



MARKET  
ENVIRONMENT

## MARKET ENVIRONMENT 2Q21: US EQUITY

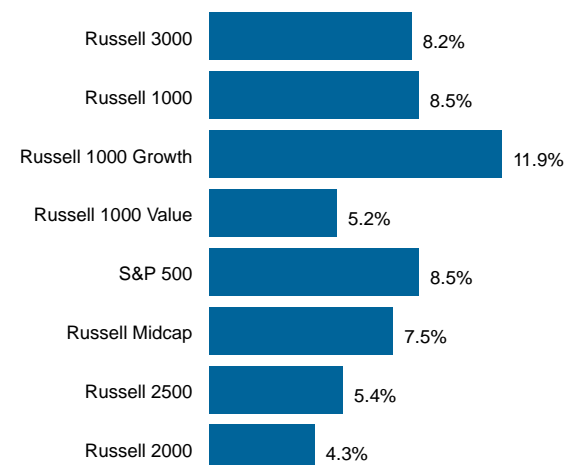
### Markets keep setting all-time highs

- The S&P 500 Index continued to hit record highs in 2Q21.
- The 12-month rebound after the market low in March 2020 for the S&P 500 surpasses the 12-month GFC and Dot-Com Bubble rebounds. Since March 2020, the S&P is up 96.1%, with all sectors posting gains over 45%; Energy +140.6%.
- All sectors posted positive returns except for Utilities. 2Q21 top sectors were Technology and Energy.

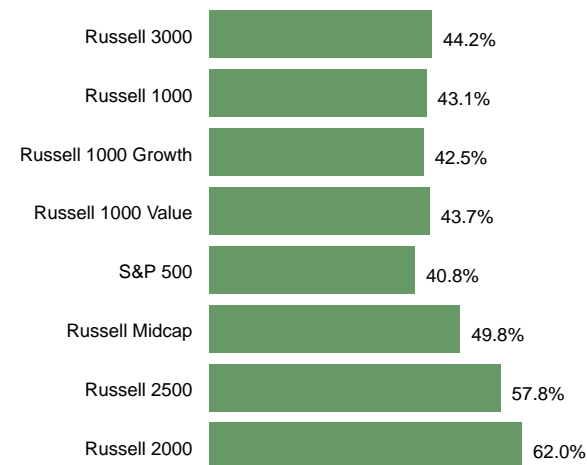
### Market leadership changed in 2Q21

- Vaccine news/roll-outs provided a catalyst for market rotation into value/cyclicals in 4Q20 and 1Q21.
- In June 2021, the Fed moved up its timeline for rate hikes, prompting a shift back to growth stocks.
- Generally, growth outperformed value during the quarter as investors contemplated a “transitory” inflationary environment. The only exception was in small caps, where the Russell 2000 Growth underperformed the Russell 2000 Value. Continued outperformance of meme stocks helped small value.
- Larger cap stocks outperformed smaller cap stocks, reversing the recent trend of small cap outperformance.
- Starting in 2005, cumulative returns for broad large cap and small cap indices were in lock-step, until 4Q18.
- In 2Q21, Russell 1000 increased by 8.5%, ending a two-quarter streak in which small cap stocks outperformed large.
- After cyclical stocks led the market for the prior two quarters, mega-cap Technology stocks outperformed in 2Q. This helped the Russell 1000 beat the Russell 2000. For the year, the two best-performing sectors are Energy and Financials.
- Historically, small cap stocks have outperformed in the first 12 months of market recoveries. They tend to underperform in the ensuing 12 months.

### U.S. Equity: Quarterly Returns

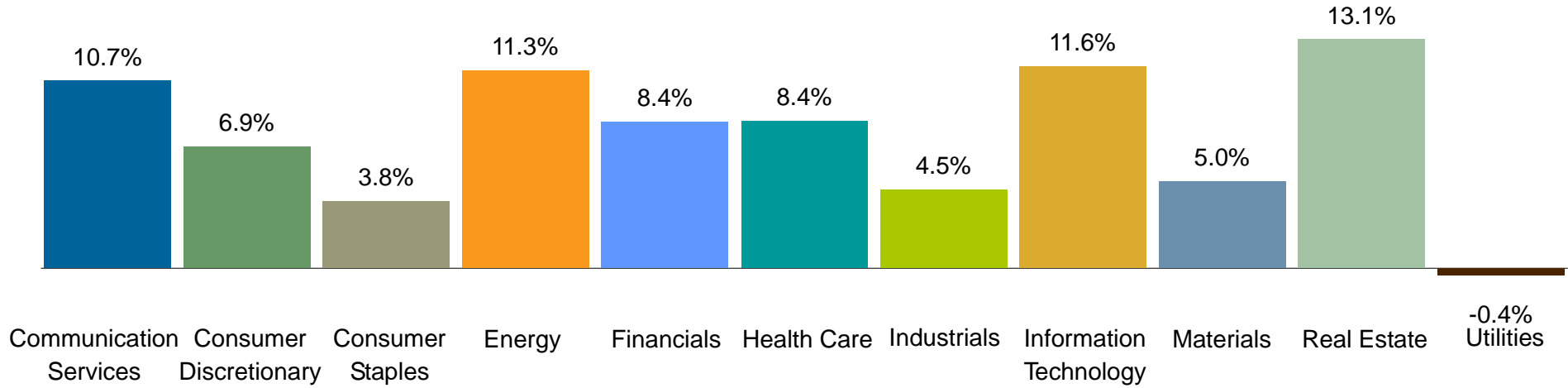


### U.S. Equity: One-Year Returns



## MARKET ENVIRONMENT 2Q21: US EQUITY

Industry Sector Quarterly Performance (S&P 500)



# MARKET ENVIRONMENT 2Q21: GLOBAL EX-U.S. EQUITY

## Strong growth despite pockets of COVID-19 outbreaks

- Government stimulus and a continued “return to normal” spurred positive sentiment.
- Risk assets lost some steam amid concerns around the Delta variant.
- Small cap was largely in-line with large, except within emerging markets where smaller companies benefited from rebounds within industrials and basic materials.
- Despite return dispersions within regions, developed and emerging markets performed similarly over the quarter.

## Market shifts away from cyclicals

- Expectations remain positive, but cooled from previous quarters, causing cyclical stocks to lag.
- Factor performance showed a preference for quality and growth, a divergence from last quarter.

## U.S. dollar vs. other currencies

- The U.S. dollar was mixed versus other currencies and did not contribute meaningfully to global ex-U.S. results.

## Growth vs. value

- Growth overturned value, except in emerging markets, where commodity-rich countries rallied.

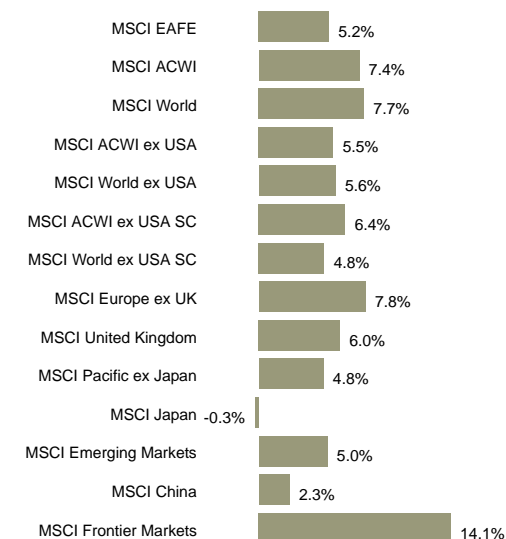
## Uneven global vaccination rates

- North America and Europe leading, while the rest of world still lagging in vaccinations.
- YTD equity market returns mirroring regional vaccination status as many countries ex-U.S. remain in lockdown:
  - MSCI North America: +14.9%
  - MSCI Europe: +11.8%
  - MSCI EM Latam: +8.9%
  - MSCI EM Asia: +7.5%
  - MSCI China: +2.3%

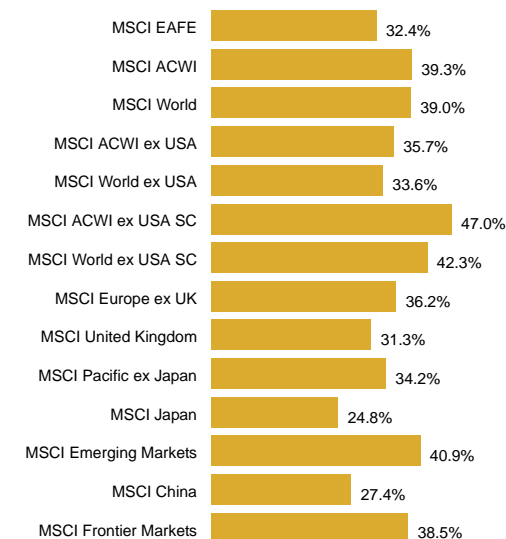
## Potential for re-opening trade ex-U.S.

- Historically, small cap, value, and cyclicals thrive in recoveries as manufacturing resumes and retail sales rise.
- Pointing toward 2H21 ex-U.S. GDP surge and equity market rebounds as vaccination rates increase and lockdowns abate.

### Global Equity: Quarterly Returns



### Global Equity: One-Year Returns



Source: Callan

## MARKET ENVIRONMENT 2Q21: U.S. FIXED INCOME

### U.S. Treasury yield curve flattens

- The 10-year U.S. Treasury yield closed 2Q21 at 1.45%, a decline of 29 bps from 1Q21.
- The short-end of the curve remained anchored, though a hawkish tone from the Fed’s June meeting rallied rates on the long end.
- TIPS outperformed nominal U.S. Treasuries given strong relative performance in April and May.

### Bloomberg Barclays Aggregate rallies

- The Bloomberg Barclays US Aggregate Bond Index added 1.8%, with spread sectors outperforming treasuries.
- Demand for corporate credit remained strong, with spreads tightening 11 bps over the quarter, to 80 bps.

### High yield rally continues on lowered default expectations

- High yield (HY) bonds outperformed investment grade (IG) in 2Q adjusted for duration, but underperformed IG in absolute terms.
- Leveraged loans returned 1.5% for the quarter, driven by favorable supply/demand dynamics.

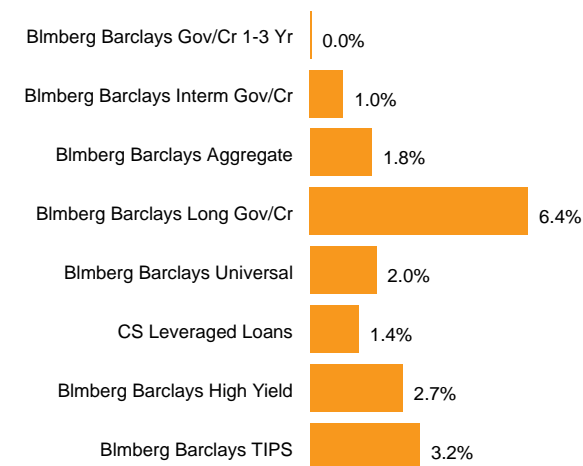
### Munis outperform Treasuries as economies re-open

- Municipals topped treasuries, as municipal yields rose less than treasury yields.
- The municipal market was supported by the American Rescue Act.

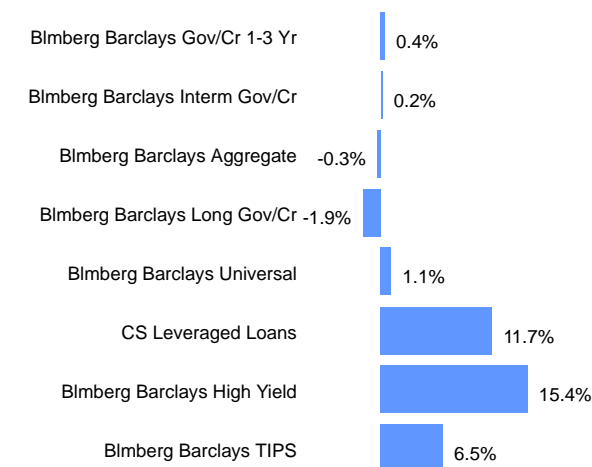
### Tight corporate spreads and fall in default rate

- Corporate credit spreads have not traded this tight since 1H07.
- Default rate is declining from the near-term highs reached during the pandemic. Fed’s support provided issuers the opportunity to term out their existing debt and extend maturities, while accelerating growth and better-than-expected earnings were tailwinds to debt holders.
- 2021 marks the most modest first half of a calendar year for defaults/distressed transactions since 2011, according to JPMorgan.
- Some market participants have lowered their rolling 12-month default forecasts to a range of <1% to 2.5% for 2021.

### U.S. Fixed Income: Quarterly Returns



### U.S. Fixed Income: One-Year Returns



Source: Callan

## MARKET ENVIRONMENT 2Q21: NON-U.S. FIXED INCOME

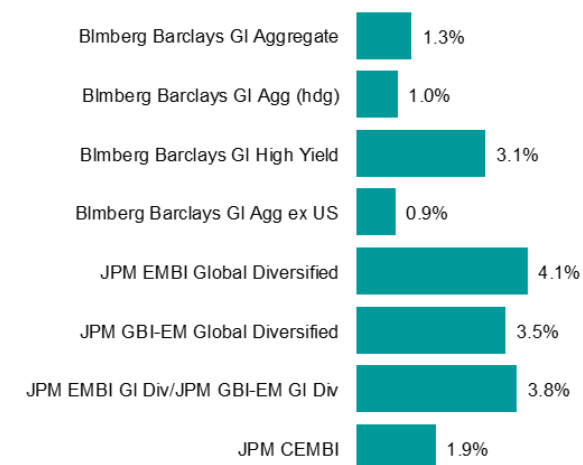
### Global fixed income posts positive returns

- Global fixed income ex-U.S. (hedged) gained as global economies re-opened, albeit underperforming the US Aggregate.
- The U.S. dollar was mixed against developed currencies, up 0.3% versus the yen; down 1.1% vs. euro, 1.3% vs. the Canadian dollar, 2.0% vs. the Swiss franc.

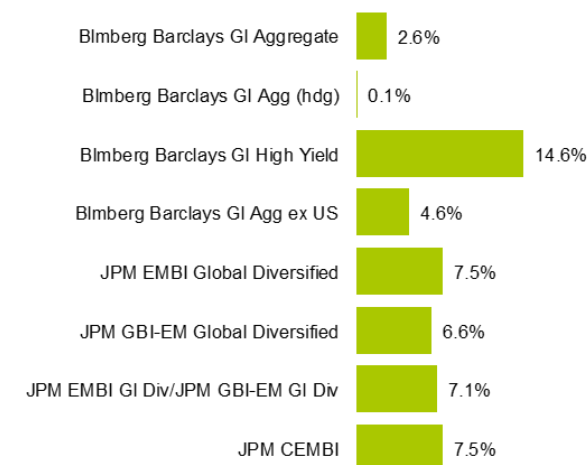
### Emerging market debt gains

- Emerging market debt rallied in 2Q21, with JPM EMBI Global Diversified gaining 4.1% in hard currency, as falling U.S. rates spilled into emerging markets, and 3.5% in local currency. However, both remained down YTD, -0.7% and -3.4%, respectively.
- The U.S. dollar generally depreciated versus emerging currencies. Notables include -1.5% vs. Chinese yuan and -13.4% vs. Brazilian real.
- EM corporates fared better than sovereigns amid improving corporate fundamentals and global economic recovery.
- Local currency index (GBI-EM Global Diversified) slightly trailed hard currency, as real GDP growth expectations increased.

### Global Fixed Income: Quarterly Returns



### Global Fixed Income: One-Year Returns



# Historical Investment Performance

## RETURNS FOR PERIODS ENDED JUNE 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
<b>Domestic Equity Benchmarks</b>													
Russell:3000 Index	8.2	15.1	44.2	23.9	18.7	17.7	17.9	14.0	14.7	10.8	8.9	9.9	10.9
Russell:1000 Index	8.5	15.0	43.1	24.0	19.2	18.0	18.0	14.2	14.9	10.9	8.9	10.0	11.0
Russell:1000 Value	5.2	17.0	43.7	14.4	12.4	11.0	11.9	9.4	11.6	8.0	7.7	9.1	10.3
Russell:1000 Growth	11.9	13.0	42.5	32.5	25.1	24.5	23.7	18.6	17.9	13.5	9.8	10.2	11.1
Russell:Midcap Index	7.5	16.2	49.8	21.0	16.4	15.4	15.6	12.0	13.2	10.5	10.4	11.1	12.2
Russell:Midcap Value	5.7	19.5	53.1	16.2	11.9	10.8	11.8	9.3	11.7	9.1	10.1	10.9	12.0
Russell:Midcap Growth	11.1	10.4	43.8	26.8	22.4	21.4	20.5	15.4	15.1	12.1	10.2	10.6	11.6
Russell:2000 Index	4.3	17.5	62.0	23.0	13.5	14.5	16.5	11.4	12.3	9.5	9.3	9.3	10.7
Russell:2000 Value	4.6	26.7	73.3	19.6	10.3	11.0	13.6	9.3	10.8	7.9	9.2	10.0	11.4
Russell:2000 Growth	3.9	9.0	51.4	25.1	15.9	17.4	18.8	13.1	13.5	10.9	9.0	8.1	9.4
<b>Non-US Equity Benchmarks</b>													
MSCI:EAFE	5.2	8.8	32.4	12.1	8.3	7.9	10.3	5.0	5.9	4.4	5.8	5.2	6.0
MSCI:ACWI ex US	5.5	9.2	35.7	13.7	9.4	8.9	11.1	5.3	5.4	4.9	6.5	--	--
MSCI:EM	5.0	7.4	40.9	16.7	11.3	10.5	13.0	6.4	4.3	6.6	10.1	--	--
MSCI:EAFE Small Cap	4.3	9.0	41.0	16.6	8.4	9.4	12.0	7.8	8.4	6.3	9.2	--	--
MSCI:Frontier Markets	14.1	15.0	38.5	10.9	8.9	7.0	9.4	2.4	5.3	3.2	--	--	--
<b>Domestic Fixed Income Benchmarks</b>													
Blmbg:Aggregate	1.8	(1.6)	(0.3)	4.1	5.3	3.9	3.0	3.3	3.4	4.4	4.6	5.1	5.7
Blmbg:HY Corp	2.7	3.6	15.4	7.4	7.4	6.2	7.5	5.5	6.7	7.5	7.8	7.1	8.1
Blmbg:Municipal	1.4	1.1	4.2	4.3	5.1	4.2	3.2	3.8	4.3	4.5	4.6	5.0	5.5
Blmbg:Gov/Cred 1-3 Yr	0.0	0.0	0.4	2.3	3.0	2.3	1.9	1.7	1.5	2.5	2.7	3.5	4.0
Blmbg:TIPS	3.2	1.7	6.5	7.4	6.5	5.4	4.2	3.3	3.4	4.6	5.2	--	--
<b>Non-US Fixed Income Benchmarks</b>													
Blmbg:Glb Agg xUSD	0.9	(4.4)	4.6	2.6	3.1	3.0	1.6	0.7	1.0	3.1	4.8	3.8	5.2
Blmbg:Glb Agg xUSD Hdg	0.3	(1.6)	0.0	2.0	3.8	3.7	2.8	3.7	4.1	4.2	4.3	5.2	5.7
JPM:EMBI Global Divsfd	4.1	(0.7)	7.5	3.9	6.7	4.6	4.9	4.9	5.7	6.9	8.1	8.9	--
JPM:GBI-EM Global Divsfd	3.5	(3.4)	6.6	1.8	4.1	2.5	3.2	0.2	0.5	4.9	--	--	--

# Historical Investment Performance

RETURNS FOR PERIODS ENDED JUNE 30, 2021

2  
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	15.1	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	15.0	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	17.0	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	13.0	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	16.2	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	19.5	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	10.4	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	17.5	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	26.7	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	9.0	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	8.8	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	9.2	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	7.4	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	9.0	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	15.0	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	3.6	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	1.1	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	0.0	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	1.7	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	(4.4)	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	(1.6)	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	(0.7)	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	(3.4)	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	2 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%	Russell 2000 Index 17.54%
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%	S&P 500 15.25%
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 9.16%
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%	MSCI Emerging Markets 7.45%
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%	Blmbg Barclays Corp High Yield 3.62%
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%	3 Month T-Bill 0.02%
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 -0.66%
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 -1.60%
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 -4.42%

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