Second Quarter 2021
Market Outlook

Outlook Summary

The first quarter of 2021 continued the optimism that characterized the end of 2020, as hopes for a successful conclusion to pandemic-fueled economic weakness increased and drove most risk asset categories higher during the period. Looking forward, we continue to believe the successful distribution and application of Covid-19 vaccines will be the key factor to a return to global synchronized economic growth as the year progresses, along with added stimulus from fiscal authorities and additional policy support from global central banks. While we do not expect the ongoing recovery to occur in a coordinated, linear fashion, we believe the potent combination of successful vaccine implementation and continued fiscal and monetary support will lead to accelerating economic and corporate fundamentals in both 2021 and beyond.

Global stock markets celebrated the one-year anniversary of the pandemic-induced bear market low (March 23, 2020) with another strong quarter of returns. The S&P 500 Index gained 6.3%, developed international markets (MSCI ACWI) rose 4.7%, and emerging-market stocks gained 2.34% (MSCI EMF).

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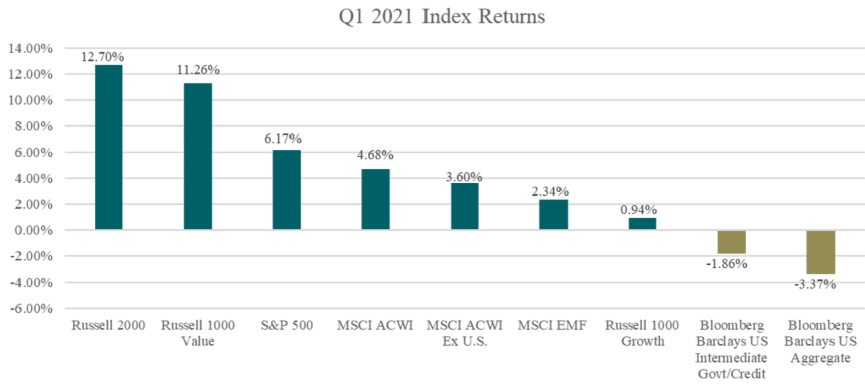


Source: FactSet 3.31.21

Risk assets started the year strong, led by the continuation of the "relation rotation" trend that has been happening beneath the market surface over the past several months. Specifically, smaller company stocks have outpaced large caps, led by the U.S. S&P 400 mid cap index gaining +13.47% and the small cap Russell 2000 gaining +12.7% in the first quarter. In addition, value stocks outpaced growth stocks: The Russell 1000 Value Index returned +11.26% versus the Russell 1000 Growth Index return of +0.94% for the period.

With interest rates rising in the first quarter, fixed income performance suffered, with total returns broadly negative across sectors through the middle of March. As the largest rate movements have been at the long end of the yield curve, sectors most exposed to longer-dated rates performed the worst, including investment grade corporates and U.S. Treasury bonds. The benchmark Bloomberg Barclays U.S. Aggregate Bond Index declined -3.4% followed by the Bloomberg Barclays U.S. Intermediate Govt. Index negative return of -1.86%. The High Yield Bond Index increased 0.85% and U.S. Preferreds rose +0.33%.

In other asset classes, Real Estate equities posted a +5.6% increase, while Gold declined 9.8%. A hypothetical globally-diversified 60/40 portfolio returned approximately +2.7% for the first quarter of 2021.[1]

We strongly believe in the effectiveness of longer-term thinking and investing. Past experience provides a valuable lesson – market timing is simply not a strategy worth pursuing. We are active investors. We focus where we can make a real difference for our clients – to help them achieve their long-term investment goals. From an asset allocation perspective, we align our views on each asset class with our macro-economic outlook. In February, we modestly raised equity targets with a

1 Source: Bloomberg as of 3/31/2021. The globally-diversified portfolio comprised the following asset classes, weights and proxies: U.S. large cap stocks 40% (S&P 500 Index), U.S. small cap 10% (Russell 2000 Index), International stocks 10% (MSCI AWCI ex U.S. Index) and bonds 40% (Bloomberg Barclays U.S. Aggregate Index). This hypothetical portfolio is provided only to illustrate historical market trends. Indices are unmanaged, may not include reinvestment of income or short positions and do not incur management fees. An investor is unable to invest directly in an index.

proportional increase to each equity segment (U.S. Large Cap, U.S. Small/Mid Cap, Developed International, and Emerging Markets). These additions were funded by a small reduction in core fixed income. During periods of volatility, prudent rebalancing to preserve a client's risk and return objectives is our first call to action.

We remain constructive on equities, particularly given current levels of interest rates, as investors turn their attention toward improving corporate fundamentals in 2021 and into 2022. In terms of market leadership, traditional cyclical themes have outperformed early in 2021, buoyed by hopes of sustained economic expansion and momentum trading; however, we anticipate growth stocks will participate in any market upside as well. In fixed income, we continue to position portfolios with neutral duration relative to the applicable benchmark. Within corporate credit, we favor spread compression trades in select BBB-rated and crossover bonds issued by companies with improving credit fundamentals as well as subordinated bank debt, particularly preferred securities. We remain constructive on areas within securitized credit, most notably, non-agency mortgage-backed securities (MBS).

ECONOMICS

After the challenges of 2020, the first quarter of 2021 has provided a proverbial "light at the end of the tunnel." The path risk has shifted from virus to vaccine distribution, re-opening timelines, resulting in steadily rising global economic growth assumptions for 2021 that are further supported by ongoing fiscal and monetary support. Currently, U.S. GDP is expected to grow at 5.7% in 2021; this estimate has risen steadily since the beginning of the year.

The Path Shifts from Virus to Vaccine: In terms of the pandemic, vaccines and virus seasonality will lead to a further easing in restrictions, delivering a meaningful boost to global economic activity. In the U.S., more Americans have now received at least one dose of a vaccine than have tested positive for the virus since the pandemic began, and, currently, there are approximately 2.5 million vaccine doses being administered daily. At this pace, 75% of the population – the approximate percentage health care professionals believe will create herd immunity – could be vaccinated by August.

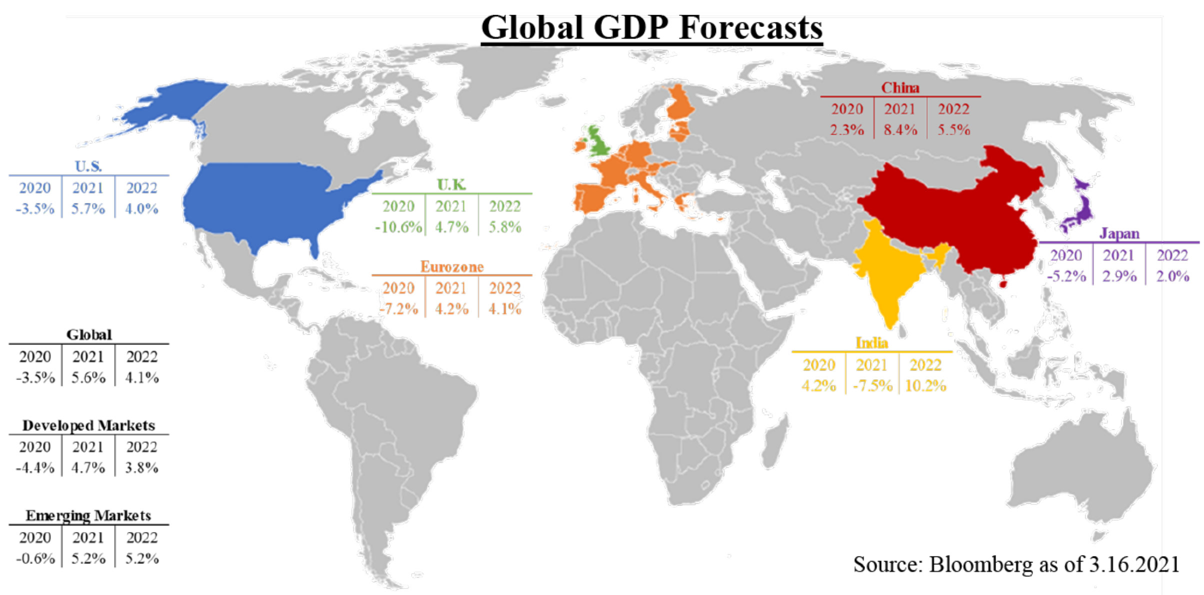
Monetary and Fiscal Support: Economic growth will also continue to be aided by fiscal and monetary support. In March, the $1.9 trillion American Recovery Plan was signed into law, bringing the total amount of fiscal stimulus to over $5 trillion since the outbreak of the pandemic. On the monetary front, the Federal Reserve (Fed) continues to signal its intention to not increase its policy rate before 2024, nor taper its asset purchases (known as quantitative easing (QE)) before "substantial further progress" has been made towards its inflation and employment goals.

Consumer Confidence and Spending: Propelled by these recent stimulus measures, the personal savings rate – savings as a percentage of disposal income – has jumped to nearly three times the long-term average. However, the distribution of savings balances is heavily skewed towards higher-income individuals who have been able to continue to work while saving a large portion of their budget previously spent on restaurants and travel. Given the importance of the consumer to economic growth in the U.S., the speed at which consumers feel comfortable spending will be critical to the velocity of the economic recovery. While there is no historical prescient, economists expect that the combination of strong pent-up demand and above-average savings will provide a strong tailwind to growth over the remainder of the year.

Overall, U.S. growth looks set to be significantly above trend in 2021, driven by vaccinations, falling business restrictions, abundant household savings, and supportive fiscal and monetary policies. The majority of participants in Bloomberg's survey of economists have revised their growth estimates higher, with the median forecast of 5.7% in the March survey, up from a median forecast of 4.1% in the January survey. Economic growth of 5.5% or above would be the highest growth rate since 1984.

Looking beyond this year's recovery, we expect economic activity and inflation to moderate and return to levels in line with the longer-term trend. Many of the structural headwinds, such as aging demographics, high debt levels, and the impact of technology, remain in place and, in certain cases, have become even more pronounced as a result of the pandemic.

Global Economic Growth: Economic activity in the Eurozone remains heavily impacted by Covid restrictions as the number of cases has risen in several countries, while the vaccine rollout has been plagued with issues. Countries focused on manufacturing continue to experience less impact from containment measures relativeto countries where services are a larger part of the economy. Despite the renewed challenges, fiscal support remains underwhelming. As with other regions, the U.K. economy has been tied to the pandemic. In January, a new variant of the virus was detected, forcing another national lockdown to contain the spread. The combination of declining virus cases and a successful rollout of vaccines – with nearly 50% of adults having now received a first dose – allowed



the easing of restrictions in March, with schools fully reopening along with some non-essential retail. The speed of vaccine distribution suggests the economy will continue to reopen, providing a material boost to growth later in the year.

Many emerging market economies will significantly benefit from a global recovery. In particular, countries where economic activity is geared to cyclical sectors, such as commodities, are experiencing a sharp uptick in demand. Additionally, countries with a focus on technology, such as Taiwan, continue to perform well.

China is clearly an important part of the emerging markets. The world's second-largest economy appears to have managed the pandemic – and additional 'waves' – better than most world regions, with growth already surpassing its pre-Covid trend.

As always, we remain cognizant of the risks to our outlook. The most obvious ones are related to the virus. At the current vaccination pace, it will take years to achieve a significant global immunity level, raising the potential for virus variants to render vaccines less effective. In the U.S., the potential for higher inflation is a risk frequently discussed by market commentators. While our base case remains that higher inflation readings in the near term will be temporary, we acknowledge that the torrent of fiscal stimulus and its multiplier impacts have yet to be fully understood.

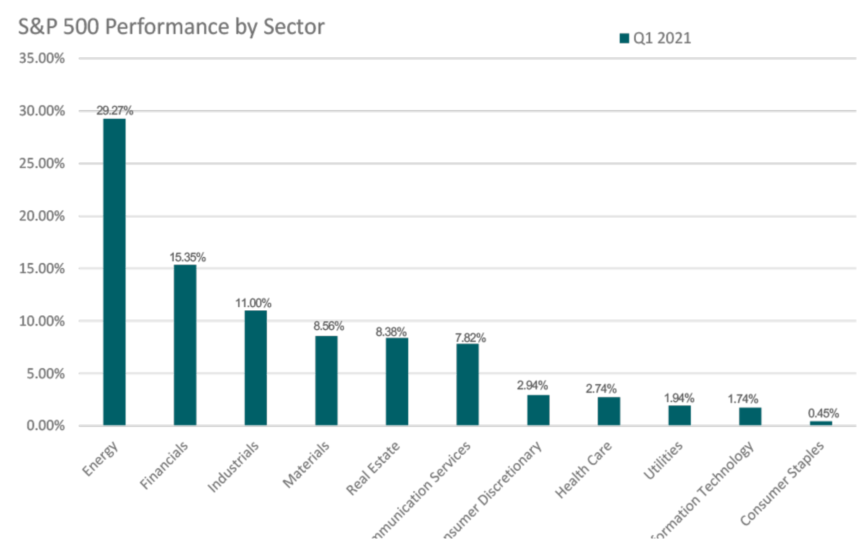
Other risks include a policy and/or miscommunication error from the Fed and the reemergence of China-U.S. trade tensions. We are also aware that there are many unknown risks, and it is often the emergence of these risks that have the largest impact on financial markets. Therefore, we remain vigilant to the changing macro environment and evaluate these evolving factors to understand their impact on financial markets and investment portfolios.

EQUITY MARKET OUTLOOK

For the first quarter of 2021, the benchmark S&P 500 gained +6.2%, another strong quarter of performance and the continuation of an astounding +80.7% rally from the index's pandemic-fueled closing low on March 23, 2020. Smaller U.S. stocks enjoyed even greater performance in the March quarter, as the mid cap S&P 400 and small cap Russell 2000 gained +13.4% and +12.7%, respectively. International stocks also participated in the move higher; the MSCI ACWI ex-U.S. Index gained +3.6% for the first quarter, while the MSCI Emerging Market Index was up +2.34%. The German DAX Index and French CAC 40 led major international markets, while the Chinese Shenzhen A Share Index and Shanghai CSI 300 were the laggards.

All eleven S&P 500 sectors posted positive returns during the first quarter, but performance varied wildly during the period. Once again, the "growth versus value" discussion remained front and center, and, for the second consecutive quarter, U.S. indices were led by value-oriented shares, as the Russell 1000 Value Index gained +11.3% versus +0.9% for the Russell 1000 Growth Index. Not surprisingly, market leadership was led by those cyclically-sensitive sectors that were most negatively affected by pandemic-created shutdowns; these include Energy (+29.3%), Financials (+15.3%), and Industrials (+11.0%). These groups have been leaders in a value-driven rally since the announcement of the Pfizer vaccine before the market opening on November 9. Since that time, the Russell 1000 Value Index returned +24.2% (through quarter-end) compared with +6.4% for the Russell 1000 Growth Index and +13.9% for the S&P 500.

In our internally managed equity portfolios at FSP, we manage concentrated large-cap equity strategies, all benchmarked to the S&P 500, with a variety of style tilts as well as risk, return, and income profiles. Our investment process does not focus on a simple "growth versus value" framework; rather, we try to identify businesses in all sectors with sustainable structural, competitive, and/or economic advantages with attractive



valuations. However, we do make portfolio positioning moves to emphasize attractive opportunities. For example, during the beginning of the 2020 downturn, we added a number of stocks that did not have clear, short-term earnings visibility, but had a history of successfully navigating downturns and investing in their businesses to emerge as stronger competitors. Subsequently, we added a few additional companies with more economic sensitivity to the recovery.

Most recently, we have incrementally added a few “direct recovery” and “expansion phase” stocks to portfolios; these include businesses that should see a direct lift in revenues and earnings from consumer and corporate activity during the reopening phase of the global expansion. Importantly, these are all companies who meet our definition of an advantaged business and, in several cases, were owned prior to the pandemic.

What To Expect Going Forward in 2021

Overall, the resolution timeline for the Covid-19 pandemic clearly remains among single most important determinant to global economic growth and corporate profitability. Perhaps, not surprisingly, the process remains largely muddled among individual countries and regions, as extended lockdown conditions have persisted or intensified in several geographies (Western Europe, India, Southeast Asia), while areas including the U.S. and the U.K. are showing clear signs of improvement and relaxed pandemic conditions.

We believe the successful implementation and administration of Covid-19 vaccines remains the key to an eventual end to the pandemic and the return to coordinated global economic growth. According to Bloomberg, as of the end of the first quarter, over 650 million doses had been administered across 151 countries at a then- current rate of 16.5 million doses a day. The U.S. is well ahead of the global pace with nearly 165 million doses given; an estimated 32% of the U.S. population has received at least one dose, and 19% can be considered “fully vaccinated.” Among the world’s major economic powers, the U.S. is far and away the leader in fully vaccinated population, as the next closest peer is the U.K. at 8% full vaccination. Current consensus expectations for a true “all clear” date following the vaccination process remain wide. At the current vaccination rate in the U.S., 75% of the population would be covered in three months, while most of the rest of the world will take far longer. As we’ve discussed since very early in the pandemic process, the importance of effectively, widely distributed AND administered vaccines should not be underestimated given its importance to renewed economic growth and will continue to influence the broader direction of stocks.

While the pandemic remains the primary factor affecting current conditions, massive fiscal stimulus programs have grown in importance with regard to economic growth, corporate profitability, and equity performance. In early March, President Biden signed the $1.9 trillion American Rescue Plan. Combined with the $900 billion plan passed under the Trump administration in December 2020 and the $2.2 trillion CARES Act signed in March 2020, the $5+ trillion in fiscal stimulus represents nearly 20% of annualized U.S. GDP in a short period, particularly relative to the stimulus enacted in the three years during and following the Great Financial Crisis, which totaled approximately 10% of annualized GDP. Approximately $1.2 trillion of the American Rescue Plan will be distributed in the next five months, with a significant amount going to state and local governments. Importantly, consumer aid in the form of direct checks should help boost an improving economy, as nearly one-third of the entire stimulus will go directly into the pockets of middle- and lower-income consumers. As consumer consumption comprised nearly 70% of GDP in the fourth quarter of 2020, we believe the impact of this stimulus could be critical.

With the catalysts of successful vaccine distribution and additional fiscal and monetary stimulus, we believe 2021 represents the initial phase of an unprecedented "reopening," followed by a comprehensive global economic expansion. Given its lead in vaccine administration and stimulus, the U.S. should lead this recovery in the earliest phases, and consensus U.S. GDP growth forecasts for 2021 continue to rise, standing at +6.2% at the end of the first quarter, with a range of estimates as high as +10% for the year.

Similarly to the prospects for U.S. economic growth, expectations for corporate profitability have continued to improve since the depths of the pandemic. A near-record 78% of S&P 500 companies reported better-than-expected earnings for the fourth quarter of 2020, and the first quarter of 2021 marked the largest increase in the bottom-up earnings per share estimate (+6.0%) during a quarter since FactSet began tracking the metric in 2002. For full year 2021, the consensus, bottom-up estimate S&P 500 EPS has moved from $165 to begin the year to nearly $175 as of the end of the first quarter. For 2022, the consensus estimate continues to rise as well, up from $193 on December 31 to $201 on March 31. Importantly, earnings estimates for most S&P 500 sectors are moving higher, indicating a broad overall recovery. While the average P/E multiple on nexttwelve-month S&P 500 EPS (21.9x) remains elevated versus its longer-term average of 16.6x, we believe the combination of the absolute low levels of U.S. Treasury yields and rapidly improving U.S. earnings growth justifies above-average valuations at the current time.

Despite all of the positive developments in vaccine administration, stimulus, and corporate earnings growth, several risks must be monitored given their importance to markets. U.S./China geopolitical tensions continue to percolate, and the first face-to-face talks since the beginning of the Biden administration did little to reduce anxieties over global trade, Covid-19 responsibility, and human rights abuses in Hong Kong and Xinjiang. U.S. officials have issued several actions directed at China in recent weeks, including moves to revoke Chinese telecom licenses and subpoenas to Chinese technology companies over security concerns; in addition, the U.S. Securities and Exchange Commission adopted the Holding Foreign Companies Accountable Act that requires auditing by a U.S. "watchdog" and the submission of documents to establish that companies are not owned or controlled by a government entity in a foreign jurisdiction.

Another potential headwind for U.S. stocks could be in the form of higher taxes. On March 31, President Biden announced the "American Jobs Plan," an ambitious effort that targets improving the nation's infrastructure. In order to fund the $2 trillion package, the administration intends to raise taxes – namely, moving the corporate tax rate from 21% to 28%, adding a global minimum tax of 21% on multinational income overseas, and ending existing tax deductions for fossil fuels companies.

FSP Asset Allocation and Internal Equity Strategies

During the first quarter of 2021, the FSP Investment Policy Committee modestly raised overall equity exposure with a proportional increase to all underlying sector allocations (U.S. large cap, U.S. mid/small cap, non-U.S. developed, and non-U.S. emerging markets). Heightened volatility relative to historical averages should continue to be expected.

Within FSP, we actively manage five primary large cap equity strategies with a range of return and risk objectives that represent style tilts to the S&P 500 benchmark – Strategic Growth, Partners Advantaged, Equity Income, Growth & Income, and Sustainable, Responsible Equity. Growth & Income uses a barbell approach, combining stocks from our core growth-oriented strategy (Strategic Growth) with our core value conservative strategy (Equity Income); and

Sustainable, Responsible strategy is a thematic ESG approach to our Partners strategy.

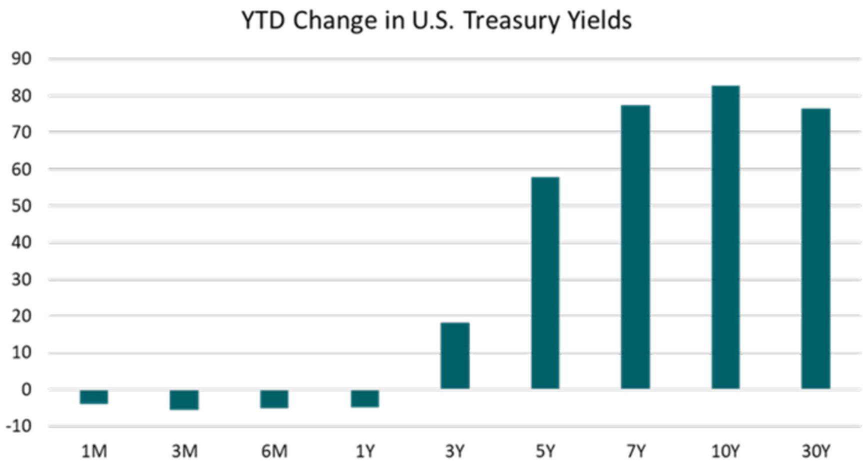
In the actively managed, internal equity strategies, we continue to focus on companies with distinct advantaged business models and longer-term secular opportunities, making changes in accordance with the style, risk, and reward objectives for each individual strategy. We continue to favor advantaged companies with secular growth opportunities, strong balance sheets, high free-cash-flow generation, and strong capital flexibility, believing that advantaged businesses are uniquely positioned to emerge as stronger competitors over the longer term. We remain mindful that early-cycle beneficiaries are likely to continue to outperform growth sectors over the next few quarters due to extreme year-over-year expansion in depressed revenue and earnings over 2020 levels. However, we are not making wholesale changes to portfolio holdings and will be looking for attractive entry opportunities into growth companies in which longer-term secular growth trends are very compelling.

FIXED INCOME OUTLOOK

As the economic recovery continues with the support of fiscal stimulus and vaccine distribution, the Fed remains unwavering in its support of the recovery through its accommodative monetary policy. At its March meeting, the Fed reaffirmed its commitment to keeping the policy rate near zero until at least 2023, signaling that the updated economic projections, including a faster reduction in the unemployment rate and higher inflation readings this year, do not materially impact its outlook over the medium term. Additionally, the Fed remains committed to QE, which is focused on Treasury and agency mortgage securities, and likely has no plans to begin tapering its balance sheet until 2022.

Despite the consistency of the Fed's message, investors are testing the timing of the rate-hiking cycle, with the futures market pricing a policy rate of 50 basis points (bps) by the end of 2023. As the market continually parses each word from Jerome Powell and other members of the Fed, investors would be wise to recall the 'taper tantrum' of 2013 and the volatility that can result from any Fed miscommunication.

The prevailing theme in fixed income markets over the past several months has been inflation. Easy monetary policy and additional fiscal stimulus, coupled with economic reopening and pent-up, post-Covid demand have resulted in a sharp increase in expectations



Source: Bloomberg as of 3.31.21

of future inflation. Since the beginning of the year, the 5-year U.S. breakeven rate, a measure of market expectations for medium-term inflation, has risen over 65 bps to its highest reading since 2008. While we agree with the outlook for higher inflation readings this year, longer-term factors – such high debt levels, aging demographics, technology and automation – that have weighed on inflation for the past decade will continue to do so over the longer term.

The yield curve steepened significantly during the first quarter as longer-term interest rates moved sharply higher due to increasing optimism about economic growth and a rise in inflation expectations. The yield difference between the 3-month Treasury bill and the 10-year Treasury note increased from 83 bps at year end to 170 bps.

With interest rates rising in the first quarter, fixed income performance has suffered, with total returns broadly negative across sectors through the middle of March. As the largest rate movements have been at the long end of the yield curve, sectors most exposed to longer-dated rates have performed the worst, including investment grade corporates and U.S. Treasury bonds.

The backdrop of higher interest rates and a steeper yield curve was expected entering the year. The current market narrative of very strong economic growth this year could continue to drive rates higher in the near term. However, at some point, investors will begin to look at the fundamental backdrop for future growth. In building portfolios, it is important to draw a distinction between economic growth during this year's recovery – which will be robust – and growth levels across the full economic cycle – which are likely to return to the trend rate of around the 2% level experienced during the 2010s. While there is room for intermediate- and longer-dated yields to continue moving higher over the coming months, the repricing that has already occurred has created more attractive entry points, particularly given the steepness in certain portions of the yield curve.

While our expectation is for an improving economic environment, uncertainties remain, and periods of volatility are possible. Even with U.S. Treasury yields at low levels, we believe they continue to offer protection and, importantly, provide a source of liquidity during risk-off periods that can be used to take advantage of market dislocations.

Over the coming year, a rebound in economic growth, supportive monetary policy, lighter issuance, and strong demand from overseas investors should be supportive of corporate bonds. The U.S. investment grade market is one of the few places in the global bond market where investors are able to find a positive yield. Interestingly, for many foreign investors, the yield on U.S. corporate bonds is currently higher than it was at the end of 2019, despite the sharp decline in yields, due to a decline in currency hedging costs.

On the other hand, current valuations have already priced in a lot of good news, and corporate fundamentals have weakened since the end of 2019. In addition, investors should be aware that the interest rate sensitivity of the corporate bond market has increased significantly since 2008. This factor helped significantly boost returns last year as interest rates declined; however, the investment grade complex will face stronger headwinds than it historically has during periods of rising rates.

Portfolio Positioning:

Given the limited room for additional spread compression, the vast majority of the performance for the investment grade corporate index will come from coupon income and roll down. On a relative value basis, sector allocation and individual security selection will be the drivers of performance. Our focus remains on companies with sound – and ideally improving – balance sheets and the ability to generate strong free cash flow. As we emerge from the pandemic, we are watching for shareholder-friendly and/or M&A activity from some of the 'cash-rich' sectors, such as technology and healthcare. These activities could result in balance sheet deterioration at a time when valuations are expensive, resulting in a widening of credit spreads.

From a ratings perspective, we expect the BBB-rated portion of the market to outperform, driven by improving fundamentals and a reach for yield. Although BBB credit spreads are tighter than they were at the end of 2019, the incremental compensation is attractive in an environment of economic reopening and potential growth. While there are still downgrade risks involved in the BBB portion of the investment grade sector, we continue to believe security and sector selection are key to identifying relative value and preserving capital.

The *reach-for-yield theme* should also benefit the high yield (HY) market. While average high yield spreads are approximately at the same level they were at the end of 2019, lower interest rates should continue to create demand for the asset class; however, valuations are elevated, and many HY bonds trade at or above their call price, meaning that the majority of returns, on aggregate, will come from income.

Year to date, collateralized loan obligations (CLOs) have been among the best-performing sectors across fixed income. The sector has benefitted from price appreciation as spreads have tightened and total returns have not been impacted by the rise in long-term Treasury yields due to their floating-rate structure. While the scope for additional spread tightening in the near term appears limited, we continue to think CLOs offer attractive relative value, given their attractive yields and low interest rate risk.

In the early stages of the pandemic shutdowns, many anticipated severe impacts on state and local government revenues that would wreak havoc on the municipal bond sector. Although there were price declines across the muni market in March and April, the impact was far less severe than predicted, due in large part to the strong financial positions of many of these governments prior to the pandemic. For the calendar year 2020, revenues were down only -0.4% below 2019 levels.

The Fed's Municipal Liquidity Facility (MLF), which provided a liquidity backstop for issuers, fiscal stimulus support provided through the CARES Act of 2020, as well as the $1.9 billion American Recovery Act of 2021, have eased investor concerns with the stability of the sector. The unified Democratic government, for at least the next two years, raises the likelihood for a tax increase for corporations and individuals, creating a favorable demand backdrop. Meanwhile, supply continues to decline, with new issuance this year set to decline by approximately 30%. The supply/demand mismatch, which has existed for several years, has been a major factor in pushing muni bonds to the most expensive valuations relative to U.S. Treasurys for the past 20 years.

Within the muni market, our focus remains on high-quality, general obligation bonds that benefit from the taxing power of the municipality and essential service revenue bond sectors – those backed by utilities, such as water and sewer. Most utilities tend to have significant liquidity, the ability to raise rates, and strong operational and financial performance throughout the business cycle, largely due to the fact that their services are 'essential,' and their structures are monopolistic.

On aggregate, we expect the risk premium, or credit spread, to grind tighter; however, the vast majority of the performance for the sector is expected to come from income and roll down, since Treasury yields are already very low. Our focus remains on companies with sound – and ideally improving – balance sheets and the ability to generate strong free cash flow. As we emerge from the pandemic, we are watching for shareholder-friendly and/or M&A activity from this year's best-performing sectors, such as technology and healthcare. The risk is a tradeoff of balance sheet deterioration at a time when these issuers may be trading at expensive valuations. Conversely, as investor confidence grows about the ability of the economy to reopen, the large valuation gap between the broader market and the sectors most disrupted by the virus should gradually close. From a ratings perspective, we expect the BBB-rated portion of the market to outperform, driven by improving fundamentals and a reach for yield. The reach-for-yield theme should also benefit the high yield market. The fact that many bonds within the market already trade at their call price means that price appreciation will be limited. The majority of returns will be driven by the coupon income.