CAMMACK RETIREMENT

2019 Investment Outlook

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2018 was a challenging year for investors, with most asset classes posting their worst returns in nearly a decade. While global growth remains solid, volatility rose dramatically in the final months of the year, leaving investors scrambling to figure out what lies ahead for the economy, the markets, and key asset classes in 2019. To help answer these questions, we share a synopsis from some of the top investment managers, as well as our own thoughts, on the year ahead.

FIDELITY INVESTMENTS

Excerpts from "2019 Outlook: Maturing Cycle Heightens Uncertainties"

Economic Outlook

The policy backdrop is likely to become more uncertain and less favorable in 2019. While the Fed's rate hikes receive the most attention, the dominant policy theme for financial markets is the switch to global quantitative tightening that has reduced global liquidity growth. U.S. trade policies are likely to continue to be a source of uncertainty for both businesses and financial markets and exacerbate late-cycle pressures on inflation and profit margins.

Market Implications

The late-cycle environment will likely provide a less favorable risk-return profile for asset markets than in recent years. This implies less confidence that riskier assets, such as equities, will outperform defensive assets, like investment-grade bonds. The paring of liquidity may challenge demand for less liquid assets, such as high-yield bonds and emerging markets securities, potentially contributing to elevated asset market volatility.[1]

NUVEEN

Excerpts from "Expect a tougher climb"

Economic Outlook

We don't see a recession, but economic growth is set to slow in both the U.S. and China while failing to bounce back convincingly in the Eurozone, Japan or U.K. While expectations are not particularly high for growth in developed markets outside the U.S in 2019, that may actually be a good thing. With less room to disappoint, the Eurozone and Japan are positioned to deliver above-trend growth while keeping monetary policy exceptionally accommodative – historically, a friendly operating backdrop for companies and the investors who own their stocks.

Market Implications

Given our view that both economic and earnings growth are likely to slow, relying on broad market trends to boost portfolio

[1]*Excerpt from "Q4 2018: Quarterly Market Update"*

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values may no longer suffice. We think increased selectivity within assets classes, with a focus on quality and valuation, will yield the best results. We favor the defensive nature of U.S. large cap growth versus the cyclicality of U.S. large cap value. We prefer emerging markets vs. developed markets. We expect the 10-year U.S. Treasury yield will remain range bound, and don't believe that investors are adequately compensated for the risk in U.S. high-yield or leveraged loans.

VANGUARD

Excerpts from "Market Outlook for 2019 – Down, but not out"

Economic Outlook

We expect the global economy to continue to grow, albeit at a slightly slower pace over the next two years. As we enter 2019, the chances of a U.S. recession occurring and thereby derailing growth in the global economy are roughly 30%. We do not see a material risk of further strong rise in core inflation despite lower unemployment rates and higher wages. The largest single risk to our forecasts is an overly aggressive Federal Reserve in 2019, which would significantly raise the odds of U.S. recession in 2020.

Market Implications

Global central banks will stay on their gradual normalization paths, with the Federal Reserve bringing its policy rate range to 2.75% - 3.0% by mid-2019, and other developed market central banks beginning to lift interest rates from post-crisis lows. Long term, our ten-year outlook for investment returns remains guarded, given the backdrop of high valuations and depressed risk-free rates across major markets. We expect a 60% global equity/40% bond portfolio to generate a 4.0% - 6.0% return over the next decade.

CAPITAL GROUP

Excerpts from "Outlook: Long-term perspective on markets and economies"

Economic Outlook

Major economies are headed down divergent growth paths. While the U.S. is humming along at a healthy rate, growth is notably slowing in China and Europe. Most developed economies appear to be in or near late cycle, but emerging markets are more mixed. U.S. Fed rate hikes and the removal of quantitative easing will continue to unsettle markets in 2019. Tightening, trade, and too much debt are key themes that will continue to impact markets in the year ahead.

Market Implications

Even after bouts of unsettling volatility in 2018, U.S. stocks are expensive. Looking at earnings, stock valuations and interest rates, the U.S. equity market is not likely to generate more than single-digit returns over the next few years. With the relative return gap between U.S. and international stocks near its widest level in 14 years, now is not the time to capitulate on international investing. Higher quality bonds are now a more compelling option for investors who had looked to equities for income.

T. ROWE PRICE

Excerpts from "Disruptive forces seen shaping 2019 investment landscape"

Economic Outlook

Disruption in its various forms –

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technological, political, economic and monetary – is likely to determine the direction of global financial markets in 2019. With the U.S. moving into the later stages of the business cycle, the U.S. Federal Reserve raising interest rates, and monetary and credit conditions diverging widely across the other major global economies, the potential for renewed volatility in both equity and fixed income markets remains high. However, we believe a global recession is a relatively low risk in 2019.

Market Implications

The upswing in volatility that disrupted global markets in 2018 appears likely to persist in 2019, driven by slowing economic momentum, tighter liquidity, monetary divergence and political risk. Although disruption creates risk, it can also generate potential opportunities for active investors to buy assets at temporarily depressed prices. Correctly identifying the winners and losers will remain key to portfolio outperformance.

J.P. MORGAN

Excerpts from "The investment outlook for 2019"

Economic Outlook

The U.S. economy should slow but not stall in 2019 due to fading fiscal stimulus, higher interest rates and a lack of workers. Even as unemployment falls further, inflation should be relatively contained. Central banks in the U.S and abroad will tighten monetary policy in 2019 – this should continue to push global bond yields higher. Higher rates should limit multiple expansion, leaving earnings as the main driver of equity returns.

Market Implications

With earnings growth set to slow, and volatility expected to rise, investors may want to focus on sectors that have historically derived a greater share of their total returns from dividends. Steady economic growth and less dollar strength may provide international equities with some room to rebound in 2019. As we get later into this economic cycle, investors should dial back on some of the riskier bond sectors and seek the safety of traditional fixed income asset classes. Riskier asset classes, such as emerging markets debt or high yield, may offer more yield, but they have stronger correlations to the S&P 500, and will not provide much protection if equities fall sharply.

PIMCO

Excerpts from "Cyclical Outlook – Synching Lower"

Economic Outlook

We see U.S. growth "synching lower" as tighter financial conditions start to bite, fiscal stimulus fades, and the recent plunge in oil prices benefits Europe, Japan and China more than the U.S., which has become a net energy exporter. Our quantitative models indicate that the probability of a U.S. recession over the next 12 months has risen to about 30% recently, higher than at any point in this nine-year old expansion.

Market Implications

In this uncertain environment, we recommend being fairly close to home in terms of duration positioning. We don't see corporate credit as cheap, and prefer to stay up in quality and up in liquidity. With our base case calling for

continued modest inflation, we think Treasury Inflation-Protected Securities (TIPs) are attractively priced and offer a hedge against possible inflation upside surprises in the U.S. in this late stage of the cycle.

OUR PERSPECTIVE

2019 is likely to bring a continuation of the themes that dominated last year: more rate increases, more conflict on trade, and more volatility in the financial markets. Economic and earnings growth are expected to slow in the new year as the effects of the late-cycle stimulus fades and liquidity conditions become more restrictive. These headwinds will likely lead to more uncertainty and an overall less favorable risk-return profile for risk assets. While interest rates are higher than they were a year ago, yields remain lower than their historical averages. Fixed income investors are not likely being compensated for dipping down in credit quality in this late-cycle environment.

The fourth quarter was challenging for investors. While it may be tempting to hit the panic button, it is important to stay the course, as market declines are an inevitable part of investing. History has shown that intra-year declines of 10% or more are normal, and that markets recover. Rather than react to short-term market events, we recommend investors maintain a diversified portfolio that aligns with their goals and risk tolerance. A diversified portfolio mix may not generate the highest return in any given calendar year, but it can help weather a storm.

ABOUT CAMMACK RETIREMENT GROUP

Cammack Retirement Group has been helping retirement plan sponsors meet their goals for half a century. Solely focused on serving retirement plan sponsors, we provide a tailored approach to investment advisory and consulting services. We work with some of the nation's leading academic and research institutions, healthcare providers, corporations, non-profit organizations and public sector employers to help them manage fiduciary risk.

For more information on our services, please contact **Mike Volo,** Senior Partner, at **781.997.1426** or **mvolo@cammackretirement.com**.

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