LARGE CAP VALUE

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Third Quarter 2021

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MARKET REVIEW

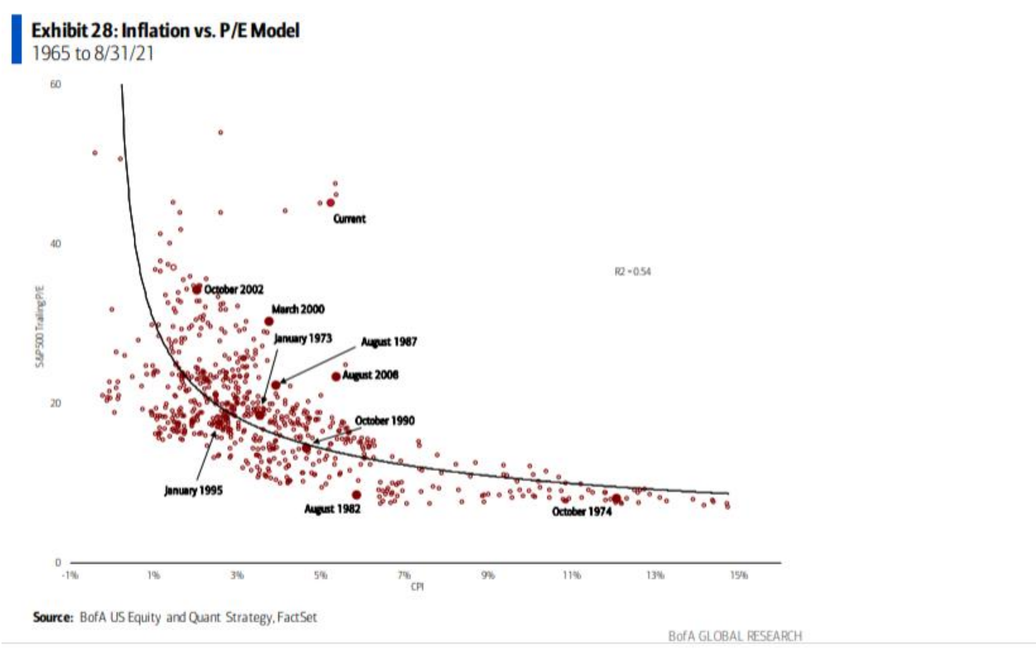
U.S. equities had a difficult month of September and ended the quarter essentially flat. The Russell 1000 Value Index declined 0.78% in the third quarter of 2021, but remained in solid positive territory with a 16.05% return for the first three quarters of 2021. The broader market, represented by the S&P 500, experienced a similar setback in September, and ended with a positive 0.58% return for the quarter and 15.92% year to date. The Value style, as such, underperformed in Q3 and remains about flat on the year with the broader market, continuing a very uneven recovery from late 2020.

Real GDP is now estimated to have grown at a 6.7% annualized pace in the second quarter of 2021. Personal Consumption Expenditures (PCE) grew by 0.8% for the month of August following a 0.1% decline in July. The estimate for August outlays reflected the continued economic recovery, reopening of establishments, and government response related to the COVID-19 pandemic. The Personal Savings rate stands at 9.4%, in line with longer-term average rates. It had spiked to 33% during the COVID-19 shutdown.

Supply chain shortages have boosted prices across many industries as demand outstrips supply. The Personal Consumption Expenditures Price Index, ex food and energy, generated by the Bureau of Economic Analysis (BEA) rose 3.6% for the latest period reported, August 2021. Core CPI, which also excludes energy and food prices, rose 4% year-over-year in September, the fourth consecutive month above 4%. Of course, food and energy prices are real and significant expenditures for U.S. consumers, and including those, CPI has been over 5% for five consecutive months.

A longer-term measure of expected inflation is the 10-Year Breakeven Inflation Rate calculated by the Federal Reserve Bank of St. Louis. This measure now reads 2.4%, reflecting consensus views that inflation will likely remain above the 2% policy-change threshold adopted by the Federal Reserve. Inflation is very much at the forefront of discussion, not just on Wall Street, but Main Street, and may force the Fed to increase interest rates, which are deeply negative in real terms. Neither high inflation nor higher real interest rates have been supportive of high equity valuation multiples historically. Please see the chart below from Bank of America / Merrill Lynch.

Note: In the chart below we exclude deflationary points from trend line calculation. Historically, the relationship between inflation and valuation breaks down during deflationary periods. For example, from 1949 to 1950, S&P 500 valuation was below average, and from 1954 to 1955, valuation was well above average.



The unemployment rate continues to move down, now at 5.2% at the end of August. Average monthly job growth year-to-date for 2021 has been 586,000 according to the Bureau of Labor; in August it was only 235,000, well below consensus. However, given the termination of federal support programs recently, it is possible job gain reports could re-accelerate to meet or exceed the year-to-date average in September or October. For the unemployment rate to reach “full employment” similar to the 3.5% level achieved during 4Q 2019, over 3 million more people would need to join the workforce.

The yield on the benchmark 10-year U.S. Treasury note spiked higher in September from the 1.3% level in August to settle at 1.5% by month end, but is still down from the peak in 2021 of around 1.75% at the end of March. Excluding inflation, 10-year interest rates are negative 0.8%, as measured by the 10-year Treasury Inflation-Indexed Security Constant Maturity calculated by the Federal Reserve. The last time this “real yield” was above zero was March of 2020. Economists are puzzled by the “negative real rate” trend given the strong economic data combined with increased inflation.

Monetary policy remains unusually accommodative given the confirmation of our cyclical recovery combined with inflation above target levels. Some policy change may be forthcoming. In its September 2021 statement the Federal Reserve stated: “If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted.” The 30-year Treasury bond has not yet reacted to any hint of change since at 2.0% at month end, it remains below the March high of 2.4%.

One indicator of economic confidence provided by fixed income investors is the spread between interest rates on below investment grade bonds and Treasury securities. The lower the spread, the more confidence investors have that corporations will not default on their obligations. The index depicting that is the ICE BofA US High Yield Index Option-Adjusted Spread. The spread at the end of September was 3.2%, close to its all-time low of 3.0% reached in July of this year.

It continues to be our belief that higher interest rates pose a threat to overall equity market valuations, but also are relatively positive for Value as a style. It has been an uneven and choppy recovery for Value in 2021, but the correlation with rates is becoming more apparent, in our opinion. See the chart below from Credit Suisse, which shows both Value vs. Growth and Cyclical (i.e. Shorter Duration) vs. more growth-exposed sectors, since the Fed’s taper announcement on September 21.

Russell 1000 Value Sectors

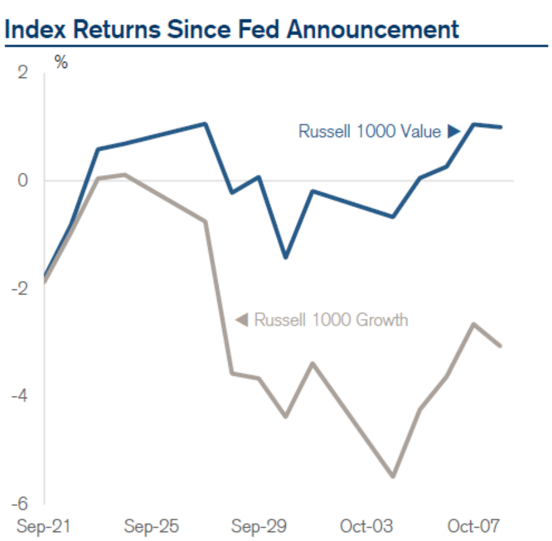
Unlike the prior few quarters, sector returns were substantially more diverse with Real Estate and Financials leading the way with a 2.58% and 2.39% positive return, respectively. Sectors reporting declines included Materials -4.98%, Industrials -3.79%, Consumer Discretionary -3.14% and Communication Services -3.13%.

THIRD QUARTER ATTRIBUTION

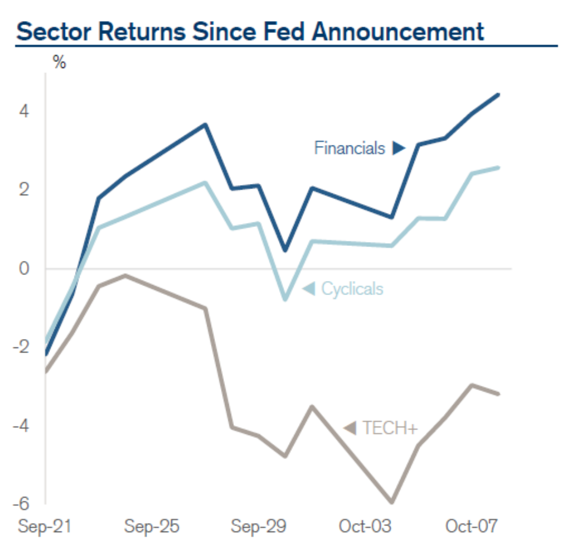
The Great Lakes Advisors Large Cap Value strategy declined 1.10%, 32 bps below the benchmark. In total, sector positioning was neutral to attribution declining 3 bps:

- There were no material positive contributions to our sector weights relative to the benchmark.

Returns – Indices & Sectors



Source: Russell, FactSet, Credit Suisse



Source: Standard and Poor’s, FactSet, Credit Suisse

THIRD QUARTER ATTRIBUTION

SECTOR	GLA WEIGHTING	R1000V WEIGHTING	GLA RETURN	R1000V RETURN	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIBUTION
Technology	10.35	10.60	0.92	-2.49	0.01	0.36	0.37
Energy	6.23	4.72	3.37	-1.38	0.03	0.28	0.32
Industrials	10.93	11.59	-2.52	-3.79	0.01	0.14	0.16
Communication Services	8.04	8.13	-1.11	-3.13	-0.00	0.16	0.15
Utilities	3.91	4.98	2.53	1.33	-0.02	0.04	0.02
Financials	24.84	21.67	1.88	2.39	0.09	-0.11	-0.02
Cash	1.33	--	0.01	--	-0.02	--	-0.02
Consumer Discretionary	6.89	5.86	-4.91	-3.14	-0.01	-0.10	-0.11
Real Estate	--	3.97	--	2.58	-0.12	--	-0.12
Materials	4.01	3.74	-8.34	-4.98	-0.01	-0.15	-0.16
Health Care	15.91	17.48	-1.67	0.35	0.01	-0.33	-0.32
Consumer Staples	7.56	7.23	-8.70	-1.38	0.01	-0.58	-0.57
Total	**100**	**100**	**-1.10**	**-0.78**	**-0.03**	**-0.29**	**-0.32**

Source: FactSet. Performance numbers are gross of fees.

- Our lack of Real Estate allocation was a negative contributor detracting 12 bps from relative performance.

Stock selection within the respective sectors detracted 29 bps from active return.

MARKET OUTLOOK

These are unprecedented times – that much is for sure.

Do record high profit margins fueling record high corporate profits justify a pricy stock market? Do incredibly easy financial conditions? So far, they have. Rapid expansion of the Fed's balance sheet, huge fiscal stimulus, and record low real yields are fueling a sharp corporate recovery – but have also fueled inflation. Strong increases in crude oil and many other commodities have led to a 40 year high in PPI; the jury remains out on whether this will continue to fuel consumer price increases.

The stimulus has certainly also boosted the jobs market, with payrolls – and wages – still growing solidly. The housing market has also been a significant beneficiary of easy conditions and COVID-driven re-prioritization. New home permits, starts, and sales remain solid, existing home sales continue at a robust pace, and the Case-Shiller indices are each up close to 20% year over year. Kind of reminiscent of 2003-2005.

Industrial production has continued its strong recovery, and ISM readings indicate this will continue. Global shipping has awoken from its long slumber, and the Baltic Freight Index is up quite sharply – to 13 year highs.

So yes, stimulus has gotten investors wonderful stock price appreciation up through now, but caution is certainly warranted at these lofty levels.