CIO View

Monthly Strategy Snapshot

August 2021

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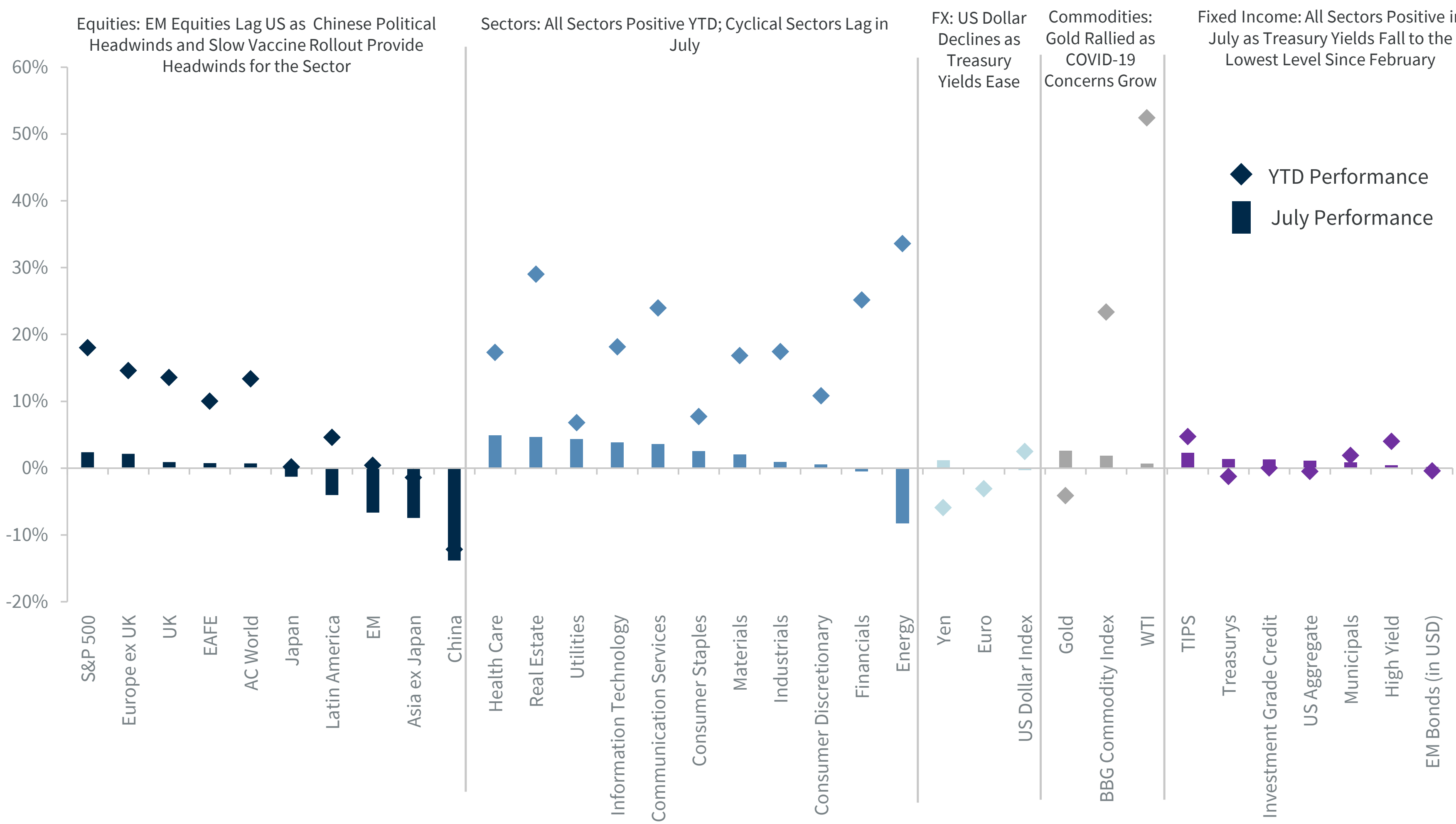
Chief Investment Officer

Returns By Asset Class | Month and Year-to-Date Returns

Returns by Asset Class



Data as of July 31, 2021. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent monthly returns.

Global Economy | Confidence Grows as Recovery Unfolds

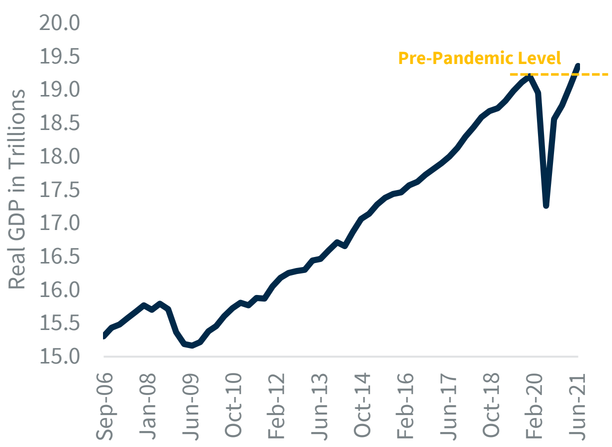
Global Economy | Recent Trends

- Global daily new COVID cases **increased dramatically in the month of July** as the spread of the Delta variant is suggesting a fourth wave has just started. The positivity rate of COVID tests in the US is back above 5%, and daily new cases **surpassed the 100,000 threshold** at the end of July despite ~50% of the US population being fully vaccinated.
- Fed officials **held policy rates steady** at their July FOMC meeting. While the economy is making steady progress, the recovery (particularly in the labor market) remains far from complete. With short-term interest rates on hold until at least 2023, we believe the Fed is **setting the stage to begin tapering its asset purchases later this year or in early '22.**
- Economic growth remains strong with Q2 GDP growing at a 6.5% annualized pace. **GDP reached an important milestone in the 2Q, rising back above it's pre-pandemic levels.** After the last recession in 2009, it took 10 quarters for the economy to rebound to its prior peak.
- The Consumer Price Index rose 5.4% year-over-year in June, **the largest increase in 13 years. Outsized price increases in a few small categories**, such as new and used cars, car rentals, hotels, airfare and entertainment, **have been key contributors to the upside surprise**. Inflationary pressures have been more moderate outside of these pandemic related sectors.
- The **Conference Board of Leading Economic Indicators** increased 0.7% in June. While the monthly increase moderated from the prior month, the level of the index is at the **highest on record**. Broad based gains suggest strong economic growth is likely to continue.

Global Economy | 2021 Outlook

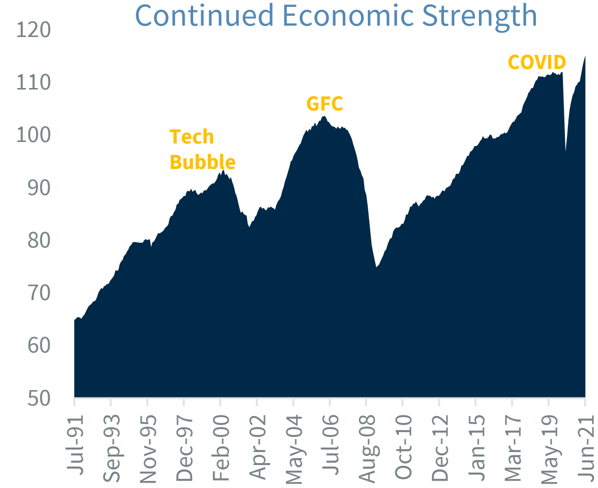
- **Global economic growth has been more robust than expected, but should moderate in the second half of 2021.** Advanced economies, where the vaccine rollout has been more successful, should see further normalization in activity as the year progresses. Emerging markets have had some near-term set backs, but should turn the corner in the months ahead.
- **We expect US GDP to grow at an ~6.2% pace in 2021,** up sharply from our estimates at the beginning of the year. We expect consumer spending, the main engine behind growth, and solid corporate fundamentals to underpin growth for the remainder of the year. While the Delta variant remains a threat, we do not think it will derail the recovery.
- Supply chain bottlenecks, unfavorable year-over-year comparisons and surging demand have elevated price pressures in recent months. **Some of the factors pushing prices higher are beginning to abate, which should begin to ease price pressures in the months ahead.**
- Aggressive actions from policymakers (both from a fiscal and monetary perspective) remain supportive of economic growth. While **tapering remains on the horizon**, the Fed is expected to keep interest rates pegged at zero and continue its asset purchases well into next year.

US GDP Recovers COVID-related Losses



Source: FactSet

Leading Economic Indicators Signal Continued Economic Strength



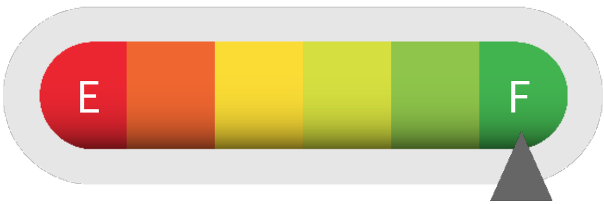
Source: FactSet

Activity Metrics | US Economy Remains on Sound Footing

ECONOMIC ACTIVITY REACHED PRE-COVID LEVELS IN 2Q21

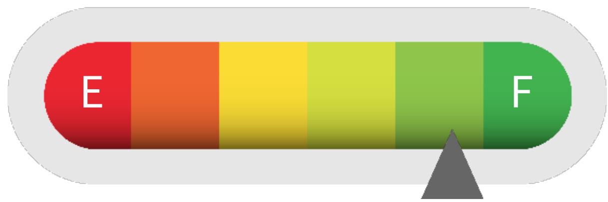
- As a result of fiscal and monetary stimulus and improving activity metrics (due to increased vaccinations and limited social distancing measures), we expect US GDP to be ~6.2% in 2021. This would mark the best year of economic growth since 1984.

Withholding Taxes



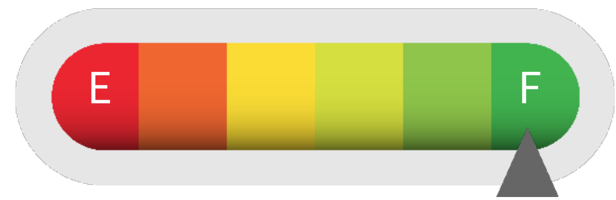
Withholding taxes are back at record highs, suggesting increased employment and rising wages

Jobless Claims



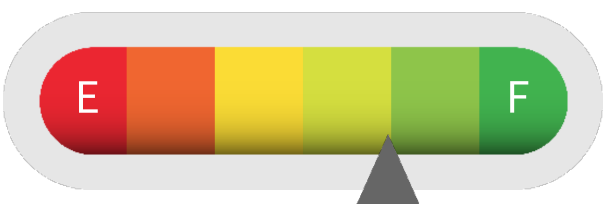
Jobless claims are near post-COVID lows and are back below the previous 30-year average

ISM New Orders



ISM new orders index is in expansion territory (a level above 50) and is at nearly the highest level in thirty years

Motor Vehicle Sales

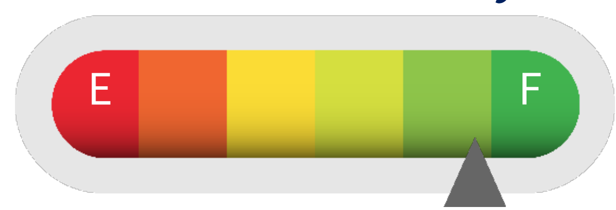


Demand for US motor vehicles remains strong, but supply chain issues are weighing on sales

Bank Lending

The net percentage of banks that are tightening lending standards is at a multi-year low

Real-Time Activity



While in large part remaining below 2019 levels, TSA screenings, restaurant reservations and hotel bookings are all at post-COVID high levels

Equities | Multiple Tailwinds Prompt Upward US Earnings Revisions

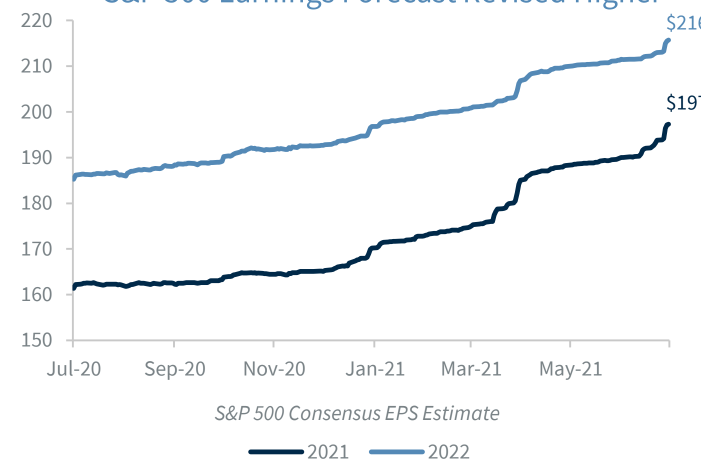
Global Equities | Recent Trends

- The S&P 500 was up 2.9% in July, notching its sixth consecutive monthly gain. **The S&P 500 is up over 18% to start the year and is up over 100% since bottoming last March.** This recovery, by far, remains the strongest on record at this juncture.
- Solid corporate earnings, accommodative central bank support and positive shareholder friendly activities (e.g., rising dividends and buybacks) continue to underpin equity prices. **Our year-end S&P 500 target remains 4,400** using $200 2021 EPS and 22x P/E.
- S&P 500 EPS growth hit a record high (85% YoY) in 2Q21. The percentage of companies beating EPS estimates is near a record high, with the average 'beat' well above average.
- Rising input costs and margins remain a key topic on company earnings calls. While there is a concern this could compress margins, **most companies are reporting they have been able to maintain/expand margins due to overwhelmingly strong demand and their ability, so far, to pass price increases through to consumers.**
- **The gap between the US stock market and the rest of the world continues to widen,** with the MSCI EAFE Index gaining only 1.7% and the MSCI Emerging Markets Index declining 5.4% in July. Weakness in Chinese equities as a result of political concerns (the largest weight in the index at ~38%) and slower than expected vaccine rollout have been near-term headwinds for the broad asset class.

Global Equities | 12-Month Outlook

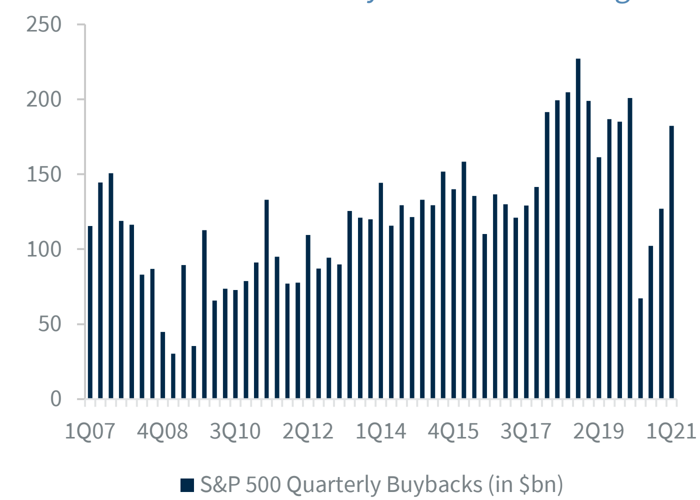
- While valuations and sentiment indicators remain elevated, **we believe that equity prices will grind higher over the next 12 months** given the strong fundamental backdrop and solid momentum in earnings. **We think the S&P 500 could reach 4,600 in 2022 (using a $230 EPS and 20x P/E).**
- **We continue to favor the Consumer Discretionary, Financials, Communication Services, Industrials and Energy sectors.** These pro-cyclical sectors are best positioned to benefit from strong pent-up demand, rising consumer confidence, and a further reopening in both the US and global economy.
- **Our longer-term bias toward domestic equities remains intact.** While US equities have outperformed foreign developed markets, the trend will likely continue as economic growth and earnings momentum are more favorable for US equities relative to its foreign counterparts.
- **Despite the recent setback, we remain constructive on emerging market equities over the medium to long term.** Valuations remain attractive on a relative basis, but selectivity within markets and sectors will be key.

S&P 500 Earnings Forecast Revised Higher



Source: FactSet

Shareholder-Friendly Actions Increasing



Source: FactSet

Fixed Income | Treasury Yields Ease Further

Global Bonds | Recent Trends

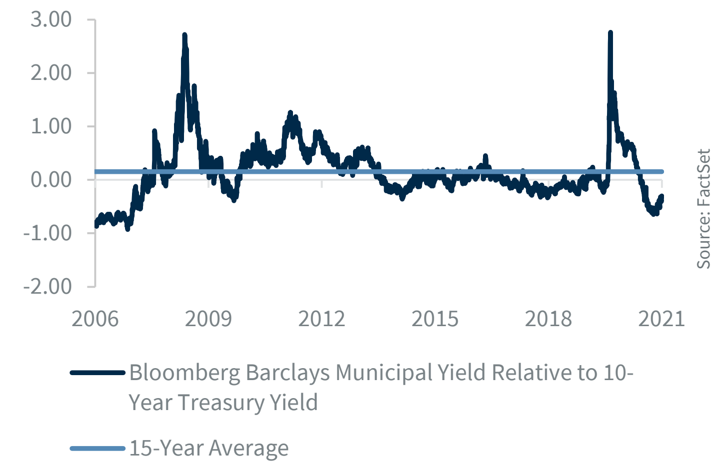
- Despite strengthening economic data, improving activity metrics, rising inflation (core CPI rose at the fastest pace since December 1991 in June) and increased issuance, the **10-year Treasury yield cooled further in July and posted its fourth consecutive monthly** decline (-22 bps to 1.23%) as the Fed continued its accommodative stance and the Delta variant weighed on rates. The 10-year Treasury yield is now ~50 bps off of recent highs. Both the real yield and breakeven inflation rates declined in July.
- As the decline in Treasury yields occurred predominantly on the longer end of the curve, **the US Treasury yield curve (10Y/2Y) flattened to the lowest level in five months.**
- The risk asset rally and improving economic activity continue to support credit-related assets. While credit spreads widened modestly in July, **spreads in all major credit sectors remain near multi-year lows.** High yield was particularly strong, as the yield on high-yield bonds declined intra-month to the lowest level on record in July.
- While **municipal-bond spreads (relative to Treasurys) rose for the second straight month,** they remain below historical averages as individual tax hikes remain on the table as a potential pay-for in a future infrastructure package.

Global Bonds | 12-Month Outlook

- As the market is pricing in a continued economic recovery through 2021 and the potential for additional fiscal spending in an infrastructure package, **we forecast the 10-year Treasury yield to end 2021 at ~2.0%**. However, **we anticipate the rise in yields to be limited** due to transitory inflation, continued buying from global central banks, increased demand from foreign investors, and the overall interest rate sensitivity of the economy.
- While our forecasted rise in yields will likely lead to **limited, if any, capital appreciation for bonds in 2021**, **fixed income remains an important piece within investors' portfolios** as it limits/hedges equity market risk and provides increased diversification.
- Given our expectation for a modest rise in longer-duration interest rates while the Fed is set to leave policy rates unchanged for the foreseeable future (keeping shorter-term rates low), **we suggest a shorter than benchmark duration for bond portfolios.**
- From a credit perspective, while spreads have narrowed significantly to multi-year lows, **we expect them to tighten only modestly** in the next 12 months. We would favor holding higher-quality bonds and therefore **favor investment-grade over high-yield bonds**. In general, we would **prefer to add additional risk in the equity market over high yield** as we believe investors are better compensated for taking on risk in the equity market.

US Yield Curve Spread Flattens

Municipal Spreads Relative to Treasurys Rise

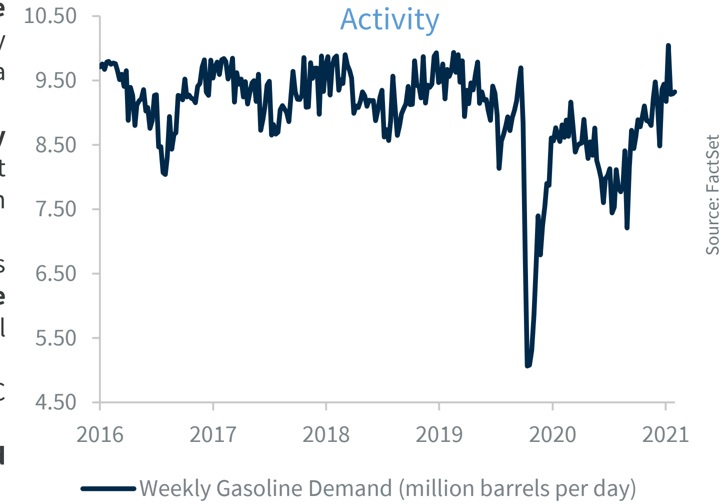


Commodities & Currencies | Commodity Rally Continues

Commodities & Currencies | Recent Trends

- The commodity rally continued in July as **the Bloomberg Commodity Index rallied for the ninth time in the last ten months.** Commodities rose on improving economic activity (particularly in the US), rising vaccine inoculations (globally it is beginning to pick-up), a weaker dollar and supply constraints. Commodities are up 40% over the last 12 months.
- Similar to broad commodities, the crude oil rally continued in July as **crude oil modestly rallied for the eighth time in the last nine months**. Despite OPEC coming to an agreement to raise future oil production, crude oil rallied on increased global demand (including both gasoline and jet fuel), accelerating economic activity, and rising COVID vaccine inoculations.
- On the back of improving global economic activity, narrowing interest rate differentials (particularly vs. Europe) and continued risk-on sentiment, **the US dollar declined for the third time in four months in July**. However, increasing COVID cases and additional social distancing restrictions as a result of the Delta variant provided support for the dollar.
- As a result of declining real yields, the Fed leaving policy unchanged at the July FOMC meeting and a weaker dollar, **gold rallied for the third time in four months in July.**
- On the back of increasing global demand and supply constraints, **industrial metals rallied for the third time in four months to the highest level since 2012.**

Rising Gasoline Demand Reflects Increasing Activity



Commodities & Currencies | 12-Month Outlook

- As US economic activity recovers following the continued roll out of vaccines and reopening of the economy, **crude oil prices will remain strong over the next 12 months (year-end 2021 WTI target: $75/barrel) due to improving global demand.**
- However longer term, as the price of crude oil is above current breakeven levels for US producers (thereby incentivizing more capital investment), **rising US crude oil production as well as increasing OPEC production will likely limit a substantial further rise in prices.**
- We expect the dollar weakness that we saw in July **to continue over the next 12 months**. Pressuring the dollar lower will be fundamental factors, as improving global economic activity, the reopening of global economies and falling global economic policy uncertainty (due to the counter-cyclical nature of the USD) will likely reduce demand for the dollar. Additionally, **aggressive US fiscal and Fed monetary policy easing**, leading to rapid money supply growth and widening fiscal deficits will also likely lead to a weaker dollar.
- While gold has been a solid hedge for investors throughout the COVID-crisis, **the demand for gold will likely continue to wane** as US economic activity improves in 2021 and 2022 and on the expectation that real interest rates will move modestly higher from current levels.

Industrial Metals Rise to Multi-Year High

Summary | Views and Key 2021 Year-End Targets

1 ECONOMY

2021 US GDP: ~6.2%

Faster than expected vaccinations, combined with additional fiscal stimulus continue to boost economic activity and upward growth revisions. Accommodative fiscal and monetary policy will continue to support economic growth, but will likely be less of a tailwind going forward relative to the prior 12 months.

2 BOND MARKET

2021 10-Year Treasury: ~2.00%

We forecast that the 10-year Treasury yield will be ~2.00% by year-end 2021, supported by improving economic activity, continued fiscal stimulus and a modest uptick in inflation. As we prefer higher-quality bonds, we prefer investment grade over high yield. Bond exposure should be viewed as a portfolio diversifier in mitigating the overall risk of a balanced portfolio and help in providing some stable income generation.

3 EQUITIES

2021 S&P 500: 4,400

Our expectation for a rebound in 2021 economic activity, rising EPS growth and continued stimulus should support equities. In contrast to recent years, we expect positive returns to be driven by EPS growth rather than P/E expansion. Use pullbacks as buying opportunities within our favorite sectors (Financials, Communication Services, Industrials, Energy, and Consumer Discretionary).

4 DOLLAR DIRECTION

2021 EUR/USD: 1.25

Our expectation is that aggressive fiscal and monetary policy and a burgeoning budget deficit may cause the dollar to modestly weaken throughout 2021. Separately, narrowing interest rate differentials may weaken the dollar relative to other currencies. However, the potential for near-term volatility in riskier assets is likely to support the dollar.

5 OIL

2021 WTI: $75/bbl

Over the next 12 months, crude oil will be supported by the reduction in social distancing measures, increasing economic activity and thereby improving demand. However, as prices rise above breakeven levels to a point that incentivizes US oil producers and OPEC to raise production levels, the rise in oil prices will likely be limited by increased supply.

6 VOLATILITY

Volatility: ↓

After a year of unpredictable events (e.g., COVID crisis, 2020 election) we expect the overall level of volatility to decrease in 2021 due to the continued roll out of vaccines, a more stable political environment in the US, improving global economic activity, still accommodative global central banks, and easing trade rhetoric (particularly between the US and Europe).

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

US DOLLAR | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

DEFINITIONS

AGGREGATE BOND | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg Barclays US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg Barclays US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

MUNICIPAL | **Bloomberg Barclays Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody’s Investors Service and BBB by Standard and Poor’s). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

BBG COMMODITY INDEX | Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

ASIA EX JAPAN INDEX | **The MSCI AC Asia ex Japan** Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

AC WORLD INDEX | **The MSCI AC World** Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

EUROPE EX UK | **MSCI Europe Ex UK Net Return Index:** The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

INTERNATIONAL DISCLOSURES

DESIGNATIONS

DATA SOURCES

FactSet as of 7/31/2021.

RAYMOND JAMES

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