MARKET PERSPECTIVE 4Q 2019

Stage is Set for Continued Economic Growth in 2020

The financial markets defied all reasonable expectations in 2019…The market correction in the fourth quarter of 2018 is a distant memory in the past.

Catholic Responsible Investments℠

CAPITAL MARKETS REVIEW

Capital Markets Review

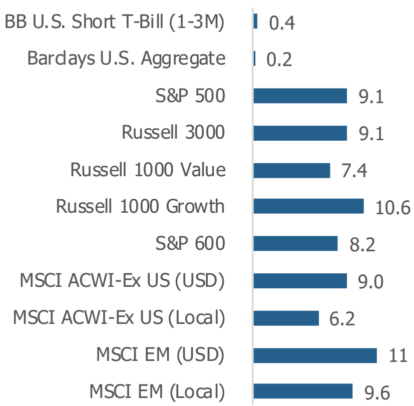
I. S&P 500

Source: S&P Dow Jones Indices LLC.

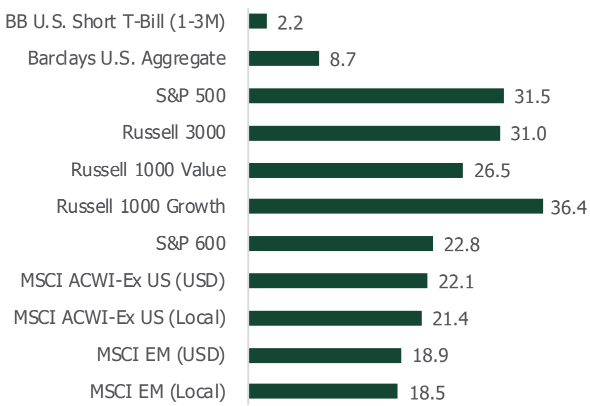
- The 4th quarter 2018 correction has been offset and more.
- Reminder that equity markets are volatile.
- We believe long term trend is positive and linked to economic fundamentals and company earnings.

II. GLOBAL OVERVIEW

Market Performance: 3 Month

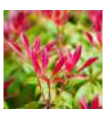


Market Performance: 12 Month



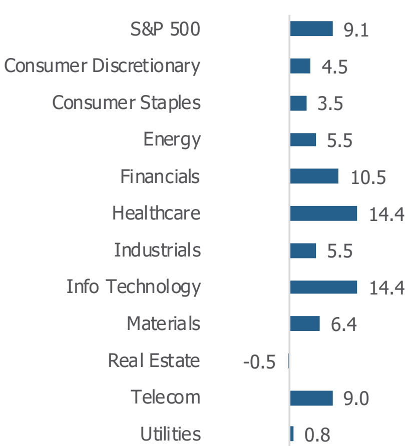
Source: FactSet

- Equity "melt up" during fourth quarter as prospects for resolution of US-China trade war emerged.
- Growth remained the leader for the quarter and year.
- Decline in long-term bond yields drove fixed income performance for the year as the Federal Reserve reversed course and eased policy through the year.

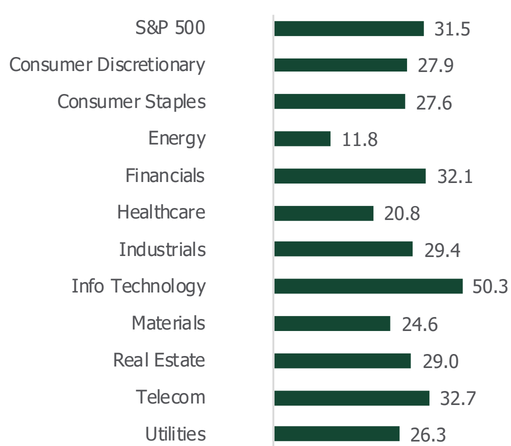


III.US EQUITY MARKETS

Market Performance: 3 Month



Market Performance: 12 Month



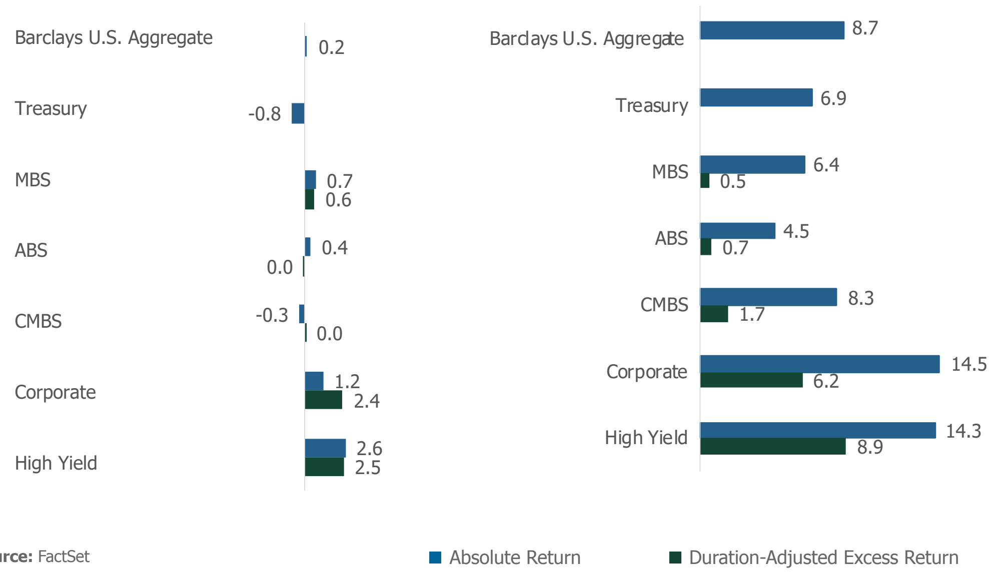
Source: FactSet

- Real Estate and Utilities, which had been sector leaders through the third quarter, gave up ground during the 4th quarter "melt up".
- Sector gains were broad based for the year with the notable exception of energy. Despite tensions in the Middle East, energy prices remained stable through 2019, due in large part to increased US supply.

IV. US FIXED INCOME MARKETS

Market Performance: 3 Month

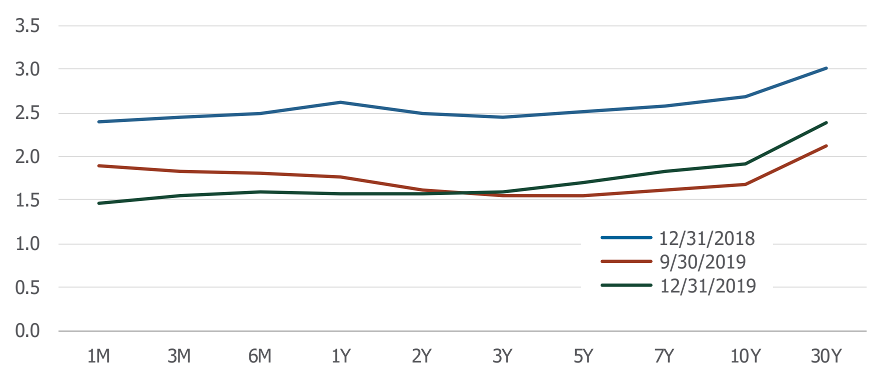
Market Performance: 12 Month

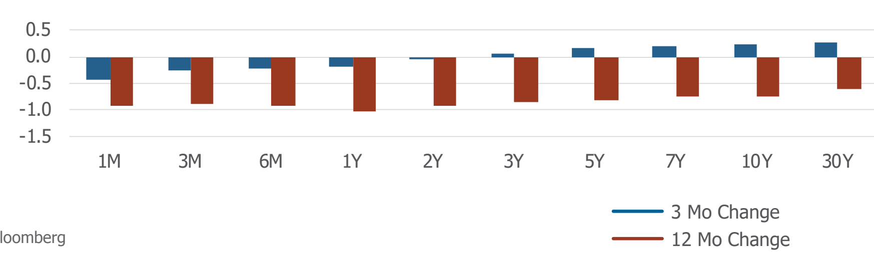


Source: FactSet

- Absolute returns have been strong across the fixed income sectors.
- The MBS sector underperformed on a relative basis due to increased interest rate volatility and overall decline in yields.
- High Yield continues to recover from the relative drawdown in the second half of 2018.

Treasury Yield Curve

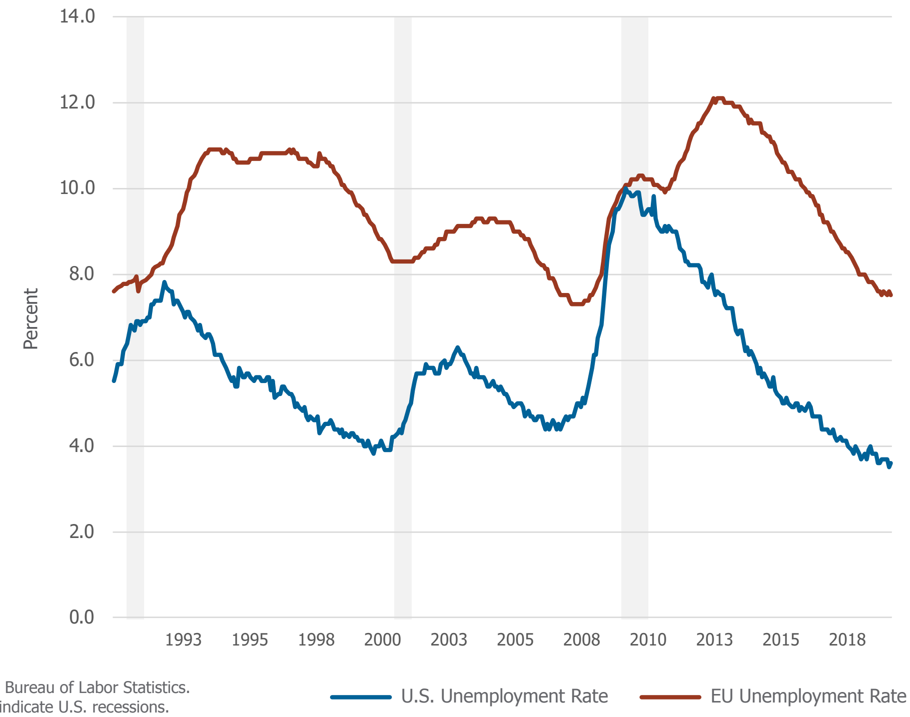




Source: Bloomberg

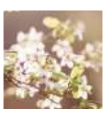
- The economic effects of the trade war have led to a significant decline in interest rates.
- Year over year, the yield curve has shifted down in a parallel fashion. The brief curve inversion has been curtailed as the curve steepened through the 4th quarter.

V. UNEMPLOYMENT RATE

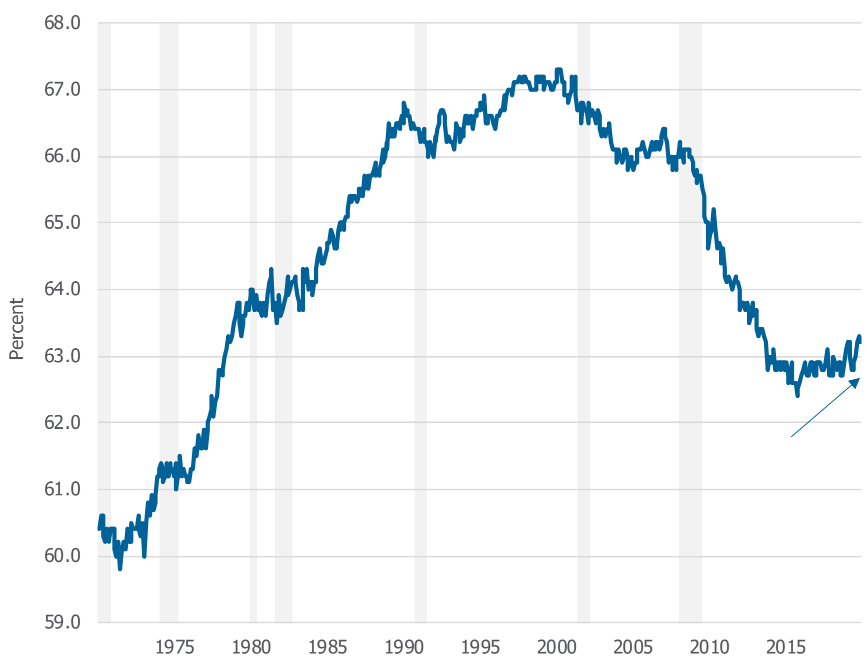


Source: U.S. Bureau of Labor Statistics.
Shaded area indicate U.S. recessions.

- Global economies are on sound footing.
- Unemployment continues to decline/remain low.
- Consumer is poised to support economies.



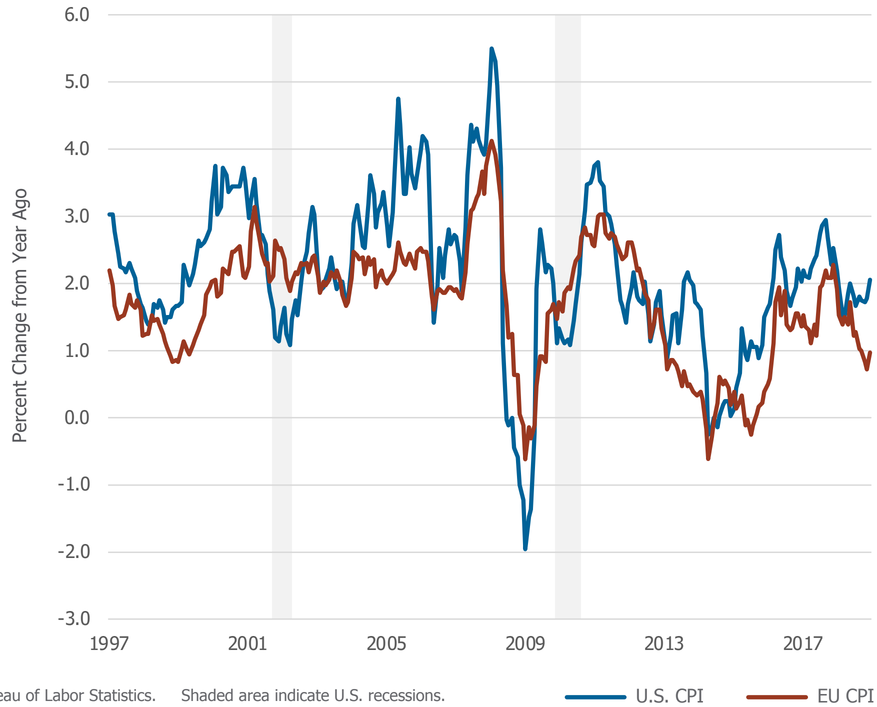
VI. LABOR FORCE PARTICIPATION RATE



Source: U.S. Bureau of Labor Statistics.
Shaded area indicate U.S. recessions.

- Labor participation, which declined precipitously post the Global Financial Crisis is recovering.
- Tightness in labor market is bringing workers back to the workforce.
- Despite low unemployment levels, we feel this recovery will keep inflation in check.

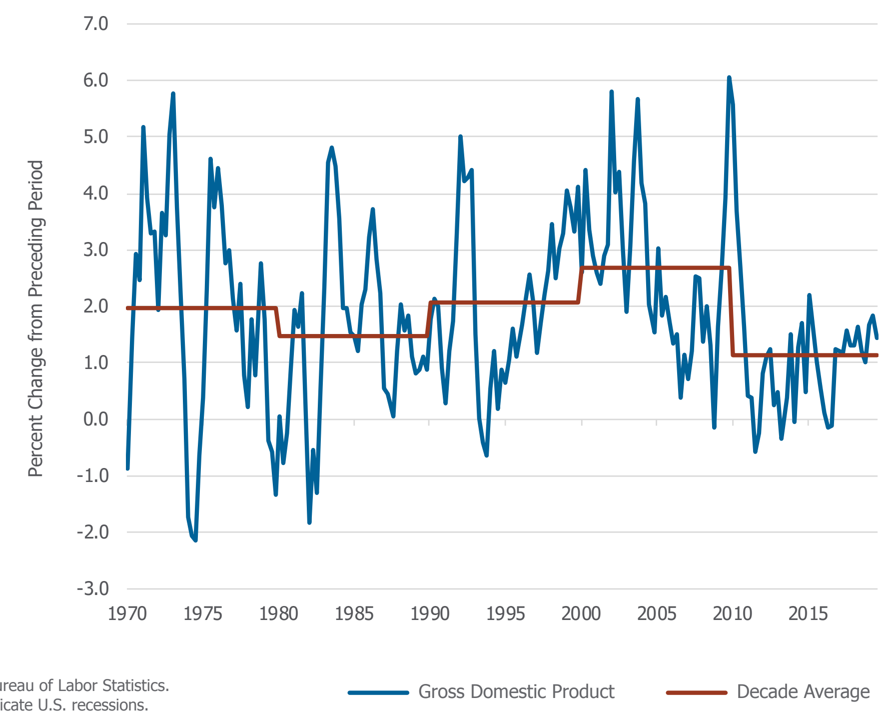
VII. US VS. EURO CONSUMER PRICE INDEX



Source: U.S. Bureau of Labor Statistics. Shaded area indicate U.S. recessions.

- Inflation is well contained globally.
- Global Central bankers will remain cautious in tightening monetary policies.
- Nevertheless, fundamentals do not justify lower rates.
- We expect a slow pace towards long-term normalization.

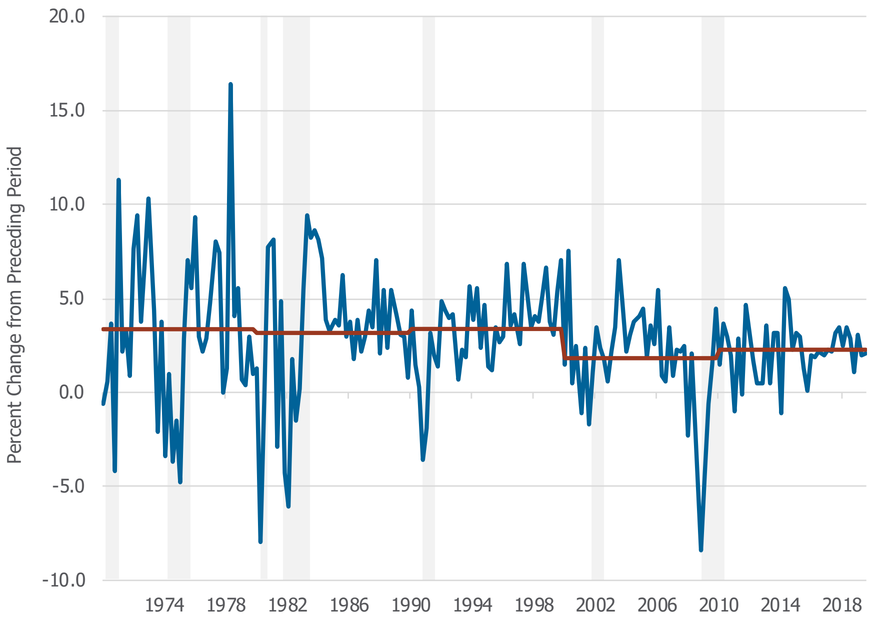
VIII. REAL GROSS DOMESTIC PRODUCT



Source: U.S. Bureau of Labor Statistics.
Shaded area indicate U.S. recessions.

- The most recent decade has experienced the lowest average growth rate since the '70's.
- Economic growth is a function of growth in labor force and increase in productivity.

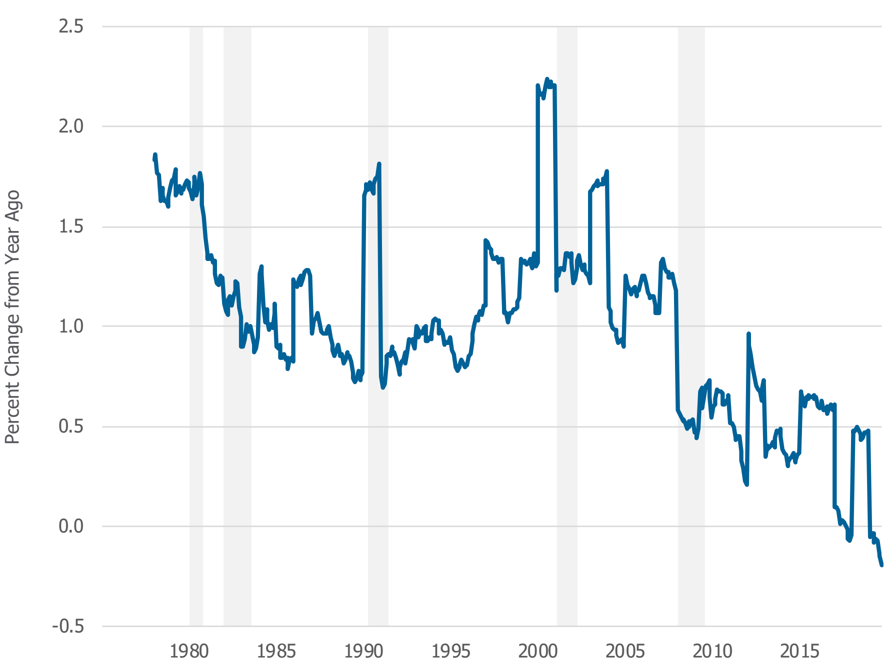
IX. REAL OUTPUT PER HOUR OF ALL PERSONS



Source: U.S. Bureau of Labor Statistics.
Shaded area indicate U.S. recessions.

- Despite technology advances, productivity gains have been sub-par, particularly compared to increases in the '90's and early 00's.
- Has technology reached the limit of marginal contributions to productivity?

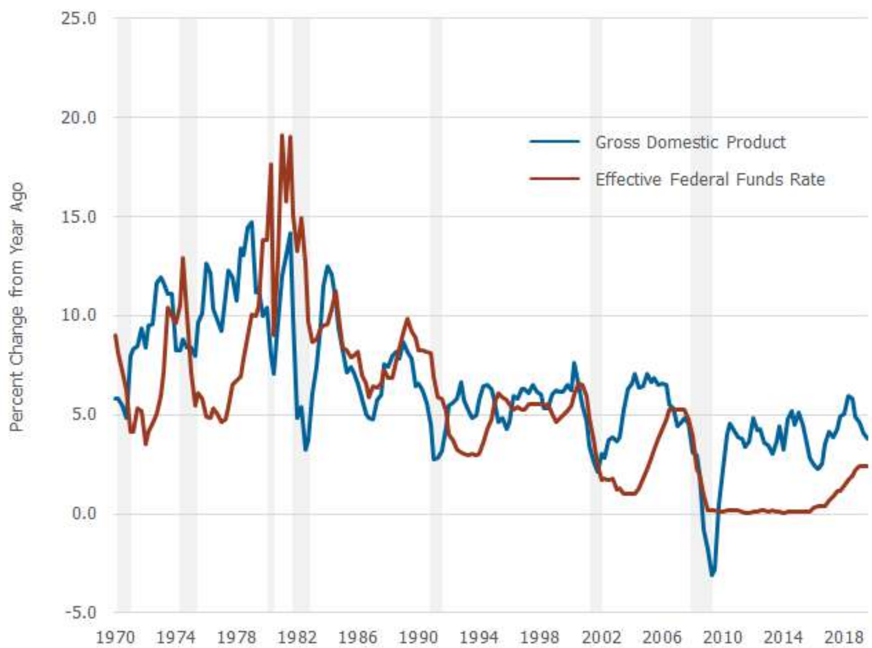
X. WORKING AGE POPULATION (Aged 15-64 – All Persons for the United States)



Source: Organization for Economic Co-Operation and Development. Shaded area indicate U.S. recessions.

- Disturbing trend in US.
- Demographics are working against significant increase in US growth.
- This is similar to the situation in Japan, leading to….
- Lower for longer: lower interest rates, lower economic growth.

XI. US FEDERAL FUND RATE VS. GROSS DOMESTIC PRODUCT



Sources: BEA, Board of Governors. Shaded areas indicate U.S. recessions.

- Federal Reserve remains stimulative.
- Tensions in Middle East, politics in 2020 will tend to keep the Fed erring on the side of continued stimulation.
- Favorable conditions for positive equity returns, though we do not expect a repeat of 2019.

Market Musings

The financial markets defied all reasonable expectations in 2019. Despite an ongoing trade war between the US and China, uncertainty over the resolution of Brexit, and the impeachment of President Trump by the US House of Representatives, global equity markets, as represented by the MSCI All Country World Index (US Dollar), returned 26.6%. The US equity markets were even stronger, with a 31.5% return for the S&P 500 index (including dividends). The market correction in the fourth quarter of 2018 is a distant memory in the past.

Given the strong market gains in 2019, a reasonable question is whether we are due for a bear market. While corrections of 10-20% are to be expected, we do not foresee an imminent bear market because economic conditions remain benign.

The unemployment situation in both the US and Europe remains quite favorable. And, in an important development, the labor participation rate in the US has finally shown signs of improving. After the financial crisis, we saw a significant reduction in the percentage of working age persons working and/or searching for work. (This decline in the participation rate represents approximately 4.6 million people.) There was a large "disenfranchised" workforce not working. The increase in labor participation is a positive development indeed.

Moreover, the low levels of unemployment have defied the Phillips Curve, which states there is a tradeoff between unemployment and inflation. Inflation remains quite contained globally, which is, to an extent, due to the lower potential growth in GDP. We are not growing at a rate that will drive increased pricing pressures. Simply put, economic growth is a function of how many people are working and how productive the workers are. We have seen a decade over decade decline in GDP growth, particularly in the US.

This correlates quite closely with the decline in productivity growth, and more disturbing, the decline in the labor force. We believe the developed nations of the world may be faced with a demographic headwind for quite some time.

As a result, we expect the Federal Reserve and other global central banks to be moderate in their pursuit to normalize interest rates. One indicator of whether the Fed is stimulative or restrictive is the relationship between nominal GDP growth and the Fed Funds rate. When the Fed Funds rate is below nominal GDP growth, the Fed is stimulative, as it is currently. The Fed has capacity to increase rates before it would be considered restrictive, to about 2.25% based on current nominal GDP growth.

We do not expect a continued "melt-up" in global equity markets in 2020. Corrections may occur from time to time, but we believe the economic landscape supports continued economic growth and market returns in line with earnings growth, which we anticipate to be in the range of 5-10%. The risk to this forecast remains a policy mistake, as always. Barring that, in our view the economy and markets remain on solid footing.

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