

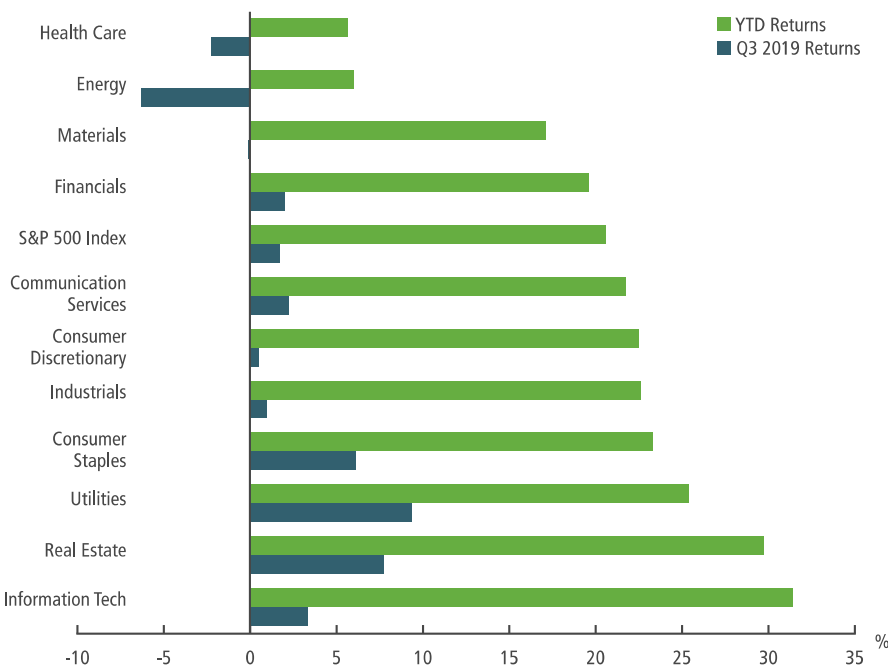
Getting the Most out of the Late Cycle Equity Market

The S&P 500 managed to squeak out a modest gain in the third quarter of 2019, allowing US stocks to hold onto their biggest year-to-date gains in more than two decades, and prolonging one of the longest bull markets on record. The S&P 500 enters into the fourth quarter with 19% returns for the year, marking its best performance since 1997.

However, uncertainty simmers underneath. Safe haven assets, such as US Treasuries and gold, have risen alongside US stocks and low volatility and high income equity funds have continued to see an increasing amount of market flow over the period. The top performing sectors over the third quarter were Utilities, Real Estate and Consumer Staples, and Utilities and Real Estate are two of the top three performing S&P sectors year to date.

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Q3 2019 S&P 500 SECTOR RETURN



Source: Bloomberg, S&P 500 Index. Based on GICS sector return from June 30, 2019 through September 30, 2019.

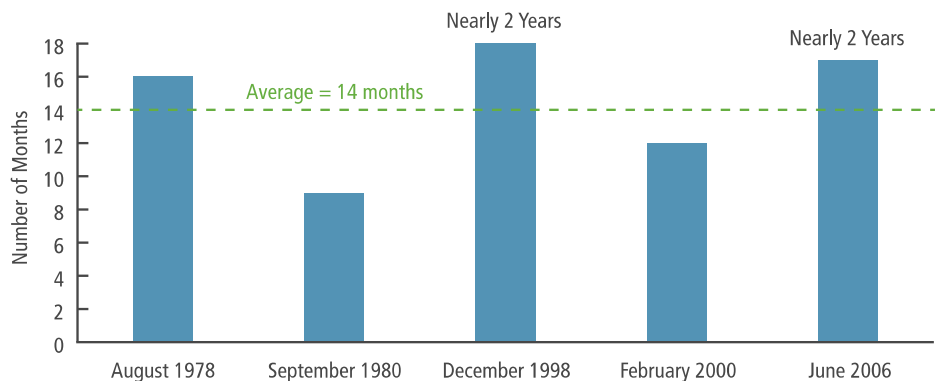
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Despite the S&P 500 sitting just 1.6% below July's all-time high, warning signals have begun to flare, including the inversion of the 2- and 10-year segment of the US yield curve in August; extreme swings in performance of value and momentum stocks in September, with value experiencing its best day since December 2001 and momentum experiencing its worst two trading days in the past ten years; world trade flows set to increase to their weakest pace since the global financial crisis;¹ and the Institute for Supply Management Index (ISM) falling to a ten-year low.

However, the US economy still broadly remains supportive driven by strong employment and consumer spending numbers, and domestic equities continue to look attractive from an income perspective, as negative yields around the world continue to leave investors starved for yield.

Historically, an inversion in the US yield curve has preceded a recession by an average of 14 months, and in multiple cases the period between one and the other has been closer to 2 years.

TIME FROM 2S-10S YIELD CURVE INVERSION UNTIL RECESSION STARTS

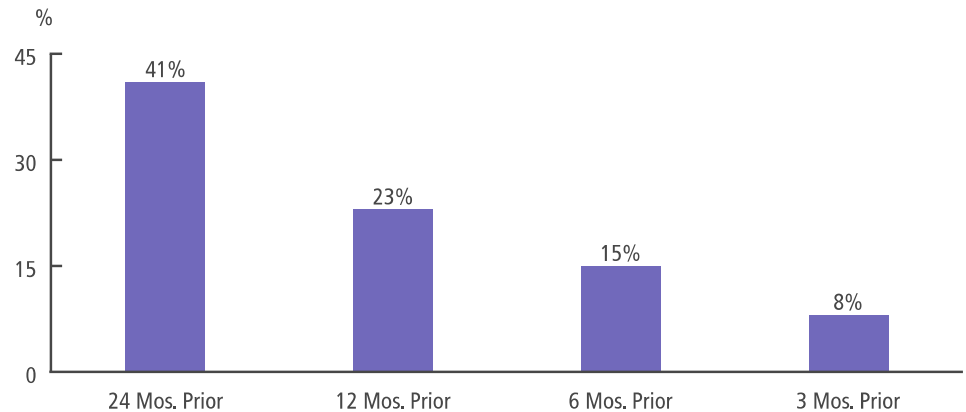


Source: Bloomberg. Short-term dated bond yield represented by the 2-year yield index and long-term yield represented by the 10-year bond yield. Time to recession is calculated as the time between the final sustained inversion of the yield curve prior to the recession, and the onset of recession.

¹Based on data from the World Trade Organization. The organization now expects flows of goods across borders to grow by just 1.2% this year, down from 3% in 2018.

Additionally, as shown in the exhibit below, US equity market returns have been exceptionally robust prior to a peak in equity markets.

**HISTORICALLY ROBUST EQUITY RETURNS PRE-PEAK
AVERAGE TOTAL EQUITY RETURN 1945-2018**



Source: FactSet, Robert Shiller, S&P 500 Index, JP Morgan Asset Management. Chart is based on return data from 11 bear markets since 1945. A bear market is defined as a decline of 20% or more in the S&P 500 Index. Monthly total return data from 1945-1970 is from the S&P Shiller Composite Index. From 1970 to present, return data is from Standard & Poor's.

Facing continued market uncertainty and a growing likelihood for increased volatility shocks, it is important for investors to identify lower volatility, sustainable dividend paying stocks that are also attractive from a valuation perspective.

Facing continued market uncertainty and the growing likelihood for increased volatility shocks, it is important for investors to identify lower volatility, sustainable dividend paying stocks that are also attractive from a valuation perspective. Investors should be cautious buying purely low volatility stocks at any valuation as low volatility investing without consideration of fundamentals, may be prone to sharp reversals.

Dividend paying companies which offer a lower volatility profile and continue to trade at a discount to the broader market, provide exposure to the value trade in addition to offering a defensive tilt. As such, they allow for equity market participation with less vulnerability to a late cycle correction or negative market shock.

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