Monthly Investment Update

August 2021

Overall Risk-Taking Score

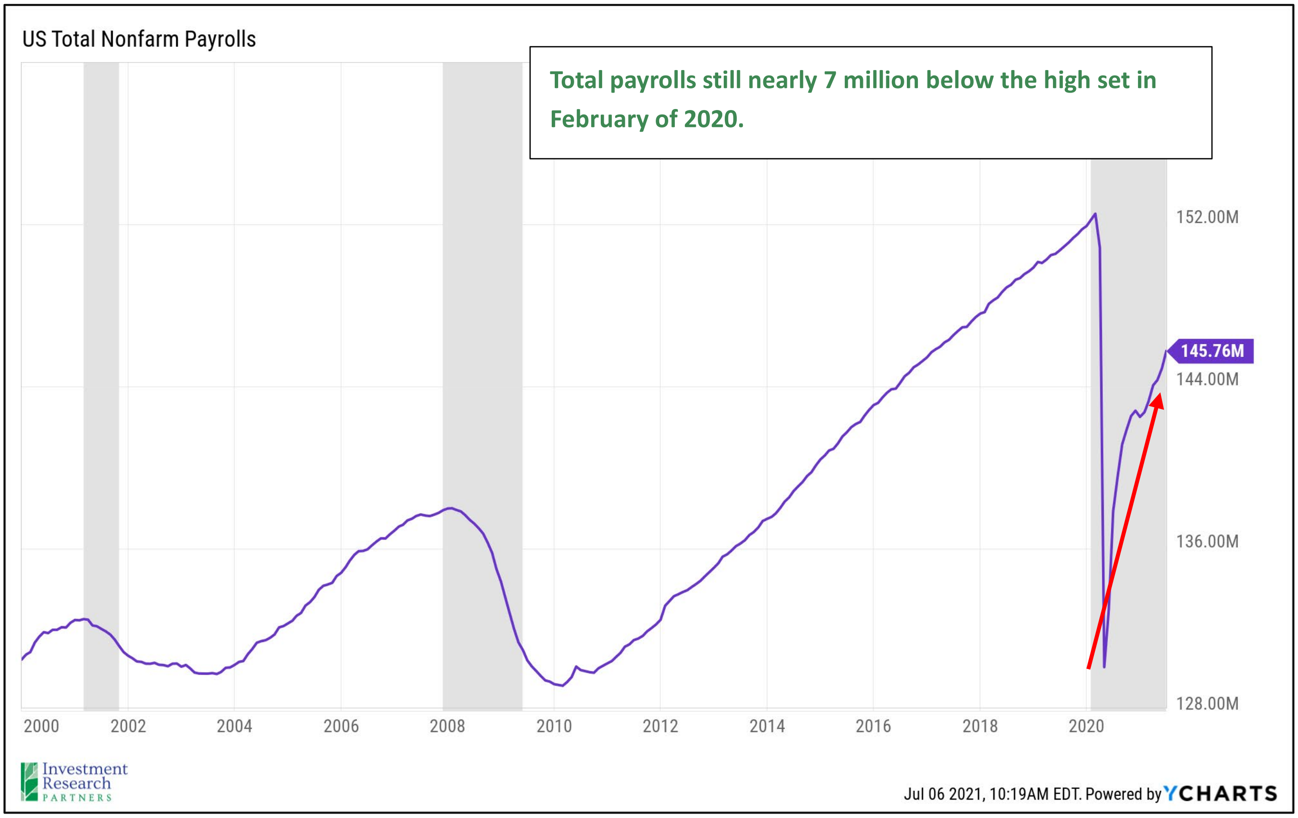
- **The overall environment for accepting investment risk is <u>neutral</u>.**
- US Economic recovery solidly on track, though pockets of higher prices for consumer goods like energy and building materials are cause for caution.
- Household and investor sentiment have generally recovered and are now at long-term averages or better.
- Risk assets, such as equity and credit globally, are trading above long-term levels on average.
- Technical trends remain supportive as money continues to flow into risk assets.

We monitor the backdrop for investing in risk assets across three primary pillars: economic conditions, asset prices, and technical considerations such as investor sentiment and price momentum. Since last month, our assessment of the environment for accepting investment did not change. The economy remains healthy on average; households are in good financial shape, seeing wage gains, and spending. The labor market is improving, and financial conditions are quite accommodative. Risk asset classes such as equities and credit are trading above long-term averages, which is the primary factor holding back the overall risk-taking score. The potential for an extended period of above-average inflation also gives us pause. **Given current conditions, we advocate investors:**

1. **Trim exposure to risk assets such as equity and credit back to target weights after rallies.**
2. **Position toward higher quality companies with less-cyclical revenue and earnings.**
3. **Add strategies that may be less sensitive to above-average inflation or even profit from it.**
4. **Add alternative strategies that are less correlated to traditional stock and bond markets.**
5. **Favor actively managed funds as these tend to add the most value during inflection points in the market relative to their index-based counterparts.**

Economy

The labor market continues to improve. This Friday, consensus estimates from economists are for the July jobs report to include 875,000 net newly employed Americans with a reduction in the unemployment rate to 5.7% from 5.9%. Households ("consumers") are responsible for approximately two-thirds of economic activity in the US. It is encouraging that the labor market continues to improve, household net worth and debt service are significantly more healthy than long-term averages, and household sentiment is trending up. The health of households and the economy has led too significant demand increases for goods and services, resulting in higher prices, which may eventually cause demand to moderate if higher prices persist.


US Total Nonfarm Payrolls
Total payrolls still nearly 7 million below the high set in February of 2020.
152.00M
145.76M
144.00M
136.00M
128.00M
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
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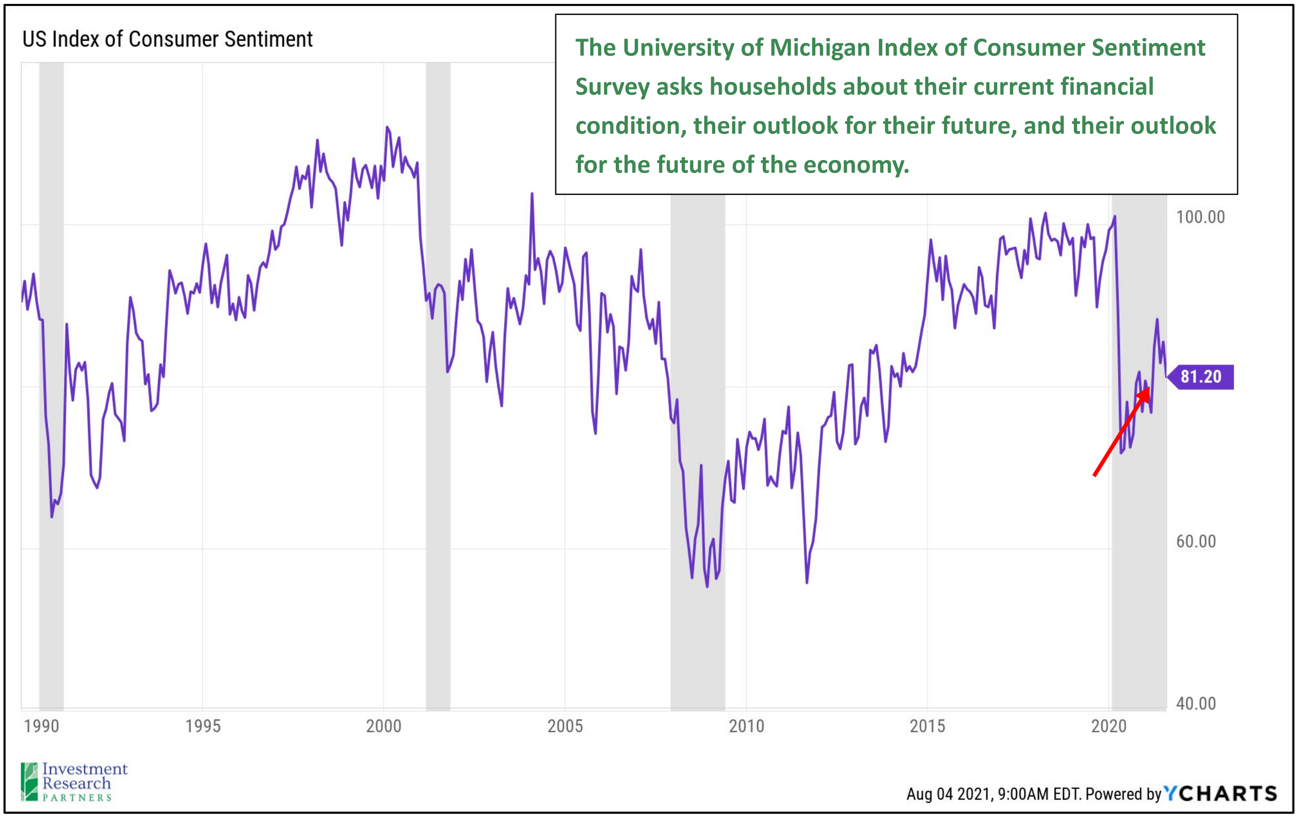
US Index of Consumer Sentiment
The University of Michigan Index of Consumer Sentiment Survey asks households about their current financial condition, their outlook for their future, and their outlook for the future of the economy.
100.00
81.20
60.00
40.00
1990
1995
2000
2005
2010
2015
2020
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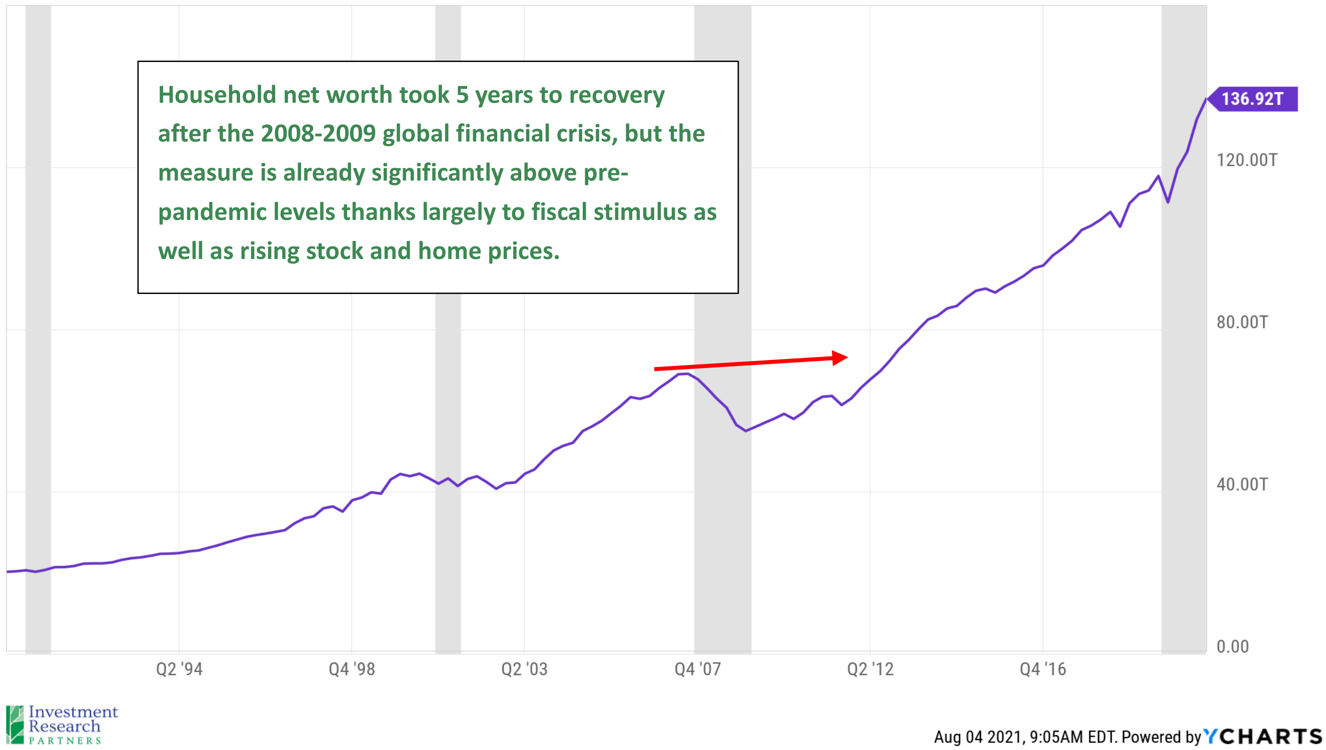
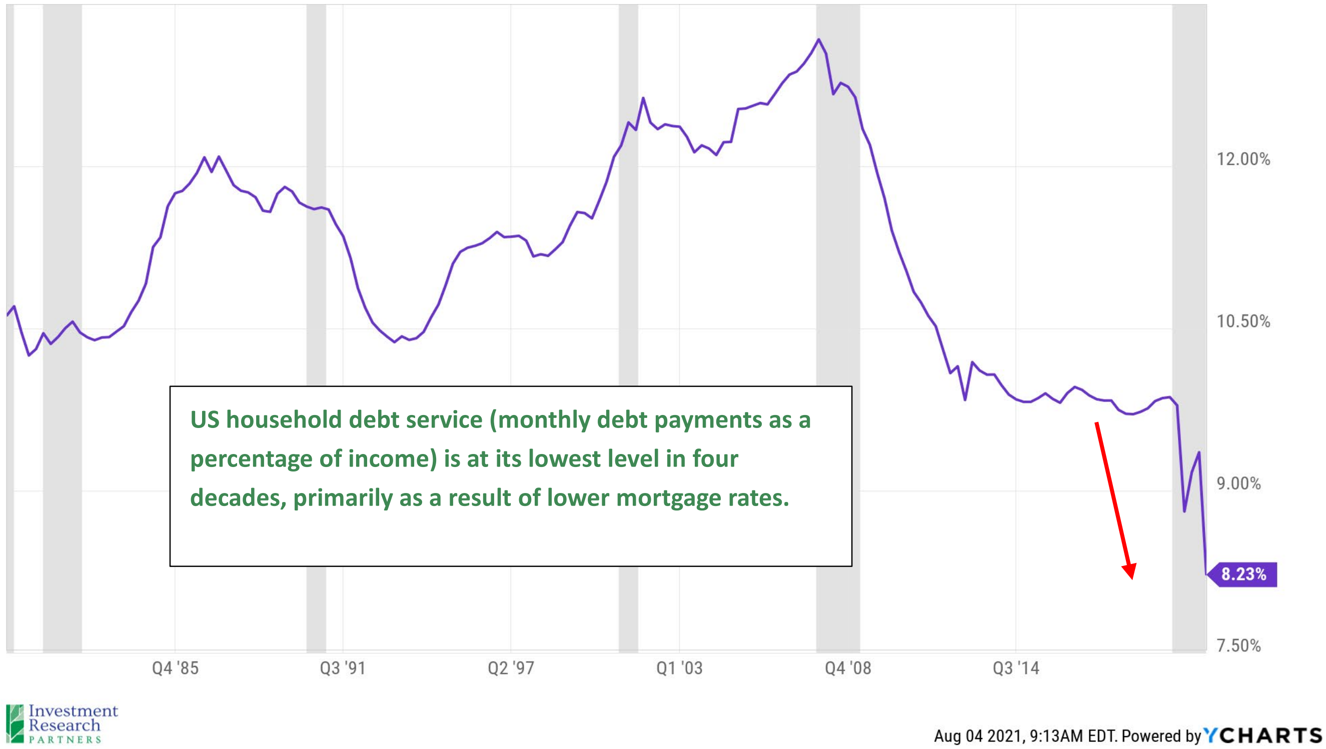
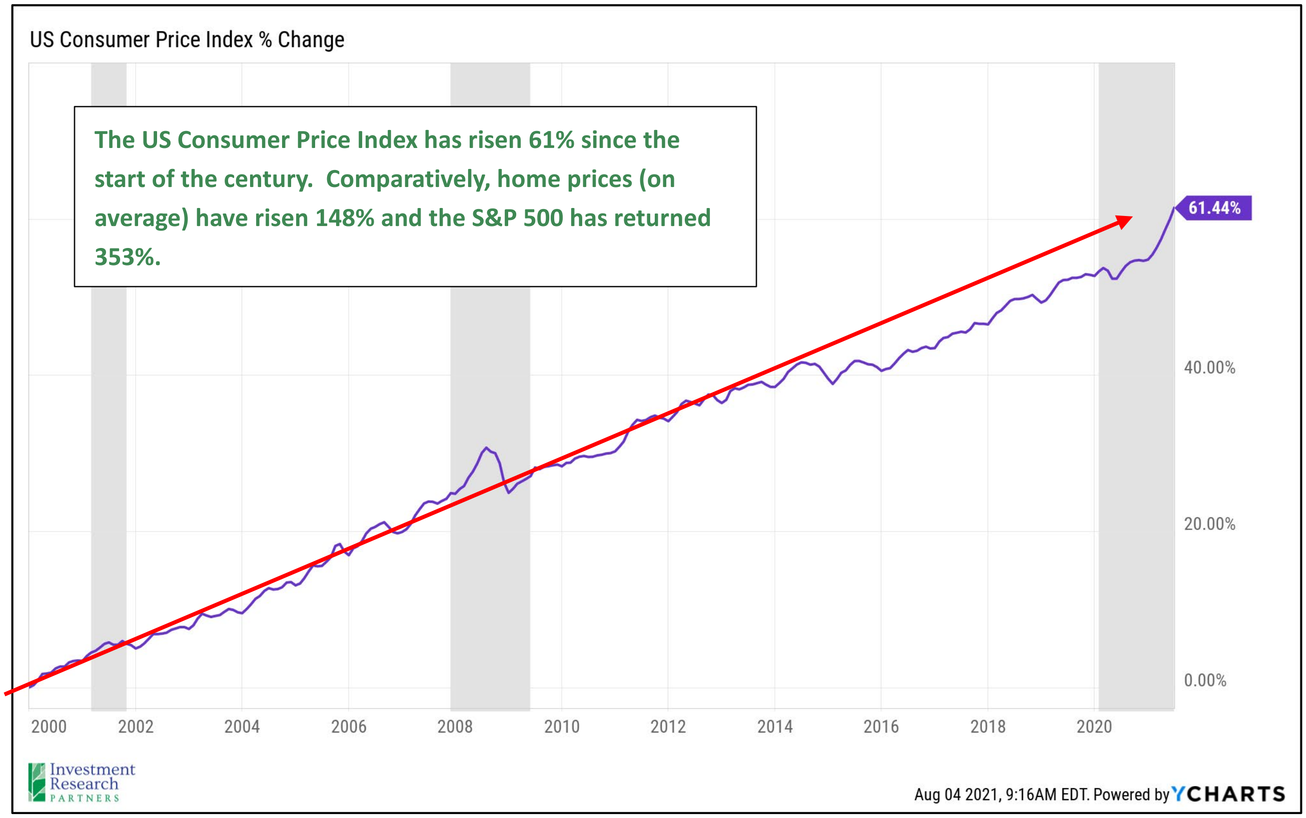
US Total Net Worth - Balance Sheet of Households and Nonprofit Organizations



US Household Debt Service as Percent of Disposable Income




US Consumer Price Index % Change
The US Consumer Price Index has risen 61% since the start of the century. Comparatively, home prices (on average) have risen 148% and the S&P 500 has returned 353%.
61.44%
40.00%
20.00%
0.00%
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
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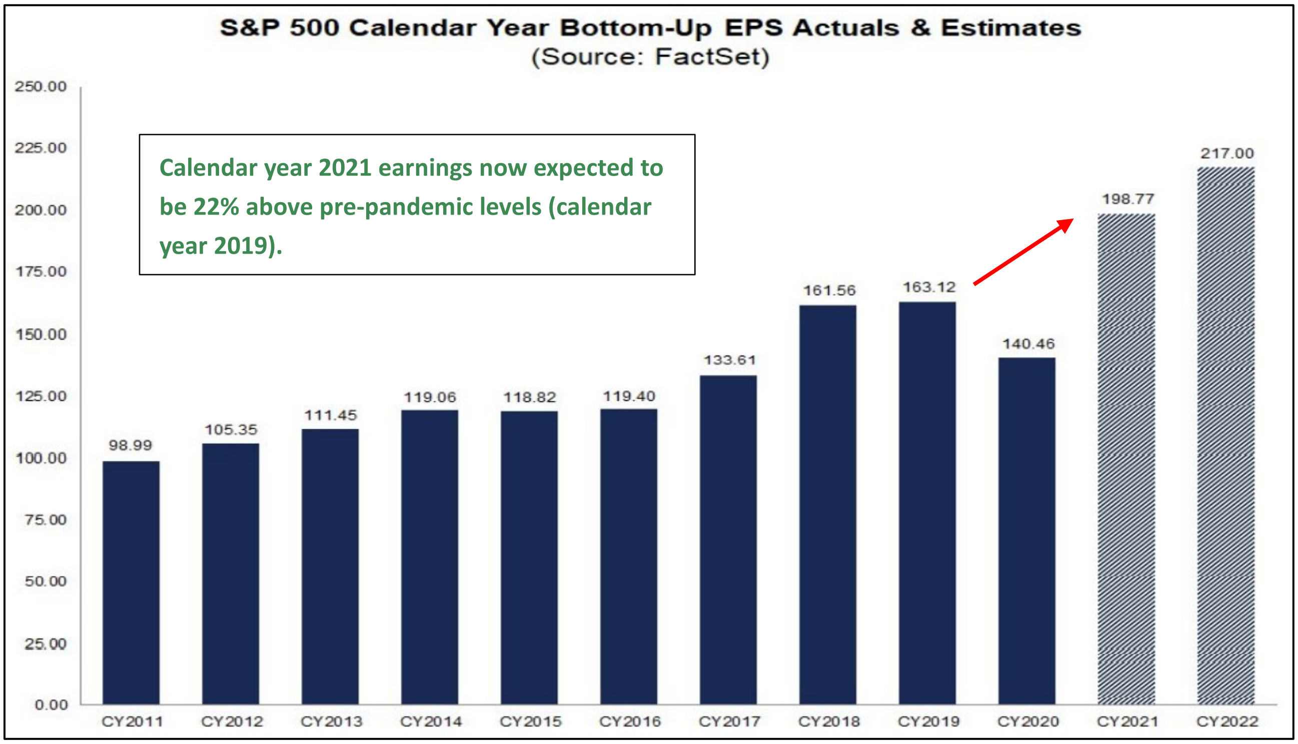
Corporate Earnings

As of July 31st, nearly 60% of S&P 500 companies have reported results for the second quarter of 2021. Of those 88% have outperformed analysts' consensus expectations for both revenue and earnings. For calendar year 2021 and 2022, consensus expectations are now for year-over-year earnings growth of 41% and 10%, respectively. These growth rates would result in index earnings of approximately $199 in 2021 and $217 in 2022, implying that investors are willing to pay 20x for next calendar year's earnings assuming an S&P 500 index level of 4,400.

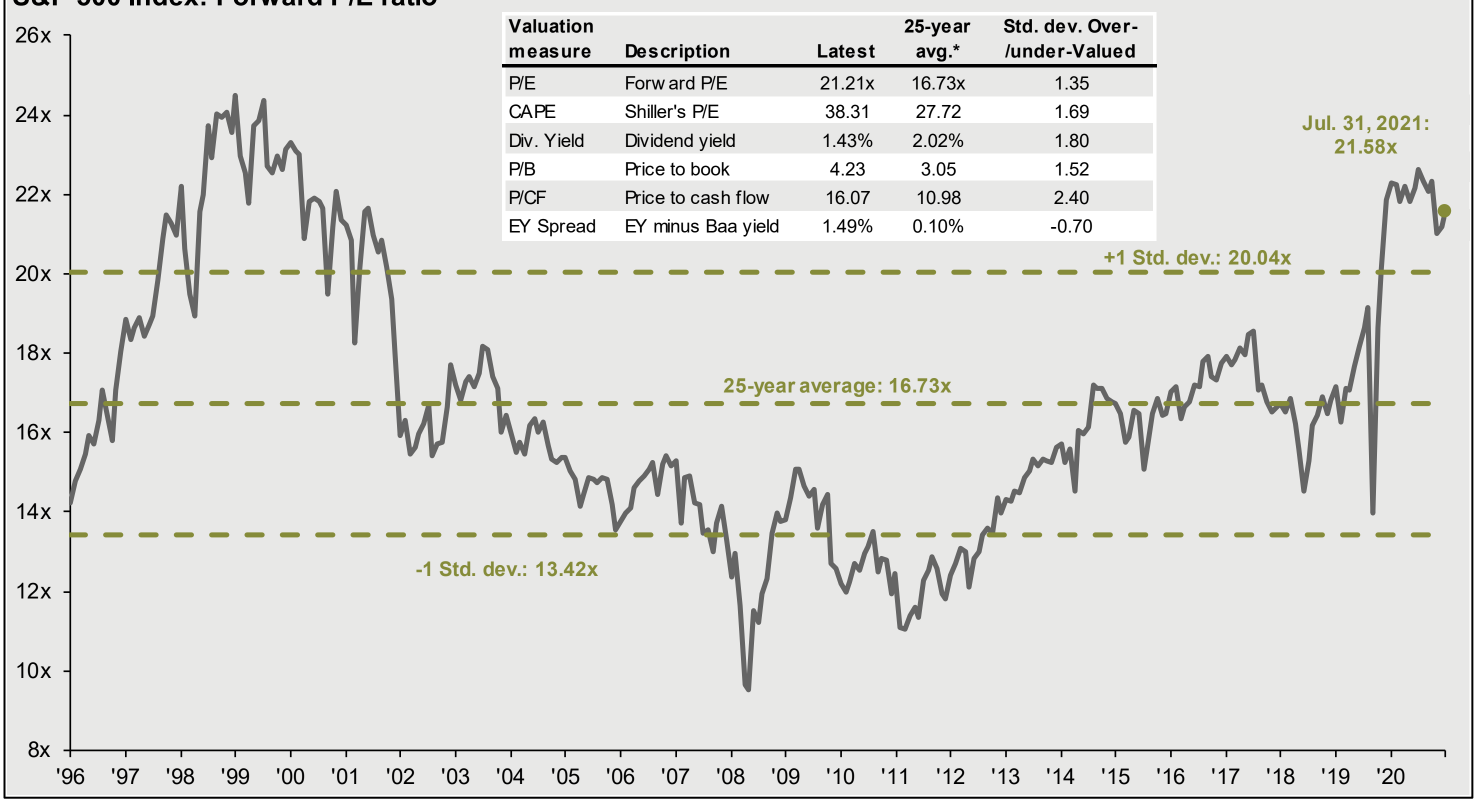


Valuation

The prices for risk asset classes such as equity and credit are above long-term averages, and this input is primarily responsible for holding back our overall risk-taking score (page 1). The chart below highlights the price investors are willing to pay for expected future earnings of the S&P 500 index ("forward price-to-earnings ratio"). Strong corporate earnings growth this year has helped to bring the ratio back toward more normal levels, though still elevated. When comparing the earnings yield of the S&P 500 index to US Treasury and investment grade corporate debt, the price investors are paying for the index seem more reasonable. Low interest rates have played a large role in the economic recovery as well as the increase in stock prices.

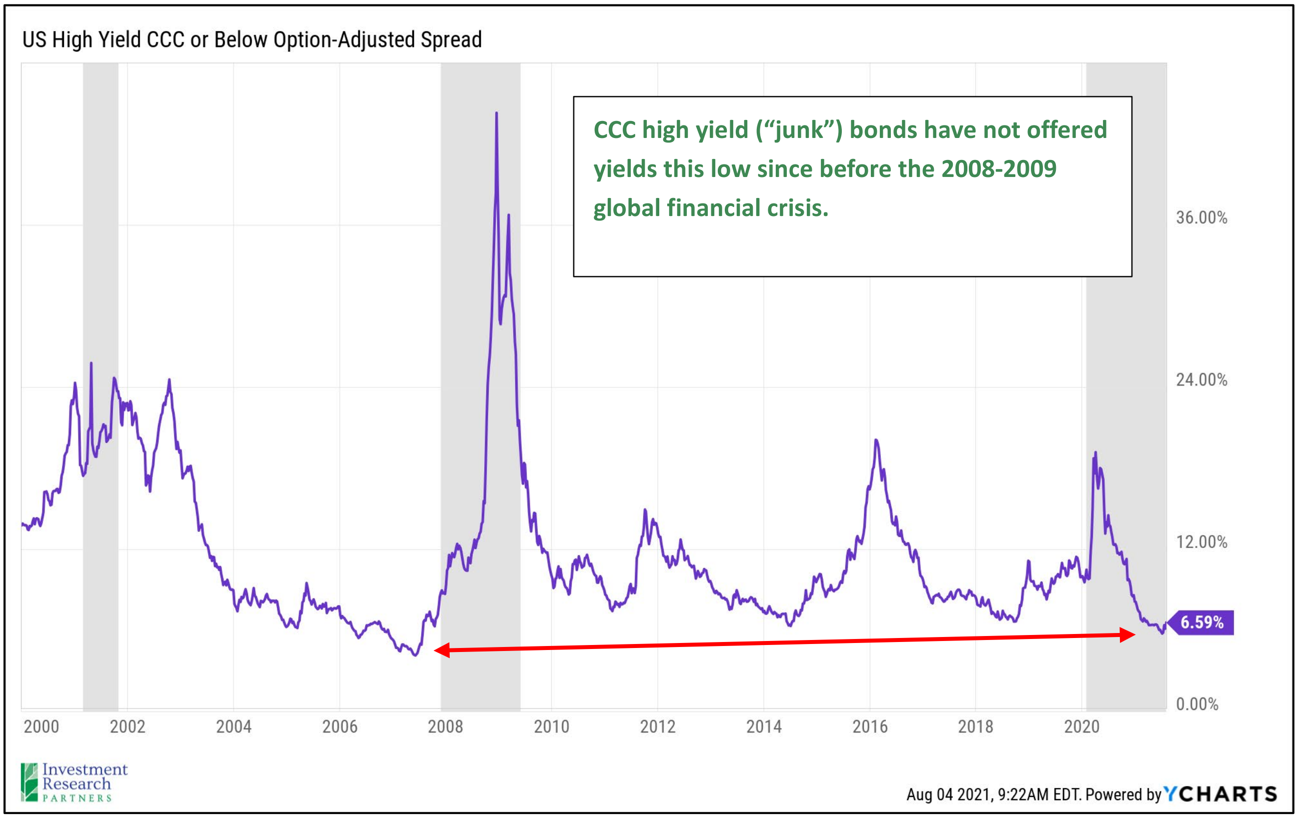
The second chart highlights the yield spread of the lowest-rated corporate bonds, which is near one of its lowest points in more than 20 years. These observations are not meant to imply that a sharp correction in asset prices is imminent, but rather that risk assets may not provide investors much cover should the economy take an unexpected turn.

S&P 500 Index: Forward P/E ratio



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	21.21x	16.73x	1.35
CAPE	Shiller's P/E	38.31	27.72	1.69
Div. Yield	Dividend yield	1.43%	2.02%	1.80
P/B	Price to book	4.23	3.05	1.52
P/CF	Price to cash flow	16.07	10.98	2.40
EY Spread	EY minus Baa yield	1.49%	0.10%	-0.70

Source: Barclays, Bloomberg, FactSet, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since February 1996, and J.P. Morgan Asset Management for July 31, 2021.


US High Yield CCC or Below Option-Adjusted Spread
CCC high yield ("junk") bonds have not offered yields this low since before the 2008-2009 global financial crisis.
36.00%
24.00%
12.00%
6.59%
0.00%
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
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Asset Class Returns

Category	Representative Index	July 2021	YTD 2021	Full Year 2020
Global Equity	MSCI All-Country	0.7%	13.1%	16.3%
US Large Cap Equity	S&P 500	2.4%	18.0%	18.4%
US Small Cap Equity	Russell 2000	-3.6%	13.3%	20.0%
Foreign Developed Equity	MSCI EAFE	0.8%	9.7%	7.8%
Emerging Market Equity	MSCI Emerging Markets	-6.7%	0.2%	18.3%
US High Yield Fixed Income	ICE BofAML High Yield	0.4%	4.1%	6.2%
US Fixed Income	Barclays Aggregate Bond	1.1%	-0.5%	7.5%
Cash Equivalents	ICE BofAML 3 Mo Deposit	0.0%	0.0%	0.5%

Source: Morningstar (total returns shown gross of fees)
As of July 31, 2021

Prices & Interest Rates

Representative Index	July 31, 2021	Year-End 2020
S&P 500	4,390	3,756
Dow Jones Industrial Avg.	34,832	30,606
NASDAQ	14,956	12,888
Crude Oil (US WTI)	$73.95	$48.42
Gold	$1,813	$1,902
US Dollar	92.17	89.94
2 Year Treasury	0.19%	0.13%
10 Year Treasury	1.24%	0.93%
30 Year Treasury	1.89%	1.65%

Source: Bloomberg, US Treasury (total returns shown gross of fees)
As of July 31, 2021

Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of the date listed above and are subject to change based on changes in fundamental economic or market-related data. Please contact your Financial Advisor in order to complete an updated risk assessment to ensure that your investment allocation is appropriate.