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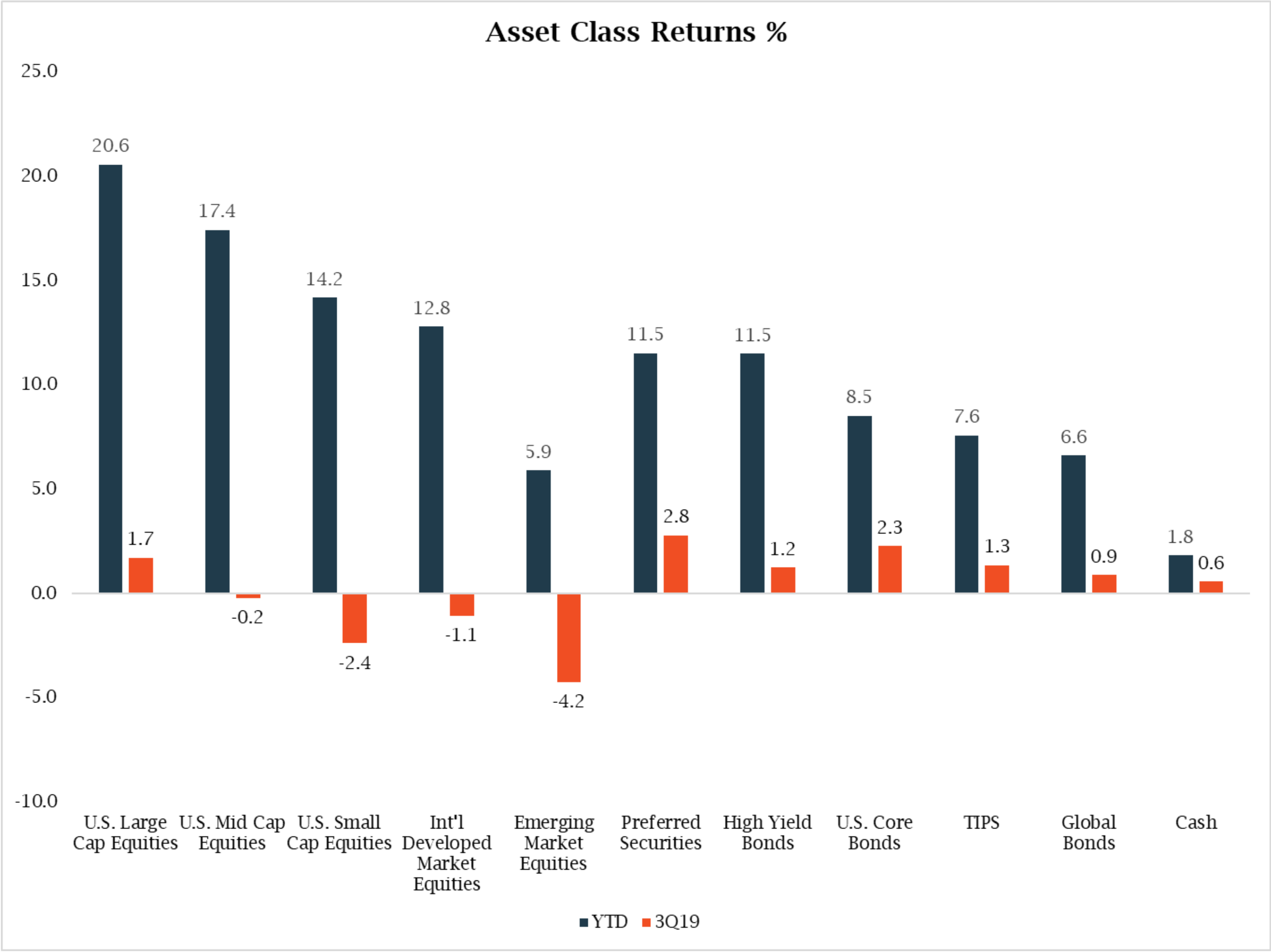
# Fourth Quarter 2019

*Market Outlook & Portfolio Insights*

# Market Outlook

***Despite volatility in the third quarter, market performance remains broadly positive in 2019.***




*Source: Morningstar*

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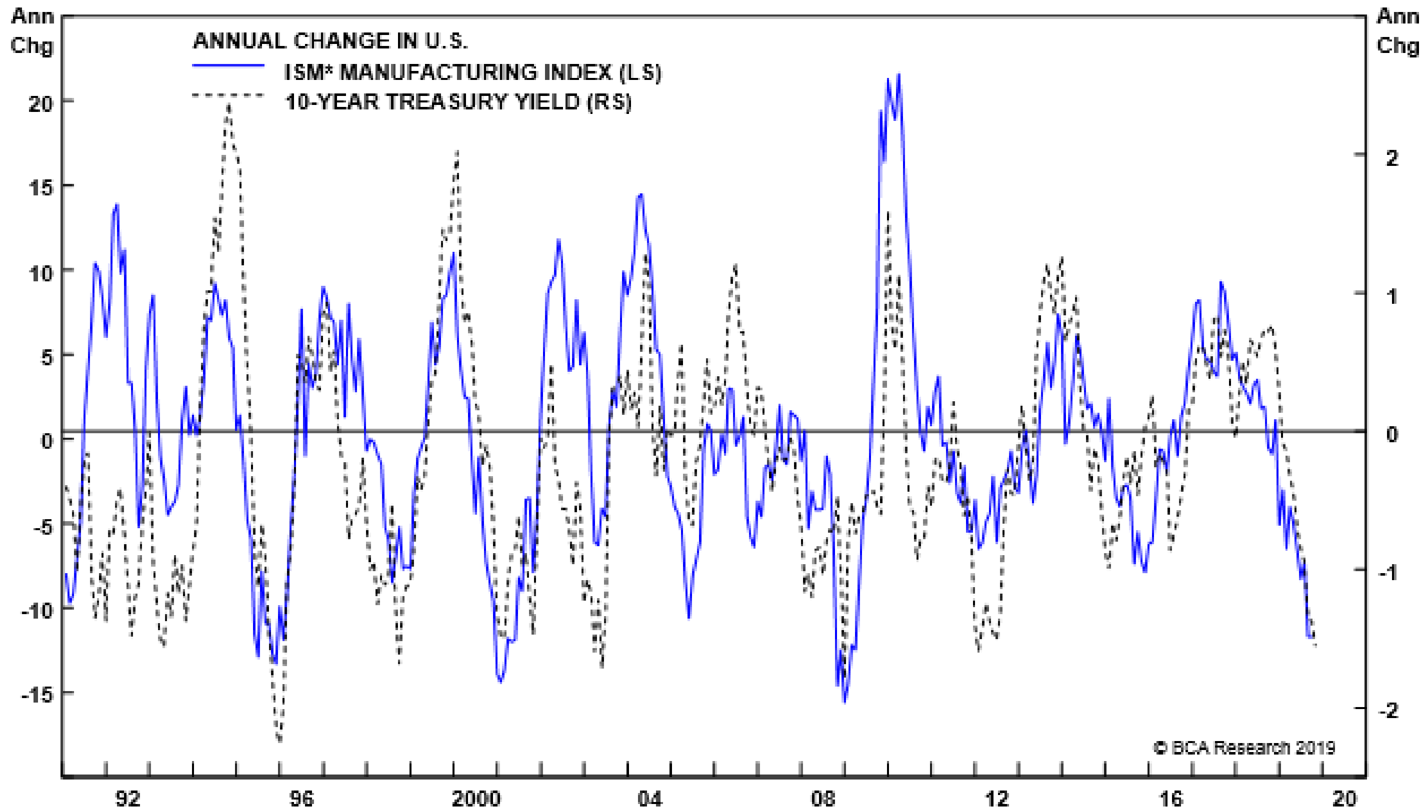
# Market Outlook

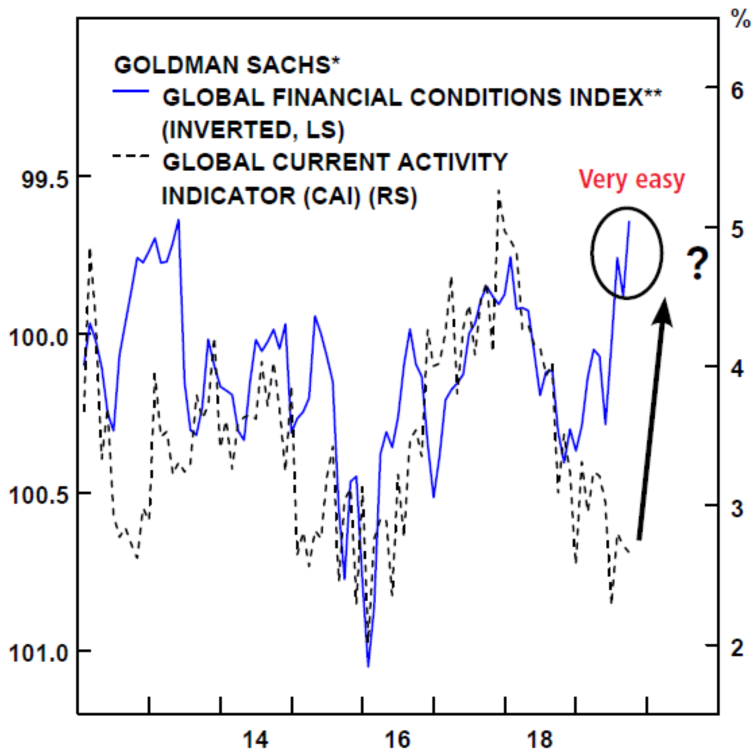
## *Weaker growth has pulled down bond yields this year.*



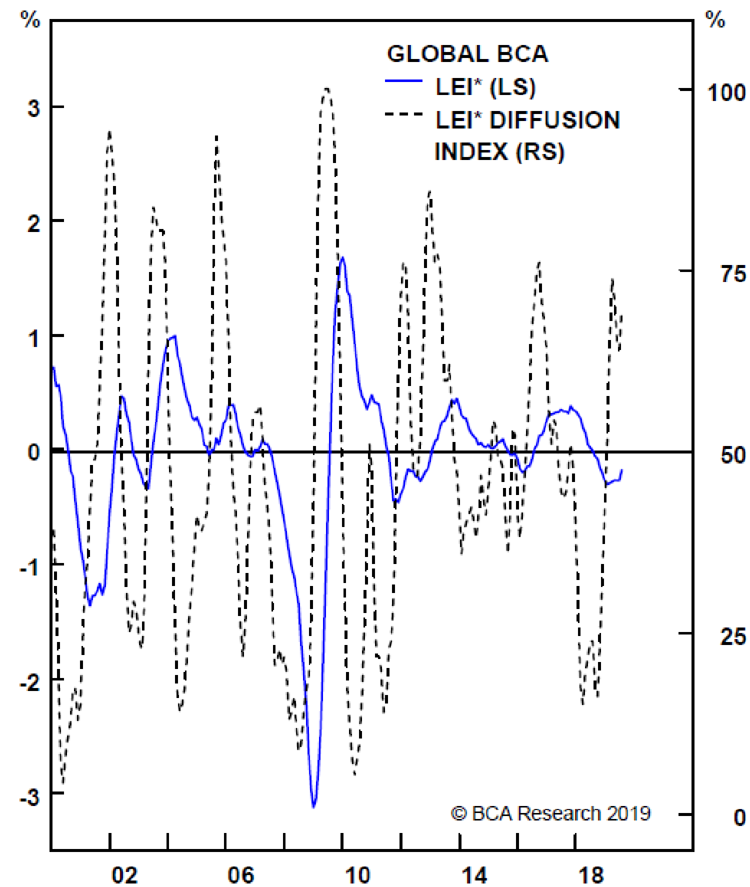

* SOURCE: INSTITUTE FOR SUPPLY MANAGEMENT.

# Market Outlook

***Global financial conditions have eased considerably, which history suggests should provide a tailwind to economic activity over the next six to nine months.***



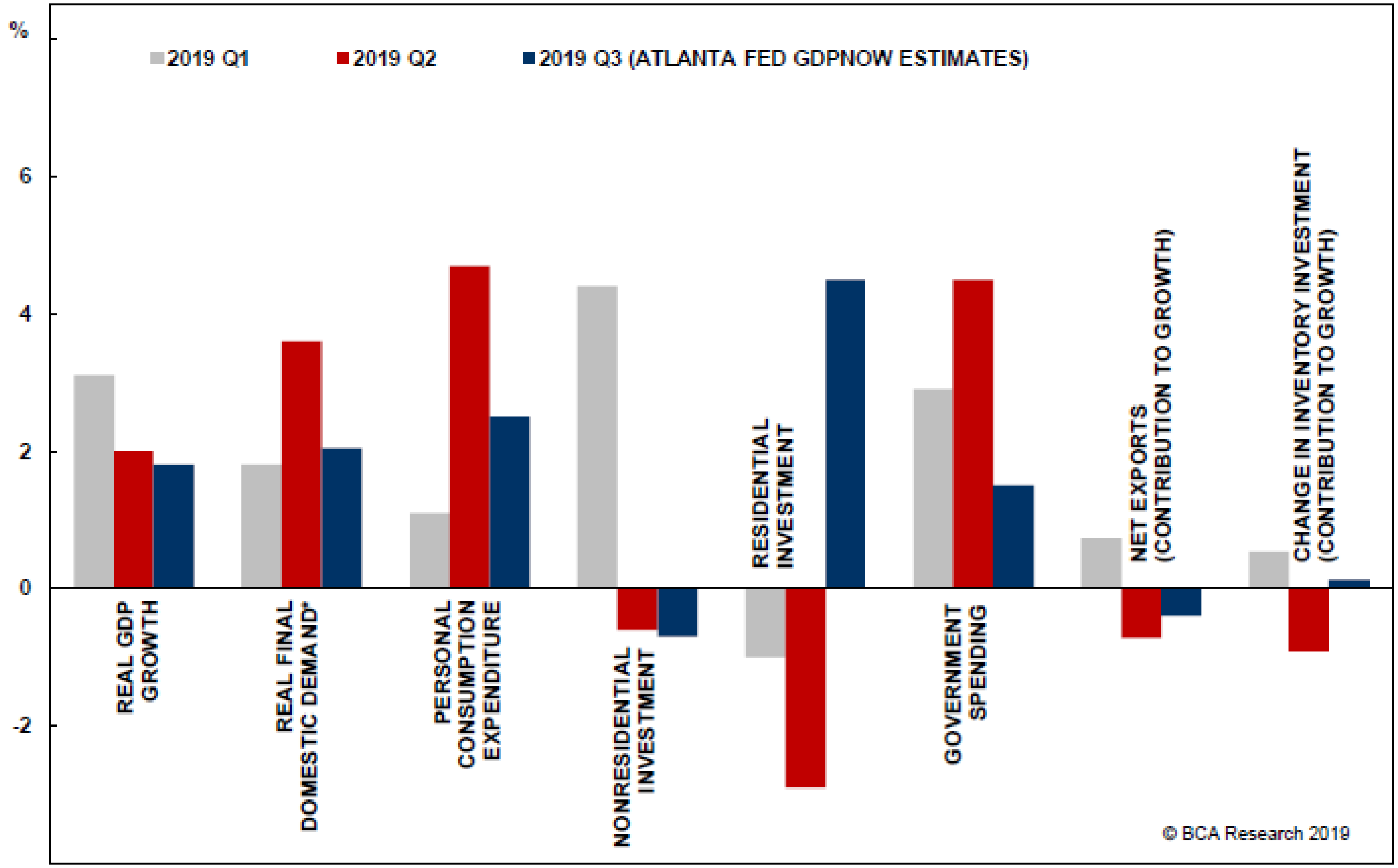

* SOURCE: GOLDMAN SACHS VIA BLOOMBERG FINANCE L.P.
** SHOWN SMOOTHED.




* BASED ON 23 COUNTRIES, BCA CALCULATIONS; DIFFUSION INDEX SHOWN SMOOTHED EXCEPT FOR LATEST DATA POINT.

# Market Outlook

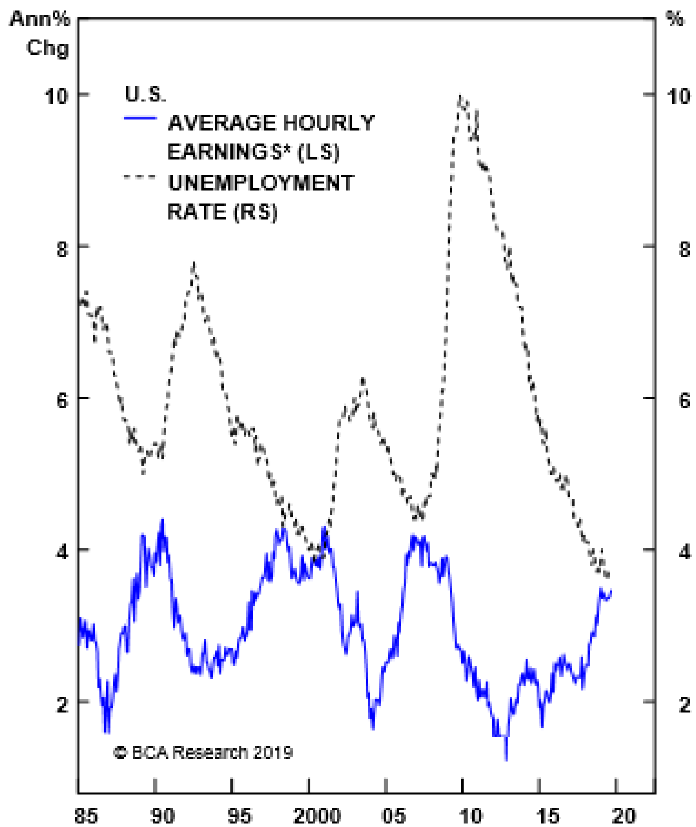
***The Fed is forecasting real GDP growth of 1.8% for the third quarter, down from 2.0% growth in the second quarter but positive nonetheless.***



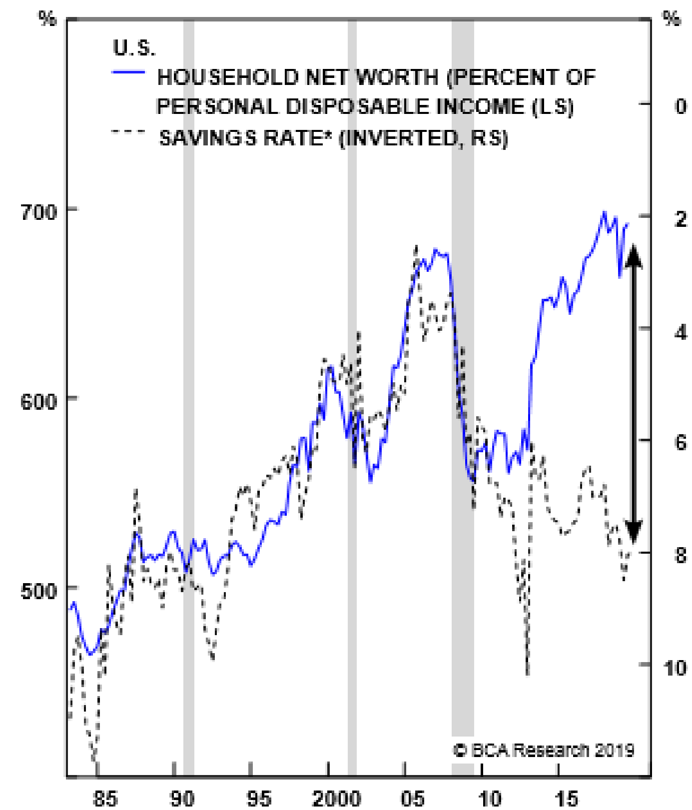

* FINAL DEMAND IS EQUAL TO GROSS DOMESTIC PRODUCT (GDP) LESS THE CHANGE IN PRIVATE INVENTORIES. IT IS ALSO EQUAL TO THE SUM OF PCE, GROSS PRIVATE FIXED INVESTMENT, AND GOVERNMENT CONSUMPTION EXPENDITURES AND GROSS INVESTMENT. DOMESTIC EXCLUDES NET EXPORTS OF GOODS AND SERVICES.

# Market Outlook

***The consumer continues to exhibit positive fundamentals.***



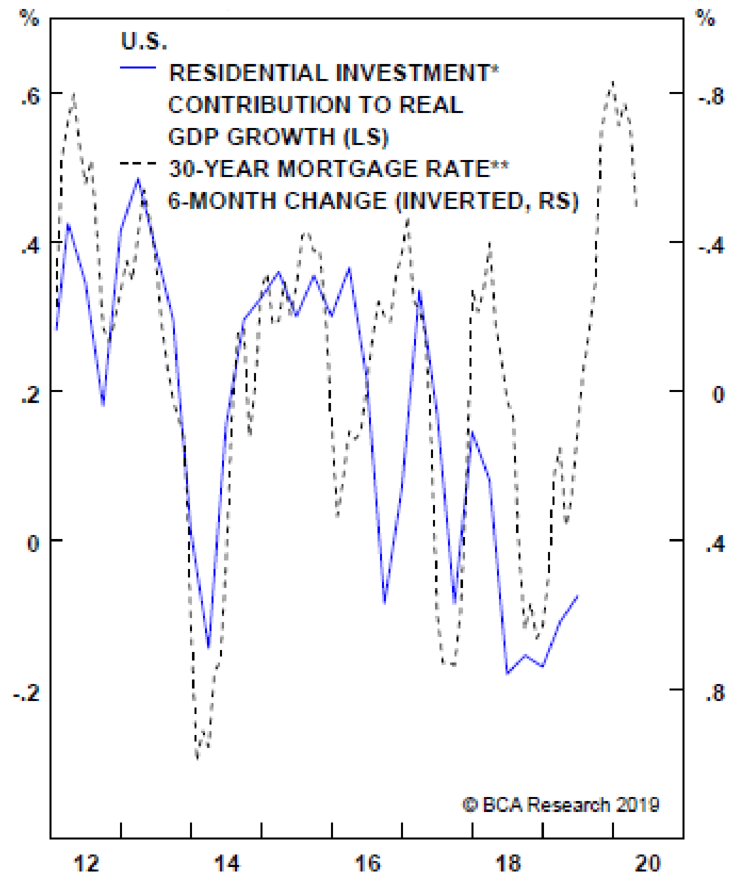

* TOTAL PRIVATE NONFARM, PRODUCTION AND NONSUPERVISORY EMPLOYEES.



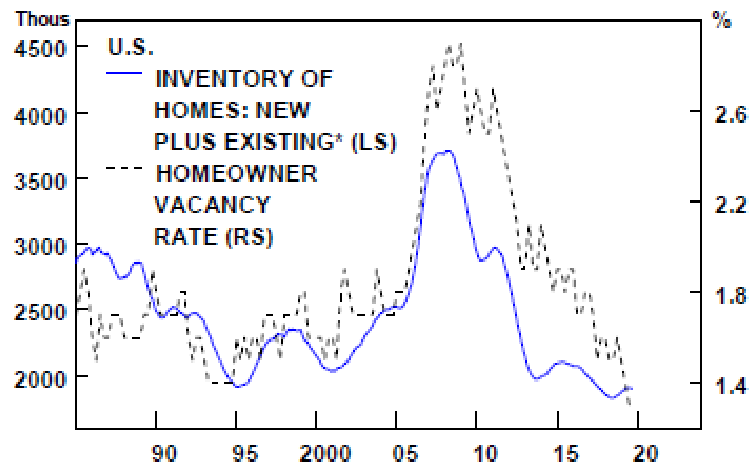

* SHOWN AS A PERCENT OF DISPOSABLE INCOME.
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

# Market Outlook

***The housing industry is gaining positive momentum.***




* SHOWN AS A 2-QUARTER MOVING AVERAGE.
** SHOWN ADVANCED BY 6 MONTHS.

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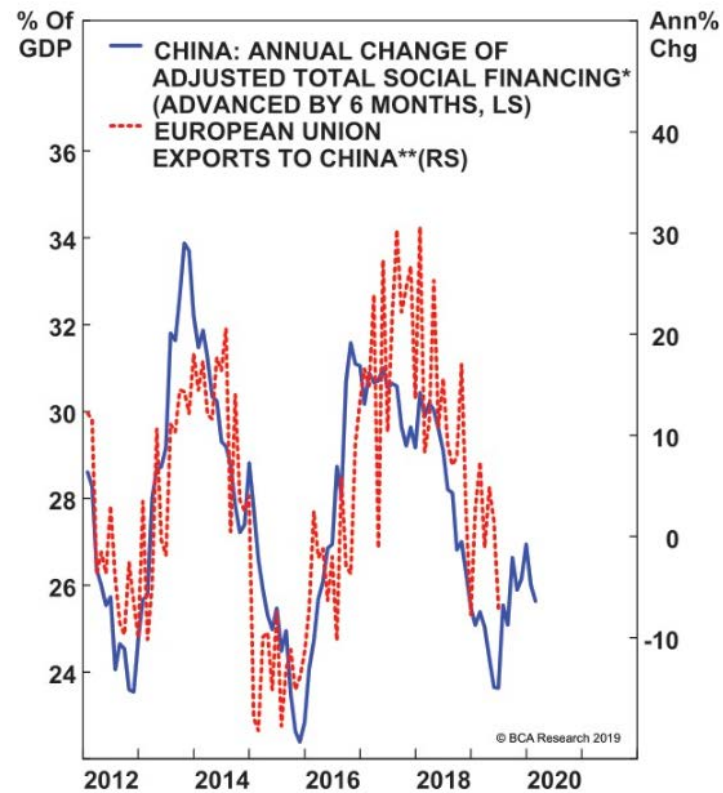
* SHOWN AS A 12-MONTH MOVING AVERAGE.

# Market Outlook

***Chinese authorities have implemented more than 100 acts of stimulus to stabilize the economy. A pickup in Chinese activity should benefit global growth.***

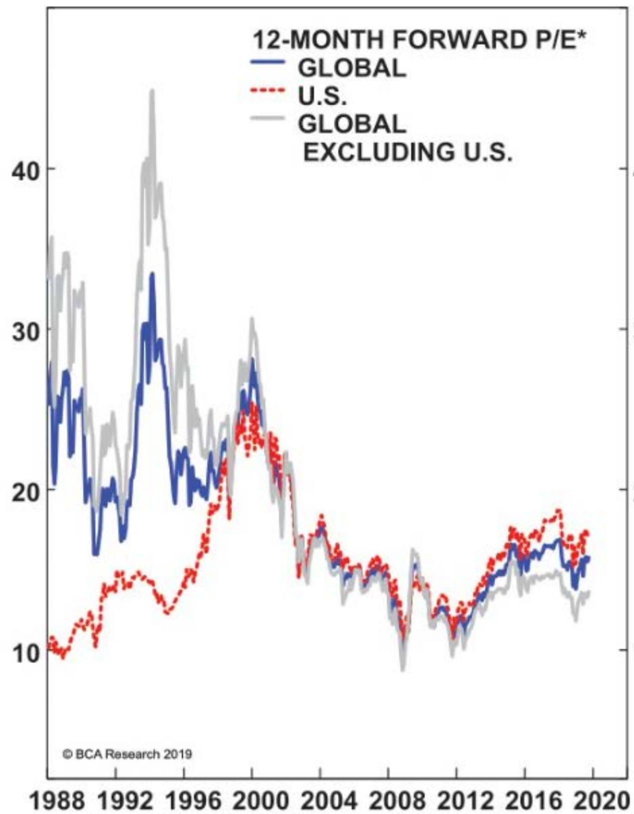

* BASED ON BCA CALCULATIONS; TOTAL SOCIAL FINANCING EXCLUDING EQUITY / INCLUDING LOCAL GOVERNMENT BONDS.
** SOURCE: GOLDMAN SACHS (VIA BLOOMBERG L.P.).



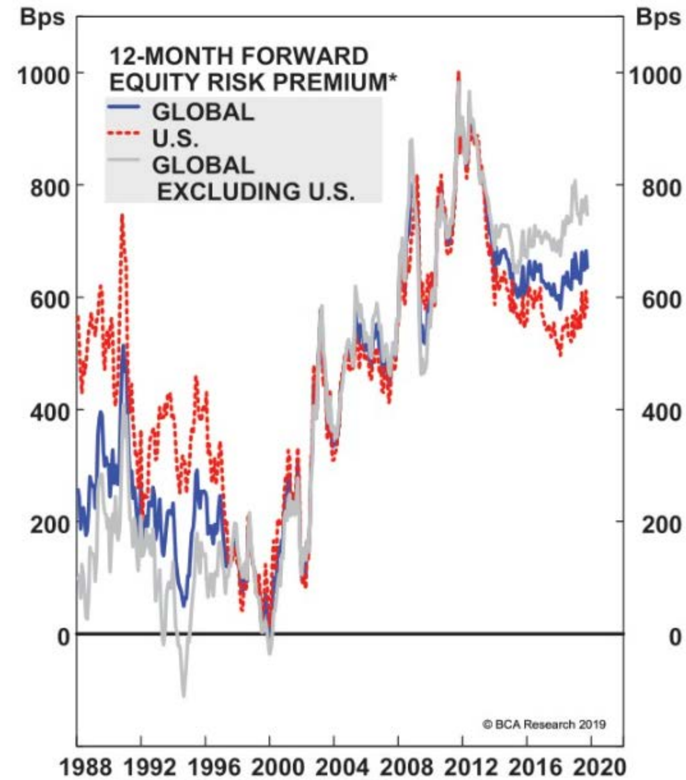

* BCA CALCULATIONS; TOTAL SOCIAL FINANCING EXCLUDING EQUITY / INCLUDING LOCAL GOVERNMENT BONDS.
** SOURCE: IMF DIRECTION OF TRADE STATISTICS.

# Market Outlook

***While recognizing potential risks to financial markets, we continue to favor maintaining equity allocations in line with long-term targets.***




* SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).
NOTE: GLOBAL IS THE MARKET CAPITALIZATION-WEIGHTED AVERAGE OF THE U.S., EURO AREA, JAPAN, U.K., CANADA, AUSTRALIA, SWITZERLAND, SWEDEN, AND EMERGING MARKETS.




* 12-MONTH FORWARD EARNINGS YIELD MINUS REAL 10-YEAR GOVERNMENT BOND YIELD.
BOND YIELD DEFLATED USING HEADLINE CONSUMER PRICES AND 10-YEAR CPI SWAPS.
NOTE: GLOBAL IS THE MARKET CAPITALIZATION-WEIGHTED AVERAGE OF THE U.S., EURO AREA, JAPAN, U.K., CANADA, AUSTRALIA, SWITZERLAND, SWEDEN, AND EMERGING MARKETS.

# Recent Tactical Shifts

**February 2019:** Sold out of U.S. mid-cap core equities and invested proceeds along with excess cash in U.S. homebuilders industry.

**Rationale:** The Fed paused on rate hikes recently and 30-year mortgage rates have fallen from ~5% to 4.5%, which may be rekindling interests from potential buyers. Additionally, there appears to be pent up demand after years of under-building following the Great Recession. Household formations averaged ~1.0m per year over the past 10 years. As a percentage of total households, renters are hovering near cycle highs. Housing affordability has created challenges but remains below historic average. Some softness in prices and lower mortgage rates have helped.

**March 2019:** Increased exposure to emerging market equities, utilizing proceeds from the sale of global equities.

**Rationale:** Given the favorable trend in China's credit impulse, we believe that a modest increase in exposure is prudent, bringing the allocation closer to neutral from underweight in client portfolios. The BlackRock Global Dividend strategy has performed well in 2019, aided by particularly strong returns from its tobacco holdings. Decreasing exposure is an opportunity to capture some of the bounce in performance as well as position client portfolios for expected global growth.

**March 2019:** Sold out of regional bank stocks and invested proceeds in preferred securities.

**Rationale:** Recently, the sector has traded lower as the flattening/inversion of the yield curve suggests tighter credit availability going forward. Given this potential headwind to earnings growth, we are eliminating exposure to regional bank stocks. A unique aspect of preferreds is that they are primarily issued by banks. Unlike bank stocks which generally require expanding net interest margins and accelerating loan growth to outperform, preferreds should return their fixed payments and par value as long as credit quality remains healthy. Increasing exposure to preferreds should allow us to effectively express our positive view on corporate financial health while also driving incremental

**August 2019:** Reduced exposure to pharma stocks and invested the proceeds in accordance with each client's long-run strategic asset allocation.

**Rationale:** As the 2020 presidential election comes into focus, the risks associated with pharma stocks appear to be rising. President Trump has said on numerous occasions that he wants to lower drug prices. While we do not anticipate that Democrats will want to give Trump a win, they have made similar campaign promises. Given the potential for a challenging combination of headline risk and ultimately fundamental risk, we are reducing exposure to pharma stocks in client portfolios.

# Summary Market Views

| Monetary Policy | Accommodative |
|---|---|

Monetary policy has become increasingly accommodative with 46 central banks cutting short-term interest rates this year. The primary risk of injecting stimulus outside of a recession is the possibility of sparking unwanted inflation. While inflation is a lagging indicator, inflation expectations remain below target in most major economies. Consequently, we expect monetary policy to remain accommodative around the world.

| Fiscal Policy | Accommodative |
|---|---|

We expect existing stimulus to remain in effect in the U.S. but do not anticipate any new initiatives in the near-term. While Congress is known for accomplishing less in Presidential election years, the impeachment inquiry further reduces the likelihood of substantive law being passed. Overseas, China plans to step up stimulus, including increasing bond issuance to finance infrastructure projects as well as cutting interest rates and reserve requirements. Other economies such as France and India have announced new policy that should be supportive of global growth.

| Economic Fundamentals | Neutral |
|---|---|

According to their latest model, the Fed is forecasting real GDP growth of 1.8% for the third quarter, down from 2.0% growth in the second quarter but positive nonetheless. Although muted in comparison to their efforts in both 2008-09 and 2015-16, Chinese authorities have implemented more than 100 acts of stimulus since the second half of last year to stabilize the economy. Given the lag between stimulus and the impact on the economy, these measures are just beginning to result in improving data. A pickup in Chinese activity and global growth should benefit Europe, particularly Germany which appears to be on the cusp of entering a recession.

| Market Sentiment | Neutral |
|---|---|

Investors have become increasingly cautious given elevated headline risk (e.g. tariffs, inverted yield curve, Brexit, major attack on oil production facilities in Saudi Arabia, Presidential election frontrunners with widely different agendas, impeachment inquiry).

| U.S. Equities | Neutral |
|---|---|

Valuation multiples appear to be full. With respect to earnings, 2020 growth estimates have been revised down to mid single digits. Additional negative earnings revisions or misses would likely weigh on investment returns. Within the U.S., we favor large cap over small cap and value over growth.

| International Equities | Neutral |
|---|---|

Valuation multiples are below the historical average given weaker earnings growth expectations. A reacceleration of global growth would likely provide a tailwind to both international developed and emerging market equities.

| Bond Yields & Credit | Negative |
|---|---|

We favor short-duration securities as investors do not appear to be adequately compensated for taking maturity risk. We utilize preferred securities to drive incremental income but overall are biased toward quality in fixed income allocations. With high yield spreads meaningfully below the historical average, investors do not appear to be adequately compensated for taking credit risk.

| Commodities | Neutral |
|---|---|

Disciplined supply constraints from OPEC and Russia coupled with moderate demand growth continue to support the price of oil. Concerning the major attack on oil production facilities in Saudi Arabia, while the market may not be appropriately discounting the possibility of another incident, ample reserves should help re-calibrate the supply-demand picture and stabilize prices.

| U.S. Dollar | Neutral |
|---|---|

The U.S. dollar appears to be extended. A reacceleration of global growth would likely result in a weaker dollar. However, in the event of a recession, we expect the dollar to strengthen as investors rotate into safe-haven assets.

# Disclosure

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Heritage Wealth Advisors, LLC ("IA Firm"), or any non-investment related content, made reference to directly or indirectly in this presentation will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. All investment strategies have the potential for profit or loss. Investment strategies such as asset allocation, diversification, or rebalancing do not assure or guarantee better performance and cannot eliminate the risk of investment losses. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this presentation serves as the receipt of, or as a substitute for, personalized investment advice from IA Firm. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. IA Firm is neither a law firm, nor a certified public accounting firm, and no portion of the presentation content should be construed as legal or accounting advice. A copy of IA Firm's current written disclosure Brochure discussing our advisory services and fees is available upon request. **Please Note**: If you are a IA Firm client, please remember to contact IA Firm, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. IA Firm shall continue to rely on the accuracy of information that you have provided.

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Definitions:

U.S. Large Cap Equities: U.S. Large Cap Equities are represented by the S&P 500 Index.

U.S. Mid Cap Equities: U.S. Mid Cap Equities are represented by the S&P Midcap 400 Index.

U.S. Small Cap Equities: U.S. Small Cap Equities are represented by the Russell 2000 Index.

International Developed Equities: International Developed Equities are represented by the MSCI EAFE Index.

Emerging Market Equities: Emerging Market Equities are represented by the MSCI EM Index.

U.S. Core Bonds: U.S. Core Bonds are represented by the BBgBarc U.S. Agg Bond Index.

TIPS: TIPS are represented by the BBgBarc U.S. Treasury U.S. TIPS TR USF Index.

Global Bonds: Global Bonds are represented by the ICE BofAML Gbl Brd Mkt TR USD Index

High Yield Corporate Bonds: High Yield Corporate Bonds are represented by the ICE BofAML U.S. HY Constrained Index.

Preferred Securities: Preferred Securities are represented by the ICE BofAML Adjustable Rate Pref TR USD Index.