

2020 WEALTH MANAGEMENT FORUM

January 30, 2020

ECONOMIC AND MARKET OUTLOOK

Charles E. Rinehart, CFA, CAIA
PORTFOLIO MANAGER

Brandon A. Zureick, CFA
PORTFOLIO MANAGER, STRATEGIST

THE 2010'S BY THE NUMBERS

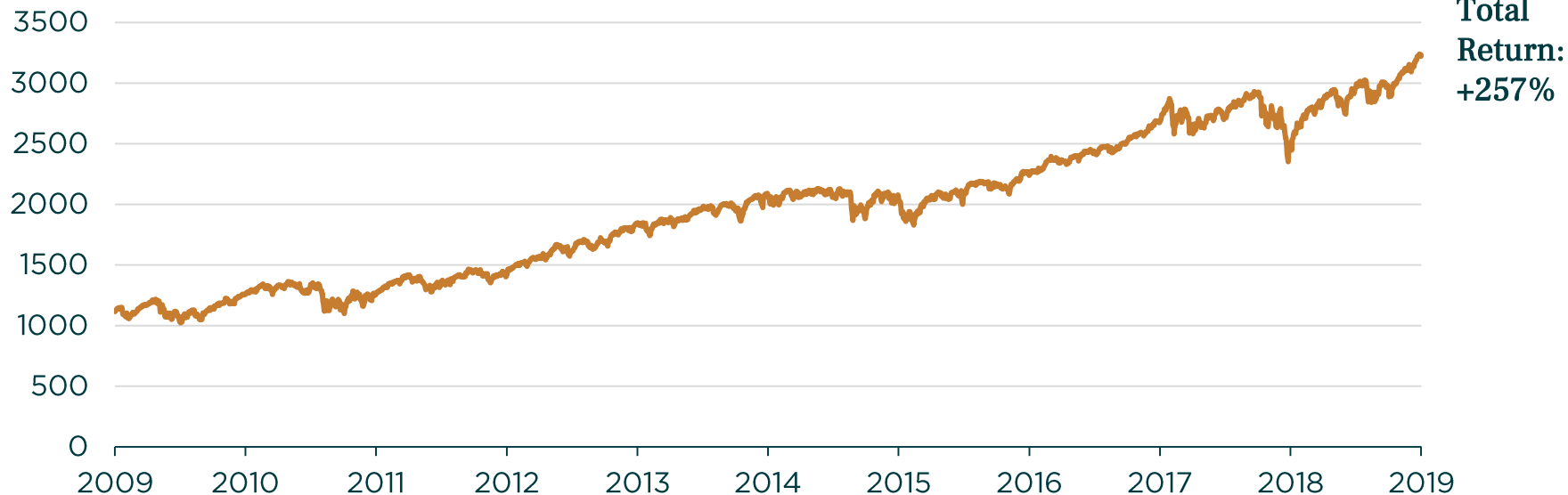
	12/31/2009	12/31/2019
Total Nominal GDP (\$ Trillions)	\$14.4	\$21.5
US Unemployment Rate	9.9%	3.5%
10 Year Treasury Yield	3.9%	1.9%
Negative Yielding Debt (Notional Principal)	\$0	\$11 Trillion
U.S Crude Oil Production (Million Barrels per Day)	5.4	12.2
FAANG Weight in S&P 500	3.9%	11.3%
Est. Number of Amazon Prime Users (Millions)	2.0	105.0

» SOURCE: FAANG REPRESENTS THE FOLLOWING COMPANIES: FACEBOOK, AMAZON, APPLE, NETFLIX, ALPHABET (GOOGLE)

» SOURCE: US TREASURY, US BUREAU OF LABOR STATISTICS, US ENERGY INFORMATION ADMINISTRATION, FACTSET

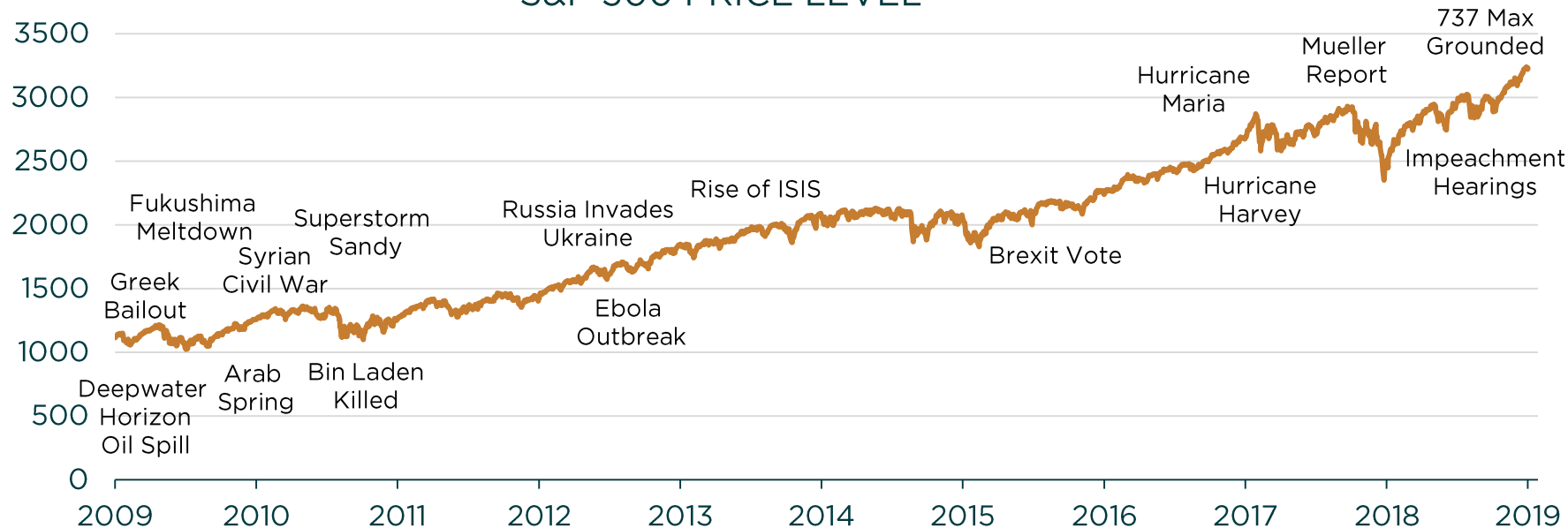
A DECADE OF GREAT RETURNS

S&P 500 PRICE LEVEL



AS IS OFTEN THE CASE, THE MARKET CLIMBED A WALL OF WORRY...

S&P 500 PRICE LEVEL



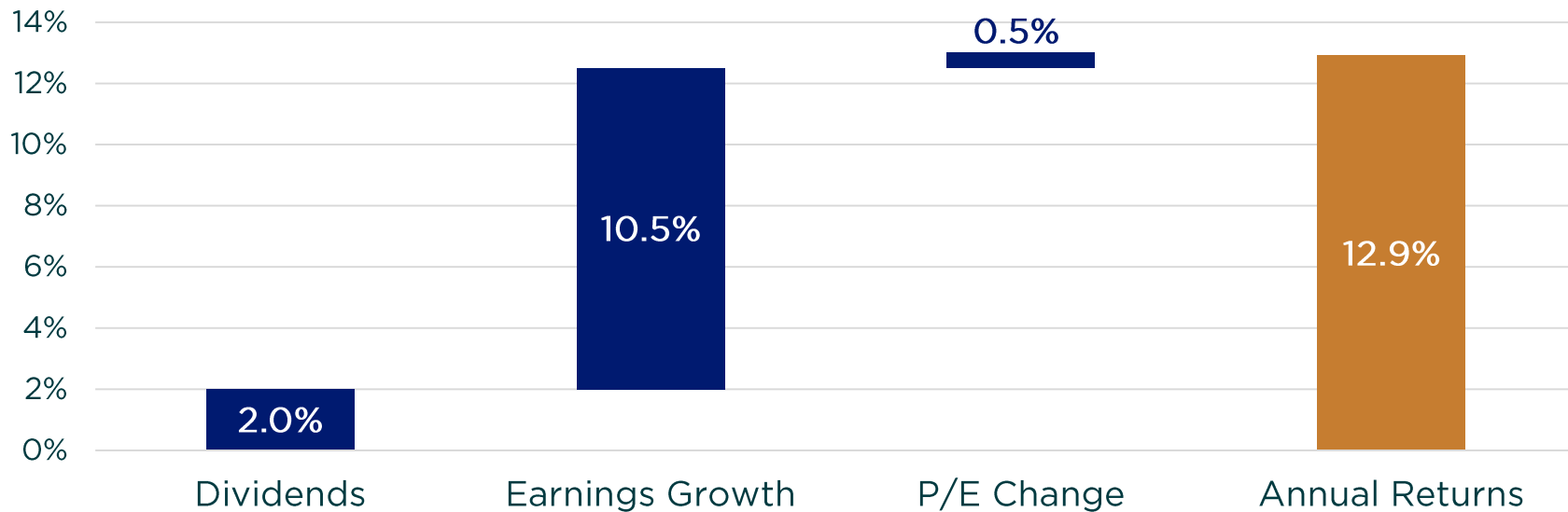
2019 WAS A GREAT YEAR ACROSS ASSET CLASSES

ASSET TYPE	INDEX	2019 RETURNS
US EQUITIES	RUSSELL 3000	31.0%
INTERNATIONAL EQUITIES	MSCI ACWI EX-US	21.5%
OIL AND GAS PIPELINES	TORTOISE NORTH AMERICAN PIPELINE INDEX	24.1%
GLOBAL INFRASTRUCTURE	DJ BROOKFIELD GLOBAL INFRASTRUCTURE	28.7%
FIXED INCOME - TAXABLE	BARCLAYS INTERMEDIATE GOV/CREDIT	6.8%
FIXED INCOME - MUNICIPAL	BARCLAYS 5 YEAR GO	5.3%

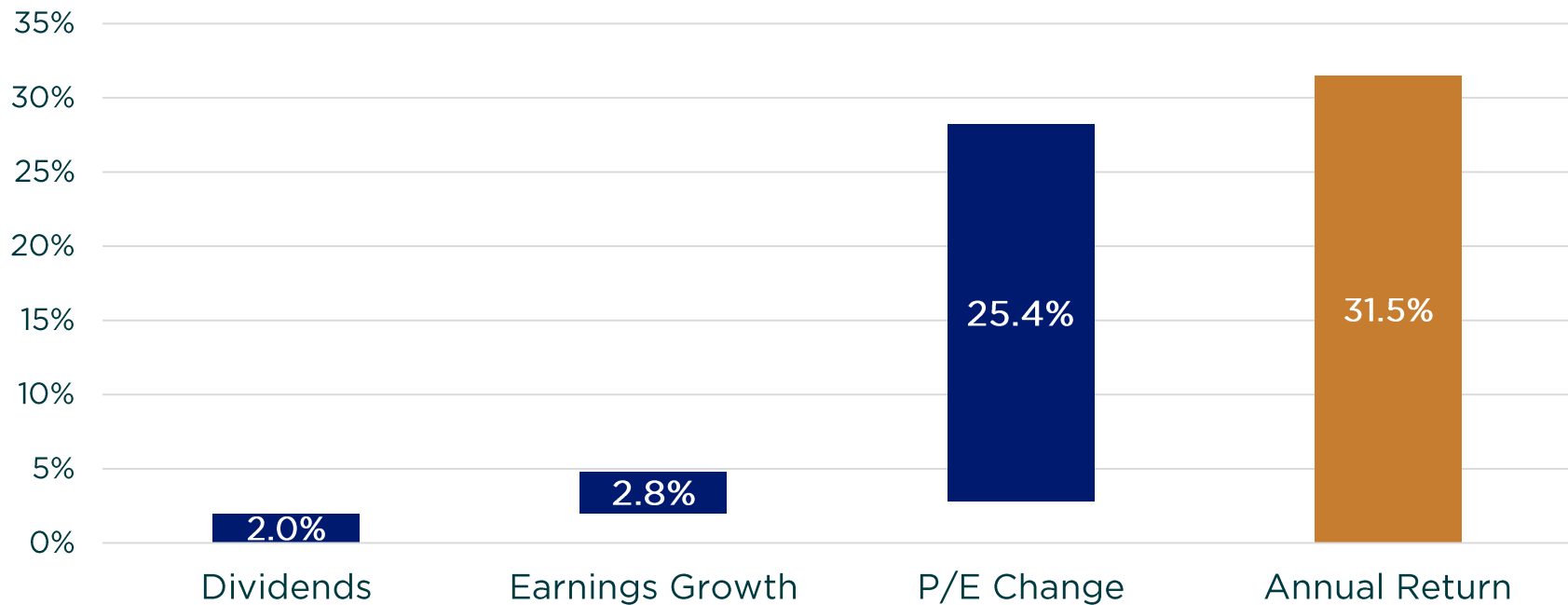
2019 RETURNS WERE SET UP BY A WEAK 2018

	MARKET CORRECTION	CENTRAL BANK RESPONSE	6 MONTHS AFTER LOW
1984	-14%	Fed funds cut	20%
1988	-34%	Fed funds cut	19%
1998	-19%	Fed funds cut	40%
2010	-16%	QE2 & PBoC eased	24%
2011	-19%	OT announced	29%
2016	-13%	Fed paused	20%
AVERAGE	-19%		25%
2018	-20%	FED FUNDS CUTS	27%

DECADE OF STRONG RETURNS DRIVEN BY EARNINGS

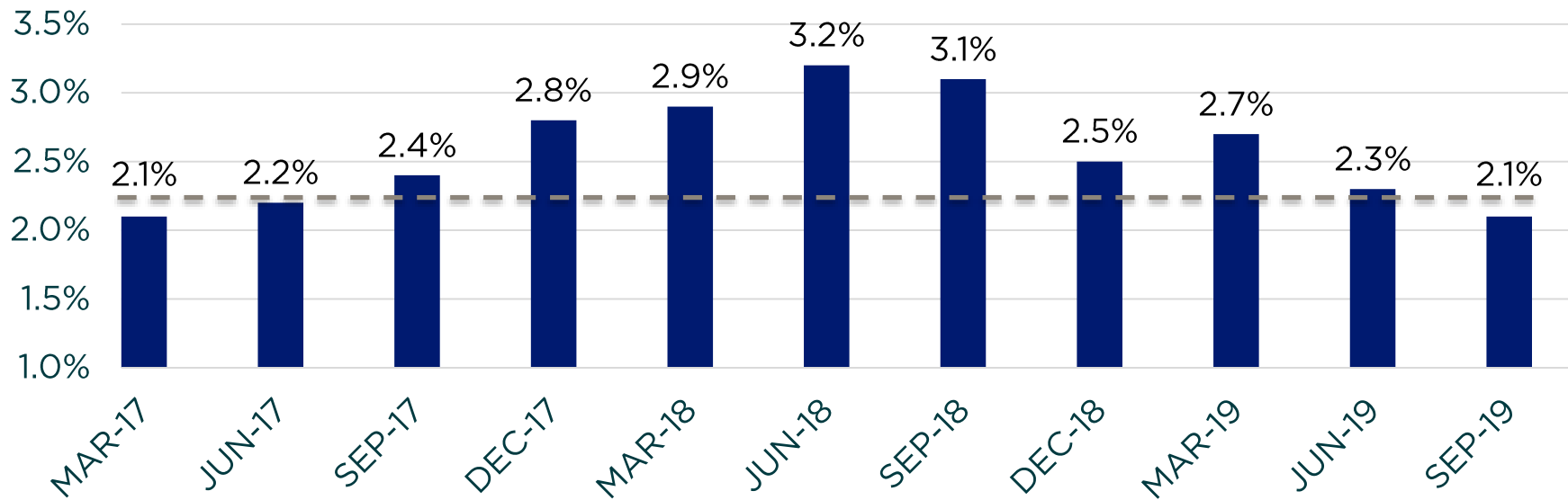


2019 RETURNS DRIVEN BY VALUATION CHANGE



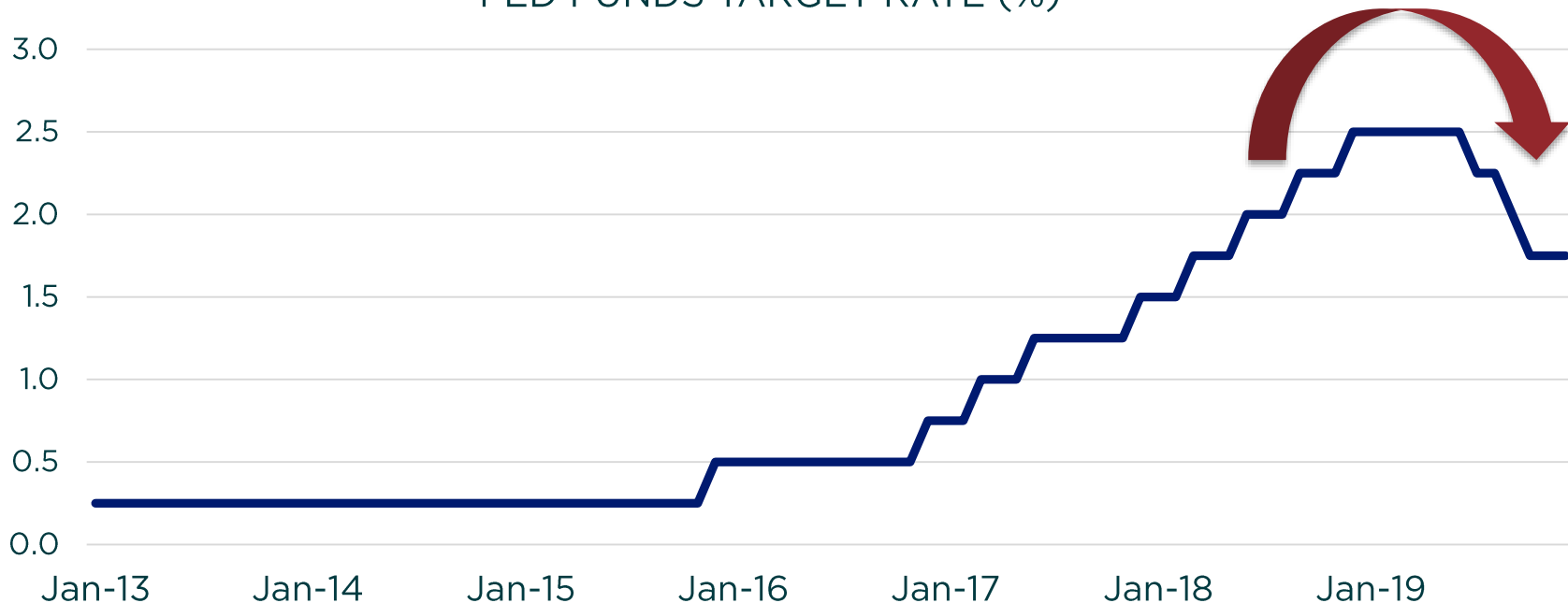
GROWTH SLOWED

REAL GDP GROWTH (YEAR-OVER-YEAR)



THE FED PIVOTED FROM TIGHTENING TO EASING

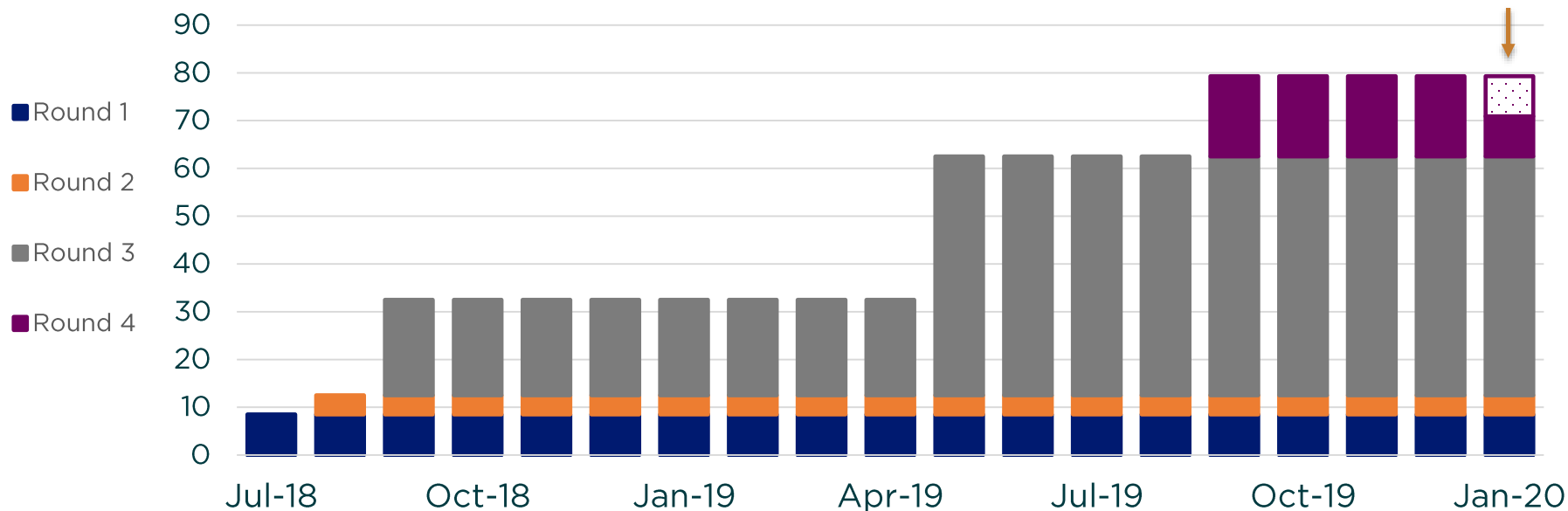
FED FUNDS TARGET RATE (%)



TRADE PRESSURE INTENSIFIED

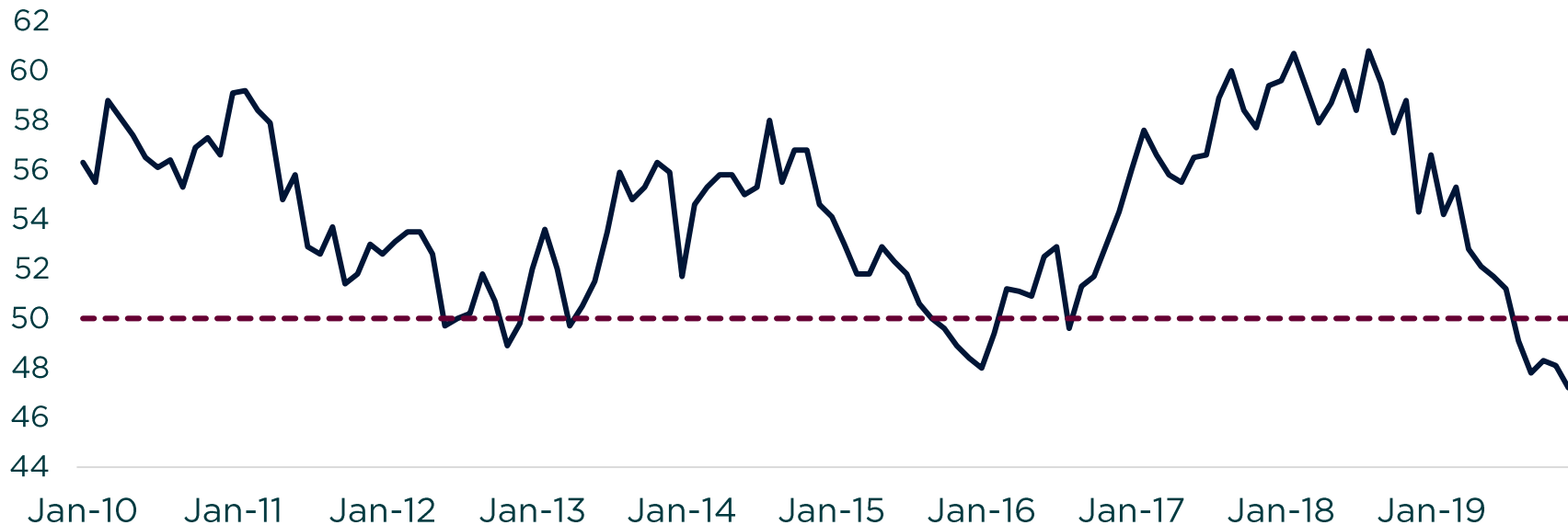
Annualized Amount of Tariffs Imposed (\$ Billions)

“Phase 1
Trade Deal”



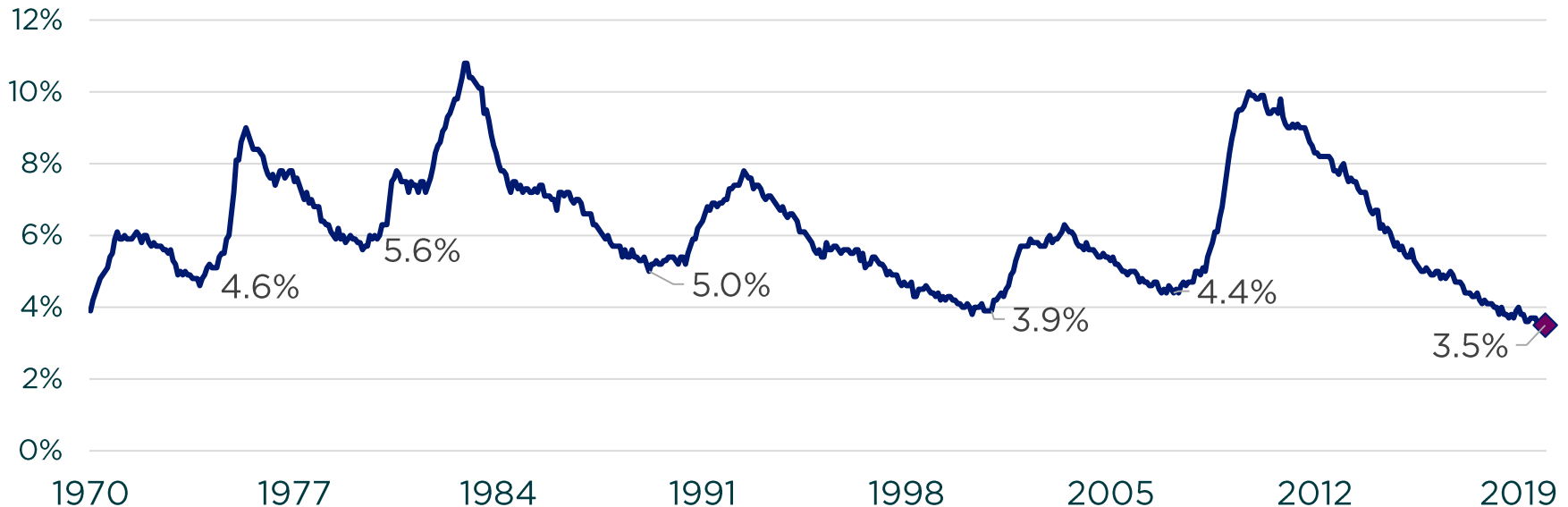
MANUFACTURING WEAKENED

ISM MANUFACTURING INDEX



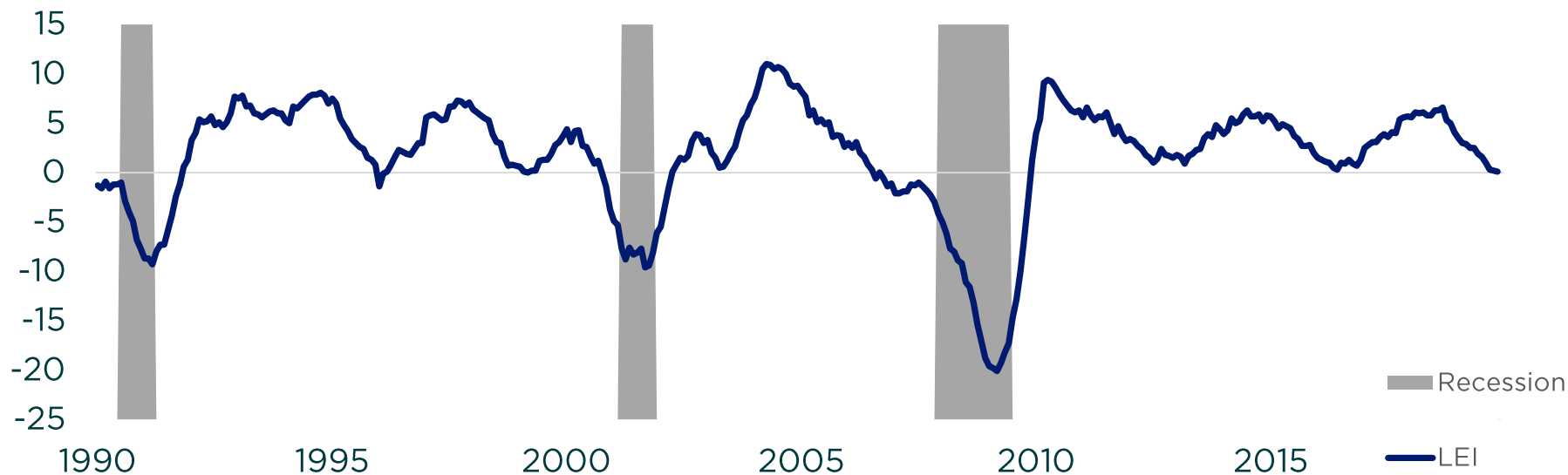
LOWEST UNEMPLOYMENT RATE IN 67 YEARS

UNEMPLOYMENT RATE



THIRD MINI-RECESSION OR...

Leading Economic Indicators (Year-Over-Year)

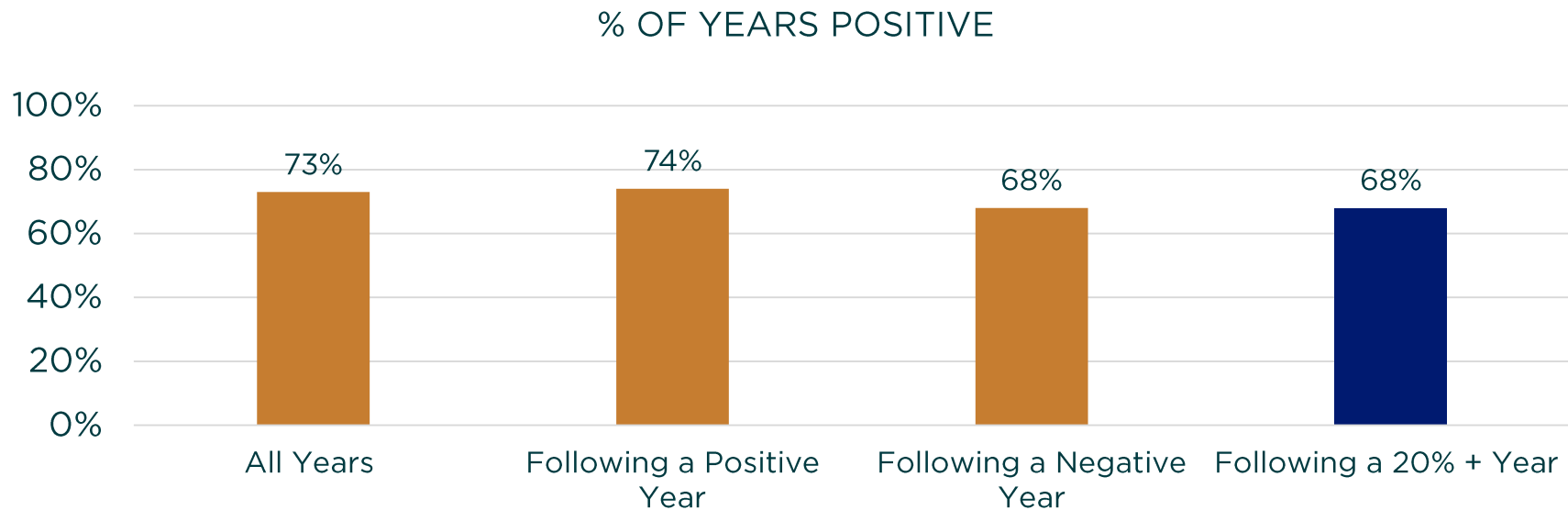


RECESSION SCORECARD

	12/31/2019		Previous Three Economic Recessions*		
			2007	2001	1990
Yield Curve					
IG Spreads					
HY Spreads					
Stock Market					
Jobless Claims					
Unemployment Rate					
Temp Employment					
Weekly Hours					
Leading Indicators					
Coin/Lagging Index					
Ecri Lei					
ISM Manufacturing					
Capacity Utilization					
Capital Goods					
Housing Starts					
Retail Sales					
Consumer Sentiment					

*One month prior to recession

YEAR-TO-YEAR RESULTS ARE NOT DRIVEN BY RECENT HISTORY

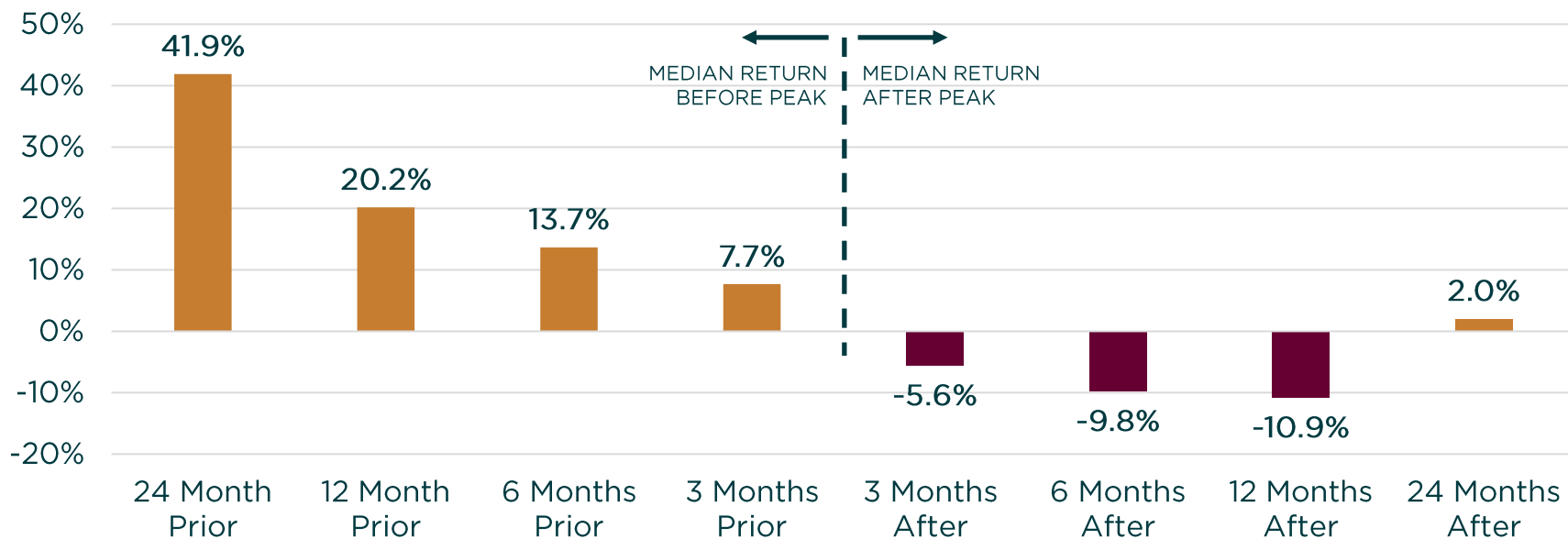


» CHART IS BASED ON AVERAGE YEARLY S&P 500 TOTAL RETURNS SINCE 1928

» SOURCE: BLOOMBERG

MARKET TIMING IS DIFFICULT AND CAN BE COSTLY

Median Total Return Leading Up To and Following Equity Market Peaks

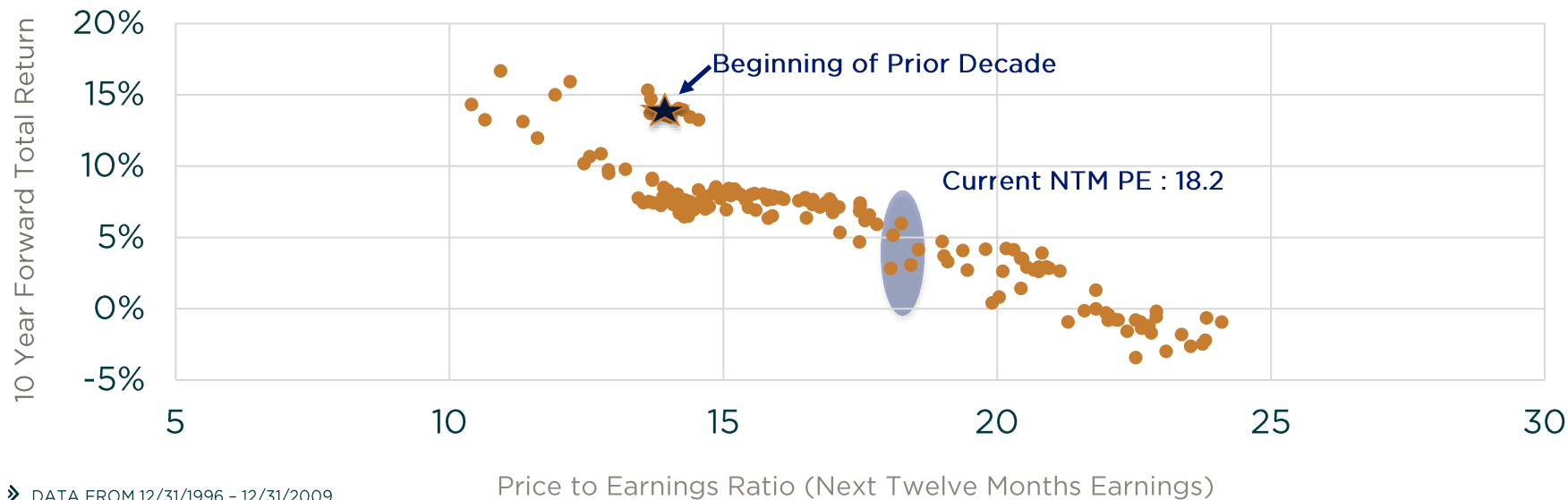


» CHART IS BASED ON RETURN DATA FROM 9 BEAR MARKETS SINCE 1950. A BEAR MARKET IS DEFINED AS A DECLINE OF 20% OR MORE IN THE S&P 500 BENCHMARK PRICE.

» SOURCE: BLOOMBERG, JOHNSON INVESTMENT COUNSEL RESEARCH

STOCK VALUATION SUGGESTS LOWER RETURNS OVER THE NEXT DECADE

S&P 500 VALUATION AND RETURNS

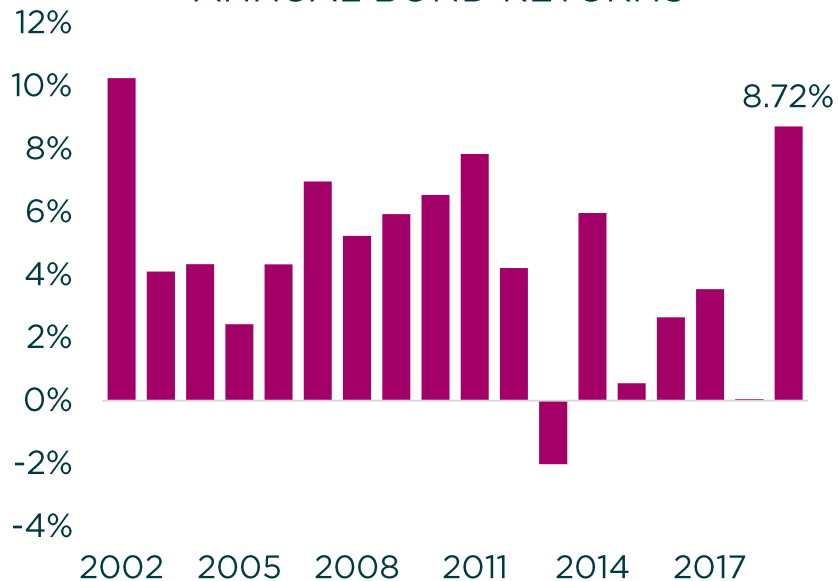


» DATA FROM 12/31/1996 - 12/31/2009

» SOURCE: FACTSET, BLOOMBERG

FIXED INCOME - STILL AN IMPORTANT PART OF PORTFOLIOS

ANNUAL BOND RETURNS*

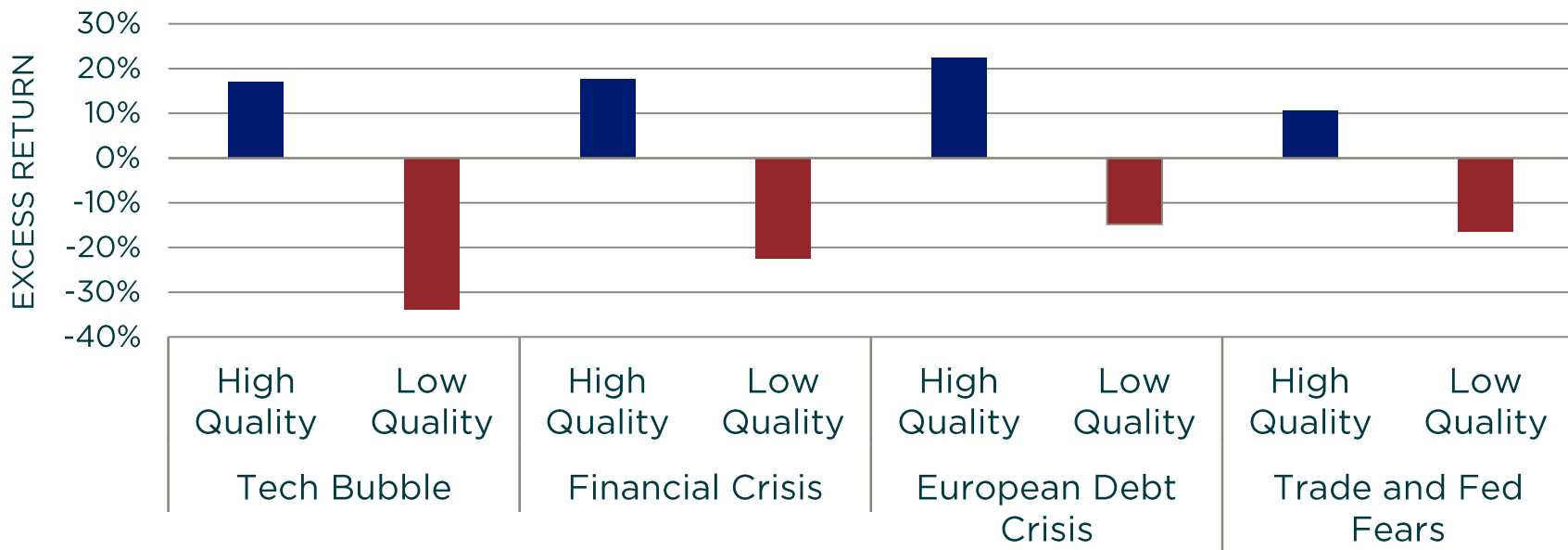


*Bloomberg / Barclays Aggregate Bond Index

10 YEAR TREASURY YIELD



HIGH QUALITY STOCKS SHINE IN PERIODS OF STRESS



INTRODUCING OUR GUEST SPEAKER:

Andy Laperriere, CFA

Cornerstone Macro
Head of US Policy Research

Johnson Investment Counsel Wealth Management Forum

You Should Be Prepared For Anything

JANUARY 30, 2020

Andy Laperriere

(202) 888-1151

alaperriere@cormacteam.com

OVERVIEW

- **Near-term issues: Iran, drug prices, dollar, big tech.**
- **The Democratic primary is wide open. Trump is weak, but his opposition could save him.**
- **Election could reverse pro-growth structural changes under Trump. Sector most at risk: pharma/biotech.**

ISSUES IN PLAY IN 2020

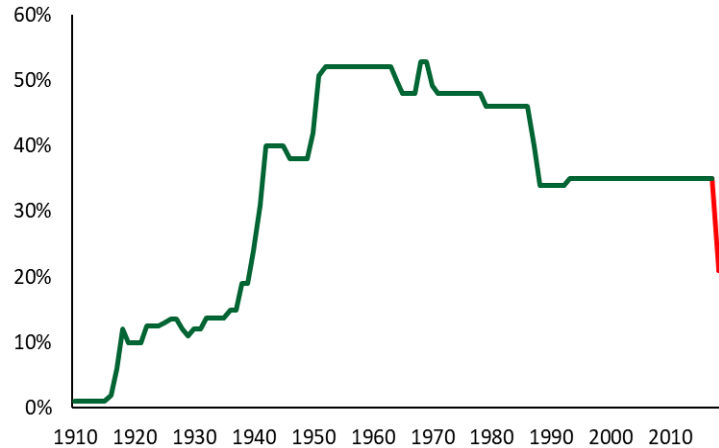
- **Iran** – What prevails: Iran's pattern of escalation or Trump's aversion to using force?
- **Drug prices** – Roughly 40% chance of major drug price law passing.
- **The Dollar** – Trump is preoccupied with the dollar; he wants it lower.
- **Big Tech** – Trump sees bias against him/GOP and it's high on his radar.
- **Tech privacy** – One-in-three chance bipartisan bill gets signed.
- **Highway reauthorization** – Negligible new outlays.

NOT GOING TO HAPPEN IN 2020

- **Major infrastructure package.**
- **Tax cuts / fiscal boost.**
- **Trump removed by the Senate.**
- **Housing finance reform / GSEs released from conservatorship.**

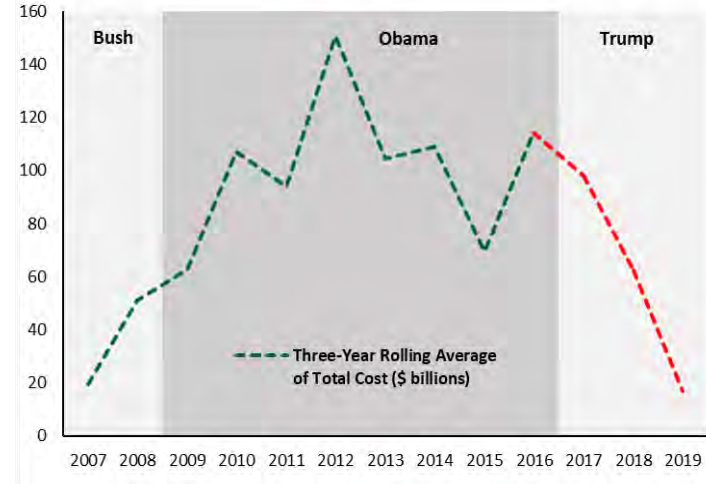
TWO MAJOR STRUCTURAL CHANGES UNDER TRUMP

US Corporate Income Tax Rate



Source: Tax Policy Center.

Total Cost To Private Sector Of Finalized Regulations



Source: American Action Forum.

DEMOCRATIC CANDIDATES SUPPORT TRILLIONS IN NEW TAXES

	Biden	Buttigieg	Klobuchar	Sanders	Warren
Tax Hikes					
Individual & Estate	\$1.7	\$2.8	\$2.0	\$9.2	\$4.0
Corporate	\$1.5	\$2.3	\$1.2	\$5.8	\$2.3
Payroll	\$1.4	\$1.4	\$1.4	\$4.2	\$4.2
Total New Revenues (\$ Tn)	\$4.6	\$6.5	\$4.6	\$19.2	\$10.5

Note: Totals reflect a collection of campaign estimates, public estimates, and our assumptions about policies and the revenue generated by them. Figures exclude tax increases associated with Medicare for All.

DEMOCRATIC CANDIDATES SUPPORT AMBITIOUS PROGRESSIVE AGENDA

	<u>Biden</u>	<u>Buttigieg</u>	<u>Klobuchar</u>	<u>Sanders</u>	<u>Warren</u>
<u>Tax Policy</u>					
Higher Taxes On Capital Gains	✓	✓	✓	✓	✓
Higher Corporate Rate	✓	✓	✓	✓	✓
Target Profit Shifting	✓	✓	✓	✓	✓
Wealth Tax		✓		✓	✓
Apply Payroll Tax To Wages > \$250k	✓	✓	✓	✓	✓
<u>Labor Market</u>					
Minimum Wage to \$15+	✓	✓	✓	✓	✓
Protecting the Right to Organize Act	✓	✓	✓	✓	✓
End “Right to Work” Laws		✓	✓	✓	✓
Sectoral Bargaining		✓		✓	✓
Establish Wage Boards				✓	
End Misclassification of Indep. Contractors	✓	✓	✓	✓	✓
Federal Contracts Based on Labor Standards		✓			
Workers Elect Some/40%+ Board Members		✓		✓	✓
<u>Reshaping / Regulating Economy</u>					
Accountable Capitalism Act					✓
Curb / Ban Stock Buybacks				✓	✓

	<u>Biden</u>	<u>Buttigieg</u>	<u>Klobuchar</u>	<u>Sanders</u>	<u>Warren</u>
<u>Climate and Energy</u>					
Support Green New Deal Resolution	✓	✓	✓	✓	✓
Phase Out Nuclear or No New Plants		✓		✓	✓
Supports Carbon Pricing / Tax	✓	✓	✓		✓
Import Fee on Carbon Intensive Goods	✓		✓	✓	✓
Ban Fracking on Private Land		*		✓	✓
Ban Fossil Fuel Exports				✓	✓
End Leases for Drilling on Federal Land	✓	✓	✓	✓	✓
Eliminate Fossil Fuel Subsidies	✓	✓	✓	✓	✓
<u>Financials</u>					
Break Up Big Banks (Glass-Steagall)				✓	✓
Stop Wall Street Looting Act (Private Equity)				✓	✓
Financial Transaction Tax		✓		✓	✓
Bank Tax		✓	✓	✓	✓
<u>Health Care</u>					
Public Option	✓	✓	✓	✓	✓
Medicare for All				✓	✓
Importation	✓	✓	✓	✓	✓
Allow Medicare to Negotiate Rx Prices	✓	✓	✓	✓	✓
Limit Price Increases	✓	✓		✓	✓
Government Manufacture Rx Drugs					✓
<u>Tech Sector</u>					
Name Specific Companies to Break Up				✓	✓
Treat “Big Tech” Like Utilities					✓
Reverse / Restrict / Tax Mergers		✓	✓		✓
Increase Anti-Trust Enforcement	✓	✓	✓	✓	✓

Note: * Buttigieg supports “banning new fracking” and would seek to end the practice over time.

RELATIVE RISKS / FOCUS OF EACH CANDIDATE

Biden	Buttigieg	Klobuchar	Sanders	Warren
Obama Agenda 2.0 <ul style="list-style-type: none"> • Increase health care coverage. • Secondary focus on carbon pricing. • Seek compromise. • Risks: drug stocks, traditional energy, economy wide. 	Wild Card <ul style="list-style-type: none"> • Emphasize generational issues. • Pursue economic, and environmental justice package. • Risks: health care, traditional energy, economy wide. 	Pro-infrastructure and pocketbook issues <ul style="list-style-type: none"> • Lacks a vision. • Agenda, though small bore, adds up in cost. • Has anti-tech focus. • Risks: drug stocks, tech, economy wide. 	Single payer health care <ul style="list-style-type: none"> • Socialist agenda. • Tax, takeover, regulate key sectors and expand government. • Risks: health care, financials, traditional energy economy wide. 	Reforming capitalism <ul style="list-style-type: none"> • Dramatically change scope of government. • Attack engines of inequality: wealth, finance, labor law. • Risks: health care, financials, tech, labor costs, economy wide.

BIDEN AGENDA

Legislation	Executive Action
<ul style="list-style-type: none">➤ Taxes on wealthy and corporations to finance agenda.➤ Public option (settle for Obamacare 2.0).➤ Negotiate / cap drug prices.➤ PRO Act (labor agenda).➤ Attempt carbon pricing.➤ Boost renewables and tax fossil fuel companies.	<ul style="list-style-type: none">➤ Return to Obama era regulatory costs.➤ Climate regs: CAFE standards, no new leases for drilling on public land, methane standards.➤ Labor regs to increase pay, work flexibility, right to organize and strike.

BUTTIGIEG AGENDA

Legislation	Executive Action
<ul style="list-style-type: none">➤ Tax hike includes 35% corporate rate, tax unrealized capital gains at ordinary rates.➤ Climate and economic justice package = carbon tax and green energy subsidies packaged with consensus Dem labor agenda.➤ “Medicare for All Who Want It.”➤ Negotiate / cap drug prices.	<ul style="list-style-type: none">➤ Go well beyond Obama era regulatory costs.➤ Likely to pursue aggressive climate and labor regulations.➤ Seeks to ban all new fracking.

KLOBUCHAR AGENDA

Legislation	Executive Action
<ul style="list-style-type: none">➤ Infrastructure package.➤ Public option and drug pricing reforms.➤ Progressive taxes to pay for family/worker/student friendly policies.➤ Antitrust reforms.➤ Attempt a carbon tax.	<ul style="list-style-type: none">➤ Return to Obama era regulatory costs.➤ Climate regs: CAFE standards, no new leases for drilling on public land, methane standards.➤ Greater scrutiny of tech and antitrust in general at FTC / DOJ.

SANDERS AGENDA

Legislation	Executive Action
<ul style="list-style-type: none">➤ Pursue Medicare for All.➤ Enormous tax increases, especially on the wealthy and corporations.➤ Aggressive pro-labor agenda.➤ Green New Deal-style climate plan.➤ Break up big banks and enact financial transaction tax.	<ul style="list-style-type: none">➤ Go well beyond Obama era regulatory costs.➤ Very aggressive climate, financial, and labor regulations.

WARREN AGENDA

Legislation	Executive Action
<ul style="list-style-type: none">➤ Reforming Capitalism:<ul style="list-style-type: none">• Major tax increases on capital income and corporations.• Redistribution & reforms.• Changes in corporate governance.• Aggressive labor agenda.➤ Pursue financial sector overhaul: break up banks and reform private equity.	<ul style="list-style-type: none">➤ Go well beyond Obama era regulatory costs.➤ Very aggressive climate, financial, and labor regulations.➤ DOJ and FTC will target big-tech.➤ Broader antitrust scrutiny.

WHERE THE CANDIDATES STAND ON CORE TAX POLICIES

	Biden	Buttigieg	Klobuchar	Sanders	Warren
Top Individual Rate	39.6%+	N/A	39.6%+	52% above \$10m	39.6%+
Capital Gains	Tax as Ordinary Income (39.6%+) for Top ~1%	Tax Unrealized Gains of Top ~1%	Tax as Ordinary Income (39.6%+) for Top ~1%	Tax as Ordinary Income (39.6%+) for Top ~1%	Tax Unrealized Gains of Top ~1%*
Wealth Tax	No	No	No	Up to 8%	2-3% (up to 6%*)
Payroll Tax	Apply Payroll Tax (12.4%) on Wages Above \$250k	Apply Payroll Tax (12.4%) on Wages Above \$250k	Apply Payroll Tax (12.4%) on Wages Above \$250k	Apply Payroll Tax to all Income Above \$250k	Apply Payroll Tax (14.8%) to Wages above \$250k and 14.8% investment income tax
Corporate Rate	28%	35%	28%	35%	35%
Book Income/ "Real Profits" Tax	15% Minimum tax	No	No	No	7% Add-on tax
International Profit Shifting	21% GILTI	N/A	Tweak GILTI and foreign tax credits	Worldwide, no FDII, stricter BEAT	35% Minimum tax*
Financial Sector	No	FTT & Bank Tax	Bank Tax	FTT & Bank Tax	FTT* & Bank Tax*
Climate	Carbon Pricing	Carbon Tax	Carbon Tax	"Tax Polluters"	N/A

*Associated with Medicare for All.

LOWEST COMMON DENOMINATOR ON TAX POLICY

- **Corporate Rate of 28%+**
- **Capital Gains & Dividends Taxed as Ordinary Income for Top 1%**
- **Target Low-Tax Multinationals (Profit Shifting)**
- **Top Personal Rate to 39.6%+**
- **Major Increases in Estate Tax**
- **Apply Payroll Tax to Wages (12.4%) above \$250k**

TOTAL = ~\$4 Trillion of New Taxes Over 10 Years

SIGNIFICANT RISK FOR HEALTH CARE, EVEN WITH LOWEST COMMON DENOMINATOR

Drug Pricing - Expect something like the Pelosi bill (negotiated prices and price growth caps).

Public Option - Supported by Biden, Klobuchar, Buttigieg. Path to Medicare for All.

CONSENSUS ON OTHER KEY POLICIES

Labor:

- \$15/hr minimum wage and the PRO Act.
- Boost unionization & ban/weaken right to work laws.
- Overtime pay changes, new joint employer rules, conditioning federal contracts on labor criteria.

Climate:

- Target fracking & emissions, no new leases on public land.

Tech:

- Heightened antitrust scrutiny and DOJ/FTC appointments.

REPUBLICAN SWEEP SCENARIO

- **Tax cut effort – mostly for middle class, some business; make 2017 tax law permanent.**
- **Risks of unconstrained Trump.**
- **China escalation, maybe followed by a deal.**
- **Modest drug pricing reforms.**
- **Infrastructure.**

POTENTIAL AREAS FOR COMPROMISE UNDER DIVIDED GOVERNMENT

Trump	“Centrists”	“Revolutionaries”
<ul style="list-style-type: none">• Infrastructure• Drug pricing• Tech privacy• Housing finance	<ul style="list-style-type: none">• Infrastructure• Drug pricing• Tech privacy• Housing finance• Minimum wage hike	<p>Less gets done, for two reasons:</p> <ul style="list-style-type: none">• Warren and Sanders not likely to compromise.• GOP inclined to fight revolutionary agenda.

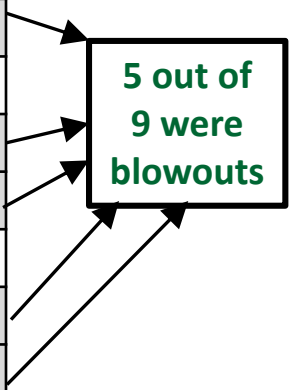
CORNERSTONE MACRO'S 2020 ELECTION ODDS

Election Scenarios

White House	Senate	House	Scenario Odds
Democrat 55%	Dem 30%	Dem 30%	Dem Sweep 30%
		GOP 0%	0%
	GOP 25%	Dem 25%	Dem WH, Div Govt 25%
		GOP 0%	0%
Trump 45%	Dem 0%	Dem 0%	0%
		GOP 0%	0%
	GOP 45%	Dem 25%	Status Quo 25%
		GOP 20%	GOP Sweep 20%

BLOWOUTS COMMON WHEN INCUMBENTS SEEK REELECTION

Year	Incumbent	Opponent	Incumbent's Vote Margin
2012	Obama	Romney	+3.9%
2004	W. Bush	Kerry	+2.5%
1996	Clinton	Dole	+8.5%
1992	H.W. Bush	Clinton	-5.6%
1984	Reagan	Mondale	+18.2%
1980	Carter	Reagan	-9.7%
1976	Ford	Carter	-2.1%
1972	Nixon	McGovern	+23.2%
1964	Johnson	Goldwater	+22.6%



A diagram consisting of a rectangular box with a black border containing the text "5 out of 9 were blowouts" in green. Five arrows point from the right side of the table to this box, specifically targeting the rows for the years 1996, 1984, 1980, 1972, and 1964, which correspond to the five blowout margins.

Source: Dave Leip's Atlas of U.S. Elections. Winners' names are bolded.

IN 2016, SENATE CANDIDATES AND TRUMP RAN EVEN IN SWING STATES

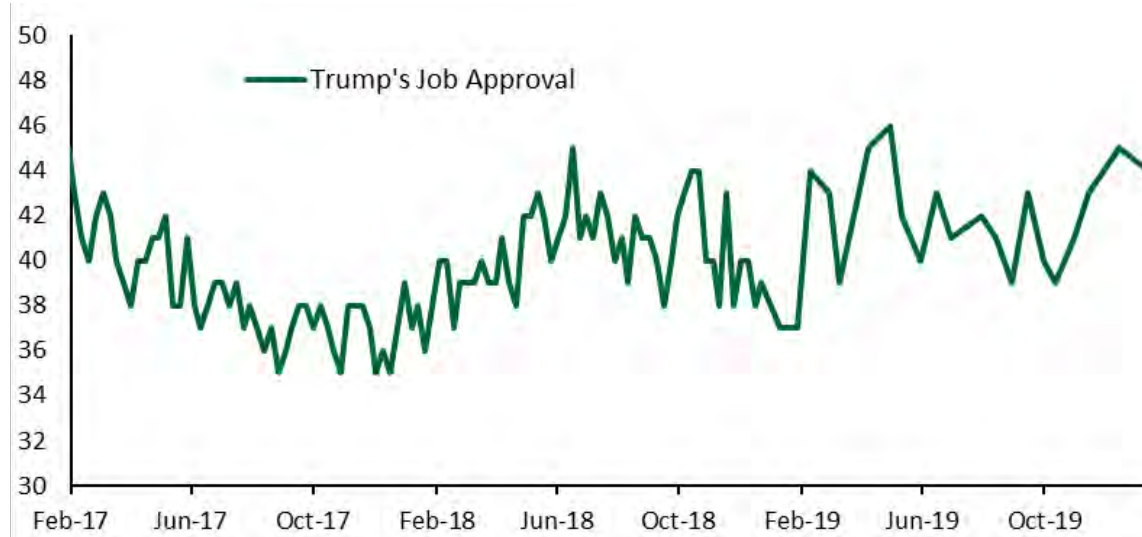
State	Trump Vote Share	Senate Candidate Vote Share	Candidate Minus Trump
Colorado	43.3%	44.3%	1.0%
Florida	49.0%	52.0%	3.0%
Georgia	50.8%	54.8%	4.0%
Nevada	45.5%	44.7%	-0.8%
New Hampshire	46.5%	47.8%	1.3%
North Carolina	49.8%	51.1%	1.3%
Pennsylvania	48.2%	48.7%	0.5%
Wisconsin	47.2%	50.2%	3.0%
Average =			1.7%

GOP FAVORED TO KEEP SENATE

Republican-Held Swing Senate Seats Up In 2020

State	Senator	Trump 2016 Vote Share
Colorado	Gardner	43.3%
Maine	Collins	44.9%
Arizona	McSally	48.7%
North Carolina	Tillis	49.8%
Georgia	Perdue Loeffler	50.8%
Iowa	Ernst	51.2%
Texas	Cornyn	52.2%
National		45.9%

TRUMP APPROVAL RATING STEADY AT LOW LEVEL



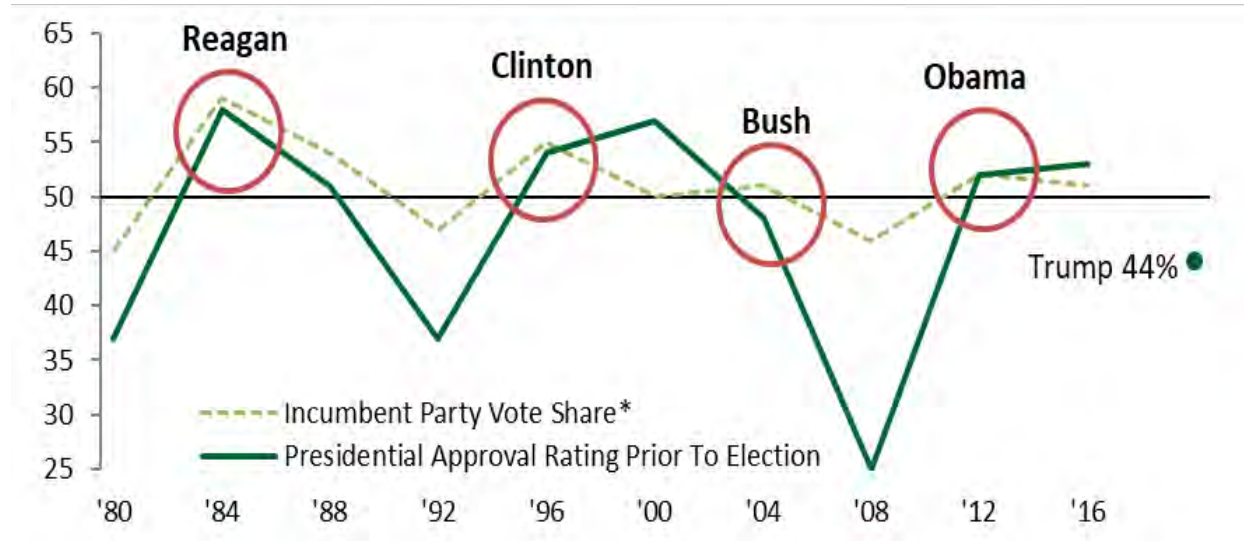
Source: Gallup.

HALF OF COUNTRY WANTS TO FIRE TRUMP

54%	Disapprove of Trump's job performance.
50%	Very uncomfortable with Trump being president.
48%	Certain to vote against Trump.
48%	Support impeachment and removal.
44%	<u>Strongly</u> disapprove of Trump's job performance.

Source: NBC/WSJ; poll conducted December 14-17, 2019.

JOB APPROVAL AND VOTE SHARE ARE CLOSELY LINKED



Sources: Gallup and David Leip's Atlas of US Presidential Elections. *Two party vote share.

HOW THE DEMOCRATIC FIELD STACKS UP AGAINST TRUMP

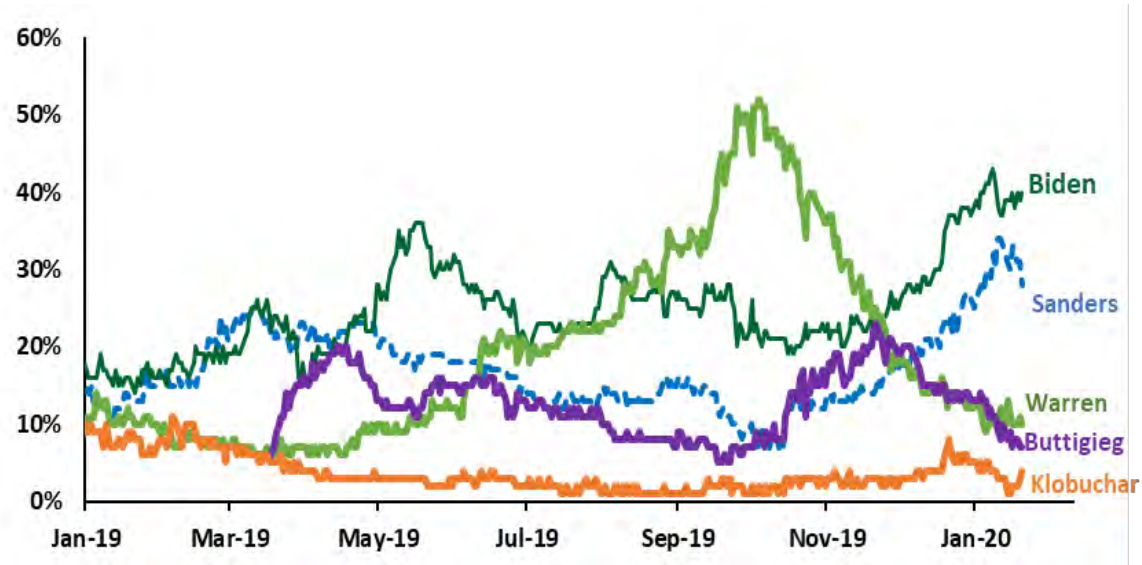
Candidate	Odds Of Beating Trump
Klobuchar	High
Biden	>50%
Buttigieg	Wild Card
Warren	<50%
Sanders	Low

FOUR DEMS WITHIN SIX POINTS IN IOWA AND NH

	National	Iowa Feb 3	NH Feb 11	NV Feb 22	SC Feb 29
Biden	28.0%	21.0%	18.5%	25.0%	32.0%
Sanders	21.9%	17.3%	19.8%	19.3%	15.0%
Warren	14.7%	16.7%	14.3%	14.7%	14.0%
Buttigieg	7.6%	16.3%	14.3%	7.7%	6.3%
Bloomberg	7.3%	1.0%	-	-	2.5%
Yang	3.6%	3.7%	4.3%	3.0%	2.7%
Klobuchar	3.4%	8.3%	5.8%	2.7%	1.3%
Steyer	2.0%	3.3%	3.3%	7.3%	8.3%
Gabbard	1.3%	1.7%	4.5%	1.0%	2.0%
Bennet	0.8%	-	0.8%	-	-

Source: RealClearPolitics poll average.

ONLINE ODDS OF WINNING DEMOCRATIC PRIMARY



Source: PredictIt.

INVESTMENT IMPLICATIONS BY CANDIDATE

		Trump	“Centrists”	Revolutionaries
Macro	Tax	Pro-growth changes preserved.	If Dems have the Senate, big tax hikes.	With the Senate, very big tax hikes.
	Regulation	Minimal new costs to private sector.	Obama-era level of reg. costs. Ambitious labor agenda.	Regulatory costs far in excess of Obama. Labor agenda.
	Trade	Stays tough on China; protectionist instincts could extend further.	Not likely to fold to China, but most likely to get a deal.	Protectionist instincts keep trade risks elevated.
Sector		Most at risk: drug stocks.	Most at risk: drug stocks, energy.	Most at risk: health care, financials, energy, big tech.

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