BESSEMER TRUST

Quarterly Investment Perspective

Politics and Portfolios

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Executive Summary

- **While politics may seem all-consuming these days, it is just one of many factors that influence financial markets**
- **Still, politics matter, in large part as changes in policy can impact sentiment toward specific securities and the broader economic outlook**
- **The last decade or so has seen a meaningful shift in U.S. politics toward the executive branch — this is increasingly significant for investors**
- **Overall, we believe political decisions are likely to hinder U.S. growth into 2020, mainly as fiscal stimulus fades, but also as potential fallout from prolonged trade uncertainty weighs on corporate activity**

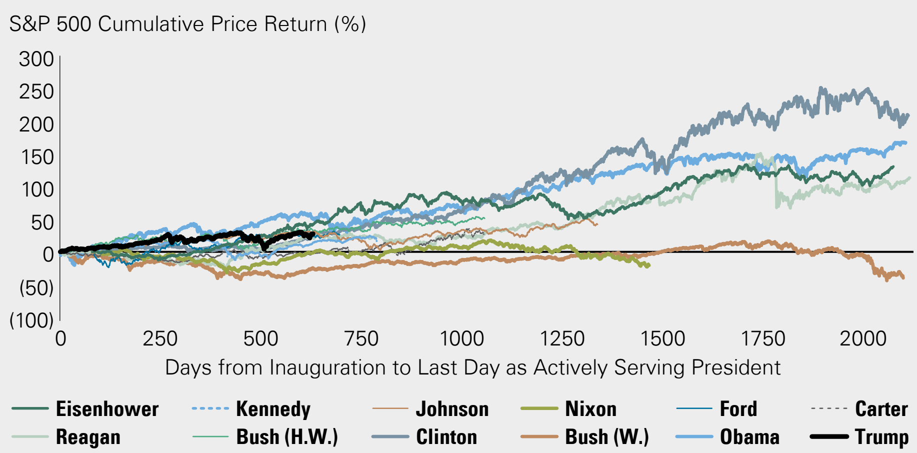
It seems difficult these days to go very long without hearing about politics. Perhaps as a result of a 24/7, social-media-focused news cycle and extraordinary partisanship, a political story always seems to be making headlines and generating debate.

Given this backdrop, it's not surprising that we are regularly asked for our thoughts on politics and how we view political developments for portfolios. Three principles we would share immediately:

1. Our personal political views do not matter. As investors, we look at politics and policy as inputs that can influence markets and the economy; whether we like a given politician or policy is irrelevant for our work.
2. Politics influence markets and our portfolio construction primarily through fiscal policy, regulations, and increasingly, executive actions. These factors can impact sentiment around specific securities as well as the broader economy.
3. While politics matter, they need to be seen in context of the many drivers of market valuations, including (but not limited to) monetary policy, productivity, demographic trends that influence growth and inflation, and sentiment among businesses, households, and investors. It's worth noting that during the 58 years since 1960, the S&P 500 has risen 72% of the time, with gains occurring in nearly all Democratic and Republican administrations (Exhibit 1).

Exhibit 1: S&P 500 Performance by U.S. President Since 1960

Key Takeaway: U.S. equities have gained under most administrations.



As of June 12, 2019. Of note, the Great Recession resulting from the 2008-9 financial crisis began near the end of George W. Bush's tenure.

Source: Bloomberg

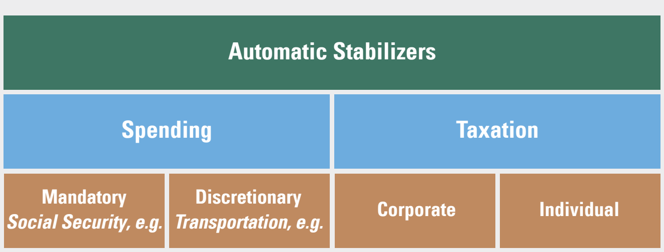
In this edition of our *Quarterly Investment Perspective*, we first discuss key political and policy tools used to influence the economy, and then show how these tools are relevant as we build portfolios. Finally, given the 2020 elections, we explore how economic and market factors used to forecast political outcomes may be changing, and what key dates and events we'll be watching as we head toward next November's polls. (For those of you already well versed in government policy, feel free to skip ahead to page 8.)

While we see a number of market supports around the globe today, including easy monetary policy and generally strong labor markets and consumers, we also see U.S. politics as an increasing downside risk to growth and cyclical asset returns into 2020, primarily via fiscal stimulus that is fading and business activity that is limited by trade-related uncertainty. We have positioned our client portfolios accordingly, with a modest underweight to equities in place since late February.

Political and Policy Tools That Influence Markets and the Economy

Fiscal policy. While countries may consider fiscal policy differently (especially in terms of how policies are determined and implemented), in the U.S., fiscal policy essentially means government decisions around taxation and spending intended to achieve specific economic goals (Exhibit 2). Congress dominates U.S. fiscal processes, although the executive branch also has influence — as one example, the president must sign appropriation bills that provide funds for specific activities.

Exhibit 2: U.S. Fiscal Policy — Key Building Blocks



Source: Bessemer Trust

Some elements of U.S. fiscal policy occur outside the political realm. These so-called automatic stabilizers help smooth broader economic cycles without the need for legislation. During economic downturns, for instance, personal tax liabilities will fall (as incomes decline), and government spending will automatically increase on programs such as unemployment insurance and food stamps. These fiscal swings can be material — indeed, the nonpartisan Congressional Budget Office (CBO) estimated that automatic tax and spending changes amounted to more than $300 billion in stimulus annually between 2009 and 2012.

Other elements of fiscal policy reflect explicit congressional decisions, which in turn are shaped by voter preferences. Congress works toward a fiscal policy that is eventually approved by the president and implemented.

Spending is divided into discretionary and mandatory buckets, with mandatory representing some 61% of total government outlays in fiscal 2018. Discretionary spending, where Congress exerts relatively more control, comes from annual appropriations and includes most defense, education, and transportation (among other) programs. Mandatory spending includes entitlement programs such as Social Security, Medicare, and Medicaid; it is outside the annual budget process that governs discretionary spending (Exhibit 3).

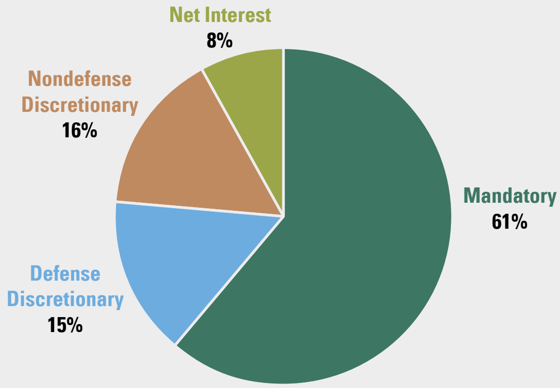
In February 2018, Congress passed legislation that both increased caps, or limits, on discretionary funding for 2018 and 2019 and approved more money for these programs — this represented a roughly $300 billion increase in discretionary spending over two years.

More recently, in December 2018, Congress was unable to agree on government funding (largely tied to disagreements over capital for a southern border wall). This led to a 35-day government shutdown that cost an estimated $5 billion. Shutdowns are exceptional; there have only been six since 1990, occurring under both Democratic and Republican administrations, and most have been very brief.

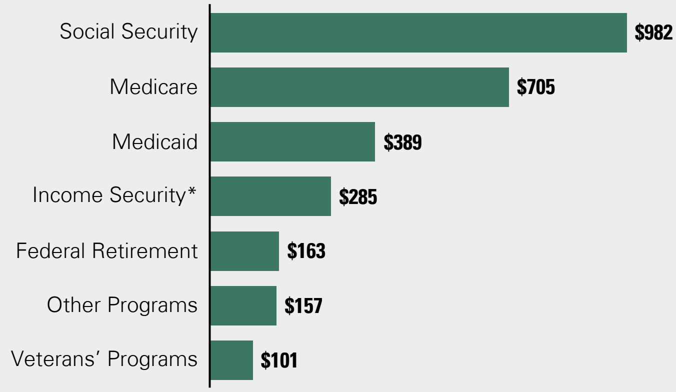
The flip side of spending is collecting revenue through corporate and personal taxes. While presidents can (and often do) suggest tax-law changes, it is up to Congress to legislate on taxes. In late 2017, Congress passed major tax legislation (with strong support from the White House) that included (1) permanently lowering the top

Exhibit 3: Federal Spending in Fiscal 2018

Mandatory versus Discretionary Spending ($ Billions)



Categories of Mandatory Spending ($ Billions)



As of the fiscal year ended September 30, 2018. Medicare spending excludes offsetting receipts.

*Income security includes unemployment compensation, Supplemental Security Income, the refundable portion of the earned income and child tax credits, the Supplemental Nutrition Assistance Program, family support, child nutrition, and foster care.

Source: Congressional Budget Office

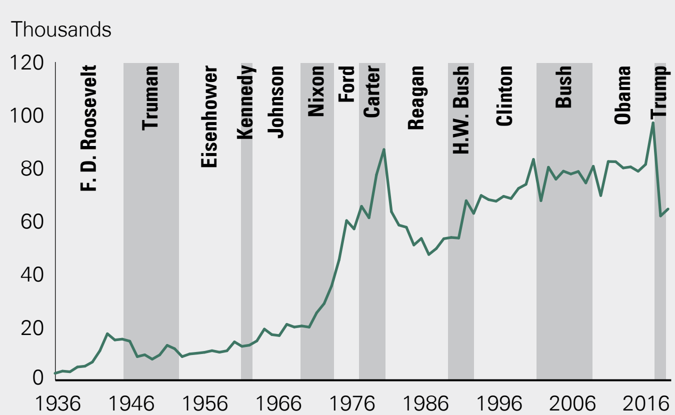
corporate income tax rate to 21%, (2) changing the way that businesses' foreign income is taxed, and (3) lowering individual income tax rates and broadening the base of income subject to tax through 2025. (Please refer to our *Wealth Planning Insights,* "The Tax Cuts and Jobs Act: What Does It Mean for You?," for detailed information.) Together, the 2017 tax cuts along with the 2018 spending increases have been estimated to have added around $276 billion in fiscal stimulus to the U.S. economy in 2018, with a smaller but still material amount of stimulus feeding through in 2019.

Digging deeper into these recent fiscal shifts, we note that there are always relative winners and losers, regardless of the broader implications for economic growth. For instance, the 2017 tax law altered how certain state and local tax deductions were treated. Residents of states with high income taxes (including California, New York, and New Jersey) typically deduct state and local income taxes (including property taxes) if they itemize tax deductions. Starting in 2018, the tax law capped these deductions at $10,000, leaving some taxpayers in these states with overall higher tax bills (thanks in part to the limit on deductions) even if the federal tax rates were lowered.

Regulatory policy. While fiscal policy historically has been the political lever with the greatest market and economic impact, politics can influence portfolios in other ways. Federal regulations, or rules, result from laws passed by Congress or via existing presidential authority. The last several decades have seen a fairly steady trend — with a rising number of federal regulations in place (Exhibit 4). An inflection point seemed to have been reached after the 2008–2009 financial crisis and recession, however, with a sharp

Exhibit 4: Federal Register Pages Published

Key Takeaway: Since the early 1970s, the number of federal regulations in place has increased steadily until a recent dip under President Trump.

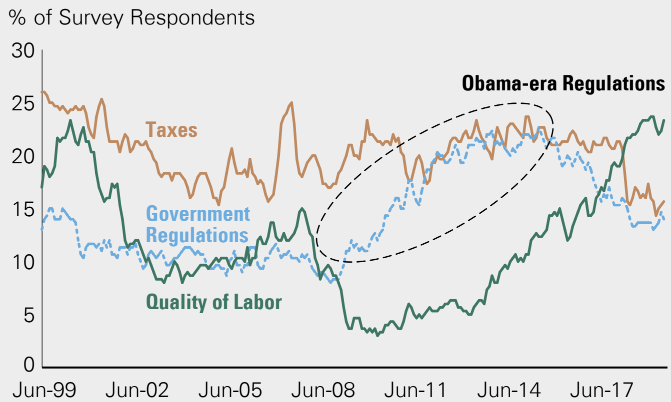


As of 2018. Figures are annual and presidential bars are based on who was president at year-end.

Source: Federal Register

Exhibit 5: NFIB Small Business Survey — Single Most Important Problem

Key Takeaway: Following the 2008-2009 financial crisis, U.S. small businesses grew increasingly concerned about government regulations.



As of May 31, 2019.

Source: Bloomberg, National Federation of Independent Business

increase in U.S. small businesses highlighting government regulation as their single most important problem (Exhibit 5).

While it is possible that rising regulatory burdens weighed at least marginally on broad business sentiment, more generally, regulatory changes are felt on a sectoral level. A striking example is the financial sector: Following the 2008–2009 crisis, legislation was passed that opened the way for hundreds of new financial regulations, including some that required banks to hold higher minimum amounts of capital, and certain amounts of defensive, liquid assets, to provide a buffer in a crisis. Those changes have partially led to underperformance of financials; the sector consistently lagged the S&P 500 to the tune of 38% on a cumulative basis from 2009 to 2019. Today and into 2020, we see regulation as a notable risk to parts of the healthcare and technology sectors (see our *A Closer Look*, "Big Tech Under Scrutiny").

Executive action. Especially as growing partisan differences created more congressional hurdles, presidents have turned to executive actions to push through agendas with less need for a congressional blessing. While some executive orders were more technical in nature, others have had potentially greater financial market and economic implications. For instance, after taking office, President Trump used executive orders and memorandums to "minimize the economic burden" of the Affordable Care Act, to require for his first fiscal year that the total incremental cost of all new regulations and repealed regulations be no greater than zero, and to investigate whether steel imports were putting U.S. national security at risk.

Executive orders are facilitated by a variety of laws. The 1977 International Emergency Economic Powers Act (IEEPA) is noteworthy here, as it allows a president to declare a national emergency to "deal with any unusual and extraordinary threat" to national security, foreign policy, or the economy that "has its source in whole or substantial part outside the United States."

IEEPA's usage has been expanded by past presidents and today has provided for financial and economic sanctions against a host of countries, including Iran, North Korea, Syria, Russia, and Cuba. Since 2000, presidents have used IEEPA in more than 400 executive actions. The Treasury's Office of Foreign Assets Control currently administers 30 different sanctions programs as part of foreign policy or national security goals.

President Trump has broadened how executive orders and actions are being used. For example, when the White House expanded financial and economic sanctions against North Korea in September 2017, it included provisions that would sanction any foreign entity that conducts business with North Korea — not just U.S. businesses and interests. A similar approach has been used with Iran and China. In Iran's case, after withdrawing from a 2015 nuclear agreement, the U.S. levied sanctions on the country but also threatened to sanction other countries should they continue to import oil from Iran. In China's case, President Trump signed an executive order in May declaring a national emergency, barring the use of telecom equipment made by firms deemed a threat to national security. While the order did not name any specific country or company, the Commerce Department did shortly after, through what it called an "Entity List." U.S. firms or people wanting to buy goods from the companies in question (including Huawei, China's technology and telecommunications

Politics and Currency Policy

While U.S. monetary policy is independent, currency policy is not. Some administrations have vocally preferred a stronger dollar, seeing that strength as a reflection of a robust, stable U.S. economy, as well as a factor that could help limit inflation pressures and make U.S. financial assets attractive to investors. Others, however, have called for a weaker dollar, largely focusing on the ability of a more competitive exchange rate to help exporting firms.

The flip side of a White House's preferences around the dollar is a view toward foreign currencies. To that end, since 1988, a law has required the Treasury secretary provide a semiannual report to Congress on global currencies, specifically focusing on any countries that were seen to be manipulating their exchange rate to gain unfair trade advantage. More recently, another law passed in 2015 required Treasury to engage with countries where currency and economic trends met certain criteria, including bilateral trade and current-account balances, and sustained, one-sided currency intervention by the central bank.

Under President Trump, currencies have been front and center, with a preference for a weaker dollar to support U.S. exports and reduce bilateral trade imbalances. Indeed, the president and cabinet members have repeatedly singled out a number of countries for their currencies (Chinese renminbi and the euro in particular), even though recent Treasury reports to Congress have not found any countries "guilty" of currency manipulation. We expect this focus to continue into next year's election. Democratic presidential candidate Elizabeth Warren has called for the U.S. to actively manage the value of the dollar in a way that would support U.S. jobs (presumably preferring a weaker dollar with greater central bank intervention).

firm) would need a specific U.S. license going forward. In addition, though, President Trump suggested possible economic consequences for other countries that continued to do business with Huawei.

Executive actions involving trade, with certain companies, such as Huawei, or entire countries, have been a defining feature of the current administration — with clear market and economic implications. President Trump has relied on different laws, such as Section 232 of the Trade Expansion Act of 1962, to levy tariffs without running afoul of the World Trade Organization. (The WTO allows certain trade actions in the name of national security that normally would not be considered legal.)

In late May, the White House used tariffs in an unusual way — to accomplish a security rather than economic goal. Specifically, the U.S. threatened to implement an escalating tariff on all Mexican exports to the U.S. unless Mexico successfully reduced the number of illegal immigrants coming into the U.S. (despite a U.S.-Mexico-Canada trade agreement going through Congress for approval at the same time). While tariffs were avoided following a quick agreement between the countries, we note this development did and could continue to influence markets and underlying economies.

From Politics and Policy to Portfolios

As investors, we view every political and policy decision such as those outlined above through two main lenses. First, how much of the decision was expected and as such was priced into market valuations and economic consensus? (We know markets react more to surprise.) Second, how material is the decision vis-à-vis other market and economic drivers, both directly but also through second- and third-order effects?

While the intent of this research note is not to single out any specific administration or a specific party, the Trump White House does provide a timely, relevant case study of sorts on the transmission from politics and policy to markets and the economy. We have selected illustrative examples from the first year and a half of his tenure rather than provide an exhaustive list of policy steps taken since the election.

November 2016, election night. Trump's election was perceived as a policy shift that was both unexpected and material. Most opinion polls did not favor Trump to win going into the evening — financial markets were discounting that President Obama's policies would largely continue under Hillary Clinton. As investors processed the Trump win, they focused on policy changes more likely to occur based on his campaign platform. Near the top of that list was Trump's pledge to punish China for undervaluing its currency. If such a policy became reality, it would represent an escalation of tensions between the world's two largest economies. In addition, though, a stronger renminbi could weigh on Chinese exports and slow Chinese growth, with negative spillover to China's key trading partners. From election night through the end of November, emerging market equities fell more than 4% while the S&P 500 gained nearly 3% and the dollar rose nearly 3% against the Chinese renminbi.

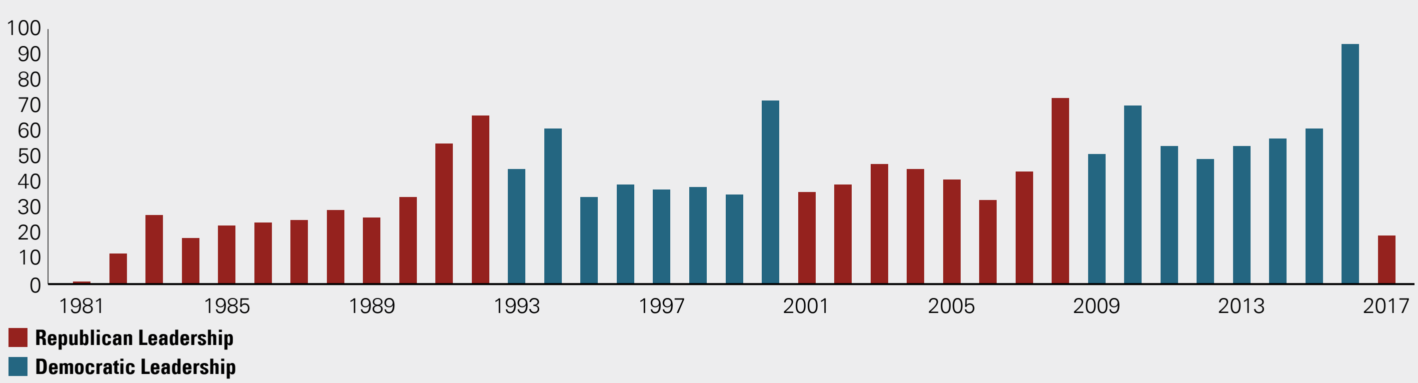
January 2017. In the weeks that followed the election, President Trump did not follow through on his China threats, and emerging markets calmed. Then in late January 2017, he announced a policy shift in the form of an executive order: For every new federal regulation that was implemented, two would have to be rescinded. Such a move had been hinted at during the election campaign, so it was not a total surprise to investors. Still, the news and efforts over the following months were material, marking a major trend change. In February, President Trump ordered federal agencies to create teams to identify regulations to cut. In addition, the Republican-controlled Congress used what is called the Congressional Review Act to abolish several Obama-era regulations. According to White House officials, the administration revoked 67 regulations in 2017, while hundreds of others were delayed or withdrawn from consideration (Exhibit 6).

This policy shift appeared to impact business sentiment. Indeed, a survey of U.S. chief executives in December 2017 showed that for the first time in six years, regulations were not the top cost pressure for their respective companies. Over the course of 2017, measures of U.S. business sentiment trended higher — the ISM manufacturing sentiment index climbed from 56 to 59.4 (near the highs for the expansion). Historically, improving business sentiment has had a positive relationship with equity multiples, in part as brighter business confidence tends to foreshadow more corporate investment and/or hiring.

December 2017. During much of 2017, Congress debated another policy priority of the White House: lower taxes. In November, legislation started moving through Congress that passed in the Senate along party lines (with one Republican dissent). While the Tax Cuts and Jobs Act had slowly been discounted (at least in part) into the market in the months leading up to passage, it still marked a very significant fiscal policy shift. As discussed earlier, it suggested a large degree of fiscal stimulus for the economy, mainly via lower corporate taxes and repatriated earnings.

Exhibit 6: Economically Significant Rules by Presidential Year

Key Takeaway: The number of regulations has decreased under the Trump administration, in line with campaign promises.

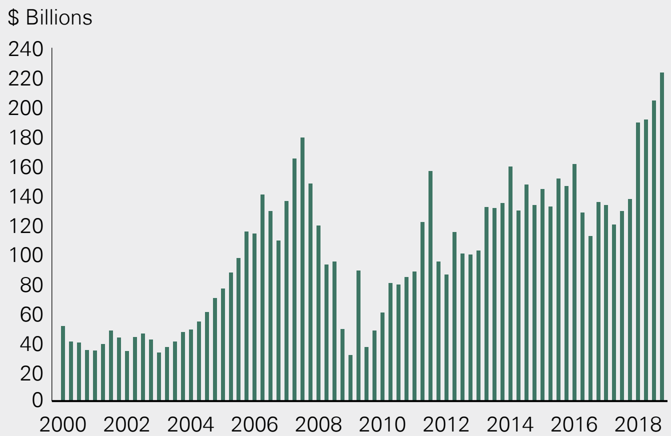


As of 2017. Economically significant rules are regulations issued by executive branch agencies that meet the following definition in Executive Order 12866: "Have an annual effect on the economy of $100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities." Presidential Year is defined as February 1 through January 31.

Source: George Washington University Regulatory Studies Center, Office of Information and Regulatory Affairs

Exhibit 7: Quarterly S&P 500 Stock Buybacks

Key Takeaway: U.S. companies used a good deal of the 2017 fiscal stimulus for stock buybacks, often at the expense of capital investment.



As of June 11, 2019. 2019 figure is year-to-date.

Source: Bloomberg, Standard & Poor's

By late 2018, the Commerce Department estimated that U.S. firms brought back nearly $665 billion in offshore profits. The cash saved from tax cuts plus repatriation was used for a combination of hiring and capital expenditures, dividend increases, and share buybacks. While all were supportive for equity valuations, what was a surprise in 2018 to some investors was the split in how the money was used — more went to buybacks (around $1 trillion) than expected while less appeared to go to capital expenditures (Exhibit 7).

February 2018. On the heels of the 2017 tax cuts, Congress passed a largely unexpected $300 billion increase in spending for 2018 and 2019. Economists estimate that the federal spending boost to GDP growth in the first three quarters of 2018 was the largest in any year since 2010, when spending from the recession-era Recovery Act stimulus efforts was still being rolled out. U.S. GDP growth topped 4% in the second quarter of 2018 (on a quarterly basis, seasonally adjusted and annualized), and still held above 3% in the third quarter.

While the strong economy helped corporate earnings and lifted U.S. equities broadly, investors also focused on implications longer-term for the widening budget deficit and rising debt levels. For the government's fiscal year 2018, the U.S. budget deficit reached a six-year high at 3.9% of GDP. While strengthening growth was a larger driver than debt fears, in our view, 2018 saw U.S. government bond yields rise, reaching a high late in the year over 3.2%. Higher yields helped lift the dollar — the trade-weighted dollar gained some 5% during 2018. Dollar appreciation, in turn, created a headwind for many U.S. multinational companies receiving revenue in foreign currencies. Higher yields also lifted mortgage rates, which in turn weighed to a degree on the U.S. housing sector. Clearly, this fiscal shift had an overall positive impact on the economy and equities, but also fueled relative winners and losers.

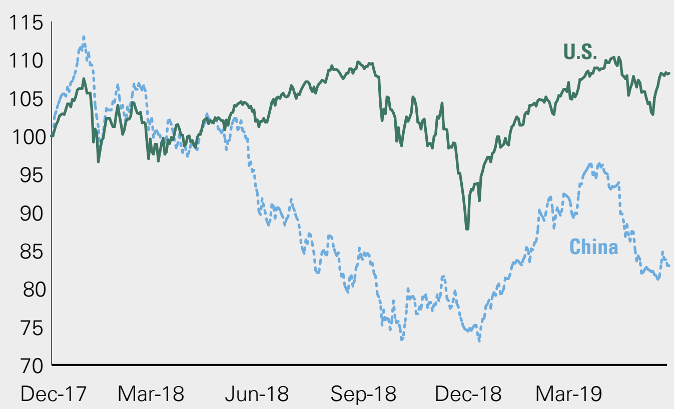
March 2018. President Trump cited national security to announce tariffs on all trading partners of 25% on steel and 10% on aluminum. Hints of such action had come a year earlier, when the president instructed the Commerce Department to investigate these imports under Section 232 of the Trade Expansion Act. Still, the timing and scale of the action was somewhat of a surprise, leading to increased volatility in related commodities, companies, and impacted countries and currencies. The subsequent months saw continued market volatility as the U.S. government negotiated with different countries over implementation of these tariffs, and as investors gauged what tariffs meant for inflation, growth, and corporate profit margins. A study released in December 2018 by the Peterson Institute found that the steel tariffs had created 8,700 U.S. jobs, but also had raised the price of each job created by an extra $650,000, while the price of steel products increased by nearly 9%.

April 2018. Following a decision by the U.S. Trade Representative in 2017 to investigate China for discriminatory practices, President Trump announced a list of $50 billion worth of Chinese goods under consideration for tariffs. When China then published a list of U.S. products that could be considered for retaliatory tariffs,

Exhibit 8: U.S. and Chinese Equity Performance

Key Takeaway: The escalating trade war has weighed more heavily on Chinese than U.S. equities.

Indexed to 100 on December 31, 2017



As of June 17, 2019. U.S. represented by MSCI USA and China by MSCI China All Shares. Reflects price returns in U.S. dollars.

Source: Bloomberg, MSCI

President Trump responded with comments suggesting he might place tariffs on an additional $100 billion worth of Chinese exports to the U.S.

While the stimulus-supported U.S. economic backdrop cushioned American equities to some degree, Chinese stocks sagged (pulled lower as well by domestic efforts to reduce financial leverage). The following months saw more of the same: back and forth between the U.S. and China, with China's markets increasingly lagging. Between the start of April and the end of 2018, U.S. equities lost about 5% while Chinese stocks were down 25%, the difference explained in part by fears of tariffs weighing on Chinese exports and broader business and consumer confidence. These escalating trade-related executive actions were clearly material and not fully discounted in market valuations (Exhibit 8).

Looking Around Corners: What Will Happen in 2020?

As noted earlier, we appreciate that many factors are going to drive market and economic trends as we head toward the end of 2019 and then the 2020 U.S. elections — political developments are just one of them. That said, trends in U.S. fiscal and trade policy in particular are likely to continue to be meaningful, in our view.

On trade, our base case has been that the U.S. and China will eventually strike a deal, as both leaders are incentivized to support domestic growth. This scenario, all else equal, with a reduction (though not reversal) of trade tensions would likely provide a measure of support for cyclical assets. While we continue to hold that view, our thinking has evolved somewhat, in two main ways.

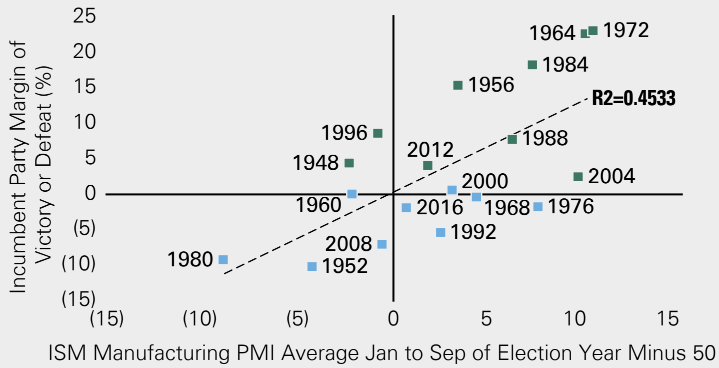
First, even with some sort of a U.S.-China deal, we are less optimistic in terms of the degree of subsequent potential equity upside. Partly this reflects a recent change in market expectations, with greater hopes for a deal discounted. It also, however, reflects our belief that the White House is likely to use tariff-related threats on a regular basis into the election. In part, such threats could reflect political strategy. A Pew Research Center survey (taken in late 2018) suggested that while nearly three-fourths of all respondents thought global trade was good for the U.S. economy, it also showed that 74% of Republican respondents thought tariffs on other countries were good for the U.S. Support for tariffs was particularly high in the Midwest. Put another way, President Trump may calculate that being tough on trade and pushing tariffs will help him in key battleground states in 2020. (We believe nontariff trade barriers, such as those being used against Chinese technology firms, are also likely to continue, potentially even after the 2020 elections.)

We, along with an increasing number of investors today, believe that a persistent, relatively high level of uncertainty around trade and global supply chains may well limit corporate activity and hiring — earnings expectations could be guided lower in response, and the broader economy could slow. Historically, presidents have been especially focused on having an improving economic backdrop in election years — after all, there has been a strong, persistently positive relationship between growth trends into elections and the margin of victory for incumbent candidates (Exhibit 9).

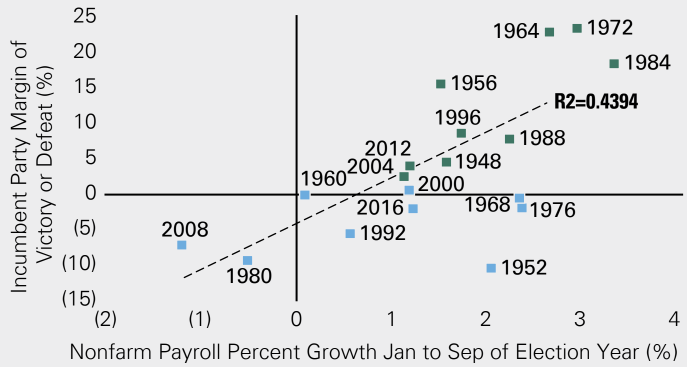
Exhibit 9: Economic Growth Trends and Election Outcomes

Key takeaway: Improving growth trends historically boded well for incumbent candidates.

ISI Manufacturing PMI versus Election Outcome



Nonfarm Payroll Growth versus Election Outcome



Incumbent Party Win · Incumbent Party Loss

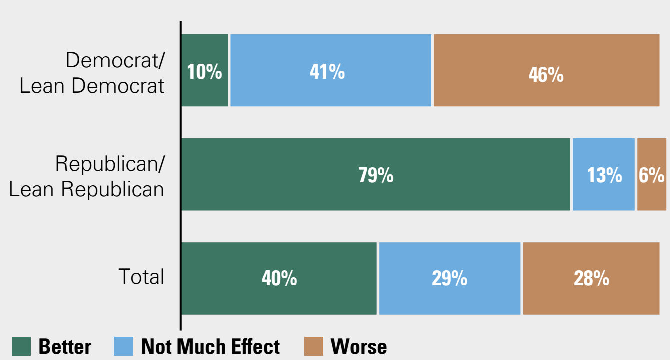
As of April 30, 2019. For the left chart, a PMI reading above (below) 50 indicates an expansion (contraction) in business activity.

Source: Bloomberg, Institute for Supply Management (left), U.S. Bureau of Labor Statistics (right)

This gets us to the second way in which our thinking has evolved. Today, even perceptions of the overall economy are becoming more partisan. A separate Pew survey taken in January this year suggested that 79% of Republican-leaning voters think the president's policies have made the economy better, while only 10% of Democrat-leaning voters felt that way (Exhibit 10).

Exhibit 10: Survey on Trump Policies — Impact on the Economy

Key Takeaway: Republicans and Democrats feel very differently about how Trump's policies have affected the economy.



Reflects responses to the prompt, "Trump's economic policies have made economic conditions ________ since taking office." "Don't know" responses not shown.

Source: Pew Research Center, survey of U.S. adults conducted January 9–14, 2019

President Trump may see the benefit of tariff talk as outweighing the potential cost of a slower economy for the election outcome given that voters of different political persuasions see the economy differently.

Parallel to developments on trade, we need to think about fiscal policy into the election. Here, risks are clearly skewed to the downside, though already well appreciated by many investors. Fiscal stimulus provided by the 2017 tax cuts is largely in the rearview mirror, while any new substantial spending appears unlikely. From a purely political perspective, Democrats may be reluctant to explicitly support policies that boost growth heading into the elections, not wanting to give Republicans this edge.

While we see U.S. monetary policy as beyond politics, it is clear that heading into 2020, President Trump will keep vocally pushing the Fed to cut interest rates in an attempt to support growth. Should the trade wars continue and/or worsen, and the global economy slow further, we would expect the Fed to respond with easing, especially as inflation is generally below the Fed's 2% target.

That said, a lot of easing is already discounted. As of late June, financial markets were already expecting 68 basis points in fed funds rate cuts by end-2019 and

Exhibit 11: 2020 U.S. Elections — Key Dates

Month	Highlights
February	February 3 Iowa caucuses; February 11 New Hampshire primary; February 22 Nevada primary; February 29 South Carolina primary
March	Super Tuesday March 3 (15 primaries*); March 10 (8 primaries)
April	April 7 Wisconsin primary; April 28 Maryland, Pennsylvania, Rhode Island, Connecticut, Delaware primaries
May	May 5 Indiana primary
June	June 2 Montana, New Jersey, New Mexico, and South Dakota primaries
July	July 13–16 Democratic National Convention in Wisconsin
August	August 24–27 Republican National Convention in North Carolina
September	Presidential debates
October	Presidential debates
November	November 3 Election Day

* Super Tuesday includes Alabama, Arkansas, California, Colorado, Democrats Abroad, Maine, Massachusetts, Minnesota, North Carolina, Oklahoma, Tennessee, Texas, Utah, Vermont, and Virginia.

another 106 basis points in 2020. It's unclear if the Fed will meet these aggressive expectations; a trade deal with China this year would be positive for global growth and corporate earnings, lessening the need for the Fed to ease.

When we consider asset allocation, our overarching goal is to position to benefit from rising markets, but also to protect client capital as much as possible in periods of weakening growth and/or market stress. While there is some room for upside in the form of positive trade developments, on the whole, the U.S. political environment gives us comfort that our slightly defensive posturing in portfolios is prudent. Fading fiscal stimulus with little likelihood of substantial new fiscal easing, plus the dampening effect of trade uncertainty on business investment, give us reason to maintain a more cautious stance.

Year-to-Date Performance Highlights

Global equities have posted strong returns on a year-to-date basis, though not without some volatility along the way, largely thanks to trade developments. A representative Balanced Growth portfolio with a 70/30 equity/bond risk profile returned 14.3% year-to-date, compared to its benchmark return of 12.5% (figures are preliminary). Drivers of outperformance have included our overweight to the U.S., strong stock selection, and bond portfolio duration slightly longer than the benchmark.

In overall global equity markets, sentiment for more accommodative central bank policy has certainly played a key role in strong returns. In addition to expected easing from the Fed, the European Central Bank (ECB) is becoming more accommodative after having just ended its asset purchase program last year. Declining bond yields, both in the U.S. and globally, have pushed investors further out on the risk spectrum — supporting equities — as they search for higher yields.

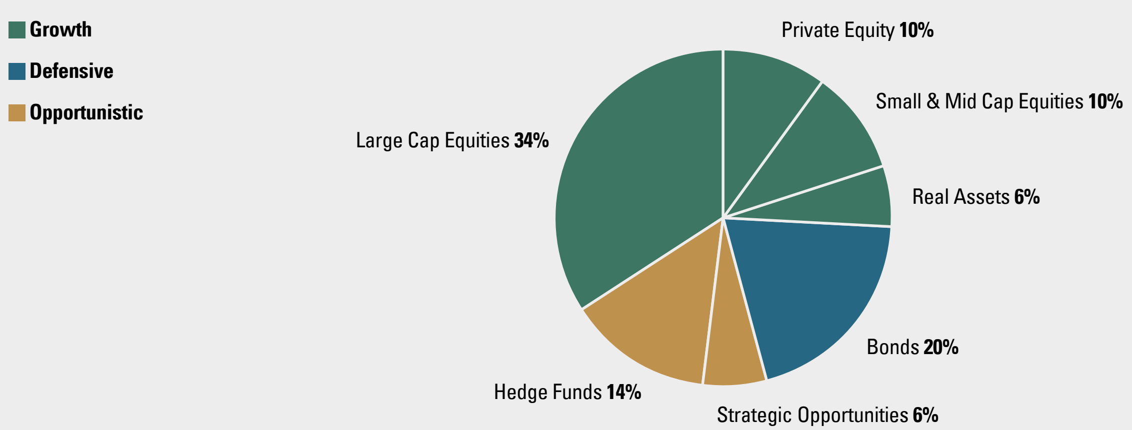
As we've discussed, U.S. trade policy with China and Mexico has been a key focus for investors this year. The first quarter's equity rally was supported by hopes for a resolution to China-U.S. trade tension; in the second quarter, investors became somewhat apprehensive about a deal being struck. And as noted earlier, President Trump surprised markets when he threatened to impose tariffs on all Mexican imports in May unless tighter border-control efforts were implemented.

In the coming months and quarters, we expect global equity markets to continue to be supported by accommodative global monetary policy but also face headwinds. Given the strength of the U.S. labor market and core inflation below but close to the Fed's 2% target, we are skeptical that monetary easing will meet or exceed what is already discounted, unless growth sharply decelerates, in which case corporate earnings expectations would also likely fall. Meanwhile, trade developments should continue to drive volatility. Even if a U.S.-China trade deal is reached, enforcement may be problematic, and technology-focused competition and tensions will linger (see *A Closer Look,* "Beyond the Deal"). Brexit will continue to threaten the balance of power in Europe as the (latest) October 31 deadline approaches (see *A Closer Look,* "Brexit: No Easy Answers").

With all of this in mind, we remain comfortable with our current portfolio positioning, with an overweight to the U.S. within equities and slightly underweight equity positioning overall. We remain biased toward using periods of equity strength to incrementally reduce portfolio risk, with a more challenging 2020 in mind. As we head into next year, we know investors will increasingly scrutinize what different election outcomes could mean for policy and in turn for the economy and financial markets. Exhibit 11 highlights a few key dates we would note heading into the election. We'll publish more detailed thoughts on the election itself next year when we get more clarity on the candidates and their campaign platforms.

With special thanks to JP Coviello and Elise Mordos for their contributions.

Bessemer's Positioning (70/30 Risk Profile with Alternatives)



Positioning as of July 1, 2019. This model displays Bessemer's Balanced Growth with Hedge Funds and Private Assets target portfolio allocation guidelines. Each client situation is unique and may be subject to special circumstances, including but not limited to greater or less risk tolerance, classes, and concentrations of assets not managed by Bessemer, and investment limitations imposed under applicable governing documents and other limitations that may require adjustments to the suggested allocations. Model asset allocation guidelines may be adjusted from time to time on the basis of the foregoing or other factors. Alternative investments, including Bessemer private equity, real assets, and hedge funds of funds, are not suitable for all clients and are available only to qualified investors.

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