QUARTERLY REPORT

INVESTMENT PERSPECTIVE

30 September 2021

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U.S. equity markets were led by larger capitalization stocks in the third quarter with the S&P 500 rising 0.58% and the Russell 2000 Value falling -2.98%. International equity markets were also mixed with the MSCI EAFE declining -1.03%. Returns were mixed in the third quarter as global equity markets grapple with slowing economic growth, rising energy prices, material supply chain disruptions offset by falling Covid cases and improving employment conditions. Global economic growth continues to moderate with particular weakness emanating from China. China has long been the engine of global growth, but with China's policy focused on rebalancing its domestic economy the world will have to look elsewhere for economic leadership.

As Covid cases began to decline late in the third quarter, markets embraced risk by boosting economically sensitive sectors and increasing sovereign interest rates globally. Economic growth continues to be hindered by supply chain disruptions, low inventories, and rising commodity prices. As we move into 2022, markets should start to get a glimpse of what the new "post Covid normal" looks like and to what extent inflation will be transitory. There is some solace in the fact the inflationary cycle is now in a growth downturn, but such a downturn is no guarantee that inflation will be as low as it was for the last decade. Globally, there are significant geopolitical, demographic, and industry shifts underway that will materially change supply chains, trade flows, inflationary pressures, and currency flows. These shifts will become more apparent as we move through 2022 and could materially impact asset prices.

The Bloomberg Barclays Aggregate Index returned 0.05% during the third quarter. In July and August, the bond market extended the rally that began in the second quarter with yields declining approximately 20 basis points. In September, the rally reversed following Jerome Powell's (Federal Reserve Chairman) testimony to Congress that the Fed could start to reduce, or taper, its $120 billion in monthly asset purchases sooner than anticipated due to stickier inflation coupled with an overall healthy economic environment.

Credit spreads traded in a very narrow range during the quarter finishing +80 basis points over Treasuries, 3 basis points wider than at the beginning of the quarter. Credit quality remains very good and the demand for Corporate bonds is strong. We remain overweight the Corporate bond sector but are focusing on the short end and the long end of the curve, thereby reducing our exposure to the "belly" that may be more sensitive to changes in interest rates. We continue to maintain a shorter average duration relative to the benchmark in advance of the Fed tapering its asset purchase program and ultimately raising the target level of the Federal Funds rate.

The ICE BofA AAA-A Municipal Index returned -0.10% in the quarter. Demand for municipal bonds is strong due to the favorable credit outlook and the higher after-tax returns for those investors in higher tax brackets. This already strong demand is expected to continue, and potentially increase, given the prospect for higher tax rates out of Washington as lawmakers work to pass multi-trillion dollar stimulus packages. Higher tax rates would make tax exempt municipal bonds relatively more attractive to taxable investors, all else equal.