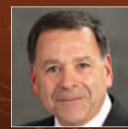
EPOCH | Epoch Investment Partners, Inc.

Epoch's Quarterly Capital Markets Outlook

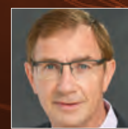
SUMMARIZED TRANSCRIPT

January 15, 2019



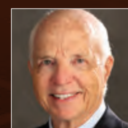
Section I: Macro Outlook

DAVID PEARL
Executive Vice President, Co-CIO and Portfolio Manager



Section II: Trade War

KEVIN HEBNER
Managing Director, Global Portfolio Management



Section III: QT/Market Drivers

BILL PRIEST
CEO, Co-CIO and Portfolio Manager

Each quarter, Epoch Investment Partners' co-CIOs and investment professionals discuss themes affecting global capital markets. Our three topics this quarter were: the macro picture (deceleration, not recession), the trade war, and 2019 market drivers, including the transition from quantitative easing (QE) to quantitative tightening (QT). A full replay of the webinar is available on our website, www.eipny.com.

SLIDE 2

Consensus Expectations for the U.S. Economy in 2019 are Still Positive

While some measures, including real GDP growth, are expected to moderate

- The overall picture suggests continued growth with low inflation.
- Although, 84% of economists see risks as tilted to the downside (up from 53% in October).

	2018	2019	2020	2021
GDP (% yoy)	3.1	2.2	1.7	1.8
CPI (% eoy)	1.9	2.2	2.2	2.2
Unemployment (% eoy)	3.9	3.6	3.9	4.2
Fed Funds Rate (% eoy)	2.3	2.7	2.7	2.6
10Y Treasury (% eoy)	2.7	3.1	3.1	3.2
Home Prices (% yoy)	5.6	3.8	3.1	
Housing starts (mn)	1.3	1.3	1.3	
Recession probability (% eoy)	N/A	25	57	26

Although revenue and earnings growth are expected to slow from 2018, they should remain solid

- Forward PER is now 15.1, in line with historical average (5Y mean 16.4, 10Y mean 14.6)

S&P 500	2018	2019	2020
Revenues (% yoy)	8.8	5.5	5.4
Earnings (% yoy)	20.1	6.9	11.1

Section I: Macro Outlook
David Pearl

In spite of the of the stock market correction in Q4, the outlook for U.S. GDP growth this year looks quite good, although it will be slowing from a very strong 2018. Further, CPI inflation has remained steady, close to the Fed's 2% target. Although the labor market is tight, we believe the deflationary impact of tech will keep inflation from accelerating meaningfully. Crucially, this means the Fed should be almost finished with this hiking cycle. Finally, note that S&P 500 earnings grew by 20% in 2018, a terrific result but one that clearly cannot be sustained.

Source: (upper table) Wall Street Journal, January 10, 2019.
(lower table) Factset, January 11, 2019

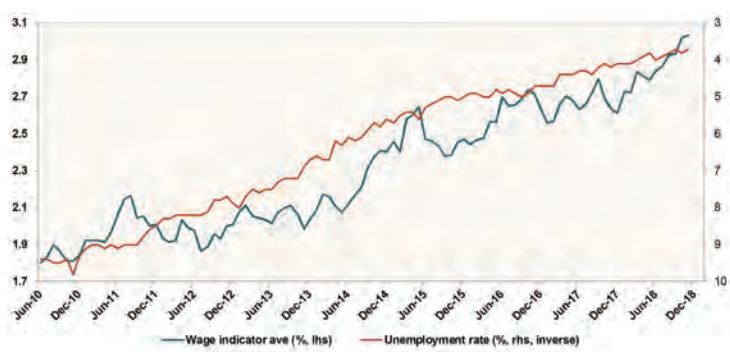
SLIDE 3

Extremely Tight Labor Market is Positive for the Consumption Outlook

This raises some concerns about wage inflation

- However, consumer price inflation remains very well-behaved, allowing for a patient Fed

Wage growth is slowly increasing (about 0.1 – 0.2 ppts/yr)



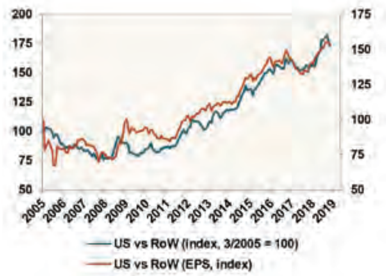
The labor market has been improving for over eight years now, with strong gains in payrolls driving the unemployment rate to its lowest level since 2000. The strong labor market has been associated with slowly increasing wage growth, which is a major positive for the consumption outlook. This is important because consumption is by far the biggest component of GDP.

Source: Bloomberg, Epoch Investment Partners
Note: Wage Indicator is average of AHE, ECI, Atlanta Fed, NY Fed median

SLIDE 4

U.S. Earnings Growth Still Outperforming Other Markets

U.S. outperformance is due to superior EPS growth



U.S. IT EPS growth has been especially strong

Not only has U.S. earnings growth been solid relative to its own history, it has also been stronger than that experienced in the rest of the world. The chart on the top left shows that the U.S. equity market has outperformed the rest of the world for over a decade now, with this superior performance largely reflecting faster EPS growth. Further, as the bottom right chart illustrates, EPS growth for the U.S. tech sector has been especially impressive.

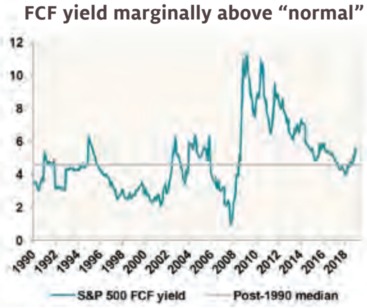
Source (both charts): Bloomberg, Epoch Investment Partners

SLIDE 5

U.S. Equity Market: Not Expensive on Standard Valuation Measures

Forward PE is slightly below historical mean

FCF yield marginally above "normal"



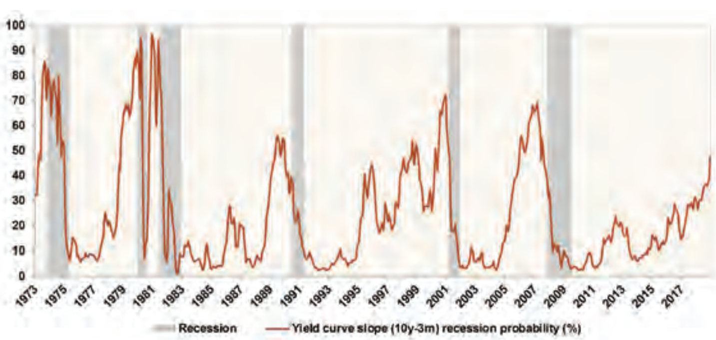
Turning to valuations, the PE multiple for the S&P 500 rose significantly from 2011 to 2017, wind-assisted by the ultra-low interest rates associated with the Fed's QE program. However, after hitting a peak of 20.0x in late-2017, the PE has since fallen to its current value of 15.5x, slightly below the historical mean of 16.4x. Similarly, the S&P's free cash flow yield declined markedly during the QE period, hitting a low of 3.9% in early 2018. However, it has since risen to 5.4%, which is moderately above its post-1990 median of 4.6%. The bottom-line here is that standard valuation models suggest the S&P 500 could be considered marginally cheap.

Source (both charts): Bloomberg, Epoch Investment Partners

SLIDE 6

Market is Discounting Too High a Probability of a U.S. Recession in 2019

Simple model employing the yield curve slope suggests a 52% probability of recession in 2019



A similar probability is obtained by using more complex models (e.g., combining yield curve slope + corporate bond spreads) or by examining other markets (e.g., equities, Treasuries and base metals).

While we agree that economic and earnings growth is slowing, it appears the market over-reacted in 4Q2018.

This slide tries to assess what probability of a U.S. recession this year has been priced into markets. Standard models incorporating explanatory variables such as the yield curve slope and corporate bond spreads suggest markets have priced in a roughly 50% likelihood. In our view the market is pricing in too high a probability of a 2019 recession (which requires two consecutive quarters of negative growth). Economic and earnings growth are certainly decelerating from 2018's impressive prints, but the market appears to have already discounted something considerably worse than the moderate growth deceleration we anticipate.

Source: Goldman Sachs

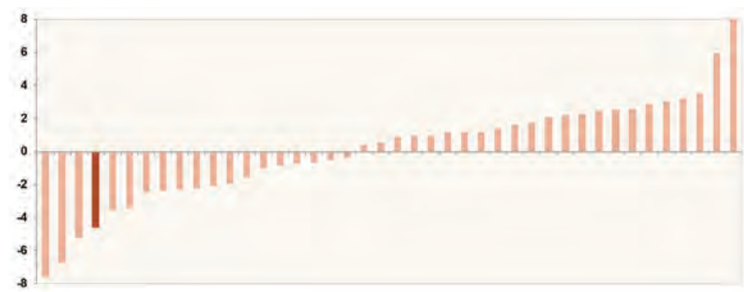
SLIDE 7

The Market Remains Overly Pessimistic

Despite a record year for profit growth, valuation multiples declined sharply last year

- 2018 marked the fourth largest contraction in P/E multiples over the last forty years!
- The only years that were worse were 2002, 1994 and 2000

Change in Calendar Year PE Multiples (2018 in red)



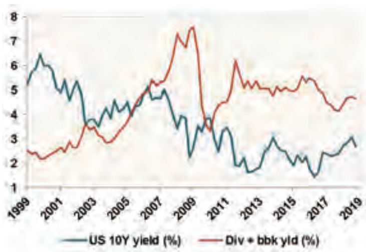
A similar point is made by this chart, which shows that the magnitude of PE contraction experienced in 2018 is highly unusual. In fact, it is the fourth biggest contraction in the PE multiple witnessed over the last 40 years. This suggests that the equity market last year was looking beyond 2018 and into the current year, which is expected to produce less robust earnings growth. As an investor this raises a crucial judgement: how sharp will the slowdown in EPS growth be? This slide and the previous one suggest that the market may have overreacted to what we see as only a moderate deceleration in economic and earnings growth.

Source: Bloomberg, Credit Suisse, Epoch Investment Partners

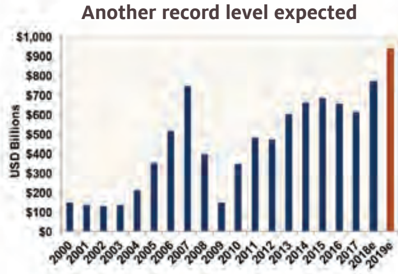
SLIDE 8

U.S. Shareholder Yield

Shareholder yield is well above the bond yield



2019 Buybacks: Another record level expected



Note that shareholder yield, which combines the returns from dividends and buybacks, remains well above the yield on U.S. 10-year Treasuries. Further, we expect 2019 will be a record year for buybacks, reflecting the fact that many of the biggest companies in the U.S. are cash rich. This is especially true of tech companies like Apple, Microsoft and Google. Additionally, the financial sector should experience strong buybacks this year, as regulators allow them to return a high percentage of their profits to shareholders.

Source (left chart): Bloomberg, Epoch Investment Partners
(right chart): Goldman Sachs

SLIDE 9

Government Shutdowns: Historically No Major Impact on Markets

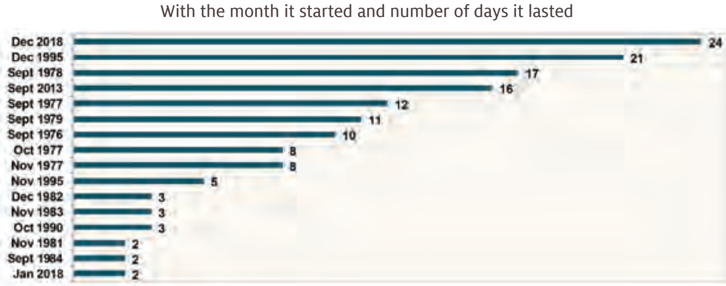
Current shutdown: Began Dec 21

- As a rule of thumb, the shutdown knocks 0.1 ppts off GDP every two weeks
- 420,000 federal employees are working without pay (missed their first paycheck on Friday)
- An additional 380,000 federal employees have been placed on unpaid leave

Is this the longest shutdown?

- The government was shuttered for five days from Nov. 14–19 1995 and from Dec. 16 1995 to Jan. 6, 1996, for a total of 27 days.

Government Shut Downs
With the month it started and number of days it lasted



On a more topical note, this slide discusses the ongoing government shutdown. This is a record shutdown, directly affecting about 800,000 federal employees. While all of these workers will eventually receive back pay, in the interim the shutdown is an undeniable drag on near term GDP growth. However, most of this growth drag will immediately reverse once they are all back at work and being paid. For this reason the current shutdown, similar to previous episodes, is unlikely to have a major impact on equity markets.

Source: Epoch Investment Partners

SLIDE 10

Trump, Tech and the New Trade Architecture

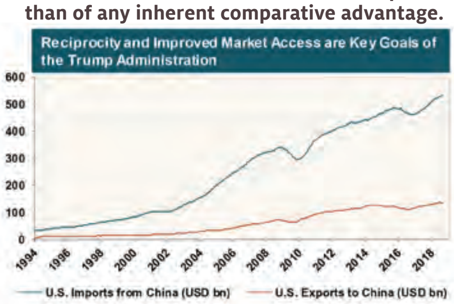
In an America that rarely finds consensus

- Finally bipartisan agreement: On the need to "do something" about the threat posed by China

Fast and furious: A large majority of Americans back Trump's demands

- Reciprocity: Level playing field and improved market access
- Greater IP protection: For U.S. firms in China
- Mercantilist web of rules: Systemically protect and subsidize companies in targeted sectors

The bilateral trade pattern over the last two decades is more reflective of China's mercantilist policies than of any inherent comparative advantage.



The mercurial President has been an unabashed protectionist for decades

"I'm not afraid of a trade war,"
Donald Trump, 1989

"Perhaps there has to be a trade war,"
Donald Trump, 1999

"Trade wars are good, and easy to win,"
Pres. Donald Trump, 2018

Section II: Trade War

Kevin Hebner

The next few slides summarize our recent paper titled "Trump, Tech and Trade." To begin, Trump's trade team has quite correctly contested three broad aspects of China's policy: (1) reciprocity in terms of market access, (2) IP theft, which has been a big concern of U.S. companies operating there and (3) mercantilism, which is a policy China has implemented aggressively in order to favor domestic companies and discourage U.S. firms.

Source: Epoch Investment Partners, Bloomberg

SLIDE 11

Made in China 2025: The Central Villain

Mercantilism: More of a feature than a bug

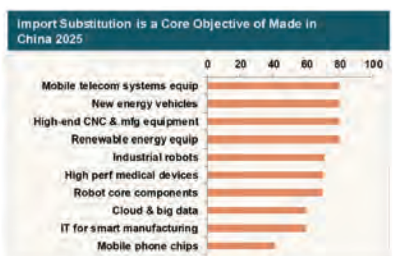
- Massive subsidies: Reaffirm Beijing's central role in economy
- Beijing's view of China 2025: Best hope of escaping the middle-income trap

A non-exhaustive list of China 2025 related funds

Public Funding for Made in China 2025

Sources of Funding for China 2025	US$ bn (est)
Special Constructive Fund	270
National Integrated Circuit Investment Fund	150
Shaanxi China 2025 Fund	117
MBT & China Development Bank	45
Gansu China 2025 Fund	37
Advanced Manufacturing Investment Fund	6
National Emerging Industries Investment Fund	6
Anhui Manufacturing Development Fund	4
Beijing Technology Innovation Fund	3
Nanjing Eco & Technology Development Zone	1
Sichuan China 2025 Project Fund	unclear
Technology Equip Insurance System	unclear
Industrial Transformation & Upgrading Fund	unclear

Targets for domestic market share in China (%)



"China's government is aggressively working to undermine America's high-tech industries and our economic leadership through unfair trade practices and industrial policies like Made in China 2025."
USTR Robert Lighthizer, Jun 2018

"Made in China 2025" is a high profile 10-year plan for which President Xi has been an active architect and cheerleader. China 2025 provides massive subsidies and other encouragements to domestic favorites with the aim of achieving 70 to 80 percent market share in the sectors of the future. This plan has provoked the ire of Trump's trade team, especially the USTR, Robert Lighthizer, who is incredibly experienced and knowledgeable about all things dealing with international trade.

Source (left chart): Centre for International Governance Innovation, 2018 and U.S. Chamber of Commerce, 2017. MIIT: Ministry of Industry and Information Technology
(right chart): Expert Commission for the Construction of a Manufacturing Superpower, 2016
CNC: Computerized numerical control

SLIDE 12

The Great Firewall of China

No U.S. website ranks in China's top 25

- Direct result of China's bans and restrictions
- Just a discriminatory industrial policy to favor domestic providers?

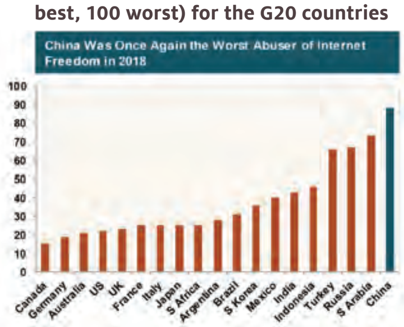
Beijing's Cyber Army

- 2 million people: Monitor and censor content
- 500 million: Social media posts annually

"If data is the new oil, China is the new Saudi Arabia."
Kai-Fu Lee, 2018

"[Controlling the internet in China would be like] trying to nail Jell-O to the wall."
President Clinton, 2000

"Freedom on the Net 2018" scores (0 is best, 100 worst) for the G20 countries



A tech cold war is not yet under way, but things are a lot chillier

- Beijing's plan: To Become the World's AI Superpower by 2030
  - China's three big advantages
- AI is today's biggest commercial opportunity: The stakes are unprecedentedly high

Two decades ago President Clinton gave a speech about China's ascension to the WTO in which he argued that their attempts to control the Internet would be as successful as someone trying to nail Jell-O to the wall. Not only was he wrong, but the internet has turned into a pervasive tool for government surveillance and control. Further, China has effectively banned most U.S. sites including Google, YouTube, Instagram and so on. Moreover, Beijing plans to become the world's number one AI superpower by 2030. For this purpose, China possesses three big advantages: enormous amounts of data, with few concerns about privacy; huge dollops of government support; and an army of competent software engineers.

Source: Freedom House

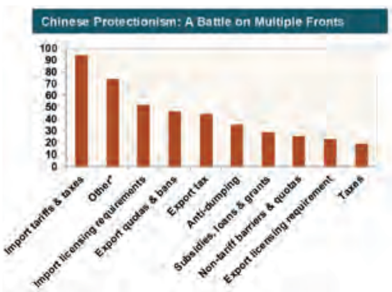
All charts use the latest data available as of January 11, 2019

SLIDE 13

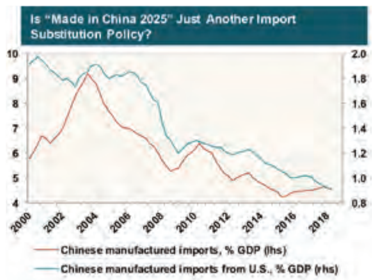
Hands on the Scales: Import Substitution and the Road to Self-Reliance

"China's illicit trade practices—ignored for years by Washington—have destroyed thousands of American factories and millions of American jobs."
President Trump, Apr 2018

Number of Chinese trade interventions affecting the U.S., since January 2009



Manufactured imports (as a % of GDP) have already declined by half since 2007



"China has used an arsenal of policies inconsistent with free and fair trade, including tariffs, quotas, currency manipulation, forced technology transfer, IP theft, and industrial subsidies that are handed out like candy."
Vice President Pence, Oct 2018

Policy in China has been focused on encouraging domestic production in the industries of the future and, whenever possible, replacing imported products. As the chart on the left illustrates, Beijing has taken a kitchen-sink approach to discouraging imports, that is by throwing every possible barrier in the way of U.S. companies. Further, the chart on the right shows that, as a consequence of China's import substitution policies, manufactured imports have declined markedly over the last decade or two.

Source (left chart): Global Trade Alert, Epoch Investment Partners
**Other includes 24 different types of policies including export tax incentives, preferences in public procurement, trade finance subsidies, and so on.*
(right chart): Brad Setser, CFR, "China should import more", Nov 7, 2018
Note: Excludes "processing" or intermediate imports for re-export.

SLIDE 14

Cold War 2.0? 90-Day Cease-Fire

Most at risk: Ten sectors targeted by China 2025

- Hardest hit: Tech hardware, especially semiconductors (China's biggest vulnerability)
  - Global supply-chain bifurcation?
- Less directly affected: Tech software and services

A full chasm is improbable: The new trade "architecture"

- Agriculture and energy commodities could become beneficiaries
  - Easy for China: Agree to import products it doesn't want to make
- Room to compromise: Autos, airplanes, and so on

Trust but verify

- China will promise: To improve IP protection, scale-back subsidies and increase market access
- Easier to monitor: Upfront commitments to import more
- Risk: Empty promises and token efforts to buy time

"I now see the prospect of an Economic Iron Curtain—one that throws up new walls on each side and unmakes the global economy, as we have known it."
Hank Paulson, Nov 2018

China bashing is bipartisan and will continue regardless of who wins in 2020

U.S. Public Opinion Supports Trump's Aggressive Negotiating Stance with China

	Yes	No
Should Trump be tough when negotiating with China?	68%	32%
Should the U.S. target Chinese tech companies?	66%	34%
Should the U.S. place tariffs on imports from China?	59%	41%

As we approach March 1, the soft deadline for the current round of trade negotiations, what kind of results can we expect? It will almost certainly benefit U.S. agricultural and energy commodities. Additionally, China has already passed legislation to improve IP protection, although we are skeptical that it will be enforced effectively. Further, China has promised to scale back subsidies and improve market access for U.S. firms. However, there is a major risk that these will be empty promises made by Beijing to buy time. As a result, we expect a tentative agreement to be reached before March 1, but that it will satisfy few. Consequently, the March 1 deadline is likely to be extended as negotiations continue, with conflict likely re-escalating, possibly in early 2020.

Source: Harvard-Harris poll, June 2018
Note: The wording of the poll questions has been edited for brevity.

SLIDE 15

Key Market Drivers for 2019

1. Transition: QE to QT
2. Treasury Issuance: Huge increase, due to rising fiscal debt + QT
3. Peak Margins: Negative impact from trade tensions and rising interest rates
4. Geopolitical risks: Long list of candidates

"The global liberal order is coming apart. When you simultaneously challenge social norms and many of the values that anchor people – a sense of home, job security, and the prospects for growth – and amp it up with social media networks, you get serious blowback, as we are seeing in France and Britain with Brexit."
Bill Priest, Barron's, Jan 2019

Tightening of Financial Conditions

1. FFR hikes
2. Transition to QT
3. Soaring Treasury issuance
4. Wall of Corporate Maturities

Implications of tighter USD liquidity

1. Interest-sensitive sectors roll over
2. Multiples no longer expand
3. Credit spreads widen
4. Volatility rises: All asset classes

Section III: QT/Market Drivers

Bill Priest

I will cover some of the key market drivers for 2019 including: the transition from QE to QT and how that tightens liquidity conditions; the enormous increase in the issuance of U.S. Treasuries to fund our trillion dollar deficit; the likelihood that manufacturing margins have peaked (due to the combination of QT and rising trade tensions); and geopolitical risks, which admittedly is a softer subject and harder to analyze quantitatively. That said, we found particularly insightful an article in "Foreign Affairs Quarterly" last year which persuasively argued that democracy only thrives when standards of living are rising. The implications of this are deeply troubling.

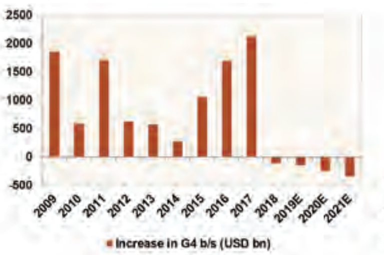
Source: Epoch Investment Partners

All charts use the latest data available as of January 11, 2019

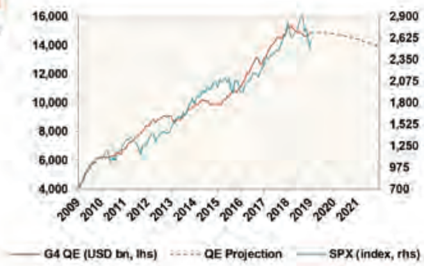
SLIDE 16

G4 Central Banks: Transition from QE to QT

G4: Huge negative impulse into 2018



97% correlation: Purely spurious?



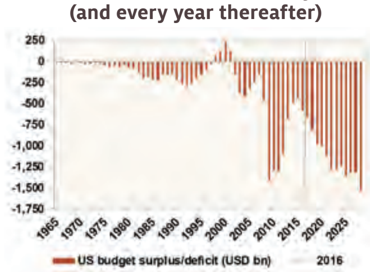
The chart on the top left illustrates the dramatic reduction in purchases of securities by G4 central banks that took place in 2018. That this transition is important for equity markets is demonstrated by the chart on the lower right. While some people might respond that this relationship is pure coincidence, it is incontrovertible that the S&P 500 rolled over pretty much at the same that that the Fed's QT phase commenced. With the Fed selling up to $50 billion a month of Treasuries and MBSs, we believe there is causality. Further, much of the stock market expansion in the last decade was driven by multiple expansion. With the transition to QT, we believe that a further increase in multiples is simply not in the cards.

Source for both charts: G4 Central Banks, Epoch Investment Partners, Bloomberg

SLIDE 17

Trillion Dollar Deficits: How Well Will Treasury Market Cope?

Deficit to exceed $1 tn this year
(and every year thereafter)



The road to perdition: The largest deficits (% GDP) outside of war and recession

The U.S. federal deficit is likely to come in at just over $1 trillion this year, and it will need to be financed by selling Treasury bonds. Remarkably, this is the largest deficit ever in the U.S. outside of war and recession. Luckily, the U.S. benefits from being the world's reserve currency, so maybe there won't be that much upward pressure on interest rates. However, if you take into account not just the financing of the deficit, but also the impact of QT-related selling by the Fed, the combined impact is huge, in the range of 7-8% of GDP. Interest rates are currently remarkably low, but the risk of significantly higher rates and much tighter USD liquidity should not be ignored.

Source (both charts): CBO, Bloomberg, Epoch Investment Partners

SLIDE 18

Corporate Credit: Often Peaks at Recession

Corporate credit (% of GDP) at a record high

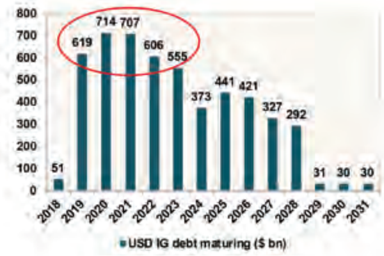
U.S. corporate debt is currently at a record high (in both absolute terms and as a percentage of GDP). This slide shows that corporate credit typically peaks around recessionary periods. Well, again, there are questions about causality. However, we can be sure that corporate activity will decline dramatically if markets tighten and corporates find it dificicult to roll over or issue new debt.

Source: Bloomberg, Epoch Investment Partners

SLIDE 19

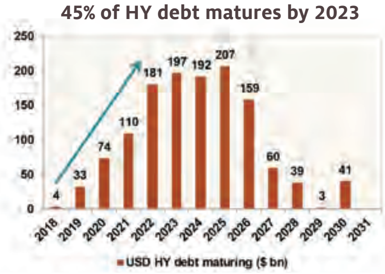
Corporate Debt's "Wall of Maturity"

62% of IG debt matures within 5 years



Fallen angels to be a huge problem
- BBB index: Grown enormously this decade
- Past downturns: 1/3 of BBB index downgraded
- BBB index: Now 2.5x the size of the HY index!

45% of HY debt matures by 2023



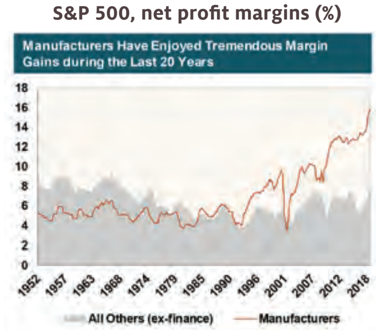
A further issue concerns the approaching "wall of maturity" of corporate debt. Note that last year only $51 billion of investment grade debt matured. However, from this year out to 2023 we are going to see hundreds of billions of debt mature. Moreover, there has been a gradual decline in the quality of outstanding corporate debt, as measured by leverage ratios, ratings and covenants. One particular concern is that the BBB portion of the market has grown enormously. If there is a slowdown and a significant proportion of these bonds get downgraded to junk, we believe the high-yield market will be overwhelmed and there just won't be enough liquidity. This suggests the corporate debt market, especially junk bonds and leveraged loans, could be at the epicenter of the next financial crisis.

Source (both charts): Gundlach, Goldman Sachs

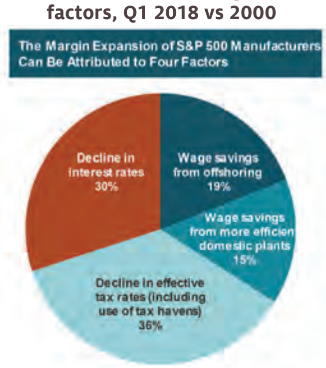
SLIDE 20

Playing the Movie Backwards: Protectionism Shrinks Profit Margins (Additionally, Unlikely that Interest Rates or Tax Rates are Headed Lower)

S&P 500, net profit margins (%)



S&P 500 Manufacturers: Margin expansion factors, Q1 2018 vs 2000



The chart on the left shows that manufacturers' profit margins were relatively flat for a long period of time, from the early-1950s to the late-1980s. However, they roughly doubled from around 1989, which marks the fall of the Berlin Wall, the entry of China into the international trading system and the beginning of today's form of globalization. Companies spent the next 30 years creating highly complex and sophisticated global supply chains, which resulted in a tremendous increase in profitability. The chart on the right is helpful as it breaks this improvement into four different categories. However, three of these drivers appear to be reversing as a result of the transition to QT and rising trade tensions. For the first time in quite a while there are real headwinds to further expansion, suggesting to us that profit margins have likely peaked.

Source (both charts): Empirical Research Partners
Note (left chart): Net profit margins for S&P 500 companies, trailing 4 quarters, smoothed.

SLIDE 21

Capital Markets Outlook – Looking Ahead Into 2019

- Regional Outlook
  - U.S.: Strong GDP growth in 2018 driven by tax reform, consumer strength, full employment and solid earnings growth which we expect to moderate in 2019 as financial conditions tighten. Wage and price inflation are also likely to increase, but only marginally.
  - Europe: Likely to continue to underperform as the Euro region grows earnings and cash flow less quickly than the U.S. (partially reflecting a lower weighting in Tech). Further, Eurozone's reform agenda has stalled, undermining medium-term growth prospects.
  - Emerging markets: The reduction in USD liquidity and the strengthening greenback has caused significant dislocation in EMs with large current account deficits and excessive hard currency debt. We expect further problems in vulnerable EMs in 2019 -2020.
  - Japan: The outlook has improved, wage growth is finally increasing, and Japan looks relatively cheap. Our main concern is that the pace of improvement, regarding companies' shareholder yield and capital allocation policies, remains glacial. Progress in these areas would send the Topix markedly higher, especially given cash rich balance sheets.
- Equity multiples unlikely to increase further - As the Fed has shifted from Quantitative Easing (QE) to Quantitative Tightening (QT).
- The return of price discovery: The looming trifecta of QT, soaring U.S. budget deficits and the upcoming wall of maturities (in Treasuries and corporate debt) could drive both interest rates and volatility higher. Corporate debt is likely to be at the epicenter of upcoming market dislocations as debt issuance soared with QE and spreads remain dangerously tight.
- The Impact of Technology is a positive for all three components of ROE: Technology is a positive for higher profit margins, asset utilization, and leverage suggesting companies can return a higher proportion of cash to shareholders.
- Rising risk of a trade war: Key issues include asymmetric market access, alleged IP theft, forced IP transfers and China's 2025 policy. Trade tensions to remain a market theme in 2019 and a source of volatility for years to come. We are particularly concerned about a bifurcation in global supply chains.

Given the above points, it is ever more important to favor companies with a demonstrated ability to produce Free Cash Flow and allocate that cash flow wisely between return of capital options and reinvestment for future growth opportunities.

All charts use the latest data available as of January 11, 2019

SLIDE 22

Thought Leadership

"Trump, Tech and Trade"

"The Return of Price Discovery"

"The Size Paradox"

"Is e-Commerce a Bubble?"

"When 'Bits' Meet 'Atoms'"

Winning at Active Management

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