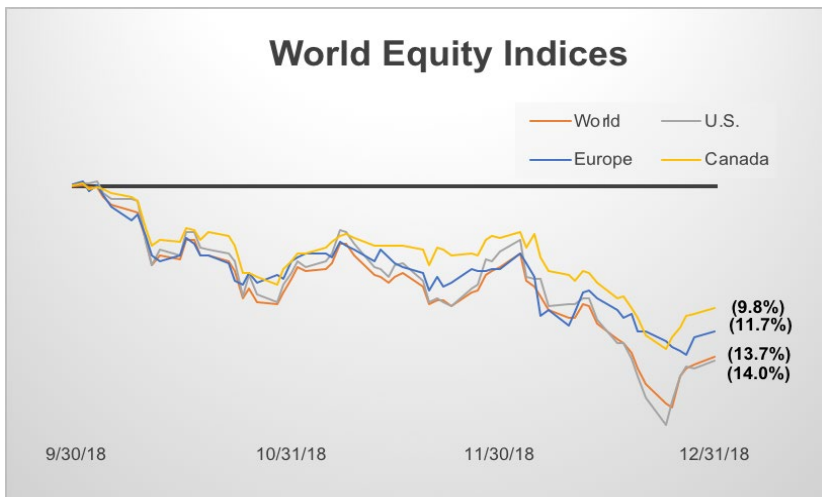


Winter 2019

Our *Playbook* is designed to share our quarterly views in a visual presentation with comments providing context to what we believe are the pertinent issues of the most recent quarter and what we see moving forward.

Global Equity Markets Dropped, But Corporate Earnings Remain Strong

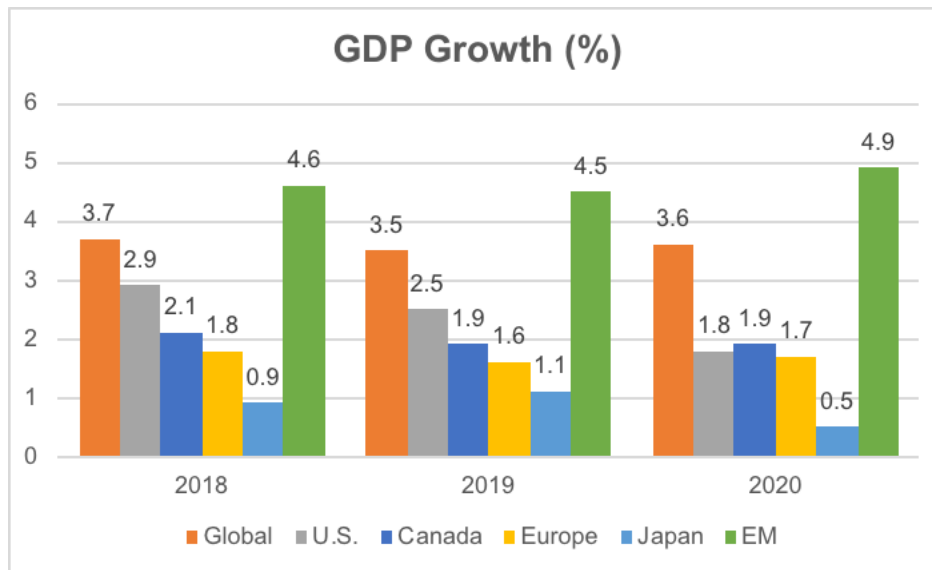
- Global equities fell sharply due to escalating U.S. - China trade war, growing concerns about monetary policy tightening and fears of a global economic slowdown.
- The equity market declines, backed by still solid earnings growth led to a sharp decline in global equity valuations.



Source: MSCI, Standard & Poor's, Bloomberg and One Capital Management, LLC. The following indices are represented: World – MSCI World Index, U.S. – S&P 500, Europe – EURO STOXX 50, Canada – S&P/TSX 60. Estimated earnings by Bloomberg and One Capital Management, LLC analysis.

Still Growing

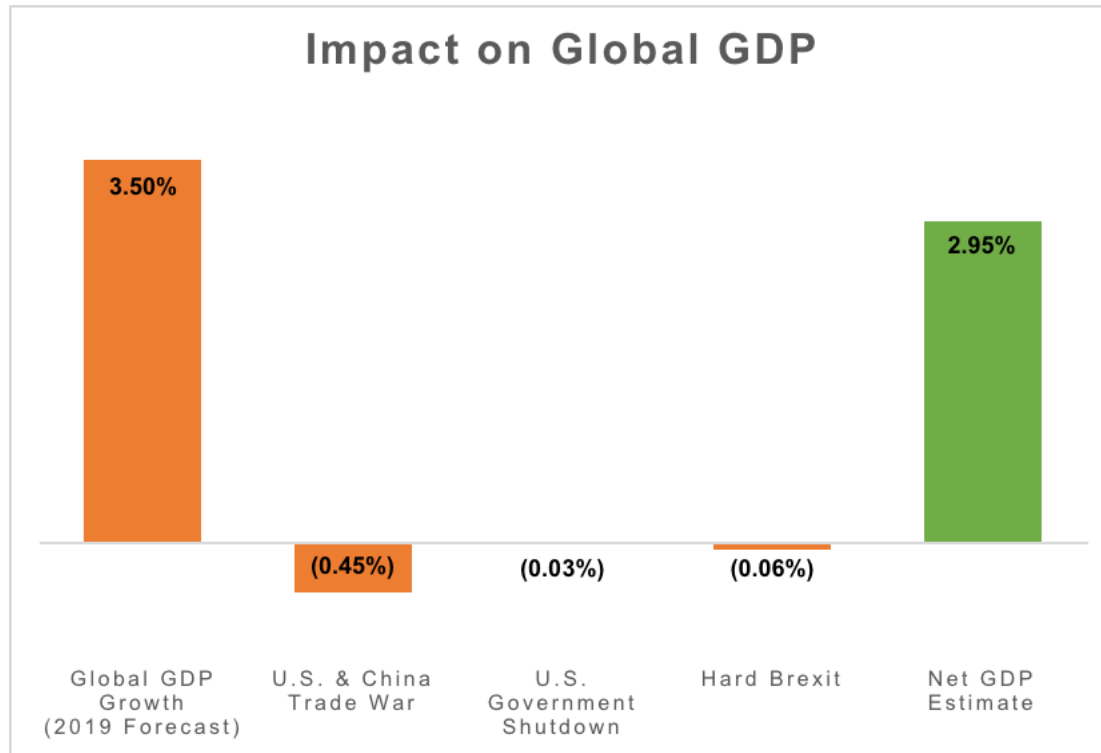
- *Developed Economies around the world are slowing down and emerging economies grow at a quick pace*
- *Economic headwinds develop:*
 - *U.S. tighter monetary policy*
 - *Trade tariffs*
 - *Fading effect of tax cuts*
 - *Impact on growth of the U.S. Government Shutdown*
 - *European political woes including uncertainty around Brexit*
 - *Slowing China economic growth*



Source: IMF. Estimates for 2018 and forecasts for 2019 are based on IMF World Economic Outlook Update January 2019.

How Strong Are the Headwinds?

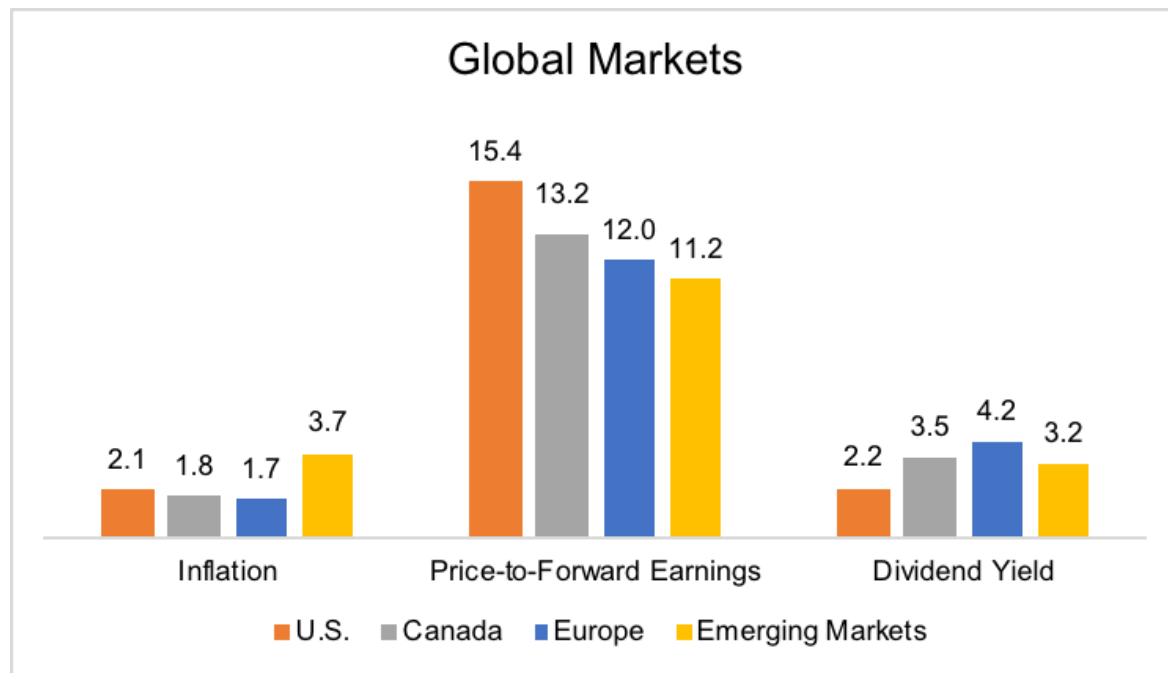
- *The net impact of very strong headwinds – full escalation of U.S. - China Trade War, extension of the U.S. Government Shutdown and a Hard Exit by the U.K. – likely only shaves 0.55% from 2019 global economic growth estimates.*



Source: IMF, Moody's and One Capital Management, LLC.

Focus on the Fundamentals

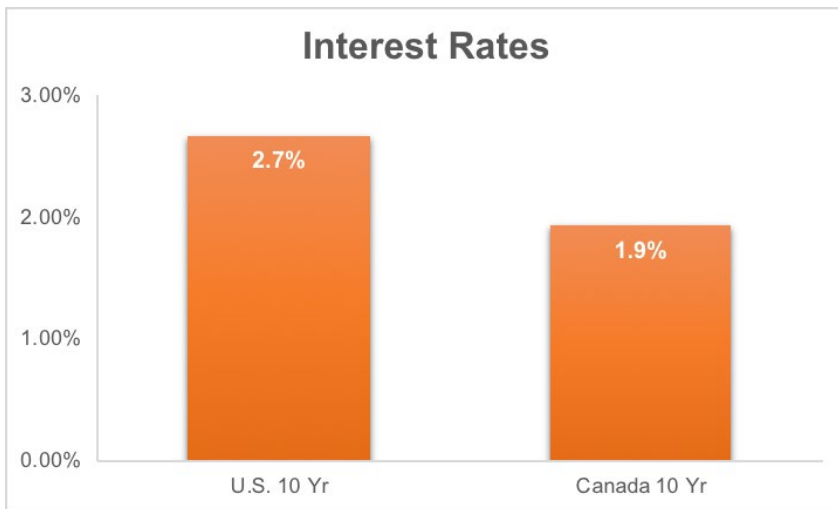
- Despite downward revisions to economic growth and profits, low inflation and stimulative interest rates coupled with current stock market valuations and dividend yields keep equities quite attractive.
- U.S. stocks trading at 15.4 times 2019 estimated earnings represents a 6.5% earnings yield along with a 2.2% dividend yield compares quite favorably to a 10-year U.S. government bond yielding approximately 2.7%.



Source: Bloomberg consensus estimates for earnings and Inflation. The following indices are represented: World – MSCI World Index, U.S. – S&P 500, Europe – EURO STOXX 50, Canada – S&P/TSX 60.

Interest Rates Remain Stimulative and Inflation Expectations Decline

- Narrowing of the term premium between the 3-month U.S. T-Bill and the 10-year U.S. T-Bond to just 0.24%, stoked recession fears.
- Inflation expectations declined from nearly 2.2% down to 1.7% by the end of 2018.
- Oil price declines also helped alleviate inflation concerns with a drop from over \$75 per barrel to below \$45 per barrel.
- The Fed's preferred measure of inflation, the Personal Consumption Expenditure (PCE) Price Index, softened as did the U.S. Consumer Price Index (CPI), causing expectations of additional Fed rate hikes in 2019 to decline from three to two or possibly even fewer.



Source: Bloomberg. U.S. 10-year Breakeven Inflation as measured by the spread between the nominal yield on the U.S. 10-year Treasury Bond and the U.S. 10-year Treasury Inflation Protected Security (TIPS).



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January 30, 2019

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