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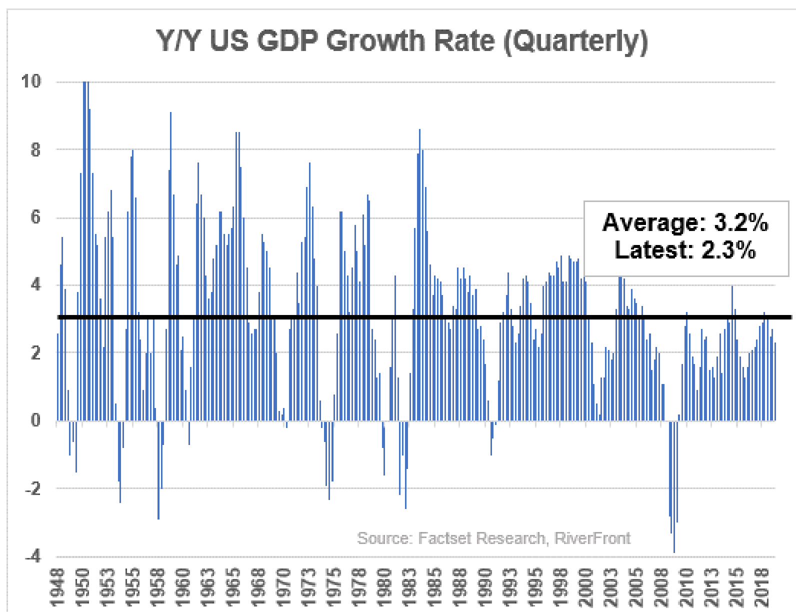
- **'Low and slow' economic growth can produce extended bull markets.**
- **If the US economy can continue to grow in a 'low and slow' fashion, the 10-year secular bull market can continue for an extended period of time, in our view.**
- **Forward progress in international equities will be difficult until their underlying economies can be re-ignited.**

Low and Slow

A RECIPE FOR A SECULAR BULL MARKET CONTINUES TO EXIST IN THE US

Down south we love our barbecue and the secret recipe for great barbecue can be summed up in three words: low and slow. For the non-aficionados, 'low and slow' translates to cooking meat at low temperatures (200-250 degrees) for an extended period of time (8+ hours). 'Low and slow' works for two reasons. First, the meat does not cook too fast, providing ample time for it to absorb the flavorful smoke. Second, the 'low' fire generates the consistent heat necessary to render the fat and keep the meat moist and juicy.

'Low and slow' makes for more than just good barbecue, it can also be the best recipe for a extended bull market, in our view. Contrary to popular belief, the economy does not need to grow at a fast clip for the stock market to do well. In fact, an economy that is growing too fast -'hot and hasty'- tends to lead to faster cycles and more frequent bear markets. Fortunately, 'low and slow' is exactly the way we would describe the current economic environment within the US. This 'low and slow' growth can be seen in the chart, which shows that year-over-year GDP growth has been consistently below its long-term average (3.2%) since the 2008 Financial Crisis. Some have described this slower pace of growth as the 'new normal' and have worried that it might not be fast enough to continue to generate attractive stock market returns. We do not agree with this conclusion and see three reasons why stocks can do better in an economic environment that is 'low and slow' over one that is 'hot and hasty'.



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1. 'Low and slow' keeps inflation in-check and the Fed off the brakes.

The Federal Reserve (Fed) has a dual mandate from Congress: maximize employment and stabilize prices. Historically, the best way to keep prices (inflation) stable, is to make sure that supply and demand remain in balance. If the economy is too 'hot,' demand can quickly outstrip supply and prices rise, as too much money chases too few goods. When that happens, the Fed may be forced to raise interest rates to slow the economy. An economy that is too 'cold,' like those in Europe and Japan, can have the opposite effect where supply outpaces demand and prices fall to absorb the excesses. Falling prices can be good in the short-run, but over longer periods of time they can delay consumption and investment; which negatively impact corporate profits. 'Low and slow' economic growth, sometimes referred to as 'Goldilocks;' describes an environment where supply and demand is largely in balance and prices remain stable.

2. **In a 'low and slow' economy, companies don't overbuild capacity making them less vulnerable to economic hiccups.**
   The overbuilding of capacity has historically been a key catalyst for past recessions. Historically, when the economy was 'hot' companies would over hire and overbuild in order to keep up with surging demand. Compounding the problem was the fact that these additions were often funded from debt, which would place a significant and continuing burden on company financial resources. When the 'hot' economy cooled, companies that overbuilt were stuck with large payrolls and debt they could no longer afford. Extended periods of economic weakness have historically led to layoffs, plant closures, inventory fire-sales, and bankruptcies. Fortunately, when economic growth is 'low and slow' companies are discouraged from over hiring and overbuilding. When a recession ultimately occurs, the 'low and slow' growth environment that preceded it tends to make it milder.

3. **Initially, bubbles tend not to grow as fast or as large in a 'low and slow' economy.**
   Bubbles, like those experienced in the late 1990s, make the financial markets less stable and more vulnerable to crashes. Bubbles are created when investors are too optimistic and buy financial assets because they are afraid of being left out. During those periods, risks are either not identified or ignored and valuations can reach levels that are unjustifiable. Initially, bubbles occur less quickly in 'low and slow' economies because investors never become too optimistic. In fact, investors are often too pessimistic in slow growth environments and are reluctant to pay-up for stocks because they believe a bogeyman exists behind every corner. For example, over the past 10-years, mini-bubbles have been deflated in sectors like energy, china-sensitive industrials, internet and consumer staples.

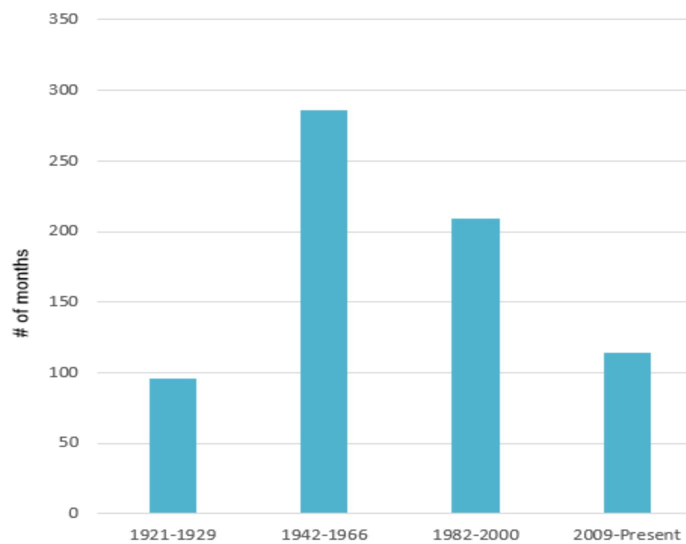
   'Low and slow' does not prevent bubbles, it may only delay them. Initially, bubbles are contained because investors are pessimistic and hyper-vigilant about deflating mini-bubbles, however, as with any long-running trend investors become complacent and excesses can develop. Currently, we think it will be a while before that level of complacency reaches the equity market. The bond market, on the other hand, may be a different story. We worry that the 40-year decline in rates has caused bond investors to lower their guard, creating a bubble that will ultimately need to pop.

‘LOW AND SLOW’ CAN BE THE PERFECT ENVIRONMENT FOR SECULAR BULL MARKETS.

Ned Davis Research (NDR) identifies four secular bull markets since the 1920s including the current one (Right chart). Secular bull markets span decades and have significant positive long-term financial impacts, while incorporating periodic cyclical declines. In our view, long-term investors should focus on participating in secular bull markets and avoiding secular bear markets; rather than worrying too much about cyclical bull and bear cycles.

Secular bull markets have historically lasted longer because their progress has not been interrupted by excessive Central Bank intervention, poor corporate decision making or equity bubbles. We believe NDR is correct in their assessment and expect the bull market, which started in 2009, to last longer than its current 10 years.

Secular Bull Market Length in Months



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‘‘LOW AND SLOW’’ CAN BE POSITIVE, ‘HOT AND HASTY’ CAN END TERRIBLY (90s), BUT 'COLD AND OLD' MIGHT BE THE WORST-CASE SCENARIO.

A nightmare for grillers occurs when the flame is extinguished. Not only will meat not cook without a fire but restarting the flame can take time and may ultimately impair the end product. Unfortunately, it now appears that the flames beneath many European economies are no longer burning. This fact might explain why international stock markets have failed to recover from their post Financial Crisis valuation levels. Whether that fire can be re-lit is an open question and the rationale behind our decision to reduce our exposure to international equities throughout 2018 and 2019. We believe it takes structural economic reform combined with monetary and fiscal stimulus to create a lasting recovery.

Foreign investments, especially investments in emerging markets, can be riskier and more volatile than investments in the U.S. and are considered speculative and subject to heightened risks in addition to the general risks of investing in non-U.S. securities. Also, inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

Gross Domestic Product (GDP): the total value of goods produced and services provided in a country during one year.

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