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MARKET REVIEW
JUNE 2021

AUTOMATION'S IMPACT ON JOBS AND ECONOMY

Throughout history, there have been persistent concerns that automation could make some jobs obsolete and, in turn, lead to labor market disruption. As pointed out in the April 10 edition of *The Economist*, one of the earliest examples of such fears dates back to the early 1800s when English textile workers, referred to as the Luddites, violently protested the introduction of weaving and spinning machines. Concerns about businesses replacing workers with new technologies occasionally resurfaced over the last century as covered in the *New York Times'* 1928 article titled "March of the Machine Makes Idle Hands" and *Time's* 1961 article titled "The Automation Jobless." Automation concerns have intensified once again due to the pandemic. In a January report, the International Monetary Fund (IMF) cautioned that the COVID-19 pandemic will accelerate the ongoing trend in automation and may lead to worsening income inequality.

The pandemic-induced supply chain disruptions and temporary labor shortages have made automation a more urgent goal for many companies. According to a 2020 survey conducted by management consulting firm Bain & Company, businesses are responding to the pandemic by increasing automation to strengthen their operational resilience. The Bain survey of 500 business executives showed that automation is no longer just about reducing costs. Improving business resilience and lowering risk have become the top goals for implementing automation. Additionally, as noted in last month's Market Brief, U.S. businesses plan to use more automation to help mitigate the higher labor costs associated with re-shoring manufacturing back to the U.S.

DISPLACED WORKERS

The primary policy concern with automation is that it may lead to higher unemployment as workers are replaced with technology. The implementation of automation in recent decades has mostly taken the form of industrial robots. Over the last 15 years, the use of robots has expanded significantly. The U.S. installed base of robots reached 2.28 per thousand workers in 2019, more than four times the 0.45 robots per thousand workers in 2004. Research from Massachusetts Institute of Technology (MIT) economist Daron Acemoglu concluded that each additional robot

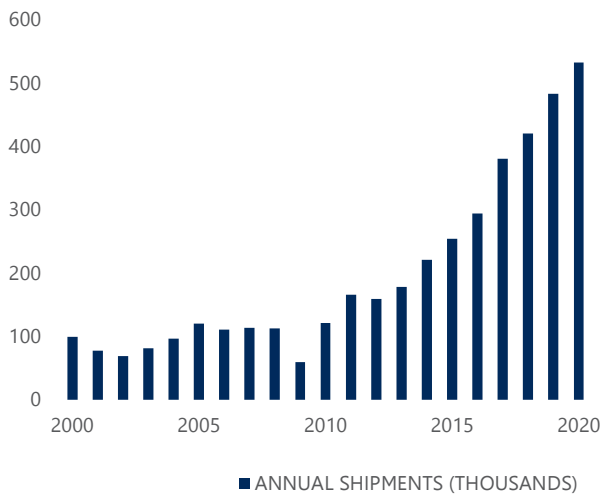
replaces 6.6 jobs. However, the net effect is 3.3 jobs lost per robot since robots create positions in other industries by lowering prices for goods and services which, in turn, boosts overall demand. If Acemoglu's conclusion holds into the future, and the International Federation of Robotics' forecast for the number of installed robots is accurate, industrial robots could replace over 5 million jobs globally over the next two years.

Industrial robots impact a relatively narrow segment of the labor market, as the manufacturing sector accounts for 70% of robot usage in the U.S., but only 8% of the country's total employment in 2019. The next phase of automation could be more disruptive since a wider range of jobs are vulnerable to being substituted with machines enabled with software algorithms and artificial intelligence (AI). Robots tend to replace jobs with predictable manual work that can be broken down into repetitive mechanical steps, whereas software and AI can accomplish more advanced tasks. White collar jobs including paralegal work, accounting, and back-office operations could be displaced by the next phase of automation. The worker substitution potential of robots and AI led management consulting firm McKinsey & Company to forecast 10% of the U.S. workforce being vulnerable to automation by 2030.

Some economists argue there is a counterbalance to automation replacing jobs. Their argument states that new labor-substituting technologies increase overall labor demand by growing economic activity through lowering prices for goods and services and boosting productivity. Increasing economic activity would likely create jobs in other industries that have not been automated. New technologies can also grow labor demand by creating jobs in new industries. The World Economic Forum think tank illustrates the counterbalance with their projection that 85 million jobs globally could be replaced with automation by 2025, but emerging professions will offset the lost jobs by creating 97 million new jobs. Another facet of this discussion is the skills gap between automated jobs and newly created professions. Many economists advocate for the private and public sector to address the skills gap by investing in training programs to help displaced workers attain new skills.

INCREASING AUTOMATION

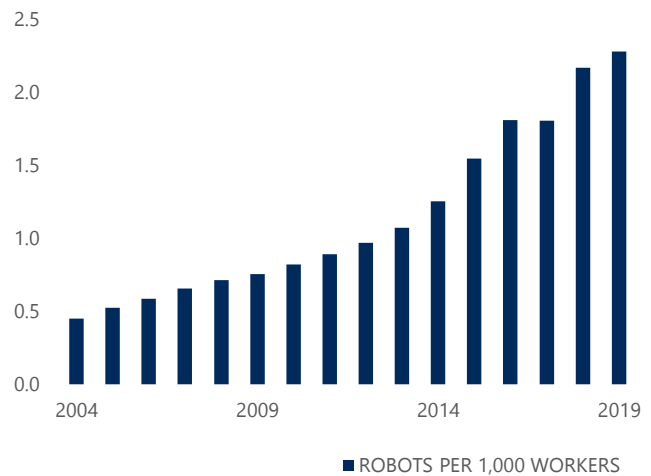
GLOBAL INDUSTRIAL ROBOT ANNUAL SHIPMENTS



Source: International Federation of Robotics. Past performance does not guarantee future results.

RISING ROBOT DENSITY

U.S. INDUSTRIAL ROBOTS PER 1,000 WORKERS



Source: International Federation of Robotics. Past performance does not guarantee future results.

INCOME INEQUALITY

According to the IMF, another reason why the COVID-19 recession has heightened automation concerns is related to historical evidence indicating that recessions and pandemics are often followed by bursts of automation that worsen income inequality. Large economic shocks can create a catalyst for businesses to restructure their operations toward labor-substituting technologies in order to increase flexibility, reduce labor costs, and take advantage of the lower opportunity cost of adjusting labor inputs during recessions. The IMF noted that recessions in recent decades have been followed by increased income inequality due to “jobless recoveries” where more automation leads to much slower employment recoveries for middle-skilled workers relative to high- and low-skill jobs.

Over the past 35 years, job losses for middle-skilled occupations that perform routine and repetitive tasks with well-defined procedures, such as automotive assembly lines, have occurred mostly around economic downturns. More specifically, University of Zurich economist Nir Jaimovich and University of British Columbia economist Henry E. Siu found that since the mid-1980s, 88% of job losses in routine occupations have occurred during the 12 months following each of the last few recessions. The number of routine jobs in recent years was below the levels seen in the 1990s and early 2000s, while nonroutine high-skilled jobs (e.g. computer programmers and physicians) and nonroutine low-skill jobs (e.g. gardeners and bartenders) rose substantially in recent decades. The lost routine jobs are often middle-wage workers who can be forced into lower-wage jobs due to a lack of comparable wage job opportunities and skills gap for higher-wage jobs. Jaimovich and Siu use the phrase “job polarization” to describe the trend in middle-wage jobs disappearing while high- and low-skilled occupations grow.

POTENTIAL POLICY RESPONSES

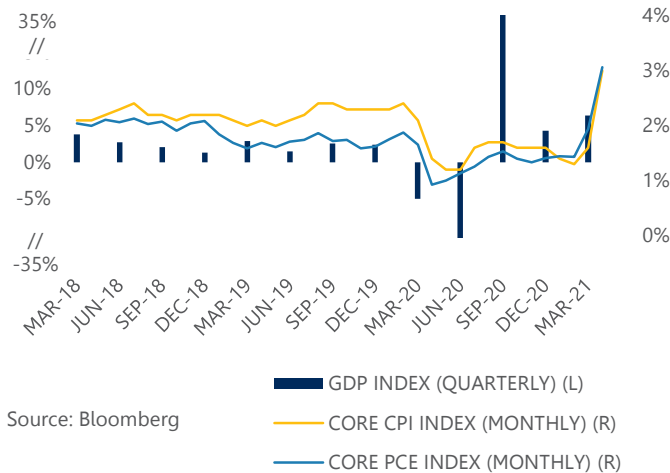
Even though automation may prove beneficial for the economy in the long-run, there will likely be disruptive effects in the short-run that may require action from policymakers to ensure the groups most at risk do not fall further behind. Economists propose a wide range of policy options to address unemployment among displaced workers and income inequality. These policies include training programs to develop new skills, taxing robots, redesigning unemployment insurance benefits, a more progressive tax system, and introducing universal basic income.

CONCLUSION

The long-term economic impact from new technologies and the next wave of automation is uncertain and may depend on how quickly displaced workers are reemployed and the help they receive from new policies. Under a faster reemployment scenario, automation could boost productivity, wage growth, and economic growth. Alternatively, a slow reemployment scenario could lead to slower economic growth, higher unemployment, and lower wage growth. If policymakers and companies implement effective programs to help mitigate the drawbacks of automation, then the historical fears of new technology hurting workers may once again prove to be mostly unsubstantiated.

ECONOMY

GDP AND CONSUMER PRICES MARCH 2018 THROUGH APRIL 2021

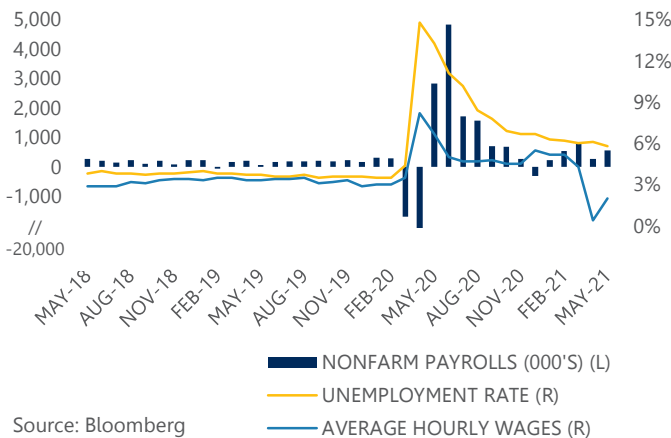


The Bureau of Economic Analysis' second estimate of U.S. gross domestic product (GDP) confirmed a 6.4% annualized growth rate during the first quarter. Domestic economic growth will likely remain strong in the near term, as the median forecast of a Bloomberg survey of economists for second quarter GDP is 9.2%.

Core Consumer Prices (CPI) rose 0.9% in April, which was the largest monthly increase since 1982. The index for all items, less food and energy, climbed 3.0% on a year-over-year basis, driven by sharp increases in the used cars and trucks component.

The Federal Reserve's preferred inflation gauge, the core personal consumption expenditures (PCE) index, increased 3.9% from a year ago compared to the median estimate of 2.9%, taken from a Bloomberg survey of economists.

LABOR MARKET MAY 2018 THROUGH MAY 2021

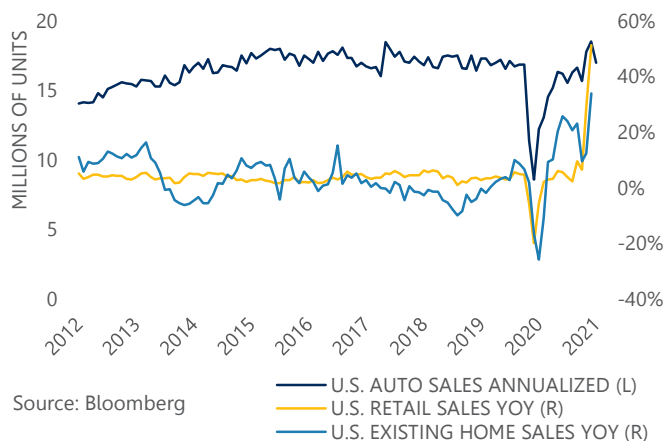


The domestic labor market recovery continued in May, as employers added 559,000 jobs. For the second consecutive month the report fell short of consensus expectations, which were for 671,000 jobs to be added.

Vaccination trends and easing lockdown restrictions remain important catalysts for job creation. The hospitality sector led again in job gains during the month, followed by an increase in public and private education as in-person learning picks up.

The unemployment rate declined to 5.8% in May, from 6.1% in June. The labor force participation rate was little changed at 61.6%, roughly 1.7% lower than in February 2020.

HOUSING, AUTO AND RETAIL SALES MAY 2017 THROUGH MAY 2021



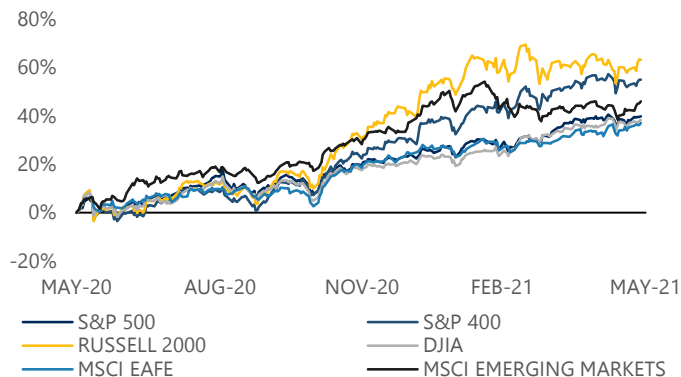
U.S. auto sales fell in May to a seasonally adjusted annual rate of 16.99 million units, down from 18.50 million units the previous month. Despite the monthly decline, May's rate is in line with the long-term average.

Domestic retail sales were up 51.2% in April from a year ago, as lockdown measures in 2020 prevented many stores from operating through most of the country. On a month-over-month basis, retail sales were essentially unchanged after relief checks propelled a monthly gain of 10.7% in March.

Existing home sales dropped 2.7% in April from March, the third straight month of declines, according to the National Association of Realtors. Sales are up 33.9% compared to April 2020, which marked a pandemic-era low.

EQUITY

TRAILING 12-MONTH EQUITY RETURNS PRICE APPRECIATION, MAY 2020 THROUGH MAY 2021

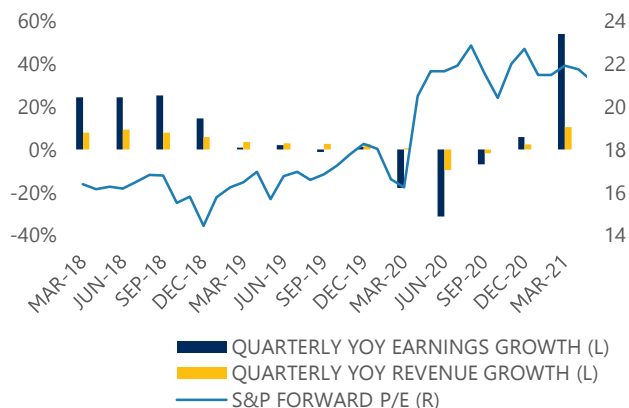


Source: Bloomberg. Past performance is no guarantee of future results.

After a strong start to May, the S&P 500 declined 3.99% in three days during the second week of the month. The pullback was attributed to April's disappointing employment report and a 4.2% jump in year-over-year inflation driving concerns of an accelerated path of Federal Reserve interest rate hikes. The S&P 500 recovered most of the losses in a late month rally spurred by the Fed's April meeting minutes indicating their commitment to supporting the economy with asset purchases.

Foreign developed and emerging market stocks outperformed domestic indexes. European stocks benefited from national vaccine rollouts gaining momentum after a relatively slow start. Rising commodity prices and India's declining new COVID-19 case count supported the MSCI Emerging Market index's 2.34% monthly return.

S&P 500 YOY EARNINGS & REVENUE GROWTH BY QUARTER, MARCH 2018 THROUGH MAY 2021



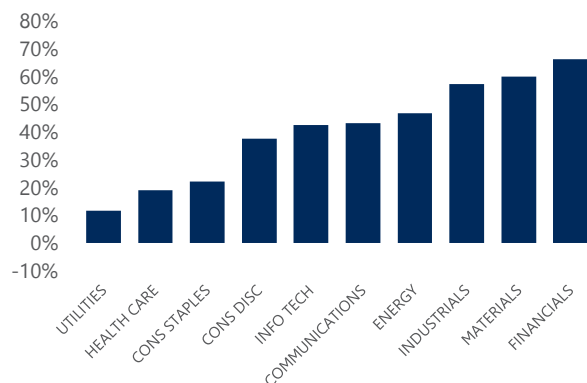
Source: Bloomberg

First quarter earnings season is almost complete with 496 S&P 500 companies reporting results. Earnings are recovering at a much faster rate than projected. Year-over-year profits are on track for 53.99% growth compared to analysts' initial estimate of 23.89%.

The financials and consumer discretionary sectors have experienced the sharpest rebound in profits, as both recorded year-over-year earnings growth above 100%. The profit recovery in the industrials sectors is lagging with earnings growth of just 3.10%.

Analysts continue to revise their earnings expectations upward for coming quarters. S&P 500 earnings are projected to rise 59.48% in the second quarter, 22.61% in the third quarter, and 34.60% for the full year after contracting 13.04% in 2020.

S&P 500 SECTORS 12-MONTH PRICE RETURNS MAY 2020 THROUGH MAY 2021



Source: Bloomberg

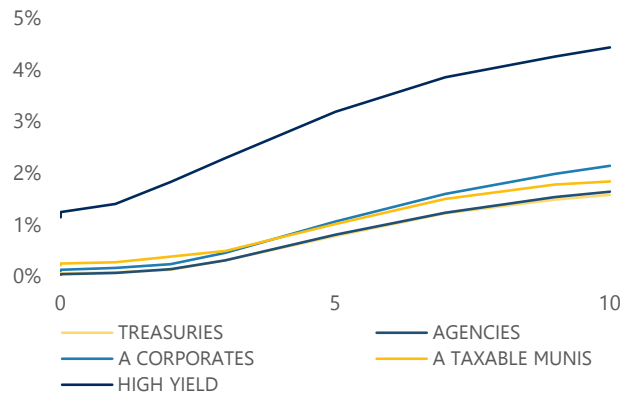
Value and cyclically-oriented sectors returned to the market leadership position after a one-month hiatus in April. The S&P 500 Value index gained 2.41% while the S&P 500 Growth index fell 0.89%.

Energy, financials, and materials were the best performing S&P 500 sectors with monthly gains around 5% or more. The energy sector's strong month was supported by the price of West Texas Intermediate (WTI) crude oil rising 4.31% to \$66.32, the highest price in over two years.

The higher growth consumer discretionary and technology sectors followed up their strong April performance with declines in May. These sectors' monthly underperformance primarily occurred during the mid-month pullback.

FIXED INCOME

CURRENT YIELD CURVES YIELD CURVES AS OF MAY 2021



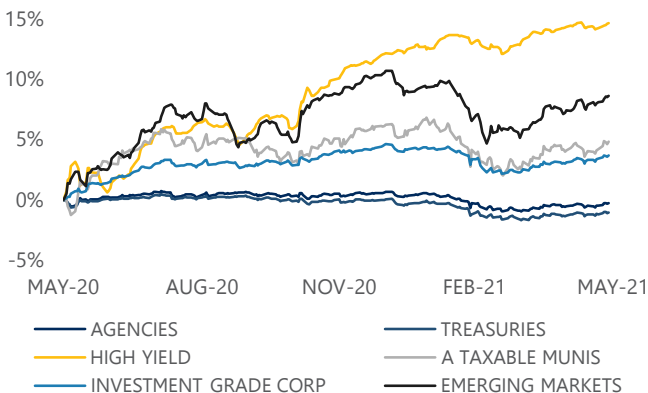
Source: Bloomberg

The U.S. Treasury yield curve stabilized in May and finished the month essentially unchanged from April. The belly of the curve shifted modestly downward in May, as yields on the five-year and seven-year maturities both declined by roughly five basis points, or 0.05%.

Shorter dated U.S. Treasury yields out to three-year maturities remain anchored at historically low levels amid guidance from Federal Reserve officials that the central bank's policy rate will stay at the zero bound for the foreseeable future.

Of the fixed income segments shown in the accompanying chart only high yield, the segment with the most credit risk, exhibits positive inflation-adjusted (real) yield out to ten years on the maturity spectrum.

12-MONTH RETURNS, TAXABLE BOND SEGMENTS MAY 2020 THROUGH MAY 2021

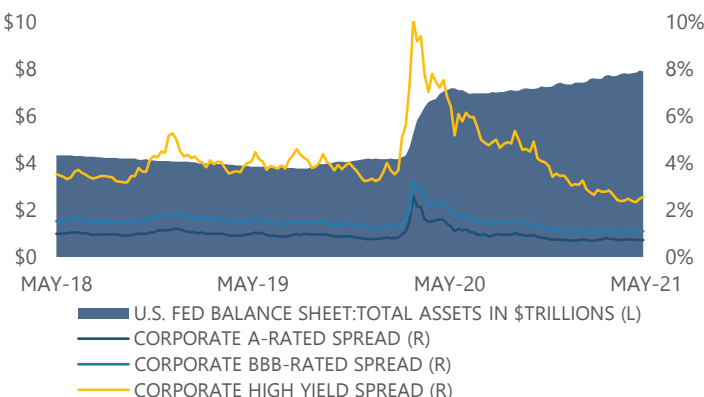


Source: Bloomberg. Past performance is no guarantee of future results.

Of the fixed income segments shown in the accompanying chart, emerging market bonds generated the strongest performance in May amid a bout of significant U.S. dollar weakness. The Bloomberg U.S. dollar index, which represents a basket of exchange rates between the greenback and major world currencies, declined 1.59% in May and has declined 8.66% over the 12-month period ending May 31.

A reduction in economic uncertainty over the last twelve months has enabled lower quality bond segments to significantly outperform their more conservative counterparts. Over the period, the two segments with the lowest tier credit profiles (high yield and emerging markets) produced total returns of 14.64% and 8.60%, respectively.

FED BALANCE SHEET EXPANSION AND CREDIT SPREADS MAY 2018 THROUGH MAY 2021



Source: Bloomberg

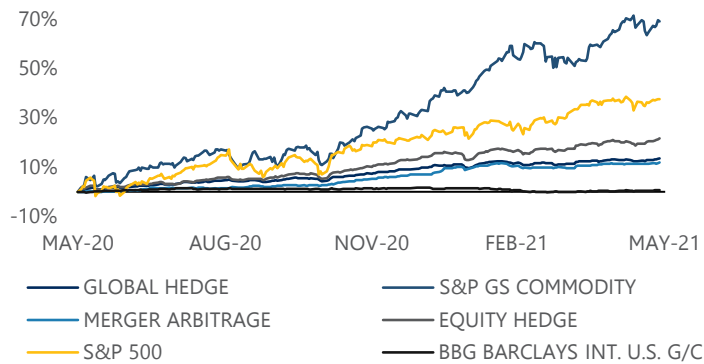
The U.S. Federal Reserve's balance sheet has expanded by roughly 88% in fifteen months from \$4.2 billion in February 2020 to \$7.9 billion in May 2021.

Fed officials indicated in their April Federal Open Market Committee statement that they will continue to purchase \$80 billion in Treasury securities and \$40 billion per month in agency mortgage-backed securities until further notice. The next FOMC meeting is scheduled for mid-June.

As seen in the accompanying chart, Fed policy support helped both high yield and investment grade credit spreads steadily narrow throughout most of 2020. Investment grade spreads have remained stable thus far in 2021, while high yield spreads tightened over the first four months of the year before widening slightly during May.

ALTERNATIVES

ALTERNATIVES, 12-MONTH RETURNS MAY 2020 THROUGH MAY 2021



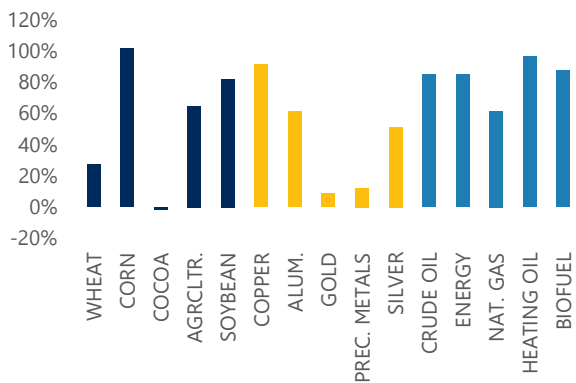
Source: Bloomberg. Past performance is no guarantee of future results.

The positive backdrop for the broad commodity complex has taken shape amid an acceleration of global economic growth, surging expectations for manufacturing activity, rising housing prices and instances of supply constraints.

Led by corn, copper and crude oil, a basket of trade-weighted commodities soared 68.9% in the twelve months spanning June 2020 through May 2021 compared to 37.6% for the S&P 500 over the same period.

Equity long-short and hedged equity strategies have been the best performing areas of the hedge fund universe through the first five months of 2021. Relative value arbitrage and credit-focused strategies have been among the weaker performing hedge fund styles year to date.

COMMODITIES, 12-MONTH SPOT RETURNS MAY 2020 THROUGH MAY 2021



Source: Bloomberg. Past performance is no guarantee of future results.

U.S. crude oil prices have been supported recently by expectations for increased demand and OPEC and its allies' agreement to only incrementally ease output cuts from May to July.

Wheat, corn and soybean prices have benefited from a combination of U.S. farmers' modest planting intentions and instances of challenging weather conditions.

Copper prices hit fresh all-time highs in mid-May against a backdrop of rising demand and scarcity of new global supplies. A major tailwind for the metal has been the growing awareness that advanced economies plan to implement environmentally focused infrastructure and clean energy policies that will likely lead to a substantial increase in global copper demand.



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DEPOSIT	INSURED	VALUE	GUARANTEED
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