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MONTHLY MARKET COMMENTARY | JULY 2021

# Developed Markets Decouple from Emerging-Market Selloff

## Monthly Snapshot

- Globally, equities started the second half of 2021 with mixed performance. Developed markets generated positive returns for July, but emerging markets declined sharply—led by China's double-digit losses.
- Canada succeeded in vaccinating 72% of its population through the end of the month, followed closely by the UK (70%), and then France (63%), Germany (62%) and the US (58%)[1].
- Despite a tremendous amount of excess savings and pent-up demand in North America and Europe, investors could once again grow cautious of riskier asset classes if COVID-19 infection rates spike severely enough.

Globally, equities started the second half of 2021 with mixed performance. Developed markets generated positive returns for July, but emerging markets declined sharply—led by China's double-digit losses.

Long-simmering concerns about high debt levels, heavy-handed regulation and the decoupling of US and Chinese markets came into focus during July due to growing debt-driven troubles for China Evergrande Group, one of the country's largest property developers; a forced conversion of education companies from for-profits to non-profits; the imposition of new regulations on food-delivery apps; a demand that major technology company Tencent cancel licensing deals with numerous record labels; and the disappearance of Chinese ride-sharing app Didi Global from the country's app stores right after its US trading debut.

Health care was the best-performing sector across global equities in July, followed by information technology. Energy shares declined sharply. The price of West Texas Intermediate crude-oil was practically unchanged after a volatile month —initially selling off almost 10%, and then rebounding, from an announcement by OPEC+ (the Organization of the Petroleum Exporting Countries led by Saudi Arabia, plus Russia) that production will increase again in August.

Government-bond rates declined across most maturities in the UK, eurozone and US during July, with longer-term rates falling by more than shorter-term rates. Inflation-indexed sovereigns—index-linked gilts and US Treasury inflation-protected securities (TIPS)—outpaced most other fixed-interest asset classes. Non-indexed sovereigns and investment-grade corporates also performed well as rates declined. Local-currency emerging-market debt (EMD) fell, while foreign-currency EMD, high-yield and asset-backed securities (ABS) had relatively modest gains.

The US reported approximately 80,000 new COVID-19 infections per day at the end of July—more than any other country, and double the second highest daily rate of 40,000 recorded in both India and Indonesia. A large share of Africa and East Asia remained at or near peak country-level infection rates, while South America's spread eased. Indonesia suffered the largest number of COVID-19-related deaths per day at the end of the month (1,200), followed by Brazil (987) and Russia (783).

Canada succeeded in vaccinating 72% of its population through the end of July; the UK closely followed with a rate of 70%, while smaller percentages were vaccinated in France (63%), Germany (62%) and the US (58%)[1].

[1] "COVID-19 Global Tracker." Reuters.



All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

## Key Measures: July 2021

| | | |
|---|---|---|
| **EQUITY** | | |
| Dow Jones Industrial Average | 1.34% | ↑ |
| S&P 500 Index | 2.38% | ↑ |
| NASDAQ Composite Index | 1.19% | ↑ |
| MSCI ACWI Index (Net) | 0.69% | ↑ |
| **BOND** | | |
| Bloomberg Barclays Global Aggregate Index | 1.33% | ↑ |
| **VOLATILITY** | | |
| Chicago Board Options Exchange Volatility Index<br>PRIOR MONTH: **15.83** | 18.24 | ↑ |
| **OIL** | | |
| WTI Cushing crude oil prices<br>PRIOR MONTH: **$73.47** | $73.95 | ↑ |
| **CURRENCIES** | | |
| Sterling vs. US dollar | $1.39 | ↑ |
| Euro vs. US dollar | $1.18 | ↑ |
| US dollar vs. yen | ¥109.69 | ↓ |

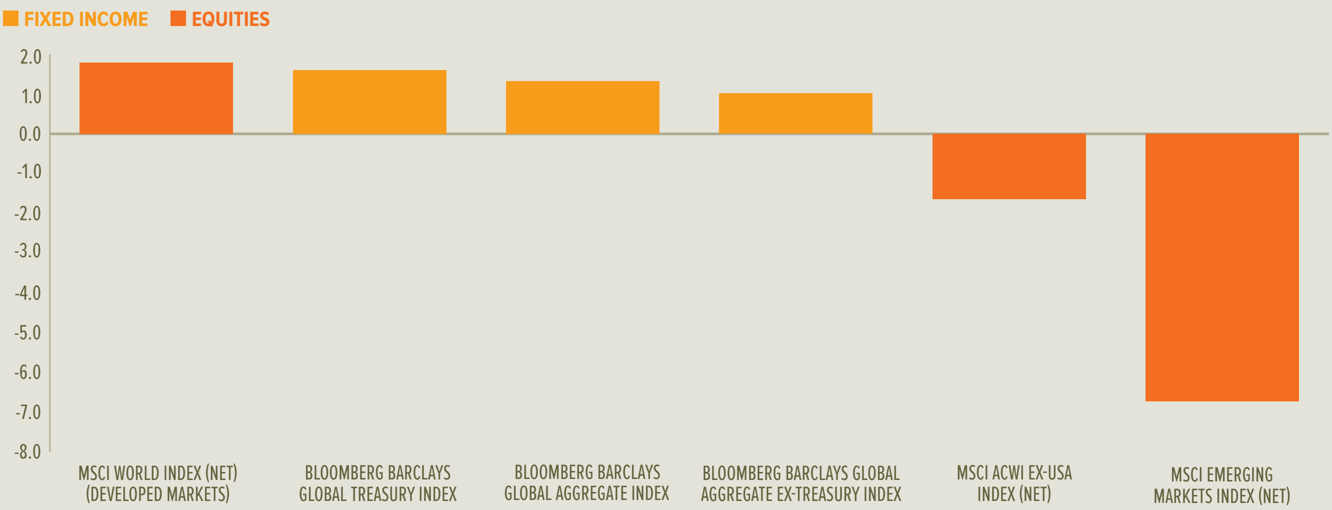
Sources: Bloomberg, FactSet, Lipper

At the end of the month, the US Senate voted to begin negotiations about a bipartisan infrastructure plan. Formally called the Infrastructure Investment and Jobs Act, the plan includes roughly $1 trillion with $550 billion in new spending over a five-year period. It is projected to add approximately two million jobs per year for a decade as the nation undertakes modernising roads, railways, ports, public transit, airports and power grids; improving water quality and broadband access; and cleaning abandoned environmentally hazardous sites.

Despite its high cost, funding the plan does not call for broad-based individual or corporate tax increases. In a rare demonstration of widespread support, a long list of business and labour organisations—including the US Chamber of Commerce (the largest US business lobbying organisation) and the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO, the largest US labour union group)—offered a joint endorsement of the deal in early July.

Finance ministers and central bank leaders from the Group of 20 (G-20), representing the world's 20 largest economies, unanimously agreed to endorse the major components of a tax plan that would establish a global minimum corporate tax of at least 15%. Finalisation of the plan requires approval from national leaders. In deference to this effort, EU officials postponed review of its digital levy proposal until autumn.

## Major Index Performance in July 2021 (Percent Return)

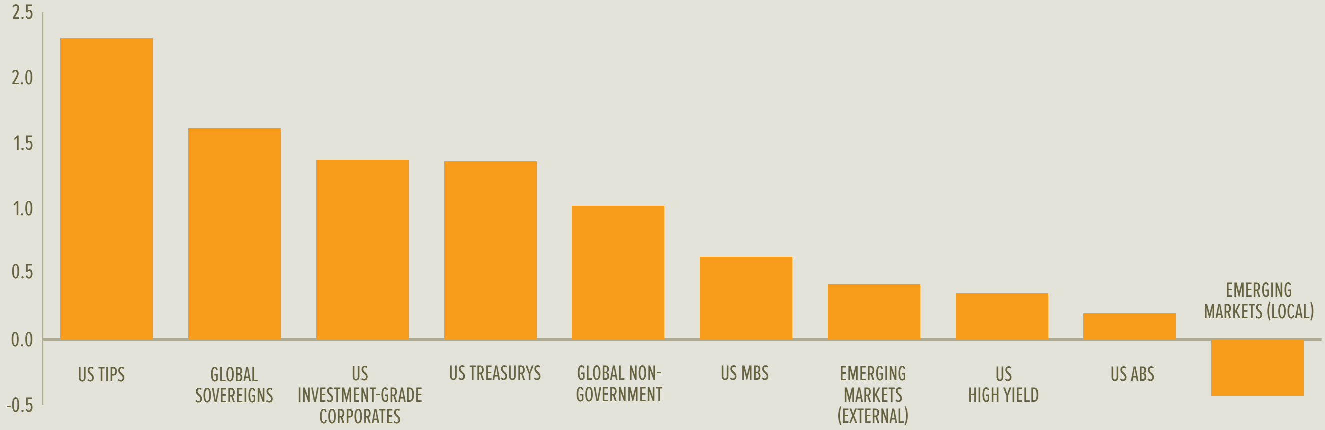



Sources: FactSet, Lipper. See "Corresponding Indexes for Major Index Performance Exhibit" in the Index Descriptions section for more information.



**All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.**

## Fixed-Income Performance in July 2021 (Percent Return)




Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index Descriptions section for more information.

# Economic Data

Quote One

## UK

- Manufacturing activity in the UK expanded rapidly in July, but continued to settle from May's peak as supply and labour shortfalls held back overall growth[2].
- UK services activity followed the same path—growing at a strong pace in July, but slowing since May's high point [3].
- The UK claimant count (which calculates the number of people claiming Jobseeker's Allowance) declined to 5.8% of the population in June from 6% in May as the total number of claimants decreased from 2.44 million to 2.32 million.
- The broad UK economy grew by 0.8% during May, representing the fourth straight month of expansion following a downtrend that persisted from November 2020 through January 2021.

## Eurozone

- Eurozone manufacturing remained at red-hot growth levels in July, albeit just below the record pace set in June, as all countries besides Germany reported slower growth[4].
- Eurozone services growth continued to accelerate through July, hitting the fastest pace since June 2006[5].
- The eurozone unemployment rate fell to 7.7% in June from 8.0% in May.

[2]"Resource and staff shortages constrain growth and drive up costs at manufacturers in July." IHS Markit / CIPS UK Manufacturing PMI. 2 August 2021.
[3]"UK private sector growth at four-month low as shortages of staff and materials hinder recovery in July." IHS Markit / CIPS Flash UK Composite PMI. 23 July 2021.
[4]"Manufacturing growth remains strong despite slight loss of momentum." IHS Markit Eurozone Manufacturing PMI – final data. 2 August 2021.
[5]"Eurozone flash PMI hits 21 year high as economy reopens." IHS Markit Flash Eurozone PMI. 23 July 2021.

- The overall eurozone economy grew by 2.0% during the second quarter and 13.7% year over year, representing a marked improvement over the first quarter's respective rates of -0.3% and -1.3%.

## US

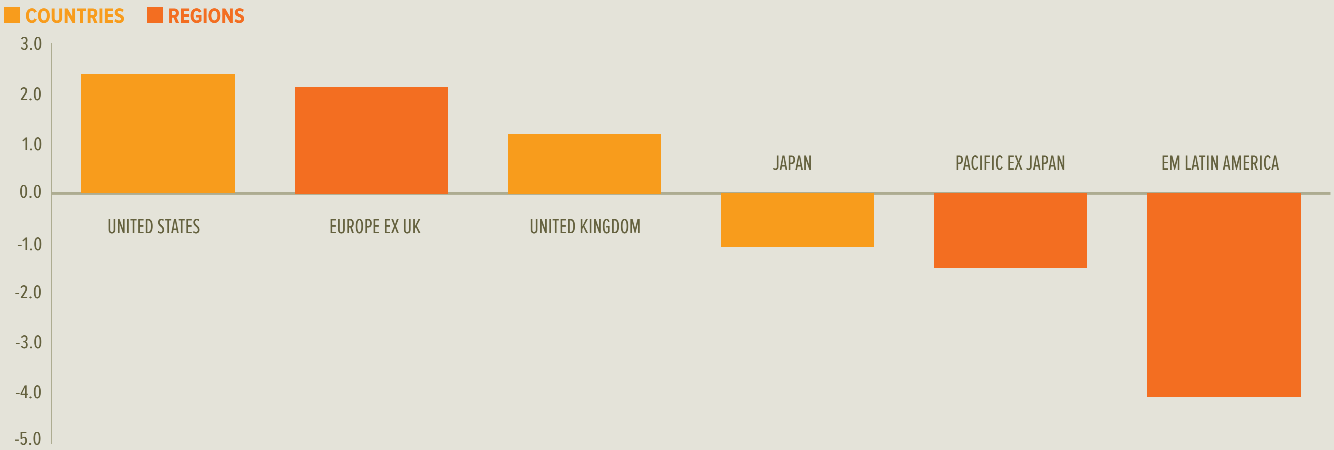
- Manufacturing growth in the US pushed further into uncharted territory during July, with extreme levels of supply backlogs pushing input costs higher at a record pace[6].
- US services growth—like that of the UK—remained strong in July, but continued to moderate from May's dizzying peak[7].
- New claims for US jobless benefits hovered around 400,000 per week during July.
- Overall US economic growth measured an annualised 6.5% during the second quarter, just above the first-quarter pace of 6.3%.

# Central Banks

- The Bank of England's (BOE) Monetary Policy Committee (MPC) did not hold a July meeting; the bank rate remained 0.1% and the £895 billion maximum allowance for asset purchases was unchanged.
- The European Central Bank (ECB) unveiled the results of its strategy review in early July, adopting a symmetric inflation target of 2% over the medium-term, meaning that it views deviations above or below its target as undesirable and that it anticipates fluctuations over shorter time frames. At its late-July monetary-policy meeting, the ECB maintained its expectation that purchases under the pandemic emergency purchase programme

[6] "July PMI ticks up to record high, but supply delays and price pressures also hit new peaks." IHS Markit U.S. Manufacturing PMI. 2 August 2021.
[7] "Robust upturn in private sector activity amid quicker manufacturing output expansion." IHS Markit Flash U.S. Composite PMI. 23 July 2021.

## Regional Equity Performance in July 2021 (Percent Return)

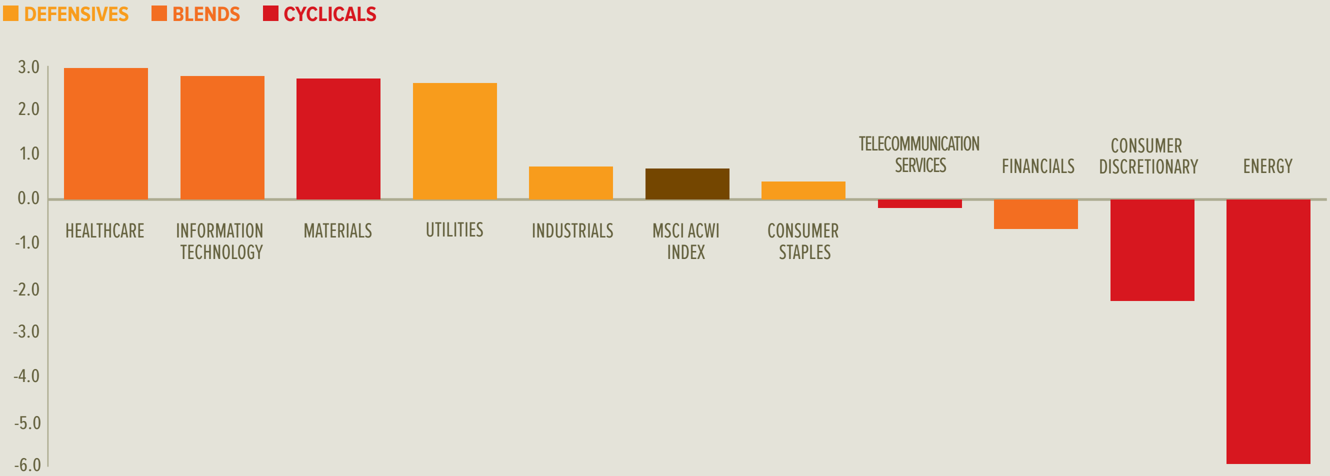



Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index Descriptions section for more information.



**All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.**

## Global Equity Sector Performance in July 2021 (Percent Return)




Sources: FactSet, Lipper. MSCI ACWI Index Sector Components (Cyclicality determined by SEI).

(PEPP) will be conducted at a significantly higher pace than during the first months of the year. Purchases averaged about €80 billion per month during the second quarter after running closer to a monthly pace of €60 billion during the first quarter. The ECB also said it expects to continue its pre-pandemic asset purchase programme at a pace of €20 billion per month.

- The US Federal Open Market Committee (FOMC) made no changes following its late-July meeting but reported that progress had been made toward its goals for employment and inflation. Federal Reserve (Fed) Chairman Jerome Powell shared that the FOMC debated when and how to taper its asset purchases of $80 billion in US Treasurys and $40 billion in agency mortgage-backed securities per month. The Fed also announced a standing repurchase-agreement (repo) facility with a daily capacity of $500 billion to extend liquidity to primary dealer banks in exchange for high-quality collateral. It indicated plans to establish a similar facility for other central banks as well.
- The Bank of Japan (BOJ) adjusted its outlook at its mid-July meeting; growth expectations were lowered for 2021 and increased for 2022 as the country's recovery is projected to take longer, and inflation is estimated to increase for both calendar years. The BOJ also shared details about its green loan initiative, including extending 0% interest-rate credit to banks for their "green" lending efforts, waiving punitive negative interest rates for associated bank reserve requirements, and allowing foreign-currency bonds issued by Japanese companies to be eligible for the programme.



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# SEI's View

Equity markets have long anticipated the economic improvement we are watching unfold. There is increasing concern, however, that equity prices have risen so much that there is little appreciation potential left, even if the global economy continues to forge ahead into 2022.

Since mid-June, we have witnessed a partial unwinding of the rotation trade (from expensive technology-oriented stay-at-home companies to less-expensive cyclically-oriented companies) that began last autumn. So far, this appears to us as a temporary pause in a longer-term upswing. The global recovery and expansion have a long way to go, especially since many countries are still imposing lockdown measures to varying degrees.

We can't rule out a choppier and more lacklustre performance for US equities in the months ahead given their strong outperformance since March 2009 and elevated stock-market valuations relative to much of the rest of the world. If stock-market volatility does increase, we don't think there's reason to be overly concerned; corrections that range from 5% to 10% can occur without any fundamental reason.

In today's environment, with economies opening up around the globe and interest rates still at extraordinarily low levels, the dominant trend favours further price gains over the next year or two. Still, investors must take into account that the US economy appears to have reached "peak growth."

Growth slowdowns, not just recessions, can lead to equity underperformance versus bonds. The relative performance of equities versus bonds was phenomenal over the past 16 months[8]; a major narrowing of the performance gap is inevitable. Yet, with interest rates still at exceptionally low levels, it is hard to see equities losing ground to fixed-income securities while economic growth remains robust. Not only should consumer demand remain strong as long as economies continue to reopen, but businesses have been in a spending mood—desperately seeking materials and workers.

In the meantime, companies are expected to enjoy a great deal of pricing power and will almost certainly pass along at least a portion of their increased costs to customers. Unfortunately, one person's pricing power is another person's inflation. The big question is whether the price pressures seen this year are transitory, as central bankers around the world say they are.

Investors in the bond market seem to agree with the central bankers. Although US bond yields rose sharply in the first quarter, they have since fallen. There's no telling how long bond investors will maintain such a calm perspective if inflation persists at a pace not seen in almost 30 years.

Fed Chairman Jerome Powell has continued to reiterate that the US labour market has a long way to go before it reaches full employment. Job openings in the country are now soaring. If the rise in the Employment Cost Index accelerates as we expect, inflation could become a greater concern for investors.

The recent stumble in the rotation theme was exacerbated by the marginally hawkish shift in Fed expectations. It is clear, however, that

[8] Based on the performance of the MSCI ACWI Index (global equities) and Bloomberg Barclays Global Aggregate Index (global bonds)

the US central bank intends to cautiously move away from its current policy stance. The first move will likely be the tapering of its bond-buying programme, which may be announced in late August at the annual Jackson Hole conference, with actual tapering beginning no earlier than the first quarter of 2022.

The path of US fiscal policy is harder to decipher given strained bipartisanship and the narrowness of the Democratic majority in the Congress. A traditional infrastructure bill appears likely to get passed with bipartisan support, but the push for non-traditional forms of infrastructure—and the taxes to pay for all the added spending—will depend on whether the Democrats in the Senate can come to terms with each other.

The combination of above-average economic growth, significantly higher inflation than seen in the past decade, a fiscal policy that expands the size of federal government spending, and extreme monetary ease aimed at suppressing interest rates is the perfect backdrop for risk assets—and the creation of speculative bubbles.

The relative success of the US vaccination effort and the country's state-by-state response has resulted in a significantly stronger economy this year than in other major developed countries. Fortunately, injection rates have been accelerating in Europe and Japan. We anticipate other advanced economies will record strong economic results in the second half of the year and into 2022, exceeding the pace of growth in the US.

Although economists correctly point out that the US has employed direct fiscal measures (emergency spending, income support and tax breaks) more aggressively than any other nation, other countries have used different tactics that far exceed the US effort.

Several European nations and Japan have relied on equity injections, loans and guarantees. Italy (35% of gross domestic product), Japan and Germany (both at 28%) are the most notable, according to the International Monetary Fund[9]. In the eurozone, some of these loan commitments have only just begun to flow. Italy and Spain are big beneficiaries of the eurozone's €750 billion in loans and grants as part of the so-called NextGenerationEU program.

The ECB also seems dedicated to maintaining its pandemic-related monetary support at least through March 2022. As a percentage of gross domestic product (GDP), the ECB's balance sheet has risen more than 25% since the beginning of the COVID-19 crisis, more than any other major central bank besides the BOJ (30%)[10]. The ECB's actions have succeeded in keeping peripheral Europe's sovereign bond yields well behaved through the crisis period.

While the US, the UK and Canada seem to be enduring a much sharper inflationary increase than Japan or the eurozone, the latter two are probably relieved to have a respite from the deflationary pressures that have afflicted their economies for many years. There seems little reason for the ECB or BOJ to join the Fed when it comes to discussing a near-term reduction in asset purchases, much less raising their policy rates ahead of the US.

[9]International Monetary Fund (IMF), 2021, "Database of Fiscal Responses to COVID-19" (Washington)
[10]According to data retrieved from FactSet

We do not see much sign that the Fed's shift toward an earlier lift-off in rates will lead to a 2013-style "taper tantrum" among emerging economies. A strong US dollar would certainly threaten the bull market in commodity prices.

While we are still bullish on the outlook for commodities, we are watching price trends carefully. Commodity prices of all types have enjoyed a spectacular run since March 2020 and were already in the process of consolidating or correcting in the weeks before the Fed revised its views.

We remain optimistic that the more cyclical and value-oriented areas within emerging markets will bounce back from their recent stumble. But there are near-term challenges besides the shift in perceptions about Fed policy and the future course of the US dollar and commodity prices. Credit growth has decelerated significantly in China, similar to the slowdowns recorded in 2013 and 2018—years when the performance of emerging markets was less than stellar.

Another potential source of market volatility could stem from the increasingly fraught relationship between China and the US and its allies. If there is any consensus in Washington nowadays, it is focused on countering China's growing economic and military strength; although market participants have mostly managed to look past political tensions to date.

Fundamentally, emerging markets continue to look relatively cheap versus most other regions. The forward price-to-earnings multiple of the MSCI Emerging Markets Index is still selling at a 36.4% discount to that of the MSCI USA Index. Outside the March-to-April 2020 low point, this is as cheap a relative multiple against the US as seen at any time in the past 16 years[11].

We are counting on advanced economies to take up the slack while vaccines ramp up in developing countries. There has been a tremendous amount of excess savings and pent-up demand in North America and Europe. That said, as we've witnessed with the surge in new cases driven by the Delta variant, the possibility of regional spikes cannot be dismissed. If severe enough, markets could switch back to a decidedly risk-off position.

As vaccination rates slow in the developed world, more shots are becoming available to the rest of the world. We expect a rolling reopening of the global economy that will extend well into 2022. This wave of recovery could resemble a prolonged up-cycle that keeps the pressure on supply chains, leading to continued shortages of goods and labour. Investor faith in the "transitory inflation" narrative probably will be tested as we head into year end and enter 2022.

[11]According to data retrieved from MSCI

## Standardised Performance

| | | 1 year to 31-Jul-21 | 1 year to 31-Jul-20 | 1 year to 31-Jul-19 | 1 year to 31-Jul-18 | 1 year to 31-Jul-17 |
|---|---|---|---|---|---|---|
| **Key Measures** | | | | | | |
| Dow Jones Industrial Average | | 34.79% | 0.83% | 8.22% | 18.75% | 21.81% |
| S&P 500 Index | | 36.45% | 11.96% | 7.99% | 16.24% | 16.04% |
| NASDAQ Composite Index | | 37.53% | 32.78% | 7.74% | 22.13% | 24.41% |
| MSCI ACWI Index (Net) | | 33.18% | 7.20% | 2.95% | 10.97% | 17.06% |
| Bloomberg Barclays Global Aggregate Index | | 0.78% | 7.85% | 5.73% | -0.48% | -1.28% |
| **Major Index Performance** | | | | | | |
| Bloomberg Barclays Global Aggregate ex-Treasury Index | | 2.27% | 7.95% | 6.01% | -0.55% | 1.53% |
| Bloomberg Barclays Global Aggregate Index | | 0.78% | 7.85% | 5.73% | -0.48% | -1.28% |
| Bloomberg Barclays Global Treasury Index | | -0.52% | 7.71% | 5.50% | -0.43% | -3.56% |
| MSCI ACWI ex-USA (Net) | | 27.78% | 0.66% | -2.27% | 5.94% | 19.01% |
| MSCI Emerging Markets Index (Net) | | 20.64% | 6.55% | -2.18% | 4.36% | 24.84% |
| MSCI World Index (Net) | | 35.07% | 7.23% | 3.62% | 11.88% | 16.12% |
| **Fixed-Income Performance** | | | | | | |
| US Treasury Inflation-Protected Securities (TIPS) | Bloomberg Barclays 1-10 Year U.S. TIPS Index | 7.52% | 7.10% | 5.24% | 0.55% | -0.08% |
| Global Non-Government | Bloomberg Barclays Global Aggregate ex-Treasury Index | 2.27% | 7.95% | 6.01% | -0.55% | 1.53% |
| Global Sovereigns | Bloomberg Barclays Global Treasury Index | -0.52% | 7.71% | 5.50% | -0.43% | -3.56% |
| US Investment-Grade Corporates | Bloomberg Barclays U.S. Corporate Investment Grade Index | 1.42% | 12.44% | 10.42% | -0.73% | 1.55% |
| US Asset-Backed Securities (ABS) | Bloomberg Barclays U.S. Asset-Backed Securities Index | 1.13% | 5.13% | 4.86% | 0.26% | 0.98% |
| US Mortgage-Backed Securities (MBS) | Bloomberg Barclays U.S. Mortgage-Backed Securities Index | 0.03% | 5.43% | 6.76% | -0.41% | 0.19% |
| US Treasurys | Bloomberg Barclays U.S. Treasury Index | -3.01% | 11.84% | 7.57% | -1.23% | -2.55% |
| US High Yield | ICE BofAML US High Yield Constrained Index | 10.75% | 2.99% | 6.93% | 2.50% | 11.24% |
| Emerging Markets (External) | JPMorgan EMBI Global Diversified Index | 4.11% | 2.97% | 10.98% | 0.07% | 5.04% |
| Emerging Markets (Local) | JPMorgan GBI-EM Global Diversified Index | 3.00% | -0.81% | 7.95% | -2.50% | 7.97% |
| **Regional Equity Performance** | | | | | | |
| United Kingdom | FTSE All-Share Index | 34.15% | -11.84% | -5.47% | 8.61% | 14.09% |
| EM Latin America | MSCI Emerging Markets Latin America Index (Net) | 25.31% | -25.15% | 8.58% | 0.71% | 18.02% |
| Europe ex UK | MSCI Europe ex UK Index (Net) | 33.00% | 3.52% | -2.84% | 4.67% | 22.38% |
| Pacific ex Japan | MSCI Pacific ex Japan Index (Net) | 28.89% | -9.86% | 5.24% | 6.23% | 16.48% |
| United States | S&P 500 Index | 36.45% | 11.96% | 7.99% | 16.24% | 16.04% |
| Japan | TOPIX, also known as the Tokyo Stock Price Index | 25.04% | 0.70% | -5.76% | 9.20% | 15.99% |
| **Global Equity Sector Performance** | | | | | | |
| MSCI ACWI Index | | 33.18% | 7.20% | 2.95% | 10.97% | 18.78% |
| MSCI ACWI Consumer Discretionary Index | | 32.19% | 17.71% | 3.69% | 14.30% | 20.46% |
| MSCI ACWI Consumer Staples Index | | 14.44% | 4.12% | 7.76% | 1.29% | 4.27% |
| MSCI ACWI Energy Index | | 33.46% | -33.47% | -12.05% | 21.85% | 0.25% |
| MSCI ACWI Financials Index | | 44.18% | -15.38% | -1.16% | 5.21% | 33.41% |
| MSCI ACWI Healthcare Index | | 21.95% | 20.84% | 2.49% | 11.25% | 9.63% |
| MSCI ACWI Industrials Index | | 40.82% | -4.10% | 0.88% | 9.73% | 22.08% |
| MSCI ACWI Information Technology Index | | 40.15% | 37.32% | 11.17% | 22.47% | 35.53% |
| MSCI ACWI Materials Index | | 41.80% | 5.77% | -5.00% | 10.99% | 24.44% |
| MSCI ACWI Telecommunication Services Index | | 33.66% | 12.84% | 11.90% | -5.30% | -2.23% |
| MSCI ACWI Utilities Index | | 10.34% | 4.59% | 10.93% | 2.67% | 3.38% |

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## Glossary of Financial Terms

**Asset-Backed Securities (ABS):** ABS are securities created from pools of loans or accounts receivable such as credit cards, auto loans and mortgage loans.

**Bear market:** A bear market refers to a market environment in which prices are generally falling (or are expected to fall) and investor confidence is low.

**Bubble:** A bubble occurs when excessive speculation leads to a drastic increase in asset prices, leaving them at risk to collapse.

**Bull market:** A bull market refers to a market environment in which prices are generally rising (or are expected to rise) and investor confidence is high.

**Cyclical stocks:** Cyclical stocks or sectors are those whose performance is closely tied to the economic environment and business cycle. Managers with a pro-cyclical market view tend to favour stocks that are more sensitive to movements in the broad market and therefore tend to have more volatile performance.

**Delta variant:** The B.1.617.2 (delta) variant of the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), the virus that causes coronavirus disease 2019 (Covid-19), arose during the sharp surge in cases in India during spring 2021 and has now been detected across the globe, including notable increases in cases in the UK and US.

**Fiscal policy:** Fiscal policy relates to decisions about government revenues and outlays, like taxation and economic stimulus.

**Fiscal stimulus:** Fiscal stimulus refers to government spending intended to provide economic support.

**Forward price-to-earnings (PE) ratio:** The forward PE ratio is equal to the market capitalisation of a share or index divided by forecasted earnings over the next 12 months. The higher the PE ratio, the more the market is willing to pay for each dollar of annual earnings.

**Hawk:** Hawk refers to a central bank policy advisor who has a negative view of inflation and its economic impact and thus tends to favour higher interest rates.

**Inflation-Protected Securities:** Inflation-protected securities are typically indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. The principal value of an inflation-protected security typically rises as inflation rises, while the interest payment varies with the adjusted principal value of the bond. The principal amount is typically protected so that investors do not risk receiving less than the originally invested principal.

**Monetary policy:** Monetary policy relates to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

**Mortgage-Backed Securities:** Mortgage-Backed Securities (MBS) are pools of mortgage loans packaged together and sold to the public. They are usually structured in tranches that vary by risk and expected return.

**NextGenerationEU:** NextGenerationEU is an economic recovery fund established by the EU and totalling more than €800 billion projected to be spent between 2021 and 2027. The centrepiece of the programme is a €723.8 billion facility for loans and grants to EU countries for investments.

**OPEC+:** OPEC+ combines OPEC—a permanent intergovernmental organization of 13 oil-exporting developing nations that coordinates and unifies the petroleum policies of its member countries—with Russia, a major oil exporter, to make collective high-level decisions about oil production levels.

**Pandemic Emergency Purchase Programme (PEPP):** PEPP is a temporary asset purchase programme of private and public sector securities established by the ECB to counter the risks to monetary policy transmission and the outlook for the euro area posed by the COVID-19 outbreak.

**Quantitative easing:** Quantitative easing refers to expansionary efforts by central banks to help increase the supply of money in the economy.

**Summary of Economic Projections:** The Fed's Summary of Economic Projections (SEP) is based on economic projections collected from each member of the Fed Board of Governors and each Fed Bank president on a quarterly basis.

**Taper tantrum:** Taper tantrum describes the 2013 surge in U.S. Treasury yields, resulting from the U.S. Federal Reserve's announcement of future tapering of its policy of quantitative easing.

**Transitory inflation:** Transitory inflation refers to a temporary increase in the rate of inflation.

**Treasury Inflation-Protected Securities (TIPS):** TIPS are sovereign securities issued by the US Treasury that are indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. The principal value of TIPS rise as inflation rises, while the interest payment varies with the adjusted principal value of the bond. The principal amount is protected so that investors do not risk receiving less than the originally invested principal.

**Yield:** Yield is a general term for the expected return, in percentage or basis points (one basis point is 0.01%), of a fixed-income investment.

**Yield curve:** The yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (likelihood of default). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates the yields are closer together.

## Index Descriptions

**The Employment Cost Index** is a quarterly economic series published by the U.S. Bureau of Labor Statistics that details the growth of total employee compensation. The index tracks movement in the cost of labour, as measured by wages and benefits, at all levels of a company.

**The MSCI Emerging Markets Index** is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

**The MSCI USA Index** measures the performance of the large- and mid-cap segments of the U.S. market.

## Corresponding Indexes for Key Measures Exhibit

| | |
|---|---|
| Dow Jones Industrial Average | The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of The Wall Street Journal. |
| NASDAQ Composite Index | The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system, representing a subset of the US equity market. |
| MSCI ACWI Index | The MSCI ACWI Index is a market-capitalisation-weighted index composed of over 2,000 companies, and is representative of the market structure of 46 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in US dollars. |
| Bloomberg Barclays Global Aggregate Index | The Bloomberg Barclays Global Aggregate Index is an unmanaged market-capitalisation-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices. |
| Chicago Board Options Exchange Volatility Index (VIX) | The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility. |

## Corresponding Indexes for Major Index Performance Exhibit

| | |
|---|---|
| MSCI ACWI ex-USA Index | The MSCI ACWI ex-USA Index includes both developed- and emerging-market countries, excluding the US. |
| MSCI Emerging Markets Index | The MSCI Emerging Markets Index is a free float-adjusted market-capitalisation-weighted index designed to measure the performance of global emerging-market equities. |
| MSCI World Index | The MSCI World Index is a free float-adjusted market-capitalisation-weighted index that is designed to measure the equity market performance of developed markets. |
| Bloomberg Barclays Global Aggregate Index | The Bloomberg Barclays Global Aggregate Index is an unmanaged market-capitalisation-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices. |
| Bloomberg Barclays Global Aggregate ex-Treasury Index | The Bloomberg Barclays Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total return performance of ex-Treasury major world bond markets. |
| Bloomberg Barclays Global Treasury Index | The Bloomberg Barclays Global Treasury Index is composed of those securities included in the Bloomberg Barclays Global Aggregate Index that are Treasury securities. |

## Corresponding Indexes for Fixed-Income Performance Exhibit

| | |
|---|---|
| US High Yield | ICE BofA U.S. High Yield Constrained Index |
| Global Sovereigns | Bloomberg Barclays Global Treasury Index |
| Global Non-Government | Bloomberg Barclays Global Aggregate ex-Treasury Index |
| Emerging Markets (Local) | JPMorgan GBI-EM Global Diversified Index |
| Emerging Markets (External) | JPMorgan EMBI Global Diversified Index |
| US Mortgage-Backed Securities (MBS) | Bloomberg Barclays U.S. Mortgage Backed Securities Index |
| US Asset-Backed Securities (ABS) | Bloomberg Barclays U.S. Asset-Backed Securities Index |
| US Treasurys | Bloomberg Barclays U.S. Treasury Index |
| US Treasury Inflation-Protected Securities (TIPS) | Bloomberg Barclays 1-10 Year U.S. TIPS Index |
| US Investment-Grade Corporates | Bloomberg Barclays U.S. Corporate Bond Index |

## Corresponding Indexes for Regional Equity Performance Exhibit

| | |
|---|---|
| United States | S&P 500 Index |
| United Kingdom | FTSE All-Share Index |
| Pacific ex Japan | MSCI Pacific ex Japan Index (Net) |
| Japan | TOPIX, also known as the Tokyo Stock Price Index |
| Europe ex UK | MSCI Europe ex UK Index (Net) |
| EM Latin America | MSCI Emerging Markets Latin America Index (Net) |

**All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.**

## Important Information

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