

2019 ECONOMIC FORECAST AND FINANCIAL MARKET UPDATE

January 14, 2019

Scott Colbert, CFA

Executive Vice President

Director of Fixed Income & Chief Economist

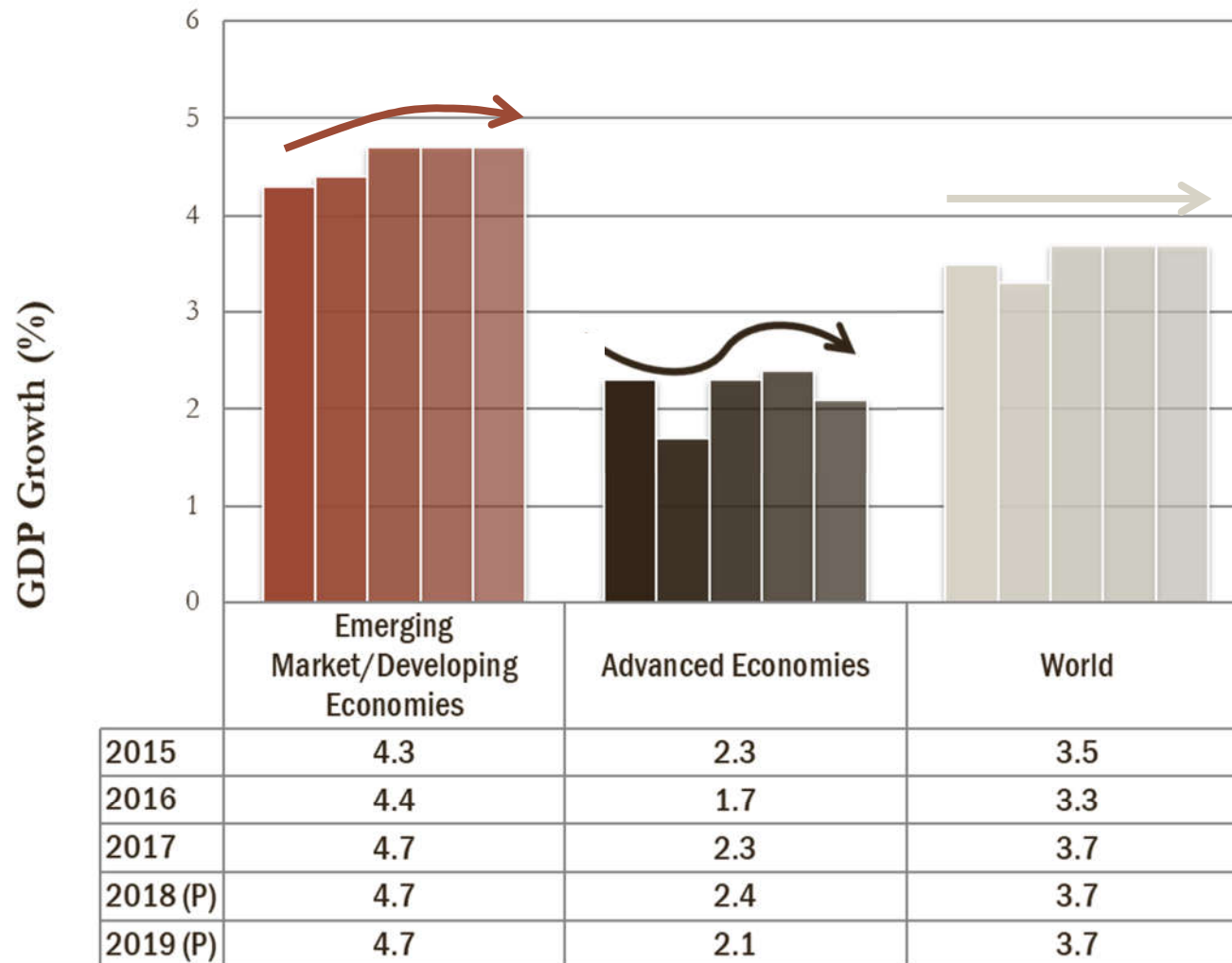
scott.colbert@commercebank.com



Commerce Trust Company

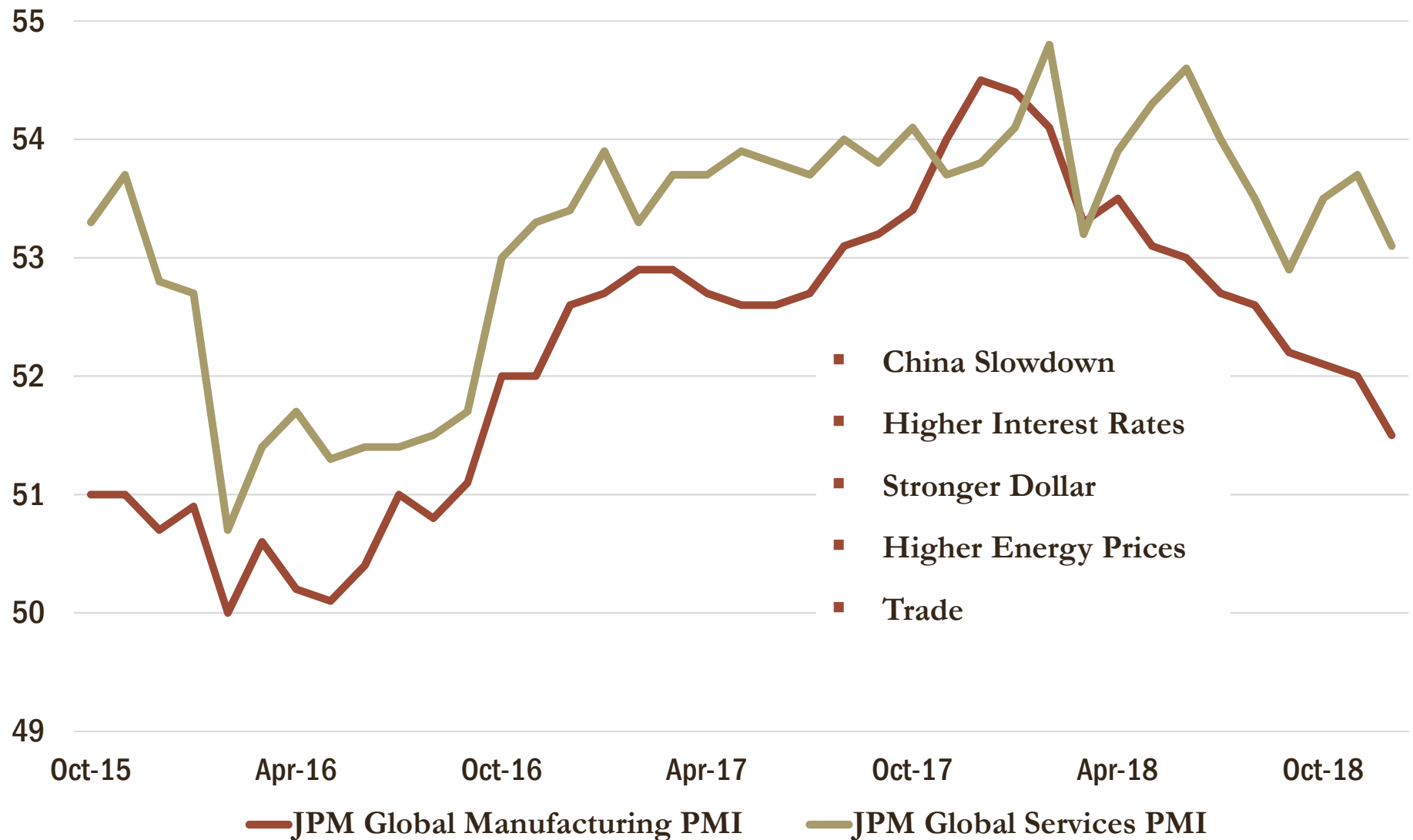
Wealth | Investments | Planning

GLOBAL GROWTH EXPECTATIONS HAVE SLOWED



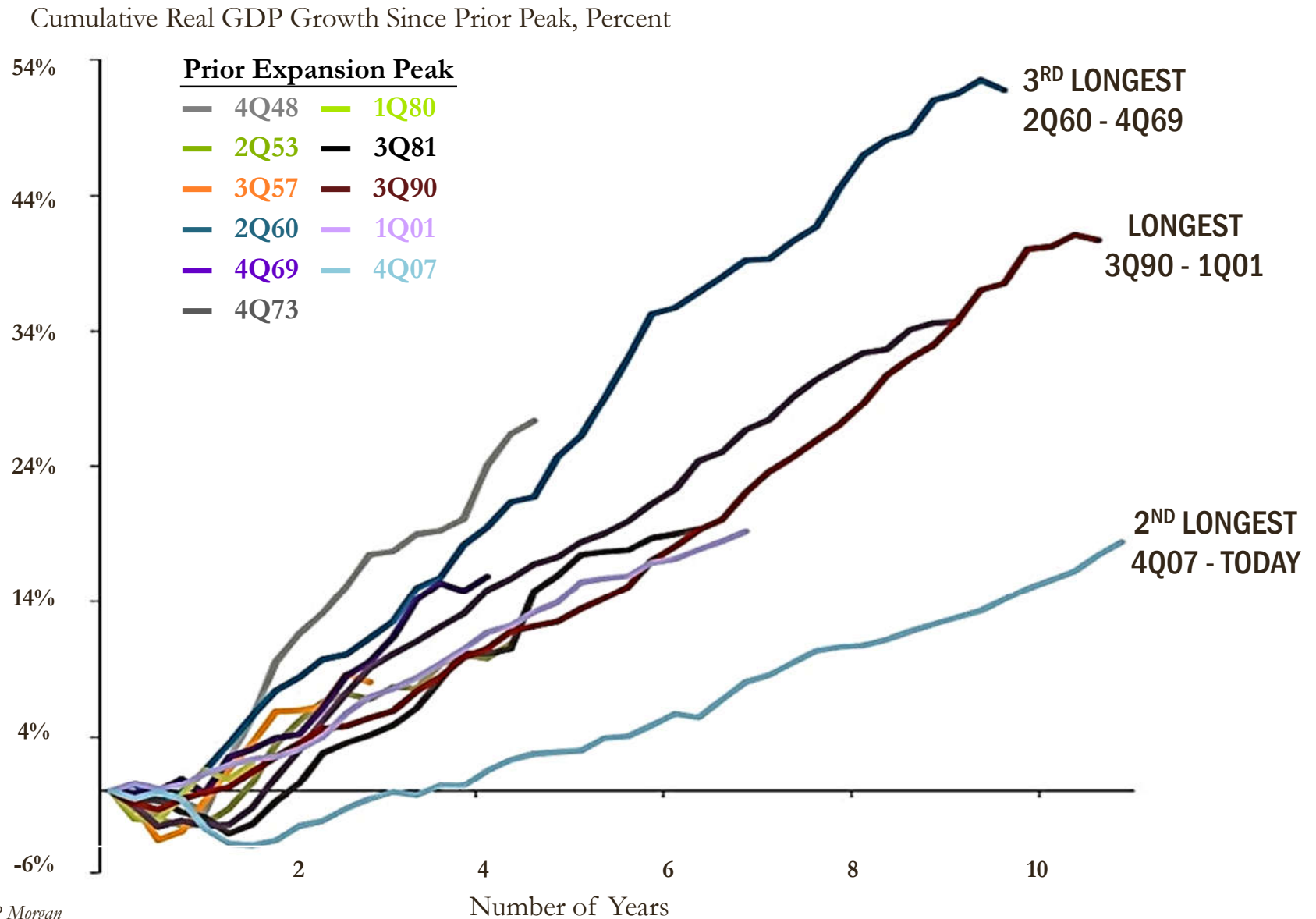
Source: International Monetary Fund

GLOBAL PURCHASING MANAGERS' INDEX ROLLS OVER



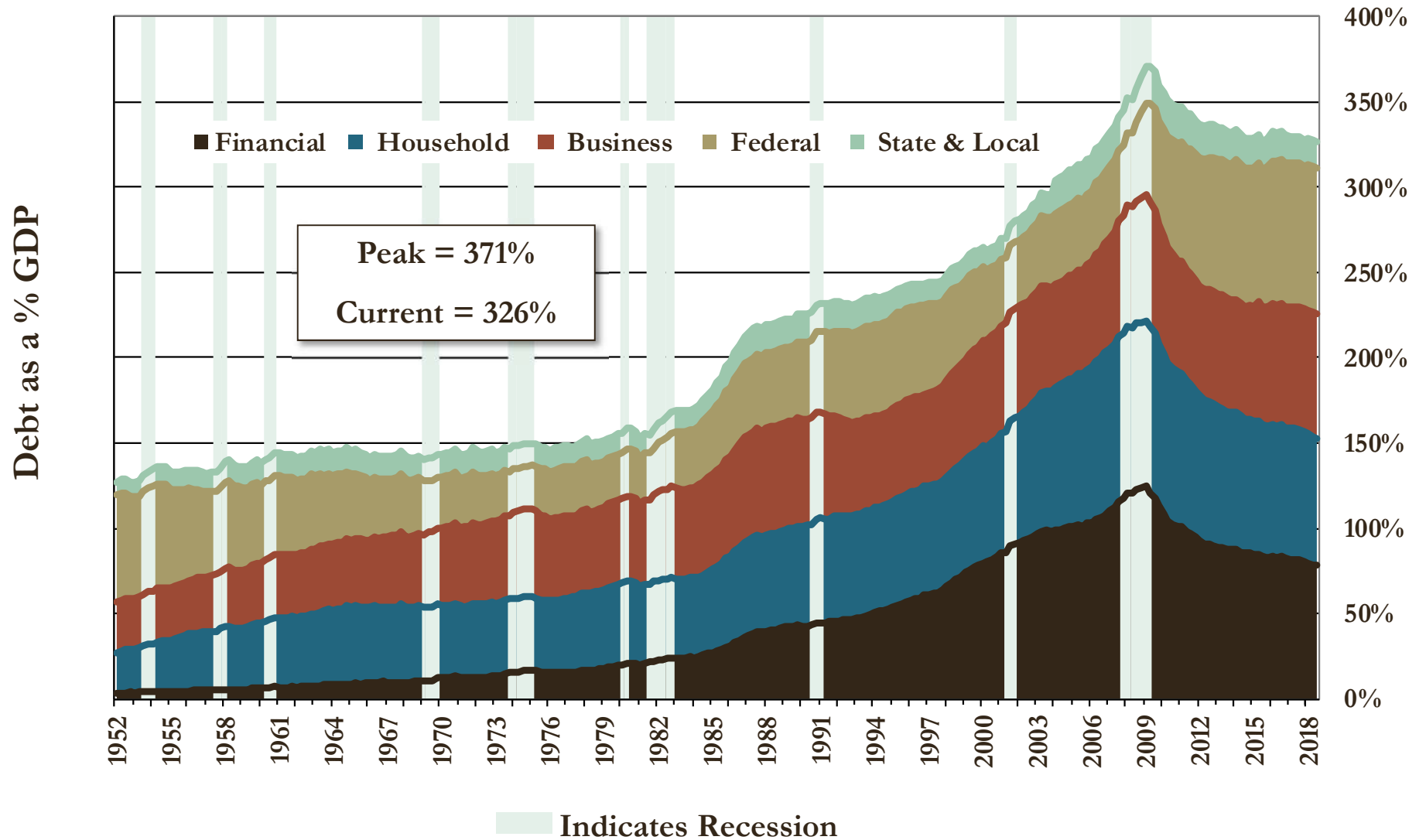
Source: Bloomberg

THE LENGTH AND STRENGTH OF U.S. EXPANSIONS



Source: BEA, NBER, JP Morgan

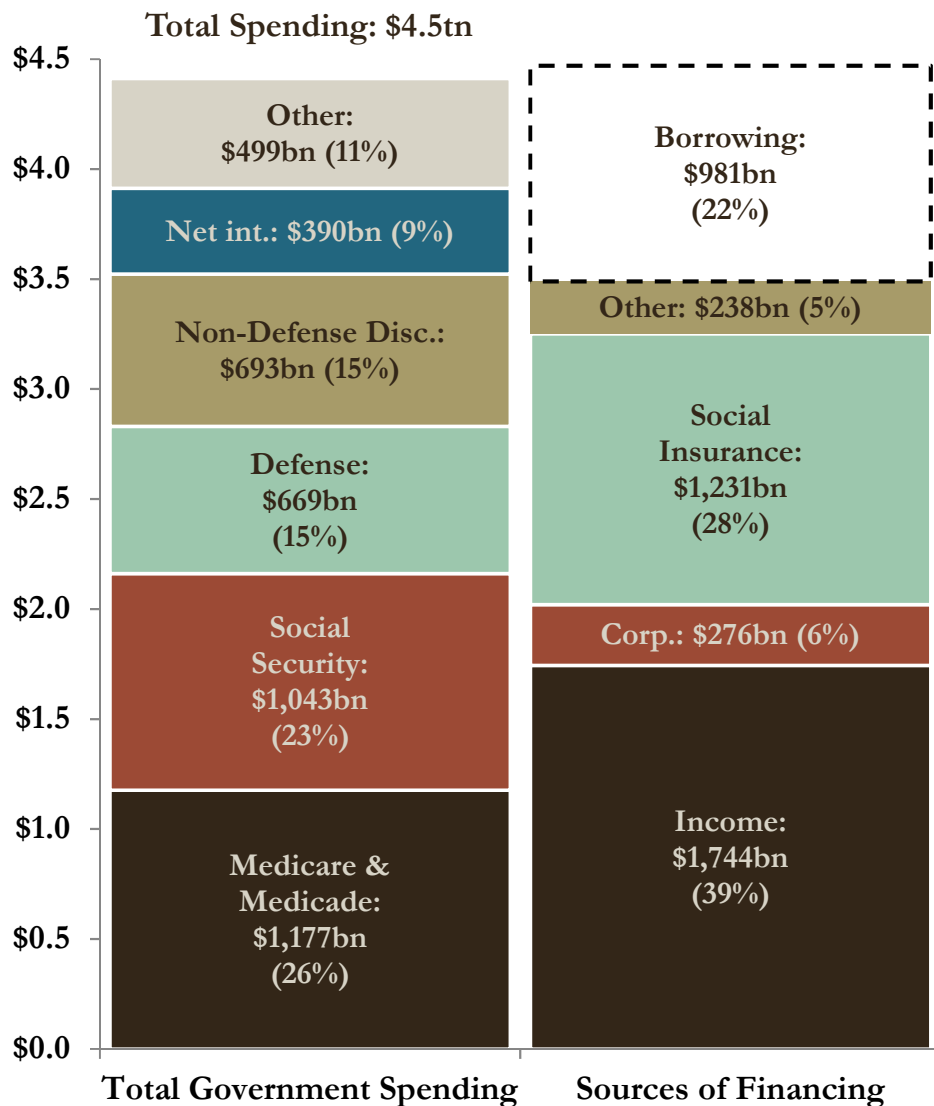
U.S. TOTAL DOMESTIC DEBT – GDP HEADWIND



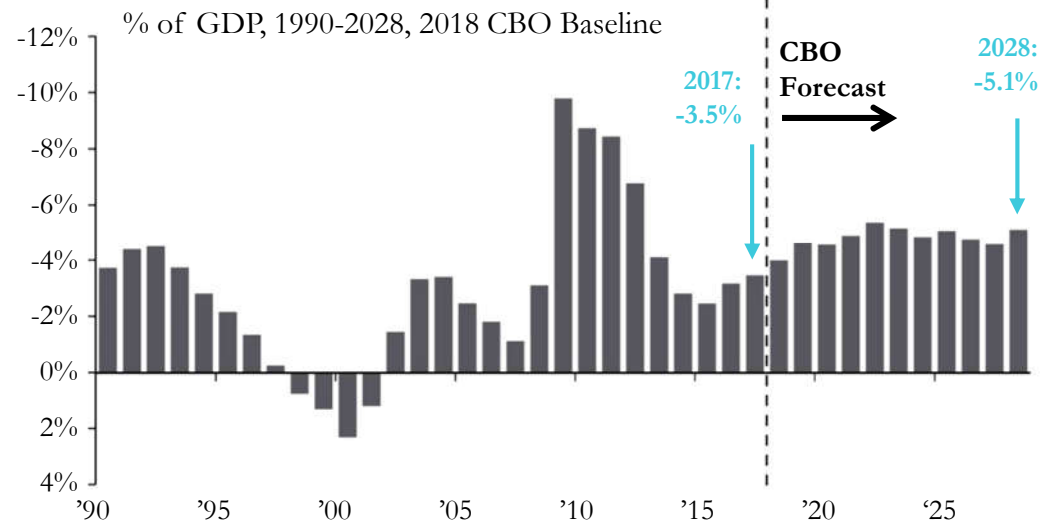
Source: Flow of Funds Accounts, Federal Reserve

LIMITATIONS ON FISCAL POLICY

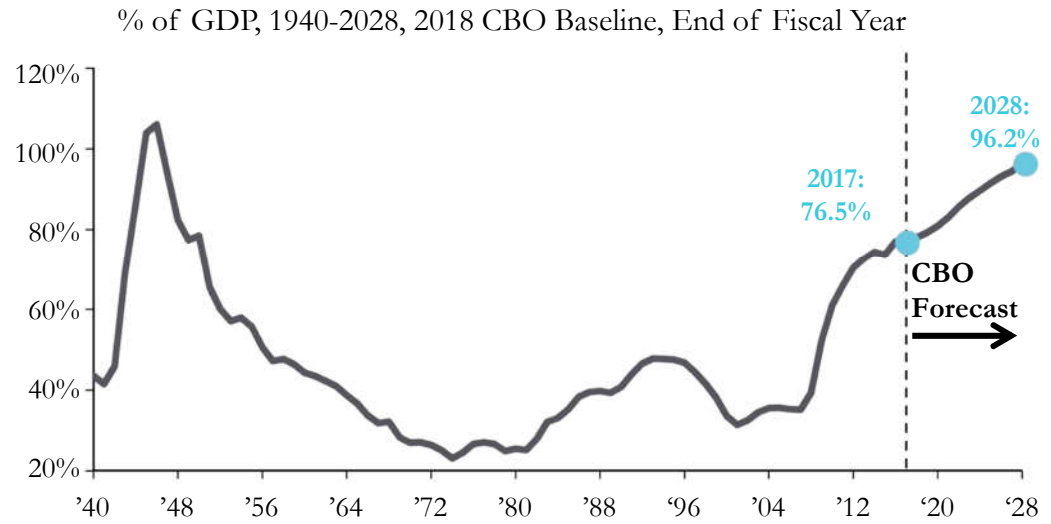
The 2019 Federal Budget, CBO Baseline Forecast, USD Trillions



Federal Budget Surplus/Deficit



Federal Net Debt (accumulated deficits)

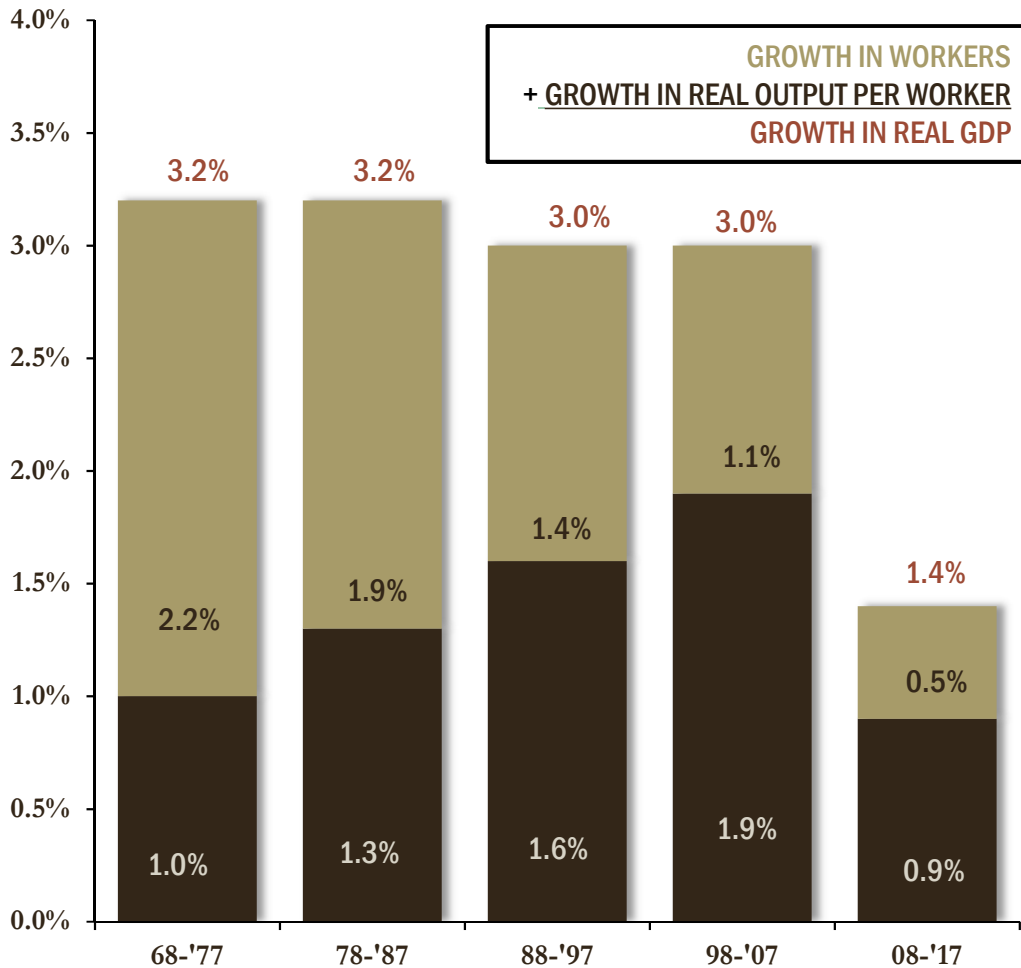


Source: JP Morgan, CBO, BEA, Treasury Dept

DEMOGRAPHICS AND PRODUCTIVITY – DRIVERS OF ECONOMIC GROWTH

DRIVERS OF GDP GROWTH – U.S.

AVERAGE YEAR-OVER-YEAR PERCENT CHANGE



Source: JP Morgan, Bureau of Labor Statistics

Labor Forces Ages...and Exits

	Median Age	Participation Rate
1994	37.7	62.7%
2004	40.3	65.9%
2014	41.9	62.7%
2024*	42.4	60.9%

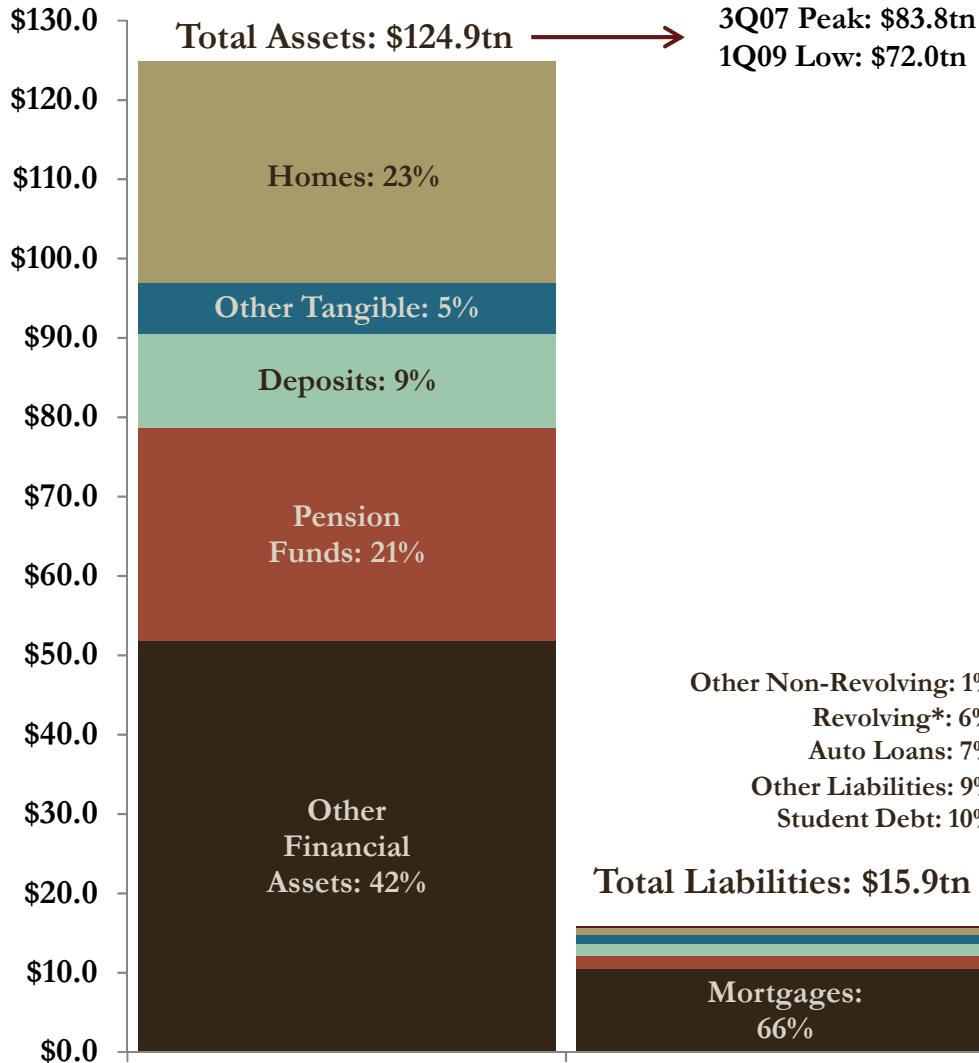
*BLS Estimate

BLS Estimates

Avg Annual Growth 2014-24	
Labor Force	0.4%
Real GDP	2.2%

CONSUMER FINANCES – POSITIVE WEALTH EFFECT

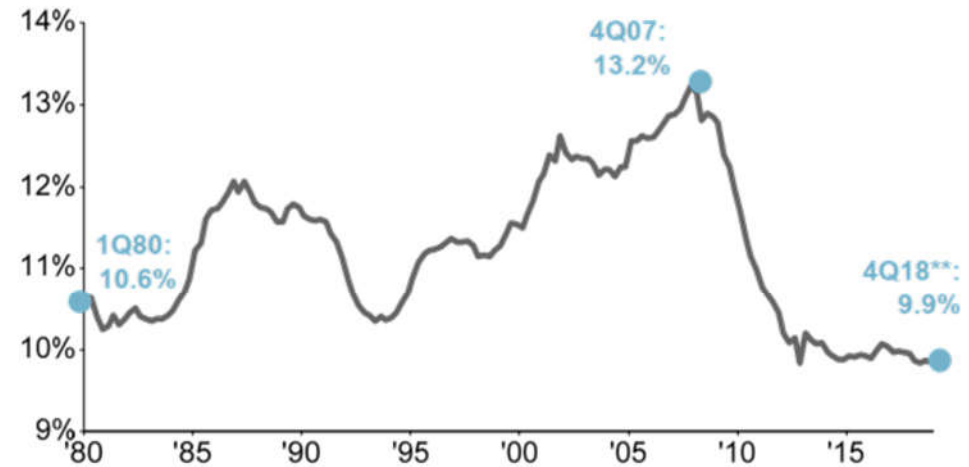
3Q18, Trillions of Dollars Outstanding, Not Seasonally Adjusted



Source: JP Morgan, BEA

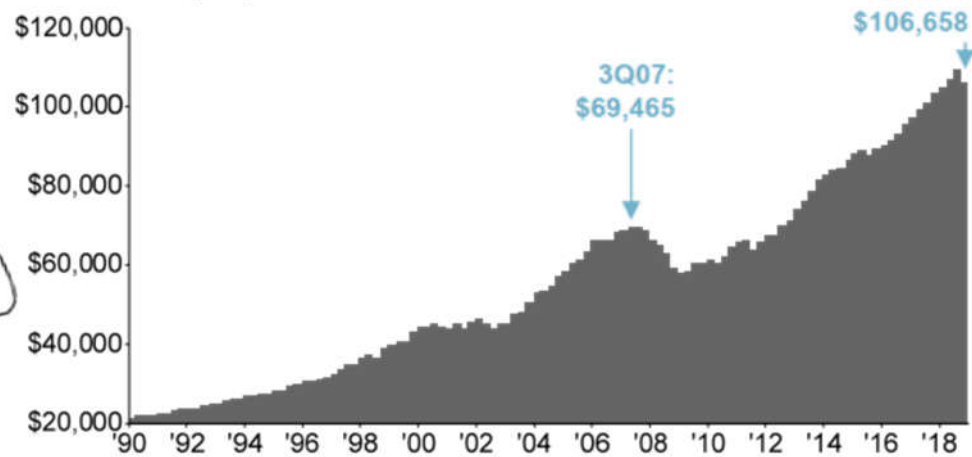
Household debt service ratio

Debt payments as % of disposable personal income, SA



Household net worth

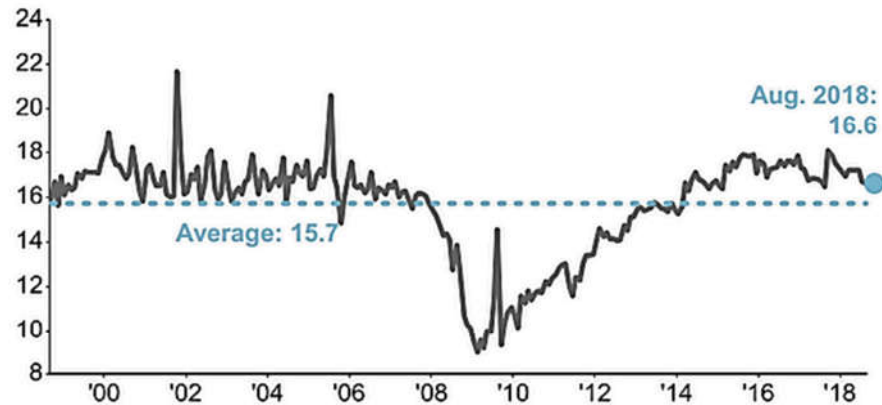
Not seasonally adjusted, USD billions



THE ECONOMIC CYCLE HAS PEAKED

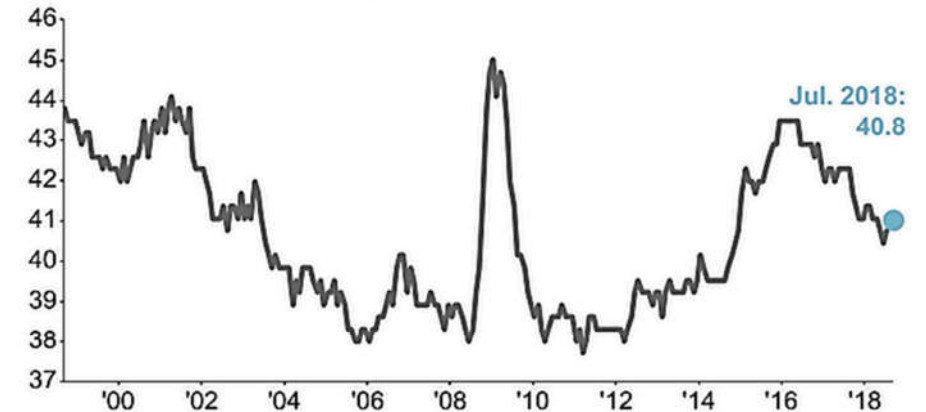
Light vehicle sales

Millions, seasonally adjusted annual rate



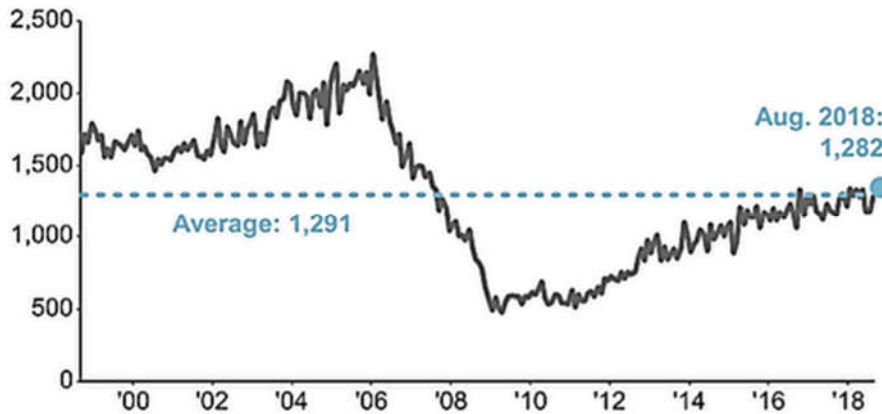
Manufacturing and trade inventories

Days of sales, seasonally adjusted



Housing starts

Thousands, seasonally adjusted annual rate



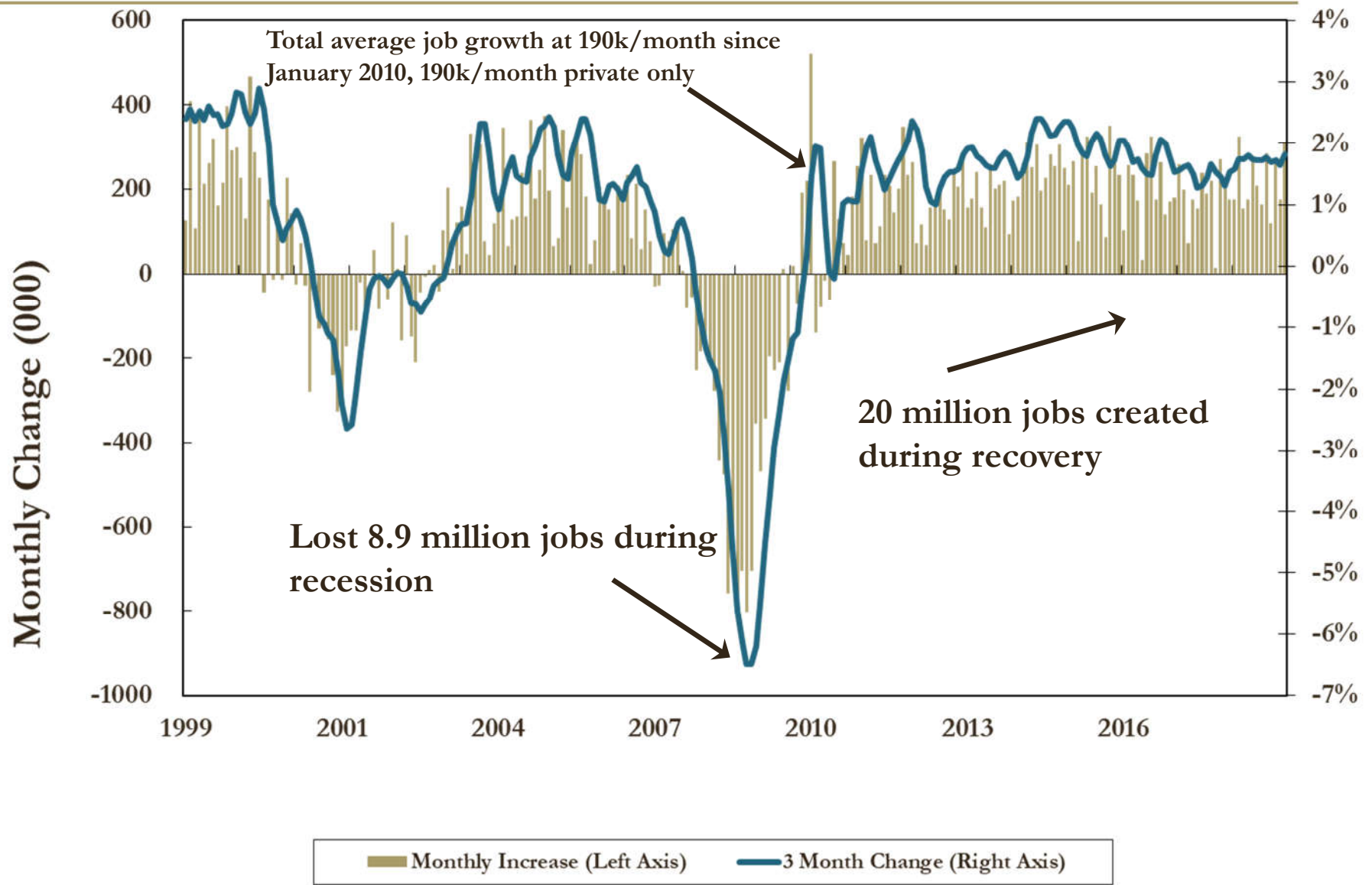
Real capital goods orders

Non-defense capital goods orders ex-aircraft, USD billions, SA



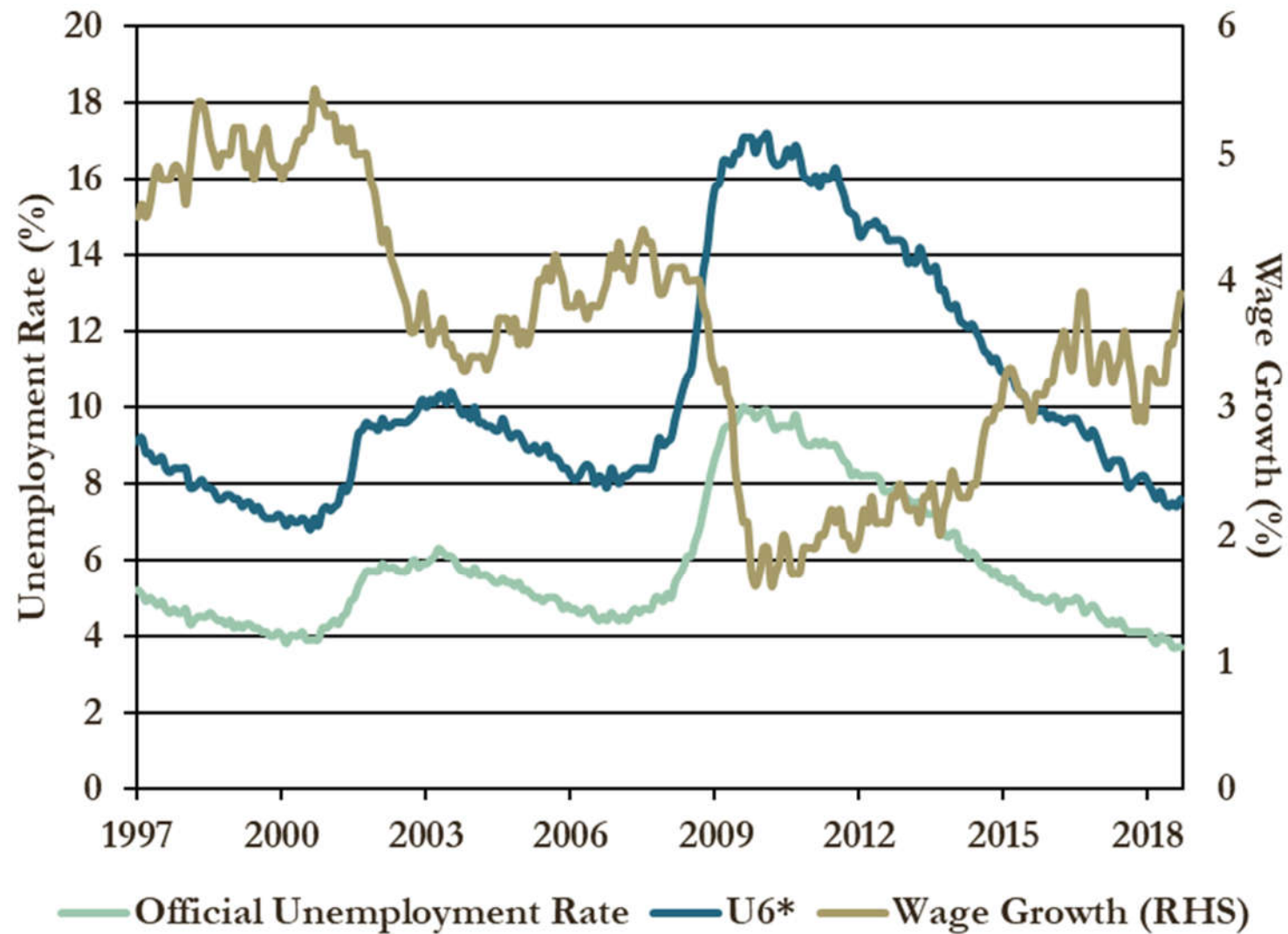
Source: JP Morgan, CBO, BEA

EMPLOYMENT – NO SIGNS OF ROLLING OVER



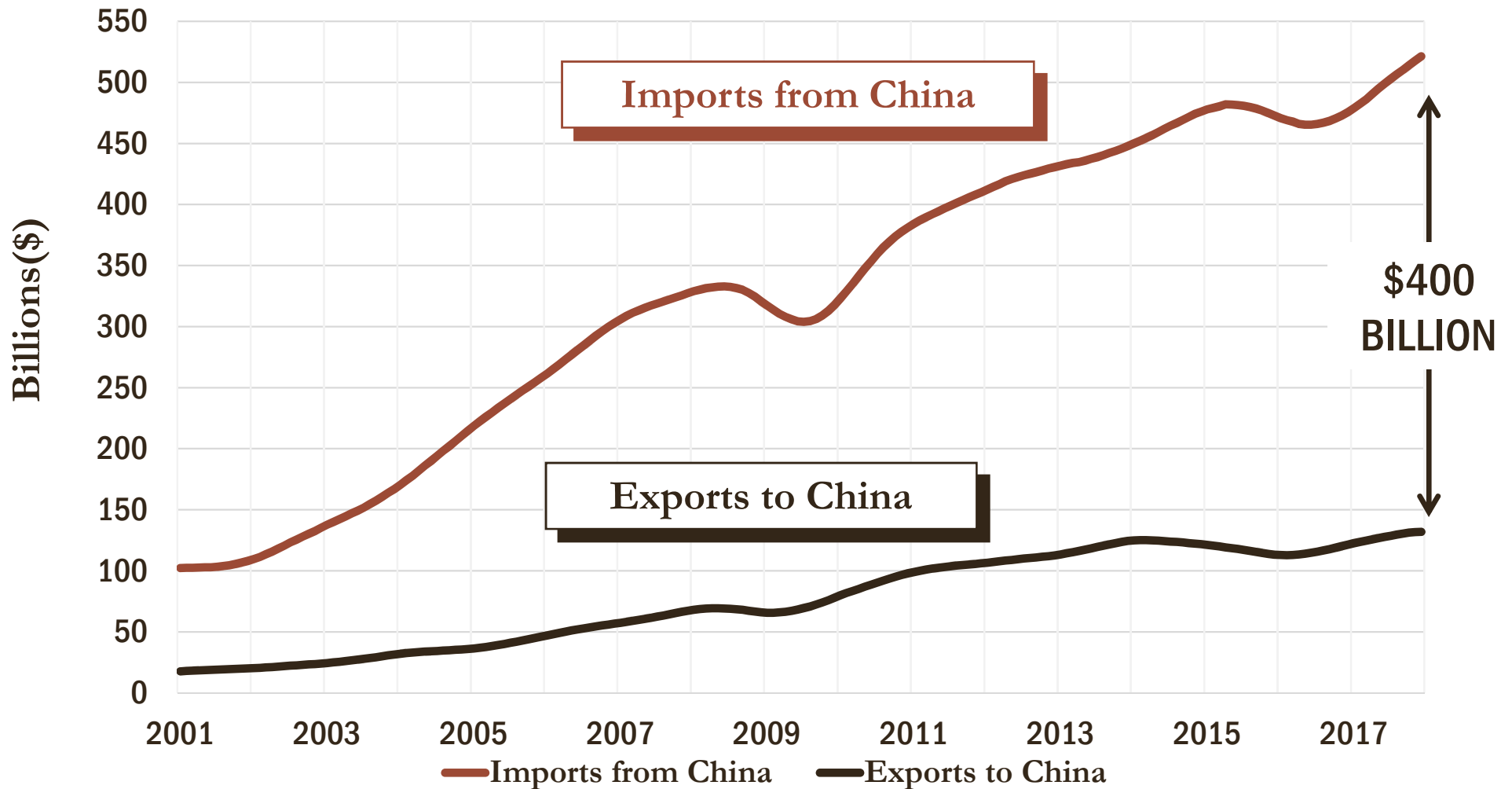
Source: Bureau of Labor Statistics

UNEMPLOYMENT FALLS – WHILE WAGES RECOVER



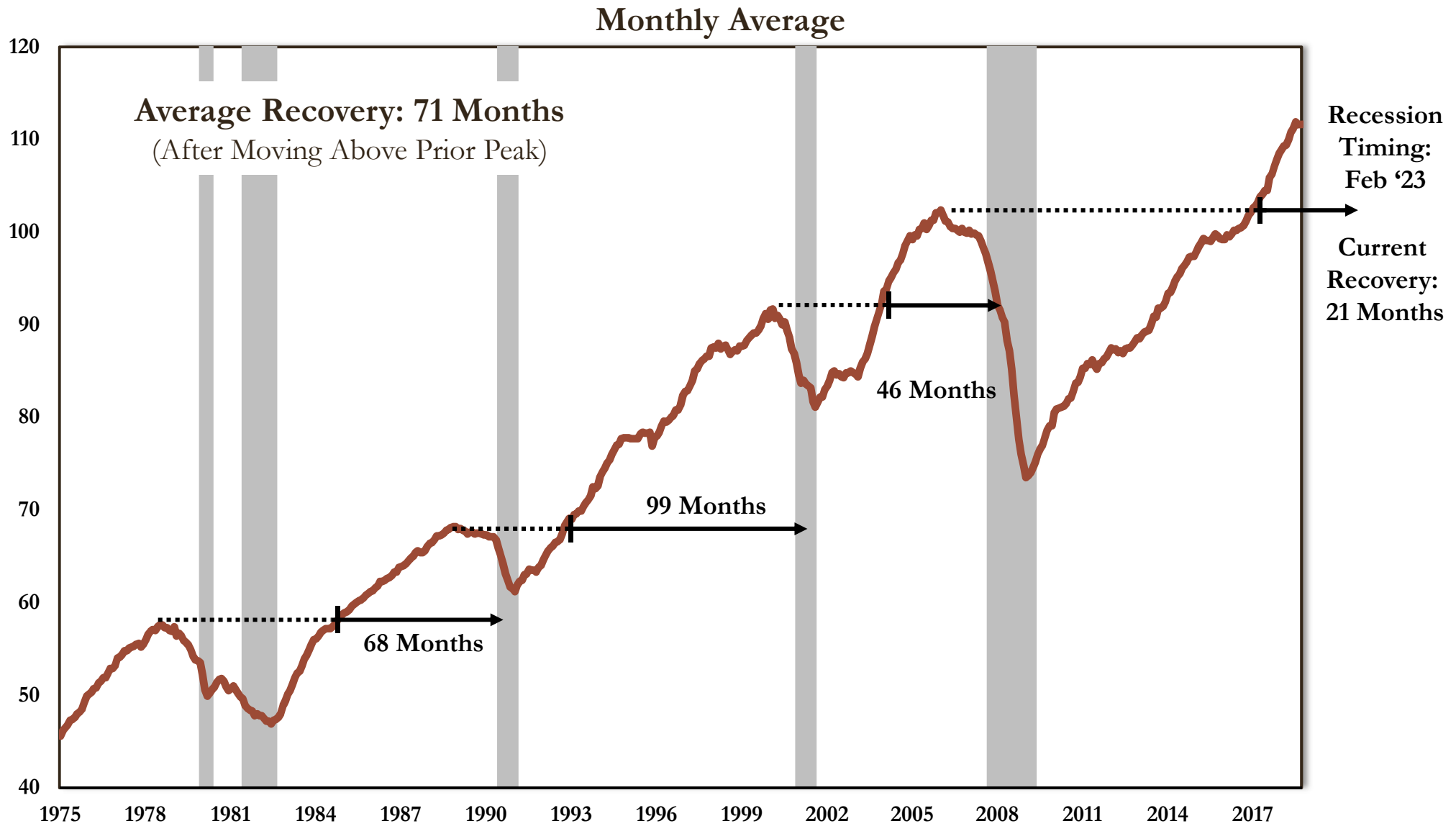
Source: Bureau of Labor Statistics, Bloomberg

U.S./CHINA TRADE DEFICIT CONTINUES TO GROW



Source: Bloomberg

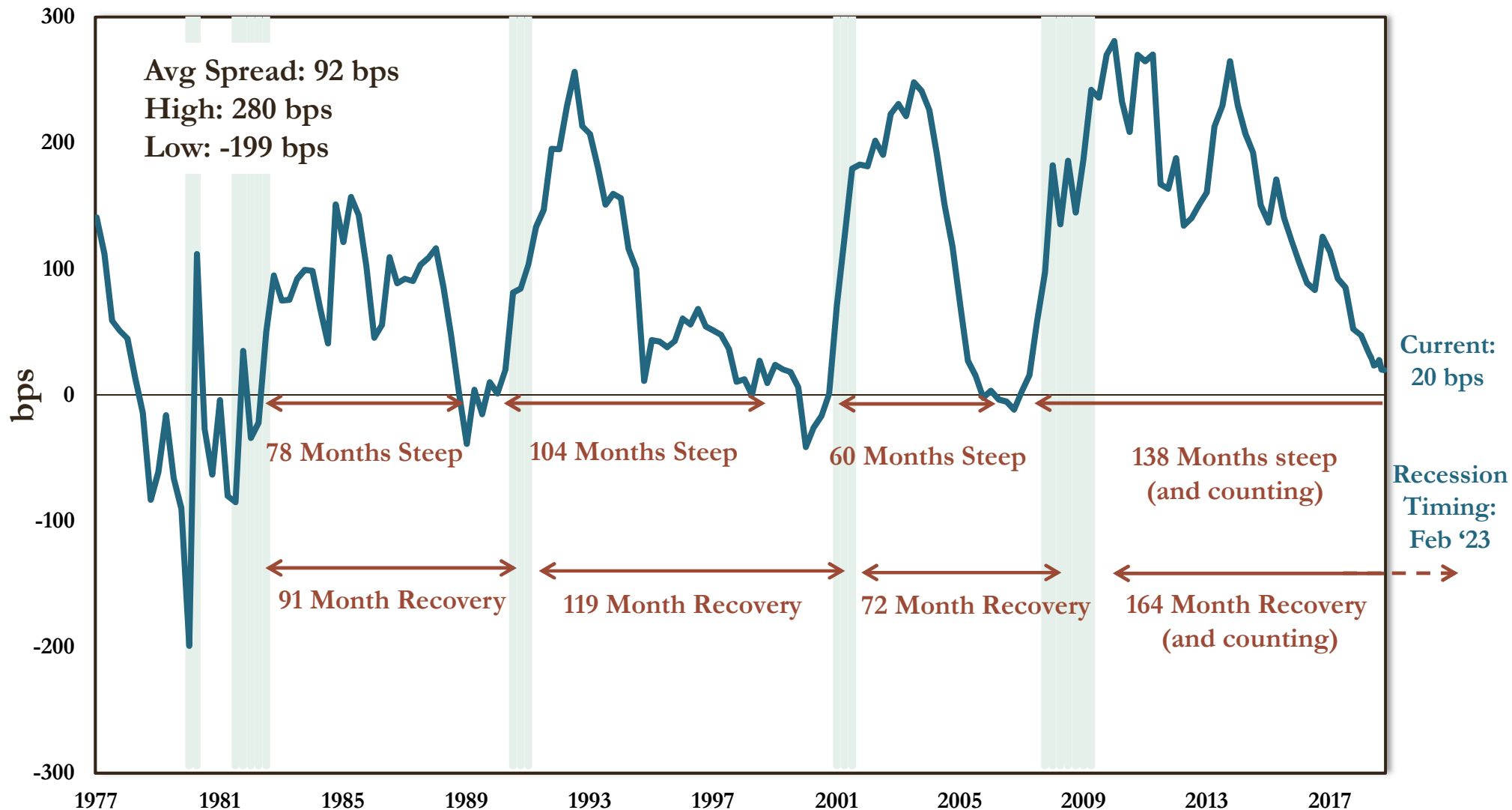
LEADING ECONOMIC INDICATORS – TIMING FOR THE NEXT RECESSION



Source: Bloomberg

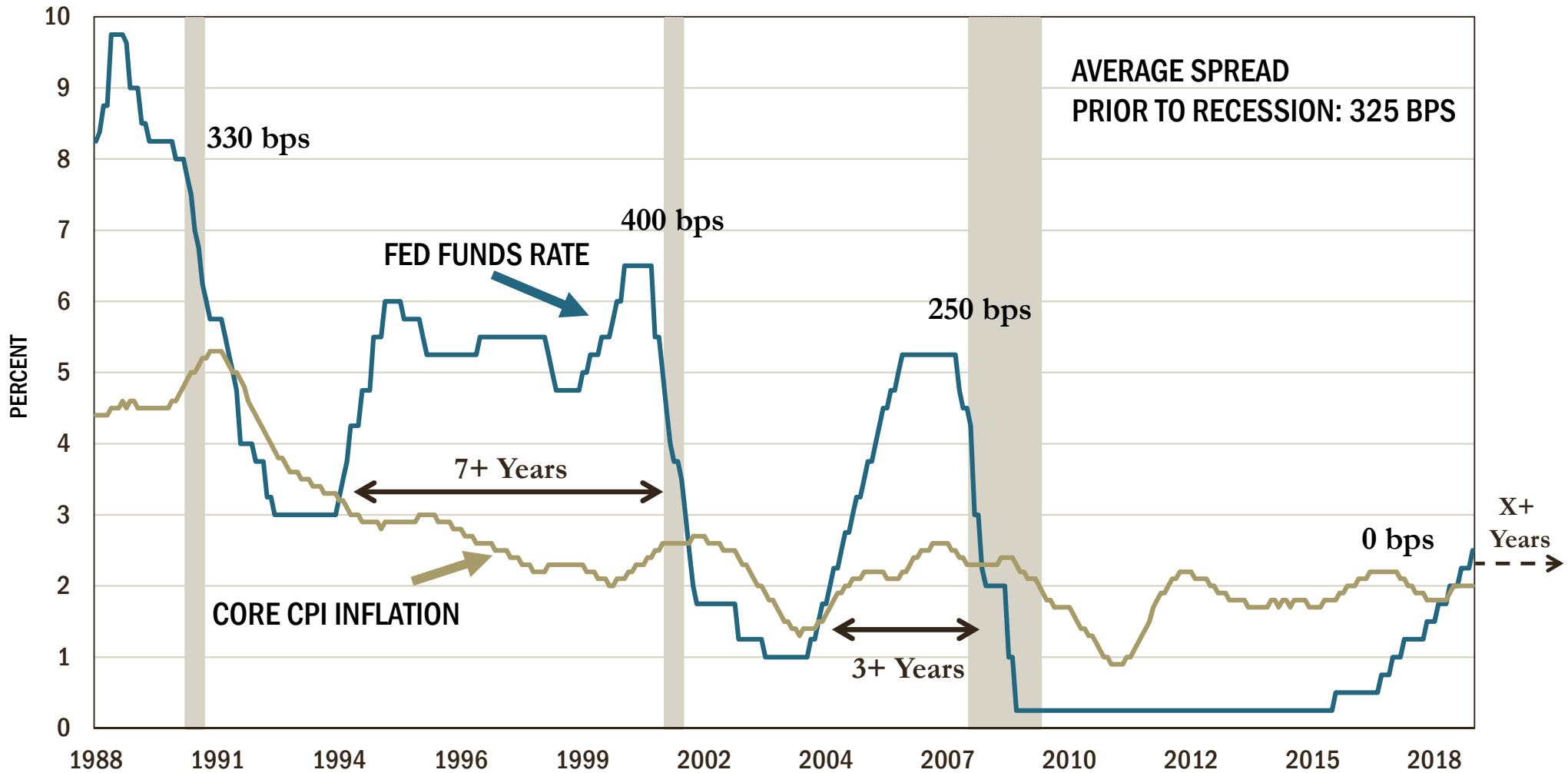
INVERTED CURVE – TIMING FOR THE NEXT RECESSION

(10 YR – 2 YR YIELD)



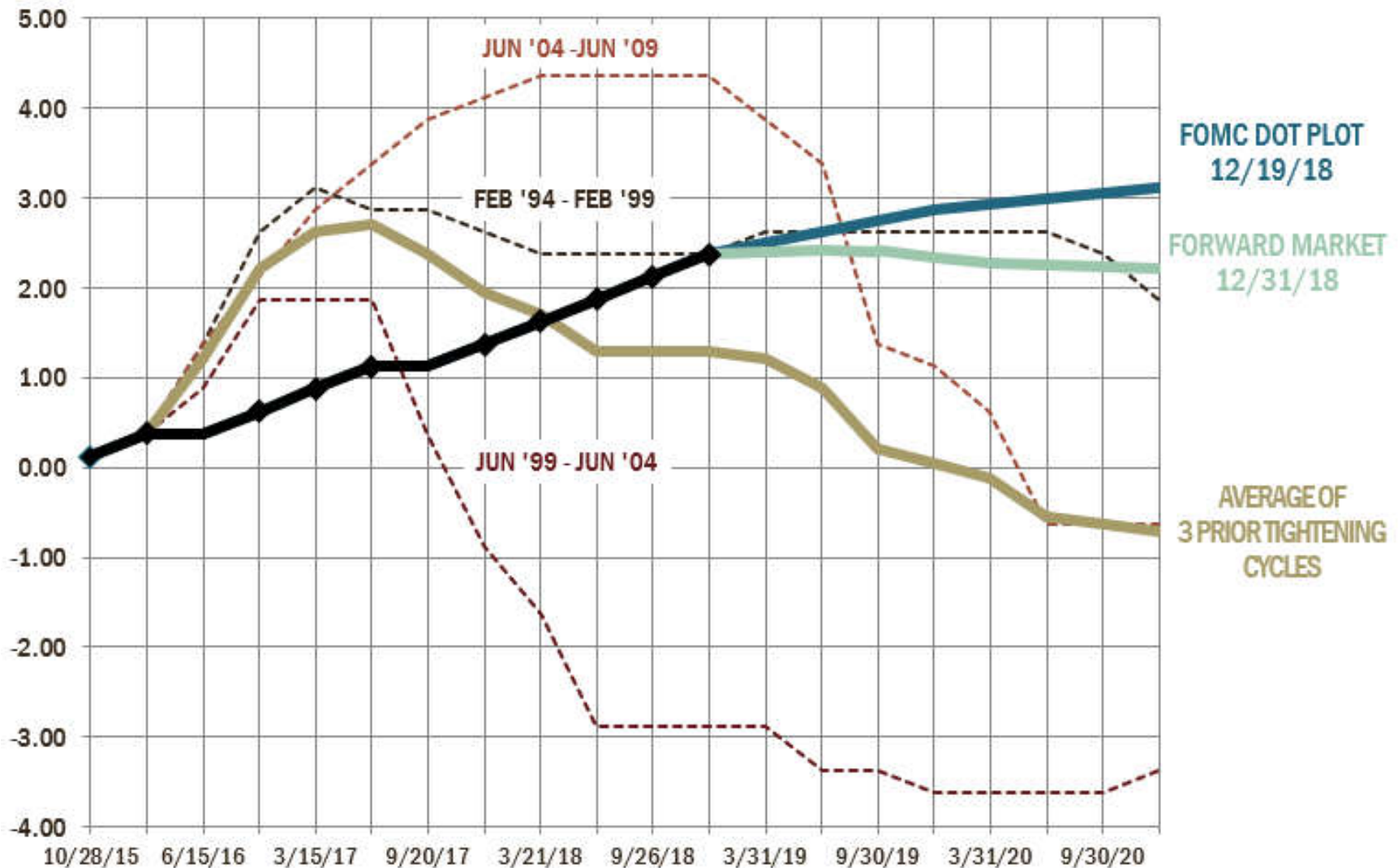
Source: Bloomberg

FED FUNDS RATE VS INFLATION – NOT RESTRICTIVE



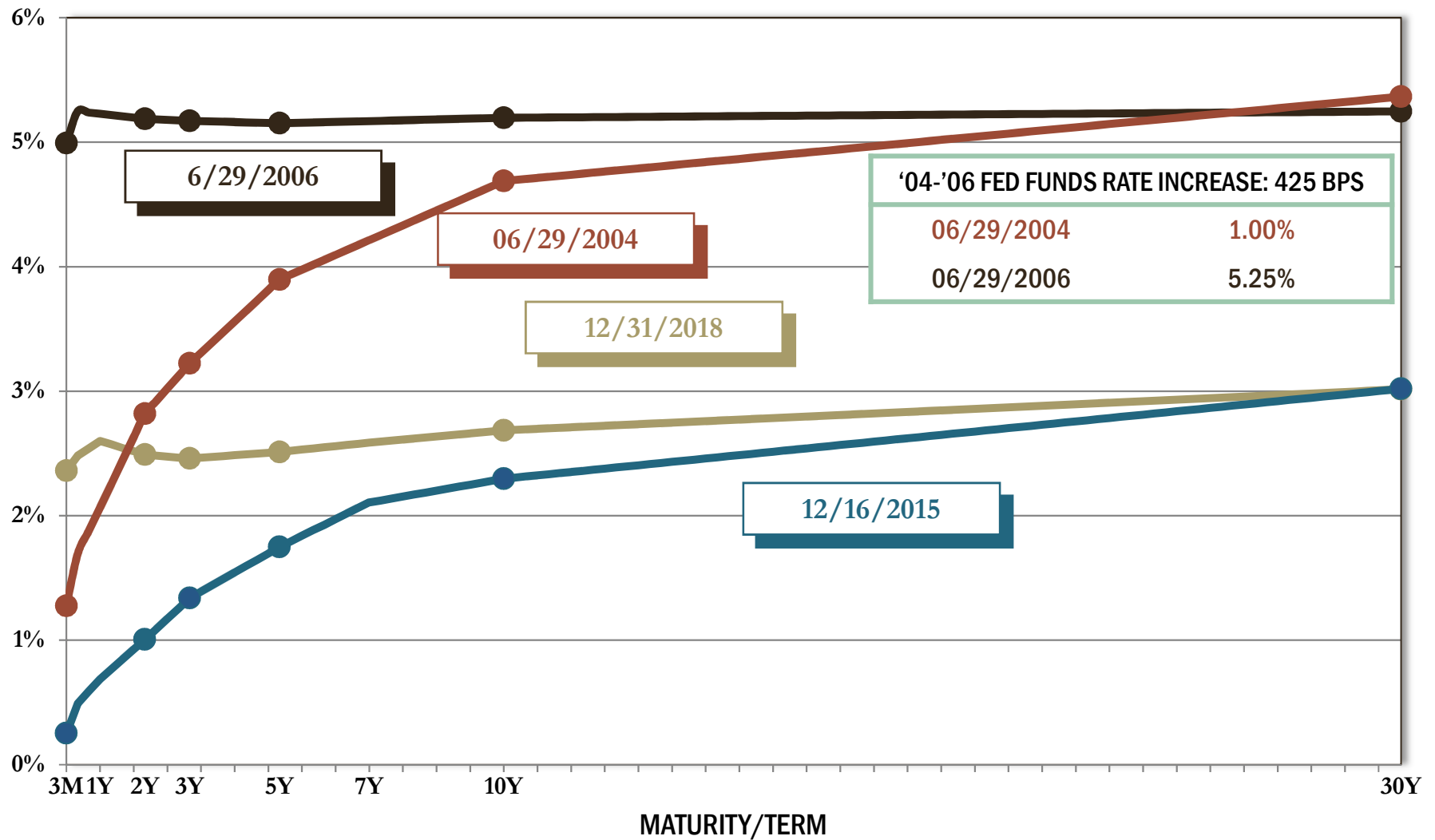
Source: Bloomberg

3 PRIOR FED HIKES VS. CURRENT FOMC VS. MARKET EXPECTATIONS



Source: Bloomberg, BofA/Merrill Lynch

YIELD CURVE FLATTENS AS FED TIGHTENS

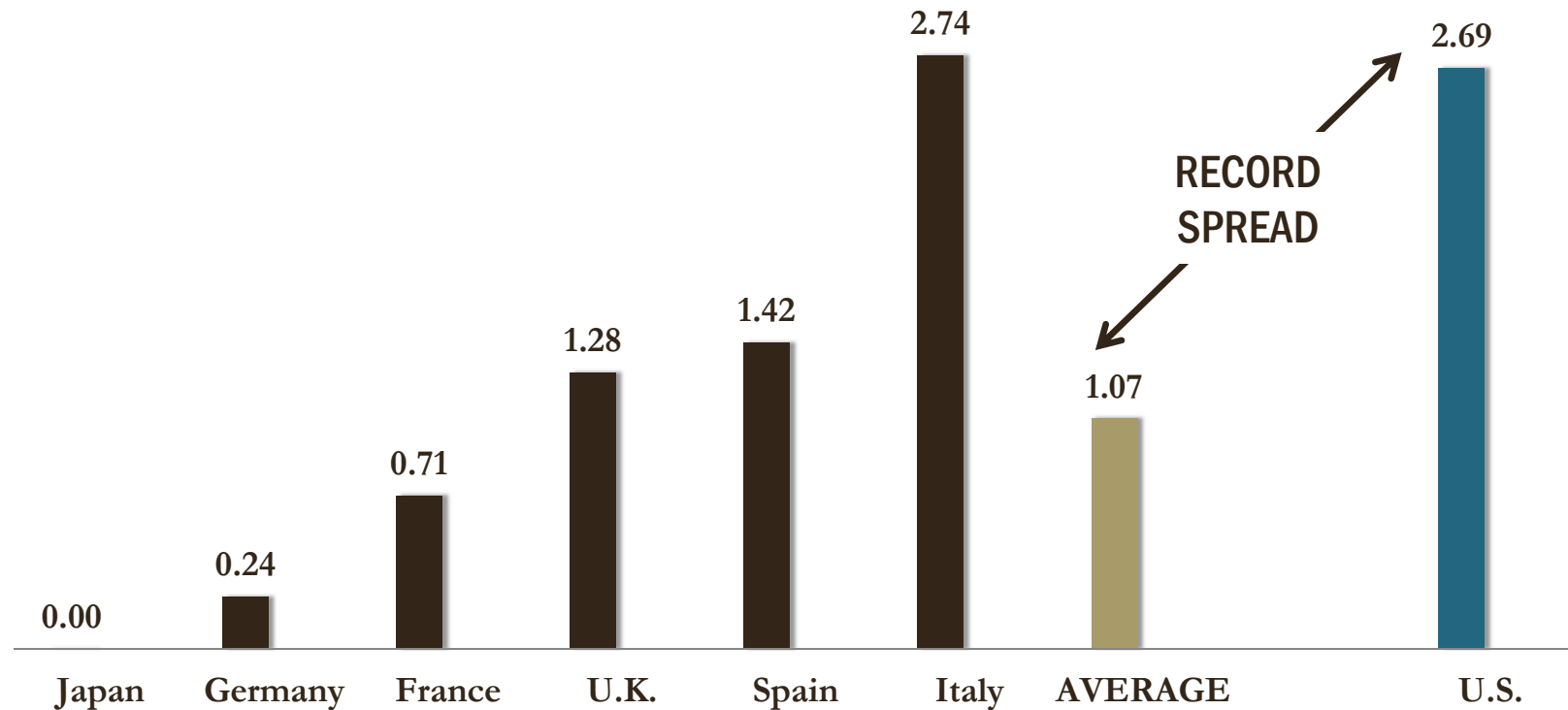


Source: Bloomberg

YOU THINK OUR RATES ARE LOW?

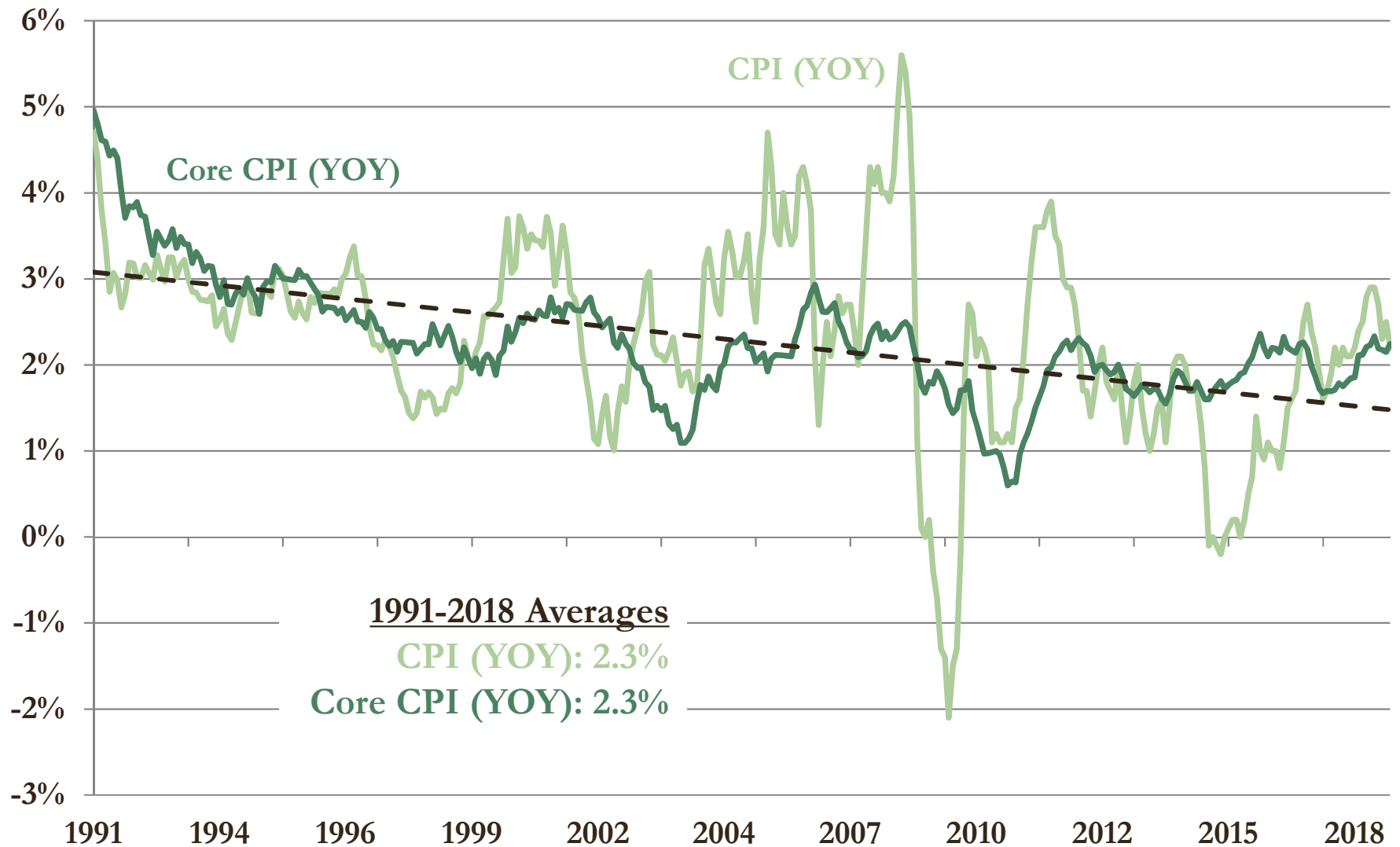
10-YEAR GOVERNMENT BOND YIELDS (%)

■ 12/31/2018



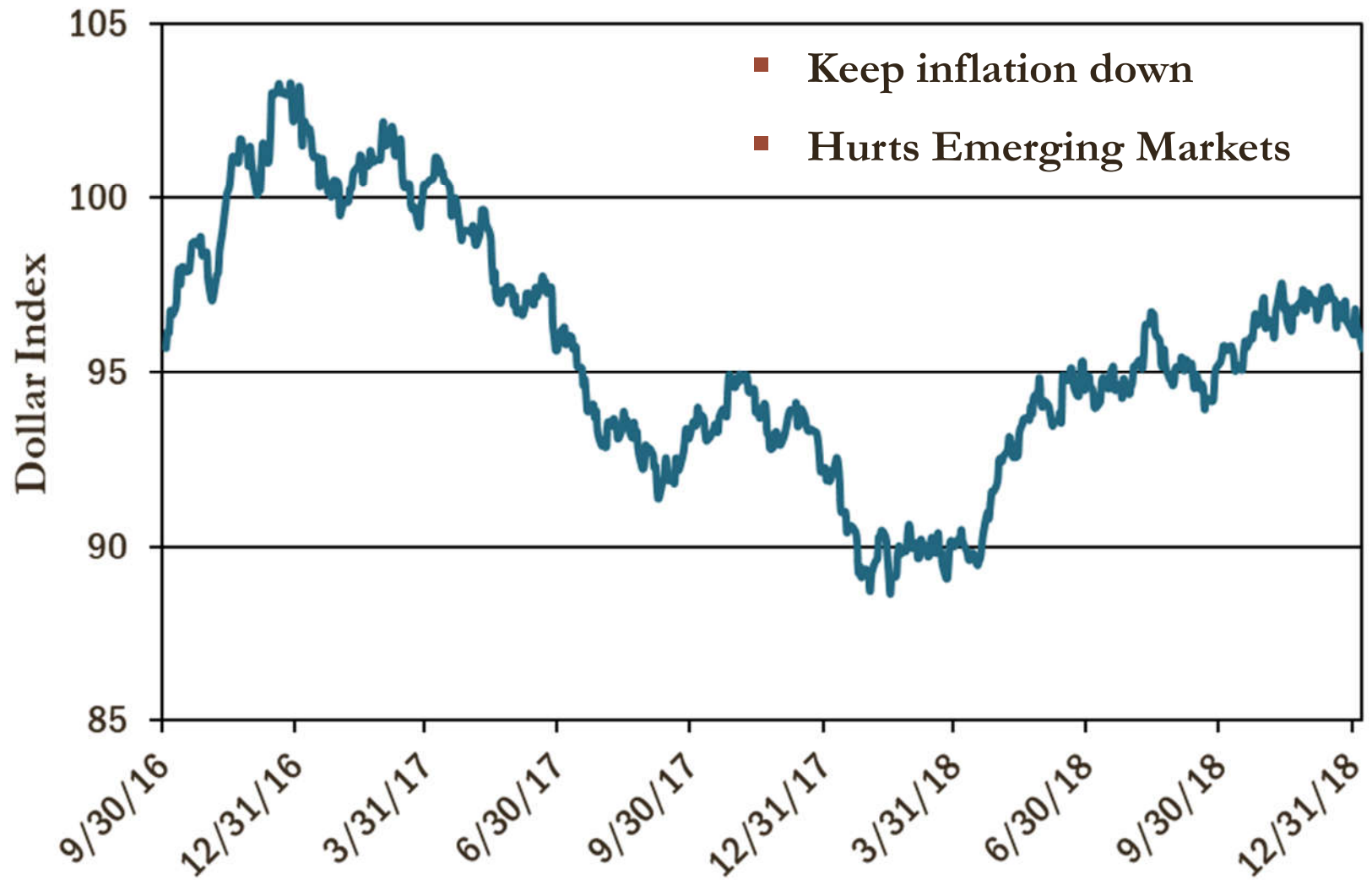
Source: Bloomberg

INFLATION – BENIGN BUT TURNING UP FROM BOTTOM



Source: Bloomberg

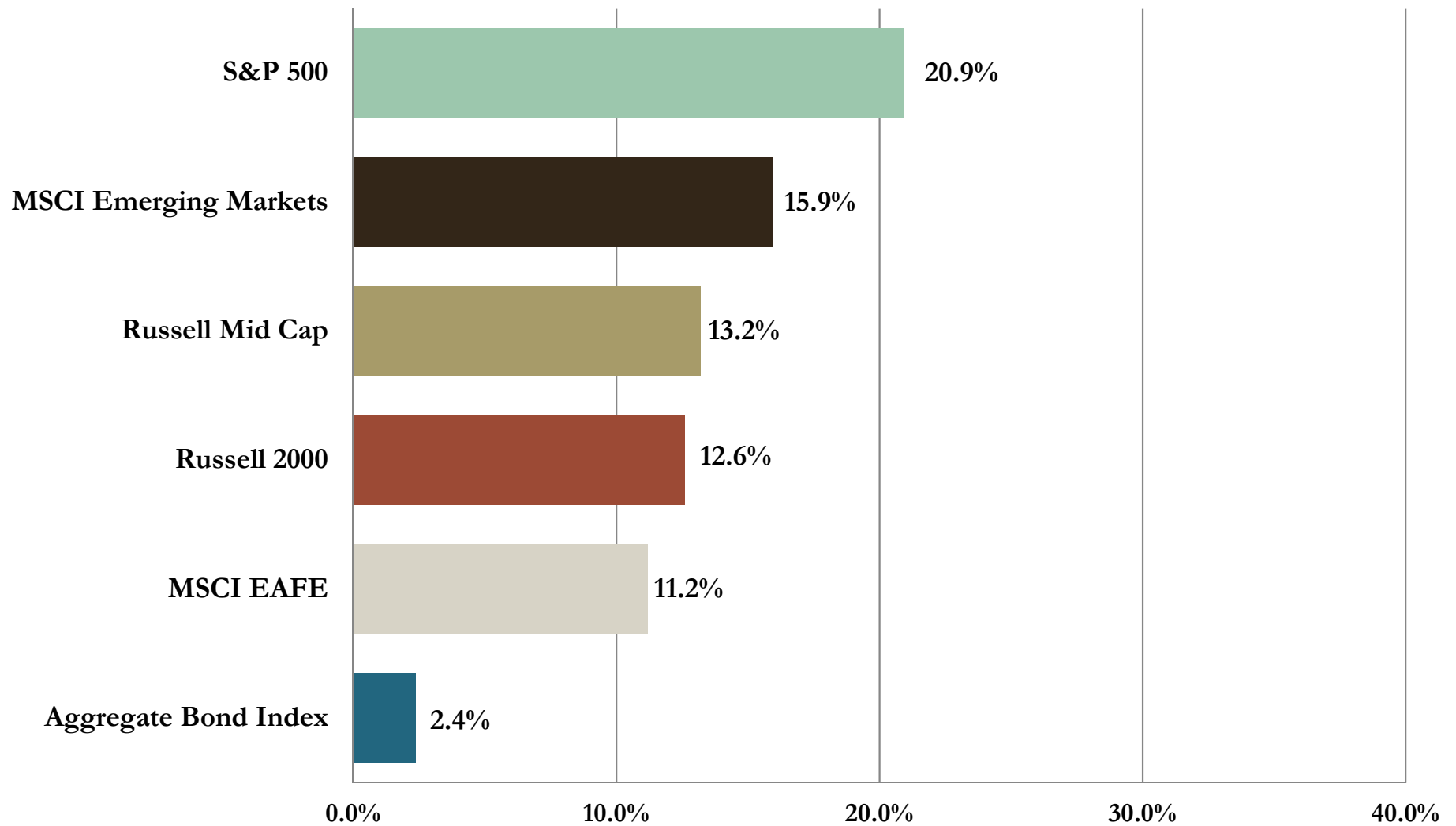
U.S. DOLLAR INDEX



Source: Bloomberg

INDEX RETURNS AFTER THE ELECTION

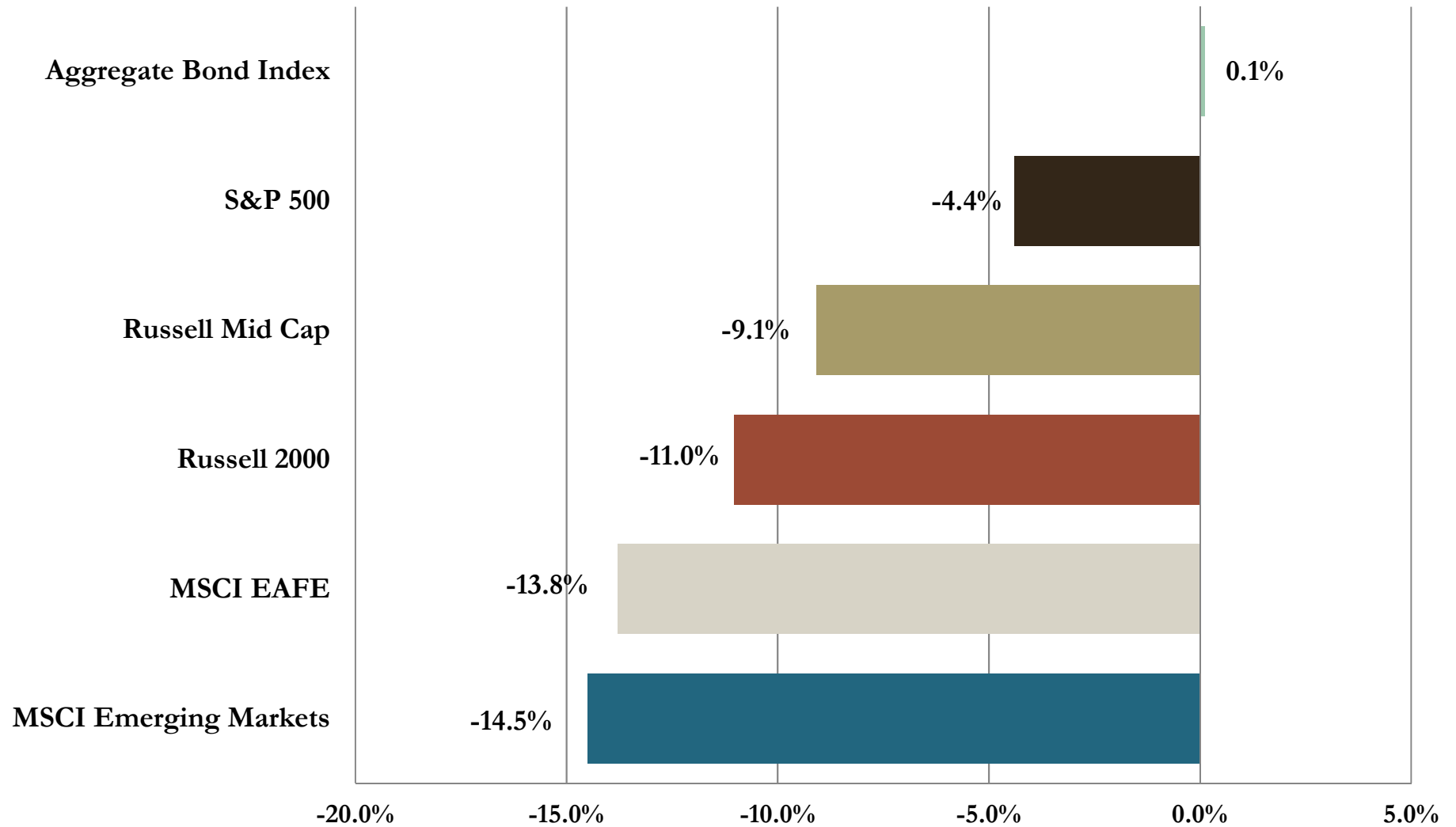
as of 12/31/2018



Source: Bloomberg

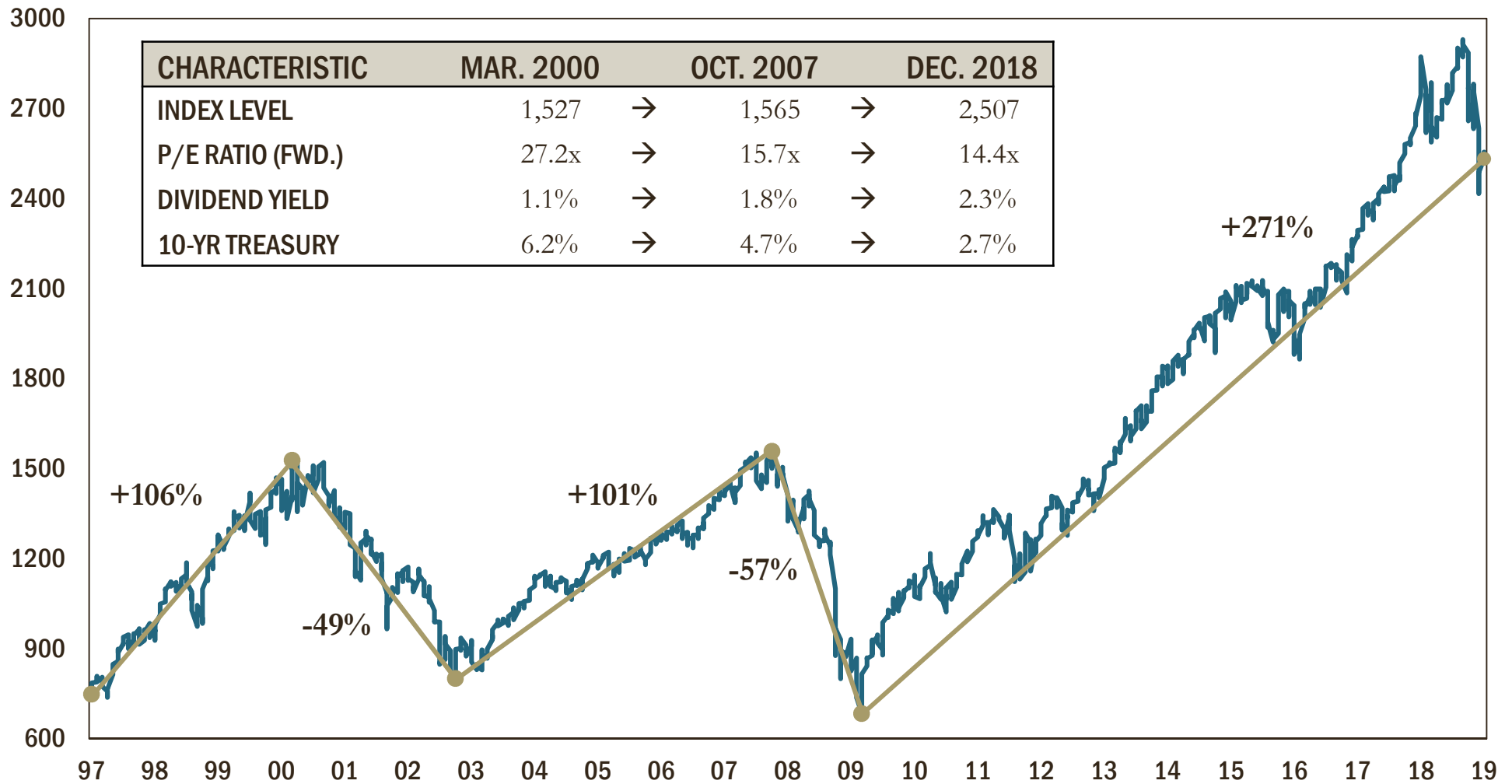
YTD EQUITY RETURNS

as of 12/31/2018



Source: Bloomberg

S&P 500 PRICE INDEX



Source: JP Morgan

S&P 500 INDEX: FORWARD P/E RATIO



Source: JP Morgan

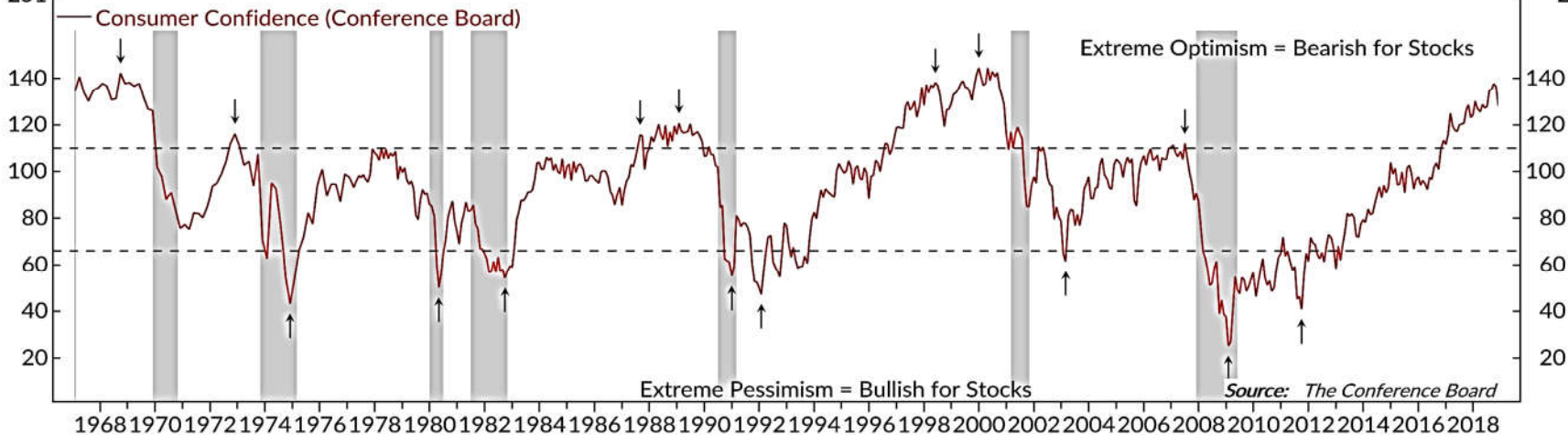
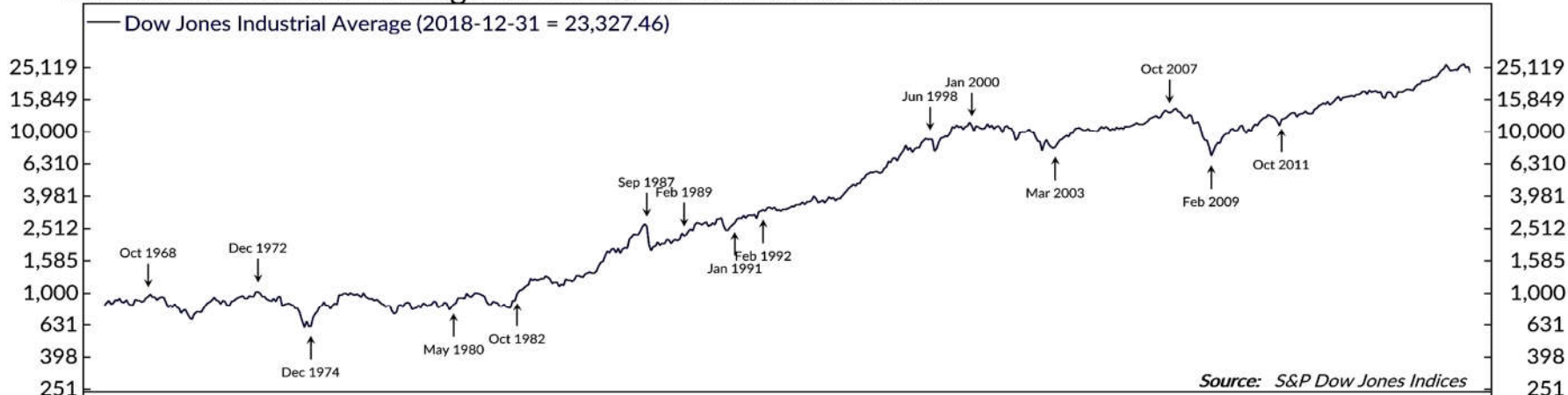
S&P 500 INDEX: FORWARD P/E RATIO

VALUE MEASURE	DESCRIPTION	LATEST	25-YEAR AVG*	STD.DEV. OVER/UNDER-VALUED
P/E	Forward P/E	14.4x	16.1x	-0.5
CAPE	Shiller's P/E	29.0	26.8	0.3
DIVIDEND YIELD	Dividend Yield	2.3%	2.0%	-0.8
P/B	Price to Book	2.7	2.9	-0.3
P/CF	Price to Cash Flow	10.6	10.7	0.0
EY SPREAD	EY minus Baa Yield	1.8%	-0.1%	-1.0

Source: JP Morgan

Dow Jones Industrial Average vs. Consumer Confidence Index

Monthly Data 1967-02-28 to 2018-12-31



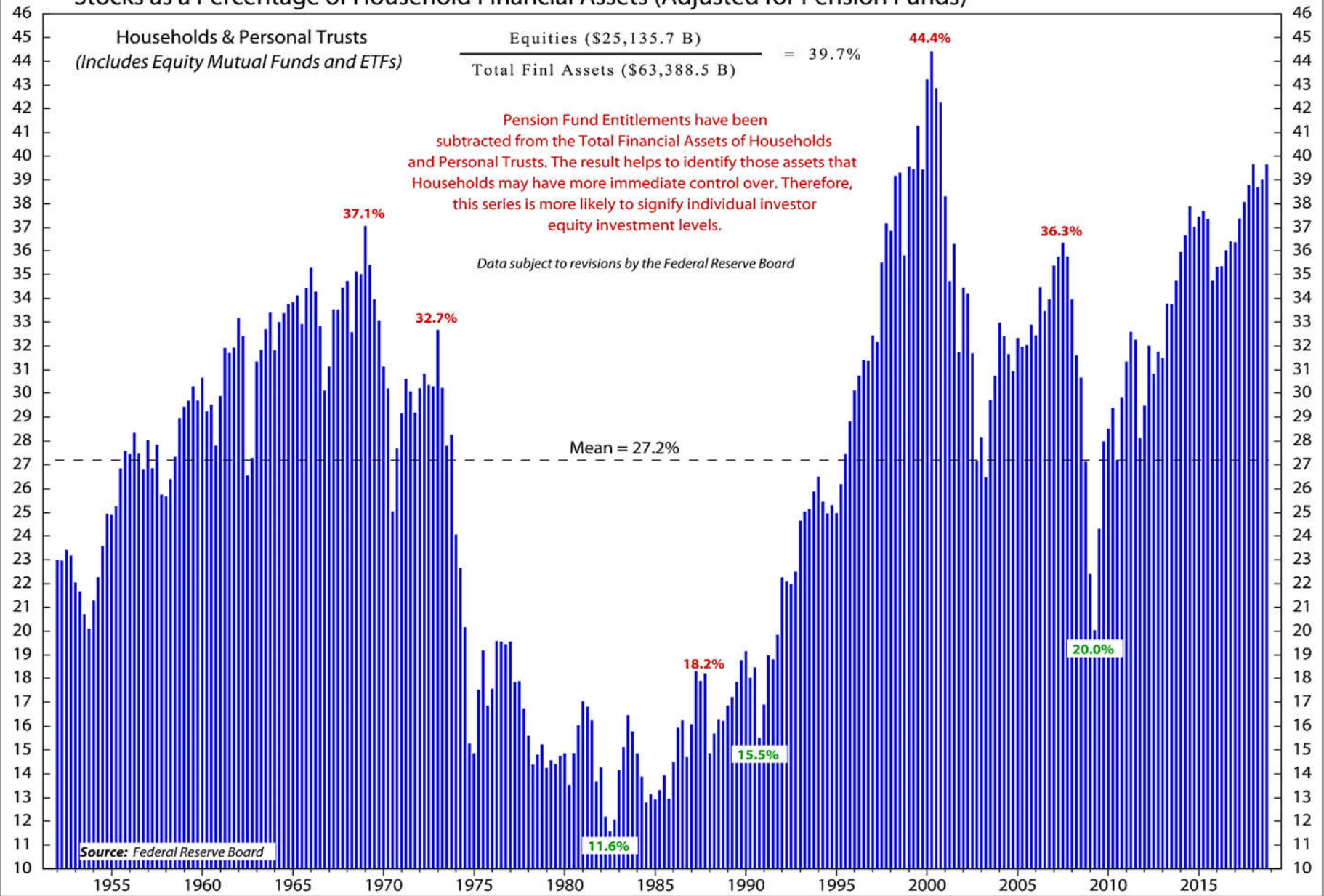
Shaded areas represent
National Bureau of
Economic Research recessions

DJIA Performance		
Full History: 1967-02-28 to 2018-12-31		
Consumer Confidence Is	% Gain/ Annum	% of Time
Above 110.0	1.74	24.73
66.0 - 110.0	6.50	58.74
Below 66.0	14.82	16.53
Buy/Hold = 6.62% Gain/Annum		

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Stocks as a Percentage of Household Financial Assets (Adjusted for Pension Funds)



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FREQUENCY OF STOCK MARKET DECLINES

- The recent return of stock market volatility is a reminder that market corrections are a normal part of stock market action.
- Corrections are common occurrences, and a correction does not preclude future strong returns.

STOCK MARKET CORRECTIONS

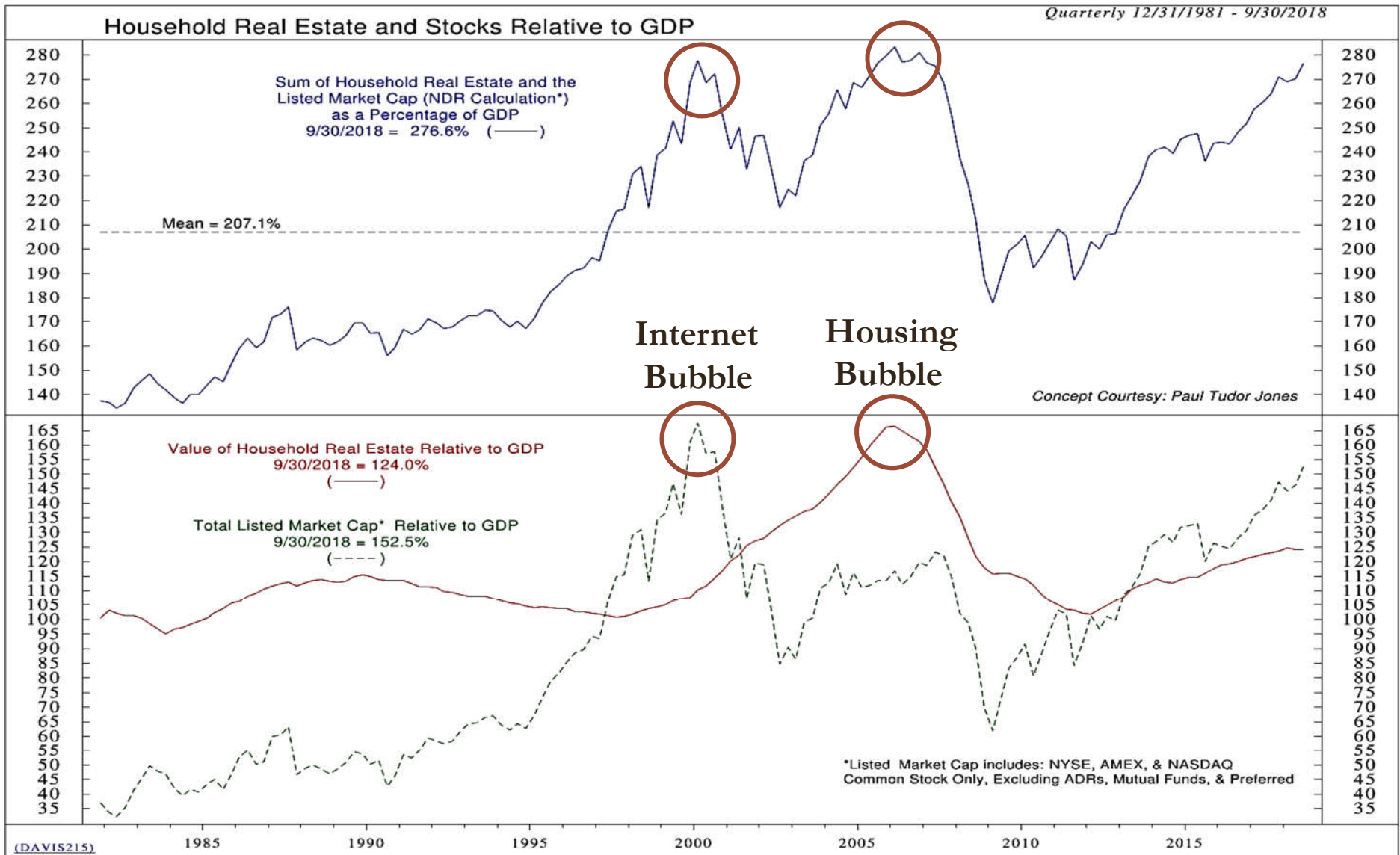
1/1/1928 – 6/30/2018

	MAGNITUDE OF CORRECTION			
	5% OR MORE	10% OR MORE	15% OR MORE	20% OR MORE
Number of Corrections	305	97	43	25
Average Number of Corrections Each Year	3.4	1.1	0.5	0.3
Historical % of Corrections Moving to Next Stage (e.g., 10% decline moving to a 15% decline)	32%	44%	58%	N/A

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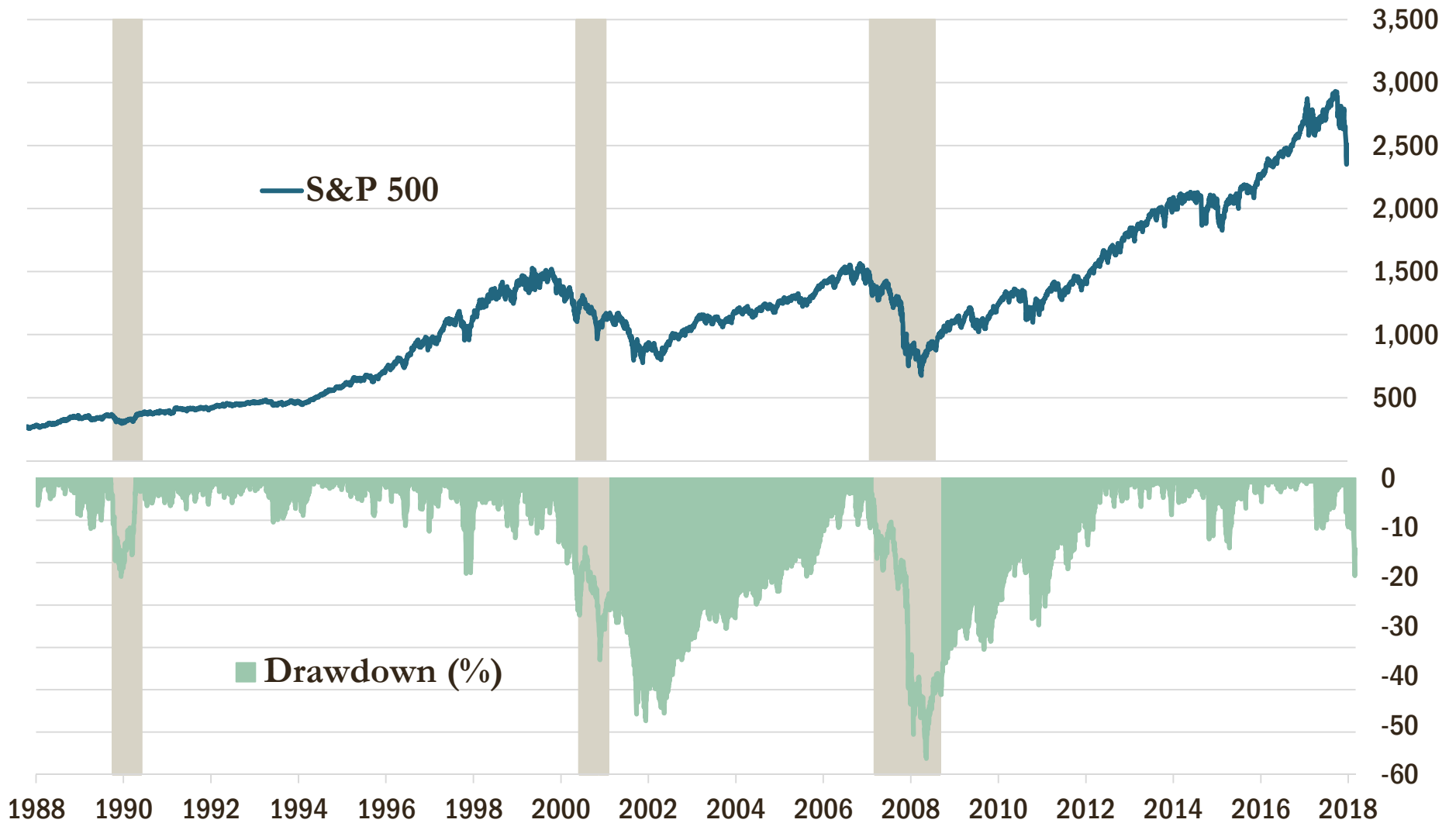
Not FDIC Insured	May Lose Value	No Bank Guarantee
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HOUSING AND STOCKS VS. GDP (EXPENSIVE)



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S&P 500: 30-YEAR HISTORY OF CORRECTIONS



Source: Bloomberg