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Capital Markets Update Q1 2019

The S&P 500 rebounded sharply during the first quarter of 2019 to post its largest quarterly gain since the first quarter of 2012. The breadth of positive returns was impressive, with equities and fixed income markets generating robust returns across most sectors and regions.

PERFORMANCE DRIVERS

Positive Performers

Markets were supported by a more dovish Fed (i.e., pause on rate hikes) and an improvement in sentiment regarding a resolution to the U.S.-China trade dispute.

U.S. growth stocks resumed their dominance over value, driven primarily by strong returns in the information technology sector.

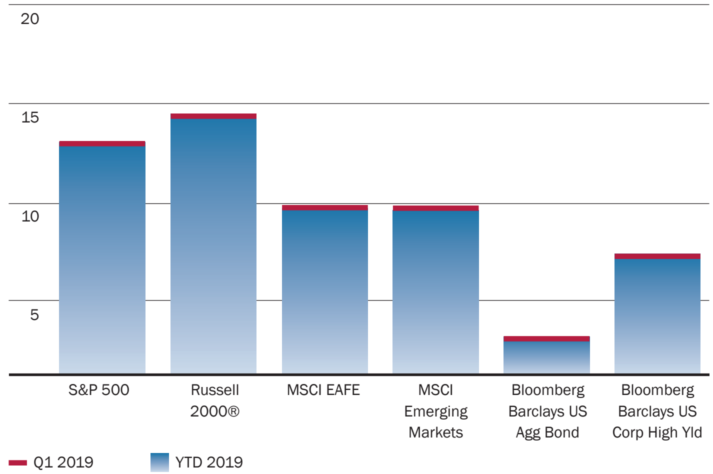
Oil prices rallied sharply during the quarter, driven by supply reductions from global oil producers and resilient demand growth.

Negative Performers

Economic data, while remaining positive, continued to steadily decelerate during the first quarter towards levels that are suggestive of a later-stage economic cycle environment.

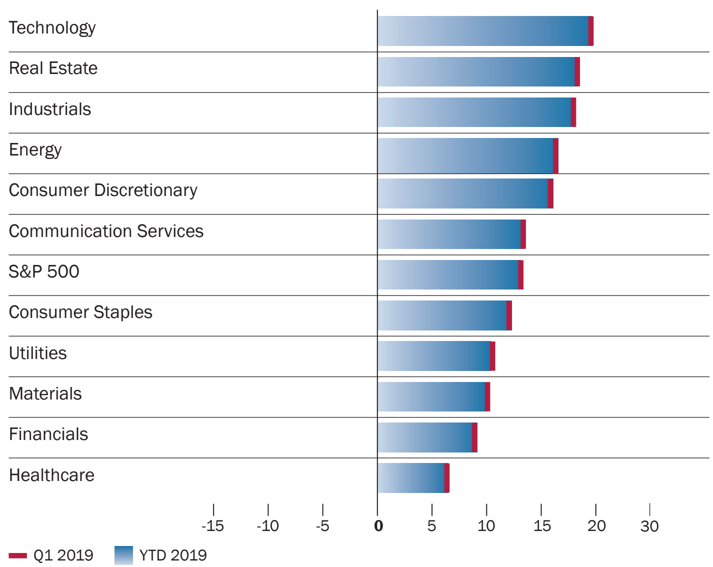
The U.S. Treasury yield curve continued to flatten during 2019, with the yield on the 10-year Treasury bond falling below the yield on a 1-year Treasury – a relationship that has historically preceded recessions.

INDEX RETURNS% Through March 31, 2019



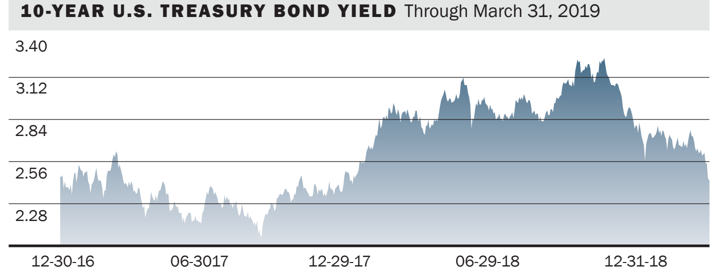
Source: Morningstar Direct, S&P Dow Jones Indices LLC, a division of S&P Global, Russell, MSCI, Bloomberg Finance, L.P.

S&P 500 SECTOR RETURNS% Through March 31, 2019



Source: Morningstar Direct, S&P Dow Jones Indices LLC, a division of S&P Global

10-YEAR U.S. TREASURY BOND YIELD Through March 31, 2019



Source: U.S. Department of the Treasury

Ellwood's Capital Markets Committee

Kevin Yoshida, CFA
Director of Capital Markets, Senior Consultant

Dan Simon, CFA, CAIA
Managing Director

Elliot Greenberg, CFA
Director of Traditional Manager Research, Consultant

Andy Schwark, CFA
Director of OCIO, Senior Consultant

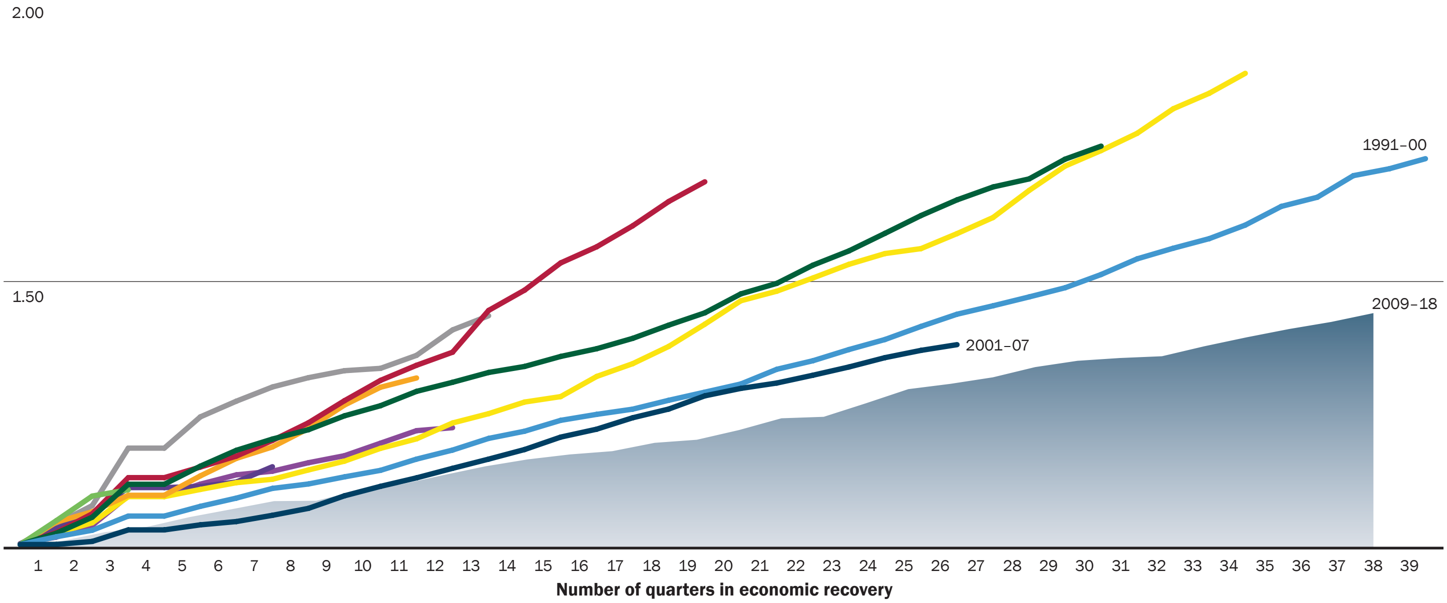
Chris Krakowski, CFA, FRM
Director of Asset Allocation, Senior Consultant

Kevin Van Buskirk
Research Consultant

Zach Ozbun
Performance Analyst

Capital Markets Update Q1 2019

POST-RECESSION CUMULATIVE GROWTH IN NOMINAL GDP



Data source: U.S. Bureau of Economic Analysis, "Table 1.1.5 Gross Domestic Product," http://bit.ly/BEATbl115 (accessed 03/27/2019) Recession bottom = 1.00, National Bureau of Economic Research, Inc.

1982–90 1980–81 1975–79 1970–73 1961–69 1958–60 1954–57 1949–53

This chart compares the recovery in U.S. economic growth since the 2008 recession to historical post-recession periods (with quarterly data back to 1949). We observe that while the duration of the expansion has exceeded all but one prior periods (1991–2000), the level of recovery has been sluggish. This slow recovery seems to be a continuation of the prior two post-recession expansionary periods (1991–2000 and 2001–2007). What could be the dynamics contributing to this trend? While the evaluation is complex, potential factors include the changing demographic composition of the workforce and declines in productivity.

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