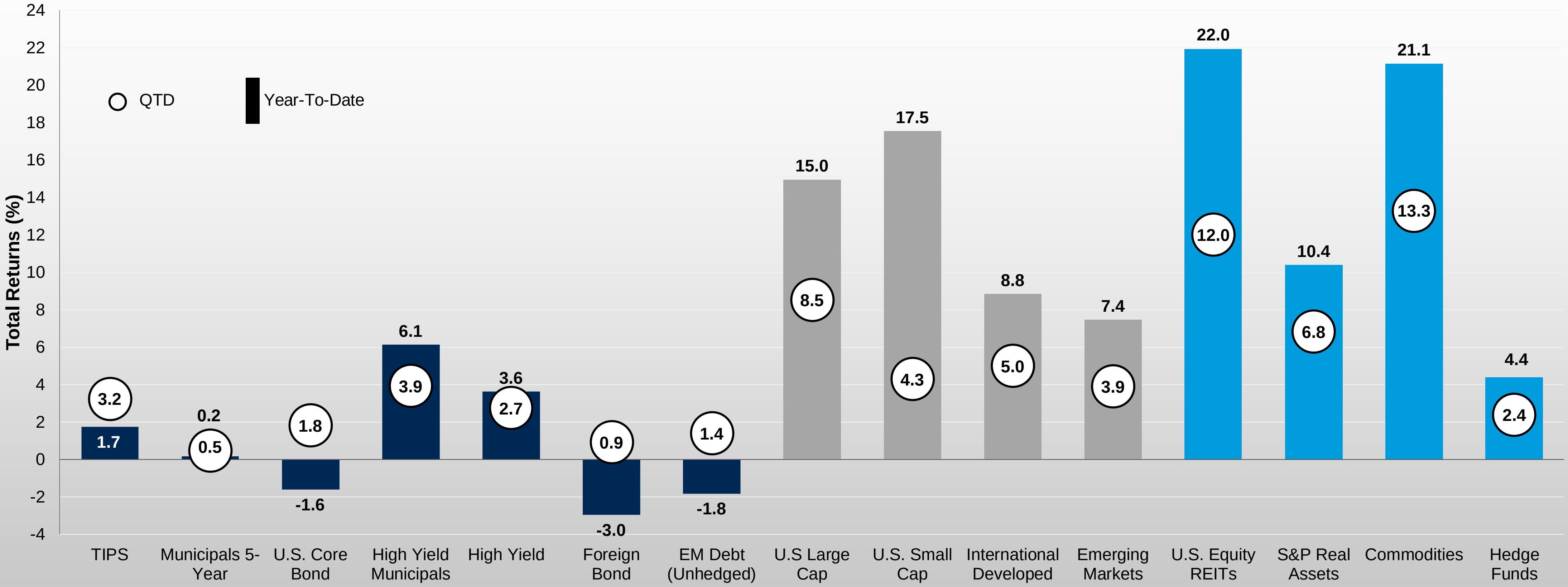
APOLLON

Mid-Year Economic & Capital Markets Update

July 20, 2021

MARKET UPDATE

MARKET THEMES



*Hedge fund returns are lagged 1 month. Sources: FactSet, J.P. Morgan, Russell, MSCI, FTSE Russell, Alerian. Hedge Funds returns as of 5/31/21/21. All other returns as of 6/30/21.

Fixed Income

+ Interest rates moved lower at the longer end of the curve and were slightly higher inside of 5-years.

+ Investment grade and high yield spreads compressed during the quarter.

Equity

+ Optimism continued into the 2nd quarter as vaccinations continue to progress and many restrictions were lifted across the country.

- Emerging market equities lagged their developed market counterparts as many developing countries struggled to control Covid-19 outbreaks.

Real Asset / Alternatives

+ REITs continued to benefit from increasing demand and low interest rates.

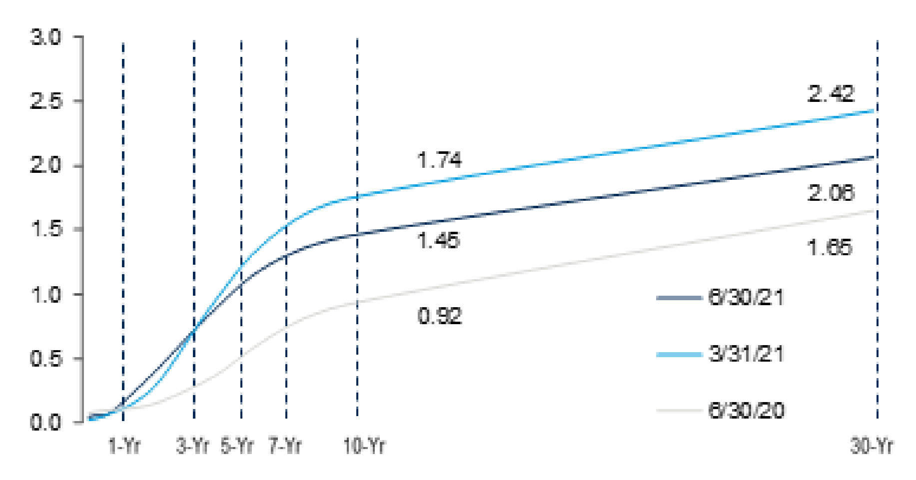
+ Commodities benefitted most from large increases in energy, namely oil, although strong performance was broad based across sectors.

See disclosures for list of indices representing each asset class. Past performance does not indicate future performance and there is a possibility of a loss.

FIXED INCOME MARKET UPDATE

U.S. Treasury Yields Curve

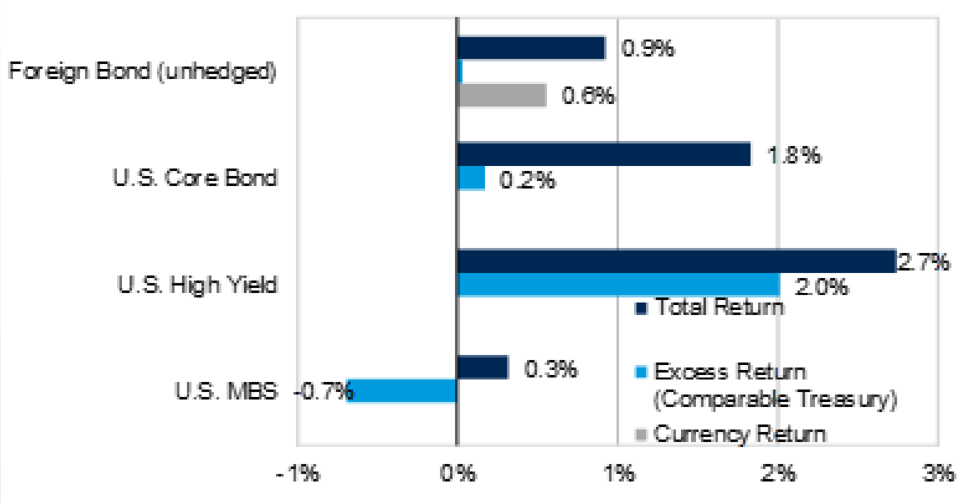
U.S. Treasuries moved lower at the longer end of the curve with the 10-year and 30-year rates declining 29bps and 36bps, respectively.



Source: FactSet

Index Performance Attribution (2Q 2021)

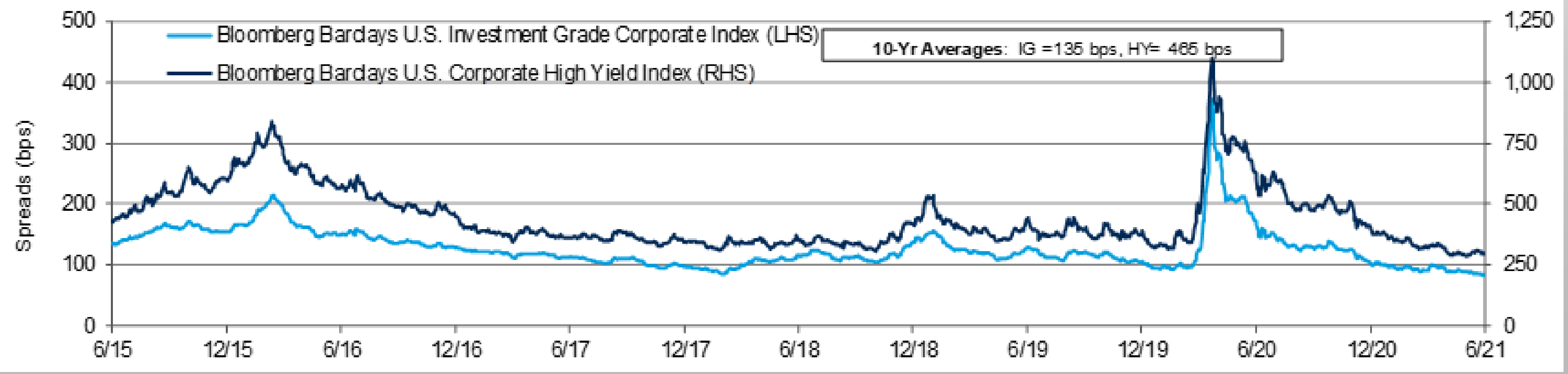
In the U.S., both lower rates and spread compression drove fixed income performance. Dollar weakness provided a nice tailwind for foreign bonds.



Source: FactSet

Credit Market Spreads – Trailing 5 Years

Credit spreads compressed during the quarter with investment grade and high yield spreads decreasing 11bps and 42bps, respectively.



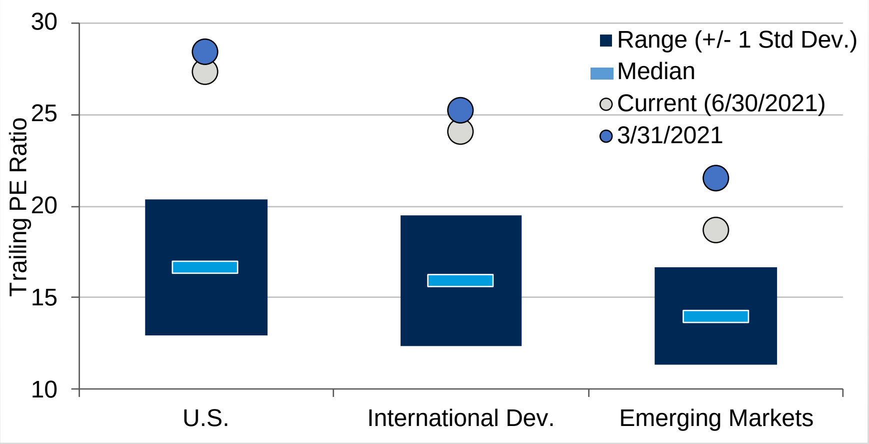
Source: FactSet

Past performance does not indicate future performance and there is a possibility of a loss.

EQUITY MARKET UPDATE

Equity Valuations (Trailing 15 Years)

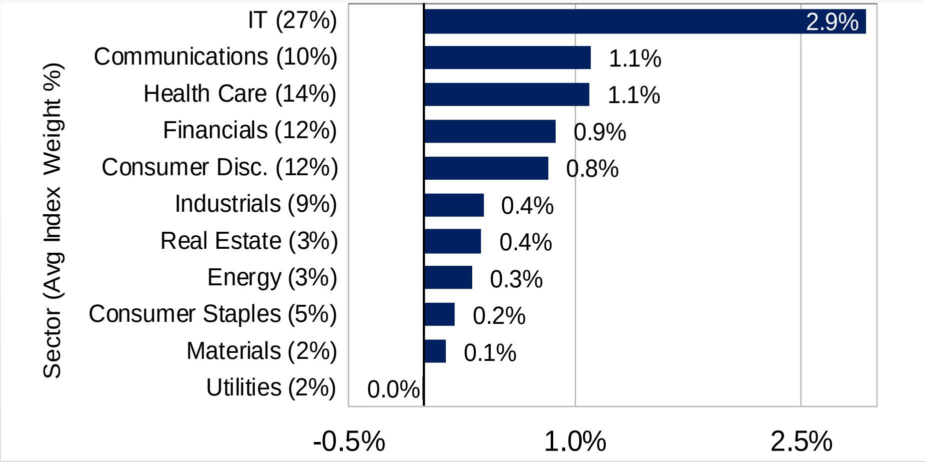
Valuations remain elevated when compared to historical ranges. Valuations were lower relative to the first quarter despite strong equity performance, driven by strong underlying earnings growth.



Source: FactSet

U.S. Equities – Contribution to Return by Sector (2Q 2021)

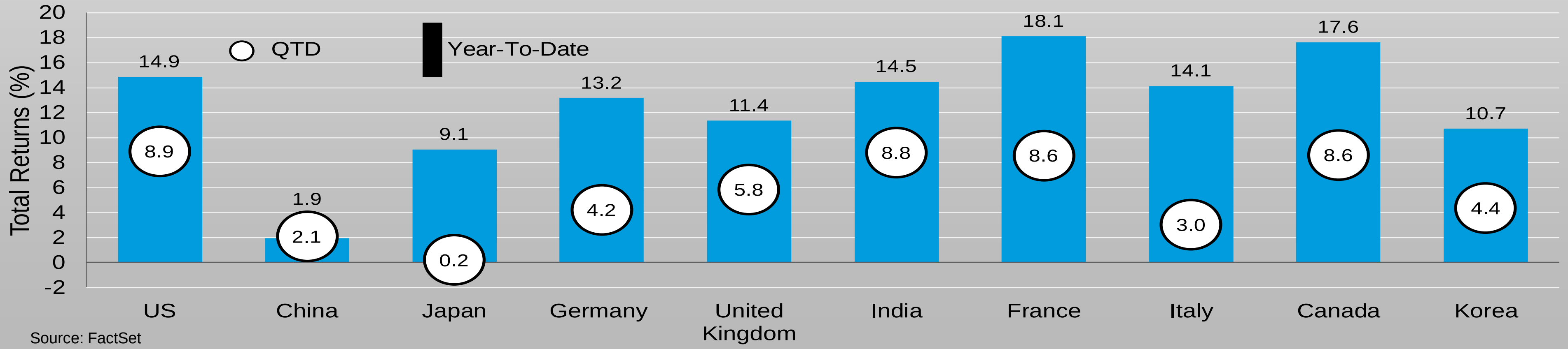
U.S. equity performance was strong across sectors with technology contributing most to index performance, although the real estate sector performed best on an absolute basis.



Source: FactSet. Russell 1000.

Country Total Returns (%) – Top 10 Largest Economies

Strong equity performance was broad based across countries with China the noticeable laggard as Chinese technology and consumer companies continue to face regulatory pressures.



Source: FactSet

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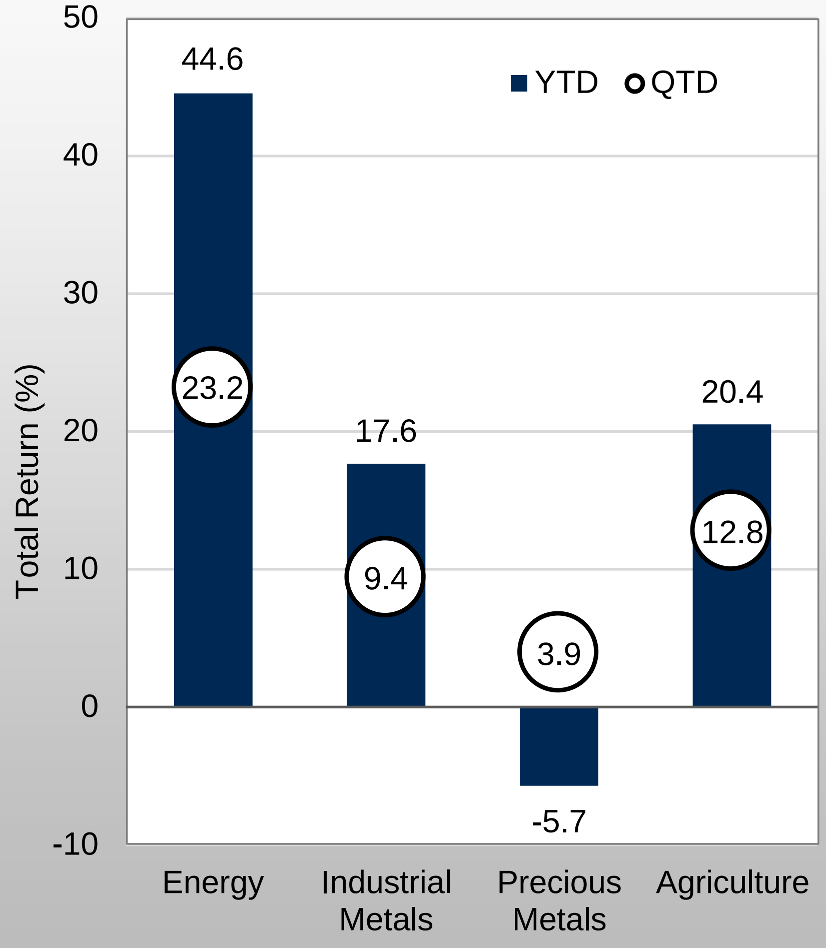
REAL ASSET MARKET UPDATE

Real Assets Performance

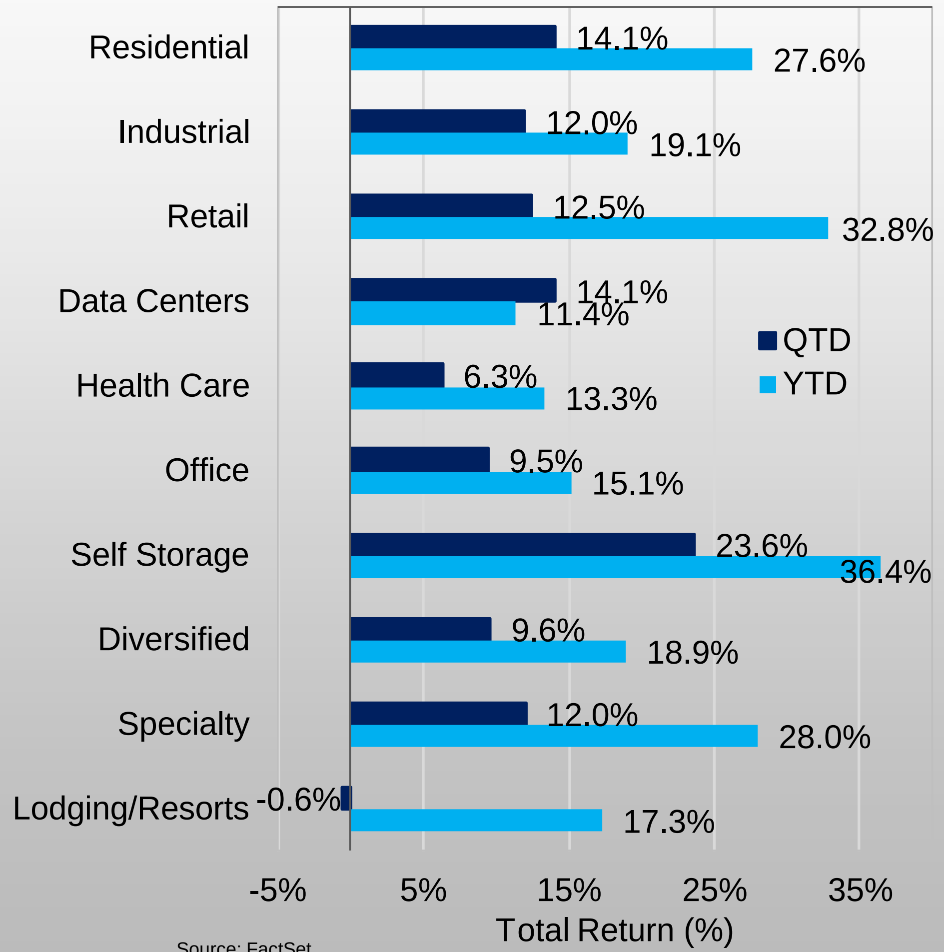
Energy drove real assets higher as May's ransomware attack on the Colonial Pipeline caused supply disruptions within the space.



Source: FactSet

REIT Sector Performance

Most REIT sectors generated positive returns and continued to benefit from re-opening measures and low interest rates.



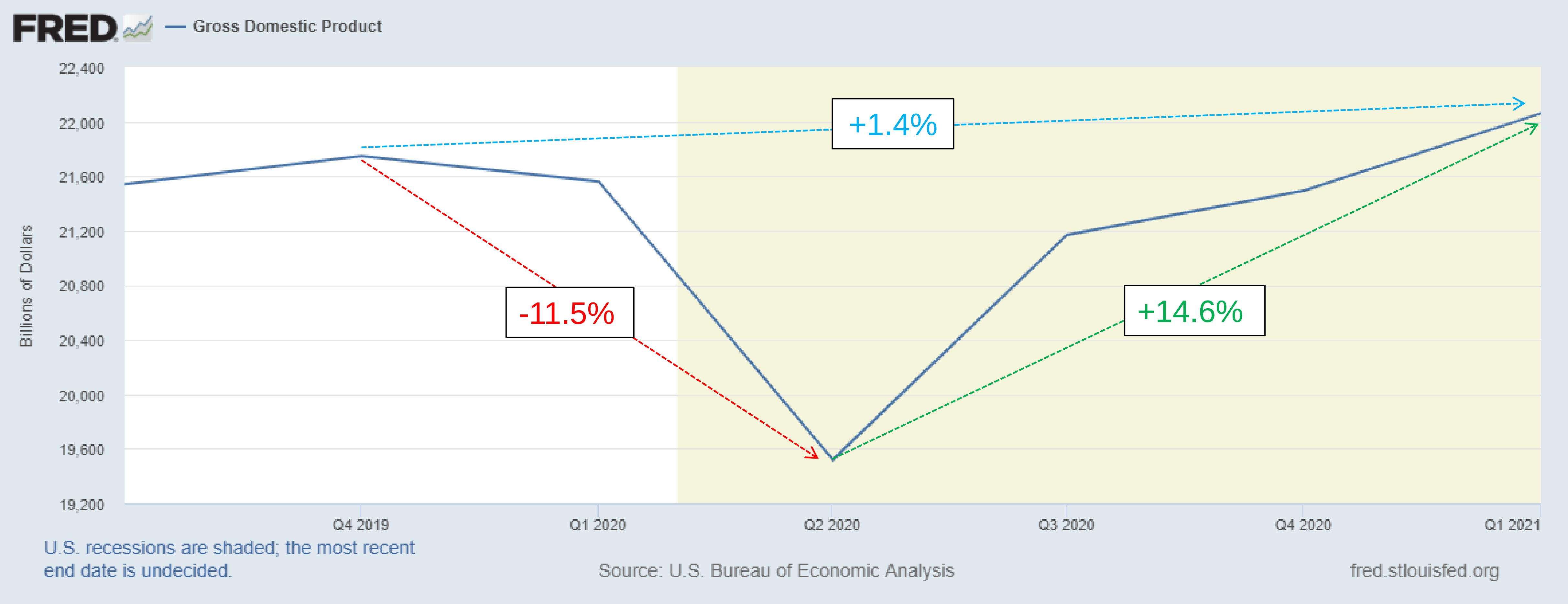
Source: FactSet

Past performance does not indicate future performance and there is a possibility of a loss.

ECONOMIC EXPANSION

U.S. GDP PATH DURING PANDEMIC

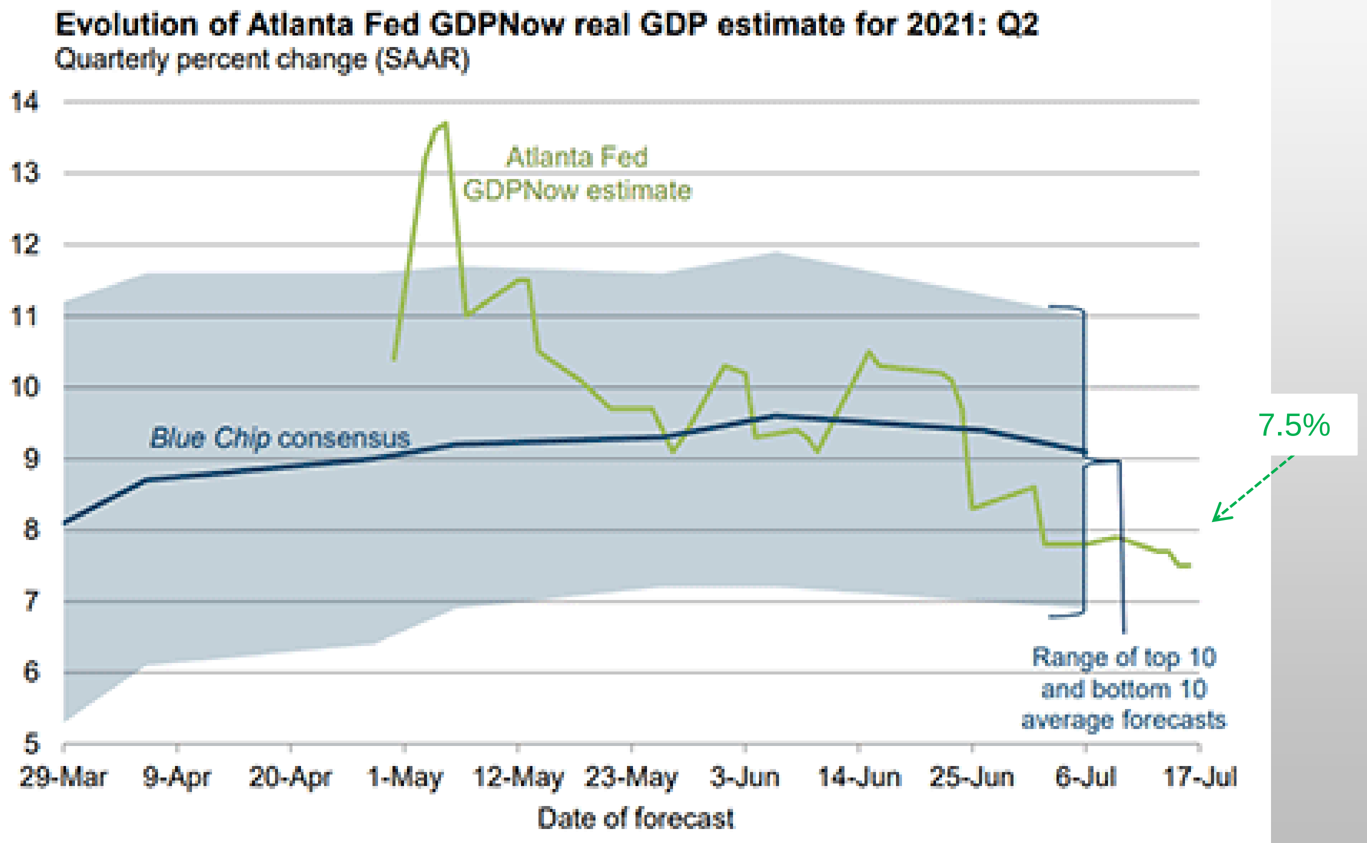
- 2020 RECESSION AND REAL GDP GROWTH OFF PANDEMIC ECONOMIC ACTIVITY LOWS



Source: https://fred.stlouisfed.org/series/GDP

STRONG SECOND QUARTER 2021 REAL GDP GROWTH EXPECTATIONS

<u>7.5%</u> GDP GROWTH FORECAST FOR THE SECOND QUARTER OF 2021 (7/16/21 ESTIMATE).



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

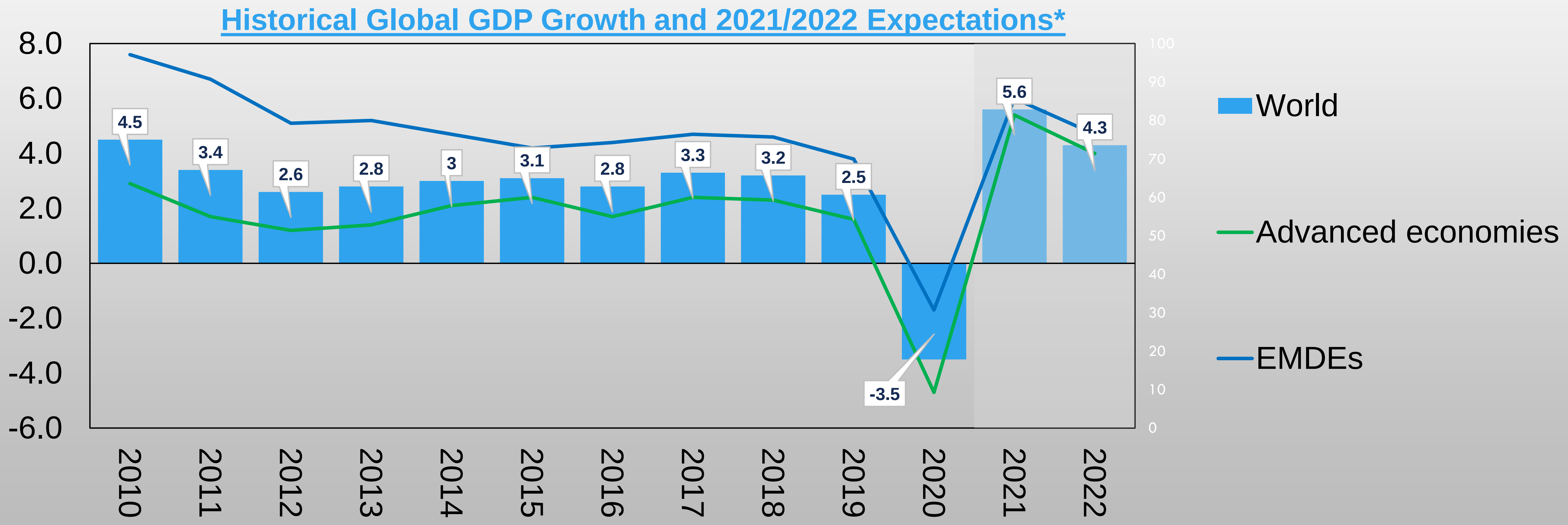
FEDERAL RESERVE BANK of ATLANTA | GDPNow™

GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

Source: https://www.atlantafed.org/cqer/research/gdpnow

STRONG GLOBAL ECONOMIC GROWTH EXPECTATIONS

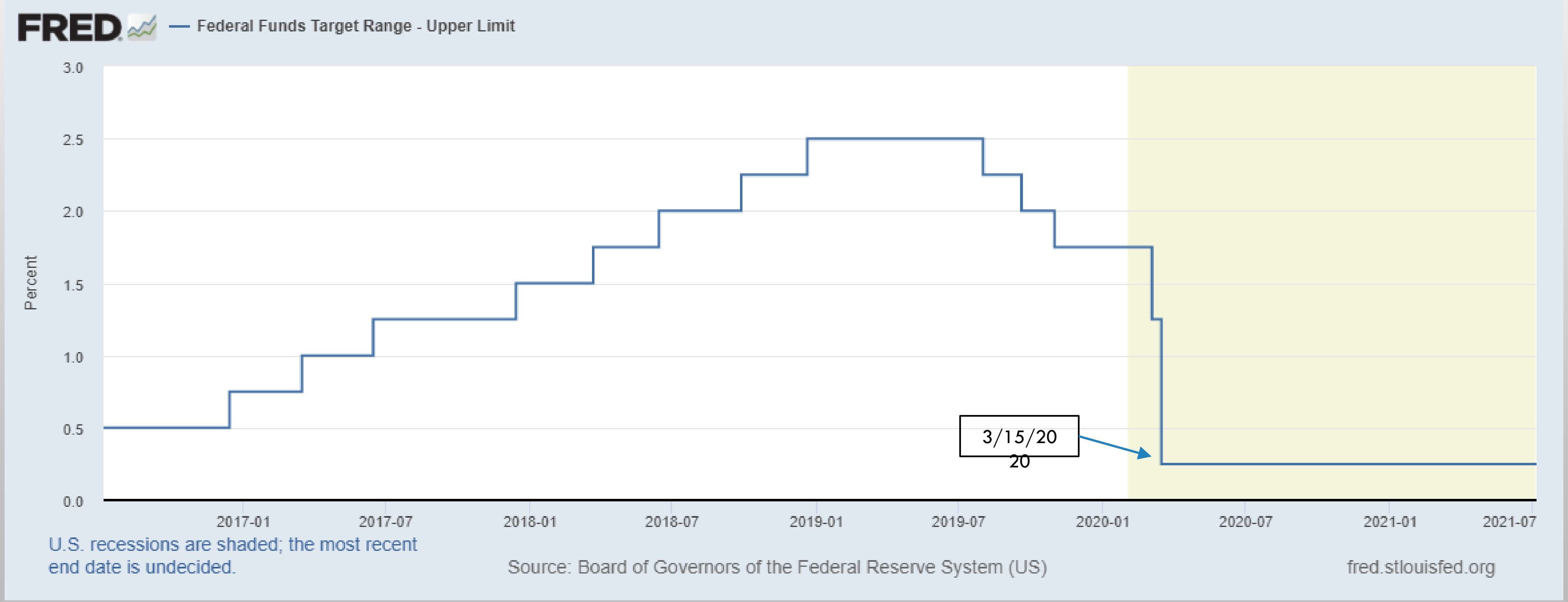
- 5.6% EXPECTED GROWTH FOR 2021*
- 4.3% EXPECTED GROWTH FOR 2022*
- IF ACHIEVED WOULD BE MOST RAPID RECOVERY FROM A CRISIS IN 80 YEARS
- FEDERAL RESERVE FORECASTS U.S. GDP GROWTH OF 7.0% FOR 2021 AND 3.3% FOR 2022**.



*World Bank. Note: EMDEs = emerging market and developing economies. Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. Data for 2020 are estimates. Shaded area indicates forecasts.
** June 16, 2021 Fed release

MONETARY POLICY

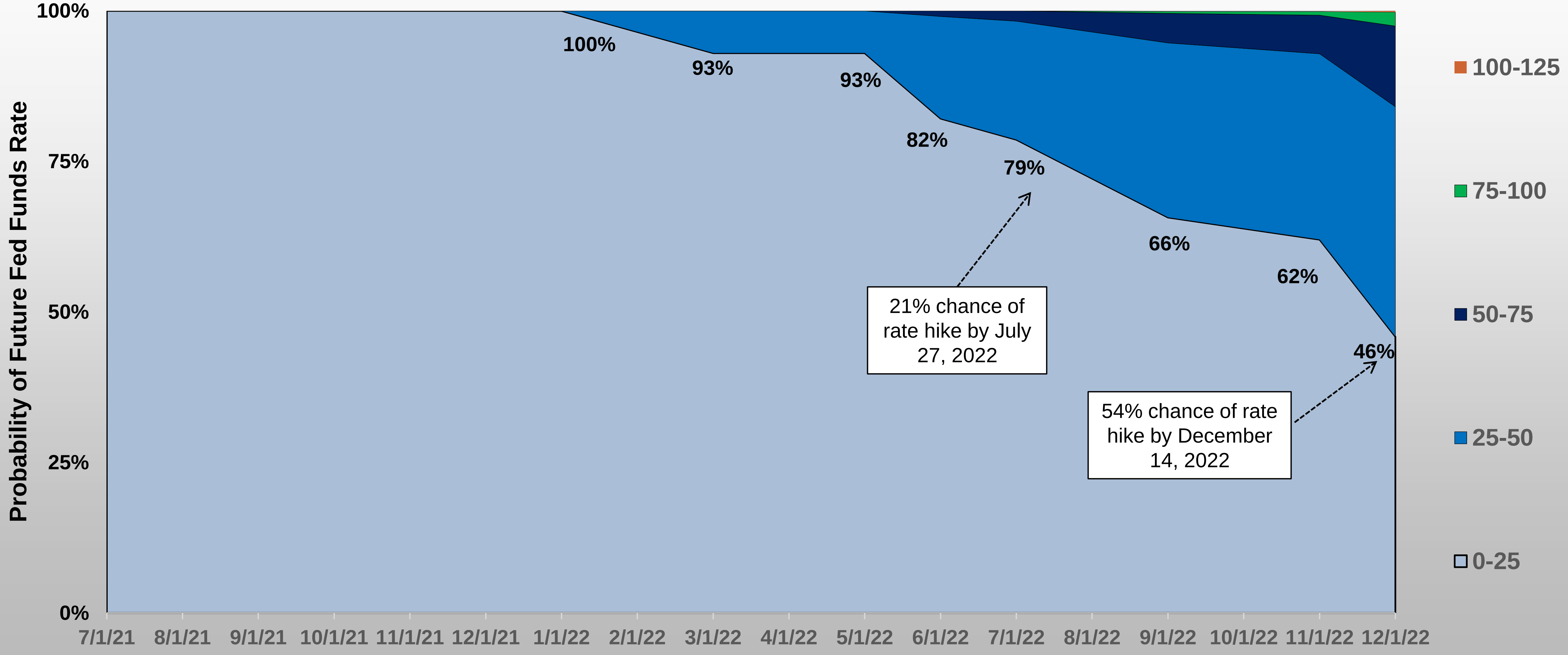
- FED FUNDS UPPER LIMIT TARGET RATE REMAINS AT 0.25% (SINCE MARCH 15, 2020)
- THE FED'S $120B ($80B TREASURIES & $20B MORTGAGES) MONTHLY BOND BUYING CONTINUES
- GLOBALLY, ON BALANCE, MONETARY POLICY REMAINS HIGHLY ACCOMMODATIVE AND STIMULATIVE
- 60% OF ECONOMISTS POLLED* EXPECT A TAPERING ANNOUNCEMENT IN THE THIRD QUARTER WITH TAPERING TO BEGIN IN EARLY 2022



*June 4-10, 2021 Reuters poll of over 100 economists.
Source of Fed Funds Target Range – Upper Limit Graph: https://fred.stlouisfed.org/series/DFEDTARU

MONETARY POLICY

PROBABILITY OF FUTURE FED FUNDS RATES BASED ON FUTURES MARKET (7/13/21 ESTIMATE)*



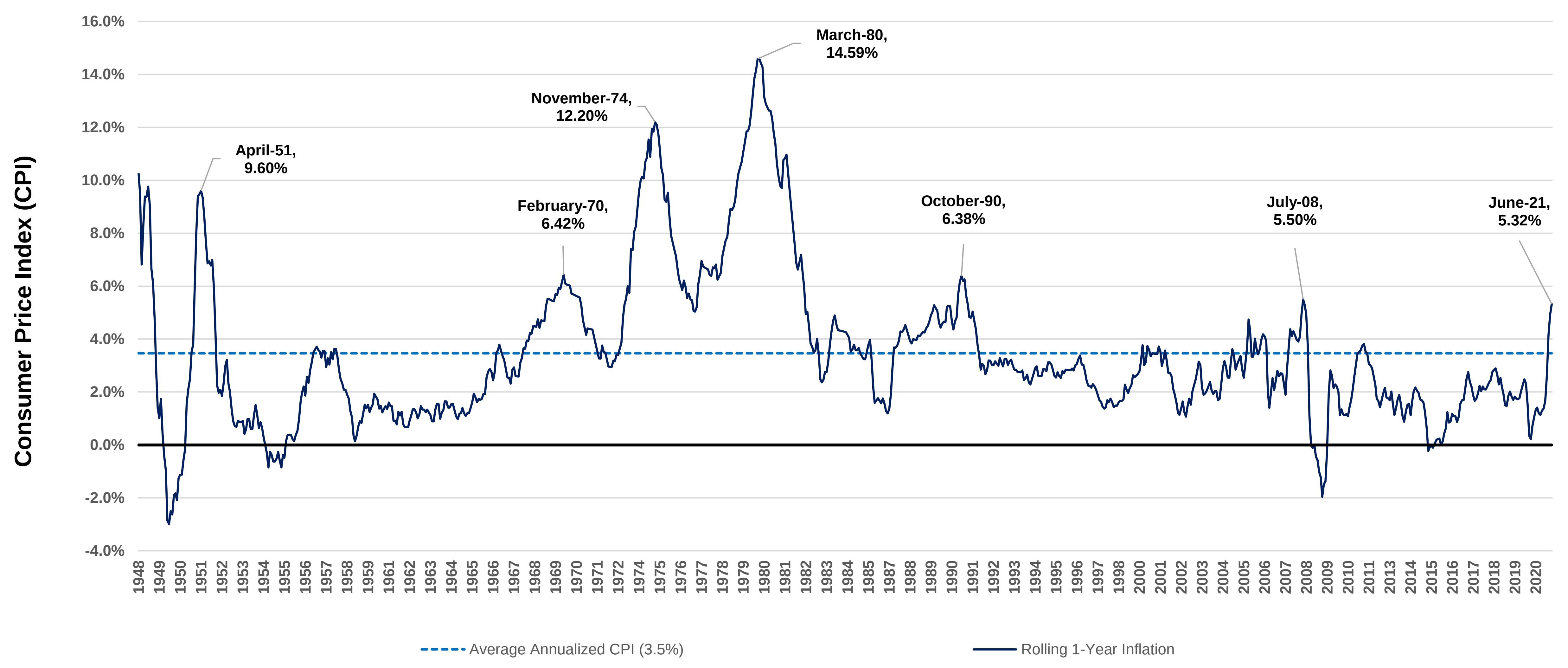
*Fed Funds Future Projections Source (Based on Futures contracts): https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html

*Note: The above Estimate was post announcement of the (0.9%) June 2021 CPI estimate announced on July 13.

INFLATION FORCES

HISTORICAL ROLLING 12-MONTH INFLATION

Rolling 12-Month CPI vs. Average Annualized Inflation (1947 – June 30, 2021)



Data Source: https://fred.stlouisfed.org

INFLATION FORCES: 10-YEAR BREAKEVEN INFLATION

- 10-YEAR BREAKEVEN INFLATION WAS 1.8% IN FIDUCIENT ADVISOR'S 2021 TO 2030 TEN-YEAR OUTLOOK (JANUARY 2021).
- BREAKEVEN INFLATION HAS RISEN BY 0.5% TO 2.32% AS OF JUNE 30, 2021 (SINCE THE JANUARY OUTLOOK).
- BREAKEVEN INFLATION PEAKED AT 2.54% IN ON MAY 10 DURING THE SECOND QUARTER AND HAS TRENDED DOWN SINCE.

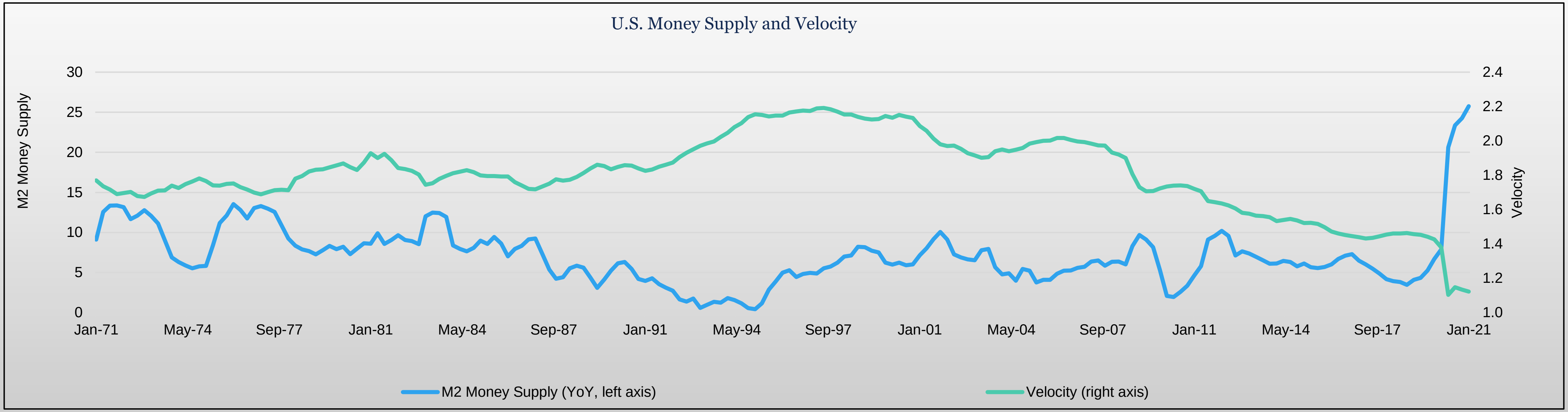
Source: https://fred.stlouisfed.org/series/T10YIE

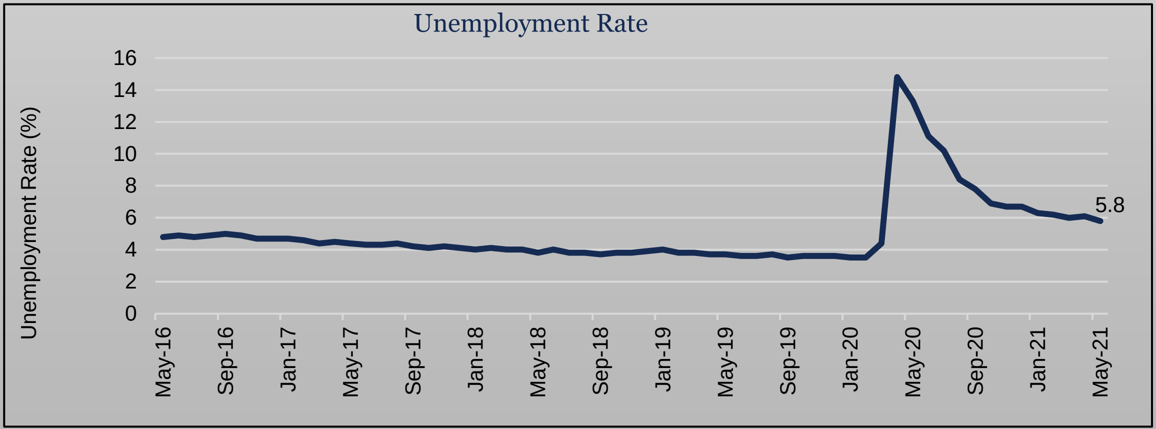
INFLATION DEPENDS ON MONEY SUPPLY GROWTH <u>AND</u> THE VELOCITY OF MONEY.

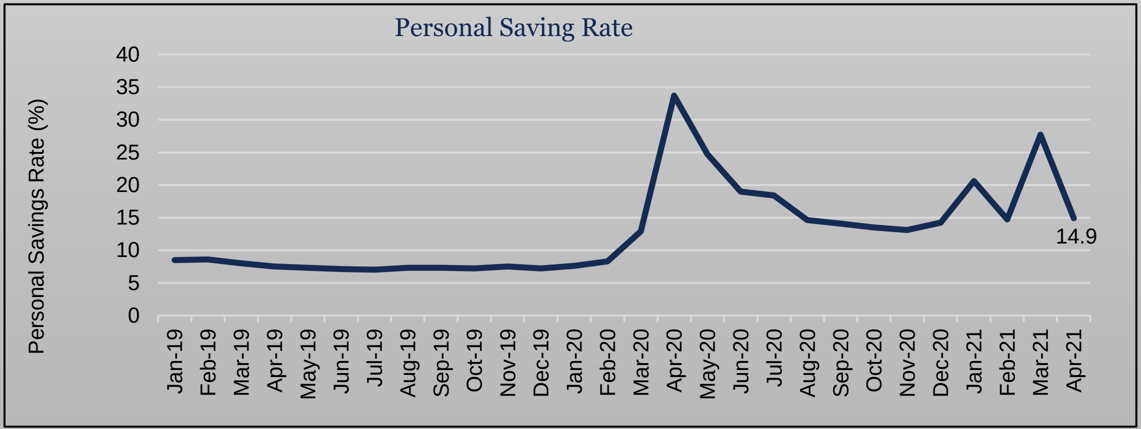
- <u>MONEY SUPPLY</u> (M2) IS A MEASURE OF THE MONEY SUPPLY THAT INCLUDES CASH, CHECKING DEPOSITS, SAVINGS, MONEY MARKETS, MUTUAL FUNDS AND CDS.
- <u>VELOCITY</u> OF MONEY IS AVERAGE NUMBER OF TIMES ONE DOLLAR IS USED TO PURCHASE FINAL GOODS AND SERVICES PER YEAR.

CLASSICAL INFLATION THEORY

While the M2 money supply expanded significantly, the velocity of money, or the rate at which money is spent, slowed to its lowest level in 50 years.

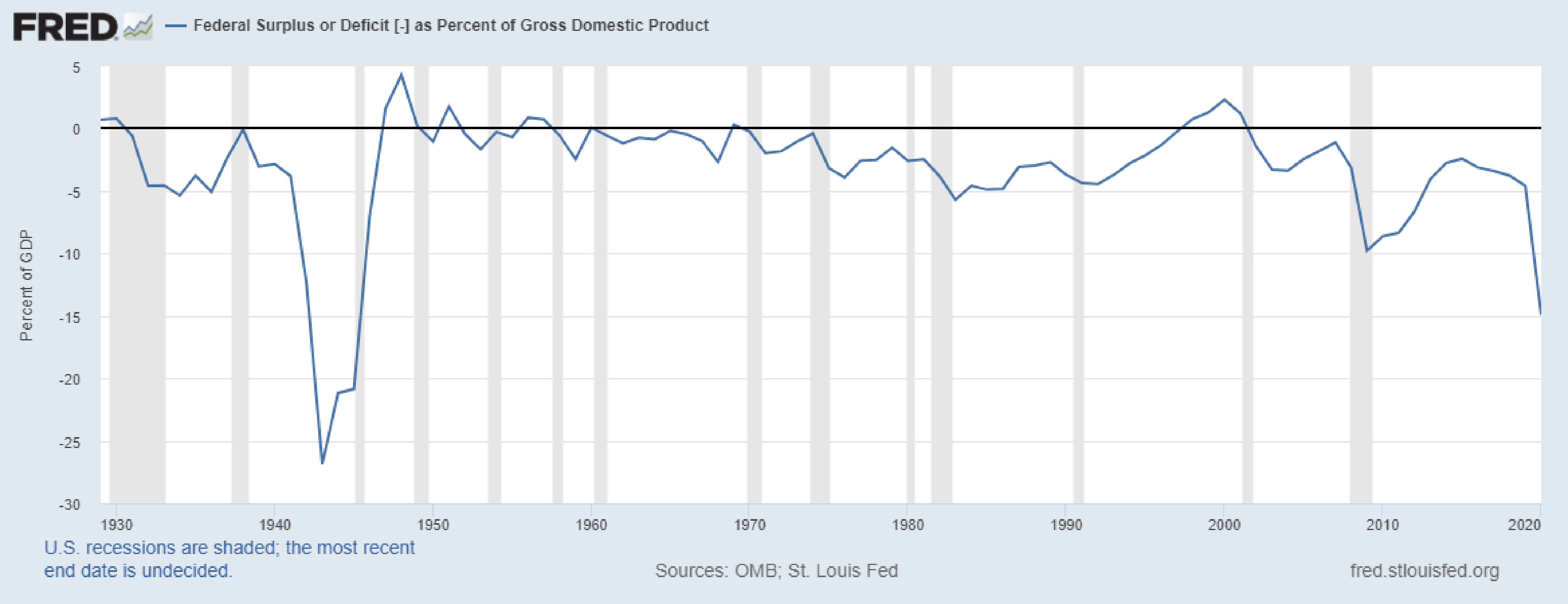






ADDITIONAL INFLATION CONSIDERATIONS

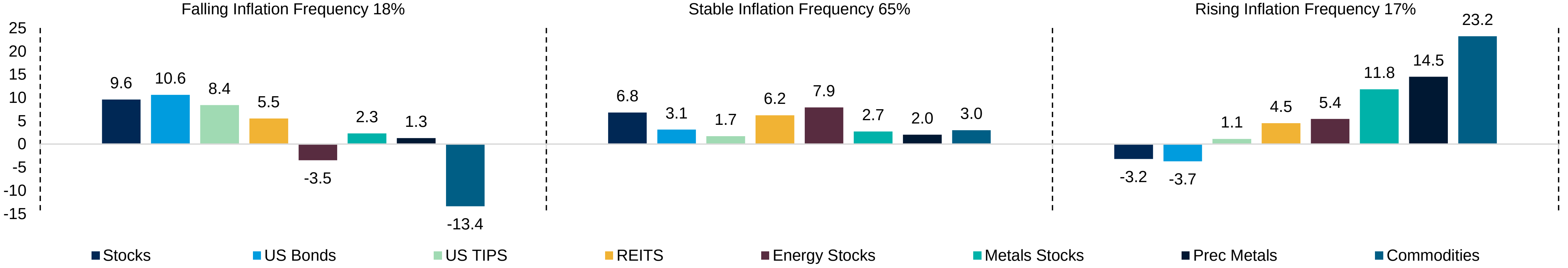
- THE 2021 DEFICIT WILL LIKELY REACH ~$3.0T (ABOUT 13% OF GDP). OTHER THAN 2020 ($3.1T & 15% OF GDP), THIS IS THE LARGEST FISCAL DEFICIT AS A PERCENTAGE OF GDP SINCE WORLD WAR II. BY COMPARISON, THE DEFICIT REACHED ~10% OF GDP DURING THE GREAT RECESSION (2008-2009).
- AMBITIOUS SPENDING PROPOSALS EARLY IN THE BIDEN ADMINISTRATION (UPWARDS OF $6 TRILLION) SEEM UNLIKELY TO PASS CONGRESS WITHOUT MEANINGFUL MODERATION, TEMPERING FUTURE INFLATION SHOCK RISKS.
- THE UNIQUE NATURE OF THIS PANDEMIC-LED RECESSION AND RECOVERY HAVE CREATED SOME UNUSUAL DISTORTIONS WE BELIEVE ARE LARGELY TEMPORARY IN NATURE AS THE DISCONNECT BETWEEN A POST-PANDEMIC PRODUCTION RAMP-UP AND THE PENT-UP CONSUMER DEMAND WILL NORMALIZE OVER THE INTERMEDIATE TERM.



INFLATION: DIVERSIFICATION AND REAL ASSETS

- Real Assets have historically provided an effective hedge against rising inflation.
- Equities have generated positive real returns over the long-term, while fixed income provides good diversification in periods of economic stress and recessions.
- During periods of rising inflation, while traditional asset classes may see challenging short-term performance, real assets have produced strong returns.
- Inflation inflection points are difficult to project and time. We advocate for maintaining a strategic allocation to both traditional and real assets.

Returns on Investments (%) During Various Inflation Environments



Period analyzed is January 1973 through December 2020. Real Estate: MSCI World Real Estate Index since January 1993 | Energy: MSCI World Energy Index since January 1995; DataStream World Energy Index from January 1973 to December 1994 | Metals & Mining: MSCI World Metals & Mining Index since January 1995; DataStream World Metals & Mining Index from January 1973 to December 1994 | Commodities: Equal Sector Weighted S&P Goldman Sachs Commodities Index | Precious Metals: 70% MSCI World Gold Mining Equity Index/30% S&P GSCI Precious Metals Commodities Total Return Index since January 2005; 70% DataStream World Gold Mining Index/30% S&P GSCI Precious Metals from January 1973 to December 2004 | Rising inflation: any month when Y/Y US CPI rose by +0.3% or more relative to the previous month; Stable inflation period is defined as any month when Y/Y US CPI was between -0.3% and +0.3% relative to the previous month; Falling inflation: any month when Y/Y US CPI fell by -0.3% or more relative to the previous month.

Past performance does not indicate future performance and there is a possibility of a loss

CAPITAL MARKET ASSUMPTIONS AND PORTFOLIO POSITIONING

"REAL ASSETS REMAIN AN IMPORTANT DIVERSIFIER AS THE EVENTS OF 2020 HAVE LIKELY PLANTED SOME SEEDS FOR RISING FUTURE INFLATION."

- FIDUCIENT ADVISORS' JANUARY 2021 OUTLOOK

6/30/21 YTD (2 QTR 2021) Returns:

Financial Assets

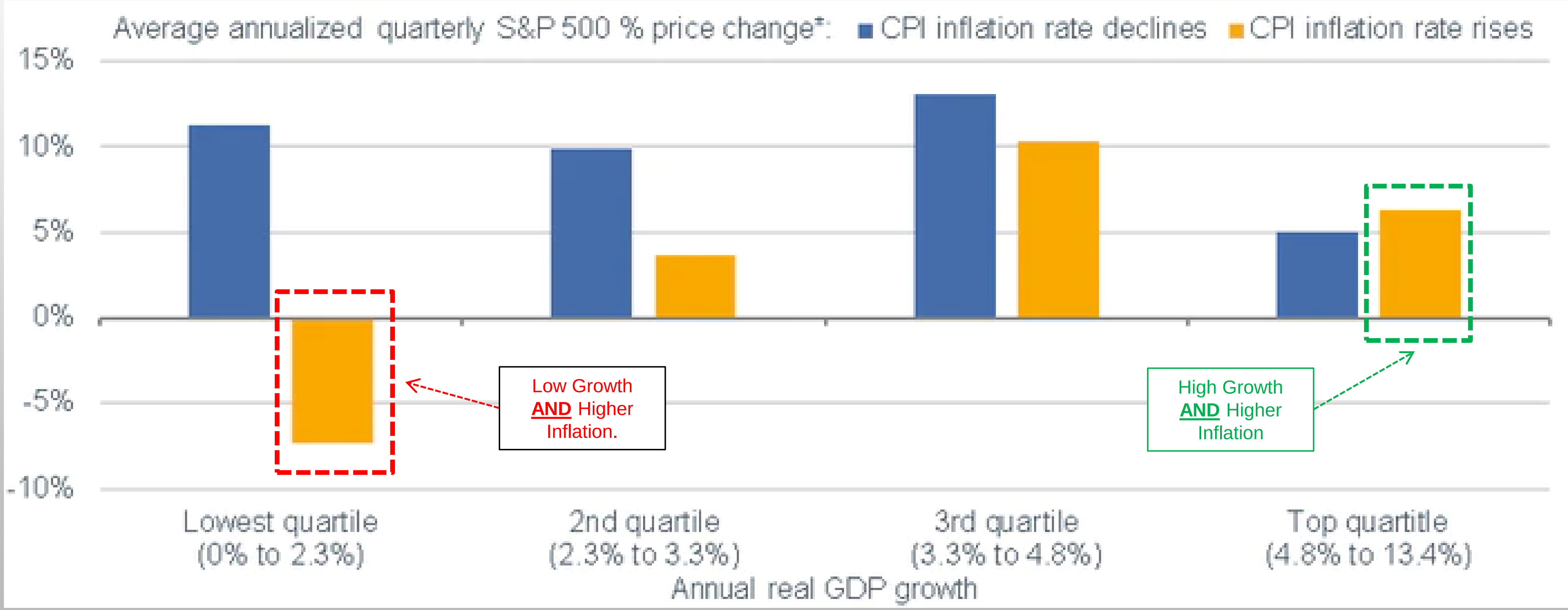
- Global Stocks: MSCI ACWI: +12.3 (+7.4)
- Investment Grade U.S. Bonds: Barclays US Aggregate Bond Index: -1.6 (+1.8)

Real Asset Categories

- Real Estate: FTSE NAREIT Index: + 22.0 (+12.0)
- Commodities: Bloomberg Commodity Index: +21.2 (+13.3)
- Natural Resources: S&P Natural Resources Index: +19.9 (+7.3)

INFLATION FORCES WITH STRONG ECONOMIC GROWTH (1950 – MARCH OF 2021)

- WHEN INFLATION ROSE, BUT ECONOMIC GROWTH WAS IN ITS HIGHEST QUARTILE, STOCKS NOT ONLY ROSE; THEY ROSE AT A FASTER CLIP THAN WHEN INFLATION WAS FALLING IN THAT SAME GROWTH ZONE.
- ABOVE TREND INFLATION IS NOT NECESSARILY DETRIMENTAL TO STOCK MARKET RETURNS IF ALSO ACCOMPANIED BY STRONG ECONOMIC GROWTH



*Source: Charles Schwab, The Leuthold Group, 1950-3/31/2021. *Based only on economic expansions (all quarters when trailing y/y real GDP growth rate was positive). Past performance is no guarantee of future results.*

EVOLVING TEN-YEAR CAPITAL MARKET ASSUMPTIONS (AS OF JULY 1, 2021)

- THE FOLLOWING IS A HIGH-LEVEL SUMMARY OF OUR 10-YEAR CAPITAL MARKET (NOMINAL) FORECASTS IF THEY WERE TO BE REVISED FOR JULY 1, 2021 (SINCE OUR JANUARY 1, 2021 OUTLOOK).
  - US INVESTMENT GRADE BONDS: 1.5% (+0.35% SINCE JANUARY).
  - GLOBAL BONDS: 1.26% (+0.47% SINCE JANUARY).
  - US EQUITY (5.7%), INTL DEV EQUITY (7.0%) & EM EQUITY (8.3), WHICH ARE GENERALLY WITHIN +/-0.16% OF JANUARY 2021 FORECASTS.
  - INFLATION EXPECTATIONS: 2.3% (+0.5% SINCE JANUARY)
- FORWARD-LOOKING INVESTMENT GRADE BOND MARKET (NOMINAL) RETURN EXPECTATIONS GENERALLY ROSE WITH RISING INTEREST RATES AND INFLATION EXPECTATIONS.
- EQUITY RETURN EXPECTATIONS, WHILE GENERALLY UNCHANGED NOMINALLY, HAVE DECLINED ON A REAL BASIS DUE TO RISING VALUATIONS AND HIGHER INFLATION ASSUMPTIONS.
- DESPITE OUR VIEW THAT ACCELERATING INFLATION IS LIKELY TRANSITORY, INFLATION TAIL RISKS REMAIN. REAL ASSETS REMAIN AN IMPORTANT STRATEGIC DIVERSIFIER.
- BROAD FINANCIAL ASSET CLASS VALUATIONS ARE ELEVATED CONSTRAINING LONGER-TERM RETURN EXPECTATIONS, BUT THE CURRENT ROBUST ECONOMIC RECOVERY COUPLED WITH ACCOMMODATIVE FISCAL POLICY AND MONETARY POLICY MAY PROVIDE A MEANINGFUL INTERMEDIATE-TERM TAILWIND FOR RISK ASSETS.
- OUTLOOK AND GENERAL PORTFOLIO POSITIONING REMAINS CONSISTENT WITH JANUARY 2021.