consequent capital management

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

Capital Markets Review and Outlook

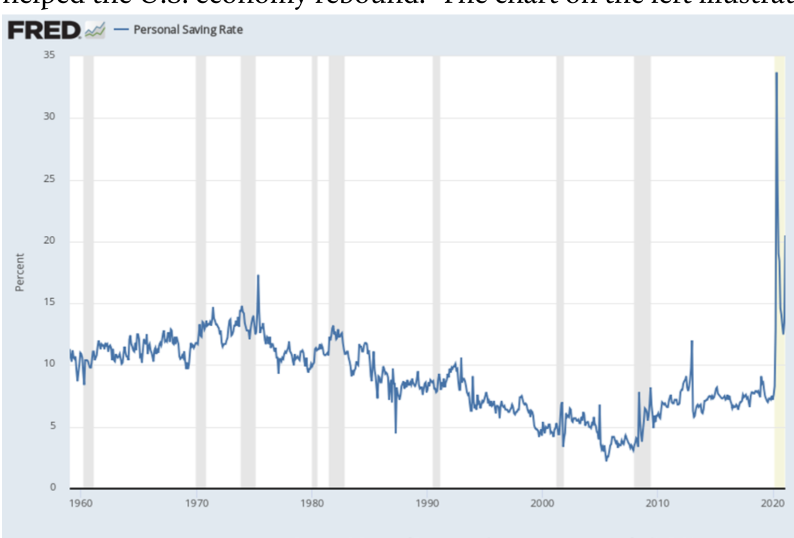
By: Cyril M. Theccanat, Chief Investment Officer

February 2021

Economy and Outlook

The United States passed another grim Covid-19 milestone in February with the cumulative number of deaths, since the pandemic began a year ago, now surpassing half a million people. The positive news, however, is a decline in the number of infections, hospitalizations, and the fatality rate as the vaccination program against the virus has ramped up. The vaccination rate in the United States is fast approaching 2 million per day resulting in over 15% of the entire population receiving at least one dose and 8% fully vaccinated. Worldwide, the vaccination program is also picking up with vaccines being administered in over 100 countries. The global vaccination rate is now over 5 million per day. This will rise as new vaccines become available, and the overall supply of vaccines increases. Developing herd immunity is a critically important objective as new and more contagious mutations of the virus develop and proliferate.

Although ten million Americans are still unemployed as a direct result of the coronavirus pandemic, the trillions of dollars in fiscal and monetary stimulus unleashed last year have helped the U.S. economy rebound. The chart on the left illustrates why the economic recovery took place despite millions of unemployed Americans. As the chart shows, the personal savings rate as 2021 began was the second highest in 60 years, with the highest savings rate occurring in April 2020. This reflects the unprecedented transfers from the government stimulus programs to the household sector, which enabled and sustained consumer spending. While the manufacturing sector has held up aided by goods-producing industries, service sector companies have also reported increased demand. In February, the services sector purchasing managers index (PMI) for the U.S. rose to 58.9, its highest level in almost six years. In the developed markets, the United States is a bright spot for the services sector in contrast to the deepening declines in Europe and



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

Japan. In Germany, for example, the manufacturing PMI in February rose to 60.6, a three-year high, while the services PMI slumped below 50 to 45.9, a nine-month low.

With a Democratic majority in both houses of Congress, the next U.S. fiscal stimulus of $1.9 trillion is likely to be enacted in a matter of weeks. There are concerns that the latest stimulus program may be too large coming on top of the prior trillions in stimulus, the effects of which are still working through the U.S. economy. The worry is that the massive fiscal stimulus programs, together with the Federal Reserve's 'pedal-to-the-metal' posture on near-zero interest rates and its own massive purchases of government securities are likely to be inflationary. The more than doubling in the yield of the U.S. 10-year Treasury security over just six months points to these concerns. As the global coronavirus vaccination program gains momentum, the stage may be set for a period of volatility in risk assets.

Equity Markets

After the modest pullback in January, equity markets rebounded in February as the next multi-trillion-dollar fiscal stimulus package neared enaction. The broad domestic equity market represented by the Russell 3000 Index climbed +3.1% in February. Performance differentiation by capitalization and style were both stark reversals from 2020. Small Cap's return of +6.2% for the month was +330 bp ahead of Large Cap. For the first two months of the year, Small Cap's outperformance over Large Cap has ballooned to +950 bp. From a style perspective, Value has trounced Growth across all capitalizations by approximately +600 bp for the month. Sector performance, for the most part, favored Cyclicals over Defensives. Financials was one of the best performing sectors with a return of +11.5% for the month, benefitting from the significant steepening of the Treasury yield curve. Energy, with a return of +22.7% was the standout sector as oil prices rose sharply with the benchmark WTI (West Texas Intermediate) closing above $60 a barrel. Industrials (+6.9%) and Materials (+3.9%) were Cyclicals with strong returns for the month. Technology (+1.2%) was up more modestly, and relatively unchanged year-to-date following the sector's spectacular performance in 2020. Utilities with a return of -6.1% was the worst performer with returns dragged down by higher interest rates. International equity markets also notched gains in February with the Developed Markets Index, MSCI EAFE, adding +2.2% for the month turning its year-to-date return positive: +1.2%. For the month, strong returns in Canada (+5.6%), France (+5%) and Italy (+5.7%) were offset by the relatively subdued +1.5% gains in Japan due to the -1.9% decline in the Japanese yen against the U.S. dollar. Emerging equity markets added to the strong gains from the prior month but at a relatively subdued level. The MSCI Emerging Markets Index rose +0.8% in February. While India (+5.2%) and Taiwan (+5.3%) were the strong performers for the month, the laggards include Brazil and China which lost -6.3% and -1% respectively.

Fixed Income Markets

Fears that continued massive stimulus programs, even as the pace of coronavirus vaccinations accelerate, have raised inflationary concerns and pushed Treasury yields sharply higher in February. For the month, yields on Treasury securities with maturities

consequent capital management

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

from 5 years to 30 years shot up 30 to 33 bp. Year-to-date, 10-year and 30-year Treasury yields are up over 50 bp to 1.4% and 2.2% respectively. Even the 5-year Treasury has experienced a yield increase of 39 bp to 0.75%. Yields on much shorter Treasury securities are anchored by the Federal Reserve's near-zero-interest rate and quantitative easing policies. As of the end of February, the yield on the 2-year Treasury was up just 1 bp to 0.14%. For the month, the Treasury coupon curve steepened significantly with the 2-year/30-year spread differential widening by 51 bp to +203 bp. At the beginning of last year, this spread was just +81 bp. In line with the rally in the equity markets, investment grade corporate bond spreads tightened by 6 bp in February leading to +55 bp of outperformance over duration-matched Treasuries. The spread tightening left the investment grade option-adjusted spread (OAS) deeper below 100 bp at +86 bp. The corporate quality curve and credit curve both flattened for the month as the BBB-rated sector outperformed the Single-A sector by +10 bp in excess return, while long maturity corporates outperformed short and intermediate issues by an average of +68 bp. Airlines (+169 bp) and the Energy-related sectors were among the best performers with Oil Field Services (+241 bp) and Refining (+162 bp). Laggards for the month include Sovereigns (-95 bp) and Home Construction (+10 bp). Despite the OAS tightening, on a total return basis, the Bloomberg Barclays Investment Grade Credit Index lost -1.7% in February due to the sharp rise in Treasury yields. The High Yield OAS tightened by 36 bp to end the month at +326 bp. As a result, the Bloomberg Barclays High Yield Index generated a positive return of +0.4% despite the rise in Treasury yields. This resulted in +115 bp in excess returns over Treasuries. The High Yield quality curve flattened in February as the Single-B sector outperformed the higher quality BB sector by +44 bp. The best performing sectors include Energy-related sectors such as Oil Field Services (+7.1%), and Independent Energy (+2.5%), Airlines (+2.2%) and Leisure (+1.6%). Underperformers for the month include Health Insurance (-1.1%), Media Entertainment (-1%) and Wirelines (-0.8%). Year-to-date, the High Yield index produced a total return of +0,7%. International government bond yields in some developed markets rose by much more than the corresponding yield rise in the U.S. Treasury market. For example, 10-year government bond yields in Canada and the United Kingdom rose by 46 to 51 bp, almost 70% more than the rise in the U.S. 10-year Treasury. While the U.S. dollar index, DXY, rose modestly in February, the U.S. dollar rose by a strong +1.9% against the Japanese yen. As a result of the higher relative interest rate increases and a stronger dollar, the FTSE non-US World Government Bond Index (WGBI) declined -2.6% in February underperforming by -80 bp the U.S. government bond index which declined -1.8% for the same period.

consequent
capital management

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

			Returns as of 2/28/21 (In %)			
		Month	YTD	1 Year	3 Years	5 Years
Russell 3000®	US AllCap Equity	3.1	2.7	35.3	15.0	17.4
Russell 1000®	US Large Cap Equity	2.9	2.1	34.3	15.0	17.4
Russell 1000® Growth	US Large Cap Growth	0.0	-0.8	44.3	21.0	22.2
Russell 1000® Value	US Large Cap Value	6.0	5.1	22.2	8.2	12.0
Russell Midcap®	US Mid Cap Equity	5.6	5.3	36.1	13.7	15.9
Russell Midcap® Growth	US Mid Cap Growth	1.7	1.4	46.3	20.1	20.5
Russell Midcap® Value	US Mid Cap Value	7.7	7.5	27.7	8.9	12.4
Russell 2000®	US Small Cap Equity	6.2	11.6	51.0	14.9	17.9
Russell 2000® Growth	US Small Cap Growth	3.3	8.3	58.9	18.9	21.1
Russell 2000® Value	US Small Cap Value	9.4	15.2	41.1	10.1	14.2
MSCI ACWI ex-US	Global Equity ex-US	2.0	2.2	26.2	5.4	11.2
MSCI EAFE	Global Developed Mkts Equity	2.2	1.2	22.5	4.6	9.7
MSCI EM	Emerging Mkts Equity	0.8	3.9	36.0	6.4	15.2
Bloomberg/Barclays US Agg	US Core Fixed Income	-1.4	-2.2	1.4	5.3	3.6
Bloomberg/Barclays US Interm. Agg	US Intermediate Fixed Income	-0.8	-0.9	2.1	4.6	2.9
Bloomberg/Barclays US Credit	US Corporate Bonds	-1.7	-2.9	2.4	6.6	5.5
Bloomberg/Barclays US MBS	US Mortgage Backed Securities	-0.7	-0.6	1.5	4.1	2.6
Bloomberg/Barclays US Corp HY	US High Yield	0.4	0.7	9.4	6.6	9.0
FTSE Non-US WGBI	Global Fixed Income ex-US	-2.6	-3.9	5.3	2.4	3.3