MARKET INSIGHTS

from Ziegler Capital Management

Monthly Market Commentary: August 2021

The S&P 500 returned 2.38% in July and has returned 17.99% on a year-to-date basis as of July 31, 2021. Small cap stocks, as measured by the Russell 2000, returned -3.61% in July and are up 13.29% so far in 2021. Large Cap Growth outperformed Value in July with the Russell 1000 Growth returning 3.30% and the Russell 1000 Value returning 0.80%. However, Value leads Growth on a year-to-date basis with a return of 17.98% versus 16.71%. The Russell 2000 Growth returned -3.64% and the Russell 2000 Value returned -3.58% in July. Small Cap Value's lead over Small Cap Growth on a year-to-date basis is more pronounced that in the large cap universe with a return of 22.16% for Small Cap Value versus Small Cap Growth at 5.01%.

Headlines dominating the news continue to be centered around COVID-19 vaccinations, greater re-opening, and increased turmoil in the Middle East. According to the Centers for Disease Control (CDC), 58% of the United States population over 12 years old is fully vaccinated against COVID-19, with 68% of the population having received at least one dose as of July 23rd. The CDC has reported an increasing number of cases in areas with lower vaccination rates at the end of July. The Delta variant is currently the most prevalent source of infection and is responsible for approximately 83.2% of cases.

Discussions are ongoing regarding the proposed $1.8 trillion "American Families Plan" and a proposed reduced $1.2 trillion infrastructure package that focuses on bridges, roads, railways, and broadband internet. Both plans need Congressional approval and are subject to further negotiation. The parties are closer to an agreement on the infrastructure package than they are on the American Families Plan. In total, President

Returns by Sector

	S&P 500		Russell 2000	
Sector	YTD	July 2021	YTD	July 2021
Communication Services	23.95	3.58	30.15	-12.54
Consumer Discretionary	10.82	0.50	29.03	-3.60
Consumer Staples	7.70	2.55	14.20	-3.07
Energy	33.60	-8.27	49.94	-12.75
Financials	25.14	-0.44	16.67	-2.08
Health Care	17.33	4.90	-3.84	-7.01
Industrials	17.44	0.89	15.26	-0.81
Information Technology	18.15	3.86	9.48	-2.10
Materials	16.83	2.04	23.17	-1.53
Real Estate	29.01	4.64	20.24	1.80
Utilities	6.82	4.33	4.42	2.62
TOTAL RETURN	17.99%	2.38%	13.29%	-3.61%

Source: Bloomberg

WRITTEN: AUGUST 2, 2021

ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

www.zieglercap.com/insights

Biden has put forward $6 trillion in new federal spending over the next decade. To pay for his plans, President Biden's proposals include raising the top income-tax and capital-gains rates, increasing corporate taxes, and expanding the Internal Revenue Service's collections.

Real gross domestic product (RGDP) increased at an annual rate of 6.5% in the second quarter according to the advance estimate released by the Bureau of Economic Analysis (BEA). The increase in real GDP in the 2nd quarter was attributed to upward non-residential fixed investment, personal consumption expenditures (PCE) exports, state and local government spending and were offset by decreases in private inventory investment, residential fixed investment and federal government spending which are a subtraction in the calculation of GDP. According to the BEA, the increase in Personal Consumption Expenditures were from increases in services (led by food services and accommodations) and goods (led by "other" nondurable goods, notably pharmaceutical products). This is consistent with the increased re-opening of establishments and continued government response related to the COVID-19 pandemic. Additionally, first quarter of 2021 GDP was revised to have increased 6.3% versus the initial reading of 6.4%. The revision was primarily due to downward revisions to federal government spending, state and local government spending and exports that were partly offset by a higher than expected upward revision to nonresidential fixed investment.

According to the National Bureau of Economic Research (NBER), the U.S. entered a recession in February 2020. They announced on July 19, 2021 that the recession ended in April 2020, making it the shortest U.S. recession on record with a duration of two months. In determining the April 2020 bottom, the NBER did not conclude that the economy returned to operating at normal capacity at that point but indicated that "economic activity is typically below normal in the early stages of an expansion, and it sometimes remains so well into the expansion".

According to the U.S. Bureau of Labor Statistics, the unemployment rate remained at 5.9% in June which was in line with the May reading, and the number of unemployed remained at 9.5 million people. Notable job gains occurred in leisure and hospitality, public and private education, professional and business services, retail trade, and other services. Although both measures are significantly lower than their April 2020 highs, they remain above their February 2020 pre-pandemic levels of 3.5% and 5.7 million people. The labor force participation rate of 61.6% was little changed in June and has remained in a narrow range of 61.4% and 61.7% since June 2020. The U.S. savings rate was 9.4% in June, decreasing from 10.3% in May. Government stimulus payments remain heavily saved and unemployment benefits continue at elevated levels in many states. These increased savings will likely continue to fuel consumption and economic growth for the coming quarters. The long-term average savings rate is approximately 9% and it peaked at a stunning 32.2% in April 2020.

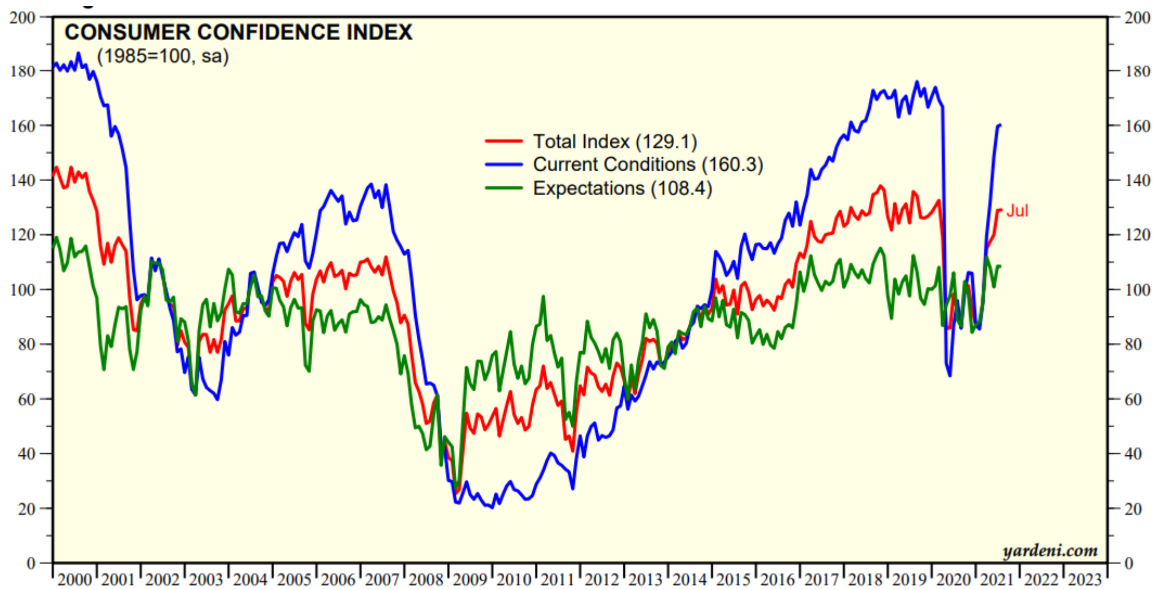
The Federal Reserve's July statement was consistent with prior ones, which noted the progress on vaccinations and strong policy support resulting in strengthened economic activity and employment. The Fed has noted that inflation has risen, citing transitory factors as the driver. They expect to maintain an accommodative monetary policy stance until their objectives are achieved. Their goals remain to have maximum employment and inflation at the rate of 2% over the longer run. The target Fed Funds rate remains 0-0.25% and it is expected to remain there for the foreseeable future. The

Federal Reserve remains committed to increasing Treasury holdings by at least $80 billion per month and agency mortgage-backed securities by at least $40 billion per month until additional progress has been made toward their goals of maximum employment and price stability. The committee will continue to monitor economic activity and employment, and will be prepared to adjust the stance of monetary policy as appropriate if risks emerge that will not allow them to meet their goals.

West Texas Intermediate (WTI) finished July at $73.81 a barrel, increasing from June's closing price of $73.47 a barrel. WTI has increased over 53% so far in 2021 after beginning the year at $48.40 a barrel. Over the past year, WTI has increased over 79%. WTI is significantly higher than April 2020's close at $18.84 per barrel during the Saudi/Russia price war.

Consumer Confidence was relatively unchanged in July at 129.1 following gains in each of the last five months. It remains at its highest level since the beginning of the pandemic in March 2020. The Present Situation Index (based on consumers' assessment of current business and labor market conditions) increased to 160.3 from 159.6 in June. The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) was virtually unchanged at 108.4 from an upwardly revised 108.5 in June based on increased optimism on short-term business conditions and short-term financial prospects. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



The Bloomberg Barclays U.S. Aggregate Bond Index returned 1.12% in July and has returned -0.50% on a year-to-date basis as of July 31, 2021, on the heels of a 7.51% return in 2020. The 10-Year U.S. Treasury ended July at 1.22% after ending June at 1.47% and beginning the year at 0.92%. While it remains lower than the 2020 beginning reading of 1.92%, it has increased dramatically since hitting an all-time low of 0.54% in July 2020. The 2-Year U.S. Treasury and 10-Year Treasury spread began the year with a spread of 80 basis points (2-year- 0.12% and 10-year- 0.92%). As of July 31st, the spread is 103 bps with the 2-Year increasing in yield 7 bps (0.19%) and the 10-Year increasing 30 basis points (1.22%). Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) ended July at 86 basis points, 6 basis points wider than June. Spreads peaked in 2020 at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) increased slightly in July and ended the month at 18.24, increasing from the end of June reading of 15.83. The VIX was fairly muted for the month and peaked at 22.50 during fears over increasing cases of the COVID-19 Delta strain and the potential market effects. The VIX has fallen since peaking at 37.21 during the volatility from the well-publicized trading activity in fundamentally questionable retail companies. It remains considerably lower than the March 16, 2020, peak of 82.69 and is now around the long-term average of approximately 20.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

ZIEGLER CAPITAL MANAGEMENT, LLC
30 South Wacker Drive | Suite 2800 | Chicago, Illinois | 60606 | www.zieglercap.com

21-02001
Printed Internally