Quarterly Market Review:

3RD QUARTER 2021 REVIEW AND OUTLOOK

Overview

The third quarter managed the delta variant surge and a Fed policy inflection point relatively well. Equity markets took a breather in September, giving back July and August gains, but did manage to finish up slightly for the quarter - a sixth consecutive positive quarter for the S&P 500 – leaving calendar year 2021 gains at nearly 16%. Underlying fundamentals (growth, earnings, consumer) remained encouraging while several unknowns (Covid, inflation, policy) contributed to the market consolidation toward the end of the third quarter. Interest rates edged up slightly during the quarter, while commodities rallied on the back of a surge in energy prices.

Monetary policy during the quarter saw the Fed and other central banks signal intent to begin the slow process of reducing the extraordinary accommodations in place since the pandemic began in March 2020. U.S. fiscal policy is poised for contraction in 2022, regardless of Congressional action, with significant tax and spending bills currently being debated. Recently enacted debt ceiling and government funding extensions are set to maintain the credit worthiness and funded status of the U.S. government only through early December. Other contributing risk factors during the quarter included China's ongoing dance with autocracy, a surge in delta variant Covid cases, uneven labor market recovery, moderation in global economic growth, and pandemic related global supply chain disruptions and associated inflation dynamics.

Looking forward, we see a robust consumer balance sheet supporting spending and a corresponding shift from goods consumption to services spending. We expect continuing (reaccelerating) job creation and are at the beginning stages of meaningful market responses to global supply chain issues across energy, semiconductors, and global transportation sectors, among others. This leaves us maintaining a relatively constructive view of the overall equity market while closely monitoring corporate earnings, inflation and jobs data, Fed policy, fiscal policy, and Covid trends. Ultimately, we expect risk assets to outperform fixed income going forward as global growth momentum shifts from the US to the rest of the world. Within equity markets, we are favoring developed international equity markets, particularly Europe, relative to the U.S., and feel fixed income investors should maintain a modestly short duration and remain neutral on credit sectors.

Constructive Observations

- Beginning stages of monetary policy normalization but still a very stimulative stance from the Fed and most global central banks.
- Expected continuation of improvements in the labor market and addressing of supply chain issues for the next several quarters.
- Stimulative but waning U.S. fiscal stimulus.
- Covid delta variant pandemic trends receding in the U.S. and globally.
- The slim political majorities in D.C. should effectively 'centralize' most fiscal and regulatory initiatives.

Cautious Observations

- An unanticipated increase in inflation or inflation expectations may force premature removal of accommodation by the Fed.
- Major regulatory or anti-trust initiatives pose risks to certain areas of the market (healthcare, technology).
- The complicated nature of navigating decelerating economic growth with the normalization of monetary policy.
- Significant increases in taxes and government spending can pressure interest rates, weaken the USD, and ultimately reduce long term economic growth.
- Debt ceiling and government funding disputes in D.C.

MACRO OVERVIEW

Economic growth began to moderate in the third quarter from unsustainably high 'exit velocity' levels toward a more sustainable range, aided in large part by a surge in Covid cases during the quarter. GDP growth estimates for the third quarter have been revised downward and are in the 1.3% to 5% range.

Consumer confidence, while elevated in a historical context, deteriorated during the quarter with the spread of the Delta variant, dysfunction in D.C., and an uneven labor market recovery. Consumer spending however, continued to normalize. Pandemic depressed spending on services continued to recover towards pre-pandemic levels, while goods spending has started to revert to more normalized levels, signaling a return to normal from the perspective of the consumer. US consumers remain flush with cash with accumulated savings of $2.4 trillion above pre-pandemic levels. The increase in savings emanates from unprecedented fiscal stimulus coupled with decreased demand due to pandemic-induced restrictions.

The Federal Reserve continued its $120 billion in monthly asset purchases during the third quarter. The purchases consist of $80 billion in U.S. Treasuries and $40 billion in mortgage bonds. FOMC Chairman Jerome Powell signaled a likely beginning of tapering asset purchases before year end but made clear any rate hike decision is separate and not expected before June 2022. The shift in rhetoric comes amid a rise in inflation (core PCE inflation of 3.8%) and the U.S. still roughly five million jobs below pre-pandemic levels.

Other global central banks mostly followed the footsteps of the Fed, keeping benchmark rates unchanged. The ECB offered similar guidance regarding asset purchases, indicating a potential taper in the near term. Norway was the first country to raise rates in the post-pandemic era last quarter.

The quarter concluded with a busy September in Washington including contentious debates surrounding the debt ceiling, funding the U.S. government, a bi-partisan infrastructure bill, and a significant social spending package.

MARKETS OVERVIEW

Equities

The S&P 500 set multiple new record highs during the quarter but finished with only a modest gain of 0.60% after experiencing its first 5% correction since November of 2020. The drawdown was driven mainly by mega-cap names like AAPL, FB, MSFT, AMZN, and GOOGL. The gains came with the backdrop of a rising delta variant, inflation concerns, and an increasingly hawkish fed. Financials (2.7%), technology (1.3%), and shadow technology led the way while cyclicals including industrials (-4.2%), materials (-3.5%), and energy (-1.6%) lagged.

Growth stocks (+1.2%) outperformed value stocks (-0.8%) for the quarter but we did see a notable mirror image of that during the correction in September.

Developed markets (-0.40%) handily outperformed Emerging Markets (-8.0%) as slowing Chinese growth weighed on emerging market economies.

Fixed Income

Fixed income markets posted mixed returns across sectors but generally finished the quarter flat to slightly positive. In sympathy with the market rotation in September, fixed income assets performed well in July and August only to give back gains in

September. The broad Barclays Aggregate Bond Index gained 0.05% for the quarter and the Barclays Municipal Bond Index lost 0.27%. The best performing sectors were U.S. TIPS (+1.75%), helped by a move higher in inflation and high yield bonds (+0.89%). Credit Spreads mostly widened during the third quarter with the exception of Non-Corporate Credit (4 bps).

Real Assets

Commodity markets posted strong gains during the quarter leaving the Bloomberg Commodity Index up 6.6%. Energy (+21) was responsible for the majority of the gains while industrial metals (+2.1%) were up as well. Gold (-1%) and silver (-16%) lost ground. Real estate continued on its path of recovery with REITs posting gains of 1.6%..

STRONG AND PEAKING GLOBAL GROWTH

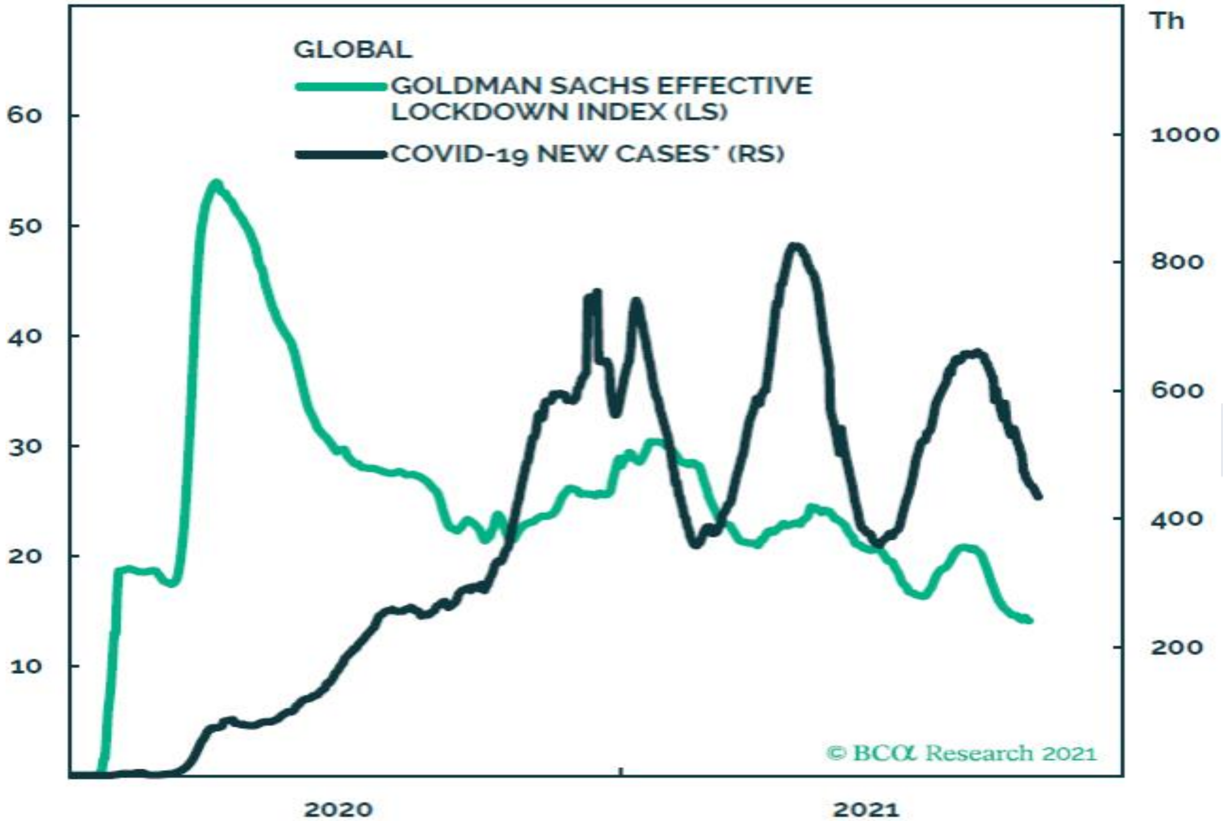
BLOOMBERG SURVEY OF ECONOMISTS
GDP GROWTH EXPECTATIONS

	2021*				2022*				2021**	2022**
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
US	6.3%	6.7%	5.0%	5.1%	4.2%	3.2%	2.8%	2.4%	5.9%	4.1%
EURO AREA	-1.2%	9.1%	9.1%	4.5%	3.2%	2.8%	2.4%	2.4%	5.0%	4.3%
UK	-5.5%	23.9%	9.5%	6.1%	3.6%	2.8%	2.4%	2.4%	6.9%	5.3%
JAPAN	-4.2%	1.9%	1.5%	3.8%	3.4%	2.6%	1.5%	1.3%	2.4%	2.5%
CANADA	5.5%	-1.1%	4.5%	5.8%	4.1%	3.8%	3.3%	2.8%	5.2%	4.0%
AUSTRALIA	7.8%	2.8%	-10.7%	7.4%	7.8%	4.9%	4.1%	3.2%	4.0%	3.5%
BRAZIL	4.9%	-0.4%	2.8%	2.2%	1.6%	1.8%	1.6%	1.6%	5.2%	2.1%
CHINA	1.6%	5.3%	2.6%	5.9%	5.7%	6.1%	5.7%	5.7%	8.3%	5.5%
INDIA***	...	...	...	...	...	...	...	...	9.2%	7.0%
RUSSIA	...	...	...	...	...	...	...	...	4.1%	2.5%
G7****	1.7%	7.1%	5.9%	4.9%	3.7%	3.0%	2.5%	2.2%	5.2%	4.0%
G7**** EX. US	-3.1%	7.4%	7.0%	4.7%	3.3%	2.8%	2.2%	2.0%	4.5%	3.9%

* QUARTERLY RATE OF CHANGE, ANNUALIZED.
** ANNUAL RATE OF CHANGE.
*** THE 2021 FORECAST FOR INDIA REFERS TO THE APRIL 2021-MARCH 2022 PERIOD, WHILE THE 2022 FORECAST REFERS TO APRIL 2022-MARCH 2023.
**** INCLUDES US, CANADA, JAPAN, GERMANY, FRANCE, ITALY, AND THE UK.
SOURCE: BLOOMBERG FINANCE L.P.
NOTE: ACTUAL VALUES ARE USED FOR Q1 AND Q2 2021.

SOURCE: BCA RESEARCH

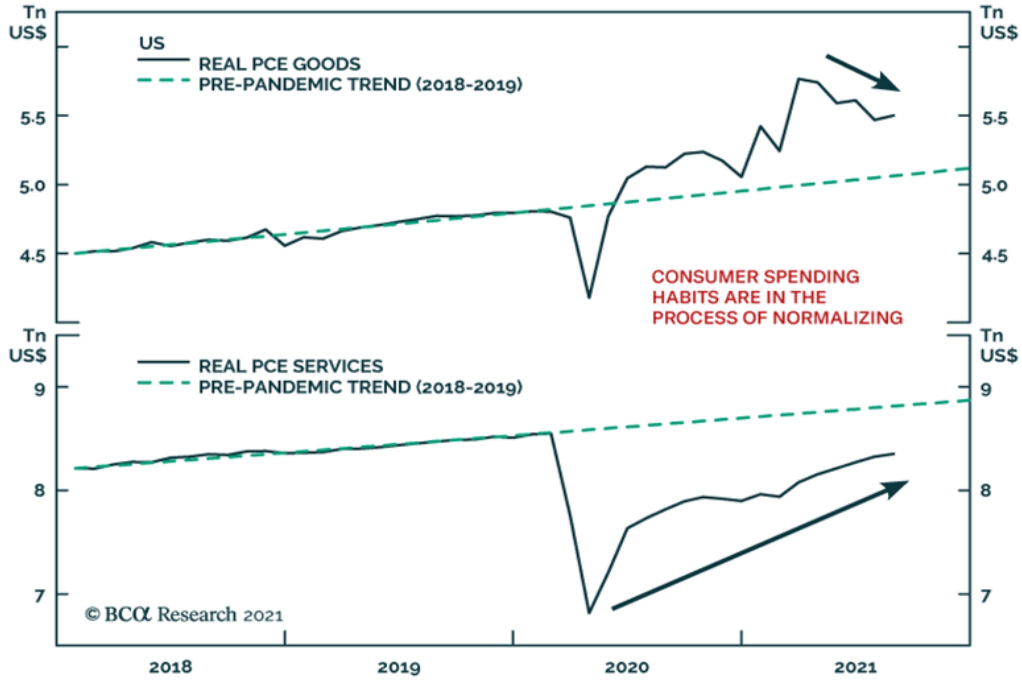
FALLING CASE COUNTS EASE LOCKDOWN RESTRICTIONS



* SOURCE: THE CENTER FOR SYSTEMS SCIENCE AND ENGINEERING (CSSE) AT JOHNS HOPKINS UNIVERSITY.
NOTE: BOTH SERIES SHOWN AS A 7-DAY MOVING AVERAGE.

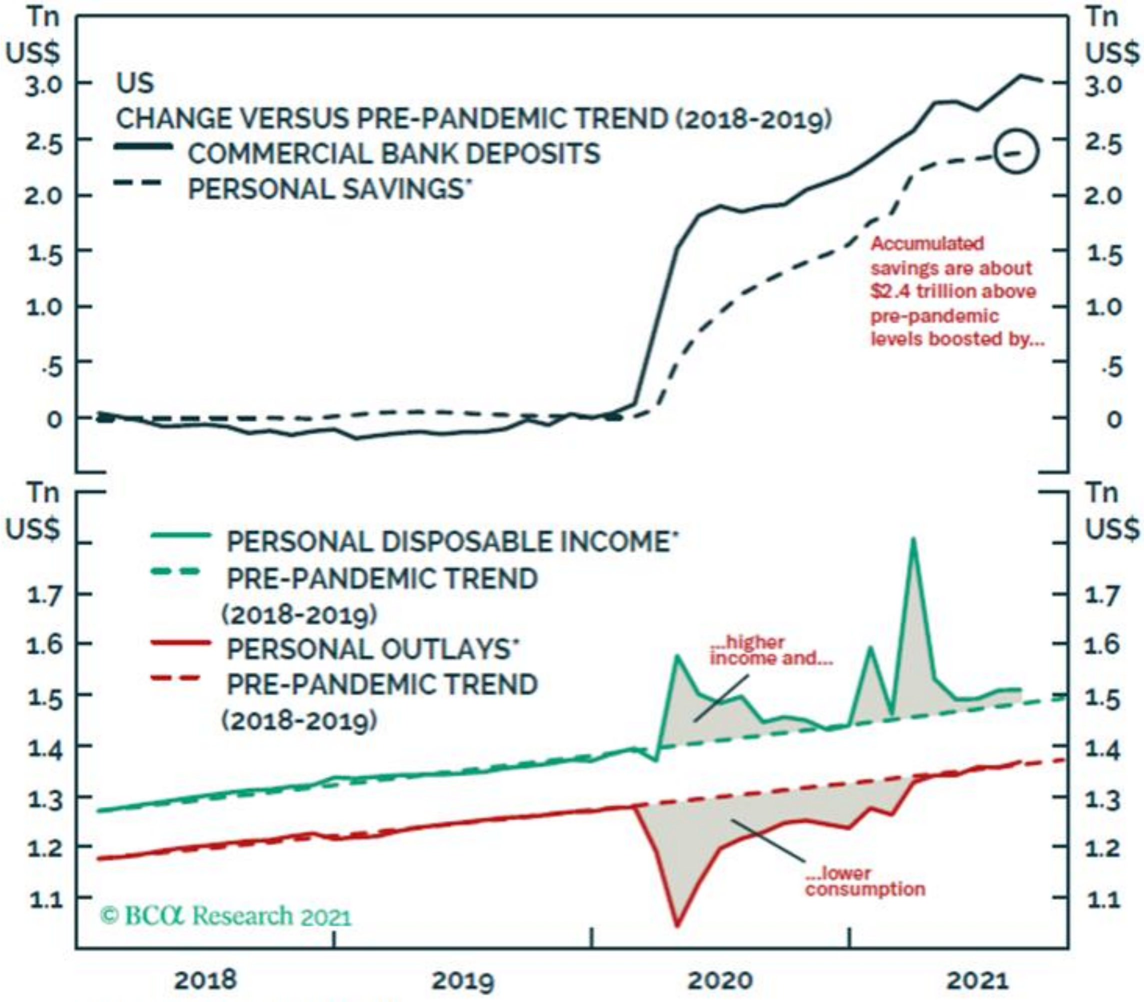
SOURCE: BCA RESEARCH

CONSUMER SPENDING BEGINS THE PROCESS OF NORMALIZING



SOURCE: BCA RESEARCH

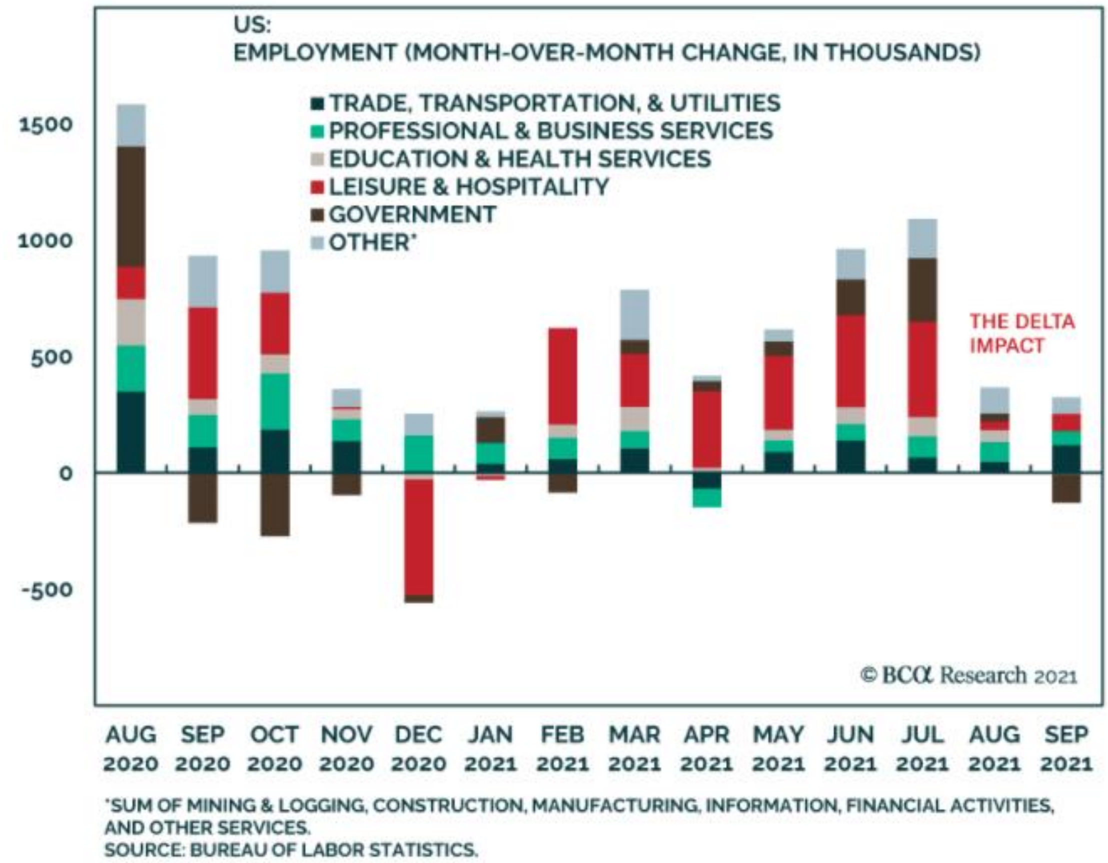
PANDEMIC FORCES DRIVE SAVINGS PARABOLIC



* MONTHLY, NOT ANNUALIZED.

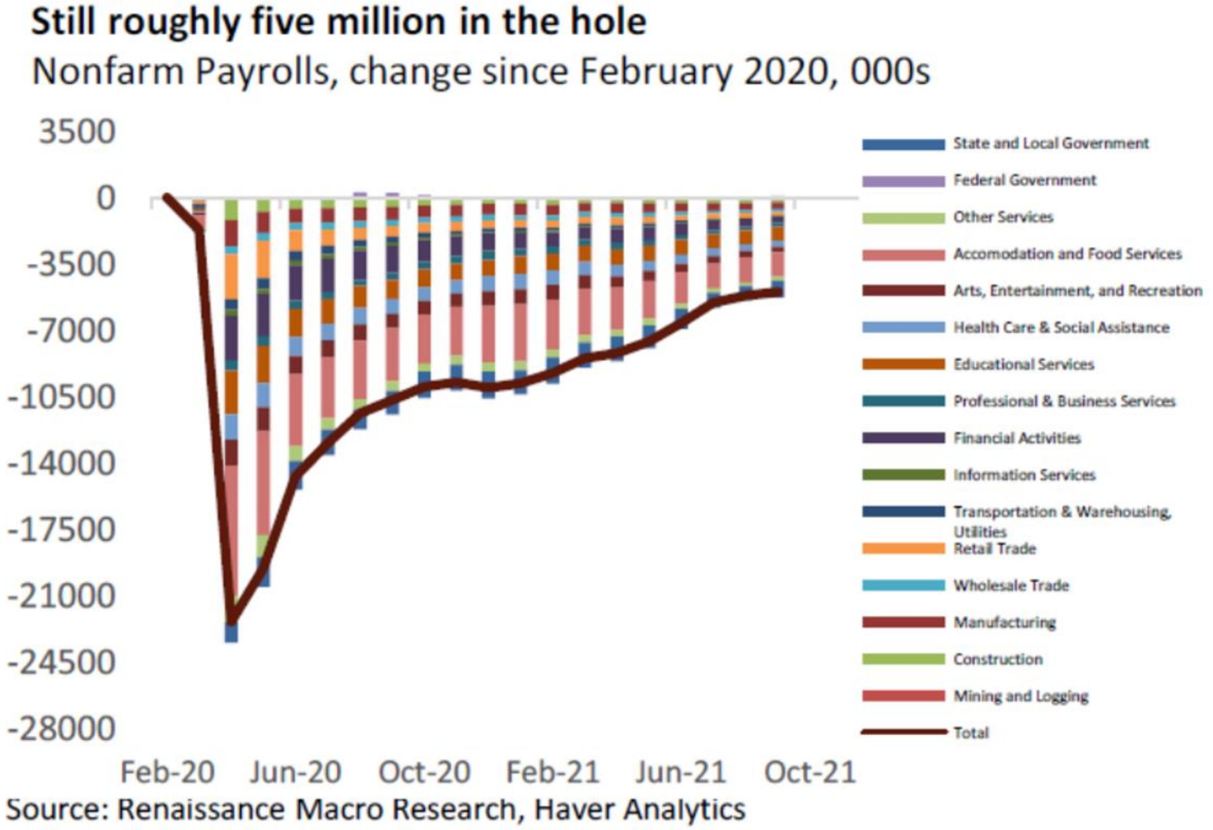
SOURCE: BCA RESEARCH

EMPLOYMENT FLUCTUATION DRIVEN BY COVID TRENDS



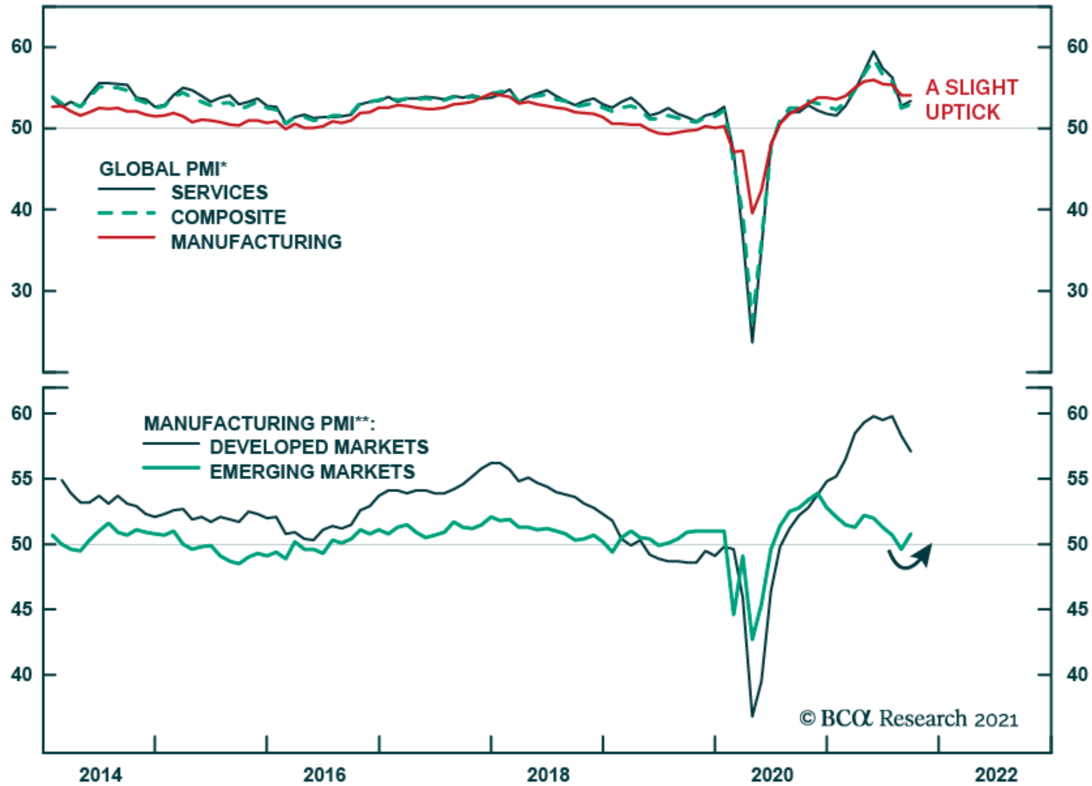
SOURCE: BCA RESEARCH

NON-FARM PAYROLLS WELL BELOW PRE-PANDEMIC LEVELS



SOURCE: RENAISSANCE MACRO

GLOBAL PMI REMAINS STRONG



* SOURCE: MARKIT / J.P. MORGAN.
** SOURCE: MARKIT ECONOMICS.

SOURCE: BCA RESEARCH

YIELDS STILL HISTORICALLY LOW

SOURCE: YCHARTS

IMPORTANT DISCLOSURE

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