GREAT LAKES ADVISORS

POINT OF VIEW

ECONOMIC COMMENTARY AND CAPITAL MARKET UPDATE

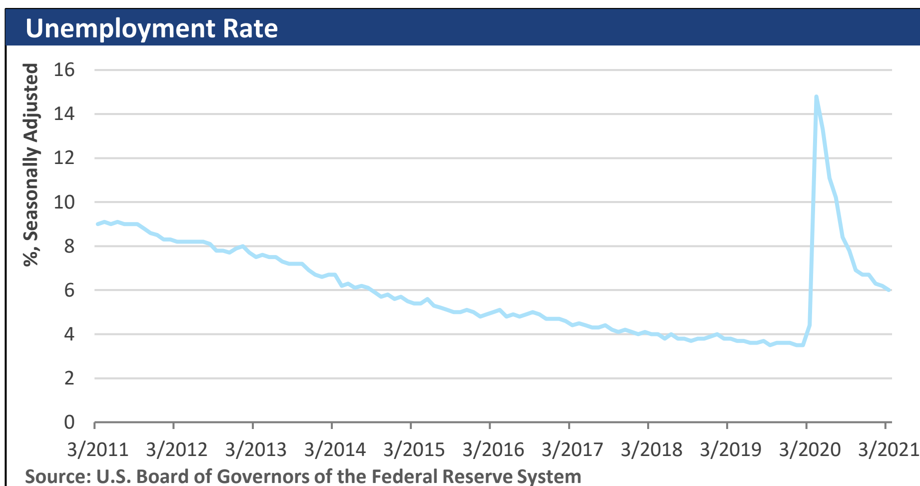
For the Quarter Ending March 31, 2021

Recap: Both the public health and the economic crises in the U.S. appear to have improved so far in 2021. Since peaking in January, the number of new COVID hospitalizations has plummeted, while the pace of vaccinations has ramped up. The economy, which was boosted by the recently enacted COVID relief bill, appears to be mirroring the improving public health situation. So far this year, a wide array of macroeconomic indicators have significantly bested consensus estimates.

Household spending on goods has risen notably so far this year, although spending on services has remained low, especially in sectors that typically require in-person gatherings. The housing sector has more than fully recovered from the downturn, while business investment and manufacturing production have also picked up.

Conditions in the labor market have continued to improve as well. Employment rose by 379,000 in February, as the leisure and hospitality sector recouped about two-thirds of the jobs it lost in December and January. However, the sectors of the economy most adversely affected by the resurgence of the virus and by greater social distancing have remained weak, and the unemployment rate - still elevated at 6.2% - has underestimated the shortfall, particularly as labor market participation remained notably below pre-pandemic levels.

Realized inflation has remained low, although inflation expectations appear to have moved closer to the Fed's 2% target. Both core and headline measures of 12-month personal consumption expenditures (PCE) inflation were 1.5% in February.

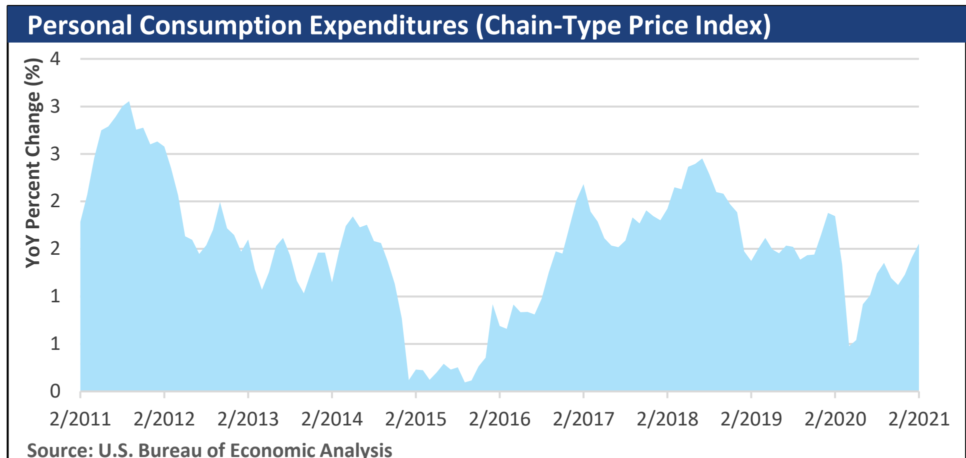


The recovery has progressed more quickly than generally expected and looks to be strengthening. This is due in significant part to the unprecedented fiscal and monetary policy actions which have provided essential support to households, businesses, and communities.

In many foreign countries, growth moderated at the end of 2020, as a spike in COVID hospitalizations and deaths led to tighter public health restrictions. Retail sales and measures of services activity weakened even as manufacturing and exports remained more resilient. Foreign economic activity should strengthen later this year as vaccinations rise, COVID case counts decline, and social distancing eases. It should also be aided by some drawdown in the stock of excess savings, continued fiscal and monetary support, and strong U.S. demand. The

turnaround in growth in each country will depend on success in controlling the virus, as well as on available policy space and underlying macroeconomic vulnerabilities.

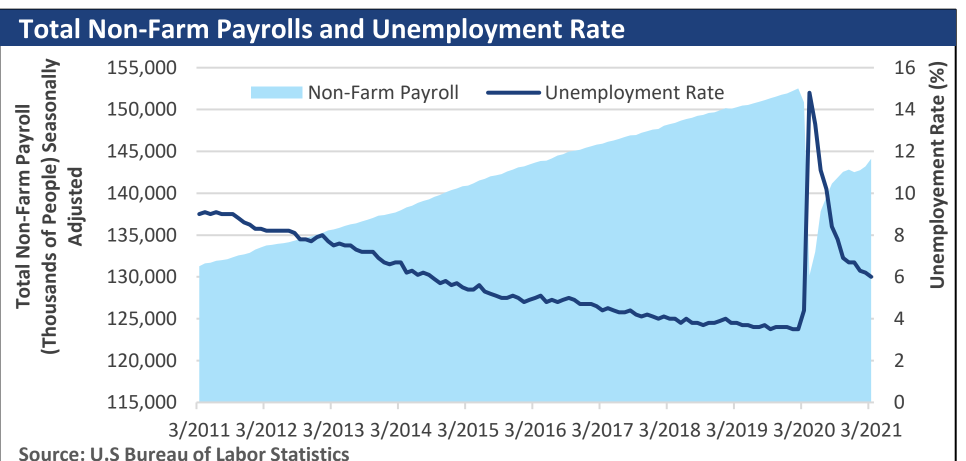
Inflation: Inflation has neared a decade low and is well below the 2% level the Federal Reserve targets as ideal. The usual conditions for rising inflation - tight job markets and public expectations of rising prices - have been glaringly absent. Yet anxiety about inflation has been at a fever pitch among market participants, where long-term interest rates have been grinding higher in recent months.



Behind this dichotomy has been a clash of forces. In the near term, plentiful unused capacity and decades of habits are likely to keep inflation low. However, resurgent economies, led by the U.S., and a burst of demand for consumer goods have heaped pressure on already strained supply chains. With a series of acute disruptions - including the latest blockage of the Suez Canal, as well as a fire in the world's leading auto chip maker in Japan, and February's freeze in Texas - set to worsen shortages and further push up prices. Moreover, after years of undershooting 2%, the Federal Reserve would like inflation to slightly overshoot. That, it hopes, would banish the specter of deflation and stagnation that has haunted advanced economies for a decade.

In the longer term, a shifting political climate is likely to be more tolerant of inflation rising well past 2%. The Fed's pursuit of over 2% inflation, President Biden's $1.9 trillion stimulus plan, and new goals such as narrowing racial economic disparities will reduce the priority that policymakers will place on inflation.

Labor Market: Hiring accelerated in February as restaurants and other hospitality businesses reopened and coronavirus cases eased, setting the U.S. economy up for broader growth this spring. U.S. employers added 379,000 jobs in February—the largest monthly increase since October. The pickup comes after job growth froze earlier in the winter. The unemployment rate ticked down to 6.2% last month. Combining all factors, the U.S. economy had approximately 10 million fewer individuals employed than a year earlier.



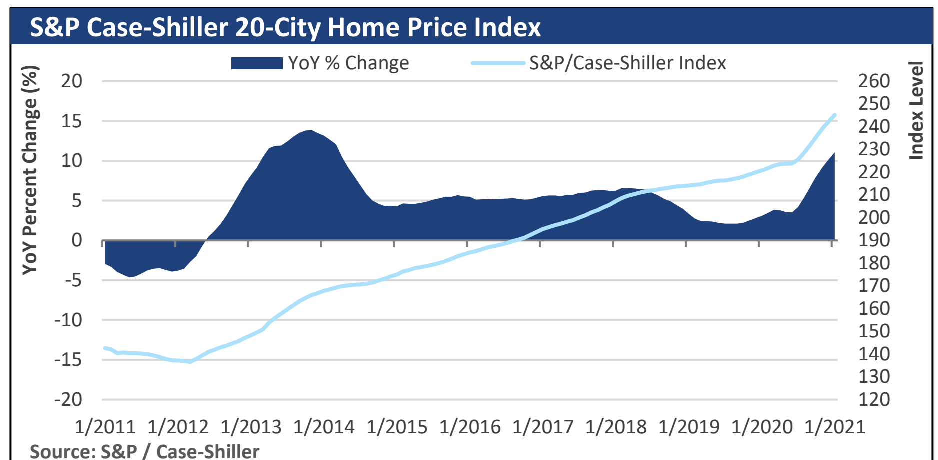
Most of the job gains this year have reflected reduced business restrictions, more people receiving vaccines, a lower level of COVID-19 infections, and a recent round of government aid to households and businesses, which boosted consumer spending early this year.

Housing: Both U.S. housing starts and existing home sales fell in

February. Housing starts have been off to a slow start in 2021. Activity pulled back for the second consecutive month in February, accentuating the decline that began at the start of the year. Higher input costs and rising interest rates, factors that have chipped away at builder confidence in recent months, likely played a role in the pullback.

A slowdown in pending home sales at the start of the year had already telegraphed soft resale activity for February. But February's pullback was much worse than expected. The all-familiar culprits of record low inventory levels and strong price growth have continued but it appears that inclement weather, which negatively affected large parts of the country, may have also been at play in the decline in existing home sales. Home price growth is expected to slow from its current double-digit pace over time as affordability is eroded by higher mortgage rates.

Activity in the housing market is expected to remain elevated in 2021. This is due to a very low inventory environment and the fact that housing demand will remain supported as the labor market healing continues this year amidst improving public health conditions and a significant injection of cash in the economy from the latest stimulus package.

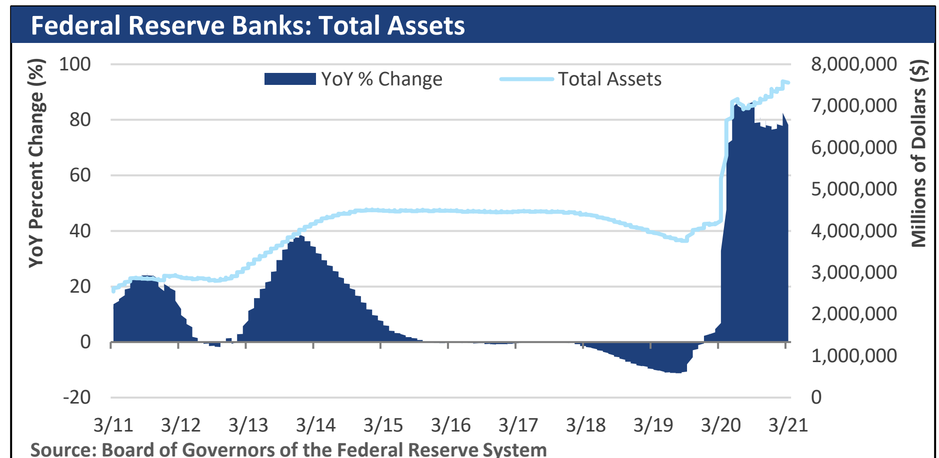


Regional Economy: Economic activity in the five Midwestern states (Illinois, Indiana, Iowa, Michigan, and Wisconsin) increased modestly in January and early February but remained below pre-pandemic levels. Growth is expected to pick up in the coming months, but a full recovery will have to wait until at least the first half of 2022. Manufacturing and consumer spending increased moderately in January and early February, with overall activity approaching pre-pandemic levels. Business spending, construction, and real estate increased slightly, and employment was little changed in the first two months of the year.

Wages and prices rose modestly in January and early February, and a moderate increase in prices is expected over the next 12 months. Non-auto retail sales increased moderately, supported by robust demand from home improvement sales. Stimulus checks received as part of the federal coronavirus relief bill passed in December helped increase activity in consumer spending. Financial conditions were little changed. Agricultural income should be solid in 2021.

Federal Reserve: The Fed will maintain the current accommodative target range of the federal funds rate (0% to 0.25%) until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment. Inflation has been on track to moderately exceed 2% for some time. Also, the Fed will continue to purchase $120 billion in bonds per month, a policy meant to keep credit cheap and help the economy rebound until further progress has been made toward their employment-inflation goals. These purchases, and the associated increase in the Federal Reserve's balance sheet, have materially eased financial conditions and provided substantial support to the economy.

Eurozone: The Eurozone economy showed some resilience in late 2020, with the decline in Q4 GDP less than generally expected. That said, the economy still faces near-term challenges with lockdowns restricting activity and the distribution of vaccines gradual so far. As a result, Eurozone GDP is expected to contract further in Q1-2021.



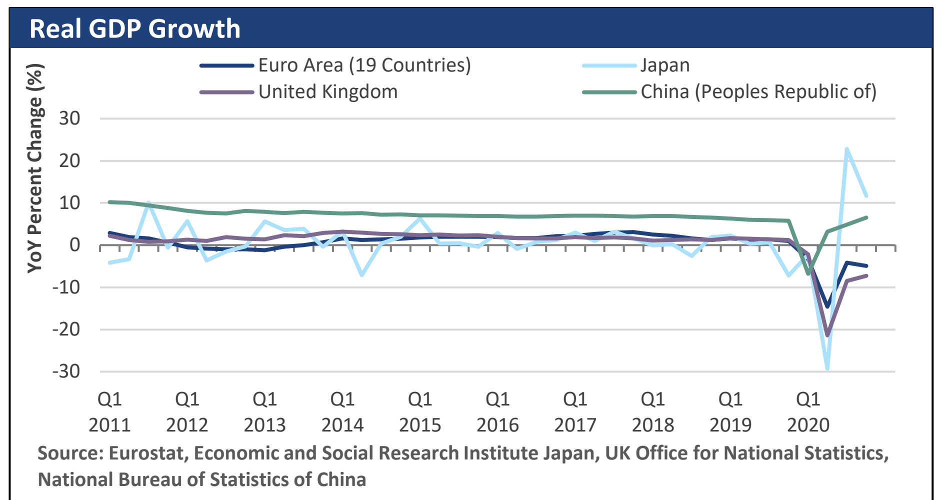
Source: Board of Governors of the Federal Reserve System

The medium-term prospects for the economy have been mixed. Household finances have remained sound, meaning the Eurozone economy should be well-positioned for a consumer recovery once the economy fully reopens. However, the gradual rollout of vaccines as well as the implementation of further fiscal support measures could suggest the pace of a medium-term recovery will not be especially robust.

Despite some near-term challenges, the risk of a renewed period of extended decline is unlikely. Relatively sound household finances should underpin the economy and support recovery, although the gradual rate of vaccine distribution to date means that recovery might not be especially robust. Moreover, the moderate growth outlook, in part stemming from gradual vaccine rollout and gradual implementation of fiscal support, likely means the ECB will maintain an accommodative policy stance for an extended period, and the central bank's rhetoric will be more dovish than hawkish. This mix of economic growth and economic policy is not especially favorable for the strength of the euro.

China: China plans to target GDP growth of 6% or more this year, a relatively modest goal that nonetheless would signal continued optimism after a year in which the coronavirus eviscerated the global economy. China's economy has recovered relatively quickly from the initial outbreak and ended up with 2.3% growth for the year. It was the only major world economy to grow in 2020.

Chinese economic activity has surged in the first two months of 2021 when compared with the same coronavirus-battered period last year, though the picture was less rosy when weighed against growth momentum in the final months of 2020.



Source: Eurostat, Economic and Social Research Institute Japan, UK Office for National Statistics, National Bureau of Statistics of China

Industrial production, consumption, investment, and home sales in January and February all jumped by more than 30% from the same period a year ago. Home sales by volume, an indicator of demand, have soared 143% in the first two months of 2021 from a year earlier, while property investment by value gained 38% over the same stretch. Fixed-asset investment increased 35% over that period compared with a year earlier.

With growth momentum now at pre-virus levels, Beijing policymakers have signaled that they plan to gradually withdraw stimulus measures and focus instead on reining in debt and heading off an emerging bubble in the real estate market.

Outlook: The recent headway made in the U.S. on vaccine development, fiscal support, and people and business adaptability has been nothing short of tremendous. Strong economic growth and job gains are expected to continue, and a full recovery to be achieved over the next 1 to 2 years.

As the economy reopens, the potential release of pent-up demand could drive stronger growth in 2021 than seen in decades. However, it is uncertain how much pent-up consumption will be unleashed when social distancing completely lifts, and how much household spending will result from the new stimulus and accumulated savings.

Additional fiscal support is likely to provide a significant boost to spending when vaccinations are sufficiently widespread to support a full reopening of in-person services. Various measures of financial conditions are broadly accommodative relative to historical levels and should remain so.

The improving public health picture and trillions of dollars of fiscal stimulus have led to an increasingly optimistic outlook for the economy over the next two years. U.S. real GDP is likely to grow at least 6.0% in 2021, marking the fastest recovery in more than 30 years.

In the labor market, as vaccinations continue and social distancing eases, businesses in hard-hit services sectors will increase hiring, accelerating the pace at which workers find employment. The speed of further improvement in the labor market following the initial rush of reopening is less clear, however. Some employers may be cautious about significantly increasing payrolls before post-COVID consumption patterns are more firmly established. Others may be implementing measures to stay lean and contain costs. The unemployment rate is expected to drop below 5.0% before the end of 2021.

Inflation represents the clearest and most present danger to the U.S. economic outlook. Although core and headline PCE inflation came in at 1.5% on a 12-month basis in February, the well-anticipated base effects from

price declines of last year will cause inflation to move above 2% in April and May. It also seems likely that a surge of demand may be met by some transitory supply bottlenecks amid a rapid reopening of the economy, leading PCE inflation to rise above 2.5% on a transitory basis by the end of 2021.

Inflation, however, is not expected to subsequently get out of hand. Inflation expectations, although higher than a few months ago, have generally remained contained, and a rise in the labor force participation rate once the pandemic has subsided should help keep a lid on outsized wage gains.

Finally, while vaccinations are continuing at an accelerated pace, there are risks from more contagious strains of the virus, social-distancing fatigue, and vaccine hesitancy.

MARKET COMMENTARY

Recap: Equity markets rose during the first quarter as COVID-19 vaccines reached more people and fourth-quarter corporate earnings exceeded expectations. Building on the trend that was established in the final quarter of 2020, value stocks again outperformed growth names. During Q1, the Russell 3000 Value Index gained 11.9%, while its growth counterpart rose a more modest 1.2%. Through the end of the first quarter, the best performing sector was energy with a return of 30.9%. In contrast, some of 2020's top producing sectors, including technology and consumer discretionary, delivered only low single-digit returns. Small-cap stocks continued the strong run that began during Q4 2020 when the quarterly return was more than 31%. Finally, March 23, 2021, marked the first anniversary of the 2020 COVID-driven market bottom. As of quarter-end, the S&P 500 had bounced back more than 77% from this 2020 low. For the quarter, the S&P 500 rose 6.2%. Overseas, the MSCI EAFE Index gained 3.5%, and the MSCI Emerging Markets Index increased by 2.3%. Fixed income markets produced broadly negative returns. The Barclays U.S. Aggregate Bond Index lost 3.4%, while the Barclays Global Aggregate ex USD Bond Index fell 5.3%.

Domestic Equities: January began with protestors storming the U.S. Capitol in an attempt to disrupt the certification of the presidential election. Ultimately, Joe Biden was sworn into the nation's highest office less than two weeks later. On the COVID-19 front, the period saw the further rollout of vaccines as well as the threat of new virus mutations. Domestic equity markets experienced the biggest short squeeze in 25 years, and significant U.S. fiscal policy developments made headlines during Q1. Finalizing an early policy victory, President Biden signed a $1.9 trillion COVID-19 relief package, known as the American Rescue Plan Act, into law. And on the final day of the quarter, the president proposed a $2.3 trillion infrastructure plan. Talk of inflation ramped up during the quarter, and the S&P 500 closed the period near an all-time high.

International Equities: Overseas, equity markets produced positive gains but underperformed their U.S. counterparts. In Europe, markets rose on hopes of a global economic recovery. Sectors that fared poorly in 2020 such as energy, financials, and consumer discretionary performed well, while more defensive areas of the market lagged. Casting some doubt on the recovery were rising infection rates in some countries and new lockdown measures. In Japan, stocks generated modest gains as corporate profits improved. Weakness in the yen relative to the U.S. dollar served as a tailwind for this export-driven economy. Following their strongest quarterly return in more than a decade during Q4 2020, emerging market stocks climbed higher. Gains were

realized despite late quarter weakness as vaccine efforts lagged and activity restrictions were renewed in some countries. Amongst the BRICs, Brazil and China were negative for the quarter, while Russia and India were up solidly.

Fixed Income: The first quarter was a difficult period for fixed income investors. Bond yields rose sharply amid the ongoing rollout of COVID-19 vaccines and the expectation of significant U.S. stimulus. The yield curve steepened as the 10-year U.S. Treasury yield increased from 0.93% to 1.74%, while the 2-year yield rose only modestly. Given the rise in interest rates, Q1 was the second-worst quarter since 1980 for U.S. Treasuries. Duration risk management was essential during the period. Investment grade corporate bonds produced a negative result, while high yield corporates and preferred stocks generally held up well. Other risk-on fixed income segments such as emerging market debt had a challenging quarter.

Outlook: The next phase of the economic rebound, when services reopen, employment grows, and overall activity improves, should benefit risk assets. In the U.S., equity market valuations appear rich. However, the expectation for relatively low-interest rates at least partially justifies elevated valuation metrics. It may be appropriate to modestly reduce exposure to those areas of the market that are valued the highest, including mega-cap names and growth stocks, and diversify into more value-oriented stocks. Compared to long-term averages, value appears cheap relative to growth, and the latest round of stimulus and the broader reopening from lockdowns should boost the earnings growth of cyclical sectors such as materials and industrials, which have greater representation in the value index. Also poised for solid relative returns are small-cap names as this asset class has historically shown strength during the recovery phase of the cycle. Pandemic-related uncertainties remain.

Developed international equities appear attractive. If the post-coronavirus economic recovery favors undervalued cyclical value stocks over expensive technology and growth stocks, developed international equities should perform well as major foreign stock indices are overweight cyclical value stocks relative to the U.S. In Europe, the recovery continues to lag the U.S., but its pace of vaccinations is increasing, putting the region on track for an economic reopening by the third quarter. In Japan, growth will likely lag other major economies in 2021, and the slower vaccine approval process and rollout will likely delay some form of herd immunity. Japan's leading indicators are improving, however. In the UK, the outlook is improving in line with the economy. Earnings are poised for a strong rebound after falling 35% in 2020. The UK market is overweight cyclical value sectors, such as materials and financials, which should benefit from the post-COVID reopening. Broadly speaking, valuations overseas are attractive, with the MSCI All Country World Index excluding the U.S. forward price-to-earnings ratio trading at a 26% discount to that of the S&P 500.

Emerging market stocks have historically done well when global growth accelerates, interest rates rise, and commodity prices increase as the world economy strengthens. The asset class will also benefit if the U.S. dollar remains weak. All 27 emerging market countries in the MSCI index are expected to deliver positive real GDP growth in 2021 for the first time since the global financial crisis, and the recovery of developed market economies should be good news for emerging market exports. East Asia, including China, appears to have had more success in containing COVID-19 than the U.S. Chinese economic growth is expected to be strong in 2021, boosted by the recovery of the global economy. Along with the tailwinds, emerging markets also face challenges exacerbated by the coronavirus pandemic. Many emerging market nations face structural growth challenges

and rising debt levels. The EM asset class is a complex one that includes many markets with disparate characteristics. Emerging countries with stronger fundamentals may disproportionately benefit.

The fixed income market is a challenging one for investors. The combination of very accommodative monetary policy and a recessionary environment drove 10-year Treasury yields to less than 1% at the start of the year. Although yields have since risen, they remain at very low levels. Furthermore, the Fed's bond-buying programs have led to compressed credit spreads. The low-interest rate and narrow spread environment limit the income potential of bonds going forward and increase the risk of capital loss when the Fed becomes less accommodative. On a positive note, improving fundamentals are supportive and investor demand remains strong, especially from Europe and Asia where U.S. corporate yields remain attractive.

Sources: Department of Labor, Department of Commerce, European Central Bank, Bloomberg, Morningstar, China's National Bureau of Statistics, Johns Hopkins University, Federal Reserve Bank of Chicago

Index Performance as of: 3/31/2021

	1 Week	1 Month	QTD	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Russell									
3000 Value	2.33	5.84	11.89	11.89	11.89	58.43	10.99	11.87	10.91
3000	2.34	3.58	6.35	6.35	6.35	62.58	17.11	16.64	13.79
3000 Growth	2.34	1.37	1.19	1.19	1.19	64.37	22.38	20.88	16.35
1000 Value	2.19	5.88	11.26	11.26	11.26	56.14	10.96	11.74	10.99
1000	2.21	3.78	5.91	5.91	5.91	60.64	17.31	16.66	13.97
1000 Growth	2.23	1.72	0.94	0.94	0.94	62.80	22.79	21.05	16.63
Mid Cap Value	2.48	5.16	13.05	13.05	13.05	73.83	10.69	11.60	11.05
Mid Cap	2.53	2.71	8.14	8.14	8.14	73.70	14.73	14.68	12.47
Mid Cap Growth	2.63	-1.91	-0.57	-0.57	-0.57	68.67	19.40	18.39	14.11
2000 Value	4.27	5.23	21.17	21.17	21.17	97.14	11.57	13.56	10.06
2000	4.08	1.00	12.70	12.70	12.70	94.94	14.76	16.36	11.68
2000 Growth	3.89	-3.15	4.88	4.88	4.88	90.28	17.16	18.61	13.02
Standard & Poors									
S&P 500	2.18	4.38	6.17	6.17	6.17	56.40	16.77	16.30	13.91
Consumer Disc	2.59	3.65	3.11	3.11	3.11	70.35	19.81	17.88	17.50
Consumer Staples	2.19	8.19	1.15	1.15	1.15	28.40	12.13	8.21	11.64
Energy	-0.15	2.79	30.85	30.85	30.85	75.22	-5.48	-0.75	-1.55
Financials	2.19	5.80	15.99	15.99	15.99	67.55	9.77	15.67	12.11
Health Care	1.97	3.92	3.18	3.18	3.18	34.06	15.08	13.61	15.61
Industrials	3.44	8.91	11.41	11.41	11.41	69.67	12.13	13.72	12.23
Information Technology	2.49	1.69	1.97	1.97	1.97	66.67	28.54	27.64	20.50
Materials	2.81	7.58	9.08	9.08	9.08	78.36	13.99	14.31	9.46
Real Estate	2.22	6.81	9.02	9.02	9.02	32.05	12.30	8.10	10.02
Communcation Services	0.63	3.13	8.08	8.08	8.08	60.93	18.78	10.15	10.41
Utilities	2.21	10.51	2.80	2.80	2.80	19.44	12.00	8.92	11.27
Other U.S. Equity									
Dow Jones Industrial Avg.	1.74	6.78	8.29	8.29	8.29	53.83	13.60	15.99	13.09
Wilshire 5000 (Full Cap)	2.35	3.18	6.17	6.17	6.17	63.92	17.23	16.77	13.71
International Equity - Broad Market									
MSCI EAFE	0.82	2.30	3.48	3.48	3.48	44.60	6.02	8.85	5.52
MSCI EM	1.44	-1.51	2.29	2.29	2.29	58.44	6.47	12.07	3.65
MSCI Frontier Markets	0.28	0.29	0.80	0.80	0.80	39.32	-1.37	6.62	3.93
MSCI ACWI	1.66	2.67	4.57	4.57	4.57	54.65	12.07	13.21	9.14
MSCI ACWI Ex USA	0.98	1.26	3.49	3.49	3.49	49.45	6.51	9.76	4.93
MSCI AC Asia Ex Japan	1.19	-2.54	2.70	2.70	2.70	57.36	8.87	13.79	6.66
International Equity - Country Region									
MSCI Brazil	2.35	4.26	-9.98	-9.98	-9.98	46.52	-6.57	8.03	-4.83
MSCI BRIC	0.96	-3.48	-0.10	-0.10	-0.10	48.68	6.93	14.41	3.27
MSCI China	0.90	-6.28	-0.43	-0.43	-0.43	43.65	8.24	16.09	7.26
MSCI Europe	0.88	3.09	4.08	4.08	4.08	44.99	5.65	8.18	5.08
MSCI India	0.04	2.27	5.11	5.11	5.11	76.42	9.18	11.18	4.45
MSCI Japan	0.67	1.06	1.57	1.57	1.57	39.76	6.31	10.47	7.20
MSCI EM Latin America	2.22	4.63	-5.32	-5.32	-5.32	50.12	-6.05	4.04	-4.05
MSCI Russia	2.65	5.22	4.93	4.93	4.93	44.35	8.07	14.20	-0.03

Index Performance as of: 3/31/2021

	1 Week	1 Month	QTD	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Fixed Income									
Barclays U.S. Aggregate	-0.37	-1.25	-3.37	-3.37	-3.37	0.71	4.65	3.10	3.44
ICE BofAML US 3M Trsy Bill	0.00	0.01	0.03	0.03	0.03	0.12	1.49	1.19	0.63
Barclays U.S. Gov't	-0.61	-1.51	-4.14	-4.14	-4.14	-4.27	4.10	2.25	2.83
Barclays U.S. Credit	-0.20	-1.59	-4.45	-4.45	-4.45	7.88	5.95	4.67	4.83
Barclays High Yield Corp.	0.33	0.15	0.85	0.85	0.85	23.74	6.84	8.06	6.48
Barclays Municipal	0.07	0.62	-0.35	-0.35	-0.35	5.51	4.91	3.49	4.54
Barclays TIPS	-0.44	-0.19	-1.47	-1.47	-1.47	7.54	5.67	3.86	3.44
Barclays Gbl Agg Ex USD	-1.00	-2.42	-5.29	-5.29	-5.29	7.16	1.15	2.13	1.26
Barclays Global Aggregate	-0.74	-1.92	-4.46	-4.46	-4.46	4.67	2.80	2.66	2.23
JPM EMBI Global Div	-0.57	-0.96	-4.54	-4.54	-4.54	16.02	4.04	5.05	5.63
Alternative Investments									
Alerian MLP	2.76	6.91	21.95	21.95	21.95	103.23	-2.98	-1.30	-0.93
Bloomberg Commodity	-1.07	-2.15	6.92	6.92	6.92	35.06	-0.20	2.31	-6.28
FTSE NAREIT Equity REIT	1.35	4.57	8.87	8.87	8.87	37.81	9.45	5.33	8.56
S&P Global Natural Res.	1.00	2.20	11.81	11.81	11.81	67.78	5.46	11.37	1.12
S&P N. Amer Natural Res.	0.60	4.38	19.44	19.44	19.44	72.49	-1.49	2.29	-2.26

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