MORSE ASSET MANAGEMENT, INC.

805 Third Avenue, Suite 1120, New York, NY 10022

2019 Q4 Investment Outlook- January 18, 2020

Economic growth is positive, trade and monetary policy risks have abated, and sentiment has improved. The weight of the evidence remains positive and the path of least resistance continues to be upward. We are cautiously bullish for the year ahead.

On the corporate and consumer front, little has changed since our last letter. Trade and policy uncertainty continued to weigh on business spending and general CEO confidence remains low. Corporate earnings growth has slowed but is stabilizing. Consumer confidence and spending continues to be robust. Notable changes that have impacted the markets in the fourth quarter were monetary and trade related. Global central banks shifted policy back to further easing, providing abundant liquidity and steepening the yield curve. Tangible progress was made with Brexit and a Phase One agreement with China, which improved the overall market sentiment.

The Federal Reserve remains accommodative. In 2019, they unwound most of the prior year's rate hikes and in the fourth quarter added over 400 billion to their balance sheet. The majority of global central banks followed a similar path. This infusion of liquidity ultimately flowed to the equity markets, driving demand and causing expansion of P/E multiples, benefiting growth stocks and taking the US markets to new highs.

Manufacturing indices in the US continued to be weak and were at best neutral through the fourth quarter. However, global manufacturing indicators continue to rebound off lows. US Non-Producer Manufacturing Index (NMI), other service sector indices and small business optimism remain strong.

US Corporate earnings remain weak but have not deteriorated further. According to Factset's *Earnings Insight* on January 17th, 2020 the year-over-year S&P 500 blended earnings growth rate for the fourth quarter of 2019 is -2.1% and revenue growth +2.7%. Analysts continue to expect earnings growth to turn positive and accelerate throughout 2020.

Valuations are now above average, following the market's run-up into year end. But new highs do not necessarily mean we are yet at the peak, especially with the breadth of the recent rally. Considering the market context, we do not believe the current levels are overly concerning. However, a pause would be healthy. We will need to see a follow through in earnings growth in the next few quarters in order to justify the current levels and potentially lift markets to new highs. A presidential election year will add uncertainty, but the near-term risk, albeit unlikely, would be an unexpected change of course by the Fed.

It is important to step away from a short-term focus and consider the bigger picture. One trend that adds context is the current age demographics in the United States, specifically the mature-to-young ratio. As we previously referenced, this ratio indicates a favorable trend when the population of prime earning, accumulation and spending (ages 35-49) is greater than that of the young (ages 20-34). We last saw this beneficial trend play out with the Baby Boomers, during the period of 1985 to 2000. This bulge in demand contributed to one of the most significant moves in US market history. We are currently at the beginning of another favorable period with the maturing of the Millennial generation. Chart 1 and 2.

While not predictive, the mature-to-young ratio is important when considering potential outcomes ahead. The demand created by this demographic trend coinciding with powerful innovation cycles (5G, AI, IoT, Cloud Computing, Enterprise Software) opens the possibility that the current bull market can continue.

We are disciplined; focused on the facts, fundamentals, and long-term trends most relevant to your investments.

Morse Asset Management Investment Team

Robert B. Morse, Jian Wang, James Cushing

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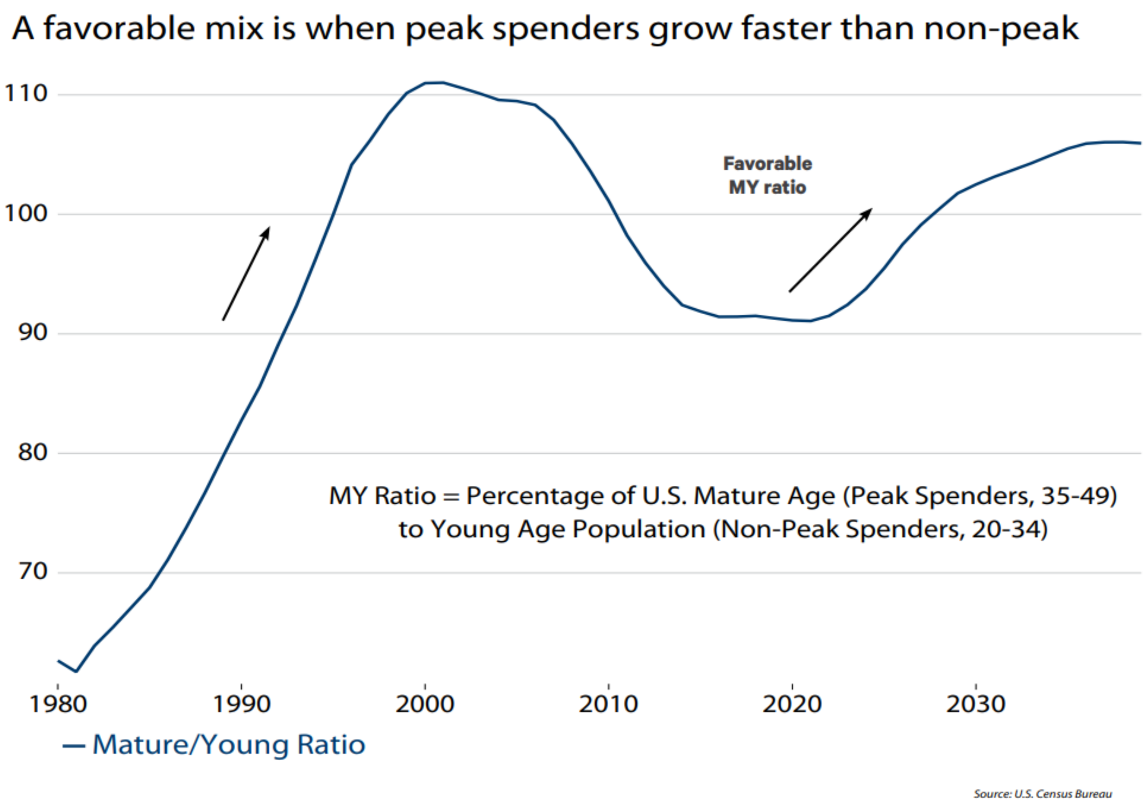
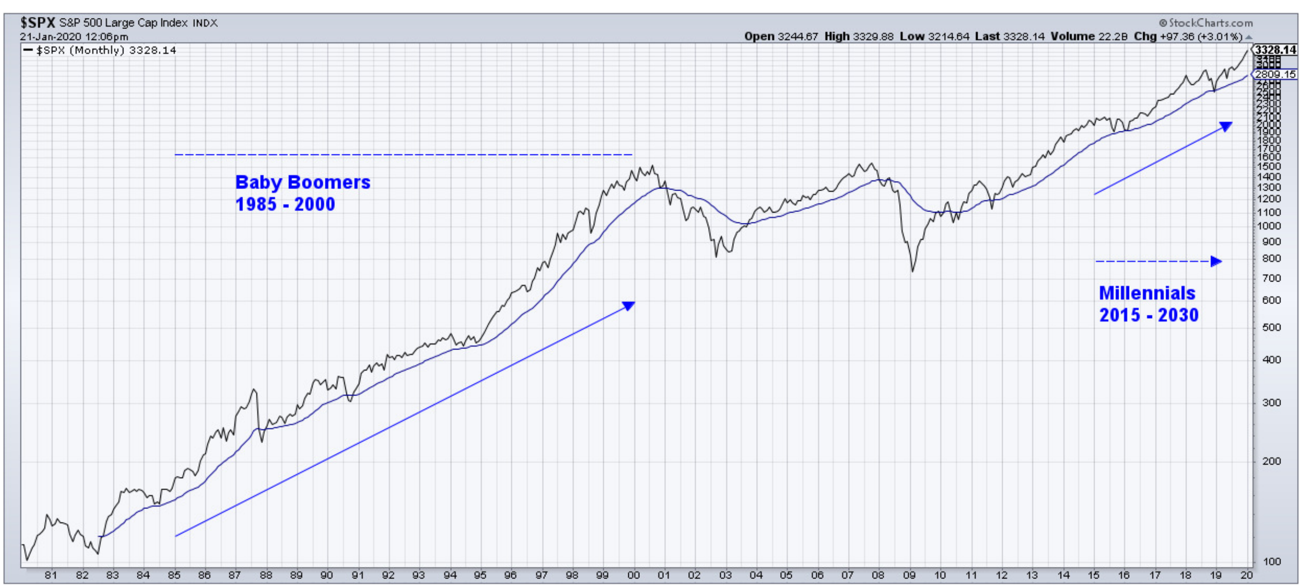
1. Mature to Young Ratio



Source: Ned Davis Research, US Census Bureau

2. S&P 500 Index – 1980 to 2019



Source: Standard & Poors, Stockcharts.com