1Q 19 | VIRTUS VIEWPOINTS

MARKET REVIEW AND OUTLOOK

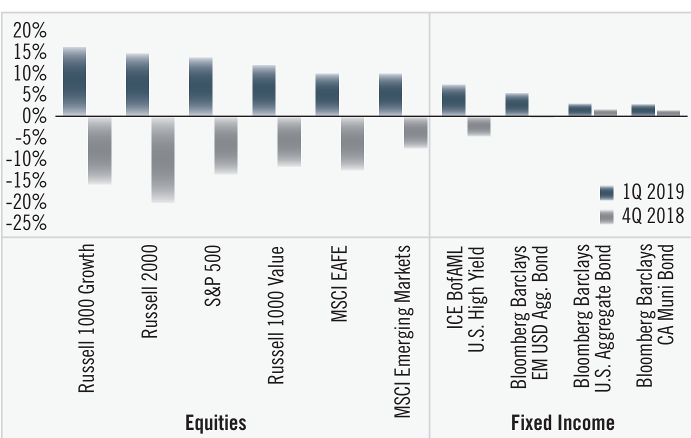
Kayne Anderson Rudnick
A VIRTUS INVESTMENT PARTNER

A Robust Start to the Year

Stocks and bonds recovered with a vengeance in the first quarter of 2019 from the late sell-off in 2018. This was the strongest start to a calendar year since 1991. The S&P 500® Index returned 13.65% during the quarter with growth stocks leading the way. The Russell 1000® Growth Index returned 16.10%, outperforming the Russell 1000® Value Index return of 11.93%. Small-cap stocks slightly outperformed large-cap stocks with the Russell 2000® Index returning 14.58% for the quarter. International stocks continued to lag U.S. markets, as the MSCI® EAFE Index advanced 9.98% and the MSCI® Emerging Markets Index returned 9.92%.

Fixed income had a robust quarter for returns as well. The 10-year U.S. Treasury yield continued its descent from 2.69% to 2.41% at quarter-end. This decline allowed various fixed income asset classes to generate positive returns. The Bloomberg Barclays U.S. Aggregate Bond Index returned 2.94% for the quarter with credit-sensitive strategies leading the returns. High yield, as measured by the ICE Bank of America Merrill Lynch U.S. High Yield Index, was up 7.38% and emerging-market debt, as measured by the Bloomberg Barclays Emerging Markets USD Aggregate Bond Index, was up 5.43%. California municipal bonds returned 2.81%. Overall, the first quarter was one of the most robust starts to the year we've had in a very long time.

MAJOR INDEX RETURNS, as of March 31, 2019



Past performance is no guarantee of future results.
Data is obtained from FactSet Research Systems and Bloomberg and assumed to be reliable.

WHY WERE Q1 2019 RETURNS SO STRONG?

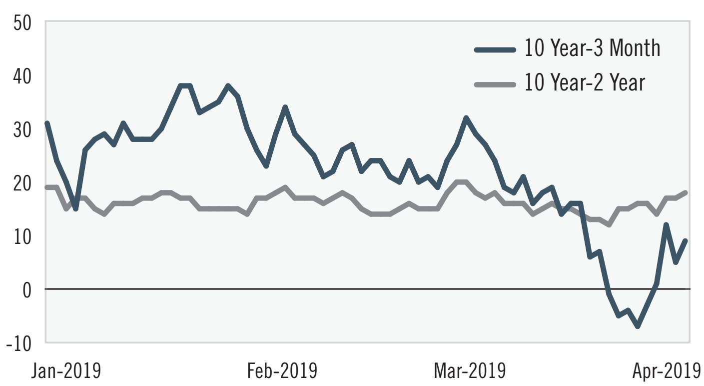
After an extremely difficult fourth quarter, the Federal Reserve did an about-face in early January on its outlook for short-term interest rate increases in 2019. The combination of a slowing global economy and the U.S. central bank's apparent insistence on raising rates two more times in 2019 (despite obvious global slowing, particularly in Europe and China) led to a significant correction in equities in the fourth quarter. The stock market feared that a Federal Reserve policy mistake would push us into a recession. Fed Chairman Powell communicated in early January that 2019 rate increases would be put on hold, which ignited the rally in stocks during the first quarter.

Additionally, trade tensions between the U.S. and China have calmed down and both sides seem more willing to negotiate a deal over the next couple of months. Despite the overall slowdown in global economic activity, fourth quarter earnings were much better than expected. Fifty-nine percent of companies beat revenue expectations and 68% of companies beat earnings expectations for the quarter. This powerful trio of factors—the Federal Reserve backing off the brakes, trade talks progressing, and corporate profits continuing to grow—led to the substantial equity returns for the quarter.

WHERE DO WE GO FROM HERE?

Since the beginning of the year, the 3-month-to-10-year U.S. Treasury yield has inverted even as the 2-year-to-10-year and 2-year-to-30-year curve has steepened somewhat.

U.S. YIELD CURVES
(In basis points)



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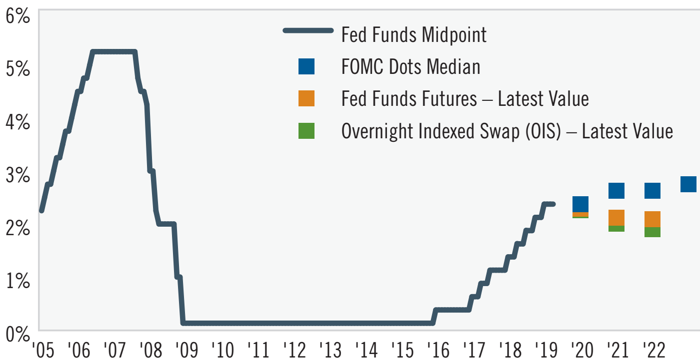
If this trend continues for the next several months it is a message to the Fed that it actually should cut short-term interest rates 25 to 50 basis points. Currently, 100% of fed funds futures buyers believe short-term rates will be flat-to-down over the next nine months. In fact, 66% expect a

25-basis point reduction in short rates by next January 2020. A rate cut may steepen the yield curve and help offset the downward pressure on rates from foreign economies (many of which still have negative rates).

MARKET EXPECTATIONS VS. FED FORECASTS
As of March 31, 2019



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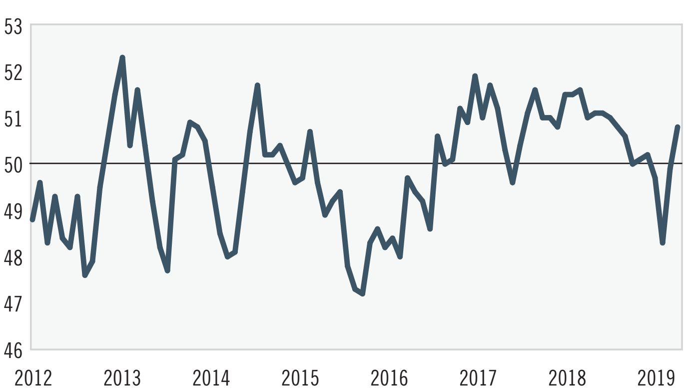
Deflation globally continues to be the real risk to our economy, not runaway inflation. With the Fed essentially on the sidelines, issues such as trade and corporate profit growth are likely to become the overriding factors in equity returns over the next year or so. Even before a trade deal with China has been consummated, China's economy is starting to stabilize after decelerating over the last 12 months. Admittedly, this trade spat has dragged on longer than we ever expected, but time is running out for both parties. A significant resolution on trade will definitely help restore global business confidence and may actually lead to improved growth prospects for China and Europe, in particular.

CHINA MANUFACTURING PURCHASING MANAGERS INDEX
Period through March 31, 2019



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OUTLOOK

We believe the likelihood of an outright meaningful recession over the next 12-to-18 months is low. We have had rolling recessions over the last 10 years in cyclical areas like energy, industrials, and materials from 2014 to 2016. Europe is close to or already in a recession over the last six months due to slow exports and Brexit fears adversely affecting business confidence. Although this expansion has been lengthy, it hasn't been robust by historical standards. Classic signals of excess business confidence, such as elevated capital spending, excessive inventory buildup in anticipation of robust sales, and excess labor hiring, don't seem prevalent today. Even in a slower growth environment (1.5% to 2.5% GDP growth), U.S. companies should be able to grow their earnings in the 5% to 8% range. This growth combined with business confidence improving can lead to solid double-digit returns for stocks in 2019.

As always, we will stay focused on managing your investments with diligence. We thank you for your continued trust and confidence in these volatile times.

continued

Authored by:

Douglas S. Foreman, CFA
Chief Investment Officer
Kayne Anderson Rudnick Investment Management, LLC

Kayne Anderson Rudnick believes that superior risk-adjusted returns may be achieved through investment in high-quality companies with market dominance, excellent management, financial strength, and consistent growth, purchased at reasonable prices.

The **S&P 500® Index** is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. The **Russell 1000® Growth Index** is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The **Russell 1000® Value Index** is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The **MSCI® EAFE Index** is a free float-adjusted market capitalization index that measures developed foreign market equity performance, excluding the U.S. and Canada. The **MSCI® Emerging Markets (EM) Index** is a free-float adjusted market capitalization index tracking the equity performance of global emerging markets. The **Bloomberg Barclays U.S. Aggregate Bond Index** is a market value weighted index that tracks the daily price, coupon, pay downs and total return performance of fixed-rate, publicly placed, dollar-denominated and non-convertible investment grade debt issues with at least $250 million par amount outstanding with at least one year to final maturity. Performance is calculated on a total return basis with dividends reinvested. The **ICE BofAML U.S. High Yield Index** tracks the performance of U.S. dollar denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. The **Bloomberg Barclays Emerging Markets USD Aggregate Bond Index** is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classifications. This index was previously called Bloomberg Barclays U.S. EM Index, and history is available back to 1993. The **Bloomberg Barclays California Municipal Bond Index** is a market capitalization-weighted index of California investment-grade municipal bonds with maturities of one year or more.