FUNDAMENTAL EQUITY

LARGE CAP VALUE

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Second Quarter 2019

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MARKET REVIEW

The Russell 1000 Value Index gained 3.8% in the quarter ending June 30, and has appreciated more than 16% thus far in 2019, closing June less than 4% from its all-time high. The broader market, represented by the S&P 500, gained 4.3% and is now more than 18% higher for the year, having set a new all-time high on June 20. Most major European markets have also gained at a double-digit clip thus far in 2019; China, Australia, and New Zealand are all up close to 20% and most of the rest of Asia is up 10% or more.

The story of 2019 continues to be the signs of global economic weakness and, in response, the Fed's pivot earlier in the year toward easier monetary policy. As we entered 2019 the Fed appeared to be leaning toward increasing short term interest rates; it is now clear that they believe they may need to ease in the second half of the year. Interest rates fell precipitously in the second quarter, with the yield on the 10-year Treasury note dropping below 2% in June and closing the quarter at 2.01%. The yield curve is inverted out to 5 years, suggesting that fixed income investors are concerned that economic contraction in the U.S. is a distinct possibility.

The U.S. dollar was unchanged against most major currencies. The Japanese Yen gained about 3%, while the British Pound lost about 3% as the country continues to grapple with Brexit.

Crude oil prices hit their 2019 high of more than $65/barrel in mid-April, but fell precipitously back to $52/bbl by early June, primarily resulting from plentiful inventories in the U.S. Crude oil closed the quarter at $58.50/bbl, jumping after the attack on two oil tankers in the Straits of Hormuz which raised the spectre of hostilities in Iran and the Middle East. Corn and wheat prices rose about 8% as poor spring weather hindered farmers' plantings. Copper prices fell 7% with fears of global economic weakness rising, while gold gained more than 9%, likely the result of negative short term interest rates in countries like Germany and Japan (see more below).

The Great Lakes Advisors Large Cap Value portfolio gained 5.5% in value in the second quarter, about 170 basis points better than the Russell 1000 Value Index. For the first half of the year the portfolio has gained 17.5%, about 130 basis points better than the index.

SECOND QUARTER ATTRIBUTION

SECTOR	GLA WEIGHTING	GLA RETURN	R1000V WEIGHTING	R1000V RETURN	ACTIVE CONTRIBUTION
Financials	28.9%	10.6%	23.5%	7.5%	1.1%
Health Care	15.8%	1.0%	14.8%	2.8%	-0.2%
Consumer Disc.	14.8%	12.9%	5.6%	3.3%	1.4%
Energy	11.9%	-4.5%	9.2%	-3.7%	-0.4%
Industrials	11.3%	6.9%	8.0%	6.6%	0.2%
Technology	5.6%	7.0%	9.6%	3.2%	0.3%
Consumer Staples	5.5%	-1.4%	7.9%	2.5%	-0.2%
Comm. Services	3.2%	-7.9%	6.6%	6.4%	-0.5%
Utilities	1.0%	-0.2%	6.5%	3.4%	0.0%
Real Estate	0.0%	0.0%	4.2%	0.6%	0.1%
Materials	0.0%	0.0%	4.0%	4.2%	0.0%
Cash	2.1%	0.5%	0.0%	0.0%	-0.1%
Total	100.0%	5.5%	100.0%	3.8%	1.7%

Significant underweight position relative to benchmark

Significant overweight position relative to benchmark

Source: GLA, FactSet. Percentages may not add to 100% due to rounding. Peformance numbers are gross of fees.

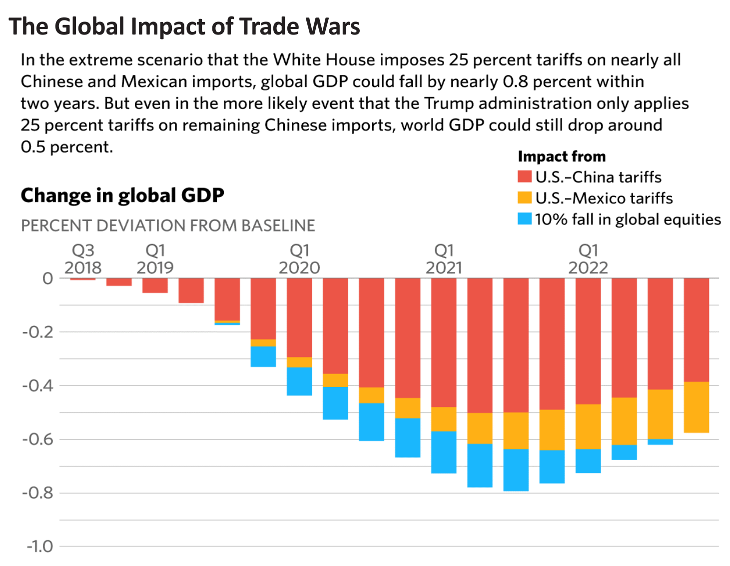
SECOND QUARTER ATTRIBUTION

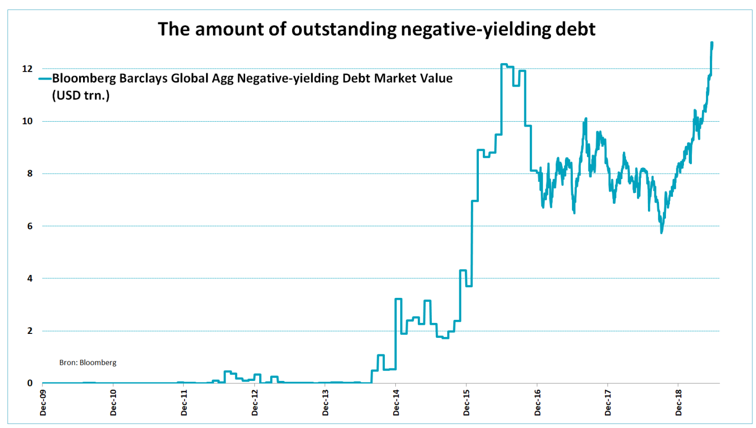
A combination of sector allocation and stock selection accounted for the above benchmark performance. Underperformance in the Communication Services and Energy sectors was more than offset by positive results in the Consumer Discretionary, Financials and Information Technology sectors.

MARKET OUTLOOK

Equity markets have been continuously recalibrating and repricing two events in recent weeks: a trade deal between the U.S. and China, and a Fed rate cut. Mix in continuing signs of global economic weakness, geopolitical pressures in the Middle East, and the beginning of the 2020 Presidential campaign, and you get a market backdrop that is growing quite interesting.

- As we write this the G20 summit convenes in Japan, the focus of which will be trade negotiations between the U.S. and China. We agree with the Chinese spokesman for the Ministry of Commerce Gao Feng, who said in a press conference on June 27 that "...a trade war doesn't have a winner; those who are ultimately hurt are U.S. [and Chinese] companies and consumers." The outcome of these talks could impact the global economy for years and as the accompanying chart from Stratfor suggests, a prolonged trade war could impact annual global GDP growth by more than $600 billion by 2021.
- In June the Fed left short-term interewst rates unchanged but clearly signaled a willingness to cut rates later this year, with Chairman Powell saying in his press conference that "many participants now see the case for somewhat more accommodative policy has strengthened." Markets are pricing in a rate cut at the Fed's next meeting in July. Traditionally, a rate cut is seen as a positive by many equity participants; however, if it is in response to slowing economic growth and corporate profits (as the inverted yield curve and the number of corporations providing negative earnings guidance both suggest) the risk to equity prices is that the Fed is behind the curve and the economy will continue to weaken.
- In response, slower global growth interest rates around the world have returned to the ultra-low levels of 2016. In fact, more than $13 trillion of global debt currently trades with a negative yield, the most in recorded history. Japanese debt accounts for more than one-half of the total. Low rates help the U.S. finance its $1 trillion (and growing) annual budget deficit, but it is an important and open question as to how long the U.S. will be able to do so. However, with negative rates persisting elsewhere it is hard to imagine, absent a sudden spike in inflation, that U.S. interest rates will be headed higher soon.





We do not attempt to forecast short-term market moves, but we do believe that the global investment environment remains quite uncertain as a result of the rapidly changing geopolitical environment, and the impact these events may have on longer term growth prospects. As always, our style of investing continues to place value on high returns on invested capital, goal congruence with management, prudent capital structures, and abundant free cash flow. We believe this approach will continue to be attractive for our clients' portfolios in the future, and appreciate your support and confidence.

For more information, please contact us at:
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Chart Souce: Bloomberg

The data in the attribution table represent the returns for each sector and 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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