



3Q21 Market Environment

US Equity Performance – Third Quarter

- **Returns compress over mounting concerns**

- S&P 500 rose 0.6% in 3Q21, and smaller cap growth indices posted their first negative quarter since the March 2020 low.
- Slowing economic growth, supply chain disruptions, and inflationary pressure, as well as uncertainty around monetary policy, decreased investors' risk appetite.
- In general, high quality topped lower quality in large cap.
- Economically sensitive sectors such as Industrials (-4.2%) lagged; Financials (+2.7%) benefited.
- Growth outperformed value in large cap, and value outperformed growth in small cap.
- YTD, small value outperformed small growth by a whopping 2,000 bps (Russell 2000 Value: 22.9% vs. Russell 2000 Growth: 2.8%), a stark reversal from the prior year.

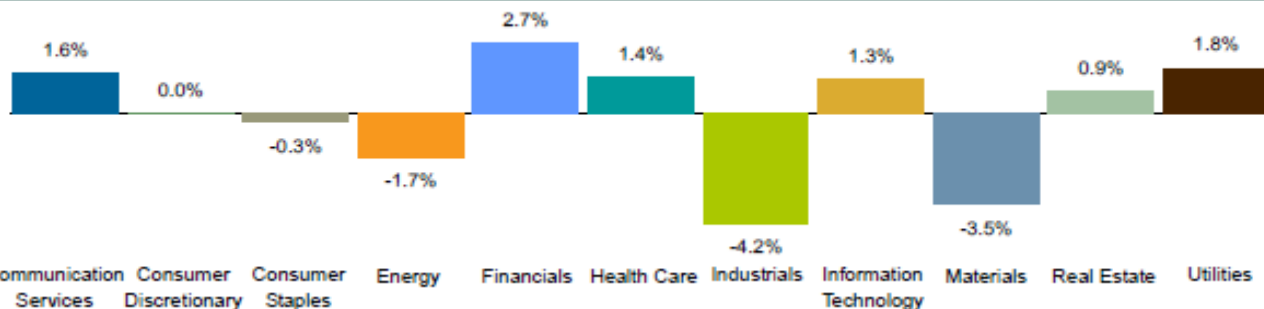
- **Diversification and rebalancing are best defense**

- Few if any pockets of opportunity remain in the equity markets as valuations have hit or exceeded long-term averages given the recent market run.
- Investors are grappling with exposures to risk assets: What to do? Where to go?
- The whipsaw effect over the last two years illustrates the need to remain committed to a long-term plan that emphasizes diversification and disciplined rebalancing.
- Historically, small cap stocks have outperformed in the first 12 months of market recoveries. They tend to underperform in the ensuing 12 months.

- **Inflation and equity: not so bad, up to a point**

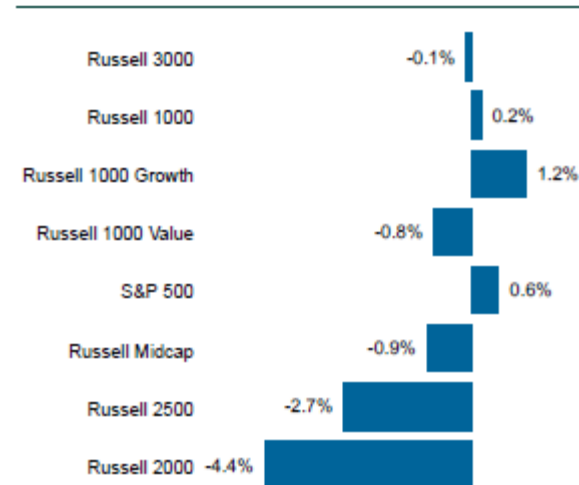
- Investors typically fare OK with expected inflation levels but are impaired when inflation is unexpectedly higher.
- Pre-GFC, stocks and interest rate movements (proxy for inflation) were highly correlated until 10-year U.S. Treasury yields reached 4.5%.
- Post-GFC, stocks and interest rate movements were highly correlated until 10-year yields reached 3.5%.
- The current 10-Year Treasury yield is 1.5%.

S&P Sector Returns, Quarter Ended September 30, 2021

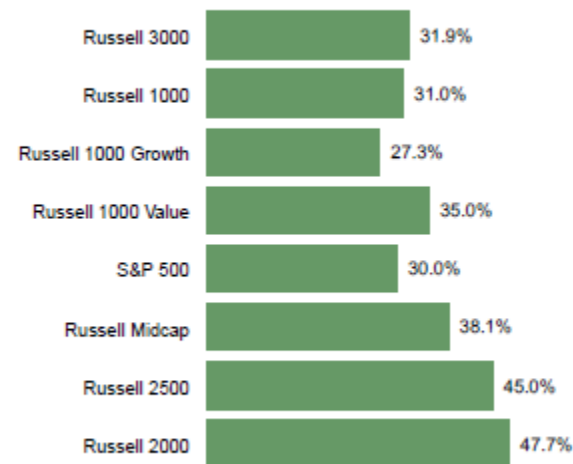


Sources: S&P Dow Jones Indices

U.S. Equity: Quarterly Returns



U.S. Equity: One-Year Returns

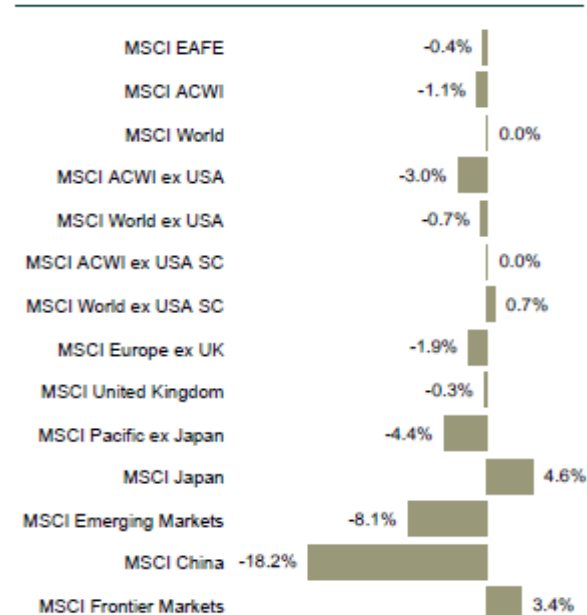


Sources: FTSE Russell, S&P Dow Jones Indices

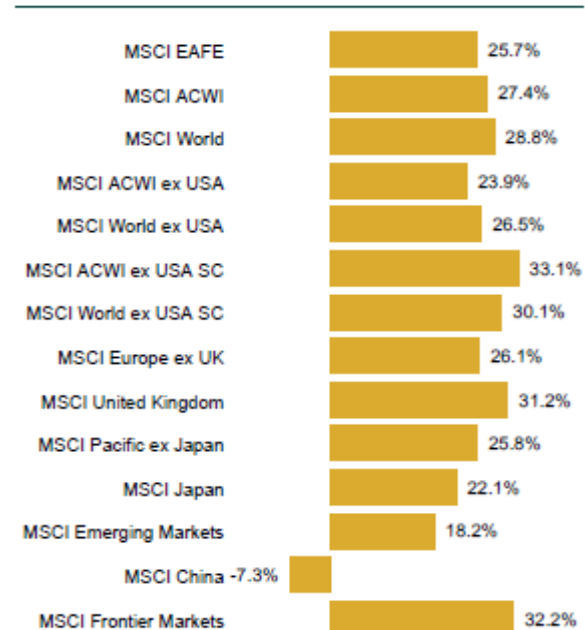
Global ex-U.S. Equity Performance – Third Quarter

- **Fears of stagflation stoke the market volatility**
 - Delta variant flare-ups and slowdown in China weighed on global recovery.
 - COVID-driven supply chain disruption continues to push inflation higher.
 - Small cap outpaced large as global recovery concerns disproportionately punished large cap companies.
 - Emerging markets struggled relative to developed markets as growth prospects were under pressure for China and Brazil.
- **Market pivots to cyclicals**
 - Energy crunch fueled the sector to the highest return in the quarter as demand outstripped supply.
 - Financials outperformed; Real Estate and Utilities generally underperformed with higher interest rate expectations.
 - Sentiment and momentum signals added value in developed markets but not in emerging markets.
- **U.S. dollar vs. other currencies**
 - The U.S. dollar rose against other major currencies as the Fed signaled tapering is imminent, which notably detracted from global ex-U.S. results.
- **Growth vs. value**
 - Value outpaced growth in emerging markets due to the Energy rally, while both were relatively flat in developed markets.

Global Equity: Quarterly Returns



Global Equity: One-Year Returns

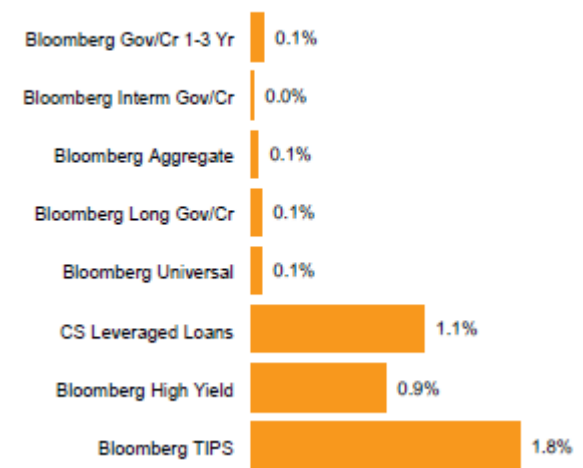


Source: MSCI

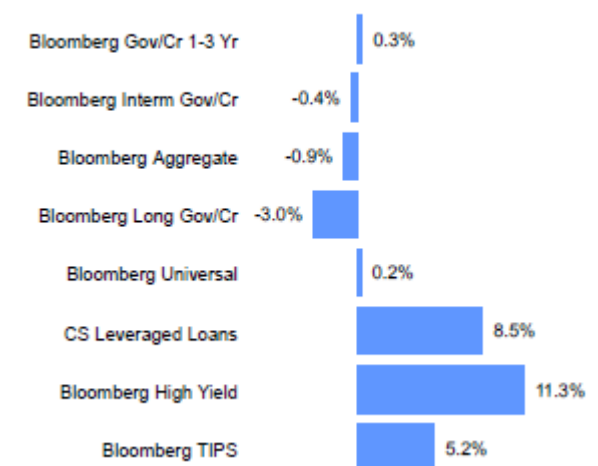
U.S. Fixed Income Summary – Third Quarter

- **Treasury yields largely unchanged from 2Q21**
 - Yields ended a volatile quarter only slightly higher after the Fed signaled it may soon begin tapering its bond buying program.
 - 2-year and 10-year Treasury yields rose 3 and 7 bps, respectively.
 - TIPS outperformed nominal Treasuries, and 10-year breakeven spreads widened 5 bps to 2.37%.
- **Bloomberg Aggregate flat as spreads widened**
 - Minor gains in Treasuries and agency MBS were offset by declines in government-related, CMBS, and corporates.
 - IG corporate trailed Treasuries by 15 bps (duration-adjusted) as spreads widened within long bonds.
- **High yield and leveraged loans continue rally**
 - Leverage loans (+1.1%) outperformed high yield, driven by favorable supply/demand dynamics.
 - High yield issuers' default rate declined to 0.9% in September, the lowest since March 2014.
- **Munis underperform Treasuries**
 - Supply was modest and demand was fueled by expectations for higher tax rates and strong credit fundamentals.
 - Lower-quality bonds continued their trend of outperformance as investors sought yield.
- **Fed Reiterates that current price pressures are transitory**
 - Inflation is being temporarily influenced by pandemic-related supply bottlenecks (e.g., used cars and housing).
 - Used autos spiked (+32% YOY), but rents (with a greater weight in the index) have started to apply price pressure.
 - Fed's flexible average inflation targeting (FAIT) allows inflation to overshoot the 2% neutral rate; PCE (Fed's preferred inflation measure) rose 4.3% in August.
- **Policy Adjustments may be on the horizon**
 - Fed signaled it would move up its taper announcement.
 - Sep '21 Fed Funds rate forecast illustrated a potential rate hike in 2022, with a 25 bps increase; the previous dot plot had no hikes until 2023.

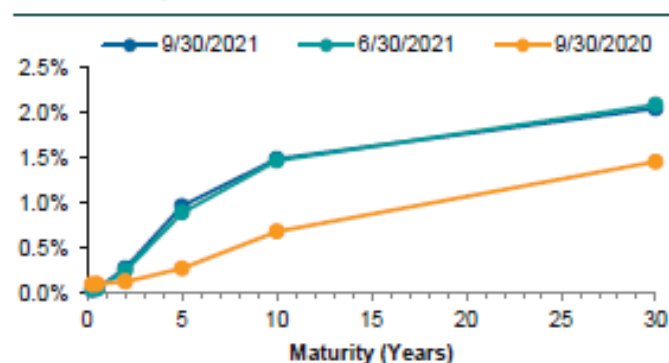
U.S. Fixed Income: Quarterly Returns



U.S. Fixed Income: One-Year Returns



U.S. Treasury Yield Curves



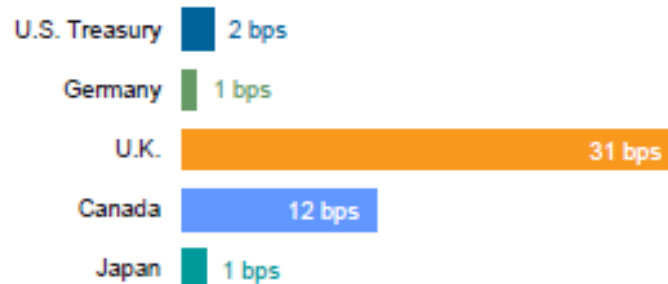
Sources: Bloomberg, Bloomberg, Credit Suisse

Non-U.S. Fixed Income Performance – Third Quarter

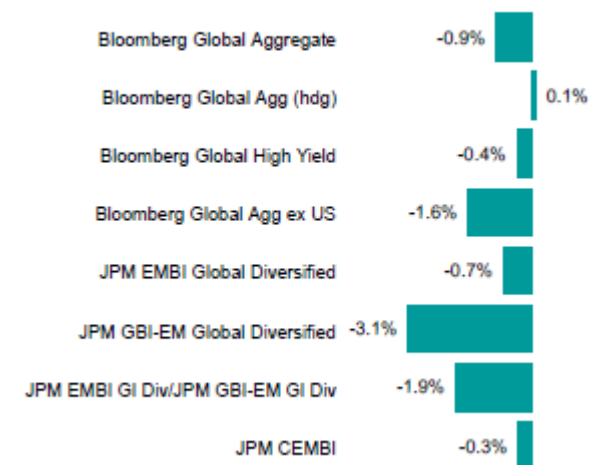
- **Global fixed income flat on a hedged basis**
 - Returns were muted and U.S. dollar strength eroded returns for unhedged U.S. investors.
 - The dollar gained roughly 2% vs. a basket of developed market currencies.
- **Emerging market debt gains**
 - The U.S. dollar-denominated index (EMBI Global Diversified) declined as the Delta variant in some countries raised concerns, and the local Index (JPM GBI-EM Global Diversified) lost further ground due to currency depreciation.
 - Most emerging currencies depreciated versus the dollar. Notables include Brazil real (-7.9%) and South Africa rand (-5.1%).
 - EM corporates fared better amid improving corporate fundamentals and the global economic recovery.
- **Inflation overseas**
 - Yields have increased as non-U.S. developed market countries also deal with supply bottlenecks and pressure from energy prices.
 - Euro zone inflation has been elevated, but not at same level as the U.S.
 - Central bank policy is mixed.
 - The U.K.'s Bank of England has signaled a potential tightening of its monetary policy by the end of 2021.
 - The European Central Bank remains on hold.

Change in 10-Year Global Government Bond Yields

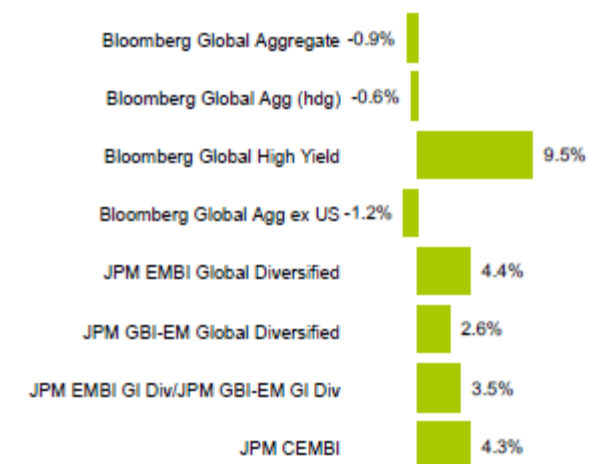
2Q21 to 3Q21



Global Fixed Income: Quarterly Returns



Global Fixed Income: One-Year Returns



Returns for Various Periods – September 30, 2021

	July	August	September	Last Quarter	Year to Date	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years	
EQUITY	1 Russell:3000 Index	1.69	2.85	(4.49)	(0.10)	14.99	31.88	16.00	16.85	16.60	10.44
	2 Russell:1000 Index	2.08	2.89	(4.59)	0.21	15.19	30.96	16.43	17.11	16.76	10.55
	3 Russell:1000 Growth	3.30	3.74	(5.60)	1.16	14.30	27.32	22.00	22.84	19.68	13.33
	4 Russell:1000 Value	0.80	1.98	Z	(0.78)	16.14	35.01	10.07	10.94	13.51	7.52
	5 Russell:Midcap Index	0.77	2.54	(4.12)	(0.93)	15.17	38.11	14.22	14.39	15.52	10.30
	6 Russell:Midcap Growth	1.03	3.23	(4.84)	(0.76)	9.60	30.45	19.14	19.27	17.54	11.98
	7 Russell:Midcap Value	0.62	2.14	(3.68)	(1.01)	18.24	42.40	10.28	10.59	13.93	8.78
	8 Russell:2500 Index	(1.75)	2.27	(3.15)	(2.68)	13.83	45.03	12.47	14.25	15.27	10.01
	9 Russell:2500 Growth	(2.16)	2.50	(3.80)	(3.53)	4.84	31.98	16.01	18.21	17.20	11.87
	10 Russell:2500 Value	(1.46)	2.11	(2.67)	(2.07)	20.14	54.38	8.87	10.49	13.35	8.10
	11 Russell:2000 Index	(3.61)	2.24	(2.95)	(4.36)	12.41	47.68	10.54	13.45	14.63	9.16
	12 Russell:2000 Growth	(3.64)	1.82	(3.83)	(5.65)	2.82	33.27	11.70	15.34	15.74	10.59
	13 Russell:2000 Value	(3.58)	2.68	(2.00)	(2.98)	22.92	63.92	8.58	11.03	13.22	7.50
	14 S&P:500	2.38	3.04	(4.65)	0.58	15.92	30.00	15.99	16.90	16.63	10.37
	15 S&P:400 Mid Cap	0.34	1.95	(3.97)	(1.76)	15.52	43.68	11.08	12.97	14.72	10.38
	16 S&P:600 Small Cap	(2.39)	2.02	(2.43)	(2.84)	20.05	57.64	9.44	13.57	15.69	10.30
	17 MSCI:ACWI ex US	(1.65)	1.90	(3.20)	(2.99)	5.90	23.92	8.03	8.94	7.48	4.38
	18 MSCI:EAFE	0.75	1.76	(2.90)	(0.45)	8.35	25.73	7.62	8.81	8.10	4.10
	19 MSCI:EM	(6.73)	2.62	(3.97)	(8.09)	(1.25)	18.20	8.59	9.23	6.09	5.68
	20 MSCI:ACWI	0.69	2.50	(4.13)	(1.05)	11.12	27.44	12.58	13.20	11.90	7.21
FIXED INCOME	21 Blmbg:Aggregate	1.12	(0.19)	(0.87)	0.05	(1.55)	(0.90)	5.36	2.94	3.01	4.17
	22 Blmbg:Gov/Credit	1.32	(0.20)	(1.07)	0.04	(1.93)	(1.13)	5.94	3.24	3.24	4.32
	23 Blmbg:Credit	1.30	(0.24)	(1.07)	(0.03)	(1.30)	1.45	7.10	4.37	4.60	5.30
	24 Blmbg:Corporate High Yld	0.38	0.51	(0.01)	0.89	4.53	11.28	6.91	6.52	7.42	7.31
	25 Blmbg:Municipal Bond	0.83	(0.37)	(0.72)	(0.27)	0.79	2.63	5.06	3.26	3.87	4.25
	26 Blmbg:US TIPS	2.67	(0.18)	(0.71)	1.75	3.51	5.19	7.45	4.34	3.12	4.43
	27 Blmbg:Glob Agg ex USD	1.51	(0.61)	(2.45)	(1.59)	(5.94)	(1.15)	3.17	1.10	0.90	2.91
	28 S&P:LSTA Levlg Loan	(0.01)	0.47	0.64	1.11	4.42	8.40	4.14	4.58	4.91	4.59
	29 ML:US Treasuries 1-3 Yrs	0.17	(0.01)	(0.10)	0.06	(0.02)	0.03	2.64	1.63	1.16	2.04
	30 LIBOR - 3 Month	0.01	0.01	0.01	0.03	0.12	0.18	1.26	1.39	0.88	1.34
	31 3 Month T-Bill	0.01	0.00	0.01	0.01	0.04	0.07	1.18	1.16	0.63	1.00
REAL ASSETS	32 Blmbg:Commodity TR Idx	1.84	(0.30)	4.98	6.59	29.13	42.29	6.86	4.54	(2.66)	(2.15)
	33 GS Commodity Index	1.57	(2.30)	6.03	5.22	38.27	58.30	(1.49)	3.64	(4.83)	(4.99)
	34 MSCI:US REIT Index	4.86	1.91	(5.51)	0.98	23.00	37.16	10.10	6.84	11.22	6.42
	35 Alerian:MLP Index	(6.31)	(2.31)	3.02	(5.71)	39.40	84.63	(4.32)	(2.42)	1.21	5.06
	36 DJB:Gibl Infrastructure	1.09	1.12	(3.09)	(0.94)	11.52	19.64	7.91	6.19	8.80	7.66
	37 US DOL:CPI All Urban Cons	0.48	0.21	0.27	0.96	5.31	5.39	2.81	2.59	1.92	2.03