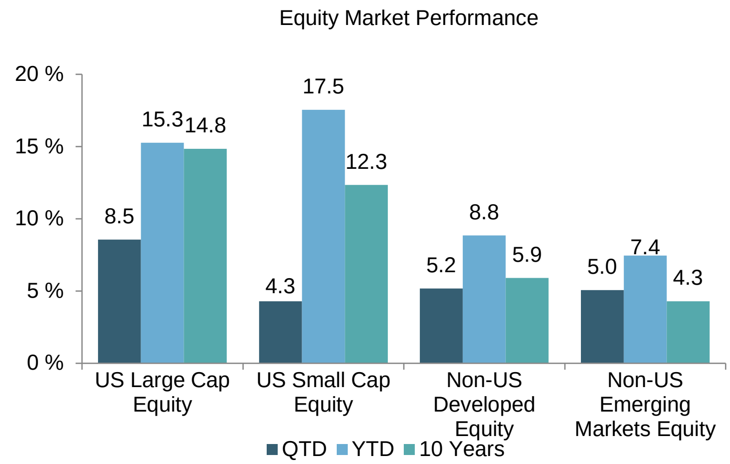
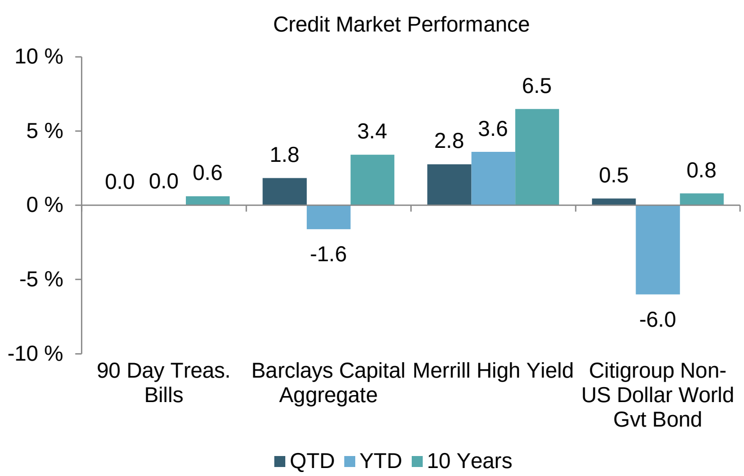
Global Market Summary
2021 / Q2

Shifting Narratives



Globally, equity markets ended the quarter on a high note with the S&P 500, MSCI EAFE, and MSCI EM indices posting gains of 8.5%, 5.2%, and 5.0%, respectively. Monetary stimulus, fiscal stimulus, and growing vaccination rates all came together to form a robust tailwind buoying economic activity and markets. Daily vaccination efforts accelerated across the world throughout the quarter, reaching a historic (and astounding) 44 million doses per day on June 28. Vaccinations and declining COVID-19 case rates opened the door for countries to reduce their restrictions; economic activity has quickly bounced back, especially in regions where citizens have confidence that the worst of the pandemic is behind them. Meanwhile, global central banks kept rates low and fiscal stimulus measures continued to work their way through the economy. Despite concerns of rising inflation, bond yields fell during the quarter, easing the valuation pressure on various market segments. Combined with rising commodity prices, this led to a rebound in the technology sector and a strengthening of shares in the embattled oil & gas sector.



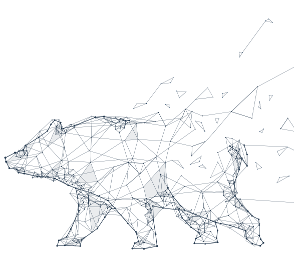
Headline narratives seemed to shift depending on the latest data on inflation, vaccinations, and new variants of COVID-19, alternating between those that favored reopening sectors and those that favored stay-at-home measures. While such narratives can help investors understand the dynamics across the current macroeconomic environment, they are by their very nature generalizing complex relationships. Ultimately, investing involves owning a business, and the price that the investor pays for the business and that business's prospects determine the investment's success. As a long-term investor, it's important to remain focused on having a portfolio constructed based on bottom-up fundamentals, optimized to succeed across a wide variety of scenarios rather than focusing on a single narrative.

Quarterly Highlights

The US economic recovery continued during the second quarter as more and more regions of the country reopened. As of quarter end, an estimated 55% of US citizens had at least one dose of a COVID-19 vaccine and 47% were fully vaccinated. Americans quickly responded to the easing of COVID-19 restrictions with an uptick in travel, services spending, and business activity. According to AAA, an estimated 37 million Americans traveled 50 miles or more over the Memorial Day holiday weekend and the number of passengers screened by the TSA on July 1 exceeded the number screened on that date in 2019. Meanwhile, credit-card data showed households increased their spending by 20% year over year and 10% year over two years. Reflecting positive demand trends, the US Purchasing Managers Index (PMI) rose to 62.6 in June, its highest level since the survey incorporated all manufacturing industries in October 2009. Positive sentiment and a sense that the worst is behind for the economy buoyed confidence; the US Consumer Confidence Index rose to 127.3 in June, its highest level in over 1.5 years.

The flip side of the incredible jump in demand has been the impact on prices. Inflation received a lot of attention during the quarter, as the Consumer Price Index (CPI) recorded its largest increase since 2008. Similarly, the prices paid by businesses for materials increased dramatically; the ISM Manufacturing Report on Business Prices Index had a reading of 92.1 in June, an elevated level that the index has only reached during three other periods in its history. CPI numbers jumped sustainably, but the gains were heavily influenced by price changes in a few categories: used vehicles, airline fares, and energy. Used vehicle prices (+45% Y/Y) accounted for more than a third of the CPI's gain. A combination of higher demand for personal vehicles, chip shortages negatively impacting vehicle production, and the need for car-rental agencies to replenish their fleets drove inventories to record low levels and new and used car prices upwards. Economists have labeled these price gains as transitory and expect them to stabilize as new vehicle production picks up and demand moderates. Likewise, the gains in airline fares and energy are also forecasted to moderate, as they're partially due to base effects (comparing them to peak pandemic pricing).

During its most recent meeting, the Federal Reserve (the Fed) left its benchmark short-term borrowing rate unchanged but signaled that rates could be raised sooner than previously indicated with potential rate increases coming as soon as 2023, a year earlier than it had quoted at the last meeting. While the Fed increased its inflation expectations by 1%, to 3.4% for 2021, its 2022 and longer-term forecasts remain around 2%. In discussing inflation, Jerome Powell maintained his stance that the current inflation pressures are transitory and the result of global supply-chain bottlenecks putting upward pressure on price levels. This meeting also included preliminary discussions about the possibility of winding down the Fed's corporate-bond-buying program (Secondary Market Corporate Credit Facility), which was originally established in March 2020 to shore up liquidity in financial markets.



China's economic growth continued to stabilize; industrial production increased by 6.6% in May on a two-year average basis and retail sales grew by 4.5%. While industrial production has benefited from robust demand for exports, consumption's recovery has been more muted. Positive signals, like the number of trips matching historical levels during the three-day Dragon Boat Festival, haven't translated into spending growth, as COVID-19 flare-ups and social-distancing rules have kept a lid on spending.

China's COVID-19 vaccination program ramped up significantly during the quarter; by quarter end, China became the first country in the world to have administered one billion doses of COVID-19 vaccines, taking its overall vaccination rate to approximately 40%. Beijing's goal is to have 70% of the population vaccinated by year end; to that end, authorities have used a combination of creative incentives and top-down pressure, including rewards such as eggs, rice, cooking oil, and cash, and certificates for businesses that have 80% of their staff inoculated.

Chinese authorities increased their scrutiny of domestic internet companies throughout the quarter. In April, the State Administration for Market Regulation published statements from twelve of these companies (including ByteDance Ltd., Baidu Inc., JD.com Inc., and Pinduoduo Inc.) expressing their resolve to not engage in anti-competitive behavior and listing the areas in which they would work to build a fair and competitive market. Beijing also initiated a regulatory review involving several government agencies, including the anti-trust, cyber police, and tax authorities, following a voluntary self-examination conducted by 34 leading technology companies. While a regulatory review doesn't necessarily mean the companies will face enforcement actions, in recent press conferences a senior official from the State Administration for Market Regulation, Chen Zhijiang, noted companies should get used to tougher regulatory scrutiny, as "it's necessary to further promote the anti-monopoly law enforcement and restrict unfair competition."

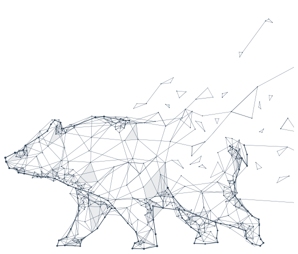
After a rocky start across Europe, COVID-19 vaccination rates markedly increased in the second quarter. By quarter end, the Eurozone was on average administering 3.7 million daily doses; in Italy, Denmark, and Belgium, the percent of people who have received at least one vaccine dose has exceeded that of the US. If this pace continues, most European countries, including France, Germany, and Italy, are expected to be about 65-70% vaccinated at some point during the summer. Despite ongoing concerns about the rapidly spreading "Delta variant," vaccinations have picked up and case rates have declined, and European governments are easing curfews, work-from-home orders, and mask mandates. In Germany, restaurants, bars, museums, and concert halls have reopened, and working from home will no longer be compulsory. France no longer requires people to wear masks outdoors and has ended its eight-month nightly coronavirus curfew. Opening the region to tourism, the EU reduced international travel restrictions and expanded its "whitelist" of countries that can now visit; however, visitors are still subject to each individual member country's testing and quarantine requirements.

Calling the recent uptick in inflation across the Eurozone transitory during the most recent meeting of the European Central Bank (ECB), ECB President Christine Lagarde reiterated the bank's commitment to maintaining its pandemic-era stimulus programs and its low-interest-rate policy. As part of the program, the ECB is committed to purchasing €1.85 trillion ($2.2 trillion) in bonds until March 2022. While discussing the program, Ms. Lagarde acknowledged the bank's updated models include gradual increases in underlying inflation and that the Eurozone economy is no longer overshadowed by risks to its growth outlook. Observational surveys match policymakers' views, as economic activity is benefiting from an easing of COVID-19 restrictions and an uptick in exports; the IHS Markit's flash composite PMI for the Eurozone, which looks at activity across both manufacturing and services, hit 59.2 in June—its highest reading in 15 years.

While still lagging the US and Europe, Japan's vaccine rollout picked up during the quarter with the government opening large-scale vaccination sites. By quarter end, Japan had reached Prime Minister Suga's target of 1 million shots per day; through June 30, it has administered at least one dose to 25% of its population.

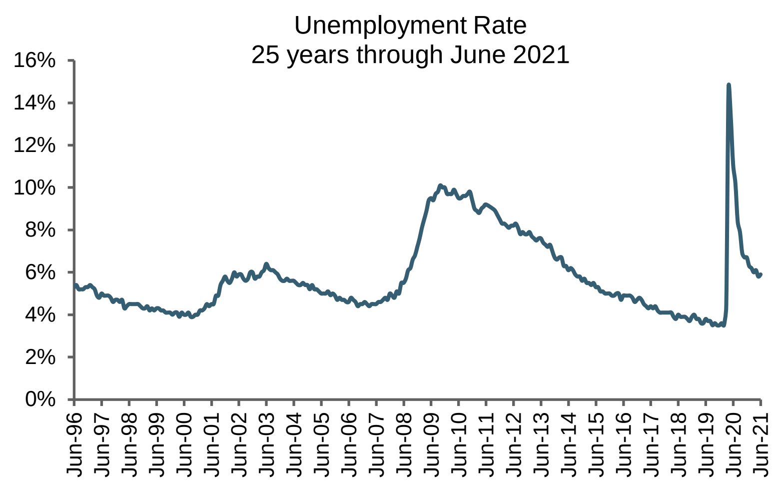
Earlier in the year, Japan's economic recovery hit some speed bumps as on-again/off-again emergency containments of COVID-19 flare-ups impacted capital and consumer spending. Similar to its peers, the Bank of Japan (BOJ) at its most recent meeting stuck to its assessment that the economy remains in a "severe situation" and extended the deadline for its program to support corporate funding by six months (until next March) and maintained its low-rate policies. However, recent data has painted a rosier picture. Japan's final Q1 GDP data came in better than expected, with smaller cuts to plant and equipment spending, while in May, exports grew at their fastest pace since 1980 with 49.6% growth year over year. Household spending has also been creeping up month over month since February, showing signs of a recovering appetite for consumer durables. Sentiment has also trended positively. The BOJ's June Tankan survey showed Japanese manufacturers' business confidence at a two-and-a-half-year high and positive service-sector sentiment for the first time in five quarters.

The Bloomberg Commodity Index ended the quarter up 13.3%, driven again by gains in the energy sector. As there was no policy change during the Fed's rate-setting meeting, investors remained confident that favorable monetary conditions would continue to support the US recovery and the commodity prices added to their Q1 2021 gains. Additionally, the global roll-out of COVID-19 vaccinations continued to drive investor optimism for a global economic recovery. Energy outperformed all other Bloomberg Commodity sub-index constituents for the second straight quarter—primarily natural gas and WTI crude, which led with gains of 40.7% (Bloomberg Natural Gas Subindex) and 23.0% (Bloomberg WTI Crude Subindex), respectively, as global economic activity continues to bounce back following the peak period of the COVID-19 pandemic. Agriculture performed best over the quarter on a one-year change basis, posting a 63.6% increase (Bloomberg Agriculture Index). Livestock lagged relative to other commodity constituents, posting a -1.5% for the quarter (Bloomberg Agriculture Index) due to lower prices for lean hogs and live cattle. Unlike its Q1 2021 outperformance, Bitcoin experienced its third-worst quarter ever, down 40.38% (on a price performance basis), as a regulatory crackdown from the Chinese government against bitcoin miners in the country and other steps to curb its usage had a chilling effect on trading and demand.



Economic Indicators

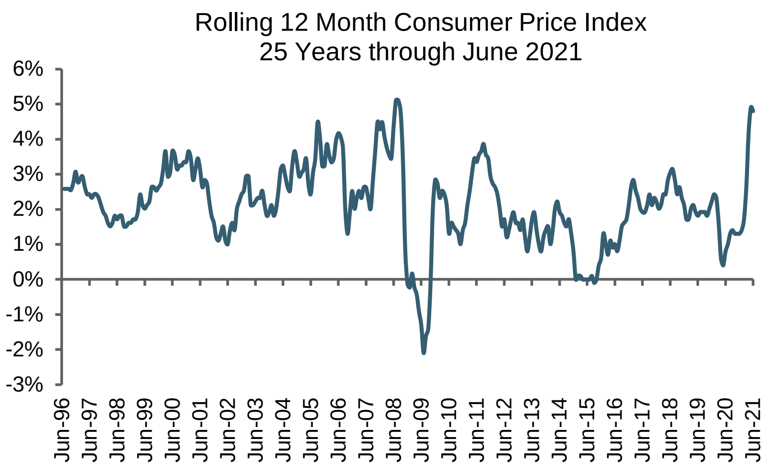
The US economy recovered over 1.6 million jobs over the first quarter as improving economic conditions and business confidence spurred increased hiring. In March, the leisure and hospitality segment made a strong recovery, adding back 280,000 workers. Other segments with notable hiring were construction (+110,000) and government services (+136,000), especially in education, as many places of learning began to normalize activities. No meaningful job losses occurred in aggregate across any single segment in March. The unemployment rate moved down to 6.0% from February, and the number of un-employed persons continues the trend downward, currently at 9.7 million, 4.0 million above February 2020 levels. The labor-force participation rate of 61.5% has remained unchanged for the past several months and is 1.8% below its February 2020 level. Large employment fluctuations in the past year, especially among lower-paid workers, have made the calculation of periodic changes in wages impractical as an economic reference for the time being.



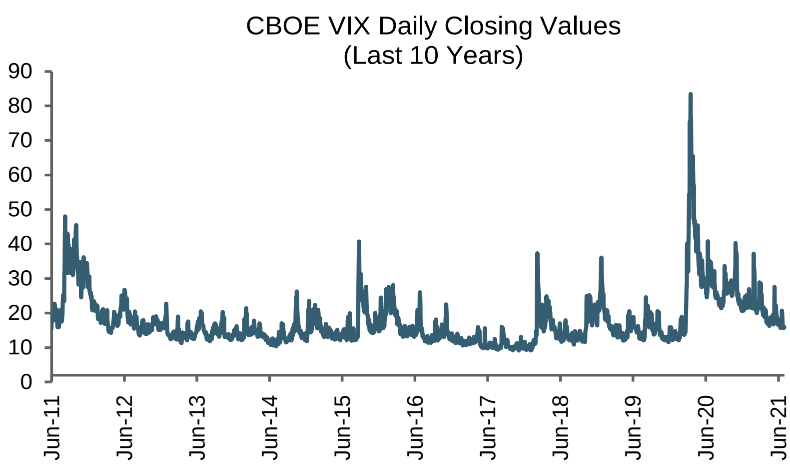
The Consumer Price Index for All Urban Consumers (CPI-U) has increased each month since June 2020 (and at an increasing rate since October). Most recently, the CPI-U increased at 0.2%, 0.3%, and 0.4% over December, January, and February, respectively. Over the trailing twelve months, prices of goods in the US registered an average 1.7% rate of inflation. Energy commodity prices continued their upward trend, gaining 6.6% in February following increases of 7.3% and 5.1% in January and December, respectively. The core index (CPI-U less food and energy) has increased at a rate of 1.3% since February 2020, led by an increase of 9.3% in the price of used cars and trucks. This increase is partially offset by price cuts in transportation services (-4.4%) and apparel (-3.6%).

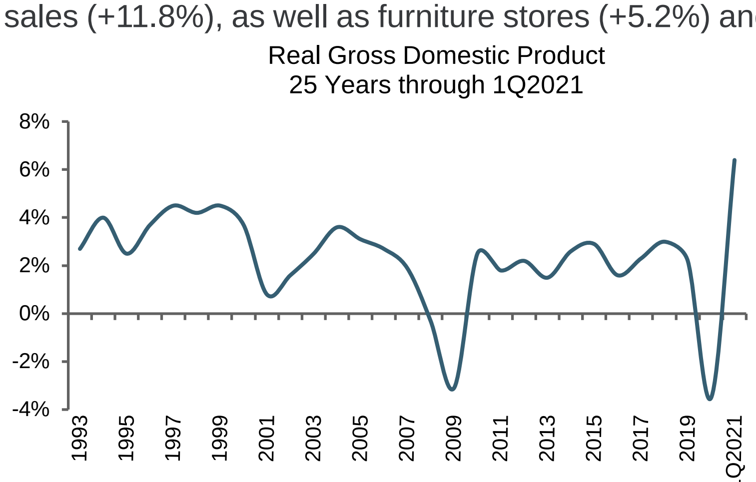
Market volatility, as measured by the VIX Index, closed the first quarter of 2021 at 19.4, slightly above its five-year average of 17.8 and roughly in-line with pre-pandemic levels. Investor confidence in the market's long-term prospects continued to solidify over the quarter as hopes of further socio-economic normalization became widespread due to accelerating vaccination campaigns in the US. The VIX did experience a localized spike into the high 30s in late January when markets recoiled from temporary liquidity-driven events surrounding so-called "meme stocks" before resuming the steady decline to the current lower levels.

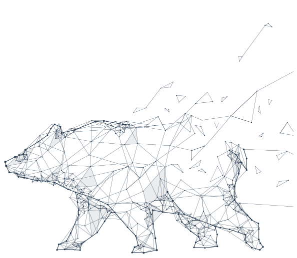
US GDP grew at 4.3% in the fourth quarter of 2020, a strong result in a year that started with a pronounced but ultimately short-lived recession. In contrast to the consumption-led recovery in the third quarter, the pent-up private investment flows led the economy forward to close the year. Individuals made meaningful investments in residential property (+36.6%) while private enterprise increased investments in equipment by 25.4%. Partially offsetting these flows were cuts to federal non-defense spending (-8.9%), cuts to consumer goods spending (-1.4%), and continued weak demand for non-residential structures (-6.2%).



Retail sales decreased by 3.0% in February following a 7.6% increase in January. February 2021 retail sales were 6.0% above February 2020 levels. Total sales for the December 2020 through February 2021 period were up approximately 6.0% from the same period one year ago. Meaningful increases in sales during the December through February period were led by a rebound in gas-station sales (+11.8%), as well as furniture stores (+5.2%) and miscellaneous retailers (+5.2%). Department-store sales continue to decline, falling by 2.7% in the period. Year over year, non-store retailers (+25.4%) and building material stores (+16.6%) experienced the largest sales gains, while food services (-17.9%), department stores (-14.7%), and clothing stores (-12.5%) experienced the largest declines.

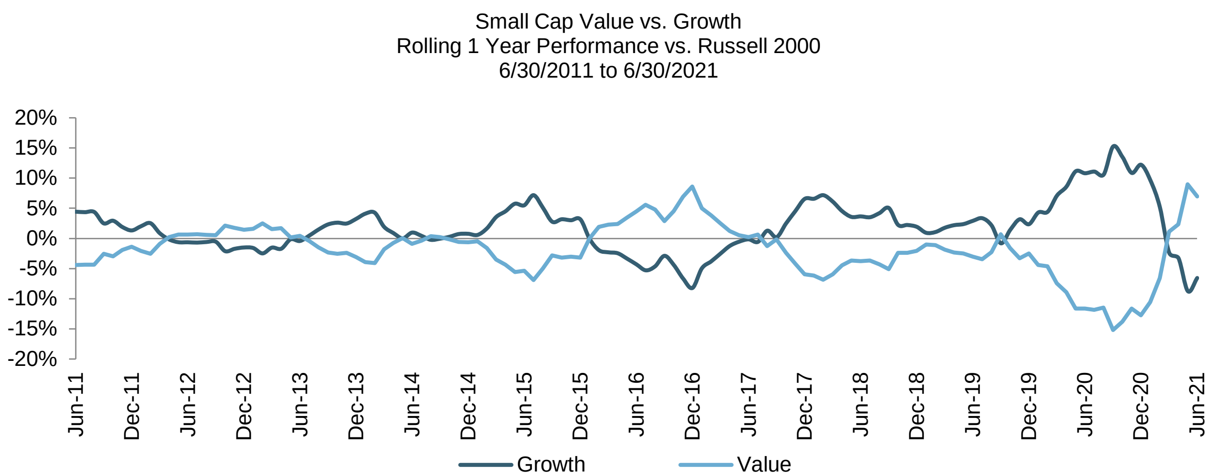


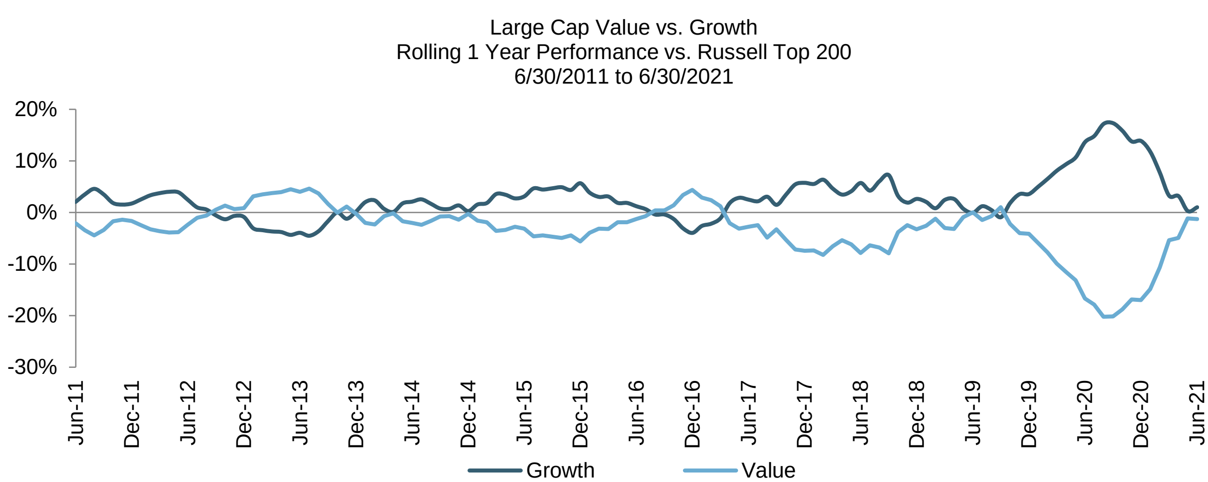




Returns by Style: Performance through June 2021

	Q2 2021	YTD		Q2 2021	YTD
Large Cap Value	5.0%	15.8%	Large Cap Growth	12.1%	13.6%
Mid Cap Value	5.7%	19.5%	Mid Cap Growth	11.1%	10.4%
Small Cap Value	4.6%	26.7%	Small Cap Growth	3.9%	9.0%



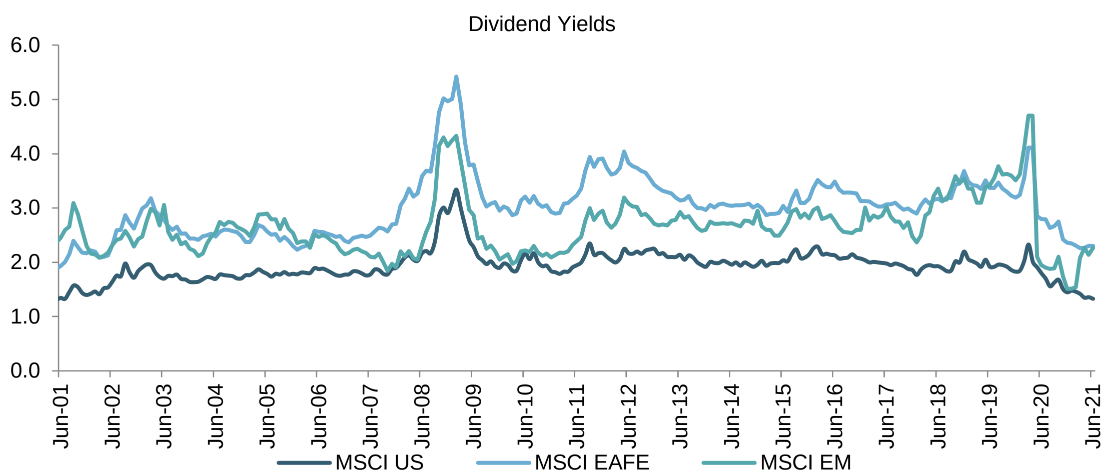


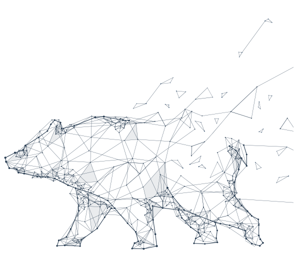
Sector Returns by Capitalization

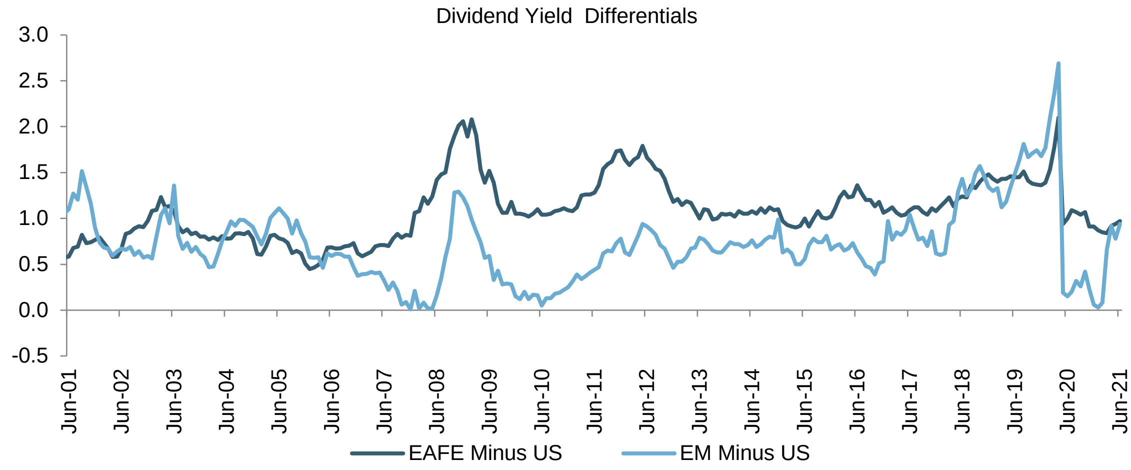
	U.S. Large Cap		U.S. Mid Cap		U.S. Small Cap	
	2Q2021	YTD	2Q2021	YTD	2Q2021	YTD
Basic Materials	1.5	7.0	8.4	26.4	2.7	23.3
Consumer Goods	3.4	6.2	0.7	8.6	2.4	16.1
Consumer Services	5.8	5.7	4.0	16.9	8.8	37.6
Financials	7.8	24.7	6.9	23.8	1.3	20.8
Healthcare	7.9	11.4	11.5	11.1	2.7	3.0
Industrials	6.0	13.7	6.9	16.7	2.4	18.0
Oil & Gas	10.6	45.1	13.6	40.1	11.0	44.3
Real Estate	14.8	19.8	9.9	20.3	7.3	17.0
Technology	14.8	19.0	9.8	10.7	5.9	10.7
Telecommunications	3.1	7.5	17.1	21.8	6.7	17.7
Utilities	0.4	3.2	0.6	4.1	-0.9	0.6
Source: Russell Investments & Industry Classification Benchmark						
*Large Cap: Russell Top 200 Index Mid Cap: Russell Mid Cap Index Small Cap: Russell 2000 Index						

From a market-capitalization perspective, large- and mid-cap equities outperformed small-cap equities over the quarter. For the third consecutive quarter, energy was among the top-performing sectors across all capitalizations. Higher prices and positive demand trends helped improve the outlook for the sector. Information technology and healthcare, which had lagged last quarter, posted solid performance, especially across large and mid-capitalizations, while late-quarter headlines concerning the accelerating spread of the "Delta variant" seemed to touch off a rotation back towards beneficiaries of COVID-19 in the information technology sector. Meanwhile, healthcare benefited from a halo effect following the FDA's approval of Biogen's new Alzheimer's drug and positive news about CRISPR-based therapies.

Global Equity Ratios (source: MSCI - data sourced 'as is')






Dividend Yield Differentials
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2.5
2.0
1.5
1.0
0.5
0.0
-0.5
Jun-01
Jun-02
Jun-03
Jun-04
Jun-05
Jun-06
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Jun-08
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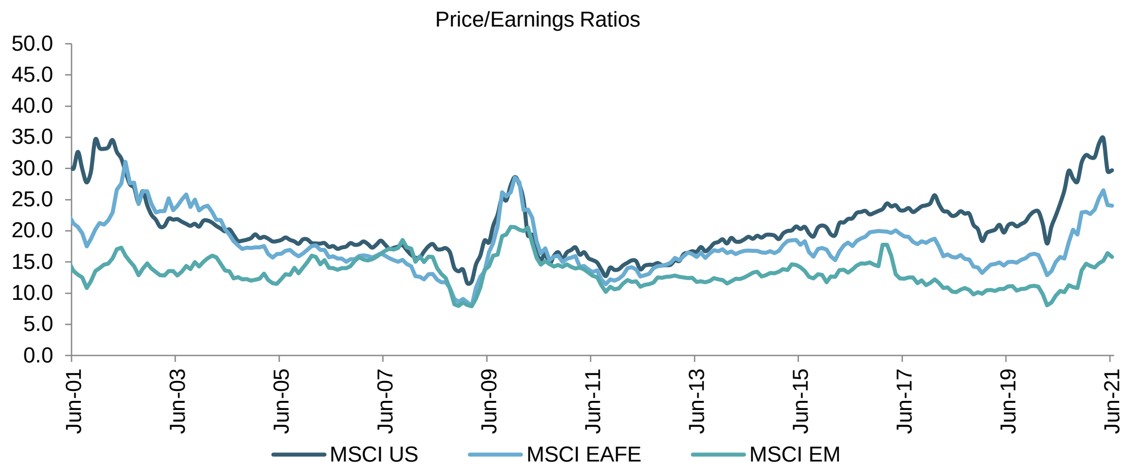
Jun-20
Jun-21
EAFE Minus US
EM Minus US


Price/Earnings Ratios
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45.0
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
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Jun-01
Jun-03
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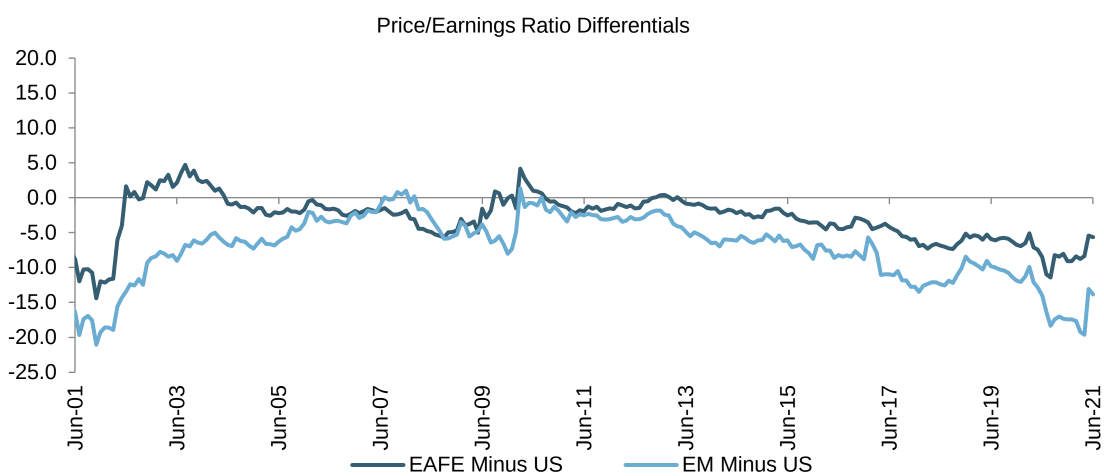
MSCI US
MSCI EAFE
MSCI EM


Price/Earnings Ratio Differentials
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15.0
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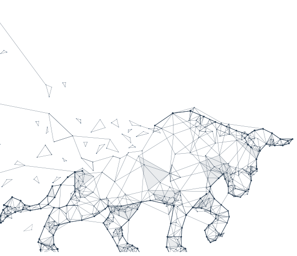
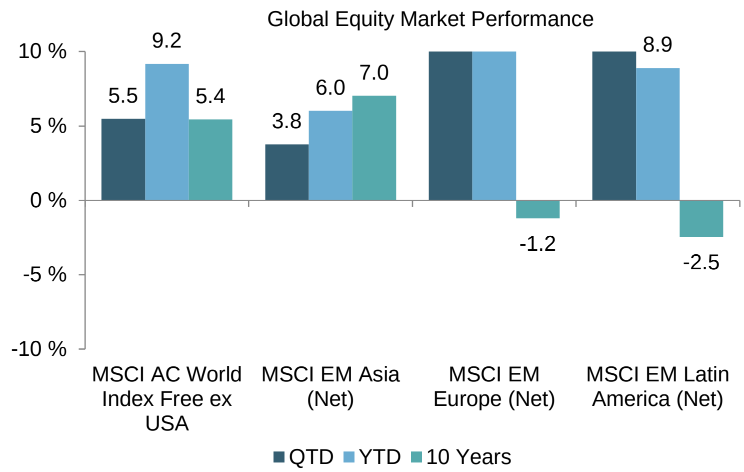
EAFE Minus US
EM Minus US

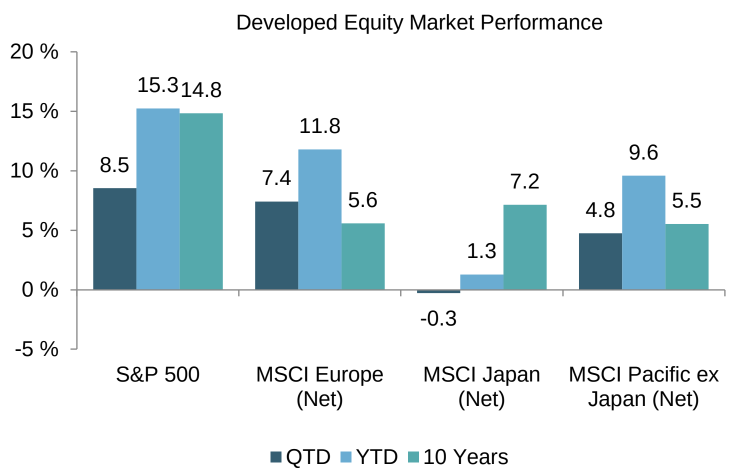


Global Equity Performance

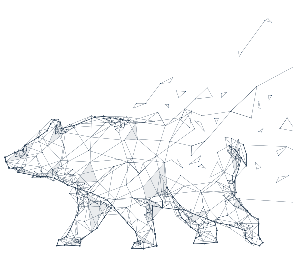
Global equity markets were strong in the second quarter on the back of progress concerning COVID-19 vaccinations and robust economic growth. The MSCI All Country World Index (ACWI) gained 7.4%, led primarily by the US and continental Europe, bringing the return of global markets for the first half of the year to 12.3%. The S&P 500 gained 11.7% in the fourth quarter, closing 2020 16.7% higher than it started. The election of Joe Biden to the Oval Office as well as vaccine rollouts and Federal Reserve reassurance of support signaled the potential for a reinvigorated economy going forward.

The S&P 500 gained 8.6% in the second quarter. The US stock market reached new all-time highs, with most sectors posting gains. The US economy posted strong growth and industrial production indicators pointed to robust expansion. Inflation also moved up, with the CPI rising from 3.0% to 3.8%, the largest periodic increase since 1993. Investor confidence was further boosted by a $1 trillion infrastructure package working its way through Congress. Among other things, the package will make significant allocations to physical transportation and internet capacity. Renewed investor confidence led to the relative underperformance of defensive sectors such as utilities and consumer staples.





The MSCI EAFE Index gained 3.2% in the quarter, bringing its first-half return to 8.8%. In Q2, the MSCI Europe Index returned 7.4% while the MSCI Japan fell 0.3%. European stock markets benefitted from a strong earnings season, progress on vaccine rollouts, and falling infection rates, leading to loosening restrictions and increased economic activity. Highlighting this, the Eurozone PMI rose to 59.2 in June, the highest level since 2006, while inflation remained low at 1.9%. This combination ac-



celerated the approval of an $800 billion recovery plan by the European Commission. Danish, Austrian, Belgian, and French markets were particularly strong with returns of 13%, 11.5%, 9.2%, and 9.0%, respectively. The United Kingdom underperformed but did better than the broader index, returning 6.0%, as the dominant financials sector was held back by falling interest rates. Japanese equities underperformed their developed-market counterparts over the quarter due to a persistent increase in COVID-19 cases. At the risk of losing credibility, the Suga administration responded with further lock-down measures, notably limiting spectators at the upcoming Tokyo Olympics. Additionally, in contrast with the US and Europe, economic and industry indicators failed to signal an imminent recovery.

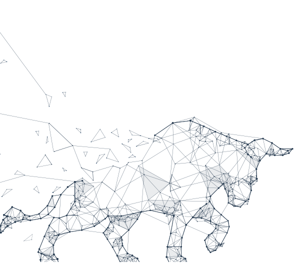
The MSCI EM Index gained 5.0% over the quarter, overcoming concerns of faster-than-expected monetary tightening in the US early in the period. Brazilian equities led emerging markets due to a confluence of positive developments, including renewed progress on economic reforms, an accelerated vaccine rollout, and easing fiscal concerns. Foreign investors further benefitted from currency appreciation in the period following central-bank monetary tightening. Elsewhere across emerging markets, oil & gas-producing nations continued to benefit from rising commodity prices, while political unrest in Chile and Peru led to the underperformance of those markets. Despite ending the period with positive returns, Chinese equities underperformed the index, as investor concerns grew over the central government's action against publicly listed corporations.

US Valuations

US Large Cap Equity	Quarter Ending 6/30/2021		Quarter Ending 3/31/2021	
	Value	Growth	Value	Growth
Price/Earnings Ratio:	30.3	45.6	38.2	42.9
IBES LT Growth (%):	11.9	21.5	10.0	18.5
1 Year Forward P/E Ratio:	17.3	31.0	18.1	30.1
Negative Earnings (%):	15.0	6.9	16.9	6.0

US Mid Cap Equity	Quarter Ending 6/30/2021		Quarter Ending 3/31/2021	
	Value	Growth	Value	Growth
Price/Earnings Ratio:	28.6	96.8	41.9	82.5
IBES LT Growth (%):	11.0	18.3	8.5	15.7
1 Year Forward P/E Ratio:	17.5	32.5	18.0	32.6
Negative Earnings (%):	15.0	29.1	20.9	26.4

US Small Cap Equity	Quarter Ending 6/30/2021		Quarter Ending 3/31/2021	
	Value	Growth	Value	Growth
Price/Earnings Ratio:	42.6	NA	140.2	-251.1
IBES LT Growth (%):	9.6	15.4	9.1	15.4
1 Year Forward P/E Ratio:	14.5	22.7	16.1	25.5
Negative Earnings (%):	31.6	46.8	35.9	42.6
Source: Russell Investments Total Equity Profile				



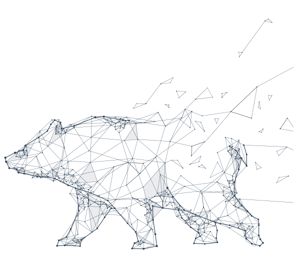
Price multiples of US companies were mixed in the second quarter; price appreciation in the growth segment led to multiple expansion, while multiples of value stocks were meaningfully lower relative to the end of Q1. The median P/E of the S&P 500 and the dispersion of valuations within the index remain at very elevated levels relative to their historical averages of the last 25 years. In the value segment, valuations were roughly the same across the market-cap spectrum. The dispersion between value and growth across company sizes remains elevated, with valuations of growth stocks almost doubling their value counterparts. Consensus estimates expect the S&P 500 to report a year-over-year growth in earnings of 64.0% for the second quarter, with expectations that actual reported earnings will be even higher, as companies tend to post positive earnings surprises (on average surprising by almost 8%). If this level is realized, it will be the largest year-over-year earnings growth rate reported since Q4 2009 (109.1%). For the quarter, the year-over-year earnings outlook is positive, with all eleven sectors expected to experience earnings growth. Looking ahead, analysts predict the energy (+25.1%), materials (+18.9%), and financials (+11.5%) sectors will have the largest price gains, while communication services (+8.9%), consumer discretionary (+9.6%), and technology (+9.6%) are expected to register the most muted earnings growth. In aggregate, analysts expect the S&P 500 to experience an 11.2% price increase over the next twelve months despite the index's record high levels.

International Valuations

International Equity	Quarter Ending 6/30/2021		Quarter Ending 3/31/2021	
	Value	Growth	Value	Growth
Price/Earnings Ratio:	24.5	40.9	30.6	42.9
IBES LT Growth (%):	10.8	15.1	5.8	13.0
1 Year Forward P/E Ratio:	12.2	25.4	13.3	26.8
Negative Earnings (%):	16.4	8.4	17.5	9.8

Emerging Markets Equity	Quarter Ending 6/30/2021		Quarter Ending 3/31/2021	
Price/Earnings Ratio:		21.1		25.1
IBES LT Growth (%):		19.7		18.7
1 Year Forward P/E Ratio:		14.3		15.2
Negative Earnings (%):		6.4		6.7
Source: Russell Investments Total Equity Profile				

Other developed markets saw current price multiples decline despite strong price performance as a result of a very strong earnings season. Corporate performance has yet to translate into significant multiple normalization in Europe and Japan broadly and a 12.2x one-year forward P/E makes developed non-US value stocks the cheapest segment available to equity investors. Indeed, even the forward price multiples of developed-market growth equities are approaching the levels of US value stocks. Similarly, emerging markets saw their multiples decrease slightly despite a strong price rally in most markets outside of China.



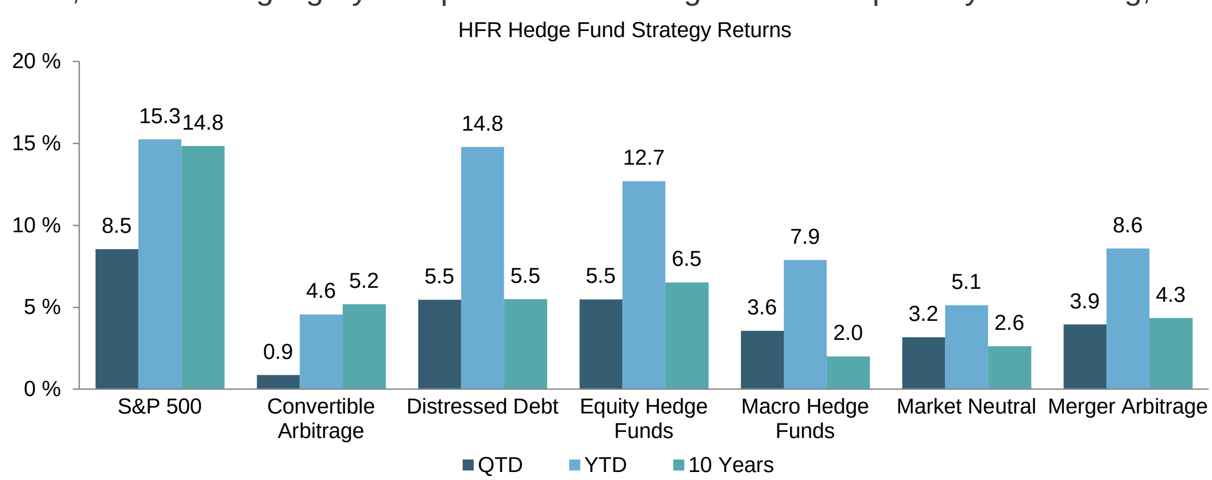
Non-US Developed/Emerging Cap & Style: MSCI AC World Ex - US Indices (Source: MSCI - data sourced 'as is')

	Q2 2021	YTD		Q2 2021	YTD
Large Cap Value	4.6%	12.0%	Large Cap Growth	6.1%	6.3%
Mid Cap Value	3.1%	10.5%	Mid Cap Growth	8.6%	7.6%
Small Cap Value	5.9%	14.0%	Small Cap Growth	6.8%	10.3%

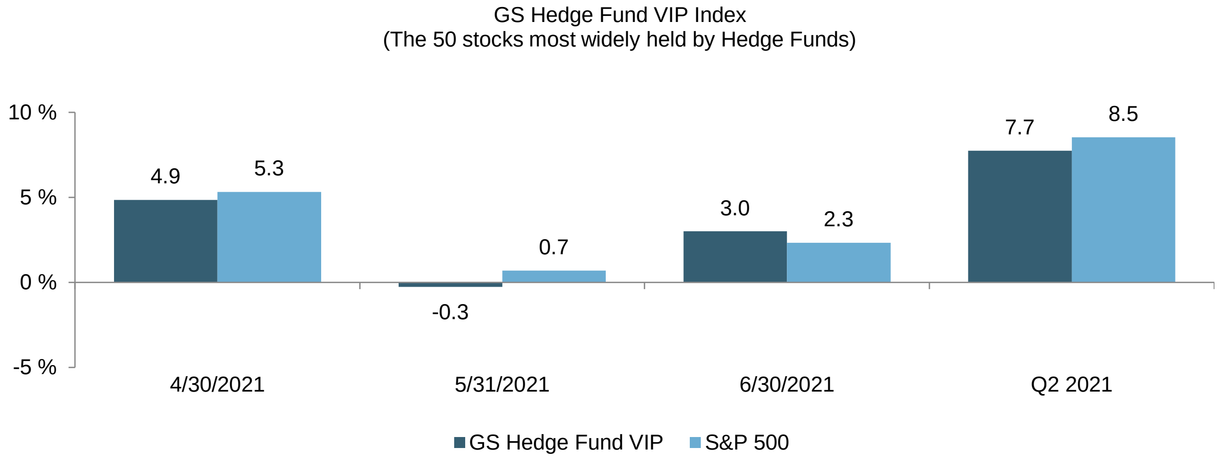
Country	Best Performing Style
Australia	Growth
Brazil	Value
Canada	Growth
China	Value
France	Growth
Germany	Growth
Hong Kong	Value
Indonesia	Growth
Italy	Growth
Japan	Value
Mexico	Growth
Singapore	Growth
Spain	Growth
Thailand	Growth
United Kingdom	Growth

Hedge Fund Performance

In the second quarter of 2021, all major hedge-fund strategies posted positive performance. Distressed and equity hedge strategies experienced the largest gains. Distressed debt managers benefited from positive tailwinds, including reopening, falling interest rates, and declining high-yield spreads. According to data compiled by Bloomberg, dis-

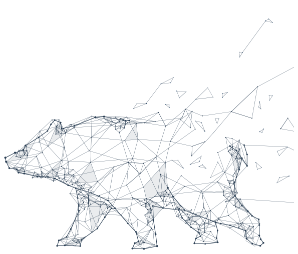


tressed debt outstanding has fallen to its lowest level since 2006 after peaking at over $1 trillion at the height of the pandemic. Lagging all other strategies but still positive for the quarter, convertible arbitrage strategies were hurt by their hedges and declining volatility. The first half of 2021 has been a record year for convertible-bond issuance, with nearly $60 billion in bonds issued; companies have sought to take advantage of investor demand, issuing bonds at record low coupons. According to eVestment, fund flows across the industry have been broadly positive with relatively modest asset churn. Year to date through May, multi-strategy and managed future hedge-fund strategies have received the largest inflows, while long/short equity and relative-value credit have had the largest outflows.

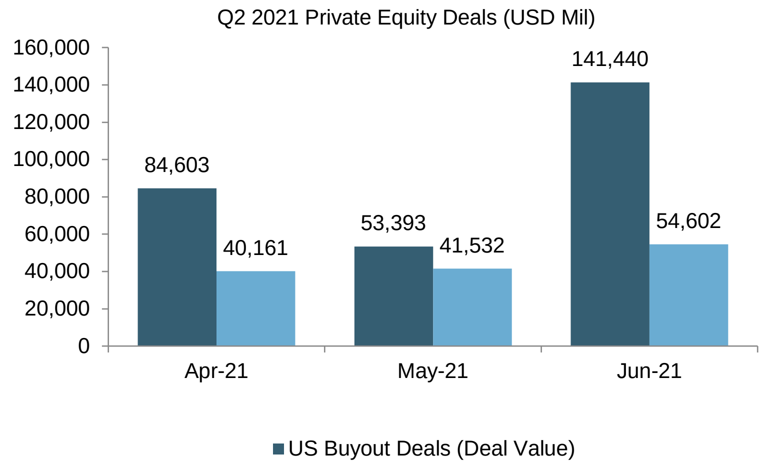


The GS Hedge Fund VIP Index, which comprises the 50 equities most widely held by hedge funds, appreciated by 7.7% in the second quarter of 2021, underperforming the S&P 500 Index by 80 basis points. According to data published by Morgan Stanley's Prime Brokerage Group, hedge-fund managers had their worst first half since 2016, as they struggled to generate alpha in both their long and short portfolios. At a sector level, alpha generation was most challenged in consumer discretionary, real estate, and consumer services. Gross-exposure utilization ended the quarter near where it began, as hedge-fund positioning in aggregate is still quite elevated from both a gross and net perspective. US-focused portfolios' exposures ended the quarter at 198%, while gross-exposure utilization in Europe- and Asia-focused portfolios ended the quarter at 185% and 139%, respectively. Year to date for US-focused managers, the largest positive changes in aggregate exposure occurred in the healthcare, information technology, and industrials sectors, while the largest declines occurred across ETF, financials, and materials exposures.

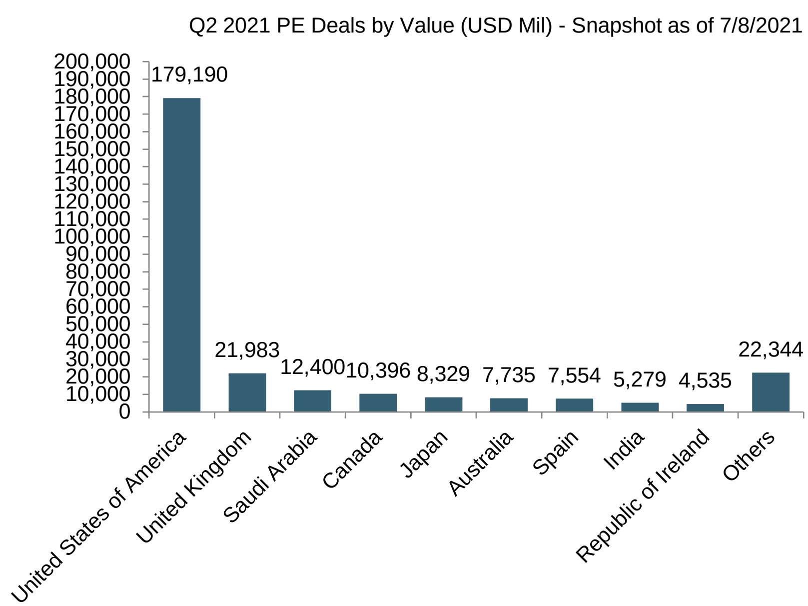
Private Equity Performance

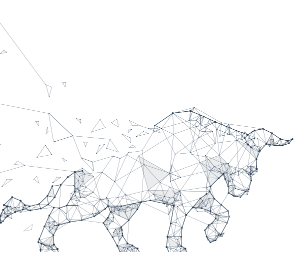


Global merger and acquisition (M&A) activity broke records for a second consecutive quarter this year as companies continued to borrow cheaply and spend their cash reserves on transformative deals, repositioning themselves for the post-COVID-19 world. Deals worth $1.5 trillion were announced in the three months ending 06/30/2021, more than any second quarter on record and up 13% from the record first quarter of the year despite activity among blank-check firms slowing down, as reported by Refinitiv. Second-quarter volumes rose 440% in the United States compared to the same quarter last year, with $699 billion worth of M&A deals. President Biden's proposed tax hikes drove some companies to rush to complete deals before proceeds are taxed at a higher rate. Deal-making in the Asia-Pacific region jumped 104% (to $327 billion), while Europe was up 50% (to $293 billion).

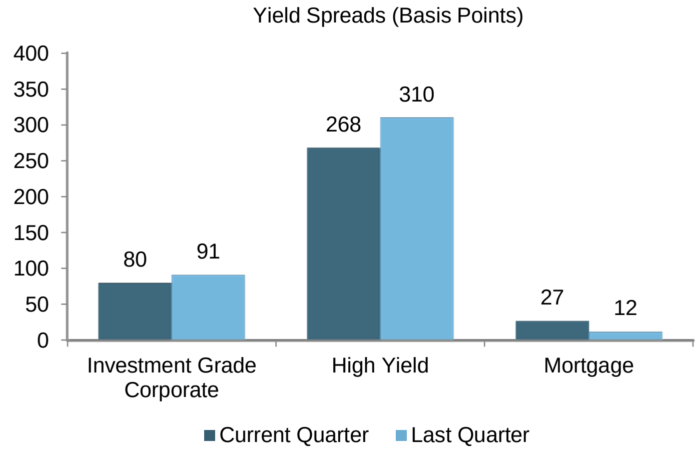


Fueled by cheap debt and an unprecedented fundraising spree, buyout shops are targeting ever-bigger acquisitions, signaling a return to the era of mega-deals—virtually no industry seems off-limits. In June 2021, three of the largest buyout shops, Blackstone, Carlyle, and Hellman & Friedman, joined forces to buy US medical supplier Medline Industries for $34 billion, including debt. It's the biggest leveraged buyout since the 2008 Global Financial Crisis and ranks as one of the largest-ever private-equity deals (behind the $45 billion buyout of US energy group TXU Corporation at the peak of the debt boom in 2007). The US is leading the surge in bigger buyouts; there have been seven deals involving targets valued at $5 billion or more so far this year, worth a total of $46.5 billion according to data from Pitchbook. Four deals of that size, worth a total of $37 billion, were completed during the same period in 2020.

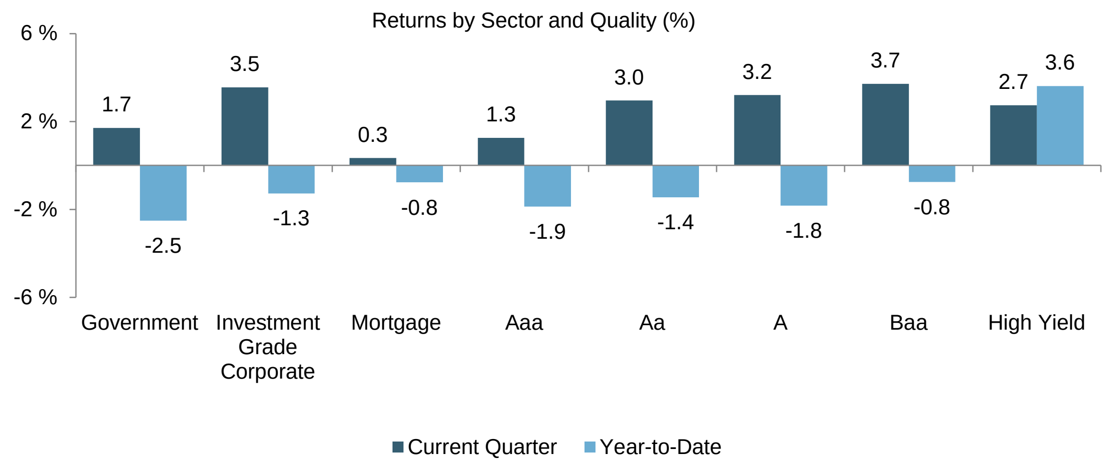




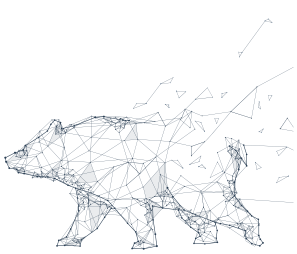
Private-equity funds worldwide, including venture-capital vehicles, closed on $459 billion this year through June, the highest sum for this period in at least the past five years according to data released by Preqin, a data source for private equity. The tally is about 51% above the $303 billion raised in the same period last year, when the COVID-19 pandemic briefly interrupted what had been a booming market for private-equity and venture funds. Private equity this year appears to be on pace to exceed the record fundraising of 2017 and 2018— the industry raised about $628 billion in each of these years. The last half of the year typically sees more fundraising as institutions hurry to commit the money allocated for the year before the calendar turns. While the pandemic didn't produce a long-term pullback by investors in the asset class—unlike the financial crisis of 2007 to 2009—the adjustment to virtual fundraising did extend the time it took firms to close funds. Just 19% of funds that closed in the first half of this year were in the market for six months or less, a lower proportion than in any of the previous five years as shown by the Preqin data. Meanwhile, the percentage of funds that took 13 to 18 months to complete fundraising rose to 25% (from 18% across all of last year).



US Spread Products

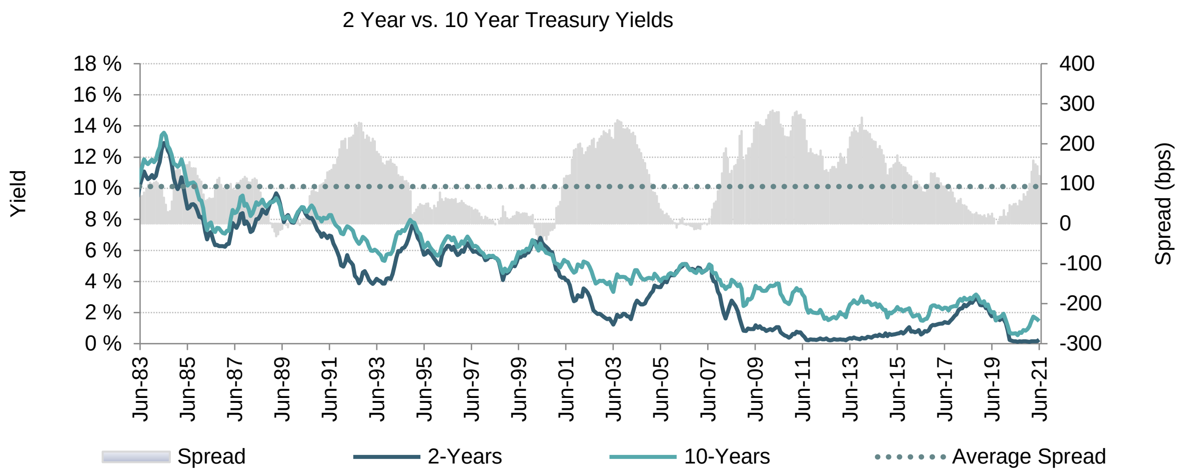


The investment-grade corporate bond market returned 3.6% for the quarter. The primary driver of the positive return was a decrease in the general level of interest rates. This market's option-adjusted spread (OAS) decreased by 11 bps to end the quarter at 80 bps; the OAS is at its lowest level since 2005. By credit quality, lower-quality bonds outperformed their higher-quality counterparts. Aa-rated corporates returned 3.0%, A-rated corporates returned 3.2%, and Baa-rated corporates returned 3.7%. The best-performing sectors for the quarter were other industrials (6.8%), communications (4.6%), and energy (4.5%). This market's issuance totaled approximately $380 billion for the quarter, which was a decline of nearly 50% from the second quarter of 2020.

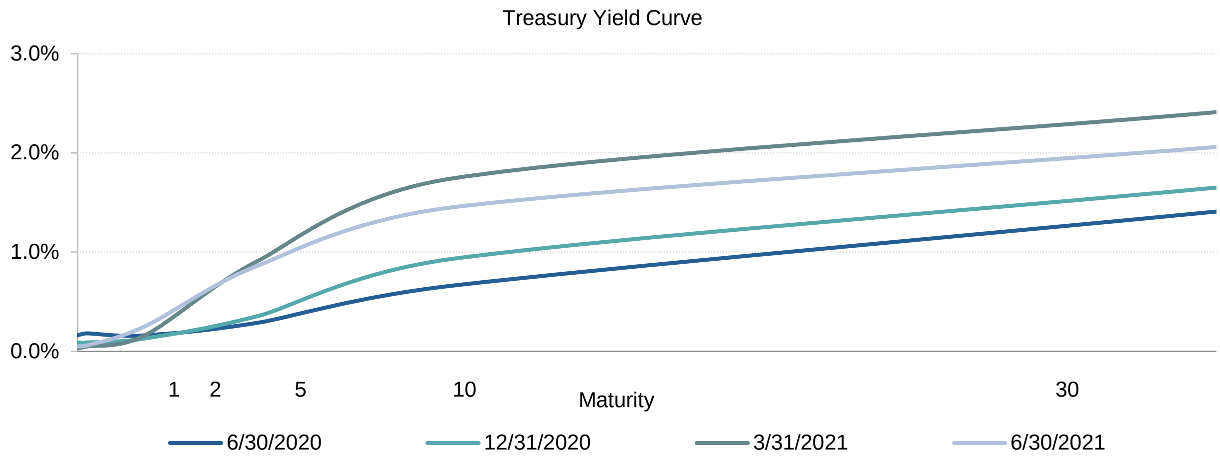


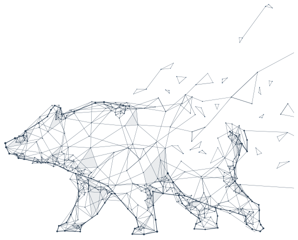
The high-yield corporate bond market returned 2.7% for the quarter. The primary driver of the positive return was a 42-bps decrease in this market's OAS, which ended the quarter at 268 bps; the OAS is at its lowest level since 2007. By credit quality, performance was mixed. Caa-rated bonds returned 3.4%, B-rated bonds returned 2.2%, and Ba-rated bonds returned 2.9%. The best-performing sectors in this market were energy (6.1%), basic industry (2.7%), and transportation (2.7%). This market's issuance totaled approximately $145 billion for the quarter, which was an increase of approximately 8% from the second quarter of 2020.

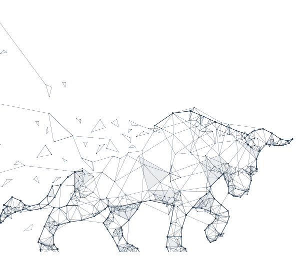
Yield Curve



The US Treasury yield curve flattened during the quarter; short-term yields increased, while medium- and long-term yields decreased. The yield on the two-year treasury note increased by 9 bps to 0.25%, while the yield on the five-year note decreased by 5 bps to 0.87%, the yield on the ten-year note decreased 29 bps to 1.45%, and the yield on the 30-year bond decreased 35 bps to 2.06%. The two- to ten-year spread narrowed by 38 bps, to 120 bps, which is approximately three-tenths of one standard deviation above its long-term average (~93 bps). The FOMC met in April and June. The June meeting was notable for three primary reasons: First, the FOMC fine-tuned monetary policy in order to lift the effective federal funds rate (EFFR) as close as possible to the middle of the FOMC's 0-25 bps target range; second, the Summary of Economic Projections ("SEP") revealed that seven Federal Reserve board members and bank presidents project at least one interest-rate increase in 2022 (from four prior), and that, separately, the median member and president projects two interest-rate increases in 2023 (from zero prior); and third, at the press conference, Chair Powell stated that the Federal Reserve started to discuss a tapering of asset purchases—however, he said that any actual tapering of purchases will be communicated to market participants well in advance. At the end of the quarter, both the federal funds futures and Eurodollar markets have fully priced in one interest-rate increase of 25 bps at the December 2022 FOMC meeting. The Federal Reserve's balance sheet reached $8.1 trillion at the end of the quarter, driven by the Fed's net purchases of US treasuries and agency mortgages equaling at least $120 billion per month; the balance sheet has grown by $1.1 trillion over the past year.







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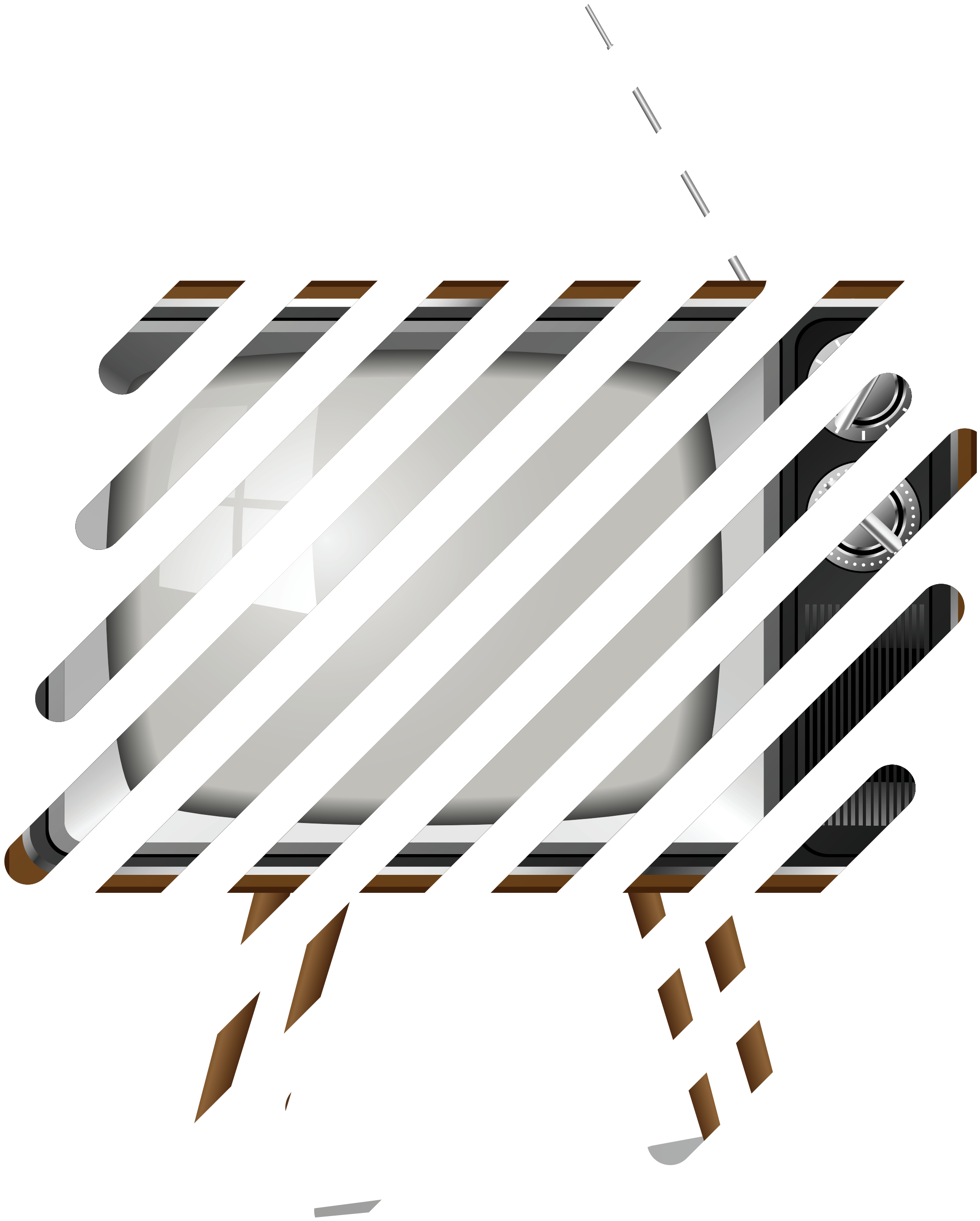

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