Before the Bell

Morning Market Brief

October 15, 2019

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MORNING MARKET COMMENTARY: *Brian Erickson, CFA, Director of Fixed Income Research*

- ***Quick Take***: U.S. futures are pointing to a higher open; European markets stand higher as both U.K. and European Union target a deal tonight; Asia markets ended mixed overnight; Nymex West Texas Intermediate (WTI) crude futures trading at $52.98 on increased Middle East tensions; 10-year U.S. Treasury yield fell four basis points to 1.69% as U.S. bond markets reopen following the Columbus Holiday closure.

- ***High Yield and Emerging Market Bonds Fully Priced Valuations:*** This quarter our tactical fixed income positioning reflects a staunch up in quality move. We reduced U.S. High Yield Bond to an underweight in Conservative and Moderate Conservative allocations, and further reduced Emerging Market Bond Exposure in our Moderate and Moderate Aggressive allocations. Conversely, we significantly overweight U.S. Investment Grade Bonds. See our report Committee View: *Tactical Asset Allocation Update* dated September 27.

- In the third quarter Moody's Investor Service downgraded 97 high yield issuers; 16 based on credit events, and 81 due to deteriorating fundamentals. This compares to 56 upgrades with 36 driven by improving fundamentals on the positive side of the ledger. Relative to the nearly balanced 1.09:1 downgrade to upgrade ratio in 2018, the 2.38:1 ratio year-to-date reflects a deeper erosion of company fundamentals. We see slowing global growth exacting a toll on U.S. corporate balance sheets, one that could deepen without a shift in corporate sentiment or a new context for global trade.

- The chart on shows how the correlation between downgrades and wider spreads for high yield companies (source Moody's Investor Service). The level of downgrades as a percentage of high yield companies reached approximately 6% this year, the highest level since 2016 and before that 2008/9. When downgrades mount, spreads tend to widen. Moody's estimates high yield spreads likely need to widen by 50 basis points absent a pick-up in business to business sales. We see this as a headwind for high yield performance in coming quarters and leading to higher borrowing costs for issuers as well.

Notations:

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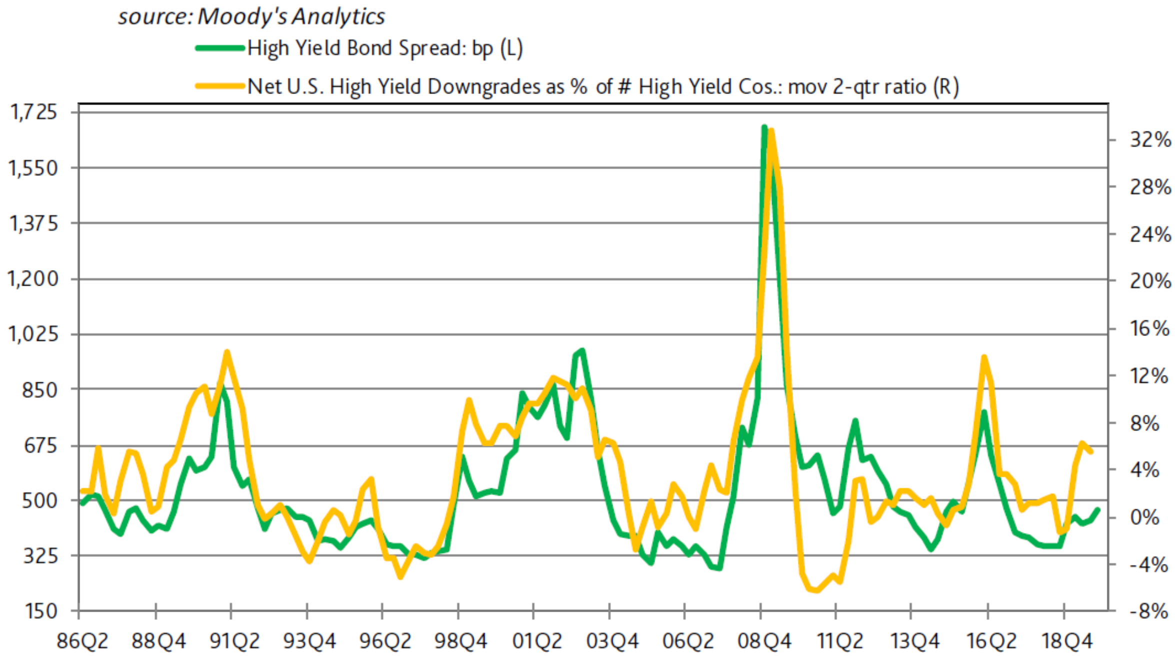
- Unless specifically stated otherwise, comments contained in this document should not be construed as an investment opinion or recommendation of any securities mentioned. Charts depicted are from FactSet unless otherwise noted.

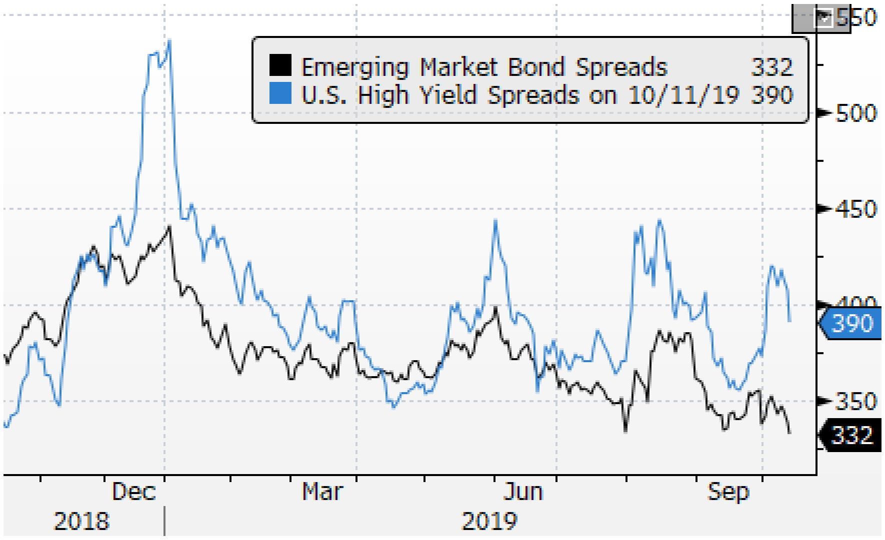
Absent a Drop in Downgrades, High Yield Spreads Need to Widen 50 Basis Points



- **Emerging Markets:** We look to the relative spreads between the Bloomberg Barclays U.S. High Yield Index compared to the JPMorgan Emerging Market Bond Index in the chart on page 3. The movement in spreads reflects the common direction and magnitude drivers for both markets as unconstrained investor choose between U.S. or emerging markets based on the relative attractiveness. The chart below shows how emerging market bond spreads remained tight even as the U.S./China trade war and strong dollar create headwinds for emerging market. We believe markets are not fully accounting for the global uncertainties that persist and the pace at which investor flows can shift away from emerging market bonds to create a supply and demand imbalance in the more thinly traded emerging market bond space. We believe valuations of emerging markets are full compared to U.S. High Yield and U.S. Investment Grade Bonds.

Comparison of U.S. High Yield and Emerging Market Bond Spreads

In basis points



Source: Bloomberg Barclays Indices; JPMorgan Indices

- **Comparatively, U.S. Investment Grade on Solid Footing**: Last year investment grade spreads widened after Wall Street analysts suggested a swath of Baa-rated corporates could be downgraded. Based on rating agency methodologies, including Moody's that rate a company's rating trend overtime, we believe it's common for companies in the process of deleveraging after an acquisition to be temporarily rated higher than current financials suggest. As of October 9, Moody's identified 21% of the companies rated in the Baa category as trading at a high yield spread. While the vast majority of these intend to return to Baa financial metrics, slowing growth poses a headwind; potentially trimming cash flows and deferring a return to investment grade quality without more concerted measures such as dividend cuts or asset sales. Bottom line, we believe slowing growth is complicating the corporate operating environment and narrowing financial flexibility, and potentially forcing companies to make bondholder friendly/equity unfriendly choices. Even slowing growth should be adequate for high-quality companies committed to delivering to improve balance sheet metrics.

- ***Asia-Pacific:*** Asian equities finished higher on Friday. Outside of trade headlines, news flow in the region was light overnight. China said it was willing to purchase $40 to $50 billion of U.S. agricultural products if the U.S. removes tariffs, complicating the original constructs of a deal outlined by President Trump. Looking ahead, China releases third quarter GDP data on Friday, along with retail sales and industrial production figures.
- A former executive director of the Bank of Japan (BOJ) commented that BOJ rate policy remains properly stimulative unless the U.S. Federal Reserve gets much more aggressive with rate policy, ahead of the bank's next policy meeting on October 30-31. The Nikkei closed up 1.87% while both the Hang Seng and Shanghai Composite ended modestly lower.

- ***Europe:*** On the economic front, October ZEW Survey Growth expectations came in better than expected in Germany, only modestly lower at -22.8 down from -22.5 in September; though the current situation reading came in lower than expected at -25.3, down from -19.9 last month. For the Eurozone as a whole, Zew expectations fell to -23.5 down from -22.4 last month. In France, September final CPI held steady at 0.9% year over year.
- Stoxx 50 Europe was up half a percent, France's CAC 40 Index nearly half a percent as well, and the U.K.'s FTSE 100 Index declined almost a quarter of a percent as of 8:14 A.M E.T. this morning.

- ***U.S.:*** Banks earnings kick off today for several major U.S. Banks, setting the tone for third quarter financial prospects and providing a look into broader business activity. We anticipate trading may be active today in the financial sector as a result.
- The Phase One trade deal announced by President Trump on Friday but not written down appears to be actively open to negotiation as China firmed up its position that agricultural purchases would not occur without a reciprocal roll-back of U.S. tariffs. Markets looked past the headlines to bank earnings to set the tone for today. Meanwhile, the U.S. imposed penalties on Turkey as its incursion of Northern Syria into territory formerly allied with U.S. special forces fighting Syria's Assad regime after the attack stretched into a fifth day.

WORLD CAPITAL MARKETS *(all data as of approximately 8:00 AM ET)*

Americas	% chg.	% YTD	Value
S&P 500	-0.14%	20.21%	2,966.2
Dow Jones	-0.11%	17.01%	26,787.4
NASDAQ	-0.10%	22.34%	8,048.6
Russell 2000	-0.43%	12.85%	1,505.4
Brazil Bovespa	0.45%	18.68%	104,301.6
S&P/TSX Comp. (Canada)	-0.05%	17.41%	16,415.2
Mexico IPC	0.20%	6.27%	43,299.5

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	0.48%	23.10%	3,573.3
FTSE 100 (U.K.)	-0.30%	11.07%	7,191.6
DAX Index (Germany)	0.39%	18.71%	12,534.8
CAC 40 (France)	0.49%	23.55%	5,670.8
FTSE MIB (Italy)	0.44%	21.13%	22,195.8
IBEX 35 (Spain)	0.48%	12.12%	9,291.0
Russia TI	0.21%	20.06%	4,701.8

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	1.87%	13.06%	22,207.2
HK Hang Seng (H. Kong)	-0.07%	6.11%	26,503.9
Korea Kospi 100	0.04%	1.78%	2,068.2
Singapore STI	-0.27%	5.19%	3,116.2
Shanghai Comp. (China)	-0.56%	22.85%	2,991.0
Bombay Sensex (India)	0.76%	7.84%	38,506.1
S&P/ASX 200 (Australia)	0.14%	23.25%	6,652.0

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	-0.10%	16.79%	520.6

Developed International	% chg.	%YTD	Value
MSCI EAFE	-0.28%	13.58%	1,891.4

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	0.58%	7.96%	1,017.5

Note: International market returns shown on a local currency basis. Equity index data is total return, inclusive of dividends.

S&P 500 Sectors	% chg.	% YTD	Value
Consumer Discretionary	-0.06%	22.29%	945.9
Consumer Staples	-0.43%	21.83%	621.8
Energy	-0.12%	3.67%	427.5
Financials	0.12%	18.28%	459.9
Real Estate	0.14%	29.44%	243.0
Health Care	-0.03%	5.40%	1,040.1
Industrials	-0.24%	20.99%	646.2
Materials	-0.74%	14.60%	356.8
Technology	-0.10%	33.05%	1,430.7
Communication Services	-0.20%	22.57%	167.9
Utilities	-0.67%	23.01%	322.2

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	-0.81%	-0.53%	22.1
FTSE NAREIT Comp.	0.03%	28.26%	21,286.2
DJ US Select Dividend	-0.41%	15.96%	2,157.3
DJ Global Select Dividend	0.06%	5.45%	218.0
S&P Div. Aristocrats	-0.39%	19.01%	2,852.8

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	-0.35%	8.23%	2,215.0
Barclays HY Bond	0.22%	11.21%	2,123.5

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	-0.01%	-8.74%	438.4
NYMEX WTI Crude (p/bbl.)	-0.34%	17.62%	53.4
ICE Brent Crude (p/bbl.)	-0.17%	10.13%	59.3
NYMEX Nat Gas (mmBtu)	0.96%	-21.70%	2.3
Spot Gold (troy oz.)	-0.04%	16.39%	1,492.7
Spot Silver (troy oz.)	-0.46%	13.43%	17.6
LME Copper (per ton)	0.39%	-2.74%	5,786.3
LME Aluminum (per ton)	-0.49%	-8.24%	1,709.3
CBOT Corn (cents p/bushel)	-1.01%	-0.94%	393.8
CBOT Wheat (cents p/bushel)	-1.13%	-6.87%	505.3

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	-0.2%	-4.0%	1.10
British Pound (£/$)	0.3%	-0.9%	1.26

	% chg.	% YTD	Value
Japanese Yen ($/¥)	0.06%	1.26%	108.33
Australian Dollar (A$/$)	-0.27%	-4.14%	0.68

	% chg.	% YTD	Value
Canadian Dollar ($/C$)	0.1%	3.1%	1.32
Swiss Franc ($/CHF)	0.0%	-1.5%	1.00

Data/Price Source: Bloomberg; Equity Index data is total return, inclusive of dividends where applicable.

Ameriprise Global Asset Allocation Committee

U.S. Equity Sector - Tactical View

Sector	S&P 500 Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
1) Communication Services	10.5%	Underweight	- 2.0%	8.5%
2) Consumer Discretionary	10.0%	Overweight	+2.0%	12.0%
3) Consumer Staples	7.4%	Equalweight	-	7.4%
4) Energy	4.6%	Equalweight	-	4.6%
5) Financials	13.1%	Underweight	- 2.0%	11.1%
6) Health Care	13.9%	Equalweight	-	13.9%
7) Industrials	9.3%	Equalweight	-	9.3%
8) Information Technology	21.8%	Overweight	+2.0%	23.8%
9) Materials	2.7%	Equalweight	-	2.7%
10) Real Estate	3.2%	Overweight	+1.0%	4.2%
11) Utilities	3.5%	Underweight	- 1.0%	2.5%

Index weighting represents relative weightings based on the regional market capitalization balance of the MSCI All-Country World Index; may not add due to rounding. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC).Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Index weights as of 9/20/19. Numbers may not add due to rounding.

Ameriprise Global Asset Allocation Committee

Global Equity Region - Tactical View

Region	MSCI All-Country World Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
1) United States	55.6%	Overweight	+7.3%	62.9%
2) Canada	3.1%	Equalweight	-	3.1%
3) United Kingdom	4.8%	Underweight	- 2.0%	2.8%
4) Europe ex U.K.	14.5%	Underweight	- 2.0%	12.5%
5) Latin America	1.4%	Equalweight	-	1.4%
6) Asia-Pacific ex Japan	12.0%	Equalweight	-	12.0%
7) Japan	7.3%	Underweight	- 2.0%	5.3%
8) Middle East / Africa	1.3%	Underweight	- 1.3%	-

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BY THE NUMBERS: ECONOMIC ACTUALS AND FORECAST:

Current Projections:

	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Est. 2019	Est. 2020	Quarterly Actual Q1-2019	Actual Q2-2019	Est. Q3-2019	Est. Q4-2019
Real GDP (YOY)	2.5%	2.9%	1.6%	2.4%	2.9%	2.2%	2.1%	3.1%	2.0%	1.8%	2.2%
Unemployment Rate	5.6%	5.0%	4.7%	4.1%	3.9%	3.6%	3.5%	3.8%	3.7%	3.5%	3.6%
CPI (YoY)	1.6%	0.1%	1.3%	2.1%	2.4%	1.8%	2.1%	1.6%	1.8%	1.8%	1.9%
Core PCE (YoY)	1.6%	1.3%	1.7%	1.6%	1.9%	1.8%	1.9%	1.6%	1.5%	1.7%	1.8%

Sources: Historical data via FactSet. Estimates (Est.) via American Enterprise Investment Services, Inc.

YoY = Year-over-year, Unemployment numbers are period ending. GDP: Gross Domestic Product; CPI: Consumer Price Index

PCE: Personal Consumption Expenditures Price Index. Core excludes food and energy

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Ameriprise Investment Research Group

Ameriprise Financial
1441 West Long Lake Road, Suite 250, Troy, MI 48098
investment.research.group@ampf.com
For additional information or to locate your nearest branch office, visit ameriprise.com

RESEARCH & DUE DILIGENCE LEADER

Lyle B. Schonberger - Vice President

Business Unit Compliance Liaison (BUCL)

Jeff Carlson, CLU, ChFC – Manager

Investment Research Coordinator
Kimberly K. Shores

Sr Administrative Assistant
Jillian Willis

EQUITY RESEARCH

Equity Research Director
Justin H. Burgin – Vice President

Consumer Goods and Services
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Energy/Utilities
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GLOBAL MARKET STRATEGIST
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Thomas Crandall, CFA, CAIA – Sr Director, Asset Allocation

Gaurav Sawhney – Research Analyst

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Steven T. Pope, CFA, CFP® – Director – Non-Core Fixed Income

Douglas D. Noah, CFA – Analyst – Core Taxable & Tax-Exempt Fixed Income

Blake Hockert – Associate – Reporting & Analytics

FIXED INCOME RESEARCH & STRATEGY

Fixed Income Research
Brian M. Erickson, CFA – Vice President

High Yield and Investment Grade Credit
Jon Kyle Cartwright – Sr Director

Stephen Tufo – Director

INVESTMENT DUE DILIGENCE

Justin E. Bell, CFA – Vice President

Kurt J. Merkle, CFA, CFP®, CAIA – Sr. Director

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Peter W. LaFontaine – Sr. Analyst

James P. Johnson, CFA, CFP® – Sr. Analyst

David Hauge, CFA – Analyst

Bishnu Dhar – Sr. Research Analyst

Parveen Vedi – Sr. Research Associate

Darakshan Ali – Research Process Trainee

INNOVATION AND DEVELOPMENT

Allen Rodrigues – Vice President

Nidhi Khandelwal – Director

Dan Bums – Sr. Manager

Matt Morgan – Sr. Manager

Natasha Wayland – Sr. Manager

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Investments in a narrowly focused sector may exhibit higher volatility than investments with broader objectives and is subject to market risk and economic risk.

Income Risk: We note that dividends are declared solely at the discretion of the companies' boards of directors. Dividend cuts or eliminations will likely negatively impact underlying company valuations. Published dividend yields are calculated before fees and taxes. Dividends paid by foreign companies to ADR holders may be subject to a withholding tax which could adversely affect the realized dividend yield. In certain circumstances, investors in ADR shares have the option to receive dividends in the form of cash payments, rights shares or ADR shares. Each form of dividend payment will have different tax consequences and therefore generate a different yield. In some instances, ADR holders are eligible to reclaim a portion of the withholding tax.

International investing involves increased risk and volatility due to political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Risks are particularly significant in emerging markets.

Market Risk: Equity markets in general could sustain significant volatility due to several factors. As we have seen recently, both economic and geopolitical issues could have a material impact on this model portfolio and the equity market as a whole.

Quantitative Strategy Risk: Stock selection and portfolio maintenance strategies based on quantitative analytics carry a unique set of risks. Quantitative strategies rely on comprehensive, accurate and thorough historical data. The Ameriprise Investment Research Group utilizes current and historical data provided by third-party data vendors. Material errors in database construction and maintenance could have an adverse effect on quantitative research and the resulting stock selection strategies.

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For additional information on individual ETFs, see available third-party research which provides additional investment highlights. SEC filings may be viewed at sec.gov

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A real estate investment trust or **REIT** is a company that owns and operates income-producing real estate. In addition, some **REITs** participate in the financing of real estate. To qualify as a **REIT**, a company must: I) invest at least 75% of its total assets in real estate assets, II) generate at least 75% of its gross income from real property or interest, and III) pay at least 90% of its taxable income to shareholders in the form of distributions. A company that qualifies as a **REIT** is permitted to deduct the distributions paid to shareholders from its corporate taxes. Consequently, many **REITs** target to payout at least 100% of taxable income, resulting in virtually no corporate taxes.

An investment in a REIT is subject to many of the same risks as a direct investment in real estate including, but not limited to: Illiquidity and valuation complexities, redemption restrictions, distribution and diversification limits, tax consequences, fees, defaults by borrowers or tenants, market saturation, balloon payments, refinancing, bankruptcy, decreases in market rates for rents and other economic, political, or regulatory occurrences affecting the real estate industry.

Ratings are provided by Moody's Investors Services and Standard & Poor's.

Non-Investment grade securities, commonly known as "high-yield" or "junk" bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

Securities offered through AFSI may not be suitable for all investors. Consult with your financial advisor for more information regarding the suitability of a particular investment.

For further information on fixed income securities please refer to FINRA's Smart Bond Investing at FINRA.org, MSRB's Electronic Municipal Market Access at emma.msrb.org, or Investing in Bonds at investinginbonds.com.

DEFINITIONS OF TERMS

Agency – Agency bonds are issued by Government Sponsored Enterprises (GSE), but are NOT direct obligations of the U.S. government. Common GSE's are the Federal Home Loan Mortgage Corp. (Freddie Mac) Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Bank (FHLB).

Beta: A measure of the risk arising from exposure to general market movements as opposed to company-specific factors. Betas in this report, unless otherwise noted, use the S&P 500 as the market benchmark and result from calculations over historic periods. A beta below 1.0, for example, can suggest the equity has tended to move with lower volatility than the broader market or, due to company-specific factors, has had higher volatility but generally low correlations with the overall market.

Corporate Bonds – Are debt instruments issued by a private corporation. Non-Investment grade securities, commonly known as "high-yield" or "junk" bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

Mortgage Backed Securities – Bonds are subject to prepayment risk. Yield and average lives shown consider prepayment assumptions that may not be met. Changes in payments may significantly affect yield and average life. Please contact your financial advisor for information on CMOs and how they react to different market conditions.

Municipal Bonds – Interest income may be subject to state and/or local income taxes and/or the alternative minimum tax (AMT). Municipal securities subject to AMT assume a "nontaxable" status for yield calculations. Certain municipal bond income may be subject to federal income tax and are identified as "taxable". Gains on sales/redemptions of municipal bonds may be taxed as capital gains. If the bonds are insured, the insurance pertains to the timely payment of principal (at maturity) and interest by the insurer of the underlying securities and not to the price of the bond, which will fluctuate prior to maturity. The guarantees are backed by the claims-paying ability of the listed insurance company.

Treasury Securities – There is no guarantee as to the market value of these securities if they are sold prior to maturity or redemption.

Price/Book: A financial ratio used to compare a company's market share price, as of a certain date, to its book value per share. Book value relates to the accounting value of assets and liabilities in a company's balance sheet. It is generally not a direct reflection of future earnings prospects or hard to value intangibles, such as brand, that could help generate those earnings.

Price/Earnings: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters' earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters' EPS.

Price/Sales: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by the company's sales per share over the most recent year.

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