



2019 — Trade in the balance

The trade war between the U.S. and China has become the focal point for markets. Our view for some time has been that economic weakness would continue through the first half of 2019, but that the combination of a resolution in the trade war and economic stimulus in China would result in better global growth in the second half. We now believe that view could be at risk.

As the first half of 2019 progressed, all signs pointed to a resolution to the trade dispute between the U.S. and China, leading to potentially stronger growth in the back half of the year. This view was based on the belief that the leaders of the world's two largest economies would be motivated to come to a deal. President Donald Trump would be looking for a strengthening U.S. economy heading into the 2020 election season, while Chinese President Xi Jinping would want to claim a political victory ahead of the celebrations to mark the 70th anniversary of the founding of the People's Republic of China later this year. As we assumed, China has begun to stimulate domestic demand in response to rising uncertainty and a weakening economy.

IVY VIEW



Trade tensions remain greatest risk to global economy

However, Trump dropped a bombshell in early May by announcing the U.S. would increase the tariff rate on \$200 billion in Chinese imports from 10% to 25%. He also threatened additional tariffs on all remaining Chinese imports, an estimated \$250-\$325 billion in goods. China retaliated by announcing it would raise tariffs on \$60 billion in U.S. goods.

Furthermore, Trump threatened to impose tariffs on imports from Mexico to force the country to curb the influx of migrants from Latin American countries.

These actions have caused us to revisit our global gross domestic product (GDP) forecast. We now forecast global growth at 3.2% in 2019 with risks to the downside, a slight downtick from our estimate 1Q of 3.3%.

As anticipated, the G20 Summit in late June provided an opportunity for both sides to call a temporary truce in an effort to return to the negotiating table. Trump and Xi emerged from their meeting with an agreement to delay any new tariffs on U.S. and Chinese products and resume trade talks. We still believe a trade agreement will happen before year-end. However, we also anticipate the intensifying rivalry between the U.S. and China will be with us for some time.

In addition, Trump's position on Mexico occurred while legislatures in the U.S., Mexico and Canada worked toward ratification of the U.S.-Mexico-Canada Agreement (USMCA), the replacement for the North American Free Trade Agreement.

Mexico became the first country to ratify the trade deal and USMCA is not expected to face insurmountable hurdles in Canada. The path to ratification in the U.S. could be rockier as the Democrat-led U.S. House of Representatives wants the deal to be altered to address key provisions on labor and environmental standards.

We believe USMCA will likely be ratified in the U.S. by the end of the year, but at what cost? Trump's reliance on tariffs as a negotiating tactic may have shaken the confidence of U.S. trading partners, as it shows that tariffs can be implemented even if a framework on a trade deal has been reached. We also believe it could make China hesitant to strike a deal with the U.S., knowing there's a possibility Trump could announce tariffs even if an agreement was in place.

IVY VIEW

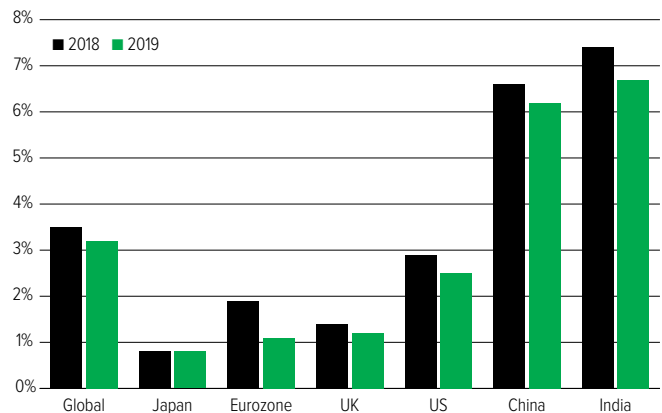


U.S. maintains slow but steady GDP growth

Despite uncertainty about trade and signs of global weakening, the U.S. economy remains healthy and is now in the longest economic expansion in U.S. history. We believe the underlying fundamentals — a robust job market, rising wages and low inflation — support continued growth during the rest of 2019. However, U.S. trade policy remains a wildcard and poses a major threat to the current expansion.

U.S. business confidence has been more mixed. Surveys that focus on larger companies have begun to show increasing concerns about future business trends and capital spending plans, likely in response to the trade uncertainty between the U.S. and China. According to the Small Business Optimism Index, confidence among “Main Street” owners remains elevated, but has weakened from its highs. In addition, finding quality workers is as great concern to small business as trade turmoil, and for good reason. The U.S. unemployment rate is the lowest in nearly 50 years at 3.6% as of June 30.

THE PACE OF GLOBAL GDP GROWTH REMAINS SLUGGISH FOR THE REST OF THE YEAR



Source: Ivy Investments. Chart shows 2018, 2019 forecasts of annual gross domestic product (GDP) growth, all based on purchasing power parity. Past performance is not a guarantee of future results. The GDP growth forecasts are current through June 30, 2019, and are subject change at any time based on market and other conditions. No forecasts can be guaranteed.

Over the last three years, U.S. consumer spending has steadily grown at 2.5-3%. While consumer confidence readings have been mixed, they have generally been healthy. But trade remains a key risk. If we're wrong and the U.S. imposes tariffs on all Chinese imports that do not have tariffs, we will become more concerned about a possible recession in the U.S. and globally. Unlike most of the Chinese products that have had tariffs imposed, the remaining imports are mostly consumer facing. Those would have a more immediate effect on the purchasing power of the U.S. consumer, putting an important economic growth factor in jeopardy.

IVY VIEW



China continues stimulus measures through end of year

Beginning in late 2018, China stepped up fiscal stimulus because of weaker domestic demand and rising external risk with the trade war.

We believe that China will continue to stimulate its economy if the trade war persists. This action could assist countries that are closely tied to Chinese demand, including certain southeastern Asia countries and some commodity-producing countries, such as Vietnam, Malaysia and Australia. Even so, we are increasingly skeptical that it will be enough to meaningfully accelerate global growth if the tariff overhang remains.

IVY VIEW



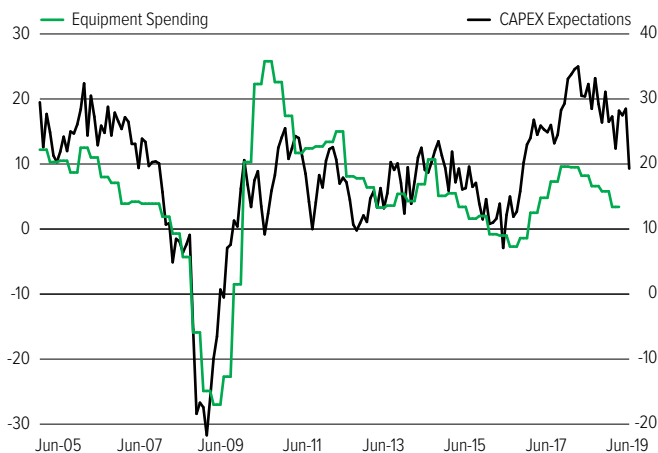
The Fed will cut rates at least twice by the end of 2019

The U.S. Federal Reserve (Fed) has held steady on interest rates for much of 2019. Our base case belief at the start of the year was up to two rate increases for 2019. However, increasing pressures from the trade turmoil and uncertainty around the strength of global growth has caused us to change our position. We now believe the Fed will become more accommodative in its monetary policy and will cut the federal funds rate two or three times by the end of the year.

CHINA'S STIMULUS MEASURES

- Tax and fee cuts for consumers and businesses.
- Higher bank lending and government bond issuance.
- Incentives for local governments to increase infrastructure investment.
- Local governments removing onerous property restrictions.
- People's Bank of China cuts to the reserve requirement ratio.

FED SURVEYS PROJECT DECLINES IN CAPITAL EXPENDITURE PLANS (year/year % change)



Source: Ivy Investments analysis of U.S. Federal Reserve regional surveys. Data show % change year to year of capital spending expectations and actual equipment spending.

IVY VIEW



U.K. faces recession if “hard” Brexit occurs

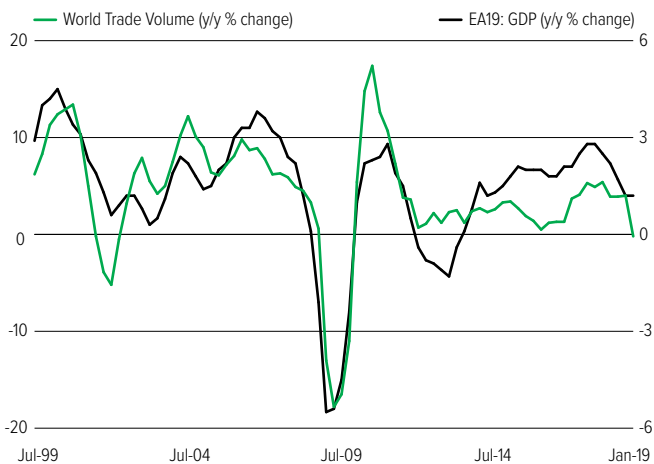
The expected conclusion to Brexit is weighing on eurozone economic growth. The inability of the U.K. Parliament to find an equitable agreement to leave the European Union (EU) triggered the resignation of Prime Minister Theresa May. We expect Boris Johnson to be the Conservative Party’s choice to replace May.

Johnson favors a renegotiation of the original deal, but supports a “hard” Brexit — where the U.K. leaves the EU without an agreement to clarify trade and other issues — if that’s not possible. With the EU holding firm that it will not renegotiate the exit deal, Johnson’s ascension to prime minister would increase the odds that the U.K. could leave the EU on Oct. 31 without a deal.

In our view, the U.K. will fall into recession if this occurs. We hope that Parliament would step in before this occurred, which could include a vote of no confidence that could result in new general elections and a new government. While a hard Brexit is not our base case, the risks of such an event have clearly risen.

The outlook for the other side of the Brexit equation is somewhat tame. The eurozone’s economy is tied to not only China, but also the global trade cycle. The European Central Bank (ECB) continues to push out its own forecast for when it will be able to raise interest rates, with its deposit rate currently at -0.4%. Recently, the ECB indicated it stands ready to ease if needed. We increasingly believe that the ECB will have difficulty getting the deposit rate much above zero before the next recession and could still have negative rates at that time.

MUTED EUROZONE GDP GROWTH TIED TO GLOBAL TRADE



Source: Ivy Investments analysis of CPB World Trade Monitor and Eurostat economic data. June 2019.

IVY VIEW



Fiscal reforms a tailwind for key emerging market economies

Despite near-term concerns and likely volatility across the global equity market, we believe the long-term fundamentals in emerging markets will continue to offer opportunities. We base our view on several key characteristics, including:

- Emerging markets generally are in the early stages of their developmental life cycles.
- Favorable demographics, increasing incomes and improving financial markets can make emerging markets attractive for trends in consumption, productivity growth and innovation.
- The emerging world is home to many high-quality companies that often are driving innovation in both their home countries and around the world.

In addition to the long-term drivers, we believe other factors will support emerging markets through year end:

- Dovish policy from the Fed removes one of the headwinds that emerging market currencies faced in 2018.
- Many emerging market nations are likely to continue to grow GDP at a healthy pace, despite global growth deceleration. We consider this to be a foundation for wealth creation and the middle class consumption growth that underlies many of the potential investment opportunities in the region.
- While visibility into future earnings is foggy, we think the emerging markets offer better value relative to the U.S. Because the effects of the tax cuts and one-time benefits that accelerated U.S. corporate earnings in 2018 have passed, we believe emerging markets now offer a more favorable risk/reward profile.

IVY VIEW



Global economic relief could come in early 2020

Looking ahead, we believe the recovery we initially foresaw in the second half of this year could instead come in 2020. A trade deal between the U.S. and China could ultimately result in better business confidence, especially if the agreement is more than a cease-fire. Chinese stimulus in 2019 should continue to help certain countries. Additional stimulus would come in the form of easier monetary policy around the globe. Easier policy is likely to help any recovery that may form. While we remain cautious in the short term, we could see some relief next year.

FACTORS AFFECTING KEY EMERGING MARKETS FOR REMAINDER OF 2019

China (including Hong Kong)

With a prolonged trade war now becoming a likely scenario, we expect China to continue stimulus. We already see early measures that are benefiting the private sector, personal consumption and infrastructure spending, and we think more such measures are likely. In addition, China has announced a number of policy changes focused on infrastructure spending, increased access to credit for the private sector, tax cuts and fewer regulations on a variety of industries.

Brazil

After a record-setting recession, Brazil is in the early stages of a recovery. There is evidence President Jair Bolsonaro and his pro-reform cabinet plan to tackle the country's fiscal imbalances by addressing pension reform, which may be met with pushback, but remains necessary. We think that effort will be matched by the privatization of state-owned companies and auctions of infrastructure and selected energy acreage.

India

Prime Minister Narendra Modi has defended his incumbency after taking the country through tough reforms such as demonetization and a goods and services tax. We believe the reelection of the Modi government is positive for India because the country can continue the reforms laid out in his first term.

Market and sector view

Equity markets have roared back following the sharp correction at the end of 2018. The S&P 500 Index had advanced 17% as of June 30, with every sector posting gains. The rally had a pro-cyclical component to it as information technology, consumer discretionary and industrials delivered the strongest sector returns while energy and health care were the laggards.

Looking ahead to the remainder of the year, we believe equities face intensifying headwinds as the pace of global growth slows and trade turmoil lingers. We examine how these macro forces could impact 2019's top performing sectors to date: information technology, consumer discretionary and industrials.

Information technology continues to be a key catalyst for upward market activity, posting a 26% return for the first half of the year. However, reported antitrust investigations into four of the largest tech companies and ongoing uncertainty about U.S.-China trade relations have led to an uptick in volatility.

The U.S. government's alleged antitrust violations at Apple, Amazon, Facebook and Google-parent Alphabet could create short-term implications for the sector. However, we believe the result of this action won't be known for months, if not years. We don't anticipate any short-term issues, so we will assess the situation in a long-term context.

Trade turmoil triggered bouts of volatility for semiconductor companies, particularly after the U.S. blacklisted Chinese telecom giant Huawei in May, forbidding U.S. companies from doing business with it. This action caused many chip makers to lower their forecasts for the back half of 2019, while semiconductor end-users became increasingly cautious with placing orders. However, those outlooks could moderate after Trump indicated a reprieve of the ban could be forthcoming as a result of talks at the G20 Summit. We believe the emergence of secular growth opportunities, such as the "Internet of Things" and 5G, could continue to support the space.

Trade is also a concern for many **consumer discretionary** companies. Luxury goods makers have largely avoided incremental tariffs to date. However, further escalation of levies of Chinese products would have a direct impact by driving up the cost of goods sold for many discretionary products. The indirect effect would likely be a drop in demand as brands raise prices to offset tariffs and consumer confidence could drop as a result.

We believe consumer discretionary companies with globally diversified supply chains and revenue streams—and therefore less dependent on China imports—could be better positioned in the event of an escalation of the trade war.

Industrials have shown more resilience in 2019 after clear underperformance last year amid rising trade fears and ebbing economic stimulus. This improved performance can be attributed partially to the fact that the sector was hit harder by the initial rounds of tariffs last year. We believe the sector could be in a position to better withstand the impact of any incremental tariffs.

In addition, we believe there could be opportunities for equities that are relatively unaffected by the trade situation, particularly in the aerospace and defense sub-sectors, as well as those that are likely to benefit from a resolution of the trade war, such as multi-industrial and machinery companies.

Our investment capabilities

Ivy Investments offers actively managed products in nearly every major asset class. Most of the strategies listed below are available to retail and institutional clients through various investment vehicles, including Institutional Separate Accounts, Collective Investment Trusts, Mutual Funds, Variable Insurance Portfolios, and Model Delivery Portfolios.

EQUITY

Domestic

Core Equity

Large Cap Growth

Large Cap Growth Concentrated

Large Value

Large Value Concentrated

Mid Cap Growth

Mid Cap Income Opportunities

Multi-Cap Growth

Small Cap Core

Small Cap Growth

Global International

Emerging Markets

Global Equity Income

Global Growth

Global Real Estate

International Core Equity

International Small Cap

International Value

Sector

Energy

Energy Concentrated

Natural Resources

Real Estate

Science and Technology

FIXED INCOME

Muni

California Municipal High Income

Municipal Bond

Municipal High Income

Taxable

Cash Management

Core Fixed Income

Corporate Bond

Crossover Credit

Emerging Markets Local Currency Debt

Global Fixed Income

Global High Yield Fixed Income

Government Money Market

Government Securities

High Income Opportunity

High Yield Fixed Income

Limited Maturity

Strategic Income

Targeted Return Bond

MULTI ASSET

Asset Strategy

Balanced

Multi-Asset Income

You could lose money by investing in the Ivy Cash Management Fund. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

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The S&P 500 Index is a float-adjusted market capitalization weighted index that measures the large-cap U.S. equity market. The index includes 500 of the top companies in leading industries of the U.S. economy. It is not possible to invest directly in an index.

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