MARKET INSIGHTS

from Ziegler Capital Management

Monthly Market Commentary: December 2021

WRITTEN: DECEMBER 1, 2021

The S&P 500 returned -0.69% in November and has returned 23.18% on a year-to-date basis as of November 30, 2021. Small cap stocks, as measured by the Russell 2000, returned -4.17% in November and are up 12.32% so far in 2021. Large Cap Growth outperformed Value in November with the Russell 1000 Growth returning 0.61% and the Russell 1000 Value returning -3.52%. Growth is ahead of Value on a year-to-date basis with a return of 24.95% versus 17.73%. The Russell 2000 Growth returned -4.88% and the Russell 2000 Value returned -3.42% in November. However, Small Cap Value leads Small Cap Growth considerably on a year-to-date basis with a return of 23.24% for Small Cap Value versus Small Cap Growth at 2.38%.

Headlines dominating the news continue to be led by the crisis at the southern U.S. border, congressional gridlock, the Federal Reserve's new inflation commentary and taper comments and supply chain disruptions that are trickling down and are having a broader effect on U.S. companies and their consumers. After increasing in late October and early November, COVID-19 cases declined towards the end of the month. Deaths continue to decline, while the number of people who have received at least one dose of a COVID-19 vaccine continues to increase. According to the Centers for Disease Control (CDC), 69.1% of the United States population over 12 years old is fully vaccinated against COVID-19, with 80.3% of the population having received at least one dose as of November 29th. The Delta variant is currently the most prevalent source of infection and is responsible for almost all cases. News of the Omicron strain has raised concern that this new variant will reignite new cases after being first reported in South Africa and rattled the capital markets.

Returns by Sector

	S&P 500		Russell 2000	
Sector	YTD	Nov. 2021	YTD	Nov. 2021
Communication Services	18.57	-5.16	17.67	-7.16
Consumer Discretionary	24.75	1.97	25.96	-1.41
Consumer Staples	7.56	-1.10	11.99	-0.92
Energy	50.03	-5.09	72.22	-11.20
Financials	30.69	-5.68	23.56	-3.34
Health Care	15.74	-3.00	-16.94	-10.10
Industrials	14.98	-3.50	21.70	0.15
Information Technology	30.13	4.35	14.09	-2.36
Materials	18.33	-0.49	19.88	-4.19
Real Estate	32.62	-0.86	19.05	-3.38
Utilities	7.33	-1.65	3.15	-1.63
TOTAL RETURN	23.18%	-0.69%	12.32%	-4.17%

Source: Bloomberg

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

Ziegler CAPITAL MANAGEMENT, LLC

We are a premier asset management firm comprised of investment teams employing repeatable processes providing tailored investment solutions across the fixed income and equity markets.

www.zieglercap.com

zieglercap.com/linkedin

The $1.0 trillion infrastructure package that focuses on bridges, roads, railways, and broadband internet was signed into law by President Biden on November 15th. Funding will go out over a five-year period and puts $550 billion in new funds into transportation, broadband and utilities. This includes $110 billion in roads, bridges, and other major projects. The American Families Plan remains in limbo. In more recent negotiations, several of President Biden's campaign promises have been abandoned such as providing free community college and clean electricity standards. Programs such as the expanded Child Tax Credit and expanded Medicaid that were initially going to be permanent will instead expire in a year or two. 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.

Gross domestic product (GDP) increased at an annual rate of 2.1% (revised from 2.0% in the first estimate) in the third quarter according to the second estimate released by the Bureau of Economic Analysis (BEA). There were upward revisions to Personal Consumption Expenditures (PCE), private inventory investment, and state and local government spending. They were partly offset by downward revisions to exports, nonresidential fixed investment, residential fixed investment, and federal government spending. Imports, which are a subtraction in the calculation of GDP, were revised down.

The increase in private inventory investment reflected increases in wholesale trade (led by nondurable goods industries) and in retail trade (led by motor vehicles and parts dealers). The increase in PCE reflected an increase in services that was partly offset by a decrease in goods. Within services, increases were widespread with the largest contributions coming from "other" services (international travel), transportation services, and health care. The decrease in goods primarily reflected a decrease in spending on motor vehicles and parts. The increase in state and local government spending was led by employee compensation in education. The increase in nonresidential fixed investment reflected an increase in intellectual property products (led by software and research and development) that was partly offset by decreases in structures and equipment.

The decrease in residential fixed investment primarily reflected decreases in improvements and in new single-family structures. The decrease in federal government spending primarily reflected a decrease in nondefense spending on intermediate goods and services after the processing and administrating the Paycheck Protection Program by banks on behalf of the federal government ended in the second quarter. The decrease in exports reflected a decrease in goods that was partly offset by an increase in services. The increase in imports primarily reflected an increase in services (led by travel and transport).

According to the U.S. Bureau of Labor Statistics, the unemployment rate fell to 4.6% in October from 4.8% in September. The number of unemployed fell to 7.4 million people in October from 7.7 million in September. In October, job growth was widespread with notable job gains in leisure and hospitality, professional and business services, manufacturing, and transportation and warehousing. Employment in public education also declined. Both measures continue to fall and are significantly lower than their April 2020 highs but remain above their February 2020 pre-pandemic levels of 3.5% and 5.7 million people. The labor force participation rate of 61.6% in October was unchanged from September and has remained in a narrow range of 61.4% and 61.7% since June 2020.

The U.S. savings rate was 7.3% in October, decreasing from a revised upward 8.2% in August. The long-term average savings rate is approximately 9% after its stunning peak of 32.2% in April 2020. Personal income increased $93.4 billion (0.5%) while consumer spending increased $214.3 billion (1.3%) in October. The increase in personal income in October primarily reflected increases in compensation of employees and personal income receipts on assets that were partly offset by a decrease in government social benefits. The increase in consumption primarily reflected an increase in private wages and salaries. Within personal income receipts on assets, both dividend income and interest income increased. Unemployment insurance decreased, reflecting decreases in payments from Pandemic Unemployment Compensation Payments, Pandemic Emergency Unemployment Compensation, and Pandemic Unemployment Assistance programs.

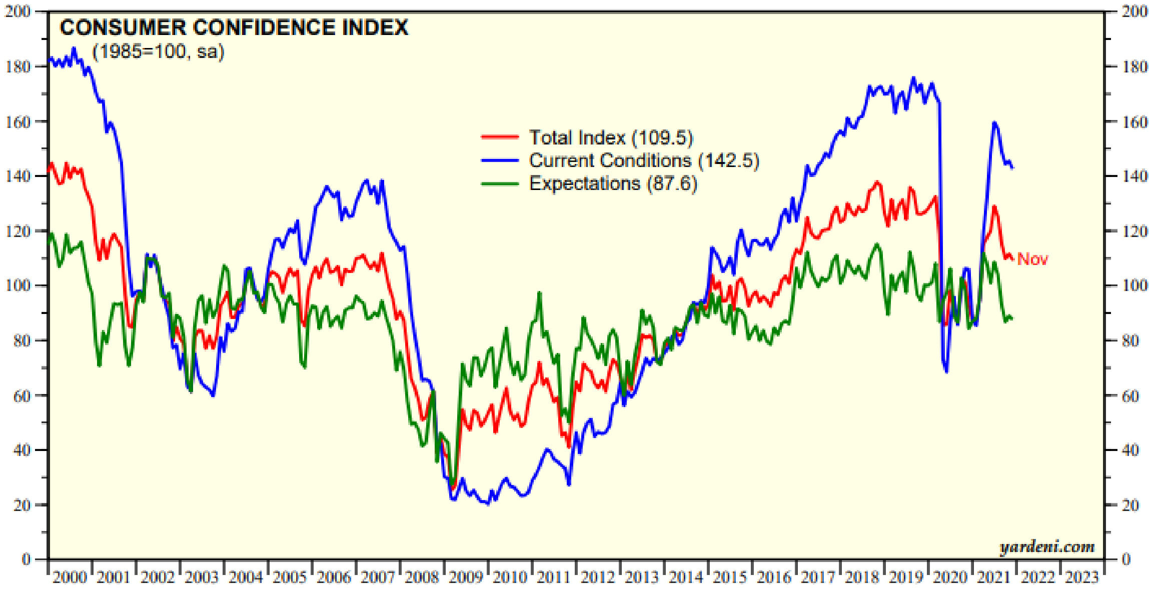
At the Federal Reserve's November meeting, officials expressed concern about inflation and said they would be willing to raise interest rates if prices keep rising. According to the minutes, "Various participants noted that the Committee should be prepared to adjust the pace of asset purchases and raise the target range for the federal funds rate sooner than participants currently anticipated if inflation continued to run higher than levels consistent with the Committee's objectives." The Fed said "substantial further progress" in the economy would allow a $15 billion a month reduction in purchases -- $10 billion in Treasuries and $5 billion in Mortgage-Backed Securities. Committee members expressed concern at the November meeting that continued high inflation readings could influence public perception and "expectations were becoming less well anchored" to the Fed's 2% longer-run target. In the past, the Fed has raised rates to slow the economy down but has said they are willing to allow inflation to run "hotter" than normal this cycle to let the employment situation improve. Powell later made remarks that that it would be "appropriate" for the central bank to consider accelerating the reduction of its bond purchases at its mid-December meeting. That may accelerate the Fed hiking short term rates in the spring versus the summer of 2022 as previously anticipated.

Fed Chair Jerome Powell told the House Financial Services Committee on December 1st that most economists regard the current price spikes, which have sent inflation readings to their highest pace in 30 years, as largely a response to the supply and demand disruptions brought on by the pandemic. He added that the Federal Reserve cannot be sure that price increases will slow in the second half of next year as previously stated. These statements contradict his frequently expressed views that these imbalances should fade as the pandemic eases, which should reduce inflation. Powell stated "The point is, we can't act as if we're sure of that. We're not at all sure of that. Inflation has been more persistent and higher than we've expected."

Consumer Confidence decreased slightly to 109.5 in November from a revised 111.6 in October. Consumer Confidence recently reached a peak of 128.9 in June. "Consumer confidence moderated in November, following a gain in October. Expectations about short-term growth prospects ticked up, but job and income prospects ticked down. Concerns about rising prices—and, to a lesser degree, the

Delta variant—were the primary drivers of the slight decline in confidence. Meanwhile, the proportion of consumers planning to purchase homes, automobiles, and major appliances over the next six months decreased. The Conference Board expects this to be a good holiday season for retailers and confidence levels suggest the economic expansion will continue into early 2022. However, both confidence and spending will likely face headwinds from rising prices and a potential resurgence of COVID-19 in the coming months," according to a statement from the Conference Board. The Present Situation Index (based on consumers' assessment of current business and labor market conditions) fell slightly to 142.5 in November from a revised 145.5 in October. The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) fell to 87.6 in November from a revised 89.0 in October. According to information from the BEA, the consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



Source: The Conference Board.

The Bloomberg U.S. Aggregate Bond Index (formerly the Bloomberg Barclays U.S. Aggregate Bond Index) returned 0.30% in November and has returned -1.29% on a year-to-date basis as of November 30, 2021, on the heels of a 7.51% return in 2020. The 10-Year U.S. Treasury ended November at 1.45% after ending October at 1.56% 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 November 30th, the spread is 88 basis points with the 2-Year increasing in yield 45 bps (0.57%) and the 10-Year increasing 53 basis points (1.45%). Option Adjusted Spreads (as represented by the Bloomberg Corporate Index) ended November at 99 basis points, 12 basis point wider than October. Spreads peaked in 2020 at 373 basis points on March 23, 2021, concurrent with the equity market lows.

West Texas Intermediate (WTI) finished November at $66.18 a barrel, falling sharply from October's closing price of $83.39 per barrel. However, WTI has increased over 44% so far in 2021 after beginning the year at $48.40 per barrel. Over the past year, WTI has increased over 53%. WTI is significantly higher than April 2020's close at $18.84 per barrel during the Saudi/Russia price war.

The Volatility Index (VIX) ended November at 27.19, increasing sharply from the October month end reading of 16.26. The VIX spiked on November 26th and 30th as concerns over the Omicron strain of COVID-19 and Fed Chairman Powell's comments that inflation was no longer to be considered transitory rattled the markets. The VIX peaked in 2021 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 slightly higher than 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