2019 Capital Markets Review

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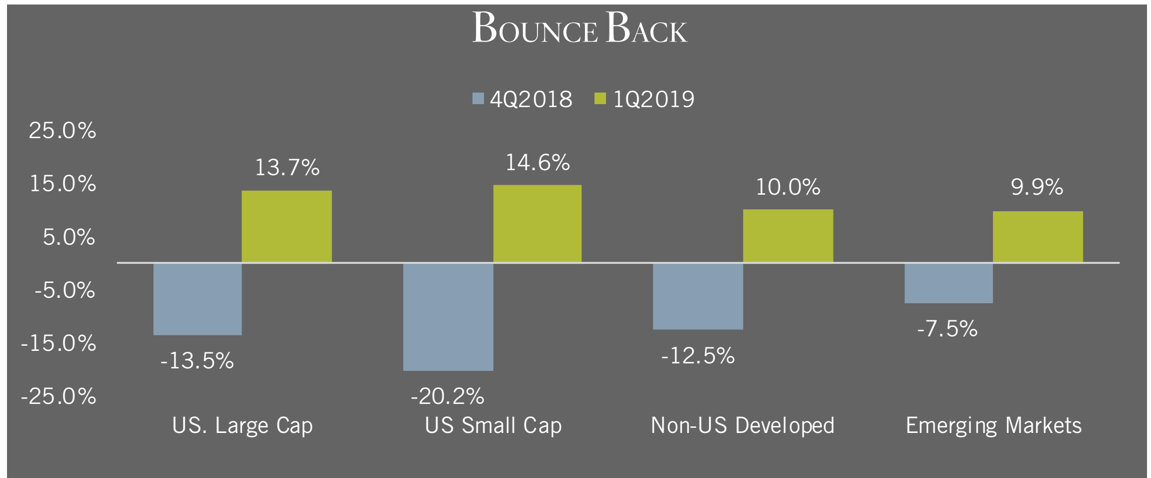
Bounce Back



Source: Morningstar Direct, Welch Hornsby, Inc. - S&P 500, Russell 2000, MSCI EAFE (USD), MSCI EM (USD)

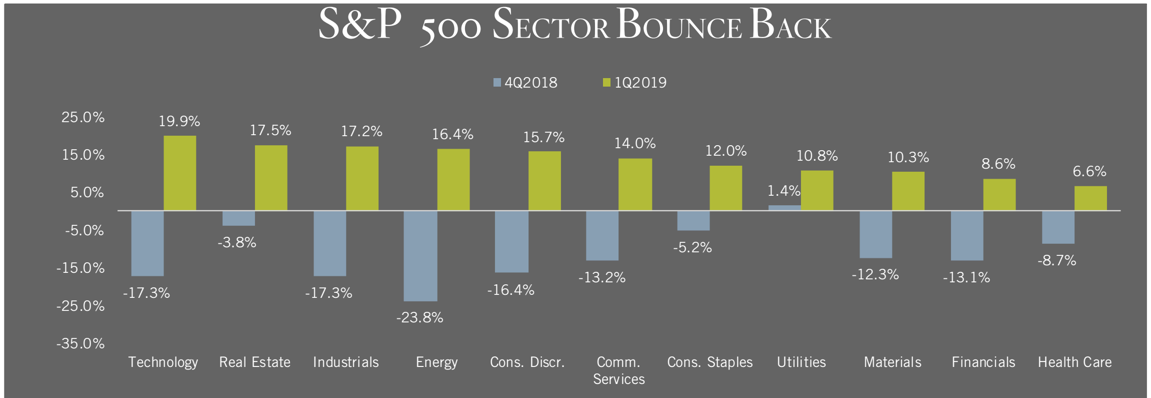
Nothing can clear economic policy uncertainty like an equity market sell-off. In many ways, the market's severe weakness during the final quarter of 2018 was likely a primary driver of the market's dramatic rally to start 2019, forcing policy makers to rethink messages and expectations. In an interview last October, Federal Reserve Chairman Jerome Powell stated that interest rates were still "a long way" from neutral. The magnitude, and more importantly time, ambiguity associated with "a long way" was one of the primary contributors to the market's sell-off in late 2018. Powell has since modified and clarified his message noting that further rate hikes will "depend entirely on the data," with an emphasis on inflation data. The improved visibility on future rate decisions has reconciled the differences between Fed projections and market expectations. Now, both anticipate no rate hikes in 2019.

In addition to clarifying monetary policy, the equity market sell-off over the final quarter of 2018 also likely put a spotlight on the ongoing trade negotiations with China. Subsequently, reports have been encouraging that progress towards a longer-term solution has been made, while additional tariffs have been postponed.

Ultimately, the improved transparency surrounding future monetary and trade policy contributed to a rally in investor optimism sending investment markets bouncing back from their late 2018 lows.

Developed Equity Market Review

Reviewing U.S. markets, the S&P 500 roared out of the gate, climbing over 8% in January. Momentum slowed, but continued, over February (+3.2%) and March (+1.9%), culminating in a 13.7% quarterly increase. Investors would need to look back more than twenty years to see a better start to a year (1998). The rally was broad-based with nine out of eleven sectors generating double-digit increases. Rising sentiment pushed growth-oriented sectors to the top led by a 19.9% return for the Technology sector. On the opposite end of the spectrum, falling interest rates and increased regulatory concerns muted gains within the Financials and Health Care sectors.



Source: Morningstar Direct, Welch Hornsby, Inc.

Remarkably, all nine U.S. equity style-boxes posted quarterly results in excess of 11%. The strong Technology sector tailwind returned growth stocks to favor, outperforming their value counterparts by a wide margin across the capitalization spectrum. Reviewing performance from a capitalization standpoint, mid-cap stocks ended the period on top, rising 16.5%.

Outside the U.S., developed equity markets also benefited from accommodating messages from global central banks and an improving outlook on global trade. Against this backdrop, developed markets reached double digits, advancing 10.0% for the quarter. Reviewing regional results, the European Central Bank announced it would keep its ultra-low interest rate policy in place at least through the end of the year. Consequently, developed markets across the European Union rallied 9.9% despite a slight headwind from a weakening euro.

The headline story impacting UK markets continued to be uncertainty surrounding Brexit. In mid-March, leaders of the European Union agreed to extend the Article 50 deadline which provided some relief from the mandated March 29th separation date. This delay fueled optimism that an agreement could be reached, and a disorderly separation could be avoided. Against this backdrop, UK markets gained 11.9%, buoyed by a strengthening pound sterling.

Capitalization and Style Performance

1Q 2019 / 4Q2018

		Value	Core	Growth
Large	1Q 2019	11.9%	14.0%	16.1%
	4Q2018	-11.7%	-13.8%	-15.9%
Mid	1Q 2019	14.4%	16.5%	19.6%
	4Q2018	-15.0%	-15.4%	-16.0%
Small	1Q 2019	11.9%	14.6%	17.1%
	4Q2018	-18.7%	-20.2%	-21.7%

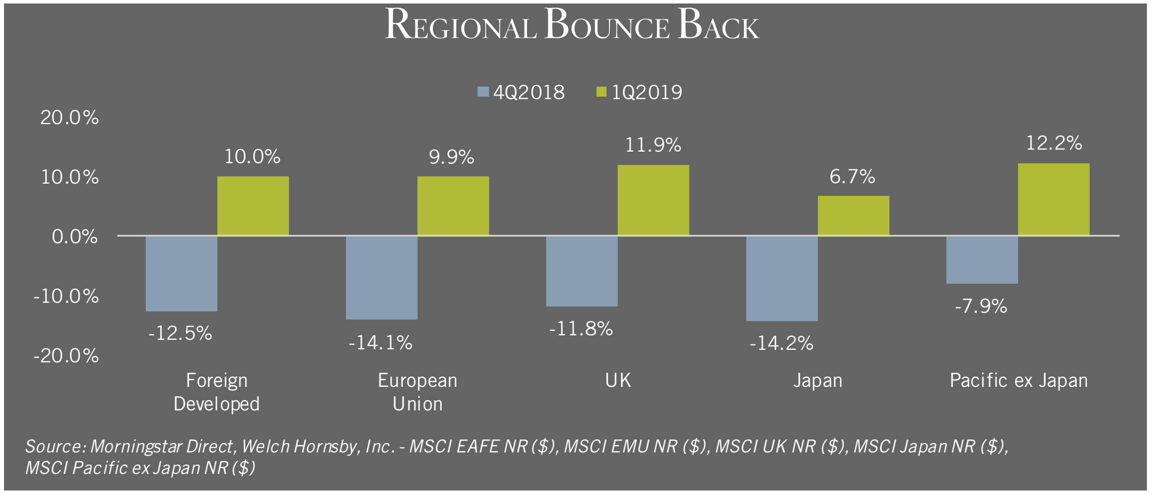
Source: Morningstar Direct, Russell Indices

Finally, across the Pacific region, many economies are dominated by trade with China. Investors across this region generally benefited as markets rallied on China's announcement of various monetary and fiscal stimulus measures. However, Japan, the largest market across the Pacific region, failed to fully participate in the China stimulus rally, weighed down by internal economic challenges and a weakening yen.

Looking forward - As discussed in the introduction, much of the market rally has been fueled by a clarifying and more accommodative resetting of global central bank expectations and a message of increased optimism surrounding future trade policy. However, we would caution the "bounce back" has been the easy part. For this market to continue moving forward, clarified messages must materialize and growth fundamentals must stabilize.

Fixed Income Review

Investment-grade fixed income markets climbed 2.9% during the quarter, as measured by the Bloomberg Barclays US Aggregate Bond Index. The combination of lowered forecasts for growth and inflation, reduced expectations of further rate

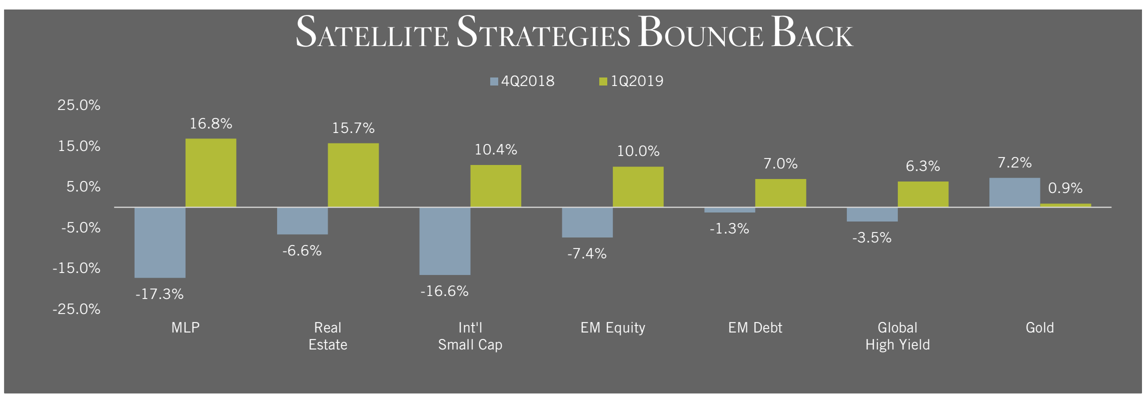


hikes in 2019 and news that the Fed will end its quantitative tightening program (balance sheet reduction) in September, put significant downward pressure on yields, sending Treasury prices higher. The falling yields further flattened an already flat yield curve and inverted the front-end of the curve with 90-day T-bills yielding more than 5-year Treasuries at the end of the quarter. Outside of the Treasury sector, investment-grade corporate bonds significantly outperformed their duration equivalent Treasuries, benefiting from investors' renewed appetite for riskier assets.

Reviewing tax-exempt bonds, muni bonds had a strong quarter as yields paralleled Treasury yields lower during the quarter. Additionally, market technicals continue to be a tailwind for the investment class. Specifically, supply of new tax-exempt bonds remains low, impacted by elements of the 2017 tax reform act, while demand, especially across certain high-tax states, remains high.

Satellite Strategies

Most satellite strategies benefited from the bounce back in risk appetite. At the top of the quarterly performance list were Master Limited Partnerships ("MLP"). After a terrible fourth quarter, MLPs recovered most of the previous period's losses, gaining 16.8% during the first quarter. Rising oil prices, fewer expected interest rate hikes and reduced pressure surrounding tax-loss selling all contributed to the quarterly increase. Other areas that posted double-digit recoveries included Real Estate, International Small-cap equities and Emerging Market equities. Even Gold, the popular "fear" hedge, squeaked out a modest positive return despite a seemingly calming market.



Source: Morningstar Direct, Welch Hornsby, Inc. - Emerging Mkt Equity: MSCI EM Index ($); Global High Yield: Barclays Global High Yield TR ($); MLPs - Alerian MLP TR ($); Emerging Market Debt - JPM EMBI Global Diversified TR ($); Int'l Small Cap: S&P Developed Ex US Small TR ($); Gold - S&P GSCI Gold ($); Real Estate: DJ US Select RESI ($)