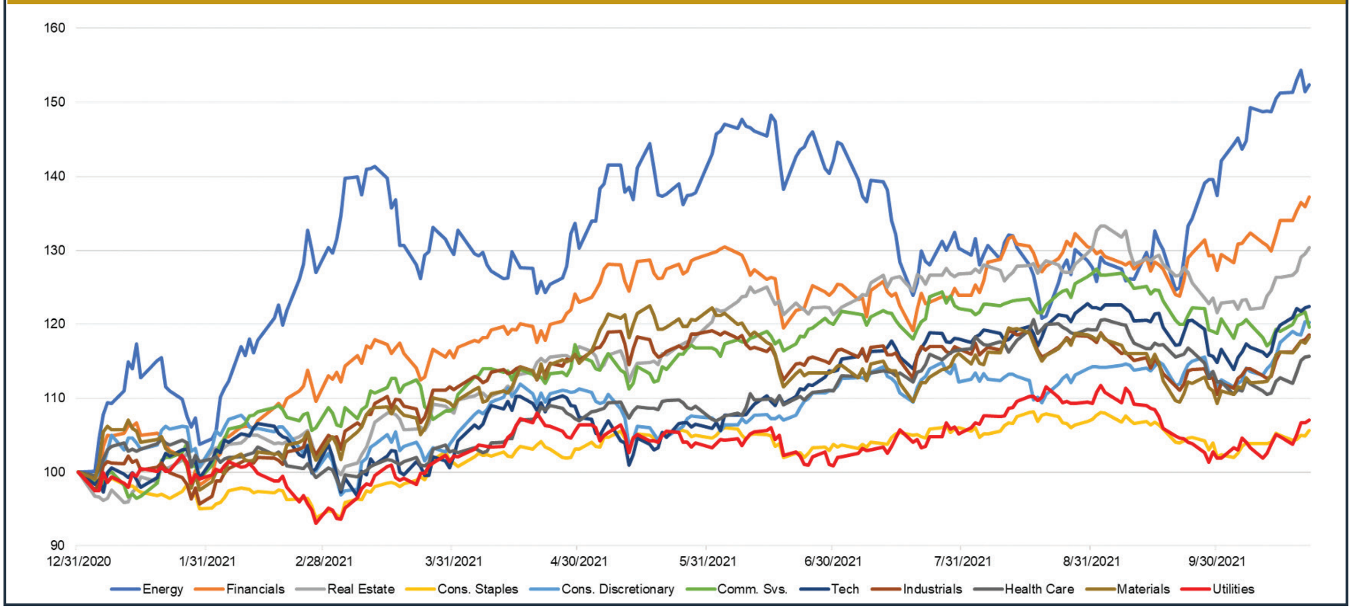
Fall 2021 Market Commentary

Domestic Equity Market Recap

Equity markets finished mixed for the quarter after a late September selloff drove indices from the highs seen earlier in the month. Investors appeared rattled by reports of rising inflation and downward revisions in 2021 U.S. GDP.

S&P 500 SECTOR PERFORMANCE (Normalized as of 12/31/2020)



Source: Bloomberg as of October 19, 2021

Large capitalized growth stocks was the only segment of the equity market to appreciate during the quarter despite concerns that rising inflation will be detrimental to corporate margins. Domestic large capitalized value, mid capitalized, and small capitalized stocks all generated negative returns for the period.

Among large capitalized stocks, financial services, up 2.76%, was the best performing sector. Financial service stocks likely benefited from news that the Federal Reserve will soon announce a tapering to their current rate of bond purchases. A reduction in purchases is expected to lead to a rise in long term interest rates which, in turn, is generally beneficial to the bottom lines of many financial service companies.

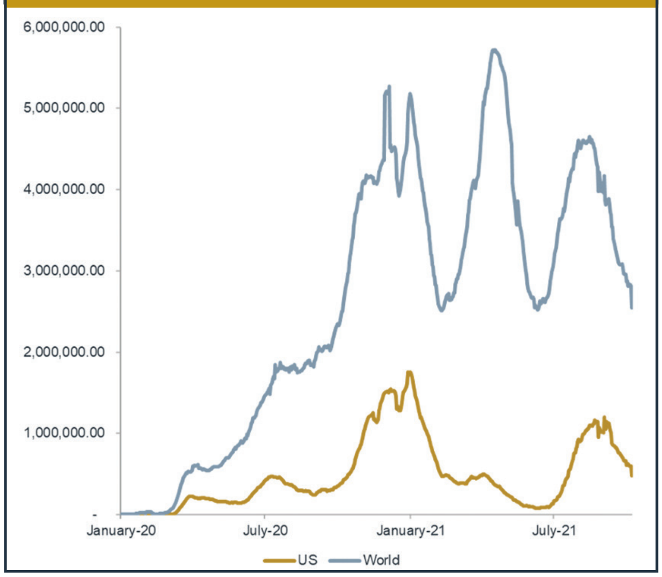
The Energy sector, down 1.71% during the quarter, remains the best performing sector year-to-date as the price for a barrel of oil has risen more than 50% since the start of the year.

Domestic Economic Highlights

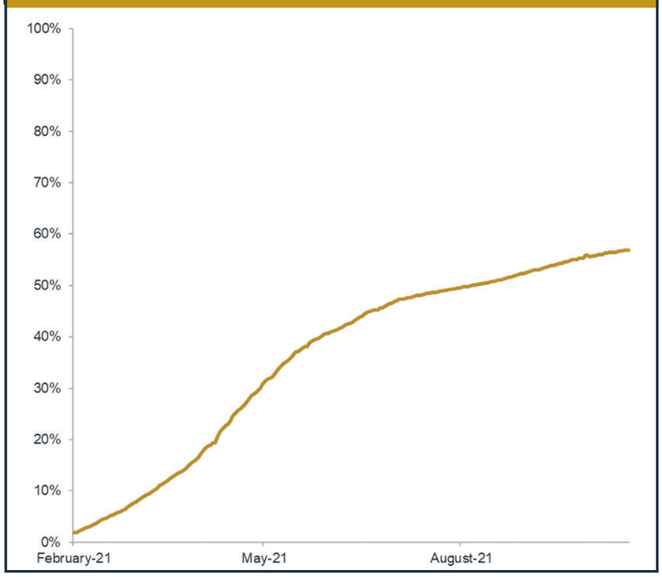
We see the continuation of several broad themes driving financial market price action throughout the balance of 2021.

Thanks to higher vaccination rates, the Covid Delta variant appears to be on the wane. This trend, should it continue, bodes well for the resumption of the positive "reopening" momentum in the real economy and for improved financial market conditions. Household balance sheets are generally healthier than pre-pandemic levels, consumption capacity is strong, and consumers are once again optimistic.

NEW COVID INFECTIONS (Rolling 1 week)



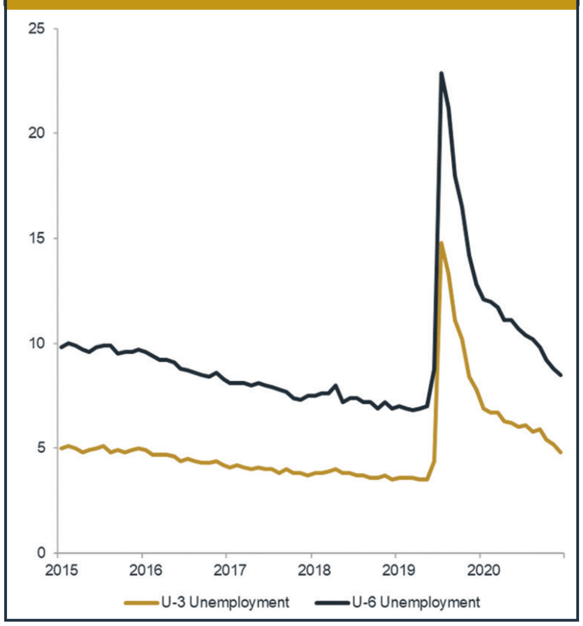
U.S. VACCINATION RATE



Source: Bloomberg as of October 19, 2021

The domestic employment picture has been gradually improving. However, the overall workforce participation rate remains weaker than expected and rising wages are failing to lure workers back to work in certain segments of the job market. The pandemic experience may have behaviorally changed how people view work as a whole, with many deciding not to return to office settings or to certain service related jobs that might put them at risk. Notably, labor shortages in the caregiving industry is unfortunately preventing many women from resuming previously held jobs. Acute labor shortages in trucking and in shipyards are creating transportation bottlenecks for goods at the same time that critical parts and essential commodities such as energy and industrial metals are in short supply. Recent "hot" measures of inflation reflect this interplay between strong demand and supply-side constraints. The consumer price index increased by 5.4% year over year in September, the highest reading seen in over a decade. Producer prices increased by 8.6% over the same time period. Companies will likely pass these higher production costs on to consumers or see their operating profit margins compress if they are unable to do so.

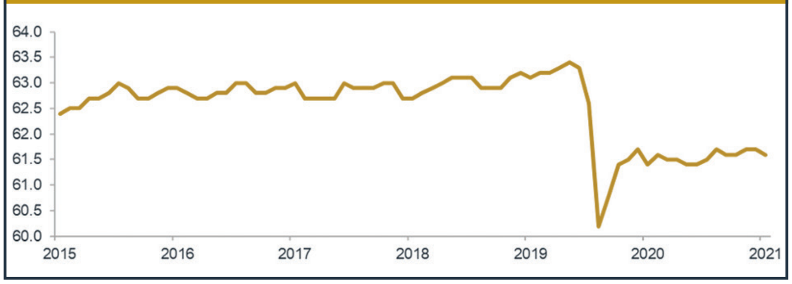
U.S. UNEMPLOYMENT RATE (%)



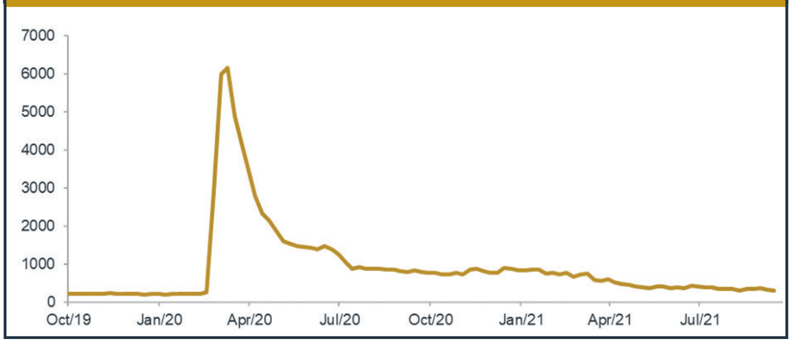
Source: Bloomberg as of October 19, 2021

Domestic Economic Highlights *continued*

U.S. LABOR FORCE PARTICIPATION RATE (%)



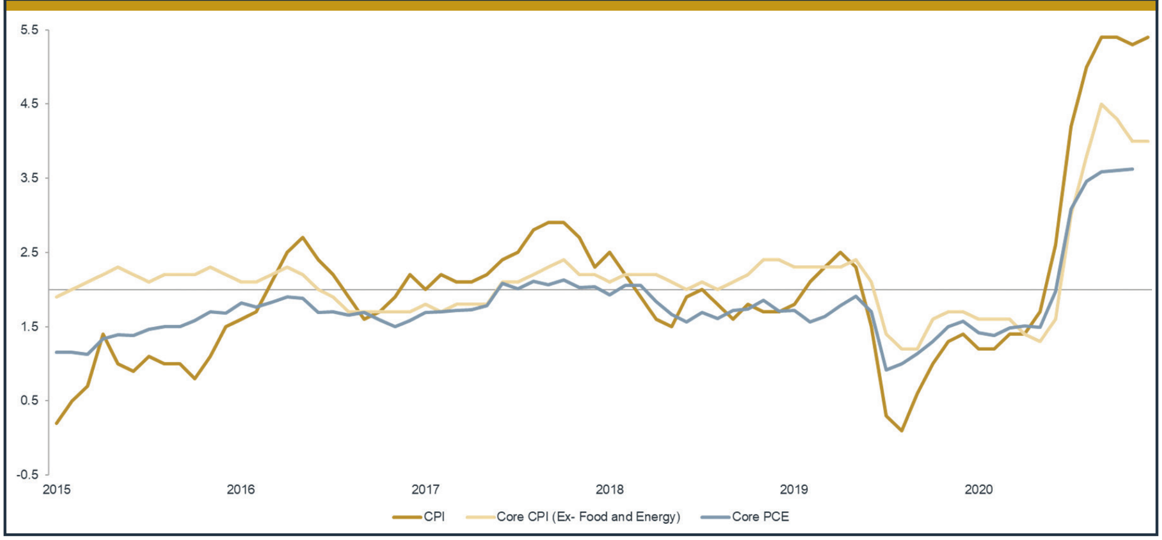
U.S. INITIAL JOBLESS CLAIMS (000's)



Source: Bloomberg as of October 19, 2021

Finally, monetary and fiscal policy deliberations have been in sharp focus recently as both will have major impact on future economic growth and inflation. In its most recent communication, Fed Chairman Jay Powell suggested that the Federal Reserve could begin to reduce the amount of fixed income securities it purchases monthly (in a gradual tapering process) beginning as soon as November if economic conditions warrant. Ideally, the Fed wants to first reduce the support it is providing to the financial markets before it considers raising the short-term Federal Funds rate. That said, Fed policy will continue to be accommodative and provide liquidity to the markets for quite some time. On the fiscal side, the debate over measures to include in an infrastructure bill continues. The path to raise the debt ceiling limit (for debt already incurred) also remains an outstanding issue with the deadline and potential default risk now pushed back in time to early December.

U.S. INFLATION METRICS (YoY %)

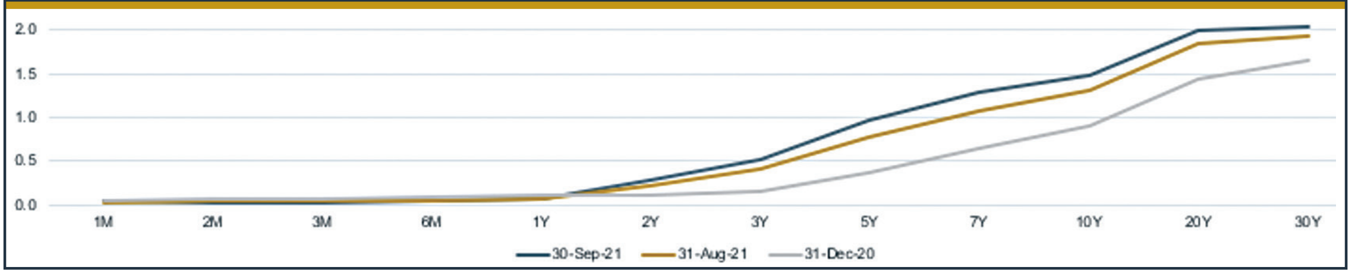


Source: Bloomberg as of October 19, 2021

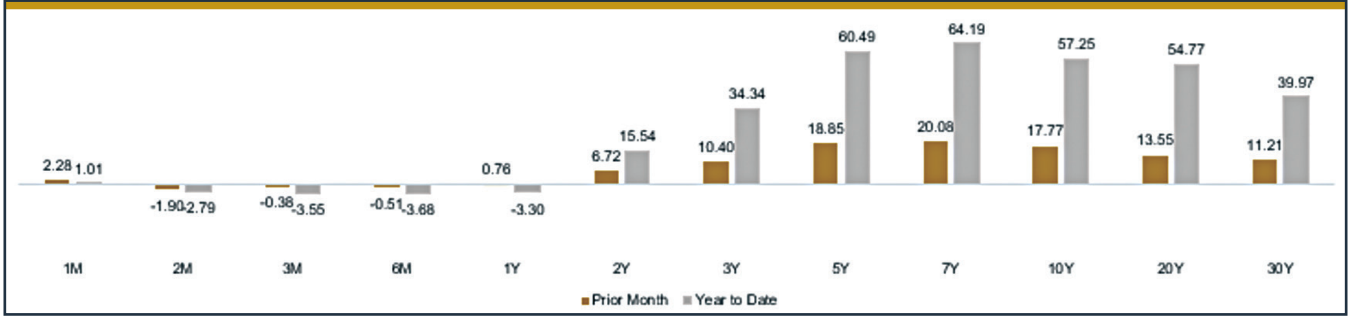
Bond Market Recap

On the surface it wouldn't appear there was much movement in bond yields as the 10-Year Treasury rose only slightly during the quarter, from 1.47% to 1.49%. On the contrary, the 10-Year Treasury rate was sharply lower for much of the period and bottomed at 1.19% several times. However, rates began steadily moving upward towards the end of the quarter behind the inflationary concerns cited earlier.

TREASURY CURVE (%)



YIELD CURVE CHANGE



Source: Bloomberg as of September 30, 2021

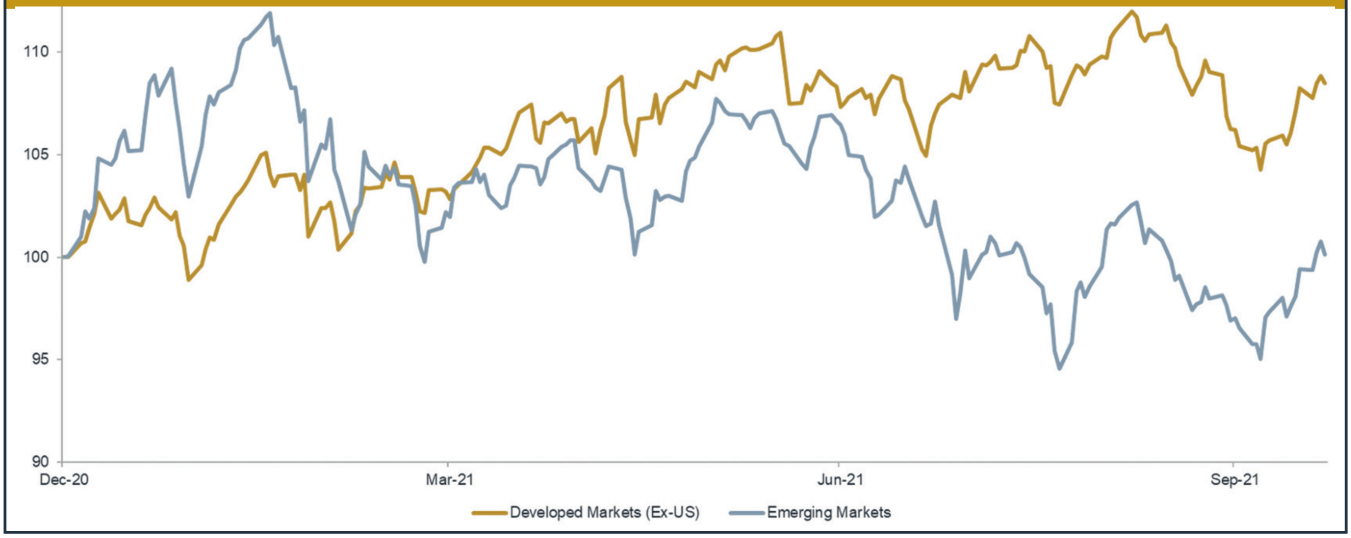
International Equity Markets Recap

The third quarter began strongly for developed international markets – notably the Eurozone and erstwhile member UK – as the economic recovery, buoyed by rising vaccination rates and reopening economies, fueled strong Q2 Earnings. Throughout the quarter, however, concerns over inflation rose due to supply chain bottlenecks and an ongoing surge in energy prices against low stockpiles coming into the peak winter heating season. Annual inflation came in at 3.4% in September for the bloc, up from 2.2% in July. Japanese equities were largely rangebound, even with the surprise resignation of the Prime Minister in early September. His successor as party head has been largely perceived as status quo, with little change expected in fiscal or monetary policy decisions.

China dominated the emerging market narrative in the quarter, as regulatory actions related to the property markets initially triggered a broad sell-off, particularly as going concerns related to embattled developer Evergrande. The sell-off was then compounded by the reimposition of some lockdown measures and broader supply chain concerns. Brazil was, however, the weakest performer – as spiraling inflation drove restrictive monetary policy and the pandemic continues to ravage the country against a weak response and low vaccination rates. Net energy exporters, such as Russia, Colombia, and Middle Eastern nations performed strongly on rising prices.

International Equity Markets Recap *continued*

INTERNATIONAL MARKET SEGMENT PERFORMANCE YTD (Normalized as of 12/31/2020)



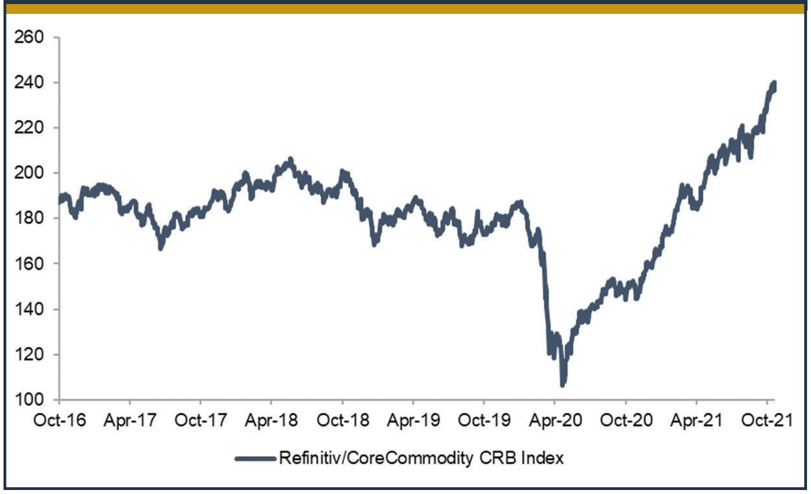
Source: Bloomberg as of October 19, 2021

Commodity Recap

The widely followed Thompson Reuters CRB index of 19 key commodities has increased by 43.3% this year. The rebound in global growth combined with chronic capital underinvestment in certain commodity sectors has contributed to supply shortages and price surges. Year-to-date the price of crude oil has rocketed higher by 71%, natural gas by 99.5%, copper by 32.1%, lithium (used in electric car batteries) by 289%, coffee by 39.6%, milk by 13.2%, poultry by 37.8% and the list goes on. Notably bucking the trend, lumber prices have eased by -22.5% on a year-to-date basis following the meteoric rise seen during the height of the pandemic.

We also note the remarkable increase in domestic home prices which increased by 19.7% year over year in the latest reading from July, the highest annual growth rate in 15 years. Housing price increases are expected to trickle down to rent price increases and could be a contributing factor to a higher-for-longer overall CPI reading in the months ahead.

CORE COMMODITY INDEX



Source: Bloomberg as of October 19, 2021

Near-Term Outlook

As aforementioned, recent positive trends in Covid case declines and measures of employment point to economic activity reaccelerating and remaining robust over the next several months. Increased overall employment, higher wages, improved consumption capacity and inventory rebuilding are all contributing to the growth momentum in the U.S. and abroad. Economists are closely watching dynamics in China, where slowing economic activity, increased regulation, energy shortages and problems with over-leveraged property developers could dampen global growth next year. In the near term however, financial markets are celebrating the long-awaited return to greater activity and reemergence of life as we remember way back in 2019.

We continue to recommend that our clients hold a well-diversified portfolio of domestic and international equities. Industry sectors likely to outperform over the next several months include Energy, Financials and Technology, while small and mid-size company stocks should benefit from the rebound in economic growth. We prefer shorter-duration fixed income instruments given the heightened risk of inflation driving longer-term interest rates higher. Should economic growth and inflation begin to moderate later next year, we will focus on capital preservation by opportunistically lengthening the duration of our fixed income investments and rotating into more defensive equity sectors to capture additional yield and downside protection.

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