Altair Insight

20 YEARS

Quarterly Market Review

Key West, Florida
Michael Murray, Managing Director

Fourth Quarter 2021
Key Topics

1. The U.S. and global economies are still growing despite a setback from Omicron and should bounce back after a short-term slowdown.

2. Inflation will remain above its pre-pandemic pace throughout 2022 but moderate as supply chain improvements take hold and government stimulus ends.

3. The Federal Reserve is poised to begin tightening monetary policy but is likely to stay flexible, easing up as the economy and markets show strain.

4. Stocks face a rockier road in 2022 with more normal bouts of volatility than last year but we still are constructive on their full-year outlook.

5. Gridlock in Washington over spending and tax proposals has become entrenched with midterm elections approaching and may benefit companies and taxpayers.

Noah Kroese Illustration for Altair Advisers

Until recently, financial markets were spared most of the pain meted out by the coronavirus pandemic since March 2020. That all changed in a hurry in January when a broad sell-off to start the year served as a harsh reminder to investors that even a market backed by a healthy economy and a solid outlook for consumers is not immune from a sharp pullback.

Two major issues have escalated the wall of worry that financial markets climbed ably in 2021, and both drove the January declines. Inflation has risen to a four-decade high and the Federal Reserve is phasing out the emergency measures used to support the economy during the pandemic. Consequences are uncertain. We expect inflation to gradually decline toward the back half of the year, albeit not back to pre-COVID levels, and we believe the Fed will moderate its tightening plans if the economy shows signs of strain. But the presence of both concerns has already made 2022 bumpier for stocks than their relatively tranquil ascent last year.

Other changes from last year tilt more positive: Corporate earnings are higher, unemployment is lower, and consumer savings and spending have strengthened.

Despite solid progress in 2021, the recovery from the pandemic's damage remains a work in progress. COVID-19 is not going away any time soon, though we are hopeful it will lessen as the latest variant runs its course and has already shown signs of abating. Nor are geopolitical risks involving Russia and China and potential flashpoints in Ukraine, Taiwan and Iran. Yet the U.S. economy is vibrant, the world's comeback has slowed but not been derailed, and global political checks and balances hopefully will help keep regional tensions from erupting into broad conflicts.

Overall we believe markets will recover and still achieve gains for the rest of 2022, albeit with more volatility than last year. We recommend clients remain fully allocated to target levels in the higher-, medium- and lower-risk categories. We maintain tactical overweights to U.S. large- and small-cap stocks.

Please continue reading for a closer look at the most pertinent topics relating to the markets:

1. The U.S. and global economies are still growing despite a setback from Omicron and should bounce back after a short-term slowdown.

Combined with inflation and Fed policy, COVID-19's resurgence is cause for considerable uncertainty about the economic outlook as 2022 begins to unfold.

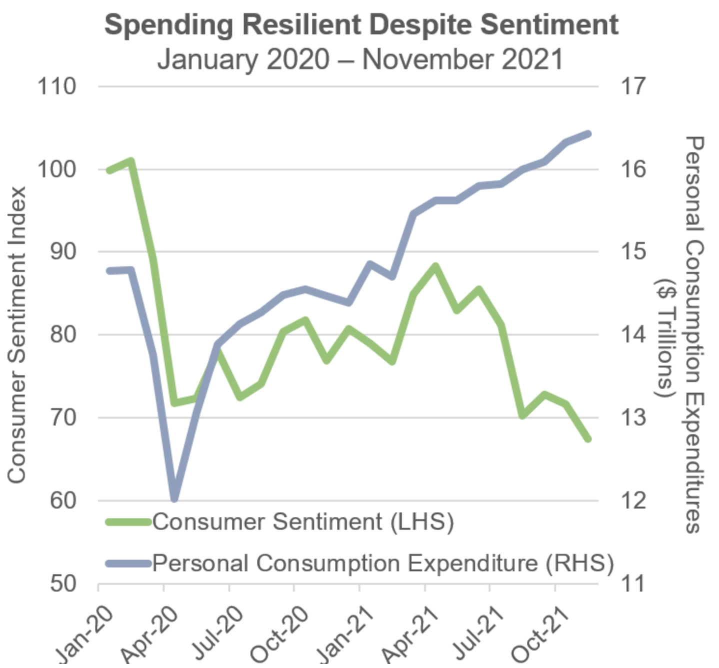
Just as the Delta variant's impact was fading, Omicron's spread cut down on activity at year-end and into the new year. Retail sales fell, consumer sentiment waned, restaurant visits and travel declined, event cancellations soared, manufacturing activity slowed and companies' plans to return to the office stalled. The story is similar elsewhere, with the damage either not yet fully assessed or still to come. In Europe, for example, the World Health Organization warned in mid-January of a "tidal wave" of Omicron cases sweeping across the continent.

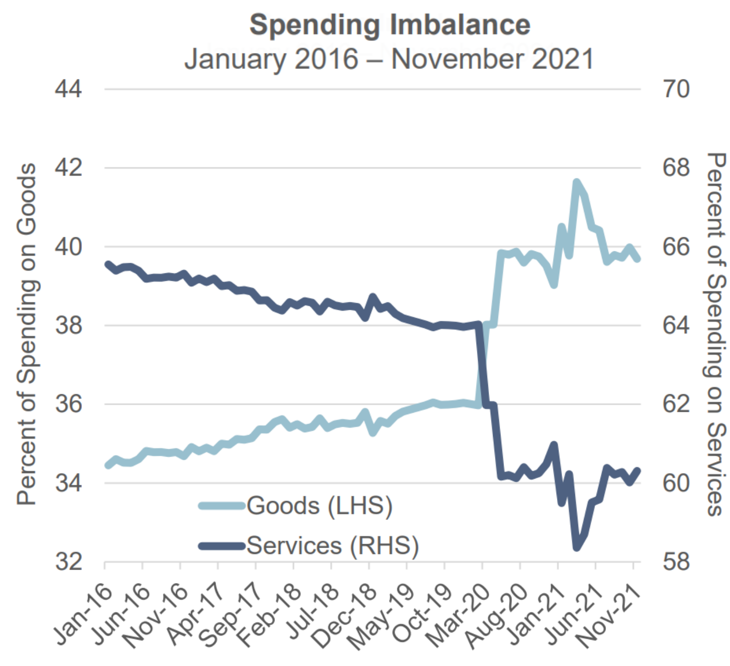
Looked at broadly, though, the U.S. economy in particular is holding up well in the face of the virus' latest threat. Like the overall recovery from the pandemic, it is a work in progress. But snapshots of key categories and data show the expansion continuing despite slackening in some areas.

GDP: U.S. economic growth is decelerating but not stalling out. Following fourth-quarter growth in real GDP at an annual pace of 6.9%, economists have reduced forecasts for the first quarter to the low single digits. But growth is expected to bounce back in the second and third quarters.

Globally, the World Bank downgraded its full-year growth estimate in January by 0.2 percentage point to 4.1%, down from 5.5% in 2021, citing new waves of the pandemic along with rising prices and clogged supply chains. That would still equate to a second year of above-trend growth if the setback from Omicron does not last. All advanced economies are projected to have returned to their pre-pandemic trend by 2023, while emerging and developing economies will take longer due to fewer vaccinations and in some cases stricter COVID policies.

Corporate earnings: The U.S. economy and markets have been buoyed by strong earnings, estimated by FactSet to have risen more than 20% year over year for a fourth consecutive quarter from October through December. More subdued but historically normal growth in the mid- to high-single digits is expected in the first quarter, although that is likely to be reduced if Omicron persists.



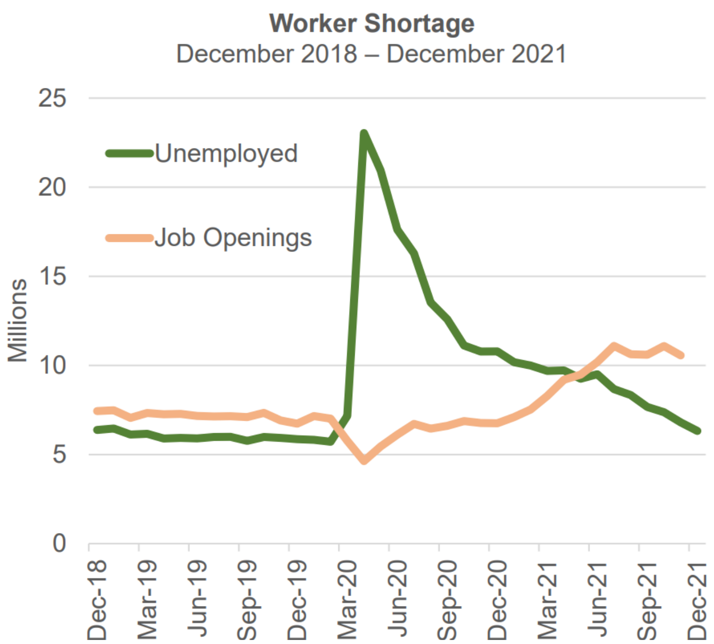


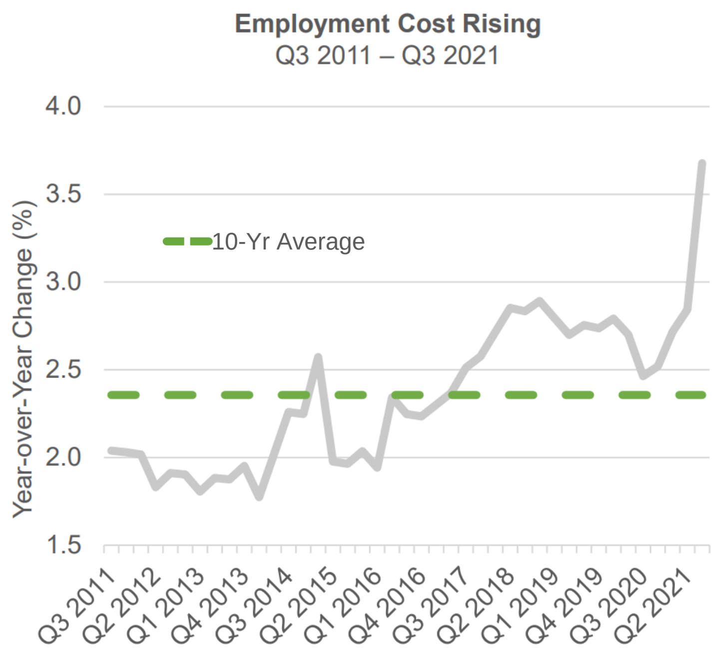
Companies have so far been able to raise prices to offset higher costs, keeping operating margins for the S&P 500 close to a record 13%, a challenge they will face again in 2022. Consumers are flush with cash, which is in part causing higher inflation, and so far seem unfazed by companies passing on higher prices.

Consumers: A pillar of the economy during the pandemic, consumer spending tailed off at the end of 2021 with a 1.9% decline in retail sales in December, reflecting Omicron, earlier holiday spending, continuing supply-chain problems and a decline in consumer sentiment. Fourth-quarter spending was still up 2% from the previous quarter, however. It remains to be seen whether inflation or the absence of fiscal stimulus will cause spending to weaken later this year. So far, the drop in spending on services continues to be offset by a surge in goods spending. For now, elevated household net worth should underpin spending and consumer strength after soaring over the past seven quarters by the greatest magnitude (24%) since World War II.

Labor market: The job market continues to see slow, grinding improvement, enough to allow the Fed to switch its policy emphasis to taming inflation. But it remains a mixed picture: Lots of job openings and a shortage of workers. Employment remains 3.5 million below pre-pandemic levels, the labor force participation rate (the percentage of the total population that is working or actively seeking work) has fallen from 63.3% to 61.8%, and an estimated 4.5 million Americans quit or changed their jobs in November. But job creation in 2021 was the strongest in U.S. history at 6.4 million and steady job gains have continued, aided by robust wage growth, suggesting the labor market is returning slowly but surely toward normal.

Other recent positive data include housing starts increasing sharply, industrial production rising and manufacturing expanding despite a slower growth pace in December due largely to Omicron. Those categories, like others, are vulnerable to a further downturn from COVID-19 or worsening inflation. But despite the latest challenges, the U.S. economy remains strong and current indications point to solid growth resuming in the first half. The worst economic effects of the pandemic appear to be behind us.





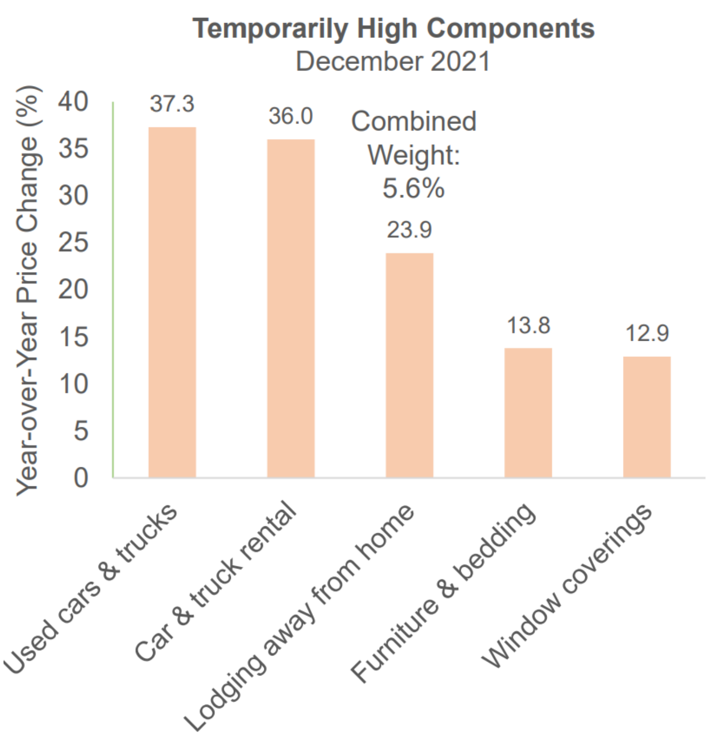
2. Inflation will remain above its pre-pandemic pace throughout 2022 but moderate as supply chain improvements take hold and government stimulus ends.

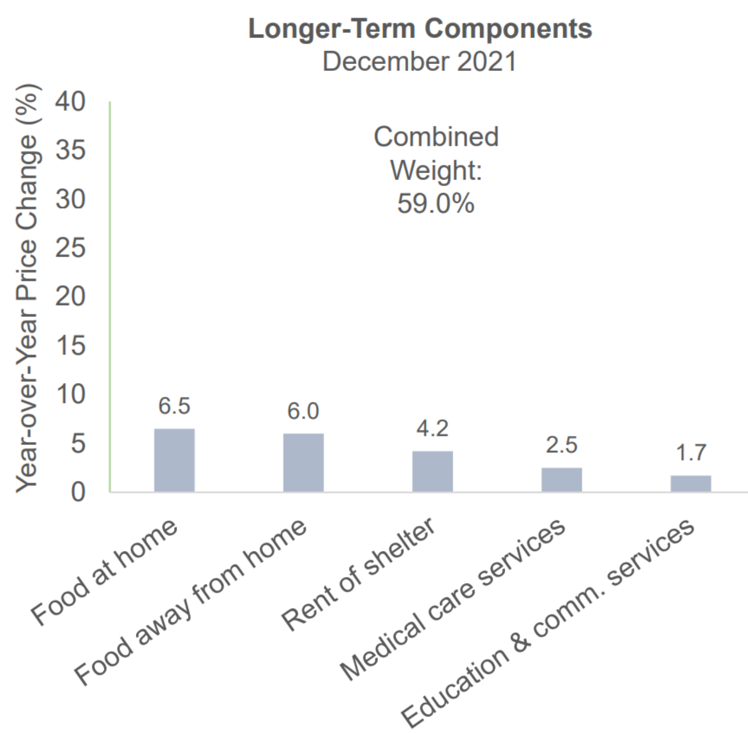
“Vaccine” was the word of the year for 2021, according to Merriam-Webster – an appropriate choice on the heels of “pandemic” the prior year. Surely the most infamous word, though, was “transitory,” Fed Chair Jerome Powell’s ill-chosen description of inflation he thought would fade by last fall. Growth in the Consumer Price Index subsequently doubled from a 3.6% annual pace last April to 7%, the highest since 1982, as pent-up demand exploded after the economy reopened and the impact of federal stimulus kicked in. Even core inflation, which excludes food and energy, was up 5.5% at year-end.

The first sign inflation is easing will be when supply-chain tumult starts getting resolved. That does not appear imminent, with Omicron having sidelined factory workers and dockworkers and China’s zero-tolerance policy on COVID prompting health-related lockdowns that may worsen global bottlenecks. One telltale sign: The backlog of container ships waiting to unload at the nation’s busiest port complex in Los Angeles, virtually nonexistent before the pandemic, rose to 106 in mid-January.

A review of the latest inflation data reveals several categories whose huge year-over-year increases clearly are COVID-19-related and result from the reopening; in other words, they are either peaking or will soon. Jumps of 37.3% in used car and truck prices, 36% in car and truck rentals and 23.9% in lodging away from home, among others, clearly are not sustainable. Already, inflation’s monthly rise in December, while concerning, pulled back slightly from the more rapid price growth of October and November.

Inflation almost certainly will not return to the Fed’s desired 2% level this year with significant price rises having broadened across the spectrum of goods and services. Signs of the pace moderating already are evident, however. The above-average price increases expected to stick around longer in categories such as food and rent not only are less severe, but those components also account for a far greater weight in the calculation of overall inflation.



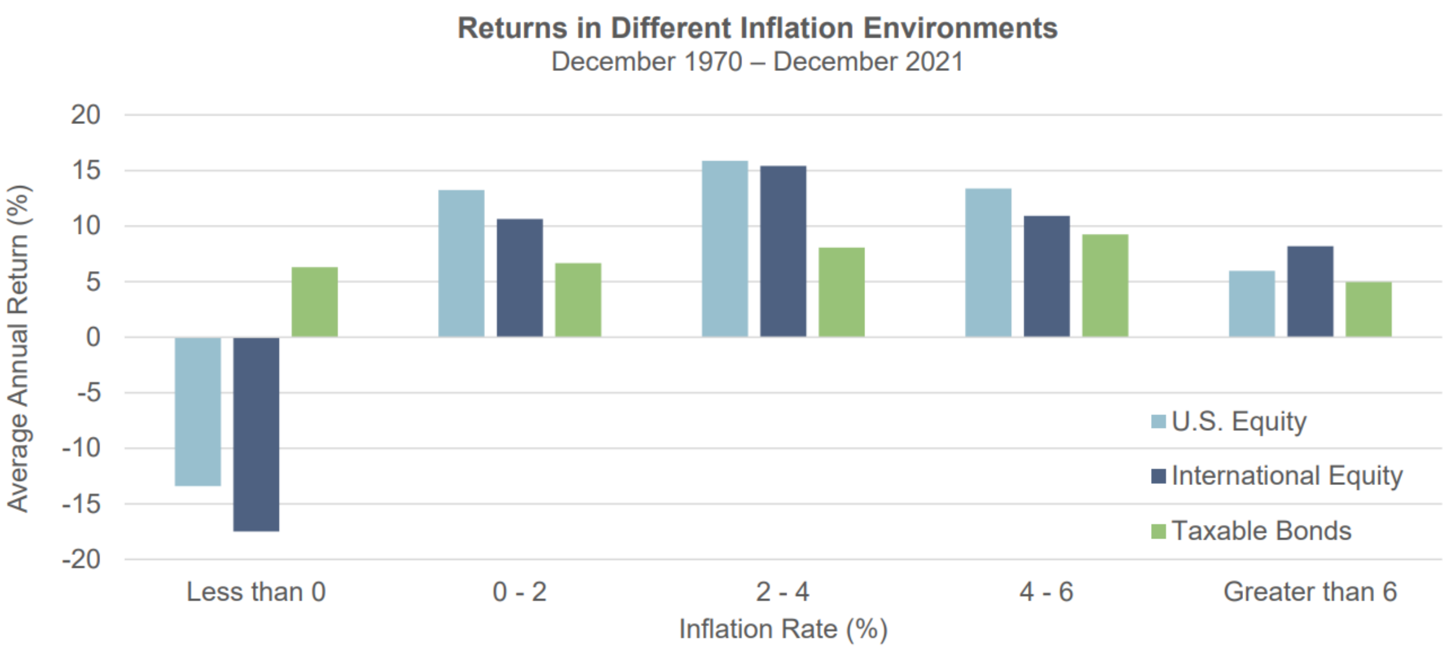


Price rises caused by bottlenecks in supply have raised inflation by 2.8 percentage points over the past year, according to a recent report by the Bank for International Settlements. As mentioned, that pressure has yet to be alleviated. Once supply-chain difficulties begin to meaningfully lessen, however, inflation should moderate and the economy should benefit as long as demand remains high.

The inflation rate will also drop once the eye-popping increases in several categories inevitably decline. Year-over-year differentials also soon will become less exaggerated once comparisons include the period when the economy began overheating. For example, inflation as gauged by the CPI was a benign 1.7% last February and 2.6% last March before jumping to 4.2% in April.

We view inflation as likely to decelerate beginning in the second quarter and to continue slowing in the second half, particularly if the Fed follows through with several interest-rate hikes this year. 2021 should turn out to have been the highwater mark for this inflationary cycle. However, we do not expect that even the less volatile core PCE price index, the Fed's preferred inflation barometer (4.7% at last measurement in November), will return close to the central bank's 2% target before 2023.

What this outlook portends for financial assets may depend on the Fed's reaction rather than the inflation data itself as discussed in the next section. Historically, however, risk assets have performed above their long-term averages in higher-inflation environments as long as inflation is not above 6% (or negative).



U.S. equity returns are the S&P 500 index and international equity returns are the MSCI EAFE index.
Fixed income returns are Ibbotson Associates SBBI US Intermediate-Term Government index from 1970 – 1975, and the Bloomberg US Aggregate Index for 1976 – 2021.

3. The Federal Reserve is poised to begin tightening monetary policy but is likely to stay flexible, easing up as the economy and markets show strain.

Although the supply chain and labor shortage issues are at the core of the inflation problem, the Fed also is partly responsible – taking months to recognize that price pressures were intensifying and failing to act sooner to combat them. The risk now is that it overcompensates by raising rates too aggressively, especially if it opts to simultaneously shrink its balance sheet. We view such a policy mistake as unlikely based on the central bank's statements, its recent history of backing off when conditions called for a pause and the likelihood inflation moderates this year.

So far, the Fed has its eyes on an appropriately moderate pace for interest-rate hikes. Based on the median forecast of Fed officials in December, they project increasing the federal funds rate from near-zero to 0.9% by the end of this year, 1.6% by the end of 2023 and 2.1% by the end of 2024 – all still very low on an absolute basis. While subject to change, particularly if another surge in inflation forces them to adopt a harsher plan, the current strategy is designed to not be overly punitive for the economy or markets.

With inflation a top concern on Wall Street and beyond, Powell and the Fed are under increasing pressure to tighten. Once initiating a rate-hike cycle, will they stay the course in order to normalize policy or will they be willing to hit the brakes in the face of economic stress or a significant market downturn? Prior actions by both Powell and Federal Reserve governor Lael Brainard – President Biden's nominees for the central bank's top two spots – along with the dovish track records of most Fed officials suggest the latter, more flexible stance.

Powell and Brainard, both then governors, made clear in such a scenario in 2016 that they wanted the Fed to put planned rate hikes on hold because of the emergence of heightened risks, posed in that case by a slowing Chinese economy. After one subsequent increase, multiple additional hikes were called off. Newly released transcripts of that meeting of the Federal Open Market Committee – the Fed's interest-rate-setting committee – reinforce the wait-and-see approach of the two key decision-makers.

The lineup of top Fed officials is in the process of being overhauled, both through the FOMC's annual rotation system and the filling of vacancies in the seven-member Fed board of governors. The new voters signaled support in December for a series of rate increases starting this year but most have track records of supporting highly accommodative policy, which suggests a sudden pivot to stricter monetary policy is unlikely.

The need to reduce the Fed's $9 trillion balance sheet complicates its challenge in tightening, although it is our view that the winddown will be kept slow and boring to avoid big disruptions. The balance sheet has grown by $5 trillion during the pandemic as part of the Fed's effort to stimulate the economy. Monthly bond purchases are being tapered and will end completely by March, and Powell says the Fed could start to reduce the balance sheet later this year.

The last time the Fed raised rates and shrank the balance sheet at the same time, in 2018, two major market corrections occurred before it stopped. In our view, the Fed is unlikely to repeat that mistake so soon. We will be monitoring its comments about balance sheet plans. The pace of interest-rate hikes likely will be a far better guideline for markets, however.

We also will continue to closely track the yield curve – a benchmark for the bond market used to predict changes in economic output and growth by plotting the difference between short- and long-term bond yields. It has been flattening for months in a reflection of bond-market concern about the economy as the Fed prepares to tighten.

A flattening curve is not a red flag like an inverted curve, in which shorter-term yields are higher than longer-term yields – a possible sign of an upcoming recession.

The yield curve has a long way to go before inverting. And while bond returns tend to be lower during tightening cycles, it is important to note that the Fed has not created losses for Treasury investors in a tightening cycle since 1986, according to Bespoke.

4. Stocks face a rockier road in 2022 with more normal bouts of volatility than last year but we still are constructive on their full-year outlook.

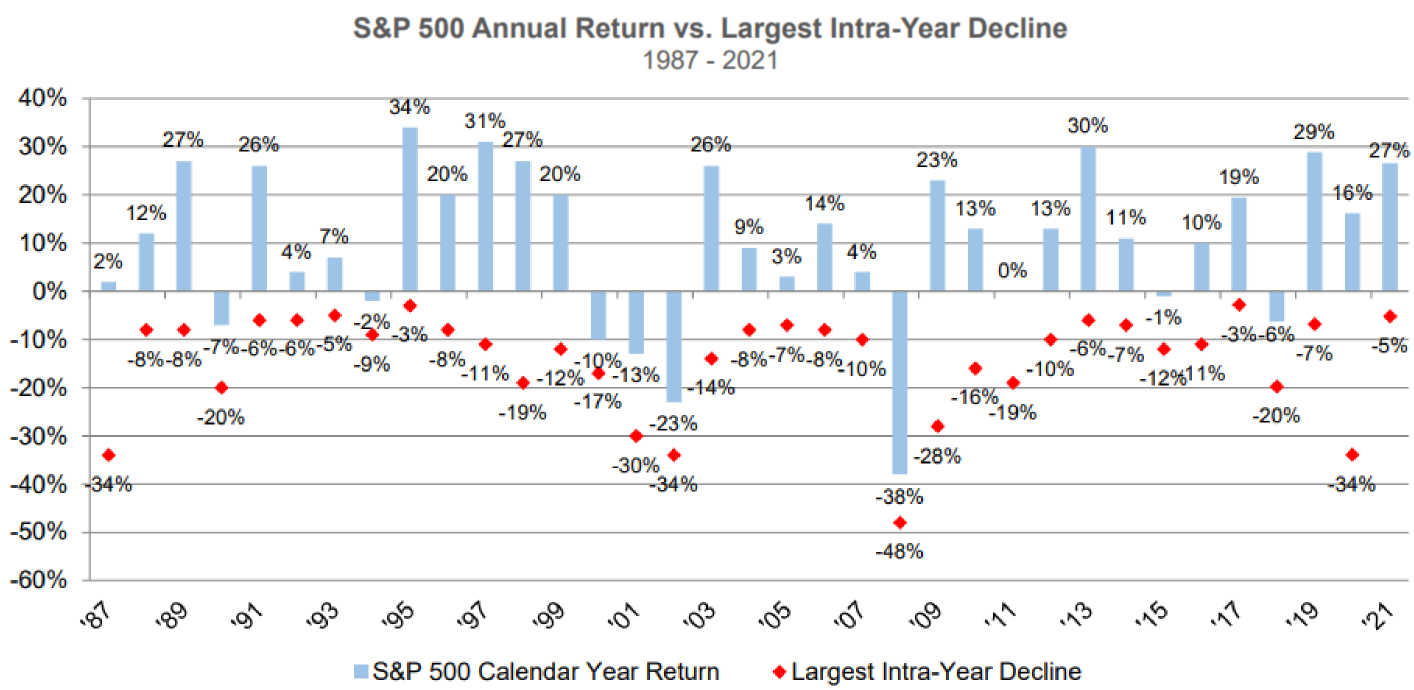
Last year's stellar gains in many areas of the stock market seemingly defied logic in the face of multiple potential stumbling blocks, most notably high inflation, several crippling waves of COVID-19 and the start of the wind-down of the Fed's emergency monetary policy support. Concerns about those areas dragged markets down in a January sell-off that was painful for investors but not unusual – first-quarter performance has been more turbulent than in other quarters over the past two decades.

2021 was not a banner year across the board. Large-cap returns were uneven, dominated by a select number of technology giants, while companies tied most closely to the reopening underperformed. Small caps struggled in the second half, whipsawed by Delta and supply-chain delays. International developed stocks lagged and emerging markets were negative – mostly due to China's underperformance. Bonds were hurt by inflation and rising rates, with taxable bond benchmarks posting their first losses since 2013. With the global economy rebounding and the U.S. recovery exceeding expectations, however, the stock market flourished overall.

One characteristic of last year's market that stands out in sharp contrast to January was its unusual calm. The three pullbacks in the S&P 500 all were short-lived and comparatively small; every year but three since 1987 has seen bigger drops than last year's largest, 5.2%. The average annual drawdown is around 15%.

While it may feel more painful after a long period of tranquility, this year's volatility is a lot more normal. January tends to be prone to drops, but the period of volatility historically subsides by March. In the long run this kind of pullback is healthy for markets, cleansing some of the excesses that were building up. We still think 2022 is going to generate positive returns but there will be more volatility ahead, given risks that appear larger this year involving the Fed and inflation.

Pullbacks Occur Regularly



We see numerous factors working in markets' favor, some already discussed, that can collectively offset the headwinds. In short:

- **The economy and earnings are strong:** While estimates are subject to reductions the longer inflation stays high, analysts currently expect S&P 500 companies to report solid profit margins for the year as companies pass along price increases to customers.
- **So are household balance sheets.** Thanks largely to stimulus payments, households have amassed $2.7 trillion as of last fall in extra savings beyond what they would have had if there had been no pandemic, according to Moody's Analytics.
- **COVID-19's impact has weakened:** Omicron cases appear to be less deadly and the variant is waning in some countries while the global vaccination rate is growing.
- **Inflation likely is peaking:** There is a good chance inflation subsides this year as the supply of goods inevitably catches up to demand, although there is a real risk that China's zero-COVID policy and persistent global health concerns keep supply bottlenecks unresolved for longer.

S&P 500 Performance After First Rate Hike

Date of First Hike	+3 Mos.	+6 Mos.	+12 Mos.
3/30/1988	5.6%	5.0%	13.0%
2/4/1994	-4.2%	-2.8%	2.0%
3/25/1997	12.5%	18.6%	39.4%
6/30/1999	-7.1%	6.0%	5.3%
6/30/2004	-1.3%	7.5%	5.5%
12/16/2015	-2.2%	0.2%	8.9%
Average	0.5%	5.8%	12.4%
Median	-1.8%	5.5%	7.2%

- **Historical precedents are positive:** Stocks have generally performed well in the year following the start of a Fed rate-hike cycle. The S&P 500 was higher 12 months following the first hike in each of the past six cycles, up an average 12.4%.

5. Gridlock in Washington over spending and tax proposals has become entrenched with midterm elections approaching and may benefit companies and taxpayers.

Midterm election years tend to see particularly high political and market uncertainty, with legislative agendas subject to upheaval when voters usually punish the president's party and deliver congressional shakeups. Market volatility can be significant, but so can gains.

Any volatility has not lasted. After a slow start, the S&P 500 historically has rallied strongly by year-end – gaining an average 7.8% in the fourth quarter of midterm election years dating to 1938, with average full-year returns of 10.8%, according to our research. The index also has not declined in the 12 months following a midterm since 1946.

If November's elections oust the president's party from control of at least one house of Congress for the fifth consecutive midterm, as is widely expected, the result will be an even more divided Washington and greater restraints on legislation, spelling fewer surprises for markets. That prospect is likely to tamp down spending in the meantime and support markets, as one of our recommended managers notes. "The markets are probably looking forward to the midterm elections because they're going to glue up the gears of government a little bit more," says Jeffrey Gundlach, CEO of DoubleLine.

Besides any impact on markets, the current standoff in Washington helps corporate and individual taxpayers in other ways. Already, the mega-changes in spending and tax rates that we talked about for much of 2021 have either been reduced or are off the table as gridlock deepens and fiscal spending contracts.

Failure of the Build Back Better bill as originally envisioned, while bringing down GDP expectations for this year, is a fiscal positive for the $2.5 trillion federal budget deficit. Even if the Democrats manage to pass a smaller version of the bill, its spending total would now amount to 2.8% of GDP at most, according to Strategas Research – down from 11% last year. After BBB issues are resolved, few big changes are likely with all eyes on midterms.

Just as high-income taxpayers will benefit if we have status quo on taxes this year, so should corporations and their shareholders with the removal of the corporate tax rate increase for 2022.

Our Outlook

- The U.S. economy should continue to lead the developed-world recovery with solid growth despite further disruptions from COVID-19, boosted by solid corporate earnings and resilient consumer spending. We see little likelihood of a recession in 2022.
- Inflation is unlikely to drop significantly in the first half given ongoing supply-chain delays, Omicron-related economic disruptions and higher wages. But we do anticipate it easing gradually this year as bottlenecks lessen and more workers return to the labor force.
- The Federal Reserve would likely pause its planned rate-hike cycle and hold off on reductions to its balance sheet if the economy shows signs of strain. The risk is that inflation continues to run hot for longer than anticipated.
- Stocks are unlikely to match 2021's lofty returns this year but we believe they will achieve modest gains as the global recovery broadens and further inroads are made against the pandemic's impact. Bonds continue to serve an important purpose in a diversified portfolio even with lower return expectations in a rising rate environment. Opportunistic investments in direct lending and securitized credit have less interest-rate sensitivity and thus add further diversification to portfolios.
- Political gridlock in Washington has reduced the prospects for major spending and proposed tax hikes this year, a potential boost for corporate earnings and markets. Midterm election years can see significant market volatility but historically they have produced above-average full-year returns.

Quotes of the Quarter

"The economy no longer needs sustained monetary policy support."

Jerome Powell, Federal Reserve Chair

"We are taking actions ... that I have confidence will be bringing inflation down while continuing to allow the labor market to return to full strength over time."

Lael Brainard, Federal Reserve governor and vice chair nominee

"The world economy is simultaneously facing COVID-19, inflation, and policy uncertainty, with government spending and monetary policies in uncharted territory."

David Malpass, World Bank president

Market Data

U.S. Stocks

A full year of stimulus, powerful consumer demand following the economy's reopening and flourishing corporate bottom lines drove a strong 2021 performance for U.S. stocks. Even a new wave of COVID-19 cases, a 39-year high for consumer prices and the Federal Reserve's plan to raise interest rates failed to dent investors' optimism in the year's final weeks or prevent a so-called Santa Claus rally that left benchmarks in or near record territory.

The iShares S&P 500 rose 11.1% in the fourth quarter for a 28.8% total return in 2021 – a third year of powerful gains following advances of 31.4% in 2019 and 18.3% in 2020. Some stocks were left behind in a rally that lifted a handful of giant tech stocks disproportionately. Apple, which now accounts for a record 7% of the index, climbed 34% for the year; Microsoft rose 51%; Google parent Alphabet was up 65%, and chipmaker Nvidia soared 125%. All 11 S&P stock sectors finished the year with double-digit gains, however, led by the three worst performers of the previous year: energy (53.3%), real estate (46.0%) and financials (34.8%), followed closely by technology (34.5%).

Smaller-company stocks were hurt more than large caps by inflation and business setbacks from COVID and inflation but managed a 2.0% last-quarter gain for a solid 14.5% full-year gain. Growth stocks vs. value stocks produced a split verdict: Growth overtook value for the year at the large-cap level (Russell 1000) with a fourth-quarter rally, but value far outperformed growth among small caps as investors avoided additional risk.

International Stocks

Overseas stocks again underperformed their U.S. peers as the global economic recovery took off more slowly than the United States' and the dollar's rise crimped dollar-denominated issues abroad. Global central banks still supplied enough monetary support to help produce double-digit gains for developed stocks, however.

The iShares MSCI EAFE ETF, proxy for international stocks in developed countries, added 2.6% from October through December for a 11.2% return. That return would have been much higher without the dollar's 6.4% climb for the year; absent currency translation, the EAFE index was up 19.2%.

China's latest economic challenges hurt the broader emerging-markets asset class that it dominates, as did both COVID-19 and the supply-chain logjam that snarled global shipping. The iShares MSCI Emerging Markets ETF fell 1.6% for the quarter and 3.6% for the year after having been positive in the first half of 2021.

In dollar-denominated indexes, France was a fourth-quarter winner with a gain of 7.7% while most emerging markets gave ground. For the full year, country indexes for Canada, India and Mexico all returned over 20% while China was the big loser at minus 21.0% and Brazil shed 17.6%.

Real Estate

No asset class benefited more from the reopening than real estate investment trusts, which went from a loss in 2020 to the #1 performer in 2021. The industrial and self-storage sectors in particular continued to deliver significant outperformance as demand for shipping and storage space remained high, while hotel and healthcare REITs were buffeted by Delta- and Omicron-related business setbacks. The Vanguard REIT Index Fund, proxy for the broad U.S. real estate market, surged 14.9% in the fourth quarter and 40.4% for the year.

Global REITs recovered after having turned lower in the third quarter amid concerns about the potential impact of China's Evergrande crisis on the broader real estate market. But gains were characteristically muted for overseas REITs compared to their U.S. peers; the Vanguard Global ex-US Real Estate ETF added 1.3% for the quarter and 5.7% for the year.

Hedged/Opportunistic

Hedge funds eked out a small quarterly gain but could not match the broader stock market's advance with managers holding relatively small positions in the tech giants such as Apple, Alphabet and Tesla that led the market's rally in 2021. The HFRX Global Index, a barometer of the average hedge-fund performance, was up 0.1% from October through December and 3.7% for the year, down from the prior year's 6.8%.

Altair's blended benchmark for closed-end funds had another solid quarter with a 4.1% gain for a full-year return of 16.8%.

Our benchmark for securitized credit, or distressed debt, a blend of 65% mortgage-backed bonds and 35% high-yield bonds, dipped 0.1% in the quarter as the economic recovery proceeded and finished the year with a 0.4% advance.

Fixed Income

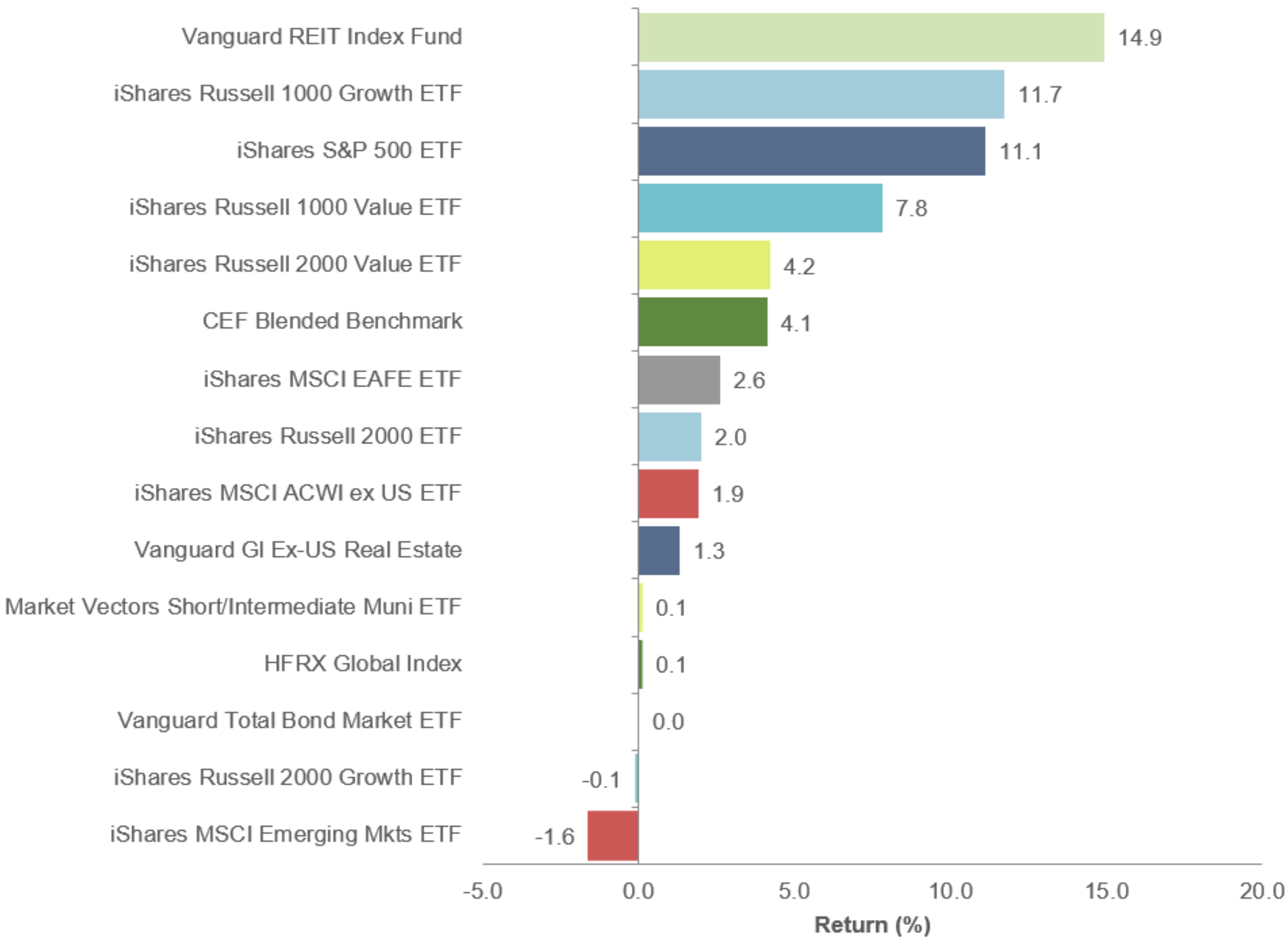
An increase in yields in 2021 was the primary contributor to one of the worst years on record for bonds. The decline was unwelcome for bond investors but rare and less than 2%.

Taxable bonds as gauged by the Vanguard Total Bond Market ETF finished the year with a 1.9% decline following a flat fourth quarter. That made 2021 the biggest-loss year for the benchmark since 2013, when Vanguard Total Bond lost 2.1%. The only worse year dating to the beginning of bond indexes in 1976 was 1994 when the Barclays Aggregate Bond Index, the long-time benchmark, had a 2.9% loss.

A climb in the 10-year U.S. Treasury note yield from a historically low 0.9% to 1.5% over the course of the year meant rising interest rates and pressure on bond prices which the positive returns from coupon income could not offset. The category also was weighed down by the Fed's decision to purchase fewer bonds and its outlook for rate hikes in 2022.

Altair's municipal bond benchmark, a blend of the Market Vectors short and intermediate ETFs, managed a tiny gain for the year with a 0.1% return in the fourth quarter that left it up 0.2% for the year. Munis remained stable through the year as demand stayed strong while supply was low.

Fourth Quarter 2021 Market Returns



Investable Benchmark Returns through December 31, 2021

	Quarter (%)	Year-to-Date (%)	Annualized 1 Year (%)	Annualized 3 Year (%)	Annualized 5 Year (%)	Annualized 10 Year (%)
Large Cap Equity						
iShares S&P 500 ETF	11.1	28.8	28.8	26.0	18.4	16.5
iShares Russell 1000 Growth ETF	11.7	27.4	27.4	33.8	25.1	19.6
iShares Russell 1000 Value ETF	7.8	25.0	25.0	17.4	10.9	12.8
Small Cap Equity						
iShares Russell 2000 ETF	2.0	14.5	14.5	19.9	11.9	13.2
iShares Russell 2000 Growth ETF	-0.1	2.5	2.5	21.1	14.5	14.2
iShares Russell 2000 Value ETF	4.2	28.0	28.0	17.8	8.9	11.9
International Equity						
iShares MSCI ACWI ex US ETF	1.9	7.5	7.5	12.8	9.5	7.0
iShares MSCI EAFE ETF	2.6	11.2	11.2	13.4	9.5	7.9
MSCI EAFE Index - in local[1]	4.0	19.2	19.2	13.9	8.9	10.6
Vanguard FTSE Europe ETF	5.1	16.8	16.8	15.4	10.7	8.6
Vanguard FTSE Pacific ETF	-1.9	1.1	1.1	11.7	9.0	7.9
iShares MSCI Emerging Mkts ETF	-1.6	-3.6	-3.6	10.0	9.1	4.7
Fixed Income						
Market Vectors Sh/Inter Muni ETF	0.1	0.2	0.2	3.5	3.0	2.2
Barclays 5 Yr Muni Index[1]	0.0	0.3	0.3	3.3	3.0	2.4
SPDR Nuveen Barclays Muni Bond	0.8	0.2	0.2	4.4	3.9	3.4
Vanguard Total Bond Market ETF	0.0	-1.9	-1.9	4.8	3.5	2.8
Gl FixedInc Investable Benchmark	-0.8	-6.0	-6.0	3.1	3.0	1.5
iShares BarclaysInt Govt/Credit	-0.7	-1.9	-1.9	3.5	2.6	2.1
Alternative						
SPDR Barclays High Yield Bond	0.7	4.0	4.0	7.8	5.3	5.4
Vanguard REIT Index Fund	14.9	40.4	40.4	20.0	11.2	11.5
Vanguard Gl Ex-US Real Estate	1.3	5.7	5.7	6.1	6.4	7.5
HFRX Global Index	0.1	3.7	3.7	6.3	3.5	2.6
HFRX Equity Hedge Index	2.7	12.1	12.1	9.1	5.3	4.1
DRA Strategic Benchmark	4.2	17.1	17.1	11.3	7.0	4.0
CEF Blended Benchmark[1]	4.1	16.8	16.8	15.4	9.9	8.1
Other Common Benchmarks						
SPDR Dow Jones Industrial Avg	7.9	20.8	20.8	18.3	15.4	14.1
Fidelity Nasdaq Comp. ETF	8.6	22.1	22.1	34.4	24.9	20.8
iShares MSCI ACWI ETF	6.9	18.6	18.6	20.4	14.6	12.0
SPDR Barclays 1-3 Month T-Bill	0.0	-0.1	-0.1	0.8	0.9	0.4
Inflation - CPI[1]	1.6	7.0	7.0	3.5	2.9	2.1

[1] There is no investable equivalent for this index

Source: Financial Times Interactive Data (IDC) and Charles Schwab.

This table was prepared using investment performance and other information obtained from third-party sources, which we believe to be reliable; however, we have not audited the data from these sources and are not responsible for its accuracy. Past performance is no guarantee of future results.

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