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MARKET REVIEW
MARCH 2021

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LASTING SOCIETAL CHANGES BEYOND THE PANDEMIC

In just a few months, COVID-19 reoriented consumer and business behavior toward more online activities such as remote working and e-commerce. The durability of these changes beyond the pandemic is somewhat uncertain. However, structural shifts in the way individuals live their lives and companies operate have led many people to reassess ingrained behaviors which could cause lasting effects beyond the pandemic. Consumer shopping, commercial real estate, and business travel are a few areas that may not fully return to their pre-pandemic ways.

A shift in how and where companies manufacture products is likely another consequence of the pandemic. Disrupted supply chains highlighted that manufacturing operations spread across the world are vulnerable to interruption from exogeneous shocks. Efforts to make supply chains more resilient and dependable are expected to gradually result in the movement of manufacturing away from the globalization model that is increasingly focused in east Asia. Additionally, substituting technology for workers has become more attractive in some industries as firms face challenges with workplace virus infections and short-term labor shortages. These supply chain topics will be discussed in a follow up Market Brief publication.

E-COMMERCE

Governments' lockdown policies and individuals' safety concerns with going to public places led many consumers to purchase more products online including clothes, consumer electronics, and groceries. E-commerce retail sales in the U.S. surged 32.3% in 2020 after consistently growing around 15% in previous years. U.S. online sales as a percent of total retail sales jumped to 17% in 2020 from 12% in 2019. Only time will tell how sticky the boost in online shopping will be, but some industry experts believe consumers will largely maintain their new online shopping habits. Market research company, e-Marketer, projects e-commerce's upsurge during the pandemic will become mostly permanent since consumers became accustomed to the convenience and safety of shopping online.

The implementation of structural changes by businesses to meet rising customer demand for online engagement is a second factor that will likely enable online sales channels to solidify last year's gains. A recent survey of nearly 1,000 C-level corporate executives conducted by management consulting firm McKinsey & Company showed the pandemic accelerated companies' plans to digitize their customer interaction and supply chain operations by three to four years on average. Survey respondents also said customer adoption of digital or digitally enabled products was accelerated by seven years. Many of the executives noted they are making long-term investments that will cause the shift toward a more digitally focused business to become permanent. Some smaller retailers also made changes to cope with the pandemic by closing their physical stores and shifting their focus online.

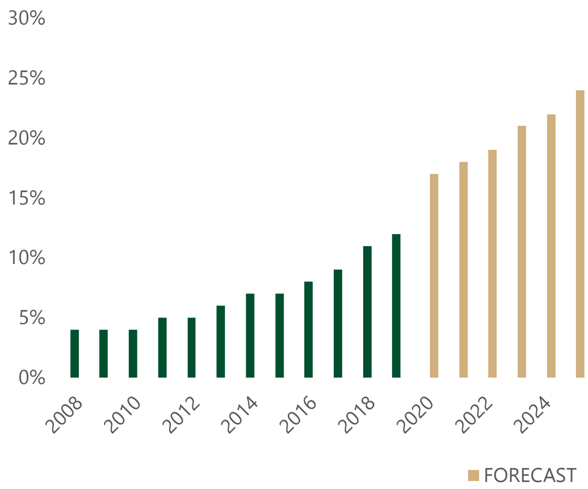
COMMERCIAL REAL ESTATE

The pandemic-induced increase in e-commerce expanded the ongoing bifurcation between online and brick-and-mortar retail. Last year marked a new record for retail bankruptcies and store closings which totaled 22,500 stores in the U.S., up from 10,352 in 2019. The U.S. retail industry is particularly vulnerable to the trend in retail store closings given it has five times the amount of retail space per capita compared to major European economies. The retail industry shakeout will likely continue in the next few years due to excess retail space and expectations for e-commerce to continually take more market share from brick-and-mortar retail each year. As retail stores close, many empty spaces are being repurposed for e-commerce supply chain locations such as warehouses and distribution centers or experiential businesses including restaurants and entertainment.

Office real estate is facing an uncertain outlook as the pandemic has led to business executives reevaluating their views on remote working and office space requirements. Prior to the pandemic, wider adoption of remote working was constrained by some executives' concerns that employees would be less productive at home, which would lead to less collaboration and ultimately would impair innovation. For example, technology companies IBM and Yahoo! ended their remote work policies in 2017 and 2013, respectively, because of these concerns. Over the last year, executives have learned that large-scale remote working is more viable than they may have envisioned. Video conferencing and other team collaboration technologies have helped employees maintain productivity while working

E-COMMERCE'S GROWING MARKET SHARE

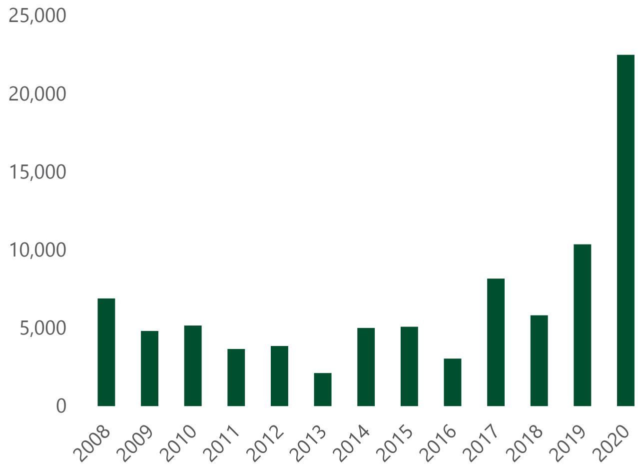
U.S. DIGITAL RETAIL SALES % OF TOTAL RETAIL SALES



Source: e-Marketer. Past performance does not guarantee future results.

PANDEMIC ACCELERATED RETAIL WOES

NUMBER OF U.S. RETAIL STORE CLOSINGS



Source: CFRA. Past performance does not guarantee future results.

at home. Willis Towers Watson, a leading risk management advisor, projects more than 30% of employees will continue to work from home in some capacity after the pandemic ends, up from 5% in 2017. A higher percent of employees working remotely will likely reduce companies' office space requirements.

Remote working can create financial benefits for companies because reducing office space can lower rent payments and potentially improve margins after accounting for any additional costs related to stipends for employees' home offices. According to Bloomberg data, the U.S. average office rental cost per employee was $5,463 in 2020 based on an average $27.87 cost per square foot and roughly 200 square foot per employee. Commercial real estate services company Jones Lang LaSalle estimates the U.S. average square foot per employee in 2020 was 196, and adhering to social distancing policies could increase the average square foot per employee by 50%. Evolution of the office real estate market is likely to be slow given the average U.S. office lease length is seven years.

While the retail and office real estate markets navigate the challenges posed by the pandemic, data center real estate is thriving. According to Bloomberg data, data center stocks were the best performing real estate industry in 2020, up 21%, as the shift toward more online activities drove demand higher for data storage. A continuation in the trends of remote working, e-commerce, and streaming services for entertainment beyond the pandemic is expected to support further gains in data center demand. Commercial real estate services firm CBRE projects data centers will experience a record year in 2021 as corporate technology budgets unfreeze and demand accelerates thereafter.

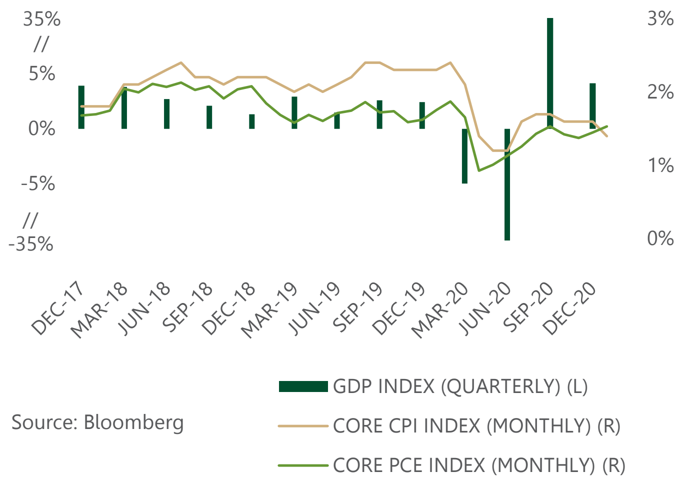
BUSINESS TRAVEL

Corporate leaders are split over how long it will take business travel to recover. A CNBC survey of senior corporate executives showed that around half of the respondents expect budgets for employee travel will return to pre-pandemic levels within 2 or 3 years while 20% think it will never fully recover. Some executives believe there will be a "new normal" with business travel 10% to 20% less than pre-pandemic levels. Rajat Taneja, President of Technology at Visa, believes there will be a permanent reduction in travel because the pandemic "has shown us that we can do many more things virtually then [sic] we ever thought before... meetings that would have once required travel can continue to take place in the virtual setting."

Similar to remote working and office space needs, reduced business travel is a financial incentive for companies. For example, Amazon CFO Brian Olsavsky said the company saved nearly $1 billion in business travel expenses through the first three quarters of 2020 after the firm told employees in March to avoid non-essential travel. Olsavsky believes travel expenses may not return to the level seen in the past. A permanent reduction in the $2.3 trillion business travel industry could have significant financial consequences for airlines and travel related industries. Business travelers account for about 30% of airline tickets purchased and half of U.S. airlines' revenue. The U.S. Travel Association estimates business travelers spent $334 billion in 2019 on travel related services including lodging, food, and car rental.

GDP AND CONSUMER PRICES

DECEMBER 2017 THROUGH JANUARY 2021



Source: Bloomberg

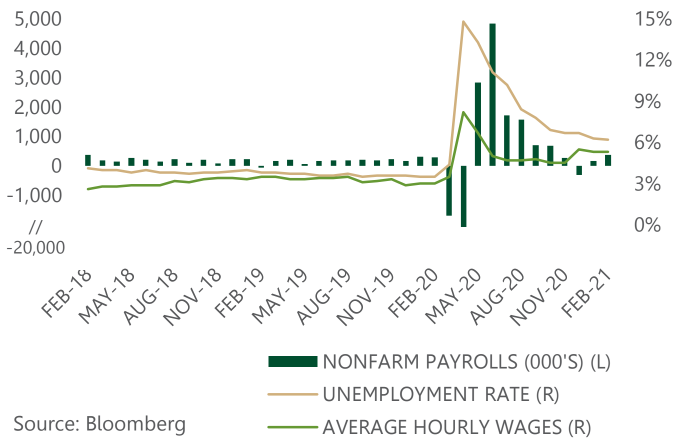
Economic growth in the U.S. was revised slightly higher in the fourth quarter to an annualized rate of 4.1% according to the second estimate released by the Bureau of Economic Analysis.

The Core Consumer Prices (CPI) index, which excludes food and energy, was unchanged in January from the previous month, and up 1.4% on a year-over-year basis. Prices of used cars and trucks experienced the sharpest increase over the past 12 months, whereas apparel and medical care prices fell.

The Core Personal Consumption Expenditures (PCE) index rose 0.3% in January from the previous month and is up 1.5% on a year-over-year basis. Inflation concerns have risen in recent weeks but the Fed's preferred inflation index still remains under their 2.0% target.

LABOR MARKET

FEBRUARY 2018 THROUGH FEBRUARY 2021



Source: Bloomberg

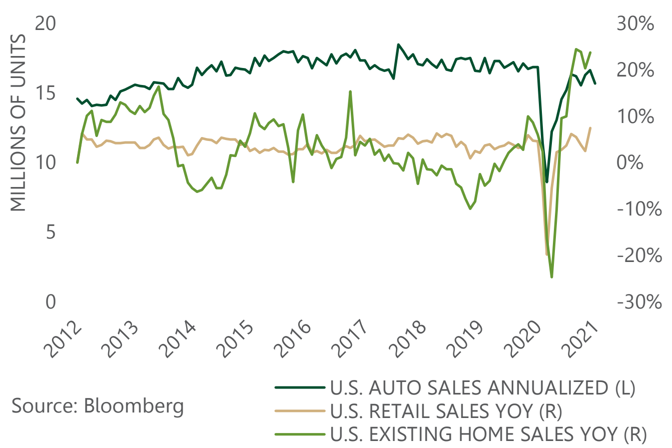
According to the Labor Department, nonfarm payrolls increased by 379,000 in February and the unemployment rate fell to 6.2%. Strong hiring activity materialized amid a steady drop in COVID-19 cases and an easing of dining restrictions in many areas.

Labor Department data indicated that the leisure and hospitality sector accounted for the bulk of February job gains, as bars and restaurants added an impressive 286,000 jobs during the month.

Jobs gains in 2021 have been encouraging so far, with the rollout of vaccines spurring hope for more growth ahead. Nevertheless, there were still 8.5 million fewer Americans holding a job than in February 2020.

HOUSING, AUTO AND RETAIL SALES

FEBRUARY 2017 THROUGH FEBRUARY 2021



Source: Bloomberg

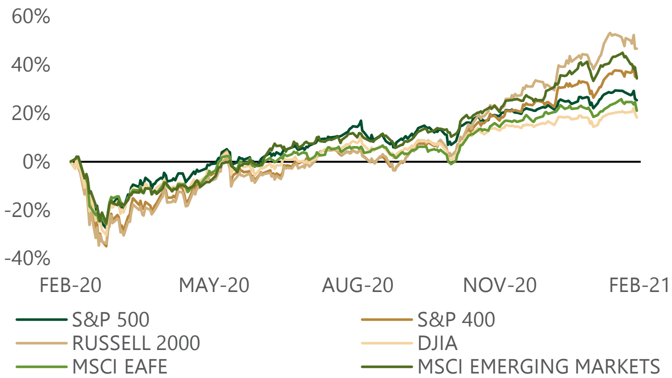
U.S. auto sales decelerated in February to a seasonally adjusted annual rate of 15.7 million units. February auto sales were only 7% below the 16.8 million units recorded in February 2020, the last full month before the onset of the COVID-19 pandemic in the U.S.

U.S. retail and food services sales were up 7.4% in January from a year prior. Every major spending category likely benefited from many American consumers receiving $600 direct payments related to the $900 billion coronavirus aid package passed by Congress in late December.

According to National Association of Realtors data, January's sales of existing homes in the U.S. rose modestly from the previous month, but are up 23.7% from January 2020. All four regions showed double-digit increases in sales from a year ago.

TRAILING 12-MONTH EQUITY RETURNS

PRICE APPRECIATION, FEBRUARY 2020 THROUGH FEBRUARY 2021



Source: Bloomberg. Past performance is no guarantee of future results.

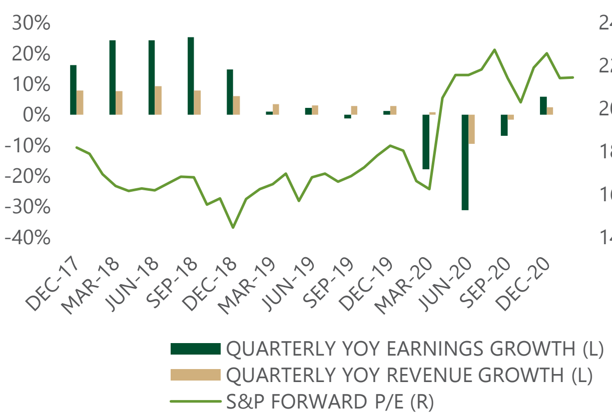
Equity markets posted positive returns in February despite a bout of turbulence late in the month. Equities started the month on a strong note as positive investor sentiment was supported by a declining number of coronavirus cases, the ongoing vaccine rollout, a corporate earnings recovery and expectations for more U.S. fiscal stimulus.

Momentum in the equity market faded late in the month amid the sharp rise in bond yields. Higher yields were attributed to concerns about rising inflation expectations and the potential implications for monetary policy tightening.

A stronger dollar was a mild headwind for foreign equities which slightly trailed domestic equities in the month.

S&P 500 YOY EARNINGS & REVENUE GROWTH

BY QUARTER, DECEMBER 2017 THROUGH FEBRUARY 2021



Source: Bloomberg

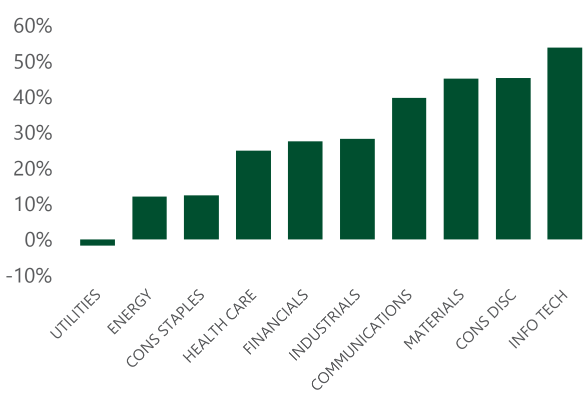
Fourth quarter earnings reporting season started winding down with most S&P 500 companies having reported by the end of February. S&P 500 earnings are recovering much more quickly than analysts projected. Earnings are on track for 5.85% growth in the period compared to analysts' initial estimate for an 8.78% decline.

Cyclical sectors are posting the best results as financials and materials are on pace for earnings growth above 20%.

Analysts continue to revise their earnings expectations upward for the coming quarters. Earnings are projected to rise 21.04% and 48.74% in the first and second quarters. Analysts expect 23.59% earnings growth this year after contracting 12.39% in 2020.

S&P 500 SECTORS 12-MONTH PRICE RETURNS

FEBRUARY 2020 THROUGH FEBRUARY 2021



Source: Bloomberg

The so-called "recovery trade" gained momentum in February with value and cyclically oriented stocks leading. The S&P 500 Value index outperformed the S&P 500 Growth index by 5.92% in February, the widest margin in nearly 20 years.

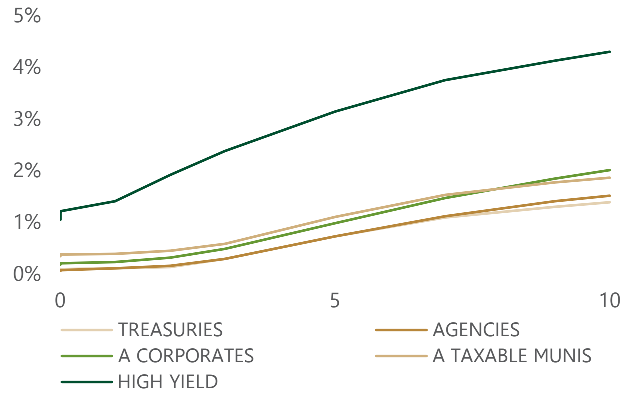
The energy sector led all S&P 500 sectors for a second consecutive month with a 22.66% return. The price of West Texas Intermediate (WTI) crude oil surpassed $60 per barrel for the first time since before the pandemic amid improved demand expectations.

The financials sector's 9.63% monthly return made it the second-best performing group. The sector's cyclical nature, in combination with the rise in bond yields and steepening yield curve, drove the strong performance.

FIXED INCOME

CURRENT YIELD CURVES

YIELD CURVES AS OF FEBRUARY 2021



Source: Bloomberg

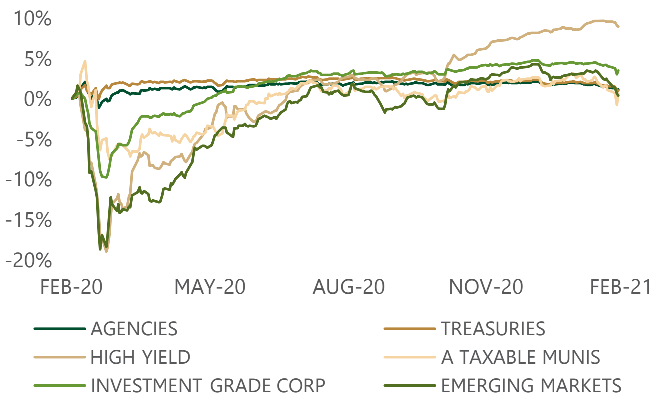
The U.S. Treasury yield curve steepened in February for the fifth straight month, as yields remained relatively unchanged on the short end but increased on the long end. The two-year yield edged up 0.02% to 0.14%, while yields on the five-year, seven-year and ten-year Treasury notes experienced more substantial increases of 0.31%, 0.36% and 0.34%, respectively.

Shorter dated U.S. Treasury yields remained anchored at historically low levels amid guidance from Federal Reserve officials that the central bank's policy rate will stay at the zero bound for the foreseeable future.

The 10-year U.S. Treasury yield closed February 25 at 1.52%, slightly higher than its closing level of 1.51% on January 31, 2020 in a pre-pandemic world thirteen months ago.

12-MONTH RETURNS, TAXABLE BOND SEGMENTS

FEBRUARY 2020 THROUGH FEBRUARY 2021



Source: Bloomberg. Past performance is no guarantee of future results.

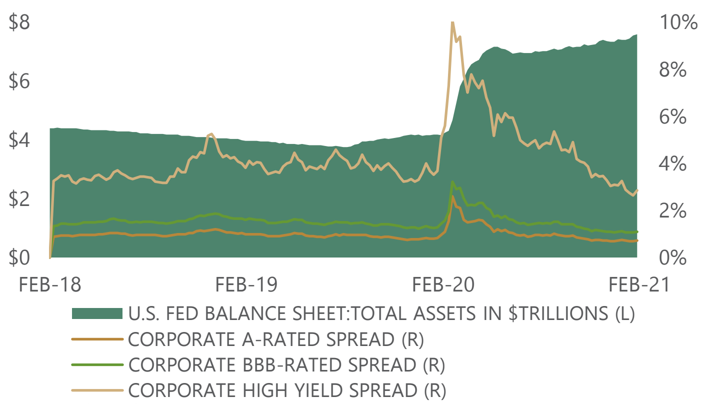
Of the bond segments in the accompanying chart the two with U.S. corporate credit exposure have performed the best in the last 12 months. High yield corporate bonds have experienced a 9% positive return, and investment grade corporates have experienced a 3.6% return.

All the bond segments in the accompanying chart have experienced positive returns since the beginning of the pandemic as well as over the last 12 months.

Moving forward, the size and scope of a prospective wide-ranging stimulus package will likely determine the path of relative performance for U.S. corporate and municipal bonds.

FED BALANCE SHEET EXPANSION AND CREDIT SPREADS

FEBRUARY 2018 THROUGH FEBRUARY 2021



Source: Bloomberg

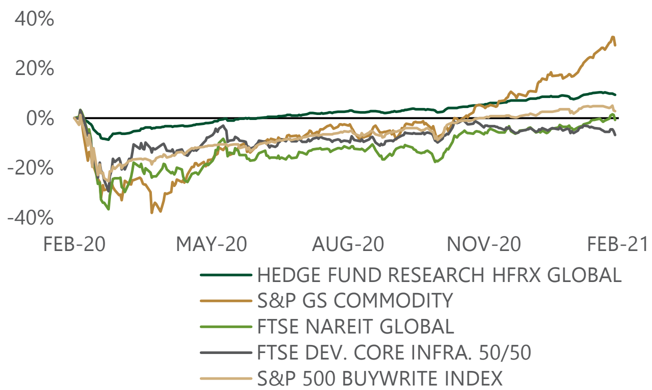
The U.S. Federal Reserve's balance sheet has swelled nearly 80% in twelve months from $4.2 billion in February 2020 to $7.6 billion currently.

Fed officials indicated in their January FOMC statement that, per month, they will continue to purchase $80 billion in Treasury securities and $40 billion in agency mortgage-backed securities until further notice.

As seen in the accompanying chart, credit spreads across the maturity spectrum increased drastically at the onset of the COVID-19 pandemic. Fed policy support helped spreads steadily decrease throughout most of 2020. Investment grade credit spreads have remained stable thus far in 2021, while high yield spreads have continued to tighten.

ALTERNATIVES

ALTERNATIVES, 12-MONTH RETURNS
FEBRUARY 2020 THROUGH FEBRUARY 2021



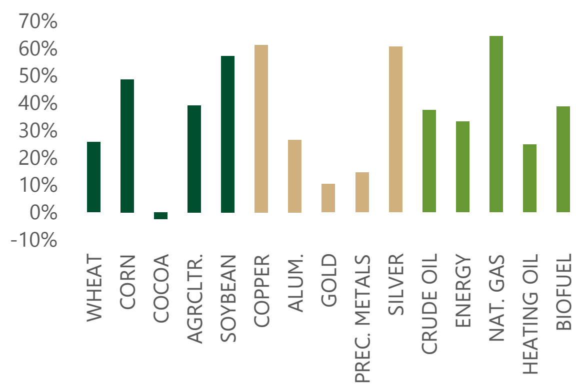
Source: Bloomberg. Past performance is no guarantee of future results.

Led by surges in oil, copper, iron ore, corn and cotton, a basket of trade-weighted commodities advanced 10.7% in February following a gain of 5.3% in January.

The biggest drivers of the commodities rally have been building expectations for a sharp snapback in global GDP growth during 2021, an undersupply in certain agricultural commodity markets and Saudi-led crude oil production cuts.

Trend following strategies and hedged equity strategies were the strongest performing areas of the hedge fund world in February. Meanwhile, equity market neutral strategies and absolute return strategies were among the weaker performing styles during the month.

COMMODITIES, 12-MONTH SPOT RETURNS
FEBRUARY 2020 THROUGH FEBRUARY 2021



Source: Bloomberg. Past performance is no guarantee of future results.

Driven by strength in energy and industrial metals, the broad commodities asset class outpaced the S&P 500 and MSCI ACWI indexes over the six-month period spanning September to February by 23.4% and 19.9%, respectively.

U.S. crude oil prices surged 17.8% in February amid a combination of OPEC and its allies' production quota compliance and widespread power outages in Texas, the largest oil-producing state in the country.

Copper prices rallied 15.1% during the month, as global inventories were depleted to levels unseen since 2005. A significant ramp-up in manufacturing activity and growing expectations for increased demand related to clean energy policies have also been recent tailwinds for the copper prices.

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