consequent capital management

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Capital Markets Review and Outlook

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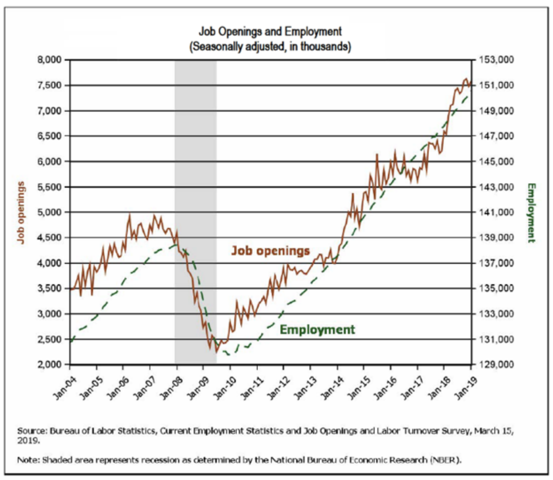
Economy and Outlook

Despite the dismal February jobs report which was released in early March showing employment gains of just 20,000, the U.S. labor market remains firm. Over the past six months, employment growth has averaged 190,000 per month. Weekly jobless claims are



Source: Bureau of Labor Statistics, Current Employment Statistics and Job Openings and Labor Turnover Survey, March 15, 2019.

Note: Shaded area represents recession as determined by the National Bureau of Economic Research (NBER).

near the lows in 50 years, while job openings are the highest in 15 years. Wages have also increased with average hourly earnings rising 3.4% year-over-year. While the U.S. economy has decelerated from the strong pace seen last year, a slowdown does not equate to or imply an impending recession. Consumers remain upbeat as reflected in the elevated University of Michigan surveys. Bank lending has also picked up for commercial and industrial loans. Meanwhile, inflation has remained subdued. Although wages have accelerated, productivity has also increased, thereby, putting a lid on inflation. Unit labor costs at the end of 2018 were up just 1% on a year-over-year basis. The core PCE deflator, an inflation metric that the Federal Reserve closely watches, remains below 2%. As a result, after the March FOMC meeting, the Federal Reserve reiterated its 'patient' stance implying no interest rate hikes this year. Additionally, Fed Chair, Jerome Powell, stated that the central bank's quantitative tightening policy, which is reducing its balance sheet, would start tapering in May and end in September. Such an action would leave the Fed with a sizeable balance sheet of just over $3.5 trillion; in contrast, back in 2007, just prior to the Great Financial Crisis, the Fed's balance sheet was less than $900 billion. Economies outside the U.S. have also been slowing down rocked by factors such as the still continuing trade disputes between the U.S. and China as well as Europe, and the seemingly intractable Brexit negotiations. Although the continuous negative news flow related to these areas is a hindrance for business and consumer sentiment, there is a reasonably good likelihood for a positive outcome in both cases. Additionally, monetary policy continues to be stimulative across the developed markets, while inflation and interest rates remain low. All these factors are supportive for a continuation in global economic growth.

Equity Markets

In the final month of the first quarter of 2019, equity markets continued to add to the gains from the prior two months, but at a slower pace. The Russell 3000 Index, a broad representation of the domestic equity market, had a return of +1.5% in March bringing its return for the first quarter of 2019 to a remarkable +14% which almost offsets the -14.3% loss

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in the last quarter of 2018. Reversing the trend from the first two months of the year, the Large Cap segment outperformed Small Cap by +360 bp in March. For the quarter, however, Small Cap was slightly ahead with a return of +14.6%. Style-wise, Growth continued its outperformance over Value across all capitalizations. For the quarter, the outperformance of Growth averaged a sizeable +487 bp. While almost all the major equity sectors had positive returns for the month, financials lagged with a return of -2.7% as interest rates moved sharply lower and the Treasury yield curve flattened. The dominance of cyclicals continued in March as sectors such as consumer discretionary and technology outperformed healthcare and utilities, International markets also added to their gains this year with positive returns for the month. The 0.8% return for Emerging Markets was slightly ahead of the return for Developed Markets. For the first quarter of the year, both markets posted returns of around 10%.

Fixed Income Markets

Despite the continued strong performance in the equity markets, Treasury yields moved sharply lower as bond investors reacted positively to the Federal Reserve's indication of no rate hikes in 2019, as well as an end later this year to the Fed's quantitative tightening policy. Treasury yields declined by 25 to 32 bp across the yield curve with the belly of the curve (5 and 10-year maturities) experiencing the biggest declines. Declining yields have noticeably flattened the yield curve – the difference in yields between 3-month Treasury bills and the 10-year Treasury note ended the month at just +1 bp. A year ago, the difference was +101 bp. In the corporate bond market, spreads tightened by 1 to 5 bp for the month in line with the positive tone in the equity markets. The corporate credit curve steepened as intermediate maturities outperformed longer maturity issues by 3 to 5 bp in spread tightening. On the other hand, the corporate quality curve flattened as the BBB-rated sector outperformed the higher quality credit sectors. Unlike the investment grade corporate sector, spreads in the high yield market widened by 16 bp in March. However, due to the decline in Treasury yields and the higher coupons of high yield bonds, the high yield sector had a return of 0.9% in March. For the first quarter, high yield bond spreads narrowed by 115 bp enabling the sector to generate a return of +7.3%. Although the Japanese yen appreciated by +0.5% versus the U.S. dollar in March, the -1.3% depreciation in the euro, and the overall +1% appreciation in the U.S. dollar index were headwinds for the non-dollar global bond market which had a return of +0.9% for the month. This brought the return for the first quarter to +1.5%.

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			Returns as of 3/31/19 (In %)			
		Month	1st Qtr	1 Year	3 Years	5 Years
Russell 3000®	US AllCap Equity	1.5	14.0	8.8	13.5	10.4
Russell 1000®	US Large Cap Equity	1.7	14.0	9.3	13.5	10.6
Russell 1000® Growth	US Large Cap Growth	2.8	16.1	12.7	16.5	13.5
Russell 1000® Value	US Large Cap Value	0.6	11.9	5.7	10.5	7.7
Russell Midcap®	US Mid Cap Equity	0.9	16.5	6.5	11.8	8.8
Russell Midcap® Growth	US Mid Cap Growth	1.3	19.6	11.5	15.1	10.9
Russell Midcap® Value	US Mid Cap Value	0.5	14.4	2.9	9.5	7.2
Russell 2000®	US Small Cap Equity	-2.1	14.6	2.0	12.9	7.1
Russell 2000® Growth	US Small Cap Growth	-1.4	17.1	3.9	14.9	8.4
Russell 2000® Value	US Small Cap Value	-2.9	11.9	0.2	10.9	5.6
MSCI ACWI ex-US	Global Equity ex-US	0.6	10.3	-4.2	8.1	2.6
MSCI EAFE	Global Developed Mkts Equity	0.6	10.0	-3.7	7.3	2.3
MSCI EM	Emerging Mkts Equity	0.8	9.9	-7.4	10.7	3.7
Bloomberg/Barclays US Agg	US Core Fixed Income	1.9	2.9	4.5	2.0	2.7
Bloomberg/Barclays US Interm. Agg	US Intermediate Fixed Income	1.4	2.3	4.3	1.7	2.3
Bloomberg/Barclays US Credit	US Corporate Bonds	2.4	4.9	4.9	3.5	3.6
Bloomberg/Barclays US MBS	US Mortgage Backed Securities	1.5	2.2	4.4	1.8	2.6
Bloomberg/Barclays US Corp HY	US High Yield	0.9	7.3	5.9	8.6	4.7
FTSE Non-US WGBI	Global Fixed Income ex-US	0.9	1.5	-4.5	0.9	-0.1