Federated®

Long May It Run

Markets and economy should keep chugging in 2020

It may have been drowned out by all the trade and geopolitical noise, but the past year saw the U.S. economic expansion set a record for longevity, the equity market as measured by the S&P 500 post its best year since 2013 and the bond market as measured by the Bloomberg Barclays U.S. Aggregate Bond Index record its best year since 2002. So what do we think 2020 holds for the markets? Much of the same, just less so.

Expectations are for the economy to re-accelerate, corporate earnings to perk up and the Fed to remain accommodative. Federated believes real GDP growth is bottoming now and will rise gradually throughout 2020, aided by a consumer living in the best labor market in 50 years and a housing market reinvigorated by low mortgage rates and an influx of millennial buyers.

While sluggish manufacturing and trade-related uncertainties remain concerns, an improving macro environment in the U.S. and Europe should prove supportive for risk assets. Federated expects S&P 500 earnings-per-share to reach $180 and the market to climb to 3,500 by year-end 2020. With inflation and interest rates relatively low and range-bound, opportunities in bonds are more muted and likely will rely more on security selection than broad macro trends.

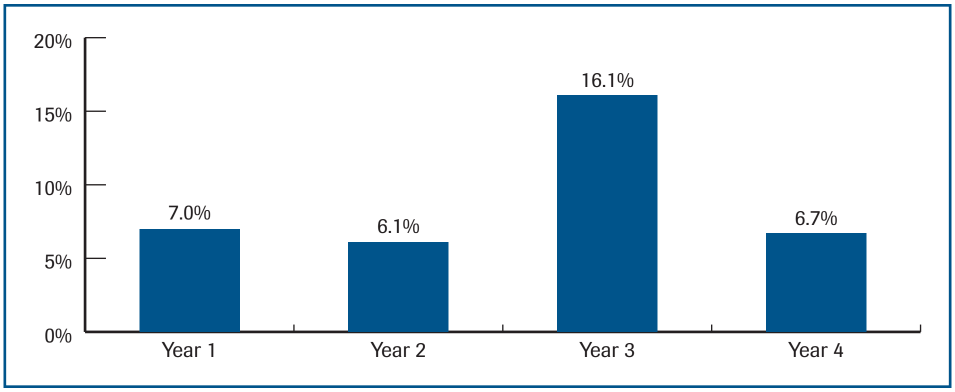
Federated Equity Forecasts*

	2018A	2019E	2020E
Real GDP	2.90%	2.30%	2.40%
Core PCE	2.00%	1.90%	2.00%
10-Year Treasury Yield	2.68%	2.00%	2.35%
Fed Funds Rate	2.25-2.50%	1.75%	1.75%
S&P 500 EPS	$163	$167	$180
Target P/E	15.4x	18.5x	18.0x
S&P 500 Target Price	$2,507	$3,100	$3,500

PCE = Personal Consumption Expenditures. 2018 data is actual. Views are as of 11/5/19.
EPS= Earnings per share.
Past performance is no guarantee of future results.
**Federated Macroeconomic Policy Committee forecasts.*
Price-earnings multiples (P/E) reflect the ratio of stock prices to per-share common earnings. The lower the number, the lower the price of stocks relative to earnings.

The last year of the Presidential Cycle traditionally is the second lowest of the 4-year returns, but might it outperform if it becomes clear President Trump will be re-elected? While early, polls suggest the president is holding ground against the large Democratic field in key industrial battleground states that carried him to victory in 2016.

S&P 500 Total Returns By Presidential Cycle



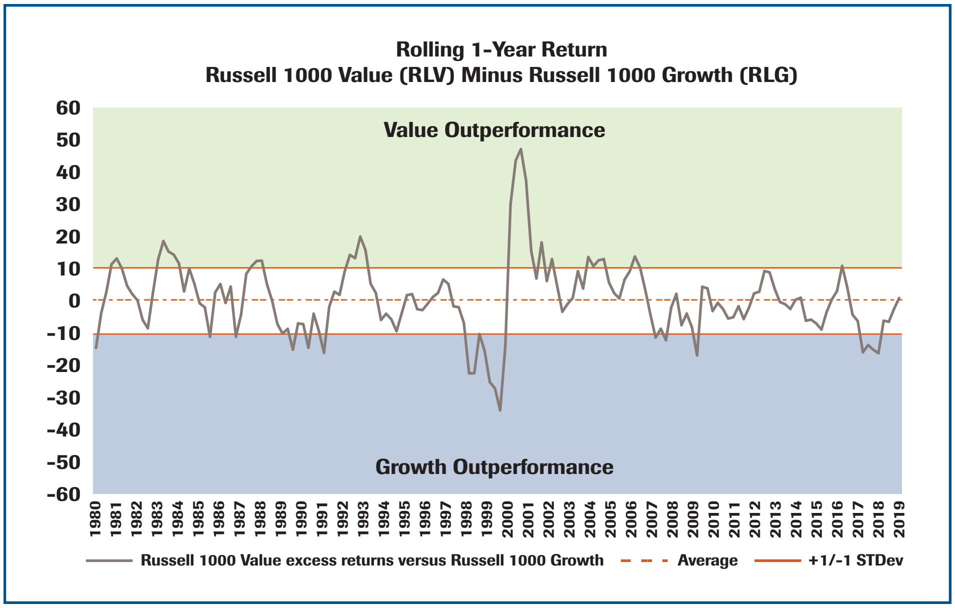
Source: Bloomberg, Strategas, Federated Investors. Data as of 12/31/18.
Past performance is no guarantee of future results.

Equity

The last three times the Fed reduced rates during an economic up-cycle (not including 2019), the market rallied strongly after the third cut, with the Dow up a respective 18%, 25% and 21% a year after the last reduction. In 17 occasions dating back to 1928, when S&P annual returns were 25% or higher, the market returned 7% the following year 71% of the time, FactSet data show.

In the equity universe, the case for value and small-cap stocks has strengthened as both asset classes have tended to perform best during early periods of economic re-acceleration. Within value, cyclical and financial sector stocks have been challenging growth sectors, while small caps have been regaining traction after being out of favor for much of the past spring and summer. That said, growth stocks remain attractive due to the technology sector, where corporate repatriation is generating a strong technology upgrade cycle.

Value vs. Growth Performance



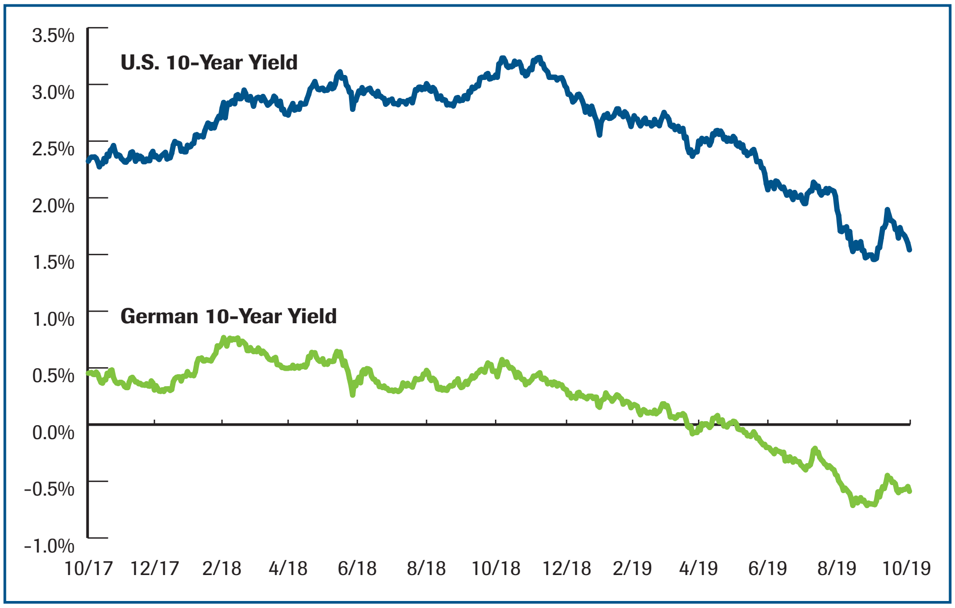
Source: Morningstar, as of 9/30/19. Past performance is no guarantee of future results.
Standard deviation is a statistical measurement of dispersion about an average which depicts how widely the returns varied over a certain period of time. The higher the standard deviation, the greater the volatility.

Fixed Income

Relatively muted inflation, low interest rates and narrow yield spreads between credit and U.S. government securities are limiting upside appreciation opportunities in fixed income. As opposed to the past year, which saw significant returns across corporate and government offerings, bonds are now more of a "coupon" than "coupon plus" trade—reverting, in a sense, to fixed income's historical role as a potential stabilizer and income producer for the diversified investor's portfolio.

After inverting earlier in the year, the yield curve turned positive on the Fed cuts and easing recession worries as summer gave way to fall. We anticipate some modest further steepening in the year ahead, with the global plethora of negative-yielding sovereign bonds acting as a soft ceiling on dramatic moves up on the long end. At this point, we take the Fed at its word that it's likely to remain on pause for some time, barring unforeseen events.

Yields Held Down by Negative Overseas Rate Charts



Source: Bloomberg, Federated Investors. Data as of October 3, 2019.

What Are the Risks?

Risk factors that could curtail growth and stir market volatility in the year ahead include a turn for the worse in the ongoing U.S.-China trade situation and a reversal of recent signs that manufacturing has bottomed in the U.S. and Europe. Uncertainty over the U.S. presidential election outcome also looms, particularly amid the ongoing impeachment hearings.

But polls suggest voters aren't all that tuned in or moved by what is happening on Capitol Hill. Indeed, some surveys show the president actually picking up support among independents—key swing voters in national elections. At the end of the day, incumbents typically win on pocketbook issues, and based on our indicators, the re-election argument is strong at this juncture, with recession risks pushed out into 2021 at the earliest.

Federated's Re-election Dashboard

Indicators	Disposable Income Growth	Unemployment Rate Change	S&P 500 Performance	Average Consumer Confidence	GDP Growth		Average Approval Rating	Favorable Indicators	Election Result
					Year 3	Year 4			
Timing	Election Year	Election Year	3 months leading up to election	Election day vs. Prior Year-End	-	-	Election Year		
Threshold	> 1%	< 0%	> 0%	> 95	> 0%	> 0%	> 50%		
Donald Trump (as of 12/2/19)	1.2%	-0.3%	7.9%	128.2	2.3% est.*	1.8% est.*	41.5%	5/6	?
					Yes				

Source: Bloomberg 2019, Strategas.
**Bloomberg consensus GDP estimate for 2019 & 2020.*
Past performance is not indicative of future results

Federated's Recession Dashboard

Indicators	Labor market	Inflation	Housing	Yield Curve	Spreads	Manufacturing	
Measure	Increase in claims	Increase in core PCE	Decline in housing starts	10-year Treasury yield – federal funds rate	Bloomberg Barclays Corp High Yield – 10-yr Treasury yield	ISM Index	
1974	32k	2.17%	-770k	-5.99%	-	57.8	
1980	90k	2.38%	-856k	-6.64%	-	44.8	
1981	68k	0.94%	-506k	-9.57%	-	46.7	
1991	80k	1.90%	-1,089k	-1.56%	9.30%	45.1	
2001	125k	1.05%	-329k	-1.76%	9.58%	42.1	
2008	50k	1.40%	-1,236k	-0.86%	5.80%	50.1	
Average	74k	1.64%	-797k	-4.40%	8.23%	47.8	
Current	**21k**	**0.69%**	**50k**	**0.27%**	**3.81%**	**48.1**	
Earliest Implied Recession Date**	6/2020	10/2020	5/2022	9/2020	11/2021	4/2022	**Average 6/2021**

Source: Bloomberg, Federated Investors. Data as of December 2, 2019.
***Based on Average Days from Key Level Recession*

The Bottom Line on 2020

As we look to 2020, Federated's stock-allocation models continue to favor an overweight to equities in moderate growth portfolios, with fixed-income holdings concentrated more in corporate than government bonds. Cash and the instruments on the shorter end of the yield curve can also offer income and some refuge for the diversified investor worried about how the coming year may unfold.

Past performance is no guarantee of future results.

Views are as of 12/2/19 and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index composed of securities from the Bloomberg Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

Bloomberg Barclays U.S. Corporate High Yield Index is an unmanaged index that is comprised of issues that meet the following criteria: at least $150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues) and at least one year to maturity.

Dow Jones U.S. Select Dividend Index universe is defined as all dividend-paying companies in the Dow Jones U.S. Total Market Index that have a non-negative historical 5-year dividend-per-share growth rate, a 5-year average dividend earnings-per-share ratio of less than or equal to 60%, and 3-month average daily trading volume of 200,000 shares. Current index components are included in the universe regardless of their dividend payout ratio. The Dow Jones U.S. Total Market Index is a rule-governed, broad-market benchmark that represents approximately 95% of the U.S. market capitalization.

The Institute of Supply Management (ISM) manufacturing index is a composite, forward-looking index derived from a monthly survey of U.S. businesses.

Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® Index companies with lower price-to-book ratios and lower expected growth values. The R1000V is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Russell 1000® Value Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

S&P 500 Index is an unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Indexes are unmanaged and cannot be invested in directly.

The value of equity securities will rise and fall. These fluctuations could be a sustained trend or a drastic movement.

Small company stocks may be less liquid and subject to greater price volatility than large capitalization stocks.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

Diversification does not assure a profit nor protect against loss.

The Yield Curve: is a graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

50110 (12/19)
Federated Securities Corp.