WILMINGTON TRUST

MEMBER OF THE M&T FAMILY

**September | 2021**

# Capital Perspectives

**Monthly investment analysis and insights from Wilmington Trust Investment Advisors**

ON THE RECORD

## The Teflon Market

In this issue:



**Tony Roth**
Chief Investment Officer

**Can nothing deter this market in 2021? It seems not, at least thus far, for the MSCI ACWI global equities benchmark returned more than 16% through just the first eight months, surpassing all but the most optimistic expectations. While the year has experienced an exceptional variety of political and social crises by any measure, the financial markets have hardly stumbled. Serious troubles over just the past month have included resurgent COVID-19; early signs of waning vaccine effectiveness; a regulatory crackdown in China; the highest U.S. inflation in 30 years; a Federal Reserve signaling a cutback in support; the collapse of Afghanistan; wildfires in the West; and last, but most certainly not least, two successive hurricanes hit the Northeast and then New Orleans. Despite these events, risk assets have remained the best place for investors, in the team's view.**

We are not surprised by the fine performance the stock market has turned in. In our view, none of these developments threaten to arrest the monumental economic recovery, though as detailed below the Delta variant certainly has slowed the momentum and inflation concerns continue to grow. Due to the volume of news that ultimately bears little on the economy, it is vital that we stick to our process. We take a nine- to twelve-month view of how we expect the domestic and international economies to evolve, examine the current values of asset classes, and allocate accordingly. Provided that no game-changing variants follow on the back of Delta—and to date we see little evidence of such a development—we foresee the expansion regaining its mojo and the equity market continuing to present good risk-reward tradeoff of the major asset classes.

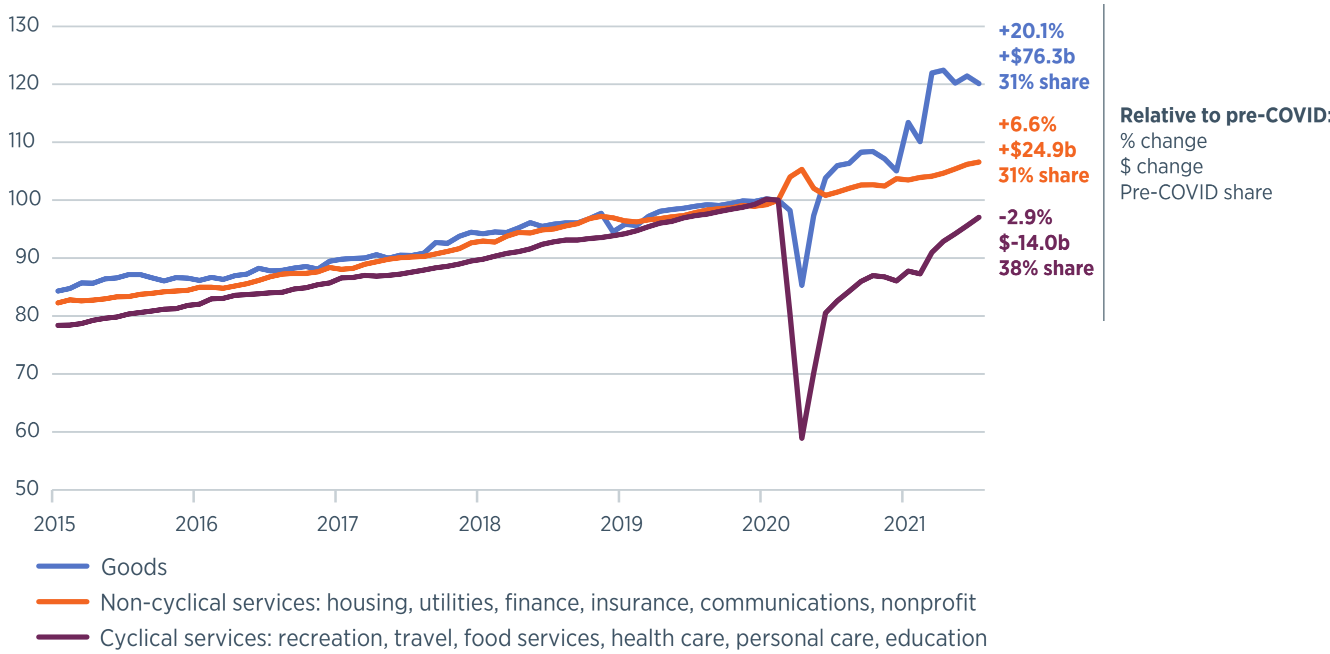
Continued

Figure 1

**Consumer spending—shifting from goods to services**

Consumer spending (Index, February 2000 = 100)




Data as of July 31, 2021. Sources: Bureau of Economic Analysis, WTIA.

We define cyclical service spending as categories we expect to accelerate as pandemic mitigations continue to be lifted.

**Our predicted rotation into services was proceeding swiftly but was curtailed by Delta, which slowed the tempo while not reigniting spending on goods.**

## Delta variant takes a toll on growth

The resurgence of new COVID cases has been swift and far reaching, pushing average daily cases in the U.S. from a nadir of roughly 12,000 in mid-June to 155,000 at the end of August. That is still below the 225,000 per day that prevailed through much of December 2020 to January 2021, but in some states (mostly in the less-vaccinated Southeast) new cases met or even exceeded previous peaks.

To be sure, the Delta variant has slowed the global growth trajectory. Before the renewed spread, we had expected a surge in U.S. spending on services like travel, vacations, dining, and salons. That was to compensate for a decline in spending on physical goods such as patios, decks, computers, bicycles, treadmills, and appliances that understandably boomed last year. In the spring and early summer of 2021, our predicted rotation into services was proceeding swiftly but was curtailed by Delta, which slowed the tempo while not reigniting spending on goods (Figure 1). Additionally, the disappointing August jobs report showed the vulnerability of growth to renewed virus spread.

Early this year, we expected strong overall consumer spending growth in 3Q, but with a slight decline in July and high-frequency indicators pointing to a disappointing August, even a moderate expansion for the consumer will be a challenge. Higher inflation appears to be hitting consumer spending too. We expect escalating prices to moderate but we are wary that higher wages could translate to an upside surprise. We are revising our full-year 2021 gross domestic product

Continued

Figure 2

**China's regulatory reset weighs on Chinese shares**

China MSCI Index


Data as of August 31, 2021.

Source: Bloomberg.

Past performance cannot guarantee future results. Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses such as management fees and transaction costs which will reduce returns.

**While the market drop has startled us, we do not necessarily think investors should head for the exits, particularly after stocks have already taken such a big hit.**

(GDP) forecast from 7.5% to a still-strong 5.8%. Some of the lost spending is likely pushed into the holiday season or into 2022.

## China regulators bring the hammer

Firms in China are adjusting to a starkly different and still-changing regulatory environment these days. Authorities started to crack down on the largest companies in late 2020 and increased the pressure in recent months, causing the MSCI China Index to fall 32% from its February peak to a recent low in August (Figure 2). China's hefty weight in the MSCI Emerging Markets Equity Index makes it impossible for an investor to ignore. As we wrote in a recent Wilmington Wire piece, the authorities levied a fine for anti-competitive practices on Alibaba (a Chinese tech company analogous to Amazon), halted the IPO of its finance affiliate, converted firms in the lucrative private online tutoring sector to nonprofits, forced the cancelation of exclusive music contracts held by Tencent, and also cracked down on property developers. Along with the explicit regulatory actions, the largest firms are now expected to establish charitable funds to support China's poorer population.

While the market drop has startled us, we do not necessarily think investors should head for the exits, particularly after stocks have already taken such a big hit. Since the low on August 20, the MSCI China index has already recovered more than 10%. The key is in how regulators act going forward. In a recent speech, President Xi made clear this effort is to work toward the goal of "common prosperity" in reaction to a widening wealth gap. But leaders must also be wary of the slowing economy, job losses, and the potential for investor flight that could result from the crackdown. In the short term, anxiety and volatility could remain elevated. However, we are avoiding selling into weakness, as we expect emerging markets equities to recover and have already seen Chinese authorities take steps to calm markets.

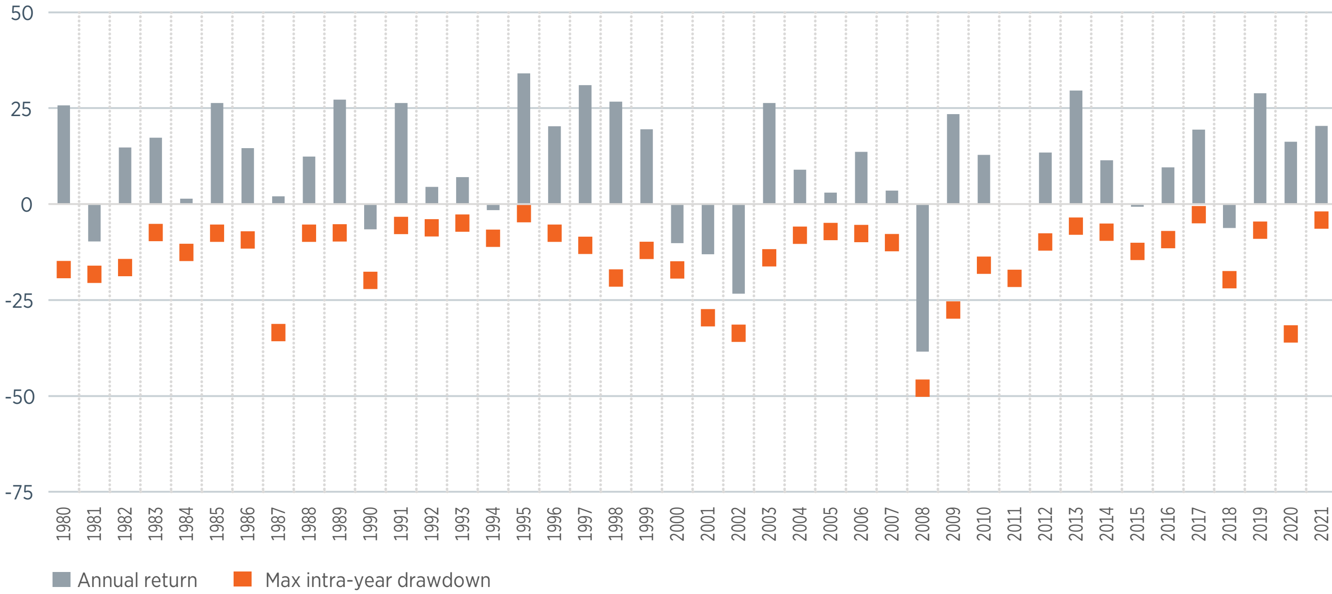
Continued

Figure 3

**Equity volatility is normal**

S&P 500 calendar-year % returns vs. intra-year % declines




Data as of August 31, 2021. Sources: Macrobond, WTIA.

Represents price return of the S&P 500 index. Past performance cannot guarantee future results. Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses such as management fees and transaction costs which will reduce returns.

**With an expected battle in Congress over the debt ceiling and uncertainty regarding the infrastructure and broader Biden agenda, there are more than enough triggers for a correction.**

## Central banks at the ready

The world's money printers, central banks, have the unique position of simultaneously reacting to, and being the cause of, economic pain and prosperity. For the most part, they looked ready to start taking their collective feet off the accelerators in early summer but might now delay in the face of the Delta-induced slowdown. In the U.S., Chair Powell sounded equal parts upbeat and wary in his speech at Jackson Hole on August 27. He views the inflation dynamic as warranting a slowdown of their $120 billion per month asset purchase program, known as quantitative easing, but still wants to see a stronger labor market before starting to ease up on the gas. The disappointing August jobs report likely takes a September announcement off the table, in our view.

The European Central Bank looks likely to cut back in 4Q 2021, while the Bank of England is still full steam ahead but could begin cutting back by the start of 2022. Other banks have already started to remove accommodation. The Bank of Canada, for example, is cutting purchases. And the Royal Bank of New Zealand in August came very close to being the first developed economy central bank to actually press on the brake pedal by hiking rates but blinked because of Covid spikes. While inflation is currently running high in the U.S. and abroad, we expect it to decelerate and do not foresee central banks preemptively choking off the recovery. We are, though, mindful of the wage pressures firms are facing and the possibility of them leading to sustained price pressures.

Continued

**Current tactical asset allocation**

| | Tactical tilts | − | | | NEUTRAL | | | + | Positioning |
|---|---|---|---|---|---|---|---|---|---|
| **Equities** | U.S. Large Cap | ○ | ○ | ○ | ○ | ● | ○ | ○ | Overweight |
| | U.S. Small Cap | ○ | ○ | ○ | ○ | ● | ○ | ○ | |
| | International Developed | ○ | ○ | ○ | ○ | ○ | ● | ○ | |
| | Emerging Markets | ○ | ○ | ○ | ○ | ○ | ● | ○ | |
| **Tax-Exempt Fixed Income** | Investment Grade | ○ | ● | ○ | ○ | ○ | ○ | ○ | Underweight |
| | High Yield | ○ | ○ | ○ | ○ | ● | ○ | ○ | |
| **Real Assets** | Inflation-linked Bonds | ○ | ○ | ● | ○ | ○ | ○ | ○ | Overweight |
| | Global REITs | ○ | ○ | ○ | ● | ○ | ○ | ○ | |
| | Other/Commodities | ○ | ○ | ○ | ○ | ● | ○ | ○ | |
| **Alternatives** | Equity long/short hedge | ○ | ○ | ● | ○ | ○ | ○ | ○ | Underweight |
| **Cash** | | ○ | ○ | ○ | ● | ○ | ○ | ○ | Neutral |

## Still optimistic, but wary

We recognize the risks emanating from the Delta variant and Chinese regulators, among others. On our nine- to twelve-month horizon, we still expect the U.S. and global economies to improve and support equities. Along the way, we believe inflation will remain high in the near term but eventually decelerate as supply chains improve and people return to the labor market. Along with our optimistic outlook we do expect some volatility. The first eight months of 2021 did not see a meaningful equity market correction despite the tumultuous events noted earlier (Figure 3). Historically, the average pullback in the S&P 500 in any calendar year is 11.5% in years when the index posts overall gains. With an expected battle in Congress over the debt ceiling and uncertainty regarding the infrastructure and broader Biden agenda, there are more than enough triggers for such a correction. Eventually, it will come, but we strongly suggest investors to recognize it for what it is and stick to their long-term plans.

Best,

Tony

Tony

IN FOCUS

# Cash Investing Playbook

## Whether, when, and how to make your move


**Meghan Shue**
Head of Investment Strategy & Portfolio Construction


**At a glance:**

- **Historically it has been most profitable to get invested immediately, but we believe the right decision depends on the client, individual circumstances, and risk tolerance; a gradual strategy may alleviate buyers' remorse, but has not been as profitable**
- **Downside risk, which may be the reason for an investor to consider a more gradual approach, may alleviate some of the stress associated with getting invested; however, the range of returns is dramatically reduced if the 12-month investment horizon is increased to three years**
- **A long-term strategic allocation accounts for an investor's risk tolerance, return goals, and investment time horizon and is designed to weather short-term market storms**

**For many, the process of investing cash in financial markets is a gradual one. Cash, whether from salaries or pre-tax income, cascades each month into brokerage or retirement accounts. However, we meet with clients every day who have come upon a large amount of cash—perhaps an inheritance windfall, business liquidation proceeds, or even profits from a savvy investment. Investing a large sum of money can be very exciting but also quite stressful. When is the right time to invest a significant amount of capital that represents a large portion of one's total net worth? Should it be done all at once, akin to jumping in a cold pool, or perhaps little by little, in equal chunks over time? The question is not a simple one to answer, and for many the decision is made harder by the post-pandemic surge in the stock market. It has historically been most profitable to get invested immediately, but we believe the right decision also depends on the client, the individual circumstances, and the risk tolerance. We explore these nuances below.**

### All in or easy does it?

The Investors with a large sum of cash (as a percentage of their investable assets) are generally guided toward one of two strategies for deploying that dry powder into the market:

- Invest all of the cash at once into a long-term strategic risk profile.
- Invest the cash gradually over some fixed period of time, typically three, six, or twelve months, a strategy often referred to as "tranching" into the market or dollar-cost averaging. The idea behind easing into the market is to avoid buying at the top and witnessing a sharp pullback in the market immediately after investing all of the cash into the market on a single day.

The reality is that, while a gradual strategy may alleviate buyers' remorse, it has historically not been as profitable as investing all at once. Consider Figure 1, which looks at four different strategies for getting invested into a 60/40 stock/bond portfolio.* All strategies invest the fixed income portion of the portfolio immediately, as bonds have historically held value or appreciated when equities sell off by 15% or more—the exact situation that investors try to avoid by easing into the market. The first strategy invests the remaining 60% of the portfolio in equities immediately, while the other three invest the equity portion in equal installments over a period of three, six, or twelve months (with the balance of the equity allocation at any given time sitting in cash). Over the past roughly 32 years, investing the equity allocation all at once has resulted in better next-12-month performance than all other strategies 55% of the time, far outpacing the success rates of the more gradual approaches.

* Asset allocation or diversification does not ensure a profit or guarantee against a loss.

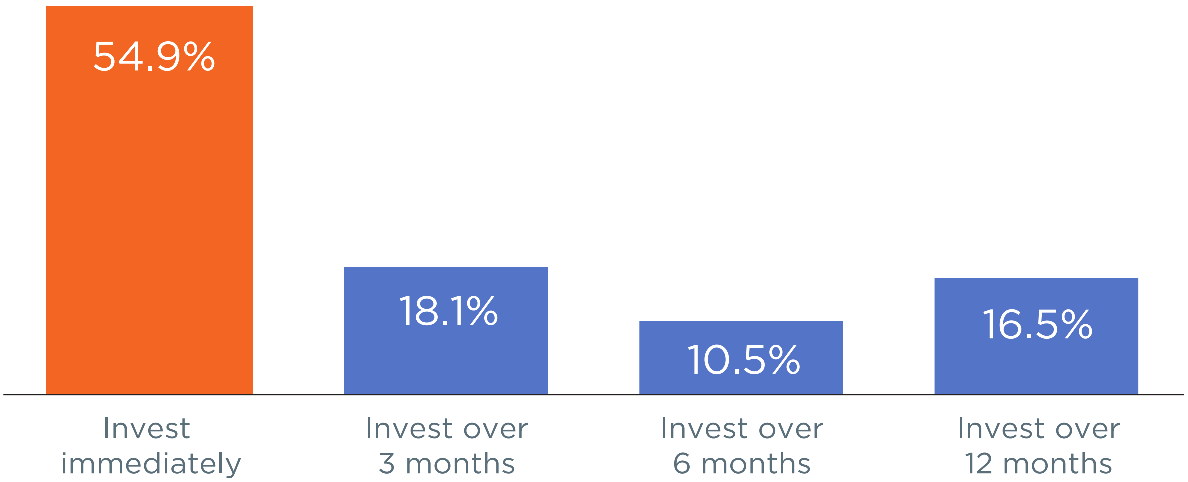
Continued

Figure 1

**Historically, investing cash immediately has been the best strategy**

Percent of the time each cash deployment strategy has been most profitable over a 12-month horizon




Data as of August 31, 2021.

Includes data starting January 1, 1989. Represents different strategies for investing cash in a 60/40 stock/bond portfolio, where stocks are represented by the S&P 500 Total Return Index, bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, and cash is represented by the Bloomberg Barclays Short Treasury Index. Indexes are not available for direct investment. Past performance is no guarantee of future results.

Sources: Bloomberg, Standard & Poor's, WTIA.

**Investing the equity allocation all at once has resulted in better next-12-month performance than all other strategies 55% of the time, far outpacing the success rates of the more gradual approaches.**

Usually, an investor who is hesitant to go "all in" on the market right away is concerned about losing money immediately after investing, perhaps as much as or more than his or her desire for short-term profits. We looked at the range of historical returns for each of these same cash deployment strategies (Figure 2). Though investing immediately has historically delivered the highest average return over a 12-month period, it has also come with the widest range of returns.[1] It is this downside risk that may be reason for an investor to consider taking a more gradual approach if it alleviates some of the stress associated with getting invested. However, we would point out that the range of returns is dramatically reduced if the 12-month investment horizon is increased to three years (Figure 3).

### Investing: sometimes profitable, sometimes painful, but always personal

The stock market has historically trended up, dwarfing very significant risk events over a long time horizon, so it has been beneficial to invest as much money as early as possible to take advantage of the power of compounding. Since 1989, at any given time the market has been higher six months later 77% of the time, and it has been higher twelve months later 84% of the time.

The current environment raises two additional and important issues:

- Research has revealed that investors feel the pain of losses twice as acutely as the positive feelings elicited from gains[2]
- Stocks have had a remarkable run since the pandemic trough in March 2020, with the S&P 500 index returning more than 107% (including dividends) in fewer than 18 months

1 The minimum returns in the sample for the first three strategies were each around –28%, with the minimum for the 12-month strategy around –21%, but we chose to trim the outliers in Figure 2 by looking at the 5th and 95th percentiles in the distribution.

2 A behavioral finance theory known as the "prospect theory," documented in the 1979 paper by Daniel Kahneman and Amos Tversky.

Continued

Figure 2

**All-at-once investing has reaped the widest 1-year return range** (12-month returns)

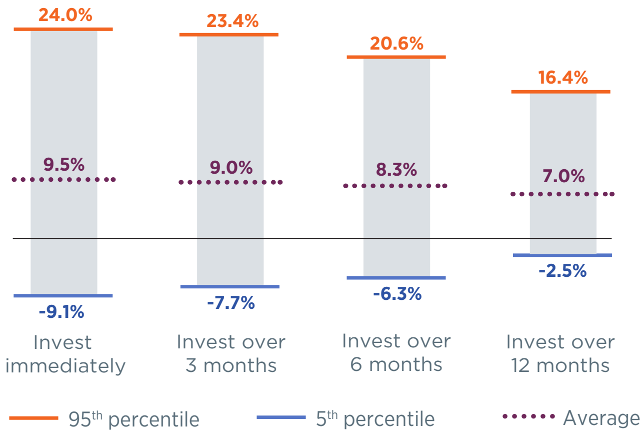
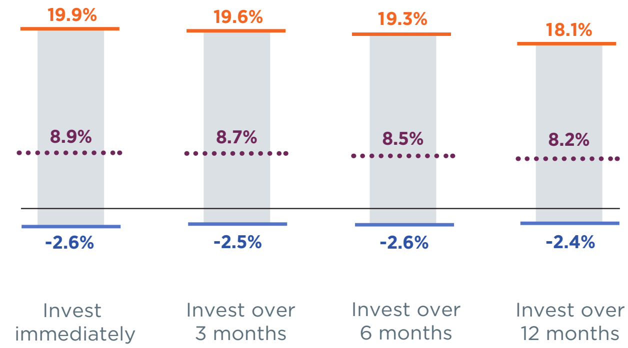



Figure 3

**Longer term, each strategy delivers similar results** (3-year returns)




Data as of August 31, 2021.

Represents the average 12-month and 3-month return for each strategy, as well as the 5th and 95th percentiles for the data beginning January 1, 1989. Please refer to Figure 1 for detail on the indexes used to calculate the returns. Past performance is no guarantee of future results.

Sources: Bloomberg, Standard & Poor's, WTIA.

**An honest assessment of your risk tolerance and goals resulting in a long-term strategic risk profile can help keep you focused on your long-term objectives.**

On the first point, we would encourage you to keep a medium- to long-term investment horizon in mind. An honest assessment of your risk tolerance and goals resulting in a long-term strategic risk profile can help keep you focused on your long-term objectives, thereby avoiding the need to keep score of small wins or losses early in the game. Our proprietary wealth planning tool, Paragon™ (Portfolio Analysis, Risk Assessment & Goals Optimization), can be very useful in understanding the trade-offs between different risk profiles and asset allocations, analyzing market scenarios, and visualizing portfolio risk to help determine the right portfolio mix for a client's unique goals.

The second point relates to an understandable reluctance to buy when the market has hit a new all-time high. Some will instead be convinced to wait for a pullback to enter the market at more attractive levels. The problem is that pullbacks are relatively rare occurrences, and since 1945, all-time highs for the S&P 500 have outnumbered pullbacks of 5% or more by a factor of 10 to 1. One could be left sitting on the sideline for months waiting for a pullback that ends up being less than the market's return over that period.

On top of that, investing when the market hits an all-time high has historically been at least as successful as entering the market off its highs. This is particularly evident when the economy is in the first half of the economic cycle, which we assess to be the case today. Figure 4 (left side) shows that investing at an all-time high for the S&P 500 in the first half of an expansion (early cycle) has resulted in a median 12-month forward return of 11.7% compared to 9.7% for all other periods, using data going back to 1928. This doesn't make an all-time high a buy signal, necessarily, but new highs tend to beget new highs and are not reason enough to sit on the sidelines.

[1] Citi Research, Dealogic.

Continued

Figure 4

**Don't be afraid of investing at all-time highs**

S&P 500 12-month forward returns: all-time highs vs. non-all-time highs by stage of the business cycle

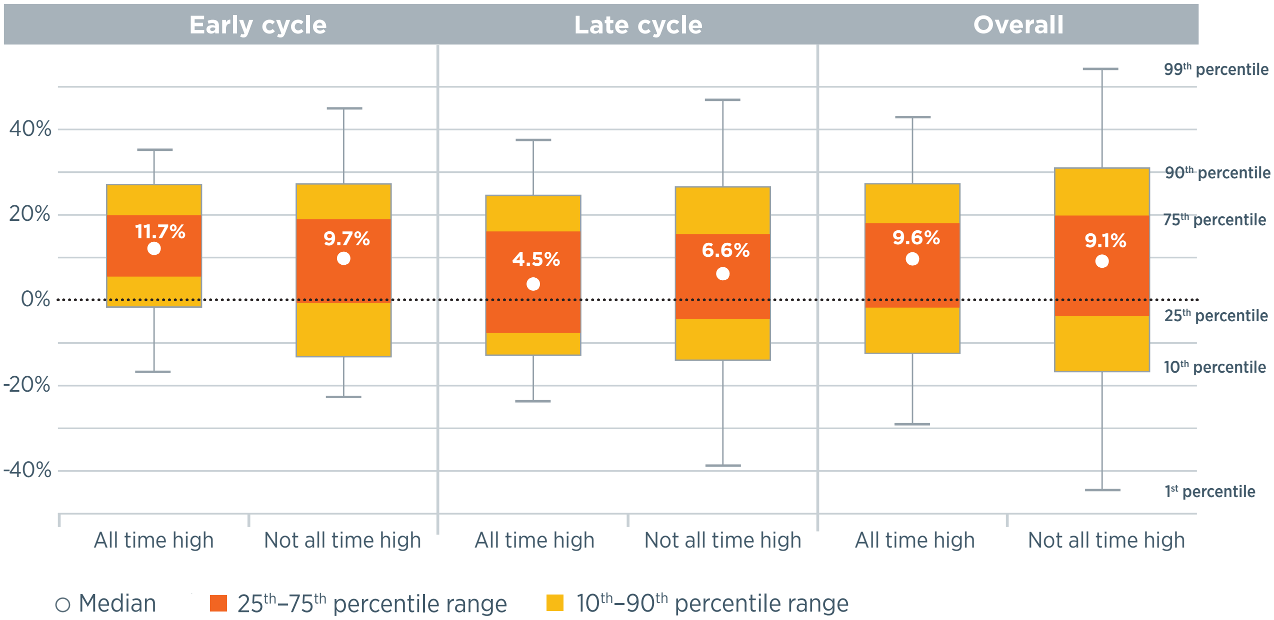



Figure 4 shows the distribution of S&P 500 forward 12-month price returns from days when the index hit all-time highs and all other trading days from 1928 through August 30, 2021, partitioned by stage of economic expansion. Early cycle and late cycle refer to the first and second half of expansions, characterized as periods between NBER-designated recessions. The right side shows the performance distribution for all observations.

Sources: National Bureau of Economic Research, WTIA, Macrobond.

Forward return results will vary for time periods other than 12 months.

Past performance cannot guarantee future results. Indexes are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses such as management fees and transaction costs which will reduce returns.

**A long-term strategic allocation that has accounted for an investor's risk tolerance, return goals, and investment time horizon is designed to weather short-term market storms.**

The bottom line: A long-term strategic allocation that has accounted for an investor's risk tolerance, return goals, and investment time horizon is designed to weather short-term market storms. That allocation may experience very similar performance over the initial three years, whether the cash is invested immediately or is tranched over a period of three, six, or twelve months, with historical experience giving a slight edge to an immediate investment (Figure 3). Should the fear of initial short-term losses from buying in at the market "top" be too much for a cash-holding investor to bear, then we would recommend investing that money over a relatively short period (three, six, or twelve months) according to a predetermined plan. In many cases, this will be a schedule determined at the outset, thereby avoiding turning a single difficult investment-timing decision into multiple agonizing decisions. We recognize that investing is difficult and personal, and we take very seriously the responsibility—and privilege—of guiding you through this process.

ASSET CLASS OVERVIEW

# Real Assets

**Jordan Strauss, CFA**, Senior Portfolio Manager
**Jessica Blitz**, Research Analyst

| AS OF AUGUST 31, 2021 | Month | QTD | YTD |
|---|---|---|---|
| **S&P Developed Property TR USD** | 1.56% | 5.17% | 21.61% |
| **Bloomberg Barclays US Treasury US TIPS TR USD** | -0.18% | 2.48% | 4.26% |
| **Bloomberg Commodity TR USD** | -0.30% | 1.54% | 23.01% |

Source: Morningstar. Investing involves risks and you may incur a profit or a loss. Past performance cannot guarantee future results. Indices are not available for direct investment.

## What we are seeing now

Real assets saw positive performance in 2Q 2021 and remain positive on a year-to-date (YTD) basis though they struggled slightly in 3Q 2021 through August. Markets were driven higher by economic reopening optimism, though real asset gains slowed on moderating inflation expectations.

Real estate has seen a strong recovery since its dramatic selloff in March 2020. Investors continue to view the sector as a strong reopening beneficiary and as a potential hedge should the increase in inflation remain elevated rather than revert toward trend as the Federal Open Market Committee (FOMC) and many other market observers expect.

Fundamentals have improved across nearly all property types. While recovery and cyclical names rallied through the first quarter of the year, the return environment was more mixed moving into the summer, with traditional defensive subsectors like self-storage and residential gaining alongside malls, which benefited from stronger retail sales and lower store closures on a year-over-year basis. Hotels and health care, which had previously performed well, lagged the broader sector.

Inflation-linked bonds (ILBs) performed well in the second quarter and remain positive year to date. The combination of faster economic growth and ongoing stimulus pushed inflation expectations higher. Positive performance masks underlying volatility, particularly on the longer end of the curve, where yields decreased during the second quarter, flattening the curve. Shorter-term rates remain stable, anchored near zero. Longer-term inflation is expected to be lower than its peak in May, but higher relative to the start of the year, which is currently sitting near the Fed's 2% target.

Commodities returns are strong YTD, though they did lose momentum during the summer. Energy remained a top performer as global mobility restrictions were scaled back, pushing West Texas Intermediate Crude up over 40% for the year. Gold, which performed well during the market downturn in 2020, has since come down again, though it remains elevated relative to the historical average given concerns surrounding inflation.

## What's changing

Despite surging COVID-19 cases due to the Delta variant, authorities do not appear eager to institute new lockdowns, and market participants continue to feel positive about the continued economic recovery. While short-term inflation remains elevated, recent announcements out of the Fed's annual economic symposium in Jackson Hole, Wyoming, indicate its belief that the increase is temporary. Asset purchase tapering will likely begin later in 2021, with inflation already meeting the established bar to make this happen. Rates should remain low even after the taper ensues, as the Fed has stated that both maximum employment and a 2% inflation rate must be met and on track to continue prior to implementing any rate hikes.

## What we expect

While the rise of the Delta variant may delay the recovery, we do not expect it to be derailed. However, there are concerns that the virus may slow momentum in consumer spending for the near term, suggesting downside risks for GDP growth through the rest of 2021.

The Fed's flexible inflation targeting policy indicates that it is likely to tolerate higher inflation for longer than it has in the past. We expect inflation to remain elevated through year end as lingering base effects and supply chain disruptions due to the Delta variant prop up reports. These impacts should fade next year, with longer-term inflation expectations remaining at the Fed's target.

Our long-term outlook for real estate investment trusts (REITs) remains constructive. Though certain asset types may be more affected long term, including urban offices and shopping malls, more resilient assets like apartments and logistics spaces may provide protection through continued volatility. Some may even benefit from shifts in macro trends, such as the strong consumer preference for online shopping. REITs' continued dividend payments will also provide investors with income in a low-rate environment.

# Investment Positioning

**Portfolio targets effective September 1, 2021, for high-net-worth clients with Hedge Funds**

## Growth & Income

| | Strategic Asset Allocation (long term) | Tactical Asset Allocation (short term) |
|---|---|---|
| **Equities** | | |
| U.S. Large-Cap | 31.5% | Overweight |
| U.S. Small-Cap | 5.5% | Overweight |
| International Developed | 16.0% | Overweight |
| Emerging Markets | 5.5% | Overweight |
| **Fixed Income** | | |
| U.S. Investment Grade–Tax-Exempt | 28.5% | Underweight |
| High-Yield–Tax-Exempt | 2.0% | Overweight |
| **Real Assets** | | |
| U.S. Inflation-Linked Bonds | 1.0% | Underweight |
| Global REITs | 1.5% | Neutral |
| Other | 1.5% | Overweight |
| **Nontraditional Hedge** | 5.0% | Underweight |
| **Cash & Equivalents** | 2.0% | Neutral |
| **Total** | 100.0% | |

Note: Totals may differ slightly from the allocation building blocks due to rounding.

**TAA**, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

**SAA**, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. Allocations presume a long-term investment horizon. Wilmington Trust's 2021 Capital Markets Forecast is available on www.WilmingtonTrust.com/cmf or upon request from your Investment Advisor. There is no assurance that any investment strategy will be successful. Investing involves risks and you may incur a profit or a loss.

For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

# Investment Positioning

**Portfolio targets effective September 1, 2021, for high-net-worth clients with Private Markets***

## Growth & Income

| | Strategic Asset Allocation (long term) | Tactical Asset Allocation (short term) |
|---|---|---|
| **Equities** | | |
| U.S. Large-Cap | 24.3% | Overweight |
| U.S. Small-Cap | 4.3% | Overweight |
| International Developed | 11.6% | Overweight |
| Emerging Markets | 4.1% | Overweight |
| **Fixed Income** | | |
| U.S. Investment Grade–Tax-Exempt | 24.7% | Underweight |
| High-Yield–Tax-Exempt | 2.0% | Overweight |
| **Real Assets** | | |
| U.S. Inflation-Linked Bonds | 0.9% | Underweight |
| Global REITs | 1.3% | Neutral |
| Other | 1.3% | Overweight |
| **Nontraditional Hedge** | 6.0% | Underweight |
| **Private Markets** | 17.5% | Neutral |
| **Cash & Equivalents** | 2.0% | Neutral |
| **Total** | 100.0% | |

Note: Totals may differ slightly from the allocation building blocks due to rounding.

**TAA**, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

**SAA**, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

* Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited.

This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. Allocations presume a long-term investment horizon. Wilmington Trust's 2021 Capital Markets Forecast is available on www.WilmingtonTrust.com/cmf or upon request from your Investment Advisor. There is no assurance that any investment strategy will be successful. Investing involves risks and you may incur a profit or a loss.

For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

# Disclosures

Wilmington Trust is a registered service mark used in connection with various fiduciary and non-fiduciary services offered by certain subsidiaries of M&T Bank Corporation including, but not limited to, Manufacturers & Traders Trust Company (M&T Bank), Wilmington Trust Company (WTC) operating in Delaware only, Wilmington Trust, N.A. (WTNA), Wilmington Trust Investment Advisors, Inc. (WTIA), Wilmington Funds Management Corporation (WFMC), and Wilmington Trust Investment Management, LLC (WTIM). Such services include trustee, custodial, agency, investment management, and other services. International corporate and institutional services are offered through M&T Bank Corporation's international subsidiaries. Loans, credit cards, retail and business deposits, and other business and personal banking services and products are offered by M&T Bank, member FDIC.

Wilmington Trust Investment Advisors, Inc., a subsidiary of M&T Bank, is an SEC-registered investment adviser providing investment management services to Wilmington Trust and M&T affiliates and clients. Registration with the SEC does not imply any level of skill or training. Additional Information about WTIA is also available on the SEC's website at https://adviserinfo.sec.gov/.

Brokerage services, mutual funds services and other securities are offered by M&T Securities, Inc., a registered broker/dealer, wholly owned subsidiary of M&T Bank, and member of the FINRA and SIPC. Wilmington Funds are entities separate and apart from Wilmington Trust, M&T Bank, and M&T Securities.

These materials are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of Wilmington Trust or M&T Bank who may provide or seek to provide financial services to entities referred to in this report. As a result, M&T Bank and Wilmington Trust do not disclose certain client relationships with, or compensation received from, such entities in their reports.

The information in Capital Perspectives has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. The opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. This commentary is for information purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or as a recommendation or determination that any investment strategy is suitable for a specific investor. Investors should seek financial advice regarding the suitability of any investment strategy based on the investor's objectives, financial situation, and particular needs. The investments or investment strategies discussed herein may not be suitable for every investor. Diversification does not ensure a profit or guarantee against a loss. There is no assurance that any investment strategy will succeed.

**Any investment products discussed in this commentary are not insured by the FDIC or any other governmental agency, are not deposits of or other obligations of or guaranteed by M&T Bank, Wilmington Trust, or any other bank or entity, and are subject to risks, including a possible loss of the principal amount invested.**

Some investment products may be available only to certain "qualified investors"—that is, investors who meet certain income and/or investable assets thresholds.

Alternative assets, such as strategies that invest in hedge funds, can present greater risk and are not suitable for all investors.

Any positioning information provided does not include all positions that were taken in client accounts and may not be representative of current positioning. It should not be assumed that the positions described are or will be profitable or that positions taken in the future will be profitable or will equal the performance of those described.

Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs that will reduce returns.

**An overview of our asset allocation strategies:**
Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

**Allocations:**
Each strategy is constructed with target weights for each asset class. Wilmington Trust periodically adjusts the target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are: large–cap U.S. stocks: Russell 1000® Index; small–cap U.S. stocks: Russell 2000® Index; developed international stocks: MSCI EAFE® (Net) Index; emerging market stocks: MSCI Emerging Markets Index; U.S. inflation-linked bonds: Bloomberg/Barclays US Government ILB Index; international inflation-linked bonds: Bloomberg/Barclays World exUS ILB (Hedged) Index; commodity-related securities: Bloomberg Commodity Index; U.S. REITs: S&P US REIT Index; international REITs: Dow Jones Global exUS Select RESI Index; private markets: S&P Listed Private Equity Index; hedge funds: HFRI Fund of Funds Composite Index; U.S. taxable, investment-grade bonds: Bloomberg/Barclays U.S. Aggregate Index; U.S. high-yield corporate bonds: Bloomberg/Barclays U.S. Corporate High Yield Index; U.S. municipal, investment-grade bonds: S&P Municipal Bond Index; U.S. municipal high-yield bonds: Bloomberg/Barclays 60% High Yield Municipal Bond Index / 40% Municipal Bond Index; international taxable, investment-grade bonds: Bloomberg/Barclays Global Aggregate exUS; emerging bond markets: Bloomberg/Barclays EM USD Aggregate; and cash equivalents: 30-day U.S. Treasury bill rate.

Continued

**All investments carry some degree of risk.** Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

**Quality ratings** are used to evaluate the likelihood of default by a bond issuer. Independent rating agencies, such as Moody's Investors Service and Standard & Poors, analyze the financial strength of each bond's issuer. Ratings range from Aaa or AAA (highest quality) to C or D (lowest quality). Bonds rated Baa3 or BBB and better are considered **Investment Grade.** Bonds rated Ba1 or BB and below are **Speculative Grade** (also **High Yield**.)

**Paragon**

Paragon® is a portfolio analysis, risk assessment, and goal optimization tool. The Paragon report uses hypothetical examples in conjunction with forecasts for inflation, economic growth, and asset class returns, volatility, and correlation and provides you with general financial planning information and to serve as one tool in helping you develop a strategy for pursuing your financial goals. It is not intended to provide specific legal, investment, accounting, tax or other professional advice. For specific advice on these aspects of your investments, you should consult your professional advisors.

**Gold**

The gold industry can be significantly affected by international monetary and political developments as well as supply and demand for gold and operational costs associated with mining.

**Definitions:**

**Alpha** is a measure of performance on a risk-adjusted basis. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

**The BBG Commodity TR USD index** measures the performance of future contracts on physical commodities which traded on US exchanges and London Metal Exchange. The commodity weightings are based on production and liquidity, subject to weighting restrictions applied annually.

**The Bloomberg Barclays US Credit Index** measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

**The Bloomberg Barclays US Treasury US TIPS TR USD index** measures the performance of rules-based, market value-weighted inflation-protected securities issued by the U.S. Treasury. It is a subset of the Bloomberg US Treasury Inflation-Linked Bond Index (Series-L), which measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

**Duration risk** is the risk associated with the sensitivity of a bond's price to a one percent change in interest rates. The higher a bond's duration, the greater its sensitivity to interest rates changes.

**Equity risk premium** is the extra return that's available to equity investors above the return they could get by investing in a riskless investment like T-Bills or T-Bonds or cash.

**Event-driven hedge fund strategies** attempt to take advantage of temporary stock mispricing before or after a corporate event takes place. An event-driven strategy exploits the tendency of a company's stock price to suffer during a period of change.

**Global intangible low-taxed income (GILTI)** is a category of income that is earned abroad by U.S.-controlled foreign corporations (CFCs) and is subject to special treatment under the U.S. tax code.

**HFR® (HedgeFundResearch) Indices** are the established global leader in the indexation, analysis and research of the hedge fund industry.

**LIBOR** is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

**Macro hedge fund strategies** generally focus on financial instruments that are broad in scope and move based on systemic or market risk (not security specific). In general, portfolio managers who trade within the context of macro strategies focus on currency strategies, interest rates strategies, and stock index strategies.

**MSCI AC Asia ex Japan Index** captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and nine emerging markets countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI All Country World Index** (ACWI) is a stock index designed to track broad global equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index comprises the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

**MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes large-cap A and mid-cap A shares represented at 20% of their free float adjusted market capitalization.

**MSCI EAFE Index** is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI EAFE Growth Index** captures large- and mid-cap securities exhibiting overall growth style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

**MSCI EAFE Value Index** captures large- and mid-cap securities exhibiting overall value style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

**MSCI Emerging Markets Index** captures large- and mid-cap representation across 26 emerging markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI Europe Index** captures large- and mid-cap representation across 15 developed markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European DM equity universe.

Continued

# **Disclosures** Continued

**MSCI Japan Index** is designed to measure the performance of the large- and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

**MSCI United Kingdom Index** is designed to measure the performance of the large- and mid-cap segments of the UK market. The index covers approximately 85% of the free float-adjusted market capitalization in the UK.

**Relative value hedge fund strategies** cover a variety of low-volatility trading strategies with the consistent theme of attempting to reduce market risk, i.e., the manager seeks to generate a profit regardless of which direction the markets are moving. All relative value strategies minimize market risk by taking offsetting long and short positions in related stocks, bonds, and other types of securities.

**The S&P Developed Property index** defines and measures the investable universe of publicly traded property companies domiciled in developed markets. The companies in the index are engaged in real estate related activities, such as property ownership, management, development, rental and investment.

**S&P 500 index** measures the stock performance of 500 large companies listed on stock exchanges in the U.S. and is one of the most commonly followed equity indices.

**Stagflation** is persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

**Limitations on use:**
This publication is intended to provide general information only and is not intended to provide specific investment, legal, tax, or accounting advice for any individual. Although information contained herein was prepared from sources believed to be reliable, Before acting on any information included in this publication you should consult with your professional advisor or attorney.

Third-party trademarks and brands are the property of their respective owners.

CFA® Institute marks are trademarks owned by the Chartered Financial Analyst® Institute.

Reference to the company names mentioned in this presentation is merely for explaining the market view and should not be construed as investment advice or investment recommendations of those companies.