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MARKET REVIEW

› 3rd QUARTER 2021

EXECUTIVE SUMMARY

- Most asset classes were roughly flat for the quarter, except for a decline in Emerging Markets of -8%.
- Going into Q4 2021, real GDP has recovered to the output levels seen in Q4 of 2019 (pre-pandemic). Now on track to recover to the 20-year GDP growth rate that precluded the pandemic, it is anticipated to fully recover in 2022.
- Fed and government policy is expected to be less accommodative in 2022 due to the strong recovery.

Quarterly Market Review

Third Quarter 2021

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"The stock market is a device for transferring money from the impatient to the patient" - Warren Buffett

As we entered fall of 2021, the US economy continued its impressive rebound from the pandemic. Unfortunately, the Delta variant made the road to recovery bumpier than expected by causing another pause in the travel and entertainment industries and further constraining supply chains, which bolstered inflation. However, there are signs the latest wave of the pandemic is beginning to wane. If this progression continues, the economy should reaccelerate with strong economic gains across the board.

Headwinds and challenges for economic recovery include increased inflation, strained supply chains, and labor market distortions while the government and Fed policy prepare to become less accommodative heading into 2022. However, amidst these headwinds and assuming no additional bumps in the road, the global economy is expected to experience a synchronized surge as the pandemic retreats.

In addition to vaccines, fiscal stimulus has been a strong accelerant for economic recovery. The $1.9 trillion brought by the American Rescue Plan signed in March is still working its way through the system and will continue to support the economy through 2021 and into the first part of 2022. In 2022, the economy is expected to be the healthiest it has been since the start of COVID; however, it will be aided by much less fiscal support.

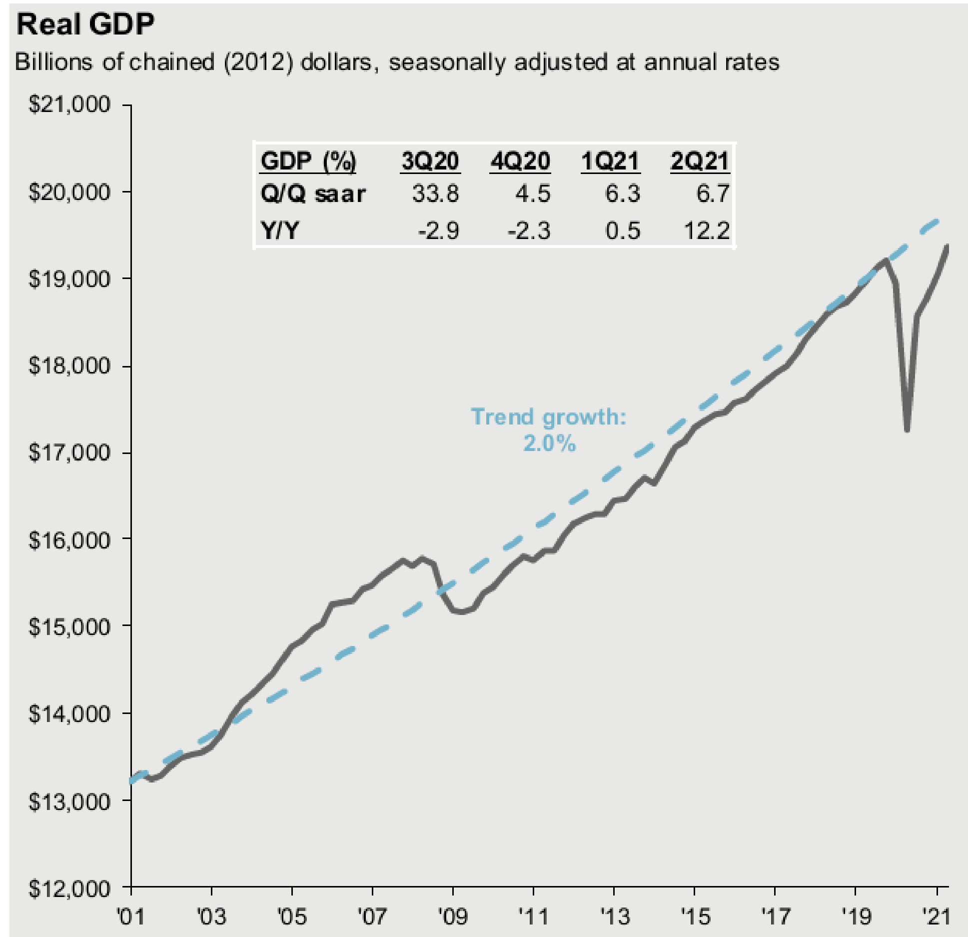
- Overview:

The recession that resulted from COVID was the deepest since World War II, but due to quick action by the Fed and (surprisingly) by the government, the economy experienced a strong recovery heading into the summer of 2021. Going into Q4 2021, real GDP has recovered to the output levels seen in Q4 of 2019 (pre-pandemic). Now on track to recover to the 20-year GDP growth rate that precluded the pandemic, it is anticipated to fully recover in 2022. However, with a shortage of workers and significantly less fiscal and monetary support, economic growth should slow to its long-term trend of roughly 2% per year **(Exhibit I).**

As the economy has re-opened, the boom in GDP has coincided with a rebound in the labor market. From February to April of 2020, a staggering 22.4 million jobs were wiped away, with 76% (or 17 million) of those jobs having since been recovered. Though, as impressive as this recovery has been, the job market recovery is still incomplete. The current unemployment rate is 5.2%, rising above the pre-COVID rate of 3.5%. This difference between the current and pre-COVID unemployment rates might imply the existence of slack in the labor market during normal economic cycles. However, the last several years have been all but normal.

The blue line shown in **Exhibit II** illustrates the annualized growth in hourly wages in the US—a number that has now reached levels not seen since the 1980s. This employment shortfall, however, has not been due to a lack of available jobs. It has been driven by labor supply constrained by enhanced unemployment benefits, lower immigration, the high cost of childcare, and continued pandemic fears. Over time, these constraints will continue to recede, with a pre-pandemic unemployment rate of 3.5% likely to be achieved in 2023.

Exhibit I



Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19.
Guide to the Markets –U.S.Data are as of September 30, 2021.

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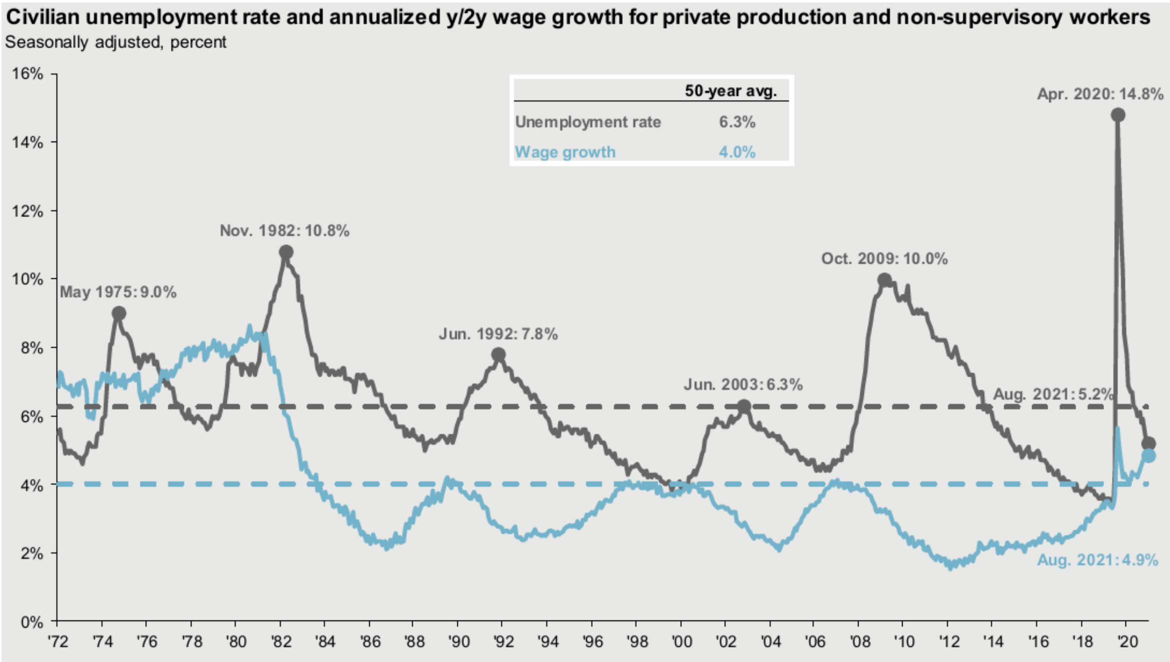
Market Update:

As you'll see in the following pages, most asset classes in Q3 took a pause from gangbuster returns with modestly positive to slightly negative returns. The majority of the developed world ended the quarter primarily flat while still clocking in returns of 11-15% for the total year, so far. Emerging markets, on the other hand, lagged with -8% for Q3 primarily driven by decline in China. Private Real Estate was the best performer (+5% for the quarter) as the real estate boom continued and employees returned to work. Fixed income was likewise flat, while our short-term inflation-protected fund provided a nice hedge with a +1-2% for the quarter and +4% for the year as inflation crept up.

Exhibit II Source: BLS, FactSet, J.P. Morgan Asset Management. *Guide to the Markets –U.S.* Data are as of 9/30/2021.



Portfolio Update:

Although rates have risen modestly—and are expected to continue rising over time—in fixed income, portfolios continue to have a shorter-term tilt with inflation protection incorporated. This will protect the portfolio as rates increase and provide positioning favorable for taking advantage of higher interest rate levels on the medium-to-longer end of the yield curve. Equities remain globally diversified and tilted toward profitable and undervalued companies. Furthermore, going into the fourth quarter, we'll continue looking for rebalancing and tax-loss harvesting opportunities.

In our last commentary, we mentioned we were undergoing R&D to create an investment model for clients who have been sitting on a substantial amount of excess cash they wish to invest but who are concerned with contributing new money to the market. Last month, the investment committee approved the HFG Absolute Return model. This model focuses on producing strong income and modest appreciation in various market conditions (high/low valuations/interest rates, etc.) by focusing on alternative/uncorrelated investments, asset-backed fixed income, and inflation protection, with a minority allocated to dividend-producing stocks. This isn't a substitute for your traditional investment model but may be helpful for certain clients on a case-by-case basis. If interested, please speak with your advisor.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2021

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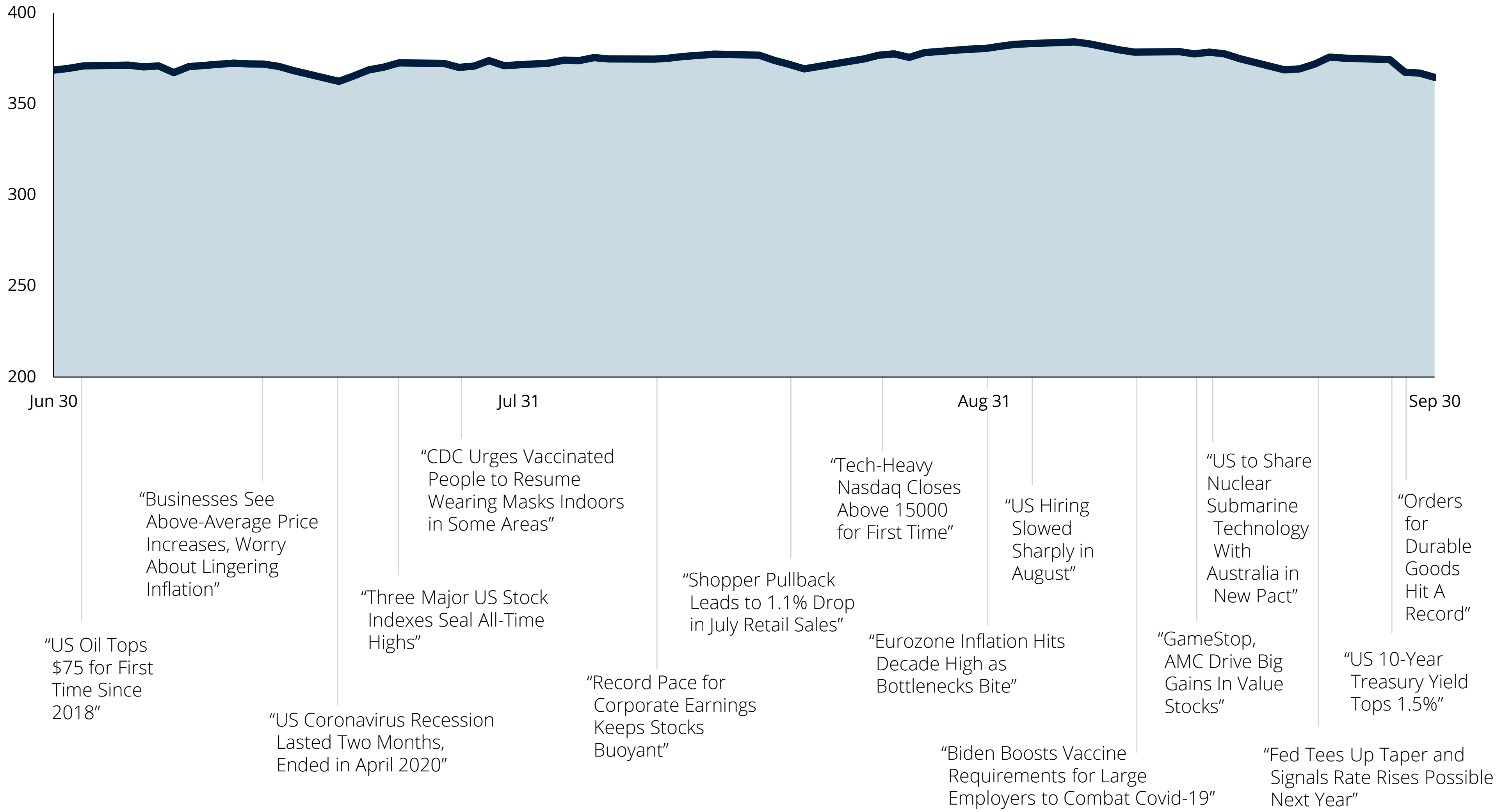


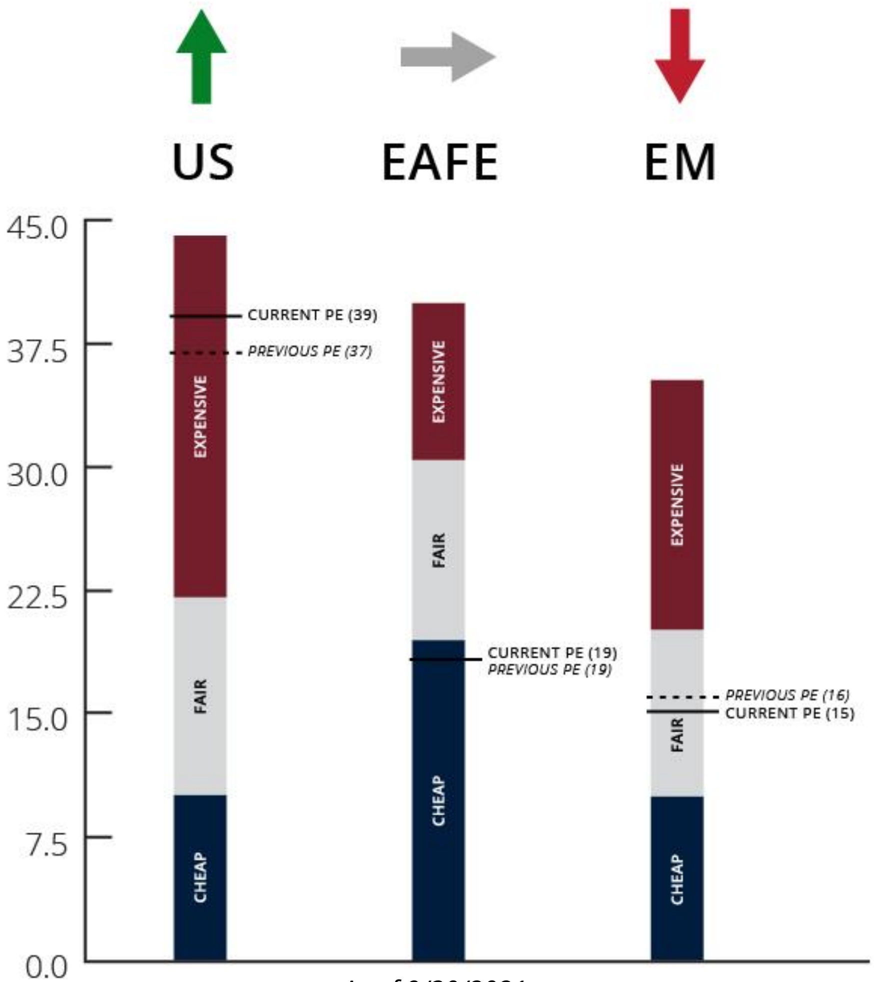
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Global Valuations

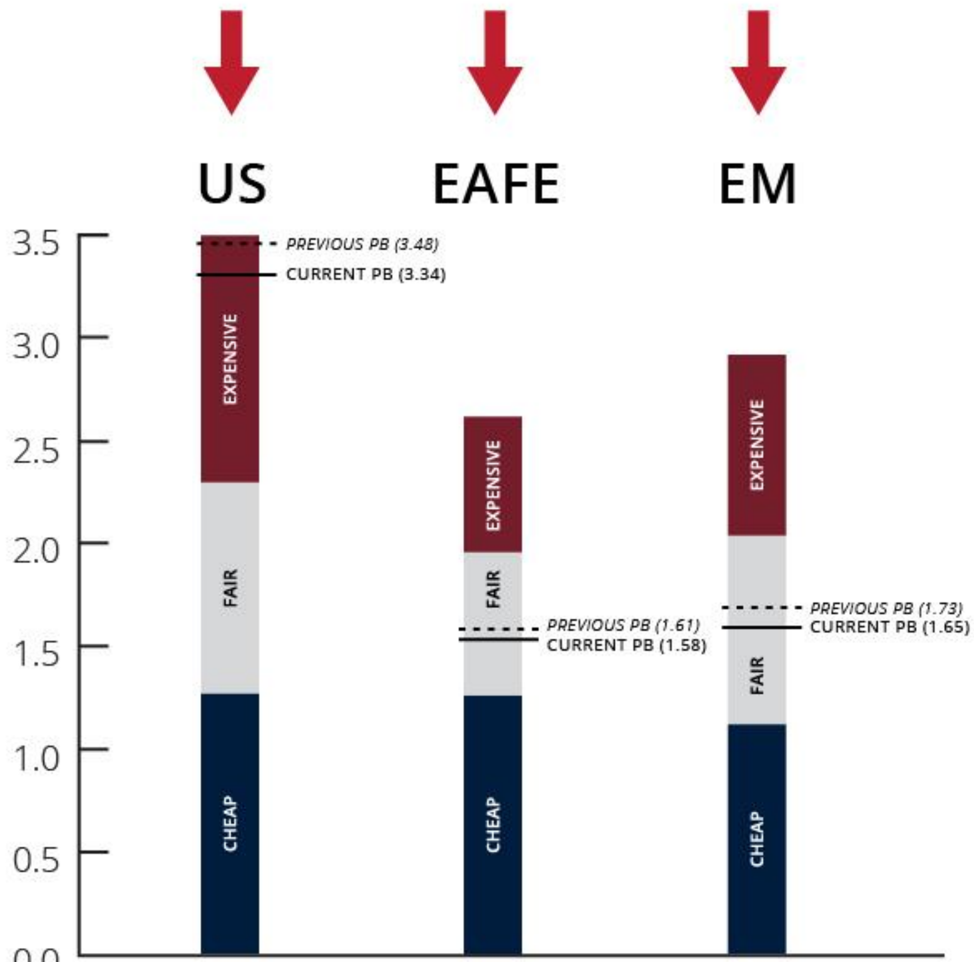
What is the Investment Climate?

Price-to-Earnings (CAPE)



As of 9/30/2021

Price-to-Book Value



As of 9/30/2021

Cyclically Adjusted Price-to-Earnings or "CAPE" is a valuation metric, where the current market price is divided by the last ten years of average earnings (adjusted for inflation). The price you pay is what you get, and by utilizing average earnings over a longer period (10 years), we can put into perspective whether the current market price is trending toward expensive, undervalued, or fairly valued historically.

Quarterly Market Summary

Index Returns

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3Q 2021	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	-0.10%	-0.66%	-8.09%	-0.08%	0.05%	0.09%
Since Jan. 2001						
Avg. Quarterly Return	2.4%	1.7%	2.9%	2.5%	1.1%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.4%	-2.7%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2021 Q1**	**2015 Q2**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Bloomberg data provided by Bloomberg.

Long-Term Market Summary

Index Returns as of September 30, 2021

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	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	31.88%	26.50%	18.20%	31.61%	-0.90%	-0.54%
5 Years						
	16.85%	8.88%	9.23%	4.65%	2.94%	2.71%
10 Years						
	16.60%	7.88%	6.09%	8.70%	3.01%	3.87%

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World Asset Classes

Third Quarter 2021 Index Returns (%)

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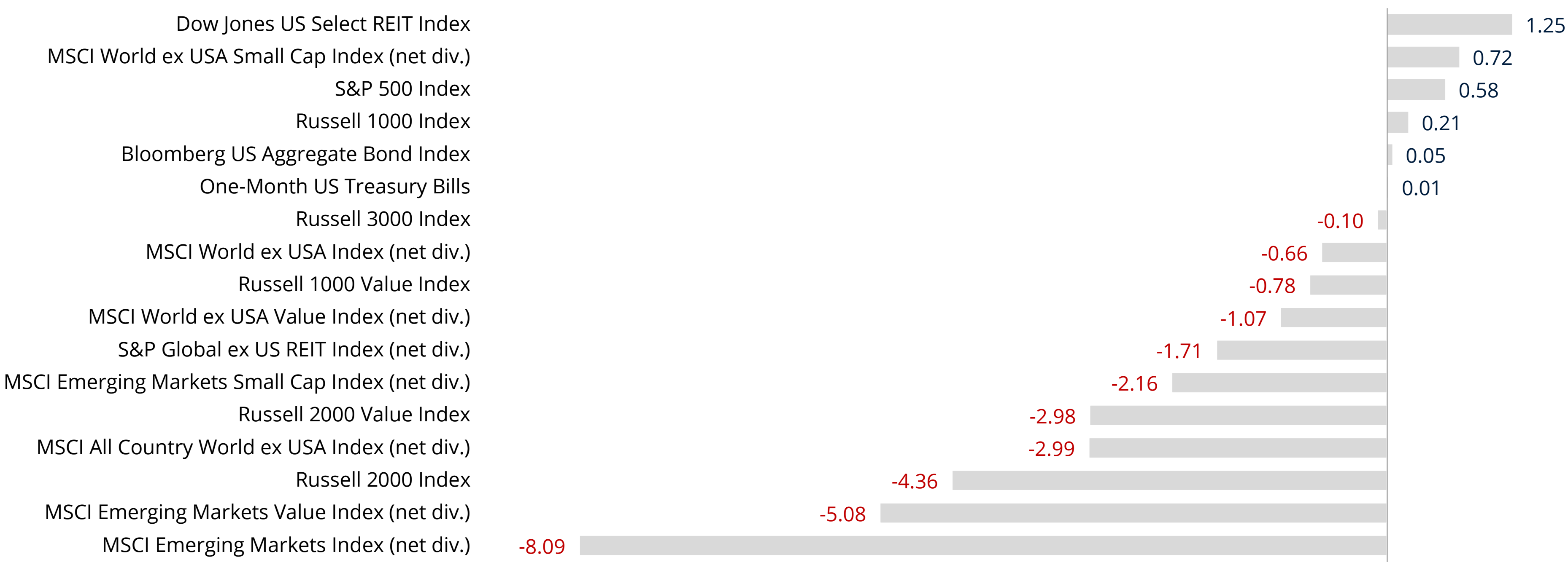
- Equity markets around the globe declined in the third quarter. Looking at broad market indices, US and non-US developed markets outperformed emerging markets.
- Value performance was mixed in the US, with small value outperforming small growth but large value underperforming large growth. Value underperformed growth in non-US developed markets and outperformed in emerging markets.
- Small caps underperformed large caps in the US but outperformed in non-US developed and emerging markets.
- REIT indices outperformed equity market indices in the US and underperformed in non-US developed markets.



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