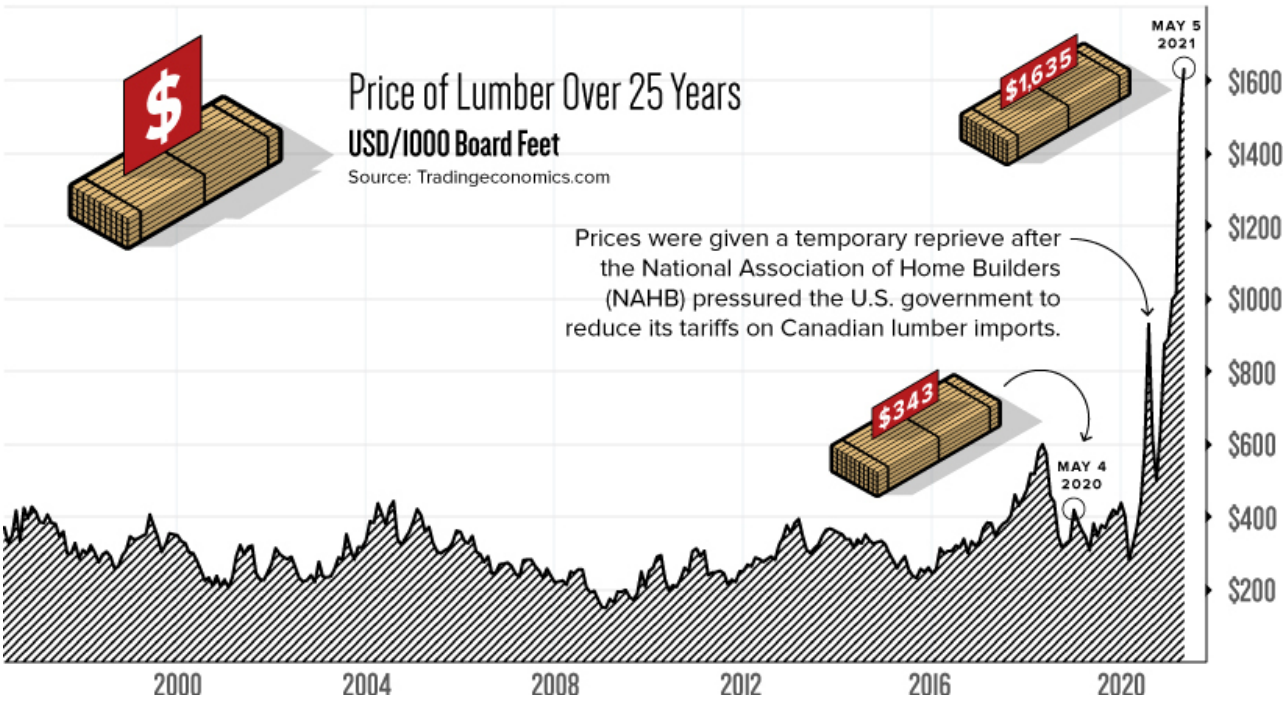
# Quarterly Review and Strategy Update

June 30, 2021

**Price of Lumber**




Source: Visual Capitalist[i]

- **Debate about the path of inflation dominates the financial markets as the economy continues its recovery**
- **Equity markets climb to all-time highs, while bonds also recover some of their first quarter losses**
- **The collapse of speculative assets such as SPACs, meme stocks, and bitcoin point to tempering of post-pandemic exuberance**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## THE ECONOMIC ENVIRONMENT

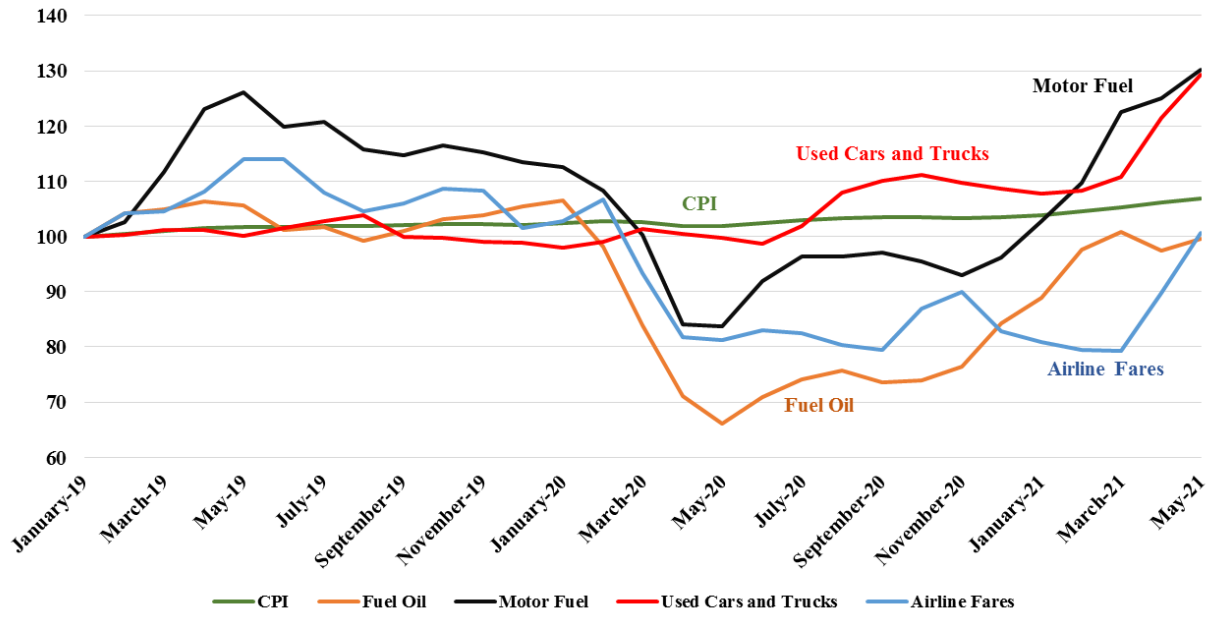
*We are heading into a recession. Or at least a period of economic weakness.* Could that become the prevailing narrative on CNBC and the pages of the Wall Street Journal if the bond markets and some contrarian commentators are to be believed? In his book "Narrative Economics: How Stories Go Viral and Drive Major Economic Events", Nobel Prize–winning economist Robert Shiller argues that stories that emerge from competing opinions to become the dominant narrative impact individual and collective behavior that in turn can drive economic developments. The consensus narrative today is one of a rapidly recovering economy, surging inflation, and a panicked Federal Reserve set to raise interest rates to dampen bubbling excesses. Recent data certainly seems to confirm that economic growth has been strong. U.S. GDP grew by 6.4% in the first quarter compared to the final quarter of 2020, and second quarter GDP growth could reach 9%. Indeed, many businesses are unable to keep up with demand. The Institute for Supply Management reported record growth in orders and factory activity. "Companies and suppliers continue to struggle to meet increasing levels of demand," the Institute commented. "Record-long lead times, wide-scale shortages of critical basic materials, rising commodities prices, and difficulties in transporting products are continuing to affect all segments of the manufacturing economy." Service industries have opened and are also enjoying a boom. IHS Markit reported the steepest pace of expansion in the services sector since data collection for the series began in October 2009. Confidence amongst both business leaders and consumers are at an all-time high. The Conference Board's survey of CEO sentiment reported its highest level since the measure began in 1976.

This growth seems to be pushing up inflation, which accelerated to 5% in May year-over-year from 4.2% in April, the highest reading since August 2008. The Core Personal Consumption Expenditures Index, which excludes volatile categories of food and energy, jumped 3.4% in May from the year before — the largest increase for that reading since June 1992. The most notable price jumps were for gasoline, used cars and trucks, utility gas service, transportation, and apparel. According to the Institute for Supply Management, over 50 categories of input commodities were up in price and/or were in short supply, with just one product (acetone) down in price. Housing prices continue to explode, with Case-Shiller's National Home Price Index rising by 14.6% in April compared to the same month last year - the fastest pace of home price inflation on record since 1988. Moreover, presumptions of higher inflation now seem to be incorporated into consumer psychology. The University of Michigan's consumer confidence survey reported that the expected year-ahead inflation rate rose to 4.6% in early May, up from 3.4% last month and 3.2% last year. Just 21% of consumers expected the year-ahead inflation rate to be 2% or below; 43% expected an inflation rate of 5% or more.

So, if the prevailing narrative appears to be intact, why would the Cassandras warning of a weaker economy have any hope of being heard? Proponents of an impending slowdown argue that trend line economic growth before the pandemic was anemic – it hit the world at the end of an unusually long business cycle, when long-term U.S. GDP growth was limping at 2%. There have not been any major structural changes in the American economy, such as a leap in productivity, massive population growth, sudden export competitiveness, or cheaper energy to suggest that today's double-digit growth rate is sustainable. As the deluge of fiscal and monetary stimulus recedes while the burden of unsustainable

government and corporate debt begins to choke businesses and the Federal government, growth will revert to the mean.

**Consumer Price Changes**




Source: Bureau of Labor Statistics

Inflation may, as the Federal Reserve insists, be "transitory." As economist David Rosenberg points out, "Inflation is not a one-off change in the price level caused by a short-term distortion to protect profit margins but is a persistent acceleration in prices." Recent data appears elevated due to "base effects" (percentage change measurements being boosted by comparisons with numbers during pandemic-related lockdowns, when prices plummeted because of collapsing demand) and will come down in the fall. Retail sales in May were down 1.3% compared to April, as Americans shifted spending from goods to services and increased their savings. The kerfuffle in the lumber market shows that extreme supply demand imbalances will self-correct. Lumber futures had surged by as much as 90% this year, with the Chicago Mercantile Exchange's lumber contract hitting a record high of $1,733 in May (compared to $300-levels before Covid) due to sawmill bottlenecks and strong demand for building projects amid the pandemic, but have now fallen to less than $750 and are expected to fall further as more supply comes on stream. U.S. auto production, which collapsed from 218,000 vehicles in February last year to just 1,500 vehicles in April 2020, has struggled to ramp up as manufacturers have been unable to obtain semiconductors as foundries shut down in Japan, China, and Taiwan. Production has now recovered to 139,000 in April 2021, and as chip supply bounces back, car and rental prices will no doubt fall.

If there is one thing we know about both Fed Chair Powell and Treasury Secretary Yellen, it is that they firmly believe that restoring full employment is their most important mission. The U.S. economy added 850,000 jobs in June, 583,000 jobs in May, and 269,000 jobs in April – with the largest gains in leisure, hospitality, education, and health care – resulting in a 5.9% overall unemployment rate at the end of the quarter. Both initial and continuing jobless claims have been falling steadily since the start of the year and

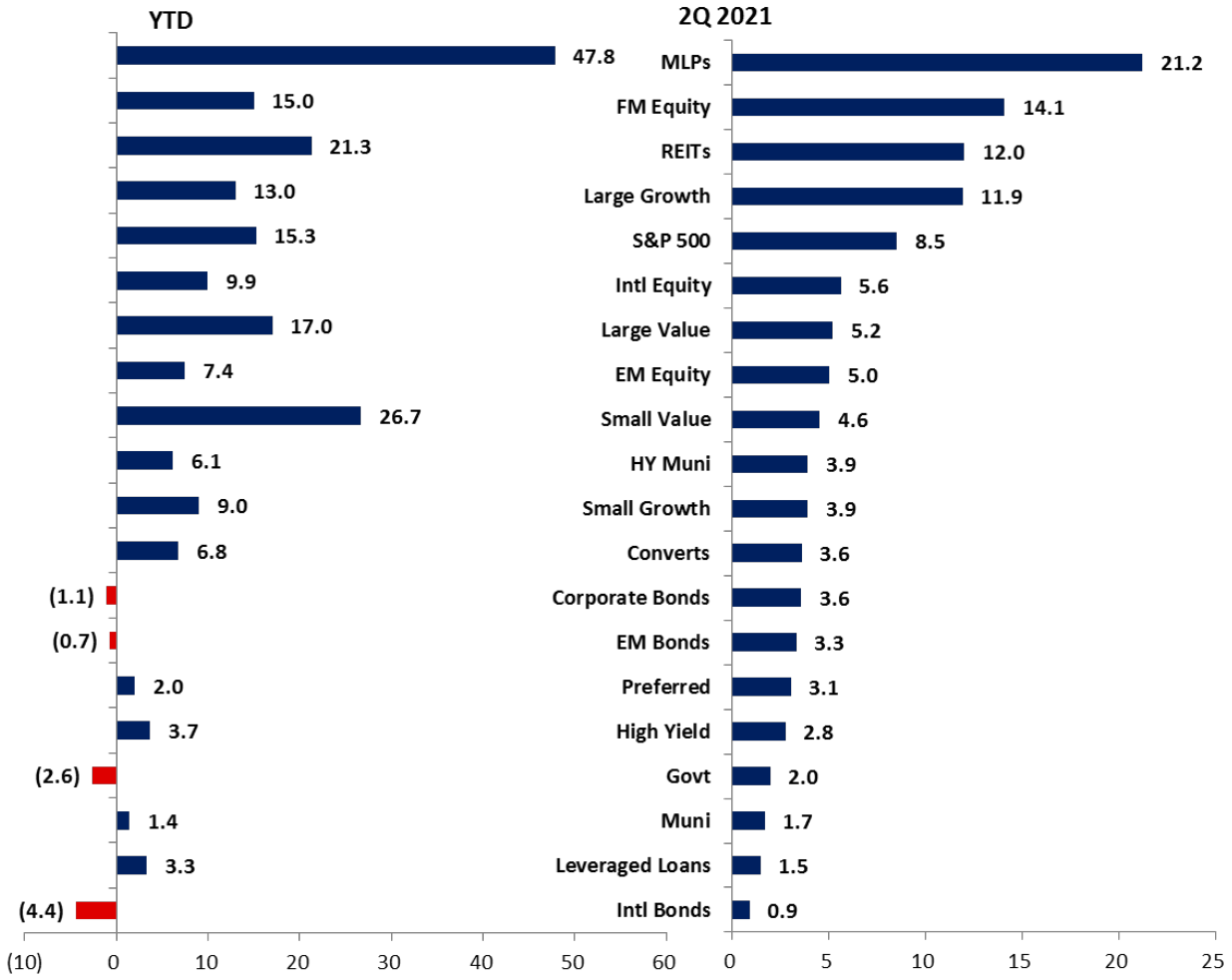
are expected to drop further as more states reduce federal support ahead of the official expiration of the $300 enhancement to weekly jobless benefits in September. Yet this still leaves employment about 6.8 million jobs below its peak in February 2020 when unemployment was at 3.5%. Meanwhile, employers have been complaining that they cannot find enough workers to respond to growing demand. Job openings soared by nearly a million in April to over 9 million, setting a record for the most openings added in a month and the highest overall number since the Bureau of Labor Statistics started tracking the data. The National Federation of Independent Business noted that 44% of small-business owners reported job openings they could not fill in April, the highest level in records dating back to the 1970s. "Finding qualified employees remains the biggest challenge for small businesses and is slowing economic growth," NFIB chief economist Bill Dunkelberg said. "Owners are raising compensation, offering bonuses and benefits to attract the right employees."

Why does the gap between job postings and the unemployed persist? Many politicians blame stimulus payments and increased unemployment benefits, but this view may not be supported by the evidence. The Wall Street Journal recently reported that Missouri and 21 other states that had cut enhanced unemployment benefits early had seen a fall in the number of people claiming benefits but acknowledged that this did not prove that workers had been holding out from seeking jobs. Study after study from diverse organizations such as Yale, the University of Pennsylvania, the U.S. Treasury, and Wall Street research firm Evercore ISI have all debunked the myth that benefits have deterred people from returning to work. "We find no evidence that high unemployment insurance replacement rates drove job losses or slowed rehiring," states the Yale research. However, the academics acknowledge that there are some workers for whom unemployment benefits have provider higher income than lost wages. "State benefits, on average, cover about 40 percent of the typical worker's lost wages," says Michele Evermore, senior policy analyst at the National Employment Law Project. "Because so many states' unemployment IT systems are ancient and decrepit, though, targeting a specific fraction of lost wages proved nearly impossible to administer. So, Congress passed a $600 weekly supplement because it seemed about the right amount to make the average worker whole."

Many minimum wage workers also have less access to vaccinations and childcare. Some unemployed workers may not have the skills or the mobility to take available jobs in fields such as manufacturing, construction, or healthcare. The labor participation rate – the percentage of working-age people who are either employed or actively seeking work – has dropped from 63.4% before the crisis to 61.6% in May, indicating that several million people may have dropped out of the workforce but could potentially return. If the Biden administration, Congress, the Federal Reserve, and the business community need workers, particularly lower-skill workers, to fill jobs, they will need to do more than slash unemployment benefits but rather address structural challenges in training, healthcare, and childcare.

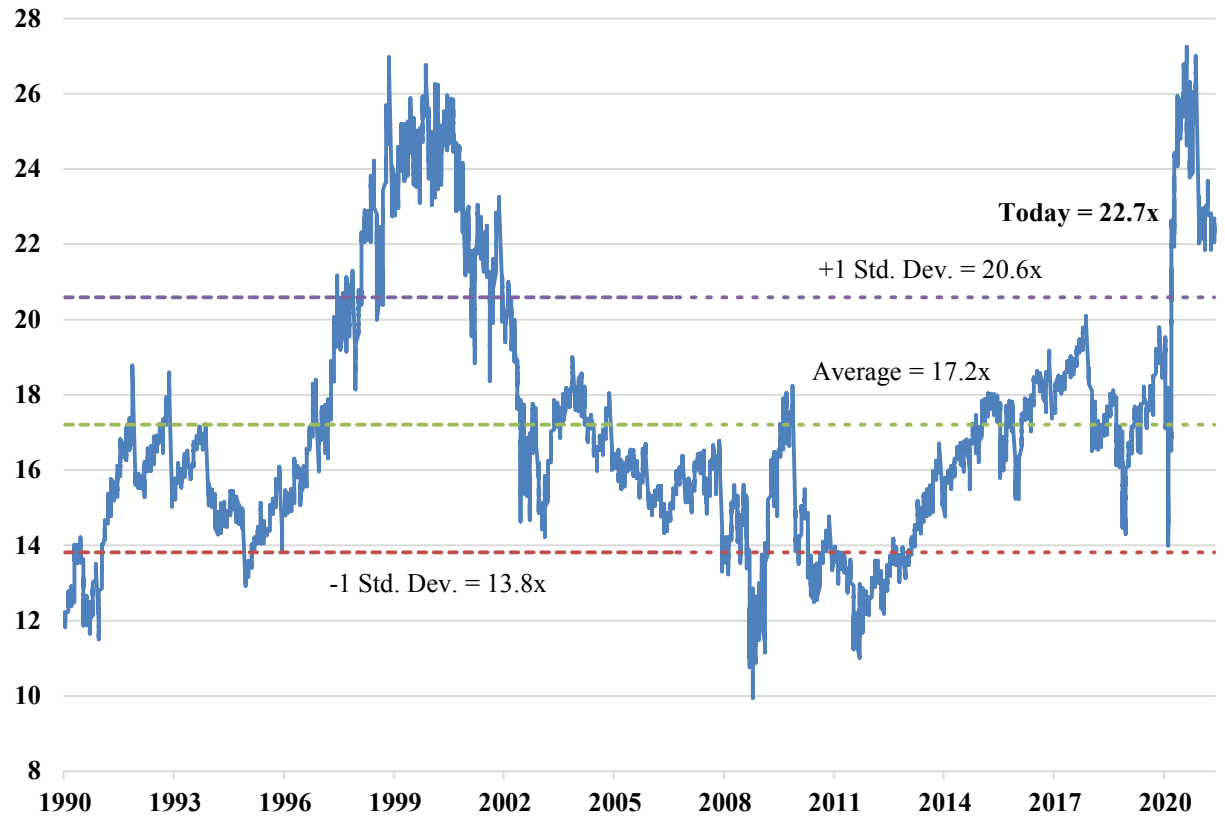
## 2nd QUARTER PERFORMANCE OF MAJOR ASSET CLASSES

Numbers represent percentage change



## EQUITIES

**Equity Market Valuation: S&P 500 Forward P/E Ratio**




Source: Bloomberg

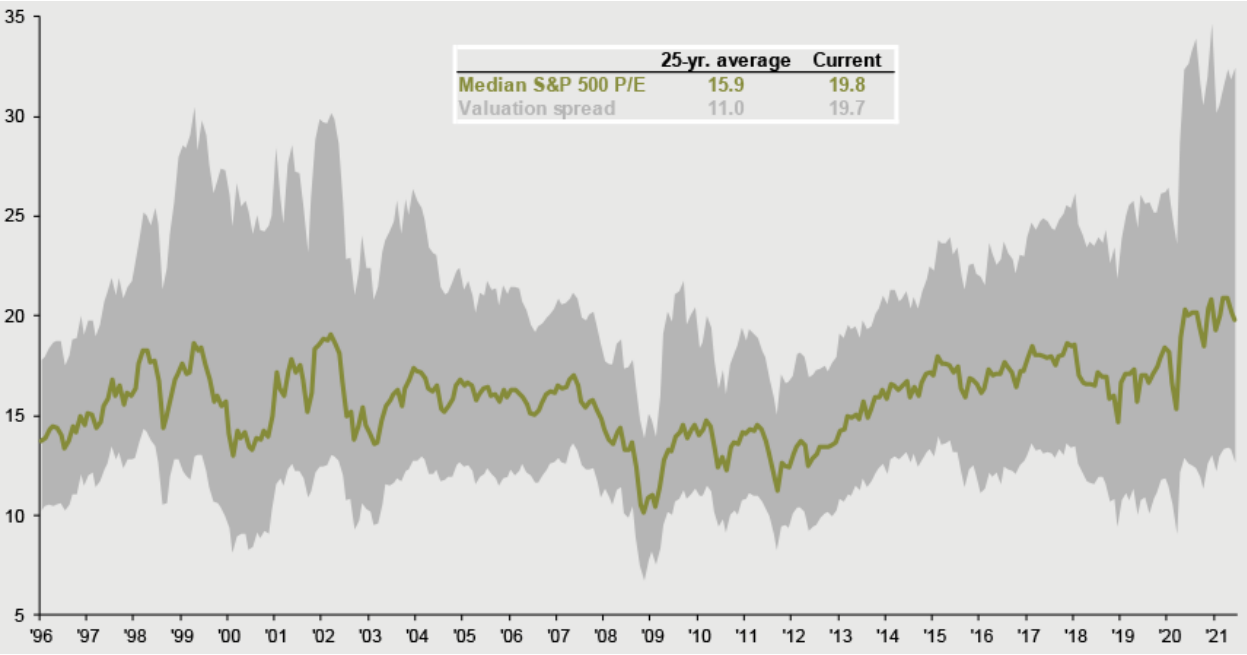
Two of the three major U.S. equity indexes, S&P 500 and NASDAQ Composite, ended the quarter at new all-time highs of 4,297 and 14,503, respectively, while the third, the Dow Jones Industrial Average, etched a level of 34,502, a percent shy of its record high. Despite minor pullbacks spurred by inflationary concerns and the Fed policy shift, the quarter continued the strong market recovery, with the growth in the last two quarters coming on the heels of a sustained sector rotation into cyclical and pandemic-recovery names. Second quarter attributions point to resurgences of technology, large cap, and growth factors:

- **Major Domestic Indexes:** NASDAQ (+9.6%) outperformed S&P 500 (+8.7%) and Dow Jones 30 (+4.6%)
- **Market Cap**: Large Caps (Russell 1000 +8.7%) outperformed Small Caps (Russell 2000 +4.9%)
- **Style**: Growth (Russell 1000 Growth: +11.7%) outperformed Value (Russell 1000 Value: +4.7%)
- **Sector**: All but one of the eleven sectors were positive, with Information Technology (+11.4%) leading the way followed by Energy (+9.8%) and Healthcare (+8.8%), while Utilities (-0.2%) was the only negative sector

- **International Indexes**: International Developed (MSCI EAFE +3.8%) slightly outperformed Emerging Markets (MSCI EM: +3.4%)

The appreciation of the markets this year has come with higher valuations. At the current level of 23 times forward Price to Earnings (PE) multiple, equity markets are expensive relative to the 25-year average multiple of 17 times (see the chart on Page 6). Valuations are particularly high in mega and large cap stocks. Moreover, the valuation spread between the 20th and the 80th percentile of stocks in the S&P 500 index, as measured by market capitalization, is significantly wider than the historical average.

**Equity Market Valuation Dispersion between the 20th and 80th percentiles of S&P 500 stocks**




Source: J.P. Morgan

This dispersion, which began before the pandemic, stems from the dominance of tech names, the emergence of winners and losers during the pandemic, and the impact of "meme" stocks like GameStop and AMC. Meme stocks are stocks that become the focus and target of some retail investors, often fueled by posts on social media like Reddit, Twitter, and TikTok. These stocks have seen dramatic price increases and have been subject to short squeezes targeting hedge funds. These stocks rarely have company fundamentals that back the rise in price and are often highly volatile.

While stocks may look expensive, strong corporate earnings growth should dampen concerns about a broad equity bubble. First quarter earnings jumped by 51% compared to the same quarter last year, more than double analysts' forecasts, and mark the highest year-over-year earnings growth rate since the 55% growth seen in the first quarter of 2010. Profits have recovered substantially from first quarter 2020 lows and have surprised to the upside by a significant margin. Revenue has also grown by 10% on a year-over-year basis, 6% higher than estimates. Analysts now suggest that earnings will continue to rise throughout 2021 and only level off in 2022. For the full year, S&P 500 earnings are expected to grow almost 40%.

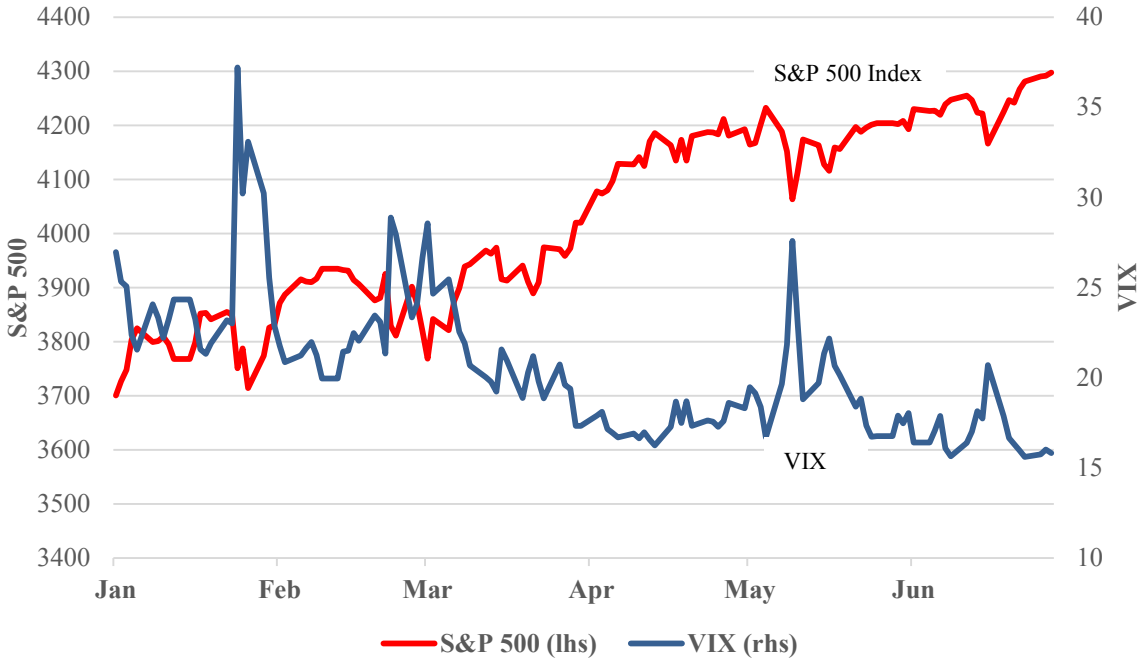
While we may not have yet exhausted further upside in equities, returns may moderate with bouts of volatility as the Fed begins to normalize interest rates.

**First Quarter S&P 500 Earnings**


Source: LPL Research, FactSet

Since volatility means unexpected market moves either up or down, it should be regarded as a barometer of uncertainty rather than fear. However, the VIX Index, the Chicago Board of Exchange's volatility index, is popularly described as a fear gauge. Given some recent trends, this opinion may need to be reassessed. The VIX is a forward-looking index of the expected volatility of the S&P 500 index over the next 30 days, calculated from both put and call option prices. In the past, the S&P 500 index option market was dominated by hedgers who bought puts when they became concerned about a potential market correction. There has typically been an inverse relationship between the VIX and market direction; option volatility would (i) rise as markets fell, and investors purchased portfolio protection, and (ii) fall as rising markets restored confidence, reducing the need for portfolio insurance. However, there have been some periods when this relationship has broken down.

**The VIX and S&P 500**




Source: Federal Reserve

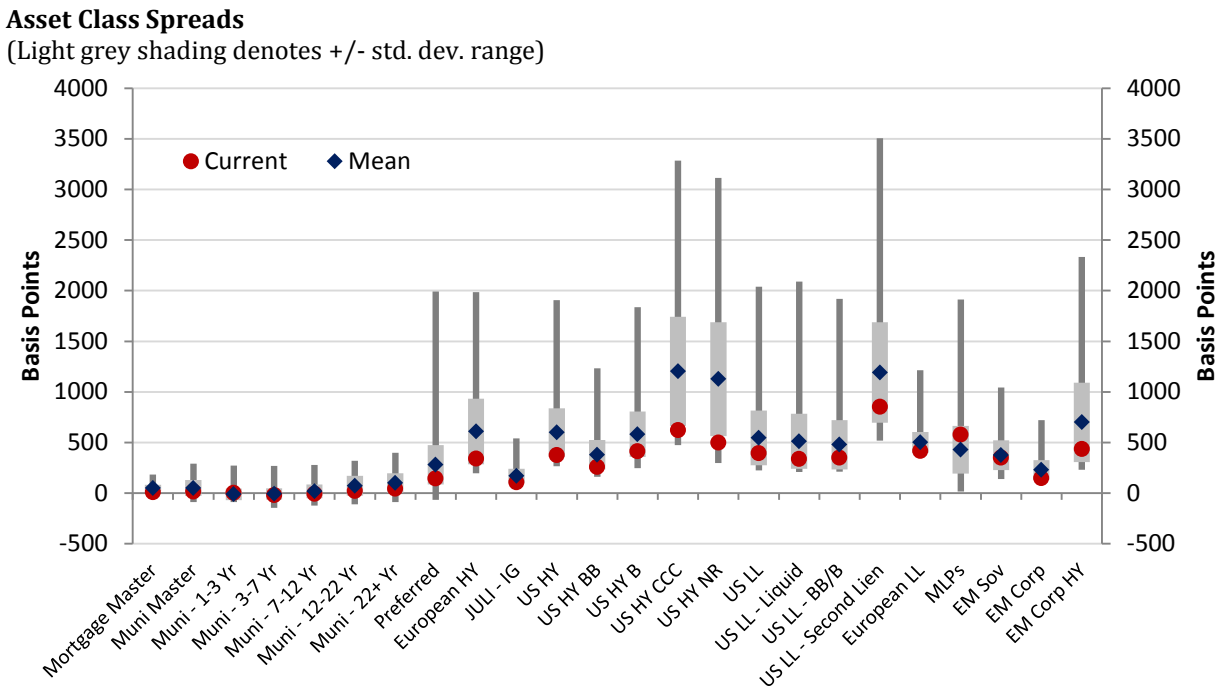
Since last fall, the VIX has remained elevated and has even climbed in rising markets and dropped in falling markets. In late January, the VIX tested the high 30s levels and jumped to the high 20s in both March and May – levels normally warranting a substantial correction – without an accompanying market pullback. This phenomenon may be partially explained by the massive uptick in options trading activity, particularly in single stock call option buying. Unlike buying puts, buying calls is a way to speculate on stocks appreciation for a small upfront capital outlay. This surge in call option volume has been remarkable.

**Call Option Trading Volume (Millions of Contracts)**


Source: OCC, Deutsche Bank

This exponential spike in call buying has increased the relative prices of calls above those of puts, a historical anomaly. Retail investors have led this boom, fed by the abundance of household cash, social media boosting meme stocks, and the emergence of new zero-commission trading platforms. If this trend continues, we may see a structurally higher level of market volatility. The combination of strong earnings momentum, elevated intra-market dispersion, and volatility should provide a fertile environment for active managers. Investors should expect choppiness but remain fully invested in equities.

## BONDS




Source: J.P.Morgan, Bank of America, Alerian, Bloomberg

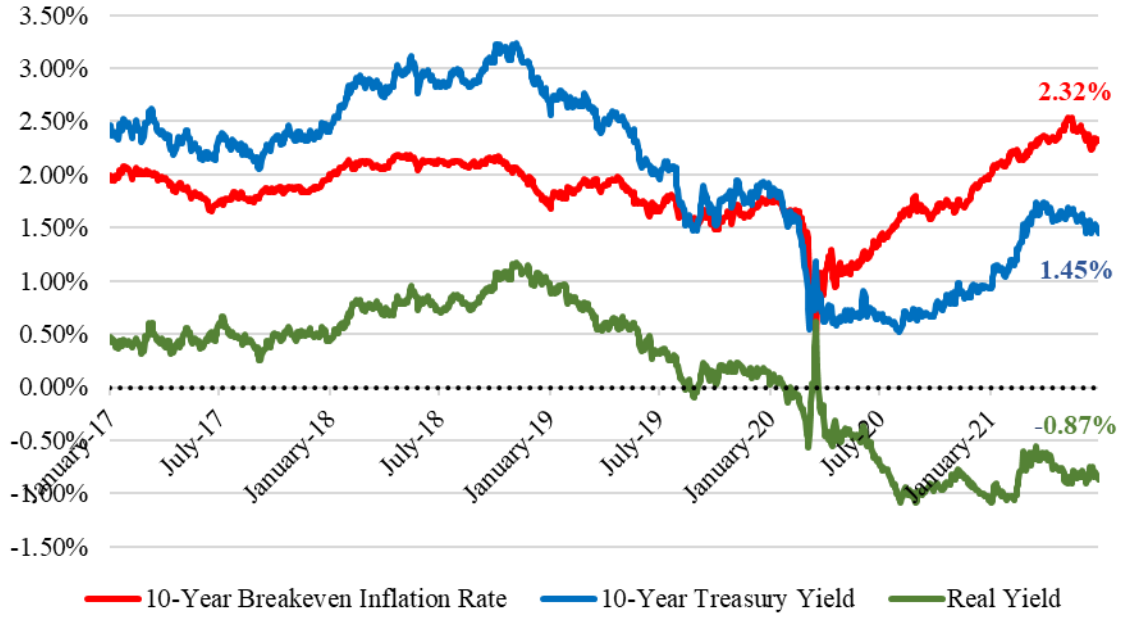
Every major asset class in the fixed income and credit markets delivered positive returns in the second quarter as both yields and spreads compressed. High yield municipals led the way with a 3.9% return for the quarter followed by investment grade corporates at 3.6%, while leveraged loans and international bonds brought up the rear with lower yet still positive returns of 1.5% and 0.9%, respectively. Although yields are at or near all-time lows, spreads to Treasuries are mostly tight to within one standard deviation of their historical means. These gains have now largely offset the losses investors incurred in the first quarter.

Nevertheless, Treasury bonds remain underwater for the year despite the steady fall in the yield of the benchmark 10-year note from 1.75% at the end of March to 1.47% at the end of June. During the first quarter investors had sold longer term bonds in anticipation of higher inflation but reversed course during the second quarter. Combined with a sudden rise in shorter-term rates, the yield curve flattened.

These developments suggest that the bond markets concur with the Federal Reserve's view that inflation is transitory, and that the central bank can deal with it as it transitions to its "Flexible Average Inflation Targeting" policy. At its meeting on June 16th, the Fed maintained its zero-target range on overnight rates where it has been since the pandemic, but Fed Chair Powell indicated that rate hikes could come as soon as 2023, after insisting as recently as March that it saw no increases until at least 2024. Indeed, the majority of the members of the Federal Open Market Committee are now forecasting two rate hikes in 2023. Some market participants are becoming uneasy – not about runaway inflation but the fear that an

increasingly hawkish Fed will raise rates just as inflation peaks, which has historically ended badly. In the meantime, real yields continue to be negative.

**10-Year Treasury Yields, Breakeven Inflation Rates, and Real Yields**

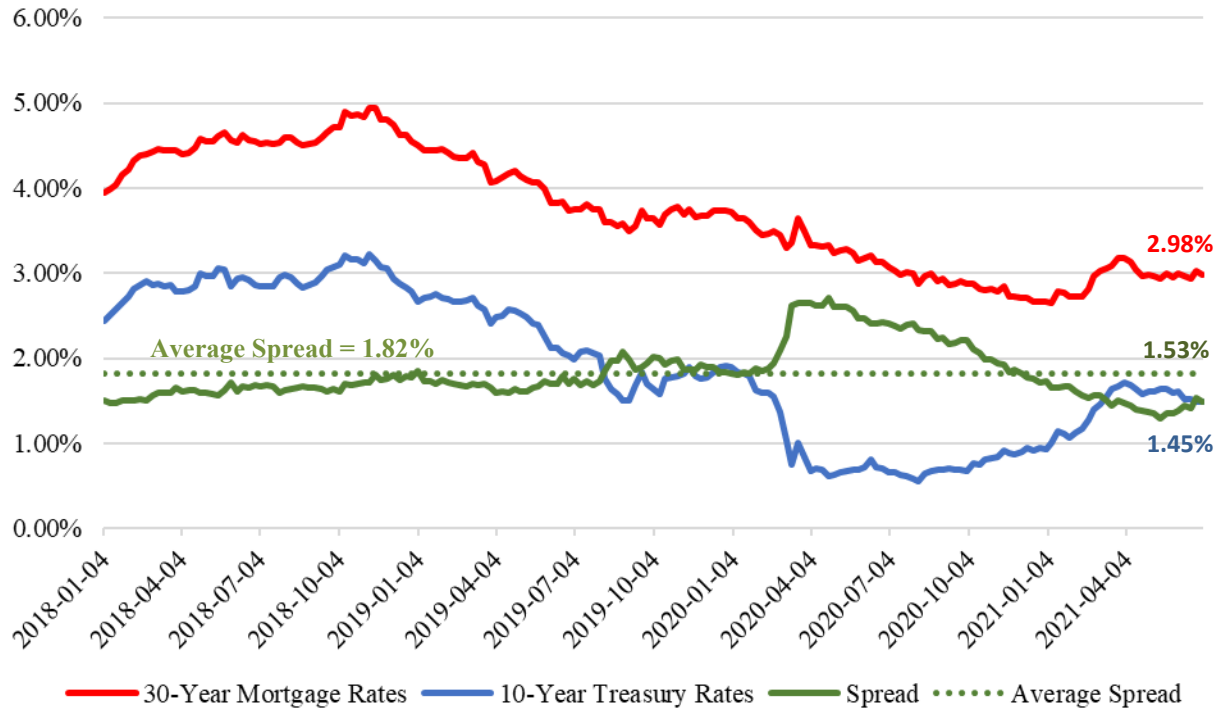



Source: Federal Reserve

As investors who have historically invested in Treasuries for yield search for alternatives, residential mortgage-backed securities ("RMBS") are receiving increased attention. Residential mortgage-backed bonds are fixed-income securities with cash flows collateralized by home mortgages. While the $12 trillion sector represents about 21% of the U.S. bond market, many investors do not have an allocation to mortgages. The market is dominated by agency bonds issued by the Government National Mortgage Association, an issuer backed by the full faith and credit of the U.S. government, and the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, companies that carry implicit government support and negligible default risk. Non-agency RMBS, which represent 8% of the market, are issued by banks and private institutions not guaranteed by the U.S. government and are typically backed by collateral that does not meet the agencies' underwriting requirements(e.g., jumbo loans, loans on vacation homes, loans extended to subprime borrowers, or those without adequate documentation or with a problematic credit history). According to the Mortgage Bankers Association, the housing boom has led to a record $3.8 trillion in home loans originated in 2020, an increase of over 67% compared to 2019 and the largest annual volume since 2005.

Mortgages present a challenge to allocators. Since homeowners can refinance their mortgages at any time, investors are vulnerable to what is called "negative convexity." When interest rates fall, borrowers refinance, so the weighted duration of mortgage portfolios shortens, limiting capital gains, while conversely sharp increases in rates lead to durations extending as borrowers slow refinancing activity. This free option that mortgage investors have granted to homeowners can theoretically reduce investor returns when interest rates move sharply up or down.

**Mortgage Rates, 10-Year Treasury Yields, and the Spread**




Source: Federal Reserve

However, investors are compensated for this risk and for the structural complexity of RMBS through higher yields than those for government bonds. Returns for RMBS have not only exceeded those for Treasuries over 3-, 5-, and 10-year periods but have done so with lower volatility. RMBS have also historically outperformed in Federal Reserve tightening cycles, allowing investors to generate excess return even in rising rate environments.

**Total Returns 6 Months after Fed Hike**

| Fed Hike | RMBS | 10-Year Treasury |
|---|---|---|
| 12/16/1986 | 0.60% | -2.60% |
| 3/29/1988 | 4.00% | 2.70% |
| 2/4/1994 | -0.90% | -4.30% |
| 6/30/1999 | 1.20% | -1.00% |
| 6/30/2004 | 4.10% | 4.50% |
| **Average** | **1.80%** | **-0.14%** |

Source: Yieldbook, Morgan Stanley

The market is also liquid – the average daily trading volume in the agency RMBS sector is about $200 billion, compared with around $15 billion for investment-grade corporates. The sector has also benefited from the Federal Reserve buying $40 billion of mortgages a month, a continuation of the support began in January 2009 during the Global financial Crisis. The Fed now owns over $2 trillion in mortgages representing half of the entire RMBS market. Given the robust housing market and the improving

conditions for households, many market participants are questioning whether this support is justified. In a June 18th interview, St. Louis Fed President James Bullard said, "I'm leaning a little bit toward the idea that maybe we don't need to be in mortgage-backed securities with a booming housing market and even a threatening housing bubble here, according to some people." While the Fed's tapering plans will certainly impact the mortgage market in the near term, any resulting volatility could provide an opportunity for investors to add RMBS to their portfolios.

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## YOUR LOAN APPLICATION HAS BEEN APPROVED!

Source: Finance Magnates

In 2015, Adair Turner, the former chair of the Financial Services Authority in the UK, warned, "I strongly suggest that the losses on peer-to-peer lending which will emerge in the next 5 to 10 years will make the worst bankers look like absolute lending geniuses, because I think a group of people are going into a lending process with a tech platform without anybody really doing 'go out and kick the tires' credit analysis." Many of the early "peer-to-peer" lending platforms, which offered personal loans by connecting borrowers directly with investors online, soon suffered a series of setbacks, scandals, and litigation. In 2016, Lending Club fired its founder and CEO Renauld Laplance after discovering that he had failed to disclose conflicts of interest and had sold loans that did not meet agreed parameters to a bank. In 2017, student loan platform SoFi fired CEO Mike Cagney after allegations emerged that he had sexually harassed employees and skirted risk and compliance controls. Ezubao, a $7.6 billion Chinese lender, was shut down after authorities discovered that 95% of its investments were fake and the managers confessed to running a Ponzi scheme.

Marketplace lending, as these platforms have come to be known, has subsequently overcome its teething pains, survived the Covid pandemic, and matured into an established part of the consumer finance industry. Marketplace lending involves a prospective borrower submitting a loan application online where it is assessed, graded, and assigned an interest rate using the platform's credit scoring algorithm. According to the Cambridge Centre for Alternative Finance, marketplace platforms originated $61 billion of loans in the U.S. in 2018. While this represents a tiny fraction of the $4 trillion of total consumer credit outstanding, the industry is growing rapidly. Marketplace platforms now operate in most major developed and emerging countries.

The premise of the marketplace lending was that technology and "big data" would allow the industry to underwrite personal loans much faster and more accurately than a traditional human banker. Moreover,

since these lenders have no “brick and mortar” presence and are unburdened by the regulatory costs imposed on traditional banks, their cheaper operating costs can be passed onto borrowers in the form of lower rates. The technology used by the leading platforms today is impressive. When a borrower applies for a loan, the platforms assess creditworthiness by analyzing the borrower’s FICO score, credit history, spending, and even behavioral patterns to determine a precise interest rate to reflect creditworthiness. In its filing with the SEC in 2015, Prosper disclosed that it only verified the income of 60% of its loan applicants; today it claims it no longer needs to see a W2 form or paycheck stubs since it can see the pattern of deposits in a checking account. Some firms in the industry claim to analyze 1,000 pieces of data for each loan applicant and match them against over 40 million historical loan payment records acquired over 15 years in their underwriting process. One platform claims, “As a result of our proprietary technology and risk analytics, approximately 95% of loan applications are automatically decisioned in seconds with no manual review required.” So, a platform can decide to offer a 5-year, $25,000 loan at a 12.845% interest rate instantly compared to the 35 hours allegedly required by a traditional bank lending officer.

Can an individual’s creditworthiness be judged through quantitative analysis alone? J.P. Morgan did not believe so. In his famous testimony to Congress in 1912, Samuel Untermyer, the counsel to the Committee on Banking and Currency, probed him on how the banker lent money:

> Untermyer: *Is not commercial credit based primarily upon money or property?*
> Morgan: *No, sir; the first thing is character.*
> Untermyer: *Before money or property?*
> Morgan: *Before money or anything else. Money cannot buy it…Because a man I do not trust could not get money from me on all the bonds in Christendom.*

Industry advocates today believe that artificial intelligence and machine learning can indeed assess character through spending patterns and social media activity. Are you exaggerating your career success? Looking for a job when you claim to be employed? Do your obsessive selfies indicate narcissistic tendencies? Show disregard for laws and regulations? Engage in risky behavior that might jeopardize ability to repay the loan? Studies have shown that if a borrower is connected closely with another platform customer who has repaid a loan on time, then there is greater likelihood that the borrower will also repay. One lender discovered that a consistent daily routine, as defined by cell phone location patterns, had a correlation to a lower propensity to default. Other studies have also shown that underwriting based primarily on the FICO score, on which traditional lenders rely, are less robust. Marketplace lenders argue that their risk management is also better. Despite consistent data that shows that credit card charge-offs typically peak at the end of a recession, credit card companies are slow to reduce borrower limits at the onset of a recession. Marketplace lenders respond in real time to economic news and change lending rates and loan volumes.

Moreover, marketplace lending has opened up opportunities to serve a section of the population that has historically been denied credit. A recent report by the Consumer Financial Protection Bureau revealed that 22% of Americans do not have a current, valid FICO score or are considered to be "credit invisible," meaning that they do not have a credit file with any of the three major credit bureaus.

As a result, these individuals will have difficulty obtaining any credit. Many lower income workers are trapped in a chicken and egg cycle where they are unable to obtain credit cards or mortgages since they do not have a FICO history. Since marketplace platforms can underwrite based on non-traditional credit metrics, they have expanded the availability of credit to underserved populations.

So have personal loans become a legitimate, investable asset class? Historically, consumer credit had been originated by banks and specialty finance companies and retained by these companies. To be sure, investors can buy securitized credit card, student loan, and auto loan receivables. Access to marketplace loans offer investors another way to benefit from assets with short duration, low volatility and relatively high-income. The largest buyers of loans originated by online platforms today are banks and insurance companies. They typically buy entire vertical slices of loans originated by the platforms (meaning a portion of loans from each borrower credit category, from "A" to "D"). Ironically, it has become cheaper for banks to obtain exposure to consumer credit returns in this way than if they tried to make loans themselves.

Adair Turner's prediction about the demise of peer-to-peer lending has not yet come to pass. Government stimulus checks and enhanced unemployment benefits have led to a spike in personal income that moderated defaults during the pandemic, so the claims of industry critics who suggest that the sector has not been truly tested through a traditional recession may be valid. The industry will no doubt continue to evolve. In an ironic twist, Lending Club, one of the original peer-to-peer platforms, announced recently that it had acquired Radius Bank and would stop selling marketplace loans to individual investors. You can now make an appointment to meet with a human Lending Club banker about a personal loan at their Seaport Financial Center branch in Boston. The move marks the end of the 14-year-old company's original vision: to serve as an online matchmaker between individual savers and borrowers.

**VIEW CAPITAL RIA, LP**

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**The descriptions included in this report are not meant to be a complete description of the managers' style and methodology and performance. The included descriptions do include alternative investments that may or may not be suitable for the clients' investment profile. Please read the prospectus carefully before investing.**

**Glossary and Index Definition**

•Alerian MLP Index (MLP) - The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. The index is disseminated by the New York Stock Exchange real-time on a price return basis (NYSE: AMZ). The corresponding total return index is calculated and disseminated daily through ticker AMZX.

•Barclays Capital U.S. Municipal Index – The U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligations, revenue bonds, insured bonds, and prefunded bonds. Many of the sub-indices of the Municipal Index have historical data to January 1980. In addition, several subindices based on maturity and revenue source have been created, some with inception dates after January 1980 but no later than July 1, 1993. In January 1996, Barclays Capital also began publishing a non-investment grade municipal bond index and "enhanced" state specific indices for Arizona, Connecticut, Maryland, Massachusetts, Minnesota, and Ohio. These indices are published separately from the Barclays Capital Municipal Bond Index.

•BofA Merrill Lynch Convertible Bond Index (Convertibles) - The BofA Merrill Lynch Convertible Bond Index tracks the performance of US dollar denominated convertible bonds issued in the US domestic market. In addition, qualifying securities must have at least one-year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $100 million.

•BofA Merrill Lynch Perpetual Preferred Securities Index (Preferred) - The BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of US dollar denominated preferred securities issued in the US domestic market. Qualifying securities must be rated investment grade (based on an average of Moody's, S&P and Fitch) and must have an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

•BofA Merrill Lynch US High Yield Master II Index – This index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

•BofA Merrill Lynch EM External Debt Sovereign Index – This index tracks the performance of US dollar-denominated debt issued by sovereign issuers in countries belonging to emerging markets.

•BofA Merrill Lynch Mortgage Master Index – This index tracks the performance of US dollar-denominated mortgage securities.

•BofA Merrill Lynch Municipal Bond Index – This index tracks the performance of US dollar-denominated investment grade tax-exempt bonds.

•Credit Suisse Leveraged Loan Index – This index tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

•JP Morgan Emerging Market Bond Index (EMBI+) - The Emerging Markets Bond Index Plus tracks total returns for traded external debt instruments in the emerging markets. The instruments include external-currency-denominated Brady bonds, loans and Eurobonds, as well as U.S. dollar local markets instruments. The EMBI+ is concentrated in instruments from the three major Latin American countries (Argentina, Brazil, and Mexico), reflecting the size and liquidity of these external debt markets. The non-Latin countries are represented in the index by Bulgaria, Morocco, Nigeria, the Philippines, Poland, Russia, and South Africa.

•MSCI Emerging Market Index (Emerging Market Equities) - The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of March 2015, the MSCI Emerging Markets Index consisted of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

•MSCI Frontier Market Index – The MSCI Frontier Market Index is a free float-adjusted market capitalization index designed to measure equity market performance of the frontier markets. As of March 2015, the MSCI Frontier Markets Index consists of the following 24 frontier market country indices: Argentina, Bahrain, Bangladesh, Bulgaria, Croatia, Estonia, Jordan, Kenya, Kuwait, Lebanon, Lithuania, Kazakhstan, Mauritius, Morocco, Nigeria, Oman, Pakistan, Romania, Serbia, Slovenia, Sri Lanka, Tunisia, Ukraine, and Vietnam.

•Russell 2000 Index (TR) - The best-known of a series of market-value weighted indices published by the Frank Russell Company. The index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.

•Russell 1000 Index (TR) –A market-value weighted indices published by the Frank Russell Company. The index measures the performance of the largest 1,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.

•S&P 500 Index (TR) -Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes 500 leading companies in leading industries of the U.S. economy. S&P 500 is a core component of the U.S. indices that could be used as building blocks for portfolio construction. It is also the U.S. component of S&P Global 1200. Total return (TR) provides investors with a price-plus-gross cash dividend return. Gross cash dividends are applied on the ex-date of the dividend.

•FTSE NAREIT US Real Estate Index Series – The FTSE NAREIT US Real Estate Index Series is designed to present investors with a comprehensive family of REIT performance indexes that span the commercial real estate space across the US economy, offering exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.

**Data Sources: Bloomberg, L.P., JPMorgan, BofA Merrill Lynch, Standard and Poors, Barclays Capital, Alerian, Morningstar Direct, MSCI, HFR, Goldman Sachs, Trading Economics, IHS Markit, Eurostat, Eaton Vance.**

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[i] https://www.visualcapitalist.com/visualizing-explosion-lumber-prices-50k/