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A TALE OF TWO MARKETS

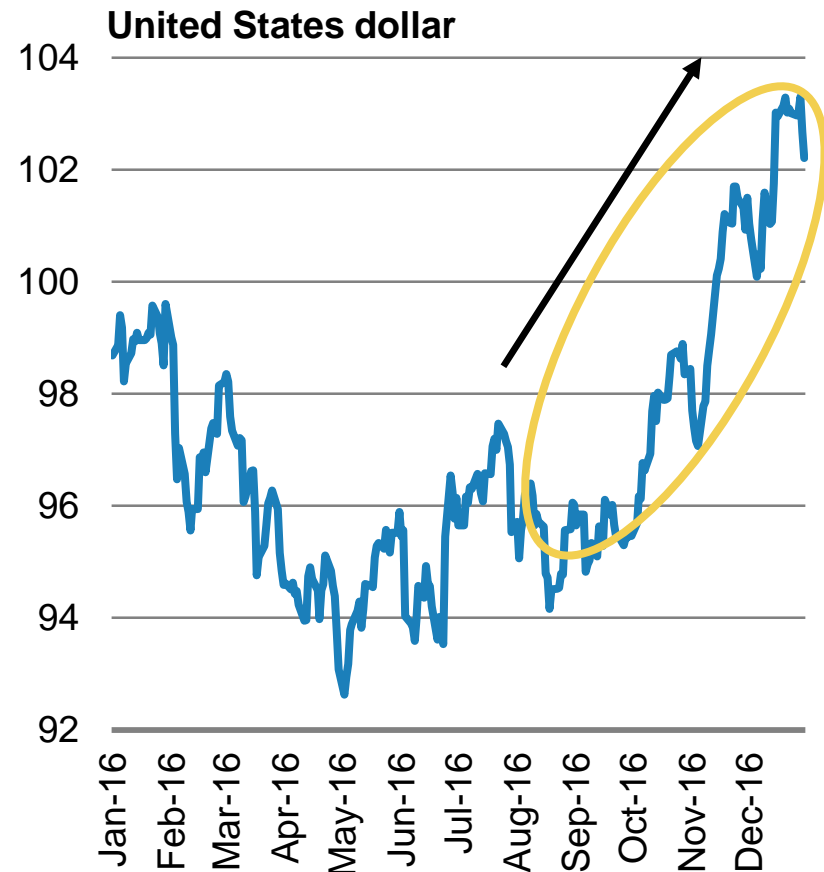
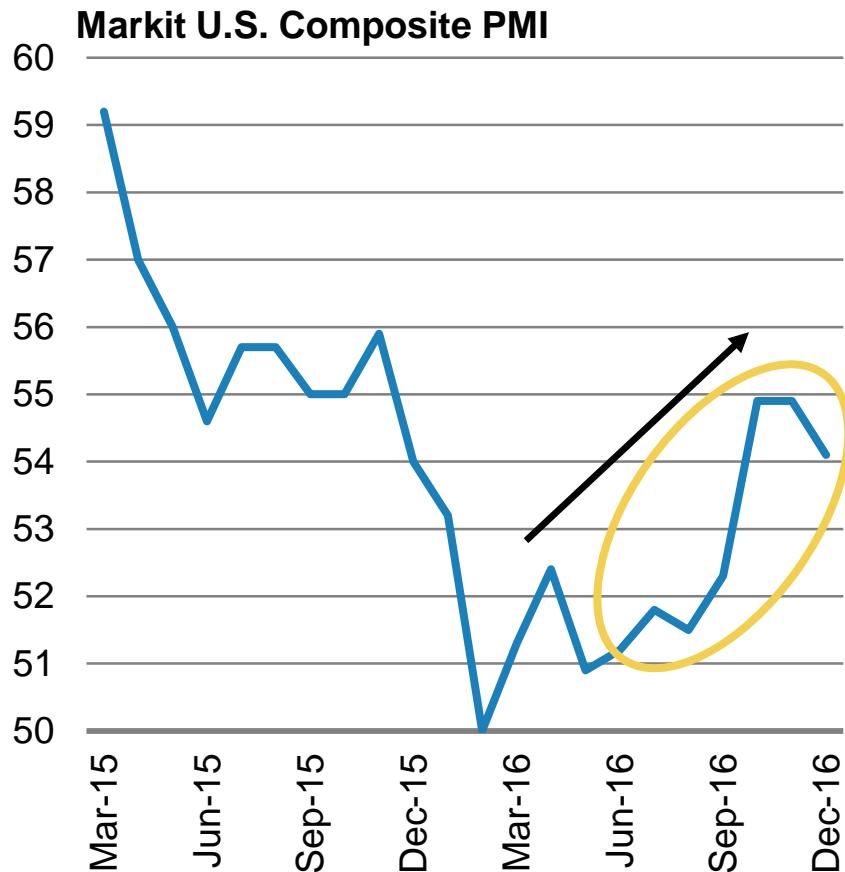
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Executive Summary

- July 1–December 31, 2016: Markets play offense
 - Improving economic data/trends
 - Stronger dollar
 - Higher inflation/expectations
 - Steepening yield curves
 - Positive earnings expectations
- January 1–September 30, 2017: Markets play defense
 - Decelerating economic data/trends
 - Weaker dollar
 - Lower inflation/expectations
 - Flatter yield curves
 - Positive earnings expectations

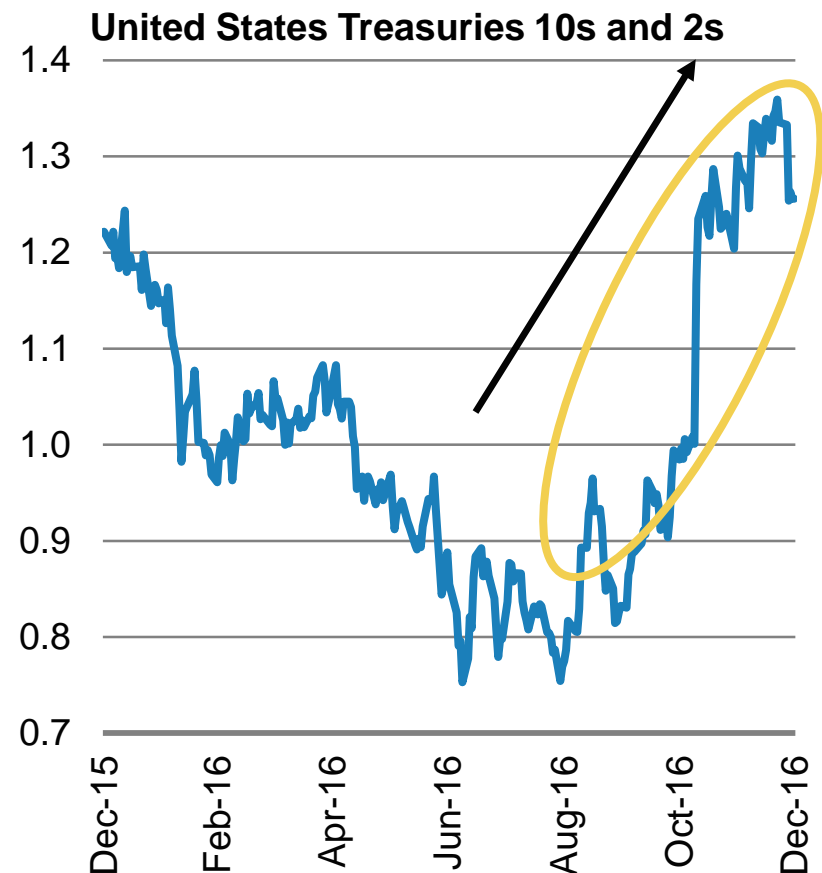
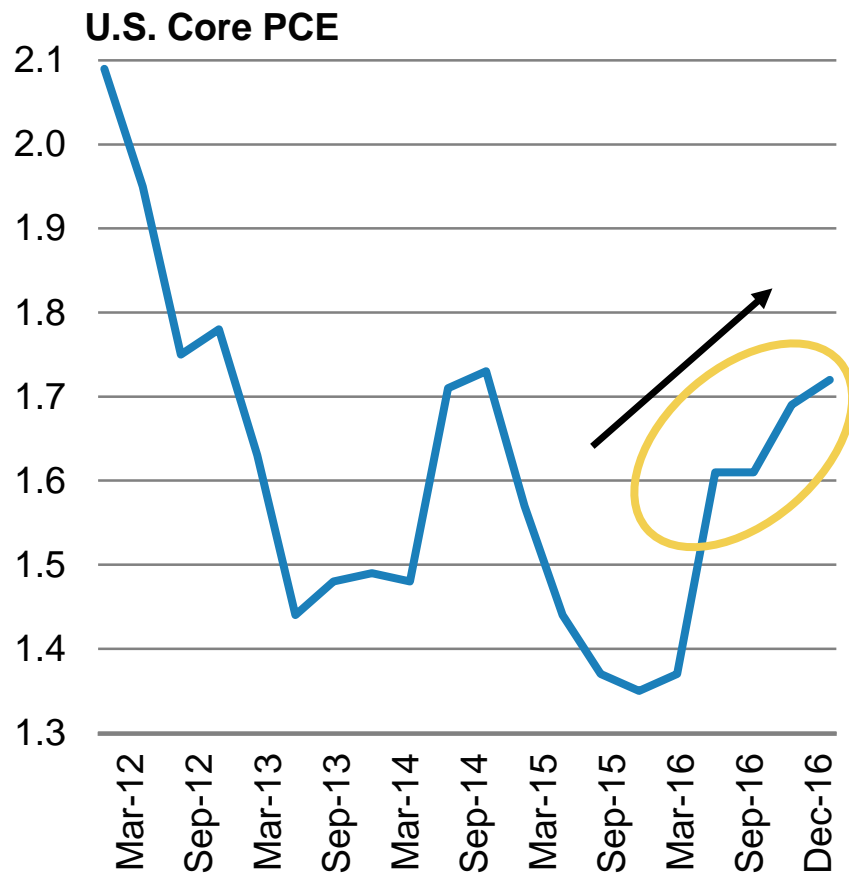
OFFENSE OUTPERFORMS IN A PRO-CYCLICAL, INFLATIONARY MARKET

2nd half 2016: Economic growth reversed trend and turned positive, and the dollar strengthened



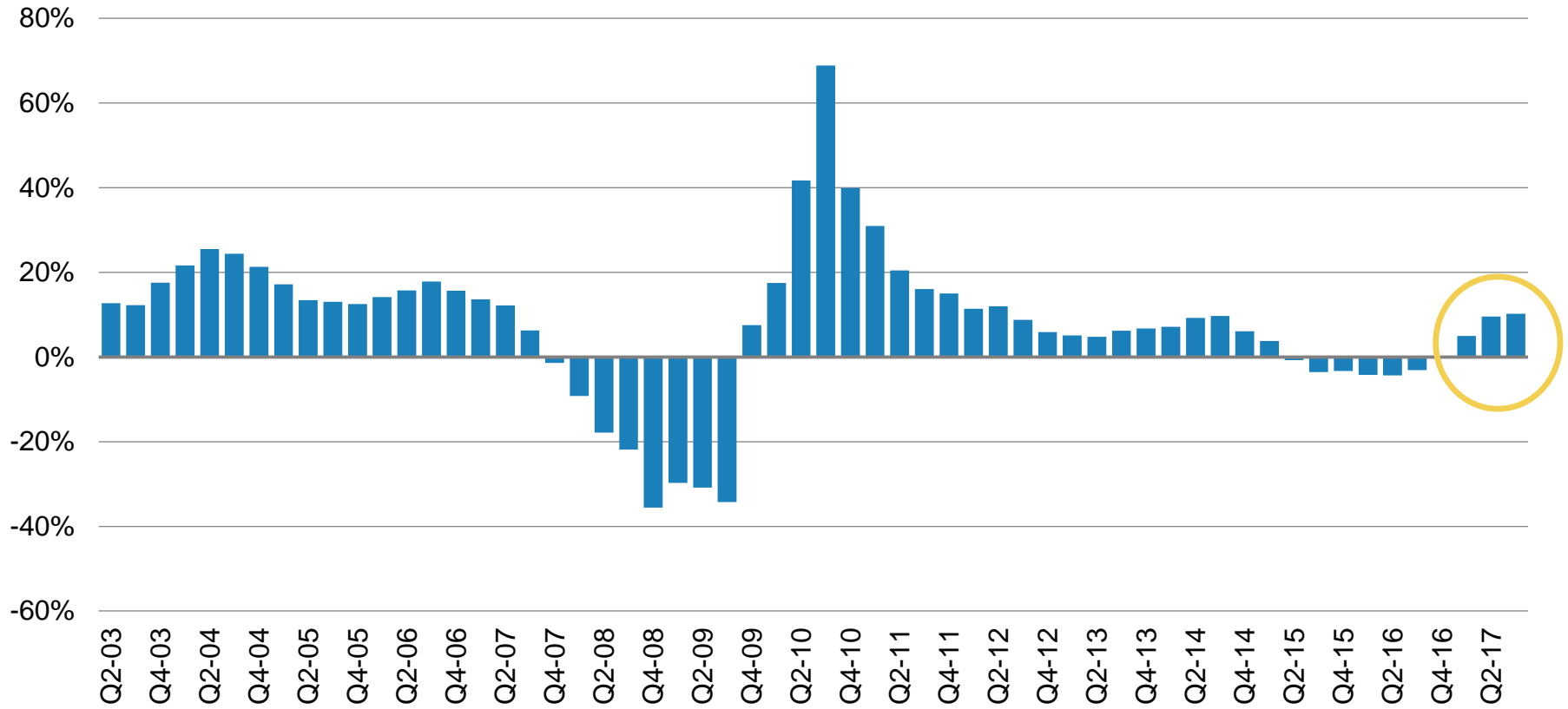
Source: Bloomberg.

2nd half 2016: Inflation expectations increased, and the yield curve steepened



Source: Bloomberg.

Earnings growth and earnings expectations improved



Source: Bloomberg. Measured by S&P 500 trailing 12-month earnings per share.

Trump proposed policies similar to Reaganomics ...

	Reagan	Trump
Tax plan	Lower marginal tax rates, estate taxes, capital gains tax, and corporate taxes	Cut the marginal tax rate, repeal/reduce the estate tax and capital gains tax, lower corporate taxes
Investment	Massively expanded defense spending	Infrastructure and defense spending in the pipeline
Regulation	Deregulated multiple sectors	Plans deregulation in the health-care, finance, and energy sectors

However, the economic backdrop was radically different at the beginning of each president's first term

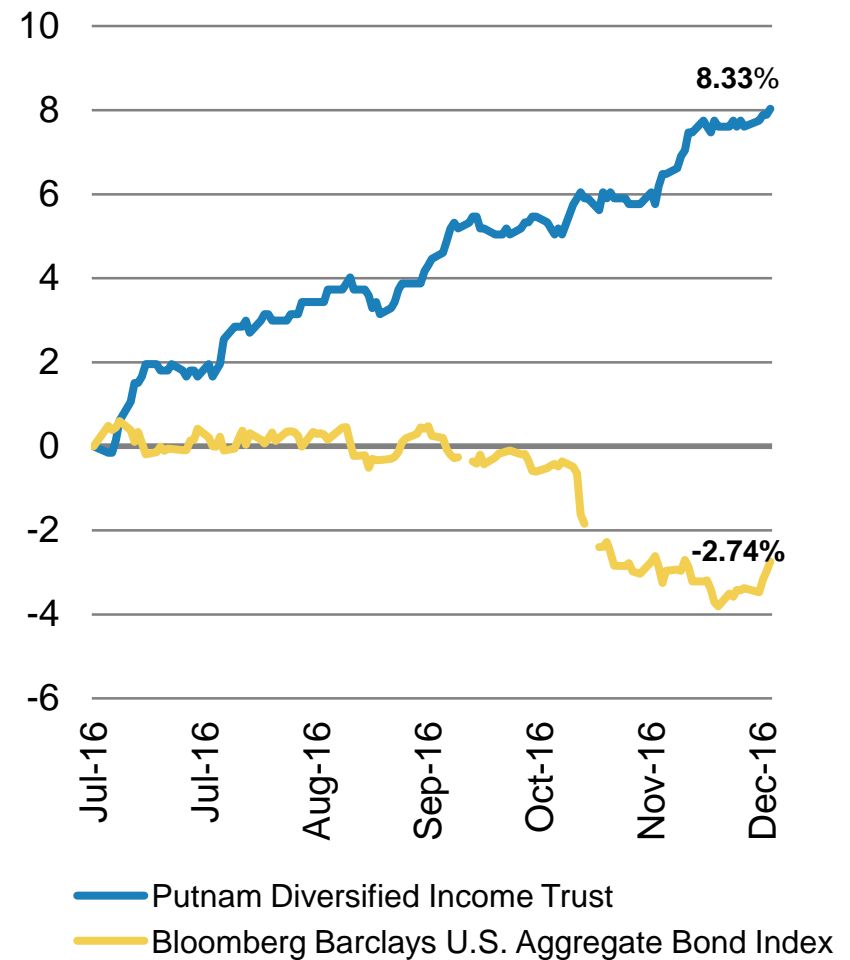
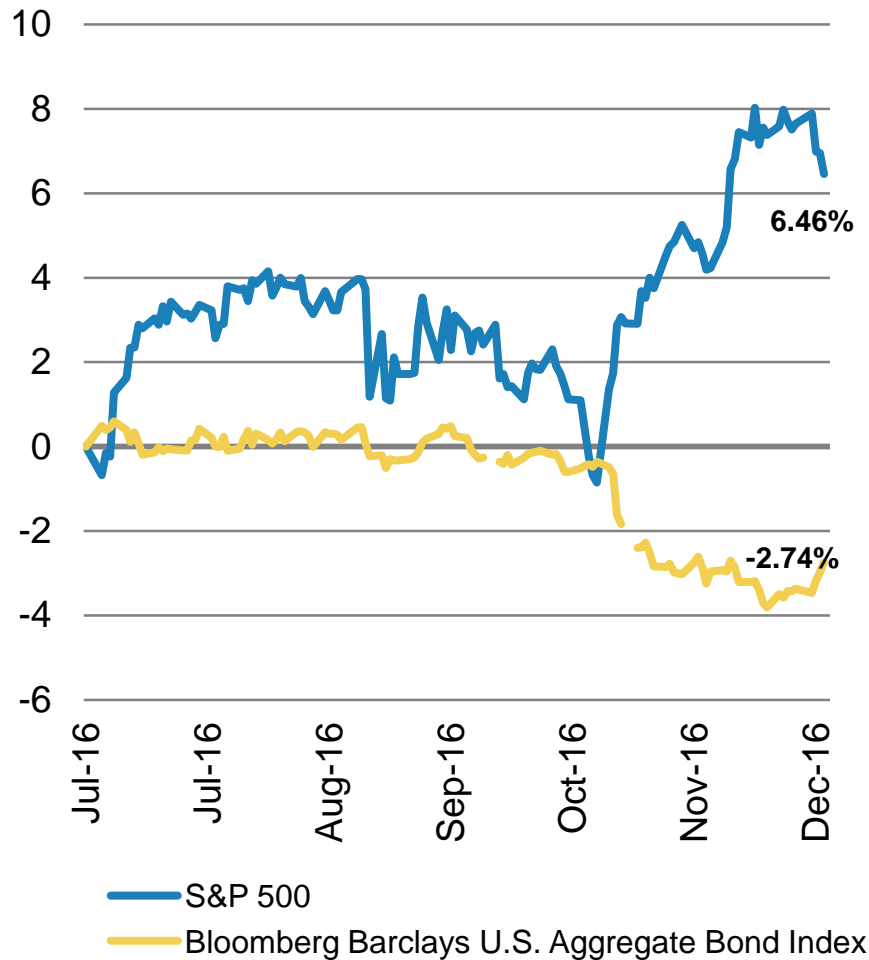
Inflation (Core CPI)	11% when he took office in 1981	2.1% Core CPI
GDP	Fell to -1.9% in 1982	2.2% growth for U.S. GDP in 2017
10-year Treasury	15% in 1981	2.44% at December 31, 2016

Sources: Putnam, Bloomberg.

Extraordinary results from Reaganomics

- U.S. real GDP growth averaged 3.5%
- The S&P 500 was positive in 7 consecutive Reagan years
- Unemployment dropped by nearly 50%
- Inflation fell from approximately 11% to 4%
- Fed funds rates were nearly halved

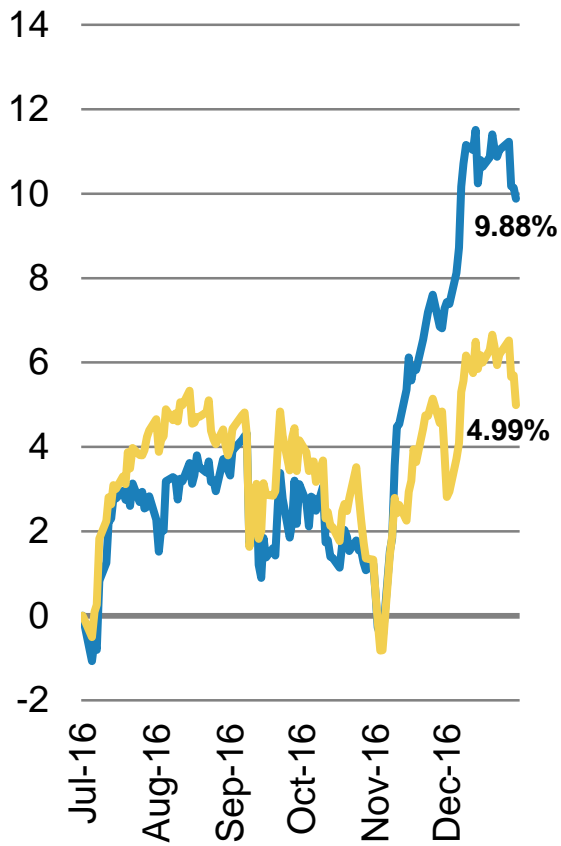
2nd half 2016: Markets on offense — Equities outperformed fixed income. Within fixed income, non-traditional strategies outperformed the Barclays Agg



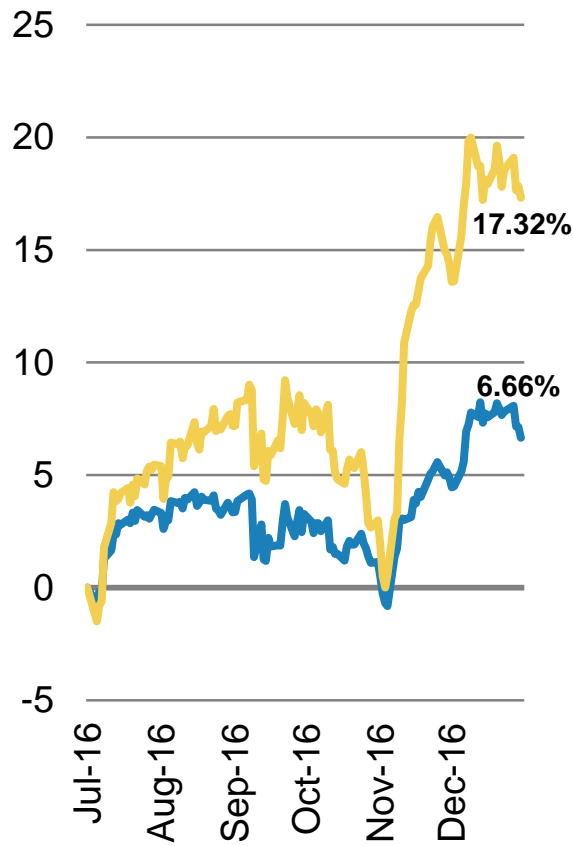
Source: Bloomberg.

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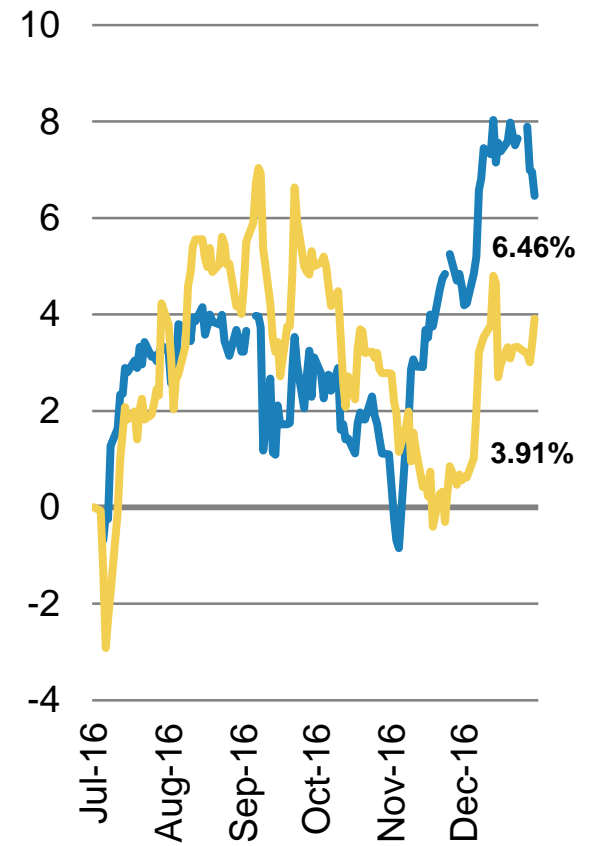
2nd half 2016: Markets on offense — Value, small-caps, and domestic strategies outperformed



— Russell 3000 Value
— Russell 3000 Growth



— Russell 1000 Index
— Russell 2000 Index

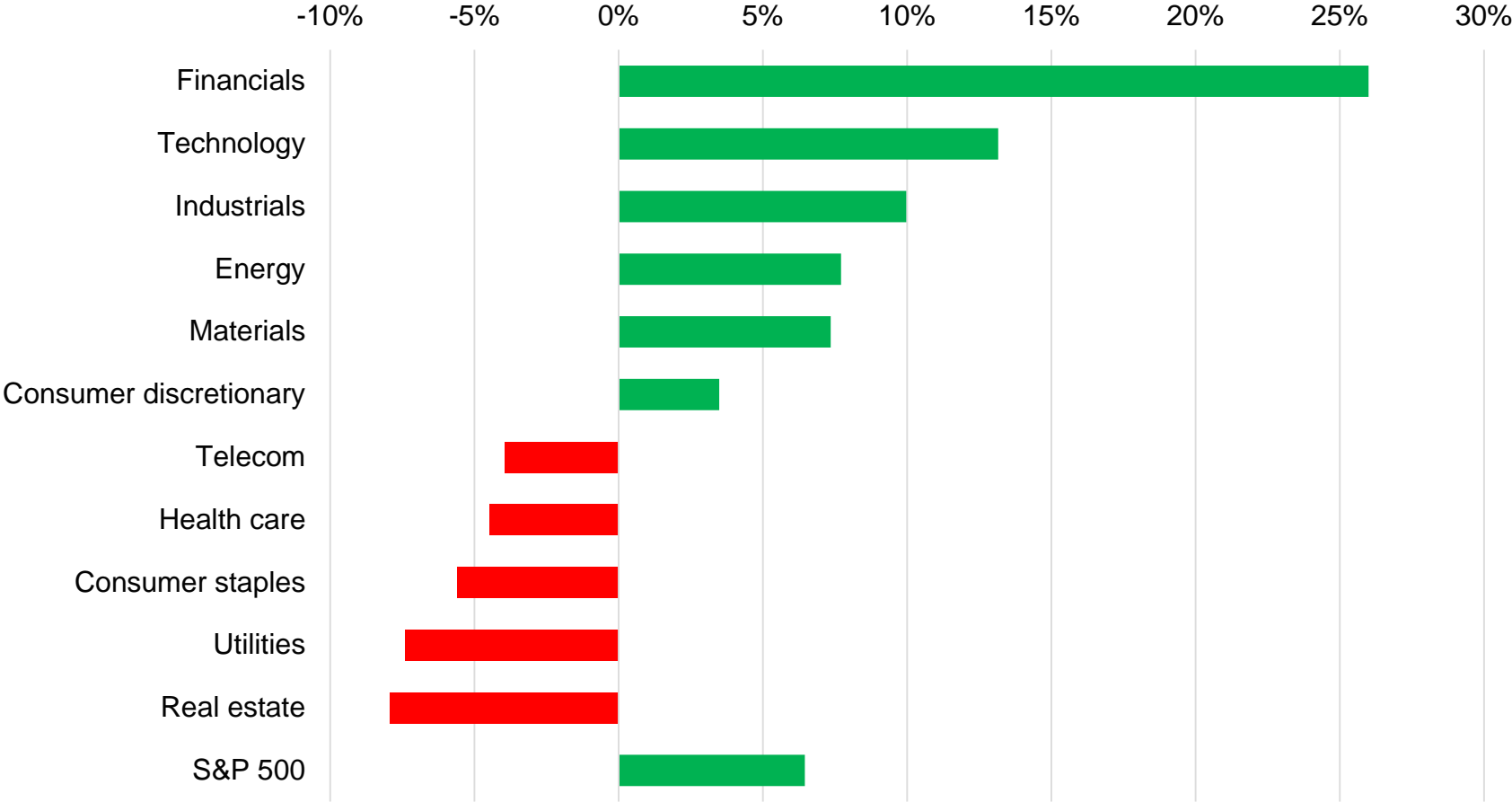


— S&P 500
— MSCI EAFE Index

Source: Bloomberg.

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2nd half 2016: Markets on offense — Cyclical/financials sectors outperformed growth/defensive sectors



Source: Bloomberg. Measured by S&P 500 sectors.

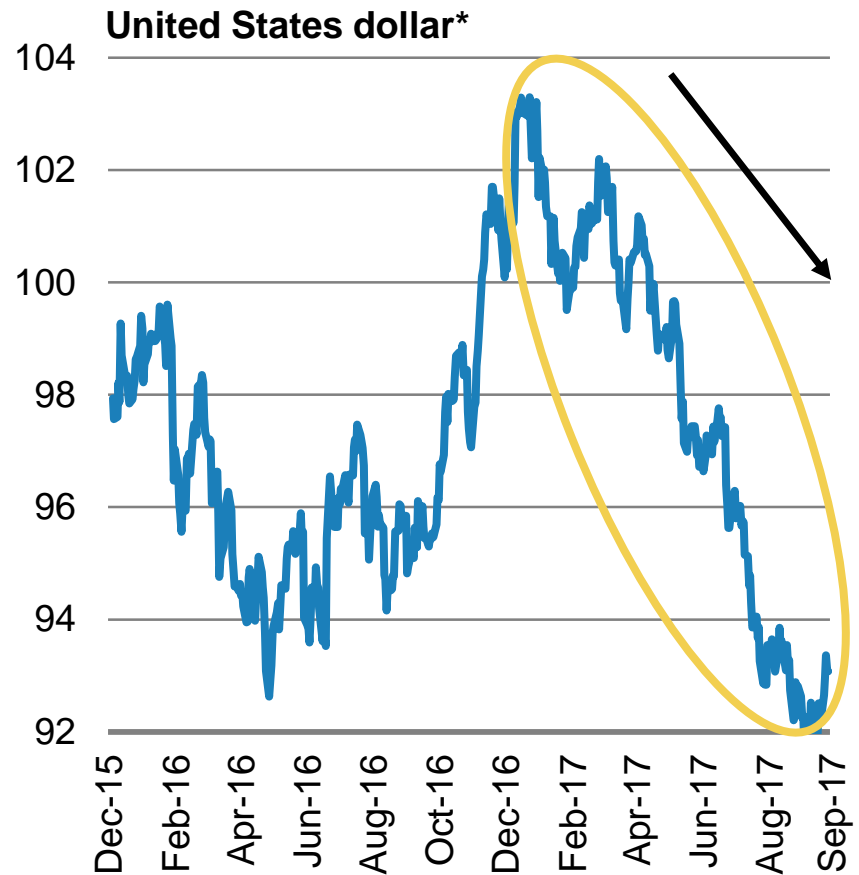
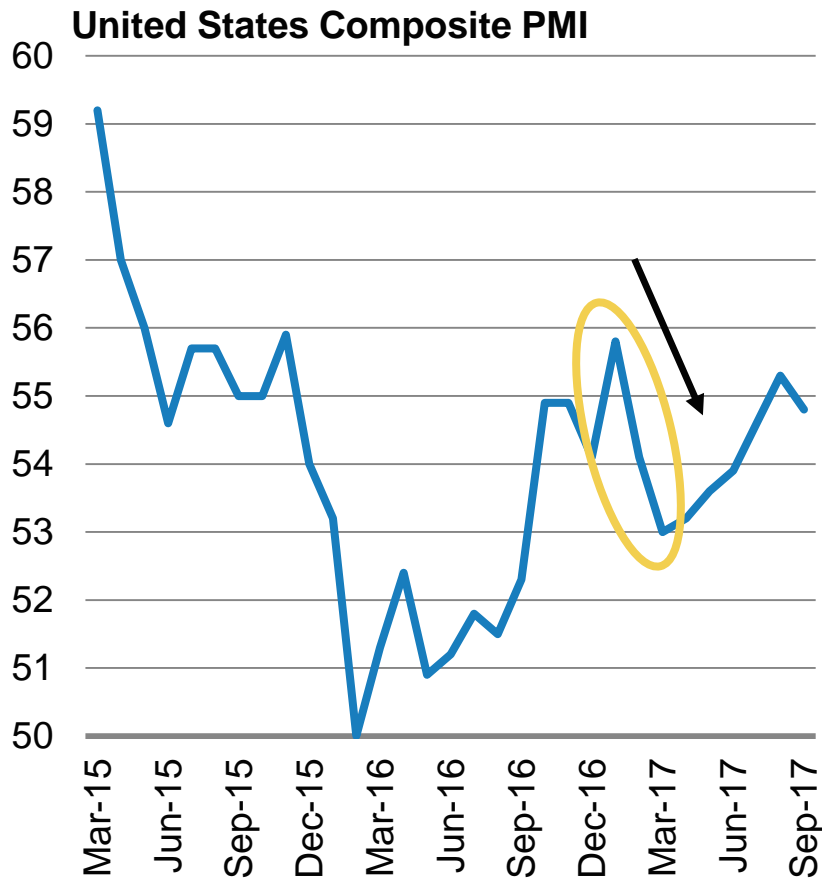
2017: MARKETS GET DEFENSIVE

Administration mishaps: President Trump stumbles out of the gate

- Travel ban
- Michael Flynn resignation
- James Comey firing
- Russian investigation
- Legislation delay

Source: Putnam.

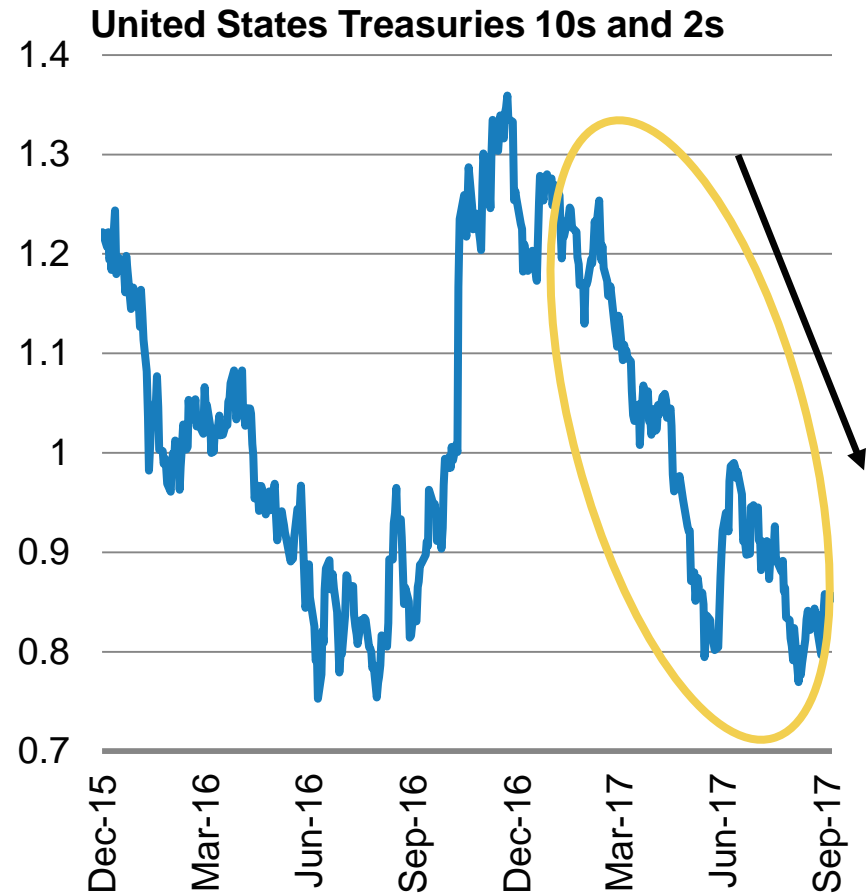
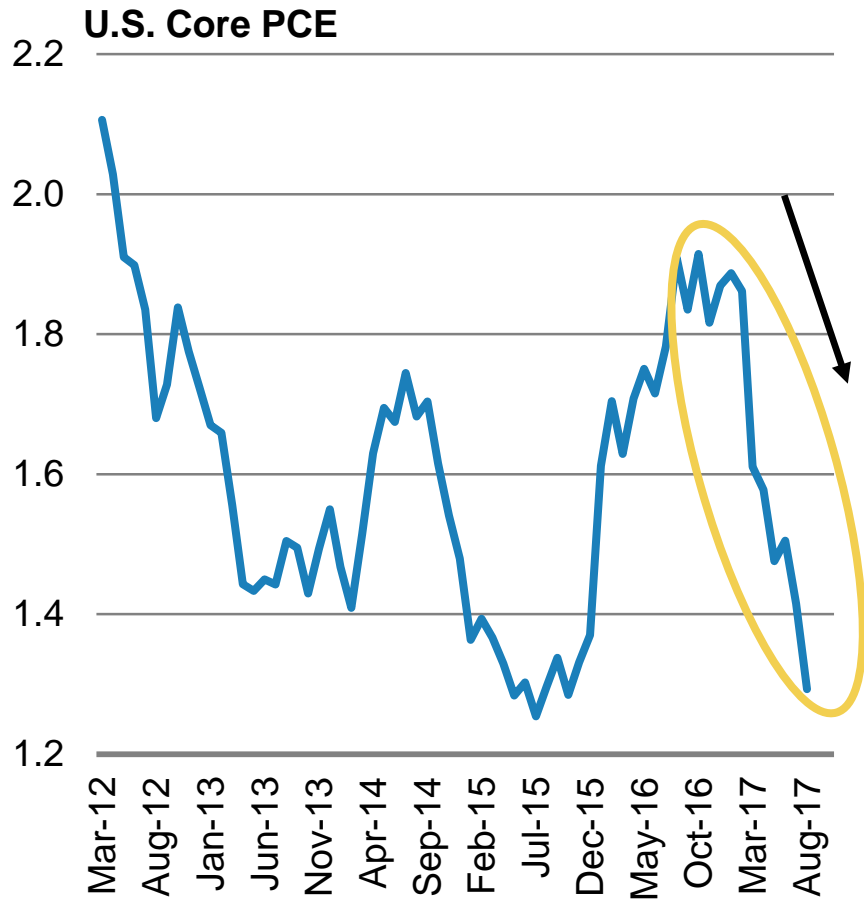
2017: Economic growth slowed, and the dollar weakened



Source: Bloomberg.

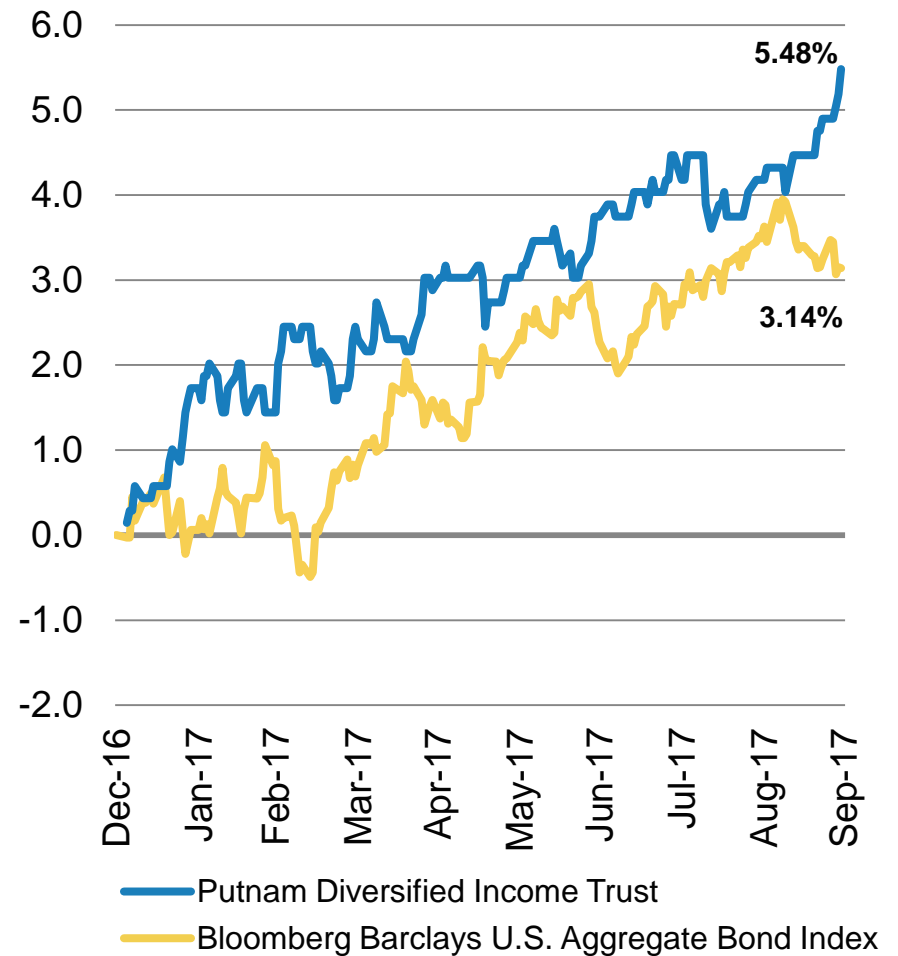
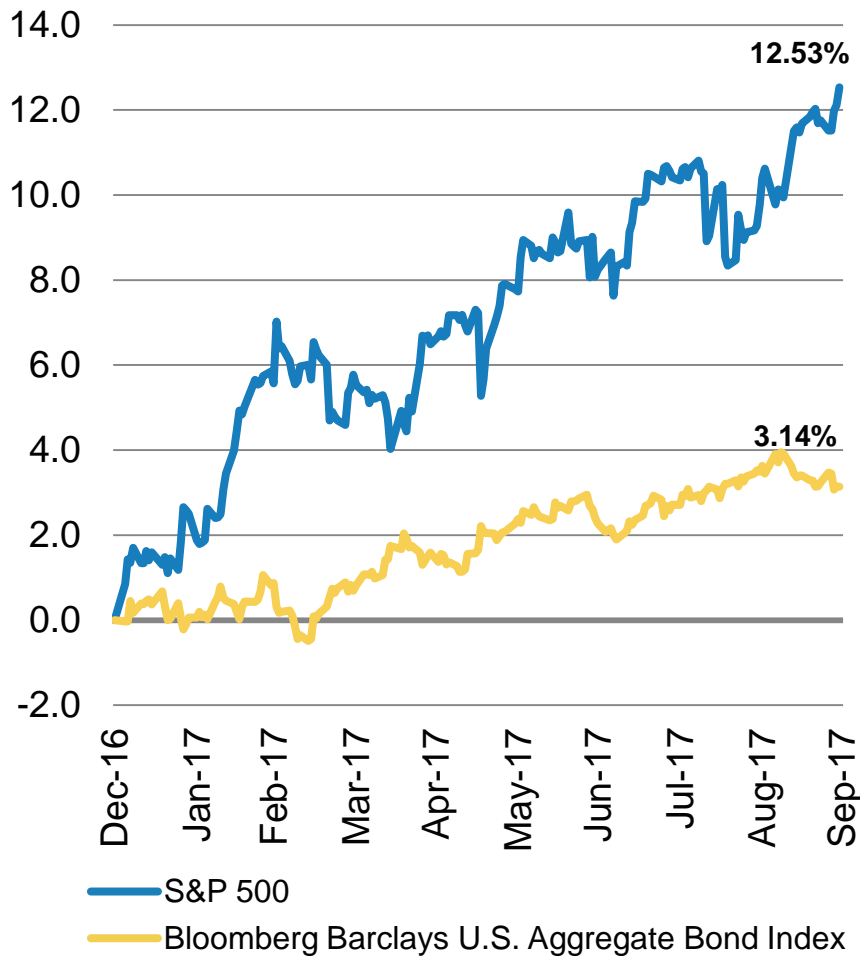
* Measured by U.S. dollar index.

2017: Inflation/inflation expectations declined, and the yield curve flattened



Source: Bloomberg.

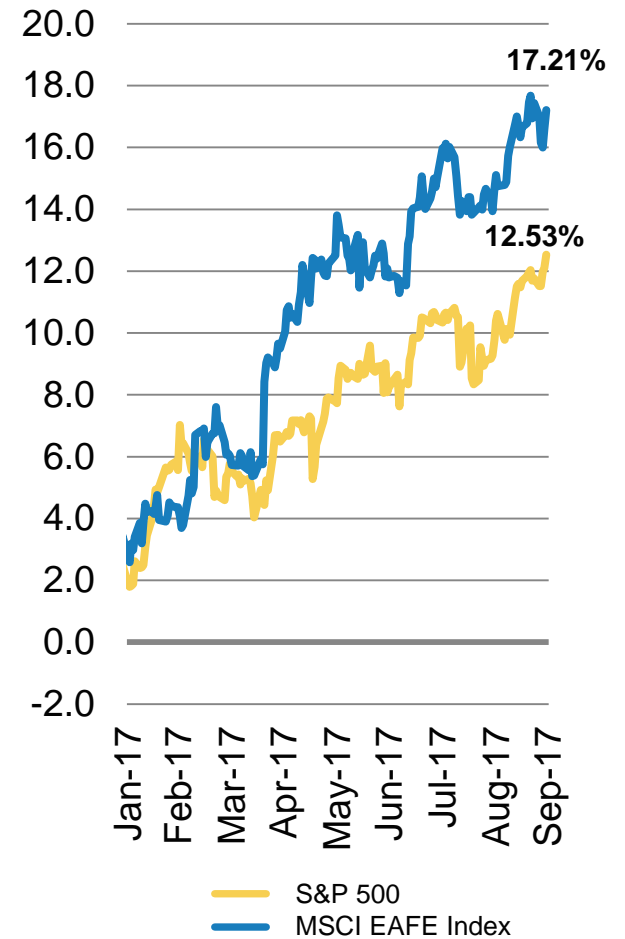
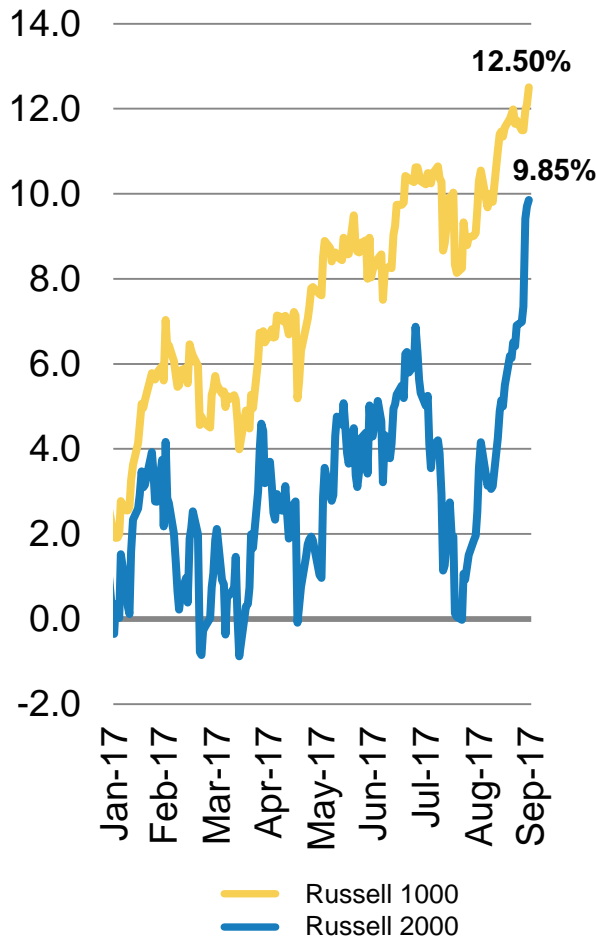
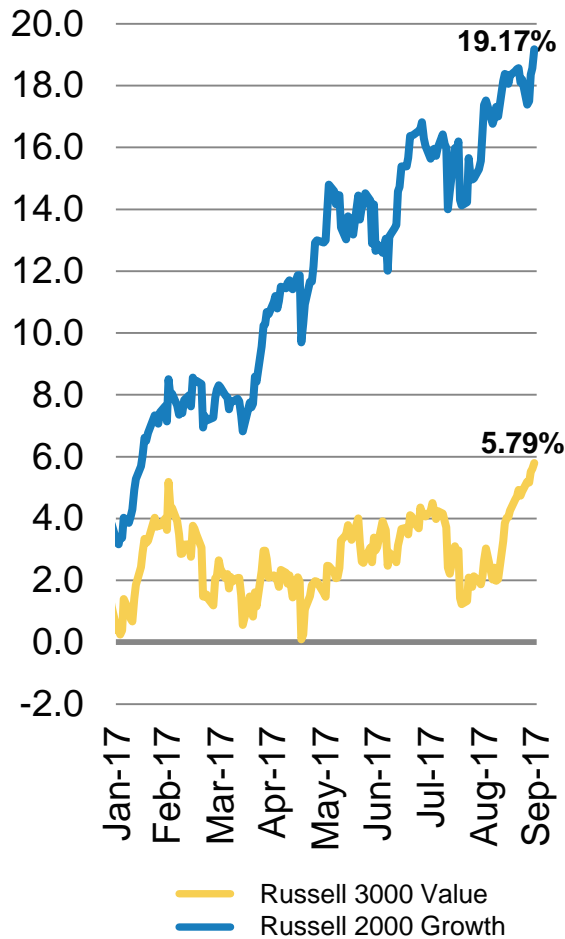
2017: Market gets defensive — Equities outperformed fixed income. Within fixed income, non-traditional strategies continued to outperform



Source: Bloomberg.

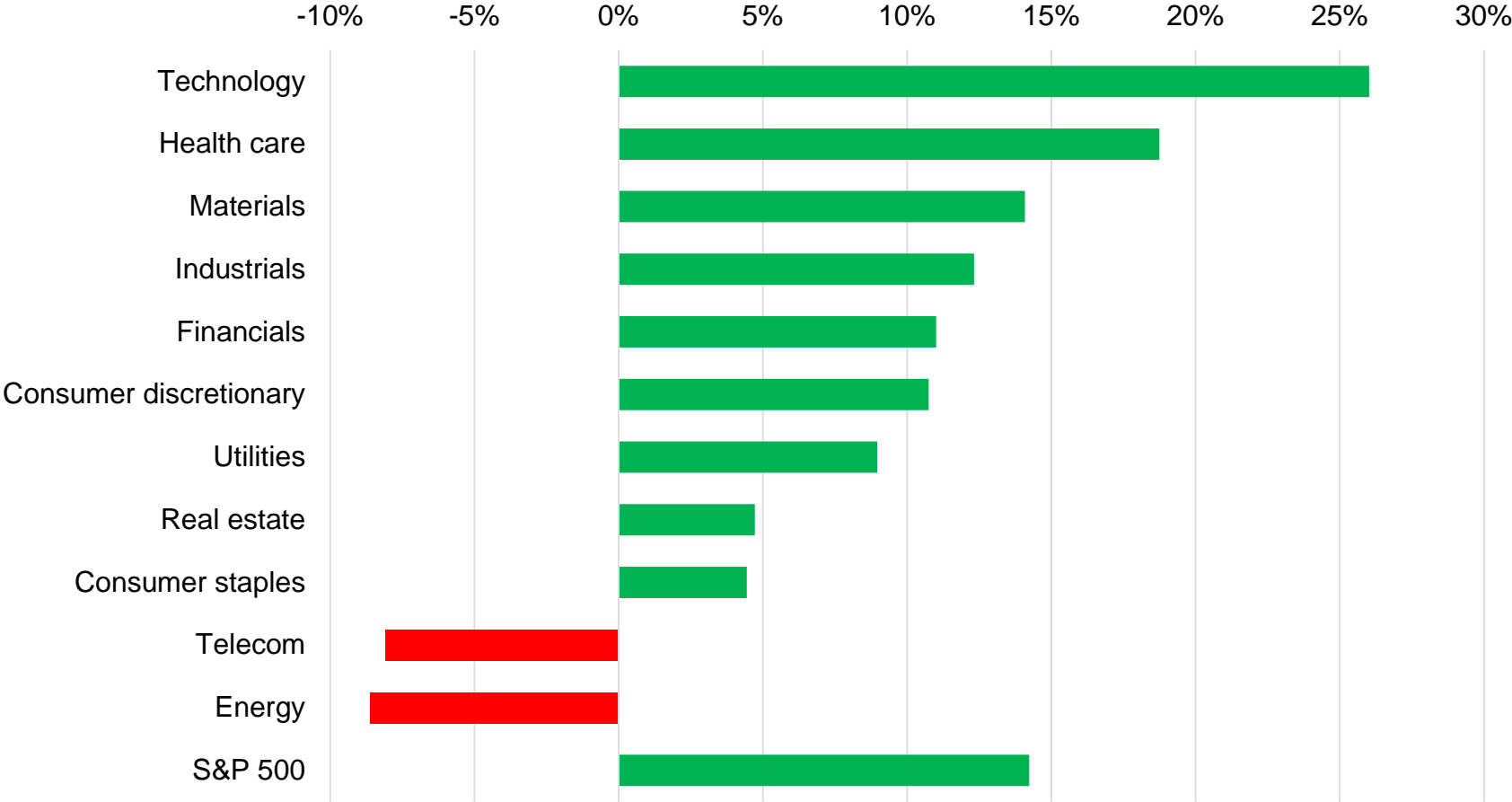
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2017: Market gets defensive — Growth, large-caps outperformed. Rotation into international



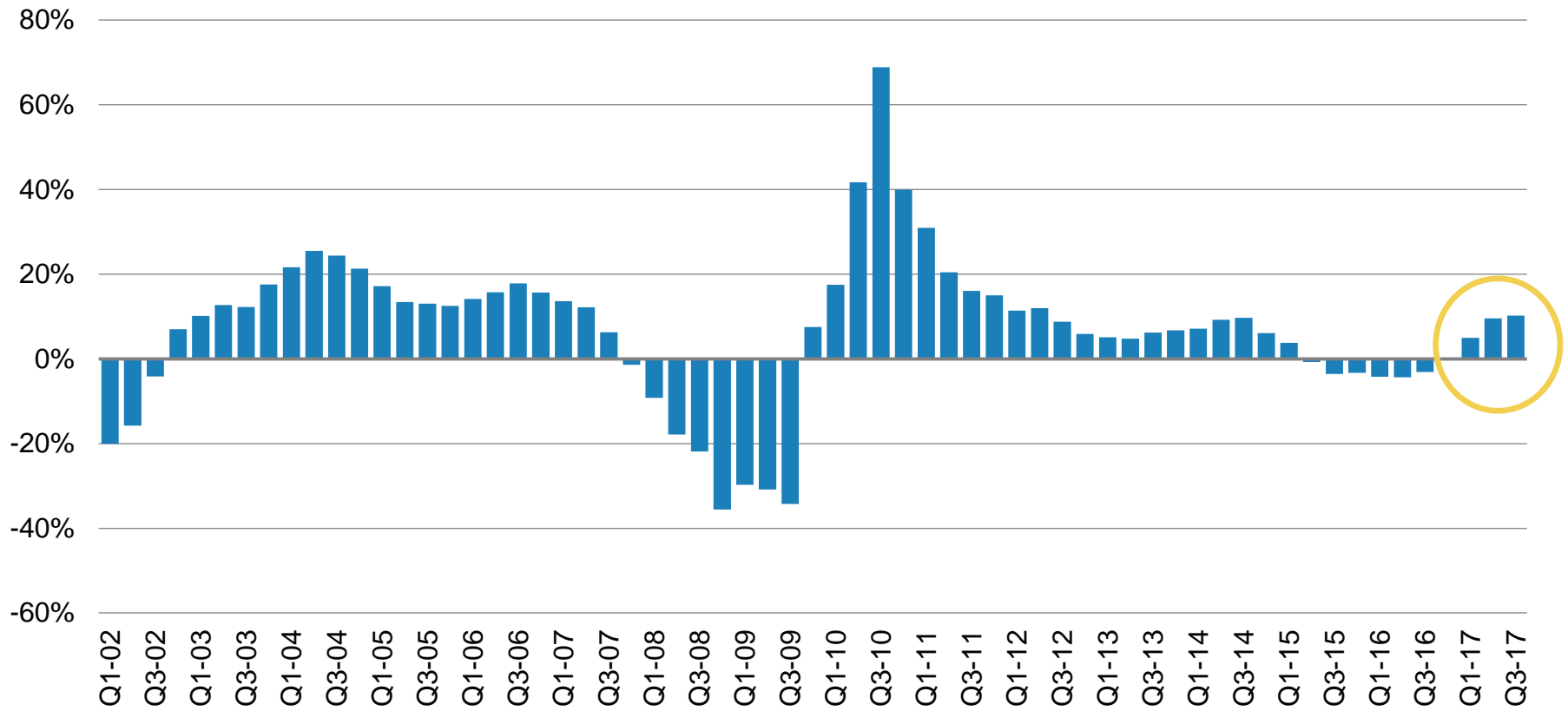
Source: Bloomberg.

2017: Market gets defensive — Growth/defensive sectors outperformed cyclicals/financials sectors



Source: Bloomberg. Measured by S&P 500 sectors.

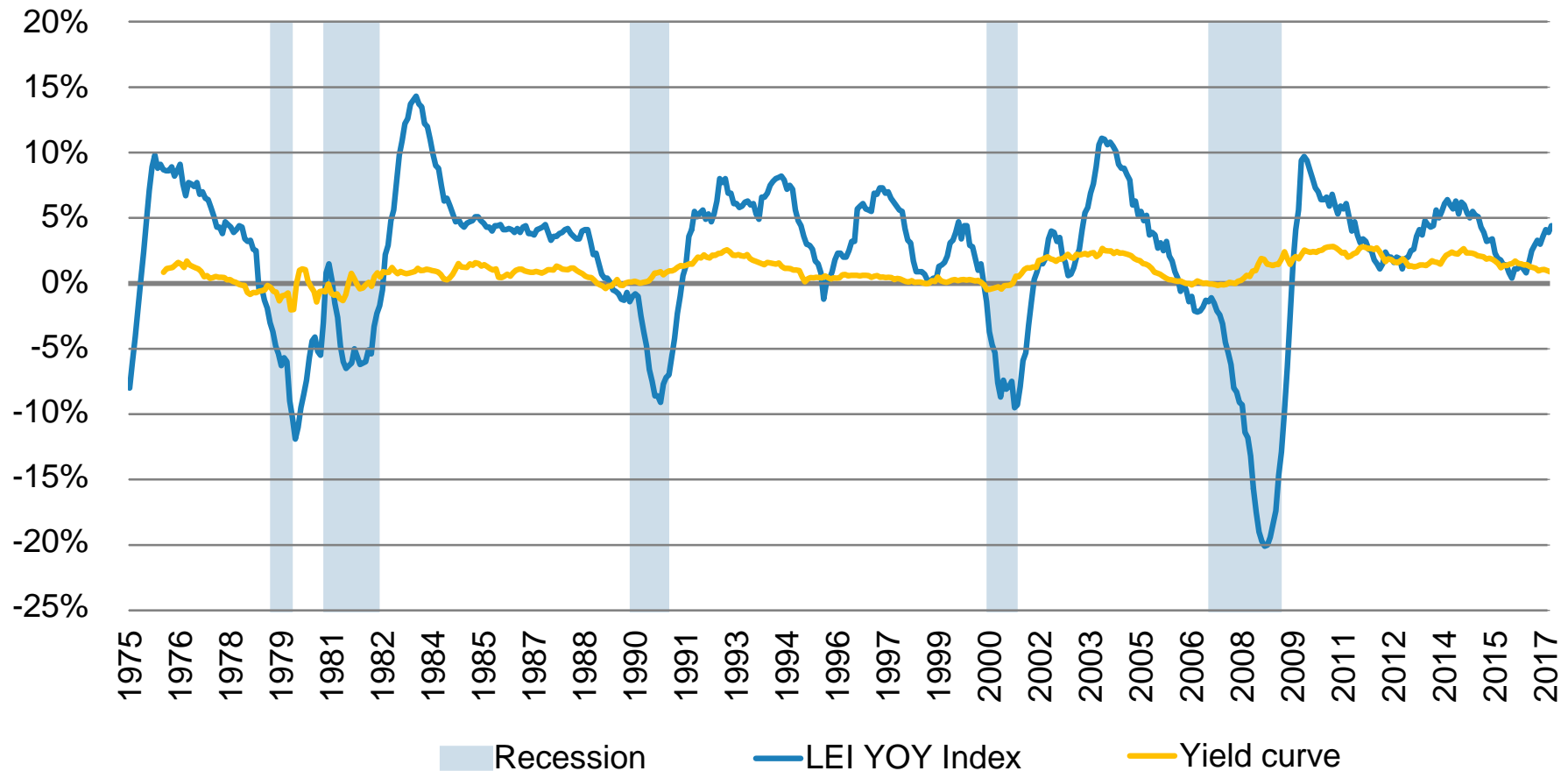
Earnings and earnings expectations growth improved



Source: Bloomberg.

Measured by S&P 500 trailing 12-month earnings per share.

Leading Economic Indicators Index and yield curve not signaling recession



Sources: Conference Board, Bloomberg.

* Yield curve represents yield difference between the 10-year and 2-year bond, as of 9/30/17.

** As of 8/31/17.

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Conclusions

- No indications of an economic recession over the next twelve to eighteen months
- Historically, economic and earnings environments like the current one have been favorable for equities
- Key question: Overweight or underweight the cyclical/defensive sectors?

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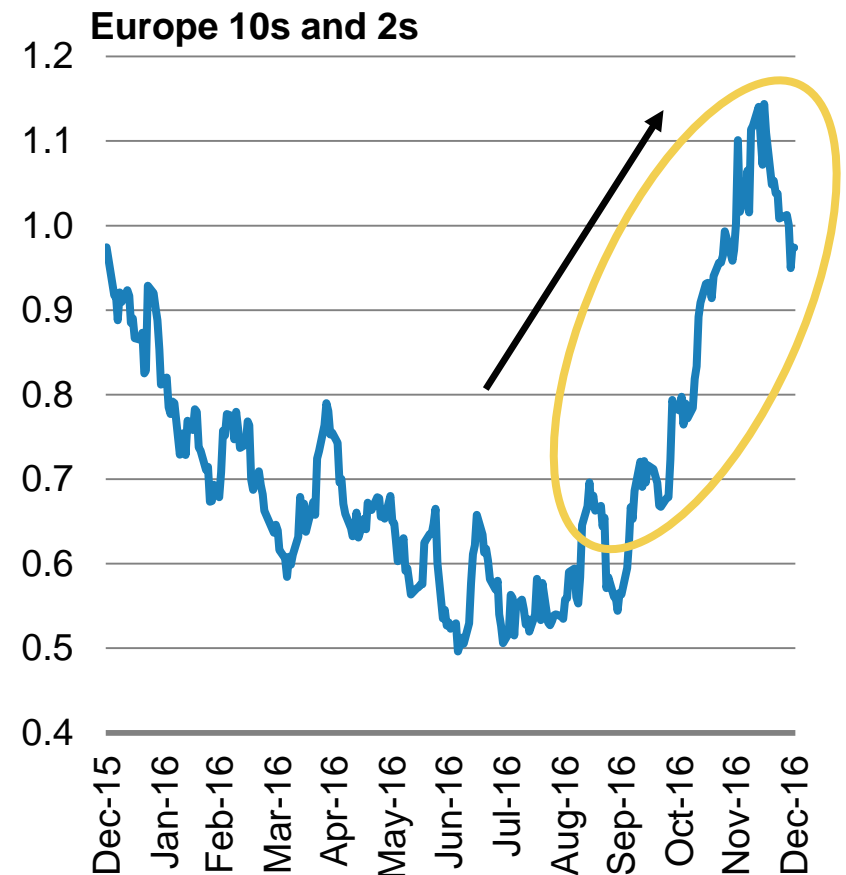
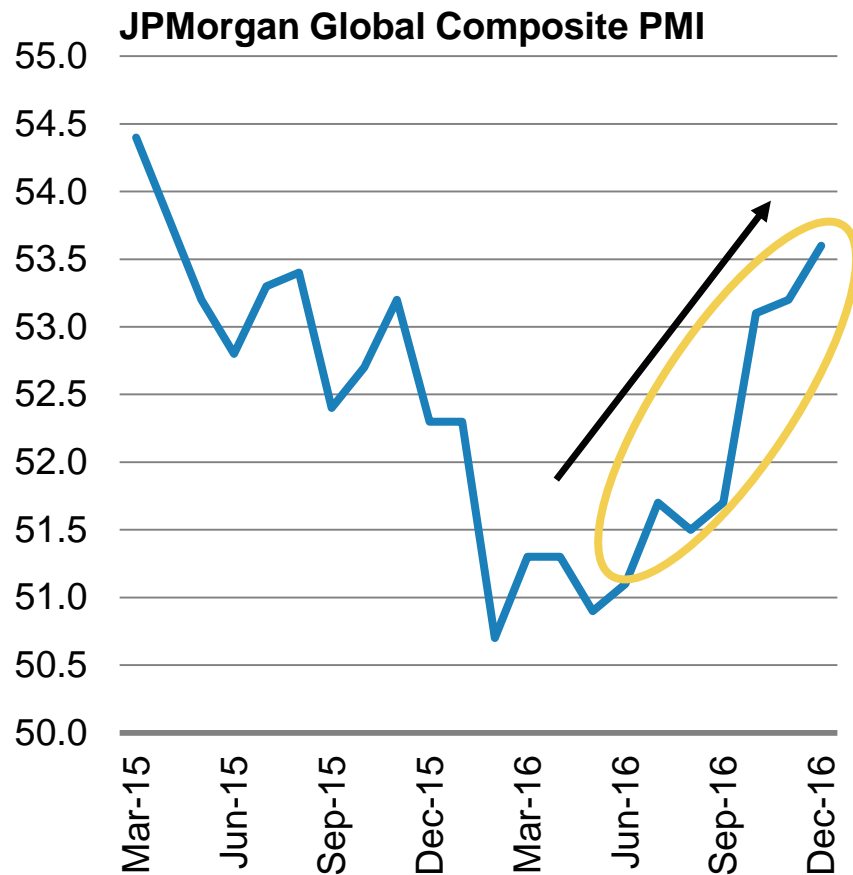
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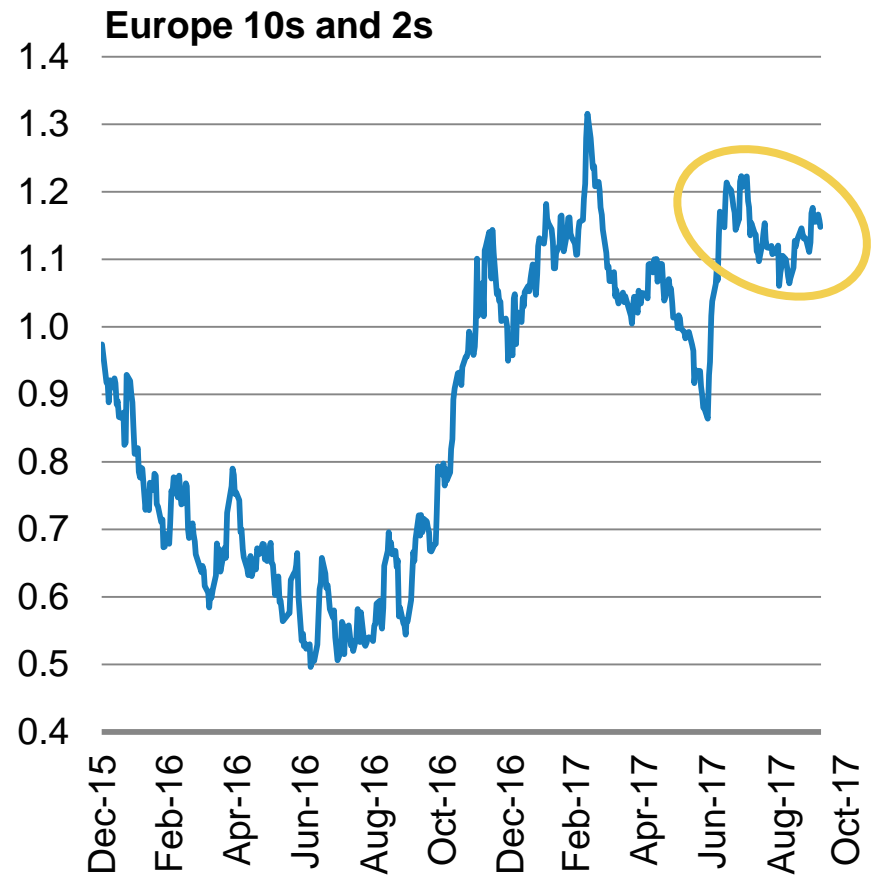
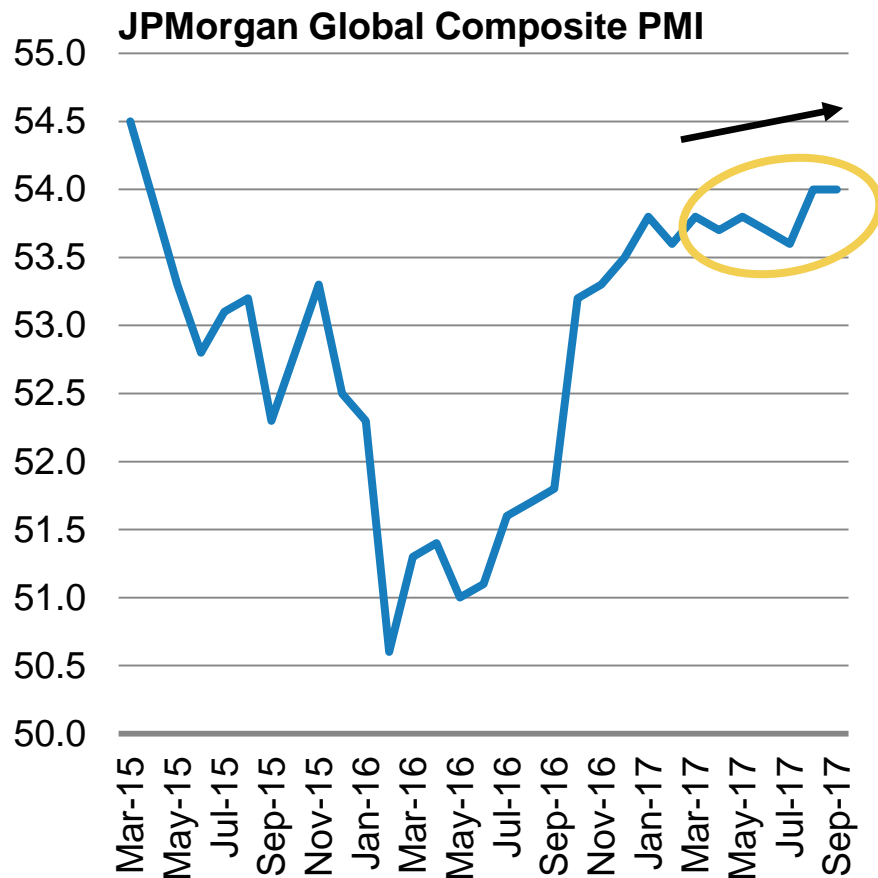
APPENDIX

International economic environment, pre-election



Source: Bloomberg.

International economic environment, post-election



Source: Bloomberg.