Before the Bell

Morning Market Brief

August 19, 2019

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

Fear of a worsening global economic slowdown dragged bond yields sharply lower last week. The yield on the ten-year treasury note plunged 20 basis points to 1.55 percent, briefly causing an inversion of the yield curve between the two and ten-year maturities. Since the administration's August 1st. announcement of another possible round of 10 percent tariffs on Chinese imports, the yield has collapsed by an extraordinary 46 basis points. Also last week, the yield on the thirty-year bond fell to an all-time low of 1.97 percent, down from 2.53 percent at the beginning of the month.

Stocks were also under pressure once again last week. The S&P 500 fell 1 percent, its third consecutive weekly decline, leaving the index 4.5 percent below its July 26th. peak. The MSCI All Country Ex-US index fell 1.5 percent. It was that index's fourth straight weekly decline, leaving it lower by 7.4 percent since July 4th.

There was some stabilization in both markets toward week's end on rising optimism that the global policy response will come to the rescue. ECB member and Finnish central banker Olli Rehn hinted at a substantial stimulus package from the ECB in September. And on Sunday, German Finance Minister Olaf Scholz said that Germany could marshal up to $55B in fiscal stimulus if needed. This week it will be the Federal Reserve's turn to weigh- in on policy at its annual conference at Jackson Hole.

Exactly what the necessary policy response to slowing growth should be is not completely clear. It seems a stretch to point to interest rates as an impediment to growth, raising questions about the efficacy of pushing them ever lower. Fiscal stimulus could certainly help, especially if targeted at long neglected infrastructure improvements. But the capacity, and political will for such spending is uneven at best around the globe.

In the meantime, the trade war continues to inflict damage on the global industrial economy, while in the U.S. the relative strength of the consumer sector provides the cover to continue its prosecution. Last week, U.S. retail sales in July were far stronger than expected, while headline inflation remained subdued at 1.8 percent year-over-year. And lower interest rates have led to a surge in mortgage refinancings, putting even more money into consumer pockets.

Some of this same dichotomy can be seen elsewhere. In the Eurozone, the slowdown in industrial production has been particularly pronounced, but consumers are faring relatively better. Job growth has remained steady, and the PMI for services has consistently outpaced manufacturing. The same has been generally true even in Germany, which last week reported a contraction in second quarter GDP. The UK has also reported some surprising recent strength in retail sales. It is a similar story in Japan. In China, however, both industrial production and retail sales continue to slow despite an already robust policy response.

The obvious policy response to the global slowdown is a resolution of the U.S.-China trade war. And the president's decision last week to delay the imposition of certain new tariffs until December 15th was seen by some as a weakening of the administration's resolve, although that remains to be seen. But just where the trade war goes from here is anyone's guess.

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.

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

Americas	% chg.	% YTD	Value
S&P 500	1.44%	16.74%	2,888.7
Dow Jones	1.20%	12.76%	25,886.0
NASDAQ	1.67%	19.85%	7,896.0
Russell 2000	2.19%	11.69%	1,493.6
Brazil Bovespa	0.76%	13.56%	99,805.8
S&P/TSX Comp. (Canada)	0.86%	14.89%	16,149.8
Mexico IPC	1.98%	-3.74%	39,339.6

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	1.29%	15.99%	3,372.1
FTSE 100 (U.K.)	1.12%	10.66%	7,196.8
DAX Index (Germany)	1.41%	11.05%	11,726.0
CAC 40 (France)	1.29%	16.82%	5,369.4
FTSE MIB (Italy)	1.74%	12.83%	20,675.2
IBEX 35 (Spain)	0.90%	5.41%	8,748.1
Russia TI	0.49%	14.46%	4,548.2

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	0.71%	3.96%	20,563.2
HK Hang Seng (H. Kong)	2.17%	4.41%	26,291.8
Korea Kospi 100	0.66%	-4.53%	1,939.9
Singapore STI	0.43%	5.33%	3,128.5
Shanghai Comp. (China)	2.10%	18.24%	2,883.1
Bombay Sensex (India)	0.14%	4.73%	37,402.5
S&P/ASX 200 (Australia)	0.97%	18.42%	6,467.4

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	1.17%	12.59%	503.7

Developed International	% chg.	%YTD	Value
MSCI EAFE	0.81%	8.29%	1,811.9

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	0.70%	2.58%	970.3

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	1.09%	18.06%	915.3
Consumer Staples	1.12%	20.60%	618.6
Energy	1.19%	1.32%	419.0
Financials	1.86%	12.81%	440.2
Real Estate	0.63%	26.53%	238.9
Health Care	1.19%	5.64%	1,045.9
Industrials	1.90%	16.61%	624.2
Materials	1.76%	13.35%	354.3
Technology	1.88%	27.28%	1,370.6
Communication Services	1.18%	19.59%	164.4
Utilities	0.36%	17.87%	309.9

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	1.67%	4.88%	23.3
FTSE NAREIT Comp.	0.89%	24.50%	20,660.9
DJ US Select Dividend	1.49%	10.51%	2,056.0
DJ Global Select Dividend	0.91%	-1.64%	203.4
S&P Div. Aristocrats	1.36%	14.44%	2,743.2

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	0.00%	8.78%	2,226.3
Barclays HY Bond	0.17%	9.67%	2,093.9

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	-0.22%	-6.72%	448.1
NYMEX WTI Crude (p/bbl.)	0.62%	21.58%	55.2
ICE Brent Crude (p/bbl.)	0.68%	9.74%	59.0
NYMEX Nat Gas (mmBtu)	-2.68%	-27.18%	2.1
Spot Gold (troy oz.)	-0.95%	16.89%	1,499.1
Spot Silver (troy oz.)	-0.88%	9.47%	17.0
LME Copper (per ton)	-0.14%	-3.86%	5,719.5
LME Aluminum (per ton)	0.50%	-5.54%	1,759.5
CBOT Corn (cents p/bushel)	-1.84%	-5.97%	373.8
CBOT Wheat (cents p/bushel)	-0.58%	-12.49%	474.8

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	0.1%	-3.2%	1.11
British Pound (£/$)	-0.3%	-5.0%	1.21
Japanese Yen ($/¥)	-0.21%	2.90%	106.60
Australian Dollar (A$/$)	0.00%	-3.83%	0.68
Canadian Dollar ($/C$)	0.0%	2.8%	1.33
Swiss Franc ($/CHF)	-0.3%	0.1%	0.98

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.

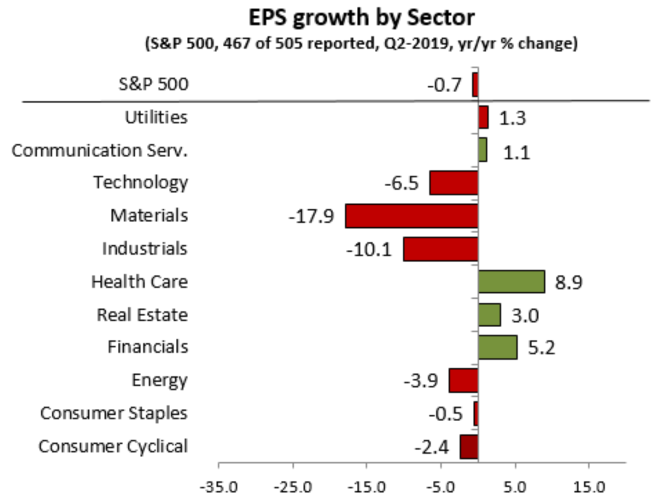
Ameriprise Global Asset Allocation Committee
Global Equity Region - Tactical View

	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.

THE WEEK AHEAD: ***Russell T. Price, CFA, Chief Economist***

- **Earnings season update:** There are still a few major retailers on the docket this week to bring the Q2 earnings release season to a close. As of Friday, about 92% of S&P 500 constituent companies had reported their results for the period.
- A blended measure of actuals and estimates as compiled by FactSet currently sees Q2 EPS for the S&P 500 as posting a decline of -0.7% yr/yr, which is a bit better than the -1.2% seen at this time last week, and the -2.6% estimated the week before. Meanwhile, sales growth is currently seen at +4.0% which is generally in-line with its estimates of the last few weeks. At the start of the earnings season, consensus estimates as compiled by FactSet looked for Q2 EPS to decline by -3.3% on sales growth of +5.1%.

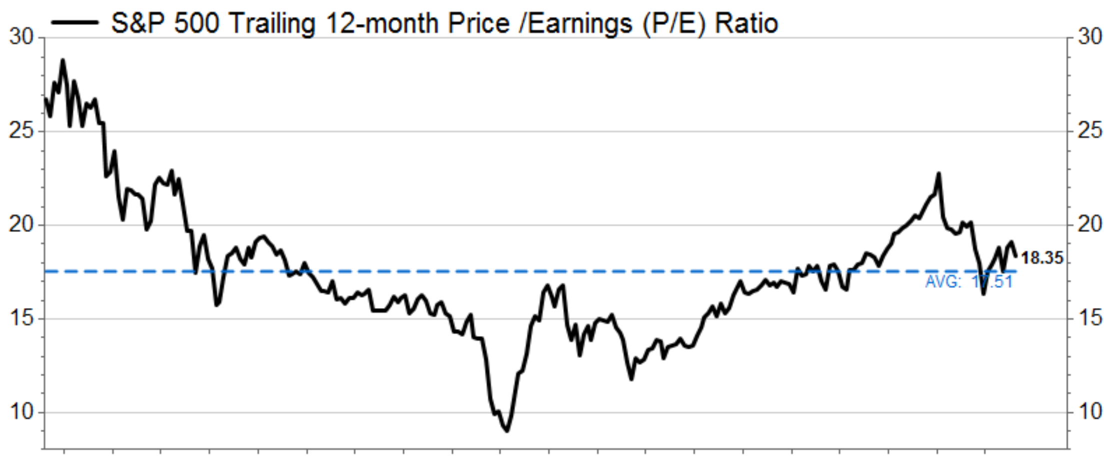


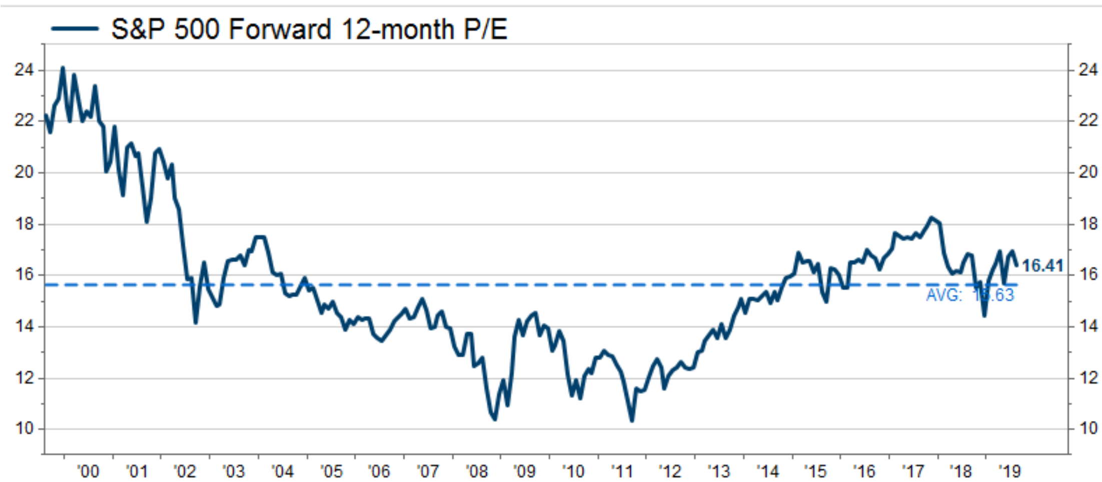
- When looking at "winners and losers" there was good news and bad. Some of the more straightforward areas of pressure in Q2 look likely to be temporary. The Materials and Energy sectors were hit with lower commodity prices (resulting in a very sharp 17.5% drop in sales for the Materials sector). Commodity prices have since stabilized and in some cases increased.
- Multinationals have also been hit hard by trade troubles and a stronger U.S. dollar. On the positive side, the health care sector posted strong EPS growth of +8.9% on very strong sales growth of +13.4%.
- As we've noted previously, forward estimates have come-down sharply. Its normal for next quarter earnings to decline during any given earnings release season, but recent trends have been worrisome. For the final two quarters of 2019, S&P 500 consensus estimates (via FactSet look) have come-down by $3.68 since the beginning of April.
- **Fed's Jackson Hole Symposium:** Fed officials and other global economic and financial market dignitaries will meet in Jackson Hole Wyoming this week for their annual symposium. The meetings kick-off on Thursday with Fed Chair Powell opening the with a key note speech. Markets will certainly be looking for comments of pending accommodation after last week's temporary yield curve inversion in the 10-year /2-year relationship.
- **Economic releases this week:** The economic calendar is light this week with housing and some manufacturing measures in focus. Key releases do not begin until Wednesday with the National Association of Realtors (NAR) report on Existing Home Sales for the month of July. Sales are expected to show a moderate month-over-month gain of about 2%, which would still leave sales flat versus year-ago levels. As has been the case for the last several years, there is plenty of demand in the market (further aided by the recent decline in interest rates, no doubt) but transaction volumes remain constrained by very tight availability, particularly at the mid-and lower price points where there is the most demand. Unfortunately, there's no simple or quick answer to this issue. Builders are constructing more entry level units now that the upper price point areas of the market are well-supplied, but it will take a long time before such imbalances in the market improve.
- Median existing home prices are also likely to see further moderation. Much of the downside pressure in home prices is coming from once "hot" markets that are seeing sales decline. Key markets on the west coast and in other areas such as South Florida have seen sales cool due to affordability issues and a sharp drop in foreign buyers. Various reports suggest a sharp drop in demand from Chinese buyers while economic troubles in South America, particularly, Venezuela, and more recently Argentina and Brazil, combined with the strong U.S. dollar to stem international demand for U.S. properties.
- On Friday, the Commerce Department reports on New Home Sales for the month of July. Sales are expected to have been generally flat versus June levels, although sales were a strong 7% higher in June. Such a result would leave new home sales as about 7% higher than year-ago levels.

August 19	20	21	22	23
Trade - Japan	*Manufacturing Activity - Canada*	**July 31 FOMC Minutes**	**Initial Jobless Claims**	**New Home Sales**
Inflation - Euro Zone		**Existing Home Sales**	**Markit Prelim. PMI**	*Retail Sales - Canada*
		Inflation - Canada	**Leading Econ. Index**	*GDP - Mexico*
		Retail Sales - Mexico	**Kansas City Fed. Mfg. Index**	
			Inflation - Japan	

Where Market Fundamentals Stand Heading into The Week:

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 once 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.





Consensus Earnings Estimates: *Source: FactSet*

S&P 500 Earnings Estimates	2014	2015	2016	2017				2018				2019				2020
8/19/2019	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est.	Est.	Est.	Est.
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Quarterly $$ amount				$30.87	$32.80	$33.54	$36.29	$38.71	$41.13	$42.87	$41.32	$38.80	$41.38	$41.75	$43.23	
yr/yr				13.9%	10.7%	6.7%	15.9%	25.4%	25.4%	27.8%	13.9%	0.2%	0.6%	-2.6%	4.6%	
qtr/qtr				-1%	6%	2%	8%	7%	6%	4%	-4%	-6%	7%	1%	4%	
Trailing 4 quarters $$	$119.02	$118.67	$119.64	$123.25	$126.42	$128.53	$133.50	$141.34	$149.67	$159.00	$164.03	$164.12	$164.37	$163.25	$165.16	$182.47
yr/yr	6.8%	-0.3%	0.8%				11.6%				22.9%				0.7%	10.5%
Implied P/E based on a S&P 500 level of: 2889												17.6	17.6	17.7	17.5	15.8

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%	2.1%	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%	2.1%	2.1%	1.6%	1.7%	2.0%	2.2%
Core PCE (YoY)	1.6%	1.3%	1.7%	1.6%	1.9%	1.8%	2.0%	1.5%	1.6%	1.7%	1.7%

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: August 14, 2019

ECONOMIC NEWS OUT TODAY:

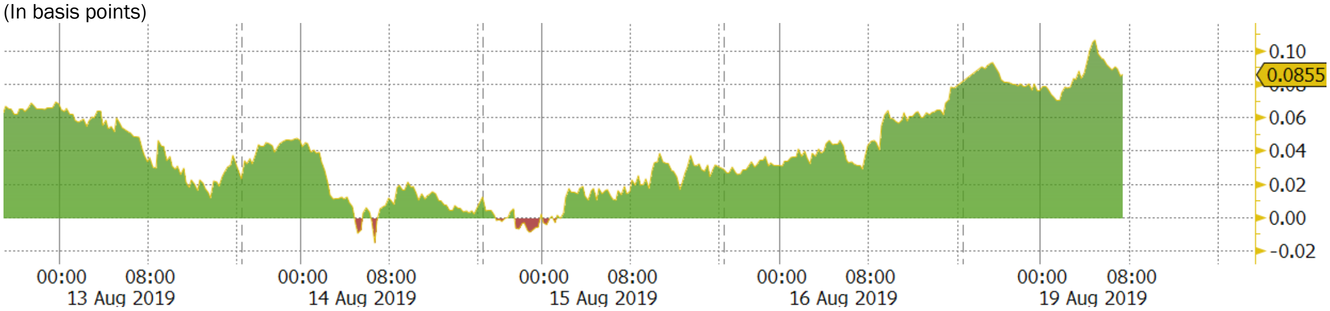
Economic Releases for Monday, August 19, 2019. All times Eastern. Consensus estimates via Bloomberg.

None Scheduled

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

- **Treasury Update:** Treasury markets sold off overnight sending yields higher. Ten-year Treasury yields reached 1.62%, up seven basis points from Friday before fading the sell-off and falling to 1.59%. Thirty-year long-bond yields rose to 2.08% after setting a multidecade low of 1.97% on Thursday.
- Looking ahead: The Fed's Jackson Hole Symposium begins on Thursday and runs through Saturday. The topic this year is "Challenges for Monetary Policy" of which there are many. Fed Chair Powell will speak and likely touch on stubbornly low inflation, the considerable existing global monetary policy engagement, and tools that remain in the central bank tool-kit for stimulating and supporting bond markets.
- Also ahead this week we will receive minutes from the July 30-31 Fed policy meeting; perhaps shedding light into the range of views within the committee around 1) if the mid-cycle insurance move was universally expressed and how much support the committee may possess for extended rate cuts; 2) further understanding around the Fed's focus on emerging risks, slowing growth and global inflation dynamics; and 3) Finally, additional details beyond those we discuss below around how that Fed's balance sheet might evolve in the background going forward.

U.S. 10s/2s Treasury Yield Curve Spread
(In basis points)



Source: Bloomberg L.P.

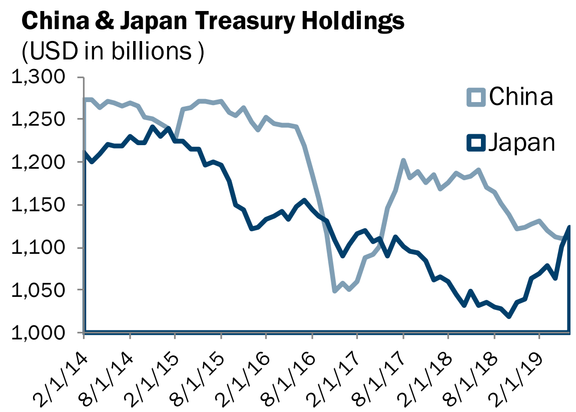
The Permanent Implications of 10s/2s Inversion

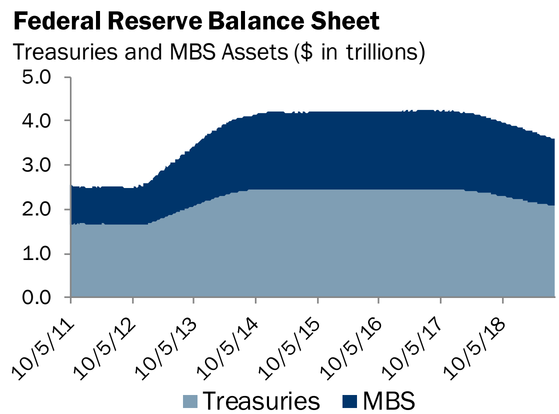
- The 10-year/2-year (10s/2s) Treasury yield curve spread inverted with 2-year yields offering greater yields than 10-year Treasuries. Though the inversions took place intraday and in overnight trading, we believe move reflects a shift in bond market sentiment that investors cannot overlook. The tides in the global bond market resonate from a deep interconnectedness and signal a penance for long-term yield and high-quality assets as several global central banks look to lower key policy rates and implement additional asset purchase measures. The impact of global trade frictions while the economy slows collectively leaves global bond markets on edge.

- Falling yields in Europe pulled Treasury yields lower in sympathy, maintaining a broader relative value context as any stimulus in Europe (by the ECB or other central banks) is expected to splash beyond local markets and drive investment globally.
- Stepping back, the intraday inversion likely remains a fixture of the bond investor psyche. Investors are willing to buy 10-year Treasuries and 10-year U.K. sovereign debt at yields less than 2-years sector yields simply to lock in income for longer and to potentially benefit from longer duration in total return portfolios. We believe this principally equates to a change in sentiment and suggests further deterioration in bond market liquidity. We recommend investors take risk in the most liquid portions of the market, as the high-risk margin may prove difficult to exit as investors look to change positioning. We recommend 85% of long-term moderate-risk fixed income portfolios be comprised investment grade exposure on an unlevered basis. This includes Treasuries, agency, and investment grade corporate bonds. We recommend eliminating less liquid exposures that investors do not have the ability or willingness to hold through a potential downturn.
- While 10s/2s spread has rebounded to +8 basis points this morning, implications of an inversion likely underly the market for the balance of the rate cycle in our view. Investors may allow the curve to swiftly invert again in the future, and some investors are likely to exercise restraint should markets rally; holding back and not participating or taking advantage of temporary firming in fundamentals to reposition portfolios for less liquidity and a potential contraction in one to two years. We believe it is critical to evolve fixed income invest selections to reflect that the past decade of massive support for fixed income risk is over and that investment in 2019 and going forward needs to have a starkly different orientation toward high quality and liquidity. We believe it now longer pays to reach for yield into risk assets but may pay to take longer duration in high quality assets like Treasuries.

China is No Longer Our Greatest Debt Holder; That Crown Passes to Japan

- Japan surpassed China as the world's largest holder of U.S. Treasury securities according to the latest Treasury International Capital (TIC) released by the U.S. Treasury.





Source: Bloomberg L.P., U.S. Treasury, Federal Reserve

- At the most recent Fed meeting the Fed announced that its balance sheet reduction program would end in August, leaving the Fed with $3.6 trillion of Treasuries ($2.1 trillion) and mortgage backed securities (MBS; $1.5 trillion). As Treasuries mature, the Fed will roll over into add-ons to regular Treasury auctions to maintain the size of its balance sheet. By using add-ons, or incremental new issuance on top of regular auctions, the Treasury does not compete with investors when maintaining its Treasury exposure. The add-on process also avoids the need for the U.S. Treasury to announce even larger auction sizes as the Treasury will already be adding a net $1 trillion of new Treasury debt this year and next. Finally, by participating in auctions, the Fed can layer exposure through add-ons across the curve, maintaining the Fed's duration exposure while avoiding market disruption.
- Principal payments on the Fed's MBS holdings will be reinvested through repurchase operations. The first round was announced last week anticipating $20 billion of MBS principal to reinvest in the cheapest Treasuries in defined maturity segments twice a week. By announcing the schedule in advance, dealers can plan for and investor can avoid pinches from the Fed's purchases. Thought $20 billion each month suggests approximately $240 billion of Treasuries purchased over 12 months, the rate can slow, and the purchases are less than a quarter of the $1 trillion of net new Treasury supply over the next year forecast by the CBO. We believe the operations are likely to happen in the

background with little impact to individual investors. The size of the Treasury market continues to expand at a pace more than twice that of GDP, indicating supply will be plentiful and that supply comes with increasing leverage for the country.

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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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