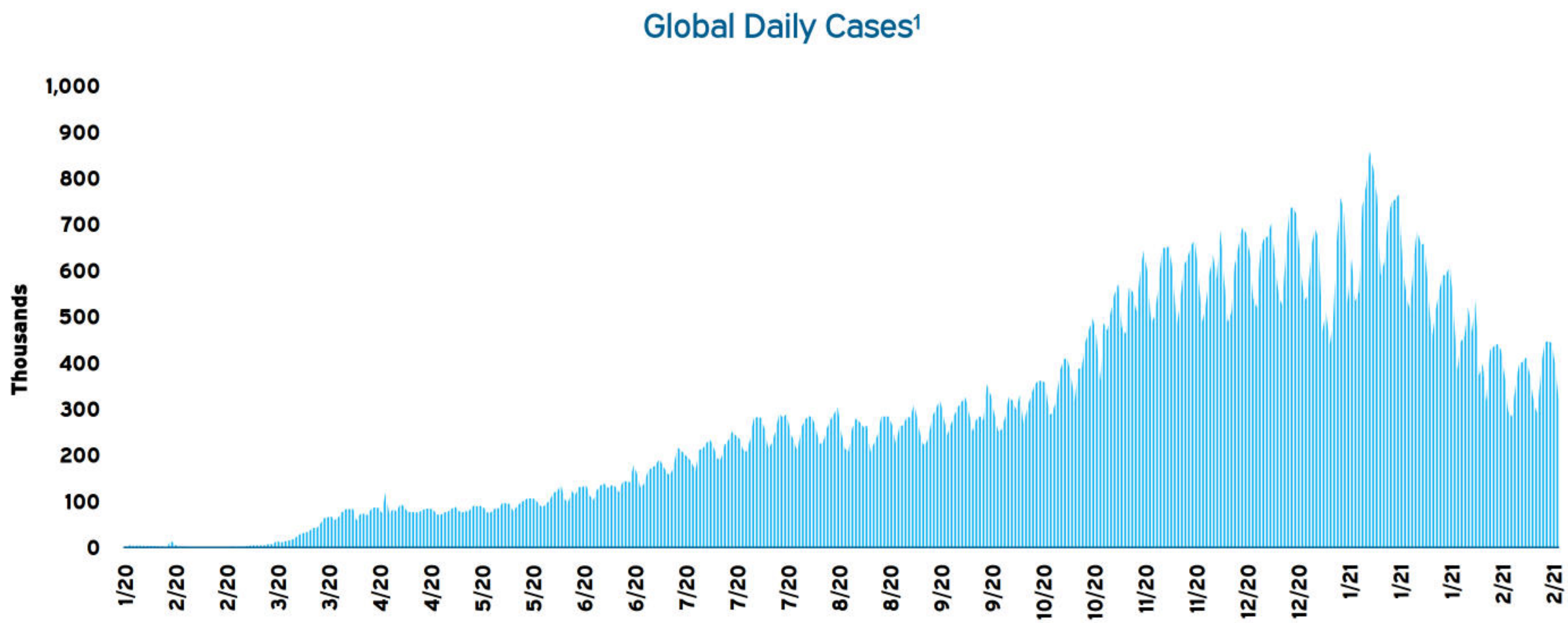
Economic and Market Update

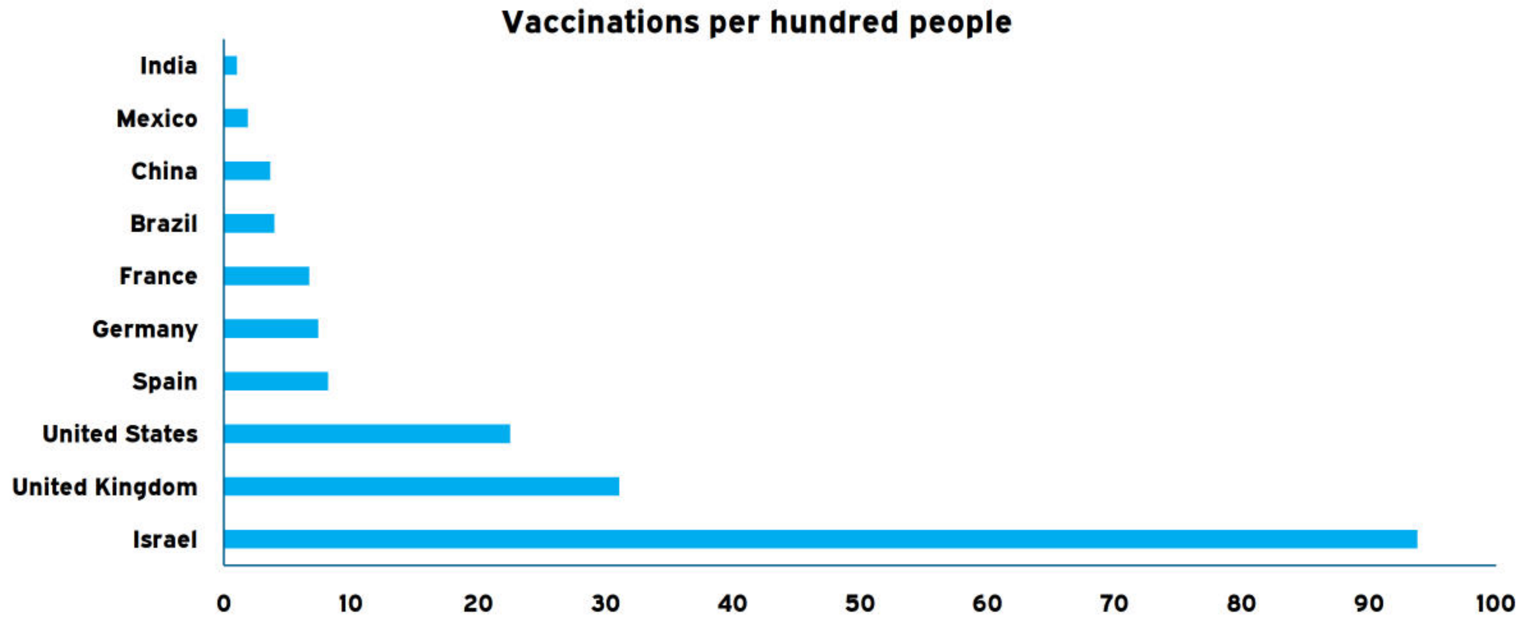
Data as of February 28, 2021



- After peaking in early January at ~858,000, the number of global daily cases steadily declined to ~303,000 at the end of February.
- Looking ahead, the rollout of multiple vaccines continues to gather momentum, with over 350 million doses administered and over 160 million people having received at least one dose as of mid-March.
- In the US, the Biden administration recently set a goal of the vaccine being available to the general population by May 1.

[1] Source: Our World in Data. Data is as of February 28, 2021.

Vaccinations by Country[1]



- Vaccine distribution has ramped up in many countries, including the Pfizer-BioNTech, Moderna, and Johnson & Johnson vaccines in the US. Outside the US, vaccines have also been developed by China, Russia, India, and the UK.
- Some countries have done better with the vaccine rollout, with Israel being at the forefront. The United Kingdom and the United States' vaccination rates have exceeded many other countries with early immunization efforts focused on the most vulnerable populations.

[1] Source: Our World in Data. Data is as of February 28, 2021.

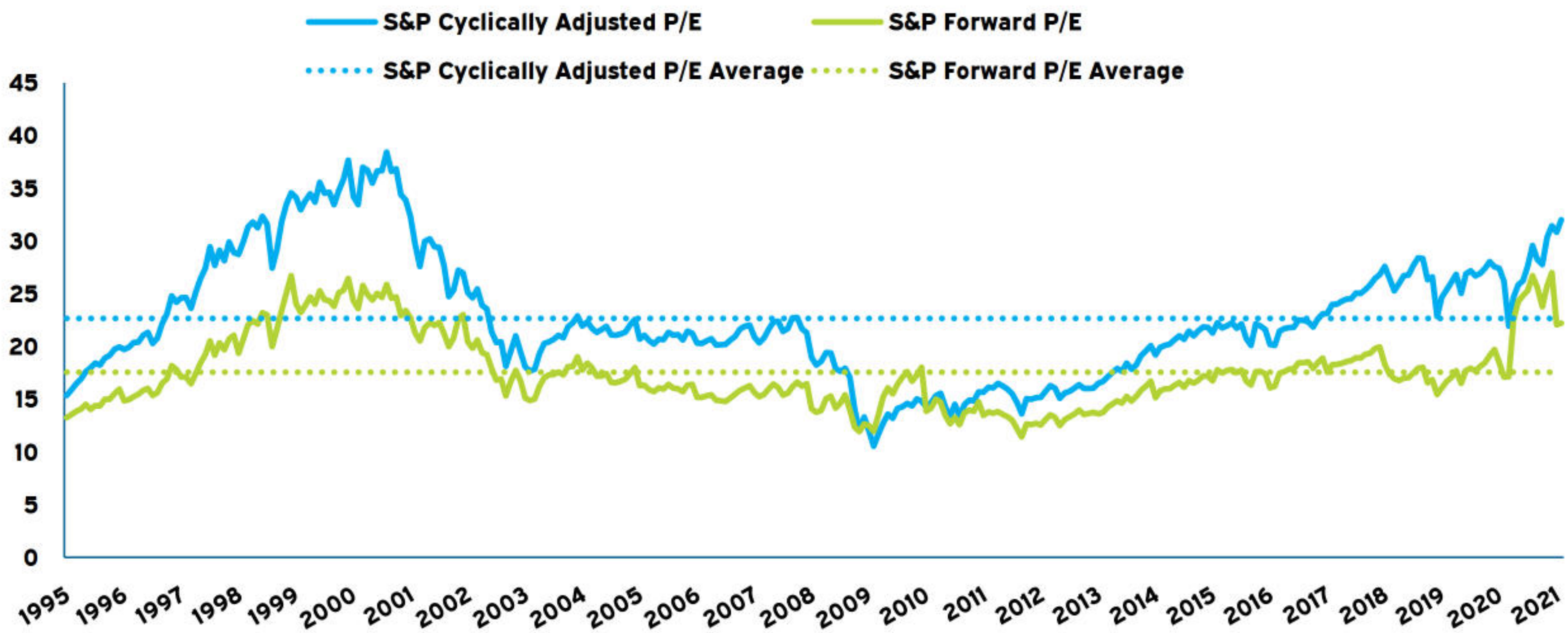
Market Returns[1]

Indices	February	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	2.8%	2.2%	24.5%	13.2%	16.6%	13.5%
MSCI EAFE	2.2%	4.2%	16.2%	4.2%	9.7%	5.2%
MSCI Emerging Markets	0.8%	7.3%	31.1%	5.6%	15.2%	4.5%
MSCI China	-1.0%	9.7%	40.1%	8.2%	20.0%	8.7%
Bloomberg Barclays Aggregate	-1.4%	-3.0%	2.1%	5.3%	3.6%	3.6%
Bloomberg Barclays TIPS	-1.6%	-2.5%	6.5%	6.1%	4.3%	3.6%
Bloomberg Barclays High Yield	0.4%	0.8%	7.8%	6.6%	9.1%	6.5%
10-year US Treasury	-2.6%	-4.1%	-1.3%	6.3%	2.3%	4.1%
30-year US Treasury	-6.2%	-10.3%	-9.0%	9.1%	4.1%	7.2%

- Global risk assets recovered meaningfully from their declines earlier in 2020, largely driven by record fiscal and monetary policy stimulus and greater clarity related to the containment of the virus.
- In February, markets rose, particularly developed markets, as the vaccine roll-out supported expectations of a global economic recovery.
- Inflation expectations rose given the stimulus plan passed by Congress and reopening optimism. This caused the yield curve to steepen, resulting in negative monthly returns for high quality bond indices.

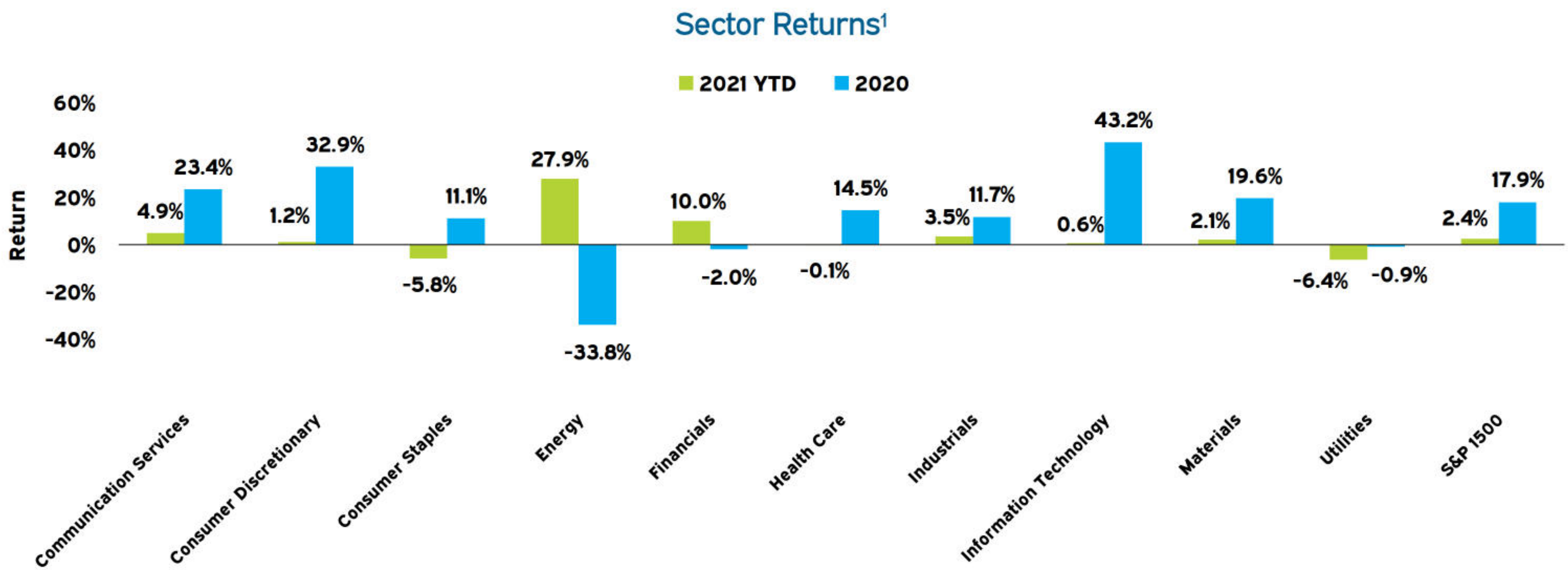
[1] Source: Investment Metrics and Bloomberg. Data is as of February 28, 2021.

S&P Equity Valuations[1]



- With positive developments regarding COVID-19 vaccines, valuations based on backward-looking earnings rose to levels not seen since 2001.
- By contrast, valuations based on forward-looking earnings recently declined given continued improvements in earnings expectations. Despite the decline in forward P/E ratios, they remain well above long-term averages.

[1] Source: Bloomberg. Data is as of February 28, 2021.

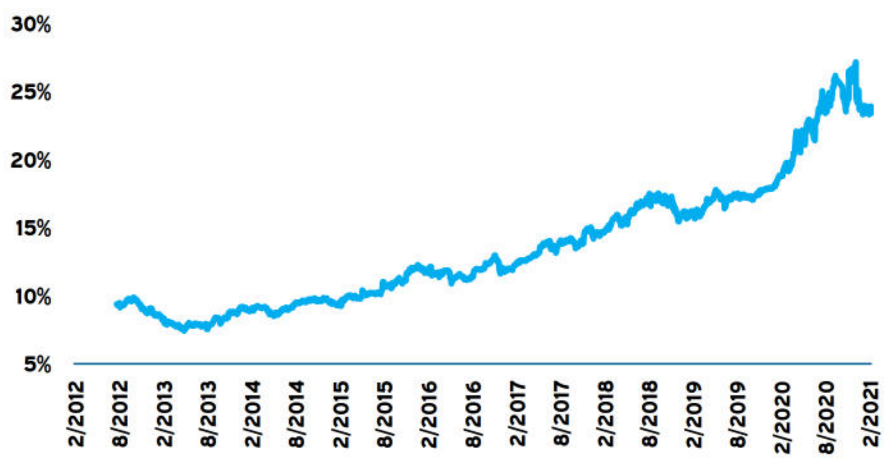


- Value-oriented sectors like energy and financials have led the way in 2021 as investors rotate out of the stay-at-home focused companies in technology, which were the best performers in 2020.
- The recent rotation into value has largely been driven by expectations for the economy to reopen and higher interest rates. Growth stocks typically are expected to produce more of their cash flows further into the future and increased rates lead to a larger discount, reducing their present value.
- Energy has been a particular standout this year, supported by record low active rig counts, Saudi Arabia's reductions in output, and expectations of rising demand later in 2021.

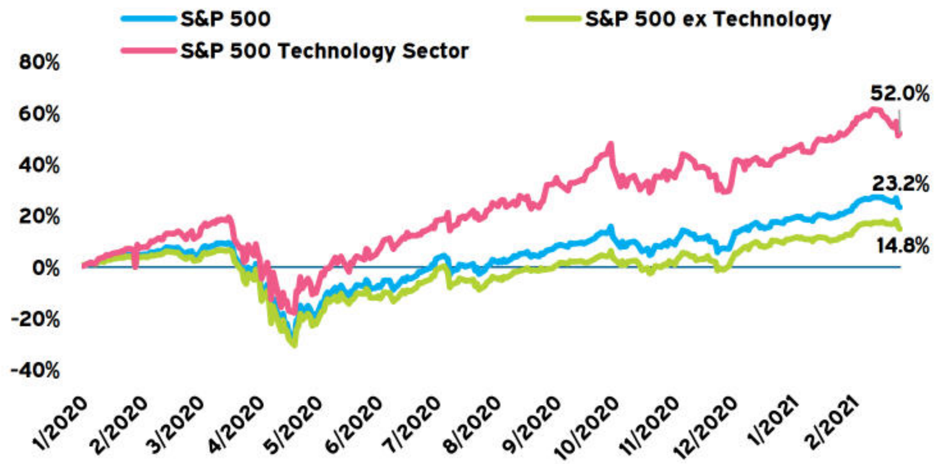
[1] Source: Bloomberg. Data is as of February 28, 2021.

Technology led the way for most of 2020, but has recently lagged

FAANG+M Share of S&P 500[1]



Returns from Start of 2020 through February 28 2021[2]

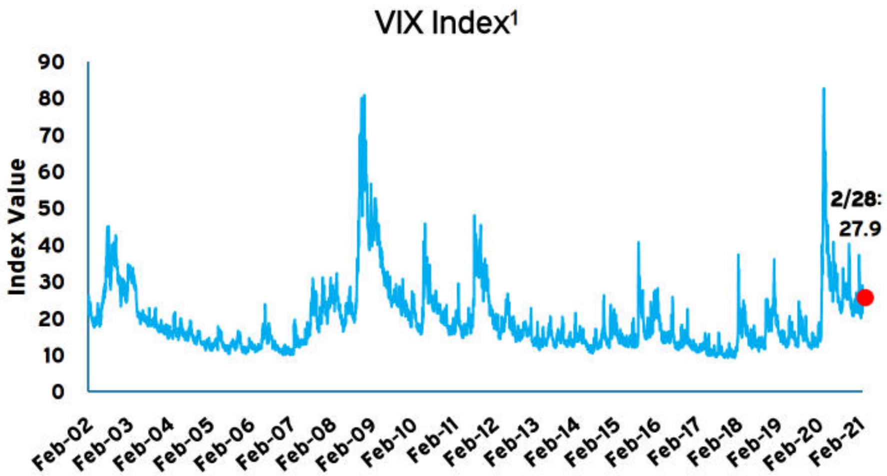


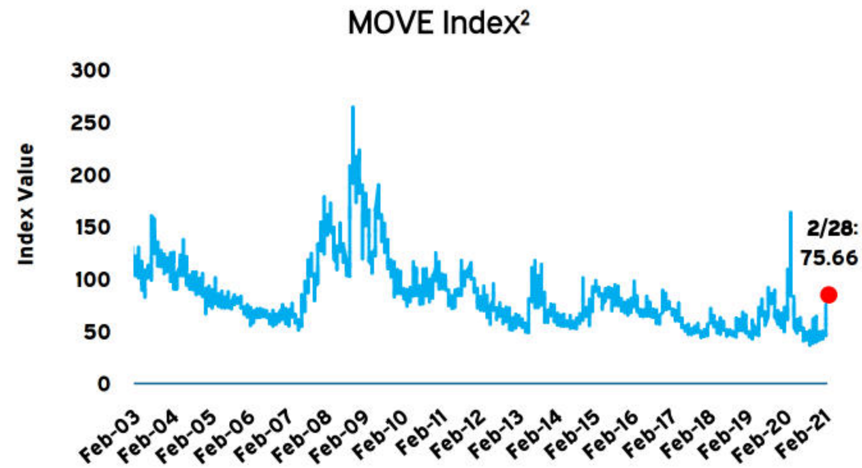
- During much of 2020 markets were driven by a few technology companies that benefited from the stay-at-home environment related to the virus.
- The outsized relative returns of these companies last year caused them to comprise an increasingly large portion (23%) of the S&P 500, making their performance going forward impactful to overall market results.

[1] FAANG+M = Facebook, Amazon, Apple, Netflix, Google (Alphabet), and Microsoft. The percentage represents the aggregate market capitalization of the 6 companies compared to the total market capitalization of the S&P 500 as of February 28, 2021.

[2] Each data point represents the price change relative to the 12/31/2019 starting value.

Volatility





- Rotation to cyclical sectors and rising costs of capital have contributed to above average levels of volatility as measured by the VIX.
- Volatility levels within fixed income, as represented by the MOVE index, increased again in February as measures of growth and inflation expectations, like breakeven rates, rose, the yield curve steepened, and bond prices fell. Uncertainty regarding the future path of interest rates could keep fixed income volatility elevated.

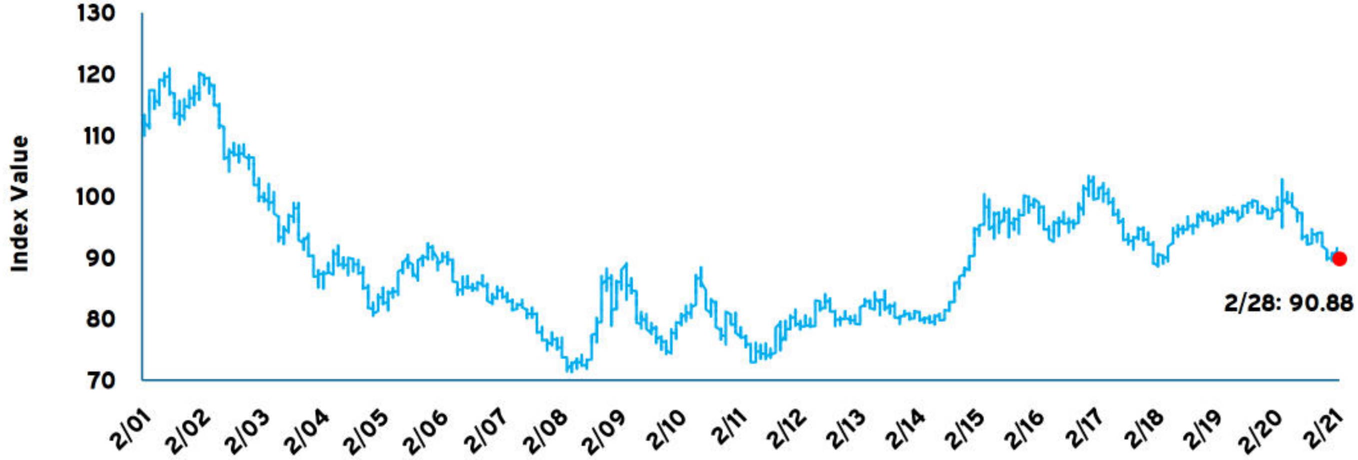
[1] Source: Chicago Board of Exchange. Data is as of February 28, 2021.
[2] Source: Bloomberg. Data is as of February 28, 2021.

Key Elements of the Latest Round of US Fiscal Stimulus

	Joint Proposal
Status	Signed by President Biden on March 11, 2021
Direct Payments	Up to $1,400 per eligible recipient
Enhanced Unemployment	$300 per week through September
State & Local Aid	$360 billion
Vaccines, testing and tracing	$123 billion
School aid/Education Grants	$176 billion
Health Insurance Support	$105 billion
Transportation	$56 billion
Food / Agriculture aid	$16 billion
Rental Assistance	$1 billion
Small Business Assistance	$59 billion
Total	$1.9 trillion

- A fiscal stimulus totaling ~$900 billion, representing the second largest package in history at that time, was finalized in late December 2021.
- President Biden signed an additional $1.9 trillion stimulus package in March that includes another round of direct payments to individuals, $300 extra per week in unemployment benefits, and aid to state and local governments.
- Concerns have increased significantly that the historic infusion into the economy could lead to inflation and put pressure on borrowing costs.

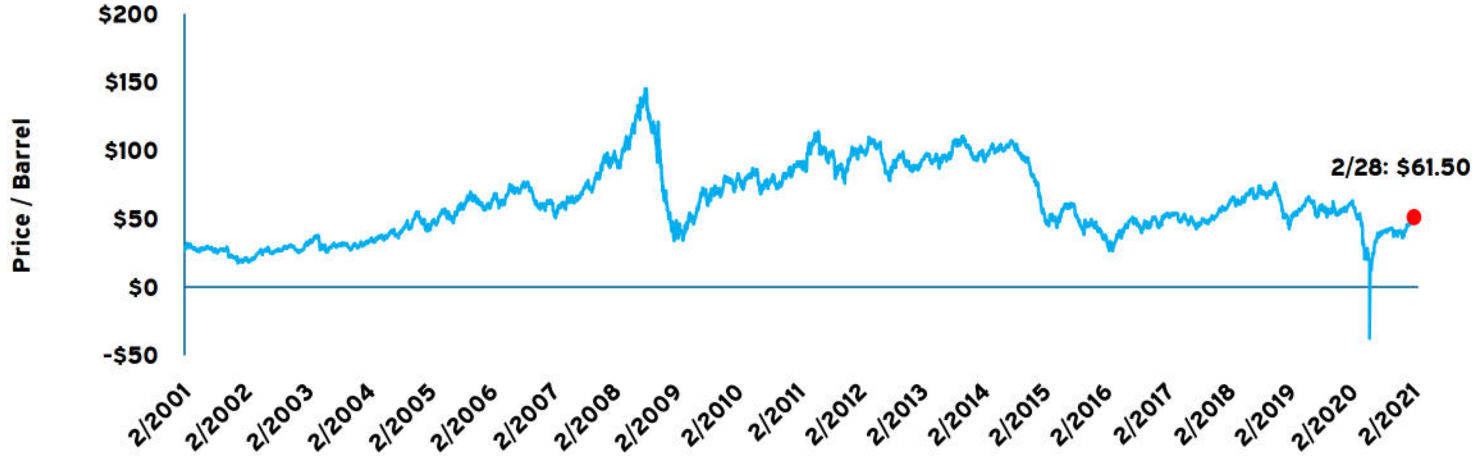
US Dollar versus Broad Currencies[1]



- As the crisis grew into a pandemic in 2020, investors' preferences shifted to holding US dollars and highly liquid, short-term securities like US Treasury bills.
- However, the dollar weakened over the last few quarters as the US struggled with containing the virus and investors sought higher growth non-US assets, particularly in emerging markets. This created pressures on already stressed export-focused countries, particularly in Europe, as their goods become relatively more expensive for US consumers.
- Recently, as global investors reevaluate prospects for a US economic recovery given the vaccine roll-out and higher interest rates, the US dollar has stabilized.
- Going forward, the dollar's safe-haven quality and the higher interest rates in the US could provide support.

[1] Source: Bloomberg. Represents the DXY Index. Data is as of February 28, 2021.

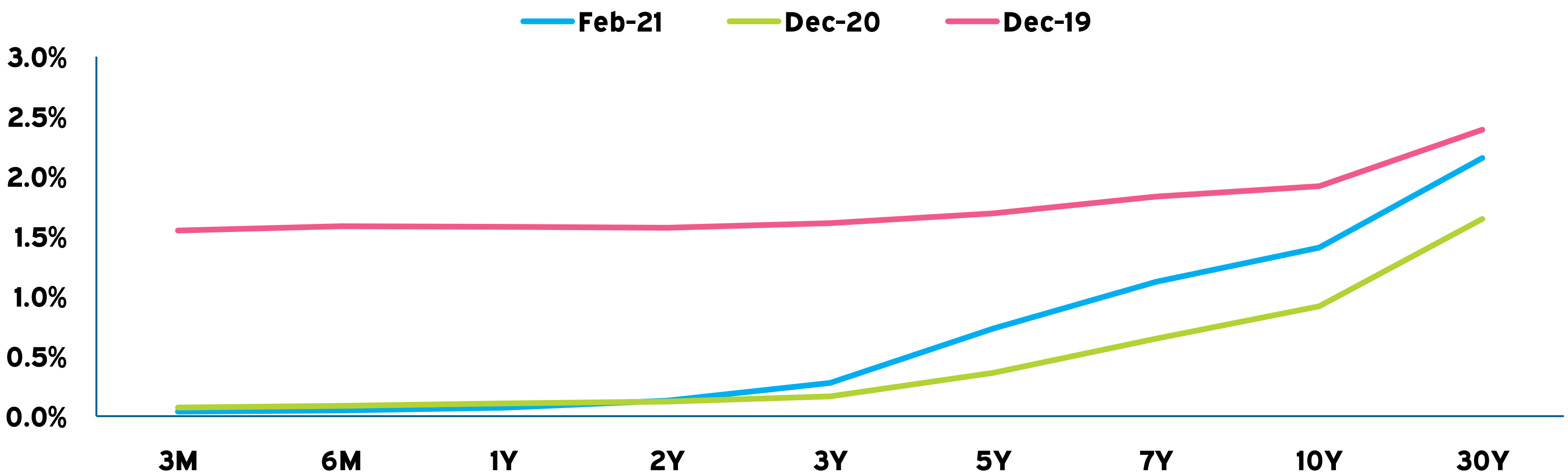
Oil Prices (WTI)[1]



- Global oil prices rallied from April 2020 lows, recovering to pre-crisis levels.
- In 2020 the collapse in global oil demand led to the shuttering of active drilling in North America and international markets and production capacity has been slow to come back on line.
- In a surprise decision, OPEC+ recently announced they would not be increasing production despite signs that the global economy could absorb the additional supply.
- Low production capacity and tight supply may help balance oil markets and drawdown reserves offering support for oil prices as global demand recovers.
- Once reserves are used, and if production remains tight, oil prices could continue to rise, contributing to inflationary pressures and weighing on the global economic recovery.

[1] Source: Bloomberg. Represents WTI first available futures contract. Data is as of February 28, 2021.

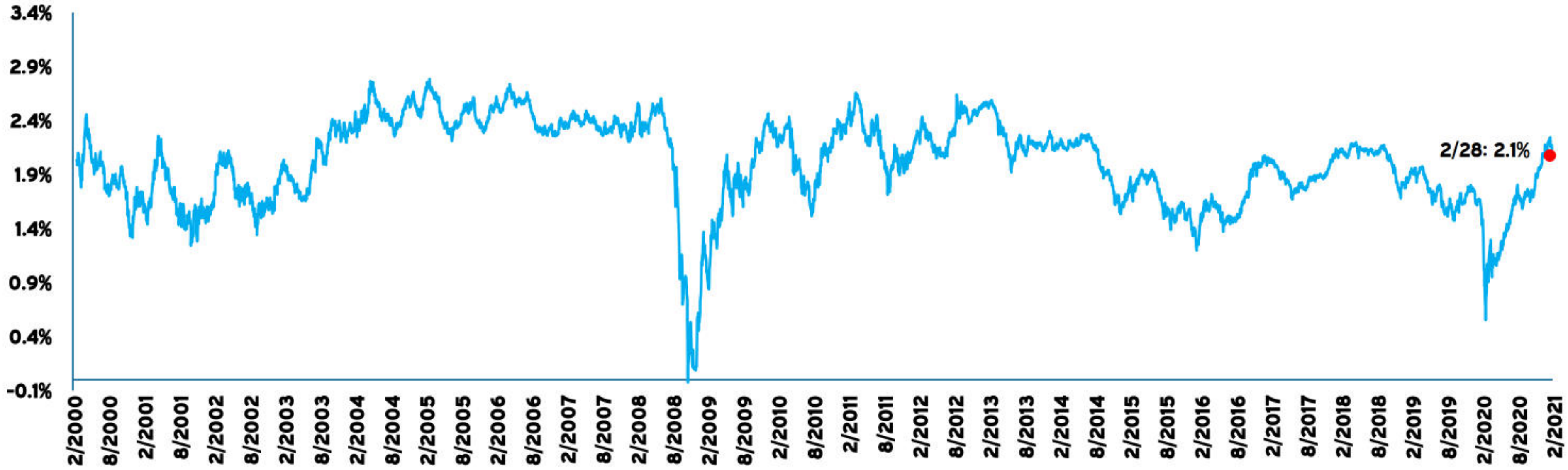
US Yield Curve Steepens[1]



- The US Treasury yield curve declined materially during 2020, driven by safe-haven demand, Federal Reserve polices (policy rate cuts and the quantitative easing program), and weak US economic fundamentals.
- So far this year, the curve has steepened, given inflation fears related to gradual signs of economic improvement, vaccine developments, and expectations for longer-dated Treasury issuance to support additional fiscal stimulus in the coming months.
- Higher yields relative to other countries and the Fed potentially extending the duration of their purchases could counterbalance steepening trends, but the risk remains that the yield curve could continue to steepen if growth and inflationary pressures build.

[1] Source: Bloomberg. Data is as of February 28, 2021.

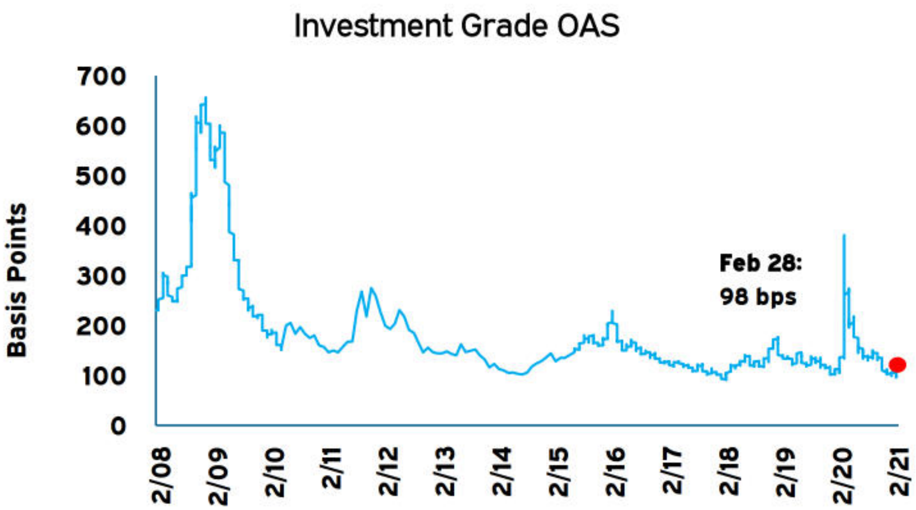
10-Year Breakeven Inflation[1]

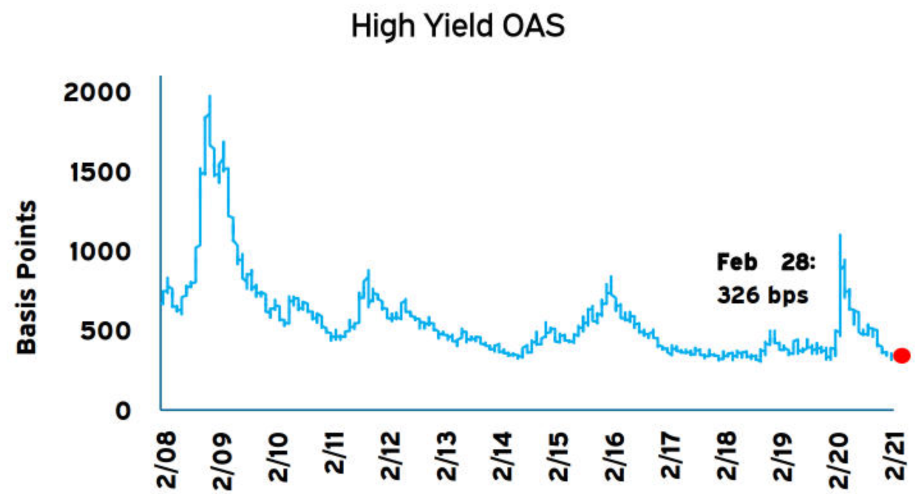


- Inflation breakeven rates declined sharply in early 2020, due to a combination of lower growth and inflation expectations, as well as liquidity dynamics in TIPS during the height of market volatility. Liquidity eventually improved and breakeven rates increased as deflationary concerns moderated.
- Recently, inflation expectations continued to rise to slightly above long-term averages as the increase in nominal rates outpaced the increase in real rates. The vaccine roll-out and expected additional fiscal stimulus were key drivers.
- Looking forward, the track of economic growth and the inflationary effects of the unprecedented US fiscal response will be key issues. Additionally, changes to Fed policy allowing for greater future inflation will also likely impact inflation market dynamics.

[1] Source: Bloomberg. Data is as of February 28, 2021.

Credit Spreads (High Yield & Investment Grade)[1]

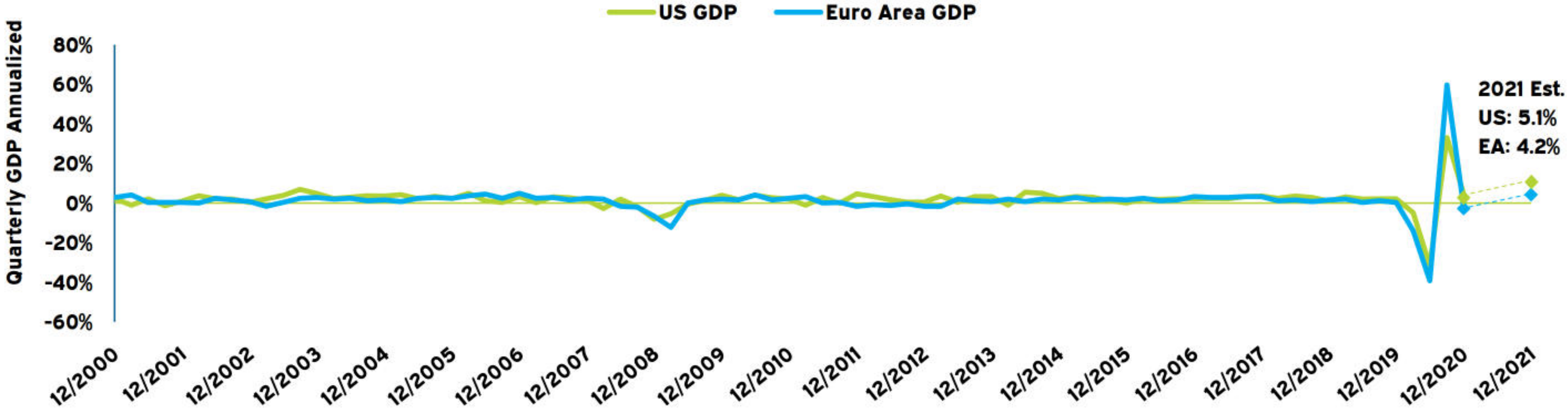




- Credit spreads (the spread above a comparable Treasury) for investment grade and high yield corporate debt widened sharply at the start of the pandemic as investors sought safety.
- Policy support, the search for yield in the low rate environment, and recent increases in Treasury rates have led to a decline in credit spreads to below long-term averages, particularly for high yield.
- Overall, corporate debt issuance across both investment grade and high yield sectors broke records in 2020.

[1] Source: Bloomberg. High Yield represents US Corporate High Yield average OAS. Investment grade represents liquid investment grade corporate average OAS. Data is as of February 28, 2021.

GDP Data Shows Projected Improvements in 2021[1]

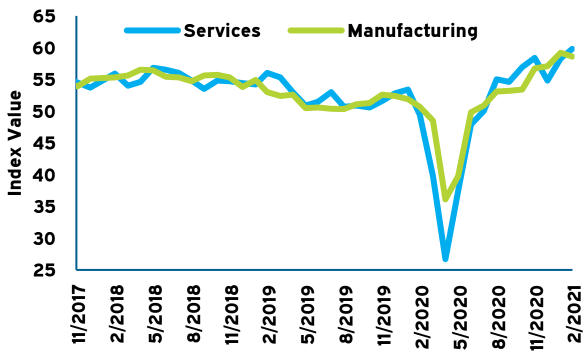


- The global economy faced major recessionary pressures last year, but optimism remains for improvements in 2021, as economies are expected to gradually reopen.
- Historic declines in US and European growth during the second quarter were followed by record increases in the third quarter, due to pent-up demand from the lockdown measures earlier in the year.
- Fourth quarter US GDP growth was 4.1% (QoQ annualized). Full year US GDP growth declined 2.4%, better than the IMF's forecasted decline of 3.4%.
- In the euro area, increased virus cases and a return to restrictions weighed on fourth quarter growth (-2.8% QoQ annualized). For the year, the euro area economy declined by 4.9%., worse than the US, but also ahead of forecasts of a 7.2% decline.

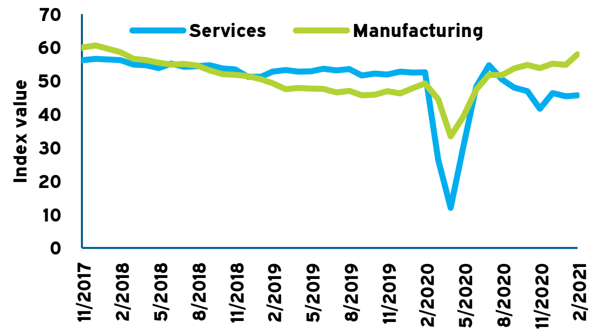
[1] Source: Bloomberg, and IMF. Q4 2020 data represents the second estimate of GDP for the Euro Area and United States. Euro Area figures annualized by Meketa. Projections via January 2021 IMF World Economic Outlook and represent annual numbers.

Global PMIs

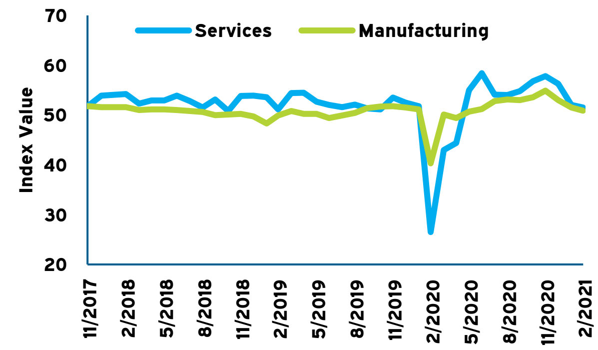
US PMI[1]



Eurozone PMI[2]



China PMI[3]



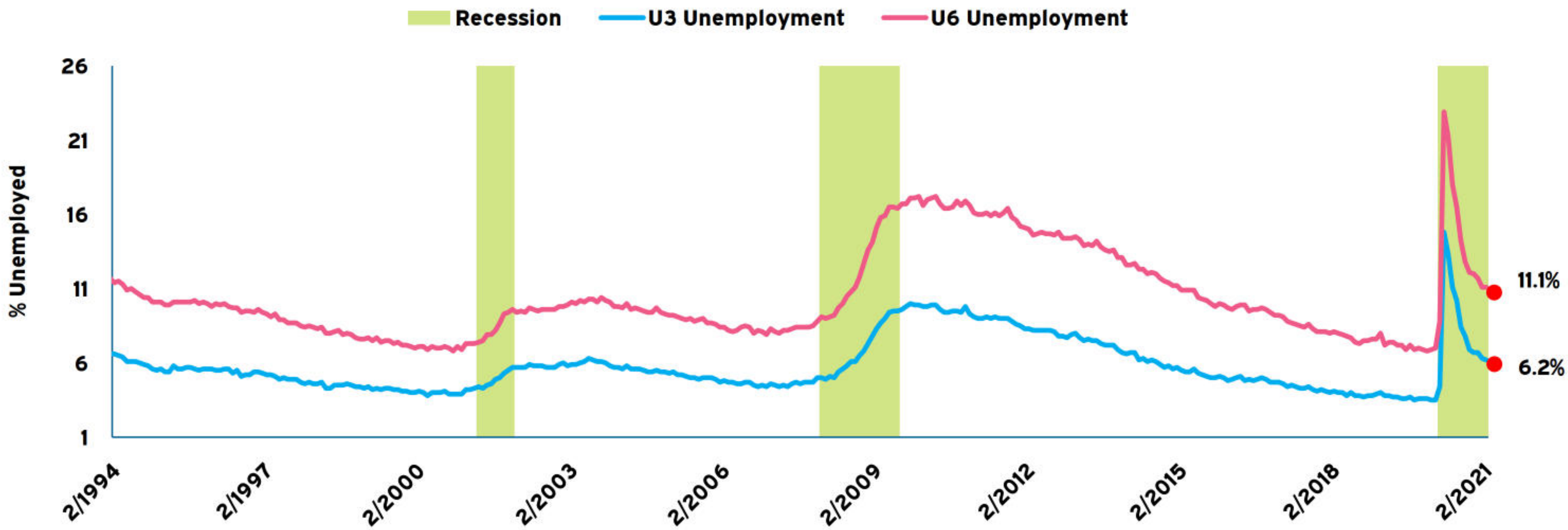
- Purchasing Managers Indices (PMI), based on surveys of private sector companies, initially collapsed across the world to record lows, as closed economies depressed output, new orders, production, and employment.
- Readings below 50 represent contractions across underlying components and are a leading indicator of economic activity, including the future paths of GDP, employment, and industrial production.
- The services sector was hit particularly hard by stay-at-home restrictions.
- After a period of underperformance, US services and manufacturing are accelerating. In Europe, manufacturing continues to improve, with services lagging given on-going restrictions. After a blockbuster return to full economic activity in the second half of 2020 the Chinese economy has stabilized in positive territory.

[1] Source: Bloomberg. US Markit Services and Manufacturing PMI. Data is as of February 2021.

[2] Source: Bloomberg. Eurozone Markit Services and Manufacturing PMI. Data is as of February 2021.

[3] Source: Bloomberg. Caixin Services and Manufacturing PMI. Data is as of February 2021.

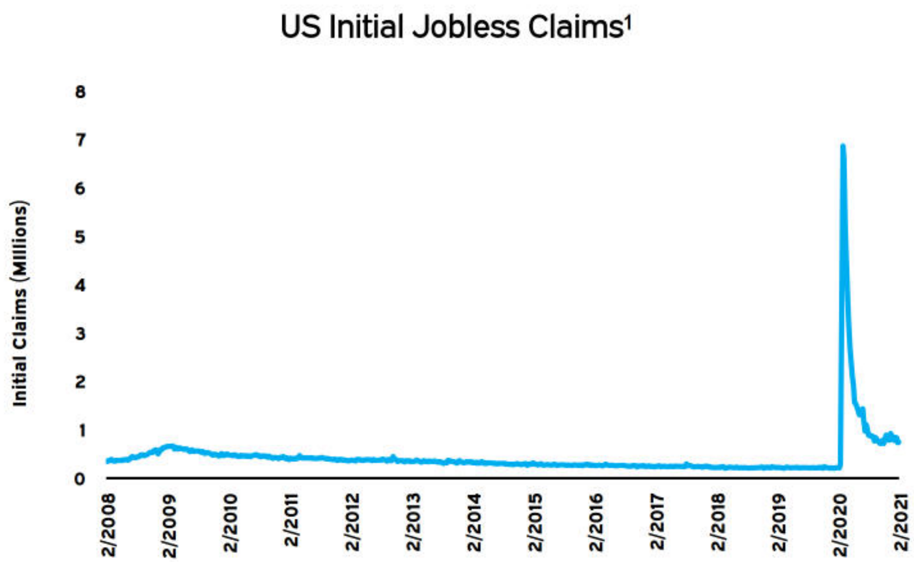
US Unemployment[1]

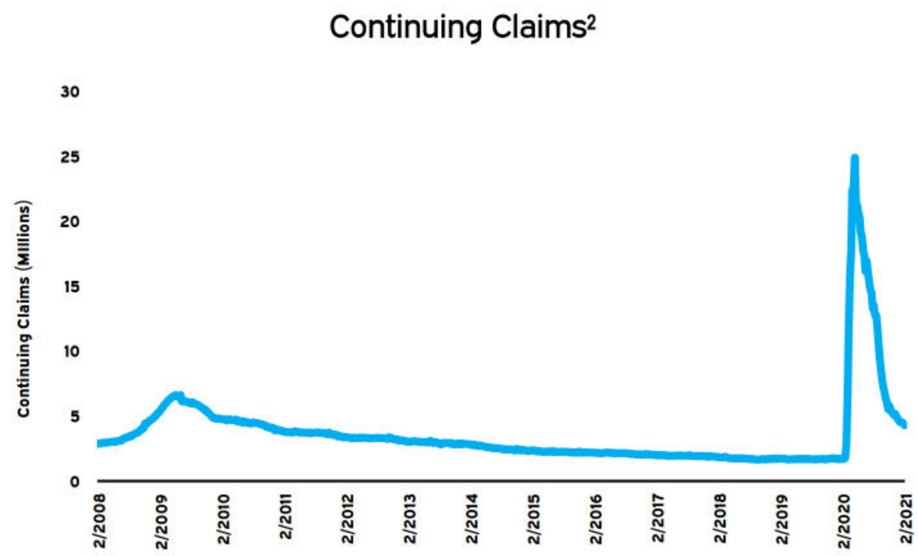


- In February, the unemployment rate (U3) continued its decline from the April 14.7% peak, falling to 6.2%.
- The broader measure of unemployment (U6) that includes discouraged and underemployed workers is much higher at 11.1%, showing further evidence of the slack in the labor market.
- Despite recent improvements, unemployment levels remain well above pre-virus readings and are likely higher than reported, as the total labor force participation rate remains below pre-COVID levels.
- A counterforce to the recent inflation concerns remains the slack in the labor market and corresponding weak wage pressures.

[1] Source: Bloomberg. Data is as of February 28, 2021. Bars represent recessions as observed by the National Bureau of Economic Research.

US Jobless Claims



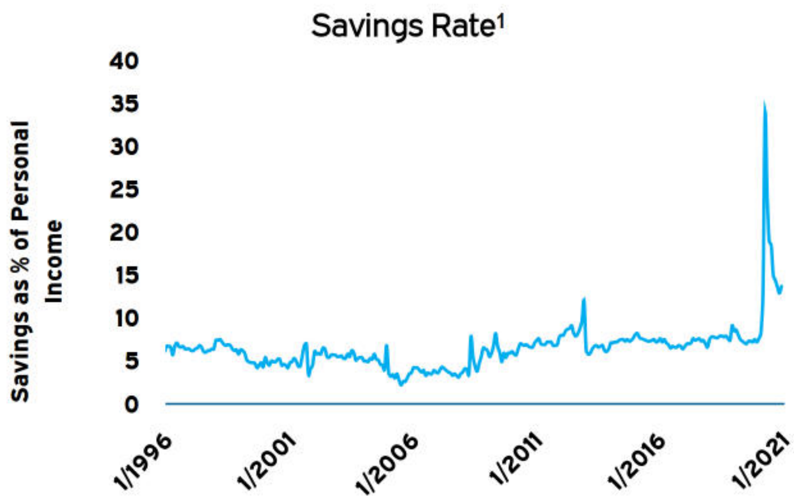


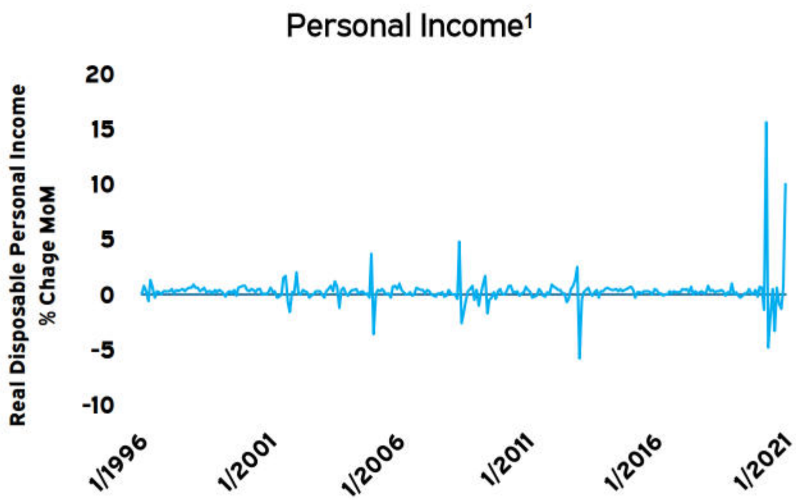
- Since the start of the crisis, ~80 million people filed for initial unemployment. This level is approaching four times the 22 million jobs added since the GFC, highlighting the unprecedented impact of the virus.
- Despite the stabilization in initial jobless claims to below one million per week, levels remain higher than the worst reading during the Global Financial Crisis.
- Continuing jobless claims (i.e., those currently receiving benefits) have also declined from record levels, but remain elevated at 4.3 million.

[1] Source: Bloomberg. First reading of seasonally adjusted initial jobless claims. Data is as of February 28, 2021.

[2] Source: Bloomberg. US Continuing Jobless Claims SA. Data is as of February 28, 2021.

Savings and Spending

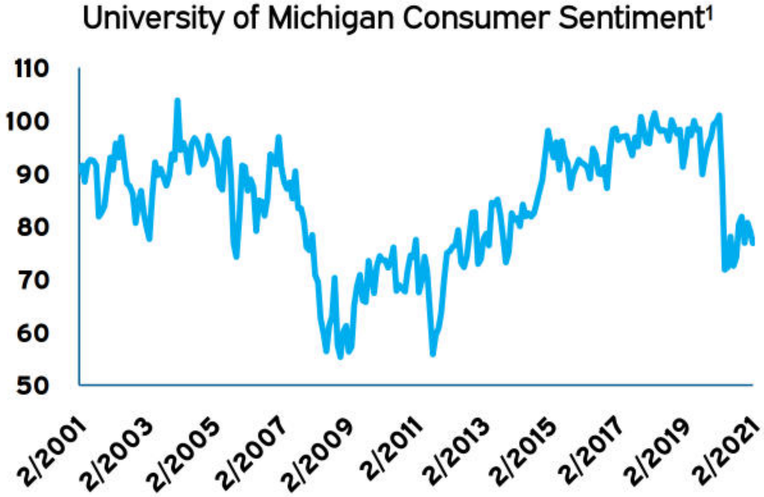




- Fiscal programs including stimulus checks, enhanced unemployment benefits, and loans to small businesses through the Paycheck Protection Program (PPP) have largely supported income levels through the shutdown.
- Despite the income support, the savings rate increased due to the decline in consumer spending, driven by the initial lock-down of the economy, and by uncertainties related to the future of the job market and stimulus programs.
- More recently, the savings rate declined from its peak as spending increased with the economy slowly reopening. Going forward, questions remain about how consumers will make use of the recently approved stimulus programs with concerns over the potential inflationary impacts.

[1] Source: Bloomberg. Latest data is as of January 2021.

Sentiment Indicators



- The attitudes of businesses and consumers are useful indicators of future economic activity.
- Consumer spending comprises close to 70% of US GDP, making the attitudes of consumers an important driver of economic growth. Additionally, small businesses generate around half of US GDP, making sentiment in that segment important.
- Sentiment indicators showed improvements as the economy re-opened, particularly for small businesses. Increasing cases, including from new variants, and a slow vaccine rollout have recently weighed on short-term sentiment. This trend could change though based on improvements in vaccine distribution and the recent fiscal stimulus.

[1] Source: Bloomberg. University of Michigan Consumer Sentiment Index. Data is as of February 28, 2021.
[2] Source: Bloomberg. NFIB Small Business Optimism Index. Latest data is as of February 28, 2021.

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