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Community Foundation™
for the Fox Valley Region

2Q 2021 MARKET UPDATE

F·E·G®
investment advisors

SECOND QUARTER 2021 MARKET SUMMARY

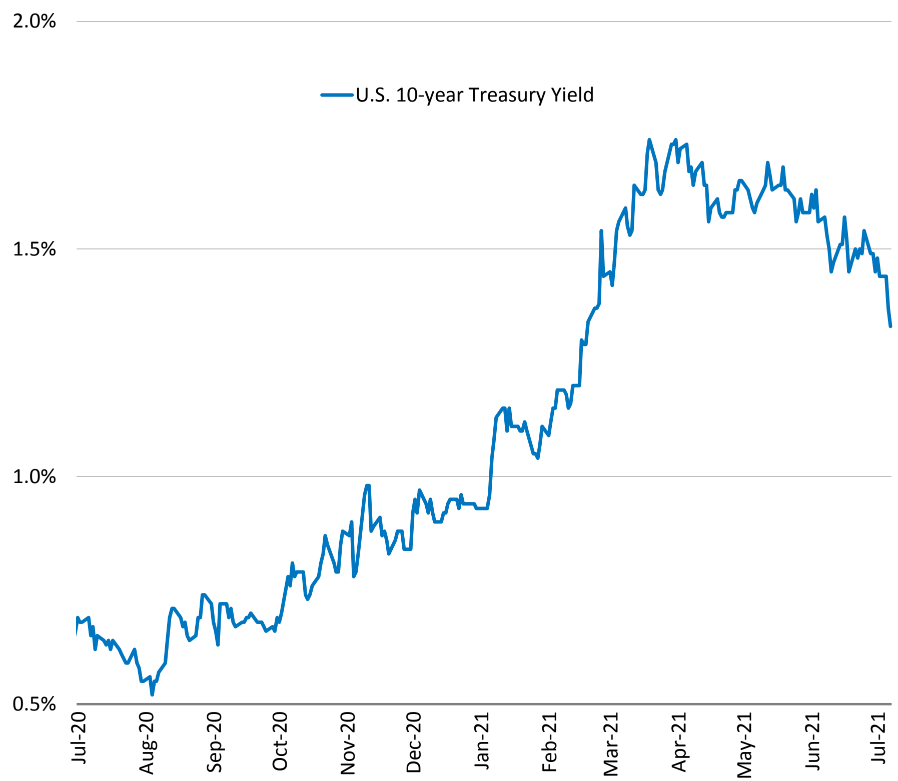
Market performance in the second quarter was broadly positive across most major asset classes and categories, with many themes resembling the pre-COVID-19 backdrop, particularly related to domestic large cap growth's strong performance. Inflationary concerns continued to remain at the forefront, as many realized inflation measures accelerated to multi-decade highs and are now materially above the Federal Reserve's (Fed) 2% target.

Global equities witnessed strong performance, with most major indices advancing to fresh record high price levels. Thematically, domestic large cap growth companies shined, strongly outperforming their smaller-cap and value-oriented counterparts. Bond returns were mostly positive across the board, with credit-oriented sectors finding support in the current lush liquidity backdrop and rate-sensitive sectors benefitting from technical forces—e.g., monthly Fed purchases—and a recent loss of momentum across incoming economic data versus expectations. Performance in the real assets space was overwhelmingly positive, with notable strong performance across energy-related sectors, as well as above-historical-average performance generated by real estate investment trusts (REITs), which had generally lagged competing risky asset categories off the COVID-19 bottom.

- The surge in bond yields that occurred during the first quarter gradually subsided throughout the second quarter. Yields have recently fallen more substantially to start July.
- The decline has been driven in large part by supply and demand technical pressures as the Fed's purchases exceeded the U.S. Treasury's net issuance in May, and investors have been covering short positions. Covering short positions indicates a tempering of expected inflation and growth measures that would be strong enough to push yields higher.

U.S. TREASURY YIELDS SUBSIDE FROM RECENT UPSWING

U.S. 10-year Treasury Yield



Data sources: Federal Reserve Bank of St. Louis and Board of Governors of the Federal Reserve System; Data as of July 8, 2021

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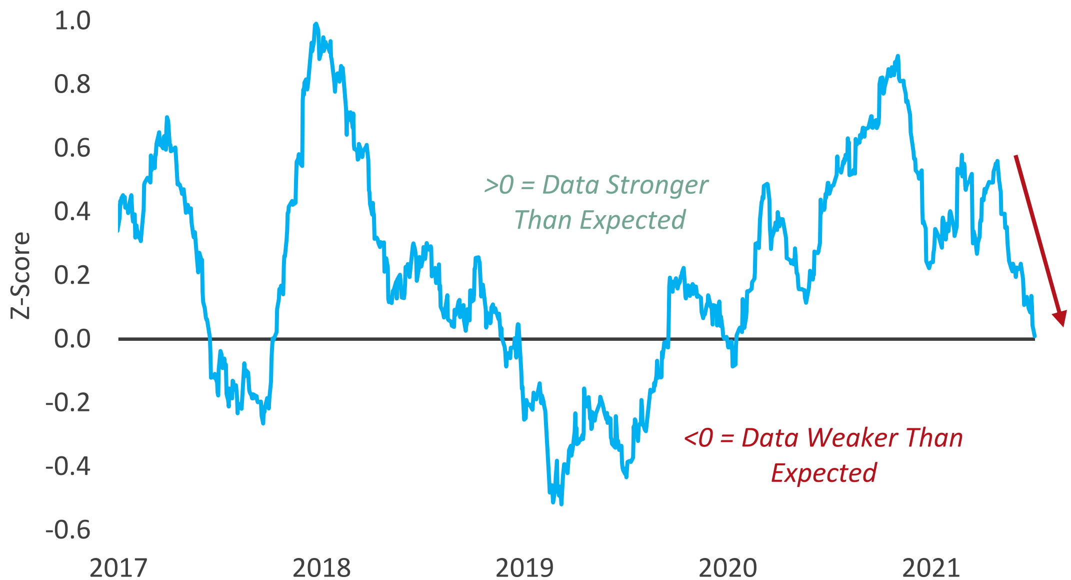
- Concerns of persistent above-trend inflation permeated the markets throughout the first half of 2021, driven by continued accommodative monetary and fiscal programs and the restart of global economic activity. With numerous inflation gauges advancing to multi-decade highs, an associated rise in sentiment for incrementally less-accommodative Fed policy has occurred.
- Recent surprises to the downside among incoming economic data, however, could complicate or potentially delay any Fed tightening initiatives. Economic surprise indices, which seek to approximate the magnitude by which incoming data is exceeding, meeting, or missing median sell-side estimates, lost considerable momentum in the second quarter, with Bloomberg's particular composite sliding to pre-COVID-19 lows.

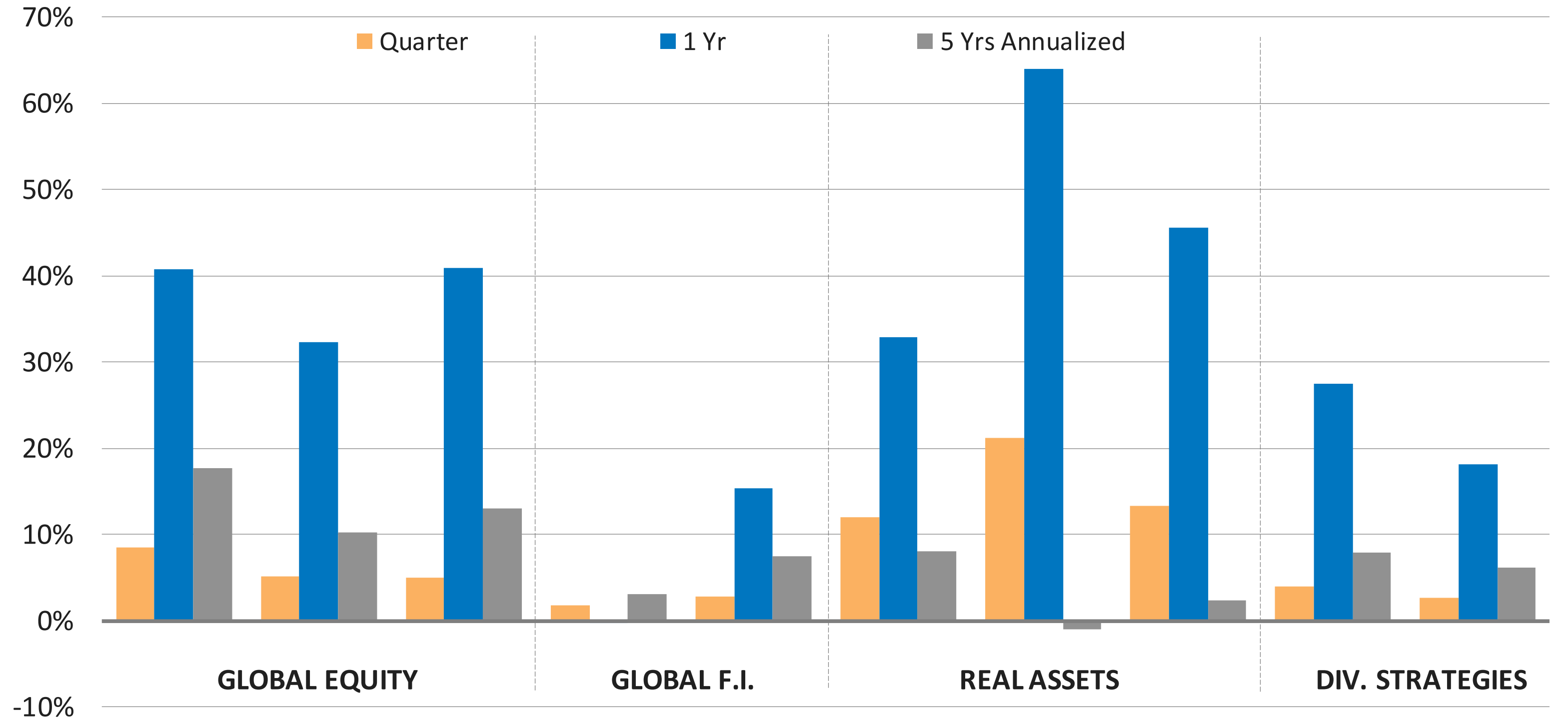
INCOMING DATA HAS RECENTLY SURPRISED TO THE DOWNSIDE

Bloomberg U.S. Economic Surprise Index



Data source: Bloomberg, L.P.; Data as of July 6, 2021

MAJOR ASSET CLASS RETURNS



	S&P 500 Index	MSCI EAFE Index	MSCI Emerging Mkts Index	Blmbrg Barclays U.S. Agg Index	Blmbrg Barclays HY Index	FTSE NAREIT All Equity Index	Alerian MLP Index	Blmbrg Cmdty Index	HFRI Fund Wtd Comp. Index	HFRI Fund of Fund Index
Quarter	8.5%	5.2%	5.0%	1.8%	2.7%	12.0%	21.2%	13.3%	4.0%	2.7%
1 Yr	40.8%	32.4%	40.9%	-0.3%	15.4%	32.8%	64.0%	45.6%	27.4%	18.1%
5 Yrs Annualized	17.6%	10.3%	13.0%	3.0%	7.5%	8.1%	-1.1%	2.4%	7.9%	6.1%

Data sources: Lipper and HedgeFund Research

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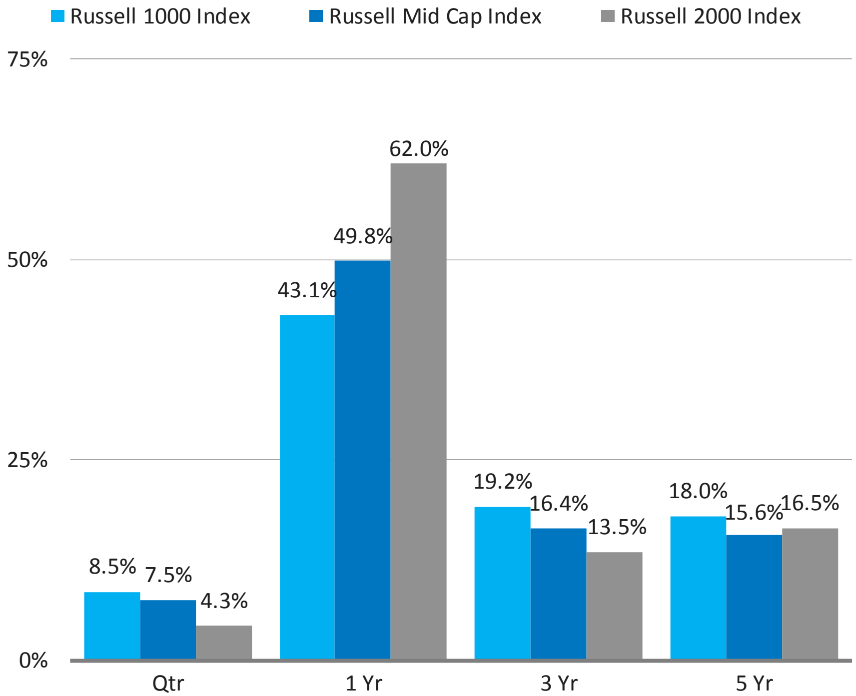
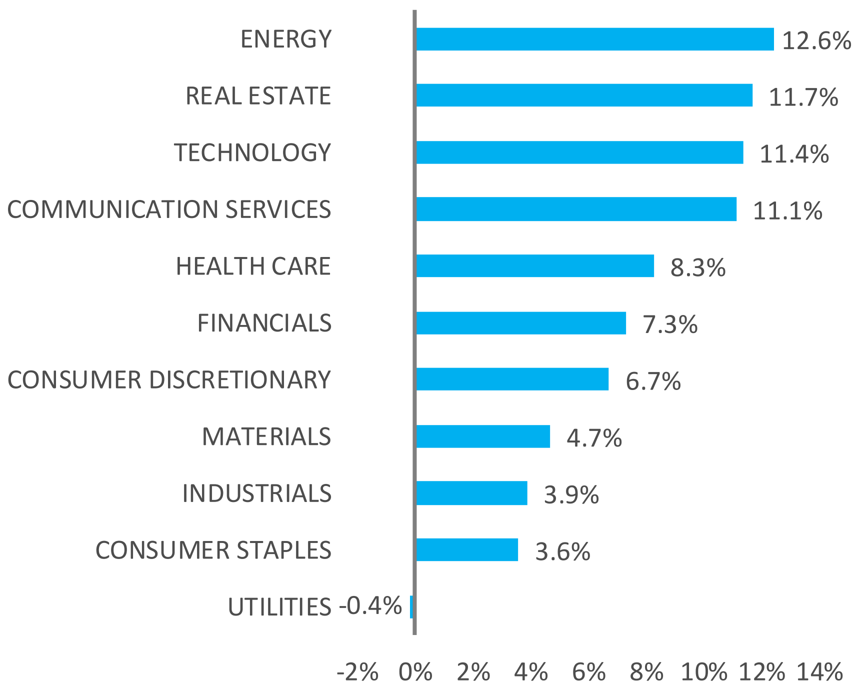
- Global equities gained in the second quarter of 2021, as vaccination campaigns accelerated in most developed nations, specifically throughout the Western world. The U.S. economy showed signs of strength during the second quarter as economic restrictions were relaxed and consumption improved. Inflation remained a focal point for investors as the May measure of the core Consumer Price Index rose toward 4% in the largest increase since June 1992. Despite inflation concerns, the U.S. equity market continued to climb with the S&P 500 Index hitting 8 new closing highs in June's 22 trading days.
- The gaps in performance between value and growth stocks and small cap and large cap stocks narrowed over the second quarter, specifically in June. Large and mid-cap growth stocks outperformed their respective value counterparts; however, small cap value's advantage persisted, outperforming small cap growth for the quarter.

LARGE CAP, MID CAP, AND SMALL CAP



Data source: Russell

RUSSELL 3000 SECTOR PERFORMANCE



Data source: Russell

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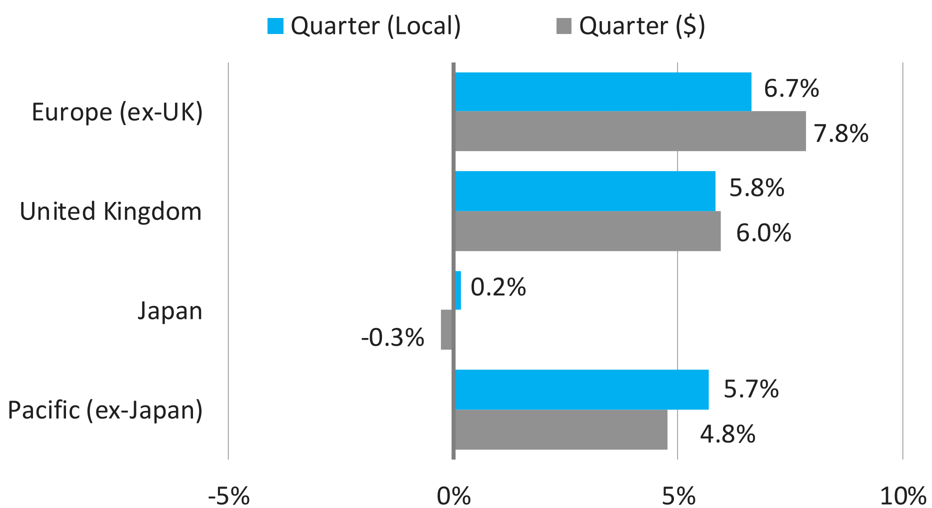
GLOBAL EQUITY, NON-U.S.

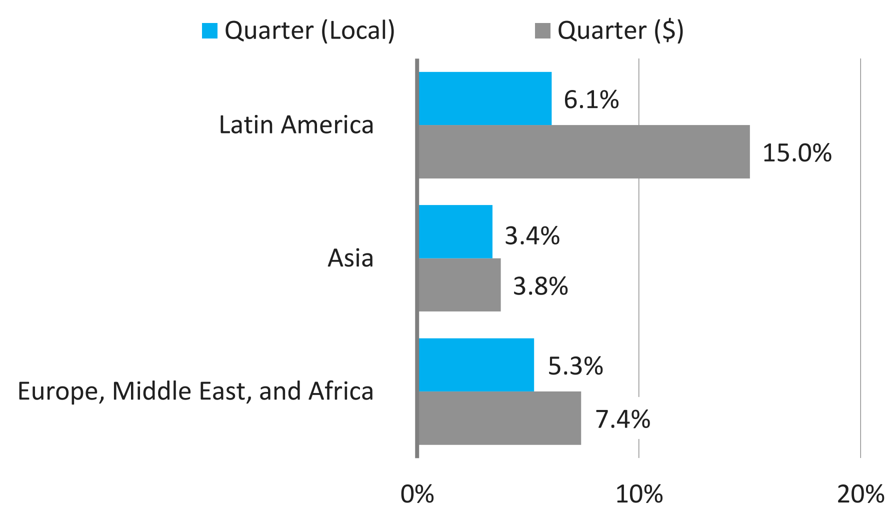
- European equities performed well as companies posted strong earnings and vaccine distribution accelerated. UK equities lagged European counterparts, despite notable performance in the health care and technology sectors. According to Schroders, an increasing number of fund managers reported having an overweight allocation to the UK for the first time since 2014, as the region has seen an improvement in global sentiment since the signing of the Brexit deal.
- Japanese equities continued to underperform relative to other developed markets. Headwinds included an economic contraction of 3.9% and a sluggish rollout of vaccines that extended COVID-19-related restrictions. Industrial production data came in below expectations as the global semiconductor shortage affected the Japanese automotive production industry, which comprises 89% of the country's entire manufacturing sector.
- Emerging markets posted a strong return over the second quarter despite a sell-off in May in the face of higher-than-expected U.S. inflation data, which acted as a short-term headwind for economies that peg their currencies against the U.S. dollar. Brazil's strong performance over the quarter was amplified by the appreciation of its currency. Meanwhile, many Asian countries, including South Korea and China, underperformed other emerging market countries due in part to ineffective vaccination campaigns.

MSCI EAFE REGIONAL QUARTERLY RETURNS



Data source: MSCI Barra

MSCI EM REGIONAL QUARTERLY RETURNS

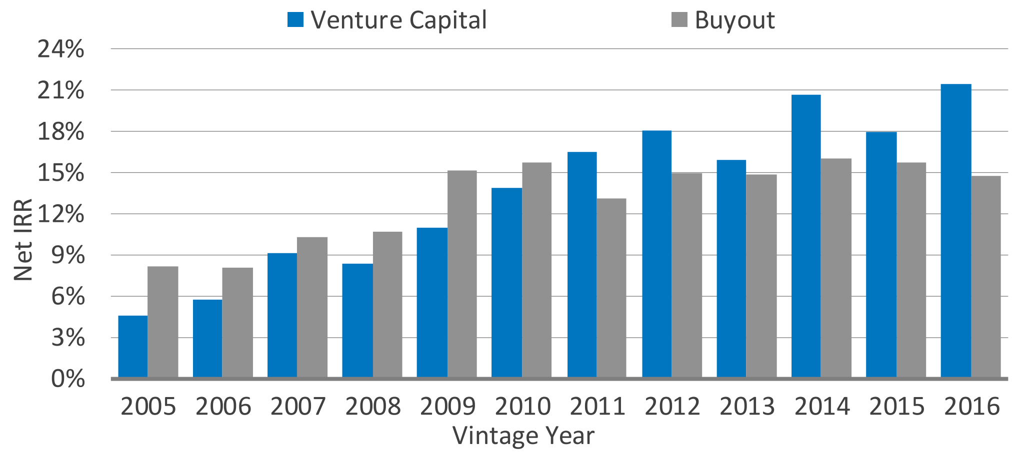


Data source: MSCI Barra

- Private equity reports performance on a lag and the latest data available are through December 31, 2020. Despite pandemic concerns, performance for both venture capital and buyout funds remained strong during 2020.
- Median private equity returns for both venture capital and buyout funds have generally been in the mid- to upper-teens since the 2010 vintage years.
- Median buyout fund performance was stronger than the median venture capital fund from the mid-2000s through 2010 vintage years. In the subsequent decade's vintage years, this dynamic reversed, with venture generally performing better than buyout. Recent vintages for venture capital funds benefited from a robust initial public offering (IPO) market and continued interest from investors.
- After a tepid 2020, fundraising activity for venture capital and buyout funds rebounded in the first half of 2021. Fundraising can be volatile quarter-over-quarter. If this fundraising pace continues, commitments to both venture capital and buyout funds are expected to surpass recent record highs.

MEDIAN VENTURE CAPITAL AND BUYOUT VINTAGE YEAR IRR

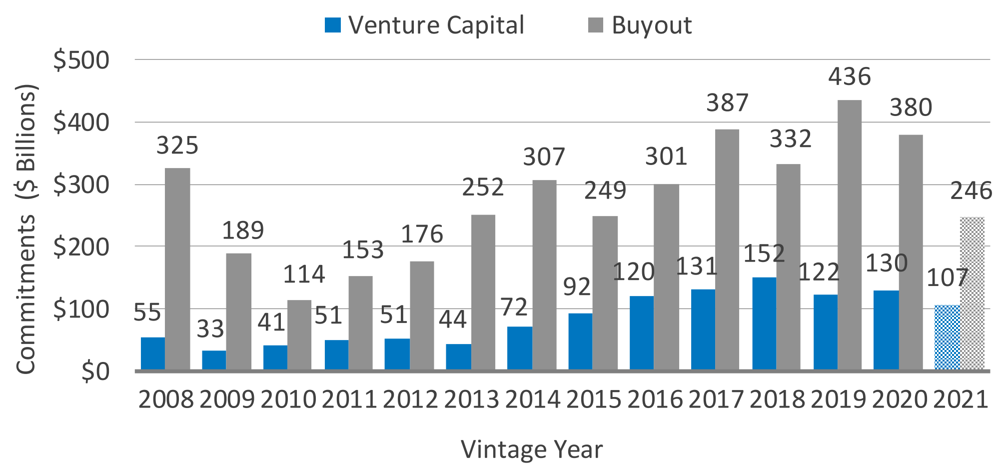
As of December 31, 2020



Data source: Thomson One; The most recent private equity return information available is through December 31, 2020

VENTURE CAPITAL AND BUYOUT FUNDRAISING ACTIVITY

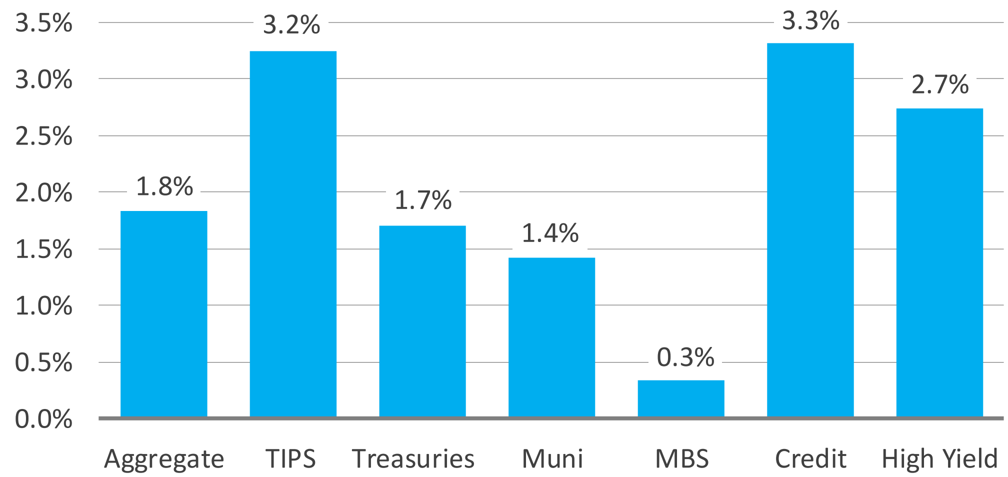
As of March 31, 2021



Data source: Pitchbook

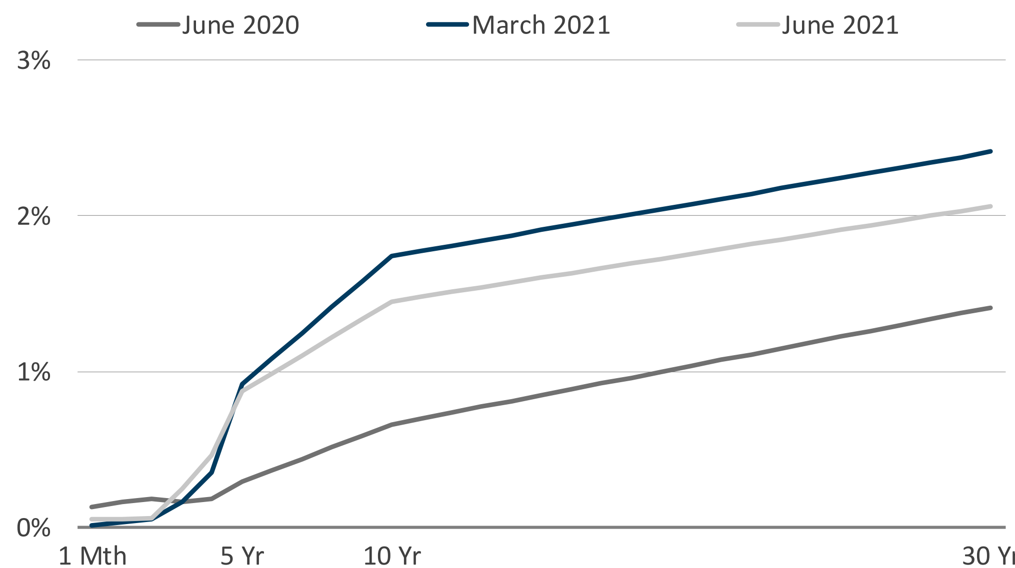
- 10-year Treasury yields fell by 29 basis points (bps) during the second quarter following a sharp jump during the first quarter. The downward move came as realized inflation exceeded estimates while forward inflation expectations softened, and employment data was weaker than anticipated.
- Treasury Inflation Protected Securities (TIPS) outperformed nominal Treasuries by 154 bps as 10-year breakeven inflation rates peaked at 2.54%, their highest level since the "Taper Tantrum" of 2013, before declining to finish the quarter at 2.32%. Market-based inflation expectations cooled towards the end of the quarter when the market began to reassess the potential for further inflation acceleration.
- As Treasury yields fell, duration drove performance in credit more than spread compression. Longer-duration fixed-rate credit assets overcame a yield disadvantage to outperform lower-quality, higher-yielding credit assets, which tend to carry a shorter interest rate duration.

BLOOMBERG BARCLAYS U.S. FIXED INCOME INDEX RETURNS



Data source: Barclays

U.S. TREASURY YIELD CURVE



Data source: Bloomberg, L.P.

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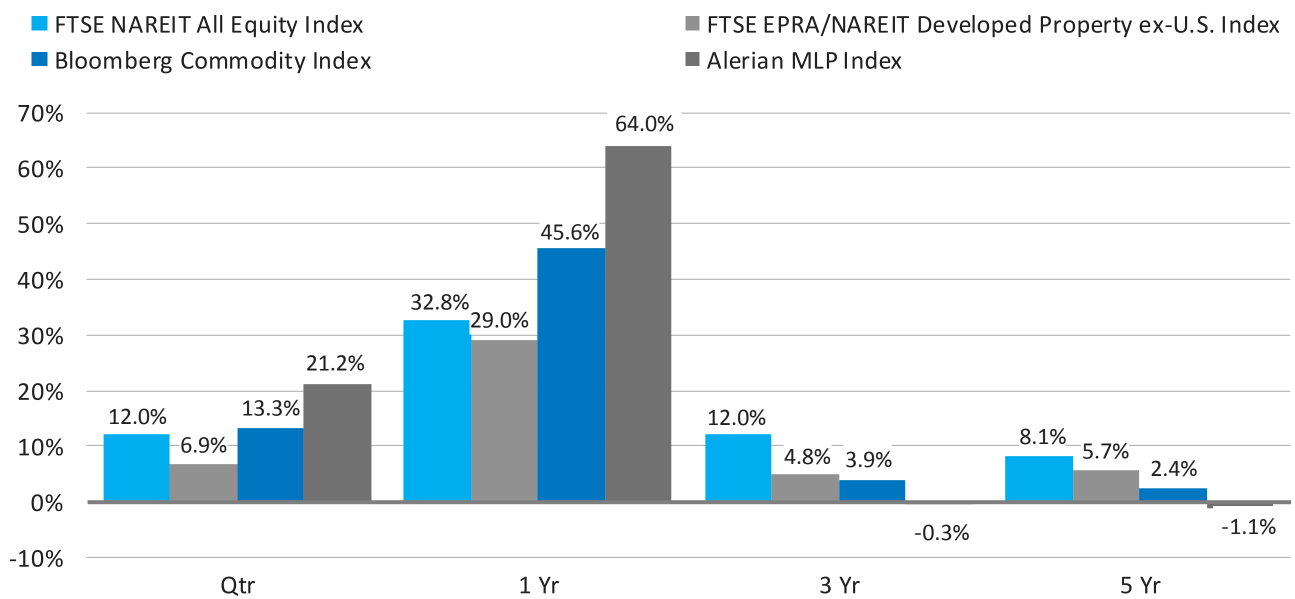
- U.S. REITs gained 12.0% over the quarter, bringing year-to-date returns to 21.3%. Returns for nearly every property type were positive, except for lodging and timber REITs. Lodging REITs continued to languish due in part to continued delays in the resumption of business travel. Despite disappointing management expectations, data centers made news in early June with the all-cash take private transaction of QTS Realty Trust by Blackstone. The purchase price of $78/share represented a 21% premium over the market price.
- Oil prices reached $73.47/bbl by the end of the quarter, the highest level seen since October 2018. Optimism around the economy reopening, combined with relatively tight supply, contributed to the increase. Although U.S. rig counts continue to improve, the recovery in well development has slowed and activity is still markedly below pre-pandemic levels.
- Master limited partnerships (MLPs), as measured by the Alerian MLP Total Return Index, posted sizeable gains during the quarter, driven by strength in the broad energy sector and increases in oil and natural gas prices.

PUBLIC REAL ASSETS – REAL ESTATE, COMMODITIES, AND MLPs



Data sources: NAREIT, Bloomberg, L.P., and Alerian

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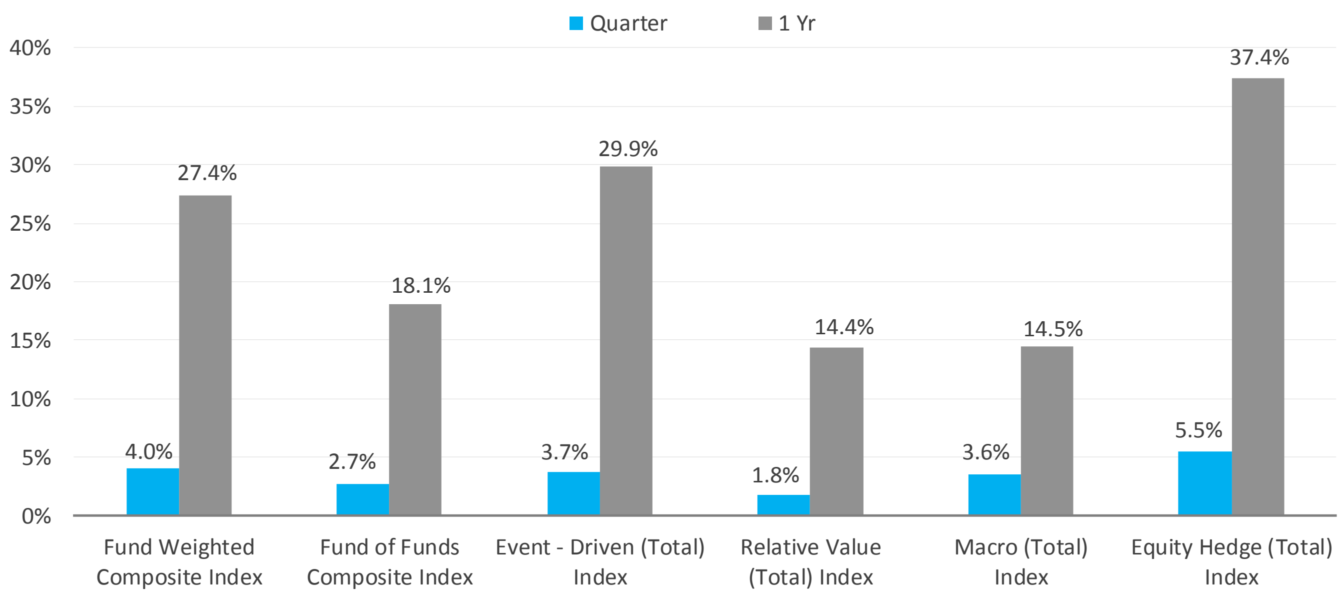
DIVERSIFYING STRATEGIES, HEDGE FUNDS

- Hedge funds continued to generate strong performance through the second quarter of 2021. The reopening of economies globally continued to gain momentum despite fears surrounding the spread of COVID-19 variants, as well as uncertainty regarding signs of inflation in North American and European countries.
- Equity hedge managers led core hedge fund strategies, driven by record-high domestic equity markets, even as volatility and inflation concerns continued to elevate. High-beta and long-biased quantitative, technology, and multi-strategies led performance for the quarter.
- Event-driven managers also propelled strong hedge fund performance as typical event markets continued to recover from their post-lockdown lows. Distressed/restructuring and activist strategies led sub-strategy performance.
- Global macro performance continued its positive run through the second quarter, led by discretionary thematic and commodity strategies that benefited from increased economic activity.

HFRI INDICES PERFORMANCE RETURNS IN U.S. DOLLARS



Data source: HFRI

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