



FIFTH THIRD BANK

Late Cycle Economic View: *“Do Worry, Be Happy”* The Sequel

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Same lyrics, different tune

Do worry, be happy

2018

1. Investors should worry
2. Businesses should be happy
3. Better year for Main Street than Wall Street

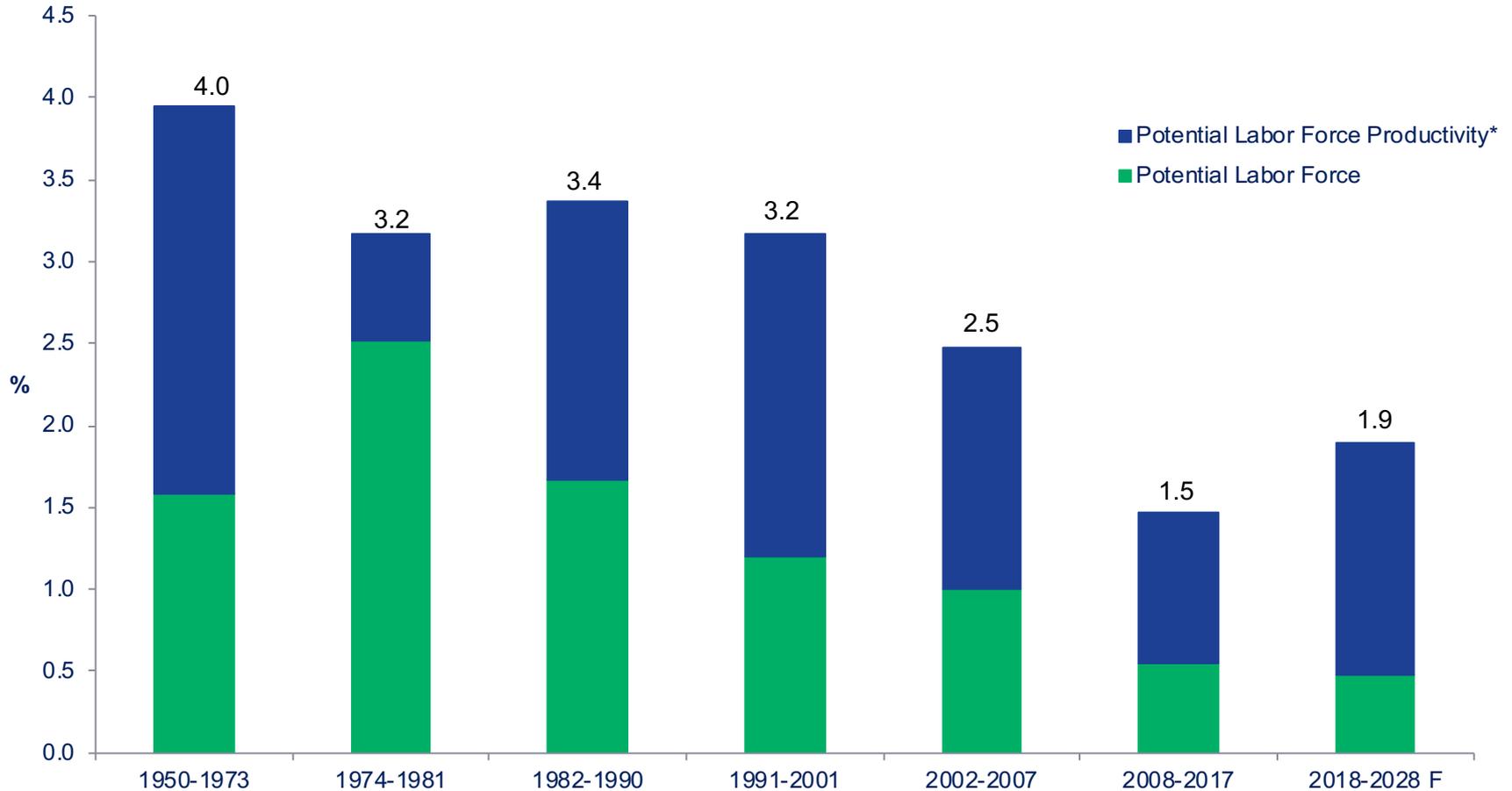
2019

1. Businesses should worry
2. Investors should be happy
3. Better year for Wall Street than Main Street

Key themes

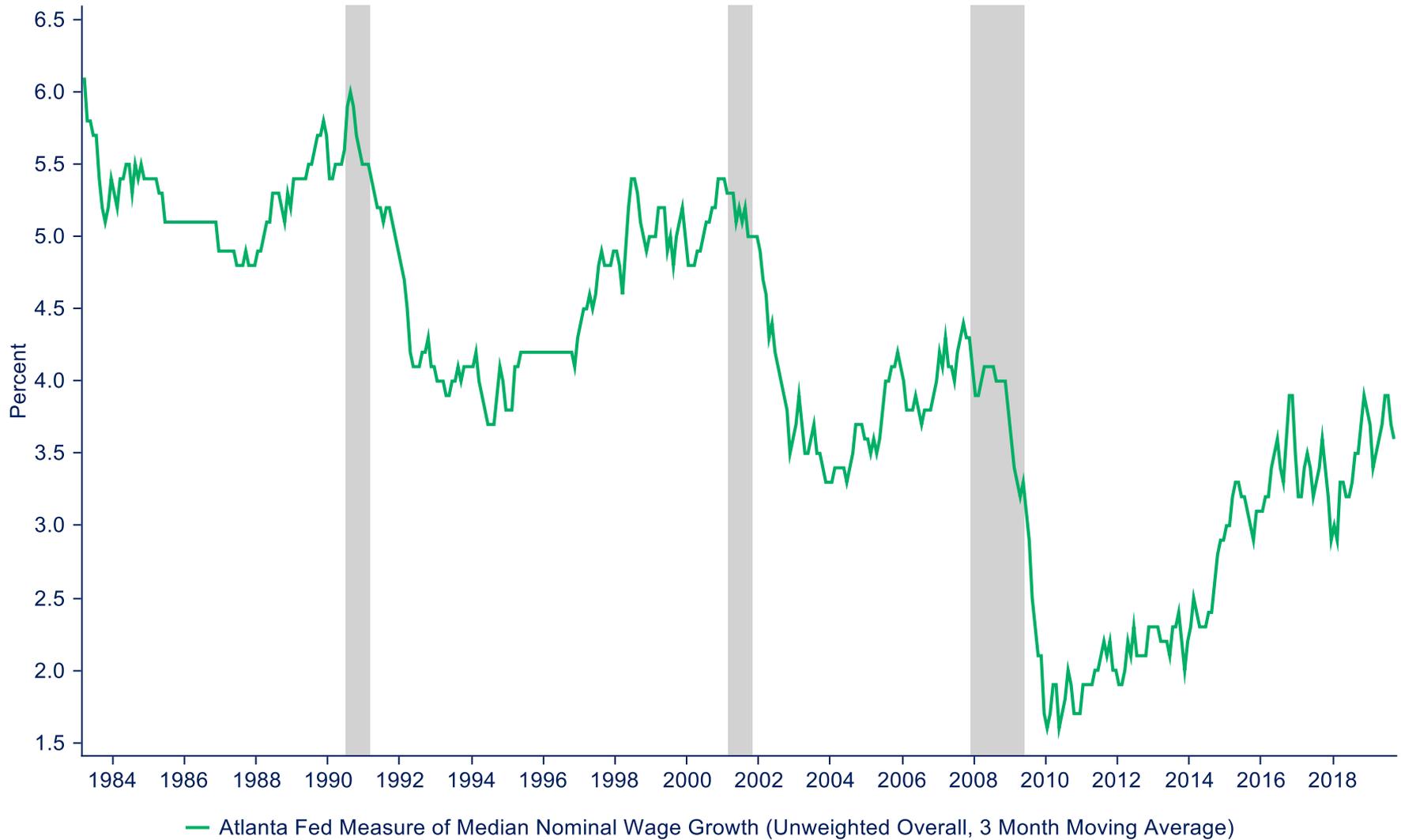
- The economy will grow more slowly, but still above-trend
- Manufacturing jobs are back and growing in the U.S.
- The Fed's "Full Employment Mandate" has not been met
- We are still in the 8th inning of the expansion, but watching for the 9th

U.S. economy: Structural limitations



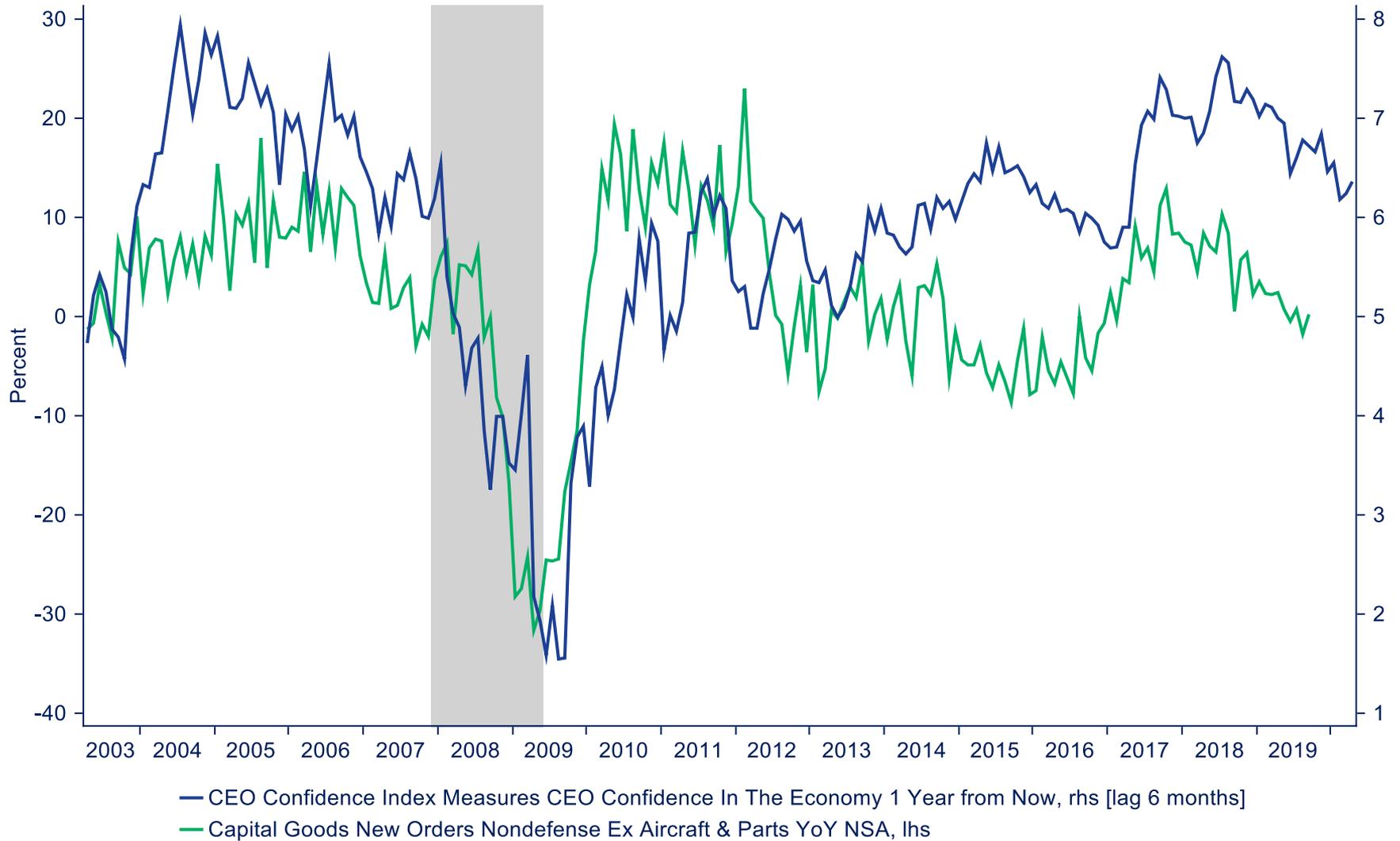
Source: Congressional Budget Office
Compound annual growth rates over the specified periods calculated using calendar year data
*The ratio of potential GDP to the potential labor force

U.S. economy: Wage gains empower the consumer



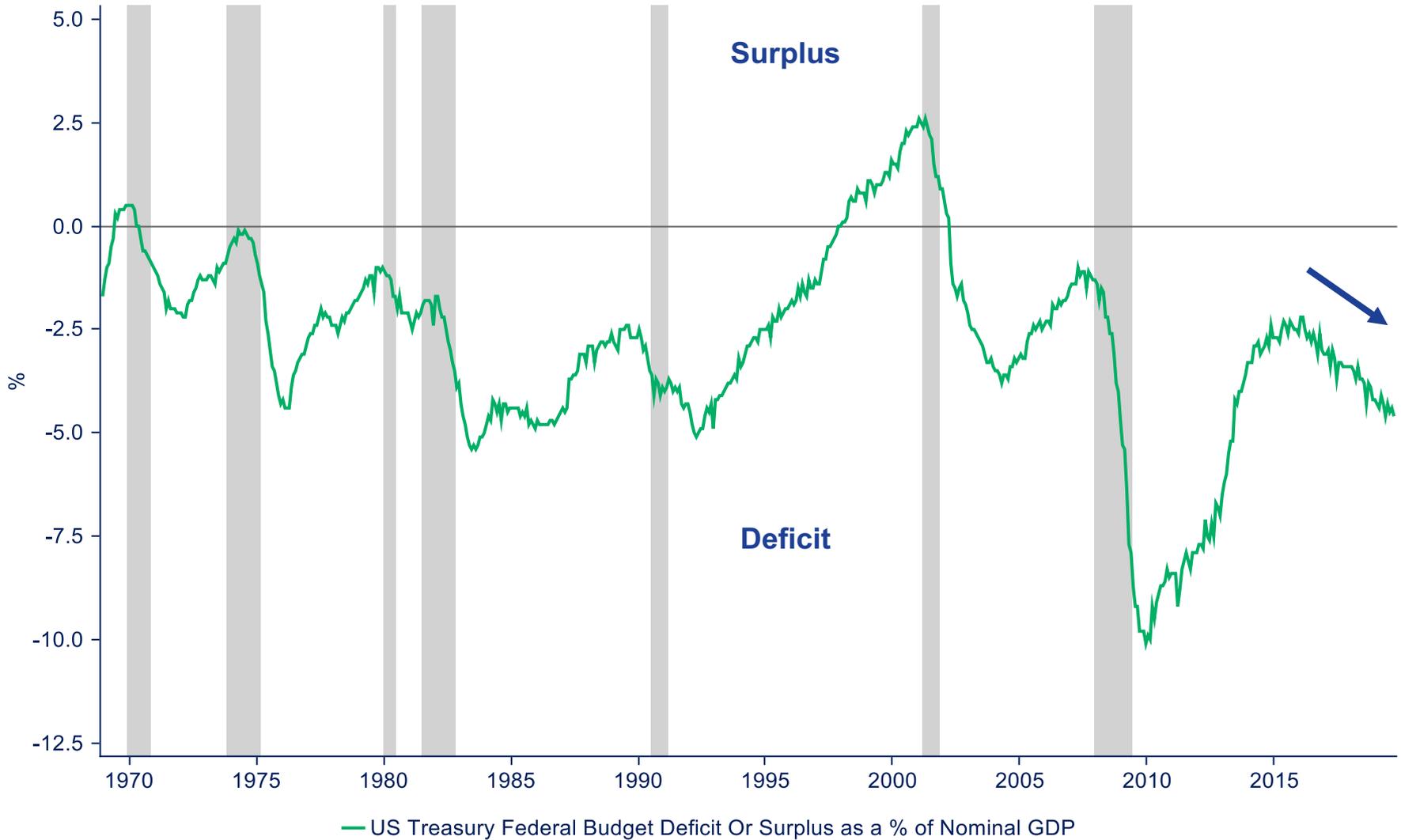
Source: Macrobond, Federal Reserve Bank of Atlanta, as of 10/31/2019

U.S. economy: Confidence drives Capex



Source: Macrobond, Bloomberg, as of 10/31/2019

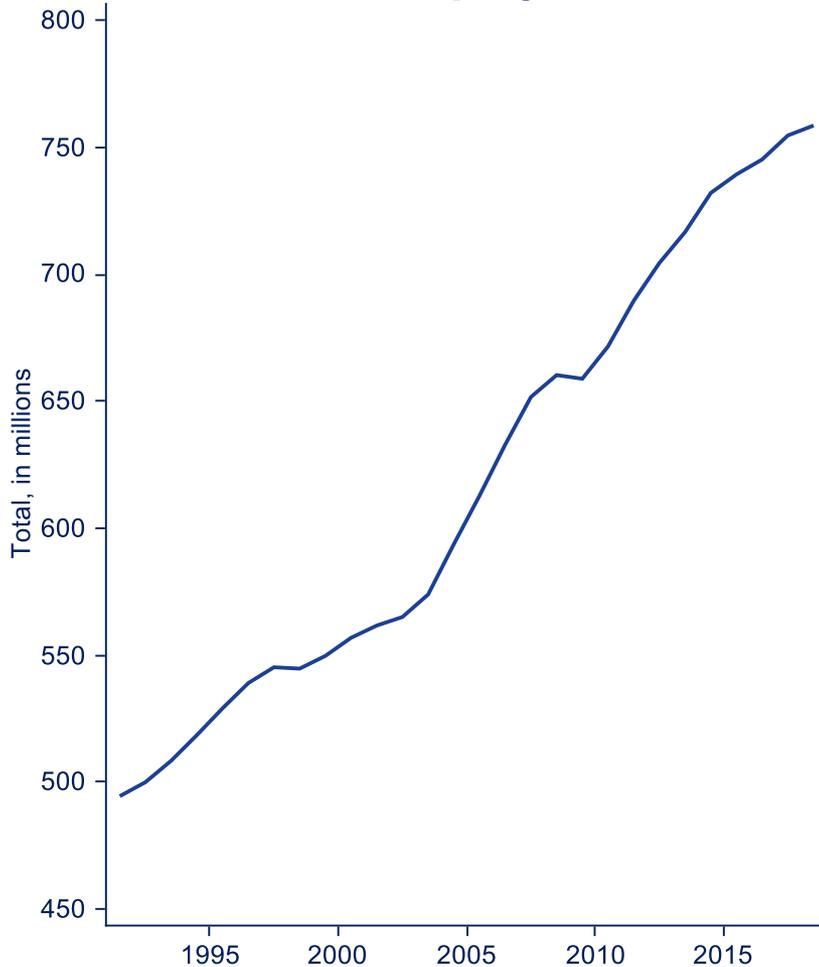
U.S. economy: Widening deficit = Fiscal stimulus



Source: Macrobond, Bloomberg, as of 10/31/2019

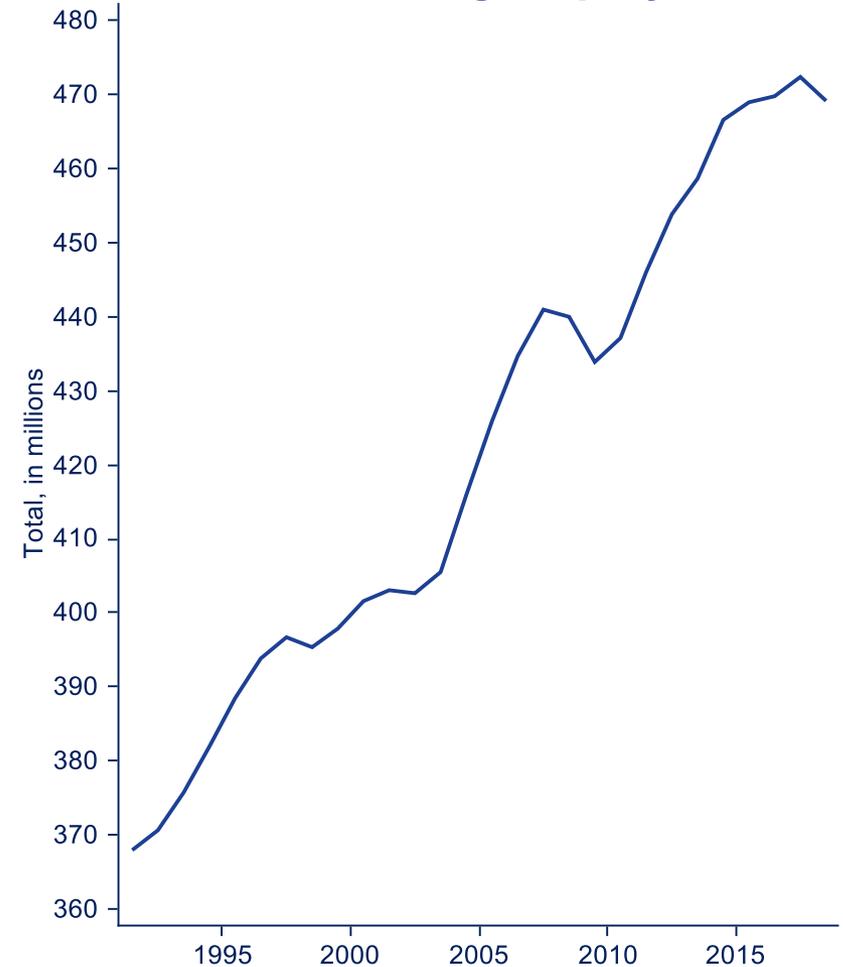
Manufacturing jobs: 1991 – 2018

Global industrial employment



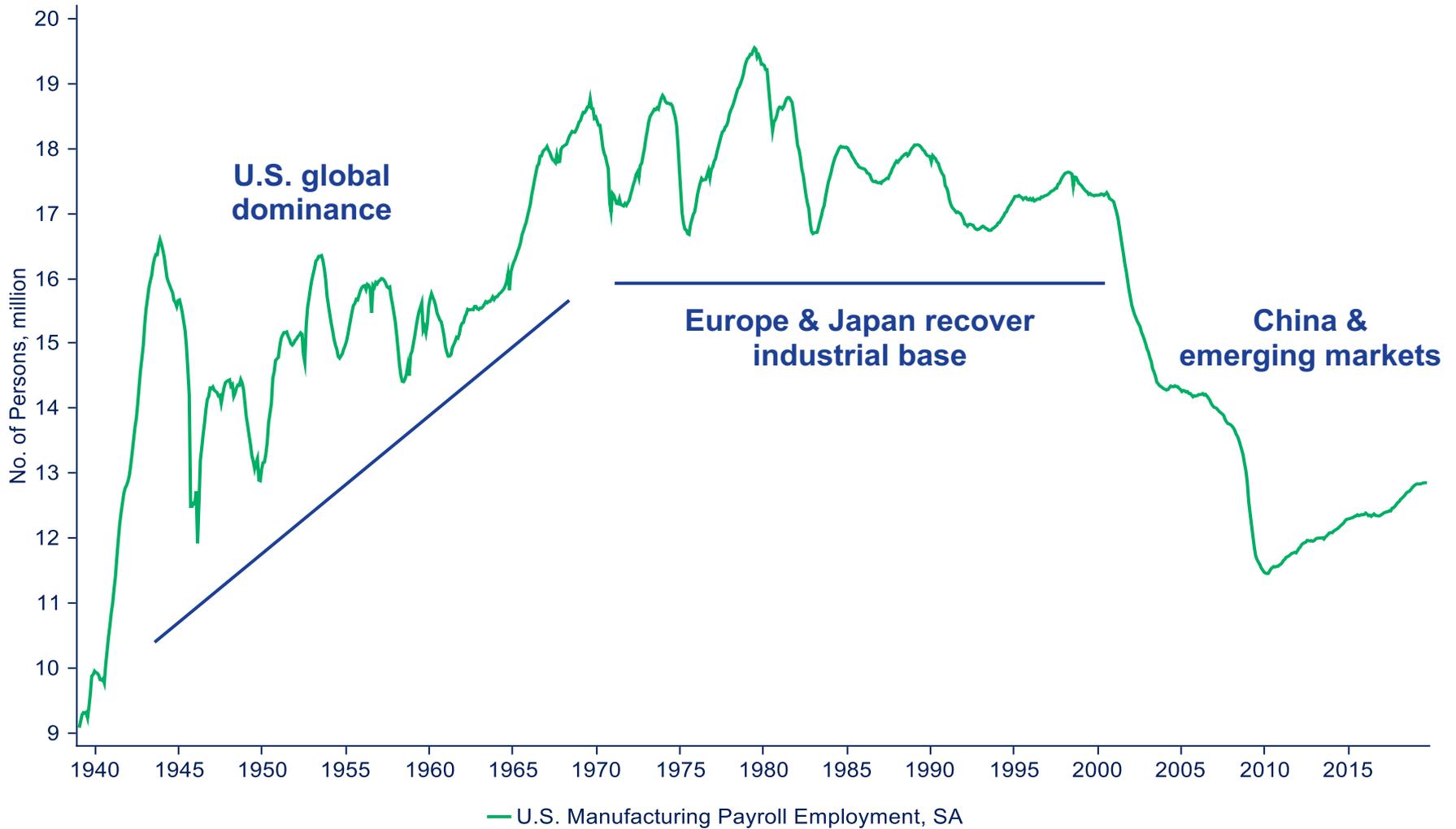
Source: Macrobond, International Labour Organization, as of November 2018

Global manufacturing employment



Source: Macrobond, International Labour Organization, as of November 2018

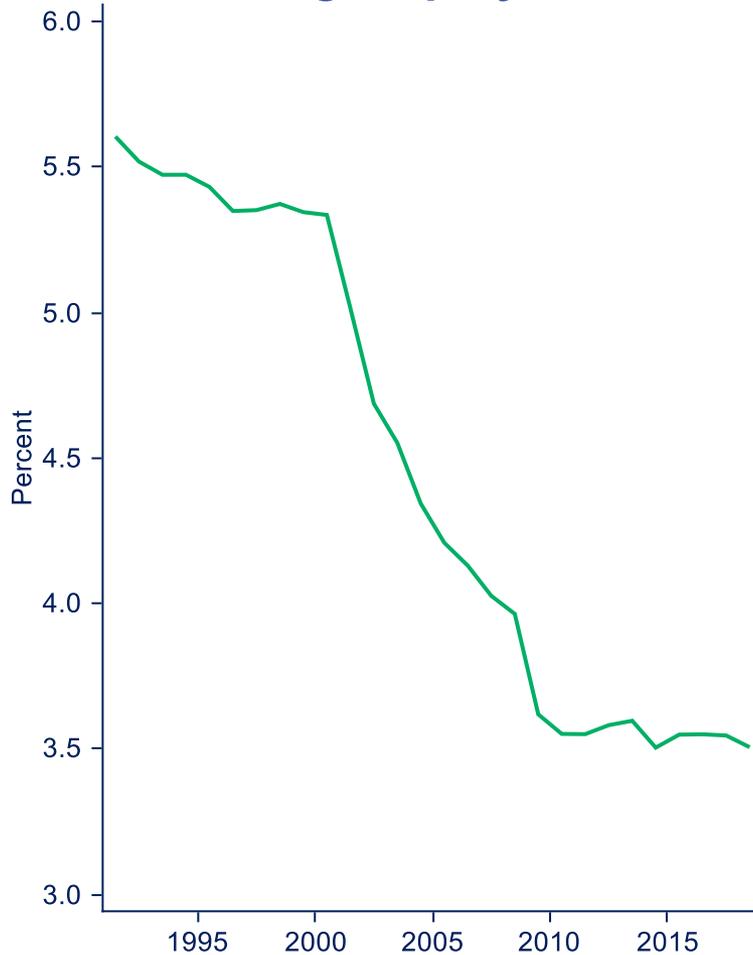
Three chapters of U.S. manufacturing employment



Source: Macrobond, BLS, as of 10/31/2019

The death & life of U.S. manufacturing

U.S. share of global manufacturing employment

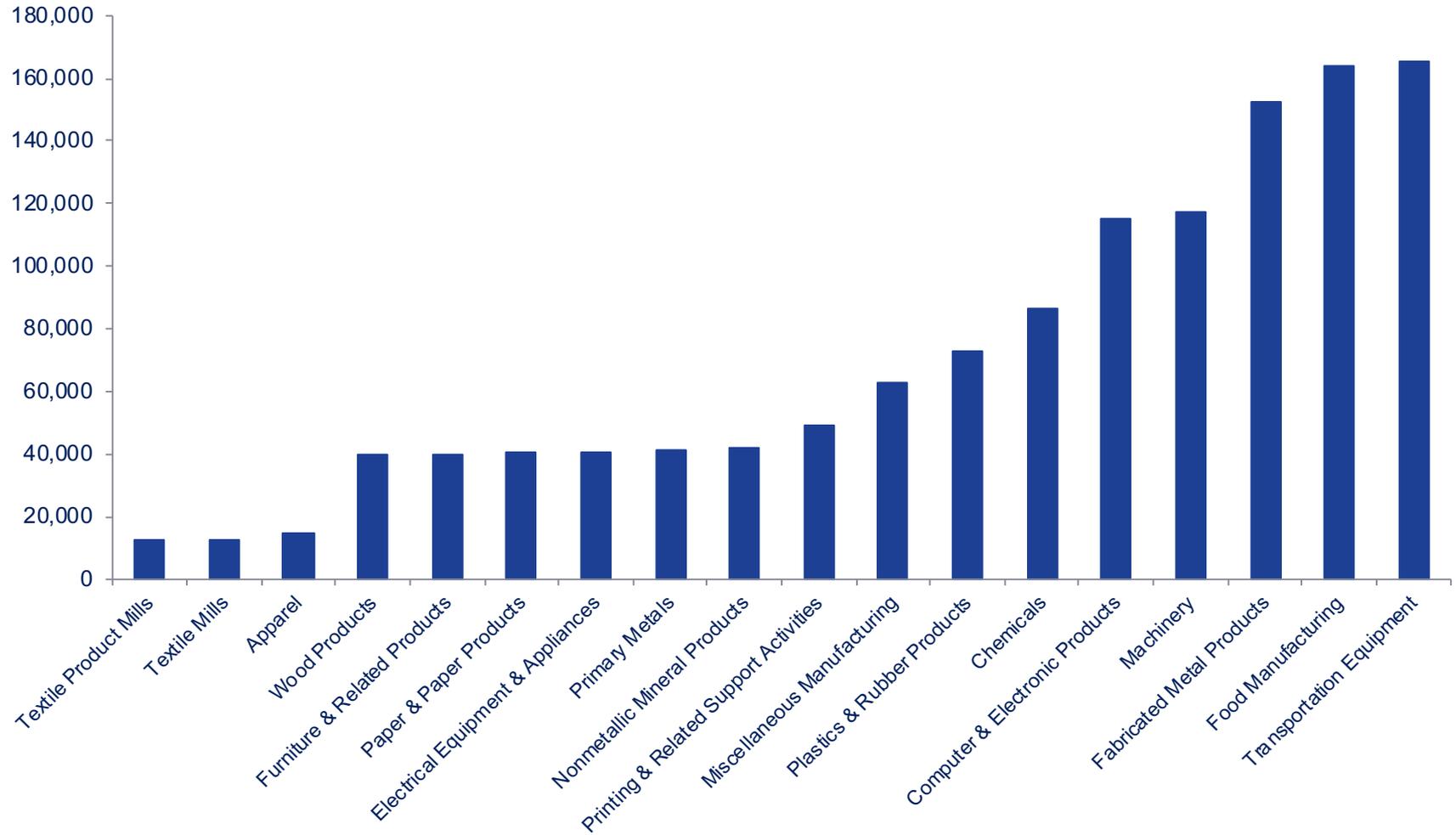


Source: Macrobond, International Labour Organization, as of November 2018

Trends

- China no longer the cheapest
- U.S. energy costs among the lowest
- U.S. energy industry demand
- Competitive tax environment
- Infrastructure rebuild
 - Physical
 - “Soft” infrastructure

Net manufacturing jobs by subsector: 2010 – 2018



Source: Macrobond, BLS

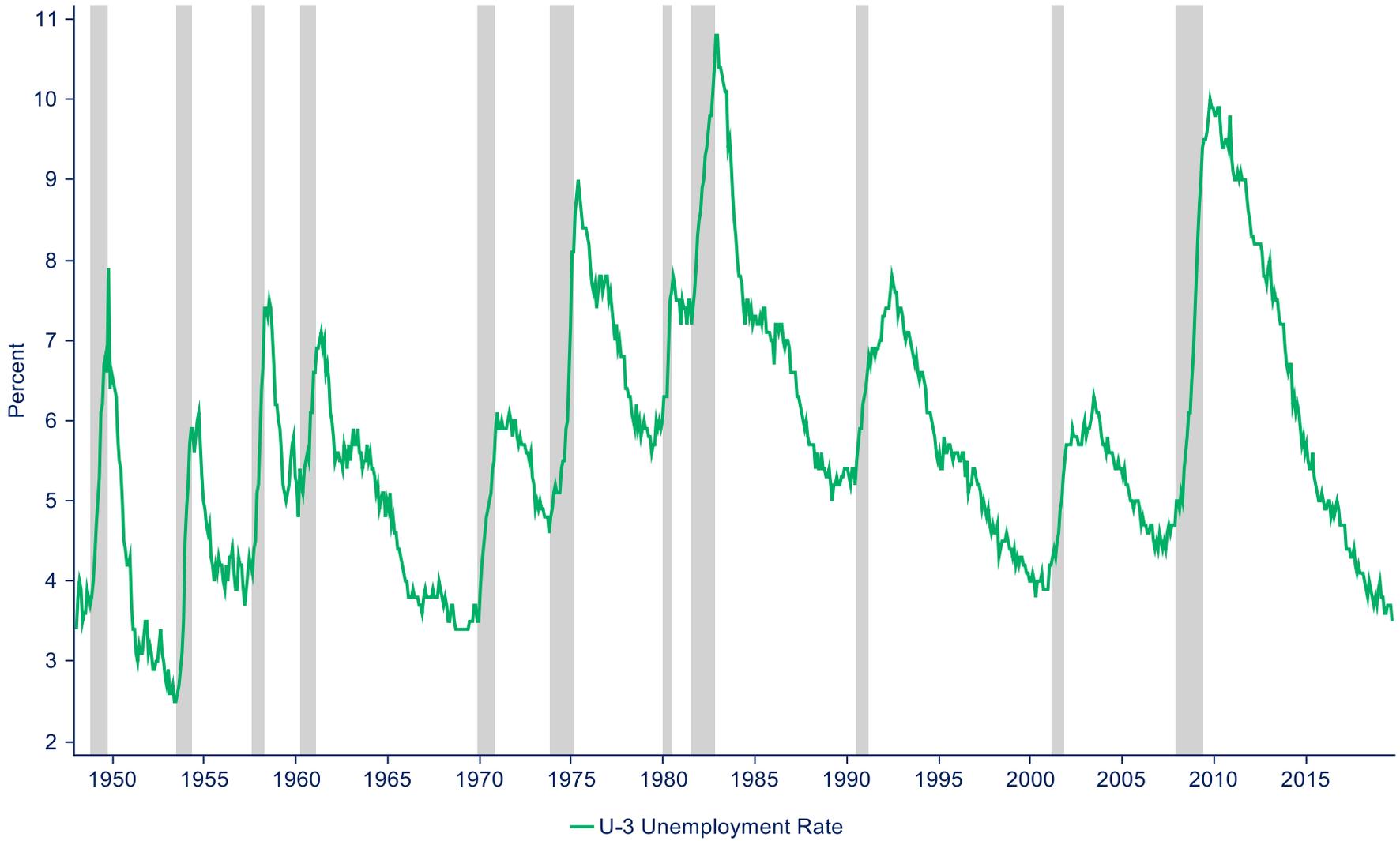
The footprint of manufacturing is larger than you think

The Manufacturers Alliance for Productivity
and Innovation estimates:

Each dollar of domestic manufacturing
value-added **generates \$3.60 more**
elsewhere in the economy.

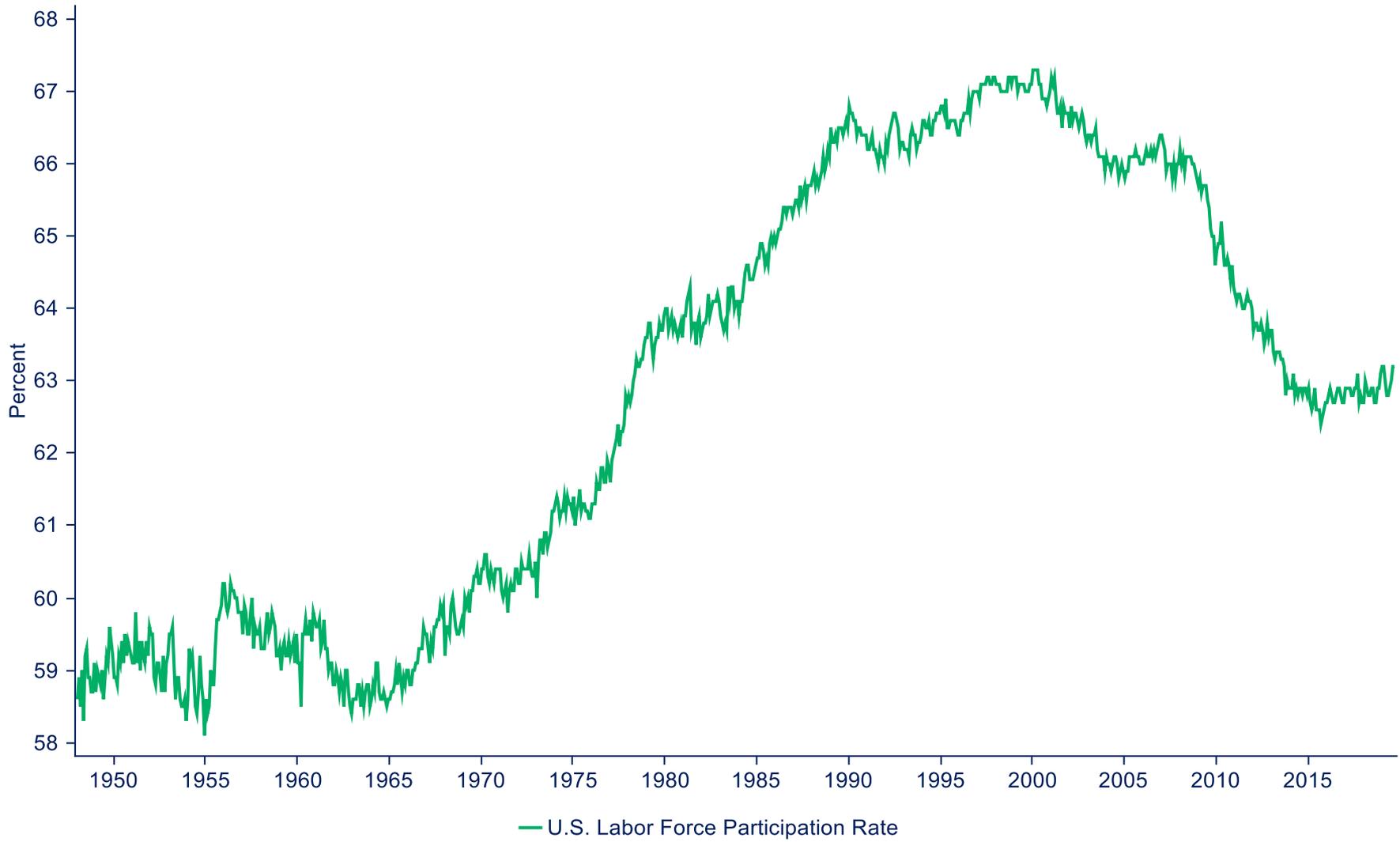
Each manufacturing job
is associated with
3.4 other jobs.

The Fed's unfulfilled mandate



Source: Macrobond, BLS, as of 10/31/2019

The most important number



Source: Macrobond, BLS, as of 10/31/2019

The components of the workforce recovery

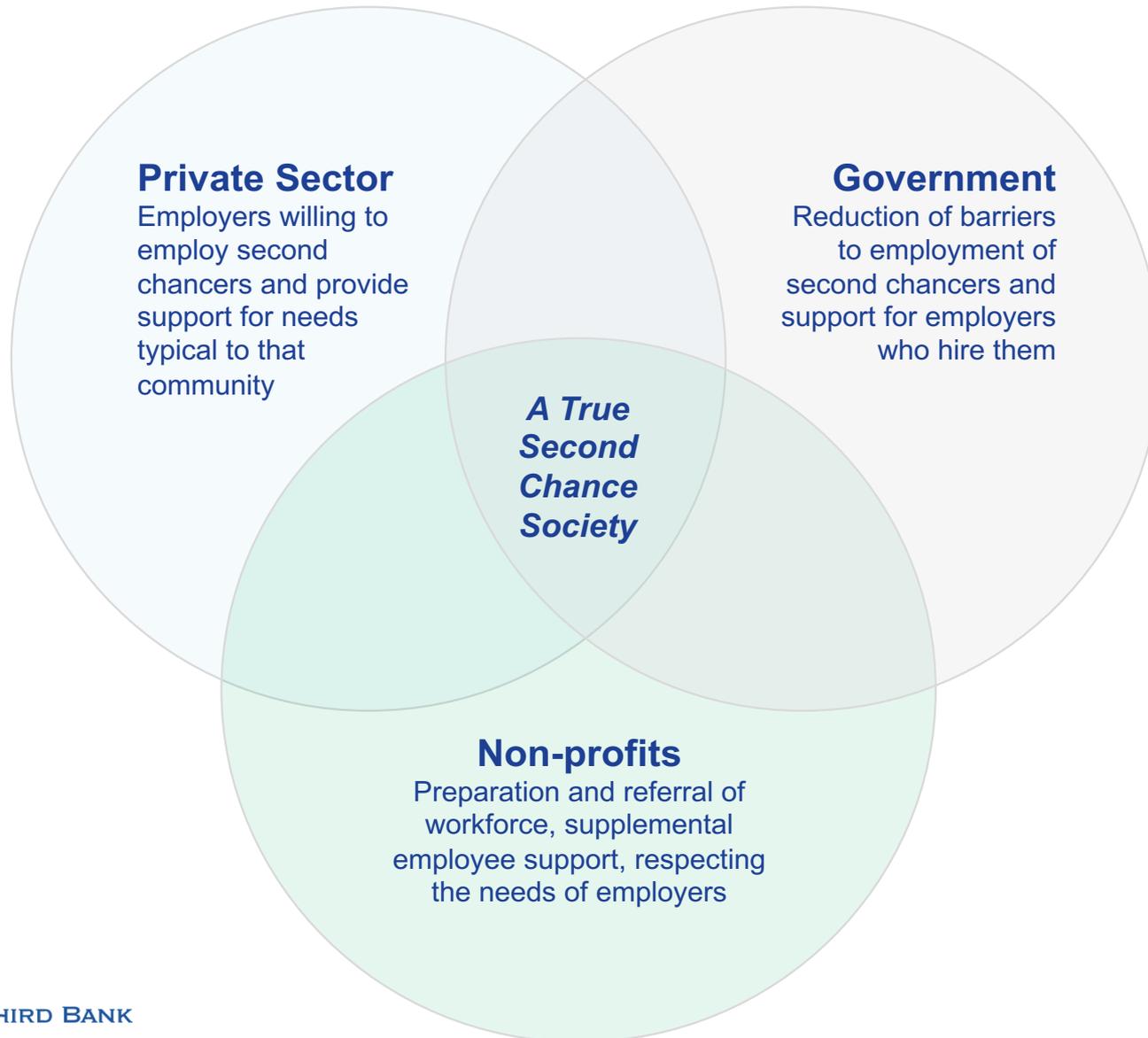


Source: Macrobond, BLS, as of 10/31/2019

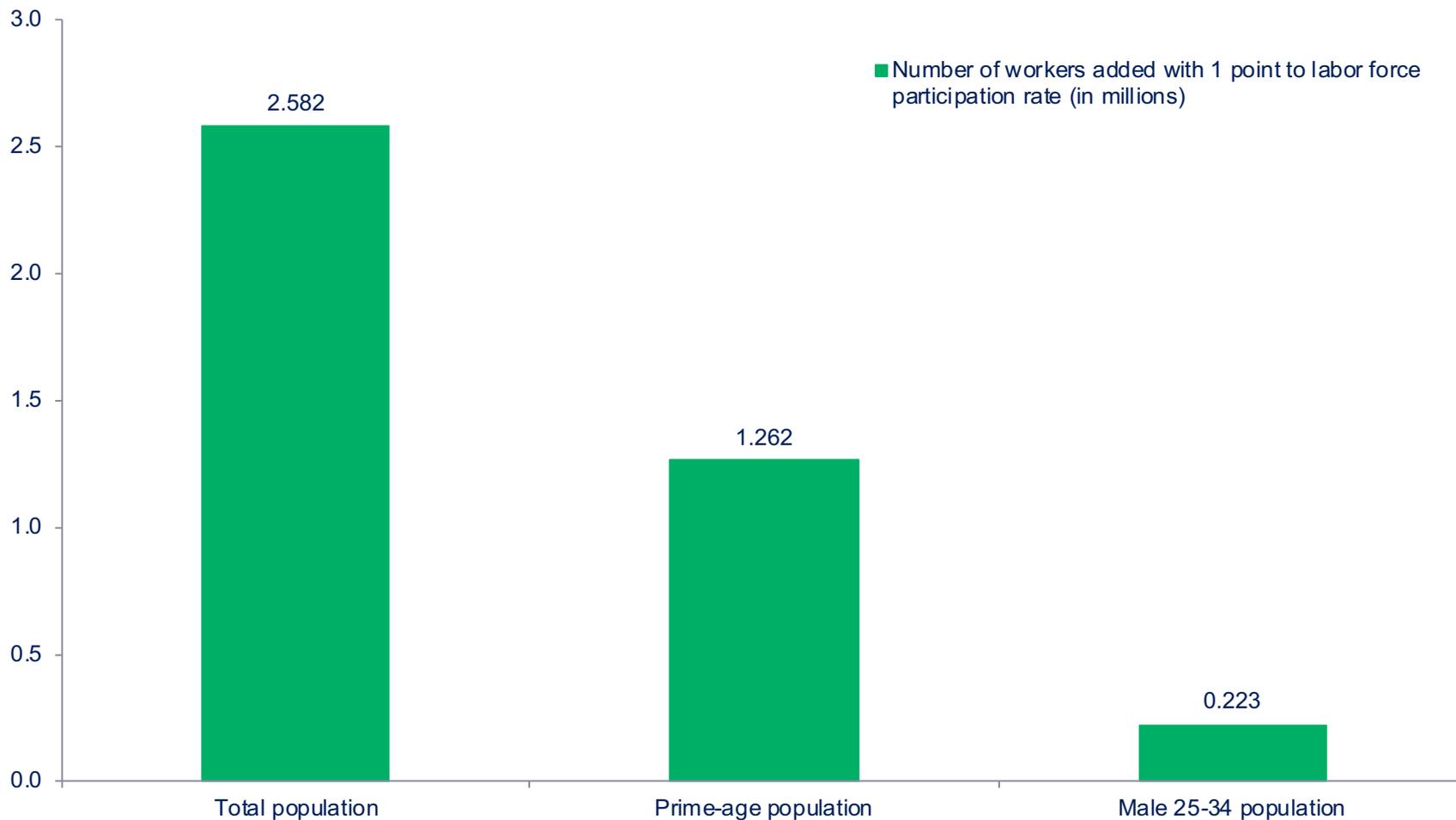


Source: Macrobond, BLS, as of 10/31/2019

Modeling a second chance society



Macro benefits: a longer, stronger expansion?



Watching for the ninth inning

Inflation expectations remain contained

Core CPI



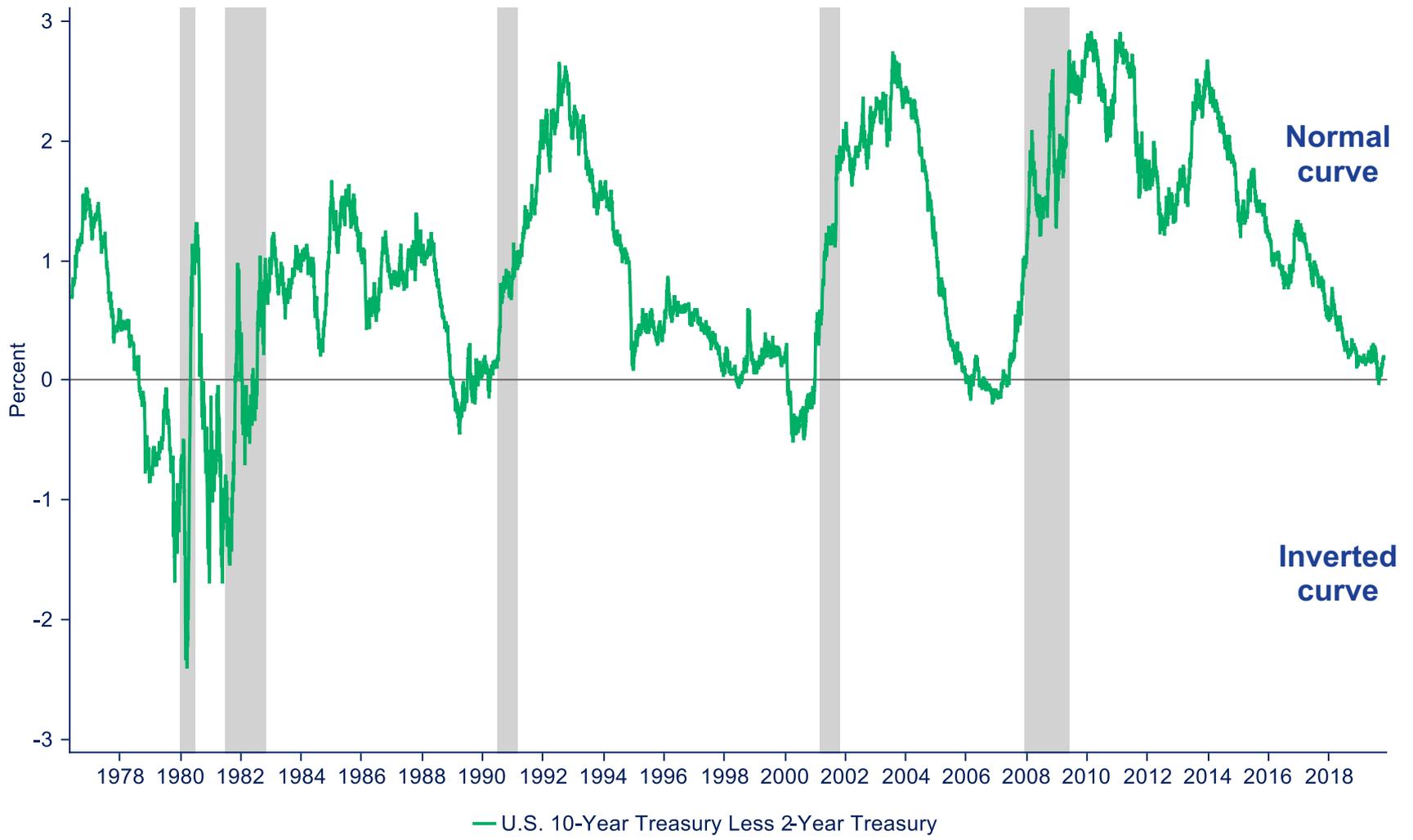
Source: Macrobond, BLS, as of 10/31/2019

Inflation expectations



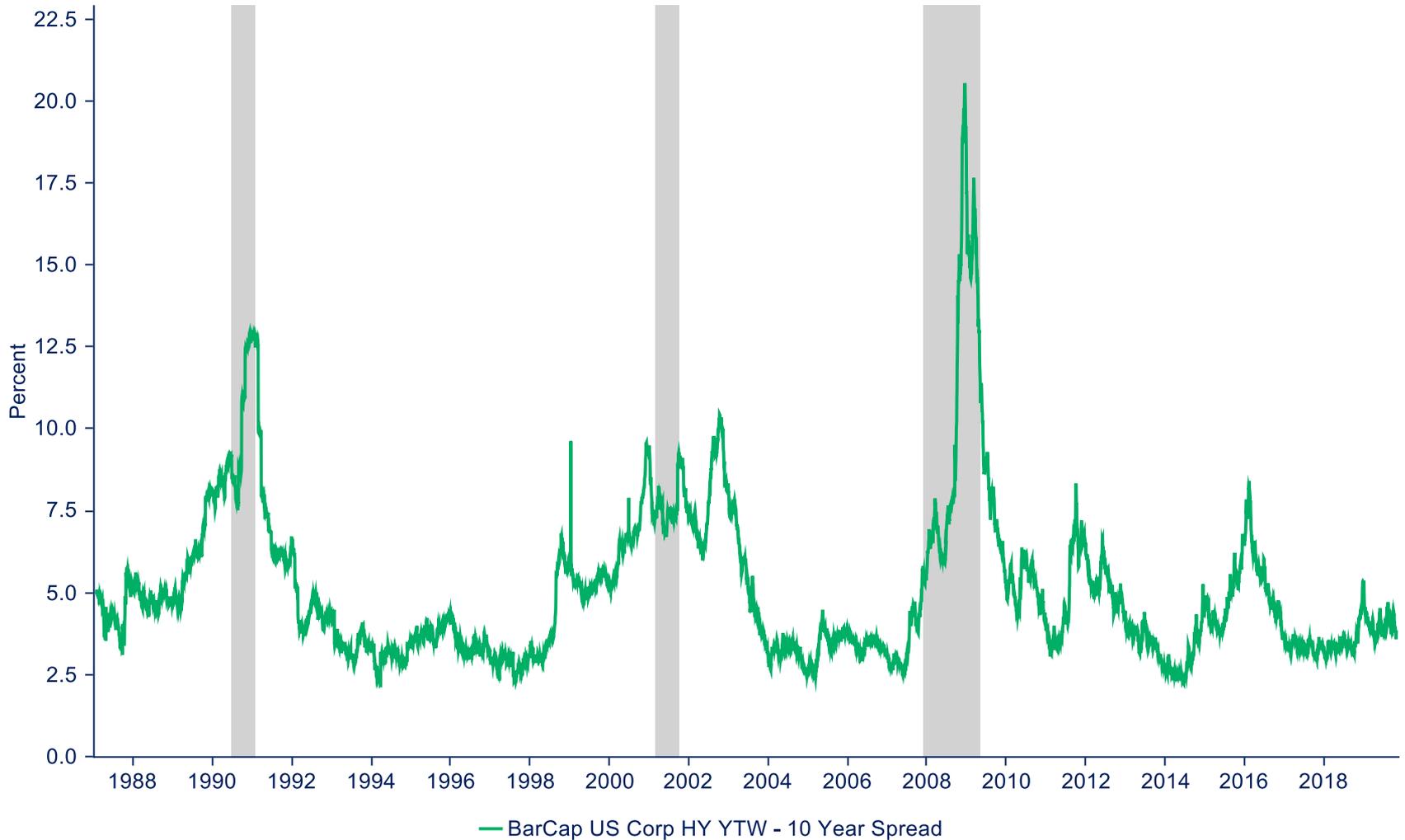
Source: Macrobond, Federal Reserve Bank of St. Louis, as of 10/31/2019

The yield curve briefly inverted in August



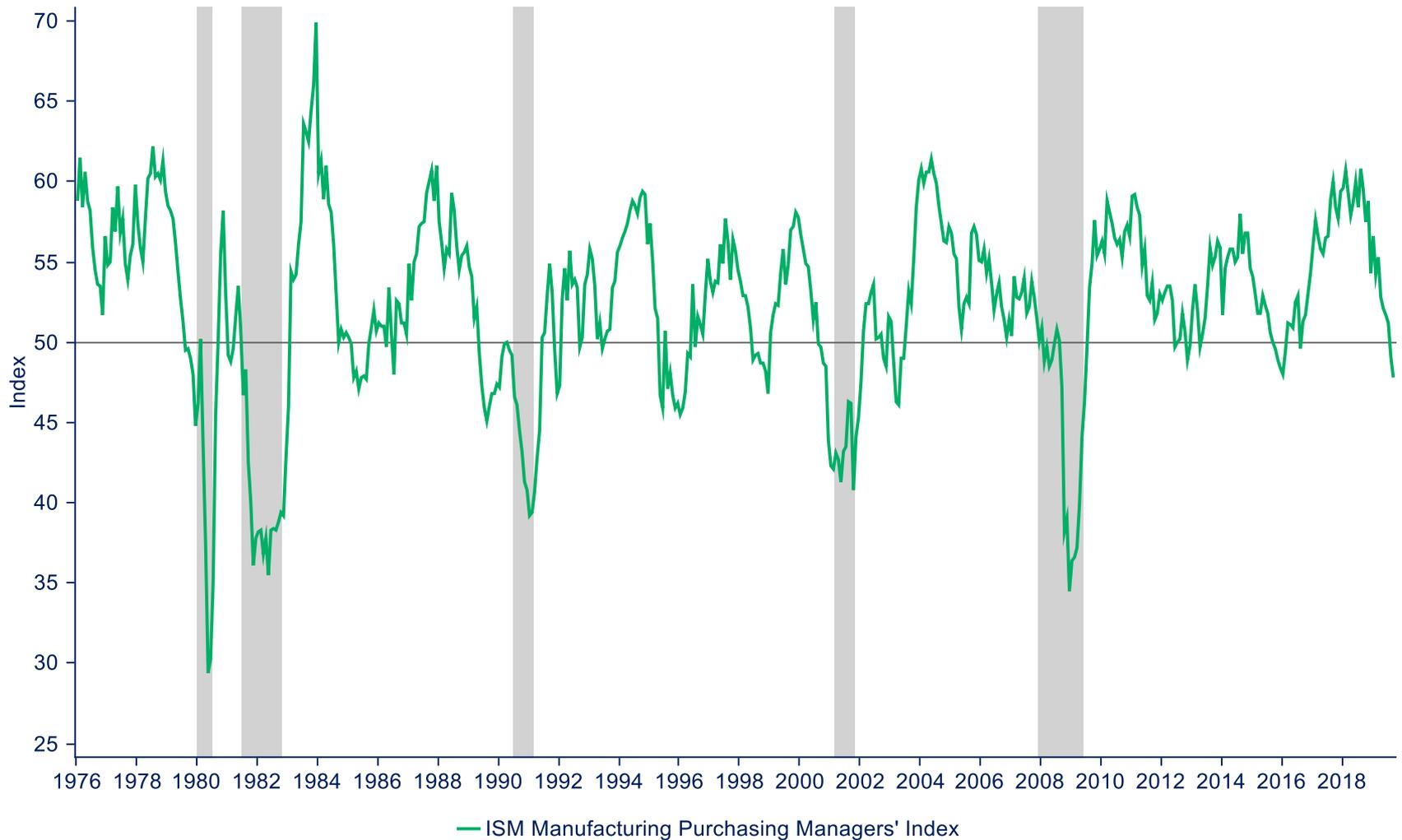
Source: Macrobond, NBER, as of 10/31/2019

Spreads not threatening on a long-term perspective



Source: Macrobond, Bloomberg, as of 10/31/2019

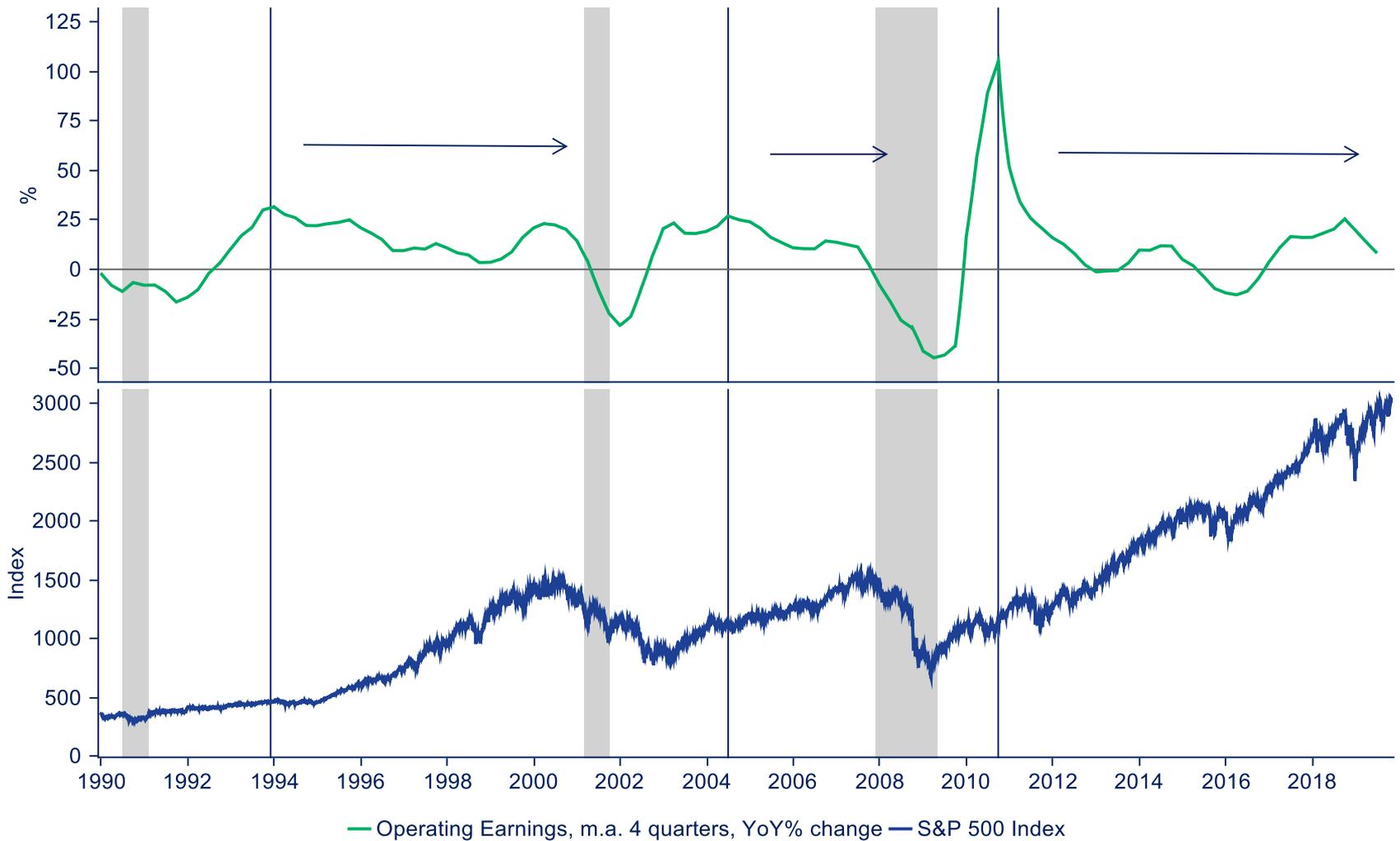
PMIs becoming a point of worry



Source: Macrobond, ISM, as of 10/31/2019

What should investors do?

How do markets behave toward the end of cycles



Source: Macrobond, SPDJI, as of 10/31/2019

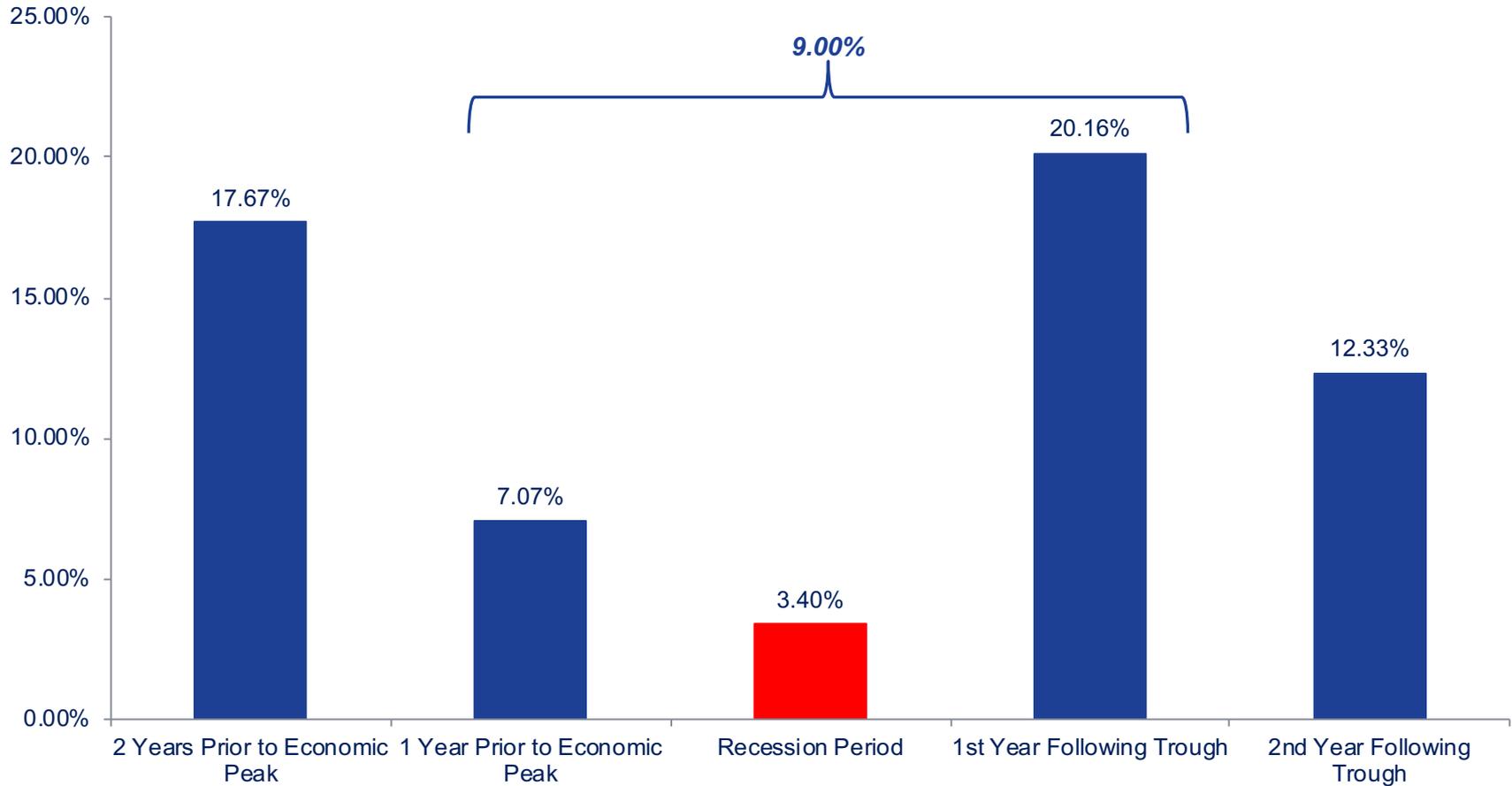
How do markets behave toward the end of cycles

First yield curve inversion to equity market peak	Length to equity market peak	Performance of S&P 500 index
12/14/1988 – 7/16/1990	19 months	41.4%
5/26/1998 – 3/24/2000	22 months	43.0%
12/27/2005 – 10/9/2007	21 months	28.8%

Source: Bloomberg, Strategas Research Partners

The futility of market timing

S&P 500 annualized total returns surrounding recessions



Source: Bloomberg; Average annualized total returns based on the last 12 recessions as defined by the National Bureau of Economic Research

Questions?

Thank you

Disclosures & definitions

GDP (Gross Domestic Product) is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

The Atlanta Fed Wage Growth Tracker is a measure of the nominal wage growth of individuals. It is constructed using microdata from the Current Population Survey and is the median percent change in the hourly wage of individuals observed 12 months apart.

CEO Confidence Index measures CEO confidence in the economy 1 year from now. This concept tracks the general state of the economy as it relates to businesses.

Capital Goods New Orders Nondefense Ex Aircraft & Parts tracks the value of new orders received during the reference period. It is often used as a proxy for capital expenditures, or CapEx. Capital expenditure are funds used by a company to acquire, upgrade, and maintain physical assets.

U.S. Treasury Federal Budget Deficit or Surplus as a % of Nominal GDP: The government budget balance is the difference between government revenues and government expenditures. A budget surplus would mean revenues are higher than expenditures. A deficit means expenditures are greater than revenues.

U-3 Unemployment Rate is the total unemployed as a percentage of the civilian labor force. U-6 Unemployment Rate is the total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.

The Labor Force Participation Rate refers to the number of people who are either employed or are actively looking for work. The number of people who are no longer actively searching for work would not be included in the participation rate.

The Consumer Price Index (CPI) is a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate

5-Year, 5-Year Forward Inflation Expectation Rate measures expected inflation (on average) over the five-year period that begins five years from today.

The U.S. Treasury Yield is the pre-tax yield to maturity on Generic United States on-the-run government bill/note/bond indices at different maturities. The 10-yr and 2-year maturities are widely quoted and the spread between the two is often referred to as the "yield curve."

The BarCap U.S. Corporate HY YTW – 10-yr Treasury Spread is calculated by taking the Barclays Capital U.S. Corporate High Yield Yield-to-Worst minus the U.S. Generic Government 10-year Yield.

The Institute for Supply Management (ISM) Manufacturing Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

The S&P (Standard & Poor's) 500 Stock Index is a composite of the 500 largest companies in the U.S. and it is often used as a measure of the overall U.S. stock market.

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