

“The Good, The Bad, and The Ugly”

A Discussion of Key Market Fundamentals

December 2019

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The “Good”

- Global economic growth
- Strong U.S. consumer
- Corporate earnings revisions
- Absolute valuations
- Share buyback activity
- M&A uptick
- Federal Reserve “pause”
- China stimulus efforts
- Tight labor market
- 5G technology innovation
- Fewer regulations (energy, etc.)
- Well-behaved credit spreads
- Return of alpha

The “Bad”

- Protectionist/currency policies
- Corporate confidence
- Slowdown in net-new capex
- European Central Bank policy
- Weak German manufacturing outlook
- Yield curve compression
- Dollar “strength?”
- Rising Brexit uncertainty
- Crowded factor trades
- Bank of Japan
- Unicorn IPO disappointments¹
- Stakeholders over shareholders?
- Geopolitical unrest

The “Ugly”

- Political polarization/global populism
- U.S.-China power struggle
- Widespread policy accommodation
- Turkey/Venezuela/South Africa
- “Nonbank” lending
- Global deficits/Debt levels
- Entitlement spending
- Potential pension underfunding



Yes, we're in the longest expansion in history (10+ years),

Yes, we're near all-time highs (-0.4%),

But, NO, we're not at a bull market peak and here's why...

1. Peak valuations
2. Weakening earnings revisions
3. Narrowing market breadth
4. Heavy equity market inflows
5. Uptick in M&A activity*
6. Vigorous IPO activity
7. Defensive stock leadership*
8. Rising real interest rates
9. Widening credit spreads

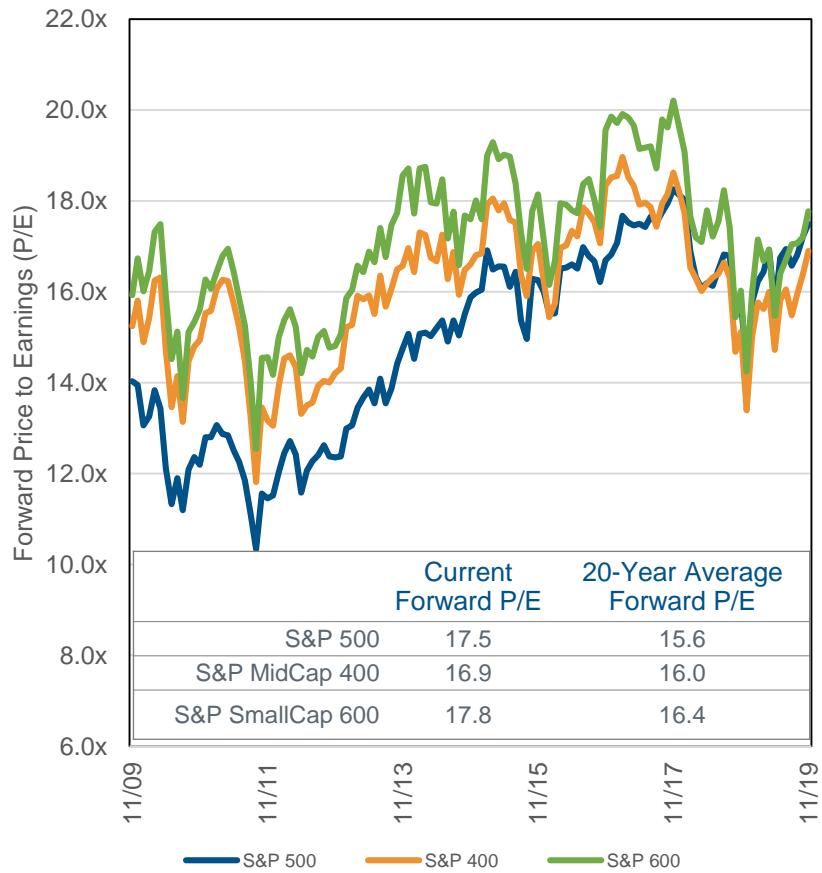
* All nine of these characteristics were present at both the 2000 and 2007 market peaks. Today, only two are signaling cause for concern.

1. Peak Valuations?

Valuations remain supportive and could expand, if macro headwinds abate



Domestic Valuations



International Valuations

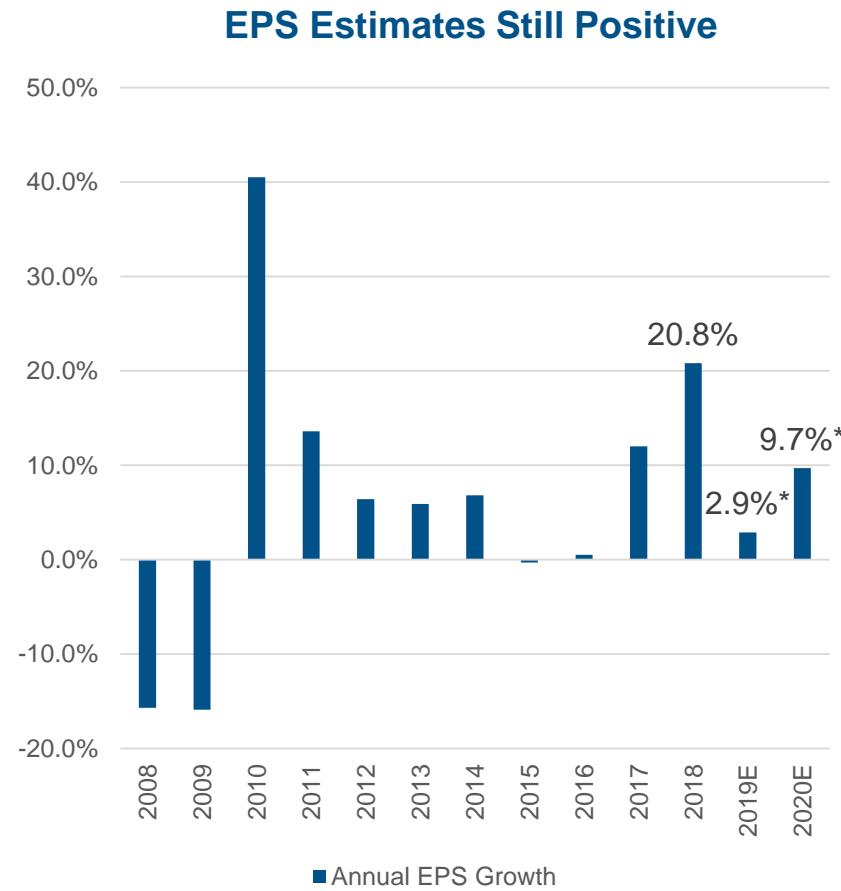
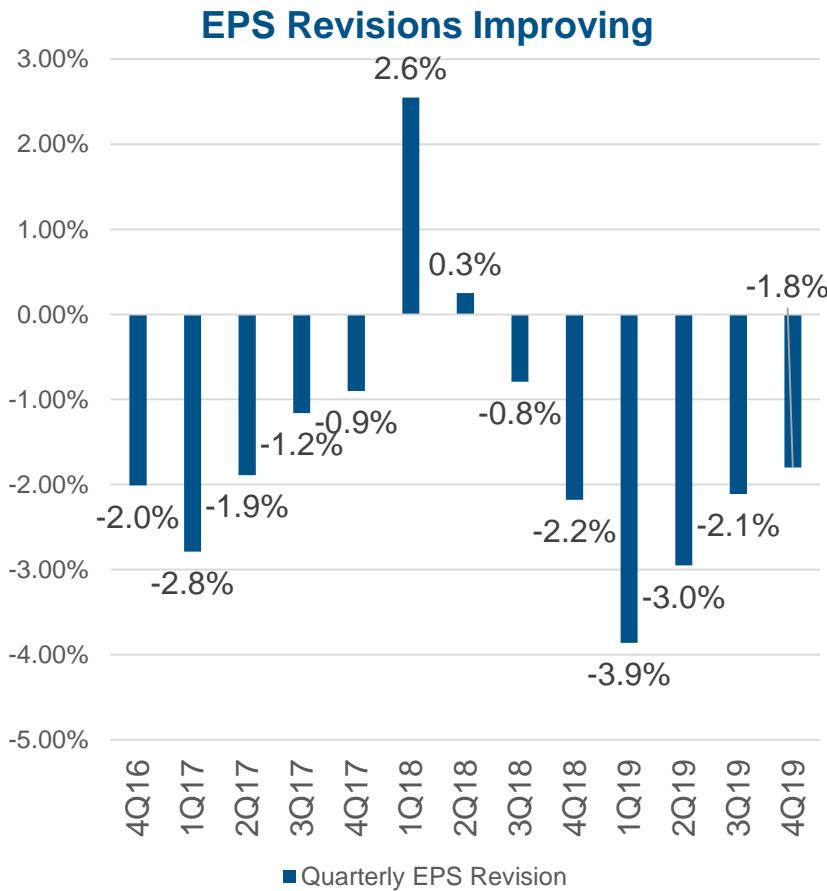


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Source: FactSet Research Systems, Inc, PNC

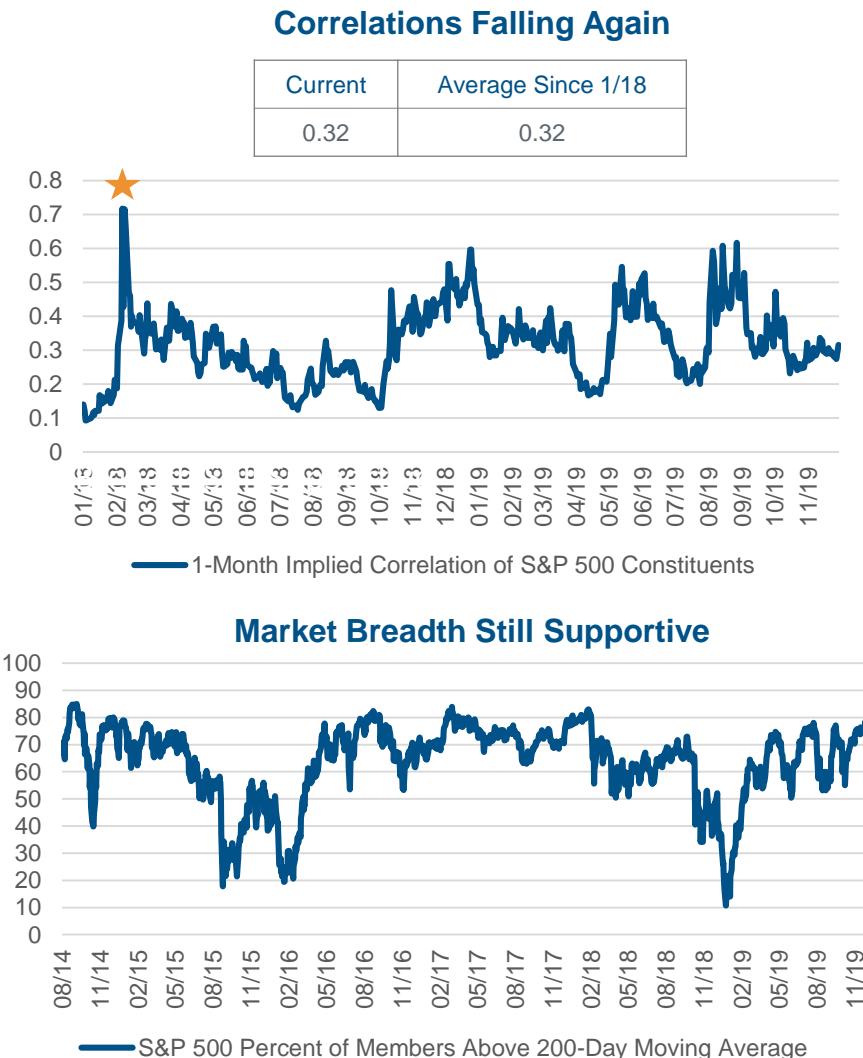
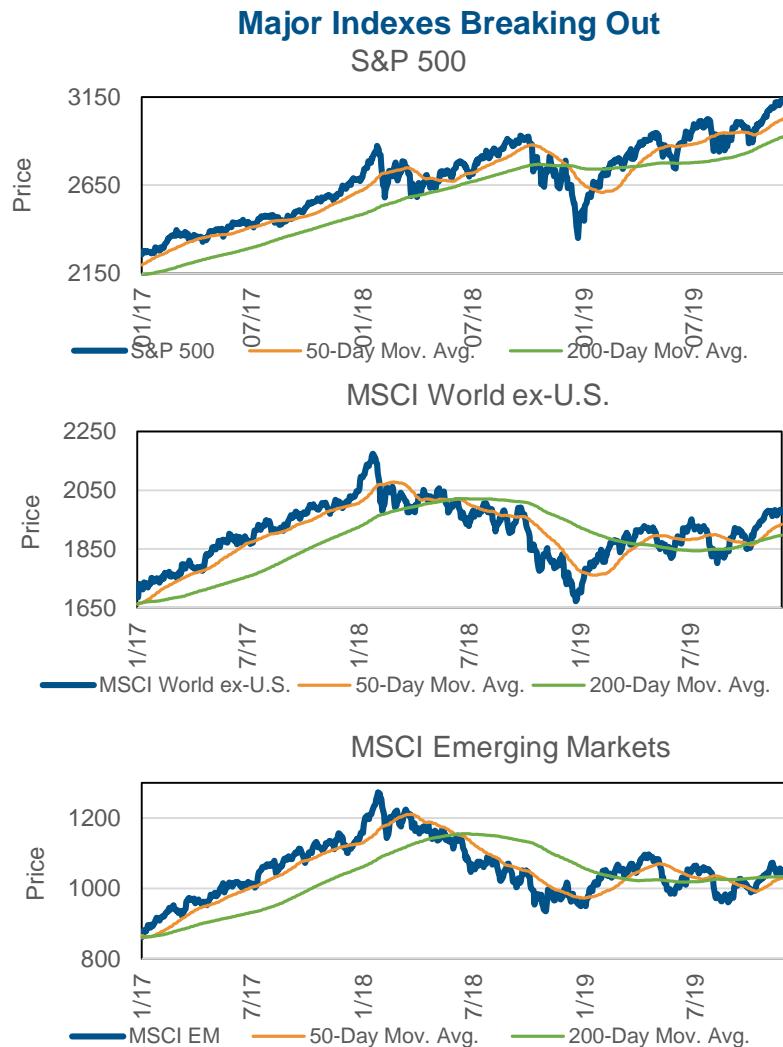
2. Weakening Earnings Revisions?

U.S. EPS growth remains on solid footing despite tough 2018 comps



3. Narrowing Market Breadth?

Technicals have broken through key resistance levels



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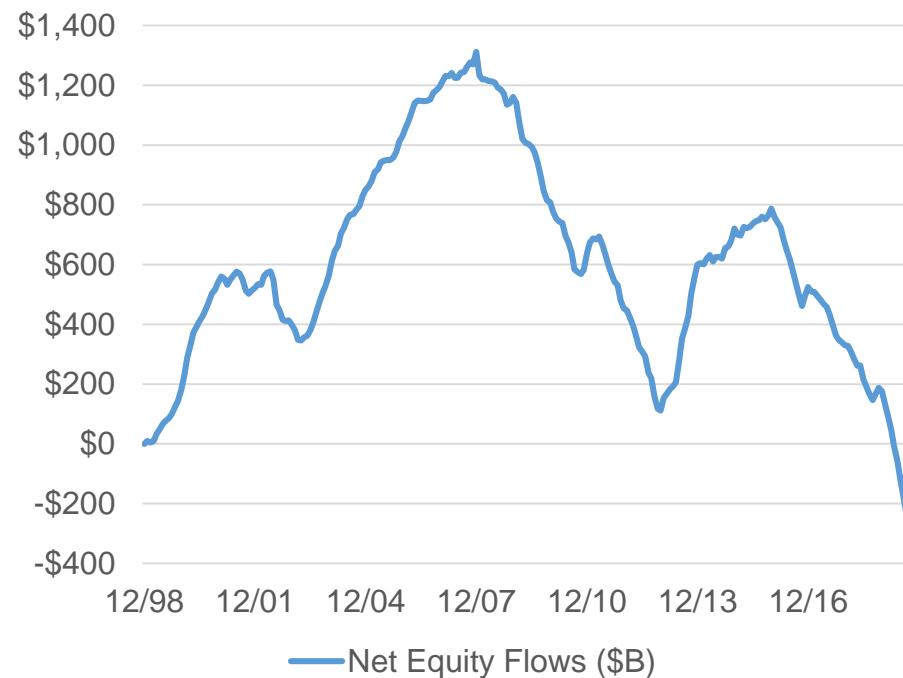
Source: Bloomberg L.P., FactSet Research Systems Inc, PNC

4. Heavy Equity Market Inflows?

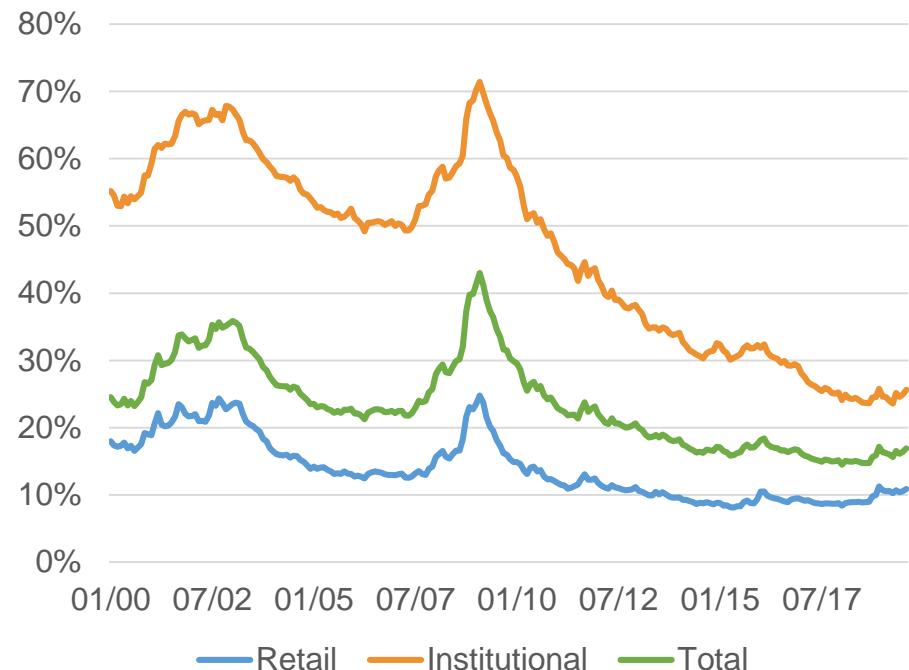


Equity flows are negative and cash has not been the beneficiary

Equity Flows Are Underwhelming



Cash Allocation Is Near All-Time Lows

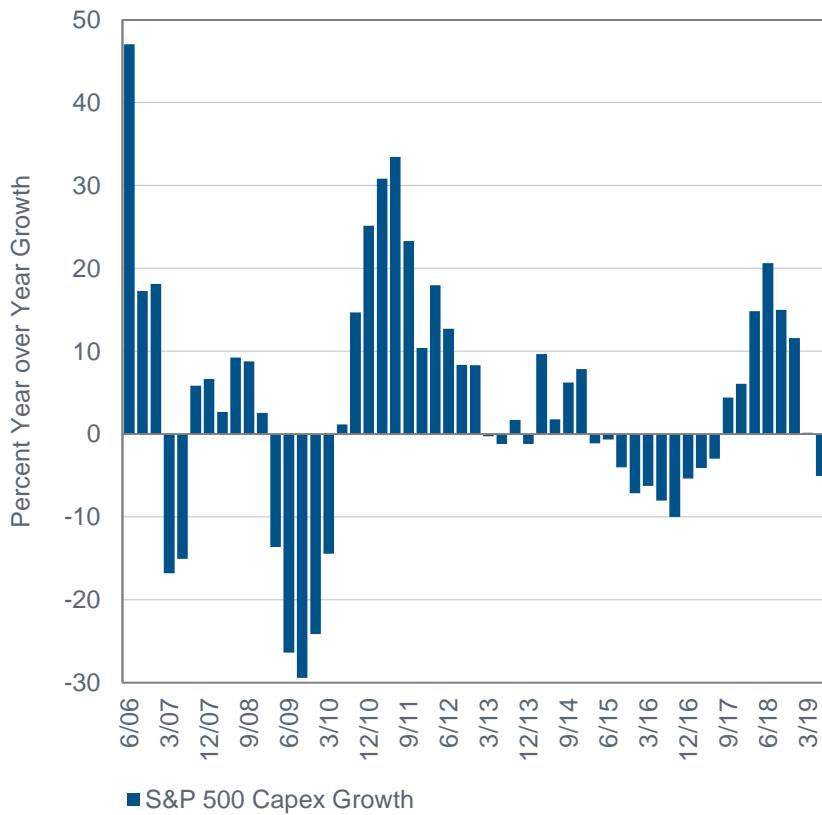


5. Uptick in M&A Activity?

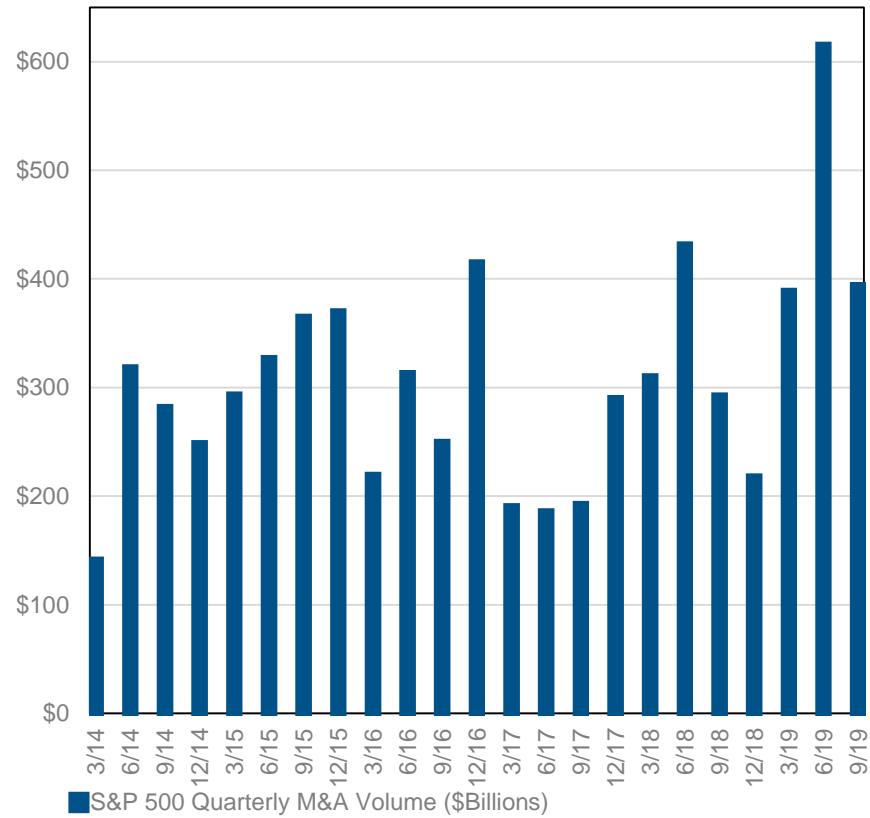
M&A has been an increasingly popular strategy for corporations this year



Capex Revival Unlikely Amid Uncertainty



Uptick in Mergers and Acquisitions

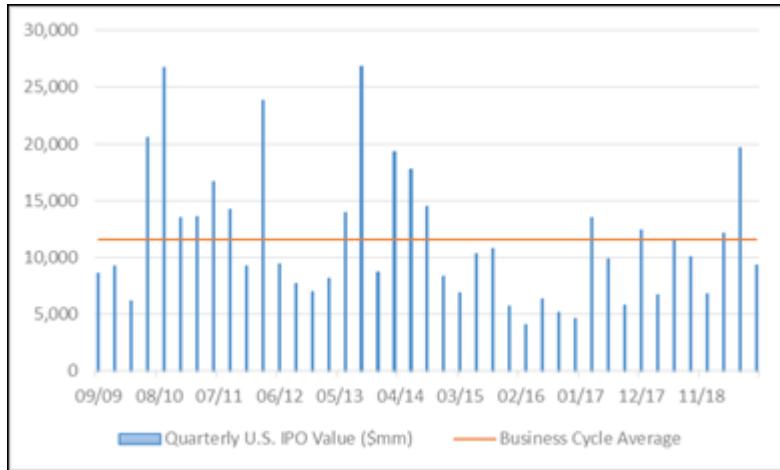


6. Vigorous IPO Activity?

In spite of negative IPO headlines, equity capital markets are still solid



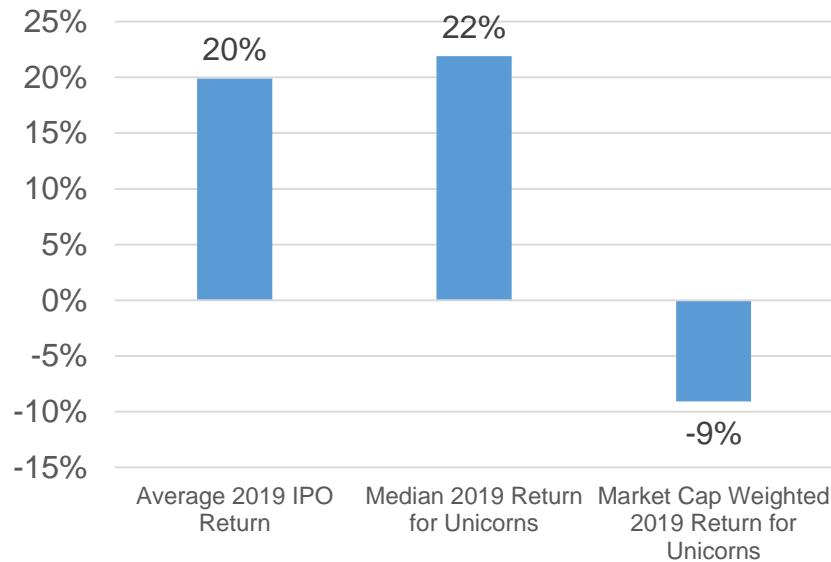
Excluding Uber IPO \$ Value Below Cycle Average



Even Deal Count Still Below Average



Does IPO Mean “It’s Probably Overpriced”?



7. Defensive Stock Leadership?



Bond proxies have been on a tear in the US, unlike ex-U.S.

PNC Investment Strategy Global Valuation Summary	Fwd PE			PEG			ROIC			P/FCF		
	Now	20 yr Avg	% to 20Yr	Now	20 yr Avg	% to 20Yr	Now	20 yr Avg	% to 20Yr	Now	20 yr Avg	% to 20Yr
Large Cap												
S&P 500	17.73	15.55	14%	1.69	1.30	30%	9.19	7.55	22%	21.92	20.59	6%
S&P 500 Growth	21.54	18.36	17%	1.75	1.27	37%	13.10	12.69	3%	26.81	23.72	13%
S&P 500 Value	14.76	13.58	9%	1.77	1.41	26%	7.50	5.78	30%	18.14	21.02	-14%
Mid Cap												
S&P Mid Cap 400	16.94	16.00	6%	1.60	1.27	26%	5.91	6.35	-7%	24.32	29.31	-17%
S&P Mid Cap 400 Growth	20.28	18.43	10%	1.69	1.22	38%	7.33	9.33	-21%	29.03	30.36	-4%
S&P Mid Cap 400 Value	14.45	14.28	1%	1.59	1.39	15%	5.19	5.12	1%	20.81	185.47	-89%
Small Cap												
S&P Small Cap 600	17.77	16.44	8%	1.44	1.19	21%	3.52	5.29	-33%	22.63	29.53	-23%
S&P Small Cap 600 Growth	21.36	17.95	19%	1.60	1.14	41%	4.50	8.02	-44%	32.16	28.95	11%
S&P Small Cap 600 Value	15.32	15.42	-1%	1.35	1.30	3%	2.97	4.13	-28%	17.58	39.81	-56%
S&P 500 Sectors												
S&P 500 / Communication Services -SEC	18.44	15.61	18%	1.50	2.66	-44%	9.57	6.46	48%	22.57	20.81	8%
S&P 500 / Consumer Discretionary -SFC	21.76	17.82	22%	1.38	1.16	19%	12.37	7.88	57%	26.32	27.90	-6%
S&P 500 / Consumer Staples -SEC	19.92	16.77	19%	3.19	1.79	78%	14.58	15.45	-6%	24.62	21.60	14%
S&P 500 / Energy -SEC	16.94	17.09	-1%	3.38	4.56	-26%	7.45	11.15	-33%	20.77	33.36	-38%
S&P 500 / Financials -SEC	13.05	12.52	4%	1.62	1.22	34%	5.54	3.99	39%			
S&P 500 / Health Care -SEC	15.72	16.26	-3%	1.53	1.34	14%	11.47	14.50	-21%	19.71	21.08	-6%
S&P 500 / Industrials -SEC	16.87	15.94	6%	1.87	1.37	37%	11.26	8.75	29%	26.17	21.86	20%
S&P 500 / Information Technology -SEC	21.02	19.82	6%	1.66	1.24	34%	19.48	14.33	36%	22.55	23.76	-5%
S&P 500 / Materials -SEC	17.85	13.97	28%	1.91	1.37	40%	8.11	8.39	-3%	28.63	23.87	20%
S&P 500 / Real Estate - SFC	19.68	18.00	9%	2.34	1.95	20%	4.71	3.71	27%			
S&P 500 / Utilities -SEC	19.36	14.38	35%	3.39	2.82	20%	4.44	4.65	-5%	-37.79	-4.45	749%

In Developed International, Information Technology (+33%) and Industrials (+24%) are driving year-to-date performance, while Financials (+14%) and Energy (+5%) are lagging.

In Emerging Markets, Information Technology (+28%) and Consumer Discretionary (+26%) are driving year-to-date performance, while Health Care (-2%) is lagging.

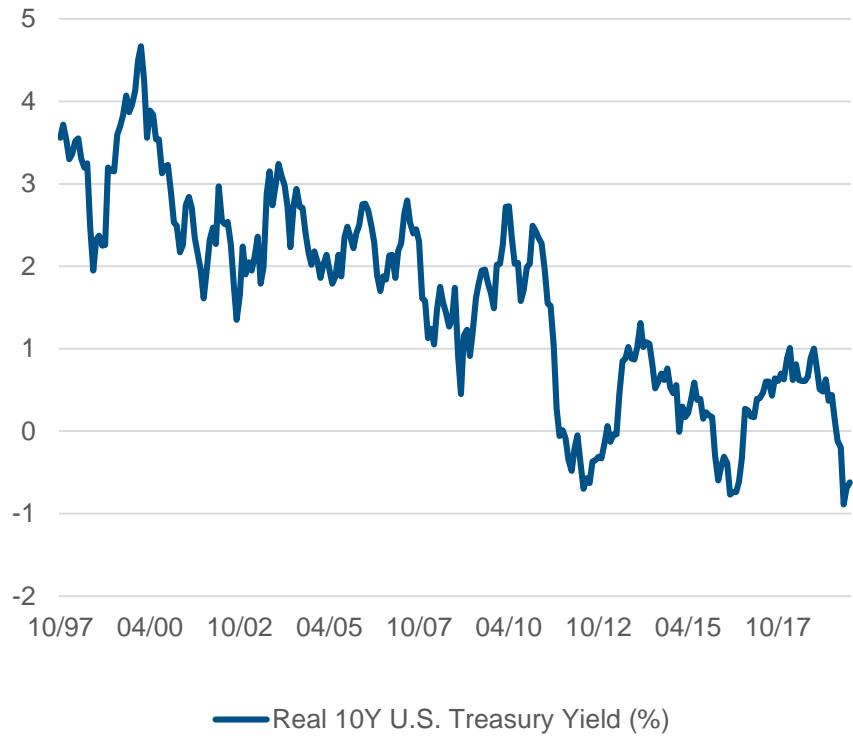
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8. Rising Real Interest Rates?

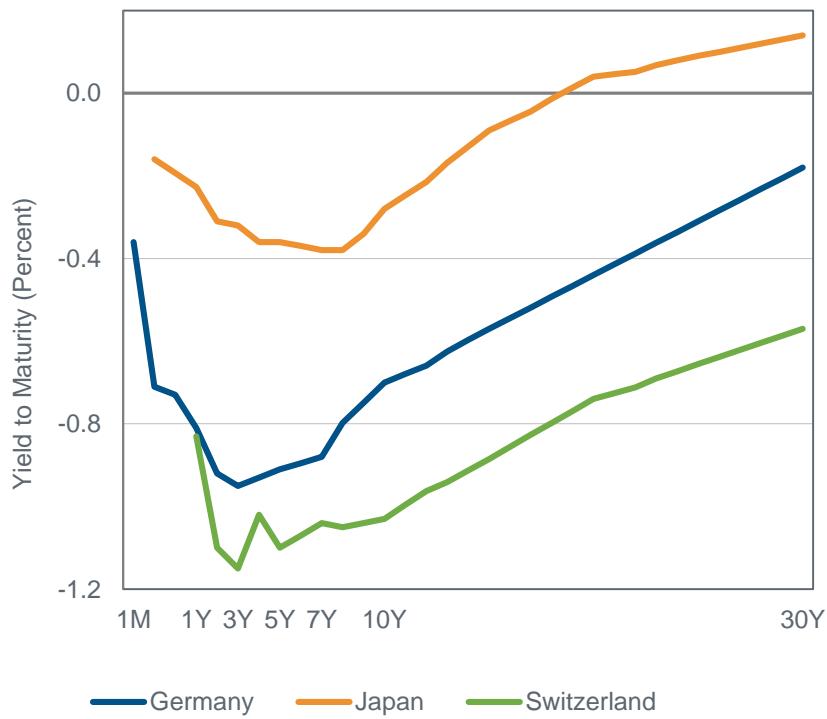


Both nominal and real rates are heading lower...despite later innings

Real Rates at Historic Lows



Global Rates Under Pressure

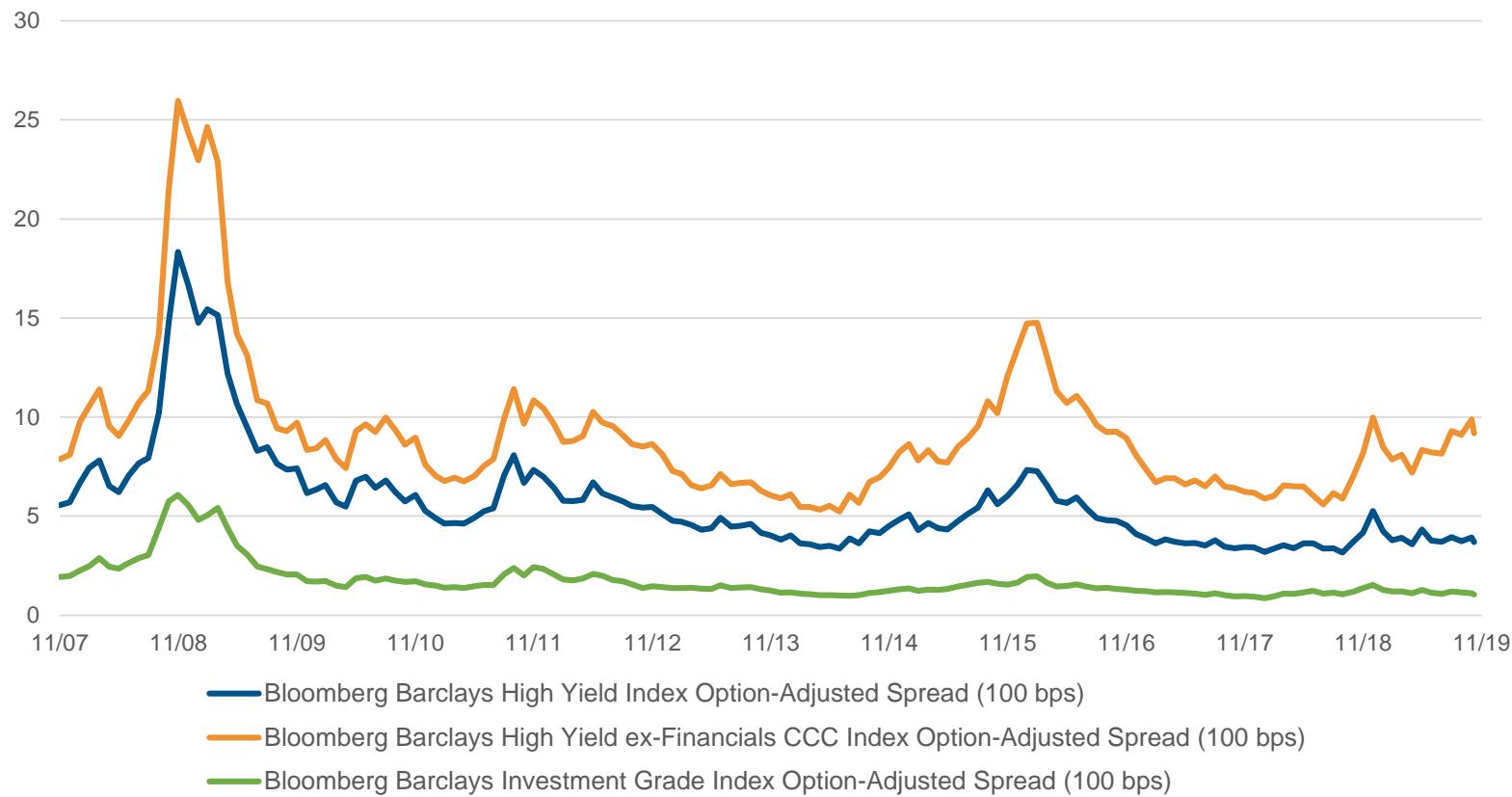


9. Widening Credit Spreads?



Credit spreads not signaling an imminent recession

Well-Behaved Late-Cycle Spreads



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