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Investment Outlook 2017

Sam Stovall, April 15, 2017

Headwinds

- Aging bull market & elevated equity valuations
- Rising interest rates
- Debt ceiling, Republican Health Care Package, Brexit, N. Korea
- Seasonality

Tailwinds

- January & February barometer
- Stock yields versus bond yields
- Presidential promises and a “V-shaped” recovery in EPS

Opportunities

- Overseas oversold?
- White-water rafting: Let the market take you where it wants to go
- “When seas get rough, sailors prefer a better-made boat”

Bulls Tend to Go Out With a Bang, Not a Whimper **CFRA**

Final-year Price Gains for Bull Markets Lasting Longer than Three Years

Bull Markets		S&P 500 Price % Changes During Bull Market Years Since WWII									
Start	End	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6	Yr. 7	Yr. 8	Yr. 9	Cum.
05/17/47	06/15/48	21.2									24
06/13/49	08/02/56	42.1	11.9	13.1	(2.3)	20.0	38.6	17.2			267
10/22/57	12/12/61	31.0	9.7	(4.8)	27.6						86
06/26/62	02/09/66	32.0	17.9	2.0							80
10/07/66	11/29/68	32.9	6.6								48
05/26/70	01/11/73	43.7	11.1	(2.5)							74
10/03/74	11/28/80	38.0	21.2	(7.1)	6.1	6.8	18.0				126
08/12/82	08/25/87	58.3	2.0	13.4	29.7	36.6					229
12/04/87	07/16/90	21.4	29.3								65
10/11/90	03/24/00	29.1	5.6	14.5	1.1	24.4	20.9	38.0	1.8	35.6	417
10/09/02	10/09/07	33.7	8.0	6.6	12.9	15.9					101
03/09/09	???	68.6	15.7	3.9	13.2	21.1	10.7	(4.3)	18.9	(0.3)	249
Average		38%	13%	4%	13%	21%	22%	17%	10%	18%	147%

S&P 500 Valuations are High, Using GAAP or Operating EPS

S&P 500 at 2363	P/E Ratios	
	Operating	GAAP
P/E Ratio Trailing EPS (Q1 '17E)	20	24
Median Trailing P/E Since 1988	17	20
% Prem./(Disc.) To 1988 Median	14	17
P/E Ratio on 2016E EPS	20	27
P/E Ratio on 2017E EPS	18	20
Average Trailing P/E Since 1946	NA	17
% Prem./(Disc.) To 1958 Median	NA	42

Every Republican President Since 1901 Had a Recession Start in Their First Term

President	Recessions
Roosevelt (1901-08)	1902-04, 1907-08
Taft (1909-12)	1910-12, 1913-14
Wilson (1913-20)	1918-19, 1920-21
Harding/Coolidge (1921-24)	1923-24
Coolidge (1925-28)	1926-27
Hoover (1929-32)	1929-33
Roosevelt (1933-40)	1937-38, 1945
Truman (1945-52)	1948-49
Eisenhower (1953-60)	1953-54, 1957-58, 1960-61
Kennedy/Johnson (1961-64)	None
Johnson (1965-68)	None
Nixon/Ford (1969-1976)	1969-70, 1973-75
Carter (1977-80)	1980
Reagan (1981-88)	1981-82
Bush-41 (1989-92)	1990-91
Clinton (1993-2000)	None
Bush-43 (2001-08)	2001, 2007-09
Obama (2009-16)	None

Seasonality: Not Just a U.S. Phenomenon

Semi-Annual Seasonal Price Rotation Works No Matter the Cap. Size or Geographical Region

Index	Nov.-April		May-Oct.		Nov-Apr > May-Oct?
	Avg. %	Up?	Avg. %	Up?	
S&P 500 (Since 1945)	6.7	76%	1.6	64%	69%
S&P EW 500 (1990)	9.7	89%	0.8	70%	69%
S&P SC 600 (1995)	9.2	90%	3.2	64%	59%
MSCI-EAFE (1970)	9.1	81%	(0.3)	49%	76%
MSCI-EM (1988)	10.6	83%	0.5	48%	68%

S&P 500 Price Returns and Frequencies of Advance in the November-April and May-October Periods During Presidential First Years of First Terms

First Year, First Term

	Democrat		Republican	
	Avg. % Chg.	Freq. of Advance	Avg. % Chg.	Freq. of Advance
Nov.-Apr.	(3.3)	33%	0.7	80%
May-Oct.	5.7	83%	(4.0)	20%

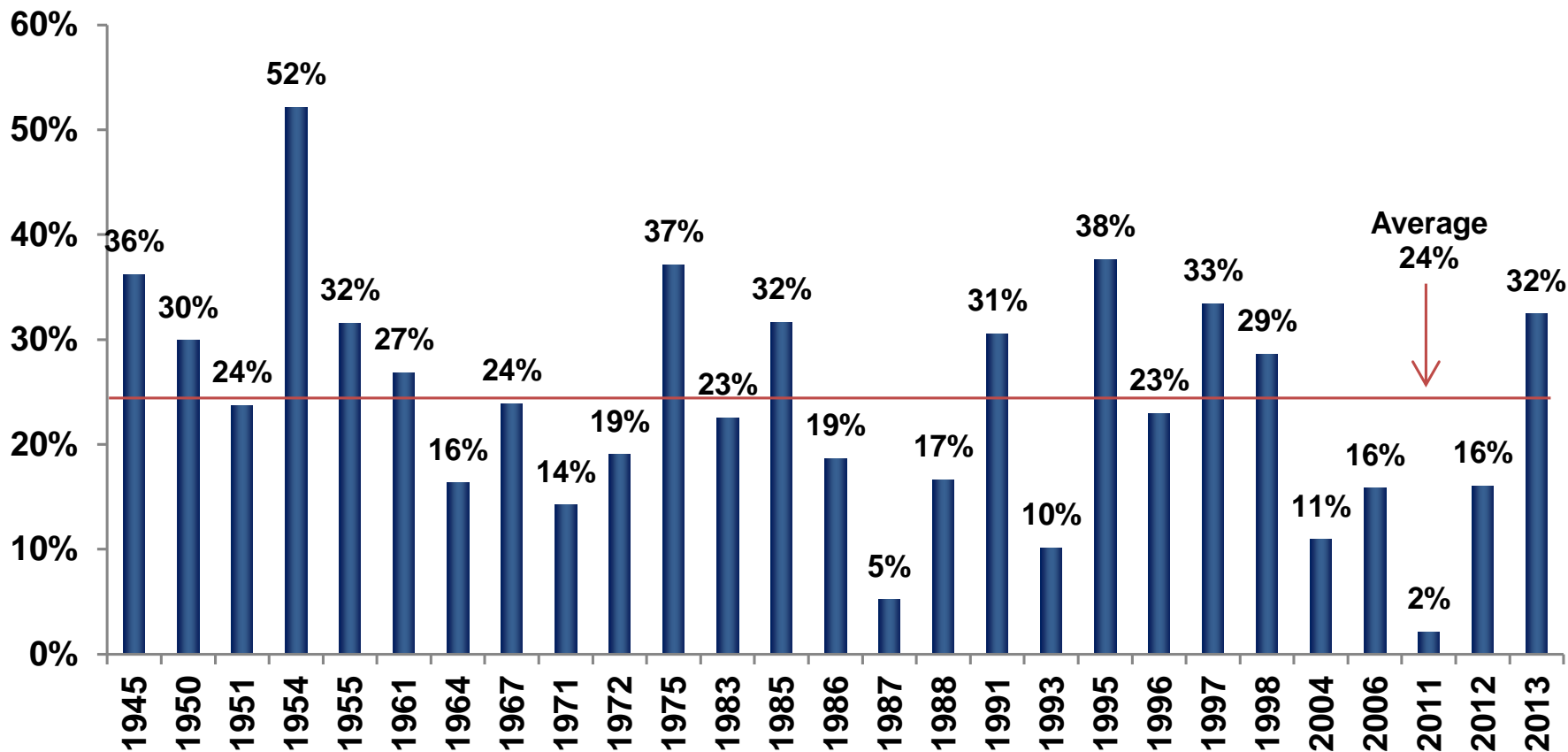
Bull Markets Die of Fright, Not Age

Low Readings Up to Three Months Prior to the Recession's Start

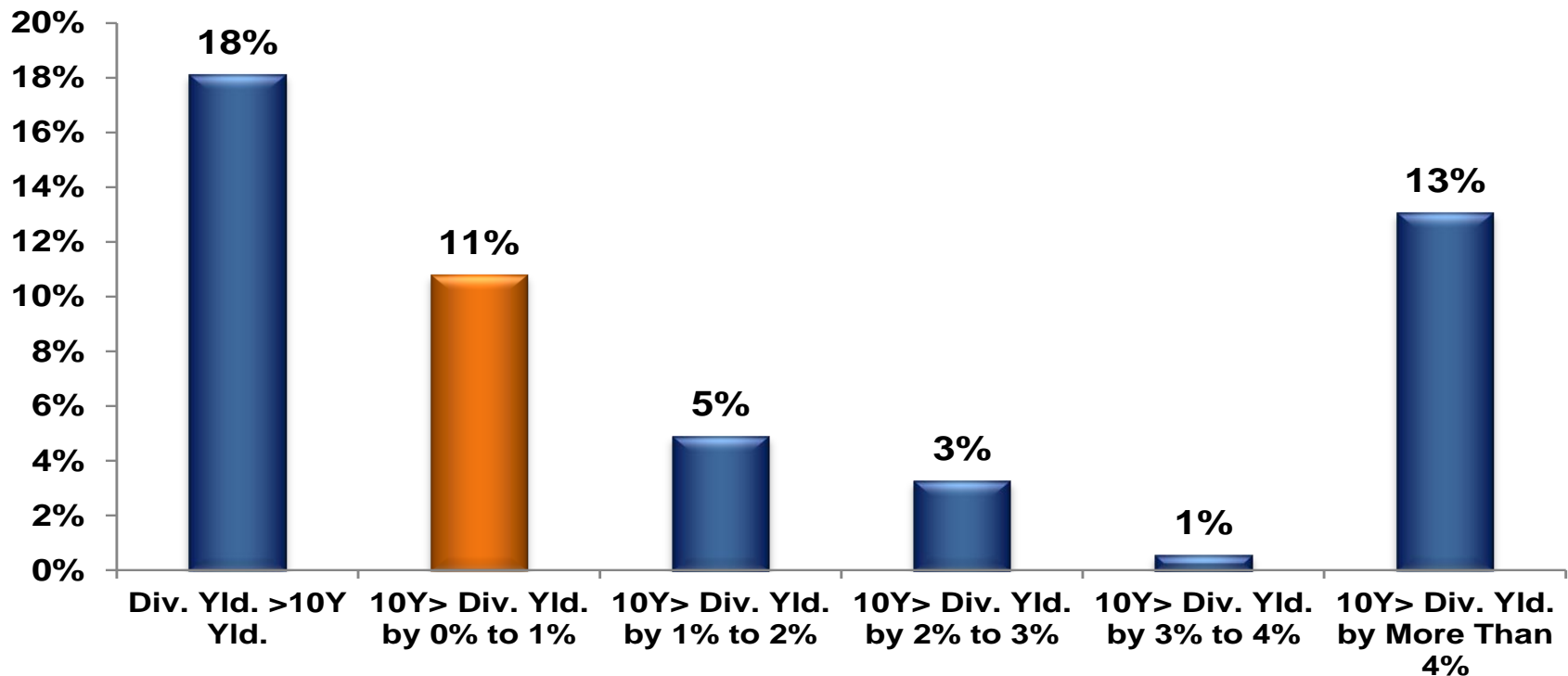
Recession Dates	Year-Over-Year % Change in		6 Month % Change in Leading Indicators	Yield Curve (10 Year Note-One-Year Bill)
	Housing Starts	Consumer Sentiment		
4/60-2/61	(32)	--	0.6	(0.31)
12/69-11/70	(25)	--	(2.3)	(0.75)
11/73-3/75	(33)	--	(3.0)	(1.42)
1/80-7/80	(27)	(22)	(4.5)	(2.14)
7/81-11/82	(18)	19	(2.4)	(2.10)
7/90-3/91	(18)	(4)	(1.0)	0.38
3/01-11/01	(10)	(19)	(6.2)	(0.36)
12/07-9/09	(37)	(18)	(3.8)	0.38
Today	6.2	5.0	1.1	1.5

S&P 500 Up in Jan. & Feb: Strong 12-Month Gain

In the 27 Times that the S&P 500 Was Up in January and February Since WWII, It was Up for the Full Year 27 Times, and 25 Times for the Remaining 10 Months

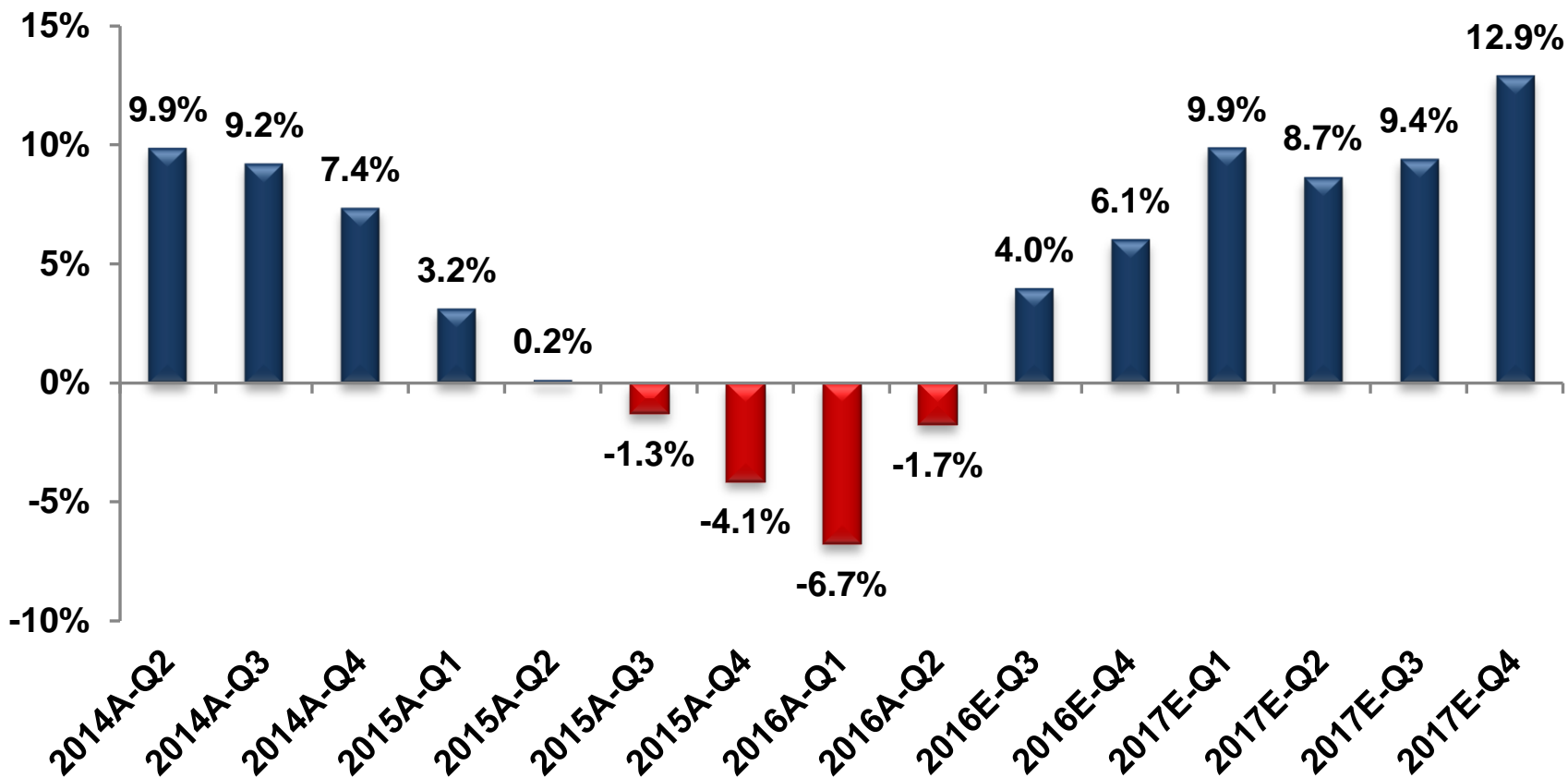


Average S&P 500 Price Change 12 Months After Dividend Yield vs. 10-Year Yield Differentials



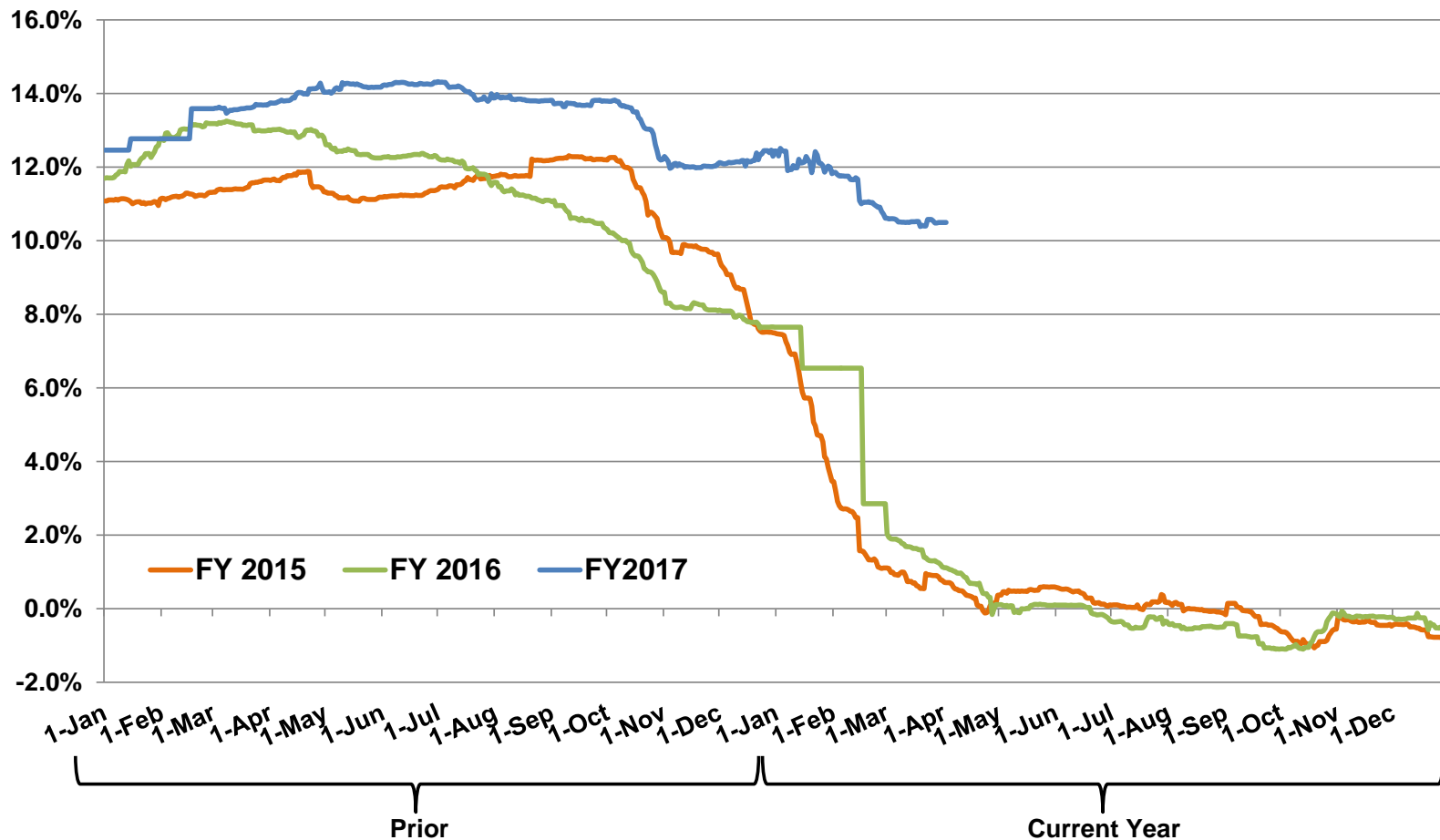
S&P 500 EPS Should Post a “V-Shaped” Recovery **CFRA**

Y/Y % Changes in Actual and Estimated S&P 500 Operating EPS



2017 EPS Estimates Continue to Hold Up

Next 12 Month S&P 500 Estimated EPS % Changes



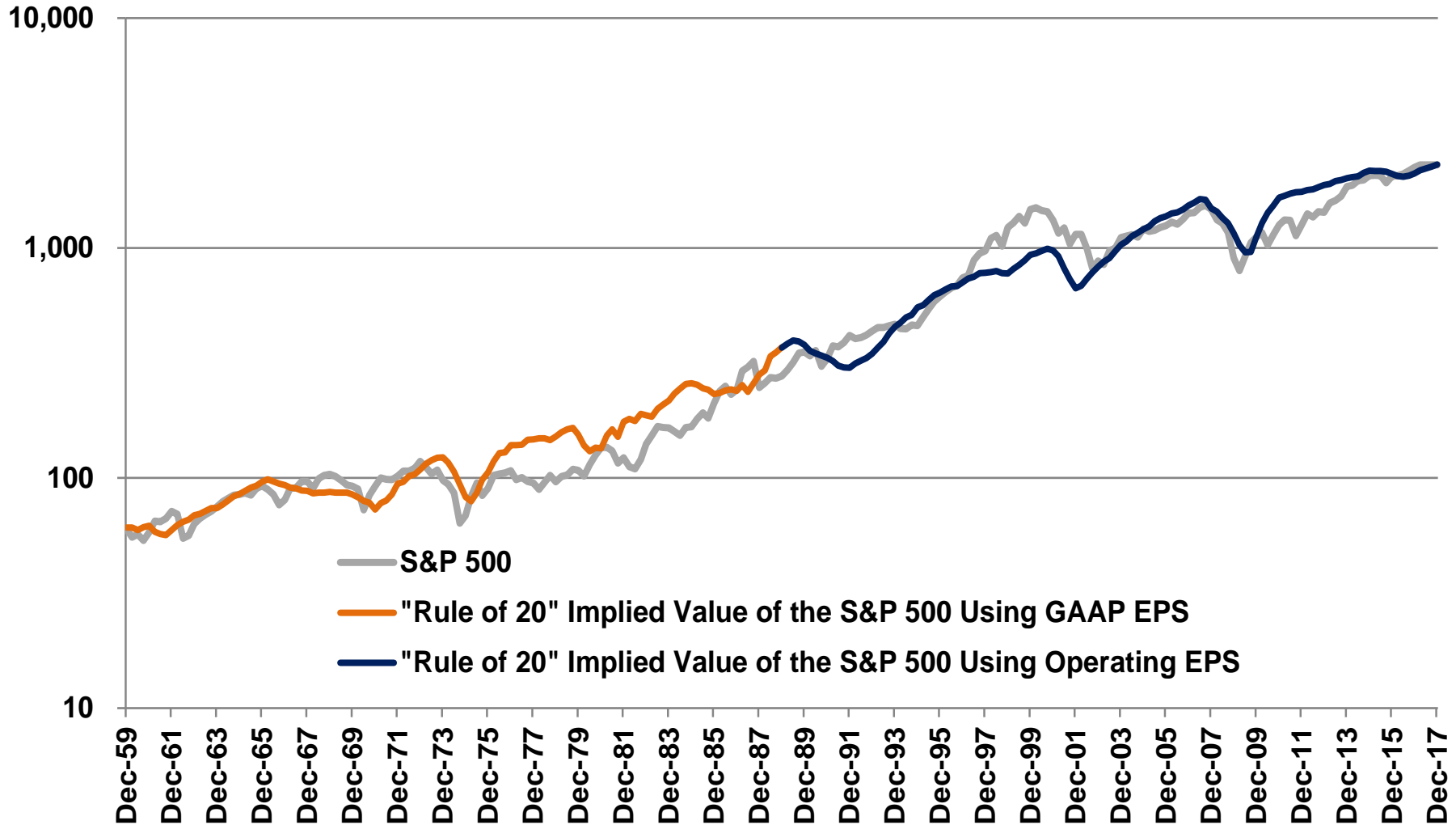
S&P 500 Targets Based on EPS & CPI Estimates

The “Rule of 20” (20-CPI*EPS) Says that Year-End Fair Value for the S&P 500 Depends on Where EPS and CPI End Up

Based on S&P 500 Operating EPS

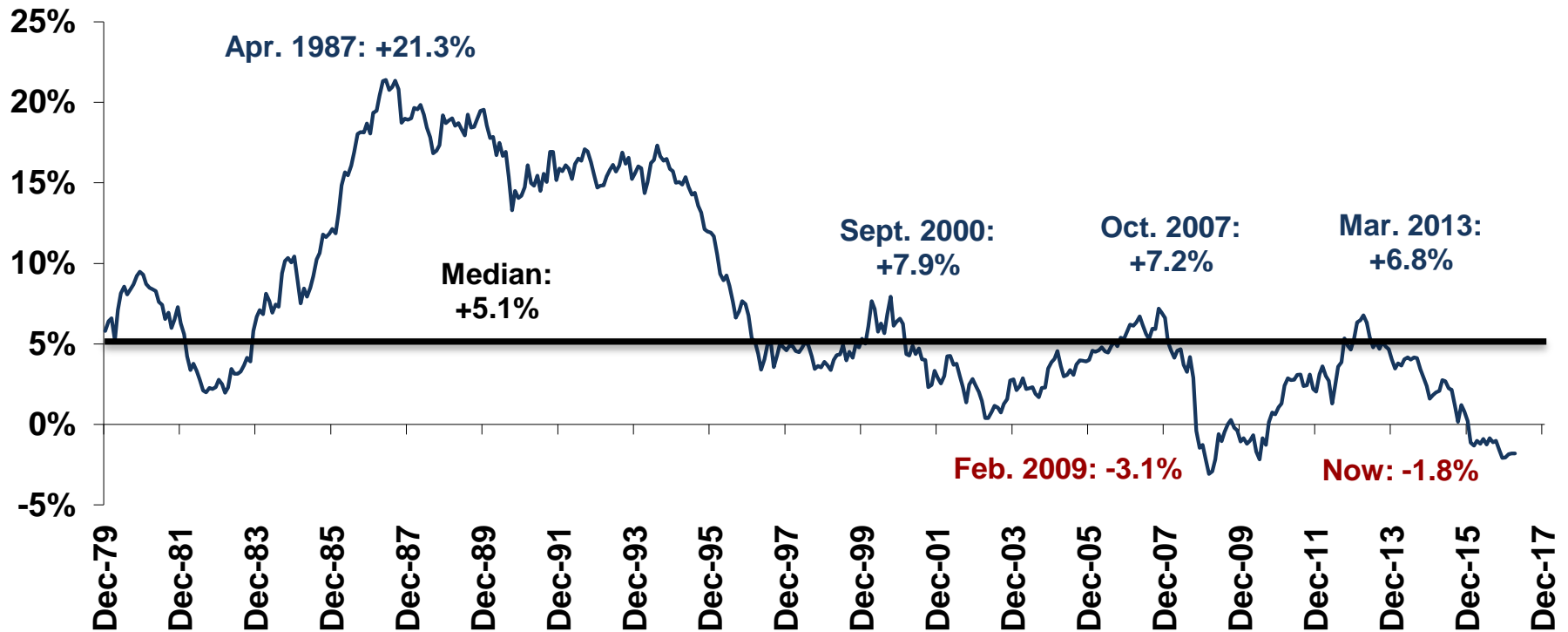
Y/Y % Chg. Inflation	20.0%	15.0%	10.3%	6.5%
	<u>\$141.23</u>	<u>\$135.34</u>	<u>\$129.77</u>	<u>\$125.34</u>
1.7	2584	2477	2375	2294
1.8	2570	2463	2362	2281
1.9	2556	2450	2349	2269
2.0	2542	2436	2336	2256
2.1	2528	2423	2323	2244
2.2	2514	2409	2310	2231
2.3	2500	2396	2297	2218
2.4	2486	2382	2284	2206
2.5	2471	2368	2271	2193

Implied S&P 500 Target vs. Actual Levels



Overseas Oversold?

On a rolling 10-year CAGR basis, the MSCI-EAFE is rivalling its all-time low set in February 2009



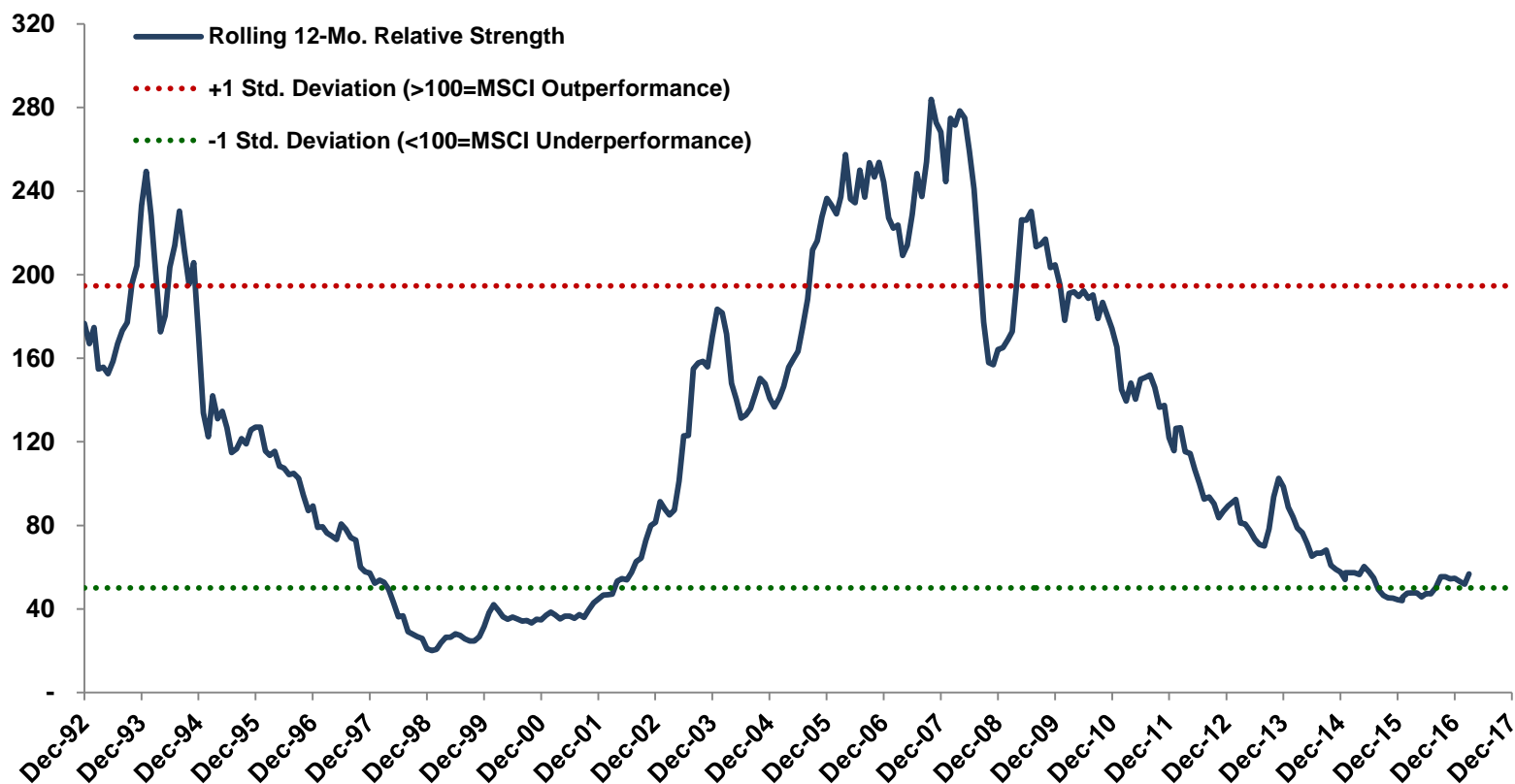
MSCI-EAFE Return is Extremely Low vs. S&P 500

On a rolling 5-year total return basis, the MSCI-EAFE Index recently bounced off an extreme low: One standard deviation below the S&P 500.



MSCI-EM Return is Extremely Low vs. S&P 500

On a rolling 5-year total return basis, the MSCI-Emerging Markets Index recently bounced off an extreme low: One standard deviation below the S&P 500.



Global EPS Growth Estimates, Valuations & Yields **CFRA**

EPS growth estimates, P/E ratios and dividend yields look much more appealing overseas than they do for U.S. benchmarks.

Global Market	Index	2017E		Div.
		EPS % Chg.	P/E	Yield
S&P 500	SPX	10.1	18.2	2.0%
S&P MidCap 400	MID	11.8	20.2	1.6%
S&P SmallCap 600	SML	13.4	21.4	1.3%
Developed Int'l.	MXEA	41.6	15.0	3.1%
Emerging Markets	MXEF	25.2	12.4	2.4%
Frontier Markets	MXFM	17.8	12.0	3.9%
Int'l Small Caps.	MXEASC	129.2	16.4	2.4%

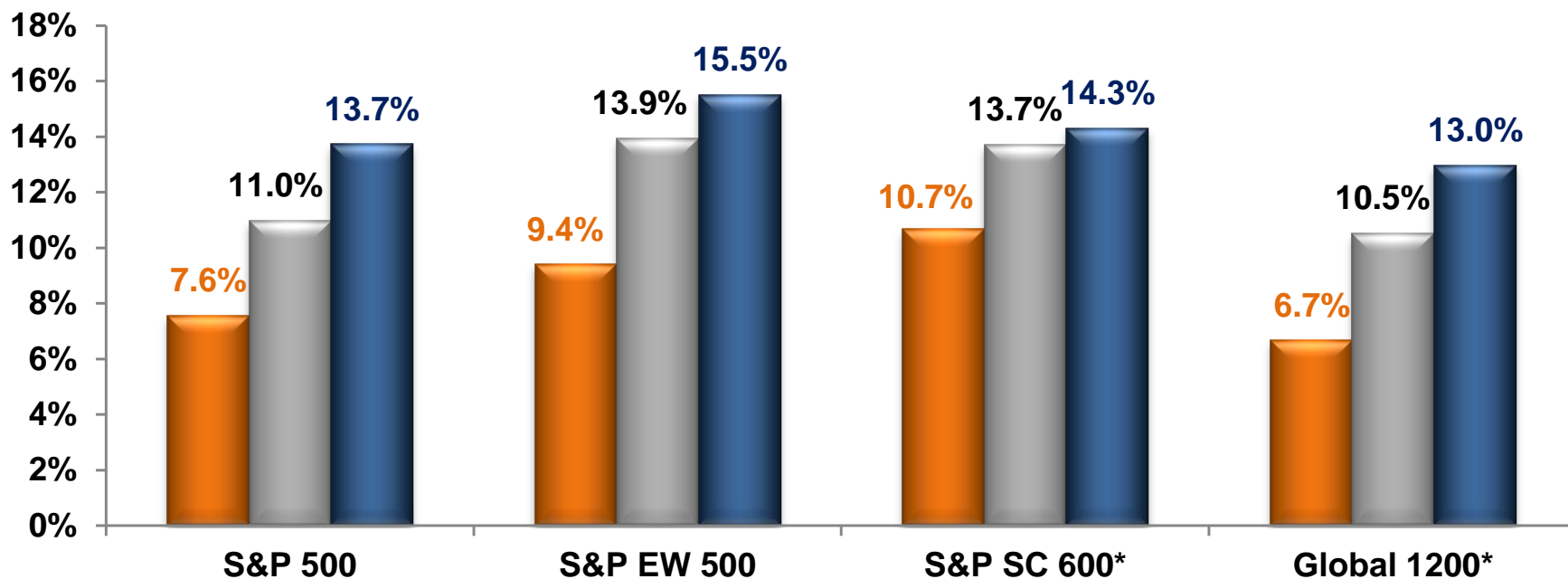
Sector Seasonality: Better to Rotate than Retreat

Average Six-Month S&P 500 Sector Price Returns and Frequencies of Beating the S&P 500 4/30/1990-3/31/2017

Sector	November-April		May-October	
	% Change	F.O.	% Change	F.O.
Cons. Discretionary	10.2	59%	0.2	44%
Consumer Staples	4.9	44%	4.4	63%
Energy	7.6	44%	0.7	37%
Financials	7.5	59%	1.4	52%
Health Care	5.9	44%	4.6	63%
Industrials	9.1	70%	(0.1)	19%
Info Tech	8.4	59%	3.9	67%
Materials	9.6	74%	(2.3)	30%
Real Estate	5.1	50%	2.0	67%
Telecom Services	3.2	30%	0.6	52%
Utilities	3.7	33%	1.6	44%
S&P 500	6.8	NA	1.5	NA

Seasonal Rotation CAGRs by Size & Region

Compound Annual Growth Rates for the Semi-Annual Sector Rotation Strategies



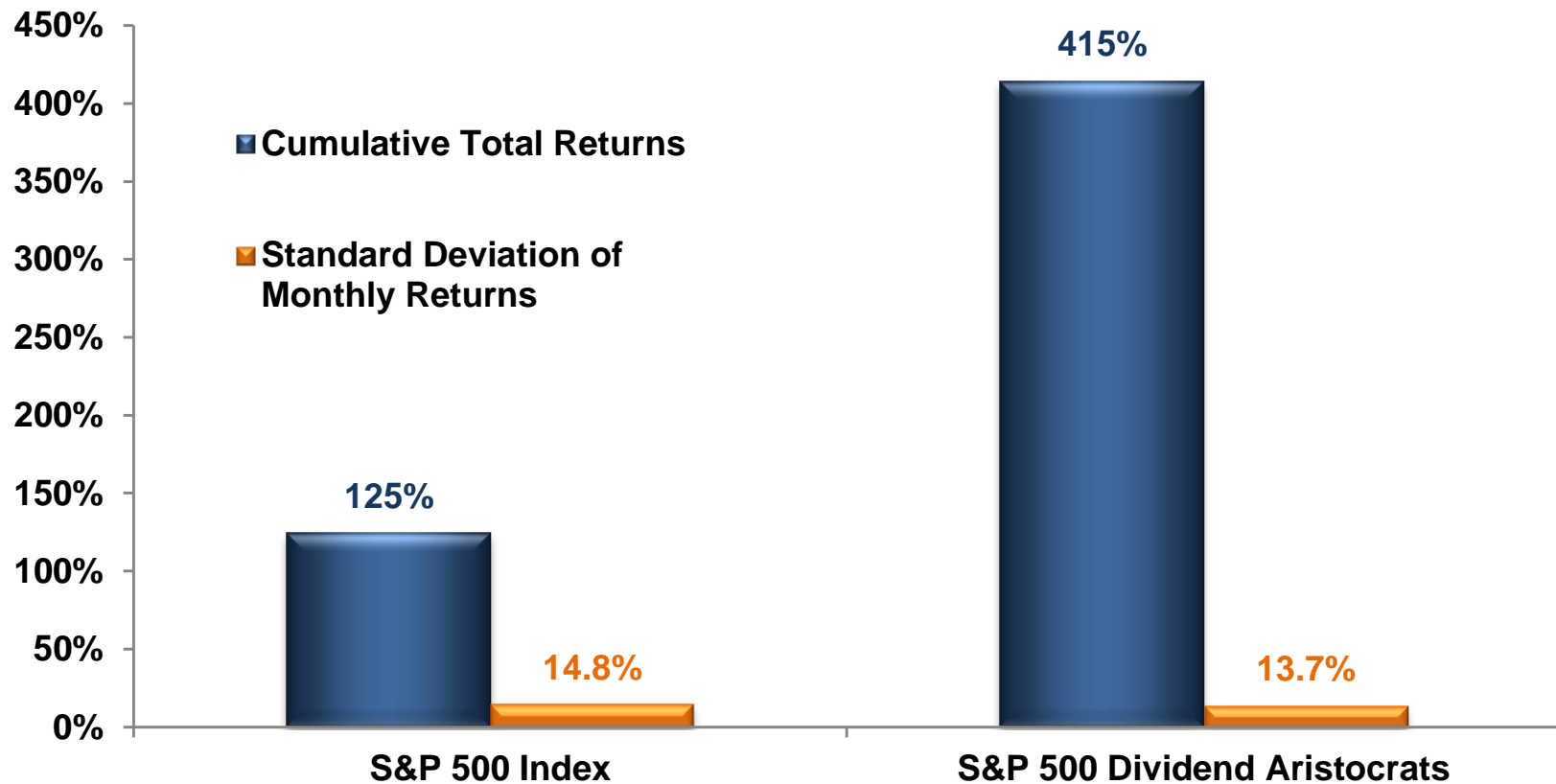
■ 100% Benchmark All Year Long. Data: 4/30/90-3/31/17 (*4/30/95-3/31/17)

■ NOV-APR: 100% S&P Benchmark; MAY-OCT: 50% Consumer Staples, 50% Health Care

■ NOV-APR: 25% Cons. Disc., 25% Industrials, 25% I.T., 25% Mat'ls.; MAY-OCT: 50% Cons. Staples, 50% Health Care

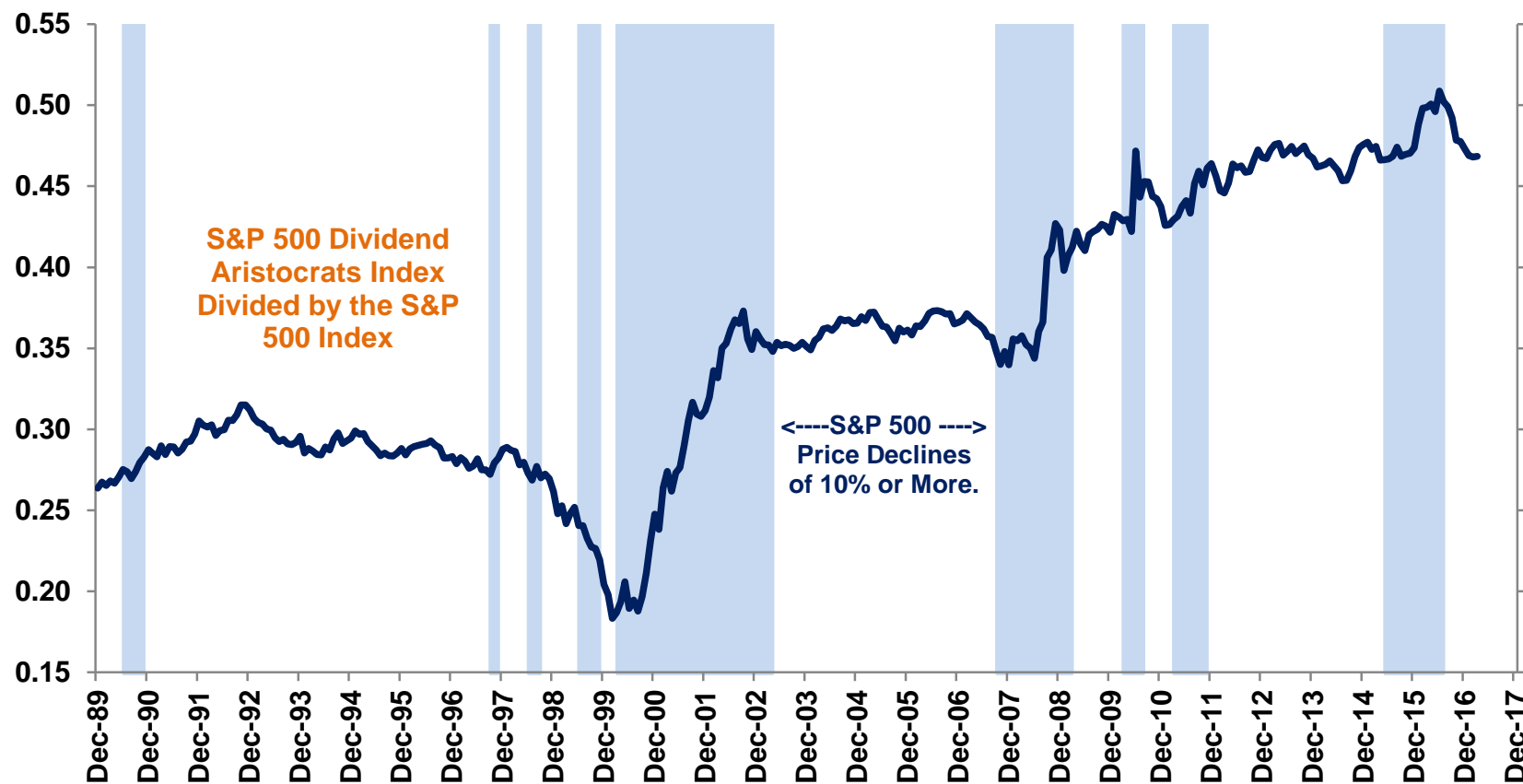
Cumulative Total Returns Since 1999

The S&P 500 Dividend Aristocrats Outpaced the S&P 500 Index by a More Than 3:1 Margin With Lower Annual Volatility



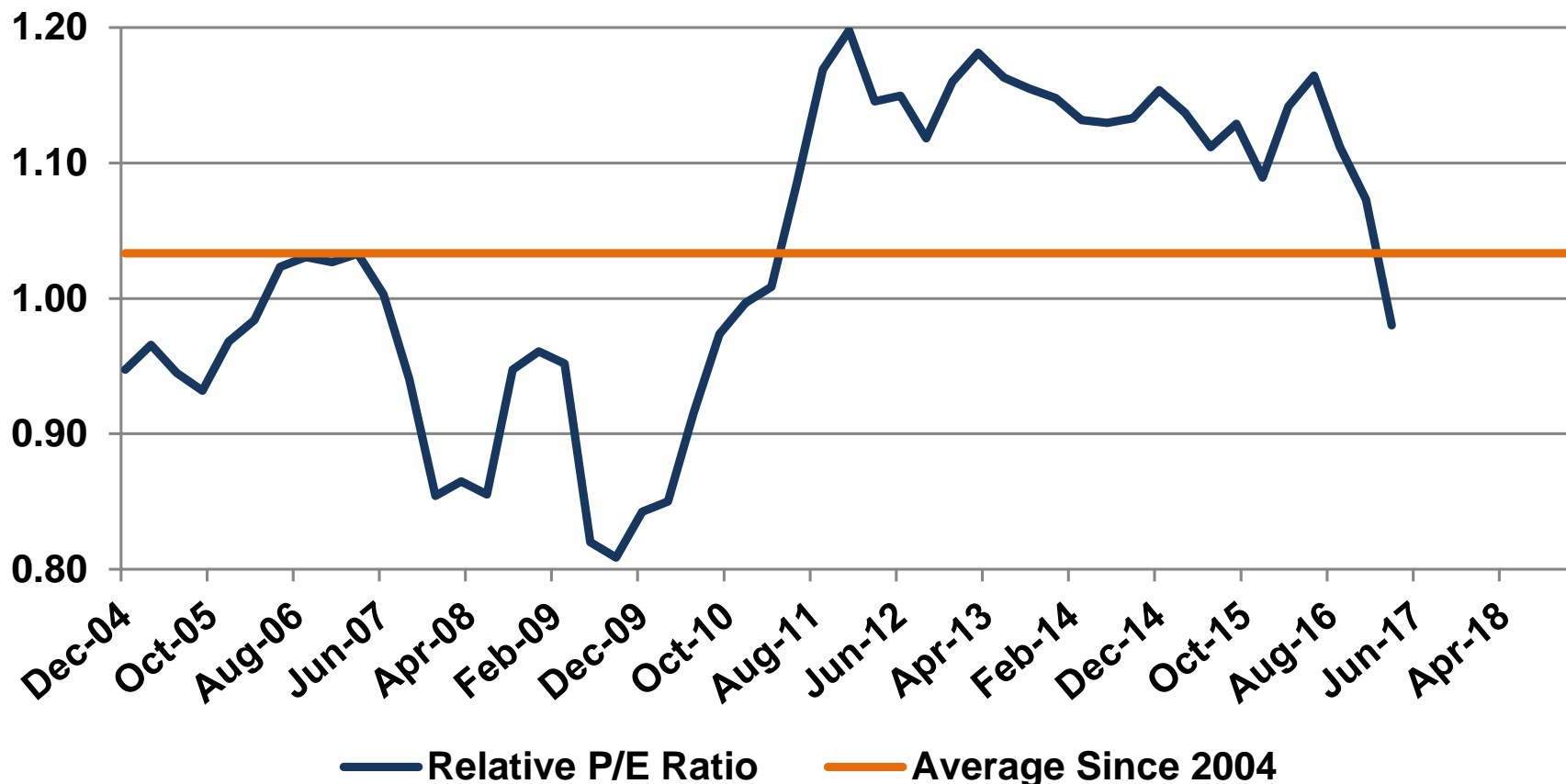
Dividend Aristocrats vs. S&P 500

Relative Price Return of the S&P Dividend Aristocrat vs. S&P 500 and Stock Market Corrections (Declines of 10%-19.9%)



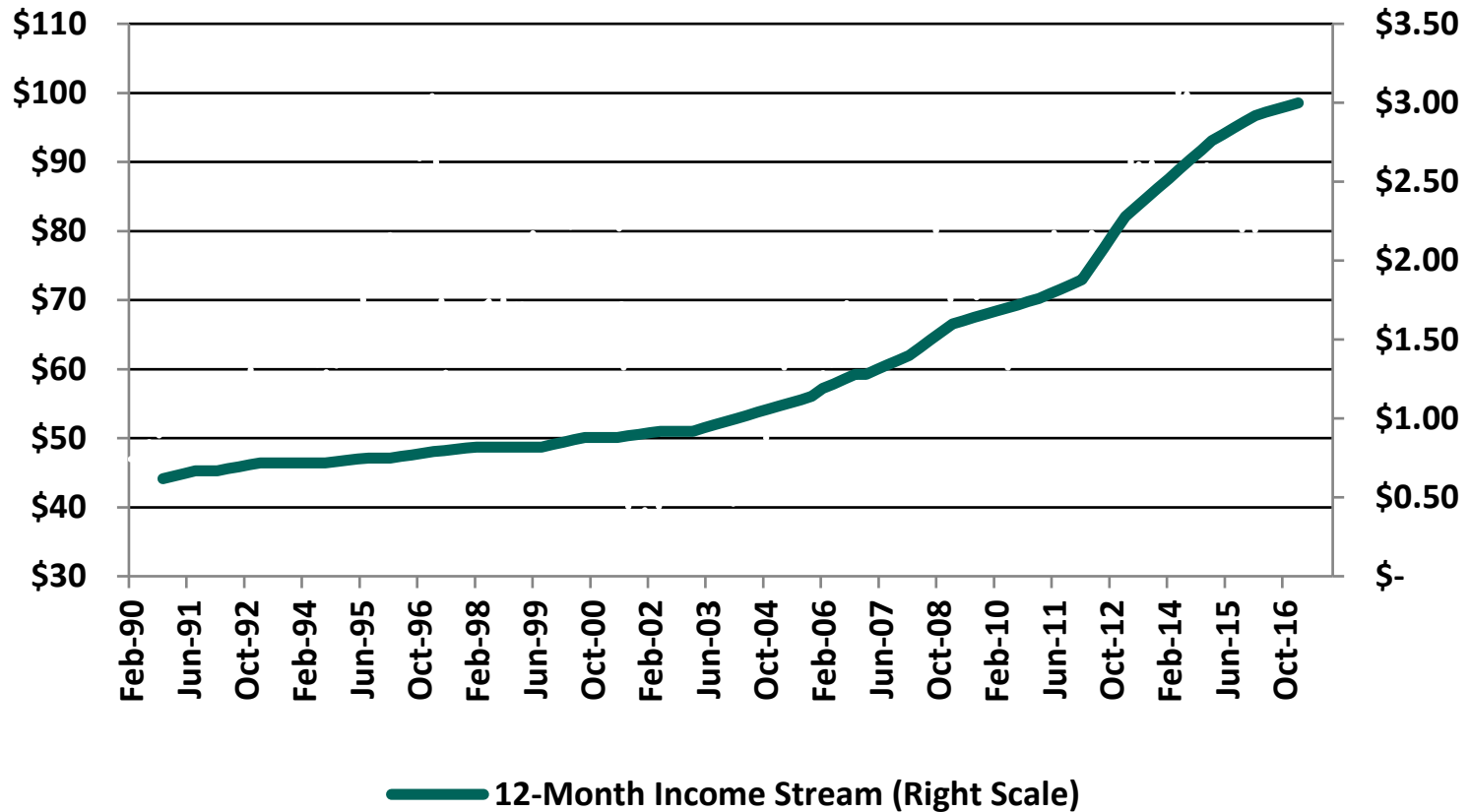
S&P 500 Dividend Aristocrats: Relative Valuations **CFRA**

The S&P 500 Dividend Aristocrats P/E Ratio Divided by the S&P 500 Index P/E Ratio is Currently Below its Long-Term Average



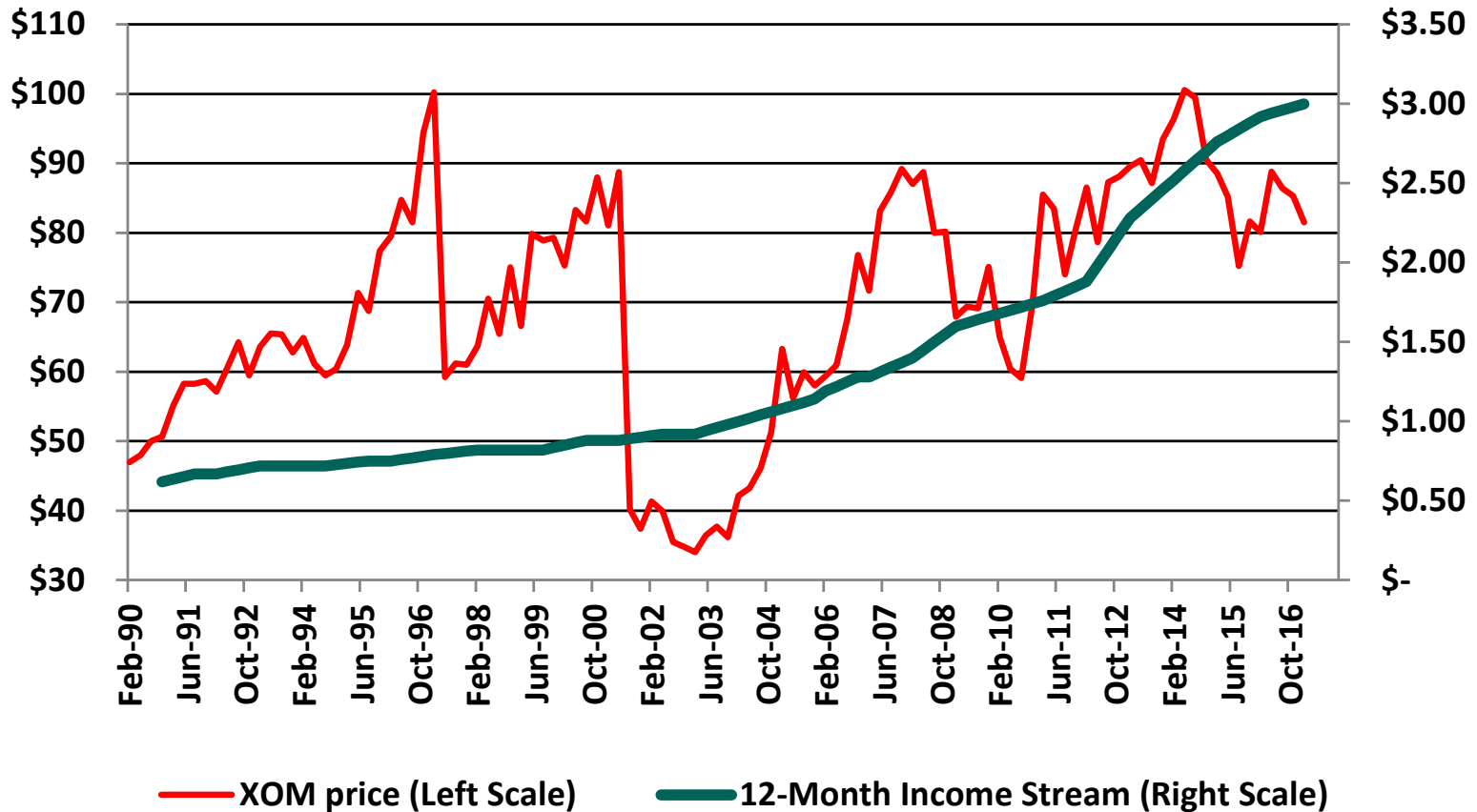
Income Investors Should Think Like a Landlord

Rolling 12-Month Dividend Payout by Exxon (XOM 82***), a Dividend Aristocrat



Income Investors Should Think Like a Landlord

Price and Rolling 12-Month Dividend by Exxon (XOM 82***), a Dividend Aristocrat



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