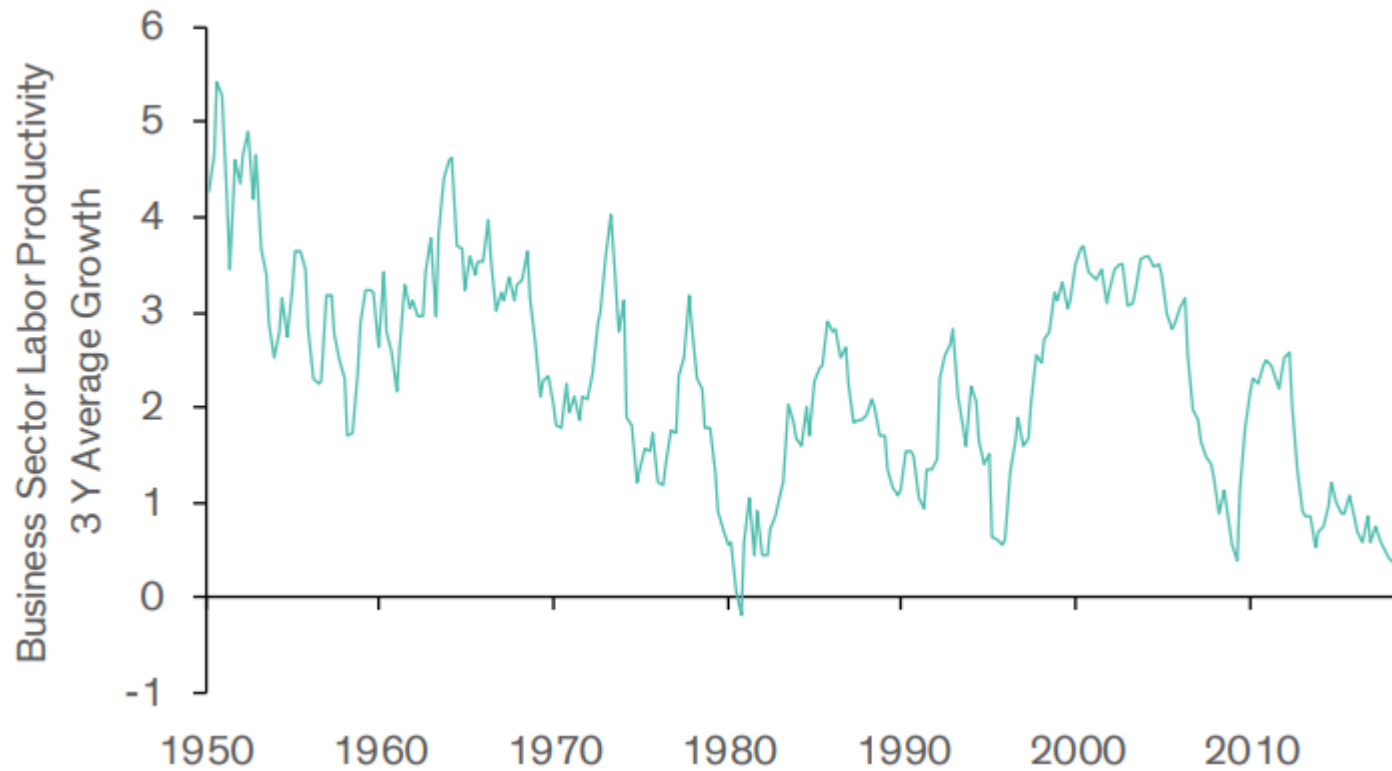
Valuation Okay If Inflation Is Contained



Source: Strategas Research Partners – June 2018

Productivity Can Be A Powerful Force To Offset Price Pressures

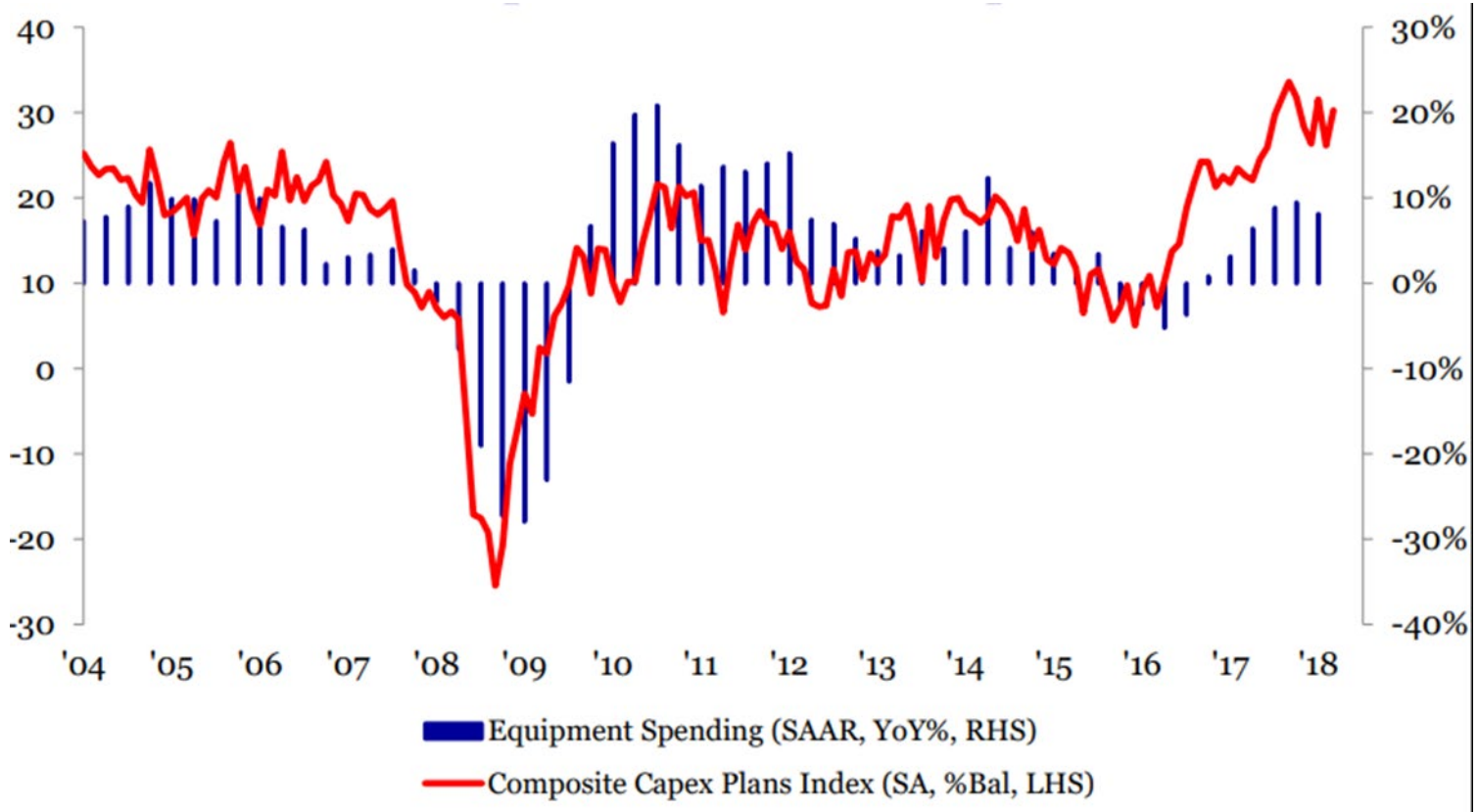
Labor Productivity Growth Near All-Time Lows



Source: Federal Reserve Bank of San Francisco, Bernstein U.S. Economics analysis– July 2018

Capital Expenditure Plans Remain Elevated

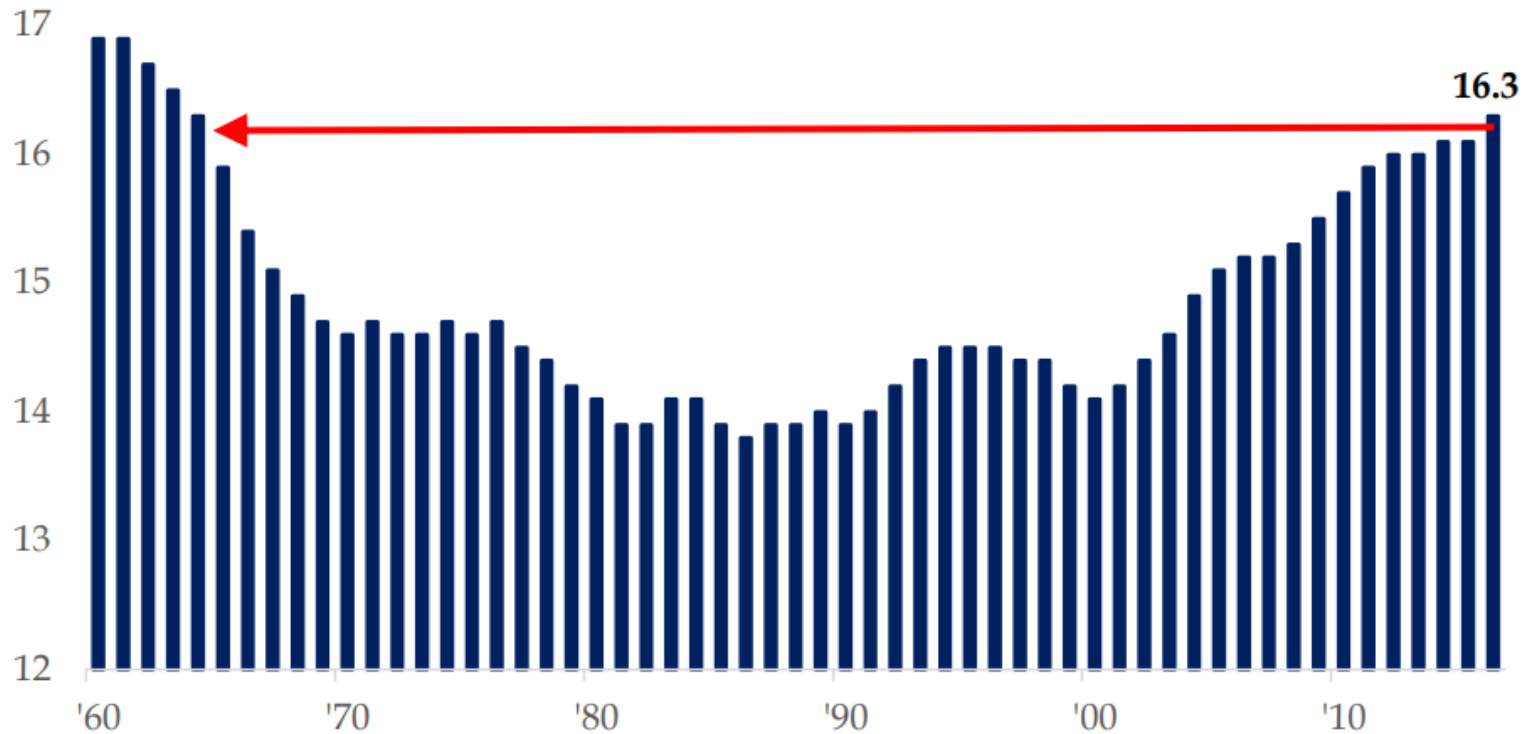
Capex Plans vs. Actual Capex



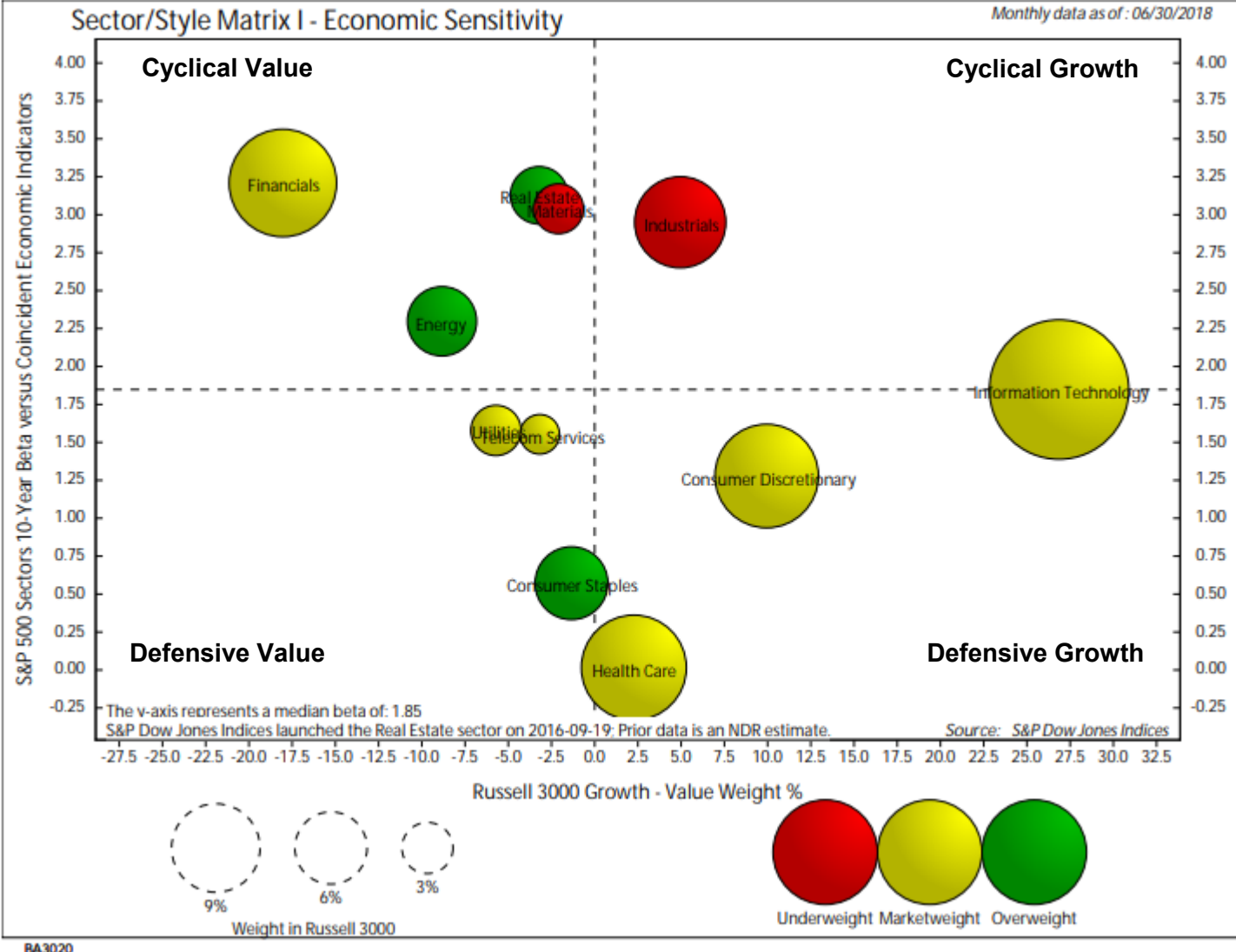
Source: Strategas – August 2018

The Last Time Fixed Assets Were As Old As They Are Now Was In The 1960s

Average Age In Years:
Private Fixed Non-Residential Assets



Where Are We In The Cycle? – Growth vs. Value Debate

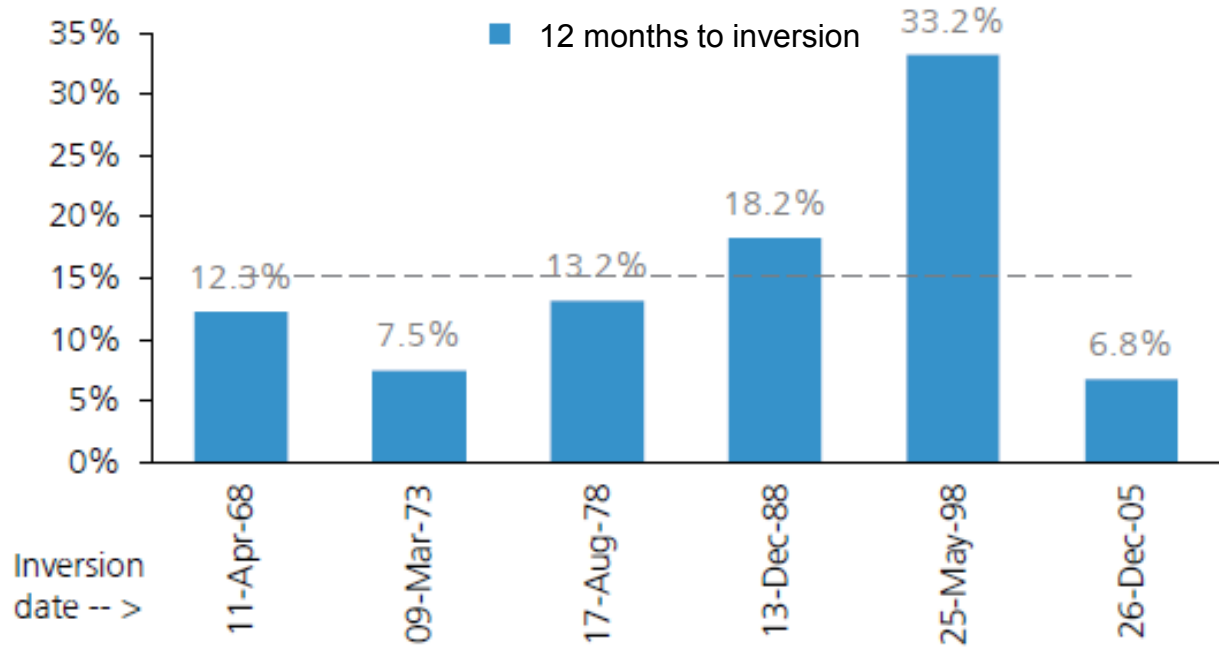


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Source: Ned Davis Research Group – July 2018

Say The Yield Curve Inverts in 12 Months Time

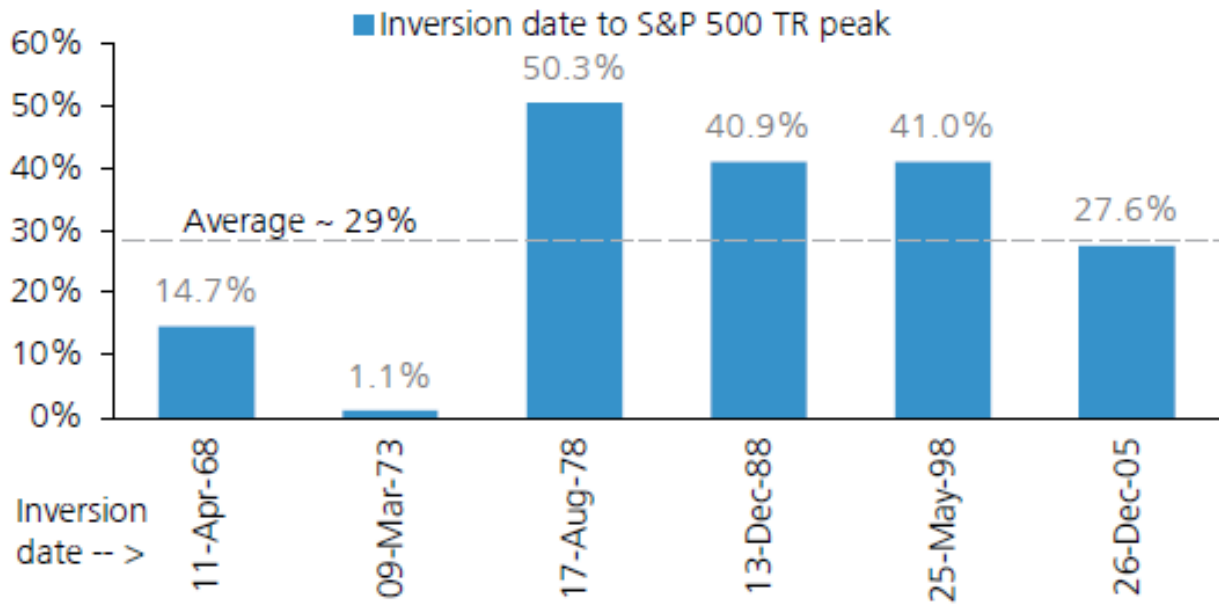
S&P 500 Returns Before Curve Inverts...



Note: UST 10yr minus UST 1yr from 1961 to March 1976 and UST 10 yr minus UST 2yr after March 1976.
Source: Haver, UBS – July 2018

Then What?

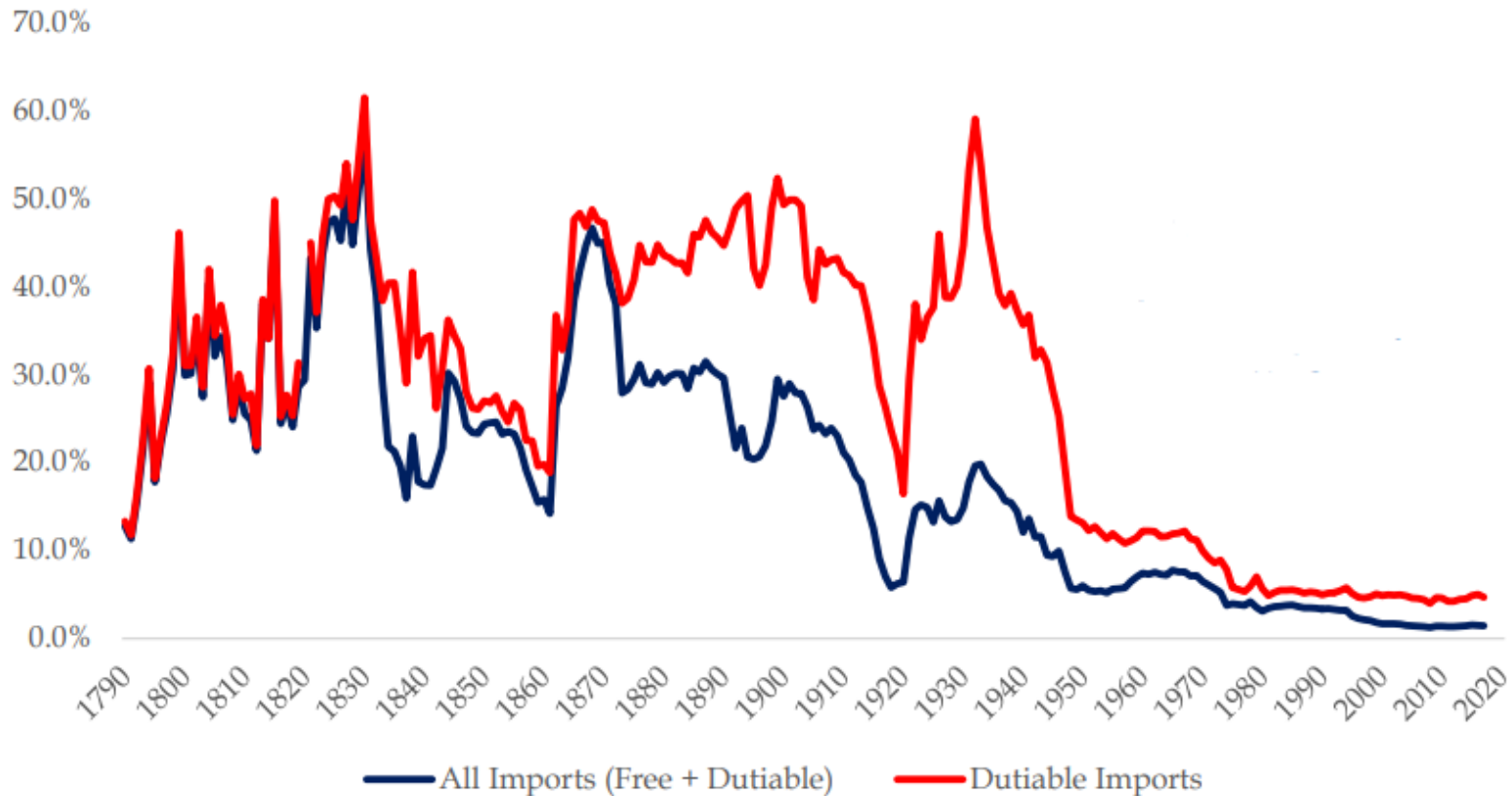
... and After the Curve Inverts



Note: UST 10yr minus UST 1yr from 1961 to March 1976 and UST 10 yr minus UST 2yr after March 1976.
Source: Haver, UBS – July 2018

By Historical Standards, The Term “Trade War” Seems Excessive

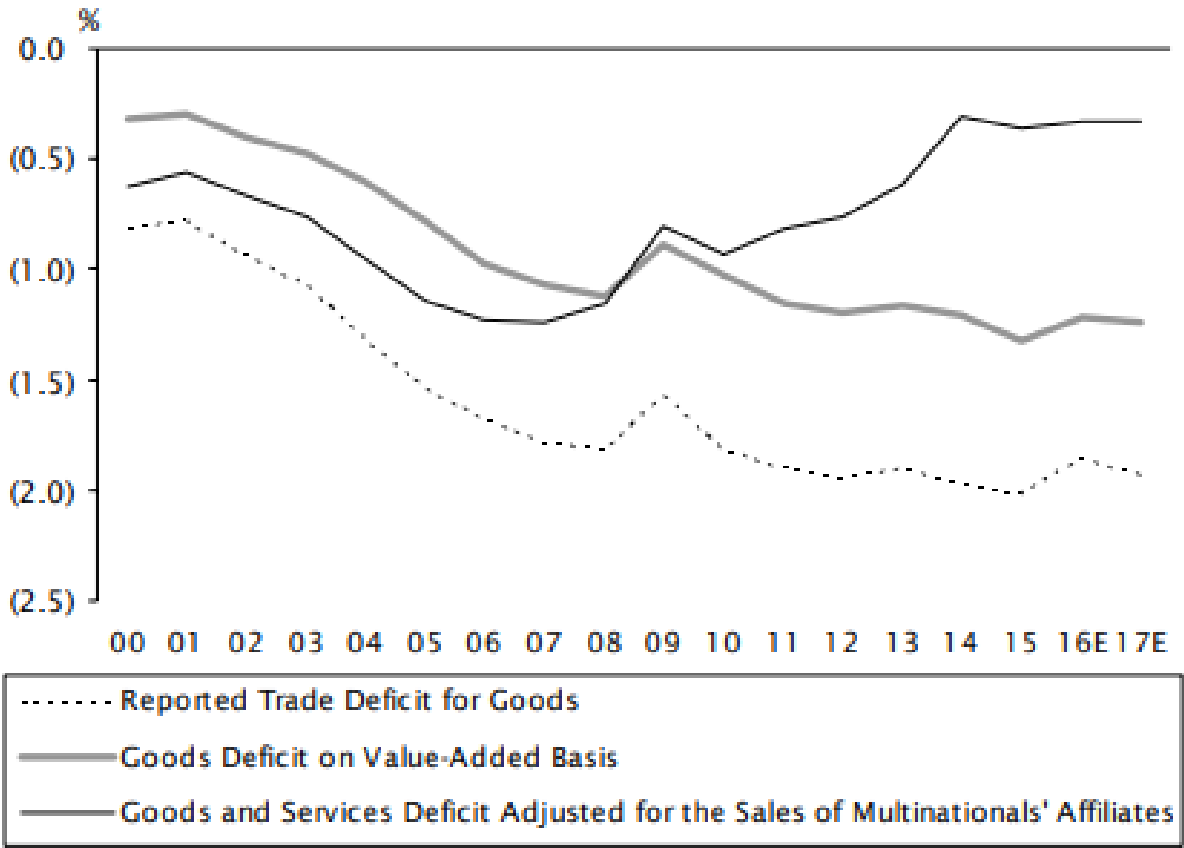
U.S. Average Tariff Rates (%)



Source: USITC, Statistical Abstracts of U.S. 1971-88, Historical Statistics of the U.S. Colonial Times to 1970, Douglas Irwin's New Estimates of the Average Tariff of the U.S. 1790-1820 – June 2018

The U.S. Trade Position With China – It Depends On How You Look At It

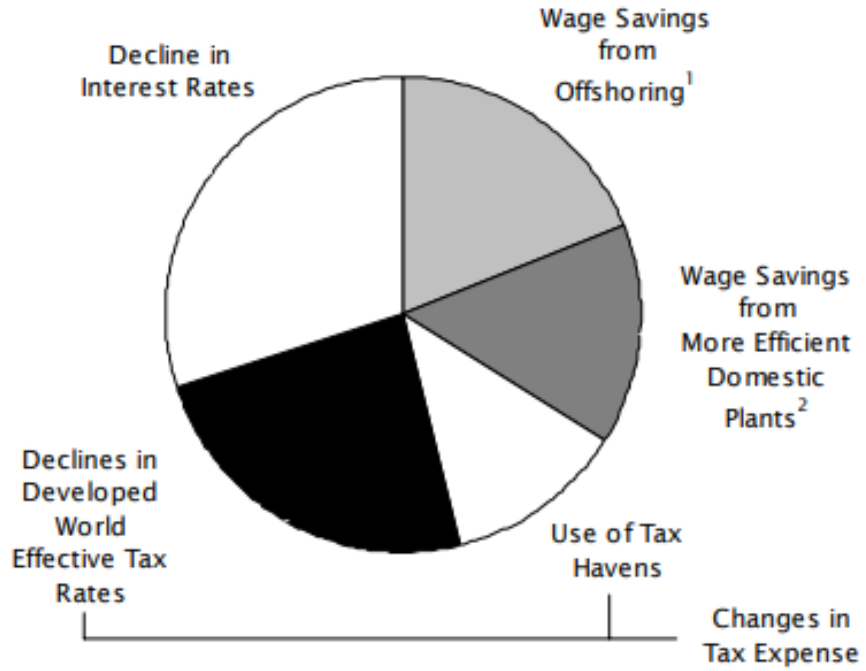
The U.S. Trade Deficit With China As Reported, on Value-Added Basis and Adjusted for the Sales of Multinationals' Affiliates As a Share of U.S. GDP 2000 Through 2017E



Source: Bureau of Economic Analysis, Census Bureau, OECD, Empirical Research Partners Analysis – June 2018

Globalization Has Been Great For U.S. Manufacturers

S&P 500 Manufacturers Margin Expansion Dynamic Q1 2018 Vs. 2000

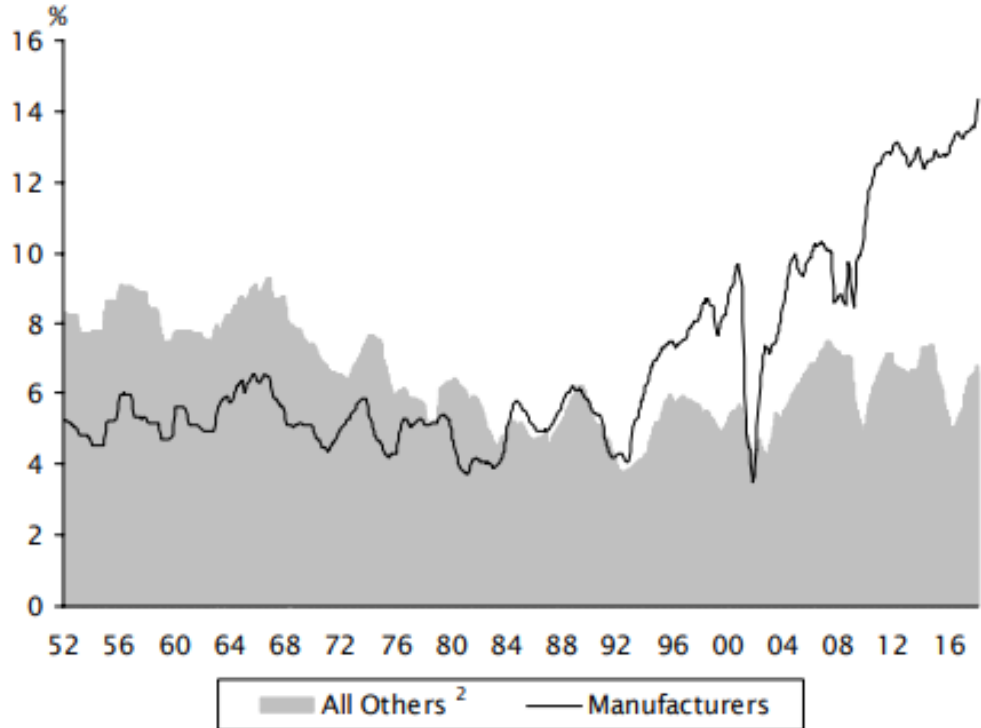


¹Assumes that the lost U.S. jobs were replaced by jobs in China at Lower rates of compensation

²Assumes the decline in labor intensity of these plants matches that for the entire U.S. manufacturing system

The Consequences Of Globalization Are Hard To Miss

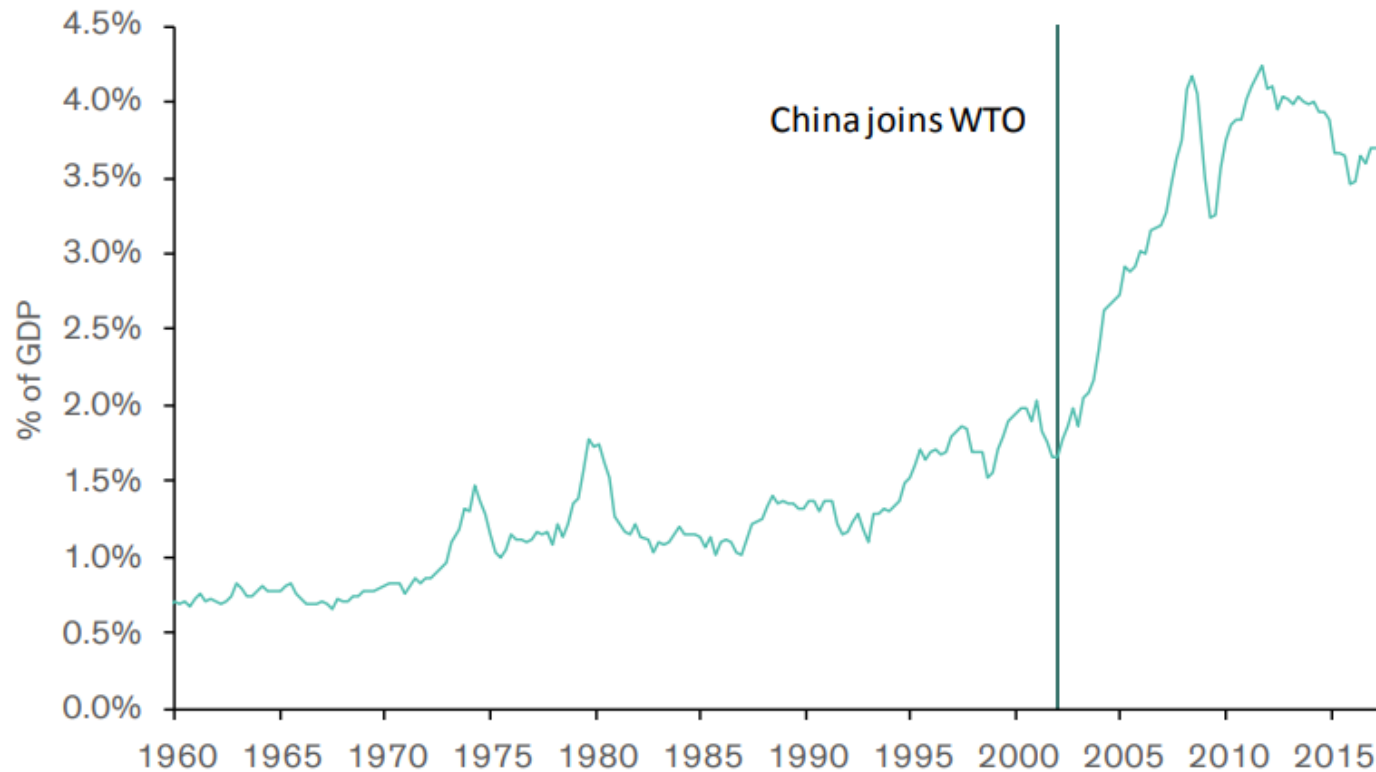
The S&P 500: Manufacturers and All Others Net Profit Margins¹ 1952 Through Q1 2018E



¹Based on trailing four-quarter data smoothed on a trailing three-month basis
²Excludes financials and REITs

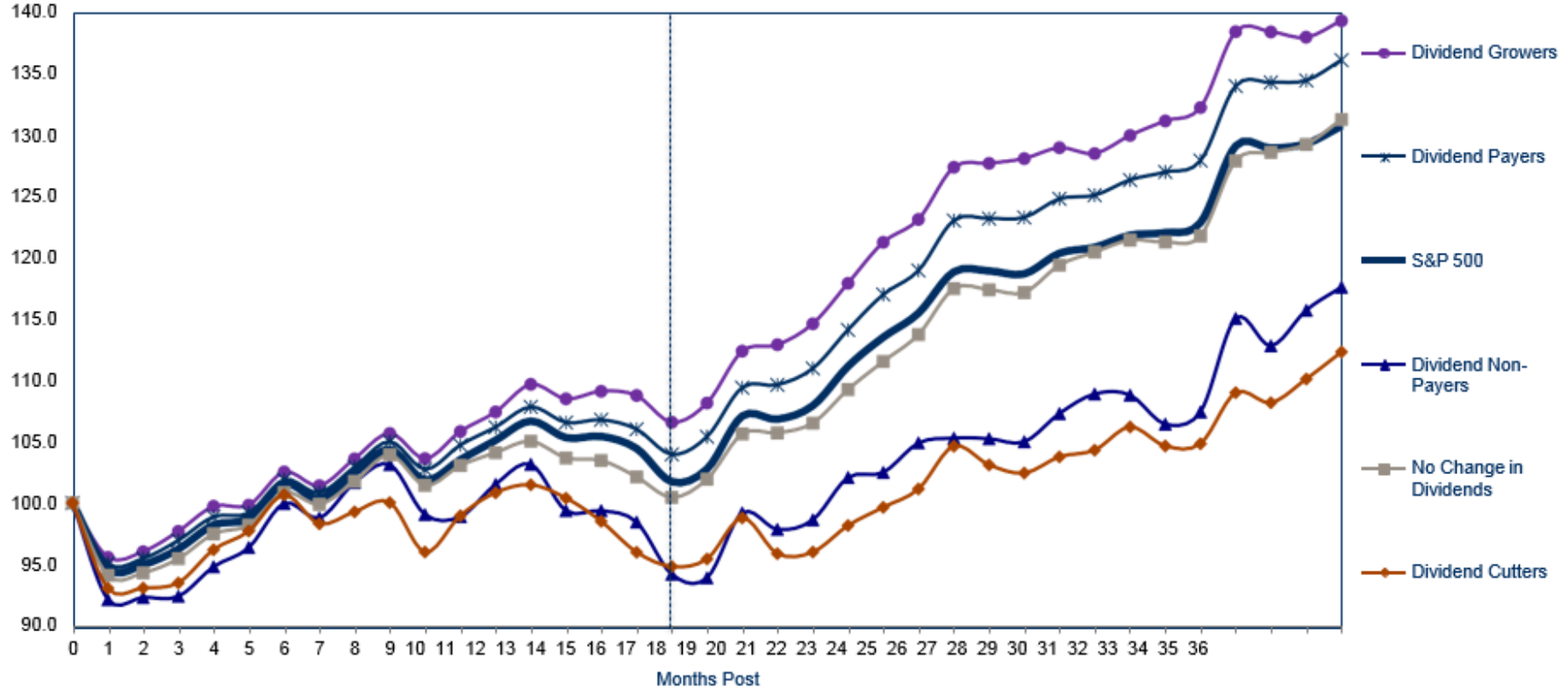
A Trade War Would Pressure Profits As Foreign Market Access Would Be Curtailed And Value Chains Disintermediated

Foreign Profits of US Corporates Have Grown Rapidly



Whither The Income Strategy?

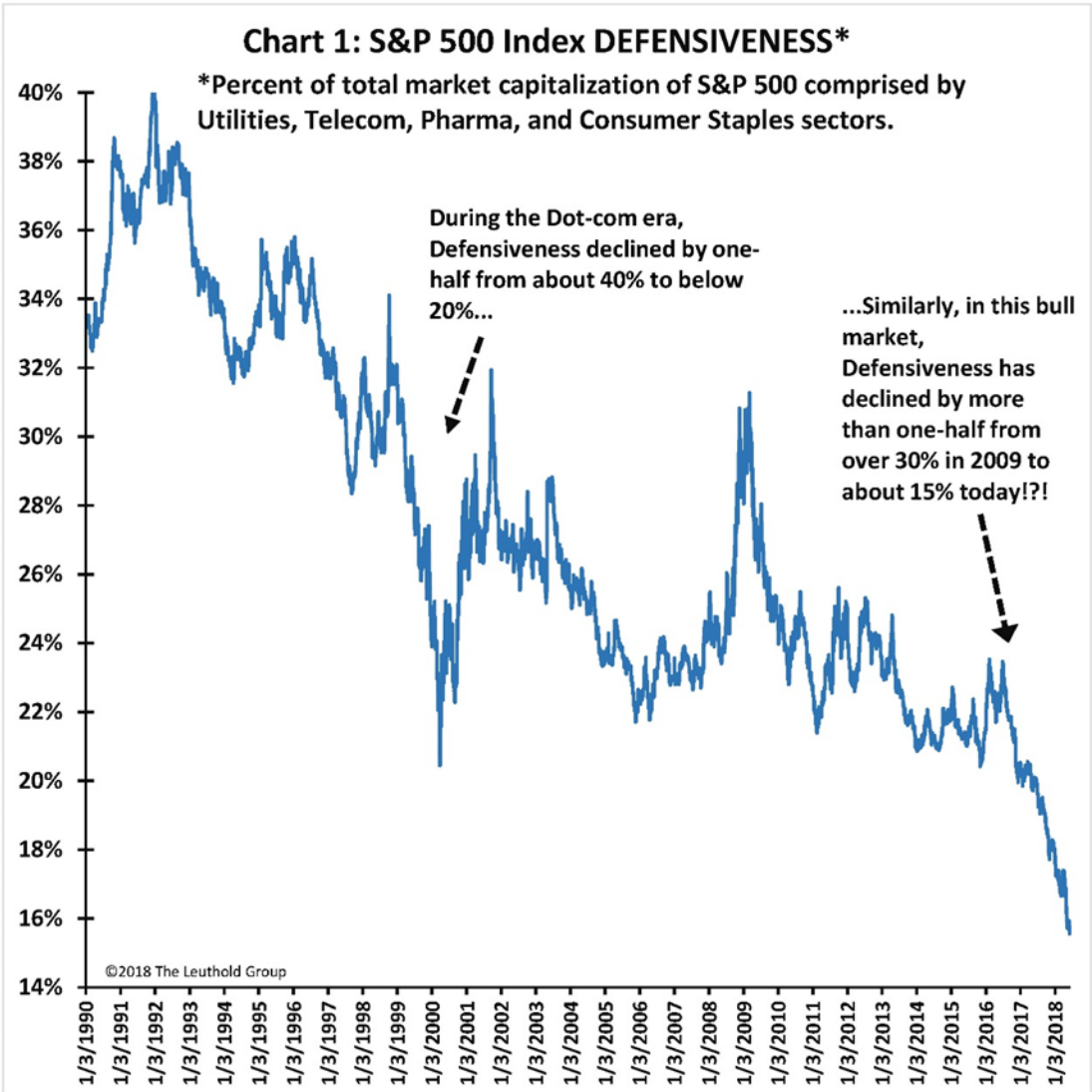
S&P 500 by Dividend Policy Total Return Performance After First Federal Reserve Rate Hikes



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As of 12/31/16. This chart is for illustrative purposes only and is not representative of performance for any specific investment. Past performance does not guarantee future results. Data shown is based on the average performance after all rate hikes since 1972 which occurred on the following dates: 1/15/1973, 8/31/1977, 9/26/1980, 4/9/1984, 9/4/1987, 2/4/1994, 3/25/1997, 6/30/1999, 6/30/2004, 12/16/2015, 12/14/2016.

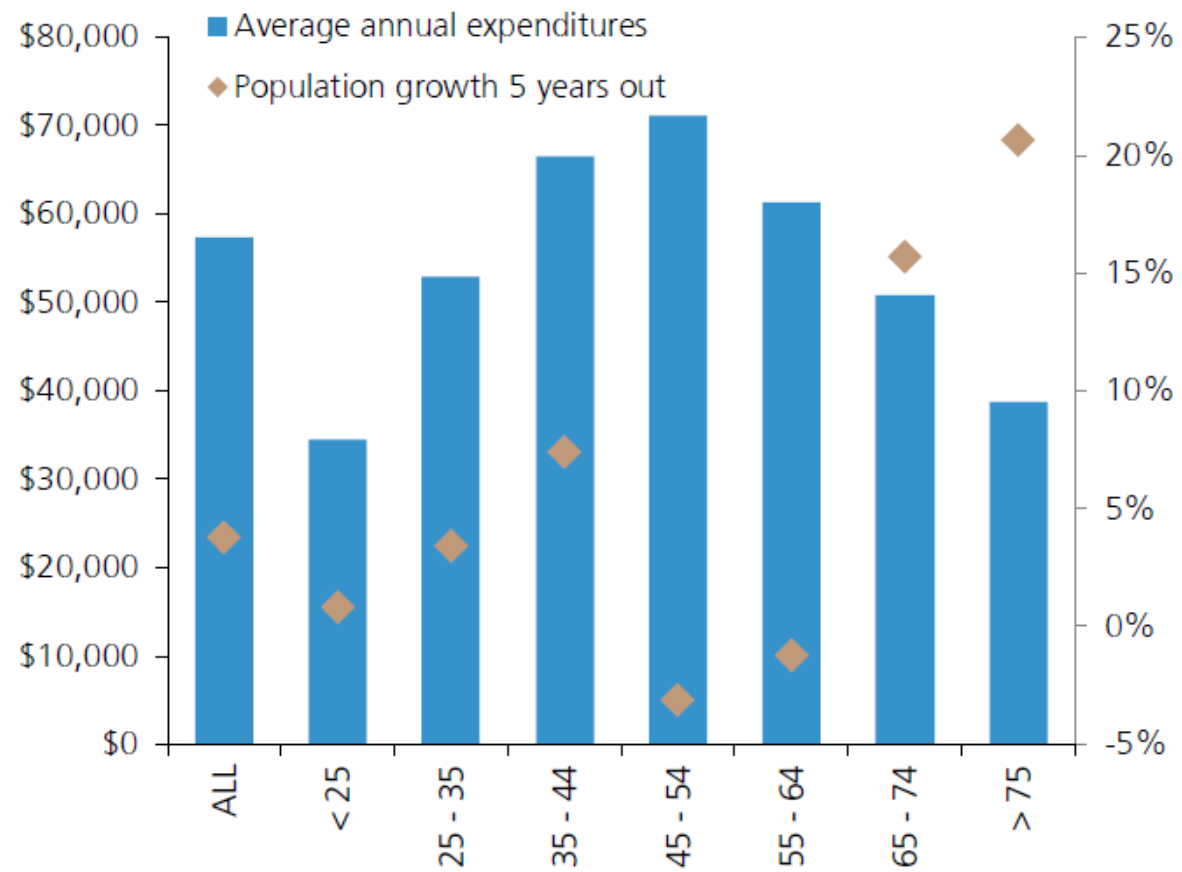
“Defense” Has Been Left For Dead



Source: The Leuthold Group – July 2018

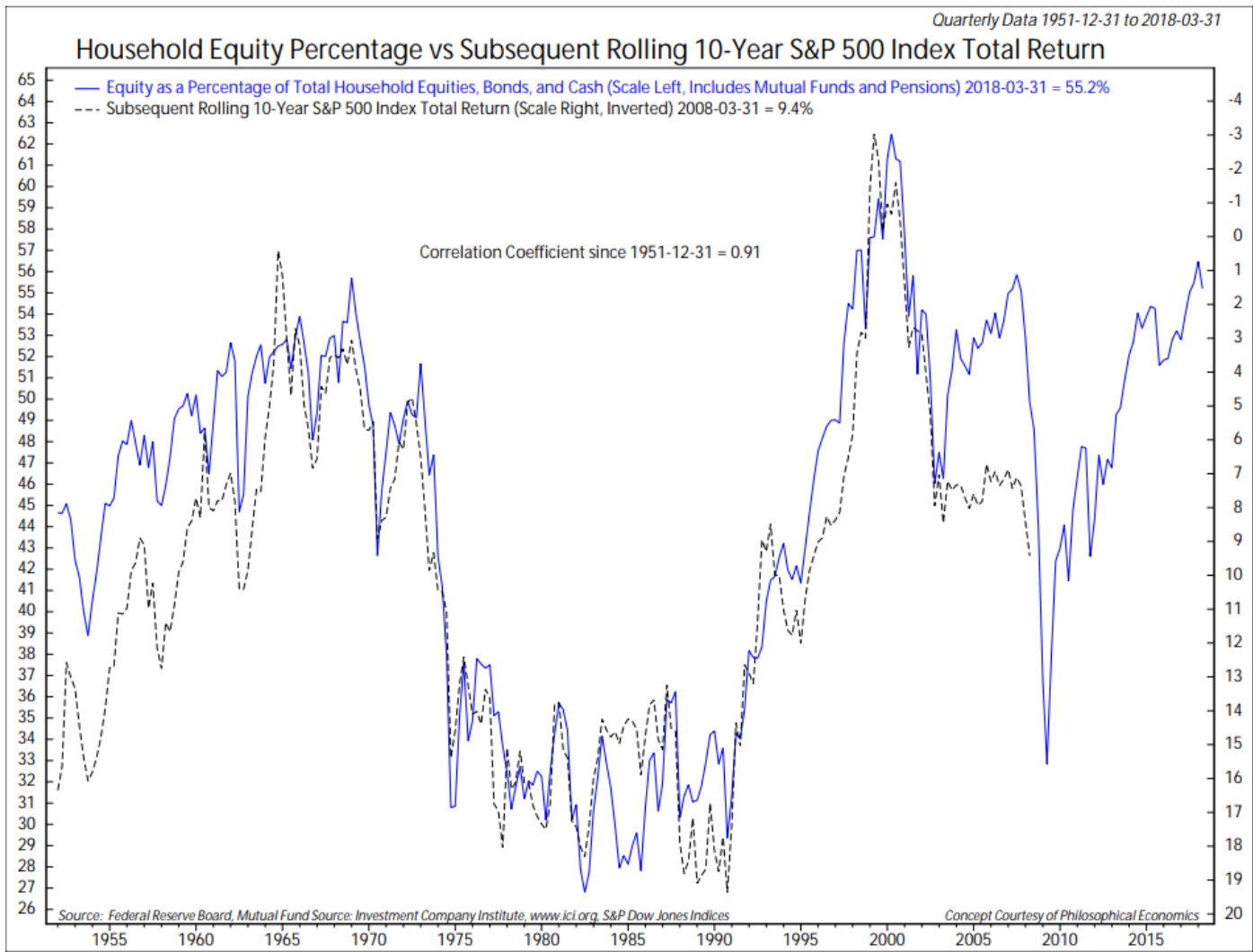
Demographics Suggest We Should Temper Our Intermediate Term Growth Expectations

Ageing Consumer Impacts Spending Growth Forecasts by Category



Source: BLS, Haver, UBS – July 2018

We Should Temper Our Return Expectations For Stocks

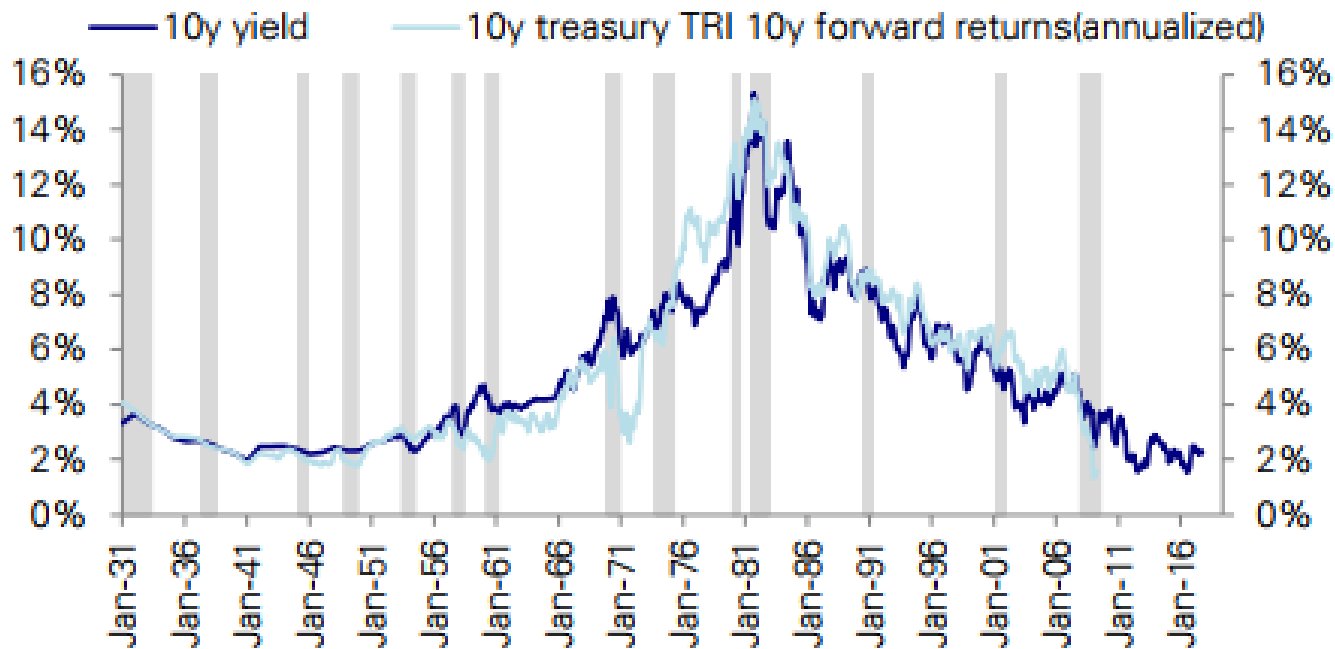


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Past performance is no guarantee of future results.
 Indexes are unmanaged and it is not possible to invest directly in an index.
 Source: Ned Davis Research – June 2018

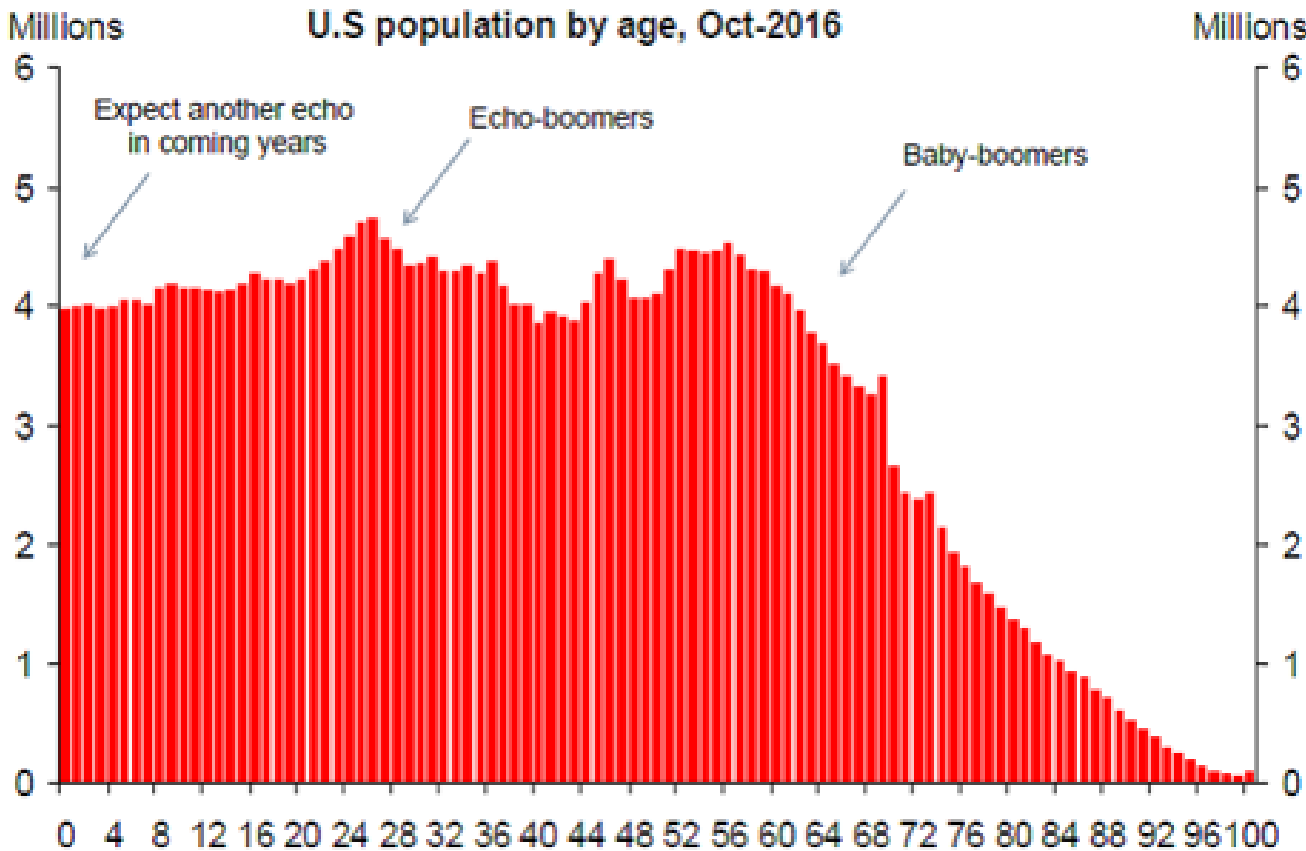
We Should Temper Return Expectations for Bonds

Asset Allocation: The 10y Yield Has Historically Been A Good Predictor Of Subsequent Total Returns



Shaded bars indicate recessions.
Source: FRB, Haver, Deutsche Bank – September 2017

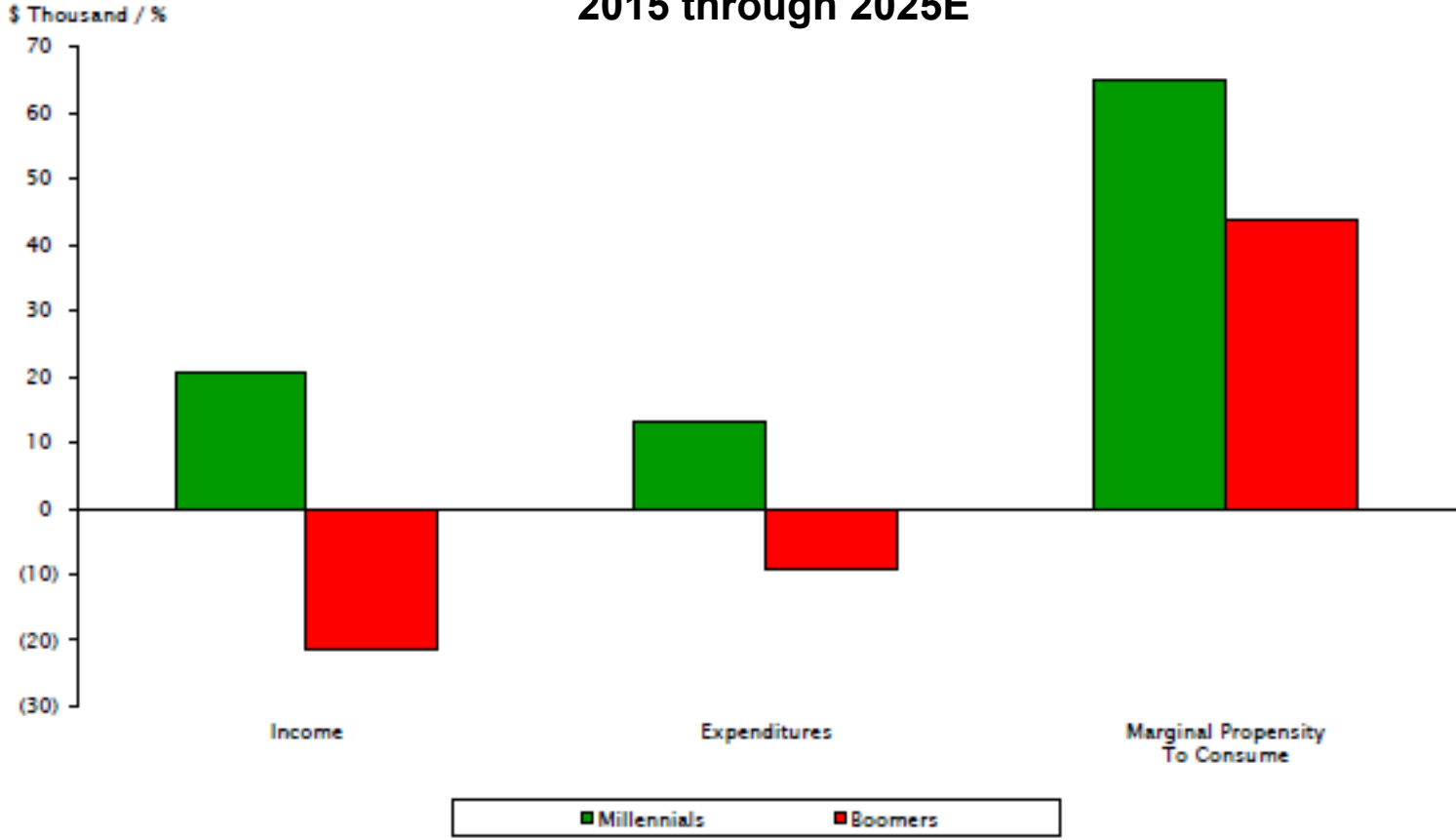
There Are 4.6mn 27-Year Olds In The U.S., More Than Any Other Age Group



Source: Census, Haver Analytics, DB Global Markets Research – October 2016

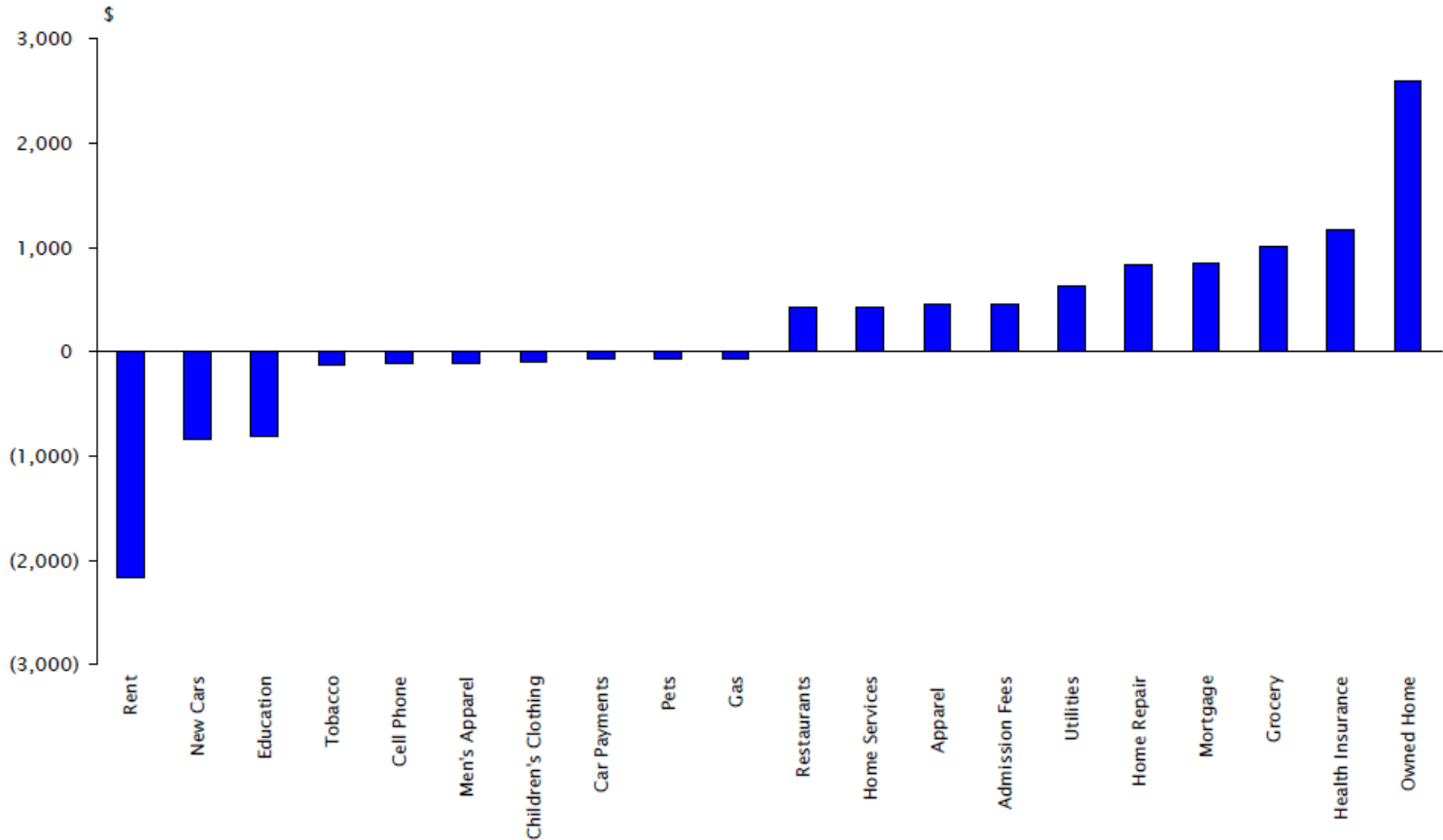
Millennials Are Poised To Pick Up The Slack

Impact of Demography on U.S. Consumption Expected Change in Household Income and Expenditure Due to Aging of Boomers and Millennials 2015 through 2025E



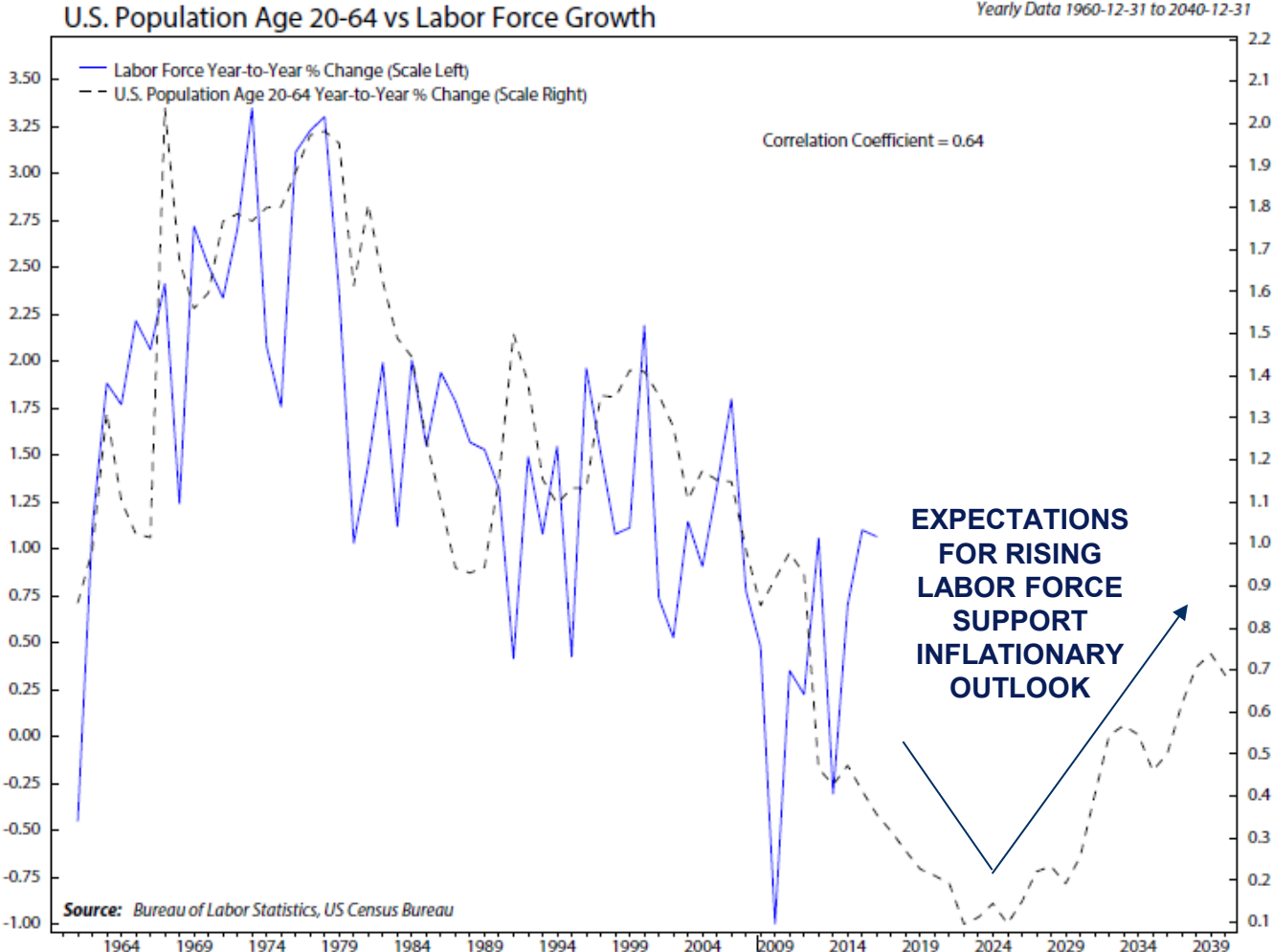
Source: Bureau of Labor Statistics Consumer Expenditure Survey, Empirical Research Partners Analysis – June 2017

U.S. Consumption Patterns Net Dollar Shift Due to Aging of Boomers and Millennials 2015 through 2025E



Source: Bureau of Labor Statistics Consumer Expenditure Survey, Empirical Research Partners Analysis – June 2017

Demographics Trump Everything



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Source: Ned Davis Research- January 2017

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Mind on the Market

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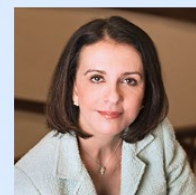
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Linda A. Duessel
CFA, CPA, CFP

As senior equity market strategist, Linda Duessel is part of the equity income team, which is responsible for formulating Federated's views about the market and the firm's positioning strategies within the equity income team. As senior client portfolio manager, she is responsible for articulating the strategy, process, positioning and performance of Federated's equity income products.