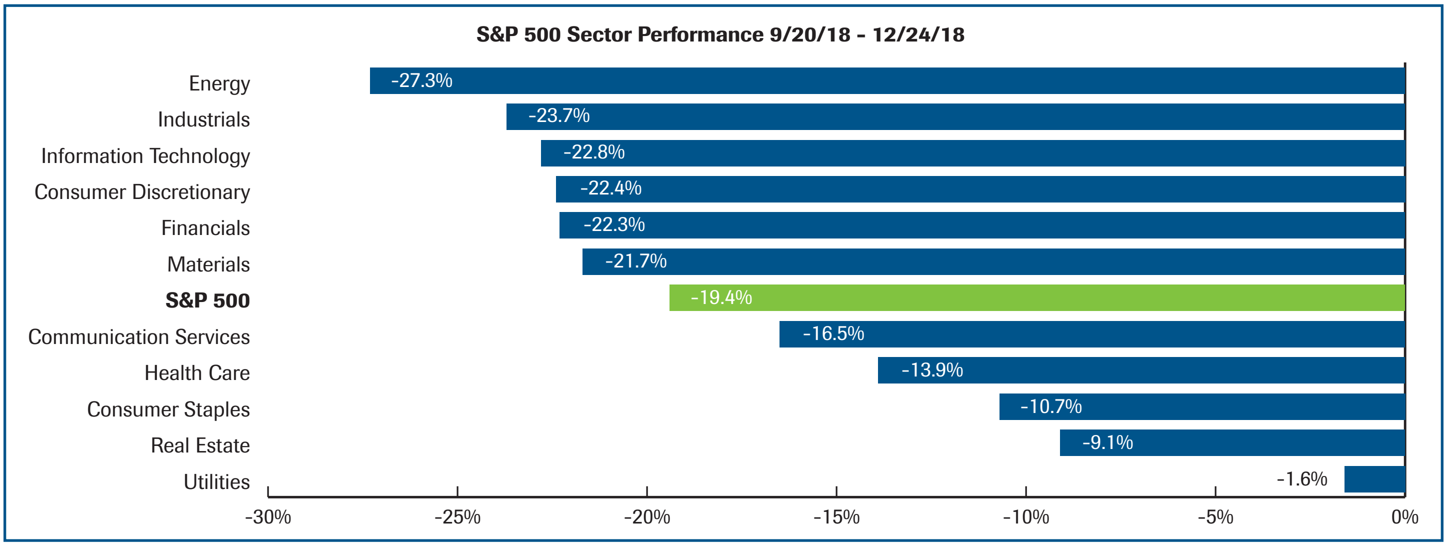
When it comes to stocks, 'patience' is a virtue

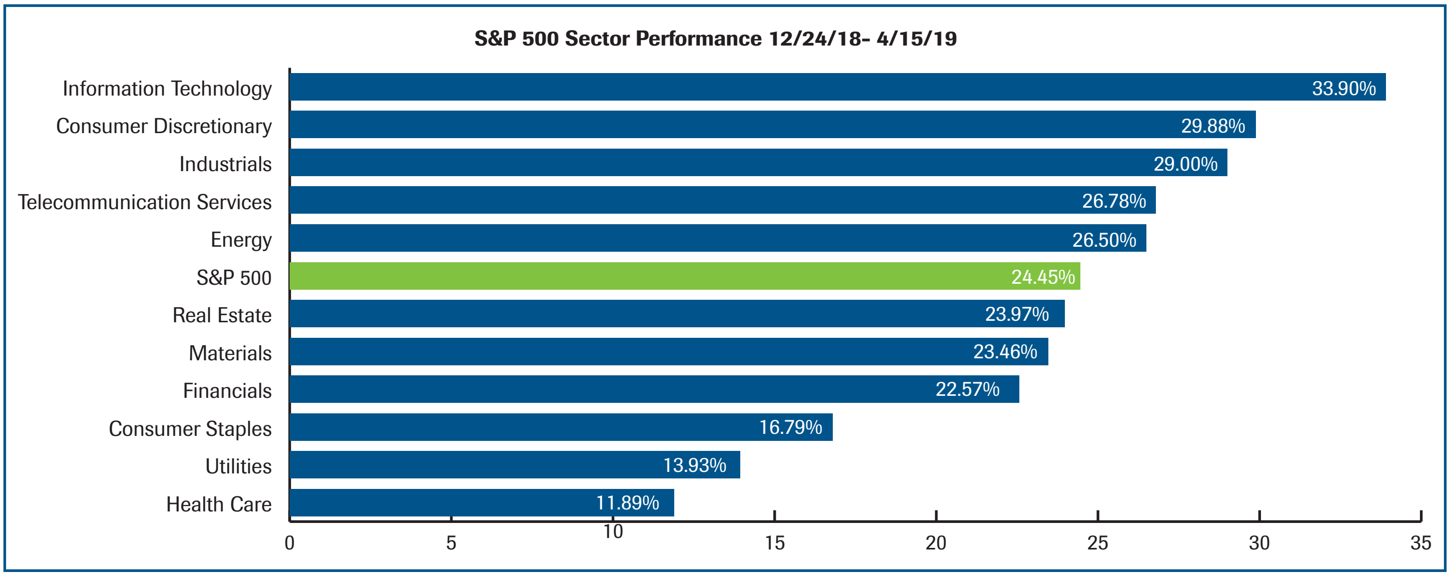
December's steep equity sell-off gave way to the best start to a year for stocks in 30 years, abetted by the Federal Reserve's about-face. Policymakers are pledging to be "patient" and have signaled rate increases are off the table for 2019. Absent a recession, which we do not expect anytime soon, low rates are supportive and equities have responded accordingly. This turnabout was most evident in the performance of beaten-down cyclical stocks in January, but leadership subsequently shifted to defensive and growth names as participation broadened.

Since Christmas Eve's low . . .



Source: Bloomberg, Federated Investors as of 12/31/18.

. . . Stocks are up across the board



Source: Bloomberg, Federated Investors as of 4/15/19.

Not all highs are created equally

It is worth noting that the macro environment in 2018 when the market was hitting record highs is significantly different than the macro environment today. Indeed, today's fundamentals arguably are more supportive for a run to new highs.

2018 highs vs. todays highs

	2018 highs	Today
P/E	18.5x	16.9x
GDP growth	Decelerating from 4.2%	Accelerating from 1.8%
Fed policy	Hiking w/ 3 dots in 2019	Pausing with balance-sheet reduction ending in sight
Trade war	New tariffs	Tariffs delayed, deal resolution in sight
10-year yield	3.20%	2.55%
Earnings growth	Peaking at 27.5% growth	Bottoming at -1% to -3% growth
VIX	20-25	12-15

Source: Bloomberg, Federated Investors as of 4/15/19.

Recession fears giving way to green shoots

We have seen signs of a growth pickup in the economy with a possible favorable U.S.-China trade deal potentially adding to momentum. All six recession indicators, despite a brief inversion in yield curve in late March, indicate an earliest implied recession of February 2021, as recessions historically don't come until well after inversion.

Recession indicators: current vs. prior recessions

Indicators	Measure	1974	1980	1981	1991	2001	2008	Average	Current	Earliest Implied Recession Date*
Labor market	Increase in claims	32,000	90,000	68,000	80,000	125,000	50,000	74,167	0	06/2020
Inflation	Increase in core PCE	2.17%	2.37%	0.93%	1.90%	1.76%	2.54%	1.95%	0.89%	10/2020
Housing	Decline in housing starts	770,000	856,000	502,000	1,089,000	329,000	1,236,000	797,000	172,000	06/2020
Yield Curve	10-year Treasury yield – federal funds rate	-3.88%	-3.45%	-4.37%	-1.44%	-1.29%	-0.79%	-2.54%	0.15%	09/2020
Spreads	BarCap Corp High Yield – 10-year Treasury yield	-	-	-	8.21%	9.34%	5.62%	7.72%	3.59%	11/2021
Manufacturing	ISM Index	57.8	44.8	46.7	45.1	42.3	50.1	47.8	55.3	04/2022
										02/2021

Source: Bloomberg, Federated Investors as of 4/15/19.

A non-recessionary pullback means opportunity

So what's the message for investors? Buy the dips. History suggests that when the market pulls back on recession fears when there subsequently isn't one, returns off the lows can be significant. This is why Federated is holding at a substantial equity overweight in its PRISM® recommended portfolio allocation models.

Non-Recessionary Pullbacks

Dates	Max Decline	Duration (Months)	12-Month Forward Return
8/87 - 12/87	-32.8%	3	26.0%
7/98 - 10/98	-19.2%	3	39.8%
4/11 - 10/11	-18.6%	5	35.0%
3/15 - 2/16	-12.8%	9	29.3%
Average	-20.9%	5	32.5%
9/20/18 - Current	-19.8%	3	24.5%

Source: Bloomberg, Federated Investors as of 4/15/19.

Past performance is no guarantee of future results.

Views are as of 4/15/19 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.

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.

**Based on Avg. Days from Best Level to Recession*

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.

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