Markets Finish on a High Note Despite Central Bank Pivot

Quarterly Snapshot

- **The fourth quarter began in the shadow of September's selloff. Equities vaulted higher through mid-November before managing a choppy climb to finish the year.**
- **U.S. stocks were the top-performing major market for the fourth quarter and the full calendar year. The U.K. and Europe also performed quite well over both time frames, while China was down steeply for the quarter and year.**
- **In our view, ultra-low interest rates in the face of higher inflation and above-average growth may force central banks to adopt more aggressive policies than they and market participants currently envision.**

Sky-high COVID-19 cases, a volatile equity-market rally, and worry over rising interest rates can describe both the first and last weeks of 2021. An obvious difference between those two timeframes is that the prospect of widespread vaccination became reality, dealing a sharp blow to the severity of illness among the infected. A towering nine billion vaccine doses were administered worldwide through the end of 2021, rendering roughly 49% of the global population fully vaccinated.

Turning to financial markets, the fourth quarter began in the shadow of September's selloff, which was the most extended shakeout of 2021. After recovering in October, equities vaulted higher through mid-November before unrestrained inflation, tightening central-bank policy and the emergence of the Omicron variant combined for a choppy climb to finish the year.

U.S. stocks were the top-performing major market for the fourth quarter and the full calendar year. The U.K. and Europe also performed quite well over both time frames. Hong Kong and Japan had significant losses in the three-month period; Japan was up modestly in 2021, while Hong Kong had a full-year decline. Brazil and China were down steeply for the quarter and the year, with China delivering the deepest loss among major markets in 2021.

Across the U.S., U.K. and eurozone, short-to-medium-term government bond rates increased during the fourth quarter, while long-term rates declined, resulting in flatter yield curves.

Within fixed income, fourth-quarter performance mirrored the full year: inflation-indexed bonds were the top performers, followed by high yield. Most other sectors were mildly negative given the impact of rising rates, but global bonds were down by more due to currency effects. Local-currency emerging-market debt had the steepest losses for the quarter and year.

The U.S. dollar continued to strengthen against most other currencies during the fourth quarter, capping off a 6.7% full-year increase according to the U.S. Dollar Index (DXY). Commodity prices were dealt a minor setback in the fourth quarter after a steep ascent for the first nine months of 2021. The Bloomberg Commodity Index declined 1.6% during the quarter but gained 21.1% for the full year.

Key Measures: Q4 2021

EQUITY		
Dow Jones Industrial Average	7.87%	↑
S&P 500 Index	11.03%	↑
NASDAQ Composite Index	8.45%	↑
MSCI ACWI Index (Net)	6.68%	↑
BOND		
Bloomberg Barclays Global Aggregate Index	-0.67%	↓
VOLATILITY		
Chicago Board Options Exchange Volatility Index PRIOR Quarter: 23.14	17.22	↓
OIL		
WTI Cushing crude oil prices PRIOR Quarter: $75.03	$75.21	↑
CURRENCIES		
Sterling vs. U.S. dollar	$1.35	↑
Euro vs. U.S. dollar	$1.14	↓
U.S. dollar vs. yen	¥115.10	↑

Sources: Bloomberg, FactSet, Lipper

The U.S. Congress voted to raise the debt ceiling (that is, the federal government's borrowing limit) twice during the fourth quarter—first with an October stopgap hike of $480 billion, and then with a December increase of $2.5 trillion—which is expected to cover spending through early 2023.

President Joe Biden signed the Infrastructure Investment and Jobs Act—a multi-year infrastructure funding bill—into law during November. The initiative appropriated $1.2 trillion (including $550 billion above baseline spending), with nearly $300 billion of new spending to fund transportation projects over the next decade, another $65 billion apiece dedicated to broadband internet and power grid projects, and $55 billion reserved for water infrastructure.

The U.K. government's autumn budget traded improved benefits for tax increases. It proposed a reduction in the universal credit taper rate for low-income workers (from 63% to 55%, meaning that the credit will phase out more slowly) and an annual £500 increase in work allowances. Brick-and-mortar stores will also see more relief via a temporary 50% cut in business rates and no increase in 2022. On the revenue side, a 1.25% bump in national insurance contributions was scheduled to begin in the spring, and a long-telegraphed increase in the corporation tax remained set for 2023.

Germany's new governing coalition came together in late November. The center-left Social Democrats (SPD) secured 25.7% of ballots cast in the September election, while the progressive environmentalist Greens won 14.8% and pro-business Free Democrats (FDP) received 11.5% of the votes. As of December, SPD leader Olaf Scholz heads the government as chancellor, while FDP leader Christian Lindner serves as finance minister.

The coalition has coalesced around an ambitious series of climate-centric policy pledges, including new commercial and residential construction that host solar-power production capabilities; additional support for seaborne wind farms; and a targeted 15 million electric vehicles in service by 2030 along with the necessary charging infrastructure. The German housing market is also set to benefit from the coalition's plan to build 400,000 new apartments per year, with one-quarter of the project financed by government funds. However, questions have been raised about how the government will fund its goals given that Germany's "debt brake" will be re-instated in 2023 (limiting government borrowing to 0.35% of GDP) and that the FDP extracted a commitment to refrain from imposing new or increased taxes (in order to join the coalition).

In China, while Evergrande dominated concerns about the viability of real estate companies earlier in 2021, Fantasia Holdings Group—a much smaller developer—defaulted on a $206 million bond payment at the beginning of October. Evergrande held out until December before defaulting along with Kaisa, another large developer. The Chinese government appeared to support a plan for Evergrande to negotiate reduced repayments on its offshore bonds with international creditors.

Following its annual Central Economic Work Conference in December, Beijing stated that its top priority for 2022 would center on economic stabilization with a heavy focus on financial restraint.

Economic Data

U.S.

- U.S. manufacturing growth remained quite elevated at the end of 2021, but continued to soften throughout the fourth quarter from its peak in July. Growing lead times for materials added to order backlogs, although the increase in unfilled orders during December was the smallest in ten months.
- Services sector growth accelerated in October from an August-to-September soft patch, and remained strong through the end of the year. Input and output cost increases set a series of record highs throughout the fourth quarter.
- The weekly number of new U.S. jobless claims continued its months-long descent in the fourth quarter—reaching the lowest levels in more than 50 years during November with less than 200,000 filings per week, and remaining close to these lows through the end of 2021.
- The U.S. economy expanded at a 2.3% annual rate during the third quarter, significantly below the 6.7% annualized pace in the second quarter.

U.K.

- U.K. manufacturing growth essentially held steady at a high level throughout the fourth quarter after peaking in May and cooling through September. Employment in the manufacturing sector improved for 12 straight months through December, and output prices increased at the highest rate on record since 2008.
- Growth in the U.K. services sector ground down to a modest pace in late 2021 as activity hit a 10-month low in December.
- The U.K. claimant count (which calculates the number of people claiming Jobseeker's Allowance) continued to decline in November, with roughly 65,000 fewer claimants compared to the prior month—representing 4.9% of the population as of November's reading.

Major Index Performance in Q4 2021 (Percent Return)

Sources: FactSet, Lipper

Key Measures: Q4 2021

EQUITY		
Dow Jones Industrial Average	7.87%	↑
S&P 500 Index	11.03%	↑
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Sources: Bloomberg, FactSet, Lipper

- The U.K. economy expanded by 1.1% during the third quarter and 6.8% year over year through September, a steep climb down from the second quarter's 5.4% pace (and 24.6% growth in the year through June).

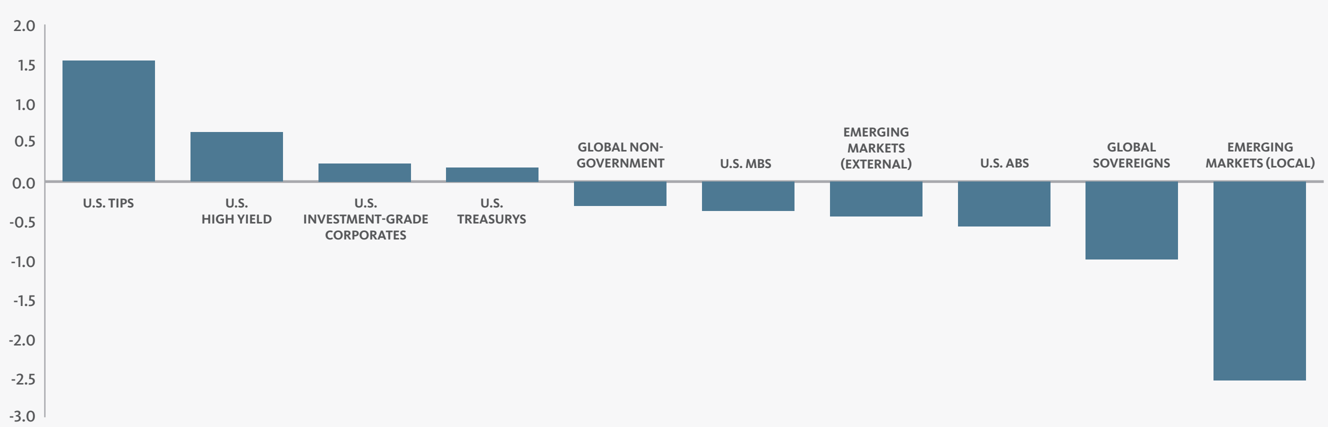
Eurozone

- The expansion in eurozone manufacturing continued at a brisk pace during the fourth quarter, but continued to soften. Inventories of input materials grew in December at the fastest rate on record since 1998. Italy had the highest pace of manufacturing growth in the eurozone at the end of the year, while France had the lowest.
- Eurozone services sector growth slowed unevenly during the fourth quarter, ending in December with the weakest expansion since returning to growth in April 2021.
- The overall eurozone economy strengthened by 2.2% during the third quarter and 3.9% year over year through September, in line with the second-quarter pace of 2.1%, although the year-over-year figure was well below the 14.2% growth measured through June.

Central Banks

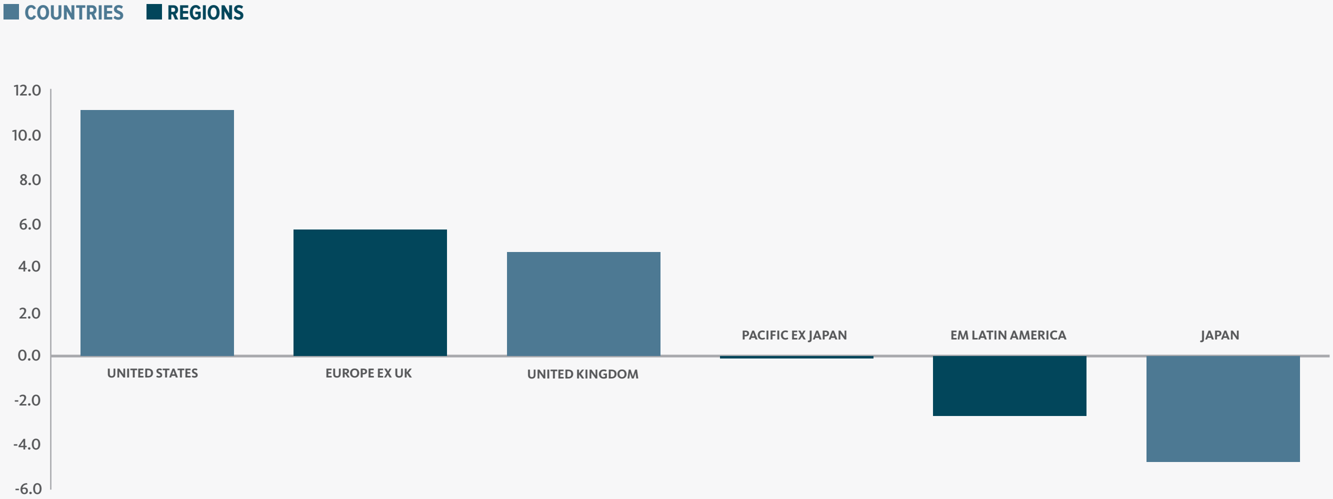
- The Federal Open Market Committee (FOMC) shared in early-November a timeline to reduce its asset-purchase program by June. Yet by the end of November, Federal Reserve (Fed) Chair Jerome Powell expressed in testimony to the Congress that high inflation could drive the FOMC to reduce asset purchases at an accelerated pace. Indeed, following its mid-December meeting, the FOMC indicated that it intends to conclude asset purchases by March; its latest Summary of Economic Projections points to a commencement of rate hikes in 2022. Powell was nominated to serve a second term as Fed Chair by President Biden during November.

Fixed-Income Performance in Q4 2021 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index Descriptions section for more information.

Regional Equity Performance in Q4 2021 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index Descriptions section for more information.

- The Bank of England (BOE) became the first major central bank to increase rates since the pandemic began; its Monetary Policy Committee (MPC) voted 8-to-1 in favor of raising the bank rate by 15 basis points (bps) to 0.25% in mid-December. The MPC's inflation forecast for spring 2022 jumped to 6% at its December meeting from 5% at its prior monthly meeting.
- Following its mid-December meeting, the European Central Bank (ECB) announced that its Pandemic Emergency Purchase Programme (PEPP) would conclude by March 2022. However, the central bank said it would rely on its long-standing Asset Purchase Programme to provide monetary support when needed, and does not anticipate an increase in benchmark rates during 2022. The ECB raised its inflation projection to 3.2% for 2022 and 1.8% thereafter as actual inflation hit a record 4.9% year over year in November.
- The Bank of Japan (BOJ) announced at its mid-December meeting that it would revert purchases of corporate bonds and commercial paper to pre-pandemic levels beginning in April. The central bank kept its rate targets on hold, however, with its short-term interest rate at -0.1% and its 10-year government bond yield target near 0%.
- The People's Bank of China (PBOC) lowered its reserve requirement ratio—which dictates the amount of money banks are required to hold in reserves—by 50 bps to 8.4% in early December, freeing up nearly $188 billion for lending activity. Later in the month, the PBOC cut its one-year loan prime rate by 5 bps to 3.8%.

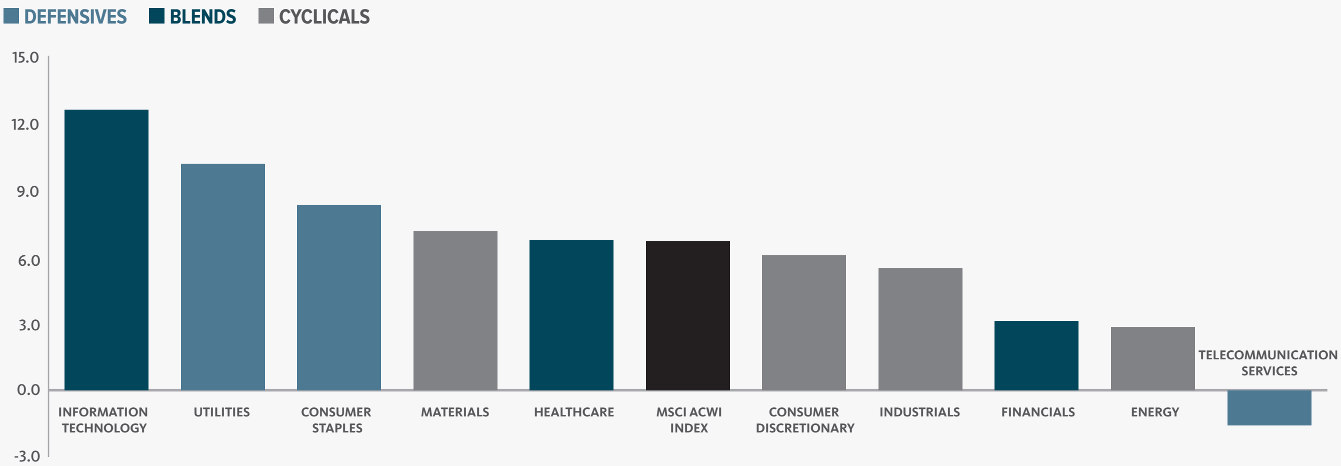
Portfolio Review

Equity Strategies

- The bull market in developed-market equities continued with nearly all market segments finishing the quarter in positive territory. Our U.S. large-cap strategies[1] generated historically high returns for the quarter but lagged their benchmarks. An overweight to financials and an underweight to information technology detracted, while momentum, value and quality exposures all had mixed relative results.
- U.S. small companies significantly lagged their large-cap counterparts during the quarter—yet our small-cap strategies outperformed their benchmarks by a wide margin, benefitting from quality and value tailwinds as more speculative and financially tenuous companies underperformed. Stock selection was also positive in most sectors. An underweight to healthcare (biotechnology) was the largest contributor, followed by selection in technology and consumer discretionary (specialty retail).
- Overseas, our international developed-market equity strategy gained, performing in line with the benchmark index. Our value bias detracted mildly for the quarter, but overweights to quality- and momentum-oriented stocks contributed. Regionally, an overweight to Europe and underweight to Japan were additive.
- Our emerging-market equity strategy delivered a small positive absolute return for the quarter, outpacing the benchmark's loss. Most of the outperformance was driven by exposure to Asian technology stocks and an underweight to the region's health care stocks. Brazil, Mexico, Turkey and Hungary detracted.

[1] Individual holdings will differ between strategies. Not representative of our passive strategies.

Global Equity Sector Performance in Q4 2021 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

Fixed-Income Strategies

- Our core fixed-income strategy slightly underperformed the benchmark's flat fourth-quarter performance. An overweight to long-term bonds enhanced performance as 30-year Treasury bond yields declined (yields and prices have an inverse relationship). Detractors included overweights to spread sectors (which generally underperformed comparable Treasurys), including investment-grade corporates and asset-backed securities (ABS). Selection within high-quality ABS tranches helped, as did an underweight to agency mortgage-backed securities (MBS); a higher-quality bias in commercial MBS (CMBS) detracted.
- High yield was one of the rare bright spots within fixed income during the fourth quarter, and our high-yield strategy outperformed. An allocation to structured credit was the top contributor, followed by selection within basic industry and retail. Top detractors included an underweight to and selection within consumer goods as well as selection within health care and media. The strategy benefited from an underweight to BB rated securities and an overweight to B rated bonds; overweighting CCC bonds detracted.
- Our emerging-market debt strategy underperformed during a challenging quarter for the asset class. While the strategy's bias toward risk reduction was beneficial (particularly within local-currency markets), hard-currency exposures were held back by a small group of overweights including Argentina and Angola.

Manager Positioning and Opportunities

Equity Strategies

- The opportunity for active management within U.S. large caps appears more compelling than it has since 1999, with index concentration at extreme levels and valuation spreads remarkably wide. We continued to emphasize value-oriented holdings over mega-cap growth exposures in the fourth quarter. From a sector standpoint, we favored financials at the expense of information technology.
- Within small caps, we foresee ongoing opportunities within value and quality during 2022, with intensifying investor interest in profitable and financially stable companies. From a sector perspective, we added to an overweight to financials given the likelihood of rising interest rates, and reduced an overweight to consumer discretionary.
- Overseas, developed-market valuation spreads make value attractive; in our view, high inflation may continue to induce value outperformance. We increased exposure significantly to energy and less so to technology during the fourth quarter.
- We expect earnings to continue rebounding strongly in emerging markets. We find current valuations attractive and view diversification as beneficial, with local leaders emerging in the de-globalization environment. Our strategy slightly reduced cyclical exposures to materials, energy and industrials in favor of communication services and real estate. Information technology remained overweight, while communication services and health care (pharmaceuticals) were underweight.

Latin America, which was the first mover in rate hikes, appears to be coming toward the end of this tightening cycle.

Fixed-Income Strategies

- Interest rates remain near the lower end of historical ranges, and spreads are near historically low levels, but investment-grade fixed income will continue to serve as an important diversifier of risk and volatility. Our core fixed-income strategy continued to gradually reduce risk exposures given the probability that volatility will increase as the Fed tapers. We would consider any material spread widening or rise in rates as an opportunity to add exposure. Floating-rate structures may become more attractive as the central bank moves toward a rate-hiking regime; managers have been adding exposure as the securities remained inexpensive relative to fixed-rate bonds.
- After a wave of high-yield defaults in 2020, the default outlook remains low in the coming months. The high-yield asset class typically holds up well in the early stages of a rising-interest-rate environment. Structured credit was still the strategy's largest active position. Basic industry was also overweight, primarily via chemicals. Telecommunications was the largest underweight, while capital goods was underweight to a lesser extent.
- We expect positive real yields to provide a tailwind in emerging-market debt. Our strategy reduced exposure to smaller high-yield hard-currency positions as well as to high-beta local-currency names. Latin America, which was the first mover in rate hikes, appears to be coming toward the end of this tightening cycle. We have been positioning with a preference for Latin American rate risk.

SEI's View

Equity markets stumbled in late 2021 owing to nervousness over the latest COVID-19 surge. This wave, too, shall pass. We remain optimistic that global growth will accelerate as the Omicron wave fades.

Although there have been pockets of speculative behavior in some areas of the financial world, we do not see the sort of widespread frenzy that would point to a serious equity correction in 2022. The economy would have to slow precipitously for reasons other than the temporary impact stemming from COVID-19 mobility restrictions; the trend in earnings would need to flat-line or turn negative.

We expect a gain in overall U.S. economic activity of around 4% in 2022—appreciably above the economy's long-term growth potential of 2%. We also expect other countries to continue to post above-average growth as they recover from the past two years' worth of lockdowns and shortages. With the major exception of China, which continues to pursue a zero-COVID-19 policy, most countries are unlikely to shut down their economies as fiercely or for as long as they did in 2020.

China's performance in 2022 is one of the key unknowns that will influence global economic growth. Consensus expectations call for a soft landing of the Chinese economy, with GDP growing by about 5% in 2022 versus 8% in the past year.

The year ahead promises to be another one of extremely tight labor markets. We think more people will return to the workforce as COVID-19 fears fade, but there likely will still be a tremendous mismatch of demand and supply.

Currently, there are 12.6 million U.S. persons theoretically available to fill 11 million job openings—the smallest gap on record. Wage gains, unsurprisingly, have climbed at their fastest pace in decades over the past 12 months. In the short term, we expect wages to continue their sharp climb as businesses bid for workers.

The U.K. also is experiencing a pronounced upswing in its labor-compensation trend. We think Brexit and the departure of foreign workers back to the Continent are aggravating the country's labor shortage. The disparity in compensation trends among the richest industrialized nations also means that policy responses are likely to diverge.

Predicting a bad inflation outcome for 2022 isn't exactly much of a risk. Where we depart from the crowd on inflation is in the years beyond 2022. We are skeptical that the Fed will be sufficiently proactive as it struggles to balance full and inclusive employment against inflation pressures that are starting to look more entrenched. We believe this will be the central bank's biggest challenge in 2022 and beyond.

We also don't think the Fed's inflation and economic projections are internally consistent. Since it projects the economy to be even closer to full employment in 2022 and beyond than it is now, we find it hard to understand why price pressures should ease so dramatically.

Even the central banks that are most likely to taper their asset purchases and raise policy rates in the months ahead (the Fed, the BOE and the Bank of Canada) will likely do so cautiously. By contrast, policy rates in emerging economies have already jumped. The pace of tightening is picking up, with 11 emerging countries having instituted policy-rate hikes in December alone.

It remains to be seen whether this pre-emptive tightening of monetary policy will forestall a 2013-style taper tantrum as the Fed embarks on its own rate-tightening cycle. Although emerging-market currencies have generally lost ground against the U.S. dollar during the past six months, the depreciation hasn't become a rout (with the exceptions of Turkey and the usual economic basket cases—Argentina and Pakistan). Still, the shift in Fed policy will probably represent a formidable headwind for emerging-market economies in 2022.

The PBOC actually cut a key interest rate in December by a modest amount. This follows a reduction in reserve requirement ratios aimed at increasing the liquidity available to the economy; it will take a while for any beneficial impact to be felt on China's domestic economy, and even longer for the world at large.

In addition to the start of a new monetary tightening cycle, some economists have expressed concern about the next "fiscal cliff" facing various countries, the U.S. in particular. While there will be a negative fiscal impulse in the sense that the extraordinary stimulus of the past two years will not be repeated, we argue that the impact should be less contractionary than feared.

We think more people will return to the workforce as COVID-19 fears fade, but there likely will still be a tremendous mismatch of demand and supply.

In the U.S., household cash and bank deposits were still almost $2.5 trillion above the pre-pandemic trend as of the end of September.

Perhaps economists should be more concerned about the negative fiscal impulse in the U.K., Canada, Germany and Japan. They are all facing a potential fiscal tightening equivalent to 4% of GDP this year. By comparison, the International Monetary Fund predicts that the cyclically adjusted deficit in the U.S. will contract by less than 0.5% of GDP.

We remain optimistic that growth in the major economies will be buoyed by the strong position of households. In the U.S., household cash and bank deposits were still almost $2.5 trillion above the pre-pandemic trend as of the end of September. This total is equivalent to almost 14% of disposable personal income. Excess savings in the U.K., meanwhile, have reached 10.6% of annual personal disposable income. Euro-area bank balances aren't quite as high, but still amount to 5% of after-tax income.

Investors always need to deal with uncertainty; we are focused on three main areas of geopolitical risk. We believe the most important flashpoint in terms of near-term probability and economic impact is the Russian build-up of troops on the Ukrainian border. An invasion of Ukraine could lead to a complete shut-off of gas imports from Russia to Western Europe, aggravating the existing energy shortage. It also could disrupt shipments of oil, which would have an impact across the globe.

Next is the ongoing tug-of-war for influence and military advantage between China and the U.S. The most worrisome flashpoint would be over Taiwan given its dominant position in advanced semiconductor manufacturing. An actual invasion is probably still years away, if it ever happens at all.

The third major area of concern is the Middle East and the negotiations with Iran over its nuclear development program. Two things are clear: Iran is now much closer to having a nuclear bomb, and Israel still will not tolerate such a major change in the region's balance of power. The risk of war may be low, but developments continue to head in a direction that could someday have catastrophic consequences.

International investors can be forgiven for being somewhat frustrated. Earnings growth in 2021 for developed- and emerging-market equities both exceeded the earnings gain for the U.S. As a consequence, the relative valuation of international markets versus the U.S. has become only more attractive in the past year.

But old habits die hard, and the emergence of the Omicron variant has further delayed a long overdue rotation to cheaper, more cyclical stocks that are also less correlated to bond prices.

The forward earnings trend has been quite strong in the U.S., with analyst estimates of year-ahead earnings rising more than 30% in the past 12 months. Since the S&P 500 price-only index has appreciated by "only" 24%, the price-to-earnings ratio (PE) has fallen to a year-end 2021 reading of 21 times. Compared against the history of the past 25 years, only the PE ratios recorded during the tech bubble of 1999 and 2000 were in the same ballpark. Nonetheless, it is only when earnings estimates flatten and decline that the equity market has historically begun to struggle.

The trajectory of S&P 500 earnings growth probably will slow next year, but a gain in the 8%-to-12% range seems consistent with our macroeconomic call for continued above-average growth and inflation.

In our view, the real anomaly in the financial markets is the ultra-low levels of interest rates in the face of higher inflation and above-average growth in much of the world. This may force central banks to adopt more aggressive interest-rate policies than they and market participants currently envision.

We have penciled in a 50-to-75 basis-point rise in 10-year U.S. Treasury bond yields for 2022. That gain should not derail the bull market in equities, but it could catalyze a shift away from the most highly valued, interest-rate-sensitive areas of the market into the broader grouping of stocks that have been neglected for the past several years.

Glossary of Financial Terms

Asset-Backed Securities (ABS): ABS are securities created from pools of loans or accounts receivable such as credit cards, auto loans and mortgage loans.

Asset Purchase Programme (APP): The ECB's APP is part of a package of non-standard monetary policy measures that also includes targeted longer-term refinancing operations, and which was initiated in mid-2014 to support the monetary policy transmission mechanism and provide the amount of policy accommodation needed to ensure price stability.

Bear market: A bear market refers to a market environment in which prices are generally falling (or are expected to fall) and investor confidence is low.

Bubble: A bubble occurs when excessive speculation leads to a drastic increase in asset prices, leaving them at risk to collapse.

Bull market: A bull market refers to a market environment in which prices are generally rising (or are expected to rise) and investor confidence is high.

Commercial paper: Commercial paper is a type of short-term loan that is not backed by collateral and does not tend to pay interest.

Cyclical stocks: Cyclical stocks or sectors are those whose performance is closely tied to the economic environment and business cycle. Managers with a pro-cyclical market view tend to favor stocks that are more sensitive to movements in the broad market and therefore tend to have more volatile performance.

Delta variant: The B.1.617.2 (delta) variant of the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), the virus that causes coronavirus disease 2019 (Covid-19), arose during the sharp surge in cases in India during spring 2021 and has now been detected across the globe, including notable increases in cases in the U.K. and U.S.

Fiscal cliff: A fiscal cliff refers to the reduction or withdrawal of government spending, an increase in taxation, or both.

Fiscal policy: Fiscal policy relates to decisions about government revenues and outlays, like taxation and economic stimulus.

Fiscal stimulus: Fiscal stimulus refers to government spending intended to provide economic support.

Forward price-to-earnings (PE) ratio: The forward PE ratio is equal to the market capitalization of a stock or index divided by forecasted earnings over the next 12 months. The higher the PE ratio, the more the market is willing to pay for each dollar of annual earnings.

Gilt: Gilt refers to a sovereign debt instrument issued by the U.K. government.

Green lending: Green lending refers to the Bank of Japan's effort to strengthen the lending market for environmentally-friendly projects.

Hawk: Hawk refers to a central bank policy advisor who has a negative view of inflation and its economic impact and thus tends to favor higher interest rates.

Inflation-Protected Securities: Inflation-protected securities are typically indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. The principal value of an inflation-protected security typically rises as inflation rises, while the interest payment varies with the adjusted principal value of the bond. The principal amount is typically protected so that investors do not risk receiving less than the originally invested principal.

International Monetary Fund: The International Monetary Fund (IMF) is an international organization of 189 member countries that promotes global economic growth and financial stability, encourages international trade, and reduces poverty.

Monetary policy: Monetary policy relates to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

Mortgage-Backed Securities: Mortgage-Backed Securities (MBS) are pools of mortgage loans packaged together and sold to the public. They are usually structured in tranches that vary by risk and expected return.

NextGenerationEU: NextGenerationEU is an economic recovery fund established by the EU and totaling more than €800 billion projected to be spent between 2021 and 2027. The centerpiece of the programme is a €723.8 billion facility for loans and grants to EU countries for investments.

OPEC+: OPEC+ combines OPEC—a permanent intergovernmental organization of 13 oil-exporting developing nations that coordinates and unifies the petroleum policies of its member countries—with Russia, a major oil exporter, to make collective high-level decisions about oil production levels.

Pandemic Emergency Purchase Programme (PEPP): PEPP is a temporary asset purchase programme of private and public sector securities established by the ECB to counter the risks to monetary policy transmission and the outlook for the euro area posed by the COVID-19 outbreak.

Price-to-earnings (PE) ratio: The PE ratio is equal to the market capitalization of a share or index divided by trailing (over the prior 12 months) or forward (forecasted over the next 12 months) earnings. The higher the PE ratio, the more the market is willing to pay for each dollar of annual earnings.

Quantitative easing: Quantitative easing refers to expansionary efforts by central banks to help increase the supply of money in the economy.

Sovereign: A sovereign refers to government-issued debt.

Summary of Economic Projections: The Fed's Summary of Economic Projections (SEP) is based on economic projections collected from each member of the Fed Board of Governors and each Fed Bank president on a quarterly basis.

Taper tantrum: Taper tantrum describes the 2013 surge in U.S. Treasury yields, resulting from the U.S. Federal Reserve's announcement of future tapering of its policy of quantitative easing.

Transitory inflation: Transitory inflation refers to a temporary increase in the rate of inflation.

Treasury Inflation-Protected Securities (TIPS): TIPS are sovereign securities issued by the U.S. Treasury that are indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. The principal value of TIPS rise as inflation rises, while the interest payment varies with the adjusted principal value of the bond. The principal amount is protected so that investors do not risk receiving less than the originally invested principal.

Yield: Yield is a general term for the expected return, in percentage or basis points (one basis point is 0.01%), of a fixed-income investment.

Yield curve: The yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (likelihood of default). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates the yields are closer together.

Index and Benchmark Descriptions

All indexes are quoted in gross performance unless otherwise indicated.

The Bloomberg Barclays 1-10 Year US TIPS Index measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of 1 to 10 years.

The Bloomberg Barclays US Asset Backed Securities (ABS) Index measures the performance of ABS with the following collateral types: credit and charge card, auto and utility loans. All securities have an average life of at least one year.

The Bloomberg Barclays Global Aggregate Index is an unmanaged market-capitalization-weighted benchmark, tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.

The Bloomberg Barclays Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total-return performance of ex-Treasury major world bond markets.

The Bloomberg Barclays Global Treasury Index is composed of those securities included in the Bloomberg Barclays Global Aggregate Bond Index that are Treasury securities.

The Bloomberg Barclays US Corporate Bond Index is a broad-based benchmark that measures the investment-grade, fixed-rate, taxable corporate bond market.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index measures the performance of investment-grade, fixed-rate, mortgage-backed, pass-through securities of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Freddie Mac (FHLMC).

The Bloomberg Barclays US Treasury Index is an unmanaged index composed of U.S. Treasurys.

The Bloomberg Commodity Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the Index. This combines the returns of the Index with the returns on cash collateral invested in 13-week (3-month) U.S. Treasury bills.

The Employment Cost Index is a quarterly economic series published by the U.S. Bureau of Labor Statistics that details the growth of total employee compensation. The index tracks movement in the cost of labor, as measured by wages and benefits, at all levels of a company.

The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

CBOE Volatility Index (VIX Index): The VIX Index tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of *The Wall Street Journal*.

The Employment Cost Index is a quarterly economic series published by the U.S. Bureau of Labor Statistics that details the growth of total employee compensation. The index tracks movement in the cost of labor, as measured by wages and benefits, at all levels of a company.

The FTSE All-Share Index represents 98% to 99% of U.K. equity market capitalization. The Index aggregates the FTSE 100, FTSE 250 and FTSE Small Cap Indexes.

The ICE BofA U.S. High Yield Constrained Index contains all securities in The ICE BofA U.S. High Yield Index but caps exposure to individual issuers at 2%.

The ICE BofA U.S. High Yield Index tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The JPMorgan EMBI Global Diversified Index tracks the performance of external debt instruments (including U.S. dollar-denominated and other external-currency-denominated Brady bonds, loans, eurobonds and local-market instruments) in the emerging markets.

JPMorgan GBI-EM Global Diversified Index tracks the performance of debt instruments issued in domestic currencies by emerging-market governments.

The MSCI ACWI Index is a market-capitalization-weighted index composed of over 2,000 companies, representing the market structure of 48 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in U.S. dollars.

The MSCI ACWI ex-USA Index includes both developed- and emerging-market countries, excluding the U.S.

The MSCI Emerging Markets Index is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

The MSCI Emerging Markets Latin America Index captures large- and mid-cap representation across five emerging-market countries in Latin America.

The MSCI EMU (European Economic and Monetary Union) Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of countries within EMU. The Index consists of the following 10 developed-market country indexes: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal and Spain.

The MSCI Europe ex-UK Index is a free float-adjusted market-capitalization-weighted index that captures large- and mid-cap representation across developed-market countries in Europe excluding the UK.

The MSCI Frontier Emerging Markets Index is a free float-adjusted market capitalization index designed to serve as a benchmark covering all countries from the MSCI Frontier Markets Index and the lower size spectrum of the MSCI Emerging Markets Index.

The MSCI Pacific ex Japan Index captures large- and mid-cap representation across four of five developed-market countries in the Pacific region (excluding Japan).

The MSCI Japan Index is designed to measure the performance of the large- and mid-capitalization stocks in Japan.

MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the U.K. market.

MSCI USA Index measures the performance of the large- and mid-cap segments of the U.S. market.

The MSCI World Index is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed markets. The Index consists of the following 23 developed-market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K. and the U.S.

The MSCI World ex-USA Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S.

The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.

Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Shenzhen Stock Exchange Composite Index tracks performance of A share stocks (which are denominated in renminbi, the local currency) and B share stocks (which are denominated in Hong Kong dollars, an offshore currency) on China's Shenzhen Stock Exchange.

The S&P 500 Index is a market-capitalization-weighted index that consists of 500 publicly-traded large U.S. companies that are considered representative of the broad U.S. stock market.

The TOPIX, also known as the Tokyo Stock Price Index, is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. The Index is supplemented by the subindexes of the 33 industry sectors. The Index calculation excludes temporary issues and preferred stocks, and has a base value of 100 as of January 4, 1968.

The U.S. Dollar Index (DXY Index) measures the value of the U.S. dollar relative to a basket of other currencies, including the currencies of some of the US's major trading partners: the euro, Swiss franc, Japanese yen, Canadian dollar, British pound, and Swedish krona.

Corresponding Indexes for Fixed-Income Performance Exhibit

U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Barclays Global Treasury Index
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg Barclays US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg Barclays US Asset Backed Securities Index
U.S. Treasurys	Bloomberg Barclays US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg Barclays US Corporate Bond Index

Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

Disclosures

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There are risks involved with investing, including loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments.

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