Capital Markets Review and Outlook

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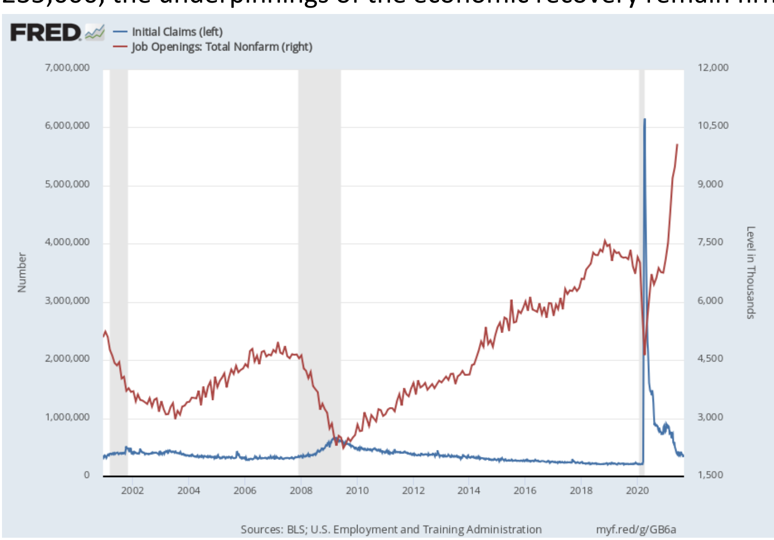
Economy and Outlook

A resurgence in the number of Covid-19 coronavirus cases, due to the rapidly spreading and very contagious delta variant mutation, have raised concerns both from a health and economic perspective. However, the outlook may not be quite as bleak as portrayed in the media. Vaccinations against the disease continue to ramp up – over 5 billion vaccine doses have been administered worldwide. Vaccination rates have also accelerated; in many developed countries, vaccination rates (at least one vaccine dose) are over 60%. In other major developing economies such as India and Brazil which just a few weeks ago had low vaccination rates, the percentage of the populations that have received at least one vaccine dose is now 36% and 59% respectively. Vaccine boosters which recently became available, are now likely to win approval for more widespread distribution. This will further mitigate the spread of Covid-19. Also, judging by the progression of the delta variant in countries which first experienced it, the recent surge in the United States may likely abate over the next several weeks. On the economic front, while the August employment report for the U.S. showed a smaller-than-expected jobs gain of 235,000, the underpinnings of the economic recovery remain firm. The chart on the left shows that despite the subpar employment report, weekly jobless claims are at a pandemic low, while the number of jobs available is at an all-time high. This phenomenon is not just confined to the United States. Job vacancies in the United Kingdom have reached a record high as businesses struggle to fill vacancies. In the United States, the expiration this year of some of the unemployment benefits programs enacted in the March 2020 Cares Act may help bring better balance between the number of unemployed workers and the record number of job openings. After the Federal Reserve's recent policy-making meeting, there are more signs that a tapering of the central bank's quantitative easing program may begin later this year. Meanwhile, the monetary spigot is wide open flooding an already saturated market



with more liquidity. Adding to this flood of liquidity are the trillions of dollars in the White House's proposed $3.5 trillion budget and $1 trillion infrastructure plan. Risks are mounting as this ocean of excess liquidity creates imbalances across risk markets.

Equity Markets

In August, equity markets rose for the seventh consecutive month and made new highs as the financial markets remained awash in both fiscal and monetary-driven liquidity. The broad domestic equity market represented by the Russell 3000 index climbed +2.8% bringing its return for the first eight months of the year to 20.4%. By capitalization, Large Cap led the way in August with a gain of +2.9% while Mid Cap (+2.5%) and Small Cap (+2.2%) were not far behind. Year-to-date, Large Cap and Mid Cap have gains of just over +20% while Small Cap trails with a gain of just under +16%. For the third consecutive month Growth outperformed Value in Large Cap and Mid Cap. Value, however, outperformed Growth in Small Cap widening its lead over Growth for the year by almost 19 percentage points. In a reversal from the prior month, Cyclicals outperformed Defensives in August. The Financials sector was the best performer with a return of +5.1% as Treasury yields rose and the yield curve steepened. Communication Services (+5%) and Technology (+3.6%) were also strong performers for the month while Consumer Staples (+1.4%) and Industrials (+1.1%) lagged. Energy (-2%) was the only major sector with a negative return as oil prices declined over 7% on concerns that the spreading Delta variant would result in a reduction in the demand for oil. International equity markets rebounded in August with the MSCI ACWI ex-US index gaining +1.9%. Among the developed markets, Japan (+3.1%) had the best return helped by positive corporate earnings, while Germany and Italy both gained +1.3%. Canada was negatively impacted by the decline in oil prices and rose a relatively muted +0.2%. The MSCI Emerging Markets index gained +2.6% boosted by the strong +10.9% gain in India as the local markets benefitted from the central bank's injection of liquidity to stimulate the economy hard-hit by the pandemic. Concerns about increased regulatory oversight continued to weigh on the equity markets in China. Year-to-date, the MSCI Developed Markets index (excluding the U.S.) is up +11.6% significantly ahead of the +2.8% return for the Emerging Markets index.

Fixed Income Markets

After falling for the past four months, (especially at the longer end of the yield curve), Treasury yields rose in August as bond investors reacted to the continuing rebound in the economy, rising inflation and talk from the Federal Reserve about the possible beginning of a tapering in the Fed's quantitative easing program. While 2-year Treasury yields rose by just 1 bp, 5 and 10-year yields rose by 8 bp and 6 bp respectively. As a result, the Treasury yield curve steepened with the 2-year/10-year Treasury yield spread widening by 5 bp to +110 bp which is 30 bp wider since the beginning of the year. The investment grade credit sector underperformed modestly for the second consecutive month with the credit index option-adjusted spread (OAS) widening by 1 bp to +82 bp. The corporate quality curve reversed course from the prior month and flattened with the BBB-rated sector outperforming the Single-A sector by +10 bp in excess return. On the other hand, the corporate credit curve extended July's steepening with short/intermediate sectors outperforming the long maturity credit sector by +10 bp. The best performing investment grade sectors included Sovereigns (+122 bp) and Packaging (+35 bp), while energy-related sectors lagged with declines in Refining (-33 bp) and Oil Field Services (-28 bp). For the month of August, the investment grade credit sector lost -0.2% in total return as the rise in Treasury yields and wider spreads more than offset the coupon yield. Year-to-date, the index's total return is now -0.2%. Unlike its investment grade counterpart, performance in the high yield sector was positive as it mirrored performance in the equity markets. The Bloomberg Barclays High Yield index OAS narrowed by 6 bp to end the month at +288 bp resulting in a total return of +0.5% for the month of August. Performance by quality was mixed with the Ba-rated sector posting a total return of +0.6%, while the corresponding returns for the Single-B and Caa sectors were +0.4% and +0.5% respectively. The best performing sectors included Construction Machinery (+1.1%) and Media (+0.9%) while Electric Utilities (-4 bp) and Wirelines (+2 bp) were among the laggards. For the first eight months of the year, the High Yield index gained a total return of +4.6%. Government yields in international developed markets also rose in August as investors focused on the potential withdrawal of monetary policy support if the Federal Reserve begins tapering its quantitative easing program later this year. The U.S. dollar also strengthened with the dollar index (DXY) gaining around +0.4% for the month. As a result, the FTSE non-US World Government Bond Index (WGBI) lost -0.8% in August underperforming the U.S. government bond index which declined -0.2%. Year-to-date, the international government bond index (-5.1%) continues to trail the U.S. government bond market's return of -1.4%.

			Returns as of 8/31/21 (In %)				
		Month	QTD	YTD	1 Year	3 Years	5 Years
Russell 3000®	US AllCap Equity	2.9	4.6	20.4	33.0	17.9	18.0
Russell 1000®	US Large Cap Equity	2.9	5.0	20.7	32.3	18.4	18.2
Russell 1000® Growth	US Large Cap Growth	3.7	7.2	21.1	28.5	24.6	24.4
Russell 1000® Value	US Large Cap Value	2.0	2.8	20.3	36.4	11.5	11.7
Russell Midcap®	US Mid Cap Equity	2.5	3.3	20.1	41.2	15.6	15.4
Russell Midcap® Growth	US Mid Cap Growth	3.2	4.3	15.2	35.2	21.0	20.4
Russell Midcap® Value	US Mid Cap Value	2.1	2.8	22.8	44.5	11.4	11.5
Russell 2000®	US Small Cap Equity	2.2	-1.5	15.8	47.1	10.7	14.4
Russell 2000® Growth	US Small Cap Growth	1.8	-1.9	6.9	35.6	12.3	16.6
Russell 2000® Value	US Small Cap Value	2.7	-1.0	25.4	59.5	8.4	11.7
MSCI ACWI ex-US	Global Equity ex-US	1.9	0.2	9.4	24.9	9.4	9.9
MSCI EAFE	Global Developed Mkts Equity	1.8	2.5	11.6	26.1	9.0	9.7
MSCI EM	Emerging Mkts Equity	2.6	-4.3	2.8	21.1	9.9	10.4
Bloomberg/Barclays US Agg	US Core Fixed Income	-0.2	0.9	-0.7	-0.1	5.4	3.1
Bloomberg/Barclays US Interm. Agg	US Intermediate Fixed Income	-0.2	0.6	-0.3	0.1	4.4	2.6
Bloomberg/Barclays US Credit	US Corporate Bonds	-0.2	1.1	-0.2	2.3	7.4	4.5
Bloomberg/Barclays US MBS	US Mortgage Backed Securities	-0.2	0.5	-0.3	-0.2	3.8	2.3
Bloomberg/Barclays US Corp HY	US High Yield	0.5	0.9	4.5	10.1	7.1	6.7
FTSE Non-US WGBI	Global Fixed Income ex-US	-0.8	1.0	-5.1	-0.9	3.5	1.6

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