Macroeconomic and Markets Overview

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* This presentation expresses the personal view of Mr. Stevens and doesn't represent the view of Aflac Global Investments

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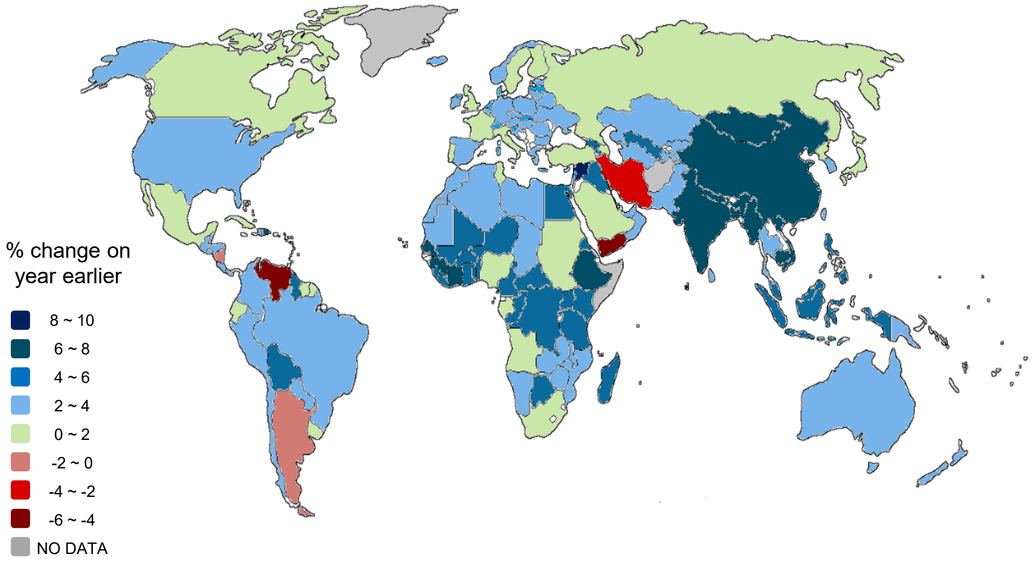
Major Economic Drivers Since The Global Financial Crisis

- Since the Great Financial Crisis, the global economy has enjoyed the longest economic expansion on record
- However, the average annual growth rate has been low by historical standards
- This steady but tepid level of growth is a function of both ongoing 'chronic' economic themes as well as more recent 'episodic' financial and political developments

	Ongoing	More Recent
Economic & Financial	▪ Global leverage -remains high ▪ The shift from manufacturing to services ▪ The impact of China on global growth	▪ Declining Productivity & Wealth Disparity in the digital economy ▪ European manufacturing weakness ▪ Global Disinflation
Policy & Politics	▪ The structural challenges in Europe and Japan ▪ Global Central Banking support—QE & 'negative rates' ▪ Geopolitical 'Flash Points' – N Korea, Iran, Russia	▪ Trump Administration—Fiscal Stimulus, then Trade Tariffs ▪ 2020 Elections/impeachment ▪ Global Central Banks – a race to the bottom ▪ Global Nationalism, Protectionism, & BREXIT

GDP Growth Rate Forecasts, 2019

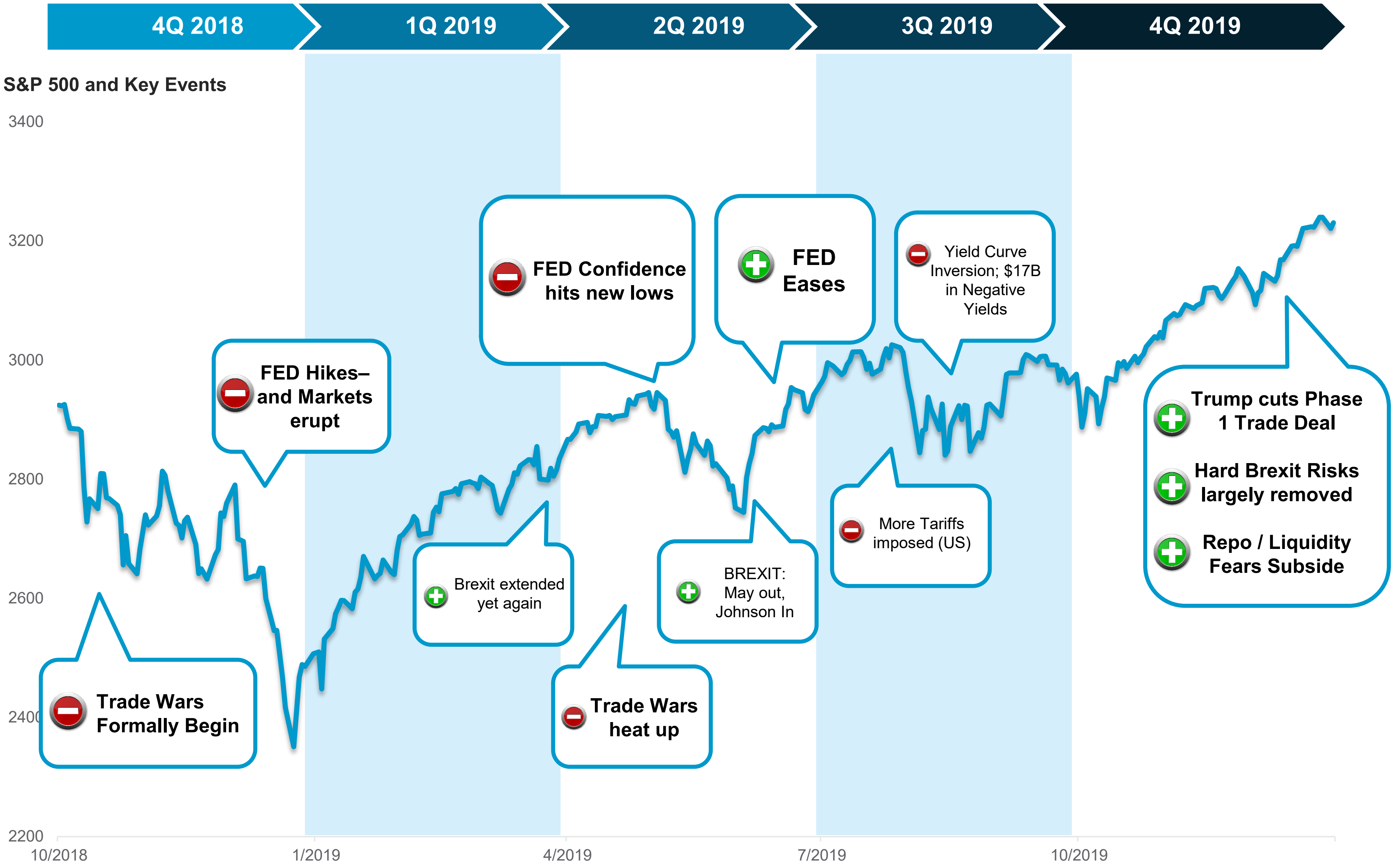


The largest economies' growth is slowing down

Country	2019f %	Trendline 10y	Trendline 3y
World	3.3		
US	2.3		
Eurozone	1.3		
China	6.3		
Japan	1		
Germany	0.8		
UK	1.2		
France	1.3		
India	7.3		
Italy	0.1		

The 3yr trendline shows slowing growth due to increased headwinds

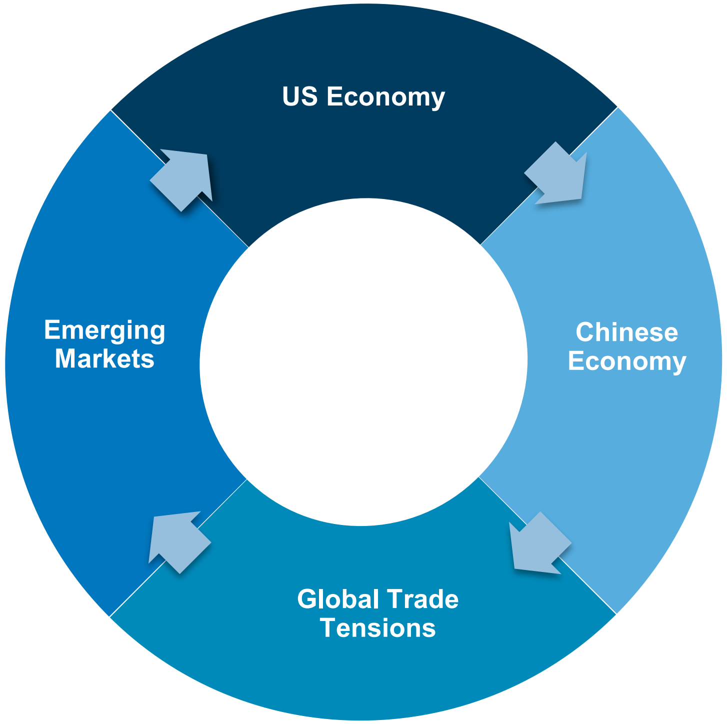
Major Market Drivers of 2019



Major Economic Drivers in 2020

- In constructing an Economic Outlook, it's vital to sort through all the variables and identify the most impactful near–term drivers
- In GI's view, the **four most critical near-term elements are**

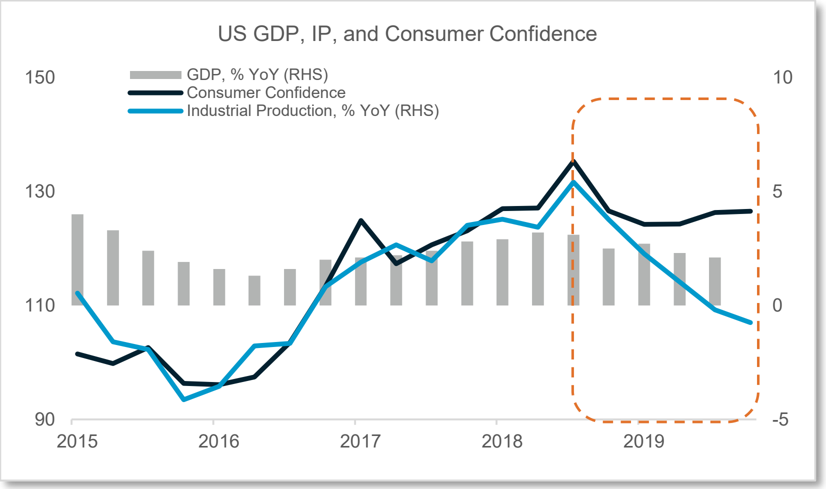
1. The fundamental health of the US Economy
2. The fundamental health of the Chinese Economy
3. Easing Global Trade Tensions
4. Growth of Emerging Markets

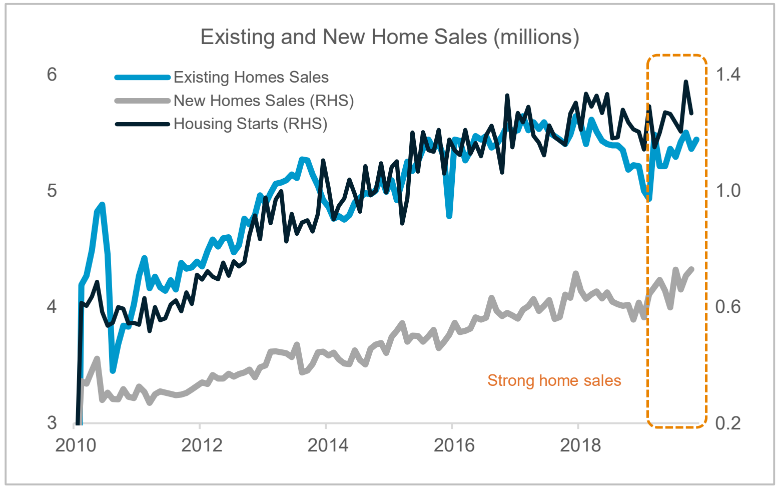


US Economy

2020: Building on 4Q momentum

- **Supportive and predictable Fed**: especially since it is an election year
- **Resilient consumer sector**, seen through consistently high consumer confidence and labor numbers
- **Stronger housing sector** expected to bolster growth
- **Rising business confidence** to support capex and business investment
- **Green shoots seen in the industrial sector**
- <u>Wildcard to outlook</u>: Presidential election
- Expect the US economy to grow slightly below trend: ~2%

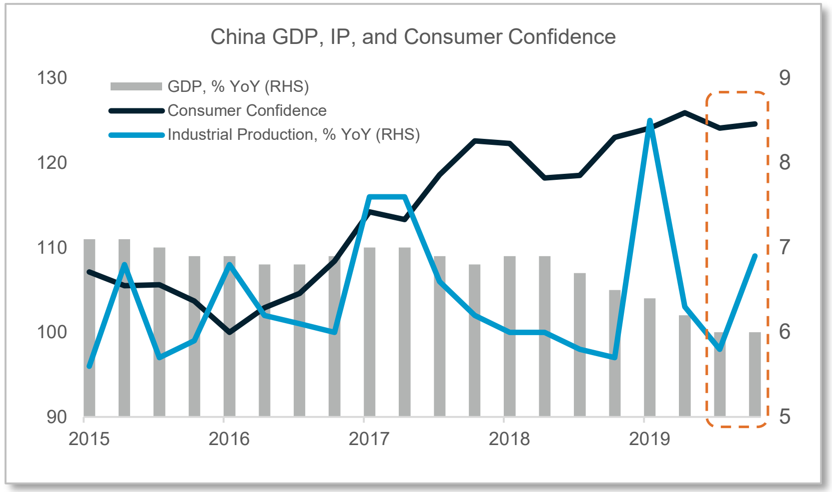


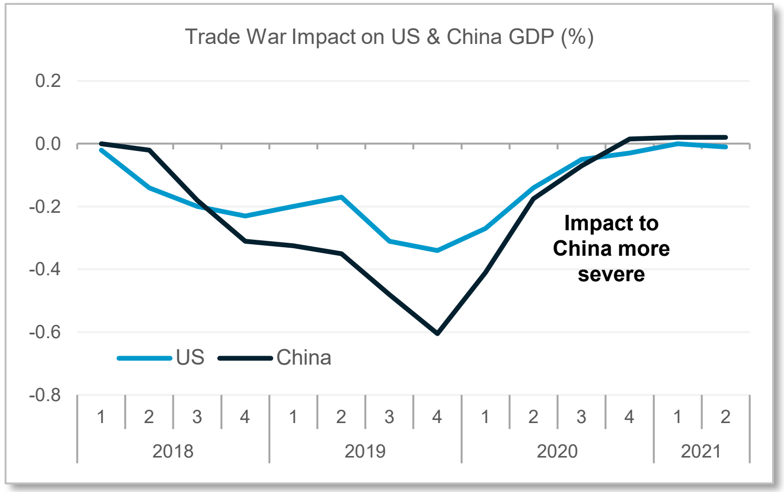


Chinese Economy

2020: Heading into the year in a cloud of uncertainty

- Tough battles ahead, both in the domestic and external sectors
  - **Domestic concerns** continue to weigh on growth
    - High degree of **indebtedness**:
      - Debt to GDP: 300% (especially corporate sector)
    - Soaring pork prices keep China's inflation high, adding challenges to policy implementation in 1H
    - Other: poverty, environmental concerns, political unrest (HK), coronavirus?
  - **External concerns**, especially the trade war, have a lagging and ***more negative impact***
    - Tariffs remain despite Phase 1 trade deal
    - Tech tensions between China and foreign countries
- Expect the Chinese economy to grow at a 30 year low: <6%

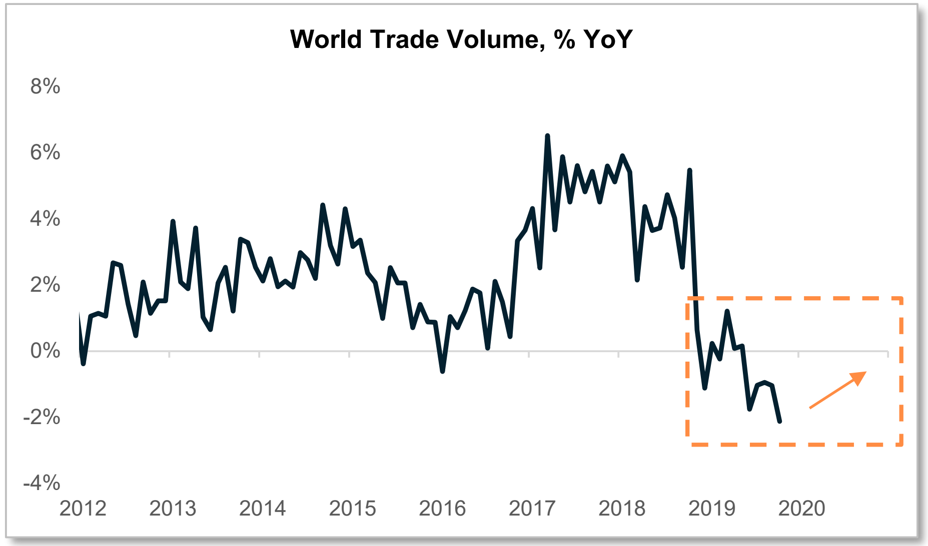




Source: Goldman Sachs

Easing Global Trade Tensions

Phase 1 Deal: Good Start to a More Peaceful Global Trade Environment

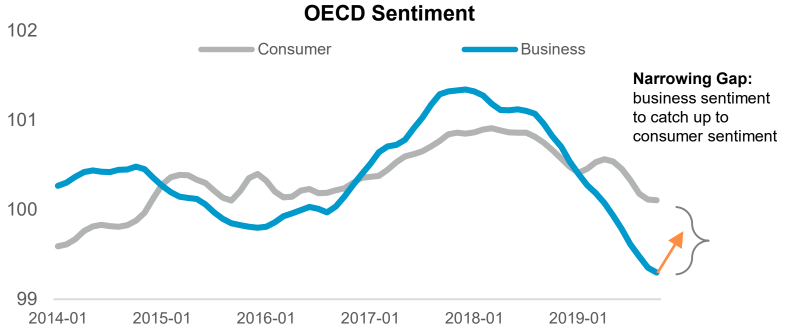


Global Impact is Softening:
- Phase 1 trade deal, along with newly signed USMCA deal ease trade tensions
- Global GDP forecasts revised upward
  - 2020 GDP estimate impact: -0.8% (1/3 tariffs, 2/3 weak business investment)

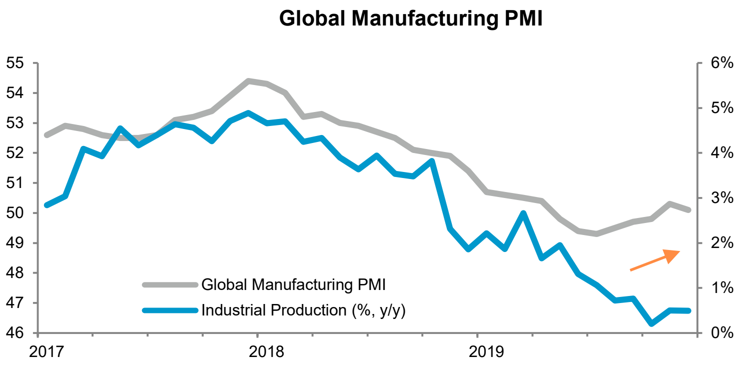
Easing trade tensions, supports:
- Business sentiment
- Turning of the industrial sector
- Inventory restocking
- Pick up in EM growth

Growth Engines Reinstated

Global Business Sentiment to Firm



Manufacturing Ticked Up and Inventories Rebound

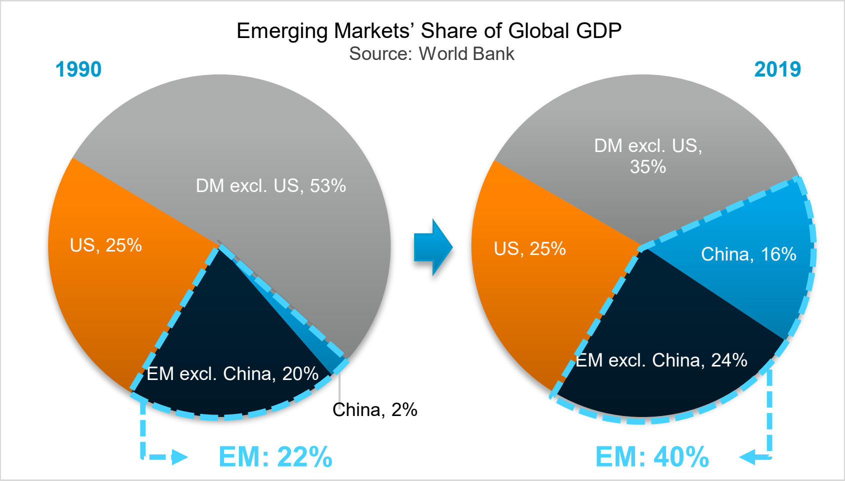


Source: Bloomberg, OECD, CPB Merchandise

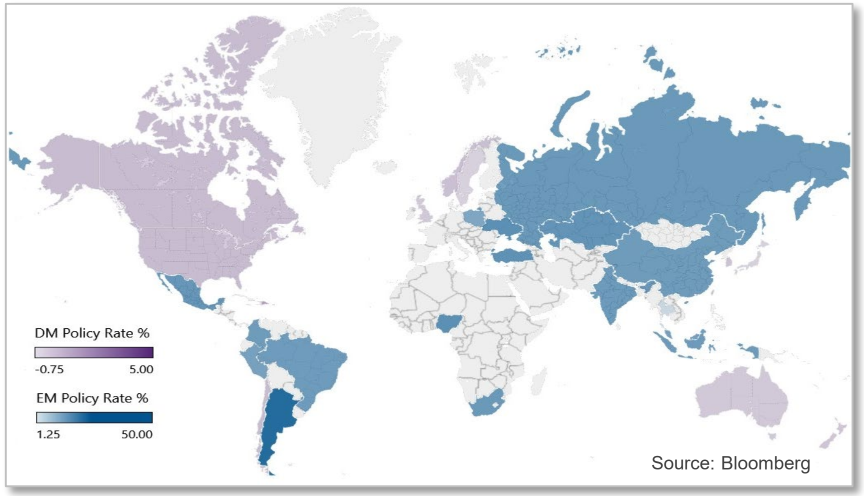
Emerging Markets

EM growth is expected to accelerate in 2020 (~4.1%) and remain more than double that of developed markets.

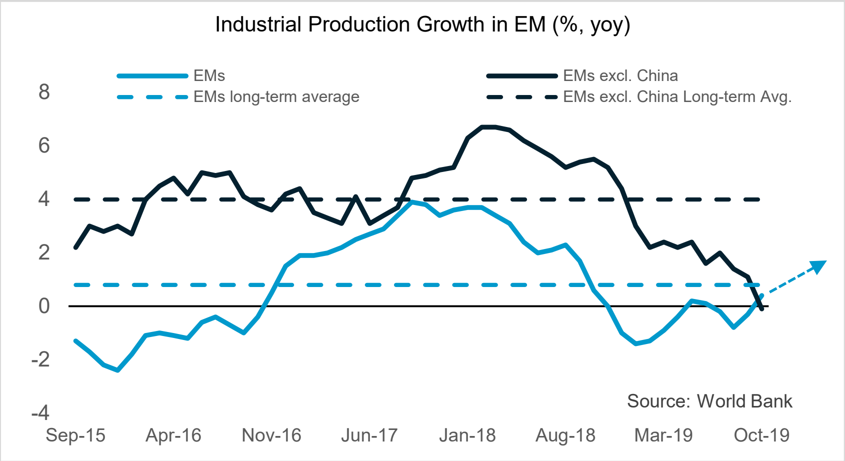
EM contribution to GDP Significant to Global Growth



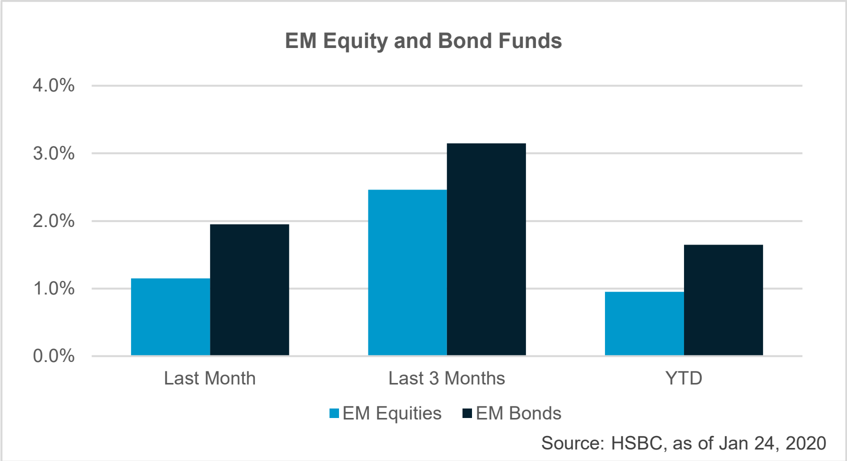
Accommodative Monetary Policy in EMs



Bottoming Out of the Industrial Cycle



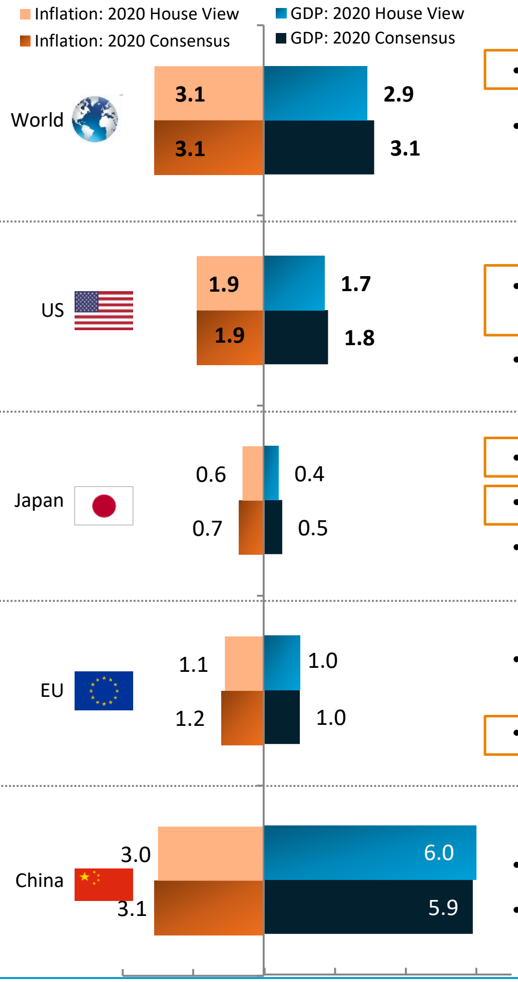
Strong Inflows Support EM Economic Activity



Economic Outlook and Risks to View

- Global growth will be tepid in 2020, despite risks are more balanced compared to 2019
- With more clarity around the trade conflict and Brexit, we expect business sentiment and manufacturing to pick up in 2H.
- Given weaker growth, continued ***accommodative policy*** will continue to extend the business cycle
- We still believe that a ***US recession is unlikely to play out in the next 18 months***

House View of 2020



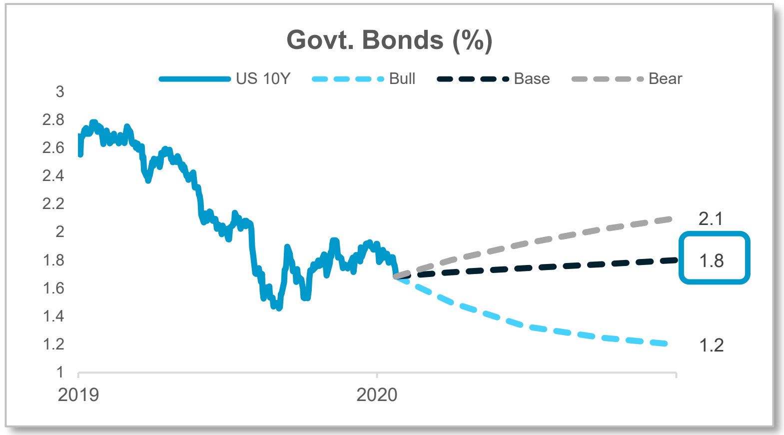
	Core Themes	Risks To View	Risks Skew To
World	• Slowing US/China economic growth • Fed: accommodating	↓ • Trade dispute drags on longer ↑ • More aggressive accommodative policy	**Balanced**
US	• Manufacturing pick up/inventory restocking • Housing sector recovery	↓ • Labor market shows cracks ↑ • Manufacturing recovery temporary	**Upside**
Japan	• Fiscal stimulus bolsters growth • Mild negative impact of tax rate hike • Exports hit by trade dispute	↑ • Impact of consumption tax rate hike is net neutral ↓ • Fiscal stimulus has little impact	**Downside**
EU	• Trade hurting growth, specifically manufacturing in Germany • Brexit impact larger than expected	↓ • Global slowdown and Brexit push Germany into a technical recession ↑ • Broad based weakness overestimated	**Downside**
China	• Faltering domestic demand • Net exports hit by trade dispute	↓ • Weaker growth put pressure on employment ↑ • Exports surprise on the upside	**Downside**

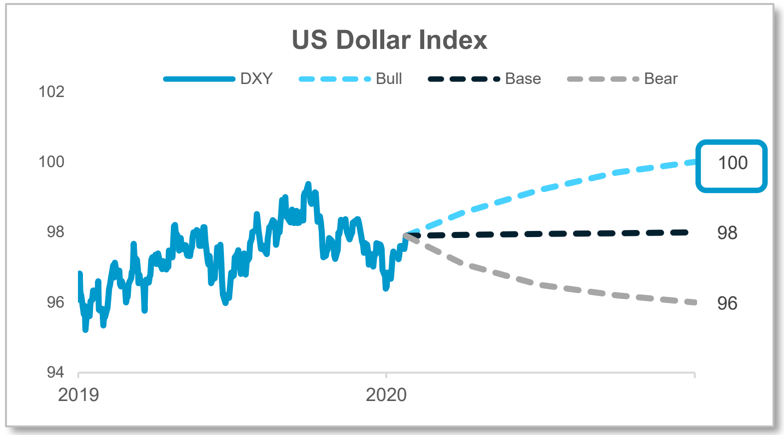
Monetary Policy Outlook and Risks to View

- The most impactful event in 2019 was the Fed's shift to an accommodating policy
- We see synchronized accommodative monetary policy in 2020

Central Bank	House View	Topical Focus
FED	▪ Fed to remain on hold in 2020 ▪ FOMC to "act as appropriate to sustain the expansion" while monitoring data	▪ Reescalation of trade dispute ▪ US-Iran conflict ▪ Presidential election
BoJ	▪ Give up 2% inflation target in near future ▪ Unlikely to adjust policy settings	▪ Fiscal stimulus ▪ 2020 Olympics ▪ VAT hike impact
ECB	▪ Additional rate cut in H2 2020 (data dependent) ▪ QE2 ▪ TLTRO-III	▪ Lagarde's review of policy ▪ Brexit Impact ▪ Germany economy slowdown ▪ Synchronized fiscal policy
BoE	▪ Rate moves dependent on Brexit ▪ Goal remains to keep inflation low and stable	▪ Brexit Impact
PBoC	▪ Policy to remain prudent in 2020 ▪ Additional RRR cuts later this year	▪ Coronavirus ▪ Non-temporary high inflation ▪ Reescalation of trade dispute

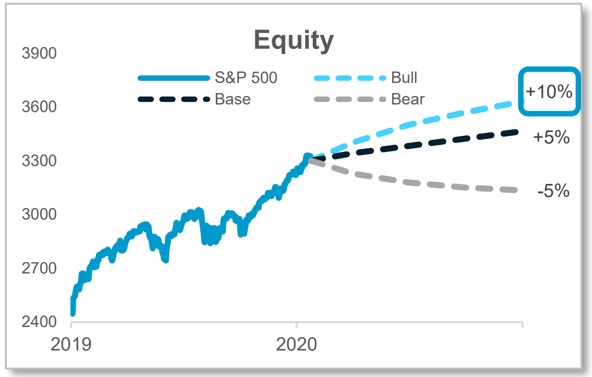
Outlook for Markets in 2020: Balanced Risks, Upward Bias, watching the tails

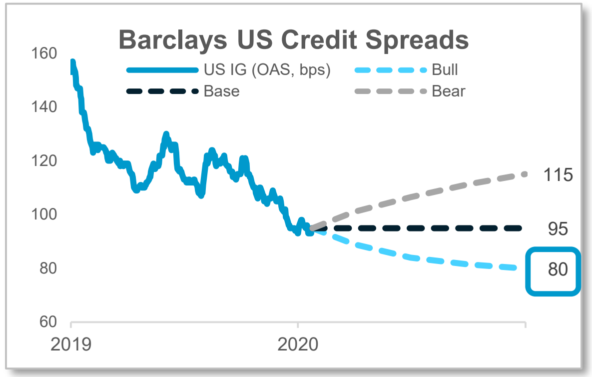


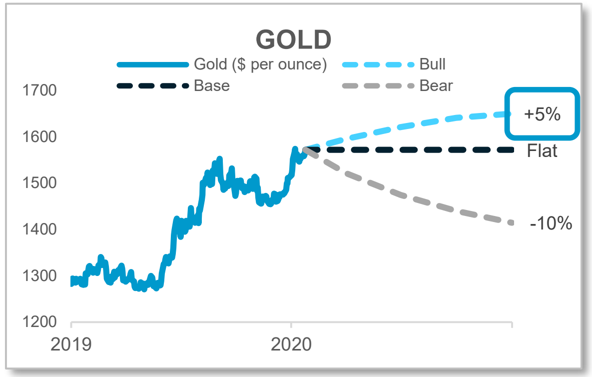


- See modestly higher and steeper rates, led by the US
- Drivers are fundamental (growth), policy (fiscal) and technical (issuance, holders)
- However, there is a cap on how high US rates can go (no decoupling, search for yield)

- Overall low volatility, upward bias on USD (non-consensus)
  - ➢ Global QE, Risk sentiment, funding markets
- USD/JPY difficult– pessimistic RE fiscal impact







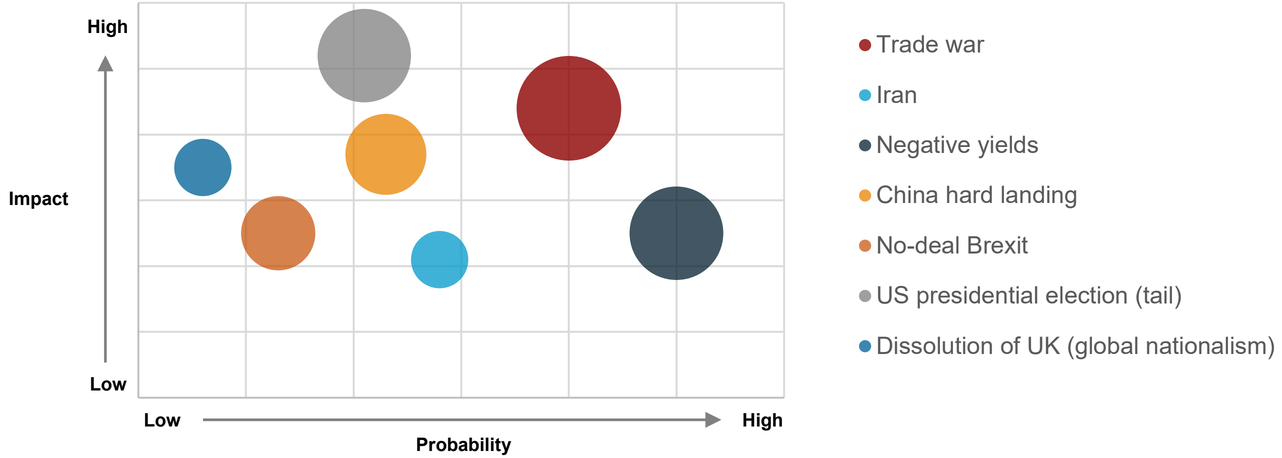
- Lower but high returns; much lower Sharpe ratio
- US over EUR and Japan

- Bad food…and small portions
- Still, very strong context:
  - ➢ No recession, low rates, lower supply, bank BBB risk is priced in among large caps
- IG better than HY
- Watch: Market Structure, private, public

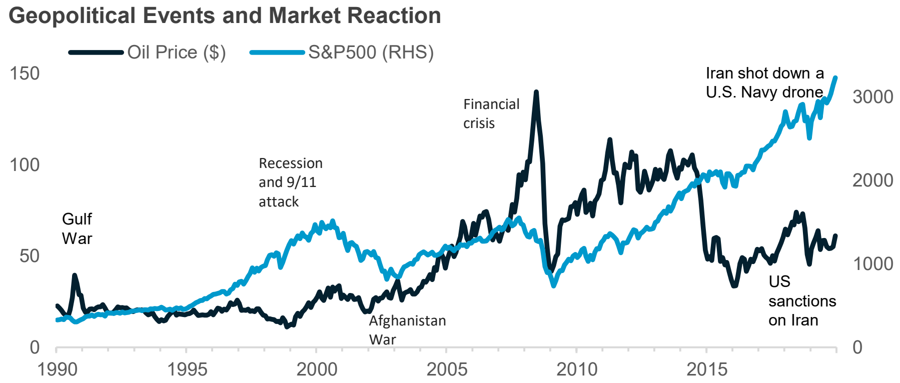
- The 2019 Gold rally belies investor skepticism
- To wit: ‘Put Skew ‘ – a moniker for insurance, is at its highest level since GFC in stocks, rates, FX and commodities
- This can actually have a buffer effect, but is worth noting a gauge of sentiment

Special Callouts and Prominent Risks

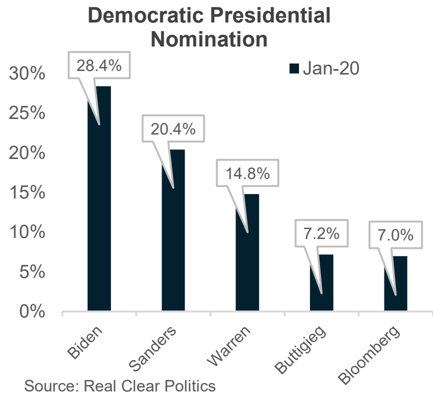
- There are **chronic** risks we think about: low for longer/risks of QE, global decline in productivity, rising wealth inequality, rising nationalism, heightened leverage
- As well as more **episodic risks**: trade friction, deficit spending, the US election 'tails', surge in private credit, market structure, coronavirus
- We tried to use an 'expected-value' approach to broadly assess these risks: Impact and Probability:

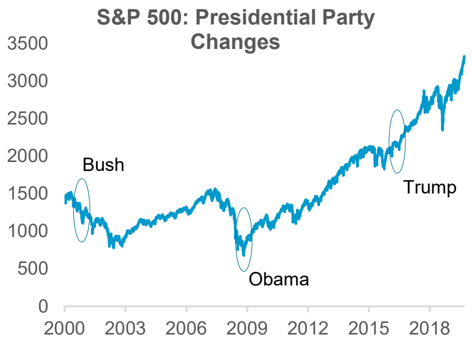


Middle East: US-Iran Conflict



US Presidential Election



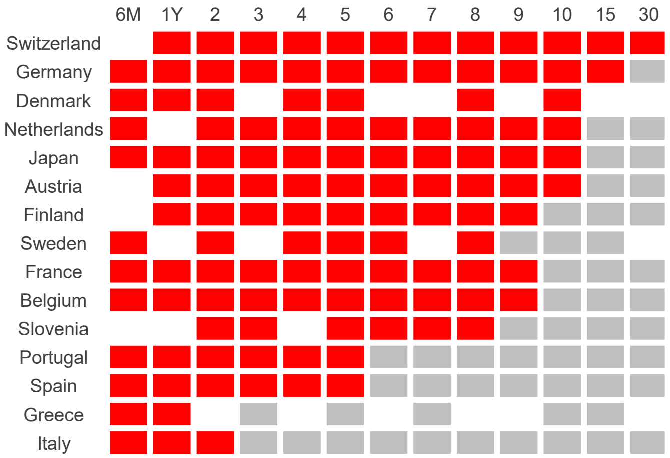


- Very quick reversal in January to an event that by definition has not played out
- This is completely consistent with the markets reaction historically to regional conflict, especially in the Middle East

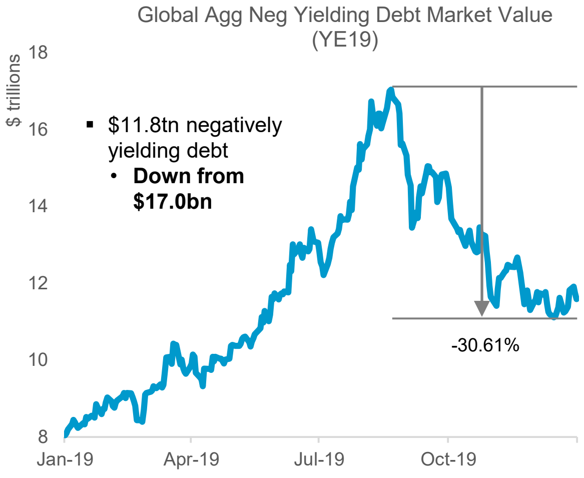
- Any election developments that increase the probability of a major shift in policy will not be liked by markets – the complexion of the democratic primaries as well as the actual general election will be stock market hotspots in 2020

Food For Thought: Negative Rates, and The Cycle

Negative Rates



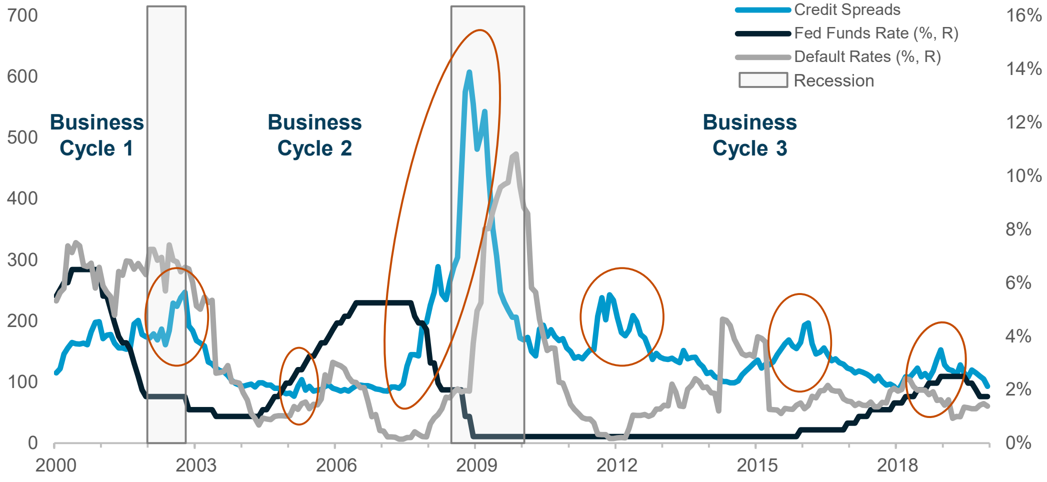
As of 01/09/2020



- Not only are we at a 5,000 year (no typo) low in interest rates, have almost 12T of sovereign debt **yielding below 0**
- The market is paying ***Greece*** to keep its money
- There are two major questions to consider:

1. What happens if US rates go below zero and stay there?
2. What does this say about the nature of the business and credit cycle? Is something just 'completely different'?

The End of The 'Cycle' as we know it?



- Traditional notion of boom and bust may be a legacy of traditional, isolated, manufacturing based economies
- Global supply chains, freer flow of capital, coordinated central bank activity, as well as the role of technology, productivity, and wages may all be suggesting a completely new paradigm
- Mini-cycles will always exist, but perhaps our notion of 'The Cycle' requires a different analytic framework all together

Negative Positive Maturity not issued