PRIVATE WEALTH MANAGEMENT

CLIENT-FIRST FOCUS. VALUE-ORIENTED INVESTING. INTEGRATED WEALTH PLANNING. ALIGNMENT OF INTERESTS.

An Economic & Market Update

November 14, 2019

Fernando Soto
Vice President
+1 212-493-8761
Fernando.Soto@bbh.com
TWO YEARS AGO…

SINTERCAFE®

2017
A BRIEF HISTORY OF ECONOMIC EXPANSIONS

Length of Economic Expansion (in months)

Average Real GDP Growth During Expansion

Sources: National Bureau of Economic Research, Bureau of Economic Analysis, BBH Analysis

Data as of June 2019

©2019 Brown Brothers Harriman & Co. Confidential & Proprietary. Not to be reproduced without the explicit consent of BBH & Co. “BBH” and “BBH & Co.” are registered service marks of Brown Brothers Harriman & Co.
ROADMAP OF THE DOMESTIC ECONOMY

- Housing Market → Wealth Effect
- Labor Market → Income Effect

- Personal Consumption → GDP
- Deleveraging
- Savings
CONTRIBUTION TO GDP GROWTH

Sources: Bureau of Economic Analysis, BBH Analysis

Data as of 3Q2019
A HEALTHY LABOR MARKET DRIVES INCOME AND SPENDING

Sources: Bureau of Labor Statistics, BBH Analysis

Data as of 9 September 2019
HOUSING MARKET

HOUSING PRICES

Median Home Price (lhs)

Year-over-year % Change (rhs)

Sources: National Association of Realtors, BBH Analysis

Data as of September 2019
HOUSING DEBT TO INCOME

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt as a % of Disposable Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>0%</td>
</tr>
<tr>
<td>1954</td>
<td>20%</td>
</tr>
<tr>
<td>1957</td>
<td>40%</td>
</tr>
<tr>
<td>1960</td>
<td>60%</td>
</tr>
<tr>
<td>1963</td>
<td>80%</td>
</tr>
<tr>
<td>1966</td>
<td>100%</td>
</tr>
<tr>
<td>1969</td>
<td>120%</td>
</tr>
<tr>
<td>1972</td>
<td>140%</td>
</tr>
<tr>
<td>1975</td>
<td>160%</td>
</tr>
<tr>
<td>1978</td>
<td>180%</td>
</tr>
<tr>
<td>1981</td>
<td>200%</td>
</tr>
<tr>
<td>1984</td>
<td>220%</td>
</tr>
<tr>
<td>1987</td>
<td>240%</td>
</tr>
<tr>
<td>1990</td>
<td>260%</td>
</tr>
<tr>
<td>1993</td>
<td>280%</td>
</tr>
<tr>
<td>1996</td>
<td>300%</td>
</tr>
<tr>
<td>1999</td>
<td>320%</td>
</tr>
<tr>
<td>2002</td>
<td>340%</td>
</tr>
<tr>
<td>2005</td>
<td>360%</td>
</tr>
<tr>
<td>2008</td>
<td>380%</td>
</tr>
<tr>
<td>2011</td>
<td>400%</td>
</tr>
<tr>
<td>2014</td>
<td>420%</td>
</tr>
<tr>
<td>2017</td>
<td>440%</td>
</tr>
</tbody>
</table>

Source: Federal Reserve, BBH Analysis

Data as of June, 2019

Data updated through 31 December 2018

©2019 Brown Brothers Harriman & Co. Confidential & Proprietary. Not to be reproduced without the explicit consent of BBH & Co. “BBH” and “BBH & Co.” are registered service marks of Brown Brothers Harriman & Co.
COMPARATIVE YIELD CURVES

United States

Japan

Germany

Sources: Bloomberg, BBH Analysis

Data as of 9 September 2019
THE ECONOMIC IMPACT OF TARIFFS

As a % of US GDP …

… total global trade is -4.2%
… total exports to China are 0.6%
… total imports from China are 2.6%

Year-over-year change in total US trade with China (exports plus imports)

Sources: US Census Bureau, BBH Analysis

Data as of March 2019

FED FUNDS RATE

Sources: Bloomberg, BBH Analysis

Data as of 4 November 2019

©2019 Brown Brothers Harriman & Co. Confidential & Proprietary. Not to be reproduced without the explicit consent of BBH & Co. “BBH” and “BBH & Co.” are registered service marks of Brown Brothers Harriman & Co.
S&P EARNINGS

S&P Earnings

Sources: Standard & Poor’s, BBH Analysis

Data as of 4 November 2019

Consensus Expectations
ECONOMIC CONCLUSIONS

• **Personal consumption** is the gift that keeps on giving. As long as the labor and housing markets remain relatively healthy, the fundamentals of this economic cycle remain impact.

• A prolonged and **escalating trade war with China** could affect business spending/investment, to the detriment of employment growth and consumer sentiment. If businesses decide to pass the cost of tariffs on to their consumers, personal consumption could suffer ...

• In the **absence of inflationary pressure**, the Federal Reserve can keep interest rates low in response to the economic threat of trade disputes and slowing economic activity outside of the United States

• However if **inflationary pressure** kicks in...it is a different story
EQUITY MARKET SCORECARD

US Large Cap (S&P 500)
US Small Cap (Russell 2000)
Intl. Developed (MSCI EAFE $)
Emerging (MSCI EM $)

Sources: Bloomberg, BBH Analysis

Data as of 31 October 2019
FIXED INCOME SCORECARD

US Treasuries

Municipal Bonds

IG Corporates

High Yield

Sources: Bloomberg, BBH Analysis

Data as of 31 October 2019
## HISTORICAL INVERSIONS IN CONTEXT

|----------------|-----------|------------|--------------|

- **Yield curve first inverts**: December 1988, February 2000, December 2005
- **Lead time from inversion to recession**: 19 months, 13 months, 24 months
- **Duration of inversion**: 139 days, 237 days, 376 days
- **Widest inversion (2-10 year spread)**: -0.44%, -0.51%, -0.19%
- **Equity market peak**: July 1990, March 2000, October 2007
- **Lead time from inversion to market peak**: 19 months, 1 month, 22 months
- **Fed Funds rates trends**: Rising from 8.25% to 9.75%, Rising from 5.00% to 6.50%, Rising from 4.00% to 5.25%

**Sources:** Bloomberg, BBH Analysis  
**Data as of 9 September 2019**
A Unified Theory of the Economy and Financial Markets

- Labor Market: Jobs + Wages + Sentiment
- Personal Consumption
- Monetary Policy & Interest Rates
- Gross Domestic Product
- Corporate Earnings
- Bond Market
- Valuations
- Stock Market