

# SECOND QUARTER 2021

## INCOME

Equity markets performed well in the second quarter, with gains across each major global equity region as well as positive returns across most fixed income asset classes. The global growth backdrop remained constructive as economies moved towards reopening, while better-than-expected earnings growth also helped support equity market returns. Investor concerns focused on the inflation outlook and its potential implications on Federal Reserve policy. After rising to 1.74% by the end of the first quarter, interest rates declined in the second quarter, with the 10-year Treasury yield stabilizing around 1.50% in June and ending the quarter at 1.47%. The credit environment remained constructive with tightening credit spreads in the second quarter across both investment grade and high yield fixed income – helped by improving corporate fundamentals and continued investor demand for yield. In central bank policy, the European Central Bank remained highly accommodative, while Fed leaders reiterated a patient approach towards achieving the central bank's inflation and full employment goals after increased investor concerns that the Fed was becoming more hawkish following the June meeting.

We made no changes in asset allocation in the quarter. We remain constructive on risk assets as the global growth environment continues along a positive trajectory during the pandemic recovery, helped by accommodative monetary policy and our view that the rise in inflation is likely to prove transitory. Currently, the portfolio has broad-based overweights to risk assets including developed ex-U.S. equities, natural resources, global listed infrastructure, U.S. equities and emerging market equities, funded by underweights across cash, investment grade fixed income and inflation-linked fixed income. The portfolio ended the quarter with a higher risk level than its strategic benchmark.

Performance for the quarter was helped by tactical positioning in addition to slight benefits from strategic positioning, which outweighed some headwinds from fund implementation. Strategic positioning slightly helped performance as support from risk assets outperforming risk control assets mostly outweighed some headwinds from high yield fixed income trailing global equities. Tactical positioning benefited performance due to the overweight to natural resources, the overweight to U.S. equities and the overweight to developed ex-U.S. equities. Our quality dividend U.S. equity strategy (QDF) was the main detractor in terms of fund implementation, while our diversified investment grade fixed income strategy (BNDC) was the main contributor.

**IMPORTANT INFORMATION:** Northern Trust Investments, Inc. (NTI) is an investment adviser registered with the Securities Exchange Commission under the Investment Advisers Act of 1940. The company manages a variety of portfolios utilizing stocks, bonds, and exchange-traded funds (ETFs). The information contained herein is intended for use with current or prospective clients of Northern Trust Investments, Inc. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. Northern Trust and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, and its accuracy and completeness are not guaranteed. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. Indices and trademarks are the property of their respective owners. Information is subject to change based on market or other conditions.

Forward-looking statements and assumptions are NTI's current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

There are risks involved in investing including possible loss of principal. There is no guarantee that the investment objectives of any fund or strategy will be met. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Past performance is no guarantee of future results. FlexShares™ ETFs and Northern Funds are sub-advised by Northern Trust Investments, Inc. For more information on the investment objectives, principle risks, and fees associated with these Funds, please see each Fund's prospectus and statement of additional information ("SAI"), which are available on the Advisors' websites at [northernfunds.com](http://northernfunds.com) and [flexshares.com](http://flexshares.com).

NTI generally utilizes its own funds within this strategy. NTI receives various fees from the funds via the fund expense ratios. Clients will incur these fees. Clients who access these portfolios through a financial intermediary firm will typically pay additional fees to that firm. Clients should speak to their Financial Advisor for more information. Financial intermediaries that employ NTI for model management or overlay services may compensate NTI for those services a fee of up to 0.15%. Prior to 1/1/2021 the fee was up to 0.25%.

© 2021 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K., NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Belvedere Advisors LLC and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.