

Mid-year Market and Economic Update

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Stock Market Performance

S&P 500 Index, recent period



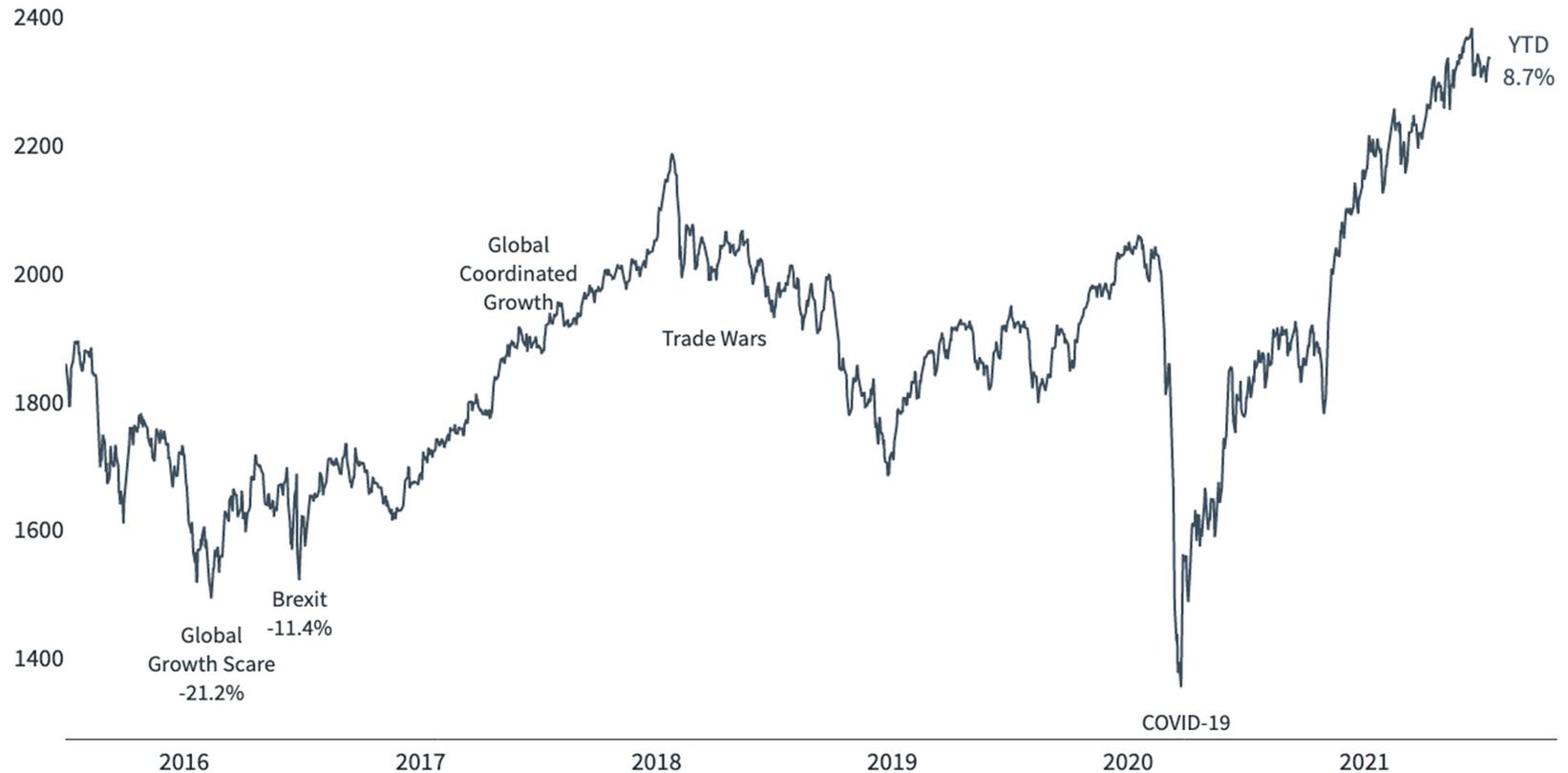
Latest data point is Jul 14, 2021

- The stock market has rallied significantly over the past year.
- Despite reaching many new all-time highs, markets have been uncertain due to inflation and interest rates.
- For long-term investors, it is important to maintain the proper perspective and look past short-term volatility.

Source: Standard & Poor's

Developed Market Recent Performance

MSCI EAFE Index (USD)



Latest data point is Jul 14, 2021

- Developed markets have recovered alongside many other regions since the pandemic-induced market crash.
- However, they still trail the U.S. market due to significant uncertainties from the dollar, rates and COVID-19.
- Many countries, especially those in Europe, continue to face challenges with vaccine rollouts.

Source: MSCI

Emerging Market Recent Performance

MSCI EM Index (USD)



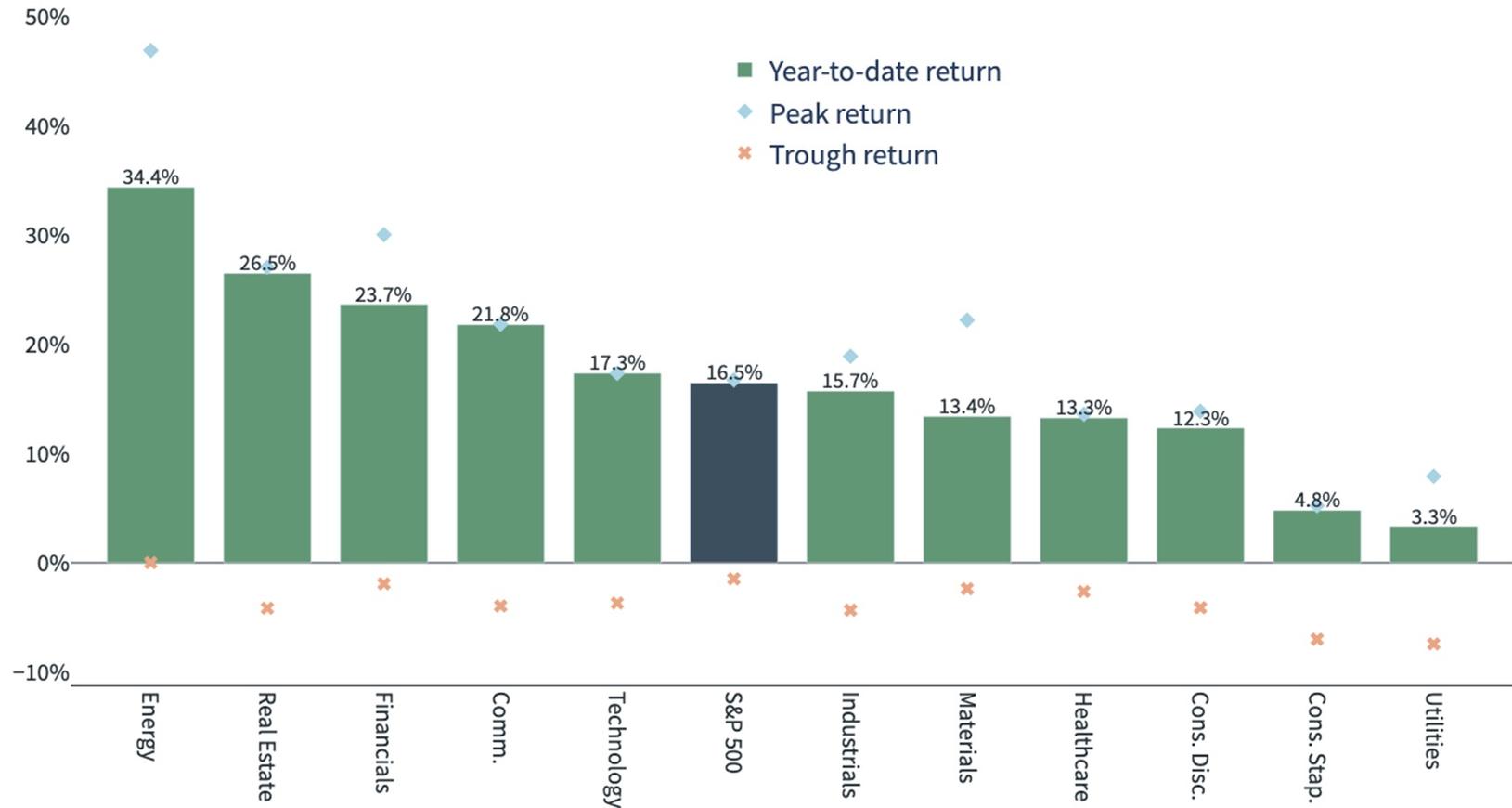
Latest data point is Jul 14, 2021

- Emerging markets are slowly recovering from the pandemic and catching up to other regions.
- Even before the pandemic, the asset class had been volatile over the past decade due to growth concerns.
- Longer term, emerging markets still play a very important role in portfolio diversification despite recent uncertainty.

Source: MSCI

Sector Returns – Year-to-Date

S&P 500 sector year-to-date, peak and trough returns



- Stock market sector leadership has shifted multiple times throughout the early phases of the bull market.
- Technology-driven sectors initially led the pack but commodity-sensitive, consumer and rate-sensitive sectors have risen more recently.
- Most investors should continue to benefit from broad diversification across sectors and industries.

The Stock Market and Earnings

S&P 500 Index price and trailing earnings-per-share since 1990

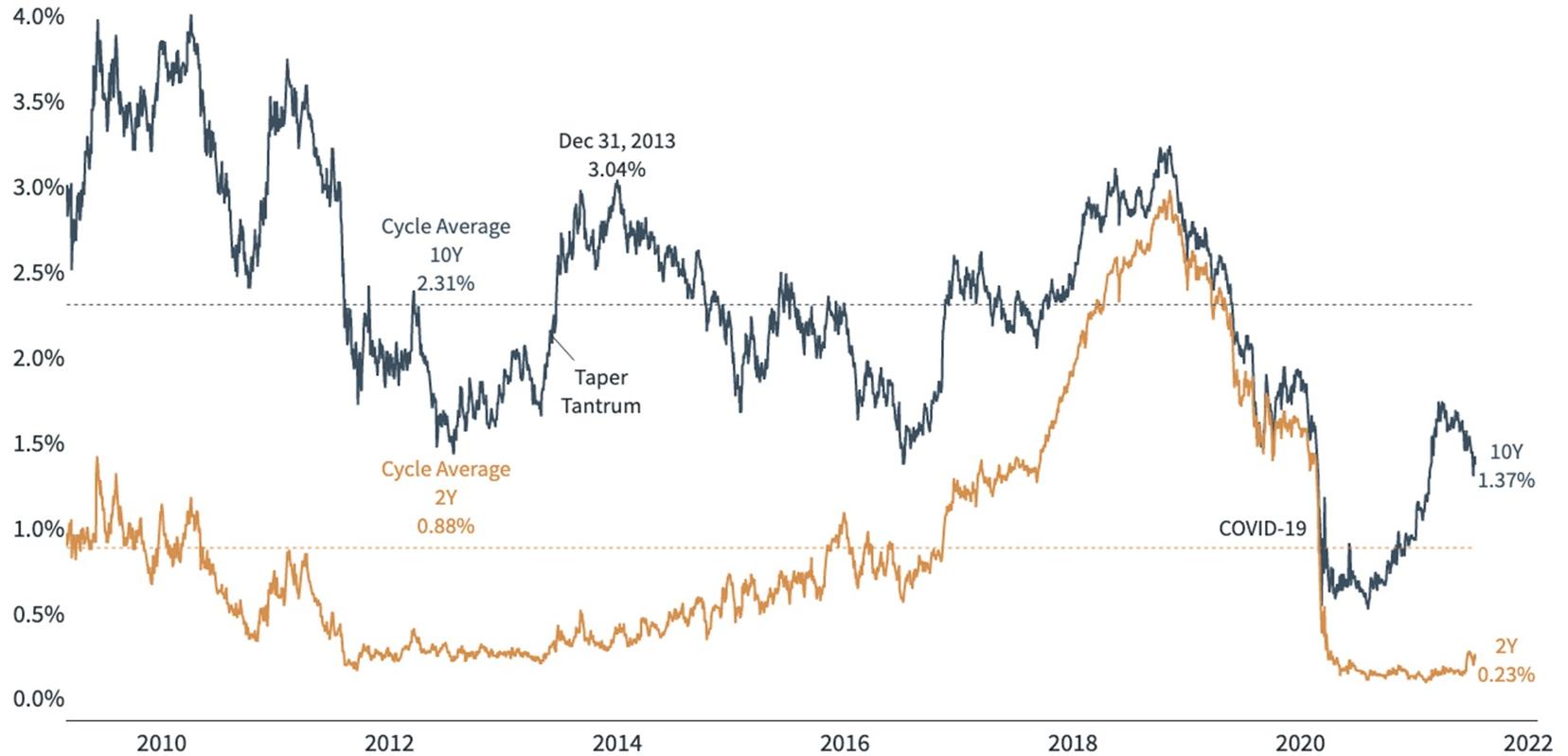


Latest data point is Jul 14, 2021

- This chart shows the S&P 500 index alongside its trailing 12 months earnings-per-share.
- Over the long run, the stock market tends to follow earnings. If earnings are rising, investors are willing to pay more per share.
- Earnings, in turn, tend to track economic growth. Thus, a healthy economy tends to result in a rising stock market.

Interest Rates

10-year and 2-year yields since 2010



Latest data point is Jul 14, 2021

Source: Federal Reserve

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Mortgage Rates

30-Year Fixed Rate Mortgage

Interest Rates



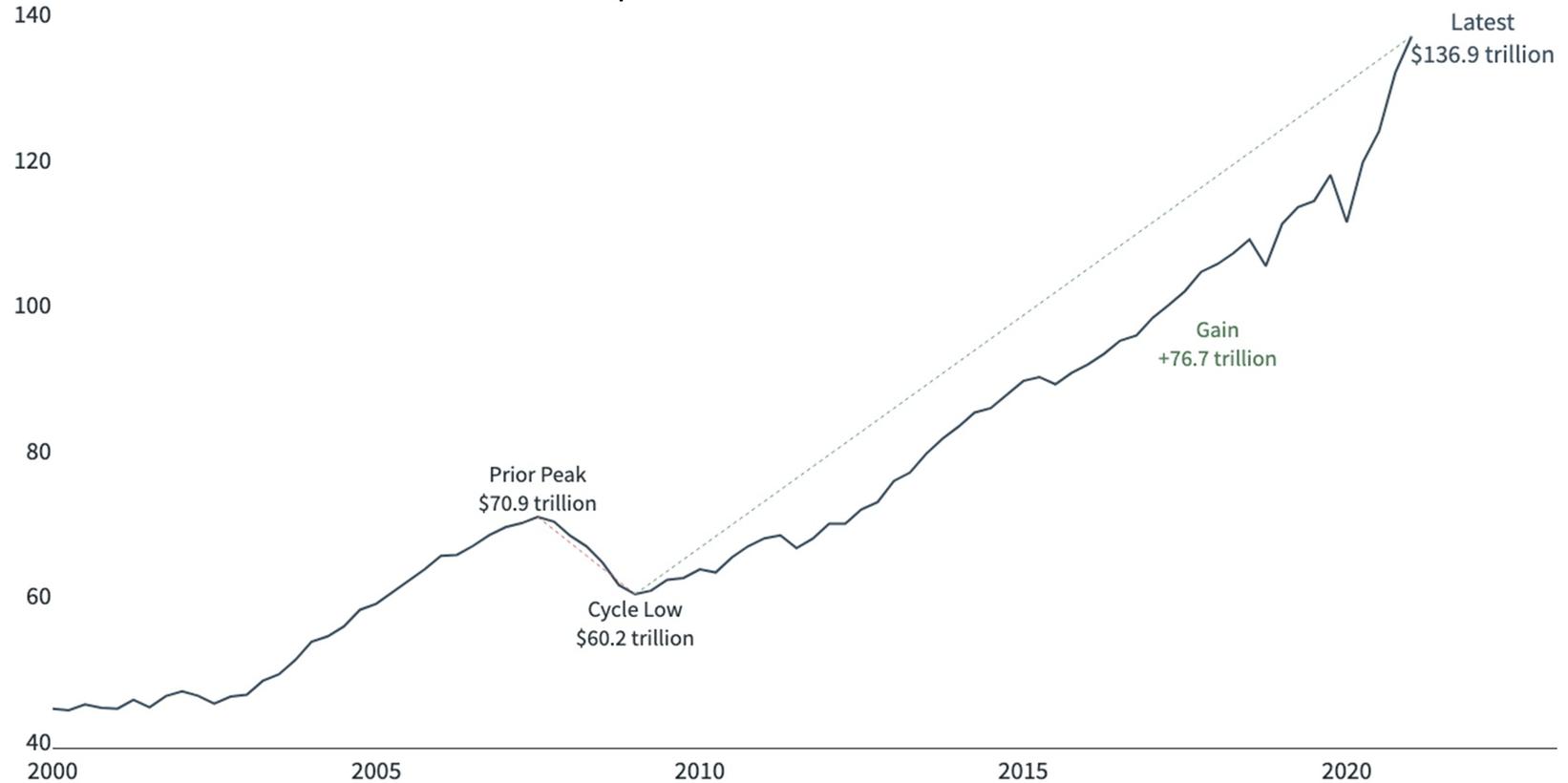
Latest data point is Jul 8, 2021

Source: Freddie Mac

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Household Net Worth

*Federal Reserve Z.1 financial accounts report for the U.S.
The net worth of households and nonprofits*



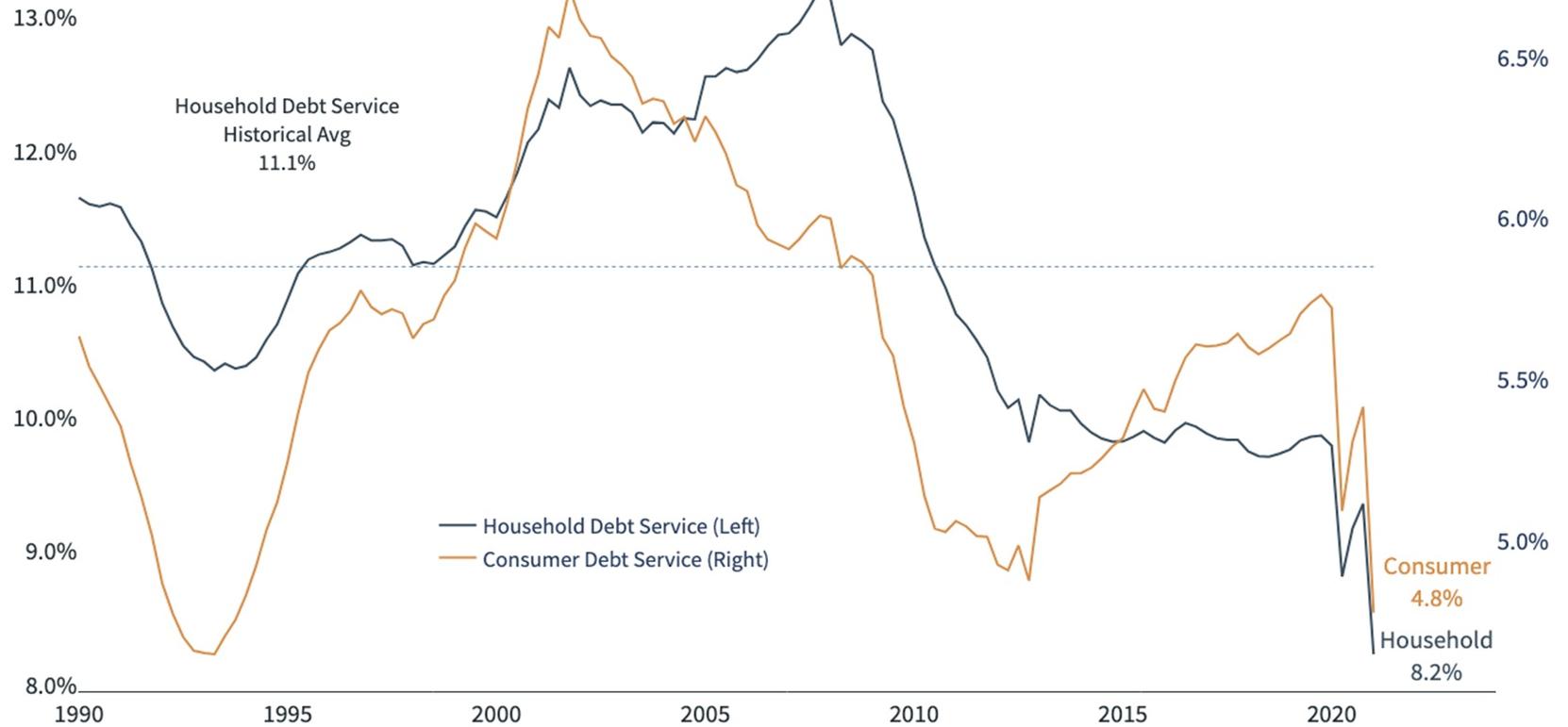
Latest data point is Jan 2021

- Household net worth is at record levels, despite the recession, eclipsing the pre-recession high of about \$70 trillion.
- U.S. net worth grew from stock market returns, low interest rates, rising home prices, and steady economic growth.

Source: Federal Reserve

Household Debt Service

Debt service as a percentage of income. Household debt service includes consumer and mortgage debt.



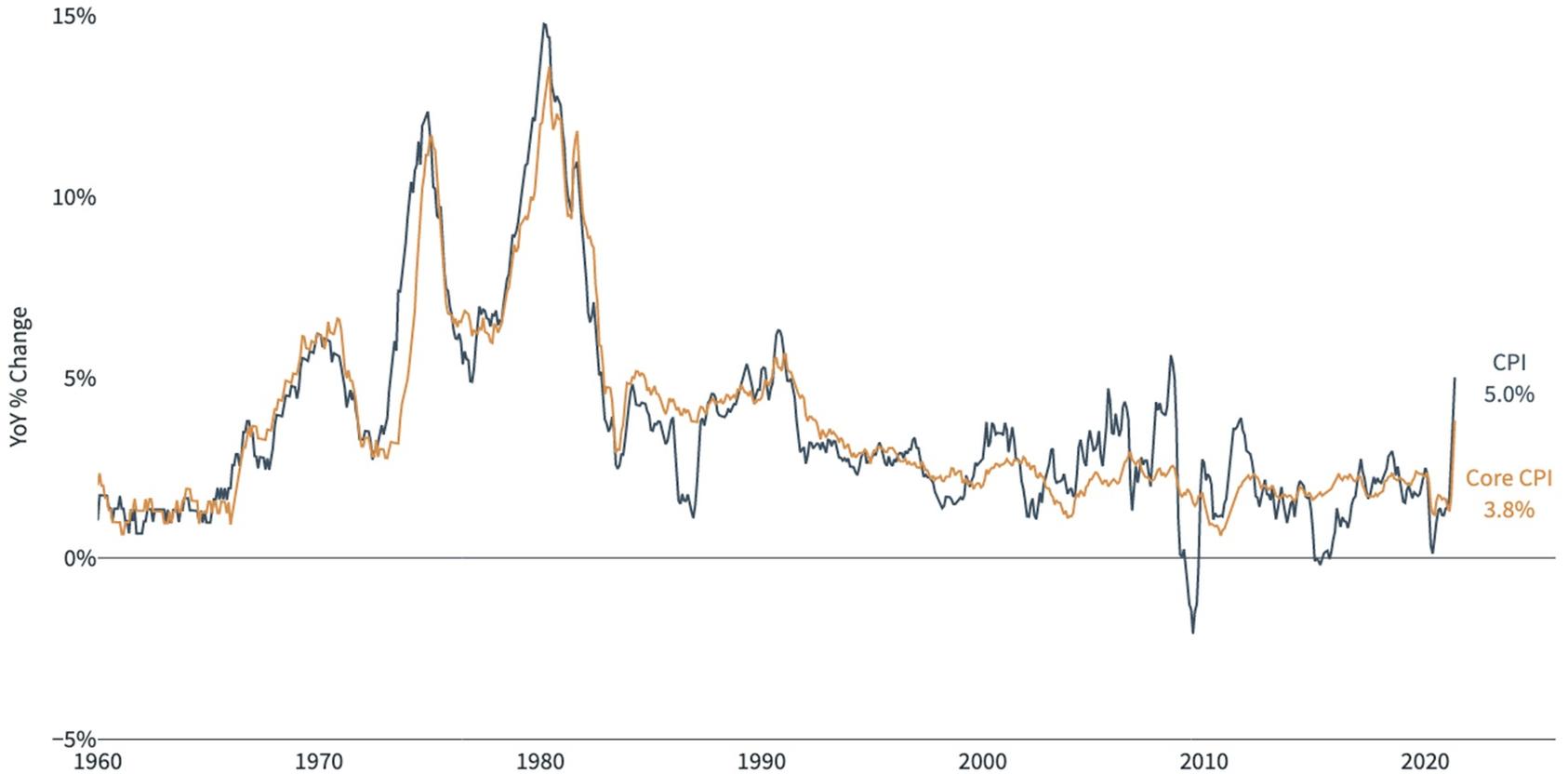
Latest data point is Jan 2021

- Household debt has increased but is not at levels seen during the housing bubble.
- Low interest and mortgage rates have helped to keep household debt levels manageable.

Source: Federal Reserve

Consumer Price Index

CPI and Ex Food and Energy, YoY % Change



Latest data point is May 2021

Source: U.S. Bureau of Labor Statistics

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Inflation

Economically Important Commodities

Futures contract prices of oil (WTI), corn, copper and lumber



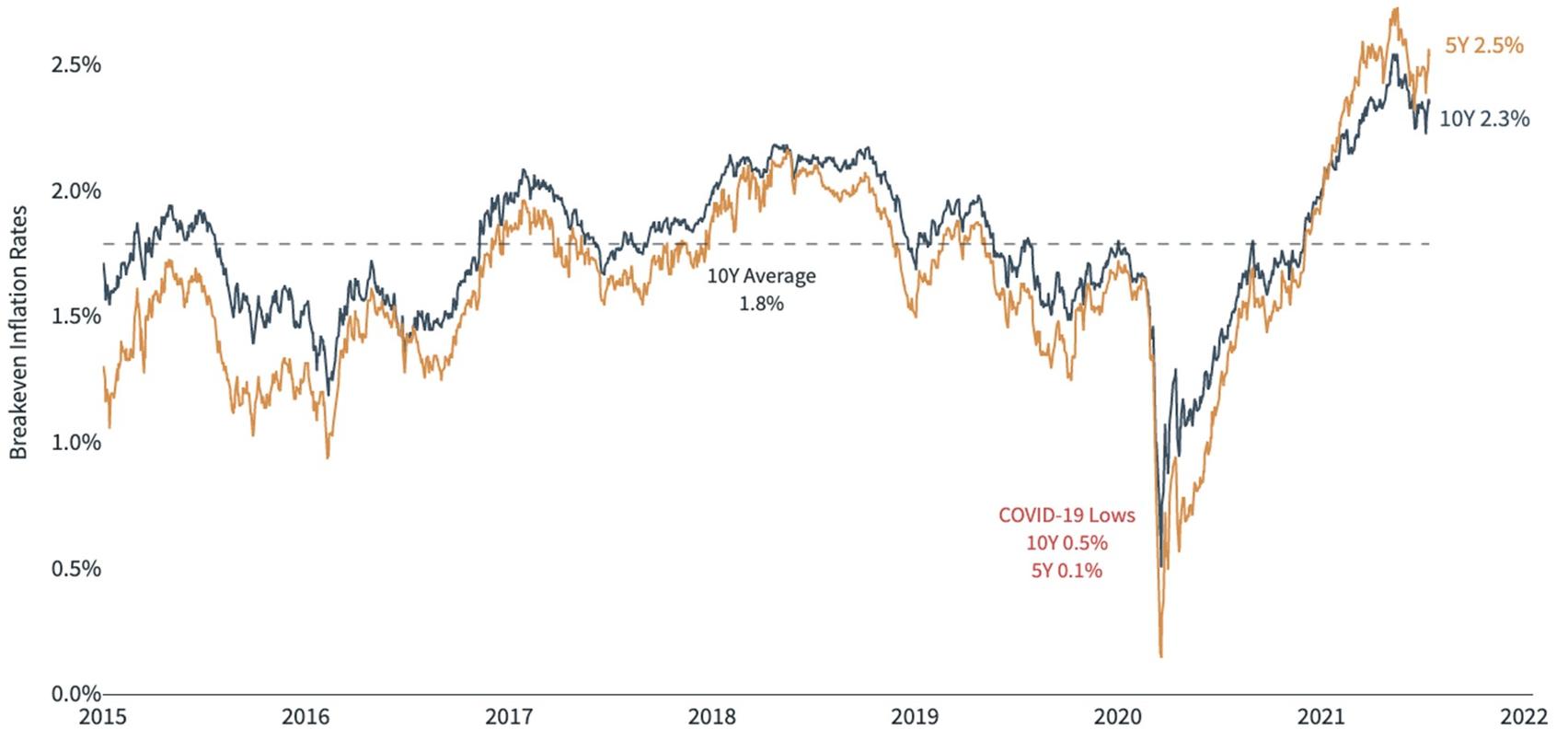
Latest data point is Jul 14, 2021

Source: Clearnomics,
Bloomberg

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TIPS Breakeven Inflation

5 and 10-year Inflation Rates



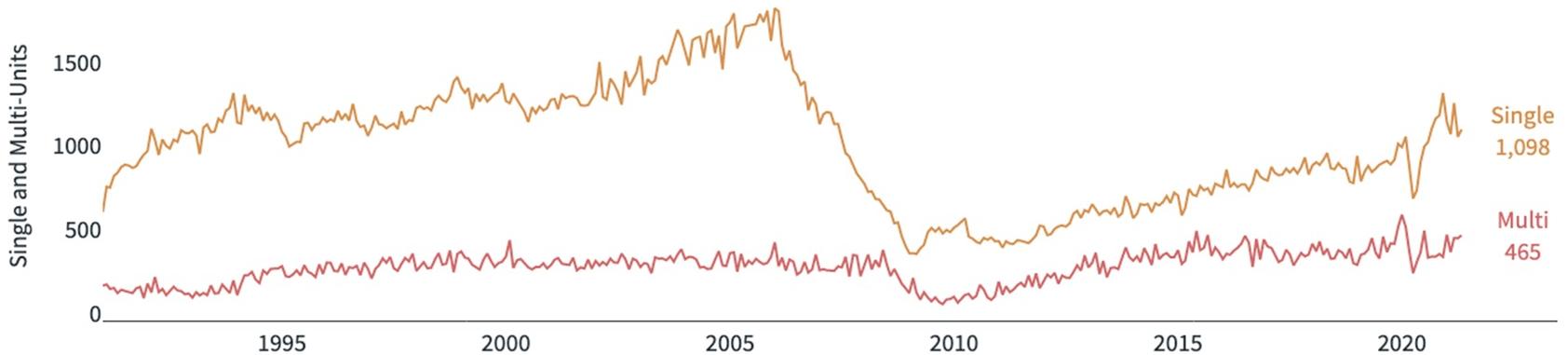
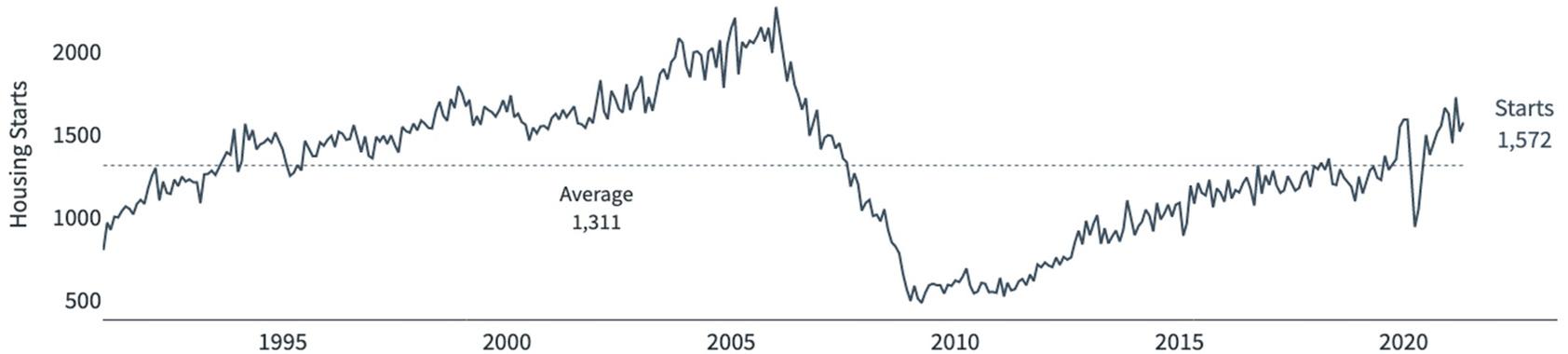
Latest data point is Jul 14, 2021

Source: Federal Reserve

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Housing Starts

Housing Market



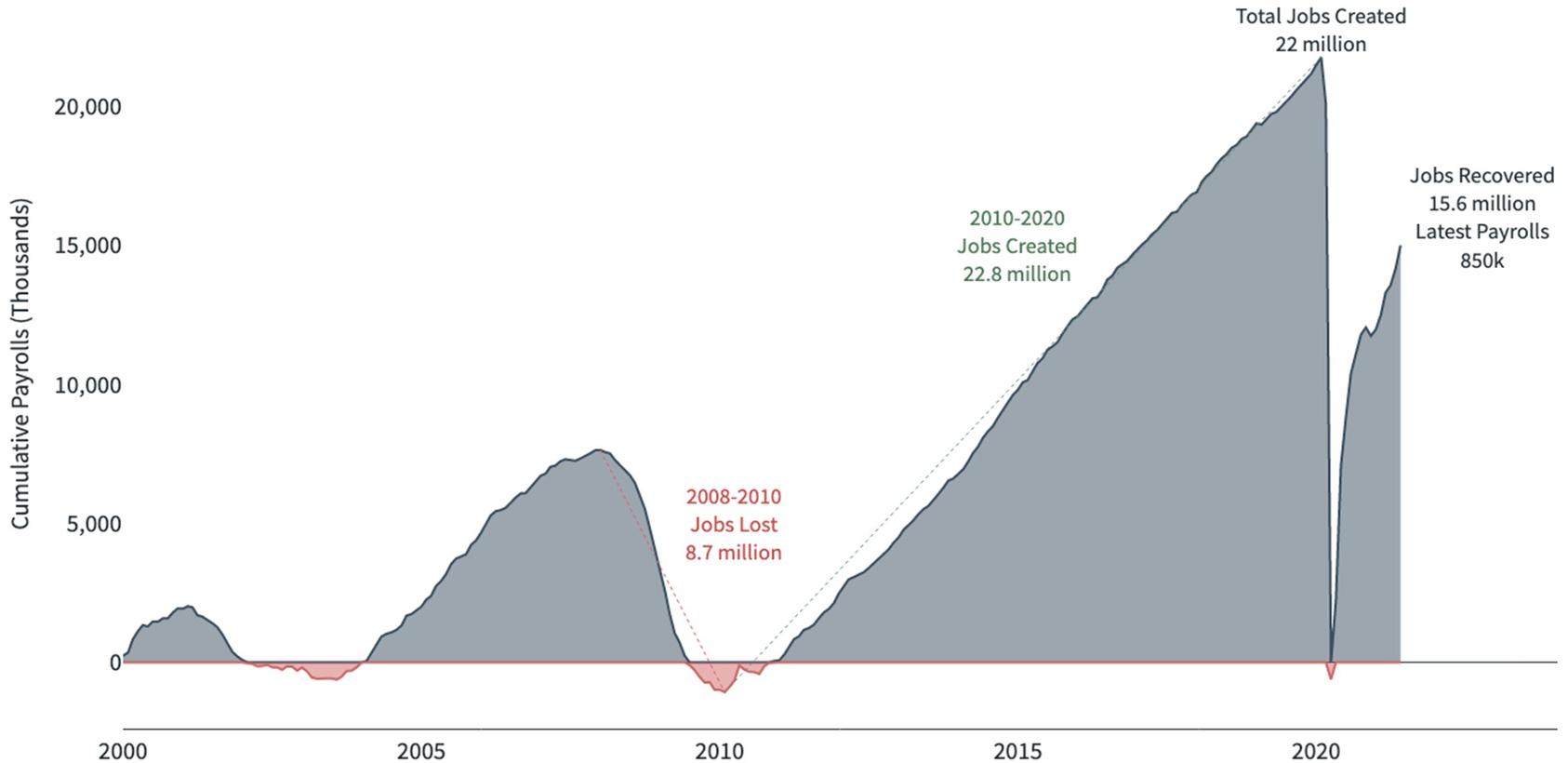
Latest data point is May 2021

- Housing starts have accelerated due to strong demand and limited supply of housing.
- Housing prices continue to rise alongside broader measures of inflation.

Source: U.S. Bureau of the Census

Total Jobs Created Since 2000

Cumulative change in non-farm payrolls, seasonally adjusted



Latest data point is Jun 2021

- This chart shows the total jobs created since the year 2000.
- Over 22 million jobs had been created since 2010.
- At this point, more than two-thirds of the jobs lost during the pandemic have been recovered.

Source: Bureau of Labor Statistics

Inflation

- Economic recovery seems steady, albeit slow
- The housing market is at all time high
- Fear of inflation has pushed market volatility higher
- Price increases have been driven by increased demand and reduced supply, especially in lumber and copper
- There is an upward pressure on wages due to labor shortages
- Wage inflation differs from increase in prices of goods and services

Biden Administration Tax Proposals

- U.S. corporate income tax rate would increase from the current 21% to 28%
- The individual tax rate would increase from 37% to 39.6% for AGI > \$400,000+
- SS tax, which phases out at \$142,800 of income in 2021, would resume at \$400,000
- The estates of taxpayers would recognize a deemed sale of all appreciated assets when they die, with a corresponding deduction allowed for federal estate tax purposes
- The administration would also tax long-term capital gains and qualified dividends at the ordinary income tax rate of 39.6% for income above \$1 million
- Like-kind exchanges under Section 1031 of the Internal Revenue Code would be limited to \$1 million of gain / year / taxpayer
- The deduction for unlimited state and local taxes (SALT), would be restored

Q & A

Definitions and Methodology

The **S&P 500** is a market capitalization-weighted index of large cap U.S. stocks. U.S. **mid cap** and **small cap** are the S&P 400 and S&P 600, respectively. **Value** and **growth** are the corresponding Standard and Poor's value and growth indices.

MSCI EM is an index of emerging market stocks. **MSCI EAFE** is an index of developed market stocks. **MSCI ACWI** is an index of global stocks.

The **forward P/E** is a ratio of the current market price of an index divided by an estimate of earnings over the next twelve months. The **Shiller P/E** is based on Robert Shiller's cyclically adjusted price-to-earnings ratio.

The **AAll Investor Sentiment** index is based on a weekly survey conducted by AAll.

Unless stated otherwise, **earnings** and **valuations** data are from Refinitiv indices.

The **LEI**, or Leading Economic Index, is produced monthly by the Conference Board.

Consumer sentiment indices are based on surveys conducted by the University of Michigan Surveys of Consumers.

Asset Class Performance and Asset Classes Relative to U.S.

Stocks charts: The EM, EAFE, Small Cap, Fixed Income and Commodities are these indices, respectively: MSCI EM, MSCI EAFE, Russell 2000, iShares Core U.S. Bond Aggregate, Bloomberg Commodity Index.

Fixed Income Performance: All sectors are represented by the Bloomberg Barclays bond indices except for EMD USD and Local which are the JPMorgan EMBIG Diversified Index and JPMorgan GBI-EM Core Index, respectively.

The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities.

The **Bloomberg Commodity Index** is a broadly diversified basket of physical commodities futures contracts.

The **DXY** is a U.S. dollar index based on a basket of currencies, including the Euro, Yen, Pound, Canadian Dollar, Swedish Krona and Swiss Franc.

Portfolio Risk/Reward and Portfolio Drift Since 2009 charts: stocks and bonds are the S&P 500 and iShares Core U.S. Bond Aggregate, respectively. Each portfolio represents a hypothetical stock/bond asset allocation.

The **MSCI Factor** indices are created and maintained by MSCI to capture factor returns. They cover various factors including Quality, Size, Momentum, Volatility, Value and Yield. The Multi-Factor index tracks the performance of Value, Momentum, Quality and Size.

The **MSCI USA** index tracks large and mid cap U.S. stocks.

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