September 30, 2021

Equity Outlook

Equity Fundamentals Remain Strong, But the "Wall of Worry" May Create Volatility

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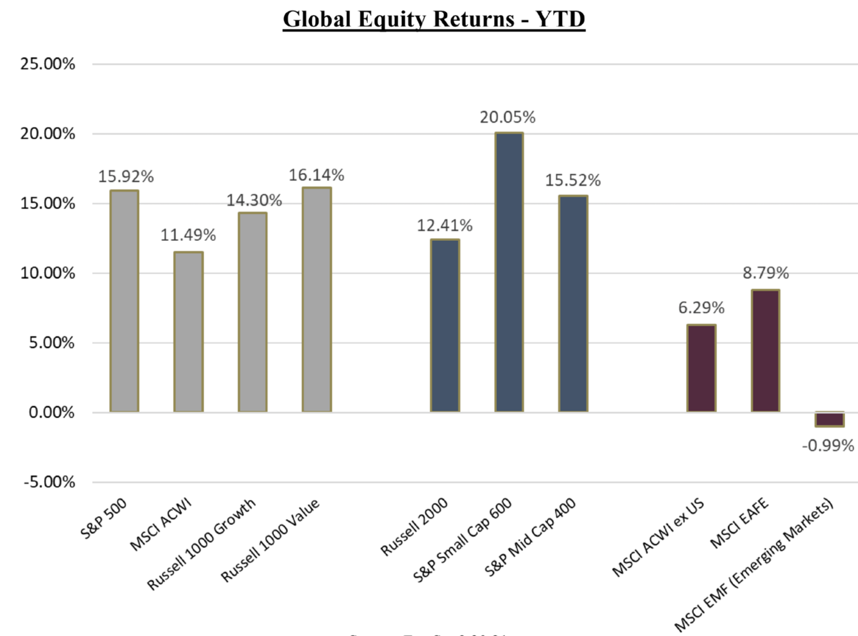
Despite suffering a difficult September, the S&P 500 posted its sixth consecutive quarter of positive performance since bottoming in March 2020, as the world continued its recovery from the Covid-19 pandemic. The benchmark S&P 500 added +0.6% during the third quarter, bringing its trailing twelve month return to +29.9% and its cumulative total return from the March 23, 2020 bottom to +97.3%. While continued challenges associated with Covid-19 and the Delta variant remain, we believe most investor focus has already shifted to other evolving themes and concerns beyond the pandemic.

The impressive global economic recovery remains on track to continue, even as growth rates begin to moderate from the historic levels recorded earlier in the year. Corporate earnings growth, the primary fuel for 2021's strong equity returns, will also likely subside in coming quarters, but remains well above medium and longer-term averages and should provide crucial support. Risks to both economic and earnings expansions have expanded, including the potential for both fiscal and monetary policy to transform into headwinds, possible margin-compressing inflation, continued supply chain worries, and multiple concerns with China, the world's second largest economy. These anxieties could lead to increased volatility in the near-term; however, we continue to remain constructive overall on equities, particularly given the absolute low levels of global interest rates.

EQUITY MARKET RECAP

The benchmark S&P 500 gained +0.6% in the third quarter of 2021, the sixth consecutive quarter of positive performance and the continuation of a +97.3% rally from the index's pandemic-fueled low on March 23, 2020. Smaller U.S. stocks trailed their larger counterparts during the third quarter, as the mid-cap S&P 400 and small cap Russell 2000 declined -1.8% and -4.4%, respectively. International stocks also lagged in the September period; the MSCI ACWI ex-U.S. index lost -2.9% for the third quarter while the MSCI Emerging Market Index was down -8.0%. The Japanese Nikkei 225 and U.K. FTSE 100 led major international markets, while the Hong Kong Hang Seng and Brazilian Bovespa were the clear laggards, both dropping more than -12%.

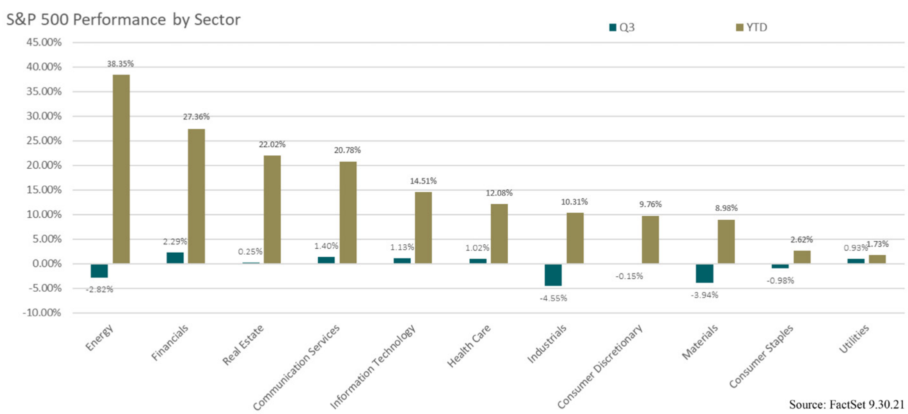
Six of eleven S&P 500 sectors posted positive returns during the third quarter, as a difficult September erased gains made in the first two months of the period. In fact, Energy, was the only sector to post a positive return during the month of September. The well-worn "growth versus value" theme continued to linger as a popular discussion topic, and while the Russell 1000 Growth Index (+1.2% for the third quarter) did outperform the Russell 1000 Value counterpart (-0.8%), there was a broadening of performance that did not always follow conventional wisdom. Although



Source: FactSet 9.30.21

traditionally growth-dominated sectors such as Communication Services (+1.6%) and Technology (+1.3%) delivered better performance than the broader benchmark, so too did Financials (+2.7%) and Utilities (+1.8%), which are generally more cyclically-sensitive. Two of the more widely held companies, Amazon and Facebook, both underperformed the S&P 500 and their respective sectors, another indicator of widening performance amongst individual equities and indices.

The actively managed FSP equity strategies are concentrated large-cap strategies, all benchmarked to the S&P 500, with a focus on style tilts and appropriate



Source: FactSet 9.30.21

risk, return, and income profiles. Our investment process is anchored by identifying businesses in all sectors with sustainable structural, competitive, and/or economic advantages with attractive valuations and does not focus on a simple "growth versus value" framework. However, we are opportunistic when there are dislocations in the market or specific sectors and individual companies. 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 more sustainable lift in revenues and earnings from consumer and corporate activity as the global recovery continues. 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

The first nine months of 2021 largely continued the hopefulness that characterized the end of 2020, as the widespread distribution and administration of Covid-19 vaccines offered optimism that a successful conclusion to the pandemic was within reach. During the third quarter, the highly transmissible Delta variant shook that confidence, and concerns remain about lower than desired vaccination rates in the U.S. and many locations abroad. However, fears that the Covid-19 pandemic will reemerge as the cause of a new global economic recession have largely dissipated.

Driven by strong economic recovery, estimates for corporate earnings growth have moved significantly higher as 2021 has progressed, providing much of the fuel for this year's equity performance. For full-year 2021, the consensus, bottom-up estimate S&P 500 EPS has moved from $165 to begin the year to nearly $199 as of the end of the third quarter. For 2022, the consensus estimate continues to rise as well, up from $193 on December 31 to almost $218 on September 30. Similarly to global GDP assessments, estimated earnings growth rates likely peaked in the second quarter, and calendar 2022 EPS growth will not approach the historical levels of 2021, yet are anticipated to be well above trend. As of the end of September, FY 2022 consensus estimates according to Factset, imply year-over-year earnings growth of +9.6% and revenue expansion of +6.7%, both well above 5-year averages of +7.1% and +4.5%, respectively. Importantly, earnings growth estimates for the next twelve months are more than one standard deviation above the historical mean in all eleven GICS sectors across the S&P's large, mid, and small-cap indices, indicating a broad overall recovery.

There are a number of potential concerns that could dictate the narrative for financial markets in the final quarter of 2021 and into early 2022. These include the potential for both fiscal and monetary policy from clear tailwinds to possible headwinds. Congress continues to debate several key pieces of legislation, including a $1 trillion bipartisan infrastructure bill that includes nearly $550B of new spending, as well as a multi-trillion budget resolution that will likely include massive corporate and individual tax increases. Current estimates of the negative impact from the current House tax proposal on 2022 S&P earnings ranges from -4 to -6%. Complicating matters further is the U.S. Treasury estimate that it may hit the federal borrowing limit, or "debt ceiling," in mid-October; efforts to raise the debt ceiling may prove challenging with resistance from portions of both parties. On the monetary policy side, the Fed's pending reduction in monthly asset purchases and the potential for rate hikes as early as 2022 will challenge investors to weigh the possible impact of lower liquidity in the coming quarters.

Equities Outlook

- Accelerating corp. fundamentals has provided fuel for 2021 equity returns; growth strong across all sectors, indicating a broad overall recovery.
- Consensus estimates imply S&P 500 EPS growth of +45% in 2021, +9% in 2022.
- Inflation/supply chain challenges compress margins for intermediate term; followed by strong consumption in 2H 2022 as job market recovers and inventories are re-built.
- Market already discounting the Fed's policy transition. A "low" interest rate environment is supportive of elevated equity valuations. Equities remain attractive.
- Proposed tax hikes equates to $8-$9 a share or a 4% hit to baseline eps in 2022.
- "Growth vs. Value" topic still active; favor barbell approach to U.S. Large cap. Favor international developed over emerging markets.

While corporate profit margins remained durable during the first half of 2021, inflation worries persist due in large part to strained supply chains created by the reopening process. The Bloomberg Commodity Index gained +29% YTD through September with several critical inputs at or near multi-year highs, including crude oil, copper, aluminum, and cotton. In addition, wage inflation has emerged in the U.S. due to a variety of factors including greatly extended federal unemployment benefits and staffing bottlenecks caused by the pandemic. We believe a majority of these inflation pressures are largely transitory in nature rather than structural; however, we will be watching closely for signs that any of these inflationary forces prove more permanent and potentially compress corporate profit margins and reduce consumer spending.

Another area of potential investor angst involves multiple issues in China, the world's second largest economy. Regulatory worries emerged in November 2020, as the Chinese government began targeting several of the country's large technology companies with a litany of rulings regarding anti-monopoly practices, data protection and transfer, and capital requirements. In aggregate, these moves by China imply a strong intention to maintain significant control over the country's vital technology sector; any impacts on U.S. stock markets or companies conducting business in China will be watched carefully. In addition, China is also the world's largest creditor; an economic slowdown may adversely affect the flow of capital to emerging markets, raising the risk of cross-border credit crunches. Finally, the challenges of Evergrande, the country's second largest property developer, potentially threatens China's macroeconomic outlook given the overall importance of the housing sector.

Both individually and collectively, these topics have the potential to create short-term volatility, as the near-term challenges are balanced with the return to a more normalized economic backdrop as FY 2022 progresses. We remain constructive on the medium-term and longer-term outlook for both corporate fundamentals and equity returns with a strong emphasis on security selection.

FSP ASSET ALLOCATION AND INTERNAL EQUITY STRATEGIES

During the third quarter of 2021, the FSP Investment Policy Committee adjusted the exposures within the equity asset class to slightly reduce risk as well as take advantage of relative valuation opportunities. The committee reduced emerging market equity exposure due to elevated risks in China and trimmed U.S. small-cap stocks due to concerns related to ongoing supply chain challenges and inflationary pressure. The committee increased exposure to international developed equities, which, in our view, represent compelling valuations. In addition, we continue to prudently rebalance client portfolios as necessary, which involves selling asset classes that have outperformed and buying underperformers toward longer-term strategic targets. These are incremental steps, taken carefully as liquidity allows.

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 capital flexibility, strong 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 do not expect to be 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.

We are always available for questions and concerns. We thank you for your continued confidence.

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS

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