Before the Bell

Morning Market Brief

September 17, 2019

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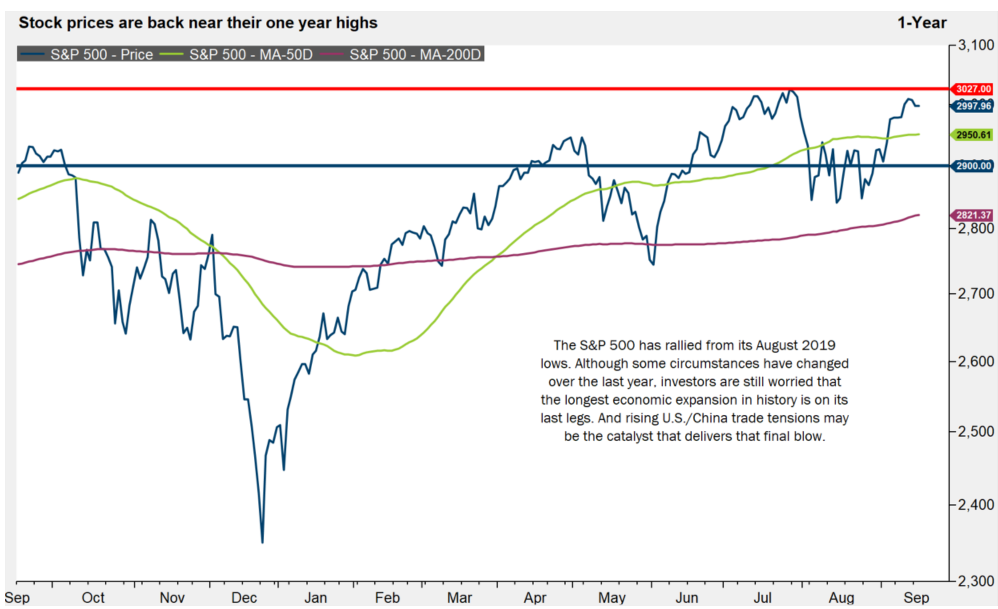
MORNING MARKET COMMENTARY: *Anthony M. Saglimbene, Global Market Strategist*

- ***Quick Take***: U.S. futures are pointing to a flattish-to-lower open; European markets are trading mixed; Asia ended mostly mixed overnight; West Texas Intermediate (WTI) oil trading at $62.00; 10-year U.S. Treasury yield at 1.81%.

- ***The Fed Moves Back Into Focus:*** The Federal Reserve begins its two-day meeting today and is widely expected to deliver further monetary accommodation to the U.S. economy by the conclusion of its confab on Wednesday. As we noted on Monday, the FOMC cut its Fed Funds target rate in July for the first time since December 2008 and is widely expected to cut by another 25 basis points tomorrow. Nevertheless, more upbeat economic data this month and a recent pause in trade tensions could cool expectations for more aggressive cuts going forward. We expect Fed Chair Jerome Powell as well as the policy statement itself to continue to stress the "mid-cycle adjustment" stance which could create some market volatility depending on how investors interpret the forward path for rates. Though the focus will be on the Fed's rate path tomorrow, investors will also have updates to the Summary of Economic Projections to chew on as well. Investors broadly expect the Fed's projections for the level of interest rates this year to reflect three cuts, including tomorrow's anticipated cut and one more before 2019 comes to a close. **Below is a quick look at where markets and the economy stand heading into another critical Fed policy decision**.

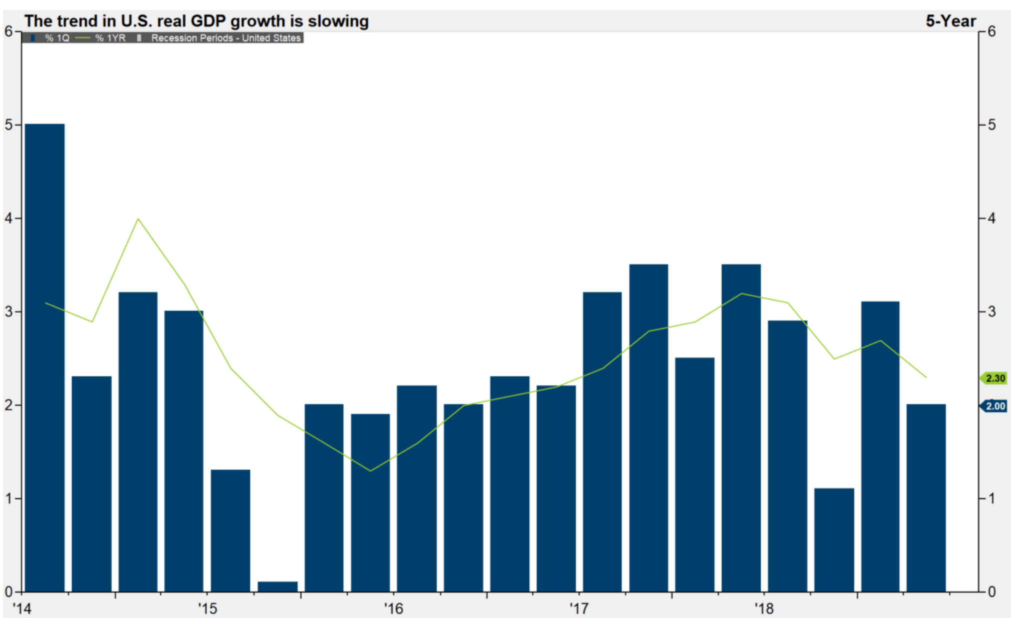


Notations:

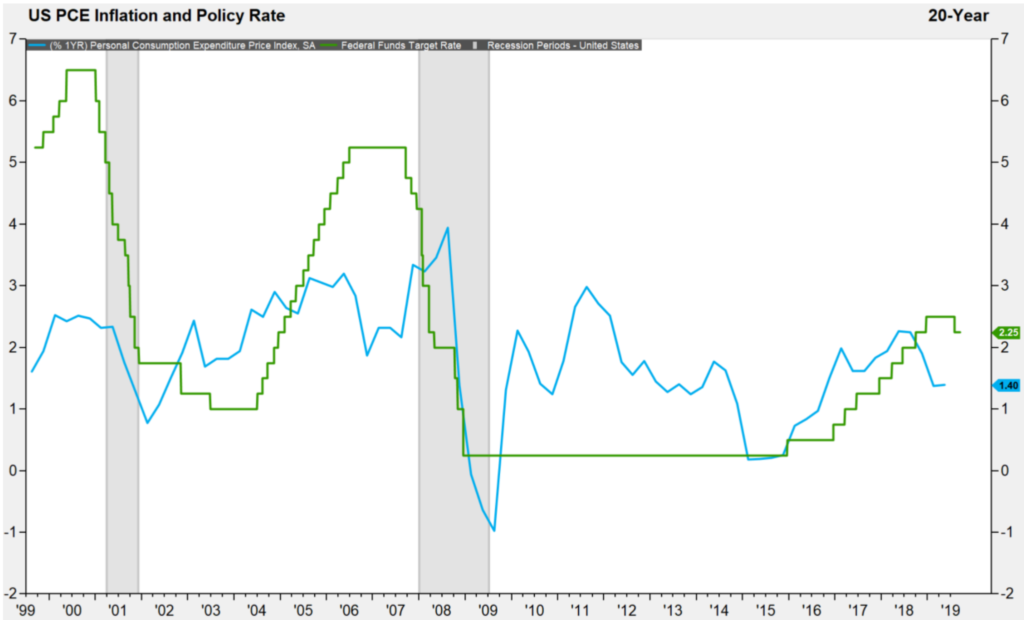
- For further information on any of the topics mentioned, please contact your Financial Advisor.
- Unless specifically stated otherwise, comments contained in this document should not be construed as an investment opinion or recommendation of any securities mentioned. Charts depicted are from FactSet unless otherwise noted.

- Although global growth has slowed this year, led by a decline in manufacturing activity, U.S. stock prices have headed higher since the end of August. Easing trade frictions, as well as the hope U.S. and China trade officials, will at least find some common ground over the coming weeks and months has lifted investor sentiment. **Nevertheless, outside of this month, stocks have seen a higher degree of volatility over the last year and do not have a lot to show for the trouble, as the *FactSet chart* above shows**.

- Considering the slowdown in economic activity this year, and elevated trade tensions, it's not surprising the Federal Reserve has turned more dovish as of late. However, economic data, on the whole, has been beating lowered expectations since the end of June as well as showing a meaningful degree of resiliency — particularly on the employment and consumer-related front. **As the *second FactSet chart* above highlights, the Citi Economic Surprises index has been heading north for several months**.



- **However, as the *third FactSet chart* above demonstrates, the pace of U.S. GDP growth has slowed since June 2018. Concurrently, trade headwinds have increased since Q2'18, and along with other factors, such as the diminishing effects from tax stimulus, U.S. economic activity has moderated**. The Ameriprise forecast for U.S. real GDP growth currently calls for a continued moderation of activity in the third quarter to +1.9% y/y with a slight rebound in the fourth quarter to +2.2%. As the Fed has clearly stated, slowing growth and the negative effects of building trade tensions over the better part of a year are a concern. Hence, the central bank's willingness to provide a "mid-cycle adjustment."



- **As the *final FactSet chart* above demonstrates, the Fed's preferred inflation measure remains well below its 2.0% target. In fact, the last time the Personal Consumption Expenditure (PCE) Price Index was this low was back at the end of 2016, and when the Fed Funds target was several notches lower than it is today**. Based on the moderate levels of inflation running through the economy, the Fed may have further room to lower interest rates if growth and inflation do not see a more meaningful pickup.
- Importantly, the market will key in on tomorrow's policy statement as well as Fed Chair Powell's follow-up speech for clues about how much more the Fed is willing to cut rates after Wednesday. In a nutshell, that's what will matter to asset prices over the near-term, in our view. But Mr. Powell has been very clear about his stance when it comes to policy and trade. Mr. Powell's message to the market? The Fed's toolbox is not equipped to counter the negative effects on the economy from tariffs. While slowing economic activity could keep the Fed dovish over the intermediate-term, if trade is the large reason for the slowdown, investors may be disappointed in the central bank's longer-term impact on the economy and asset prices.

- ***Asia-Pacific:*** Asian equities finished mostly mixed on Tuesday. Trade developments have been rather quiet over the last several days following a modest de-escalation in the U.S./China tariff war this month. According to *Bloomberg*, American and Chinese senior trade officials are expected to restart discussions over the next week or so. Nevertheless, U.S. Chamber of Commerce CEO Thomas Donohue said much work remains to reach a comprehensive deal. U.S. Trade Representative Robert Lighthizer also said while there has been movement on China buying agricultural products as well as other issues, it will be an "extraordinary challenge" to get a deal done.
- Per *Bloomberg*, and ahead of this week's Bank of Japan (BOJ) meeting, BOJ officials believe pressing interest rates further into negative territory won't disrupt the markets. If officials eventually do decide to push interest rates down over the coming months, the BOJ believes the market already expects this move. Thus, the negative effect on the market would be minimal. Nevertheless, most officials do not see a reason to act over the near-term and given the recent stability in the market and Japan's economy.

- ***Europe:*** Markets across the region are trading mixed at mid-day. UK Prime Minister Boris Johnson is expected to outline his new Irish backstop plan on the sidelines of the UN meeting next week, according to the *London Times*. Though Mr. Johnson is holding discussions with the European Union, a formal plan isn't expected until after the Conservative Party conference next month. This will leave about two weeks for UK/EU negotiations ahead of the mid-October EU summit.
- ***U.S.:*** Equity futures are pointing to a flattish-to-lower open this morning. Following this weekend's terrorist attacks on two Saudi Arabia oil facilities, U.S. intelligence indicates Iran was the staging area and where the drone strikes originated. However, Saudi officials said the U.S. didn't provide enough evidence to support this claim, which has stopped them short of accusing Iran officially for the attacks.
- Saudi Arabia indicated that while the U.S. has confirmed Iranian weapons were used, it is unclear if the Iran-backed Houthi militia in Yemen acted with support from Tehran. President Trump said yesterday that Iran appeared to be responsible, but he would like to avoid war, and any U.S. retaliation would be proportional. In our view, this helped soothe market jitters yesterday over a potential knee-jerk escalation in U.S. and Iran tensions and where a more meaningful conflict between both sides might be inevitable after the attack.
- Although WTI closed higher by over +14.0% yesterday, equity markets took the attack in stride. As we highlighted yesterday, the economy and U.S. consumer can likely absorb a modest increase in oil/gas prices. However, if oil/gas prices move substantially higher from current levels, we would become more concerned about the outlook for growth.
- According to the latest *BofA Merrill Lynch Global Fund Manager Survey,* professional money managers are skeptical of the recent rally in the market, remain largely bearish, and concerned about the pace of profit growth. Recession risks among this group also hit the highest level since August 2009. Countering the recent uptick in price-performance across Value names over the last week, money managers remain overweight assets that can outperform in a low growth, low rate environment. The trade war between the U.S. and China also remains the largest tail risk among respondents (top spot in 17 of the last 19 months). The second-largest concern among money managers is monetary policy impotence. Long U.S. Treasuries are the most crowded trade among the group for the fourth-straight month.

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WORLD CAPITAL MARKETS

9/17/2019 As of: 8:30 AM ET

Americas	% chg.	% YTD	Value	Europe (Intra-day)	% chg.	%YTD	Value	Asia/Pacific (Last Night)	% chg.	%YTD	Value
S&P 500	-0.31%	21.36%	2,998.0	DJSTOXX 50 (Europe)	-0.21%	20.80%	3,511.1	Nikkei 225 (Japan)	0.06%	11.31%	22,001.3
Dow Jones	-0.52%	18.20%	27,076.8	FTSE 100 (U.K.)	0.07%	12.87%	7,326.3	Hang Seng (Hong Kong)	-1.23%	7.08%	26,790.2
NASDAQ Composite	-0.28%	23.87%	8,153.5	DAX Index (Germany)	-0.50%	16.67%	12,318.6	Korea Kospi 100	0.01%	1.49%	2,062.3
Russell 2000	0.41%	18.64%	1,584.6	CAC 40 (France)	-0.12%	21.75%	5,595.6	Singapore STI	-0.65%	7.43%	3,183.0
Brazil Bovespa	0.17%	17.97%	103,680	FTSE MIB (Italy)	-0.72%	19.03%	21,811.7	Shanghai Comp. (China)	-1.74%	19.42%	2,978.1
S&P/TSX Comp. (Canada)	0.41%	19.51%	16,751.3	IBEX 35 (Spain)	-0.79%	8.21%	8,980.6	Bombay Sensex (India)	-1.73%	2.17%	36,481.1
Mexico IPC	Closed	5.13%	42,841.5	MOEX Index (Russia)	-0.28%	25.93%	2,826.3	S&P/ASX 200 (Australia)	0.33%	23.97%	6,695.3

Global	% chg.	% YTD	Value	Developed International	% chg.	%YTD	Value	Emerging International	% chg.	%YTD	Value
MSCI All-Country World Idx	-0.39%	17.68%	525.6	MSCI EAFE	-0.90%	13.89%	1,902.3	MSCI Emerging Mkts	0.05%	8.81%	1,027.1

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
Communication Services	-0.77%	24.45%	171.0
Consumer Discretionary	-1.31%	23.62%	956.4
Consumer Staples	-0.96%	20.66%	616.8
Energy	3.29%	12.16%	462.6
Financials	-0.48%	20.53%	469.4
Health Care	-0.23%	6.60%	1,053.3
Industrials	-0.15%	24.48%	665.2
Materials	-1.63%	16.59%	363.3
Real Estate	1.02%	27.62%	240.3
Technology	-0.27%	31.71%	1,417.4
Utilities	0.08%	21.07%	317.4

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	1.17%	7.92%	24.0
FTSE NAREIT Comp. TR	0.98%	26.26%	20,953.7
DJ US Select Dividend	-0.14%	17.63%	2,188.3
DJ Global Select Dividend	-0.66%	4.91%	216.9
S&P Div. Aristocrats	-0.85%	19.55%	2,865.7

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	0.33%	7.48%	2,199.6
Barclays HY Bond	0.22%	11.76%	2,133.9

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	0.17%	-7.72%	443.4
NYMEX WTI Crude (p/bbl.)	-1.26%	36.78%	62.1
ICE Brent Crude (p/bbl.)	-1.35%	26.56%	68.1
NYMEX Nat Gas (mmBtu)	0.45%	-8.40%	2.7
Spot Gold (troy oz.)	0.39%	17.29%	1,504.2
Spot Silver (troy oz.)	-0.02%	15.19%	17.8
LME Copper (per ton)	-1.77%	-1.77%	5,844.0
LME Aluminum (per ton)	-0.86%	-5.44%	1,761.5
CBOT Corn (cents p/bushel)	-1.14%	-6.98%	369.8
CBOT Wheat (cents p/bushe	-1.02%	-10.83%	483.8

Foreign Exchange (Intra-da	% chg.	% YTD	Value		% chg.	% YTD	Value		% chg.	% YTD	Value
Euro (€/$)	0.25%	-3.82%	1.10	Japanese Yen ($/¥)	-0.03%	1.42%	108.15	Canadian Dollar ($/C$)	-0.23%	2.77%	1.33
British Pound (£/$)	-0.10%	-2.63%	1.24	Australian Dollar (A$/$)	-0.38%	-2.98%	0.68	Swiss Franc ($/CHF)	-0.21%	-1.29%	0.99

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	10.2%	Underweight	- 2.0%	8.2%
2) Consumer Discretionary	10.2%	Equalweight	-	10.2%
3) Consumer Staples	7.3%	Equalweight	-	7.3%
4) Energy	5.0%	Equalweight	-	5.0%
5) Financials	12.9%	Underweight	- 2.0%	10.9%
6) Health Care	14.3%	Overweight	+2.0%	16.3%
7) Industrials	9.3%	Equalweight	-	9.3%
8) Information Technology	21.6%	Overweight	+2.0%	23.6%
9) Materials	2.7%	Equalweight	-	2.7%
10) Real Estate	3.1%	Overweight	+1.0%	4.1%
11) Utilities	3.4%	Underweight	- 1.0%	2.4%

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 6/21/19. 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	55.5%	Overweight	+4.3%	59.8%
2) Canada	3.0%	Equalweight	-	3.0%
3) United Kingdom	5.0%	Underweight	- 1.0%	4.0%
4) Europe ex U.K.	14.5%	Underweight	- 1.0%	13.5%
5) Latin America	1.5%	Equalweight	-	1.5%
6) Asia-Pacific ex Japan	12.2%	Equalweight	-	12.2%
7) Japan	7.0%	Underweight	- 1.0%	6.0%
8) Middle East / Africa	1.3%	Underweight	- 1.3%	-

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 6/21/19. Numbers may not add due to rounding.

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%	1.9%	2.2%
Unemployment Rate	5.6%	5.0%	4.7%	4.1%	3.9%	3.6%	3.5%	3.8%	3.7%	3.6%	3.6%
CPI (YoY)	1.6%	0.1%	1.3%	2.1%	2.4%	1.8%	2.1%	1.6%	1.8%	1.9%	2.0%
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 Last Updated: September 6, 2019

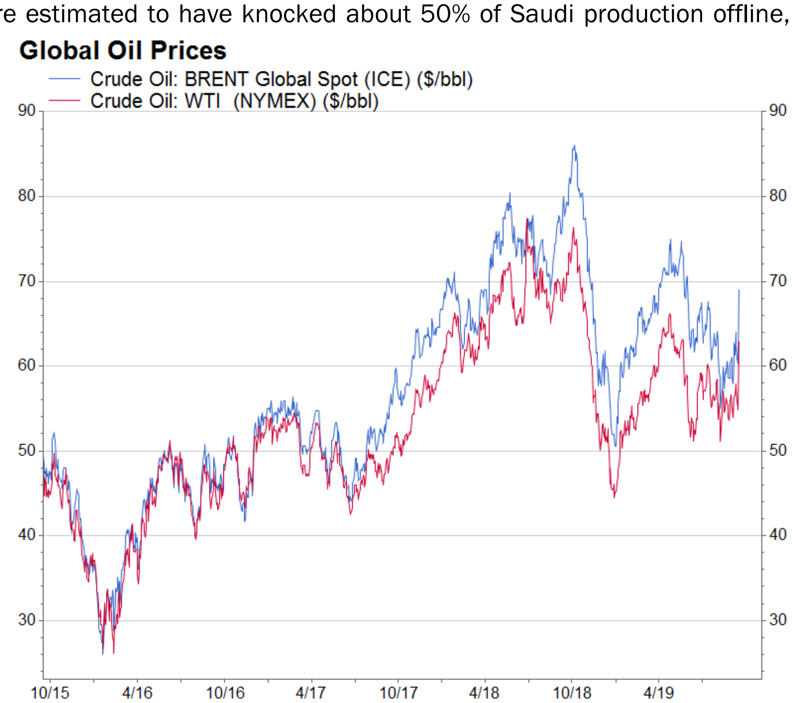
ECONOMIC NEWS OUT TODAY:

Economic Releases for Tuesday, September 17, 2019. All times Eastern. Consensus estimates via Bloomberg.

Time	Period	Release	Consensus Est.	**Actual**	Prior	Revised to
9:15 AM	AUG	Industrial Production (MoM)	+0.2%		-0.2%	
9:15 AM	AUG	Capacity Utilization	77.6%		77.5%	
9:15 AM	AUG	Manufacturing Output (MoM)	+0.2%		-0.4%	
10:00 AM	SEP	NAHB Housing Market Index	66		66	

Economic Perspective: ***Russell T. Price, CFA – Chief Economist***

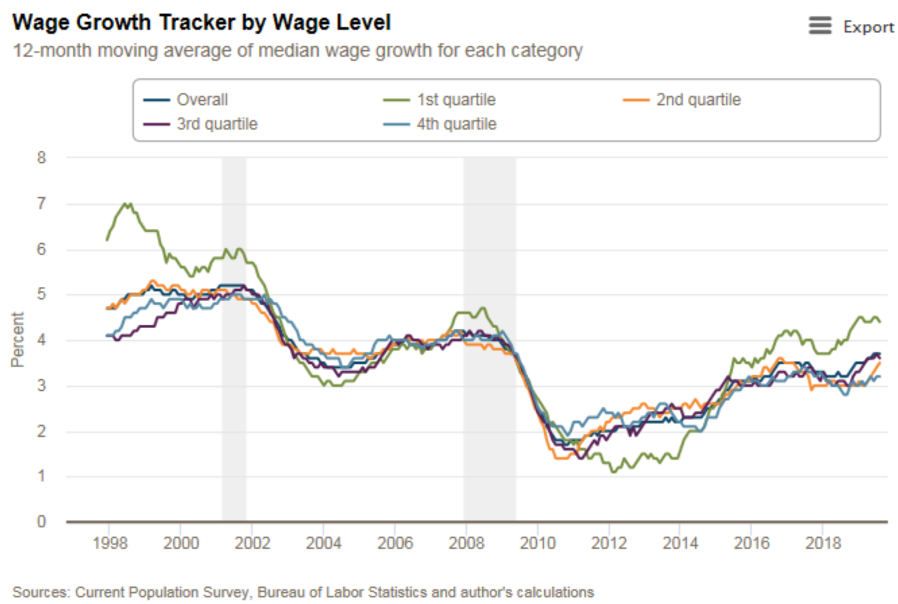
- **The economic impact of the Saudi oil outage: The Math.** Now that we have a better idea of the market's re-pricing of crude oil following the weekend's attacks on Saudi oil output, we can better gauge the impact on the underlying economy. As a short review, the attacks were estimated to have knocked about 50% of Saudi production offline, representing about 5% of global daily production. On Friday, Brent Crude Oil (primarily used as a global price benchmark) closed at $60.23 while West Texas Intermediate (WTI) (primarily used as a domestic benchmark) closed at $54.89. At yesterday's close the numbers respectively were $69.03 and $62.88.



- We estimate the $8.00, or ~15% increase in domestic crude oil prices over this very short period could raise national average gasoline prices by about $0.25. Last week, national average gasoline prices were $2.55, which was $0.29, or 10% below year-ago levels. Our estimate suggests a price adjustment to national averages of about $2.80, or slightly more initially as prices adjustments for gas often overshoot initially.
- A review of historical data for such instances of sharp energy price upward adjustments shows that consumers initially (i.e., weeks, or a month, or so) increase their overall spending to account for the higher cost. Beyond a month or two however, nominal spending is brought back into line with its prior trend meaning that consumers forgo spending on other items as to allocate for gasoline.
- Crude oil prices may moderate in the days ahead depending on several factors, primarily: How fast Saudi output is able to come back on line, and the ultimate response to the attacks, a response that is likely to be of a military nature. If prices were to maintain a $0.20 to $0.30 jump over the course of a full year, we estimate that it would reduce real consumer spending by approximately $28 to $42 billion (put differently, this amount of consumer spending would simply be lost to inflation). Such values equate to a reduction in the year-over-year change in real

consumer spending of about 5% to 9%, which we estimate would shave approximately 0.1 to 0.2 percentage points from real GDP if maintained over the course of an entire year. Of course, this added headwind – again depending on the ultimate path of gasoline prices – comes on top of the pressure consumers and the broader economy are already seeing and scheduled to see, from tariffs.

- **The lower-end of the wage scale has finally been seeing the best pay gains.** Income inequality expanded after the Great Recession amid a surplus of unskilled labor. The differences between those at the "top" and those at the "bottom" was worse on a wealth basis as households that owned financial assets and /or real estate benefited from the strong rebound in stock prices and home values.
- However, lower income groups are usually singularly reliant on weekly employment income for their financial survival. Unfortunately, the relatively slow improvement in job market conditions after the recession resulted in weak wage growth for years. That's been changing.
- As seen in the chart below (as sourced from the Atlanta Federal Reserve), those in the first quartile of wage income (i.e., the lowest 25% of the income spectrum) have finally been experiencing wage growth that exceeds that of other income groups. The data is certainty not meant to imply that income inequality is going away but it is a distinct positive for those at the lower rungs of the income spectrum. It's also a comparative positive for the economy as these individuals usually fully spend their income gains, and it strengthens overall consumer financial health by providing a broader base of consumers experiencing a better financial situation.
- The chart below at right is sourced from the Atlanta Federal Reserve. Please note: data in the chart below reflects year-over-year changes in wages at the individual level. Wage growth as reflected in the monthly personal income report, which showed a 5.2% yr/yr increase in July, represents changes in the aggregate level of wages, which incorporate the influence of rising employment levels.



FIXED INCOME NEWS & VIEWS: *Brian M. Erickson, CFA, Fixed Income Research & Strategy*

The Pinch in Repo Markets May Show Up in Fed Comments Wednesday

- The jump in Treasury repurchase agreements (repo) to 8.52% (ICAP pricing, show in the chart below) this week, up from an average of around 2.25% since August 1 reflects a severe liquidity squeeze that led to demand for U.S. Dollars in global currency markets as well. In a repo agreement, a company sells a Treasury to a counterparty with the agreement that they will buy it back the next day in the case of overnight repo. This provides seller cash and for a predetermined cost, determined by the price they pay to get the Treasury back the next day. Repo is typically quoted as an overnight rate but can be multiple days or even weeks.
- Investment firms and banks rely on the ability to use Treasury securities as collateral to obtain funding. For example, a bank, which naturally holds a large portfolio of Treasuries, needs to meet lending commitments to borrower at the same time that depositors need to withdraw funds to make quarterly tax payments, the bank can borrow temporarily using repo (maybe just overnight) to meet the temporary jump in cash outflows. That is essentially what happened Monday. Banks and dealers settled $50 billion of Treasuries auctioned last week after already funding $127 billion of new investment grade corporate issuance, which left companies looking to repurchase market for short term funding. We have seen the intermittent blips where demand for repo funding eclipses lending capacity typically at

year-end when companies look to prep balance sheets for annual reports. The chart below shows the significant jump at year-end 2018 and again this week.

Overnight Repurchase Rate (Repo) and Fed Funds Target Range

Source: Bloomberg L.P.

- The Fed uses the repo funding rate as a tool to manage the fed funds target range. This core borrowing rate is at the center of funding markets. Companies assume they can get funding secured by a Treasury bond to manage liquidity. When demand for borrowing exceeds the supply of lending the rate rises. The settlement of a massive wave of corporate new issuance at the same time the U.S. Treasury settled note auctions last week resulted in the squeeze. Volatility in the repo funding markets can severely undermine bond market sentiment, as companies may take more conservative approaches to funding to avoid paying elevated rates. This may preclude them from buying at times when they formerly relied on repo funding to support purchases.
- The liquidity pinch Monday may show up in the Fed's discussion tomorrow should the Fed look to ensure the market has sufficient access to funding. Fed policy relies on and is dependent upon stability as the core of funding markets. A simple solution would be a Fed facility to provide repo funding to ensure markets remain fluid and that fed funds remains within the target range. When the measure determining the upper bound pops out of line, that could also impact the ability for the Fed to implement policy. We believe the Fed likely nips funding concerns in the bud, to prevent repo friction from undermining financial market functioning.

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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.

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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.

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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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