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2020 Market Update



- *2019 Review*
- *2020 Outlook*
- *Risks*
- *Opportunities*





2019 Review



Growth Disappoints

Fed Eases

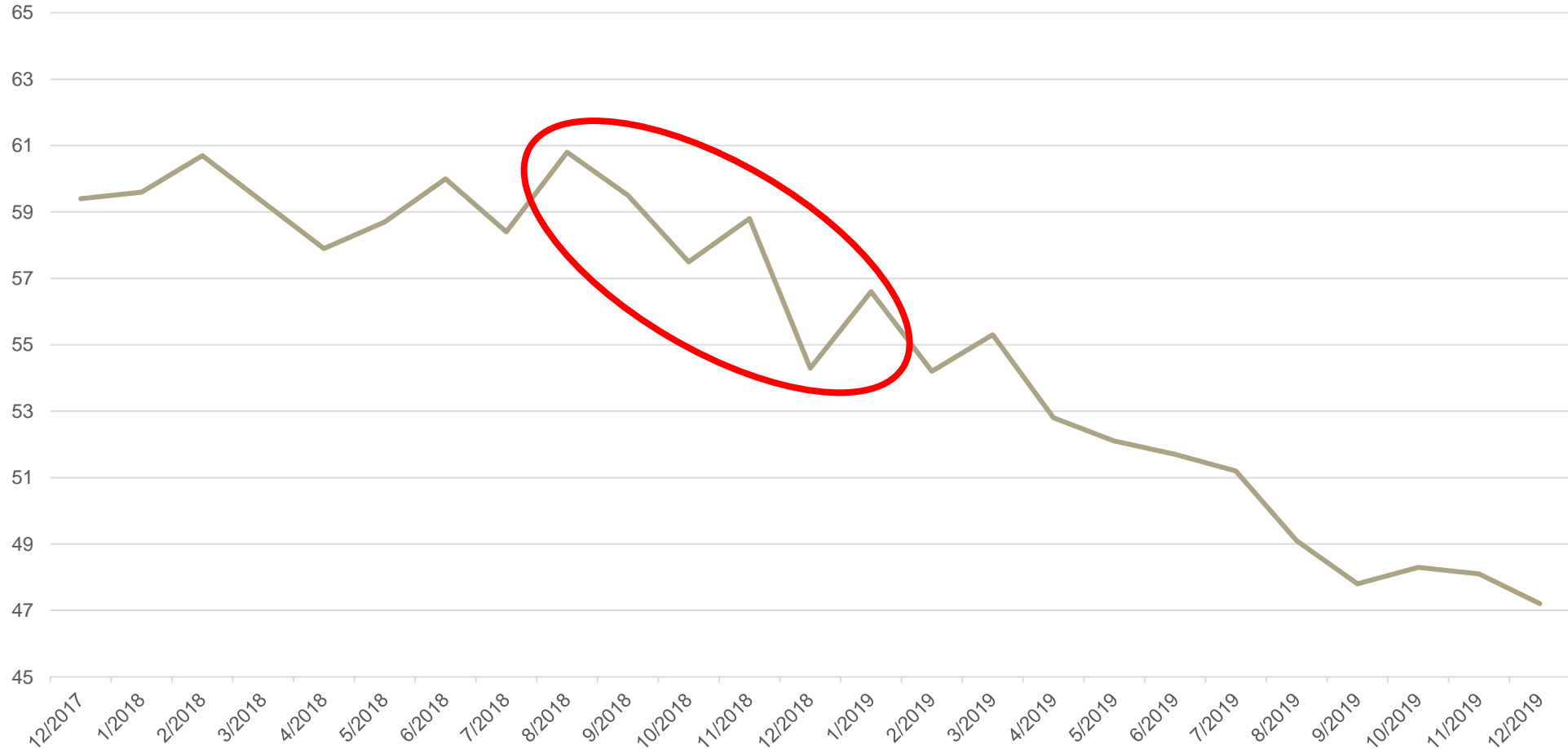
Financial Assets Respond

Historic Rally

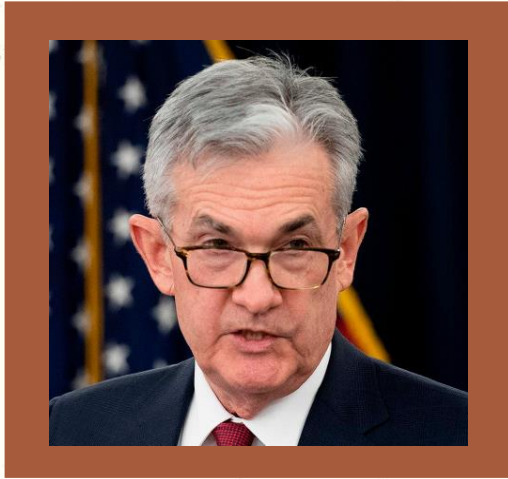


PMIs Big Decline in 2018 Q4

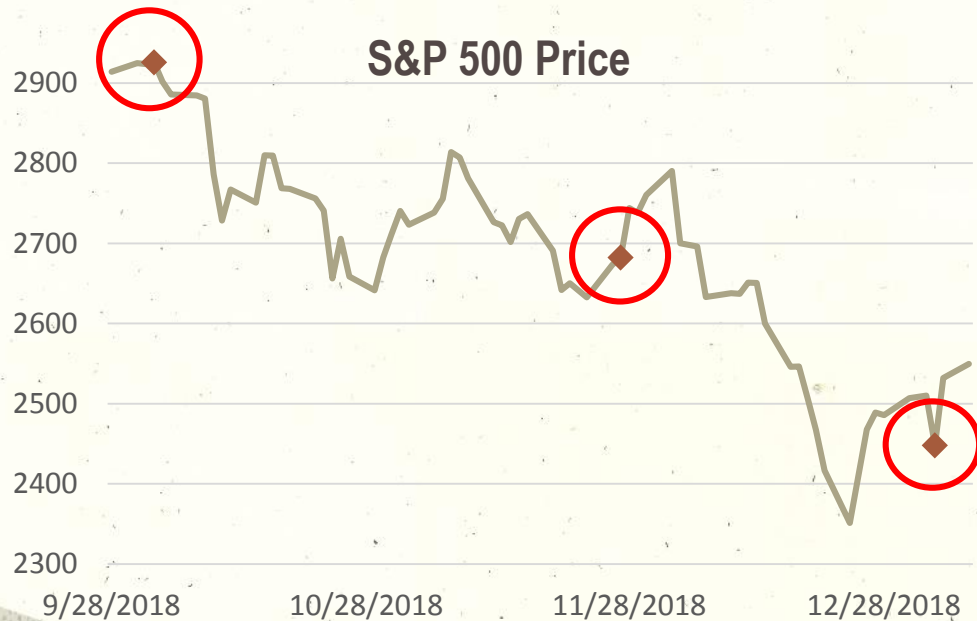
ISM Manufacturing PMI



Source: Bloomberg



Mixed Messages



- **October 3, 2018:** “We may go past neutral. But we’re a long way from neutral at this point, probably.”
 - Fed Funds @ 2.18%
 - S&P 500 @ 2,925 (w/in 1% of all time high)
- **November 28, 2018:** “Funds rate is just below the broad range of estimates of the level that would be neutral for the economy.”
 - Fed Funds @ 2.20%
 - S&P 500 @ 2,682 (2.2% gain on day)
- **January 4, 2019:** “With the muted inflation readings that we’ve seen coming in, we will be patient as we watch to see how the economy evolves.”
 - Fed Funds @ 2.40%
 - S&P 500 @ 2,448 (3.4% gain on day)



Growth Disappoints



Fed Eases



Financial Assets Respond

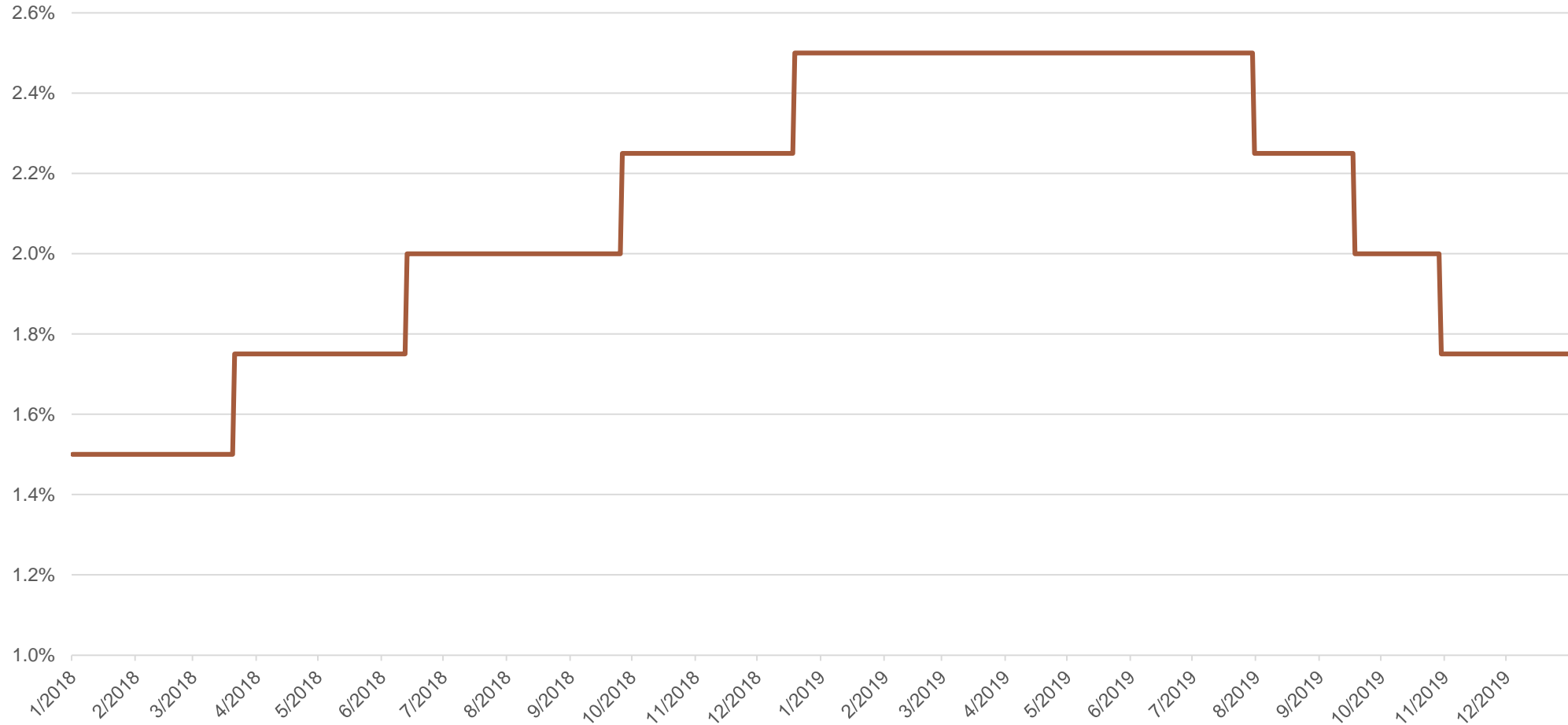


Historic Rally



Fed Responded (with a lag)

Fed Funds Target Rate - Upper Bound

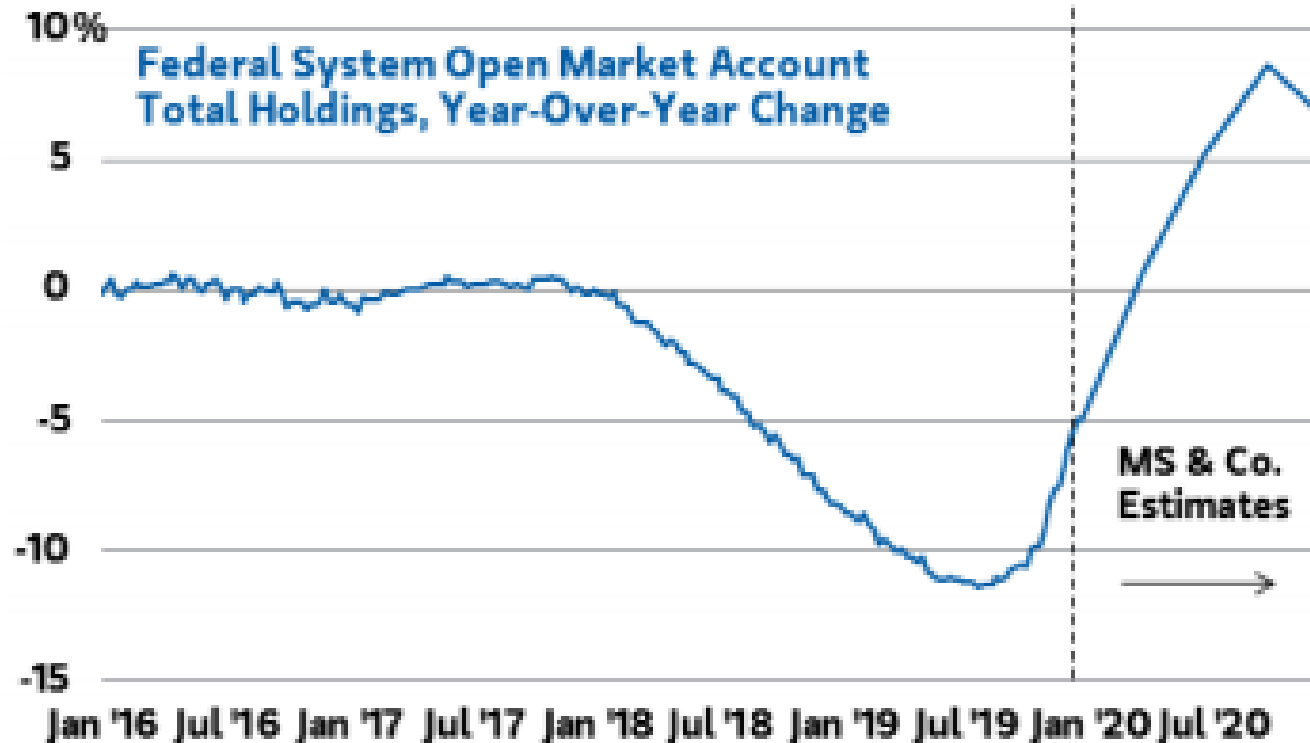


Source: Bloomberg



Fed Balance Sheet

Exhibit 6: Fed Balance Sheet Is Growing Again



Source: Bloomberg, Morgan Stanley Research as of Dec. 18, 2019



Growth Disappoints

Fed Eases

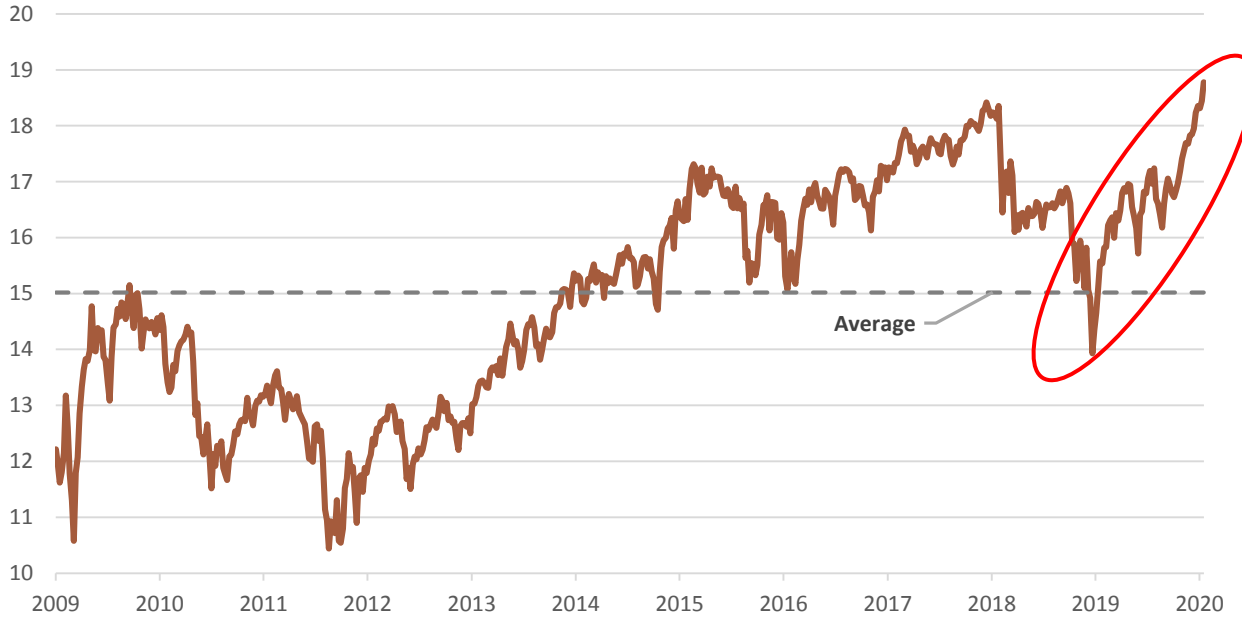
Financial Assets Respond

Historic Rally



Financial Assets Respond

S&P 500 Index
Forward P/E Ratio



US 10 Year Treasury Yield



Source: Bloomberg



Returns Driven by Multiple Expansion



Source: Bloomberg



Growth Disappoints



Fed Eases



Financial Assets Respond



Historic Rally



Source: Bloomberg 2019

	Dec.	2019	2018	Benchmark
<i>Stocks</i>				
United States	3.0%	31.5%	-4.4%	S&P 500
Intl Developed	3.2%	22.0%	-13.8%	MSCI EAFE
Emerging Markets	7.5%	18.4%	-14.6%	MSCI Emerging Markets
<i>Bonds</i>				
US Investment Grade	-0.1%	8.7%	0.0%	Barclays US Aggregate
US Municipals	0.4%	8.9%	1.4%	Barclays Municipal Bond 15y
Intl Investment Grade	1.1%	5.1%	-2.1%	Barclays Global Aggregate xUSD
Global High Yield	2.6%	12.6%	-4.1%	Barclays Global High Yield
Emerging Markets \$	1.5%	13.1%	-2.5%	Barclays Emerging Markets USD Aggregate
<i>Other</i>				
Commodities	5.0%	7.7%	-11.2%	Bloomberg Commodity
Gold	3.6%	18.3%	-1.6%	Gold New York Spot (\$/oz)
Oil	10.7%	34.5%	-24.8%	Crude Oil WTI/Global Spot NYMEX



Expensive Market

S&P 500 valuation vs. history

Valuation metric	Aggregate index		Median stock	
	Current	Historical %ile	Current	Historical %ile
US market cap / GDP	203 %	100 %	NA	NA
EV / sales	2.6 x	99	3.0 x	99
EV / EBITDA	12.9 x	95	13.1 x	100
Price / book	3.7 x	90	3.5 x	100
Forward P/E	18.8 x	90	18.8 x	98
Cyclically adjusted P/E (CAPE)	28.3 x	90	NA	NA
Cash flow yield (CFO)	7.2 %	85	7.5 %	81
Free cash flow yield	4.0 %	55	4.0 %	63
Yield gap vs. 10-year UST	341 bp	30	NA	NA
Median metric		90 %		99 %

Source: Goldman Sachs



Value Has Not Kept Up

Relative Forward P/E – Russell 1000 Value / Russell 1000



Source: Bloomberg



2020 Outlook



2020 Outlook

- Global central banks on hold or still easing
- Trade / Brexit – some progress
- Global economy improving – earnings improving
- Presidential election year typically positive equity returns



Hunt for Yield

Developed Markets	Nominal 10-Year Yield	Real Yield Based on CPI
Italy	1.09%	0.81%
USA	1.74%	-0.34%
Japan	-0.020%	-0.51%
UK	0.58%	-0.58%
France	-0.055%	-1.28%
Germany	-0.31%	-1.91%

Emerging Markets	Nominal 10-Year Yield	Real Yield Based on CPI
China	3.00%	1.74%
India	6.58%	-0.80%

Source: Bloomberg; Data as of 1/24/2020



Negative Yielding Debt

Market Value of Negative Yielding Debt (\$M)

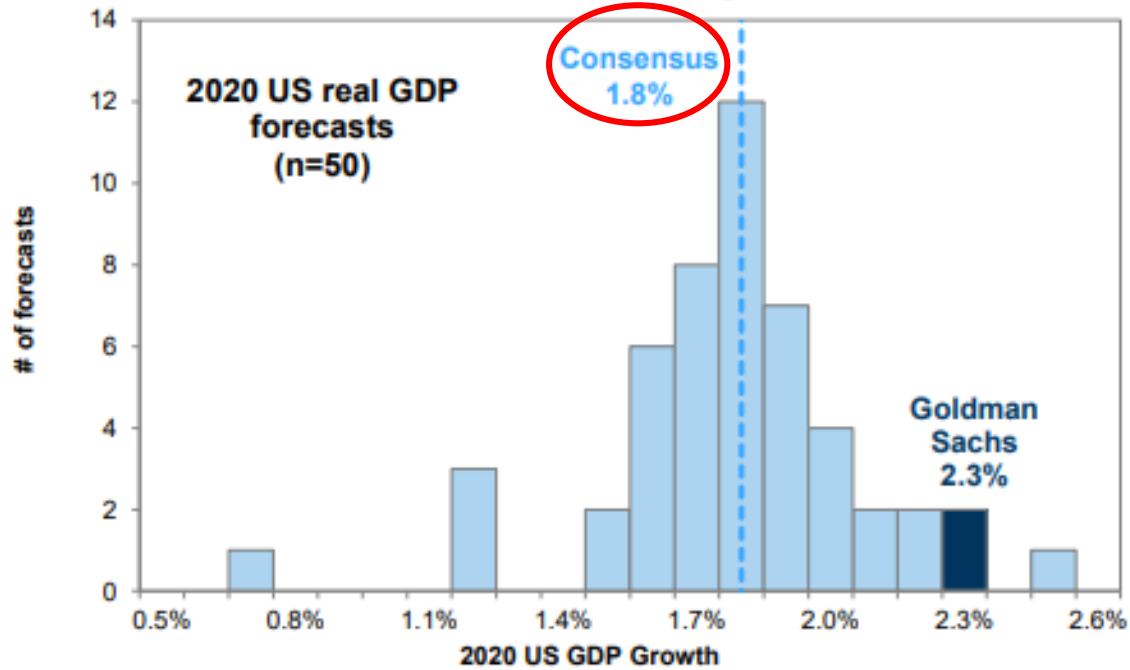


Source: Bloomberg



GDP Outlook

Distribution of 2020 GDP growth estimates



GDP growth has averaged 2.2% annually since 2009



Note: Growth represents annual average.

Source: Goldman Sachs



Risks

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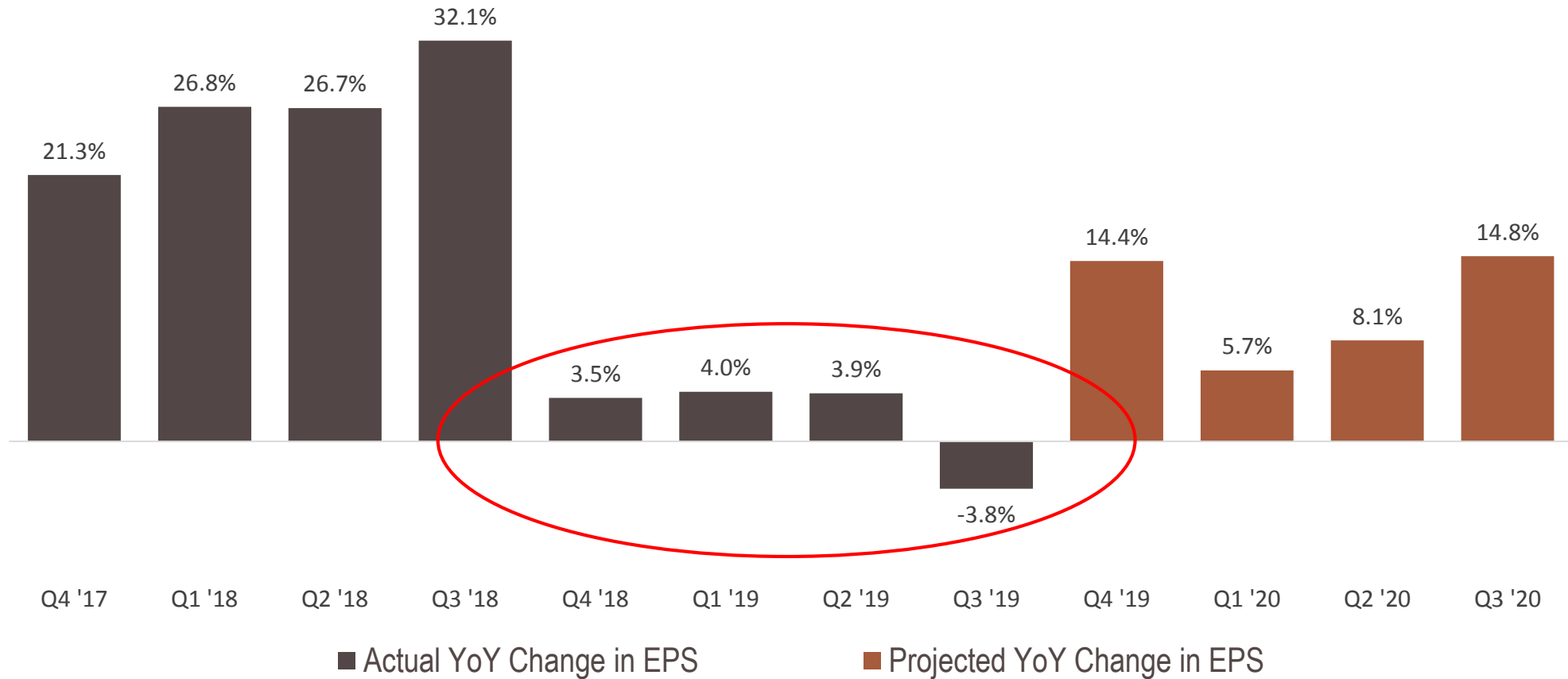
Risks

- Economic data changes and Fed hikes (growth or inflation driven)
- Earnings growth fails to materialize
- Big Progressive electoral victory
- Geopolitical: Iran, North Korea
- Trade War back on



Earnings Estimates

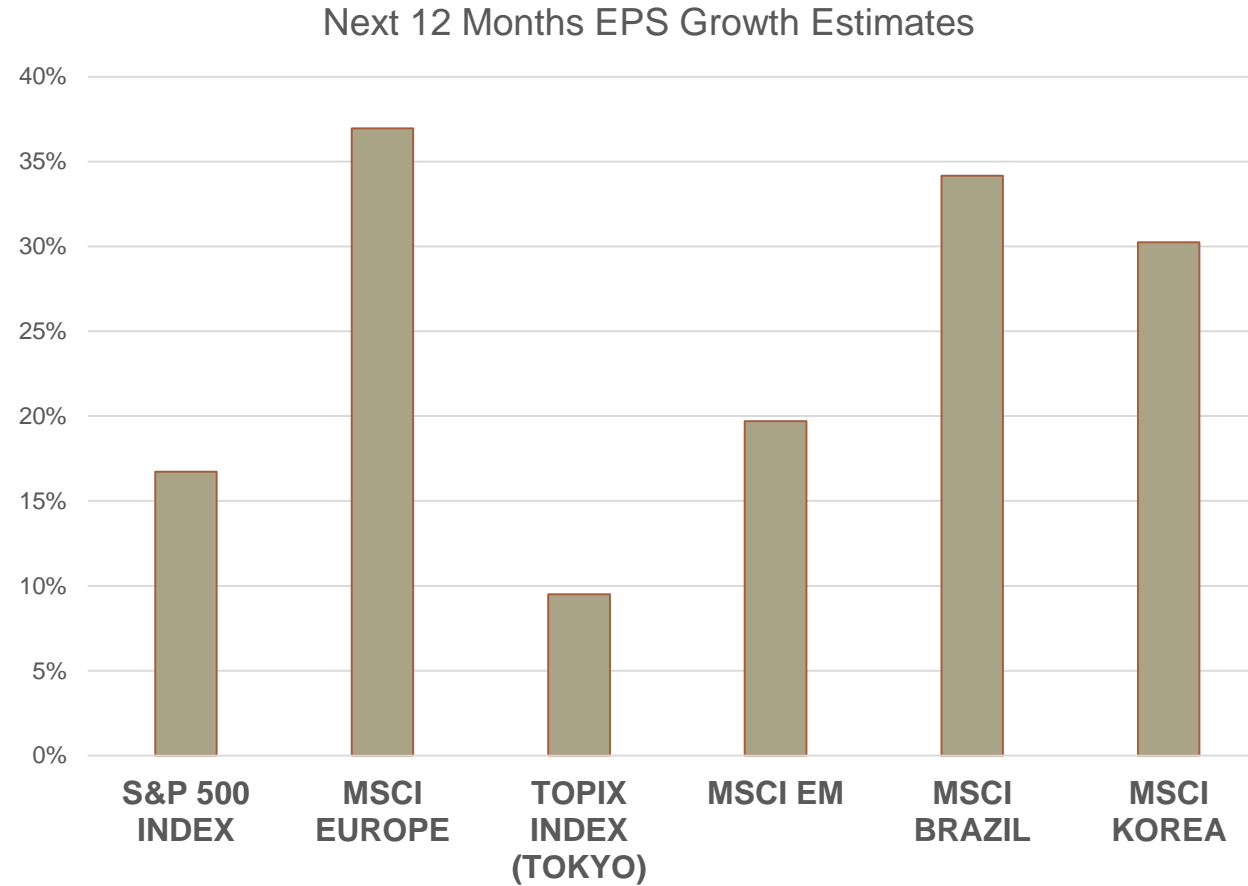
Year-over-Year Change in Operating EPS
S&P 500



Source: S&P Dow Jones Indices








Earnings Growth Estimates



Source: Bloomberg; Data and Consensus Estimates as of 1/24/2020



Who Will Be the Nominee?

Contract	Latest Yes Price
 Bernie Sanders	39¢ 2¢↓
 Joe Biden	36¢ 3¢↑
 Michael Bloomberg	14¢ 1¢↓
 Andrew Yang	9¢ 2¢↑
 Elizabeth Warren	7¢ 1¢↓

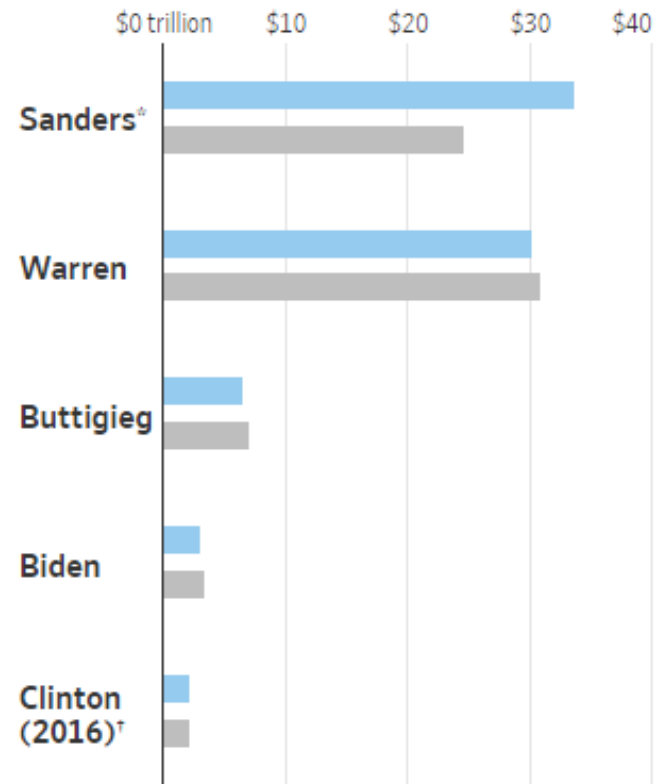
Source: PredictIt



Spend, spend, spend

Ten-year tax and spending figures announced so far by leading Democratic presidential campaigns, approximate

- Government-spending proposals
- Tax-increase proposals



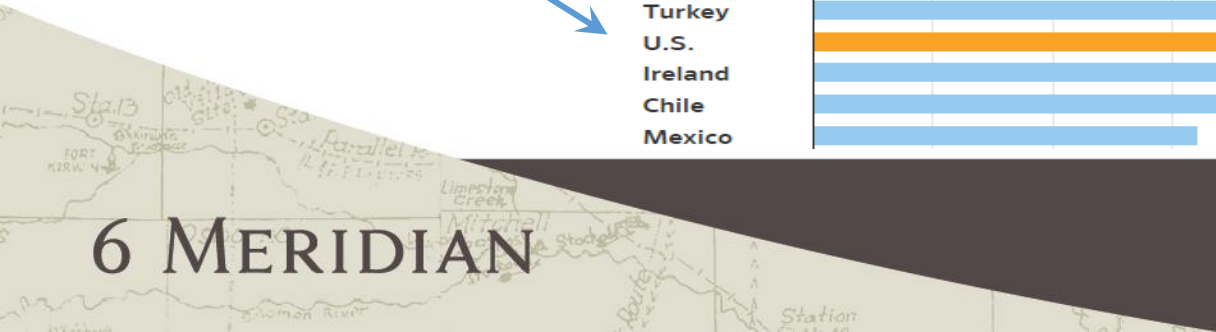
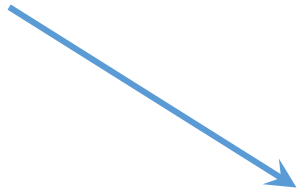
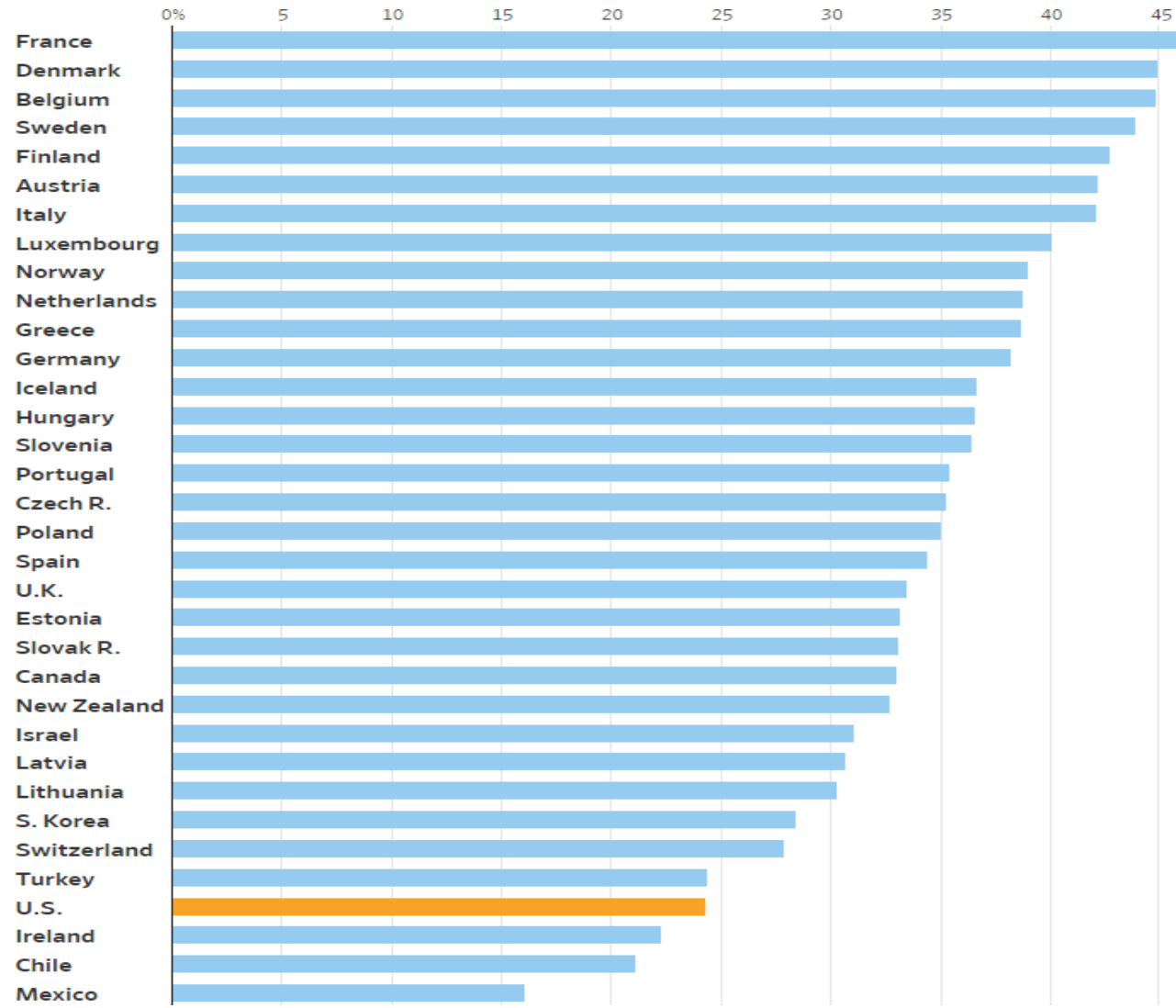
*Includes low-end estimate of \$13.5 trillion for Medicare for All, from University of Massachusetts, Amherst study.

† Clinton figures, adjusted for 2020 campaign, would likely be higher due to growth, inflation and 2017 Trump tax cuts.

Sources: the campaigns



Global Tax Revenue as % of GDP



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Risks



Mideast Geopolitical Risk Not as High as in Past

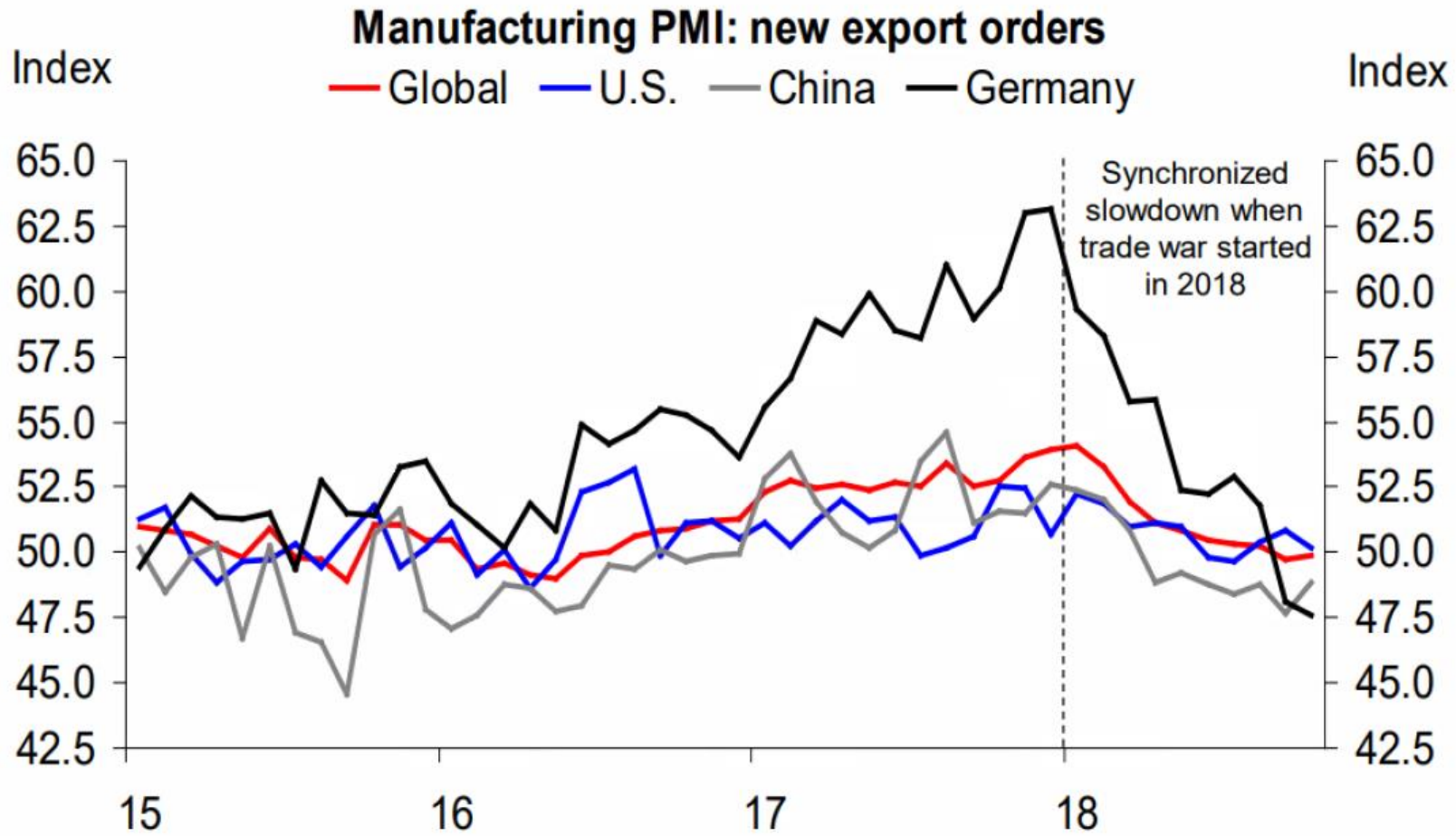
Global oil producers

Country	% of 2019 total world supply	Supply (million barrels per day)			
		2018	2019E	2020E	Change 2018-20E
US	18 %	16.6	18.1	19.1	2.6
Russia	12	11.5	11.6	11.6	0.1
Canada	5	5.4	5.5	5.8	0.3
China	4	3.8	3.9	4.0	0.1
Brazil	3	2.7	2.9	3.1	0.4
Qatar	2	2.0	2.0	2.1	0.0
Mexico	2	2.1	1.9	1.9	(0.1)
Kazakhstan	2	1.9	1.9	1.9	0.0
Norway	2	1.9	1.7	2.1	0.2
UK	1	1.1	1.1	1.1	0.0
Oman	1	1.0	1.0	1.0	0.0
Other	13	13.0	13.1	13.3	0.3
Total non-OPEC supply	65 %	62.9	64.8	67.0	4.0
Saudi Arabia	10 %	10.3	9.8	9.9	(0.4)
Iraq	5	4.6	4.7	4.6	0.1
UAE	3	3.0	3.1	3.0	0.1
Kuwait	3	2.7	2.7	2.7	(0.1)
Iran	3	3.7	2.7	2.2	(1.5)
Nigeria	2	1.6	1.7	1.8	0.2
Angola	1	1.5	1.4	1.3	(0.2)
Libya	1	1.0	1.1	1.2	0.3
Algeria	1	1.0	1.0	1.0	(0.0)
Venezuela	1	1.4	0.8	0.6	(0.8)
Other	0	6.6	0.0	0.0	(6.6)
Total OPEC supply	35 %	37.4	35.6	34.8	(2.6)
Total World supply	100 %	100.4	100.4	101.8	1.4

Source: Goldman Sachs



Impact of trade war?



Source: Markit, OECD, Haver Analytics, DB Global Research

As of October 31, 2018
Manufacturing PMI is an indicator of economic health for manufacturing and service sectors. You cannot invest directly in an index.



Opportunities

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Opportunities

- Value Stocks (especially small cap)
- Income producing investments (private credit, real estate, dividend paying stocks, MLPs)
- EM equities
- Cash isn't trash



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6 Meridian LLC 8301 E. 21st St. N, Ste. 150, Wichita, KS 67206
P: 316.776.4601 www.6meridian.com