



MARKET OUTLOOK FOR A WORLD IN DISRUPTION

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WHAT IS DISRUPTION?

Disruption at its core challenges our assumptions

Forces us to readjust and recalibrate our expectations

We overrate the disruptive impact of headline events

Elections, Geopolitics, Natural Disasters

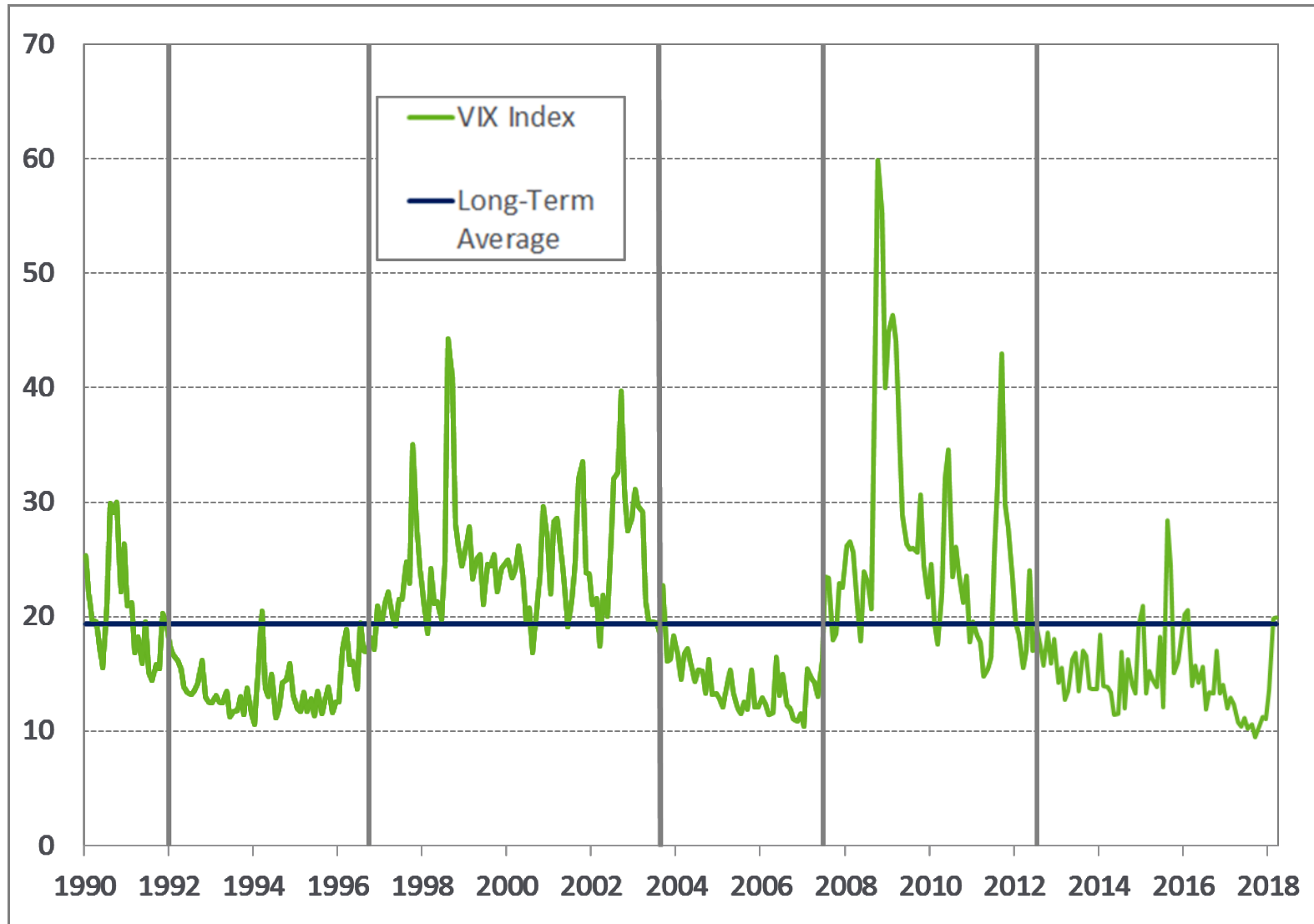
We undervalue the power of longer running trends

Credit Cycles, Business Cycles, Volatility Regimes

Predicting disruption is inherently difficult

*We look to identify key market themes and
assess how they can be disrupted*

VOLATILITY REGIMES: A HISTORY OF DISRUPTION



KEY MARKET THEMES AWAITING DISRUPTION

Extended US Economic Cycle

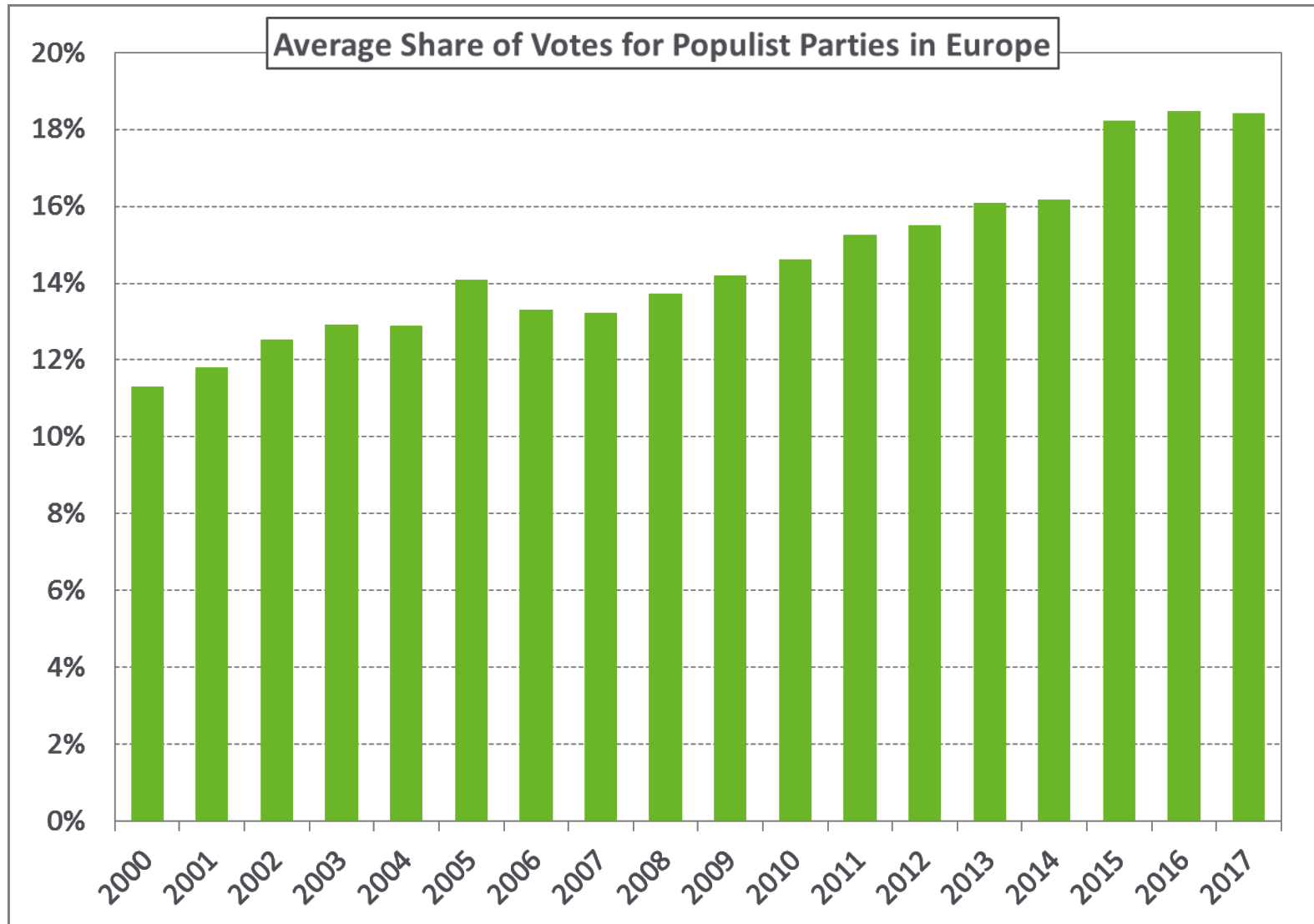
Synchronized Economic Resurgence

Federal Reserve Gradualism

China Transitions

Globalization Backlash

FUEL FOR LONG-TERM POLITICAL DISCONTENT



Source: World Bank

WHY GLOBALIZATION BACKLASH

Origin of our Globalization Backlash theme is two-fold

Decades of unevenly distributed economic gains and loss of manufacturing jobs in the developed world

Trend fuels a rise in populism and globalization fatigue

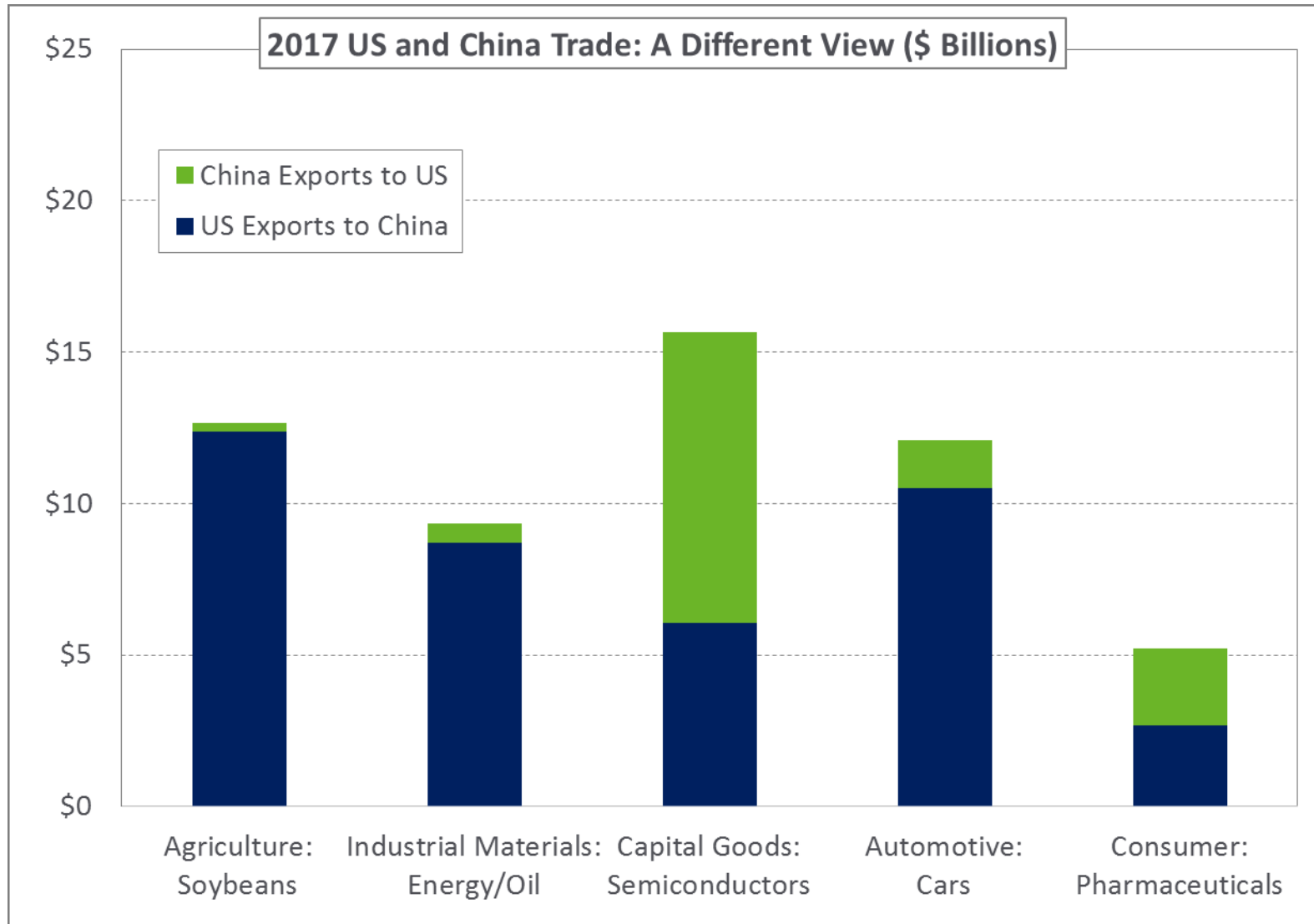
Result is a persistent anti-establishment political bias challenging political norms and economic conventions

Current incarnation of the theme: US-China Trade Policy

Tensions strike at the heart of free trade orthodoxy

Viewing US-China trade tensions through a basic game theory lens helps to explore the path of disruption

US AND CHINA TRADE RELATIONS



HOW WOULD YOU MANAGE TRADE POLICY

US Trade Policy		China Trade Policy
25% tariff on steel and 10% tariff on aluminum	USA First Move	
	China Response	Up to 25% tariffs on \$3B worth of US goods
25% tariffs on \$50B worth of Chinese goods	USA Response	
	China Response	Tariffs on \$50B of US goods, includes soybeans and aircraft
Will consider additional tariffs on \$100B of goods but no action yet	USA Response	
	What's Next?	

HOW WOULD YOU MANAGE TRADE POLICY

What are the known factors for US-China trade relations?

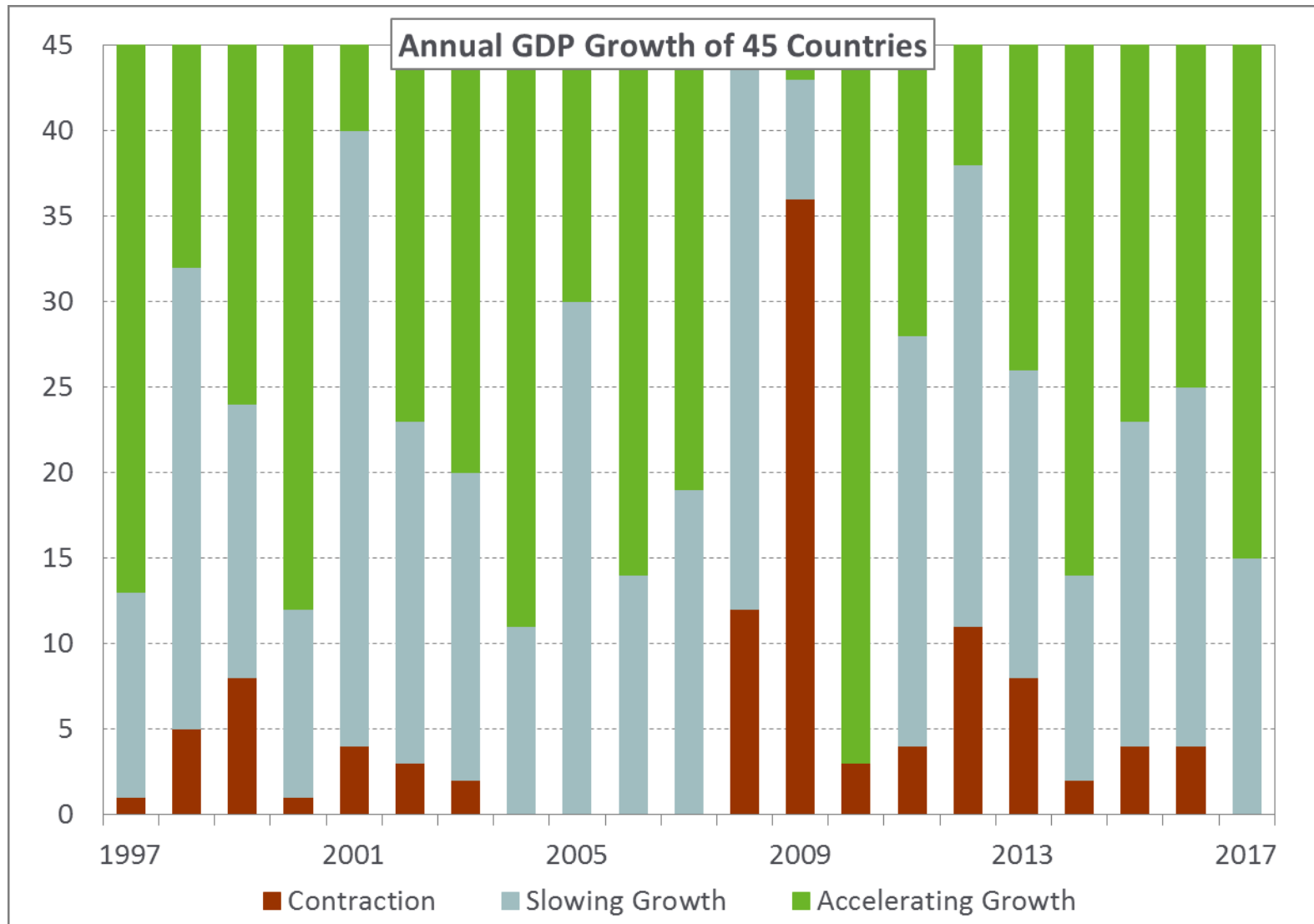
A full-blown trade war is devastating economically and politically for both the US and China

Choosing not to engage in a trade dispute is not an option as the opposing side will gain at your expense

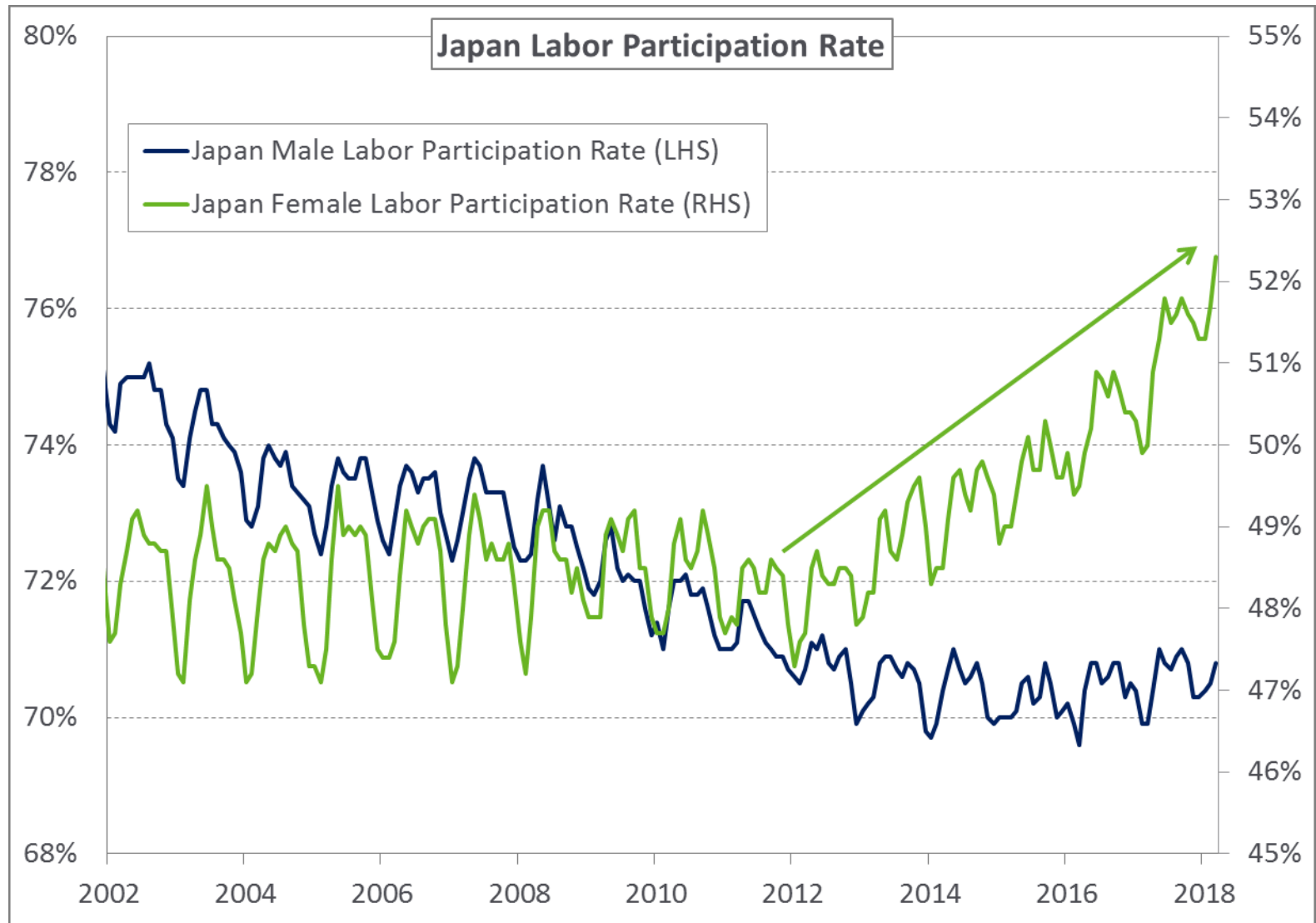
Both sides want to maintain domestic market share of higher margin products: Financial Services, Technology

US technology: US wants to limit access and China requires access to produce higher margin products

SYNCHRONIZED ECONOMIC RESURGENCE



DISRUPTION CAN BE POSITIVE FOR GROWTH



CURRENT OPPORTUNITIES TODAY

Trim US Equity Gains

Overweight Non-US Developed Market Equities

Maintain Overweight to Emerging Market Equities

Allocate to TIPS

Reduce Return Seeking Credit Exposure

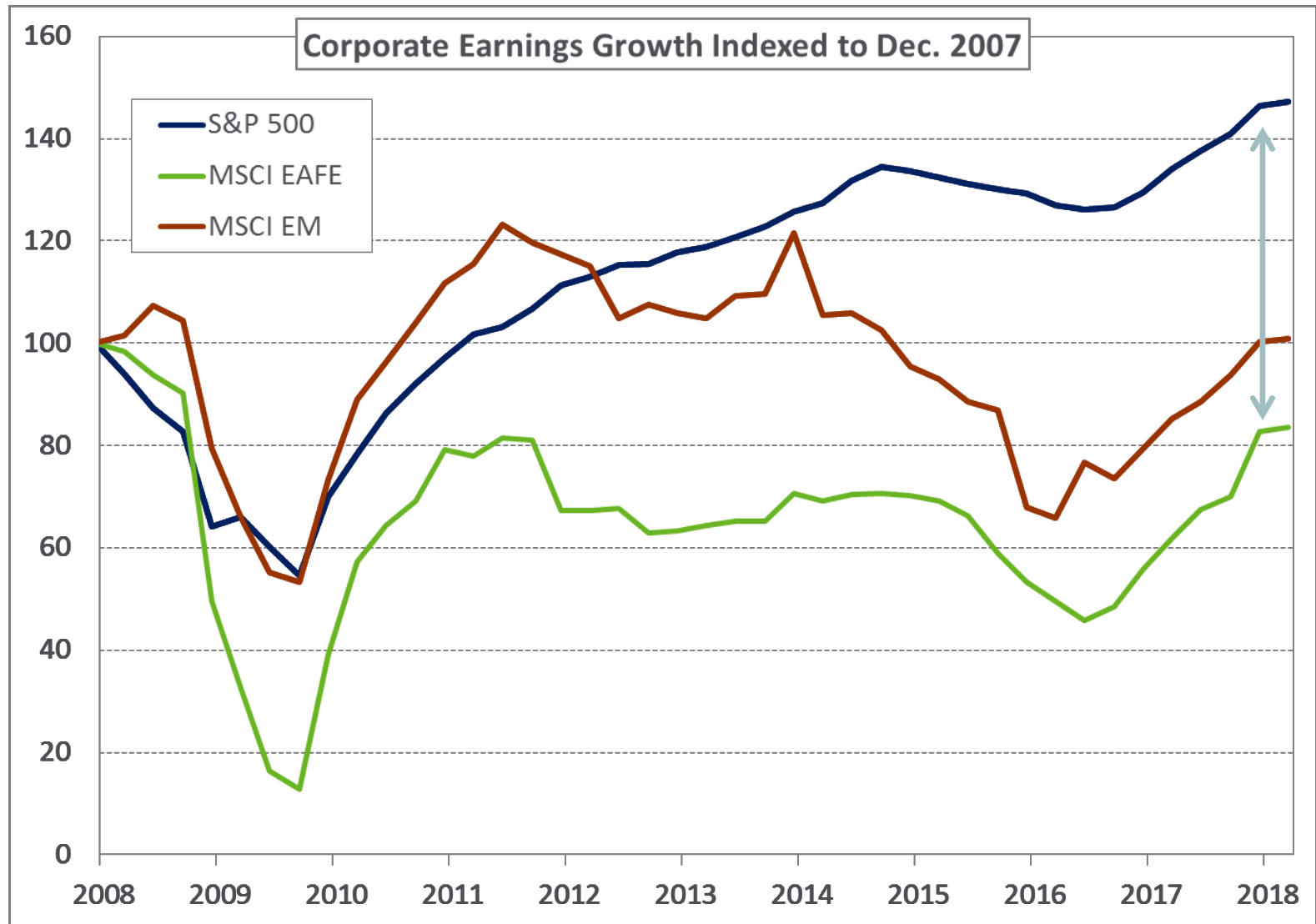
Fund Emerging Local Debt

Fund MLP Exposure From Risk Assets

Add Macro Hedge Funds

Add Long Volatility Exposure

INTERNATIONAL EQUITIES ARE ATTRACTIVE



FINAL THOUGHTS

**Disruption can be both positive and harmful for markets
but over time will evolve and change market dynamics**

**The outlook for equities outside the US remains strong
Bias to active approaches and Europe/Japan small-cap**

Keep an eye on Bill and Steve

**We encourage investors to rebalance “safe haven” fixed
income exposure back to strategic targets
Diversification wins in the long-term**

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