



2020 OUTLOOK

Leader Capital | Corp



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We are coming off a record year in equities as we close out 2019. Equities made record highs and interest rates reversed in dramatic fashion versus their 2018 levels. We are closing out this year with a high amount of optimism, but with much uncertainty going into 2020. While trade fears have subsided for now, there is still no finality to the trade war.

As we embark into 2020, we want to highlight a few key points and our thoughts on the market:

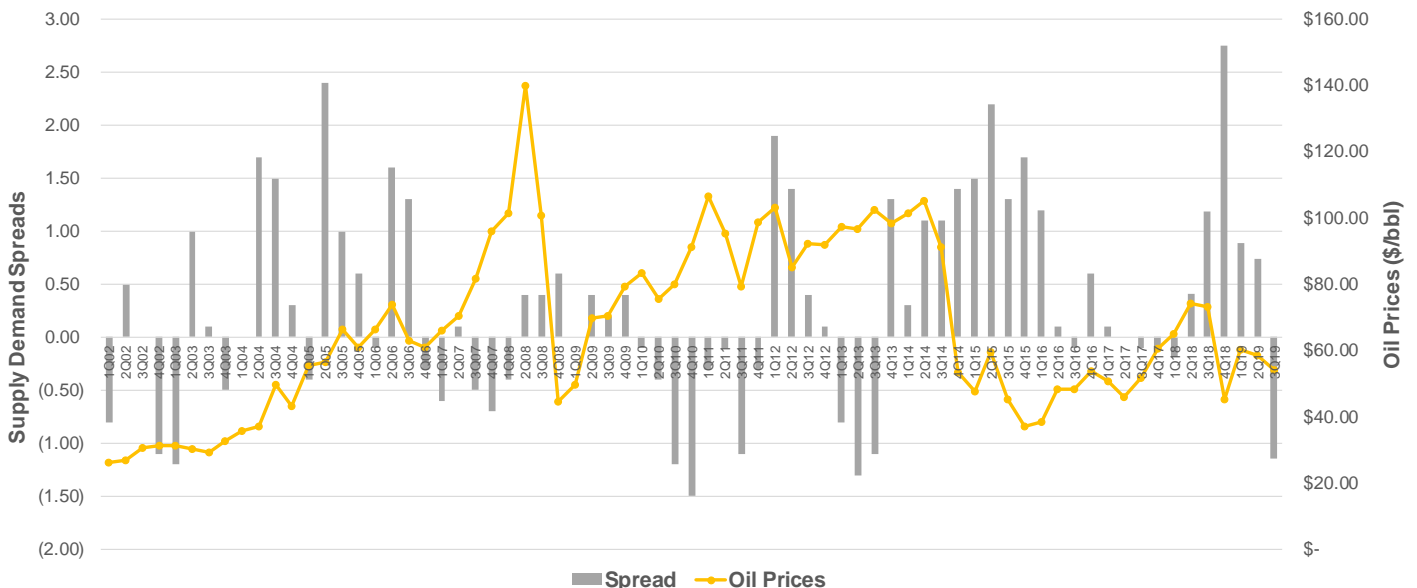
- I. Inflation
- II. Volatility
- III. Recommendations
- IV. Politics
- V. Market Calls

I. Inflation

We believe there could be a steepening of the yield curve next year. A lower dollar due to tariffs and export goals of the White House could drive inflation higher. We also see the deficit swelling to \$1.5 trillion as President Trump embarks on infrastructure spending.

Commodities could be next year's biggest winner, especially oil. We can see oil at \$75+/bbl. Fracking is retracting as exploration companies cannot earn their cost of capital. We see a 50% reduction in fracking in 2020 and further consolidation. Aramco could do a second equity round and could cut production in front of that.

Oil Supply and Demand Spreads vs Oil Prices



We see a lower dollar going forward, which should drive inflation higher. All commodities are traded in dollars and therefore a lower dollar could translate into higher commodity prices. Higher budget deficits (\$1.5 trillion) could begin to exacerbate a lower dollar. Gold could rally as emerging markets continue to see currency devaluation, both deliberate and reflective.

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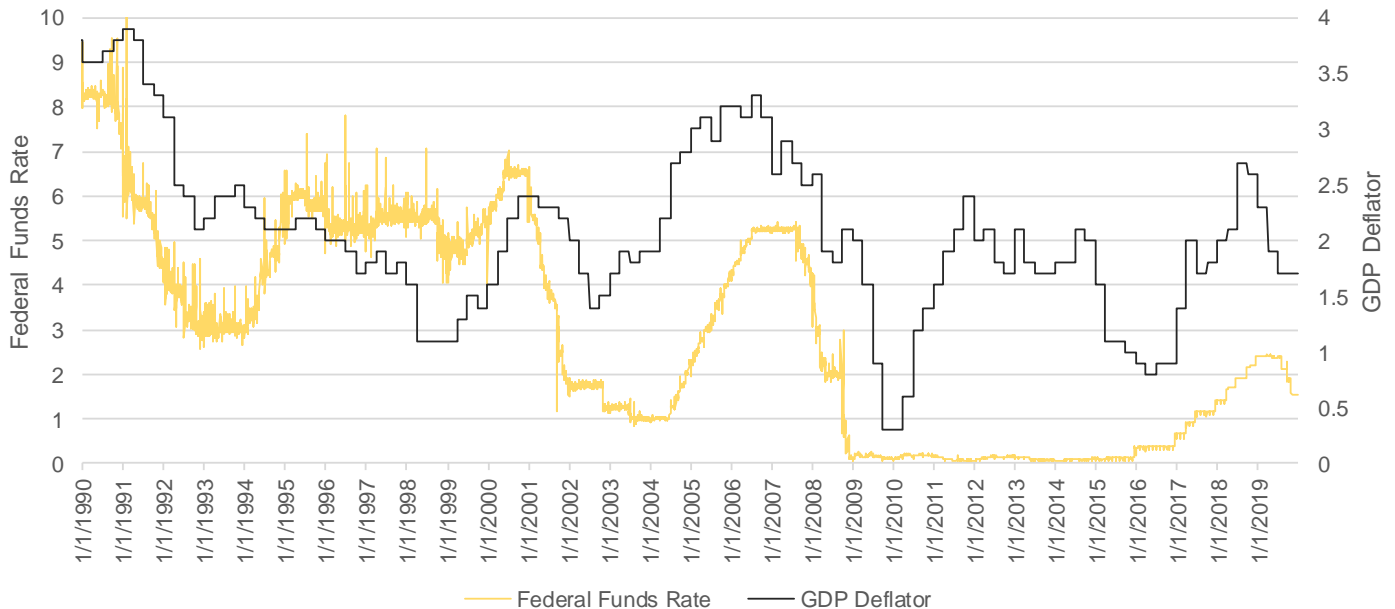
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II. Volatility

VIX Range of 8 to 50. We see volatility going into 2020 as uncertainty pervades in this optimistic bull market. The trade war is far from over and the election could add a layer of added uncertainty as the democratic party narrows in on their top candidate. While we see no fundamental issues currently (unemployment at lows and no surprises within corporate earnings), we recognize this recent push higher in the markets has been fueled almost entirely by low interest rates.

The election and inflation should be a big worry for the markets. The Federal Reserve will be in a tough spot as GDP Deflator could cruise past 2%. We currently believe that President Trump will be re-elected, but it will be contentious.

GDP Deflator vs Federal Funds Rate



The repo market has spurred the Federal Reserve to start another round of stimulus, which should be a cause for concern as well. Shorter term, the repo market has calmed due to the intervention of the Federal Reserve. Longer term, the repo market is brittle, and we see major dampening of liquidity in that market, which could cause an implosion. There is too much leverage in the system from alternative players (\$4.8 trillion). Leverage can be as high 20 to 1 in the repo market. We believe the Federal Reserve will redo the parameters of the repo market after an implosion.

III. Recommendations

Winners:

1. Commodities
2. Technology
3. Floating Rate Bonds

Losers:

1. Emerging Markets
2. Long Bond
3. The disparity between a good borrower and bad borrower will widen. Certain high yield credits have been masked by low interest rates and bad covenants will come to light.

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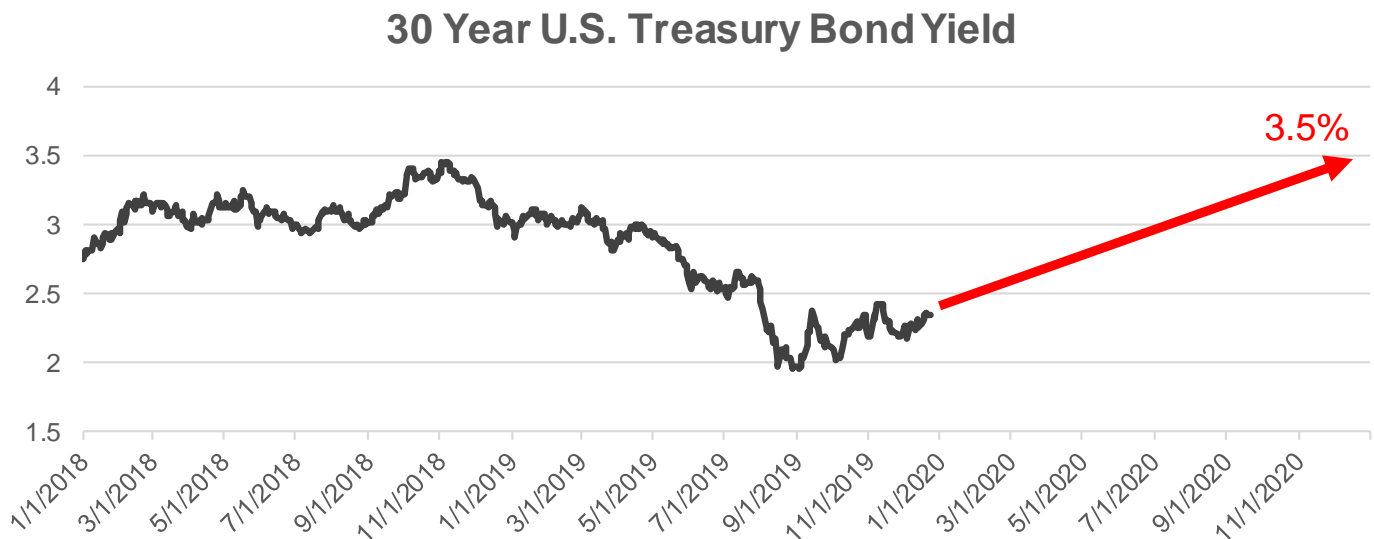
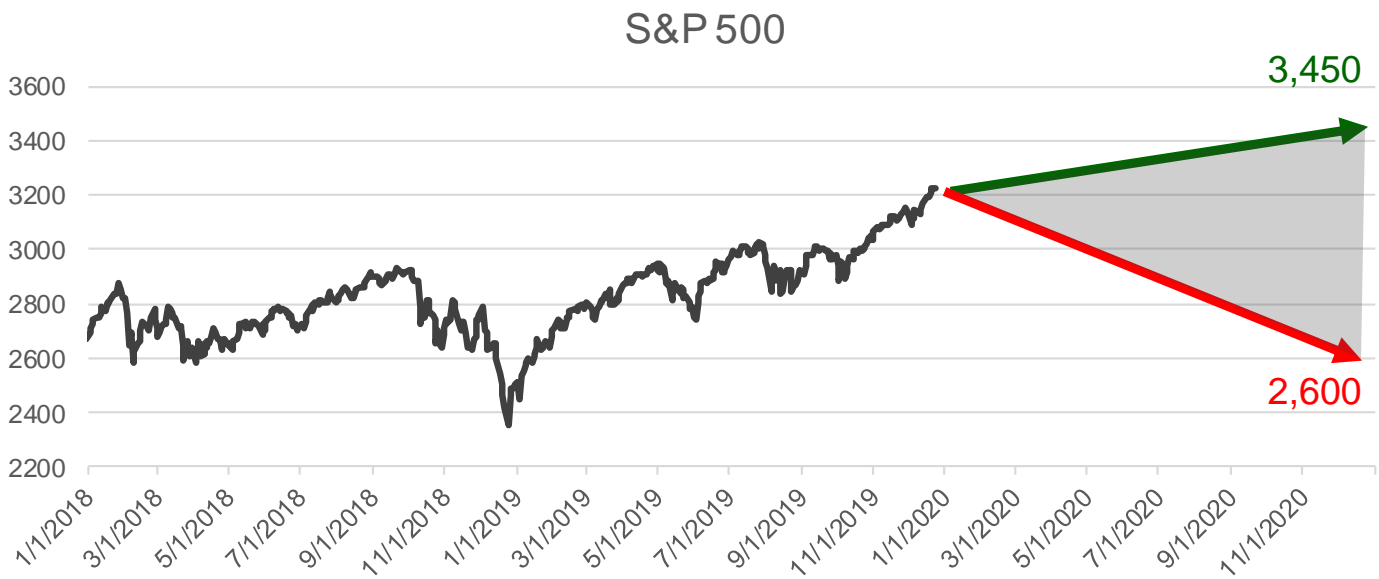
IV. Politics

The political venue is polarized. From a financial view it is simple: Trump is better for the markets as the Democratic platform means more taxes and a slowing of money supply. As the two sides ebb and flow, we see volatility in the markets. It is our view that the economy is healthy and the current deregulation and extraordinary fiscal and monetary policy not only in the U.S. but globally will continue to drive markets higher. We see the key risk as inflation or parabolic markets; the Federal Reserve/Central Banks beginning to raise rates is the *canary in the coal mine*.

V. Market Calls

S&P 500: Range of 2600 to 3450. 2950 represents a -20.0% downside (200-Week moving average) while the 3450 represents a +7.5% gain. We see a volatile year. These ranges will match a VIX jumping as high as 50 and as low as 8.

30-Year Bond: 30-year bond could test November 2018 highs of 3.50% (steepening of the yield curve)



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IMPORTANT INFORMATION

Leader Capital provides its thoughts on the current economy as well as analysis of specific market sectors and securities – and their strategy for the funds going forward. The securities and sectors mentioned are ones of interest to the portfolio managers in carrying out their investment strategy for the funds and although the funds may not invest directly in the securities or sectors discussed, their resulting performance may impact that of the funds – or influence actions taken by the portfolio managers. These discussions do not imply a recommendation to purchase any specific investment or investment in a specific market segment.

S&P 500 Index: Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941-43 base period.

It is not possible to invest directly in an index.

Past performance is not a guide to future performance. The information in this article does not qualify as an investment recommendation.

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Investors should consider the investment objective, risks, charges and expenses of the Fund carefully before investing. The Prospectus contains this and other important information about the Fund. For a current Prospectus, call 800-269-8810 or go to www.leadercapital.com. Please read carefully before investing.

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