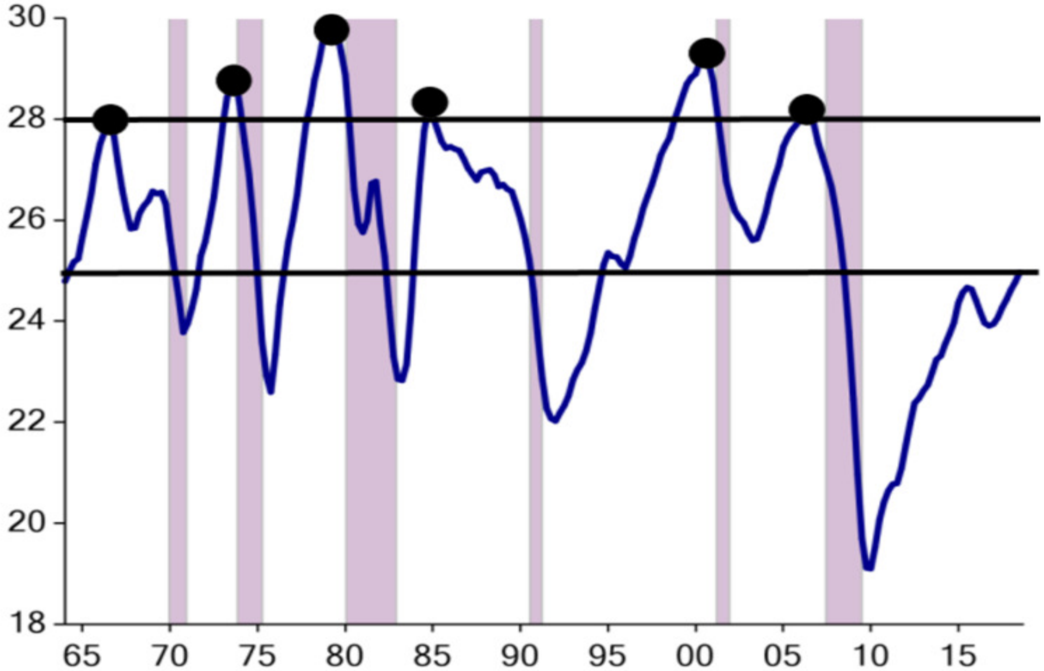
TODD
ASSET MANAGEMENT LLC

Todd's Chart of Interest

February 19, 2019

It Ain't Over 'Til It's Over

US Cyclical Spending as % of Potential GDP



Source: ISI
Cyclical spending includes: Investment in equipment and intellectual property products, residential housing, commercial real estate, consumer durables, and business inventories.

- Late cycle fears have created a great deal of uncertainty and volatility over the past 3 years. In this context, investors have been quick to price in a recession believing any of a number of risks (Fed tightening, Trade wars, Brexit, etc.) would cause an end to a business cycle that is now over 10 years old.

- We believe we are much earlier in the cycle than consensus believes and have noted a number of factors that support this outlook. The chart above shows cyclical spending is nowhere near levels that preceded every recession over the past 50 years. It is difficult to get a large downturn in inventory or spending without excess. Historically, this excess has led to a recession only when cyclical spending has reached over 28% of GDP. Currently this measure is at 25%, indicating we are not late in the cycle.

- Our discipline continues to highlight Cyclicals, which are more attractively valued with better earnings growth profiles than their Defensive counterparts. Continued business and consumer spending, which has been suppressed since the Great Recession in 2008, should support more cyclically oriented companies and further extend this business cycle.

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