

Volatility then Rally?

History tells us equity markets can be volatile during midterm election years. But history also tells us the backend of midterm election years tend to be constructive for equities, especially when economic and earnings growth are supportive, as is the case currently. The bottom line: as we believe this long-running secular bull has another leg or two to run, any equity market pullback of significance in the weeks and months ahead should be viewed as a potential opportunity to average in at more attractive prices.

Federated Equity Forecasts

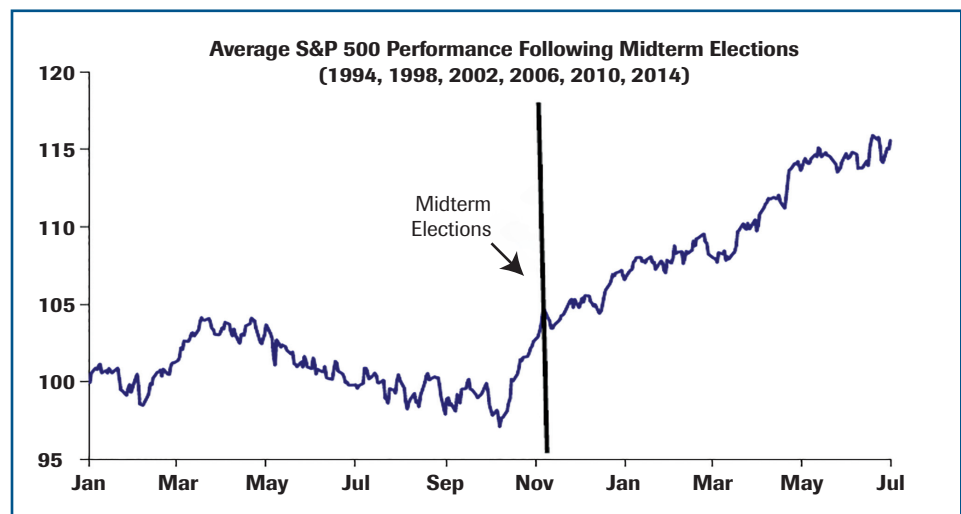
Bolstered by a supportive macro and policy environment of tax cuts, increased federal spending and muted Fed rate increases, Federated expects economic growth, earnings and the S&P 500 to keep trending upward. In 2019, it projects GDP growth to hit 3%, S&P earnings-per-share to rise to \$175 and the S&P 500 to reach 3,500 by year-end.

	2016	2017	2018E	2019E
Real GDP	1.60%	2.20%	3.00%	3.00%
Core PCE	1.60%	1.50%	2.00%	2.20%
10-Year Treasury Yield	2.50%	2.40%	3.25%	3.50%
Fed Funds Rate	0.50-0.75%	1.25-1.50%	2.00-2.25%	2.75-3.00%
S&P 500 EPS	\$118	\$130	\$160	\$175
Target P/E	19.5x	20.8x	19.4x	20.0x
S&P 500 Target Price	2,250	2,700	3,100	3,500

PCE = Personal Consumption Expenditures. 2016 and 2017 data is actual. Views are as of 9/12/18. Past performance is no guarantee of future results.

Average Midterm Election-Year Correction is a Possible Buying Opportunity

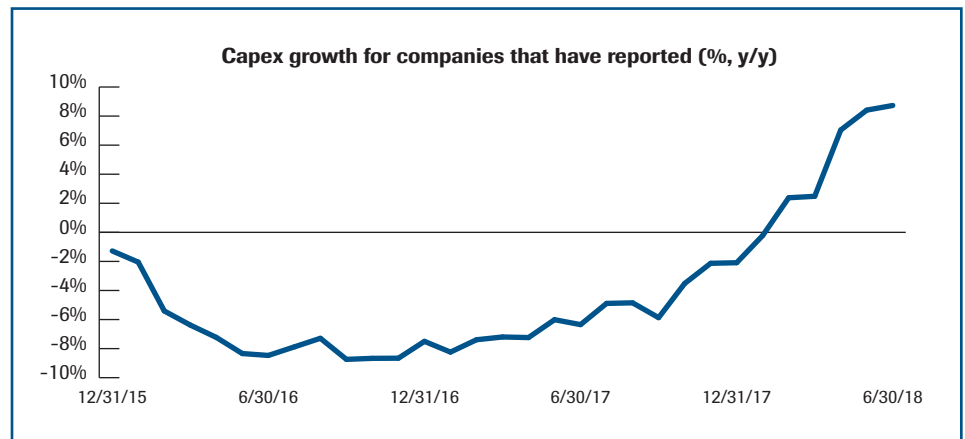
Dating back to 1994, S&P 500 performance in midterm election years has tended to rally the final two months of the year after experiencing volatility in the summer months. These pre-election months have presented opportunities to buy shares at more attractive prices prior to their typical end-of-year run.



Source: Strategas as of 4/2/18. Past performance is no guarantee of future results.

A Sea Change In Washington

Bolstered by a White House and policies viewed as business friendly, companies are stepping up the pace of productivity enhancing capital investment. A key driver was the corporate tax cuts effective in 2018 that reduced the corporate income tax rate and allowed for more favorable tax treatment of capital expenditures such as equipment purchases and plant expansions.



Source: Ned Davis Research as of 6/18.

Confidence Metrics Are Surging in 2018

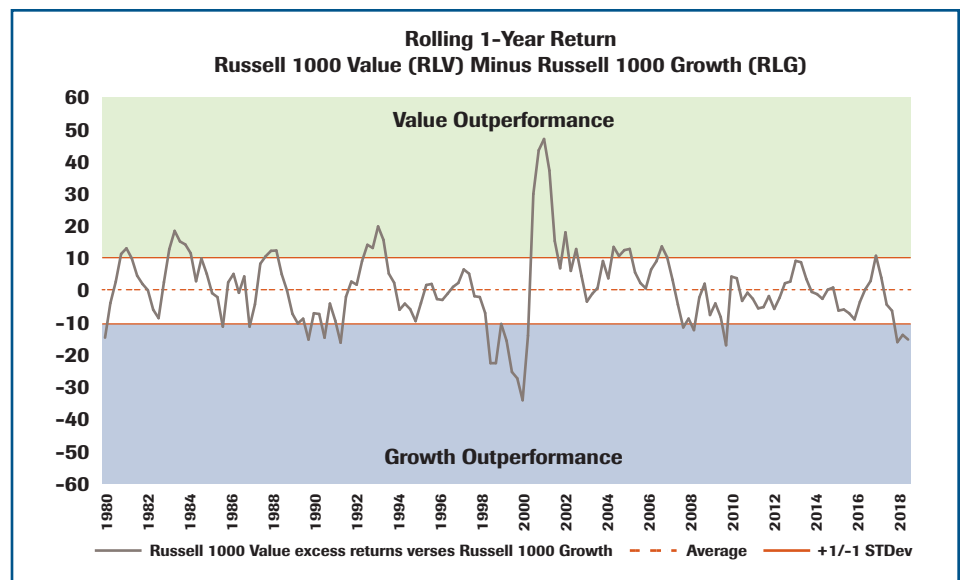
Businesses, consumers and manufacturers like what they see, with a variety of confidence and activity gauges running at multidecade and in some cases multigenerational highs.



Source: Bloomberg.

Domestic Large Cap Value due to Outperform?

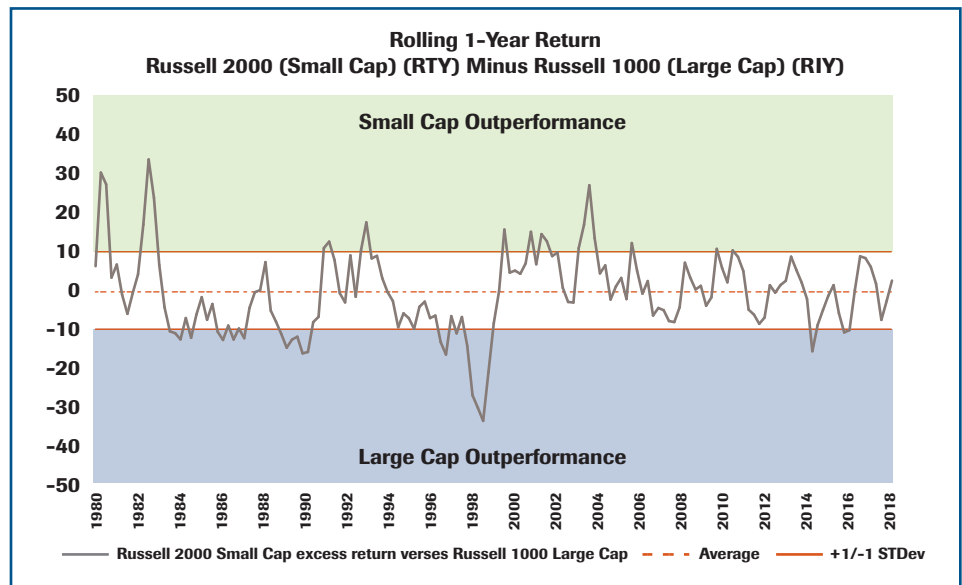
The technical backdrop comparing the historical performance of large-cap value and large-cap growth stocks relative to each other suggests that large-cap value stocks are due to potentially outperform large-cap growth stocks. Value has been underperforming growth for some time and is due to revert to the mean, i.e. outperform growth.



Source: Morningstar, Inc. as of 6/30/18. Past performance is no guarantee of future results.

Overweight on Domestic Small-Cap Stocks is Working

For a variety of reasons—their insularity from trade hiccups, stronger fundamentals and rising merger and acquisition activity—U.S. small-cap stocks are on a roll. Specifically, smaller companies have been less affected by global trade issues because of their domestic focus; are benefiting from stronger U.S. growth relative to other economies; and often are bought by larger firms for a premium during periods of relatively low debt costs and rising stock prices.



Source: Morningstar, Inc. as of 6/30/18. Past performance is no guarantee of future results.

Stock Market Performance After an Inverted Curve

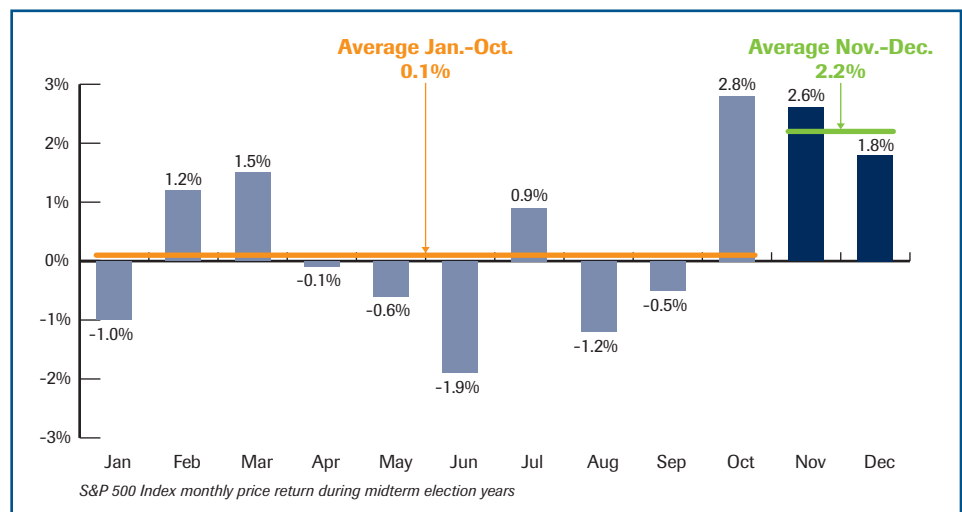
All the handwringing over a flattening yield curve nearing inversion misses a key point: recessions historically don't come until well after inversion.

Curve Inverted	Lead Time	S&P 500 Returns	Recession Started
August 1978	1 year, 5 months	11% ↑	January 1980
September 1980	10 months	4% ↑	July 1981
January 1989	1 year, 6 months	20% ↑	July 1990
June 1998	2 years, 9 months	2% ↑	March 2001
December 2005	2 years	18% ↑	December 2007

Source: Cornerstone Macro as of 6/18.

Watch for a Strong Midterm Finish

In sum, historical midterm election-year performance, market technicals and supportive economic fundamentals suggest stocks continue to offer upside, with smaller-cap and large-cap value stocks offering the potential for outperformance relative to other segments of the market.



Source: S&P, FactSet and Federated. Data as of 5/3/18. Past performance is no guarantee of future results.

Views are as of 9/12/18 and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Russell 1000® Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® Index companies with lower price-to-book ratios and lower expected growth values. The R1000V is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Russell 1000® Value Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® Index companies with lower price-to-book ratios and lower expected growth values. The R1000V is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Russell 1000® Value Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

S&P 500 Index is an unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Indexes are unmanaged and cannot be invested in directly.

The value of equity securities will rise and fall. These fluctuations could be a sustained trend or a drastic movement.

Small company stocks may be less liquid and subject to greater price volatility than large capitalization stocks.

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