MARKET COMMENTARY & OUTLOOK

First Quarter, 2019

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Despite several unresolved geopolitical themes, the United States economy as a whole remains on solid footing. The household debt-service ratio, which measures the level of debt-service payments to disposable personal income, is at a level of 9.8%. To put this in perspective, this number was over 13.0% prior to the Great Recession in 2007. The change is mainly a result of rising asset prices which have helped increase net income and net worth. Although gross debt levels are roughly the same as pre-crisis levels, debt profiles and proportions are vastly different. We have seen surges in specific areas of debt, such as credit cards and student loans; however, these are smaller pieces of the consumer's overall balance sheet and would not have the same contagion effect like that of 2008.

On a broader scale, year-over-year GDP growth is sitting around 3.0%, which is higher than both historical and current expansion averages. Additionally, unemployment remains around 4.0%, which is considered one of the lowest levels in history. As a result, wage growth has started to pick up, but without putting significant upward pressure on inflation to date.

March marked the official 10-year anniversary of the current bull market, which began in early 2009. Despite being one of the longest expansions in history, investors still seem tepid amid the many unknowns that markets face today. By now, most are familiar with the factors that have weighed on sentiment over the past year. The United States and China are still working on a trade agreement, the U.K. has once again delayed it's exit from the EU, the Fed continues to give mixed signals and Congress is facing another decision on the U.S. debt ceiling. Moving forward through 2019 we expect volatility to increase as questions remain.

Despite uncertainties, U.S. equity markets advanced at a solid clip this quarter after one of the worst Decembers on record. The S&P 500 Index grew 13.3% in the first quarter after markets retreated close to 10% during the last month of 2018. Investor concerns in December revolved around slowing earnings growth, increasing trade risks, decreasing fiscal stimulus and tightening monetary policy. Although we stated that market participants had ignored many of these issues heading into the end of the year, we also believed that the selloff was overblown.

As we mentioned in our 2019 outlook, there is still opportunity for return despite the late economic cycle position. Investors continue to focus on the varying political and economic issues that we face. Additionally, it is important to note, that as volatility returns, the financial markets will begin to look different from how they've acted over the past 10 years.

Economic Statistics

Economic Statistics	Current	One Year Ago
Real GDP Growth (Annl. % Change From Prior Qtr.)	2.60%	2.58%
Unemployment Rate	3.80%	4.00%
Labor Force Participation Rate	63.00%	62.90%
Core CPI (Year-Over-Year)	2.04%	2.10%
Real Personal Income Growth (Year-over-Year)	2.89%	2.58%
10 Year Treasury Rate	2.57%	2.58%

Data Source: Federal Reserve, LAMCO Advisory

Debt Service Ratio

Data Source: Federal Reserve, LAMCO Advisory

Observations

- After a difficult end to 2018, the first-quarter equity rally was led by small- and mid-cap stocks. From a capitalization perspective, mid-caps returned 16.5% and small-caps returned 14.6%. Large-cap stocks also had a strong quarter with returns of 13.1%.
- From a style perspective, growth stocks have again outperformed value stocks by a wide margin. The Russell 3000 Growth Index outperformed the Russell 3000 Value index by 4.3% during the first quarter. This contrasts with the fourth quarter, when value stocks outperformed by 4.1%.
- In the past three months, stock valuations continued to tell the story that overpriced assets do not appear to be a primary concern. During the first quarter, overvalued stocks, (as measured by Morningstar) returned 17.9%, while undervalued stocks returned 11.0%. Environments like the first quarter tend to prove difficult for active investment strategies that focus on the intrinsic value of companies rather than earnings momentum.
- Current S&P 500 data shows that the market is moving higher in terms of valuations. Research done by JP Morgan shows that the current forward P/E ratio is around 16.4x, while the 20-year average is 15.8x. Although this is not an egregious number, we believe it could begin to put pressure on equity returns in 2019.
- Using the same JP Morgan study, small- cap growth, the most overvalued based on forward P/E ratios, has a current ratio of 36 versus a historical average of 29.3. Small cap-value, the only undervalued area, is currently 14.5 versus 16.1.
- The opportunity for return is still present in today's market but a confluence of fiscal, monetary and geopolitical risks must be carefully monitored.

Major US Market Averages

	Q1 2019	YTD	1 Year	3 Year	5 Year	2018	2017	2016
Russell 3000 Index	14.0%	14.0%	8.8%	13.5%	10.4%	21.1%	12.7%	0.5%
FTSE RAFI US 3000 Index	12.2%	12.2%	5.2%	11.5%	8.5%	16.2%	18.1%	-2.7%
Russell 3000 Equal Weighted	15.0%	15.0%	2.4%	12.9%	6.7%	15.6%	21.6%	-6.2%
S&P 500 Index	13.6%	13.6%	9.5%	13.5%	10.9%	21.8%	12.0%	1.4%
Russell Mid Cap Index	16.5%	16.5%	6.5%	11.8%	8.8%	18.5%	13.8%	-2.4%
Russell 2000 Index	14.6%	14.6%	2.0%	12.9%	7.1%	14.6%	21.3%	-4.4%
NASDAQ 100	16.9%	16.9%	13.4%	19.4%	16.8%	33.0%	7.3%	9.8%

Russell 3000 Style & Cap Summary

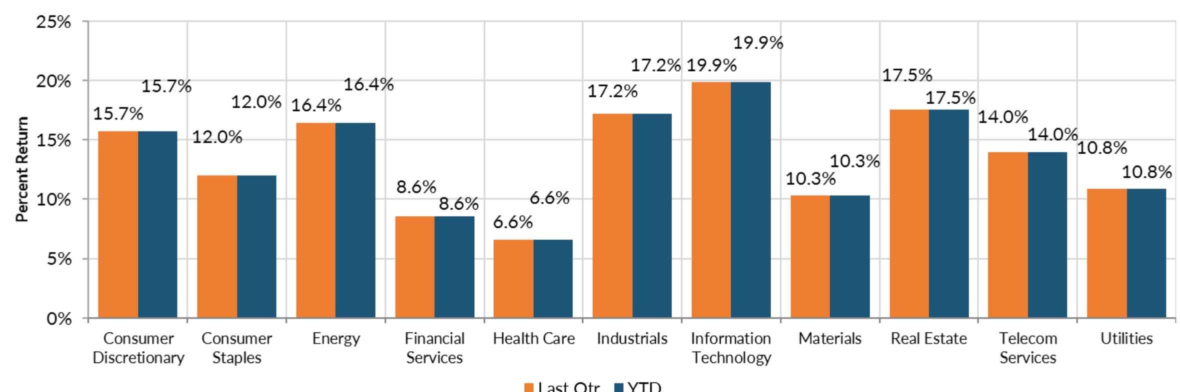
First Quarter Results

	Mo.	Qtr	Value		Core		Growth	
Large	Jan		6.62%		7.48%		8.26%	
	Feb	Q1	3.20%	10.80%	3.04%	13.05%	2.89%	15.07%
	Mar		0.70%		2.08%		3.31%	
Mid	Jan		10.29%		10.79%		11.49%	
	Feb	Q1	3.18%	14.37%	4.30%	16.54%	5.86%	19.62%
	Mar		0.50%		0.86%		1.35%	
Small	Jan		10.94%		11.25%		11.55%	
	Feb	Q1	3.89%	11.93%	5.20%	14.58%	6.46%	17.14%
	Mar		-2.88%		-2.09%		-1.35%	

Year To Date Results

	Value	Core	Growth
Large	10.80%	13.05%	15.07%
Mid	14.37%	16.54%	19.62%
Small	11.93%	14.58%	17.14%

S&P 500 Sector Performance



Data Source: Morningstar

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Dividend Yield [a]

	Avg. Weight %	Return %	Contribution to Return %
Dividend Yield [2.96 - 35.16]	24.94%	11.99%	2.99%
Dividend Yield [2.05 - 2.96)	22.39%	11.95%	2.68%
Dividend Yield [0.68 - 2.05)	24.06%	14.54%	3.50%
Dividend Yield [0.00 - 0.68)	28.29%	17.14%	4.85%
Attribution Total	**99.69%**		**14.01%**

*Avg. Weight excludes cash (0.31%)

Capitalization [a]

	Avg. Weight %	Return %	Contribution to Return %
Mega Cap (>$85 Billion)	47.00%	13.87%	6.52%
Large Cap ($18 Billion -$85 Billion)	5.31%	12.93%	0.69%
Mid Cap ($3 Billion - $18 Billion)	17.04%	15.73%	2.68%
Small Cap ($700 Million - $3 Billion)	29.43%	13.78%	4.06%
Micro Cap (< $700 Million)	0.82%	5.25%	0.04%
Unclassified	0.09%	8.82%	0.01%
Total	**99.69%**		**13.99%**

*Avg. Weight excludes cash (0.31%)

Valuation [a]

	Avg. Weight %	Return %	Contribution to Return %
Fairly Valued	36.97%	13.28%	4.91%
Overvalued	31.99%	17.86%	5.71%
Undervalued	30.32%	11.03%	3.34%
Unclassified	0.41%	6.91%	0.03%
Attribution Total	**99.69%**		**14.00%**

*Avg. Weight excludes cash (0.31%)

(a) = ishares Russell 3000 ETF
(b) = SPDR S&P 500 ETF

Data Source for all data in tables: Morningstar Direct

Top Weights [b]

	Weight	Return	Contribution
Microsoft Corp	3.81%	19.53%	0.75%
Apple Inc	3.59%	26.54%	0.95%
Amazon.com Inc	3.10%	22.71%	0.70%
Facebook Inc A	1.68%	36.62%	0.61%
Berkshire Hathaway Inc B	1.65%	3.12%	0.05%
Johnson & Johnson	1.57%	6.07%	0.10%
Alphabet Inc Class C	1.52%	17.60%	0.27%
Alphabet Inc A	1.49%	17.01%	0.25%
Exxon Mobil Corp	1.44%	19.87%	0.29%
JPMorgan Chase & Co	1.40%	15.56%	0.22%

Top Contributors [b]

	Weight	Return	Contribution
Apple Inc	3.59%	26.54%	0.95%
Microsoft Corp	3.81%	19.53%	0.75%
Amazon.com Inc	3.10%	22.71%	0.70%
Facebook Inc A	1.68%	36.62%	0.61%
Cisco Systems Inc	1.00%	31.48%	0.32%
Exxon Mobil Corp	1.44%	19.87%	0.29%
Alphabet Inc Class C	1.52%	17.60%	0.27%
Alphabet Inc A	1.49%	17.01%	0.25%
Visa Inc Class A	1.15%	21.18%	0.24%
Mastercard Inc A	0.90%	26.95%	0.24%

Top Detractors [b]

	Weight	Return	Contribution
UnitedHealth Group Inc	1.00%	-10.04%	-0.10%
CVS Health Corp	0.29%	-18.64%	-0.05%
AbbVie Inc	0.50%	-10.06%	-0.05%
Walgreens Boots Alliance Inc	0.21%	-21.13%	-0.05%
Biogen Inc	0.20%	-22.07%	-0.04%
Cigna Corp	0.26%	-15.42%	-0.04%
Pfizer Inc	0.99%	-3.62%	-0.04%
Bristol-Myers Squibb Company	0.33%	-10.75%	-0.04%
Medtronic PLC	0.51%	-4.08%	-0.02%
CME Group Inc Class A	0.25%	-7.68%	-0.02%

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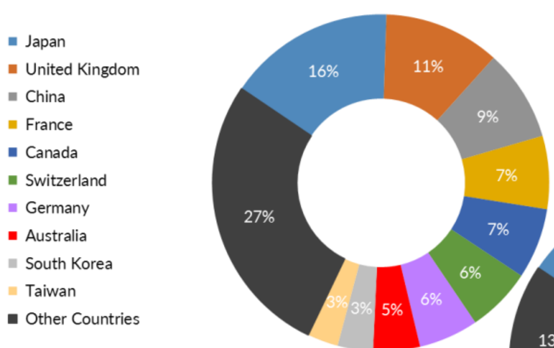
Observations

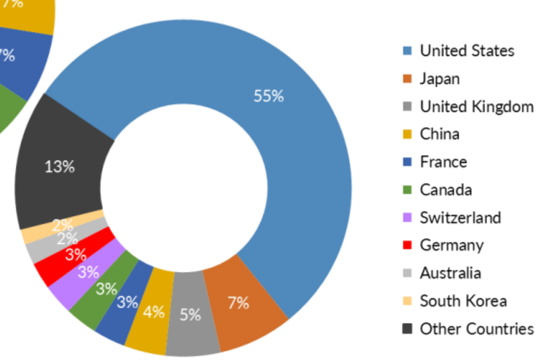
- Both developed and emerging-market equity returns improved during the quarter alongside U.S. equity indices. The MSCI Emerging Markets Index returned 10.0% while the MSCI EAFE Index (developed countries) returned 10.1%.
- Despite positive returns, the first three months of the year did not produce answers to the many questions we were hoping to resolve in 2018.
- The trade dispute between the United States and China is still ongoing as rhetoric has shifted back and forth throughout the first quarter. In early March, it looked as if the United States and China were at the cusp of an agreement, as President Trump stated that the two countries were "getting very, very close" to a deal. The rhetoric changed throughout the month as reports surfaced that a summit between the U.S. and China was going to be delayed. On March 20th, a statement from the White House expressed that the U.S. was considering maintaining tariffs on Chinese products "for a substantial period of time." Consensus seems to point towards some kind of deal in the near future; however, we will have to wait and see as this is a volatile situation between the two nations continues to unfold.
- Trade tensions between the U.S. and European Union have also escalated as the two sides disputed over accusations of illegal subsidies towards domestic airline manufacturers. The U.S. has accused the EU of providing subsidies to Airbus and has said it will place tariffs on $11 billion of EU products. This comes as Boeing, a U.S. airplane manufacturer, remains under intense scrutiny after two 737 Max 8's crashed within three months. The EU is set to respond with tariffs of its own and appears to be taking a tougher stance.
- The stage was set for March to be a pivotal month in Brexit developments as the impending deadline neared (the EU granted an extension to April 12th from the original deadline of March 29th). British Prime Minister Theresa May unsuccessfully attempted to get her deal through parliament three times. Her deal failed despite that fact that she offered to resign if Parliament where to approve her proposal. In the end, the EU granted the UK a further extension until October 31st. The saga continues.



MSCI All Country World Index

Country Weights

MSCI All Country World Index (Ex. USA)



Data Source: Morningstar and iShares ETFs as the representative index proxies. Weights are average for Q1.

International Equity Market Performance

	Q1 2019	YTD	1 Year	3 Year	5 Year
MSCI EAFE	10.13%	10.13%	-3.22%	7.80%	2.81%
MSCI EAFE Value	8.08%	8.08%	-5.56%	7.54%	1.24%
MSCI EAFE Growth	12.18%	12.18%	-0.88%	8.03%	4.33%
MSCI EM	9.97%	9.97%	-7.06%	11.09%	4.06%
MSCI ACWI Ex. USA.	10.44%	10.44%	-3.74%	8.61%	3.05%

	Last Quarter			Year To Date		
	Local	USD	Impact Of US Dollar (a)	Local	USD	Impact Of US Dollar (a)
MSCI ACWI Ex USA	10.66%	10.44%	-0.22%	10.66%	10.44%	-0.22%
MSCI Europe	11.74%	11.00%	-0.74%	11.74%	11.00%	-0.74%
MSCI Europe Ex UK	12.62%	10.66%	-1.96%	12.62%	10.66%	-1.96%
MSCI United Kingdom	9.38%	11.91%	2.53%	9.38%	11.91%	2.53%
MSCI Pacific Ex Japan	11.68%	12.27%	0.58%	11.68%	12.27%	0.58%
MSCI Japan	7.79%	6.85%	-0.94%	7.79%	6.85%	-0.94%
MSCI France	12.79%	10.79%	-2.00%	12.79%	10.79%	-2.00%
MSCI Switzerland	14.71%	13.54%	-1.16%	14.71%	13.54%	-1.16%
MSCI Germany	8.93%	7.00%	-1.93%	8.93%	7.00%	-1.93%
MSCI Canada	13.07%	15.60%	2.53%	13.07%	15.60%	2.53%
MSCI China	17.86%	17.69%	-0.17%	17.86%	17.69%	-0.17%
MSCI India	6.33%	7.16%	0.83%	6.33%	7.16%	0.83%
MSCI Brazil	8.67%	8.22%	-0.45%	8.67%	8.22%	-0.45%
MSCI Russia	7.45%	12.58%	5.13%	7.45%	12.58%	5.13%

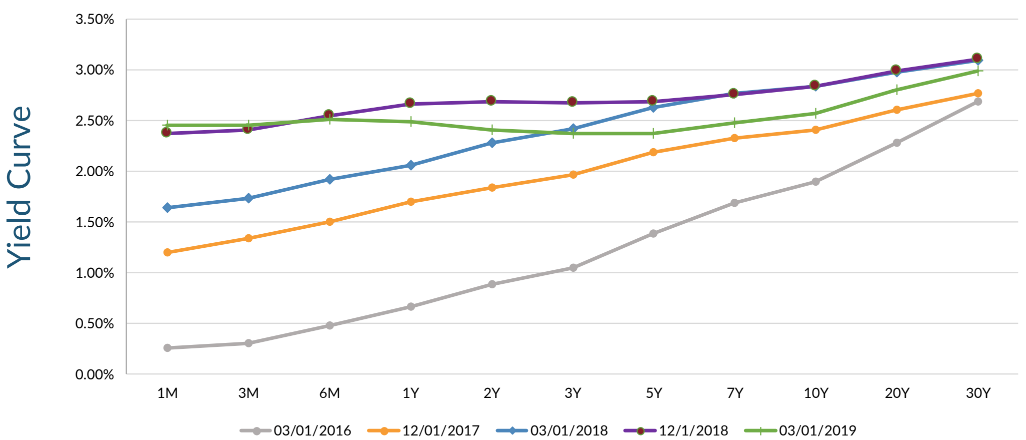
Assumes Gross Reinvestment Of Dividends

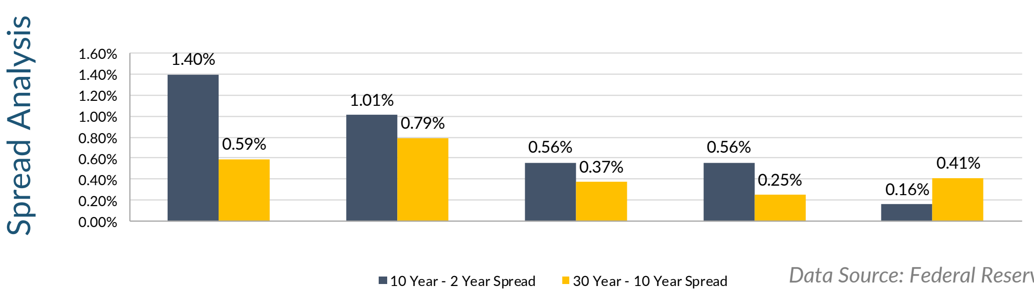
Data Source: Morningstar

(a) Impact of Dollar: For a US investor, a strengthening dollar has a negative impact on non-US asset returns when converted to US dollars since the conversion requires more of a foreign currency to purchase the more expensive US dollar. A weakening dollar has the opposite effect; the foreign currency can buy more US dollars.

Observations

- The first quarter witnessed a decrease in contractionary monetary policy as countries around the world halted rate hikes and balance sheet normalization.
- The United State Federal Reserve has deviated between hawkish and dovish sentiment over the past few quarters. Last fall, Fed Chairman Powell stated that interest rates were a "long way" from neutral. More recently, the Fed struck a dovish tone as it released a dimming economic outlook and a shift in sentiment to no expected rate hikes in 2019. This was not a confirmation that there will be no rate hikes; however, it is a good indication that the "Fed Pause" has begun.
- In late March, the infamous inversion of the yield curve reached an important milestone sending worry through the market that a recession could be on the horizon. A yield curve inversion occurs when short-term Treasury rates (3-month) are higher than long-term rates (10-year). An inverted yield curve has preceded each of the past seven recessions and has resulted in two false positives.
- To be clear, an inverted curve does not imply an immediate risk to the U.S. economy or equity markets. The peak may be more than a year away from when the yield curve actually inverts. For the 3-month-to-10- year spread, the S&P 500 Index has historically peaked 1 to 22 months after inversion (median: 16 months). For the near-term forward spread, the S&P 500 Index has historically peaked 2 to 20 months after inversion (median: 13 months).
- Since the initial inversion, the curve has returned to a positive slope.
- From a credit perspective, the lowest credit qualities have outperformed, as CCC and lower-rated credits have outperformed high-quality (AAA rated) bond by 2.9%.





Data Source: Federal Reserve; LAMCO Advisory

Major Market Averages

Major Market Averages	Q1 2019	YTD	1 Year	3 Year
ICE BofAML US 3M Treasury Bill	0.60%	0.60%	2.12%	1.19%
Bloomberg Barclays US Govt/Credit 1-3 Yr	1.21%	1.21%	3.03%	1.32%
Bloomberg Barclays US Govt Interm	1.58%	1.58%	3.79%	0.97%
Bloomberg Barclays US Govt/Credit Interm	2.32%	2.32%	4.24%	1.66%
Bloomberg Barclays US Govt/Credit	3.26%	3.26%	4.48%	2.12%
Bloomberg Barclays US Agg Interm	2.28%	2.28%	4.33%	1.71%
Bloomberg Barclays US Agg Bond	2.94%	2.94%	4.48%	2.03%
Bloomberg Barclays Global Agg Bond	2.20%	2.20%	-0.38%	1.49%
Bloomberg Barclays US Treasury	2.11%	2.11%	4.22%	1.04%
Bloomberg Barclays US Treasury US TIPS	3.19%	3.19%	2.70%	1.70%
Bloomberg Barclays US Corporate IG	5.14%	5.14%	4.94%	3.64%
Bloomberg Barclays High Yield Corporate	7.26%	7.26%	5.93%	8.56%
Bloomberg Barclays Municipal	2.90%	2.90%	5.38%	2.71%
Bloomberg Barclays Municipal 7 Yr 6-8	2.69%	2.69%	5.66%	2.26%

Credit Quality

B of A/Merril Lynch US Corporate AAA	4.98%	4.98%	6.01%	3.06%
B of A/Merril Lynch US Corporate AA	3.73%	3.73%	5.15%	2.69%
B of A/Merril Lynch US Corporate A	4.59%	4.59%	5.06%	3.01%
B of A/Merril Lynch US Corporate BBB	5.58%	5.58%	4.78%	4.54%
B of A/Merril Lynch US Corporate BB	7.38%	7.38%	6.50%	7.01%
B of A/Merril Lynch US Corporate B	7.27%	7.27%	6.11%	8.77%
B of A/Merril Lynch US Corp. CCC & Lower	7.90%	7.90%	3.05%	14.55%

Data Source: Morningstar

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