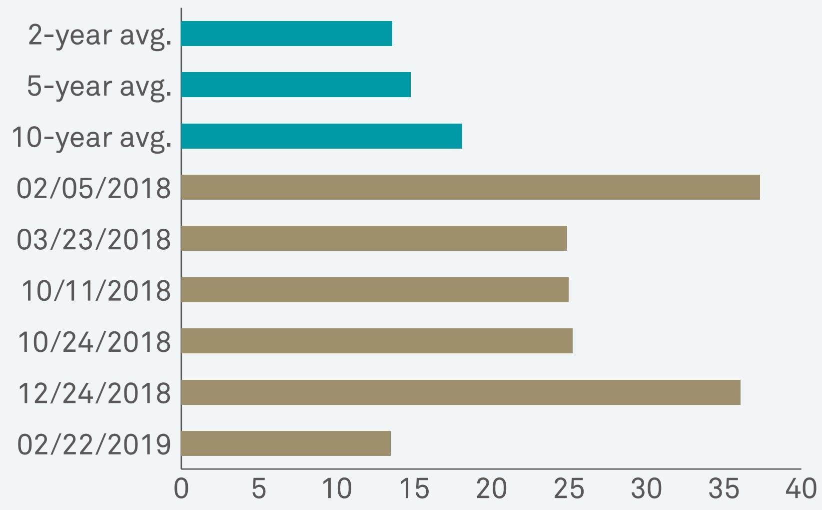
Will economic headwinds or tailwinds prevail in 2019?

LEADING ECONOMIC INDICATORS SUGGEST LOWER GROWTH AHEAD

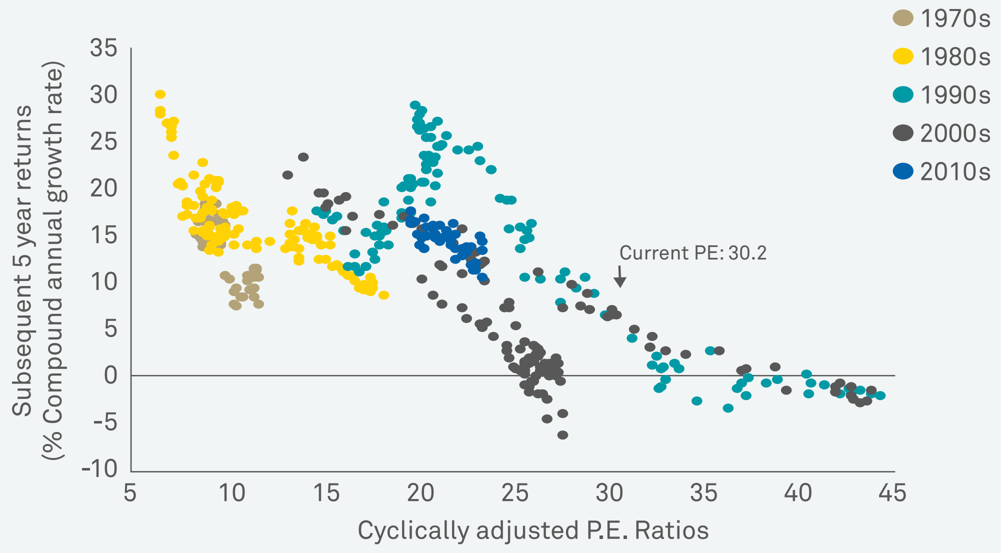
Source: Bloomberg. Quarterly data as of September 30 2018.
Refers to Leading Economic Indicators (year-on-year, three month moving average) and Real GDP Growth (year-on-year) of the OECD. The OECD is an intergovernmental economic organization with 36 member countries.

PAST YEAR'S VOLATILITY PEAKS VERSUS LONG-TERM AVERAGES



Source: Bloomberg. Data as of February 22 2019.
Based on the Chicago Board Options Exchange Volatility Index or "VIX" - a measure of market expectations of 30-day volatility.

PE RATIOS VERSUS 5-YEAR FUTURE RETURNS



Data from January 1976 to November 2018. Source: Bloomberg, Morningstar, and Robert Shiller.
Cyclically Adjusted P.E. ratios represent Shiller CAPE ratios, which measure the Cyclically Adjusted Price-Earnings ratio based on the S&P 500 inflation-adjusted price, divided by average earnings from the previous 10 years. The ratios are commonly used as a measure of the market's valuation.

MARKETEYE
INVESTMENT IDEAS ILLUSTRATED AND SHARED

BNY MELLON
INVESTMENT MANAGEMENT

Our central economic scenario is relatively benign. We see a modest slowdown in global growth in 2019, with limited inflationary pressure. The implication is that interest rates rise only gradually in the U.S. and not at all in the euro area and Japan, while China loosens policy. Market participants have become sensitive to the degradation of fundamentals, even as the data remain overall positive and indicative of growth.

We foresee a tricky year ahead for investors. Our forecasts are for modest equity returns, with risks skewed to the downside. Bond returns should be positive, though the upside has fallen with recent market moves. Credit markets look vulnerable in places. In the absence of a strong directional beta call, the focus shifts to alpha and cash. We believe this environment may well suit a discriminating approach, favouring multi-asset strategies, high-quality equities and bonds, U.S. and EM equities, value over growth and active over passive."

For our full analysis of potential economic scenarios and how they might impact bond and equity markets in 2019, visit our Market Insight's page.

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