

Market Environment 3Q20

Section 2

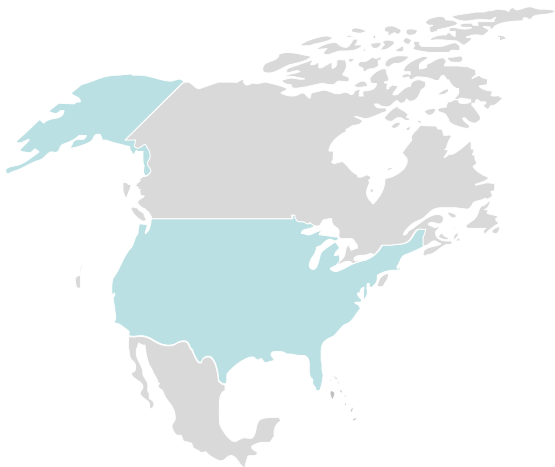
Guaranteed Income

Market Environment: 3Q20

High degree of uncertainty remains

U.S.

- 2Q GDP contracted 31.4% (annualized)
 - WSJ survey of economists expect +24% for Q3
- COVID cases rising
- Unemployment (7.9% in September) down but remains elevated
 - Jobless claims hovering around 800,000 / week
 - Continuing claims around 12 million
- Housing benefited from relatively low mortgage rates
 - Mortgage purchase applications sharply higher
- Fed left rates close to 0% and expects to be on hold until at least 2023



Overseas

- Euro zone 2Q GDP contracted nearly 12%; largest quarterly drop on record; UK -20% for the quarter....also largest ever
- Japan 2Q GDP shrank nearly 8% for the quarter
- OECD estimates are for global GDP to contract by 4.5% in 2020
- According to data from IMF, nearly \$10 trillion in stimulus measures globally have been announced thus far
 - 11% of global GDP
- China one of few spots doing well with positive growth expected for 2020



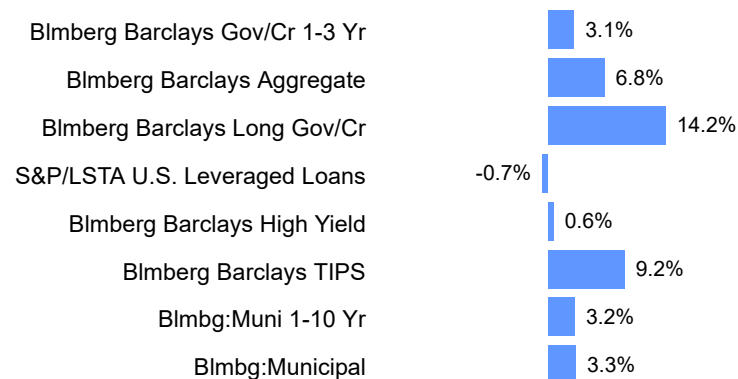
U.S. Fixed Income Performance – Third Quarter

- Treasury yields were largely unchanged
 - 10-year UST yield closed the quarter at 0.69%, up 3 bps from June 30 but off sharply from year-end level of 1.92%
 - Record low yield for 10-year of 0.52% hit in early August
 - Expectations are for no rate hikes until at least 2023
 - TIPS did well as inflation expectations rose from 1.34% to 1.63%
- Blmberg Barclays Aggregate was roughly flat
 - Corporate and Commercial Mortgage-Backed (CMBS) sectors performed best
 - Corporate supply (\$1 trillion y-t-d) hit a record as companies rushed to take advantage of ultra-low interest rates
- Risk-on sentiment and strong equity markets helped high yield
 - Downgrade/upgrade ratio for high yield higher than 2008
 - Default rate trended higher but below GFC level; recovery rate at record lows (outsized influence by retail and energy)
- Role of fixed income questioned by some
 - Aggregate duration = 6.1 yrs.; YTW = 1.2%
 - Spreads generally near historical averages
 - Still important part of portfolio structure, though return expectations should be lowered
- Munis helped by favorable supply/demand dynamics
 - Robust demand and muted supply of tax-exempt municipals
 - Issuance in taxable municipals sharply higher
 - Tax revenues better than expected, but challenges remain and stimulus uncertain (but needed)

U.S. Fixed Income: Quarterly Returns



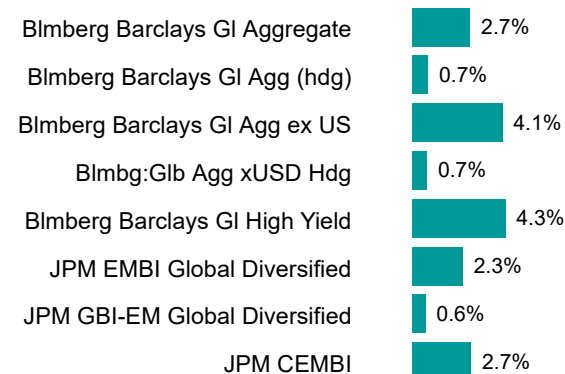
U.S. Fixed Income: Nine Month Returns



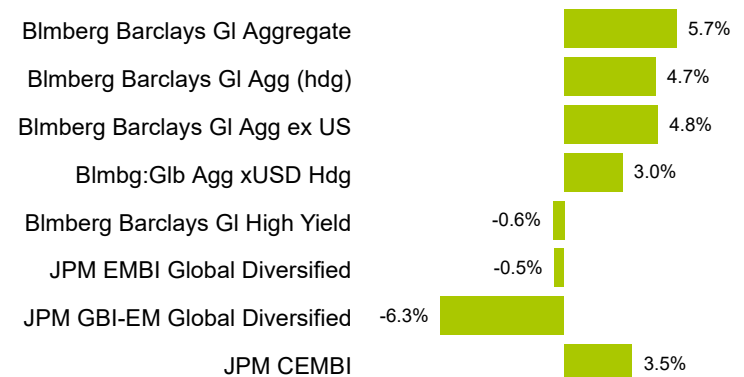
Global Fixed Income Performance – Third Quarter

- Falling rates helped global fixed income returns
 - Central banks continued to act aggressively to provide support via rate cuts, asset purchase programs, and other forms of stimulus
 - Broad-based U.S. dollar weakness dampened hedged returns in the quarter
 - US dollar lost 4% versus the Australian dollar, euro and the British pound and 2% versus the yen
 - Over 70% of global sovereign debt has negative real yields, a record high, according to data from JP Morgan
- Emerging market debt indices made up ground
 - Emerging market debt indices posted positive returns but remain down from year-end
 - US dollar denominated index (EMBI Global Diversified) performed better as U.S. rates fell; returns were mixed across the 70+ constituents but most were positive
 - Local currency index (GBI-EM GI Div) of roughly 20 countries was up slightly but returns varied widely
 - Russia: -8%; Brazil: -3%; Mexico and S. Africa: +6%
 - Many emerging market currencies appreciated vs the U.S. dollar, with the Turkish lira (-11%), the Russian ruble (-9%) and the Brazilian real (-3%) being notable exceptions.
 - Staggered inclusion of China bonds continued with the weight rising to 7% in the JPM GBI-EM Global Diversified Index.

Global Fixed Income: Quarterly Returns



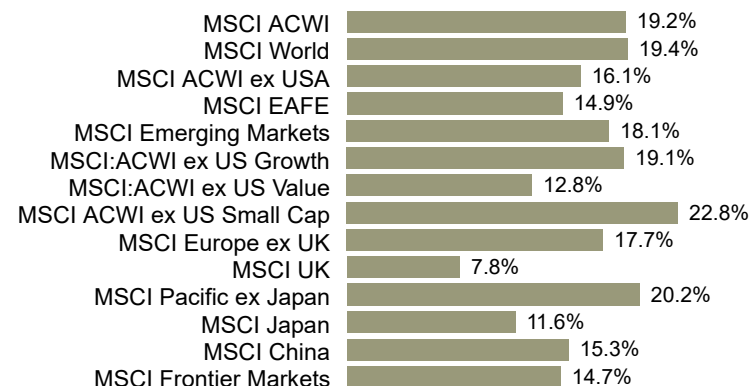
Global Fixed Income: Nine Month Returns



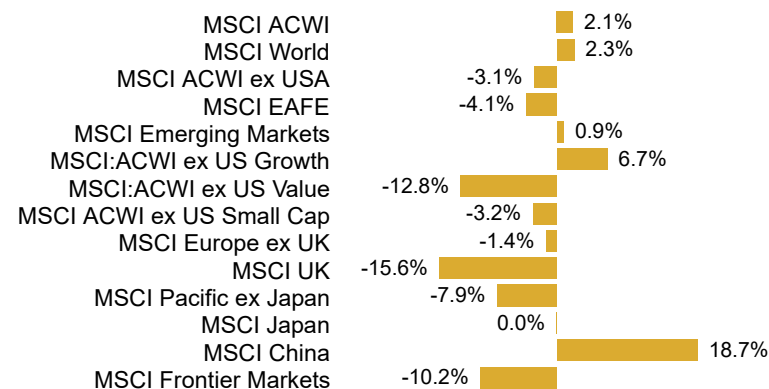
Global Equity Performance – Third Quarter

- Solid performance across markets
 - Returns positive across developed and emerging markets but some remain down YTD
 - Small caps continued to outperform large
 - As in the US, growth outperformed value
 - Technology and Consumer Discretionary sectors led, while Energy lagged
- U.S. dollar faced broad-based weakness
 - Lost ground versus most developed market currencies; -4% vs euro, pound and Australian dollar and -2% vs yen
- Emerging market equity returns were mixed
 - Emerging Asia gained 12% while Latin America and Emerging Europe fell 1.3% and 5.2%, respectively
 - BRIC country performance varied (Brazil: -3%; Russia: -5%; India: +12% and China +13%)
 - Consumer Discretionary, Information Technology, and Materials were best performing sectors
 - Many emerging market currencies appreciated vs the U.S. dollar, with the Turkish lira (-11%), the Russian ruble (-9%) and the Brazilian real (-3%) being notable exceptions

Global Equity: Quarterly Returns



Global Equity: Nine-Month Returns

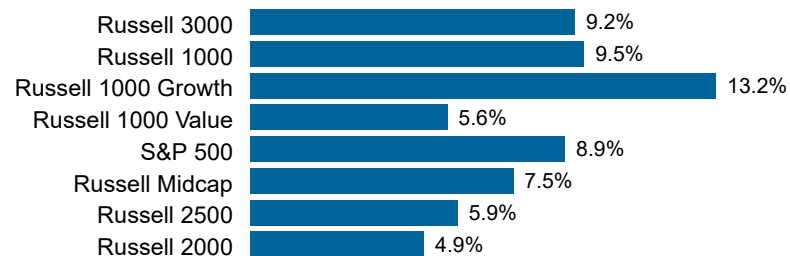


Source: MSCI

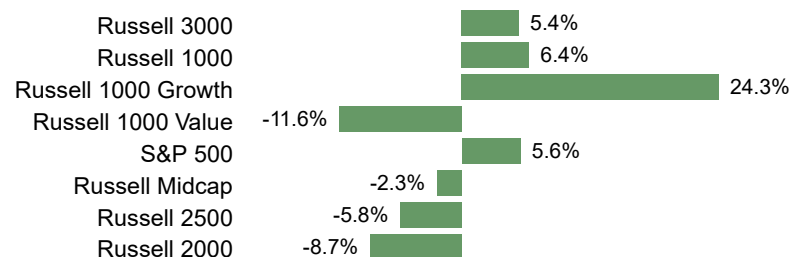
U.S. Equity Performance: Third Quarter

- U.S. equity market continued to rebound
 - Consumer Discretionary, Industrials, Materials were top three sectors, followed closely by Technology
 - Performance was concentrated
 - Top five stocks (Facebook, Microsoft, Amazon, Alphabet and Apple) in the S&P 500 account for 23% of the Index and 33% of the quarter's performance
 - S&P would be negative y-t-d without these stocks
- Growth continued to outpace value across market caps
 - Growth, value dispersion near all-time high (driven by Tech)
 - Growth stock P/E near 2x historical average across market caps
- YTD, pandemic punishing some sectors while rewarding others
 - Online retailers soared 60% ; home improvement up over 30%, but hotels/cruise lines, airlines, and commercial REITs dropped over 40%
 - Energy -48% amid declining crude and natural gas prices
- Small cap trailed large cap
 - Small cap sharply lower than large cap y-t-d

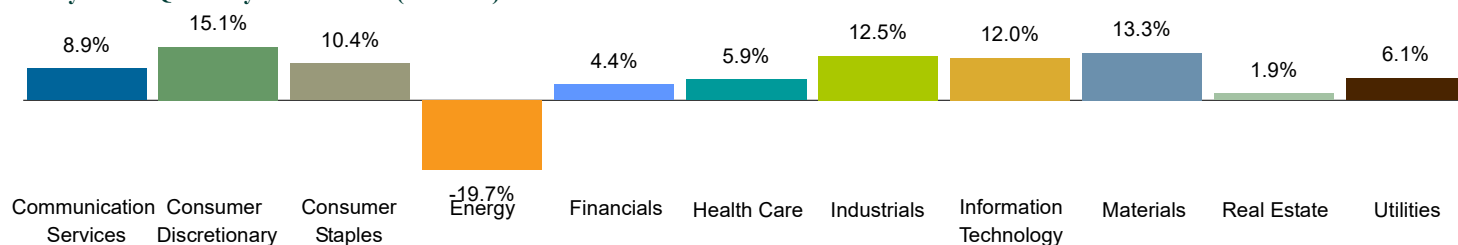
U.S. Equity: Quarterly Returns



U.S. Equity: Nine-Month Returns



Industry Sector Quarterly Performance (S&P 500)



Returns for Various Periods – September 30, 2020

		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	5.68	7.24	(3.64)	9.21	5.41	15.00	11.65	13.69	13.48	9.13
	2 Russell:1000 Index	5.86	7.34	(3.65)	9.47	6.40	16.01	12.38	14.09	13.76	9.28
	3 Russell:1000 Growth	7.69	10.32	(4.70)	13.22	24.33	37.53	21.67	20.10	17.25	11.95
	4 Russell:1000 Value	3.95	4.13	(2.46)	5.59	(11.58)	(5.03)	2.63	7.66	9.95	6.35
	5 Russell:Midcap Index	5.87	3.52	(1.95)	7.46	(2.35)	4.55	7.13	10.13	11.76	8.62
	6 Russell:Midcap Growth	7.99	2.72	(1.40)	9.37	13.92	23.23	16.23	15.53	14.55	10.51
	7 Russell:Midcap Value	4.72	3.96	(2.27)	6.40	(12.84)	(7.30)	0.82	6.38	9.71	7.07
	8 Russell:2500 Index	3.98	4.53	(2.59)	5.88	(5.82)	2.22	4.45	8.97	10.81	7.92
	9 Russell:2500 Growth	5.47	4.50	(0.77)	9.37	11.58	23.37	13.36	14.19	14.06	10.28
	10 Russell:2500 Value	3.01	4.54	(3.85)	3.54	(18.39)	(12.62)	(2.69)	4.65	8.01	5.75
	11 Russell:2000 Index	2.77	5.63	(3.34)	4.93	(8.69)	0.39	1.77	8.00	9.85	7.03
	12 Russell:2000 Growth	3.44	5.87	(2.14)	7.16	3.88	15.71	8.18	11.42	12.34	8.90
	13 Russell:2000 Value	2.06	5.39	(4.65)	2.56	(21.54)	(14.88)	(5.13)	4.11	7.09	4.93
	14 S&P:500	5.64	7.19	(3.80)	8.93	5.57	15.15	12.28	14.15	13.74	9.19
	15 S&P:400 Mid Cap	4.61	3.51	(3.25)	4.77	(8.62)	(2.16)	2.90	8.11	10.49	8.21
	16 S&P:600 Small Cap	4.11	3.99	(4.70)	3.17	(15.25)	(8.29)	(0.33)	7.20	10.57	7.50
	17 MSCI:ACWI ex US	4.46	4.28	(2.46)	6.25	(5.44)	3.00	1.16	6.23	4.00	4.09
	18 MSCI:EAFE	2.33	5.14	(2.60)	4.80	(7.09)	0.49	0.62	5.26	4.62	3.73
	19 MSCI:EM	8.94	2.21	(1.60)	9.56	(1.16)	10.54	2.42	8.97	2.51	5.81
	20 MSCI:ACWI	5.29	6.12	(3.22)	8.13	1.37	10.44	7.12	10.30	8.55	6.46
FIXED INCOME	21 Blmbg:Aggregate	1.49	(0.81)	(0.05)	0.62	6.79	6.98	5.24	4.18	3.64	4.48
	22 Blmbg:Gov/Credit	2.01	(1.16)	(0.05)	0.78	8.04	8.03	5.86	4.66	3.87	4.63
	23 Blmbg:Credit	3.08	(1.27)	(0.27)	1.50	6.39	7.50	6.19	5.75	4.92	5.44
	24 Blmbg:Corporate High Yld	4.69	0.95	(1.03)	4.60	0.62	3.25	4.21	6.79	6.47	7.10
	25 Blmbg:Municipal Bond	1.68	(0.47)	0.02	1.23	3.33	4.09	4.28	3.84	3.99	4.37
	26 Blmbg:US TIPS	2.30	1.09	(0.37)	3.03	9.22	10.08	5.79	4.61	3.57	4.21
	27 Blmbg:Glob Agg ex USD	4.44	0.29	(0.58)	4.14	4.77	5.48	3.07	3.60	1.35	3.18
	28 S&P:LSTA Levlg Loan	1.96	1.49	0.63	4.14	(0.66)	1.06	3.10	4.01	4.24	4.44
	29 ML:US Treasuries 1-3 Yrs	0.10	(0.02)	0.03	0.10	3.05	3.58	2.64	1.80	1.28	2.29
	30 LIBOR - 3 Month	0.02	0.02	0.02	0.06	0.58	1.07	1.88	1.47	0.89	1.66
	31 3 Month T-Bill	0.02	0.01	0.01	0.04	0.64	1.10	1.69	1.20	0.64	1.29
REAL ASSETS	32 Blmbg:Commodity TR Idx	5.71	6.76	(3.35)	9.07	(12.08)	(8.20)	(4.18)	(3.09)	(6.03)	(4.82)
	33 GS Commodity Index	3.80	4.59	(3.64)	4.61	(33.38)	(27.84)	(9.46)	(7.88)	(8.84)	(9.30)
	34 MSCI:US REIT Index	4.10	0.85	(3.19)	1.63	(17.12)	(17.76)	0.31	3.99	7.90	5.85
	35 Alerian:MLP Index	(3.55)	0.52	(13.62)	(16.26)	(46.16)	(48.35)	(20.75)	(11.58)	(4.17)	1.17
	36 DJB:GIBI Infrastructure	1.98	(0.38)	(3.20)	(1.67)	(13.28)	(9.84)	1.11	5.40	7.86	7.74
	37 US DOL:CPI All Urban Cons	0.51	0.32	-	-	-	-	-	-	-	-