



4Q19 Highlights: Downturn concerns dampen 2020 revenue, earnings, investment and hiring expectations.

- CFOs' views on the trajectory of the North American economy improved somewhat; views on Europe and China remain poor.
- Ninety-seven percent of CFOs say a downturn has either already begun or will next year; about 80% cite taking defensive steps.
- Trade wars and uncertainty remain CFOs' top external worries.
- Expectations for consumer and business spending have declined since last year.
- CFOs are less likely than last year to expect higher industry revenue and prices.
- Own-company optimism rebounded, but remains relatively low.
- Revenue and capex expectations sit near three-year lows; hiring and earnings are among their nine-year lows.
- CFOs cite moving operations out of North America, and expansion rather than contraction in Europe, China, and "other Asia."
- Contrary to a year ago, CFOs expect very low interest rates and 10-year bond yields; they again expect a strong US dollar.
- CFOs cite high pressure to act on climate change—mostly from their employees, customers, and boards; common actions include increasing their efficiency of energy use, and including management of climate risk in governance processes.

How do you regard the status of the North American, European, and Chinese economies? Perceptions of North America leveled off, with 69% of CFOs rating current conditions as good (68% last quarter), and 23% expecting better conditions in a year (up from 15%). Perceptions of Europe rose, but only to 7% and 6%; China fell to 18% and 11%.

What is your perception of the capital markets? Eighty-six percent of CFOs say debt financing is attractive. Equity financing is considered attractive by 43% of public company CFOs and 26% of private company CFOs. Seventy-seven percent say US equity markets are overvalued, up from 63%.

Overall, what risks worry you the most? CFOs express ongoing trade policy worries, with growing concern about political turmoil, competition, consumer demand, and upcoming US elections. Internally, talent concerns continued, while concerns around change, costs, and growth rose.

Compared to three months ago, how do you feel about the financial prospects for your company? The net optimism index rose from last quarter's -5 to +11 this quarter, but remains among the lowest levels in three years. Thirty percent of CFOs express rising optimism (26% last quarter), and 19% express declining optimism (31% last quarter).

What is your company's business focus for the next year? Although companies continue to focus mostly on growth and investment, their growing focus on cost reduction and returning cash (multi-year highs) may suggest growing defensiveness in anticipation of a downturn.

How do you expect your key operating metrics to change over the next 12 months?* YOY revenue growth expectations slid from 4.3% to 3.7% (three-year low). Earnings rose from 5.6% to 6.0% (but still second-lowest in nine years); capital spending edged up from 3.6% to 3.7% (still near its three-year low). Hiring fell from 1.6% to 1.1% (second-lowest in six years). Dividend growth rose from 3.9% to 4.3%.

What are your economic expectations for 2020? A minority of CFOs expect improvement in the US, Canadian, and Mexican economies; expectations for consumer and business spending declined sharply, and those for labor costs rose.

What are the prospects for a US downturn and has your company taken defensive action? Ninety-seven percent of CFOs say a downturn has already begun or will next year; compared to 1Q19, companies appear to be taking more defensive action—especially around spending and headcount.

What are your expectations for the capital markets in 2020? Contrary to this time last year, CFOs expect very low interest rates and 10-year bond yields for the next calendar year; they again expect a strong US dollar.

What are your expectations for your company in 2020? Compared to last year, CFOs are less likely to expect industry revenue and prices to rise; they are mostly unlikely to make major changes to their strategy due to downturn expectations or upcoming US elections.

Compared to three years ago, how has your company adjusted its geographic focus? CFOs cite a higher focus on US, European, Chinese, and other Asian markets, and expansion of capacity/operations in the latter three regions.

Are you getting pressure from stakeholders to act on climate change? More than 70% of CFOs say their company is under at least moderate pressure to act on climate change from at least one stakeholder group; the average is 2.5 groups.

Is your company taking action in response to climate change? More than 90% of CFOs say their company has taken at least one action in response to climate change, with the average CFO reporting nearly four.

Does your company have greenhouse gas reduction targets? Overall, 44% of all responding CFOs (52% of those who know their status) say their company already has or is working on greenhouse gas reduction targets.

*Averages have been adjusted to eliminate the effects of stark outliers.

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