consequent capital management

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Capital Markets Review and Outlook

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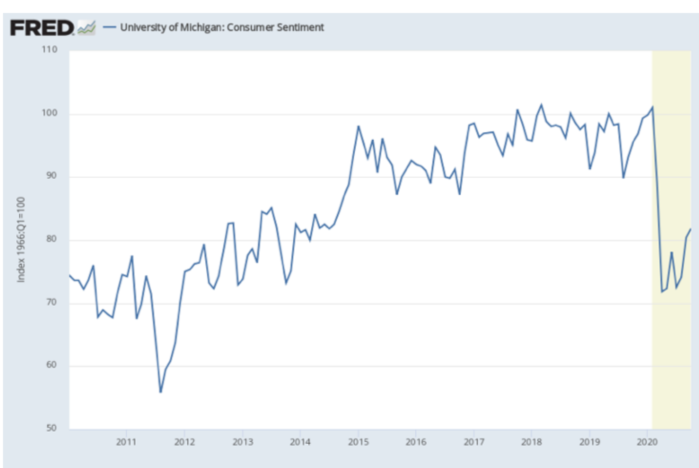
Economy and Outlook

In November, the coronavirus pandemic, vaccines to combat it, and the U.S. presidential election were all on center stage. Just in the month of November alone, 4 million more people were infected in the United States, bringing the total number of Covid-19 infections to 14.1 million with over 276,000 deaths. Globally, the number of people infected is a staggering 65 million and more than 1.5 million fatalities. While coronavirus infections skyrocketed and reached record levels in November, there were also very positive developments on the vaccine front. Two leading companies (Pfizer and Moderna) completed their large-scale phase 3 clinical trials, and final results showed almost 95% efficacy levels for their vaccines. Considering that the U.S. Federal Drug Administration (FDA) had indicated that the agency's threshold for vaccine review was 50% effectiveness, the actual results achieved are truly remarkable. The Covid-19 immunization process in the United States may now begin in the second half of December following the FDA's review and likely approval of the Pfizer and Moderna vaccines. The government of the United Kingdom has just this week approved the Moderna vaccine, and vaccinations are expected to begin in the second week of December.

In November, renewed restrictions on businesses by some state and local governments due to the sharp increase in coronavirus infections have resulted in mixed economic data. While the economic recovery in the United States is continuing, its pace has decelerated as key metrics such as employment gains, consumer confidence and retail sales show signs of a slowdown. The chart on the left shows the University of Michigan's Consumer Sentiment index. After climbing over 6 points the prior month, the most recent reading was up just 1.5 points due to a 2 point **decline** in the Current Economic Conditions component of the Sentiment index. The December 31st expiration of most governmental relief measures including the $2.2 trillion Cares Act and five of the Federal Reserve's emergency lending programs is a potential headwind for the economy. As of this writing, there is currently a



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bipartisan effort in Congress to pass another relief bill of just under $1 trillion before year-end. However, if this effort does not succeed, the new administration of President-elect Biden will need to speedily implement a relief package after Inauguration Day in January. In terms of relative economic performance, the U.S. economy remains ahead of other developed economies. Lockdowns to contain the spread of the coronavirus have led to a sharp decline in activity in Europe. There are now signs that there may be a renewed contraction in the European economy early next year. The United Kingdom's recession this year is likely to be deeper and lead to a contraction of over -11% in 2020, the worst of all developed economies. As a result, stimulus measures are being expanded to combat the economic drag from the pandemic. The Bank of England increased its bond purchase program by another £150 billion bringing the overall size of its government and corporate assets to almost £900 billion. The Japanese government's pandemic relief program, relative to the size of its economy, is even larger than one of the main U.S. relief programs, the Paycheck Protection Program, which provided $525 billion covering over 5 million loans. The rapidity with which vaccines have been developed for the Covid-19 coronavirus, and the extraordinarily high efficacy rates are game changers in getting the pandemic behind us. While widespread distribution of the vaccines worldwide will take some time, it is very likely that in the next 6 to 9 months we may be on the road to a more normal world. In the meantime, supportive fiscal and monetary measures are likely to continue globally to bridge the economic gap and pain between now and then.

Equity Markets

Despite the renewed surge in coronavirus cases, equity markets staged a sharp rebound in November on the conclusion of the U.S. presidential and congressional elections as well as the positive news on the vaccine front. The broad domestic equity market represented by the Russell 3000 Index skyrocketed +12.2% in November bringing its year-to-date return to +15.7%, a remarkable turnaround from the 1st quarter's loss of -21%. For the third consecutive month, Mid Cap and Small Cap capitalizations outpaced the gains in Large Cap (+11.8%) by +2% and +6.6% respectively. The sharp turnaround in both Mid Cap and Small Cap has trimmed Large Cap's year-to-date lead. Stylistically, Value outperformed Growth across all capitalizations by +60 bp to +320 bp in November. However, Growth continues to dominate Value across all capitalizations this year. Cyclicals led Defensives in November's strong market rally. Energy (+28%) was the standout performer for the month on the heels of a 27% increase in crude oil prices. Double-digit returns were also realized in Industrials (+16%), Technology (+11.4%) and Materials (+12.5%). Despite the flattening in the Treasury yield curve, Financials was the 2nd best performing sector with a return of +16.9%. Utilities lagged, with an increase of just +0.7%. In international markets, the dominant theme was the dramatic weakness in the U.S. dollar across the board in November. The dollar fell sharply following the results of the U.S. elections and positive news on the vaccine front as investors moved into risk-on mode. This sentiment benefitted international equity markets with the Developed Markets Index, MSCI EAFE, rising +15.5% for the month led by the strong performance across several countries including Germany (+17.2%), France (+22.9%)

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and Australia (+15.9%). These returns were helped by the strength in the currencies versus the U.S. dollar: euro (+2.6%) and Australian dollar (+4.7%). Even the United Kingdom was a strong performer despite heightened uncertainties regarding Brexit; the British pound rose +3% while the UK equity market climbed +16.8% for the month. While emerging markets performed well on an absolute basis, with the Emerging Markets Index rising +9.2% in November, this lagged the Developed Markets return, a reversal from the prior month. The stellar performance of countries such as Brazil where the currency rose +7.7% versus the U.S. dollar powering a +23.7% rise in the equity market was offset by the more muted +2.8% increase in the index's largest component, China. However, year-to-date, Emerging Markets with a return of +10.2% have significantly outpaced the +3% return for the Developed Markets Index.

Fixed Income Markets

Despite the powerful rally across a wide swath of equity markets in November, there was no flight out of the U.S. Treasury market as is typically seen in a risk-on environment. Instead, Treasury yields declined with yields 5-years and out declining by 2 to 7 bp. Only the yield on the 2-year Treasury rose marginally by 2 bp. The Treasury yield curve flattened noticeably with the 2-year/30-year year spread differential narrowing by 9 bp to +142 bp. The corporate bond market reflected the strength in the equity markets. Investment grade corporate bond spreads narrowed by 19 bp in November leading to a massive +211 bp of outperformance over duration-matched Treasuries. The Bloomberg Barclays investment grade corporate bond option-adjusted spread (OAS) ended the month at 100 bp, just 10 bp wider than the 90 bp level at the beginning of the year, before the pandemic. In November, both the corporate quality curve and credit curve flattened significantly as BBB-rated bonds outperformed Single-A rated issues by +97 bp, while long maturity bonds outperformed short and intermediate issues by an average of +390 bp. Energy (+400 bp) and Industrials (+261 bp) were among the best performers in terms of excess return, while Noncorporates (+82 bp) lagged. For the month, the investment grade sector had a total return of +2.5% bringing its return for the first 11 months of the year to +8.8%. The High Yield corporate bond sector had one of its strongest months this year with the Bloomberg Barclays High Yield index OAS breaking decisively below 500 bp and ending the month at 412 bp, a spread tightening of almost 100 bp in just one month. Investors' risk appetite is reflected in the outperformance of lower-quality bonds. While the BB sector rose +3.6% on a total return basis, the CAA sector gained +6.3%, and distressed issuers (Ca and below) returned +16.3%. The best performing high yield sectors included oil field services (+13.6%) and airlines (+10.7%), while health insurance (+1.1%) and pharmaceuticals (+1.7%) lagged. The High Yield index generated a total return of +4% for month, and +5.1% year-to-date. Like the international equity markets, the weakness in the U.S. dollar was the dominant performance driver in international government bond markets in November. The small rise in yields in government bond markets outside the U.S., was far outweighed by the significant decline in the dollar across a wide range of currencies. The DXY dollar index declined by -2.4% for the month. As a result, the FTSE non-US World Government Bond Index (WGBI) rose +2.3% in November compared to just +0.3% for the U.S. government bond index. After lagging the U.S. government bond index for much of this year, the ex-US WGBI's +8.3% year-to-date return is now 10 bp ahead of the U.S. index.

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		Returns as of 11/30/20 (In %)					
		Month	4QTD	YTD	1 Year	3 Years	5 Years
Russell 3000®	US AllCap Equity	12.2	9.7	15.7	19.0	13.2	13.9
Russell 1000®	US Large Cap Equity	11.8	9.1	16.1	19.4	13.7	14.2
Russell 1000® Growth	US Large Cap Growth	10.2	6.5	32.4	36.4	21.5	19.6
Russell 1000® Value	US Large Cap Value	13.5	12.0	-1.0	1.7	5.3	8.4
Russell Midcap®	US Mid Cap Equity	13.8	14.5	11.9	14.4	10.3	11.8
Russell Midcap® Growth	US Mid Cap Growth	13.4	13.6	29.4	30.9	18.8	17.0
Russell Midcap® Value	US Mid Cap Value	14.0	15.1	0.3	3.4	4.2	8.1
Russell 2000®	US Small Cap Equity	18.4	20.9	10.4	13.6	7.1	10.3
Russell 2000® Growth	US Small Cap Growth	17.6	18.5	23.1	25.9	12.8	13.2
Russell 2000® Value	US Small Cap Value	19.3	23.6	-3.0	0.3	0.8	6.8
MSCI ACWI ex-US	Global Equity ex-US	13.5	11.0	5.0	9.5	3.8	7.4
MSCI EAFE	Global Developed Mkts Equity	15.5	10.9	3.0	6.4	3.3	6.2
MSCI EM	Emerging Mkts Equity	9.2	11.5	10.2	18.4	4.9	10.7
Bloomberg/Barclays US Agg	US Core Fixed Income	1.0	0.5	7.4	7.3	5.5	4.3
Bloomberg/Barclays US Interm. Agg	US Intermediate Fixed Income	0.4	0.2	5.4	5.5	4.4	3.4
Bloomberg/Barclays US Credit	US Corporate Bonds	2.5	2.3	8.9	9.2	6.9	6.2
Bloomberg/Barclays US MBS	US Mortgage Backed Securities	0.1	0.0	3.6	3.9	3.8	3.0
Bloomberg/Barclays US Corp HY	US High Yield	4.0	4.5	5.1	7.2	5.7	7.6
FTSE Non-US WGBI	Global Fixed Income ex-US	2.3	2.5	8.3	9.2	3.9	5.0