WESTEND
Advisors

Macroeconomic Highlights

Q3 2021

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WestEnd Outlook Highlights

- The post-COVID economic and profit recovery has occurred at an unprecedented pace, and we expect continued economic and earnings growth, along with market gains, as this cycle shifts from rapid recovery to more normalized economic expansion.
- We expect continued positive equity returns in the coming quarters, as earnings growth should offset valuation compression, which is typical in a recovery, but we believe sector selection will be crucial in the period ahead.
- In Q2, we began to make adjustments to and within our allocations to economically-sensitive areas of the market in anticipation of a shift from rapid economic recovery to sustained expansion.
  - In U.S. large-cap equity allocations:
    - We have added to Information Technology sector allocations, which we expect will see less revenue and earnings deceleration than other economically-sensitive sectors due to positive secular trends and demand for tech capex as companies seek to adapt to the post-COVID economy.
    - We added to Financials sector allocations, which we expect to benefit from a continued economic growth and a potential rise in interest rates
    - We reduced exposure to the Industrials sector, which, due to the rapid demand recovery for industrial products, may see less pent-up demand going forward than in prior cyclical recoveries, while the sector's valuation seemed to already price in a strong continued earnings rebound.
  - In global portfolios:
    - We remain underweight international equities, as a whole, but have recently eliminated an allocation to U.S. small-caps and increased exposure to Europe, where recent progress on vaccinations should support an accelerated rebound in economic growth.
    - We are overweight Emerging Market Asia, where relative success containing COVID-19 has underpinned significant economic recovery and, in our view, should have lasting benefits as the cycle transitions to expansion.

U.S. Equity Sector Allocations

WESTEND ETF STRATEGIES

Current large-cap U.S. equity sector allocation and avoidance*

Sector Allocations and Overweights

- Energy
- Consumer Discretionary
- Financials
- Industrials
- Communication Services
- Health Care
- Information Technology

Sector Avoidance

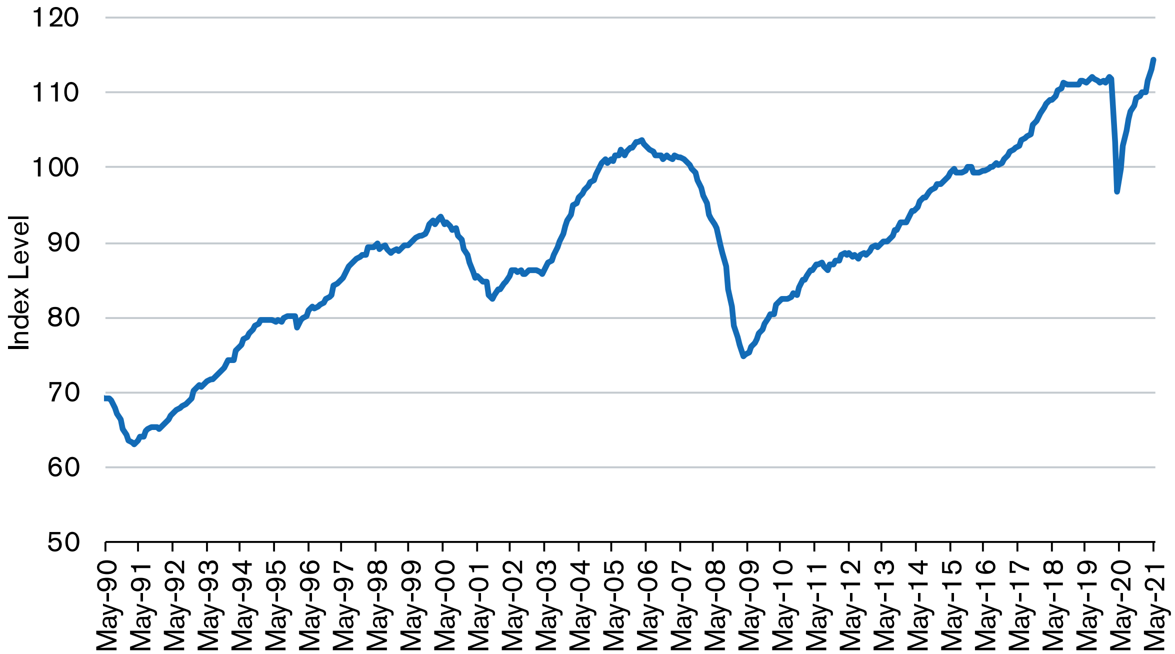
- Consumer Staples
- Materials
- Real Estate
- Utilities

* For illustrative purposes only. Allocation information as of June 30, 2021. Source: WestEnd Advisors.

U.S. Economic & Market Backdrop

Sharp Rebound in the U.S. Economy Sets the Table for Expansion

LEADING ECONOMIC INDEX



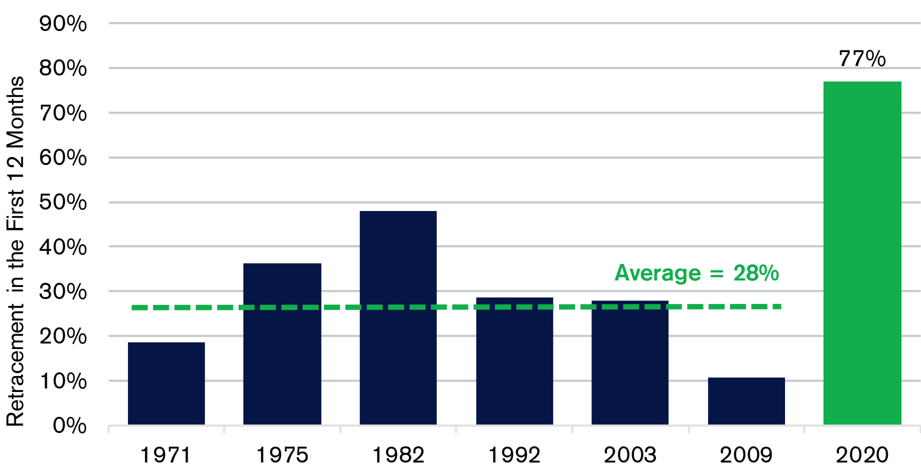
Source: Conference Board, WestEnd Advisors

Portfolio Impact: We see global GDP growth, particularly in the U.S., as likely to be strong in the coming quarters, and therefore we continue to emphasize economically-sensitive U.S. sectors like **Financials, Energy, Consumer Discretionary, Information Technology,** and **Communication Services**.

Broad economic measures like the Leading Economic Index indicate that the U.S. economy has made a strong recovery in the wake of the COVID-19 pandemic. **Consumer spending has been a key driver of the economic rebound**, while U.S. **manufacturing has snapped back** with demand for goods across key parts of the economy like autos, residential construction and technology. Looking forward, the service portion of the U.S. economy should gain further traction and help drive growth in the quarters ahead. Even though economic and market risks remain, including potential for higher interest rates and higher taxes, **we believe the economic recovery will continue to progress, and thus an overweight of economically-sensitive sectors is appropriate.**

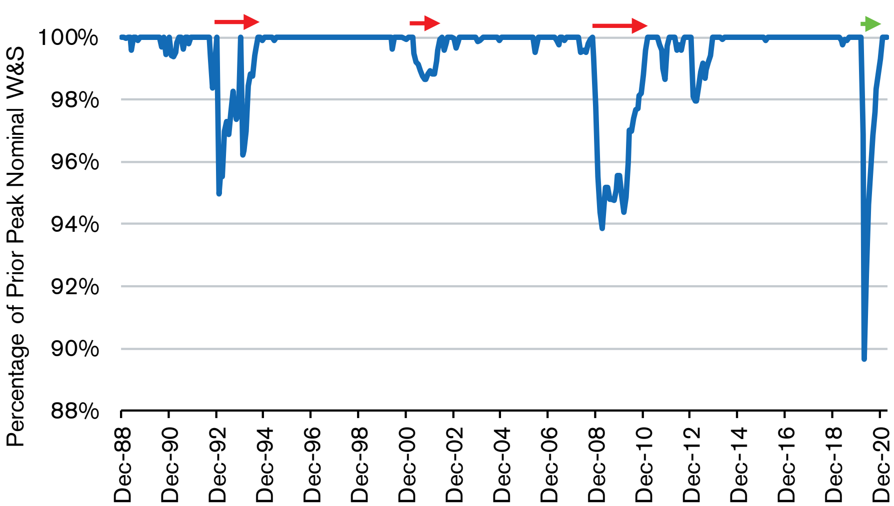
The Speed of the U.S. Economic Recovery is Unprecedented

MAGNITUDE OF THE REVERSAL OF THE UNEMPLOYMENT RATE 12 MONTHS AFTER THE PEAK



Source: Bureau of Labor Statistics, WestEnd Advisors

WAGES & SALARIES RECOVERY TO PRIOR PEAK



Source: Bureau of Econmic Analysis, WestEnd Advisors

Portfolio Impact: The **economic and profit recovery has occurred at an unprecedented pace**, and thus it is critical for investors to look forward in the economic cycle to position portfolios for market opportunities ahead. We advocate exposure to sectors like **Consumer Discretionary** and **Energy** that are benefitting from **cyclical drivers**, as well as sectors like **Information Technology** and **Health Care** tied to more **secular growth** drivers.

Record rebounds in key segments of the economy:

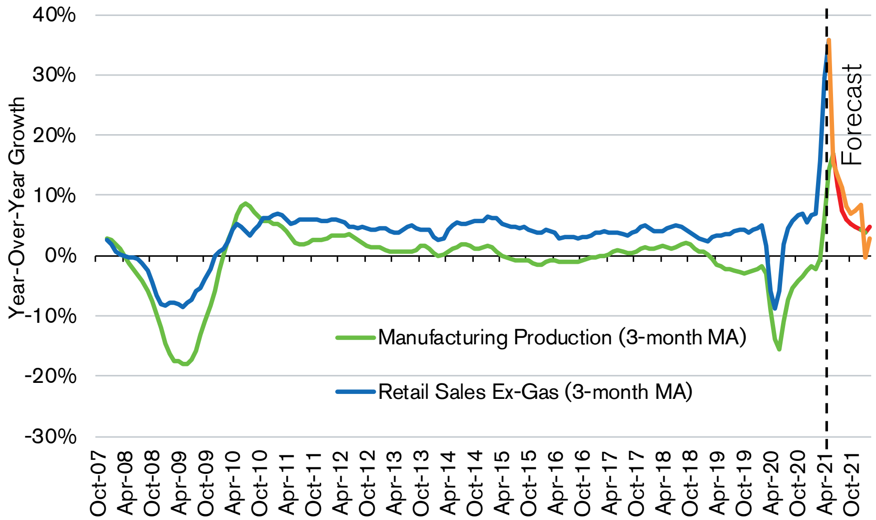
Labor Market: In the first 12 months of the recovery, the unemployment rate reversed 77% of the prior increase, compared to 28% reversal on average since the 1970s.

Earned Income: Wages and Salaries have already surpassed the prior peak, *and that is before an additional $1.8 trillion (18% of workers' Wages and Salaries) of government support for the U.S. consumer.*

Business Investment: Durable goods orders moved above trend just 8 months after the start of the recession, compared to 48 months on average for the prior 3 recessions.

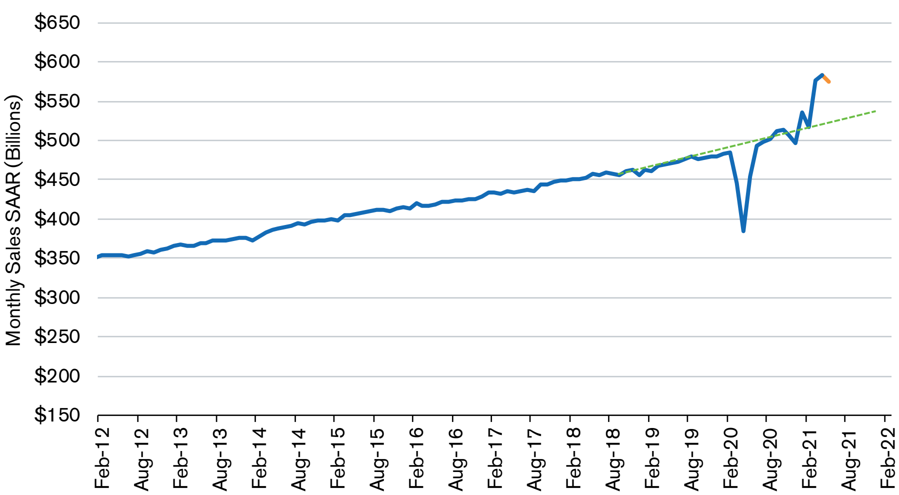
The Burst of Economic Activity Will Moderate

U.S. RETAIL SALES AND MANUFACTURING ACTIVITY



Source: Commerce Department, Federal Reserve, WestEnd Advisors

RETAIL SALES - EXCLUDING GAS



Source: Commerce Department, WestEnd Advisors

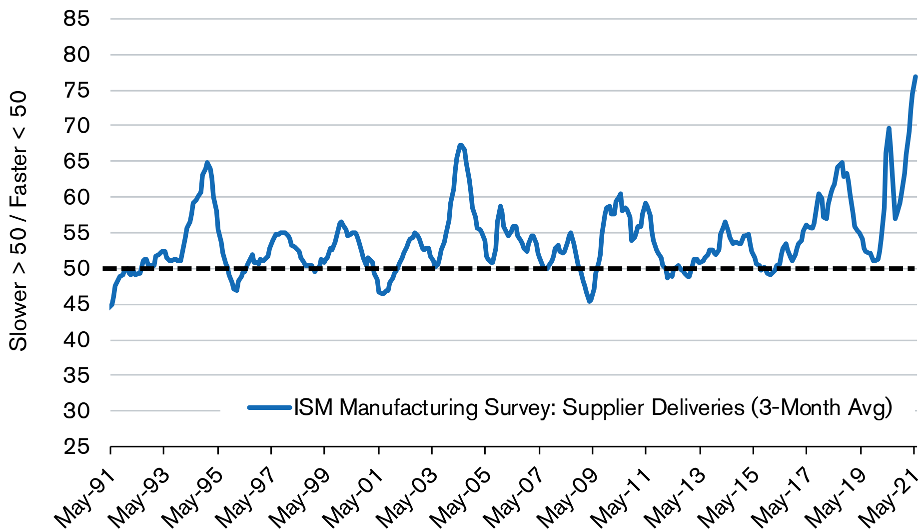
Portfolio Impact: As we looked beyond the current burst of economic activity, we believed **repositioning among economically-sensitive U.S. sectors** was warranted in anticipation of a **shift from rapid economic recovery to expansion**. We see underappreciated economic tailwinds for the **Financials** and **Information Technology** sectors in the environment ahead, while we believe the anticipated recovery in **Industrials** sector earnings has already been significantly discounted.

Reopening is leading to a burst of activity across a variety of key economic metrics, including measures of consumer spending and manufacturing. We expect that over time the level of Retail Sales (+35% YoY) and Manufacturing Production (+17%) growth will transition back to more typical levels. Similarly, New Home Sales (+67%) and Durable Goods Consumption (+47%) growth will slow.

We expect a deceleration in growth rates in the coming quarters. This deceleration is a typical development at this stage of the cycle, but it is likely to be more severe than prior cycles given the strength of the post-COVID rebound. This **could lead to market volatility, but should not undermine the economic expansion**.

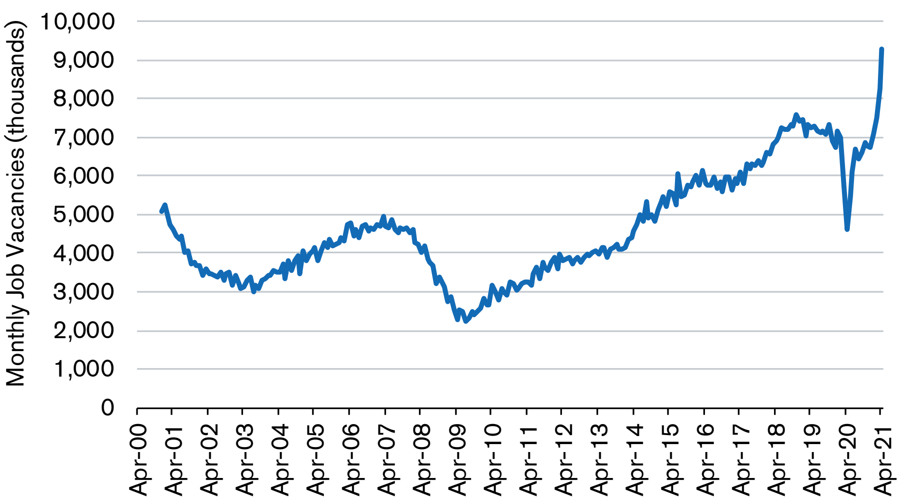
Supply Constraints Challenge Management Teams

SUPPLIER DELIVERIES SLOWEST IN 30 YEARS



Source: ISM, WestEnd Advisors

U.S. JOB OPENINGS



Source: Department of Labor, WestEnd Advisors

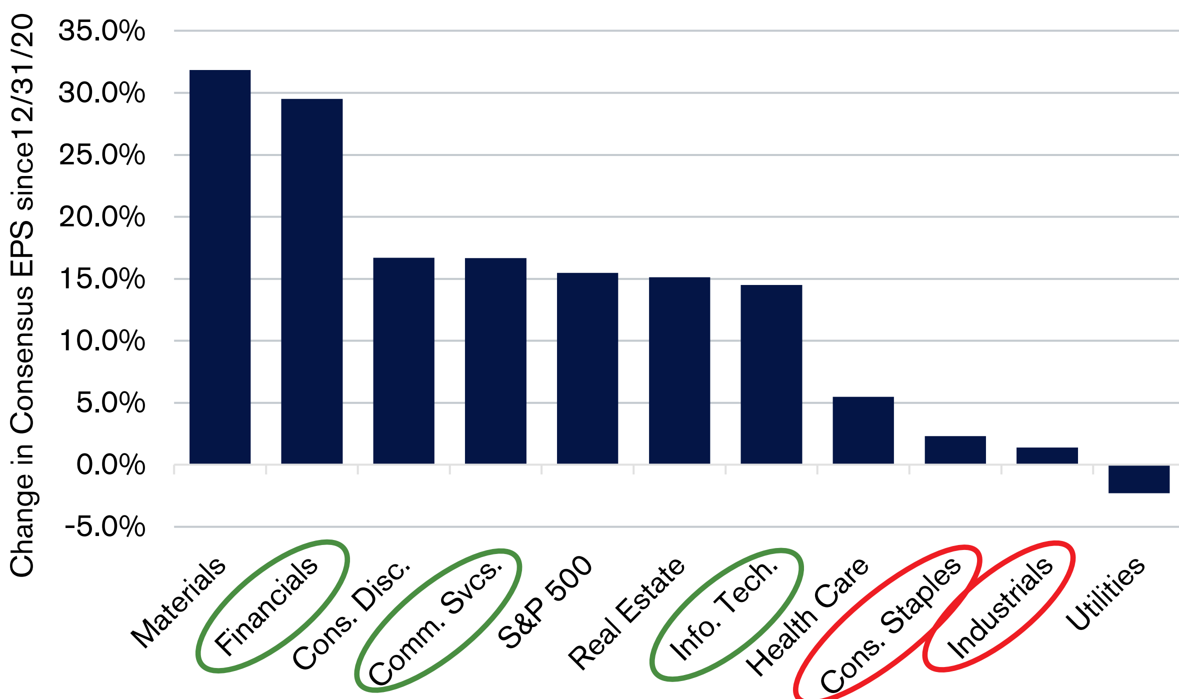
Portfolio Impact: Cost pressures have increased in many areas across the economy. We see **Industrials sector** earnings as **more vulnerable due to margin compression than the Financials, Technology, or Energy sectors** in the period ahead.

In the wake of the robust economic reopening, businesses are facing challenges meeting production targets due to **component shortages** in areas like semiconductors and building supplies. In addition, **labor supply has been challenged** as economic activity has picked up. Certain workers have been slow to get back to work due to health concerns, child care challenges, and higher than normal unemployment benefits.

The production supply challenges have contributed to the higher inflation readings recently, but **we expect that the supply constraints will moderate in the quarters ahead**. We are more focused on the labor market in terms of inflation pressures, but again we expect that **wage pressures will remain under control** even though we may see inflation modestly above the Fed's 2% target (2.25% to 2.75%) in the intermediate term.

Earnings Revisions Vary by Sector as the Recovery Extends

YTD CHANGE IN 2021 EPS ESTIMATES BY SECTOR (EXCLUDING ENERGY)



Source: WestEnd Advisors

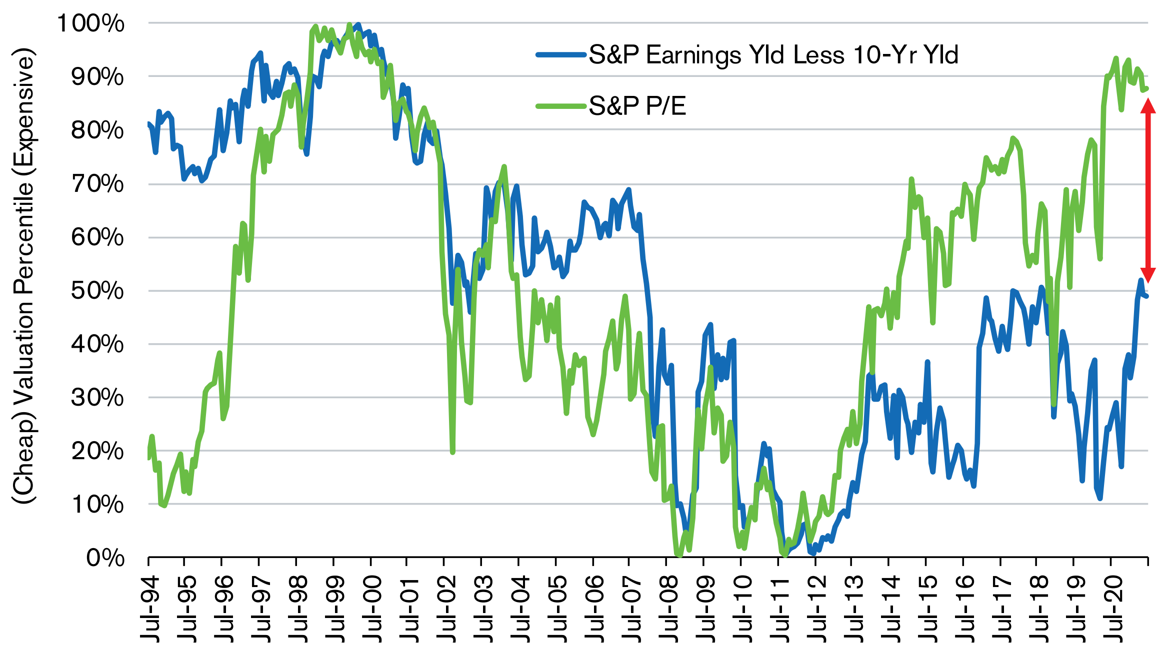
Portfolio Impact: Consensus earnings estimates have been revised higher this year as the strength of the recovery has become more clear. Cyclical sectors like **Financials, Communication Services** and **Information Technology** have seen double-digit revisions, while other sectors like **Consumer Staples** and **Industrials** have seen limited positive revisions.

U.S. economic strength has supported consumer, manufacturing and housing activity this year, and, in turn, has led to upward revisions to 2021 EPS estimates by analysts.

The positive revisions collectively mean that **S&P 500 EPS is expected to grow 35% this year**. The **Financials sector is expected to record 45% growth this year**, and we see upside to growth estimates in 2022 as the Fed moves closer to interest rate normalization. **Technology and Communication Services sector EPS are both expected to grow about 30% in 2021**, *after each sector delivered positive EPS growth last year when S&P 500 EPS declined15%.*

Interest Rate Adjusted Valuations Materially Below Headline P/Es

SIGNIFICANT IMPACT OF LOW INTEREST RATES ON EQUITY VALUATIONS



Source: WestEnd Advisors

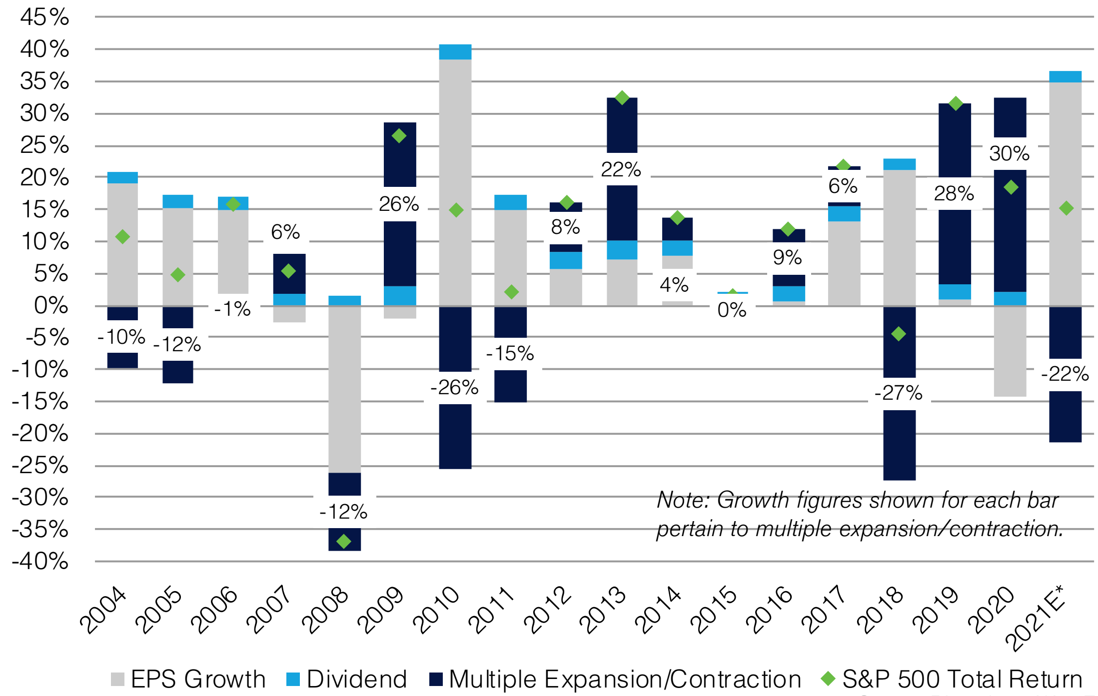
Portfolio Impact: We believe investors need to consider the economic backdrop and interest rates when examining equity valuations. The **S&P 500's forward P/E** is currently at the **88th percentile**, or the high end of the 25 year range, while the **interest-rate adjusted P/E** is only at the **45th percentile**. See the chart to the left.

Key factors when evaluating the current valuation of the overall stock market:

- **Earnings** will ultimately dictate whether stock prices are justified, in our view. We are encouraged overall by the earnings outlook as **2021 S&P 500 EPS is now expected to be 19% above 2019 earnings**, and we are particularly positive on sectors we expect to benefit from economic tailwinds.
- **Interest-rate adjusted equity valuations** have remained well below traditional P/Es as interest rates have moved lower since the pandemic. We **do not see interest rate normalization as a serious threat to equity valuations** given the strength of the earnings rebound.

Expect Earnings to Rebound and Valuations to Contract

CONTRIBUTORS TO S&P 500 TOTAL RETURN



*Uses 2021 YTD return and consensus '21 EPS growth as of 06/30/21

Source: Bloomberg, WestEnd Advisors

Portfolio Impact: Although our 2021 return outlook for the S&P 500 contemplates lower returns relative to 2020, **we believe sector dispersion can offer ample alpha generation opportunities**. We also believe we are well positioned to take advantage of this performance dispersion.

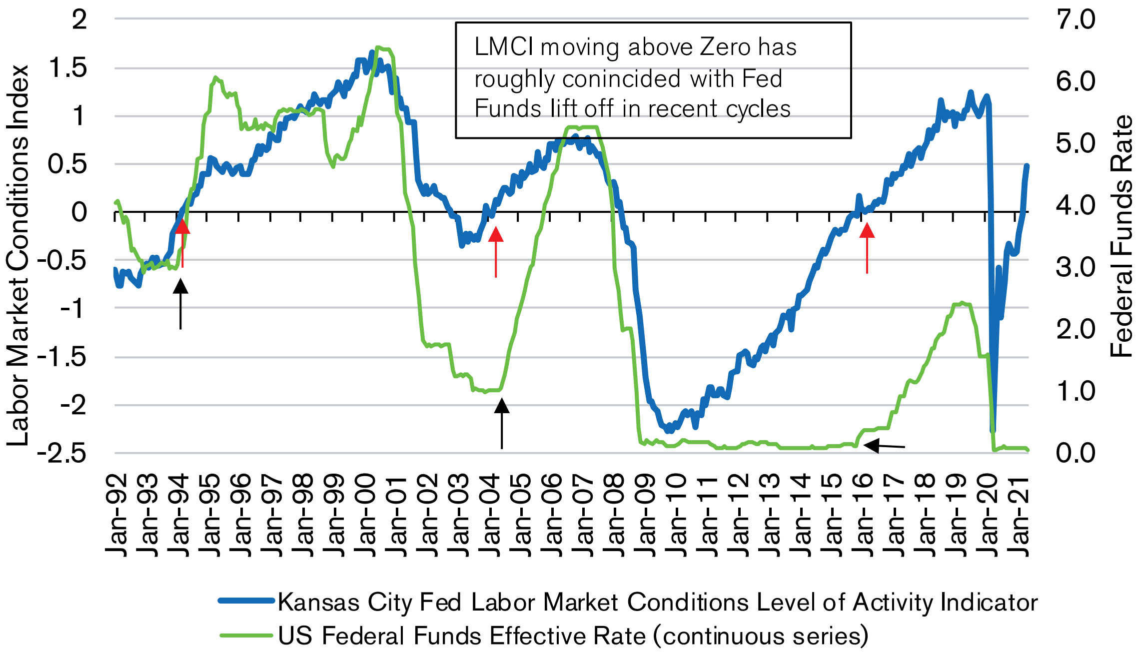
The trailing price-to-earnings multiple for S&P 500 expanded over 30% in 2020. The positive impact on return from increased valuation, which is typical at economic inflection points, was partly offset by an over 15% decline in S&P 500 earnings for 2020. These moves, along with dividend yield, translated into an 18.39% return for the S&P 500 last year.

We expect **returns in 2021** will be a product of **robust earnings growth partially offset by multiple contraction**. Again, **these are normal market dynamics at the start of a new cycle** – we saw similar earnings and valuation moves from 2009 to 2011. EPS could grow up to 40% in 2021, in our view, the most since 2010. Multiples could compress by 25%, implying a mid-to-high teens return outcome.

U.S. Sector Outlook

Labor Market Conditions Suggest Monetary Policy Normalization is on the Horizon

LABOR MARKET CONDTIONS HAVE REBOUNDED IN RECORD TIME



Source: Kansas City Federal Reserve, WestEnd Advisors

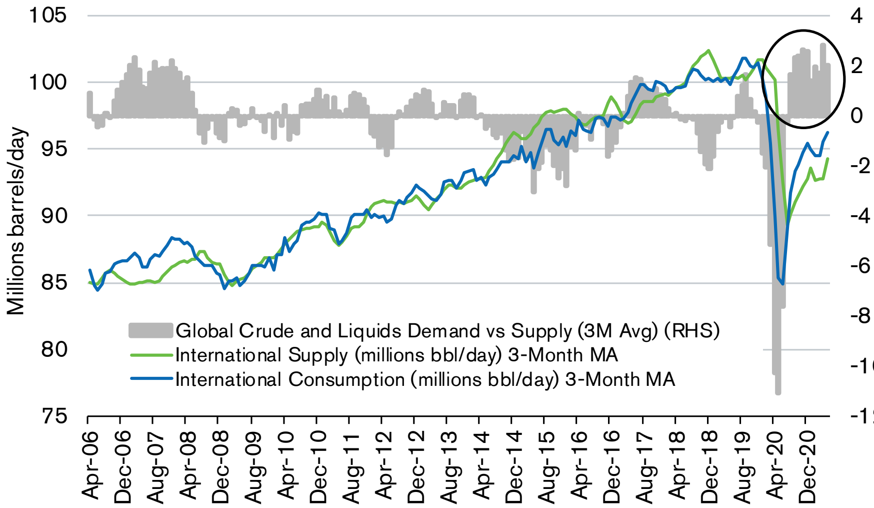
Portfolio Impact: Financials are positioned well, in our view, to benefit from the next phase of the economic recovery. **The strong economic and labor market rebounds should quicken the timeline for monetary policy normalization,** which could lead to higher rates and above-consensus earnings growth for Financials sector companies.

The U.S. economic recovery is likely to continue to progress rapidly, in our view. This should benefit economically-sensitive businesses like Financials, and banks in particular. **The labor market has made significant improvement, which could set the stage for the Fed to signal a start to normalization of monetary policy**. The chart above highlights that the Labor Market Conditions Index, which stands at 0.5 today, has turned positive in close proximity to the Fed starting to raise the Fed Funds rate. We believe this, in conjunction with a robust economic recovery and steady inflation expectations, will put upward pressure on both short and long-term interest rates, which should be a significant tailwind for Financials sector revenue and profits.

WESTEND Advisors

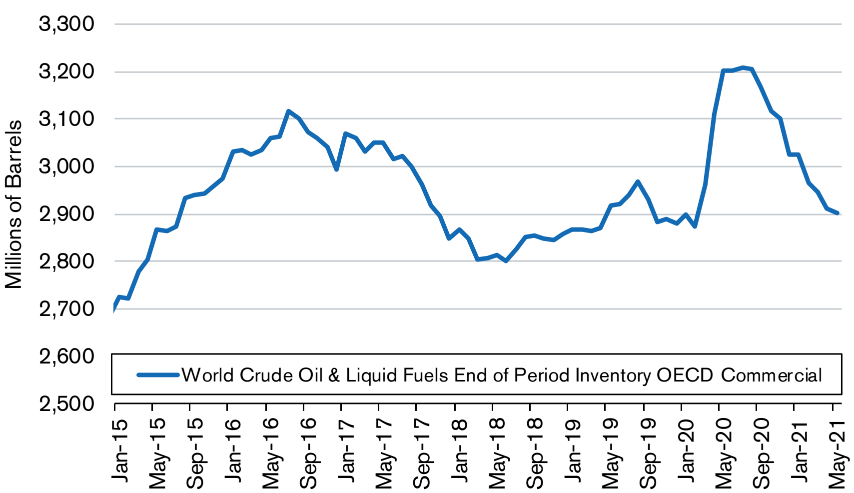
2021 Normalization to Drive Energy Demand Recovery

INTERNATIONAL LIQUIDS DEMAND VS SUPPLY



Source: EIA, WestEnd Advisors

OECD COMMERCIAL CRUDE OIL & LIQUID FUEL INVENTORY



Source: EIA, WestEnd Advisors

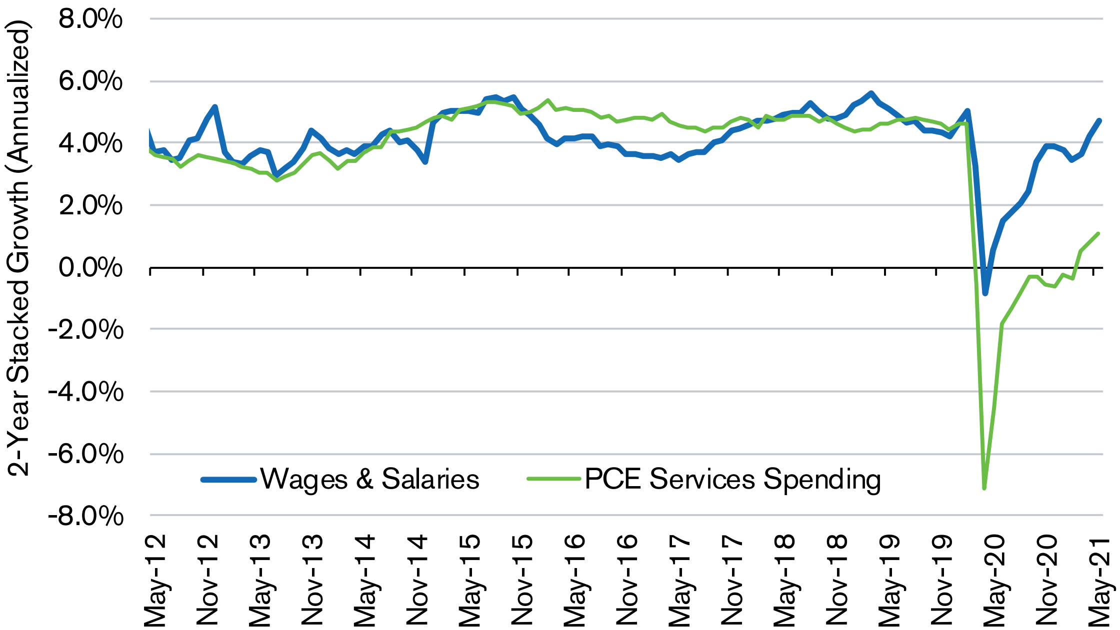
Portfolio Impact: In our view, the **Energy sector is positioned to deliver better-than-consensus EPS as the recovery advances**. Reduced production capacity due to financial distress, under-investment in recent years, and a shift toward capital discipline among large U.S. producers increase the likelihood, in our view, that the demand for energy products continues to outpace the supply response.

Positive vaccine developments have increased our belief that economic growth will be robust in the second half of 2021. International travel and trade volumes are making a strong recovery as people feel safer traveling and returning to work, but consensus forecasts for energy demand look understated, in our view, relative to pre-pandemic levels and past recoveries.

The economic recovery is boosting oil demand. From June ‘20 to May ‘21, global **demand outstripped supply** by a combined ~25 mmboed, the **largest 12-month difference on record since at least 2004**, as seen in the top chart. In addition, the glut of oil & liquid fuel inventories in OECD countries that built up during the pandemic have fully reversed (see bottom chart), supporting energy prices.

Services Recovery Can Drive Additional Consumer Spending Upside

HEALTHY INCOME GROWTH TO DRIVE SERVICES REBOUND



Source: BEA, WestEnd Advisors

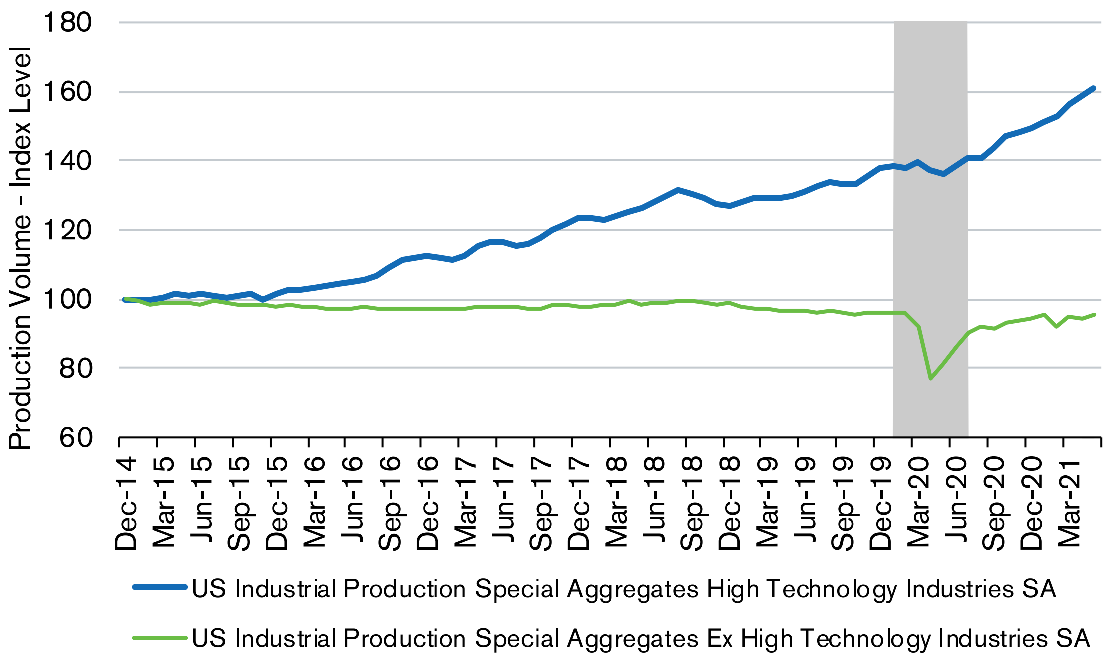
Portfolio Impact: We believe the **Consumer Discretionary sector is positioned to be the largest direct beneficiary of highly effective vaccines** and a faster-than-anticipated recovery in services spending, including travel and leisure activities.

Consumer spending on goods surged to start 2021, as fiscal stimulus and recovering wages led to a release of pent-up demand even as many leisure activities were still restricted. As of May, goods spending was ~20% above pre-COVID levels.

Alternatively, spending on services remained below pre-COVID levels at the end of May. These categories, many of which are connected to travel and leisure activities like entertainment and dining out, should drive the next leg of the consumer spending recovery. **We see upside to current consumer spending estimates as consumers in aggregate have significant spending power, due to the significant build-up of excess household savings (~$2.4T as of May) and, as the chart above shows, a complete recovery in wages and salaries.** In our view, there is likely to be strong pent-up demand for services and certain goods in the coming quarters.

Tech Valuations Elevated, But Secular Growth Continues

TECH PRODUCTION CONTINUES TO BENEFIT FROM SECULAR TAILWINDS



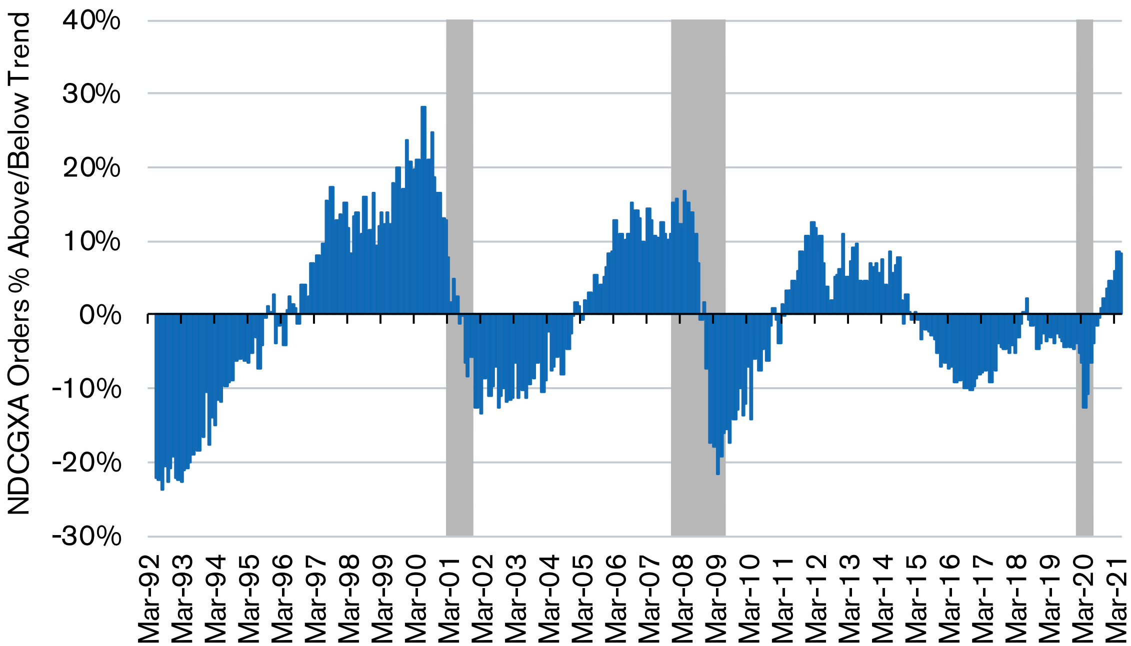
Source: Federal Reserve, WestEnd Advisors

Portfolio Impact: As economic growth rates normalize in the shift from recovery to expansion, we believe the **Information Technology sector will see less revenue and earnings growth deceleration than other economically-sensitive sectors**, given strong secular demand and other fundamental developments across the sector.

Businesses and consumers have increasingly embraced digital platforms like cloud computing, eCommerce, digital payments and social media in recent years. We believe **adoption of these products and services means that sales growth in these categories should exceed overall GDP growth for an extended period**. As shown in the chart above, manufacturing production in “high-technology” industries (i.e. semis, electrical components, etc.) continues to grow at a much faster pace than production in more traditional industries.

Cyclical Tailwinds for Industrials to Slow After Strong Rebound

DURABLE GOODS ORDERS VS. LONG-TERM TREND



Source: Federal Reserve, WestEnd Advisors

Portfolio Impact: While **Industrials Sector** earnings should continue to benefit from the economic recovery, we believe the **risk/reward profile has become less attractive compared to other economically-sensitive sectors,** as high valuations suggest investors have priced in the strong rebound. Thus, we have reduced our allocation to the sector.

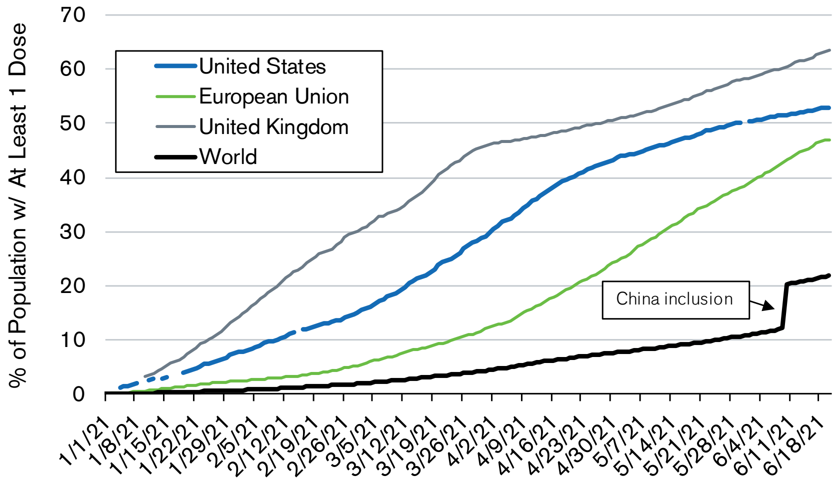
The Industrials sector outperformed the market in the first half of 2021 alongside the rapid recovery in economic activity and improvement in earnings prospects. Demand for many industrial products recovered at unprecedented speed, as companies took advantage of record-low interest rates and stimulative monetary and fiscal policy conditions to invest.

As a result, the sector's relative forward valuation was in the 82nd percentile compared to history at the end of Q2. In our view, this creates risks to Industrials sector returns as the rapid demand rebound is likely to leave **less pent-up demand for industrial products going forward compared to prior cyclical recoveries** (see chart above).

International Economic & Market Backdrop

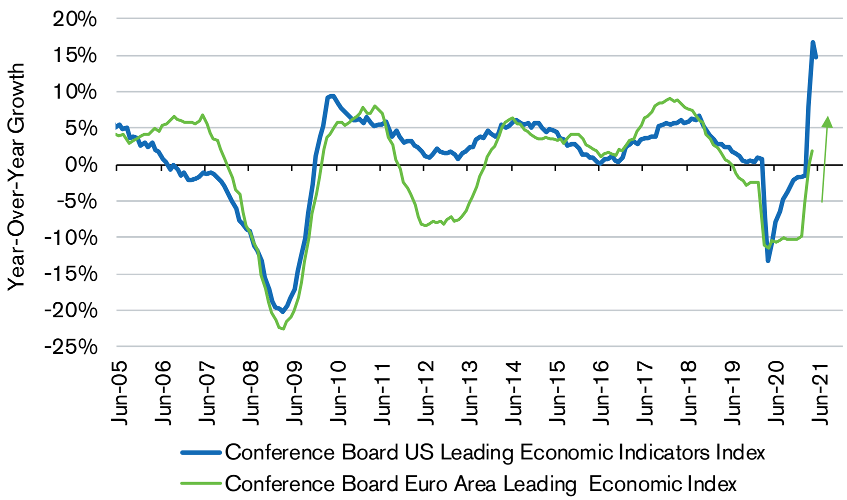
European Activity to Pick Up Among Ongoing Political Challenges

EUROPEAN VACCINATIONS ON PACE TO EXCEED U.S.



Source: Our World In Data, WestEnd Advisors

EUROPEAN ACTIVITY TO REBOUND ALONGSIDE REOPENING



Source: Conference Board, WestEnd Advisors

Portfolio Impact: The prospects for Europe's economic recovery have improved materially alongside the vaccine rollout and declining coronavirus cases. We have greater conviction that Europe's economy will rebound in the second half of 2021. As such, **we have increased our allocation to Europe**.

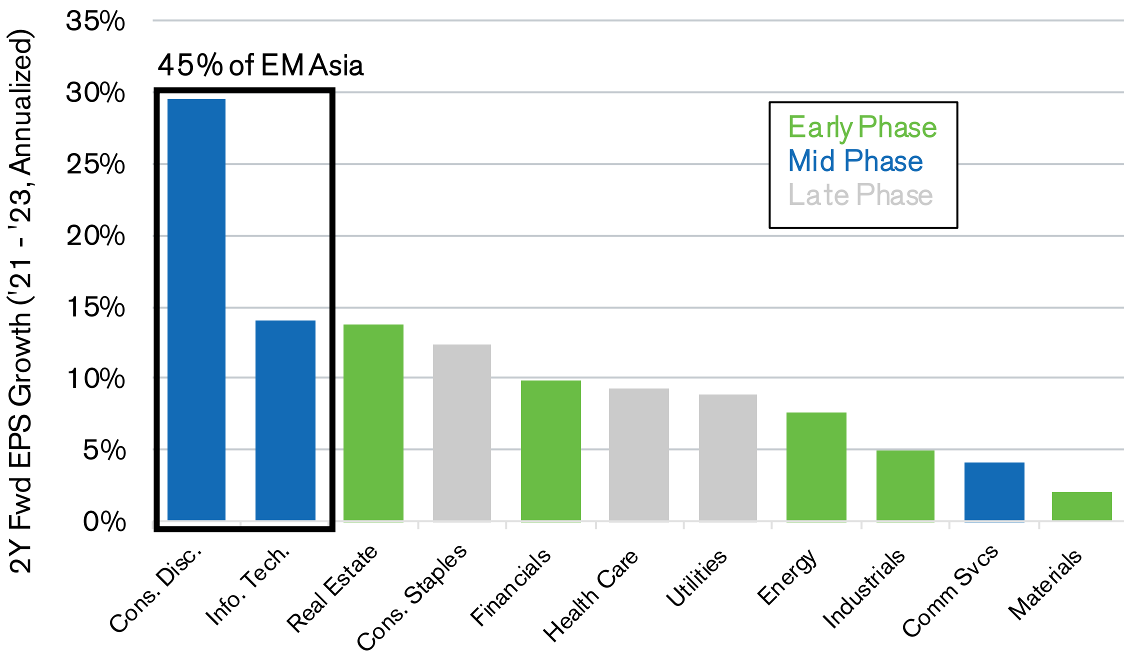
European economic growth lagged that of the U.S. in the first half of 2021, primarily due to lockdown measures aimed at controlling several Covid-19 outbreaks.

However, as shown in the top chart, pandemic risks in the region have diminished as the vaccine rollout has accelerated. In fact, **E.U. vaccinations are on pace to exceed U.S. vaccinations sometime in Q3**.

As a result, European economic growth is likely to rebound strongly in the second half of 2021 as lockdown measures are eased (bottom chart). However, Europe continues to face political headwinds, and the magnitude and transmission of fiscal stimulus will be less impactful, in our view, than it was in the U.S.

Emerging Asia's Early Recovery Creates Lasting Benefits

EM ASIA TO BENEFIT FROM TRANSITION TO EXPANSION



Source: WestEnd Advisors

Portfolio Impact: Economic data has shown that EM Asia led other regions in its economic recovery. The region should see strong GDP growth in 2021, and we believe **the region's earnings growth profile will benefit from its large exposure to mid-phase sectors**. At the same time, EM Asia valuations appear attractive relative to the U.S., in our view.

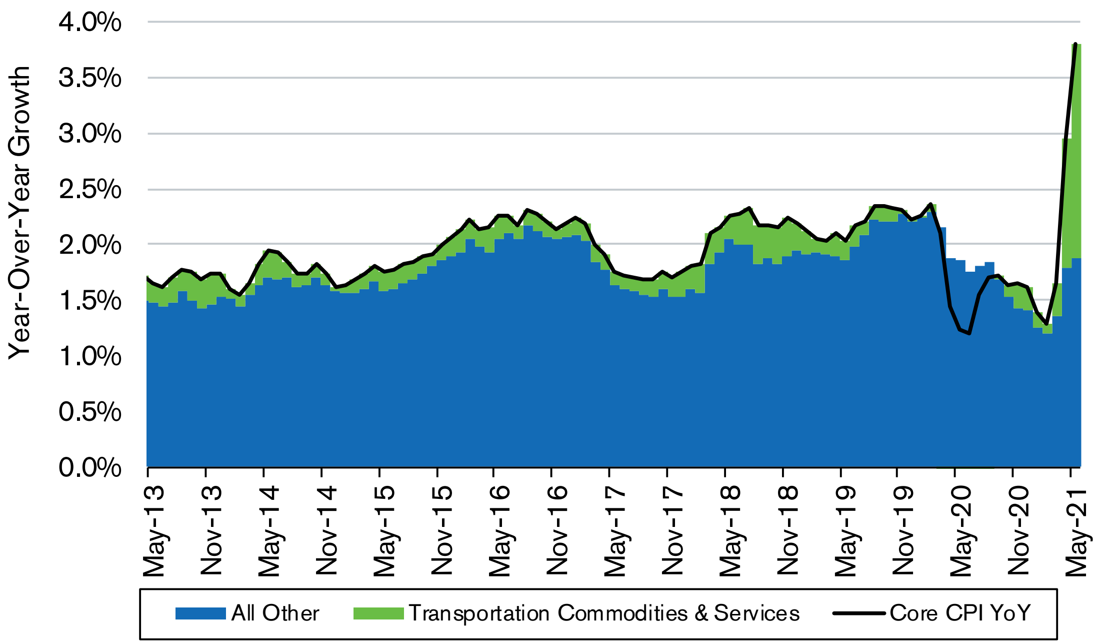
Emerging Asia has been a leader in the global economic recovery, as evidenced by **China's real GDP now firmly exceeding 2019 levels.** As the economic backdrop transitions toward a more typical expansionary growth environment, EM Asia's mid-phase sectors, which make up about 55% of the region, should drive strong earnings growth even as the cyclical tailwinds created by the economic rebound begin to moderate.

EM Asia is expected to have higher EPS growth than the U.S. in 2021 and 2022, driven largely by Info Tech and Consumer Discretionary (see chart). Significant runway exists for further technology adoption in the region, and consumer spending should also continue to improve as the tailwinds created by the strong manufacturing recovery should spread to household incomes and employment levels.

Interest Rates & Inflation

Elevated Inflation Readings Should Prove Temporary

TRANSPORTATION CONTRIBUTING HALF OF CORE CPI GROWTH



Source: BLS, WestEnd Advisors

Portfolio Impact: We believe core inflation is likely to moderate to levels consistent with the previous economic cycle. **TIPS prices continue to account for a pickup in inflation that we view as unlikely to be sustained, making these bonds less attractive** in our 12 to 18 month investment window.

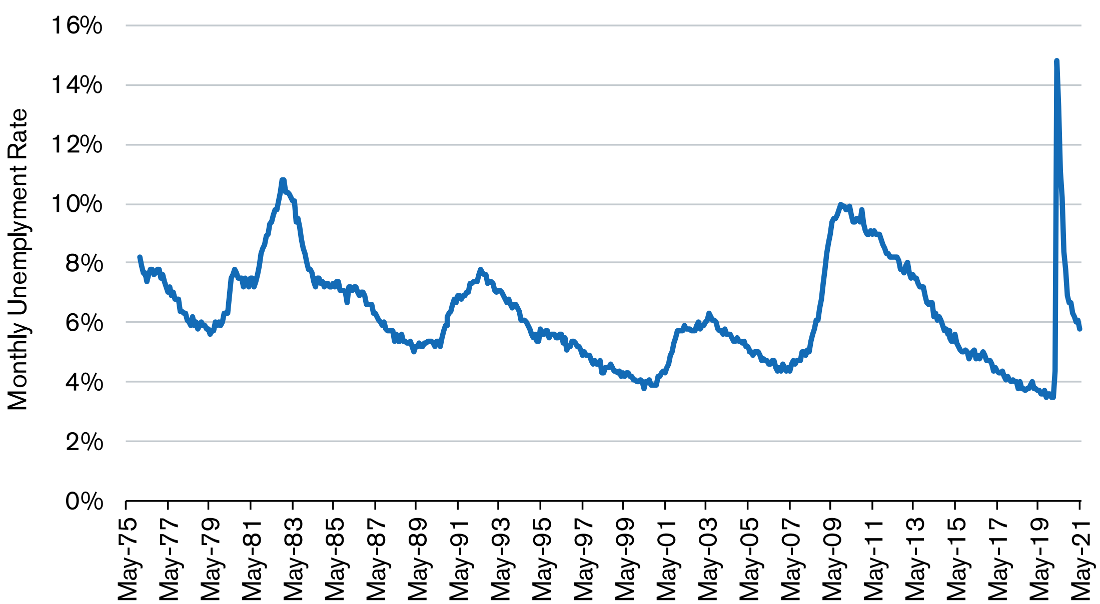
Twelve-month inflation readings picked up significantly in Q2 due to depressed readings a year ago, but we believe inflation will moderate over the next 12 to 18 months due to a number of factors including:

Supply Chain Pressures and One-Time Price Increases Ease: Supply chain congestion, especially with autos, and a rebound in travel prices contributed over half of the Core CPI Y/Y jump in May, which we see as well above sustainable levels.

Hourly Earnings Growth Subsides: Intermediate-term core inflation trends will depend on wage pressure and labor market tightness, in our view. With real GDP still below-trend and millions of people out of work, the pandemic-induced surge in hourly earnings should moderate as labor supply rebounds.

Strength of Economic Recovery and Magnitude of Labor Market Healing to Drive Monetary Policy Normalization

U.S. UNEMPLOYMENT RATE HAS FALLEN THE FASTEST ON RECORD



Source: Bureau of Labor Statistics, WestEnd Advisors

Portfolio Impact: We expect interest rates to push higher in the quarters ahead. Given the prospect of higher long-term rates, **we continue to favor equities over fixed income and shorter duration securities within fixed income allocations.** In the event that inflation surprises to the upside, our allocations to economically-sensitive sectors, such as Financials and Energy, should benefit.

Inflation has been an area of focus for us and other investors. That said, there is more to our interest rate outlook than just inflation. We believe that the strength of the economic recovery and the magnitude of the labor market improvement set the table for policy normalization in 2022.

We expect continued volatility in the labor market data in the back half of 2021 given the rapid economic recovery and roll off of supplemental unemployment programs. Looking out to 2022, we see a risk that the unemployment rate falls faster than investors expect due to strong demand for workers and a lower than expected participation rate, driven by an aging work force.

Footnotes & Disclosures

WestEnd Advisors is an SEC-registered investment advisor. Registration of an investment adviser does not imply any level of skill or training. The firm is an independent investment management firm, 100% owned by its active principals. WestEnd manages equity securities for individuals and institutional clients.

This report should not be relied upon as investment advice or recommendations, and is not intended to predict the performance of any investment. Past performance is not indicative of future results. It should not be assumed that recommendations made in the future will be profitable. The information contained herein is not intended to be an offer to provide investment advisory services. Such an offer may only be made if accompanied by WestEnd Advisors' SEC Form ADV Part 2. These opinions may change at anytime without prior notice. All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. The information has been gathered from sources believed to be reliable, however data is not guaranteed.

The Standard and Poor's 500 Stock Index includes 500 stocks and is a common measure of the performance of the overall U.S. stock market. The MSCI ACWI consists of 49 country indexes comprising 23 developed and 26 emerging market country indexes. The total return of the MSCI ACWI (Net) Index is calculated using net dividends. Net total return reflects the reinvestment of dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The Bloomberg Barclays US Aggregate Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. The Bloomberg Barclays US Aggregate Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. An index is unmanaged and is not available for direct investment.

Any portfolio characteristics, including position sizes and sector allocations, among others, are generally averages and are for illustrative purposes only and do not reflect the investments of an actual portfolio unless otherwise noted. The investment guidelines of an actual portfolio may permit or restrict investments that are materially different in size, nature, and risk from those shown. The investment processes, research processes, or risk processes shown herein are for informational purposes to demonstrate an overview of the process. Such processes may differ by product, client mandate, or market conditions. Portfolios that are concentrated in a specific sector or industry may be subject to a higher degree of market risk than a portfolio whose investments are more diversified.

Holdings, Sector Weightings, and Portfolio Characteristics were current as of the date specified in this presentation. The listing of particular securities should not be considered a recommendation to purchase or sell these securities. While these securities were among WestEnd Advisors' strategies' holdings at the time this material was assembled, holdings will change over time. There can be no assurance that the securities remain in the portfolio or that other securities have not been purchased. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities presently in the portfolio. Individual clients' portfolios may vary. Upon request, WestEnd Advisors will provide a list of all recommendations for the prior year.