Market Perspective

Morningstar Investment Management LLC

Q3 2021

All data and information as of June 30, 2021
Approved for General Public Use.

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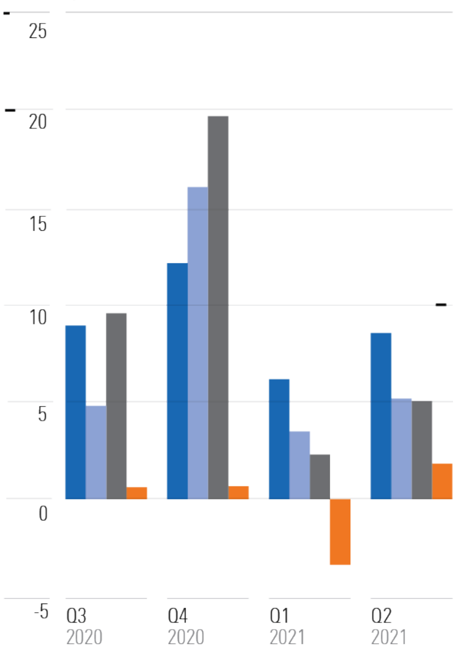
Quarterly Index Returns



Returns %	Q3 2020	Q4 2020	Q1 2021	Q2 2021
U.S. Stocks				
S&P 500	8.93	12.15	6.17	8.55
International Stocks				
MSCI EAFE	4.80	16.05	3.48	5.17
Emerging Markets				
MSCI Emerging Mkts	9.56	19.70	2.29	5.05
Bonds				
BBgBarc U.S. Agg.	0.62	0.67	-3.37	1.83

43%.

That's how much the Morningstar U.S. Market Index, which tracks U.S. stocks, is up over the trailing year through June 30, 2021. And it's not the only market that's posted eye-popping returns recently.

Stocks outside the U.S. have staged a similar double-digit rally over the past year, while corporate high-yield bonds have climbed more than 10% for the same stretch. It is less remarkable, to be sure, but still a strong gain for the bond side of the ledger.

It's no wonder retail investing is surging, though additional motives such as zero-cost trades and lockdown boredom likely helped, too.

The question, of course, is what to do now? Is it time to make wholesale changes or ride the summer wave?

After returns of this magnitude, any good value investor worth his or her salt would heed Warren Buffett's often-repeated maxim: "Be fearful when others are greedy, and greedy when others are fearful." In today's context, that time-tested wisdom may even come with a recommendation to take some profits off the table.

And maybe investors should. Valuations are certainly stretched, by nearly every traditional measure, and there certainly appears to be a good amount of froth in certain pockets of the U.S. equity market, whether looking at the elevated level of activity in IPOs, the recent SPAC mania, or the so-called meme stocks like AMC and GameStop. Even in fixed income, such is the optimism that Greek five-year bonds now have a negative yield, meaning an investor must now pay the Greek government to look after their money despite almost going bankrupt a short while ago.

On the other hand, the global economy has only now begun to stretch its legs and monetary support remains quite high. Selling now could mean missing out on tremendous gains to come.

Our take? Stick with the plan. Your financial plan, that is. You entered the market with particular goals in mind, whether that meant socking money away for retirement many years into the future or focusing on nearer-term aspirations, like buying a home or a second car. Whether the market is at a peak or a trough, your financial plan likely hasn't changed much, and your portfolio choices could still be right for your goals.

That's because we build the Morningstar

Managed Portfolios to help achieve your objectives, whatever they are. For those with goals far into the future, we have portfolios with high levels of equity exposure, giving them the potential to generate larger returns over the long run, and the ability to withstand periodic pullbacks, since investors have plenty of time to make up lost ground. For goals just a few years out, we create portfolios with far more emphasis on downside protection, heavier allocations to fixed income, for example, and less exposure to areas prone to suffer larger losses, such as small-cap stocks. Given their defensive nature, these strategies are less vulnerable to frothy markets.

Of course, while investors focus on their financial goals, it's our job, as asset managers of the portfolios themselves, to make prudent adjustments to the positioning within strategies, taking into account the prevailing market environment. Today, with economic tailwinds but stretched valuations, we're particularly focused on risk-adjusted returns, not just returns (although it's fair to say that's the case at all points in the cycle). This means balancing positions like long-term Treasuries and alternatives against targeted exposure in equities we identify as being better priced than others, including energy and financial stocks.

We believe it's this balance of specialization—the advisor and client drawing up and sticking to a sensible financial plan while Morningstar focuses on managing goal-centric portfolios through various market environments—that is the key to long-term investing success. We're grateful to be on the journey with you, and we look forward to our partnership for years to come.

Opinions expressed are those of Morningstar Investment Management LLC and are as of June 30, 2021; such opinions are subject to change without notice.

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Index Information
Individual index performance is provided as a reference only. Each index is unmanaged and is not available for direct investment. Since indexes and/or composition levels may change over time, actual return and risk characteristics may be higher or lower than those presented. Although index performance data is gathered from reliable sources, we cannot guarantee its accuracy, completeness or reliability. Index data sources are as follows.

S&P 500 Index—An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The S&P 500 is a market value weighted index.

MSCI EAFE Index (Europe, Australasia, Far East)—A free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

Bloomberg Barclays U.S. Aggregate Index—A market value weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.