# Market Perspectives

Quarterly | Q4 2021

## Overview

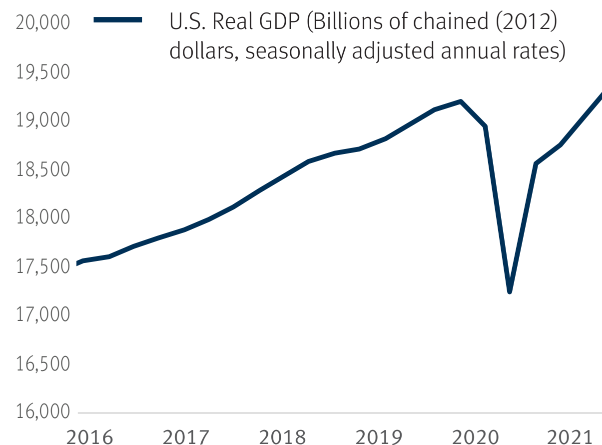
The U.S. economic recovery remains on solid footing despite the summer surge of the delta variant. Over the last several months there's been a focus by our team, as well as the broader investment community, on where we are in the economic cycle and whether the U.S. economy may have passed the peak rate of growth. The speed at which the global economy came to a halt and the subsequent speed and strength of the economic rebound has been unprecedented. So, while the rate of change of incoming data may slow going forward, we continue to believe that economic growth will be positive and still above long-term trend for the next several quarters, as we believe we remain in the first half of a new economic cycle.

At the onset of the pandemic, economists were debating the shape of the economic recovery – L: substantial loss in output followed by stagnation, U: the economy falls and then recovers at a moderate pace, or V: a sharp but brief decline, followed by a strong recovery. While there is still room for recovery in several industries, Figure 1 shows that we are on the path to a V-shaped recovery. In fact, the size of the U.S. economy as measured by gross domestic product (GDP) now exceeds pre-pandemic levels.

Our view for continued economic expansion and a period of synchronized global growth in the near term is a result of three themes driving this view: 1) We believe that we remain on the path to herd immunity, the delta variant surge is likely peaking in the U.S., and any impact to economic activity will be manageable; 2) Unemployment should continue to recover, and the rise in inflation will prove to be transitory; and 3) Monetary and fiscal policy will be recalibrated, but still remain supportive.

While we view our base case as the most likely outcome, a focus on risks is foundational to our process. While we identify a number of risks in our broader work, we highlight three potential risks that could trigger stock market volatility, including a market correction or even a bear market: 1) While vaccines are still effective against the delta variant, there is always the possibility of a vaccine-resistant or much more lethal variant developing; 2) inflation has heated up this year due to frictions in the supply chain and the stages of reopening the economy, but inflation risks are

**Figure 1. GDP Above Pre-Covid Levels**




*Source: Stifel Investment Strategy via Bloomberg, as of October 8, 2021*

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*Wealth management insights from Stifel's CIO Office*

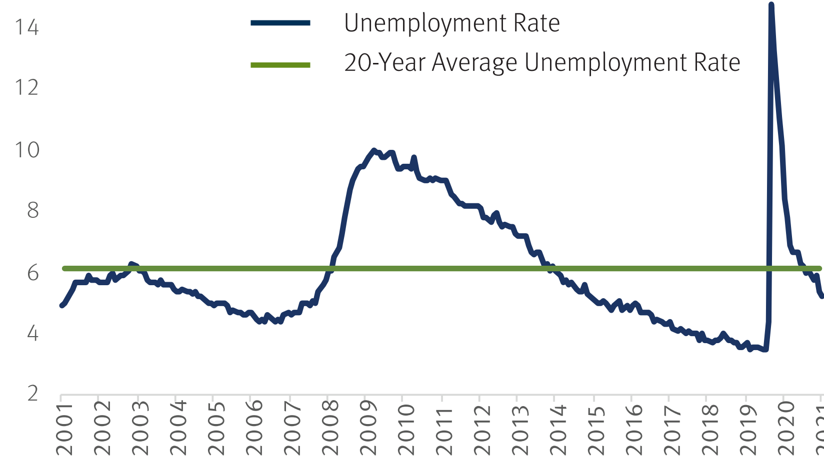
STIFEL

**"Earnings growth is expected to continue into 2022, and the next stage of the market cycle is usually driven by the quality of earnings rather than multiple expansion."**

elevated; and 3) further tensions escalate between the U.S. and China, or the U.S. and the Middle East. In addition, investors are also considering how much of future economic and earnings recovery is already reflected in market valuations. The S&P 500 declined 33.8% from peak to trough last year but has since recovered 97.24%. Corporate earnings have been above analyst expectations, and S&P 500 earnings are projected to grow 45% in 2021 compared to 2020. Earnings growth is expected to continue into 2022, and the next stage of the market cycle is usually driven by the quality of earnings rather than multiple expansion. So, we are focusing further on quality in our portfolios.

More generally, portfolio recommendations continue to be anchored in our long-term outlook, with a focus on diversification both across and within asset classes. Our dynamic leanings are against our long-term strategic asset allocation (SAA) and result from our short-to-medium-term views. In our base case (70% probability), we expect economic growth in the U.S. to be above trend in 2021 and into 2022. We also anticipate that growth outside the U.S. will pick up as other regions get closer to herd immunity, setting the stage for a period of synchronized growth. In addition, as part of our base case we also see the pandemic subsiding in most nations during the first half of 2022. Therefore, a consistent theme across our leanings since the start of the year is the continued economic and personal recovery. As a result, we still see the potential for select cyclical segments of the market to continue their relative outperformance in the near term.

**Figure 2. Unemployment Rate**




*Source: Stifel Investment Strategy via Bloomberg, as of October 8, 2021*

## The U.S. Economy

The economy is projected to grow at a slower pace of 4.8% (annualized) in the third quarter, following a 6.7% expansion in the second quarter. Expectations are for GDP to grow 5.9% in 2021 and 4.1% in 2022. The recovery in some sectors has slowed, but we don't see this as derailing the continued expansion. Consumers have amassed trillions of dollars in excess savings, and there is still strong pent-up demand. Unemployment now sits at 4.8%, still above pre-pandemic levels but, notably, below the 6.1% average over the last 20 years. The ISM Manufacturing PMI is off the high reached in March of this year, but above its average over the last 20 years.

**"Many widely tracked metrics for inflation have shown sharp increases in prices this year, in part due to supply chain frictions and the base effect as we reopen the economy."**

## Inflation

Inflationary concerns continue to be a market focus in light of the fiscal and monetary support implemented to offset the impact of COVID-19. Many widely tracked metrics for inflation have shown sharp increases in prices this year, in part due to supply chain frictions and the base effect as we reopen the economy. The Federal Reserve (Fed), and seemingly investors on average, believe this inflation will be transitory and calm down in 2022. The breakeven inflation rate, determined by the pricing differential between nominal and inflation-protected bonds, shows that investors expect inflation to run at 2.7% for the next five years and 2.5% for the next 10 years. As a reference, CPI inflation averaged 1.5% for the five years ending 2019. In its latest Summary of Economic Projections (SEP), the Fed projects inflation will end the year at 4.2% and drop down to 2.2% in 2022. Fed Chair Jerome Powell indicated bottlenecks in supply chains are lasting longer than anticipated as a result of the disruption posed by the delta variant and the reopening of the economy.

The consumer price index (CPI) for August increased 0.3% after rising 0.5% in July. This is a 5.3% increase compared to last year. The latest reading was a more moderate rise in prices when compared to the 0.7% average increase over the previous four months. The uptick in COVID-19 cases as a result of the delta variant led to a drop in prices for some pandemic-sensitive items such as airfares and hotel rooms, which were down 9.1% and 2.9% over the month, respectively. Core CPI was up 4% in August year over year. Business surveys such as the IHS Markit Purchasing Managers' Index and the Institute for Supply Management (ISM) Manufacturing Purchasing Managers' Index continue to show price pressures. Widespread supply constraints (transportation, labor, and materials) have caused a sustained rise in input costs, with businesses passing the increases to the end consumer. Commodity prices have risen about 40% compared to pre-pandemic levels and over 65% since April 2020, as measured by the Bloomberg Commodity Index. The Bureau of Labor Statistics average hourly earnings in August rose above expectations by 0.6% over the month, which may suggest that higher labor demand is putting upward pressure on wages to attract and keep needed labor. The core personal consumption expenditures (PCE) price index, which excludes food and energy and is one of the Fed's preferred measures of inflation, rose 3.6% in August from last year. This is up from a low of 0.9% in April 2020.

## Employment

Employment continues to recover despite a temporary setback from the delta variant. Nonfarm payrolls rose by 194,000 in September, below consensus estimates for a rise of over 500,000. Payrolls have risen by 17.4 million since April 2020 and have added a monthly average of 550,000 jobs to the economy during the third quarter. The unemployment rate stood at 4.8% in September, which is the lowest rate since March 2020.

There are signs indicating that labor supply is recovering more slowly than demand. When comparing the number of job openings (10.4 million) in the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS) with the number of unemployed persons (7.7 million) from the latest employment report, there are currently about 2.7 million more open jobs than unemployed persons. The labor supply should continue to improve in the coming months with the possible waning of the delta variant, the expiration of generous unemployment benefits, and school reopenings. While the recent resurgence in COVID-19 cases may have slowed job formation, there has been continued recovery, particularly in COVID-19-impacted sectors. For example, the leisure and hospitality, professional and business services, and construction industries have all recovered about 80% of their pandemic job

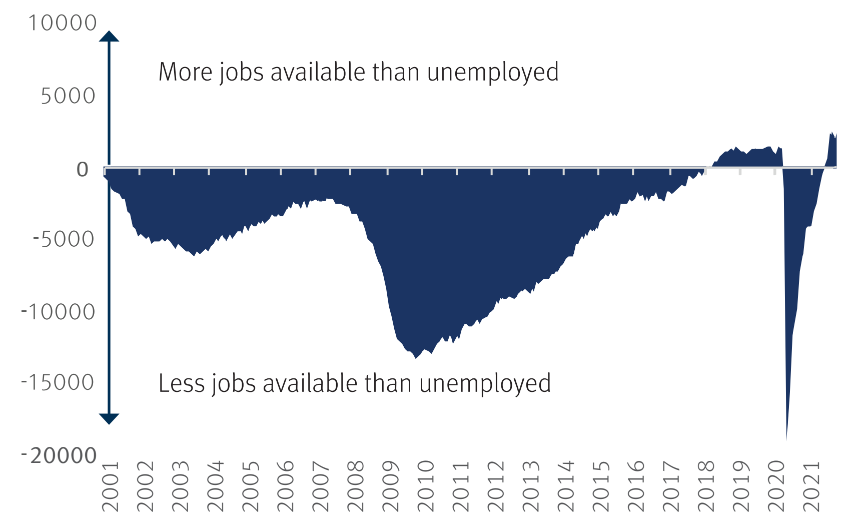
**"The forward-looking measure of consumer confidence remains above the lows experienced earlier in the pandemic and has been supported by vaccine distributions and declining COVID-19 cases."**

losses. The latest Fed SEP shows that the median forecast for unemployment at year-end 2021 was pushed up to 4.8% from the 4.5% June forecast, but falls to 3.8% by the end of 2022.

## Consumer

Consumer spending has been boosted by the government stimulus and pent-up consumer demand, which has in turn supported economic growth. Consumer spending makes up about 70% of GDP and is expected to remain elevated but uneven as the consumer navigates the economy's reopening with supply constraints and pandemic concerns. Consumer spending rose 0.8% in August, after falling by 0.1% in July. Since February 2020, spending on goods has risen by 20% while spending on services has risen only by 2%. The trend in retail sales remains strong. For the first eight months of the year, retail sales grew 20.3% from the same period a year ago. Retail sales in August rose 0.7%, beating market expectations of a decline, rising 15.1% from August 2020.

**Figure 3. Available Jobs vs. Number of Unemployed**




*Source: Stifel Investment Strategy via Bloomberg, as of October 8, 2021*

The personal savings rate (the percentage of disposable personal income that excludes personal outlays and taxes) fell to 9.4% in August from 10.1% in July and from the 2020 average of 16.3%. For the first eight months of the year, the rate averaged 13.9%, still higher than the 2019 average of 7.6% and the historical average of 6.8% over the past 20 years.

The forward-looking measure of consumer confidence remains above the lows experienced earlier in the pandemic and has been supported by vaccine distributions and declining COVID-19 cases. Conference Board Consumer Confidence in September fell to 109.3 from an upwardly revised 115.2 in August, reflecting some loss in sentiment from the spread of the delta variant. As a reference, the index dropped to a low of 85.7 in April 2020 and has averaged 90.5 over the last 20 years.

## Service and Manufacturing Sectors

The manufacturing and service sectors still signal growth but have been hampered by supply chain shortages, delivery delays, and rising prices. There has been a pullback in the rate of expansion as customer demand eased due to the impact of the delta variant. The IHS Markit U.S. Manufacturing PMI for September fell to 60.7 from the August reading of 61.1, and the IHS Markit U.S. Services PMI for September fell to 54.9 from 55.1 in August.

“At the latest meeting Chair Powell said that for inflation we have achieved ‘more than significant progress,’ and for employment the test was ‘all but met.’”

Still, industrial production is now 0.3% above its pre-pandemic level (February 2020), while manufacturing production is 1% above its pre-pandemic level. In July, industrial production rose 0.4%, and manufacturing production rose 0.2%, even with Hurricane Ida closing petrochemical, plastic resin, and petroleum refining plants. The storm was estimated to have pulled down industrial and manufacturing production by 0.3 and 0.2 percentage points, respectively. Consumer demand and labor supply should resume as the pandemic ebbs.

### Housing

The housing sector has continued to support the economy. Last year, residential spending accounted for about 19.5% of investment spending and 3.5% of the overall economy. Despite limited labor and land supply, along with higher housing costs, which have pushed up housing prices to record highs, demand has supported the housing sector and outpaced expectations.

Building permits, which indicate future building, rose 6.0% to 1.728 million in August, rising 13.5% from last year. Housing starts, which indicate a builder’s commitment to new construction, rose 3.9% in August to 1.615 million, up 17.4% from last year. Homebuilder sentiment as measured by the NAHB Home Builder Survey was 76 in September, off a historic high of 90 in November 2020, but up from a low of 30 in April 2020. We may see a moderation in the housing sector as demand slows due to both higher mortgage rates and home prices.

## The Federal Reserve and Interest Rates

The Federal Open Market Committee (FOMC) met twice (July and September) during the third quarter. At both meetings, monetary policy was unchanged with the federal funds rate left at 0%-0.25% and asset purchases at $120 billion per month. The Fed has long said it will continue with asset purchases until “substantial further progress” has been made toward its dual mandate and then begin to taper. At the latest meeting Chair Powell said that for inflation we have achieved “more than significant progress,” and for employment the test was “all but met.” As is typical for the Fed, this provides advance notice that tapering “may soon be warranted,” and the Fed has opened the possibility to announce tapering at the November meeting. Most FOMC participants see tapering concluding mid-2022, which suggests a pace of $15 billion per month.

Importantly, the Fed sees the reduction in asset purchases as a separate test and not a signal for the timing of interest rate liftoff. If employment continues to improve to the levels expected in 2022, there’s a chance the Fed will raise the fed funds rate next year. The latest FOMC projections show half of the committee members now favoring at least one rate hike by the end of next year, sooner than the previous forecasts of 2023.

In its statement, the FOMC acknowledged that the rise in COVID-19 cases has slowed the economic recovery. The latest SEP shows that the median forecast for real GDP growth in 2021 has fallen to 5.9% from 7.0% in June, a decline of 1.1%. But the Fed’s 2022 real GDP median forecast has risen from 3.3% to 3.8%, an increase of 0.5%. So, some of the 2021 decline is being pushed out into 2022.

The slowdown in the recovery as a result of the delta variant and investors increasingly of the view that inflationary forces are transitory kept Treasury rates in a narrow range for most of the quarter. The 10-year was between 1.20% and 1.40% for the majority of the quarter and rose

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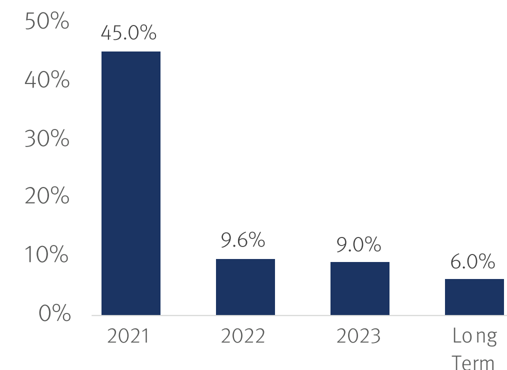
following the Fed meeting to end September at 1.49%. Investors are now pricing in a 14% probability that the FOMC will raise the fed funds rate by 25 basis points at its June 2022 meeting.

## Equity Earnings

Analysts expect earnings for the S&P 500 to grow 45% year over year in 2021, as seen in figure 4, much higher than the 22.1% estimate at the beginning of the year. These above-average growth rates are due, in part, to the easier comparison to weaker earnings in 2020 as a result of COVID-19 and the subsequent reopening of the economy. The robust growth in earnings has underpinned the market's continued ascent this year.

**Figure 4. S&P 500 Earnings Growth**




*Source: Stifel Investment Strategy via Bloomberg, as of October 8, 2021*

S&P 500 earnings grew 90.9% year over year during the second quarter. This is the highest year-over-year earnings growth rate reported since the fourth quarter of 2009. Of the companies in the S&P 500, 87% have beaten expectations, exceeding consensus estimates by 16.4%, in aggregate. Company revenues increased 25.2%, well above the five-year average growth rate of 4.5%. The forward 12-month price-to-earnings ratio for the S&P 500 is now at 21.5. This is above the five-year (19.6) and 10-year (17.6) averages.

All 11 sectors reported growth in earnings, led by the energy, industrials, financials, and consumer discretionary sectors. Higher oil prices contributed to the strength in earnings for the energy sector as the average price of oil in Q2 2021 ($66.17/barrel) was 136% above the average price in Q2 2020. Within industrials, the airlines subindustry is the largest contributor to earnings growth. If airlines were excluded from the industrials sector, earnings growth for this sector would fall from 413% to 97%.

Looking forward into 2022, the pace of earnings growth is expected to moderate to 9.7%, below the five-year average of 11.8%. Given the slowdown in earnings growth, where do stocks go from here? Equity investors are forward looking, meaning they've likely taken into account this slowdown in earnings growth. Historically, market returns, while still positive, have typically moderated following the initial rebound from a bear market and recession. So, what matters from here? The next stage of the market cycle is usually driven by the quality and growth of company earnings rather than multiple expansion. So, we are focusing further on "quality" in our portfolios while still favoring cyclical assets and those more closely correlated to economic growth.

# Investment Themes

The following table summarizes our thinking across various asset classes and regions.

▲ Overweight ▼ Underweight ■ Neutral

| | Asset Class | Previous | Current | Comments |
|---|---|---|---|---|
| Equity | U.S. Equity | ▼ | ▼ | Our base case assumes above-trend economic growth in 2021 and into 2022 supported by fiscal and monetary stimulus, a gradual return to "normal," and herd immunity. Equity markets outside the U.S., which generally underperformed in 2020, are more dependent on trade and levered to cyclical sectors, which should bode well for their future performance. A weakening/stable dollar is expected to be a tailwind for non-U.S. markets. Valuations of non-U.S. stocks are attractive relative to U.S. |
| | U.S. Large Cap | ▼ | ▼ | The macroeconomic data is still supportive, especially for smaller companies, and we believe that small caps remain well positioned to benefit from the ongoing global economic recovery, an accelerating CapEx cycle, and the latest infrastructure package. |
| | *Large Value vs. Large Growth* | ▲ | ▲ | The underlying sector composition of the large value investment style is more cyclical (financials, energy, materials, industrials, etc.) and hence more closely correlated to economic growth and the ongoing reopening of the global economy. We believe that large value stocks should continue to perform well as global economic growth is expected to remain above trend in 2022 (supportive of earnings) and U.S. Treasury yields have room to move higher. |
| | U.S. Small Cap | ▲ | ▲ | The macroeconomic data is still supportive, especially for smaller companies, and we believe that small caps remain well positioned to benefit from the ongoing global economic recovery, an accelerating CapEx cycle, and the latest infrastructure package. |
| | *Small Value vs. Small Growth* | ■ | ■ | We recommend a diversified approach, investing in both small cap value and growth. |
| | Non-U.S. Equity | ▲ | ▲ | Our base case assumes above-trend economic growth in 2021 and into 2022 supported by fiscal and monetary stimulus, a gradual return to "normal," and herd immunity. Equity markets outside the U.S., which generally underperformed in 2020, are more dependent on trade and levered to cyclical sectors, which should bode well for their future performance. A weakening/stable dollar is expected to be a tailwind for non-U.S. markets. Valuations of non-U.S. stocks are attractive relative to U.S. |
| | Non-U.S. Developed Markets | ■ | ■ | We are neutral within non-U.S. equity between developed and emerging markets as we find the risks to be balanced between both. |
| | *Europe vs. Japan* | ■ | ■ | The European economy is more exposed to global trade, with public companies generating 50% of revenue outside of Europe. Japan's ongoing structural and corporate reform is a tailwind for company earnings. However, both Europe and Japan face some challenges that keep us at neutral within developed markets, for now. |
| | Emerging Markets | ■ | ■ | A weaker dollar, stable oil prices, and a stronger global economy should benefit most emerging market countries. However, weaker healthcare systems and uncertainty around vaccine supply keep us neutral for now, despite attractive relative valuations to non-U.S. developed markets. |



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# Investment Themes (continued)

The following table summarizes our thinking across various asset classes and regions. ▲ Overweight ▼ Underweight ■ Neutral

| | Asset Class | Previous | Current | Comments |
|---|---|---|---|---|
| Fixed Income | U.S. Investment Grade | ▼ | ▼ | Within fixed income, we are tilting to an overweight of U.S. high yield relative to U.S. investment grade with the use of active management. Default rates in high yield have come down, and while the impacts of COVID-19 will persist, we believe there is opportunity in certain cyclical sectors and the potential for yield enhancement in a low-yield environment. |
| | *Corporates*<br>*Government/Agency*<br>*MBS* | ■ | ■ | We recommend a diversified approach to the full spectrum of investment-grade fixed income. |
| | *Inflation Protected* | ▲ | ▲ | The Fed has revised its policy framework to allow for inflation to be above 2% for extended periods of time. We maintain an overweight as a hedge against higher inflation. |
| | Duration | ■ | ■ | The Fed is expected to stay accommodative for the foreseeable future, and while interest rates will likely move higher as the economy recovers and the Fed begins tapering, we don't anticipate rates rising dramatically. We believe we are in a lower-for-longer environment and remain neutral duration. |
| | U.S. High Yield | ▲ | ▲ | Within fixed income, we are tilting to an overweight of U.S. high yield relative to U.S. investment grade with the use of active management. Default rates in high yield have come down, and while the impacts of COVID-19 will persist, we believe there is opportunity in certain cyclical sectors and the potential for yield enhancement in a low-yield environment. |
| Alternatives | Private Assets | ■ | ■ | For investors interested in alternative investments and able to handle illiquidity, exposure to some combination of private equity, private debt, and/or private real estate can be considered as part of a diversified portfolio. |
| | Hedge Funds | ■ | ■ | For investors interested in alternative investments and able to handle less liquidity who have conviction about manager skill, exposure to hedge funds can be a helpful part of a diversified portfolio. This is especially true in volatile, low-return environments. |

## Capital Markets Recap

Equity markets were mixed as volatility increased amid a rise in COVID-19 cases and an economic growth scare. Treasury yields traded in a narrow range, and commodity prices were mixed.

### Equity

U.S. equity markets fell this past quarter with the Russell 3000 Index delivering total returns of -0.10%. As mentioned above, investor worries about factors like the delta variant, inflation, and geopolitical and political risks resulted in a "flight to perceived quality." This benefitted U.S. large cap growth stocks while more economically sensitive sectors such as industrials, materials, and energy underperformed. The Russell 1000 Growth Index was up 1.16% for the quarter, and the Russell 1000 Value Index fell 0.78%. Financial stocks were the best performing during the third quarter, up 2.29%. Industrial stocks were the worst performing at -4.55%. Small cap stocks, as measured by the Russell 2000, were down 4.36% in the quarter versus large cap stocks (Russell 1000), which were up 0.21%. Inflation worries were, in part, the reason for the weakness in small cap, as smaller companies don't necessarily have the pricing power to pass on price increases to the consumer.

Non-U.S. markets fell with the MSCI EAFE Index, representing non-U.S. developed markets, declining 0.45%. Emerging markets, as measured by the MSCI EM Index, were down 8.09%, largely driven by developments in China. The Chinese government has increased regulatory tightening of several industries, and near the end of the quarter there were investor worries about the potential default of one of China's largest real estate developers, Evergrande, and the potential contagion effects. The MSCI China Index was down 17.93% in the third quarter.

**"The 10-year Treasury yield sat at 1.47% on June 30, rising modestly to end the quarter at 1.49%, masking intra-quarter lows and highs of 1.17% and 1.54%, respectively."**

### Fixed Income

The 10-year Treasury yield sat at 1.47% on June 30, rising modestly to end the quarter at 1.49%, masking intra-quarter lows and highs of 1.17% and 1.54%, respectively. The spread between the yield on the 2-year and 10-year Treasury was unchanged. Intra-quarter tightening was a result of the Fed signaling a more hawkish view of a possible taper announcement by its November meeting. High demand from investors in both the U.S. and abroad also brought down yields across the curve, even during new issuance auctions from the Treasury. For reference, the yield on the 10-year had fallen to as low as 0.50% last year.

The Bloomberg Barclays U.S. Aggregate Index, representing investment-grade taxable bonds, was little changed being up 0.05% for the quarter. The Bloomberg Barclays U.S. Municipal Index, representing investment-grade municipal bonds, fell 0.27% during the quarter. High-yield bonds, as measured by the Bloomberg Barclays Corporate High Yield Index, were up 0.89%.

### Commodities

Commodities were mixed over the quarter benefiting from rising inflation expectations, improving economic fundamentals, and supply constraints even as some assets fell from historical highs in the previous quarter. West Texas Intermediate closed the quarter at $75.03 a barrel, up 2.12% for the quarter, bringing its year-to-date return to 55.02%. The U.S. dollar weakened against a basket of currencies in the beginning of the quarter, but strengthened following the FOMC meeting late in September. Aluminum rose to its highest price per ton in 13 years, ending the quarter up 13.11%. While copper fell 5.09%, the industrials metals index rose 2.04%. Gold prices fell to $1,756.95 per ounce, down 0.74% for the quarter.

## Figure 5. Capital Market Returns (as of September 30, 2021)

| North American Equity | MTD (%) | QTD (%) | YTD (%) | 1 Year (%) | 3 Year (%)* | 5 Year (%)* |
|---|---|---|---|---|---|---|
| Russell 3000 Index | -4.49 | -0.10 | 14.99 | 31.88 | 16.00 | 16.85 |
| STANDARD & POOR'S 500 | -4.65 | 0.58 | 15.92 | 30.01 | 15.99 | 16.90 |
| Standard & Poor's/TSX (CAD) | -2.22 | 0.17 | 17.48 | 28.02 | 11.07 | 9.64 |
| **U.S. Equity by Size/Style** | | | | | | |
| Russell 1000 Index | -4.59 | 0.21 | 15.19 | 30.96 | 16.43 | 17.11 |
| Russell 1000 Growth Index | -5.60 | 1.16 | 14.30 | 27.32 | 22.00 | 22.84 |
| Russell 1000 Value Index | -3.48 | -0.78 | 16.14 | 35.01 | 10.07 | 10.94 |
| Russell 2000 Small Cap Index | -2.95 | -4.36 | 12.41 | 47.68 | 10.54 | 13.45 |
| Russell 2000 Small Cap Growth Index | -3.83 | -5.65 | 2.82 | 33.27 | 11.70 | 15.34 |
| Russell 2000 Small Cap Value Index | -2.00 | -2.98 | 22.92 | 63.92 | 8.58 | 11.03 |
| Russell Microcap Index | -2.92 | -4.98 | 22.59 | 61.07 | 12.23 | 14.47 |
| **International Equity (USD)** | | | | | | |
| MSCI AC World ex U.S. | -3.20 | -2.99 | 5.90 | 23.92 | 8.03 | 8.94 |
| MSCI EAFE | -2.90 | -0.45 | 8.35 | 25.73 | 7.62 | 8.81 |
| MSCI Europe | -4.78 | -1.55 | 10.07 | 27.25 | 7.81 | 8.85 |
| MSCI Pacific | -3.61 | -4.40 | 4.78 | 25.80 | 6.75 | 7.74 |
| MSCI Japan | 2.75 | 4.56 | 5.90 | 22.07 | 7.54 | 9.36 |
| MSCI Emerging Markets | -3.97 | -8.09 | -1.25 | 18.20 | 8.58 | 9.23 |

*(continued on next page)*

## Figure 5. Capital Market Returns (as of September 30, 2021)

| U.S.Fixed Income | MTD (%) | QTD (%) | YTD (%) | 1 Year (%) | 3 Year (%)* | 5 Year (%)* |
|---|---|---|---|---|---|---|
| Bloomberg Barclays U.S. Treasury Bills: 1-3 Months | 0.00 | 0.01 | 0.03 | 0.05 | 1.11 | 1.09 |
| Bloomberg Barclays U.S. Aggregate | -0.87 | 0.05 | -1.55 | -0.90 | 5.36 | 2.94 |
| Bloomberg Barclays Gov't/Credit | -1.07 | 0.04 | -1.93 | -1.13 | 5.94 | 3.24 |
| Bloomberg Barclays Treasury | -1.08 | 0.09 | -2.50 | -3.30 | 4.89 | 2.23 |
| Bloomberg Barclays U.S. TIPS | -0.71 | 1.75 | 3.51 | 5.19 | 7.45 | 4.34 |
| Bloomberg Barclays Municipal Bond Index | -0.72 | -0.27 | 0.79 | 2.63 | 5.06 | 3.26 |
| Bloomberg Barclays U.S. Credit | -1.07 | -0.03 | -1.30 | 1.45 | 7.10 | 4.37 |
| Bloomberg Barclays Corporate High Yield | -0.01 | 0.89 | 4.53 | 11.28 | 6.91 | 6.52 |
| **Real Estate/Commodities/Alternatives** | | | | | | |
| Wilshire U.S. Real Estate Securities Index | -5.09 | 1.64 | 24.72 | 38.09 | 10.34 | 7.11 |
| Wilshire Global ex U.S. Real Estate Securities Index | -4.84 | -2.61 | 5.68 | 26.05 | 3.67 | 4.07 |
| Wilshire Global Real Estate Securities | -5.02 | 0.37 | 18.50 | 34.35 | 8.16 | 6.17 |
| Bloomberg Commodity Index | 4.98 | 6.59 | 29.13 | 42.29 | 6.86 | 4.54 |
| S&P GSCI Commodity (S&P GSCI) | 6.03 | 5.22 | 38.27 | 58.30 | -1.49 | 3.64 |
| Wilshire Liquid Alternatives Index | -0.89 | -0.37 | 4.08 | 8.65 | 3.32 | 2.88 |
| Wilshire Liquid Alternative Equity Hedge Index | -2.09 | -0.16 | 9.20 | 15.54 | 4.29 | 4.40 |
| Wilshire Liquid Alternative Event Driven Index | 0.24 | -0.68 | 2.40 | 6.24 | 3.89 | 3.42 |
| Wilshire Liquid Alternative Global Macro Index | 0.18 | -0.13 | 4.05 | 8.63 | 3.41 | 1.72 |
| Wilshire Liquid Alternative Multi-strategy Index | -1.58 | -1.08 | 4.37 | 9.04 | 2.30 | 2.74 |
| Wilshire Liquid Alternative Relative Value Index | -0.28 | -0.17 | 1.09 | 4.76 | 3.07 | 2.44 |
| Wilshire Focused Liquid Alternative Index | -0.30 | -0.34 | 3.60 | 8.56 | 3.62 | 3.15 |

*Source: Stifel Investment Strategy via Bloomberg as of September 30, 2021*

**Represents annualized returns*

## Disclosure

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI EM (Emerging Markets) Europe, Middle East and Africa Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East, and Africa.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related, and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and nonagency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multicurrency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

The Bloomberg Barclays U.S. Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. It includes investment-grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related, and corporate securities.

The Bloomberg Barclays U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The U.S. Treasury Index is a component of the U.S. Aggregate, U.S. Universal, Global Aggregate, and Global Treasury Indices.

The Bloomberg Barclays U.S. Treasury U.S. TIPS index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

The Bloomberg Barclays U.S. Municipal Index covers the U.S. dollar-denominated, long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

The Bloomberg Barclays U.S. Credit Index measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals, and local authorities.

The Bloomberg Barclays U.S. Corporate High Yield Bond Index measures the U.S. dollar-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. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

The Bloomberg Barclays Global Aggregate Bond Index is a flagship measure of global investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes U.S. dollar-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

The Wilshire U.S. REIT Index is a float-adjusted market capitalization-weighted index that measures U.S. publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITS, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITS, and companies that have more than 25% of their assets in direct mortgage investments.

The Wilshire ex U.S. Real Estate Investment Trust IndexSM (Wilshire ex U.S. REIT) measures global publicly traded real estate investment trusts, less all U.S. securities.

The Wilshire ex U.S. REIT is a subset of the Wilshire ex U.S. Real Estate Securities IndexSM (Wilshire ex U.S. RESI).

The Wilshire Global REIT Index is a float-adjusted, market capitalization-weighted index that measures global publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITS, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITS, and companies that have more than 25% of their assets in direct mortgage investments.

Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted two-thirds by trading volume and one-third by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the sixth to the tenth business day based on the roll schedule.

The S&P GSCI Crude Oil Index is a sub-index of the S&P GSCI Commodity Index. The production-weighted index reflects the returns that are potentially available through an unleveraged investment in the West Texas Intermediate (WTI) crude oil futures contract.

The Wilshire Liquid Alternative IndexSM measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Wilshire Liquid Alternative Index (WLIQA) is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge IndexSM (WLIQAEH), Wilshire Liquid Alternative Global Macro IndexSM (WLIQAGM), Wilshire Liquid Alternative Relative Value IndexSM (WLIQARV), Wilshire Liquid Alternative Multi-Strategy IndexSM (WLIQAMS), and Wilshire Liquid Alternative Event Driven IndexSM (WLIQAED).

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately $490 million, and the median market capitalization is approximately $395 million.

The Russell 2000 Growth Index measures the performance of those Russell 2000 index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index measures the performance of those Russell 2000 index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Microcap Index is a capitalization-weighted index of 2,000 small cap and micro cap stocks, including the smallest 1,000 companies in the Russell 2000 plus 1,000 smaller U.S. based listed stocks. Over-the-counter stocks and pink sheet securities are excluded.

The MSCI World ex USA All Cap Index captures large, mid, small, and micro cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 8,138 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country.

The MSCI EAFE Index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI Europe Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of the developed markets in Europe.

The MSCI Pacific Index captures large and mid cap representation across five Developed Markets (DM) countries in the Pacific region. With 470 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

High yield bonds have greater credit risk than higher quality bonds.

Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Alternative investments involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing tax information, are not subject to the same regulatory requirements as more traditional investments, and often charge high fees, which may erode performance. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

*Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.*

Indices are unmanaged, do not reflect fees or expenses, and you cannot invest directly in an index.

Past performance is not indicative of future results.



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