Ameriprise Financial

Before the Bell

Morning Market Brief

January 11, 2019

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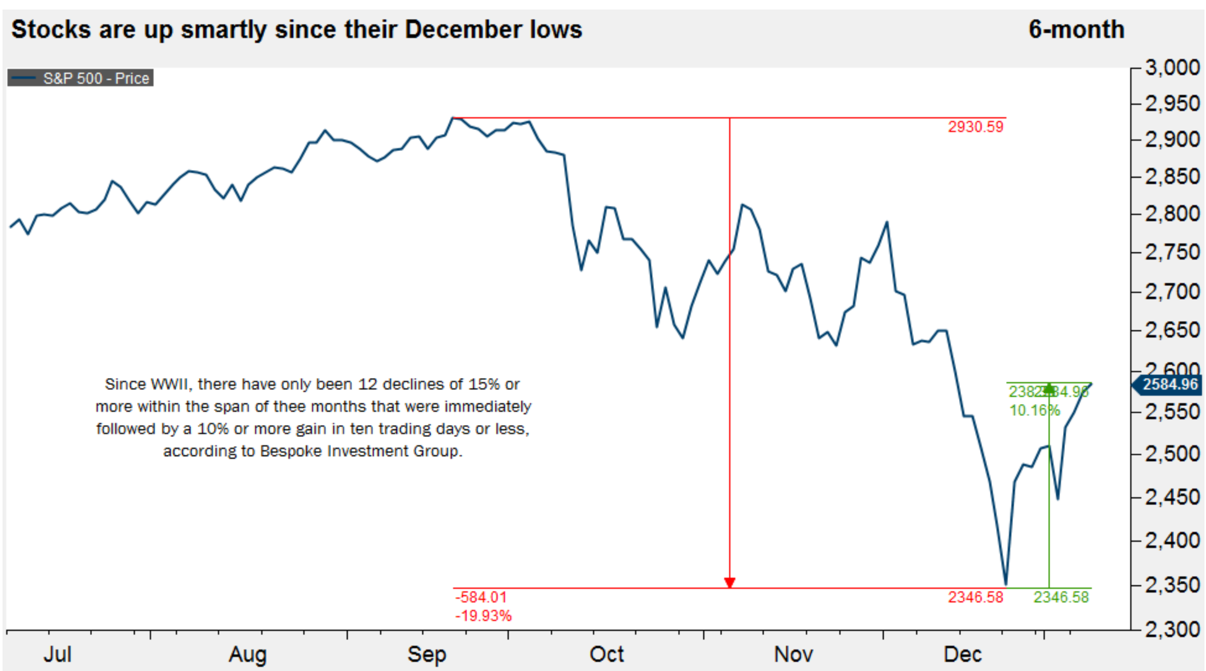
MORNING MARKET COMMENTARY: *Anthony M. Saglimbene, Global Market Strategist*

- ***Quick Take***: U.S. futures are pointing to a weaker open; Europe is trading mostly lower; Asia finished mostly higher overnight; West Texas Intermediate (WTI) oil trading at $52.32; 10-year U.S. Treasury yield at 2.71%.

- ***After a Tough December, Stock Prices are on the Mend:*** On a total return basis, the S&P 500 Index fell roughly 9.0% during December, posting its worst month since February 2009. From its September high to its December low, the Index lost almost 20% on a price alone basis, and as the *embedded FactSet chart* demonstrates. Yet, the chart also shows the U.S. stock barometer gained 10.0% over the next ten trading days through Wednesday, bouncing sharply from the end of December low. In fact, the gain was the biggest rally over ten days since 2009. Year-to-date, the S&P 500 is higher by over +3.5%, while the NASDAQ is up over +5.0%, and the Russell 2000 has gained over +7.0%.



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- **According to *Bespoke Investment Group* data, equity returns are generally positive moving forward after similar types of market moves. In 6 of the last 12 such moves since WWII, where the S&P 500 Index declined 15% or more in three months and rebounded 10% or more in the following ten trading days, the Index did not make a lower low over the next 12 months**. Although such moves in the Index have produced mixed and volatile returns shortly following the violent pattern, *Bespoke* historical data shows that returns longer out tend to be solid. Since 1945, the S&P 500 was higher by +4.1% during the next three months and up +13.9% over the next year, on average, and following the pattern described above.
- Granted, this is nothing more than historical, and admittedly, wonky data. One can always choose data sets and time frames to shape the story they want to tell. Nevertheless, we highlight this topical point, because the market's violent moves both lower and higher is similar to other important points in the past. In some instances, such stock patterns reflected changes in underlying economic conditions that preceded or occurred during recessions. In other instances, these violent patterns did not coincide with a recession.
- **The main take away for investors, from our view, is that the road ahead over the intermediate-term is less certain for stock prices, hence more back-and-forth movement. If fundamentals hold, there is a case to be made and data to support a view that stock prices may be higher one year from now. If conditions deteriorate, however, then the recent pattern in stock prices may be a warning of further weakness ahead. With such large variables on earnings, trade, and interest rates at play today, we believe a neutral approach to U.S. equities is the right path forward for now**.

- *Asia-Pacific:* Asian equities closed higher on Friday. According to *Reuters*, Vice Premier Liu He, China's chief trade negotiator, is likely headed for Washington D.C. later this month. Deputy-level discussions this week in Beijing ended on a generally positive note, and likely helped pave the way for higher-level talks to take place. U.S. Treasury Secretary Steven Mnuchin also said that the U.S. government shutdown is not expected to affect trade talks. Based on this week's trade discussions, progress appears to have been made on Beijing stepping-up commitments to increase purchases of U.S. goods and services. However, structural reform changes, including IP issues, subsidies to state-owned enterprises, and technology transfer were not highlighted in the lower-level talks this week. We expect these topics to be addressed later this month.
- Also, according to *Reuters,* China plans to set its economic growth target in a range from +6.0% to +6.5% in 2019, down from "around" +6.5%. We believe headwinds from U.S. tariffs, softer domestic demand, and slower overall global growth are likely the culprits for the slower GDP target this year. Per the report, the new GDP target is scheduled to be unveiled at China's annual parliamentary session in March, although top leaders at the Central Economic Work Conference endorsed the target in mid-December.
- *Europe:* Markets across the region are trading mostly lower at midday. UK Prime Minister Theresa May continues her battle to win support for her Brexit plan ahead of next Tuesday's parliamentary vote. Mrs. May has held talks with small groups of opposition parties in an attempt to build cross-party support for her Brexit approach. However, the latest push by Mrs. May could come too late, as a recent analysis shows she could be headed for defeat next week by more than 200 votes. Reports indicate the Prime Minister and her team are preparing alternate strategies should her deal fail.
- *U.S.:* Equity futures are pointing to a weaker open this morning. The White House is likely to declare a national emergency on the southern border to build President Trump's border wall. According to the *Washington Post*, the Trump administration is laying the groundwork to declare a national emergency and eyeing funds from previously unspent disaster relief funding. The move could trigger anger from both Democrats and Republicans, as money intended to rebuild areas impacted by natural disasters, such as Texas and Puerto Rico, would be diverted away from future projects. It is also very likely Democrats would challenge the President's move in court. If the partial U.S. government shutdown carries into Saturday, which it most likely will, the current shutdown will be the longest on record.
- **Separately, more than a half-dozen large corporations on Thursday, either lowered their profit forecast, announced job cuts, or scrapped investment plans, according to *Bloomberg*. Trade friction, a slowdown in China, and volatile capital markets were cited as reasons for the corporate conservativism. But as we highlighted yesterday, a lot of bad news is already priced into equity markets. In our view, fourth quarter earnings results will be a real test for markets over the coming weeks. The big question: Can corporate profit results and outlooks confirm the solid fundamental backdrop economists and strategists continue to cite as the reason to stay positive on the market**.
- Lastly, a pair of speeches by Fed Chair Jerome Powell and Vice Chair Richard Clarida on Thursday reinforced the view that the central bank will take a slow and steady approach to monetary policy this year. Both men highlighted that growth prospects had moderated and that monetary policy could be flexible, particularly around balance sheet

normalization. Additionally, Powell and Clarida reiterated a benign view on inflation and drew attention back to the central bank's data dependency approach. On a related note, the world's largest central banks are expected to cut their balance sheets by more than $200 billion in 2019. This would mark the first time in nearly a decade global central banks were removing more liquidity from the markets than they pumped in, according to *Reuters*. However, recent moves by China's central bank could keep net liquidity across the world positive this year. Also, we believe a recent global growth slowdown could prompt some central banks to slow or halt their normalization plans this year if fundamental conditions worsen.

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

Americas	% chg.	% YTD	Value
S&P 500	0.45%	3.65%	2,596.6
Dow Jones	0.51%	2.96%	24,001.9
NASDAQ	0.42%	5.31%	6,986.1
Russell 2000	0.46%	7.21%	1,445.4
Brazil Bovespa	-0.33%	6.38%	93,496.1
S&P/TSX Comp. (Canada)	0.67%	4.12%	14,903.5
Mexico IPC	0.05%	4.88%	43,669.0

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	-0.44%	2.07%	3,062.3
FTSE 100 (U.K.)	-0.33%	2.86%	6,919.9
DAX Index (Germany)	-0.64%	2.77%	10,851.2
CAC 40 (France)	-0.75%	0.83%	4,769.7
FTSE MIB (Italy)	-0.35%	4.96%	19,232.8
IBEX 35 (Spain)	0.21%	4.19%	8,875.3
Russia TI	0.81%	4.51%	4,375.8

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	0.97%	1.72%	20,359.7
HK Hang Seng (H. Kong)	0.55%	3.18%	26,667.3
Korea Kospi 100	0.60%	1.69%	2,075.6
Singapore STI	0.48%	4.23%	3,198.7
Shanghai Comp. (China)	0.74%	2.40%	2,553.8
Bombay Sensex (India)	-0.27%	-0.16%	36,009.8
S&P/ASX 200 (Australia)	-0.36%	2.27%	5,774.6

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	0.35%	3.92%	473.2

Developed International	% chg.	%YTD	Value
MSCI EAFE	0.09%	3.97%	1,787.0

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	0.43%	3.45%	998.7

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	-0.23%	6.04%	828.6
Consumer Staples	0.61%	1.33%	528.7
Energy	0.33%	8.75%	461.2
Financials	0.12%	2.67%	406.0
Real Estate	1.55%	2.92%	198.0
Health Care	0.24%	1.30%	1,014.0
Industrials	1.44%	5.51%	572.0
Materials	0.87%	3.83%	328.8
Technology	0.46%	2.69%	1,117.1
Communication Services	0.20%	6.41%	147.3
Utilities	1.41%	1.05%	271.4

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	-1.31%	11.55%	24.8
FTSE NAREIT Comp.	1.43%	3.87%	17,237.8
DJ US Select Dividend	0.58%	3.59%	1,927.2
DJ Global Select Dividend	0.11%	5.50%	218.1
S&P Div. Aristocrats	0.73%	2.46%	2,456.1

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	-0.06%	0.01%	2,046.7
Barclays HY Bond	0.04%	3.06%	1,967.8

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	-0.19%	-0.38%	478.6
NYMEX WTI Crude (p/bbl.)	-0.61%	15.11%	52.3
ICE Brent Crude (p/bbl.)	-0.71%	13.83%	61.2
NYMEX Nat Gas (mmBtu)	2.90%	3.91%	3.1
Spot Gold (troy oz.)	0.47%	0.79%	1,292.6
Spot Silver (troy oz.)	0.77%	1.25%	15.7
LME Copper (per ton)	-0.49%	-0.69%	5,907.8
LME Aluminum (per ton)	0.50%	-1.17%	1,841.0
CBOT Corn (cents p/bushel)	0.53%	0.87%	378.3
CBOT Wheat (cents p/bushel)	1.12%	3.23%	519.5

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	0.2%	0.5%	1.15
British Pound (£/$)	0.5%	0.5%	1.28

	% chg.	% YTD	Value
Japanese Yen ($/¥)	0.12%	1.28%	108.30
Australian Dollar (A$/$)	0.47%	2.41%	0.72

	% chg.	% YTD	Value
Canadian Dollar ($/C$)	0.1%	3.1%	1.32
Swiss Franc ($/CHF)	0.2%	0.0%	0.98

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

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	54.1%	Overweight	+3.1%	57.2%
2)	Canada	3.0%	Equalweight	-	3.0%
3)	United Kingdom	5.4%	Underweight	- 1.0%	4.4%
4)	Europe ex U.K.	14.9%	Underweight	- 1.0%	13.9%
5)	Latin America	1.4%	Equalweight	-	1.4%
6)	Asia-Pacific ex Japan	12.5%	Equalweight	-	12.5%
7)	Japan	7.6%	Equalweight	-	7.6%
8)	Middle East / Africa	1.1%	Underweight	- 1.1%	-

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 12/20/18. Numbers may not add due to rounding.

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	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%	6) Health Care	15.5%	Overweight	+2.0%	17.5%
2) Consumer Discretionary	9.8%	Equalweight	-	9.8%	7) Industrials	9.2%	Equalweight	-	9.2%
3) Consumer Staples	7.5%	Underweight	- 2.0%	5.5%	8) Information Technology	20.2%	Equalweight	-	20.2%
4) Energy	5.3%	Overweight	+2.0%	7.3%	9) Materials	2.6%	Equalweight	-	2.6%
5) Financials	13.3%	Equalweight	-	13.3%	10) Real Estate	3.0%	Overweight	+1.0%	4.0%
					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 12/20/18. Numbers may not add due to rounding.

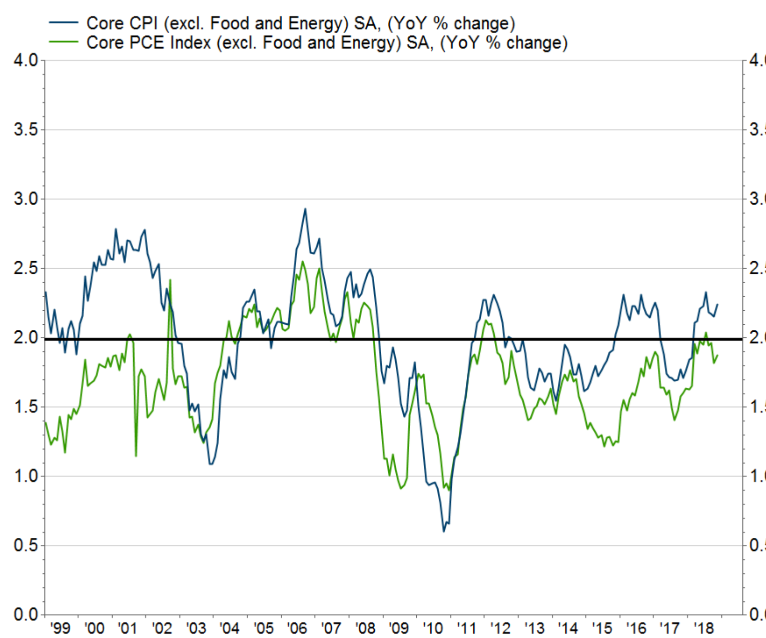
ECONOMIC NEWS OUT TODAY:

Economic Releases for Friday, January 11, 2019. All times Eastern. Consensus estimates via Bloomberg.

Time	Period	Release	Consensus Est.	Actual	Prior	Revised to
8:30 AM	DEC	Consumer Price Index (CPI) (MoM)	-0.1%	**-0.1%**	0.0%	
8:30 AM	DEC	Core CPI (ex. Food & Energy) (MoM)	+0.2%	**+0.2%**	+0.2%	
8:30 AM	DEC	Consumer Price Index (CPI) (YoY)	+1.9%	**+1.9%**	+2.2%	
8:30 AM	DEC	Core CPI (ex. Food & Energy) (YoY)	+2.2%	**+2.2%**	+2.2%	

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

- **Inflation remains well contained.** Consumer price trends were generally as-expected in the month of December. Headline CPI was down due to a sharp fall in gasoline prices, but the more important core metric, which excludes the volatile food and energy components, remained a few tenths above the 2.0% arbitrary target that forecasters, economists and markets, tend to look at as an "optimal" rate. **Although we currently forecast the core rate to see another +0.2% increase in January, a stronger pace of inflation seen in early 2018 will make for a tougher year-over-year comparison. As such, we currently project the yr/yr core rate to fall to +2.1%. Our longer-term inflation outlook has core inflation rising to +2.3% at times in 2019, but we project the full-year average to be +2.2% versus the +2.1% registered for all of 2018.**
- The decline in headline CPI for December was primarily a reflection of the rise and fall of energy prices over the second-half of 2018. Prices for West Texas Intermediate (WTI) crude oil reached $75 /barrel for a short period in early October, which lifted national average gasoline prices to a high of $2.90 in the second week of October (16% above their year-ago levels) – a time of year when prices are normally falling. By the end of December, however, crude prices had dropped considerably, to approximately $45 (also for a short period) and gasoline prices in the final week of December were $2.27, or about 10% below year-ago levels, according to Energy Information Administration data.
- The chart at right depicts Core CPI and the Federal Reserve's preferred inflation measure, the Core Personal Consumption Expenditures Index (note: the CPI line in the chart has NOT been updated for today's



release). What's the difference? The basic difference between the two measures lies in the weightings for individual items. The weightings for CPI are adjusted once a year, while the weightings for the PCE Index change with consumer purchasing patterns on a monthly basis. The measured changes in price for individual items all comes from the same survey data (the Labor Department sends out thousands of people each month to record the unit prices for individual items), but then the PCE numbers are weighted against the spending allocations on a month-to-month basis. Both are also seasonally adjusted, of course.

- As seen in the chart, the Core PCE rate almost always runs weaker than the CPI numbers as people usually change their spending when the price of an item goes up or down. Gasoline sales decline when prices jump, and they rise when prices fall. The same is true for substitution items such as hamburger or steak. Long story short – the Core CPI reading of 2.2% will likely translate into a Core PCE reading of +1.9% to 2.0%, rates that should leave Fed officials comforted.

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

Please see our Morning Research Notes report for today's fixed income commentary. Fixed Income News & Views will return to this space on Monday.

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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.

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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Any information relating to the income or capital gains tax treatment of financial instruments or strategies discussed herein is not intended to provide specific tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

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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.

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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.

INDEX DEFINITIONS

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

Definitions of individual indices mentioned in this report are available on our website at ameriprise.com/legal/disclosures in the **Additional Ameriprise research disclosures** section, or through your Ameriprise financial advisor.

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