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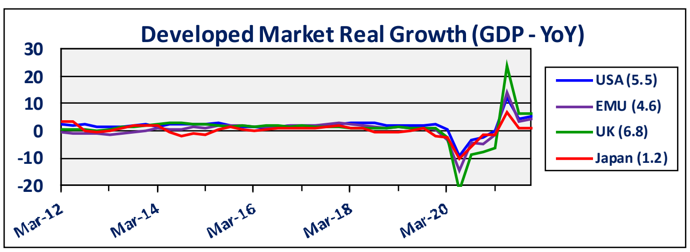
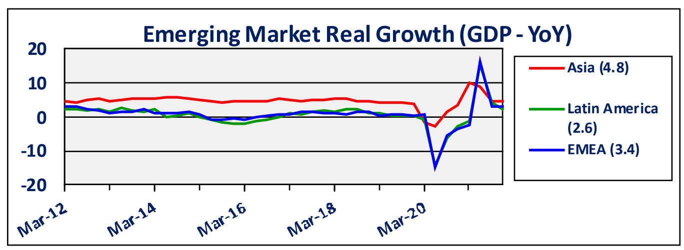
Fourth Quarter 2021

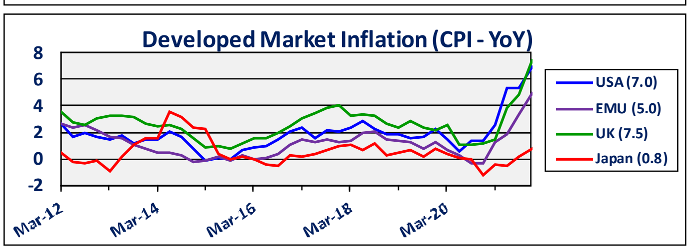
Global Market and Economic Perspective

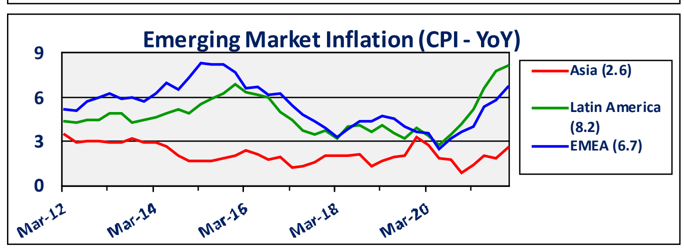
Global Economic Commentary

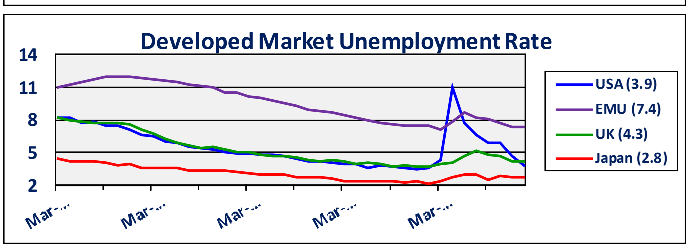
- **The big story during the fourth quarter of 2021 was the resurgence in inflation across countries worldwide. US inflation was higher than in most other countries, with some measures showing price gains at a pace not seen in nearly 40 years. There was no single category or sector of the economy that was responsible for the increase, as inflation pressure showed up in a broad array of goods and services.**
- **The underlying drivers of inflation included supply chain problems, which hit many manufacturers in the US and elsewhere, and massive transfers of fiscal resources to consumers, which was far more pronounced in the US than elsewhere.**
- **The unemployment rate in the US continued to drop toward its pre-pandemic low. However, labor force participation remained low, due to a wave of early retirements and younger workers having government-provided resources to abstain from the job market.**
- **The small pool of available workers was coupled with a record number of job openings. Unsurprisingly, the result was wage inflation, although many workers were still left worse off because their wage gains were lower than consumer price inflation.**
- **Covid cases spiked in many countries as the more-infectious Omicron variant spread rapidly. However, most countries refrained from re-imposing lockdowns and restrictions, as this variant caused less severe symptoms and many governments were unwilling to repeat the economic costs of broad lockdowns.**

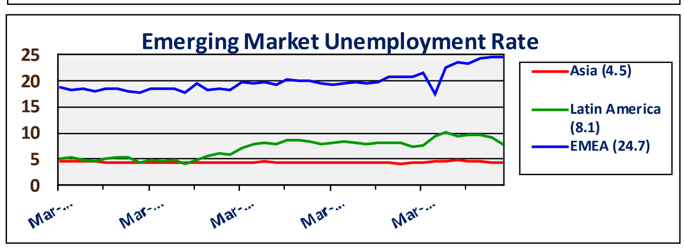












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Global Market and Economic Perspective – Q4 2021

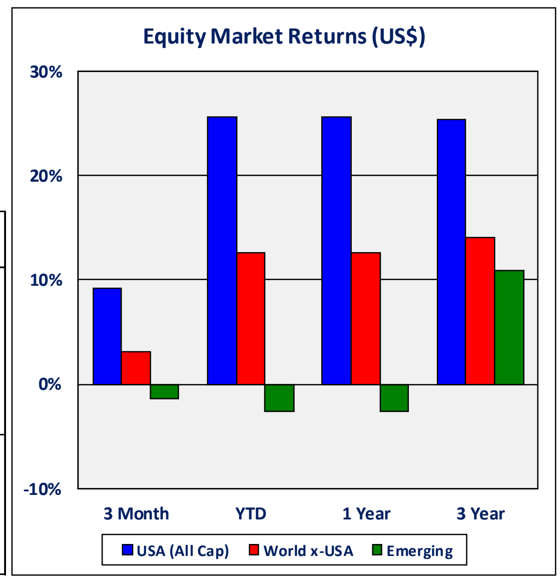
Global Equity and Currency Commentary

- **US equities produced another strong performance in the fourth quarter. Investors remained optimistic about the earnings picture, despite continuing supply-chain problems and the resurgence in inflation.**
- **In the last few years, the large tech companies in the US have outpaced many other names. As a result, at the end of 2021, the ten largest companies – mostly technology-related – accounted for close to 30% of the market value of the S&P 500 index.**
- **In the first three quarters of 2021, returns in non-US developed equity markets were very close to the US equity return, although US dollar strength detracted from performance for US-based investors. In the fourth quarter, developed non-US equities produced positive returns, but lagged the US market and were weighed down by a modest further strengthening of the dollar. Emerging markets equities had negative returns for the quarter, given weakness in a number of the larger markets such as China and Brazil.**
- **Many European and Asian goods-producing firms faced the same supply chain headwinds the US experienced. In addition, China stuck with its Covid "zero tolerance" policy, which led to imposition of a few new lockdowns as the Omicron variant appeared in several cities.**

Global Equity Market Returns (MSCI)

	Returns (US$)				Returns (Local)			
12/31/2021	3 Month	YTD	1 Year	3 Year	3 Month	YTD	1 Year	3 Year
United States								
USA (All Cap)	**9.2%**	**25.6%**	**25.6%**	**25.4%**				
USA Growth	10.0%	26.1%	26.1%	35.2%				
USA Value	9.7%	26.3%	26.3%	16.3%				
USA SC Growth	1.1%	11.3%	11.3%	25.1%				
USA SC Value	6.0%	26.9%	26.9%	16.8%				
Foreign Developed								
World x-USA	**3.1%**	**12.6%**	**12.6%**	**14.1%**	**4.2%**	**19.3%**	**19.3%**	**13.6%**
Europe	5.7%	16.3%	16.3%	14.9%	6.5%	22.6%	22.6%	14.1%
Far East	-3.9%	1.2%	1.2%	10.4%	-1.3%	11.2%	11.2%	11.9%
Australia	2.1%	9.4%	9.4%	13.5%	1.4%	16.1%	16.1%	12.3%
Canada	7.2%	26.0%	26.0%	19.2%	6.9%	24.9%	24.9%	16.1%
Emerging Markets								
Emerging	**-1.3%**	**-2.5%**	**-2.5%**	**10.9%**	**-0.9%**	**-0.2%**	**-0.2%**	**12.0%**
Asia	-1.0%	-5.1%	-5.1%	13.3%	-1.1%	-3.3%	-3.3%	13.0%
Latin America	-2.7%	-8.1%	-8.1%	-2.4%	-1.1%	-2.2%	-2.2%	6.2%
EMEA	-2.4%	18.0%	18.0%	8.3%	0.5%	22.5%	22.5%	10.9%

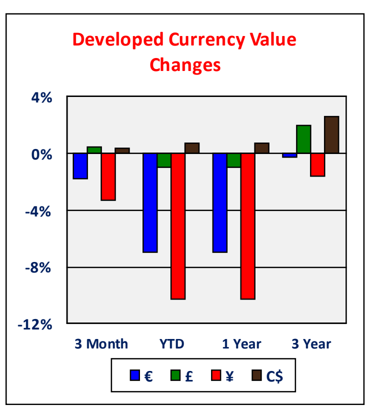
Annualized if greater than one year

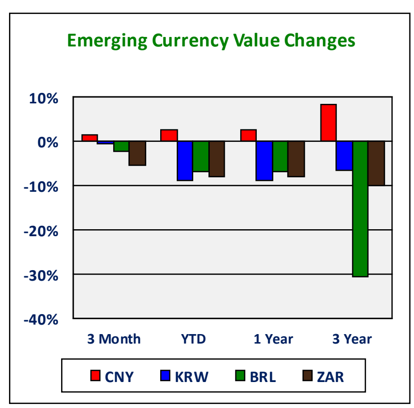


Foreign Exchange Rate History (Bloomberg)

	Current	Change (Foreign Currency versus $)			
12/31/2021	Level	3 Month	YTD	1 Year	3 Year
Developed					
Euro (€)	**1.14**	-1.8%	-6.9%	-6.9%	-0.3%
British Pound (£)	**1.35**	0.4%	-1.0%	-1.0%	2.0%
Japanese Yen (¥)	**115**	-3.3%	-10.3%	-10.3%	-1.6%
Canadian Dollar (C$)	**1.26**	0.3%	0.7%	0.7%	2.6%
Emerging					
Chinese Renminbi (CNY)	**6.36**	1.4%	2.7%	2.7%	8.2%
Korean Won (KRW)	**1190**	-0.5%	-8.7%	-8.7%	-6.6%
Brazilian Real (BRL)	**5.57**	-2.3%	-6.8%	-6.8%	-30.3%
South African Rand (ZAR)	**15.94**	-5.5%	-7.8%	-7.8%	-10.0%

Annualized if greater than one year





Global Market and Economic Perspective – Q4 2021

US Fixed Income and Fed Commentary

- **During the fourth quarter of 2021, expectations for the future path of short-term interest rates rose significantly. The sharp rise in inflation led Chairman Powell and the Federal Reserve to eliminate their previous language that any inflation spike would be "transitory" and not a cause for concern.**
- **In the three months between the September FOMC meeting and the December meeting, the Fed governors raised their forecasts by 60 basis points for the Fed Funds policy interest rate at December 2022 and December 2023, from 0.30% to 0.90% and from 1.00% to 1.60% respectively. Over this same time period, market-implied expectations also rose substantially – by 75 basis points – but remained below the Fed's projections.**
- **Overall, bond market performance was mixed for the quarter, with a near-zero return to the Bloomberg Barclays US Aggregate index. Returns on short-term and intermediate-term bonds were negative due to the rise in yields at the shorter end of the yield curve. However, yields on long-term bonds fell somewhat, resulting in modestly positive returns on longer-maturity securities.**
- **Credit-sensitive fixed income produced modest positive returns for the fourth quarter. Investment-grade corporate and non-investment-grade high yield bonds benefitted from strength in the equity market. The narrowing of credit spreads more than compensated for any increase in yields.**

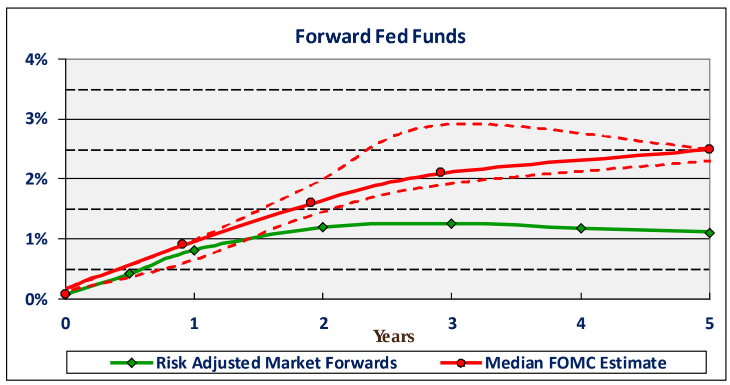
FOMC Fed Funds Rate Projections as of December 2021 Meeting

	Current	Dec-21	Dec-22	Dec-23	Dec-24	Long Run
Lower	0.08%	0.10%	0.60%	1.40%	1.90%	2.30%
Median	**0.08%**	**0.10%**	**0.90%**	**1.60%**	**2.10%**	**2.50%**
Upper	0.08%	0.10%	0.90%	1.90%	2.90%	2.50%

Market Implied Fed Funds Rate as of Jan 03, 2022

Current	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
0.07%	0.42%	0.81%	1.20%	1.25%	1.18%	1.11%

Notes
Upper and lower bands show central tendency for FOMC projections.
Market implied Fed Funds rates are risk adjusted.



US Bond Yield and Spread History (Bloomberg)

	Current Level	Change Through December 2021: 3 Month	YTD	1 Year	3 Year
US Treasury					
Short	**0.89%**	0.40%	0.70%	0.70%	-1.61%
Intermediate	**1.40%**	0.12%	0.78%	0.78%	-1.20%
Long	**1.89%**	-0.14%	0.38%	0.38%	-1.09%
US High Yield					
Yield	**4.21%**	0.17%	0.03%	0.03%	-3.74%
Spread	***2.83%***	*-0.04%*	*-0.76%*	*-0.76%*	*-2.43%*
Tax-Exempt Muni.					
Short	**0.46%**	0.09%	0.19%	0.19%	-1.42%
Intermediate	**0.91%**	-0.01%	0.22%	0.22%	-1.43%
Long	**1.40%**	-0.13%	0.11%	0.11%	-1.58%