

Q2

Quarterly Market Review

Second Quarter 2021



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This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

Overview:

Where is Inflation Heading?

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Real Estate Investment Trusts (REITs)

Fixed Income

Global Fixed Income

Commodities

Impact of Diversification

Where is inflation heading?

Second Quarter 2021

One of the most prevalent concerns among investors today is where inflation is heading next. The Fed watches inflation expectations closely, in part because expectations can be a self-fulfilling prophecy. The chart below shows three measures of inflation expectations over the next 10 years from consumers, economists, and the market. Each has its own nuances and implications, but together the mosaic of these measures can provide some insight into where inflation is going.

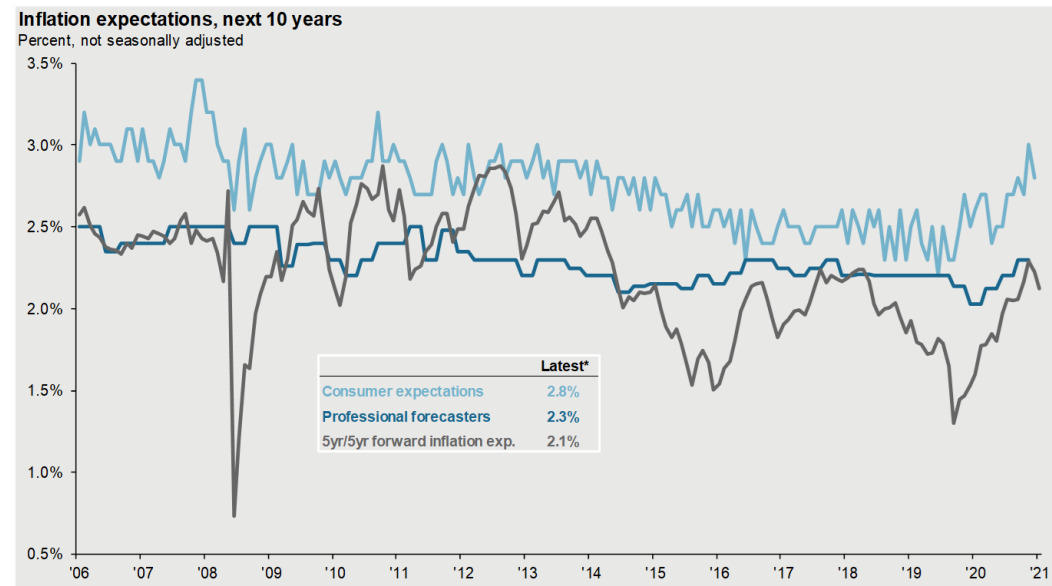
Consumer expectations, measured by the University of Michigan Survey of Consumers, tend to be the highest, currently at 2.8%. This reflects the pricing pressures consumers face in their daily lives, which may not be fully represented in the Consumer Price Index (CPI) due to its composition. For example, median existing home prices are up an astonishing 23.6% y/y and median new home prices are up 18.1% y/y, while the equivalent housing component in CPI is up just 2.1% y/y. That is because shelter prices are not measured by the costs of actual units sold, but rather what homeowners surveyed think their home would rent for if they rented it out (owners' equivalent rent). Also, the component weights of CPI are revised every two years on a lag and may not reflect real-time consumption patterns.

Economists, on the other hand, are familiar with the components and complexities of CPI, and can therefore account for them in their forecasts. Professional forecasters, measured by the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, anticipate 2.3% average CPI over the next 10 years. Forecasters' expectations are remarkably stable compared to consumer or market expectations, as forecasting inflation is notoriously challenging, and forecasters anchor expectations with monetary policy. The Fed has a 2% inflation target, although would tolerate an overshoot to balance muted inflation over the past several years.

The market, too, heeds monetary policy, but is subject to other market forces

as well and is therefore the most volatile of the three. The 5-year, 5-year forward inflation expectation rate measures the expected inflation rate on average over the five-year period that begins five years from today. It has moved meaningfully higher over the past year to 2.2% but is influenced by other technical factors within the TIPS and Treasuries markets, plus includes a risk premium, so it is not a pure inflation expectation.







There are many more measures of inflation expectations, but no single measure can truly forecast the future. Still, what is notable about these three indicators is that none exceed 3%. Although inflation may settle between 2-3% over the next several years rather than 2% or below we've seen over the past decade, consumers, economists, and the markets seem to agree that we're not heading towards a sustained surge.



Source: FactSet, Federal Reserve Bank of Philadelphia, Federal Reserve Bank of St. Louis, University of Michigan, J.P. Morgan Asset Management. *Data show the latest flash or final reading from the University of Michigan Survey of Consumers, latest daily 5yr/5yr forward inflation expectation rate, and the latest quarterly Survey of Professional Forecasters on a 1-month lag. The University of Michigan Survey of Consumer asks consumers, "By about what percent per year do you expect prices to go (up/down) on the average, during the next 5 to 10 years?". The Survey of Professional Forecasters is conducted by the Federal Reserve Bank of Philadelphia and reflects the median estimate by professional forecasters of average CPI inflation over the next 10 years. The 5-year, 5-year forward inflation expectation rate measures the expected inflation rate (on average) over the five-year period that begins five years from today. U.S. Data are as of June 29, 2021.

Quarterly Market Summary



















Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
2Q 2021	STOCKS					BONDS	
	8.24% 	5.65% 	5.05% 	10.17% 		1.83% 	0.35% 
Since Jan. 2001							
Avg. Quarterly Return	2.4%	1.7%	3.1%	2.6%		1.2%	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

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Long-Term Market Summary

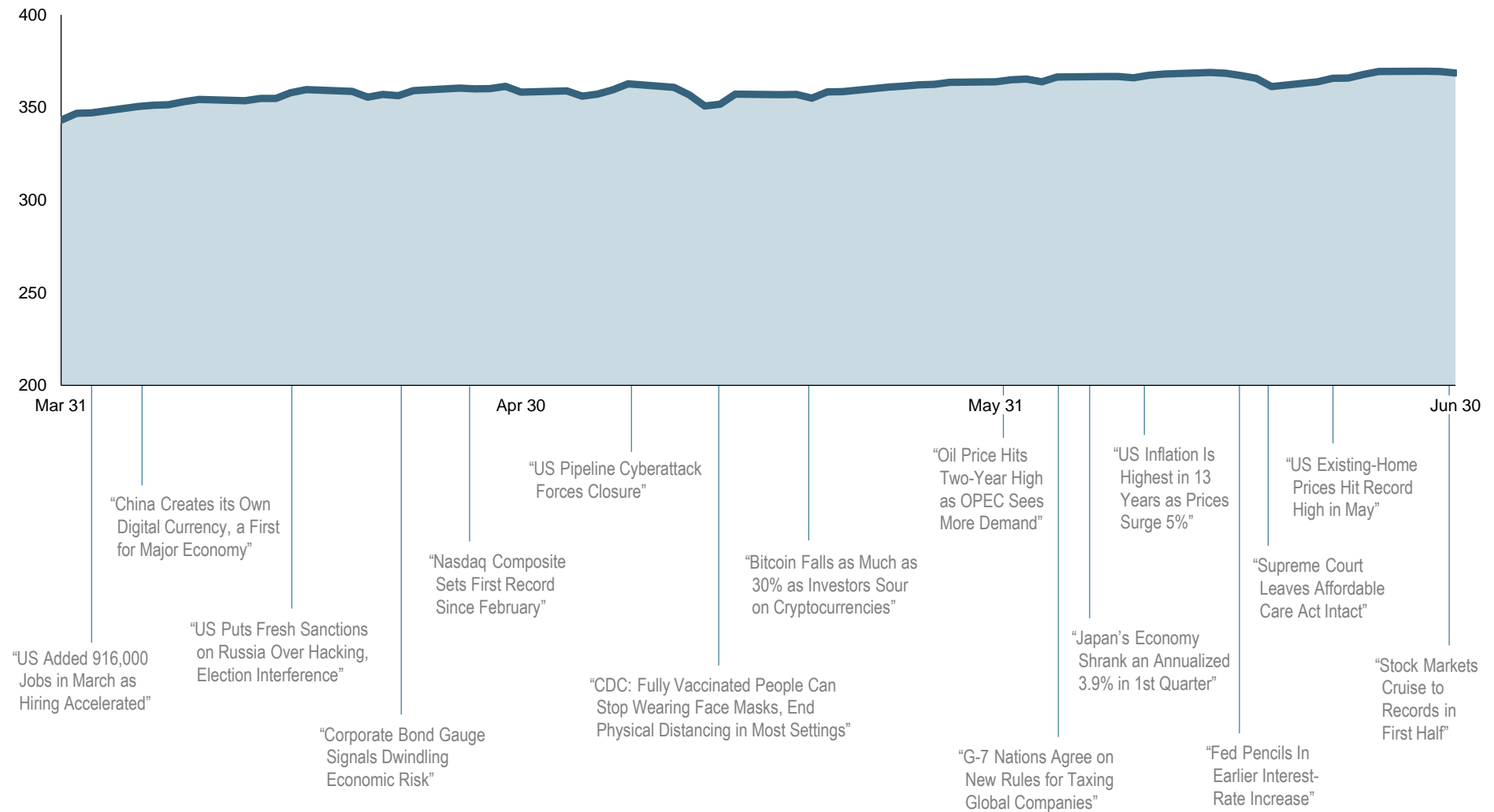
Index Returns as of June 30, 2021

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	44.16%	33.60%	40.90%	34.83%	-0.33%	0.05%
						
5 Years						
	17.89%	10.36%	13.03%	4.62%	3.03%	2.80%
						
10 Years						
	14.70%	5.70%	4.28%	6.85%	3.39%	4.12%
						

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2021



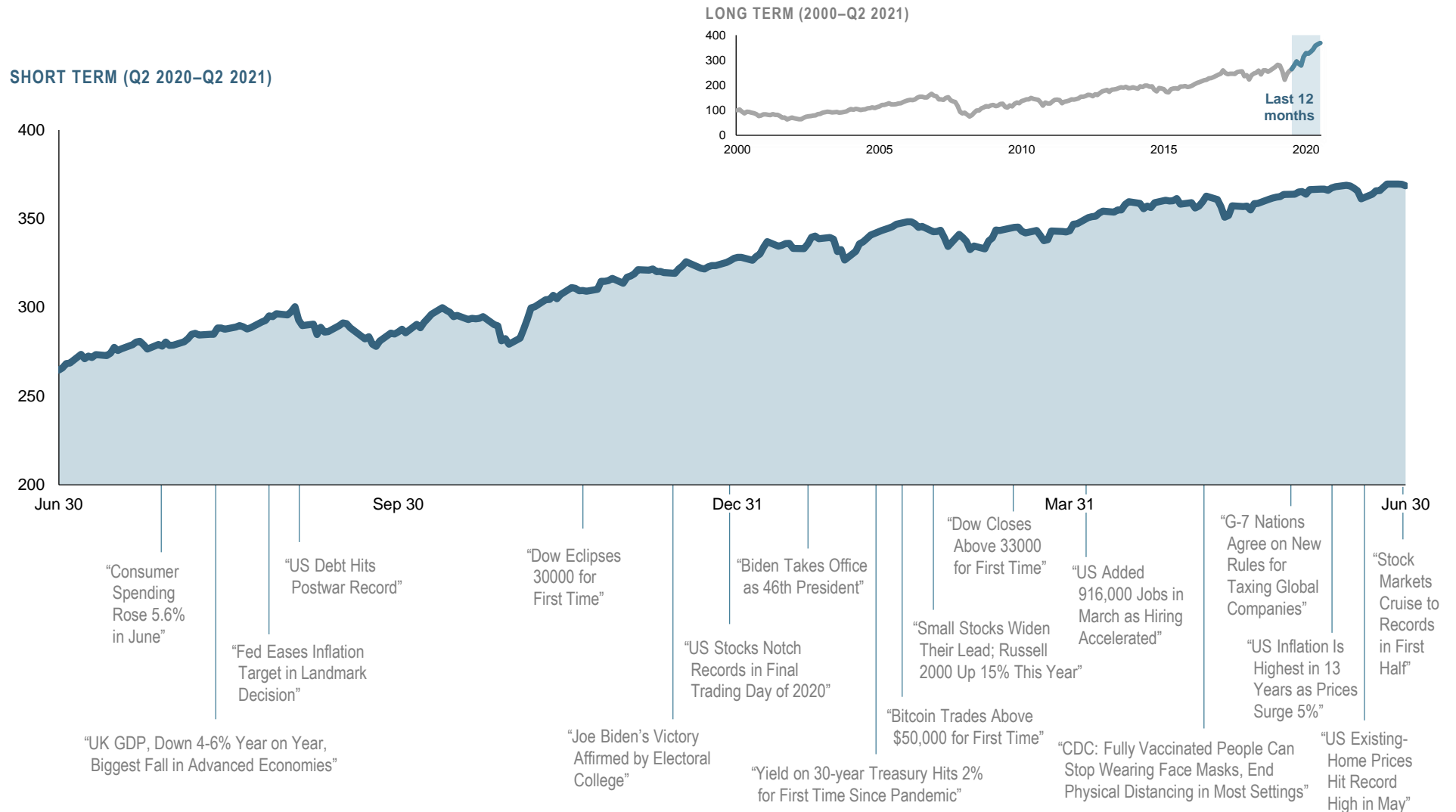
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

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.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



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.

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World Asset Classes

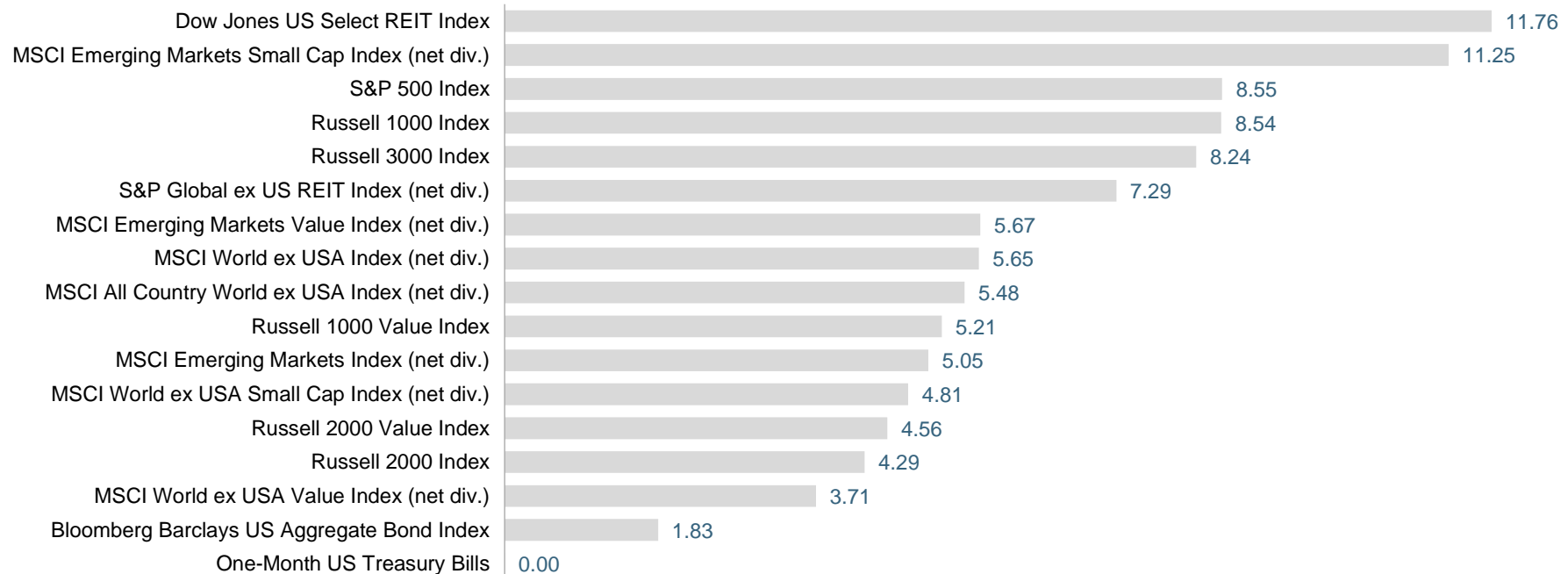
Second Quarter 2021 Index Returns (%)

Equity markets around the globe posted positive returns in the second quarter. Looking at broad market indices, US and non-US developed markets outperformed emerging markets for the quarter.

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 and non-US developed markets but outperformed in emerging markets.

REIT indices outperformed equity market indices in the US and non-US developed markets.



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US Stocks

Second Quarter 2021 Index Returns

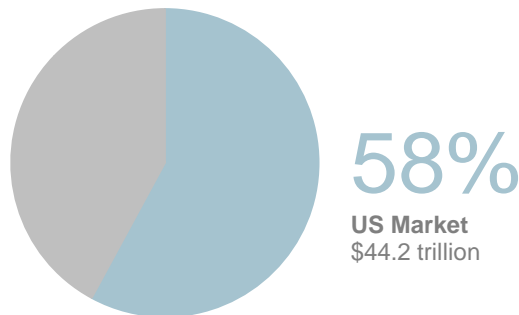
The US equity market posted positive returns for the quarter and outperformed non-US developed markets and emerging markets.

Value underperformed growth in large cap stocks but outperformed growth in small cap stocks.

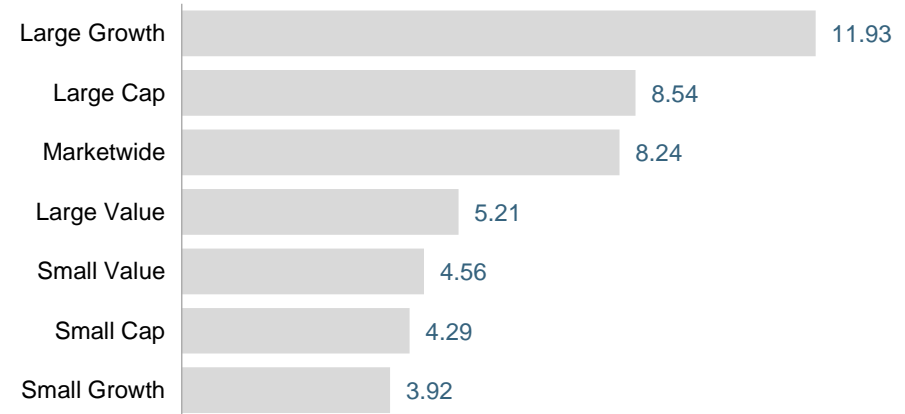
Small caps underperformed large caps.

REIT indices outperformed equity market indices.

World Market Capitalization—US



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	* Annualized			
		1 Year	3 Years*	5 Years*	10 Years*
Large Growth	12.99	42.50	25.14	23.66	17.87
Large Cap	14.95	43.07	19.16	17.99	14.90
Marketwide	15.11	44.16	18.73	17.89	14.70
Large Value	17.05	43.68	12.42	11.87	11.61
Small Value	26.69	73.28	10.27	13.62	10.85
Small Cap	17.54	62.03	13.52	16.47	12.34
Small Growth	8.98	51.36	15.94	18.76	13.52

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International Developed Stocks

Second Quarter 2021 Index Returns

Developed markets outside the US posted positive returns for the quarter, underperforming US equities but outperforming emerging markets.

Value underperformed growth.

Small caps underperformed large caps.

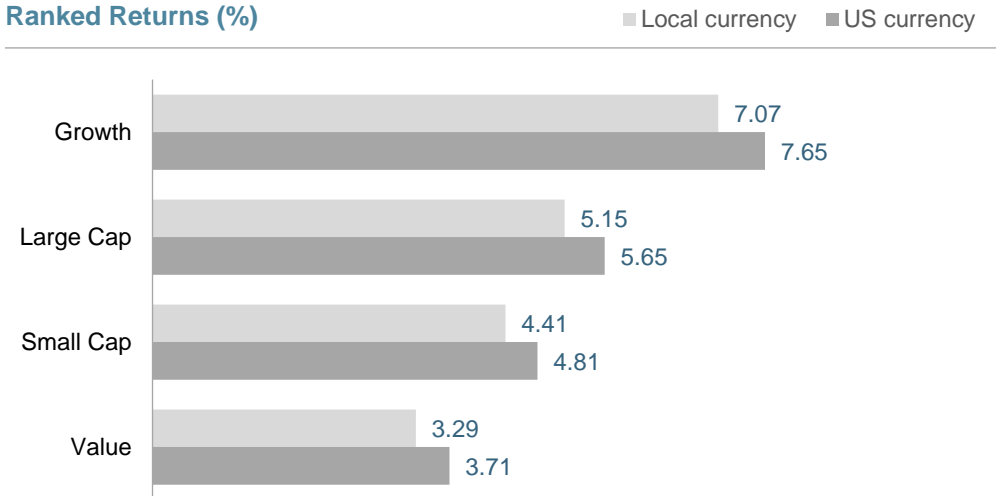
World Market Capitalization—International Developed

29%

International
Developed Market
\$22.3 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Value	12.35	35.85	4.22	8.07	3.87
Large Cap	9.92	33.60	8.57	10.36	5.70
Small Cap	9.92	42.28	8.92	11.88	7.66
Growth	7.26	31.08	12.56	12.35	7.35

* Annualized

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Emerging Markets Stocks

Second Quarter 2021 Index Returns

Emerging markets posted positive returns for the quarter, underperforming the US and non-US developed equity markets.

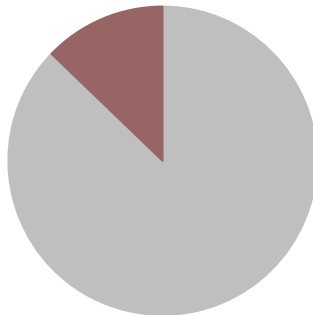
Value outperformed growth.

Small caps outperformed large caps.

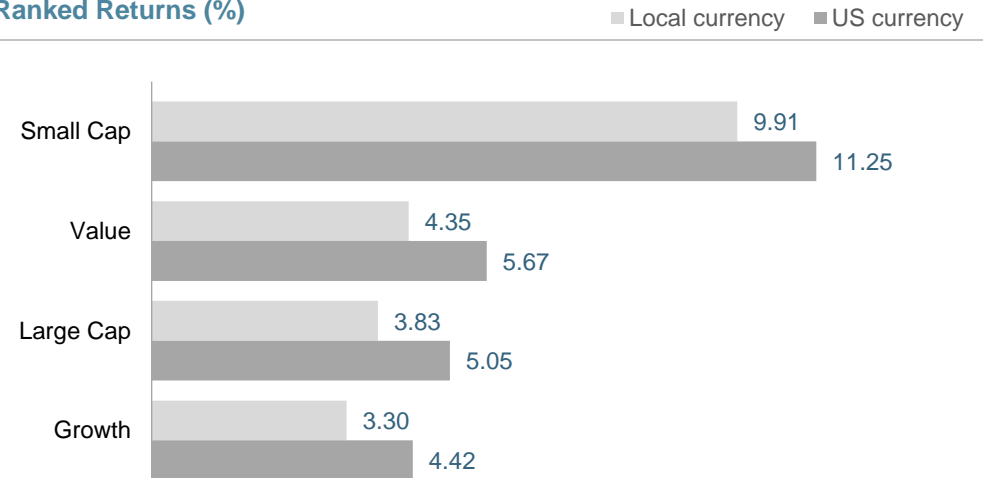
World Market Capitalization—Emerging Markets

13%

Emerging Markets
\$9.8 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Small Cap	19.78	63.75	12.31	11.86	4.55
Value	10.01	41.59	7.81	9.70	1.80
Large Cap	7.45	40.90	11.27	13.03	4.28
Growth	5.04	40.08	14.44	16.14	6.63

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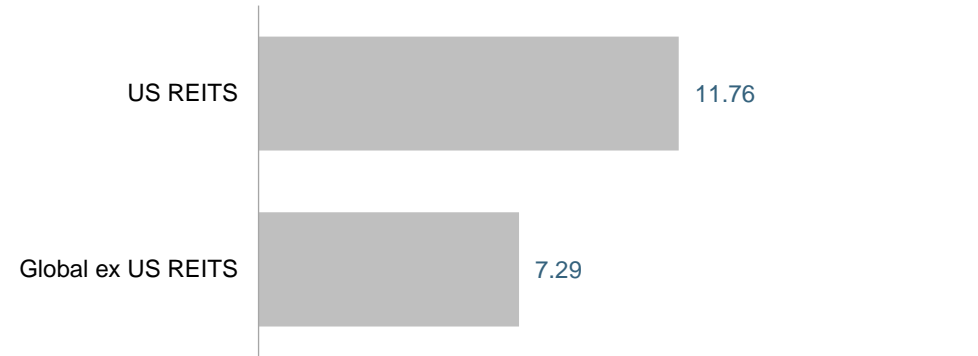
Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2021, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

Real Estate Investment Trusts (REITs)

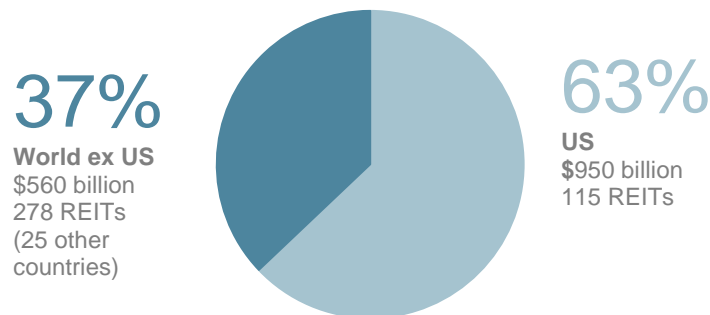
Second Quarter 2021 Index Returns

US real estate investment trusts outperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
US REITs	22.94	39.98	8.13	5.16	8.67
Global ex US REITs	9.68	31.93	4.63	4.11	5.00

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Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Fixed Income

Second Quarter 2021 Index Returns

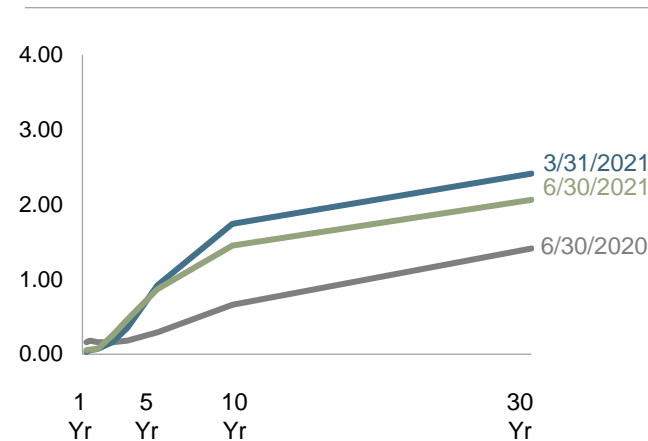
Changes in interest rates in the US Treasury fixed income market were generally mixed during the second quarter of 2021. The yield on the 5-Year Treasury note decreased 7 basis points (bps) to 0.88%. The yield on the 10-Year T-note decreased 28 bps to 1.46%. The 30-Year Treasury bond yield declined 35 bps to 2.04%.

On the short end of the yield curve, the 1-Month US Treasury bill yield remained unchanged at 0.05%, and the 1-Year T-bill yield increased 2 basis point to 0.10%. The 2-Year Treasury note increased 10 bps to 0.25%.

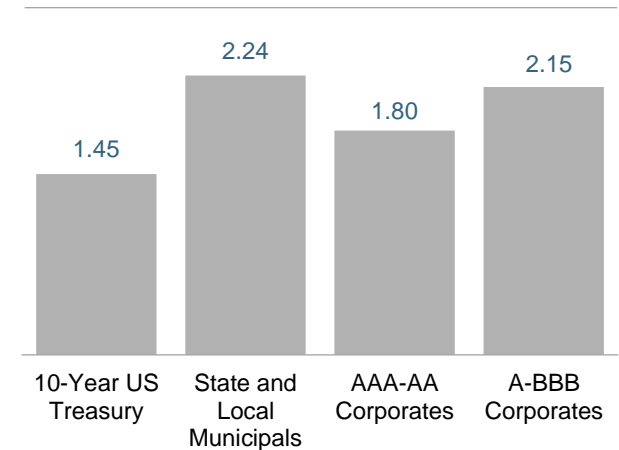
In terms of total returns, short-term corporate bonds gained 0.70%. Intermediate-term corporate bonds returned 1.70%.

The total return for short-term municipal bonds was 0.30%, while intermediate-term munis returned 0.80%. Revenue bonds outperformed general obligation bonds.

US Treasury Yield Curve (%)



Bond Yield across Issuers (%)



Period Returns (%)

Asset Class	*Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Government Bond Index Long	6.43	-7.82	-10.42	7.97	3.18	6.62
Bloomberg Barclays US TIPS Index	3.25	1.73	6.51	6.53	4.17	3.40
Bloomberg Barclays US High Yield Corporate Bond Index	2.74	3.62	15.37	7.45	7.48	6.66
Bloomberg Barclays US Aggregate Bond Index	1.83	-1.60	-0.33	5.34	3.03	3.39
Bloomberg Barclays Municipal Bond Index	1.42	1.06	4.17	5.10	3.25	4.28
FTSE World Government Bond Index 1-5 Years	0.31	-2.08	2.08	2.31	1.27	-0.13
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.07	-0.30	0.11	2.82	1.92	1.88
ICE BofA 1-Year US Treasury Note Index	0.02	0.09	0.22	2.01	1.47	0.90
ICE BofA US 3-Month Treasury Bill Index	0.00	0.02	0.09	1.34	1.17	0.63

One basis point (bps) equals 0.01%. 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. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2021 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2021 ICE Data Indices, LLC. S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

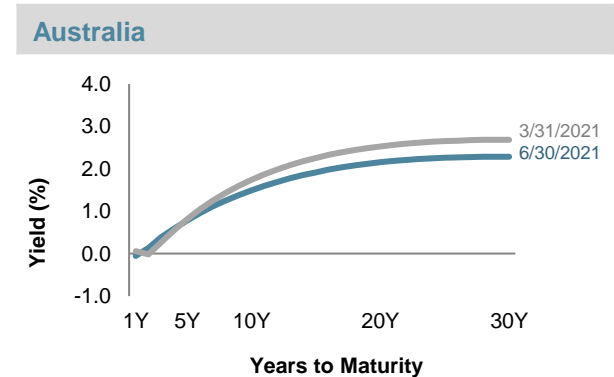
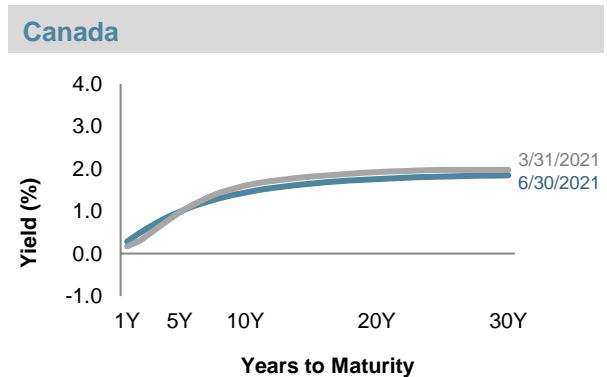
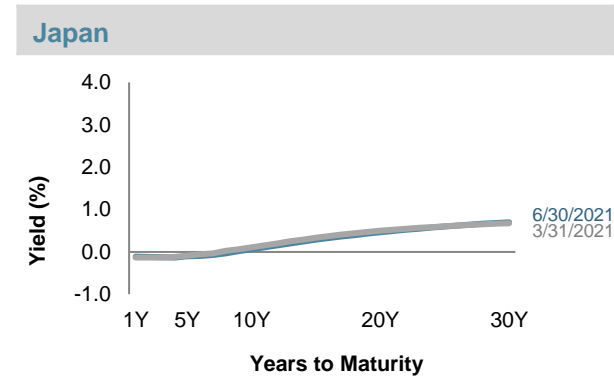
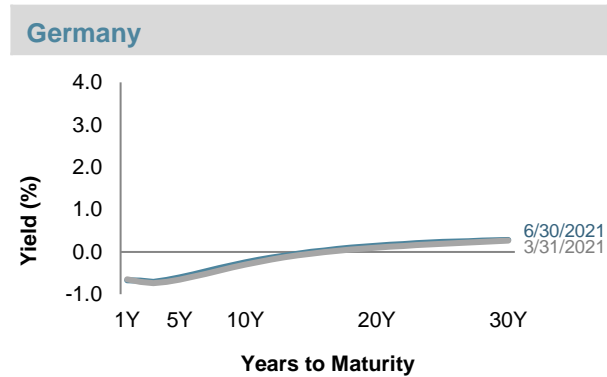
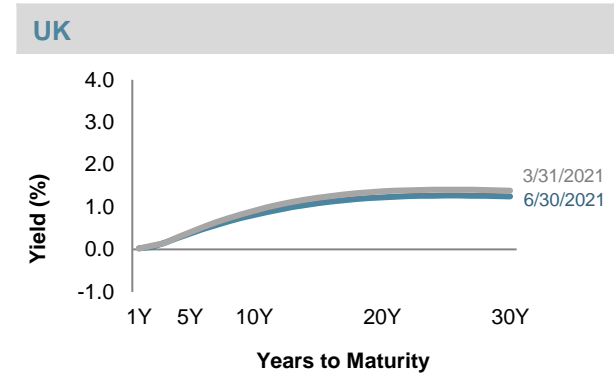
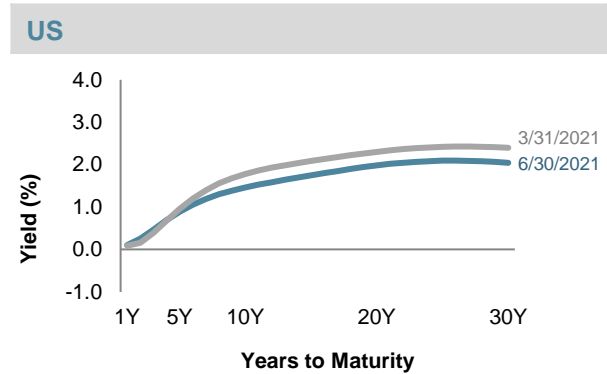
Global Fixed Income

Second Quarter 2021 Yield Curves

Changes in government bond yields in the global developed markets were mixed for the quarter.

Term premiums were mixed in developed markets.

Short- and intermediate-term nominal interest rates were negative in Japan and Germany.



Changes in Yields (bps) since 3/31/2021

	1Y	5Y	10Y	20Y	30Y
US	1.8	-6.5	-31.9	-31.8	-35.0
UK	0.8	-3.1	-9.9	-13.8	-13.8
Germany	-2.2	5.4	5.1	4.4	1.5
Japan	1.9	-1.5	-4.4	-3.7	2.2
Canada	11.1	1.8	-16.0	-16.1	-12.8
Australia	-11.0	-3.2	-24.7	-37.3	-40.5

Commodities

Second Quarter 2021 Index Returns

The Bloomberg Commodity Index Total Return returned 13.3% for the second quarter of 2021.

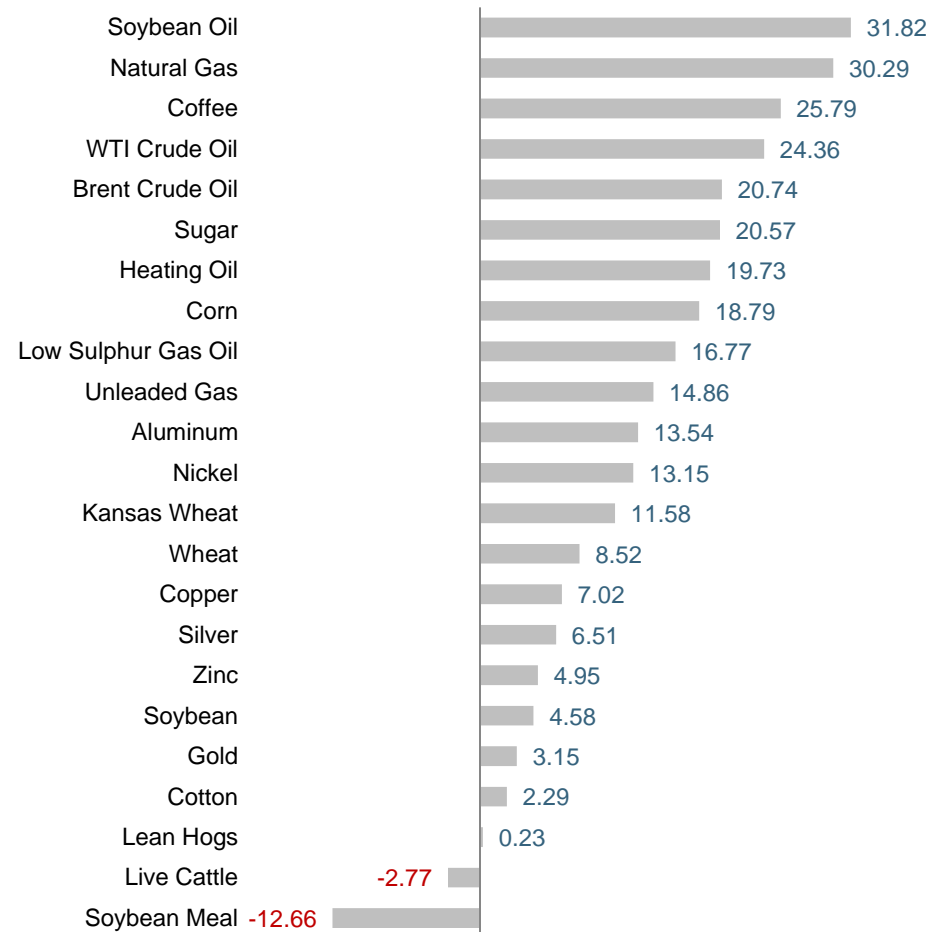
Soybean Oil and Natural Gas were the best performers, returning 31.82% and 30.29%, respectively.

Soybean Meal and Live Cattle were the worst performers, declining 12.66% and 2.77%, respectively.

Period Returns (%) * Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	13.30	21.15	45.61	3.90	2.40	-4.44

Ranked Returns (%)



Impact of Diversification

Second Quarter 2021

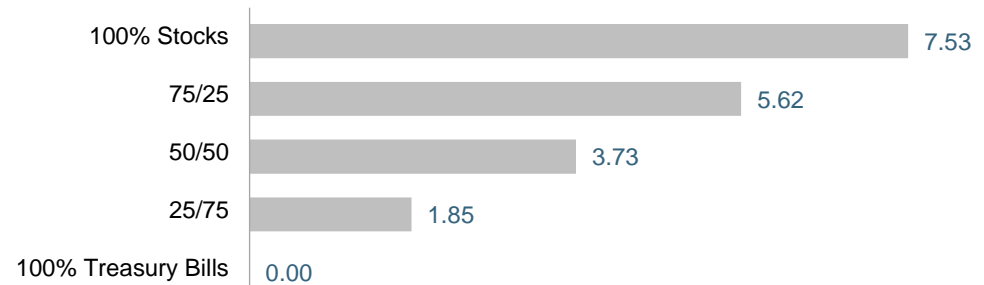
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Period Returns (%)

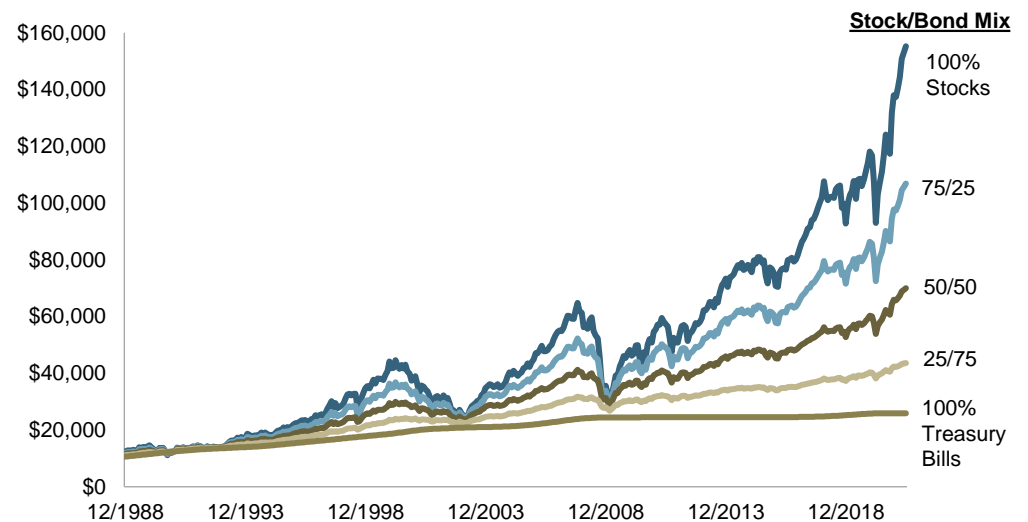
* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV ¹
100% Stocks	12.56	39.87	15.14	15.20	10.48	14.03
75/25	9.32	28.96	11.84	11.73	8.12	10.52
50/50	6.15	18.71	8.40	8.20	5.67	7.00
25/75	3.05	9.08	4.85	4.64	3.14	3.49
100% Treasury Bills	0.01	0.06	1.21	1.06	0.55	0.23

Ranked Returns (%)



Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio. Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2021, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

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