Before the Bell
Morning Market Brief

July 15, 2019

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MONDAY MORNING MARKET STRATEGY: David M. Joy, Chief Market Strategist

Stocks surged to an all-time high after Fed Chairman Powell’s congressional testimony was overwhelmingly construed as paving the way for a rate cut at the end of the month. Citing renewed uncertainties surrounding trade, business investment and inflation, the chairman said conditions had deteriorated since the May FOMC meeting. While markets had discounted the possibility of a half point reduction this month following the strong June jobs report, those expectations re-emerged following Powell’s testimony, with futures now showing 25 percent odds of a half point cut and 100 percent odds of at least a quarter point cut. Markets also shrugged off the stronger than anticipated June core CPI reading, focusing instead on the chairman’s speculation that weak inflation could be more persistent than expected.

The S&P 500 ended the week at 3113, up 0.8 percent for the week. Energy stocks were among the best performers, followed by consumer discretionary, communication services, and technology. Laggards included healthcare, materials, and utilities. Bond markets certainly took notice of the rise in inflation. The yield on the ten-year treasury note climbed eight basis points following the CPI release on Thursday to end the week at 2.12 percent, up from 2.03 percent the prior week. Coupled with a stronger PPI on Friday, the move higher in yield was enough to briefly push the slope of the curve between the three-month bill and ten-year note, which had been inverted since May 23rd, into positive territory. It ended the week at -2 basis points, up from -19 the previous Friday. The two-year to ten-year curve widened by ten basis points to 27.

The latest round of data from China offered more evidence that its economy has slowed. Year-over-year GDP in the second quarter grew at a pace of 6.2 percent, down from 6.4 percent in the first quarter. And although the pace was in-line with expectations, it was the slowest in almost thirty years. The news wasn’t all bad, however. Monthly data for industrial production, retail sales, and fixed-asset investment were all better than expected, indicating that the government’s efforts to stabilize growth and offset the impacts of the trade war were having some effect. If successful, a stable Chinese economy would go a long way toward arresting the overall slowdown in global growth, the trade war notwithstanding. The data follows last week’s reports of better than expected industrial production in the Eurozone, with notable improvement in France, Italy, and Germany.

In the U.S., this week’s economic calendar is full. Scheduled reports include retail sales, industrial production, housing starts and permits, the Beige Book, leading indicators, and consumer sentiment. But it is earnings that will be the primary focus this week. According FactSet, expected earnings growth this quarter has slipped further to -3 percent, following a higher than typical number of negative preannouncements. And although that total is higher than usual, the depth of the downward adjustments has been relatively modest. And to the extent that aggregate results typically exceed expectations, the second quarter will likely end up being relatively flat year-over-year. The forward PE ratio of the S&P 500 is now 17.1X, up from 16.5X just a few weeks ago. Inasmuch as earnings growth has been relatively flat, that increase has come exclusively from multiple expansion, as the market discounts the expected Fed rate cut(s). With stocks at record highs, multiple expansion will only carry prices so far. Ultimately, earnings growth will have to once

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- 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.
again start growing. That is not expected to happen until the fourth quarter, and then accelerate into next year. Our economic forecast for the second half anticipates U.S. growth of roughly 2.25 percent. If China does stabilize and trade tensions do not deteriorate, earnings growth may, indeed, meet expectations. On the other hand, if those two variables do not materialize, we could be set up for disappointment.

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

- **Quick Take:** U.S. futures are pointing to a higher open; European markets are trading mostly in the green; Asia ended mostly higher overnight; West Texas Intermediate (WTI) oil trading at $60.35; 10-year U.S. Treasury yield at 2.11%.

- **The S&P 500 Index Tops 3,000 – And It’s Still A Run Of The Mill Recovery:** The S&P 500 Index is higher by over +20.0% year-to-date, continues to press new highs, and has more than recovered the losses seen in the final quarter of last year. While second quarter earnings reports (starting in earnest this week) and incoming economic data could test the market’s unfettered ascension higher over the next few weeks, seasonality trends and a pause in the U.S./China trade war offer offsetting positives that may dull any unexpected bad news on the fundamental side.

![Stock prices keep pressing new highs, but so far, we are in a pretty average recovery](image)

- With the S&P 500 Index recently blowing past 2,900 and breaking out above the 3,000 level, it would be easy to assume that stock prices are entering a state of euphoria. And though time will tell if that’s the case, based on where the fundamental data is headed and how trade issues develop, equity gains since the depths of the December lows are in line with history. As the embedded FactSet chart above helps explain, the recovery in the S&P 500 since the December lows are on par with past instances where the Index fell into ‘near’ bear market territory. Bear markets are typically defined as a 20% or more decline in stock prices (on a closing basis) from a previous high.

- Over the last 50 years, there have been several instances where the S&P 500 has fallen to near bear market territory. According to Bespoke Investment Group, there have been six occurrences where the S&P 500 fell more than 19.0% from a previous high-water mark but did not ‘close’ down 20.0% or more (which in some circles officially defines a bear market). In all but one of those instances, the Index was higher by more than 20%, three months, six months, and one year out from the market low.

- Interestingly, and based on past historical instances highlighted in Bespoke data, stock prices typically enter a state of consolidation six months following a near bear market bottom and after a rapid rise in prices.
history is not a guarantee of the future, the current pattern in stock prices since the December lows looks very similar to other periods where the S&P 500 fell nearly 20% on a closing basis. Following the consolidation period, however, stock prices generally resume their trek higher and produce further gains twenty-four months out.

- Although it is difficult to predict how stock prices will ultimately react to slowing growth trends and a decelerating profit trajectory through the back half of the year, the current recovery since the December lows appears quite average based on historical precedence. If trade tensions do not derail the economy and profit growth in the months/quarters ahead, then we believe stock prices have some headroom from here. Thus, in our view, a slightly defensive, yet fully-exposed allocation to U.S. equities makes sense in the current environment.

- Nevertheless, until we have more clarity on trade and guidance on second half earnings, it is difficult to warrant an adjustment higher in our year-end S&P 500 target of 2950. With that said, we applied a top end range of 3,200 at the end of last year, and while that seems aggressive given the current environment, our favorable scenario does support an index level above our official year-end target.

- For now, investors should be comfortable with where the market sits, but be cognizant that elevated risks could leave stock prices vulnerable at these levels. As we frequently point to in these pages, we believe much has to go right for stock prices to keep pressing higher. With the S&P 500 at all-time highs and cyclical areas like small-caps and semiconductors still well off their previous highs, it is increasingly becoming more difficult to carry such a bullish view considering the outstanding risks in the market today.

- **Asia-Pacific:** Asian equities finished higher on Monday. China GDP grew +6.2% in the second quarter, down from +6.4% in the first quarter, and marking its slowest pace of growth in 27 years. China’s statistics bureau said the country is on pace to meet its +6.0% to +6.5% growth target for the year, as June data was unexpectedly stronger than economists expected. Industrial production and fixed asset investments grew more than expected last month, while retail sales accelerated to +9.8% in June from +8.6% in May. Press reports highlighted the renewed policy support gaining traction across Beijing’s economy and suggested the government should continue to provide fiscal/monetary support given the headwinds from trade frictions.

- Japan and South Korea continue to be at odds over Tokyo’s restrictions on technology manufacturing exports to South Korea. Per Reuters, meetings over the weekend between both countries have been described as ‘frosty,’ with arguments centering on whether Seoul formally requested Tokyo to withdraw the restrictions after the two sides had apparently agreed to a compromise on Friday. South Korea may choose to escalate the matter to the World Trade Organization (WTO).

- **Europe:** Markets across the region are trading in the green at mid-day. According to the Sunday London Times, Boris Johnson, the front runner to be the next leader of the Conservative party and UK prime minister, wants to make resetting relations with President Trump one of his first orders of business. Johnson would like to negotiate a limited post-Brexit deal with the U.S. on some goods and in time for the October 31st Brexit deadline. Over time, this limited deal would be expanded to include a more encompassing trade agreement. The results of the leadership contest post-Brexit deal with the U.S. on some goods and in time for the October 31st Brexit deadline. Over time, this limited deal would be expanded to include a more encompassing trade agreement. The results of the leadership contest between Boris Johnson and Jeremy Hunt are expected to be announced on Monday, July 22nd.

- **U.S.:** Equity futures are pointing to a stronger open this morning. Second quarter earnings season officially kicks off today, with Citigroup, Inc. reporting results before the open. Over the course of the week, 54 S&P 500 companies are expected to report their results. Analysts expect S&P 500 earnings per share (EPS) to decline by 3.3% y/y in Q2, on sales growth of +3.6%. If those results are realized, EPS growth will come in at the lowest level since the second quarter of 2016.

- In our view, it’s important to recognize that the earnings bar for the second quarter has been set very low. More than 80 S&P 500 companies guided Q2 earnings lower, which leaves a lower hurdle rate for companies to surpass during the reporting season. According to FactSet, actual earnings have exceeded estimates by an average of 4.8% over the last five years. We suspect when second quarter earnings season is complete, S&P 500 companies in aggregate will have surpassed the rather low expectations coming into the reporting period. By how much, remains the open question, particularly considering the building trade frictions between the U.S. and China during the quarter.

- According to Reuters, the U.S. Commerce Department may approve licenses for U.S. companies to restart sales to Huawei in as little as two weeks. Following the G20 meeting between President Trump and China President Xi Jinping at the end of June, there has been less certainty about what the two agreed to regarding Huawei, which has complicated trade discussions over the following weeks. Importantly, some U.S. chipmakers may not need licenses to sell to Huawei, as their products are manufactured abroad with few U.S. components.

- Bloomberg pointed out an interesting statistic recently, highlighting that central banks around the world have cut interest rates 700 times combined over the past decade. The articles’ argument: With all the rate cuts, central banks may be running out of ammunition and lower interest rates, in isolation, may have lost their potency.
• Although we do believe further rate cuts across the developed world would do little to stimulate economic growth, we do not subscribe to the idea that large central banks, such as the Federal Reserve, are low on ammunition to fight the next downturn. While the Fed, for example, does not have the rate cushion it has enjoyed in previous downturns, it can use other extraordinary measures, such as quantitative easing or negative rates to stabilize a declining economy. While the potency of these measures can be debated, and even criticized, we do believe the Fed has the ability/tools to combat a recession or modest downdraft in growth.

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

**Americas**

<table>
<thead>
<tr>
<th>Sector</th>
<th>USA</th>
<th>Canada</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>12.9%</td>
<td>12.9%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Dow Jones</td>
<td>0.90%</td>
<td>0.90%</td>
<td>0.90%</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>0.59%</td>
<td>0.59%</td>
<td>0.59%</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>0.78%</td>
<td>0.78%</td>
<td>0.78%</td>
</tr>
<tr>
<td>Brazil Bovespa</td>
<td>-1.18%</td>
<td>-1.18%</td>
<td>-1.18%</td>
</tr>
<tr>
<td>S&amp;P/TSX Comp. (Canada)</td>
<td>-0.24%</td>
<td>-0.24%</td>
<td>-0.24%</td>
</tr>
<tr>
<td>Mexico IPC</td>
<td>-0.35%</td>
<td>-0.35%</td>
<td>-0.35%</td>
</tr>
</tbody>
</table>

**Developed International**

| MSCI EAFE               | 0.10%        |         |         |

**Emerging International**

| MSCI Emerging Mkts      | -0.40%       |         |         |

**Global**

| MSCI All-Country World Idx | 0.25% | 18.28% | 530.5 |

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**Data/Price Source:** Bloomberg; Equity index data is total return, inclusive of dividends.

### Ameriprise Global Asset Allocation Committee

#### U.S. Equity Sector - Tactical View

<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td>1) Communication Services</td>
<td>10.2%</td>
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<td>Underweight</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>2) Consumer Discretionary</td>
<td>10.2%</td>
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<td>Underweight</td>
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<tr>
<td>3) Consumer Staples</td>
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<td>Equalweight</td>
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<tr>
<td>4) Energy</td>
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<td>Underweight</td>
<td>-10.9%</td>
<td></td>
</tr>
<tr>
<td>5) Financials</td>
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<td></td>
<td>Underweight</td>
<td>-2.0%</td>
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THE WEEK AHEAD: Russell T. Price, CFA, Chief Economist

- Earnings season gets into gear... The Q2 earnings release season gets underway in earnest this week with many of the nation’s most prominent financial institutions leading the way. According to FactSet, companies of the S&P 500 are forecast to report a decline in earnings per share versus year ago levels amid modest revenue expansion.
- S&P 500 EPS are currently forecast to decline by -3.3% on sales growth of +3.6%.
- Which sectors are expected to see the greatest pressure on their financial results? As with the results of Q1, the Energy and Material sectors are once again expected to experience the most significant negative declines versus year-ago levels, due to the combination of lower demand and lower commodity prices. Technology related companies, however, are also expected to post a sharp 12% decline in earnings on a 1.2% drop in sales. In tech, disruptions caused by the U.S./China trade dispute and lower business investment due to broader geopolitical uncertainties are the primary issues.
- As seen in the chart at right, only five of the eleven S&P 500 sectors are expected to produce an increase in earnings versus the year-ago, and only the real estate sector is forecast to see growth better than 2%. All companies face very difficult year-ago comparisons due to last year’s tax cuts, but slower economic expansion (in the U.S. and globally) and other business challenges are weighing on results. All data depicted in the chart is sourced from FactSet.
- The economic calendar picks up this week with retail sales, industrial production and housing starts particularly prominent.
- Monday’s release of the Empire Manufacturing Index from the New York Federal Reserve will also be somewhat more closely looked at given that it is the first of the regional Fed manufacturing surveys for the month of July. The Philadelphia Fed will also release its measure of manufacturing conditions on Thursday, with a modest increase expected. Both reports are expected to show continued weakness as the manufacturing sector deals with a number of headwinds. Demand for manufactured goods has decelerated considerably due to slower global growth. Weaker business investment due to the uncertainty of the global trade picture, lower energy prices pressuring energy sector investment, and an ongoing need to lower overall business inventories. Given this mix of heavy headwinds, the sector is widely expected to show continued weakness.
- On Tuesday, retail sales for the month of June are expected to show a modest gain. Total retail sales are forecast to have grown by about +0.2% in the period with core sales (excluding autos and gas) expected to be about +0.3% higher. On a year-over-year basis, sales at both levels are forecast to see a gain of about 3.5%. This is modest compared to the segment’s pace of the last few years, but current performance is up against very difficult year-ago
comparisons. In June 2018, total retail sales were 5.7% higher as consumers took advantage of lower tax withholding due to tax law changes.

- June Industrial Production will also be reported on Tuesday. Overall, Industrial Production is expected to be generally flat with a modest gain in manufacturing output expected to overcome declines in utility and mining output. In addition to the factors cited above as pressuring overall demand for manufactured goods, the ongoing disruption of output at Boeing of its most popular model, the 737 is also an issue although production of the model has certainly not stopped.

- On Wednesday, Housing Starts for the month of June are expected to show a slight month-over-month decline but a solid 7% increase from year-ago levels. As always, the multi-unit (mostly apartments) segment can offer a lot of volatility to the overall number but recent strength in permits and better weather nationally, should enable both single-family and multi-unit projects to see further gains. At the end of April, the total number of units that had been permitted but not yet started was at a post-recession high of 194,000.

<table>
<thead>
<tr>
<th>July 15</th>
<th>16</th>
<th>17</th>
<th>18</th>
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<tr>
<td>Empire Mfg. Index</td>
<td>Retail Sales</td>
<td>Housing Starts</td>
<td>Initial Jobless Claims</td>
<td>U. of M. Cons. Sentiment</td>
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<td>GDP - China</td>
<td>NAHB Housing Index</td>
<td>Building Permits</td>
<td>Philly Fed Mfg. Index</td>
<td>Retail Sales - Canada</td>
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<td>Industrial Production - China</td>
<td>Import Price Index</td>
<td>Fed. Beige Book</td>
<td>Leading Econ. Indicators</td>
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<td>GDP - China</td>
<td>Business Inventories</td>
<td>Inflation - Euro Zone</td>
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<td>Trade - India</td>
<td>Industrial Production</td>
<td>Trade - Japan</td>
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<td></td>
<td>Capacity Utilization</td>
<td>Manufacturing Activity - Canada</td>
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<tr>
<td></td>
<td>Trade - Euro Zone</td>
<td>Inflation - Japan</td>
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Where Market Fundamentals Stand Heading into The Week:

Consensus Earnings Estimates: Source: FactSet

<table>
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<tbody>
<tr>
<td>7/15/2019</td>
<td>Actual</td>
<td>Actual</td>
<td>Actual</td>
<td>Actual</td>
<td>Actual</td>
<td>Actual</td>
<td>Actual</td>
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<tr>
<td>Quarterly $ amount</td>
<td>$30.87</td>
<td>$32.80</td>
<td>$33.54</td>
<td>$36.29</td>
<td>$38.71</td>
<td>$41.13</td>
<td>$42.87</td>
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<tr>
<td>change over last week</td>
<td>-0.21</td>
<td>-0.19</td>
<td>-0.08</td>
<td>-0.21</td>
<td>-0.19</td>
<td>-0.08</td>
<td>-0.21</td>
</tr>
<tr>
<td>$y/y</td>
<td>13.9%</td>
<td>10.7%</td>
<td>6.7%</td>
<td>15.9%</td>
<td>25.4%</td>
<td>25.4%</td>
<td>27.8%</td>
</tr>
<tr>
<td>qtr/qtr</td>
<td>-1%</td>
<td>6%</td>
<td>2%</td>
<td>8%</td>
<td>7%</td>
<td>6%</td>
<td>4%</td>
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<tr>
<td>Trailing 4 quarters $</td>
<td>$119.02</td>
<td>$118.67</td>
<td>$119.64</td>
<td>$123.25</td>
<td>$126.42</td>
<td>$128.53</td>
<td>$133.50</td>
</tr>
<tr>
<td>change over last week</td>
<td>-0.21</td>
<td>-0.19</td>
<td>-0.08</td>
<td>-0.21</td>
<td>-0.19</td>
<td>-0.08</td>
<td>-0.21</td>
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<tr>
<td>$y/y</td>
<td>6.8%</td>
<td>-2.4%</td>
<td>0.8%</td>
<td>6%</td>
<td>4%</td>
<td>-4%</td>
<td>6.7%</td>
</tr>
<tr>
<td>qtr/qtr</td>
<td>-1%</td>
<td>6%</td>
<td>2%</td>
<td>8%</td>
<td>7%</td>
<td>6%</td>
<td>4%</td>
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<tr>
<td>Implied P/E based on a S&amp;P 500 level of: 3014</td>
<td>18.4</td>
<td>16.5</td>
<td>18.5</td>
<td>18.3</td>
<td>16.5</td>
<td>11.3</td>
<td>11.3</td>
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</table>
S&P 500 Trailing and Forward P/E valuations: Source: FactSet

Please note: Although we try to maintain consistency as much as possible, Price to Earnings (P/E) ratios may differ modestly from one source to another. Most notably, P/E numbers can often show their most notable differences during an earnings release season as some sources may still use the last full ‘actual’ earnings number (for instance, currently Q4 trailing 12-month earnings per share) while others use earnings per share that are updated for Q1 using a combination of actual and estimated earnings per share. The calculation of earnings (operating earnings versus ‘as reported’ or GAAP) also often differs modestly from one data source to another due to the proprietary use of calculation methodologies. The “average” shown in the charts below represent averages for the period shown.

BY THE NUMBERS: ECONOMIC ACTUALS AND FORECAST:

<table>
<thead>
<tr>
<th>Current Projections:</th>
<th>Quarterly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (Y0Y)</td>
<td>2.5%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>5.6%</td>
</tr>
<tr>
<td>CPI (YoY)</td>
<td>1.6%</td>
</tr>
<tr>
<td>Core PCE (YoY)</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

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: July 5, 2019
### Economic News Out Today:

<table>
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<th>Time</th>
<th>Period</th>
<th>Release</th>
<th>Consensus Est</th>
<th>Actual</th>
<th>Prior</th>
<th>Revised to</th>
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</thead>
<tbody>
<tr>
<td>8:30 AM</td>
<td>JUL</td>
<td>Empire Manufacturing Index</td>
<td>+2.0</td>
<td>+4.3%</td>
<td>-8.6</td>
<td></td>
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</tbody>
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**Economic Perspective: Russell T. Price, CFA – Chief Economist**

- The New York Fed’s **Empire Manufacturing Index** came in better than expected this morning, returning to positive territory after a one-month contraction. New orders, however, declined for a second straight month but the pace of decline was slight and much less pronounced than that of May. Inventories declined, which was a good sign given the build-up of such over the last year nearly across the country, but so did order backlogs and employment levels. Overall, although the headline index value may have received some left from slightly better sentiment, business conditions still appear decidedly challenged in the region.

**Fixed Income News & Views: Brian M. Erickson, CFA, Fixed Income Research & Strategy**

Fixed income commentary will return to this space on Tuesday.

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Technology/Telecommunication
Curtis R. Trimble – Director

Quantitative Strategies/International
Andrew R. Heaney, CFA – Director

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GLOBAL MARKET STRATEGIST
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Cynthia Tupy, CFA – Analyst – Value and Equity Income Equity

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Blake Hockert – Associate – Reporting & Analytics

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

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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.ailing 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.

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