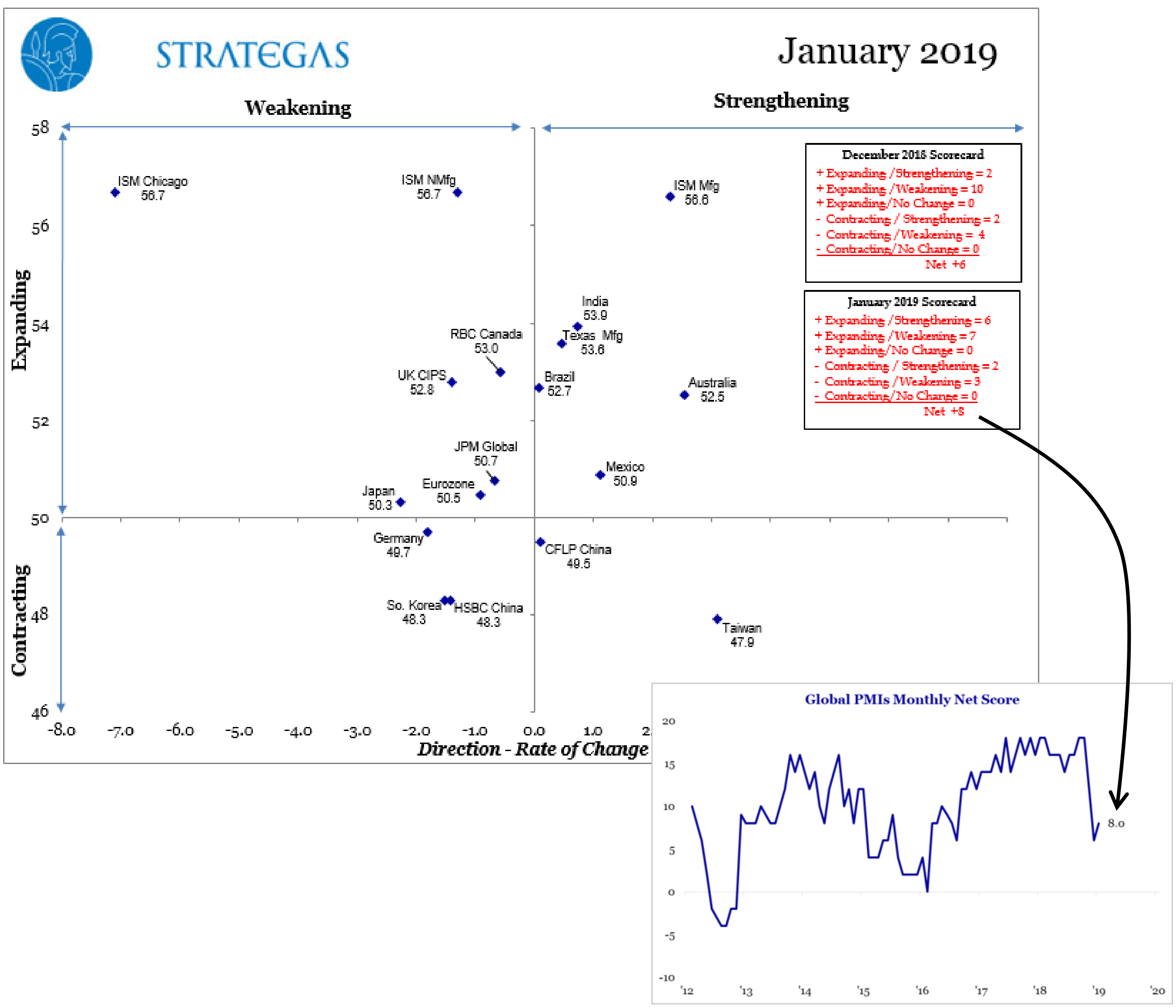
Global Survey Insights
Tue. Feb. 5, 2019

Strategas Securities, LLC

Norbert Ore	(404) 488-7380	nore@strategasrp.com
Erica Halie Comp, CBE	(646) 292-7951	ecomp@strategasrp.com

PMIs – THE LANDING SOFTENS
JANUARY 2019 BUSINESS SURVEY INSIGHTS

We are seeing further evidence of a soft landing in this month's global surveys. China continued to weaken and that appears to be a problem for its other than U.S. trading partners – Japan, Taiwan, and South Korea. The Eurozone appears to be flat lined with negligible growth for the past nine quarters. While 2018 ended with a whimper in many countries, the U.S. continued to lead the way with its significant rate of growth. 2019 appears to be off to a good start with strength in U.S. orders, output, employment, and investment.



PMIs – THE LANDING SOFTENS *Cont'd*

Eurozone: The Eurozone PMI (50.5, -0.9) hit a 31-month low in January as the PMI weakened for the sixth consecutive month. France (51.2, +1.5) and Spain (52.4, +1.3) were the only countries to expand during January. The remaining six countries lost an average of 1.4 pp from their PMI. Notably, Germany (49.7, -1.8) fell below the 50-mark for the first time since Nov'14 when it registered 49.5, while Italy (47.8, -1.4) was the mid-point for the fourth consecutive month. These reports align with the EA's meager GDP growth for the last several quarters.

United Kingdom: The UK/CIPS PMI (52.8, -1.4) posted a three-month low in January. The uncertainty of BREXIT continues to weigh heavily on prospects for significant economic gains.

China: China's Official Report, the CFLP PMI (49.5, +0.1), and the Caixin Manufacturing PMI (48.3, -1.4) was in contractionary territory again. China is very dependent upon trade with Taiwan, Japan, and South Korea which currently average 48.8 (+0.1) percent. These significant Chinese trading partners help explain the depth & breadth of the decline in China's manufacturing and are good proxies for actual conditions in China.

India: India's PMI (53.9, +0.7) accelerated slightly while posting its 18th consecutive month in expansionary territory. Continued growth appears likely in 2019. In January, India supply chains saw the fastest growth of new orders since Dec'17.

South Korea: The PMI (48.3, -1.5) fell below the 50-mark for the third consecutive month. Business confidence remains historically low. New orders, production, exports and confidence are all markedly lower.

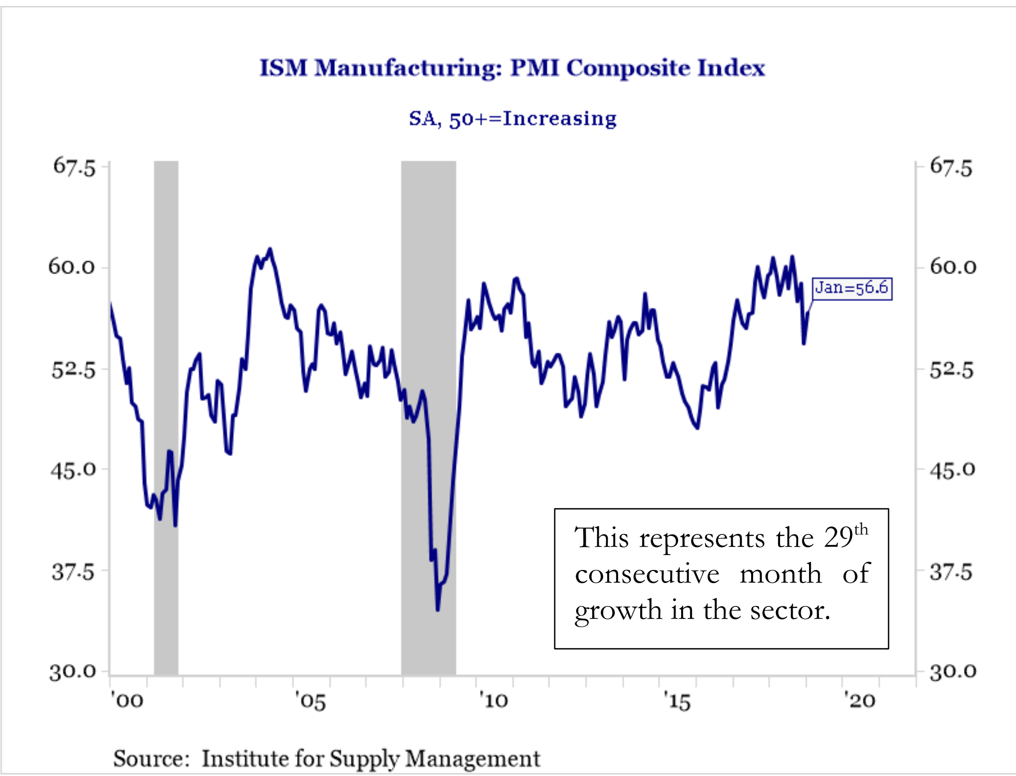
Taiwan: Taiwan's CIER-SMIT PMI (47.9, +3.1) was contractionary for a third month after 33 consecutive months of expansion. The Export (42.8, +4.1) and Import (43.0, +4.0) indexes somewhat reversed their rapid decline, but still have need of improvement to help the economy which has five of six major sectors in decline – only Food & Textiles is growing.

North America: Canada's PMI (53.0, -0.6) expanded for the 35th consecutive month while remaining well positioned for continuing growth. Meanwhile, Mexico's PMI (50.9, +1.2) reversed direction on improved new orders and employment, inching closer to its 2018 average (51.3).

The ISM PMI™

The ISM PMI® (56.6, +2.3) bounced to a level that supports significant continuing expansion in January. Though still faced with numerous challenges, U.S. manufacturing appears to be on very solid footing with improvements in new orders and output after a short-term correction in December. According to the ISM press release: "The past relationship between the PMI® and the overall economy indicates that the PMI® for January (56.6 percent) corresponds to a 4.0 percent increase in real gross domestic product (GDP) on an annualized basis."

It is also worth noting – a PMI® above 43.2 percent, over time, generally indicates an expansion of the overall economy. Therefore, the January PMI® indicates growth for the 117th consecutive month in the overall economy and the 29th straight month of growth in the manufacturing sector. Basically, the manufacturing economy continues to perform ably in a chaotic environment.



Drivers: The manufacturing sector accelerated in January thanks to New Orders (58.2, +6.9) and Production (60.5, +6.4). The remaining components were little change: Employment (55.5, -0.5), Supplier Deliveries (56.2, -2.8), and Inventories (52.8, +1.6).

New Orders Minus Inventories: This key manufacturing measure (5.4 pp, +5.3) shows New Orders rose faster than Inventories in January. Compared to the average gap (+8.2

pp) between New Orders and Inventories, this indicates a return to a more favorable relationship with New Orders growing faster than Inventories.

Customers' Inventories: The Customers' Inventories (42.8, +1.1) Index noted only Nonmetallic Mineral Products as "too high" during January. This is a good indication that there is significant room in manufacturing supply chains for replenishment.

Prices: The Prices Index decelerated once again (49.6, -5.3) breaching the 50-mark for the first time since Feb'16. The monthly average for that timeframe is 64.8, so there is a definite decline in pricing power for sellers at the raw and intermediate goods level.

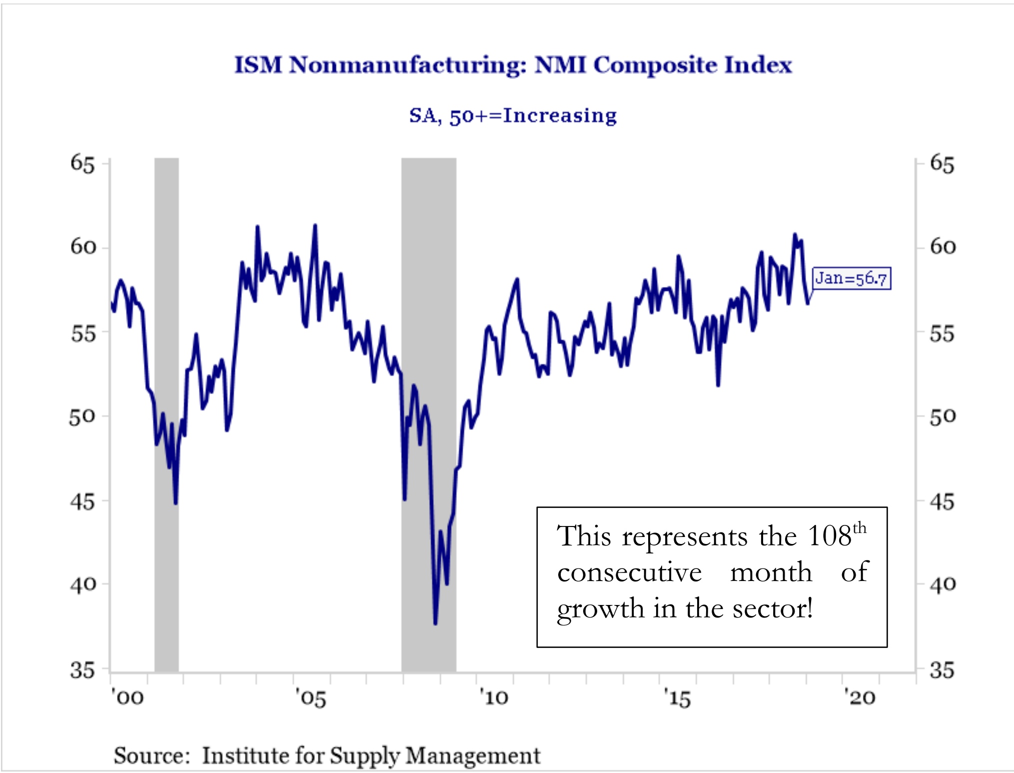
> **Commodities Up in Price:** Electronic Components (6); Freight (2); Nylon Polymer; Printed Circuit Board Assemblies; Printed Circuit Boards (2); Steel* (5); Steel — Hot Rolled*; Steel — Stainless*; Steel Products* (9); Sulfuric Acid; and Valves.
>
> **Commodities Down in Price:** Aluminum (4); Base Oils; Caustic Soda (4); Copper; Diesel; Gasoline (2); Memory; Polyethylene; Polypropylene; Steel* (5); Steel — Carbon; Steel — Hot Rolled* (5); Steel — Stainless*; Steel Products*; and Steel Scrap.
>
> **Commodities in Short Supply:** Capacitors (19); Electrical Components; Electronic Components (9); Integrated Circuits; Nylon Polymer; and Resistors (15).
> *(Note: The number of consecutive months the commodity is listed is indicated after each item.)*

Sectoral Breakdown: 14 of 18 manufacturing industries reported growth in January: Textile Mills; Computer & Electronic Products; Plastics & Rubber Products; Miscellaneous Manufacturing; Furniture & Related Products; Printing & Related Support Activities; Primary Metals; Chemical Products; Transportation Equipment; Machinery; Fabricated Metal Products; Petroleum & Coal Products; Food, Beverage & Tobacco Products; and Electrical Equipment, Appliances & Components. The only industry which contracted in January was Nonmetallic Mineral Products.

	1/31/2019	12/31/2018	11/30/2018	10/31/2018
ISM Mfg PMI (SA)	56.6	54.3	58.8	57.5
New Orders (SA)	58.2	51.3	61.8	58.0
Production (SA)	60.5	54.1	59.9	59.3
Employment (SA)	55.5	56.0	57.7	56.5
Supplier Deliveries (SA)	56.2	59.0	61.5	63.2
Inventories (SA)	52.8	51.2	52.9	50.7
New Orders - Inv	5.4	0.1	8.9	7.3
Customers' Inventories (NSA)	42.8	41.7	41.5	43.3
Prices (NSA)	49.6	54.9	60.7	71.6
Backlogs (NSA)	50.3	50.0	56.4	55.8
New Export Orders (NSA)	51.8	52.8	52.2	52.2
Imports (NSA)	53.8	52.7	53.6	54.3

The ISM NMI™

The ISM Non-Manufacturing Index (56.7, -1.3) slowed negligibly, but remains at a level that supports Employment growth. The index currently compares favorably to the historical average of 54.7. Major strength in the U.S. economy can be attributed to services and small business. Sectoral expansion narrowed as 11 (down from 16) of 18 industries are growing. The change in the breadth of sectoral expansion is worthy of note as a possible concern if it continues in Q1.



Drivers: The composite index was weakened by New Orders (57.7, -5.0), but was supported by minimal change in the other indexes as Business Activity (59.7, -1.5), Employment (57.8, +1.2) and Supplier Deliveries (51.5, unch) remained in solid expansion territory.

Prices: Strong demand drove the Prices Index (59.4, +1.4) higher as 14 of 18 (up from 10 in Dec'18) non-manufacturing industries report paying more for inputs. This still remains at a low inflation level compared to historical price pressures. Pricing concerns in Nonmanufacturing are mitigated by the January Manufacturing Pricing Index at 49.6 and should be a driver for lower prices going forward.

> **Commodities Up in Price:** Beef; Electrical Components (2); Labor (4); Steel Products (16); and Vinyl Products.

Commodities Down in Price: Dairy Products; Diesel (2); Fuel (3); Gasoline (3); Laboratory Supplies; and Unleaded Fuel.

Commodities in Short Supply: Central Processing Units; Construction Subcontractors (13); Labor (4); Labor — Construction (34); Labor — Skilled; Labor — Temporary (5); Medical Supplies (3); Syringes; and Titanium Products.
(Note: The number of consecutive months the commodity is listed is indicated after each item.)

Sectoral Breakdown: 11 of 18 non-manufacturing industries reported growth in January: Transportation & Warehousing; Health Care & Social Assistance; Mining; Accommodation & Food Services; Wholesale Trade; Finance & Insurance; Utilities; Real Estate, Rental & Leasing; Construction; Professional, Scientific & Technical Services; and Public Administration. Seven industries reported contraction in January: Retail Trade; Educational Services; Information; Agriculture, Forestry, Fishing & Hunting; Arts, Entertainment & Recreation; Management of Companies & Support Services; and Other Services.

	1/31/2019	12/31/2018	11/30/2018	10/31/2018
ISM NMfg PMI (SA)	56.7	58.0	60.4	60.0
Business Activity (SA)	59.7	61.2	64.3	62.6
New Orders	57.7	62.7	62.7	61.7
Employment (SA)	57.8	56.6	58.0	58.3
Supplier Deliveries (SA)	51.5	51.5	56.5	57.5
Prices (SA)	59.4	58.0	64.3	61.3
Inventory Change (NSA)	49.0	51.5	57.5	56.0
Inventory Sentiment (NSA)	60.5	59.0	60.0	62.0
Backlogs (NSA)	52.5	50.5	55.5	53.5
New Export Orders (NSA)	50.5	59.5	57.5	61.0
Imports (NSA)	52.0	53.5	54.5	51.0

APPENDIX – IMPORTANT DISCLOSURES

This communication was prepared by Strategas Securities, LLC ("we" or "us") and is intended for institutional investors only. Recipients of this communication may not distribute it to others without our express prior consent. This communication is provided for informational purposes only and is not an offer, recommendation or solicitation to buy or sell any security. This communication does not constitute, nor should it be regarded as, investment research or a research report or securities recommendation and it does not provide information reasonably sufficient upon which to base an investment decision. This is not a complete analysis of every material fact regarding any company, industry or security. Additional analysis would be required to make an investment decision. This communication is not based on the investment objectives, strategies, goals, financial circumstances, needs or risk tolerance of any particular client and is not presented as suitable to any other particular client. The intended recipients of this communication are presumed to be capable of conducting their own analysis, risk evaluation, and decision-making regarding their investments.

For investors subject to MiFID II (European Directive 2014/65/EU and related Delegated Directives): We classify the intended recipients of this communication as "professional clients" or "eligible counterparties" with the meaning of MiFID II and the rules of the UK Financial Conduct Authority. The contents of this report are not provided on an independent basis and are not "investment advice" or "personal recommendations" within the meaning of MiFID II and the rules of the UK Financial Conduct Authority.

The information in this communication has been obtained from sources we consider to be reliable, but we cannot guarantee its accuracy. The information is current only as of the date of this communication and we do not undertake to update or revise such information following such date. To the extent that any securities or their issuers are included in this communication, we do not undertake to provide any information about such securities or their issuers in the future. We do not follow, cover or provide any fundamental or technical analyses, investment ratings, price targets, financial models or other guidance on any particular securities or companies. Further, to the extent that any securities or their issuers are included in this communication, each person responsible for the content included in this communication certifies that any views expressed with respect to such securities or their issuers accurately reflect his or her personal views about the same and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this communication. This communication is provided on a "where is, as is" basis, and we expressly disclaim any liability for any losses or other consequences of any person's use of or reliance on the information contained in this communication.

Strategas Securities, LLC is affiliated with Robert W. Baird & Co. Incorporated ("Baird"), a broker-dealer and FINRA member firm, although the two firms conduct separate and distinct businesses. A complete listing of all applicable disclosures pertaining to Baird with respect to any individual companies mentioned in this communication can be accessed at http://www.rwbaird.com/research-insights/research/coverage/third-party-research-disclosures.aspx. You can also call 1-800-792-2473 or write: Robert W. Baird & Co., PWM Research & Analytics, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.