svb Asset Management

Quarterly Economic Report

Inside views on economic and market factors affecting global markets and business health

Q3 2021

Quarterly Economic Report

Published in Q3 2021 | Data for Q2 2021

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OVERVIEW

Key takeaways

- Growth and inflation expectations accelerate as economies continue to recover.
- Stronger-than-forecasted economic recovery prompts the Federal Reserve to be slightly more hawkish and triggers revisions to its rate hike expectations.
- There has been a yield divergence as front-end yields continue to anchor low while the belly of the curve and beyond has steepened significantly.

Economic data continues to improve

The recovery continues as US economic activity normalizes in a post-vaccine world. However, the surge in inflation has prompted a more vigilant approach.

Fed's less dovish/more hawkish tilt

The Fed revises inflation and growth forecasts, and moved up its rate hike projections to potentially two in 2023.

Central banks

Globally, central banks continue to maintain low rates and to fuel quantitative easing. We expect uneven policy adjustments based on differing paces of economic recovery.

USD trading according to risk-on, risk-off paradigm

During the COVID-19 unwind, the US dollar has risen in risk-off periods and fallen when markets are risk-on.

Markets and performance

As economies recovered faster than expected, sector performance gets a boost to pre-pandemic levels.

Front-end rates remain low and in tight trading range

Our strategy remains to optimize yield for client portfolios while staying invested in high-quality securities and monitoring duration positioning.

Domestic Economy

GDP: US recovery is underway

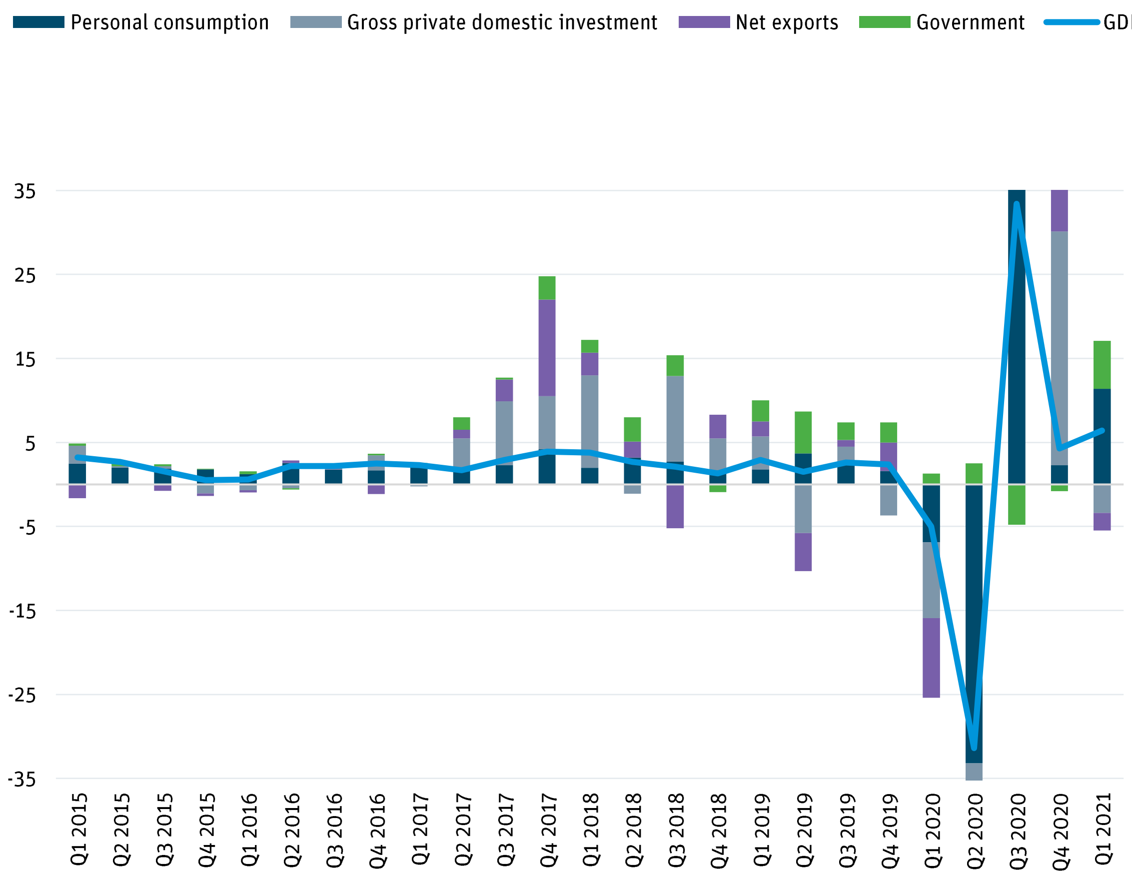
As expected, GDP picked up in Q1 2021, increasing 6.4% with strong tailwinds from fiscal and monetary stimulus as vaccinations supported the economic reopening.

The final revision remained unchanged, driven largely by demand for goods and services, with an 11.4% increase in consumption, followed by government spending, which was up 5.7%.

Growth for the year is expected to continue to accelerate, with the Fed recently upgrading its forecast for GDP to 7% from 6.5% in the June Summary of Economic Projections.

As Q3 starts, it will be the first quarter in over a year where the US economy is fully reopened and not weighed down by the pandemic.

GDP and Components



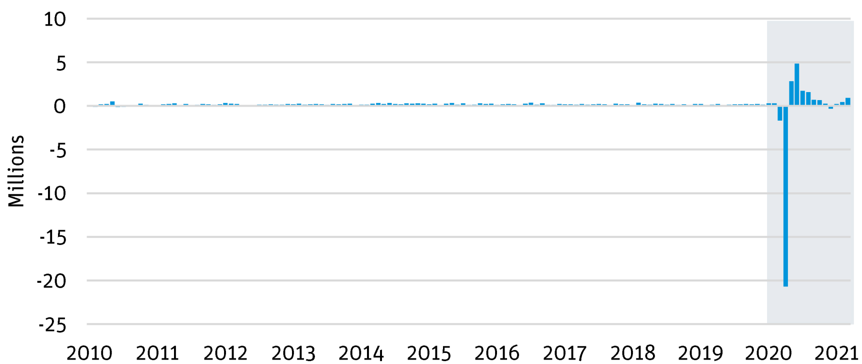
Sources: Bureau of Economic Analysis, Congressional Budget Office and SVB Asset Management. Data as of 7/9/2021. 2020 and 2021 data points are estimates. GDP values shown are percent change vs. prior quarter on an annualized basis.

Employment: Gaining steam

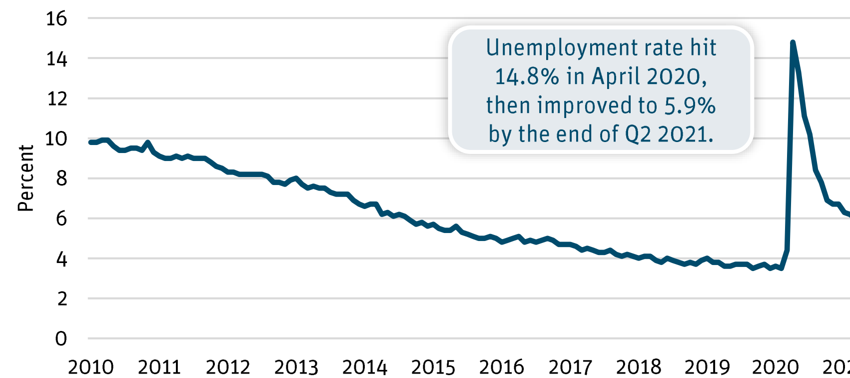
In the first half of 2021, the labor market continued to improve, albeit at a more moderate pace than initially thought. In Q2, an average of 567,000 jobs were added per month, and the unemployment rate declined to 5.9%.

While there was a strong need to hire workers (especially in reopening industries such as restaurants, leisure and hospitality), filling positions was a challenge. Employers cited mismatched skills, child care duties, virus concerns and unemployment benefits as reasons for the slow hiring.

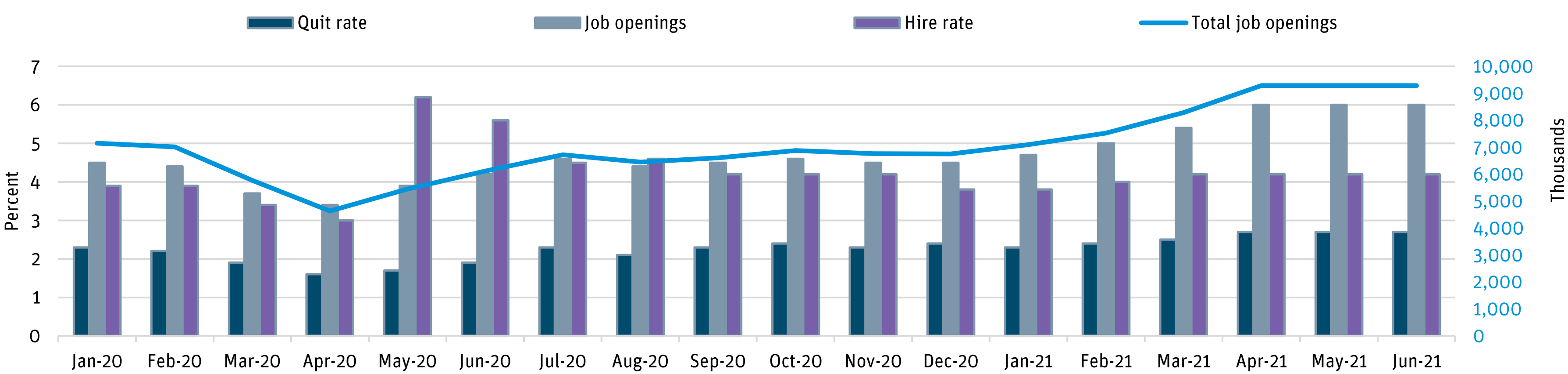
Nonfarm Payrolls



Unemployment Rate



Job Openings and Labor Turnover



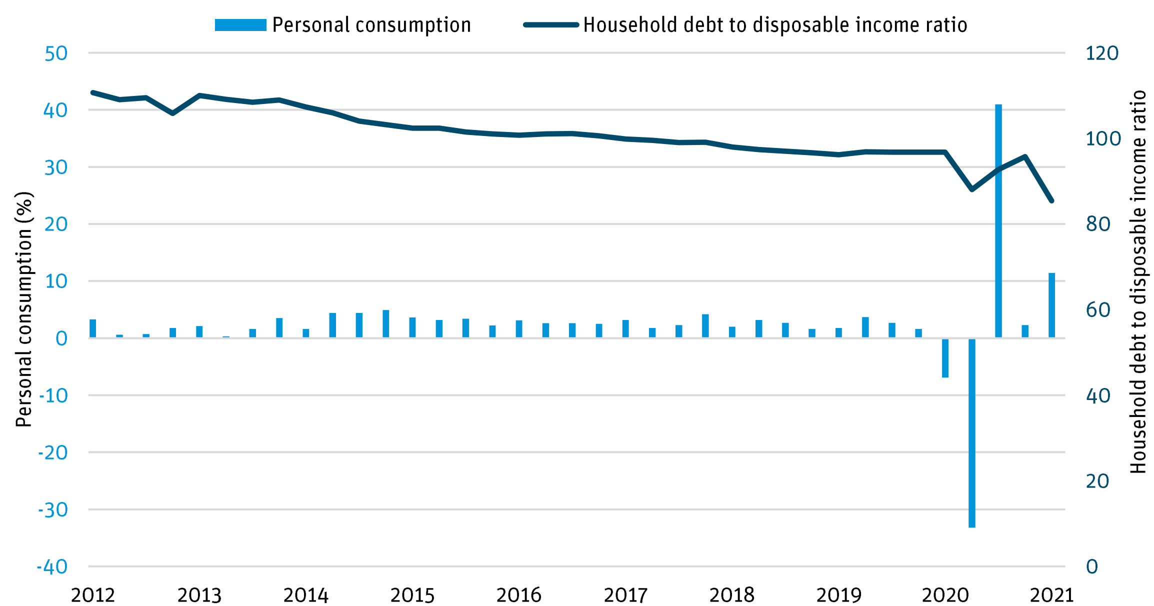
Sources: US Bureau of Labor Statistics, Bloomberg and SVB Asset Management.
Data as of 7/9/2021.

Consumption: Easing back toward services

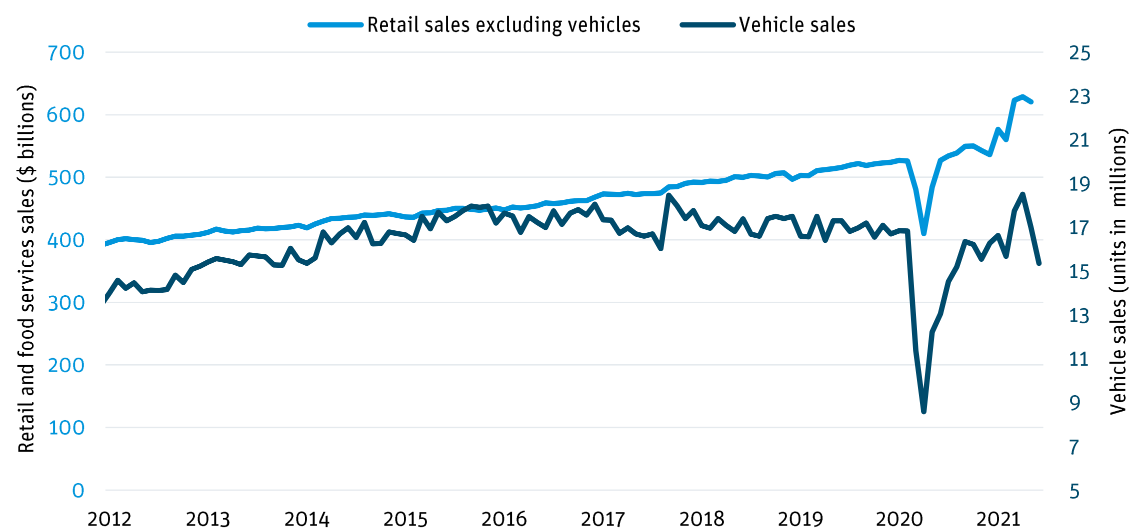
Consumption in Q1 2021 jumped 11.4%, propelled by spending on goods, which increased 26.6% within that category, durable goods increased 49.2%, driven by auto sales. Spending on non-durables increased 15.2%, and spending on services increased 4.2%.

In the coming months, as the pandemic fears continue to subside, there should be a rotation from goods to services.

Consumption Overview



Retail Sales



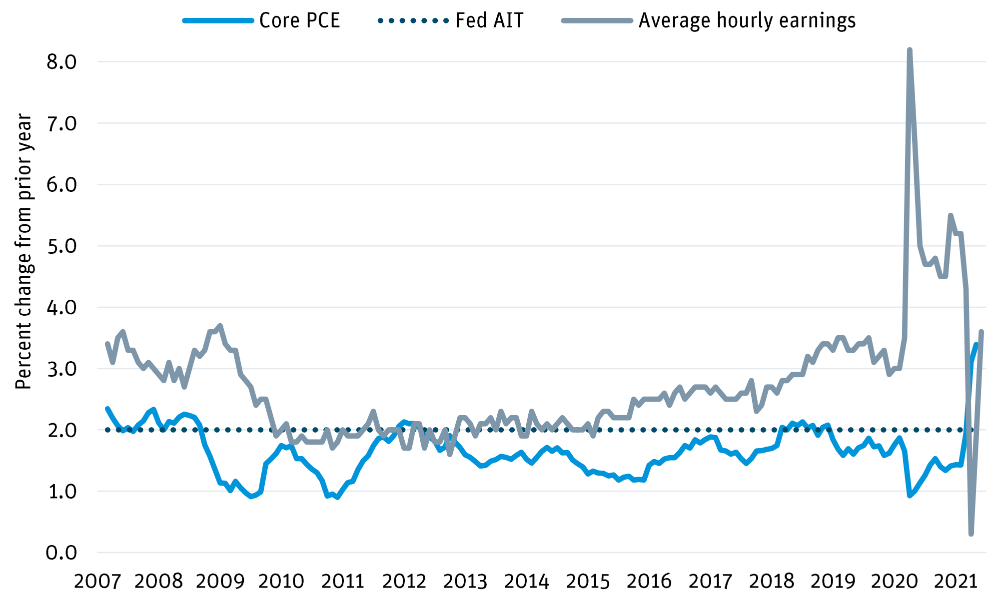
Sources: Bloomberg and SVB Asset Management. Data as of 7/9/2021.

Inflation: Swift shift

As expected, inflation picked up significantly in Q2, with the core Personal Consumption Expenditure (PCE) price index at 3.4% and Consumer Price Index (CPI) at 5% in May.

The jump was predicted after extended pandemic-induced lockdowns and is thought to be transitory as the economy recalibrates and supply chains reset. The Fed has taken a more vigilant approach recently updating the Summary of Economic Projections to reflect a 50 bps increase in rates in 2023.

Core PCE



CPI Breakdown

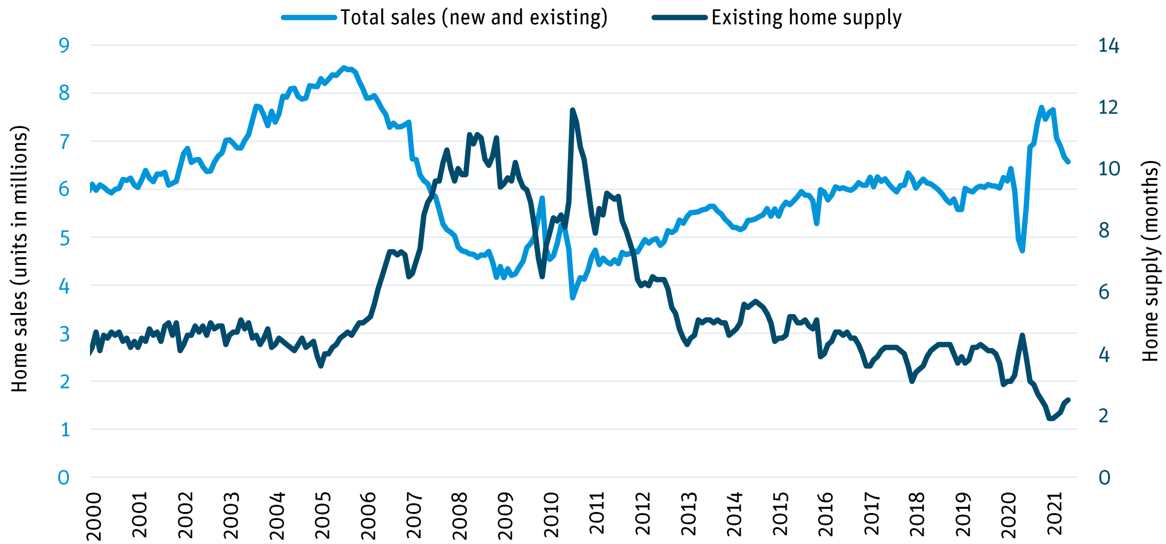
	All items	Food	Food at home	Food away from home	Energy	Gasoline (all types)	Electricity	Natural gas (piped)	All items less food and energy	Commodities less food and energy commodities	Apparel	New vehicles	Medical care commodities	Services less energy services	Shelter	Medical care services	Education and communication
Jan-20	2.50%	1.80%	0.70%	3.10%	6.20%	12.80%	0.50%	-3.20%	2.30%	-0.30%	-1.30%	0.10%	1.70%	3.10%	3.30%	5.10%	1.50%
Feb-20	2.30%	1.80%	0.80%	3.00%	2.80%	5.60%	0.60%	-2.00%	2.40%	0.00%	-0.90%	0.40%	1.80%	3.10%	3.30%	5.30%	1.50%
Mar-20	1.50%	1.90%	1.10%	3.00%	-5.70%	-10.20%	0.20%	-2.90%	2.10%	-0.20%	-1.60%	-0.40%	1.30%	2.80%	3.00%	5.50%	1.50%
Apr-20	0.30%	3.50%	4.10%	2.80%	-17.70%	-32.00%	0.20%	-1.90%	1.40%	-0.90%	-5.70%	-0.60%	0.70%	2.20%	2.60%	5.80%	1.60%
May-20	0.10%	4.00%	4.80%	2.90%	-18.90%	-33.80%	-0.20%	-0.30%	1.20%	-1.00%	-7.90%	-0.30%	0.80%	2.00%	2.50%	5.90%	1.60%
Jun-20	0.60%	4.50%	5.60%	3.10%	-12.60%	-23.40%	0.10%	-0.20%	1.20%	-1.10%	-7.30%	-0.20%	1.30%	1.90%	2.40%	6.00%	1.40%
Jul-20	1.00%	4.10%	4.60%	3.40%	-11.20%	-20.30%	-0.10%	-0.30%	1.60%	-0.50%	-6.50%	0.50%	1.10%	2.30%	2.30%	5.90%	2.30%
Aug-20	1.30%	4.10%	4.60%	3.50%	-9.00%	-16.80%	-0.10%	-0.50%	1.70%	0.40%	-5.90%	0.70%	0.80%	2.20%	2.30%	5.30%	2.30%
Sep-20	1.40%	3.90%	4.10%	3.80%	-7.70%	-15.40%	0.70%	3.80%	1.70%	1.00%	-6.00%	1.00%	0.90%	1.90%	2.00%	4.90%	2.10%
Oct-20	1.20%	3.90%	4.00%	3.90%	-9.20%	-18.00%	1.30%	1.80%	1.60%	1.20%	-5.50%	1.50%	-0.80%	1.70%	2.00%	3.70%	2.10%
Nov-20	1.20%	3.70%	3.60%	3.80%	-9.40%	-19.30%	1.60%	4.40%	1.60%	1.40%	-5.20%	1.60%	-1.10%	1.70%	1.90%	3.20%	1.90%
Dec-20	1.40%	3.90%	3.90%	3.90%	-7.00%	-15.20%	2.20%	4.10%	1.60%	1.70%	-3.90%	2.00%	-2.50%	1.60%	1.80%	2.80%	2.00%
Jan-21	1.40%	3.80%	3.70%	3.90%	-3.60%	-8.60%	1.50%	4.30%	1.40%	1.70%	-2.50%	1.40%	-2.30%	1.30%	1.60%	2.90%	1.70%
Feb-21	1.70%	3.60%	3.50%	3.70%	2.40%	1.50%	2.30%	6.70%	1.30%	1.30%	-3.60%	1.20%	-2.50%	1.30%	1.50%	3.00%	1.70%
Mar-21	2.60%	3.50%	3.30%	3.70%	13.20%	22.50%	2.50%	9.80%	1.60%	1.70%	-2.50%	1.50%	-2.40%	1.60%	1.70%	2.70%	1.50%
Apr-21	4.20%	2.40%	1.20%	3.80%	25.10%	49.60%	3.60%	12.10%	3.00%	4.40%	1.90%	2.00%	-1.70%	2.50%	2.10%	2.20%	1.70%
May-21	5.00%	2.20%	0.70%	4.00%	28.50%	56.20%	4.20%	13.50%	3.80%	6.50%	5.60%	3.30%	-1.90%	2.90%	2.20%	1.50%	1.90%

Sources: Bloomberg, Bureau of Labor and Statistics and SVB Asset Management. Data as of 7/9/2021. The Consumer Price Index (CPI) measures the weighted average price change in the prices paid by consumers for household goods and services.

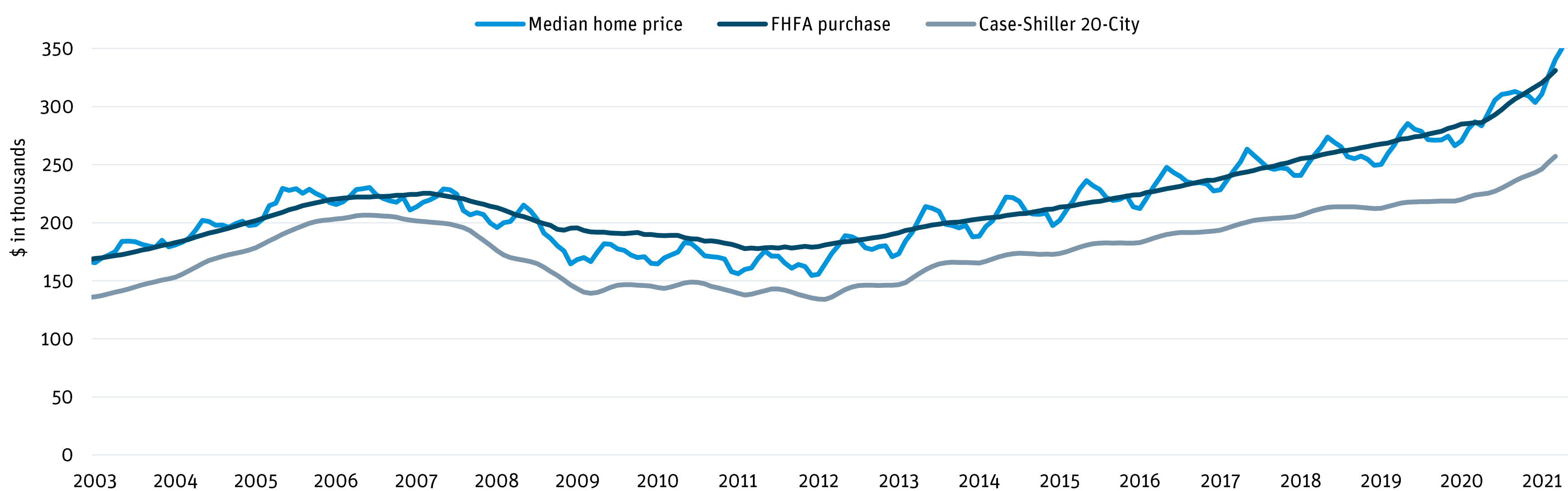
Housing: Sales dip after surge

The sharp rise in sales seen in 2020 has eased as limited inventory, high prices and relatively lower affordability slowed down buyers. Inventory is beginning to inch up, which should help with future sales.

Housing Market



Home Prices

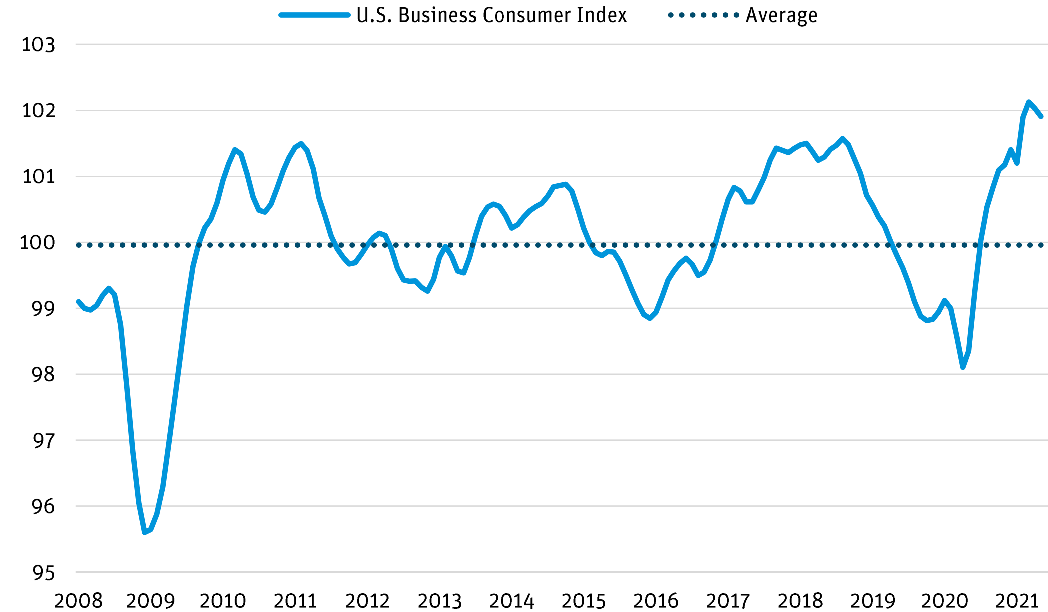


Sources: Bloomberg and SVB Asset Management. Data as of 7/9/2021.

Business Outlook: Healthy

Business sentiment continues to improve with increased efforts in the vaccination rollout driving a more positive outlook. Federal Reserve districts continue to see improvements. Meanwhile, ISM data shows the shift into services, with economic activity rebounding sharply in service sectors as more people are vaccinated.

Business Confidence Index



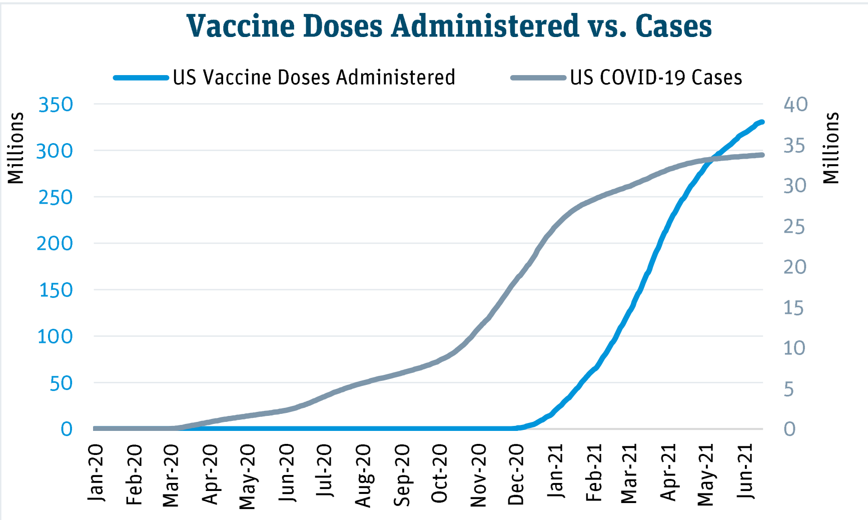
Business Sentiment

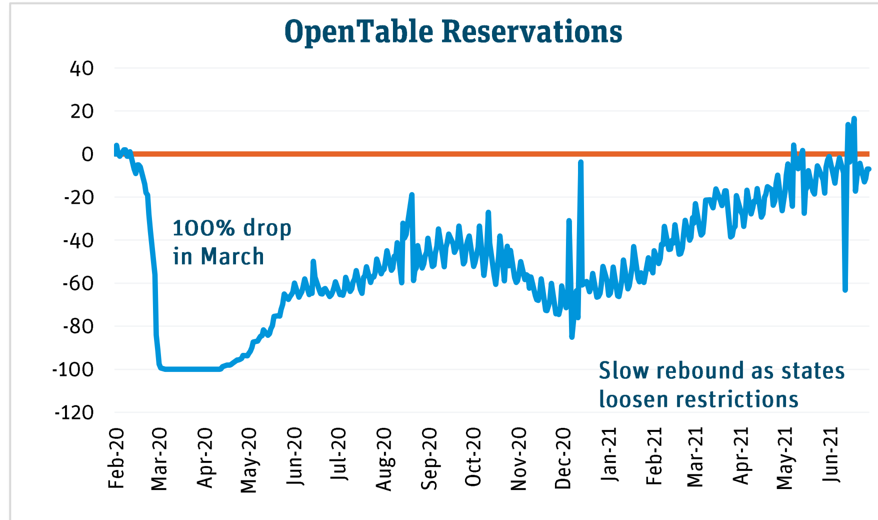
	Dallas Fed Manufacturing Survey	Philly Fed Manufacturing Survey	New York Fed's Empire Manufacturing Survey	Kansas City Fed Manufacturing Survey	Richmond Fed Manufacturing Survey	ISM Manufacturing PMI SA	ISM Non-Manufacturing
January-20	-0.2	17.0	4.8	-1.0	20.0	50.9	55.5
February-20	1.2	36.7	12.9	5.0	-2.0	50.1	57.3
March-20	-70.0	-12.7	-21.5	-17.0	2.0	49.1	52.5
April-20	-72.2	-56.6	-78.2	-30.0	-54.0	41.7	41.6
May-20	-47.6	-43.1	-48.5	-19.0	-28.0	43.1	45.4
June-20	-5.4	27.5	-0.2	1.0	0.0	52.2	56.5
July-20	-1.9	24.1	17.2	3.0	10.0	53.7	56.6
August-20	9.0	17.2	3.7	14.0	18.0	55.6	57.2
September-20	14.6	15.0	17.0	11.0	21.0	55.7	57.2
October-20	21.2	32.3	10.5	13.0	29.0	58.8	56.2
November-20	12.9	26.3	6.3	11.0	15.0	57.7	56.8
December-20	10.5	11.1	4.9	14.0	19.0	60.5	57.7
January-21	7.0	26.5	3.5	17.0	14.0	58.7	58.7
February-21	17.2	23.1	12.1	24.0	14.0	60.8	55.3
March-21	28.9	51.8	17.4	26.0	17.0	64.7	63.7
April-21	37.3	50.2	26.3	31.0	17.0	60.7	62.7
May-21	34.9	31.5	24.3	26.0	18.0	61.2	64.0
June-21	31.1	30.7	17.4	27.0	22.0	60.6	60.1

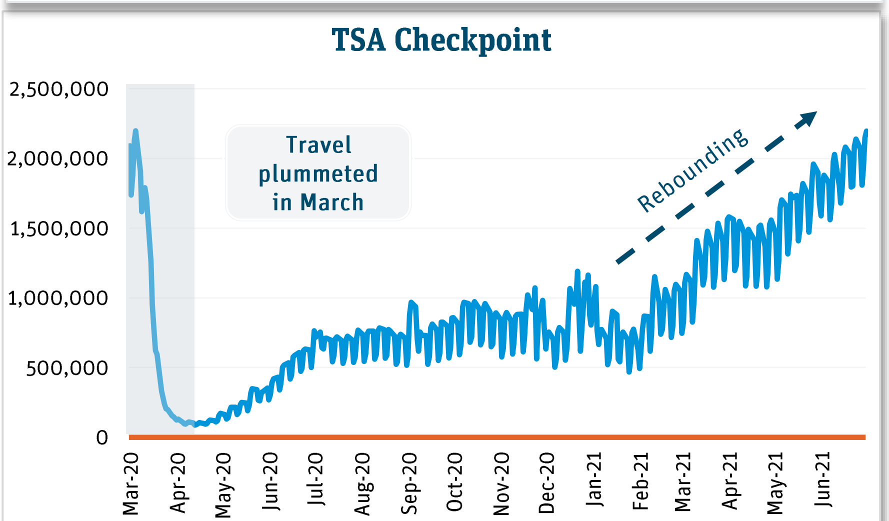
Sources: Bloomberg, OECD (2021), Business confidence index (BCI) (indicator). doi: 10.1787/3092dc4f-en (Accessed on 9 July 2021). Heatmap colors based on the indices and time periods shown. Data as of 7/9/2021.

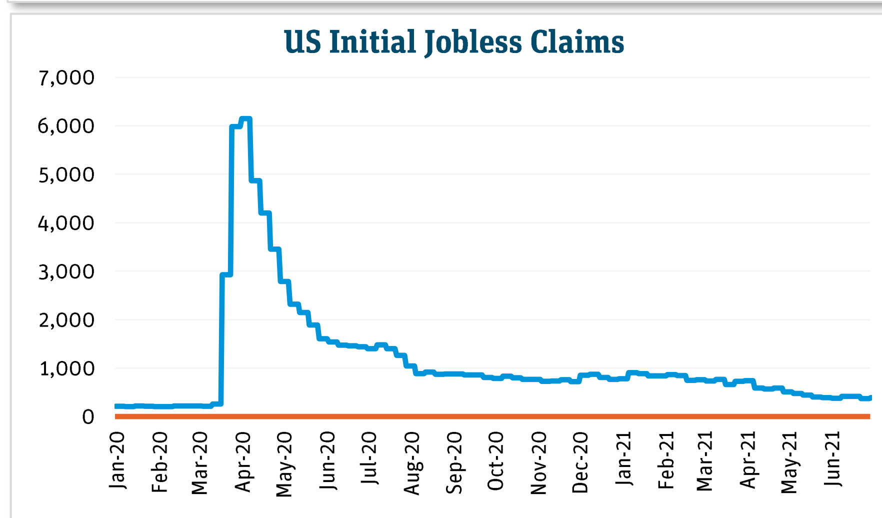
Steady Recovery

With almost 50% of the US population vaccinated, activities continue to recover and inch closer to pre-pandemic levels as shown by the data that track the effect of the pandemic on daily activity.









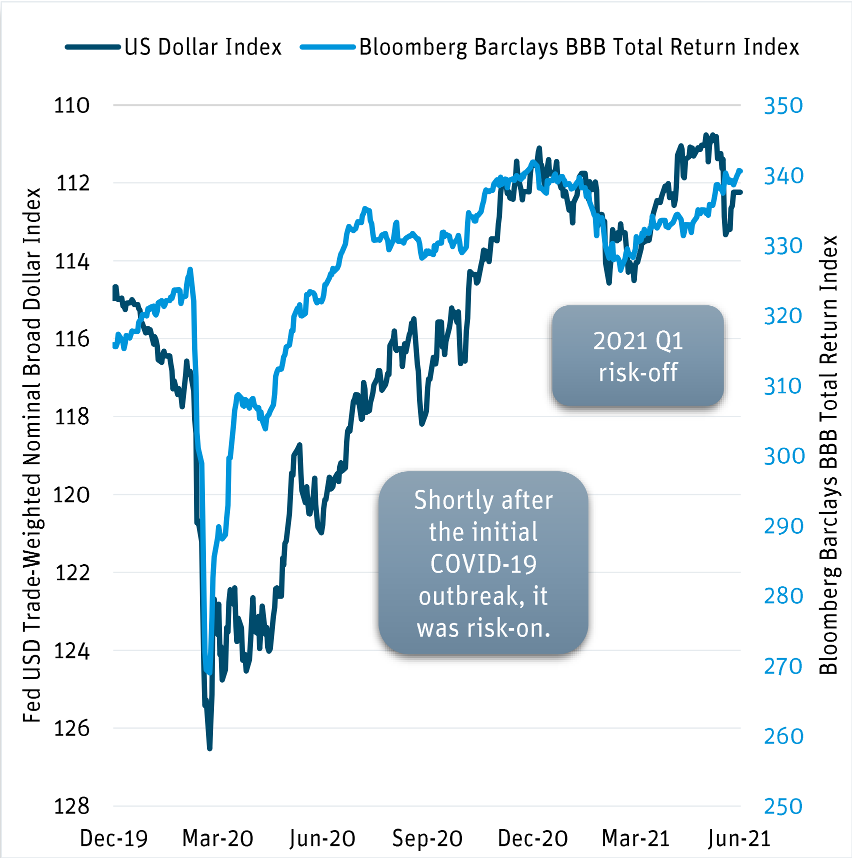
Sources: Bloomberg and SVB Asset Management. Data as of 7/9/2021.
*OpenTable Reservations index shows seated diners from reservations based on how many people dined at restaurants in 2021 and 2020 compared to 2019. https://www.opentable.com/state-of-industry.

Foreign Exchange

US Dollar Outlook

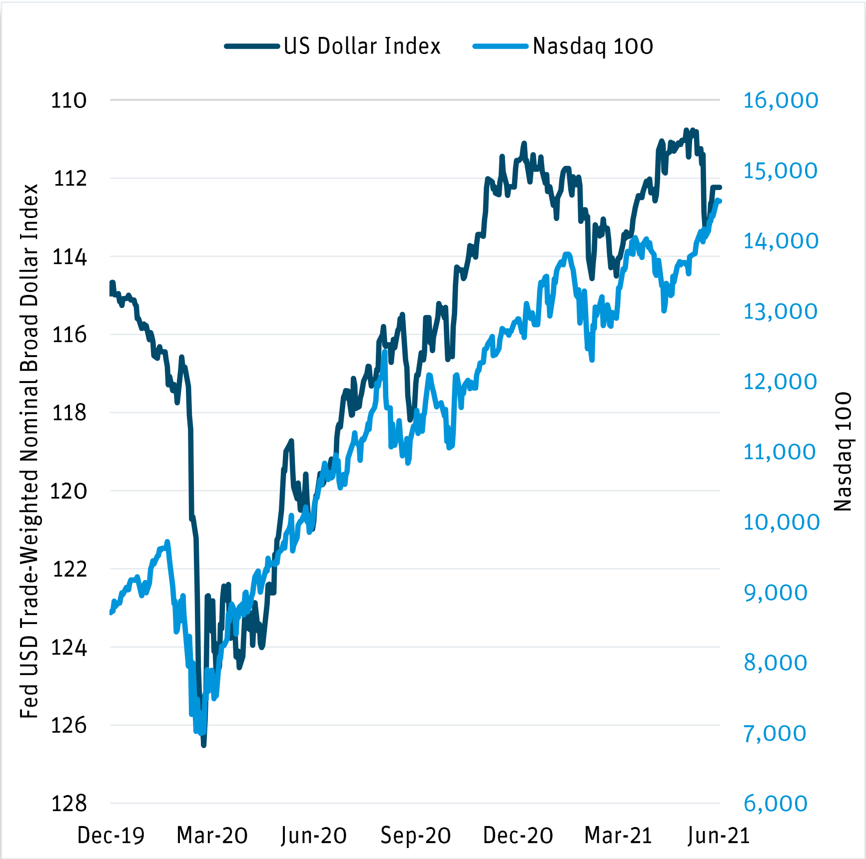
The general trend in the US dollar (USD) has traded according to the risk-on, risk-off (RORO) paradigm during the COVID-19 unwind period, rising in risk-off periods and falling when markets are risk-on.

The USD has closely tracked US BBB corporate bond returns.



US Dollar Index represents a weighted average of the value of the US dollar against the currencies of a broad group of major US trading partners and is tracked by the left y-axis (inverted). The Bloomberg Barclays BBB index measures total return and is tracked by the second y-axis.

Also, USD exhibited strong co-movement with US tech stocks.

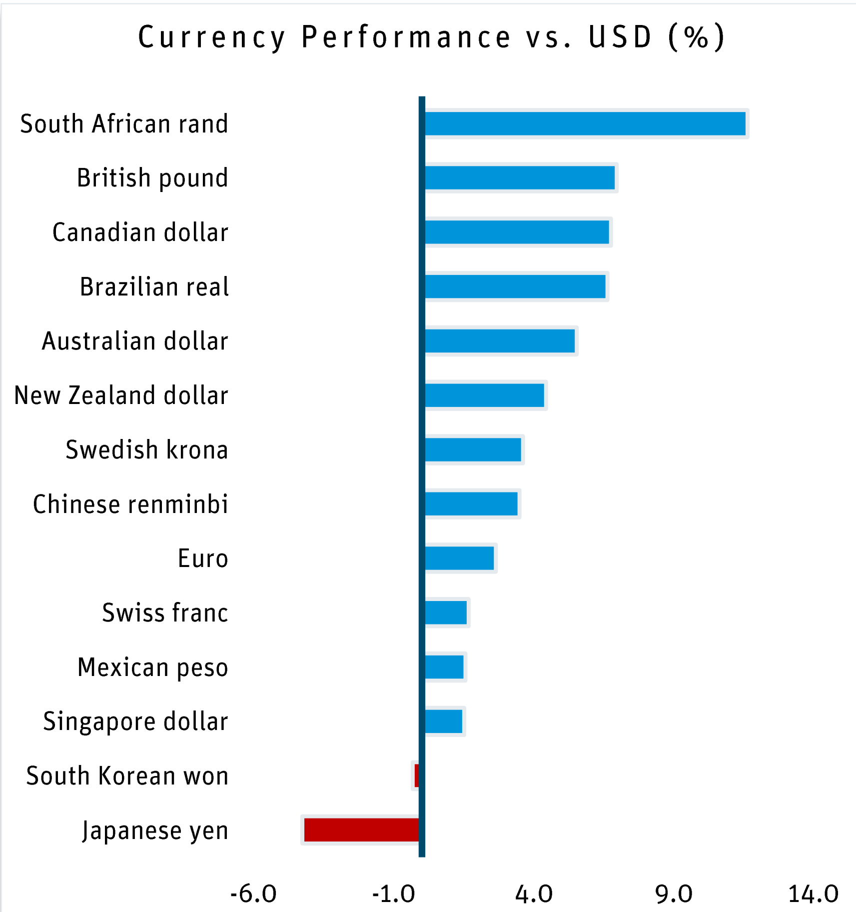


Sources: Federal Reserve and The Economist. Data as of 7/5/2021.

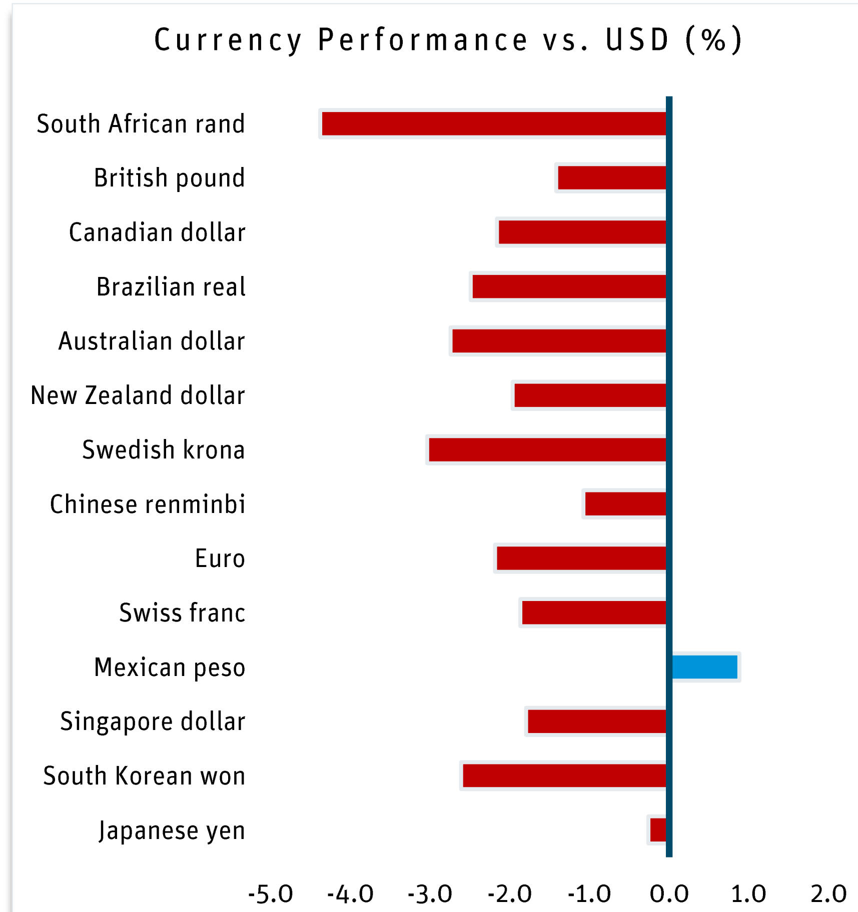
Reflation Trade Pruning Has Derailed Currency Rally

The Fed's unexpected hawkishness following the June 16 Federal Open Market Committee (FOMC) meeting resulted in a pruning of the reflation trade, which included lightening up on high-beta foreign exchange (FX) trades.

Reflation trade period: COVID-19 vaccine announcement (11/9/2020) to day before June FOMC (6/15/2021)



Reflation trade pruning period: Day before June FOMC (6/15/2021) to present (7/12/2021)

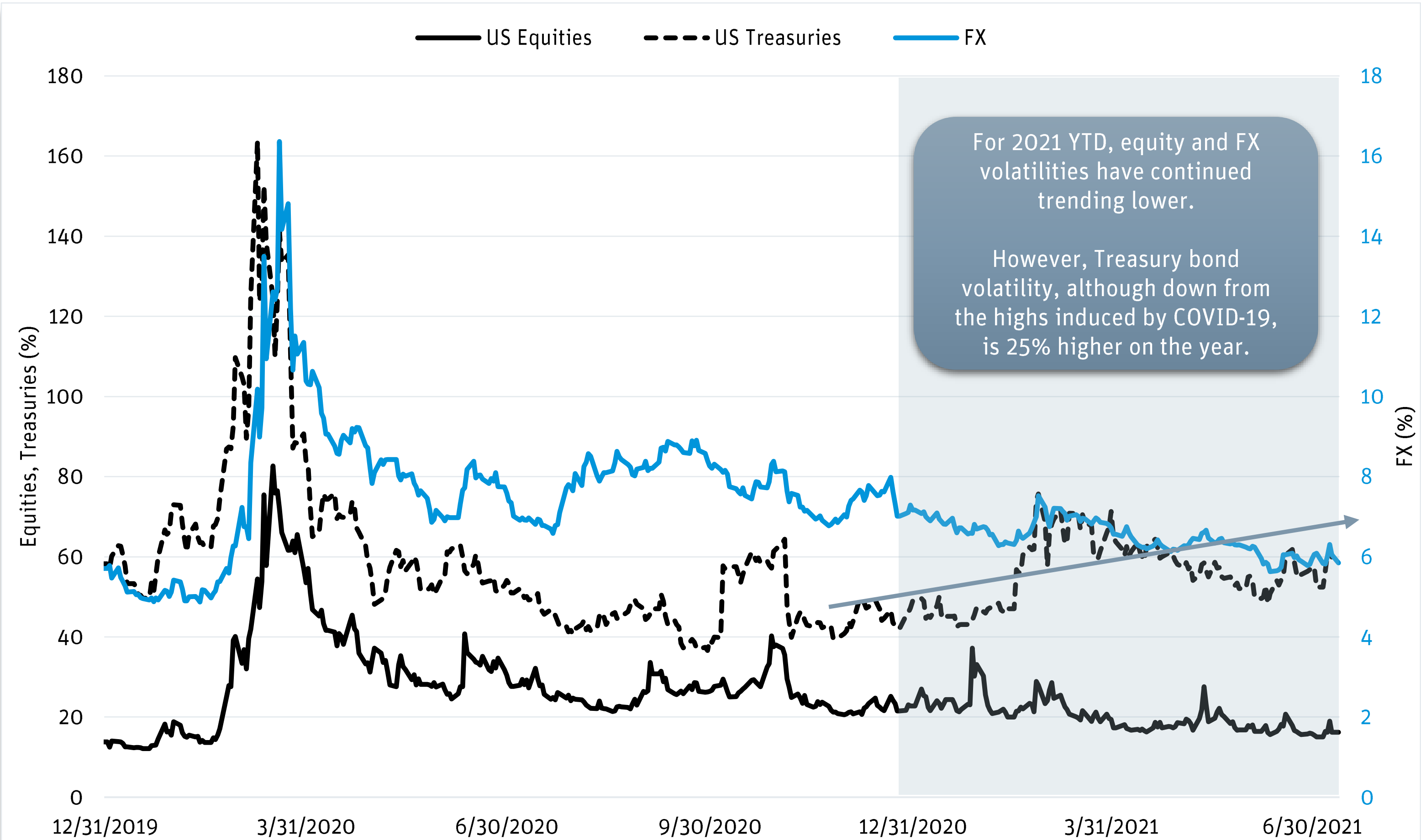


Source: Bloomberg. Data as of 7/12/2021.

Volatilities Across Asset Classes

Volatilities across asset classes have fallen back near cycle lows, signaling possible complacency.

Implied Volatilities for US Equities, Treasuries and FX Based on Market Prices of Options

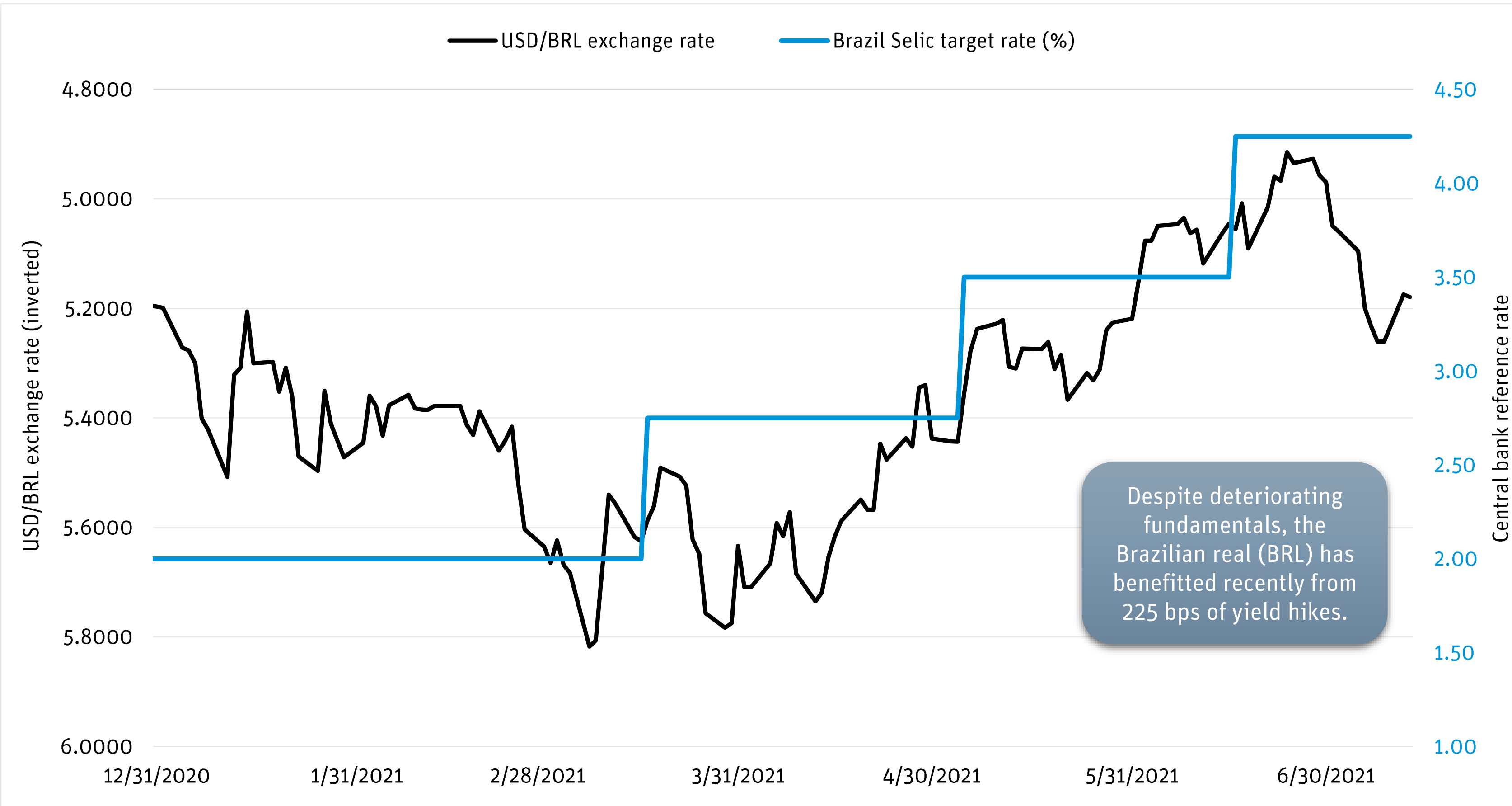


US equity volatility is proxied using the VIX Index, which is constructed from 1-month option prices on the S&P 500 Index. For US Treasuries, the ICE MOVE Index tracks OTC option prices for 2-, 5-, 10- and 30-year tenors. The FX Volatility Index, CVIX, is published by Deutsche Bank and serves as the analogue of the VIX Index for currencies.

Sources: Bloomberg, ICS, Deutsche Bank and SVB FX Risk Advisory. Data as of 7/12/2021.

Emerging-Market Currencies

Emerging-market currencies are poised to benefit from central bank hikes post COVID-19. Some emerging-market central banks have already started hiking interest rates, mainly in response to inflation pressures. Over the short term, currencies can benefit from higher interest rates from carry-hungry-fast money investors.

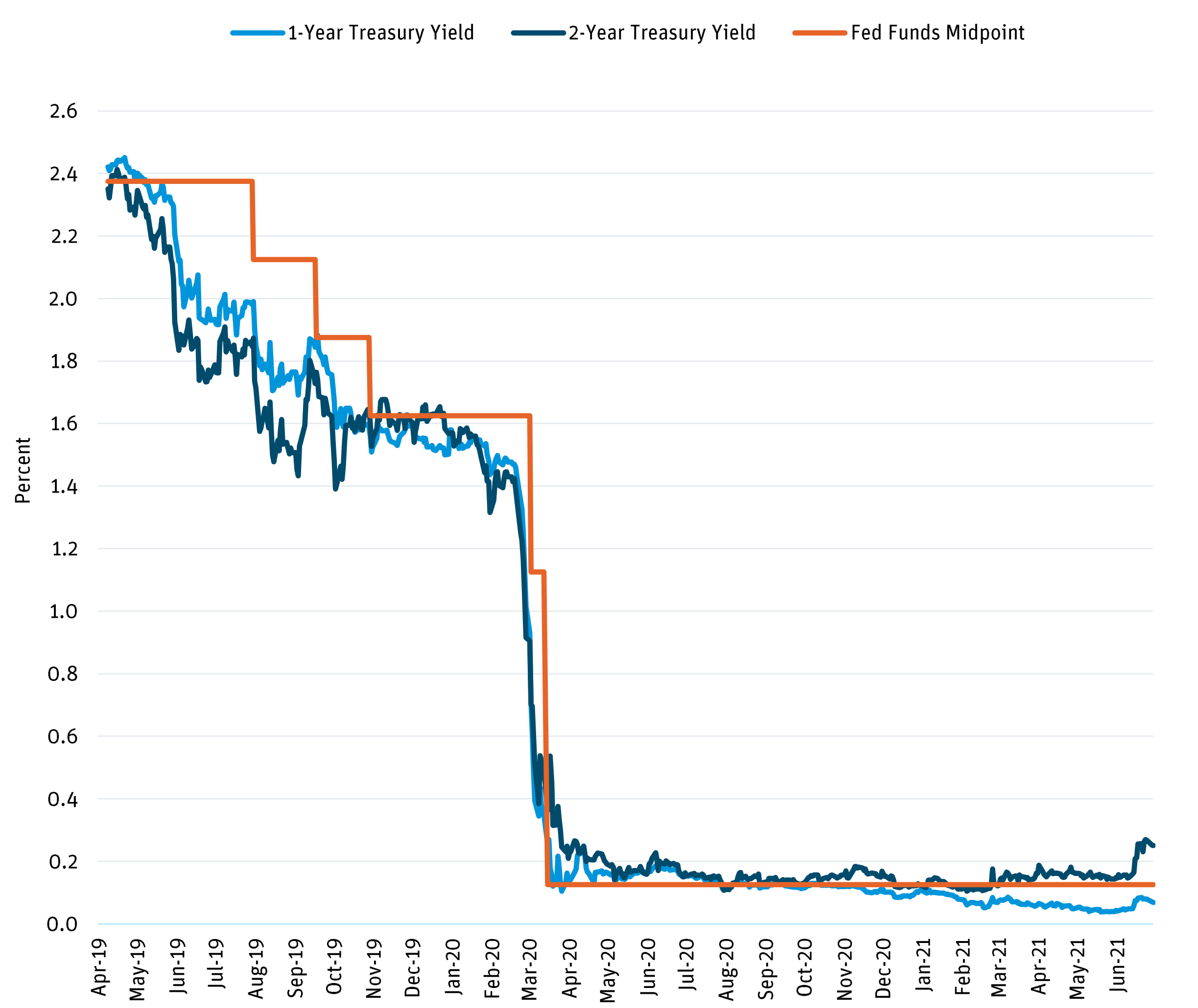


Sources: Bloomberg and FX Risk Advisory. Data as of 7/12/2021.

Central Banks and Fiscal Policy

Short-End Interest Rates

As economic conditions have been improving faster than expected and the FOMC has expressed concerns about inflation, expectations of a fed funds rate hike pushed 2-year US Treasuries to 18-month highs.



Q3 2019: The Fed cut rates consecutively at the July and September FOMC meetings by 25 bps per meeting. The cuts were categorized as insurance cuts against downside risks to the economic outlook.

Q4 2019: After three consecutive 25 bps rate cuts, the Fed kept rates unchanged at the December FOMC meeting, in the target range of 1.50% to 1.75%. The Fed left the economic outlook unchanged from October and revised the dot plot to show a median committee projection of no rate changes in 2020.

Q1 2020: The Fed cut rates by 150 bps in two surprise meetings driven by the outbreak of COVID-19 in the US.

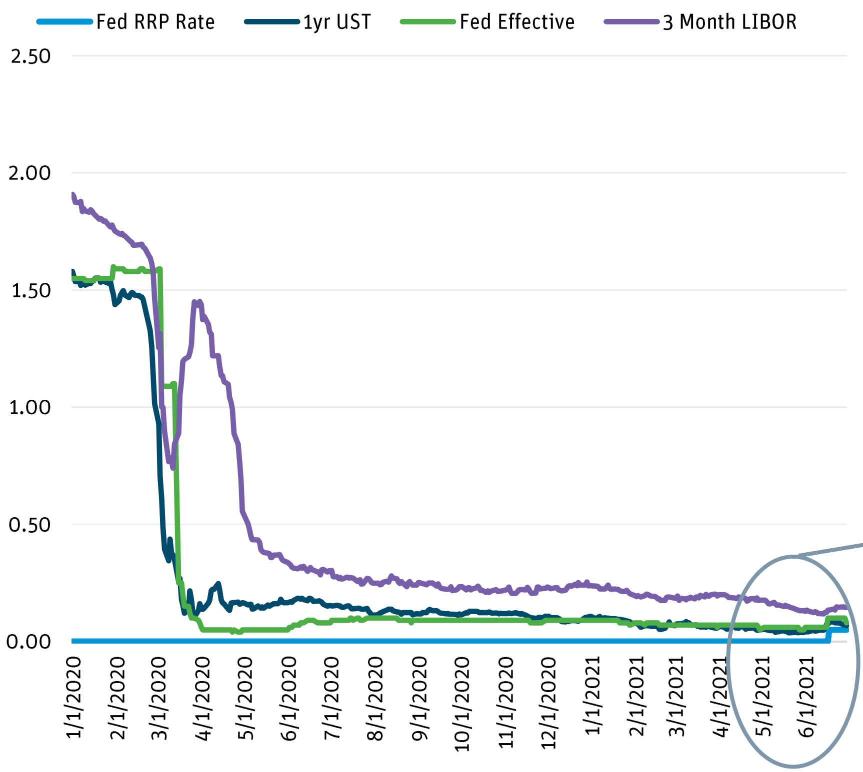
Q3 2020: The Fed announced it will aim to achieve inflation moderately above 2% “for some time.” Fed projections show rates remaining near zero through 2023.

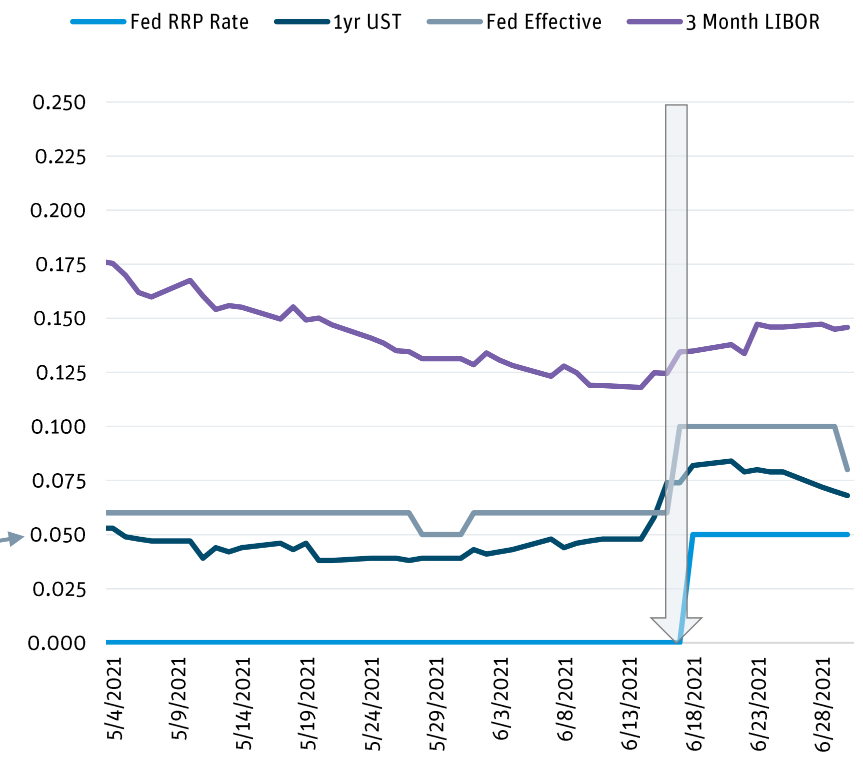
Q2 2021: The stronger than forecasted economic recovery triggered the Fed to revise growth and inflation expectations. The dot plot was updated to reflect 2 potential rate hikes in 2023 — a significant hawkish shift for the Fed.

Sources: Bloomberg and SVB Asset Management. Data as of 6/30/2021.

Pressure Release Valve

Supply-and-demand dynamics have been pushing short-end rates to the zero bound throughout 2021. The Fed raised the yield paid to investors in the reverse repo agreement (also known as reverse repo or RRP) program from 0 to 5 bps at the June FOMC meeting. This has eased some of the low-yield pressure in the money markets as demand for T-bills has been diverted to the RRP program.





Sources: Bloomberg and SVB Asset Management. Data as of 6/30/2021.

Central Bank Economic Projections

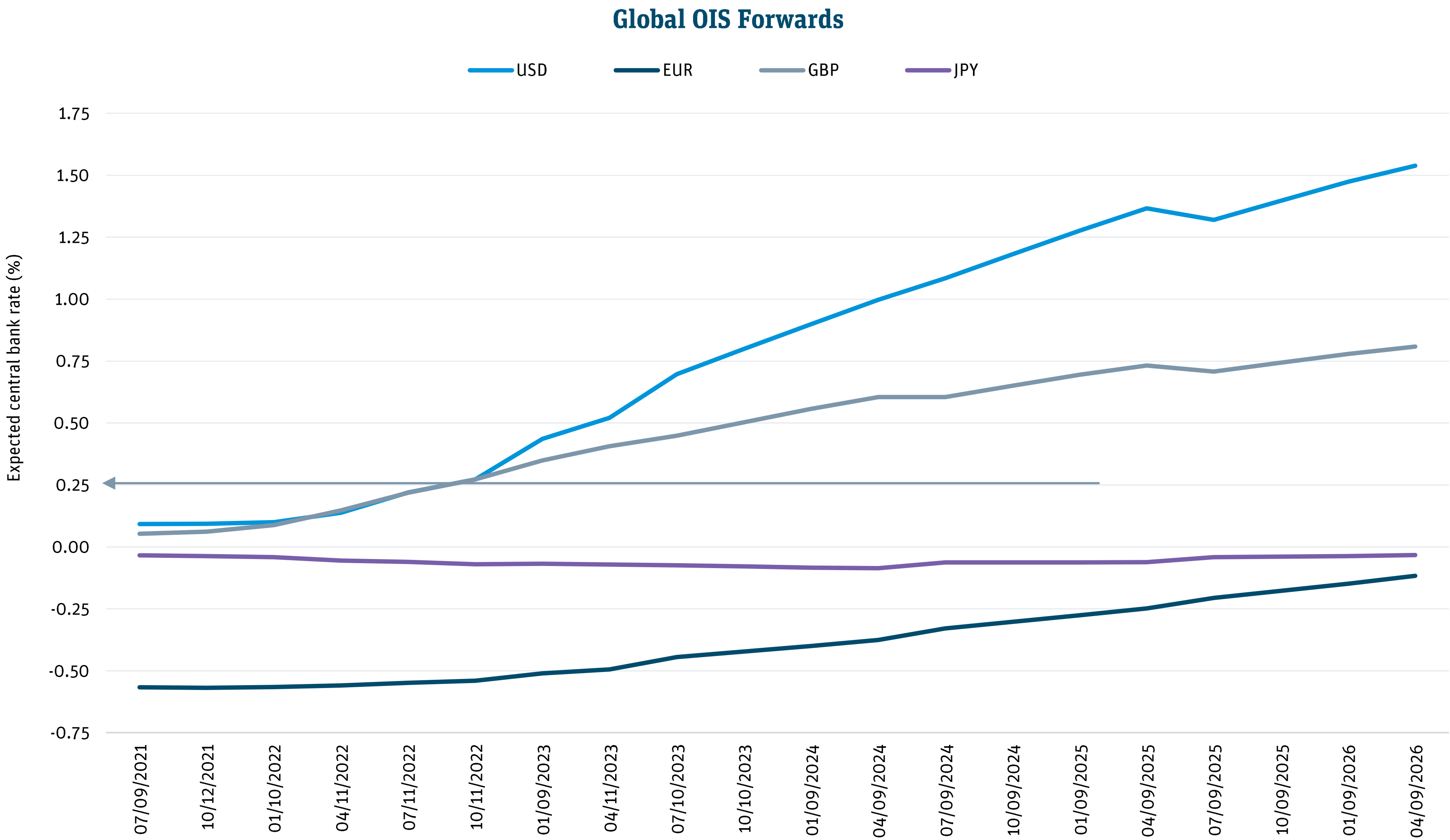
Global economic forecasts have increased as the pandemic recovery has exceeded market expectations.

Economic Projections	2021	2022	2023
United States			
Change in real GDP	7.0%	3.3%	2.4%
Core PCE inflation	3.0%	2.1%	2.1%
Unemployment rate	4.5%	3.8%	3.5%
United Kingdom			
Change in real GDP	21.5%	7.1%	1.4%
CPI inflation	1.7%	2.3%	2.0%
Unemployment rate	5.2%	4.7%	4.3%
Eurozone			
Change in real GDP	4.6%	4.7%	2.1%
CPI inflation	1.9%	1.5%	1.4%
Unemployment rate	8.2%	7.9%	7.4%
Japan			
Change in real GDP	4.0%	2.3%	1.4%
Core CPI inflation	0.1%	0.7%	0.5%

Sources: Federal Reserve, European Central Bank, Bank of Japan and Bank of England.
Data as of 6/30/2021.

Global Central Bank Expectations

The market expects liftoff for the fed funds rate in the US to be late 2022, while other central banks will likely preserve a more accommodative policy into 2026.

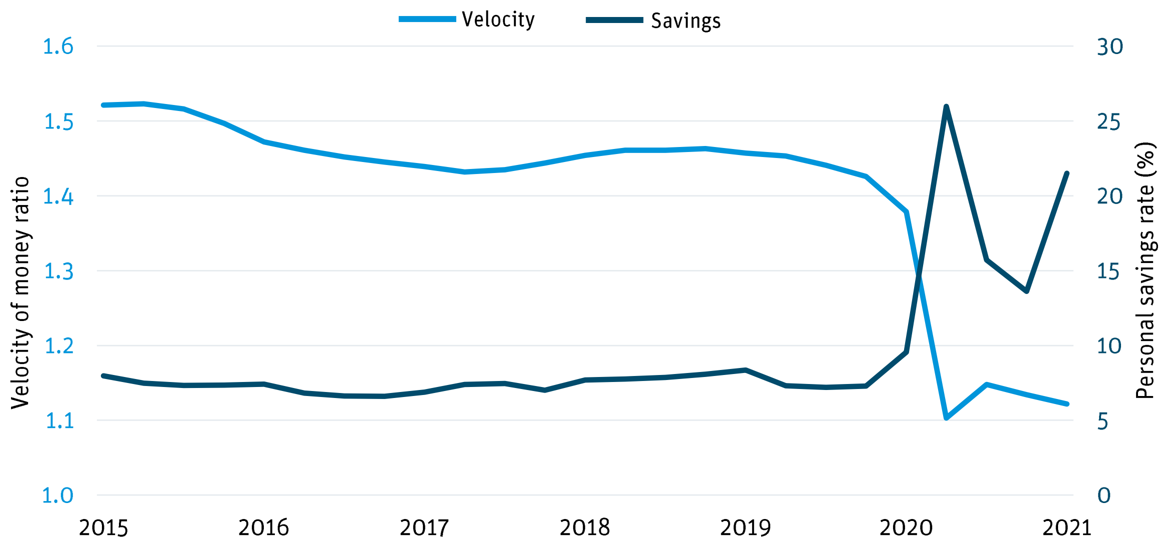


Sources: Federal Reserve, European Central Bank, Bank of Japan and Bank of England.
Data as of 6/30/2021.

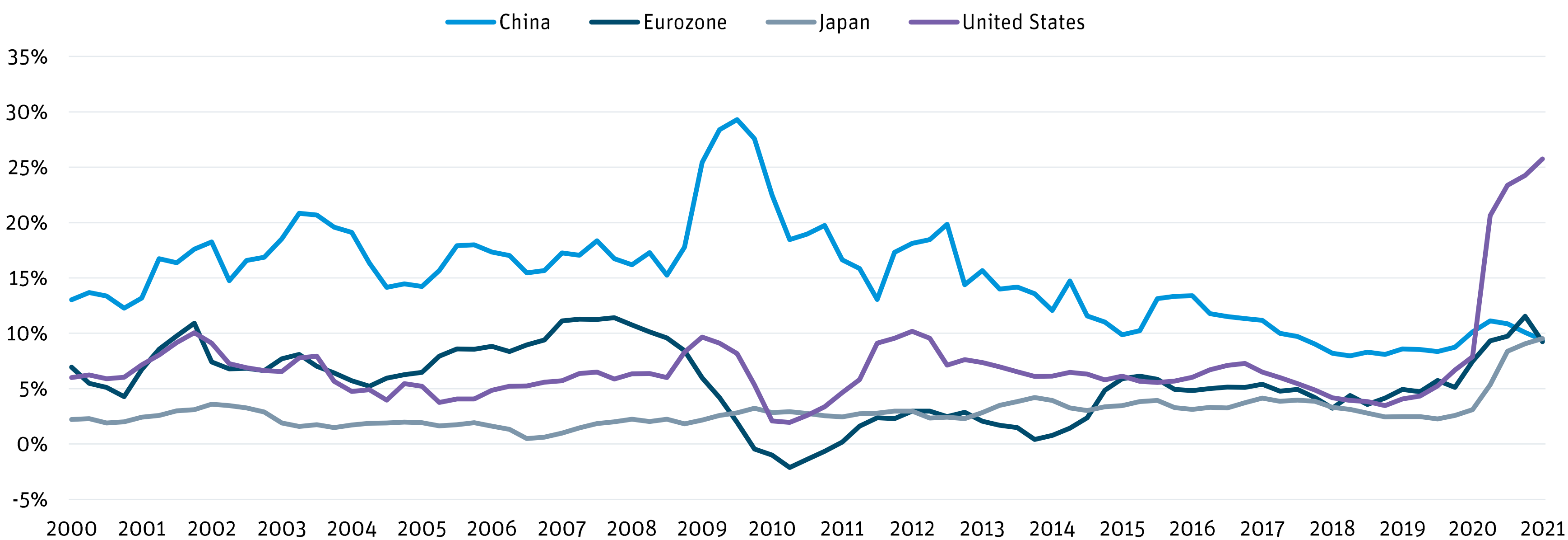
Money Supply

Money supply across the world increased in 2020 as central banks attempted to combat the pandemic. An increase in money supply can often lead to inflation, but an increase in the savings rate and a decrease in the velocity of money can put downward pressure on inflation.

US Velocity of Money and Personal Savings Rate



Money Supply Percent Change



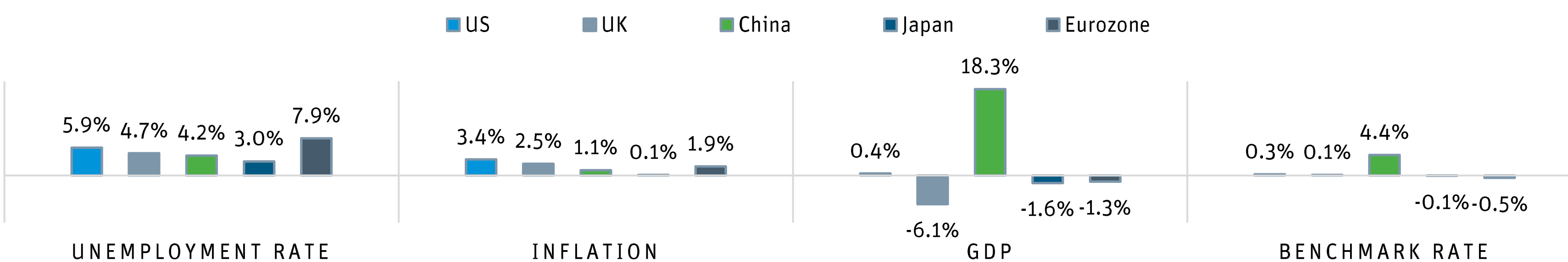
Sources: Oxford Economics, the Federal Reserve Bank of St. Louis as of Q1 2021 and SVB Wealth Advisory. Money supply for US and Japan represents M2, Eurozone represents M3 and China represents currency in circulation. Velocity of money represents US GDP divided by money supply. Personal savings rate represents total savings divided by income.

Central Banks: Steady hands guide

Major central banks continue to hold policy rates low and to support sweeping quantitative easing (QE) measures. We look for uneven policy adjustments ahead, based on the differing paces of economic recovery from COVID-19.

	Stable		Easing		
Current Monetary Policy	• Fed funds target range: 0% to 0.25% • Interest on excess reserves: 0.15% • QE: No limit	• Bank rate: 0.10% • QE: Buying £895 billion in gilts and corporate debt	• Deposit rate: 1.5% • Lending rate: 4.35% • Loan prime rate: 3.85% • 1-year medium-term lending rate: 2.95% • Reserve requirement ratio (RRR): 12.0%	• Policy rate: -0.1% • 10-year JGB target rate: 0% • QE annual purchases: ¥80 trillion JGB ¥12 trillion ETF ¥180 trillion J-REIT	• Refinancing rate: 0% • Marginal lending facility: 0.25% • Deposit facility: -0.5% • QE: €1,850 billion program total through March 2022
Analysis	IOER increased by 5 bps at the Fed's June meeting. The Fed forecasted a lower unemployment rate for 2022 and the median expected fed funds rate for 2023 moved higher to 0.625%.	The BOE took no action in its June meeting, where growth and inflation forecasts were revised upward.	PBOC announced a 50 bps cut on reserve requirements in July. This is the first reduction since January 2020. April 2020 was the last time the interest rate was cut.	No major interest rate policy changes at the June meeting, where the BOJ extended a COVID support program to March 2022 and announced policies to address climate change.	No action was taken by the ECB in its June meeting. Since then it continued QE purchases at an elevated pace and has changed the inflation target to 2% from "below, but close to 2%," implying continued easing.

SNAPSHOT OF ECONOMIC DATA



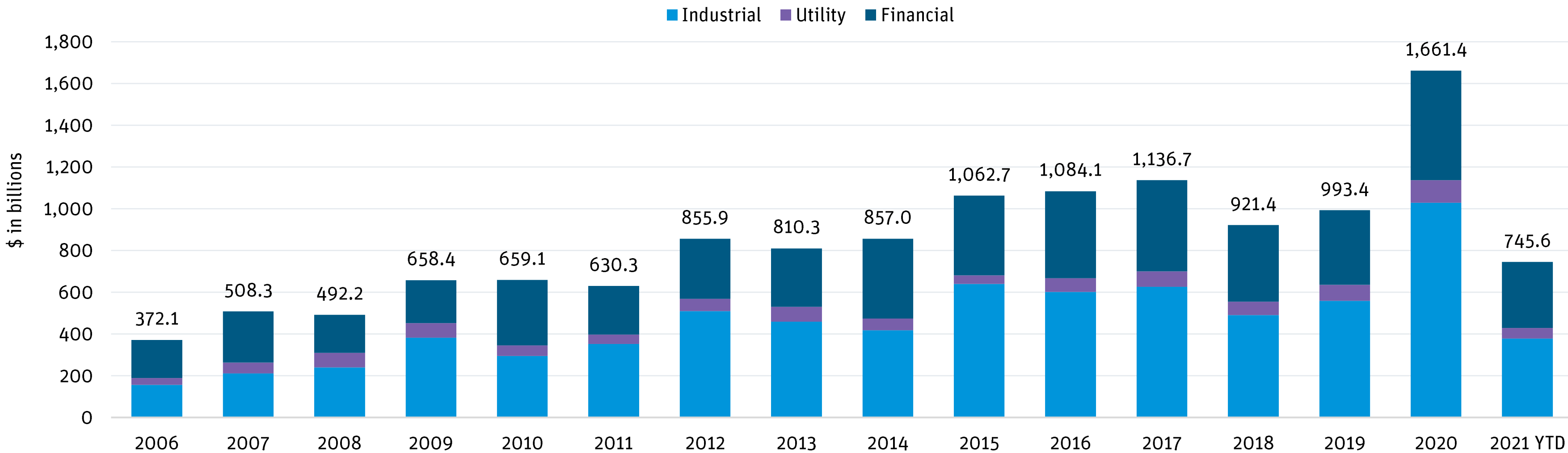
Sources: Bank of Japan, People's Bank of China, European Central Bank, Bank of England, Federal Reserve Bank and Bloomberg. Data as of 7/13/2021.

Corporate Bonds Market

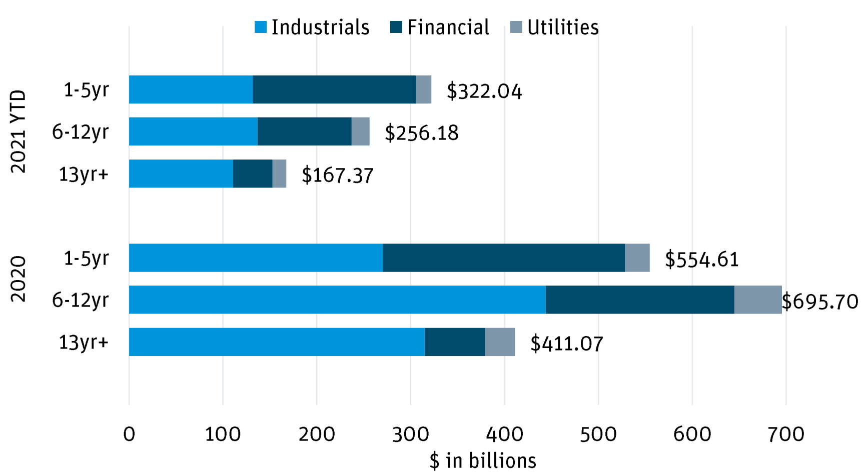
2021 Corporate New-Issue Update

The 2021 corporate new-issue market is poised for another record year as US companies take advantage of low borrowing costs to shore up balance sheets and liquidity.

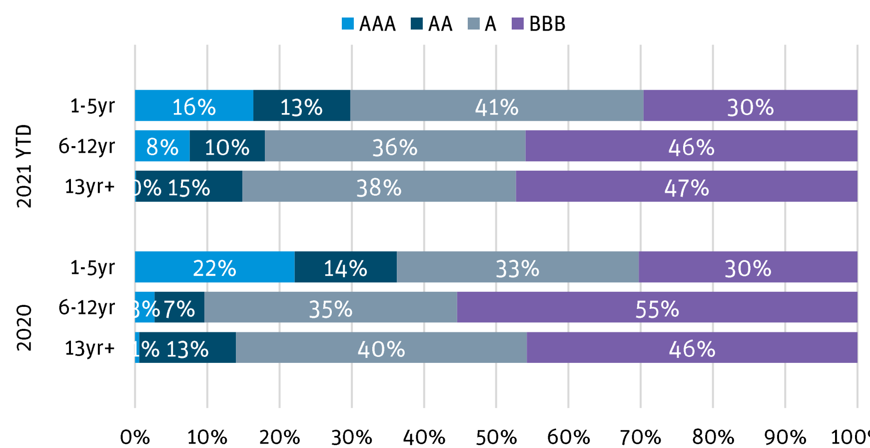
US Investment-Grade (IG) Corporate New-Issue Volume



IG Corporate New-Issue Supply (Sector/Maturity)



IG Corporate New-Issue Supply (Rating/Maturity)

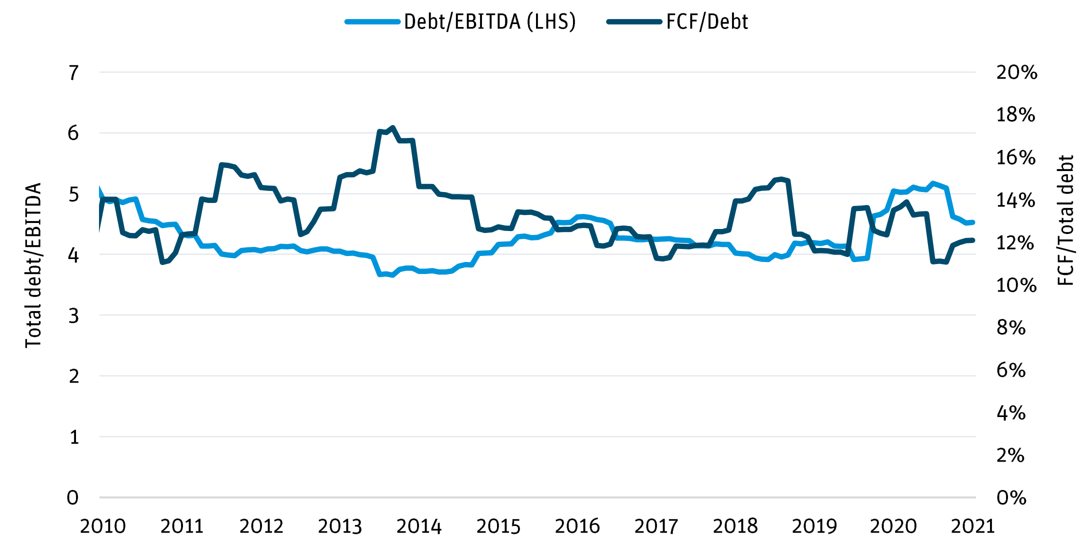


Corporates: Leverage grinding back to pre-COVID level

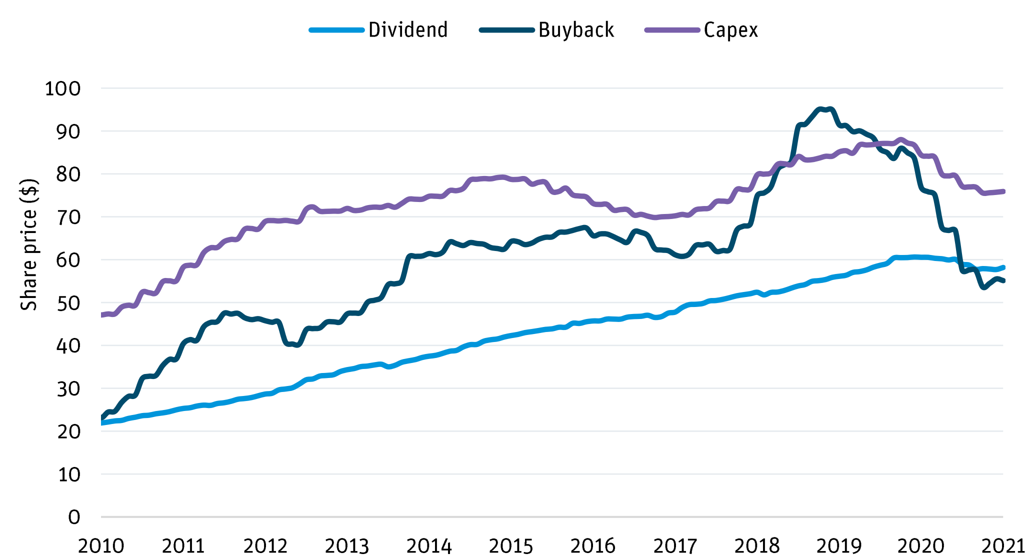
Leverage has fallen to its pre-pandemic level after peaking in 2020. Cash flow generation is also recovering from a multiyear low as the economy reopens.

After a period of curtailed capital spending, most S&P 500 companies have started to increase dividends and resume share buyback and capex in Q2.

S&P 500 Leverage and Coverage



S&P Capital Spending and Distribution

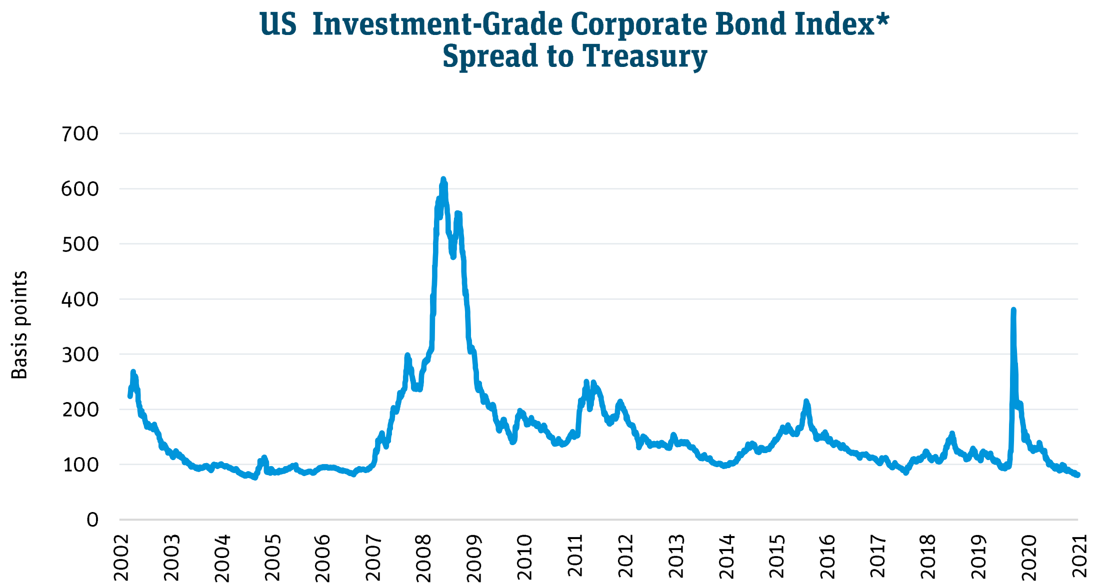


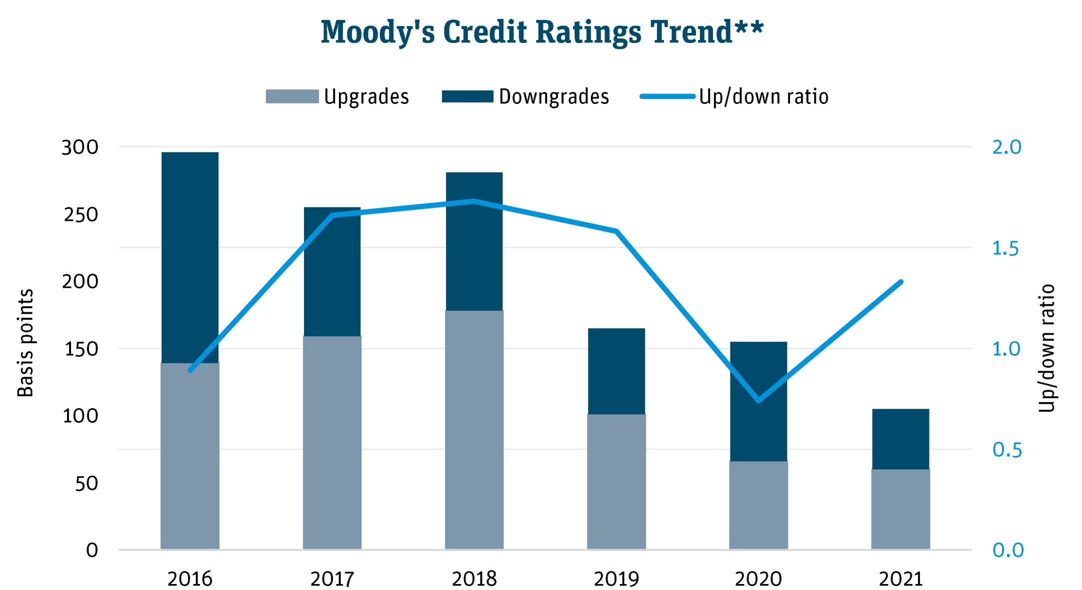
Source: Bloomberg. Data as of 6/30/2021.

Corporates: Ultra-low spreads supported by encouraging credit outlook

The risk premium between corporate bonds and US Treasuries, known as the spread, has reached all-time lows.

Rating changes for US corporate and financial institutions have mostly been favorable year-to-date, with upgrades outpacing downgrades based on Moody's coverage.





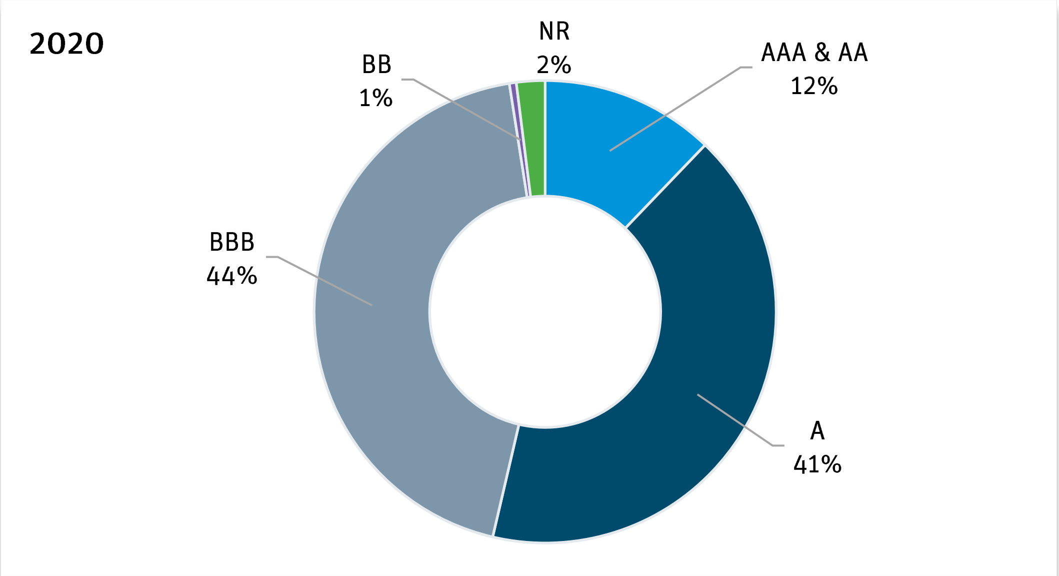
Source: Bloomberg. Data as of 6/30/2021.
*Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market.
**2021 data shown YTD

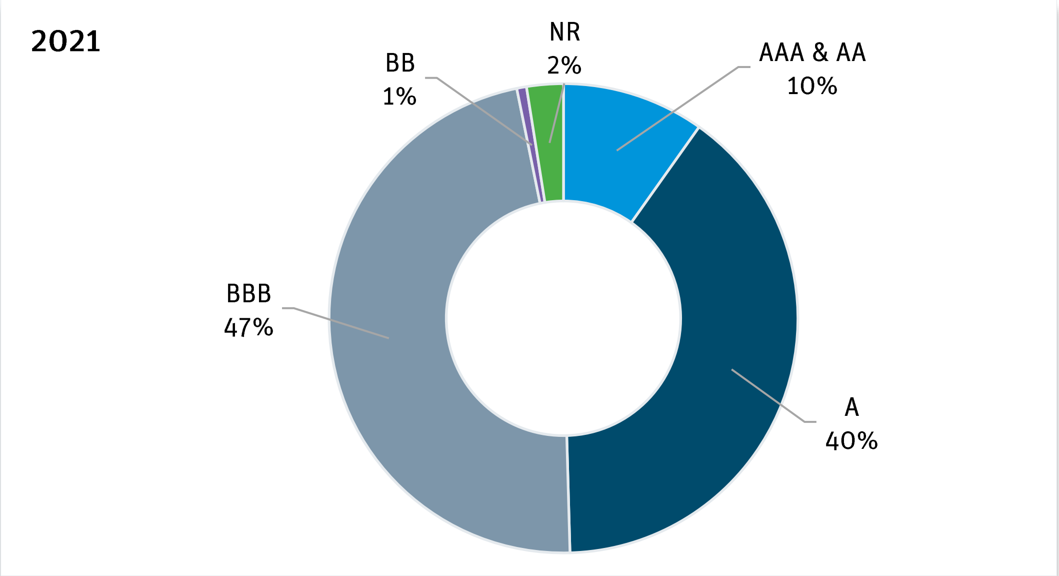
Corporates: COVID-19 induced rating migration

The investment-grade corporate bond universe experienced a shift in composition toward the BBB tier as certain industries exposed to the pandemic challenges took the brunt of downgrades.

While significant monetary support helped keep default rates low, downward pressure was observed across the IG rating spectrum.

US Investment Grade Bond Rating Composition





Source: Bloomberg, ICE BofA US Corporate 1-3 Year Index.
Data as of 7/13/2021

Markets and Performance

Market Sector Performance

A jump in oil prices boosted the sector's performance relative to other sectors as demand returned to pre-COVID levels. Equities marched higher, in particular the S&P 500, thanks to the rebound of growth stocks, strong earnings growth and the prospect of more fiscal stimulus. Meanwhile, fixed-income markets pulled back as they digested historically higher inflation readings.

Asset class returns

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 YTD
Gold 10.23%	Biotech 32.91%	IPO Index 54.33%	Biotech 43.24%	Biotech 13.09%	Crude Oil 45.03%	Biotech 43.85%	US Treasury 0.86%	Tech 45.97%	IPO Index 109.60%	Crude Oil 51.42%
US Treasury 9.81%	IPO Index 17.86%	Biotech 48.20%	Tech 14.23%	Tech 3.23%	Tech 12.27%	Tech 39.65%	US Aggregate 0.01%	Crude Oil 34.46%	Biotech 48.10%	S&P 500 15.25%
Crude Oil 8.15%	S&P 500 16.00%	S&P 500 32.39%	S&P 500 13.69%	S&P 500 1.38%	S&P 500 11.96%	IPO Index 35.75%	Gold -2.14%	IPO Index 33.87%	Tech 42.64%	Tech 12.36%
US IG Corporate 8.15%	Tech 14.52%	Tech 23.66%	US IG Corporate 7.46%	US Treasury 0.84%	Gold 8.63%	S&P 500 21.83%	US IG Corporate -2.51%	Biotech 32.34%	Gold 24.42%	IPO Index 3.05%
US Aggregate 7.84%	US IG Corporate 9.82%	Crude Oil 7.19%	IPO Index 7.17%	US Aggregate 0.55%	US IG Corporate 6.11%	Gold 13.68%	S&P 500 -4.38%	S&P 500 31.49%	S&P 500 18.40%	US IG Corporate -1.27%
Biotech 5.53%	Gold 6.96%	US IG Corporate -1.53%	US Aggregate 5.97%	US IG Corporate -0.68%	US Aggregate 2.65%	Crude Oil 12.47%	Tech -6.02%	Gold 18.87%	US IG Corporate 9.89%	US Aggregate -1.60%
S&P 500 2.11%	US Aggregate 4.22%	US Aggregate -2.02%	US Treasury 5.05%	IPO Index -7.98%	US Treasury 1.04%	US IG Corporate 6.42%	Biotech -14.99%	US IG Corporate 14.54%	US Treasury 8.00%	US Treasury -2.58%
Tech -3.86%	US Treasury 1.99%	US Treasury -2.75%	Gold -1.51%	Gold -10.46%	IPO Index -0.51%	US Aggregate 3.54%	IPO Index -17.53%	US Aggregate 8.72%	US Aggregate 7.51%	Biotech -3.66%
IPO Index -16.50%	Crude Oil -7.09%	Gold -28.26%	Crude Oil -45.87%	Crude Oil -30.47%	Biotech -15.61%	US Treasury 2.31%	Crude Oil -24.84%	US Treasury 6.86%	Crude Oil -20.54%	Gold -6.52%

All returns above are on a total return basis. YTD 2021 returns are on an aggregate basis up to 6/30/2021. US Aggregate refers to Bloomberg Barclays Aggregate Bond Index; US Treasuries refers to the US Treasury allocation of the Bloomberg Barclays Aggregate Bond Index; US IG Corporate refers to the Investment Grade Corporate allocation of the Bloomberg Barclays Aggregate Bond Index; Gold refers to the price movement on the generic first gold contract– Bloomberg-sourced; Crude Oil refers to the Spot West Texas Intermediate Crude Oil– Bloomberg-sourced; S&P 500 refers to the S&P 500 Total Return Index; Tech refers to the S&P Global 1200 Information Technology Index; Biotech refers to the S&P Biotechnology Select Industry Index, IPO Index refers to the Renaissance IPO Index.

Sources: Bloomberg and Bloomberg Barclays indices.
Past index performance is no guarantee of future results.

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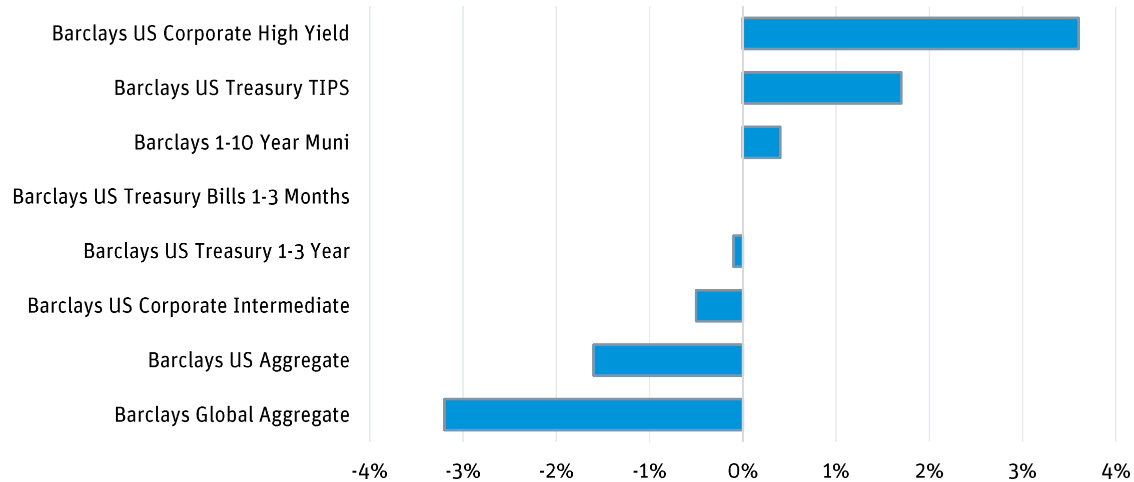
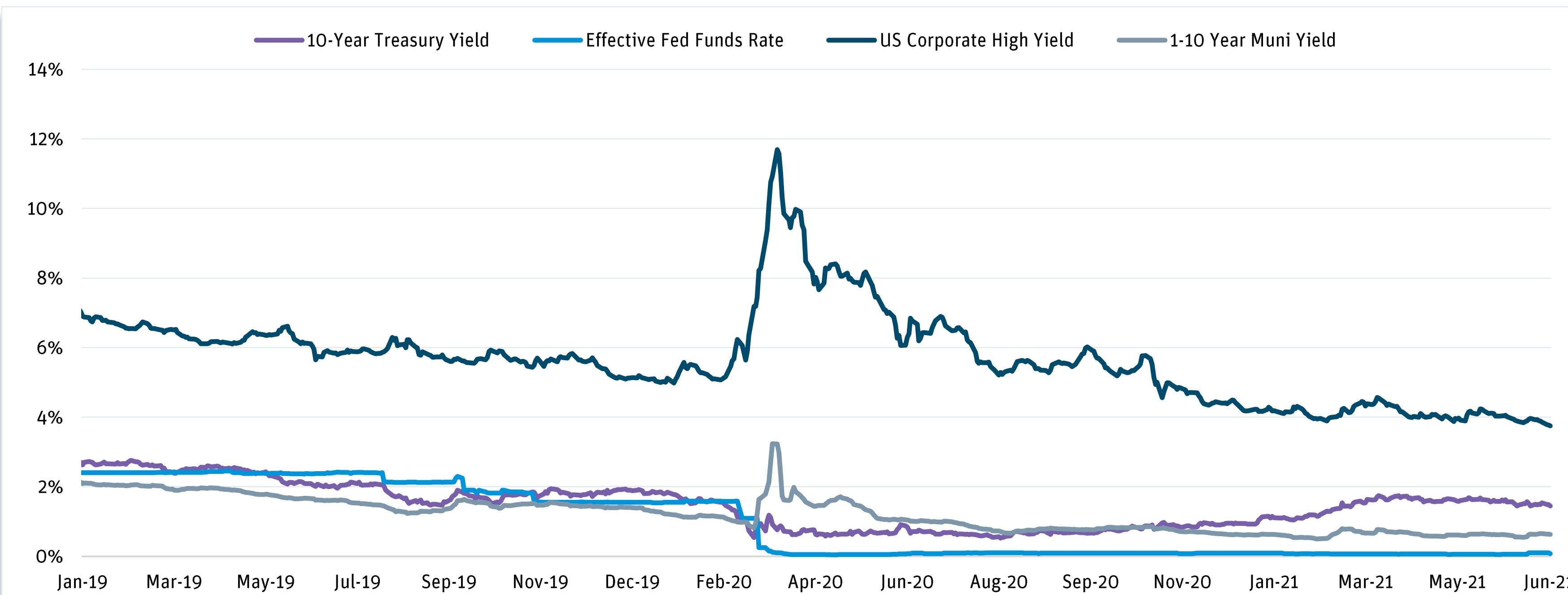
Global Bond Performance

Most bond sectors had positive performance in the second quarter as yields either declined or remained relatively flat. The 10-year Treasury yield retreated from its highs in March.

2021 YTD Bond Performance



Bond Yields



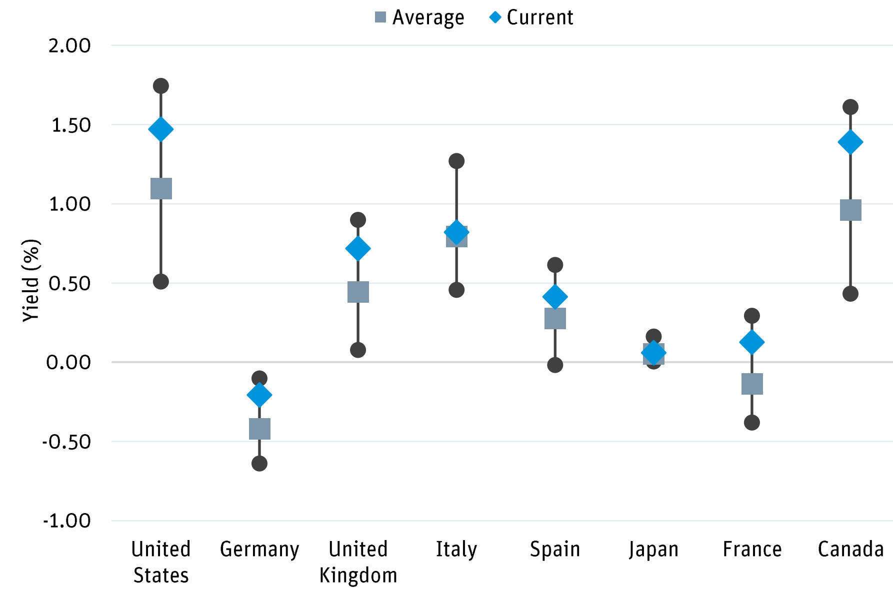
Sources: Bloomberg, Addepar and SVB Wealth Advisory. As of 6/30/2021. Indices are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.

Global and Domestic Yields

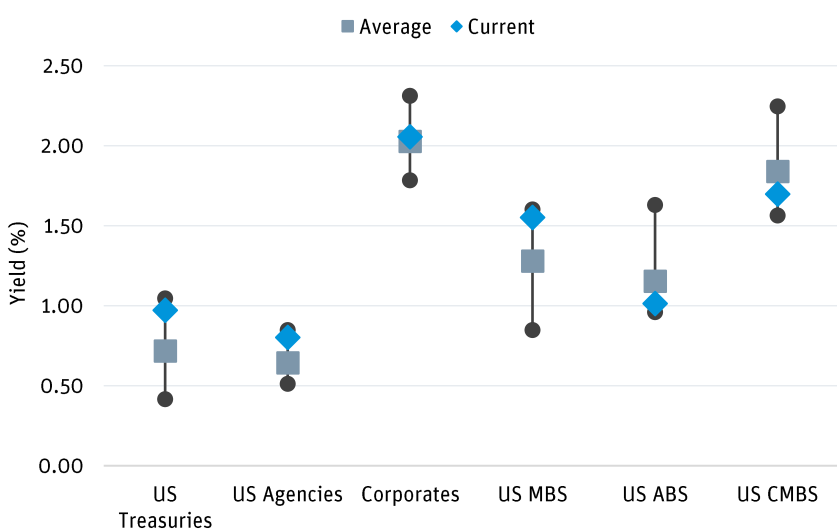
Reopening optimism and higher inflation expectations drove sovereign yields to the higher end of their respective ranges.

A strong credit environment and investors' hunt for yield pushed yields on US investment-grade credit and structured products below their year-over-year averages.

Yields Across the Globe

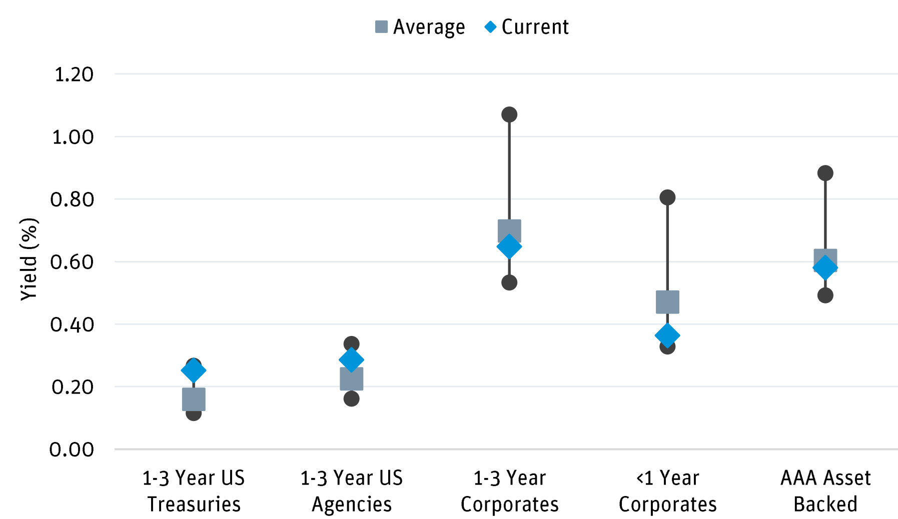


Broad Fixed Income Yields



US Treasuries pertain to on-the-run sovereign 10-year securities.

Short Duration Yields



Daily yields from 6/30/2020 to 6/30/2021. Sources: Bloomberg and ICE BofA Indices. Past performance is not a guarantee of future results.

Quarterly Credit and Duration Performance Stratification

Duration has been a key driver of returns over the past quarter as the yield curve flattened. Later in the quarter, investors feared that the Fed might act faster than anticipated. Credit continued to perform well, as the economy has recovered faster than expectations, allowing spreads to move tighter during the term.

Corporate Credit

Duration (years)	0-0.25	0.25-0.5	0.5-1.0	1.0-1.5	1.5-2.0	2.0-2.5	2.5-3.0	3.0-4.0	4.0-5.0	5.0-6.0	6.0-7.0	7.0-8.0	8.0-9.0	9.0-10.0	10.0-11.0	11.0-12.0	Over 12.0
AAA	0.09%	0.08%	0.08%	0.09%	0.06%	0.24%	0.07%	0.76%	1.05%	1.59%	1.90%		3.92%	3.99%		4.93%	7.99%
AA1	0.06%		0.08%	-0.02%	0.08%	-0.06%	0.26%	1.14%	1.23%	1.97%	2.88%	3.35%	4.24%	3.79%		3.74%	7.86%
AA2	0.08%	0.09%	0.09%	0.14%	0.09%	0.20%	0.18%	0.55%	1.09%	1.25%	2.35%	2.84%	3.53%	3.55%	4.94%	5.55%	7.36%
AA3	0.08%	0.08%	0.11%	0.10%	0.15%	0.16%	0.33%	0.90%	1.37%	1.66%	2.74%	3.67%	4.06%	3.72%	5.27%	5.46%	7.88%
A1	0.16%	0.12%	0.13%	0.16%	0.21%	0.19%	0.28%	0.91%	1.41%	2.06%	3.04%	3.63%	3.90%	3.91%	3.47%	5.94%	7.56%
A2	0.14%	0.11%	0.13%	0.19%	0.25%	0.32%	0.41%	0.95%	1.51%	1.96%	3.15%	3.72%	4.03%	3.84%	4.97%	5.01%	7.54%
A3	0.17%	0.12%	0.18%	0.24%	0.30%	0.35%	0.40%	0.93%	1.40%	1.96%	3.09%	3.63%	3.92%	3.61%	4.92%	5.41%	7.08%
BBB1	0.12%	0.12%	0.19%	0.30%	0.32%	0.44%	0.59%	1.11%	1.52%	2.17%	3.12%	3.66%	3.94%	4.37%	5.74%	5.77%	7.74%
BBB2	0.18%	0.14%	0.28%	0.33%	0.41%	0.49%	0.68%	1.08%	1.62%	2.27%	3.08%	3.64%	4.01%	4.19%	5.58%	5.54%	7.61%
BBB3	0.29%	0.23%	0.44%	0.51%	0.60%	0.73%	1.10%	1.58%	2.22%	2.57%	3.31%	3.97%	3.90%	4.99%	6.58%	7.09%	7.25%

US Treasuries

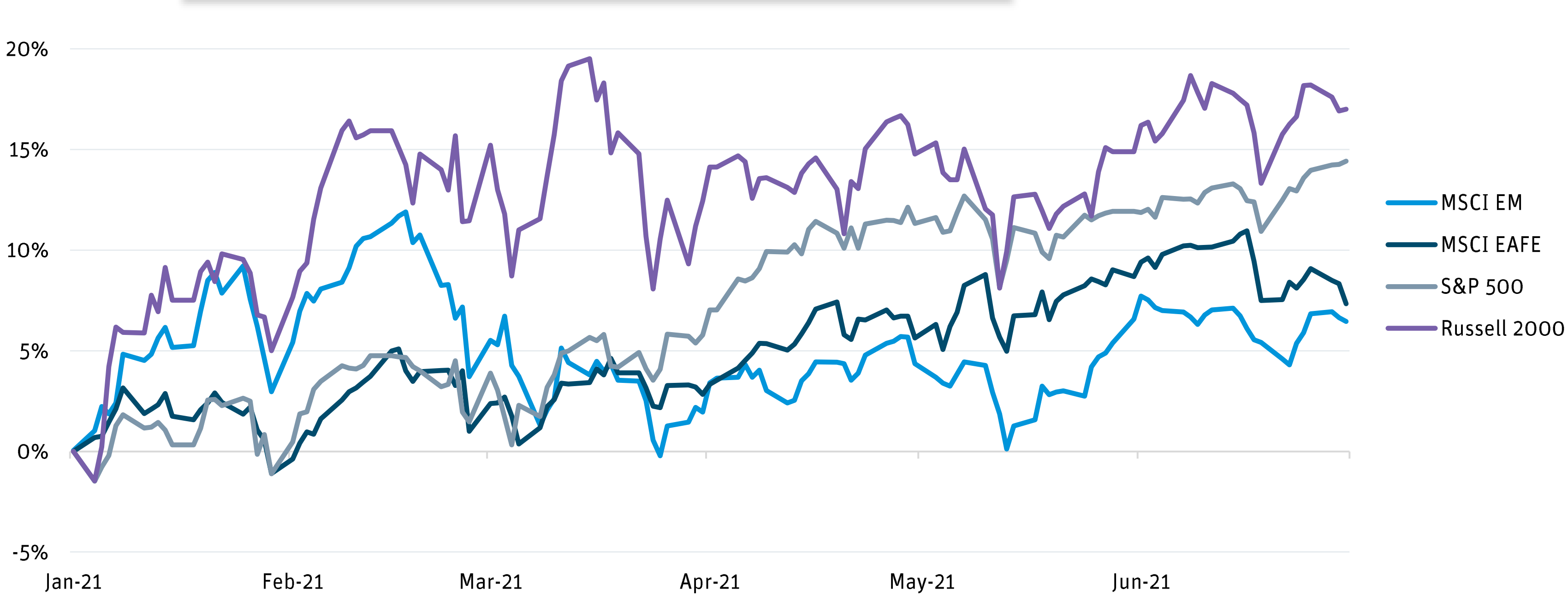
Duration (years)	0-0.25	0.25-0.5	0.5-1.0	1.0-1.5	1.5-2.0	2.0-2.5	2.5-3.0	3.0-4.0	4.0-5.0	5.0-6.0	6.0-7.0	7.0-8.0	8.0-9.0	9.0-10.0	10.0-11.0	11.0-12.0	Over 12.0
AAA	0.01%	0.01%	0.02%	0.03%	-0.03%	-0.07%	-0.06%	0.18%	0.60%	1.25%	1.83%	2.29%	2.81%	3.22%		4.81%	6.64%

Sources: Bloomberg and Bloomberg Barclays indices. Gray boxes indicate there were not securities within the specific for the entire evaluation period. Performance data as of 3/31/2021 to 6/30/2021. Past performance is not a guarantee of future results.

Global Equity Performance

In the second quarter, equities continued their advance as COVID restrictions were loosened and economies opened back up for business. Non-US markets lagged as governments struggled to contain the virus.

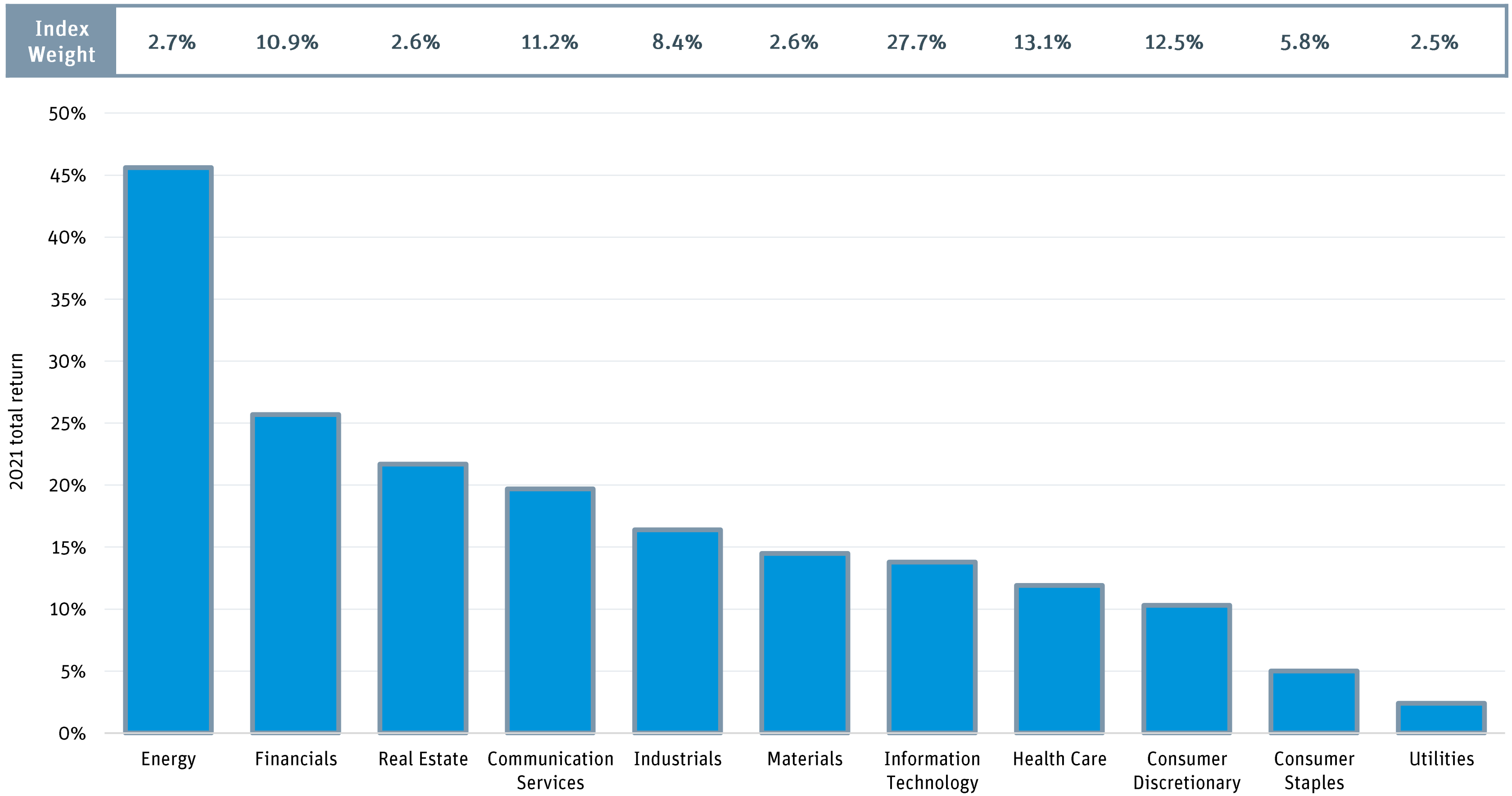
Price Return			
	Q2	YTD	Trough to 6/30/2021
S&P 500	8.2%	14.4%	92.1%
Russell 2000	4.1%	17.0%	133.1%
MSCI EAFE	4.4%	7.3%	70.2%
MSCI EM	4.4%	6.5%	81.3%



Sources: Bloomberg and SVB Wealth Advisory. Represents price return from 1/1/2021 to 6/30/2021. Trough represents the lowest price point of each index in 2020. Indices are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.

US Equity Sector Performance

Information technology and communication services drove performance for the S&P 500 in the second quarter as the economic growth story accelerated. The utilities sector was the only one with negative performance during the quarter.

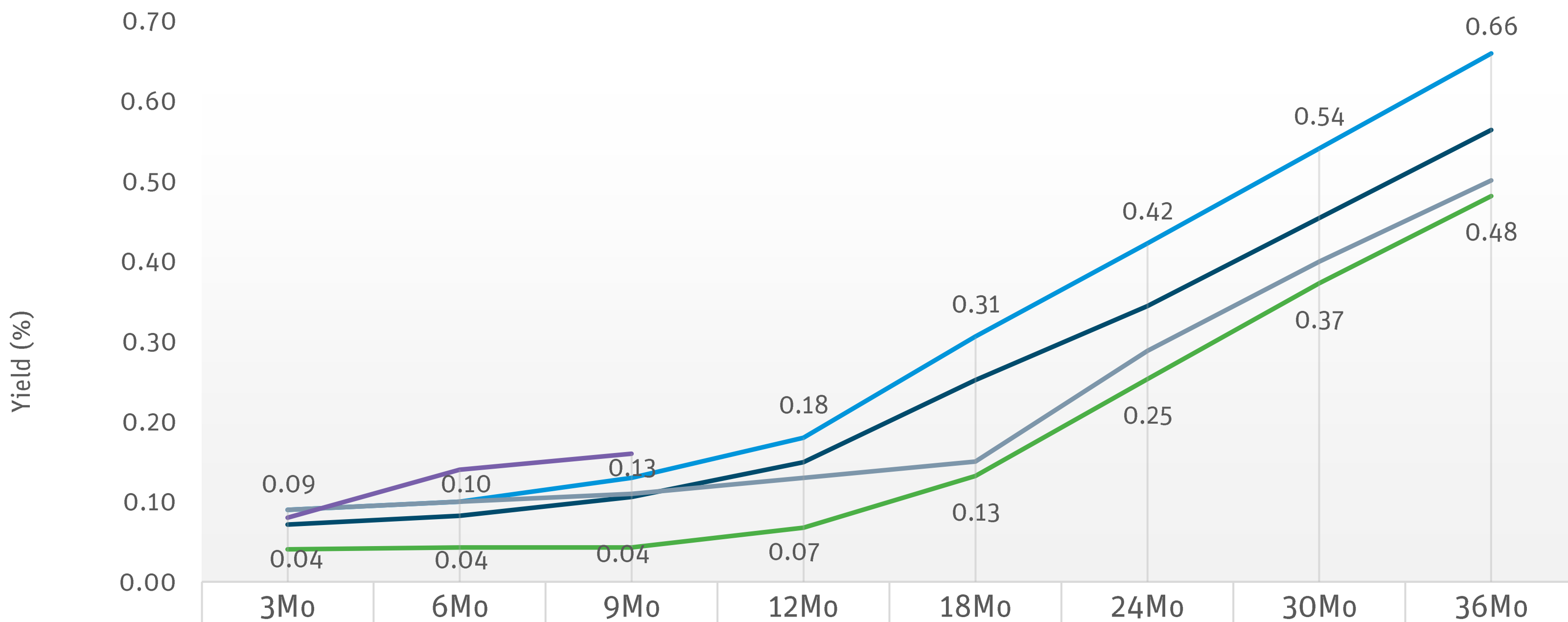


Sources: Addepar and SVB Wealth Advisory. Represents total return of S&P 500 sectors for 2021. Sector weights as of 7/8/2021. Indices are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.

Yield Curve

Front-End Relative Value: Anchored low

Front-end yields are projected to remain anchored low despite the Fed now forecasting two rate increases by the end of 2023. Yields past one year offer attractive returns relative to their front-end counterparts and to government money market funds, which are averaging 1 bps to 3 bps.



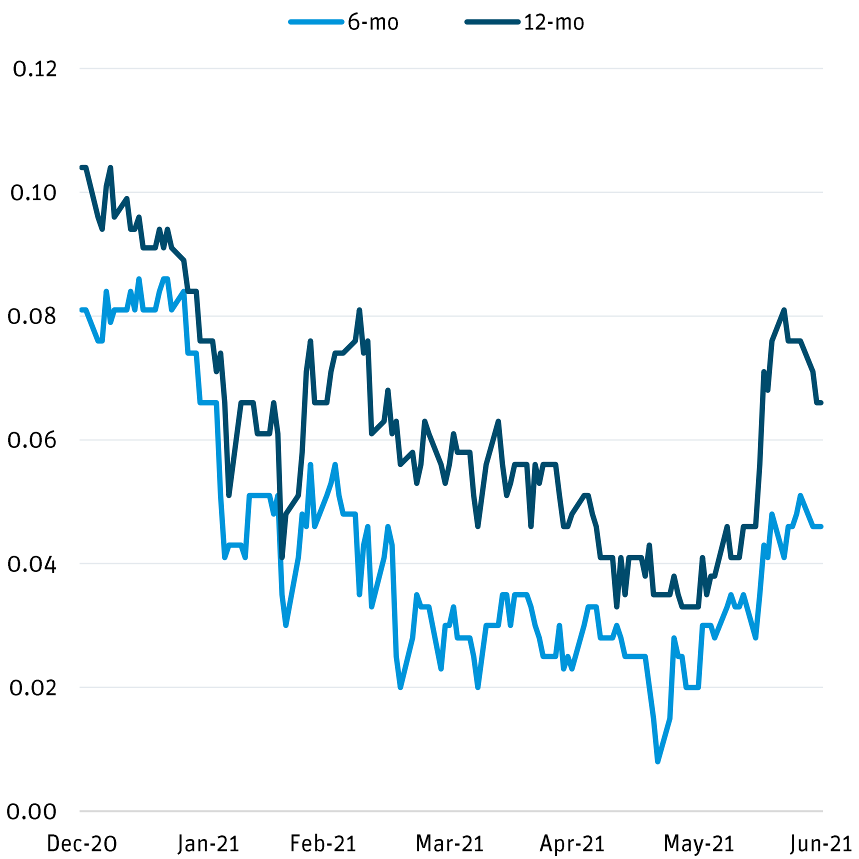
	3Mo	6Mo	9Mo	12Mo	18Mo	24Mo	30Mo	36Mo
A- Fin	0.09	0.10	0.13	0.18	0.31	0.42	0.54	0.66
A- Ind	0.07	0.08	0.11	0.15	0.25	0.34	0.45	0.56
ABS	0.09	0.10	0.11	0.13	0.15	0.29	0.40	0.50
Commercial Paper	0.08	0.14	0.16					
Treasuries	0.04	0.04	0.04	0.07	0.13	0.25	0.37	0.48

Sources: SVB Asset Management and Bloomberg. Data as of 6/30/2021.
Past performance is not a guarantee of future results. The above is not to be construed as a recommendation for your particular portfolio.

Yield Curve Divergence

Long-end yields rose in Q1 on higher growth and inflation expectations driven by increased stimulus and COVID-19 vaccine distribution. In Q2, the 10-year yield rallied as the re-emergence of foreign investors, short covering and pension fund demand led yields lower. However, despite the Fed signaling rate increases in 2023, front-end yields remain anchored low due to the Fed's monetary policy and continued supply-and-demand imbalances.

6-Month and 12-Month T-Bill Yields



10-Year Treasury Yields

Sources: SVB Asset Management and Bloomberg. Data as of 6/30/2021. Past performance is not a guarantee of future results. The above is not to be construed as a recommendation for your particular portfolio.

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svb Asset Management

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