

# Q2 2021 Quarter in Review

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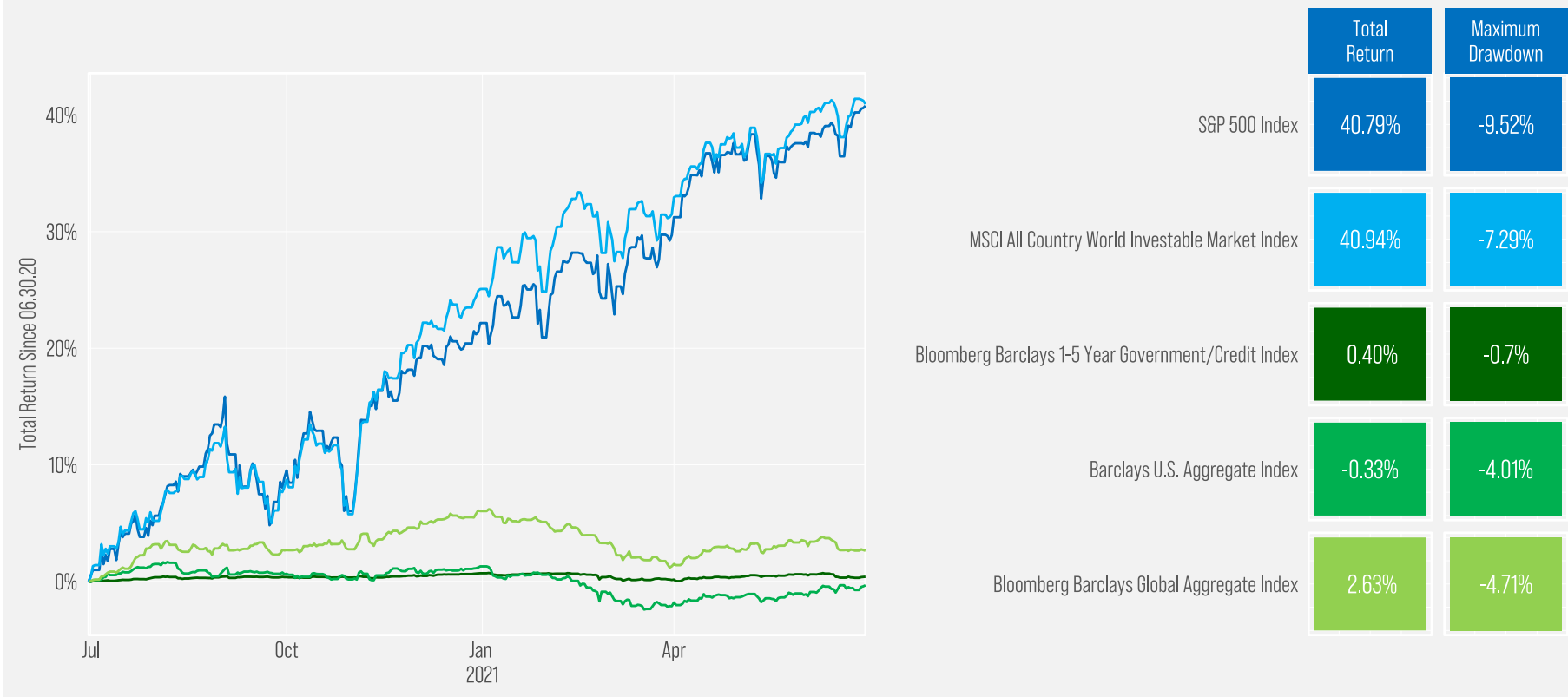
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Chief Investment Officer

# Global Market Overview

Still surging from the pandemic bottom, global stocks continued a run that followed last fall's pandemic resurgence. After struggling in the first quarter as rates generally rose on account of expectations for increased growth (and potentially excess inflation), bonds regained some of that ground lost as inflation fears subsided (a bit)

Trailing 1-Year Total Return of Major Asset Classes (through 06.30.21)



Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

# Global Equity Market Overview

After leading the pack from Q2 2020 onward, emerging market stocks struggles to maintain pace with developed-market equities. Within that group, non-U.S. held the lead through most of the quarter, only to fall back toward the U.S. tally as the U.S. dollar gained ground in June

## Trailing Broad Equity-Market Performance

Percent total return, annualized for periods greater than 1 year

	3 Month	1 Year	3 Year	5 Year	10 Year
Global	7.18	40.94	14.24	14.55	9.90
World ex. U.S.	5.60	37.18	9.42	11.20	5.65
U.S.	8.42	44.56	18.84	17.96	14.79
Int'l Developed Markets	5.04	33.57	8.28	10.53	6.22
Emerging Markets	5.73	43.21	11.38	12.86	4.31

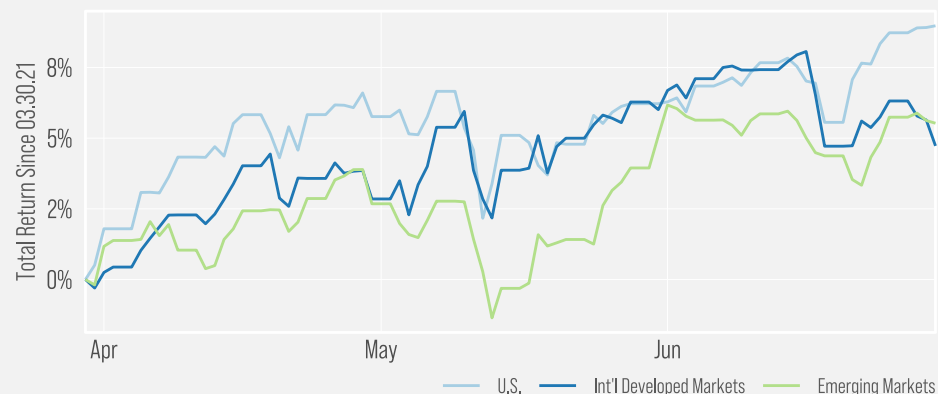
From 06.30.11 to 06.30.21. Total return data are annualized for periods greater than 1 year. SOURCE: SRCM using data from Bloomberg

### Notable events of the prior three months include:

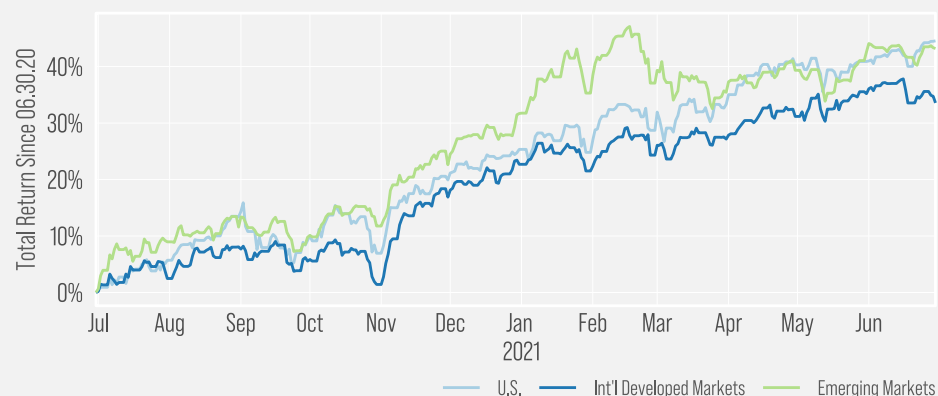
- 03.31: U.S. 10-year Treasury bond hit the 2021 YTD peak of 1.74% (closed the quarter at 1.47%)
- 05.13: CDC said fully vaccinated people can shed masks, stand a bit closer in most scenarios
- 06.16: U.S. Federal Reserve begins to see the light at the end of the COVID tunnel, eyeing earlier lift in interest rates

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### Trailing 3-Month Total Return (through 06.30.21)



### Trailing 1-Year Total Return (through 06.30.21)



# Core Factors: U.S. Stocks

After trailing their Value peers from the COVID-induced bottom, Growth stocks took the performance lead in the second quarter, pulling ahead for the 1-year period as well. Small-cap stocks trailed larger stocks, too, in Q2, but still maintained a very healthy lead over the trailing 12 months

		Value		Growth	
3-Month Period ended 06.30.21	All Stocks	8.4%	5.2%	11.7%	
	Large	9.0%	5.1%	13.2%	
	Mid	7.3%	6.2%	7.9%	
	Small	5.2%	4.5%	5.7%	

		Value		Growth	
1-Year Period ended 06.30.21	All Stocks	44.6%	42.8%	45.8%	
	Large	41.4%	37.6%	44.8%	
	Mid	51.6%	57.0%	44.8%	
	Small	64.1%	67.6%	59.3%	

The table displays the relative performance of different indexes representing U.S. stocks. Broad market performance is shown in the upper left of each group (3-month and 1-year periods). The remainder of the table displays the performance of various indexes, including large-, mid- and small-cap stocks, Value and Growth stocks, and combinations of each. Indexes that outperformed (underperformed) the broader market are shaded in blue (grey) in depth according to their respective relative performance. Past performance is not indicative of future results. One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

# Core Factors: International Stocks

The story for international stocks was somewhat similar as that for the U.S. during the second quarter. But over the prior year, Value maintained a lead over Growth, as did small-cap stocks, versus larger names

3-Month Period ended 05.30.21			Value	Growth
	All Stocks	5.6%	4.5%	6.6%
	Large	5.4%	4.6%	6.1%
	Mid	5.8%	3.1%	8.5%
	Small	6.4%	5.9%	6.8%

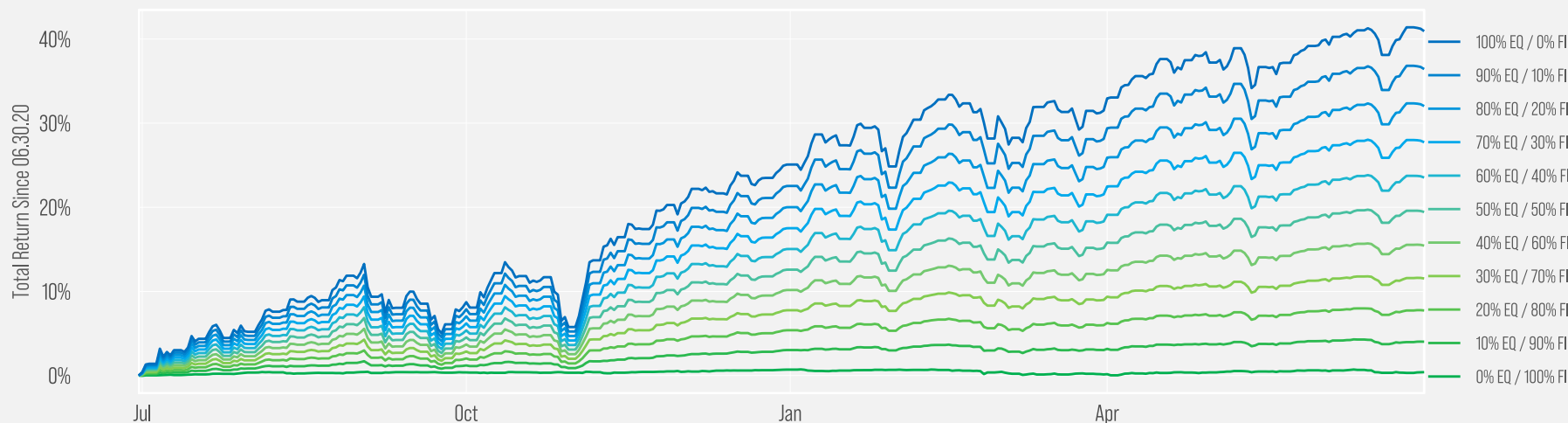
1-Year Period ended 05.30.21			Value	Growth
	All Stocks	37.2%	39.0%	35.1%
	Large	35.2%	37.0%	33.3%
	Mid	37.8%	40.1%	35.1%
	Small	47.0%	48.9%	44.9%

The table displays the relative performance of different indexes representing international stocks. Broad market performance is shown in the upper left of each group (3-month and 1-year periods). The remainder of the table displays the performance of various indexes, including large-, mid- and small-cap stocks, Value and Growth stocks, and combinations of each. Indexes that outperformed (underperformed) the broader market are shaded in blue (grey) in depth according to their respective relative performance. Past performance is not indicative of future results. One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

# Range of Returns for Different Asset Allocations

Clearly, the past year mostly has presented a “risk on” environment, gains incrementally better the more equity one maintained. Even so, relative risk measures remained consistent with history—the larger the return, the greater the interim volatility

Trailing 1-Year Total Return of a Range of Asset Allocations (through 06.30.21)



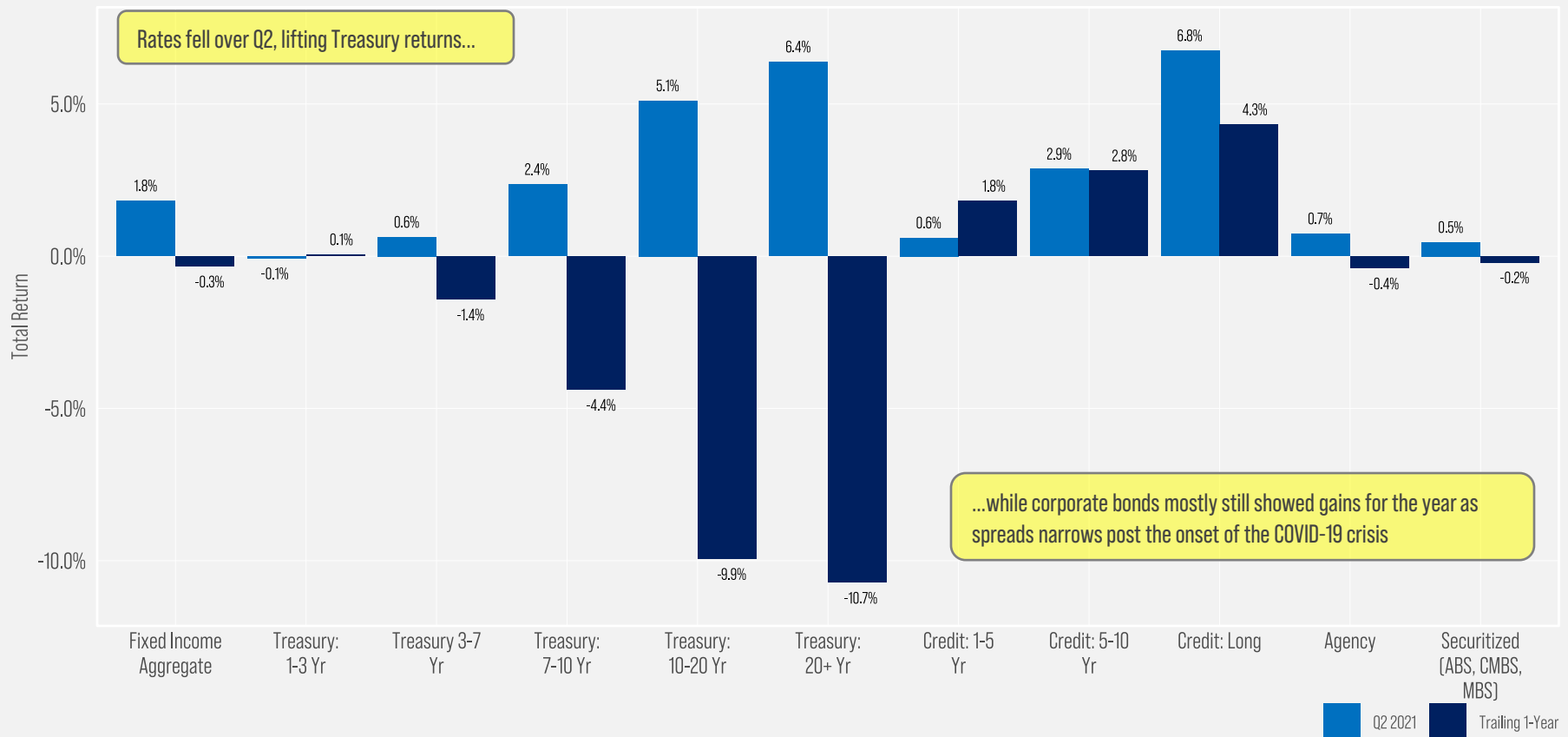
	0% EQ / 100% FI	10% EQ / 90% FI	20% EQ / 80% FI	30% EQ / 70% FI	40% EQ / 60% FI	50% EQ / 50% FI	60% EQ / 40% FI	70% EQ / 30% FI	80% EQ / 20% FI	90% EQ / 10% FI	100% EQ / 0% FI
Total Return	0.40%	4.02%	7.73%	11.54%	15.44%	19.44%	23.54%	27.73%	32.03%	36.43%	40.94%
Maximum Drawdown	-0.7%	-0.97%	-1.66%	-2.42%	-3.17%	-3.9%	-4.61%	-5.3%	-5.98%	-6.64%	-7.29%

Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. The equity index used for this presentation is the MSCI ACWI IMI Index. The fixed income index used for this presentation is the Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

# Fixed Income: Broad-Market Returns

U.S. Treasuries gained on account of a modest downtrend in rates during the latest quarter, though 1-year losses reflect a yield curve that remains broadly higher. Corporate bonds saw stronger gains on account of their generally higher yields and a further narrowing of yield spreads over similar-duration Treasuries

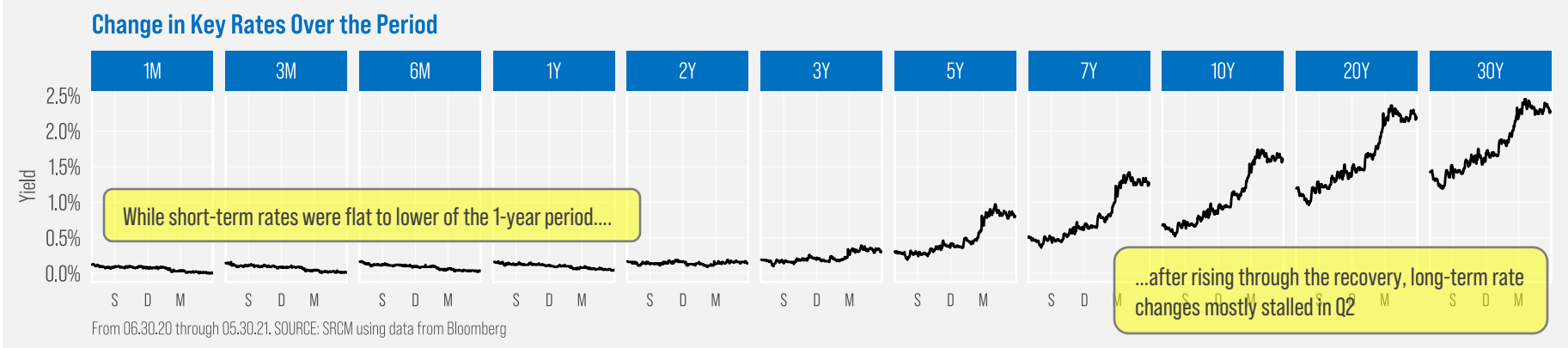
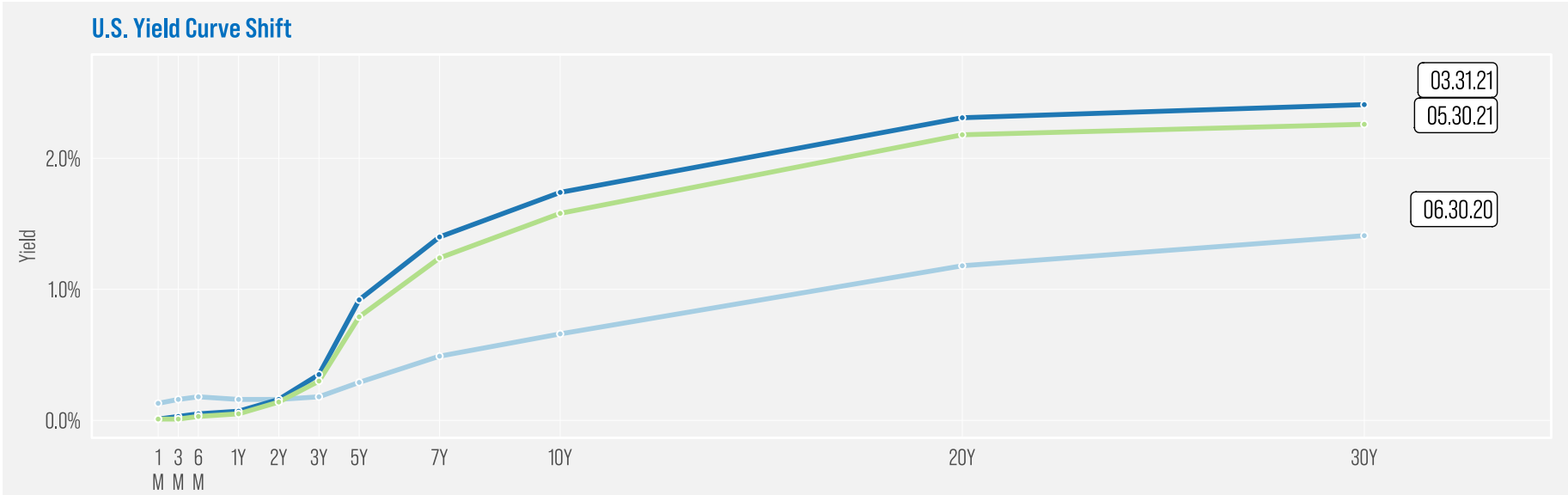
**Bloomberg Barclays U.S. Aggregate Bond Index and Sub-Index Performance**



From 06.30.20 to 06.30.21. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Components of the index include Treasury, Corporate, Agency and Securitized bonds. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

# Interest Rates: U.S. Treasury Rates

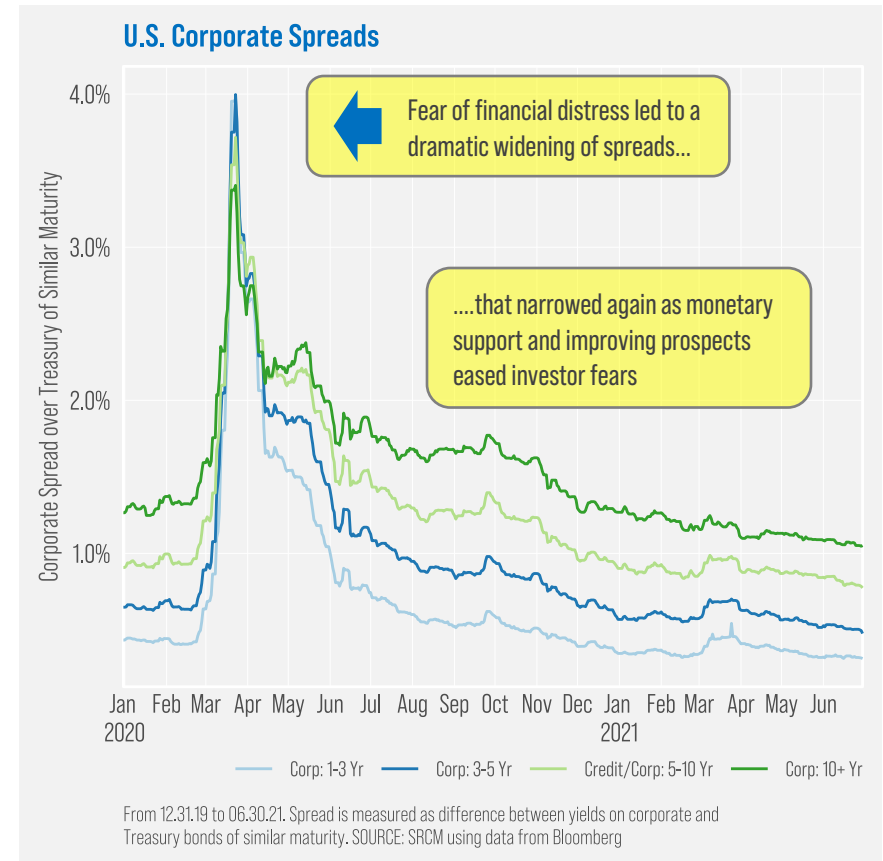
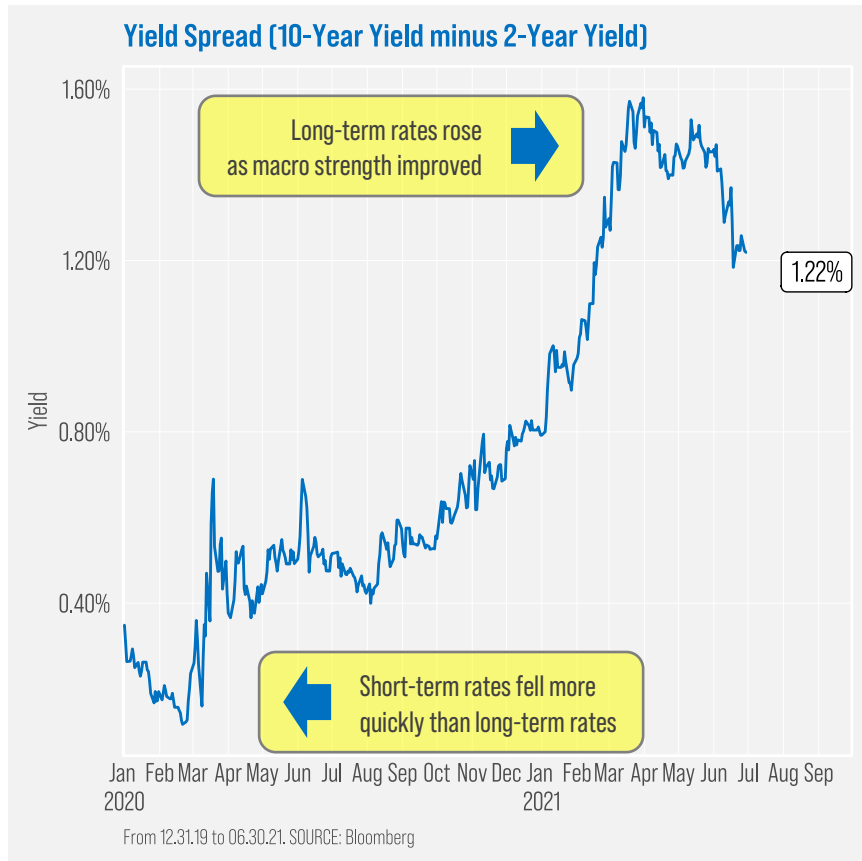
Except at the very front end of the curve, U.S. interest rates were broadly higher compared to a year ago. With investors consolidating expectations for growth after the rebound and going-forward inflation, the rate trends were more volatile over the second quarter





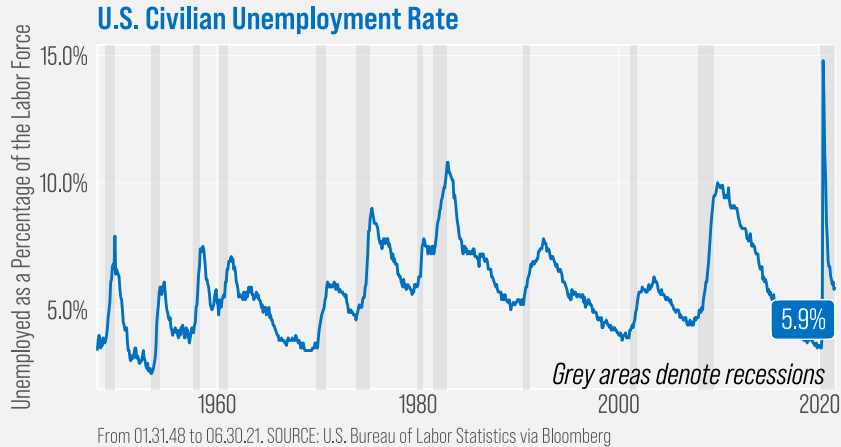
# Interest Rates: Spreads

The curve flattened in the second quarter as investor expectations for monetary policy shifted (e.g., the Fed will likely raise rates sooner than had been expected), while that same thinking also led to the belief that the Fed would be able to control inflation were it to flare more strongly than desired. Meantime, positive economic trends supported narrower credit spreads

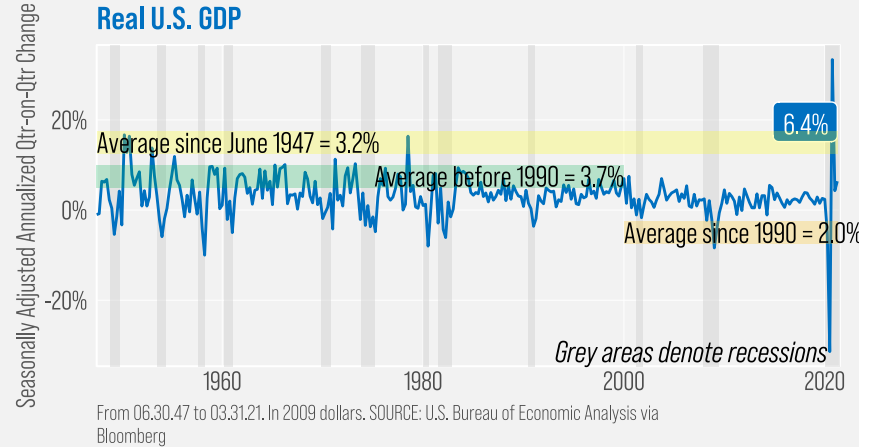


# Macroeconomic Trends

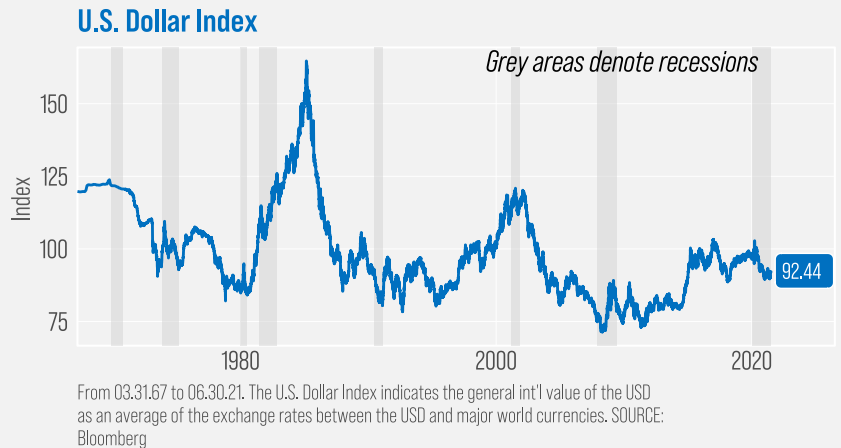
Unemployment surged during the pandemic, with service industries particularly hard hit. Jobs figures quickly rebounded, but remain stressed



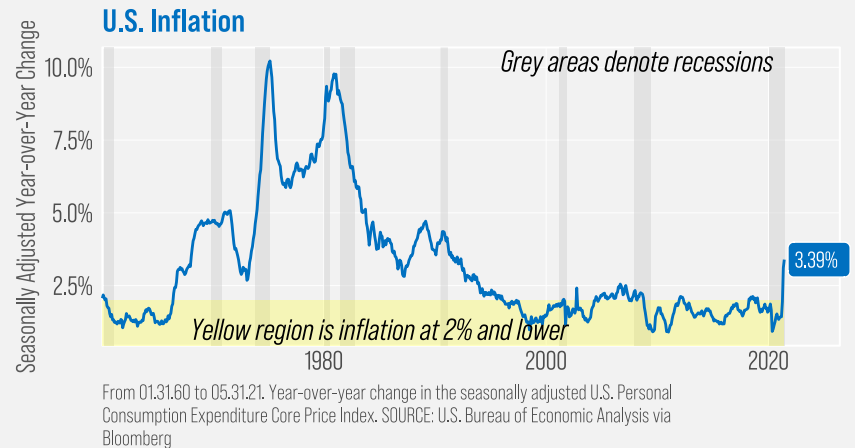
GDP growth sank at a rate never-before experienced and rebounded with similar ferocity. Going-forward rates of growth remain top-of-mind for policy makers and investors, alike



Recent declines in the relative value of the U.S. dollar have bolstered returns from international equity exposures (though Q2 saw a bit of a reversal of that trend)



One can connect the inflation surge to the global stall at the beginning of the pandemic. Eyes remain watchful for pressures that might remain after short-term effects subside



# Important Information

Investing involves risks including the possible loss of principal. Past performance is not indicative of future results.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Asset classes and their respective indexes mentioned in this report include the following:

**Domestic (U.S.) fixed income (Fixed Income Aggregate):** The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Components of the index include Treasury, Corporate, Agency and Securitized bonds. The Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index is a broad-based benchmark that includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years.

**Global equity (stocks):** The MSCI ACWI Investable Market Index (IMI) captures large-, mid- and small-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The index is comprehensive, covering approximately 99% of the global equity investment opportunity set. May be referred to as “global”, “global equity” and/or “global stocks”. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**International equity (stocks):** The MSCI ACWI ex USA Investable Market Index (IMI) captures large-, mid- and small-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 99% of the global equity opportunity set outside the U.S. May be referred to as “World ex. U.S.”, “international equity”, “international stocks” and/or “All Stocks” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**International large-cap equity (stocks):** The MSCI ACWI ex USA Large Cap Index captures large-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 70% of the free float-adjusted market capitalization in each country. May be referred to as international large-cap stocks, “World ex. U.S. Large-Cap”, and/or “Large” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**International mid-cap equity (stocks):** The MSCI ACWI ex USA Mid Cap Index captures mid-cap representation across 22 of 23 Developed Markets (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 15% of the free float-adjusted market capitalization in each country. May be referred to as international mid-cap stocks, “World ex. U.S. Mid-Cap”, and/or “Mid” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**International small-cap equity (stocks):** The MSCI ACWI ex. USA Small Cap Index captures small-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 23 Emerging Markets countries. The index covers approximately 14% of the global equity opportunity set outside the U.S. May be referred to as international small-cap stocks, “World ex. U.S. Small-Cap”, and/or “Small” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**Developed markets equity (stocks):** The MSCI EAFE Investable Market Index (IMI), is an equity index which captures large-, mid- and small-cap representation across Developed Markets countries around the world, excluding the United States and Canada. The index covers approximately 99% of the free float-adjusted market capitalization in each country. May be referred to as “Developed Markets”. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**Emerging markets (EM) equity (stocks):** The MSCI Emerging Markets Investable Market (IMI) Index captures large, mid and small cap representation across 24 Emerging Markets countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country. May be referred to as “Emerging Markets”. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**Domestic (U.S.) equity:** The MSCI U.S. Investable Market 2500 Index is designed to measure the performance of the large-, mid- and small-cap segment of the U.S. equity market. The index represents approximately 99% of the free float-adjusted market capitalization in the U.S. equity market. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below. May be referred to as “All Stocks” in a section specifically describing only U.S. stocks.

**Domestic (U.S.) large-cap equity:** The MSCI U.S. Large Cap 300 Index is designed to measure the performance of the large-cap segment of the U.S. equity market. The index represents approximately 71% of the free float-adjusted market capitalization in the U.S. equity market. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below. May be referred to as “Large” in a section specifically describing only U.S. stocks.

## Important Information

Domestic (U.S.) mid-cap equity: The MSCI U.S. Mid Cap 450 Index is comprised of the next largest 450 companies in terms of market capitalization of the U.S. equity market and designed to measure the performance of the mid-cap segment. The index represents approximately 16% of the free float-adjusted market capitalization of the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Mid" in a section specifically describing only U.S. stocks.

Domestic (U.S.) small-cap equity: The MSCI U.S. Small Cap 1750 Index is comprised of the remaining smallest 1,750 companies in the U.S. Investable Market 2500 Index of the U.S. equity market and designed to measure the performance of the small-cap segment. The index represents approximately 11.5% of the free float-adjusted market capitalization of the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Small" in a section specifically describing only U.S. stocks.

MSCI Value and Growth Indexes: The value investment style characteristics for MSCI index construction are defined using the following variables: book value to price, 12-month forward earnings to price and dividend yield. The growth investment style characteristics are defined using the following variables: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend and long-term historical sales per share growth trend. The objective of the MSCI Value and Growth Indexes design is to divide constituents of an underlying market capitalization index into a value index and a growth index, each targeting 50% of the free float-adjusted market capitalization of the underlying index. The market capitalization of each constituent should be fully represented in the combination of the value index and the growth index, and, at the same time, should not be double-counted. One security may, however, be represented in both the value index and the growth index at a partial weight.

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## Important Information

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The Bloomberg Barclays U.S Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

The Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index is a broad-based benchmark that includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years.

The MSCI ACWI Index captures large- and mid-cap representation across 23 Developed Markets and 23 Emerging Markets countries. The index covers approximately 85% of the global investable equity opportunity set.

The MSCI ACWI ex. U.S. Index captures large- and mid-cap representation across 22 Developed Markets countries and 23 Emerging Markets countries. The index covers approximately 85% of the global equity opportunity set outside the U.S.

The MSCI EAFE captures large and mid-cap representation across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 Emerging Markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The S&P 500 Index represents 500 U.S. companies and captures approximately 80% coverage of available market capitalization.

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