



**Market**

**WISE**

July 2021 Edition

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# Wise Words

## Current Events and the Economy

- The pace of vaccinations has slowed across the U.S. but roughly 50% of the population is fully vaccinated. As we enter July, daily new COVID-19 cases in the U.S. are at the lowest number since the pandemic began. This has given many people the confidence to resume normal activities as seen in passenger airline data, which was positive versus 2019 heading over the July 4th holiday weekend.
- On the economic front, U.S. Real GDP rose at an annualized pace of +6.4%. Inflation, measured by CPI, rose 4.9% year-over-year as current prices are still being compared to prices during the most severe portions of the lockdown in 2020.
- It's a good time to be a home owner as the housing market is hotter than any time in recent history. Record low inventory from a decade of underbuilding, low mortgage rates and government stimulus are putting upward pressure on prices. Per S&P Case-Schiller data, U.S. home prices are up 14.5% versus last year, the largest increase in

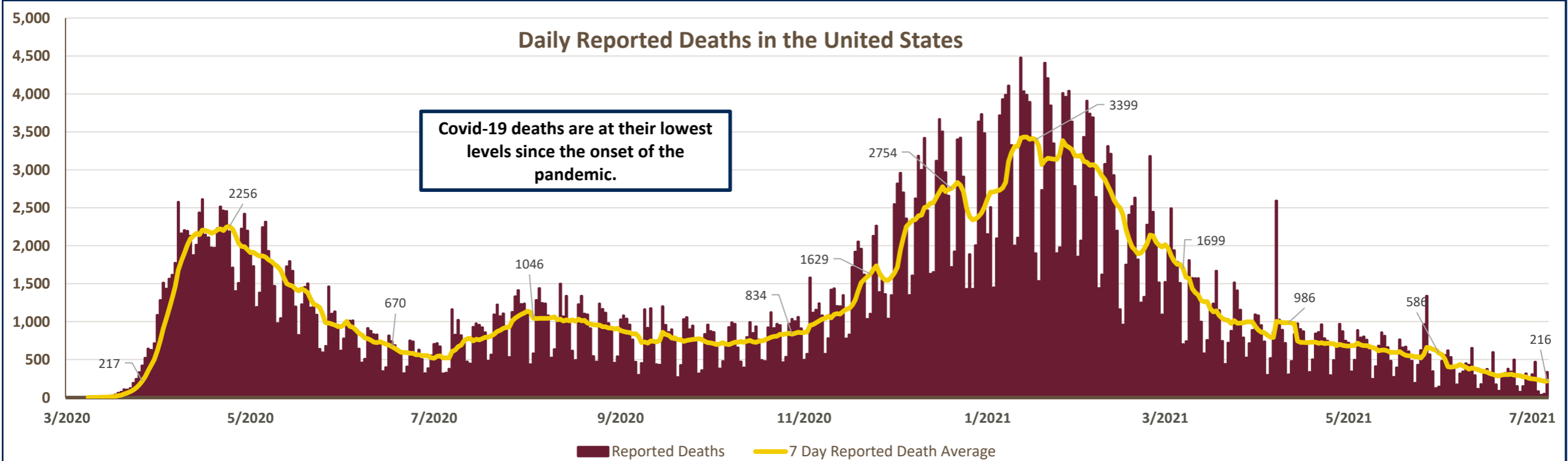
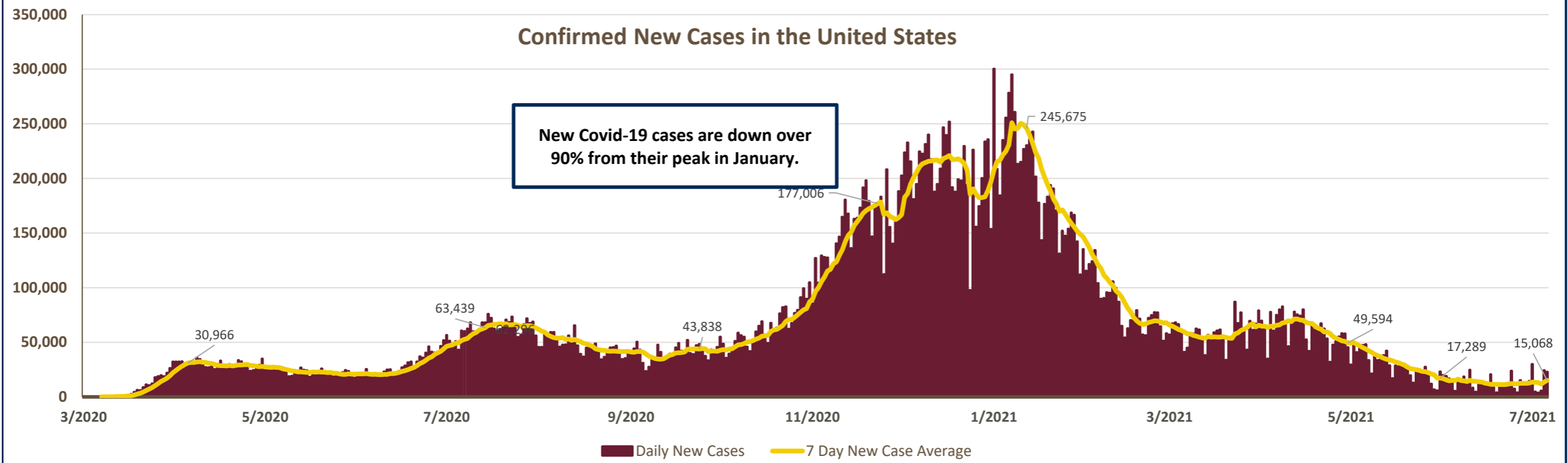
## Asset Performance

- Equity markets had a great second quarter. Valuations declined modestly but corporate earnings climbed back to record highs, pushing global markets higher. US Large Quality (+9.9%), US Large Momentum (+9.7%), and Global REITs (+9.7%) led the market higher but all equity asset classes were positive for the quarter.
- Among factors, size and value led the market in the first quarter but passed the torch to momentum and quality in the second quarter. However, Large Value (+4.8%), Small Value (+4.3%), International Large Value (+2.4%), and International Small Value (+3.4%) remained significant, positive contributors for the quarter.
- Bonds also had a strong second quarter. Inflation-adjusted bonds (+3.3%) led the way followed by multi-sector bonds (+2.5%), intermediate-term bonds (+1.8%) and short-term bonds (+0.6%).
- All alternative asset classes were positive in the second quarter. Real assets (+8.3%) posted the strongest return followed by trend following (+3.6%), Event Driven (+2.0%), and Reinsurance (+1.3%).

## Perspective

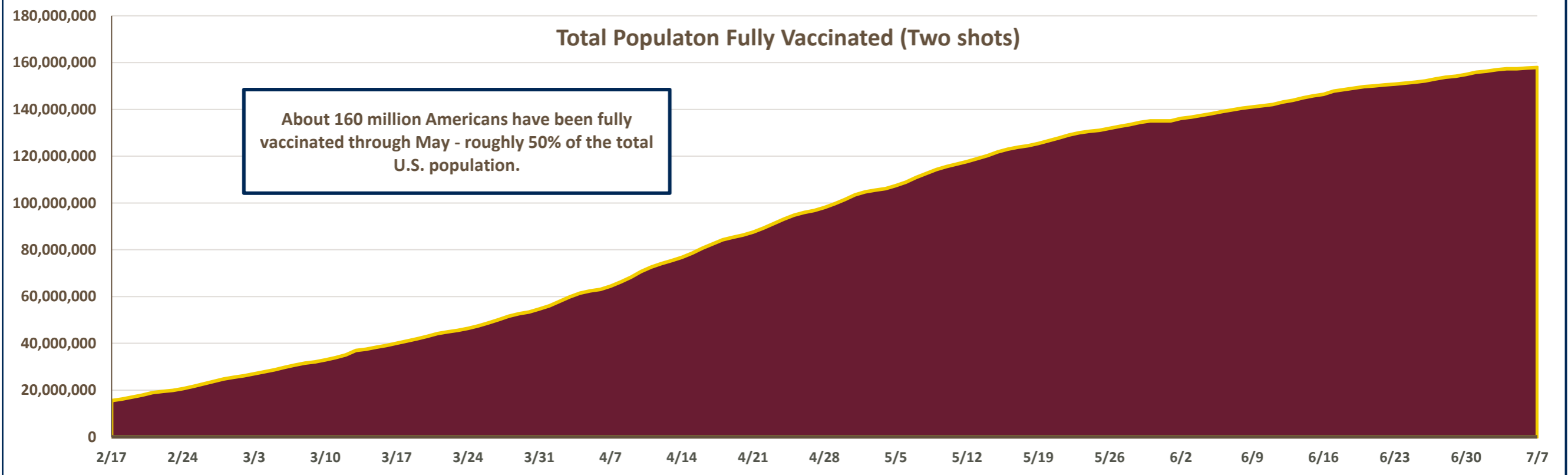
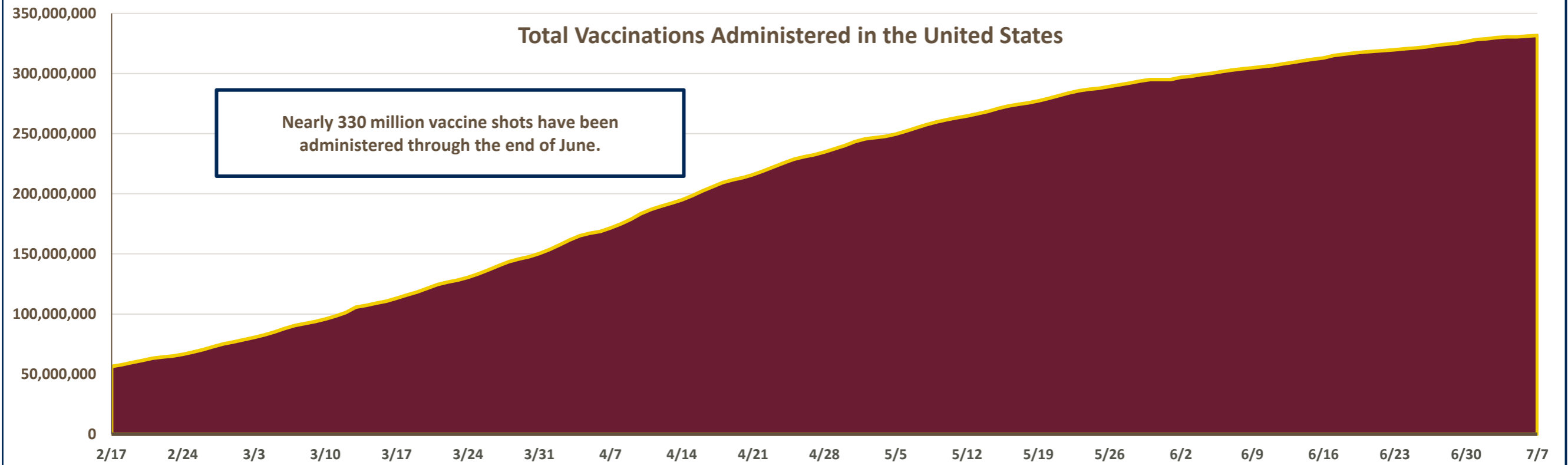
- Despite the strong run in recent months, U.S. value stocks are trading at their cheapest level since World War II excluding the dotcom bubble. Historically, extreme levels of cheapness have preceded periods of strong outperformance for value stocks relative to growth stocks.
- Historically, commonly known factors such as size, value, quality, and momentum post positive returns about as frequently as stocks in general. Since factors tend to outperform and underperform at different times, diversifying across these factors may enhance risk-adjusted returns.
- Over shorter periods rebalancing may seem trivial, but it can add significant value over longer time horizons.

# The Coronavirus



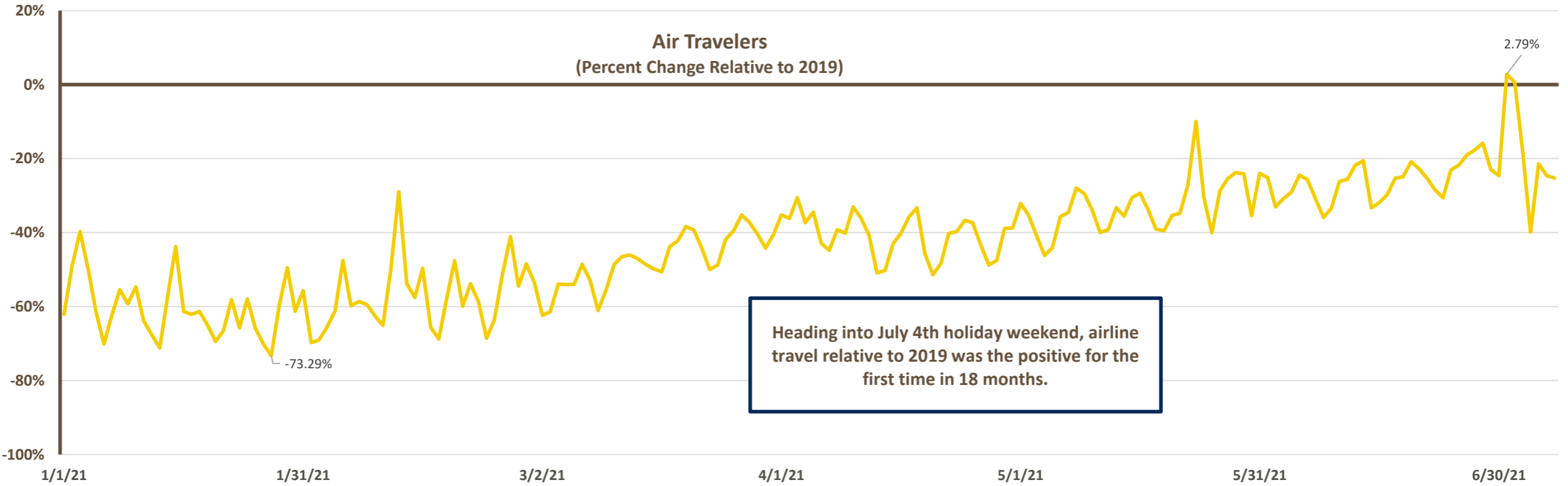
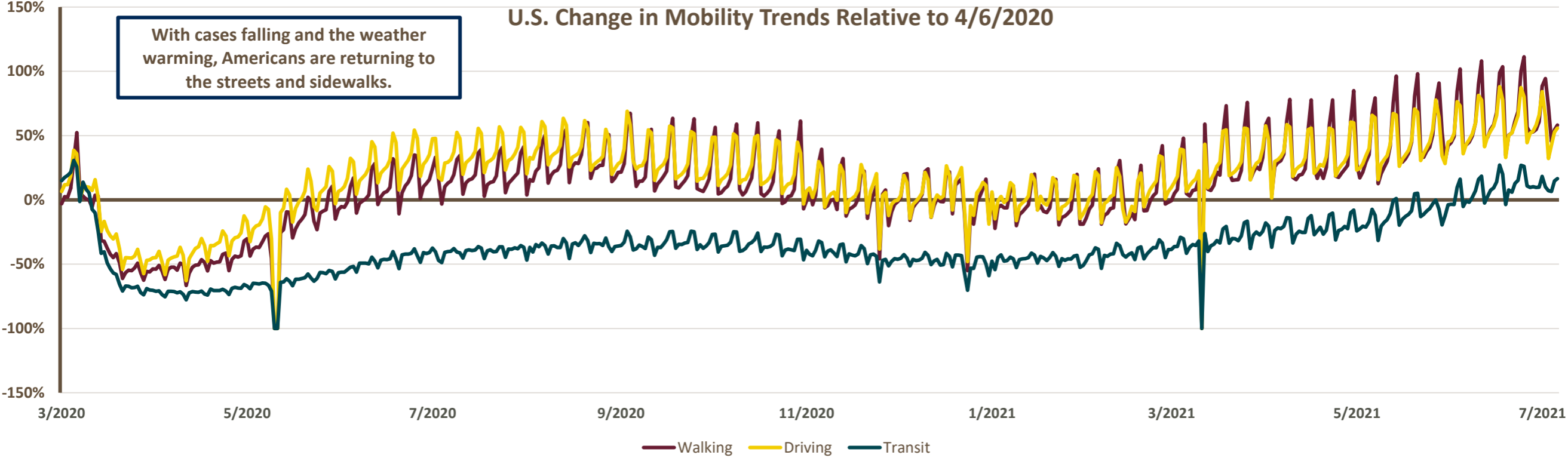
Data as of 7/7/2021. Data source: Johns Hopkins University Center for Systems Science and Engineering.

# COVID-19: Light at the End of the Tunnel



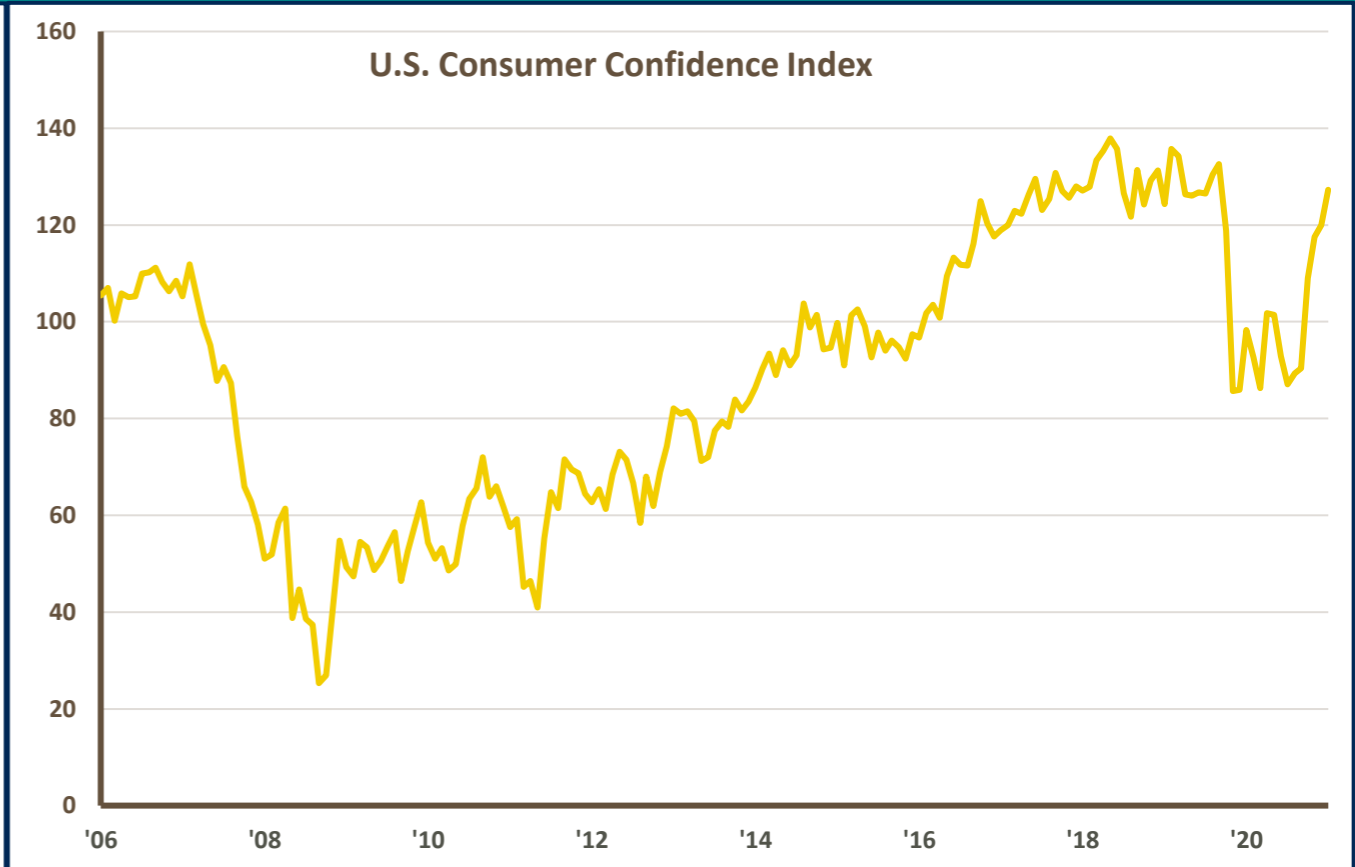
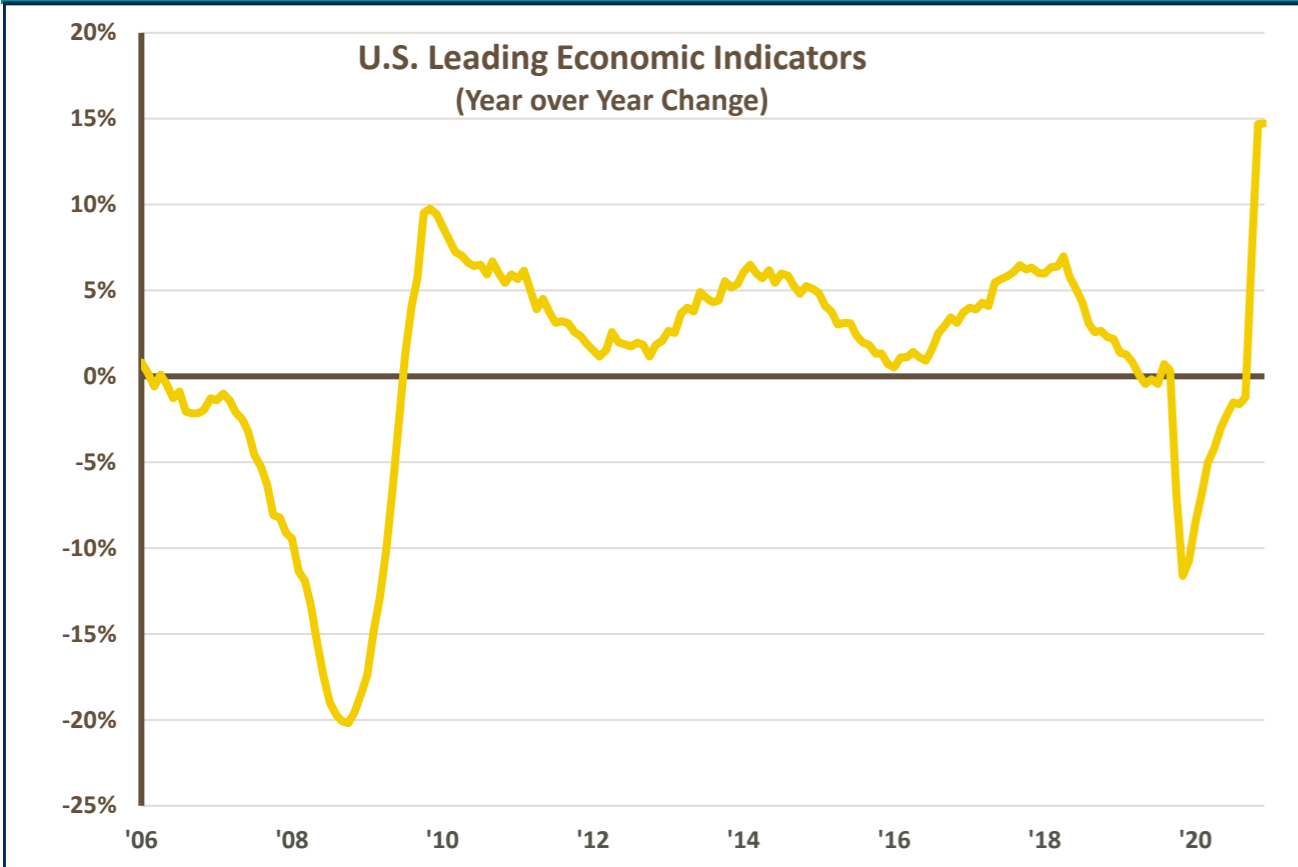
Data as of 7/7/2021. Data source: Our World in Data.

# On the Road Again



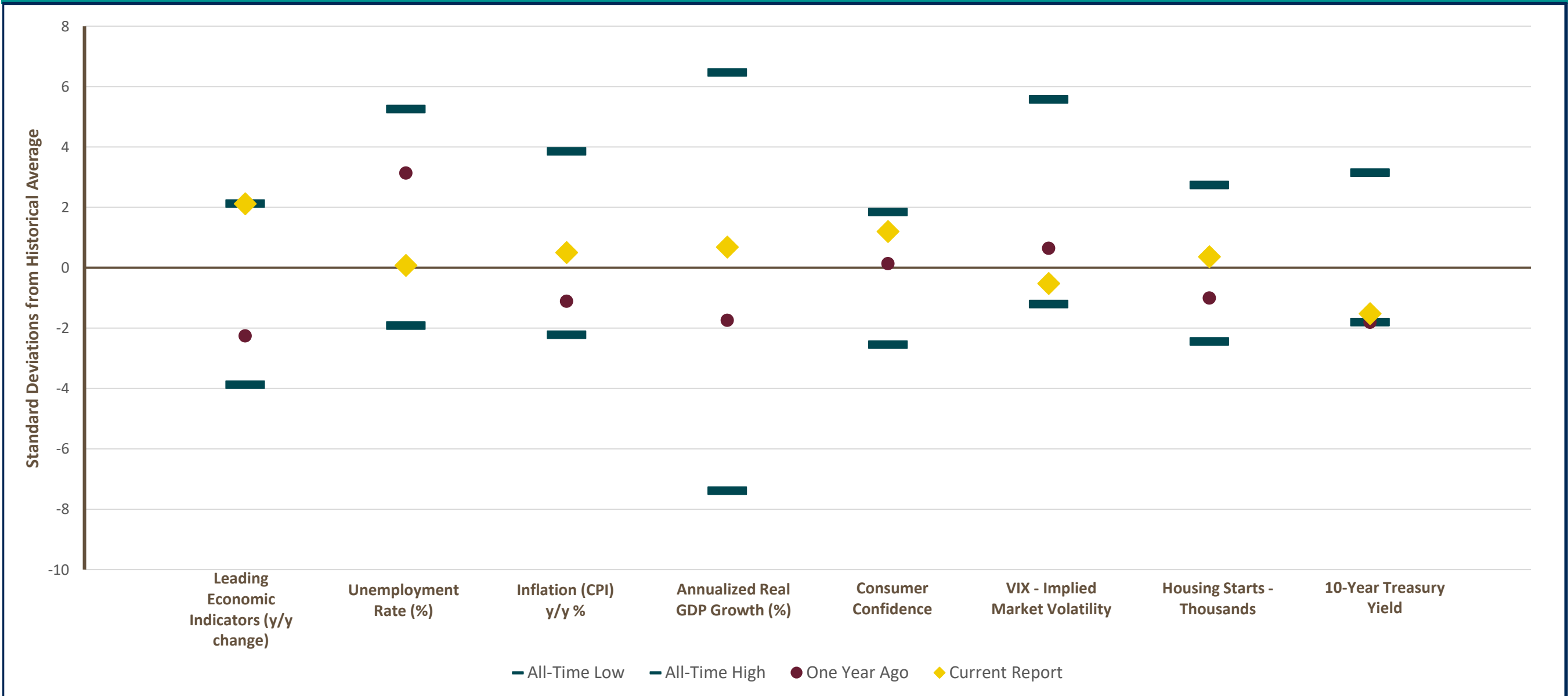
Data as of 7/7/2021. Data sources: Apple, TSA.

# Economic Indicators



Data as of 6/30/2021. Data sources: Morningstar Direct, FRED, The Conference Board.

# Economic Indicators: Relative to History

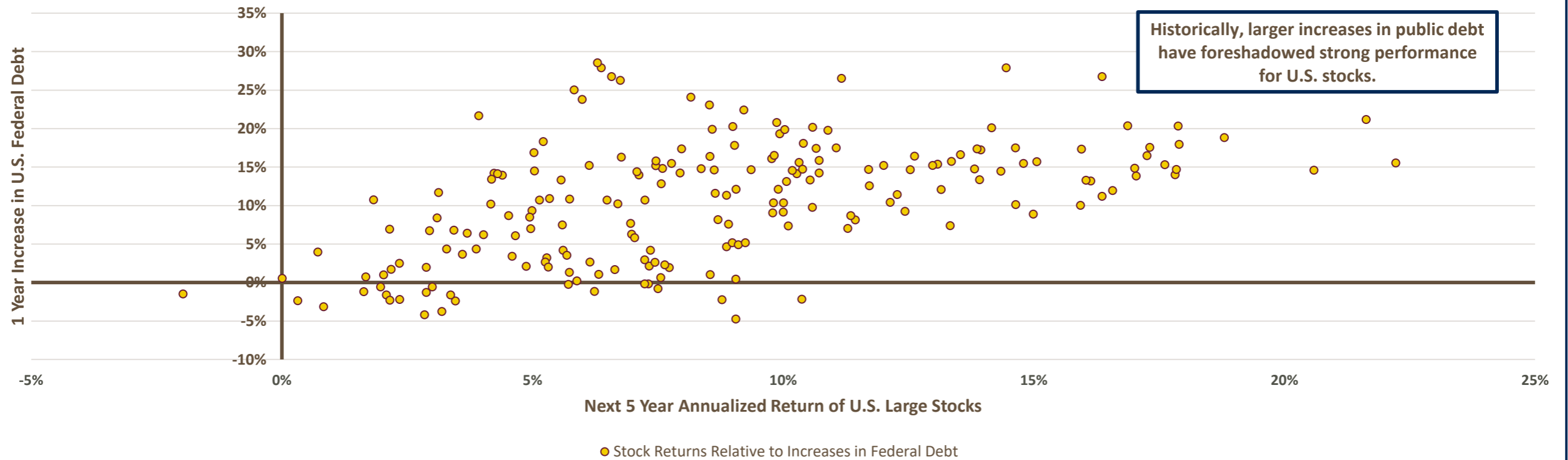
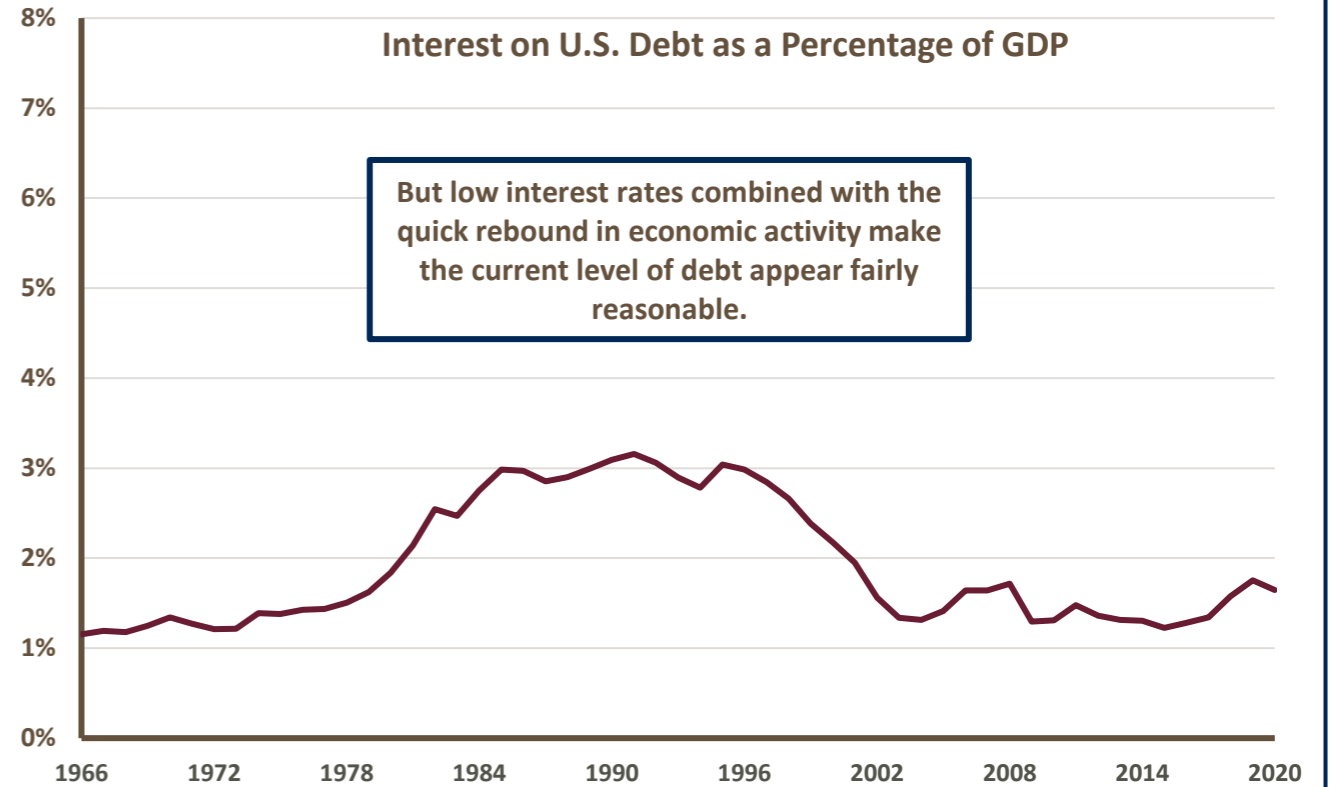
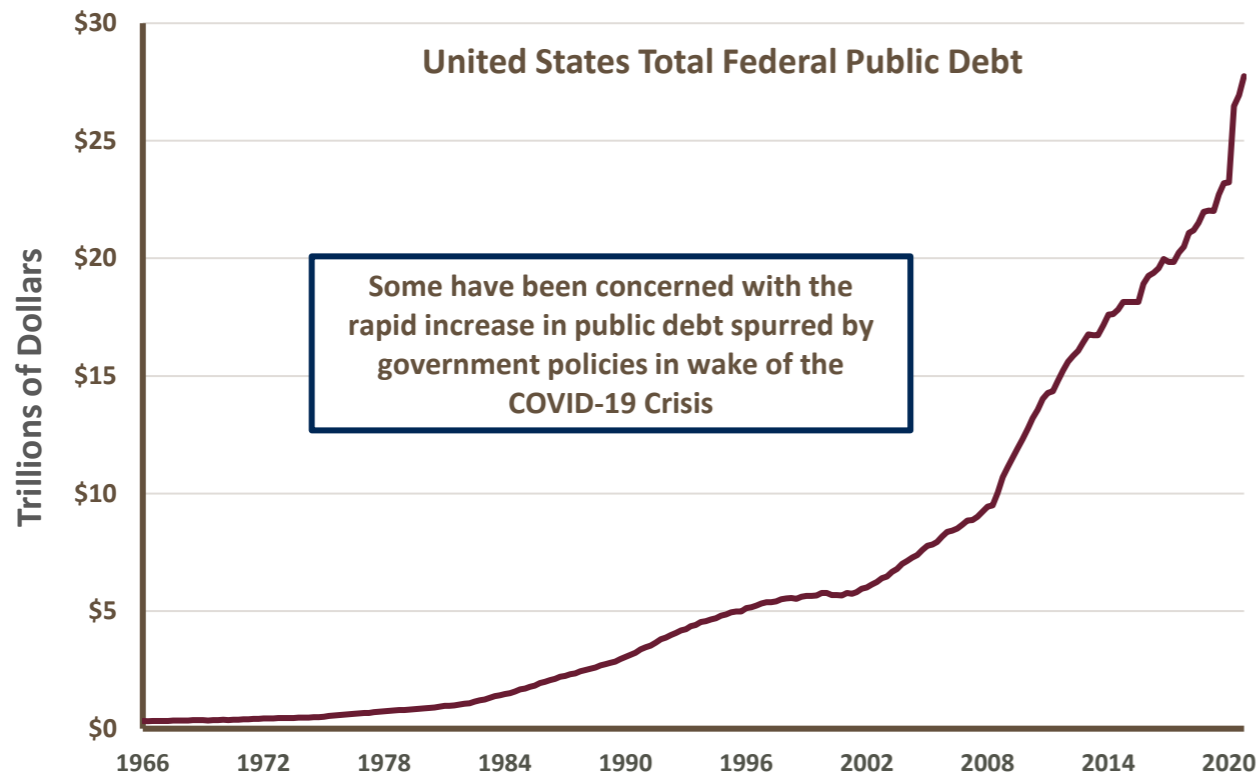


Economic Measure	All-Time Low	Historical Average	All-Time High	One Year Ago	Last Report	Current Report
Leading Economic Indicators (y/y change %)	-20.2%	2.4%	14.7%	-10.7%	14.7%	14.7%
Unemployment (%)	2.5%	5.8%	14.7%	11.1%	5.8%	5.9%
Inflation - CPI (y/y %)	-3.0%	3.5%	14.6%	0.2%	4.2%	4.9%
Annualized Real GDP Growth (%)	-31.4%	3.2%	33.4%	-5.0%	4.3%	6.4%
Consumer Confidence	25.3	94.7	144.7	98.3	120.0	127.3
VIX - Implied Market Volatility	10.1	19.5	62.6	24.5	17.9	15.5
Housing Starts (Thousands)	478.0	1429.9	2494.0	1038.0	1569.0	1572.0
10-Year Treasury Yield (%)	0.6%	6.0%	15.3%	0.6%	1.6%	1.5%

Data as of 7/1/2021. Data sources: FRED, The Conference Board.



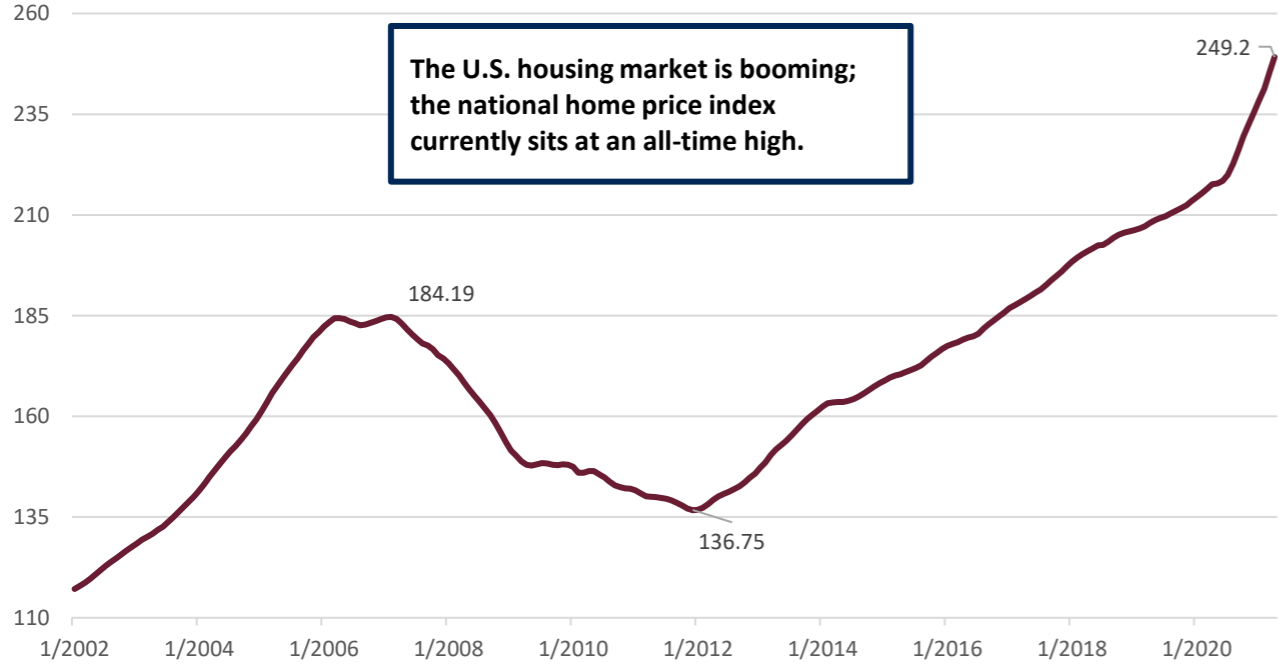
# The Pile of Debt



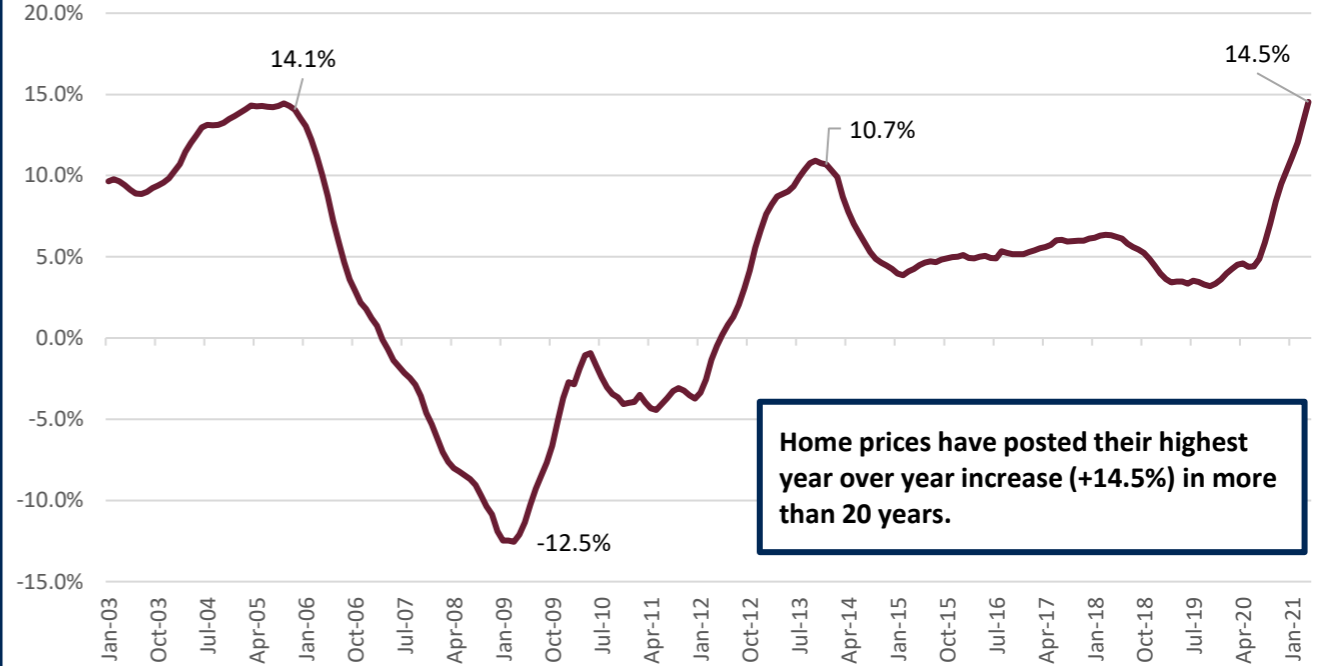
Data as of 6/30/2021. Data sources: FRED, Morningstar Direct. U.S. large stocks are represented by the IA SBBI US Large Stock Index.

# State of the Housing Market

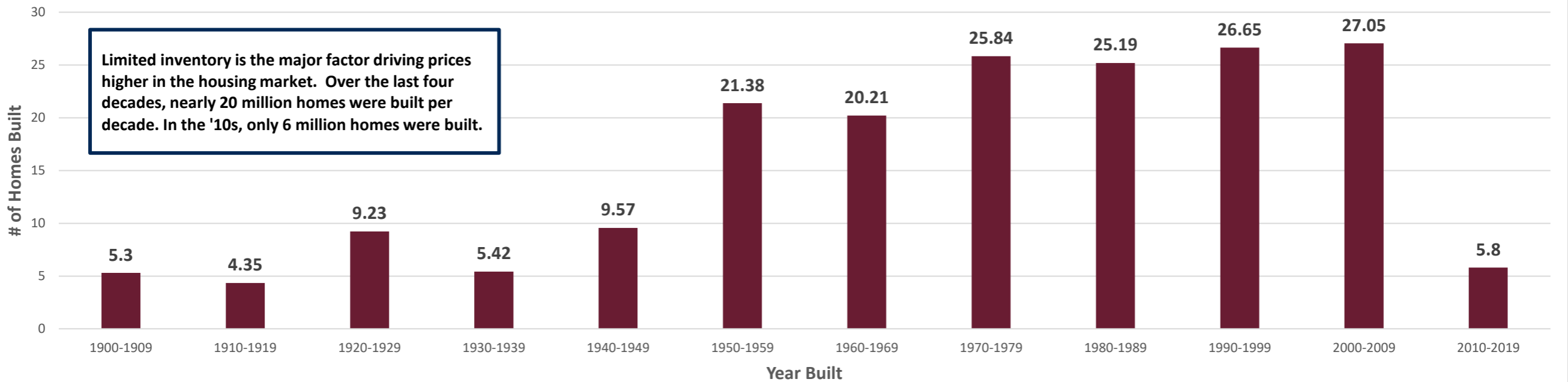
Case-Shiller National Home Price Index  
(Jan 2002 - Feb 2021)



Case-Shiller National Home Price Index  
(YoY Percent Change)



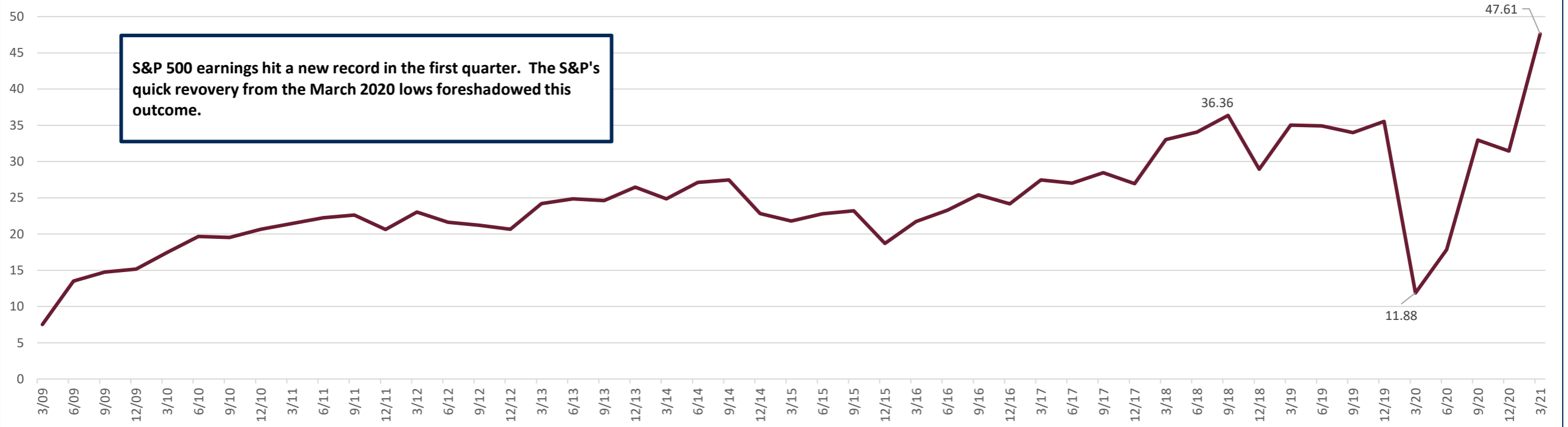
Number of Homes Built in U.S. by Decade  
(in Millions)



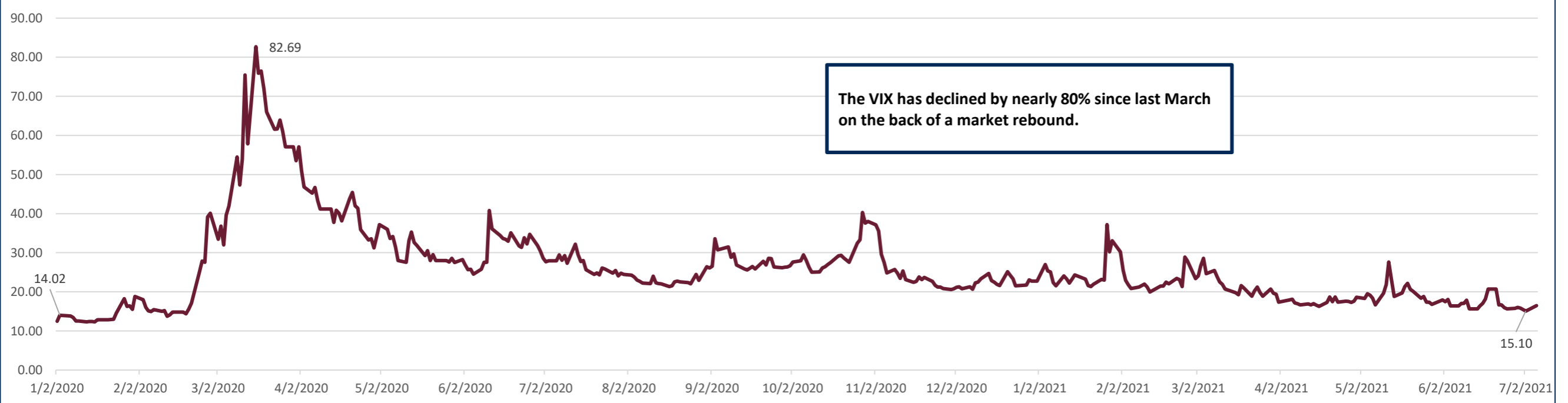
Data as of 7/7/2021. Data sources: Ycharts and Statista.

# Rebound in Earnings, Decline in Volatility

## S&P 500 Quarterly Earnings Per Share



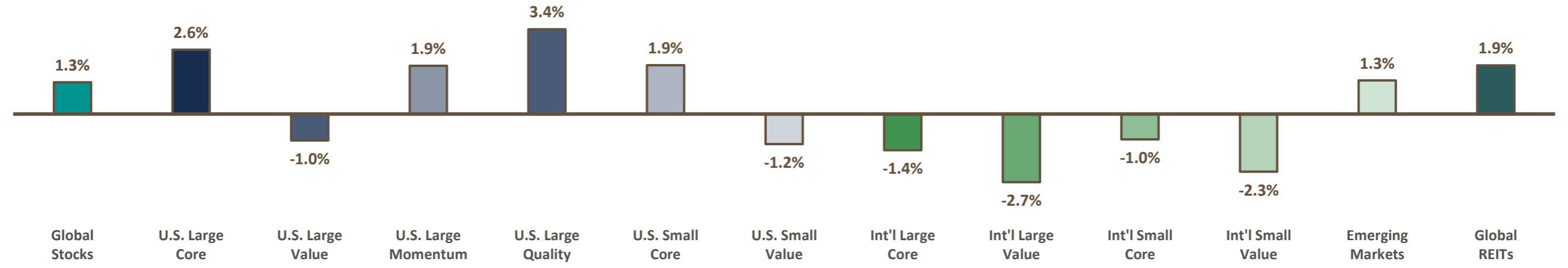
## Volatility Index (VIX) Jan 2020 - June 2021



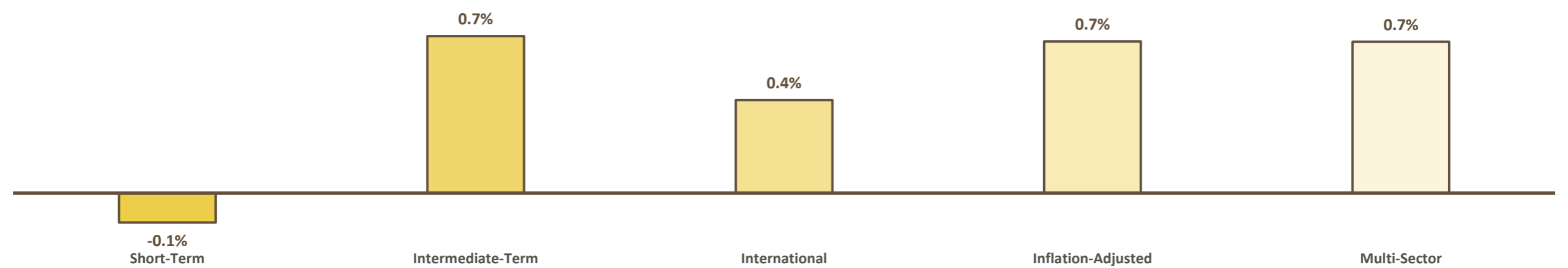
Data as of 7/7/2021. Data sources: Ycharts and S&P Global.

# Asset Class Performance: Last Month

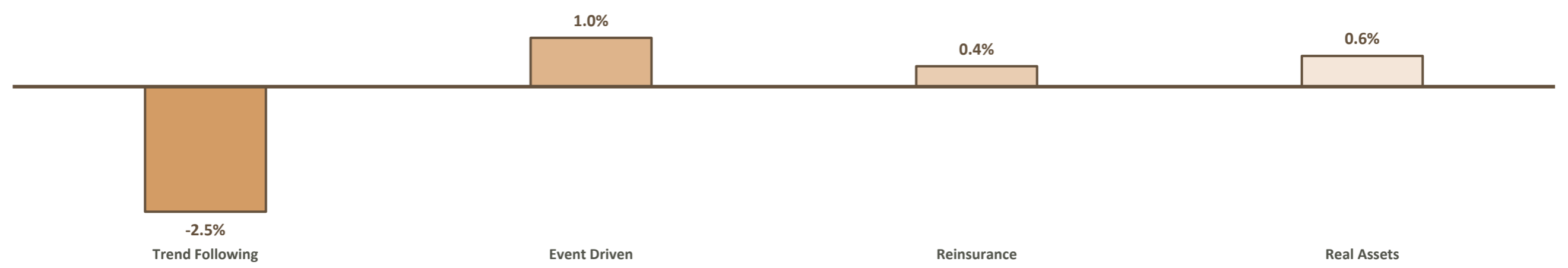
## Stocks



## Bonds



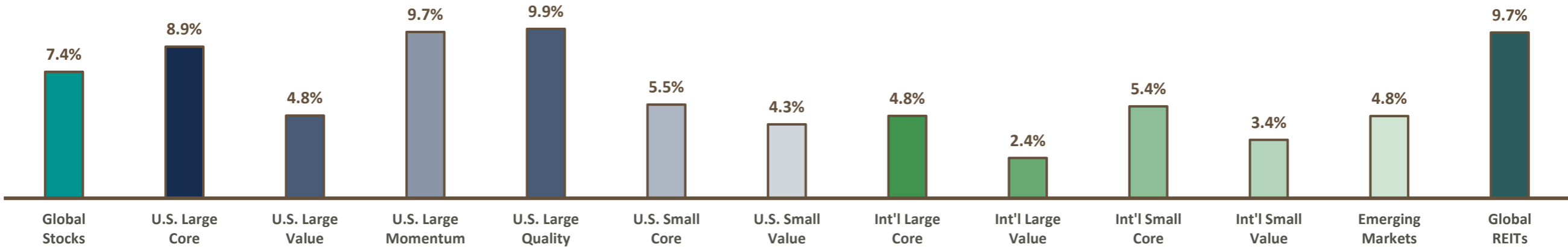
## Alternatives



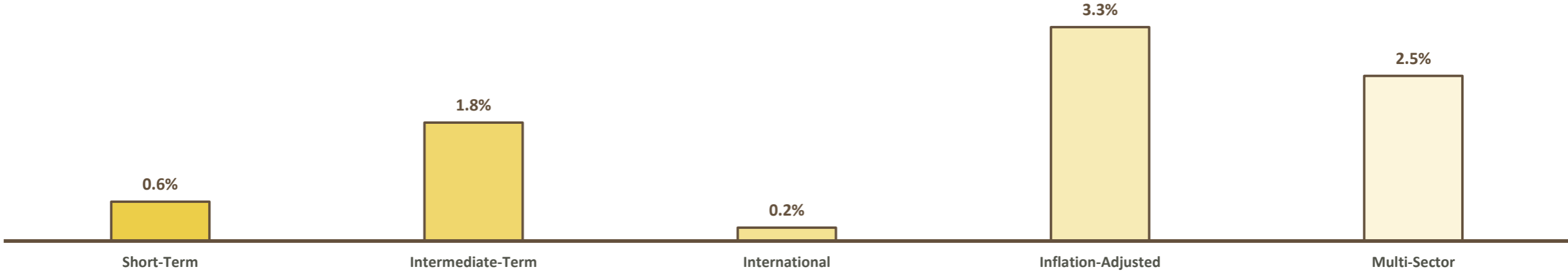
Data as of 6/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

# Asset Class Performance: Last Three Months

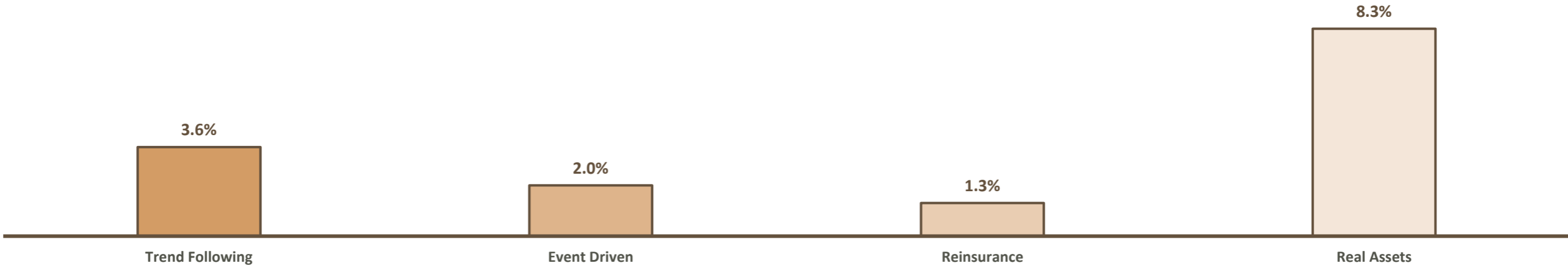
## Stocks



## Bonds



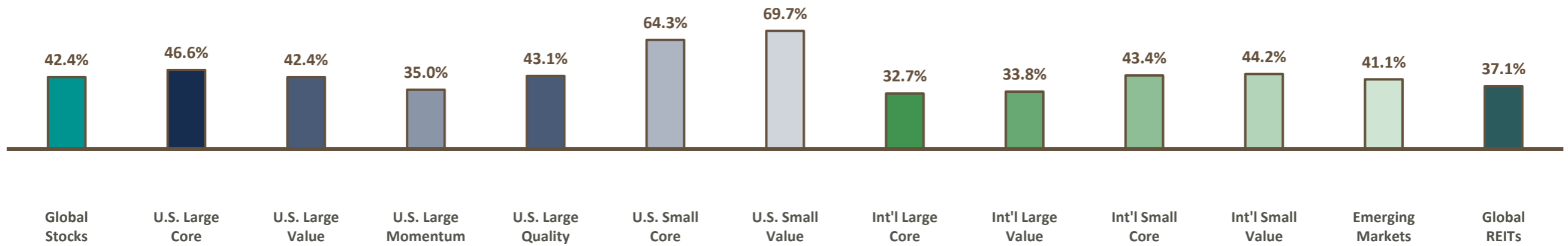
## Alternatives



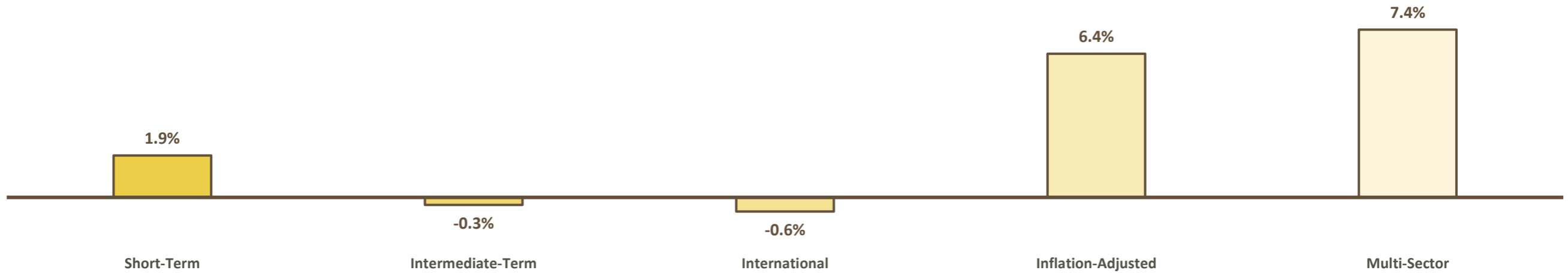
Data as of 6/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

# Asset Class Performance: Previous 12 Months

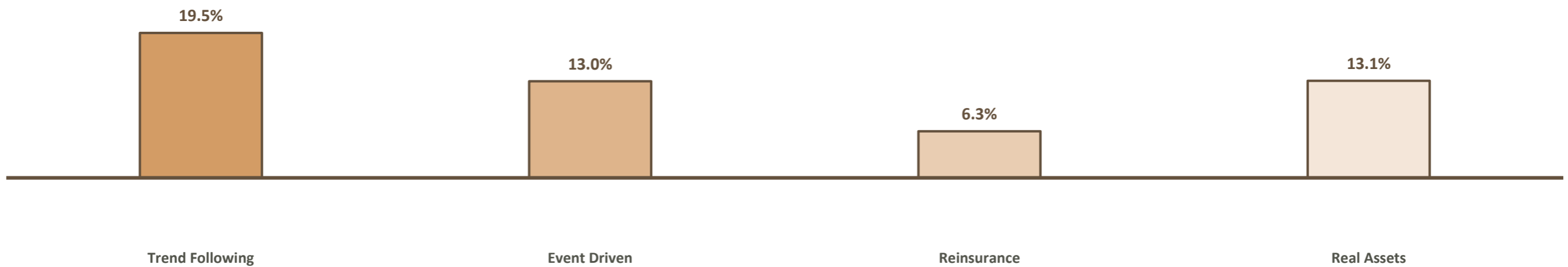
## Stocks



## Bonds



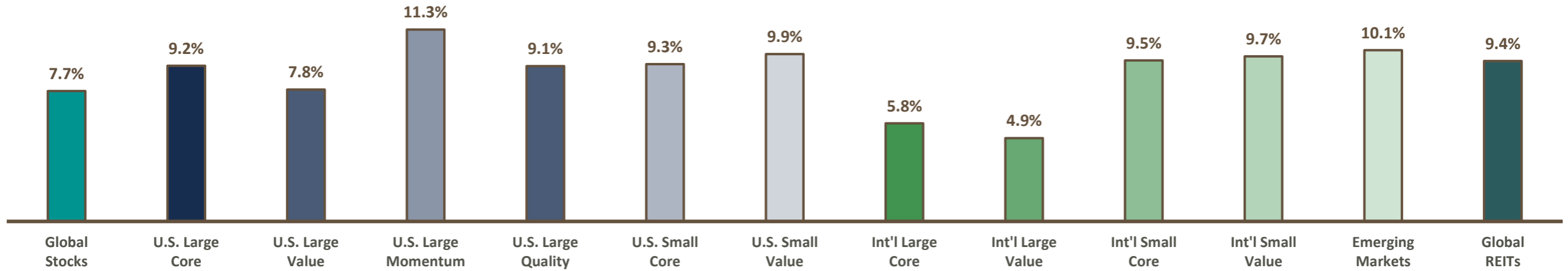
## Alternatives



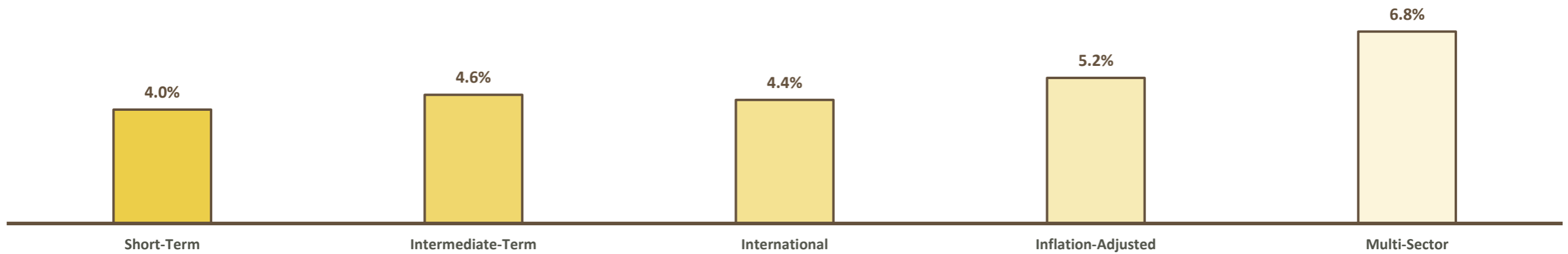
Data as of 6/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

# Asset Class Performance for the Long Term Investor: Previous 20 Years

## Stocks



## Bonds

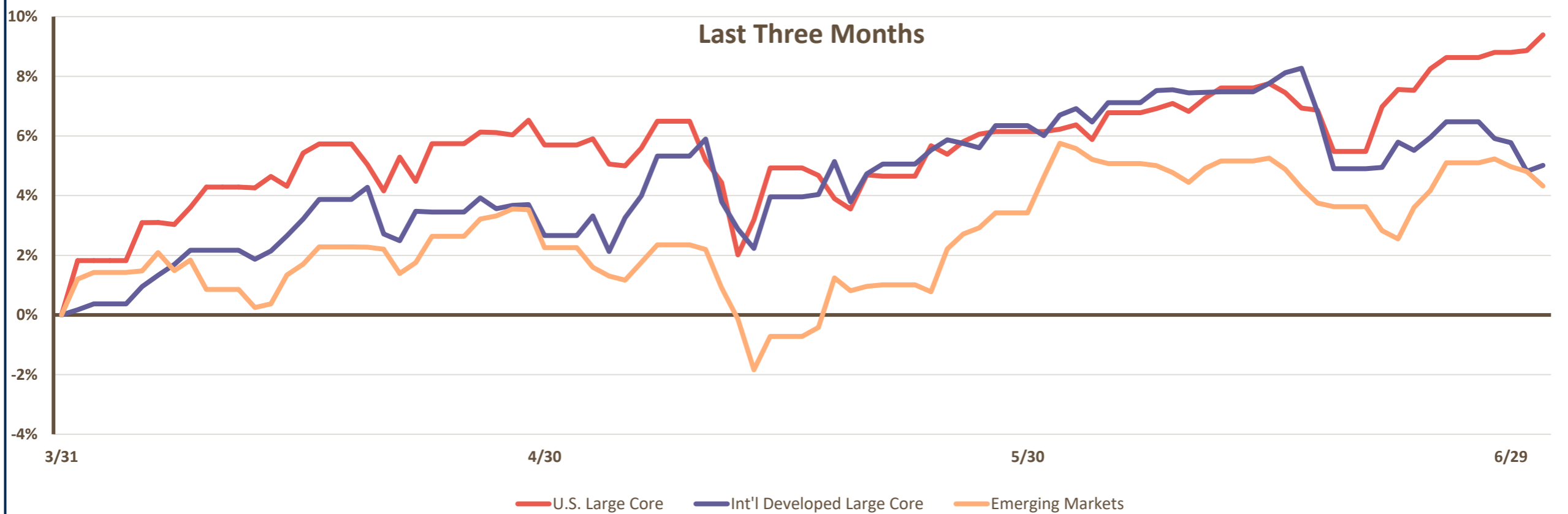
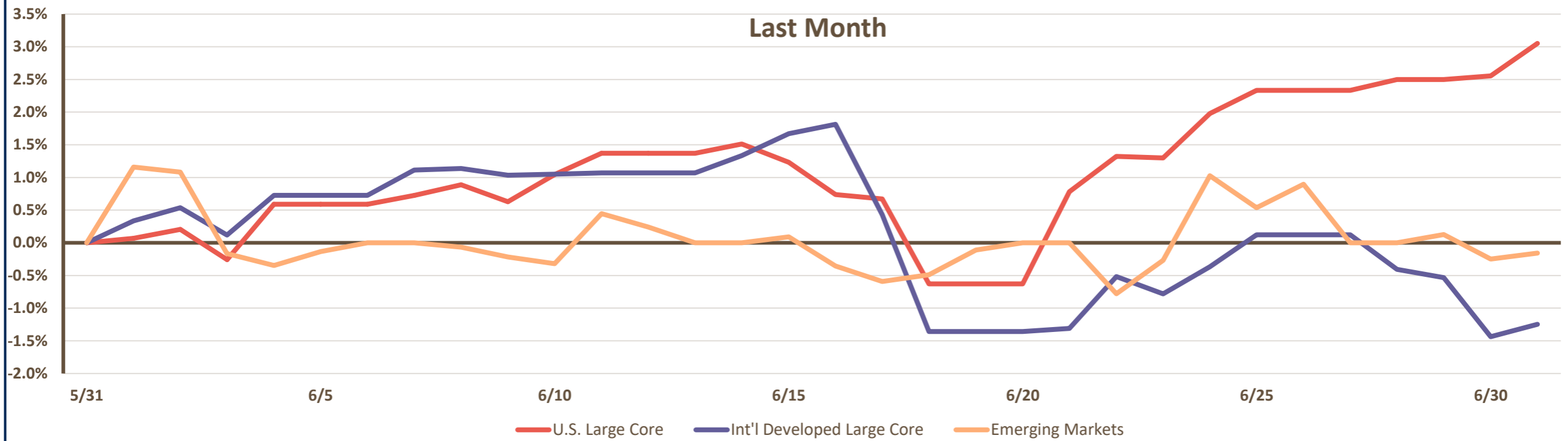


## Alternatives



Data as of 6/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

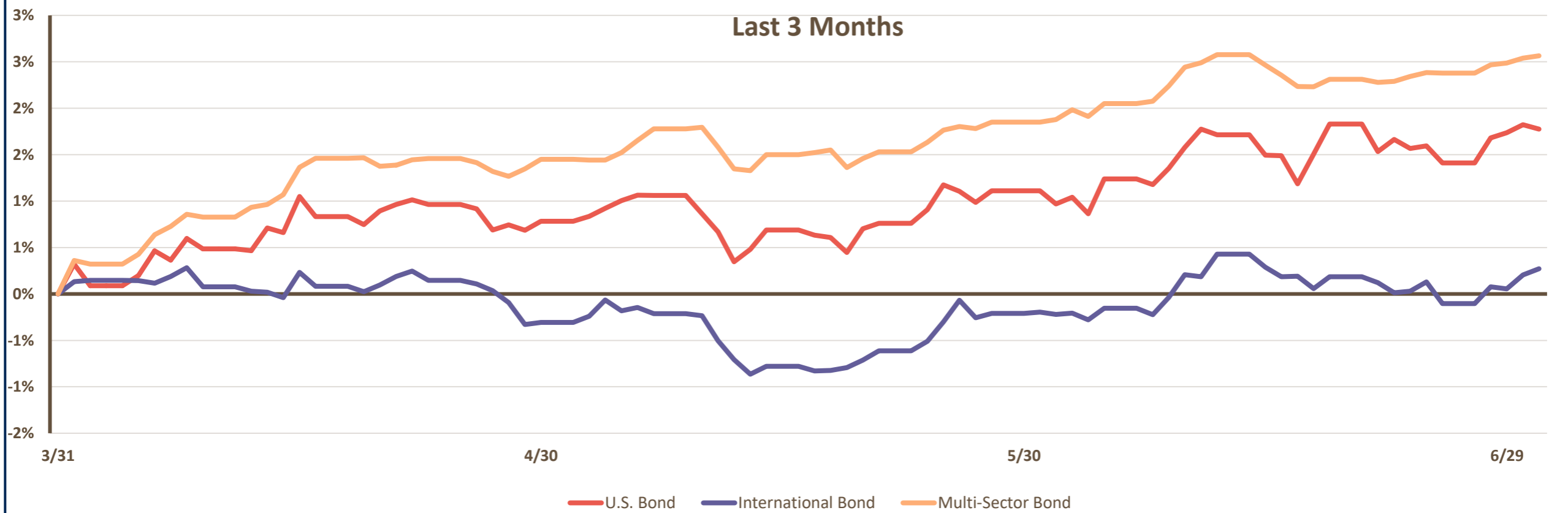
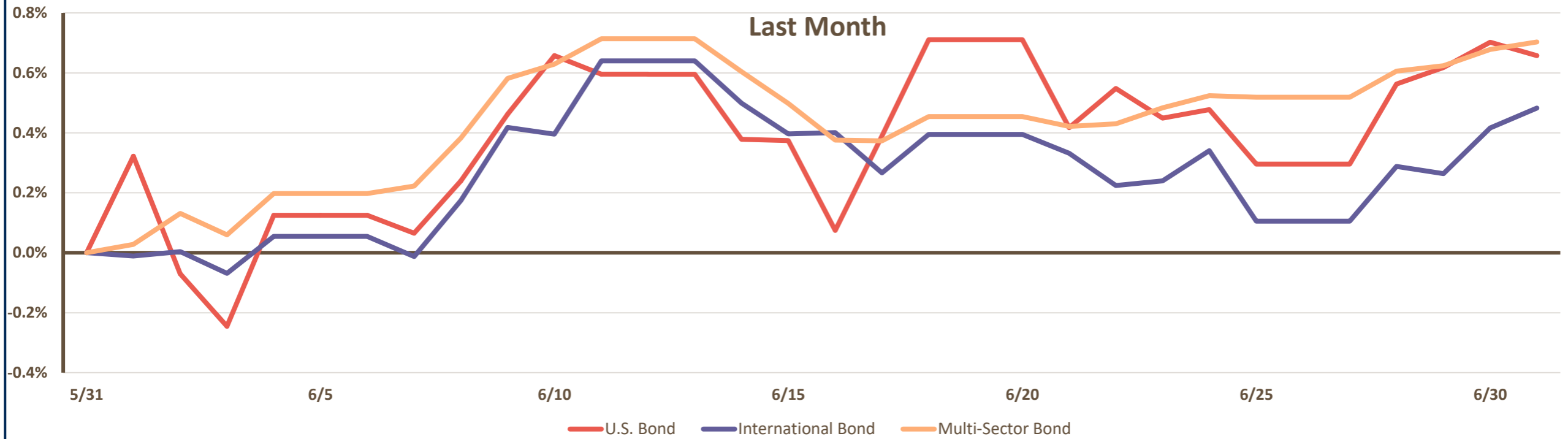
# Equity Performance Tracker



Data as of 6/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

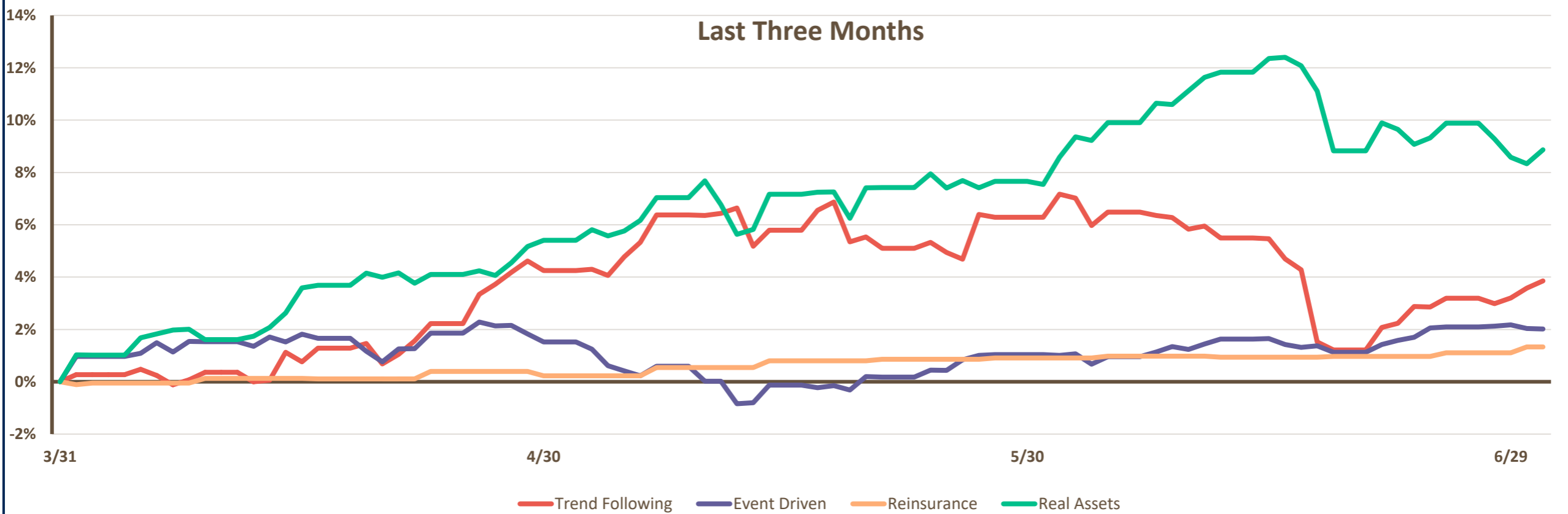
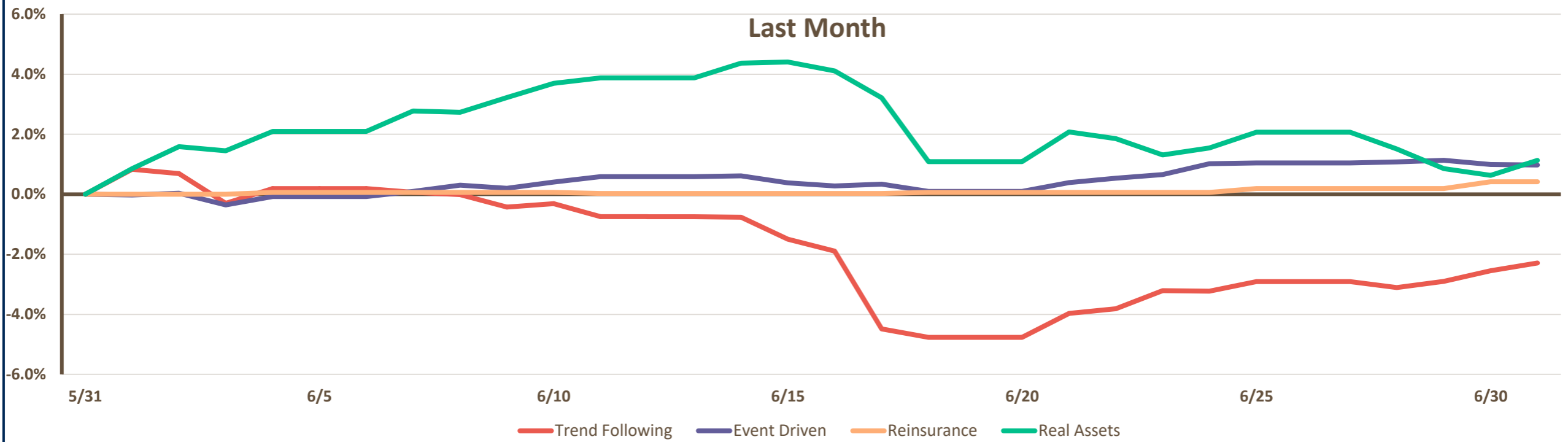


# Fixed Income Performance Tracker



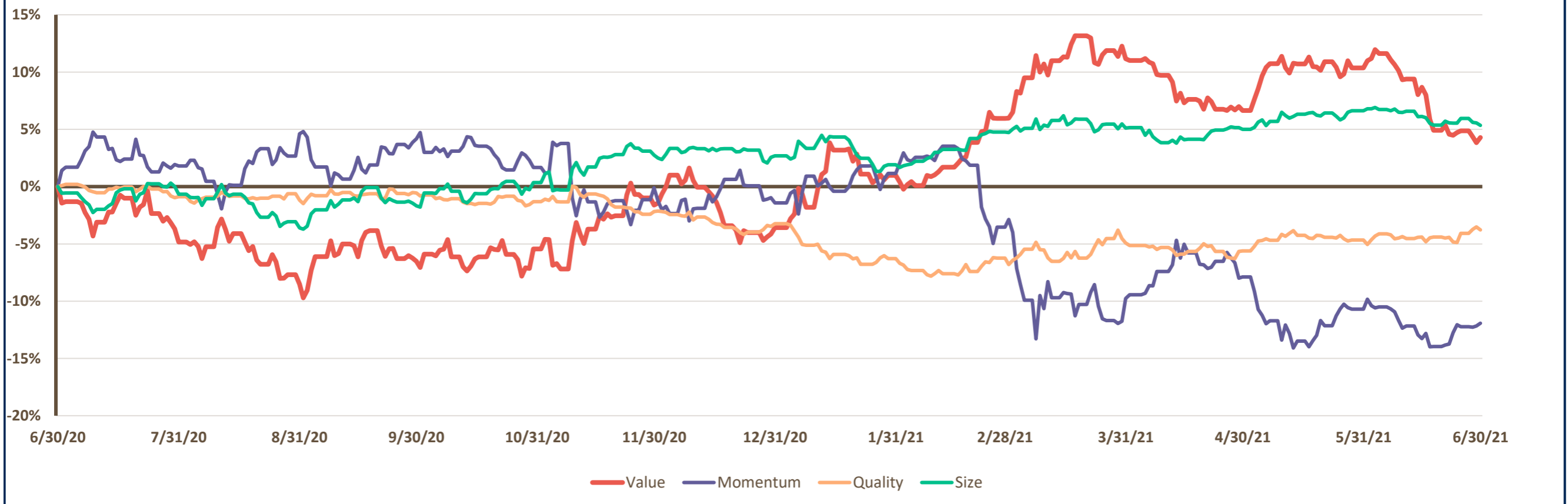
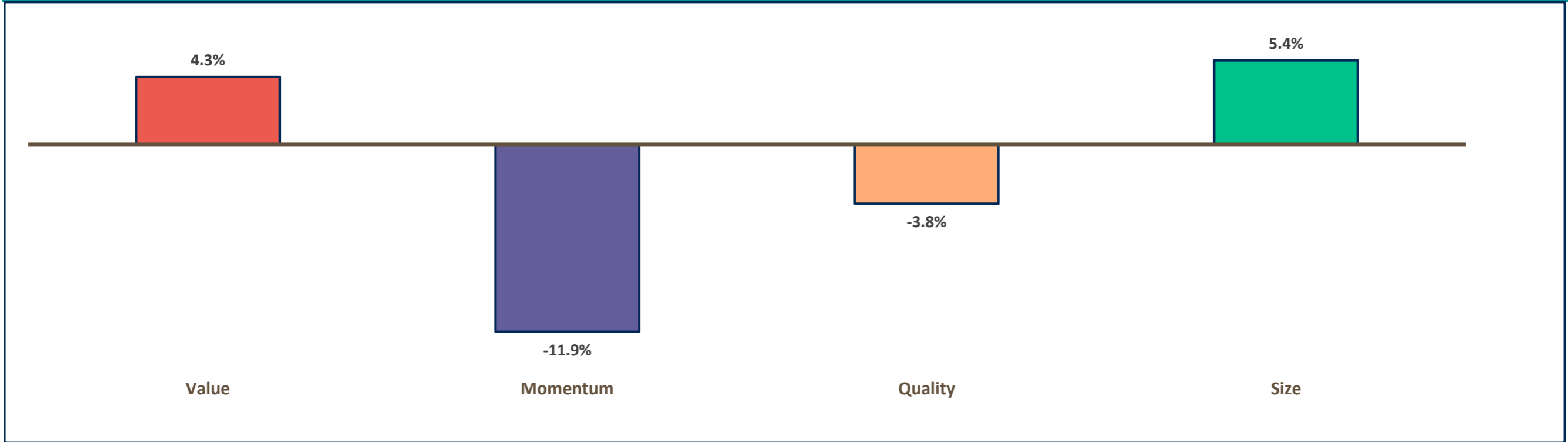
Data as of 6/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

# Alternatives Performance Tracker



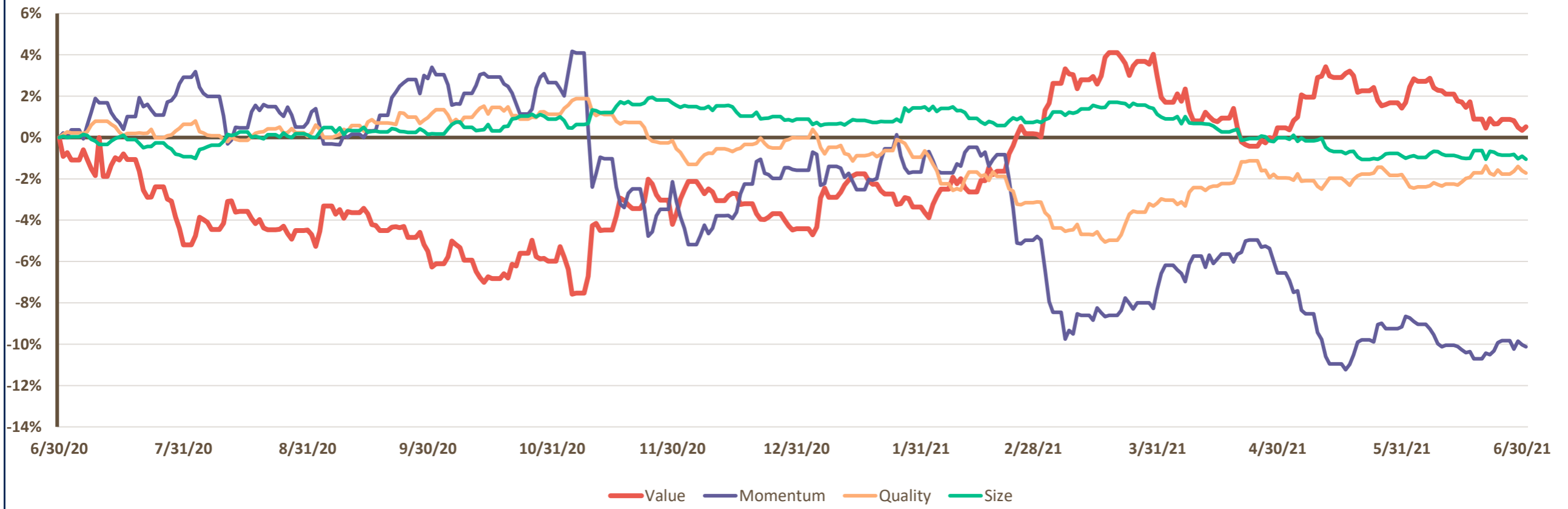
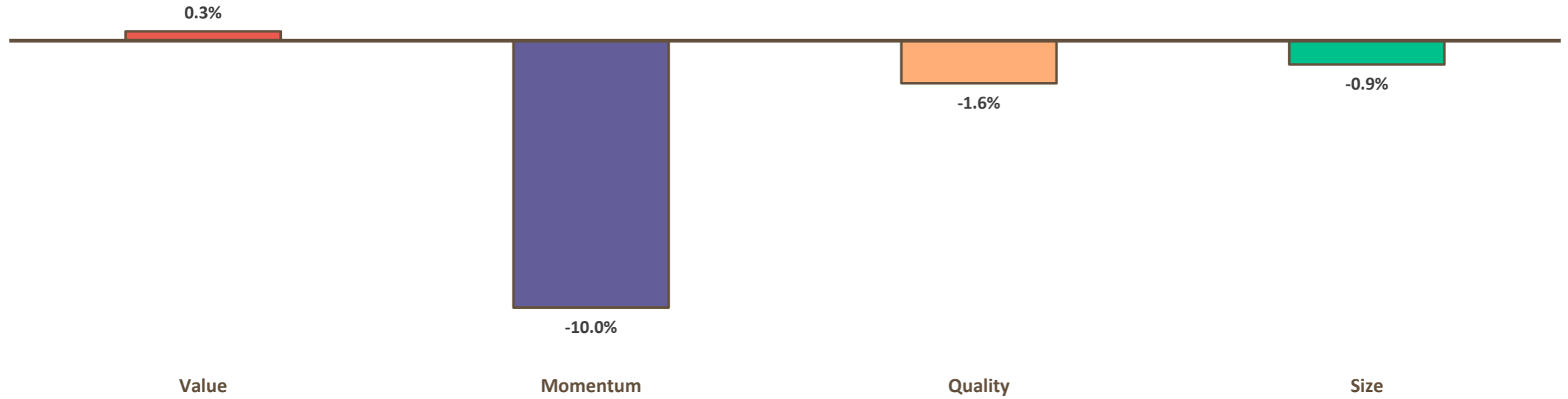
Data as of 6/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

# U.S. Equity Factor Performance Relative to Broad Market: Previous 12 Months



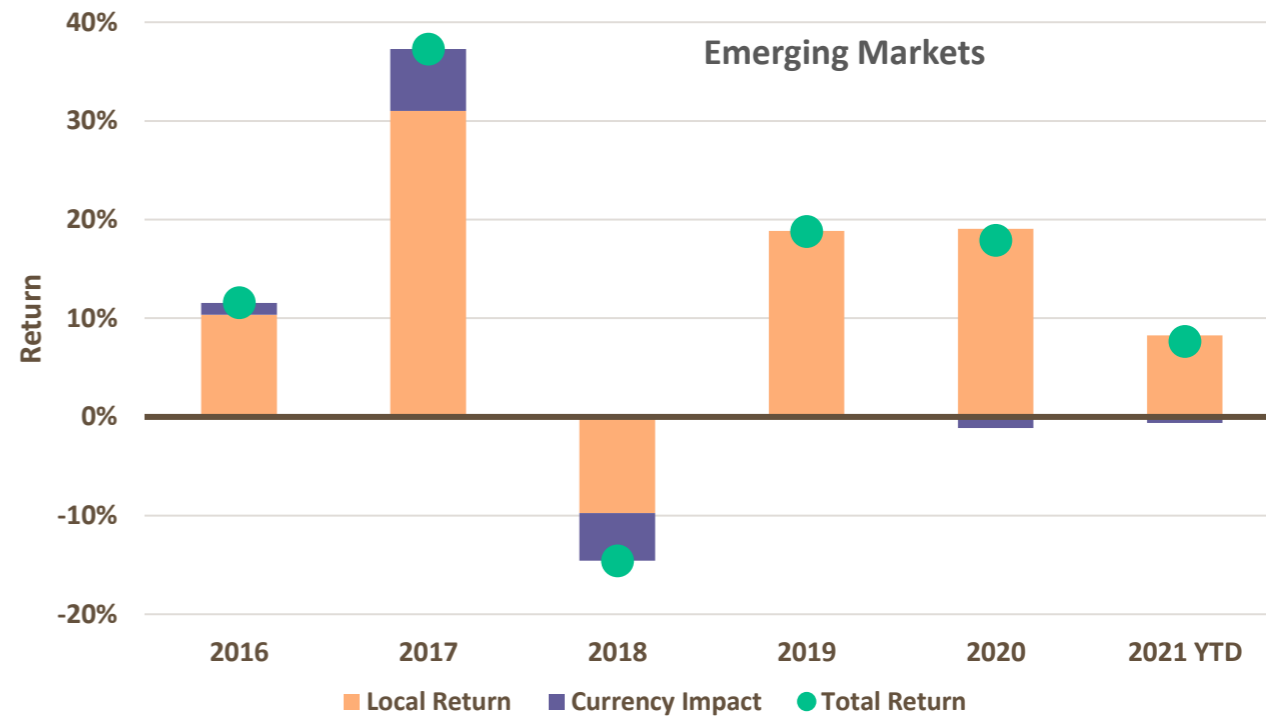
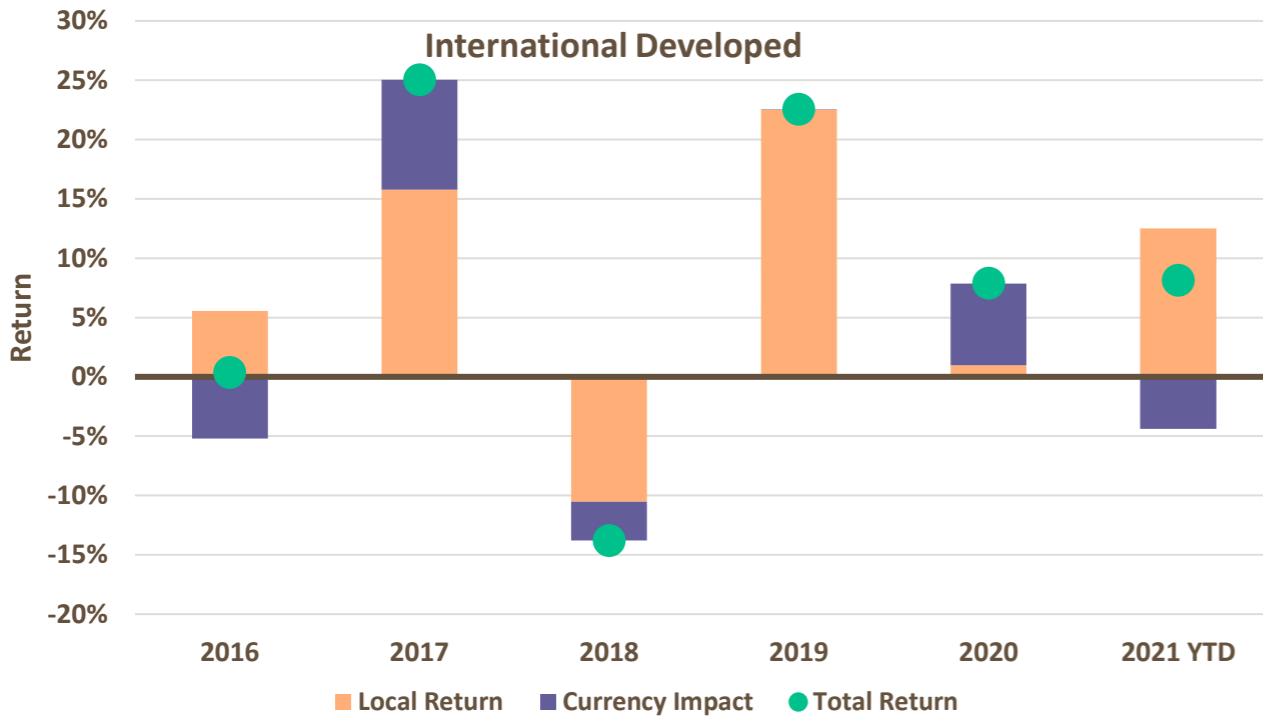
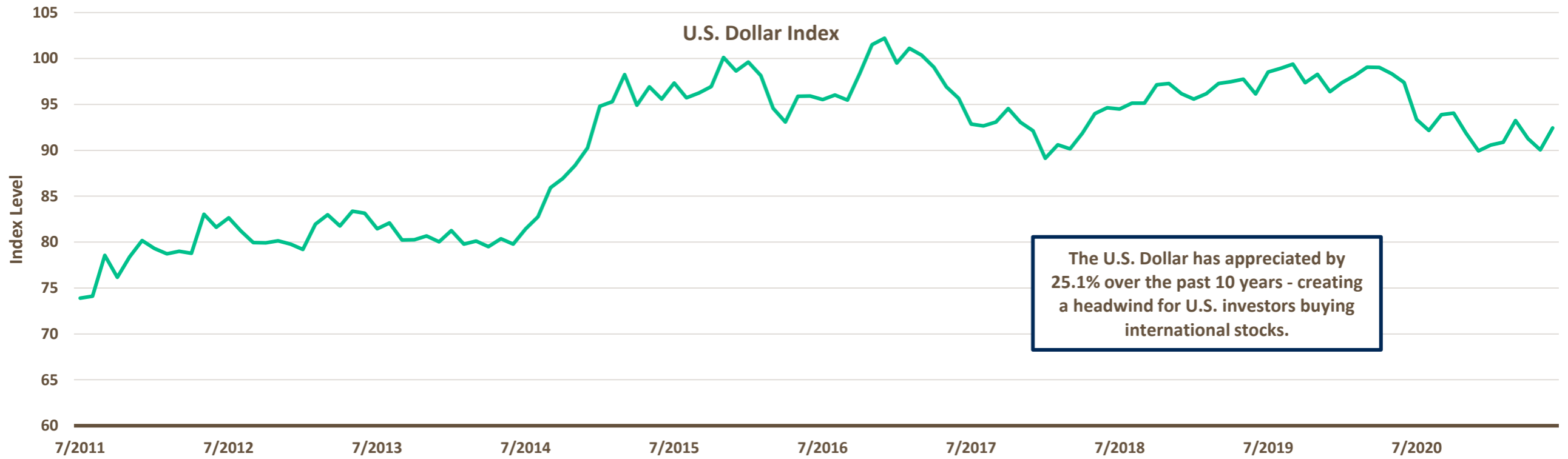
Data as of 6/30/2021. Factor performance calculated relative to broad index. See Endnote 2 for additional disclosures.

# International Equity Factor Performance Relative to Broad Market: Previous 12 Months



Data as of 6/30/2021. Factor performance calculated relative to broad index. See Endnote 2 for additional disclosures.

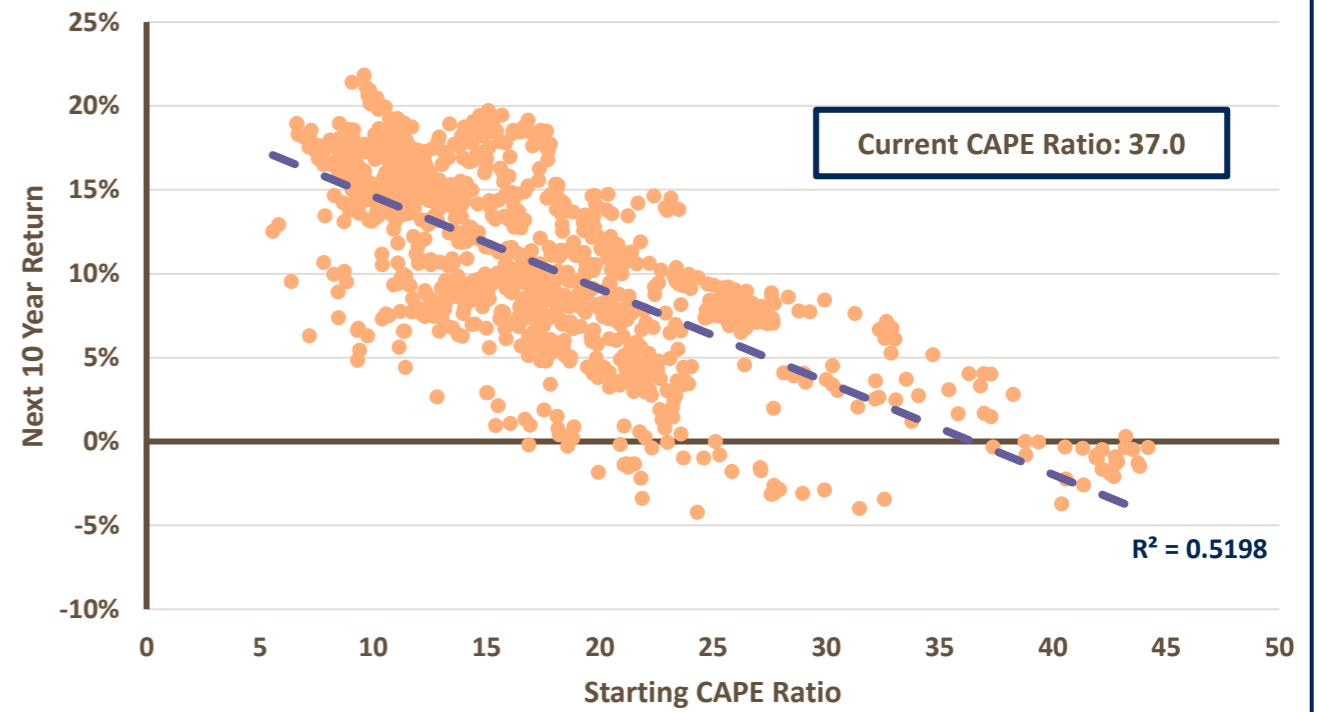
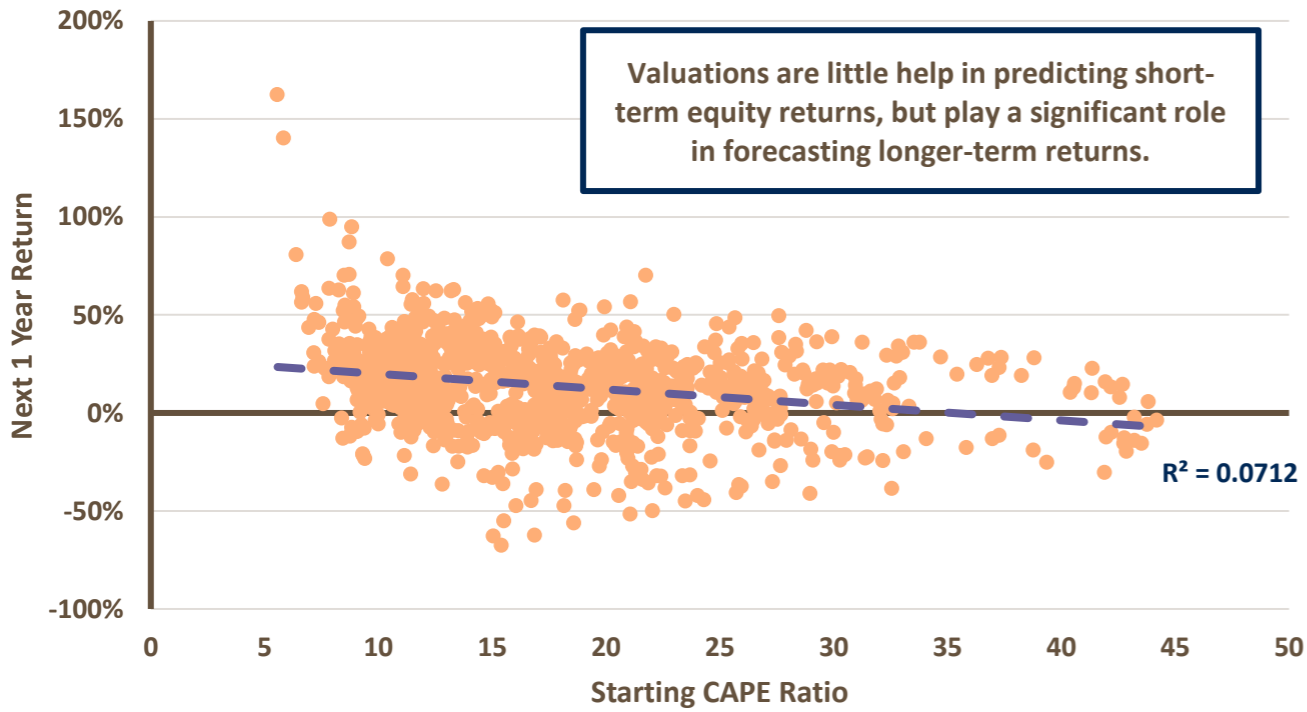
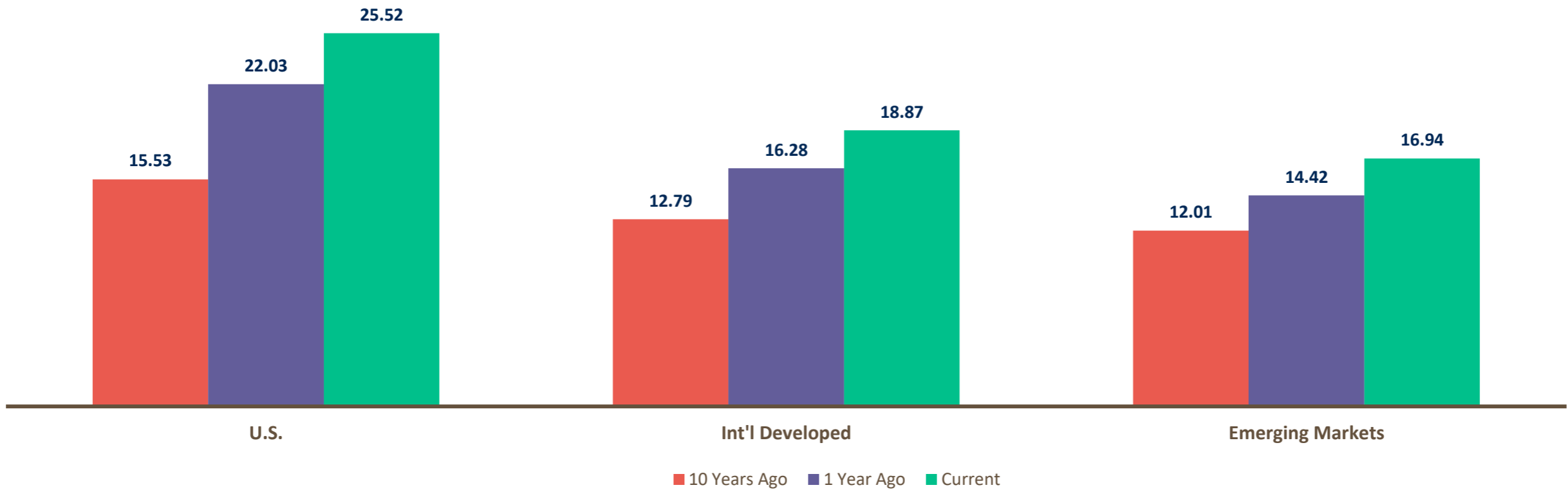
# Currency Impact on International Equity Returns



Data as of 6/30/2021. Data source: Morningstar Direct. See Endnote 3 for additional disclosures.

# Current Equity Valuations and The Impact on Future Returns

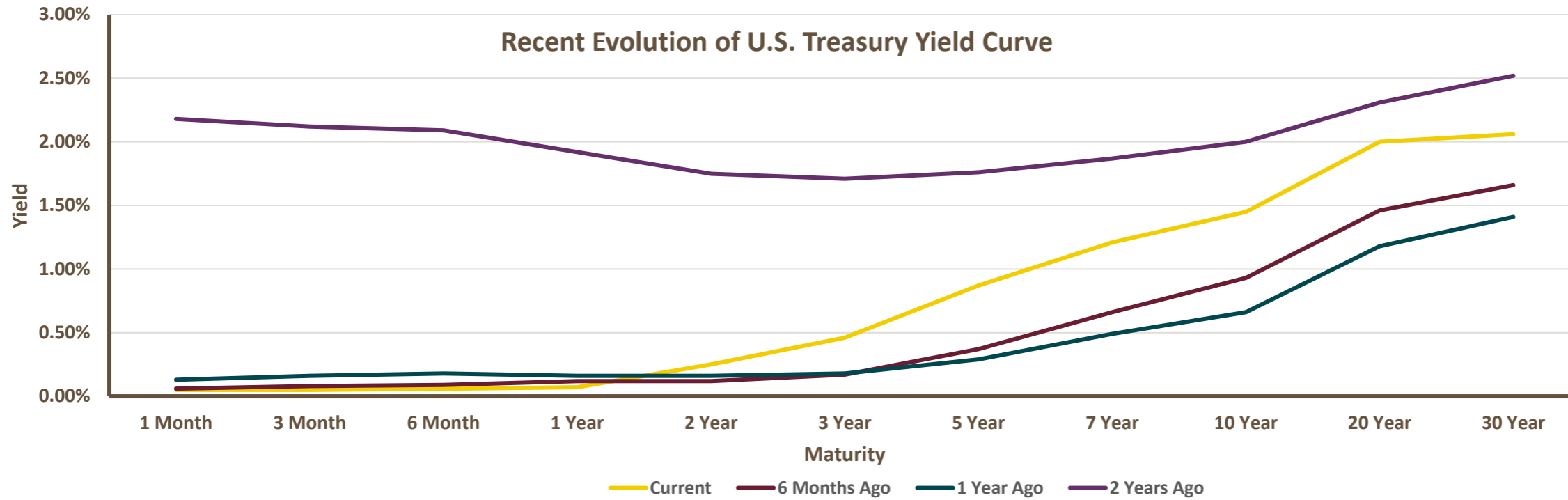
Trailing Twelve Month P/E Ratios by Region



Data as of 6/30/2021. R2 refers to the predictive power a variable has in a regression. A higher R2 (maximum of 1.0) implies a variable is more significant. See Endnote 4 for additional disclosures.

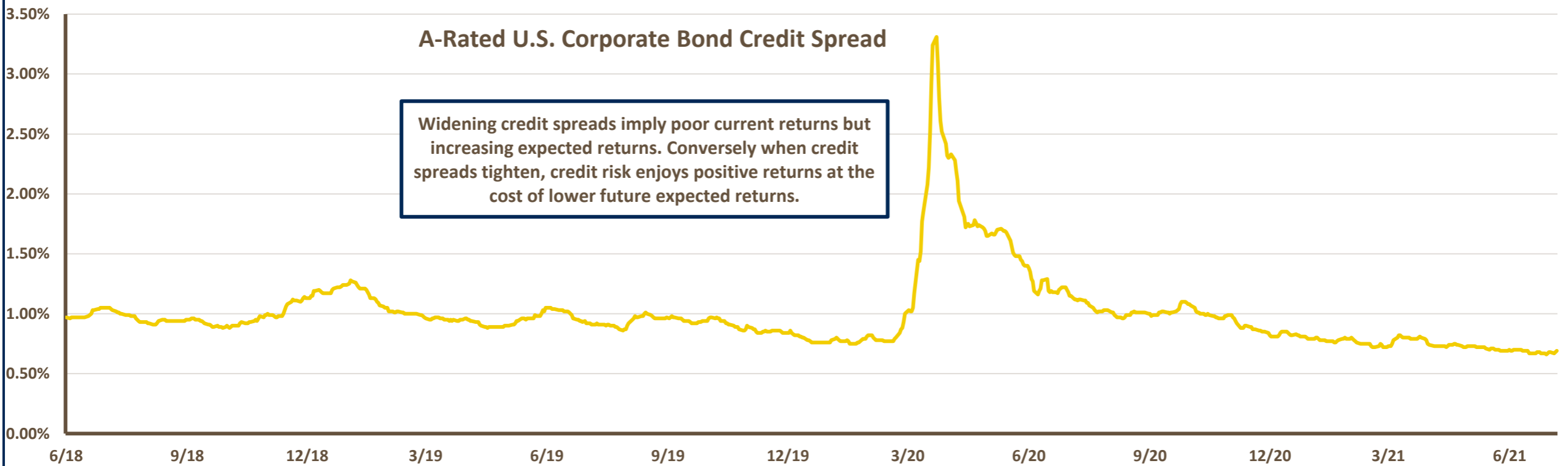
# Drivers of Fixed Income Performance

## Recent Evolution of U.S. Treasury Yield Curve



While rates remain near historic lows along the yield curve, the increasing steepness may forecast better economic prospects.

## A-Rated U.S. Corporate Bond Credit Spread

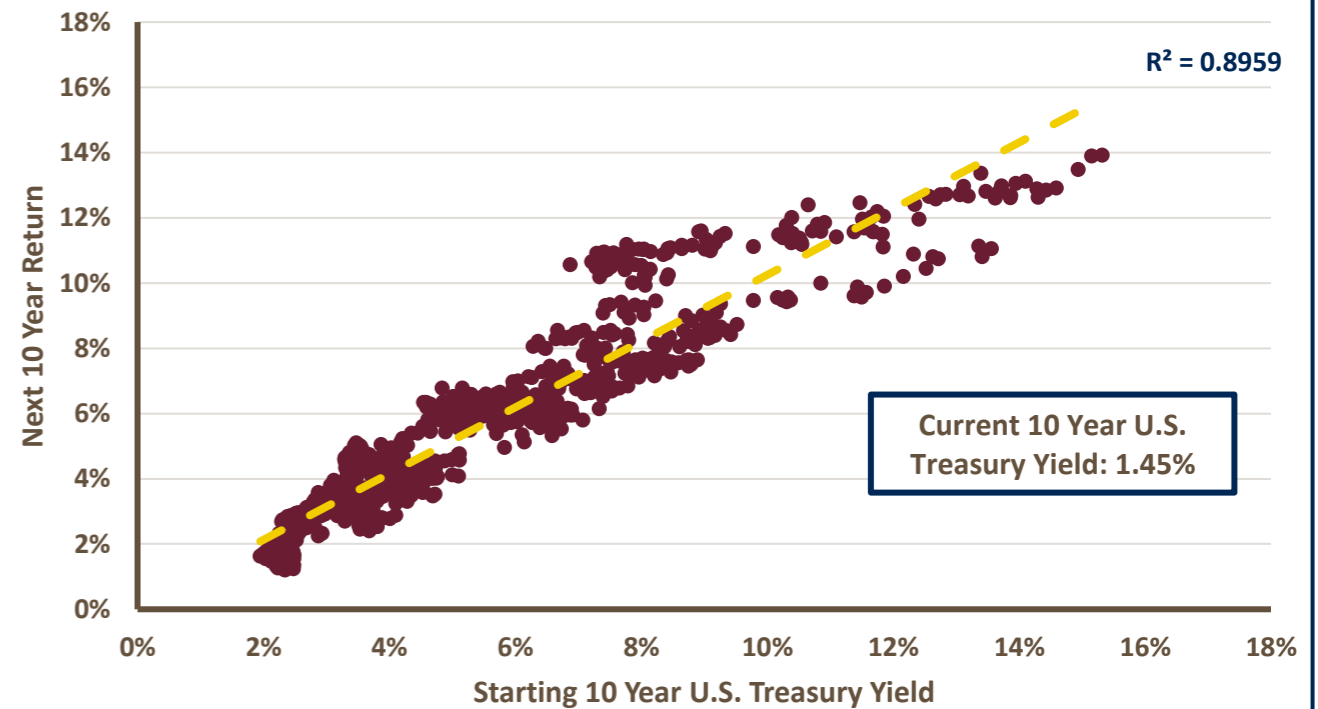
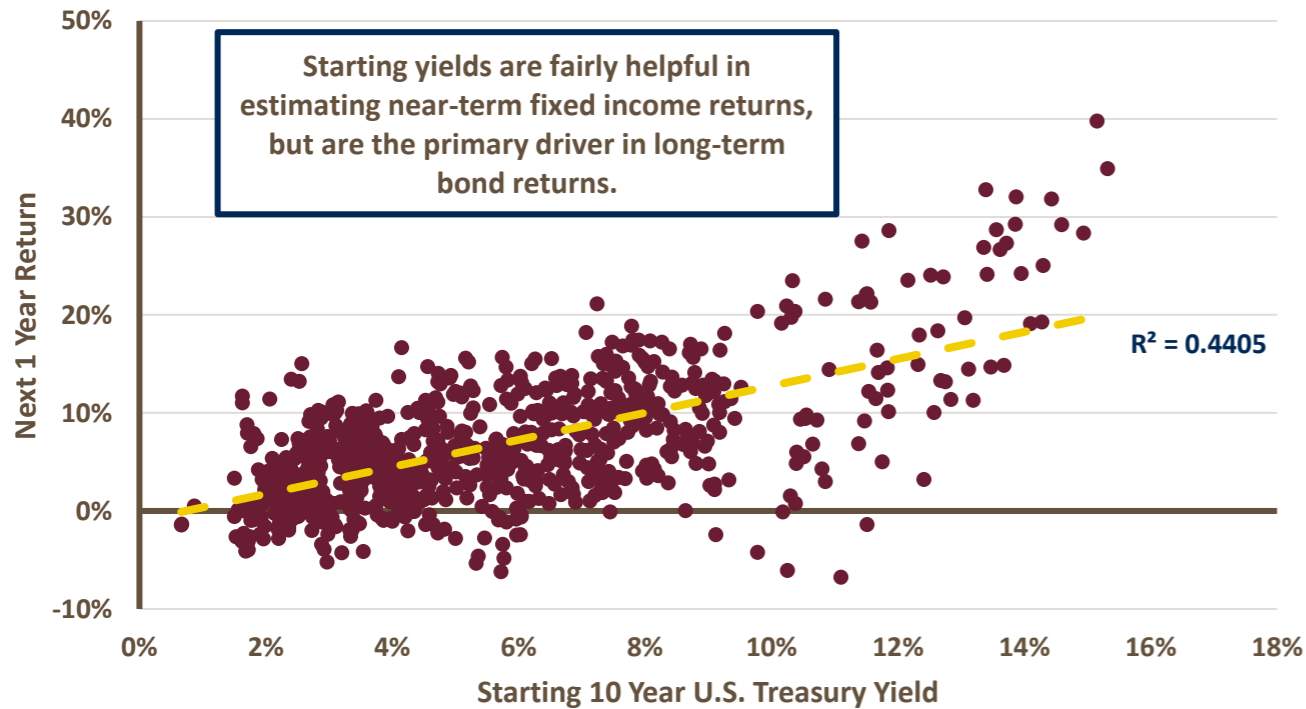
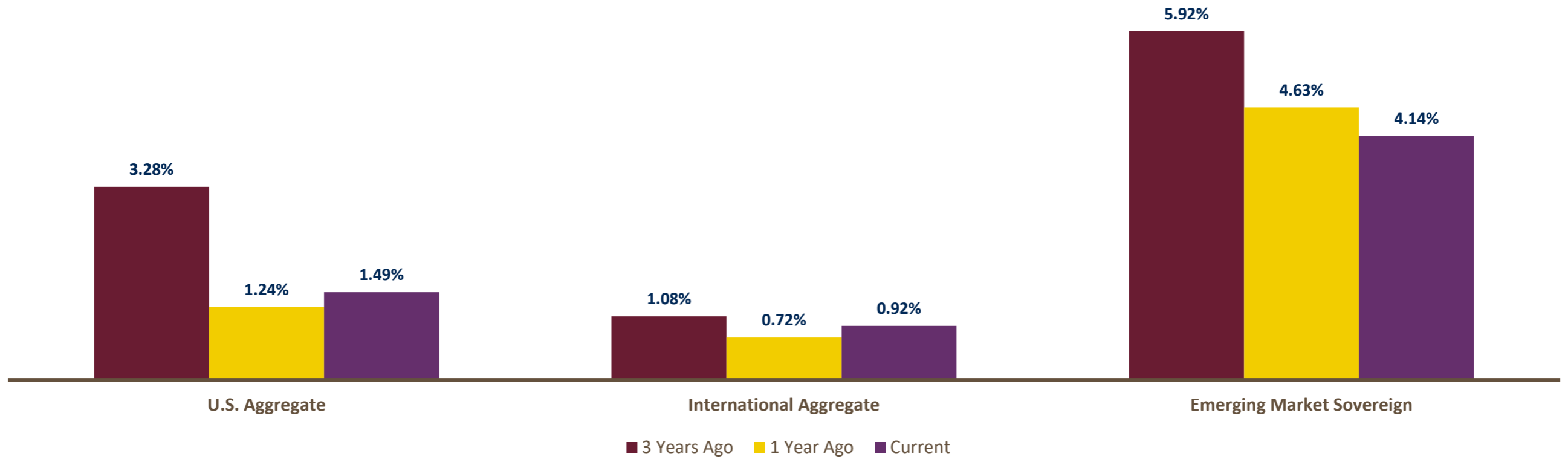


Widening credit spreads imply poor current returns but increasing expected returns. Conversely when credit spreads tighten, credit risk enjoys positive returns at the cost of lower future expected returns.

Data as of 6/30/2021. Data sources: Ycharts, FRED. A-Rated U.S. Corporate Bond Credit Spread is measured by the ICE BofA Single-A US Corporate Index Option-Adjusted Spread.

# Current Fixed Income Yields and The Impact on Future Returns

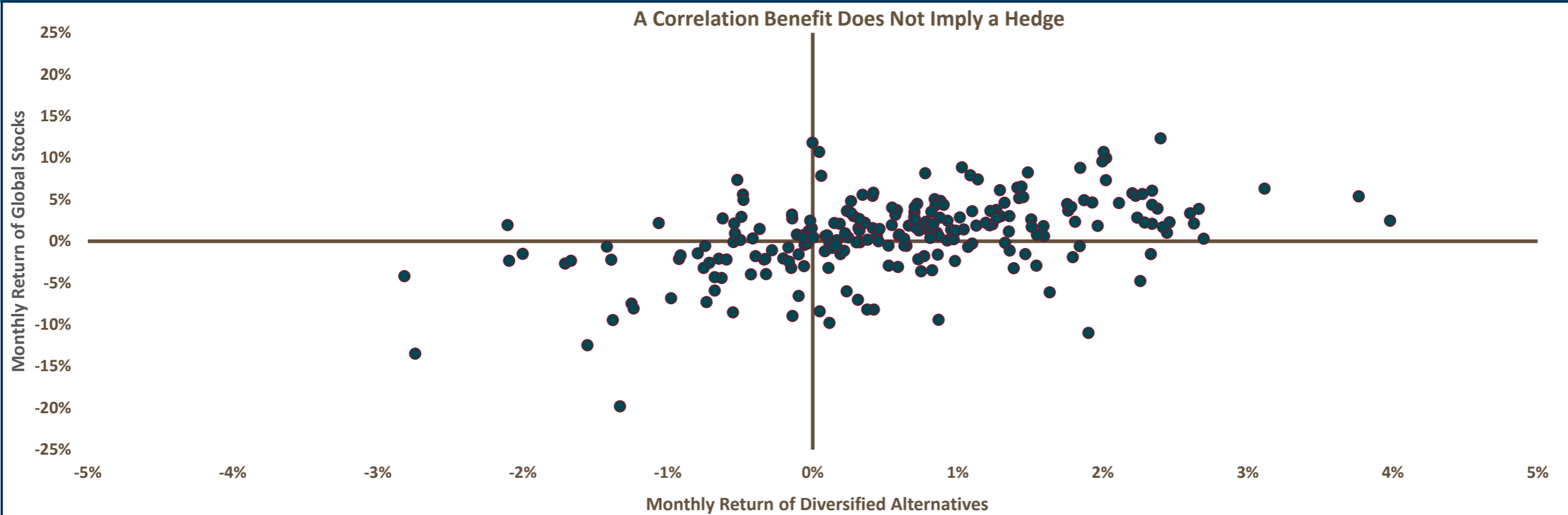
## Yield to Maturity by Region



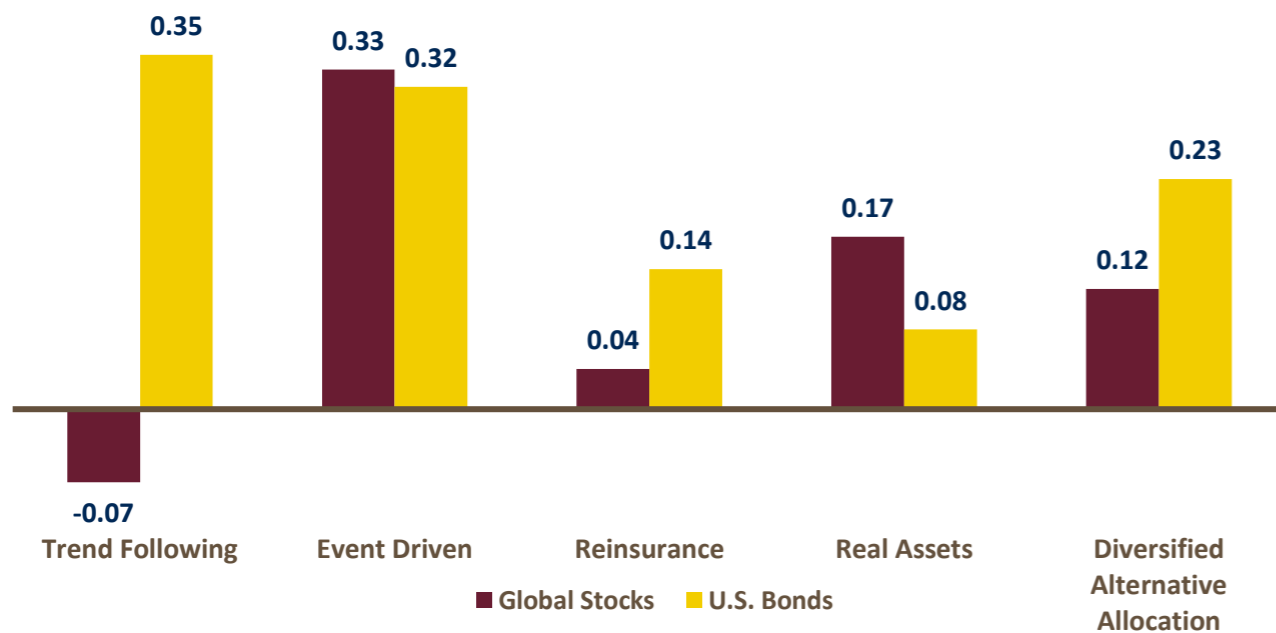
Data as of 6/30/2021. R2 refers to the predictive power a variable has in a regression. A higher R2 (maximum of 1.0) implies a variable is more significant. See Endnote 5 for additional disclosures.



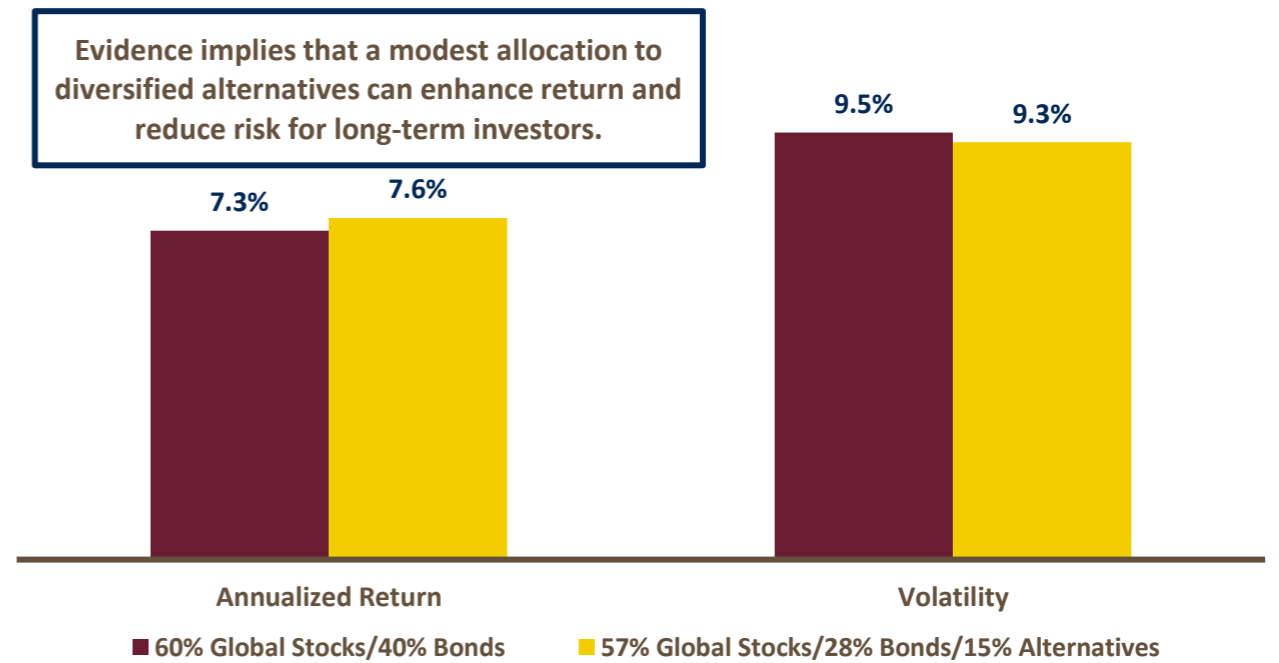
# A Diversified Alternative Allocation Provides a Correlation Benefit



### Beta of Alternatives to Traditional Assets (Last 15 Years)



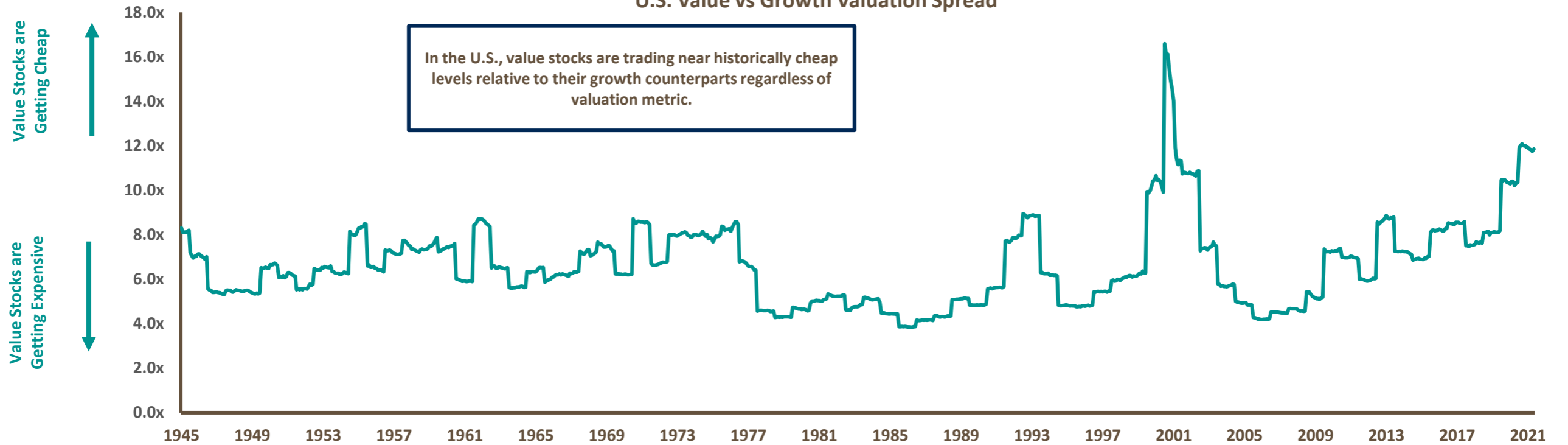
### Historical Performance



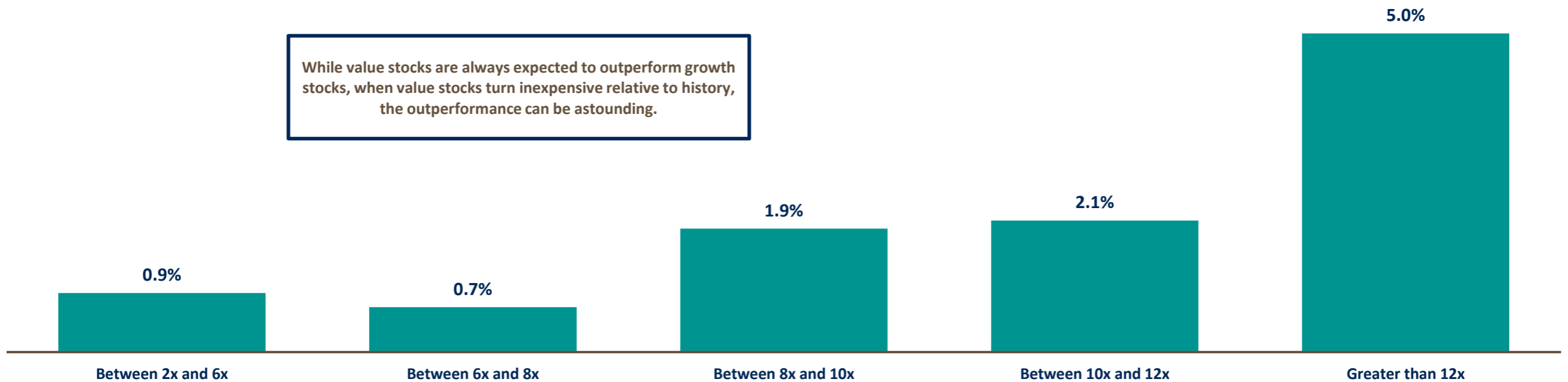
Based on data from 2/2002 through 6/30/2021. Data source: Morningstar Direct. See Endnote 6 for additional disclosures.

# The Value of Value

## U.S. Value vs Growth Valuation Spread



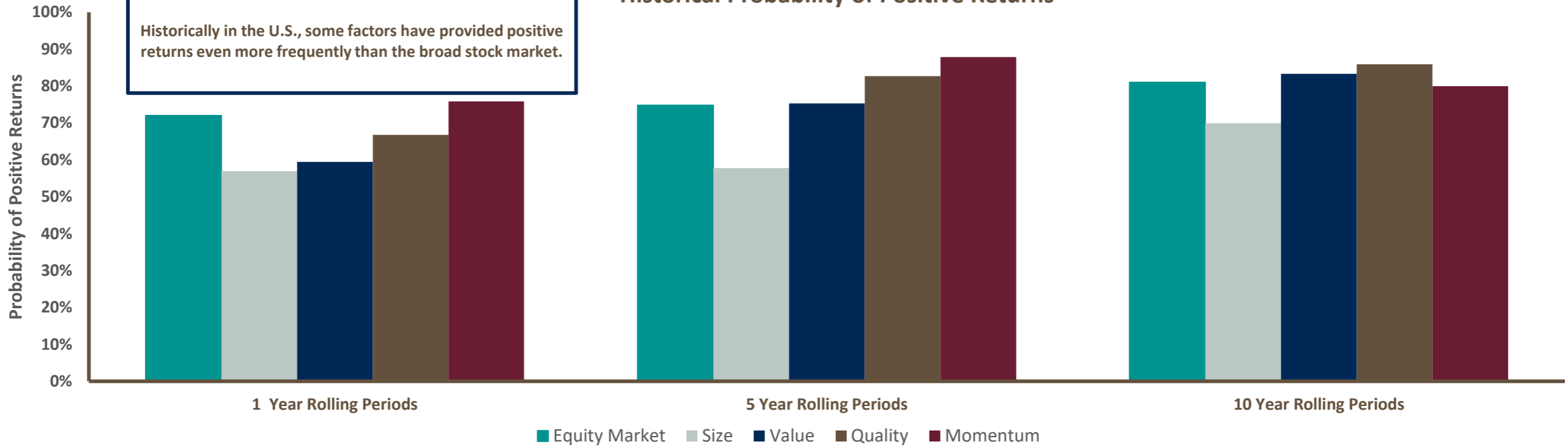
## 5 Year Annualized U.S. Value Premium Based on Starting Value Spread



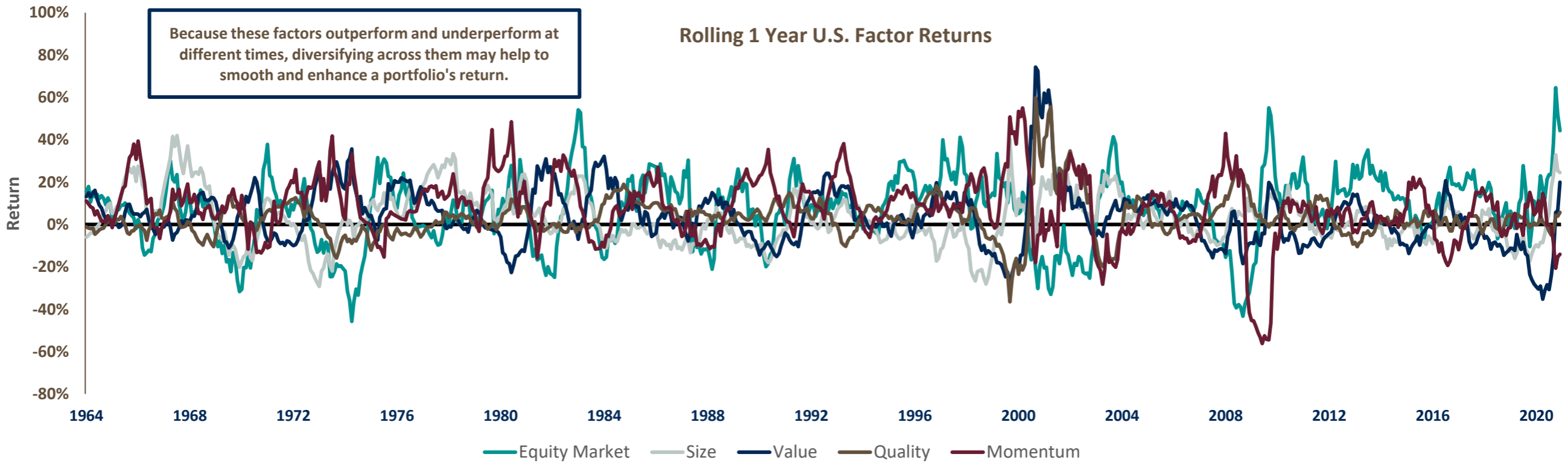
Data as of 5/31/2021. Data source: Kenneth R. French Data Library. Value spread and returns compare the BIG HiBM series to BIG LoBM series.

# Diversifying Across Factors

## Historical Probability of Positive Returns

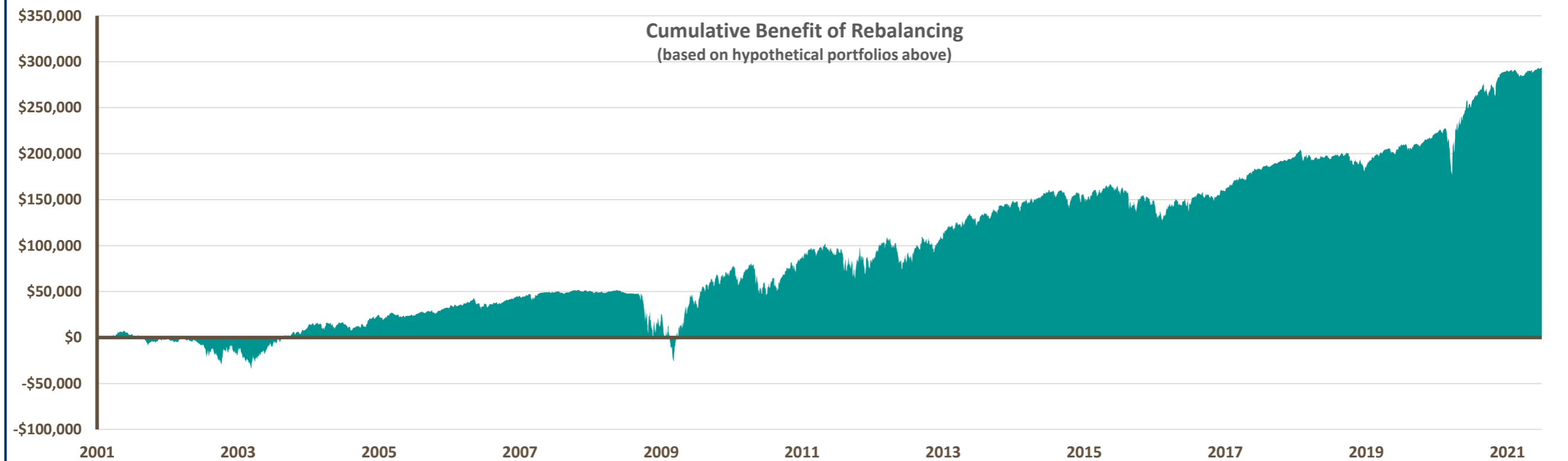
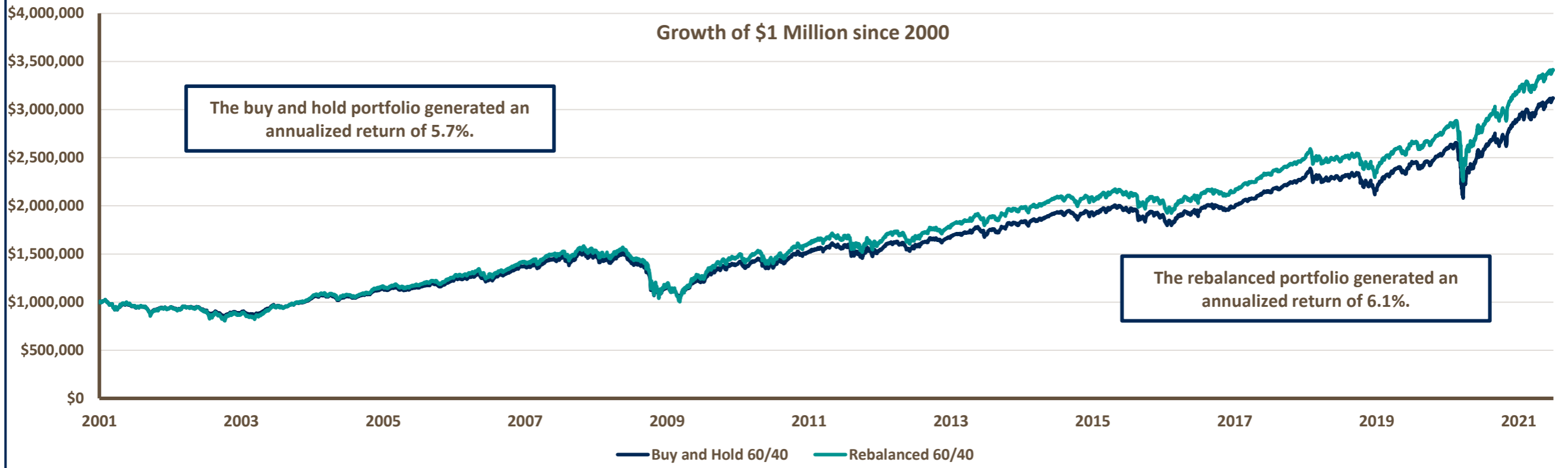


## Rolling 1 Year U.S. Factor Returns



Data as of 5/31/2021. Data source: Kenneth R. French Data Library.

# A Case Study in Rebalancing



Data as of 6/30/2021. See Endnote 7 for additional disclosures.

# Disclosures

**Endnote 1:** Indices used - Global stocks: MSCI ACWI IMI; U.S. Large Core: CRSP US Total Market; U.S. Large Value: MSCI US Prime Market Value; U.S. Large Momentum: MSCI USA Momentum Index; U.S. Large Quality: MSCI USA Sector Neutral Quality Index; U.S. Small Core: Russell 2000; U.S. Small Value: MSCI US Small Cap Value; International Large Core: MSCI EAFE; International Large Value: MSCI EAFE Value; International Small Core: S&P EPAC Small; International Small Value: S&P EPAC Small Value; Emerging Markets: MSCI EM; Global REITs: S&P Global REIT; Short-Term Bond: BBgBarc Credit 1-5 Yr; Intermediate-Term Bond: BBgBarc US Agg Bond; International Bond: JPM GBI Global ex US TR Hdg USD; Inflation-Adjusted Bond: BBgBarc Gbl Infl Linked US TIPS; Multi-Sector Bond: 1/3 BBgBarc US Corporate High Yield, 1/3 BBgBarc US MBS, 1/3 JPM EMBI Global Diversified; Trend Following: Credit Suisse Mgd Futures Liquid; Event Driven: IQ Hedge Event-Driven (appended with other indices prior to inception - available upon request); Reinsurance: SwissRe Global Cat Bond; Real Assets: In the most recent quarter - DJ Brookeld Global Infra, earlier 1/4 DJ Brookfld Global Infra, 1/4 NCREIF Farmland, 1/4 NCREIF Propert, 1/4 NCREIF Timberland (appended with additional indices prior to inception - available upon request).

**Endnote 2:** Indices used - U.S. Large Core: MSCI USA All; U.S. Large Value: MSCI USA Enhanced Value; U.S. Large Momentum: MSCI USA Momentum; U.S. Large Quality: MSCI USA Sector Neutral Quality; U.S. Small Core: MSCI USA Low Size; Int'l Large Core: MSCI World ex USA All Cap; Int'l Large Value: MSCI World ex USA Enhanced Value; Int'l Large Momentum: MSCI World ex US Momentum; Int'l Large Quality: MSCI World ex US Sector Neutral Quality; Int'l Small Core: MSCI World Ex USA Low Size.

**Endnote 3:** Indices used - International: MSCI EAFE; Emerging Markets: MSCI EM. The total return refers to the NR (net return) version of each the index. The local return refers to the LCL (local version of each index). The current impact was determined by subtracting the return of the local return index from the net return index.

**Endnote 4:** P/E proxies for - U.S. Stocks: iShares Core S&P Total US Stock Market ETF; International Stocks: iShares MSCI ACWI ex US ETF; Emerging Markets: iShares MSCI Emerging Markets ETF. CAPE Ratio data is from the Online Shiller Data Library and refers to valuations of U.S. stocks. The corresponding annualized return uses the IA SBBI US Large Stock index.

**Endnote 5:** Yield to maturity proxies for - U.S. Bonds: iShares Core US Aggregate Bond ETF; International Aggregate: iShares Core International Agg Bond ETF; Emerging Market Sovereign: iShares JP Morgan USD Em Mkts Bond ETF. 10 Year Treasury data is from the Online Shiller Data Library and refers to valuations of U.S. stocks. The corresponding annualized return uses the IA SBBI US IT Govt Bond Index.

**Endnote 6:** Indices used - Trend Following: Credit Suisse Mgd Futures Liquid; Event Drive: IQ Hedge Event-Driven (appended with other indices prior to inception - available upon request); Reinsurance: SwissRe Global Cat Bond; Real Assets: In the most recent quarter - DJ Brookeld Global Infra, earlier 1/4 DJ Brookfld Global Infra, 1/4 NCREIF Farmland, 1/4 NCREIF Propert, 1/4 NCREIF Timberland (appended with additional indices prior to inception - available upon request). The 'Diversified Alternative Allocation' is an equal-weight index benchmark, allocating 25% to Trend Following, 25% to Event Driven, 25% to Reinsurance, and 25% to Real Assets via the benchmarks listed above.

**Endnote 7:** Stocks are represented by the MSCI ACWI IMI NR USD Index. Bonds are represented by the BBgBarc US Agg Bond TR USD Index. For the 'Buy and Hold 60/40', the investor is assumed to start with \$600,000 in stocks and \$400,000 in bonds. The investor simply holds the positions and accepts the changes to the portfolio allocation mandated by buy and hold returns. The 'Rebalanced 60/40' investor is assumed to start with the same \$600,000 in stocks and \$400,000 in bonds. However, when this investor's stock allocation drifts below 55% or above 65%, the portfolio is automatically rebalanced back to target. This exhibit does not take management fees, taxes, or taxes strategies such as tax loss harvesting nor tax considerations such as capital gain taxes into account. This case study utilizes returns from 1/1/2000 through last month end.

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Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results.

Data and illustrations reflect hypothetical, back-tested results that were achieved by means of the retroactive application of a back-tested portfolio and, as such, the corresponding results have inherent limitations, including: (a) the portfolio results do not reflect the results of actual trading using investor assets, but were achieved by means of the retroactive application of each of the referenced portfolios, certain aspects of which may have been designed with the benefit of hindsight; (b) back tested performance may not reflect the impact that any material market or economic factors might have had on the adviser's use of the hypothetical portfolio if the portfolio had been used during the period to actually manage investor assets; (c) for various reasons (including the reasons indicated below), clients may have experienced investment results during the corresponding time periods that were materially different from those reflected for the portfolio.