2021 Mid-Year Capital Markets Update

July 2021

Syntrinsic Investment Committee

Syntrinsic Investment Counsel
3840 York Street, Suite 100
Denver, Colorado 80205
303.296.7100
www.Syntrinsic.com

Executive Summary

In the past six months, the economy has almost fully reopened, US initial jobless claims have dropped nearly to pre-COVID-19 crisis levels, the S&P 500 is up 15% (as of 6/30/21), consumer confidence is improving, and US financial conditions are strong. The extreme fiscal and monetary response provided by governments and central banks globally not only has supported the economy but also provided a kick-start to economic activity that has not been seen during previous recoveries. The fiscal response in the US alone has been greater in absolute terms and relative to the size of the economy than evidenced in the last fifty years, boosting US household income by 8%. In addition, the US Federal Reserve's (Fed's) major change in its monetary policy strategy to average inflation targeting from inflation targeting is keeping interest rates lower than anticipated even as inflation rises. Therefore, the recession/recovery playbook seen in the last three recessions (1990, 2001, and 2008-09) is not applicable, as we are in a new paradigm resulting from tremendous economic stimulus. For example, we are currently at projected levels of GDP growth and inflation not witnessed in years, despite unemployment that is running well above pre-pandemic levels. As a result of this new paradigm, some major global macroeconomic themes have arisen that are influencing the economy and underpin our near-term sentiment.

Inflation, monetary policy, global growth, and China are themes that have been at the forefront of our Investment Committee's discussions and influence our views on the investment markets over the near-term. Overall, we expect continued accommodative monetary and fiscal policy strategies to support prolonged economic improvement, so our near-term sentiment remains relatively positive for risk assets. However, we expect to see more volatility in the investment markets as the markets navigate how changing unemployment trends, increasing fiscal debt, and Fed policies affect inflation and interest rates.

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Akasha Absher
President

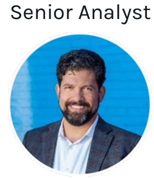
Jim Brauer, CIMA, CFP
Director, Investor Relations & Consulting

Alex Haun, CFA, CAIA
Senior Analyst

Phil Kirshman, CFA, CFP
Chief Impact Officer, Consultant

Jennifer Leonard, CFA
Chief Investment Officer

Robin Meyer, CFA
Senior Analyst



Ben Valore-Caplan
Chief Executive Officer

Near-Term Sentiment

Asset Class/Segment	1Q 2021 Near-Term Sentiment	3Q 2021 Near-Term Sentiment
Global Equities	**Neutral/Positive**	**Neutral/Positive**
US	Neutral/Positive	Neutral/Positive
Non-US Developed	Neutral	Neutral
Emerging Markets	Neutral/Positive	Neutral/Positive
Global Fixed Income	**Neutral**	**Neutral**
Short-Term Bond	N/A	**Neutral**
Core Bond	Neutral/Negative	Neutral/Negative
Core Plus Bond	Neutral/Positive	Neutral/Positive
Non-Developed US Bond	Negative	Negative
Emerging Markets Bond	Neutral	Neutral
Real Assets	**Negative**	**Negative**
Real Estate	Negative	**Neutral/Negative**
Commodities	Negative	Negative
Hedge Fund Strategies	**Neutral**	**Neutral**
Private Equity	**Neutral/Positive**	**Neutral/Positive**
Private Debt	**Neutral/Positive**	**Neutral/Positive**

The near-term sentiment remains largely aligned with the sentiment we published six months ago, with two exceptions. We have upgraded our near-term sentiment on Real Estate to Neutral/Negative from Negative, reflecting the fact that an increase in global growth should be supportive of the real estate markets. We do, however, remain concerned that relatively weak labor markets and lingering uncertainties about future demand in certain real estate sectors could be a headwind for this segment, which keeps us from upgrading the asset class above the Neutral/Negative level. We also evaluated Short-Term Bonds separately for the first time. We view these as Neutral, given low total return levels, but do acknowledge that the lack of interest rate sensitivity with these securities could be beneficial to portfolios requiring short-term liquidity or very low risk tolerances.

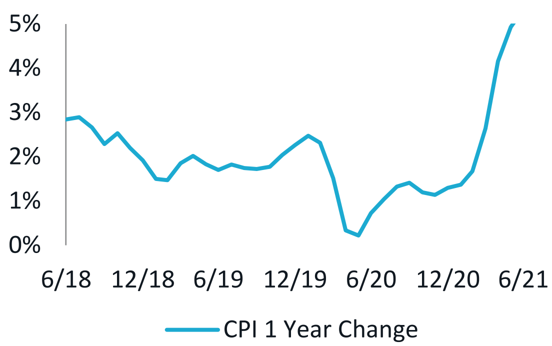
Global Macroeconomic Themes

Inflation expectations measured

We expect inflation to be mostly transitory, but some measure of inflation will be good for the economy and contribute to sustainable growth. Maintain Global Equity overweight.

A recession is defined as a significant decline in economic activity. That decline typically is caused by a reduction in aggregate demand from things such as economic shocks, declining consumer confidence, asset bubbles, deflation, and other factors. Telltale signs of a recession are a decrease in gross domestic product (GDP), elevated unemployment, a decline in consumer income, and slowing manufacturing growth. The recession that resulted from the "Great Lockdown" because of the pandemic has been unlike any other recession in recent history. Even with extremely high levels of unemployment, personal income and savings rose for consumers (see Exhibit 8: US Economic Update) and the economic restart and rebound of aggregate demand has been swift. As Federal Reserve Chairman, Jerome Powell, stated, "there is no other example of reopening a $20 trillion economy with lots of fiscal and monetary support." This infusion of fiscal and monetary support produced a significant increase in demand for goods and services that, coupled with pandemic related bottlenecks in supply chains and supply constraints, has led to year over year (YoY) headline changes in the widely used inflationary measure, the Consumer Price Index (CPI), of 5.4% in June. This change exceeded consensus market expectations and has reached levels unobserved in 30 years (see Exhibit 1: Consumer Price Index), causing investors to question whether this inflation is transitory or permanent. We expect that we will continue to see higher inflation from pre-pandemic levels, most of which will be transitory, but anticipate that some measure of increased inflation will remain. We anticipate that inflation will be good for the economy and contribute to sustainable economic growth, productive employment, and long-term optimal interest rates. This positive view supports our **Neutral/Positive** near-term outlook for Global Equities. However, even though we see some increase in inflation long-term, we do not see enough to justify adding a dedicated public markets allocation to real assets given the inherent long-term risks in commodities and real estate.

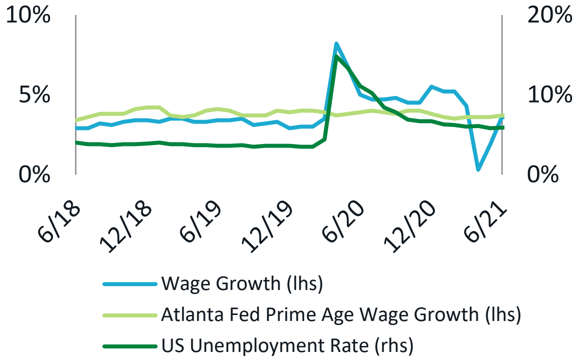
Exhibit 1: Consumer Price Index



Source: Bloomberg

Several sectors such as food, energy, housing, travel, and leisure were significantly impacted by the pandemic because of supply chain bottlenecks, shutdowns, and lower employment that affected production and availability of services. These factors led to some of the highest price increases observed, causing a significant "base effect." A base effect can happen when inflation in the corresponding period of the previous year was either extremely low or high, which leads to even a small rise or decline in inflation creating an artificially significant year-over-year (YOY) comparison. These effects tend to be transitory in nature and have limited impact on the long-term profitability of companies.

Exhibit 2: US Unemployment, Labor Costs & Wage Growth

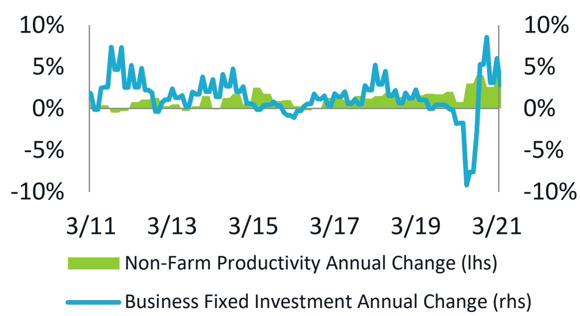


Source: Bloomberg, US Bureau of Labor Statistics, Federal Reserve Bank of Atlanta

In addition to the rising aggregate demand for goods and services, labor market dynamics have also put upward pressure on inflation, particularly wage inflation. The combination of pandemic related stimulus, a lack of childcare, and fear about returning to the workplace has created extraordinary labor market dynamics not witnessed in recent history. Currently in the US, unemployment remains high at 5.9% as of June 30, 2021, versus 3.5% pre-pandemic, the labor force is shrinking, and job openings are at record highs, nearly matching the level of workers unemployed. These factors have triggered concerns from market participants that there will be a structural rise in wages (wage inflation), lowering companies' long-term profitability. This structural change has yet to materialize (see Exhibit 2: US Unemployment and Wages) and might not. While we understand the concerns and think these dynamics will cause a modest increase in wages, we believe, like the Fed, that increasing automation, improving labor force participation, a reopening of schools and daycare, demographic trends, and abating unemployment benefits will keep a lid on significant increases in wages. Also, given that a meaningful number of people have dropped out of the labor force (particularly at the lower-earning end of the spectrum) and are therefore not incorporated into the average calculation, we remain skeptical that some of the measurements of wage inflation may be inherently skewed - as the denominator has changed, rather than the numerator.

Productivity has increased during the pandemic, both in the US and globally, and this growth could impact inflation as well. A recent study by Harvard Business Review (12/2020) estimated that the best organizations have seen productive time increase by 5% or more. It is assumed that the new technologies leveraged during the pandemic have been a factor in increased productivity. Whether or not this productivity boost is sustainable once employees return to the office remains to be seen, but typically, higher productivity could mitigate higher structural inflation.

Exhibit 3: US Productivity and Business Fixed Investment



Source: Bloomberg, US Bureau of Labor Statistics

After reviewing the base effect, the potential for higher productivity, wage pressures, and factors that have historically weighed on inflation, we believe that overall inflation will not be meaningfully above the Fed's target for an extended period and thus recent increases are most likely transitory. However, as mentioned previously, we do anticipate a modest rise in wages over the next couple of years as the economy grows and US economic policy shifts to focus on full inclusive employment. Even so, increasing wages can have a positive effect on consumer spending and thus economic growth, as higher wages generate a higher level of disposable income for consumers and enhances the long-term standard of living for many individuals.

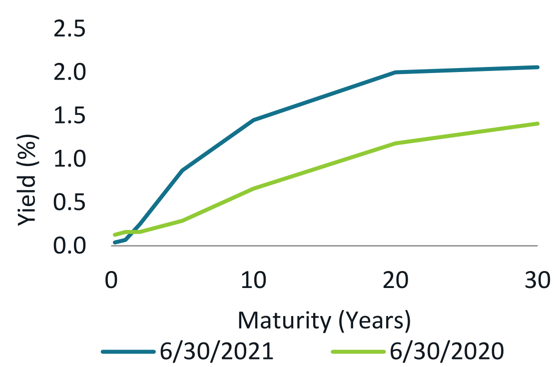
Accommodative monetary policy remains

We anticipate that continued accommodative monetary policy will keep rates lower for longer. As a result, Core Bonds remain unattractive. We prefer Core Plus Bonds or Private Debt for additional yield. For more conservative investors, we prefer Short-Term Bonds.

The investment markets have been trying to anticipate the Fed's monetary policy strategy and the subsequent path of the Fed funds rate. The major shift in the Fed's monetary policy stance to average inflation targeting of 2% from a fixed inflation target of 2% has caused some confusion and volatility in the market as investors try to digest what this new regime means for the path of inflation and interest rates. Additionally, the desire of the Fed to see full inclusive employment, while applauded in many quarters, has been hard for market participants to interpret given the current labor market dynamics (see Inflation expectations measured, page 5). Earlier this month, the Fed conceded that inflation was trending higher than expected and could lead to a rise in interest rates earlier than previously stated. Previously, the Fed had indicated that rates would increase in late 2024; now, the Fed is telegraphing that interest rates could rise as early as 2023.

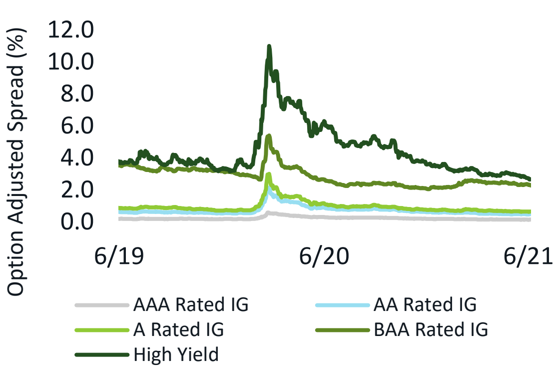
In addition to keeping the Fed funds rate anchored at zero, the Fed has been purchasing fixed income debt (US Treasuries and mortgage-backed securities) to keep interest rates low across the yield curve. As recently as June, the Fed has intimated that they will continue to purchase Treasury and mortgage-backed securities until the economy recovers from the pandemic to keep long-term interest rates low. As a result of the Fed's intervention, yields, while slightly higher than in 2020, are still low across the board, and spreads on corporate debt are at extremely tight levels. At current inflation levels, real yields are negative for risk-free assets. Negative real yields and tight spreads reinforces our **Neutral/Negative** view on the Core Bond segment. This low-yield environment in Treasuries, agencies, and investment grade corporates caused by accommodative monetary policy has driven investors towards higher yielding debt, driving down riskier bond market segment spreads to all-time low levels. Despite the tight spreads, the relative attractiveness of fixed income debt in the Core Bond Plus segment with higher yields and lower duration cause us to maintain our **Neutral/Positive** view.

Exhibit 4: US Treasury Yield Curve



Source: Bloomberg, US Treasury

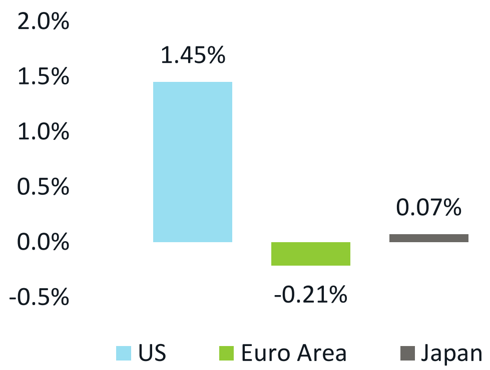
Exhibit 5: US Corporate Credit Spreads



Source: Bloomberg

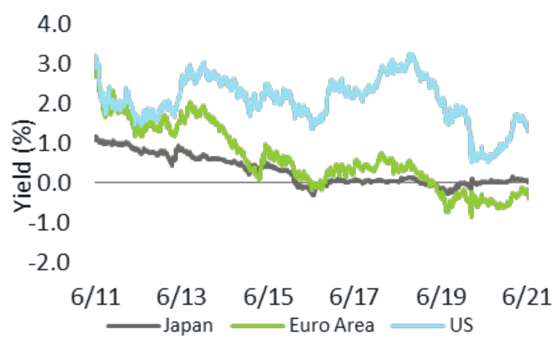
Global central bank policies—particularly those of the Fed—have been influencing the global financial markets as well. For investors, government issued debt in Europe and Japan remain relatively unattractive with the negative nominal (not adjusted for inflation) and real yields on the many countries' 10-year benchmark issues, particularly when compared to the similar duration US Treasuries (See Exhibit 6: 10-Year Sovereign Yields). This relative unattractiveness would be exacerbated if the Fed became less accommodative and increases rates or reduces purchasing fixed income debt. Further, in June 2021, the European Central Bank (ECB) reaffirmed that there would be no rate increases or reduction in purchasing fixed income debt. This pronouncement, combined with the threat of additional COVID waves in certain European markets and Japan that could result in further lockdowns and hits to productivity, leads us to maintain our **Negative** view on Non-US Developed Bonds.

Exhibit 7: Developed Government Bond 10-Year Yields as June 30, 2021



Source: Bloomberg, Ministry of Finance Japan

Exhibit 6: 10-Year Sovereign Yields



Source: Bloomberg

Global growth drivers

Extremely accommodative fiscal policy globally stabilized the economy in 2020, boosted incomes, preserved employment, and provided the global economy with the fuel needed to kick-start this swift recovery and reopening. Global growth is expected to accelerate to 5.6% in 2021 based on the strength of the recovery in the US and China (Source: World Bank). Improving consumer confidence, strong earnings growth, and continued accommodative fiscal and monetary policy keeps us relatively positive on risk assets.

Global Equities are attractive amid potential for more fiscal stimulus, but risks remain, and we favor US Equities with a quality bias.

In the US, the consensus estimate for 2021 gross domestic product (GDP) is now 7.0%, up from previous estimates of 6.5%, and corporate profits are strong. In the 2Q21, YoY earnings growth of the S&P 500 was 51.6% (Source: Bloomberg), which marks the highest YoY earnings growth rate reported by the index since 4Q09, if revisions do not drop the figure. The strong US GDP estimate and earnings growth reflect the productivity increases witnessed globally over the past year and recent surges in spending from fiscal transfers as the economy has reopened. As result, indicators of growth, labor markets, and consumer confidence have shown positive momentum (see Exhibit 8).

Exhibit 8: US Economic Update Summary

	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	6/30/20	Momentum
GDP Growth (Annul.)	5%*	7%*	9.7%*	6.4%	4.3%	33.4%	-31.4%	↑
Productivity	...	...	...	4.1%	2.6%	4.0%	3.0%	↑

	6/30/21	5/31/21	4/30/21	3/31/21	2/28/21	1/31/21	12/31/20	Momentum
CB Lead Indicator YoY%	...	14.7%	16.7%	7.9%	-1.6%	-1.7%	-1.6%	↓
ISM Mfg.	60.6	61.2	60.7	64.7	60.8	58.7	60.5	↓
ISM Non-Mfg.	60.1	64.0	62.7	63.7	55.3	58.7	57.7	↓
Personal Outlays YoY%	...	18.1%	27.7%	10.8%	-1.3%	-0.4%	-3.0%	↓
Personal Income YoY%	...	1.5%	-0.9%	33.4%	6.3%	16.0%	5.0%	↑

	6/30/21	5/31/21	4/30/21	3/31/21	2/28/21	1/31/21	12/31/20	Momentum
Unemployment	5.9%	5.8%	6.1%	6.0%	6.2%	6.3%	6.7%	↑
U-6 Unemployment	9.8%	10.2%	10.4%	10.7%	11.1%	11.1%	11.7%	↓
Wage Growth YoY	3.6%	1.9%	0.3%	4.3%	5.2%	5.2%	5.5%	↑

	6/30/21	5/31/21	4/30/21	3/31/21	2/28/21	1/31/21	12/31/20	Momentum
U of M Consumer	85.5	82.9	88.3	84.9	76.8	79.0	80.7	↑
CB Consumer	127.3	120.0	117.5	114.9	95.2	87.1	87.1	↑

	6/30/21	5/31/21	4/30/21	3/31/21	2/28/21	1/31/21	12/31/20	Momentum
Financial Conditions	1.3	1.3	1.1	0.9	0.5	0.1	0.6	↑

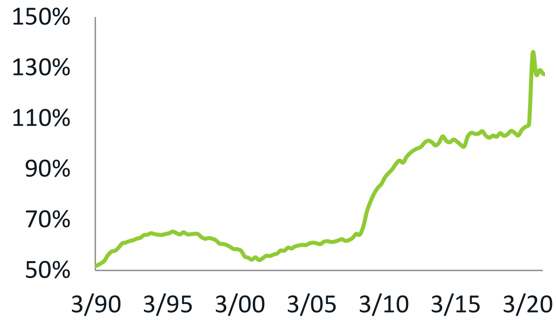
Source: Bloomberg, Bureau of Labor Statistics, Department of Labor, University of Michigan, Conference Board, Institute of Supply Management

*Survey Estimates

Looking out over the coming year, profitability and continued fiscal and monetary expansion will be the key drivers of sustainable growth. We anticipate some wage increases but expect the Fed to remain accommodative even in the face of slightly higher inflation. Rising wages and a modest rise in long-term interest rates will put some pressure on corporate profitability but healthy consumer incomes and balance sheets from continued stimulus should support demand for goods and services.

As mentioned previously, the fiscal response in 2020 was greater in absolute and relative terms than the last three recessions. We expect a continued push for fiscal stimulus over the coming years with US President Biden's economic policy agenda, or what has been called "Bidenomics," the key priorities of which are investment in infrastructure, education, childcare, climate change, and job creation. We believe this shift in fiscal stance to less concern about deficits and more willingness to expand the balance sheet could bolster longer-term growth.

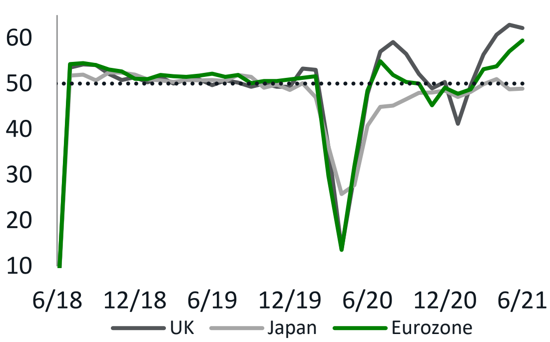
Exhibit 9: US Federal Debt to Gross Domestic Product



Source: Bloomberg

While we anticipate that not all of Biden's agenda will pass, we do see a greater than 50% chance that the current bipartisan bill on infrastructure could pass. This bill will provide for investments in clean transportation, clean water, universal broadband, clean power, and resilience to climate change. Successfully implemented, this effort could create jobs, fund the green transition, and increase overall productivity which could boost economic growth, depending on how the plan is funded. It is worth noting that even with the unprecedented stimulus that increased US government Debt/GDP to 127.5% (see Exhibit 9), given the low interest rate environment the debt service cost is still manageable at 1.5% of debt outstanding versus 3.2% in the 1990s (Source: Goldman Sachs). Strong consumer demand, manageable debt burdens, stable corporate profit margins, and the potential for continued economic stimulus keeps us **Neutral/Positive** on US Equities.

Exhibit 10: Non-US Developed PMI Composite Surveys



Source: Bloomberg

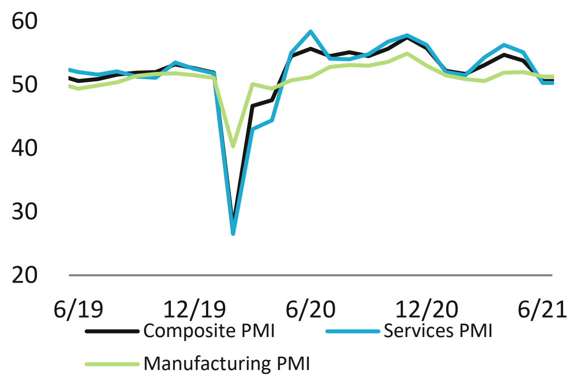
Outside of the US, improving consumer confidence, strong results in the Purchasing Manager Indexes (PMI), unemployment, and continued accommodative monetary policy will support underlying growth in each region. However, risks remain in Non-US developed economies as the countries navigate the ongoing COVID-19 pandemic with variability in the success and progress of vaccination efforts, confusion surrounding foreign travel restrictions, and delays in the easing of pandemic-related consumer restrictions. These uncertainties have slowed the recovery and lead us to maintain a **Neutral** stance on Non-US Developed Equities.

China's impact

China has experienced solid post-pandemic growth and we expect that growth will positively impact the emerging markets more broadly. Geopolitical risks remain but attractive valuations keep us Neutral/Positive on the Emerging Markets.

China's growth has accelerated post-pandemic, with solid data across industrial output, retail sales, and fixed-asset investment. The Chinese PMI, as seen in Exhibit 11, has recovered to around pre-pandemic levels. The pick-up in consumer spending and investment—even as the Chinese central bank moved to boost bank liquidity—has caused the market to view the economic recovery as on track to post solid growth in 2021. Analysts' estimates are for 2021 GDP growth of approximately 9.1%, up from previous estimates of 8.5% (Source: Bloomberg).

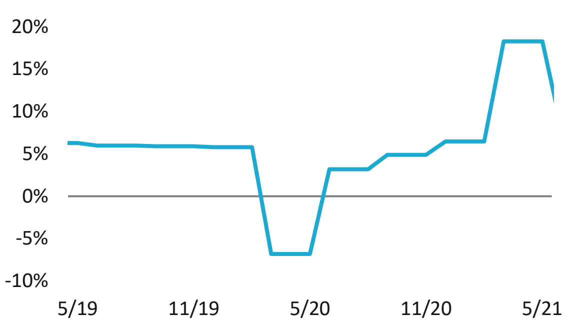
Exhibit 11: China PMI



Source: Bloomberg, Caixin

China's position as the second largest economy in the world and the largest emerging markets economy means that China's economic prospects and relations with other nations, particularly the US, will have a meaningful impact on the emerging markets and the world. The new US administration's China stance has only begun to take form, but thus far seems to be a continuation of what was inherited from the previous administration. A flaring of trade disputes between China and the US as well as other western nations could cloud our constructive view on China and greater Asia. We expect the Biden administration to take a more calculated approach to these tensions. Intensifying tensions between Beijing and Hong Kong and Taiwan remain important risks, as do the considerations of human rights violations in China. After early skittishness, investors seem to be digesting the Chinese government's intervention into certain technology-oriented monopolies relatively well.

Exhibit 11: China GDO YoY% Change



Source: Bloomberg, National Bureau of Statistics China

Our view on emerging markets overall is partly driven by the Chinese market, which accounts for approximately 36% of the MSCI Emerging Market Index. We expect spill-over affects to positively impact emerging market trading partners within Asia ex-China in the near-term, as well as broader emerging market constituent countries. Emerging market growth continues to outpace developed market growth, consistent with our longer-term expectations; we expect this trend to expand as these nations emerge from the pandemic and life returns to normal. Even though we see geopolitical risks ahead for China, we are **Neutral/Positive** in the near-term given attractive valuations in emerging markets and the strength of the rising consumer across these countries more broadly, which we view as a longer-term supporting trend.

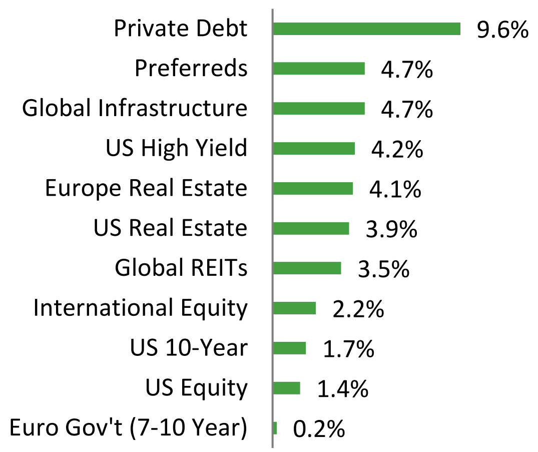
Private assets attractive

The private equity and private debt asset classes currently offer some of the more unique strategies with attractive returns. As asset valuations remain elevated and limit the return outlook for a diversified portfolio, private markets provide additional sources of risk and return for those investors willing and able to invest in the asset class. For highly skilled private asset managers, successful company selection, development, and exit can provide an additional source of alpha. Lower quality managers, however, may struggle to deploy capital effectively, thus impairing investor return.

The relative unattractiveness of the fixed income market increases the attractiveness of the private markets, particularly Private Debt.

As private equity is not priced daily, portfolios experience reduced overall portfolio volatility, which can be a meaningful benefit for some investors, though not the best measure of true investment risk. Despite typically lengthy lock-up periods, we remain **Neutral/Positive** on this asset class due to attractive potential returns. However, the illiquidity and long investment time horizons of private equity can limit the ability to tactically allocate to the asset class over the near-term.

Exhibit 12: Current Asset Class Yields as of March 31, 2021



Source: JPMorgan

Private debt remains attractive as the position of many companies to service debt improves amid a robust global recovery. Private debt offers opportunities for investments that are not seen in the traditional investment grade and high yield markets, while also offering superior yields to those found in public markets (See Exhibit 12). Those investors suited to the illiquidity inherent with private debt can access an additional source of alpha by investing in a different market of borrowers not represented by public markets. Although private debt has an element of credit risk, historical default rates are lower and recovery rates are higher compared to those of the US corporate high yield market. The differentiated return of the asset class has the potential to offset credit and liquidity risk while offering enhanced diversification and return potential for a portfolio. As a result, our near-term sentiment for this asset class is **Neutral/Positive**. As with private equity, manager selection and the managers' security selection weigh heavily on the ability of the private debt asset class to add value to a portfolio.