Global Market Snapshot

Key Market/Economic Observations

United States

Trade Headlines Dominate; Cue the Midterms

- Despite escalating trade war concerns, heightened by President Donald Trump threatening to impose tariffs on all $500 billion of Chinese imports, domestic markets maintained their focus on a sound fundamental backdrop. Year to date, as of July 30, the S&P 500® has risen approximately 5.4%, and including the reinvestment of dividends has a total return of 6.5%.
- We expect the economic expansion to continue in 2018 and 2019, aided by fiscal stimulus from tax cuts and an increase in federal spending. Second-quarter real GDP growth rebounded to 4.1%. PNC forecasts GDP growth of 3.0% for all of 2018, up from 2.3% last year. The near-term outlook for growth is strong.
- Despite recent messaging from the White House, we don't believe real GDP growth of 3% or more is sustainable over the longer term. The math is simple: given current demographic trends, labor force growth can add 0.6% to growth (assuming the unemployment rate stays at historically low levels, which we think is doubtful). In the best-case scenario, productivity growth would spike back to pre-Financial Crisis levels of 2.2%. This means an optimistic case can be made for 2.8% real GDP growth potential over the longer term.
- Second-quarter earnings season is officially underway. The current blended earnings growth rate is 21.3% for the S&P 500 versus the comparable quarter a year earlier. If realized, this will be the second-highest quarterly growth rate since 2010, only behind first-quarter 2018 when earnings grew 24.7%. Earnings growth is expected to be at or above 20.0% for the remainder of 2018. To date, we have not seen a material impact on earnings expectations as a result of trade concerns.
- Rhetoric surrounding midterm elections will likely begin to heat up as we head into late summer and early fall. Given the highly charged environment and the history of midterm election years, a rise in volatility is possible, most often caused by a policy event. Examples include attempts to impeach President Bill Clinton in 1998, steel tariffs in 2002, geopolitics in 2006, and the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010.[1] According to Strategas Research, midterm election years have seen larger-than-average intrayear drops of 19% compared with 13% in the other three years of the presidential terms. However, these downtrends are fleeting, as the S&P 500 has not declined in the 12-month period following any midterm election since 1946. We address the midterm elections and nine other frequently asked investor questions in our Third-Quarter 2018 *Strategy Insights*.[2]
- President Trump does not appear to be backing down from Chinese tariffs, and we expect headline risk to counterbalance exceptionally strong earnings to a degree. However, it is important to remember the trade situation can change very quickly. For example, President Trump's meeting with European Commission President Jean-Claude Juncker seems to have yielded progress, potentially avoiding major trade escalation between the two allies.
- Further, in an environment of rising inflation expectations and tighter monetary policy, equities may be hard pressed to realize any sustainable multiple expansion. Therefore, earnings growth, in our view, will likely be the most critical driver of equity market returns.

[1] Strategas Research Partners, "China Trade Wars are Escalating but Fiscal Policy Far Outweighs Tariffs," July 11, 2018.
[2] Strategy Insights: The Top 10 Most Frequently Asked Questions of 2018, Third-Quarter 2018.

Europe

Autos and Brexit Hit a Crossroads

- The threat of a 20% auto tariff on European Union (EU) auto exports to the United States, as proposed by the White House, surprised markets in mid-July. To put this in context, a 20% tariff on EU autos would amount to an estimated cost of $73 billion, larger than the aggregate of all other tariff proposals (including washing machines, steel, aluminum, and products exported from China), which would have a total estimated cost of around $60 billion in 2019.
- On July 25, President Trump and European Commission President Juncker announced the United States and Europe would "work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods," ostensibly putting a hold on an EU auto tariff. The announcement served as an unexpected positive surprise to markets. However, given the size of the potential tariff and the importance of the auto industry to both the U.S. and EU economies, markets will be watching closely for further developments.
- Additionally on the trade front, the EU and Japan signed a new free trade deal in mid-July, capping their 25th annual trade summit. The trade agreement is the biggest ever negotiated by the EU, opening a trade zone covering more than 600 million people and nearly a third of global GDP. The agreement removes the majority of the €1 billion of duties paid annually by EU companies exporting to Japan.
- We continue to see a large yield advantage in U.S. versus German government bonds. The current U.S. Treasury (2.98%) versus German bund (0.45%) 10-year spread is 253 basis points (bps). In part, we believe this persistent backdrop of lower global yields is compressing the U.S. term premium,[3] which serves as a headwind to higher long-term U.S. interest rates and may be promoting a flatter yield curve beyond what underlying economic fundamentals would dictate.
- Also, in response to this persistent interest rate differential, the euro-to-dollar exchange rate has fallen 6.5% since peaking at 1.25 earlier this year. Although we are not calling for a materially stronger euro in the near term, our conviction regarding further euro-to-dollar weakness has diminished after the moves we have seen year to date.
- The IHS Markit Eurozone Manufacturing Purchasing Managers' Index (PMI®) bounced back nicely in July, coming in at 55.1 compared with consensus of 54.7 and a reading of 54.9 in June. Since hitting a cycle peak of 60.6 in December 2017, manufacturing PMI, a commonly used proxy for fluctuations in the business cycle, has fallen each month this year until July's reading.
- Consistent with improved PMI data, the Eurozone Economic Surprise Index, which serves as a barometer of how the economic zone is doing relative to expectations, has bounced off its lowest levels since 2011 over the last few months. Overall, the economic environment remains constructive, supported by extremely accommodative monetary policy and the lowest unemployment rate (8.4%) since December 2008.
- Several high-profile members of U.K. Prime Minister Theresa May's cabinet resigned recently, including Brexit Secretary David Davis and Foreign Secretary Boris Johnson. The resignations were in response to a deal proposed by Prime Minister May which attempted to convince her cabinet, and in turn her base, to back a softer Brexit deal with the EU. Ultimately, it appears the deal proposal only served to further fracture her negotiating efforts and is the latest example of the uncertain path ahead for Brexit negotiations. For much more on Brexit see this month's Strategy Views section on page 4.

Japan

Bank of Japan Stays Committed to Monetary Stimulus

- In the last full week of July, Japan's 10-year sovereign bond yield rose to its highest level (0.10%) since early February on speculation

[3] Term premium is the extra yield required by bond investors to hold on to a long-term bond in place of a series of short-term bonds.

the Bank of Japan (BOJ) may alter its monetary stimulus programs. Since late 2016, the BOJ has enacted a yield curve control policy, targeting the 10-year Japanese government bond at 0%. Speculation had a ripple effect across global government bond yields, also leading to a 10-bps jump in the 10-year U.S. Treasury yield. We continue to believe market participants are overestimating the potential for a BOJ policy shift.

- Inflation for the month of June came in below expectations and well short of the BOJ's long-term 2% inflation target, further highlighting our belief that the BOJ is far from slowing monetary stimulus. The report on the core Consumer Price Index (CPI), which excludes energy and fresh food, came in at 0.2% on a year-over-year basis, the lowest level in eight months. Core CPI growth in Japan has not been above 0.5% on an annualized basis in more than two years.
- In spite of low inflation measures and global trade headline risks, the Japanese economy remains robust. The most recent industrial production report beat consensus estimates, and its growth has been in a solid upward trend since late 2015. Likewise the June reading of the forward-looking Tankan business conditions survey came in at its highest level since 2007.
- Public opinion surveys in late June saw Prime Minister Shinzo Abe's approval rating boosted to its highest levels since February. With national elections scheduled for September, we believe the success of Abenomics is heavily tied to the political capital of the Abe administration, and the strong rebound in public opinion after a scandal earlier in the year is an encouraging sign.

Emerging Markets

China's ZTE Corp. Avoids Being a Trade War Casualty; Mexican Equities Rally on Election Results

- On July 6, China's second largest telecommunications equipment maker, ZTE Corporation, received authorization to resume business in the United States on a limited basis after initially being struck with an outright seven-year ban. An unpopular decision among some White House officials and members of Congress, the authorization was viewed by political insiders as a potential turning point in the U.S./China trade negotiations. To meet the request from Chinese President Xi Jinping, President Trump removed the sanctions on ZTE, saving 85,000 Chinese jobs. China did not reciprocate later in the month, and allowed the QUALCOMM Incorporated (QCOM)/NXP Semiconductors (NXP) merger deal to pass its deadline without issuing an approval. We believe these actions will likely keep trade tensions elevated between the two largest global economies.
- While trade talks dominate the headlines, economic data from China continue to find solid footing, albeit at a decelerating trend. Retail sales for June beat expectations; however, the report was the second slowest growth rate for the metric in the last 10 years, with last month being the slowest. Second-quarter GDP met consensus expectations, growing 6.7%, which is a step down from the first quarter at 6.8% and continues to support the view that the Chinese economy is slowing. The consensus estimate for China's full-year GDP growth is 6.6% and, if realized, would be the lowest level in more than 10 years.
- Interestingly, PMI survey data (an important leading economic indicator) continue to diverge from other metrics. The Caixin China PMI™ reading for June came in above expectations, with the topline composite reading of 53.0 was the highest level since February.
- Mexican equities are among the best performers over the last month, up over 15%, driven primarily by the positive outcome of the landslide presidential election in early July. Despite efforts by the United States to overhaul the North American Free Trade Agreement (NAFTA), Mexico is expected to be a beneficiary of trade and tariffs affecting Chinese production. This is evidenced by the recent strength in the peso, which could offset negative changes to NAFTA.
- While Mexico appears poised to potentially benefit in the current environment, Argentina's finance ministry recently lowered its 2018 GDP forecast from 1.4% to 0.6%. With inflation spiking to its highest level going back to 1999, we expect GDP growth in real terms will turn negative and the country will possibly face a

recession in the latter half of the year. This comes after MSCI announced in June that Argentina will be upgraded to an emerging market effective in mid-2019.

Energy

Crude Oil Pulls Back amid Trade-Driven Commodity Malaise despite Dwindling Excess Capacity

- Threats of escalating trade tensions between the United States and China weighed on commodities in July. The broader Bloomberg Commodity Index fell 2.8% and crude oil fell 5.1% as the United States threatened to impose additional tariffs on $500 billion of Chinese goods.
- Early in the month, Saudi Arabia rushed to boost oil production in response to a White House request to help cool domestic gasoline prices by filling the supply gap anticipated due to sanctions on Iran. But with Iranian production coming offline more gradually, the Saudis have had to discount the additional supply.
- The global oil market has become increasingly tight by historical standards. OPEC's excess capacity has dwindled to levels last seen in 2008, according to Bloomberg data, raising concerns the market may not be able to cope with additional unforeseen outages after recent disruptions in Venezuela, Libya, and Iran.
- Geopolitical risk remains in the forefront as a war of words between the United States and Iran swelled in July. The escalation is shining a spotlight on the Iranian-bordered Strait of Hormuz, a key to transportation out of the Persian Gulf as the conduit for 18.5 million barrels per day, or 30% of global oil traffic.
- The Energy sector followed crude lower in July, underperforming the S&P 500 by 2.1%, but continues to outperform by 5.6% year to date amid high refinery utilization, rising exports, and stronger production economics.
- S&P 500 Energy earnings revisions have exhibited strength since the end of June, with earnings estimates for 2018 and 2019 rising 1.0% and 1.3%, respectively, despite volatility in the underlying commodity.
- With just 16 of 31 S&P 500 Energy companies reporting second-quarter earnings, it is still too early to make broad assertions. But initial indications suggest that cost pressures continue to ramp up amid high competition in premiere basins, such as the Permian.
- Domestic oil production remains robust, reaching 11 million barrels per day for the first time, a 17% year-over-year increase, aided by a 45% increase in exports year over year.
- The Federal Energy Regulatory Commission (FERC) issued its final ruling in relation to income tax allowances for natural gas pipelines. The final ruling is seen as an incrementally positive shift in policy from the initial proposal in March 2018, offering several compromises that are beneficial for master limited partnerships (MLPs) and pipeline operators. For a more detailed update, please see our July 2018 Market Update: *MLPs Rally after Incrementally Positive FERC Ruling*.

Strategy Views

Brexit – Overshadowed by Trade, but Must Not Be Forgotten

On June 23, 2016, the United Kingdom (U.K.) voted to cede its membership from the EU, catching financial markets by surprise and sending major market indexes sharply lower over the days that followed. Unfortunately, the lack of direction in Brexit negotiations since the vote has done little to assuage investor concerns, particularly as March 29, 2019, known as "exit day," quickly approaches.

Over the past several months, businesses both in and outside of the U.K. have increasingly voiced their concerns over how the Brexit negotiations are progressing. For example, on a recent earnings call Ryanair, a U.K. airline, said "we believe that the risk of a hard Brexit is being underestimated." Politicians in the U.K. and the EU have voiced similar concerns. We believe it is important to examine how Brexit has affected markets thus far, and what the outlook looks like over the coming year.

Politics Slows Progress

There are several reasons for the lack of progress in Brexit negotiations. Certainly, the EU has little incentive to quickly find common ground; a difficult and painful process would serve as a useful deterrent to other EU member countries considering a similar break from the union. However, the biggest obstacle to negotiations continues to be a lack of a unified British public over what Brexit outcome is best. Without a universal definition, a "soft" Brexit is one which critics might consider overly amenable to EU demands; a "hard" Brexit would take a much firmer stance on U.K. protectionist policies. Proponents of both a soft and hard Brexit seem displeased with Prime Minister May's positions.

With the resignation of two key Cabinet members in early July, Prime Minister May is narrowly holding on to the premiership. Her last major vote in Parliament—a series of Brexit amendments—passed with only the slimmest of majorities (three votes). It appears to some that she is only maintaining her leadership grip because the alternative is likely worse: a vote of no confidence leading to new elections and a new prime minister with little time to negotiate any deal absent a negotiation extension.

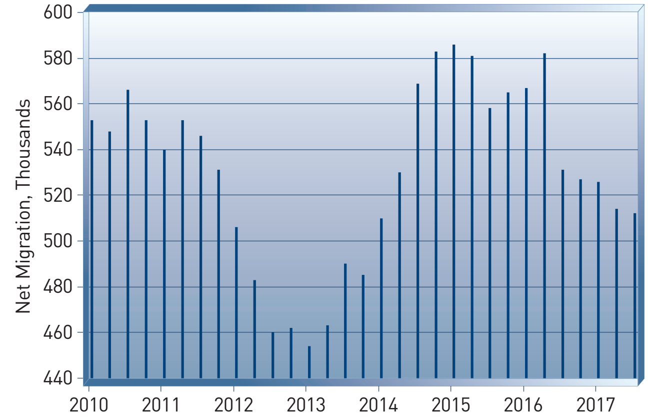
Major Issues Remain Unresolved

The lack of political direction has left major issues unresolved. As of this writing, the primary issues include:

- the size of the divorce bill (how much the U.K. owes the EU due to preexisting financial commitments);
- trade agreements post-Brexit; and
- defining the relationship the U.K. will have with EU members, in particular Ireland.

One of the biggest factors leading to the pro-Brexit vote was the expected limitation on further immigration. The EU abides by the Single European Labor Market law, allowing for open borders within most of the EU. Largely, this law has been ill received by the U.K., as many believe the influx of immigrants is a drain on domestic resources. Prime Minister May has promised to end free movement/open borders as it currently exists. In its place, she'd like to develop a new "mobility framework" that provides some degree of migration rights between the country and the customs union.

Chart 1
Migration Inflows
As of September 30, 2017



Source: Bloomberg L.P., PNC

Regardless, any restrictions on labor mobility are likely to constrict economic growth for the country. According to BCA Research, since 2010 immigrants have accounted for 47% of the labor force growth. As we have written in previous publications, there is a strong positive correlation between labor force population growth and GDP growth. Currently, the U.K. suffers from the same demographic challenge that many of its EU peers face: a low replacement birthrate and an aging population (Chart 1).

The other major economic issue is trade. The U.K. would prefer to maintain free access to the customs union. However, trade is one issue where the EU certainly has the upper hand. For context, more than 40% of U.K. exports, including both goods and services, went to other EU countries; only 8% of EU exports go to the U.K. Under the most recent proposal, the U.K. would establish a free trade area with the EU and abide by EU rules and regulations.

This proposal highlights one of the ironies of Brexit. A source of contention in the Brexit vote was the perceived loss of sovereignty. Brexit proponents argued that by being a member of the EU, the U.K. lost some of its ability to self-govern, including negotiating its own trade agreements. However, under this proposed plan, which helped instigate the previously mentioned resignation of two cabinet members, the U.K. is securing access to the customs union by adhering to the trade terms the EU establishes. Under such a policy, in effect, the U.K. would be subject to EU rules but, because they are leaving the union, would have limited input into future EU trade rules or agreements.

Economic and Financial Fallout

The long-term economic effects of a Brexit on the U.K. remain uncertain. However, it should be noted that this uncertainty does not necessarily mean negative results. The cost of Brexit largely depends on the terms of British market access to the EU economy, an outcome that negotiations have yet to finalize.

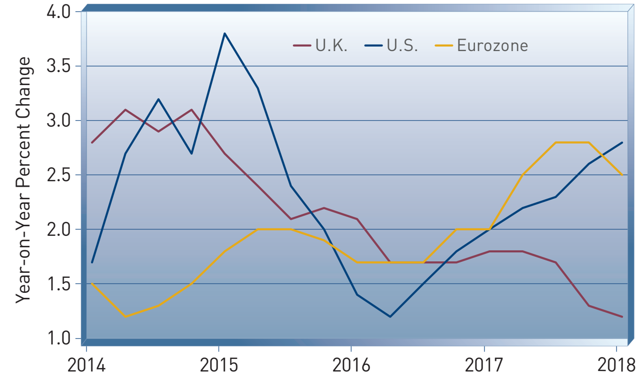
Though the long-term implications remain somewhat ambiguous, Brexit is affecting current conditions. Since the Brexit vote, real GDP (inflation-adjusted) growth has declined, with year over year slipping from 2% in first-quarter 2016 to a paltry 1.2% in first-quarter 2018. Both EU and U.S. growth has significantly outpaced the U.K. (Chart 2). We expect that Brexit-based confusion over the next few quarters will continue to inhibit growth—specifically capital spending and hiring—but the long-term outlook is dependent on the final exit agreement.

Concurrent with the political and economic uncertainty, U.K. financial markets have had trouble keeping pace: the British FTSE Index is up only 24% since June 1, 2016 (just before the Brexit vote) compared with a 35% return for the S&P 500. Adjusting for the decline of the British pound over the same period would only worsen the performance differential.

The pound may be the biggest victim of the Brexit vote as foreign-exchange markets are often the quickest to react to geopolitical uncertainty. Furthermore, diminished economic growth potential, stemming from more stringent immigration policy and other issues, and the comparatively smaller role that the country would play in international capital markets are helping inhibit currency appreciation today and will likely limit potential over the longer term.

The pound is forecast to hold roughly around its current level of $1.35. If this currency weakness persists as PNC Economics expects, higher import

Chart 2
Real GDP Growth
As of March 31, 2018



Source: Bloomberg L.P., PNC

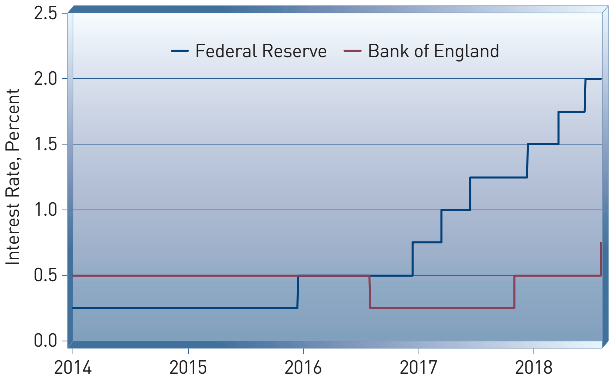
Chart 3
Pound-Dollar Exchange Rate
As of July 25, 2018

Source: Bloomberg L.P., PNC

prices could erode British consumer spending power, further exacerbating economic headwinds (Chart 3). This effect would likely be partially offset by a boost to net exports from a weaker currency. However, it is important to emphasize that these forecasts are predicated on a projected Brexit outcome. Given the way negotiations have proceeded over the past 18 months, policy surprises seem all but assured; thus we think further market volatility should be expected.

Similarly, this uncertainty is forcing the Bank of England (BOE) to hold policy rates steady, despite economic conditions which typically would dictate rate hikes. Currently, U.K. inflation is running at 2.4% year over

Chart 4
Central Bank Policy Rates
As of August 2, 2018



Source: Bloomberg L.P., PNC

year; wage inflation is even higher, at roughly 4%; and the unemployment rate is 4.2% (below the natural rate). Given the BOE's modest rate hike expectations, we believe there is potential for an upside surprise to U.K. rates if the political uncertainty lifts.

For perspective, the BOE has only raised its policy rate twice since the 2008 recession; over the same period the Federal Reserve has raised rates seven times (Chart 4). Without the policy uncertainty weighing on Britain's outlook, we believe it is almost certain the BOE would have raised rates further over the same time period. The BOE has explicitly explained its hesitance to raise rates in light of economic and political confusion stemming from Brexit negotiations, saying "the main challenge continues to be to assess the economic implications of the United Kingdom withdrawing from the European Union and to identify the appropriate response to that changing outlook."

U.S. Effects

The direct effect of any Brexit outcome on the United States is limited by the U.S. economy's small economic exposure to the U.K. Currently, U.S. exports to the U.K. make up only about 0.7% of U.S. GDP. Even if the U.K. falls into recession as a result of Brexit, the hit to U.S. exports would likely be small. However, if Brexit materially affects EU growth, we would expect a comparatively larger, though still small in absolute terms, effect on U.S. growth. Currently, exports to the Eurozone are about 2% of U.S. GDP.

Today we think the greater risks to U.S. markets will continue to be indirect effects on global growth expectations. A prolonged period of uncertainty has the potential to affect global growth expectations for U.S. businesses, including hiring and capital spending decisions. From a currency perspective, investors may seek the safety of the dollar. In fact since the Brexit vote in June 2016, the dollar is up about 15% against the pound. We would expect this trend to continue over the near term.

Conclusion

Overall, the current state of Brexit leaves investors with more questions than answers. Due to the lack of progress in negotiations, it is still too early to fully quantify the long-term impact with any degree of certainty. Our base case remains there will likely be no financial crisis or recession within the U.K. or EU, though there are significant downside risks. However, should negotiations proceed better than expected—or, at this point, even produce a detailed policy outline which looks feasible—the cloud of uncertainty covering markets could be lifted, leaving room for an upside surprise.

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Hawthorn Asset Allocation Playbook

As of: 8/1/2018

Asset Class	Sub Asset Class	Favorability -			Neutral			+	Points of View
Equities					●				
U.S.	Large Cap					●			Relative valuation causes us to narrowly favor large over small. Small-caps have outperformed year to date as investor concerns related to trade and, more recently, a stronger dollar, have driven them to seek protection from less-exposed small-cap stocks. Smaller companies may also benefit from positive tax-reform-related forward guidance; however, valuations remain quite expensive at 22.5x on a forward earnings basis. 30% of small-cap indexes like the Russell 2000® still have no earnings, so be selective when investing in the asset class. Mid-cap has features that may benefit from some of the currently attractive elements of both large and small.
	Mid Cap					●			
	Small Cap				●				
Non-U.S.	Intl. Large/Mid Cap				●				Valuations appear relatively more attractive versus domestic equities, potentially creating attractive long-term opportunities in many international markets. Still largely accommodative monetary policy by global central banks and solid earnings momentum should also provide additional support. However, political risk is again elevated and economic momentum has weakened versus what we are seeing in the United States. Our relative preference for these markets would be greater if it were not for the potential benefit U.S. markets may receive via recent fiscal stimulus.
	Intl. Small Cap				●				
	Emerging Markets		●						Although we like EM for the long term given current valuations, we believe recent weakness could persist. The shorter-term bear case for EM equities rests mainly on tightening liquidity in China, as well as the newfound strength in the dollar. Year to date, EM has underperformed both developed international and U.S. markets.
Fixed Income				●					
U.S.	Short Muni Fixed Income			●					Although interest rates may drift higher given solid economic momentum, we believe we may have already seen the bulk of the move higher in rates for this business cycle. Therefore, we favor positioning fixed income portfolios in the intermediate part of the curve.
	Core Muni Fixed Income					●			
	U.S. High Yield			●					The credit cycle is aging, and valuations should become an increasing headwind for below-investment- grade bonds. Leveraged loans, although more senior in the capital structure, have seen issuance balloon in recent years while covenants have weakened. Given our view on interest rates, credit risk may be starting to outweigh the protection from higher rates.
	U.S. Leveraged Loans			●					
	U.S. TIPS			●					Less value in TIPS with breakeven inflation rates now around 2.20%. We prefer to hedge inflation over the long term via our equity exposure.
Non-U.S.	Global Bond			●					Although we are not overly negative on credit given the strength of the economy, we do believe slowly shifting to higher quality areas of fixed income is sensible given the level of spreads. Unconstrained funds have reached for yield in lower-rated credits.
	Unconstrained Bond				●				
	Emerging Market Bond			●					
Alternatives						●			
Private	Private Real Estate				●				Key drivers include a still relatively constrained supply backdrop, modest leverage levels, and the fact that capital flows into the asset class are becoming increasingly global (that is, investor demand is quite robust).
	Private Debt				●				Middle market lending in the corporate sector is still quite constrained, continuing to create opportunities for private debt investors. Some banking deregulation may open this space up to more traditional bank lending, however.
	Private Equity				●				Opportunity in new/less efficient markets, and a more diverse investable opportunity set; for example via secondaries and “co-investment” options. That said, as with public markets, valuations are extended.
Hedge Funds	Equity Long/Short					●			A transition from a primarily macro-driven market environment to a more fundamentally driven one will be positive for these alpha-generating strategies. Central banks now appear more committed to a steady normalization of interest rates than they have been in years past. We believe differentiated return streams can add value in today’s market versus a tradtional equity/bond portfolio.
	Event Driven					●			
	Relative Value					●			
	Directional					●			
Cash					●				

Tactical Allocations						●			
Tactical	**Master Limited Partnerships**					●			Performance has rebounded after a choppy start to the year. Markets penalized the sector after a potentially unfavorable tax ruling; however, the ultimate outcome was far less severe than many investors feared. Stronger fundamentals and rising energy prices could spur investor interest given currently depressed valuations and underweight energy positioning among equity portfolio managers.
	Infrastructure					●			Defensive qualities and income potential that we like in this market
	Currency Hedged Europe				●				Stable economic conditions, improving earnings growth, and relatively attractive valuations put European equities in a good position despite recent political volatility. The currency hedge has been additive to 2018 performance, but our conviction regarding a materially weaker euro has diminished after significant weakness in the currency since April.
	Currency Hedged Japan					●			Valuations are attractive, earnings growth is strong, and consumer confidence is high. We still like the currency hedge as the BOJ remains easy relative to the Fed and yen positioning (now net long) is no longer supportive of a move higher.
	Energy						●		With higher and more stable oil prices, better capital discipline, and attractive relative valuations, we believe Energy sector equities can outperform the broad market on a tactical basis despite recent weakness.
	U.S. Banks						●		We think valuations, the regulatory backdrop, and the continuation of this business cycle are compelling reasons to tilt toward U.S. banks within value allocations. Banks are historically correlated with increases in cap ex which we believe will continue this year.
	Structured Note (Drawdown)				●				Ability to earn a coupon while waiting for a more attractive entry point into equities can be an attractive strategy. However, cash has become more palatable given the rise in short-term interest rates.

For definitions of indexes used in this publication, please refer to pnc.com/indexdefinitions.