



MARKET
ENVIRONMENT

MARKET ENVIRONMENT 3Q21: US EQUITY

Returns compress over mounting concerns

- S&P 500 rose 0.6% in 3Q21, and smaller cap growth indices posted their first negative quarter since the March 2020 low.
- Slowing economic growth, supply chain disruptions, and inflationary pressure, as well as uncertainty around monetary policy, decreased investors' risk appetite.
- In general, high quality topped lower quality in large cap.
- Economically sensitive sectors such as Industrials (-4.2%) lagged; Financials (+2.7%) benefited.
- Growth outperformed value in large cap, and value outperformed growth in small cap.
- YTD, small value outperformed small growth by a whopping 2,000 bps (Russell 2000 Value: 22.9% vs. Russell 2000 Growth: 2.8%), a stark reversal from the prior year.

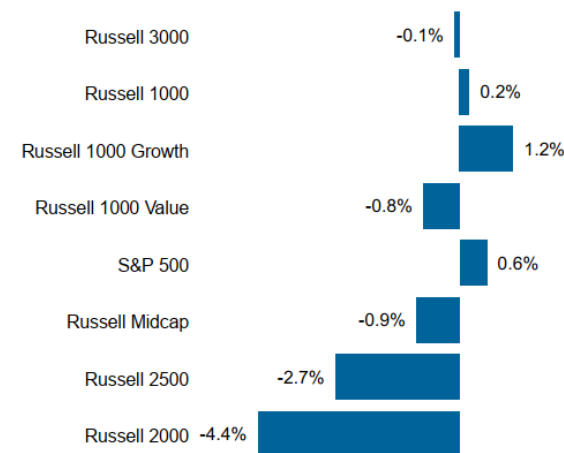
Diversification and rebalancing are best defense

- Few if any pockets of opportunity remain in the equity markets as valuations have hit or exceeded long-term averages given the recent market run.
- Investors are grappling with exposures to risk assets: What to do? Where to go?
- The whipsaw effect over the last two years illustrates the need to remain committed to a long-term plan that emphasizes diversification and disciplined rebalancing.

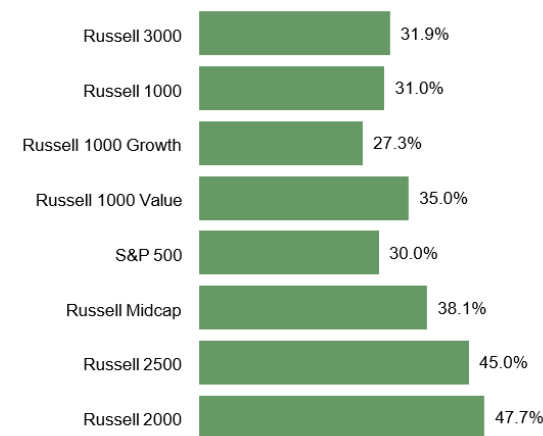
Inflation and equity: not so bad, up to a point

- Investors typically fare OK with expected inflation levels but are impaired when inflation is unexpectedly higher.
- Pre-GFC, stocks and interest rate movements (proxy for inflation) were highly correlated until 10-year U.S. Treasury yields reached 4.5%.
- Post-GFC, stocks and interest rate movements were highly correlated until 10-year yields reached 3.5%.
- The current 10-Year Treasury yield is 1.5%.

U.S. Equity: Quarterly Returns

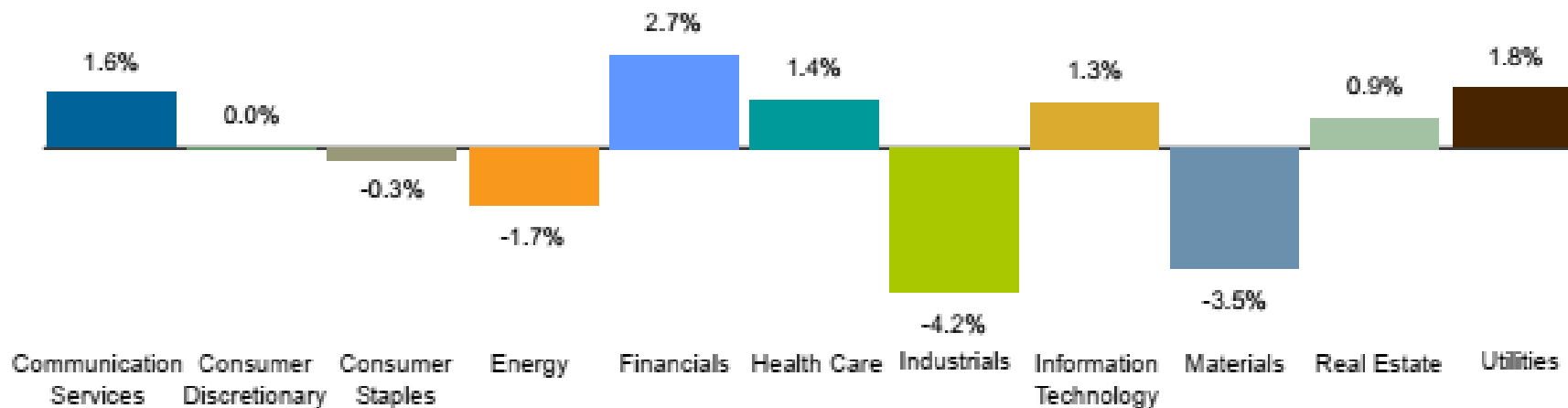


U.S. Equity: One-Year Returns



MARKET ENVIRONMENT 3Q21: US EQUITY

Industry Sector Quarterly Performance (S&P 500)



Source: S&P Dow Jones Indices

MARKET ENVIRONMENT 3Q21: GLOBAL EX-U.S. EQUITY

Fears of stagflation stoke market volatility

- Delta variant flare-ups and slowdown in China weighed on global recovery.
- COVID-driven supply chain disruption continues to push inflation higher.
- Small cap outpaced large as global recovery concerns disproportionately punished large cap companies.
- Emerging markets struggled relative to developed markets as growth prospects were under pressure for China and Brazil.

Market pivots to cyclicals

- Energy crunch fueled the sector to the highest return in the quarter as demand outstripped supply.
- Financials outperformed; Real Estate and Utilities generally underperformed with higher interest rate expectations.
- Sentiment and momentum signals added value in developed markets but not in emerging markets.

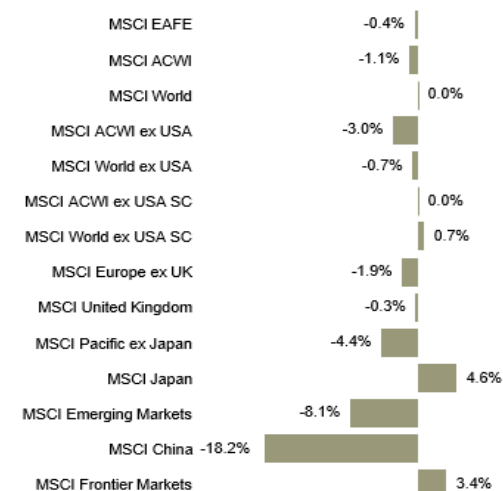
U.S. dollar vs. other currencies

- The U.S. dollar rose against other major currencies as the Fed signaled tapering is imminent, which notably detracted from global ex-U.S. results.

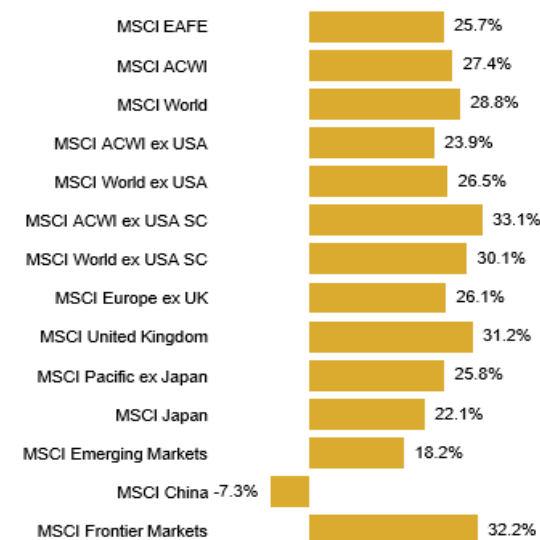
Growth vs. value

- Value outpaced growth in emerging markets due to the Energy rally, while both were relatively flat in developed markets.

Global Equity: Quarterly Returns



Global Equity: One-Year Returns



Source: Callan

MARKET ENVIRONMENT 3Q21: U.S. FIXED INCOME

Treasury yields largely unchanged from 2Q21

- Yields ended a volatile quarter only slightly higher after the Fed signaled it may soon begin tapering its bond buying program.
- 2-year and 10-year Treasury yields rose 3 and 7 bps, respectively.
- TIPS outperformed nominal Treasuries, and 10-year breakeven spreads widened 5 bps to 2.37%.

Bloomberg Aggregate flat as spreads widened

- Minor gains in Treasuries and agency MBS were offset by declines in government-related, CMBS, and corporates.
- IG corporate trailed Treasuries by 15 bps (duration-adjusted) as spreads widened within long bonds.

High yield and leveraged loans continue rally

- Leverage loans (+1.1%) outperformed high yield, driven by favorable supply/demand dynamics.
- High yield issuers' default rate declined to 0.9% in September, the lowest since March 2014.

Munis underperform Treasuries

- Supply was modest and demand was fueled by expectations for higher tax rates and strong credit fundamentals.
- Lower-quality bonds continued their trend of outperformance as investors sought yield.

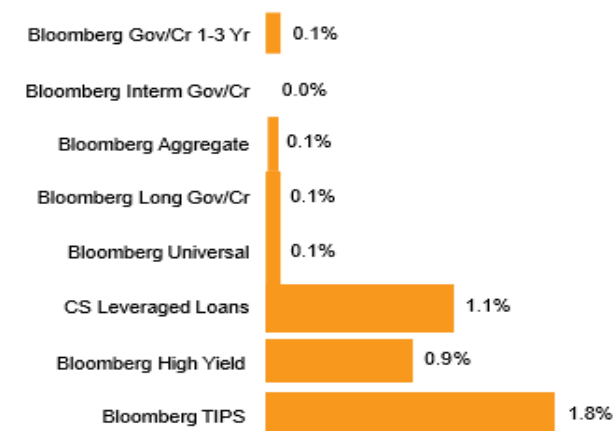
Fed reiterates that current price pressures are transitory

- Inflation is being temporarily influenced by pandemic-related supply bottlenecks (e.g., used cars and housing).
- Used autos spiked (+32% YOY), but rents (with a greater weight in the index) have started to apply price pressure.
- Fed's flexible average inflation targeting (FAIT) allows inflation to overshoot the 2% neutral rate; PCE (Fed's preferred inflation measure) rose 4.3% in August.

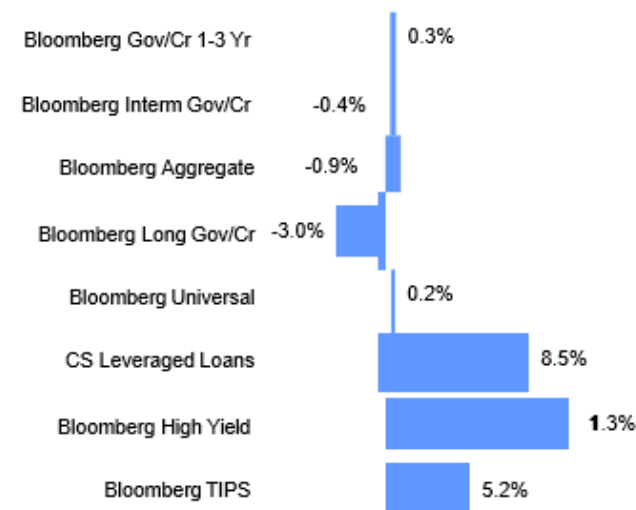
Policy adjustments may be on the horizon

- Fed signaled it would move up its taper announcement.
- Sep '21 Fed Funds rate forecast illustrated a potential rate hike in 2022, with a 25 bps increase; the previous dot plot had no hikes until 2023.

U.S. Fixed Income: Quarterly Returns



U.S. Fixed Income: One-Year Returns



MARKET ENVIRONMENT 3Q21: NON-U.S. FIXED INCOME

Global fixed income flat on a hedged basis

- Returns were muted and U.S. dollar strength eroded returns for unhedged U.S. investors.
- The dollar gained roughly 2% vs. a basket of developed market currencies.

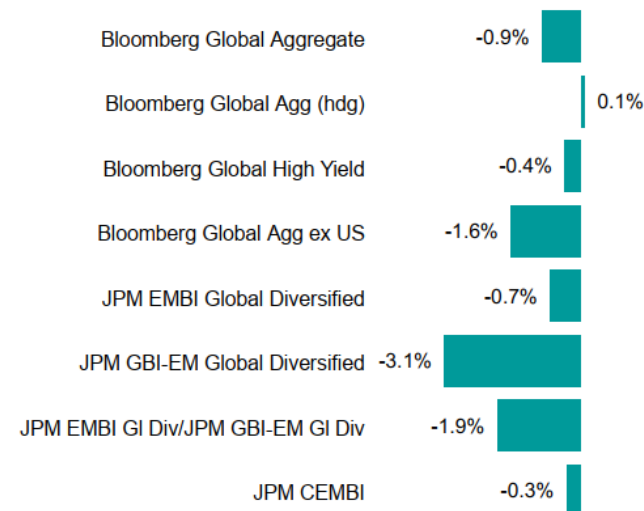
Emerging market debt falls

- The U.S. dollar-denominated index (EMBI Global Diversified) declined as the Delta variant in some countries raise concerns, and the local index (JPM GBI-EM Global Diversified) lost further ground due to currency depreciation.
- Most emerging currencies depreciated versus the dollar. Notables include Brazil real (-7.9%) and South Africa rand (-5.1%).
- EM corporates fared better amid improving corporate fundamentals and the global economic recovery.

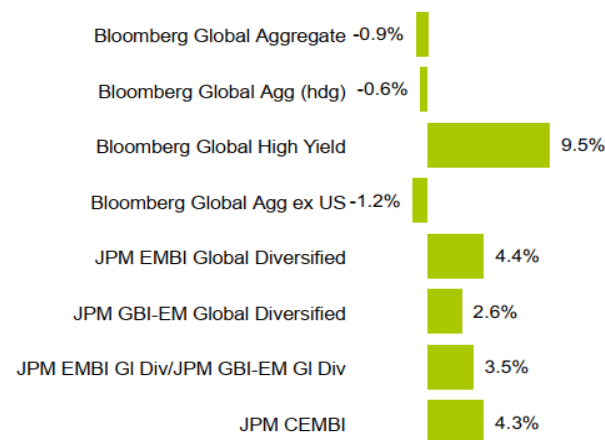
Inflation overseas

- Yields have increased as non-U.S. developed market countries also deal with supply bottlenecks and pressure from energy prices.
- Euro zone inflation has been elevated, but not at same level as the U.S.
- Central bank policy is mixed.
- The U.K.'s Bank of England has signaled a potential tightening of its monetary policy by the end of 2021.
- The European Central Bank remains on hold.

Global Fixed Income: Quarterly Returns



Global Fixed Income: One-Year Returns



Historical Investment Performance

RETURNS FOR PERIODS ENDED SEPTEMBER 30, 2021

	Last Quarter	Year to Date	Last Year	Last 2 Years	Last 3 Years	Last 4 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 15 Years	Last 20 Years	Last 25 Years	Last 30 Years
Domestic Equity Benchmarks													
Russell:3000 Index	(0.1)	8.1	31.9	23.1	16.0	16.4	16.9	13.9	16.6	10.4	9.8	9.7	10.7
Russell:1000 Index	0.2	8.8	31.0	23.3	16.4	16.8	17.1	14.1	16.8	10.5	9.8	9.8	10.7
Russell:1000 Value	(0.8)	4.4	35.0	13.2	10.1	9.9	10.9	9.3	13.5	7.5	8.3	9.0	10.1
Russell:1000 Growth	1.2	13.2	27.3	32.3	22.0	23.1	22.8	18.5	19.7	13.3	11.0	10.1	10.9
Russell:Midcap Index	(0.9)	6.5	38.1	20.2	14.2	14.2	14.4	12.2	15.5	10.3	11.4	11.0	11.9
Russell:Midcap Value	(1.0)	4.6	42.4	14.9	10.3	9.9	10.6	9.6	13.9	8.8	10.7	10.7	11.7
Russell:Midcap Growth	(0.8)	10.2	30.5	26.8	19.1	19.6	19.3	15.4	17.5	12.0	12.0	10.5	11.2
Russell:2000 Index	(4.4)	(0.3)	47.7	21.8	10.5	11.7	13.5	11.9	14.6	9.2	10.3	9.1	10.2
Russell:2000 Value	(3.0)	1.4	63.9	18.1	8.6	8.8	11.0	10.2	13.2	7.5	9.8	9.8	11.1
Russell:2000 Growth	(5.7)	(2.0)	33.3	24.2	11.7	14.0	15.3	13.2	15.7	10.6	10.5	7.9	8.8
Non-US Equity Benchmarks													
MSCI:EAFE	(0.4)	4.7	25.7	12.4	7.6	6.4	8.8	5.8	8.1	4.1	6.6	5.2	5.7
MSCI:ACWI ex US	(3.0)	2.3	23.9	13.0	8.0	6.4	8.9	5.7	7.5	4.4	7.2	--	--
MSCI:EM	(8.1)	(3.5)	18.2	14.3	8.6	6.2	9.2	5.6	6.1	5.7	11.0	--	--
MSCI:EAFE Small Cap	0.9	5.3	29.0	17.4	9.0	7.7	10.4	9.2	10.7	6.4	10.2	--	--
MSCI:Frontier Markets	3.4	17.9	32.2	13.4	10.8	5.9	9.5	2.7	7.1	2.9	--	--	--
Domestic Fixed Income Benchmarks													
Blmbg:Aggregate	0.1	1.9	(0.9)	3.0	5.4	3.7	2.9	3.3	3.0	4.2	4.3	5.1	5.5
Blmbg:HY Corp	0.9	3.7	11.3	7.2	6.9	5.9	6.5	5.9	7.4	7.3	8.1	7.0	7.9
Blmbg:Municipal	(0.3)	1.1	2.6	3.4	5.1	3.9	3.3	3.6	3.9	4.2	4.5	4.9	5.3
Blmbg:Gov/Cred 1-3 Yr	0.1	0.1	0.3	2.0	2.9	2.2	1.9	1.7	1.5	2.4	2.6	3.4	3.9
Blmbg:TIPS	1.8	5.1	5.2	7.6	7.4	5.6	4.3	3.9	3.1	4.4	5.1	--	--
Non-US Fixed Income Benchmarks													
Blmbg:Glb Agg xUSD	(1.6)	(0.7)	(1.2)	2.1	3.2	2.0	1.1	1.2	0.9	2.9	4.3	3.6	4.8
Blmbg:Glb Agg xUSD Hdg	0.1	0.4	(0.5)	0.6	3.9	3.5	2.7	3.5	3.9	4.0	4.2	5.1	5.6
JPM:EMBI Global Divsfd	(0.7)	3.3	4.4	2.8	5.7	3.7	3.9	4.9	5.8	6.4	8.1	8.4	--
JPM:GBI-EM Global Divsfd	(3.1)	0.3	2.6	0.6	3.7	0.8	2.1	0.6	1.1	4.4	--	--	--

Historical Investment Performance

RETURNS FOR PERIODS ENDED SEPTEMBER 30, 2021

3
Qtrs.

2021 2020 2019 2018 2017 2016 2015 2014 2013 2012 2011 2010 2009 2008 2007 2006 2005 2004 2003 2002 2001

Domestic Equity Benchmarks

Russell:3000 Index	15.0	20.9	31.0	(5.2)	21.1	12.7	0.5	12.6	33.6	16.4	1.0	16.9	28.3	(37.3)	5.1	15.7	6.1	11.9	31.1	(21.5)	(11.5)
Russell:1000 Index	15.2	21.0	31.4	(4.8)	21.7	12.1	0.9	13.2	33.1	16.4	1.5	16.1	28.4	(37.6)	5.8	15.5	6.3	11.4	29.9	(21.7)	(12.4)
Russell:1000 Value	16.1	2.8	26.5	(8.3)	13.7	17.3	(3.8)	13.5	32.5	17.5	0.4	15.5	19.7	(36.8)	(0.2)	22.2	7.1	16.5	30.0	(15.5)	(5.6)
Russell:1000 Growth	14.3	38.5	36.4	(1.5)	30.2	7.1	5.7	13.0	33.5	15.3	2.6	16.7	37.2	(38.4)	11.8	9.1	5.3	6.3	29.7	(27.9)	(20.4)
Russell:Midcap Index	15.2	17.1	30.5	(9.1)	18.5	13.8	(2.4)	13.2	34.8	17.3	(1.5)	25.5	40.5	(41.5)	5.6	15.3	12.7	20.2	40.1	(16.2)	(5.6)
Russell:Midcap Value	18.2	5.0	27.1	(12.3)	13.3	20.0	(4.8)	14.7	33.5	18.5	(1.4)	24.8	34.2	(38.4)	(1.4)	20.2	12.6	23.7	38.1	(9.6)	2.3
Russell:Midcap Growth	9.6	35.6	35.5	(4.8)	25.3	7.3	(0.2)	11.9	35.7	15.8	(1.7)	26.4	46.3	(44.3)	11.4	10.7	12.1	15.5	42.7	(27.4)	(20.2)
Russell:2000 Index	12.4	20.0	25.5	(11.0)	14.6	21.3	(4.4)	4.9	38.8	16.3	(4.2)	26.9	27.2	(33.8)	(1.6)	18.4	4.6	18.3	47.3	(20.5)	2.5
Russell:2000 Value	22.9	4.6	22.4	(12.9)	7.8	31.7	(7.5)	4.2	34.5	18.1	(5.5)	24.5	20.6	(28.9)	(9.8)	23.5	4.7	22.2	46.0	(11.4)	14.0
Russell:2000 Growth	2.8	34.6	28.5	(9.3)	22.2	11.3	(1.4)	5.6	43.3	14.6	(2.9)	29.1	34.5	(38.5)	7.0	13.3	4.2	14.3	48.5	(30.3)	(9.2)

Non-US Equity Benchmarks

MSCI:EAFE	8.3	7.8	22.0	(13.8)	25.0	1.0	(0.8)	(4.9)	22.8	17.3	(12.1)	7.8	31.8	(43.4)	11.2	26.3	13.5	20.2	38.6	(15.9)	(21.4)
MSCI:ACWI ex US	5.9	10.7	21.5	(14.2)	27.2	4.5	(5.7)	(3.9)	15.3	16.8	(13.7)	11.2	41.4	(45.5)	16.7	26.7	16.6	20.9	40.8	(14.9)	(19.7)
MSCI:EM	(1.2)	18.3	18.4	(14.6)	37.3	11.2	(14.9)	(2.2)	(2.6)	18.2	(18.4)	18.9	78.5	(53.3)	39.4	32.2	34.0	25.6	55.8	(6.2)	(2.6)
MSCI:EAFE Small Cap	10.0	12.3	25.0	(17.9)	33.0	2.2	9.6	(4.9)	29.3	20.0	(15.9)	22.0	46.8	(47.0)	1.4	19.3	26.2	30.8	61.3	(7.8)	(12.5)
MSCI:Frontier Markets	18.9	1.4	18.0	(16.4)	31.9	2.7	(14.5)	6.8	25.9	8.9	(18.7)	23.7	11.6	(54.1)	41.9	(8.9)	72.7	22.6	43.5	--	--

Domestic Fixed Income Benchmarks

Blmbg:Aggregate	(1.6)	7.5	8.7	0.0	3.5	2.6	0.5	6.0	(2.0)	4.2	7.8	6.5	5.9	5.2	7.0	4.3	2.4	4.3	4.1	10.3	8.4
Blmbg:HY Corp	4.5	7.1	14.3	(2.1)	7.5	17.1	(4.5)	2.5	7.4	15.8	5.0	15.1	58.2	(26.2)	1.9	11.8	2.7	11.1	29.0	(1.4)	5.3
Blmbg:Municipal	0.8	5.2	7.5	1.3	5.4	0.2	3.3	9.1	(2.6)	6.8	10.7	2.4	12.9	(2.5)	3.4	4.8	3.5	4.5	5.3	9.6	5.1
Blmbg:Gov/Cred 1-3 Yr	0.1	3.3	4.0	1.6	0.8	1.3	0.7	0.8	0.6	1.3	1.6	2.8	3.8	5.0	6.8	4.3	1.8	1.3	2.8	6.3	8.8
Blmbg:TIPS	3.5	11.0	8.4	(1.3)	3.0	4.7	(1.4)	3.6	(8.6)	7.0	13.6	6.3	11.4	(2.4)	11.6	0.4	2.8	8.5	8.4	16.6	7.9

Non-US Fixed Income Benchmarks

Blmbg:Glb Agg xUSD	(5.9)	10.1	5.1	(2.1)	10.5	1.5	(6.0)	(3.1)	(3.1)	4.1	4.4	4.9	7.5	4.4	11.0	8.2	(8.6)	12.5	19.4	22.4	(3.7)
Blmbg:Glb Agg xUSD Hdq	(1.5)	3.9	7.6	3.2	2.5	4.9	1.4	8.8	1.2	6.5	3.9	3.3	4.4	5.7	4.3	3.2	5.4	5.3	2.4	6.8	6.3
JPM:EMBI Global Divsfd	(1.4)	5.3	15.0	(4.3)	10.3	10.2	1.2	7.4	(5.2)	17.4	7.3	12.2	29.8	(12.0)	6.2	9.9	10.2	11.6	22.2	13.7	9.7
JPM:GBI-EM Global Divsfd	(6.4)	2.7	13.5	(6.2)	15.2	9.9	(14.9)	(5.7)	(9.0)	16.8	(1.8)	15.7	22.0	(5.2)	18.1	15.2	6.3	23.0	16.9	--	--

Periodic Table of Investment Returns

2012	2013	2014	2015	2016	2017	2018	2019	2020	3 Qtrs. 2021
MSCI Emerging Markets 18.23%	Russell 2000 Index 38.82%	S&P 500 13.69%	S&P 500 1.38%	Russell 2000 Index 21.31%	MSCI Emerging Markets 37.28%	3 Month T-Bill 1.87%	S&P 500 31.49%	Russell 2000 Index 19.96%	S&P 500 15.92%
JPM EMBI Global Dvsfd 17.44%	S&P 500 32.39%	JPM EMBI Global Dvsfd 7.43%	JPM EMBI Global Dvsfd 1.18%	Blmbg Barclays Corp High Yield 17.13%	MSCI ACWI ex US 27.19%	Blmbg Barclays Aggregate 0.01%	Russell 2000 Index 25.52%	S&P 500 18.40%	Russell 2000 Index 12.41%
MSCI ACWI ex US 16.83%	MSCI ACWI ex US 15.29%	Blmbg Barclays Aggregate 5.97%	Blmbg Barclays Aggregate 0.55%	S&P 500 11.96%	S&P 500 21.83%	Blmbg Barclays Corp High Yield -2.08%	MSCI ACWI ex US 21.51%	MSCI Emerging Markets 18.31%	MSCI ACWI ex US 5.90%
Russell 2000 Index 16.35%	Blmbg Barclays Corp High Yield 7.44%	Russell 2000 Index 4.89%	3 Month T-Bill 0.05%	MSCI Emerging Markets 11.19%	Russell 2000 Index 14.65%	Blmbg Barclays Global Agg ex US -2.15%	MSCI Emerging Markets 18.44%	MSCI ACWI ex US 10.65%	Blmbg Barclays Corp High Yield 4.53%
S&P 500 16.00%	3 Month T-Bill 0.07%	Blmbg Barclays Corp High Yield 2.45%	Russell 2000 Index -4.41%	JPM EMBI Global Dvsfd 10.15%	Blmbg Barclays Global Agg ex US 10.51%	JPM EMBI Global Dvsfd -4.26%	JPM EMBI Global Dvsfd 15.04%	Blmbg Barclays Global Agg ex US 10.11%	3 Month T-Bill 0.04%
Blmbg Barclays Corp High Yield 15.81%	Blmbg Barclays Aggregate -2.02%	3 Month T-Bill 0.03%	Blmbg Barclays Corp High Yield -4.47%	MSCI ACWI ex US 4.50%	JPM EMBI Global Dvsfd 10.26%	S&P 500 -4.38%	Blmbg Barclays Corp High Yield 14.32%	Blmbg Barclays Aggregate 7.51%	MSCI Emerging Markets -1.25%
Blmbg Barclays Aggregate 4.21%	MSCI Emerging Markets -2.60%	MSCI Emerging Markets -2.19%	MSCI ACWI ex US -5.66%	Blmbg Barclays Aggregate 2.65%	Blmbg Barclays Corp High Yield 7.50%	Russell 2000 Index -11.01%	Blmbg Barclays Aggregate 8.72%	Blmbg Barclays Corp High Yield 7.11%	JPM EMBI Global Dvsfd -1.36%
Blmbg Barclays Global Agg ex US 4.09%	Blmbg Barclays Global Agg ex US -3.08%	Blmbg Barclays Global Agg ex US -3.09%	Blmbg Barclays Global Agg ex US -6.02%	Blmbg Barclays Global Agg ex US 1.49%	Blmbg Barclays Aggregate 3.54%	MSCI ACWI ex US -14.20%	Blmbg Barclays Global Agg ex US 5.09%	JPM EMBI Global Dvsfd 5.26%	Blmbg Barclays Aggregate -1.55%
3 Month T-Bill 0.11%	JPM EMBI Global Dvsfd -5.24%	MSCI ACWI ex US -3.87%	MSCI Emerging Markets -14.92%	3 Month T-Bill 0.33%	3 Month T-Bill 0.86%	MSCI Emerging Markets -14.57%	3 Month T-Bill 2.28%	3 Month T-Bill 0.67%	Blmbg Barclays Global Agg ex US -5.94%

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