TAKE 5 VIEWS

We're asking our money managers the questions you're asking us.

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What's in store for **the Markets?**

In these changing times, the only certainty is uncertainty. With that in mind, we felt it was a good time to have some of our managers give us their outlook for sectors and factors of the economy that affect their day-to-day decision making.

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Which sectors are you looking to for growth in the 6 to 12 months ahead?

1 What is your outlook for infrastructure stocks for the next six to twelve months?

Regina M. Pitaro, Managing Director
GAMCO Asset Management Inc.

Vital to America's productivity, infrastructure provides the physical foundation for the transportation of goods and services, the delivery of clean energy and water, and the essential vitality of U.S. trade on a global basis. Simply stated, the impact on society of a crumbling infrastructure is not only a public safety issue but a critical economic one as well.

Whether it is potholed highways, crumbling bridges, or aged pipes and dams, the physical assets of the United States of America and those of other developed nations have fallen into a state of disrepair that can no longer be ignored. This slow motion crumbling comes at a massive cost to the economy and the citizenry. In fact, the American Society of Civil Engineers' March 2017 quadrennial Report Card succinctly summarized the state of affairs by giving our nation's infrastructure a "D+" grade, and putting the long term cost to modernize at $4.6 trillion.

While replacement demand supports baseline investment in infrastructure, political dynamics are at play that could eventually lead to growth capital in physical asset development. Support in Washington, D.C. for a substantial infrastructure bill appears to be one of the few issues on which Republicans

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and Democrats can agree. While the details and timing of future plans will be subject to debate, the nature of the issue and its wide support has provided confidence that 2017 marks a pivot point for the rebuilding of American infrastructure.

Set against a backdrop of improved consumer confidence, potentially lower tax rates, reductions in regulations and support for reinvestment in America's physical assets, our focus on fundamental bottom-up research and a consistent, repeatable investment process optimally positions these investments to benefit from the modernization of American infrastructure.

In its 2016 Failure to Act Report, the American Society of Civil Engineers estimated that, from 2016 to 2025, the total negative impact on the U.S. economy due to the current physical asset investment gap would be close to $4 trillion, resulting in 2.5 million job losses. Over the next ten years, this $144 billion per annum gap is set to cost each American household up to $3,400 in wasted time and productivity loss - an amount that could rise to $5,100 annually from 2026 to 2040.

By sector, the ASCE puts the annual funding gap between 2016 and 2025 as follows:

Surface transportation:	$110 billion
Water/Wastewater:	11 billion
Electricity:	18 billion
Airports:	4 billion
Inland Waterways & Marine Ports	$150 million
Total:	$144 billion

In the case of infrastructure, both company-specific and larger catalysts exist which should drive share price appreciation in select industrial segments over the next decade. Stocks across the capitalization spectrum are well positioned to benefit not only from immediate and significant replacement demand for roads, bridges and other related industries, but also from the potential catalytic positives from major tax reform, reductions in stifling regulatory red tape, and infrastructure and energy policy changes. When combined with more typical financial engineering such as spinoffs and accretive mergers & acquisitions, the environment is rich for investors to earn returns independent of the broader market's direction over the next 6-12 months and beyond.

2 Market volatility has reached record lows this year. How long can this continue and how should investors respond?

Euan Mackay, Client Portfolio Manager
AXA Investment Managers

AXA INVESTMENT MANAGERS
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"'Long-term bullish, but expect more volatility in the short term.' There, I just wrote every strategy piece for the month. You're welcome."

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In this recent tweet, blogger and hedge fund manager Mark Dow captured both many commentators' "go-to" market outlook and why investors probably shouldn't pay too much attention to it! Not only is the forecast highly simplistic but, in the past couple of years, it has also been plain wrong as the predicted uptick in volatility has repeatedly failed to materialize.

By a whole host of metrics, stock markets around the world today are unusually serene. As Figure 1 below shows, the trailing 12-month standard deviation of returns on the MSCI World Index (a measure of how much prices have fluctuated around their 1-year mean) is the lowest in 47 years. Given a long-term average of close to 14%, the current 5% reading reflects the recent extremely tight trading range for global equities. In the U.S., the VIX index – often described as Wall Street's "fear gauge" because it measures investors' expectations for volatility based on the price of options contracts on the S&P 500 Index – also highlights the current calm. At the time of writing, September 2017 looks set to be not only the most peaceful September since the VIX began in 1990 but also one of the least volatile months overall. At a little under 10.6, the only months with lower average readings are June and July this year (where the VIX reached 10.5 and 10.3, respectively, compared with a long-term average of 19).

Figure 1

Source: MSCI, data as of August 31, 2017

Such stability in markets would be remarkable even in stable times. Yet surveying the political and economic landscape, "stable" isn't necessarily the word that springs to mind. So, how long can this continue? Unfortunately for the strategists, there's little evidence that low realized volatility is a precursor of future fluctuations; in fact, several studies suggest the opposite is true. Until, of course, it isn't. Figure 1 reminds us that market turmoil can occur at any time and for any reason; when it does, it is important to have part of your portfolio positioned to mitigate the market's swings.

"Long-term bullish but ready for short-term volatility" might be a lazy forecast, but it can be a very sensible investment strategy.

3 What is your outlook for inflation and how would this affect commodity prices?

powerSHARES by Invesco

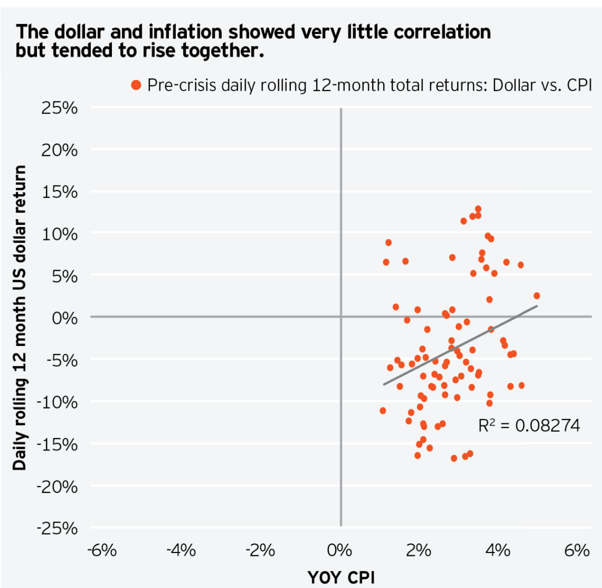
Jason Bloom, Global Market Strategist
PowerShares by Invesco

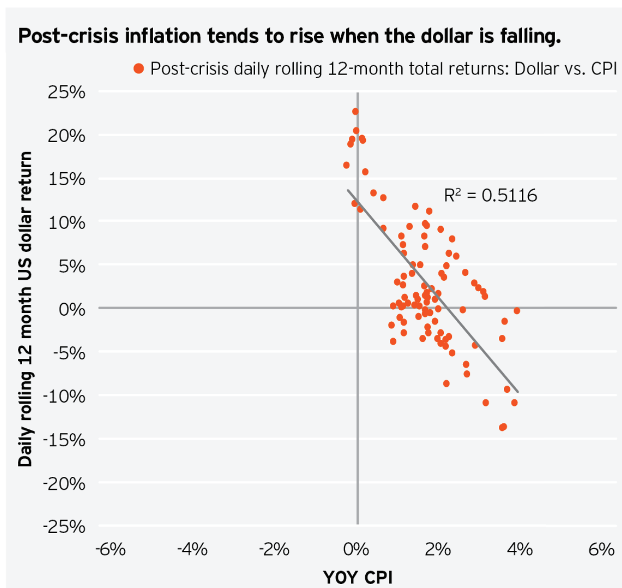
U.S. dollar (USD), global credit growth and inflation

An increasing body of research is highlighting the stronger post-crisis relationship between the U.S. dollar and both global credit growth and U.S. inflation metrics. Data published by the Bank of International Settlements indicates that since the 2008 financial crisis, global banks have been more willing to engage in cross-border lending when the dollar was falling, and less willing to extend credit when the dollar was rising.[1] As such, a falling dollar has had the effect of easing global financial conditions, while a stronger dollar has had a tightening effect. Market participants have observed for decades that a weaker dollar tends to put upward pressure on commodity prices, but prior to the financial crisis of 2008, year-over-year changes in the dollar did not appear to feed through into meaningful changes in the consumer price index (CPI). As the regression charts below illustrate, the relationship between the year-over-year change in the USD and CPI has strengthened considerably, i.e. a weaker dollar has correlated with increased inflation as measured by the CPI.

The U.S. Dollar and CPI

The USD's inverse correlation to the CPI has risen dramatically since the '08/'09 financial crisis





Source: Bloomberg, L.P. as of August 31, 2017. **Past performance is not indicative of future results.** An investor cannot invest directly in an index. Pre-crisis is from Dec. 1999 to Dec. 2007. Post-crisis is from Dec. 2009 to Dec. 2017. The U.S. Dollar is represented by the U.S. Dollar Index.

[1] Source: *Bank for International Settlements, Nov. 15, 2016, "The bank/capital markets nexus goes global," Hyun Song Shin, Economic Advisor and Head of Research.*

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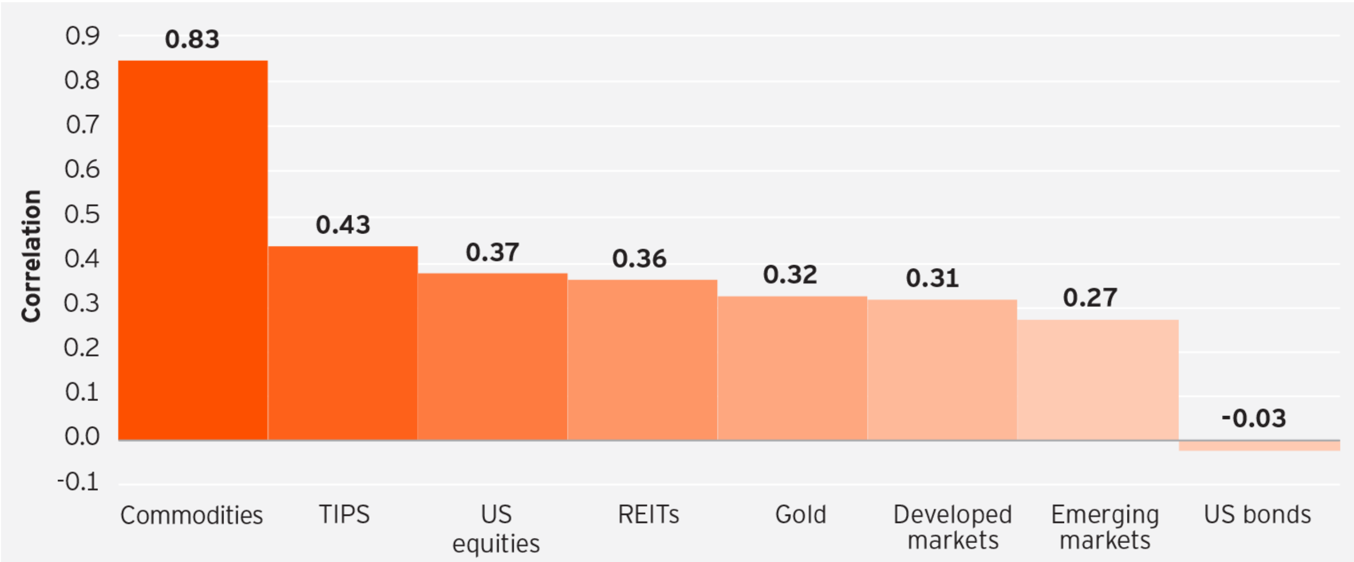
Commodities correlation to inflation Unlike stocks, bonds, or Treasury inflation protected securities (TIPS), commodities historically have a strong positive correlation to inflation.



Source: Bloomberg L.P., 10 year period ending August 31, 2017. An investment cannot be made directly into an index. Inflation is measured by changes in the CPI. Asset classes are represented by the following indexes respectively: Commodities: DBIQ Optimum Yield Diversified Commodity Index Excess ReturnTM; TIPS: BofA Merrill Lynch U.S. Inflation-Linked Treasury Index; Gold: Gold Spot Fix pm; REITs: MSCI U.S. REIT Index; U.S. equities: S&P 500 Index; Developed markets: MSCI EAFE Index; Emerging markets: MSCI Emerging Markets Index; and U.S. bonds: Bloomberg Barclays U.S. Aggregate Bond Index.

Growth, inflation and commodities The U.S. Dollar Index is currently down 9.8% since the beginning of 2017, stimulating cross-border lending, synchronized global economic growth, increasing demand for commodities, and, as a result, inflation. Investors wishing to capitalize on these dynamics may wish to consider the diversification benefits of broad commodity exposure.

4 A looming U.S. budget showdown and other risks could spark volatility. What is your outlook for the months ahead?

PIMCO

Ryan Kagy, Senior Vice President
Pacific Investment Management Company, LLC

With a nine year bull market, a seemingly synchronized state of global growth, easy financial conditions, and historically low volatility, it is easy for market participants to be lulled into complacency. Though we view an imminent downturn in markets over the cyclical horizon (6-12 months) improbable, this sense of tranquility combined with underlying macro & political risks and uncertainties could leave investors vulnerable.

Coming out of our most recent cyclical forum, PIMCO concluded that emphasis on preservation of capital will be paramount, keeping a keen focus on the ABCs of caution: the **a**ging U.S. economic expansion, the coming end of central bank **b**alance sheet expansion, and **C**hina's political and economic course following the party congress.

On **aging**, as the U.S. expansion matures, slack in the labor market keeps eroding, and little progress on the administration's fiscal stimulus agenda, we expect GDP growth to slow to a below-consensus 2% or less and core CPI inflation to pick up to 2% in the course of 2018. Along the lines of political risk, the closed-door compromise on a debt

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ceiling suspension between President Trump and Democrat Minority Leader Pelosi and Senate Minority Leader Schumer, seems to present more uncertainty than stability for the administration's agenda. With a combination of a packed December in Washington, a strained relationship between the President and congressional Republicans, another failed "repeal and replace" Obamacare effort, and the widening views on tax reform, PIMCO continues to assign a low likelihood of a bipartisan tax reform deal. Still, on the basis of heightened political will, we assigned a roughly 50/50 chance of Republicans passing a more modest tax package on a party-line vote in the cyclical timeframe.

While the baseline of the Fed's **balance** sheet unwind and the European Central Bank's ongoing tapering – and broader central bank tightening – should be broadly priced in, risks still lurk in the shadows. Investors should not forget we are in an unprecedented monetary policy environment and the continuity of Fed's chair and its board members is uncertain.

The risk around **China** centers on the implications of the more centralized and concentrated leadership that is likely to result from the party congress in October. A likely scenario is the new/old leadership targets policy where China is not an exporter of volatility to global markets. However, a possible tail risk is significant policy pivots, leading to a policy mistake, and a more assertive China, which would potentially escalate trade conflict and disrupt the balance of global growth.

On the brighter side, our baseline economic forecast is for a continuation of synchronized world real GDP growth at a decent 3% pace in 2018 (same as this year), low near-term recession risk, a moderate pickup in underlying inflation in the advanced economies, mildly supportive fiscal policy and a gradual removal of monetary accommodates. With that said, in an environment where tail risks are skewed to the downside and valuations continue to richen, there is little room for error, necessitating a cautious approach to portfolio construction.

5 Which sectors are you looking to for growth in the 6 to 12 months ahead?

Ted Hospodar, Product Specialist
DoubleLine Capital

DoubleLine®

At DoubleLine, we currently prefer infrastructure debt corporate credit because investors can potentially benefit from:

- Historically lower default rates than traditional corporate bonds[1]
- Historically higher recovery rates than traditional corporate bonds [1]
- Strong underlying fundamentals
    - High barriers to entry; often monopolistic assets
    - Inelastic demand for essential services
    - Predictable cash flows due to project contracts

Infrastructure debt finances projects, assets or companies that provide essential services in strategic sectors of the economy. Investments can include debt that finances airports, toll roads, power plants and renewable energy. Additionally, it can also include investments secured by infrastructure related assets, such as aircraft and telecom towers.

[1] Source: *Moody's, July2016 "Infrastructure Default and Recovery Rates, 1983-2015.".*

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Institutional investors have invested in the infrastructure sector mostly through private equity transactions. Infrastructure debt, however, is a growing investment opportunity that has arisen over the past several years due to increasing regulatory constraints on infrastructure lending such as Basel III (a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector). Commercial banks, which have traditionally been the largest lenders to infrastructure projects, are reducing their exposure leaving a funding gap that needs to be filled by other means.

Historically, we have used infrastructure debt within our multi-sector and asset allocation portfolios for its diversification benefits, relative value opportunities and attractive credit profiles. We believe the sector provides an interesting investment opportunity for investors currently looking for investment grade credit exposure outside of corporate bonds or as a complement to their existing strategies.

At DoubleLine, we believe parts of the corporate bond market are overvalued and we are concerned about their attractiveness relative to other fixed income sectors in a rising rate environment. Corporate spreads tightened this year even while rates were falling. This pattern is unusual as typically falling rates are associated with stress within corporate bonds and in the economy broadly. The relative longer duration in the corporate bond space along with spread tightening in a declining rate environment make the corporate bond sector less attractive.

DEFINITIONS

BofA Merrill Lynch US Inflation-Linked Treasury Index is an unmanaged index comprised of U.S. Treasury Inflation Protected Securities with at least $1 billion in outstanding face value and a remaining term to final maturity of greater than one year.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index considered representative of the U.S. investment-grade fixed-rate bond market. Includes government and credit securities, agency mortgage pass through securities, asset-backed securities, and commercial mortgage-backed securities.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DBIQ Optimum Yield Diversified Commodity Index Excess Return is a rules-based index composed of futures contracts on 14 of the most heavily-traded and important physical commodities in the world.

Gold Spot Fix is the setting of the price of gold that takes place via a dedicated conference line. It was formerly held on the premises of Nathan Mayer Rothschild & Sons by the members of The London Gold Market Fixing Ltd.

MSCI EAFE Index is an unmanaged index considered representative of the market structure of the developed equity markets in Europe, Australasia and the Far East.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI World Index is an unmanaged index considered representative of stock markets of developed countries.

MSCI U.S. REIT Index is a free float-adjusted market capitalization index that is comprised of equity REITs. The index is based on MSCI USA Investable Market Index (IMI) its parent index which captures large, mid and small caps securities.

S&P 500 Index is an unmanaged index which contains 500 of the largest U.S. industrial, transportation, utility and financial companies deemed by Standard and Poor's to be representative of the larger capitalization portion of the U.S. stock market.

U.S. dollar index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

VIX is the Chicago Board Options Exchange Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

Correlation, in this publication, is a statistic that measures the degree to which two securities move in relation to each other.

R-squared is a statistical measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index.

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