HAVERFORD

QUALITY INVESTING

OCTOBER 2021

Global Economic and Market Commentary

Summary:

- GDP growth slowed in Q3 due to the impacts of the delta variant. We expect growth in Q4 to re-accelerate, but at a rate slower than the first half of 2021. Regardless of the size of the next fiscal stimulus, fiscal tailwinds should decline significantly in 2022. We expect future variants to be less disruptive to growth and central banks to remain accommodative.

- U.S. equities are attractive compared to bonds but return expectations have declined following a strong start to 2021. Earnings growth should moderate and large upside surprises are likely behind us. In the U.S., corporate tax rate increases would hurt earnings modestly, but this would likely take effect in 2022. We remain focused on higher quality companies with pricing power to mitigate margin compression from soaring input costs.

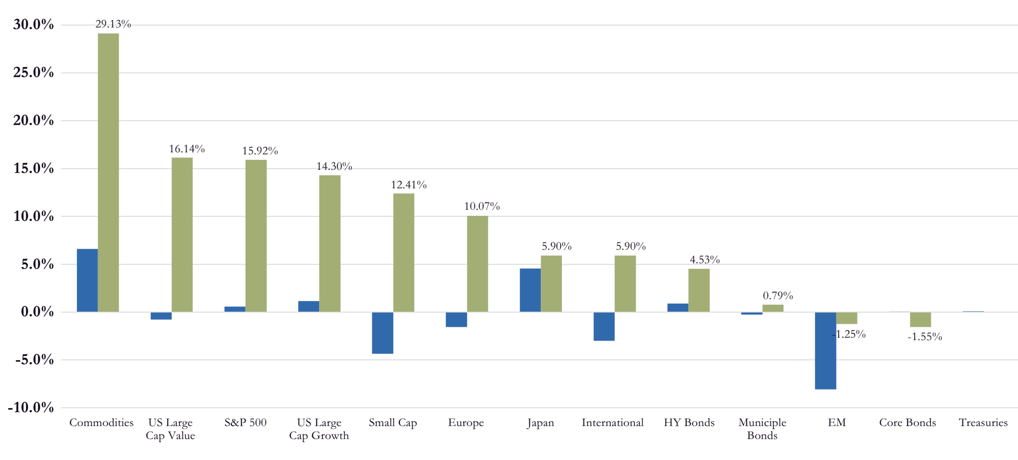
- Non-U.S. developed markets (DM) offer lower starting valuations but higher sensitivity to global GDP growth. Europe and Japan are both attractive as lock-downs have eased and their economies re-accelerate. Non-U.S. DM earnings growth should be similar to the U.S. going forward.

- Zero tolerance lock-downs, regulatory initiatives and a slowing credit impulse in China negatively impacted Chinese and North Asian equity markets in Q3. The derating of emerging market (EM) equities has left EM equities attractive relative to other regions; however, policy risk related to China and COVID remain high in the near term.

- Investment grade bonds and U.S. Treasuries remain unattractive relative to equities due to low absolute yields, but we maintain an allocation as a risk offset and source of liquidity. High yield spreads are very tight and do not offer attractive risk adjusted returns.

- Inflationary pressures from wages and input costs will likely be present through 2022. Once supply chain bottlenecks are resolved and labor markets reach equilibrium, we believe the inflation rate will be higher than the post-Global Financial Crisis period but will not warrant excessive tightening in monetary policy.

Exhibit 1: QTD and YTD Asset Class Returns through September 30, 2021



Source: Bloomberg

Please see performance disclosures on page 5.

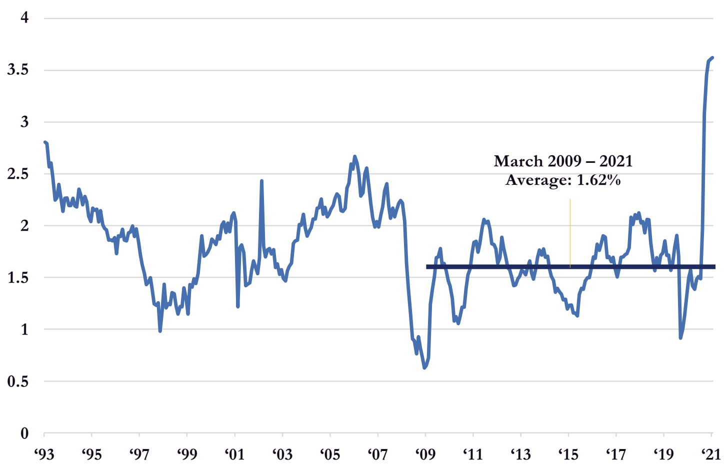
Investments in securities are not FDIC insured, are not bank guaranteed, and may lose value.

Exhibit 2: JP Morgan PMI: All Industry Input Prices

Source: JP Morgan

- Global Purchasing Managers Index (PMI) data has moderated as we move past the "recovery phase." Zero tolerance lock-downs in Asia have reduced Q3 growth forecasts in most regions, though we expect growth to rebound in Q4. Global growth will likely stay above long-term trend levels in 2022 and revert in 2023.
- Supply chain disruptions have led to increased input prices and delays in deliveries. See Exhibit 2. These issues are unlikely to abate until 2H 2022 or later. The auto industry has been most exposed to date.
- Continued vaccination progress and herd immunity should reduce the severity of future variants on economic activity in developed economies and Asian emerging economies.

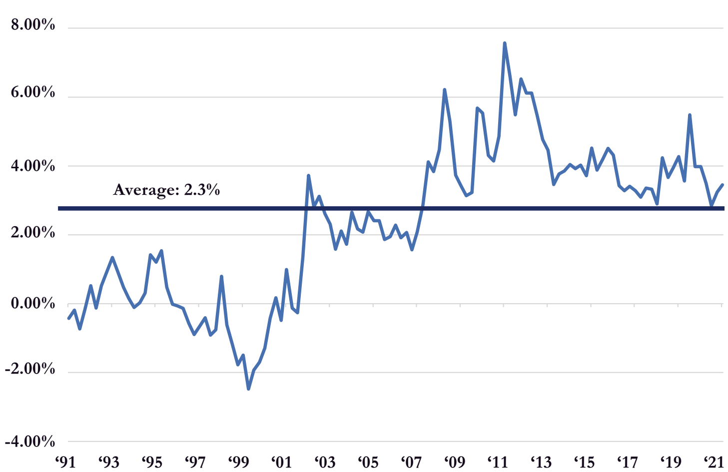
Exhibit 3: US Personal Consumption Expenditure Core Price Index YOY



Source: Bloomberg

- The Fed will likely begin tapering in November or December, but the timing of rate hikes will be dependent on future economic and inflation data.
- Financial conditions remain very easy but have started to tighten modestly. Despite increased volatility in data releases, equity and credit markets have remained near recent highs. We believe the Fed will attempt to maintain easier financial conditions as they are essential for strong growth.
- "Transitory" inflation will likely be here longer than we expected. In additional to supply chain issues, imbalances in labor markets are contributing to input costs and final prices.

Exhibit 4: S&P 500 Equity Risk Premium 1991-2021

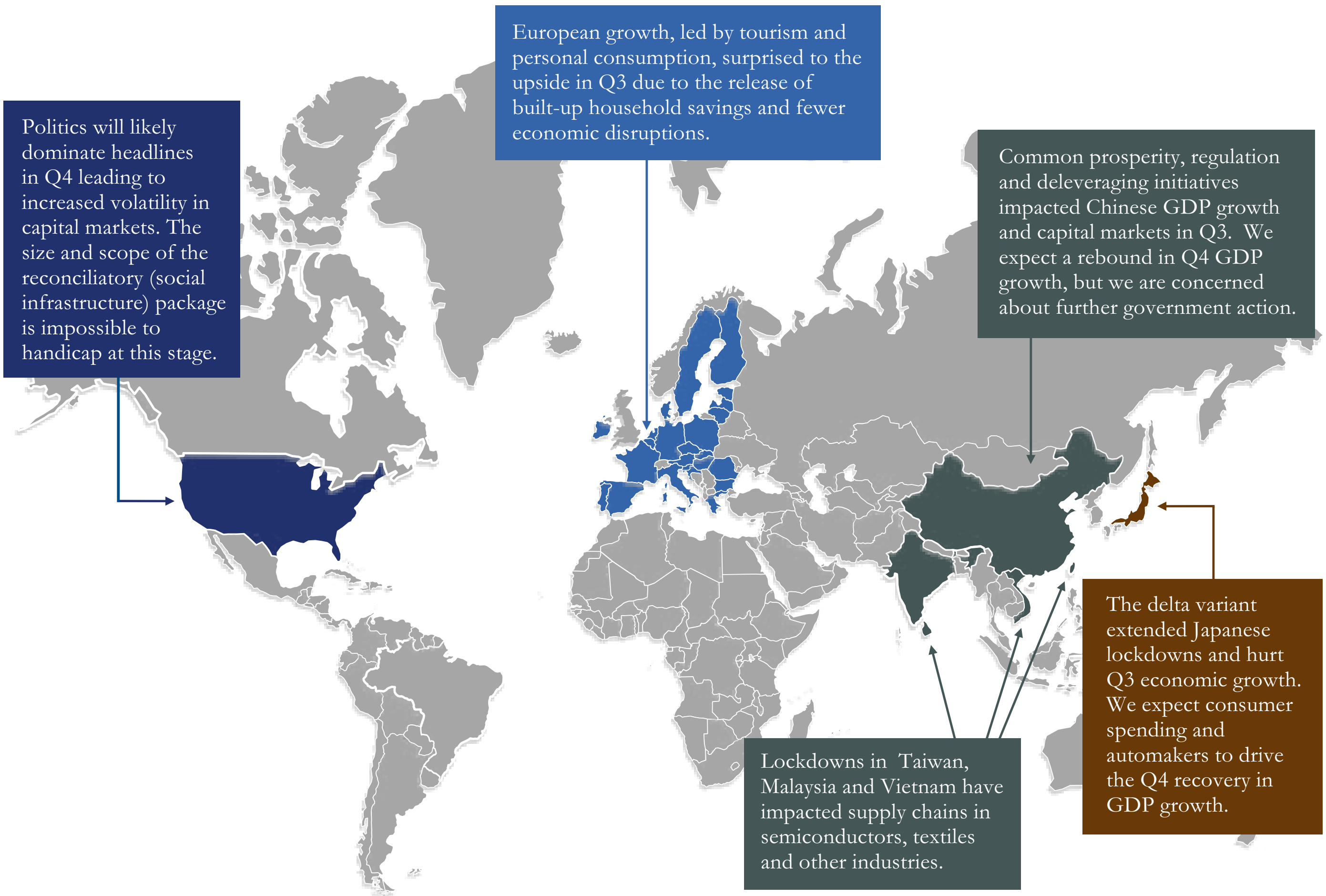


Source: Bloomberg

- Equity valuations declined in Q3 but remain at elevated levels. The equity risk premium (ERP) for the S&P 500 is near the 20-year average and bond yields remain depressed. Equities continue to be attractive relative to bonds.
- Profit margins are at recent highs. Companies will need to pass along price increases to customers to maintain profitability. We believe earnings will be challenged in many industries until labor and input bottlenecks subside. The impact of changes to the corporate tax rate on earnings will vary significantly by sector.
- The ERP for international developed and emerging markets equities is also above long-term averages. With attractive expected earnings growth, the valuation gap between U.S. and international equities may narrow, benefiting international equities.

Regional Outlook

HAVERFORD
QUALITY INVESTING



U.S.

- We expect an eventual agreement on the debt ceiling, a trimmed down 10-year stimulus package and modestly higher personal and corporate taxes amidst a very "noisy" Q4 political environment.
- Most of the direct economic effects of COVID are likely behind us, but we expect a continued deceleration in GDP growth as monetary and fiscal stimulus expire.

Japan

- Japanese growth should accelerate in Q4 due to successful vaccine roll-outs, economic reopening, the release of pent-up demand and exports.
- Supply chain issues, particularly in the auto sector could slow the growth rate. Continued slowing in China GDP growth may also curb the recovery.
- Newly appointed prime minister Fumio Kishida is calling for additional fiscal stimulus and a continuation of accommodative monetary policy.

Europe & UK

- We don't foresee a stagflation scenario in Europe. European labor markets are recovering and delta impacted Europe less than expected.
- Europe may face a potential energy crisis this winter as supplies are short and gas prices have already exploded to the upside.
- The ECB will reduce the pace of asset purchases, but monetary policy will be "loose for long." Fiscal policy will also provide a tailwind.

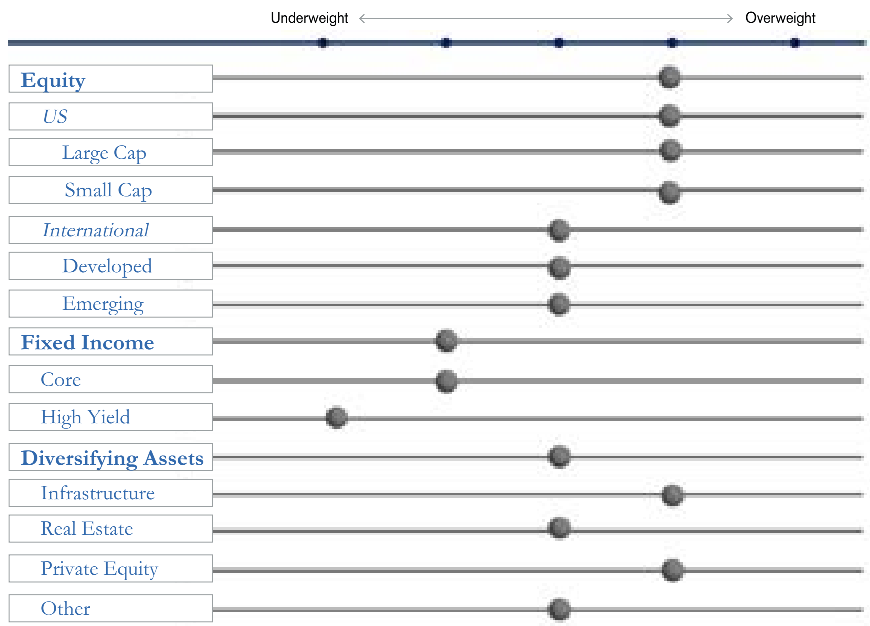
China and EM

- Chinese government initiatives have slowed growth at a faster pace than expected. We believe the policy uncertainty is priced into Chinese and EM equities.
- We expect easier conditions in 2022 leading up to the National Party Congress in October 2022, but the next 6 months may be volatile.
- The avoidance of zero tolerance shutdowns are necessary to ensure fewer supply chain disruptions in the future.

Domestic Equities

- We believe U.S. equities remain attractive relative to bonds despite modest return expectations in 2022. Multiples remain high but earnings yields are well above the low absolute yields offered by Treasuries.
- Earnings growth has likely peaked and 2022 earnings are less certain due to a potential increase in the corporate tax rate. We see little chance of a left tail event in 2022 but expect more volatility than the first three quarters of 2021.
- An increase in the capital gains rate may weigh on equities in the short term, but long term there is little correlation between equity returns and capital gains rates.
- In the tug of war between value and growth, we continue to favor quality. Valuation differences between the cheapest and most expensive companies are near historical wides providing a positive backdrop for stock selection.

Asset Class Views as of September 30, 2021



The exhibit shows target weights relative an IPS benchmark

Source: DMCA

International Equities

- We maintain a positive outlook on non-U.S. developed markets, particularly Europe. With fiscal support, modest inflation and accommodative monetary policy, many large non-U.S. DM economies should continue their recovery into year end and 2022. Revenue and earnings growth should follow as both Japanese and European indices have higher weightings of cyclical companies than the U.S. Earnings levered to global GDP growth, lower starting valuations, and increasing investor flows make non-U.S. DMs more attractive than prior years.
- We believe the majority of the negative headlines related to Chinese regulation and growth are behind us. Valuations of EM equities have derated and now stand at approximately a 13x forward multiple, near long term averages, and substantially below developed markets. Within EM, dispersion in country returns has been wide with India and EMEA up substantially and Brazil lagging for the year. Once supply chain disruptions recede and developed markets GDP growth moves back toward long-term trend levels, we believe EM is poised to outperform, but until Chinese headlines subside, sentiment will likely remain poor.

Fixed Income

- The current level of Treasury yields and tight investment grade corporate bond spreads have reinforced our stance to maintain a shorter duration than benchmark indices. We have duration in portfolios for a risk offset and liquidity remains a key feature in our allocations. We remain overweight investment grade corporate credit, but primarily in maturities less than 7 years. We expect near zero returns from our core allocation to taxable fixed income into 2022. Municipals will likely modestly outperform comparable duration Treasuries.
- We have maintained our allocation to securitized credit through select active managers to increase yield without increasing our interest rate or spread duration exposure. High yield is unattractive at current spread levels despite the attractive backdrop for corporate credit.

Diversifying and Real Assets

- Valuations across private credit and real estate markets remain high amidst the demand for yield and real assets. While private credit strategies offer attractive yields relative to liquid strategies, we are cognizant of embedded leverage, illiquidity and terms that are less friendly to lenders. Additionally, many strategies are not attractive on an after-tax basis.
- The valuation gap between private equity and public markets remains wide. Private equity secondaries and buyout strategies offer an attractive long-term strategy to allocate to U.S. companies.

Important Information

HAVERFORD

QUALITY INVESTING

All information contained herein is based on past performance and is not intended to be indicative of future results. The indices used are unmanaged and return figures reflect the reinvestment of dividends and earnings. There is no guarantee that historical risk and rate of return will persist in the future.

Municipal Bonds: Barclays Municipal Index is an unmanaged index that is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.

US Treasuries: Barclays US Agg Total Treasury is a subset of the Barclays Aggregate US Bond Index and consists of most US Treasury bonds with a maturity of one year or more. It excludes TIPS and STRIPS.

High Yield: Barclays US Corporate High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.

Core Taxable Bonds: Barclays US Aggregate Bond Index, which used to be called the "Lehman Aggregate Bond Index," is a broad base index, maintained by Barclays Capital, represents investment grade bonds being traded in United States.

Commodities: Bloomberg Commodity Index is made up for 22 exchange-traded futures on commodities that represent 20 commodities. These commodities are weighted to account for economic significance and market liquidity.

Emerging Markets: MSCI Emerging Markets Index is a stock market index that is designed to measure the equity market performance of emerging markets outside developed markets, markets such as Brazil, China, Russia, etc.

International Equities: MSCI ACWI ex US Index is a stock market index that is designed to measure the equity market performance of all equity markets excluding the US.

Europe: The Euro Stoxx Total Market Index covers 95% of the free-float market cap of the stocks in Europe.

Japan: The TOPIX Net Total Return Index includes the stocks traded on the Tokyo Stock Exchange. It has approximately 1700 companies.

S&P 500 Index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

Any third-party information contained herein has been obtained from sources believed to be reliable; however, no assurance can be given that all external information is correct. All market prices, data and other information are not warranted as to completeness or accuracy, may not be audited information and are subject to change without notice.

Statements in this commentary that are not historical facts are forward-looking statements based on the investment team's current expectations and assumptions of economic and other future conditions and forecasts of future events, circumstances and results. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements.

The forecasts and opinions in this piece are provided for informational purposes only and may not actually come to pass. The views and opinions expressed above are those of the portfolio management team at the time of writing and are subject to market, economic and other conditions that may change at any time, and, therefore, actual results may differ materially from those expected. They should not be construed as recommendations to buy or sell securities in the asset classes or countries discussed. The analysis provided should not be relied upon as the sole factor in an investment decision, but as illustrations of broader economic themes. We assume no obligation to update any forward-looking statement made by us or on our behalf as a result of new information, future events or other factors.

The financial instruments described may not be suitable for all investors. All investments contain associated inherent risks including possible loss of principal. Investments in foreign markets entail special risks such as currency, political, economic, and market risks. The risks of investing in emerging market countries are greater than the risks generally associated with foreign investments. This material does not constitute a recommendation to the suitability of any product or security and does not constitute an offer to buy or sell any financial instrument or to participate in any trading strategy.

This material may not be reproduced, shown or quoted to members of the general public or used in written form as sales literature. All data presented is as of September 30, 2021 unless otherwise stated.

HAVERFORD

QUALITY INVESTING

Three Radnor Corporate Center, Suite 450
Radnor, Pennsylvania 19087
P 610-995-8758 | 888-995-1979
www.haverfordquality.com