VIEWPOINTS September 2021

SLOWING BUT SUSTAINABLE GROWTH

The momentum continues under this remarkable recovery, with strong economic growth and profitability that have driven the equity rally. These gains have some investors wondering when the "good times" will end. Global growth is expected to peak at over 6.5% in the third quarter. For the full-year 2021, growth is expected to register at just about 6%, before moderating to around 4.5% in 2022. More impressively, strong operating leverage has boosted our U.S. profit forecasts by more than 25% this year. With stock price advances lagging these gains, valuations have become a little less rich. Investors sometimes spend too much time asking when all of this will come to a conclusion. The end usually coincides with the end of the business cycle. The average post-World War II expansion in the U.S. has lasted five years, and they have been getting longer as the service economy continues to expand. The longest expansion was the one ended by the pandemic — lasting 10.5 years to eclipse the 10-year expansion from 1991 to 2001. As shown below, the current expansion is barely one year old.

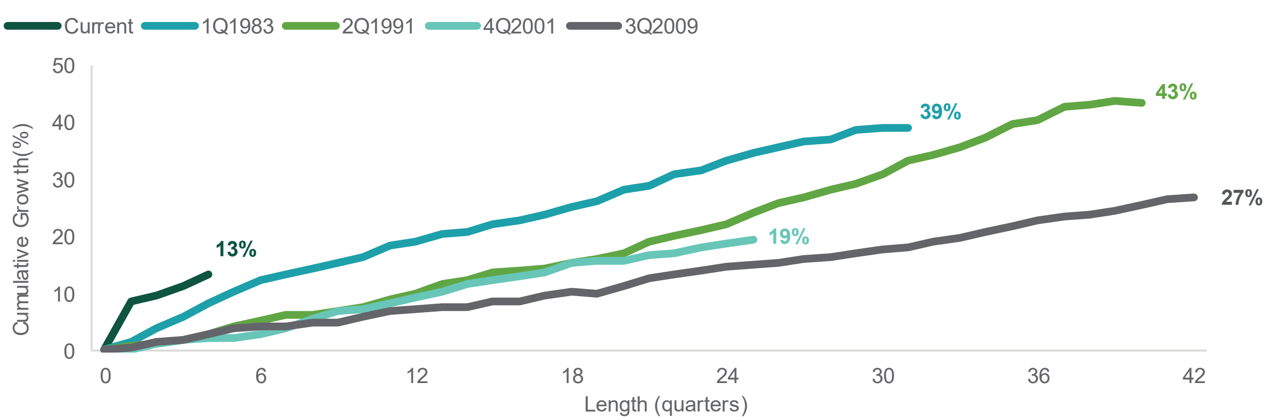
Still, we question what could be different this cycle. Top of mind these days is the Delta variant, as the health risks amongst the unvaccinated and the immunocompromised have risen significantly. From an economic standpoint, this may slow growth modestly but we don't see this "fourth wave" being more damaging than the prior ones. So we focus on the risk of inflation, which remains real, but may be showing signs of stabilizing. Inflation outside the U.S. has not been a major concern, while U.S. core inflation modestly undershot expectations in July. Fiscal policy remains another concern as the U.S. fiscal drag into 2022 looks considerable – as opposed to Europe where we see it as more stimulating.

With our view that growth will slow over the next year, but into a sustainable and long-term trend, we remain constructive on risk-taking. Interest rates have moved to the lower end of our forecasted ranges, so the outlook for investment-grade bond returns over the next year isn't very appealing. Conversely, a recent bump up in high yield spreads has improved the asset class's return potential, and it remains a favorite. We also continue to favor global natural resources, which have languished a bit of late but remain a play on constrained supply and serve as an inflation hedge. Finally, we remain positive on U.S. and developed ex-U.S. stocks, as they will benefit from good earnings growth and continued low interest rates.

IT'S REALLY EARLY

This expansion is barely one year old; recent expansions have gone on from five to over ten years.

LAST FIVE U.S. ECONOMIC EXPANSIONS



Current began 3Q2020. Data through 2Q2021.

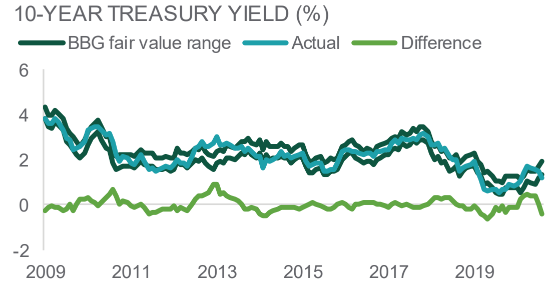
Interest Rates

Although there are a variety of ways to derive what "fair value" is for the 10-year U.S. Treasury, one common way is to look at fundamental inputs via regression analysis. A regression is a statistical analysis that uses explanatory variables to predict a specific outcome. Technical factors and asset class flows can often dominate and drive short-term value, but in the end, fundamentals matter most. Economic growth, inflation and expectations of future Fed policy are examples of a few fundamental inputs.

Bloomberg's fair value regression model on the 10-year U.S. Treasury uses the following independent variables: one-year forward consensus estimates for gross domestic product (GDP) and consumer price index, Fed assets as a share of GDP, Fed Funds expectations and the one-year/three-year Treasury curve as a proxy for term premium. The regression model currently computes a fundamental value of 1.60%. This is right near our central tendency forecast (1.25% to 1.75%). We remain neutral-to-long duration in our portfolios. While the 10-year Treasury yield floats toward the lower end of our forecasted trading range, we expect interest rates to remain at low levels.

INTEREST RATE MODELING

Regression models say rates should be a bit higher.



Data from 12/31/2009 through 7/31/2021.

- Interest rates have stabilized at the low end of our forecasted ranges.
- Technicals as much as fundamentals are keeping a lid on interest rates.
- We are neutral-to-long duration; rates may modestly rise near term but will remain low longer term.

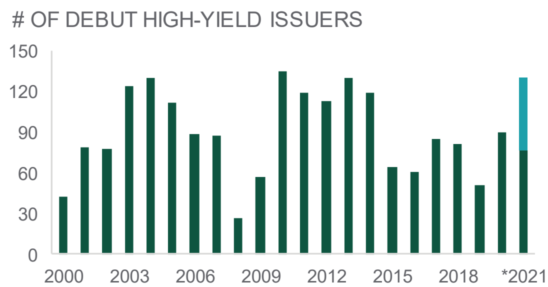
Credit Markets

The high-yield market has seen a surge in debut issuers this year. Year-to-date through July, there have been a total of 76 first-time issuers. This compares to 90 first-time issuers in 2020, a five-year average of 68 new issuers per year and a record of 135 debut issuers in 2010. Attractive market conditions with low interest rates and tight spreads for low all-in funding costs have driven the 2021 surge in first-time issuers. Debut issuers offer opportunities to add to the portfolio construction process. The most obvious is the opportunity to diversify with new credits. This can add a supportive demand technical for debut issuers. First-time issuers also present solid opportunities to have a differentiated view on a less understood credit.

Many debut issuers price wide to fundamental value. Lack of track record, smaller size, and generally lower ratings than the index average are drivers of the additional compensation provided to investors. In 2021, debut issuers have averaged a yield of 5.7%. This compares to an index yield of 4.1%. Analysis of debut issuer performance suggests that these credits tend to outperform. With rates expected to remain low and spreads tight for the rest of the year, debut issuance should maintain its record pace.

TAKING A DIP IN THE HIGH YIELD POND

A number of recent high-yield issuers are first-timers.



Data from 12/31/1999 through 7/31/2021. *2021: green bar = actual year-to-date; green plus blue bar = annualized year-to-date.

- Recent high-yield spread widening is more a result of technical, as opposed to fundamental, drivers.
- First-time issuers represent attractive opportunities for high-yield investors.
- High yield represents our largest tactical overweight in the global policy model.

Equities

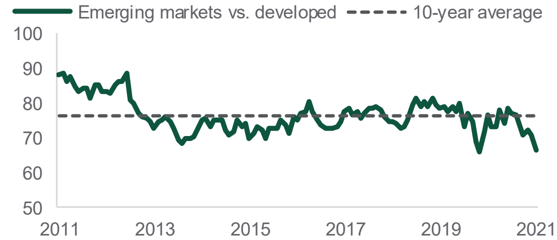
U.S. equities led the major equity regions with a 1.6% gain this past month. Developed ex-U.S. equities trailed closely behind (1.3%). China equities continued to see pressure and emerging market equities fell 0.5%. China's government has recently honed in on the private education, financial and online gaming industries, and introduced a five-year blueprint for increased government control across the private sector. Increased regulatory uncertainty translates to a higher long-term risk premium on Chinese equities, and more broadly emerging markets.

When considering this higher risk premium, emerging market equities do not appear extremely cheap on a historical relative basis – more than half of this year's EM underperformance is a function of lagging fundamentals as opposed to a cheapening of valuations. Relative valuations are below long-term averages, but recent policy actions against key parts of EM equities markets suggest such a cheapening of this market may persist. The potential for stimulus, and, following the reset, lower valuations leave us neutral emerging markets as opposed to negative from here. We remain overweight developed equities, and would note that European equities are currently cheaper to the U.S. versus their long-term average discount than EM.

APPROPRIATELY CHEAP

Emerging market valuations reflect the regulatory reality.

RELATIVE EQUITY VALUATIONS (%)



Valuations proxied by forward price-to-earnings. Monthly data from 7/31/2011 through 7/31/2021.

- The recent China regulatory crackdown translates to higher risk premiums and lower valuations.
- We remain neutral on emerging market equities (EM) as valuations are not a "screaming buy" given the risk.
- We are overweight developed markets; European equities have more compelling valuations than EM.

Real Assets

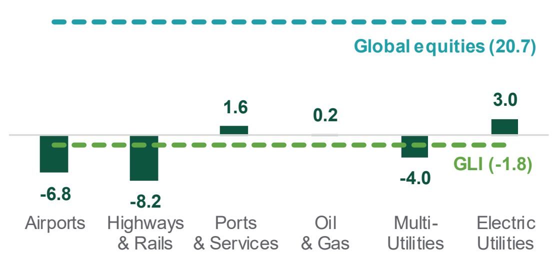
Global listed infrastructure (GLI) was uncharacteristically hit by the global pandemic last year. The asset class — generally a source of downside protection during times of market stress — lost 42.7% from pre-pandemic highs to early pandemic lows (2/19/2020 to 3/23/2020) versus a loss of 33.6% for global equities. The utilities sector (~40% of the infrastructure index) provided its normal safe(r) haven. But other industries such as airports, railways and highways — areas of the economy that can weather recessions, but not full-on economic shutdowns — notably suffered. As the pandemic impact waned, we viewed GLI constructively. Economic reopening would allow the worst hit parts to bounce back while our expectation for ongoing low interest rates would provide a tailwind for utilities.

This has not played out. GLI has not shown its historical level of interest-rate sensitivity, while broader equities have displayed greater economic reopening exposure. Given expectations for ongoing economic recovery and modestly higher interest rates, we closed out our tactical overweight. Instead, we prefer natural resources. Already having a higher economic growth "beta", the asset class has also become an income play — as less cash is going into new projects, leaving it free to go into shareholder pockets.

INFRASTRUCTURE MISSED THE TRAIN

GLI took an acute pandemic hit and hasn't recovered.

RETURN SINCE PRE-PANDEMIC HIGH (%)



Annualized total returns for S&P Global Infrastructure Index (GLI) and its sub-sectors, and MSCI ACWI Index (global equities) from 2/19/2020 through 8/11/2021.

- Global listed infrastructure (GLI) has not behaved like we would expect the past 18 months.
- We are now neutral GLI as we wait for interest rates to recalibrate and uncertainties to abate.
- We are overweight natural resources as a play on the ongoing recovery, but also for its income production.

BASE CASE

Slowing but Sustainable Growth

Growth is moderating from the past year's strong pace but is still quite early in what will likely be a long economic cycle. At the same time, the steady (and generous) hand of central banks will support financial market valuations. We remain overweight risk assets broadly in the global policy model.

Market Laggard Runway

Those investments that most-underperformed during the pandemic – and, in many cases over the past decade (think non-U.S. equities, natural resources and value-oriented strategies) – have shown solid returns more recently. Momentum has slowed but valuations remain attractive and fundamentals remain strong.

RISK CASES

Stuckflation Tested – and Fails

Inflationary pressures during the recovery continue to build and overwhelm structural downward forces on inflation, forcing early central bank restrictiveness leading to risk asset headwinds.

Dropped Growth Baton

Handing off the baton from government stimulus to organic demand is challenged by the size of fiscal drag and the Delta variant. A failed transition (or perception thereof) could disrupt risk-taking.

For more information please contact:

John P Bohan CFP®
Managing Director

3200 Cherry Creek Drive S.
Suite 730
Denver, Colorado 80209

Direct: (303) 778-6800
Email: jpb@investmenttrust.com
www.investmenttrust.com