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The Anatomy of a Recession: What to Look for and Where We're Headed

First Quarter 2019

Probabilities vs. Possibilities

The Wall of Worry

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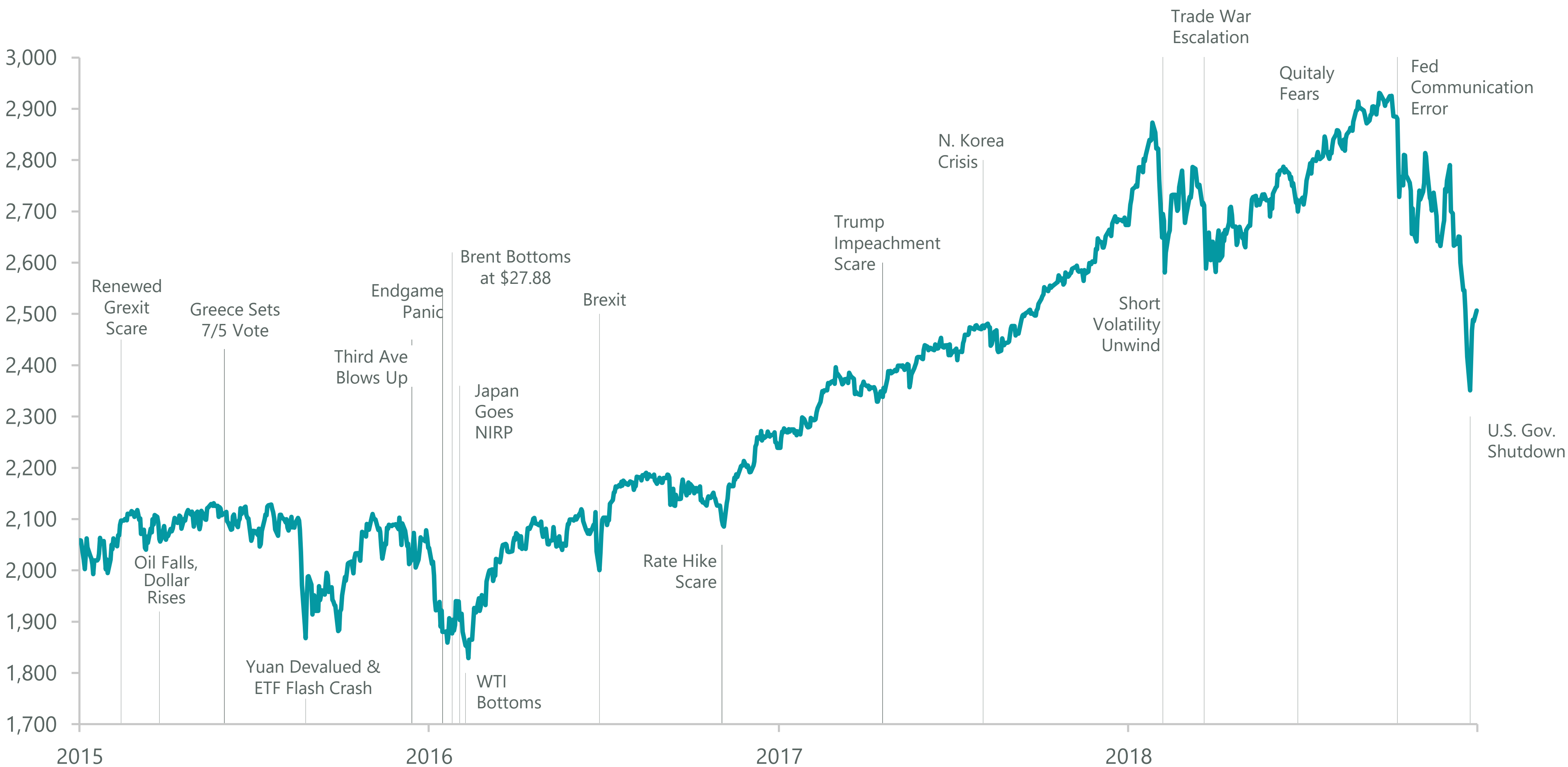
S&P 500 & Panic Attacks



"The definition of insanity is doing the same thing over and over again and expecting a different result."
- Attributed to Albert Einstein

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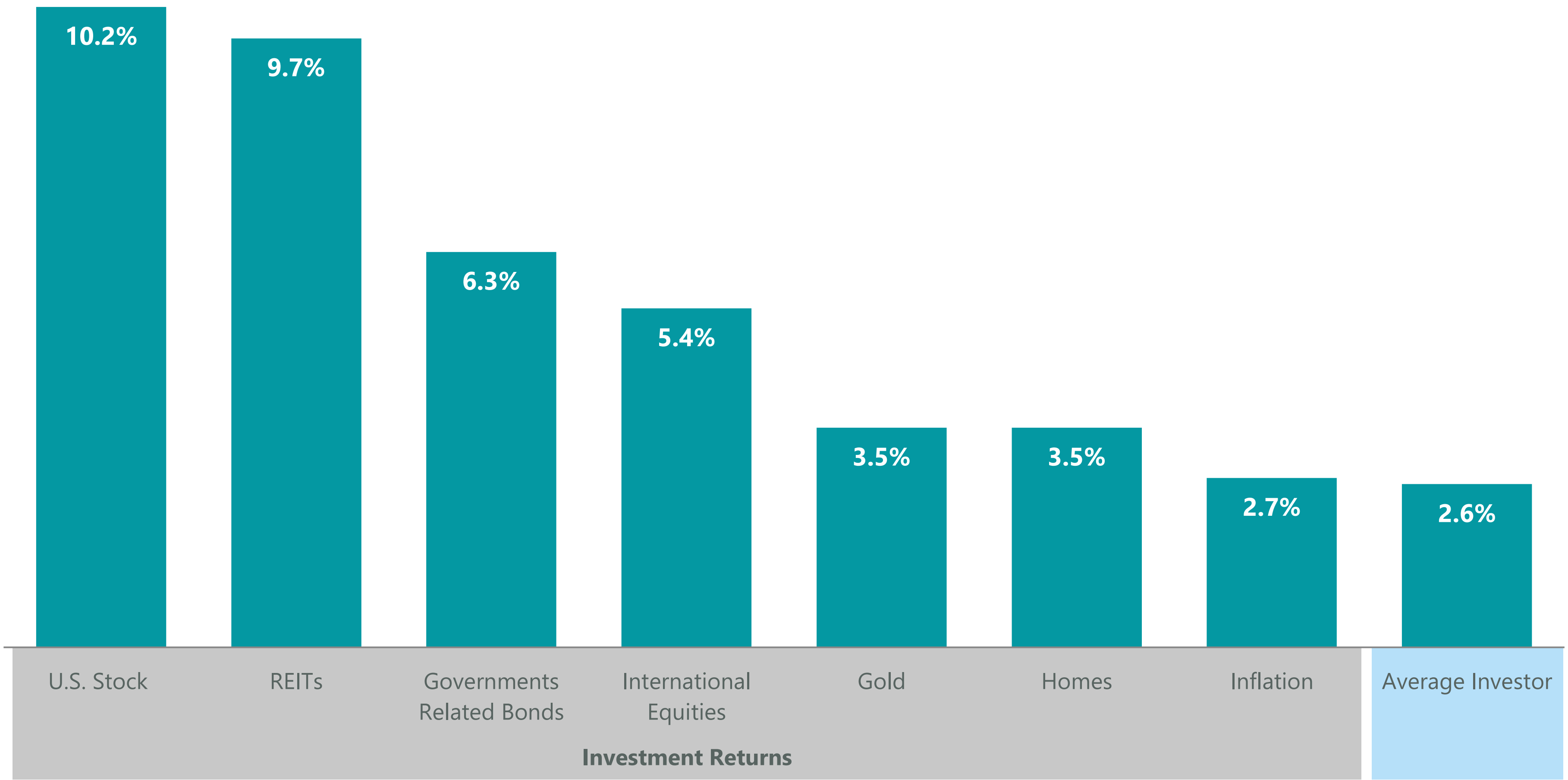
Data as of Dec. 31, 2018. Source: Standard & Poor's.

Effects of Panic Attacks on Average Investors

30 Years Annualized Returns (1987-2016)



Source: Bloomberg, Dec. 31, 2016. Average asset allocation investor return is based on an analysis by DALBAR, Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Indices shown are as follows: REITs are represented by the Wilshire U.S. REIT Index, U.S. Stocks are represented by the S&P 500 Index, International Equities are represented by the MSCI EAFE Index, Government-Related Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, Homes are represented by U.S. existing home sales median price, Gold is represented by the U.S. dollar spot price of one troy ounce, Inflation is represented by the Consumer Price Index. Indices are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. **Past** performance is no guarantee of **future results.**

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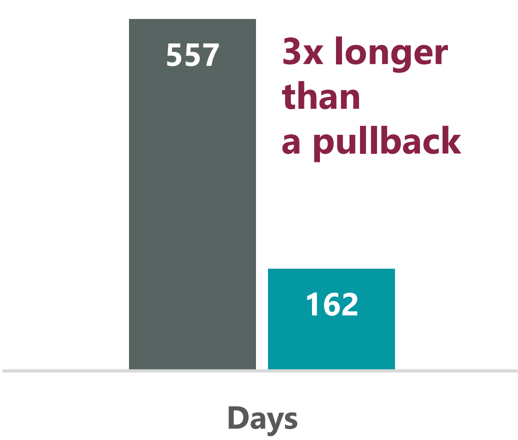
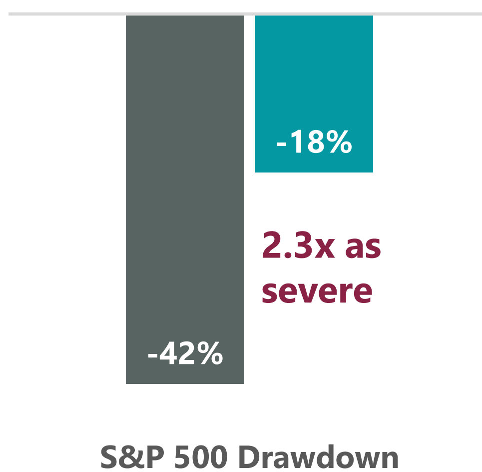
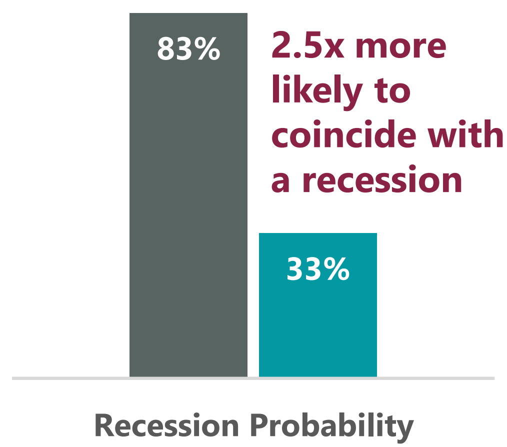
S&P 500 Market Crashes vs. Pullbacks

Market Crashes				
Peak	**Trough**	**Days**	**S&P 500**	**Recession**
Nov. 1968	May 1970	543	-36%	Yes
Jan. 1973	Oct. 1974	630	-48%	Yes
Nov. 1980	Aug. 1982	621	-27%	Yes
Aug. 1987	Dec. 1987	101	-34%	No
March 2000	Oct. 2002	929	-49%	Yes
Oct. 2007	March 2009	517	-57%	Yes
Average		**557**	**-42%**	**83%**

Pullbacks				
Peak	**Trough**	**Days**	**S&P 500**	**Recession**
Sept. 1976	March 1978	531	-19%	No
Feb. 1980	March 1980	43	-17%	Yes
July 1990	Oct. 1990	87	-20%	Yes
July 1998	Oct. 1998	83	-19%	No
April 2010	July 2010	70	-16%	No
April 2011	Oct. 2011	157	-19%	No
Average		**162**	**-18%**	**33%**







Market Crashes   Pullbacks

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Market Crashes defined as decline of 20% or greater in S&P 500 lasting at least 1 year. Pullbacks defined as declines of 15% or greater in S&P 500 (no time component). 1987 decline persisted at 20% or greater loss 1 year after Aug-87 peak despite trough coming in Dec-87.
Source: S&P, NBER, and Bloomberg.

1929 vs. 1987

The Great Depression: 1929

Black Monday: Truly an Outlier?

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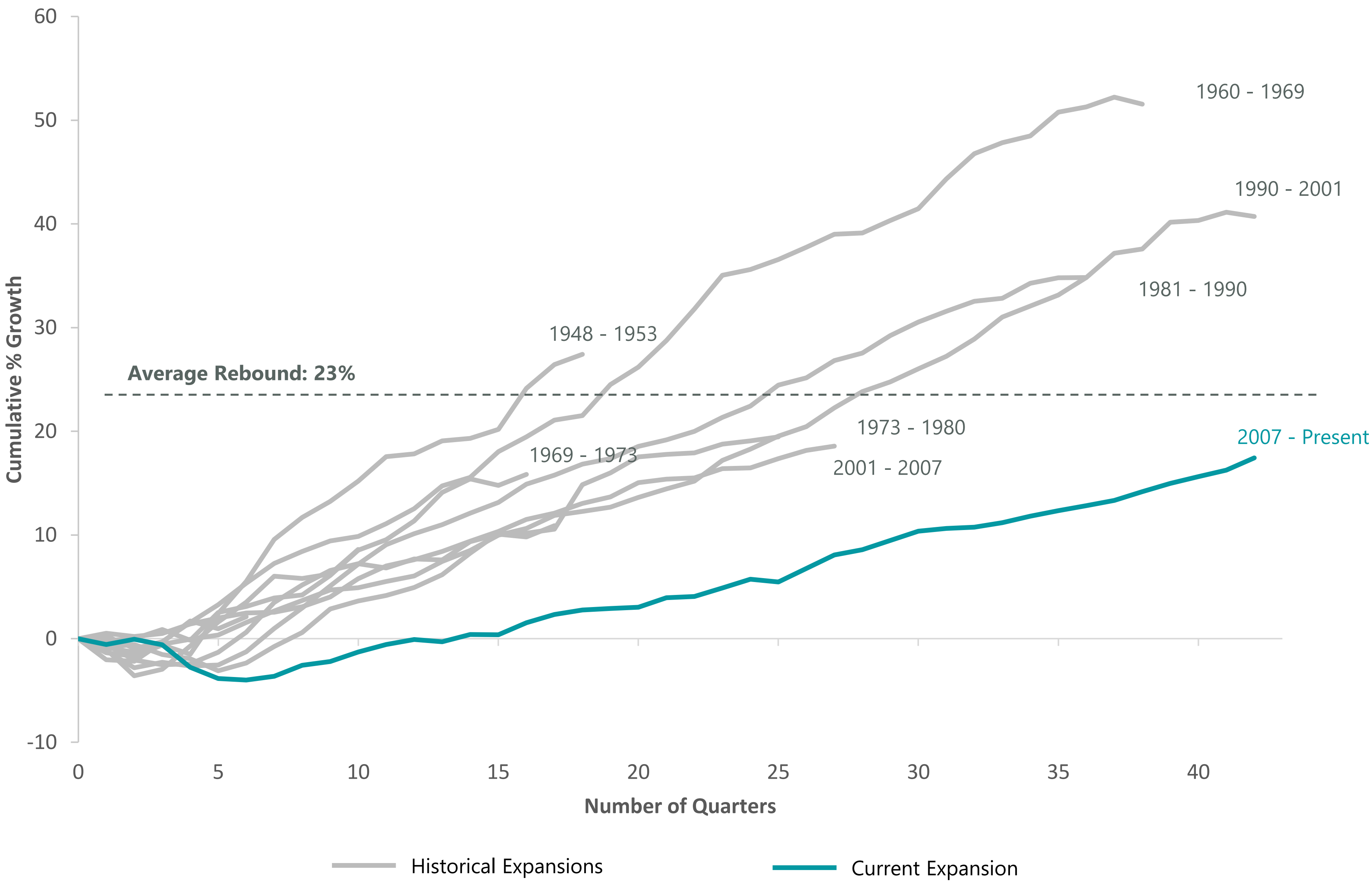
Strength of Economic Expansions



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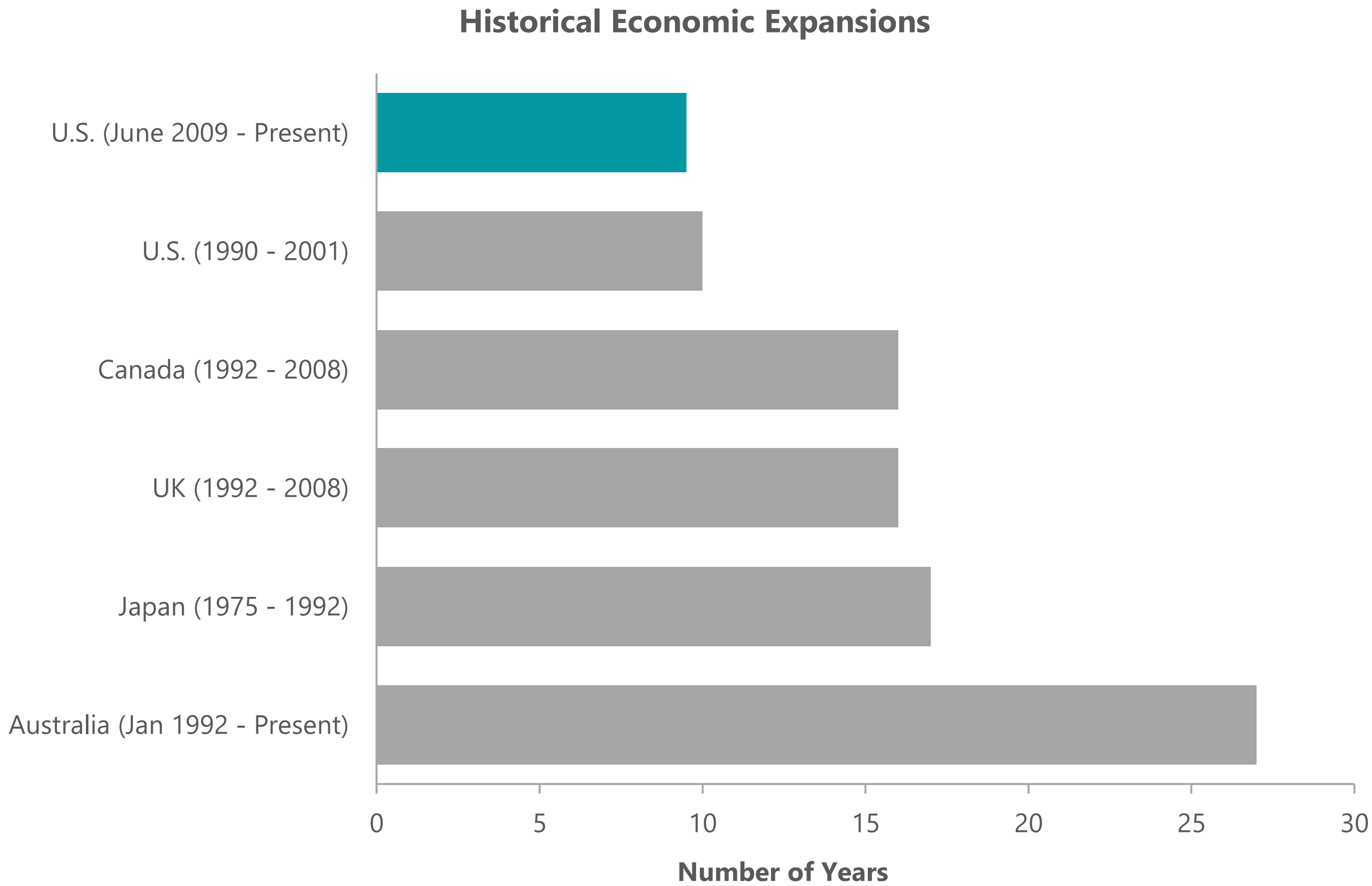
Data as of Sept. 30, 2018, most recent available as of Dec. 31, 2018.
Source: Strategas Research Partners. U.S. economic expansions since 1948.

Just How Long Can The Cycle Continue?



- **Extended economic expansions are more common outside of the U.S.**

As of Dec. 31, 2018.
Source: FactSet.

U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- Yield curve, credit spreads, money supply and commodities signal risk right now

		Fourth Quarter 2018	Third Quarter 2018
Financial	Yield Curve	●	⬆
	Credit Spreads	●	⬆
	Money Supply	●	●
Inflation	Wage Growth	⬆	⬆
	Commodities	●	⬆
Consumer	Housing Permits	⬆	⬆
	Jobless Claims	⬆	⬆
	Retail Sales	⬆	⬆
	Job Sentiment	⬆	⬆
Business Activity	ISM New Orders	⬆	⬆
	Profit Margins	⬆	⬆
	Truck Shipments	⬆	⬆
	Overall Signal	⬆	⬆

⬆ Expansion ● Caution ✖ Recession

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Data as of Dec. 31, 2018.
Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg.

U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- Yield curve, credit spreads, money supply and commodities signal risk right now

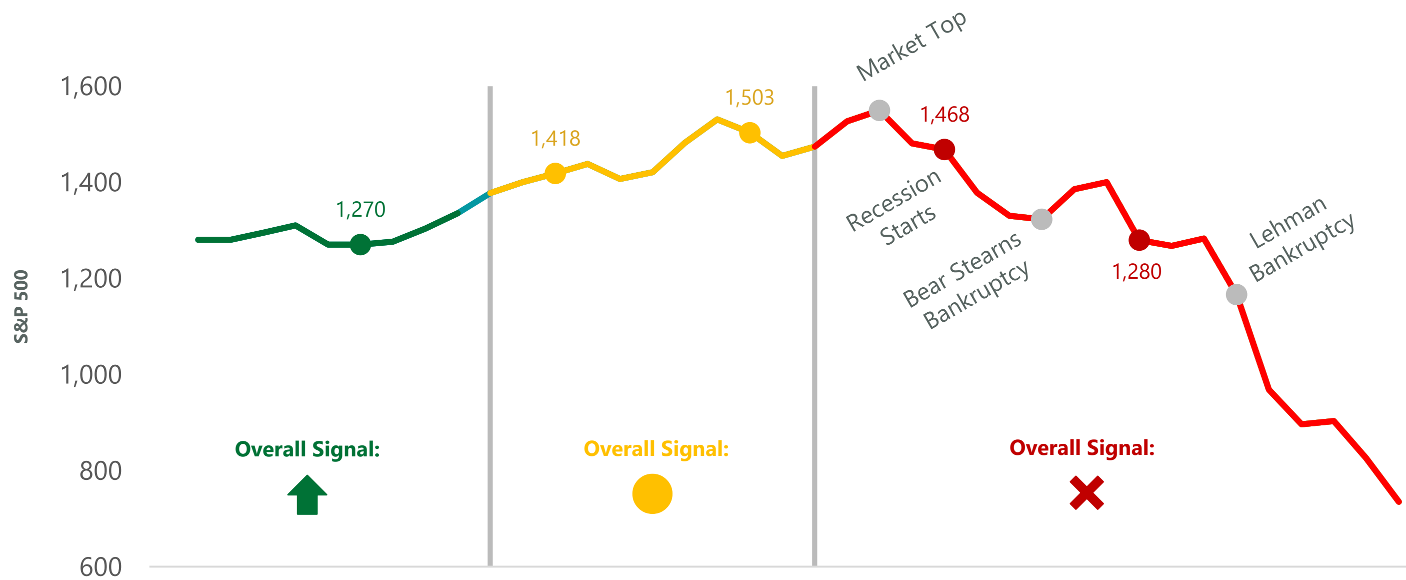
			Recession						
		Current	2007-2009	2001	1990-1991	1981-1982	1980	1973-1975	1969-1970
Financial	Yield Curve	●	✗	✗	✗	✗	✗	✗	✗
	Credit Spreads	●	✗	✗	✗	✗	✗	⬆	●
	Money Supply	●	✗	✗	✗	✗	✗	✗	✗
Inflation	Wage Growth	⬆	✗	✗	✗	✗	✗	✗	✗
	Commodities	●	✗	✗	✗	✗	●	●	●
Consumer	Housing Permits	⬆	✗	●	✗	✗	✗	✗	✗
	Jobless Claims	⬆	●	✗	✗	✗	✗	⬆	✗
	Retail Sales	⬆	✗	✗	✗	✗	✗	●	✗
	Job Sentiment	⬆	✗	✗	✗	✗	●	●	●
Business Activity	ISM New Orders	⬆	✗	✗	✗	✗	✗	✗	✗
	Profit Margins	⬆	✗	✗	✗	✗	✗	●	✗
	Truck Shipments	⬆	●	✗	✗	✗	✗	n/a	n/a
	Overall	⬆	✗	✗	✗	✗	✗	●	✗

⬆ Expansion ● Caution ✗ Recession

Data as of Dec. 31, 2018.
Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg.

U.S. Recession Dashboard

Case Study: 2006-2009



		Q2 2006	Q4 2006	Q2 2007	Q4 2007	Q2 2008
Financial	Yield Curve	●	✖	✖	✖	✖
	Credit Spreads	⬆	⬆	⬆	✖	✖
	Money Supply	✖	✖	✖	✖	✖
Inflation	Wage Growth	✖	✖	✖	✖	✖
	Commodities	⬆	⬆	⬆	✖	✖
Consumer	Housing Permits	●	✖	✖	✖	✖
	Jobless Claims	⬆	⬆	●	●	✖
	Retail Sales	⬆	●	●	✖	✖
	Job Sentiment	⬆	●	●	✖	✖
Business Activity	ISM New Orders	⬆	●	●	✖	✖
	Profit Margins	●	●	●	✖	✖
	Truck Shipments	●	●	●	●	●

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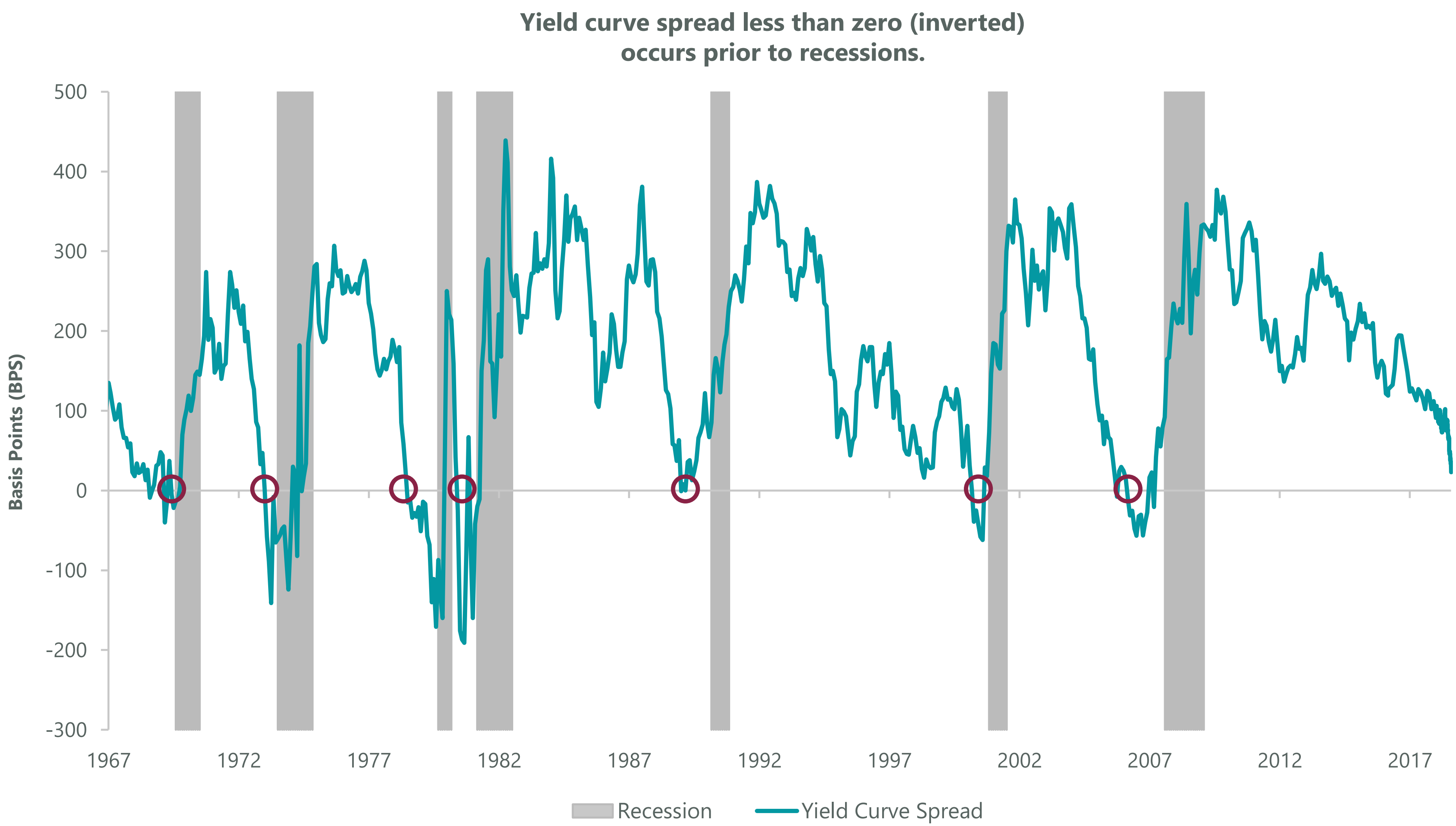
Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg.

Yield Curve Spread

10-Year Treasury Bonds Minus 3-Month T Bills



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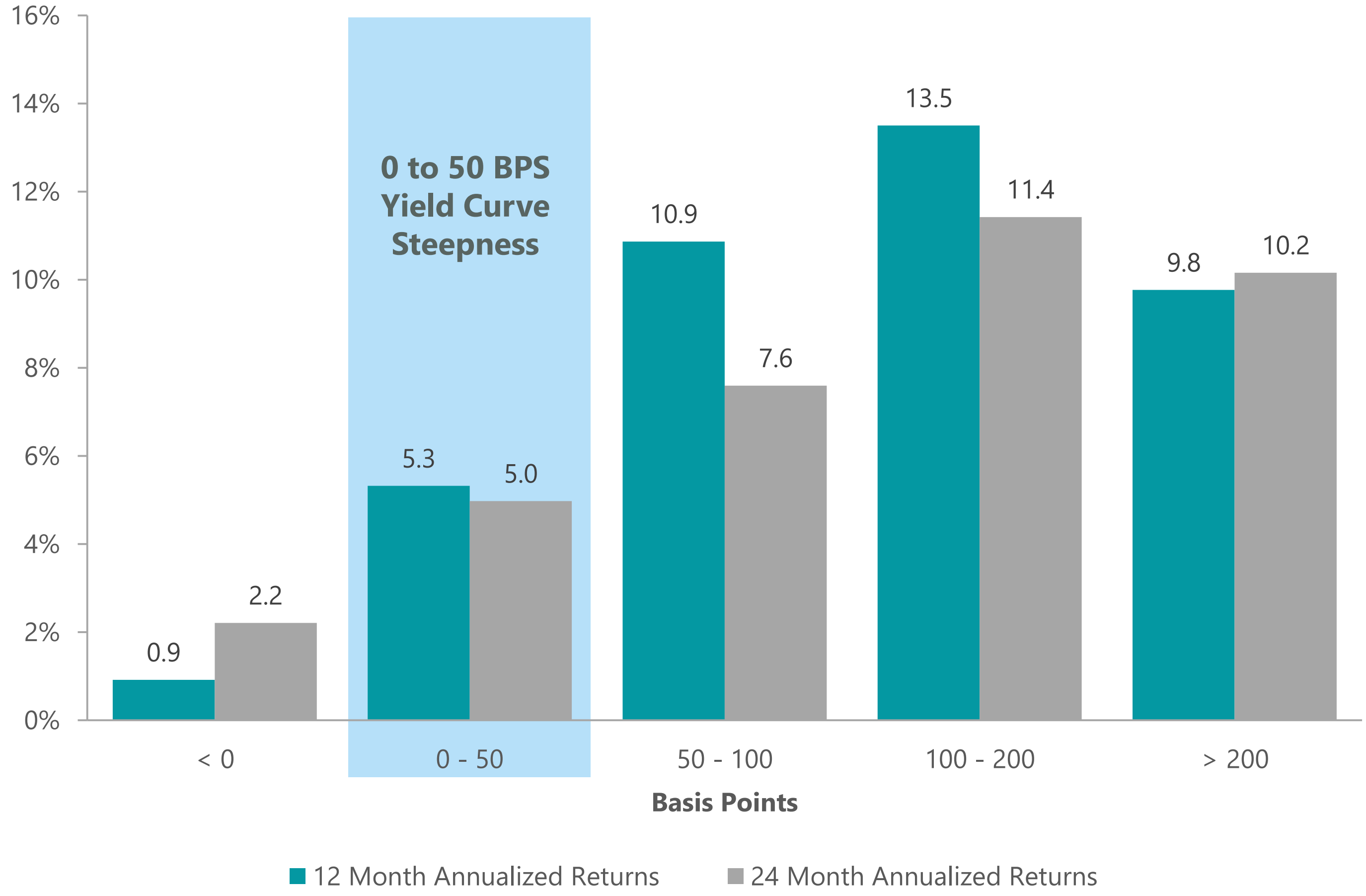
Data as of Dec. 31, 2018. BPS = Basis Points, one hundredth of one percent.
Source: Fed Reserve Bank of St. Louis, retrieved from FRED. Compiled: econpi.com

S&P 500 Returns by Yield Curve Steepness

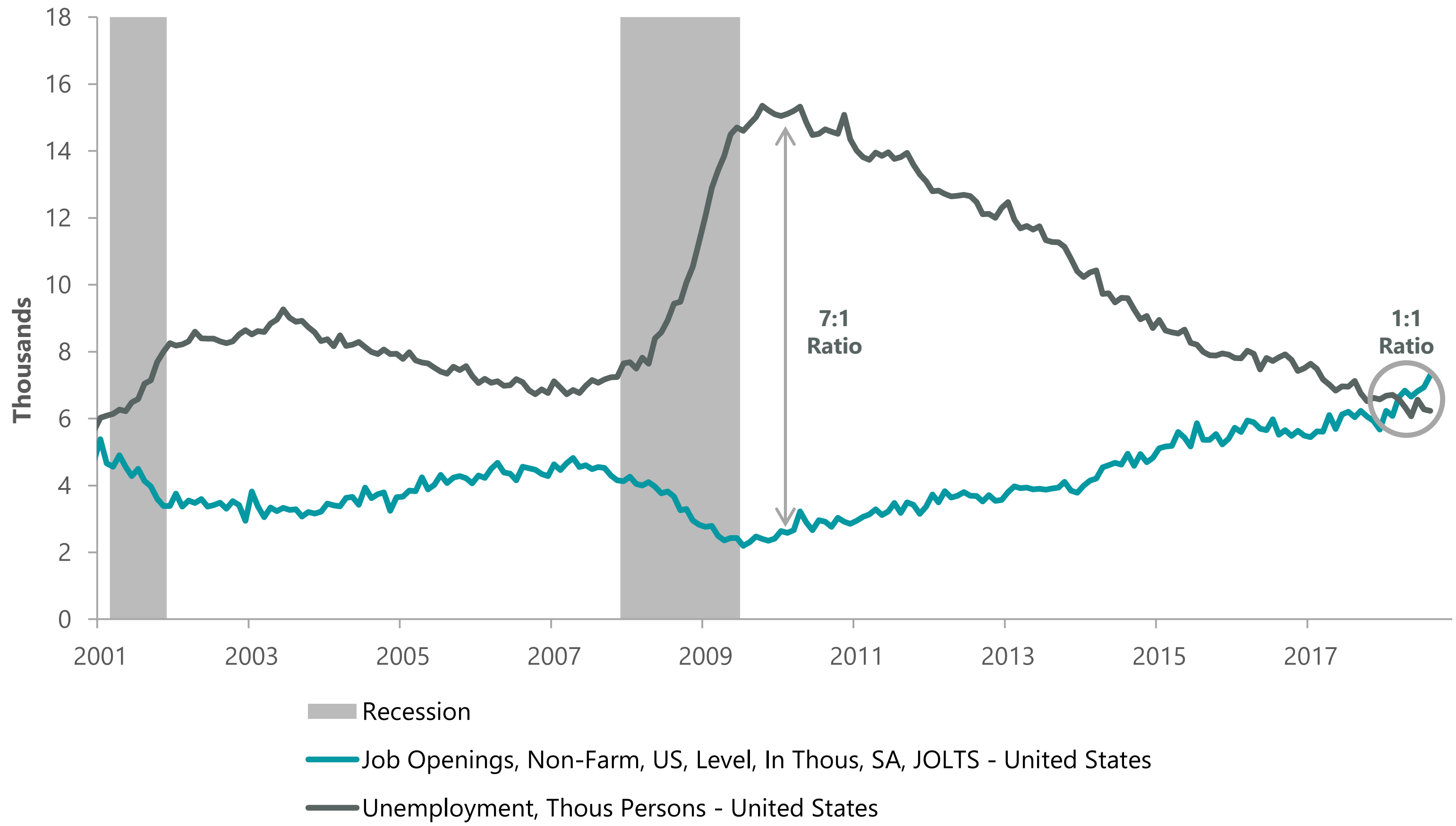
Equities Have Done Well Following a Flatter Yield Curve



- **A flattening yield curve traditionally provides positive returns over the following one and two years.**
- **Investor returns drop substantially once the yield curve inverts.**

Data from 1962-Dec. 31, 2018. Source: Federal Reserve, S&P, Bloomberg, and FactSet.
Note: Forward 12 and 24-month annualized returns for S&P 500 based on level of 3-Month vs. 10-Year yield curve and change in 3-Month vs. 10-Year yield curve over prior 3 months during periods where the yield curve flattened over the prior 3 months.

Job Openings vs. Unemployed



- **At the peak in 2009, there were seven unemployed people for every job opening.**
- **Today, the ratio is less than 1:1.**

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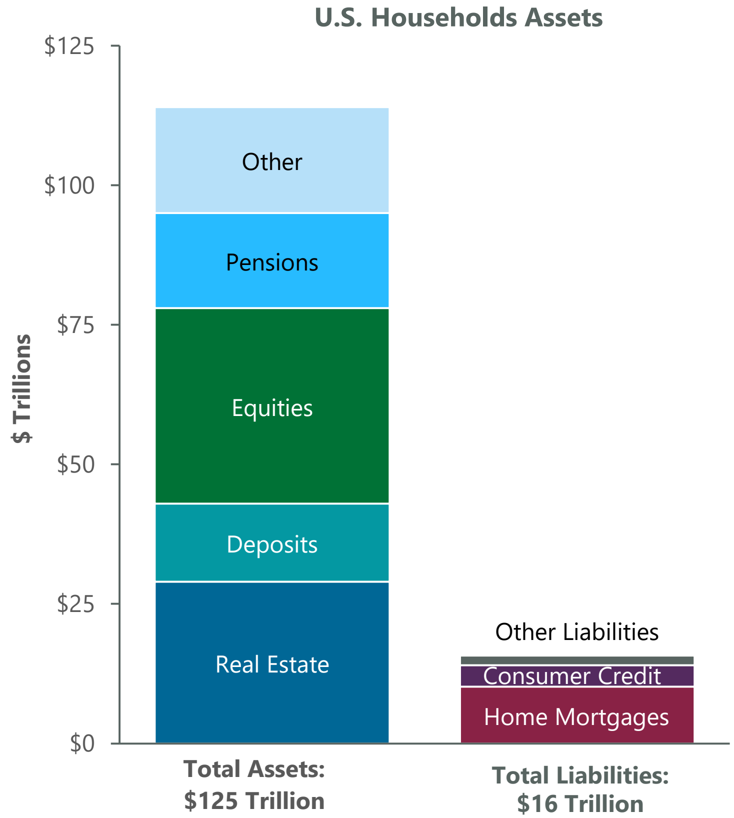
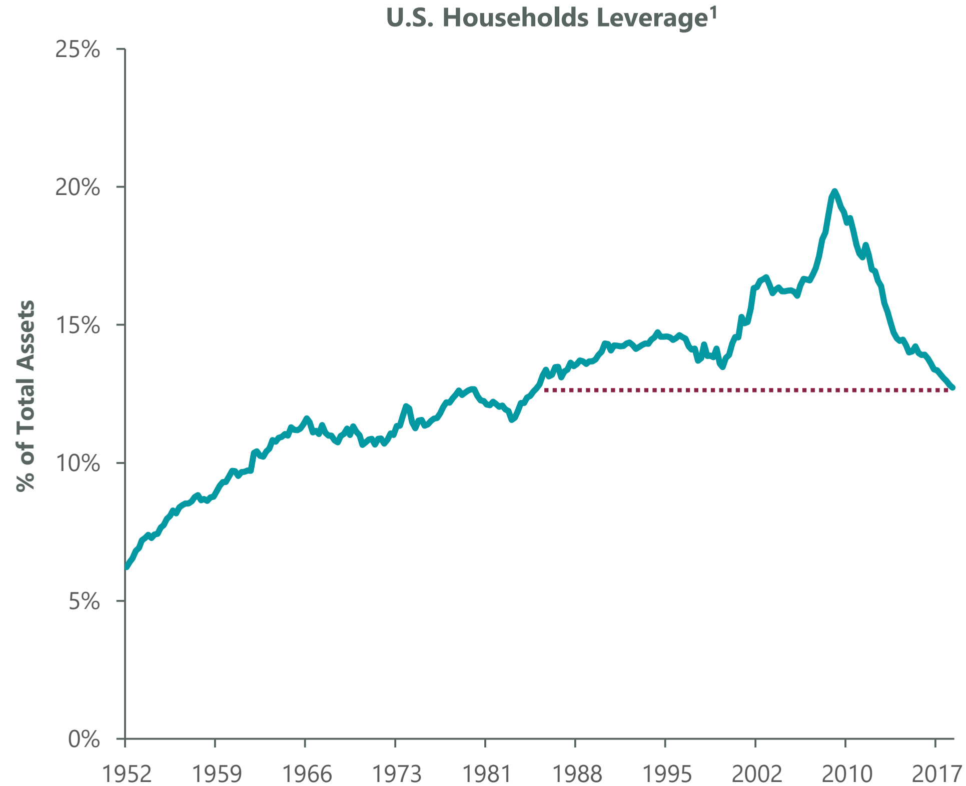
Data as of Nov. 30, 2018; most recent available as of Dec. 31, 2018.
Source: FactSet, DOL, NBER.

Households Assets vs. Liabilities





- **American households are in a strong financial position with robust balance sheets.**
- **Household leverage is the lowest it has been since 1Q 1985.**

[1]As of Date: Sept. 30, 2018, latest available as of Dec. 31, 2018.
Source: Federal Reserve.
Assets vs. Liabilities of households and nonprofit organizations.

Market Outlook:
Where We're Headed

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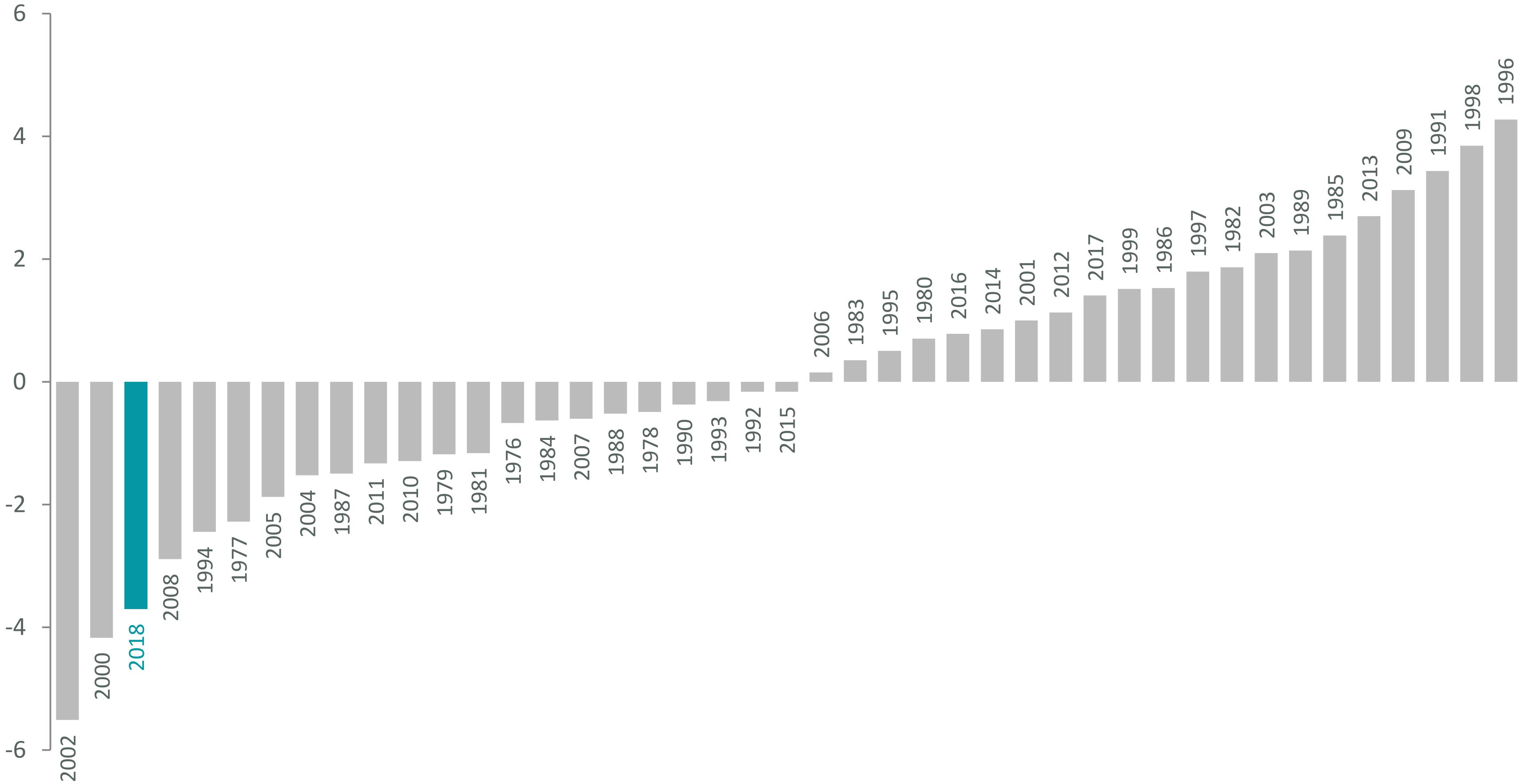
Third Greatest Decline in P/Es in Past 40 Years



- **S&P 500 valuations are much more compelling after the market derating.**
- **Near term recession risks remain muted. This should support returns in 2019.**

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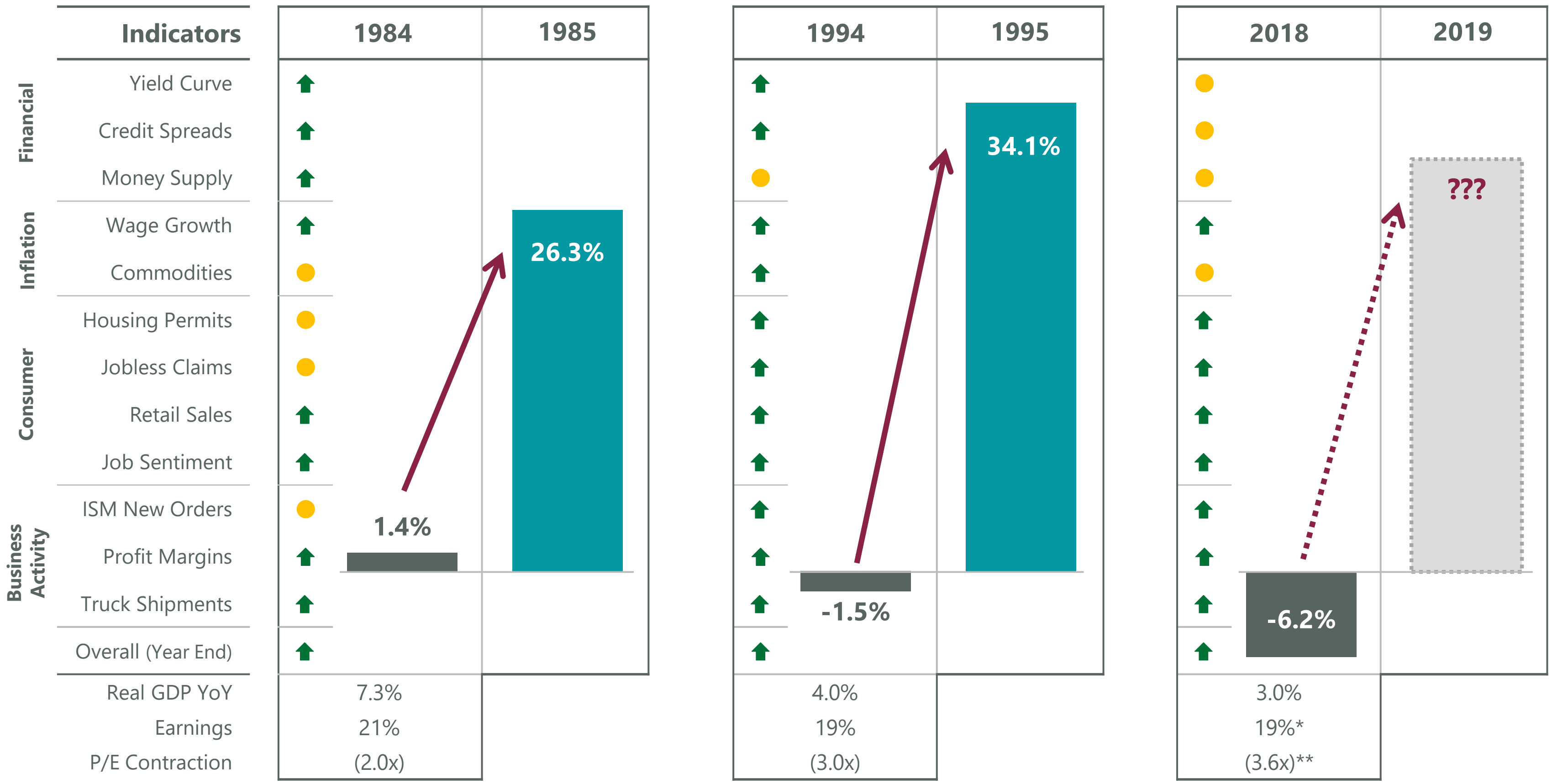
Data as of Dec. 31, 2018.
Source: Credit Suisse, S&P and FactSet.

Two Important Historical Analogues

S&P 500 Annual Returns, Recession Risk Indicators, and Select Economic Data as of December 31



Expansion
Caution
Recession

- Both 1984 and 1994 saw strong earnings, a robust economy, and P/E contraction that led to disappointing market performance.
- In each case, the following year did not see a recession and markets rallied substantially.

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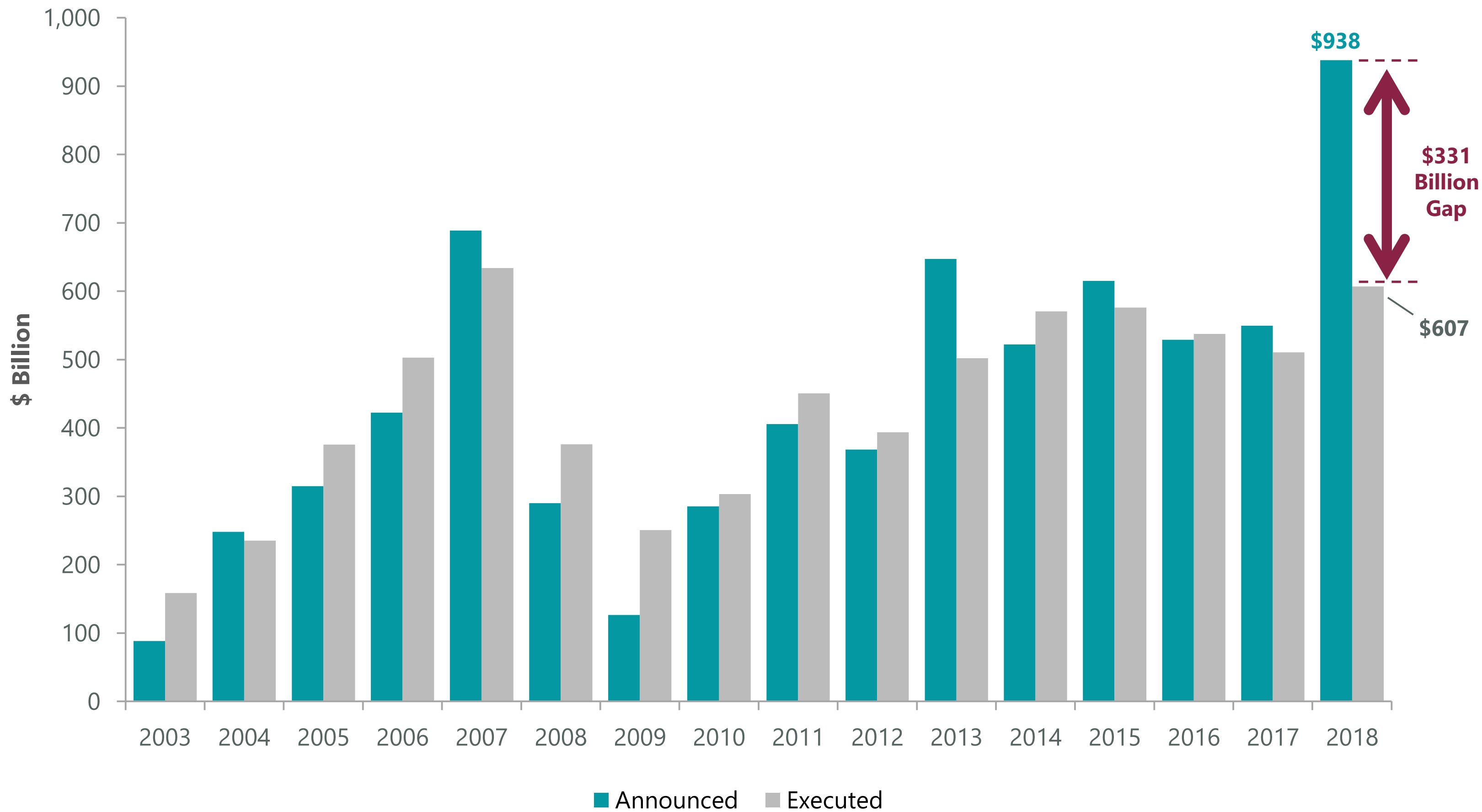
*Projected NTM EPS.
**Projected NTM P/E.
Data as of Dec. 31, 2018. Returns and economic data source: FactSet. Dashboard: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. S&P 500 data: Total Price Return.

Buybacks Should Drive Markets Into Year-End

S&P 500 Companies



- **The $331 billion gap between announced and executed buybacks in 2018 should help drive markets higher over the next several months.**

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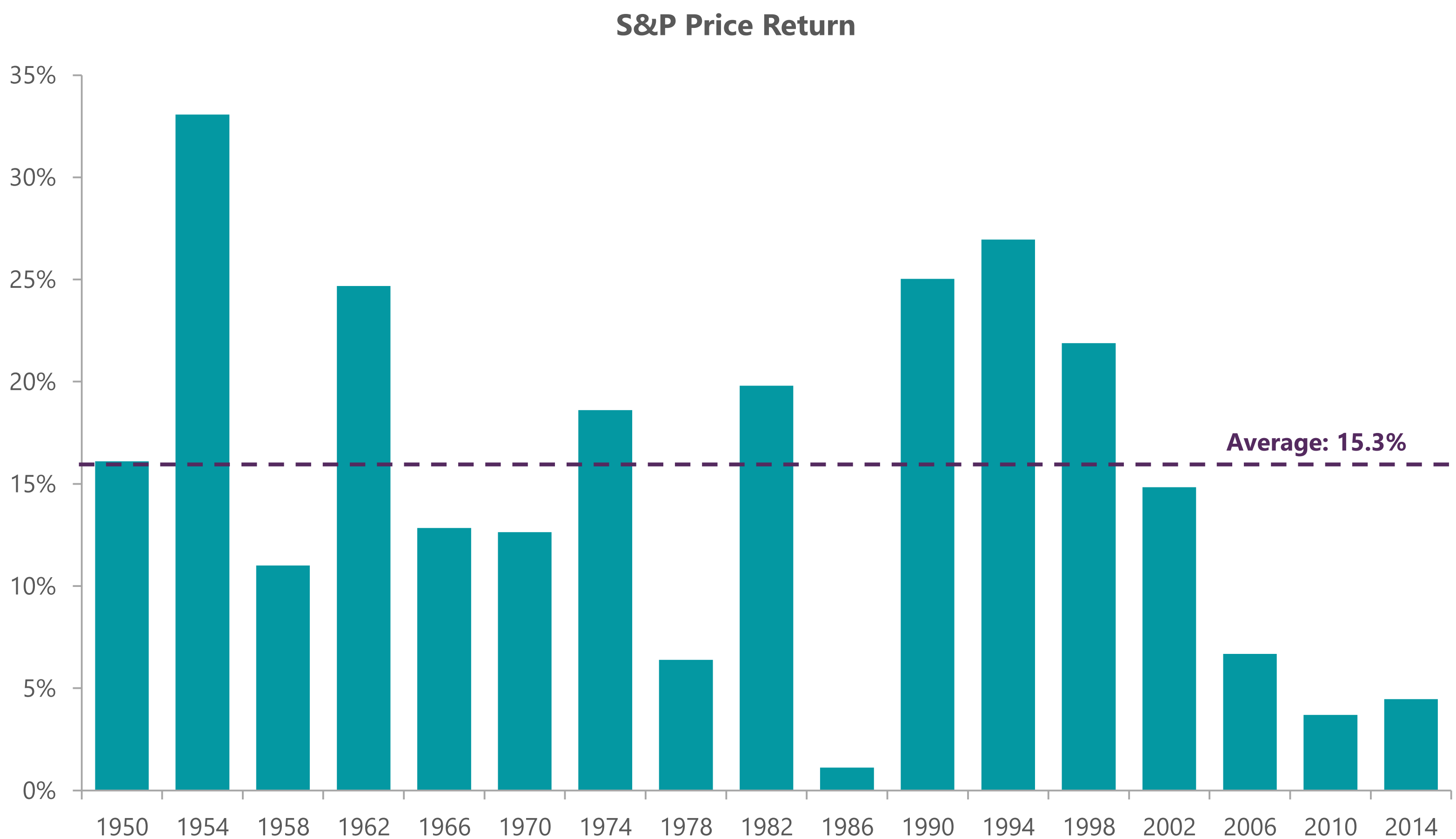
Data as of Dec. 31, 2018.
Source: JPMorgan.

Post-Midterm Election Performance

Midterm Year Since 1950



- **In the 12 months following a midterm election, the S&P 500 has been up 15.3% on average, historically.**
- **Every period historically has had a positive return.**

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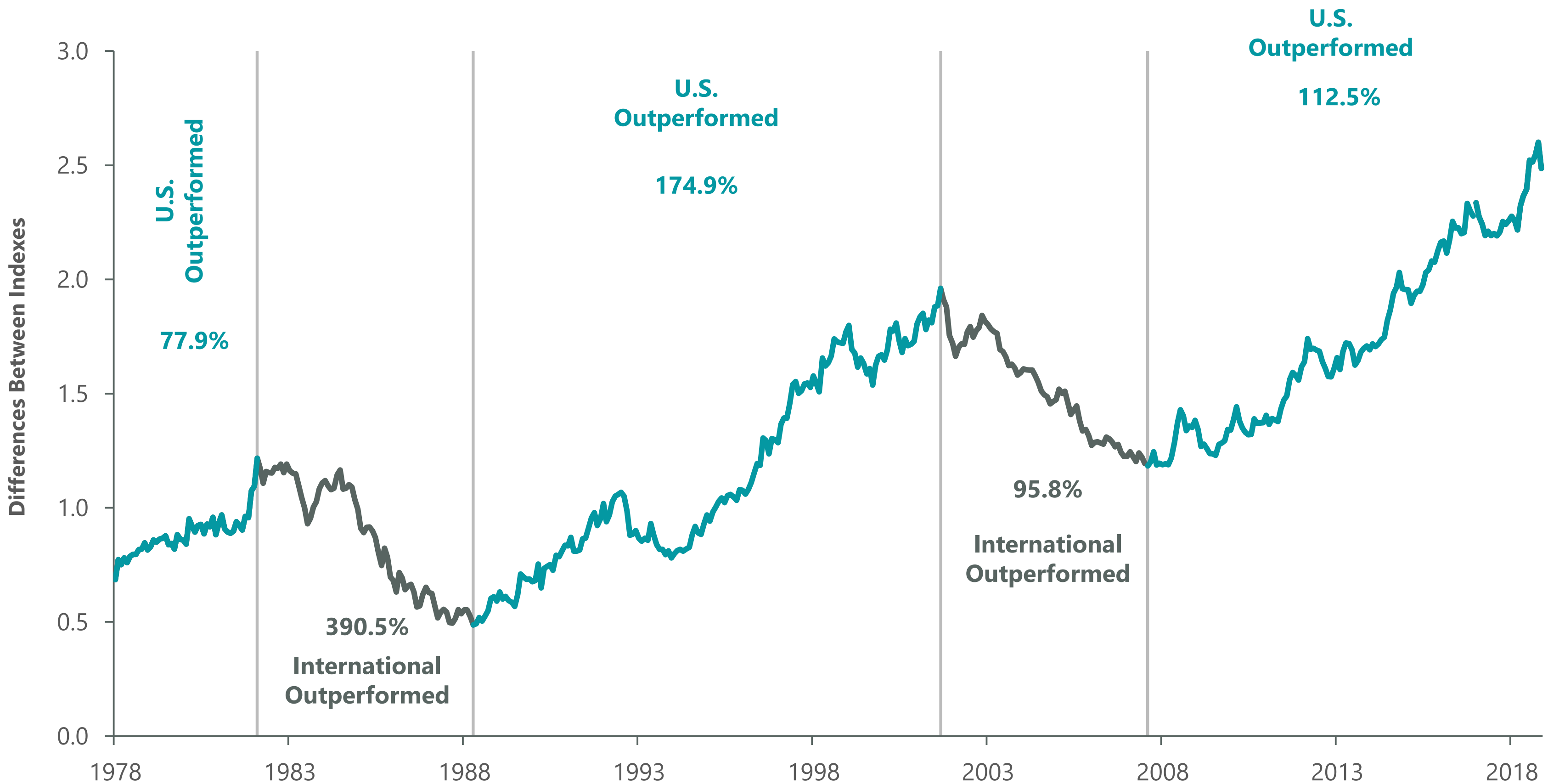
Source: FactSet, S&P.

U.S. vs. International Equity Performance



▶ **Geographic leadership tends to persist for multiple years.**

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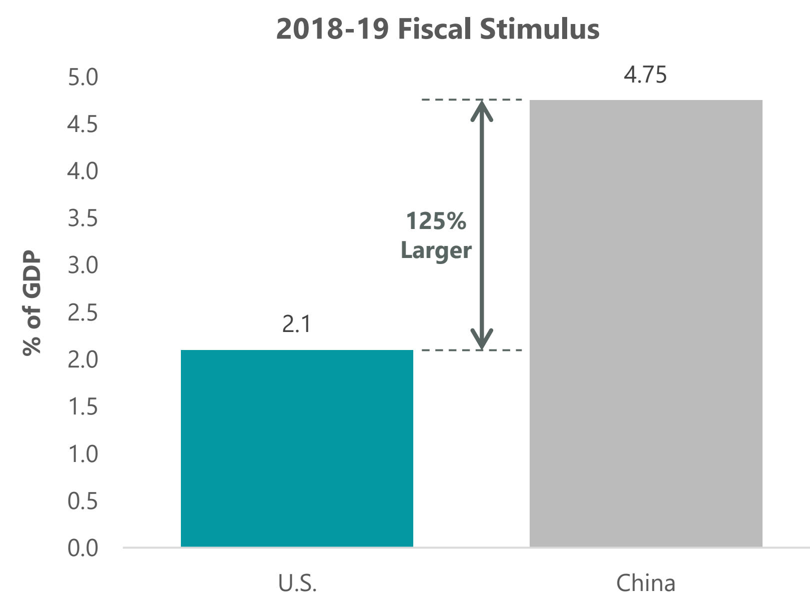
S&P 500 vs. MSCI EAFE.
Data as of Dec. 31, 2018.
Source: FactSet.

Chinese Stimulus

Similar to 2015-16, China is taking steps to stimulate their economy including:

- Lower interest rates (Shibor -100 bps , 250 bps cuts of RRR)
- Yuan devaluation
- Looser credit standards: New bank loans +10% in Q4, +30% in Q3
- Fiscal stimulus (Government spending, tax cuts)
- Capital injections via medium term lending facility (MLF) and expansion of MLF scope



Sources: JP Morgan, National Statistics Bureau of China, Bloomberg, Societe Generale and Macquarie.
*Note: China Monetary Conditions Index advanced six months.
Chinese Monetary Conditions data as of Sept. 30, 2018. China GDP data as of Nov. 30, 2018. Both are most recent available as of Dec. 31, 2018. Fiscal Stimulus data as of Dec. 31, 2018.

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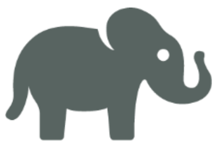
One Year Outlook

Themes That Will Drive the Market Over the Next 12 Months



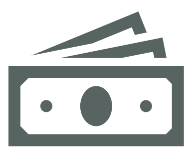
Trump's Presidential Agenda

Earnings

International

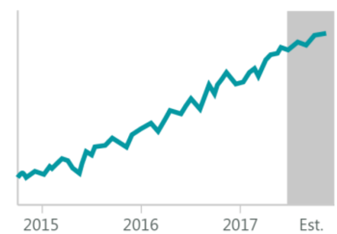
Interest Rates

Oil



U.S. Dollar

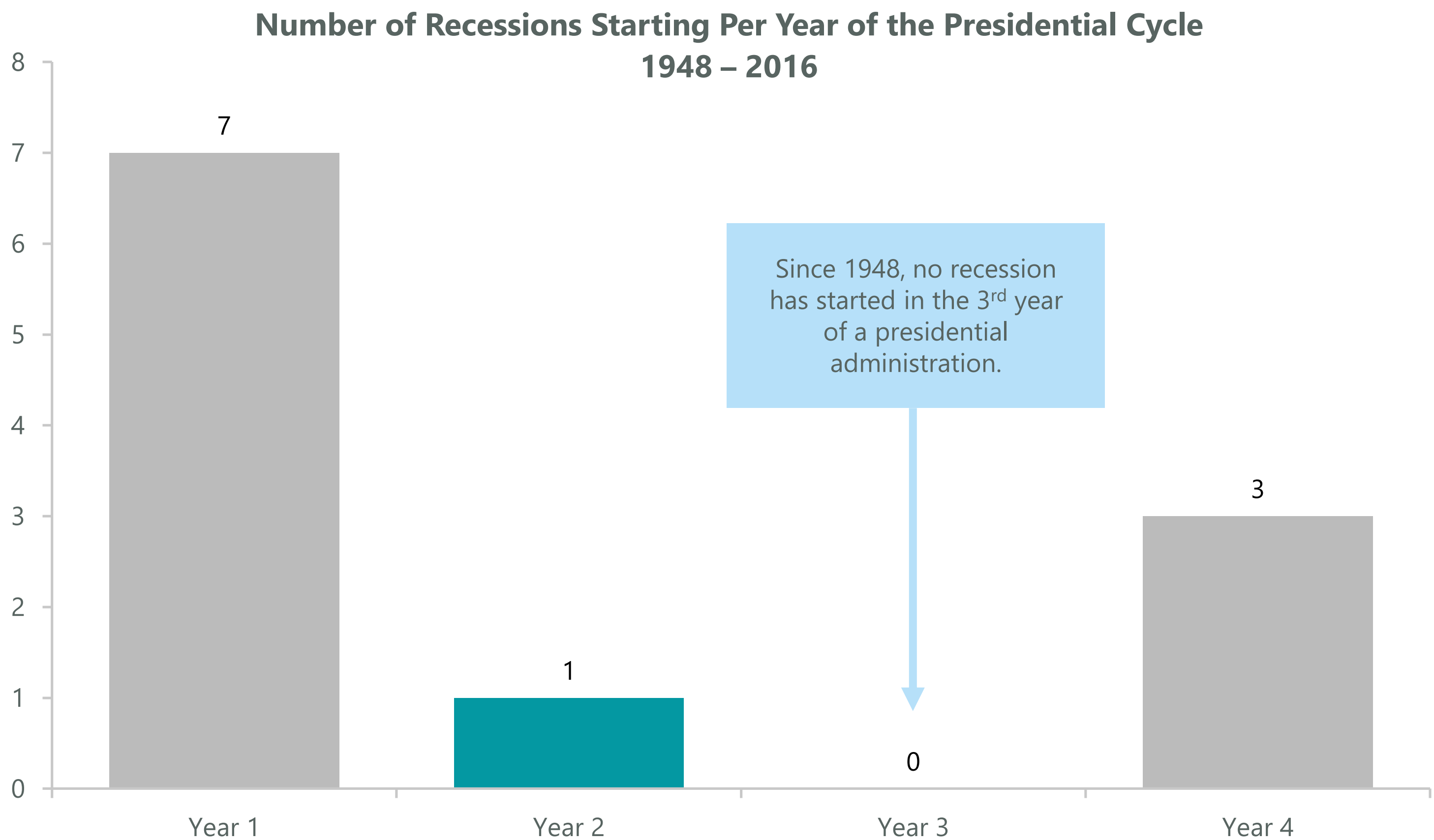
Debt



Valuations

Trump’s Presidential Agenda

Presidential Cycle: The Economy



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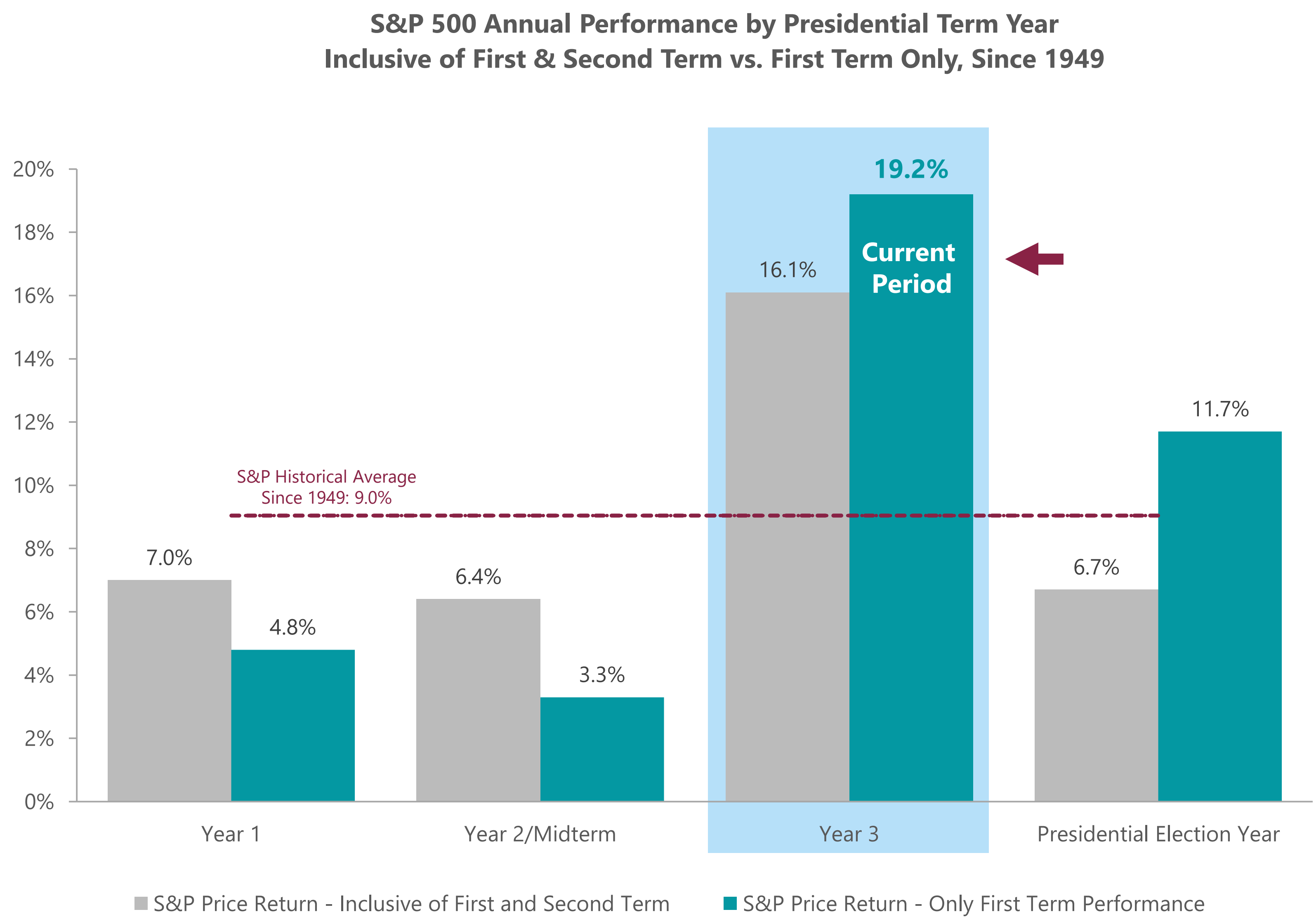
Source: Strategas Research Partners.

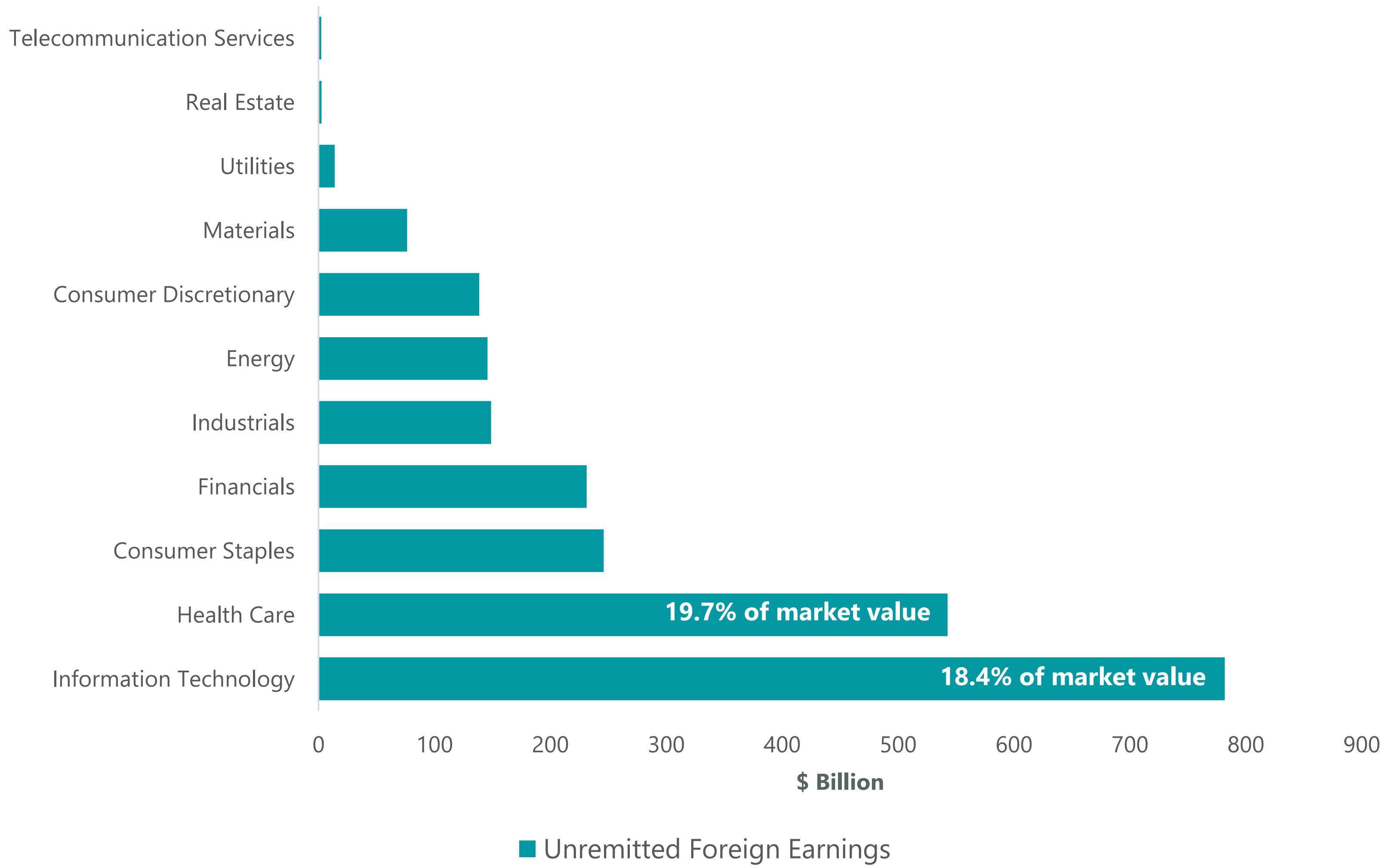
Presidential Cycle: The Stock Market



Source: Strategas Research Partners.

Repatriation

Unremitted Foreign Earnings: S&P 500



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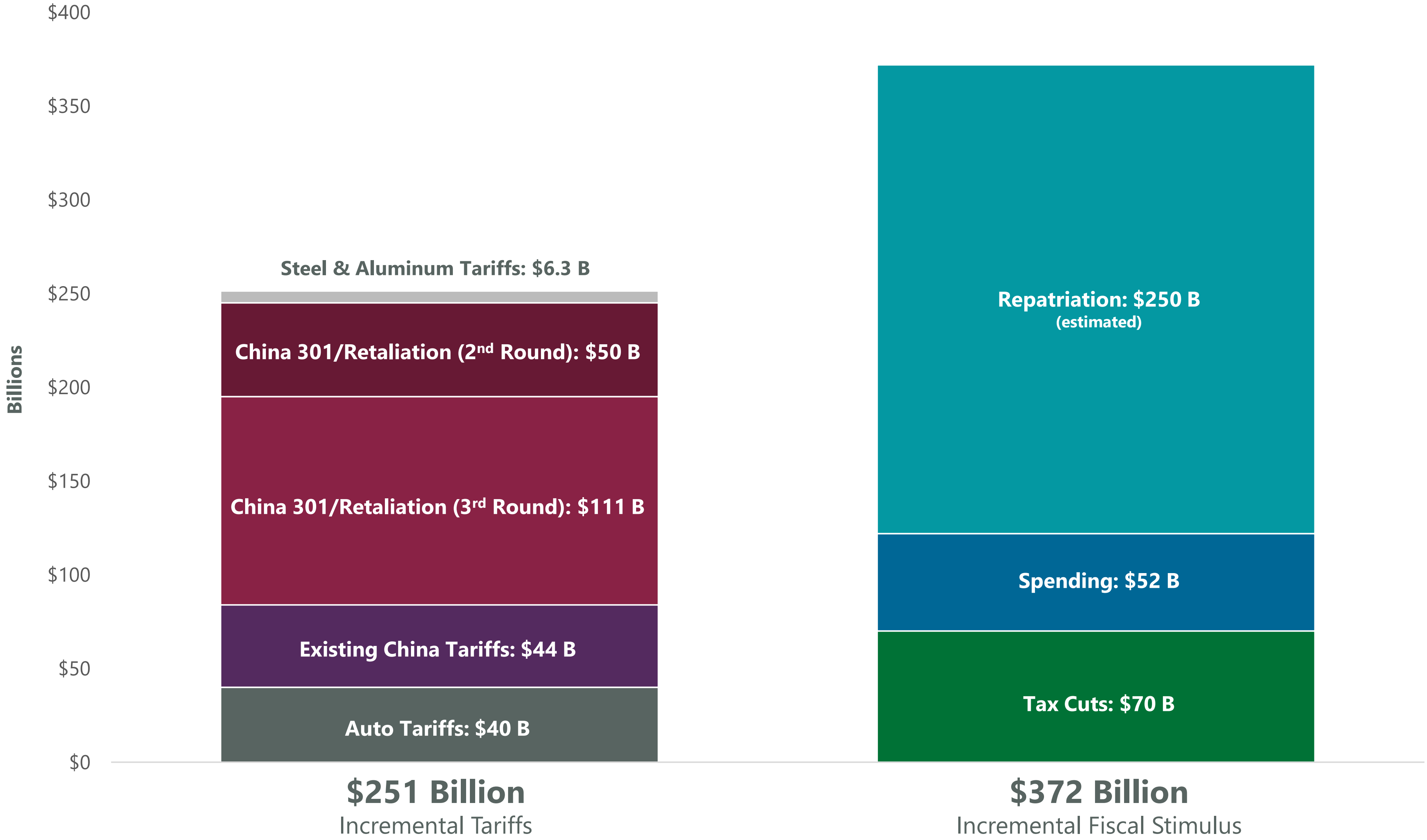
Data as of Dec. 31, 2017.
Source: Standard & Poor's and Bloomberg.

Fiscal Stimulus > Trade Concerns

Tariffs vs. Fiscal Policy



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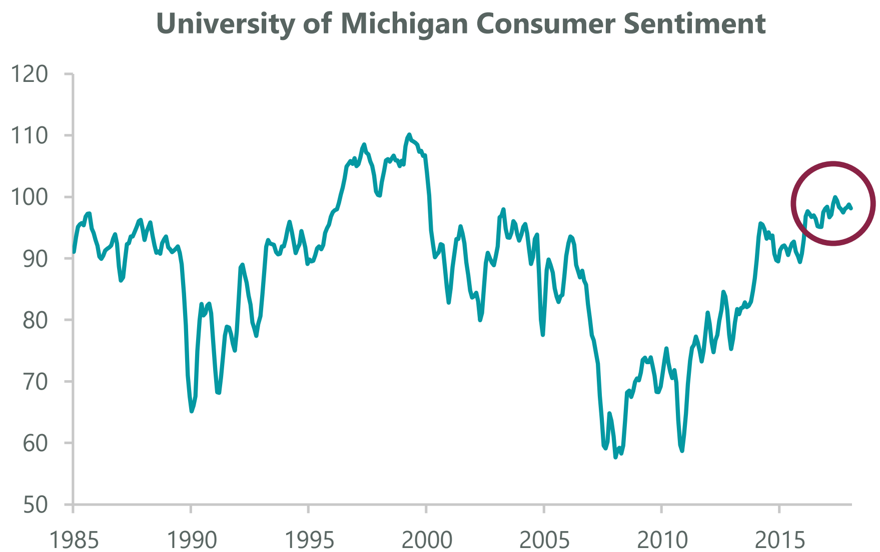
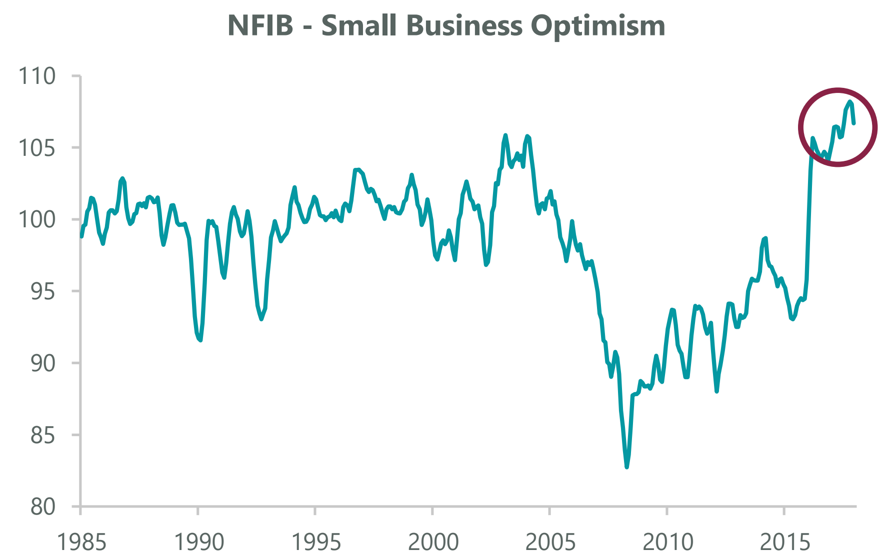
Data as of Dec. 31, 2018.
Source: Strategas Research Partners.

Business and Consumer Confidence

Confidence Remains Elevated Despite Ongoing Trade Tensions



Data as of Dec. 31, 2018.



Data as of Nov. 30, 2018.

- **Business and consumer confidence are each near their highest level in over a decade.**

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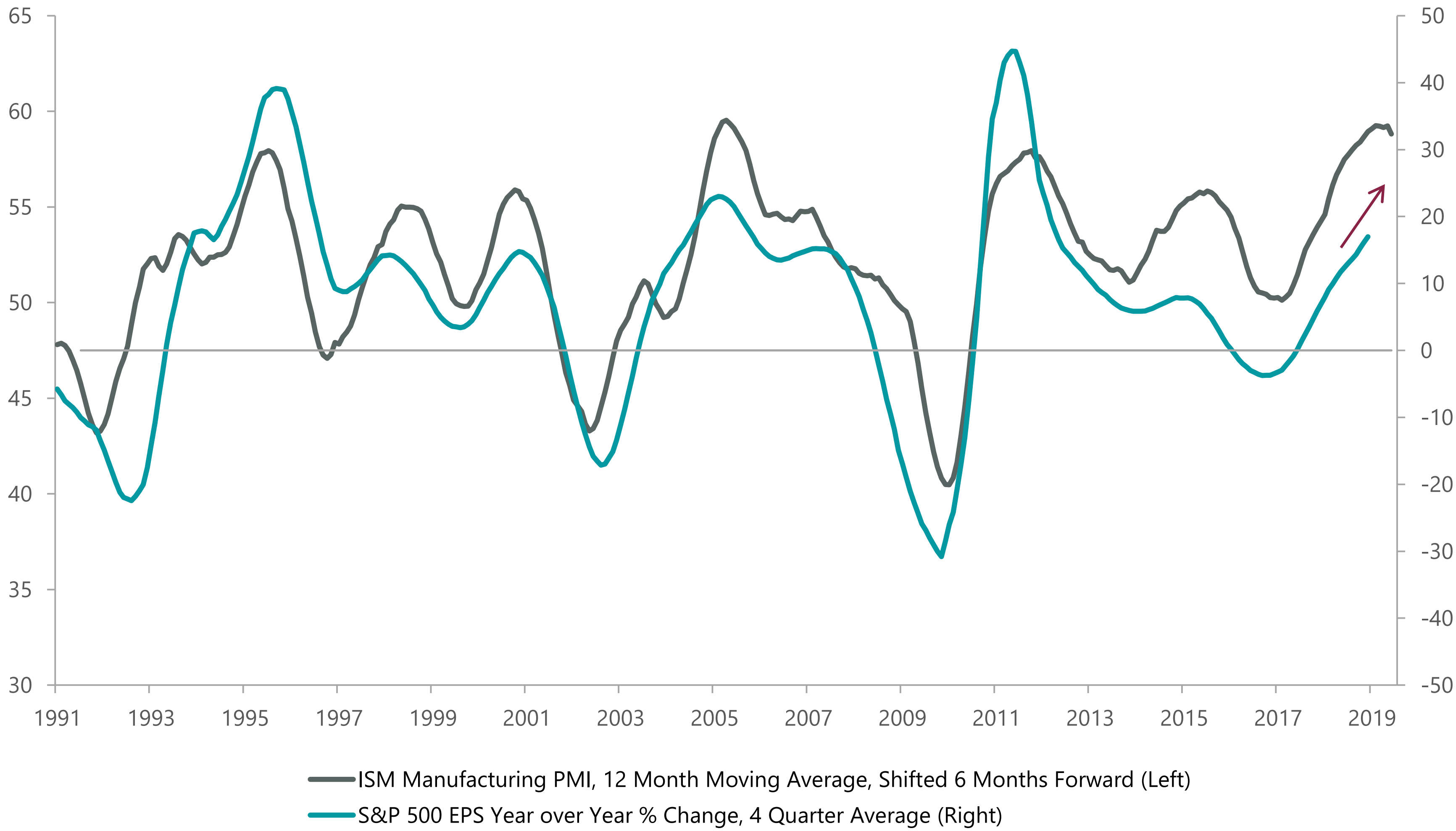
Source: NFIB, Conference Board, and Bloomberg.
Data as of Dec. 31, 2018.

Earnings

$

Manufacturing PMI and S&P 500 EPS



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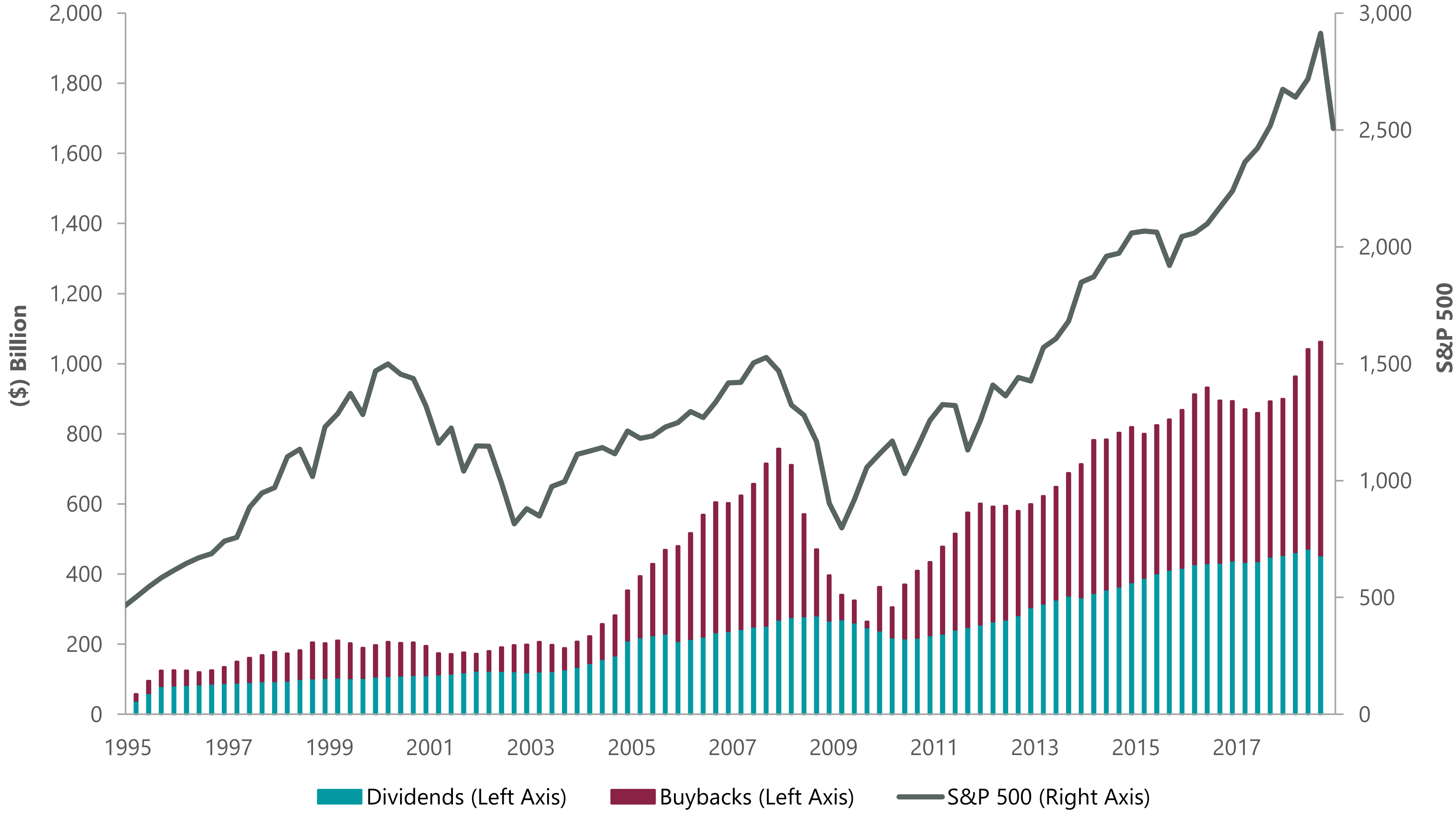
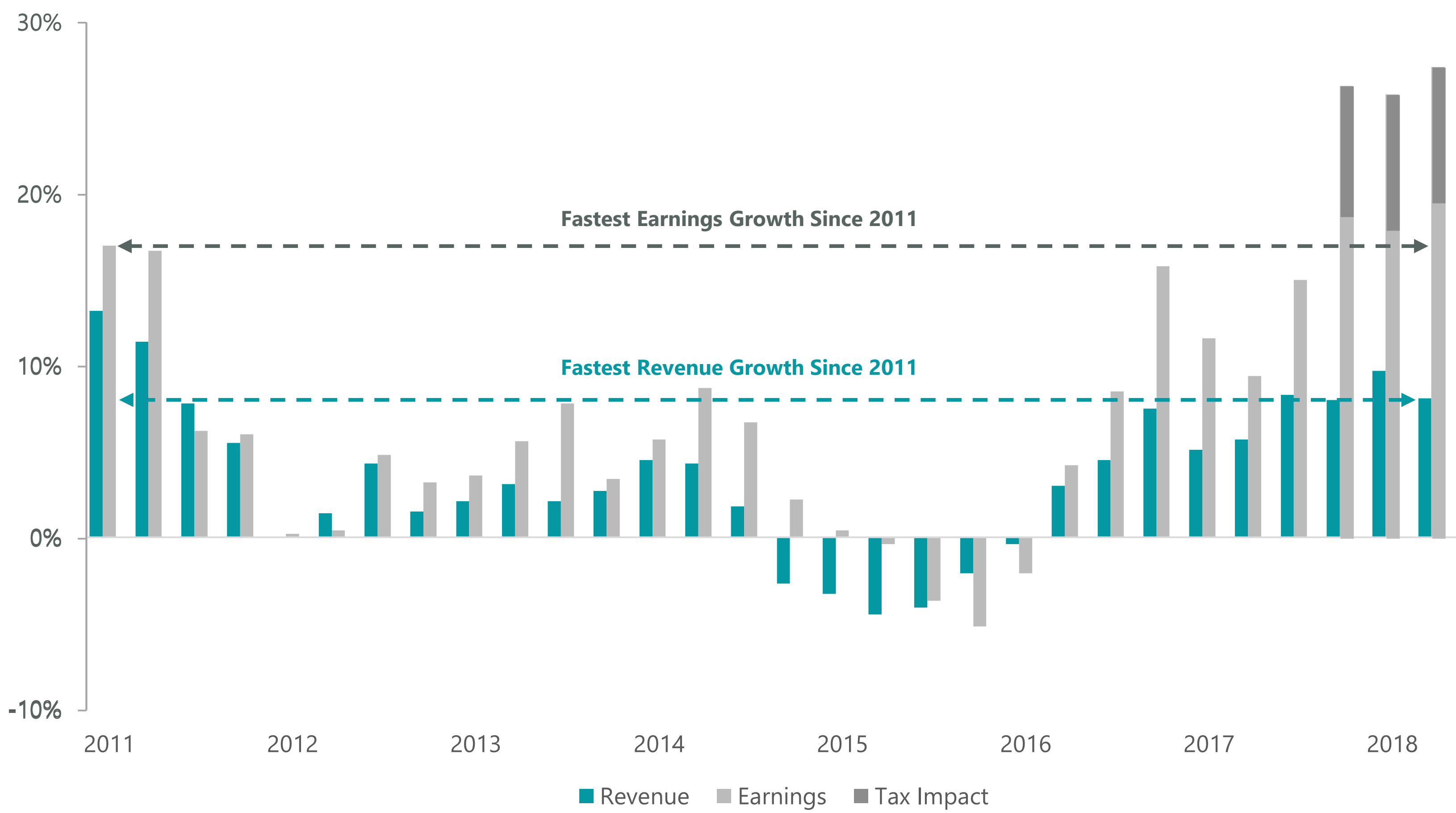
Data as of Dec. 31, 2018.
Source: Bloomberg.

Buybacks & Dividends



S&P 500 as of Dec. 31, 2018.
Remainder as of Sept. 30, 2018, most recent available as of Dec. 31, 2018.
Source: Credit Suisse, S&P, Bloomberg.

S&P 500 Revenue & Earnings Growth



- **Revenue and earnings growth are at the strongest level since the early part of the recovery.**
- **Earnings growth is quite robust, even excluding the 8% boost from tax reform.**

Source: Credit Suisse. YoY growth.
Data as of Sept. 30, 2018, most recent available as of Dec. 31, 2018.

Peak Earnings A Reason To Sell?

S&P 500 Returns Following Peak EPS Growth Since 1962

EPS Peak (S&P 500)	Recession	# Months	S&P 500 Return (%)
3Q62	4Q69	87	63.6
1Q66	4Q69	45	3.2
4Q68	4Q69	12	-11.4
4Q73	4Q73	-1	1.7
4Q76	1Q80	37	6.2
3Q79	1Q80	4	4.4
3Q81	3Q81	-2	-11.3
2Q84	3Q90	73	132.5
2Q88	3Q90	25	30.2
3Q93	1Q01	90	152.8
2Q95	1Q01	69	113.0
1Q97	1Q01	48	53.3
1Q00	1Q01	12	-22.6
3Q02	4Q07	63	80.1
1Q04	4Q07	45	30.4
3Q06	4Q07	15	9.9
Average (1962-2006)		**39**	**39.8**
4Q10	-	96	99.3
2Q14	-	54	27.9
3Q18?	-	-	-
Average Including Current Cycle (1962-Present)		**43**	**42.4**

- **Peak earnings do not necessarily mean the end of the economic or market cycle.**

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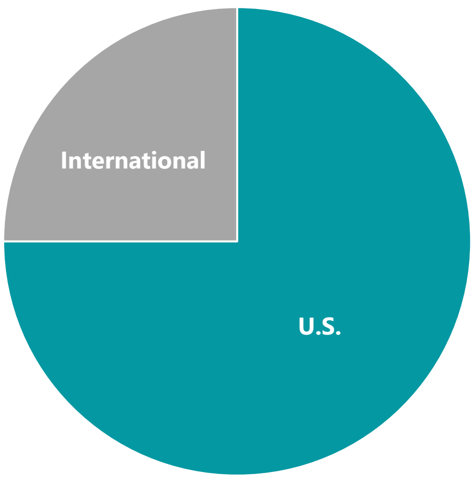
Note: Peak EPS based on YoY trailing EPS growth.
Source: Credit Suisse, S&P, NBER, and Bloomberg.

International

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets.

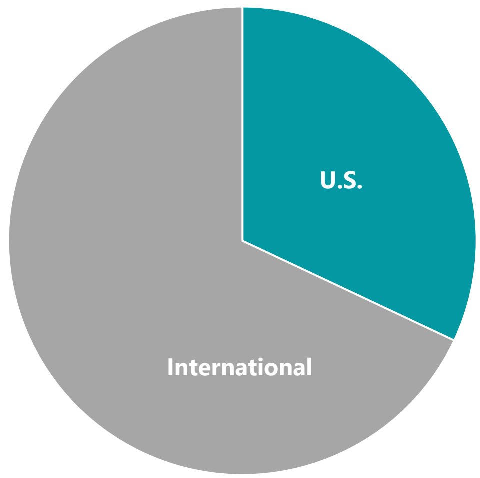
Home Country Bias

% Assets



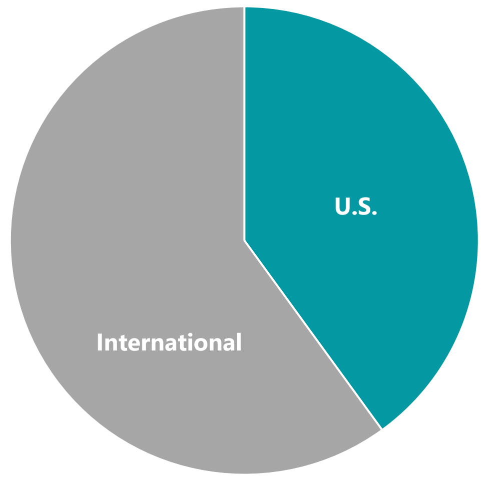
The U.S. represents 75% of U.S. investor portfolios

% GDP



The U.S. represents only 32% of Global GDP

% Market Cap



The U.S. represents 40% of Global Market Cap

▶ **Investors tend to over-allocate to their home country.**

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Morningstar Category Assets as of Nov. 30, 2018.
GDP as of Dec. 31, 2017. MSCI World Index as of Dec. 31, 2018.
Source: Morningstar, IMF, FactSet. Data most recent available as of Dec. 31, 2018.

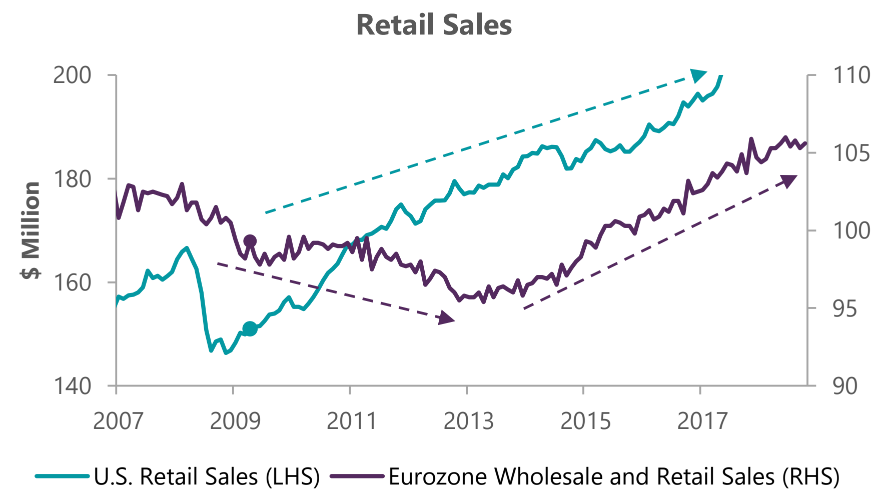
International Roadmap

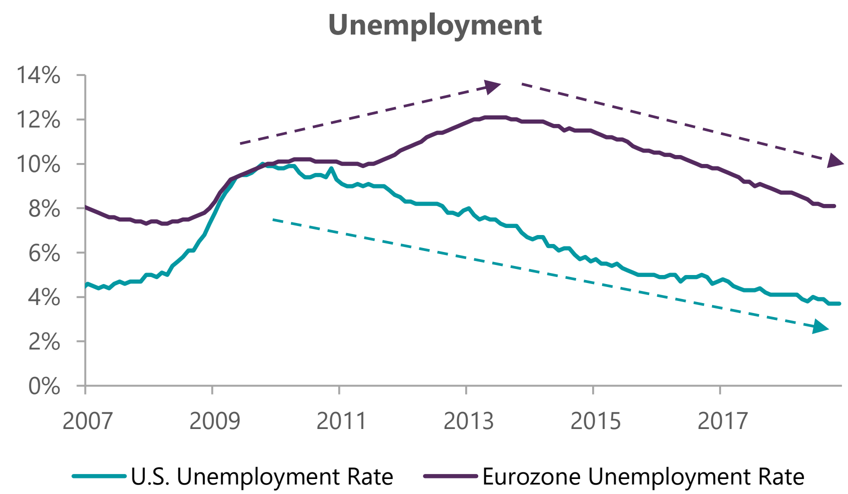
		Economic		Government		Financial		Currency
		GDP Growth (%, YoY)	Economic Momentum	Central Bank Policy	Sovereign Credit Rating	P/E Ratio (x)	EPS Growth (%, YoY)	
Positive	**North America**	3.3	Accelerating	Neutral & Hiking	AAA	14.3	7.8	Stable
Positive	**Europe ex-UK**	1.6	Decelerating	Easy & Stable	AA-	12.1	9.2	Weakening
Caution	**United Kingdom**	1.5	Stable	Easy & Hiking	AA	11.4	5.0	Weakening
Neutral	**Asia ex-Japan**	2.7	Decelerating	Easy & Stable	AAA	11.2	6.4	Weakening
Neutral	**Japan**	-2.5	Decelerating	Easy & Stable	A	11.2	2.6	Stable
Neutral	**Emerging Markets**	4.8	Stable	Neutral & Hiking	BBB+	10.6	8.0	Weakening

ClearBridge Investments

Data as of Dec. 31, 2018.
Source: Standard & Poor's, Moody's, MSCI, FactSet, and Bloomberg.
Note: United States P/E and EPS growth is S&P 500, all others are MSCI Country/Region Index.

Europe vs U.S. Retail Sales and Unemployment



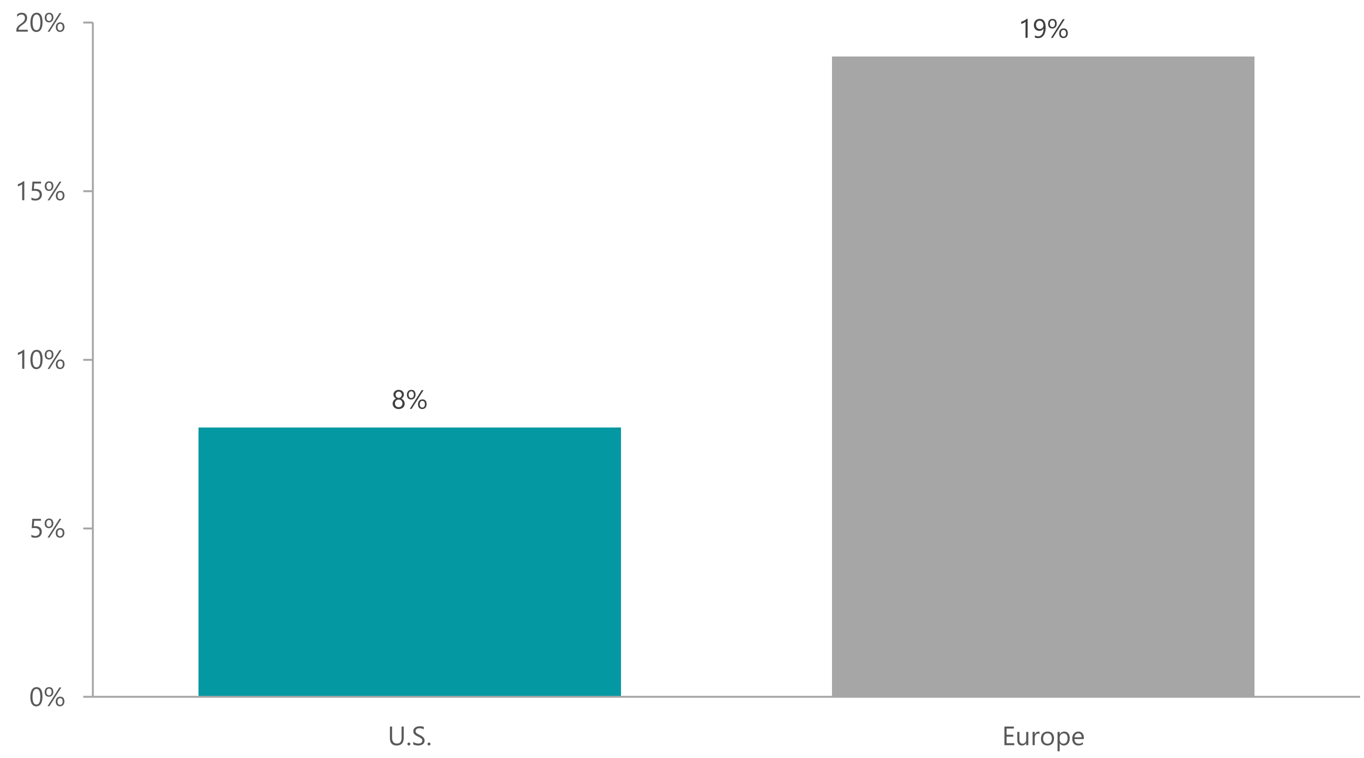


Europe is earlier in their economic cycle than the U.S.

ClearBridge Investments

Source: FactSet, U.S. Census Bureau, DOL, Eurostat.
Retail Sales data as of Nov. 30, 2018. Unemployment data as of Nov. 30, 2018, latest available.

Proportion of Revenues from Emerging Markets



- **European equities are more exposed to Emerging Markets than U.S. equities.**

ClearBridge Investments

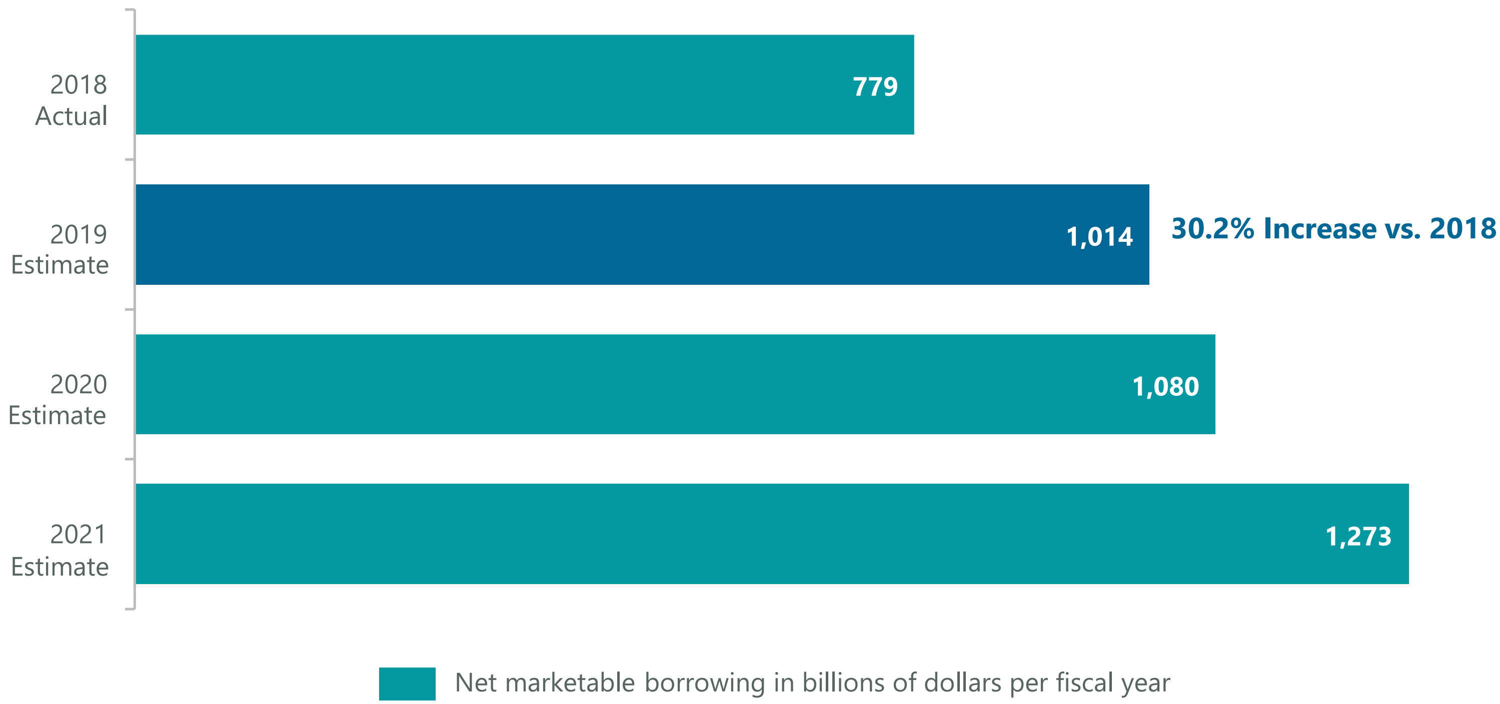
Source: Bloomberg, J.P. Morgan.

Interest Rates

The U.S. Treasury Department is responsible for issuing all Treasury bonds, notes and bills; it is responsible for the revenue of the U.S. government.

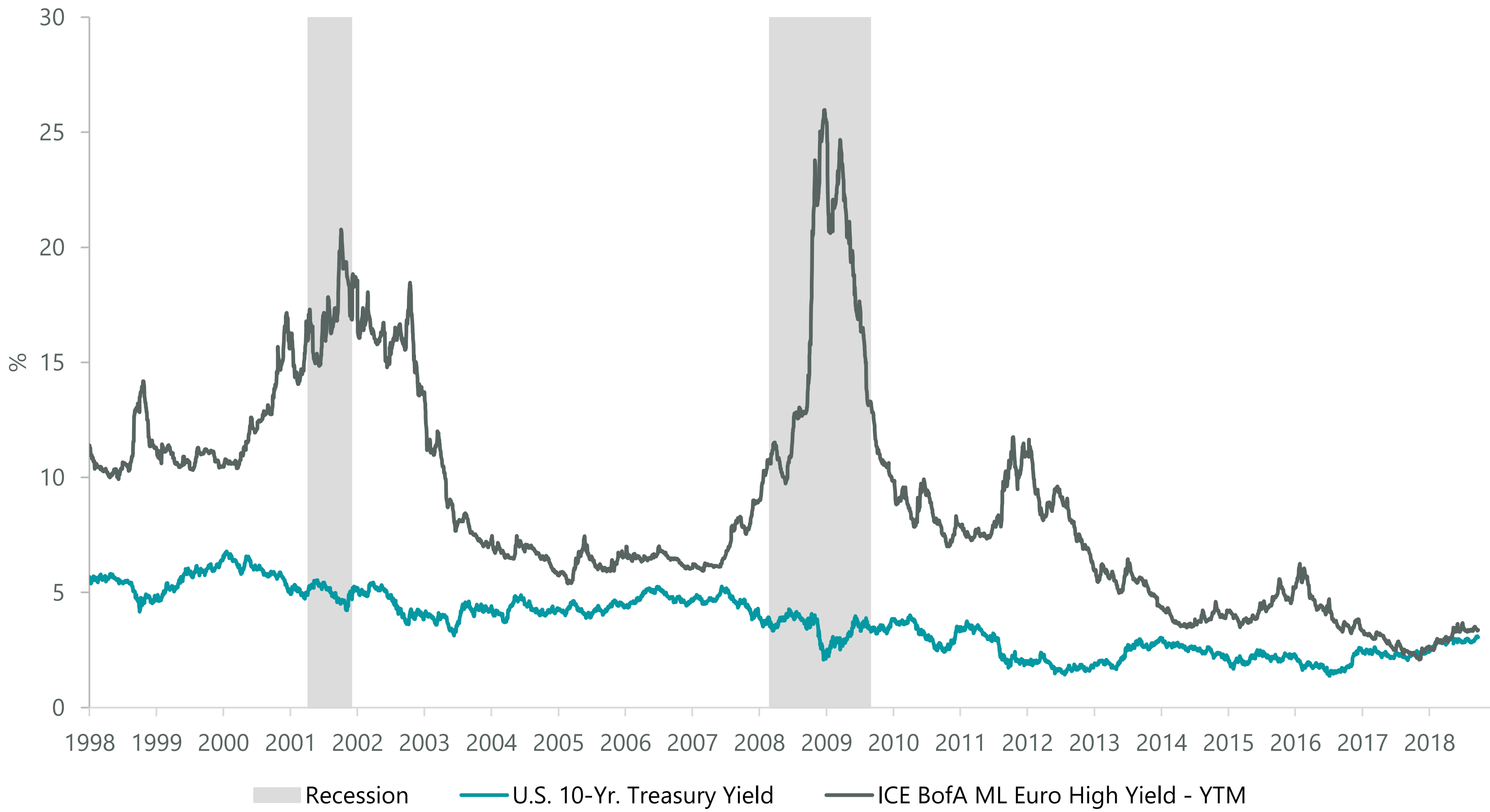
Treasury Borrowing Set to Surge

Bigger Deficits, Fed QE Unwind Boost Financing Needs



Source: Treasury, primary dealer estimates. Data as of Dec. 31, 2018.
Estimates and forecasts are inherently limited and should not be relied upon as indicators of actual or future results.

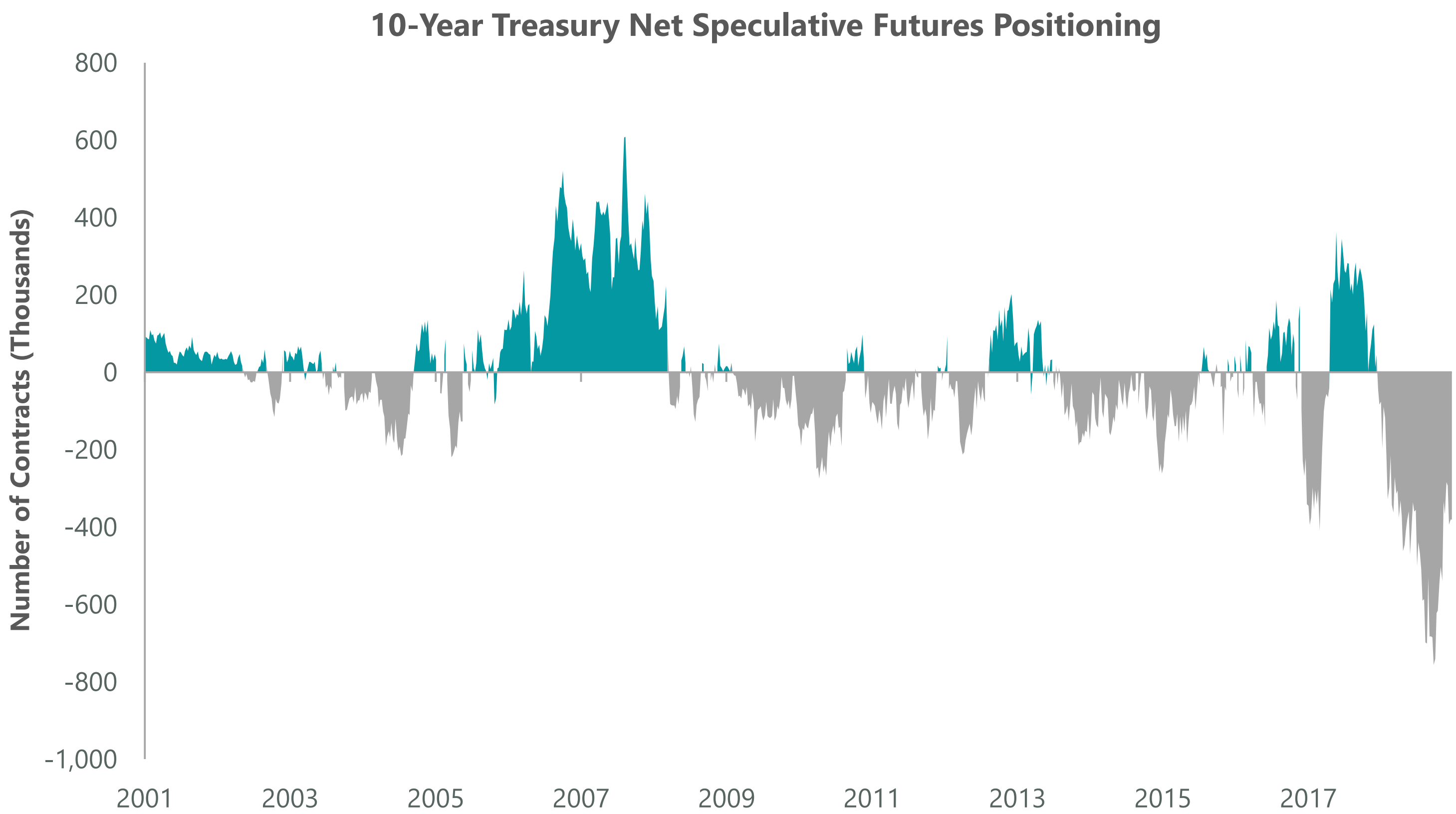
European Rates Poised to Move Higher



ClearBridge Investments

Data as of Dec. 31, 2018.
Source: US Treasury, BofA Merill Lynch, Fed Fred database, Haver Analytics.

Treasury Positioning



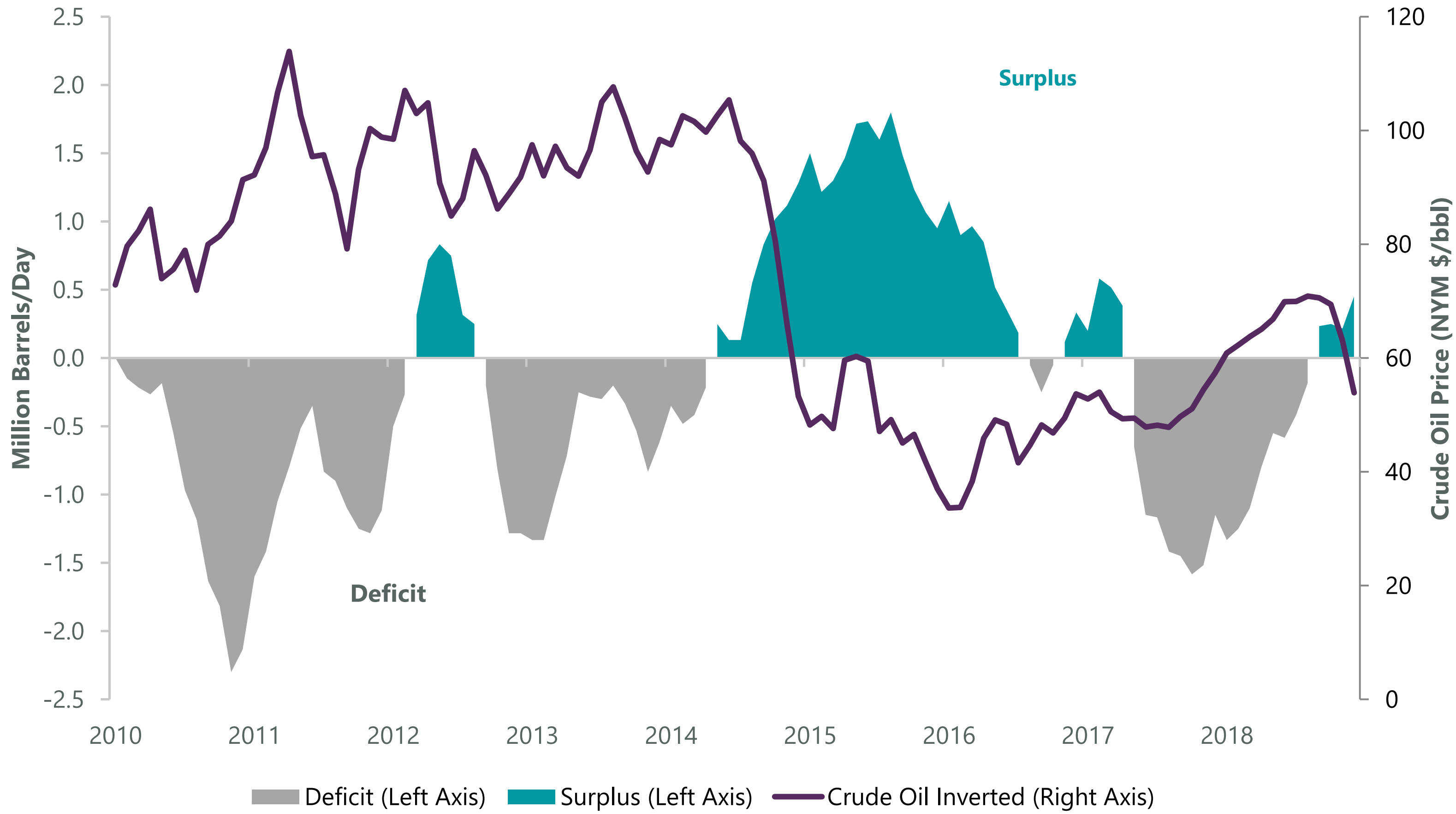
- **The record short Treasury futures positioning has begun to reverse itself which has helped bring down long term yields.**
- **Further unwind may be needed in order for rates to move higher in 2019.**

ClearBridge Investments

As of Dec. 25, 2018, most recent data available as of Dec. 31, 2018.
Source: CFTC and Bloomberg.

Oil

Global Oil Supply vs. Demand

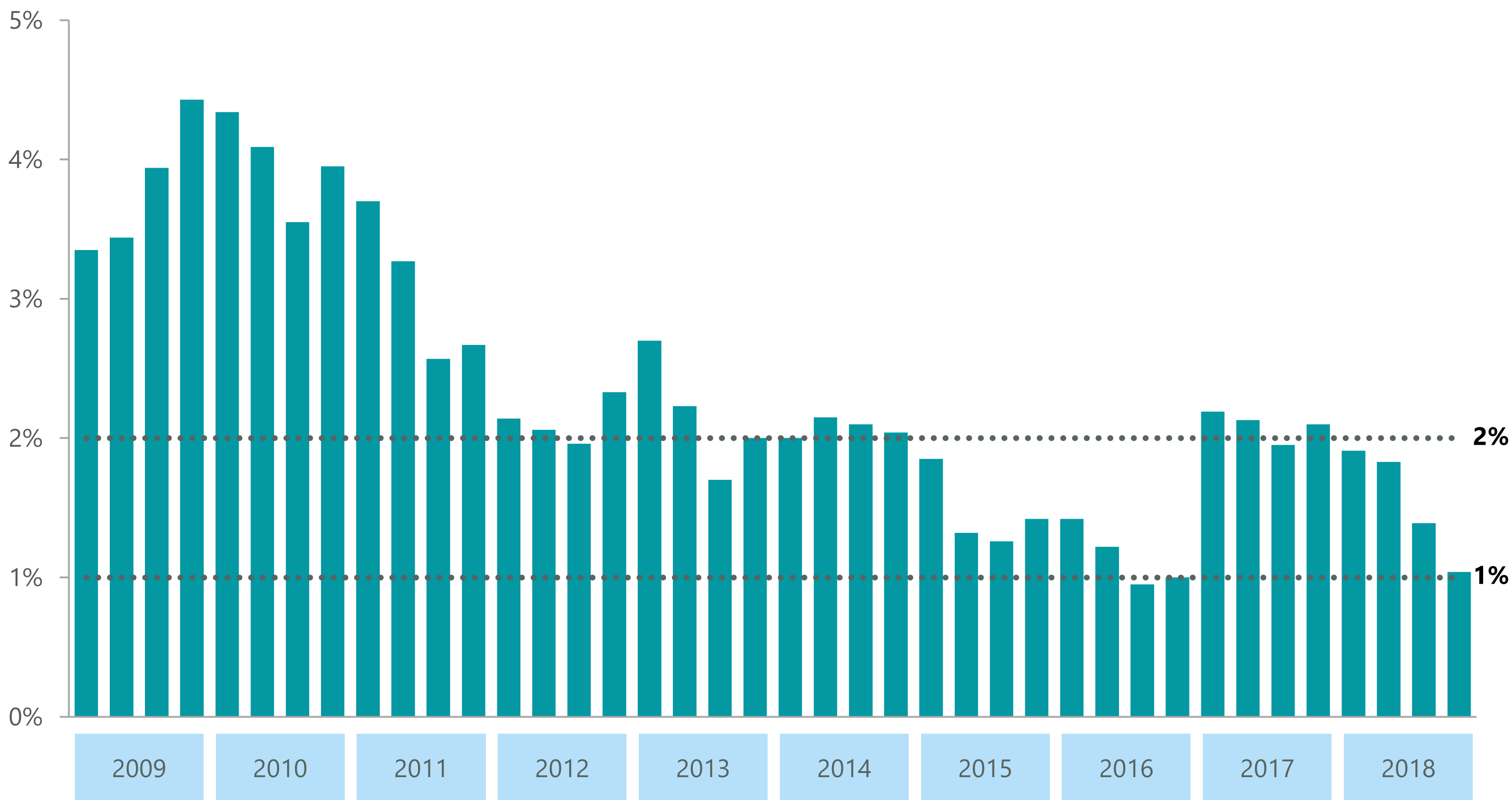


- **The oil market has shifted back to a (modest) surplus, which has weighed on oil prices in recent months.**
- **Importantly, the surplus remains much smaller than in 2015, suggesting WTI may be close to finding support at current levels**

ClearBridge Investments

Source: Energy Intelligence & Bloomberg.
Note: 6-Month Moving Average. Data as of Dec. 31, 2018.

OPEC Spare Capacity

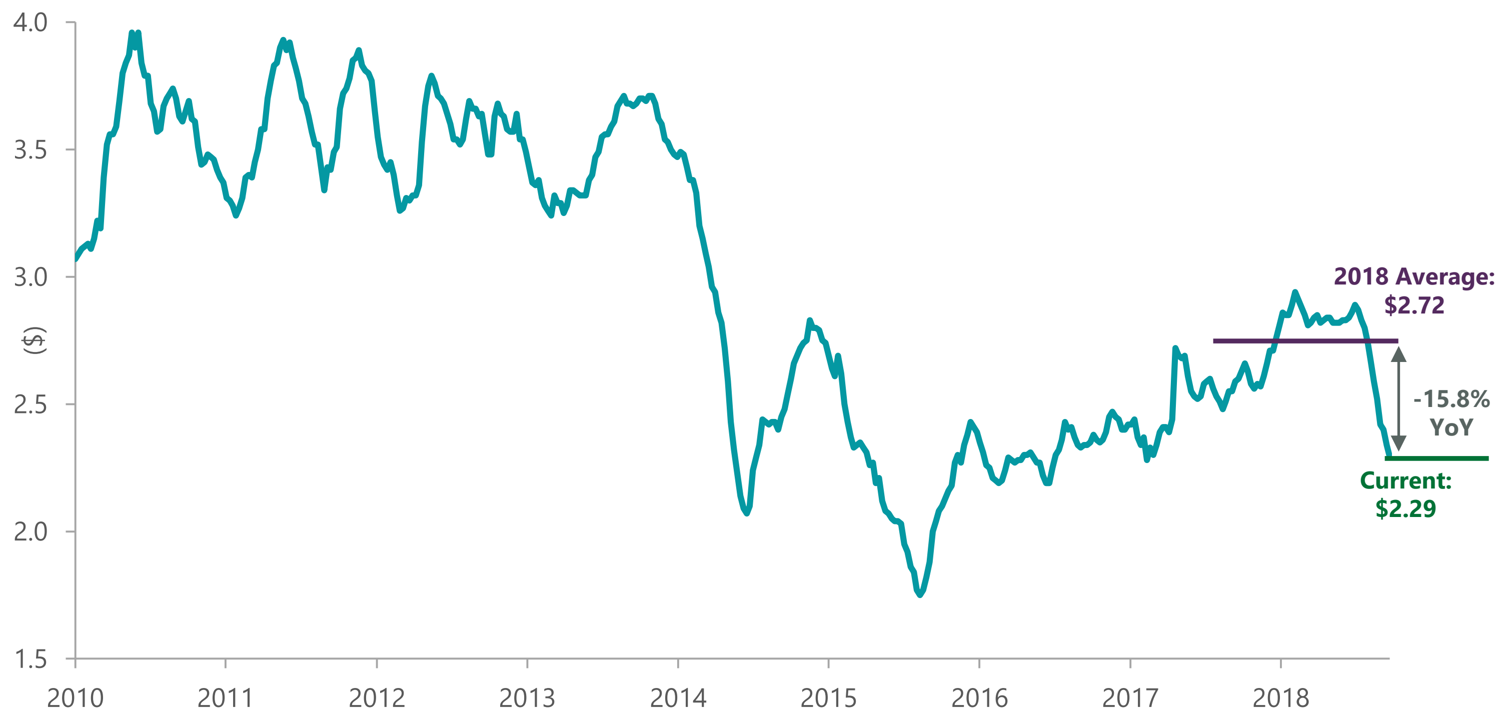


- **OPEC spare capacity has been in secular decline since the 1980s.**
- **Tight spare capacity means the impact from any supply disruptions would be magnified.**

ClearBridge Investments

As of Dec. 31, 2018.
Source: EIA.

U.S. Retail Gasoline Price

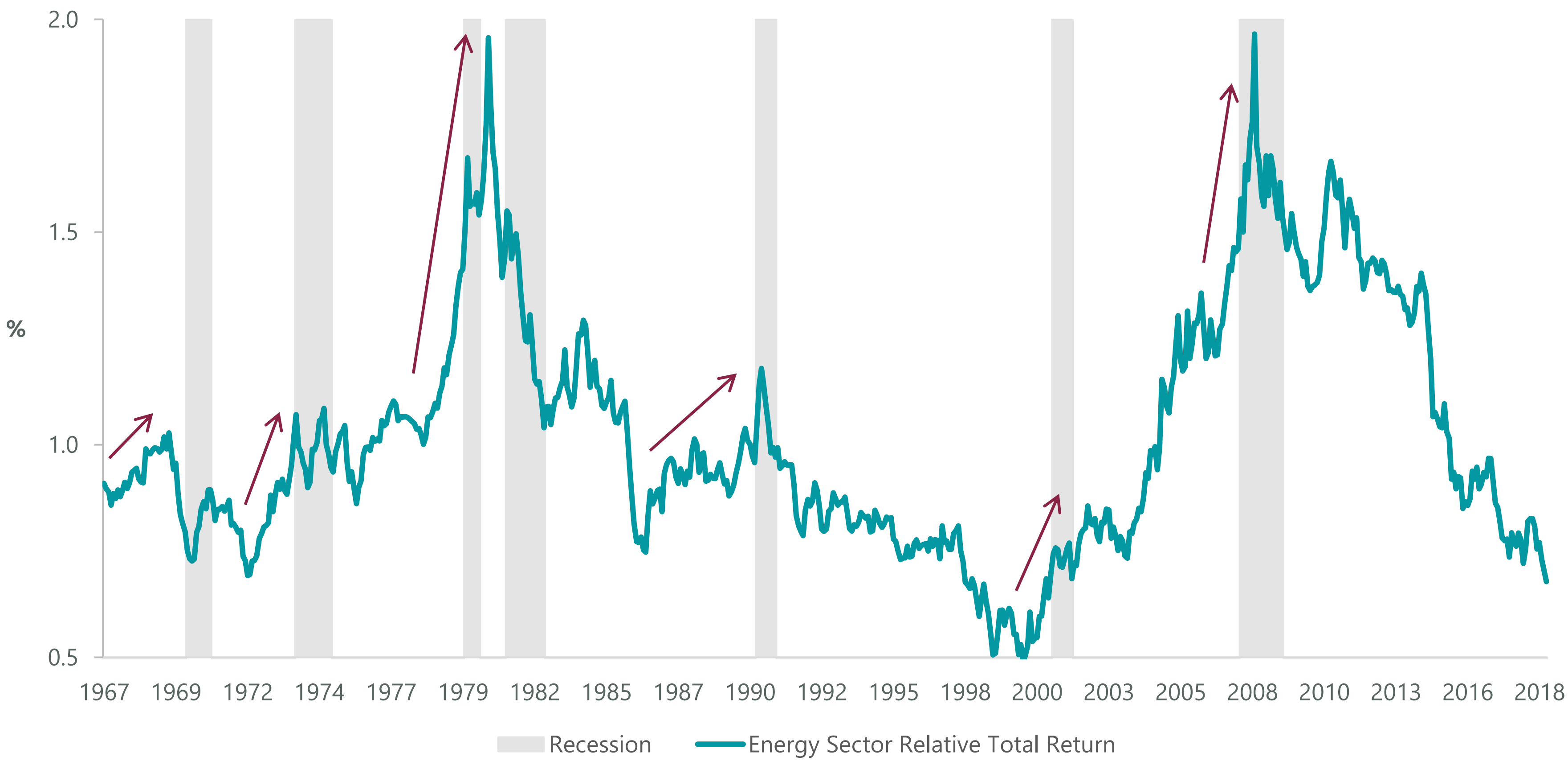


- **Assuming current oil prices, the US consumer is in line to receive a $121B boost this year due to lower gas ($61B) and tax reform ($60B).**
- **It would take $3.14 gas on average over the course of 2019 to eliminate the boost from tax cuts. This would be a 37% increase from current levels.**

ClearBridge Investments

Data as of Dec. 31, 2018. Source: EIA, FactSet.
*Average 2018 oil price year-to-date.

Energy Relative to Market



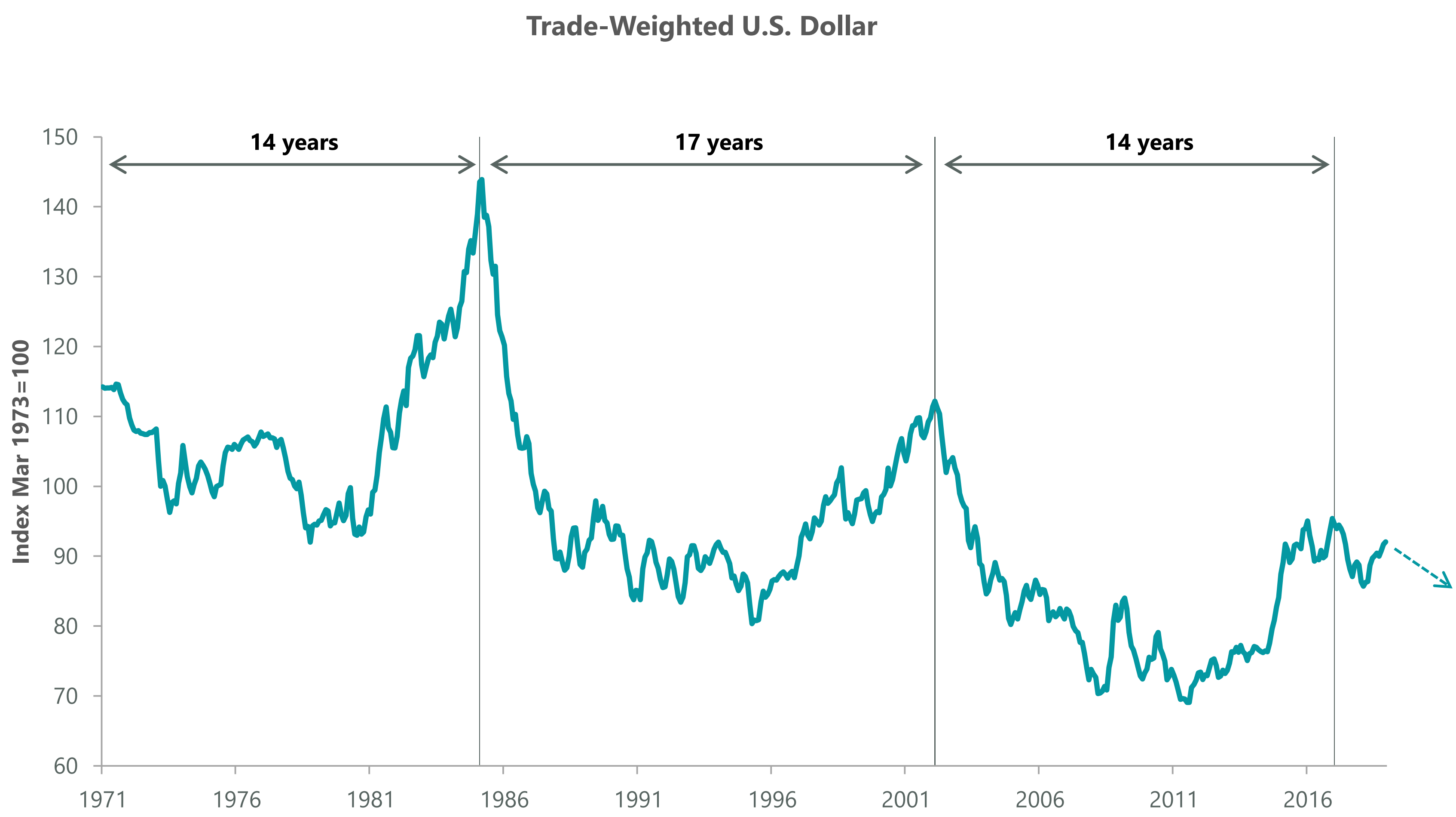
- **The energy sector has outperformed the market in the later stages of every economic cycle going back to the 1960s.**

ClearBridge Investments

Data as of Dec. 31, 2018.
Source: FactSet.
S&P 500 GICS Energy Sector Holdings vs. S&P 500 Index from Jan. 1990 through Dec. 2018.

U.S. Dollar

U.S. Dollar Cycle



- **U.S. dollar cycles typically last approximately 15 years.**
- **The dollar's peak in 2016 may have started a longer downtrend.**

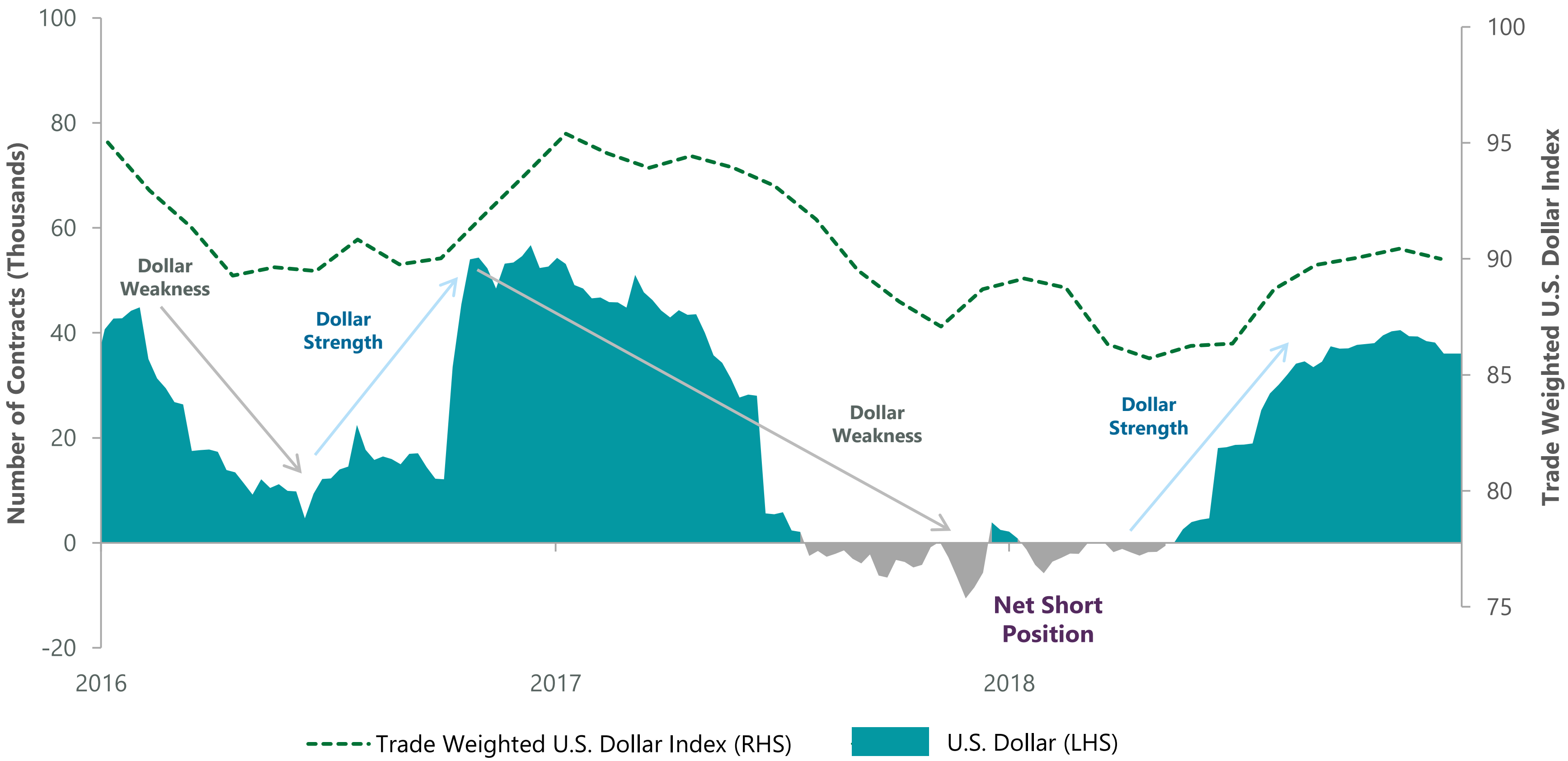
ClearBridge Investments

As of Dec. 31, 2018.
Source: Federal Reserve Bank of St. Louis, Federal Reserve and FactSet.
Major Currencies, Index Mar 1973=100, Monthly, Not Seasonally Adjusted.

U.S. Dollar Positioning

- U.S. dollar positioning today vs. start of year
- Investor sentiment has shifted

U.S. Dollar Net Speculative Futures Positioning

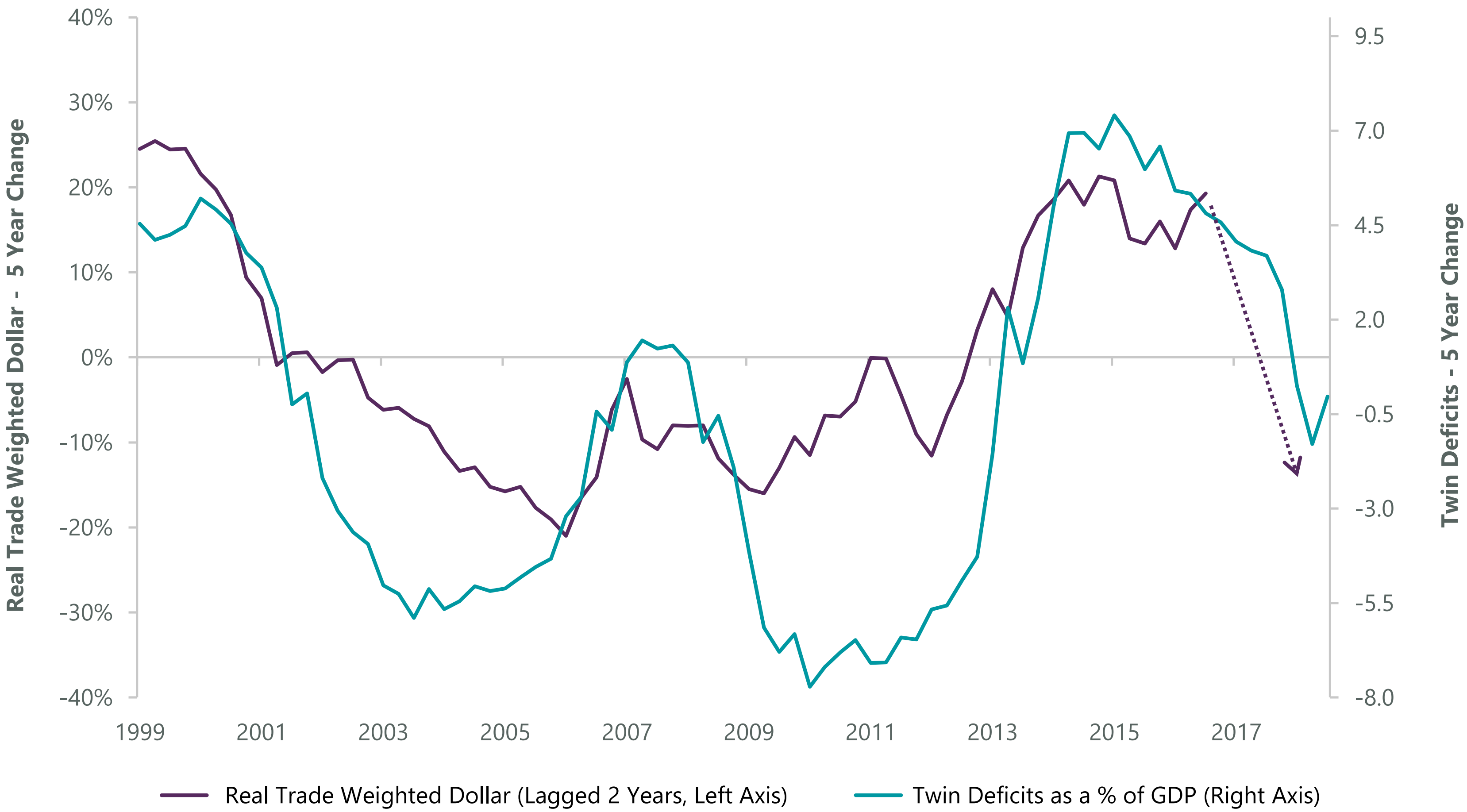


Dollar positioning has changed from net short to net long, suggesting much of the dollar's appreciation may have already occurred.

ClearBridge Investments

As of Dec. 31, 2018.
Source: CFTC and Bloomberg.

Twin Deficits: Budget and Trade



▶ **Twin deficits show the dollar should modestly weaken over the next several years.**

Data as of Sept. 30, 2018, most recent available as of Dec. 31, 2018.
Source: BEA, Federal Reserve, FactSet.

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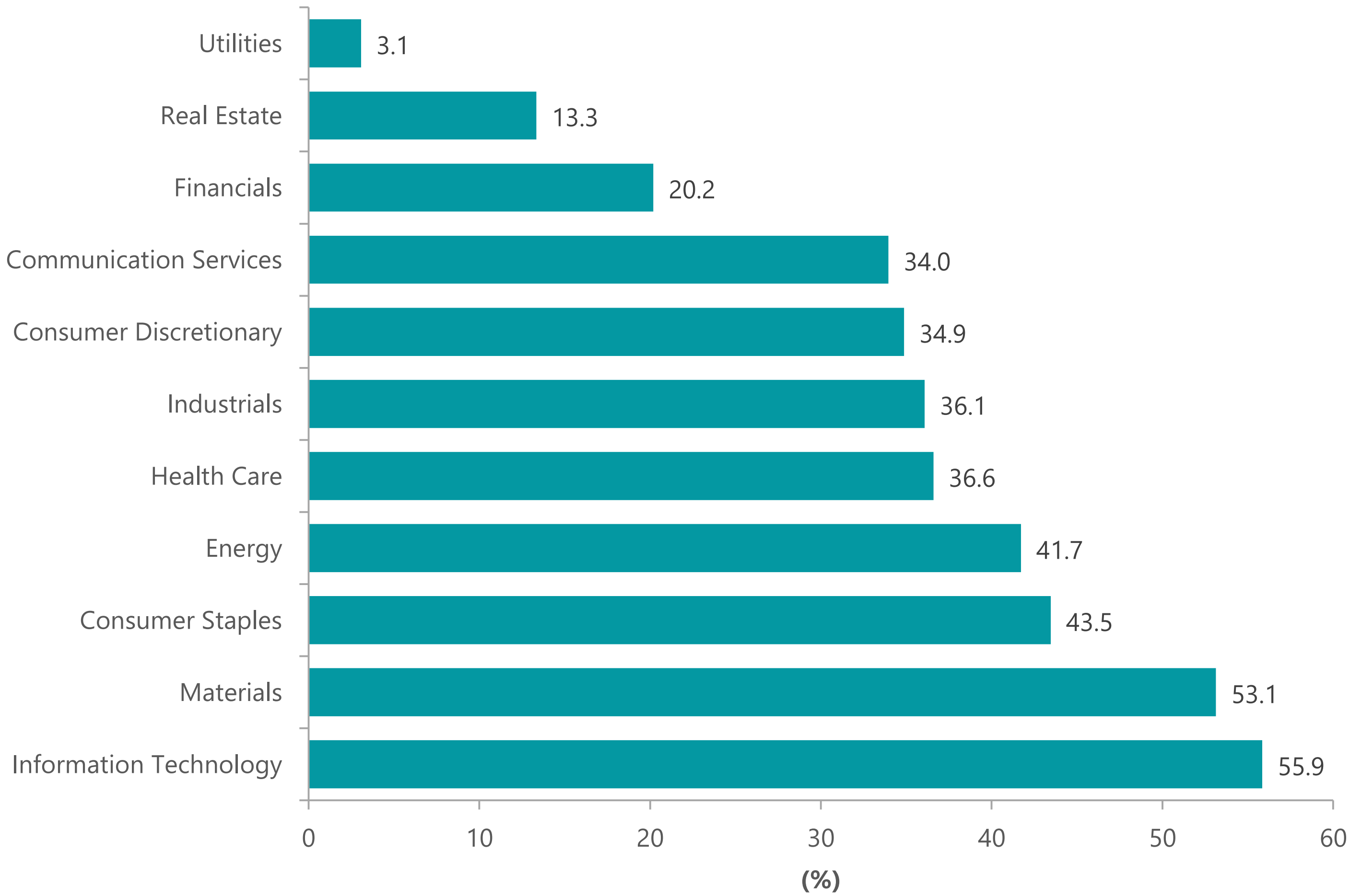
Foreign Sales as % of Total Sales

S&P 500 Sectors



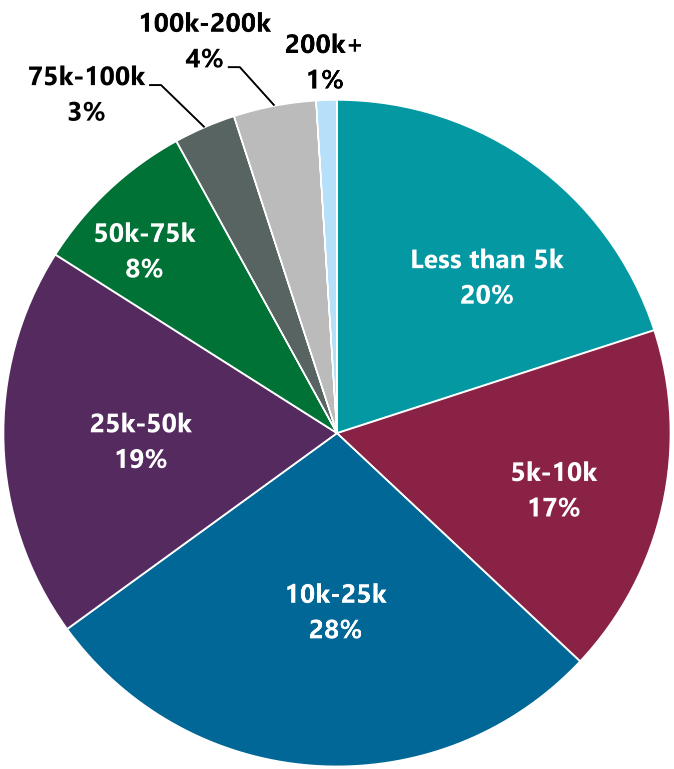
As of Dec. 31, 2018.
Source: FactSet.

Debt

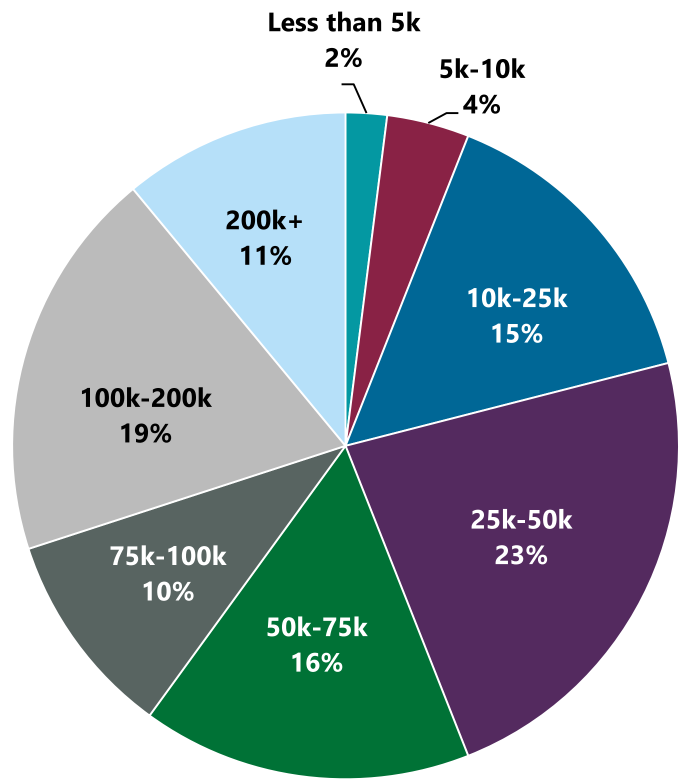
Student Loans Not a Macro Issue

- There are 44 million student loans outstanding
- 84% have a balance smaller than $50k
- 16% hold 56% of outstanding student loan balances

Borrower Distribution by Outstanding Balance in 2016



Debt Distribution by Outstanding Balance in 2016

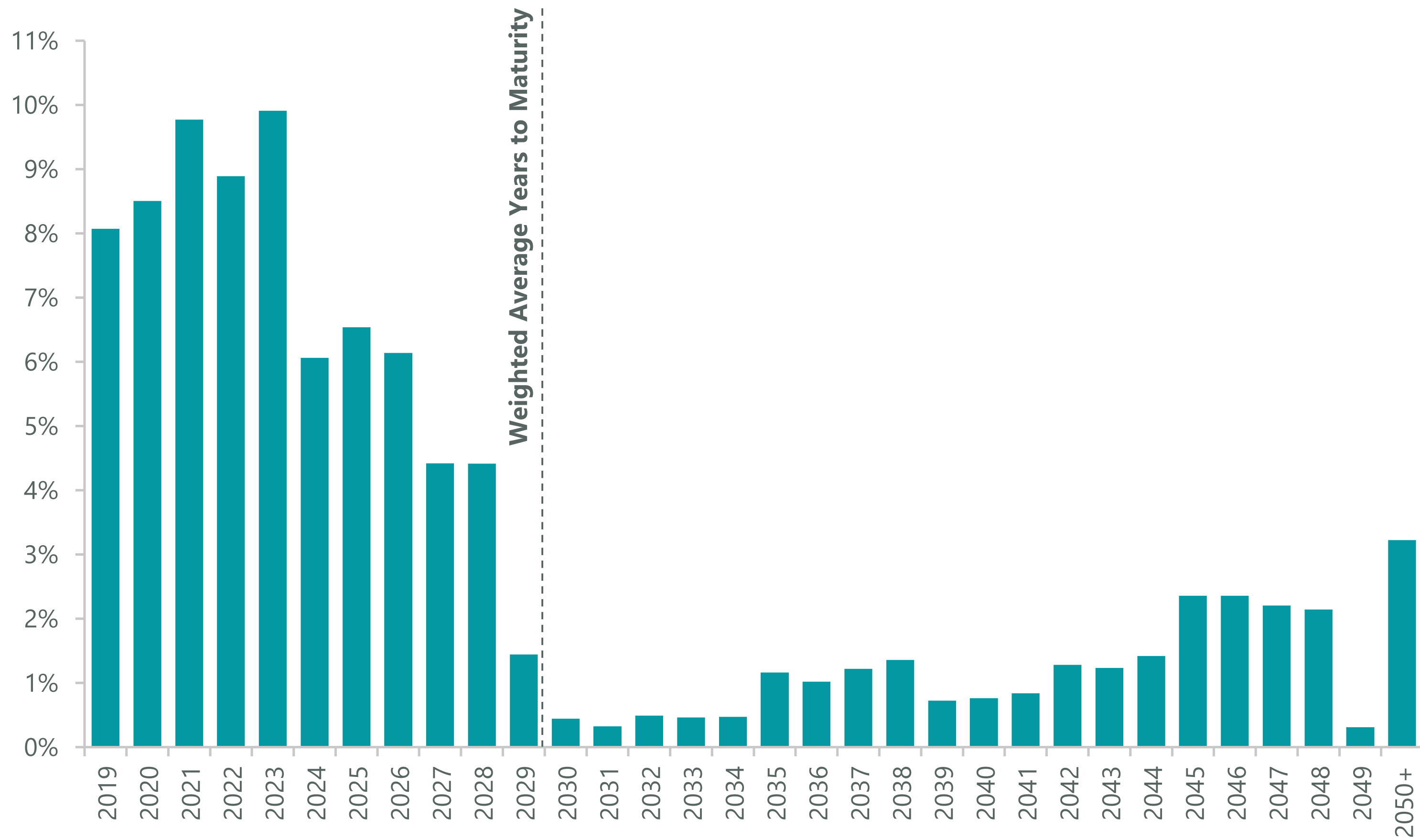


ClearBridge Investments

Data as of Dec. 31, 2017.
Source: New York Fed Consumer Credit Panel/Equifax.

Corporate Debt Maturity Wall?

S&P 500 Percent of Debt Due by Maturity

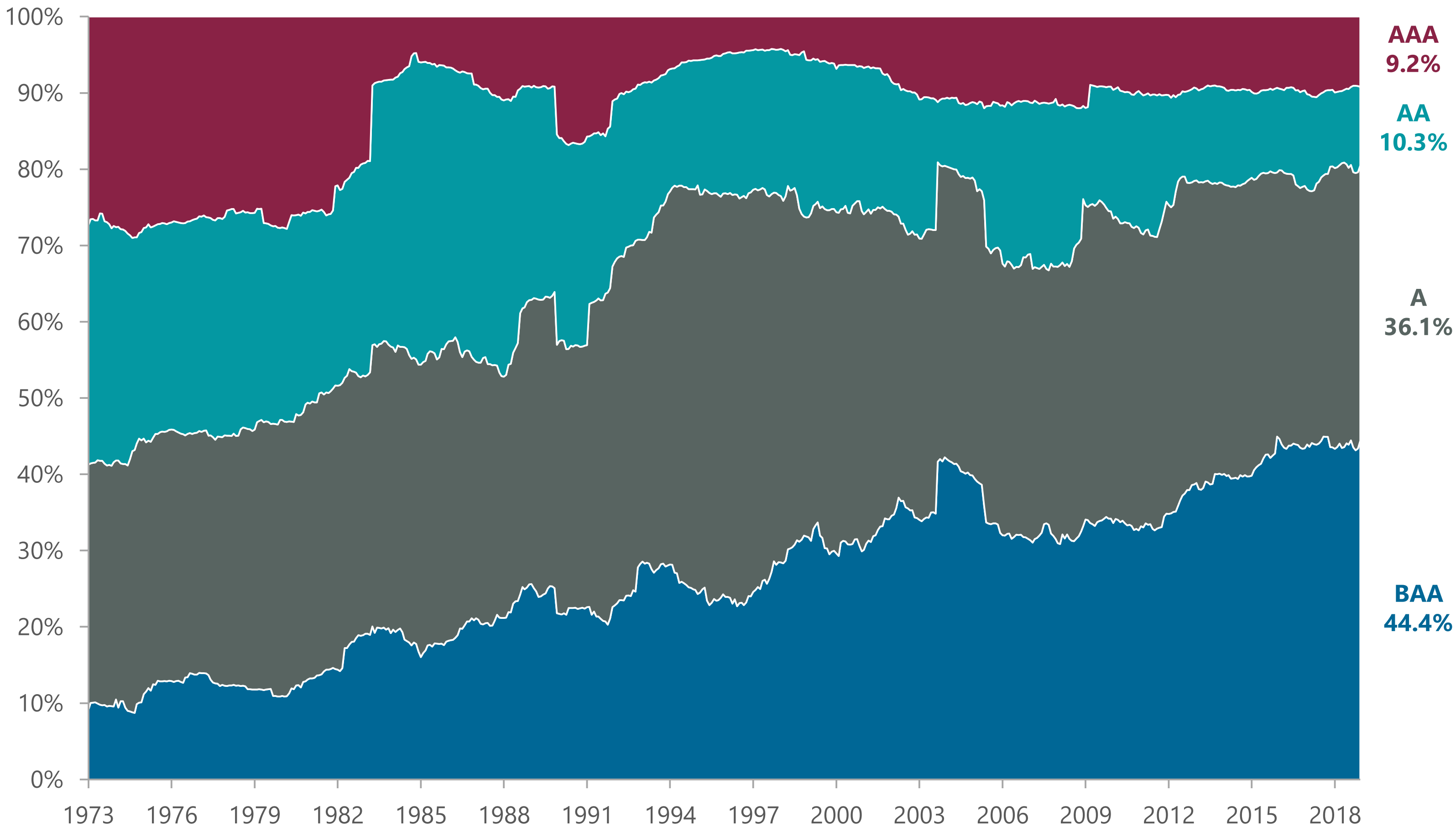


- **Corporations have taken advantage of low rates and have termed out their debt.**
- **The weighted average maturity for S&P 500 companies is 10 years.**

ClearBridge Investments

Data as of Dec. 31, 2018.
Source: Strategas Research Partners.

U.S. Credit Quality Deterioration

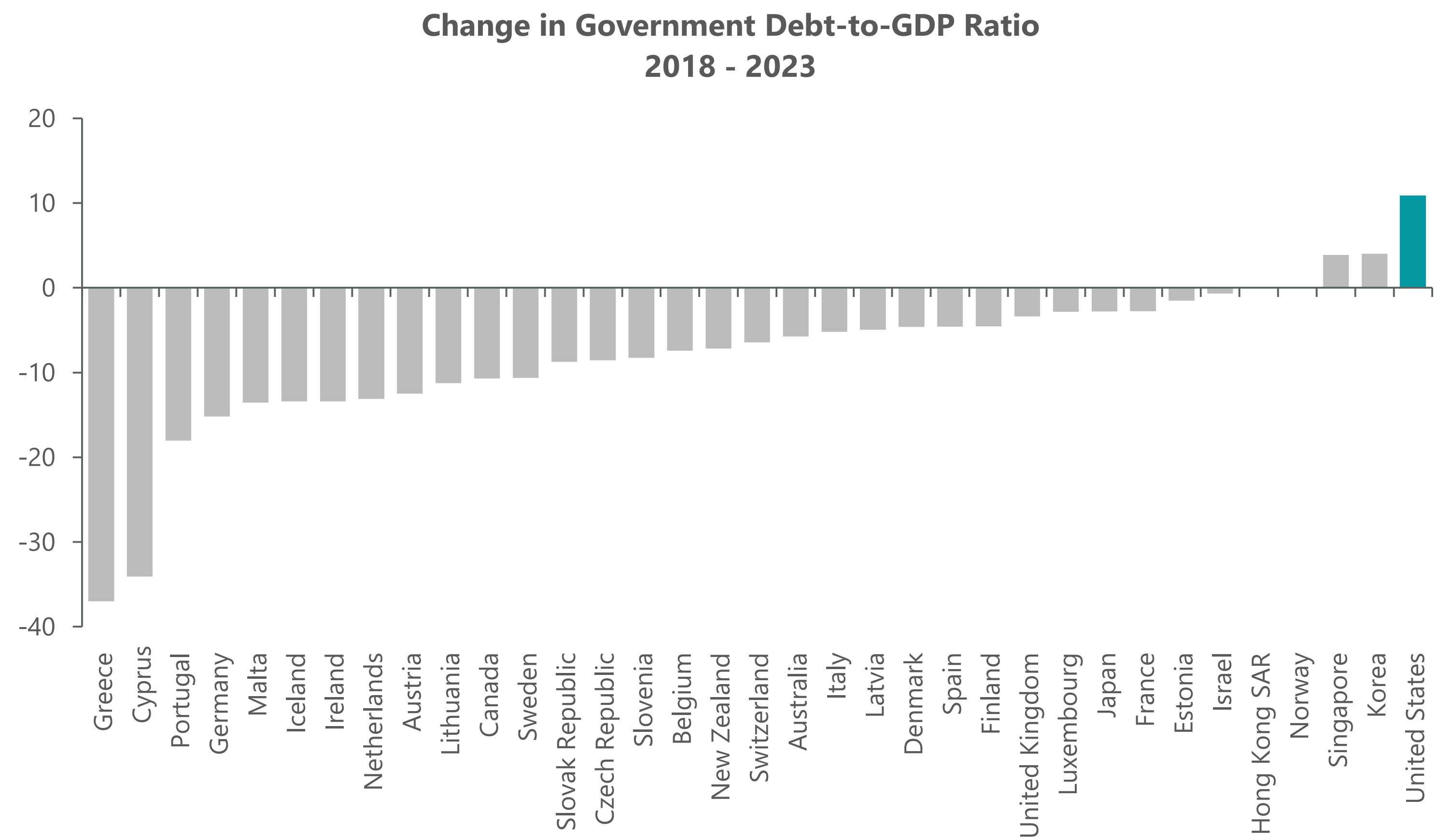


- **In 1973, only 9% of credits were rated BAA versus over 44% today.**

ClearBridge Investments

As of Dec. 31, 2018.
Source: Strategas and Bloomberg/Barclays.

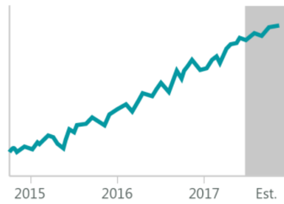
U.S. is the Only Country with Growing Debt Levels



ClearBridge Investments

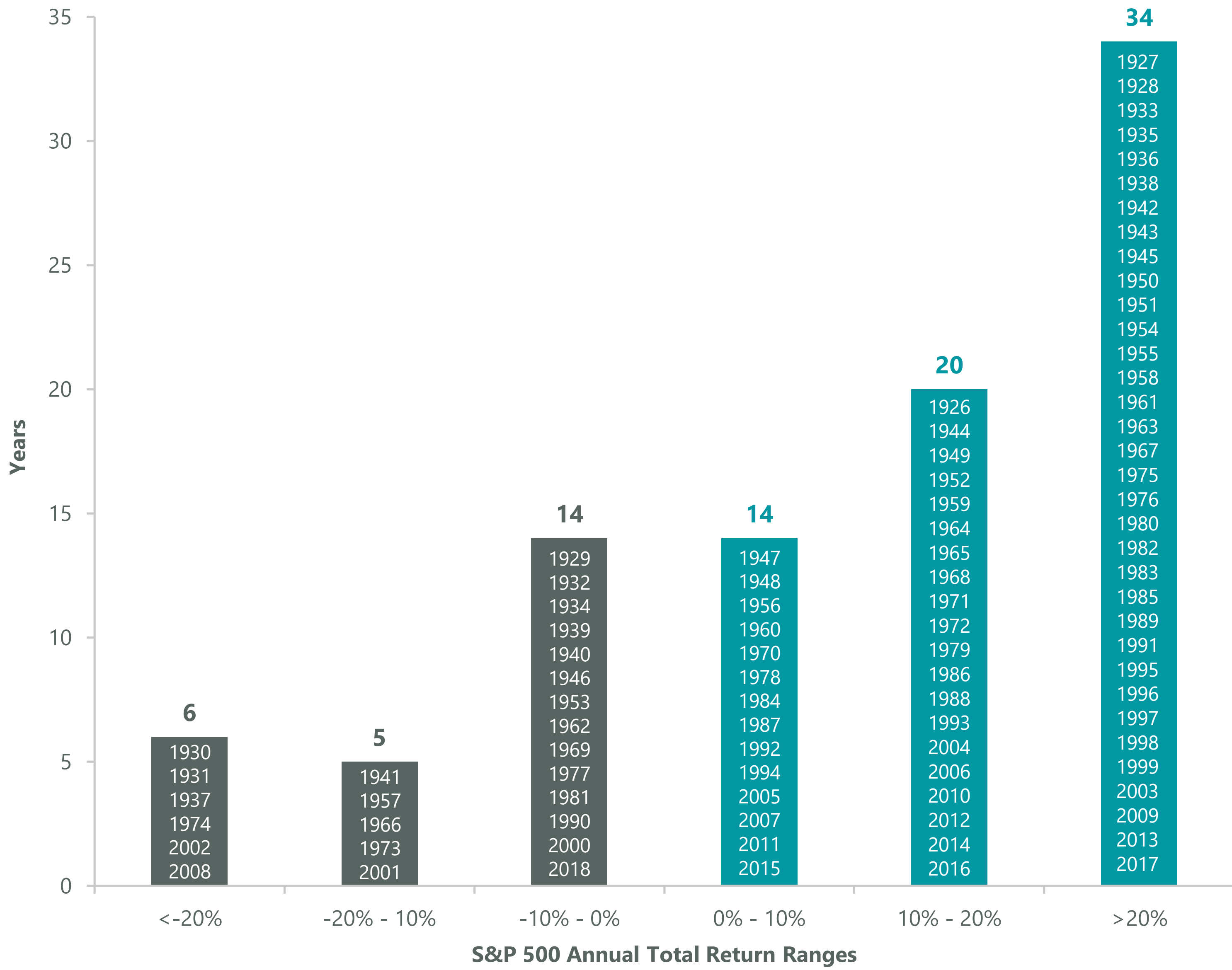
As of Dec. 31, 2018.
Source: IMF Forecasts, Haver Analytics, Deutsche Bank Research.

Valuations



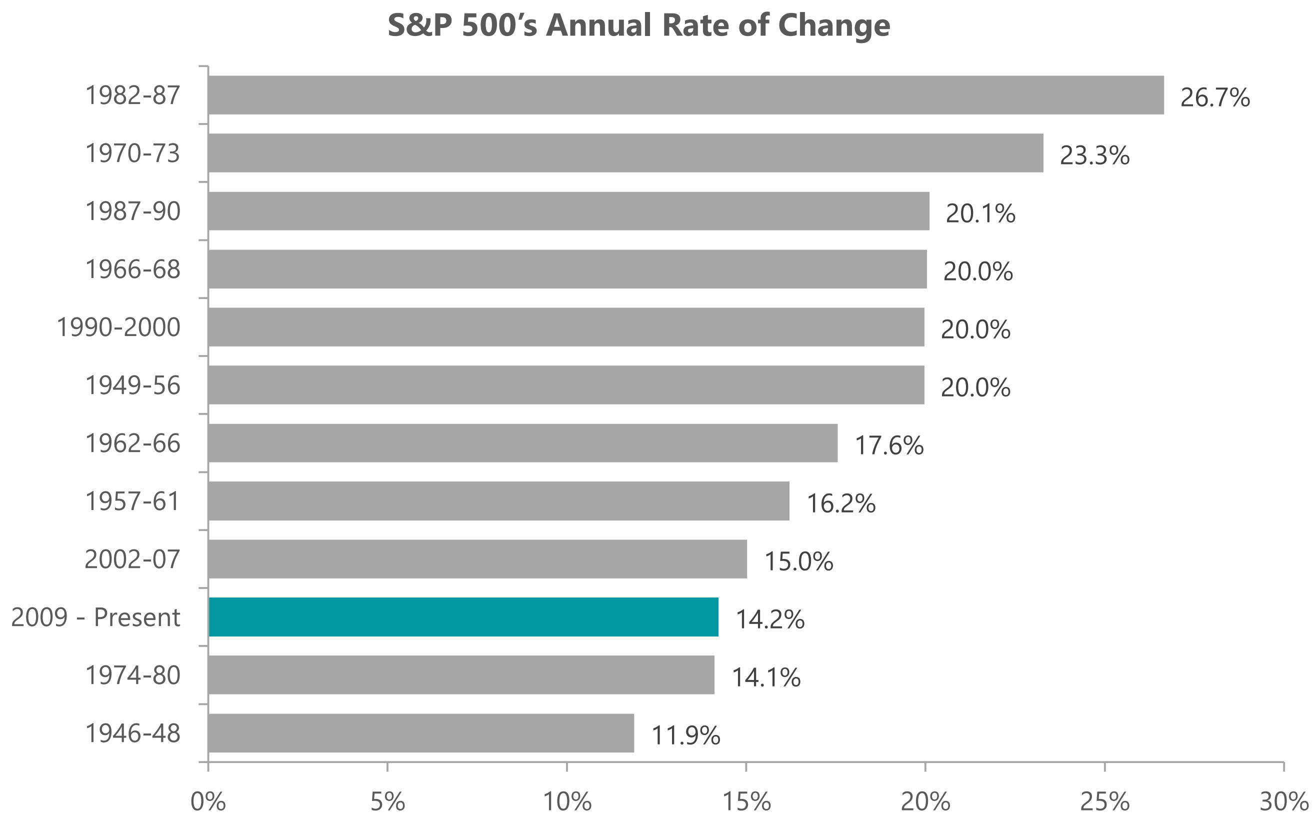
Market Annual Returns

Distribution of S&P 500 Total Returns Since 1926



As of Dec. 31, 2018.
Source: Strategas Research Partners.

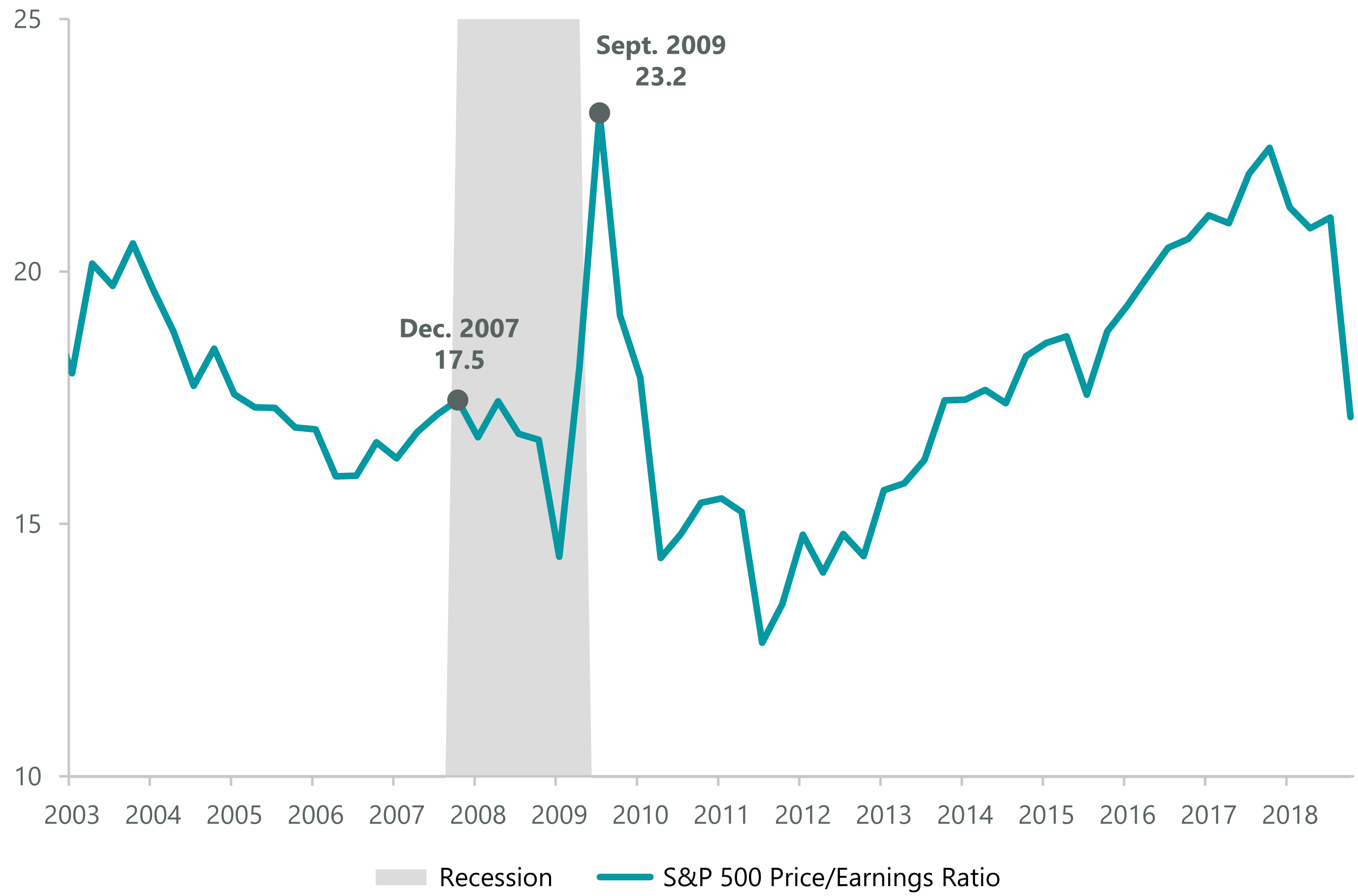
Strength of U.S. Bull Markets



- **The current bull market is the tenth strongest since WW2.**

Data as of Dec. 31, 2018.
Source: Bloomberg, FactSet.

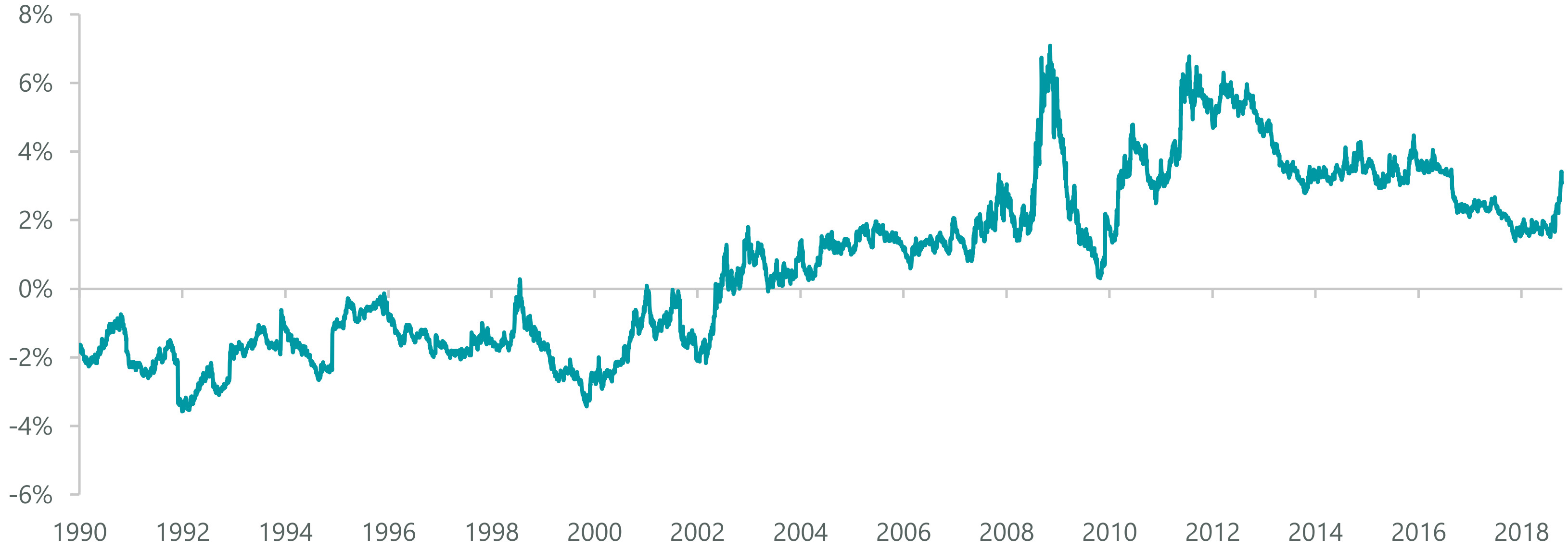
Price/Earnings Is Not The Only Indicator To Watch



Data as of Dec. 31, 2018.
Source: Bloomberg.

Earnings Price Yield

Interest Rates: S&P 500 Minus YTM of 10-Year Treasuries



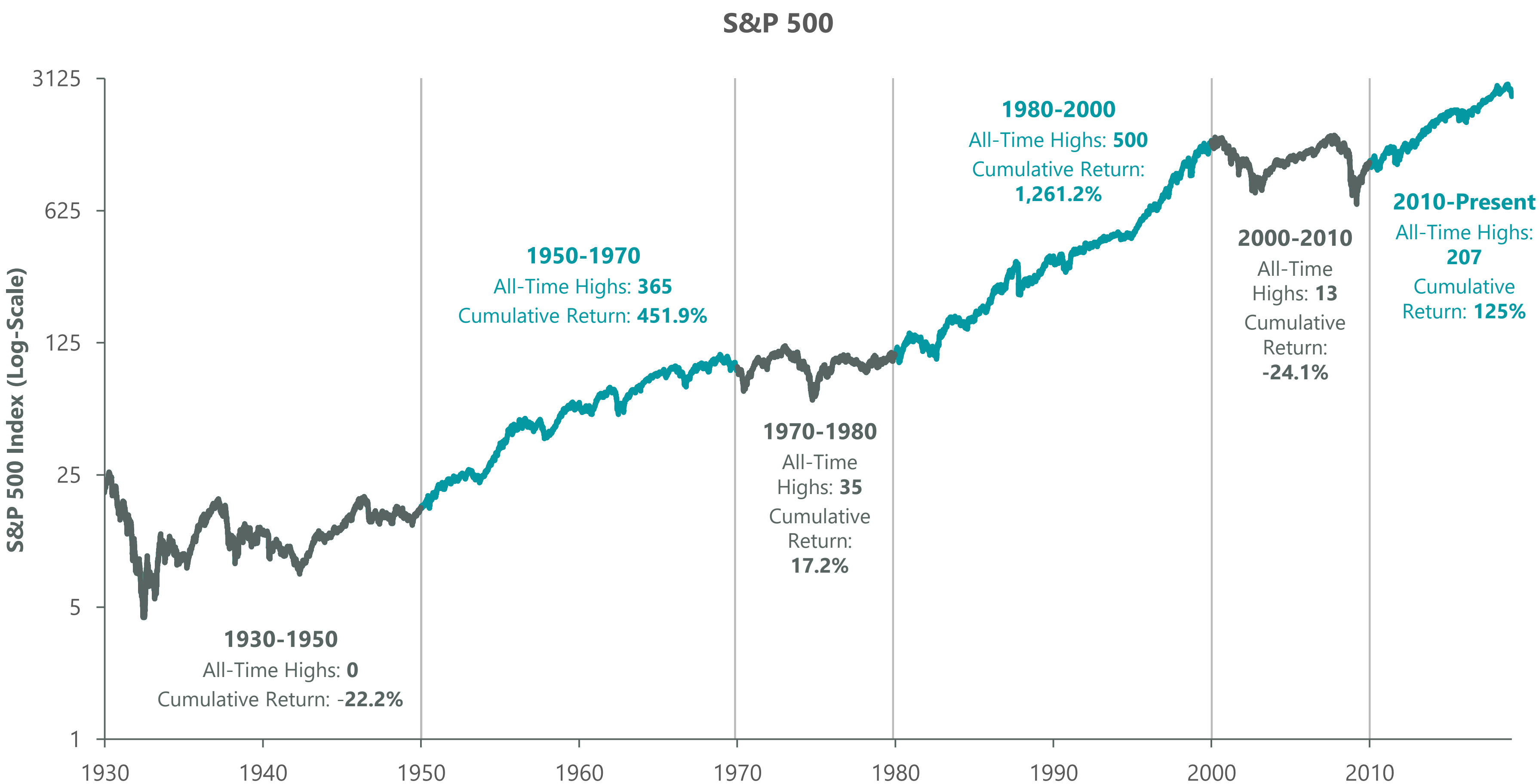
Valuation levels at end of the three longest U.S. economic cycles based on quarter end values:

Quarter	E/P Yield	YTM 10-Year Treasuries	Spread
Q4 1968	5.5%	6.2%	-0.7
Q2 1990	6.4%	8.4%	-2.0
Q1 2000	3.6%	6.0%	-2.4
Current	5.8%	2.7%	3.1

ClearBridge Investments

Source: FactSet. Data as of Dec. 31, 2018.
YTM: Yield to maturity. E/P Yield: The earnings yield refers to the earnings per share for the most recent 12-month period divided by the current market price per share.

New Secular Bull Market?



Data as of Dec. 31, 2018.
Source: Standard & Poor's and Bloomberg.

Bull Market Top Checklist

	2000	2007	Current	Comments
Blow-off top	✓	✓	✗	Few signs of panic buying or speculative excess in public equity markets. S&P is currently below its 200-day MA after peaking in January.
Heavy inflows into equity market funds	✓	✓	✗	Net inflows into equity mutual funds and ETFs is underwhelming while inflows into bond funds remain robust.
Big pick-up in M&A activity	✓	✓	✓	M&A activity has picked up significantly this year from years in the past. In absolute dollar terms, activity is near historical highs.
IPO activity	✓	✓	✗	Despite some high-profile new issues in 2017, deal volume and assets raised remain far below the pace exhibited in 2015.
Rising real interest rates	✓	✓	✗	Real rates have moved higher and although not yet worrisome, they are worth watching.
Weakening upward earnings revisions	✓	✓	✗	Upward earnings revisions remain at elevated levels.
Erosion in number of stocks making new highs	✓	✓	✓	The numbers of companies making 52-week highs peaked in January.
Shift towards defensive leadership	✓	✓	✗	Since the February 2016 low, cyclical shares have outperformed for the past two years. It is worth noting in the past month there has been a shift toward defensive shares.
Widening credit spreads	✓	✓	✗	High-yield and investment grade credit spreads have moved higher recently but compared to a longer-term history are still contained.

Source: Strategas Research Partners.

Biographies

Name and Position	Industry Experience	ClearBridge Tenure	Education, Experience and Professional Designations
 **Jeffrey Schulze, CFA** Director, Investment Strategist	14 years	• Joined ClearBridge in 2014	• Member of the CFA Institute • Lord Abbett & Co., LLC – Portfolio Specialist • BS in Finance from Rutgers University
 **Josh Jamner, CFA** Vice President, Investment Strategy Analyst	9 years	• Joined ClearBridge in 2017	• Member of the CFA Institute • RBC Capital Markets - Assistant Vice President, Associate Strategist - U.S. Equity • Bessemer Trust - Assistant Vice President, Client Portfolio Analyst • BA in Government from Colby College

Glossary of Terms

Bunds: Bonds issued by Germany's federal government. Bunds are available in 10- and 30-year maturities.

Duration: Years to receive bond’s true cost, including present value of all future coupon and principal payments.

ECB: European Central Bank

EPS: Earnings Per Share

GDP: Gross Domestic Product

ICE BofA ML Euro High Yield Index: Tracks the performance of Euro denominated below investment grade corporate debt publicly issued in the euro domestic or Eurobond markets.

P/E Ratio: Price/Earnings ratio

PMI: Purchasing Manager’s Index

Quantitative easing (QE): Monetary policy implemented by a central bank in which it increases the excess reserves of the banking system through the direct purchase of debt securities.

Yield Curve: Comparison of interest rates at a point in time of bonds with equal credit quality but different maturity dates.

YoY: Year Over Year

U.S. Treasurys: Direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity. Unlike U.S. Treasury securities, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the U.S. government. Even when the U.S. government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

Case-Shiller Home Price Indexes: A group of indexes that tracks changes in home prices throughout the United States. The indexes are based on a constant level of data on properties that have undergone at least two arm's length transactions. Case-Shiller produces indexes representing certain metropolitan statistical areas (MSA) as well as a national index.

NASDAQ Composite Index: A market capitalization-weighted index that is designed to represent the performance of NASDAQ securities and includes over 3,000 stocks.

NIKKEI 225: Price-weighted index composed of Japan’s top 225 blue-chip companies on the Tokyo Stock Exchange.

S&P 500 Index: Unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.

Shibor: (The Shanghai Interbank Offered Rate) is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other banks in the Shanghai wholesale (or "interbank") money market.

RRR: The reserve requirement (or cash reserve ratio) is a central bank regulation employed by most, but not all, of the world's central banks, that sets the minimum amount of reserves that must be held by a commercial bank.

Additional Important Information

Past performance is no guarantee of future results.

All opinions and data included in this presentation are as of December 2018 unless noted otherwise and are subject to change. The opinions and views expressed herein are of the presenter and may differ from other managers, or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Neither ClearBridge Investments nor its information providers are responsible for any damages or losses arising from any use of this information.

All investments involve risk, including loss of principal.

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