MARKET UPDATE

Economic Market Update – Third Quarter, 2021

October 11, 2021

- After a strong first half, asset returns were muted in the third quarter
- In September the S&P 500 experienced its first 5% drawdown of the year, breaking a streak that went back to October 2020
- Despite a weak September, 80% of the stocks in the S&P 500 are positive on the year
- Emerging markets were the weakest performers, driven by tightening regulation by Chinese policymakers and concerns over the Chinese real estate market

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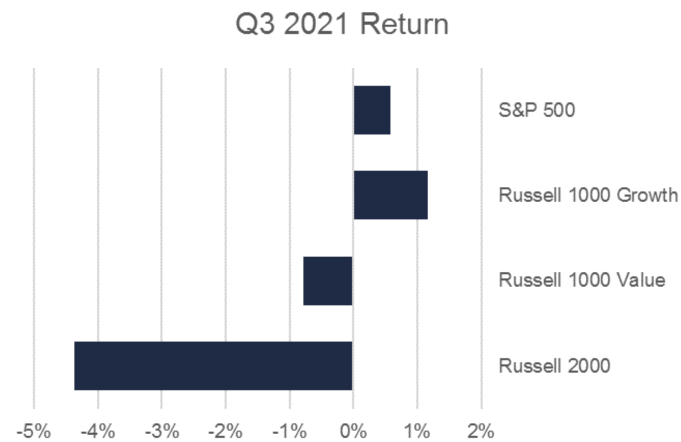
September is the cruelest month, or so say many market watchers. September has historically been the weakest month for stock returns, and September 2021 was no exception. After a strong and seemingly resilient start to the quarter, markets pulled back in September, breaking a few notable streaks. September's decline ended the streak of consecutive monthly gains for the S&P 500 at seven. The final month of the quarter also saw the first 5% pullback in equity markets since October 30, 2020, or 211 trading days. The rally that ended in September was the 13th longest in history. ***The good news? Out of the twelve longer winning streaks historically, only one occurred during a secular bear market for stocks that saw stocks fail to rebound in the months that followed.*** While September may have been a month to forget, taking a step back and looking at year-to-date market performance provides some sense of relief. As of September 30, 80% of the stocks in the S&P 500 are positive for the year. Going back to 1980, returns have only been this broad-based five other times. While risks to the current bull market have begun to rear their head, it is worth noting that each of the previous periods that experienced such strong market breadth saw stocks continue to climb through year-end.

U.S. Equity Markets



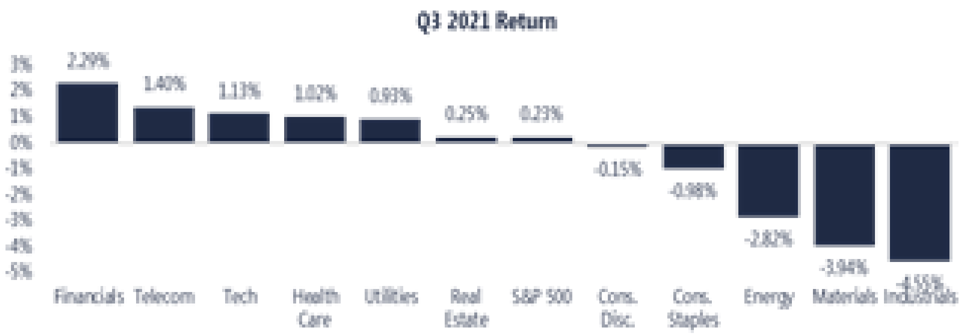
The bellwether for U.S. stock returns, the S&P 500, finished the quarter up 0.58%[1]. On the back of a strong first half of the year, the index is now up 15.92% year to date. Small-cap stocks underperformed their large-cap peers in Q3, with the Russell 2000 Index losing -4.36% for the quarter. This relative weakness in the small-cap space in Q3 means small-cap now trails large-cap year-to-date, with the Russell 2000 posting a 12.4% return over the first 9 months of 2021. U.S. equity performance continued to vary widely by style, a continuation of the trends from Q2. Small-cap gave back all of the relative gains over large-cap in Q3. Large-cap value gave back more of its relative gains to large-cap growth. As we laid out in detail earlier this year, our base case continues to expect an accelerated economic and market cycle – and the continuation of large-cap growth market leadership from Q2 provides additional evidence that this scenario is playing out. The Russell 1000 Growth Index, which is comprised of both large- and mid-cap firms, returned 1.16% for the quarter vs. the -0.78% return of the Russell 1000 Value Index. The value style continued to lead in small-cap

Q3 2021 Returns

	Value	Blend	Growth
Large	-0.8%	0.6%	1.9%
Mid	-1.6%	-1.8%	-2.0%
Small	-4.0%	-2.8%	-1.5%

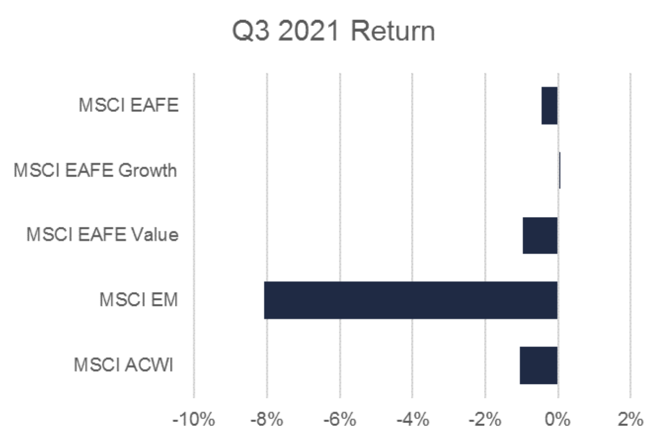
[1]All returns are total returns unless otherwise stated; international returns are net returns in USD.

with the Russell 2000 Value Index returning –2.98% vs. the Russell 2000 Growth Index's return of -5.65% on the quarter. Performance also continued to vary widely across sectors and industries in the third quarter. Cyclical and defensive stocks were the leaders on the quarter. This leadership was mixed among sectors traditionally thought of as value-oriented and those considered growth-oriented. Financial stocks were the best performers, buoyed by a steepening yield curve over the course of the quarter. Other sectors with positive third quarter performance were Communications Services, Information Technology, Health Care, and Utilities. Energy, Materials, and Industrials stocks were the worst performers on the quarter, with each sector down more than 2.80%. Despite a poor Q3, Energy remains the decisive leader year-to-date, with a return of 38.35% for the first nine months of the year. Defensive stocks have lagged materially year-to-date, with both Consumer Staples and Utilities returning less than 2.75% in 2021 thus far.



International Equity Markets

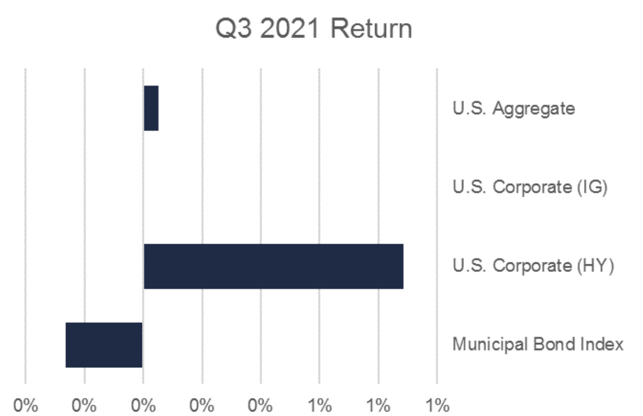
International equities lagged U.S. stocks slightly in Q3, with Japan and the United Kingdom the only regions to post positive returns on the quarter. The MSCI EAFE Index of major developed international equity markets lost -0.45% for the quarter. The growth/value trend was present internationally as well, with the MSCI EAFE Growth Index returning 0.07% vs. a loss of 0.97% for the MSCI EAFE Value Index. On absolute basis, year-to-date performance continues to be strong in developed international markets; nearly all developed regions have produced double-digit returns YTD save for the United Kingdom, which just missed with a return of 9.93%. The real weakness internationally was in emerging markets. EM stocks posted the lowest return of any segment for the third quarter in a row, down -8.09% on the quarter. The continuing underperformance of the EM index relative to developed markets accelerated in Q3, driven by significant declines in China and Brazil. Chinese equities fell -18.50% in Q3 as investors grew



concerned about recent regulatory action from the Chinese Communist Party and a developing liquidity crunch in the real estate sector that may have the potential to spread to the broader domestic economy in China. We will be closely monitoring the situation in China going forward, but ast of this writing we do not believe the issues will have a material impact on markets outside of China. ***Summing up equity markets globally for the quarter, the MSCI ACWI Index, a proxy for the global stock market, lost -1.05% in Q3 but is still up a robust 11.12% for the year through September.***

U.S. Fixed Income Markets

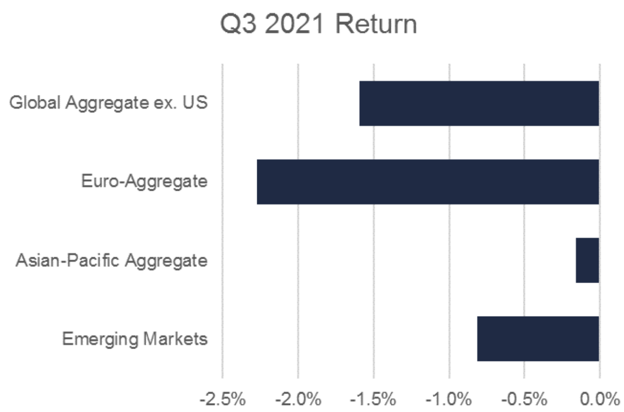
Fixed income returns remained muted in Q3. Increasing concerns about the duration of the current supply-shock driven inflationary pressure and signals from the Fed that tapering of its asset purchase program is likely in the months ahead combined to put upward pressure on yields during the quarter. The Bloomberg U.S. Aggregate Bond Index, a broad measure of the performance of investment-grade fixed income markets in the U.S., returned a mere five basis points (0.05%) in Q3 and remains negative on the year, down -1.55%. Investment-grade corporate bonds were flat on the quarter. High yield corporate bonds posted slightly better returns, up 0.89%. TIPS posted a strong quarter as well, up 1.75% on persistent inflation concerns, and are now up 3.75% YTD. Floating rate bonds also continue to shine in the current environment, returning 1.11% for Q3 and 4.42% YTD.



International Fixed Income Markets

International fixed income performance broadly lagged the U.S. on the quarter. The Bloomberg Global Aggregate ex. U.S. Bond Index, a proxy for the global investment-grade credit universe outside of the United States, lost -1.59% in Q3. Asia-Pacific lost -0.16%. Europe was the laggard, down -2.28% for the quarter. Emerging market bonds struggled as well, with the JPMorgan Global Core Emerging Market Bond Index declining -0.82% on the quarter.

Market leadership in Q3 continues to signal that our base case, which expects a faster transition from an early-cycle to mid-cycle environment than in previous cycles, is highly probable. This transition increasingly looks like it began in Q2 and continued apace in Q3. While we still believe that our base case is the most likely outcome, several risks to this thesis have begun to appear in recent months – supply chain issues, rising energy prices, dysfunction in Washington, and uncertainty in China are just of few of the developments with the potential to alter the expected trajectory of the global economy in the months ahead.



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Matthew is a portfolio manager and leads the investment strategy group for Fulton Private Bank and Fulton Financial Advisors. He was a National Merit Scholar at the University of Chicago, where he graduated with a B.A. in Political Science. He is a Chartered Financial Analyst (CFA®) charterholder and is a member of the CFA® Institute and the CFA® Society of Philadelphia.

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