Quarterly Investment Perspective

# Turning Trends in 2020

BESSEMER TRUST

**Holly H. MacDonald**
Chief Investment Officer

## Executive Summary

- **Three trends are likely to turn in 2020:**

  ***Monetary policy.* We expect central banks increasingly to implement unconventional policy over rate cuts to maintain accommodation at very supportive levels.**

  ***Trade.* Though longer-term challenges between the superpowers remain, we expect less of a focus on tariffs in the strained U.S.-China relationship.**

  ***Political uncertainty.* Populist pressures continue to pose a risk for markets in 2020. A likely split U.S. Congress regardless of the presidential outcome may limit actual policy changes despite significant headline risk.**

- **We continue to have a modestly defensive tilt in our portfolios and are prepared to shift allocations as needed as key issues evolve.**

In this *Quarterly Investment Perspective*, we focus on three trend shifts we expect to unfold in 2020 and how each helps inform our investment approach and portfolio positioning: central bank policy, trade, and political uncertainty. The portfolio implications of our views as well as performance highlights for 2019 are included in the first few pages. We then go into more depth regarding the trend changes we expect.

Looking at the strong performance of risk markets and Bessemer portfolios in 2019, it may be easy to forget the significant uncertainty that dominated the year, particularly early on. Entering 2019, the Federal Reserve (Fed) had just hiked rates four times and was maintaining a tone that suggested more hikes were to follow. President Trump was ramping up his rhetoric regarding proposed tariffs against China, which was exacerbating concerns regarding slowing economies overseas. And populist pressures were creating a sense of unease for the investment prospects of many countries.

Ultimately, the Fed and other central banks were extremely accommodative, easing rates the most since 2009. This monetary policy support was enough for markets eventually to weather the drag from trade, which did contribute to slower global growth than otherwise would have been the case, in our opinion. With politics in focus throughout the year, the developments ended up being more idiosyncratic and relevant for the outlook of individual countries (say, the U.K. or Brazil) rather than for risk sentiment more generally.

For 2020, we expect a meaningful shift in each of these trends (Exhibit 1):

**Exhibit 1: Turning Trends in 2020**

| | |
|---|---|
| Monetary Policy | Central banks pursue unconventional policy instead of rate cuts. |
| Trade | U.S.-China trade should be decidedly less negative for markets. |
| Politics | U.S. now in focus: Likely split Congress limits longer-term risks. |

Source: Bessemer Trust

It will be important to look through the noise to focus only on the 2020 developments that are relevant for long-term economic growth and market dynamics.

**For central banks, we expect the focus to shift from declining policy rates to unconventional policy aimed at maintaining accommodation.** The Fed has started to expand its balance sheet again by purchasing Treasury bills and is also conducting repurchase operations (repo). We expect potentially only one additional rate cut, absent a negative shock, and think the Fed will continue to grow the balance sheet to support the expansion. Outside of the U.S., we expect a gradual shift away from negative rates and also in the direction of other unconventional policy. Given already low rates, a continuation of the expansion increasingly depends on fiscal policy. There is evidence that fiscal policy will remain supportive in key markets in 2020, which we discuss in the pages that follow.

**For trade, we expect the strained U.S.-China relationship to be decidedly less negative for markets and the economy in 2020.** Important issues remain unresolved between the two superpowers, including intellectual property rights, technology transfer, and conflicts regarding cyber and national security. These are likely to be challenges for the coming decades. As the situation relates to markets, however, the largest hurdle has been increasing tariffs. We think the progress on a "Phase One" deal between President Trump and President Xi suggests that tariffs are less likely to be such a dominant factor in the year ahead, especially as China's economy slows and President Trump enters an election year.

**With regard to politics and populist pressures, for markets, the focus shifts from overseas in 2019 to the U.S. shores in 2020 with the fall presidential and congressional elections.** As the Democratic field narrows in the first quarter, we will provide more guidance on specific policies and market implications. Given the current slate of candidates, we believe it will be crucial to evaluate equity sectors such as healthcare, technology, energy, and banking in addition to the overall risk position of portfolios. Based on current economic dynamics and voter indications, the likely base case is a split Congress regardless of the outcome of the presidential race. This suggests that, while politics will likely dominate headlines, it is possible that actual policy does not shift materially into 2021. It will be important for us to look through the noise to focus only on the 2020 developments that are relevant for long-term economic growth and market dynamics.

### Some Key Events to Watch in 2020

| | | | |
|---|---|---|---|
| Italy Emilia-Romagna regional election | (January 26) | OPEC+ production cuts | (in place through March) |
| Brexit deadline | (January 31) | NASA's planned launch of a mission to study the habitability of Mars | (July 17) |
| Brexit negotiation extension deadline | (June 30) | Landing date | (February 18, 2021) |
| Iowa caucuses | (February 3) | Summer Olympics in Tokyo | (July 24–August 9) |
| Super Tuesday | (March 3) | U.S. general election | (November 3) |
| Key U.S. economic data: jobs report, manufacturing and services business sentiment surveys, consumer price index (CPI), personal consumption expenditure (PCE), consumer confidence and sentiment surveys, focus on reports released in June and July | | | |
| FOMC, BoJ, and ECB policy meetings throughout the year | | | |

## Highlights of 2019 Positioning and Performance

**JP Coviello**
Senior Investment Strategist

The past calendar year was a robust year for global equities, with returns over 26%. Performance was positive in 10 of 12 months. U.S. investment-grade bonds also performed well for the asset class, posting returns of almost 6%.

The dominant driver of performance over the year was monetary policy, which proved to be more accommodative than our or consensus expectations. By late 2019, central bankers around the world had already rolled out massive easing to help offset the deteriorating picture in global manufacturing — 65% of countries cut policy rates in the year through November, with total cuts of 70 basis points using a GDP-weighted average; this was the greatest aggregate monetary easing seen since the 2008–2009 financial crisis (Exhibit 2).

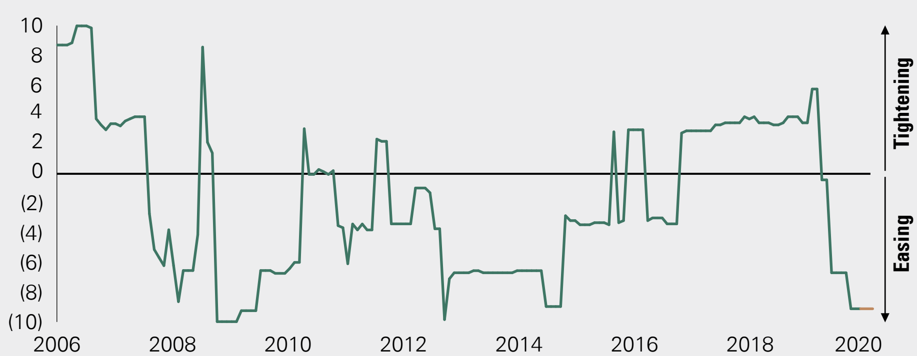
Developments in the U.S.-China trade negotiations also drove financial markets throughout the year, as any news of progress toward an agreement enthused investors, while tariff announcements and subsequent retaliations had the opposite effect. Accordingly, the two down months for equities, May and August, were months of negative trade news.

A representative Balanced Growth portfolio (70/30 equity/bond risk) outperformed its benchmark through most of the year. As equity markets rose in the first half, we implemented two asset allocation shifts, one in February and the other in July, to incrementally increase the defensive posture within portfolios as we felt it prudent to lock in some level of gains. In both moves, we increased exposure to high-quality fixed income.

A central driver of outperformance during the year was our positioning within equities. This allowed portfolios to outperform benchmarks while taking on less risk in a positive equity market environment. As growth expectations fell

**Exhibit 2: Global Monetary Policy Tracker**

**Key Takeaway:** Global monetary policy is near the most accommodative levels since the global financial crisis of 2008–2009.




As of November 2019. Negative values indicate monetary policy easing, while positive values indicate tightening. Includes monetary policies of the U.S., Europe, Japan, U.K., China, Australia, and Canada. Weighted by share of global foreign exchange reserves. Projected values in gold.

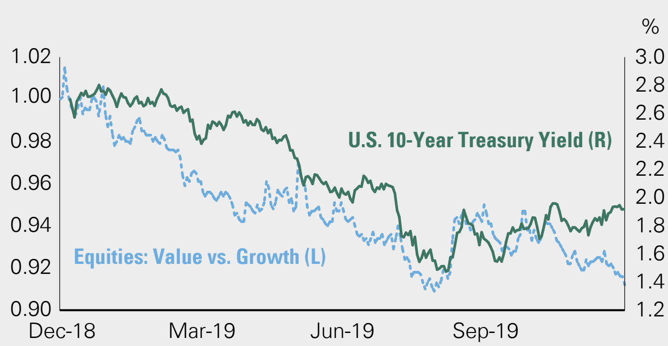
Source: Council on Foreign Relations

and interest-rate curves flattened throughout the first eight months of 2019, investors sought assets with quality earnings components (Exhibit 3). As a result, equities with a quality bias and/or with a growth tilt (i.e., leverage to lower interest rates) outperformed broader equity markets, which helped the relative performance of Bessemer mandates, which holistically have a bias to quality-oriented companies. In addition, we maintained an overweight to U.S. equity markets, which contributed to relative performance as U.S. stocks outperformed the rest of the world.

Fixed income mandates benefited from a higher-than-benchmark duration (price sensitivity to interest-rate moves) exposure during the first several months of the year as the portfolio team gradually shifted interest-rate positioning to take advantage of anticipated changes in the yield curve. As the interest-rate tide turned and yields bottomed, starting in September, growth and quality outperformance took a back seat to cyclical and value stocks, which negatively impacted relative performance (Exhibit 3). Additionally, as equity market leadership shifted, investors reduced low-volatility equities in favor of more historically cyclical names. These developments cut into our relative performance, which remained positive for the year overall.

**Exhibit 3: U.S. Value versus Growth Stocks and 10-Year Treasury Yield, 2019**

**Key Takeaway:** Global growth concerns and a flatter yield curve early in 2019 boosted equities with a quality bias; as the outlook brightened and yields rose, investors rotated into more cyclically sensitive stocks.




As of December 26, 2019. Equities reflect the price return and are measured using the following indexes: growth (Russell 1000 Growth) and value (Russell 1000 Value).

Source: Bloomberg, Russell

## Portfolio Positioning Into 2020

**For 2020, we are positioning portfolios for what we think will be a year with pockets of volatility but still positive risk market returns.** We are positioned with less risk than long-term strategic allocations and retain our bias toward the U.S. within our equity holdings. In fixed income, returns are likely to be more muted than in 2019 as well, and curve positioning will be crucial as unconventional monetary policy becomes the norm again. With yields likely to remain low, equity dividends will remain in demand as will longer-duration investments such as private equity. In fixed income, equity, and alternative markets, our portfolio managers continue to find interesting opportunities poised to navigate the macroeconomic currents likely in the year ahead.

**Fixed income portfolio**: While overweight duration positioning drove performance in 2019, in 2020, we expect positioning along the interest-rate curve to be important. With the bulk of interest-rate cuts occurring last year, central banks are likely to maintain accommodation through balance sheet adjustments in the future. As we have seen, balance sheet adjustments can incite powerful shifts in curve shape. For example, the FOMC's recent move to purchase Treasury bills in October 2019 resulted in a marked steepening of the curve. As always, we maintain our focus on credit analysis given our preservation-of-capital mandate.

**Equity portfolios**: Recent adjustments have oriented equity portfolios to benefit from cyclical developments, while at the same time maintaining exposure to secular growth opportunities and defensive components that can help protect gains. Accordingly, equity holdings retain a bias toward the U.S. and high-quality companies. Equity strategies also continue to include minimum-volatility strategies, which tend to outperform at the end of economic cycles and during market drawdowns, leaving an investor with more capital and a better ability to compound returns over time.

With the potential for more positive trends in trade and global growth this year, Bessemer equity portfolios have made incremental changes to capture gains in sectors levered to cyclical, not just secular, trends. For example, one high-quality cyclical company held in Bessemer client portfolios is United Technologies, which is a leading industrial company with unique competitive positioning, strong cash generation, and an underlevered balance sheet. From a value perspective, a sum-of-the-parts analysis of United Technologies' current business mix shows a material undervaluation when its components are compared to industry peers, in the portfolio team's view. Should cyclical trends continue to shift more durably, Bessemer portfolios are likely to see increased incremental additions of quality names with exposure to cyclical growth.

Bessemer portfolio managers remain optimistic regarding stock-specific opportunities within secular growth industries, such as cloud software and payments. The cloud services market is growing rapidly, driven by increased flexibility and scalability with the help of technological improvements in artificial intelligence and machine learning. A core holding of Bessemer equity portfolios, Microsoft has a strong position in commercial productivity software and gaming. As firms continue to invest heavily in cloud services, Microsoft has seen an acceleration in profitability and cash flow per share.

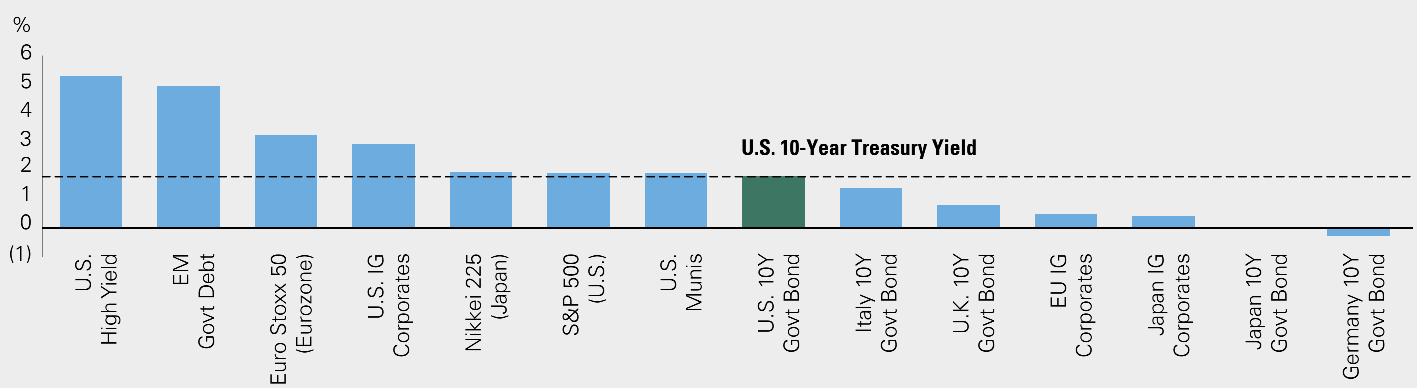
Additionally, the payments industry is experiencing structural growth as substantial investment is resulting in technological advancements. These technologies, in turn, are propelling increased adoption and market-share gains for companies that are well-positioned within the payments ecosystem. Furthermore, the payments sector is benefitting from secular tailwinds as digital transactions are taking market share from cash, a trend that still has a long runway to continue and that should sustain growth of payment volumes far above that of global GDP. Bessemer holdings Visa and MasterCard are market leaders with dominant market positions and entrenched card networks that are difficult to disrupt because of consumer brand acceptance, long-lasting merchant relationships, deep infrastructure investment, and fraud detection sophistication.

Overall, we view a low-interest-rate environment as supportive for risk assets in the near term, but also as setting the stage for future risks that we need to be cognizant of as long-term investors (Exhibit 4). Our investment team has analyzed potential scenarios and planned portfolio adjustments with the aim of continuing to participate meaningfully in rising markets while equally protecting during any prolonged periods of market stress.

**Hedge fund, private equity, and real assets**: We continue to recommend an allocation to hedge funds and private markets for clients where the liquidity profile and other characteristics of these investments are appropriate. Differentiated strategies with low correlations to public markets offer the opportunity for outperformance, especially in more volatile and late-cycle markets.

## Exhibit 4: Bond and Equity Dividend Yields

**Key Takeaway:** Asset classes offering higher yields should continue to attract capital in a low-bond-yield environment.




As of December 20, 2019. Indexes used to measure effective yield: ICE BofAML US Emerging Markets External Sovereign Index (EM Govt Debt), ICE BofAML US Municipal Securities Index (U.S. Munis), ICE BofAML US Corporate Index (U.S. IG Corporates), ICE BofAML Euro Corporate Index (Euro IG Corporates), ICE BofAML Japan Corporate Index (Japanese IG Corporates). Dividend is based on the 12-month trailing gross dividend yield.

Source: Bank of America Merrill Lynch, Bloomberg

**Elise Mordos**
Investment Strategies Analyst

## Monetary Policy in a New Era

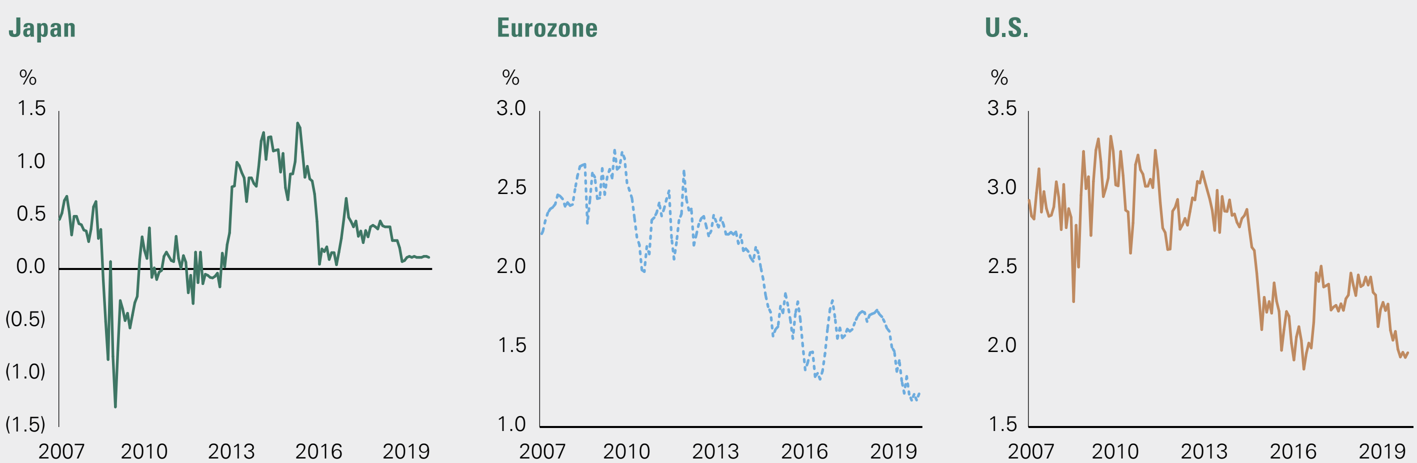
**Our base case is for central banks to remain highly accommodative but to do so via unconventional policy rather than rate cuts.** It is unlikely that rates will move higher even if growth surprises to the upside without a commensurate pickup in inflation. Additionally, we are increasingly focused on fiscal stimulus, which was surprisingly strong in 2019 and can also surprise to the upside in 2020. We discuss our more detailed views on the Fed, the Bank of Japan (BoJ), the European Central Bank (ECB), and the People's Bank of China (PBOC) below:

**The Federal Reserve: We expect the Fed to continue to hold the real policy rate near zero while reinflating the balance sheet via purchases of short-term U.S. Treasury debt. We do not expect negative interest-rate policy in the U.S.** Given the mixed results of negative interest-rate policy abroad, the potential legal complications associated with implementing the policy in the U.S., and the opinions of FOMC board members on the topic, we do not expect the Fed to pursue a negative nominal policy rate.

**One area of uncertainty that we are monitoring is whether the Fed will formally adopt a new inflation framework in light of relatively soft inflation trends domestically and globally.** For much of 2019, Fed officials debated the pros and cons of updating their policy goals and, in particular, the inflation target. The idea that appeared to have the most momentum into year-end was some form of inflation averaging over an economic cycle. This would help ensure that longer-term inflation and inflation expectations are well-anchored around the 2% level over the entirety of an economic cycle (Exhibit 5).

**Exhibit 5: Long-Term Market Inflation Expectations**

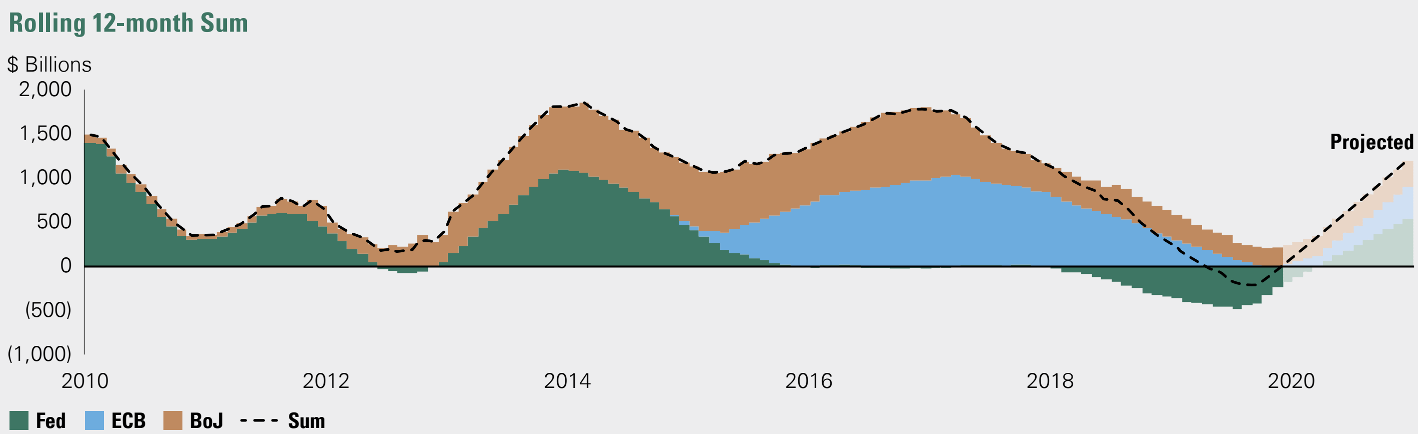
**Key Takeaway:** The U.S. seeks to avoid the fate of Japan and Europe, where inflation expectations have declined markedly despite easier monetary policy.




As of December 20, 2019. Rates reflect the market pricing for the average five-year inflation rate in the coming five years (5-year, 5-year inflation swap rates).
Source: Bloomberg

**Exhibit 6: Net Asset Purchases by the BoJ, ECB, and Fed**

**Key Takeaway:** Central bank balance sheets are set to expand further.




As of November 30, 2019. Projections are dashed and are based on current trends.

Source: Bank of Japan, Bloomberg, European Central Bank, Federal Reserve

If the Fed were to formally adopt this framework, it would be a meaningful shift and relevant for us as long-term investors. All else equal, low borrowing costs help companies manage debt, and lower mortgage rates (down nearly 100 basis points in 2019) catalyze refinancing that can boost savings rates and/or consumer spending. This would create both short-term opportunities and longer-term risks that are important to consider.

**Bank of Japan: The BoJ is likely to maintain its very large asset purchase program.** Japan is perhaps the best example of the limitations of monetary policy. Despite negative interest rates and aggressive quantitative easing in place for years, inflation has refused to nudge meaningfully higher. As we head into 2020, Japan is poised to utilize fiscal easing, rather than monetary easing, to support growth (in part to offset the growth hit from an October tax increase). On December 5, Prime Minister Abe's cabinet approved a new fiscal package totaling 13.2 trillion yen (about $120 billion), the largest since 2016, to be implemented over the coming years.

**European Central Bank: We expect the ECB to keep policy rates on hold and to continue with the new round of asset purchases it started in November 2019.** Europe's situation, while less dire, is similar to Japan's. ECB officials are increasingly divided on where to go from here on policy, given already negative rates, significant quantitative easing, and relatively stagnant inflation (Exhibit 6). New ECB President Christine Lagarde has been vocal about the need for European governments to deploy fiscal stimulus and mentioned that the central bank will conduct a monetary policy review in 2020. The review may alter the interpretation of the ECB's stated goals and entice governments to loosen their fiscal stances. While Germany has yet to address its slowing economy via traditional fiscal stimulus, the government announced plans to issue "green bonds" to finance sustainable projects, such as renewable energy and ecosystem protection, that could act as a form of stimulus.

**People's Bank of China: In our view, the PBOC will continue to implement various types of policy accommodation in piecemeal fashion while structurally reforming its economy.** Despite "peak tariffs" potentially being in the rearview mirror, Chinese officials are likely to allow the economy to stabilize at a slower rate of growth. While past efforts to revive the economy have included sharp increases in the supply of credit, we are likely to see a more gradual supply going forward so as not to compromise financial stability. This slower rate of growth will continue to reverberate through the more open economies around the globe, such as Europe and emerging market countries, that depend on trade with China for their own domestic growth.

**Bree Sterne**
Investment Strategist

## Trade Troubles No Longer a Negative Surprise

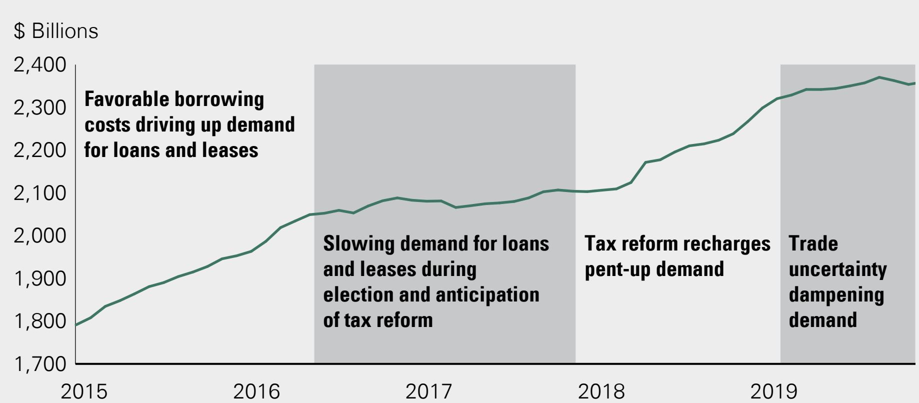
**We expect the strained U.S.-China relationship to be decidedly less negative for markets and the economy in 2020.** For the last year and a half, increasing tariffs have weighed on exporters and manufacturers around the world. According to the Peterson Institute for International Economics, the average U.S. tariff on Chinese imports soared from 3% in early 2018 to 21% in December 2019. The direct hit from tariffs was exacerbated by heightened uncertainty around the direction of policy, pulling down business sentiment to levels suggesting a global manufacturing recession.

Just focusing on the U.S., the Federal Reserve of Atlanta stated that trade developments drove 20% of firms surveyed to reevaluate capital investment decisions and 20% of manufacturers to reduce or delay capital expenditures. This makes sense as companies are less likely to make costly investments if trade and/or other policies remain in flux (Exhibit 7). While consumers and labor markets in the U.S. and overseas remained strong enough to withstand the manufacturing slump, overall economic growth still suffered — global GDP forecasts for 2019 were revised down throughout the year despite aggressive monetary easing, from 3.5% in January to a current 3.0%.

Looking ahead, we expect that the U.S. and China will reach a final trade deal before the U.S. November elections. On December 13, the two countries announced progress on a "Phase One" deal. Expectations for this agreement include an increase in Chinese purchases of U.S. agriculture products (especially soybeans), formalization of intellectual property protections, and a promise by China not to manipulate its currency for exporters. In addition, the U.S. agreed to suspend tariffs on about $160 billion worth of Chinese imports initially scheduled to be instituted on December 15 and also to reduce the tariff rate

### Exhibit 7: U.S. Commercial Bank Assets: Loans and Leases

**Key Takeaway:** Increases in economic policy uncertainty have negatively affected capital expenditures as corporate management teams have hesitated to invest.




As of November 30, 2019.

Source: Bloomberg, Federal Reserve

from 15% to 7.5% on another bulk of Chinese imported goods valued at $120 billion. Other tariffs on Chinese imports remain in place.

While we are not looking for trade to disappear as a trouble spot for the global economy, we think the major negative surprises (sharply increasing tariffs) were largely a 2019 story. Without the negative surprises accompanied by increasing tariffs, we expect the landscape to be somewhat more stable for companies looking to solidify supply chains than was the case in 2019. Often for markets, the direction and rate of change matters more than the absolute change in the data. Without further deterioration in the trade situation, in a sense it improves.

Still, over the long term, we see many challenges to the U.S.-China relationship, with a trade agreement leaving many structural issues unresolved. Capital, technology, and human rights-related tensions will continue, and enforcement of a trade deal remains in question.

Aside from China, other trade-related issues remain risks for markets, though we think there are likely to be fewer negative surprises for markets in this regard in a U.S. election year. The current U.S. administration has shown a willingness to impose tariffs on traditional allies in an effort to achieve a myriad of policy goals. For instance, the U.S. levied tariffs on some European goods last year, including French wine and Italian cheese; this move aims to counteract years of European Union (EU) subsidies to aircraft manufacturer Airbus that the World Trade Organization ruled were illegal. Meanwhile, the U.S. continues to consider tariffs on U.S. auto imports — with Germany top of mind.

Brexit, the U.K.'s decision to exit the EU, is also in many ways a trade issue. Brexit will force the U.K. to restructure trade agreements with the rest of Europe but also with dozens of non-European countries. 2019 saw the Brexit deadline repeatedly delayed; expectations for domestic growth softened alongside the related, lingering uncertainty (GDP forecasts for 2019 were pulled down from 1.5% at the start of the year to 1.3% by late December, continuing the trend seen since the original 2016 Brexit vote).

We will provide updates on these trade topics throughout the year. This issue remains on our radar for 2020 positioning even though we are somewhat more optimistic at the onset.

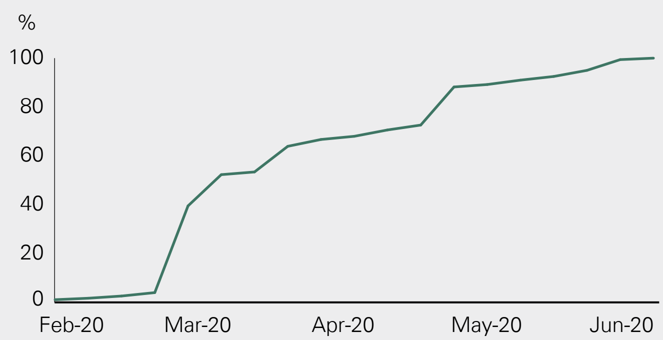
## U.S. Election: Probability of Policy Change in Focus

With the U.S. presidential election likely to dominate headlines for much of the year, it will be important for us as long-term investors to ignore the noise and focus on the actual probability of policy changing. We will not be predicting who will win the 2020 elections, but we will be looking to modify risk and specific exposures as various scenarios become more or less likely. We are mindful that potential pockets of volatility may present good opportunities to shift long-term exposure.

Important to our current thinking is that significant policy change is unlikely without a unified Congress. While voters have increasingly favored one party for all races in recent decades, right now the odds of a one-party sweep seem fairly low (prediction markets in December were giving about a one-third chance of the Democrats taking the Senate in 2020, for instance). Assuming Congress remains split (Democratic House and Republican Senate), the president still can effect change. As President Trump has shown in his first term, sentiment toward the economy and financial markets can be influenced by executive actions (used around trade as well as regulatory policy). Further, changes in tax and other policies tied to federal spending programs can be accomplished via budget reconciliation. However, a major change in taxation or government spending, either of which would be meaningful for our market outlook, is unlikely to occur with a split Congress.

**Exhibit 8: Cumulative Percent of Pledged Delegates for the Democratic Party**

**Key Takeaway:** Politically inspired market volatility is possible in Q1 2020.




As of December 2019.

Source: 270toWin

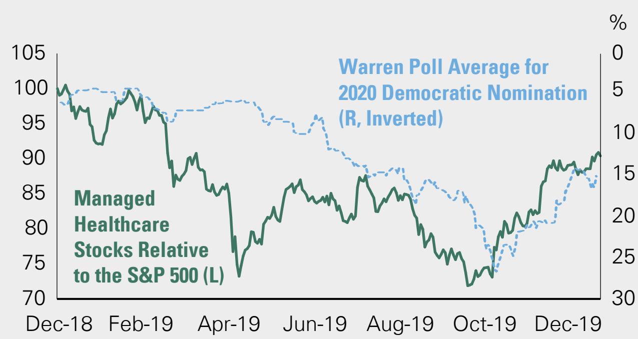
Below, we make a few additional points regarding the election, and expect more to follow as the year unfolds:

- **Democratic candidate likely to be clear near the end of 1Q.** As of late December, there were over 10 declared Democratic candidates for president. Given the wildly different policy stances of the candidates, and given that a number of proposals could potentially impact large sectors of the U.S. economy, perceptions about the likely nominee could affect investor sentiment as early as this spring. The Iowa caucuses are February 3, and the so-called Super Tuesday, with 14 state races, is March 3. Indeed, while the Democratic Party convention is not until July 13–16, a clear leading candidate could emerge well before then (by late April, nearly 90% of the Democratic state delegate votes will have been accounted for, Exhibit 8).

- **Expect sector volatility as the Democratic candidate is decided.** The current leading Democratic nominees have a range of views on topics that matter for the markets. As we saw in 2019, the market has moved on varying odds of different candidates winning the nomination. We expect that there will be volatility throughout the year as investors may price in the potential for larger policy shocks — especially in areas such as managed healthcare, technology, banking, and energy, as well as in tax policy more generally (Exhibit 9). We are more likely to see market pricing for potential election outcomes on a sector or industry level, rather than a broad market reaction, in the first half of the year. We will provide updated analysis on this view as the Democratic field narrows in early 2020.

**Exhibit 9: Managed Care Relative to the S&P 500 and Warren Polling for Democratic Nominee**

**Key Takeaway:** Managed care stocks have trended with Warren's polling average in recent months.

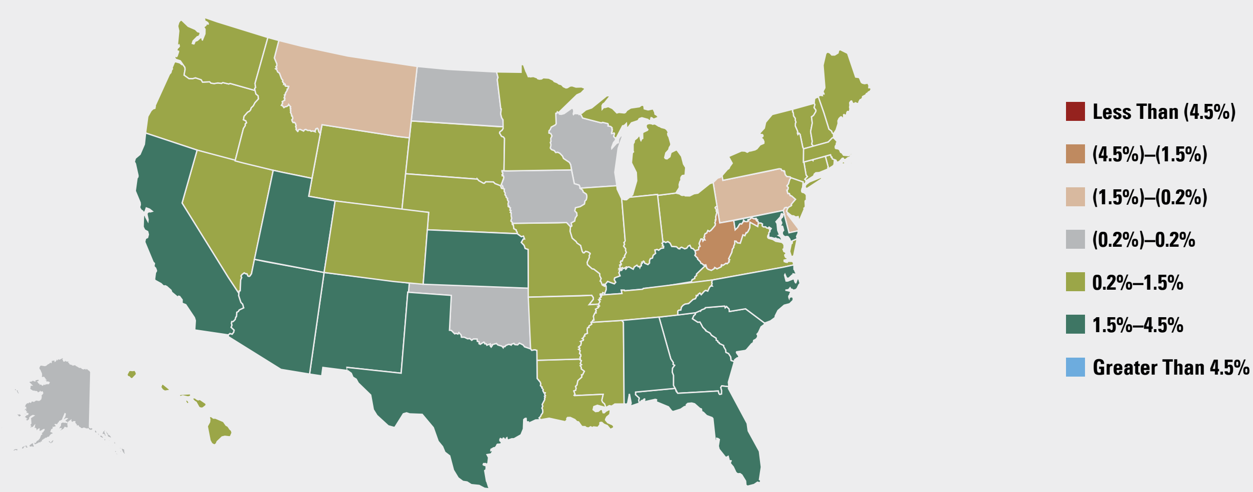



As of December 20, 2019. Managed care stocks measured using S&P 500 Managed Health Care Sub Industry. Equities reflect the price return in U.S. dollars. Polling data reflects poll average.

Source: Bloomberg, RealClearPolitics

**Exhibit 10: State Economic Leading Indexes**

**Key Takeaway:** Economic outlooks in some key swing states were mixed late in 2019.




As of October 2019. Represents expected six-month change in state coincident indexes.

Source: Federal Reserve Bank of Philadelphia

- **Underlying economic trends are a key factor influencing election outcomes: Watch the swing states.** History has consistently shown that perceptions around economic well-being play a critical role in U.S. election outcomes. Voters favor incumbents if they associate that president with an improving economy, a stronger job market, and increasing disposable income.

  In this election, we think the economic trends will be particularly important to watch in states where races are expected to be very close — states often cited include Wisconsin, Michigan, Pennsylvania, Florida, and North Carolina. Indeed, we believe polling around these so-called swing states will likely prove more useful to follow than overall national polls. To that end, we encourage readers who are interested in the election to look at the monthly *Philadelphia Federal Reserve's state leading indexes*. The most recent readings suggested better growth trends into 2020 in Florida, Michigan, and North Carolina; flat growth trends in Wisconsin; and softening growth in Pennsylvania (Exhibit 10). Economic data reported in the June-to-July timeframe ahead of November elections historically has been most influential for voters.

## 2020 Vision

When we pull together our views on monetary policy, trade policy, and politics, it leaves us with three main scenarios to consider for 2020 (Exhibit 11).

Given that our base-case scenario reflects the view that equities can appreciate from here but that upside is more limited, Bessemer portfolios remain positioned with a slightly defensive posture relative to the benchmark. Defensive elements in place include a modest underweight to equities, U.S. equity and quality bias, and exposure to managed volatility strategies within equities. We are confident that client portfolios are well-positioned to manage any equity and bond market volatility we may see in the year ahead.

As stewards of our clients' irreplaceable capital, we continue to carefully monitor risks to our outlook, and position portfolios to meaningfully participate in financial-market upside while also managing downside risk. We remain prepared to make further tactical shifts in portfolios in order to take advantage of compelling opportunities as well as to address any significant catalysts.

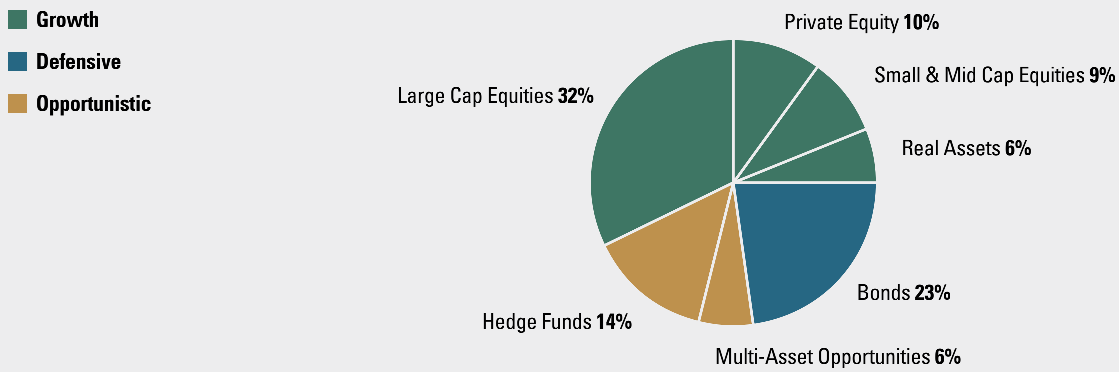
*With special thanks to Rebecca Patterson for her contributions.*

**Exhibit 11: Potential 2020 Scenarios**

| | 2020 Macro Scenario | Potential Market Reactions | Considerations |
|---|---|---|---|
| **Bull** | • Central banks ease policy rates despite better growth<br>• Trade tensions diminish; capex improves<br>• Populist pressures fade as labor recovery broadens | • Equities higher on growth sentiment<br>• Global outperforms U.S. equities; USD lower<br>• Value outperforms defensives and growth-style equities<br>• Bond yields higher; curves steepen<br>• Commodities higher; industrials outperform precious metals | • 2020 U.S. election a two-way risk, both to broader growth sentiment as well as specific equity sectors<br>• Fiscal policy being greater than years prior but less than meaningfully influential |
| **Base** | **• Central banks stay accommodative as insurance against deflation<br>• Trade tensions less of a negative surprise, though U.S.-China relations do not notably improve<br>• Global growth remains steady** | **• Equities appreciate but experience pockets of volatility<br>• Growth, defensive, and U.S. equities outperform but by less than in prior years<br>• Bond yields steady to lower** | |
| **Bear** | • Central banks ease but not enough to offset downward earnings revisions and deteriorating labor market<br>• Trade tensions worsen — competitive FX policy a possibility | • Equities lower on recession worries<br>• Defensives outperform value and growth<br>• Bond yields lower<br>• Precious metals outperform among commodities | |

Source: Bessemer Trust

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




Positioning as of December 31, 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.

## About Bessemer Trust

Privately owned and independent, Bessemer Trust is a multifamily office that has served individuals and families of substantial wealth for more than 110 years. Through comprehensive investment management, wealth planning, and family office services, we help clients achieve peace of mind for generations.

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