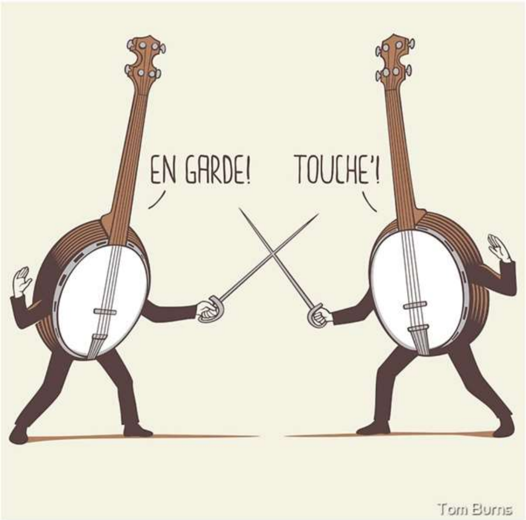
INVESTMENT COMMITTEE: HOUSE VIEWS

August 6, 2021

CURRENT MARKET CONDITIONS

Dueling Narratives

- Since quarter end, markets have sent mixed signals as both stock and bond prices have continued their upward trajectories.
- Measures of economic activity, spending, and profits are well ahead of expectations from a year ago. However, uncertainty around the trajectory of growth, inflation, policy support, and virus conditions have introduced volatility to markets.
- Unique conditions—a full economic reboot with unprecedented fiscal and monetary stimulus—mean there is no playbook for the next phase. As a result, markets may be more sensitive to changes in sentiment, as two primary narratives emerge.



Continued Reopening/Reflation

- Record levels of household wealth, extraordinary stimulus, and vaccine availability set the stage for continued above-trend growth.
- Stocks are growing into their prices through earnings well ahead of expectations. Meanwhile, bonds offer a limited return opportunity for investors.
- As supply chain and labor market disruptions begin to normalize, conditions are favorable for continued corporate earnings strength.

The Case for Caution

- The spread of more transmissible variants of COVID-19 poses a difficult-to-assess threat to economic growth.
- We have likely reached peak growth as the short-term fiscal stimulus jolt must be replaced by longer-term, sustainable consumer and business spending.
- Inflation uncertainty and improvement in labor market conditions raise the risk of a policy surprise, potentially forcing the Fed's hand in paring back ultra-accommodative support sooner than expected.

PORTFOLIO OUTLOOK

- Portfolio positioning has been additive year to date, as equities have outpaced bonds and U.S. stocks have outperformed the rest of the world. Our more recovery-focused, cyclical positions toward value and small-cap stocks have been mixed, as market leadership shifted back toward growth in recent weeks.
- Markets now face several crosscurrents. Consumer and business activity has so far bridged the gap left by the wind down of large-scale government support and stimulus programs. However, labor market and supply chain disruptions linger, and fast-spreading COVID-19 variants pose risks to growth conditions. Inflationary risks are more balanced, with competing threats of cyclical or secular inflation muddying the forward path and pace of Fed policy.

Amid this backdrop, below is a summary of our primary portfolio positioning themes.

Portfolio Positioning

Overweight Equities

We maintain our modest overweight to stocks relative to bonds. While the sharp rebound and low interest rates have led to elevated equity valuations, earnings growth has surprised to the upside, and bond valuations may be even more stretched.

Although we maintain our overweight equity positioning, we have initiated trades to bring equity exposure back toward target. Given the potential for heightened volatility introduced by the crosscurrents described above, we encourage investors to plan for near-term liquidity needs.

Global Equity Composition

The U.S. continues to lead the world in a range of recovery measures. We favor domestic equities due to the more dynamic U.S. economy, stronger policy response, and vaccination advantage. We are monitoring the potential impacts of new COVID-19 variants closely.

Outside the U.S., we currently favor emerging over developed markets due to enduring tailwinds from favorable demographics, valuations, and growth prospects. However, we are mindful of risks posed by China's outsized influence within emerging markets and are exploring ways to manage this exposure.

U.S. Equity Composition

We maintain modest tilts toward value and small-cap stocks within U.S. equities. This positioning reflects our belief that the economic expansion has room to run through 2022, with levels of spending and a re-steepening of the yield curve serving as tailwinds.

Looking ahead, we are assessing strategies to complement our cyclical risk with more defensive positions within equities and fixed income.

INVESTMENT COMMITTEE DASHBOARD – AUGUST 6, 2021

Macroeconomic Policy Framework

Monetary	Fiscal	Regulatory	Trade

While monetary policy remains a potent tailwind, inflationary pressures have forced a more hawkish tone by the Fed. Meanwhile, fiscal stimulus and support programs are waning, uncertainty around tax policy is growing, and regulatory risks are rising both domestically and abroad, particularly within China.

Portfolio Themes

- **Overweight equities over fixed income**
  Stocks continue to be priced attractively relative to bonds. Recent gains have been supported by earnings.
- **Overweight U.S. vs. non-U.S. equities**
  The U.S. maintains a strong global position, leading the world in the economic recovery.
- **Overweight small-cap and value stocks within U.S. equities**
  More economically sensitive companies stand to prosper as the economic recovery continues.
- **Overweight emerging vs. developed international**
  Emerging markets stand to benefit from normalizing supply chains, a global restocking cycle, and demographic trends.
- **Interest rate positioning**
  We maintain a neutral duration stance within portfolios, while favoring sectors with strong fundamentals and attractive yield.

The portfolio positioning guidelines described above represent baseline views. Fulfillment within specific portfolios may vary depending upon operational differences, client circumstances, or other factors. Opinions expressed are subject to change without notice. This is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy.

Discretionary Portfolio Positioning

Equity — *Overweight*

		Domestic	Dev. Intl.	Emerging
Geography	*OW/UW*	**+**	**-**	**+**
	A/P	Active/Passive/Smart	Active	Active
	Style	Value	Growth	Growth

		Large	Mid	Small
Market Cap (Domestic)	*OW/UW*	**-**	**=**	**+**
	A/P	Active/Passive/Smart	Active	Active/Passive
	Style	Modest value tilt relative to benchmark.		

Fixed Income — *Underweight*

Rates	**=**	Maintaining a neutral duration stance.
Inv Grade	**=**	
High Yield	**=/-**	Watching closely as spreads continue to tighten.
Structured	**+**	Maintain exposures to compelling yield opportunities.
EM Debt	**=**	
Key thoughts	We seek a balanced approach by managing duration exposure and a diversified mix of defensive positions and high-quality yield.	

Commodities

Maintain a preference for indirect commodities exposure via equity positioning across style (value) and region (emerging market), for better long-term risk/return potential.

Alternatives

We are increasingly focused on lower-volatility strategies as we position for potential headwinds within fixed income markets moving forward.