JOHNSON FINANCIAL GROUP®

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ECONOMIC & MARKET OUTLOOK

FIRST QUARTER 2020

INVESTMENT TEAM CONTRIBUTORS

Brian Andrew, CFA
Chief Investment Officer, Executive Vice President Wealth Management

Ron Alberts, CFA
Senior Vice President, Director of Fixed Income Strategy and Portfolio Manager

Annette Hellmer, CFA
Senior Vice President, Portfolio Manager

Jason Herried, CFA
Senior Vice President, Director of Equity Strategy and Portfolio Manager

Brian Schaefer
Assistant Vice President, Portfolio Manager

EXECUTIVE SUMMARY

The year 2019 was one of solid economic growth and healthy returns from most asset classes. U.S. economic growth continued in line with the average growth rate for this expansion. Equity returns were stellar, though the pace of earnings growth slowed. Three rate cuts from the Fed helped to spur fixed-income returns to equity-like levels. After strong gains in the equity and fixed-income markets, allocations to alternative investments have become increasingly attractive *[Exhibit 1]*.

Economic Outlook

- In contrast with the previous year, 2019 offered a much more positive economic and market backdrop. The Federal Reserve's accommodative policy supported gains in both equity and fixed-income markets.
- While the economic recovery is the longest on record, its slow and steady pace suggests it could continue for some time to come. Reports for real GDP growth in 2019 should slightly exceed 2.0%.
- A shortage of workers is a possible constraint on future growth; however, increases in both the labor participation rate and productivity could help fuel further growth.
- Our outlook is one of cautious optimism, with many positive factors—including monetary easing in the U.S. and abroad—balanced by the risks presented by global and domestic political uncertainties.

U.S. Equity Outlook

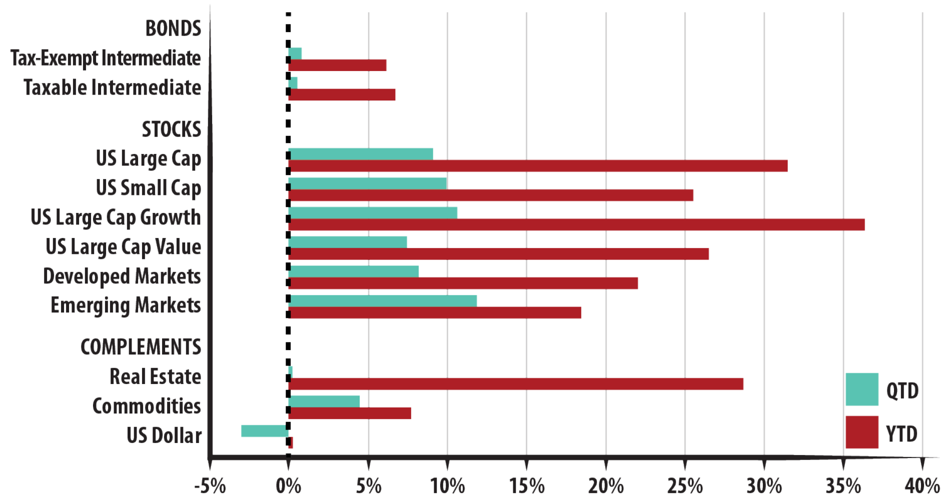
- Equities recorded outstanding gains in 2019, with U.S. stocks up 31.5% and international stocks up 22.0%.
- Equity returns outpaced earnings growth and pushed valuations upward. Considering all prevailing conditions, this merits caution but not alarm.
- Technology was the strongest-performing sector for the year and played a major role in the indexes' overall performance.
- Looking ahead, with positive economic and earnings growth anticipated for 2020, we anticipate another year of positive equity returns, though they are more likely to be in the single-digit range.

U.S. Fixed Income Outlook

- Bonds posted equity-like returns for the year, as the Fed cut rates three times from July through October and long-term Treasury yields plummeted.
- Investment-grade corporate bonds were among the biggest beneficiaries of the Fed's actions and the generally favorable economic backdrop.
- With current tight credit spreads and low yields offering less opportunity for appreciation, the bulk of investors' bond returns for 2020 are likely to come from interest payments. In this environment, we have seeked to address potential downside risk by upgrading the credit quality of our corporate bond sleeve and have been finding yield in some less-travelled sectors within securitized credit that offer more favorable yield spreads per unit of risk.
- We remain intrigued by the potential tailwinds in emerging markets; developed international markets remain plagued by negative interest-rate policies.

Exhibit 1

QUARTER-TO-DATE & YEAR-TO-DATE PERFORMANCE



Source: Morningstar Direct

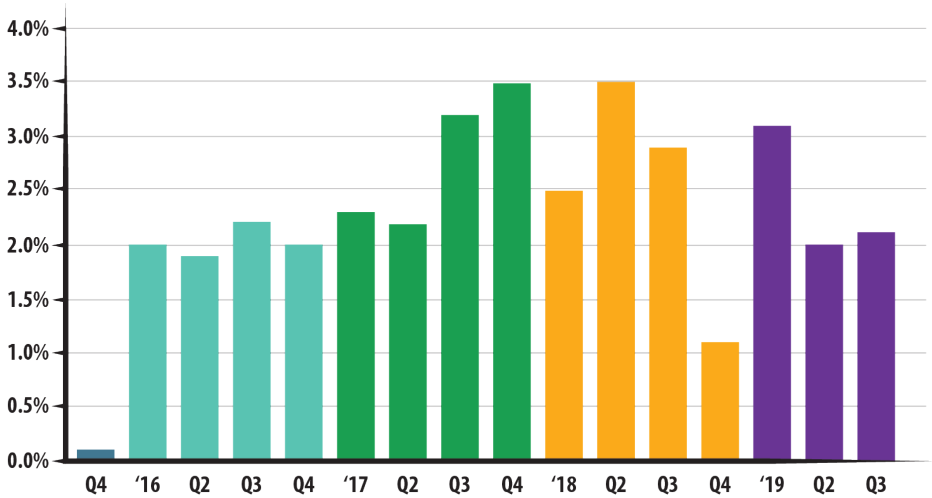
ECONOMIC OUTLOOK

A Year of Change

As 2020 begins, we can only observe: What a difference a year makes! The economic and financial market backdrop was dramatically different at this time a year ago. We had just experienced a swoon in the stock market that brought returns into negative territory, and recession fears were dominating the news. Despite the uneasiness reflected in the markets, in last year's outlook publication we indicated that we thought a recession in 2019 was unlikely and that our economy would likely grow around 2%. Ultimately, that proved to be fairly accurate. With solid growth posted in the first three quarters of the year and the likelihood of 2% Real GDP in the fourth quarter, we are on pace for 2%+ Real GDP growth in 2019 *[Exhibit 2]*. While final results will not be released until late March, the first 'Advance' estimate of fourth quarter 2019 growth will be released by the Bureau of Economic Analysis in late January, and we anticipate it will confirm our growth expectations.

Exhibit 2

REAL GDP: PERCENT CHANGE FROM PRECEDING QUARTER
Seasonally Adjusted at Annual Rates



Source: US Bureau of Economic Analysis

The current economic expansion is the longest in U.S. history and, as such, the common perception is that it is probably due to end. We disagree. Although recession fears still dominate the news as we enter 2020, we believe that, barring an external shock, the economy can continue to generate positive economic growth in the coming year. While the economy is currently undergoing the longest expansion on record, this is also the weakest recovery on record. We believe this slow and steady economic cycle can continue.

Manufacturing Impact

That said, over the next few months the manufacturing sector is likely to feel negative impact from Boeing's issues with the halted production of the 737 Max aircraft. If the production shutdown lasts through the end of March, some have estimated that it could reduce GDP growth in 2020's first quarter by as much as 0.5%. There is also a potential risk to the broader economy if the disruption's impact flows through the company's supply chain. We believe that the current issues will be resolved, and once production resumes, the catch-up in activity over subsequent months will mitigate the impact on annual GDP as growth simply shifts from the first quarter to later ones.

Economic results during this past year showed our economy's resilience in the face of some challenges. The trade war was a drag on GDP growth for the U.S., China and the broader world economy in 2019. Not only was economic growth hurt by the tax-like impact of tariffs, the uncertainty they created led to delayed business investments that also dampened growth. Fortunately, with a Phase 1 trade deal now in place, trade should become less of a negative force in 2020; in fact, the trade headwind is expected to transition to a modest tailwind this year. While the current trade truce is a positive, we are mindful that negotiations with China will likely be a two steps forward, one step back process. Trade disagreements are likely to persist for the foreseeable future but as long as they don't escalate dramatically, they should be manageable.

Global uncertainty related to trade, Brexit and other factors has been particularly negative for manufacturing activity. In the U.S., The Institute for Supply Management (ISM) has been publishing an index since 1948 that monitors manufacturing activity *[Exhibit 3]* and is often considered a bellwether for the overall economy's direction. When the Manufacturing Index, also known as the Purchasing Managers Index (PMI), drops below 50, as it did late in 2019, it has been viewed as predictive of an economic contraction. Despite that reputation, it's worth noting that this hasn't been a reliable indicator; the PMI has fallen below 50 on a number of occasions without a subsequent recession.

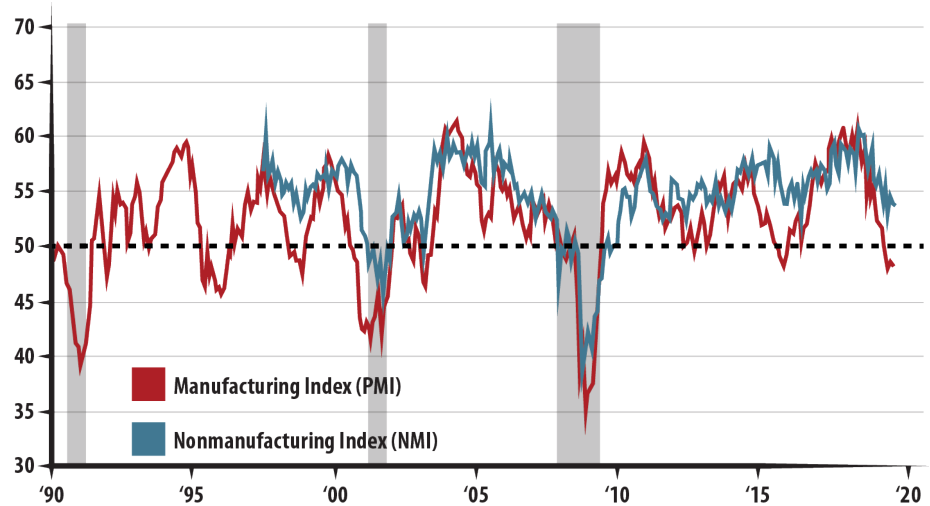
> **"It's worth noting that this hasn't been a reliable indicator; the PMI has fallen below 50 on a number of occasions without a subsequent recession."**

Consumers and Workers

Over time, the U.S. economy has transitioned from manufacturing to a less cyclical services-driven economy. Services now overwhelmingly account for most of the U.S. non-farm employment *[Exhibit 4]*. This is reflected in the Nonmanufacturing Index (i.e., services sector), which is still expanding and provides a more sanguine picture for future growth.

Exhibit 3

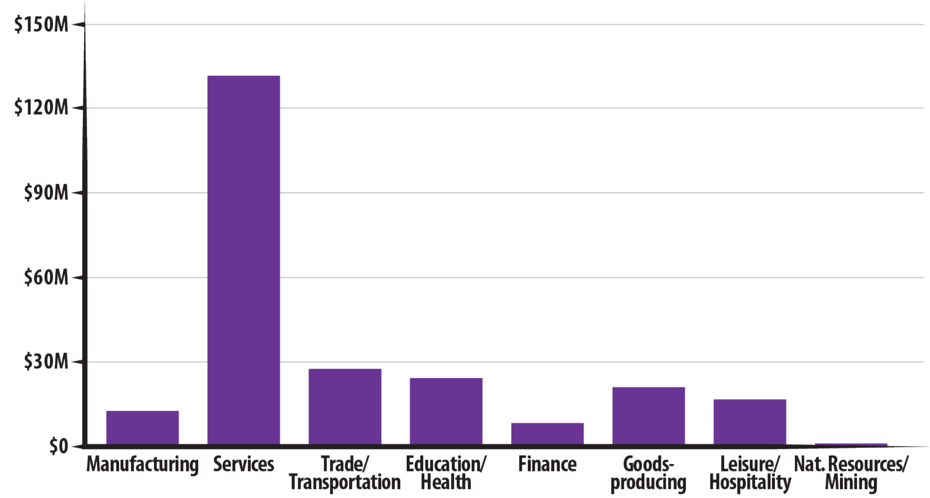
ISM MANUFACTURING & NONMANUFACTURING INDICES
January 1990 - November 2019, 50+ = Increasing



Source: Institute for Supply Management, NBER, Haver Analytics

Exhibit 4

EMPLOYMENT BY SECTOR
November 2019

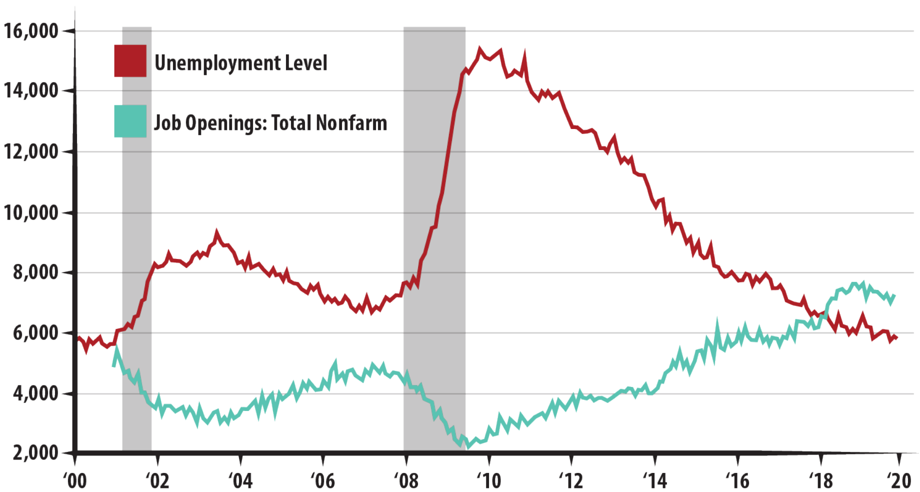


Source: Bureau of Labor Statistics

Exhibit 5

SHORTAGE OF WORKERS

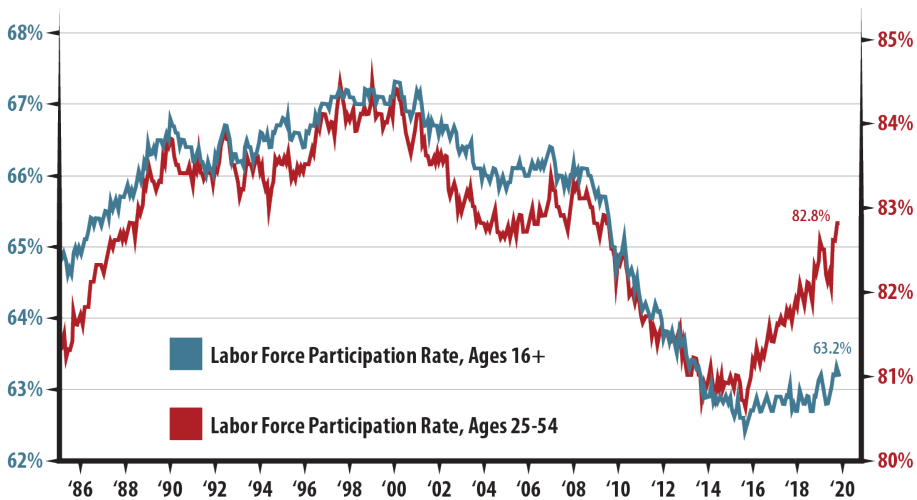
Level in Thousands, Thousands of Persons



Source: US Bureau of Labor Statistics

Exhibit 6

LABOR FORCE PARTICIPATION



Source: Bureau of Labor Statistics

U.S. economic growth is heavily dependent on consumer spending, with consumers accounting for nearly 70% of U.S. economic activity. With a strong jobs market and reasonably healthy corporate and personal balance sheets, consumer confidence and consumer spending have remained strong. In fact, with the unemployment rate at a 50-year low, the strong jobs market is constraining economic growth to some degree. Many industries face a shortage of workers and for the first time, the demand for workers exceeds the number of workers who are unemployed *[Exhibit 5]*.

Working-age population growth and immigration account for the bulk of the growth in available workers. Labor force participation also plays a meaningful role and has begun to increase after a long decline *[Exhibit 6]*. The participation rate still remains low compared with historical levels, so new entrants to the work force could fuel economic growth going forward. Continued economic growth could come from a combination of an increase in the labor force plus improvements in worker productivity, which has been lackluster during this economic cycle.

Election Considerations

While the economic underpinnings of the economy are solid, the 2020 presidential election will likely be a source of volatility throughout the year. Between the impeachment effort and a divisive presidential campaign, the noise and uncertainty of the upcoming election cycle will have the potential to be disruptive, particularly in segments of the economy that will be affected by the candidates' proposed policy initiatives.

Health care is one area that could feel significant impact, particularly if a single payer option is successfully enacted. Other areas that may see change include taxation, the minimum wage, and potential new regulations targeting the financial, technology and energy industries. Any or all of these could have impact on the investment landscape. That said, the policy platforms being proposed may ultimately not be implemented in their current idealized versions. Typically, policies move in the direction of the winning candidate's platform but are constrained by the workings of Congress and the White House and tend to result in more moderate legislation. In general, history suggests that elections that lead to gridlock between Congress and the White House have been favorable for financial markets. We shall see what this election cycle brings us.

Historically, in good economic environments the incumbent has won the election. However, President Trump's approval ratings make the election outcome less certain. While scoring strong marks on the economy, the current administration hasn't done as well in other areas *[Exhibit 7]*.

While the economy receives high marks, a closer look shows that partisan perspectives have produced widely differing viewpoints. In a survey conducted this past summer, positive ratings on the economy were substantially higher among Republicans than among Democrats *[Exhibit 8]*. Polarization and political risk will continue over the coming months, and the outcome of the election bears close watching. We will remain nimble and adjust our positioning accordingly if our base case expectations change as the result of political or geopolitical developments.

> "Monetary easing by the U.S. Federal Reserve and other global central banks should provide the catalyst for a reacceleration of growth in 2020."

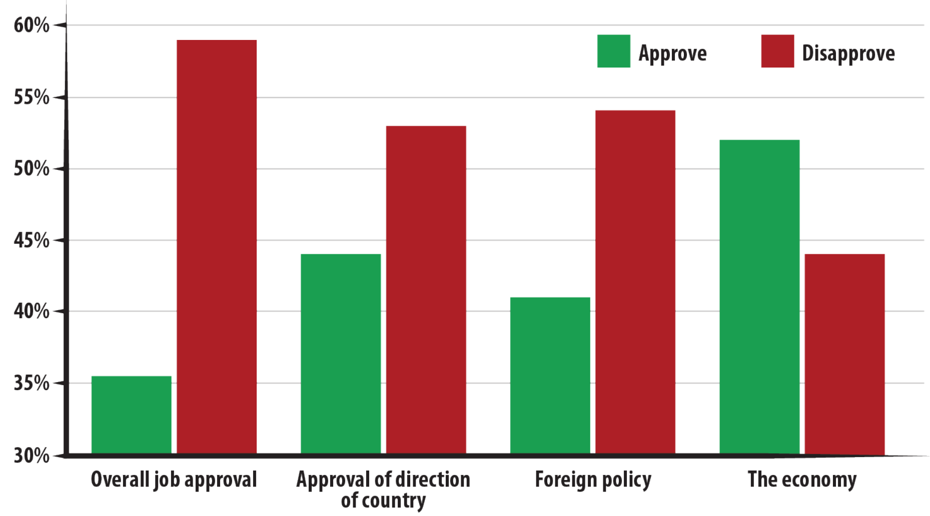
Global Outlook

Outside the U.S., the global economy looks set to improve in 2020. Monetary easing by the U.S. Federal Reserve and other global central banks should provide the catalyst for a reacceleration of growth in 2020. During the past year, Europe's exposure to manufacturing and reliance on trade had produced a challenging backdrop. The slowdown in global trade hurt many of the export-dependent European economies particularly hard. Throughout 2019, the European Central Bank (ECB) continued to cut interest rates into negative territory and re-started quantitative easing. The lagged effects of these moves should begin to take hold in 2020. In the UK, the economy should benefit from the lifting of Brexit uncertainty in the wake of the country's decisive election results. Even though the transition will likely not be smooth, that bumpy transition may already be reflected in asset prices.

Exhibit 7

TRUMP STILL SCORES WELL ON THE ECONOMY

US Adults' Approval Ratings of President Trump's Handling of Issues

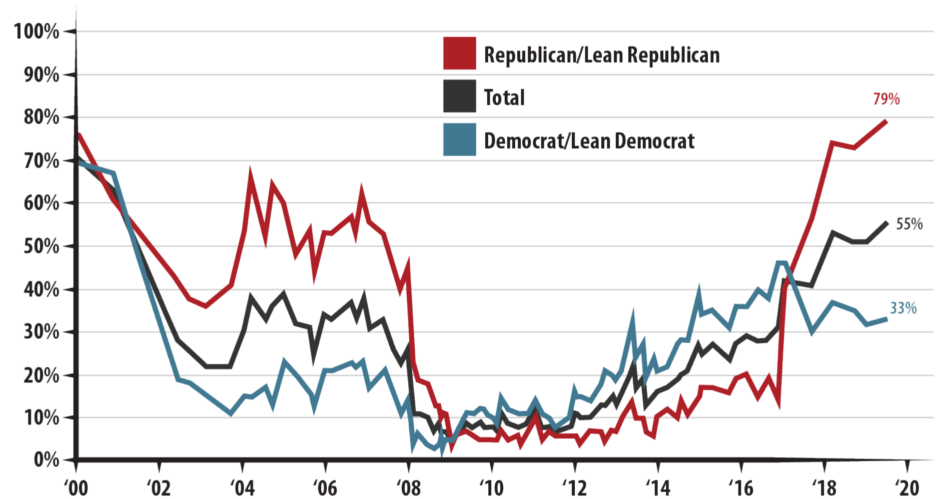


Source: Real Clear Politics, November 2019

Exhibit 8

POSITIVE ECONOMIC VIEWS SINCE TRUMP TOOK OFFICE

Percent Who Rate National Economic Conditions as Excellent or Good

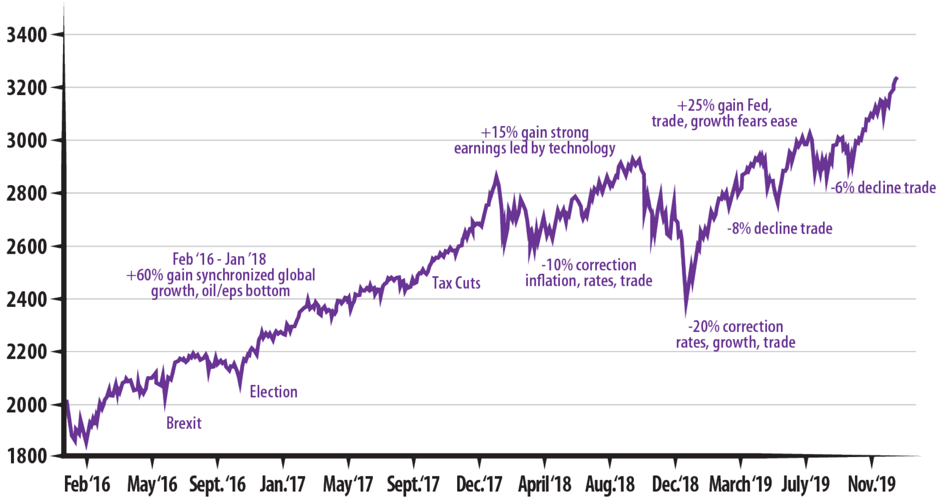


Source: PEW Research Center, survey conducted July 10-15, 2019

Exhibit 9

S&P 500 INDEX

January 1, 2016 through December 31, 2019

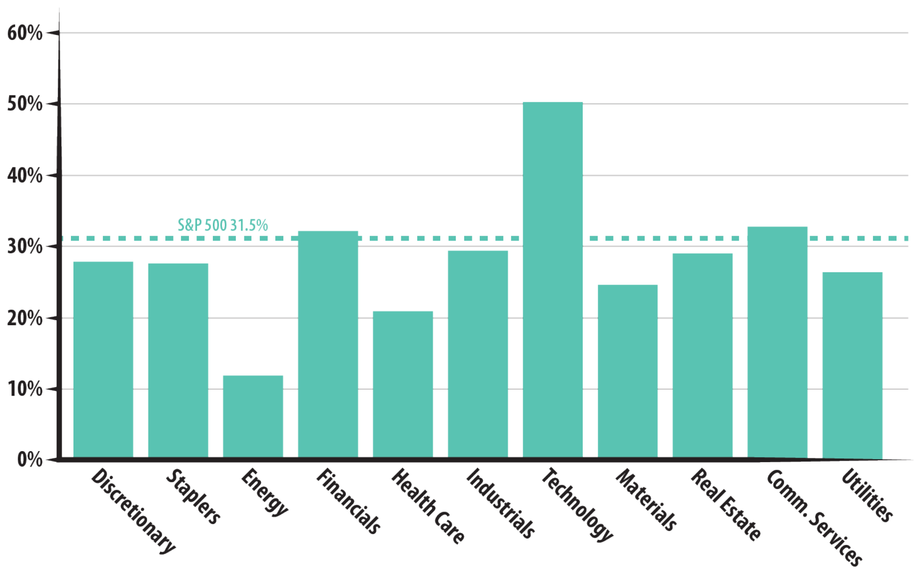


Source: Thomson One

Exhibit 10

S&P 500 SECTOR RETURNS

2019



Source: MSCI, Morningstar Direct

China has been stimulating its economy and has allowed its currency to depreciate. These measures typically take some time to have an impact, and recent economic data points from China have been encouraging. If China is able to successfully reflate economic growth, this will positively impact emerging-market economies and provide a tailwind to global growth. China is the world's second-largest economy, so any uptick in growth would provide a boost to global economies broadly. Given that Japan is China's largest trading partner in terms of imports, the potential for better economic growth in the region and new stimulus measures should allow the island nation to see some economic improvement as well.

In summary, we are cautiously optimistic as we evaluate growth prospects for 2020. The U.S. consumer remains healthy, the Federal Reserve is accommodative, and uncertainties related to Brexit and global trade have been reduced. That said, the risks associated with being in the latter stages of the economic cycle, coupled with political and policy uncertainties, keep our expectations guarded.

U.S. EQUITY MARKET

Stock Market 2019 Recap

Stocks recorded strong gains in 2019, with U.S. stocks up 31.5% and international stocks up 22.0%. The S&P 500 Index ended 2019 with the largest calendar year return since 1997, despite turbulence related to trade. *[Exhibit 9]*.

The year started in a hole caused by a late-2018 market decline related to the Federal Reserve's determination to raise interest rates, U.S.-China trade disputes, and concerns about slowing growth. Strong returns in the first half of the year unwound the decline as fears subsided. Investor sentiment improved during the second half of 2019, with a few minor hiccups related to U.S.-China trade. While the trade situation was not fully resolved, the worst fears were not realized and a phase 1 deal removed the last major obstacle keeping investors out of stocks.

Although all sectors of the S&P 500 Index posted positive returns in 2019, Technology was by far the leader with a 50% gain *[Exhibit 10]*. The Technology sector was driven higher by its largest constituents, Apple and Microsoft, which combined make up over 1/3 of the Technology sector and nearly 9% of the S&P 500 Index. Apple's gain of 89% and Microsoft's 58% rise respectively contributed 2.8% and 2.1% to the S&P 500 Index's 2019 return. The Technology sector as a whole contributed 31.7% to the S&P 500's return, well in excess of its average weight in the index of 21.5% *[Exhibit 11]*.

Stock Market - Earnings and Valuations

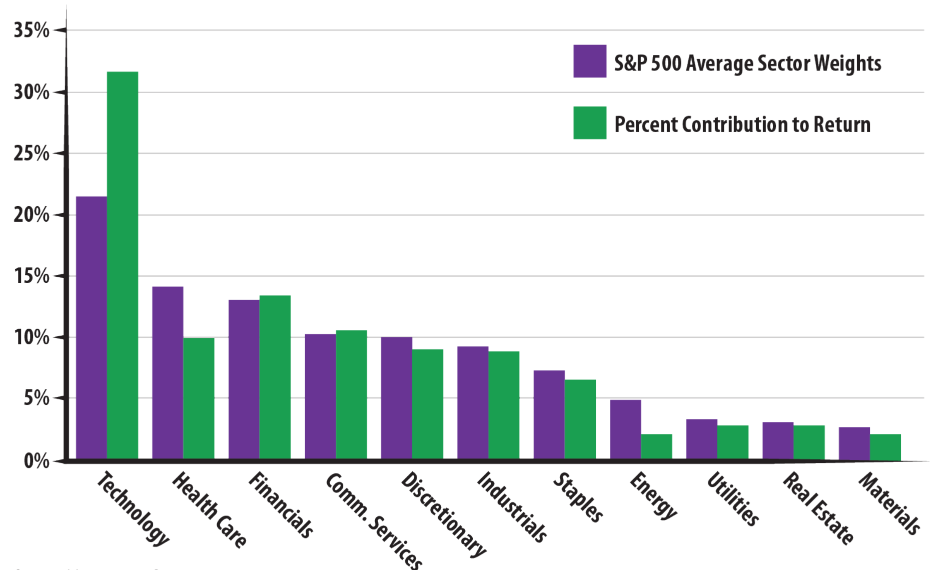
Counterintuitively, S&P 500 earnings are expected to increase just 1% in 2019 as compared with the 31.5% rise in the S&P 500 *[Exhibit 12]*. A year ago, earnings increased 22.7% and the index fell 6.2%. This is a good lesson that stock prices are driven more by sentiment in the short run and by fundamentals in the long run. For 2020, analyst consensus estimates for S&P 500 companies is for earnings to increase 9.7%. We believe actual earnings growth will likely run in the mid-single digits, however, as analysts tend to be overly optimistic to start the year. Furthermore, earnings growth may not show improvement until the second half of the year when we are more likely to see improvement in key economic data. The trajectory of economic growth will likely be a large determinant as to whether stock prices have come too far too fast.

> "Earnings growth may not show improvement until the second half of the year when we are more likely to see improvement in key economic data."

Exhibit 11

S&P 500 SECTOR WEIGHT & PERCENT CONTRIBUTIONS

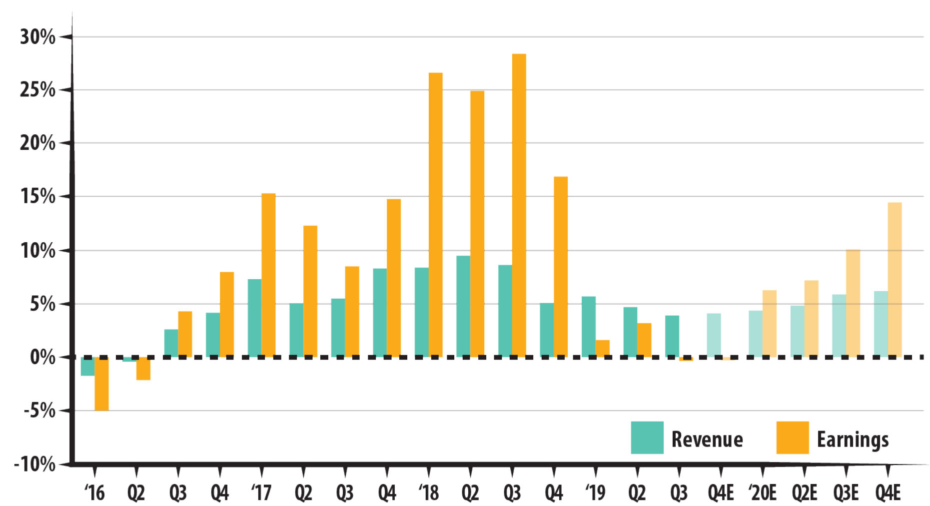
2019 Total Return



Source: Morningstar Direct

Exhibit 12

S&P 500 REVENUE & OPERATING EARNINGS GROWTH

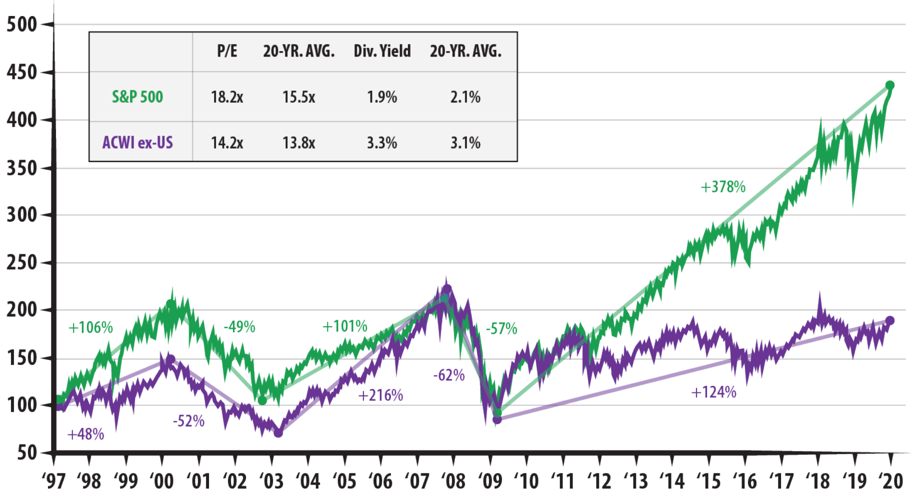


Source: Refinitiv

Exhibit 13

MSCI ALL COUNTRY WORLD EX-US AND S&P 500 INDICES

December 1996 = 100, US Dollar, Price Return



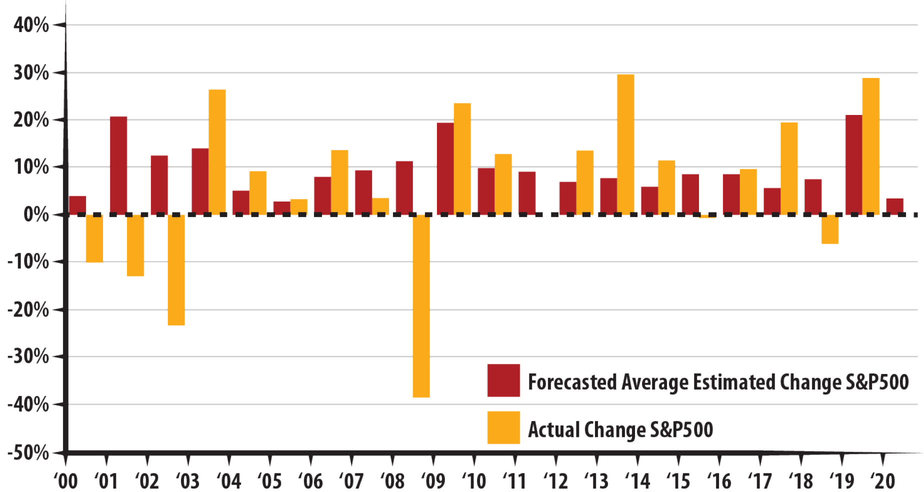
	P/E	20-YR. AVG.	Div. Yield	20-YR. AVG.
S&P 500	18.2x	15.5x	1.9%	2.1%
ACWI ex-US	14.2x	13.8x	3.3%	3.1%

Source: FactSet, Standard & Poor's, JP Morgan Asset Management

Exhibit 14

FORECASTED VS ACTUAL S&P 500 RETURNS BY YEAR

Price Only



Source: Bloomberg Finance LP, Standard & Poor's

The outsized increase in stock prices relative to earnings growth means that valuations have increased substantially. The price-to-earnings ratio for the S&P 500 increased sharply in 2019, rising to 18.2x 2020 expected earnings *[Exhibit 13]*. The current valuation level is above the 20-year average of 15.5x, and is near the highs of this bull-market cycle. While these valuations have us on our guard, they are supported by low interest rates and low inflation. Also, the index's overall P/E is skewed somewhat by its greater weighting in higher-valuation sectors like Technology, and lesser weight in lower-valuation sectors like Energy.

International markets are one segment of the equity market with a valuation near historical averages. The All Country World excluding the U.S. Index has a price-to-earnings ratio of 14.2x 2020 expected earnings and provides a dividend yield of 3.3%. With global growth expected to improve in 2020, we have sought to incrementally adding to our international exposure and expect a small overweight position in portfolios.

Stock Market 2020 Outlook

With progressively better economic and earnings growth expected as we move through 2020, we expect another year of positive returns for stocks. Bull markets have historically ended because of high interest rates, high inflation (oil), extreme valuations or restricted credit availability. None of these situations are in place currently, which keeps us cautiously optimistic.

While we expect 2020 stock returns to reflect something closer to the mid-single digit increase we expect for earnings, we are humble enough to know that the direction of returns is far easier to predict than the level. *[Exhibit 14]* reflects the average forecast S&P 500 return by market prognosticators as polled by Bloomberg each year. As you can see, the forecast return is never negative and rarely even in the ballpark of the actual return. The 2020 forecast is just 3.3% and is the lowest forecasted gain since 2005. This demonstrates that the consensus view is that stock prices are ahead of fundamentals, which sets up for upside if fundamentals turn out to be better than expected. Positive surprises may come from better than expected growth, especially outside the U.S., in the coming years. The economy and profits should benefit in 2020 from the lagged impact of lower interest rates. In addition, business confidence and capital spending may improve from reduced trade tensions and lower risk of a no-deal Brexit.

Investor sentiment toward stocks turned from neutral to bullish in December. This makes stocks more prone to a decline with any disappointment, such as a slower-than-expected earnings recovery when companies report to investors in the coming weeks. In addition, geopolitical risks may re-emerge if the U.S.-China trade dispute escalates, if the Brexit deal between the UK and the European Union breaks down, or if tensions persist with Iran or heat up again with North Korea. Finally, while the U.S. election is bound to at least be a distraction to investors, we doubt that the outcome will derail the economic expansion, especially if power in government remains divided between the parties.

U.S. FIXED INCOME MARKETS

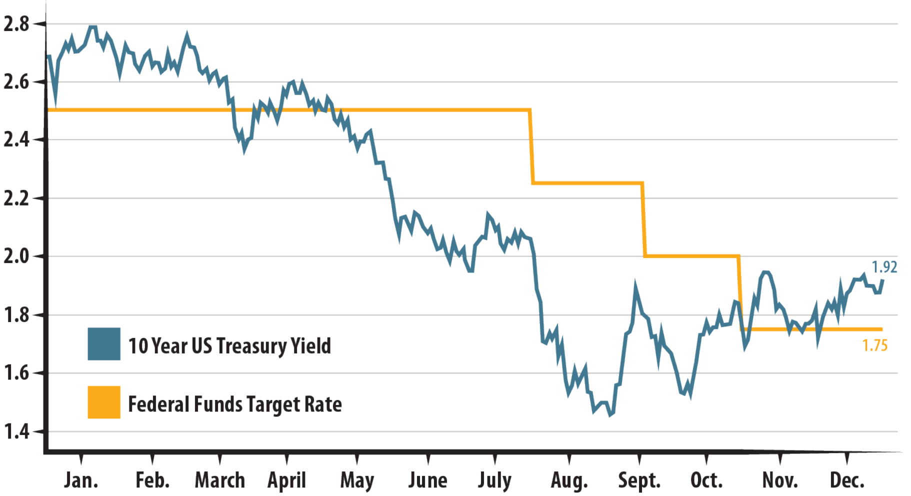
2019: From "Why Bonds?" To "Whoa, Bonds!"

To paraphrase Mark Twain, 2019 showed that reports of the death of fixed income were greatly exaggerated. In fact, 2019 saw equity-like returns across much of the fixed-income landscape as the Fed cut short-term interest rates three times and long-term Treasury yields plummeted *[Exhibit 15]*; an investor who purchased a 20-year Treasury on January 1, 2019, saw a gain of nearly 13% at year's end. Emerging markets bonds rose 15%, while high-yield bonds rose 14.3%. The most widely followed intermediate-term bond indexes rose between 6% and 9%, their best showing in the past decade.

Performance in 2019 marked a considerable turnaround over the previous year. In early 2018, persistently low yields and several years of muted returns from core bonds had investors questioning the role of fixed income in their portfolios. By the end of 2018, with the Fed seemingly on autopilot toward a regime of much higher rates, investors began to worry less about income generation and more about preservation of capital. Higher yields led to lower bond prices and worries that a too-aggressive Fed would stifle economic growth. Credit-sensitive bonds tumbled to close out that year. One of the biggest beneficiaries of 2019's shifting tide was investment grade [IG] corporate credit. Intermediate-term IG corporate bonds began the year yielding about 4.2%, a "spread" of nearly 150 basis points, or 1.5 percentage points, over risk-free Treasury bonds. As the Fed grew more accommodative and Federal Reserve Chairman Jerome Powell's rhetoric became increasingly dovish, fears of a recession subsided and corporate credit seemed to be on more solid footing. Yield-hungry investors returned to the market, and credit spreads tightened to 93 basis points, or just under a percentage point, above Treasuries by year-end *[Exhibit 16]*. The 10-year Treasury yield fell by 80

Exhibit 15

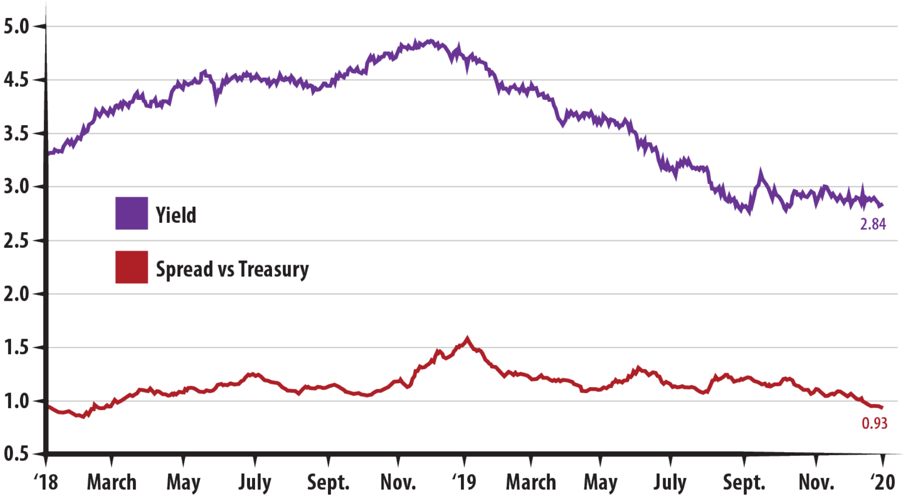
BOND YIELDS DECLINE
2019



Source: Bloomberg Finance LP

Exhibit 16

CORPORATE VS TREASURY YIELDS DECLINED



Source: Bloomberg Finance LP

basis points, while IG corporate bond yields fell by 135 basis points. Falling yields and tighter credit spreads are a corporate bond investor's dream, as evidenced by the 14.5% total return of the Bloomberg Barclays U.S. Corporate Bond Index.

Corporate bonds' impressive performance in 2019 demonstrates just how quickly market narratives can change, and it offers us a starting point for our 2020 outlook.

Risk Is Back…For Now

With recession worries on the back burner and Fed Chairman Powell making it clear in recent statements that the Fed is on hold for the foreseeable future, increased investor risk appetite has pushed both investment-grade and high-yield corporate credit spreads within shouting distance of their all-time lows, or "tights," as bond traders would say, relative to Treasuries. In other words, investors are accepting historically meager compensation for corporate credit risk. In this environment, we are conscious of the reality that there is more potential downside than upside in today's corporate bond market, and that a simple reversion to the mean could unwind some of 2019's big gains. Still, with both foreign and domestic demand robust, trade tensions abating, inflation low, economic growth stable if unexceptional, and a scarcity of high-quality yielding assets across the globe, we don't anticipate a dramatic reversal in the credit markets.

Nor do we anticipate outsize moves in interest rates. Short-term interest rates should remain near 1.5%, anchored by the Fed; in October, Chairman Powell indicated that near-term rate cuts or hikes are unlikely—especially rate hikes—absent "material changes in the outlook" for the economy. The consensus view is that the 10-Year Treasury yield will remain in a range between 1.75% and 2.50%, supported by inflation expectations that remain well below 2%. If interest rates were to approach the upper bound of this range, we would be inclined to extend the average maturity of our portfolios to take advantage of the steeper yield curve that would likely result.

Clip the Coupon

What does this add up to in terms of our fixed-income positioning?

When spreads are tight, yields are low, and risks to the downside have grown, we believe prudent investors should be content to "clip the coupon," or simply collect the interest payments from bonds rather than relying on spread tightening or declining rates to fuel returns. Indeed, we may find ourselves in a year when coupon clipping accounts for most of a bond investor's total return. For equity-like returns, we believe investors will need to look to stocks this year.

> **"We remain intrigued by the long-term demographic tailwinds in emerging markets and may add to our exposure if the value opportunity presents itself."**

Given low yields, investors will need to look beyond the most well-worn paths to find income. While we have been seeking to upgrade the credit quality of our corporate bond sleeve, we have been looking to opportunistically add to less-travelled areas within securitized credit, including Mortgage-Backed Securities (MBS) and Asset-Backed Securities (ABS), where credit risk is tied to a healthy consumer sector and yield spreads per unit of risk are more favorable.

We remain intrigued by the long-term demographic tailwinds in emerging markets and may add to our exposure if the value opportunity presents itself. Foreign developed markets remain plagued by negative interest-rate policies, so we continue to avoid those markets. Signs are emerging, however, that enthusiasm for negative rates is waning. Sweden's central bank, the first to charge commercial banks to hold deposits rather than pay them interest, raised their policy rate to zero from -0.25% in December. It remains to be seen if and when the European Central Bank might follow suit. We aren't holding our breath.

For investors in the highest tax brackets, we would be remiss not to mention the stellar year tax-exempt municipal bonds had in 2019 and their bright prospects for 2020. Intermediate-term municipals gained over 6% in 2019, benefitting from insatiable demand, with municipal bond funds seeing positive weekly inflows for the entire year. Even after this run, municipal bonds remain attractive for investors in higher tax brackets. Supply is expected to remain low, which should keep a bid in the market.

"We remain intrigued by the long-term demographic tailwinds in emerging markets and may add to our exposure if the value opportunity presents itself."

QE or Not QE That Is the Question

No, Shakespeare didn't write that, but it is worth noting that many astute investors are asking this question as we begin the New Year. What has prompted this question on Wall Street is the rapid growth of the Fed's balance sheet by some $400 billion since last September following two years in which they reduced their holdings. By purchasing $60 billion of short-term Treasury bills per month and providing overnight liquidity to banks short on cash, the Fed has successfully quelled the volatility that struck vital short-term funding markets at the end of the third quarter *[Exhibit 17]*. While the Fed has emphasized that this bond-buying activity is completely different from the three rounds of quantitative easing that took place after the 2008 financial crisis, one can't help but notice that stocks' fourth-quarter rally came on the heels of a massive liquidity injection.

For bond investors, what is perhaps more important than debating QE or not QE is recognizing that the Fed is willing to use the monetary equivalent of a bazooka to keep credit markets functioning, and short-term interest rates close to their target of 1.50% to 1.75%. Now that the series of rate cuts in 2019 have successfully un-inverted the yield curve, our belief is that short rates will remain under control in 2020, and a steeper yield curve will continue to prevail *[Exhibit 18]*.

2020 Resolution: Don't Get Greedy

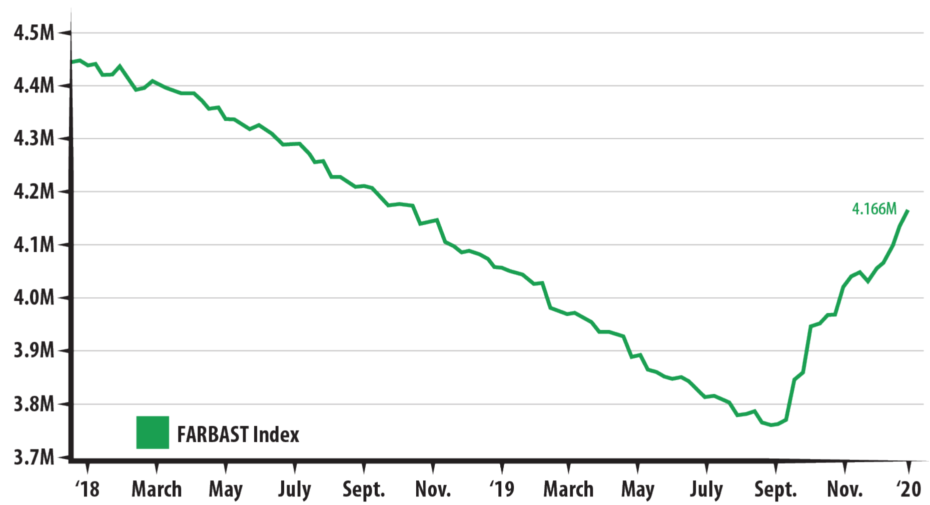
After a year like 2019, it is easy to forget that risk is not always rewarded. Because we are first and foremost stewards of your capital, however, we can't afford the luxury of a fuzzy memory. So we will be on the lookout for opportunity amid market dislocations, but remain wary of the risks to our outlook that could come from unexpected inflation, renewed trade tensions, or geopolitical risks. We believe that 2020 will be a good, but not great, year for bond investors and that patient investors who are content to clip the coupon will be rewarded. This is not the time to get greedy but to preserve capital, temper expectations, and seize opportunity when it presents itself.

The Case For Complements/Alternatives

Given our outlook for sluggish economic growth globally combined with historically high stock valuations and relatively low real interest rates, we think it is timely to consider allocating a portion of an overall investment portfolio to alternatives. We also refer to alternatives as "complements" because their attractive risk/reward characteristics can provide diversified sources of return or yield to complement a traditional stock/bond portfolio.

Exhibit 17

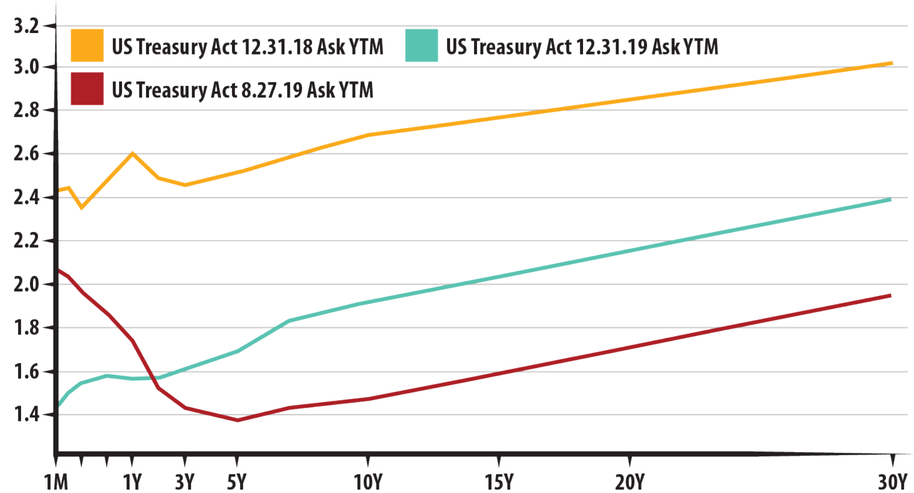
FEDERAL RESERVE BUYING BONDS



Source: Bloomberg Finance LP

Exhibit 18

STEEPER YIELD CURVE FOLLOWING FED CUTS



Source: Bloomberg Finance LP

Exhibit 19

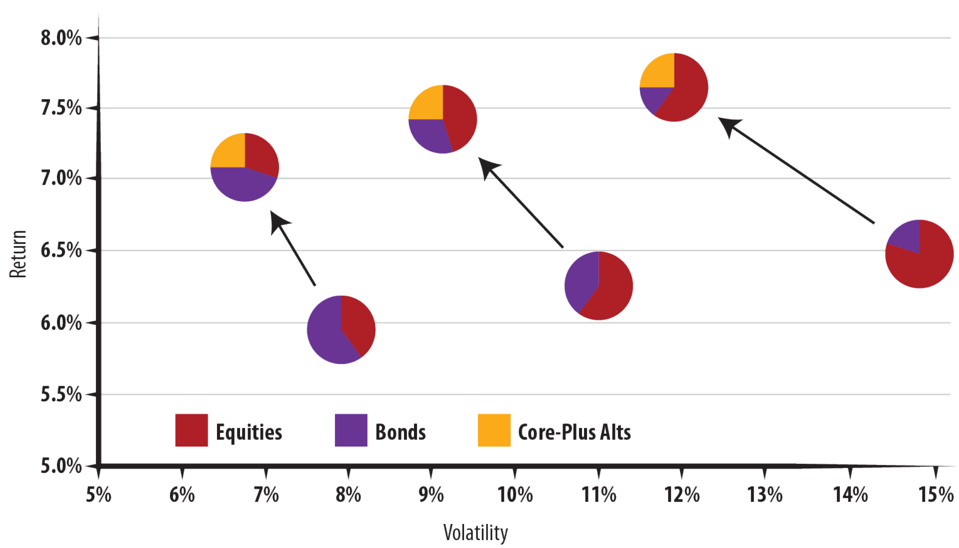
BENEFITS OF VARIOUS ALTERNATIVE ASSET CLASSES

	DIVERSIFIERS		RETURN ENHANCERS	
	Hedge Funds	Real Assets	Private Credit	Private Equity
Description	Various strategies including long/short investing in public markets	Private investments in real estate, transportation and infrastructure	Providing borrowers with capital in various forms	Investing in private companies
Portfolio Diversification	✓	✓		
Volatility Mitigation	✓	✓		
Current Yield		✓	✓	
Inflation Protection		✓	✓	
Return Enhancement			✓	✓

Source: JP Morgan Asset Management

Exhibit 20

STRATEGIC ALLOCATION TO ALTERNATIVES MAY IMPROVE OVERALL PORTFOLIO RISK/RETURN



Source: Bloomberg, MSCI, Barclays, Capital, HFRI, NCREIF, CBRE, Jones Land LaSalle, Clarksons, Burgiss, JPMAM Global Alternatives Research

There are many types of alternative assets to consider, each with its own benefits and risks. At a high level, alternative investment options include: real estate, commodities (including precious metals), private equity, hedge funds, and private credit. Alternative assets can be broadly grouped into "diversifiers" and "return enhancers." *[Exhibit 19]* summarizes the benefits of various alternative asset classes.

The benefits of an allocation to alternatives is depicted in the following chart. Over the 20-year period from 1998 to 2017, an allocation to alternatives would have enhanced the return profile of a traditional stock/bond portfolio, and, more important, reduced the risk profile as measured by volatility *[Exhibit 20]*.

The amount to allocate to alternatives will depend on several factors, including the investment objective, time horizon, risk tolerance, and the ability to tolerate the lower liquidity of some alternative investments. Generally speaking, based on our recent optimization analysis of forward-looking capital market assumptions, we believe an allocation between 10% and 20% may be appropriate for some investors. However, every client's circumstances and tolerance for risk are different. Talk to your Johnson Financial Group advisor about how complements/alternatives can play a role in your investment portfolio.

CONCLUSION

With strong returns delivered across asset classes, financial markets' performance in 2019 showed that difficulties in 2018's fourth quarter were an anomaly in the midst of the longest-running economic recovery on record. The economy could continue on its path of deliberate, sustained growth, particularly if the Federal Reserve maintains its accommodative stance. There will, however, be challenges from ongoing trade tensions, potentially escalating global conflicts and election politics in the U.S. Repeating 2019-level performance in 2020 may be unlikely, but on the whole the outlook is positive for most asset classes.