

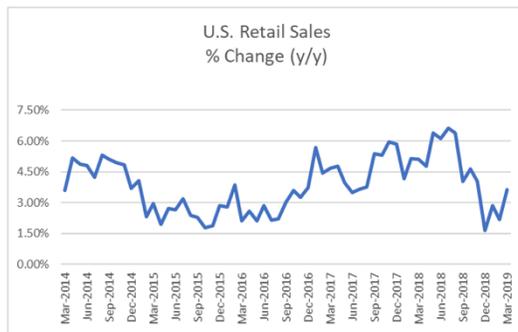
Capital Markets Review and Outlook

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Economy and Outlook

Positive upside surprises continue to characterize the U.S. economy. The April jobs report showed employment gains of 263,000 for the month bringing the average increase in payrolls this year to 205,000 per month. The unemployment rate in April dropped to 3.6%,



Source: U.S. Census Bureau
 Advance Monthly Sales for Retail and Food Services
 Seasonally Adjusted Sales

the lowest in 50 years. Late last year, there were concerns that consumer spending, which accounts for over two-thirds of economic growth, had fallen off precipitously with the anemic 1.6% year-over-year gain in retail sales by the end of the year. In 2019, retail sales rebounded strongly by growing 3.6% in March from the prior period in 2018. Both consumer and business confidence metrics also remain at elevated levels. Confounding earlier fears of a sharp drop in GDP growth this year, the first release of real GDP

for the first quarter of 2019 showed an increase of 3.2% on an annualized basis, well above prior expectations of a growth rate below 2%. Meanwhile labor productivity has snapped back. After growing at 1% or lower for several years through 2017, productivity increased by 1.7% in 2018, and by 2.4% year-over-year in Q1 2019. As a result, inflation remains subdued. The Federal Reserve's favored inflation metric, the core personal consumption price deflator increased by just 1.6% y/y in March, below the Fed's target of 2%. As a result, after the Federal Reserve's most recent interest rate setting committee meeting, Chairman Jerome Powell again reiterated the Fed's 'patient' stance with regards to further changes in the federal funds rate.

Outside the United States, there are increasing signs of rebounding economies in both Europe and China. Despite weakness in the manufacturing sectors driven, most likely, by the trade wars with the U.S., labor markets globally are firm with year-over-year increases of 1% to over 2%. Additionally, inflation remains tame and monetary policies accommodative. While the conflicts surrounding trade are a source of concern for global economic growth, the most likely outcome is for a resolution of the disputes since a worsening trade war is not a zero-sum game but a negative-sum game where all sides lose.

Equity Markets

April marked the fourth consecutive month of gains for the equity markets following the sharp downturn in the markets in the last quarter of 2018. The broad domestic equity market represented by the Russell 3000 index posted a return of +4% in April bringing its

return for the first four months of 2019 to a strong +18.6%. For the second consecutive month, Large Cap stocks outperformed Small Cap. Year-to-date, the Large Cap and Small Cap segments now have virtually the same returns. From a style perspective, the outperformance of Growth over Value has continued in the Large and Mid Cap spaces. However, Small Cap Value outperformed Growth by +0.8% in April. But on a year-to-date basis as well as for trailing time periods, Growth has continued its outperformance over Value across all capitalizations. The Financials sector rebounded strongly in April with a return of +9% as Treasury yields rose and the yield curve steepened. Concerns about various health care proposals floated by contenders for the democratic presidential nomination weighed on the Health Care sector which posted a return of -2.6%. Cyclical continued to lead the way in April as sectors such as Technology and Consumer Discretionary outperformed Consumer Staples and Utilities. Improving economic growth, low inflation and low interest rates were supportive of equity markets outside the U.S. Emerging markets and developed markets were up +2.1% and +2.8% respectively, bringing total returns in 2019 of 12.2% to 13.2%.

Fixed Income Markets

The return in the broad domestic fixed income market was flat in April as rising yields offset the coupon effect. Treasury yields rose by 5 to 12 bp across the yield curve with the longer end of the curve bearing the brunt of the rise in yields. As a result, the Treasury yield curve steepened. The interest rate differential between 2-year and 30-year Treasuries widened by 12 bp to end the month at +66 bp. The corporate bond market reflected the strong performance in the equity markets, and the credit index tightened by 8 bp to 104 bp resulting in +87 bp of outperformance over duration-equivalent Treasuries. The corporate credit curve as well as the quality curve both flattened in April as longer dated corporate bonds outperformed shorter maturity issues, and as BBB-rated bonds outperformed single-A rated and higher quality bonds. The high yield sector performed strongly with a total return of +1.4% in April. Similar to the investment grade market, the quality curve in the high yield sector flattened as lower rated issues outperformed higher rated bonds. For 2019, the high yield sector posted a return of +8.8%. Rising yields and a stronger U.S. dollar weighed on the non-U.S. government bond market which posted a return of -0.6% in April.

		Returns as of 4/30/19 (In %)				
		Month	YTD	1 Year	3 Years	5 Years
Russell 3000®	US AllCap Equity	4.0	18.6	12.7	14.7	11.2
Russell 1000®	US Large Cap Equity	4.0	18.6	13.3	14.8	11.4
Russell 1000® Growth	US Large Cap Growth	4.5	21.3	17.4	18.6	14.5
Russell 1000® Value	US Large Cap Value	3.5	15.9	9.1	11.0	8.3
Russell Midcap®	US Mid Cap Equity	3.8	21.0	10.7	12.8	9.7
Russell Midcap® Growth	US Mid Cap Growth	4.5	25.0	17.6	16.8	12.2
Russell Midcap® Value	US Mid Cap Value	3.3	18.1	5.8	9.9	7.8
Russell 2000®	US Small Cap Equity	3.4	18.5	4.6	13.6	8.6
Russell 2000® Growth	US Small Cap Growth	3.0	20.7	6.9	15.6	10.2
Russell 2000® Value	US Small Cap Value	3.8	16.2	2.2	11.5	6.9
MSCI ACWI ex-US	Global Equity ex-US	2.6	13.2	-3.2	8.1	2.8
MSCI EAFE	Global Developed Mkts Equity	2.8	13.1	-3.2	7.2	2.6
MSCI EM	Emerging Mkts Equity	2.1	12.2	-5.0	11.3	4.0
Bloomberg/Barclays US Agg	US Core Fixed Income	0.0	3.0	5.3	1.9	2.6
Bloomberg/Barclays US Intern. Agg	US Intermediate Fixed Income	0.1	2.4	5.0	1.7	2.2
Bloomberg/Barclays US Credit	US Corporate Bonds	0.5	5.4	6.4	3.2	3.5
Bloomberg/Barclays US MBS	US Mortgage Backed Securities	-0.1	2.1	4.9	1.7	2.4
Bloomberg/Barclays US Corp HY	US High Yield	1.4	8.8	6.7	7.7	4.8
FTSE Non-US WGBI	Global Fixed Income ex-US	-0.6	0.9	-2.8	0.0	-0.4

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