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

First Quarter 2020

Probabilities vs. Possibilities

The Wall of Worry

Middle East Geopolitics

Junk Bond Collapse

Trade Wars

North Korea Escalation

U.S. Recession

Brexit

Sovereign Debt Crisis

Earnings Recession

Dollar Strengthens

Eurozone Breakup

China Hard Landing

Populism

EM Problems Intensify

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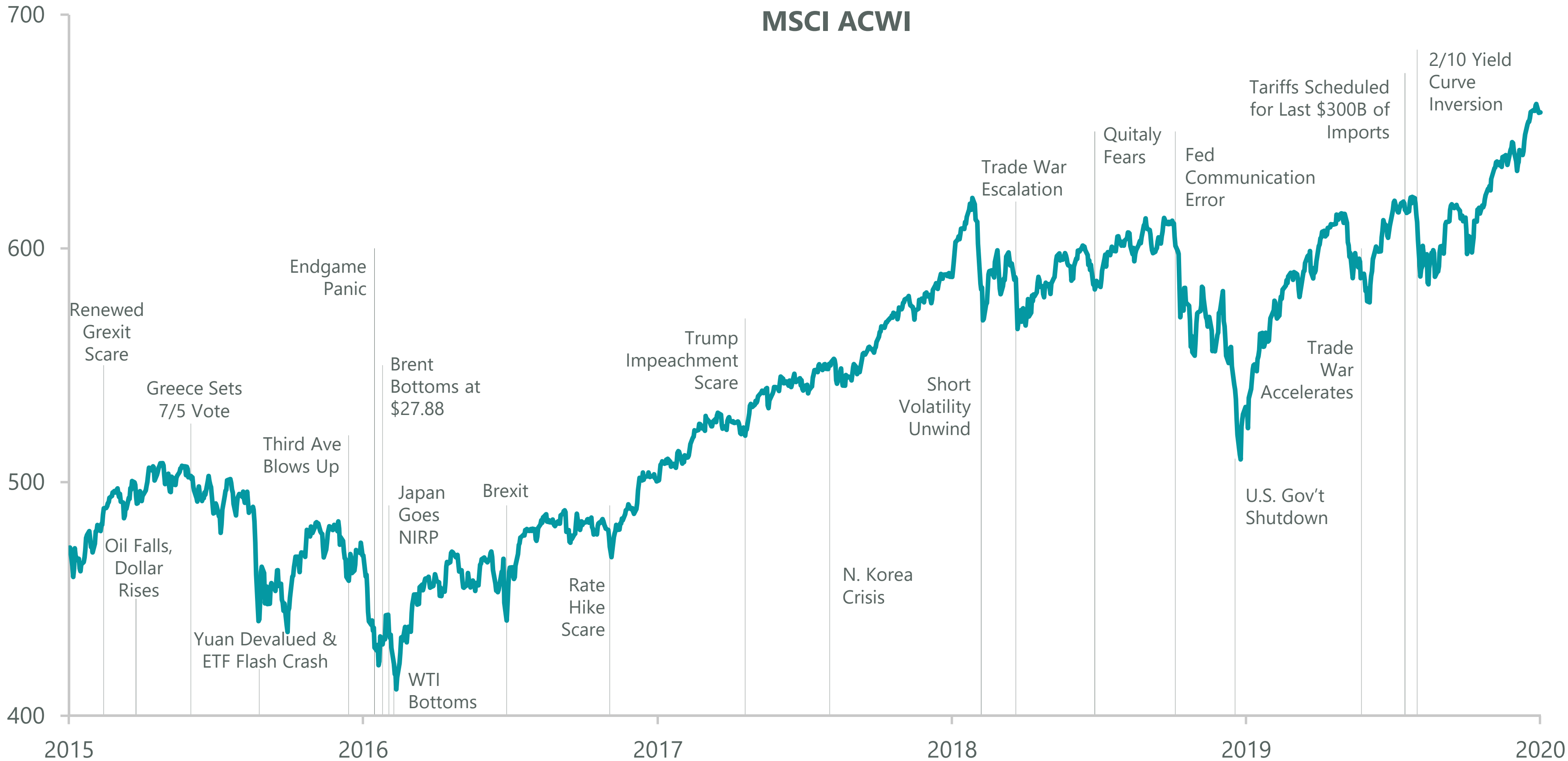
Panic Attacks



"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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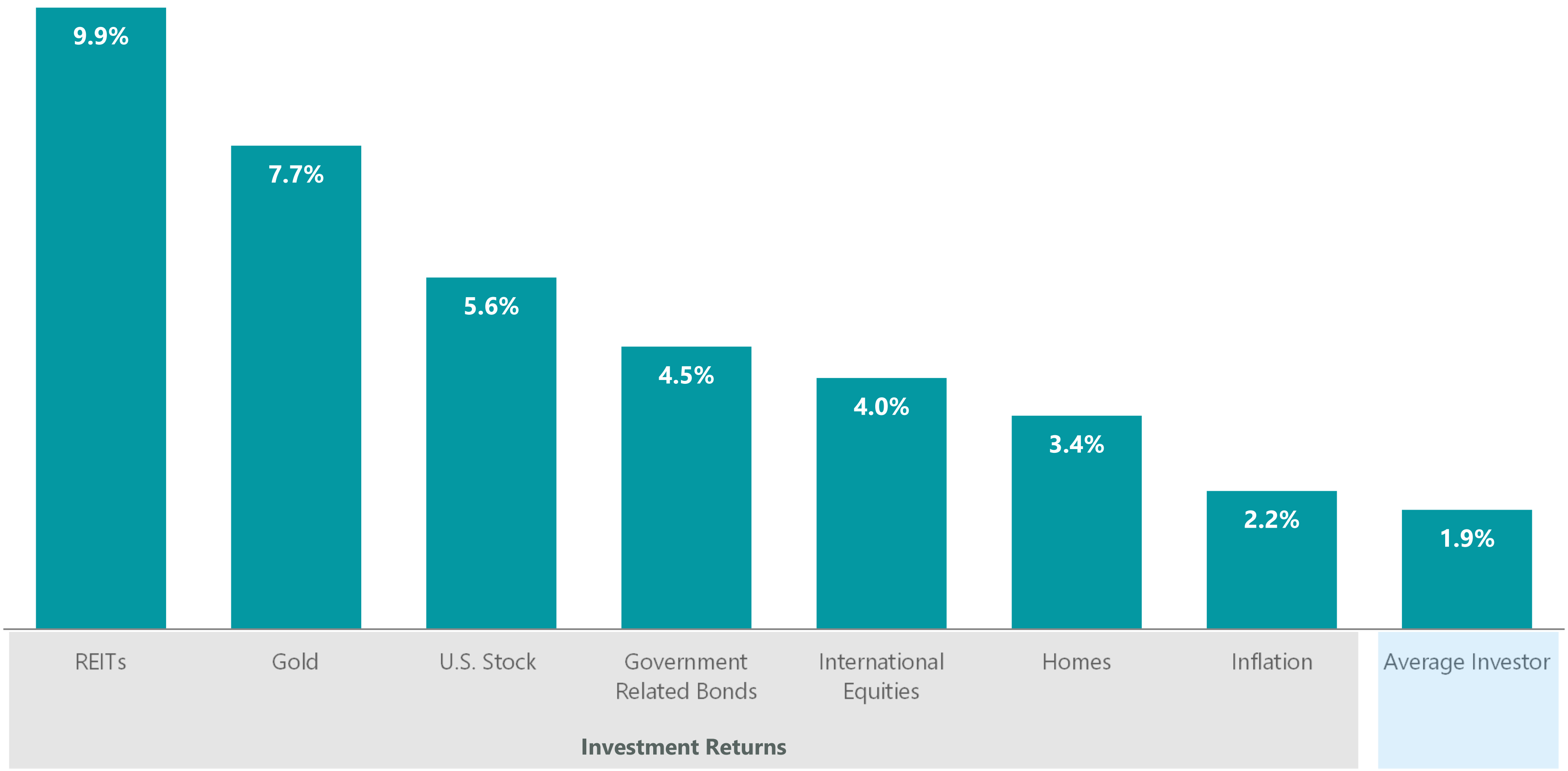
Data as of Dec. 31, 2019. Source: MSCI. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Effects of Panic Attacks on Average Investors

20 Years Annualized Returns (1999-2018)



Source: Bloomberg, June 30, 2019. 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 NAREIT Equity 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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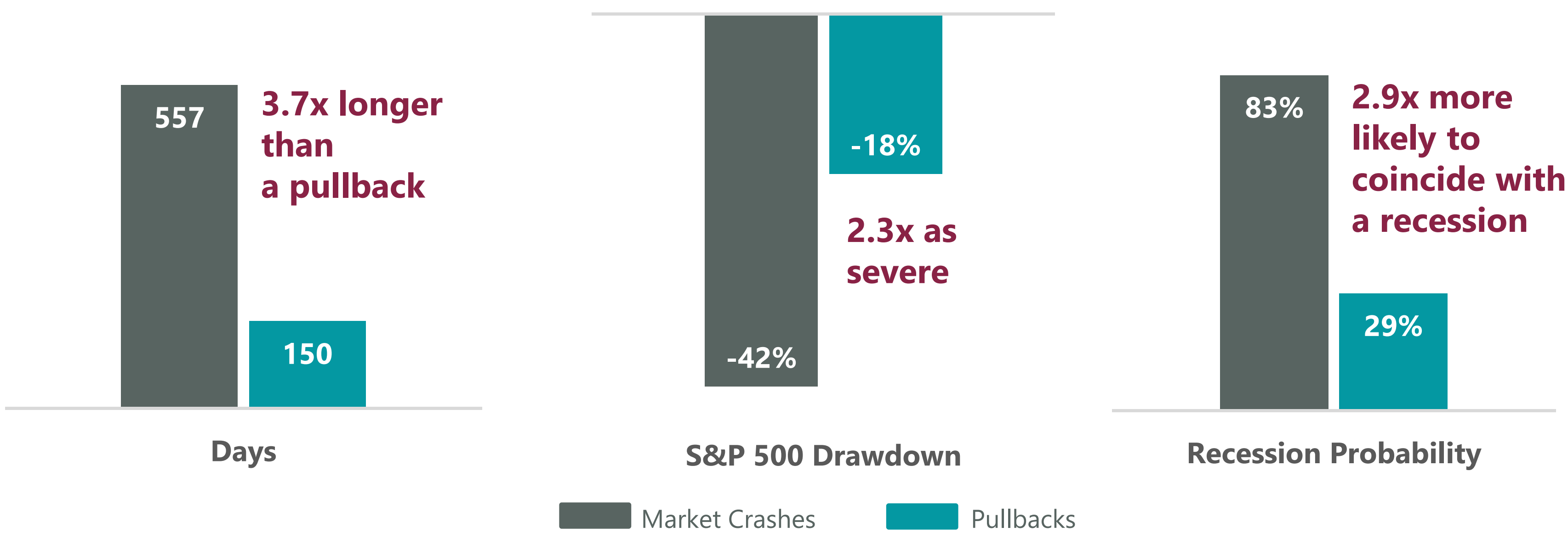
S&P 500 Market Crashes vs. Pullbacks

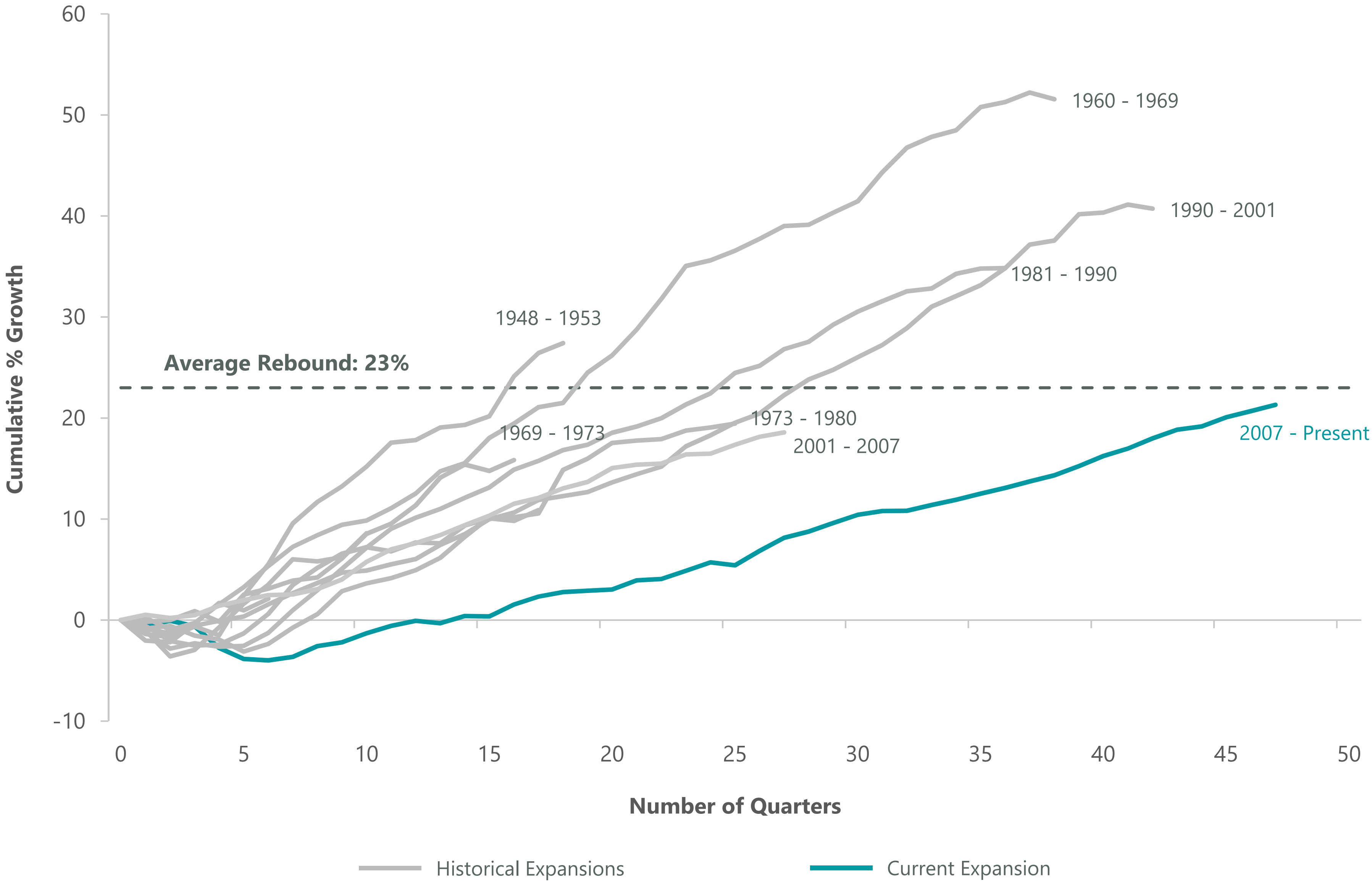
Market Crashes				
Peak	**Trough**	**Days**	**S&P 500**	**Recession**
Nov. 1968	May 1970	543	-36%	Yes
Jan. 1973	Oct. 1974	630	-48%	Yes
Nov. 1980	Aug. 1982	621	-27%	Yes
Aug. 1987	Dec. 1987	101	-34%	No
March 2000	Oct. 2002	929	-49%	Yes
Oct. 2007	March 2009	517	-57%	Yes
Average		**557**	**-42%**	**83%**

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
Sept. 2018	Dec. 2018	82	-19%	No
Average		**150**	**-18%**	**29%**



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. 1987 peak despite trough coming in Dec. 1987. Source: S&P, NBER, and Bloomberg. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Strength of Economic Expansions



Data as of Sept. 30, 2019, most recent available as of Dec. 31, 2019. Source: FactSet, Bureau of Economic Analysis. U.S. economic expansions since 1948. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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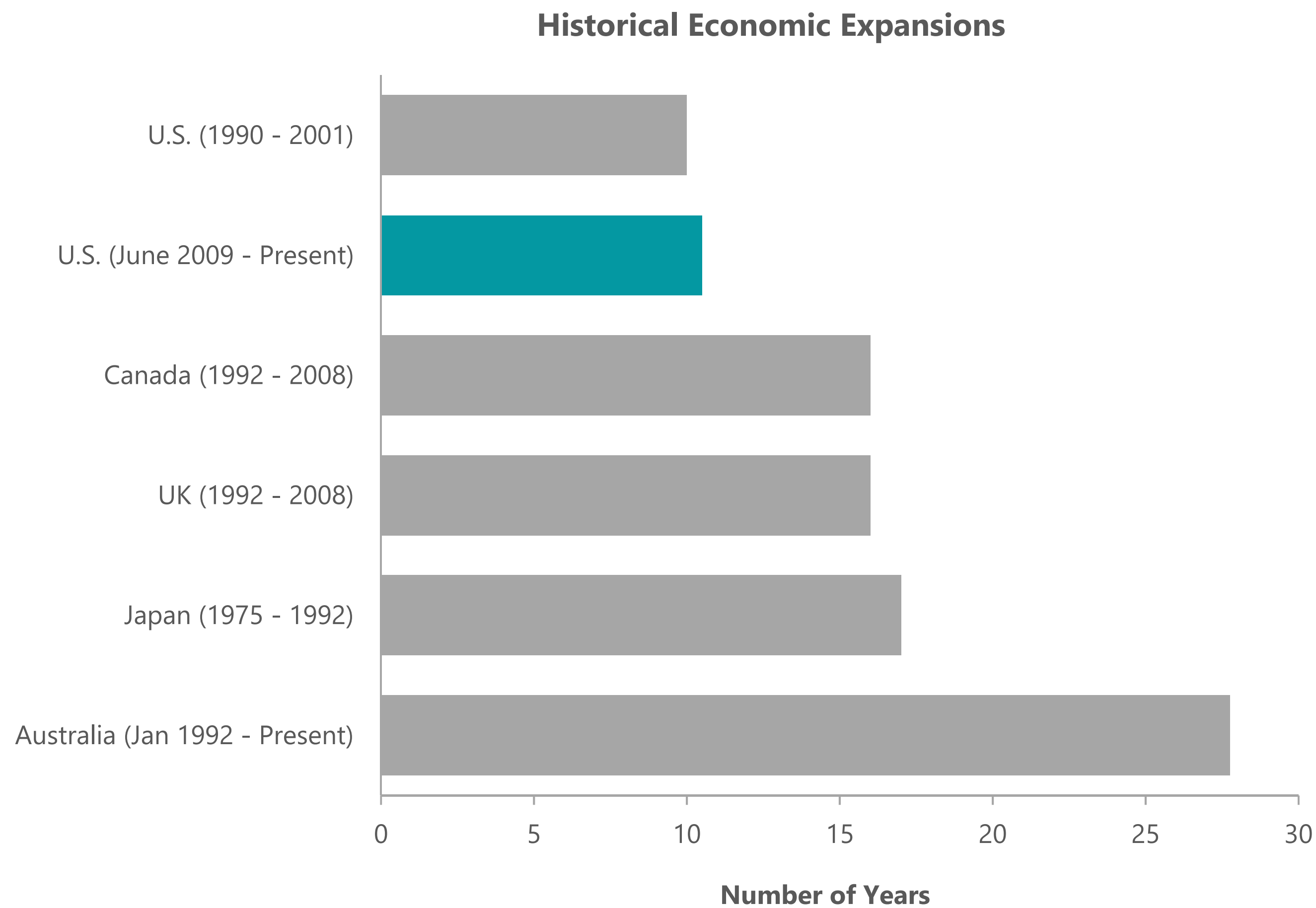
Just How Long Can The Cycle Continue?



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

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As of Dec. 31, 2019. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- The overall signal suggests caution

		Fourth Quarter 2019	Third Quarter 2019	Second Quarter 2019
Financial	Yield Curve	Recession	Recession	Recession
	Credit Spreads	Expansion	Expansion	Expansion
	Money Supply	Caution	Caution	Caution
Inflation	Wage Growth	Recession	Caution	Caution
	Commodities	Caution	Recession	Recession
Consumer	Housing Permits	Expansion	Expansion	Expansion
	Jobless Claims	Expansion	Expansion	Expansion
	Retail Sales	Expansion	Expansion	Expansion
	Job Sentiment	Expansion	Expansion	Caution
Business Activity	ISM New Orders	Recession	Recession	Caution
	Profit Margins	Caution	Caution	Expansion
	Truck Shipments	Expansion	Expansion	Expansion
	Overall Signal	Caution	Caution	Caution

Expansion Caution Recession

Data as of Dec. 31, 2019. Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

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U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- The overall signal suggests caution

		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

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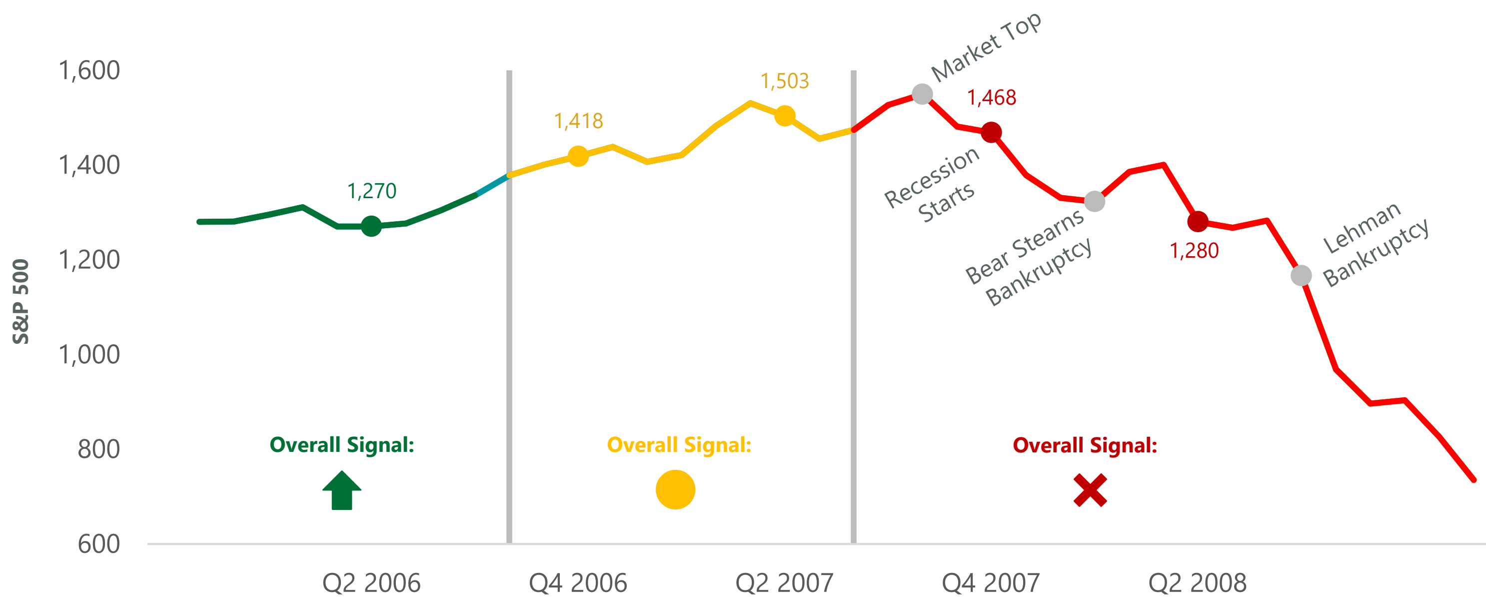
Data as of Dec. 31, 2019. Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

U.S. Recession Dashboard

Case Study: 2006-2009



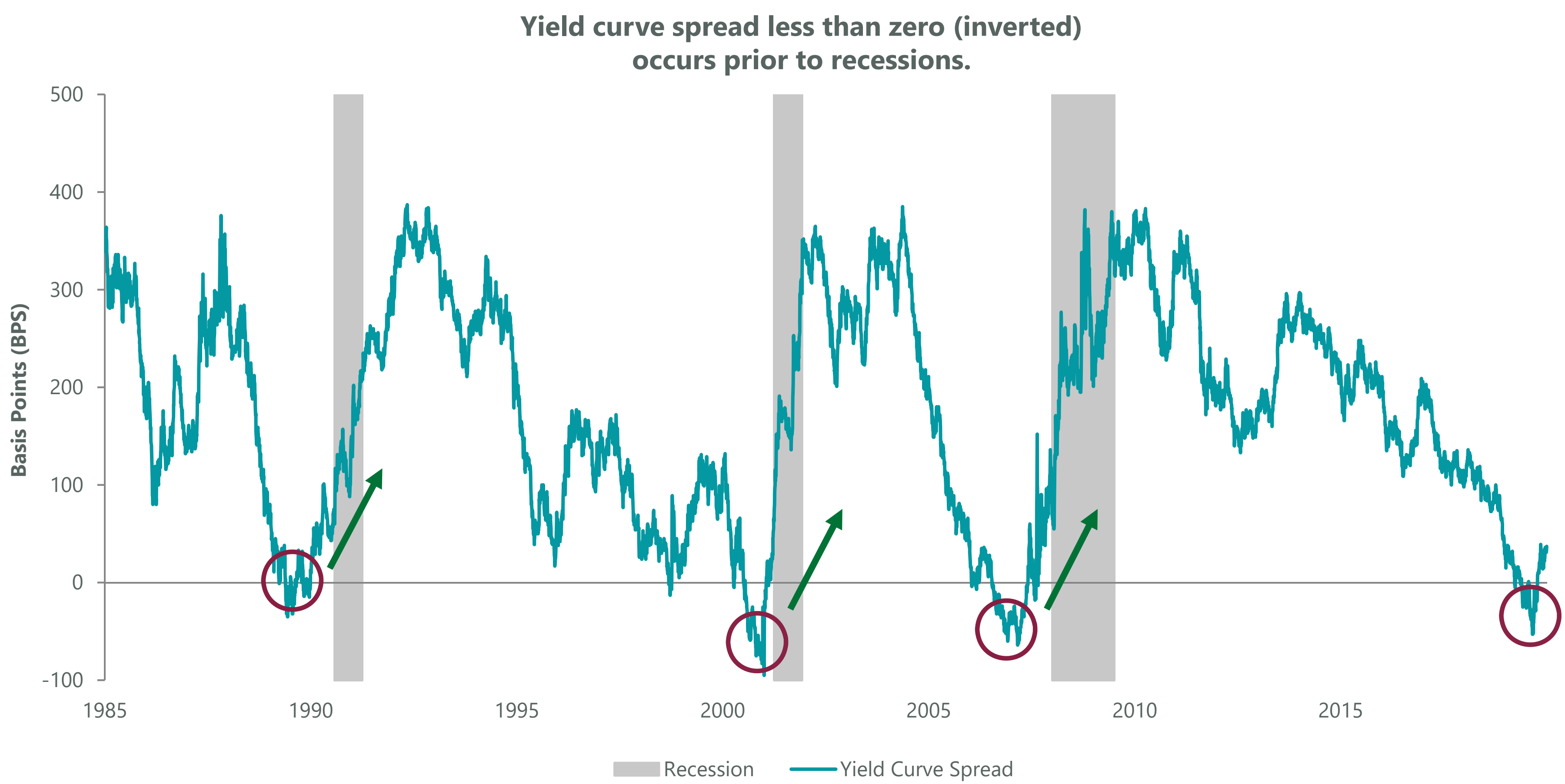
		Q2 2006	Q4 2006	Q2 2007	Q4 2007	Q2 2008
Financial	Yield Curve	✕	✕	✕	✕	✕
	Credit Spreads	⬆	⬆	⬆	✕	✕
	Money Supply	✕	✕	✕	✕	✕
Inflation	Wage Growth	✕	✕	✕	✕	✕
	Commodities	⬆	⬆	⬆	✕	✕
Consumer	Housing Permits	●	✕	✕	✕	✕
	Jobless Claims	⬆	⬆	●	●	✕
	Retail Sales	⬆	●	●	✕	✕
	Job Sentiment	⬆	●	●	✕	✕
Business Activity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

ClearBridge Investments

Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

Yield Curve Spread

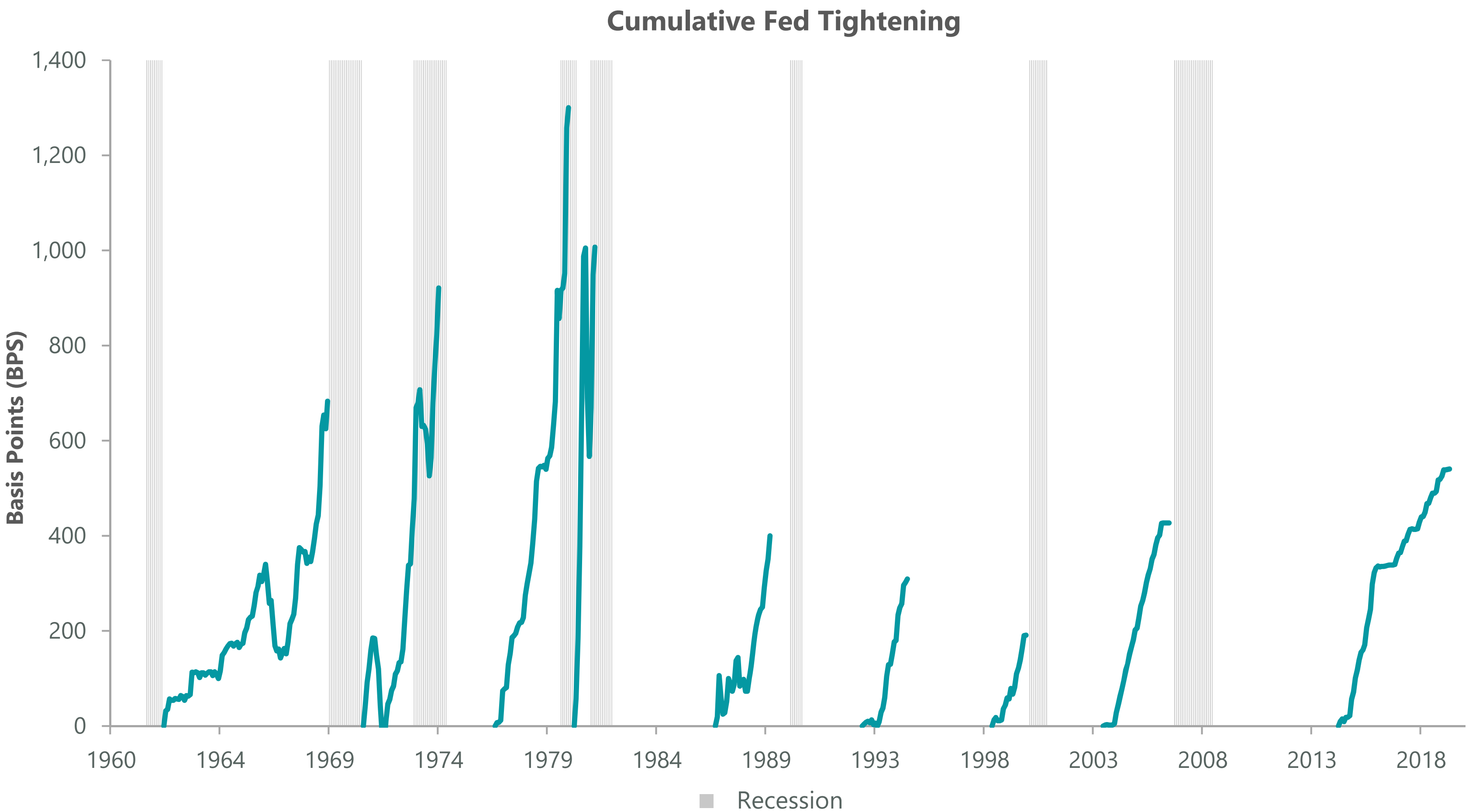
10-Year Treasury Bonds Minus 3-Month T Bills



- **The yield curve typically un-inverts ahead of a recession.**
- **At the onset of the prior 3 recessions, the yield curve was 68 bps steep on average.**

Data as of Dec. 31, 2019. BPS = Basis Points, one hundredth of one percent. Source: Fed Reserve Bank of St. Louis, retrieved from FRED. Compiled: econpi.com. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Shadow Fed Funds Rate



- **When considering the impact of QE and forward guidance, Fed policy is much tighter than indicated by the Fed Funds rate alone.**
- **Since 1950, the average low in ISM Manufacturing has been 40.5 following rate hikes vs. 49.0 without them, suggesting further weakness ahead.**

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Data as of Dec. 31, 2019. Source: Wu and Xia (2015), Board of Governors of the Federal Reserve System (U.S.). Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Has the Fed Saved the Day?

S&P 500 Performance Following Third Fed Rate Cut

	Date of Third Fed Cut	+3 Months	+6 Months	+12 Months	+18 Months
Soft Landing	Jan. 31, 1996	2.9%	0.6%	23.6%	50.0%
	Nov. 17, 1998	7.4%	17.6%	23.8%	27.1%
	Average	**5.2%**	**9.1%**	**23.7%**	**38.6%**
Recession	March 20, 2001	7.0%	-13.8%	0.8%	-26.0%
	Dec. 11, 2007	-10.6%	-9.6%	-40.9%	-36.1%
	Average	**-1.8%**	**-11.7%**	**-20.1%**	**-31.1%**

- **Equity performance in the six months following the Fed's third rate cut can be an important barometer of recessionary risk.**

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Source: BMO Investment Strategy Group, FRB, FactSet.
Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Bear Case: Recession

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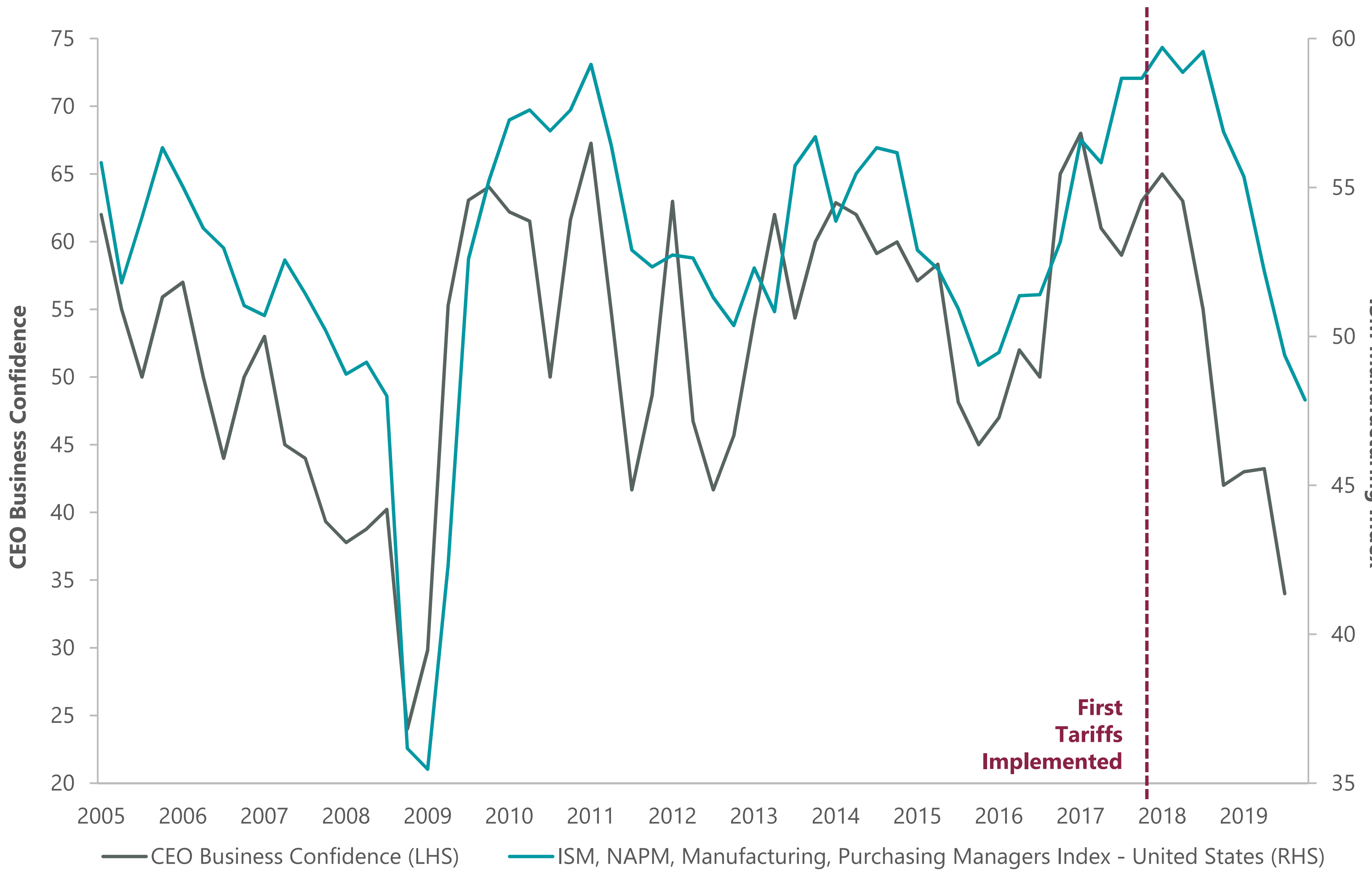
Trade Wars Have Hurt Business Confidence



Lower business confidence could lead to slower economic growth.

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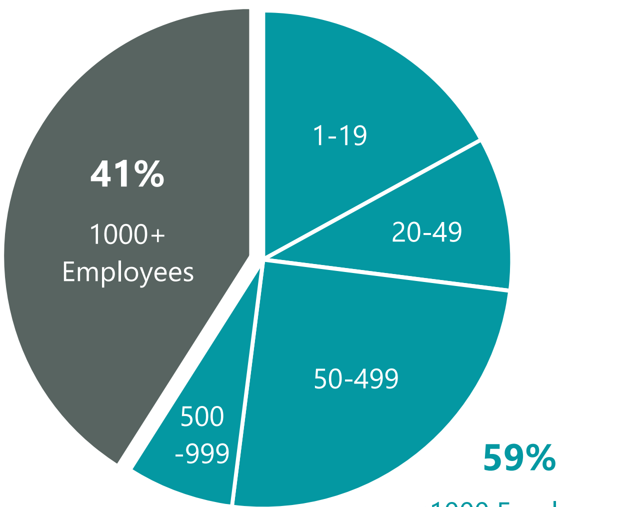
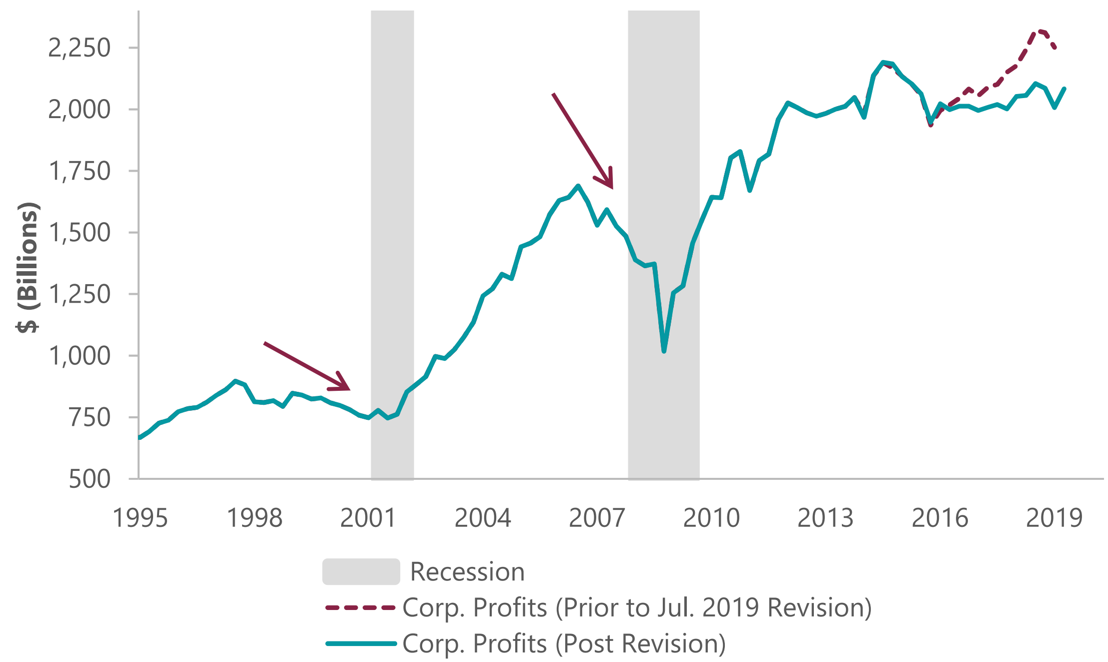
Data as of Dec. 31, 2019. Source: ISM, The Conference Board. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Profit Margins Under Pressure

% of Workforce by Employer Size



U.S. Corporate Profits



- **Companies with fewer than 1000 workers employ 59% of the U.S. labor force. The average company in the Russell 2000 employs 3,679 workers.**
- **July's BEA revisions show that corporate profits have been flat for over 5 years and many small businesses are struggling to combat higher compensation costs.**

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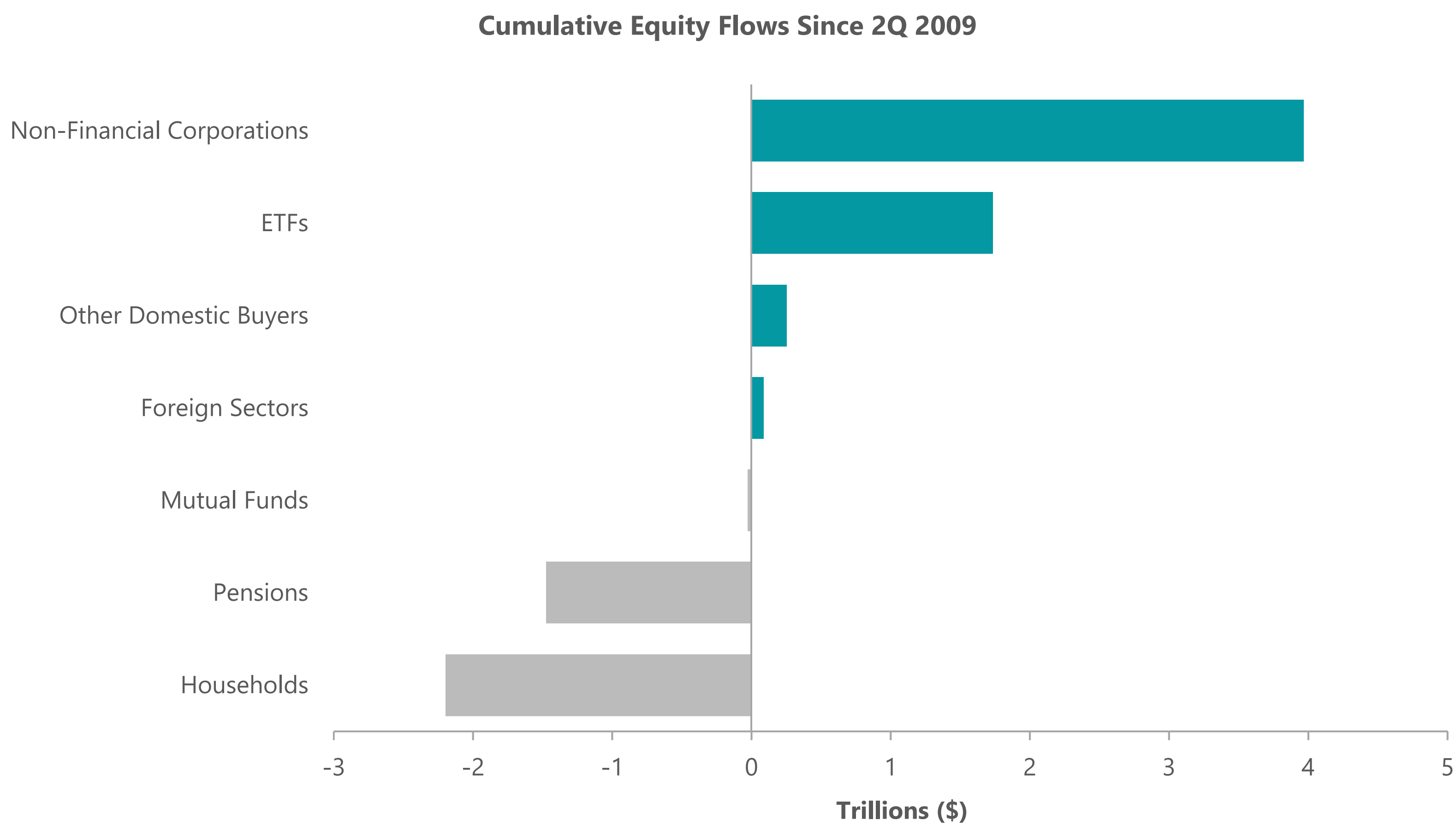
BEA = Bureau of Economic Analysis. Data as of Dec. 31, 2019. Source: U.S. Bureau of Labor Statistics. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Corporations Have Been the Largest Buyers of Equities



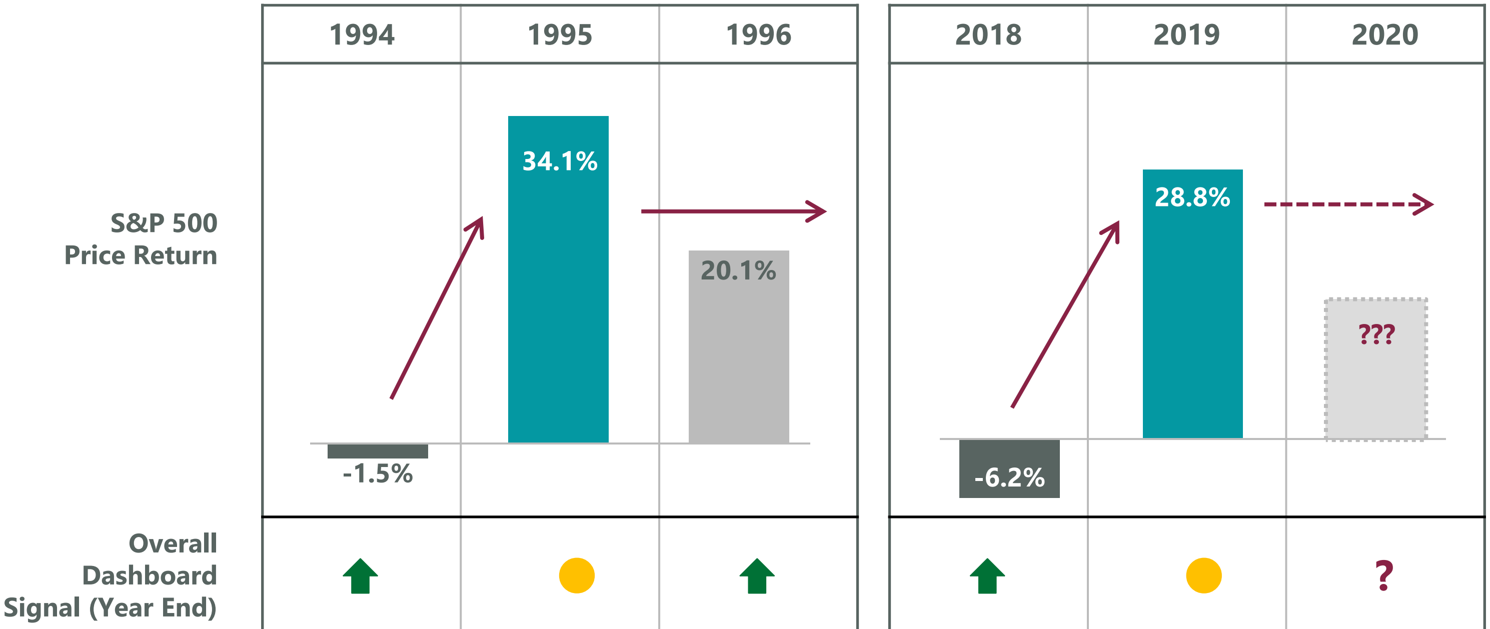
- **One of the key drivers of the current rally has been corporate buybacks.**
- **While tax cuts boosted buybacks in 2018 and 2019, a slowing pace of repatriation could dampen share repurchases in the upcoming year.**

Data as of Sept. 30, 2019, latest available as of Dec. 31, 2019. Source: Federal Reserve Bank, Deutsche Bank. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Bull Case: Slowdown

Historical Perspective: 1994-1996

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



	1994	1995	1996	2018	2019	2020
Real GDP YoY	4.0%	2.2%	3.8%	3.0%	2.3%*	?
Earnings	19%	28%	10%	20%	2.4%	?
P/E Change	(3.0x)	1.9x	1.0x	(3.7x)	4.8x	?

Expansion · Caution · Recession

- Weak P/Es dragged the market down in 1994 despite strong earnings and economic growth.
- The market bounced back in 1995, and despite a growth slowdown, a recession was ultimately averted after the Fed cut rates and the market rally continued into 1996.

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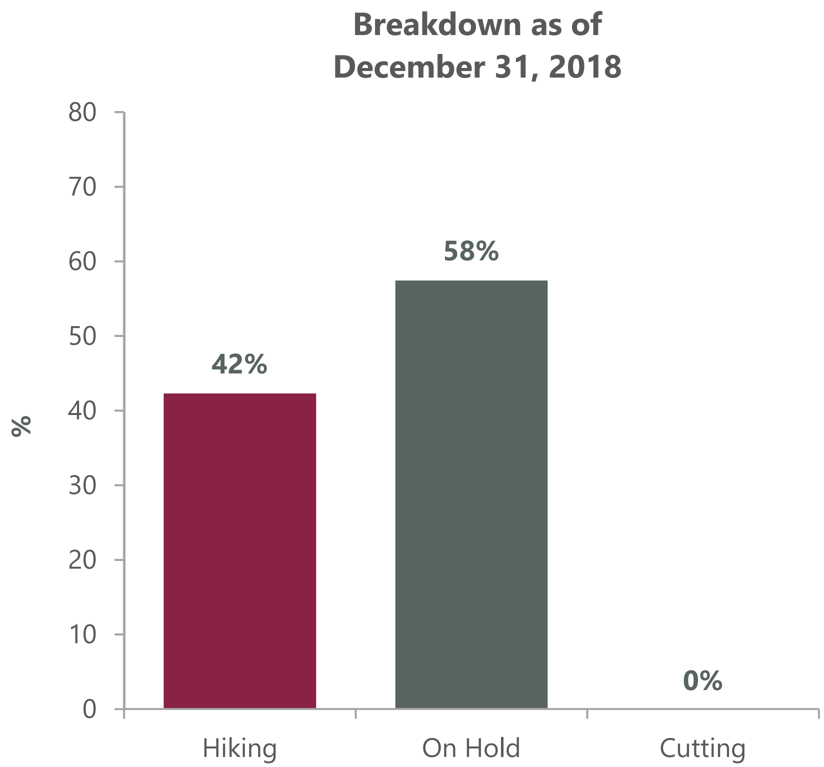
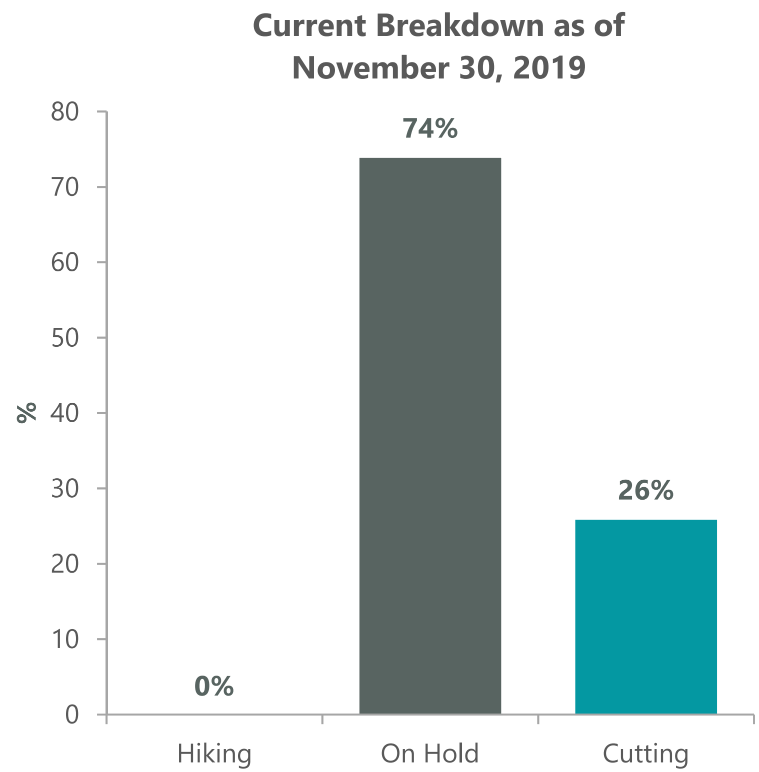
*2019 GDP data is Bloomberg consensus. Data as of Dec. 31, 2019. Returns and economic data source: FactSet. Dashboard: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg.

S&P 500 data: Total Price Return. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Global Central Banks Are in Easing Mode



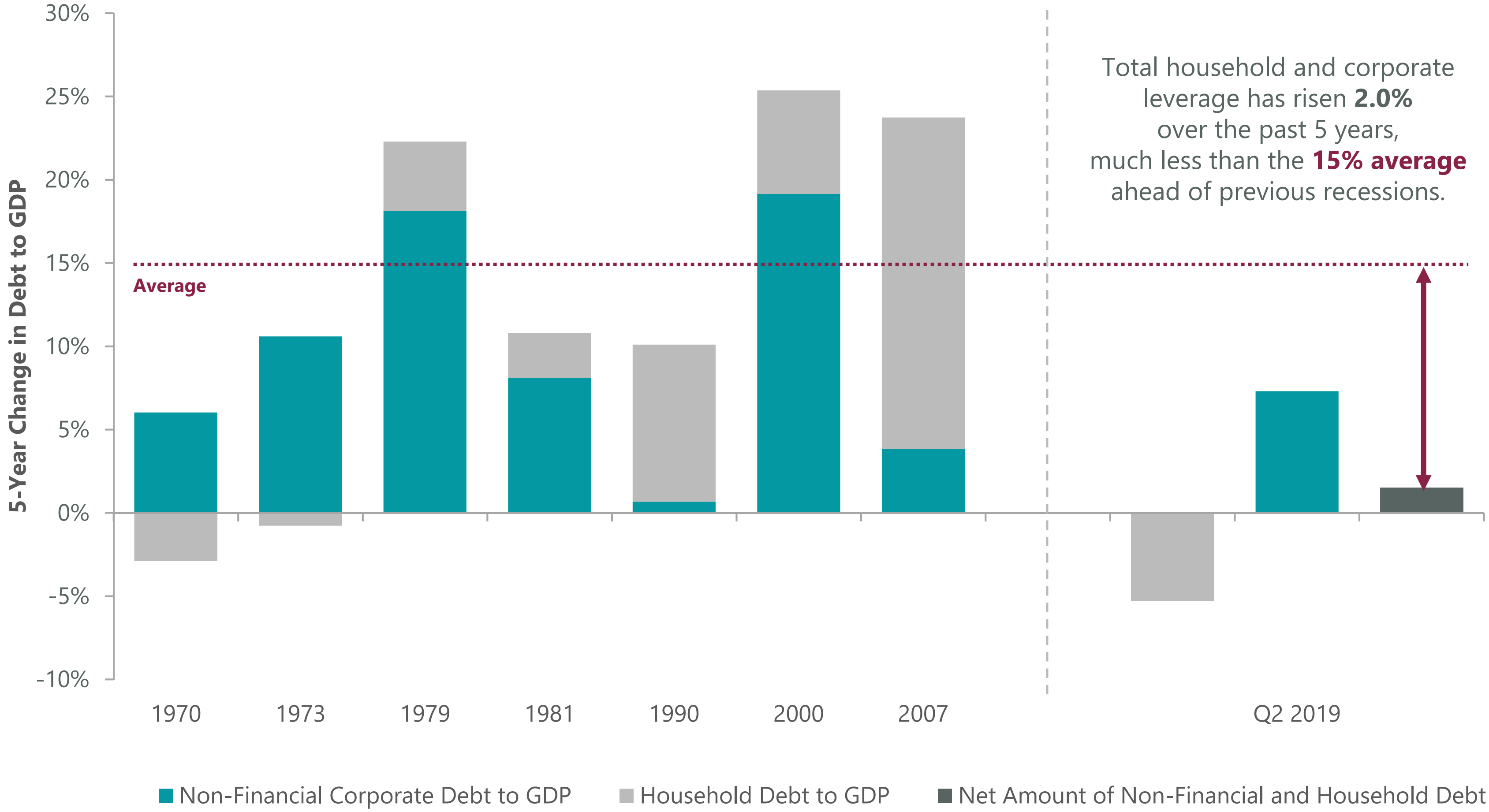


- **Global central banks have reversed course in 2019, which should help loosen financial conditions.**

As of Nov. 30, 2019, most recent as of Dec. 31, 2019. Source: Bank for Int'l Settlements. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Leverage Does Not Look Recessionary

While Corporations Have Taken on Additional Debt, Households Appear to Have Delevered



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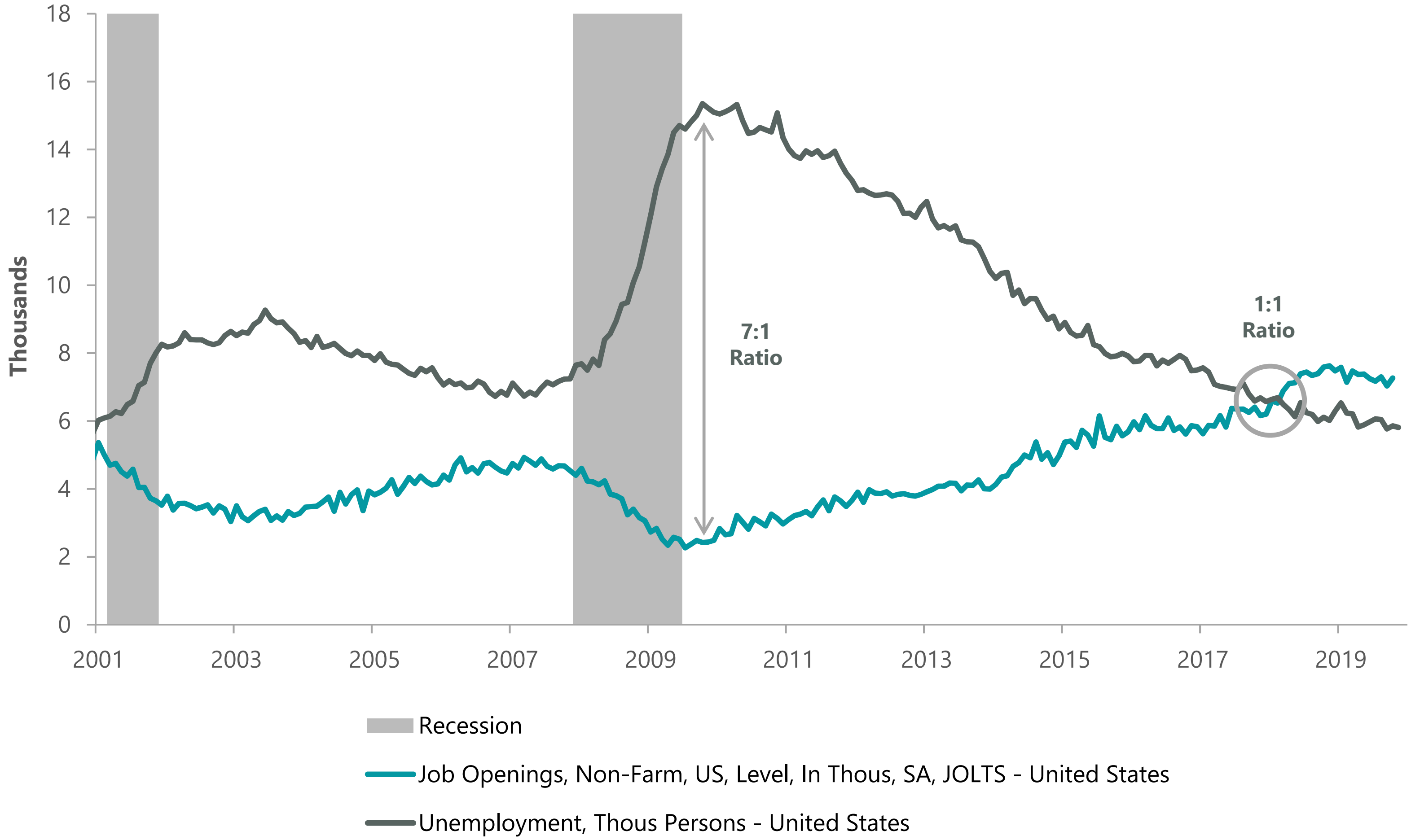
Source: J.P. Morgan, IMF. Note: 5-Year Change in Household Debt to GDP & Non-Financial Corporate Debt to GDP. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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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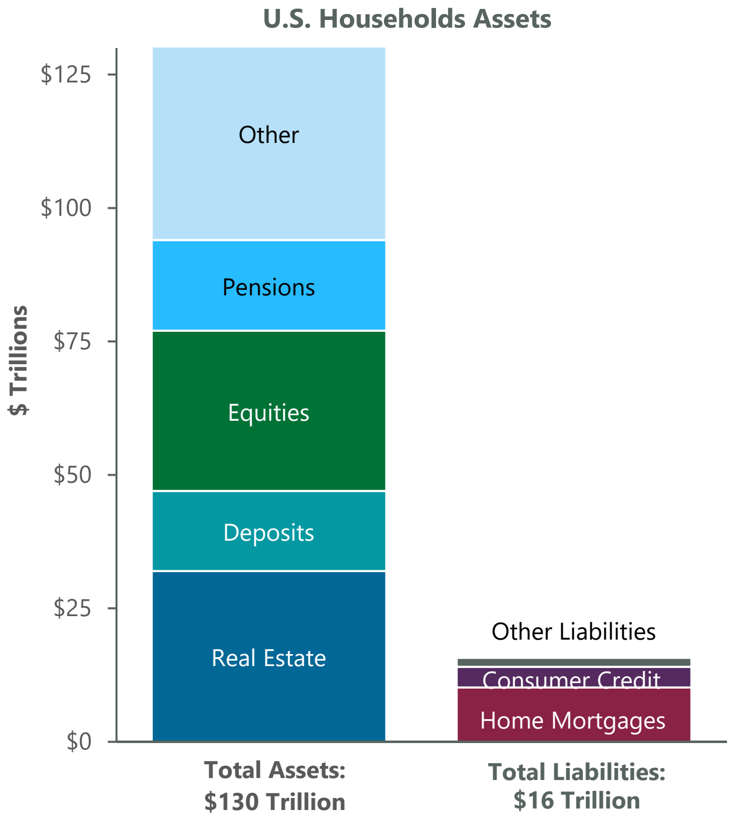
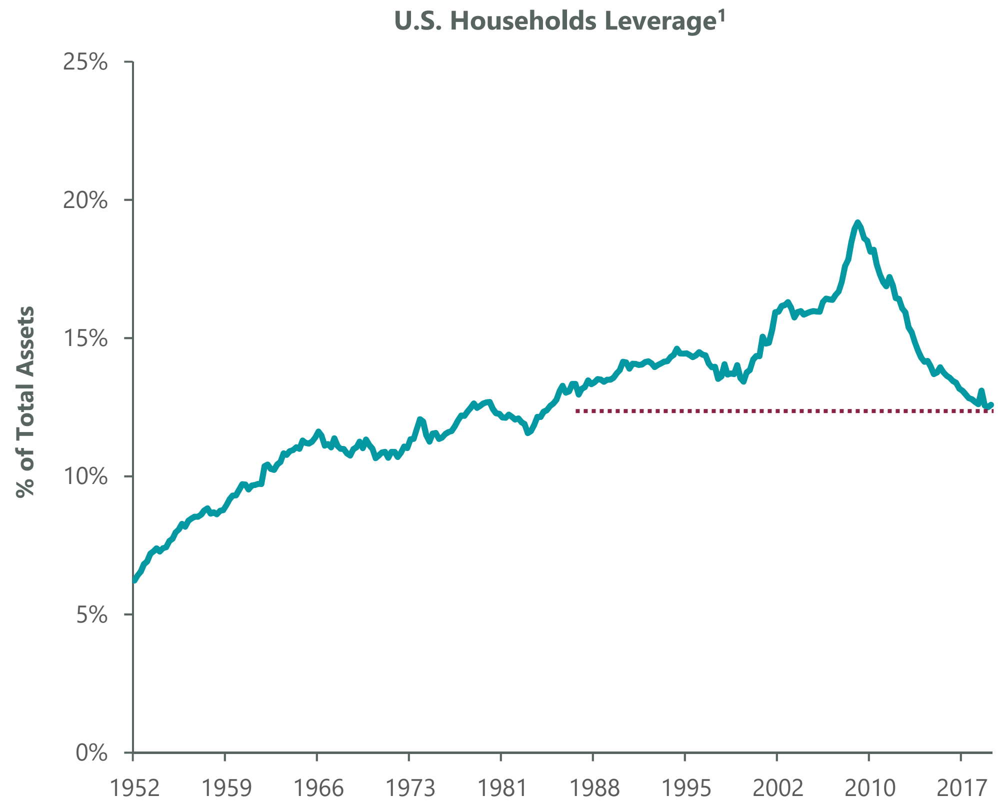
Data as of Nov. 30, 2019, latest available as of Dec. 31, 2019. Source: FactSet, DOL, NBER. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Households Assets vs. Liabilities

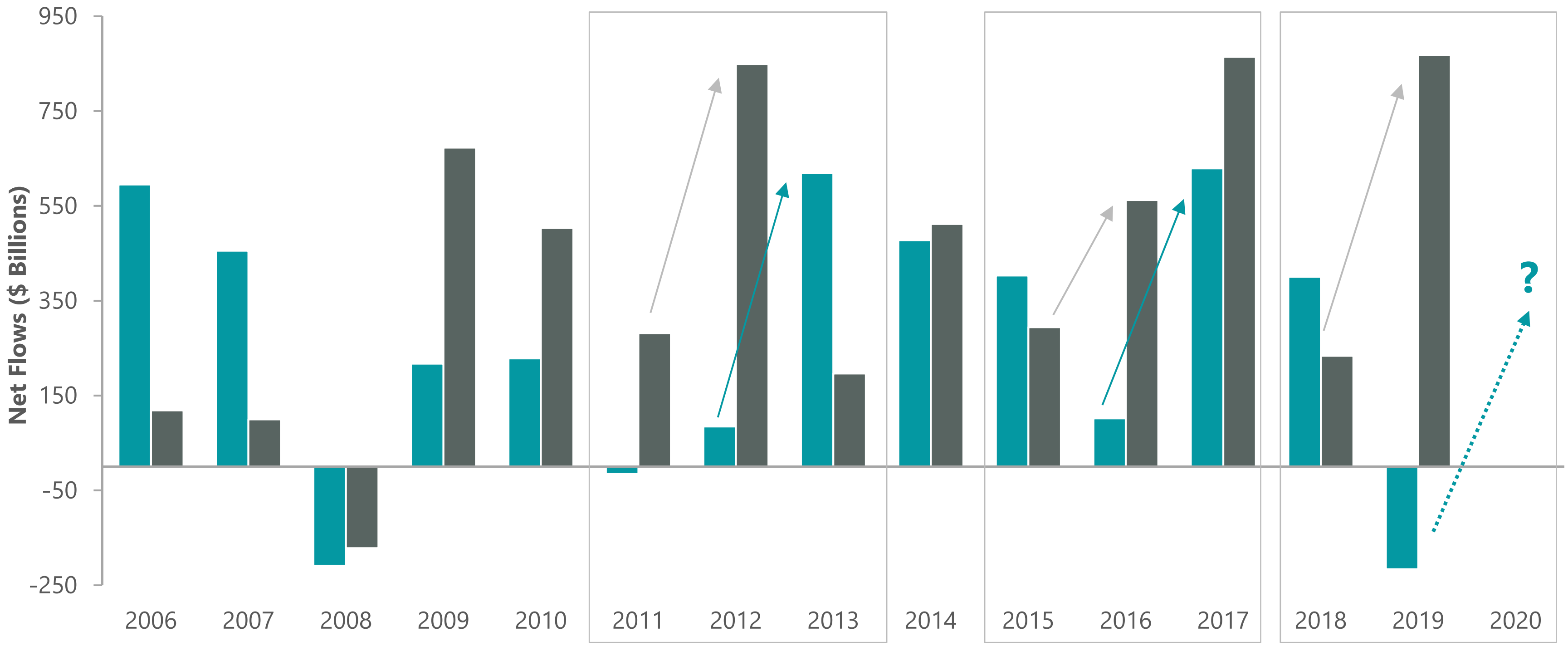




- **American households are in a strong financial position with robust balance sheets.**
- **Household leverage is the lowest it has been since 3Q 1984.**

[1]As of Date: Sept. 30, 2019, latest available as of Dec. 31, 2019. Source: Federal Reserve. Assets vs. Liabilities of households and nonprofit organizations. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Flow Mismatch Could Propel Equities in 2020



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
S&P 500 Returns	2.1%	16.0%	32.4%		1.4%	12.0%	21.8%	-4.4%	31.5%	?
Maximum Intra-Year Drawdown	-18.6%	-9.6%	-5.6%		-12.0%	-10.3%	-2.6%	-19.4%	-6.6%	?

■ Equity ■ Fixed Income

1. Following periods of market volatility, investors flee stocks in favor of bonds.
2. As the market recovers, the fear of missing out replaces the fear of recession, attracting flows back into equities.

- **The $1.1T difference between fixed income and equity flows in 2019 is the largest gap in history.**
- **There is currently $3.6 trillion in money market mutual funds today, up 22% year over year.**

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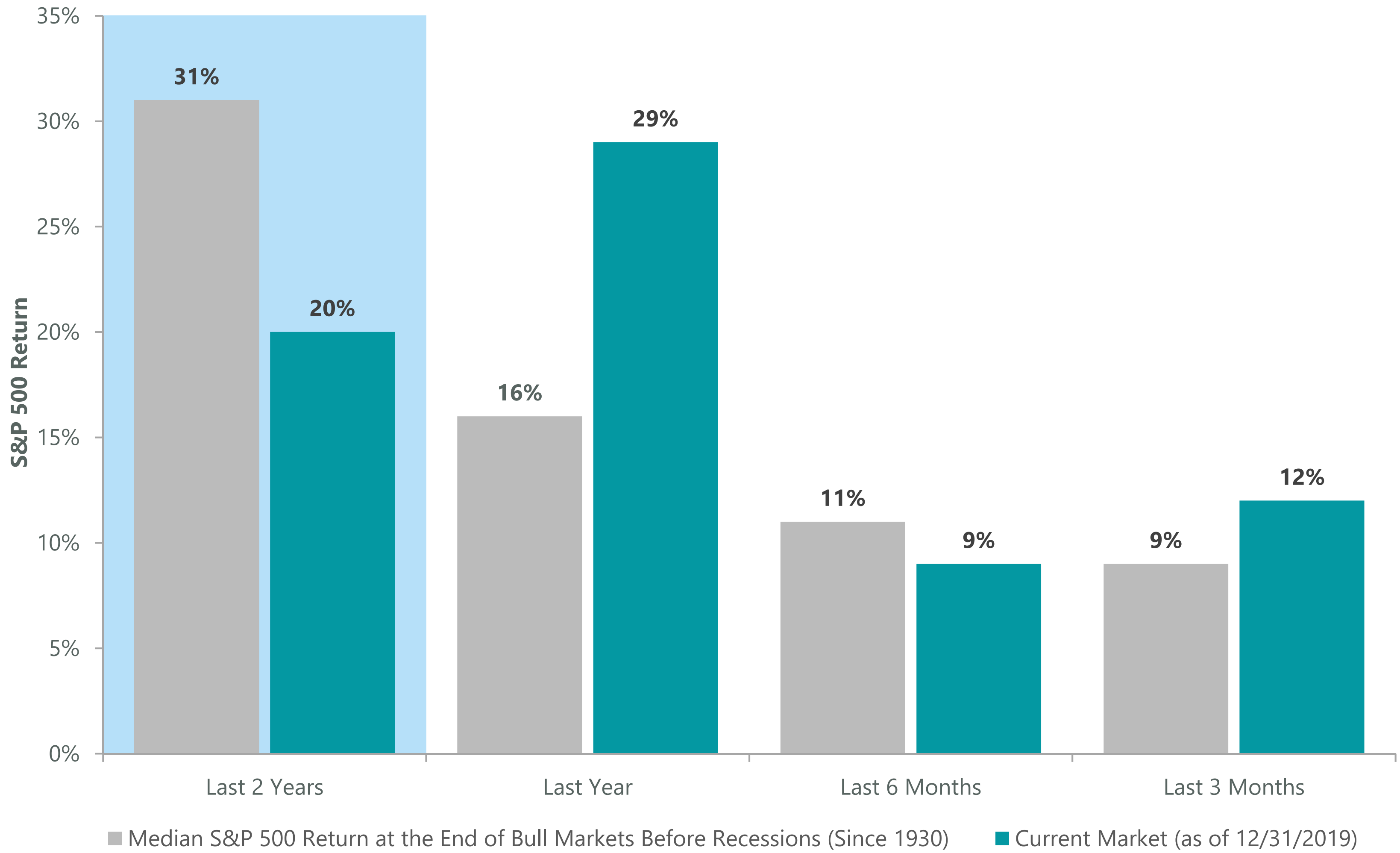
Data as of Dec. 31, 2019. Source: JP Morgan. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Final Stages of Bull Markets Tend to Be Strong

Missing the "Final" Bull Market Run-Up Could Be Quite Painful



- **Since 1930, equities have rallied over 30% in the two years leading up to a recession suggesting further potential upside.**

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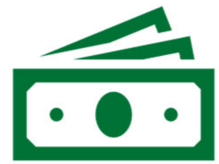
Current Bull Market as of Dec. 31, 2019. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

One Year Outlook

Themes That Will Drive the Market Over the Next 12 Months

U.S. Presidential Agenda

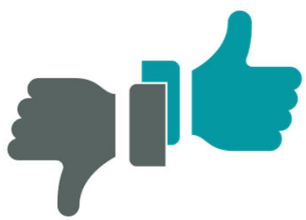
International



Currency

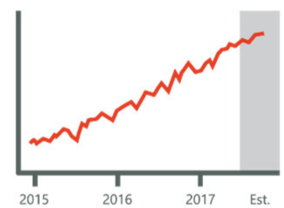
Negative Rates

Debt



Sentiment

Volatility



Valuations

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U.S. Presidential Agenda

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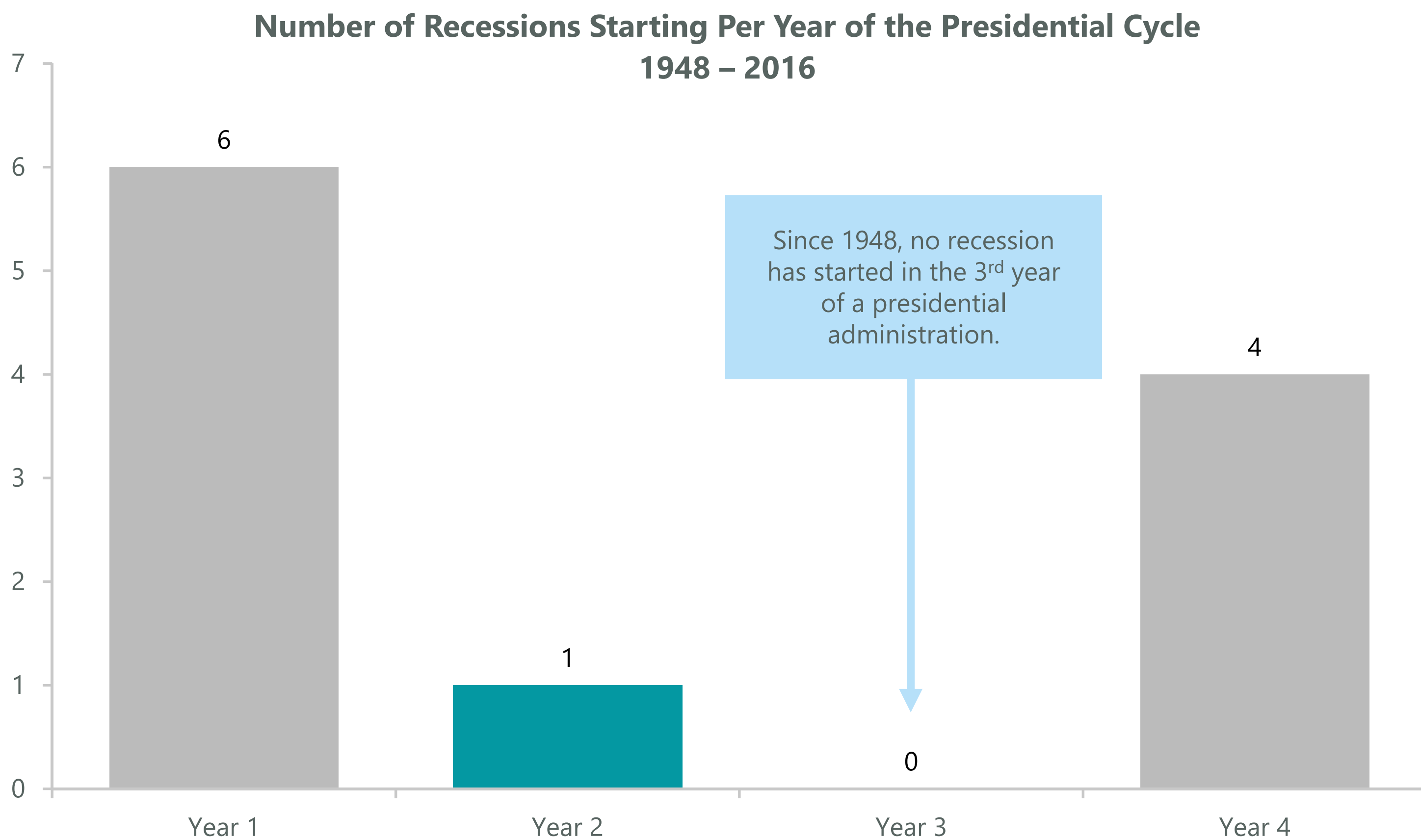
Presidential Cycle: The Economy



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Source: Strategas Research Partners. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

When It Comes to Re-election, It's All About the Economy

No Recession in 2 Years Before Election					
Year	**President**	**Change in Election Year Unemployment Rate**	**Recession?**	**Re-election?**	**Margin of Victory (Popular Vote)**
2012	Obama	-1.6%	No	**Yes**	3.9%
2004	Bush 43	-0.2%	No	**Yes**	2.5%
1996	Clinton	-0.6%	No	**Yes**	8.5%
1984	Reagan	-3.0%	No	**Yes**	18.2%
1972	Nixon	0.1%	No	**Yes**	23.2%
1964	Johnson	-0.3%	No	**Yes**	22.6%
1956	Eisenhower	-1.8%	No	**Yes**	15.4%

Recession in 2 Years Before Election					
Year	**President**	**Change in Election Year Unemployment Rate**	**Recession?**	**Re-election?**	**Margin of Victory (Popular Vote)**
1992	Bush 41	1.4%	Yes	**No**	-5.6%
1980	Carter	1.7%	Yes	**No**	-9.7%
1976	Ford	1.7%	Yes	**No**	-2.1%

- **Presidents facing re-election tend to win when the economy is strong, and not when conditions worsen ahead of voting day.**

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Source: National Bureau of Economic Research, Bureau of Labor Statistics and Wikipedia. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

It Doesn't Pay to Be Bearish Ahead of U.S. Elections

S&P 500 Performance Leading to Election Date

Election	Prior 3 Months	Prior 6 Months	Prior 12 Months
1936	8%	24%	36%
1944	2%	7%	12%
1948	5%	8%	8%
1952	-3%	4%	8%
1956	-3%	-2%	8%
1960	-1%	1%	-4%
1964	3%	6%	15%
1968	6%	5%	12%
1972	7%	7%	21%
1976	0%	1%	16%
1980	7%	22%	26%
1984	5%	7%	5%
1988	2%	7%	10%
1992	-1%	2%	7%
1996	8%	11%	21%
2000	-3%	0%	4%
2004	2%	2%	8%
2008	-19%	-29%	-33%
2012	2%	4%	14%
2016	-2%	4%	2%
Averages	**1%**	**5%**	**10%**
% Times Positive	**60%**	**85%**	**90%**

- **In the last 20 U.S. election cycles, there have been only 2 instances of the markets being down in the 12 months leading to the election results.**

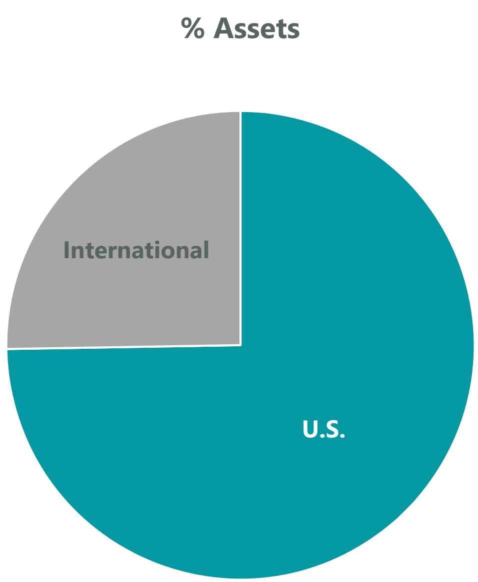
ClearBridge Investments

Source: Bloomberg. *1940 election excluded due to World War 2 Impact. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

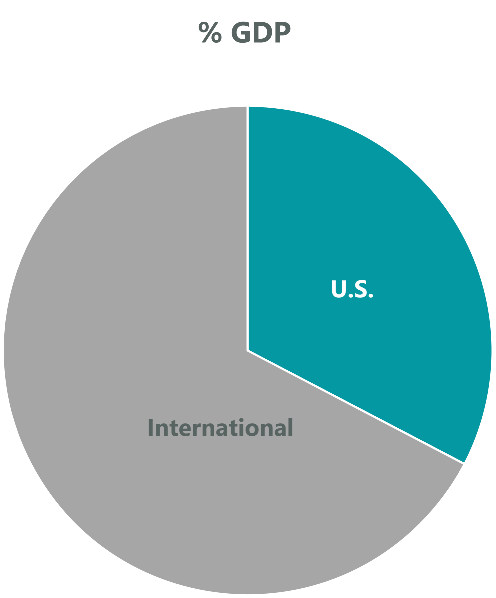
International

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.

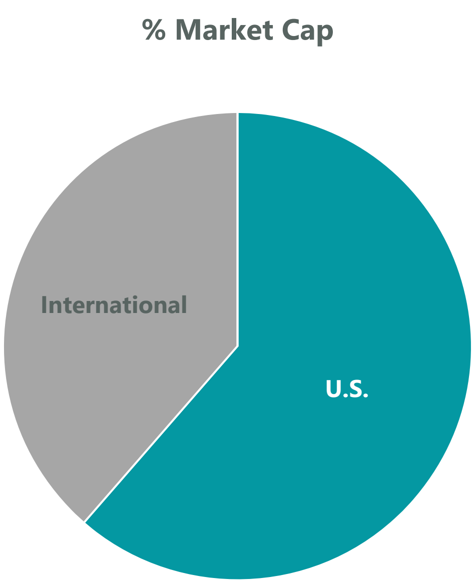
Home Country Bias



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



The U.S. represents only 33% of Global GDP



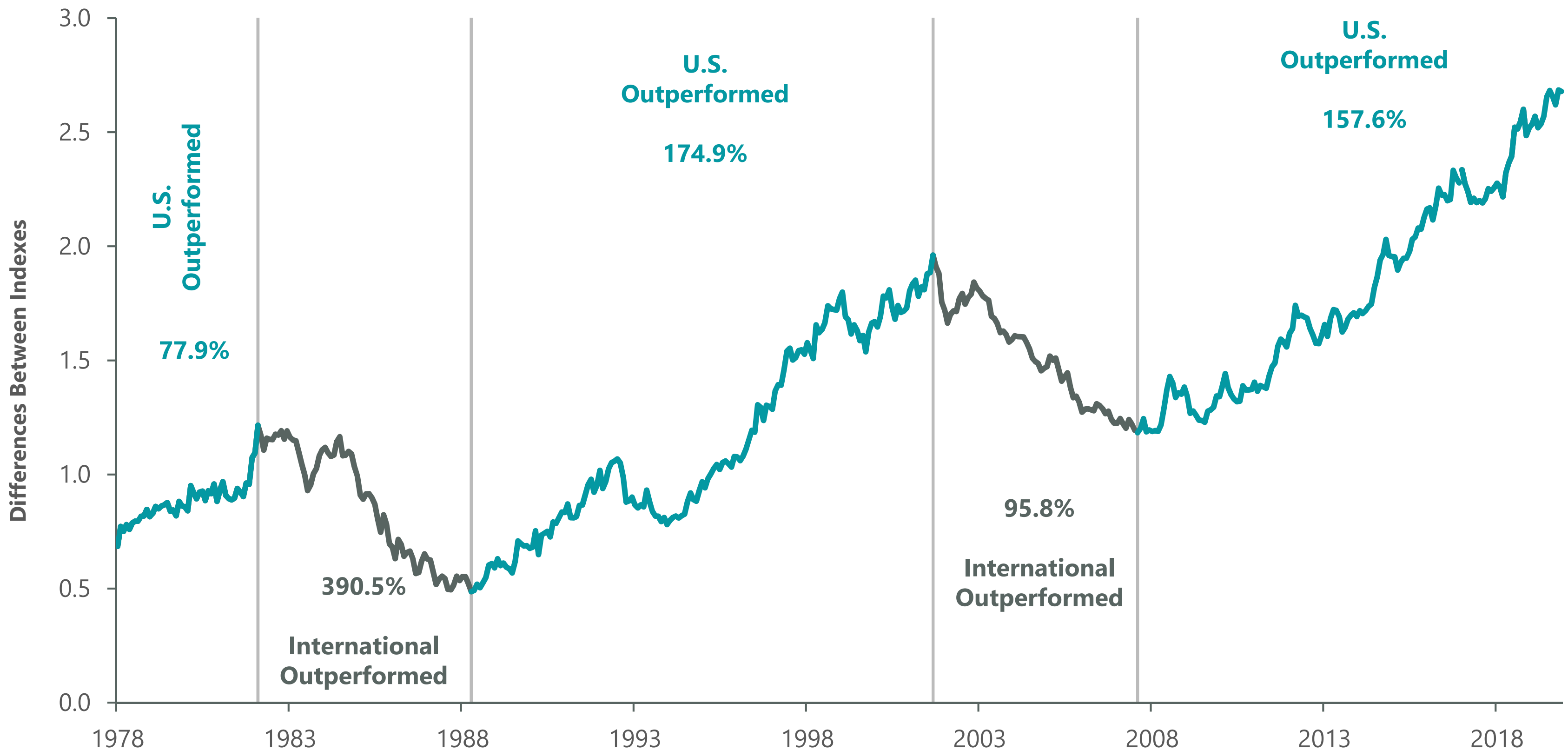
The U.S. represents 62% of Global Market Cap

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

ClearBridge Investments

Morningstar Category Assets as of Nov. 30, 2019. GDP as of Dec. 31, 2019. MSCI World Index as of Dec. 31, 2019. Source: Morningstar, IMF, FactSet. Data most recent available as of Sept. 30, 2019. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

U.S. vs. International Equity Performance

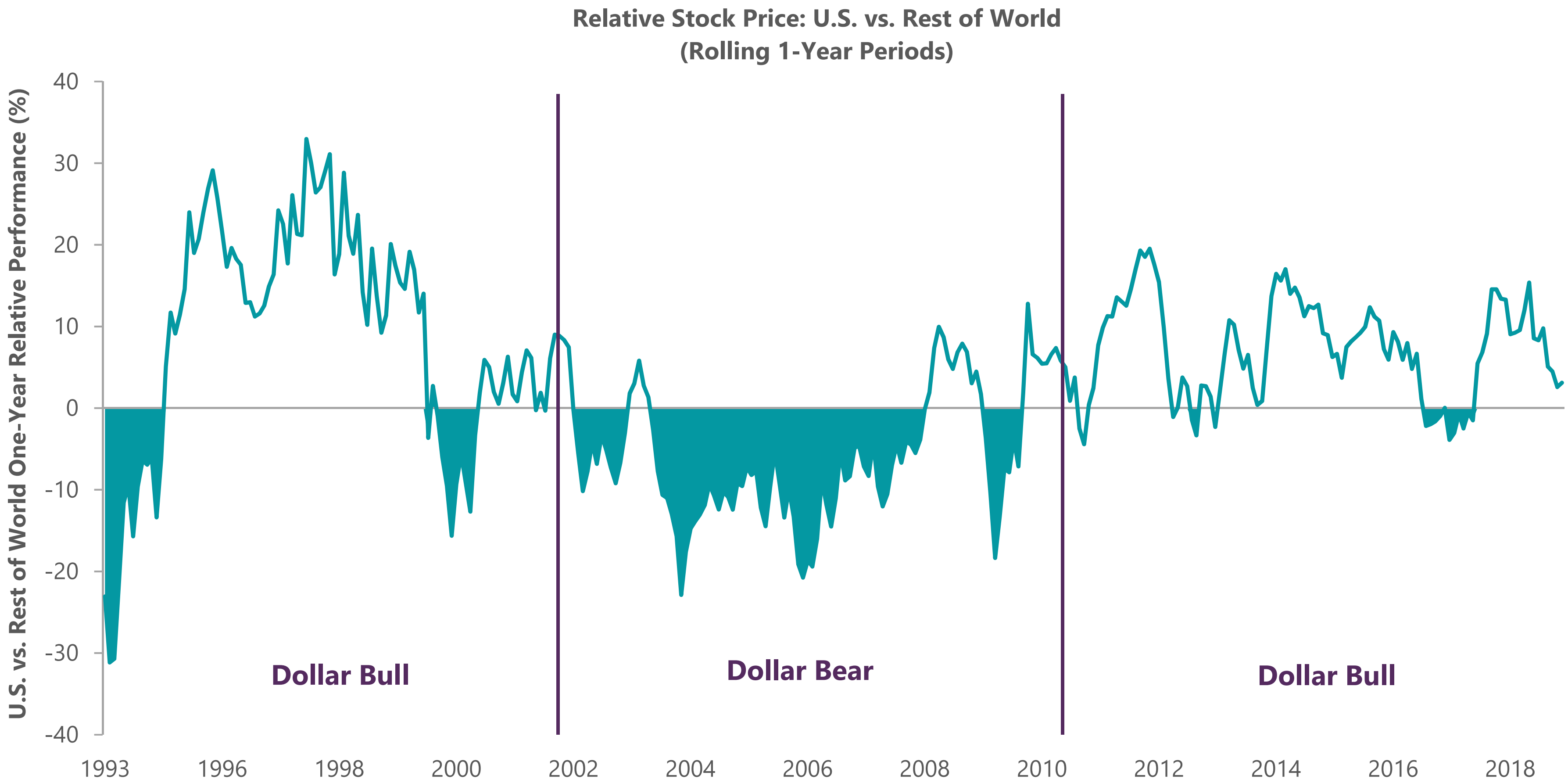


▶ **Geographic leadership tends to persist for multiple years.**

ClearBridge Investments

S&P 500 vs. MSCI EAFE. Data as of Dec. 31, 2019. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Dollar Regimes Coincide With Global Equity Leadership

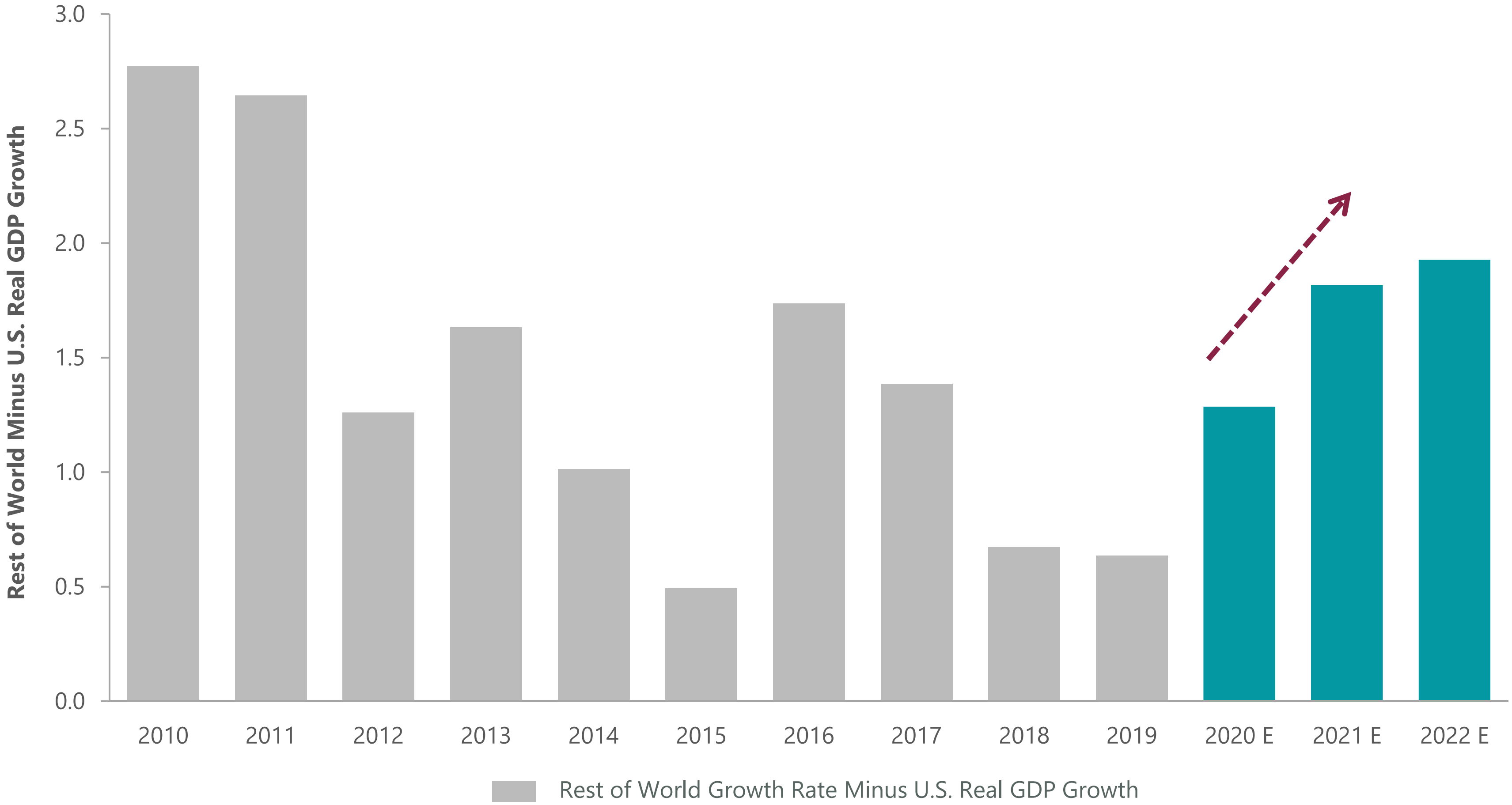


- **Periods of sustained dollar strength have aligned with U.S. equity outperformance.**
- **Dollar weakness could lead to a shift in global equity market leadership.**

ClearBridge Investments

Data as of Dec. 31, 2019. *MSCI U.S. Index vs. MSCI All Country World ex.-U.S. Index in U.S. dollar terms. One year rolling periods. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Global Growth Expected to Inflect Higher



- **An uptick in global growth could lead to better relative performance for international stocks.**

ClearBridge Investments

Data as of Dec. 31, 2019. *Rest of World growth rate is global excluding U.S. and is the PPP-based GDP-weighted average. Source: IMF, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

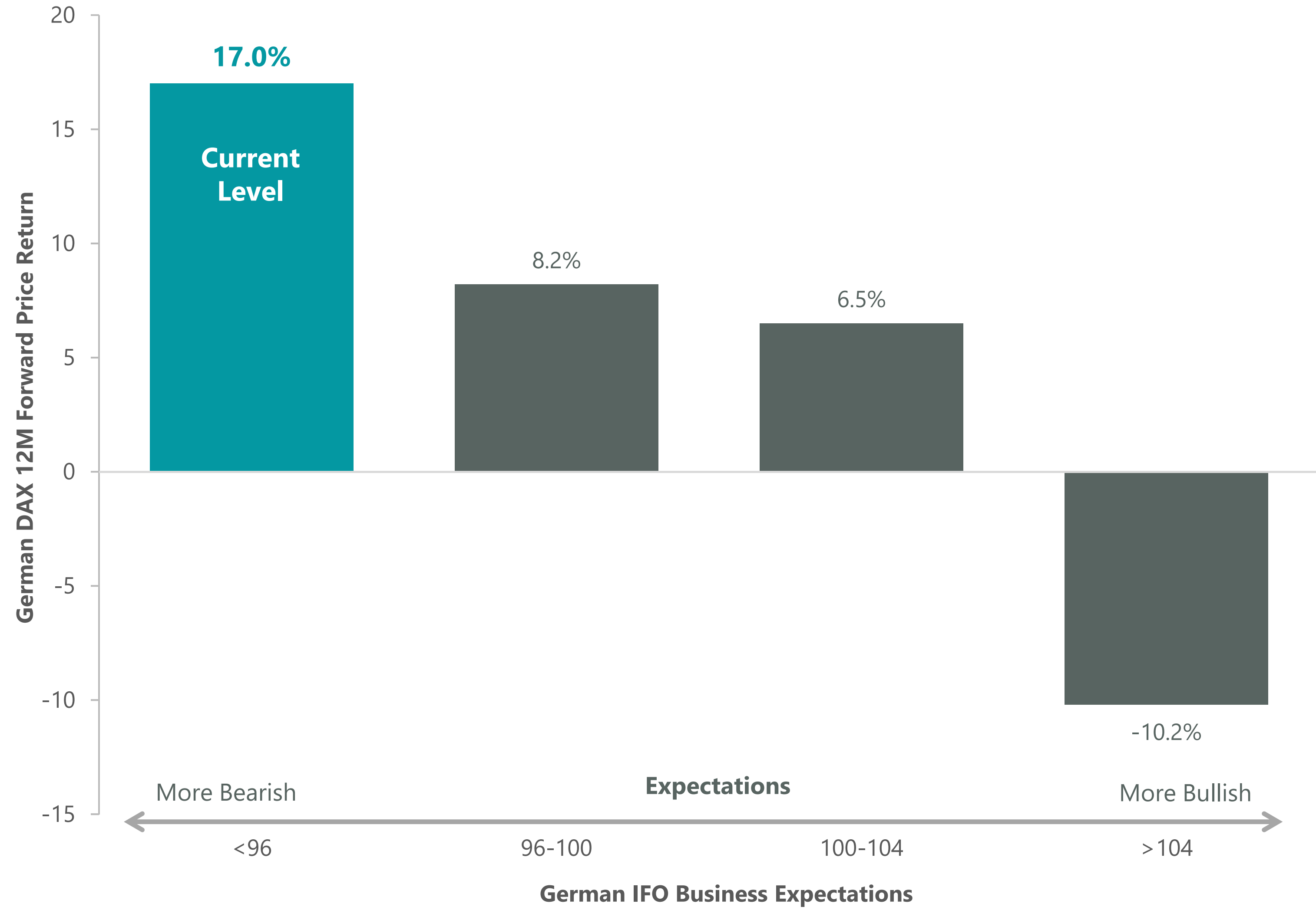
Global Growth Rebounding?

- **It appears that global growth may be on the rebound. Rising export orders typically lead to an acceleration in global GDP.**

ClearBridge Investments

Data as of Dec. 31, 2019. Source: Deutsche Bank. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

IFO Expectations vs. DAX



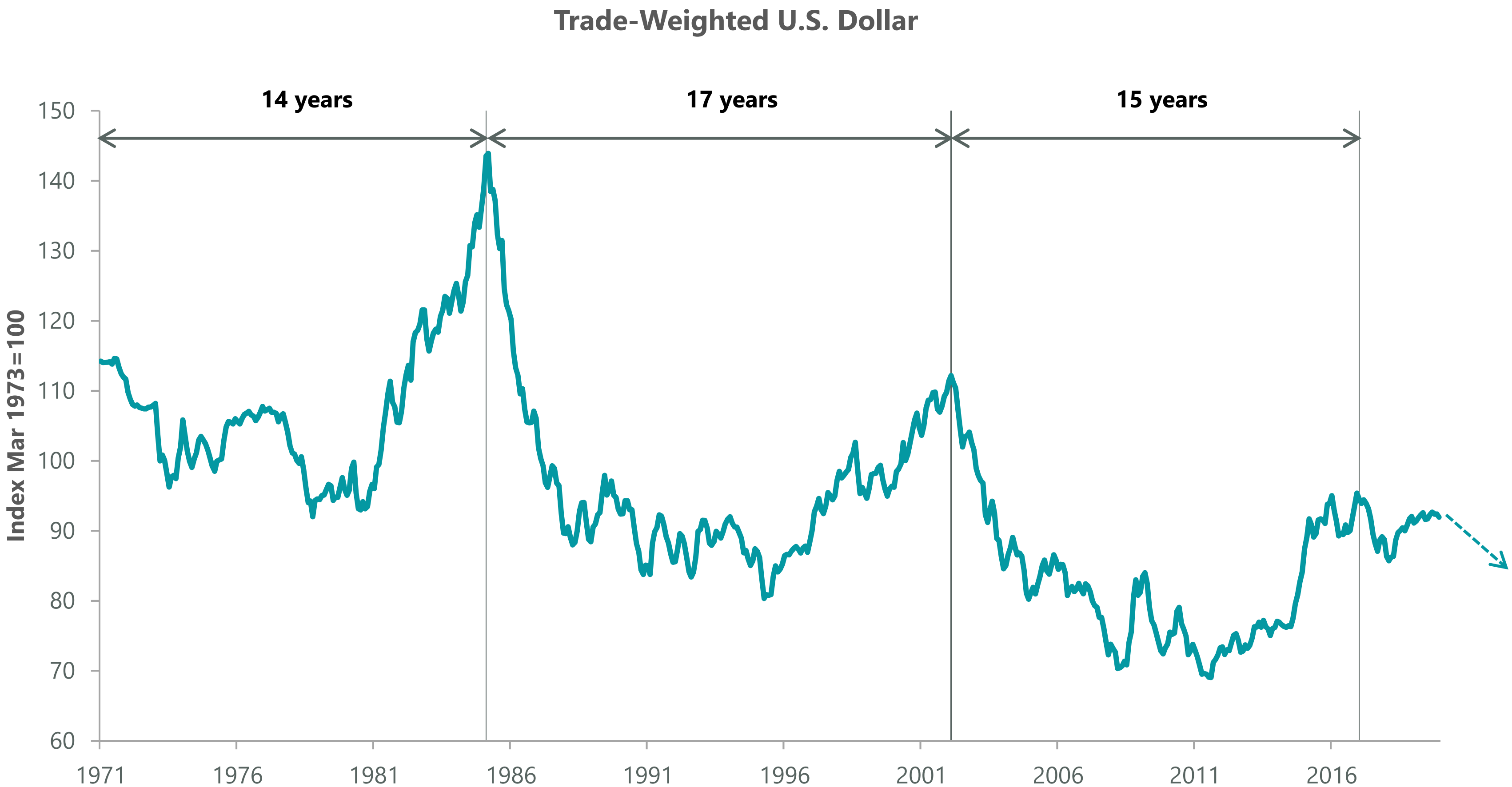
When IFO expectations are at current levels, returns tend to be above average.

ClearBridge Investments

Data as of Dec. 31, 2019; represents period from 2005-present. Source: IFO, Deutsche Boerse, Bloomberg. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Currency

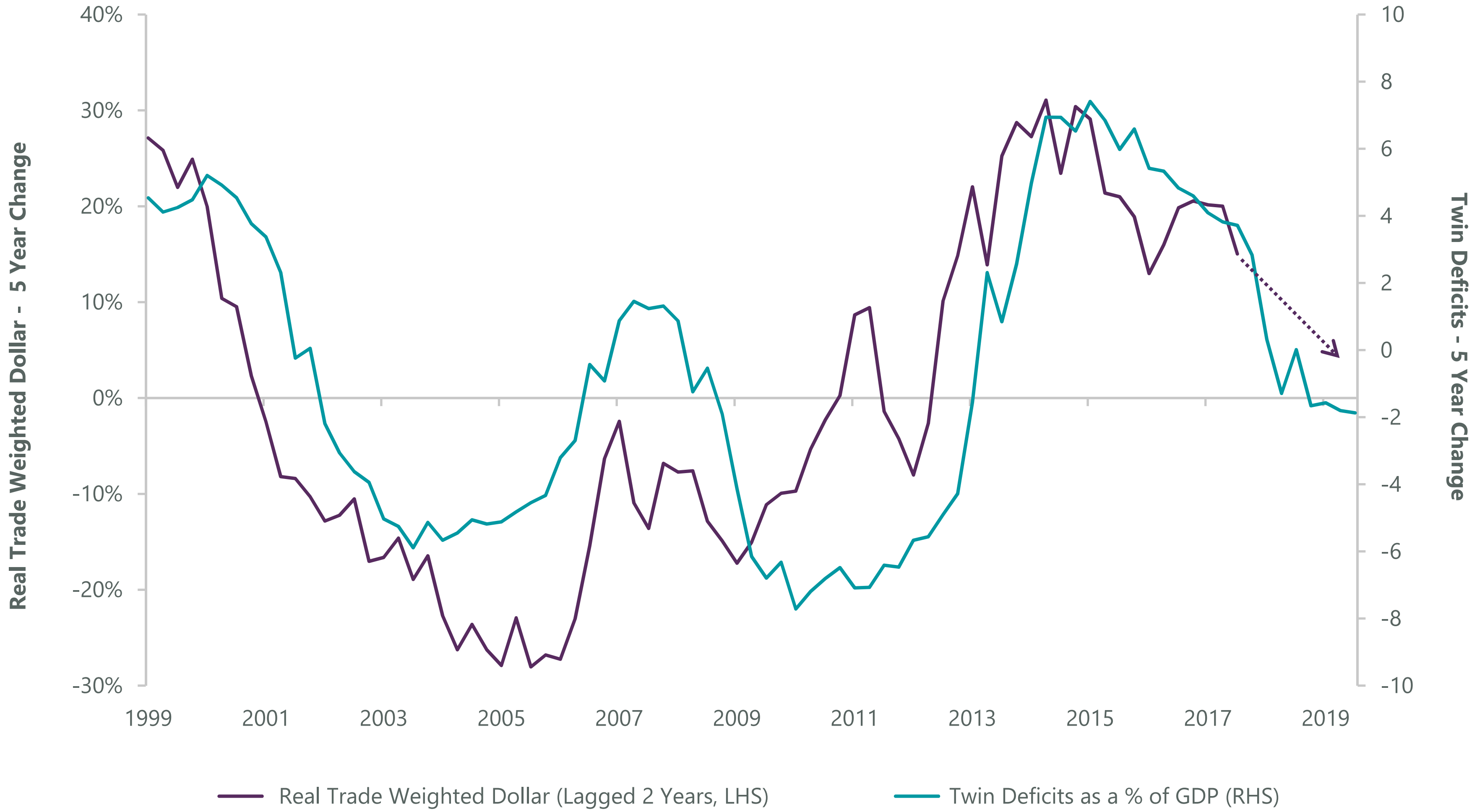
U.S. Dollar Cycle



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

As of Dec. 31, 2019. Source: Federal Reserve Bank of St. Louis, Federal Reserve and FactSet. Major Currencies, Index Mar 1973=100, Monthly, Not Seasonally Adjusted. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

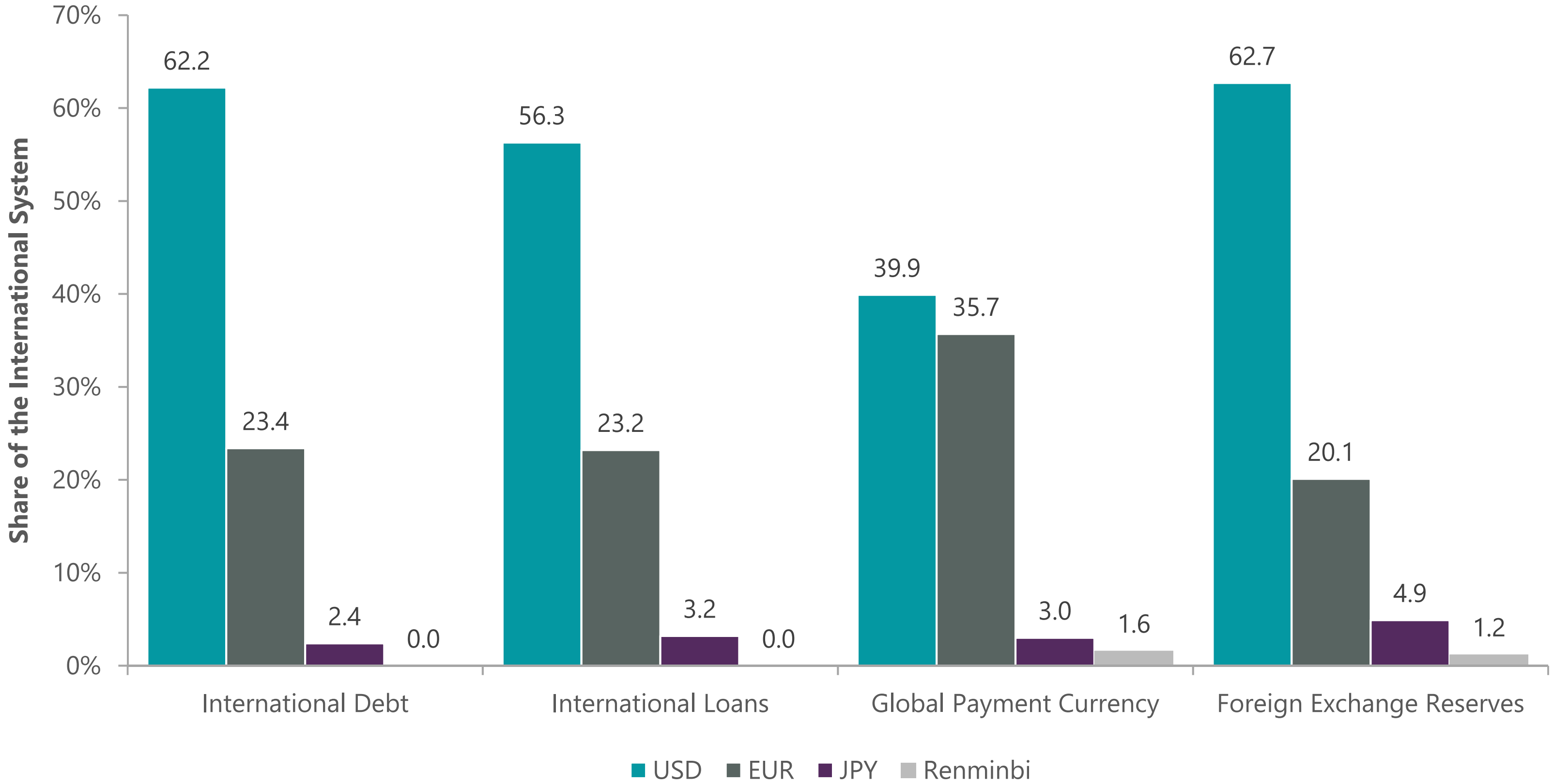
Twin Deficits: Budget and Trade



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

Data as of Sept. 30, 2019, most recent available as of Dec. 31, 2019. Source: BEA, Federal Reserve, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

The U.S. Dollar Dominates the International Monetary System



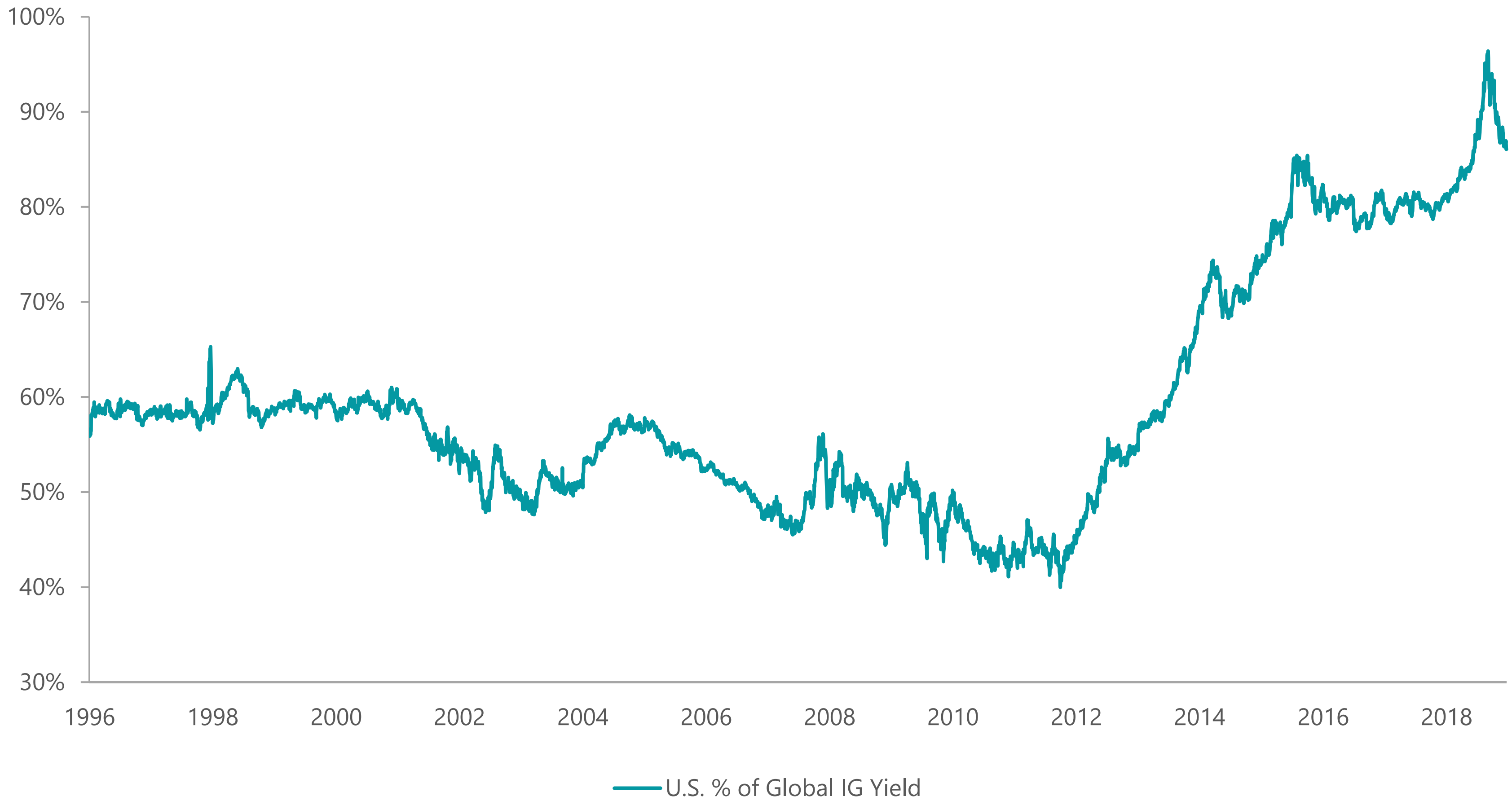
The greenback is firmly entrenched as the world's reserve currency.

ClearBridge Investments

Data as of June 2018.
Source: European Central Bank, BofA Merrill Lynch Global Research.

Negative Rates

U.S. Reigns Over Global Yield Landscape



- **Over 85% of global investment grade yield exists in U.S. government and corporate bonds.**

As of Dec. 20, 2019. Source: Bank of America Merrill Lynch. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

The Fed Lacks Rate Cut Ammunition

Total Decline in Fed Funds Rate Around Past Recessions

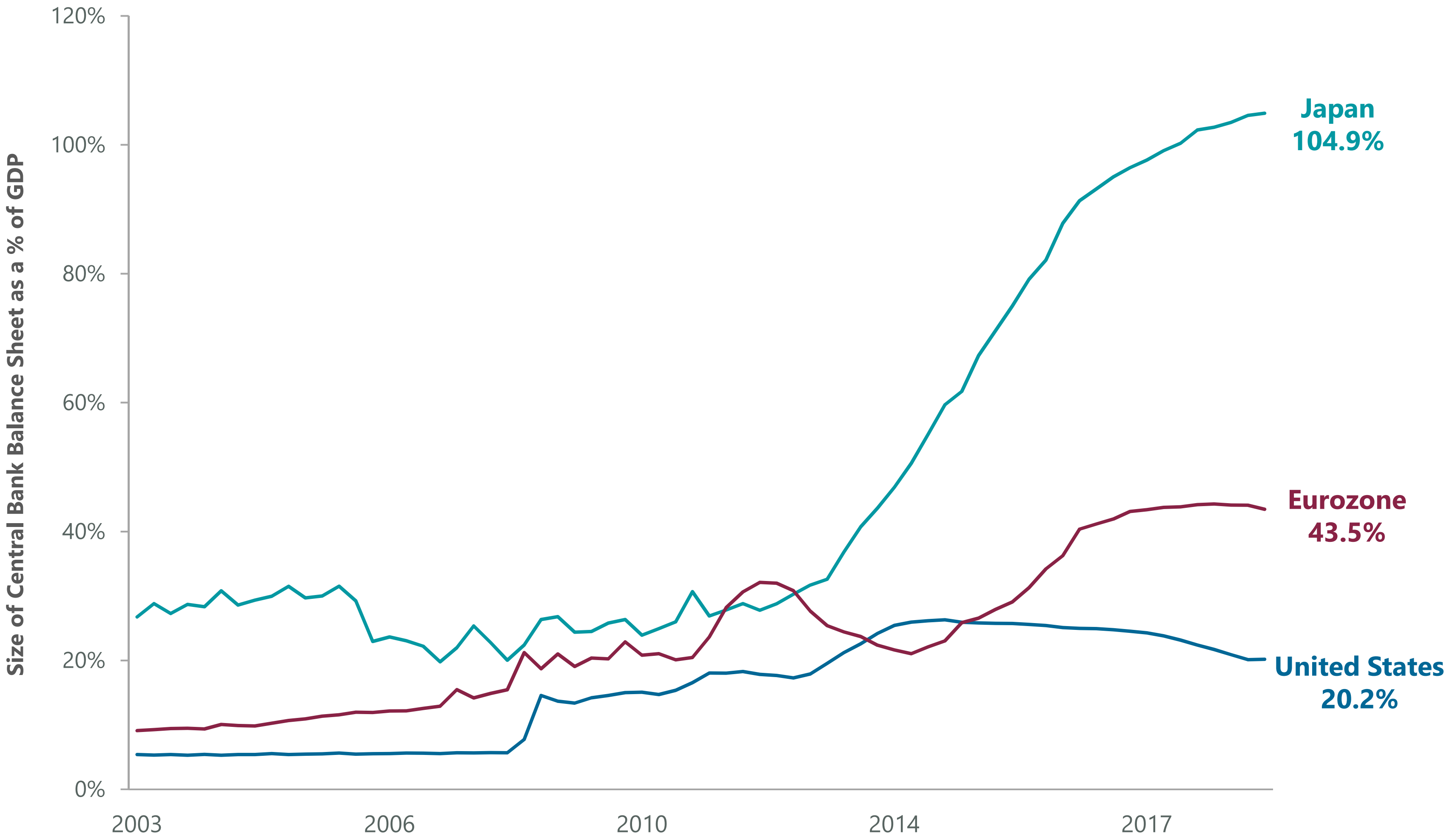
Recession	Total Rate Cuts
December 1969 – November 1970	**-8.3%**
November 1973 – March 1975	**-8.1%**
January 1980 – July 1980	**-11.0%**
July 1981 – November 1982	**-11.5%**
July 1990 – March 1991	**-3.0%**
March 2001 – November 2001	**-4.8%**
December 2007 – June 2009	**-5.0%**
Average	**-7.4%**

- **Over the last 7 recessions, the Fed has needed to lower short-term rates by 7.4%, on average, to jump-start the economy.**
- **The Fed Funds rate peaked at 2.5%, which may cause the Fed to pursue other forms of stimulus.**

ClearBridge Investments

Based on peak FFR beginning 12mo prior to recession beginning and trough FFR ending 6mo after recession end. Dec. 1969 to Nov. 1970 recession is based on Effective Fed Funds Rate, each period thereafter is based on Target Fed Funds Rate. Source: FRED, Federal Reserve Bank of St. Louis. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

U.S. Has More Room for QE



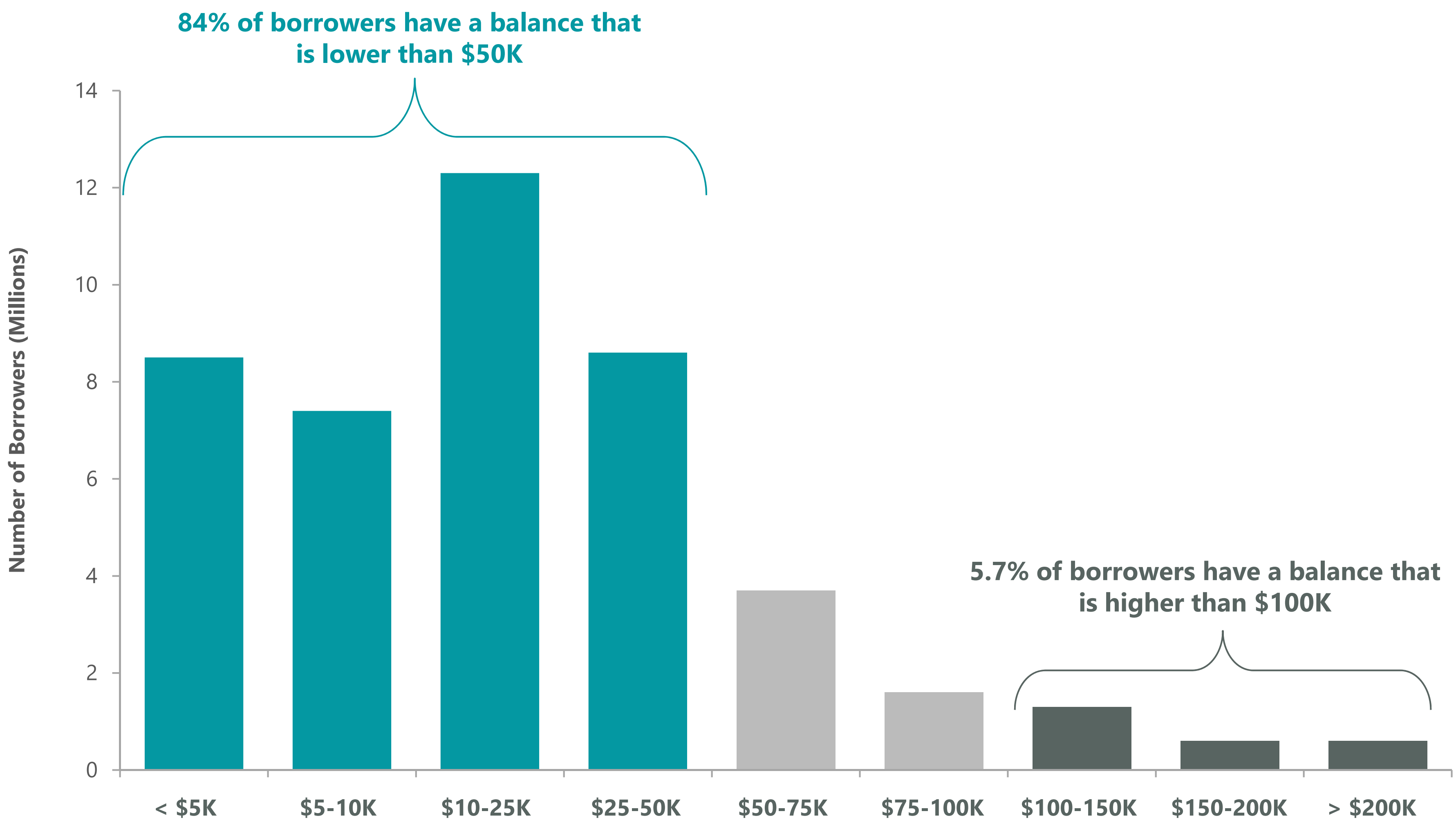
- **The Fed's smaller balance sheet as a % of GDP affords policymakers greater flexibility if the economy rolls over.**

ClearBridge Investments

Data as of Sept. 30, 2019; most recent as of Dec. 31, 2019. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Debt

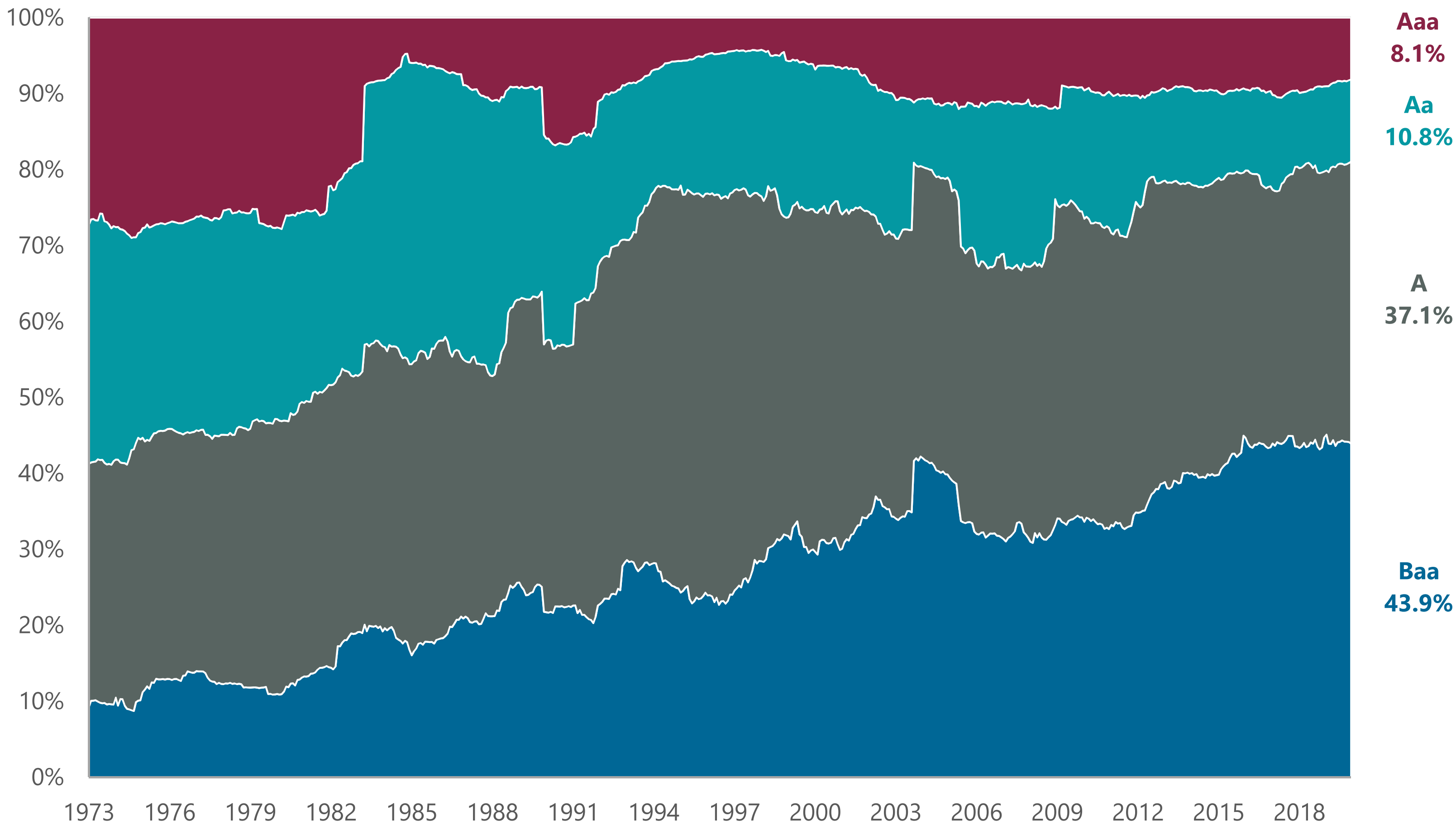
The Student Debt Crisis in Context



ClearBridge Investments

Data as of Dec. 31, 2017. Source: Federal Reserve Bank of New York. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

U.S. Credit Quality Deterioration

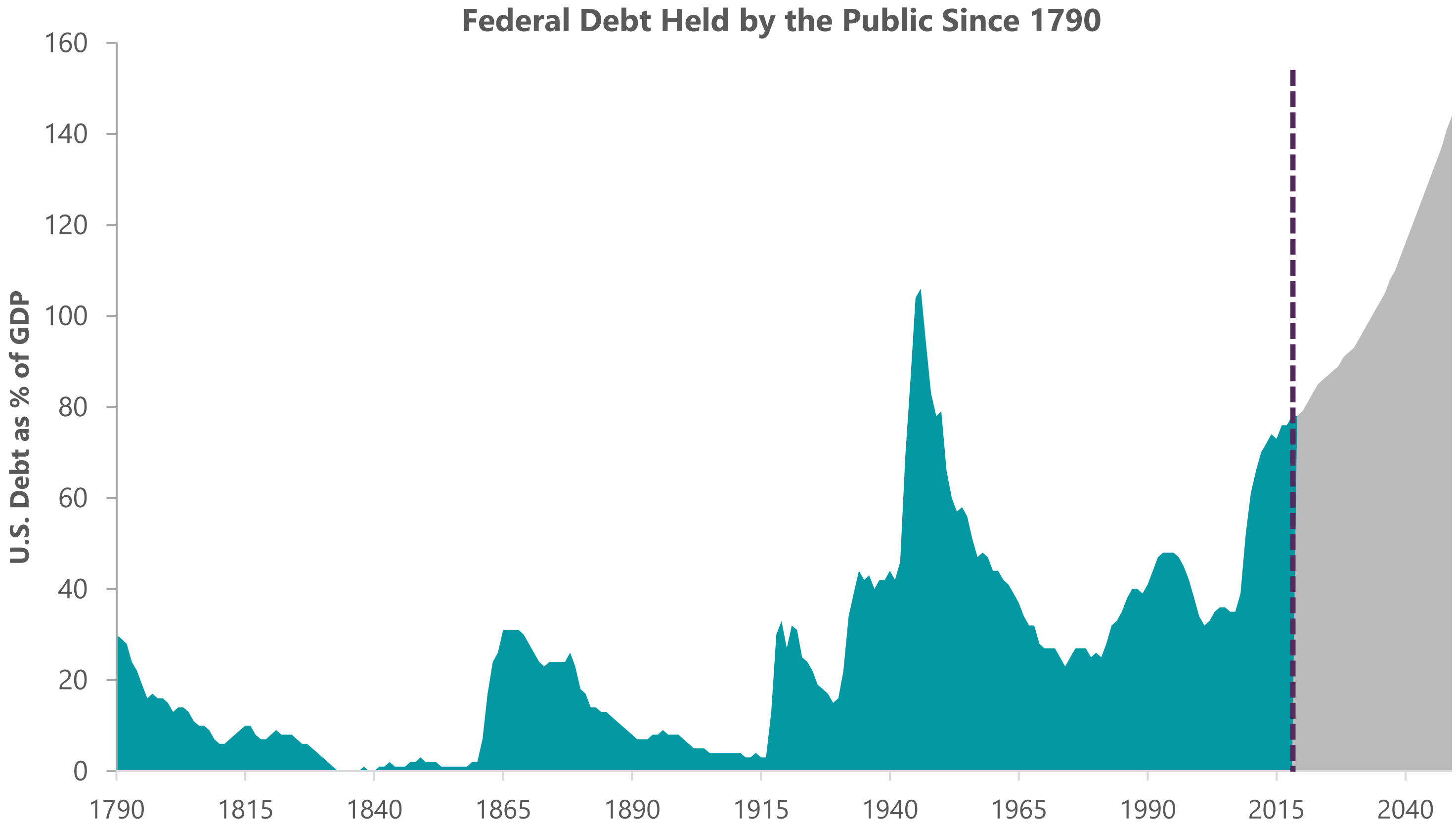


- **In 1973, only 9% of credits were rated Baa versus 44% today.**

ClearBridge Investments

As of Dec. 31, 2019. Source: Bloomberg/Barclays. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

U.S. Debt Levels Set to Rise Higher

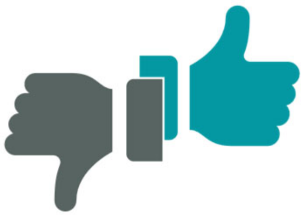


- **Barring a change in spending, U.S. debt levels will grow substantially in the coming decades.**

ClearBridge Investments

Source: Deutsche Bank. Future debt levels are based on a Congressional Budget Office forecast. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Sentiment



Year-Ahead Expectations Are Lowest in 14 Years

Stocks Have a Low Hurdle to Clear with Muted Wall Street Expectations for 2020

ClearBridge Investments

Data as of Dec. 31, 2019. Source: Bloomberg. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

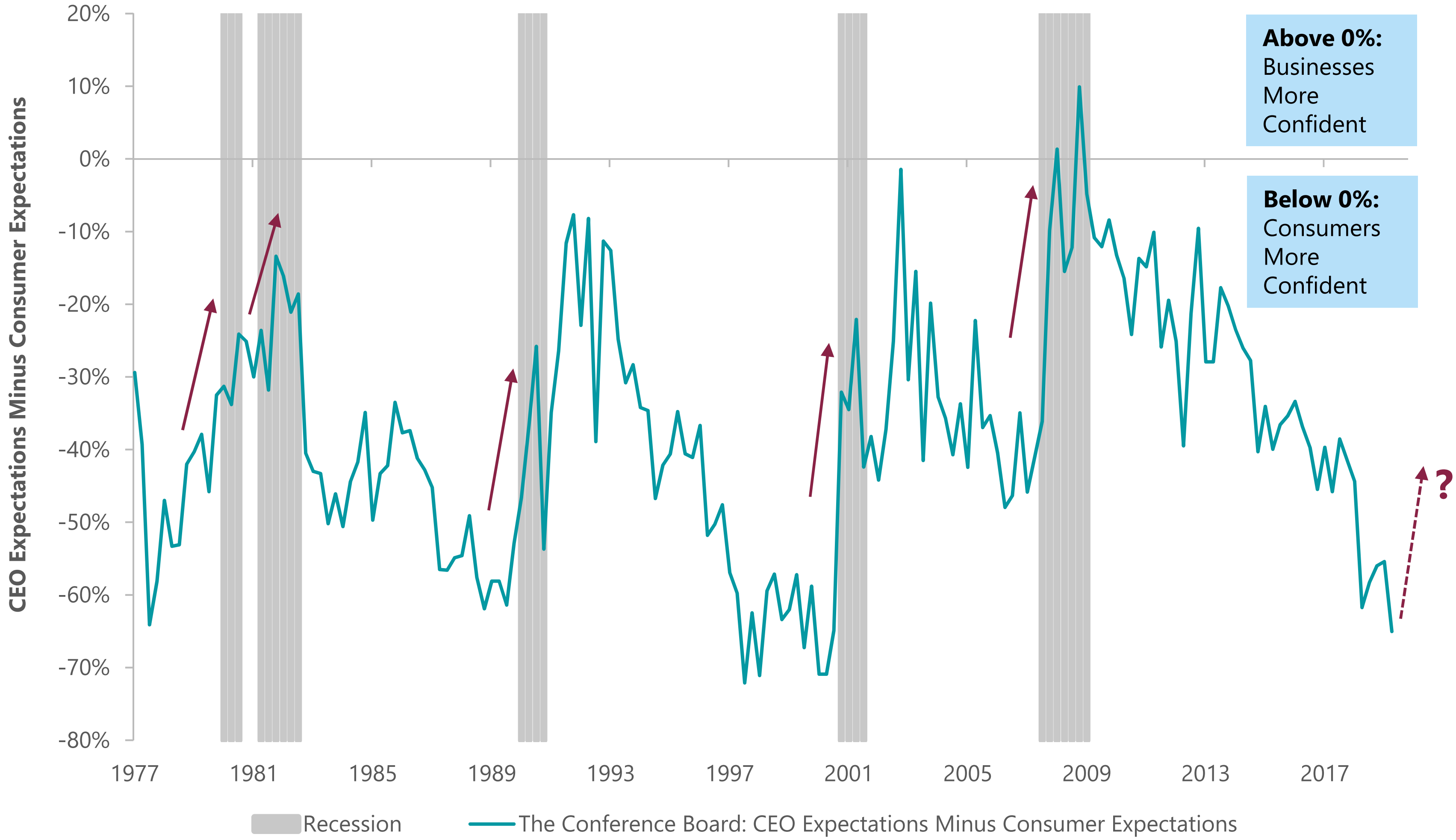
Equity Speculators Remain on the Sideline

- **Declining purchases on margin suggest the market is not frothy despite its recent rally.**
- **The closing of this gap should help propel equities higher in 2020.**

ClearBridge Investments

Data as of Dec. 31, 2019. Source: FactSet, FINRA.
Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Large Confidence Gaps Suggest Potential Trouble

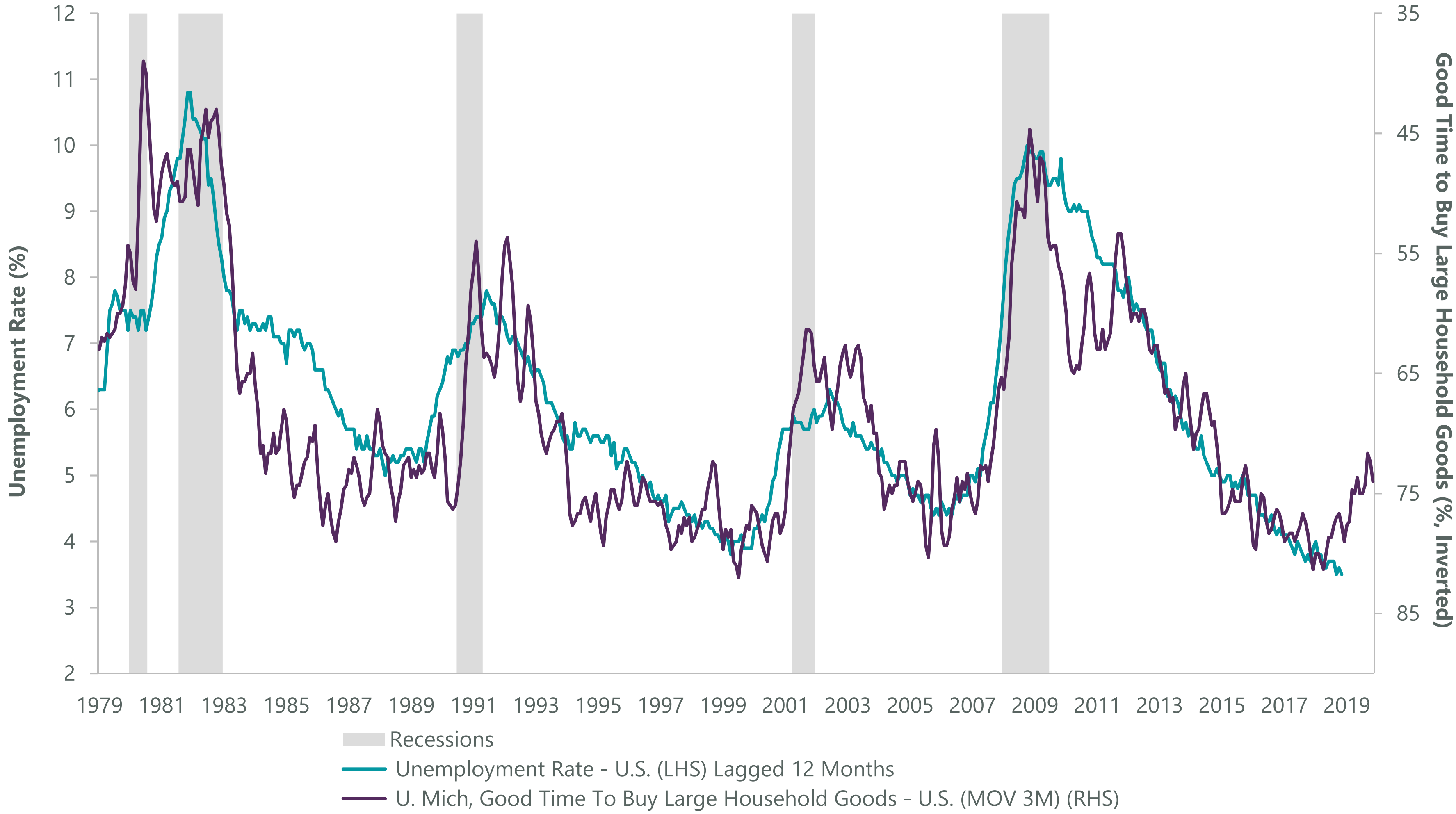


- **Historically, large discrepancies between consumer and business confidence has been a signal of a maturing economic cycle.**
- **A narrowing of this gap could suggest recessionary risks are rising.**

ClearBridge Investments

Data as of Sept. 30, 2019, most recent as of Dec. 31, 2019. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Consumer Hesitancy on Large Purchases Concerning

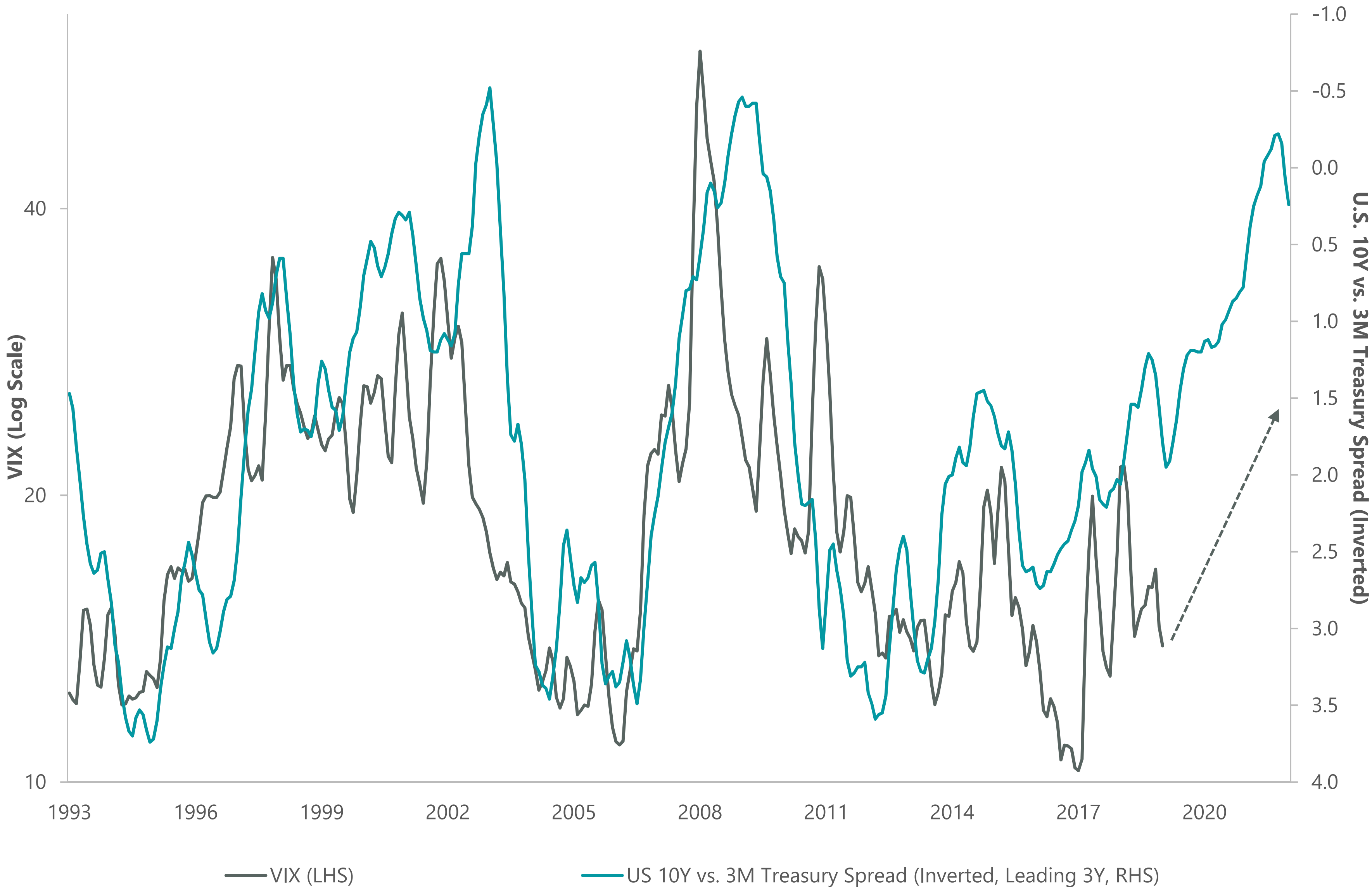


- **A drop in consumer appetite for large ticket items typically precedes rising unemployment and recessions.**

Volatility

Volatility Usually Follows the Yield Curve

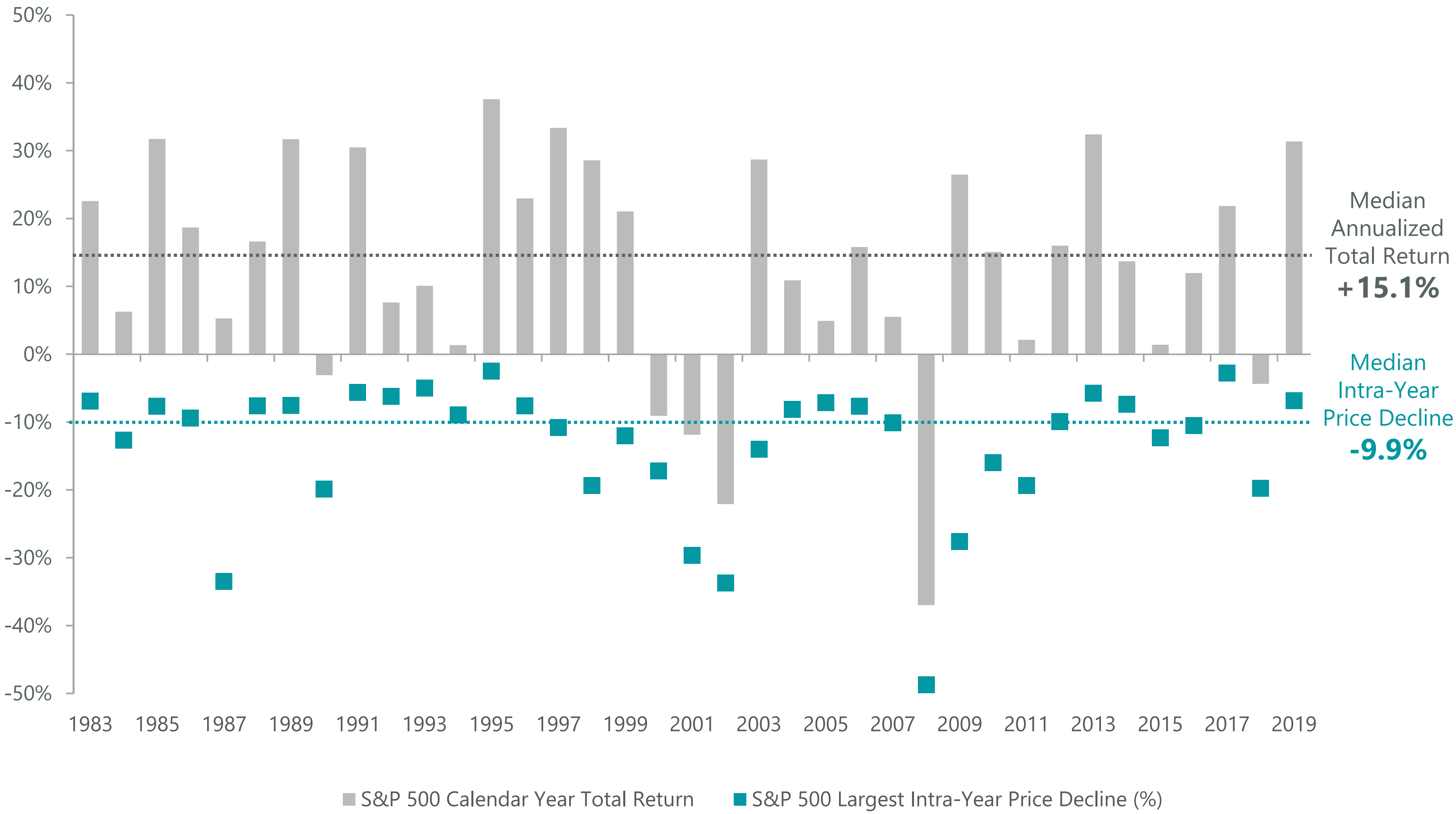
The Yield Curve Flattening Points to a Higher VIX



ClearBridge Investments

Data as of Dec. 31, 2019. Source: CBOE, U.S. Treasury. Note: 3-month moving average. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Volatility Does Not Equal a Financial Loss Unless You Sell



ClearBridge Investments

Data as of Dec. 31, 2019. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Missing the Best Days Can Drastically Reduce Returns

	Cumulative		Annualized	
Decade	**Price Return**	**Excluding 10 Best Days Per Decade**	**Price Return**	**Excluding 10 Best Days Per Decade**
1930	-42%	-79%	-5%	-15%
1940	35%	-14%	3%	-2%
1950	257%	167%	14%	11%
1960	54%	14%	4%	1%
1970	17%	-20%	2%	-2%
1980	227%	108%	13%	8%
1990	316%	186%	15%	12%
2000	-24%	-62%	-3%	-10%
2010	190%	95%	11%	7%
Average Since 1930	**114%**	**44%**	**6%**	**1%**

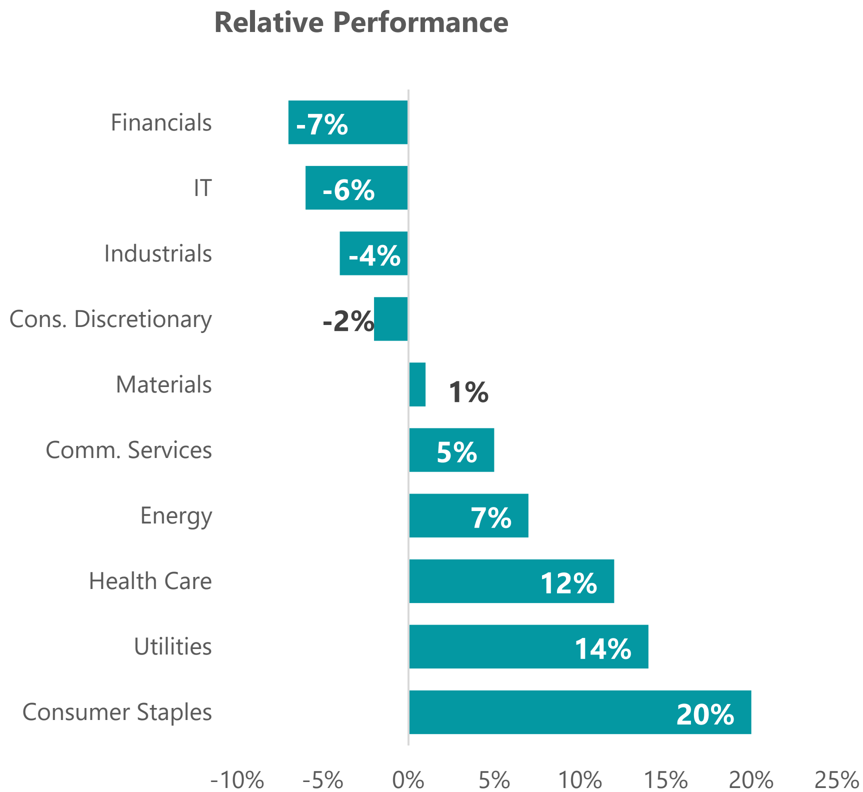
- **Investors that missed the 10 best days in a given decade would have seen 70% lower returns over the course of that decade on average.**

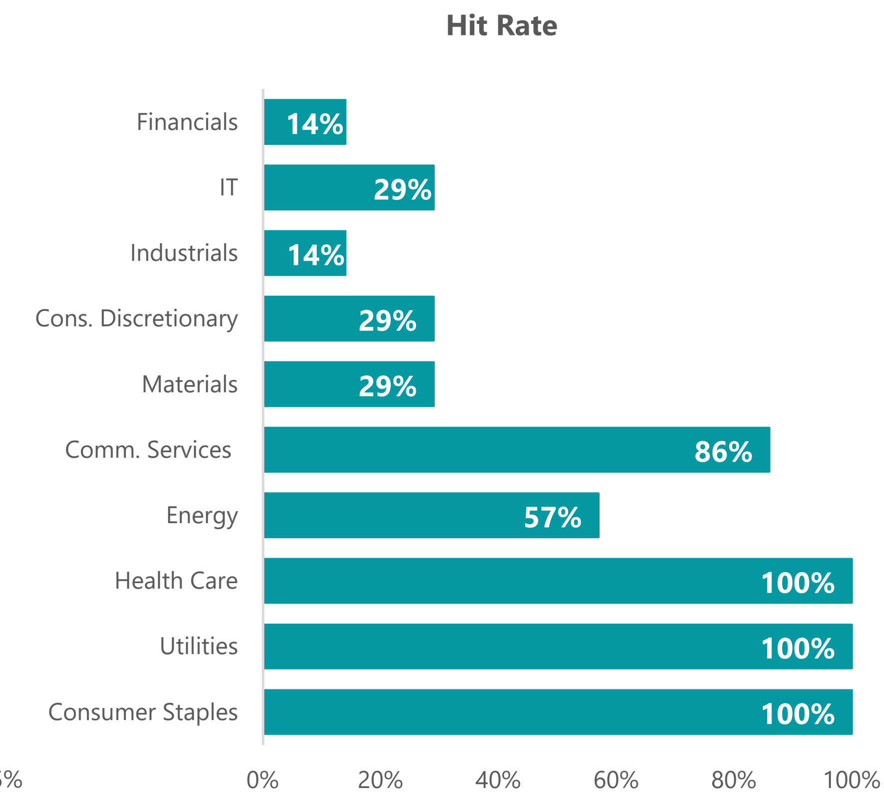
ClearBridge Investments

Data as of Dec. 31, 2019. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Which Equities Do Well During Periods of Market Volatility?

During the Last Seven Major Market Drawdowns, Some Sectors Held Up Better than Others





- **During periods of market turmoil, defensive sectors such as Staples, Utilities, and Health Care have historically tended to deliver better relative performance.**

ClearBridge Investments

Source: FactSet. Note: Severe declines defined as declines of 15% or greater in S&P 500 since 1987. Hit rate defined as % of severe declines with relative outperformance vs. S&P 500. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Typical Market Leadership in a Downturn

Less Defensive

Most Defensive

Market Cap	Value	Blend	Growth
Large	**Large Cap Value** **-12.9%** Avg. Perf. **38%** Hit Rate	**Large Cap** **-12.3%** Avg. Perf. **83%** Hit Rate	**Large Cap Growth** **-11.6%** Avg. Perf. **75%** Hit Rate
Mid	**Mid Cap Value** **-13.9%** Avg. Perf. **21%** Hit Rate	**Mid Cap** **-13.6%** Avg. Perf. **25%** Hit Rate	**Mid Cap Growth** **-13.2%** Avg. Perf. **33%** Hit Rate
Small	**Small Cap Value** **-14.6%** Avg. Perf. **17%** Hit Rate	**Small Cap** **-14.1%** Avg. Perf. **21%** Hit Rate	**Small Cap Growth** **-13.5%** Avg. Perf. **42%** Hit Rate

Less Defensive

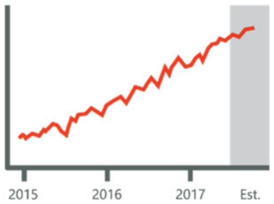
Least Defensive

Investment Style

ClearBridge Investments

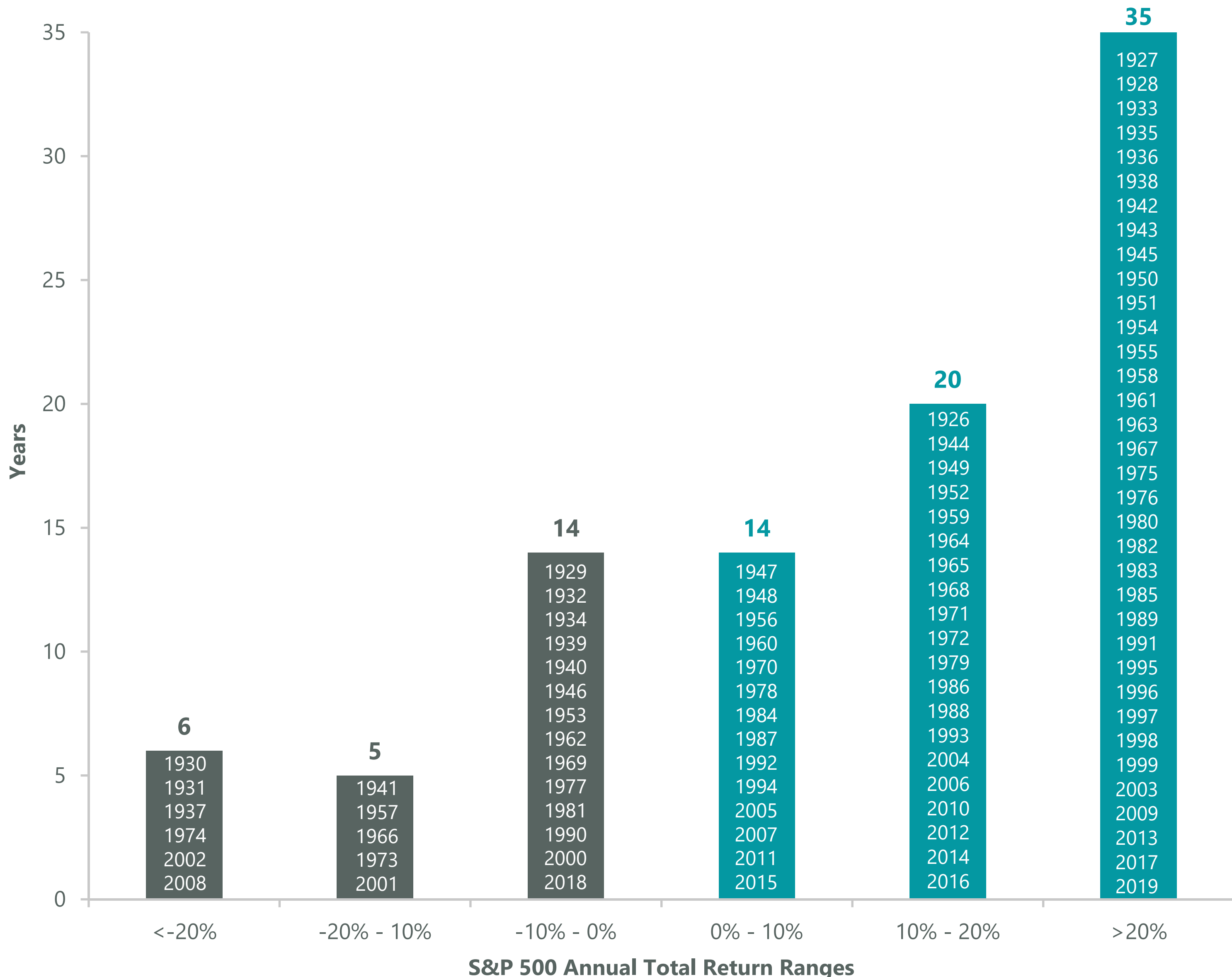
Note: Average performance: average performance during selloffs of 5% or more, Hit Rate: Hit rate of outperformance during 5%+ selloffs, 2005 – present. Benchmarks used: Large Value: S&P 500 Value, Large Blend: S&P 500, Large Growth: S&P 500 Growth; Mid Value: S&P 400 Value, Mid Blend: S&P 400, Mid Growth: S&P 400 Growth; Small Value: S&P 600 Value, Small Blend: S&P 600, Small Growth: S&P 600 Growth. Outperformance frequency calculated relative to S&P 1500 index. Source: S&P, Bloomberg. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Valuations



Market Annual Returns

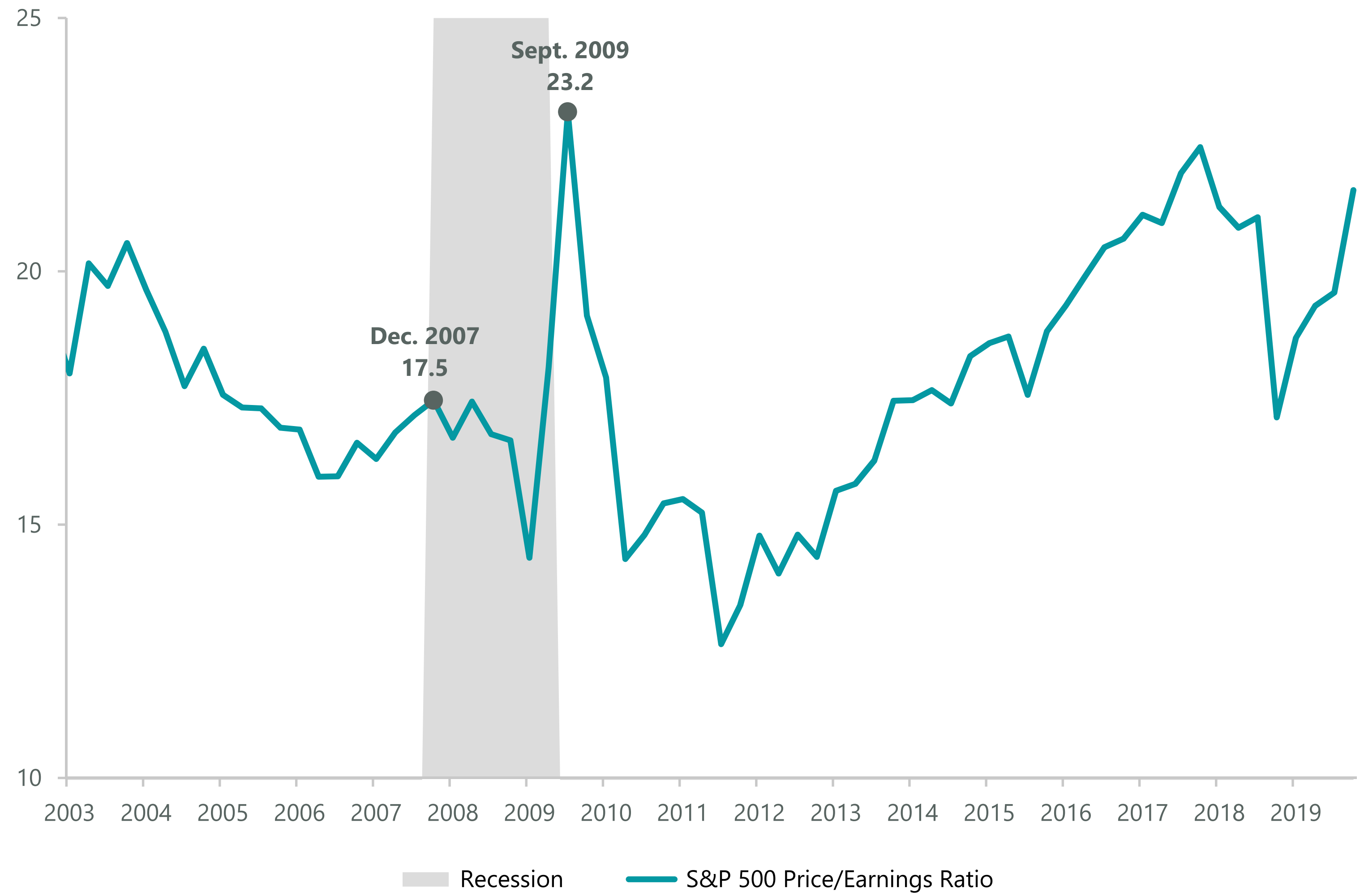
Distribution of S&P 500 Total Returns Since 1926



ClearBridge Investments

As of Dec. 31, 2019.
Source: Strategas Research Partners.

Price/Earnings Is Not The Only Indicator To Watch



ClearBridge Investments

Data as of Dec. 31, 2019. Source: Bloomberg. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Valuations Not Stretched Relative to Past Market Peaks

S&P 500 Peak Date Before Recession	Trailing P/E at Peak	5-Year Average	% Premium
May 1946	21.9	12.3	77.4%
Jan. 1953	11.1	8.1	36.4%
Aug. 1956	14.0	11.2	25.5%
Aug. 1959	17.8	14.0	27.4%
Nov. 1968	19.0	17.6	8.3%
Jan. 1973	18.7	17.3	8.4%
Feb. 1980	7.9	9.5	-17.0%
June 1990	17.3	15.1	14.3%
March 2000	30.5	24.0	27.0%
Oct. 2007	19.9	21.3	-6.4%
Median	**18.2**	**14.5**	**24.5%**
Current	**24.3**	**22.7**	**6.8%**

- **Traditionally, the S&P 500 will trade at a substantial premium to it's 5-year average at market peaks.**
- **Today, the market trades at a slight discount suggesting further upside.**

Data as of Dec. 31, 2019.
Source: JP Morgan. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Earnings Price Yield

S&P 500 Minus Yield to Maturity of 10-Year Treasury

Valuations at Equity Market Peaks Ahead of Recessions

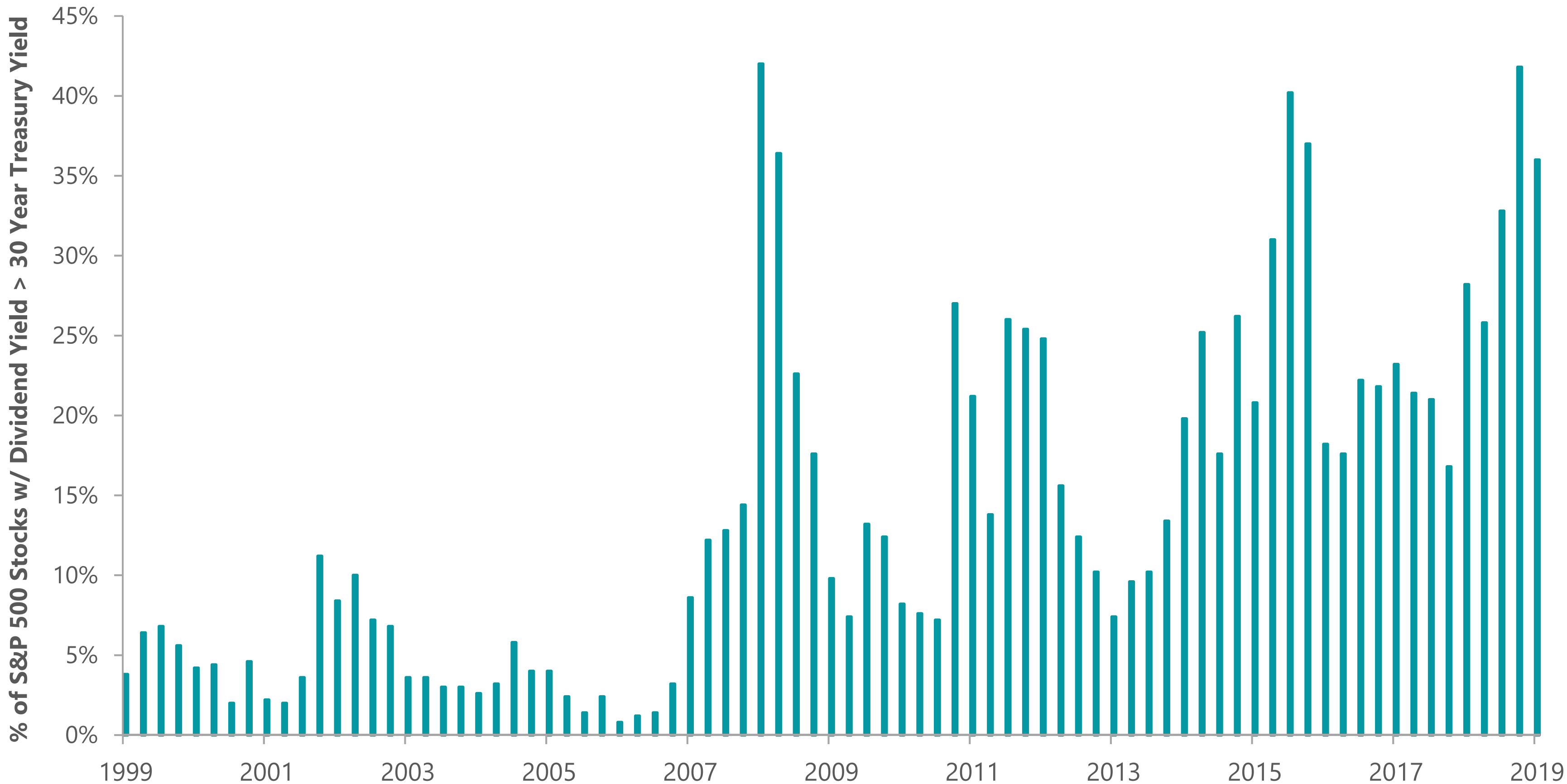
Date	Earnings Yield	10-Year Treasury Yield	Spread	Length of Economic Expansion (Years)
Nov. 1968	5.6%	5.8%	-0.2%	8.8
Jan. 1973	5.2%	6.5%	-1.3%	3.0
Feb. 1980	12.6%	12.7%	-0.1%	4.8
Nov. 1980	11.0%	12.7%	-1.8%	1.0
July 1990	6.0%	8.3%	-2.3%	7.7
March 2000	3.2%	6.0%	-2.8%	10.0
Oct. 2007	5.5%	4.5%	1.1%	6.1
Average	-	-	**-1.1%**	**5.9**
Current	4.1%	1.9%	2.2%	10.5

- **Compared to the longest US economic expansions, the current valuation of stocks compared to bonds appears attractive.**

ClearBridge Investments

Source: S&P, Federal Reserve, NBER, Bloomberg. Data as of Dec. 31, 2019. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

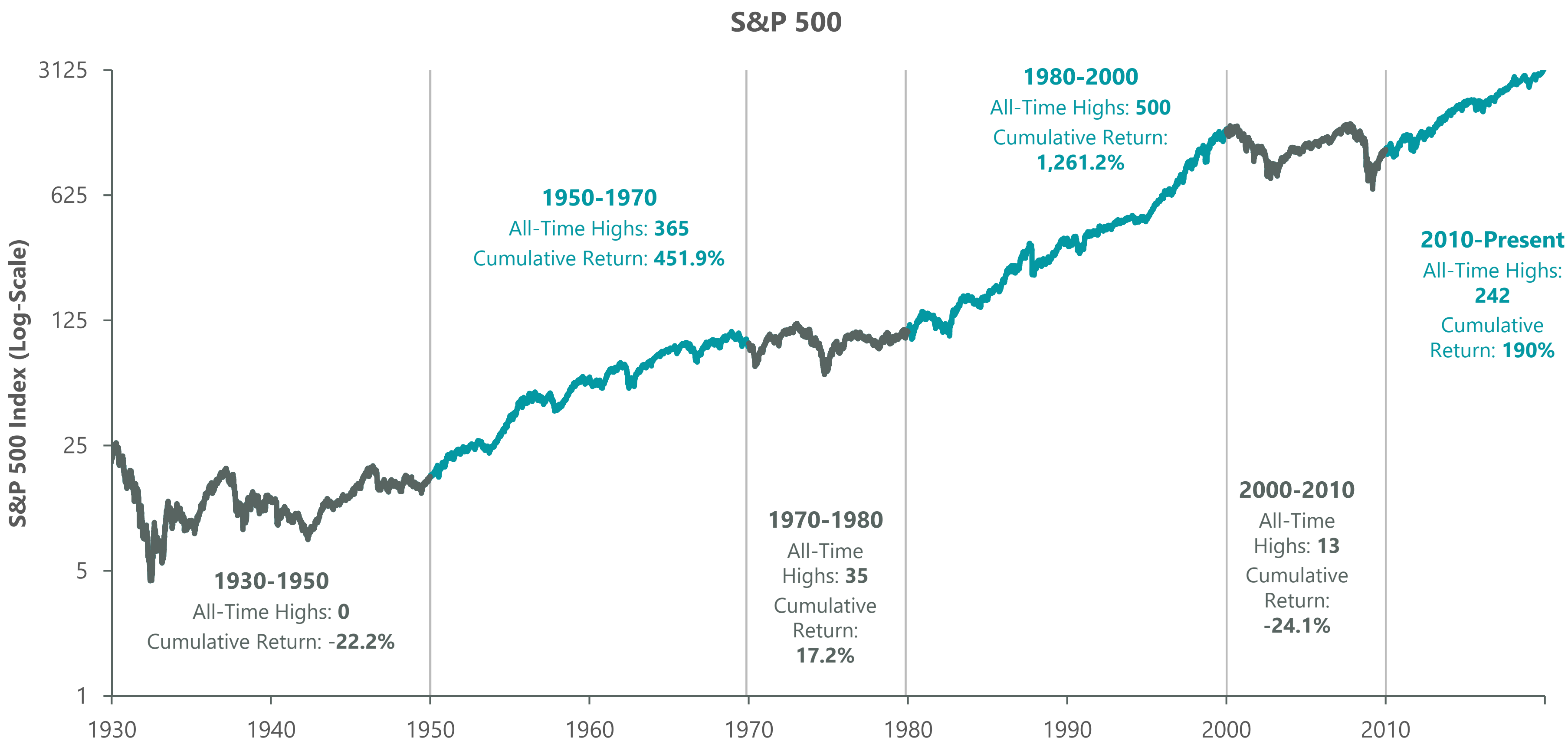
Dividend Paying Equities Attractive



36% of S&P stocks now have a dividend yield greater than the 30-year Treasury.

As of Dec. 31, 2019. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

New Secular Bull Market?



Secular Bear: Average Drawdown -46.1%
Secular Bull: Average Drawdown -25.3%

Secular bear market average drawdown includes selloff beginning September 1929. Data as of Dec. 31, 2019. Source: Bloomberg, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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	10 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

BEA: Bureau of Economic Analysis

GDP: Gross Domestic Product

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.

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

Shibor: Shanghai Interbank Offered Rate

Additional Important Information

Past performance is no guarantee of future results.

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