Third Quarter 2021

# Investment Update

Investment Research & Strategy

## Recalibrating Expectations

The US equity market wrapped up a strong second quarter and first half of 2021 as a surging economy drove a string of excellent earnings results, causing investors and markets to recalbrate their expectations for future growth.

Consumers have unleashed a wave of pent-up demand, boosted by unprecedented savings and stimulus. So much so, that global supply chains are struggling to keep up, causing inflation expectations to rise. Pockets of the economy, including sectors such as commodities and housing, are experiencing substantial price increases.

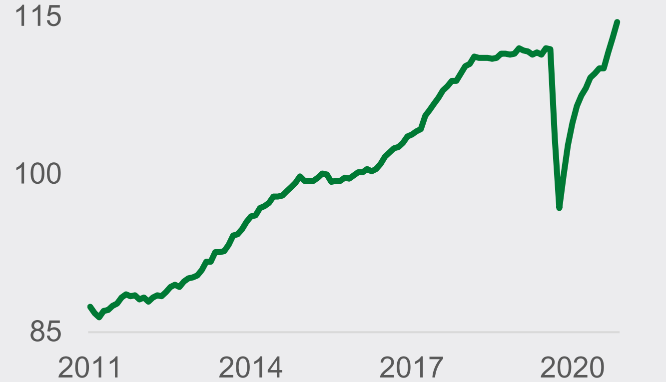
Inflation concerns are drifting into financial markets as well, although it is important to distingush between near- and long-term expectations. Much of today's inflationary pressures are expected to be transitory in nature, although we believe more intermediate-term pressures may persist. Long-term, however, the structural forces preventing 70s style-inflation are unlikely to suddenly relent.

Policy and the willingness of politicans to allow the economy to run hot is a key risk to both inflation and our outlook. We believe today's stimulus measures will be substantially scaled back, and we expect the economy to cool off, eventually settling in at a rate of growth that is closer to its long-run steady state.

Markets appear to be pricing in a scenario somewhat more optimistic than our views. Depending on metric, broad equity market valuations appear to be between all-time highs and merely elevated. Within fixed income, valuations look similarly strained with depressed yields and spreads across almost all credits and durations.

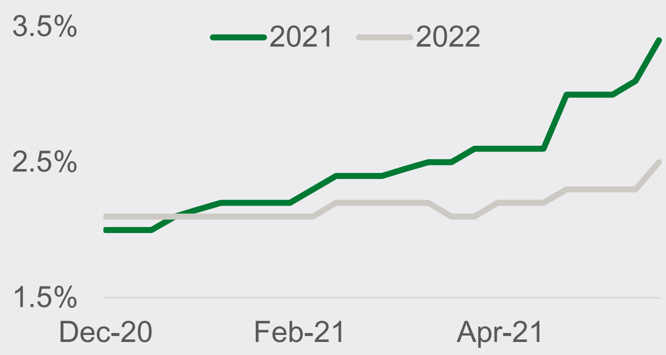
Given today's highly dynamic economic environment, and considering the current valuations regime across financial markets, we believe investors should be particularly discerning regarding both asset allocation and security selection.

**US Leading Indicators: Conference Board**



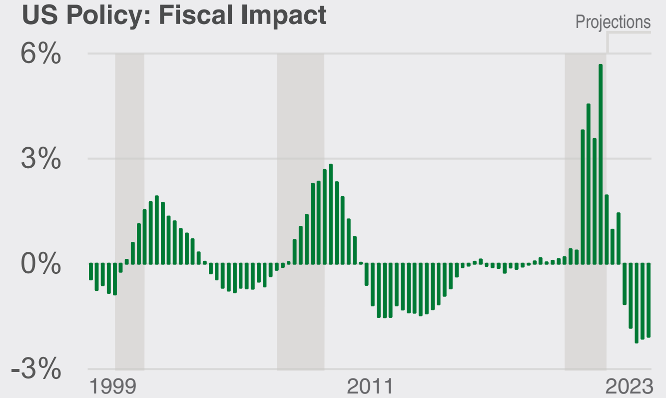

Source: Refinitiv (07/2011 - 05/2021).

**US Inflation: Economist Forecasts**




Source: Bloomberg (12/31/2020 - 06/17/2021).

**US Policy: Fiscal Impact**




Q2 2021 and forward are projections.
Grey represents recessions. Source: Brookings Instutite (Q4 1999 - Q1 2023).

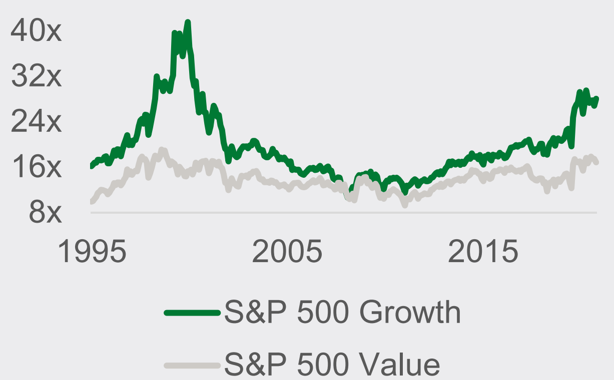
## Our Strategic Positioning

Given the somewhat conflicting signals being sent from markets and from the economy, we are continuing to maintain a balanced approach to asset allocation (above or below neutral) across our suite of multi-asset class portfolios. Our bottom-up portfolios, within which we've identified more pockets of opportunity within the equity markets, currently hold a greater allocation to equities. Importantly, we continue to hold "dry powder" across all multi-asset class portfolios.

We've continued to reduce our exposure to cyclicals (e.g., oil & gas companies) within bottom-up portfolios, and as mentioned last quarter, we've taken advantage of style-leadership swings to add to some of our strongest growth-oriented names in the portfolios, some of which have seen valuation multiples compress to more attractive levels.

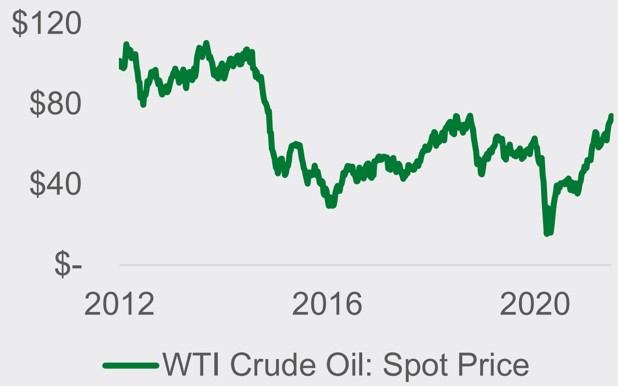
Within fixed income, low yields remain a challenge, and spreads are at historic lows. This makes for a challenging interest rate environment in which to find yield, though we are finding select attractive opportunities in lower-rated investment grade corporate bonds, various asset-backed securities, and longer dated municipal bonds in our bottom-up portfolios.

**S&P 500: Forward P/E Ratio**




Source: FactSet (09/30/1995 - 06/30/2021).

**Energy: West Texas Intermediate (WTI) Oil**




Source: Refinitiv (01/06/2012 - 06/25/2021).

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