consequent capital management

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Capital Markets Review and Outlook

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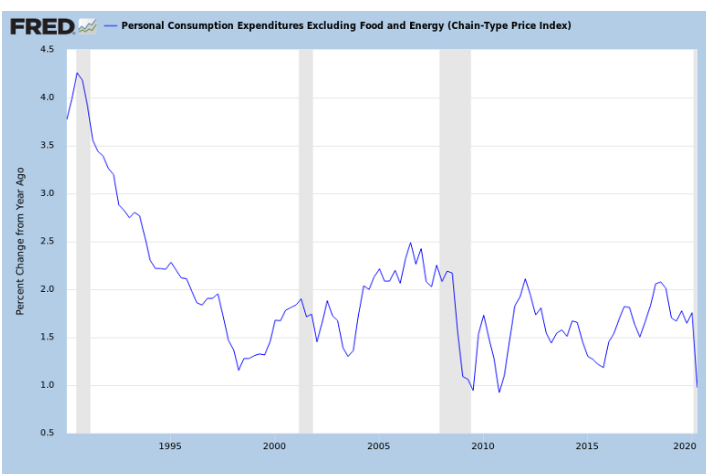
Economy and Outlook

The dominant theme globally in August was the Covid-19 coronavirus pandemic. Worldwide, the number of infections crossed the 26 million mark with 860,000 fatalities. In the United States, there are 6.1 million confirmed cases, while over 185,000 people have succumbed to the disease. The economic fallout from the pandemic is spreading widely despite the easing of strict lockdowns. Widespread and elevated fears remain about contracting this highly contagious disease. As a result, economic activity is taking place in stops and starts as reflected in mixed economic data releases. Industrial production has increased strongly by almost 10% (non-annualized) since bottoming in April. After rising for the third consecutive month, retail sales at the end of July were +1.7% higher than in the pre-pandemic month of February. However, despite the drop in the unemployment rate in August to 8.4%, layoffs are continuing at high levels, and overall employment is still lower by more than 11 million since February. Also, real-time data surveys point to increasing caution among consumers in areas such as reduced credit card spending in early August compared to year-ago levels. The current impasse in Congress regarding additional fiscal stimulus measures to mitigate the effects of the pandemic is worsening the economic backdrop. On a positive note, the Federal Reserve formally incorporated changes in its policy framework to seek periods of higher inflation when inflation has been below target for an extended period of time. This important action reinforces and provides credence for market expectations that interest rates will remain low for a long time. The chart on the left shows that the Federal Reserve's preferred gauge for core inflation (core personal consumption expenditures price index) has not been above the central bank's 2% threshold for any sustained period of time since the Great Financial Crisis despite the Fed's near-zero interest rate policy combined with quantitative easing. Outside the United States, major developing economies such as India and Brazil have been hit hard by the pandemic. Out of the world's 20 largest economies (G20), India has experienced the worst economic decline with a -24% contraction year-over-year at the end of the 2nd quarter. While Europe has done better thus



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far due to generous support programs, concerns are growing that mass layoffs may be looming. Governments are trying to maintain stopgap measures until a new European Commission $118 billion loan program to support wages can be tapped next year.

The human toll from the pandemic is of tragic proportions, and much uncertainty still remains. However, there are silver linings in the dark clouds shrouding the world. There has been significant progress on the vaccine development and therapeutics front. Multiple vaccines are now in Phase 3 human trials, and corticosteroids have been found to significantly reduce mortality rates in patients acutely sickened by the coronavirus. There are now increasingly encouraging signs that one or more vaccines may receive approval for Covid-19 before the end of this year. Success on the medical front will lay the groundwork for a speedy and lasting recovery for the global economy.

Equity Markets

In August, the equity markets rallied for the 5th consecutive month, and by the most since April as investors' confidence was bolstered on several fronts – encouraging news on Covid-19 vaccine development, the Federal Reserve's formal adoption of a policy stance that implied interest rates would remain low for an extended period of time, and better than expected corporate earnings. The broad domestic equity market represented by the Russell 3000 Index rose +7.2% in August bringing its year-to-date return to +9.4%. As a reminder, the year-to-date return at the end of March was -21%. In terms of performance differentiation by capitalization, Large Cap outperformed Small Cap (+171 bp) for the 2nd consecutive month increasing the year-to-date outperformance to a massive +16 percentage points. Performance by Style continued its trend this year for Large Cap and Small Cap with Growth outperforming Value by +48 to +619 bp in August. For the first time this year, Value outperformed Growth (by +124 bp) in the Mid Cap space. However, year-to-date, Growth has outperformed Value across all capitalizations by +24 to +40 percentage points. In August, sector performance was again driven by Cyclicals led by Technology (+12%), Consumer Discretionary (+9.5%) and Industrials (+8.6%). Defensives lagged with Utilities (-2.6%) the worst performing sector for the month. Other Defensive sectors posted positive returns, Consumer Staples (+4.7%) and Health Care (+2.7%). Financials (+4.3%) benefitted from the steepening in the yield curve. Energy (-1%) was a laggard as energy prices remained weak. Year-to-date, Technology and Consumer Discretionary are standouts with returns of +36% and +28% driven by the very strong performance in growth names. In contrast, Energy (-39.3%) and Financials (-17.3%) are the worst performers for the same period. Although the U.S. dollar continued its decline in August, with a loss of -1.1% for the dollar index, the investment performance of international markets lagged the U.S. market. The Developed Markets Index, MSCI EAFE, rose +5.1% helped in large part by the +3.6% to +6.4% returns in the biggest economies in Europe (Germany, France and Italy), and the +7.7% return in Japan. The return of the MSCI Emerging Markets Index (+2.2%) was less than half that of the Developed Markets. Although China and India rose by +5.7% and +3.5% respectively, the overall index's return was dragged down by the -8.9% decline in Brazil as the Brazilian real weakened by -4.8% against the U.S. dollar. Year-to-date, however, the

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Emerging Markets Index is +500 bp ahead of the Developed Markets Index, +0.4% versus -4.6%.

Fixed Income Markets

The change in the Federal Reserve's stance on inflation combined with strong equity markets pushed Treasury yields higher, especially for longer maturities. While 2-year and 5-year yields rose by 3 and 7 bp respectively, the yield on the 10-year Treasury Note increased by 17 bp to 0.72%, and the 30-year bond's yield climbed 29 bp to 1.49%. As a result, the Treasury yield curve steepened sharply with the 2-year/30-year spread widening by 26 bp to end the month at +135 bp. This leaves the coupon curve 54 bp steeper since the beginning of the year. Following strong performance for the past four months, investment grade corporate bond spreads tightened a more modest 4 bp in August leading to +10 bp of outperformance over duration-matched Treasuries. The corporate quality curve flattened as BBB-rated bonds outperformed Single-A rated issues by +51 bp. However, the credit curve steepened as long maturity bonds underperformed short and intermediate maturities by -59 bp in excess return. Finance was the best sector for the month with an excess return of +28 bp, while Utilities underperformed (-75 bp). Despite the spread tightening for the overall investment grade index, the total return for the month was negative (-1.3%) as the magnitude of the rise in Treasury yields swamped the tightening in corporate spreads. Year-to-date, the investment grade sector posted a total return of 6.7%. The High Yield sector performed better than the Investment Grade sector as the average high yield spread narrowed by 11 bp generating +121 bp in excess return. The quality curve flattened with Single-B and Caa bonds outperforming the higher quality Ba sector by an average of +86 bp in excess return. On a total return basis, the best performing sectors for the month include Airlines (+6.4%) and Leisure (+3.6%), while Oil Field Services (-5.5%) was the worst performer. Unlike the Investment Grade sector, the High Yield sector was able to produce a positive return for the month (+0.95%) because of three factors: greater tightening in spreads, higher coupons and no exposure in long maturities. For the year, the High Yield Index posted a total return of +1.7%. The continued decline in the value of the U.S. dollar in August was a tailwind for the non-dollar bond market. Additionally, the sharp rise in Treasury yields, especially for longer maturities weighed on the U.S. government bond market. Although government bond yields in Germany and the United Kingdom also rose significantly, other countries such as Italy, France and Japan had more muted yield increases. As a result, the FTSE non-US WGBI Index rose +0.2% in August compared to the -1.1% decline in the U.S. Government Bond Index. Year-to-date, the outperformance of the U.S. Government Bond market (+8.7%) over the non-US WGBI (+6.4%) has narrowed.

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		Returns as of 8/31/20 (In %)					
		Month	3QTD	YTD	1 Year	3 Years	5 Years
Russell 3000®	US AllCap Equity	7.2	13.3	9.4	21.4	13.9	13.9
Russell 1000®	US Large Cap Equity	7.3	13.6	10.4	22.5	14.6	14.3
Russell 1000® Growth	US Large Cap Growth	10.3	18.8	30.5	44.3	24.2	20.7
Russell 1000® Value	US Large Cap Value	4.1	8.3	-9.3	0.8	4.5	7.5
Russell Midcap®	US Mid Cap Equity	3.5	9.6	-0.4	8.7	8.8	9.8
Russell Midcap® Growth	US Mid Cap Growth	2.7	10.9	15.5	23.6	17.9	14.9
Russell Midcap® Value	US Mid Cap Value	4.0	8.9	-10.8	-1.3	2.5	6.1
Russell 2000®	US Small Cap Equity	5.6	8.6	-5.5	6.0	5.0	7.7
Russell 2000® Growth	US Small Cap Growth	5.9	9.5	6.2	17.3	10.9	10.5
Russell 2000® Value	US Small Cap Value	5.4	7.6	-17.7	-6.1	-1.4	4.4
MSCI ACWI ex-US	Global Equity ex-US	4.3	8.9	-3.1	8.3	2.6	5.8
MSCI EAFE	Global Developed Mkts Equity	5.1	7.6	-4.6	6.1	2.3	4.7
MSCI EM	Emerging Mkts Equity	2.2	11.3	0.4	14.5	2.8	8.7
Bloomberg/Barclays US Agg	US Core Fixed Income	-0.8	0.7	6.9	6.5	5.1	4.3
Bloomberg/Barclays US Interm. Agg	US Intermediate Fixed Income	-0.1	0.5	5.2	5.4	4.1	3.4
Bloomberg/Barclays US Credit	US Corporate Bonds	-1.3	1.8	6.7	7.1	6.2	5.9
Bloomberg/Barclays US MBS	US Mortgage Backed Securities	0.0	0.2	3.7	4.5	3.6	3.1
Bloomberg/Barclays US Corp HY	US High Yield	1.0	5.7	1.7	4.7	4.9	6.5
FTSE Non-US WGBI	Global Fixed Income ex-US	0.2	5.3	6.4	4.6	3.3	4.2