STRATEGY INSIGHT

October 2018

People's United Advisors

Economic Overview

	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19
Real GDP *	2.2%	4.2%	3.0%	2.8%	2.5%	2.5%
CPI (year over year)†	2.4%	2.8%	2.6%	2.4%	2.2%	2.3%
Unemployment Rate†	4.1%	4.0%	3.8%	3.7%	3.7%	3.6%

---------------------------- estimated ----------------------------

* Quarter over quarter annualized † end of period

Increase from last reported Decrease from last reported

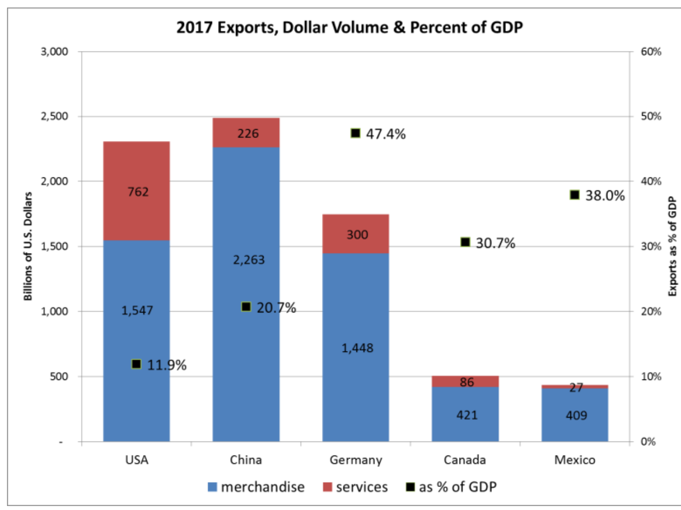
Source: Bloomberg

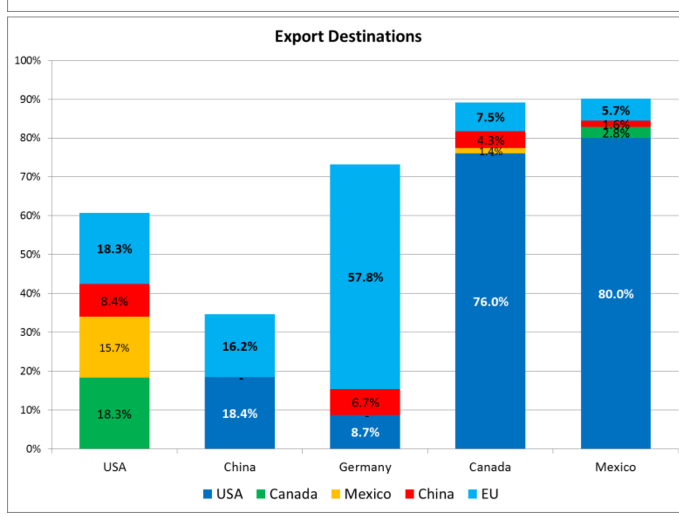
Trade Wars – Round One to the U.S.A.

The apparently successful renegotiation of the North American Free Trade Agreement (pending approvals by each country and rebranded as the United States-Mexico-Canada Agreement) is an important step in stabilizing the impact of trade on the U.S. economy. Although Mexico and Canada are not large players in world trade, they are two of the three largest export markets for the U.S. Mexico and Canada were motivated to come to an agreement, since exports account for more than 30% of each nation's GDP, compared to 12% for the U.S., and the U.S. is by far their largest export market (see the charts to the right).

U.S. trade negotiations will focus now on China, where talks are likely to continue to be difficult. China is the world's largest exporter but is much less dependent on the U.S. market than either Mexico or Canada even though the volume of Chinese exports to the U.S. is much larger than the volume of U.S. exports to China. **China's bargaining power comes from the fact that it is the world's fastest growing consumer market**. It is already the world's largest auto market with passenger car sales of 25 million in the twelve months ending August 31st. Over 300 million Chinese are expected to join the middle class over the next twelve years. Global companies without access to China will find it hard to remain competitive or to see their value grow compared to companies in a position to benefit from China's robust growth.

Trade negotiations with China are complicated by matters of national security, intellectual property rights, and government involvement in markets. Nevertheless, China is an extraordinary opportunity for U.S. companies and their investors if trade terms will provide satisfactory access to China's burgeoning middle class. Stay tuned.



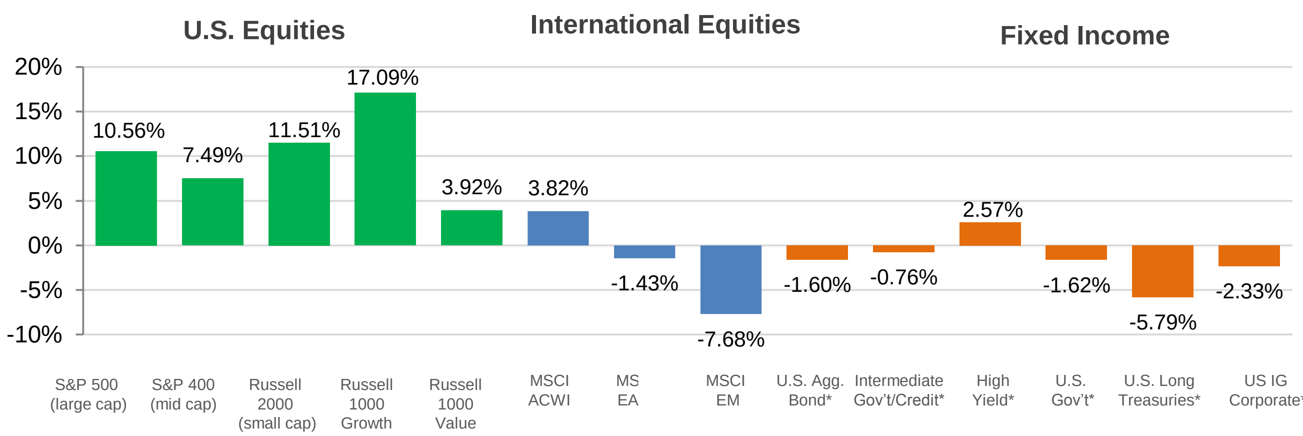


Charts Source: World Trade Organization

Equity: "There are always too many Democratic congressmen, too many Republican congressmen, and never enough US congressmen." — Author Unknown

- Simply looking at the 10% plus year-to-date performance of the market is a little misleading as to how the year has gone and how important the third quarter was to market performance. During the third quarter, the stock market was up 7.7%. Driving performance was a strong earnings season with year-to-year gains of about 25%, showing that first quarter was not a "one and done". Also, the market continued to demonstrate its ability to filter out the political drama and focus on the hard economic numbers.
- We believe that politics, however, should play a role in the near-term market performance. Historically, the market has declined going into mid-term elections due to the political uncertainties preceding the election. The good news is that, based on history, the market does well after the elections no matter which political party wins or loses as that uncertainty disappears.

Market Returns: Year-to-date as of September 30, 2018



Source: Bloomberg *Bloomberg Barclay's indices

Fixed Income: Rate Increases going global

- Interest rates rose by 0.15% - 0.25% across most major developed economy bond markets in the past month only partly due to Federal Reserve hiking policy.
- The Fed hiked the policy rate by 25bp in September to a range of 2.00 - 2.25%, as expected. It continues to expect a total of four hikes in 2018 (meaning one more in December), three next year and one in 2020.
- The bond market had expected only two hikes for 2018 at the start of the year. It has had to move towards the Fed expectations as the Fed will end up raising rates four times this year and without causing undue stress on risk assets – but making for a very difficult year for bond investors due to rising rate. Currently, the bond market is pricing in one more hike this year and two in 2019 – so the disconnect between bond market and Fed expectations remains.
- We believe that other reasons for the most recent global move upwards in interest rates include:
  - Higher growth expectations flowing into longer rates. 2018 is the first year since 2013 where GDP forecasts have been revised higher.
  - Real rates moving higher (nominal rates less inflation expectations) reflecting a market repricing growth as well as a more confident Fed.

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