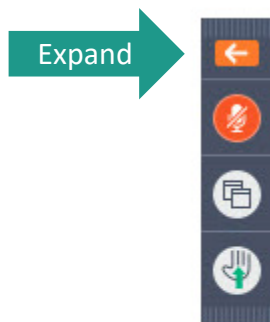




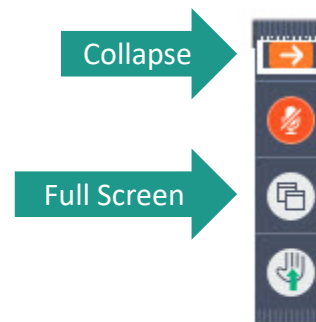
**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

2ND QUARTER 2019
Investment Landscape Call

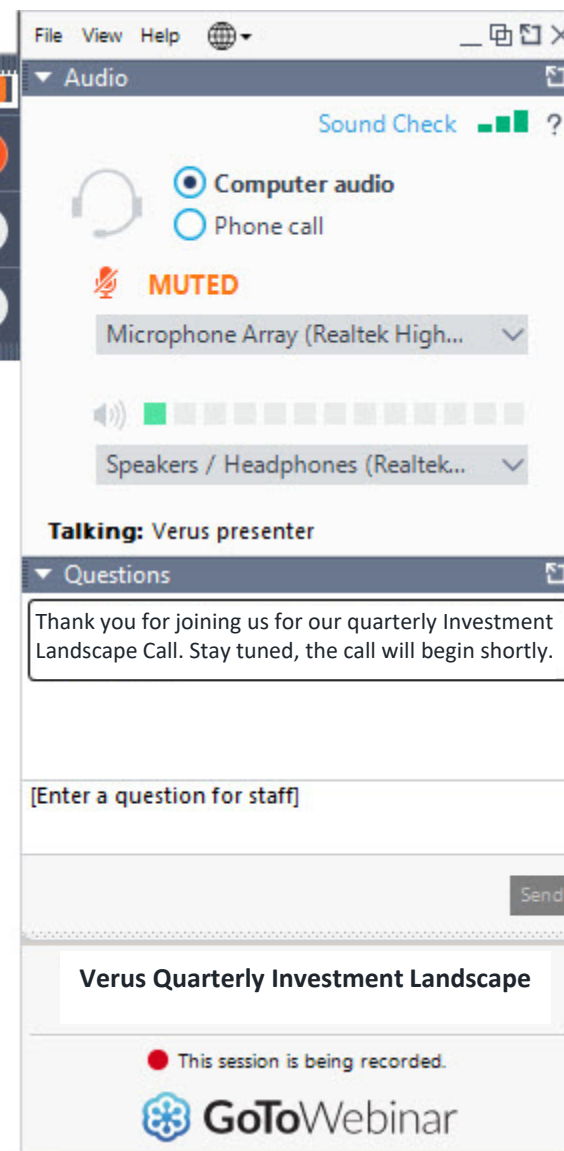
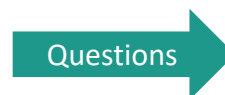
Call instructions



Use the orange arrow to expand or collapse the control panel



Ask questions here



2nd quarter conference call

Verus⁷⁷⁷

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700

LOS ANGELES 310-297-1777

SAN FRANCISCO 415-362-3484

IMPORTANT INFORMATION

Dial in: 1 (877) 309-2074 U.S. & Canada

Access Code: 462-397-203

Playback Info: Will be available on the website after the call www.verusinvestments.com

Audio Options: You may choose to listen through the webcast on your computer **or** dial in.

Introduction by: Jeffrey MacLean, Chief Executive Officer

Presented by: Ian Toner, CFA, Chief Investment Officer



Jeffrey J. MacLean
Chief Executive Officer



Ian Toner, CFA
Chief Investment Officer

1st quarter summary

THE ECONOMIC CLIMATE

- Real GDP growth continued at 3.0% YoY - on pace with the third quarter (2.2% quarterly annualized rate). Forecasts for 2019 U.S. growth have weakened. The U.S. economy is expected to grow at a 2.4% pace in 2019, according to the Survey of Professional Forecasters, while the Federal Reserve expects 2.1% growth this year.
- In March, negotiations resumed between U.S. and Chinese trade delegations. The dialogue was viewed as constructive, and optimism picked up for a trade resolution being reached in the near-to-intermediate future. The two sides have yet to agree on a formal timeline.

PORTFOLIO IMPACTS

- The Federal Open Market Committee reiterated its “patient” approach to policy, leaving rates unchanged, helping to push asset prices upward. Chairman Powell announced that starting in May the balance sheet runoff would slow from \$50 to \$30 billion a month, and would end in September.
- Risk assets exhibited strong performance over the quarter. U.S. equities delivered the greatest gains (S&P 500 +13.6%, MSCI ACWI +12.2%), reversing U.S. underperformance in Q4 2018 (S&P 500 -13.5%, MSCI ACWI -12.8%). This was followed by riskier credit with high single-digit returns, and safer credit and government bonds with low single-digit returns.

THE INVESTMENT CLIMATE

- The first quarter was nearly a mirror image of 2018 Q4, as many assets retraced losses of the prior quarter.
- Declining long-term Treasury yields following the Fed meeting in March briefly caused the yield curve to invert, meaning that short-term yields (3-month) were higher than long-term yields (10-year). Investors have expressed concerns that this may signal a near term recession. We believe these concerns are overblown.
- The House of Commons in the British Parliament briefly took control of their government’s legislative agenda, but failed to reach a majority vote on a path forward. On April 10th, British Prime Minister Theresa May and the European Council agreed to extend the Brexit deadline from April 12th to October 31st.

ASSET ALLOCATION ISSUES

- All major asset classes delivered positive performance in Q1, a refreshing change of pace from broad-based losses experienced in 2018.
- Economic conditions around the world have exhibited a weakening trend, leading to the question of whether a turn in the economic cycle is near. The first quarter was more mixed with strength in places, easing some concern. We remain watchful of this weakening trend, but believe the economy and market may have more room to run.

A neutral risk stance may be appropriate in today’s environment

What drove the market in Q1?

“Central banks take to stage as dovish outlooks spread”

MARKET EXPECTATIONS FOR 1-YEAR CHANGE IN FED FUNDS RATE (BPS)

Oct	Nov	Dec	Jan	Feb	Mar
62	48	10	-10	-5	-31

Article Source: Bloomberg, February 16th, 2019

“Slowing earnings growth, gloomy forecasts add to stock market’s woes”

S&P 500 INDEX 12-MONTH FORWARD EPS ESTIMATE (\$)

Oct	Nov	Dec	Jan	Feb	Mar
175	175	174	171	171	172

Article Source: Wall Street Journal, January 13th, 2019

“Part of the yield curve inverts as 3-month yield tops 10-year rate”

10-YEAR MINUS 3-MONTH TREASURY YIELD SPREAD (BPS)

Oct	Nov	Dec	Jan	Feb	Mar
82	65	33	25	28	2

Article Source: CNBC, March 22nd, 2019

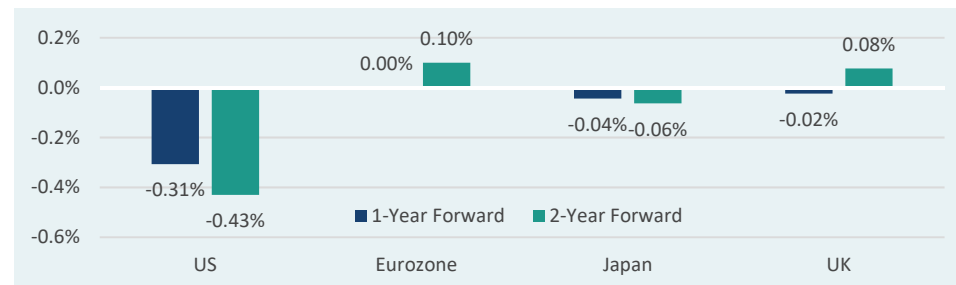
“World markets hit 2019 high amid trade war optimism”

NUMBER OF GOOGLE NEWS ARTICLES WITH ‘TRADE OPTIMISM’ IN TITLE

Oct	Nov	Dec	Jan	Feb	Mar
5	24	31	92	116	96

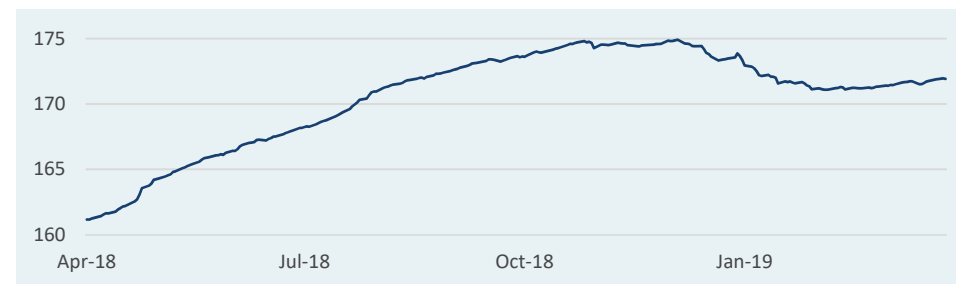
Article Source: The Guardian, February 18th, 2019

MARKET EXPECTATIONS FOR CHANGES IN SHORT-TERM RATES



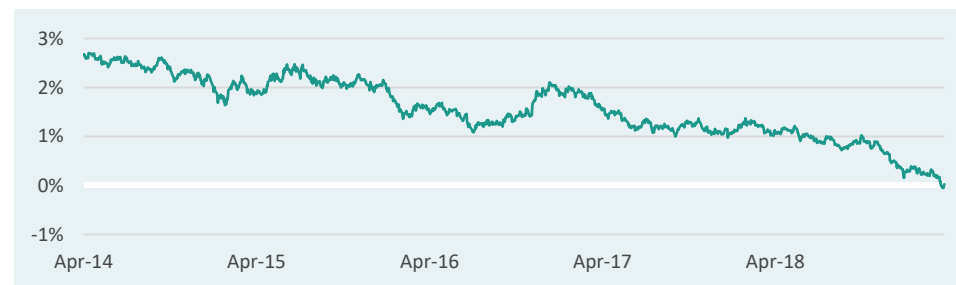
Source: Bloomberg, as of 4/2/19

S&P 500 INDEX 12-MONTH FORWARD EPS ESTIMATE



Source: Bloomberg, as of 3/31/19

10-YEAR MINUS 3-MONTH TREASURY YIELD SPREAD



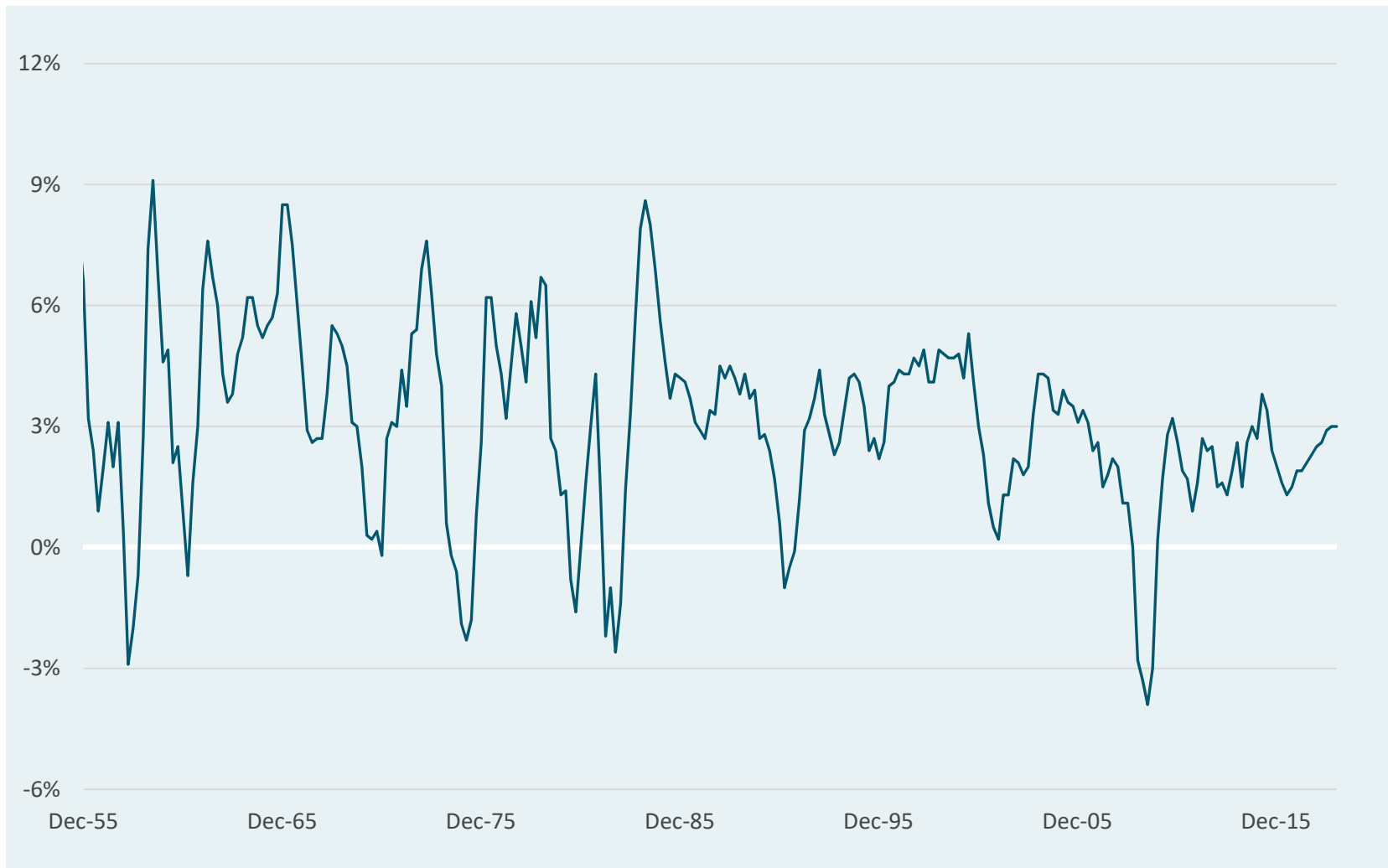
Source: Bloomberg, as of 3/31/19

U.S. economics summary

	Most Recent	12 Months Prior
GDP (YoY)	3.0% <i>12/31/18</i>	2.5% <i>12/31/17</i>
Inflation (CPI YoY, Core)	2.0% <i>3/31/19</i>	2.1% <i>3/31/18</i>
Expected Inflation (5yr-5yr forward)	2.0% <i>3/31/19</i>	2.2% <i>3/31/18</i>
Fed Funds Target Range	2.25 – 2.50% <i>3/31/19</i>	1.50 – 1.75% <i>3/31/18</i>
10 Year Rate	2.4% <i>3/31/19</i>	2.7% <i>3/31/18</i>
U-3 Unemployment	3.8% <i>3/31/19</i>	4.0% <i>3/31/18</i>
U-6 Unemployment	7.3% <i>3/31/19</i>	7.9% <i>3/31/18</i>

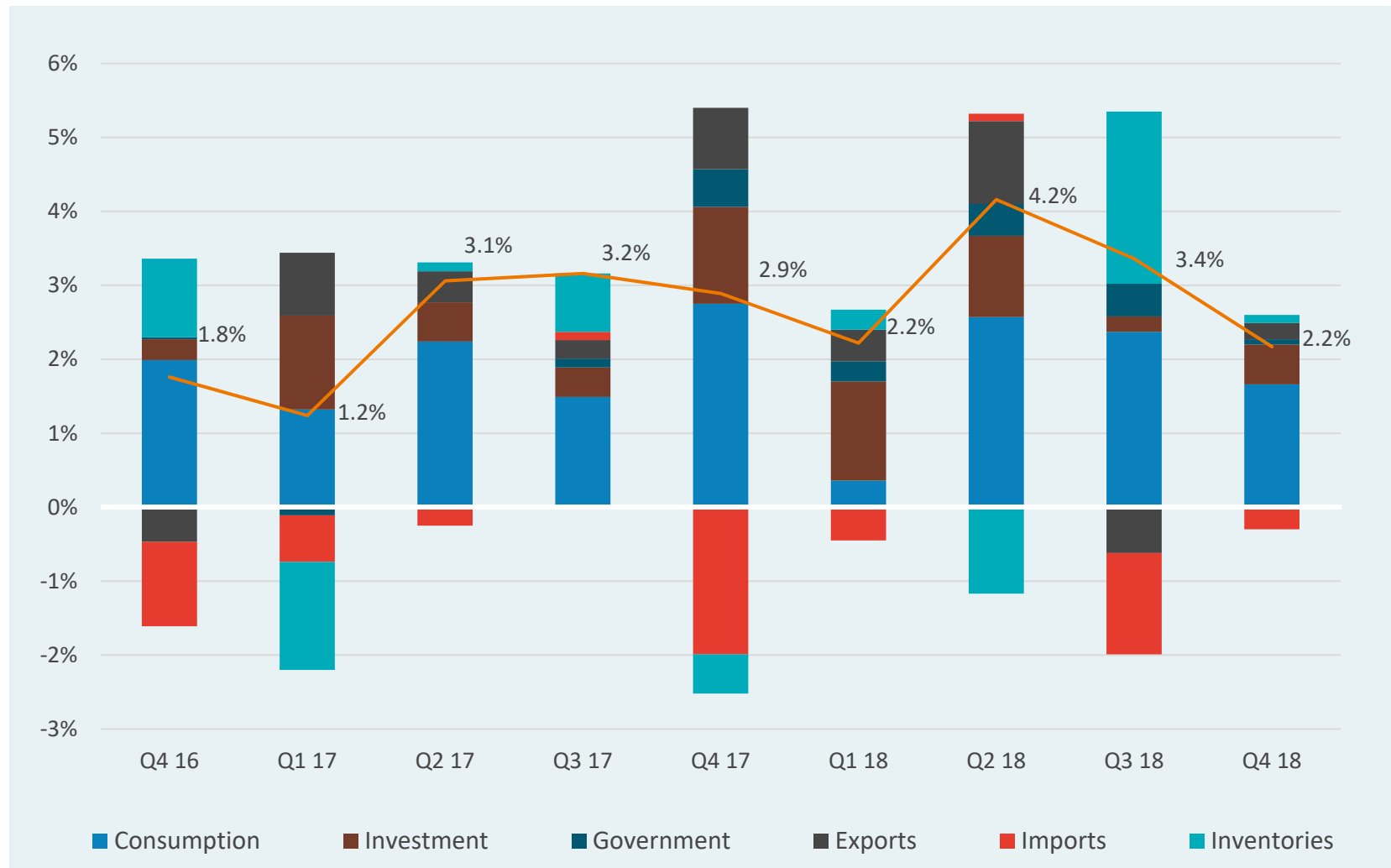
Source: Bloomberg

U.S. GDP growth



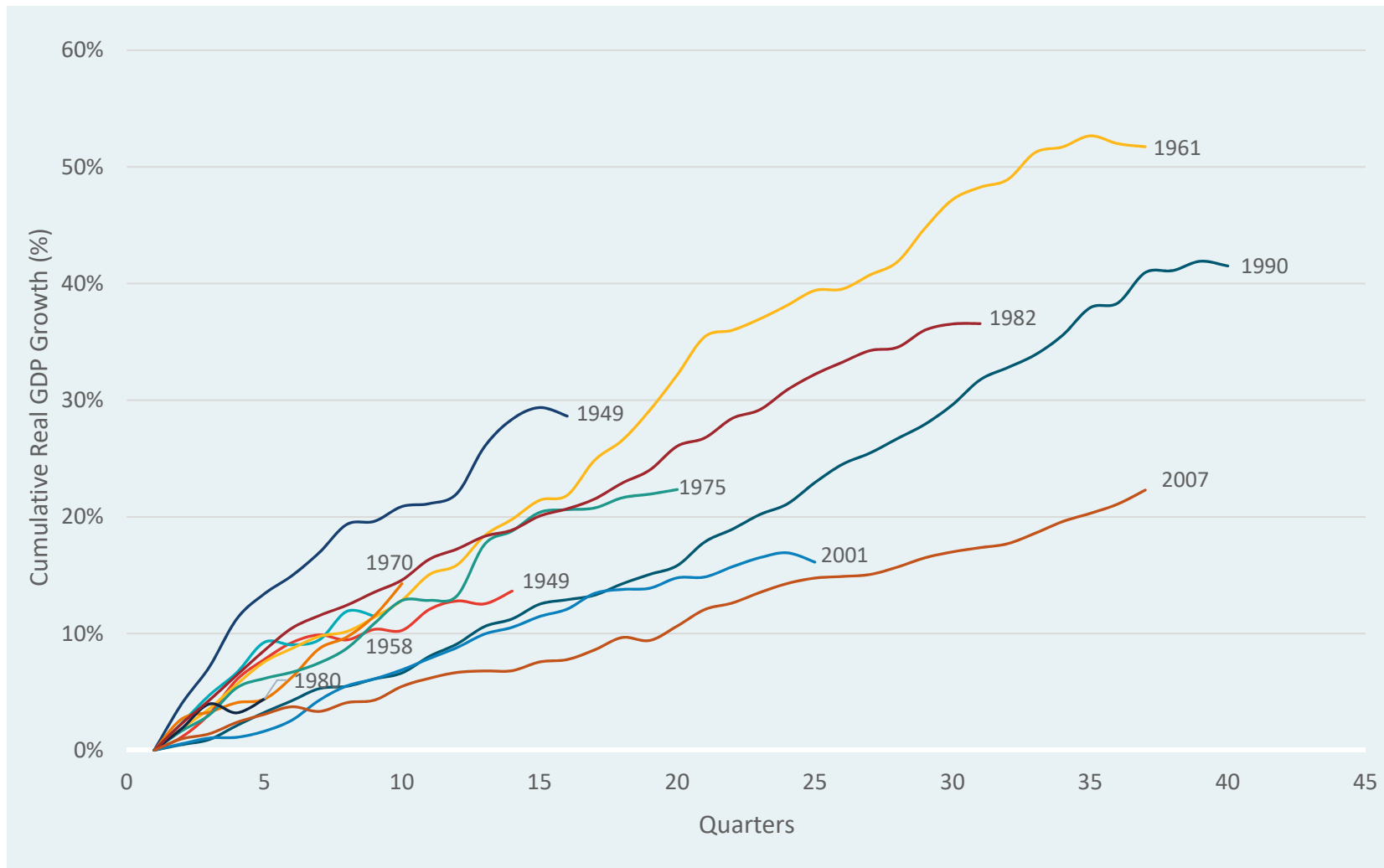
Source: FRED, year-over-year, as of 12/31/18

Sources of GDP growth



Source: BEA, annualized quarterly rate, as of 12/31/18

A long but moderate expansion

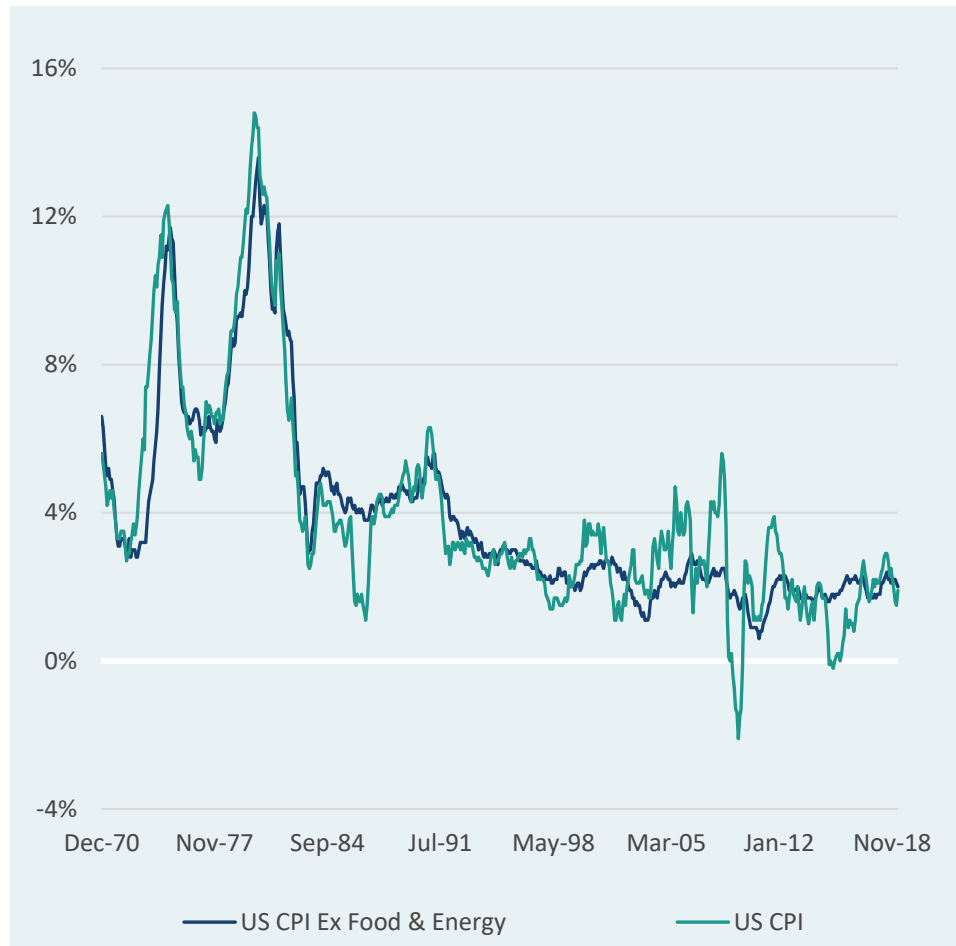


The current economic cycle is just three quarters shy of matching the longest expansion on record

Source: FRED, Verus, as of 12/31/18 – each expansion is labeled with the starting year of expansion

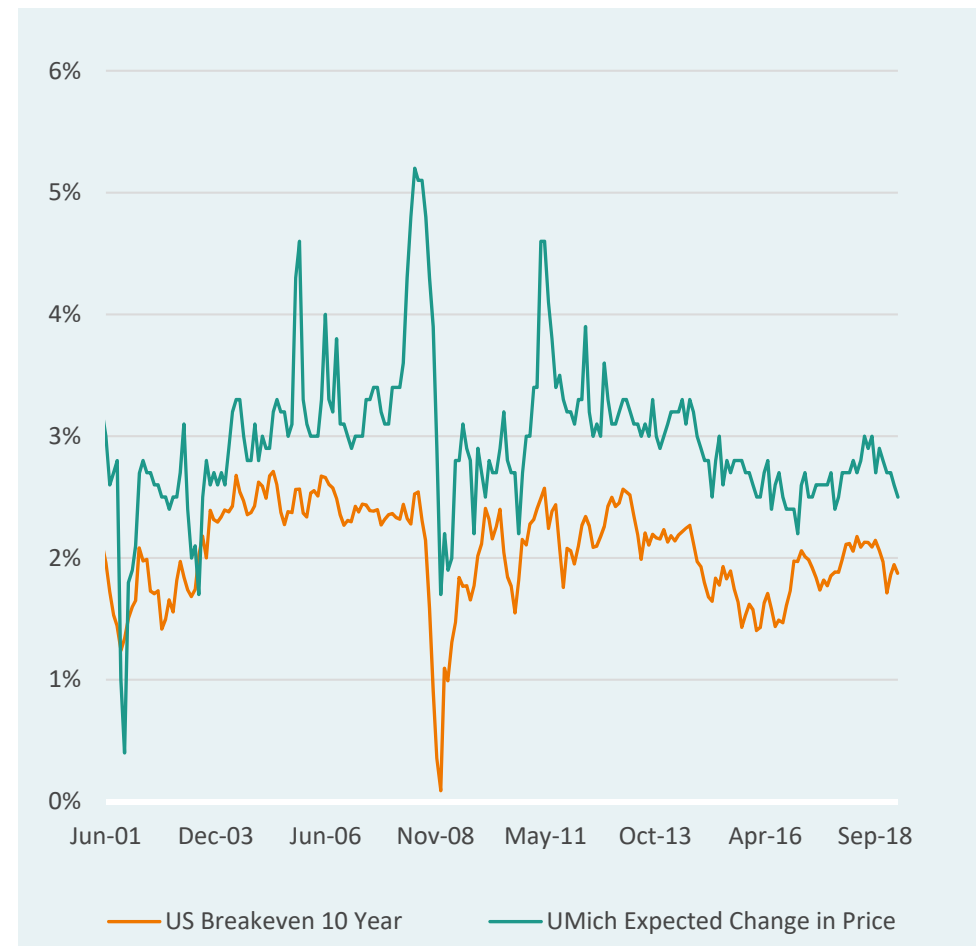
U.S. inflation

U.S. CPI (YOY)



Source: FRED, as of 3/31/19

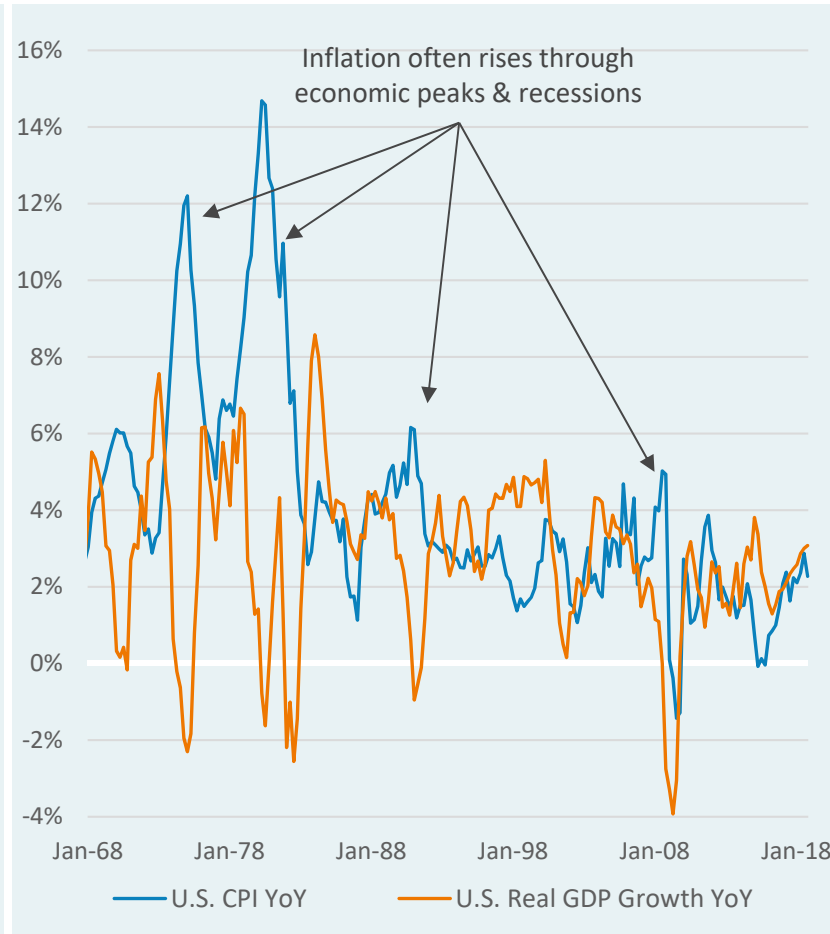
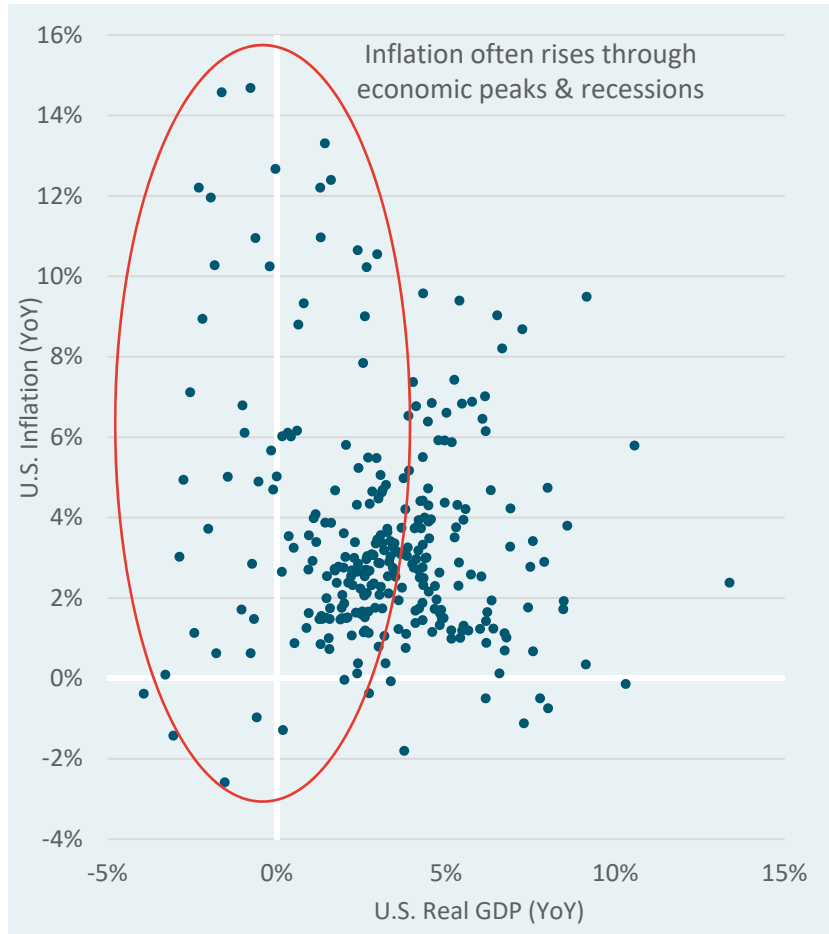
U.S. INFLATION EXPECTATIONS



Source: Bloomberg, as of 3/31/19

Relationship – inflation & growth

Inflation risk has been more acute during late cycle & recession

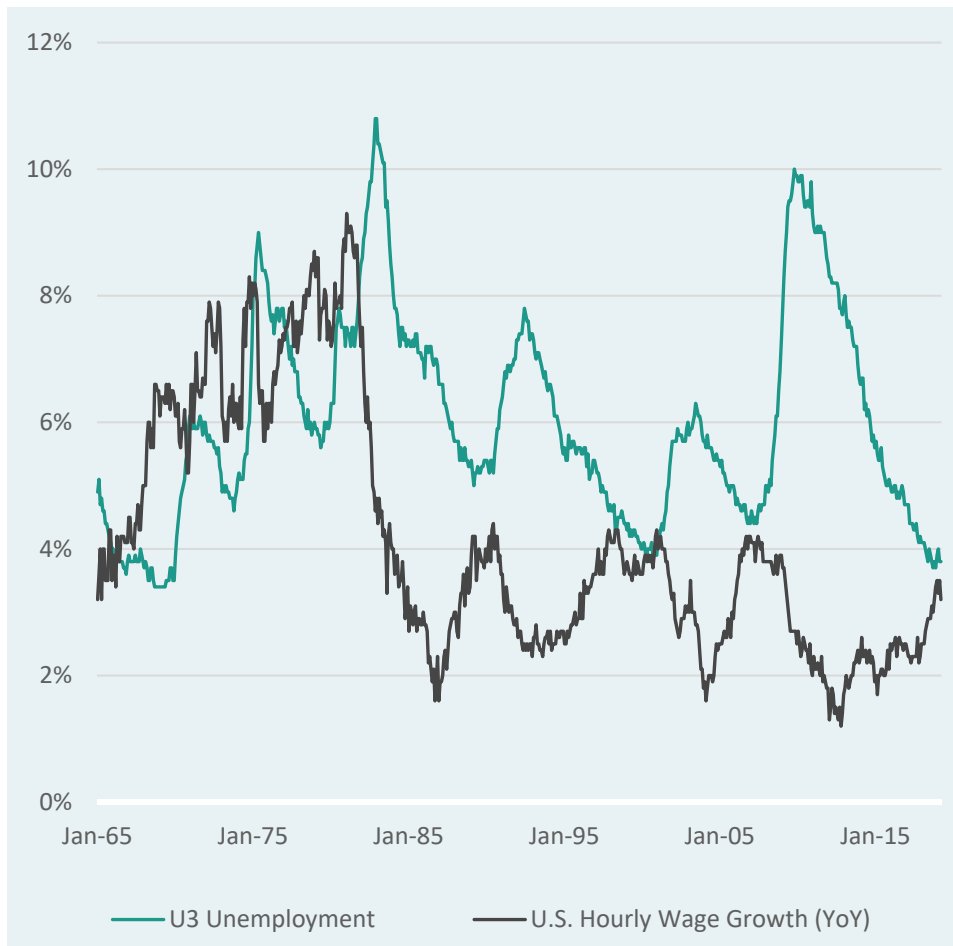


History suggests inflation risks are still present at the later stage of the economic cycle

Source: FRED, Verus

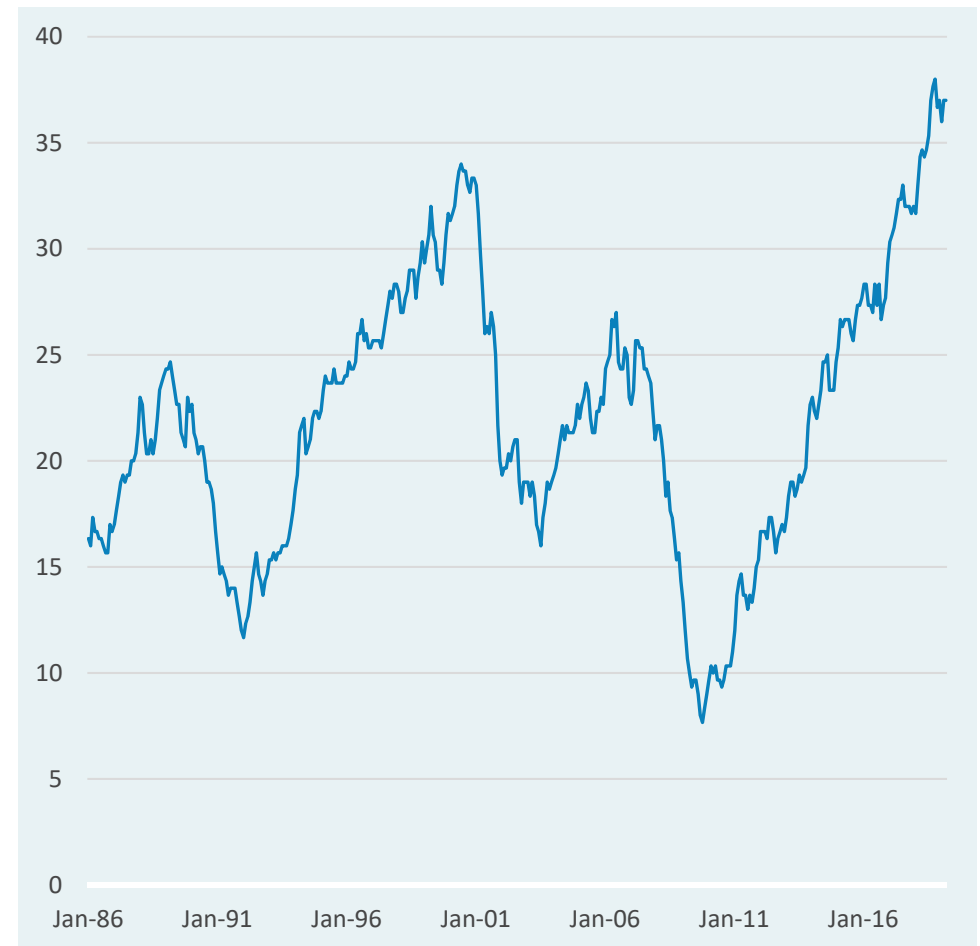
U.S. labor market

UNEMPLOYMENT RATE & WAGE GROWTH



Source: FRED, as of 3/31/19

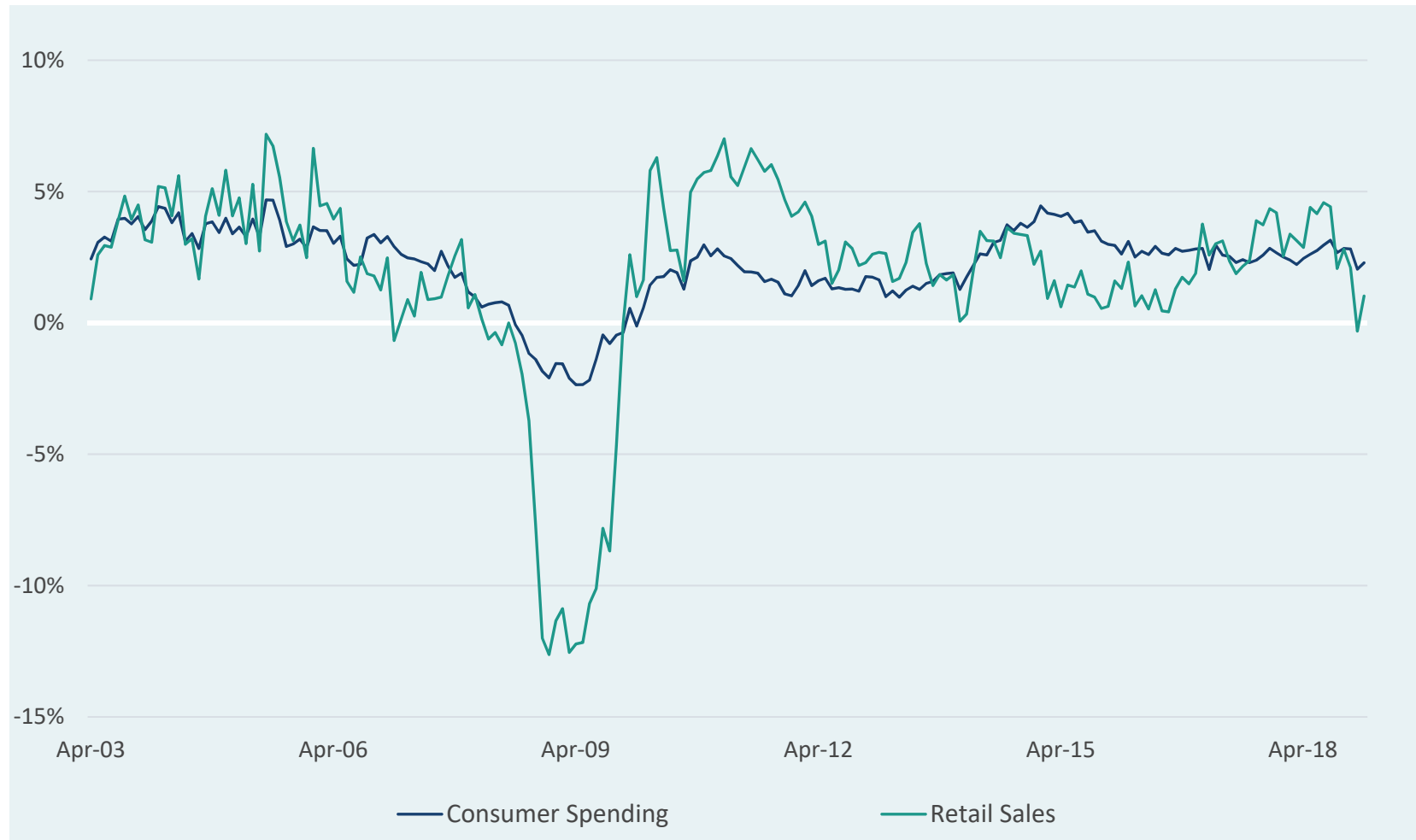
NFIB: JOBS HARD TO FILL (3-MONTH AVERAGE)



Source: NFIB, as of 3/31/19, net % of small businesses reporting that open positions are hard to fill

U.S. consumers

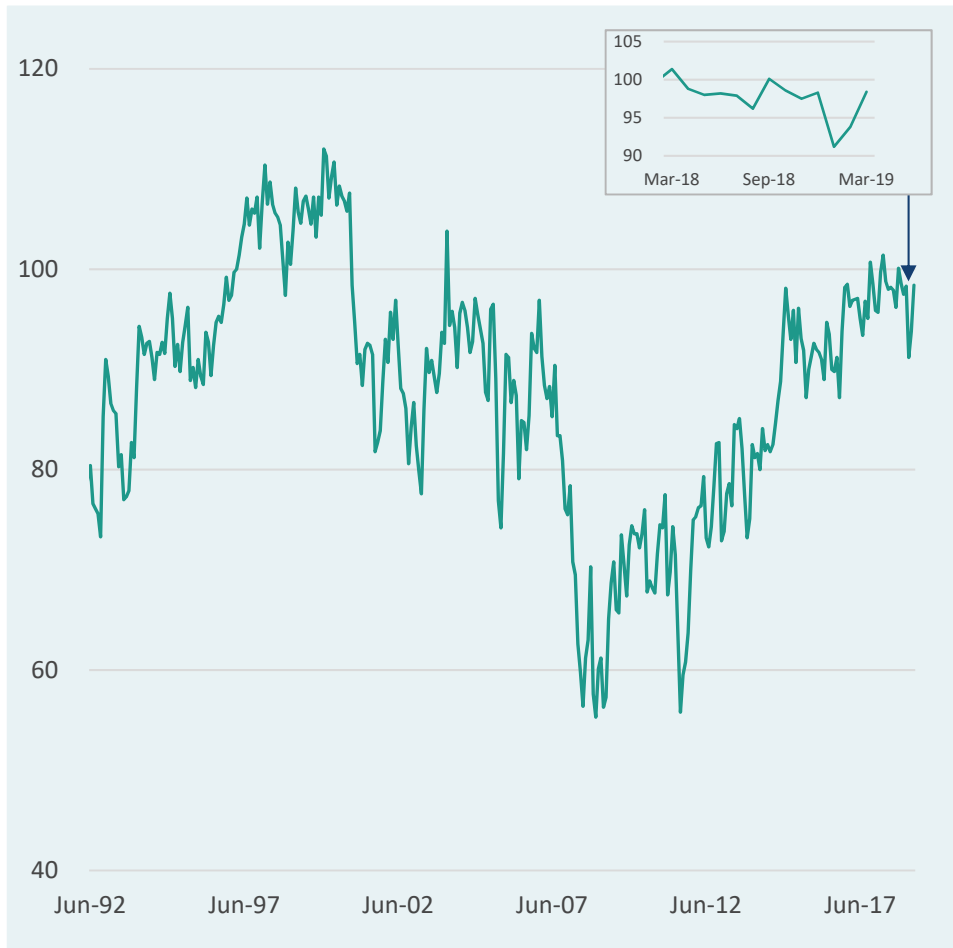
REAL CONSUMER SPENDING & RETAIL SALES GROWTH (YOY)



Source: Bloomberg, as of 1/31/19

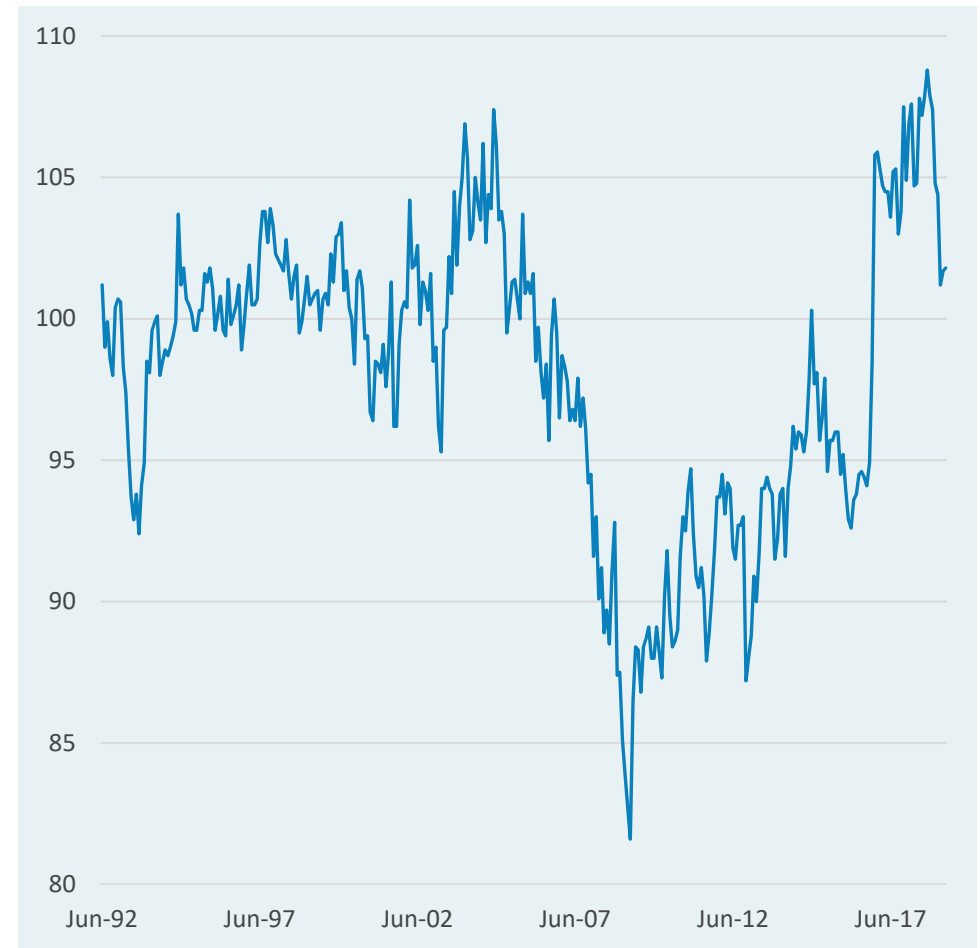
U.S. sentiment

UNIVERSITY OF MICHIGAN CONSUMER SENTIMENT



Source: University of Michigan, as of 3/31/19

NFIB SMALL BUSINESS OPTIMISM INDEX



Source: NFIB, as of 3/31/19

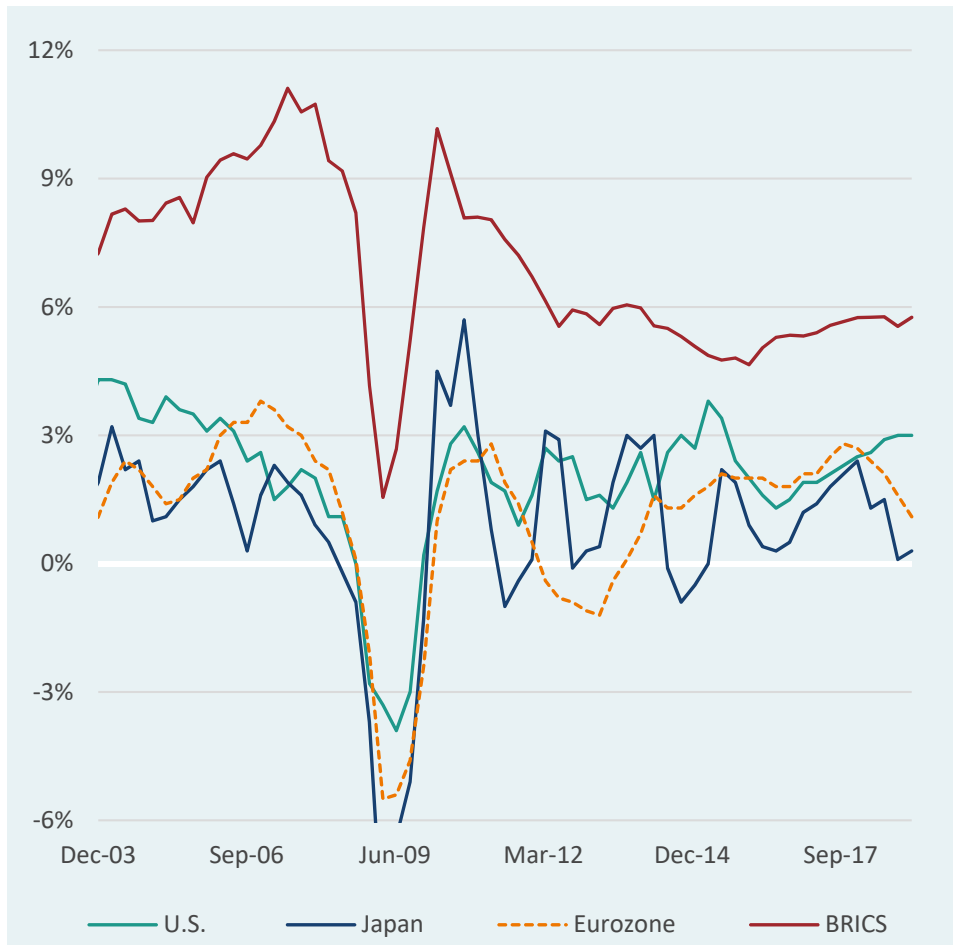
International economics

Area	GDP (Real, YoY)	Inflation (CPI, YoY)	Unemployment
United States	3.0% 12/31/18	1.5% 2/28/19	3.8% 3/31/19
Eurozone	1.1% 12/31/18	1.4% 3/31/19	7.8% 2/28/19
Japan	0.3% 12/31/18	0.2% 2/28/19	2.3% 2/28/19
BRICS Nations	5.8% 12/31/18	2.4% 3/31/19	5.3% 12/31/18
Brazil	1.1% 12/31/18	3.9% 2/28/19	12.2% 3/31/19
Russia	2.7% 12/31/18	5.3% 3/31/19	4.9% 2/28/19
India	7.2% 12/31/18	2.6% 2/28/19	8.5% 12/31/17
China	6.4% 12/31/18	1.5% 2/28/19	3.8% 12/31/18

Source: Bloomberg

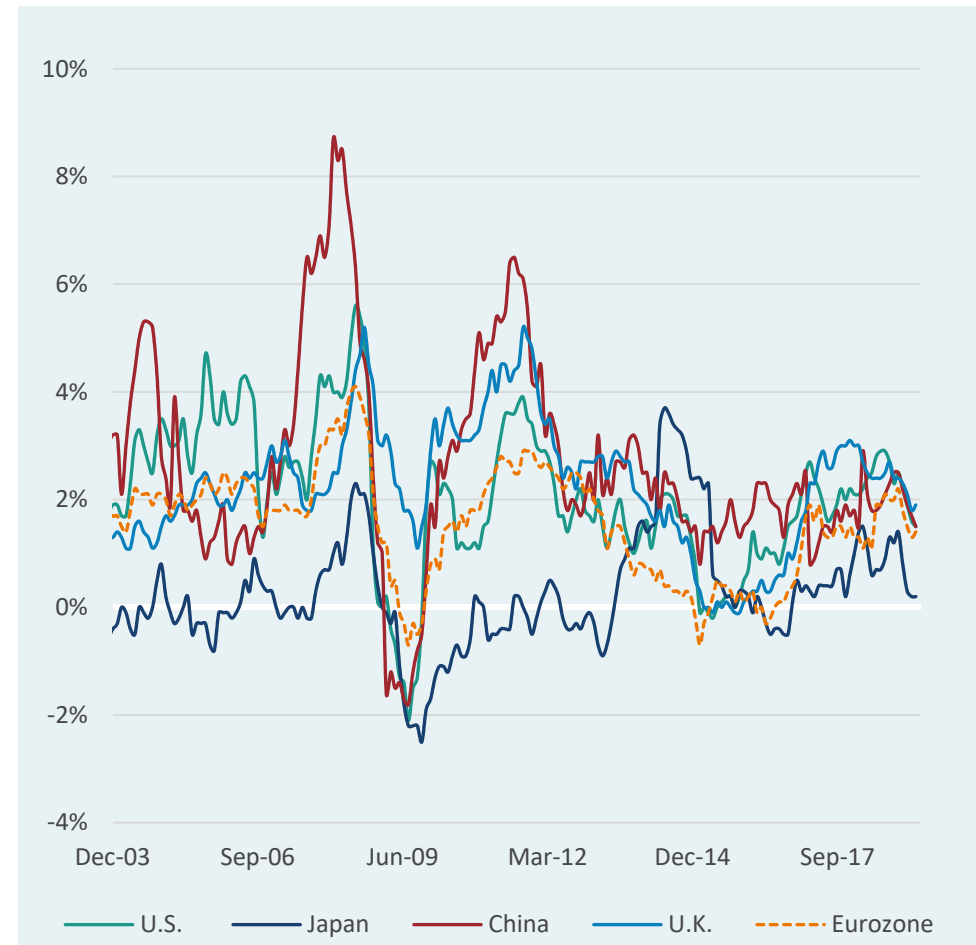
Global GDP and inflation

REAL GDP GROWTH (YOY)



Source: Bloomberg, as of 12/31/18

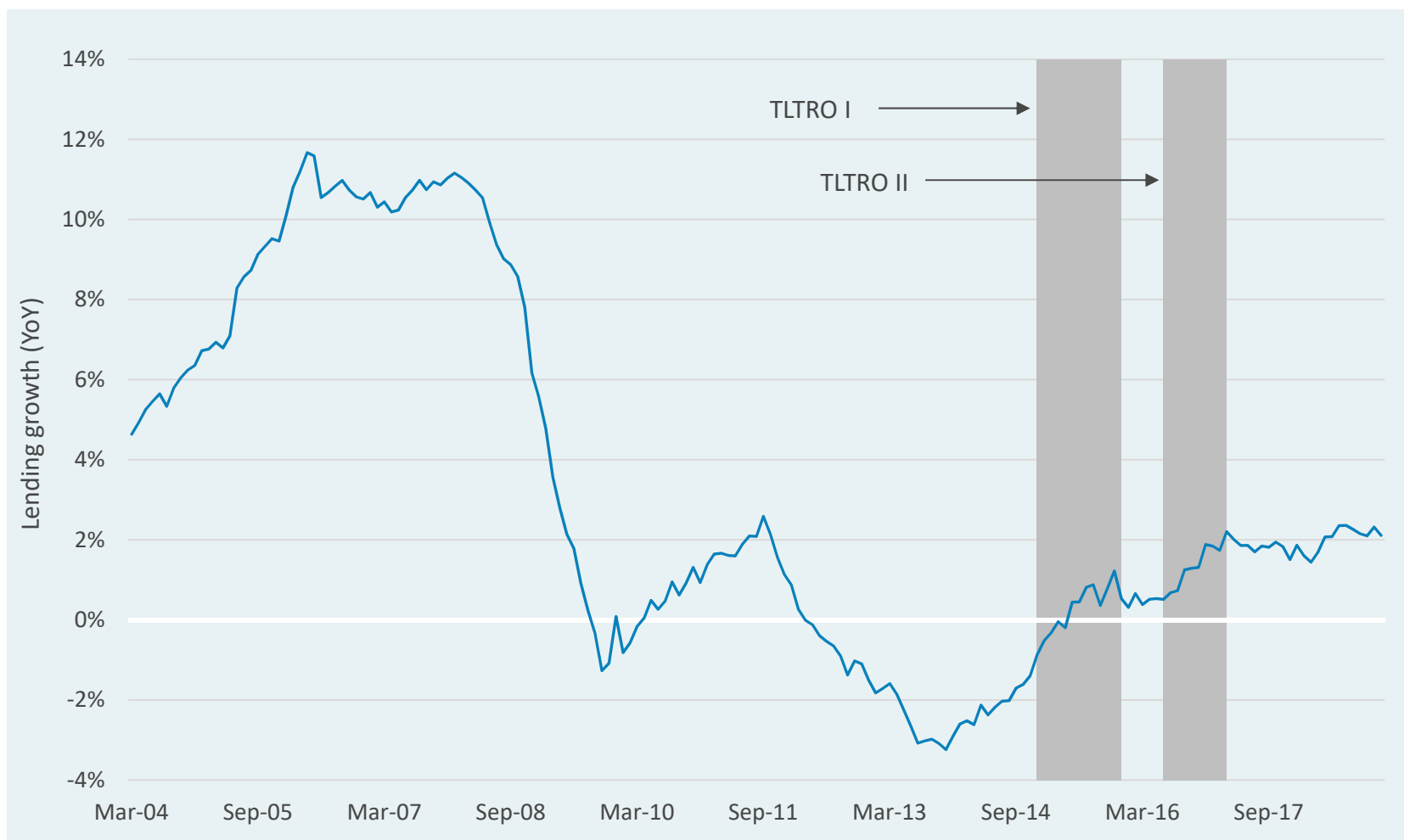
INFLATION (CPI, YOY)



Source: Bloomberg, as of 2/28/19

Eurozone monetary policy

EUROZONE BANK LENDING TO HOUSEHOLDS & CORPORATES



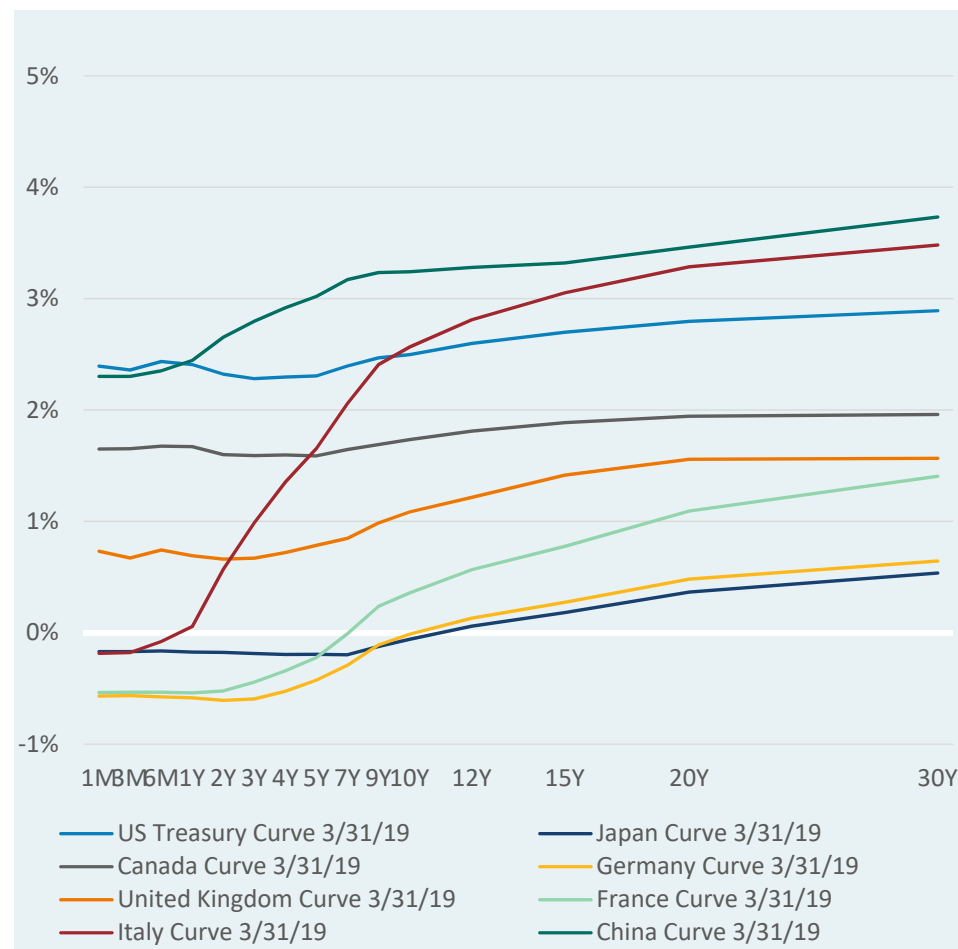
Source: Bloomberg, as of 1/31/19

Interest rate environment

Area	Short Term (3M)	10 Year
United States	2.39%	2.41%
Germany	(0.53%)	(0.07%)
France	(0.54%)	0.32%
Spain	(0.40%)	1.10%
Italy	(0.20%)	2.49%
Greece	0.87%	3.73%
U.K.	0.80%	1.00%
Japan	(0.17%)	0.08%
Australia	1.68%	1.77%
China	2.08%	3.07%
Brazil	6.31%	8.97%
Russia	7.35%	8.41%

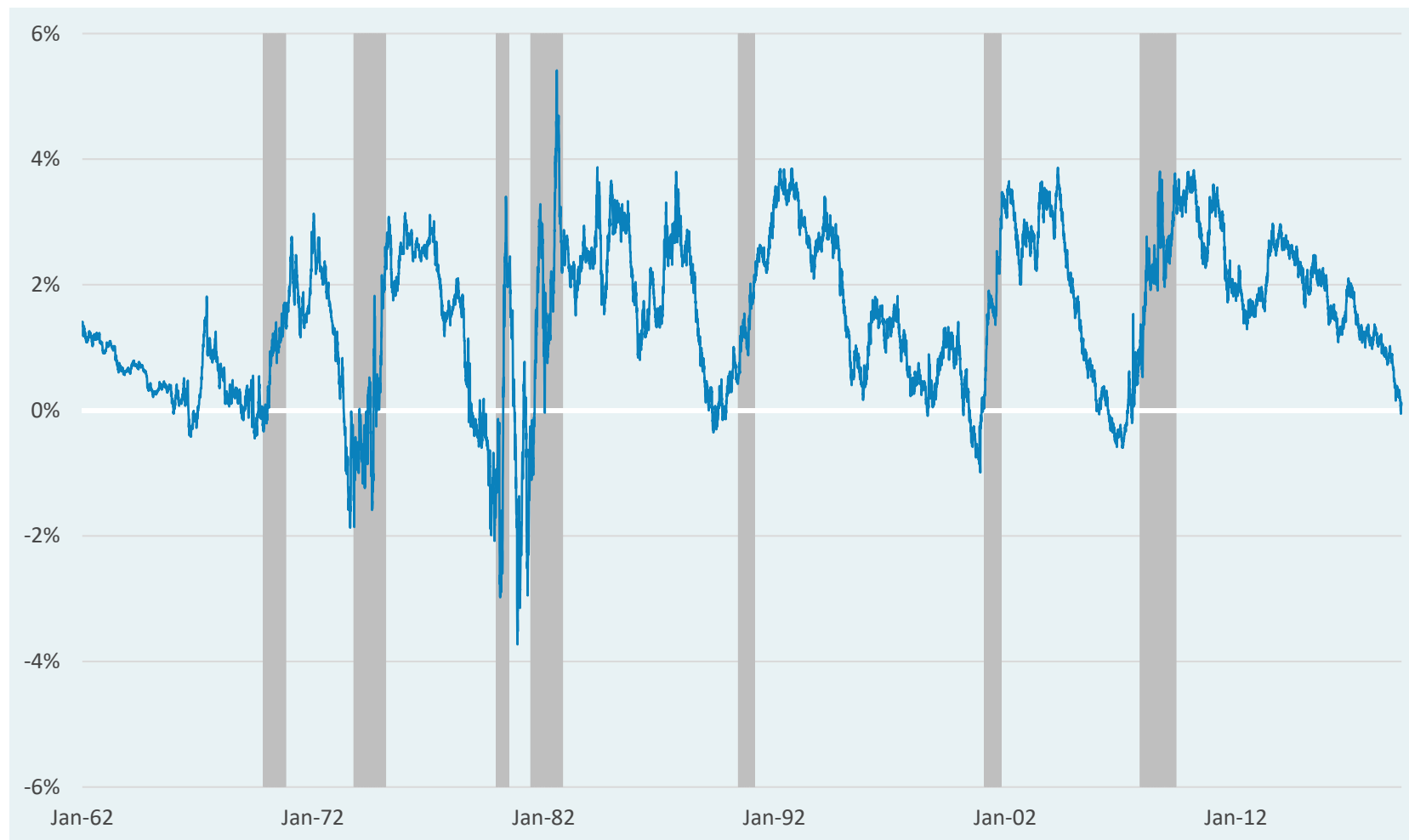
Source: Bloomberg, as of 3/31/19

GLOBAL GOVERNMENT YIELD CURVES



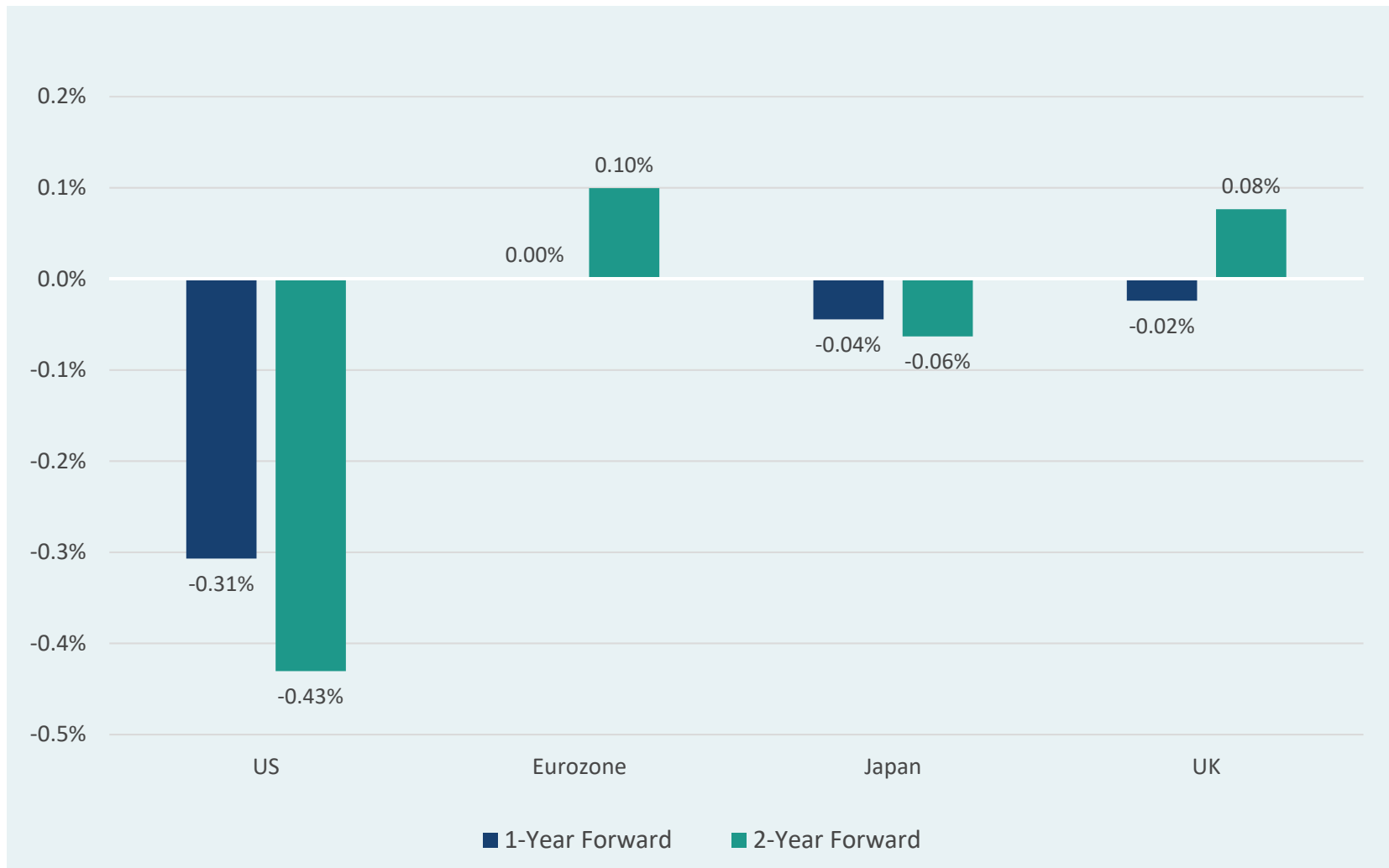
Yield curve inversion

10-YEAR MINUS 3-MONTH TREASURY YIELD CURVE



Source: Bloomberg, as of 3/31/19, recessions are shaded with the dates defined by NBER

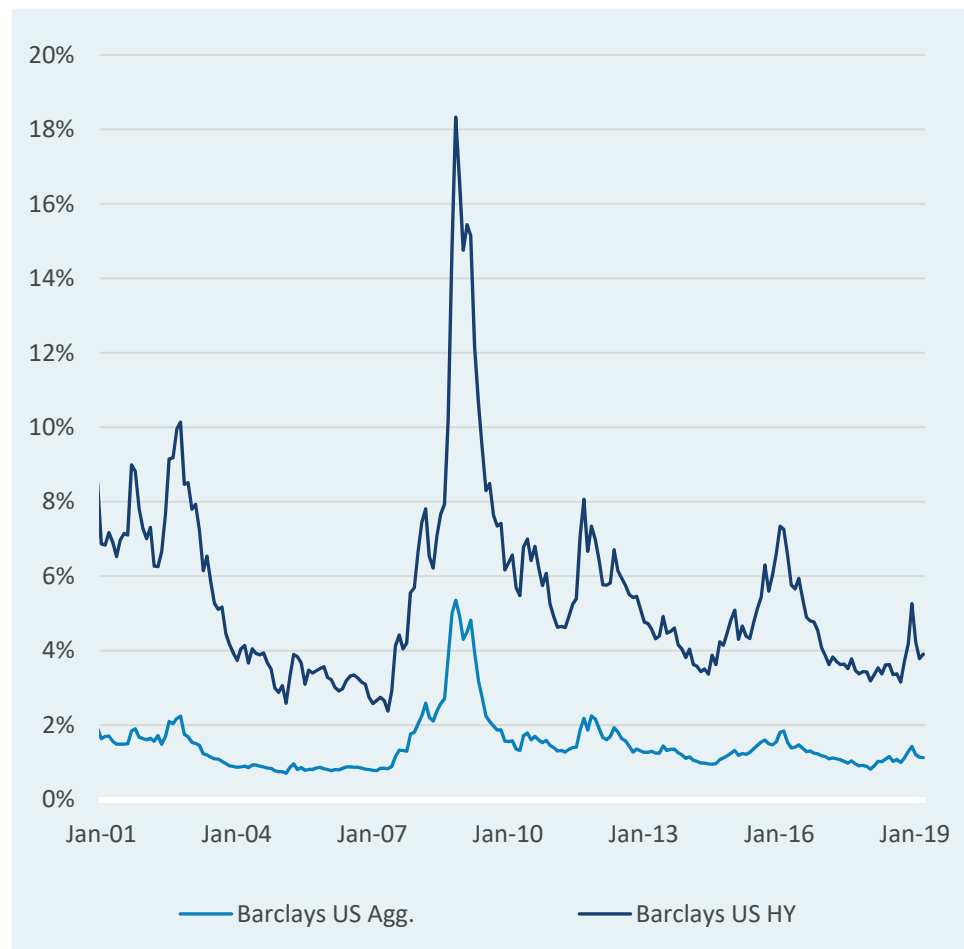
Market expectations for central banks



Source: Bloomberg, as of 4/2/19

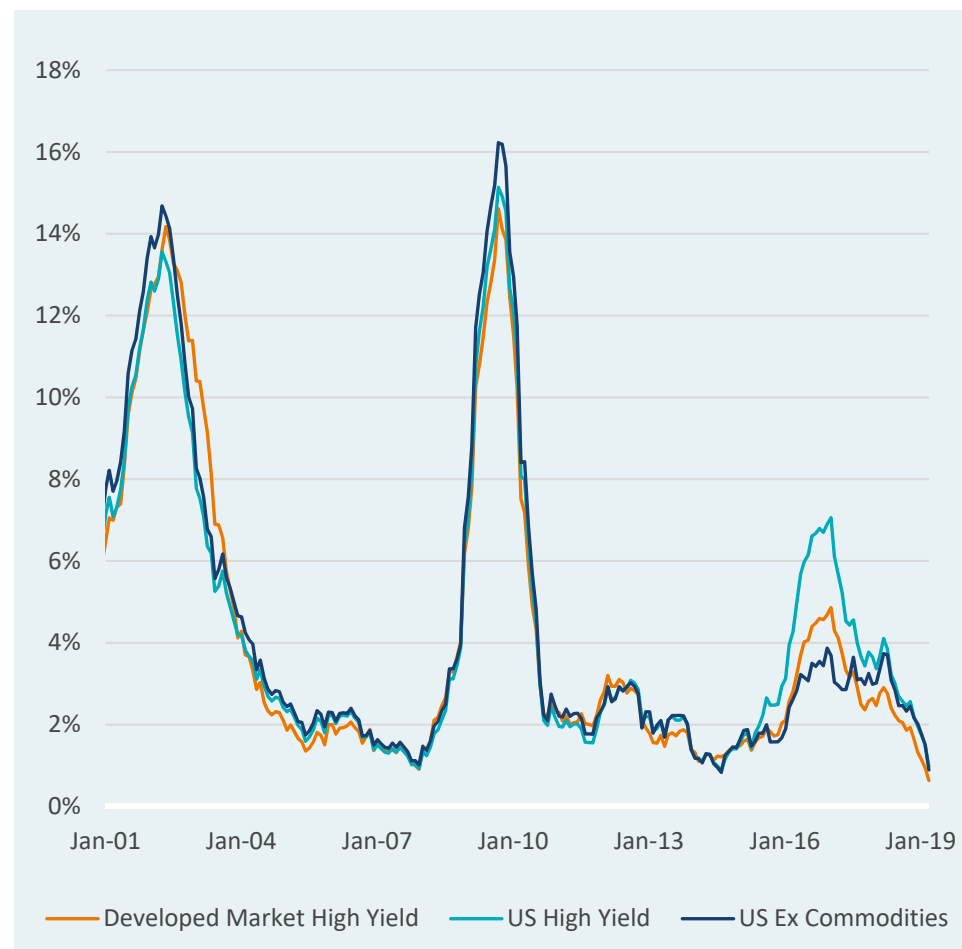
Credit environment

U.S. CREDIT SPREADS



Source: Bloomberg, as of 3/31/19

HIGH YIELD DEFAULT RATES



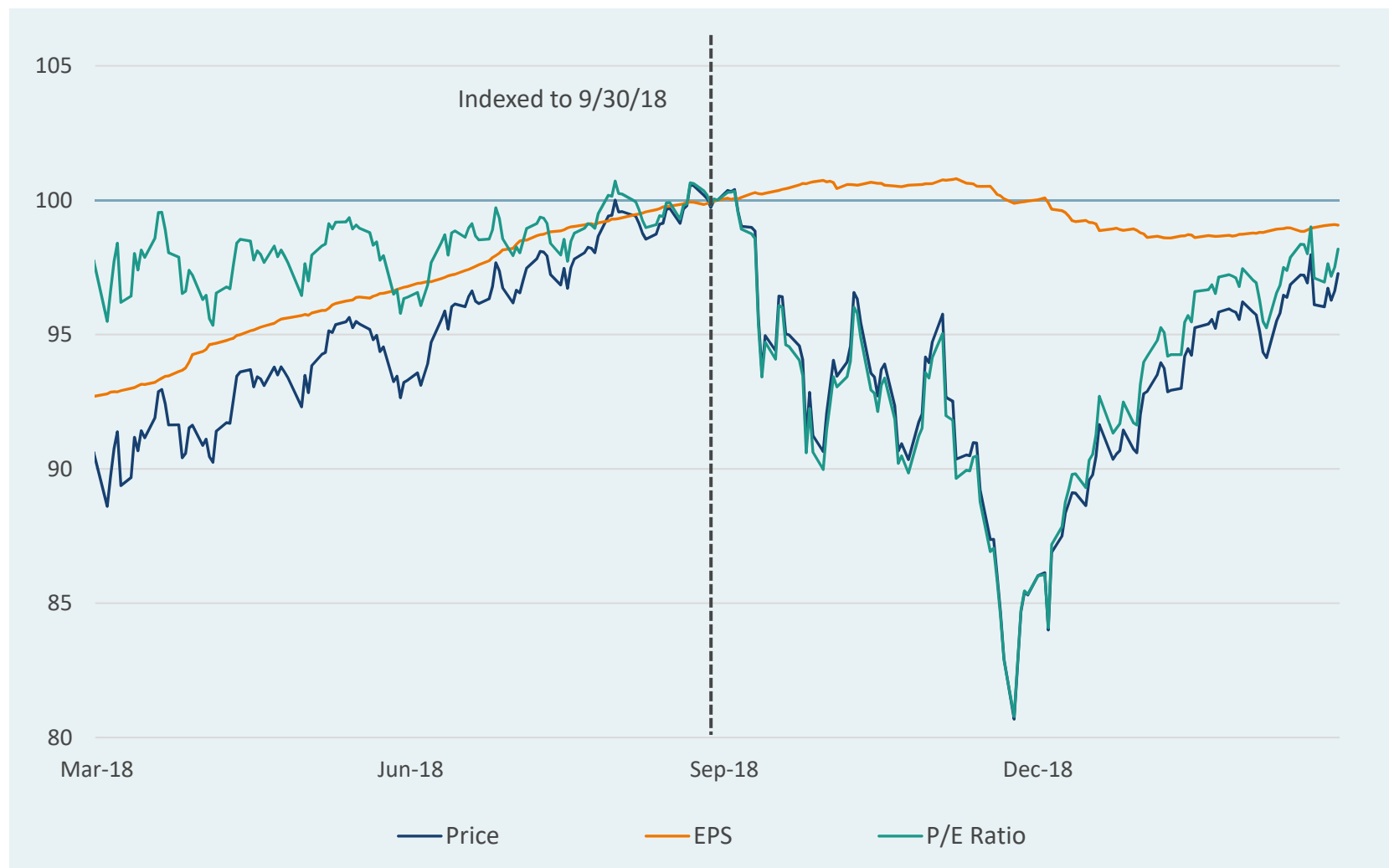
Source: BofA Merrill Lynch, as of 3/31/19

Equity environment

	QTD TOTAL RETURN		1 YEAR TOTAL RETURN	
	(unhedged)	(hedged)	(unhedged)	(hedged)
US Large Cap (Russell 1000)	13.8%		8.7%	
US Small Cap (Russell 2000)	14.6%		2.1%	
US Large Value (Russell 1000 Value)	11.7%		4.9%	
US Large Growth (Russell 1000 Growth)	16.0%		12.3%	
International Large (MSCI EAFE)	10.0%	11.3%	(3.7%)	5.2%
Eurozone (Euro Stoxx 50)	10.6%	12.9%	(6.3%)	5.8%
U.K. (FTSE 100)	9.5%	10.1%	(0.2%)	9.6%
Japan (NIKKEI 225)	6.8%	7.6%	(3.4%)	2.9%
Emerging Markets (MSCI Emerging Markets)	9.9%	9.8%	(7.4%)	(2.1%)

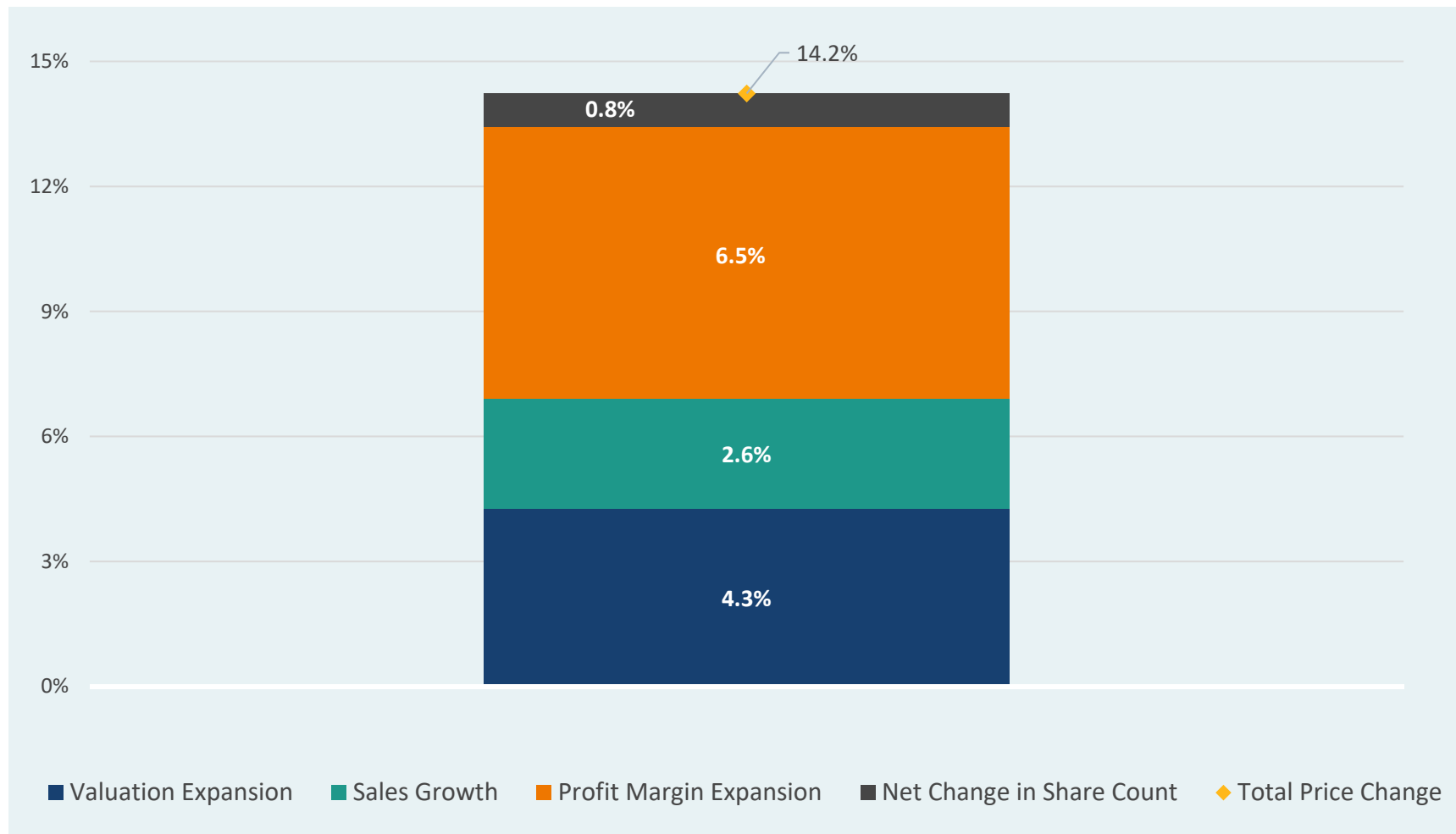
Source: Russell Investments, MSCI, Stoxx, FTSE, Nikkei, as of 3/31/19

S&P 500 price movement attribution



Source: Bloomberg, as of 3/31/19

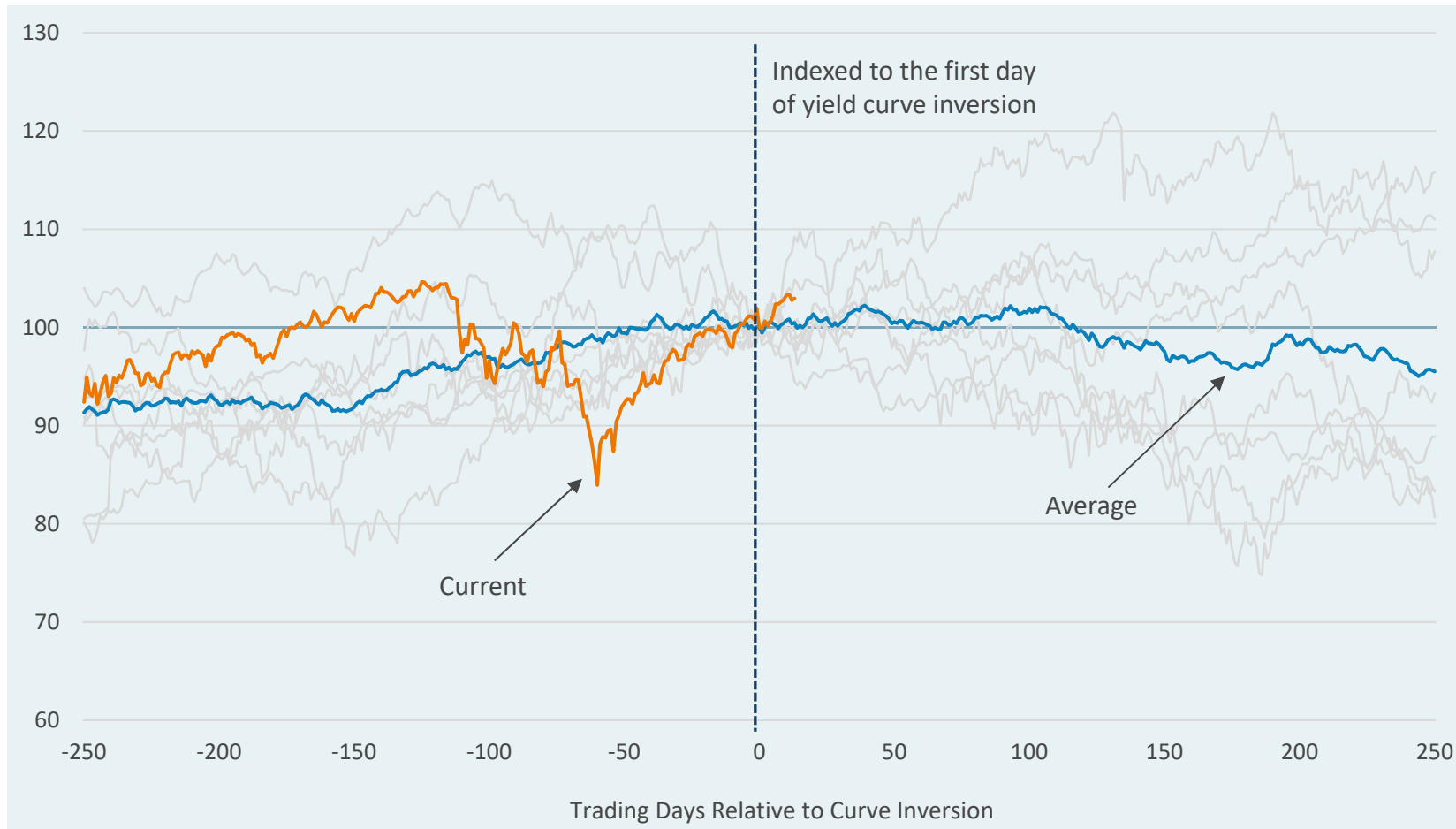
S&P 500 10-year price return attribution



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

Equity markets and yield curve inversions

EQUITY PERFORMANCE AROUND CURVE INVERSIONS

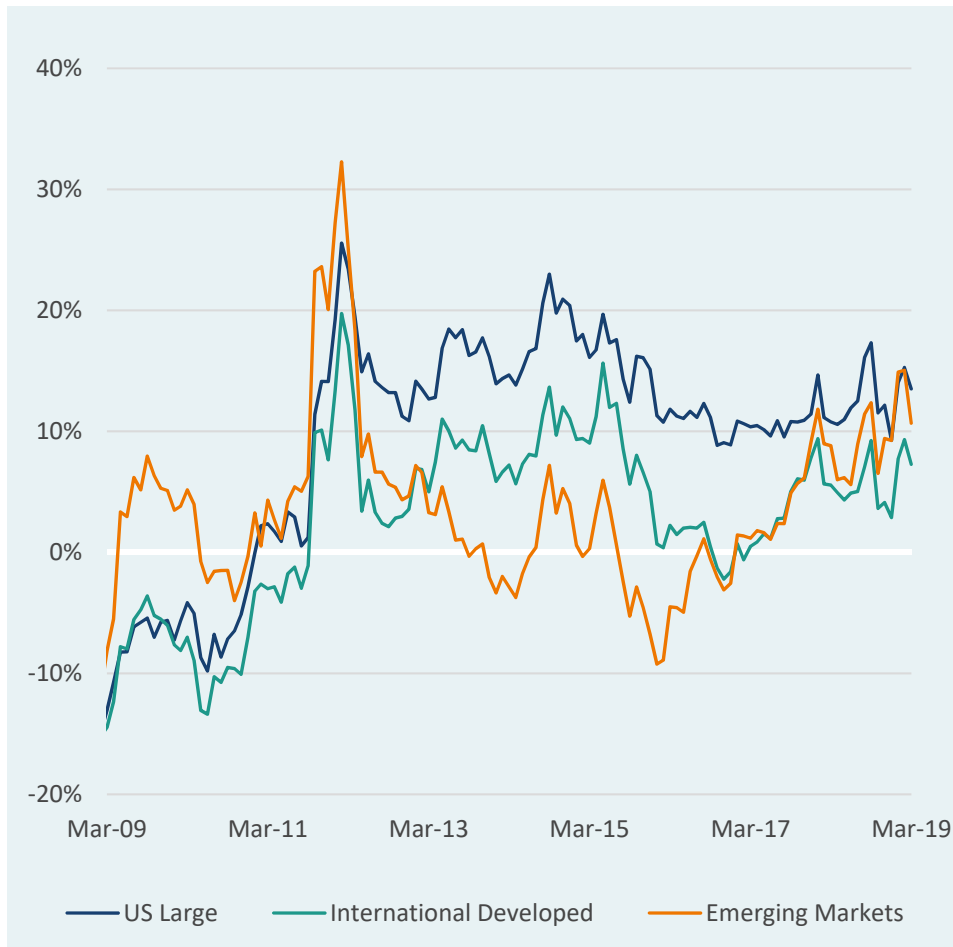


Equity performance has varied widely following yield curve inversion

Source: Bloomberg, Verus, as of 3/31/19 – equities are represented by the S&P 500 Index and the yield curve is defined as the difference between the 10-year and 3-month Treasury yield; see page 23 for the dates of yield curve inversion

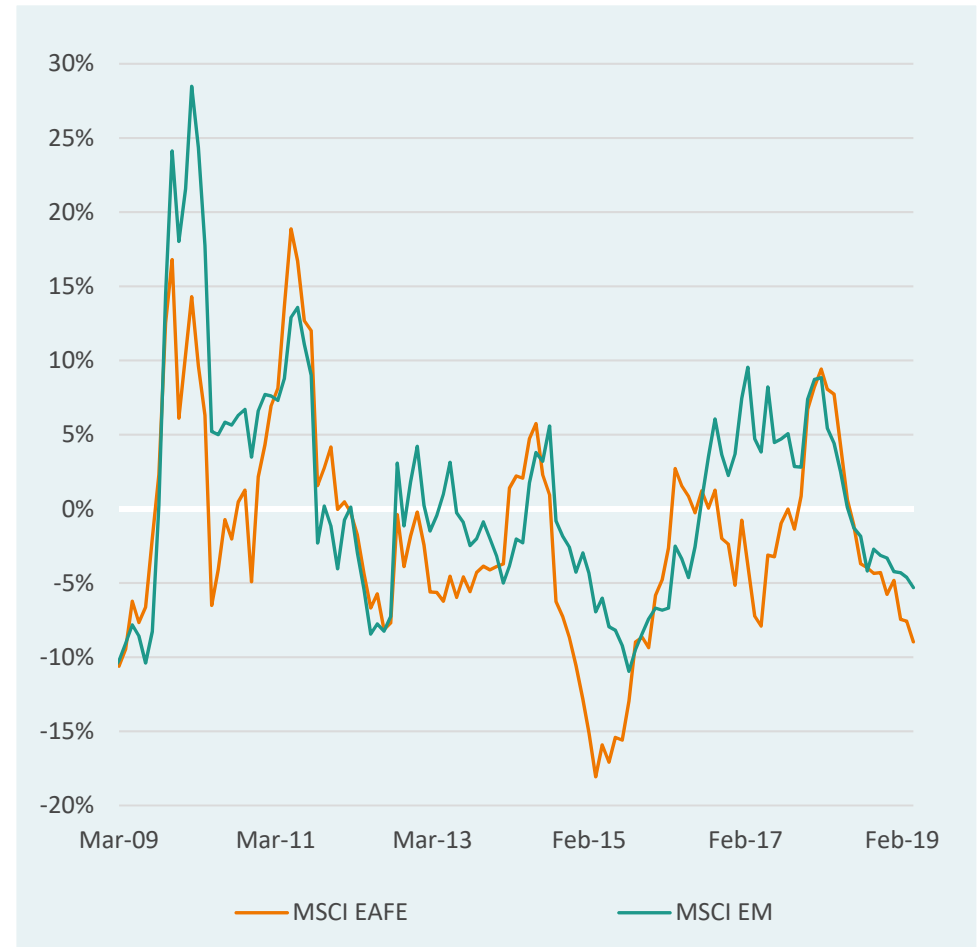
International equity

3-YEAR ROLLING PERFORMANCE



Source: Morningstar, as of 3/31/19

EFFECT OF CURRENCY (1-YEAR ROLLING)



Source: Morningstar, as of 3/31/19

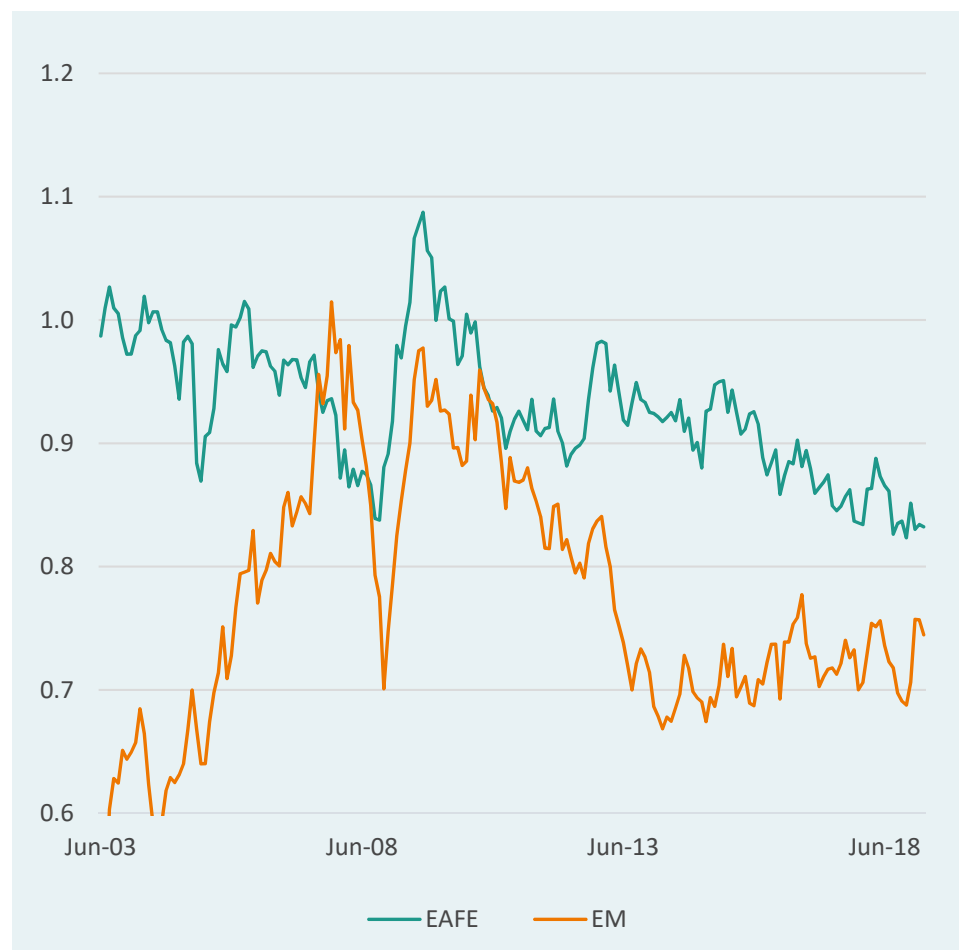
Equity valuations

FORWARD P/E RATIOS



Source: MSCI, as of 3/31/19

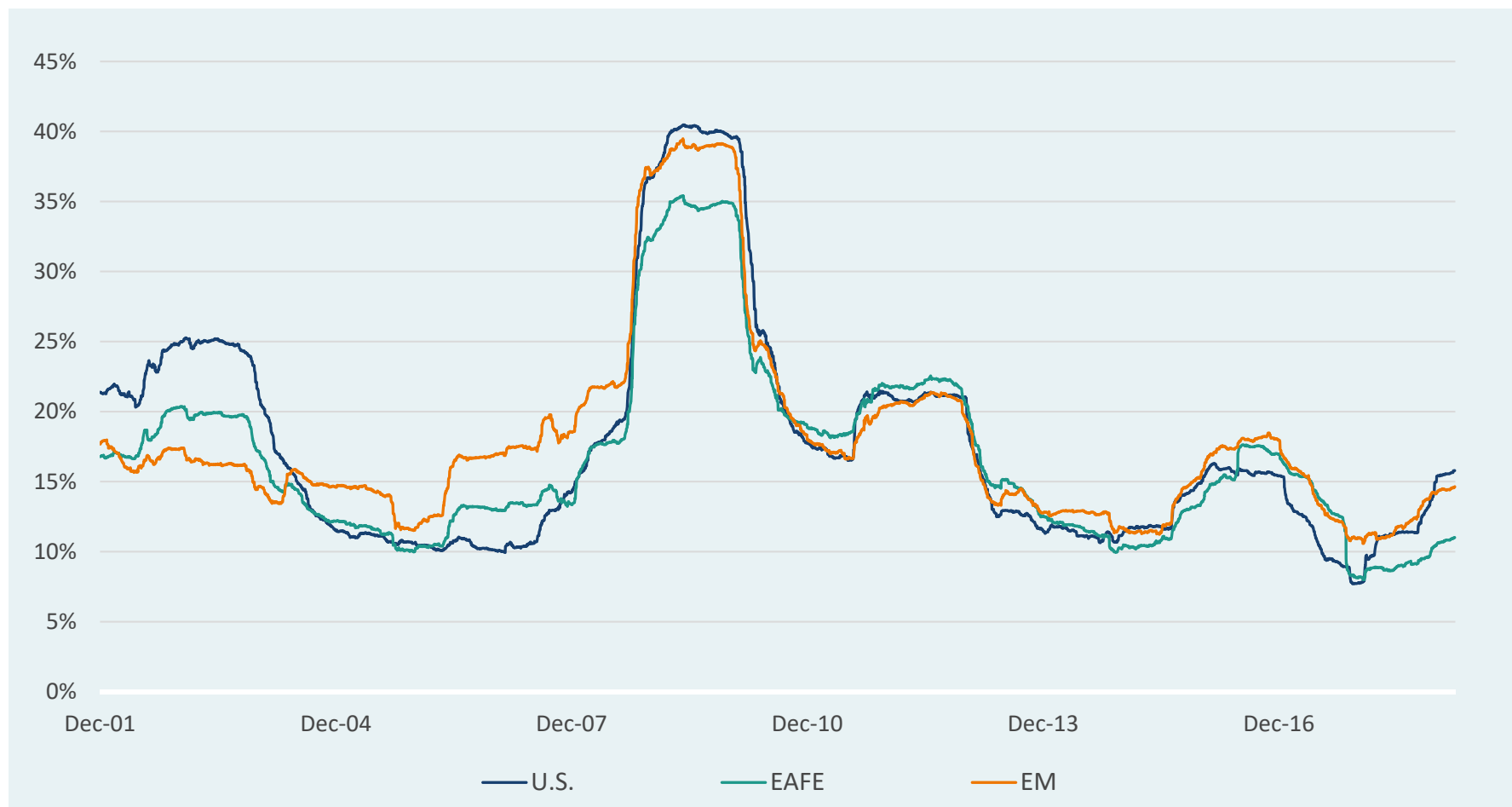
FORWARD P/E SPREADS RELATIVE TO U.S.



Source: Verus, MSCI, as of 3/31/19

Equity volatility

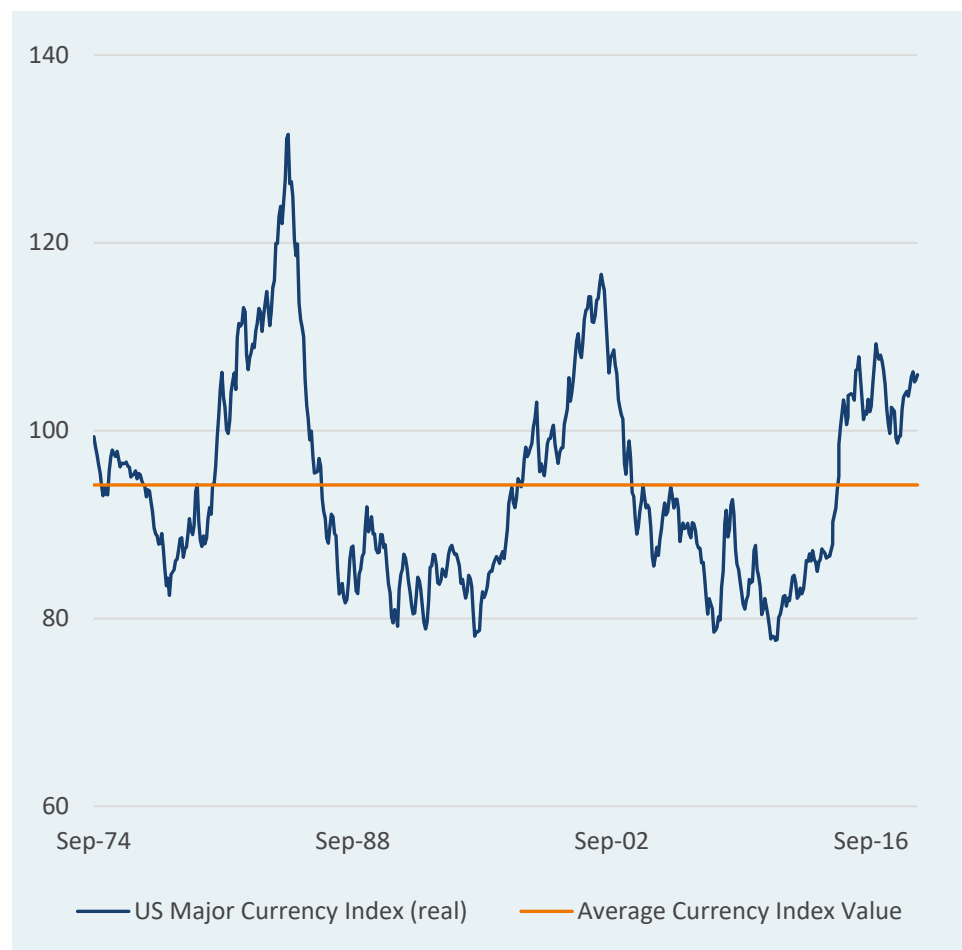
REALIZED 1-YEAR ROLLING VOLATILITY



Source: Bloomberg, as of 3/31/19

Currency

U.S. DOLLAR TRADE WEIGHTED INDEX



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

BLOOMBERG DOLLAR SPOT INDEX 1-YEAR ROLLING VOLATILITY



Source: Bloomberg, as of 3/31/19

1st quarter summary

THE ECONOMIC CLIMATE

- Real GDP growth continued at 3.0% YoY - on pace with the third quarter (2.2% quarterly annualized rate). Forecasts for 2019 U.S. growth have weakened. The U.S. economy is expected to grow at a 2.4% pace in 2019, according to the Survey of Professional Forecasters, while the Federal Reserve expects 2.1% growth this year.
- In March, negotiations resumed between U.S. and Chinese trade delegations. The dialogue was viewed as constructive, and optimism picked up for a trade resolution being reached in the near-to-intermediate future. The two sides have yet to agree on a formal timeline.

PORTFOLIO IMPACTS

- The Federal Open Market Committee reiterated its “patient” approach to policy, leaving rates unchanged, helping to push asset prices upward. Chairman Powell announced that starting in May the balance sheet runoff would slow from \$50 to \$30 billion a month, and would end in September.
- Risk assets exhibited strong performance over the quarter. U.S. equities delivered the greatest gains (S&P 500 +13.6%, MSCI ACWI +12.2%), reversing U.S. underperformance in Q4 2018 (S&P 500 -13.5%, MSCI ACWI -12.8%). This was followed by riskier credit with high single-digit returns, and safer credit and government bonds with low single-digit returns.

THE INVESTMENT CLIMATE

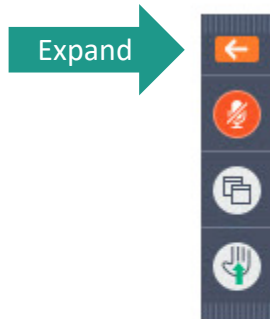
- The first quarter was nearly a mirror image of 2018 Q4, as many assets retraced losses of the prior quarter.
- Declining long-term Treasury yields following the Fed meeting in March briefly caused the yield curve to invert, meaning that short-term yields (3-month) were higher than long-term yields (10-year). Investors have expressed concerns that this may signal a near term recession. We believe these concerns are overblown.
- The House of Commons in the British Parliament briefly took control of their government’s legislative agenda, but failed to reach a majority vote on a path forward. On April 10th, British Prime Minister Theresa May and the European Council agreed to extend the Brexit deadline from April 12th to October 31st.

ASSET ALLOCATION ISSUES

- All major asset classes delivered positive performance in Q1, a refreshing change of pace from broad-based losses experienced in 2018.
- Economic conditions around the world have exhibited a weakening trend, leading to the question of whether a turn in the economic cycle is near. The first quarter was more mixed with strength in places, easing some concern. We remain watchful of this weakening trend, but believe the economy and market may have more room to run.

A neutral risk stance may be appropriate in today’s environment

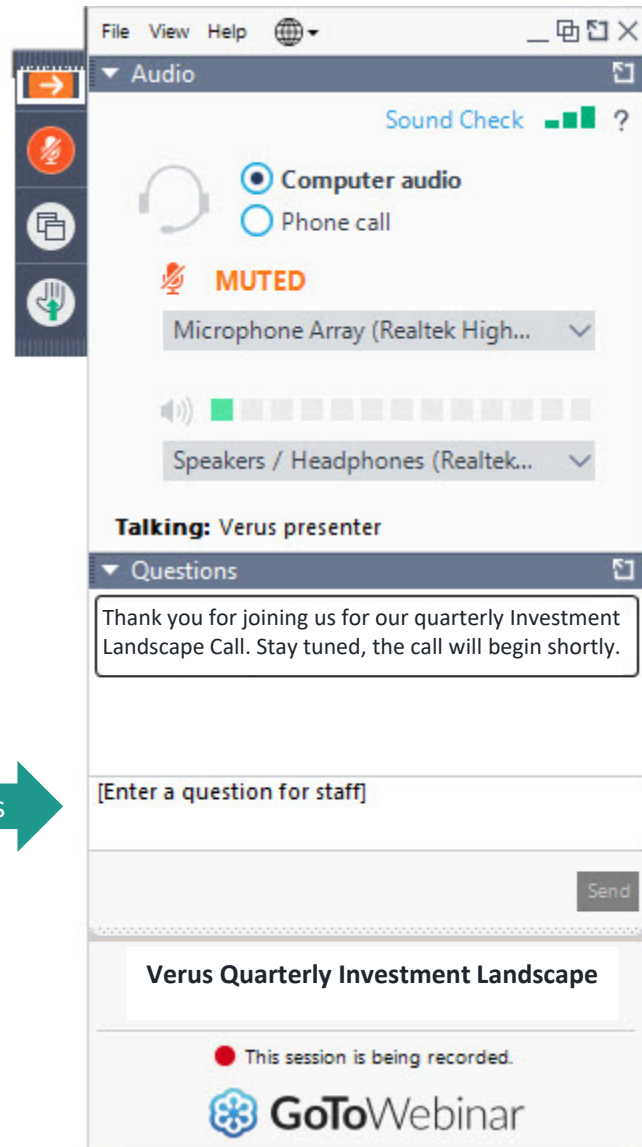
Q&A



Use the orange arrow to expand the control panel

Ask questions here

Questions





Thank you