DISCIPLINED EQUITY

LARGECAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Second Quarter 2019

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MARKET REVIEW

U.S. equities again moved solidly higher across the board during the second quarter, with a spectacular June accounting for all of the gains - and then some. In a reversal of Q1 performance, large-caps outpaced small-caps during the second quarter, as the S&P 500 Index advanced 4.3% versus the Russell 2000 Index's 2.1% gain.

Size/Style

S&P 500 Growth stocks massively outperformed their S&P 500 Value counterparts during Q1 and posted an advantage yet again during Q2, despite an edge for value during June.

- Large-caps slightly outperformed mega-caps
- Growth topped value in both the mega-cap and large-cap segments

S&P 500 Sectors

We again saw a lack of quarter-to-quarter correlation of relative sector performance, but note that Cyclicals dominated second quarter leadership. However, it was a mix of early, mid, and late-stage cyclicals that performed best:

- Financial and Materials stocks rebounded from poor relative performance in Q1 to pace the S&P 500 during Q2. Tech stocks have been consistently solid performers in 2019, advancing over 27% during the first six months of the year.
- Health Care stocks continue their poor relative performance, but clawed out a 1.4% advance. Energy stocks were the only sector to record a loss during Q2, posting a 2.8% decline.

SECOND QUARTER ATTRIBUTION

The LargeCap strategy added 4.6% during the quarter, ahead of the benchmark S&P 500 Index's 4.3% gain. The table on the following page breaks down the contributions from sector positioning and stock selection.

In total, sector positioning added 0.25% to active return:

- Underweighting the Energy sector added 23bps to active return, as the sector underperformed the S&P 500 Index by over 7% during Q2.
- Underweighting the Financial sector detracted 22bps, as the sector outperformed the Index by about 2.6%.

Stock selection had no net impact on active return.

MARKET OUTLOOK

Six months into 2019, the longest (and one of the slowest) expansions remains intact, and a strong first half of 2019 for U.S. equities leaves stocks trading at a premium to historic averages.

The economic picture is fairly good, especially considering how long in the tooth this expansion is. Price pressure is non-existent to this point, despite the very low headline unemployment rate. Payroll growth has slowed a bit, but employment costs remain in check, accelerating less than 3% per year. Consumer confidence remains quite high, just off of recent cycle highs. The recent pull back in interest rates appears to have extended the real estate cycle's expansion as well, albeit at a more moderate rate.

It's difficult to be very constructive on U.S. equities – as you might expect after the strongest first half in many years. Earnings growth has ground to a near halt, and with multiples at high levels, we don't currently see fuel for much rational appreciation during the latter half of the year. Investors appear to have already discounted two cuts in the Fed Funds rate later this year. The optimist will see this, combined with a trade deal with China,

SECTOR	GLA WEIGHTING	S&P 500 WEIGHTING	% ACTIVE	GLA RETURN	S&P 500 RETURN	% ADDED	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIB
Comm Services	5.42	10.29	-4.87	-3.07	4.49	-7.55	0.03	-0.45	-0.42
Consumer Disc.	10.24	10.25	-0.01	4.26	5.28	-1.03	0.02	-0.10	-0.08
Cons. Staples	10.79	7.31	3.48	4.43	3.72	0.71	0.00	0.08	0.07
Energy	1.61	5.15	-3.54	-6.27	-2.83	-3.43	0.23	-0.03	0.21
Financials	9.83	13.09	-3.26	7.14	8.00	-0.86	-0.22	0.03	-0.19
Health Care	9.99	14.02	-4.03	4.02	1.38	2.63	0.06	0.23	0.28
Industrials	16.99	9.43	7.56	1.73	3.57	-1.84	-0.06	-0.34	-0.40
Technology	28.06	21.42	6.64	7.23	6.06	1.17	0.14	0.32	0.46
Materials	3.79	2.68	1.11	16.86	6.31	10.55	0.05	0.33	0.38
Real Estate	2.20	3.06	-0.86	-1.02	2.46	-3.47	0.02	-0.08	-0.06
Utilities	1.07	3.30	-2.23	5.66	3.48	2.18	-0.01	0.02	0.01
TOTAL	**100**	**100**		**4.56**	**4.30**	**0.25**	**0.25**	**0.00**	**0.25**

Source: GLA and Bloomberg. Performance numbers are gross of fees.

as ample room to fuel further growth.

The pessimist has concerns that the China deal will not materialize – or will not be a meaningful win for the U.S. if the deal materializes. The pessimist keeps an eye on the U.S.'s dealings with Iran, the latter of which has now violated the cap on enriching uranium. The pessimist also worries about acrimony increasing further in our capital, with Democratic debates featuring soundbites excoriating corporate profits (oh by the way, pensioners and 401k beneficiaries benefit by owning shares of profitable U.S. companies), and calling for more testimony from Robert Mueller.

The realist knows the market is the ultimate discounting mechanism, and the U.S. economic system is wonderfully self-adapting. While it would be imprudent to expect large returns from U.S. equities in the latter half of the year, we also don't expect an exceptionally bad half of the year.

The LargeCap model remains biased against value stocks – especially the smaller value stocks in the LargeCap universe. The model is also biased against high earnings yield (as prices have climbed while earnings are slowing). Stocks with strong price momentum are in favor. Technology (Software) and Healthcare (Medical Services) stocks are most in favor, while Financials (Banks, Asset Managers) are most out-of-favor. Of note, Equity REITs remain in favor in the Financial sector, as higher dividend payers have continued to perform relatively well.

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The data in the attribution table represent the returns for each sector and for the gross returns for a representative composite account for one quarter ending the current calendar quarter. Individual account returns may vary.

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