NORTHERN TRUST

MANAGERS POSITIVE ON ECONOMIC GROWTH; DATA HINTS AT PLATEAU

KEY FINDINGS: INVESTMENT MANAGER SURVEY, THIRD QUARTER 2018

MID-TERM ELECTIONS, GLOBAL GROWTH AND TRADE

- 60% of managers expect the mid-term elections will cause market volatility but little direction
- 40% of managers believe if Democrats win a majority in the House, the U.S. equity market would experience a short-term minor loss
- Nearly half the managers continue to have the same level of conviction in global growth as three months ago
- 30% of managers believe it will take longer than 12 months to resolve the U.S. administration's trade disputes with all its major trading partners

U.S. ECONOMIC OUTLOOK

- 37% expect economic growth to slow down, up from 13% last quarter
- 53% expect U.S. job growth to remain the same, while 44% expect it will decelerate but remain positive
- 61% expect housing prices to remain the same

EQUITY MARKETS

- Trade policy remains the top-ranked risk to global equity markets
- 53% believe U.S. equities are undervalued or fairly valued
- 93% believe European equities are undervalued or fairly valued, followed by 87% for emerging market equities and 85% for Japanese equities

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U.S. MID-TERM ELECTIONS, GLOBAL GROWTH, TRADE AND GROWTH VERSUS VALUE TREND

The U.S. mid-term elections will be held November 6, 2018, and one of the key questions is whether the Democrats can win enough races to regain a majority in the House of Representatives or Senate. Most investment managers, 60%, believe that the U.S. equity markets will see increased volatility as we approach the election, but without any specific direction, up or down. A little less than a quarter of the managers, 24%, believe the equity market will be largely unaffected by the elections. Approximately, 39% of investment managers expect a minor short-term loss to the U.S. equity markets if Democrats do retake the majority in the House of Representatives, while another 39% expects a Democratic House win will have little or no impact.

The U.S. economy is in its second-longest economic expansion. Although the rate of expansion has been slower than most, if it continues through June 2019, this expansion would become the longest. Just over 39% of managers expect the next U.S. recession will occur within two years and approximately four out of 10 managers believe a recession will occur between two and three years. One fifth of investment managers expect the economy will continue to grow and that the next recession will not occur until three years or more has passed.

Global growth has been moderate in other developed countries, but the U.S. dollar's strength has challenged some emerging markets recently. U.S. trade policy and the current or future tightening of central bank monetary policy have some managers questioning the continued strength of the global economy. A large portion of managers, 40%, have lower conviction in the continuation of global economic growth compared to last quarter, 49% have not changed their view regarding global growth, and a smaller portion, 11% have higher conviction in the strength of the global economy.

The deadline for Brexit implementation – the end of first quarter 2019 – is drawing near. But with little resolution, Brexit's impact on the economy and markets in Britain, Europe and beyond remains a question. Forty-three percent of managers believe Brexit will have little impact on the UK equity market, while one third believe it will cause a small decline. Only 13% of managers expect a large decline in UK equities as we approach Britain's exit from the European Union.

As the U.S. continues sparring with many of its trade partners, we asked managers how long they expected the tariffs and negotiations to continue. Approximately 30% of managers believe it will take longer than one year to resolve our trade differences with our largest trade partners (Canada, Mexico, the EU and China). A little more than a 40% expect it will take up to one year for differences to be resolved and a quarter of the managers expect the trade tiffs can be resolved within six months. More than half, 57%, of managers do

21%

EXPECT THE NEXT U.S. RECESSION IS MORE THAN THREE YEARS AWAY

not believe that U.S. trade policy and tariffs will affect their portfolio's positioning. Yet 16% have made changes to their portfolios due to the trade policy and 27% are considering changes to their investments and monitoring developments.

Another factor managers are watching is the continuing outperformance of growth stocks over value stocks. This is now a global phenomenon, but it started in the U.S. with the great financial crisis, and has been going on longer than in other regions. Thirty percent of investment managers expect this trend likely will continue as long as we are in a slow-to-moderate economic growth environment. A smaller portion, 13%, believe it will eventually reverse, but not within the next year. Thirty five percent of managers believe the trend will reverse and value will begin to outperform growth within a year, and 22% believe it will reverse within six months.

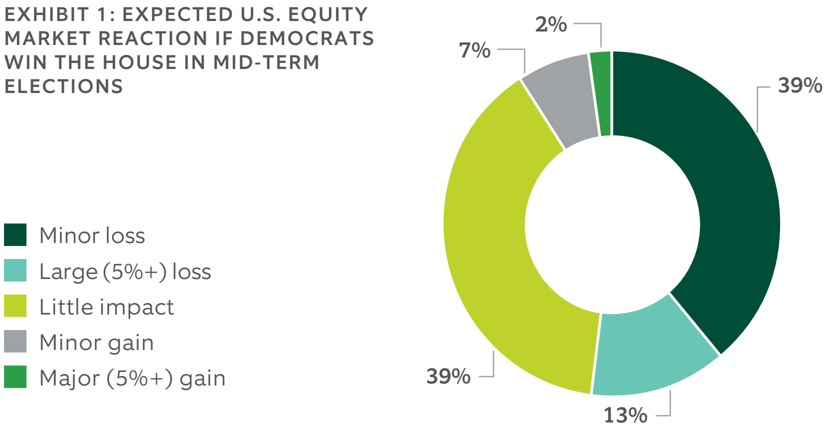
30%

INVESTMENT MANAGERS EXPECT GROWTH STOCKS TO CONTINUE TO OUTPERFORM VALUE IF MODERATE ECONOMIC GROWTH CONTINUES

35%

INVESTMENT MANAGERS BELIEVE THE TREND WILL REVERSE WITHIN A YEAR

EXHIBIT 1: EXPECTED U.S. EQUITY MARKET REACTION IF DEMOCRATS WIN THE HOUSE IN MID-TERM ELECTIONS



SOURCE: Northern Trust Investment Manager Survey, 3RD Quarter 2018

U.S. ECONOMIC OUTLOOK

Managers expect growth to continue, but there is mounting evidence they expect some moderation.

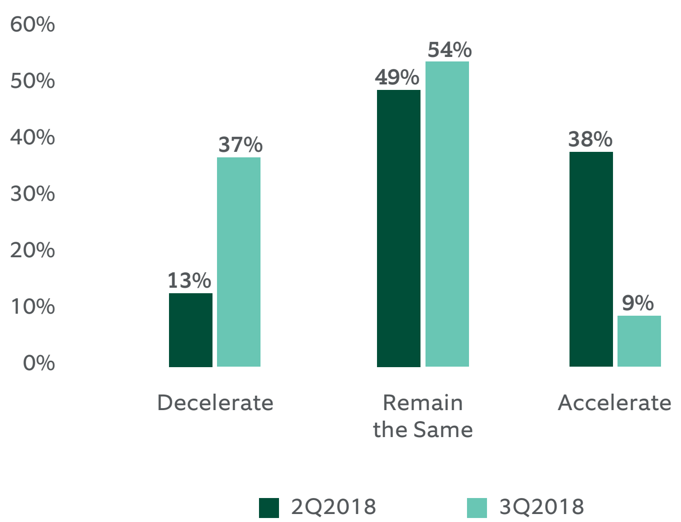
- Only 63% expect gross domestic product (GDP) growth to accelerate or stay the same over the next six months, down from 87% last quarter
- Fewer managers expect housing prices to increase, 28% versus 52% last quarter
- 33% expect U.S. corporate earnings to remain the same, up from 28%, and 16% expect earnings to decrease, up from 13%
- 44% expect U.S. job growth to decelerate but remain positive, up from 37% last quarter

Most investment managers, 54%, expect U.S. GDP to remain the same over the next six months. The number of managers expecting economic growth to decelerate was 37%, up from 13% last quarter. Only 9% of managers expect GDP to accelerate, down from 38% last quarter. This quarter's reading is much lower than the survey average of 39%, which might be due to the expectation that 2018's corporate tax cut will provide less economic benefit in 2019.

75%

EXPECT MARKET VOLATILITY TO INCREASE OVER THE NEXT SIX MONTHS

EXHIBIT 2: GROWTH EXPECTATIONS FOR U.S. GDP OVER NEXT 6 MONTHS



SOURCE: Northern Trust Investment Manager Survey, 3RD Quarter 2018

GLOBAL EQUITY MARKETS

Most managers are expecting increased volatility ahead for the equity markets. Approximately 75% expect market volatility, as represented by the Chicago Board Options Exchange Volatility Index (VIX) to increase over the next six months. Only 23%, up from 19% last quarter, expect the VIX to remain at current levels.

Trade policy rose to the top of the market risks list in the first quarter of 2018, and it has stayed there ever since. In fact, none of the top three risks changed this quarter. The risks that most concerned managers after trade policy are a rise in interest rates and change in U.S. monetary policy. Geopolitical risk dropped from the fourth rank down to the eighth.

Managers' views on equities markets' valuations illustrate their perspective that U.S. equities are more expensive than other regions:

- 47% of managers that believe **U.S. equities** are overvalued -- more than other equity markets
- 36% believe they are fairly valued
- Approximately 17% believe they are undervalued

Looking at the global equity markets:

- Managers view **Japanese equities** favorably, with 85% viewing them as fairly valued or undervalued
- Managers' views on **emerging market equities** are slightly more favorable, with 87% saying they're fairly valued or undervalued, compared to 83% last quarter
- 93% of managers say **European equities** are undervalued or fairly valued, higher than the 86% last quarter
- 26% expect **Asia-Pacific equities*** to outperform global equities; 50% believe they will perform in line.

58%

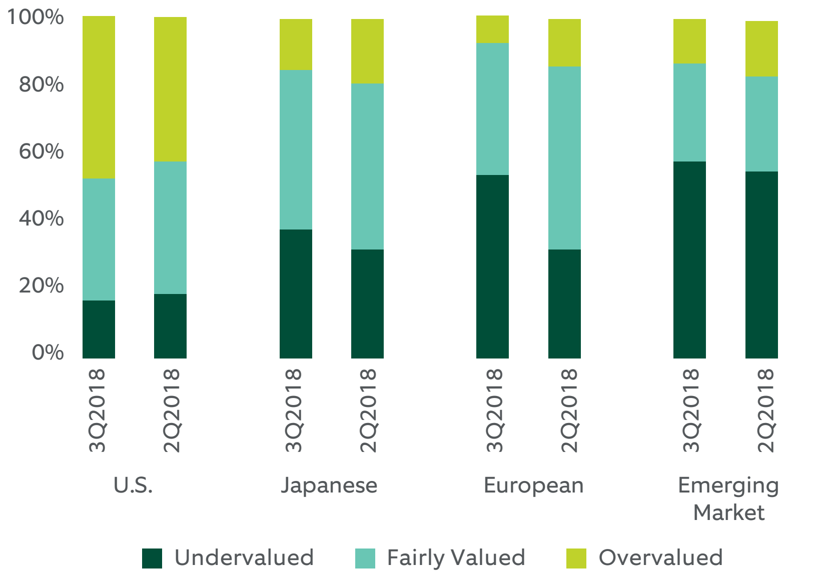
HIGHEST PORTION OF MANAGERS VIEW EMERGING MARKET EQUITY AS UNDERVALUED

EXHIBIT 3: TOP RISKS TO GLOBAL EQUITIES, THIRD QUARTER 2018

RANK	RISK	CHANGE FROM LAST QUARTER
1	Trade policy	=
2	Rise in interest rates	=
3	Change in U.S. monetary policy	=
4	Emerging market economic growth	+2
5	Markets sell-off due to high valuations	=
6	U.S. economic slowdown	+3
7	U.S. corporate earnings	=
8	Geopolitical risk	-4
9	Non-U.S. developed markets monetary policy missteps	-1
10	Oil/commodity prices	=

*As represented by the MSCI AC Asia Pacific Index.

EXHIBIT 4: GLOBAL EQUITY MARKET VALUATIONS



SOURCE: Northern Trust Investment Manager Survey, 3RD Quarter 2018

70%

HAVE NOT CHANGED THEIR LEVEL OF RISK AVERSION

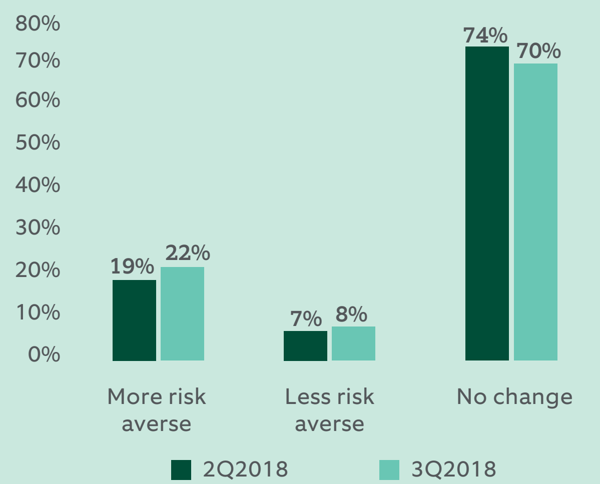
Within fixed income, managers view investment grade, U.S. high yield and emerging market as most attractive. Least attractive are euro high yield, followed by global sovereign debt.

PORTFOLIO POSITIONING

Managers are largely sticking with their current portfolio positioning:

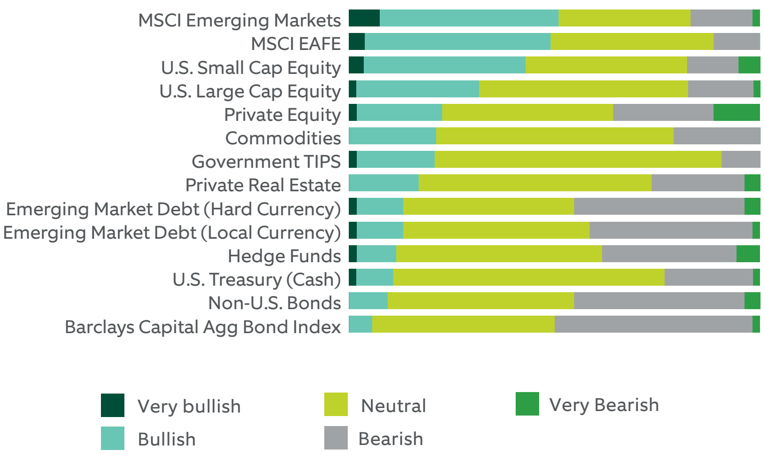
- 85% have cash levels in line with historic norms, up from 76% last quarter
- 81% did not change their portfolios' concentration, while 10% are less concentrated
- 70% have not changed their level of risk aversion, but 22% up from 19% are more risk averse this quarter
- 79% of managers have not changed their commodities exposure over the past three months.

EXHIBIT 5: MANAGERS' RISK AVERSION



SOURCE: Northern Trust Investment Manager Survey, 3RD Quarter 2018

EXHIBIT 6: BULL-BEAR INDICATOR BY ASSET CLASS



SOURCE: Northern Trust Investment Manager Survey, 3RD Quarter 2018

Looking at sectors, managers were most bullish on information technology, which ranked second last quarter, followed by financials, health care and consumer discretionary. Managers were most bearish on utilities, telecommunication services and real estate.

Managers are most bullish on emerging market equity and most bearish on U.S. fixed income.

ABOUT THE SURVEY

For our survey, Northern Trust polled a select group of respondents, including fixed income and equity managers across value and growth styles, with a bias toward fundamental, bottom-up stock-picking strategies. Invitations to complete the survey were only sent to investment managers that currently manage assets for Northern Trust and our clients. As a result, the survey responses should reflect the beliefs of only the managers in which Northern Trust's multi-manager investments group maintains a high conviction. The survey is conducted quarterly so that Northern Trust and participating managers can examine trends in attitudes and allocations.

Percentages in report and graphs may not add to 100% due to rounding. All data analyzed in this report are derived from the Northern Trust Investment Manager Survey.

ABOUT NORTHERN TRUST MULTI-MANAGER SOLUTIONS

Northern Trust is a leading provider of multi-manager investment solutions, with $75.1 billion under management and $36.9 billion under advisement for institutional and personal clients. Having investments with more than 200 external managers worldwide, Northern Trust's multi-manager solutions range from retail mutual funds and alternative asset classes to emerging manager programs and total investment program management for institutions and affluent individuals and families.