

Mid-Month Market Update

August 2021



Sections:

- Commentary.
- The three Es.
- On the horizon.
- Asset class performance.



Commentary:

Three questions



■ What impacted markets over the last month?

- U.S. equity markets seem to be in a summer lull at the moment, with market volatility dropping during the first few weeks of August. The CBOE Volatility Index was back to pre-pandemic lows in early July and early August, and the daily trading range for the S&P 500 Index has been 0.51% (less than half the long-term 1.3% average). The pace at which U.S. economic data is exceeding expectations continued to slow over the last month, particularly in the retail & wholesale sector, and additional disappointments could lead to volatility moving back up off current lows.

■ How were diversified portfolios affected?

- Over the last month, U.S. equity performance was fairly even across market cap sizes, but small value stocks did lag other areas. Nine out of 11 S&P 500 sectors were positive, with energy and consumer discretionary stocks lagging while financials and materials saw the strongest performance. Early August saw energy stocks hit by a 7.7% weekly decline in crude oil prices, driven by concerns over COVID's on-going impact on global demand.
- Globally, emerging market equities were the worst-performing asset class over the last four weeks with China driving the decline. A regulatory crackdown on major Chinese tech firms has driven their stock prices lower; Chinese firms make up 1/3rd of the MSCI EM Index but were responsible for 3/4th of the monthly decline.
- Yields on 10-year U.S. Treasury notes declined every single week in July, falling from 1.52% at the end of June to 1.28% for the week ending August 13.

■ What's on the horizon?

- **8/27** → Personal consumption drove Q2 economic growth almost entirely by its lonesome, so a closer eye is being paid to consumer sentiment which has been negatively impacted by COVID and inflation as of late.
- **8/27** → The Fed's preferred gauge of inflation, the Personal Consumption Expenditures index, for the month of July will give markets further insight into what data the committee will discuss in its September meeting.

The three Es:

- Economy
- Earnings
- Employment

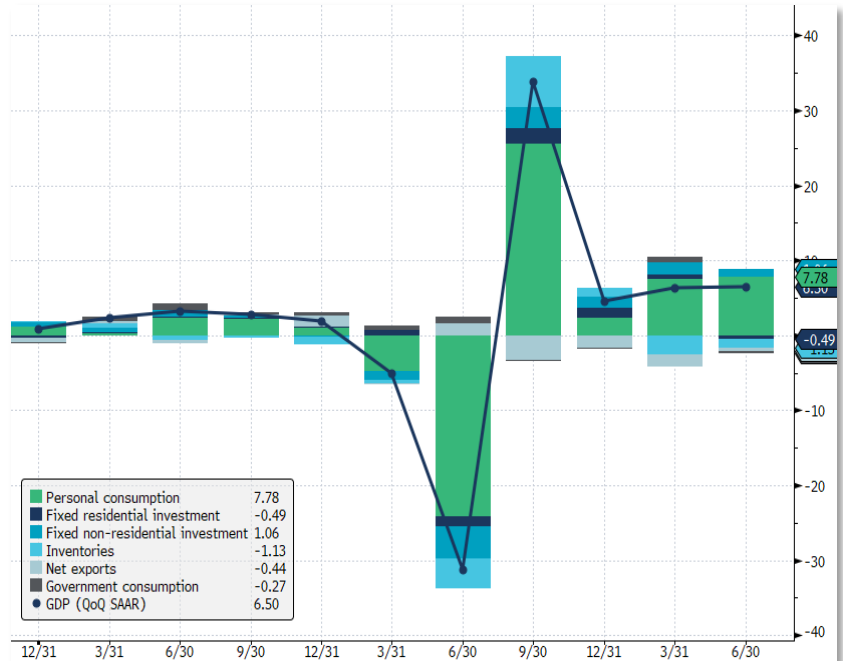


The three Es: Economy, Earnings, Employment



U.S. GDP missed the mark in Q2, expanding at a quarter-over-quarter annualized pace of 6.5% against expectations for 8.4% growth. Consumer spending and non-residential investment drove U.S. economic growth in the second quarter, as every other component was a drag on overall activity. Supply chain constraints weighed on GDP as companies were unable to replenish inventories, which detracted 1.13% from total growth. Despite the miss in Q2, estimates for overall growth in 2021 have held steady since mid-April (the current median estimate in Bloomberg is 6.2% yearly growth in U.S. GDP).

Contributions to U.S. GDP Growth



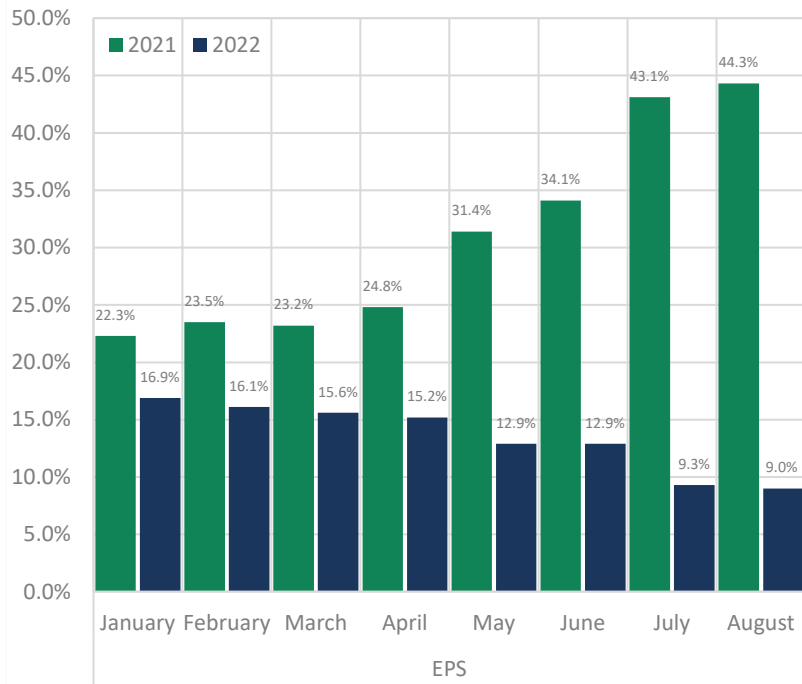
GDP&PCE Index (Contribs to Real GDP Personal Consum Expend Chain 2012 Prices) E Copyright© 2021 Bloomberg Finance L.P. 16-Aug-2021 08:36:41

Source: Bureau of Economic Analysis, Bloomberg. NOTES: This material is incomplete without the accompanying disclosure document.

The three Es: Economy, Earnings, Employment



S&P 500 Calendar Year Earnings Growth Estimates



The Q2 2021 earnings season is wrapping up and has proven to be one of strongest in recent memory. Granted, S&P 500 earnings hit their pandemic low in Q2 2020, so corporate profits were expected to see substantial year-over-year progress this quarter. However, earnings growth vastly exceeded what were already lofty expectations coming into the season. At the beginning of the year, analysts thought S&P 500 earnings per share (EPS) growth would be 22% for the full year. That number has now doubled to 44% EPS growth in 2021, based on actual results reported through the first two quarters plus Q3 and Q4 estimates. The high growth in 2021 has led to lower expectations for next year, though 2022 earnings are still expected to exceed 2021 by about nine percent.

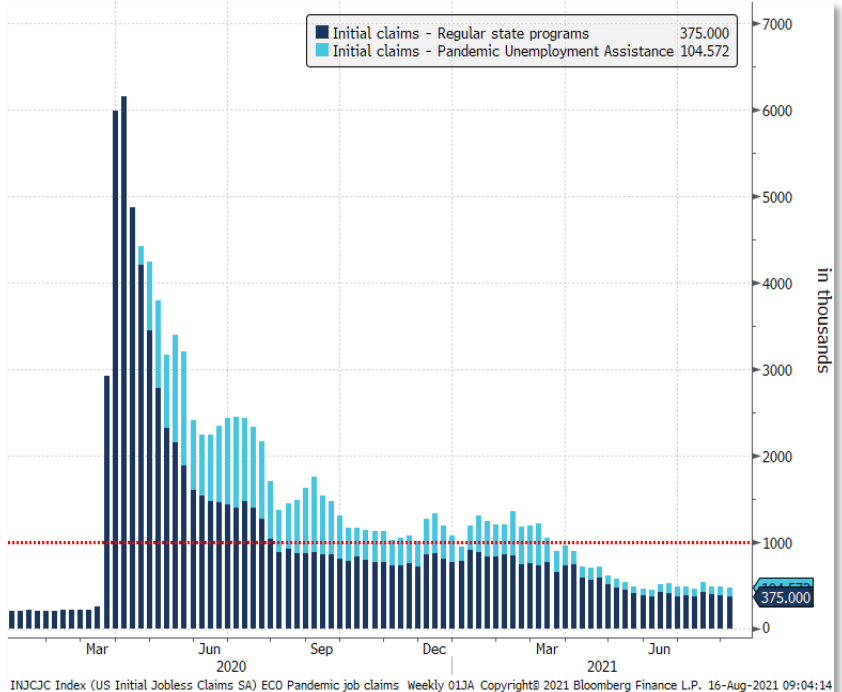
Source: Bloomberg. As of 8/13/2021. NOTE: This material is incomplete without the accompanying disclosure document.

The three Es: Economy, Earnings, Employment



Weekly data on unemployment claims has held steady over the past few months, albeit at a level that is higher than pre-pandemic. As Bloomberg notes, on-going labor shortages and an end to supplemental benefits in more states should help drive additional declines in unemployment claims. Weekly claims filed under Pandemic Unemployment Assistance programs have fallen below 100,000 in eight of the last 13 weeks (the peak in weekly claims under PUA programs was 1.3 million for the week ending May 22, 2020). Continuing claims have also declined, while the number of persons who have been unemployed for 27 weeks or longer seems to have peaked.

Initial Claims for Unemployment Insurance



Source: Department of Labor, Bloomberg. As of 8/6/2021. This material is incomplete without the accompanying disclosure document.

On the horizon

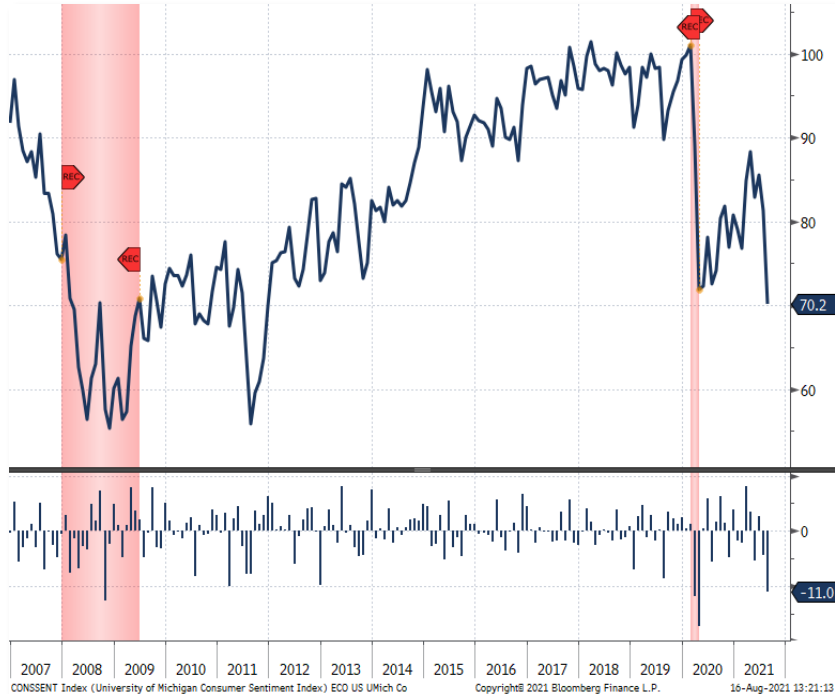


- 8/27 → Consumer sentiment
- 8/27 → Personal consumption expenditures

On the horizon: Consumer sentiment



University of Michigan Consumer Sentiment Index



Another wave of increasing daily coronavirus cases and several months' worth of high inflation data has put an immediate damper on consumer sentiment. The University of Michigan Consumer Sentiment Index fell 11 points to a nearly ten-year low in August, per preliminary data. The drop in sentiment was more pronounced in the "future expectations" portion of the survey, which was down 13.8 points versus a 6.6-point decline for the outlook on current conditions. On Aug. 27, we'll get the final reading for the month, as markets have an eye on further deterioration in the consumer's outlook.

Source: University of Michigan, Bloomberg. NOTE: Top panel charts index; bottom panel shows monthly change in index level. This material is incomplete without the accompanying disclosure document.

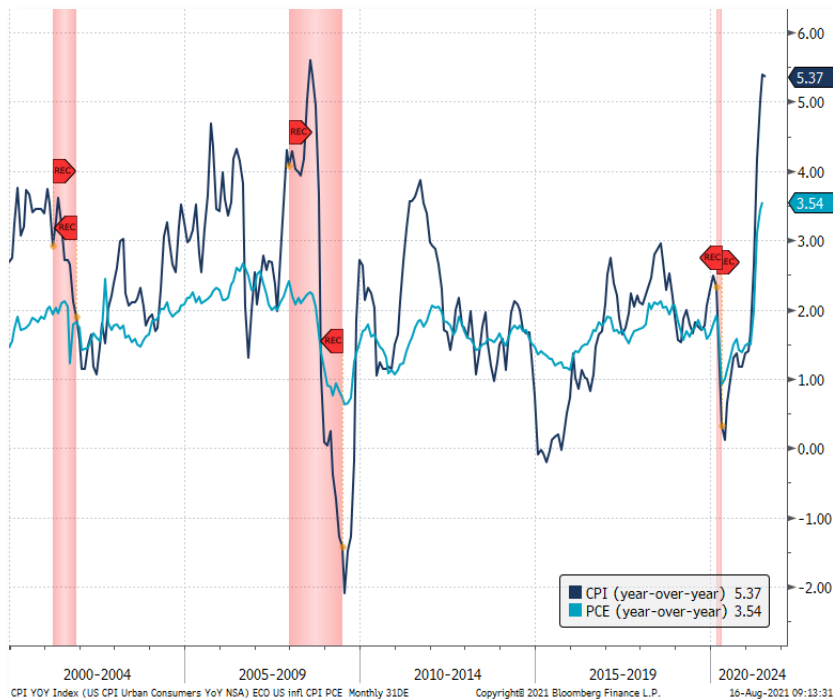
On the horizon:

Personal consumption expenditures



The recent rise in inflation measures, their potential impact on Federal Reserve (Fed) policy, and policy's impact on equity market leadership and bond yields remains a key focus for markets. While the Consumer Price Index (CPI) gets plenty of attention, the Fed tends to focus more on the PCE (Personal Consumption Expenditures) price index. The most recent PCE data showed a 3.5% year-over-year change. Analytics from Bloomberg Economics estimates that a 5.4% reading in CPI will translate to a 4.1% reading when the next PCE data is released. That remains well above the 2% target and will be a key item discussed at the September Fed meeting.

U.S. Inflation Measures



Source: Bureau of Labor Statistics, Bloomberg. As of 8/15/2021. NOTE: This material is incomplete without the accompanying disclosure document.

Asset class performance:



- Annual periodic table
- Year-to-date asset class performance
- Style and region performance

Asset class performance: Annual returns



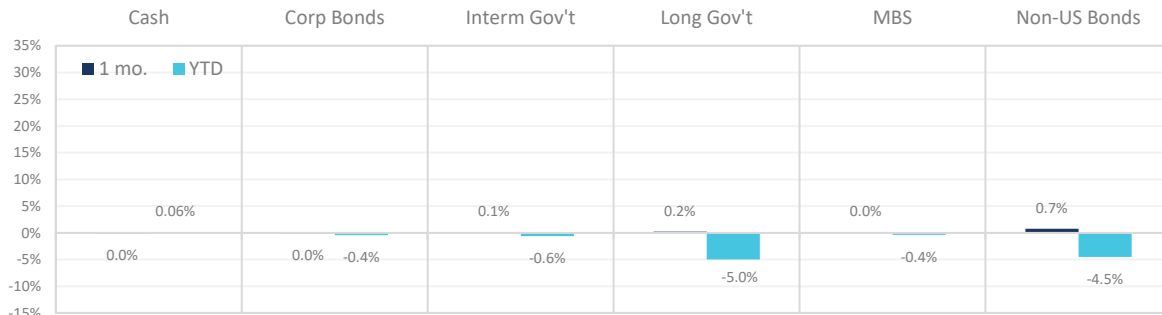
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Best ↑	Long Gov't 29.1%	Europe Stocks 19.1%	Small Growth 42.7%	Long Gov't 24.7%	Large Growth 5.5%	Small Value 31.3%	Emg Markets 37.3%	Cash 1.5%	Large Value 31.9%	Large Growth 33.5%	Small Value 26.2%
	Corp Bonds 8.1%	Mid Value 18.5%	Small Value 40.0%	Large Growth 14.9%	Pacific Stocks 3.0%	Mid Value 26.5%	Large Growth 27.4%	Intern Gov't 1.4%	Large Growth 31.1%	Mid Growth 22.8%	Mid Value 25.2%
	MBS 6.2%	Emg Markets 18.2%	Mid Value 34.3%	Large Value 12.4%	Small Growth 2.8%	Small Growth 22.2%	Europe Stocks 25.5%	MBS 1.0%	Mid Growth 26.3%	Small Growth 19.6%	Large Growth 20.3%
	Intern Gov't 6.1%	Small Value 18.2%	Mid Growth 32.8%	Mid Value 12.1%	Mid Growth 2.0%	Large Value 17.4%	Pacific Stocks 24.6%	Large Growth 0.0%	Mid Value 26.1%	Emg Markets 18.3%	Large Value 19.6%
	Non-US Bonds 5.2%	Large Value 17.7%	Large Growth 32.8%	Mid Growth 7.6%	MBS 1.5%	Mid Growth 14.8%	Mid Growth 19.9%	Long Gov't -1.8%	Small Value 24.5%	Long Gov't 17.6%	Europe Stocks 16.9%
	Large Growth 4.7%	Mid Growth 17.3%	Large Value 32.0%	Small Value 7.5%	Intern Gov't 1.2%	Emg Markets 11.2%	Large Value 15.4%	Non-US Bonds -1.8%	Europe Stocks 23.8%	Pacific Stocks 11.9%	Small Growth 16.7%
	Small Growth 3.6%	Large Growth 14.6%	Europe Stocks 25.2%	Corp Bonds 7.5%	Cash -0.1%	Large Growth 6.9%	Small Growth 14.8%	Corp Bonds -2.5%	Small Growth 21.1%	Non-US Bonds 10.8%	Mid Growth 13.4%
	Cash 0.4%	Small Growth 14.6%	Pacific Stocks 18.3%	MBS 6.1%	Corp Bonds -0.7%	Corp Bonds 6.1%	Mid Value 12.3%	Small Growth -4.1%	Pacific Stocks 19.3%	Corp Bonds 9.9%	Pacific Stocks 5.3%
	Large Value -0.5%	Pacific Stocks 14.4%	Cash 0.2%	Small Growth 3.9%	Long Gov't -1.2%	Pacific Stocks 4.2%	Small Value 11.5%	Large Value -9.0%	Emg Markets 18.4%	Intern Gov't 5.7%	Emg Markets 0.5%
	Mid Growth -0.9%	Corp Bonds 9.8%	Intern Gov't -1.2%	Intern Gov't 2.5%	Europe Stocks -2.8%	Non-US Bonds 1.8%	Non-US Bonds 10.3%	Mid Growth -10.3%	Long Gov't 14.7%	Europe Stocks 5.4%	Cash 0.1%
	Small Value -1.4%	Long Gov't 3.8%	MBS -1.4%	Cash 0.0%	Large Value -3.1%	MBS 1.7%	Long Gov't 8.5%	Mid Value -11.9%	Corp Bonds 14.5%	MBS 3.9%	MBS -0.4%
	Mid Value -2.4%	MBS 2.6%	Corp Bonds -1.5%	Emg Markets -2.2%	Non-US Bonds -5.5%	Long Gov't 1.4%	Corp Bonds 6.4%	Pacific Stocks -12.0%	MBS 6.4%	Mid Value 3.7%	Corp Bonds -0.4%
	Europe Stocks -11.1%	Intern Gov't 1.7%	Emg Markets -2.6%	Non-US Bonds -2.7%	Mid Value -6.7%	Intern Gov't 1.1%	MBS 2.5%	Small Value -12.6%	Non-US Bonds 5.3%	Small Value 2.5%	Intern Gov't -0.6%
	Pacific Stocks -13.7%	Non-US Bonds 1.5%	Non-US Bonds -4.6%	Pacific Stocks -2.7%	Small Value -6.7%	Cash 0.4%	Intern Gov't 1.1%	Emg Markets -14.6%	Intern Gov't 5.2%	Cash 1.8%	Non-US Bonds -4.5%
Worst ↓	Emg Markets -18.4%	Cash 0.1%	Long Gov't -12.5%	Europe Stocks -6.2%	Emg Markets -14.9%	Europe Stocks -0.4%	Cash 0.3%	Europe Stocks -14.9%	Cash 3.1%	Large Value 1.4%	Long Gov't -5.0%

Source: Morningstar Direct. NOTE: "2021" returns as of 8/15/2021. Asset class returns are represented by the following indices – Cash (USTREAS T-Bill Constant Maturity Rate 1 Yr), Corp Bonds (BBGBarc US Corp Bond TR), Intern Gov't (BBGBarc US Gov Intern TR), Long Gov't (BBGBarc US Government Long TR), MBS (BBGBarc US MBS TR), Non-US Bonds (FTSE WGBI NonUSD), Large Growth (S&P 500 Growth TR), Large Value (S&P 500 Value TR), Mid Growth (S&P MidCap 400 Growth TR), Mid Value (S&P MidCap 400 Value TR), Large Growth (S&P SmallCap 600 Growth TR), Small Value (S&P SmallCap 600 Value TR), Europe Stocks (MSCI Europe NR), Pacific Stocks (MSCI Pacific NR), Emg Markets (MSCI EM NR). This material is incomplete without the accompanying disclosure document.

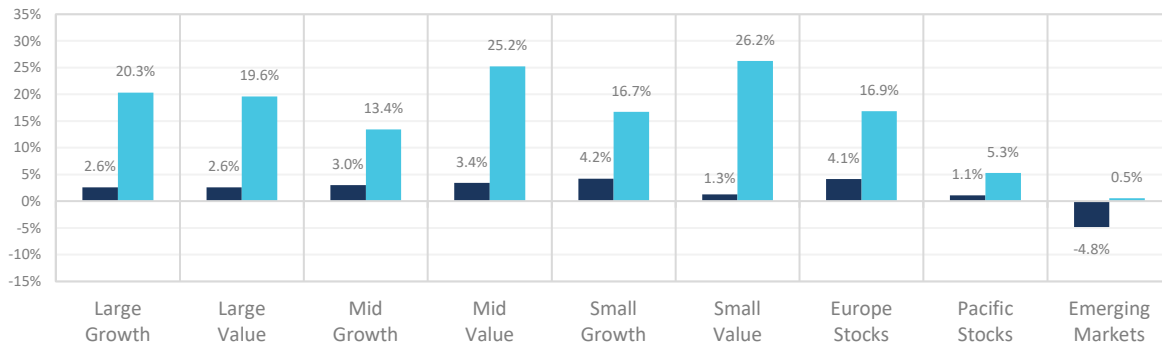
Asset class performance: 1 month & YTD returns



Fixed Income



Equities



Source: Morningstar Direct. NOTE: 1 mo. returns cover 7/16/2021 to 8/15/2021. YTD returns as of 8/15/2021. Asset class returns are represented by the following indices – Cash (USTREAS T-Bill Constant Maturity Rate 1 Yr), Corp Bonds (BBgBarc US Corp Bond TR), Interm Gov't (BBgBarc US Govt Interm TR), Long Gov't (BBgBarc US Government Long TR), MBS (BBgBarc US MBS TR), Non-US Bonds (FTSE WGBI NonUSD), Large Growth (S&P 500 Growth TR), Large Value (S&P 500 Value TR), Mid Growth (S&P MidCap 400 Growth TR), Mid Value (S&P MidCap 400 Value TR), Small Growth (S&P SmallCap 600 Growth TR), Small Value (S&P SmallCap 600 Value TR), Europe Stocks (MSCI Europe NR), Pacific Stocks (MSCI Pacific NR), Emg Markets (MSCI EM NR). This material is incomplete without the accompanying disclosure document.

Asset class performance: Size, style and region returns



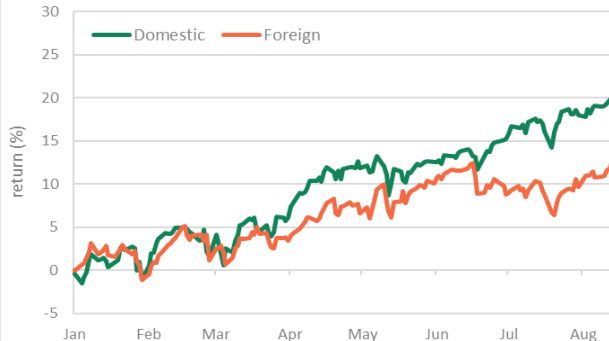
Large cap vs. small cap



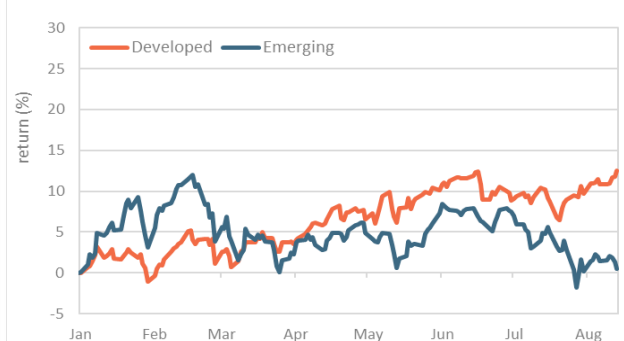
Growth vs. value



Domestic vs. foreign



Developed vs. emerging



Source: Bloomberg. Returns shown are YTD as of 8/15/2021. NOTE: Asset class returns are represented by the following indices – U.S. Large-Cap (S&P 500 TR); U.S. Small-Cap (S&P SmallCap 600 TR); U.S. Growth (S&P 1500 Growth TR); U.S. Value (S&P 1500 Value TR); U.S. Domestic Stocks (S&P 500 TR); Foreign Stocks (MSCI All Country World Index Ex-USA NR USD); Developed Markets (MSCI EAFE NR); Emerging Markets (MSCI EM NR). This material is incomplete without the accompanying disclosure document.



Disclosure document

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