



Outlook for US Growth Investing

# Seeking Sustainable Growth in an Increasingly Volatile World

“The competitive landscape is more challenging than ever, but many high-quality companies are leveraging innovation and the power of digital transformation to change the way we communicate, shop, travel and live our lives. Our outlook is bright for high-quality US companies that can adapt to the new digital landscape and deliver consistent, sustainable growth in an increasingly volatile world.”

**Grant Bowers**

Vice President  
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We do not presently see any classic signs the economic cycle in the United States is turning or that a recession is on the horizon. The current US expansion has been long by historical standards, but investors should remember that it has been modest and slow compared with past growth periods. For now, a strong labor market and rising wages suggest that consumers have purchasing power to drive the US economy forward. Additionally, the slow pace of growth has not led to the speculative excesses in the financial markets that typically reveal themselves in late stages of economic expansions. Looking at the recent economic data, we do not anticipate systemic deterioration in the macroeconomic backdrop nor broad-based weakness in corporate fundamentals in the foreseeable future.

## Seeking Sustainable Growth in an Unstable Landscape

In this low and slow economic growth environment that we expect to continue, the companies with “idiosyncratic growth drivers” should outperform, in our view. This favors companies that can grow revenues and earnings by addressing secular changes and embracing disruption driven by digital transformation. Our focus is on high-quality companies across all industries—from technology to consumer goods to industrials—that are leveraging innovation and the power of digital transformation to change the way we communicate, shop, travel and live our lives. In a world that is

being transformed daily by robotics and automation, social movements, climate change and other dynamics, we seek to invest in companies with the vision to navigate the pace and scale of change and deliver sustainable growth.

Several themes we are excited about and are following include artificial intelligence and machine learning; cloud computing; cybersecurity; digital payments and fintech; and the growth of our connected world. These are key investment themes we have identified that we believe will be more relevant 10 years from now, and we look to harness the wealth creation potential of these innovations and others over a long-term investment horizon.

## Active Management Can Add Value

We also believe active management is needed to identify companies that recognize the changing competitive landscape and innovate to thrive in a slow global growth environment. As part of our investment management process, we interact with some of the world’s leading innovators. Our research team is constantly reaching out to thought leaders across industries, and meeting with trailblazing firms to understand cutting-edge technologies and ideas that could have transformative potential. Our analysts conduct fundamental stock research to develop a deep understanding of the companies in the sectors and industries they cover. They meet management, speak with customers, analyze the competitive environment and become intimately acquainted with the products or services offered. Active management can prove its worth—guiding investors to what we see as the intersection of great ideas and good investments.

## Risks and Opportunities

Tariffs and trade restrictions will probably be the biggest area of uncertainty in financial markets in the near term. And in 2020 the US presidential election cycle will dominate the headlines. Each of these factors has the ability to impact global trade and the US regulatory environment materially—for good or ill. Each is likely to induce market volatility, in our estimation. Meanwhile, inflation risk has become a more distant concern as the disinflationary power of technology adoption appears to have kept broad-based inflation in check. US employment has been strong, and we have been

seeing wages pick up and prices rising, albeit modestly. While this is a positive backdrop for consumer spending in the United States, if we were to see inflation increase significantly, it would be a warning sign for economic growth as the US Federal Reserve would likely feel compelled to raise interest rates.

Regardless, to achieve our investment goal of capital appreciation, we generally look beyond short-term, transitory market conditions or political risks and focus on a company's long-term competitive position and growth potential. As active managers, we monitor market risks, but we keep our investment focus on innovative companies with dynamic business models that we believe can do well regardless of macro conditions.

## WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Investments in fast-growing industries like the technology sector (which has historically been volatile) could result in increased price fluctuation, especially over the short term, due to the rapid pace of product change and development and changes in government regulation of companies emphasizing technological advancement. Small- and mid-capitalization companies can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies.

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