

# Market Review

## Q3 2021

# Snapshot

A September slump stalled the third-quarter global stock rally and left most equity indices with flat or negative returns for the three-month period. Mounting inflation, hawkish language from central banks, the U.S. debt ceiling standoff and a potential collapse of China's second-largest property developer clouded the backdrop. Meanwhile, amid a sell-off in Treasuries, the broad U.S. bond market declined in September and was nearly flat for the quarter.

- After declining nearly 5% in September, the S&P 500 Index ended the quarter with a fractional gain. September's decline marked the first monthly loss for the index since January.
- Within the S&P 500 Index, energy was the only sector that delivered a gain in September. The information technology and financials sectors were top third-quarter performers, while the industrials and materials sectors were the largest detractors.
- The U.S. economic climate generally remained favorable, though elevated inflation created headwinds.
- A sharp decline in September pushed European stocks lower for the quarter. Japan's August stock market rally continued, and the country ended the third quarter with a robust gain.
- A debt crisis at property giant China Evergrande Group triggered worldwide market volatility in late September. Evergrande's troubles also contributed to steep monthly and quarterly losses for emerging markets stocks.
- At its September policy meeting, the Fed hinted QE tapering would start by year end and rate hikes may begin in 2022. After the meeting, the benchmark 10-year Treasury yield rose to its highest level since June. U.S. investment-grade bonds declined in September and rose modestly for the quarter.

## Returns (%)

INDEX	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	10 YR
<b>U.S. Large-Cap Equity</b>							
S&P 500	-4.65	0.58	15.92	30.00	15.98	16.89	16.62
<b>U.S. Small-Cap Equity</b>							
Russell 2000	-2.95	-4.36	12.41	47.68	10.53	13.44	14.62
<b>Intl. Developed Markets Equity</b>							
MSCI World ex USA	-2.87	-0.66	9.19	26.50	7.86	8.87	7.87
<b>Emerging Markets Equity</b>							
MSCI Emerging Markets	-3.97	-8.09	-1.25	18.20	8.58	9.23	6.08
<b>Global Real Estate Equity</b>							
S&P Global REIT	-5.63	-0.08	16.94	31.61	7.23	4.65	8.69
<b>U.S. Fixed Income</b>							
Bloomberg Barclays U.S. Aggregate Bond	-0.87	0.05	-1.55	-0.90	5.35	2.94	3.01
<b>Global Fixed Income</b>							
Bloomberg Barclays Global Aggregate Bond	-1.78	-0.88	-4.06	-0.91	4.24	1.99	1.86
<b>U.S. Cash</b>							
Bloomberg Barclays U.S. 1-3 Month Treasury Bill	0.00	0.01	0.03	0.05	1.11	1.09	0.58

Data as of 9/30/2021. Performance in USD. Periods greater than one year have been annualized. Past performance is no guarantee of future results. Source: FactSet.

# Equity Returns | Size and Style

		U.S.			
		QTD		YTD	
		Value	Growth	Value	Growth
Size	Large	-0.78%	1.16%	16.14%	14.30%
	Small	-2.98%	-5.65%	22.92%	2.82%

		Non-U.S. Developed Markets			
		QTD		YTD	
		Value	Growth	Value	Growth
Size	Large	-1.16%	-0.01%	11.93%	7.43%
	Small	0.12%	1.31%	12.46%	8.77%

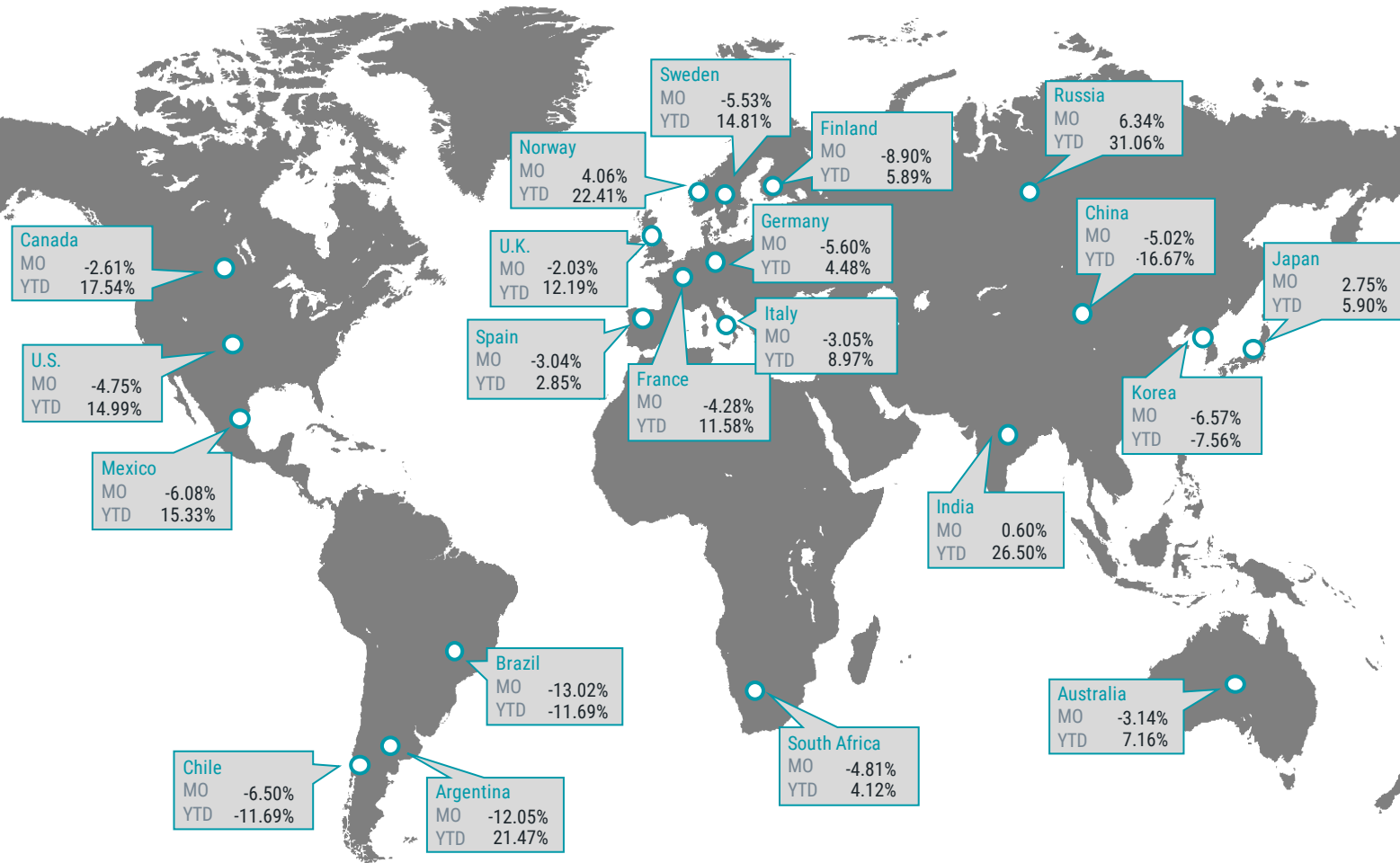
		Emerging Markets			
		QTD		YTD	
		Value	Growth	Value	Growth
Size	Large	-5.70%	-11.42%	2.88%	-7.78%
	Small	-1.84%	-2.47%	17.24%	17.07%

- U.S. stocks sold off sharply in September but managed to eke out a slight third-quarter gain.
- Year to date, U.S. stock returns remained robust. Growth stocks outperformed value stocks in the large-cap space but underperformed value stocks in the small-cap universe.
- Year to date, large-cap stocks outperformed small-cap stocks. Value stocks outperformed their growth-stock counterparts across the board and most notably in the small-cap arena.
- International developed markets stocks broadly declined for the third quarter but retained a solid year-to-date gain.
- Small-cap stocks broadly outperformed large-cap stocks for the third quarter, and the growth style outpaced the value style in the small- and large-cap universes.
- Year to date, small-cap stocks maintained a performance advantage over large caps, while value outperformed growth across the board.
- The broad emerging markets stock index declined sharply in the third quarter, diminishing its year-to-date return.
- Small-cap stocks outperformed large-cap stocks for the quarter, and value outperformed growth across the size spectrum.
- Year to date, small-cap stocks significantly outperformed large-cap stocks. Value stocks sharply outperformed growth stocks among large caps, and they modestly outperformed in the small-cap arena.

Data as of 9/30/2021. Performance in USD. Past performance is no guarantee of future results. Source: FactSet.

U.S. Equity, International Developed Markets and Emerging Markets Equity style boxes are represented by Russell, MSCI World ex USA and MSCI Emerging Markets indices, respectively.

# Equity Returns | Country



Data as of 9/30/2021. Performance in USD. Past performance is no guarantee of future results. Source: FactSet. Countries are represented by MSCI country indices.

# Fixed-Income Returns

Against a backdrop of mildly hawkish Fed comments, elevated inflation and positive economic data, U.S. Treasury yields climbed higher in September. The September jump pushed the benchmark yield back to its end-of-June level. The broad U.S. bond market declined in September to end the third quarter relatively flat.

- Treasury yields generally headed lower through early August, before rising in the second half of the quarter. All main sectors of the Bloomberg Barclays U.S. Aggregate Bond Index were flat to fractionally higher for the quarter.
- Following its September policy meeting, the Fed hinted it likely will start tapering its bond purchases before year end. Policymakers left interest rates unchanged but noted growing support among Fed members to start hiking rates in 2022.
- The annual U.S. headline inflation rate slipped to 5.3% in August, compared with a 13-year high of 5.4% in July. Rising energy and used car costs accounted for much of the year-over-year gain.
- TIPS were top performers for the quarter, benefiting from elevated current inflation and modest gains in longer-term inflation expectations.
- Municipal bond yields tracked Treasury yields higher, but they declined and underperformed Treasuries for the quarter.
- Riskier securities generally outperformed for the quarter, as high-yield corporate and municipal bonds outpaced their investment-grade counterparts.

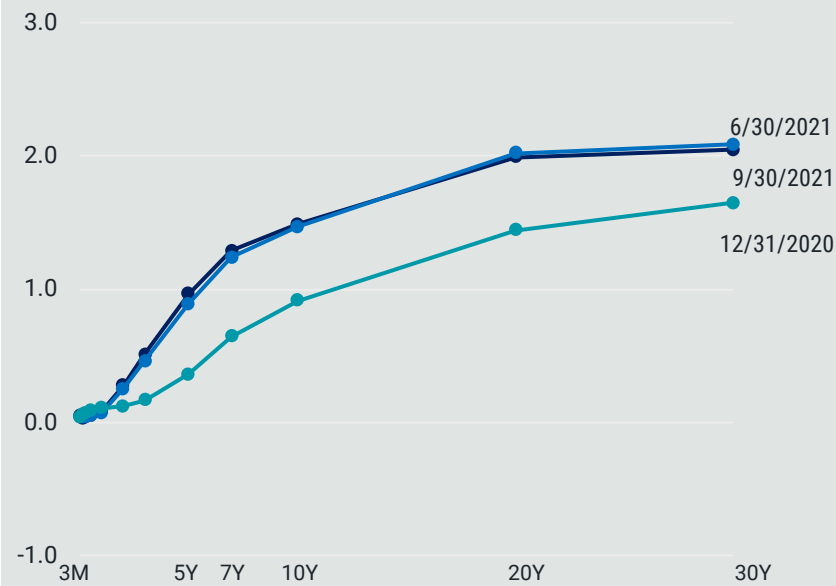
## Returns (%)

INDEX	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	10 YR
<b>Global Fixed Income</b>							
Bloomberg Barclays Global Aggregate Bond	-1.78	-0.88	-4.06	-0.91	4.24	1.99	1.86
<b>U.S. Fixed Income</b>							
Bloomberg Barclays U.S. Aggregate Bond	-0.87	0.05	-1.55	-0.90	5.35	2.94	3.01
<b>U.S. High Yield Corporate</b>							
Bloomberg Barclays U.S. Corporate High-Yield Bond	-0.01	0.89	4.53	11.28	6.90	6.51	7.42
<b>U.S. Investment Grade</b>							
Bloomberg Barclays U.S. Corporate Bond	-1.05	0.00	-1.27	1.74	7.44	4.61	4.87
<b>Municipals</b>							
Bloomberg Barclays Municipal Bond	-0.72	-0.27	0.79	2.63	5.06	3.26	3.86
<b>U.S. TIPS</b>							
Bloomberg Barclays U.S. Treasury - U.S. TIPS	-0.71	1.75	3.51	5.19	7.44	4.33	3.12
<b>U.S. Treasuries</b>							
Bloomberg Barclays U.S. Treasury Bond	-1.08	0.09	-2.50	-3.30	4.89	2.23	2.20
<b>U.S. Cash</b>							
Bloomberg Barclays U.S. 1-3 Month Treasury Bill	0.00	0.01	0.03	0.05	1.11	1.09	0.58

Data as of 9/30/2021. Performance in USD. Periods greater than one year have been annualized. Past performance is no guarantee of future results. Source: FactSet.

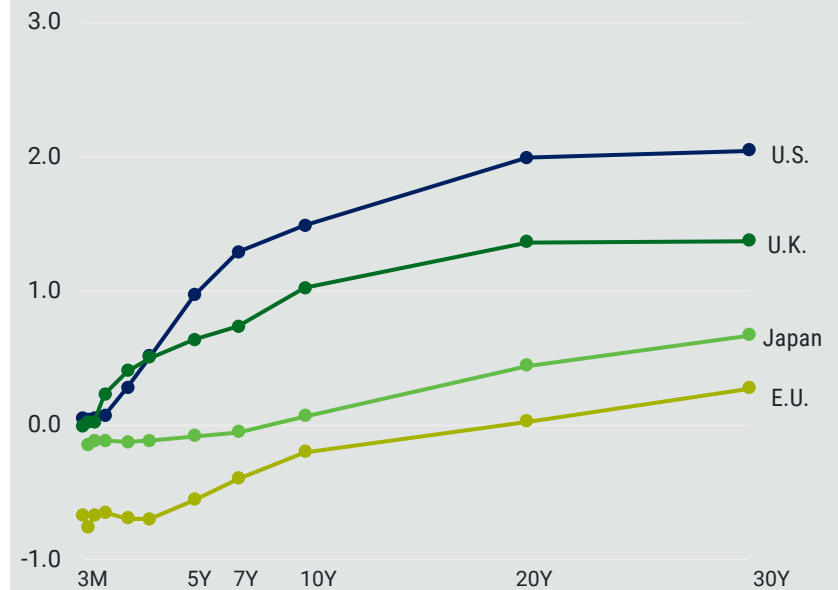
# Global Yield Curves

## U.S. Treasury Yield Curve Over Time



Data as of 9/30/2021  
Source: Bloomberg

## Country/Region Yield Curves as of Latest Month



Yield is a rate of return for bonds and other fixed-income securities. A yield curve is a line graph that shows yields of fixed-income securities from a single sector (e.g., Treasuries) over various maturities (e.g., 5 and 10 years) at a single point in time (e.g., 12/31/2020).

# Glossary

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**Agencies:** Agency securities are debt securities issued by U.S. government agencies such as the Federal Home Loan Bank and the Federal Farm Credit Bank. Some agency securities are backed by the full faith and credit of the U.S. government, while others are guaranteed only by the issuing agency.

**Basis points (BPS):** Basis points are used in financial literature to express values that are carried out to two decimal places (hundredths of a percentage point), particularly ratios, such as yields, fees, and returns. Basis points describe values that are typically on the right side of the decimal point—one basis point equals one one-hundredth of a percentage point (0.01%).

**Bloomberg Barclays Global Aggregate Bond Index:** A flagship measure of global investment-grade debt from 24 local currency markets. This multicurrency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

**Bloomberg Barclays Global U.S. Treasury - U.S. TIPS Index:** Consists of Treasury inflation-protected securities issued by the U.S. Treasury with a remaining maturity of one year or more.

**Bloomberg Barclays Municipal Bond Index:** A market value-weighted index designed for the long-term tax-exempt bond market.

**Bloomberg Barclays U.S. 1-3 Month Treasury Bill Index:** A subindex of the Bloomberg Barclays U.S. Short Treasury Index, the Bloomberg Barclays U.S. 1-3 Month Treasury Bill Index is composed of zero-coupon Treasury bills with a maturity between one and three months.

**Bloomberg Barclays 1-5 Year U.S. Government/Credit Index:** Tracks the market for investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities.

**Bloomberg Barclays U.S. Aggregate Bond Index:** Represents securities that are taxable, registered with the Securities and Exchange Commission, and U.S. dollar-denominated. The index covers the U.S. investment-grade fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

**Bloomberg Barclays U.S. Corporate Bond Index:** Measures the investment-grade, fixed-rate, taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

**Bloomberg Barclays U.S. Corporate High Yield Bond Index:** Measures the U.S. dollar-denominated, high-yield (non-investment grade), fixed-rate corporate bond market.

**Bloomberg Barclays U.S. Treasury Index:** Measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

**Book-to-Market Ratio:** Compares a company's book value relative to its market capitalization. Book value is generally a firm's reported assets minus its liabilities on its balance sheet. A firm's market capitalization is calculated by taking its share price and multiplying it by the number of shares it has outstanding.

**Credit Quality:** A measure of the financial strength of the issuer of a security, and the ability of that issuer to provide timely payment of interest and principal to investors in the issuer's securities. Common measurements of credit quality include the credit ratings provided by credit rating agencies such as Standard & Poor's and Moody's.

**Dow Jones Industrial Average:** An average made up of 30 blue-chip stocks that trade daily on the New York Stock Exchange.

**Duration:** Measures how long it takes, in years, for an investor to be repaid a bond's price by the bond's total cash flows. It is also a measure of a bond's interest rate sensitivity. The longer the duration, the more sensitive a bond is to interest rate shifts.

**Effective Duration:** The average duration of all the bonds in a fund. It provides an indication of how a fund's net asset value (NAV) will change as interest rates change.

**Emerging Markets Debt:** Debt issued by countries whose economies are considered to be developing or emerging from underdevelopment.

**Exchange-Traded Fund (ETF):** An ETF represents a basket of securities that trades on an exchange, similar to a stock. An ETF differs from a mutual fund in that its share price fluctuates all day as investors buy and sell the ETF. A mutual fund's net asset value (NAV) is calculated once per day after the market closes.

**Expected Returns:** Valuation theory shows that the expected return of a stock is a function of its current price, its book equity (assets minus liabilities) and expected future profits, and that the expected return of a bond is a function of its current yield and its expected capital appreciation (depreciation). We use information in current market prices and company financials to identify differences in expected returns among securities, seeking to overweight securities with higher expected returns based on this current market information. Actual returns may be different than expected returns, and there is no guarantee that the strategy will be successful.

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# Glossary

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**Market Capitalization:** The market value of all the equity of a company's common and preferred shares. It is usually estimated by multiplying the stock price by the number of shares for each share class and summing the results.

**MSCI Emerging Markets IMI Index:** Captures large-, mid- and small-cap securities across 27 emerging markets countries.

**MSCI Emerging Markets IMI Value Index:** Captures large- and mid-cap securities exhibiting overall value style characteristics across 27 emerging markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

**MSCI World ex USA IMI Index:** Captures large-, mid- and small-cap representation across 22 of 23 developed markets countries, excluding the U.S.

**MSCI World ex USA Small Cap Index:** Captures small-cap representation across 22 of 23 developed markets countries, excluding the U.S.

**MSCI World ex USA Value Index:** Captures large- and mid-cap securities exhibiting overall value style characteristics across 22 of 23 developed markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

**Option-Adjusted Spread (OAS):** Measures the difference between the yield of a bond with an embedded option and the yield on Treasuries. Call options give the issuer the right to redeem the bond prior to maturity at a preset price, and put options allow the holder to sell the bond back to the company on certain dates. The OAS adjusts the spread to account for these potential changing cash flows.

**Profitability-to-Book Ratio:** Measures a company's profitability relative to its book value. A company's profitability is generally calculated by subtracting operating expenses from its gross profit. Book value is generally a firm's reported assets minus its liabilities on its balance sheet.

**Quality:** Describes the portfolio in terms of the quality ratings of the securities it holds. All U.S. government securities are included in the U.S. Government category. Cash and cash equivalents include payable amounts related to securities purchased but not settled at period end.

Credit quality ratings on underlying securities of a fund are obtained from three Nationally Recognized Statistical Rating Organizations (NRSROs), Standard & Poor's, Moody's and Fitch. Ratings are converted to the equivalent Standard & Poor's rating category for purposes of presentation. The median rating is used for securities rated by all three NRSROs. The common rating is used when two of the three NRSROs agree. The lower rating is used when only two NRSROs rate a security. A nonrated designation is assigned when a public rating is not available for a security. This designation does not necessarily indicate low credit quality. The letter ratings are provided to indicate the creditworthiness of the underlying bonds in the portfolio and generally range from AAA (highest) to D (lowest). Includes payable amounts related to securities purchased but not settled at period end.

Due to rounding, these values may exceed 100%. Negative weights, when quoted, may be due to open security or capital stock trades at period end and/or unrealized loss on derivative positions as a percent of net assets at period end. Fund holdings subject to change without notice.



# Glossary

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**Russell 1000® Growth Index:** Measures the performance of those Russell 1000 Index companies (the 1,000 largest publicly traded U.S. companies, based on total market capitalization) with higher price-to-book ratios and higher forecasted growth values.

**Russell 1000® Value Index:** Measures the performance of those Russell 1000 Index companies (the 1,000 largest publicly traded U.S. companies, based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

**Russell 2000® Index:** Measures the performance of the 2,000 smallest companies among the 3,000 largest publicly traded U.S. companies, based on total market capitalization.

**Russell 2000® Growth Index:** Measures the performance of those Russell 2000 Index companies (the 2,000 smallest of the 3,000 largest publicly traded U.S. companies, based on total market capitalization) with higher price-to-book ratios and higher forecasted growth values.

**Russell 2000® Value Index:** Measures the performance of those Russell 2000 Index companies (the 2,000 smallest of the 3,000 largest publicly traded U.S. companies, based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

**Russell 3000® Index:** Measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

**S&P 500® Index:** A market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The index is widely regarded as the best gauge of large-cap U.S. equities.

**S&P Global REIT Index:** A comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets.

**S&P National AMT-Free Municipal Bond Index:** A broad, comprehensive, market value-weighted index designed to measure the performance of the investment-grade tax-exempt U.S. municipal bond market. Bonds issued by U.S. territories, including Puerto Rico, are excluded from this index. It is not possible to invest directly in an index.

**SEC Yield:** A calculation based on a 30-day period ending on the last day of the previous month. It is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period.

**Securitized Debt:** Debt resulting from the process of aggregating debt instruments into a pool of similar debts, then issuing new securities backed by the pool (securitizing the debt). Examples include asset-backed and mortgage-backed securities.

**Treasury Inflation-Protected Securities (TIPS):** A special type of U.S. Treasury security that is indexed to inflation as measured by the Consumer Price Index, or CPI. At maturity, TIPS are guaranteed by the U.S. government to return at least their initial \$1,000 principal value, or that principal value adjusted for inflation, whichever amount is greater. In addition, as their principal values are adjusted for inflation, their interest payments also adjust.

**Weighted Average Book-to-Market:** An average book-to-market ratio resulting from the multiplication of each security's book-to-market by its weight in the portfolio.

**Weighted Average Market Capitalization:** An average market capitalization resulting from the multiplication of each security's market capitalization by its weight in the portfolio.

**Weighted Average Profitability-to-Book:** An average profitability-to-book ratio resulting from the multiplication of each security's profitability-to-book by its weight in the portfolio.

**Yield to Maturity:** The rate of return an investor will receive if an interest-bearing security, such as a bond, is held to its maturity date. It considers total annual interest payments, the purchase price, the redemption value, and the amount of time remaining until maturity.

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