DT INVESTMENT PARTNERS, LLC

Q2 2021

FINANCIAL MARKETS COMMENTARY

"The Great Economic Re-Opening"

DT INVESTMENT PARTNERS

RISK-BASED ASSETS PERFORMANCE SUMMARY

- All risk-based asset markets marched higher in price during the second quarter led by Commodities (Oil & Industrial Metals) and U.S. Large Cap stocks. Increased Covid-19 vaccination rates and decelerating virus cases have spurred the widespread re-opening of the U.S. economy. The $1.9 trillion approved fiscal spending plan in March, the bipartisan $579 billion new investment infrastructure deal in June, the continuance of ultra-easy monetary policy from the Federal Reserve (Fed), and pent-up business and consumer savings and demand have all helped drive a booming economic recovery.

- Risk markets were buoyed by the extreme levels of monetary and fiscal policy accommodation across the globe. The flood of liquidity from the Fed's $120 billion ($80 billion of U.S. Treasuries & $40 billion of Mortgage-Backed Securities) per month bond buying program pressured the value of the U.S. Dollar lower during the quarter. The weakening dollar has been very bullish for Commodities and International Developed and Emerging Market stocks.

- During the quarter, investors were attracted to European stock markets, particularly those in France and Spain, along with Australian stocks. Unlike the U.S., European economies are just beginning to emerge from pandemic lockdowns and have more time to reach a full recovery than the U.S. economy, which is much further advanced in the rebound process from the virus. In addition, European stock markets have a greater weighting in cyclical and value stocks than the U.S., which benefit more from an economic re-opening. The strong relative performance of Australian stocks can be attributed to the country's ties to the commodities markets, which have been rising due to a weakening U.S. dollar and in anticipation of an improving world economy.

- With the exception of Utilities, all Large Cap sectors rose for the quarter, led by Real Estate, Technology, and Energy (See Page 5). Investors focused on a cyclical recovery and future economic growth, moving money into sectors/stocks that would benefit most from the economic re-opening.

BOND PERFORMANCE SUMMARY

- In the second quarter, bond prices rose/yields fell for 5-30 year maturities as investors started to realize that fears of booming economic growth leading to runaway inflation may have been overblown. In addition, pension fund managers and sovereign wealth funds rebalanced assets by shifting money to bonds after strong stock market performance since April of 2020. At its June policy meeting, Fed officials signaled they may raise interest rates sooner (late 2023, instead of 2024) than expected due to the rebounding U.S. economy. Yields on maturities in less than 5 years rose/prices fell, reflecting higher rate expectations.

- All U.S. fixed income sectors generated positive returns for the quarter, led by Investment Grade (IG) Corporate bonds (See Page 5). Despite yield spreads over comparable maturity U.S. Treasuries being at or near all-time tights, IG Corporate bonds still offer relatively attractive yields within the fixed income markets. U.S. Treasury Inflation Protected bonds and High Yield debt also posted relatively solid returns. Strong investor demand for Municipal bonds continued due to diminished supply and vastly improving credit fundamentals as the U.S. economy moves past the pandemic.

- MBS were the worst relative performer during the quarter due to the lack of stability in the interest rate markets. Early in the quarter, MBS prepayment speeds rose as homeowners took advantage of lower rates by refinancing. Following the Fed's June meeting, MBS prepayments slowed in anticipation of the Fed raising rates sooner than many expected.

CONTRIBUTORS & DETRACTORS TO PERFORMANCE

- Performance contributors for the second quarter versus the Global Stock/Intermediate Bond blended benchmark index included our overweight allocation to risk-based assets, particularly U.S. Large Cap and Australian stocks. In addition, our underweight to Mid Cap stocks and overweight to IG Corporate bonds contributed to performance.

- Detractors to performance included our underweight to International Developed Market stocks and our outside-of-benchmark allocation to Mortgage-Backed Securities and High Yield bonds.

- At its June meeting, the Fed surprised investors by stating that it expects two interest rate increases in 2023, rather than 2024. Fed officials also discussed an eventual tapering of monthly bond-buying programs, although the timing remains highly uncertain. The Fed also boosted median inflation forecasts for the year (2.4% to 3.4%) and said that if expectations of higher prices affect consumer and business behavior, they could act to address it. That marked a shift from a previous emphasis that inflation would be allowed to overshoot above 2% until the economic recovery is more certain.

- Chairman Powell stated that increases in prices have been larger than what the Fed expected and may end up being more persistent. However, he believes shortages of such items as computer chips, used cars, and workers will subside over time bringing inflation closer to the Fed's 2% target. While he's very confident that inflation will start to recede, "it's very hard to say what the timing of that will be."

- The Fed raised projections for economic growth to 7% this year from 6.5%, and held interest rates near 0%. The new quarterly projections showed 13 of 18 officials favored at least one rate increase by the end of 2023, versus 7 in March. The Fed reiterated that it expects to continue bond purchases ($120 billion per month) until "substantial further progress" has been made in the recovery. ***Chairman Powell has said the Fed would give markets plenty of advance notice before it begins withdrawing the easy-money policies.***

- Financial markets initially responded with stocks selling off and bond yields and the dollar rising on fears that the Fed will begin dialing back the monetary policy stimulus that has powered the recovery from the pandemic. After taking a few days to digest the revised growth, inflation, and interest rate projections from Fed officials, investors pushed stock prices higher in the last week of the quarter. A growing global economy and strengthening corporate earnings should more than offset any financial market headwinds from fears of tapering and interest rate increases.

- COVID-19 was an exogenous shock, akin to a natural disaster. Natural disasters temporarily disrupt economic activity, but do not permanently alter the underlying demand and supply of goods and services. Once the disaster passes, the economy usually recovers sooner than if there was a financial recession.

- The economic recovery is occurring much faster than most expected. The rapid development and distribution of multiple, widespread vaccinations is containing the natural disaster and has encouraged consumers to get out and spend more and businesses to re-open. In the U.S., fears of additional waves of the virus and more economic lockdowns have given way to concerns of an overheating economy leading to runaway inflation.

- One downside of such a speedy economic rebound is that demand is returning faster than supply can keep up. As a result, bottlenecks in the supply chain have emerged leading to wage and price pressures. In addition, headline inflation readings are higher due to the base effect – a comparison of prices this year to last year's pandemic-depressed readings.

- ***We believe this recent uptick in inflation is transitory (6-18 months) in nature.*** Historically, supply-side disruptions that lead to price spikes tend to dissipate as the economy recovers. After a short-term, temporary rise in inflation while the economy recovers from the exogenous shock of the global pandemic, widespread vaccinations will allow producers to return to full capacity, diminishing price increases over time.

- ***A sustainable uptick in inflation is not likely as the macro headwinds are still too great and deflation remains a greater risk to the economy and financial markets. Aging demographics, declining fertility rates, shrinking labor force participation rates, massive global debt levels, rapid technological innovation, and a global savings glut make periods of deflation, rather than inflation, more likely.*** The pandemic created an enormous downside shock to demand leading to significant economic slack. The massive void in global economic activity and wealth destruction from business shutdowns may take years to fill.

- Talk of a U.S. economy that's about to overheat and force the Fed to tighten sooner than 2023 is very premature. There were 7.6 million fewer jobs in May than before the pandemic. If adjusted for population growth over the past year, that number rises to 9 million. Part of the Fed's dual mandate is to achieve maximum sustainable employment. Tightening policy now would clearly go against their mandate.

GLOBAL FINANCIAL MARKETS COMMENTARY & PORTFOLIO STRATEGY

- Financial markets are in unusual territory since the global economy is in the midst of an economic restart, rather than a typical business cycle recovery from recession. Stocks prices are clearly not cheap and several stock indices set multiple, new all-time highs during the quarter. Given lofty valuation levels, talk of risks to the current rally has become more prevalent.

- While there are no shortage of risks, there are several reasons why we believe equity investors should remain fully invested. First of all, there currently is $4.6 trillion in cash assets sitting in money market funds. This historically large amount of liquidity has continued to push stock prices higher.

- Despite the Fed signaling that they may raise interest rates earlier than expected, monetary policy remains ultra-easy and accommodative. The Fed hasn't done anything yet. All they have done is signal the potential for future policy tightening. Global growth, led by the U.S., is beginning to rapidly accelerate. Corporate earnings growth is strong. Higher inflation readings are likely to be transitory and attributed to the base effects (comparison of year-over-year costs from Spring 2020 lockdowns) and short-term supply constraints, rather than structural issues.

- Technological innovation has accelerated since the onset of the pandemic and is poised to continue well after the recovery. Earnings yields for all types of stock markets are much higher than bond yields. While the maximum impact of monetary policy easing has already been delivered, additional fiscal stimulus spending is likely, beginning with the $579 billion bipartisan infrastructure deal in June.

- Next year (2022) is a mid-term election year with several Congressional seats in play and neither political party currently has a clear mandate. This would make significant tax increases and/or substantial business regulation very difficult to achieve.

- We assign a low probability to the capital gains tax rate being raised to ordinary income rate levels. Neither political party currently has a clear advantage. The Senate is divided 50-50, with Vice President Harris as a tiebreaker. In the House of Representatives, Democrats hold 218 seats and Republicans 212. In the 2022 mid-term elections, all House seats and 34 of 100 Senate seats are up for re-election. Politicians from either party typically do not like to be accountable for tax increases, especially near or in a mid-term election year.

- After an economic boom this year and early next year thanks to vaccine distribution along with ultra-accommodative monetary policy and the knock-on effects of enormous amounts of fiscal policy stimulus, we believe the economy will mostly return to the way it was before the global pandemic. Fiscal stimulus is transitory, not ongoing and permanent. ***A return to low economic growth, low inflation, and low interest rates awaits us following a recovery.***

- Financial market volatility is likely to remain elevated as the recovery expands and price shocks continue until the supply-side catches up to demand. Extraordinary times like this validate the importance of having a well-diversified, multi-asset portfolio and investing in an allocation that is consistent with each investor's risk tolerance and long-term investment goals. We continue to favor a slight overweight to risk-based assets, while remaining underweight bonds. In particular, we are overweight U.S. Large Cap and International Developed Market stocks, Gold, and Government bonds. We are equal-weight U.S. Small Cap stocks and underweight U.S. Mid Cap and Emerging Markets stocks, High Yield bonds, IG Corporate bonds, and MBS. Demand is likely to continue to outpace supply in the Municipal bond market. While credit selection should always be paramount, uncertainty surrounding COVID-19's effects on the market has been nearly eliminated thanks to the unprecedented amount of direct aid to State and Local governments.

Andrew Zimmerman, Chief Investment Strategist

ASSET CLASS TOTAL RATE OF RETURN PERFORMANCE SUMMARY AS OF 6/30/2021

Stock Indices	Asset Class	QTD Return	1 Year Return
MSCI AC World Daily TR N	Global Equities	7.39%	39.26%
S&P 500 INDEX	U.S. Large Cap Equities	8.55%	40.77%
S&P 400 MIDCAP INDEX	U.S. Mid Cap Equities	3.64%	53.22%
RUSSELL 2000 INDEX	U.S. Small Cap Equities	4.29%	62.00%
MSCI EAFE	International Developed Market Equities	5.35%	33.04%
MSCI EM	Emerging Market Equities	5.08%	41.29%
U.S. Large Cap Sector Stock Indices			
S&P 500 ENERGY INDEX	U.S. Large Cap Equities - Energy Sector	11.29%	49.34%
S&P 500 HEALTH CARE IDX	U.S. Large Cap Equities - Health Care Sector	8.40%	27.92%
S&P 500 CONS DISCRET IDX	U.S. Large Cap Equities - Consumer Discretionary Sector	6.95%	37.08%
S&P 500 CONS STAPLES IDX	U.S. Large Cap Equities - Consumer Staples Sector	3.83%	23.29%
S&P 500 INFO TECH INDEX	U.S. Large Cap Equities - Information Technology Sector	11.56%	42.39%
S&P 500 UTILITIES INDEX	U.S. Large Cap Equities - Utilities Sector	-0.37%	15.91%
S&P 500 INDUSTRIALS IDX	U.S. Large Cap Equities - Industrials Sector	4.48%	51.43%
S&P 500 COMM SVC	U.S. Large Cap Equities - Telecom Sector	10.72%	48.38%
S&P 500 MATERIALS INDEX	U.S. Large Cap Equities - Materials Sector	4.97%	48.51%
S&P 500 FINANCIALS INDEX	U.S. Large Cap Equities - Financials Sector	8.36%	61.60%
S&P 500 REAL ESTATE IDX	U.S. Large Cap Equities - Real Estate Sector	13.09%	31.88%
Commodities Indices			
ISHARES GOLD TRUST	Gold	3.66%	-0.79%
S&P GSCI Tot Return Indx	Broad Commodities	15.72%	57.37%
Bond Indices			
U.S. Aggregate	Core Bonds	1.83%	-0.33%
Intermediate	Intermediate Government & Corporate Bonds	0.98%	0.19%
US Corporate High Yield	High Yield Debt	2.74%	15.37%
U.S. Treasury	U.S. Treasuries	1.75%	-3.22%
U.S. TIPS	U.S. TIPs	3.25%	6.51%
U.S. Agency	U.S. Government Agencies	0.81%	-0.40%
U.S. MBS	Mortgage-Backed Securities	0.33%	-0.42%
Corporate	Corporate Debt	3.55%	3.30%
Municipal Bond Index	Municipal Debt	1.42%	4.17%

Sources: Bloomberg and DT Investment Partners. Investors cannot invest in a market index directly, the performance of an index does not represent any actual transactions and its performance does not reflect the deduction of any fees or expenses associated with actual investing. Market performance information is included on this slide solely to demonstrate the potential benefits historically associated with long-term investing in a portfolio of well-diversified asset classes and does not represent or suggest results DT Investment Partners would or may have achieved when managing client portfolios

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Notes

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