



PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

**MARCH 2019
Capital Markets Update**

Market commentary

U.S. ECONOMICS

- Non-farm payrolls increased by 186,000 in March, beating expectations of 177,000. The labor market recovered from an anemic 20,000 print in February that was likely impacted by weather and the government shutdown. Average monthly non-farm payroll growth in the first quarter was 180,000.
- Average hourly earnings grew 0.1% MoM (3.2% YoY), missing expectations of 0.3% (3.3% YoY). A slight tick up in the average non-farm private workweek from 34.4 to 34.5 hours likely contributed to the cooler wage data.
- The ISM Manufacturing Index climbed from 54.2 to 55.3, beating expectations of 54.5. Increases in the new orders, employment, and prices paid components contributed to the move higher.

U.S. EQUITIES

- The S&P 500 Index posted another month of strong performance with a 1.9% gain, bringing the year-to-date figure to 13.6%. At month-end, the price index was at 2834, less than 4% below the high water mark of 2931 reached last September.
- Realized and implied volatility on the S&P 500 Index remained subdued in March. Realized 30-day volatility lingered between 9% and 11% while the CBOE VIX Index traded in a narrow range between 13 and 17, below its long-term average of 18.
- According to FactSet, out of 107 companies in the S&P 500 Index issuing EPS guidance for Q1 2019, 79 have issued negative guidance. The percentage of companies providing negative guidance (74%) was above the 5-year average of 70%.

U.S. FIXED INCOME

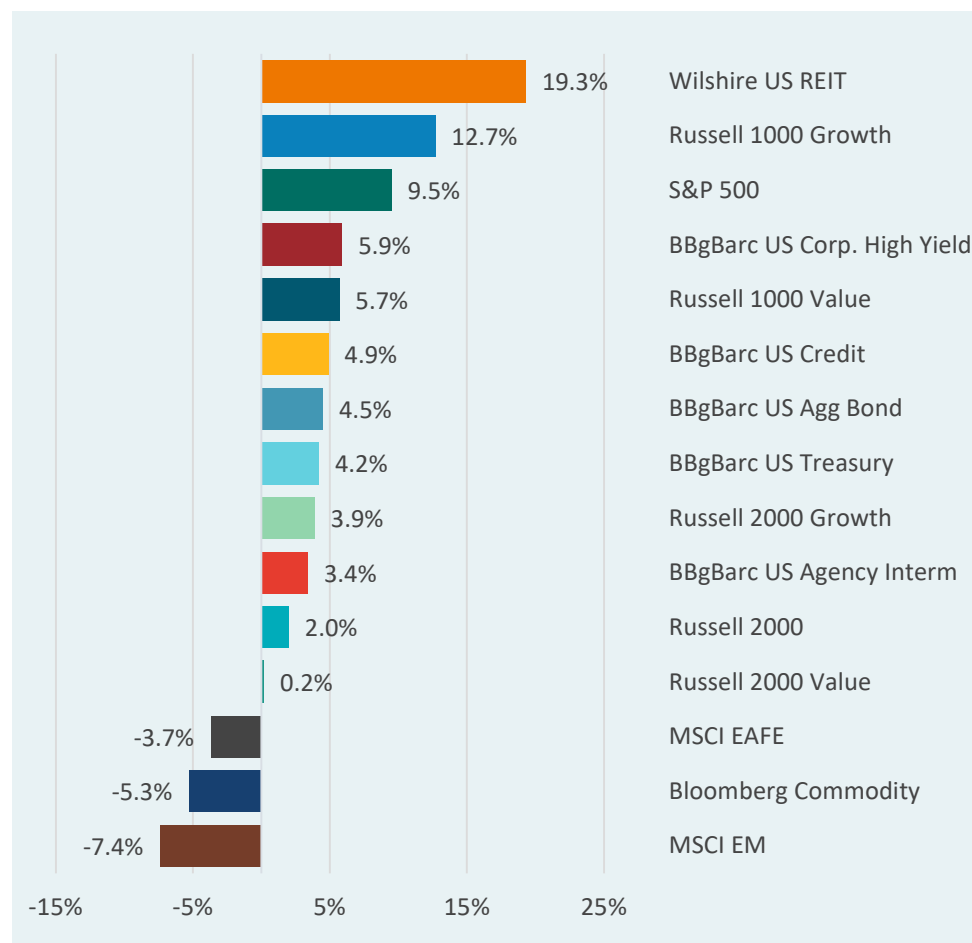
- The Federal Open Market Committee reiterated its “patient” approach to future interest rate changes following its March meeting. Expectations for 2019 GDP growth and rate hikes were cut, and markets digested the release as dovish in tone.
- Federal Reserve Chairman Jerome Powell announced that starting in May, the balance sheet runoff would slow from \$50b a month to \$30b, and that the wind-down would conclude by September. Market participants viewed the timeline as earlier than expected, further fueling perceptions of a more accommodative Fed.
- Long duration U.S. Treasuries (+5.3%) were the top performers in fixed income, supported by a shift lower in expectations for rates.

INTERNATIONAL MARKETS

- High-level trade delegations from the U.S. and China met on several occasions to discuss trade policy. The dialogue was generally viewed as constructive, but the two sides have yet to agree on a timeline for a formal resolution.
- Mainland Chinese equities continued their powerful recovery, jumping 5.5% as optimism on trade talks, accommodative fiscal policy, and improved economic indicators helped boost returns. Year-to-date the CSI 300 Index was up 28.7%.
- The German Manufacturing outlook continued to plunge. The Markit/BME German Manufacturing PMI fell from 47.6 to 44.1 in March, further into the contractionary range below 50.0. New orders and export sales fell at the fastest pace since the financial crisis and manufacturers cut jobs for the first time in three years.

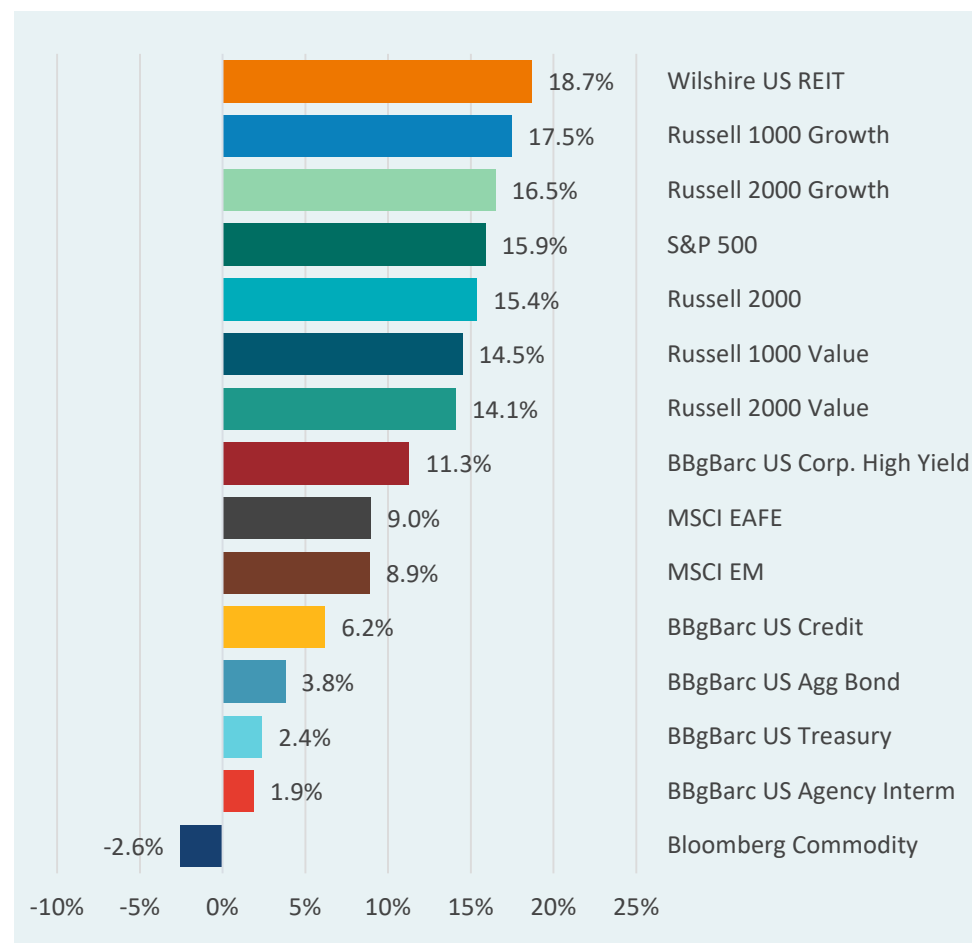
Major asset class returns

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/19

TEN YEARS ENDING MARCH



Source: Morningstar, as of 3/31/19

U.S. large cap equities

- The S&P 500 Index motored ahead in March, gaining 1.9%. At month-end, the blended forward 1 year P/E ratio of the index was 16.5, just below the 16.9 high water mark reached when the S&P 500 Index peaked at 2931 last September.
- Real Estate (+4.9%) and Information Technology (+4.8%) outperformed the overall market. The Fed's pause on rate hikes likely supported the sectors by softening outlooks for mortgage and discount rates.
- Financials (-2.6%) delivered the worst performance, as the sector was pressured by the negative impacts of yield curve flattening on net interest margins.
- Per FactSet, analyst estimates for S&P 500 earnings growth in Q1 2019 fell 7.2% since December 31st. The revision lower over the quarter was larger than the 5-year (-3.2%), 10-year (-3.7%), and 15-year (-4.0%) averages. At month-end the estimated earnings contraction for the S&P 500 in Q1 2019 was 3.9%.

Q1 earnings estimates were downgraded further

S&P 500 PRICE INDEX



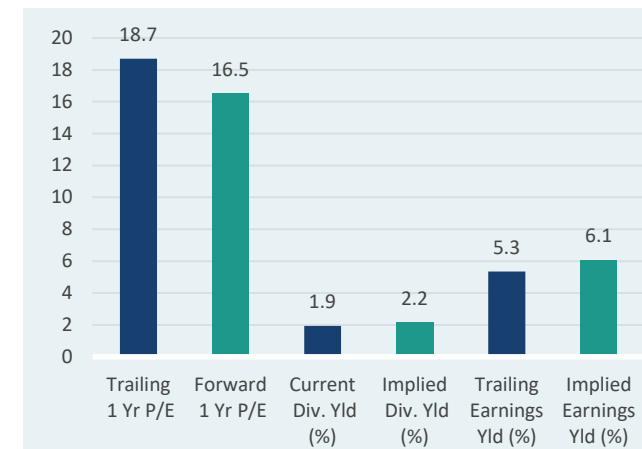
Source: Bloomberg, as of 3/31/19

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 3/31/19

S&P 500 VALUATION SNAPSHOT

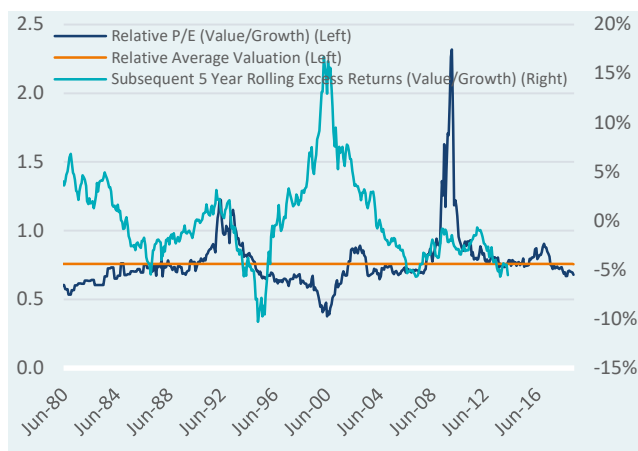


Source: Bloomberg, as of 3/31/19

Domestic equity size and style

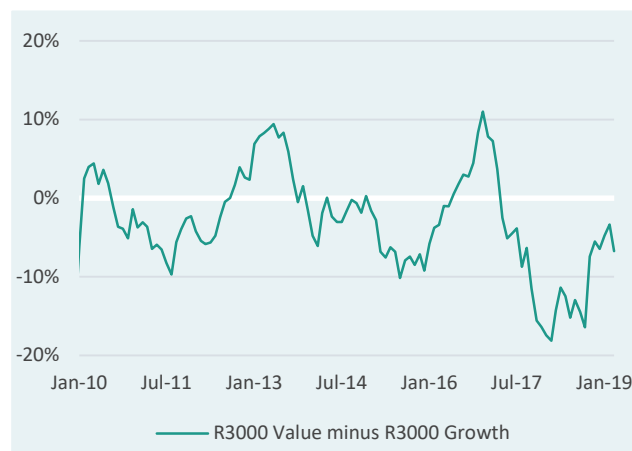
- Large cap equities significantly outperformed small cap equities in March. The Russell 1000 Index gained 1.7% while the Russell 2000 Index gave back some of its gains from February, and fell 2.1%.
- Large cap equities became more expensive relative to small cap equities over the period. The forward 12-month P/E ratio for the Russell 1000 Index rose from 16.5 to 16.7 while the multiple for the Russell 2000 Index moved down from 22.6 to 22.3.
- Growth equities outperformed value equities. The Russell 3000 Growth Index advanced 2.5% while the Russell 3000 Value Index returned 0.4%.
- Financial stocks in the Russell 3000 Index underperformed (-3.4%), negatively impacted by yield curve flattening. At month-end, the Russell 3000 Value Index held a 22.1% exposure to the Financials sector while the Russell 3000 Growth Index held only a 4.5% exposure.

VALUE VS. GROWTH RELATIVE VALUATIONS



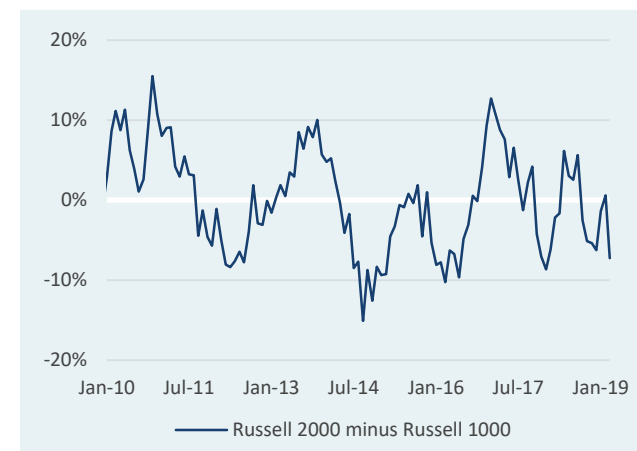
Source: Russell, Bloomberg, as of 3/31/19

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 3/31/19

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



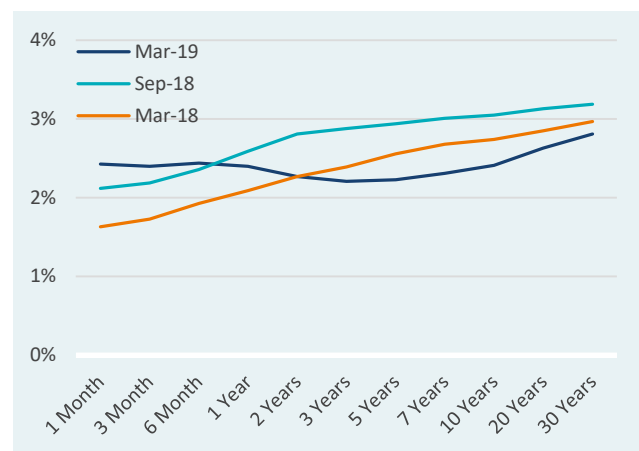
Source: FTSE, as of 3/31/19

Fixed income

- U.S. Treasury yields plummeted following the Federal Reserve meeting in which officials dropped projections for rate hikes in 2019 from two to zero. The 10-year Treasury yield fell 31 bps to 2.41% while the 2-year yield fell 25 bps to 2.26%.
- Term spreads flattened across most of the Treasury curve. The spread between the 10-year Treasury yield and the 3-month Treasury yield inverted following the FOMC release, and traded in negative territory for about a week before recovering by month-end.
- U.S. corporate credit spreads lacked directional conviction in March. Investment-grade credit spreads faded from 1.21% to 1.19%, while high yield credit spreads picked up from 3.79% to 3.91%.
- According to fed funds futures pricing, the market is pricing in at least one rate cut by the end of 2019. Last September, fed funds futures pricing indicated expectations for at least one rate hike by the end of 2019, indicating a significant shift in perceptions of central bank rate policy.

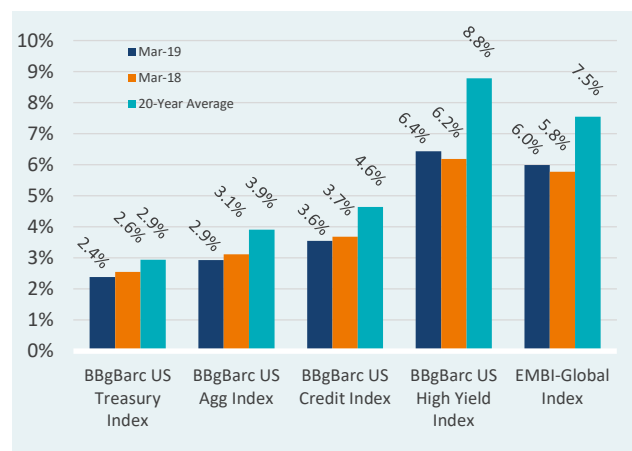
Markets priced in a falling rate environment

U.S. TREASURY YIELD CURVE



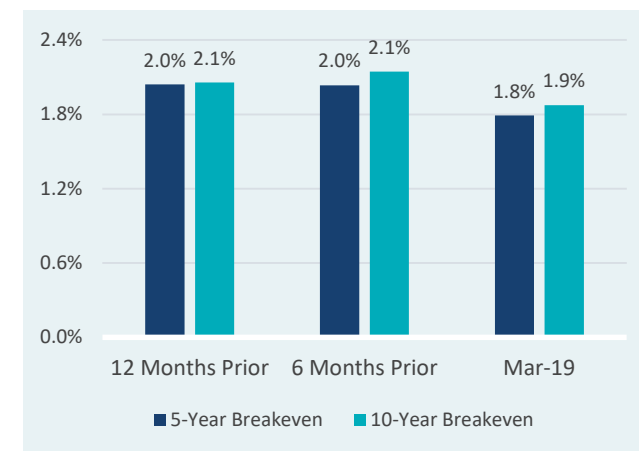
Source: Bloomberg, as of 3/31/19

NOMINAL YIELDS



Source: Morningstar, as of 3/31/19

BREAKEVEN INFLATION RATES



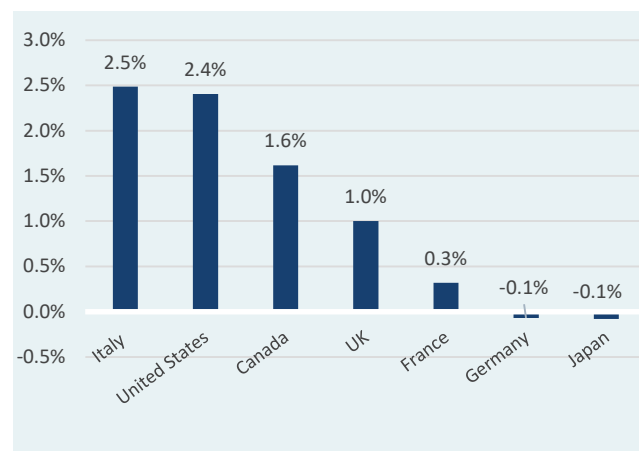
Source: Bloomberg, as of 3/31/19

Global markets

- British members of Parliament briefly took control of their government's legislative agenda, but the series of "indicative votes" that followed failed to crystallize an alternative path forward. Prime Minister May has asked the European Commission to accept an extension of the Brexit deadline from April 12th to June 30th.
- The outlook for French economic activity continued to worsen in March. The IHS Markit French Manufacturing and Services PMIs both missed expectations and moved below 50.0, the neutral level.
- Global sovereign yields followed Treasury yields lower in March. The 10-year German bund yield dipped below zero for the first time since Q4 2016, falling from 0.18% to -0.07%. Japanese 10-year JGB yields ticked down from -0.03% to -0.10% over the same period.
- The Chinese Caixin Manufacturing PMI registered a March reading of 50.8, pulling out of the contractionary territory below 50.0 where it had been since December.

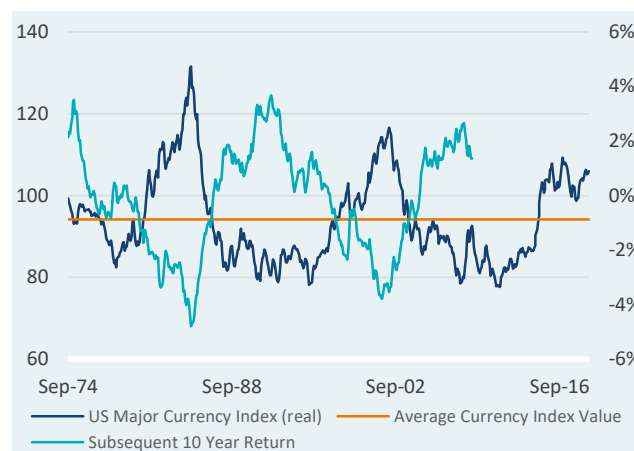
Global sovereign yields moved lower

GLOBAL SOVEREIGN 10-YEAR YIELDS



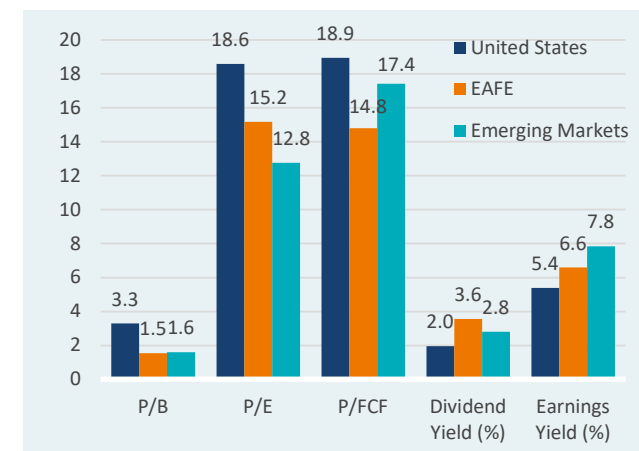
Source: Bloomberg, as of 3/31/19

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 3/31/19

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 3/31/19

Commodities

- The Bloomberg Commodity Index fell 0.2% in March. Grains (-2.6%) and precious metals (-2.0%) pushed the index lower, while relatively strong performance in energy (+0.7%) and industrial metals (+0.9%) provided support.
- Grains (22.9% weight in the overall index) fell 2.6%, leading the decline in the overall index. Futures contracts on soybeans, corn, and wheat experienced elevated price volatility due to speculation on weather conditions and the likelihood of a meaningful trade deal being reached between the United States and China.
- The Bloomberg Livestock Sub-index gained 6.3%, materially outperforming the overall index. Outperformance was driven entirely by lean hog futures, which jumped 16.7% over the month in response to an outbreak of African Swine Fever across Northern Asia.
- WTI crude oil continued its rebound, gaining 4.4% over the month (29.3% YTD) to above \$60 per barrel. OPEC+ canceled its April meeting, electing to keep production cuts of 1.2 million barrels per day in effect until at least June, a move which likely helped boost crude prices.

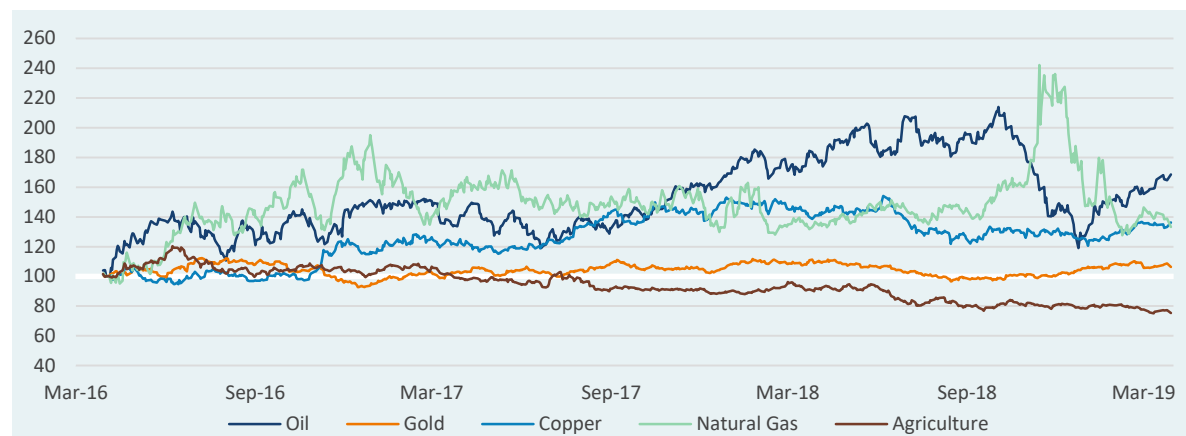
Crude oil extended its year-to-date rally

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(0.2)	6.3	6.3	(5.3)	2.2	(8.9)	(2.6)
Bloomberg Agriculture	(2.2)	(3.2)	(3.2)	(16.3)	(8.0)	(12.4)	(2.8)
Bloomberg Energy	0.7	15.9	15.9	(0.5)	7.5	(16.7)	(10.0)
Bloomberg Grains	(2.6)	(5.8)	(5.8)	(16.9)	(9.5)	(14.1)	(4.6)
Bloomberg Industrial Metals	0.9	12.8	12.8	(3.1)	11.3	0.1	2.4
Bloomberg Livestock	6.3	4.7	4.7	14.4	0.7	(4.3)	(1.6)
Bloomberg Petroleum	2.6	25.9	25.9	(2.9)	11.5	(14.9)	(3.8)
Bloomberg Precious Metals	(2.0)	0.0	0.0	(4.0)	0.2	(1.9)	2.4
Bloomberg Softs	(0.7)	0.4	0.4	(13.2)	(8.7)	(12.9)	(2.5)

Source: Morningstar, as of 3/31/19

COMMODITY PERFORMANCE



Source: Bloomberg, as of 3/31/19

Appendix

Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	5-Year	10-Year
Small Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	6.7	17.1	13.5	17.5
Large Cap Growth	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	1.9	16.1	10.6	16.5
Small Cap Equity	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	0.0	14.6	8.7	16.0
Large Cap Equity	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	-1.5	14.0	8.4	15.4
Large Cap Value	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	-3.5	11.9	7.7	14.5
Small Cap Value	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	-4.8	11.9	7.1	14.1
International Equity	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	-6.0	10.0	5.6	9.0
Emerging Markets Equity	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	-8.3	9.9	4.4	8.9
60/40 Global Portfolio	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	-9.3	8.1	3.7	8.5
Commodities	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-11.0	6.3	2.7	8.3
Hedge Funds of Funds	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	7.0	-11.2	5.0	2.3	3.8
US Bonds	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-12.9	2.9	2.3	3.6
Cash	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-13.8	0.6	0.8	0.4
Real Estate	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-14.6	0.0	-8.9	-2.6

BEST

↑

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WORST

Large Cap Equity

Large Cap Value

Large Cap Growth

Small Cap Equity

Small Cap Value

Small Cap Growth

International Equity

Emerging Markets Equity

US Bonds

Cash

Commodities

Real Estate

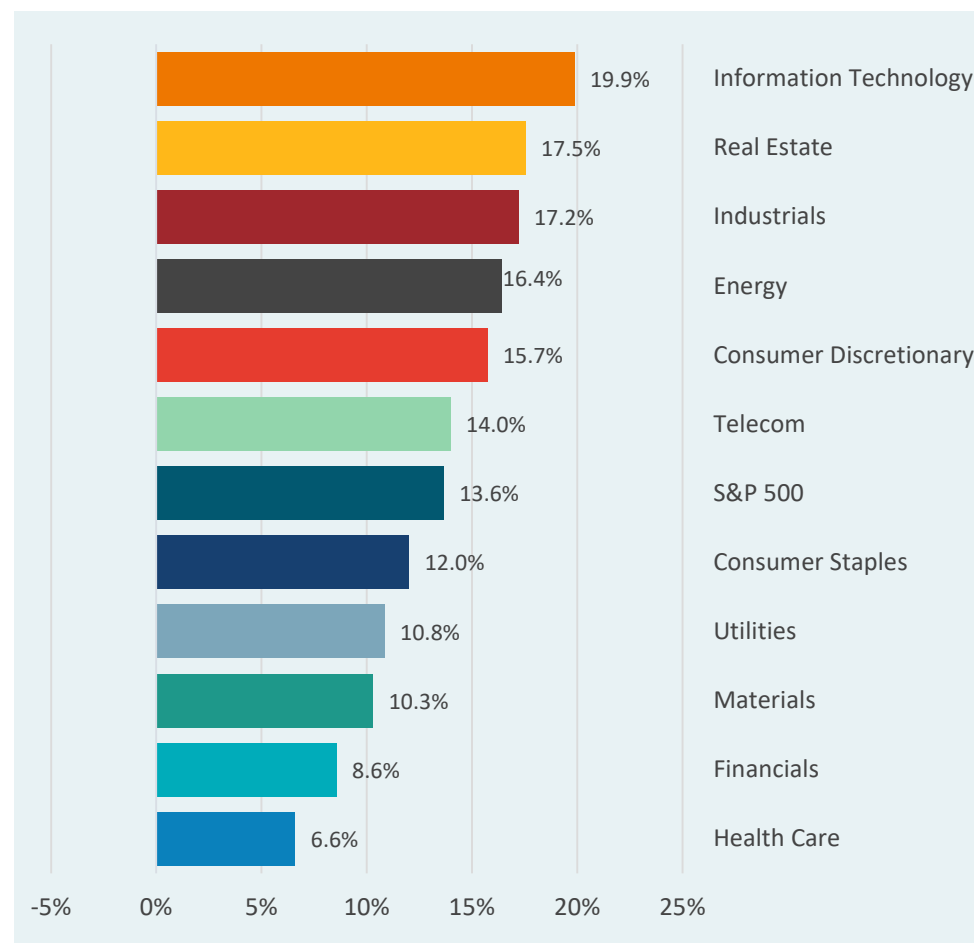
Hedge Funds of Funds

60% MSCI ACWI/40% BBgBarc Global Bond

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 12/31/18.

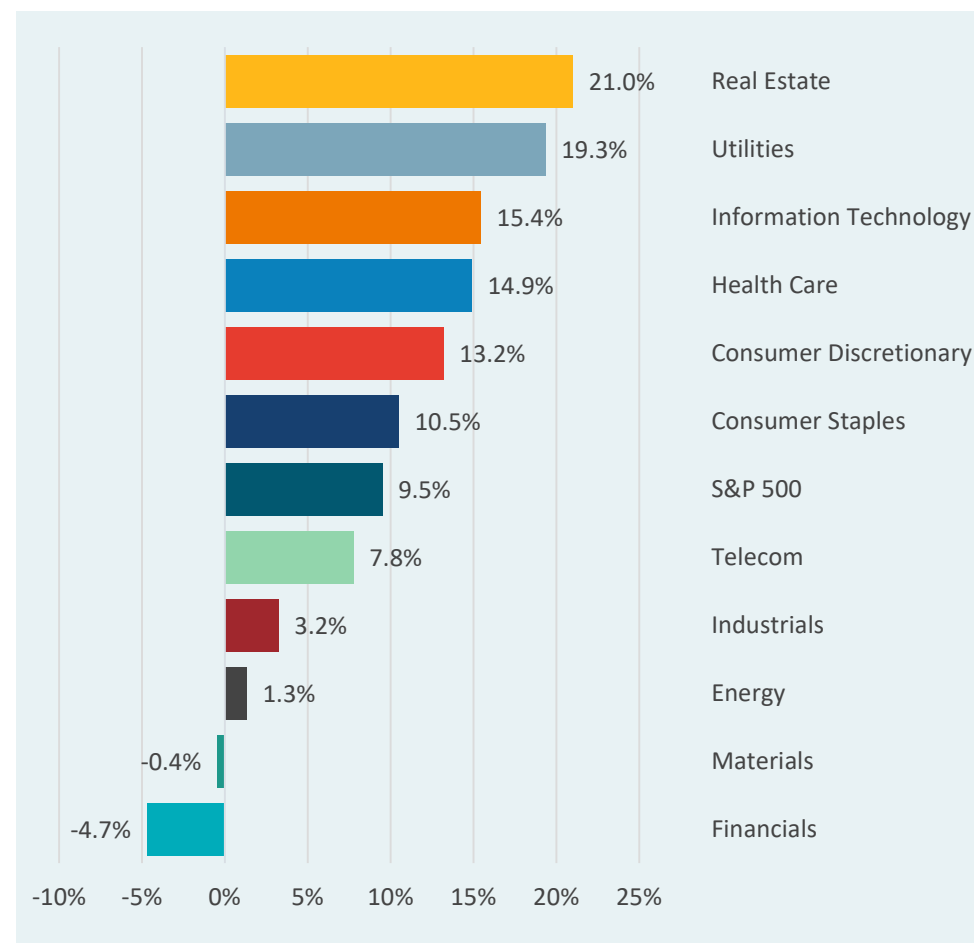
S&P 500 sector returns

QTD



Source: Morningstar, as of 3/31/19

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/19

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	1.9	13.6	13.6	9.5	13.5	10.9	15.9
S&P 500 Equal Weighted	0.9	14.9	14.9	7.2	12.0	9.5	17.8
DJ Industrial Average	0.2	11.8	11.8	10.1	16.4	12.2	16.0
Russell Top 200	2.1	13.1	13.1	10.4	14.2	11.4	15.7
Russell 1000	1.7	14.0	14.0	9.3	13.5	10.6	16.0
Russell 2000	(2.1)	14.6	14.6	2.0	12.9	7.1	15.4
Russell 3000	1.5	14.0	14.0	8.8	13.5	10.4	16.0
Russell Mid Cap	0.9	16.5	16.5	6.5	11.8	8.8	16.9
Style Index							
Russell 1000 Growth	2.8	16.1	16.1	12.7	16.5	13.5	17.5
Russell 1000 Value	0.6	11.9	11.9	5.7	10.5	7.7	14.5
Russell 2000 Growth	(1.4)	17.1	17.1	3.9	14.9	8.4	16.5
Russell 2000 Value	(2.9)	11.9	11.9	0.2	10.9	5.6	14.1

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	1.3	12.2	12.2	2.6	10.7	6.5	12.0
MSCI ACWI ex US	0.6	10.3	10.3	(4.2)	8.1	2.6	8.8
MSCI EAFE	0.6	10.0	10.0	(3.7)	7.3	2.3	9.0
MSCI EM	0.8	9.9	9.9	(7.4)	10.7	3.7	8.9
MSCI EAFE Small Cap	0.2	10.7	10.7	(9.4)	7.5	4.5	12.8
Style Index							
MSCI EAFE Growth	1.8	12.0	12.0	(1.3)	7.6	3.9	9.7
MSCI EAFE Value	(0.5)	7.9	7.9	(6.1)	6.9	0.7	8.1
Regional Index							
MSCI UK	1.1	11.9	11.9	(0.1)	6.3	0.7	9.3
MSCI Japan	0.6	6.7	6.7	(7.8)	8.1	5.6	8.0
MSCI Euro	0.0	9.8	9.8	(7.8)	6.5	0.6	7.5
MSCI EM Asia	1.8	11.1	11.1	(6.8)	11.8	6.2	10.8
MSCI EM Latin American	(2.5)	7.9	7.9	(6.7)	11.1	(0.3)	5.3

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	1.8	3.2	3.2	2.7	1.7	1.9	3.4
BBgBarc US Treasury Bills	0.2	0.6	0.6	2.2	1.2	0.8	0.5
BBgBarc US Agg Bond	1.9	2.9	2.9	4.5	2.0	2.7	3.8
Duration							
BBgBarc US Treasury 1-3 Yr	0.6	1.0	1.0	2.7	1.0	1.0	1.0
BBgBarc US Treasury Long	5.3	4.7	4.7	6.2	1.5	5.4	5.1
BBgBarc US Treasury	1.9	2.1	2.1	4.2	1.0	2.2	2.4
Issuer							
BBgBarc US MBS	1.5	2.2	2.2	4.4	1.8	2.6	3.1
BBgBarc US Corp. High Yield	0.9	7.3	7.3	5.9	8.6	4.7	11.3
BBgBarc US Agency Interm	0.9	1.4	1.4	3.4	1.2	1.6	1.9
BBgBarc US Credit	2.4	4.9	4.9	4.9	3.5	3.6	6.2

OTHER

Index							
Bloomberg Commodity	(0.2)	6.3	6.3	(5.3)	2.2	(8.9)	(2.6)
Wilshire US REIT	3.2	16.0	16.0	19.3	5.5	9.0	18.7
CS Leveraged Loans	(0.1)	3.8	3.8	3.3	5.9	3.8	8.0
Alerian MLP	3.8	17.4	17.4	16.8	5.9	(4.2)	11.1
Regional Index							
JPM EMBI Global Div	1.4	7.0	7.0	4.2	5.8	5.4	8.5
JPM GBI-EM Global Div	(1.3)	2.9	2.9	(7.6)	3.3	(0.8)	4.4
Hedge Funds							
HFRI Composite	1.0	5.9	5.9	0.9	5.1	3.1	5.5
HFRI FOF Composite	1.3	5.0	5.0	0.5	4.1	2.3	3.6
Currency (Spot)							
Euro	(1.4)	(1.8)	(1.8)	(8.7)	(0.5)	(4.0)	(1.7)
Pound	(2.0)	2.3	2.3	(7.1)	(3.2)	(4.8)	(0.9)
Yen	0.6	(0.9)	(0.9)	(3.9)	0.5	(1.4)	(1.1)

Source: Morningstar, HFR, as of 3/31/19

Notices & disclosures

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