consequent capital management

John C. Robinson
Chief Executive Officer
Tel: 404-883-2577
john@consequentcm.com

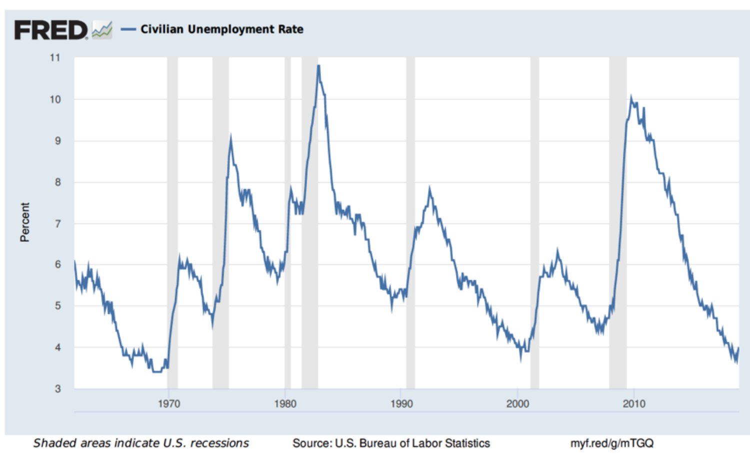
Capital Markets Review and Outlook

By: Cyril M. Theccanat, Chief Investment Officer

January 2019

Economy and Outlook

Market fears during the last quarter of 2018 of an impending recession late this year or early 2020 were put to rest with the strong employment report for the month of January which showed job gains of 304,000. Over the past three months, employment gains have averaged a sturdy 240,000 per month, and the unemployment rate remains near a 50-year low. There has undoubtedly been some slowing in global economic growth driven in part by the on-going trade war between the U.S. and China. China is an important linchpin for global trade. Consumer confidence measures have also softened, but this is likely the result of the long-lasting partial government shutdown combined with the sharp declines in equity markets and spikes in market volatility late last year. However, household spending remains strong. The Federal Reserve responded to the slowdown in economic growth and lack of inflationary pressures by markedly shifting its stance on monetary policy. After displaying a hawkish position for most of last year in terms of tightening monetary policy, the Federal Reserve adopted a more dovish stance in January by emphasizing that it would be patient in determining future interest rate adjustments. Importantly, the Federal Reserve also implied that despite its balance sheet's current run-off rate, the balance sheet would be maintained at a much higher level than before the Great Financial Crisis. Other major central banks such as the ECB and the BOJ continue to maintain extraordinarily accommodative monetary policies, while the Chinese central bank has cut bank reserve requirements, thereby, injecting the equivalent of over $100 billion into the country's banking system. The U.S. economy likely grew by over 3% in 2018 fueled, in part, by the $1.5 trillion tax cut package signed into law at the end of 2017. While economic growth is likely to downshift this year, muted inflation and liquidity from global central banks are likely to underpin a continuation of the current economic expansion.



Equity Markets

Following the dismal stock market performance in the last month and the last quarter of 2018 that culminated in the first negative return in 10 years, on a calendar year basis, for the broad U.S. stock market, risk markets abruptly reversed course and rocketed higher in January. Volatility also declined precipitously. After tripling in late December from its lows

John C. Robinson
Chief Executive Officer
Tel: 404-883-2577
john@consequentcm.com

in mid-2018, the VIX index declined by more than half in January. The Russell 3000 Index, a broad representation of the domestic equity market, had a return of +8.6% in January, which more than offset the -5.2% decline for the entire calendar year 2018. The magnitude of the turnaround in the equity markets is reflected in the fact that as of 12/31/18, the 3-year annualized return for the Russell 3000 Index was 9%, and just one month later, the 3-year annualized return jumped to 14.2%. For institutional investors, this is yet another real-world illustration of the futility in market timing and reinforces the importance of maintaining a long-term focus on investment goals and objectives. The significant improvement in investor sentiment and market tone also led to a reversal in the defensive positioning by capitalization and style during the last quarter of 2018. In January, the Small Cap and Mid Cap segments of the equity market outperformed Large Cap, while Growth resumed its outperformance over Value across the entire capitalization spectrum. The renewed risk-on tone was also reflected in the international equity markets. Developed equity markets outside the U.S. returned +6.6% in January, while emerging markets gained +8.8%.

Fixed Income Markets

Although the fixed income markets, with the exception of the corporate credit sectors, benefitted in the 4th quarter of 2018 from the flight-to-quality out of the equity markets, there was no reversal in January when the equity markets rallied strongly. On the contrary, fixed income markets also had positive returns as the Federal Reserve appeared to change its stance on the Fed's previously articulated monetary policy tightening path. A more patient Fed together with accommodative monetary policies from other large central banks were positive catalysts helping interest rates move lower in January even after the sharp declines in the 4th quarter of 2018. The belly of the Treasury yield curve benefitted the most in January as 5-year and 10-year maturity yields declined by an average of 7 bp, while longer and shorter maturities declined by half as much. This resulted in a reshaping of the Treasury yield curve with the intermediate part of the curve flattening, while the long-end steepened. In the credit markets, the positive correlation between corporate bonds and equities resulted in a significant tightening in credit spreads. While spreads in the credit sector compressed by 22 bp, the credit quality curve flattened as the BBB-rated sector outperformed the sectors rated Single-A and higher. The high yield sector was the stellar performer in fixed income as spreads narrowed by 103 bp enabling the sector to generate a total return of +4.5% for the month of January. The overall credit curve was unchanged with spreads narrowing by the same magnitude across both intermediate and longer-dated issues. In the non-dollar fixed income markets, the generally benign interest rate backdrop together with a weaker U.S. dollar helped produce a +2.0% return for January, which follows a +2.5% return in December 2018.

John C. Robinson
Chief Executive Officer
Tel: 404-883-2577
john@consequentcm.com

		Returns as of 1/31/19 (In %)			
		Month	1 Year	3 Years	5 Years
Russell 3000®	US AllCap Equity	8.6	-2.3	14.2	10.4
Russell 1000®	US Large Cap Equity	8.4	-2.2	14.1	10.7
Russell 1000® Growth	US Large Cap Growth	9.0	0.2	16.6	13.0
Russell 1000® Value	US Large Cap Value	7.8	-4.8	11.6	8.3
Russell Midcap®	US Mid Cap Equity	10.8	-2.9	13.3	8.9
Russell Midcap® Growth	US Mid Cap Growth	11.5	0.5	15.6	10.3
Russell Midcap® Value	US Mid Cap Value	10.3	-5.4	11.7	7.9
Russell 2000®	US Small Cap Equity	11.2	-3.5	14.7	7.3
Russell 2000® Growth	US Small Cap Growth	11.5	-2.6	15.6	7.8
Russell 2000® Value	US Small Cap Value	10.9	-4.5	13.8	6.6
MSCI ACWI ex-US	Global Equity ex-US	7.6	-12.6	9.6	3.1
MSCI EAFE	Global Developed Mkts Equity	6.6	-12.5	7.7	2.7
MSCI EM	Emerging Mkts Equity	8.8	-14.2	14.9	4.8
Bloomberg/Barclays US Agg	US Core Fixed Income	1.1	2.3	2.0	2.4
Bloomberg/Barclays US Interm. Agg	US Intermediate Fixed Income	0.8	2.8	1.6	2.0
Bloomberg/Barclays US Credit	US Corporate Bonds	2.2	0.9	3.7	3.3
Bloomberg/Barclays US MBS	US Mortgage Backed Securities	0.8	3.0	1.5	2.4
Bloomberg/Barclays US Corp HY	US High Yield	4.5	1.7	9.4	4.6
FTSE Non-US WGBI	Global Fixed Income ex-US	2.0	-3.0	3.6	0.4