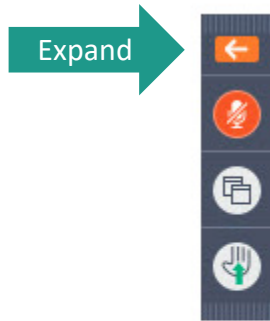




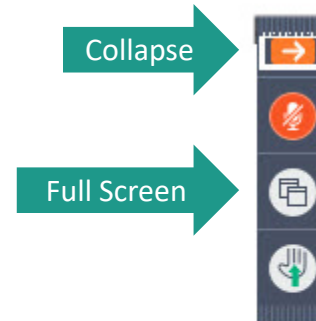
**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

4TH QUARTER 2019  
Investment Landscape Call

# Call instructions



Use the orange arrow to expand or collapse the control panel



Ask questions here



A screenshot of the GoToWebinar interface. At the top, there's a menu bar with "File", "View", and "Help". Below it is a "Audio" section with "Sound Check" and a signal strength indicator. There are two radio buttons: "Computer audio" (selected) and "Phone call". A microphone icon is shown with the word "MUTED" in orange. Below that is a dropdown menu for "Microphone Array (Realtek High...)" and a volume slider. Another dropdown menu for "Speakers / Headphones (Realtek...)" is visible. Below the audio section is a "Talking:" section with the name "Verus presenter". Underneath is a "Questions" section with a text box containing the message: "Thank you for joining us for our quarterly Investment Landscape Call. Stay tuned, the call will begin shortly." Below the text box is a placeholder "[Enter a question for staff]" and a "Send" button. At the bottom, there's a banner for "Verus Quarterly Investment Landscape" and a red dot icon with the text "This session is being recorded." The GoToWebinar logo is at the very bottom.

# 4<sup>th</sup> quarter conference call



VERUSINVESTMENTS.COM

SEATTLE 206-622-3700

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## IMPORTANT INFORMATION

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**Dial in:** 1 (877) 309-2074 U.S. & Canada

**Access Code:** 631-330-181

**Playback Info:** Will be available on the website after the call [www.verusinvestments.com](http://www.verusinvestments.com)

**Audio Options:** You may choose to listen through the webcast on your computer *or* dial in.

**Introduction by:** Jeffrey MacLean, Chief Executive Officer

**Presented by:** Ian Toner, CFA, Chief Investment Officer



**Jeffrey J. MacLean**  
Chief Executive Officer



**Ian Toner, CFA**  
Chief Investment Officer

# 3<sup>rd</sup> quarter summary

## THE ECONOMIC CLIMATE

- Real GDP grew at a 2.3% rate year-over-year in the second quarter (2.0% quarterly annualized rate). U.S. Q2 consumer spending came in stronger than any time since 2014, while weak business inventory investment acted as a slight drag.
- Trade policies and conflict likely weighed on economic progress. Uncertainty regarding the future of U.S.-China trade relations and supply chain disruptions caused by new tariff impositions are expected to hinder growth in the future.

## PORTFOLIO IMPACTS

- U.S. equities outperformed international in Q3 (S&P 500 +1.7%, MSCI EAFE -1.1%) as domestic markets continued to lead. Some convergence of U.S. interest rates with the ultra-low rates of international markets likely supported equity prices over the quarter.
- Core inflation has crept up to cycle-highs in 2019, increasing to 2.4% YoY in September. Headline inflation rose 1.7% YoY, dragged down by falling energy prices. Neither the media nor investors appear to be concerned about rising inflation, as of yet. Investors remain focused on deflationary forces in the global economy.

## THE INVESTMENT CLIMATE

- The Federal Open Market Committee cut the range for its benchmark interest rate by 0.25% in both its July and September meetings, bringing the new range for federal funds to 1.75-2.00%.
- Global sovereign bonds rallied, encouraged by muted inflation expectations and dovish guidance from global central banks. Central bankers appealed for fiscal action, citing the limited capacity of monetary policy to sustain further economic expansion.

## ASSET ALLOCATION ISSUES

- Risk assets were flat over the quarter. Global equities gained 0.0% and U.S. Treasuries gained 2.4% as domestic interest rates fell. Longer duration exposures continued to outperform.
- The U.S. dollar appreciated 2.6% in Q3 relative to a trade-weighted basket of currencies. Dollar volatility has been suppressed so far in 2019, following large swings experienced during years 2014-2018. Emerging market currencies fell -4.0% in Q3 on the back of U.S. dollar strength. These currencies remain depressed relative to history.

A neutral risk stance may be appropriate in today's environment

# What drove the market in Q3?

## “Trade talks seen as unlikely to mend U.S.-China divide”

### U.S. TREASURY FEDERAL BUDGET NET CUSTOMS RECEIPTS (\$BILLIONS)

Apr	May	Jun	Jul	Aug
\$5.24	\$4.93	\$5.61	\$6.47	\$7.01

Article Source: Reuters, September 16<sup>th</sup>, 2019

## “World Economy Sends Up Flares as Manufacturing Slump Hits U.S.”

### ISM MANUFACTURING PURCHASING MANAGERS’ INDEX

Apr	May	Jun	Jul	Aug	Sep
52.8	52.1	51.7	51.2	49.1	47.8

Article Source: Bloomberg, September 30<sup>th</sup>, 2019

## “Fed Will Weigh Resuming Balance Sheet Growth at October Meeting”

### SIZE OF FEDERAL RESERVE BALANCE SHEET (\$TRILLIONS)

Apr	May	Jun	Jul	Aug	Sep
\$3.93	\$3.85	\$3.83	\$3.78	\$3.76	\$3.86

Article Source: The Wall Street Journal, September 19<sup>th</sup>, 2019

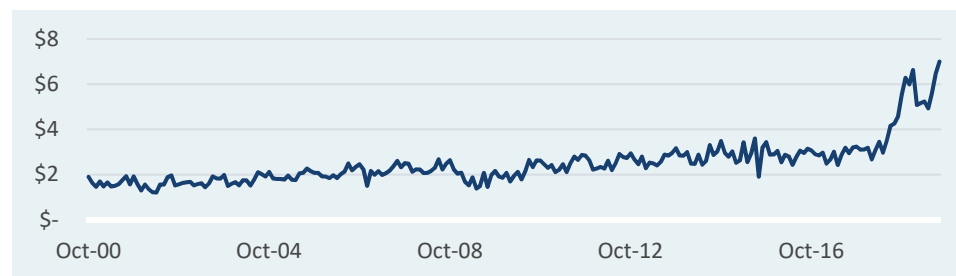
## “Can Boris Johnson deliver Brexit as he pledged?”

### GBP/USD SPOT EXCHANGE RATE (PRICE OF 1 GBP in USD)

Apr	May	Jun	Jul	Aug	Sep
\$1.30	\$1.26	\$1.27	\$1.22	\$1.22	\$1.23

Article Source: The Australian Financial Review, September 11<sup>th</sup>, 2019

### U.S. TREASURY FEDERAL BUDGET NET RECEIPTS CUSTOMS (\$BILLIONS)



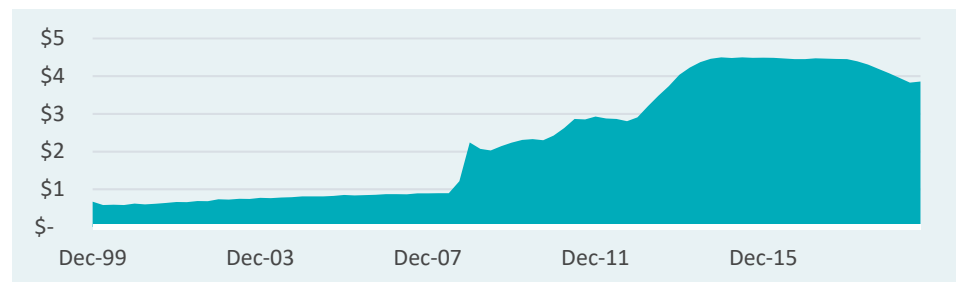
Source: Bloomberg, as of 8/31/19

### MANUFACTURING PURCHASING MANAGERS INDEXES (RELATIVE TO 50)



Source: Bloomberg, Federal Reserve, as of 9/30/19. A reading of 0 is considered neutral.

### FEDERAL RESERVE BALANCE SHEET (\$TRILLIONS)



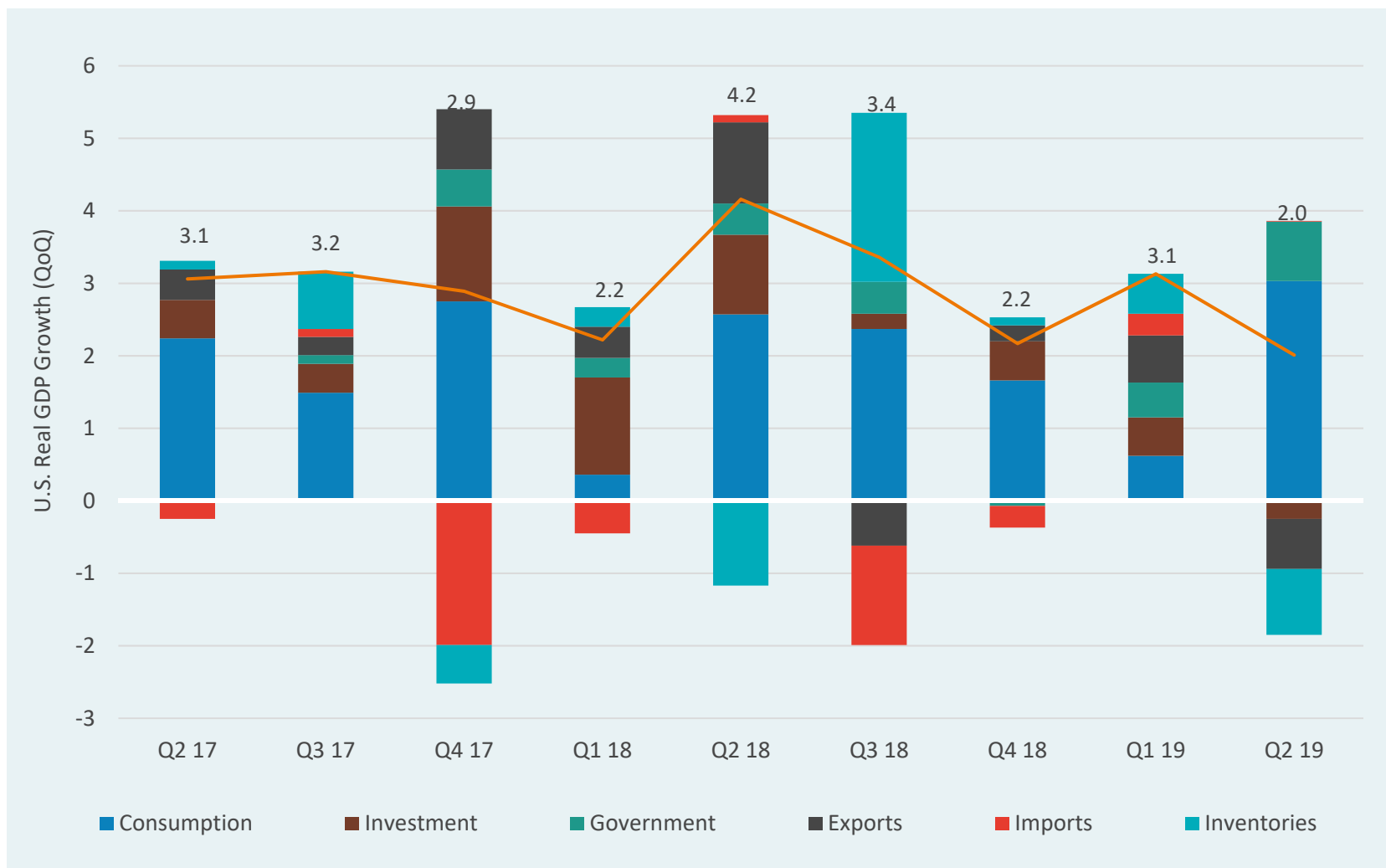
Source: Bloomberg, Federal Reserve, as of 9/30/19

# U.S. economics summary

	Most Recent	12 Months Prior
GDP (YoY)	2.3% <i>6/30/19</i>	3.2% <i>6/30/18</i>
Inflation (CPI YoY, Core)	2.4% <i>9/30/19</i>	2.3% <i>9/30/18</i>
Expected Inflation (5yr-5yr forward)	1.7% <i>9/30/19</i>	2.2% <i>9/30/18</i>
Fed Funds Target Range	1.75 – 2.00% <i>9/30/19</i>	2.00 – 2.25% <i>9/30/18</i>
10 Year Rate	1.7% <i>9/30/19</i>	3.1% <i>9/30/18</i>
U-3 Unemployment	3.5% <i>9/30/19</i>	3.7% <i>9/30/18</i>
U-6 Unemployment	6.9% <i>9/30/19</i>	7.5% <i>9/30/18</i>

Source: Bloomberg

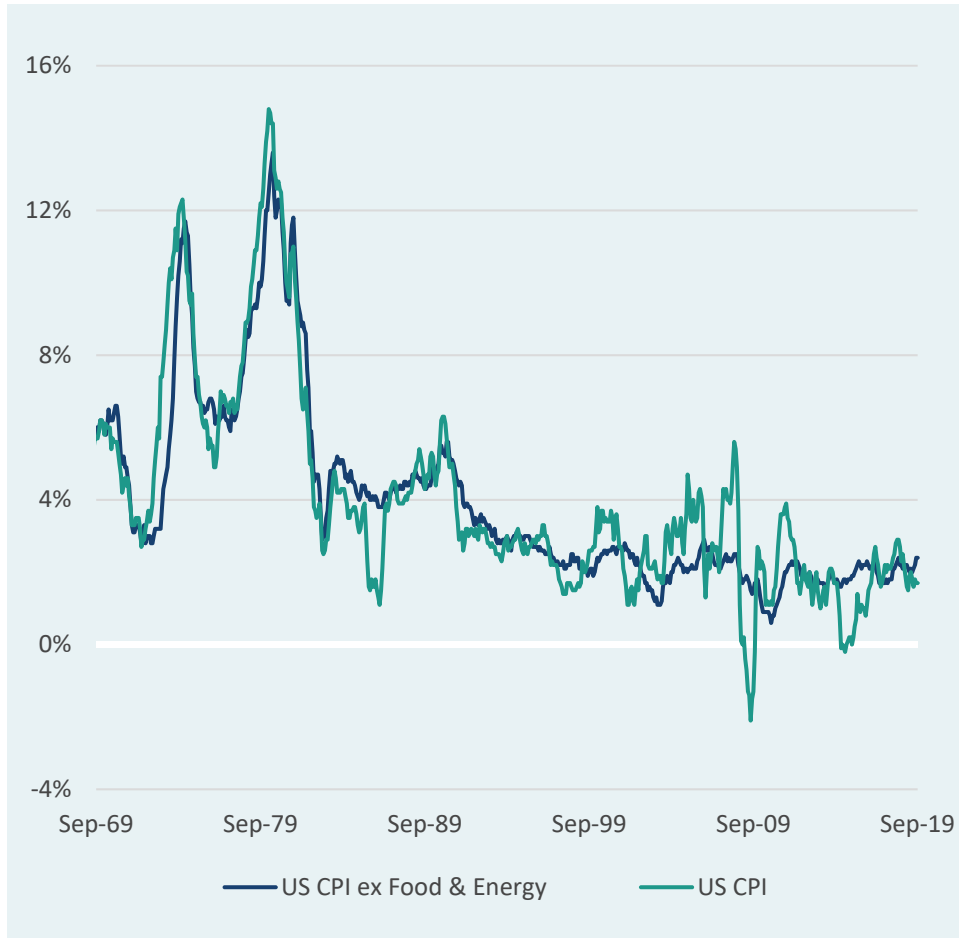
# U.S. GDP growth attribution



Source: BEA, annualized quarterly rate, as of 6/30/19

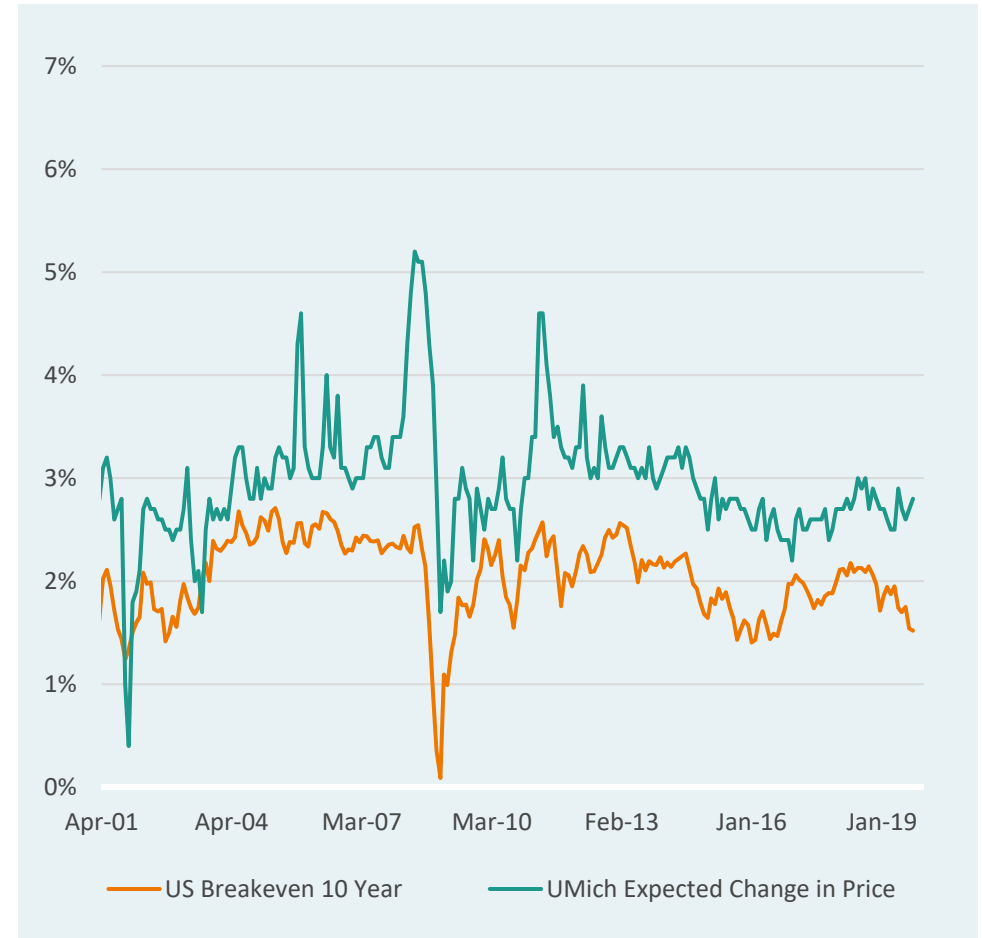
# U.S. inflation

## U.S. CPI (YOY)



Source: Bloomberg, as of 9/30/19

## INFLATION EXPECTATIONS

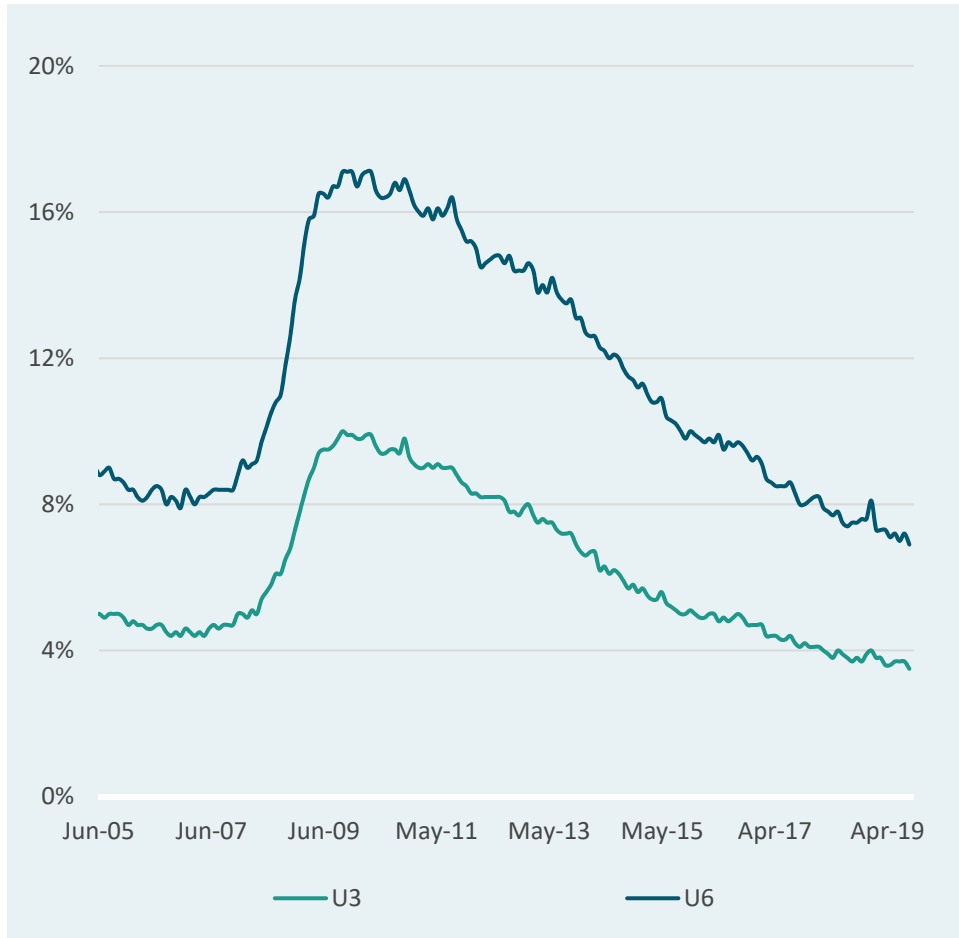


Source: Bloomberg, as of 9/30/19



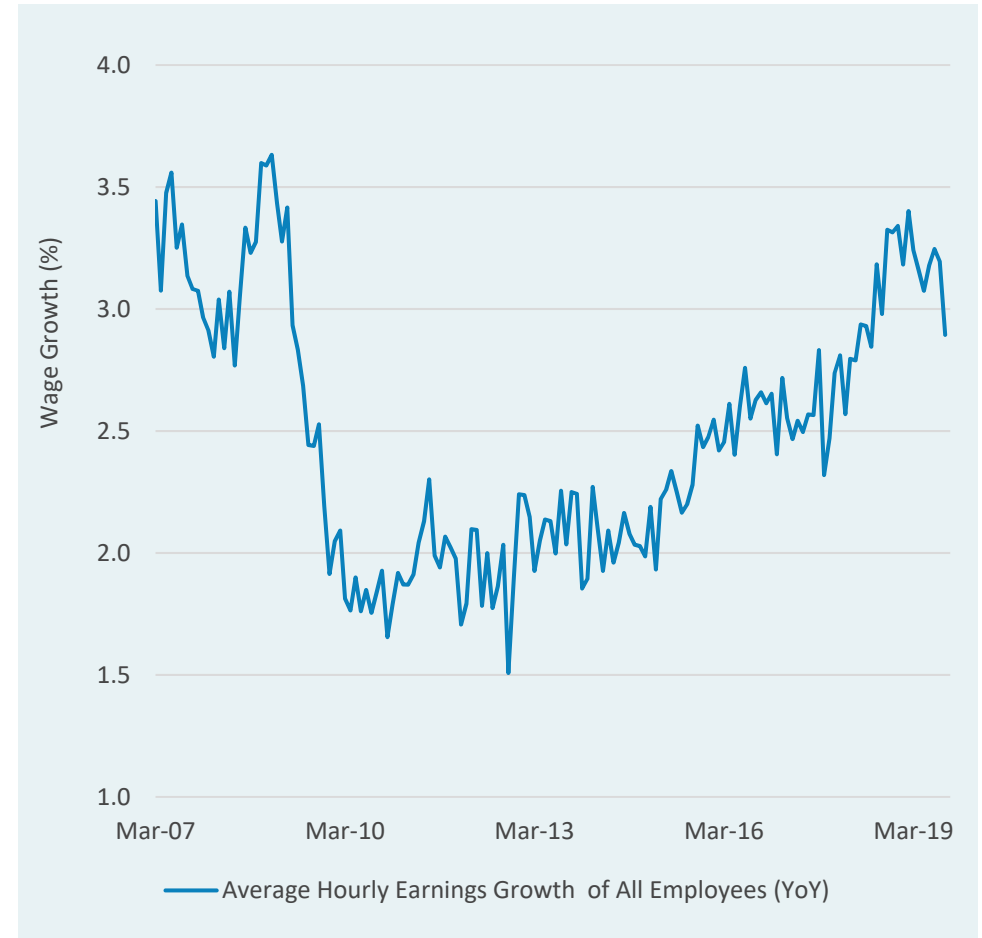
# Labor market

## U.S. JOB OPENINGS VS. UNEMPLOYED



Source: Bloomberg, as 9/30/19

## U.S. WAGE GROWTH (YOY)



Source: FRED, as of 9/30/19

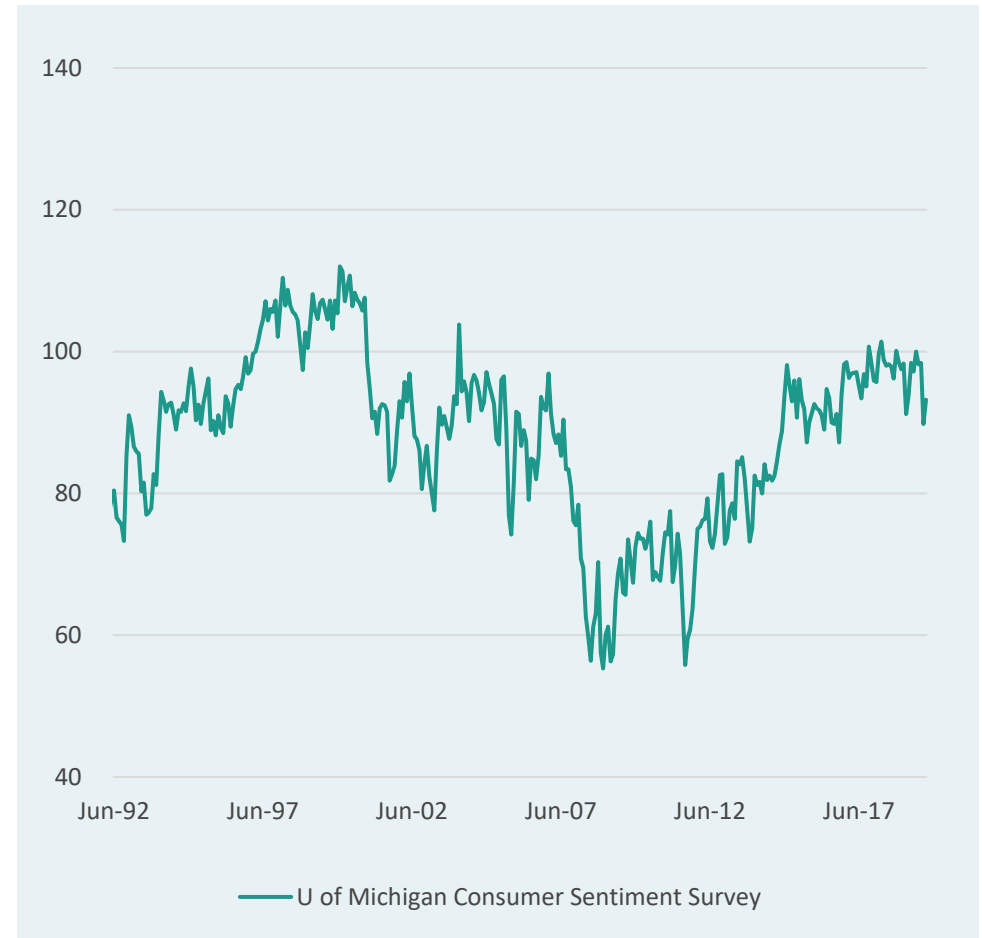
# U.S. sentiment

## U.S. WORKER QUIT RATE



Source: FRED, as 8/31/19

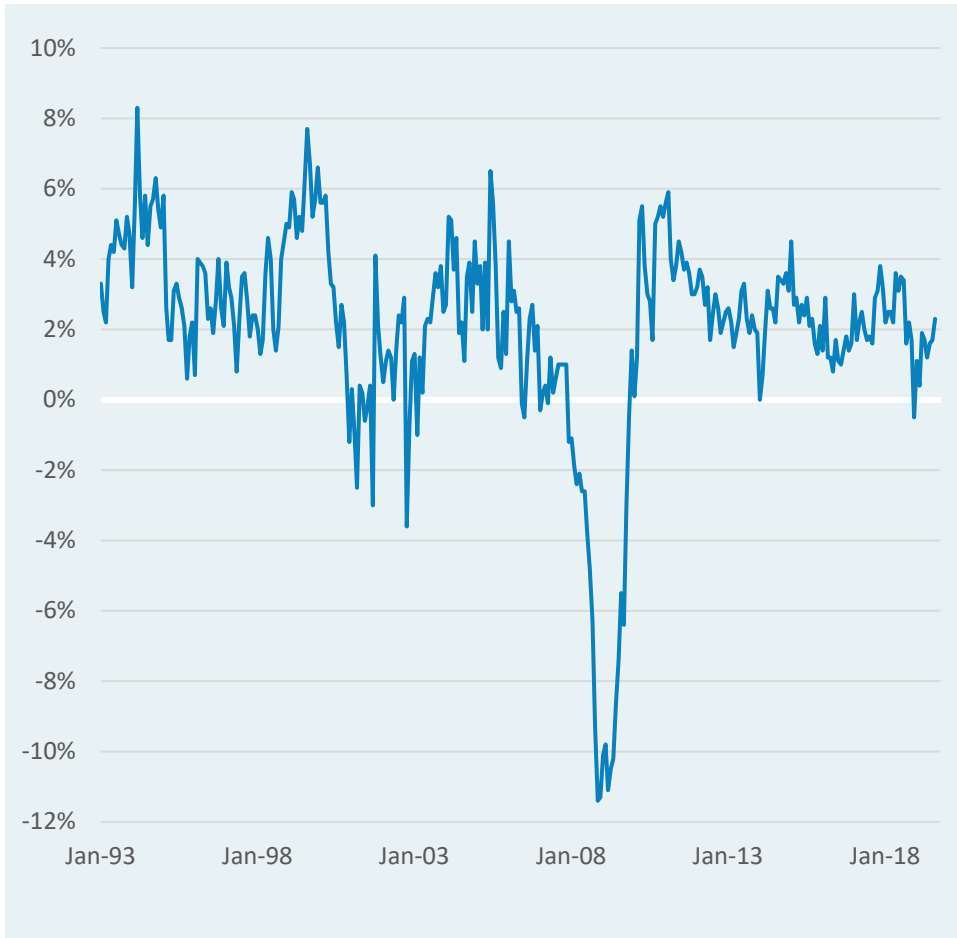
## CONSUMER SENTIMENT



Source: University of Michigan, as of 9/30/19

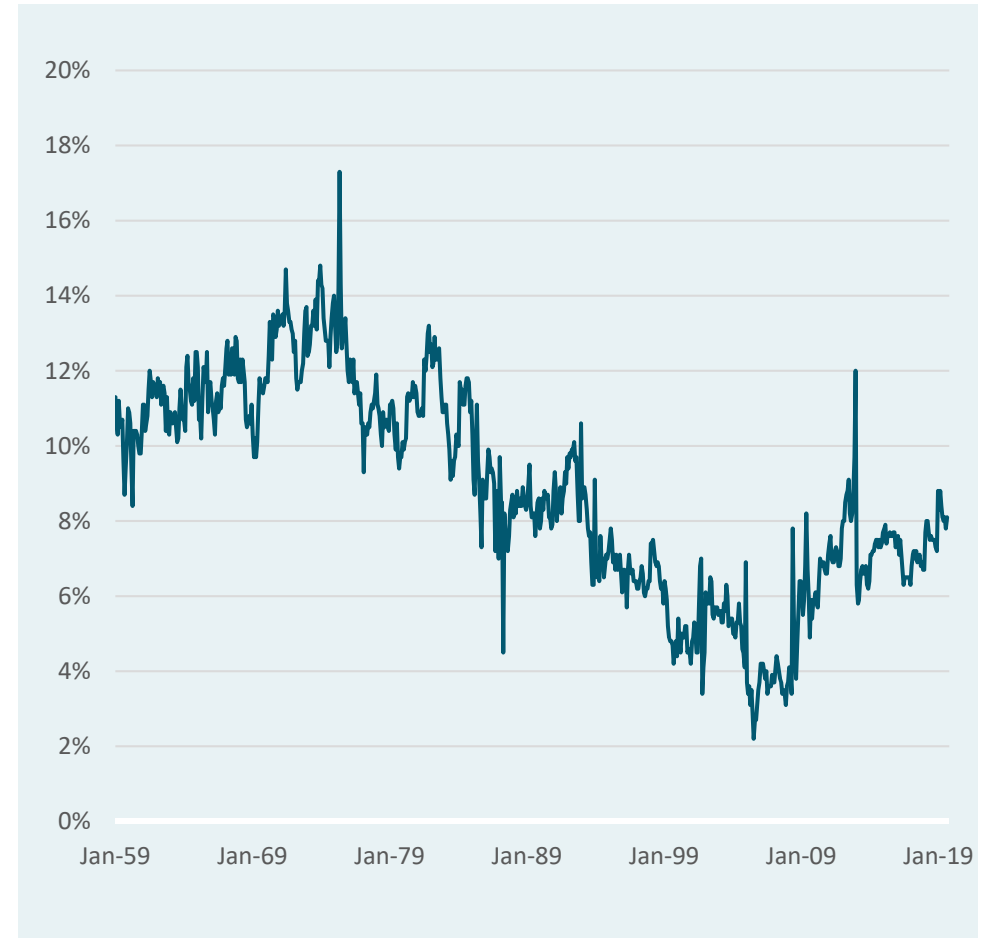
# U.S. consumers

## REAL RETAIL SALES GROWTH (YOY)



Source: Bloomberg, as of 9/30/19

## PERSONAL SAVINGS RATE



Source: FRED, as of 8/31/19

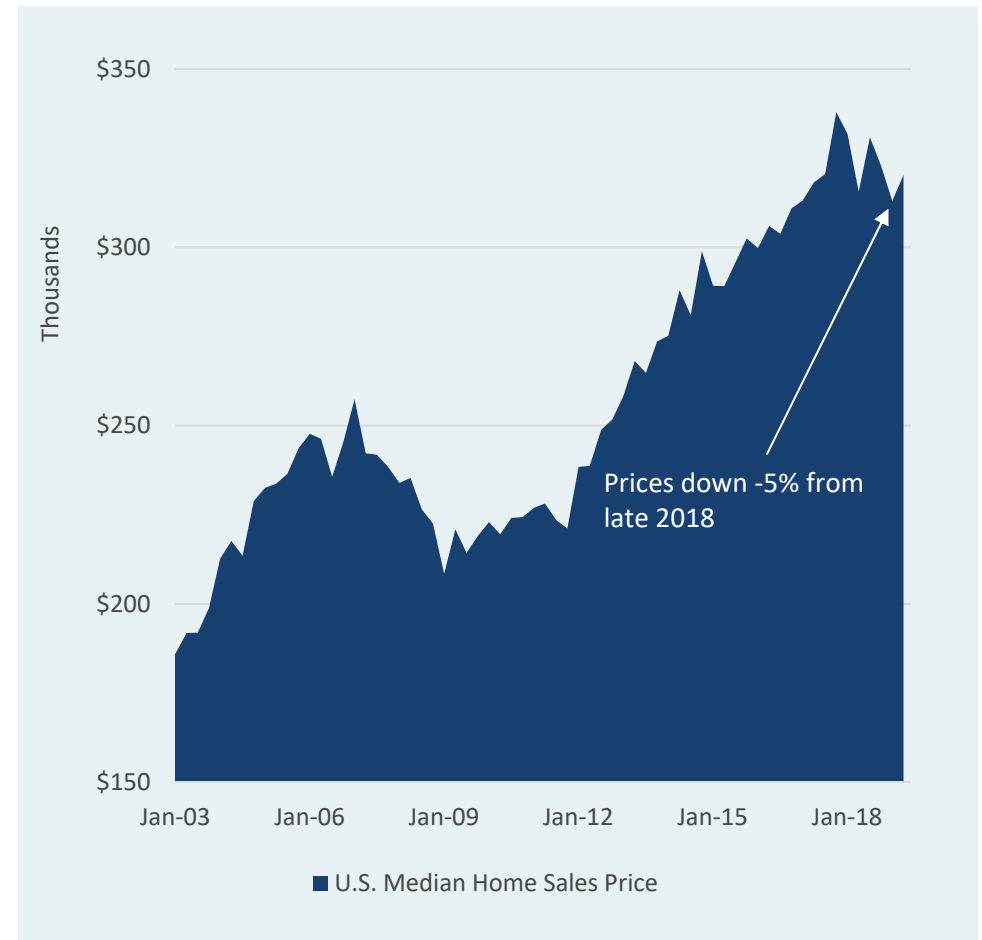
# U.S. housing

## HOUSING STARTS & PERMITS



Source: Bloomberg, NAHB, as of 8/31/19

## MEDIAN U.S. HOME SALES PRICE



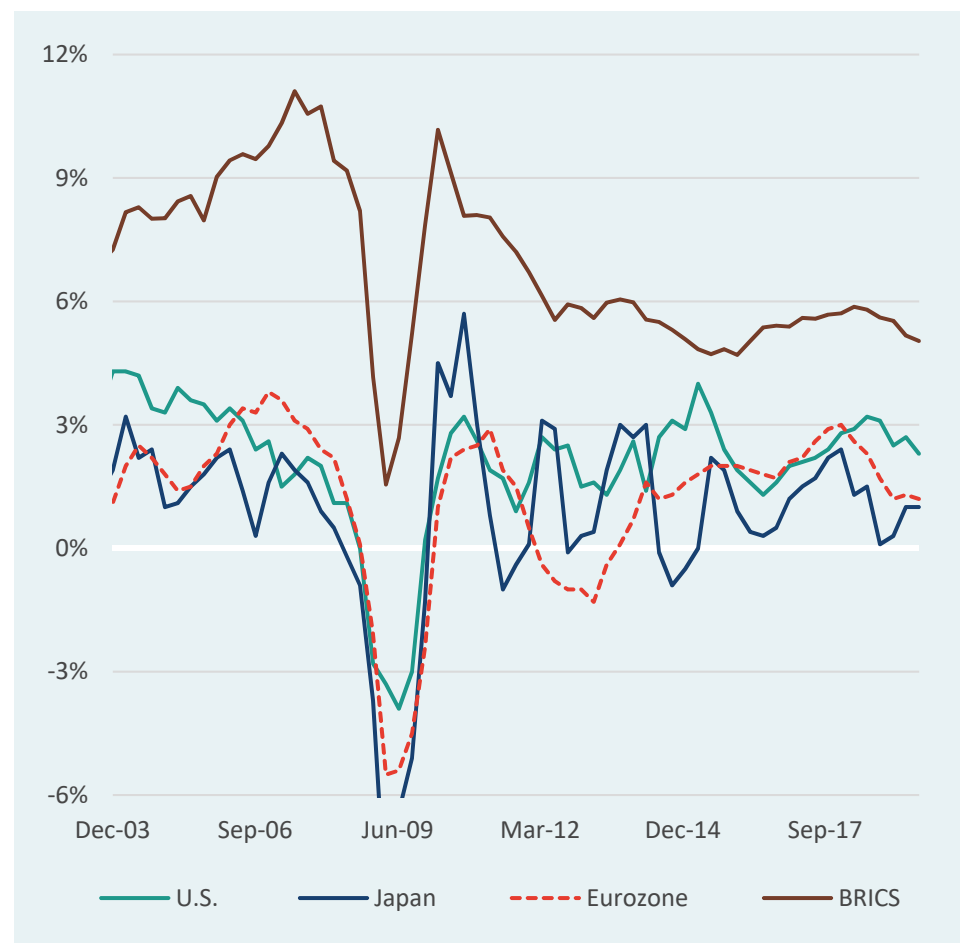
Source: FRED, as of 6/30/19

# International economics summary

Area	GDP (Real, YoY)	Inflation (CPI, YoY)	Unemployment
United States	2.3% 6/30/19	1.7% 9/30/19	3.5% 9/30/19
Eurozone	1.2% 6/30/19	0.8% 9/30/19	7.4% 8/31/19
Japan	1.0% 6/30/19	0.4% 9/30/19	2.3% 5/31/19
BRICS Nations	5.0% 6/30/19	3.1% 9/30/19	5.1% 6/30/19
Brazil	1.0% 6/30/19	2.9% 9/30/19	11.8% 8/31/19
Russia	0.9% 6/30/19	4.0% 9/30/19	4.3% 8/31/19
India	5.8% 3/31/19	4.0% 9/30/19	8.5% 12/31/17
China	6.2% 6/30/19	3.0% 9/30/19	3.6% 6/30/19

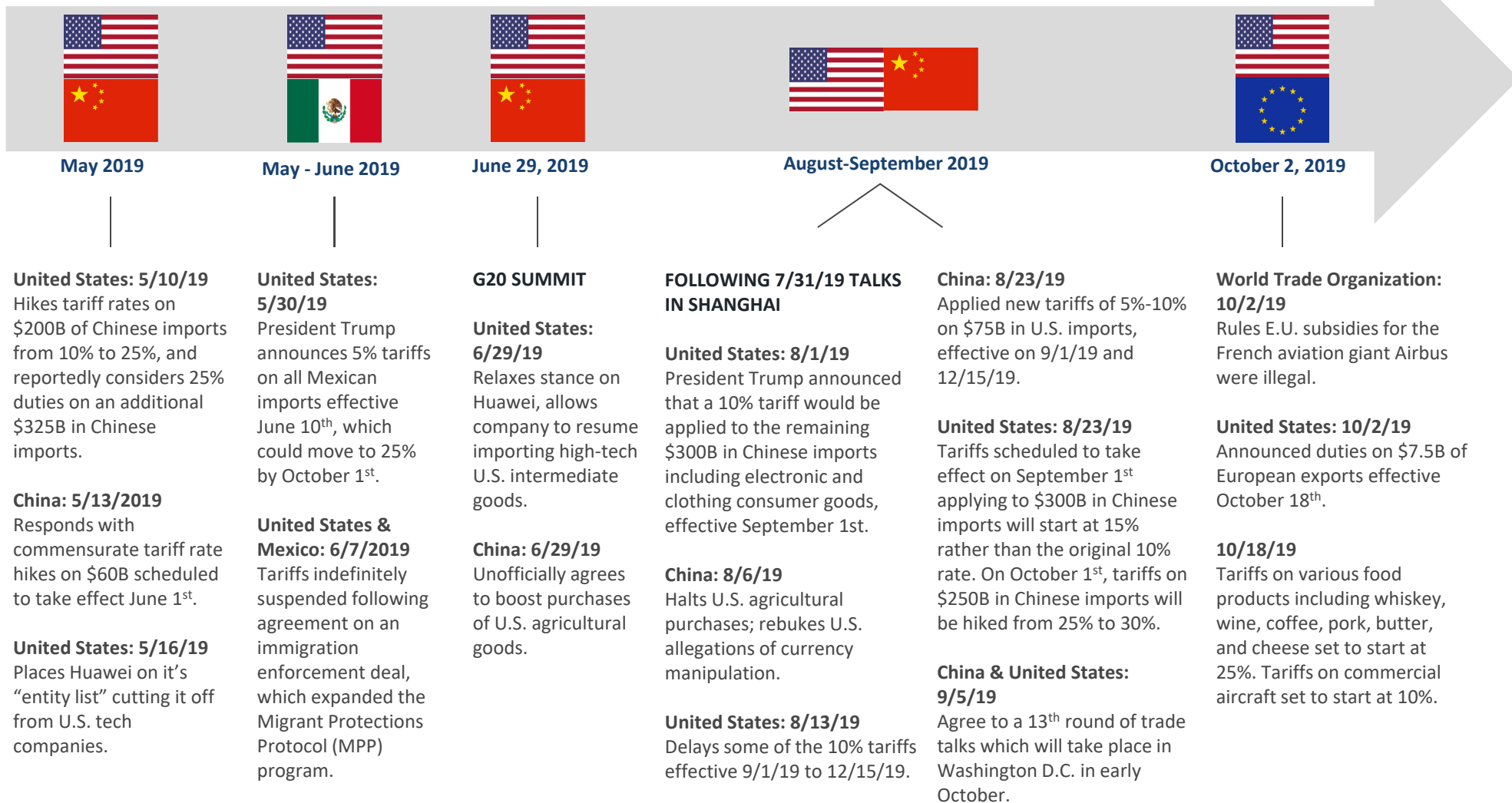
Source: Bloomberg

REAL GDP GROWTH (YOY)



Source: Bloomberg, as of 6/30/19

# Trade update

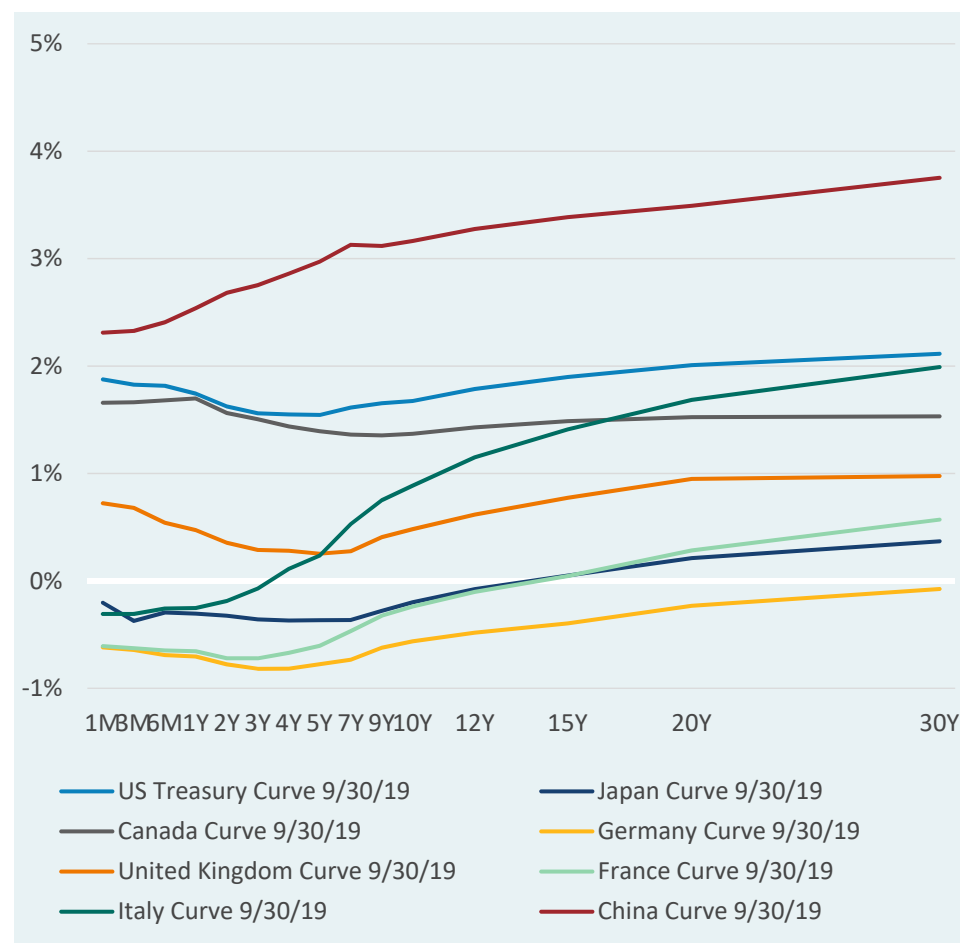


Source: Wikimedia Commons

# Interest rate environment

Area	Short Term (3M)	10-Year
United States	1.81%	1.66%
Germany	(0.57%)	(0.57%)
France	(0.59%)	(0.27%)
Spain	(0.54%)	0.15%
Italy	(0.28%)	0.82%
Greece	0.65%	1.35%
U.K.	0.78%	0.49%
Japan	(0.32%)	(0.21%)
Australia	1.06%	1.02%
China	2.33%	3.14%
Brazil	5.04%	7.05%
Russia	6.58%	7.01%

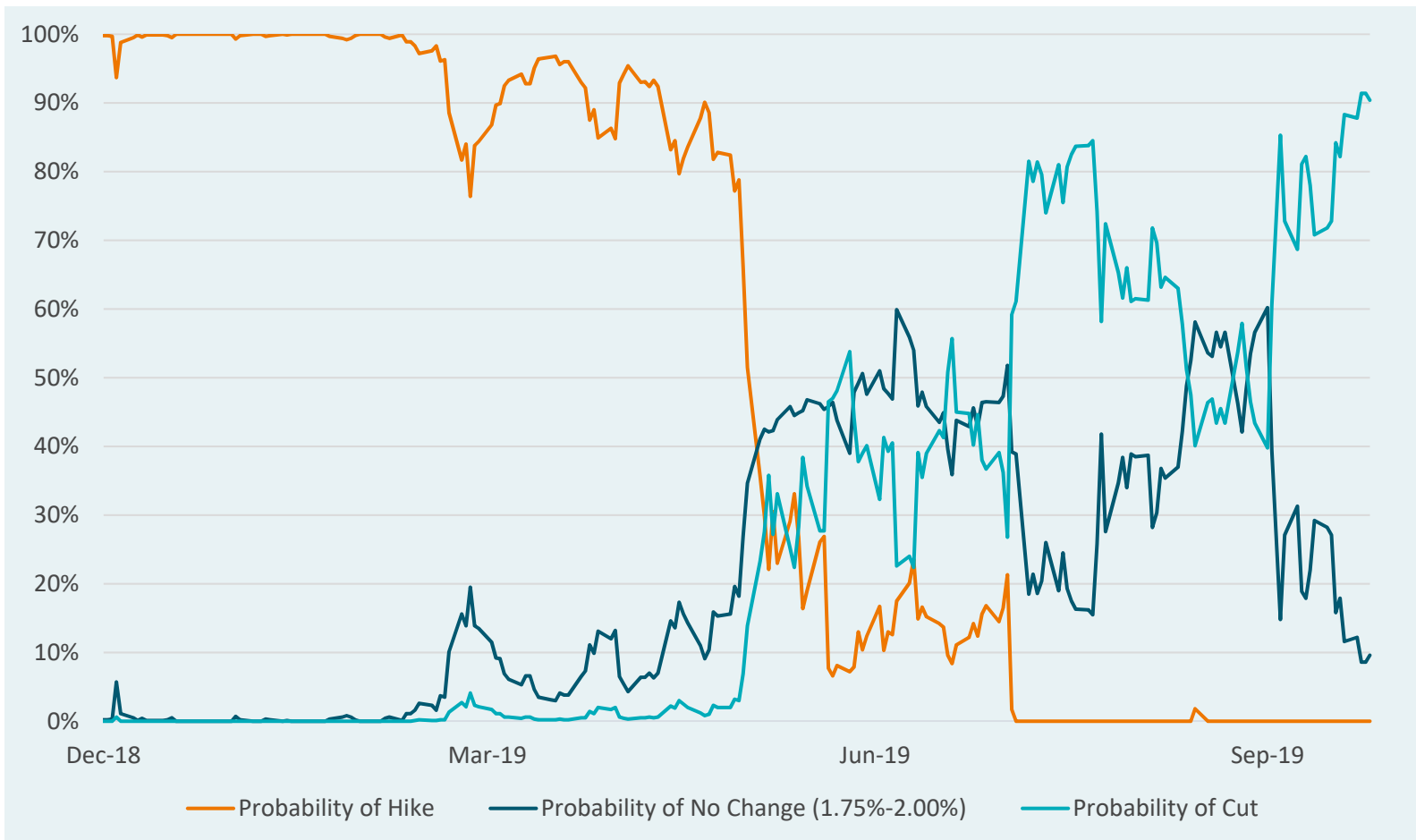
GLOBAL GOVERNMENT YIELD CURVES



Source: Bloomberg, as of 9/30/19

# October Fed meeting

## FUTURES IMPLIED PROBABILITIES FOR OCTOBER FED RATE DECISION



In September, the Fed cut its range for federal funds by 0.25%, in line with expectations

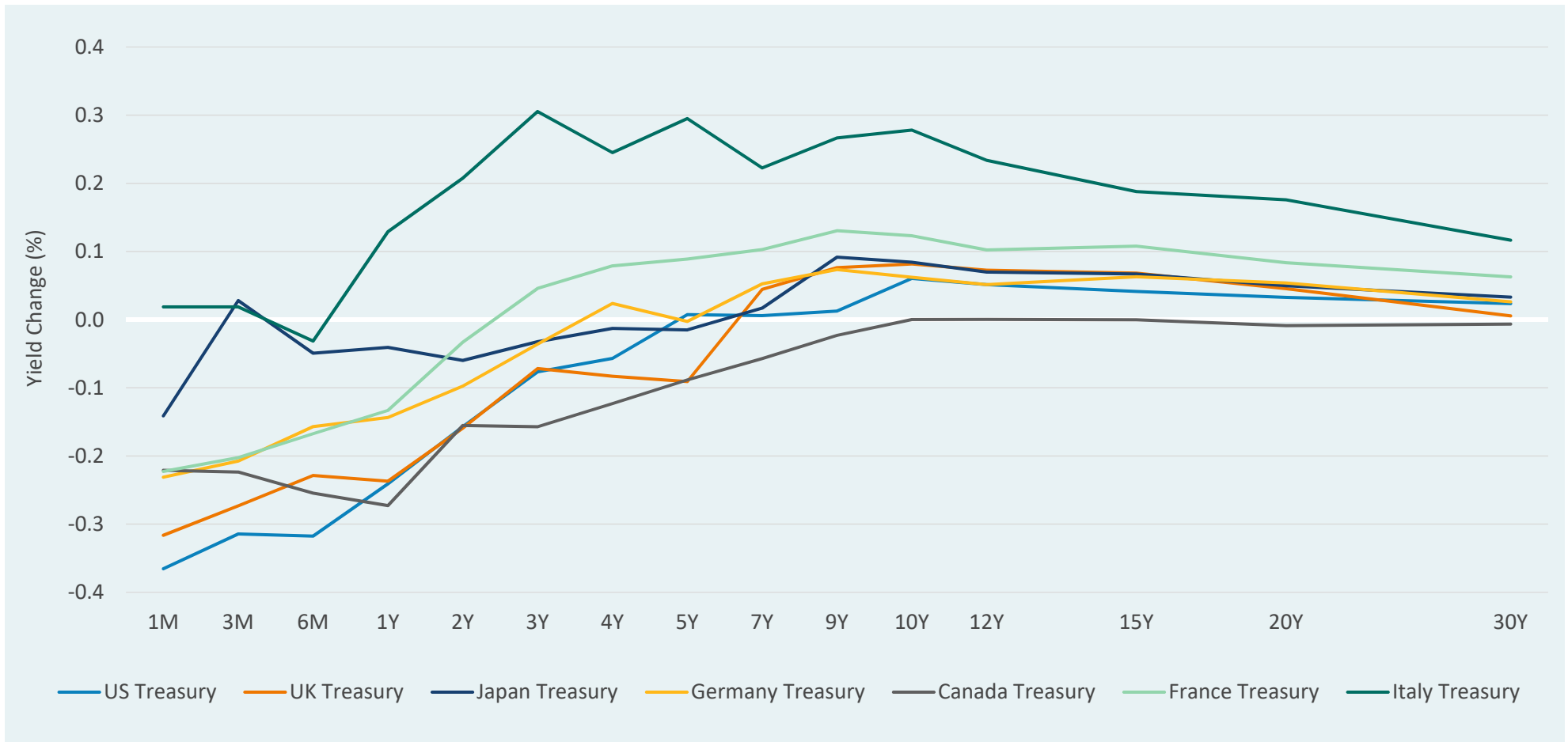
Investors expect the Fed to cut rates again by 0.25% at the October 30<sup>th</sup> meeting

Source: Bloomberg, as of 10/24/19



# Yield environment

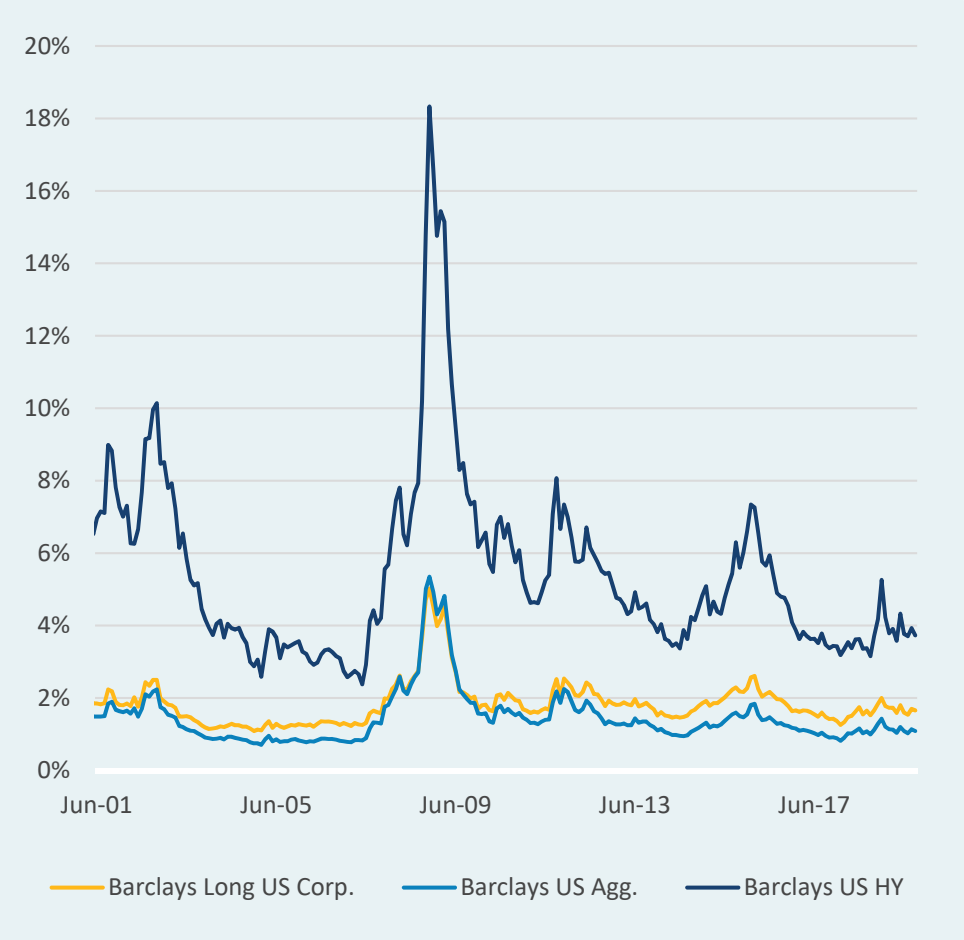
## IMPLIED CHANGES OVER NEXT YEAR



Source: Bloomberg, as of 9/30/19

# Credit environment

## SPREADS



Source: Barclays, Bloomberg, as of 9/30/19

## SPREADS

Market	Credit Spread (OAS)	
	9/30/19	9/30/18
Long U.S. Corp	1.7%	1.5%
U.S. Inv Grade Corp	1.2%	1.1%
U.S. High Yield	3.7%	3.2%
U.S. Bank Loans*	4.5%	3.7%

Source: Barclays, Credit Suisse, Bloomberg, as of 9/30/19

# Equity environment

	QTD TOTAL RETURN		1 YEAR TOTAL RETURN	
	(unhedged)	(hedged)	(unhedged)	(hedged)
US Large Cap (S&P 500)	1.7%		4.3%	
US Small Cap (Russell 2000)	(2.4%)		(8.9%)	
US Large Value (Russell 1000 Value)	1.4%		4.0%	
US Large Growth (Russell 1000 Growth)	1.5%		3.7%	
International Large (MSCI EAFE)	(1.1%)	2.3%	(1.3%)	4.2%
Eurozone (Euro Stoxx 50)	(1.4%)	3.8%	1.3%	11.5%
U.K. (FTSE 100)	(2.2%)	1.4%	(2.7%)	5.4%
Japan (NIKKEI 225)	2.9%	3.6%	(8.2%)	(5.9%)
Emerging Markets (MSCI Emerging Markets)	(4.2%)	(2.2%)	(2.0%)	(0.4%)

Source: Russell Investments, MSCI, STOXX, FTSE, Nikkei, as of 9/30/19

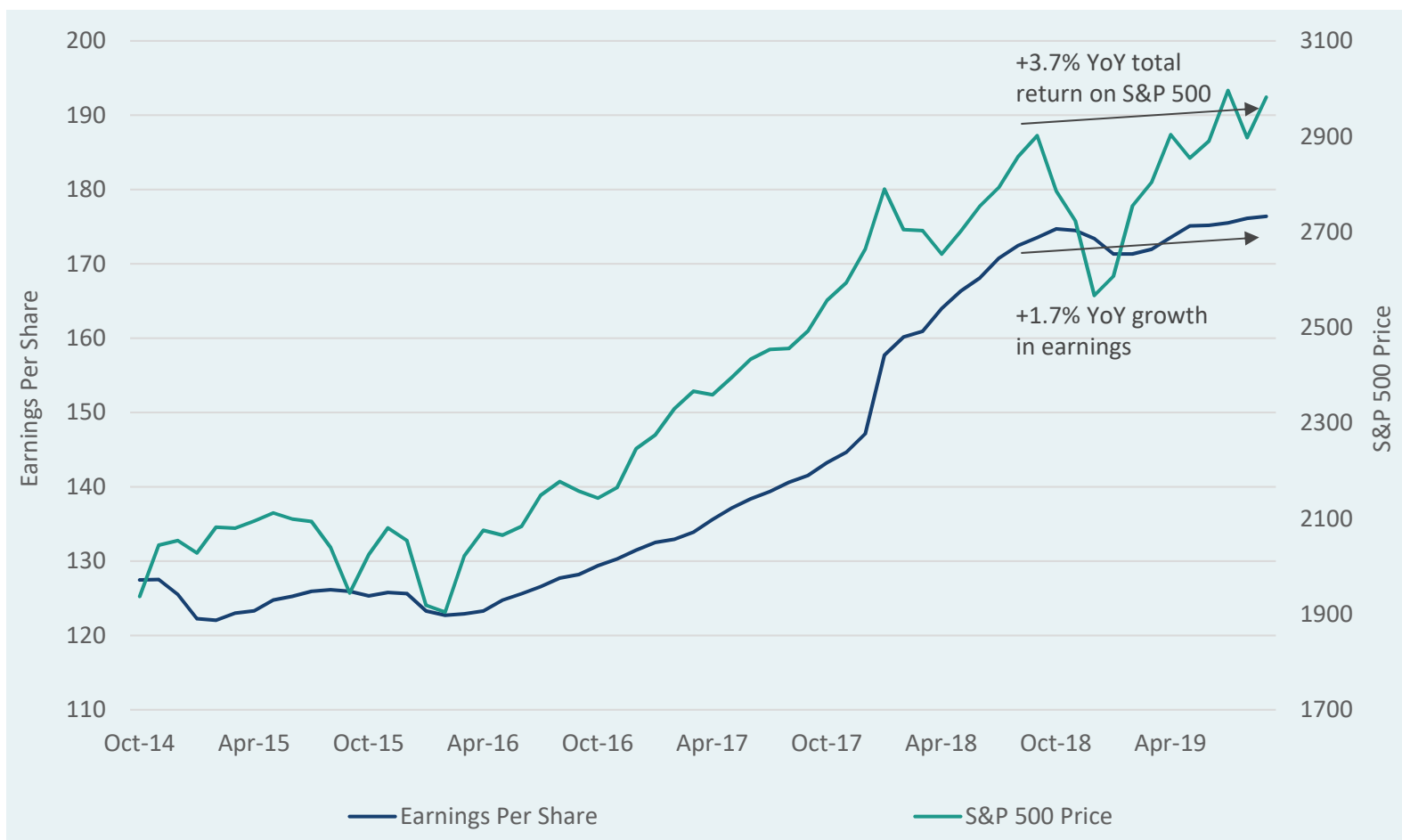
## FORWARD P/E RATIOS



Source: Verus, as of 9/30/19

# Domestic equity

## S&P 500 INDEX PRICE & EARNINGS LEVEL



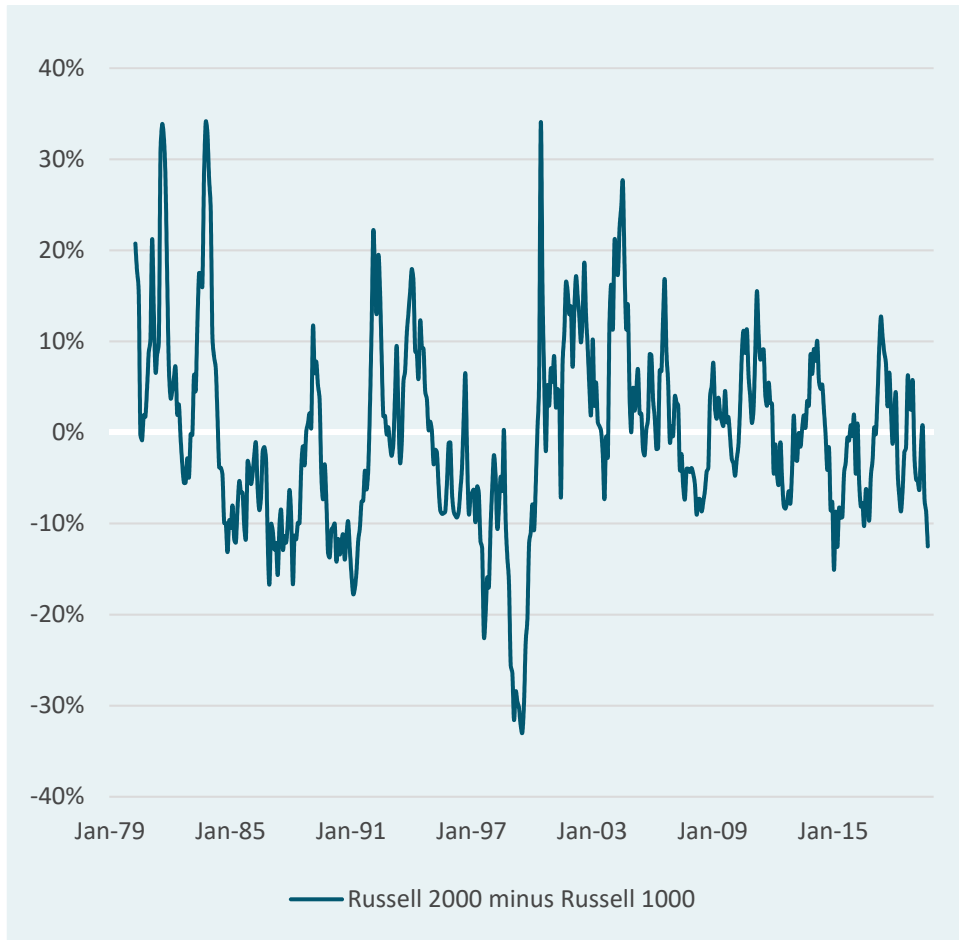
U.S. equity performance has moderated

If earnings flatten out, this may lead to milder future returns

Source: Standard & Poor's, Bloomberg, as of 9/30/19

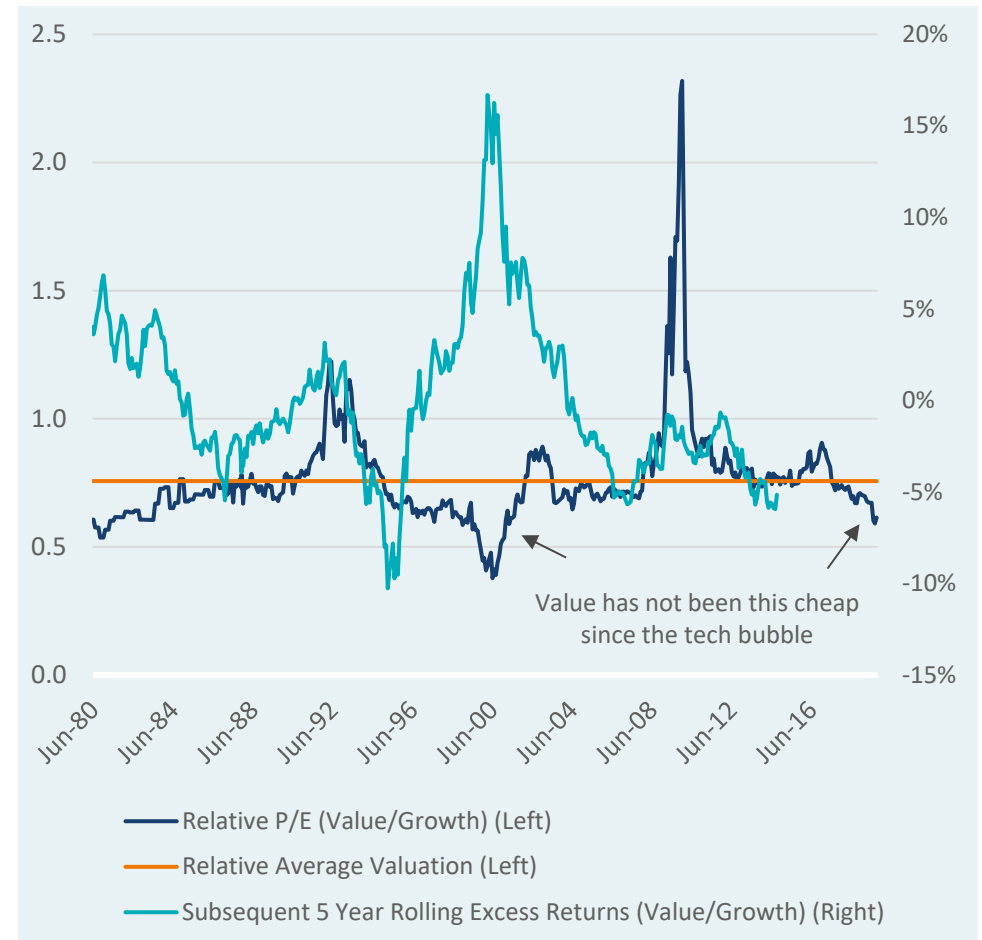
# Domestic equity size & style

SMALL CAP VS LARGE CAP (YOY)



Source: FTSE, as of 9/30/19

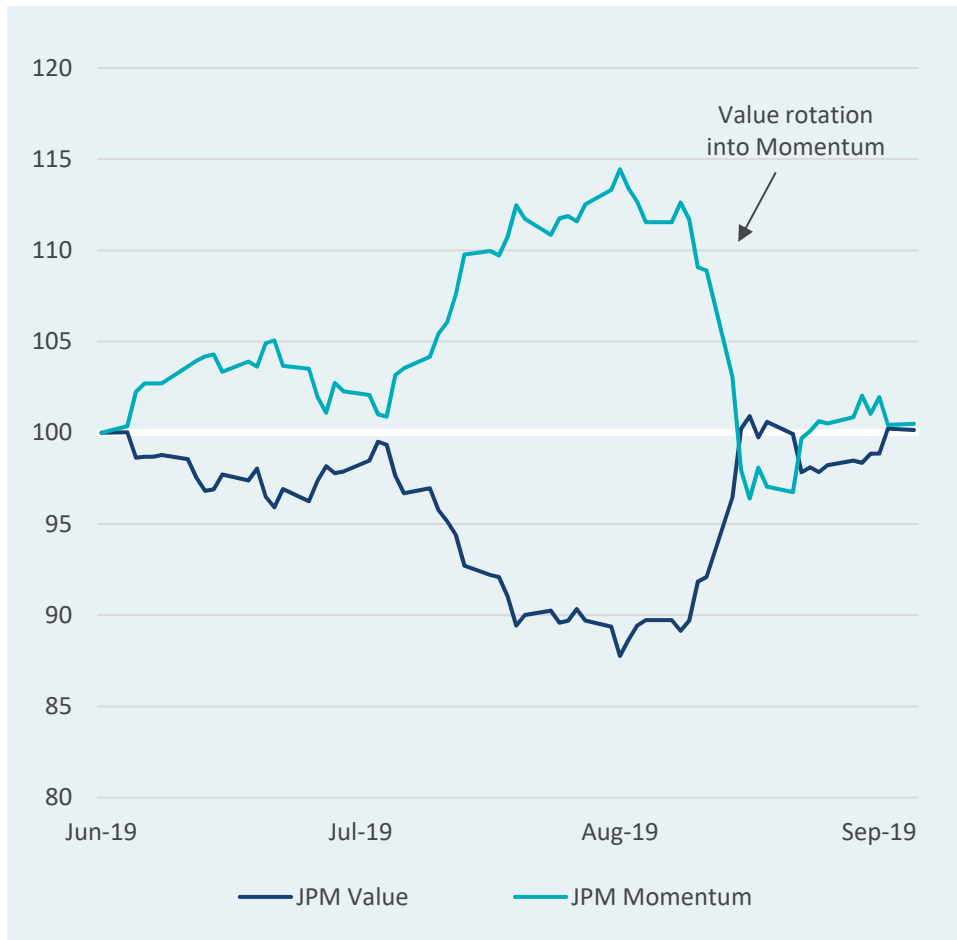
VALUE STARTING TO LOOK CHEAP



Source: Bloomberg, as of 9/30/19

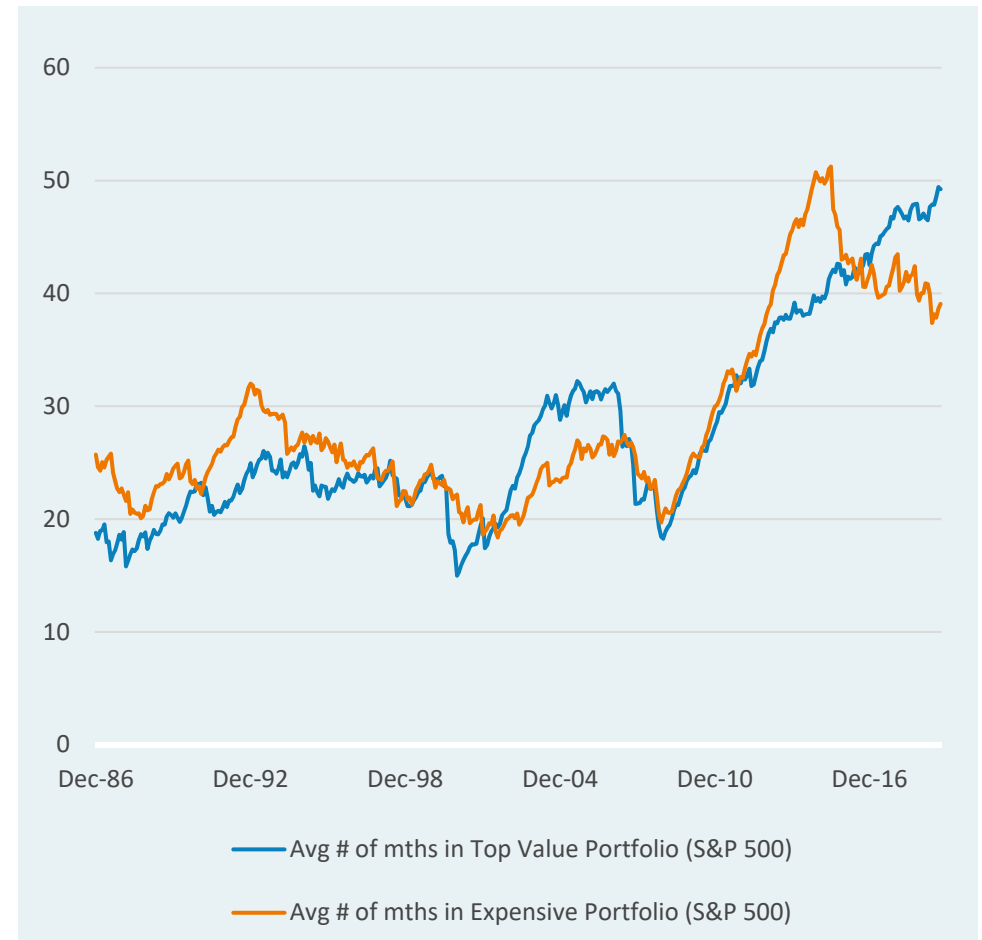
# Domestic equity style – a closer look

**EQUITY PERFORMANCE (3-YR ROLLING)**



Source: J.P. Morgan Chase & Co., Copyright 2019, as of 9/30/19

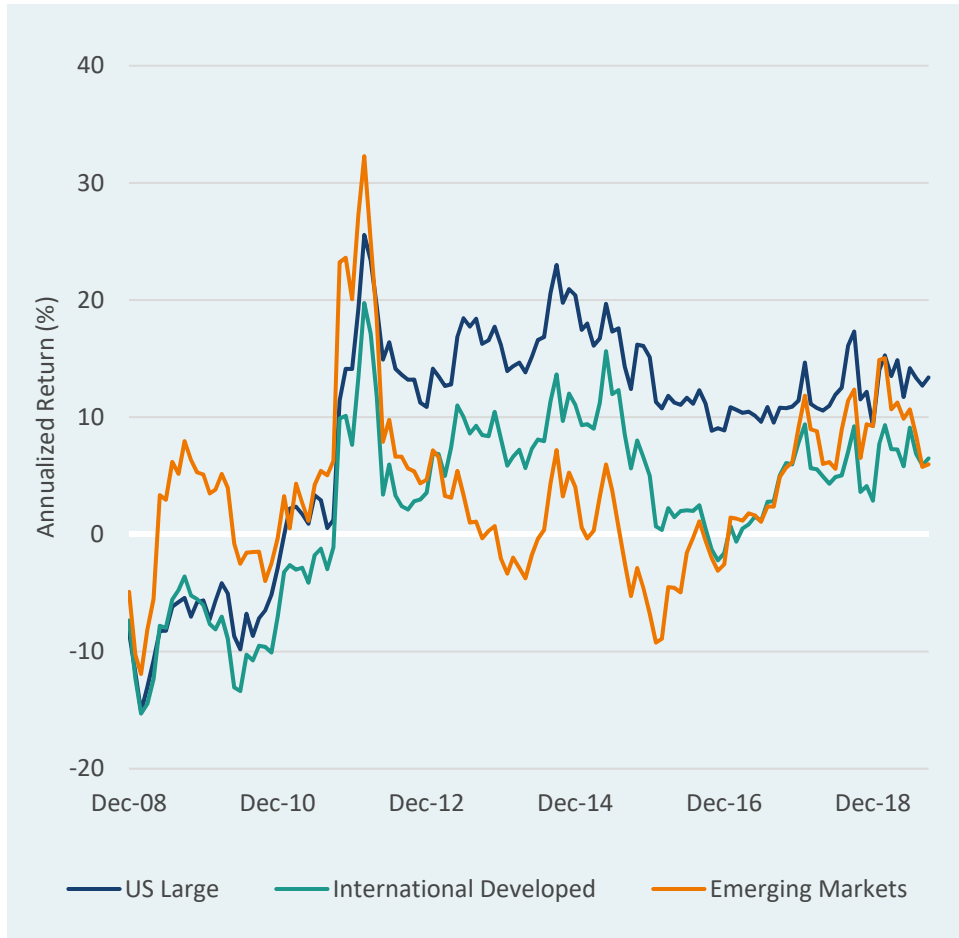
**STRUCTURAL HEADWIND TO VALUE**



Source: J.P. Morgan Chase & Co., Copyright 2019, as of 9/30/19

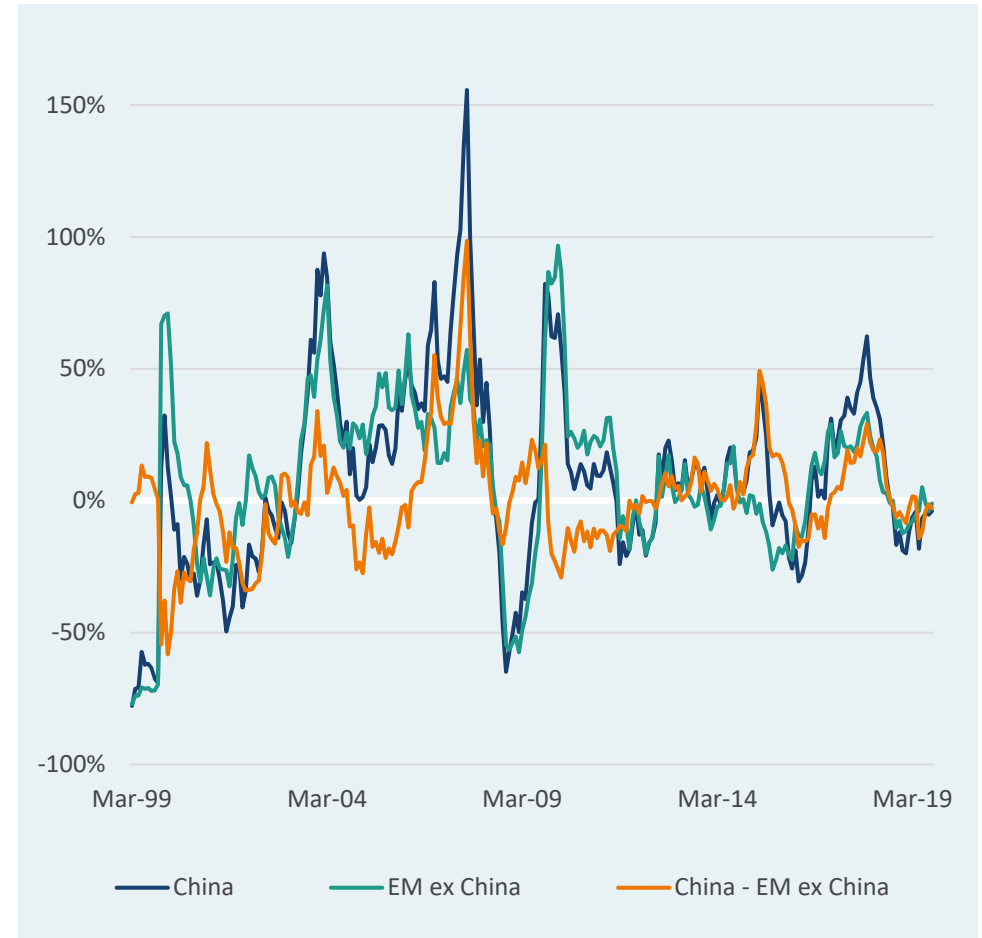
# Global equity

**EQUITY PERFORMANCE (3-YR ROLLING)**



Source: Standard & Poor's, MSCI, as of 9/30/19

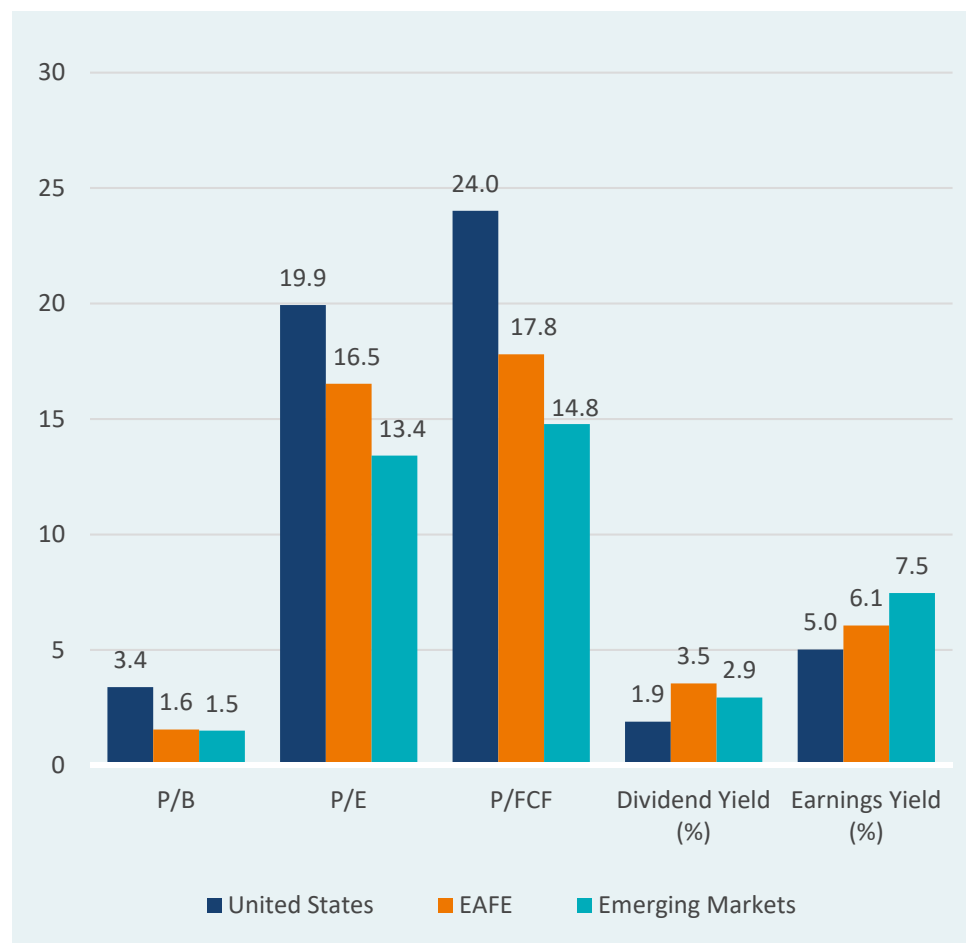
**CHINA & EM: ROLLING 1-YEAR PERFORMANCE (USD)**



Source: MSCI, as of 9/30/19

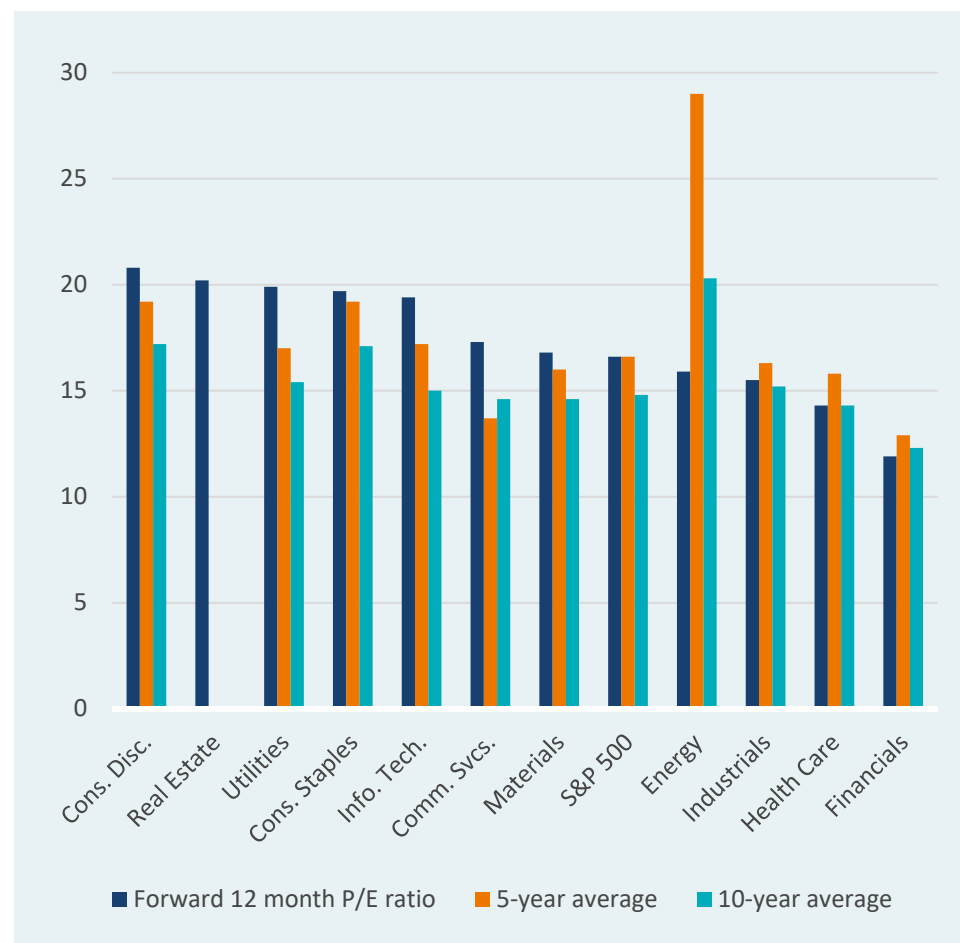
# Equity valuations

VALUATION METRICS (3-MONTH AVERAGE)



Source: Bloomberg, MSCI as of 9/30/19 - trailing P/E

S&P 500 INDEX FORWARD SECTOR P/E RATIOS

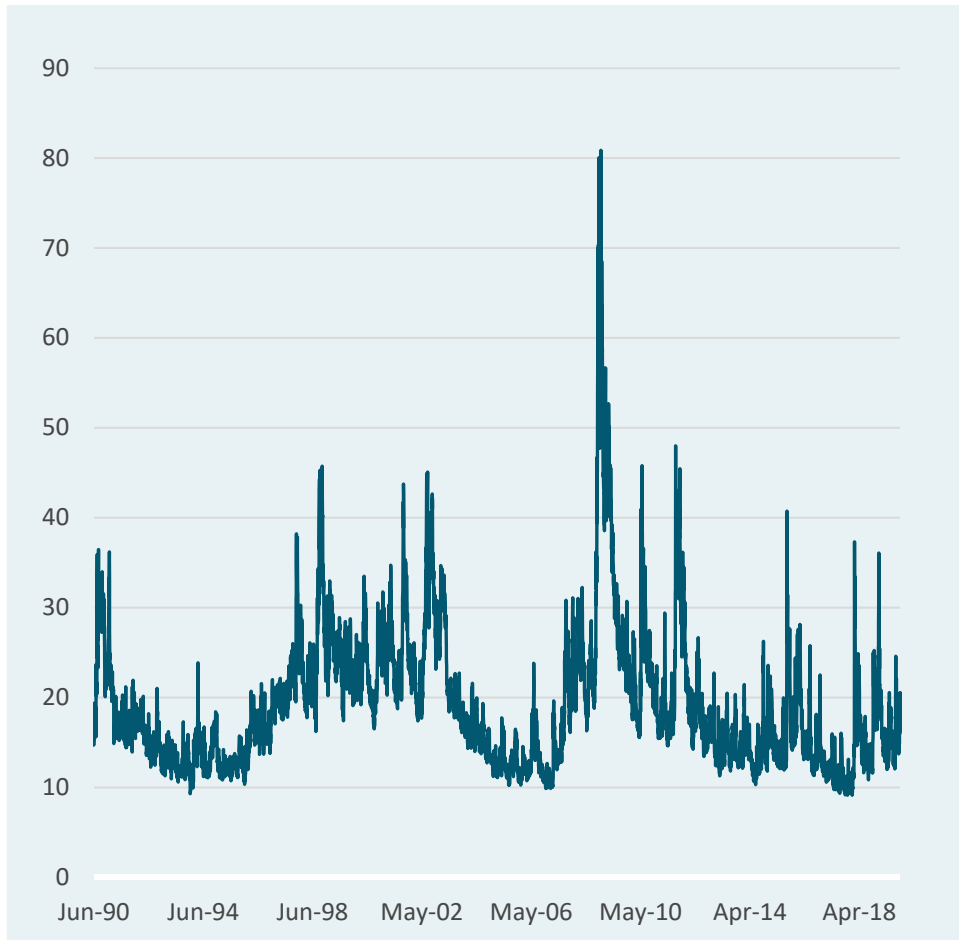


Source: Standard & Poor's, FactSet, as of 10/11/19



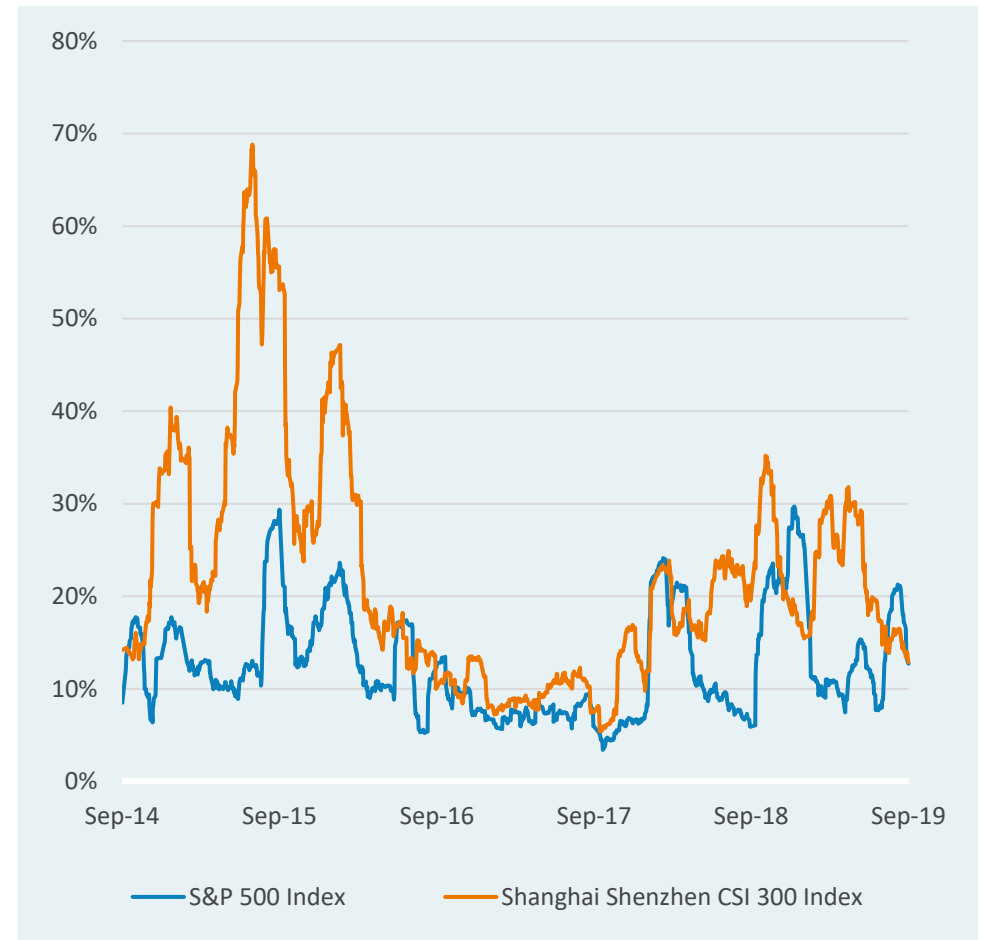
# Equity volatility

U.S. IMPLIED VOLATILITY (VIX)



Source: CBOE, as of 9/30/19

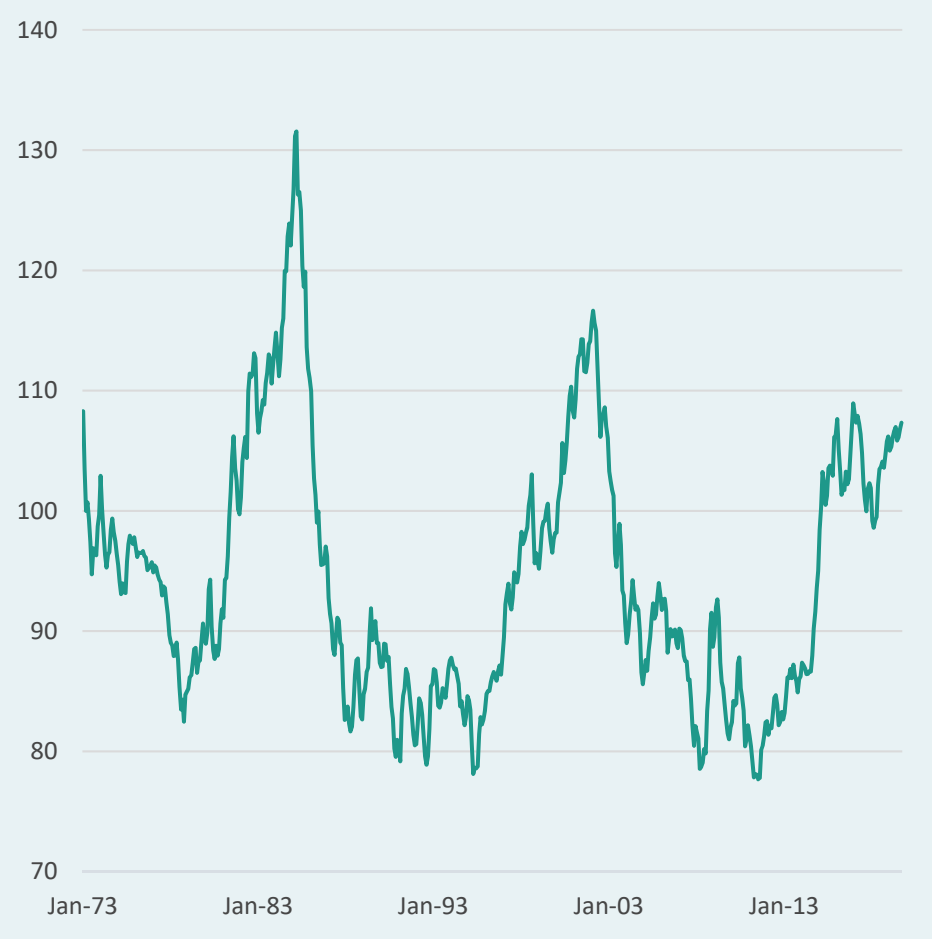
30-DAY REALIZED VOLATILITY – U.S. LARGE CAP STOCKS VS. CHINESE MAINLAND STOCKS



Source: Bloomberg, as of 9/30/19

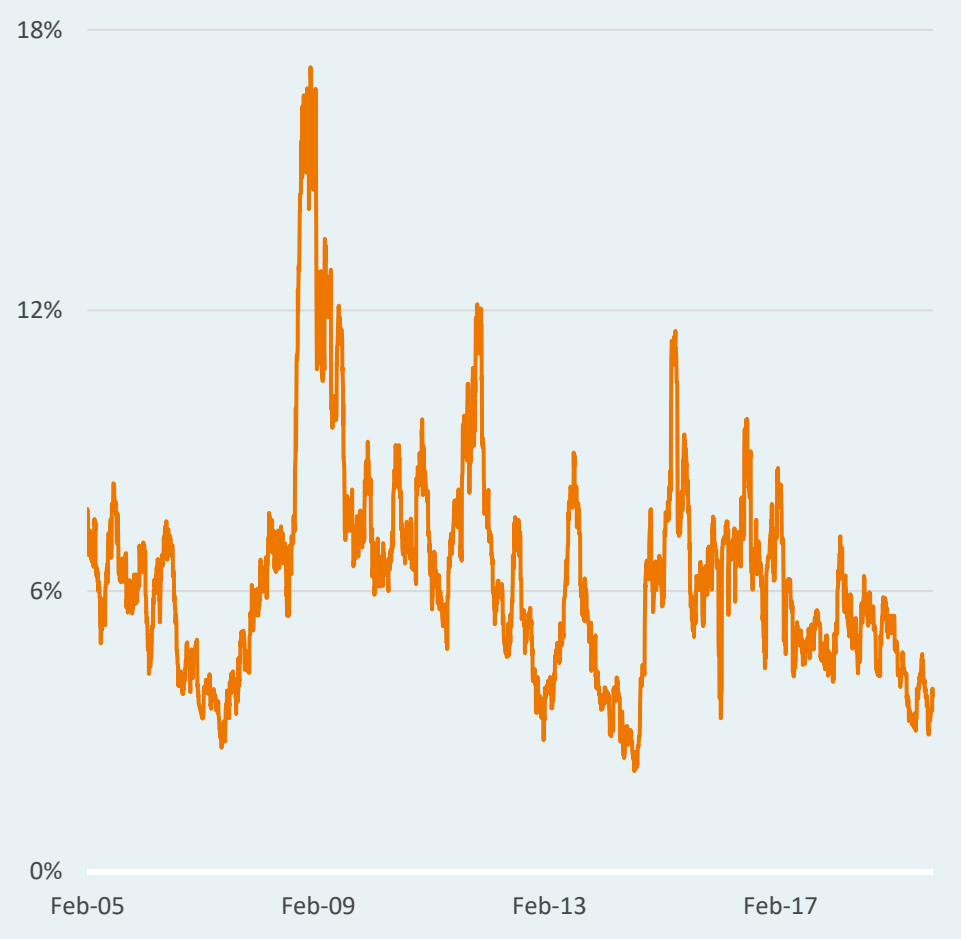
# Currency

U.S. DOLLAR TRADE WEIGHTED INDEX



Source: Federal Reserve, Verus, as of 9/30/19

BLOOMBERG DOLLAR SPOT INDEX REALIZED 30-DAY VOLATILITY



Source: Bloomberg, as of 9/30/19

# 3<sup>rd</sup> quarter summary

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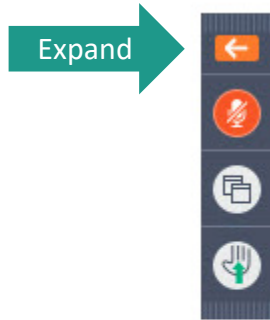
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# Q&A



Use the orange arrow to expand the control panel

Ask questions here



A screenshot of a GoToWebinar interface. The top part shows audio controls with a menu expanded to the left. The menu has an orange arrow pointing right, a microphone with a slash, a document icon, and a hand icon. The audio panel includes "Sound Check", "Computer audio" (selected), "Phone call", "MUTED" status, microphone selection ("Microphone Array (Realtek High...)"), a volume slider, and speaker selection ("Speakers / Headphones (Realtek...)"). Below the audio panel is a "Talking: Verus presenter" section. The "Questions" section contains a message: "Thank you for joining us for our quarterly Investment Landscape Call. Stay tuned, the call will begin shortly." Below this is a text input field with the placeholder "[Enter a question for staff]" and a "Send" button. At the bottom, there is a banner for "Verus Quarterly Investment Landscape", a recording indicator "This session is being recorded.", and the GoToWebinar logo.



# Thank you