

# MACRO INSIGHTS

## Q1 2020

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# TABLE OF CONTENTS

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Market Outlook	1
Developed Markets	9
Emerging Markets	16
Sector Views	27
Current Market Topics	35

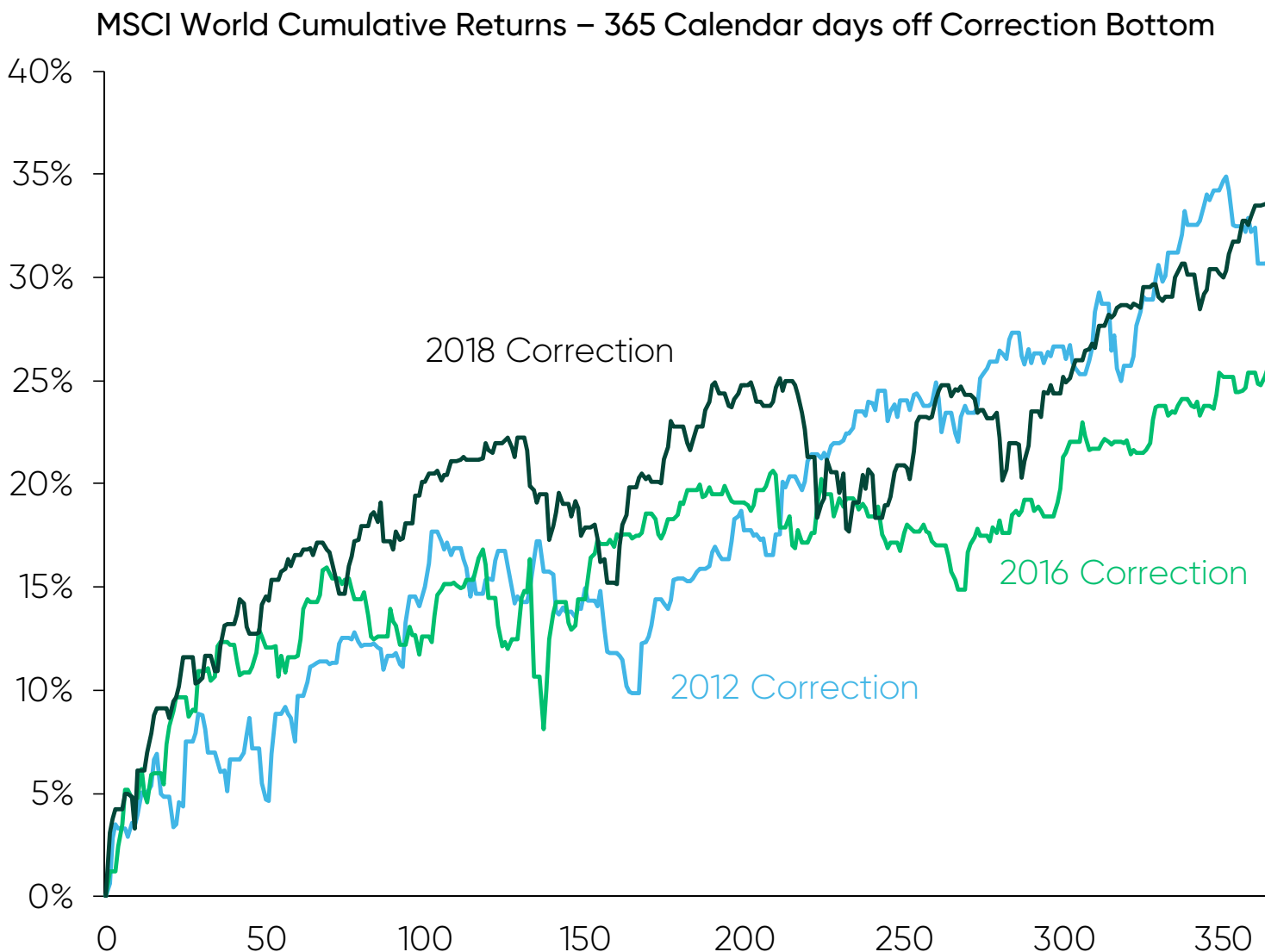
# MARKET OUTLOOK

- Sentiment is improving as big fears in 2019 didn't materialize, but still not euphoric
- Goldilocks economy emerging from mid-cycle slowdown
- US Presidential 4<sup>th</sup> years usually positive but "up-a-little" (0%-20%) not "up-a-lot" (20%+)
- Political uncertainty should peak early then fade through the US election
- Big, high-quality, growth equities should continue outperforming
- No big interest rates moves anticipated but bigger risks are to the upside
- No foreseeable, big, high-probability negatives on the horizon

*As of 31/12/2019.*

# 2019: A TYPICAL CORRECTION RECOVERY

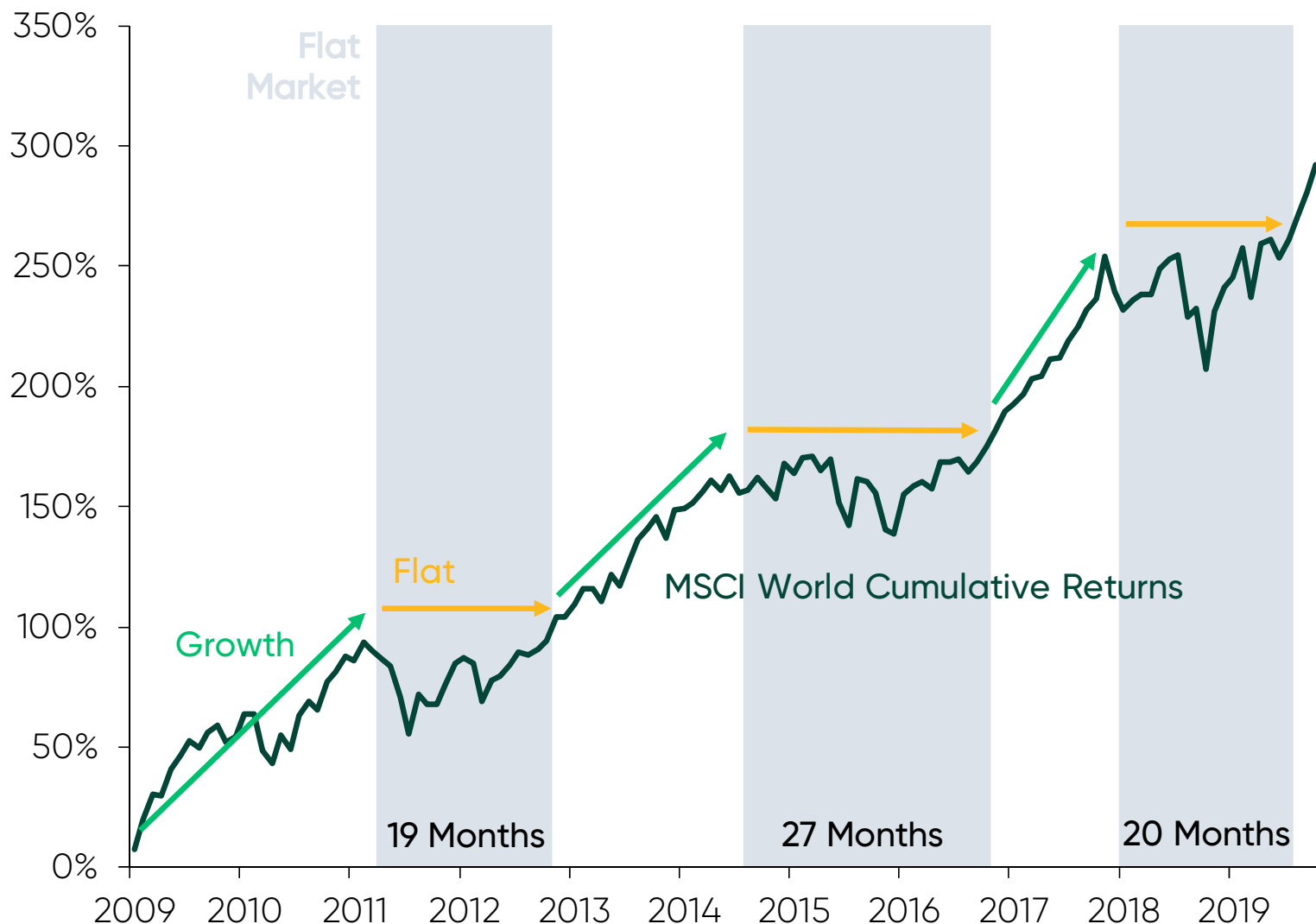
The recovery from the late 2018 downturn followed the trajectory of a typical strong-but-volatile correction recovery, in line with correction recoveries in 2012 and 2016.



Source: FactSet. MSCI World Total Return Index, daily, 04/06/2012 – 04/06/2013, 11/02/2016 – 11/02/2017, and 25/12/2018 – 25/12/2019. Returns show the subsequent 365 calendar days from correction bottom.

# A STRONG BULL WITH FITS AND STARTS

Overall this has been a strong bull market, but investors have had to wait through long, flat periods to enjoy subsequent gains. This recent flat period looks likely to follow that pattern.



Source: FactSet, as of December 2019. MSCI World Total Return Index, cumulative, monthly, February 2009 to December 2019.

# NEW HIGHS FOLLOWING FLAT MARKETS A POSITIVE

Long periods with flat point-to-point returns aren't uncommon for equities, but they tend to be followed by strong gains.

MSCI World Sideways Streak > 300 Days			MSCI World Return After Crossing Previous High		
Start	End	Duration (Days)	+12 Months	+18 Months	+24 Months
29/1/1965	31/12/1965	336	-12.4%	-4.6%	6.6%
31/1/1966	31/8/1967	577	18.0%	20.3%	16.2%
31/12/1976	14/4/1978	469	14.3%	17.0%	13.5%
6/1/1992	1/4/1993	451	10.4%	15.5%	19.0%
2/5/2011	21/1/2013	630	19.4%	25.2%	21.9%
21/5/2015	9/2/2017	630	13.5%	19.7%	11.8%
26/1/2018	31/10/2019	643	?	?	?
Average		534	10.5%	15.5%	14.8%
Median		577	13.9%	18.4%	14.9%
Freq.+		--	83.3%	83.3%	100.0%

Source: Global Financial Data & FactSet as of December 2019. GFD Monthly MSCI World Price returns from 31/12/1969 – 31/12/1975, FactSet daily MSCI World Price returns from 31/12/1975 – 31/12/2019. A sideways streak is considered any 300+ day period where the MSCI World has not recorded a new high within intact global bull markets.

# NEW HIGHS LEAD TO CONTINUING BULL

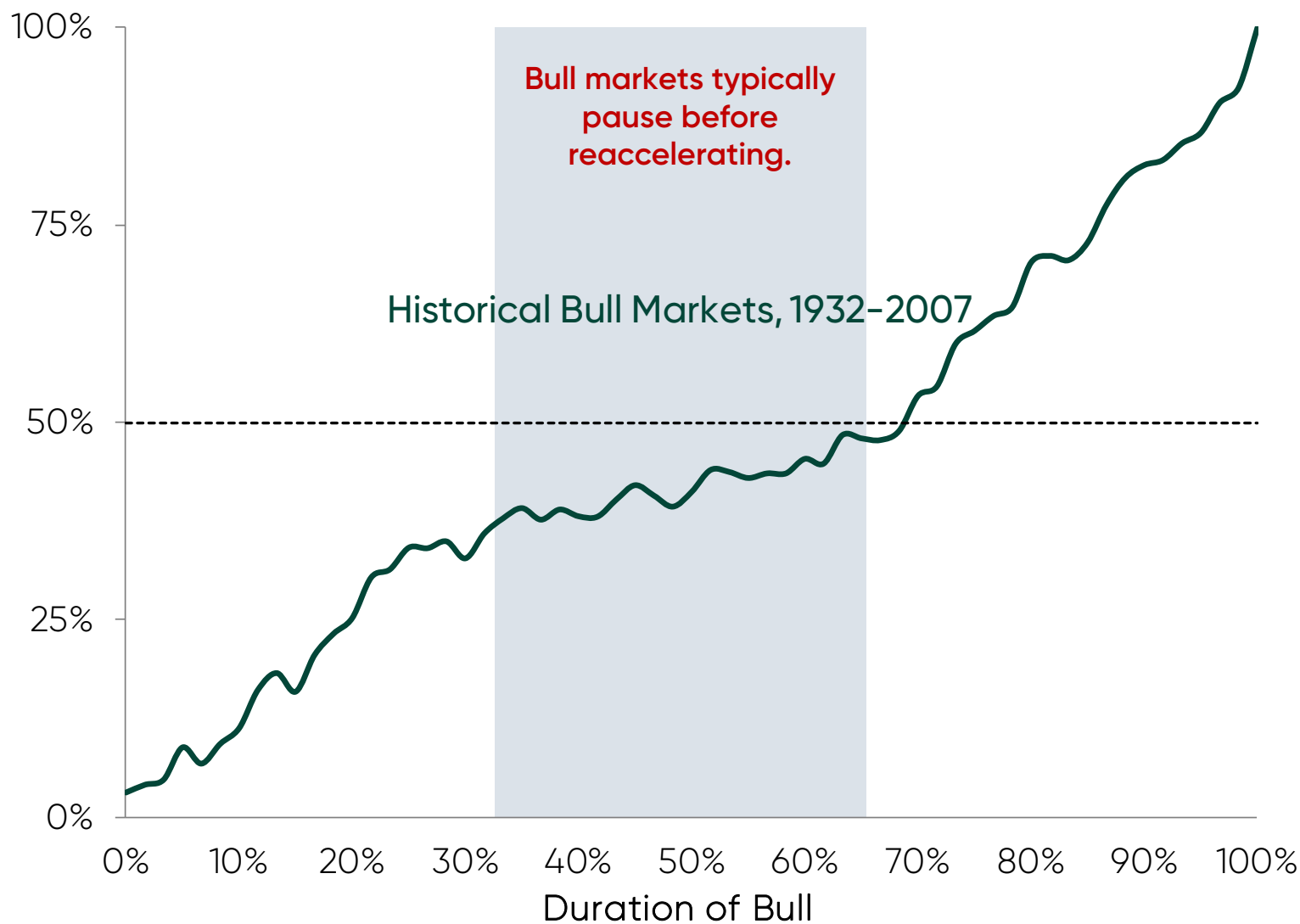
Corrections are common and healthy features of bull markets. Corrections can give investors confidence the market has digested their fears, helping to enable the bull market to continue.

S&P 500 Corrections					
Peak - Trough	New High (Recovery)	Forward Returns After New High			
		+12 M	+18 M	+24 M	
May 1928 - Jun 1928	28/8/1928	56.0%	19.5%	10.7%	
Jun 1932 - Jul 1932	22/7/1932	96.8%	124.9%	98.1%	
Sep 1932 - Feb 1933	26/5/1933	8.0%	7.5%	14.9%	
Jun 1933 - Jun 1933	27/6/1933	-6.5%	-12.7%	-0.3%	
Jul 1933 - Mar 1935	22/10/1935	44.5%	48.9%	5.3%	
Apr 1936 - Apr 1936	14/7/1936	9.5%	-19.3%	-15.3%	
Jul 1943 - Nov 1943	13/6/1944	24.4%	46.5%	62.2%	
Feb 1946 - Feb 1946	9/4/1946	-18.0%	-13.4%	-10.7%	
Jun 1950 - Jul 1950	22/9/1950	29.1%	36.2%	44.0%	
Jan 1953 - Sep 1953	11/3/1954	40.6%	75.7%	90.5%	
Sep 1955 - Oct 1955	14/11/1955	3.0%	6.5%	-8.2%	
Aug 1959 - Oct 1960	27/1/1961	14.6%	-2.2%	14.6%	
Aug 1962 - Oct 1962	14/11/1962	25.2%	40.9%	50.6%	
Sep 1967 - Mar 1968	30/4/1968	9.6%	4.2%	-10.8%	
Apr 1971 - Nov 1971	4/2/1972	12.1%	6.0%	-5.6%	
Nov 1974 - Dec 1974	27/1/1975	37.1%	45.8%	46.2%	
Jul 1975 - Sep 1975	12/1/1976	11.4%	9.5%	1.3%	
Sep 1976 - Mar 1978	15/8/1979	22.4%	26.6%	35.3%	
Oct 1979 - Nov 1979	21/1/1980	23.2%	23.3%	14.3%	
Feb 1980 - Mar 1980	14/7/1980	13.3%	3.7%	2.2%	
Oct 1983 - Jul 1984	21/1/1985	22.3%	42.9%	64.8%	
Oct 1989 - Jan 1990	29/5/1990	9.9%	9.5%	23.0%	
Oct 1997 - Oct 1997	5/12/1997	21.4%	37.9%	49.8%	
Jul 1998 - Aug 1998	23/11/1998	19.7%	17.8%	14.0%	
Jul 1999 - Oct 1999	16/11/1999	-2.2%	-7.9%	-17.8%	
Nov 2002 - Mar 2003	12/5/2003	18.2%	28.7%	27.1%	
Apr 2010 - Jul 2010	4/11/2010	4.7%	15.7%	20.8%	
Apr 2011 - Oct 2011	24/2/2012	13.5%	25.9%	41.3%	
Apr 2012 - Jun 2012	6/9/2012	18.2%	35.4%	46.3%	
May 2015 - Feb 2016	11/7/2016	15.9%	33.5%	35.1%	
Sep 2018 - Dec 2018	23/4/2019	?	?	?	
<b>Average:</b>		<b>19.9%</b>	<b>23.9%</b>	<b>24.8%</b>	
<b>Freq. of Positive Performance:</b>		<b>90.0%</b>	<b>83.3%</b>	<b>76.7%</b>	

Source: Global Financial Data and FactSet, as of December 2019. S&P 500 Total Return Index, May 1928 to July 2018.

# BULL MARKETS TYPICALLY ACCELERATE IN LAST THIRD

Bull markets typically have steep gains early, flatten out in the middle, and reaccelerate upward in the final third. We believe we are in the latter third of the current bull market.

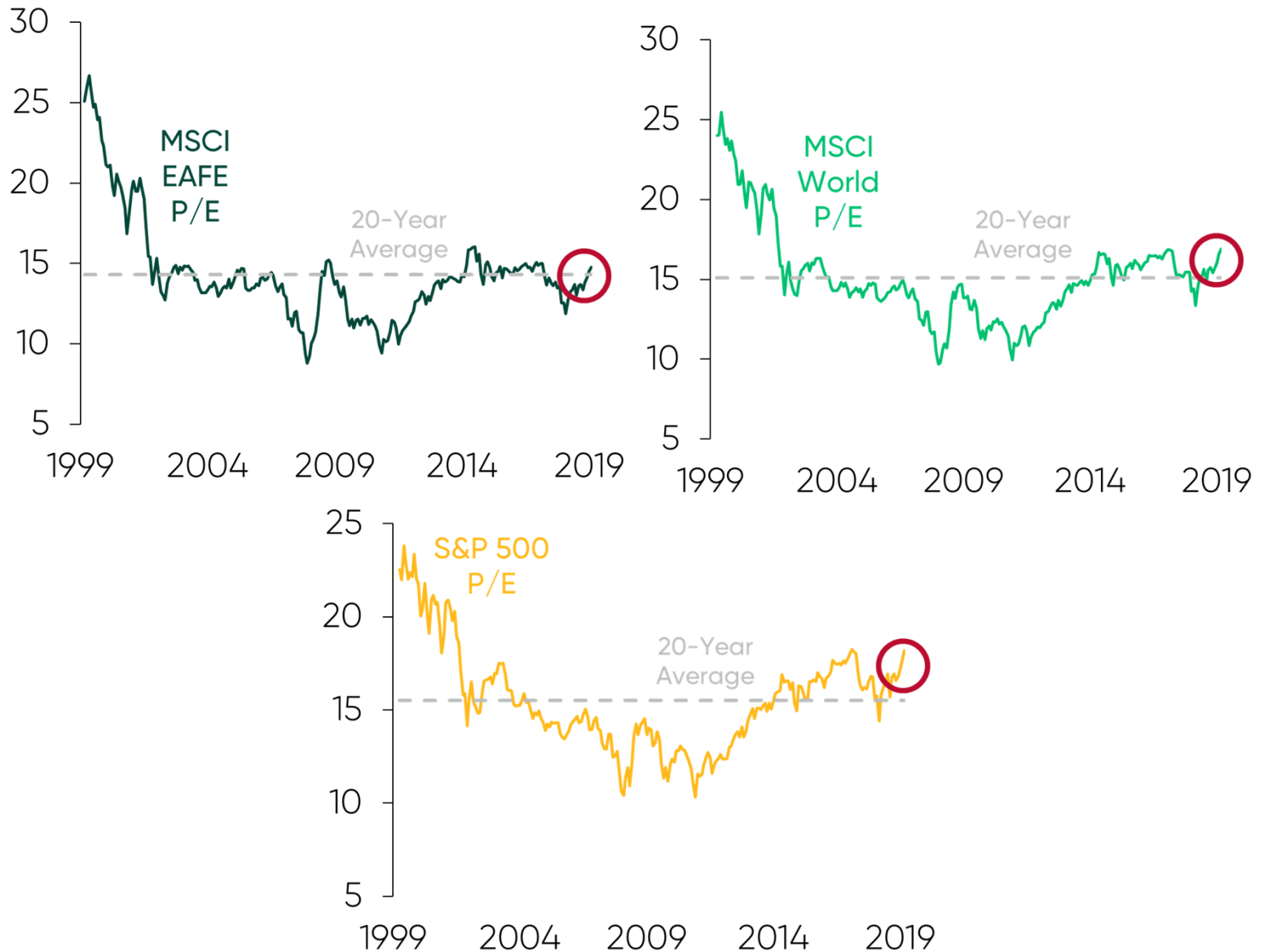


Source: FactSet and Global Financial Data. "Historical Bull Markets" includes bulls from June 1932 - October 2007. Bull markets before 1990 rounded to nearest month to match GFD's S&P 500 Total Return extended data.



# VALUATIONS REMAIN MODEST DESPITE STRONG BULL

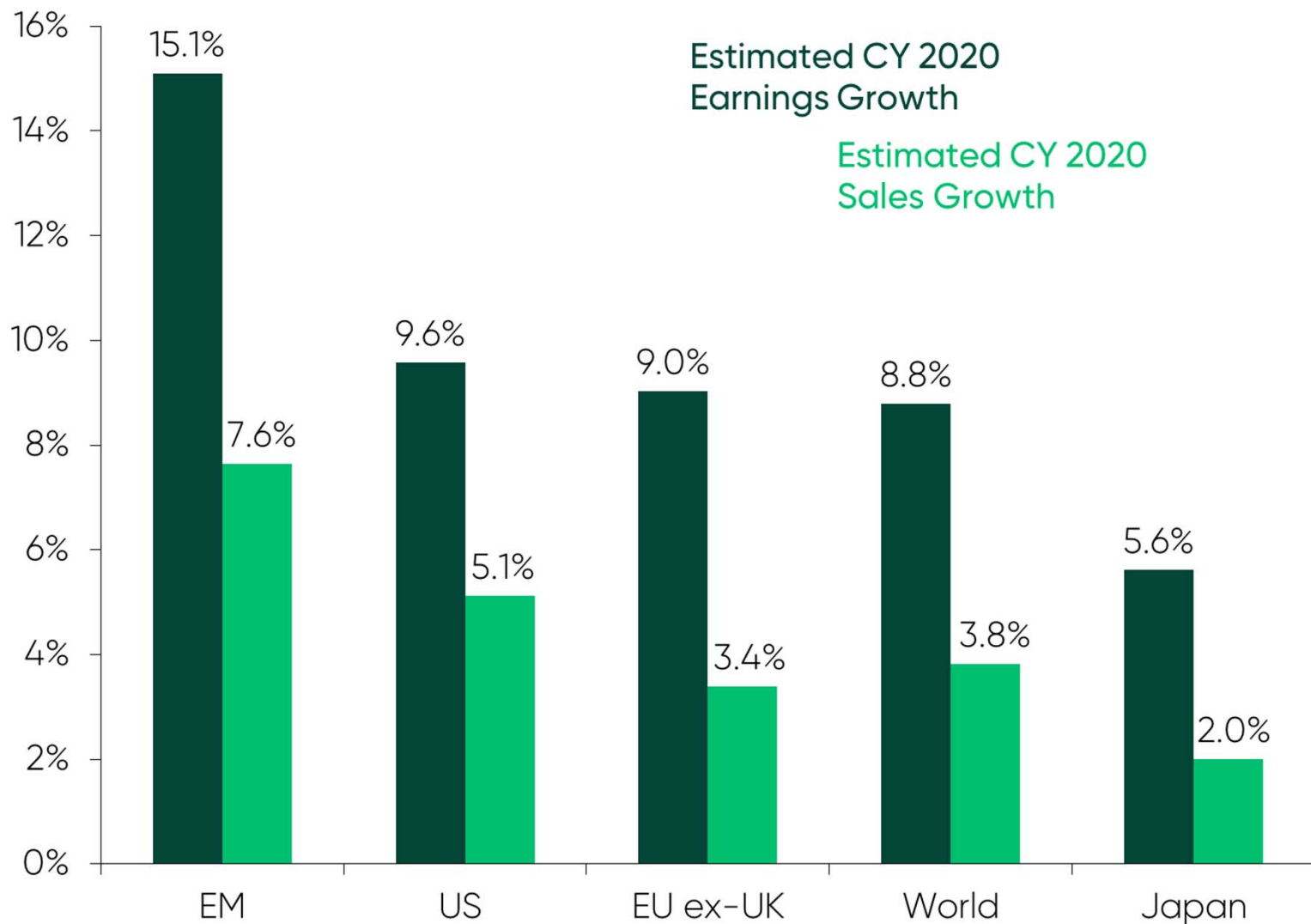
2019's multiple expansion simply reversed 2018's multiple contraction, leaving valuations reasonable and far from euphoric levels.



Source: FactSet as of December 2019. Shows price to earnings ratios for relevant index against 20-year average.

# CORPORATE RESULTS REMAIN HEALTHY

Consensus estimates are for strong corporate revenue and earnings growth in 2020. Yet strong corporate results receive far less attention than macroeconomic and geopolitical fears, setting the stage for upside surprise.



Source: FactSet as of 10/01/2020. Estimated Calendar Year Earnings and Sales Growth for MSCI EM, S&P 500, MSCI Europe ex-UK, MSCI World & MSCI Japan benchmarks.

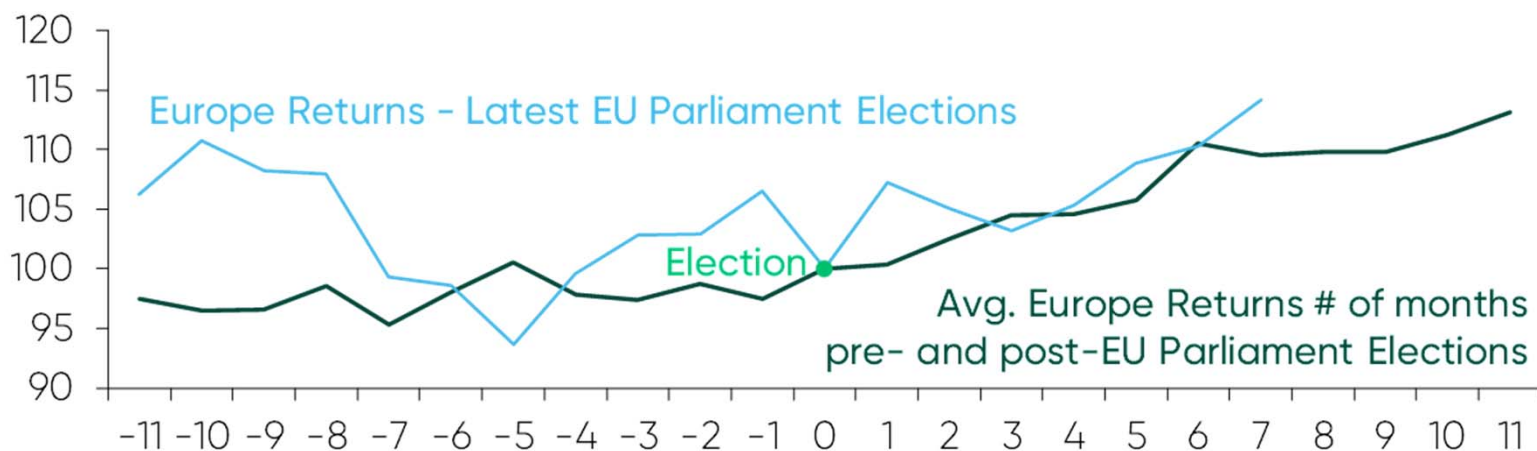
# KEY DEVELOPED MARKETS THEMES

*Our highest conviction views on developed market regions*

- Political gridlock and economic stabilisation should boost European equities
- Years of concern about Brexit, populism, trade wars, and manufacturing weakness have left sentiment excessively dour
- EMU EBITDA margins are expanding noticeably faster than in the US
- Strength in the dominant services sector more than offsets manufacturing weakness
- Inflation remains tame, setting up a Goldilocks economy

# EU BENEFITS FROM FALLING UNCERTAINTY

EU parliamentary elections concluded in mid-2019, and gridlock prevailed. European equities usually benefit from the falling political uncertainty which follows these elections, a trend which has so far followed precedent in this cycle.

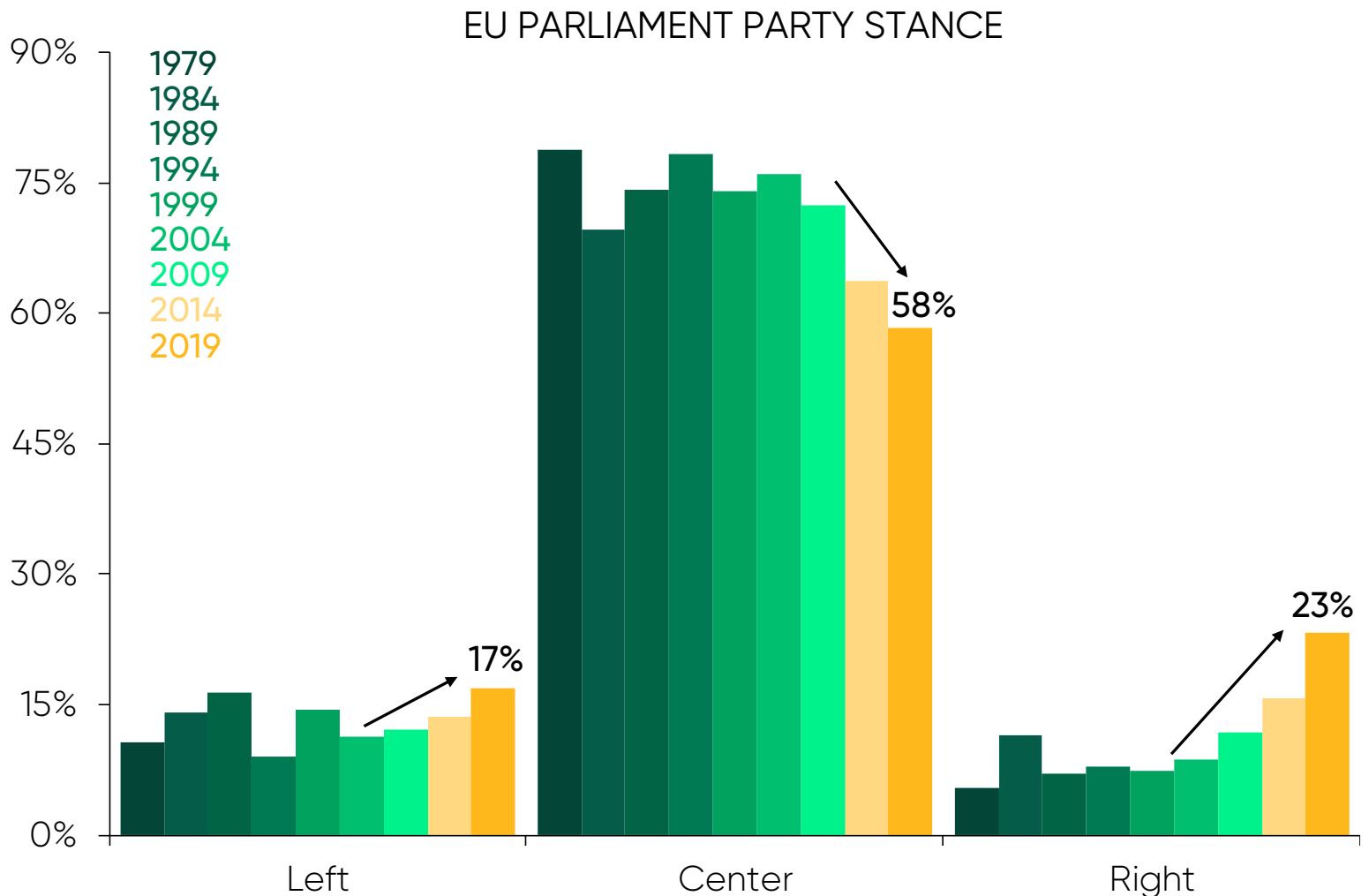


EU Parliament Election Dates	6 Months Pre-Election	6 Months Post-Election	12 Months Post-Election
10 June 1979	-0.9%	5.8%	6.2%
14 June 1984	-1.4%	-3.8%	20.5%
15 June 1989	4.2%	24.6%	32.3%
9 June 1994	-0.1%	3.1%	16.6%
13 June 1999	-5.2%	22.3%	22.2%
13 June 2004	1.2%	17.8%	14.3%
7 June 2009	13.9%	22.1%	-0.6%
22 May 2014	6.3%	-7.6%	-7.0%
27 May 2019	1.4%	10.3%	??
<b>Average</b>	<b>2.2%</b>	<b>10.5%</b>	<b>13.1%</b>
<b>Median</b>	<b>1.2%</b>	<b>10.3%</b>	<b>15.5%</b>
<b>Frequency Positive</b>	<b>56%</b>	<b>78%</b>	<b>75%</b>

Source: FactSet, as of December 2019. Performance is shown for the MSCI Europe-ex UK index, based in USD. Top chart is rebased to 100 at election dates; horizontal axis shows number of months pre- and post-EU Parliament elections.

# CHANGING EU POLITICAL LANDSCAPE

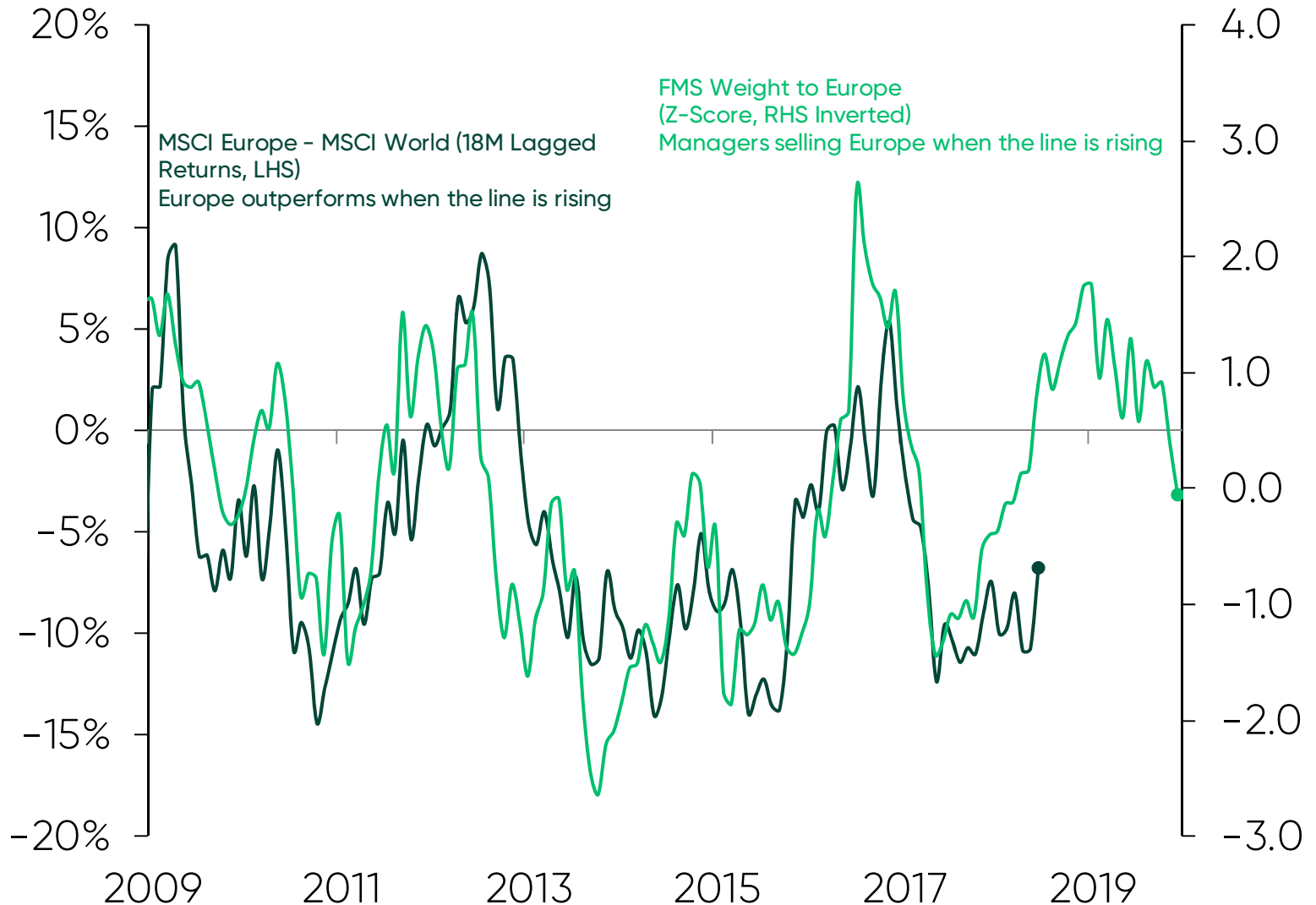
Centrist parties have historically dominated European politics, but power has been gradually shifted from the centre to both the left and right ends of the political spectrum. As a result, forming governments requires greater coalition building, which hampers decision making and increases gridlock.



Source: Fisher Investments Research, EU Parliament, pollsofpolls.com as of 10/04/2019. EU Parliament party stance by election since 1979 (% of seats).

# FUND MANAGERS NEGATIVE ON EMU

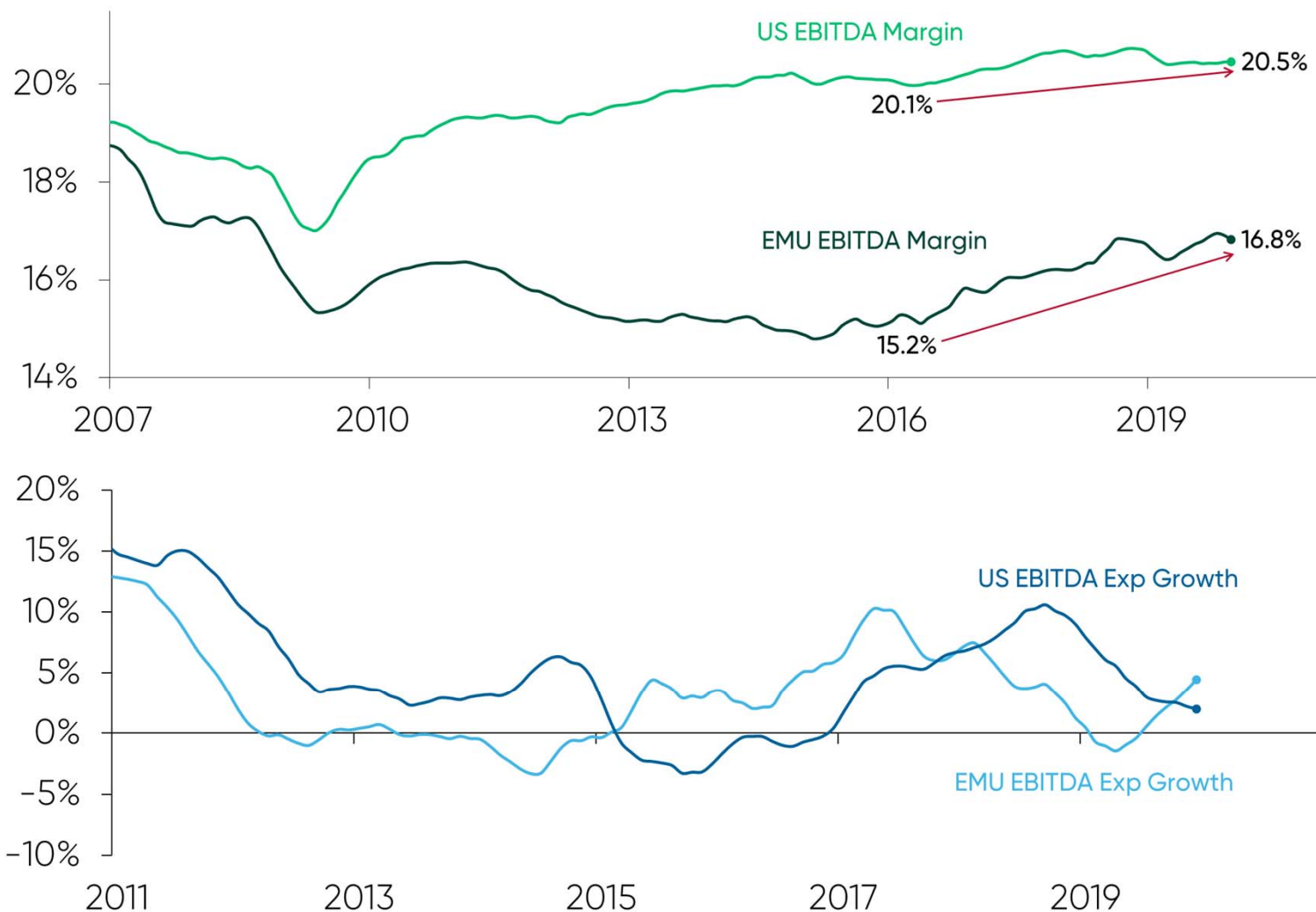
The Bank of America Fund (BofA) Manager Survey (FMS) shows a substantially reduced position to the EMU. This has historically been a reliable contrarian indicator; when managers become uniformly negative on the EMU, the region typically outperforms over the next 12-18 months.



Source: Monthly BofA Fund Manager Survey. Survey and performance data through 14/12/2019. Shows net EMU fund manager weight as a 3 year inverted z-score. MSCI EMU – World lagged 18 months, based on Y/Y change.

# EMU EQUITIES' ACCELERATING PROFIT MARGINS

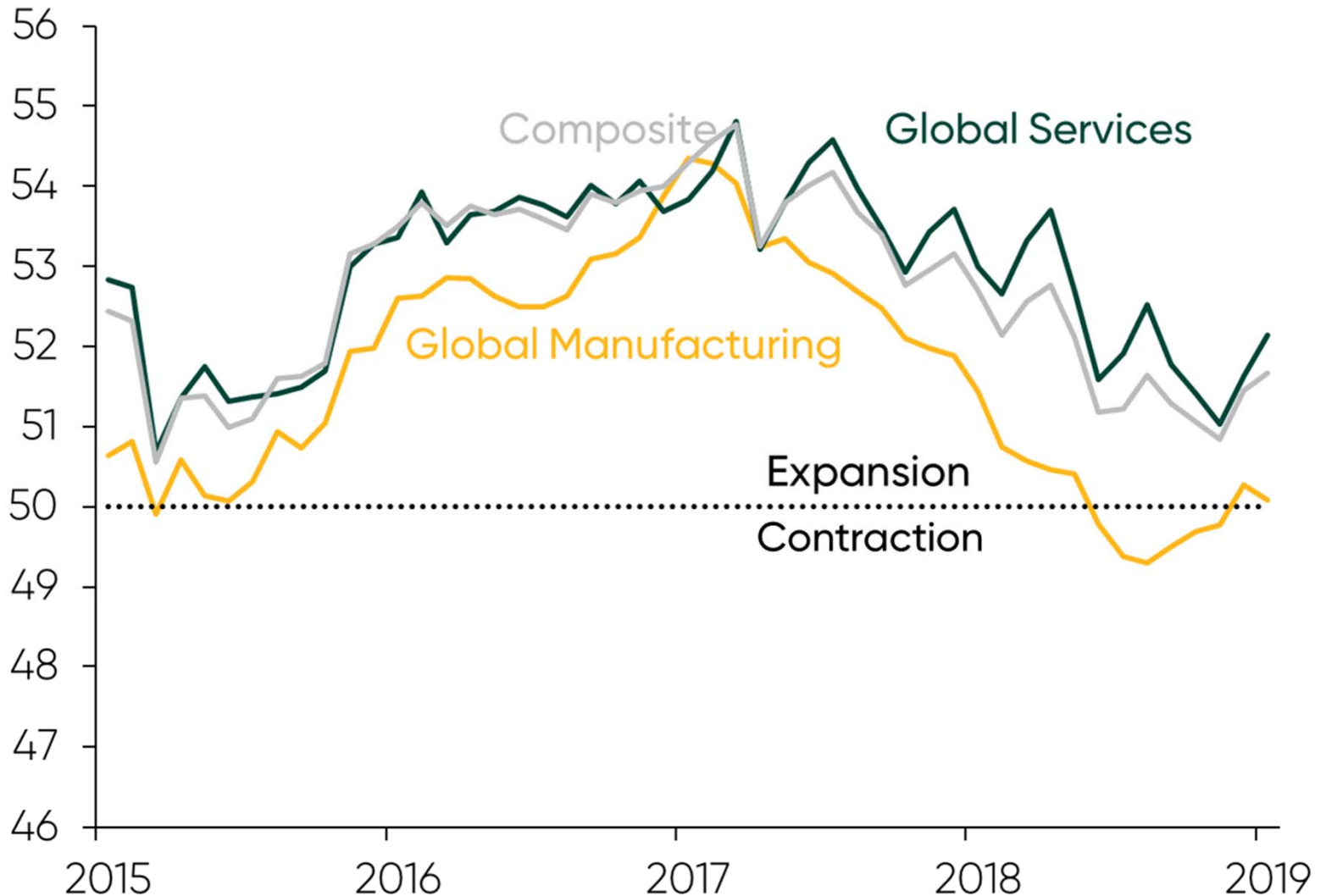
EMU EBITDA margins are expanding noticeably faster than in the US. This likely continues as EMU EBITDA expectations are for further reacceleration ahead of the US in 2020.



Top & Bottom chart source: FactSet as of December 2019. Top chart shows MSCI EMU & MSCI USA Y/Y EBITDA margin expansion as a 3M moving average. Value call-outs for January 2016 & December 2019. Bottom chart shows MSCI EMU & MSCI USA Y/Y EBITDA expected growth as a 3M moving average. EBITDA refers to earnings before interest, taxes, depreciation and amortization.

# GLOBAL PMI'S ARE EXPANSIONARY

Despite recent manufacturing weakness, global service and composite PMI's continue to indicate expansion, a sign of a stabilising global economy.

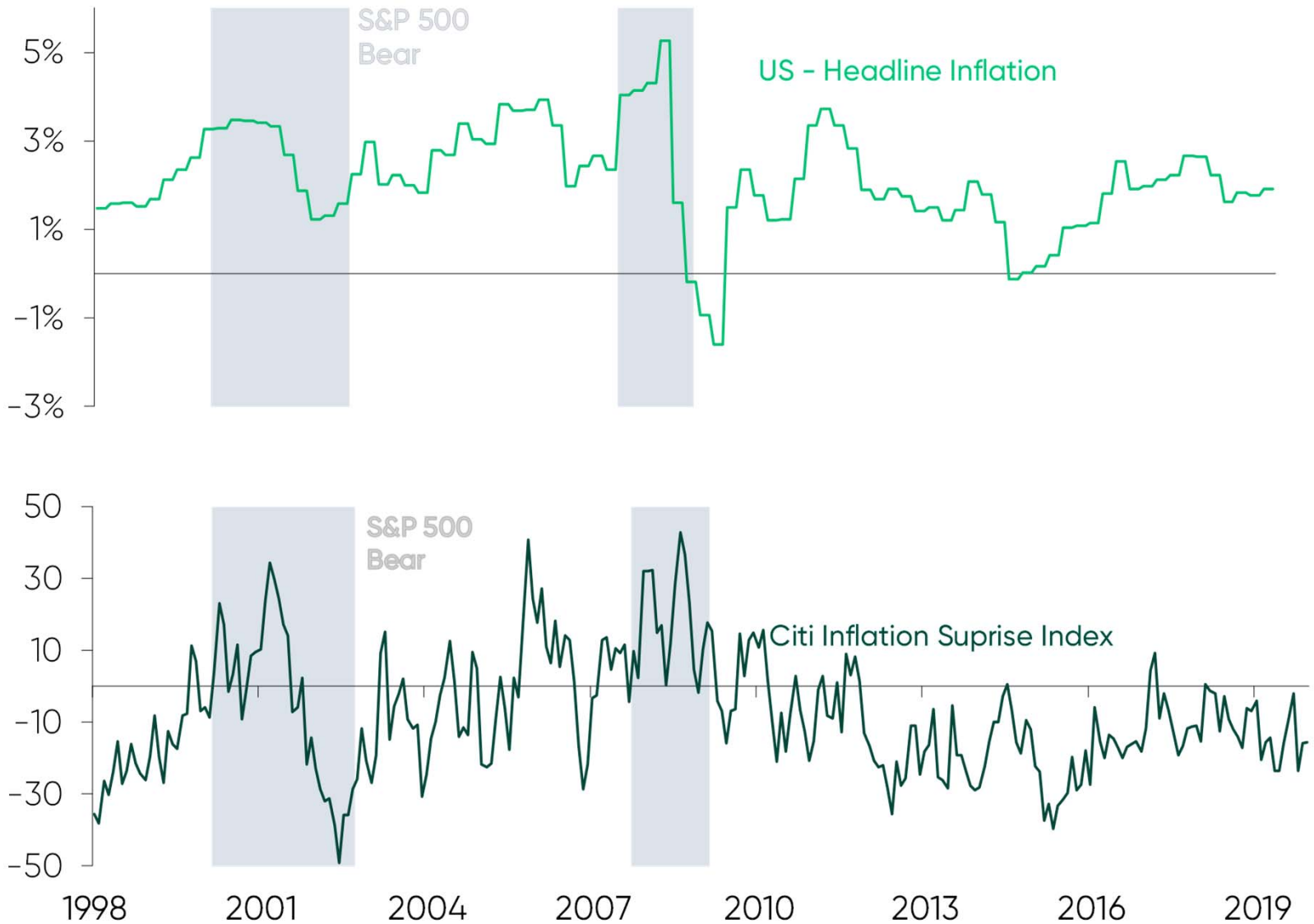


Source: JP Morgan Global services, manufacturing, and composite PMIs, 01/01/2016 – 29/11/2019.



# US INFLATION REMAINS UNDER CONTROL

Inflation often spikes as the market cycle transitions from bull to bear. Presently, US inflation and expectations are subdued.



Source: FactSet as of December 2019. Citi Inflation Surprise Index & OECD Headline Inflation for United States monthly, 30/01/1998 – 31/12/2019.

# KEY EMERGING MARKETS THEMES

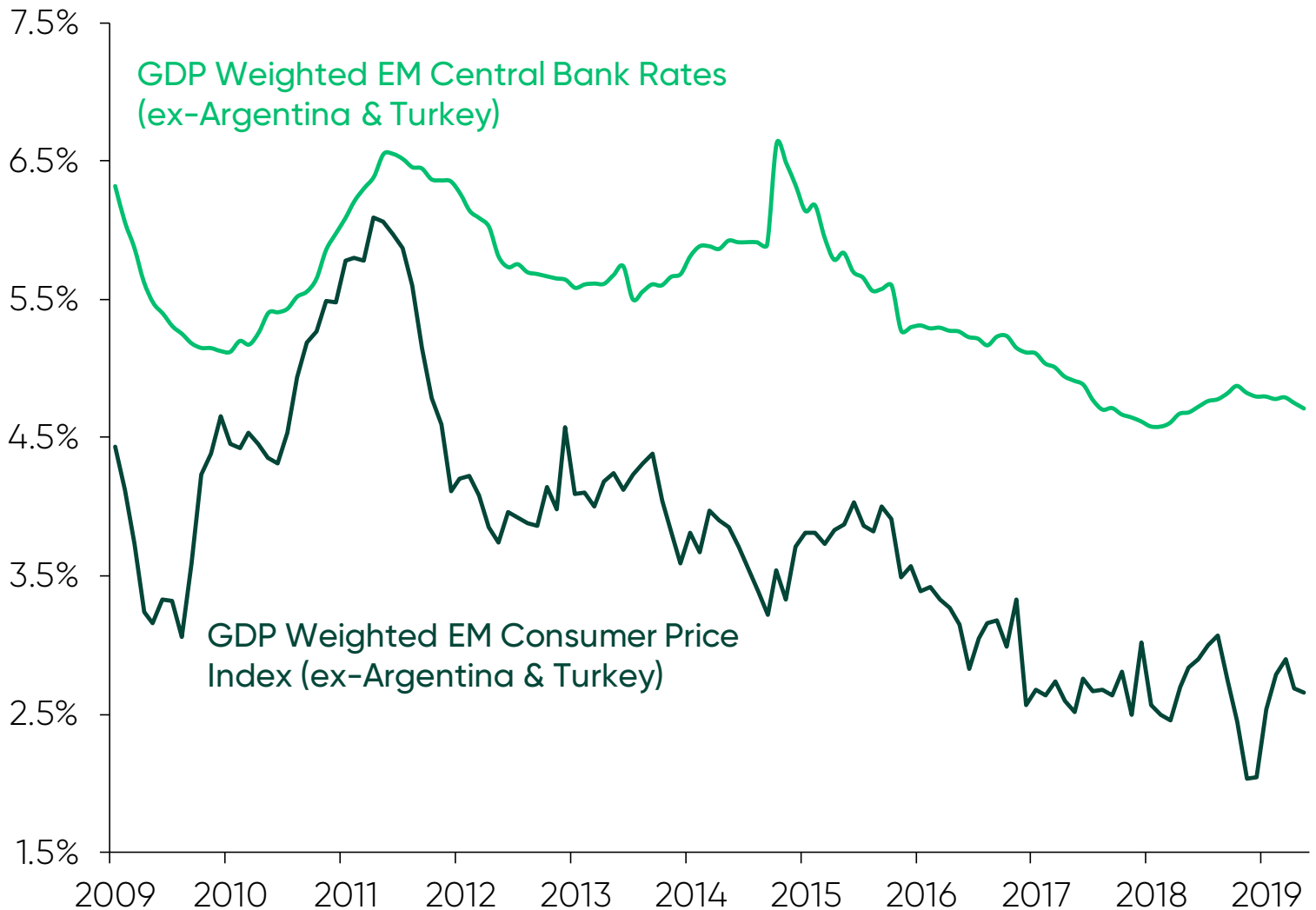
*Our highest conviction views on Emerging Markets*

- Emerging Markets are benefitting from long-term disinflationary trends
- EM valuations reflect excessive pessimism
- The Chinese economy is stable, but the “New Economy” is leading the “Old Economy”
- Indonesia is benefitting from lower subsidies and higher infrastructure spending
- Korea’s exports have been temporarily weak
- Brazil is benefitting from lower inflation and interest rates
- EM reform has been hard to come by

*As of 31/12/2019.*

# LONG-TERM DISINFLATIONARY TREND

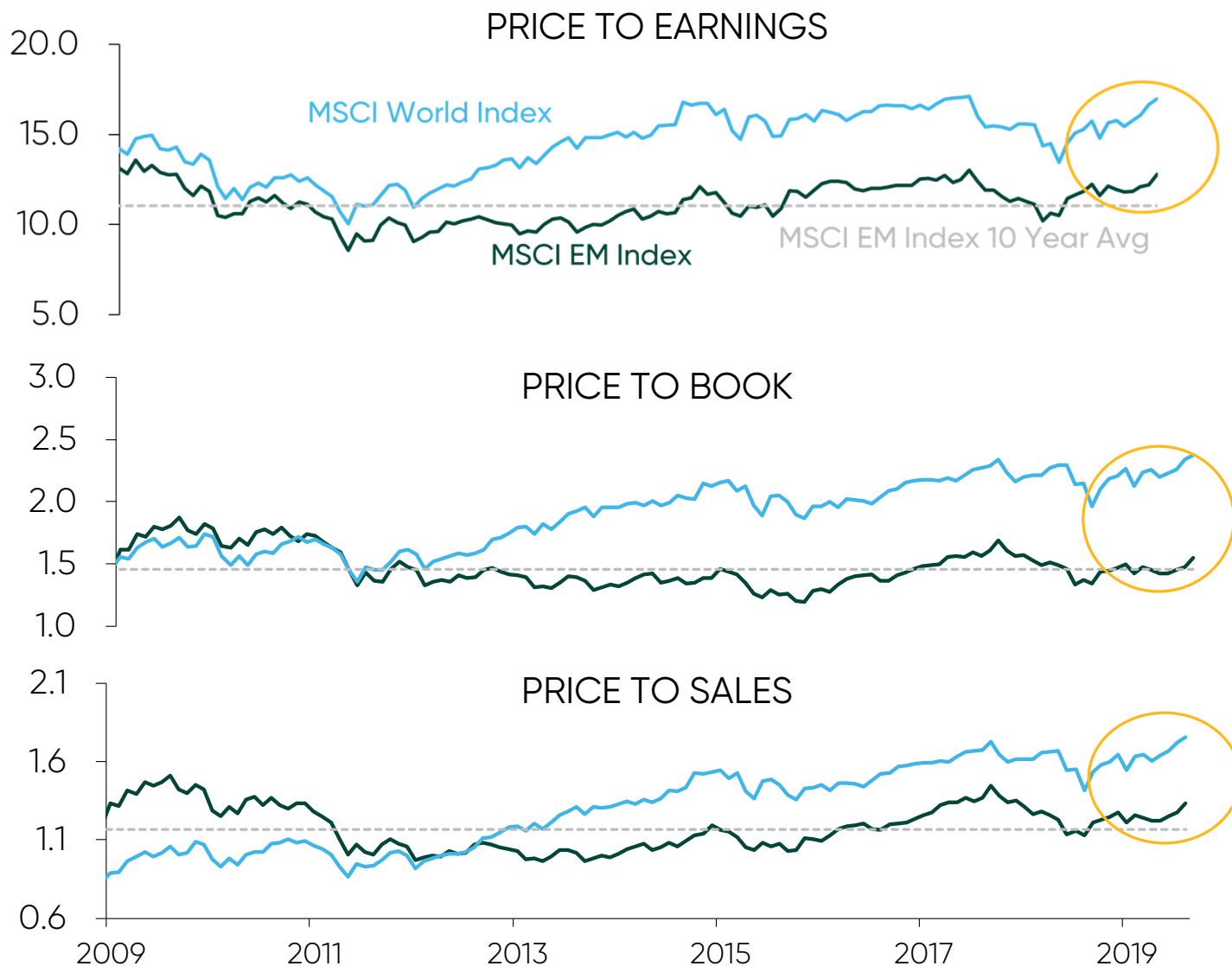
Historically, many Emerging Markets have struggled with high inflation and resulting high policy rates. Excluding recent outliers (Argentina & Turkey), global disinflationary trends and improved monetary policies should benefit many EM countries going forward.



Source: Bank for International Settlement, World Bank & Global Financial Data as of July 2019. EM monthly central bank policy rates and consumer price index weighted against annual GDP data, excluding Argentina & Turkey.

# EM VALUATIONS ARE HISTORICALLY ATTRACTIVE

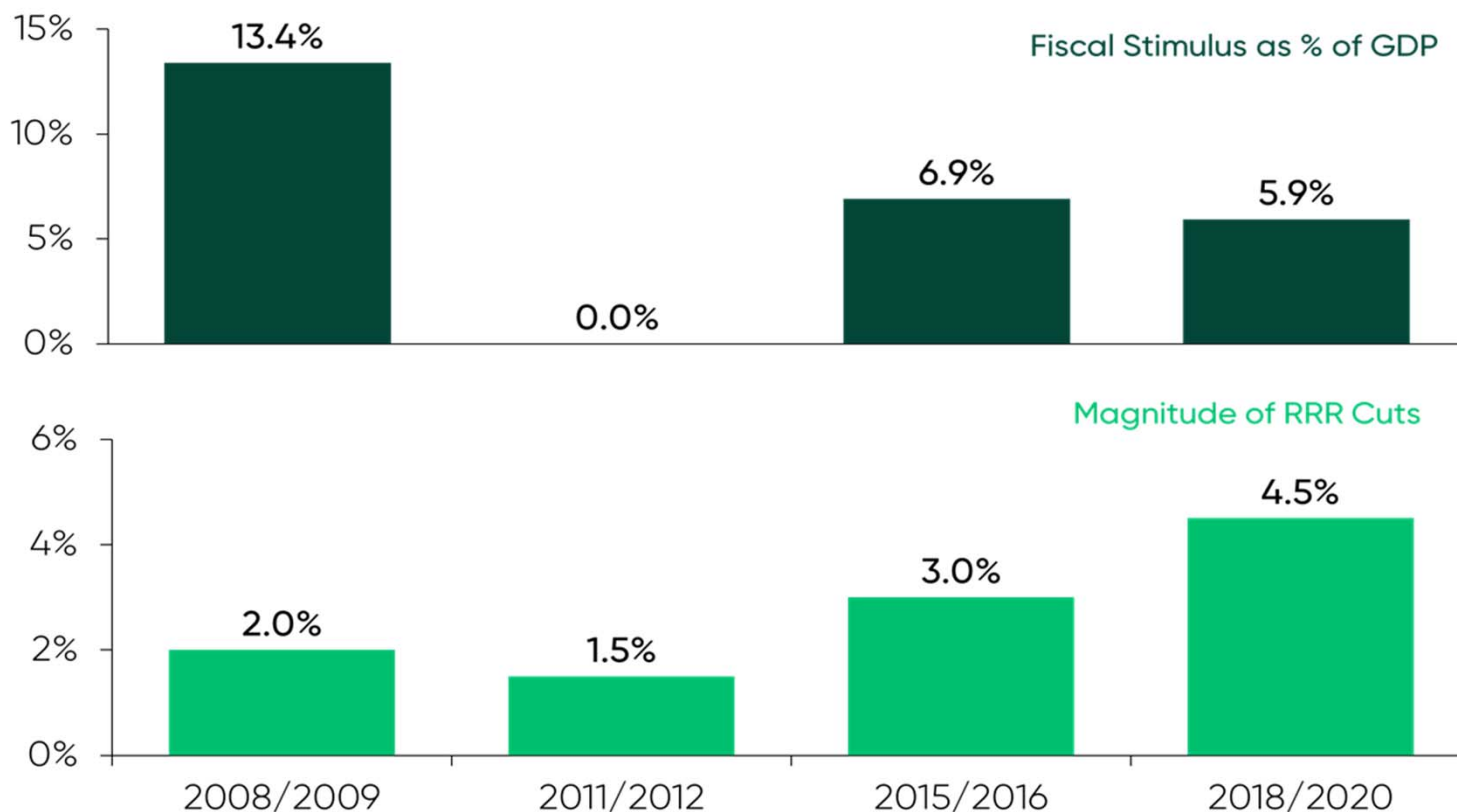
Emerging Market valuations have recovered from the extreme lows of 2018, but still remain at a large discount to the developed world. As global growth continues, negative sentiment should abate, pushing EM valuations higher.



Source: FactSet as of December 2019. Based on monthly forward valuations.

# CURRENT & PREVIOUS STIMULUS ARE COMPARABLE

Recent Chinese stimulus has been on par with prior stimulus, which has effectively stabilised the economy.

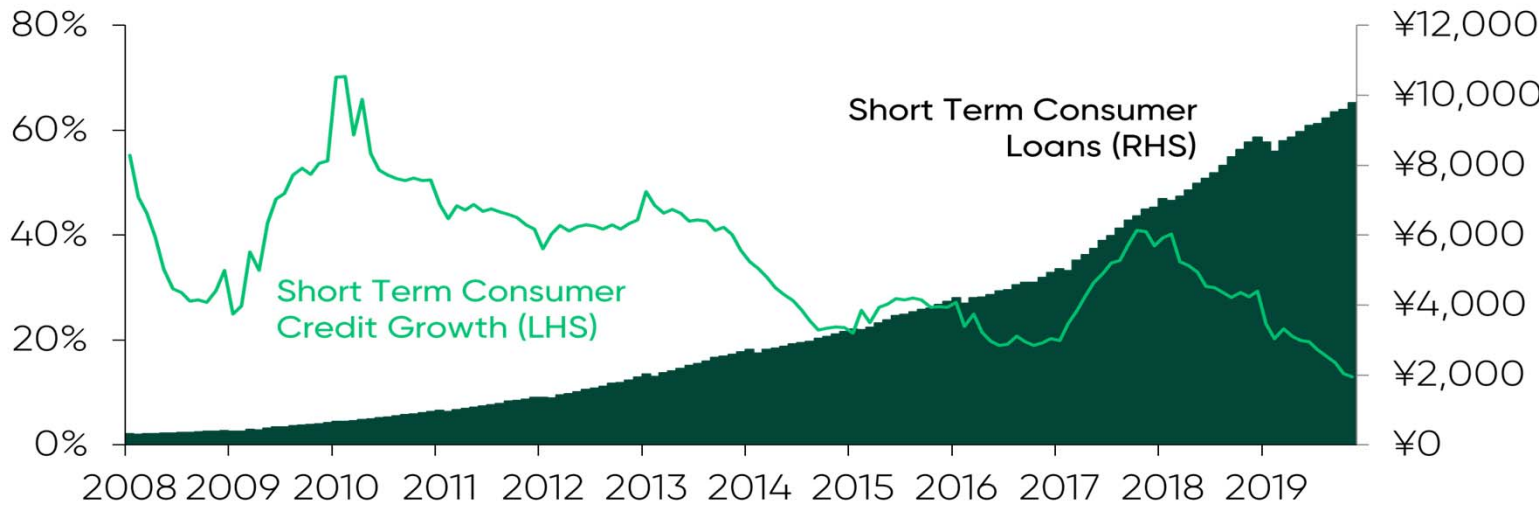
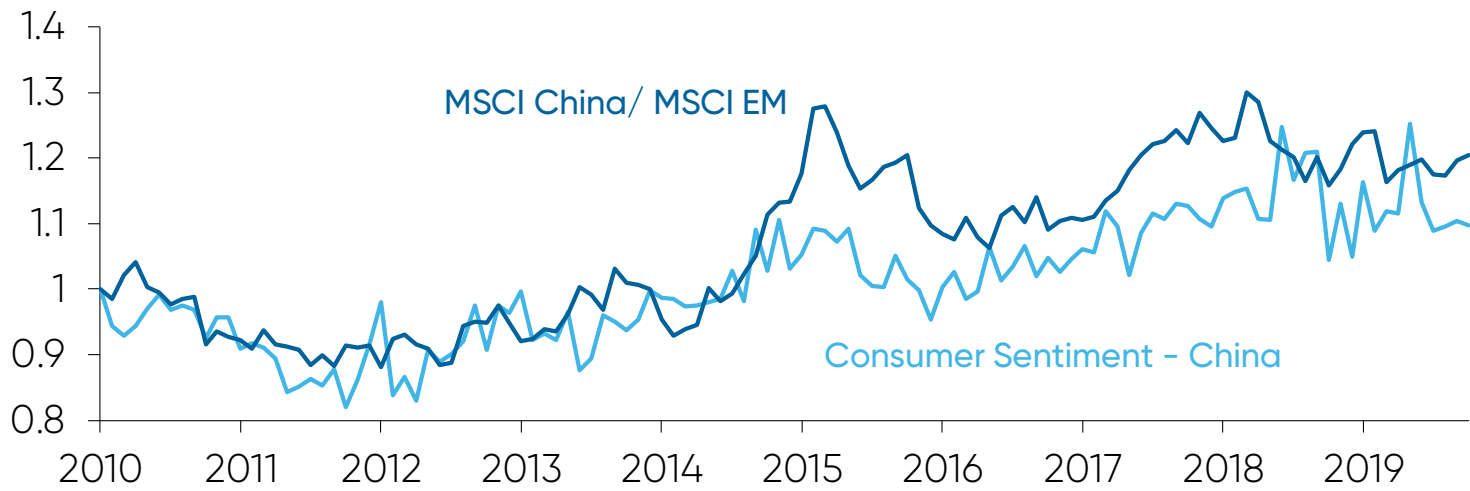


Fiscal Stimulus	Date	% of GDP	Other Important Policies	Date	% of GDP
Vocational Training Program	30/4/19	0.1%	Additional Reserve Ratio Requirement (RRR) Cuts to Small Banks	5/3/19	--
VAT Cuts	5/3/19	0.6%	>30% Y/Y Target Bank Loans to Small-and-Medium Enterprises (SME)	26/2/19	3.0%
Personal Income Tax Cuts	1/1/19	1.0%	Increased Perpetual Bond Issuance and Central Bank Bond Swaps	20/2/19	--
Small Business Tax Cuts	1/1/19	0.2%	Shadow Banking crackdown will slow, allowing more natural development	28/1/19	--
Local Government Bonds - Infrastructure	2018/2019	3.0%			

Source: FactSet, World Bank, People's Bank of China and Fisher Investments Research as of January 2020. Fiscal stimulus defined as infrastructure spending and tax cuts. VAT is Value-Added Tax. "RRR" refers to reserve requirement ratio.

# CONSUMERS INCREASINGLY RELEVANT IN CHINA

Consumer spending and sentiment have become more important as China shifts to a more consumption driven economy. Part of this consumption boom has been driven by a steady flow of short term lending, increasing at a healthy ~20% Y/Y despite a recent slow down.

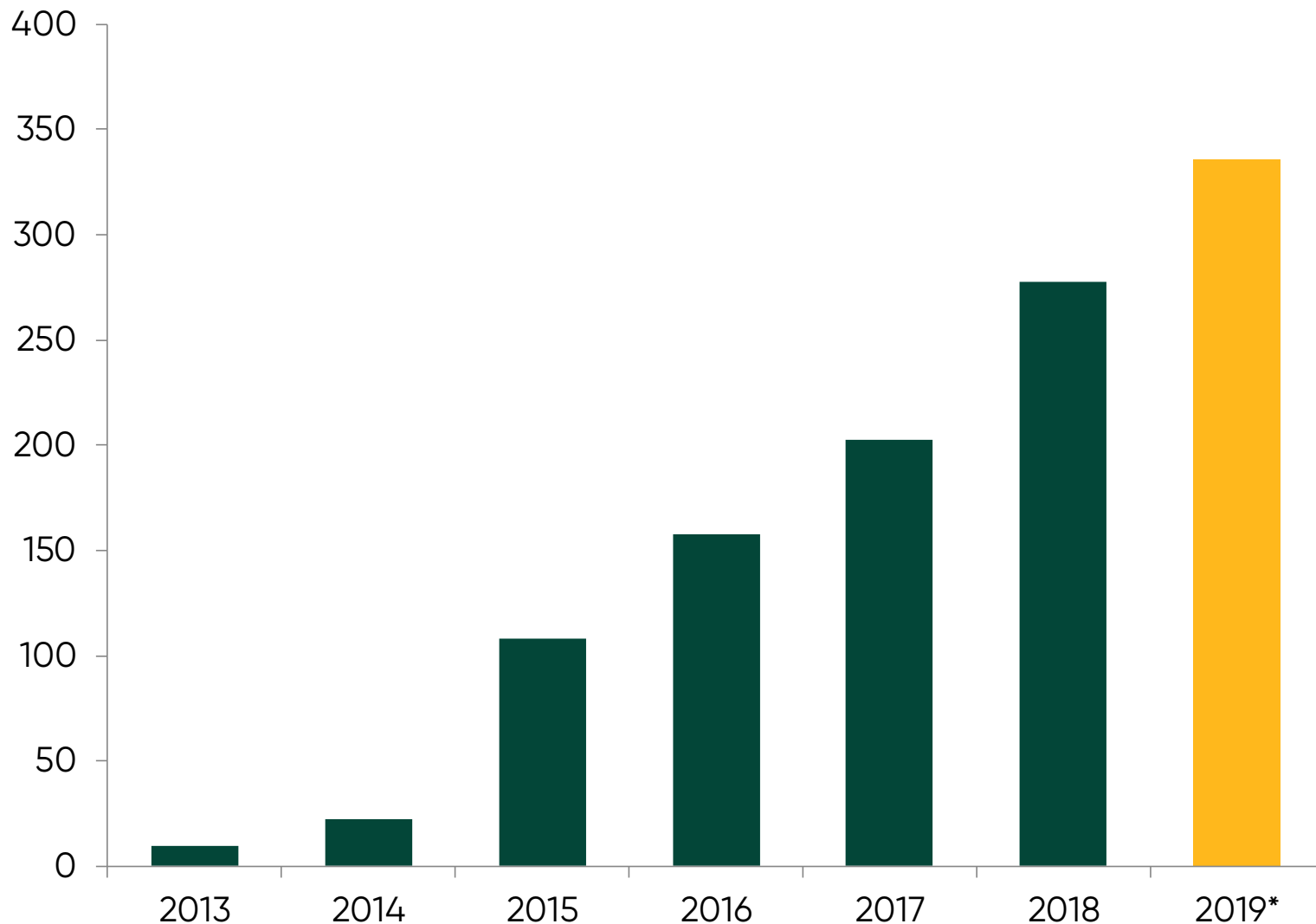


Top chart source: FactSet & Thompson Reuters DataStream as of December 2019. Both data series indexed to 1. Bottom chart source: Bloomberg as of 30/11/2019. Consumer credit growth shown as Y/Y percentage increase, while consumer loans shown as billions of Yuan.

# MOBILE PAYMENTS CONTINUE TO INCREASE

The volume of mobile payment transactions in China continues to increase, demonstrating that a slowdown in Chinese investment and industry has been offset by industries focused on services and consumption.

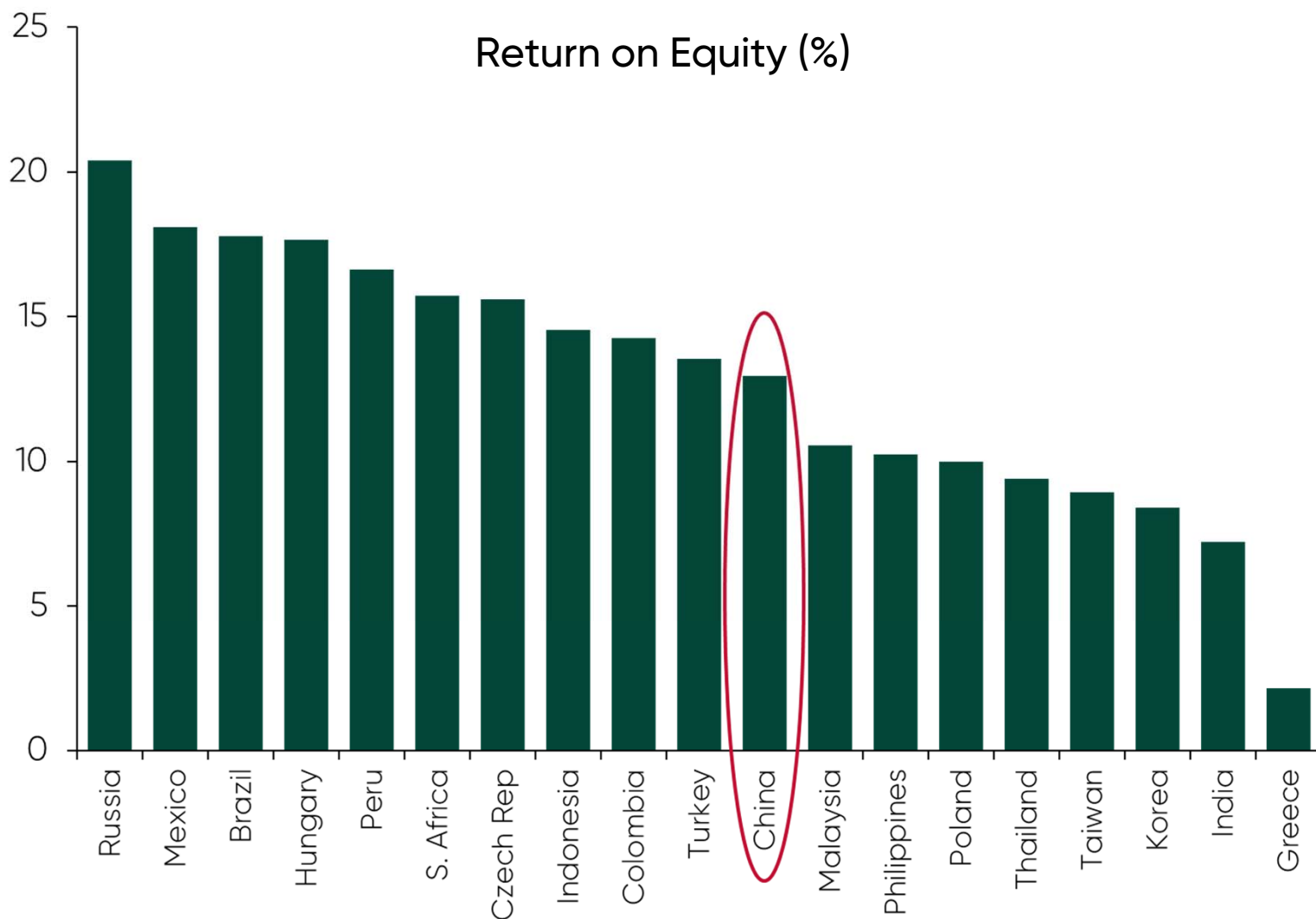
## Chinese Mobile Payment Transaction Volume – Trillions of Yuan



Source: People's Bank of China, "Overall operation of the quarterly payment system" Annual Report 2013-2018, Quarterly Report Q1-Q3 2019. \*Q1 - Q3 2019 based on actual data, Q4 is estimated as an average of the first 3 quarters of the year.

# CHINESE BANK PROFITABILITY BELOW AVERAGE

The Chinese government is attempting to strike a balance between recently announced fiscal and monetary stimulus, while unwinding parts of the shadow banking sector. This should result in Chinese banks adding lower quality assets back on to their balance sheets tied to increased regulation and mandated lending, particularly to small businesses.

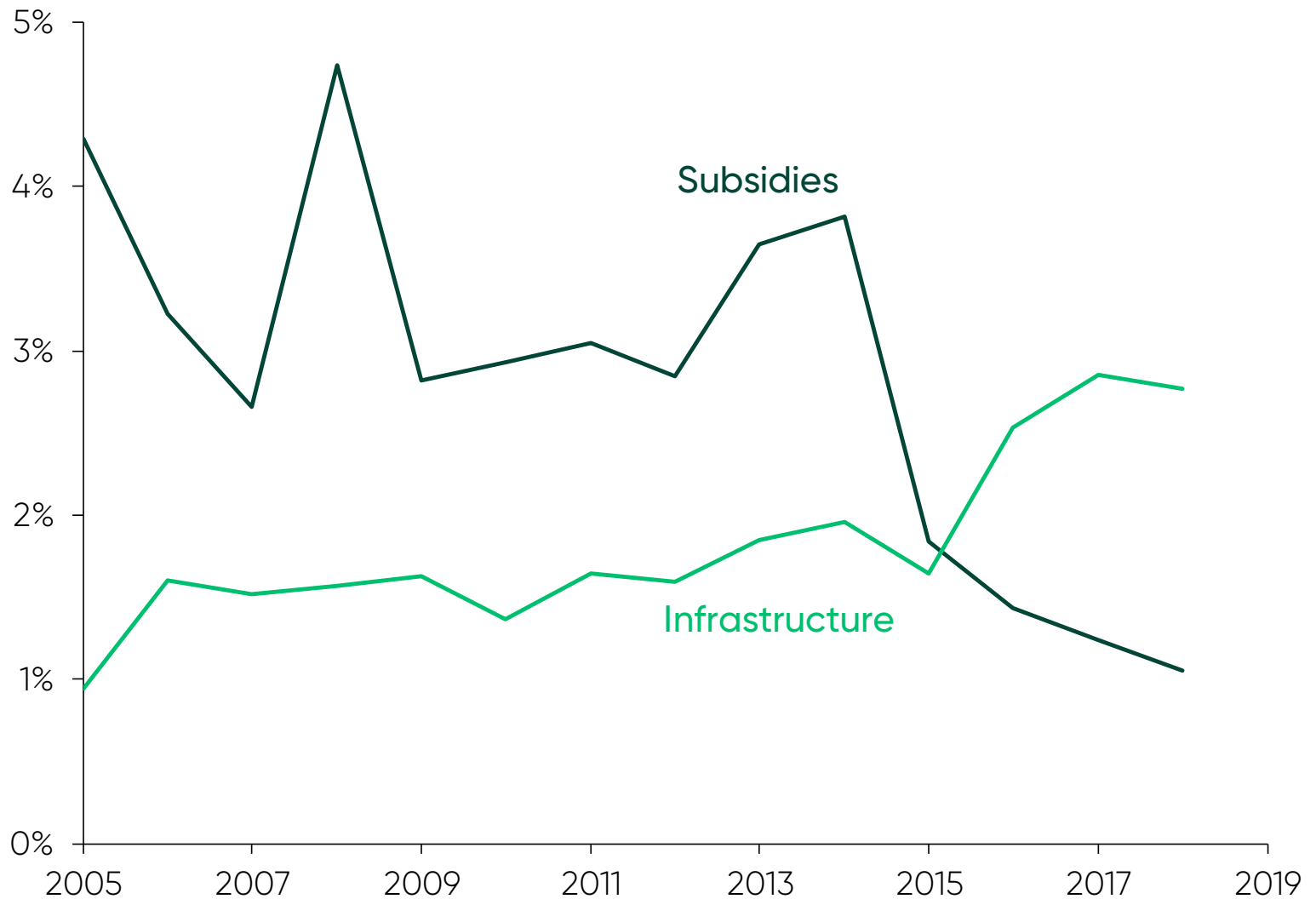


Source: FactSet & MSCI. Shows return on equity as of November 2019.



# INDONESIAN GOVERNMENT SPENDING QUALITY IMPROVING

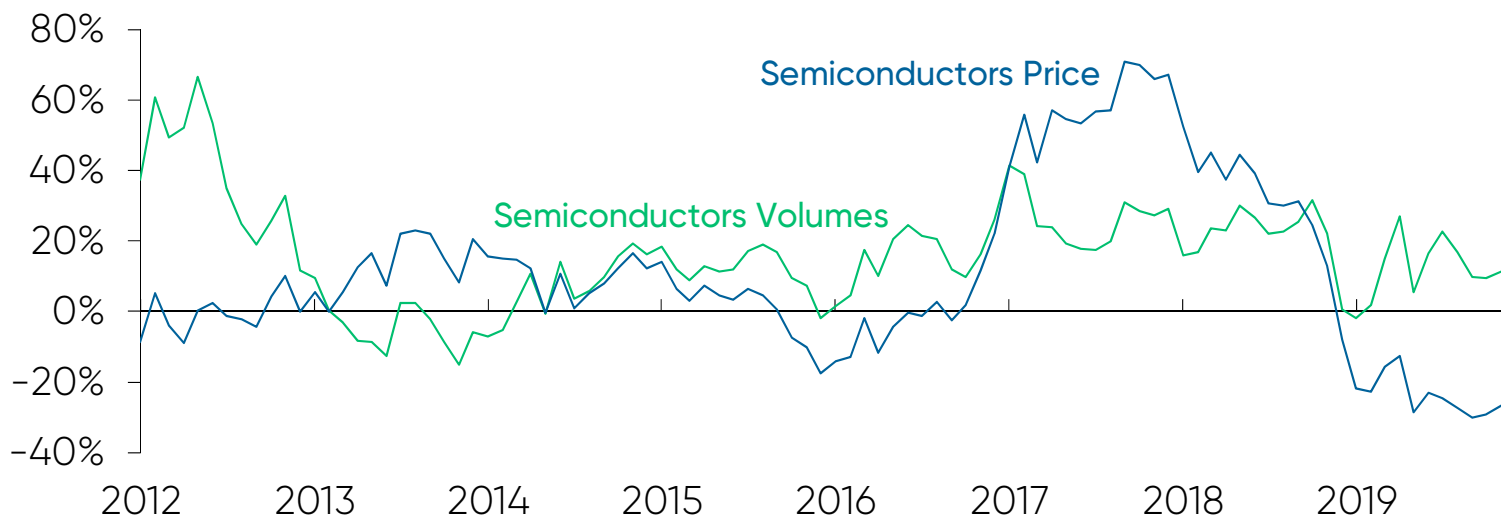
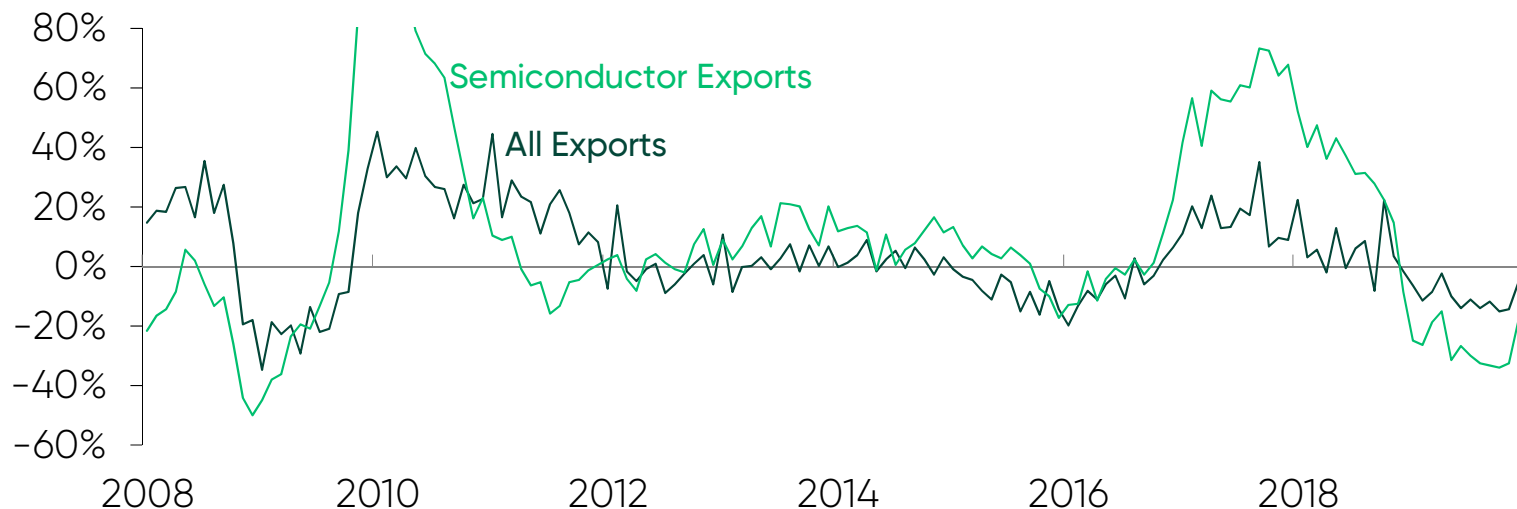
The Indonesian government has cut potentially damaging subsidies and increased spending on needed infrastructure and other projects.



Source: GaveKal Indonesian GDP, Government Subsidies and Infrastructure Expenditures 2005-2018 as of 18/12/2019.

# SOUTH KOREAN EXPORTS FACING TEMPORARY HEADWINDS

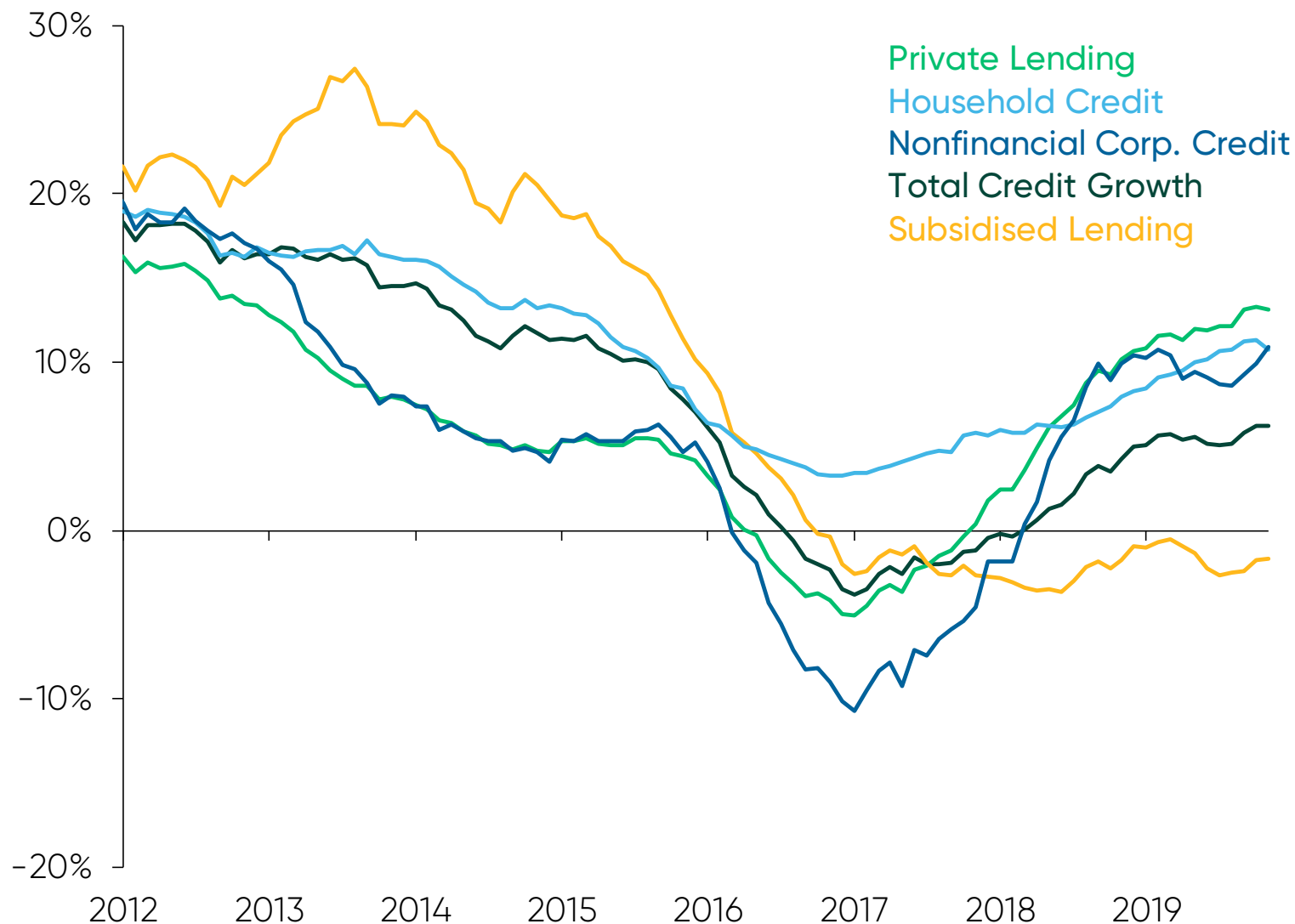
South Korea's large export industry has faced increased sentiment headwinds from continued trade tensions between the US & China, as well as pressure from Japan. These fears waning should benefit the country's large trade oriented industries and support domestic equity prices.



Top chart source: Thomson Financial Datastream as of December 2019, shows Y/Y % change in exports, based on monthly data. Bottom chart source: Thomson Financial Datastream as of November 2019, Bank of Korea, shows Y/Y % of prices and volume, based on monthly data.

# LOW RATES AND INFLATION BUOY BRAZIL

Brazil credit and loan growth has been steadily increasing off of 2017 lows, while subsidised lending continues to shrink, as Brazilian interest rates have dropped to a record low.



Source: Central Bank of Brazil, Y/Y % change in types of credit growth as of November 2019.

# LOW LIKELIHOOD OF REFORMS FOLLOWING EM ELECTIONS

Economic reforms can boost EM economies and equities. But reform remains an uphill battle in some EM countries.

Country	Result	Likelihood of Reform
<b>Thailand</b>	Military junta's candidate won, maintaining the status quo and the military's control over the government	<b>Low</b> - Military has very little incentive to drive reform
<b>India</b>	PM Modi won re-election on a platform lacking much substance	<b>Low</b> - focus is on modest economic stimulus but not structural reform
<b>South Africa</b>	President Ramaphosa won re-election, but included several members of Zuma's former cabinet on his own	<b>Low</b> - land reform remain controversial and infighting in the ANC limits scope of reform
<b>Poland</b>	Ruling Law and Justice Party retained its majority in the lower house, but lost its majority in the upper house	<b>Low</b> - Given the loss of the upper house, meaningful reform is unlikely
<b>Argentina</b>	Incumbent President Macri was defeated by centre left candidate Alberto Fernandez and running-mate former President Kirchner	<b>Low</b> - some of the reforms passed under previous government might even be rolled back
<b>Greece</b>	Centre-right party New Democracy won an outright majority, unseating PM Tsipras' leftist government	<b>Modest</b> - Outright majority gives the new government room for reform, but majority (8 seats) is small, limiting significant reform
<b>Indonesia</b>	President Widodo won re-election	<b>Modest</b> - Continued focus on infrastructure investment

Source: Fisher Investments Research as of 17/12/2019.

# KEY SECTOR POSITIONING

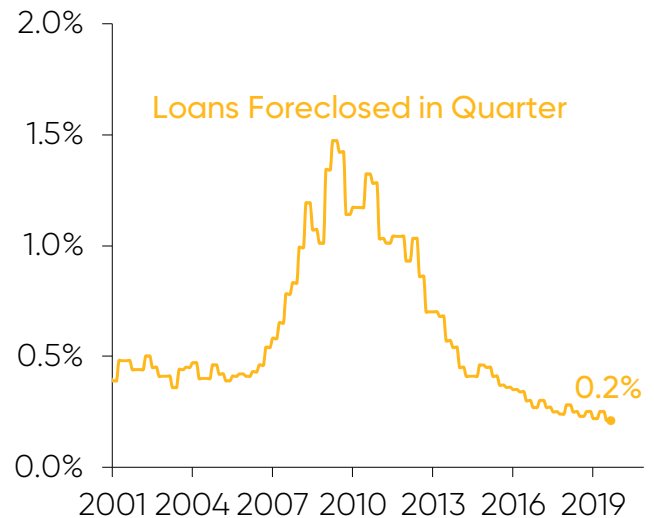
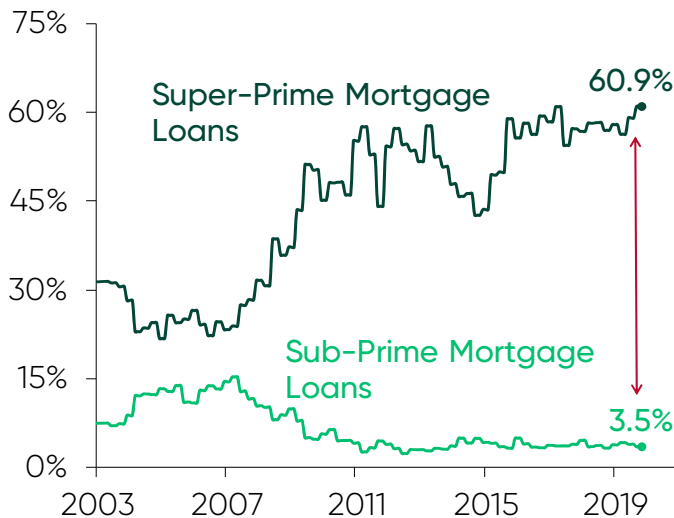
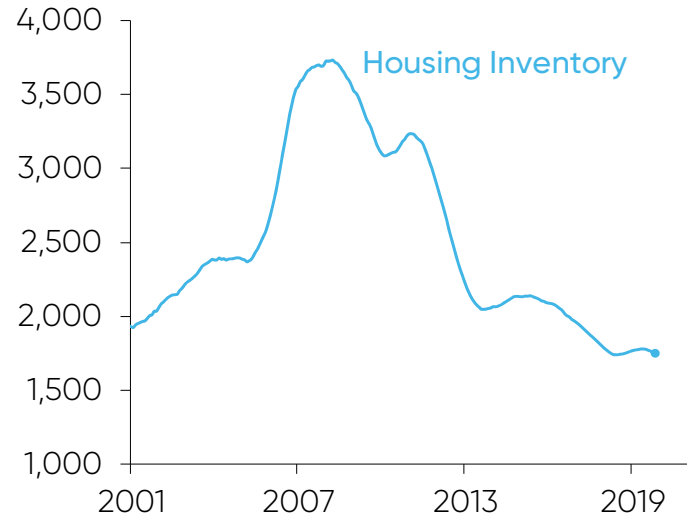
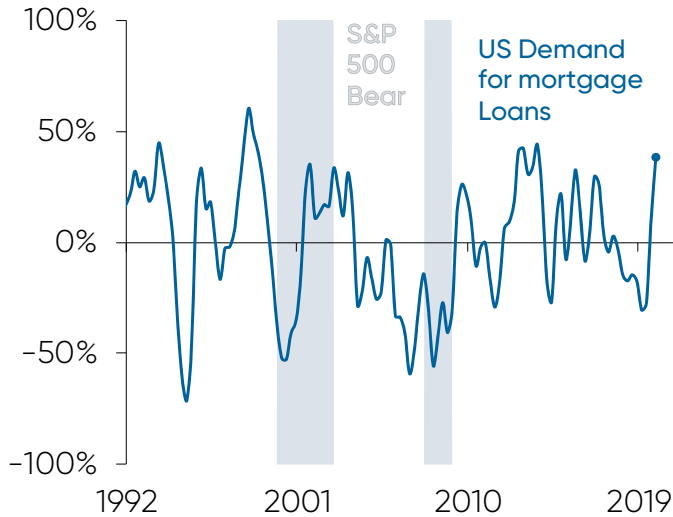
*Our highest conviction views on sectors*

- Strong US housing fundamentals support homebuilders
- Pharmaceutical equities are benefitting from strong pipelines and drug approvals
- EMU banks stronger than expected
- US bank lending profits are pressured
- Oil shocks aren't shocking

*As of 31/12/2019.*

# HOUSING MARKET STRENGTH SUPPORTS HOMEBUILDERS

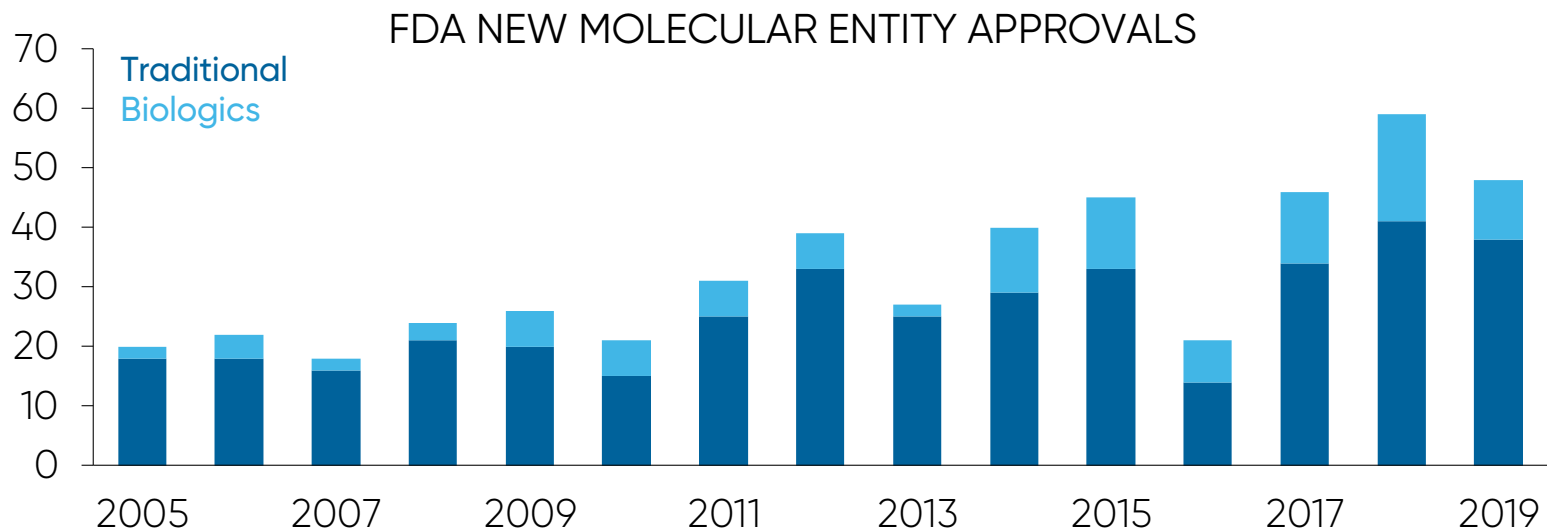
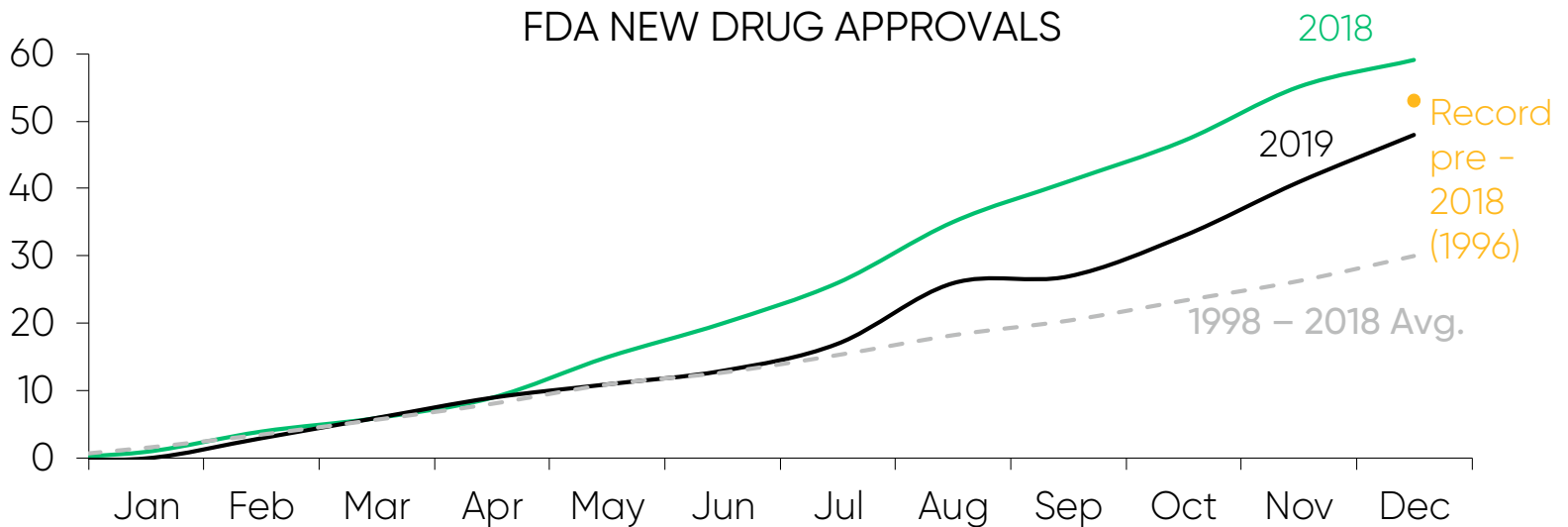
Homebuilders are benefitting from a healthy housing market. Mortgage demand is rising amid low inventory, and loan quality is relatively high.



Top left chart source: ECB & Federal Reserve Senior Loan Officer Quarterly Survey on Future Expected Loan Demand, as of December 2019, shows expected demand growth for US mortgage loans, as a 2Q moving average. Top right chart source: FactSet, as of November 2019, shows inventory of total existing homes for sale in housing units, displayed as a 12M moving average. Bottom left chart source: NY Fed Microeconomics as of November 2019, shows sub-prime mortgage loans (FICO Score <620) and super-prime (FICO +760) as a % of total mortgage loans issued, on a quarterly basis. Bottom right chart source: FactSet, Mortgage bankers association as of September 2019, shows all US mortgage loans in foreclosure started during the quarter.

# ACCELERATED DRUG APPROVALS SUPPORT HEALTH CARE

FDA new drug approvals picked up in 2019, an above average year, but off the record-setting pace of 2018. Strong drug pipelines and a concerted effort by regulators to get new drugs to market quickly provide a positive backdrop for drug makers.

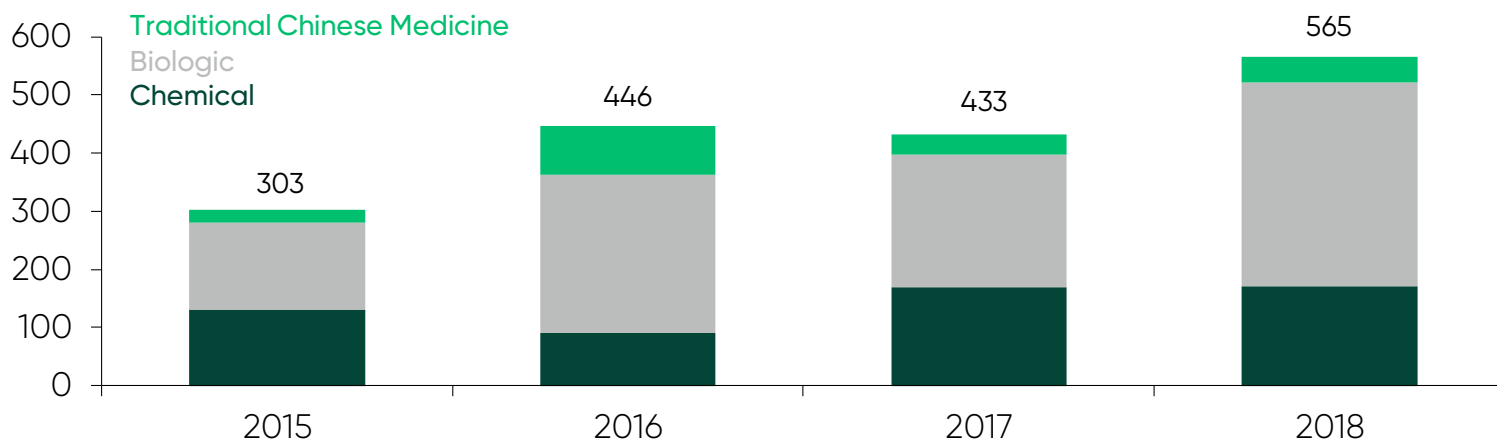


Source: US Food and Drug Administration novel drug approvals of new molecular entities (NMEs) as of December 2019. NMEs provide new therapies for patients.

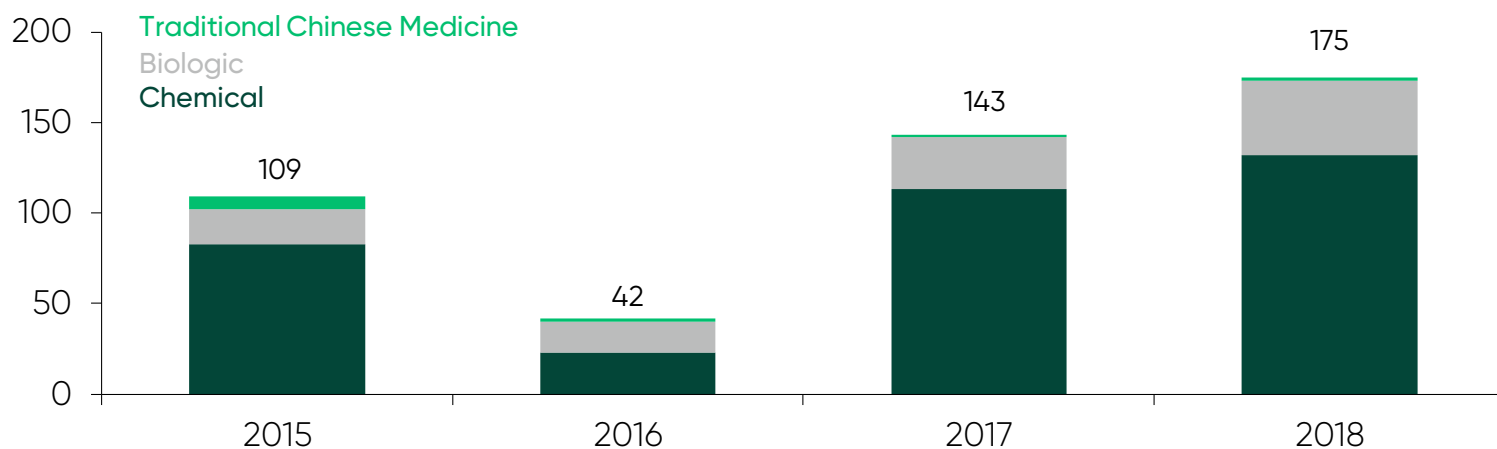
# CHINESE DRUG APPROVALS SURGING

The Chinese drug approval process is surging, with record approvals of innovative and foreign drugs—a huge new opportunity for drug makers.

## CHINESE INNOVATIVE DRUG TRIAL APPROVALS



## CHINESE INNOVATIVE DRUGS APPROVALS

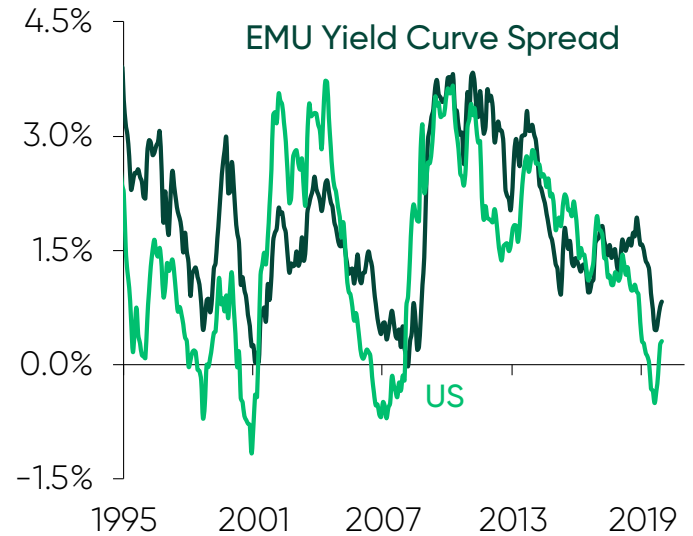
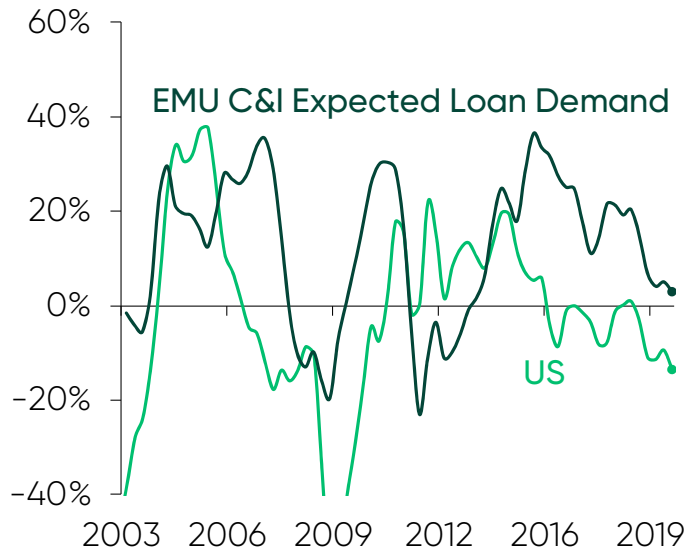
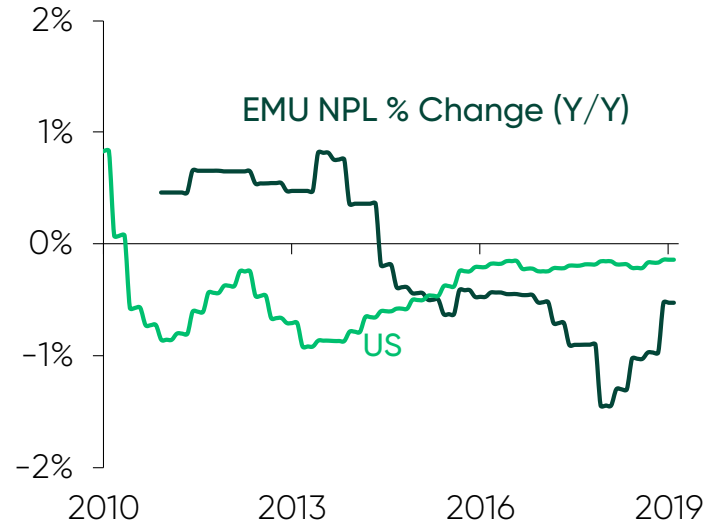
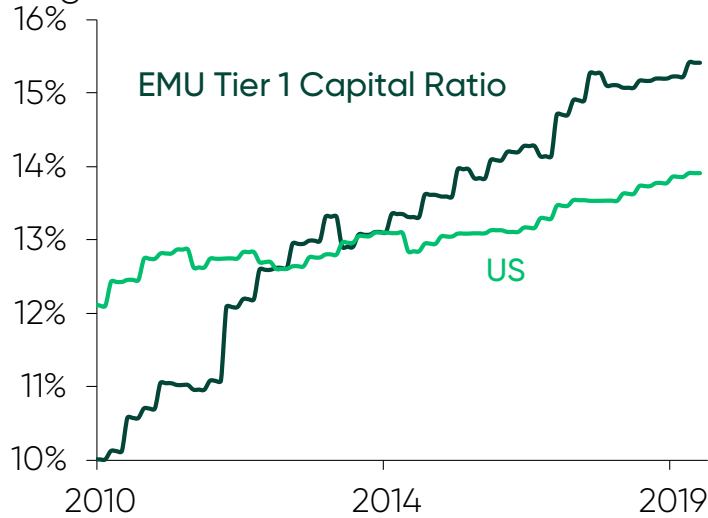


Source: China Center of Drug Evaluation, as of 31/12/2018.



# EMU BANKS' STRONG POSITIONING

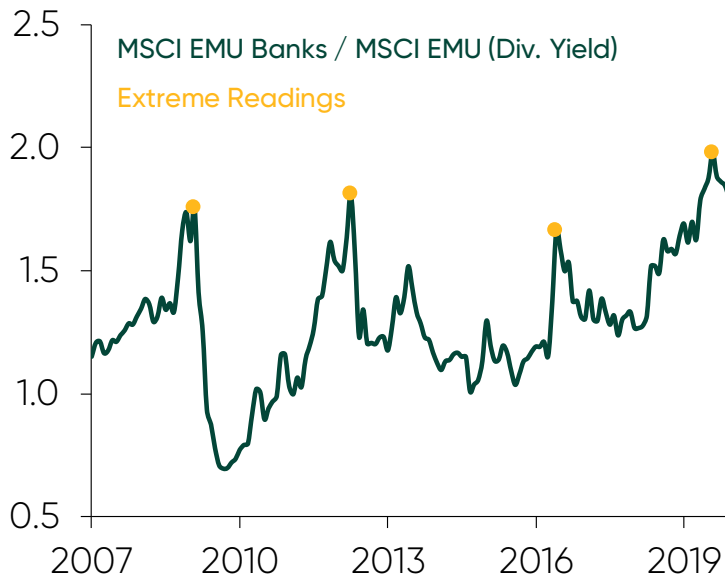
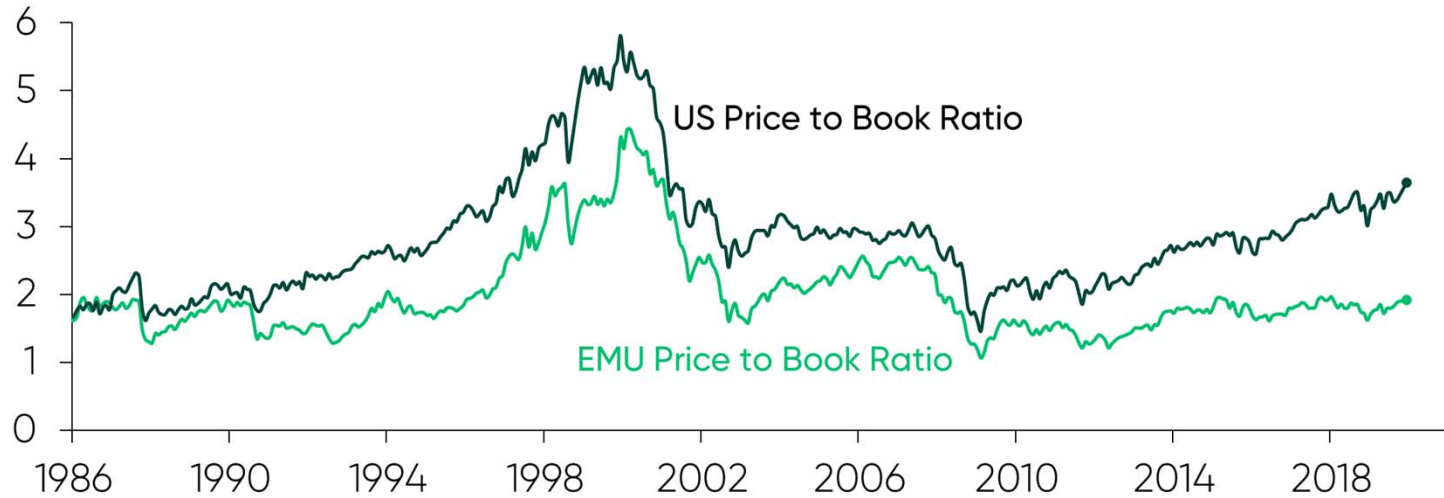
EMU bank balance sheets are strong and continue to improve more rapidly than US banks. Access to and demand for credit, and the yield curve, in the EMU are the most attractive in the developed world. All factors indicate strong lending and bank margins moving forward.



Top charts source: FactSet and IMF as of December 2019. Quarterly Tier 1 Capital Ratio to Risk Weighted Assets, as of June 2019. Non-performing loans to total gross loans, quarterly as of June 2019. Bottom left chart source: Federal Reserve and European Central Bank monthly Senior Loan Officer Opinion Survey as of December 2019. Bottom right chart source: FactSet and OECD as of December 2019. 10Y Government bond yield minus overnight interbank rate, daily.

# EXTREME NEGATIVE SENTIMENT TOWARD EMU BANKS

EMU Financials are trading at a large discount to the World and US on a Price/Book basis, which we believe is unjustified based on fundamentals. Additionally, relative to the EMU, Banks' dividend yield is at an extreme high which has been an indicator of outperformance over the coming 12 months.

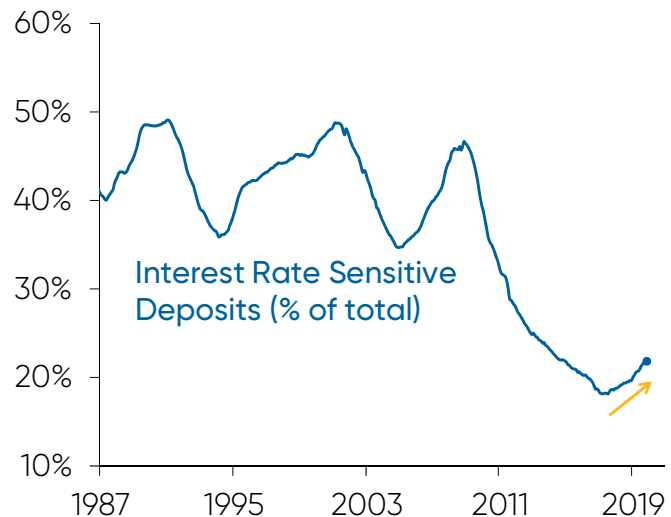
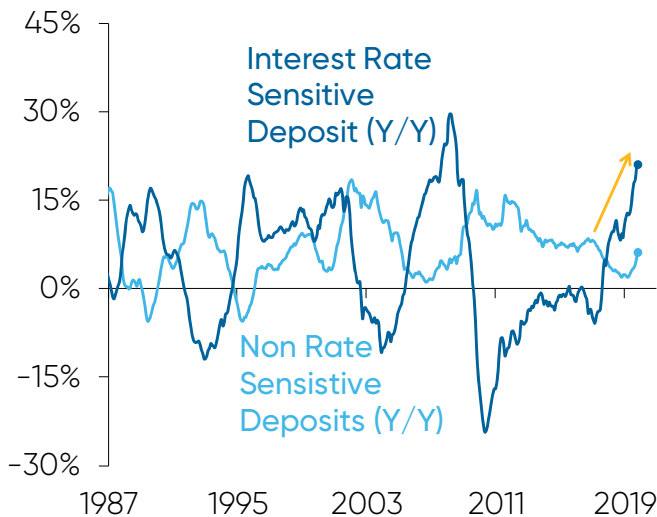
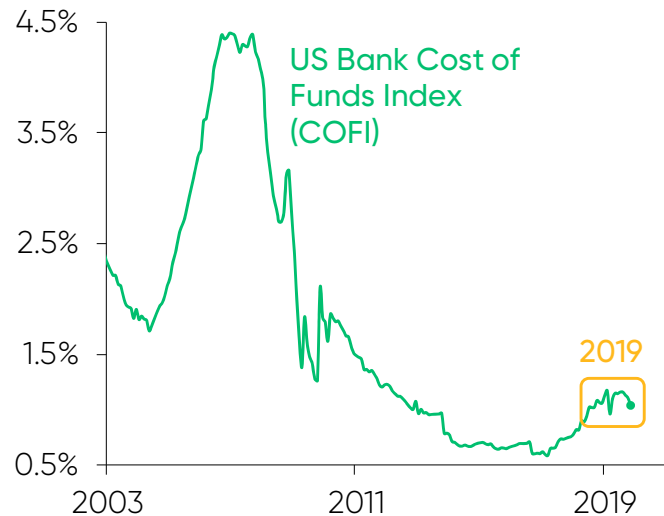
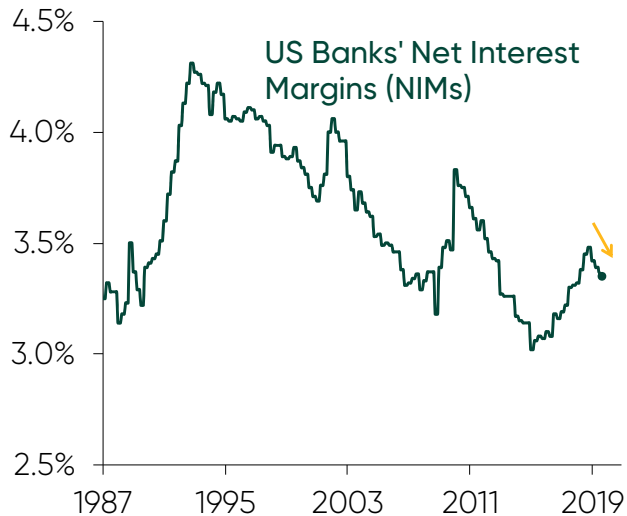


12M Forward Returns After Extreme Dividend Yield Reading				
Date	EAFE	EMU	World	EMU Banks
02/01/2009	24.9%	22.3%	23.5%	46.0%
04/05/2012	17.9%	21.8%	17.2%	32.8%
01/07/2016	16.2%	24.0%	15.4%	65.0%
30/08/2019	--	--	--	--
<b>Average</b>	<b>19.7%</b>	<b>22.7%</b>	<b>18.7%</b>	<b>47.9%</b>

Source: FactSet as of December 2019. Based on monthly data for MSCI EMU, S&P500, MSCI World and MSCI EAFE benchmarks.

# US BANKS' PROFITABILITY UNDER PRESSURE

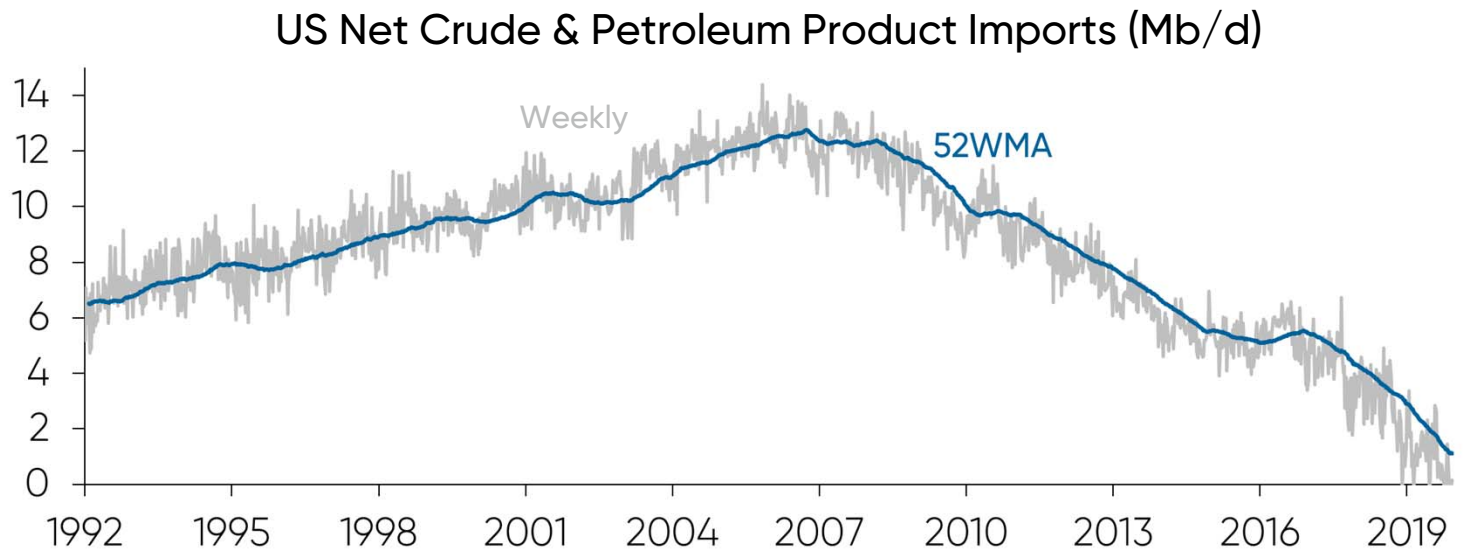
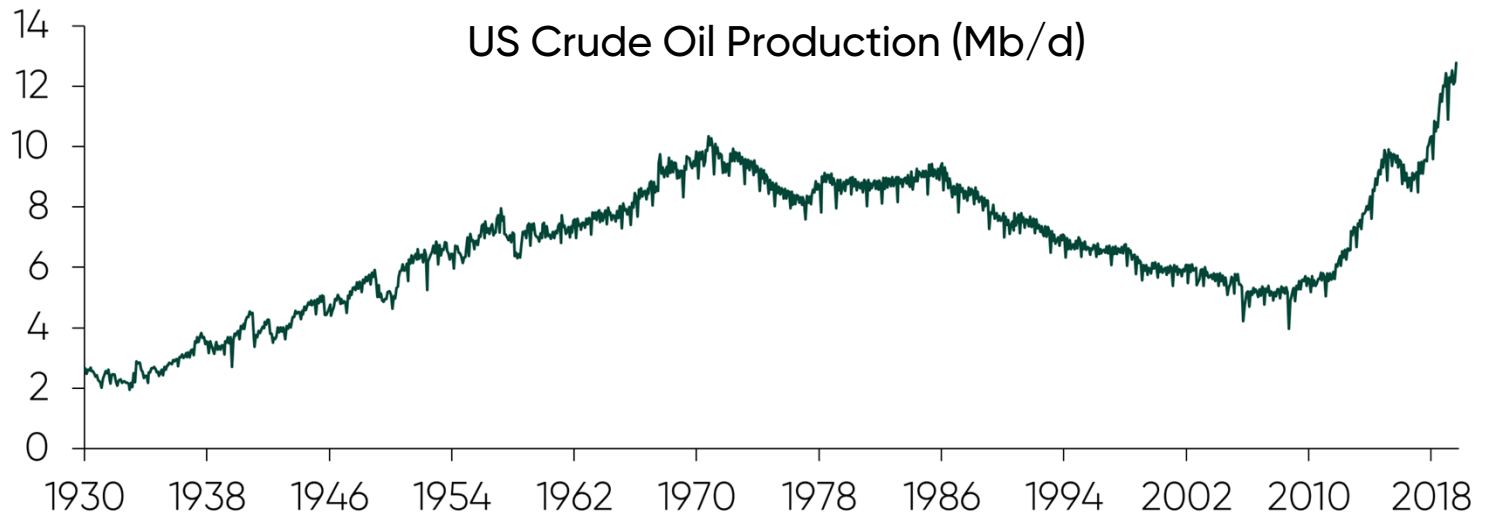
Massive excess reserves resulting from QE have delayed deposit-cost pressures. But costs are starting to rise, reducing banks' net interest margins (NIMs).



Top left chart source: FactSet, US Federal Deposit Insurance Corporation as of September 2019, shows net interest margins for all US insured institutions, on a monthly basis. Top right chart source: FactSet, San Francisco Federal Reserve as of November 2019, US Cost of Funds Index shows aggregate cost of bank funding, on a monthly basis. Bottom left chart source: FactSet, Federal Reserve as of November 2019 shows Y/Y % change of rate sensitive deposits (certificate of deposits, institutional & retail money market funds) against non-rate sensitive deposits (currency, demand deposits, travel checks, savings & other checking accounts), on a monthly basis. Bottom right chart source: FactSet, Federal Reserve as of November 2019, shows Y/Y % change of rate sensitive deposits as a % of discretionary money supply components.

# US WELL INSULATED FROM OIL SHOCKS

Increasing oil production has made the US more oil independent and well insulated from abrupt spikes in oil prices.



Source: FactSet & US Department of Energy as of December 2019. US crude oil production and imports shown as millions of barrels per day.

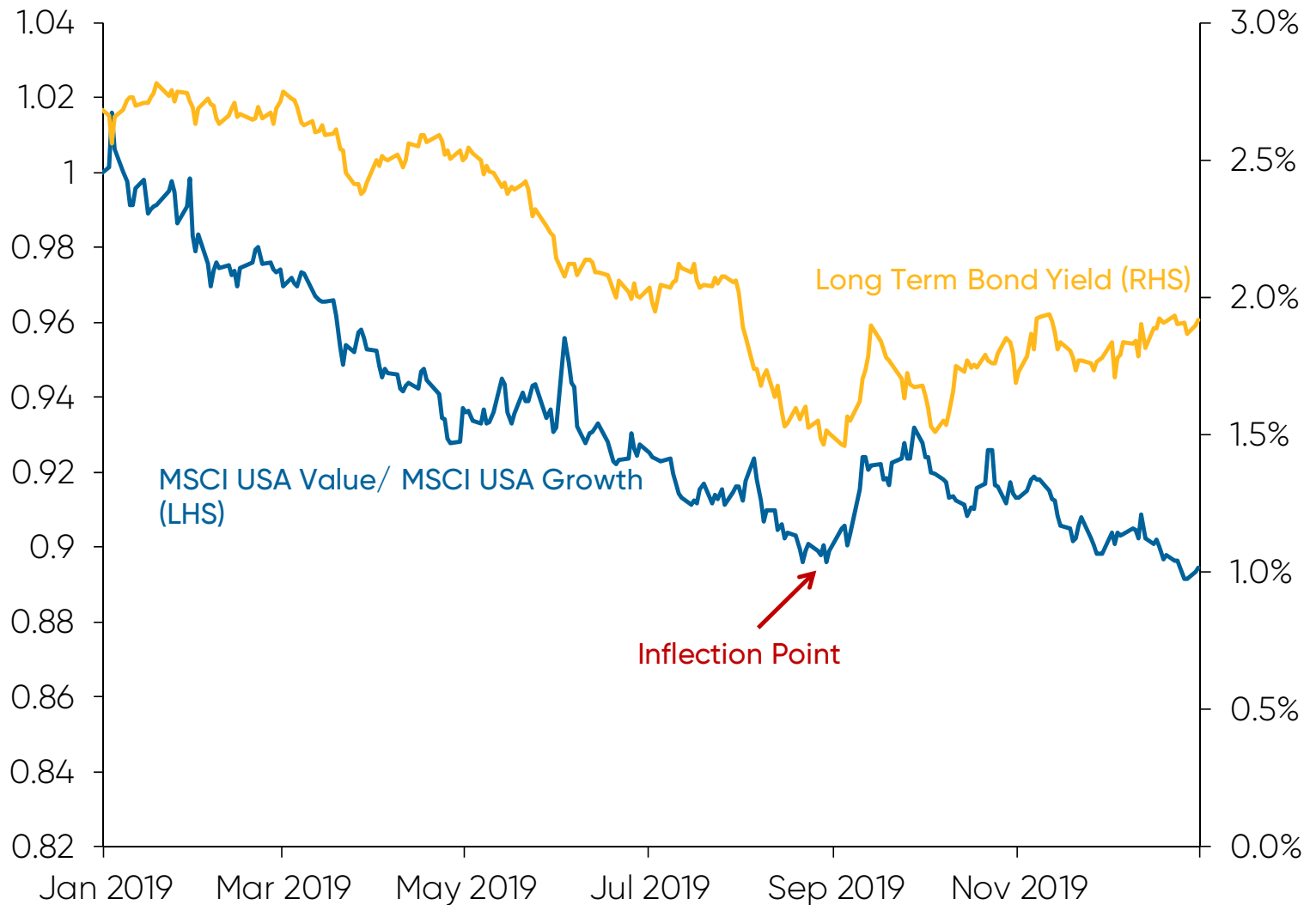
# CURRENT MARKET TOPICS

*Our views on contemporary investor topics in the market*

- Is market leadership shifting from growth to value?
- What impact will the US Presidential election have on markets?
- Will Middle East conflict disrupt the market?
- Is investor sentiment euphoric?
- Does recent economic weakness signal recession?
- Will tariffs induce a global economic downturn?

# VALUE VS. GROWTH

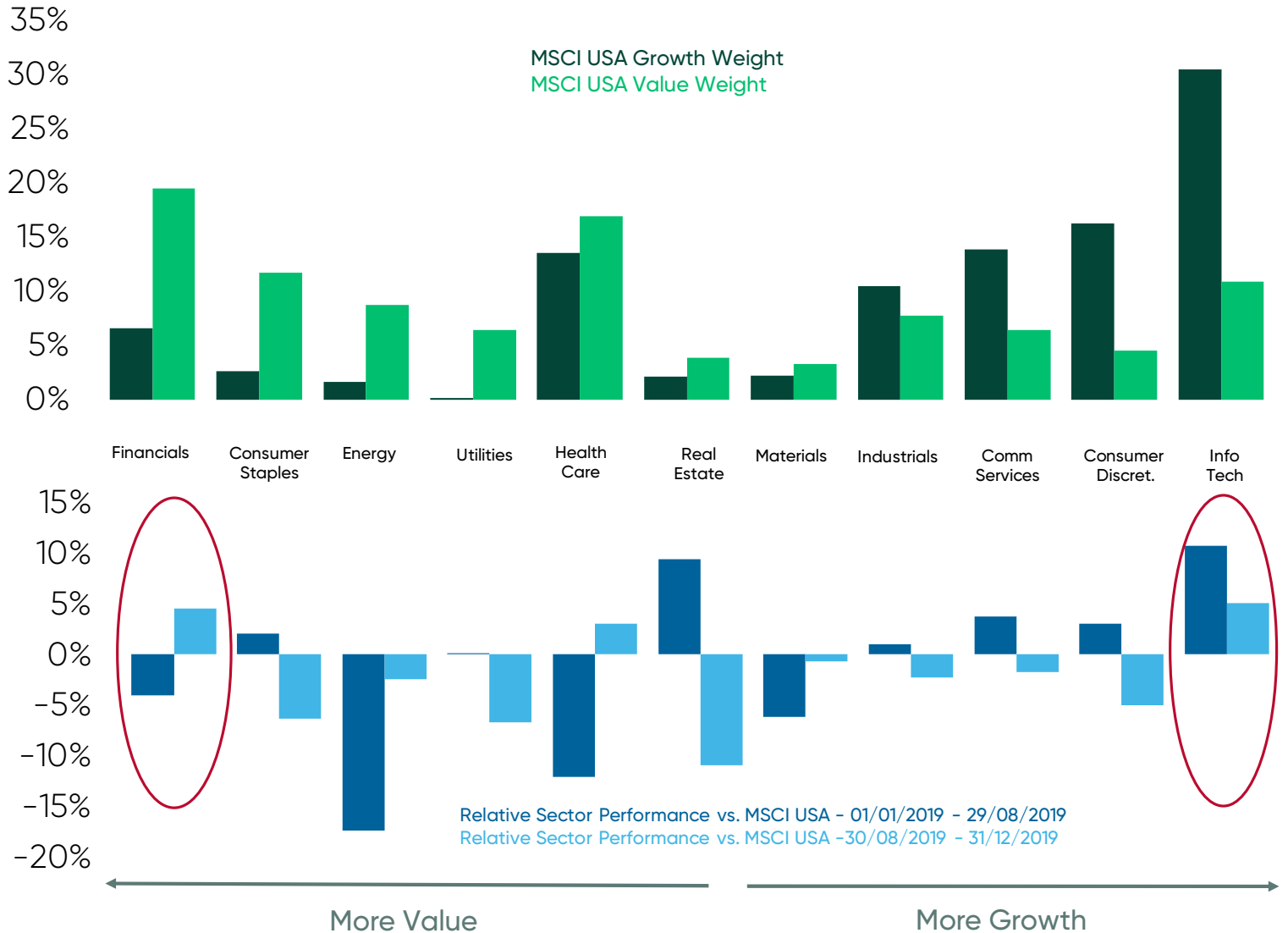
The shift from growth to value leadership was a short-term countertrend that coincided with a turn in long-term bond yields. We expect high-quality growth companies to continue outperforming going forward.



Source: FactSet as of December 2019. Cumulative performance of MSCI USA Value / MSCI USA Growth, indexed to 1 on 31/12/2018. Long term bond yield shows 10-year US benchmark bond yield to maturity.

# VALUE VS. GROWTH

Growth and value indexes have vastly different weights to some sectors with Financials being the quintessential value sector and Information Technology the quintessential growth sector. The value countertrend was mostly about a reversal in Financials relative performance after bond yields bottomed in late August. Technology continued outperforming throughout.



Source: FactSet as of December 2019. Shows relevant sector weights for the MSCI USA Growth & Value indexes as of 31/12/2018. Relative performance is shown for given MSCI USA sector against the MSCI USA index for stated periods.

# PRESIDENTIAL TERM ANOMALY

While the fourth year of the US Presidential cycle has historically seen average returns, abating uncertainty around the elections tends to raise sentiment.

>20%  
0% to 20%  
0% to -20%  
<-20%

	Inaugural Year		Second Year		Third Year		Fourth Year	
1933	52.9%	1954	52.4%	1935	47.2%	1928	43.3%	
1945	36.5%	1958	43.3%	1995	37.6%	1936	32.8%	
1997	33.4%	1938	33.2%	1975	37.3%	1980	32.3%	
2013	32.4%	1950	30.6%	1927	37.1%	1976	23.7%	
1989	31.7%	1998	28.6%	2019	31.5%	1996	23.0%	
1985	31.6%	1982	21.5%	1955	31.4%	1944	19.7%	
1925	29.5%	1942	21.1%	1991	30.5%	1972	18.9%	
1961	26.8%	1986	18.6%	2003	28.7%	1952	18.5%	
2009	26.5%	2006	15.8%	1943	25.8%	1988	16.6%	
2017	21.8%	2010	15.1%	1951	24.6%	1964	16.4%	
1949	18.1%	2014	13.7%	1967	23.9%	2012	16.0%	
1965	12.4%	1926	11.1%	1963	22.7%	2016	12.0%	
1993	10.1%	1978	6.4%	1983	22.5%	1968	11.0%	
2005	4.9%	1970	4.0%	1999	21.0%	2004	10.9%	
1953	-1.1%	1994	1.3%	1979	18.4%	1992	7.6%	
1981	-5.1%	1934	-2.3%	1971	14.3%	1956	6.6%	
1977	-7.4%	1990	-3.1%	1959	11.9%	1984	6.2%	
1969	-8.5%	2018	-4.4%	2007	5.5%	1948	5.1%	
1929	-8.9%	1946	-8.2%	1947	5.2%	1960	0.5%	
1957	-10.9%	1962	-8.8%	1987	5.2%	1932	-8.9%	
1941	-11.8%	1966	-10.1%	2011	2.1%	2000	-9.1%	
2001	-11.9%	2002	-22.1%	2015	1.4%	1940	-10.1%	
1973	-14.8%	1930	-25.3%	1939	-0.9%	2008	-37.0%	
1937	-35.3%	1974	-26.5%	1931	-43.9%			
Percent Positive	58.3%	62.5%	91.7%	82.6%				
All (Average)	10.5%	8.6%	18.4%	11.1%				
Positive Years (Average)	26.3%	21.1%	22.1%	16.9%				

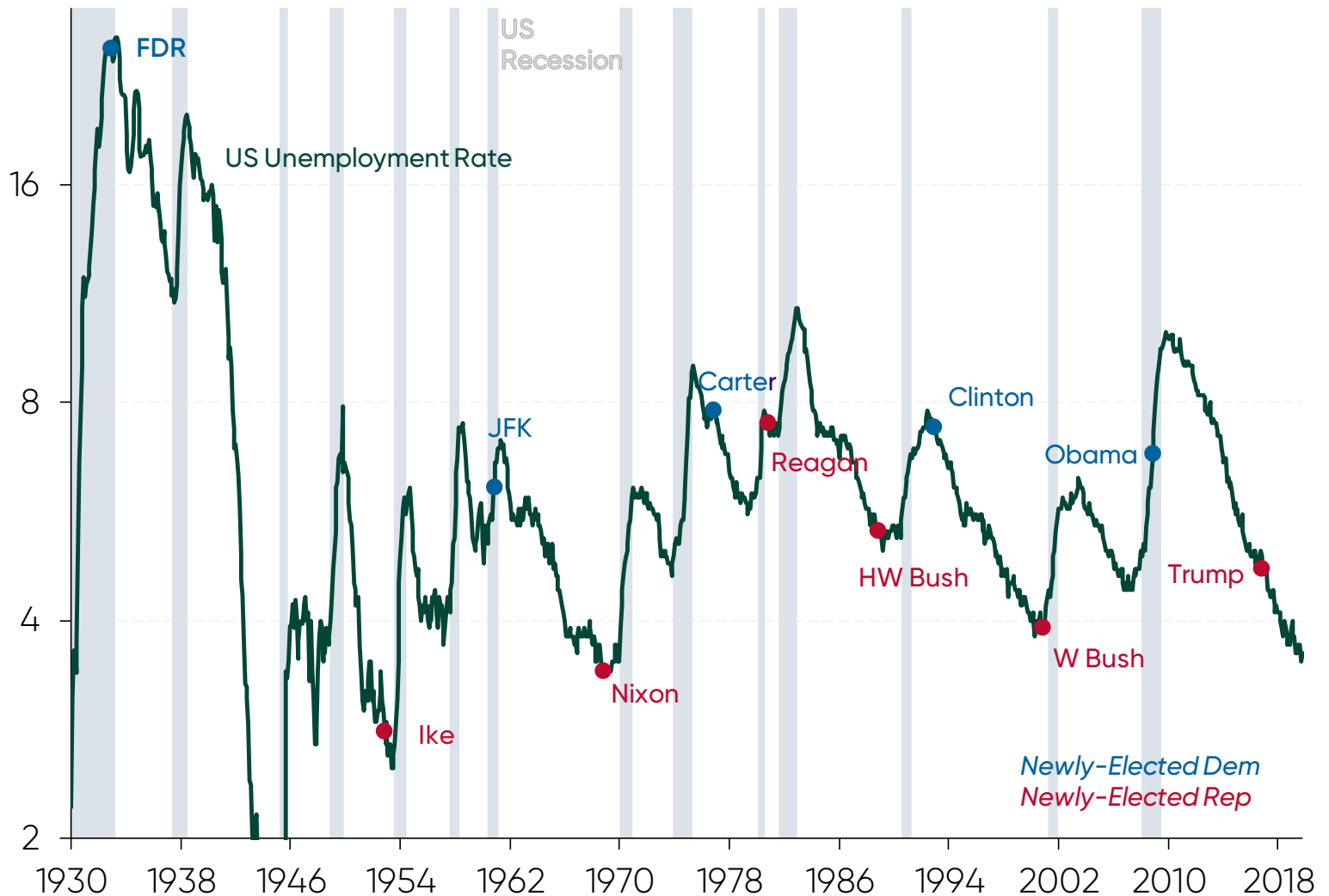
Source: Global Financial Data, as of 02/01/2020. S&P 500 Total Return Index, 01/01/1925 - 31/12/2019.



# LOW UNEMPLOYMENT FAVOURS THE REPUBLICANS

New Democrats tend to get elected after recessions when the unemployment rate is high, a potential tailwind for the Republican Party in 2020.

## US Unemployment Rate (% , Log Scale)



Source: FactSet & Fisher Investments Research. Excludes new presidents coming to power outside of elections, e.g., death (Truman, LBJ) or resignation (Ford).

# BIG CHANGE UNLIKELY IN SENATE ELECTIONS

2020 US Senate elections feature few incumbents running in states leanings toward the opposite political party, making big gains by either party unlikely.

Senator	Party	State	2016 % Vote for Trump	2012 % Vote for Obama	Senator	Party	State	2016 % Vote for Trump	2012 % Vote for Obama
Enzi, Mike	R	WY	70%	28%	Isakson, Johnny*	R	GA	51%	45%
Moore Capito, Shelley	R	WV	69%	36%	Perdue, David	R	GA	51%	45%
Inhofe, Jim	R	OK	65%	33%	Tillis, Thom	R	NC	51%	48%
Jones, Doug	D	AL	63%	38%	McSally, Martha*	R	AZ	50%	45%
McConnell, Mitch	R	KY	63%	38%	Peters, Gary	D	MI	48%	54%
Rounds, Mike	R	SD	62%	40%	Shaheen, Jeanne	D	NH	47%	52%
Alexander, Lamar	R	TN	61%	39%	Smith, Tina	D	MN	45%	53%
Cotton, Tom	R	AR	60%	37%	Warner, Mark	D	VA	45%	51%
Sasse, Ben	R	NE	60%	38%	Collins, Susan	R	ME	45%	56%
Risch, Jim	R	ID	59%	33%	Gardner, Cory	R	CO	45%	51%
Cochran, Thad	R	MS	58%	44%	Booker, Cory	D	NJ	42%	58%
Cassidy, Bill	R	LA	58%	41%	Coons, Chris	D	DE	42%	59%
Daines, Steve	R	MT	57%	42%	Merkley, Jeff	D	OR	41%	54%
Roberts, Pat	R	KS	57%	38%	Reed, Jack	D	RI	40%	63%
Graham, Lindsey	R	SC	56%	44%	Udall, Tom	D	NM	40%	53%
Sullivan, Dan	R	AK	53%	41%	Durbin, Dick	D	IL	39%	58%
Cornyn, John	R	TX	53%	41%	Markey, Ed	D	MA	34%	61%
Ernst, Joni	R	IA	52%	52%					

Source: Fisher Investments Research, US Senate, as of 09/10/2019. Senators up for re-election in 2020. \*Indicates a 2020 special election.

# REGIONAL CONFLICT OR GLOBAL NEGATIVE?

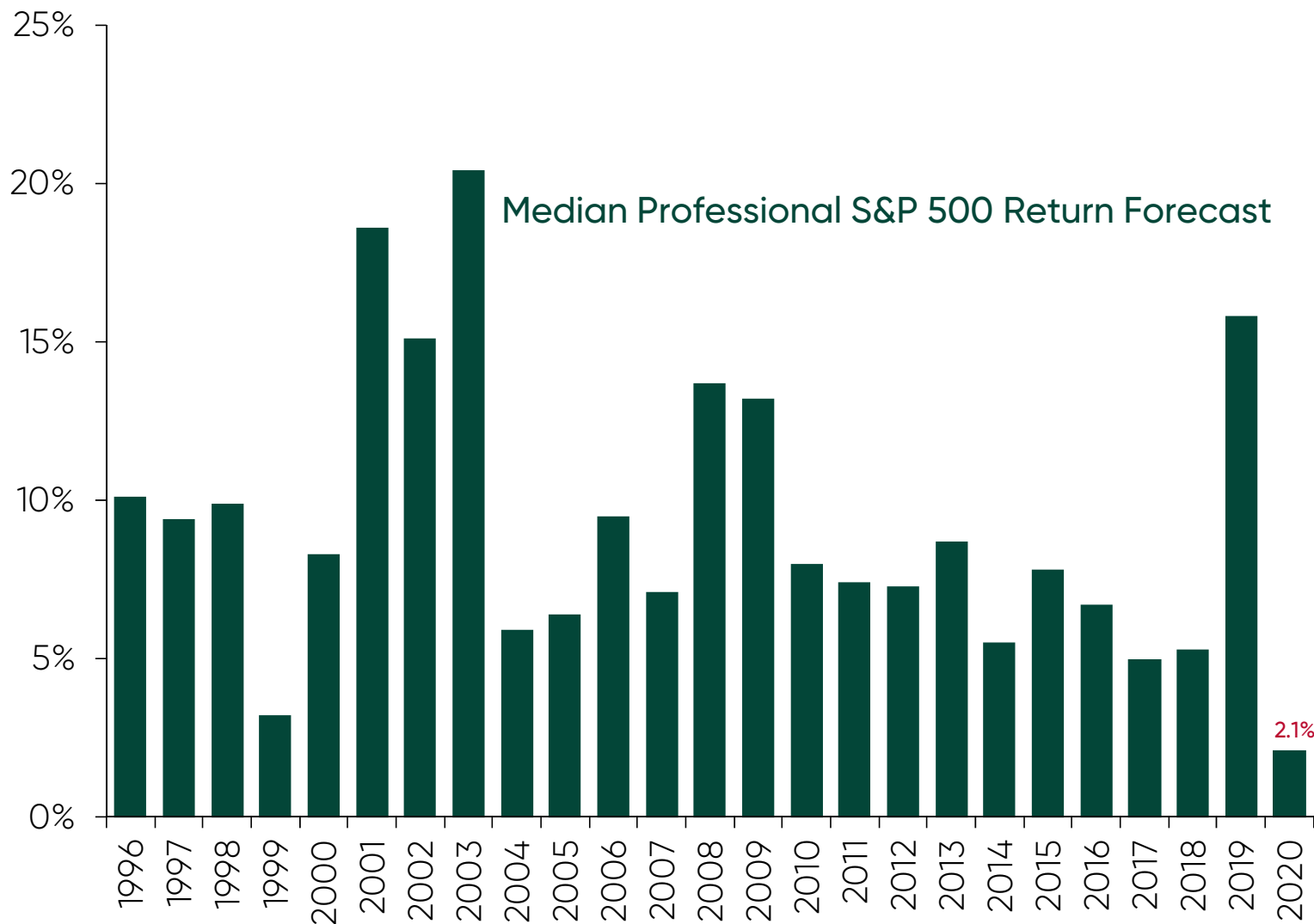
Regional conflicts are a constant, but rarely affect global markets materially. Bull markets advance despite regional conflicts and other fears. Although equities may react on uncertainty as conflicts begin, markets tend to quickly digest and move beyond it.



Source: FactSet, as of 31/01/2018. S&P 500 Price Index, daily, 02/01/1990 - 31/12/1992, 02/01/1967 - 29/12/1967, 1/1/2003 - 31/12/2003, 02/01/2006 - 29/12/2006.

# PROFESSIONAL FORECASTERS' EXPECTATIONS

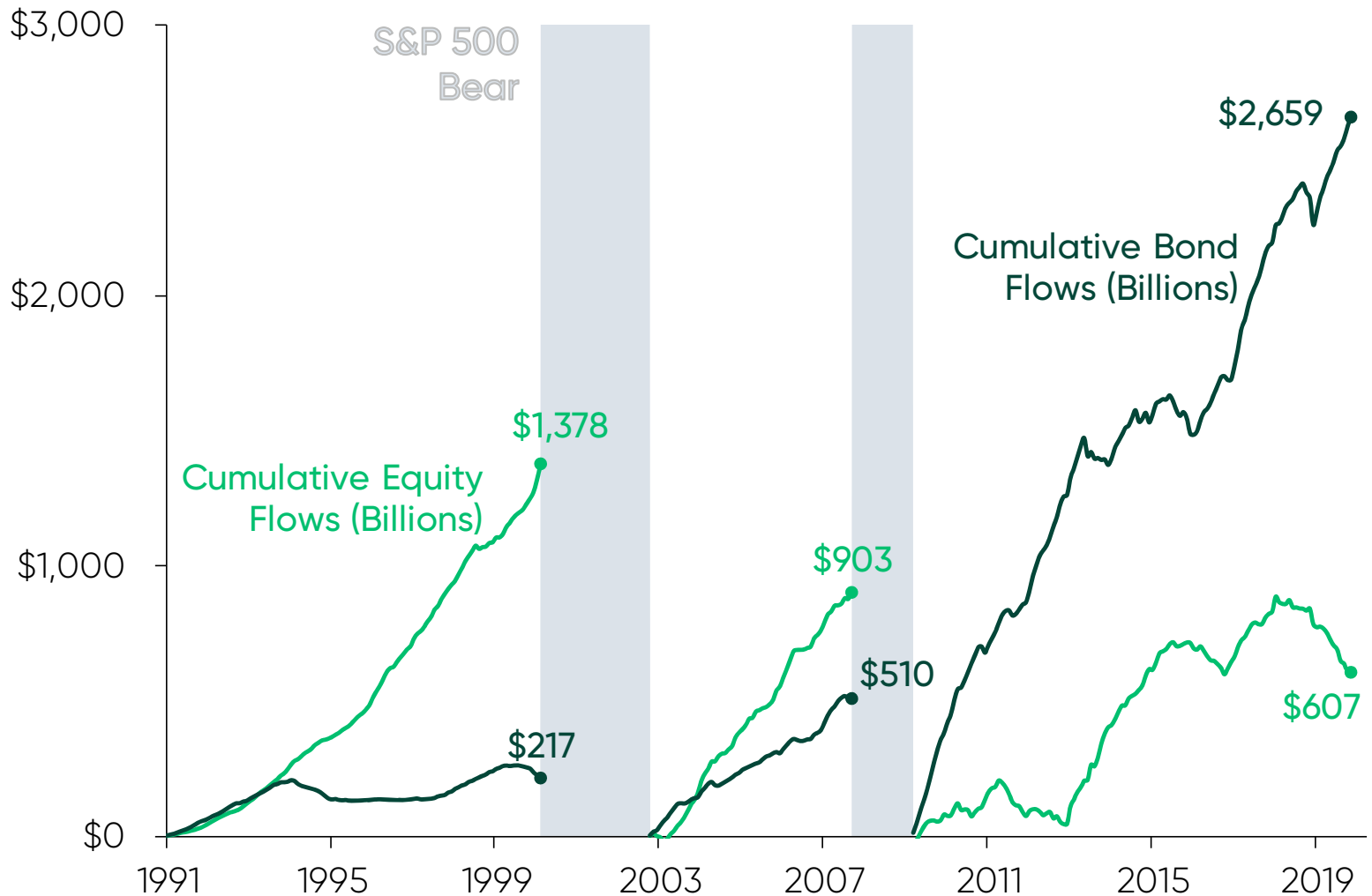
Our research shows professional forecasters' are less bullish on equities for 2020 than in any year we can measure. In our view, that's a clear sign sentiment isn't euphoric and is a prime environment for upside surprise.



Source: Fisher Investments Research, as of January 2020. Shows median forecasted S&P 500 price index return for the relevant years shown.

# AN UNLOVED BULL MARKET

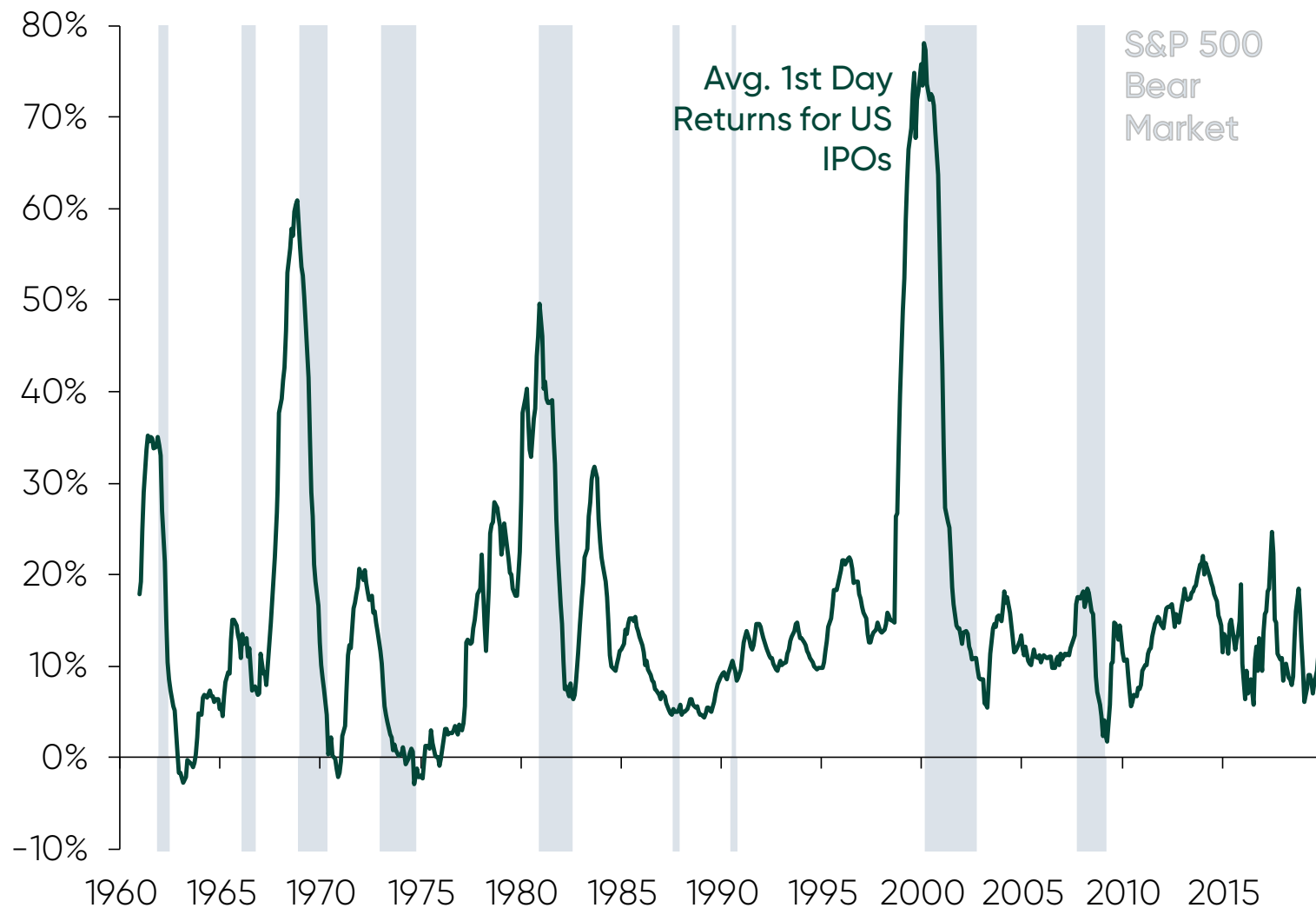
Relative to equities in prior cycles, and bonds in this cycle, equity investment flows have been weak during this bull market. Negative sentiment has been persistent and suggests we are a long way from a euphoric peak.



Source: ICI Mutual & ETF Flow Monthly Data, 01/01/1991 – 29/11/2019. Flows represent ~30% of investable assets. Flows shown on a cumulative basis for respective bull market cycles.

# NO EUPHORIA IN INITIAL PUBLIC OFFERING'S (IPOs)

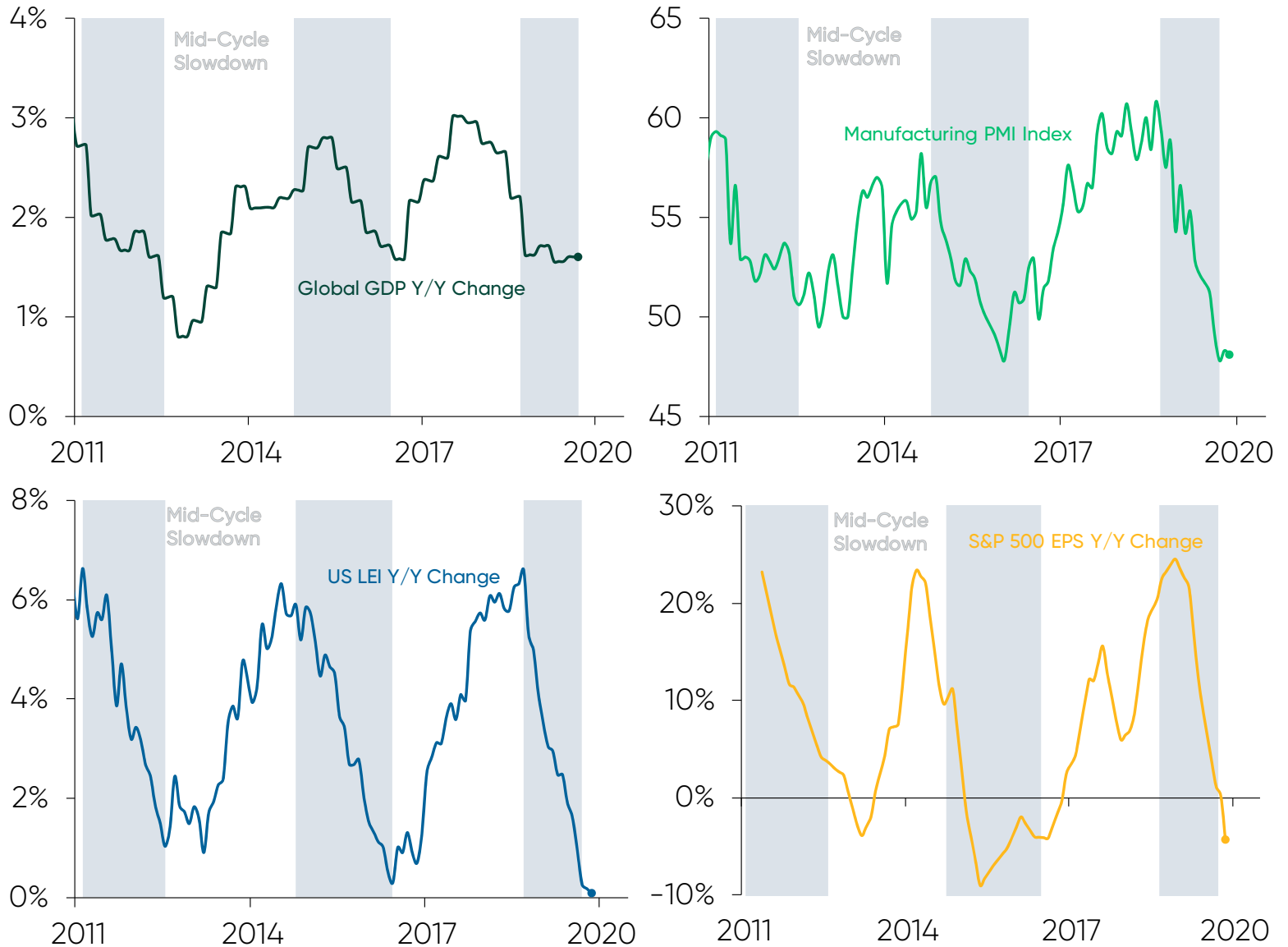
Investors clamoring for shares of speculative Initial Public Offerings (IPOs) has historically resulted in a spike in first-day performance and indicated investor euphoria. Investors haven't been particularly enthusiastic about recent IPOs, suggesting a lack of euphoria.



Sources: Warrington College of Business, IPO Scoop as of November 2019.

# ECONOMIC DATA CONSISTENT WITH MID-CYCLE SLOWDOWNS

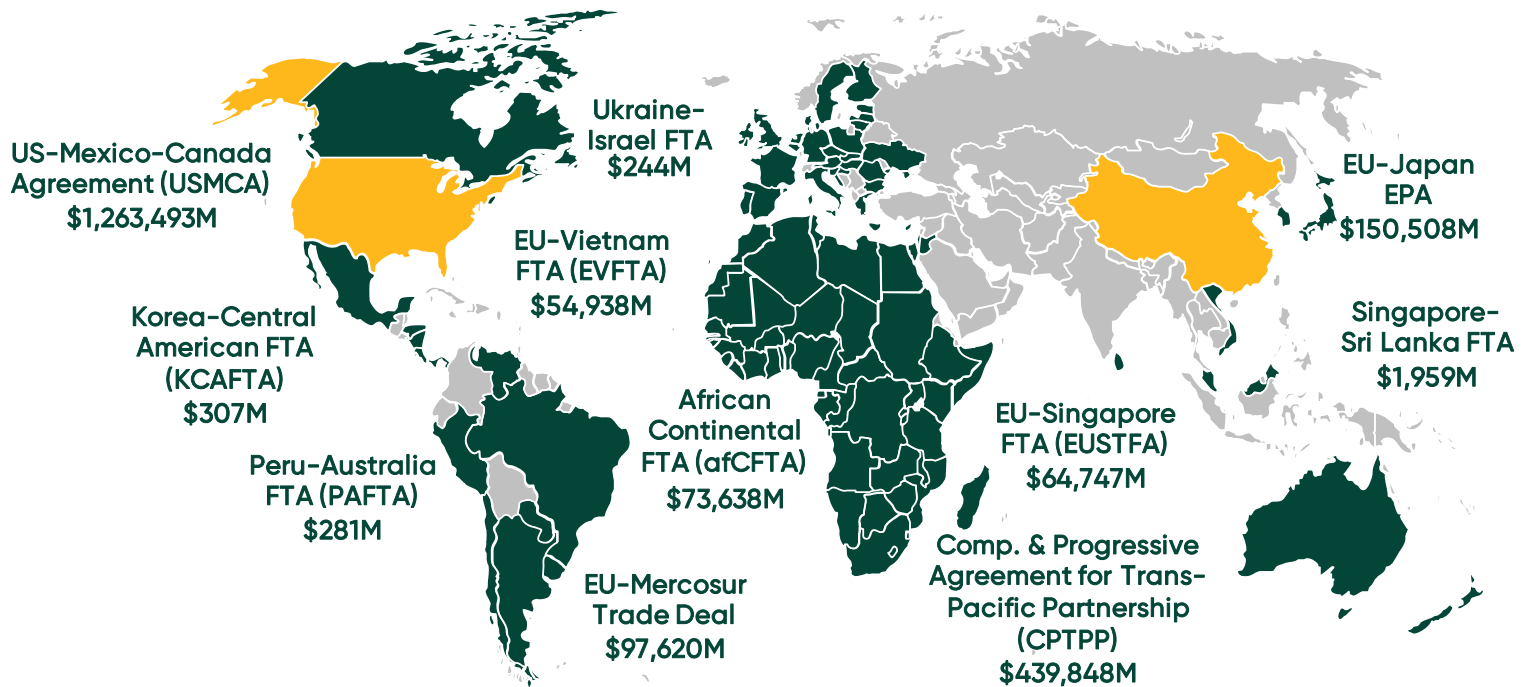
Economic data including global GDP, Manufacturing PMI's, US Leading Economic Indicators and Earnings per Share are at similar levels as previous mid-cycle slowdowns.



Source: FactSet, as of 30/12/2019. Y/Y % change in global GDP, 01/01/2011 – 30/09/2019; Y/Y % change in Leading Economic Indicator (LEI) composite index, 01/01/2011 – 29/11/2019; Manufacturing PMI index, 01/01/2011 – 29/11/2019; 6-month moving average of Y/Y % change in S&P 500 earnings-per-share (EPS), 01/01/2011 – 29/11/2019.

# NEW TRADE DEALS LARGELY OVERLOOKED

While most focus on US/China trade relations, few notice the large number and relative size of recent free trade deals elsewhere.



**Value of goods traded between regions with free trade agreements: \$2.15B**

**Value of goods traded between the US and China: \$659M**

Source: FactSet, World Bank, European Commission, as of 29/07/2019. Bilateral goods trade and global ratified or signed free trade agreements, 2018 (2017 data used when 2018 data was not available).



# END OF BULL MARKET CHARACTERISTICS

Characteristics Supportive of Ongoing Bull Market	End of Bull Market Characteristics Present Today
<ul style="list-style-type: none"><li>• Inflation has not been accelerating</li><li>• Few signs of euphoric investor behavior</li><li>• Retail investors have been net exiting funds</li><li>• Non-Performing Loans are not rising</li><li>• Oil prices have been weak</li><li>• Weak IPO performance</li><li>• M&amp;A generally soft</li><li>• Global monetary policy is benign</li><li>• No major wars</li><li>• Still back half of presidential term/gridlock</li><li>• Breadth has improved in 2019 versus 2018</li><li>• Credit spreads are not rising</li><li>• Credit conditions have not meaningfully tightened</li><li>• Investors have been cutting back on rather than adding to margin debt</li><li>• Only a few examples of a major correction (&gt;14%) or bear start within 18 months of the last one (1980, 2010-11)</li></ul>	<ul style="list-style-type: none"><li>• Yield Curve has previously inverted</li><li>• Trailing Financials underperformance</li><li>• Large Growth &gt; Small Value</li><li>• LEI has been flattening</li><li>• Negative auto sales growth</li><li>• Buybacks have been strong</li><li>• Low unemployment &amp; rising wages</li><li>• Some breakdown in growth areas (Cloud/SaaS)</li><li>• High consumer confidence survey readings</li><li>• Manufacturing has been weak</li></ul>

Source: Fisher Investments Research. We provide a sample list above, this is not a comprehensive list of indicators monitored.

# STRATEGY OFFERINGS AND BENEFITS

## INVESTMENT POLICY COMMITTEE

SECURITIES  
RESEARCH TEAM

CAPITAL MARKETS  
RESEARCH TEAM

CAPITAL MARKETS  
INNOVATION TEAM



### US EQUITY

\$8.0 BILLION

US Equity<sup>▲▲▲</sup>  
S&P 500

Small and Mid Cap Core<sup>▲</sup>  
Russell 2500

Small and Mid Cap Value<sup>▲</sup>  
Russell 2500 Value

Small Cap Core<sup>▲▲</sup>  
Russell 2000

Small Cap Value<sup>▲</sup>  
Russell 2000 Value

Small Cap Opportunities  
Russell Micro Cap Value

### GLOBAL EQUITY

\$9.8 BILLION

All World Equity  
MSCI ACWI

Global Equity<sup>▲▲</sup>  
MSCI World

Global Equity Focused<sup>▲▲</sup>  
MSCI World

Global High Dividend Yield<sup>▲</sup>  
MSCI World High Dividend Yield

Global Long/Short  
MSCI World (50%), 3-Month T-Bill (50%)

Global Small Cap<sup>▲</sup>  
MSCI World Small Cap

### GLOBAL EX-US EQUITY

\$6.1 BILLION

All Non-US Equity<sup>▲</sup>  
MSCI ACWI ex-US

All Non-US Equity Growth  
MSCI ACWI ex-US Growth

All Non-US Equity Focused  
MSCI ACWI ex-US

Non-US Equity<sup>▲</sup>  
MSCI EAFE

All Non-US Equity Small Cap<sup>▲</sup>  
MSCI ACWI ex-US Small Cap

Non-US Equity Small Cap  
MSCI World ex-US Small Cap

### EM/FM EQUITY

\$15.5 BILLION

Emerging Markets All Cap<sup>▲▲</sup>  
MSCI Emerging Markets IMI

Emerging Markets Equity<sup>▲▲</sup>  
MSCI Emerging Markets

Emerging Markets Small Cap<sup>▲▲</sup>  
MSCI Emerging Markets Small Cap

Emerging and Frontier Markets  
Equity  
MSCI Emerging + Frontier Markets

Frontier Markets Equity<sup>▲</sup>  
MSCI Frontier Markets

All strategies available as SRI, ESG, or Impact

SRI ▲ ESG ▲ and Impact ▲ denotes existing strategies with assets under management

## Complete Investment Process

- Top-down approach accounts for three critical decisions helping to maximize probability of excess return

## Complementary Portfolio

- Diversification via process and style

## Experienced

- Investment Policy Committee members' average experience at FI: 25 years

AUM figures depict assets managed by Fisher Investments and its subsidiaries as of month end December 2019. "Years" is calculated using the date on which Fisher Investments was established as a sole proprietorship: 1979.

Back cover photographs: Four offices of FI are located in Washington, California, and Texas, USA. The London, UK office is the headquarters of Fisher Investments Europe, Limited, FI's wholly owned subsidiary in England. The Dubai International Financial Centre office is a branch office of FI. Fisher Investments Australasia Pty Ltd (FIA) is FI's wholly-owned subsidiary based in Sydney, Australia. Fisher Investments Japan (FIJ) is FI's wholly-owned subsidiary based in Tokyo, Japan. Fisher Investments Ireland Limited (FIIL) is FI's wholly-owned subsidiary located in Dublin, Ireland.

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Fisher Investments  
Camas



Fisher Investments San  
Mateo



Fisher Investments  
Woodside



Fisher Investments  
Plano



Fisher Investments  
Europe



Fisher Investments  
DIFC



Fisher Investments  
Australasia



Fisher Investments  
Japan



Fisher Investments  
Ireland