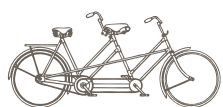


Quarterly Outlook

JULY 2021

As the recovery moves forward, investors are keenly focused on what the Fed will do next.



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Second Quarter 2021

The US economy continued to firm in the second quarter, fueled by mass vaccinations, trillions in federal relief and the lifting of both business and societal restrictions. Above-trend economic growth combined with ample liquidity led to another quarter of strong stock returns.

For the second quarter, large company stocks provided leadership, while all sectors of the S&P 500 produced positive returns. Bond returns remained mostly in negative territory through the first half of the year as the Federal Reserve begins to normalize its monetary policy for the improving economy.

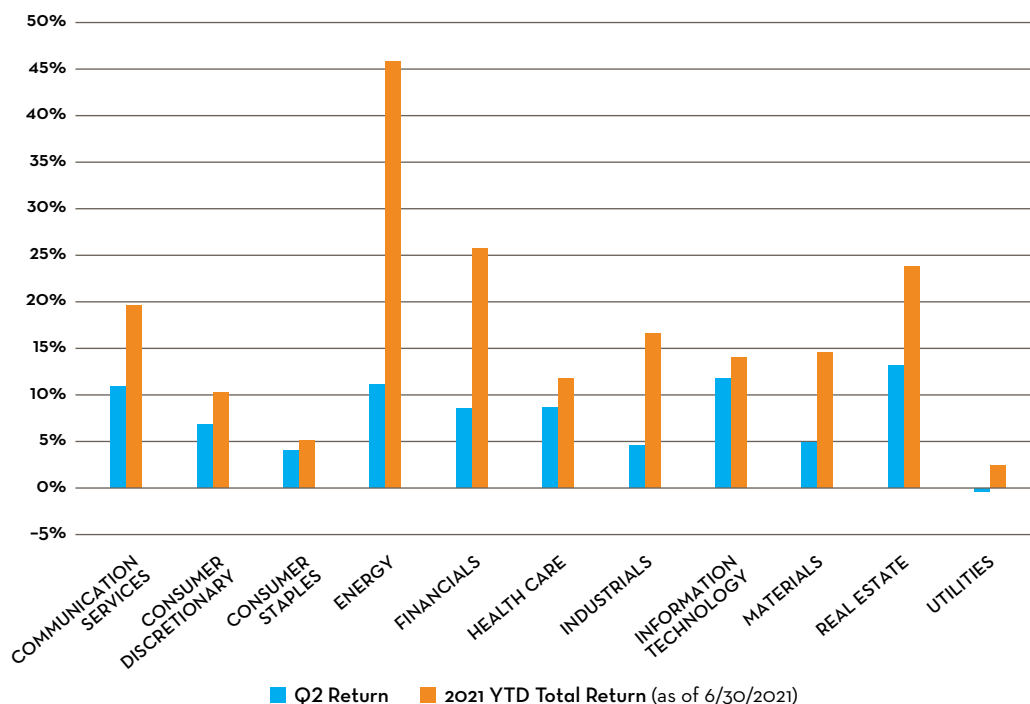
Index/Instrument	Category	Q2 2021 Total Return	2021 YTD Total Return (as of 6/30/2021)
S&P 500	Large-capitalization stocks	8.55%	15.24%
S&P 400 Midcap	Mid-capitalization stocks	3.64%	17.59%
S&P 600 Small Cap	Small-capitalization stocks	4.50%	23.55%
NASDAQ 100	Large-capitalization stocks	11.38%	13.34%
Russell 2000 Index	Small-capitalization stocks	4.29%	17.53%
MSCI World ex USA	Developed markets international stocks	5.83%	10.30%
MSCI Emerging Market	Emerging markets international stocks	5.08%	7.73%
Bloomberg Barclays US Aggregate Bond Index	Investment-grade US bonds	1.83%	-1.60%
Bloomberg Barclays US Treasuries	US government bonds	1.75%	-2.58%
Bloomberg Barclays US Investment Grade Corps	US investment-grade corporate bonds	3.55%	-1.27%
Bloomberg Barclays US Corporate High-Yield Bond Index	US corporate high-yield bonds	2.74%	3.62%
Bloomberg Barclays US MBS Index	US mortgage-backed securities	0.33%	-0.77%
Bloomberg Barclays Global Aggregate Bond Index	Global investment-grade bonds	1.31%	-3.21%
Bloomberg Barclays Global High-Yield Bond Index	Global high-yield bonds	3.06%	2.08%
Bloomberg Barclays US Convertibles	US convertible bonds	4.52%	6.62%

Amidst explosive corporate earnings growth, stocks produced hefty first-half returns, with most developed world markets producing double-digit returns. But investors also came to the realization that the virus will remain a consistent headwind, a fixture in our investment landscape for the foreseeable future, hindering job growth and limiting the full potential of the world economy. Economic momentum has clearly slowed from its white-hot pace earlier in the year, and growth is now settling into a more sustainable, healthier pace as the bull market matures and investors navigate an evolving world economy.

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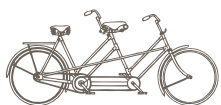
S&P 500 Sector Returns



The economy's re-opening unleashed pent-up demand – particularly for services. Rebounding from last year's -3.5% decline, GDP likely exceeded 10% for the most recent quarter and may reach roughly 7% for the full year, with economists expecting just over 4% growth in 2022. Both the commodity inflation and supply chain bottlenecks that plagued the first half of the year have eased as the world returns to normal. And while some inflation will indeed be transitory or temporary as many predict, some wage inflation, particularly for entry level service jobs, may be sticky, denting corporate profits. As in the past, investors will look to productivity improvements through technology gains to offset increased labor costs.

The labor market has recovered millions of jobs since last March yet remains 6.7 million jobs below pre-pandemic levels with an unemployment rate of 5.9%. Many factors, including Coronavirus concerns, childcare responsibilities and expanded unemployment benefits have contributed to a record number of unfilled positions in the US. We expect the labor market healing to continue, but it will take time to match skills and jobs in an economy that is transforming itself. April and May job gains were disappointing, yet June's were exceptional, particularly within the leisure and hospitality industries as pandemic restrictions eased. Fed projections show the unemployment rate dipping to 4.5% by year end and to 3.5% by 2023.

When and how stimulus is removed tends to create significant investor anxiety. As the recovery moves forward, investors are keenly focused on what the Fed will do next. Most expect policy messaging to begin at the annual Economic Policy Symposium in Jackson Hole at the end of August. While the economy has made progress towards meeting the Fed's objectives for full employment



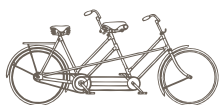
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and inflation, the labor market remains extremely disjointed. Consequently, the Fed only projects two interest rate hikes by the end of 2023 – still an extremely accommodating stance.

There is an ebb and flow to recoveries as investors decipher their place in the business cycle, investment markets calibrate to fundamentals, and reality catches up to expectations. We are now in a period when economic leadership starts to transition from the public sector (fiscal and monetary support waning) to the private sector (capital spending increasing). While investors must contend with the usual “wall of worry” including virus variants and stock valuations above their norm, conditions remain favorable for stocks against a backdrop of lower inflation expectations, a healthy consumer, a sound banking system and a very patient US Federal Reserve.



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