2021 ECONOMIC OUTLOOK AND FINANCIAL MARKET UPDATE

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Scott Colbert, CFA
Executive Vice President
Director of Fixed Income & Chief Economist
scott.colbert@commercebank.com

THE ECONOMY TODAY – A SHARP REBOUND SLOWS

GROWTH

Last year's acute recession bottomed over a year ago and US GDP is now well above its pre-pandemic level. Massive fiscal stimulus, zero percent monetary policy, a reasonably positive vaccine rollout and a potential infrastructure package will continue to drive our recovery forward. We have however lowered our projected to 7.0% for all of 2021, given the rebound in new Coronavirus cases and the ongoing global supply chain disruptions that have yet to clear. Third quarter growth will likely be above 7%, up from the first half of the year's 6.4% to 6.5% pace.

JOBS

Unemployment peaked a year ago at a post depression high of 14.7% and has quickly fallen to 5.4% in July. While employment is rebounding strongly, there are still approximately 6 million fewer employed today than were prior to the pandemic. Fortunately, the unemployment rate should continue to decline with job openings as measured by the JOLTS, NFIB and Manpower survey at record levels. Help wanted is this recovery's mantra and will be the driving force that transitions our current stimulus led/cyclical re-opening growth towards a longer term self-sustaining economic recovery along with continued progress on the vaccination front.

INTEREST RATES

Monetary policy remains in hyperdrive, but strong growth and rising asset prices have pulled the potential for an unwind to quantitative easing and an eventual boost to short term interest rates forward a bit. In addition, the financial markets remain wide open and bond credit spreads are approaching all time lows. While interest rates have fallen somewhat from this year's March highs, a further reduction in the "output gap", and a leveling off of inflation at an unexpectedly high level (June and July CPI of 5.4% year over year) will likely continue to put pressure on rates and hurt bond market returns. We think investors should have shorter maturities and more credit exposure (higher yields) than typical.

MARKETS

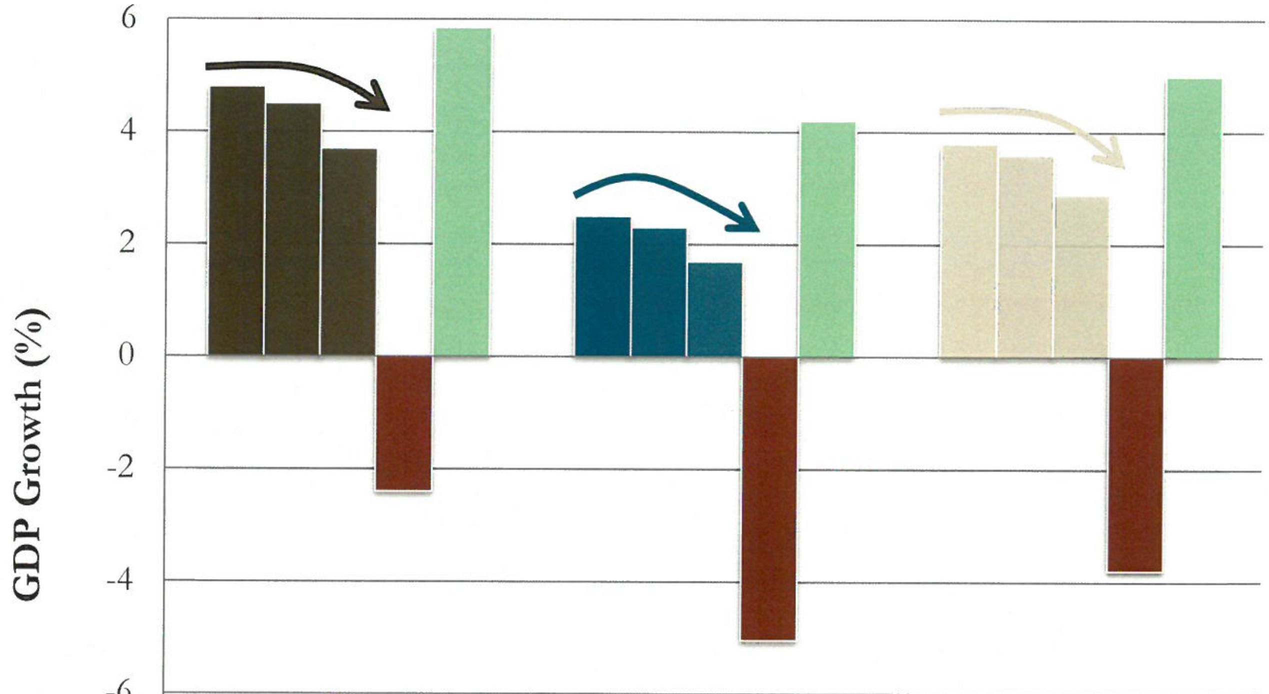
Despite the sharp 34% plunge in the S&P 500 early last year (exactly the average historic loss during a recession), the S&P 500 finished up 18% in 2020. This year it has added another 18% through July. Oddly, it's been a tale of two markets. First quarter results were cyclically driven as the markets broadened and rotated from mega cap tech stocks toward value stocks and smaller companies. Surprisingly, this trend reversed sharply in the second quarter as FANG names drove the averages higher as the outlook for growth cooled just a bit. Given this on again/off again rotation in equity style, we are evenly weighted between growth and value. International markets are also up and but still lag US returns, while negative China returns have held emerging market down. We remain underweight international assets but are actively looking for pockets of value overseas.

OUTLOOK

After this year's surge in stock prices, we have reduced equity exposure back to our normal targets. We also remain underweight investment grade bonds while recommending some high yield exposure. The underweight in the bond allocation has been directed toward cash and alternative assets, primarily hedged equity strategies. We continue to emphasize mid cap stocks and remain one third underweight international markets. With earnings still growing, we remain fully committed to risk-based assets, although most models suggest domestic stock markets are extended, expensive and do for a consolidation. While we expect some pause in this upward equity trend, we find it extremely difficult to recommend adding to bond positions that would lock in negative real interest rates for investors with longer term horizons.

Source: Commerce Trust Company

GLOBAL GROWTH COLLAPSED LAST YEAR
(AND IS REBOUNDING MUCH QUICKER THAN EXPECTED)

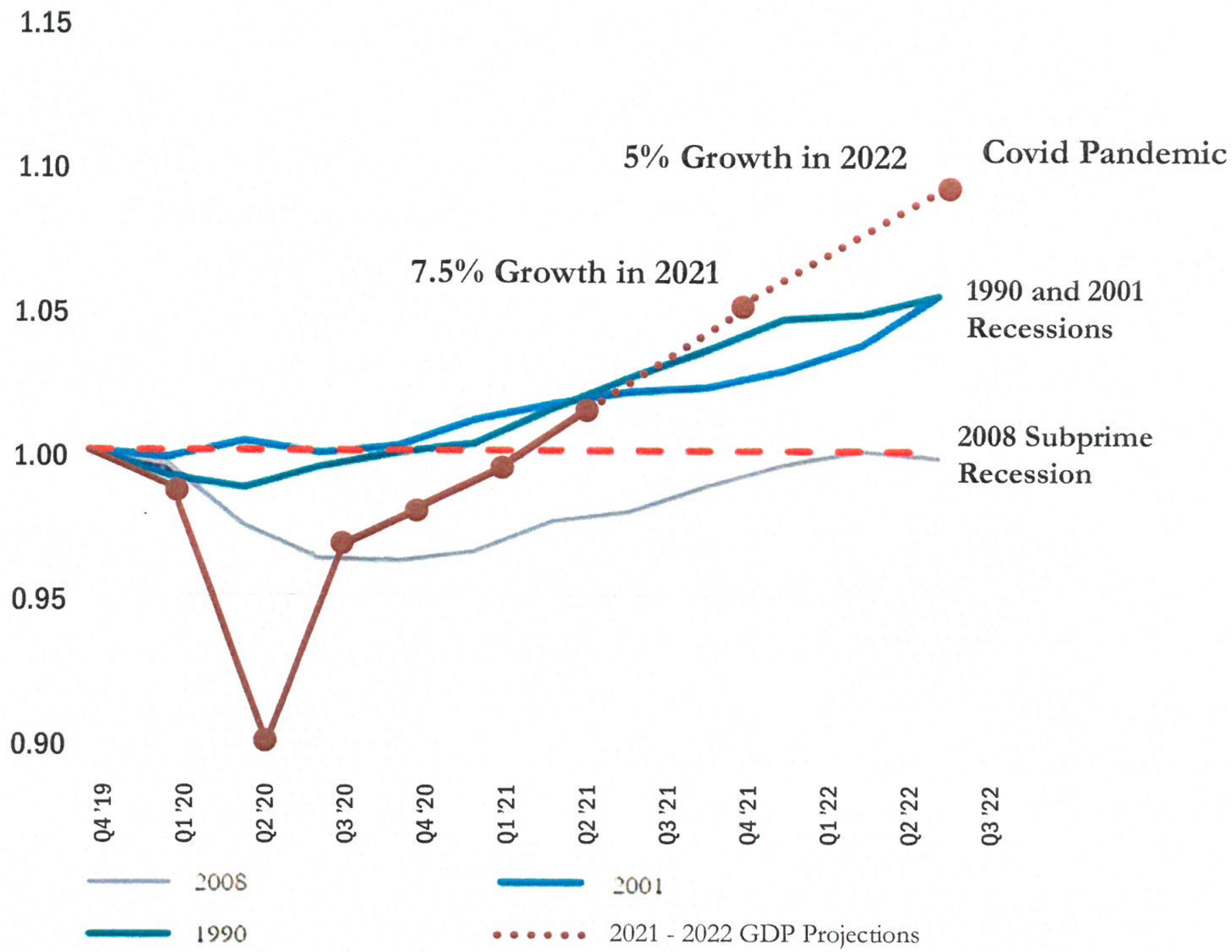


	Emerging Market/Developing Economies	Advanced Economies	World
2017	4.8	2.5	3.8
2018	4.5	2.3	3.6
2019	3.7	1.7	2.9
2020	-2.4	-5.1	-3.8
2021* (P)	5.9	4.2	5.0

Source: International Monetary Fund, World Bank

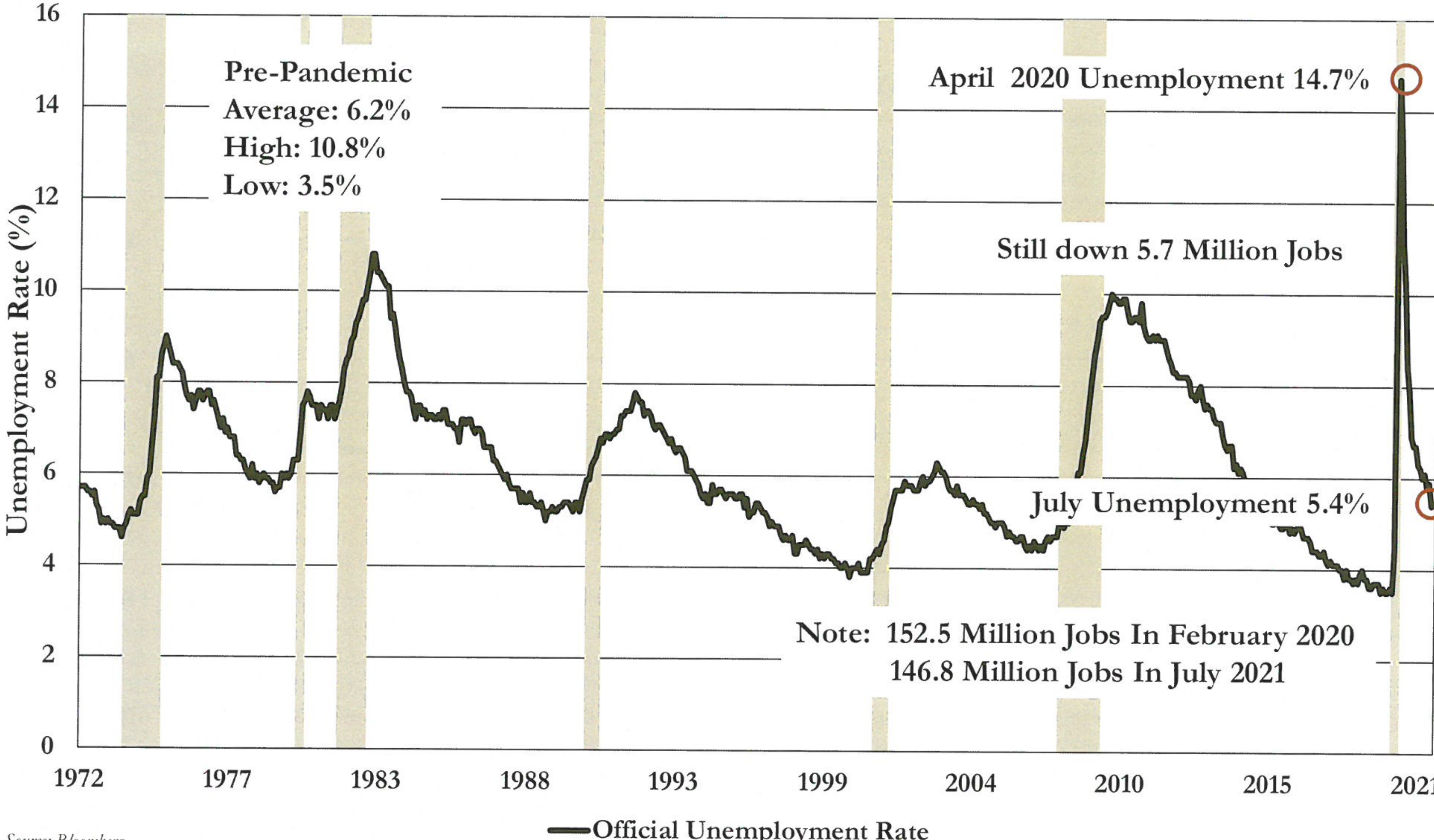
**Projections based on average of both sources*

U.S. GDP PLUNGED, BUT WILL RECOVER MORE QUICKLY THAN ANTICIPATED (MUCH FASTER THAN THE LAST THREE RECESSIONS)



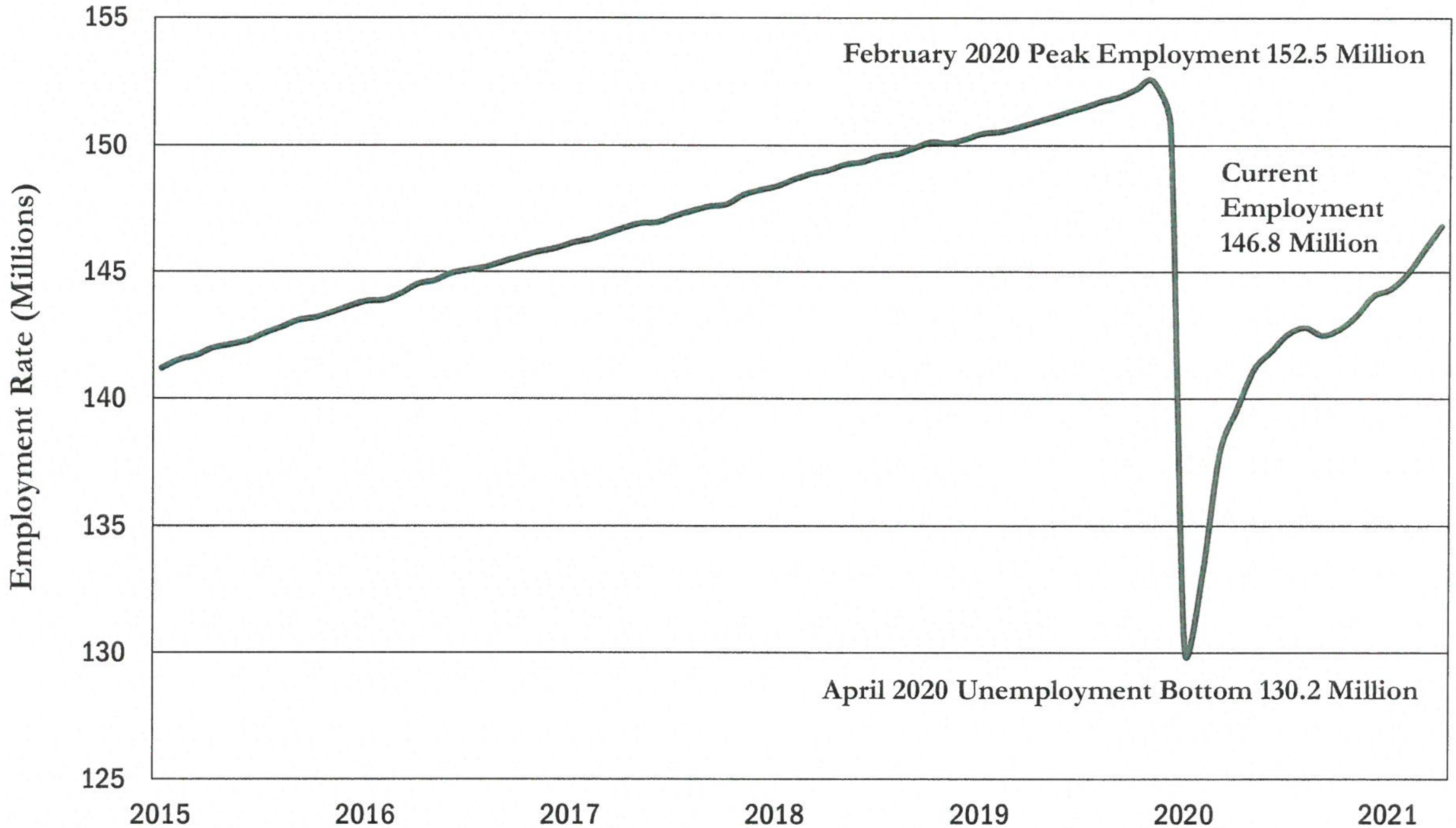
Source: Citi Research, Commerce Trust Company

OFFICIAL UNEMPLOYMENT RATE



Source: Bloomberg

TOTAL NON-FARM EMPLOYMENT
(LARGE GAP TO FILL)



Source: Bloomberg

FED & GOVERNMENT STIMULUS

(PLUS $2.8 TRILLION THIS YEAR AND PROBABLE JOBS ACT)

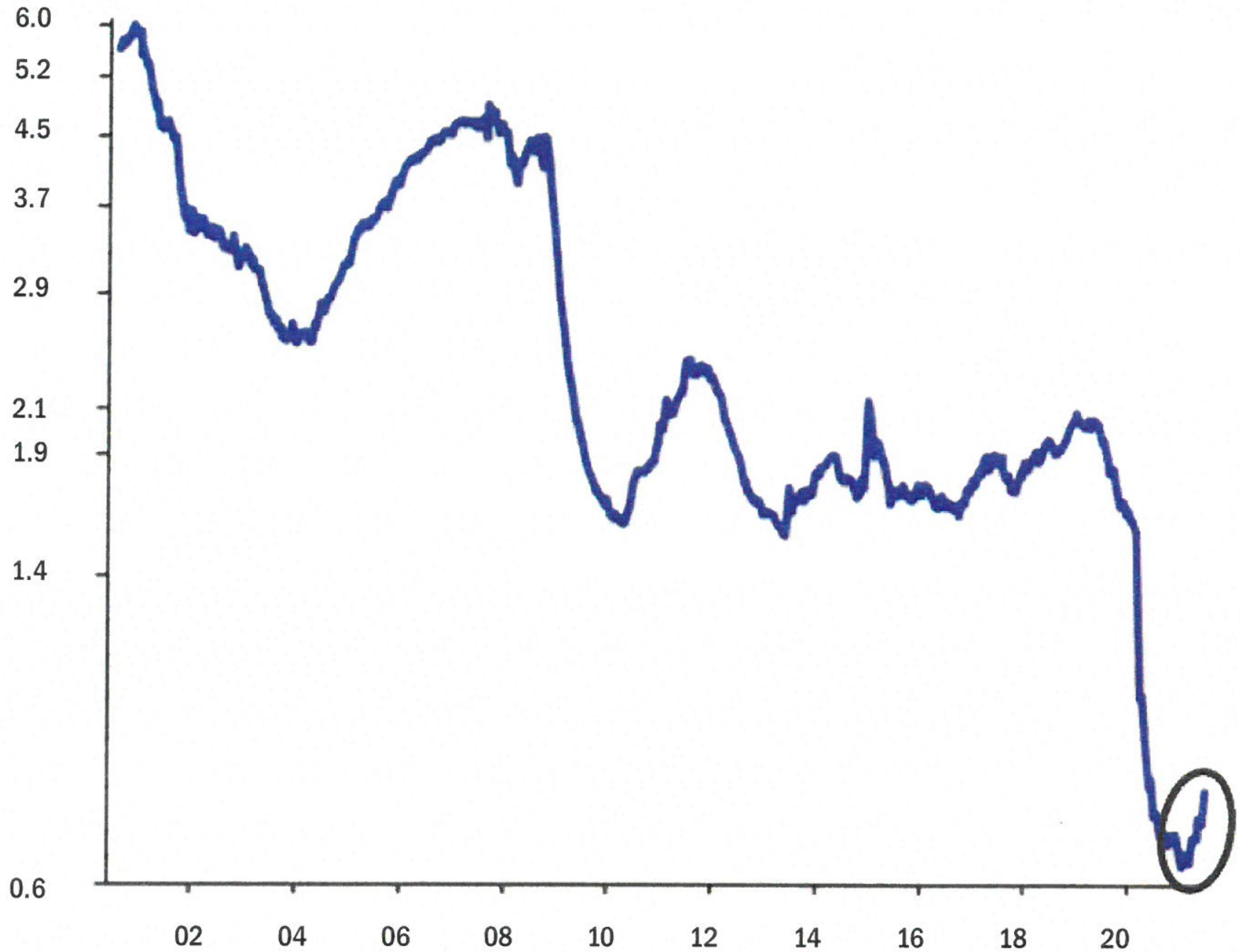
GLOBAL MONETARY AND FISCAL STIMULUS TO FIGHT COVID-19 IMPACT FEB – DEC 2020

	CENTRAL BANK LIQUIDITY INJECTION		GOVT FISCAL STIMULUS		CENTRAL BANK LIQUIDITY INJECTION AND GOVT FISCAL STIMULUS	
	$ Tln	% GDP	$ Tln	% GDP	$ Tln	% GDP
U.S.	$6.21	29.0%	$3.30	15.4%	$9.51	44.4%
Eurozone	$1.78	13.3%	$4.02	30.2%	$5.80	43.6%
Japan	$1.03	20.0%	$2.08	40.3%	$3.11	60.3%
U.K.	$0.37	13.6%	$0.23	8.3%	$0.60	21.8%
China	$1.33	9.3%	$1.22	8.4%	$2.54	17.7%
Others*	$0.68		$2.38		$3.05	
TOTAL	**$11.39**	**13.2%**	**$13.23**	**15.3%**	**$24.62**	**28.4%**

* Incl RoW and ADB, IMF, WB

Source: Cornerstone Macro

GLOBAL SHORT RATES – COLLAPSED AND BOTTOMED

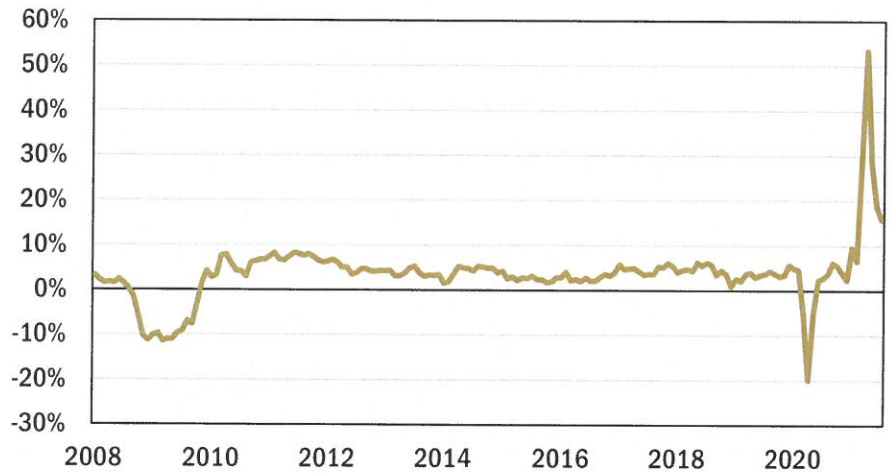


GLOBAL SHORT RATES	
MAR. 16:	1.12%
APR. 17:	0.93%
MAY 18:	0.84%
JUNE 18:	0.75%
AUG. 20:	0.68%
SEP. 21:	0.67%
NOV. 6:	0.68%
DEC. 3:	0.69%
JAN. 14:	0.63%
FEB 18:	0.64%
MAR 25:	0.68%
MAY 19:	0.71%
JUN 25:	0.77%

Source: Evercore ISI

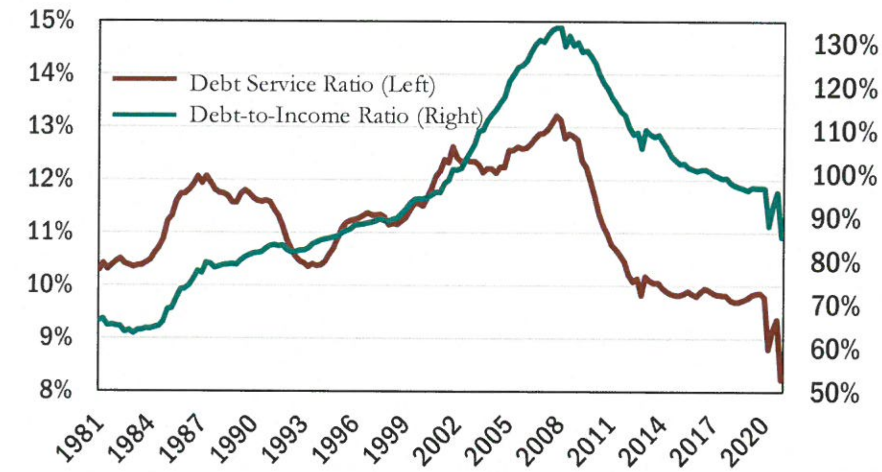
CONSUMER – BETTER SHAPE THAN YOU KNOW

RETAIL SALES (YOY%)

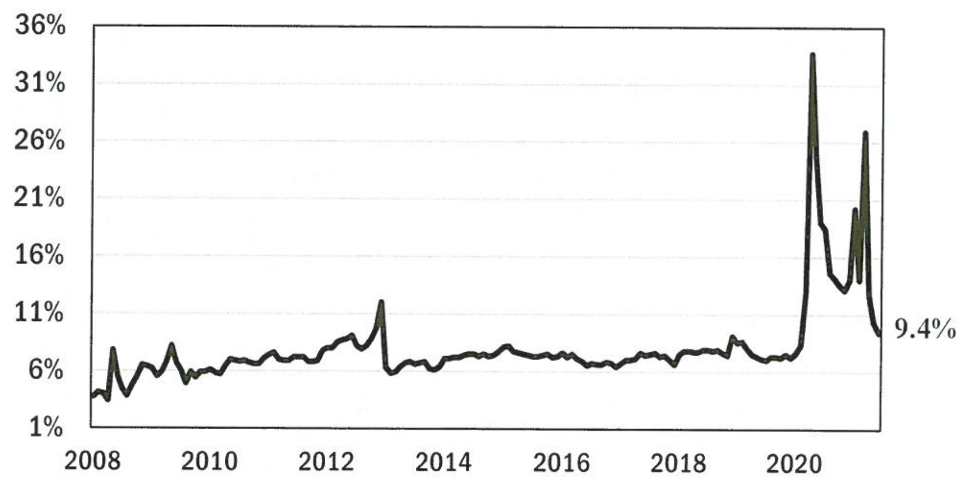


CONSUMER CONFIDENCE

CONSUMER BALANCE SHEETS

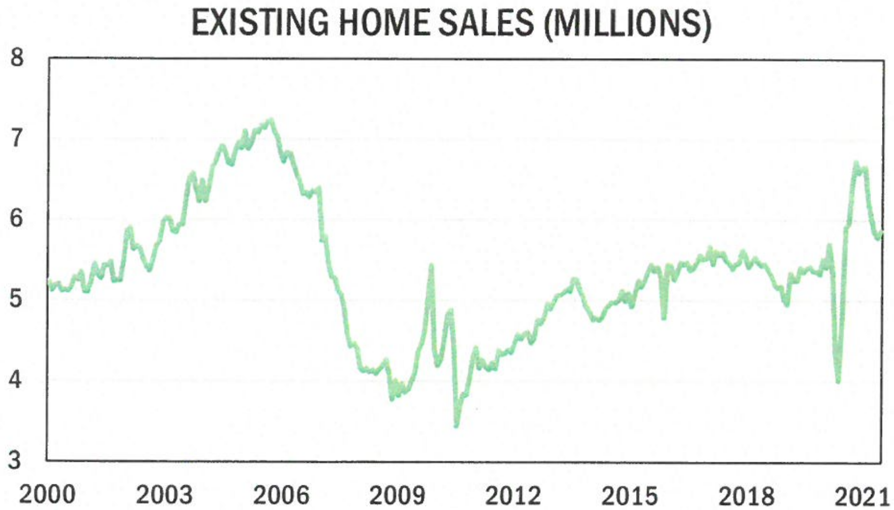


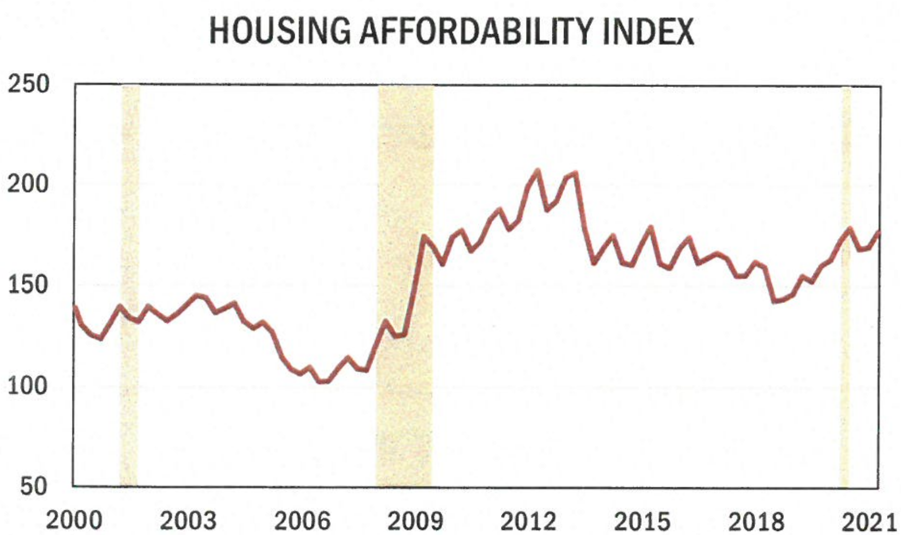
HOUSEHOLD SAVINGS

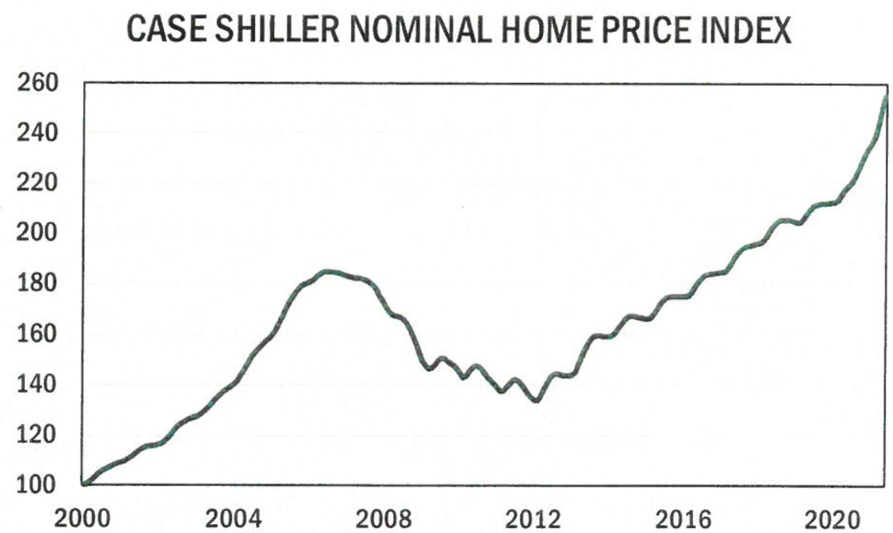


Source: Bloomberg FRB, BEA, Goldman Sachs Global Investment Research, Baird

HOUSING MARKET EXCEPTIONALLY STRONG



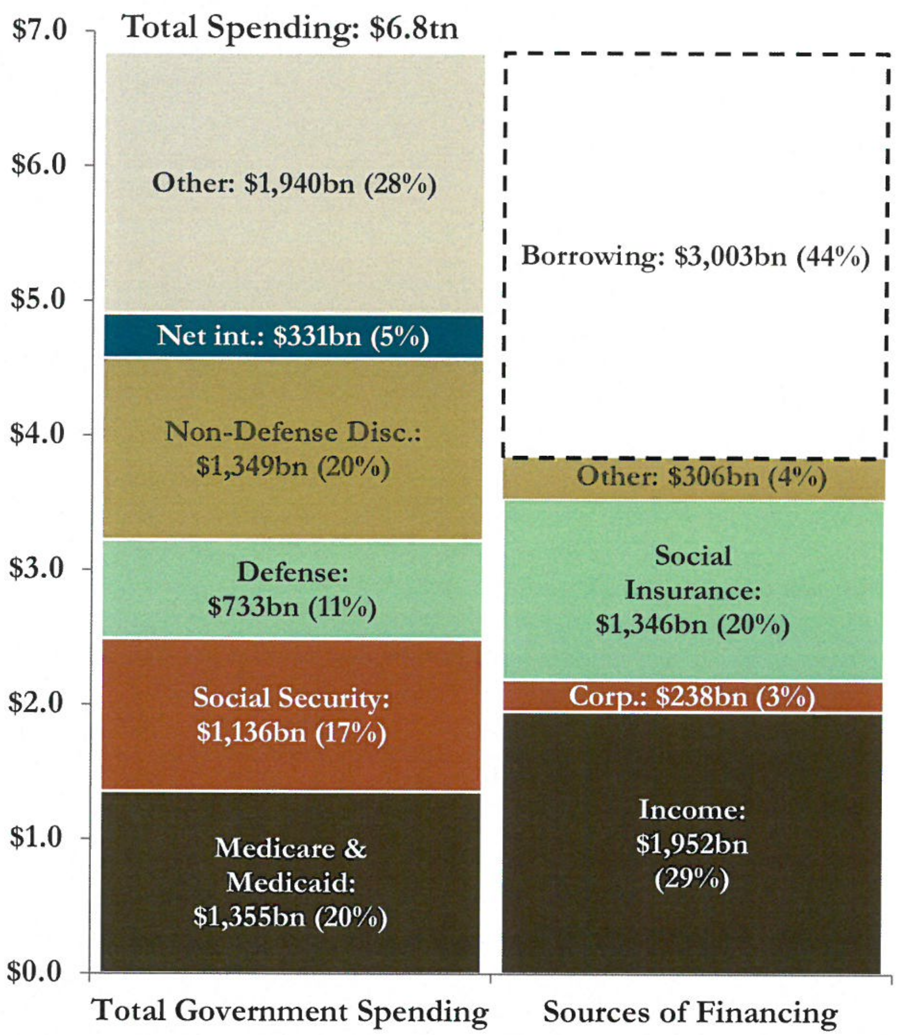




Source: Bloomberg, Baird

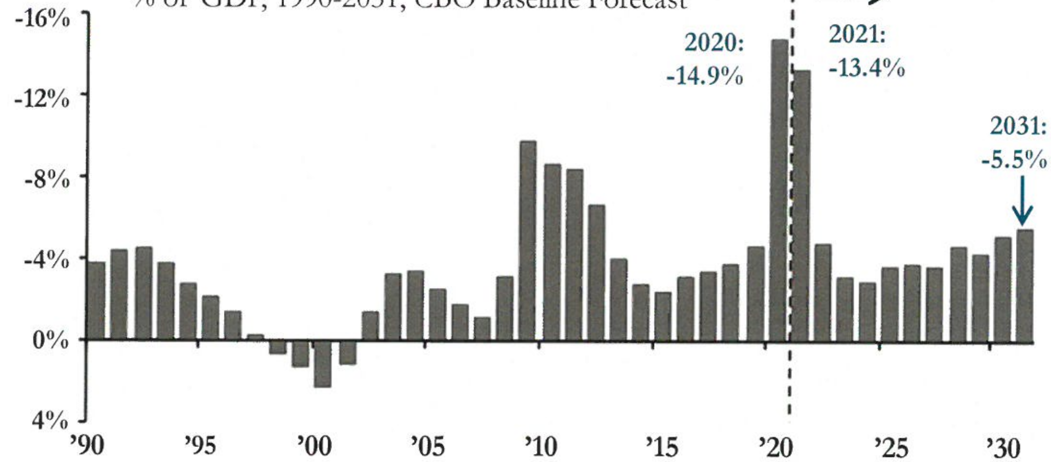
LIMITATIONS ON FISCAL POLICY

The 2021 Federal Budget, CBO Baseline Forecast, USD Trillions



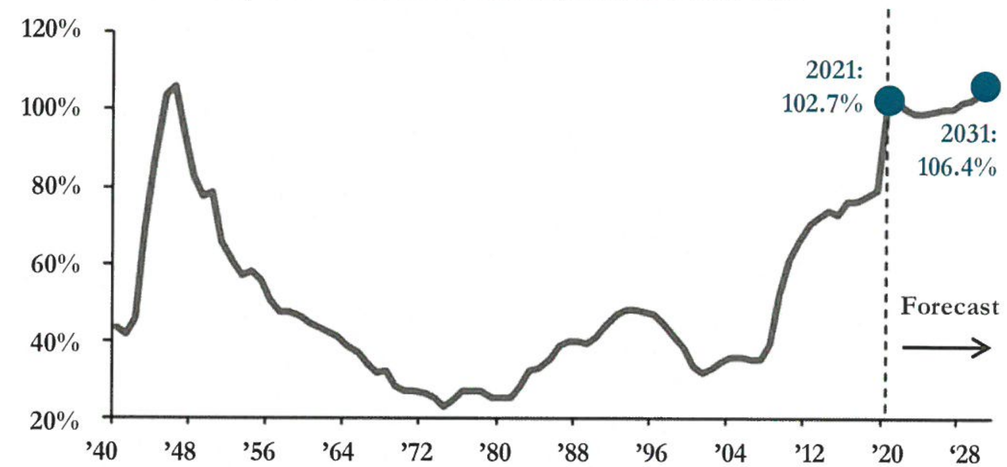
Federal Budget Surplus/Deficit

% of GDP, 1990-2031, CBO Baseline Forecast



Federal Net Debt (accumulated deficits)

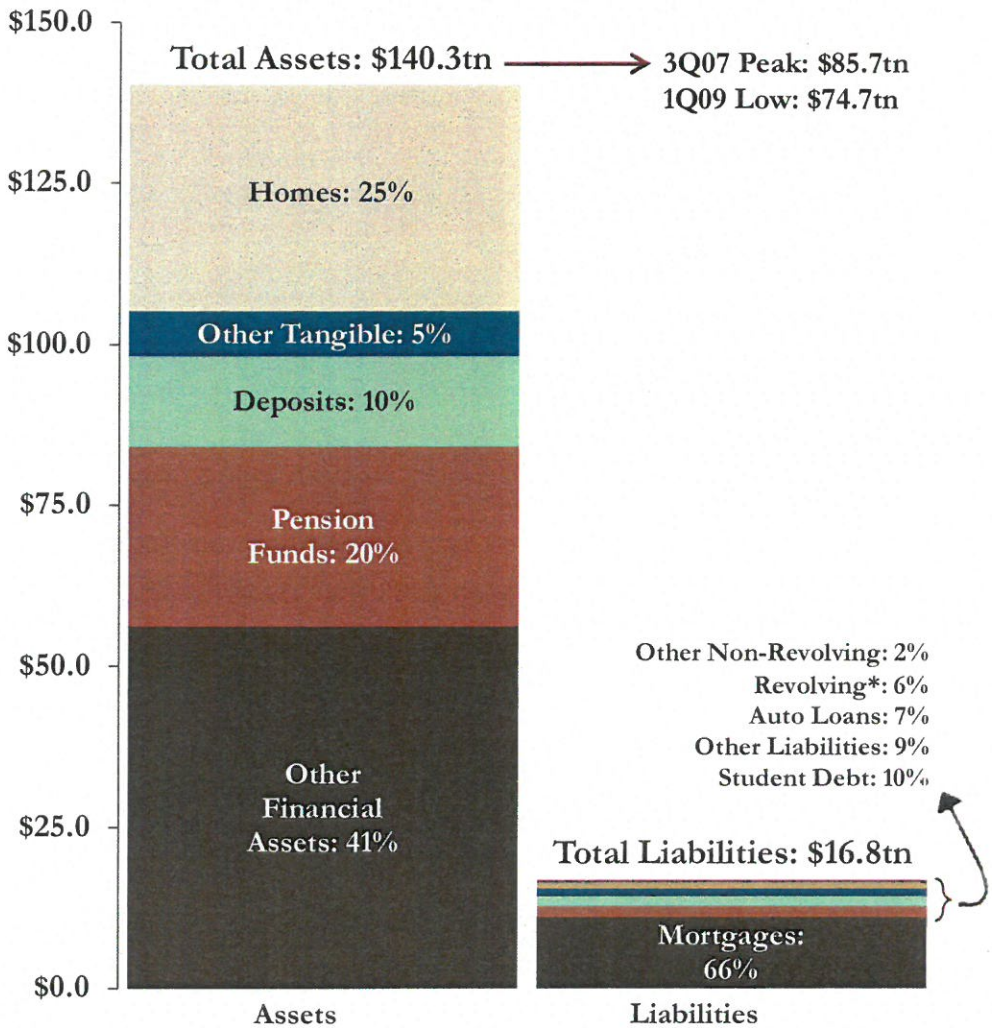
% of GDP, 1940-2031, CBO Baseline, End of Fiscal Year



Source: JP Morgan, CBO, BEA, Treasury Dept

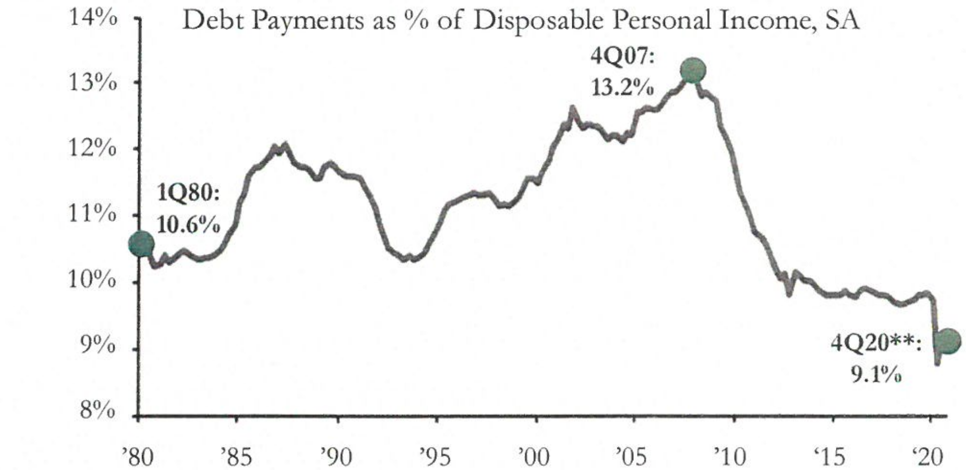
CONSUMER FINANCES – POSITIVE WEALTH EFFECT

3Q20, Trillions of Dollars Outstanding, Not Seasonally Adjusted

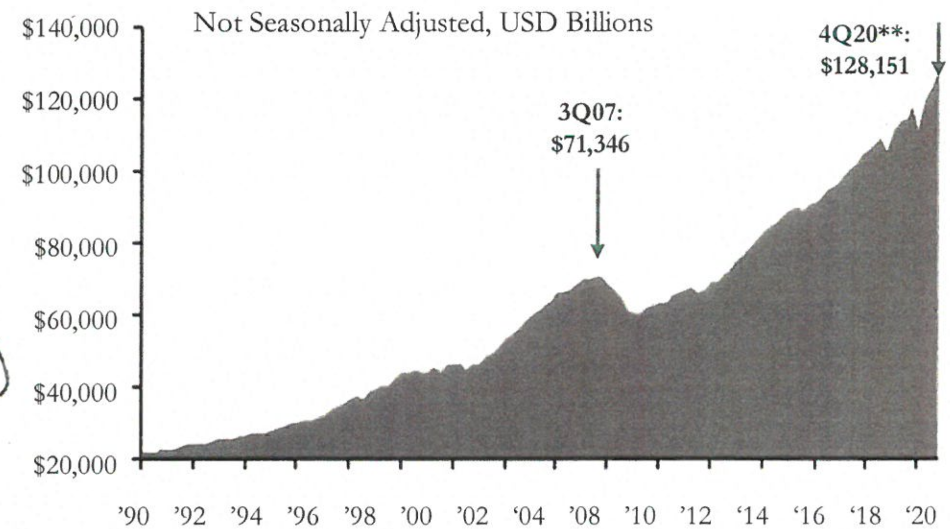


Source: JP Morgan, BEA
**Revolving includes credit cards*

Household Debt Service Ratio

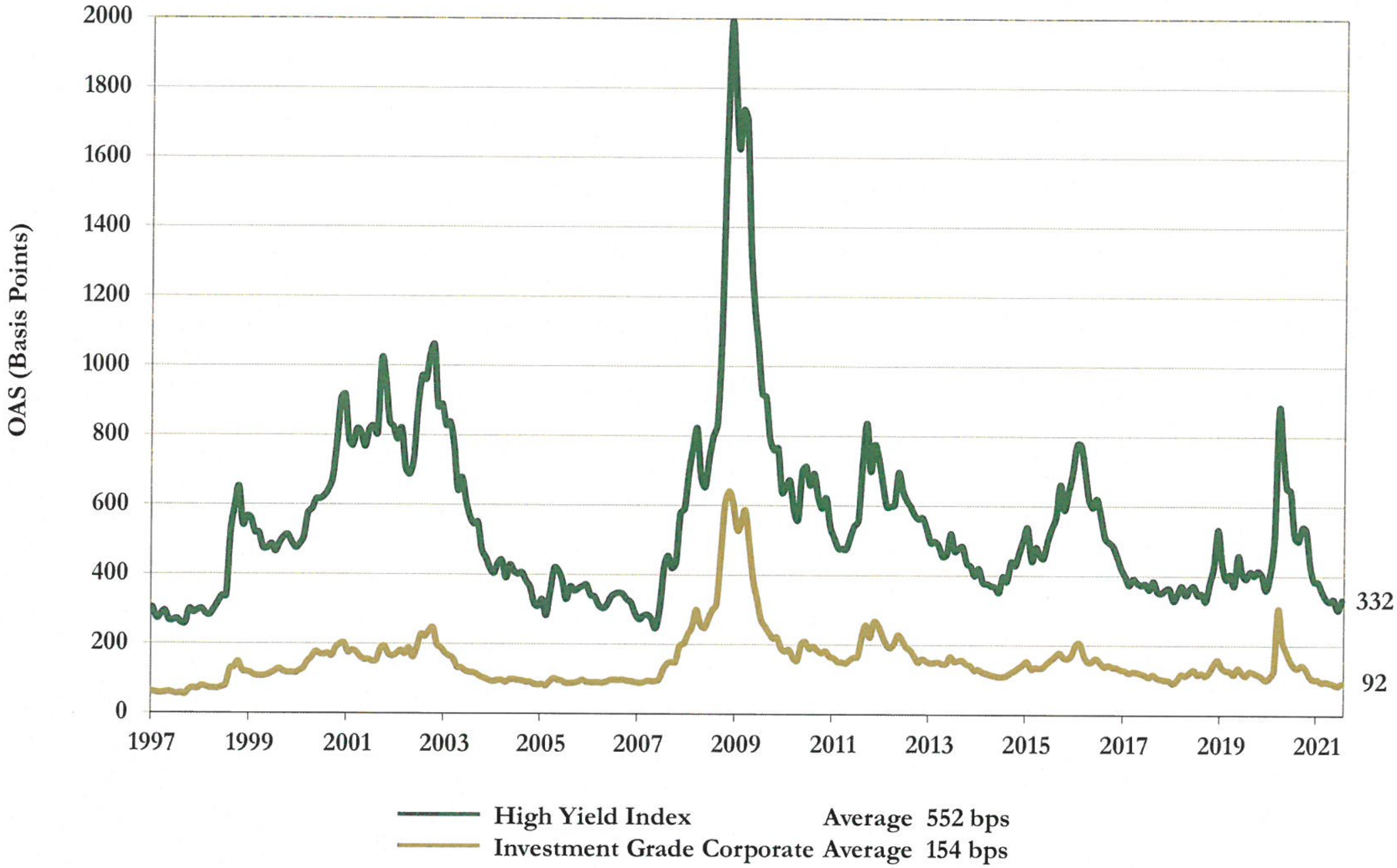


Household Net Worth



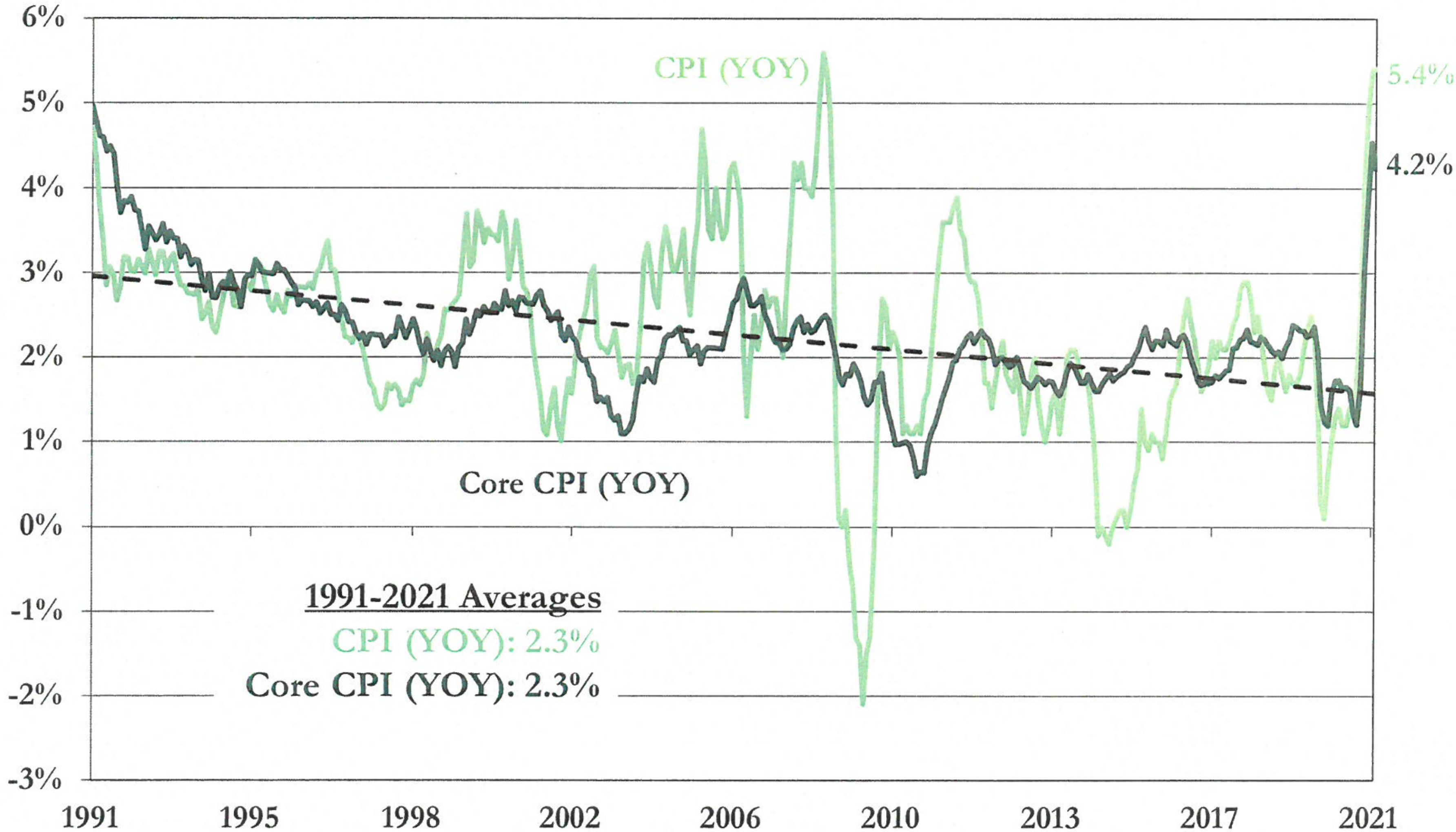
***4Q20 figures for debt service ratio and household net worth are J.P. Morgan Asset Management estimates.*

CORPORATE CREDIT SPREADS – *1/31/97 through 07/31/21*



Source: BBG Barclays, ICE BofA ML

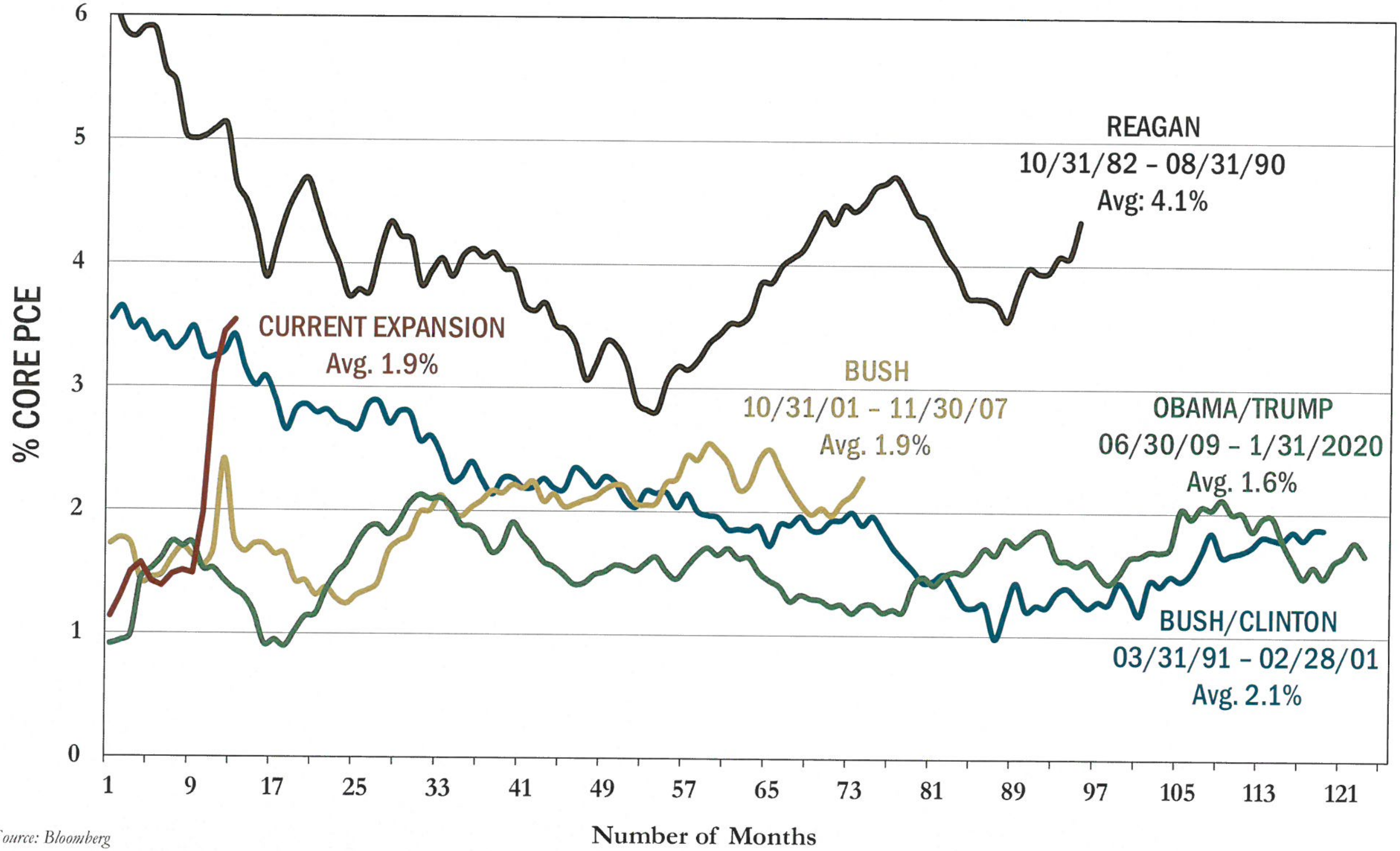
INFLATION – AGGRESSIVELY TURNING UP



Source: Bloomberg

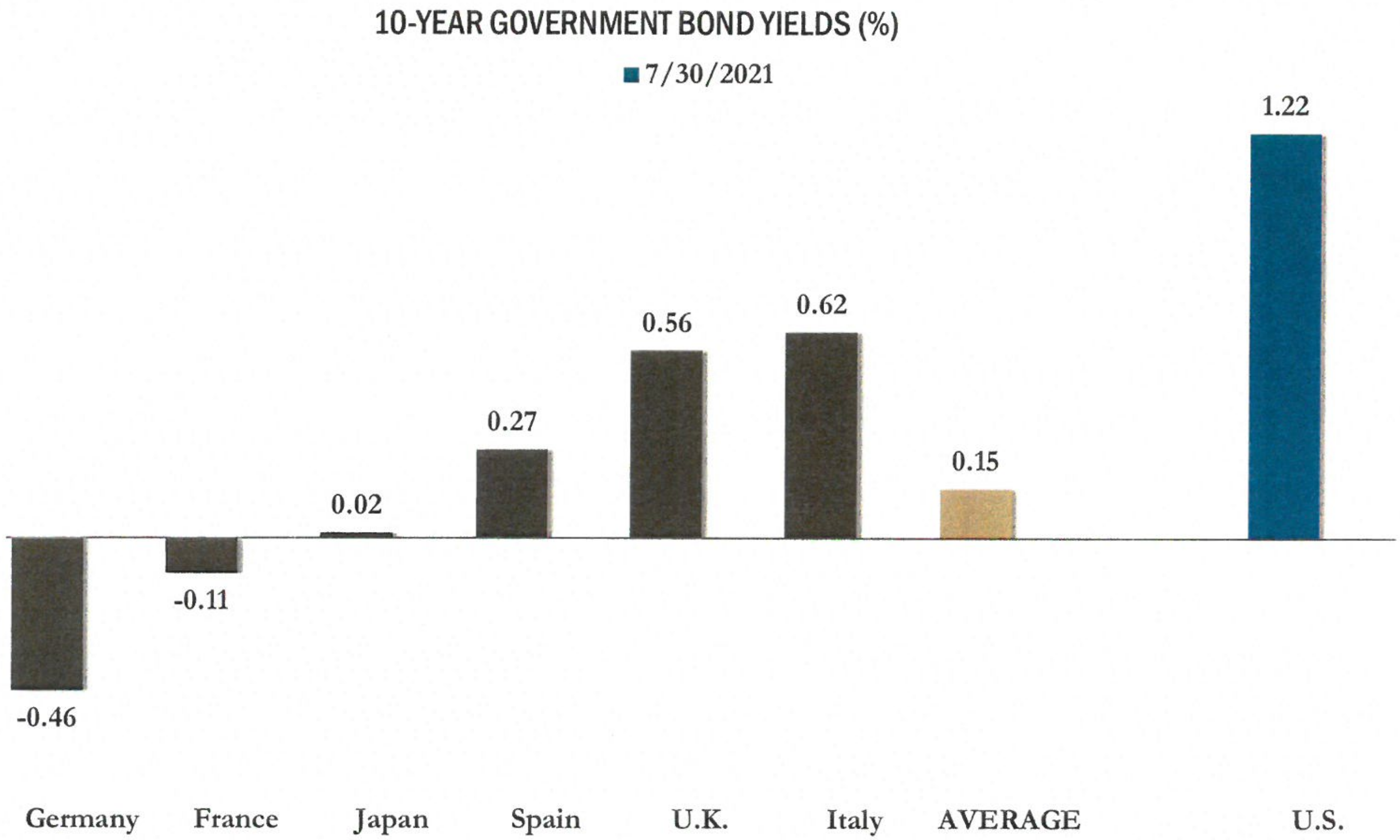
INFLATION HAS FALLEN PER EXPANSION

(NOT THIS TIME)



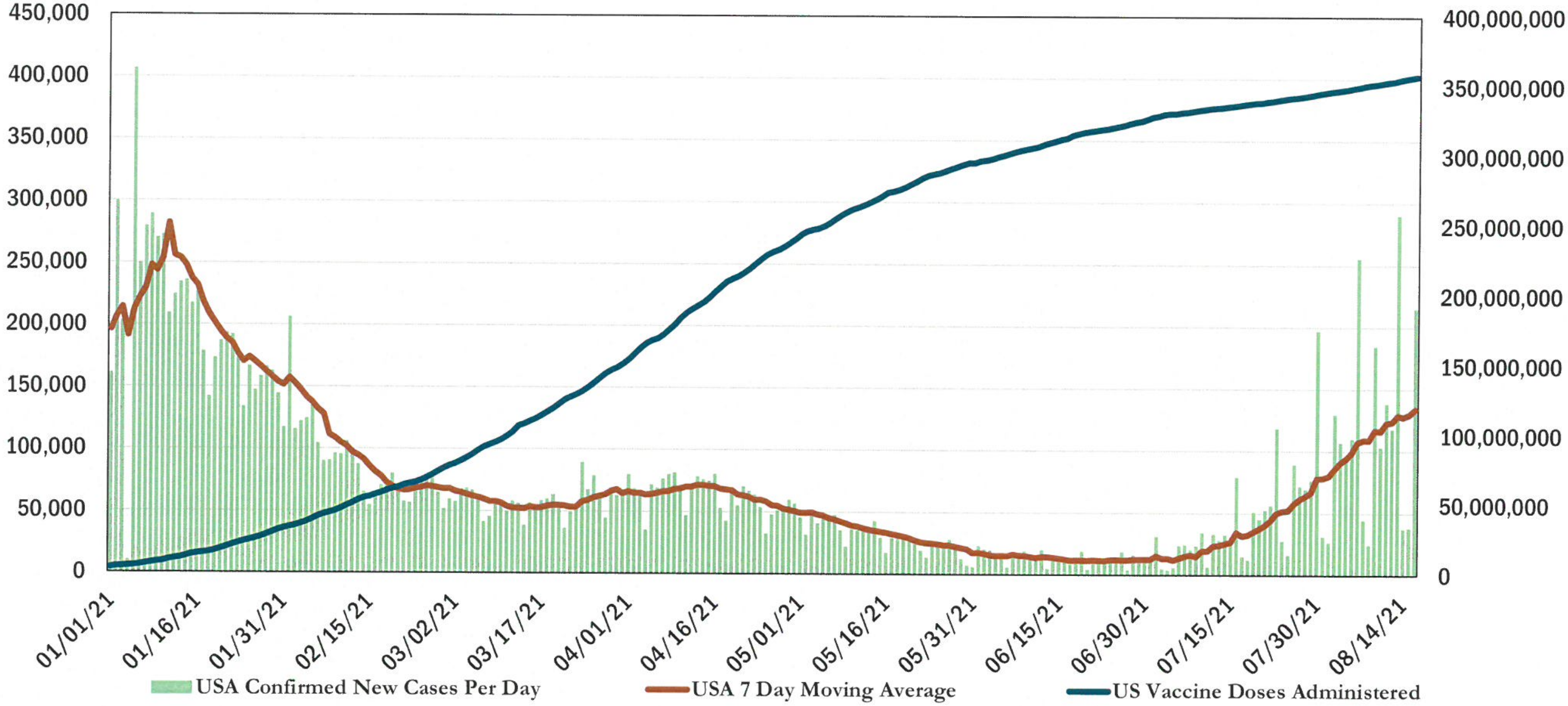
Source: Bloomberg

YOU THINK OUR INTEREST RATES ARE LOW?



Source: Bloomberg; Federal Reserve, ECB, Bank of Japan; Bank of England; Barclays Capital; Yardeni Research

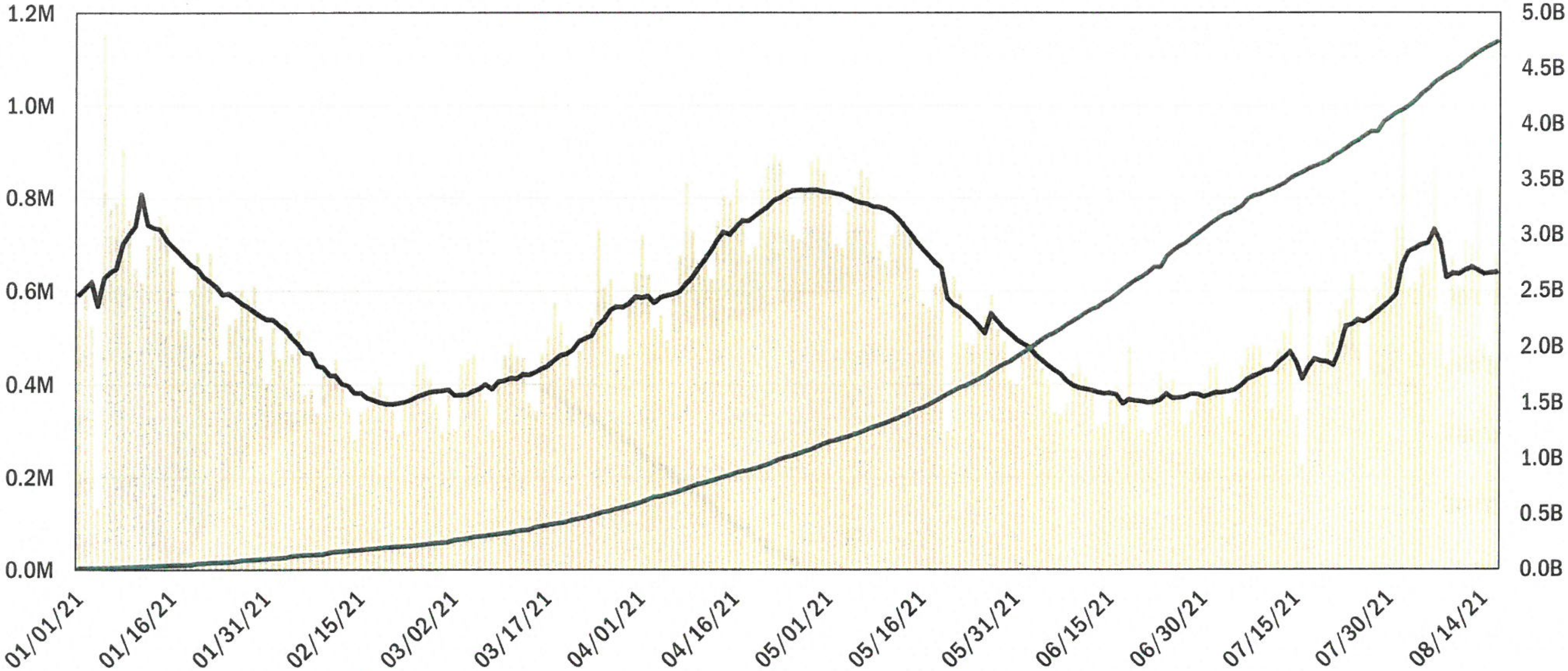
U.S. CORONAVIRUS VS. VACCINES



COVID-19 U.S. VACCINE STATS	
Weekly Average U.S. Doses Per Day	768,951

Source: Bloomberg

GLOBAL CORONAVIRUS VS. VACCINES

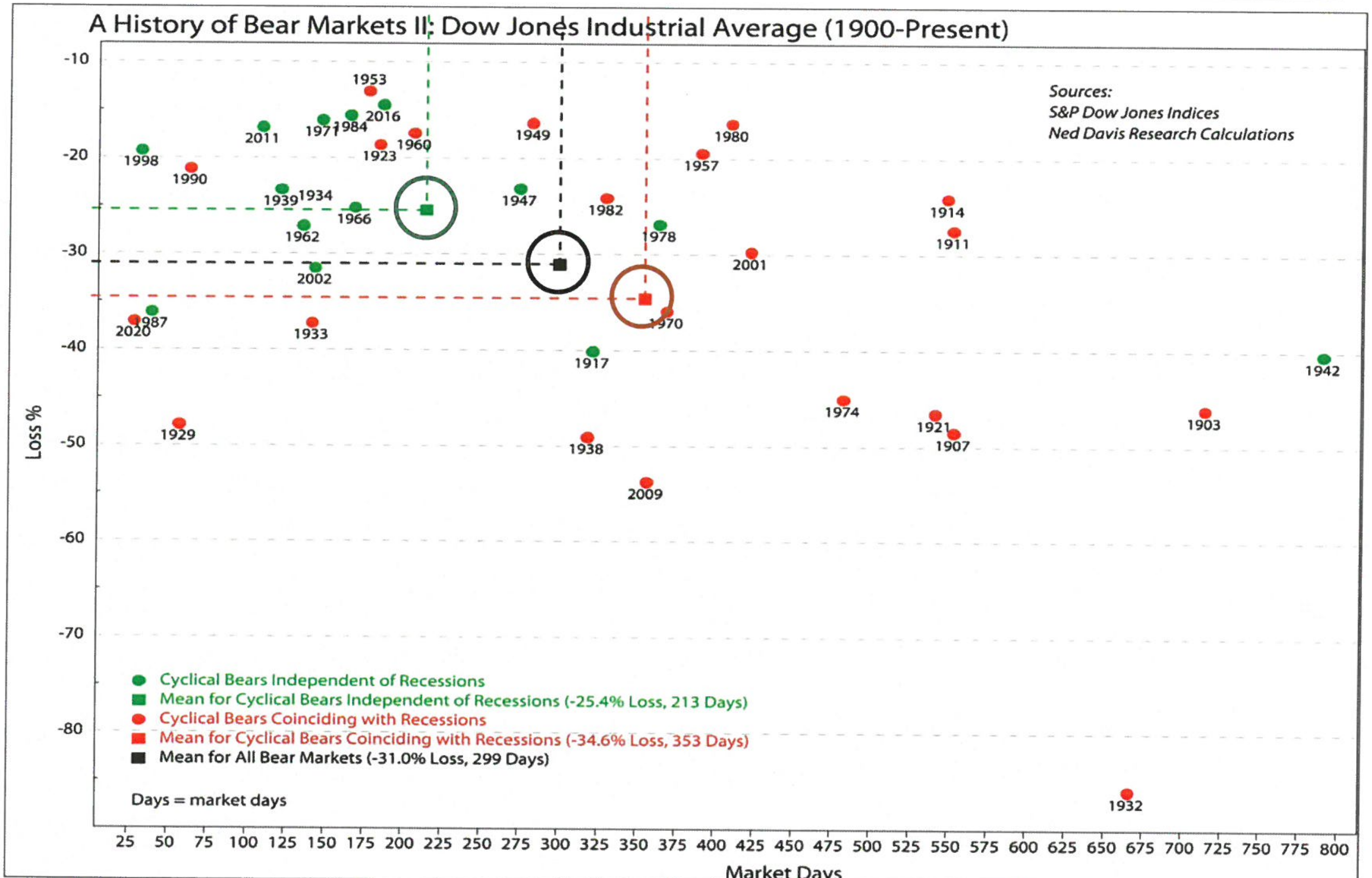


COVID-19 GLOBAL VACCINE STATS	
Weekly Average Global Doses Per Day	37,000,000

Source: Bloomberg

A HISTORY OF BEAR MARKETS

DOW JONES INDUSTRIAL AVERAGE (1900 – PRESENT)



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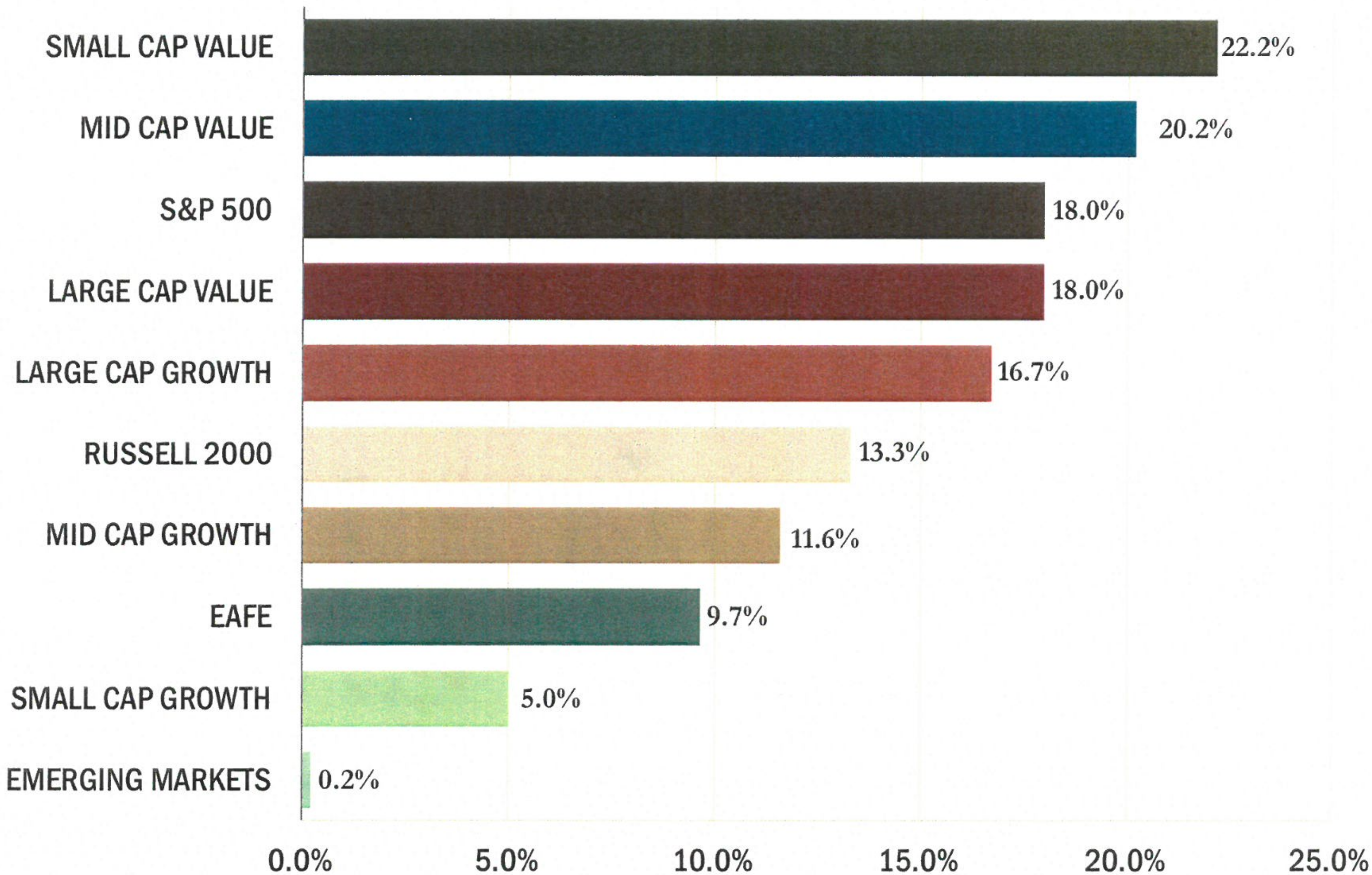
YTD EQUITY RETURNS (MARKET ROTATES AND BROADENS)

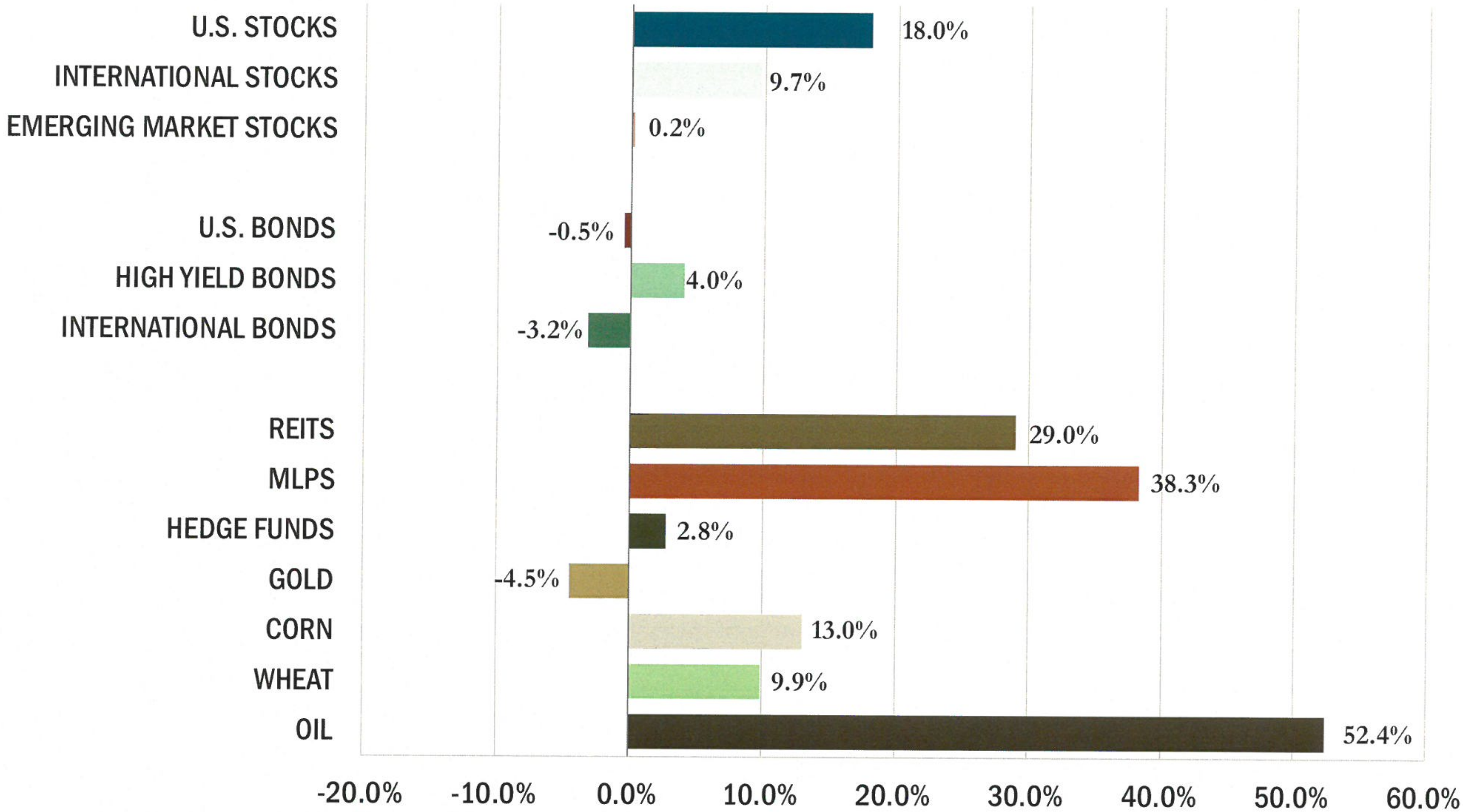
as of 07/31/2021



Source: Bloomberg

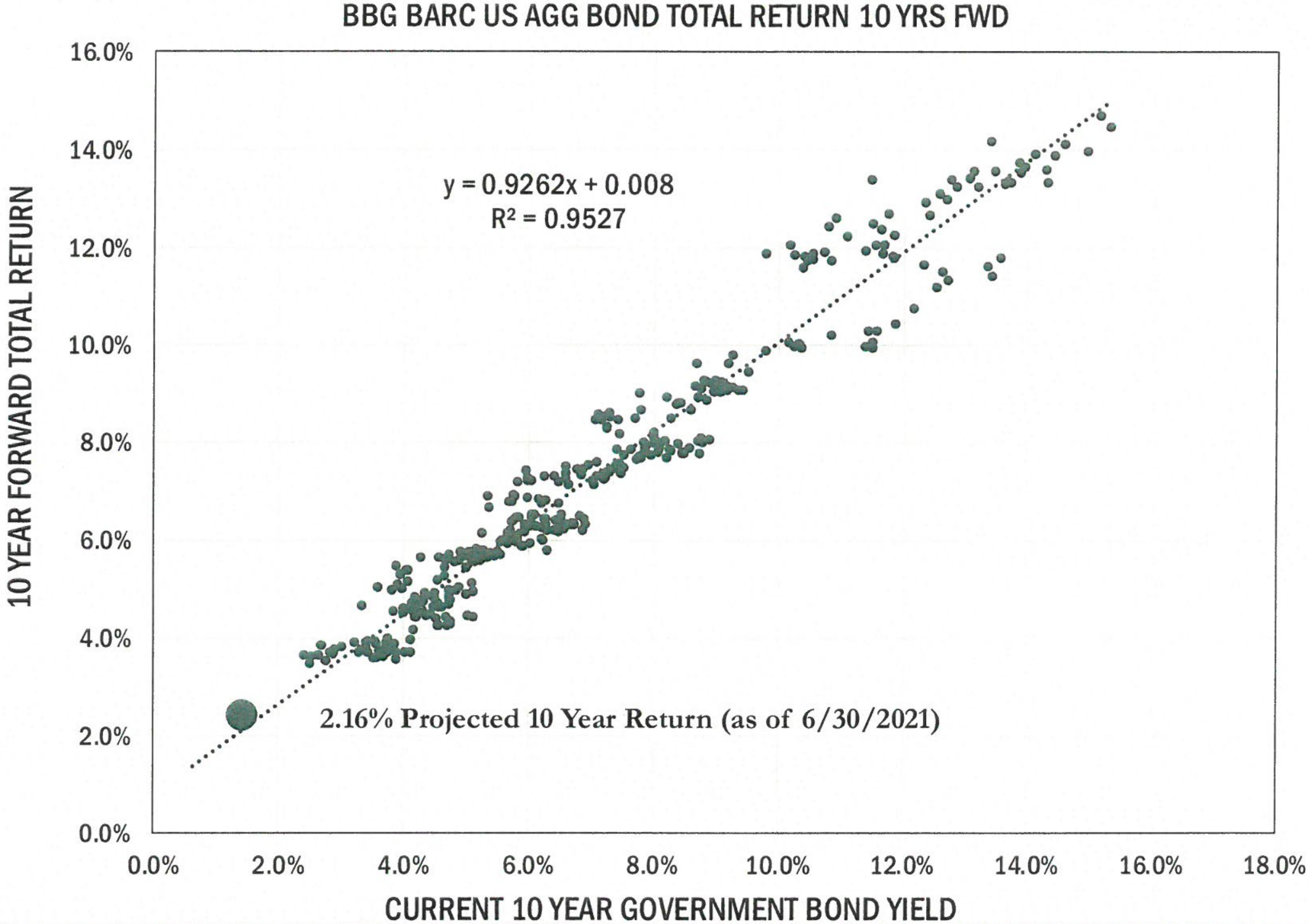
YTD INDEX RETURNS

as of 07/31/2021

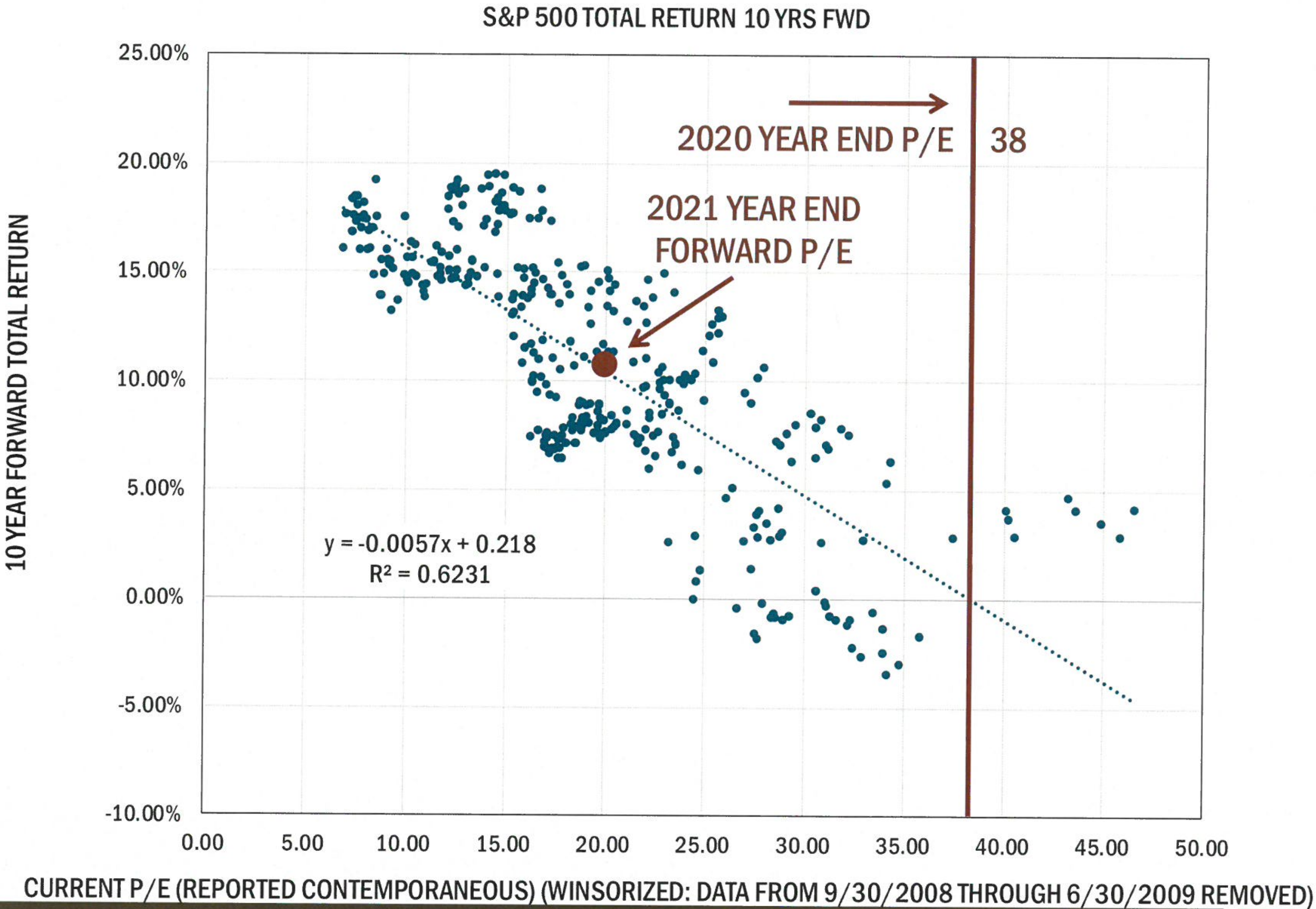


Source: Bloomberg

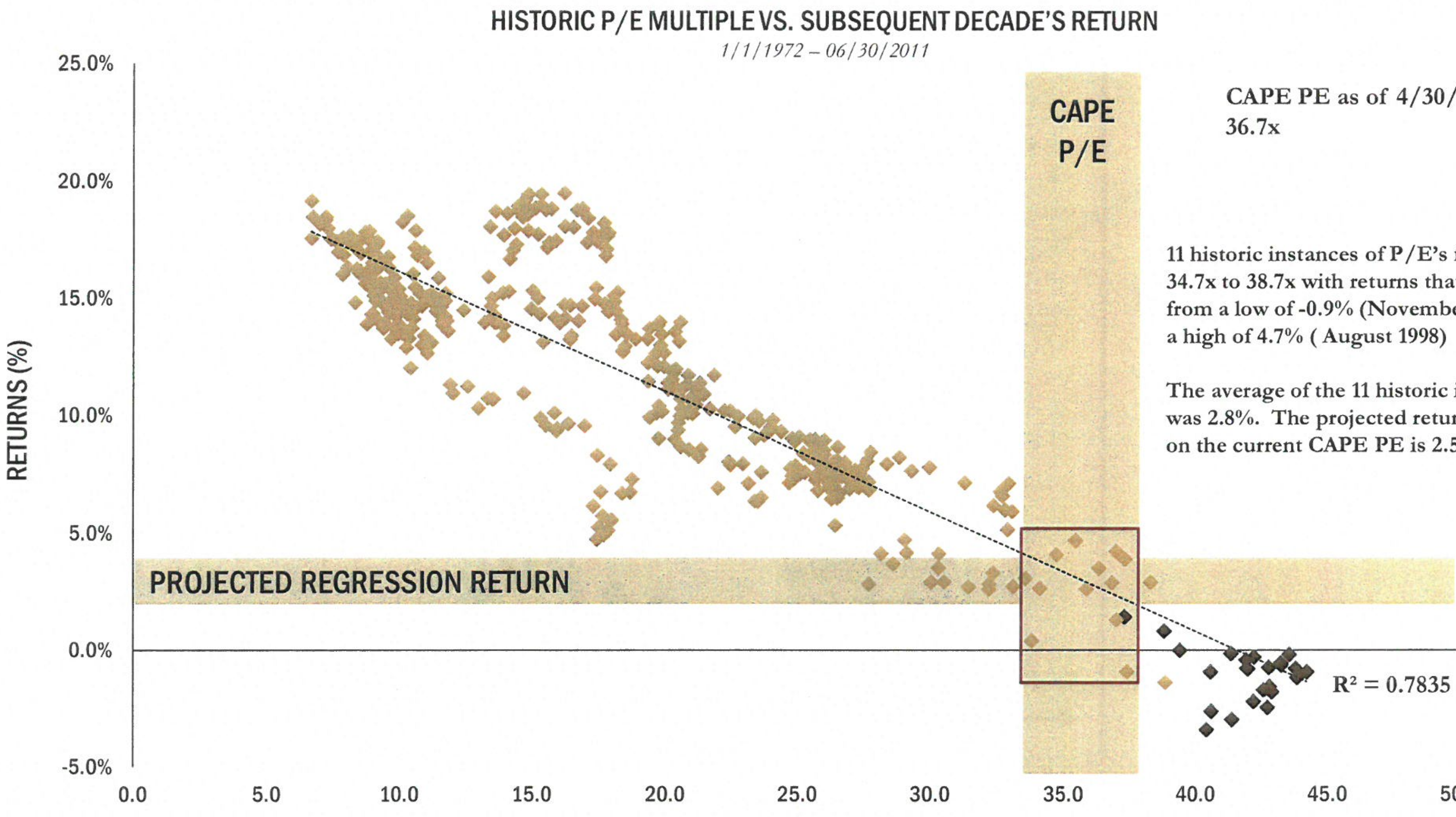
BBG BARCLAYS US AGGREGATE BOND TOTAL RETURNS
(10 YEARS FORWARD PROJECTION)



S&P 500 INDEX 10-YEAR SUBSEQUENT ANNUALIZED RETURN (%) (BASED ON CURRENT P/E – 1980-2020)



S&P 500 INDEX 10-YEAR SUBSEQUENT ANNUALIZED RETURN (%) (BASED ON CAPE P/E)



CAPE PE as of 4/30/21: 36.7x

11 historic instances of P/E's from 34.7x to 38.7x with returns that ranged from a low of -0.9% (November 1998) to a high of 4.7% (August 1998)

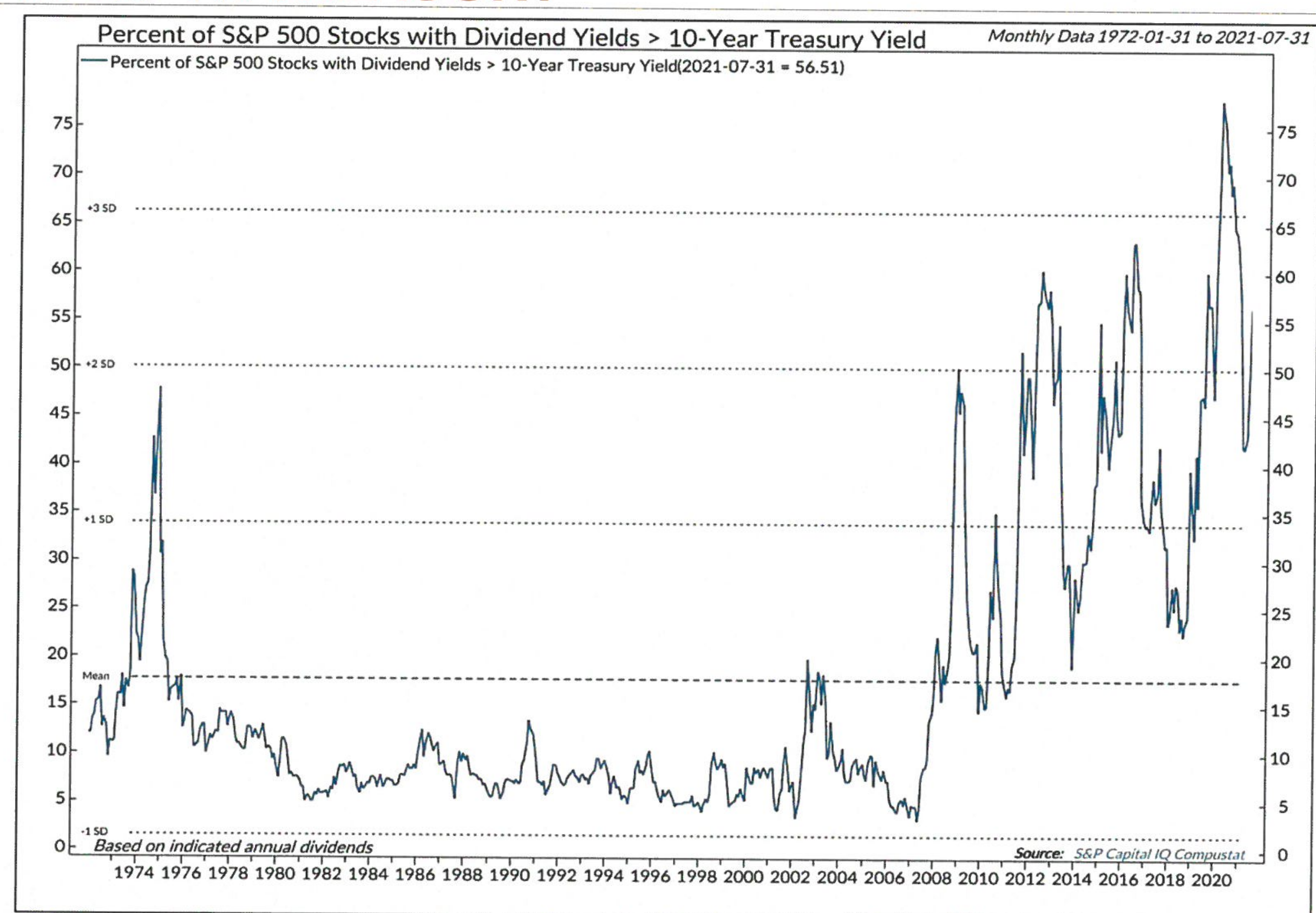
The average of the 11 historic instances was 2.8%. The projected return based on the current CAPE PE is 2.5%

Calculations based on LA SBBI US Large Stock TR USD and Cyclically Adjusted Price Earnings Ratio for S&P Composite
Source: Ibbotson, Robert Shiller

Dark Brown Diamonds represent the data points from January 1999 through December 2000.

*CAPE PE is the cyclically adjusted P/E ratio for the S&P Composite.

PERCENT OF STOCKS WITH DIVIDENDS HIGHER THAN 10-YR TREASURY



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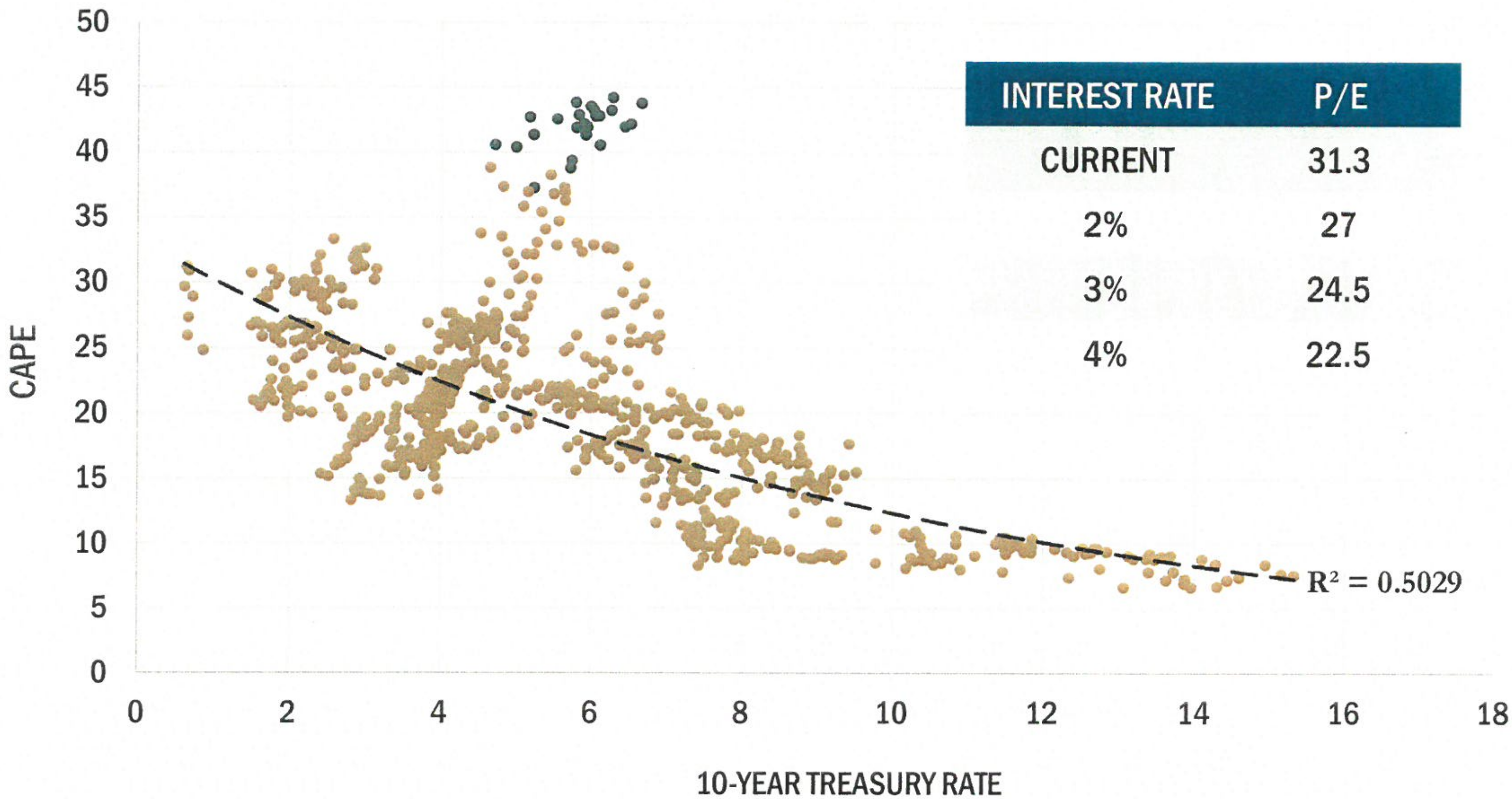
YIELD IMPACT ON P/E MULTIPLE

(VALUATION WILL COMPRESS)



INTEREST RATE	P/E
CURRENT	31.3
2%	27
3%	24.5
4%	22.5

Calculations based on Cyclically Adjusted Price Earnings Ratio for S&P Composite
Source: Ibbotson, Robert Shiller & Federal Reserve Economic Database
Green dots represent the data points from January 1999 through December 2000.

*CAPE is the cyclically adjusted P/E ratio for the S&P Composite.

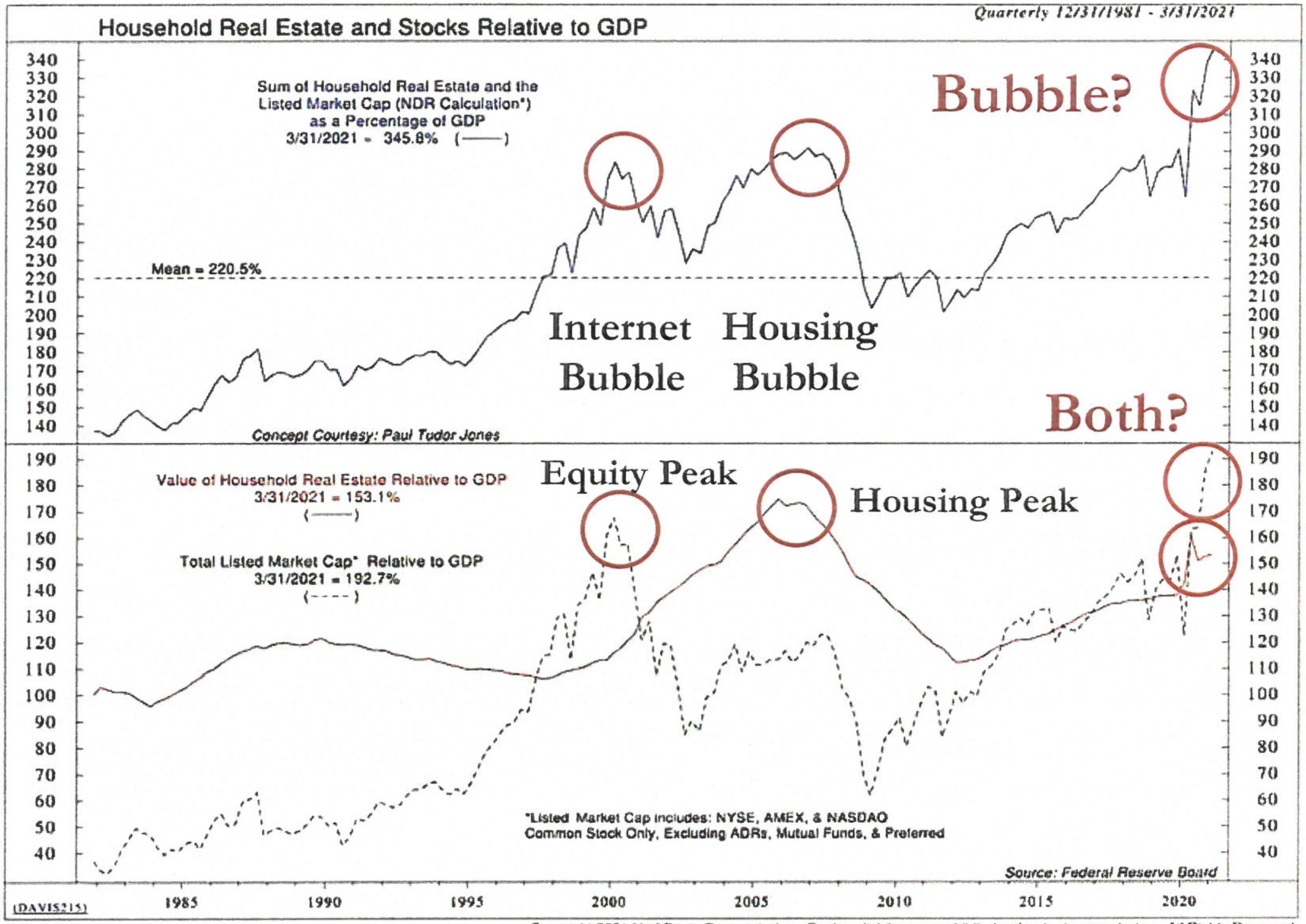
POST RECESSION STOCK MARKET RETURNS DURING ECONOMIC RECOVERIES

RECESSION START	RECESSION END	RECESSION MONTHS	RECOVERY DURATION MONTHS	STOCK MARKET RECESSION BOTTOM	STOCK MARKET RECESSION RECOVERY PEAK	RECOVERING MARKET DURATION MONTHS	RETURN	ANNUALIZED RETURN
APR-60	FEB-61	10	105	NOV-60	DEC-68	97	162%	12.7%
DEC-69	NOV-70	11	36	JUL-70	JAN-73	30	75%	25.2%
NOV-73	MAR-75	16	70	OCT-74	JAN-80	74	198%	19.4%
JUL-80	NOV-82*	28	92	AUG-82	JUL-90	95	355%	21.1%
JUL-90	MAR-91	8	120	OCT-90	SEP-00	119	525%	20.5%
MAR-01	NOV-01	8	73	OCT-02	NOV-07	61	108%	15.2%
DEC-07	JUN-09	18	128	MAR-09	FEB-20	131	450%	16.9%
FEB-20	APR-20	2	15	MAR-20	?	16	100%**	?
AVERAGE		13	89			87	268%***	18.7%

Source: Commerce Trust Company

**Combined both the 1980 and 1981 recessions*
*** Recovery and returns as of 7/31/2021*
****Standard Deviation = 173%*

HOUSING AND STOCKS VS. GDP (EXPENSIVE)



FORECAST AND PORTFOLIO BIASES

HIGHEST CONVICTION

1. **INTEREST RATES WILL CONTINUE TO RISE, AND BOND RETURNS COULD BE NEGATIVE FOR BOTH TAXABLE AND THE VERY RICH MUNI MARKET**
   - We have shorted duration to 90% of target.
2. **SLIGHTLY FAVOR RISK ASSETS IN GENERAL**
   - We are underweight our fixed income targets, neutral on equities and have an allocation in the alternative sectors
3. **HIGH YIELD OUTPERFORMS INVESTMENT GRADE TAXABLE BONDS**
   - Move down in credit favoring (in this priority): Bank Loans, Corporates, Preferreds, and Emerging Market debt.
4. **DOMESTIC STOCKS SHOULD CONTINUE TO OUTPERFORM INTERNATIONAL MARKETS**
   - We are one-third underweight our International targets and expect the dollar to remain relatively firm
5. **MID CAP STOCKS WILL OUTPERFORM BOTH LARGE CAP AND SMALL CAP STOCKS**
   - We prefer the higher profitability and stronger balance sheets of Mid Cap vs. Small Cap.
6. **WE HAVE REDUCED GROWTH EXPOSURE AND ARE EVENLY SPLIT BETWEEN GROWTH AND VALUE.**
   - Anticipation of the re-opening of the economy should produce a period of Value outperformance. Structurally, we still like Growth longer-term.
7. **WE ARE OVERWEIGHT INTERNATIONAL DEVELOPED EQUITY VERSUS EMERGING MARKET**
   - 70% of our International allocation is in Developed Equity

LOWEST CONVICTION