FOURTH QUARTER 2019 Market Update

CARILLON TOWER ADVISERS

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- Nine years investment experience
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Room to Run

The longest economic expansion in 150 years continues its run in the United States amid slowing global growth. While investors are starting to worry about the end of the market cycle and whether a recession is imminent, it is important to remember that the deceleration we're seeing does not necessarily spell recession. U.S. economic growth has slowed in 2019, but it is slowing from near-record levels, which were propelled by post-Financial Crisis stimulus, low interest rates, and 2017 tax reform. Certain indicators support the case for a strong market, while others bear watching.

Positive Signs:

- Consumer confidence has held up
- Earnings growth is promising
- Valuations have normalized

What to Watch:

- Trade war worries
- Debt levels rising, but don't stress
- Volatility is here to stay

Consumer confidence has held up

Survey-based indicators have seen declines from their August 2018 peaks that mirror market performance; however, they don't show signs consistent with a slowdown or recession. While there has been increased volatility around confidence measures consistent with market moves and increased headline noise, Charts 1 and 2 show that both consumer and small business confidence have remained close to their recent highs. This highlights the resiliency of the U.S. consumer in the face of heightened macro uncertainty.

Chart 1: Business confidence has rebounded from Q4 drop
NFIB Small Business Optimism Index (9/30/1977 - 8/30/2019)

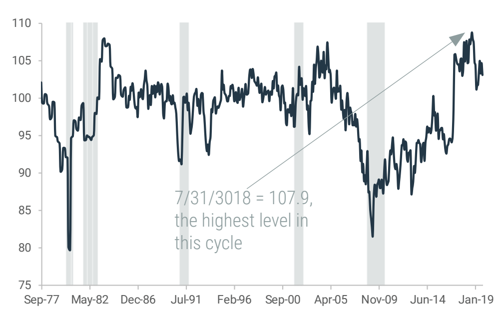


Chart 2: Consumer confidence remains near current cycle highs
(as measured by Conference Board Consumer Confidence Index)

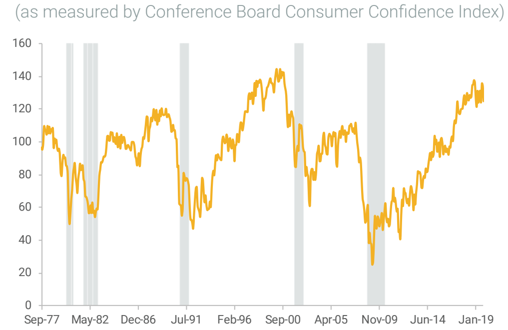
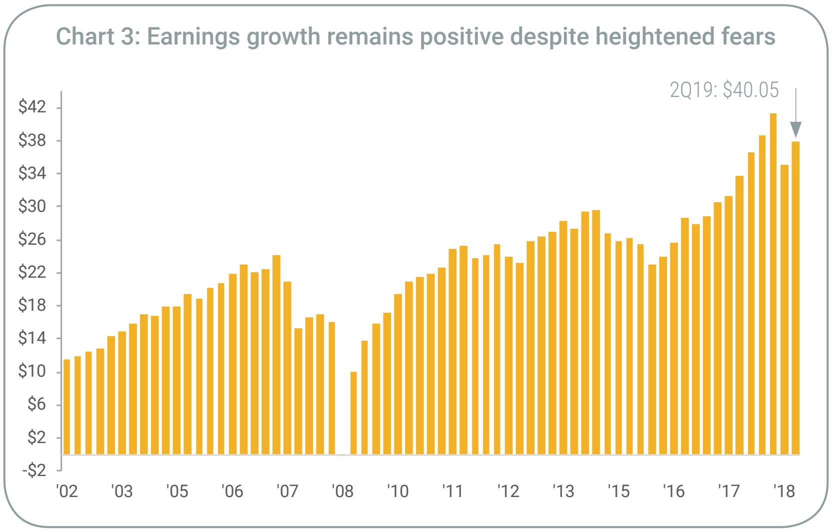


Chart source: As of 8/30/2019. Indices are not available for direct investment. Source: Bloomberg.

Earnings growth is promising

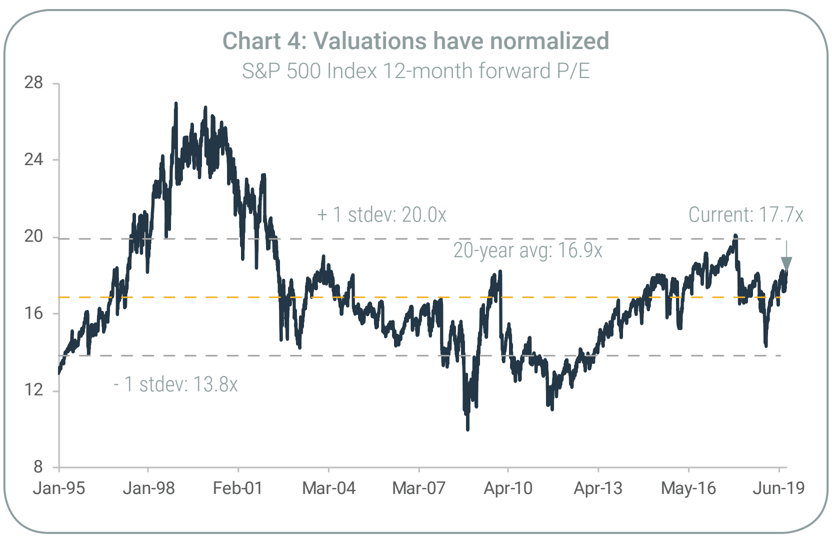
There have been many headlines warning of an "earnings recession," which is defined as two consecutive quarters of declining earnings growth. However, we believe those headlines should be taken with a grain of salt. Markets saw the strongest earnings growth in recent history in 2018 due to tax cuts and regulatory reform. That made the base from which year-over-year earnings are calculated exceptionally high for 2019. Fundamental tailwinds remain intact, earnings growth again came in above expectations in the second quarter of 2019 (see Chart 3), and accommodative Fed policy continues to make equities look attractive. While expectations have come down for the third quarter of 2019, year-over-year growth is expected to resume in the fourth quarter and into 2020.



Source: FactSet, S&P Dow Jones. Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1989, and FactSet for August 30, 2019. Average P/E and standard deviations are calculated using 20 years of FactSet history. Std. dev. over-/under-valued is calculated using the average and standard deviation over 20 years for each measure. Forecasts are represented by consensus FactSet analyst views. Past performance is not a guarantee of future results.

Valuations have normalized

Despite record earnings growth in 2018, markets finished the year in the red, leading to one of the largest multiple contractions in this cycle. Even with the strong market gains this year, valuations have only returned to their long-term averages. The current low-interest rate environment, the willingness of the market to pay for growth, and the strong overall acceleration in earnings make it likely that valuations will continue to expand. The lower interest-rate environment provides tailwinds for the economy as a whole and makes equities look even more attractive.



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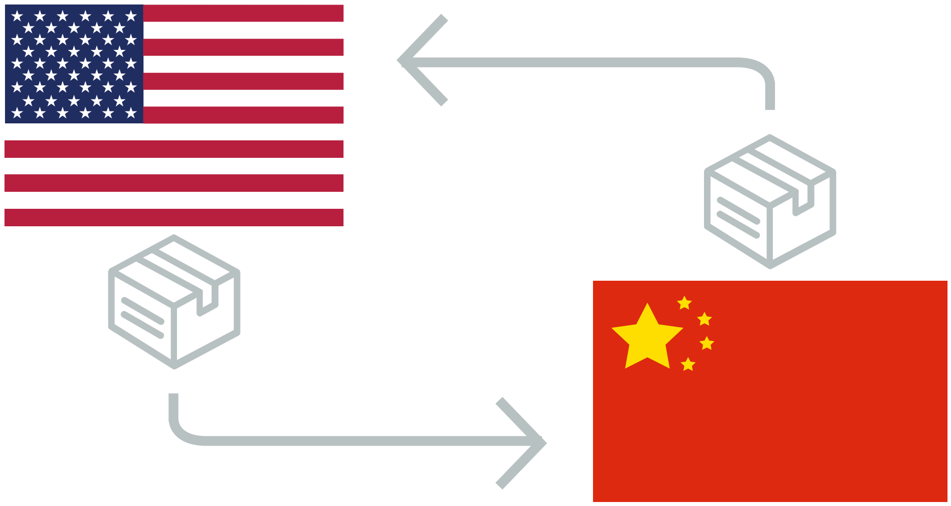
Trade war worries

Trade frictions top the list of current investor concerns, with the U.S.-China trade conflict front and center. Any steps toward meaningful progress would be well-received by the markets, but as we saw at the start of August, any steps back can quickly cause sharp risk-off sentiment. The complex situation is unlikely to have a simple and easy solution.

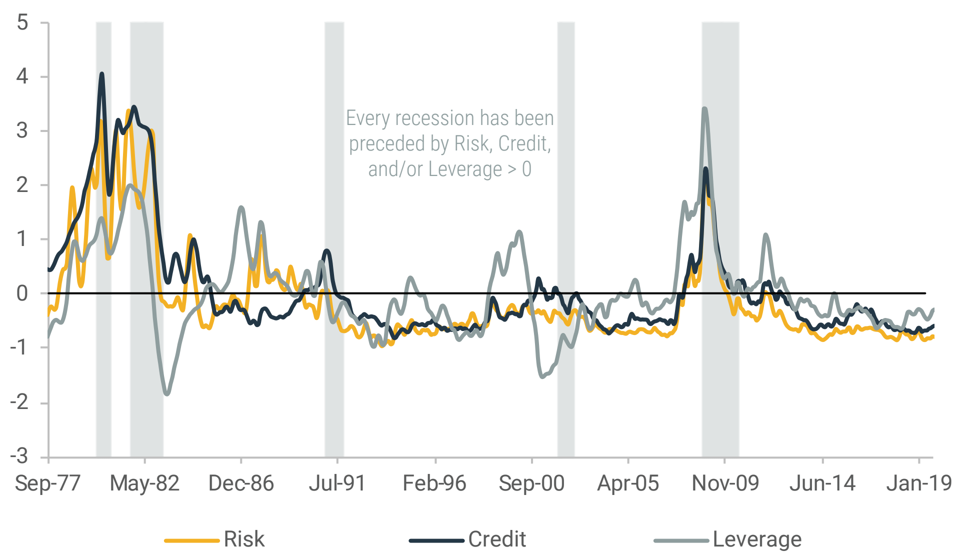


Debt levels rising, but don't stress

Corporate debt levels may be problematic, but credit indicators do not show signs of stress. Corporate balance sheets have expanded throughout this cycle and companies have loaded up on debt. Some of that has gone to share buybacks, some has gone to capital expenditures (capex), and some has gone to mergers and acquisitions (M&A). We are keeping an eye on corporate debt, but to reiterate, we are not currently seeing undue stress in the credit markets.

Chart 5: No signs of credit stress in the Chicago NFCI

National Financial Conditions Index (NFCI) Sub-indices



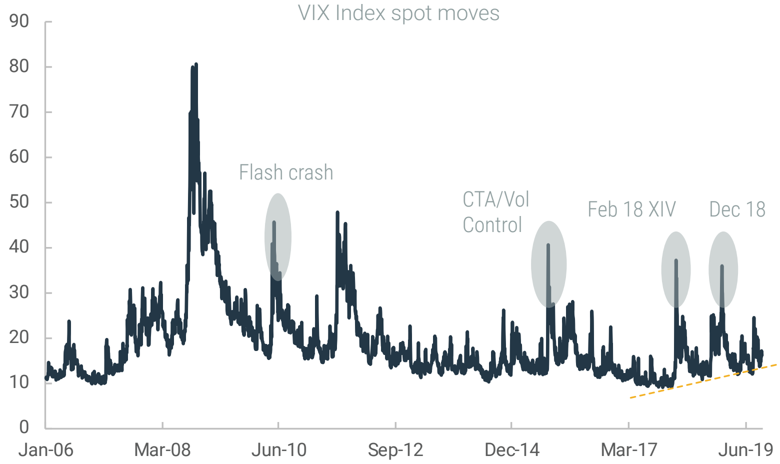
Source: Bloomberg, Federal Reserve Board. Data as of 8/30/2019

ⓧ Volatility is here to stay

When discussing volatility it is important again to consider context: Market volatility has been low for many years. The reemergence of any sort of volatility may seem more chaotic by comparison. The October rally in volatility echoed the dislocation seen in the autumn of 2015 and February 2018, before mean reverting. These moves were largely technical, with more quantitative investment strategies exacerbating the break from low realized volatility. This will likely remain a structural feature going forward. However, for a more sustained pickup (i.e. more spikes) in volatility, the cycle will be a much more important driver.

Chart 6: A sustained trend higher in volatility

VIX Index spot moves



Source: Bloomberg. All data as of 6/30/2019. Indices are not available for direct investment. The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options. It represents one measure of the market's expectation of stock market volatility over the next 30 day period.

What about the inversion of key sections of yield curve?

Overall, the flattening or inversion of the curve is something to monitor, but does not necessarily mean a recession is imminent. Historically, the inversion has led to strong gains in the time between inversion and market peak.

What's next?

At its September 2019 meeting, the U.S. Federal Reserve cut its benchmark overnight lending rate by 0.25 percentage points and voting members showed some division on the path of rate cuts for the rest of 2019. Chairman Jerome Powell has said the Fed is "not forecasting a recession," citing strong consumer spending and labor market numbers.

There are risks to the global economy that bear watching, chiefly the U.S.-China trade war. In the meantime, the U.S. consumer appears resilient, debt levels are not setting off alarms, and corporate earnings remain healthy. Additionally, bear in mind that a technical recession – in keeping with a healthy market cycle – does not mean a repeat of the Financial Crisis.

Investors may be growing nervous about the end of the market cycle. In uncertain times, it may be beneficial to maintain a longer investment horizon and consider an active manager who will seek to outperform markets in turbulent times. Investors might use the dips to be opportunistic – volatility can be an opportunity with the right outlook.

About Carillon Tower Advisers

Carillon Tower Advisers is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our partner affiliates – ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. Carillon Tower Advisers believes providing a lineup of institutional-class portfolio managers, spanning a wide range of disciplines and investing vehicles, is the best way to help investors seek their long-term financial goals.

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Investing involves risk, including risk of loss.

Diversification does not ensure a profit or guarantee against loss.

The National Federation of Independent Business (NFIB) Small Business Optimism Index is a composite of ten seasonally adjusted components. It provides a indication of the health of small businesses in the U.S., which account of roughly 50% of the nation's private workforce.

The Conference Board Consumer Confidence Index is an economic indicator published by The Conference Board to measure consumer confidence, which is defined as the degree of optimism on the state of the U.S. economy that consumers are expressing through their activities of savings and spending.

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 75% of the investable U.S. equity market.

The Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and "shadow" banking systems.

Index or benchmark performance presented in this document does not reflect the deduction of advisory fees, transaction charges, and other expenses, which would reduce performance.

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