Current Investment Strategy and Themes

- ***Inflation, whether transitory or not, leads the debate and worry.***
- ***Positive short-term equity fundamentals such as Year over Year earnings comparisons still positive.***
- ***Selective opportunities remain across the capital markets, especially where innovation and impact dominate.***

The Markets in Review: October 2021

- The global equity markets reversed the September declines and resumed their upward march to new record levels. Large-cap US equities were the global equity leader again. Whatever fears investors may have had concerning inflation and Covid in September, which sent the market to its worst one-month decline since March 2020, the S&P 500 had no fear and closed out October at a new all-time high.
- Since the fall of 2020, domestic equity markets have rotated between the leadership of cyclical growth opportunity of small-cap value stocks and the secular growth opportunity of technology stocks as represented by the NASDAQ index. In October and for the previous three months, the NASDAQ has outperformed the small-cap value index (the Russell 2000 Value) as investors worried over the sustainability of the post-Covid recovery. However, for the previous twelve-month period, the small-cap value index has outperformed the NASDAQ index, 64.3% versus 42.0%.
- Part of that small-cap value outperformance can be attributed to the monetary policy of the Federal Reserve Board. The expansionary policy to restart the short, but sharp Covid recession fueled investors to take larger risks and propel the prices of financial assets higher. But now the Federal Reserve faces a momentous decision, either to change policy to fight against the inflationary data that seems to moving past just the transitory stage, or to continue to the near-zero short-term interest rate policy and expanding Fed balance sheet. Either policy choice presents large risks to the economy and the prices of financial assets. Given the large disruptions in both the supply chain and labor portions of the economy, there is no one easy choice.
- Investors have a real demand for fixed-income assets. Demographically, much of the baby boomer generation is in an income distribution phase of their investment life cycle. At the same time, investors across the allocation spectrum are trying to balance out the risks of market-driven allocations to their upper bound. Bond investors have had to adjust to lower absolute yields since the Financial Crisis over ten years ago. Now rising inflation is reducing the nominal yield into negative real yield territory.
- The nominal yield on the 10-year US Treasury note traded in October as high as 1.69% and closed at 1.56%. This yield is up from 0.92% to start 2021 but lower than the 1.92% at year-end 2019. The flat yield curve gave investors very little reward for taking time risk, and now the low yields are being destroyed by inflation. Many investors view their portfolio at its maximum equity level given their risk tolerance and fear the loss of real return on their bond portfolio. Historically, this is when investors seek new investments and hedges in assets such as gold, commodities, real estate, and now cryptocurrency.

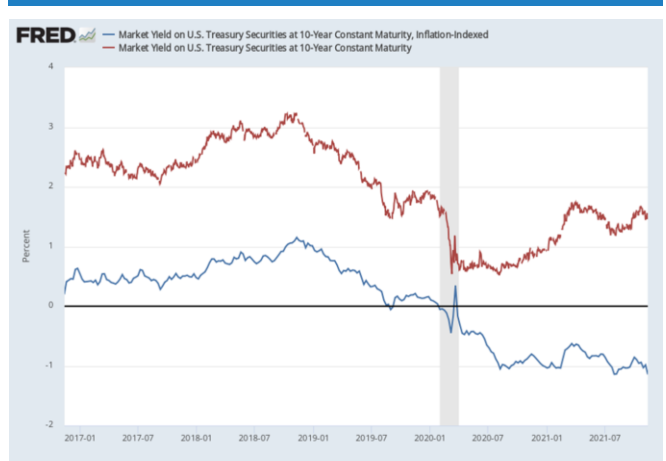
Key Market Indicators

Bullish	Favorable	Neutral	Cautious	Bearish

Equities	Oct 2021	YTD Oct	Last 12 Mo	Current View
U.S. Large Cap	7.01%	24.04%	42.91%	Neutral
U.S. Small Cap	4.25%	17.19%	50.80%	Cautious
International Developed	2.46%	11.01%	34.18%	Favorable
Emerging Markets Equity	0.99%	-0.27%	16.96%	Neutral
Fixed Income				
U.S. Aggregate	-0.03%	-1.58%	-0.48%	Cautious
U.S. Government	-0.08%	-2.50%	-2.38%	Cautious
U.S. Corporate	0.22%	-1.09%	1.90%	Neutral
U.S. High Yield	-0.17%	4.36%	10.53%	Cautious
Non-U.S. Developed	-0.67%	-8.53%	-4.39%	Cautious
Emerging Market Debt	-1.40%	-7.56%	0.98%	Bearish
Alternatives				
REITs	7.60%	32.51%	51.80%	Neutral
Commodities	4.18%	32.40%	52.13%	Favorable
Managed Futures	1.35%	12.46%	19.58%	Neutral
Hedge Funds	0.90%	4.51%	10.09%	Favorable

Source: Morningstar, data as of 10/31/2021

Chart of the Month: Nominal vs. Real Yield



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Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.
“U.S. Small Cap” represented by the Russell 2000 Index.
“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
“Emerging” represented by the MSCI Emerging Markets Net Return Index.
“U.S. Aggregate” represented by the Bloomberg U.S. Aggregate Bond Index.
“U.S. Government” represented by the Bloomberg U.S. Government Bond Index.
“U.S. Corporate” represented by the Bloomberg U.S. Credit Bond Index.
“U.S. High Yield” represented by the Bloomberg U.S. Corporate High Yield Index.
“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.
“Emerging Market Debt” represented by the JP Morgan GBI-EM Global Core Index
“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
“Commodities” represented by the Dow Jones Commodity Index .
“Managed Futures” represented by the Credit Suisse Managed Futures Index.
“Global Macro” represented by the Credit Suisse Global Macro Index

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