ECONOMIC COMMENTARY AND CAPITAL MARKET UPDATE

For the Quarter Ending September 30, 2021

Recap: The U.S. and European economies slowed in September as supply-chain bottlenecks and worries over the Delta variant weighed on businesses, adding to signs that the global economy has experienced a soft patch amid an uneven recovery.

Manufacturing and services businesses in both the U.S. and Eurozone reported slower growth in activity in September, although the pullback was more pronounced in Europe. The Delta variant of COVID-19, which caused a summer surge in coronavirus cases in many parts of the U.S., weighed on activity at service-sector businesses. Hiring in the U.S. slowed sharply in August from earlier in the summer, with the leisure and hospitality industry showing no growth in employment.

Still, the U.S. economy has shown signs of resilience, with retail sales rebounding in August. Weekly filings for unemployment claims, a proxy for layoffs, have also remained near pandemic lows. Gauges of business activity in the 19-nation eurozone recorded sharply slower growth in September in both manufacturing and services. The slowdown that began in August, after activity in July hit a 21-year high, extended into September when widening vaccination campaigns allowed public health restrictions to be rolled back and economies to rev up.

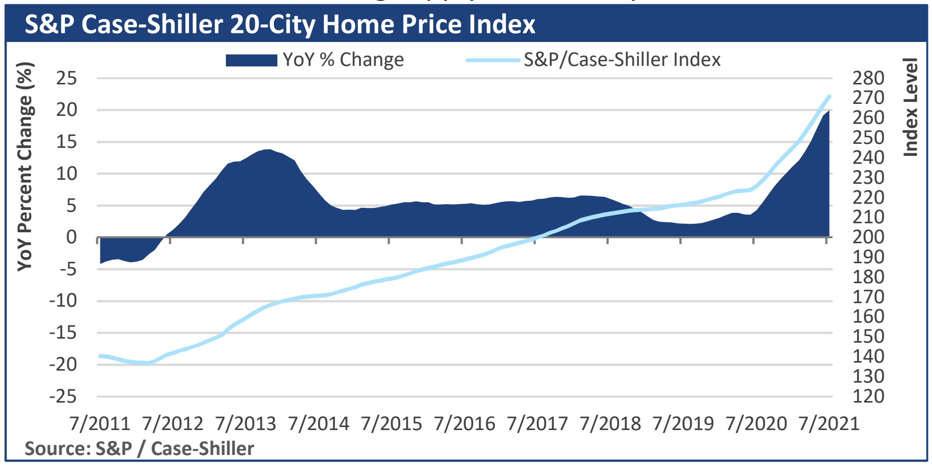
Purchasing managers' surveys in both the U.S. and Eurozone pointed to some bright spots, as they anticipated a pickup in demand and an easing of the pandemic. While overall business activity at U.S. manufacturers slowed slightly in September amid supply-chain issues, new orders and hiring increased. Meanwhile, the surveys signaled faster growth in Europe than the region normally experienced before the pandemic, suggesting a solid if slowing recovery.

Surveys have shown manufacturing activity slowed in Europe as supply chain disruptions and rising prices for raw materials hurt factory output and lengthened order backlogs. Factories worldwide have been beset by spiraling shipping costs, rocketing energy prices, and component shortages as the global economy has struggled to meet surging demand. Differences in vaccination levels between advanced and emerging economies have contributed to the squeeze because some economies are under tighter restrictions than others. Activity in the European services sector also slowed as consumer anxiety over Delta dented spending after a summer rebound. The slowdown has been less marked than in manufacturing, however.

Housing: Recent housing data has suggested that the market is beginning to move back into balance. To be certain, inventories of existing homes have still been exceptionally low, and homes are selling quickly and often above the asking price. The earlier surge in home prices has brought out more sellers, however. The inventory of existing homes has been gradually trending higher since February and now sits at a 2.6-month supply. Sales of existing homes rose 2% in August. Sales of new homes rose 1.0%, ending a three-month string of declines.

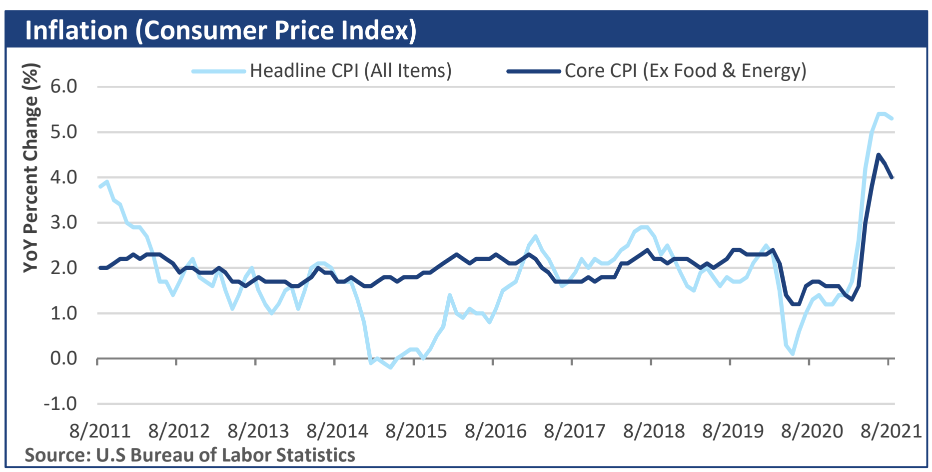
Home buying activity has cooled off in recent months alongside soaring prices and shrinking inventories. Low inventories and the rapid run-up in prices have led prospective buyers to put their home-buying plans on hold, which explains a softer pace of sales in recent months. The pullback also makes sense considering the extremely low inventories of completed homes available for sale and continuing supply chain disruptions that have led to project delays.

The inventory picture appears to be improving slightly. While the number of homes for sale rose at every stage of construction, most of the recent improvement in inventories has been for homes that have not yet started construction.

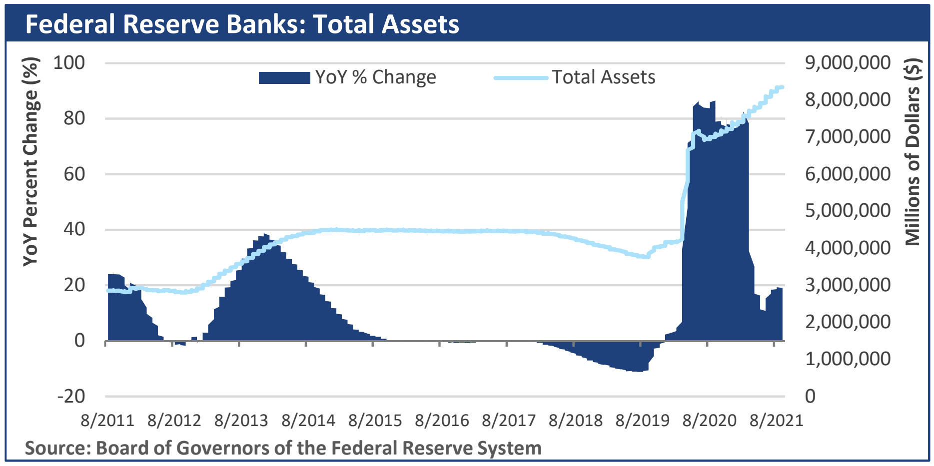


Inflation: The sharpest price hikes — associated with the post-vaccine surge in services activity and supply shortages — look to be over, leading to a slower path of inflation ahead. Rising COVID concerns should lead to some near-term softness in travel-related prices that is likely to be more than offset by renewed strains on the global production and transportation of goods. With supply bottlenecks by many measures worsening over the past two months and inventory restocking further pushed out, the "transitory" period of above-target inflation has appeared increasingly long. Along with the ongoing strength in wages and no sign of home price appreciation cooling, inflation may not slow as meaningfully as the FOMC expects over the next year. Looking ahead to 2023, core PCE inflation should remain a bit higher than 2%. Inflation expectations have come off their historic lows since COVID, and the FOMC has become slightly more tolerant of inflation under its new framework, but structural forces that held down inflation last cycle are unlikely to exert as much downward pressure on inflation in the years ahead.

Federal Reserve: The FOMC is on track to formally announce the tapering of its asset purchases at its November or December meeting. Treasury and mortgage-backed securities purchases should be reduced by $10B and $5B per meeting, respectively. The FOMC's stricter criteria for raising the Fed Funds rate will likely be met in 2023, so several rate hikes should be expected then.



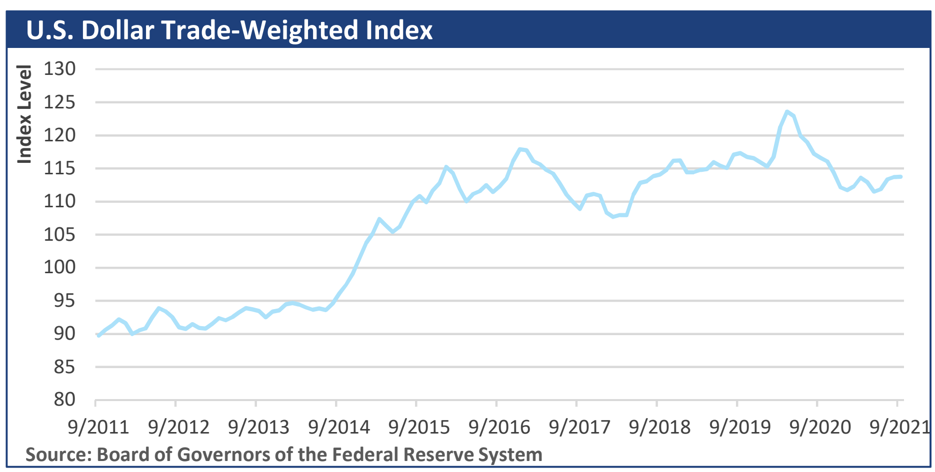
The 10-year U.S. Treasury bond yield should finish in 2022 between 2.00%-2.25%. In 2023, the Treasury curve could flatten considerably as markets materially price-in the start of a hiking cycle. Longer-term yields are expected to drift higher in 2023, but only modestly as structural forces should continue to limit that upside move.



Regional Economy: Economic activity in the five Midwestern states (Illinois, Indiana, Iowa, Michigan, and Wisconsin) increased moderately in July and early August, and growth at that pace should continue in the coming months. Labor and materials supply constraints, as well as rising COVID-19 cases, have weighed on the expansion. Employment increased strongly, manufacturing and business spending grew moderately, construction and real estate rose slightly, and consumer spending decreased slightly. Wages and prices experienced increases and financial conditions improved slightly. There was some retreat in prospects for agricultural income.

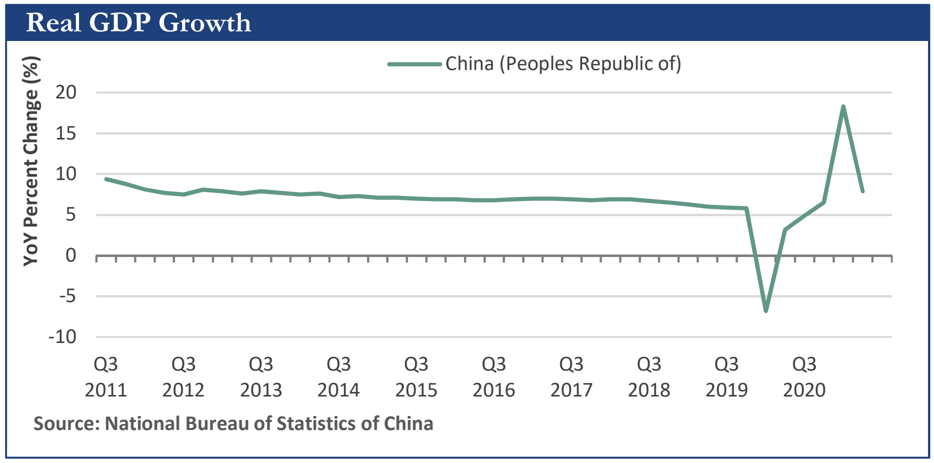
U.S. Dollar: Safe-haven flows to the U.S. dollar have been a contributor to the dollar's recent run, and for now, the U.S. dollar should continue to attract safe-haven capital flows as markets adjust to a less optimistic outlook on the global economy and as virus concerns persist.

The U.S. dollar rally should continue in the months ahead. In addition to virus-related uncertainties, the outlook for Federal Reserve monetary policy could also be a factor. The Fed laid out plans to start tapering their $120B a month bond purchase program in November. A stronger dollar would be expected against most G10 and emerging currencies through the end of 2021.



Longer-term, the U.S. dollar should weaken throughout 2022. Foreign central banks will likely tighten monetary policy at a quicker pace relative to the Fed. The Fed is unlikely to lift interest rates until late 2022 or early 2023, which should place rate differentials in favor of foreign currencies over the longer-term and place depreciation pressure on the dollar through much of 2022. Emerging market currencies associated with hawkish central banks and stable local politics should benefit over the longer-term as well. The Chinese renminbi should strengthen over the longer-term once the temporary rough patch with the Evergrande debt crisis is behind it.

China: The slowdown in China's economy has been well-documented over the past few months. China's economy should grow 8.0% this year. However, risks around the GDP forecast have tilted to the downside. A renewed outbreak of COVID and subsequent restrictions have weighed on economic prospects and have placed uncertainty over China's economic outlook, while a severe flood has also put downward pressure on economic activity lately. In addition, Chinese authorities have embarked on a regulatory crackdown targeting a wide array of sectors including the real estate sector. The combination of these events has resulted in a noticeable decline in economic activity as well as sentiment over the past couple of months.



Recently released data revealed retail sales slowed considerably in August. In addition, industrial production was not as robust as earlier in the year, and indicators of investment and financing conditions also softened. The large drop in retail sales has contributed to the slowdown in economic activity. Given the uncertainty hovering over the Chinese economy at present, it would not be surprising to see additional economic and sentiment data turn to the downside. As of now, weak economic data has not filtered down to China's local financial markets, as bond yields and the currency have remained stable. However, additional downside surprises could result in the People's Bank of China permitting a weaker currency, while regulatory escalations and a disorderly resolution of the real estate giant Evergrande could result in renewed financial market volatility.

Outlook: The most important development in the U.S. economy in the last month has been the continued spread of the Delta variant. As a result, Americans have generally become more cautious. That said, most states seem unwilling to impose the same sort of restrictions that locked down the economy in the spring of 2020. Most individuals seem to be going about their daily routines, albeit perhaps not with the same vigor as they did earlier in the summer when the pandemic appeared to be winding down. In short, significant retrenchment in consumer spending does not appear likely unless the new case count shoots markedly higher from its current level. Real GDP in the United States should grow 6.0% in 2021, which, if realized, would mark the strongest year of U.S. economic growth since 1984.

Looking forward, the Delta variant is expected to become less disruptive at some point, which will set up renewed growth in consumer spending for a few catch-up quarters. Given the unpredictability of the virus, precisely when this will happen and when that bounce-back in real PCE growth will occur is difficult to determine, but a reasonable estimate is the first and second quarters of 2022.

Given strong economic fundamentals—supportive macroeconomic policy and solid household and business balance sheets—the economic expansion should remain intact. In that regard, real GDP is expected to grow by 4.5% in 2022. This above-trend real GDP growth should lead to solid growth in payrolls in the coming months, so that the unemployment rate, which currently stands at 5.2%, should trend lower in 2022.

The unemployment rate fell to only 3.5% at the end of the last expansion without a marked rise in wage inflation and consumer price inflation. With this expansion, the unemployment rate should still exceed 4.0% at the end of next year. Many FOMC members conclude that the conditions that would warrant rate increases in 2022 have not yet been realized. But as the unemployment rate continues to fall in 2023 and as inflation remains modestly above the committee's target of 2%, the FOMC is likely to begin the process of normalizing monetary policy. Specifically, the FOMC is expected to raise its target range for the Fed Funds rate 75 bps in the second half of 2023.

Strong demand in conjunction with supply bottlenecks caused the rate of PCE inflation to jump earlier this year. However, the monthly rate of increase has slowed over the past month or two, and it is expected that the year-over-year rate will top out in Q4-2021 as consumer spending decelerates and supply bottlenecks ease. Thereafter, consumer price inflation should slowly subside in the coming quarters. However, the sharp increase in home prices that has occurred over the past year should slowly filter into overall rates of consumer price inflation, and the housing components of the price increases to keep inflation rates higher than the Federal Reserve's target of 2% in the coming quarters.

Market Commentary

Recap: Developed market equities were essentially flat for the third quarter after a decline in September erased gains earned the prior two months. Equities held up over the quarter despite concerns about the rate of economic growth peaking, supply chain disruptions, and rising inflation. The expectation of ongoing earnings growth in the coming years was supportive and seemed to offset other potentially negative issues. As was the case in the second quarter, growth stocks outperformed value stocks. During Q3, the Russell 3000 Growth index gained 0.69% while its value counterpart fell 0.93%. Year-to-date, value remains ahead of growth by about three percentage points. For the quarter, the financials, utilities, and communication services sectors led the way, while the industrials, materials, energy, and consumer staples sectors each produced a negative result. U.S. small caps lagged mid- and large-cap stocks, while developed international names modestly underperformed U.S. issues. For the quarter, the S&P 500 rose 0.58%. Overseas, the MSCI EAFE Index lost 0.45%, and the MSCI Emerging Markets Index fell 8.1%. Fixed income markets produced broadly mixed results. The Barclays U.S. Aggregate Bond Index gained 0.05% while the Barclays Global Aggregate ex USD Bond Index fell 1.59%.

Domestic Equities: Supported by strong corporate earnings and dovish comments from the Federal Reserve – 87% of S&P 500 companies reported second quarter earnings that exceeded analyst expectations, and the Fed seemed to confirm its hesitance to tighten policy too fast. U.S. equities generated solid gains in July and August. These gains were largely given back in September, however, as the S&P 500 dropped 4.7% during this month. September produced the first pullback of five percent from a peak since October 2020 as markets responded to concerns about the slowing rate of economic growth, the rise in Delta cases, the Evergrande real estate crisis in China, and the potential outcome of political gamesmanship in Washington. September’s result was the first negative S&P 500 monthly return since January 2021.

International Equities: Overseas, equity markets posted a negative quarter. In Europe, the period started with gains amid positive second quarter earnings and the ongoing economic recovery from the pandemic. As the quarter progressed, however, inflation worries emerged due to supply chain bottlenecks and rising energy prices. In Japan, the equity market was range bound though July and August before rising in September. For the quarter, the MSCI Japan Index gained 4.6%. In a surprise decision, Prime Minister Suga announced his intention to resign without contesting the Liberal Democratic Party (LDP) leadership election. Fumio Kishida was ultimately elected as LDP party leader and became Japan's 100th prime minister. Emerging market stocks fell sharply during the third quarter. The MSCI Emerging Markets Index lost 8.1%. Amongst the BRICs, India and Russia produced strongly positive gains, while Brazilian stocks fell more than 20% and Chinese equities dropped more than 18%.

Fixed Income: Broad bond market indexes generated mixed results during the third quarter, with U.S. issues posting an essentially flat return while international bonds lost 1.6%. Bond yields ended the quarter not far from where they began, but this understates the volatility experienced during Q3. Yields initially fell, as the rapid economic recovery appeared to be moderating. However, as the market's focus turned to rising inflation and the prospect of the withdrawal of monetary policy support, yields rose. The 10-year Treasury note started the quarter at 1.45% and closed as low as 1.19% in early August only to end the quarter at 1.52%. Among U.S. corporates, high yield issues rose 0.89%, while investment grade credit was little changed. Emerging market bonds lost ground as EM currencies fell against the U.S. dollar.

Outlook: Global equities rallied to new highs early in the third quarter, driven by strong economic and corporate earnings growth, particularly in the U.S. and Europe. In the near-term, we expect growth to remain strong and monetary policy to be accommodative. This creates a supportive fundamental backdrop for equities. In the U.S., the economy is likely to sustain above-trend growth into 2022. However, the easiest gains may have already been realized as the recovery phase of the business cycle matures. The possibility of a more complete economic recovery is supported by greater vaccine access for children and early indications that the Delta variant threat may be fading. The Federal Reserve appears poised to start tapering its asset purchases in late 2021, although a rate hike is unlikely until late 2022 or 2023. Inflation is a risk to our generally positive outlook for U.S. stocks. The outcome of heated fiscal policy debates in Washington D.C. also has the potential to impact markets. Higher corporate taxes would certainly put downward pressure on earnings growth.

Developed international equities appear relatively attractive, supported by solid growth expectations and lower valuations. Signs that the Delta variant may not derail progress could mean a rotation back to cyclicals this fall. Cyclical stocks, which tend to dominate international stock indexes, often perform best when the outlook improves. In Europe, growth slowed through the third quarter, but looks to be on track for a return to an above-trend level during the fourth quarter and into 2022. Vaccination rates are high, and the region has more catch-up potential than some other major economies. Europe is also expected to receive more fiscal support than other regions, with the EU's pandemic recovery fund only beginning to disburse stimulus. In Japan, the economy should benefit from rising vaccination rates and political leadership changes that may result in more fiscal stimulus. Japanese equites are slightly more expensive than other regions such as the U.K. and Europe, however. In the U.K., GDP remains below its pre-pandemic peak. Therefore, there appears to be plenty of potential for strong economic catch-up as borders fully reopen and activity normalizes.

Emerging market economies are benefiting from a stronger than expected first half and a lower tolerance for renewed restrictions on activity. EM stocks have been poor performers since the announced development of vaccines, but there are some encouraging signs. Initially, this asset class was held back by a slow vaccine rollout.

And of late, developing market stocks have come under pressure from a slowing Chinese economy and regulatory concerns surrounding Chinese tech companies. Currently, however, the vaccine rollout across emerging nations has accelerated and it appears that Chinese regulatory policy may be largely priced in. Additionally, the resumption of the reopening trade should result in U.S. dollar weakness as the dollar typically gains during global downturns and declines during the recovery phase. Dollar weakness is supportive of non-U.S. stock markets, particularly emerging market names. Risks to the outlook are on the downside and include a delayed exit from the pandemic and a difficult transition from recovery-related, ultra-accommodative government policies.

For fixed income investors, government bonds are expensive, and yields may come under upward pressure as output gaps close and central banks look to taper back asset purchases. Although the Fed is not expected to raise short-term rates until late 2022 or 2023, longer-term Treasury yields will probably rise given market expectations for inflation and economic growth. A 10-year U.S. Treasury yield approaching 1.75% in the coming months would not be surprising. If yields rise, total returns for bond investments likely will be driven by coupon income rather than price appreciation. Investment grade and high yield corporate bonds are expensive on a spread basis, but profits are strong and default rates are low. Based on spreads, emerging market debt offers more attractive valuations and will gain support on U.S. dollar weakness. High-quality core bonds should continue to serve as a ballast in equity heavy portfolios.

Sources: Department of Labor, Department of Commerce, Conference Board, Bloomberg, Morningstar, Peoples Bank of China, European Central Bank, Federal Reserve of Chicago, Johns Hopkins University

Index Performance as of: 9/30/2021

	1 Week	1 Month	QTD	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Russell									
3000 Value	-1.86	-3.38	-0.93	-0.93	16.58	36.67	9.94	10.94	13.48
3000	-3.18	-4.49	-0.10	-0.10	14.99	31.90	15.99	16.85	16.60
3000 Growth	-4.38	-5.49	0.69	0.69	13.49	27.60	21.27	22.30	19.40
1000 Value	-1.95	-3.48	-0.78	-0.78	16.14	35.04	10.07	10.94	13.51
1000	-3.24	-4.59	0.21	0.21	15.19	30.99	16.42	17.12	16.76
1000 Growth	-4.40	-5.60	1.16	1.16	14.30	27.34	22.00	22.84	19.68
Mid Cap Value	-2.01	-3.68	-1.01	-1.01	18.24	42.43	10.28	10.59	13.93
Mid Cap	-3.17	-4.12	-0.93	-0.93	15.17	38.14	14.21	14.39	15.52
Mid Cap Growth	-5.09	-4.84	-0.76	-0.76	9.60	30.47	19.14	19.27	17.54
2000 Value	-0.61	-2.00	-2.98	-2.98	22.92	63.98	8.58	11.03	13.22
2000	-2.38	-2.95	-4.36	-4.36	12.41	47.72	10.54	13.45	14.63
2000 Growth	-4.02	-3.83	-5.65	-5.65	2.82	33.29	11.69	15.34	15.74
Standard & Poors									
S&P 500	-3.15	-4.65	0.58	0.58	15.92	30.03	15.99	16.90	16.63
Consumer Disc	-2.73	-2.56	0.01	0.01	10.28	19.16	16.27	19.00	19.54
Consumer Staples	-2.57	-4.14	-0.31	-0.31	4.69	11.35	11.93	8.55	11.93
Energy	3.28	9.44	-1.66	-1.66	43.22	83.07	-6.80	-1.57	2.12
Financials	-1.29	-1.85	2.74	2.74	29.14	59.18	13.38	16.64	17.00
Health Care	-3.98	-5.55	1.43	1.43	13.45	22.58	12.38	14.18	17.06
Industrials	-2.87	-6.15	-4.23	-4.23	11.48	28.98	9.83	12.50	15.00
Information Technology	-4.65	-5.78	1.34	1.34	15.29	28.92	27.25	28.42	23.14
Materials	-2.56	-7.21	-3.51	-3.51	10.49	26.50	13.37	12.95	12.83
Real Estate	-4.25	-6.22	0.88	0.88	24.38	30.55	14.71	10.22	12.96
Communcation Services	-2.85	-6.58	1.60	1.60	21.59	38.42	20.07	12.54	12.42
Utilities	-2.09	-6.18	1.78	1.78	4.20	11.02	10.27	9.11	10.59
Other U.S. Equity									
Dow Jones Industrial Avg.	-2.65	-4.20	-1.46	-1.46	12.12	24.17	11.00	15.69	14.72
Wilshire 5000 (Full Cap)	-3.19	-4.43	-0.25	-0.25	14.83	32.00	16.06	16.91	16.51
International Equity - Broad Market									
MSCI EAFE	-2.87	-2.90	-0.45	-0.45	8.35	25.75	7.62	8.81	8.10
MSCI EM	-1.48	-3.97	-8.09	-8.09	-1.25	18.22	8.58	9.23	6.09
MSCI Frontier Markets	-0.07	1.18	3.37	3.37	18.89	32.23	10.82	9.52	7.06
MSCI ACWI	-2.95	-4.13	-1.05	-1.05	11.12	27.46	12.58	13.20	11.90
MSCI ACWI Ex USA	-2.40	-3.20	-2.99	-2.99	5.90	23.93	8.03	8.94	7.48
MSCI AC Asia Ex Japan	-1.44	-4.18	-9.33	-9.33	-3.53	14.43	9.19	10.14	8.50
International Equity - Country Region									
MSCI Brazil	-5.58	-13.02	-20.19	-20.19	-11.69	21.00	0.81	2.63	-1.56
MSCI BRIC	-1.41	-3.81	-11.28	-11.28	-6.57	7.69	8.52	9.77	6.06
MSCI China	-0.81	-5.02	-18.17	-18.17	-16.67	-7.34	5.95	9.12	8.68
MSCI Europe	-3.76	-4.78	-1.55	-1.55	10.07	27.27	7.81	8.85	8.15
MSCI India	-2.42	0.60	12.57	12.57	26.50	53.17	17.26	13.23	9.19
MSCI Japan	-1.32	2.75	4.56	4.56	5.90	22.08	7.54	9.36	8.35
MSCI EM Latin America	-4.51	-10.34	-13.26	-13.26	-5.55	27.36	-1.36	1.85	-1.08
MSCI Russia	1.72	6.34	9.53	9.53	31.06	59.42	16.48	16.55	6.70

Index Performance as of: 9/30/2021

	1 Week	1 Month	QTD	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Fixed Income									
Barclays U.S. Aggregate	-0.57	-0.87	0.05	0.05	-1.55	-0.90	5.35	2.94	3.01
ICE BofAML US 3M Trsy Bill	0.00	0.01	0.01	0.01	0.04	0.07	1.18	1.16	0.63
Barclays U.S. Gov't	-0.65	-1.06	0.08	0.08	-2.42	-3.20	4.88	2.26	2.21
Barclays U.S. Credit	-0.97	-1.07	-0.03	-0.03	-1.30	1.45	7.09	4.37	4.60
Barclays High Yield Corp.	-0.39	-0.01	0.89	0.89	4.53	11.29	6.91	6.52	7.42
Barclays Municipal	-0.60	-0.72	-0.27	-0.27	0.79	2.63	5.06	3.26	3.87
Barclays TIPS	-0.30	-0.71	1.75	1.75	3.51	5.19	7.45	4.34	3.12
Barclays Gbl Agg Ex USD	-1.66	-2.45	-1.59	-1.59	-5.94	-1.15	3.17	1.10	0.90
Barclays Global Aggregate	-1.20	-1.78	-0.88	-0.88	-4.06	-0.91	4.24	1.99	1.86
JPM EMBI Global Div	-1.44	-2.07	-0.70	-0.70	-1.36	4.36	5.65	3.89	5.80
Alternative Investments									
Alerian MLP	0.54	3.02	-5.71	-5.71	39.40	84.71	-4.31	-2.42	1.21
Bloomberg Commodity	2.57	4.98	6.59	6.59	29.13	42.32	6.86	4.54	-2.66
FTSE NAREIT Equity REIT	-3.45	-5.40	0.98	0.98	23.15	37.42	10.01	6.83	11.27
S&P Global Natural Res.	-0.07	-0.99	-2.74	-2.74	16.66	42.26	4.63	9.51	4.63
S&P N. Amer Natural Res.	1.66	3.96	-2.48	-2.48	29.43	53.98	-1.91	0.68	1.83

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