



Markets Tumble as New Variant Complicates Return to Normal

Monthly Snapshot

- Global equities started November on promising footing. Shares advanced for the first week, then treaded water through mid-month before declining—modestly at first, and then sharply during the last week.
- U.S. Treasuries were the best-performing fixed-income segment, while emerging-market debt continued to sustain the deepest losses.
- Lower expectations for next year could allow for upward revisions in analysts' earnings estimates—assuming, as we do, that the renormalization of global economic growth gets back on track with wider vaccine distribution.

Global equities started November on promising footing. Shares advanced for the first week, then treaded water through mid-month before declining, modestly at first, and then sharply during the last week.

Developed-market stocks continued to perform better than emerging markets. China, Hong Kong, the U.K. and Europe sustained sharp one-month drops. Japan's losses were less severe, and the slide in U.S. shares was mild compared to other major markets.

Short-term U.S. Treasury rates increased, while intermediate-to-long-term rates declined, resulting in a flatter yield curve. Government-bond rates declined across all maturities in the U.K. and eurozone; yields went negative on eurozone bonds with maturities all the way out to 30 years (negative yields were out to 12 years at the end of October). Treasuries were the best-performing fixed-income segment, while emerging-market debt continued to sustain the deepest losses.

Commodity prices reversed lower in November. The Bloomberg Commodity Index was mostly flat until a selloff during the last week of the month, finishing November down by 7.3%. Crude-oil prices moved slightly lower throughout the month, and then similarly tumbled to end November. The West Texas Intermediate crude oil price dropped by 20.8% for the full month, while the price of Brent crude fell by 17.3%.

Emergence of the omicron coronavirus variant in southern Africa was a key factor in rattling investors as November progressed. Omicron appears to contain significantly more mutations than other variants, which could potentially make it more effective in sidestepping neutralization by antibodies generated from earlier infections and vaccinations.

The U.S. reported the highest country-level number of new COVID-19 infections per day at the end of November, followed by Germany, the U.K., France and Russia. Daily deaths associated with COVID-19 were highest in Russia, then the U.S., Ukraine, India and Poland.

Vaccination drives mirrored stock performance in November: the UAE, Cuba and Chile have the highest population shares with at least one dose of vaccine. The two best-performing country-level equity performances for the month were the UAE and Chile.

Key Measures: November 2021

EQUITY	
Dow Jones Industrial Average	-3.50% ↓
S&P 500 Index	-0.69% ↓
NASDAQ Composite Index	0.33% ↑
MSCI ACWI Index (Net)	-2.41% ↓
BOND	
Bloomberg Barclays Global Aggregate Index	-0.29% ↓
VOLATILITY	
Chicago Board Options Exchange Volatility Index	27.19 ↑
<small>PRIOR Month: 16.26</small>	
OIL	
WTI Cushing crude oil prices	\$66.18 ↓
<small>PRIOR Month: \$83.57</small>	
CURRENCIES	
Sterling vs. U.S. dollar	\$1.33 ↓
Euro vs. U.S. dollar	\$1.13 ↓
U.S. dollar vs. yen	¥113.16 ↓

Sources: Bloomberg, FactSet, Lipper

For the second time this fall, Congressional negotiators appeared on the verge of a last-minute agreement to fund the government in early December ahead of a funding lapse that would otherwise take effect on December 4. The agreement, which has already passed the House of Representatives, would provide funding through mid-February.

U.K. Chancellor of the Exchequer Rishi Sunak faced scrutiny from House of Commons Treasury Committees at the beginning of the month for tax increases included in his Autumn Budget. He contended that the revenue raisers—including a 1.25% bump in national insurance contributions set to begin in the spring, as well as a long-telegraphed increase in the corporations tax—are needed to fund necessary spending and intended to be temporary.

The cost side of the budget included a notable pair of adjustments for low-income workers: a reduction in the universal credit's taper rate (from 63% to 55%, meaning that the credit will phase out more slowly) and an annual £500 increase in work allowances. Brick-and-mortar stores will also see more relief via a temporary 50% cut in business rates and no increase in 2022.

Germany's new governing coalition came together in late November. The center-left Social Democrats (SPD, with 25.7% of the September election's vote share) will work with the progressive environmentalist Greens (14.8%) and pro-business Free Democrats (FDP, 11.5%). SPD leader Olaf Schultz will head the government as chancellor, while Christian Lindner, the FDP's leader, will serve as finance minister.

The coalition's policy pledges include a hefty environmental agenda, including an accelerated coal phase-out, greater reliance on rail transport, an ambitious goal for electric-vehicle adoption, and the promotion of an EU-wide air-travel surcharge. An increase in the minimum wage, plans to construct 400,000 apartments per year, and reforms to the immigration and citizenship eligibility system also made it to the top of the agenda.

Germany's "debt brake" will be re-instated in 2023, limiting government borrowing to 0.35% of GDP, and the FDP extracted a commitment to no new taxes or tax increases in order to join the coalition, raising the question about how the government will fund its goals.

Economic Data

U.S.

- The U.S. manufacturing expansion continued at a high pace in November.
- Services activity remained strong during the month despite moderating after October's sharp acceleration.
- New weekly U.S. jobless claims held just below 270,000 for most of November before declining to 194,000 later in the month, the lowest level since 1969.
- The broad U.S. economy grew at a 2.1% annualized rate during the third quarter, down from the second quarter's 6.7% pace.

U.K.

- The expansion in U.K. manufacturing activity held in November at a strong pace of growth.
- Services growth settled slightly lower in November, but remained quite robust.
- The U.K. claimant count (which calculates the number of people claiming Jobseeker’s Allowance) declined further in October by roughly 15,000, lowering the claimant share of the population from 5.2% to 5.1%.
- The U.K. economy expanded by 0.6% in September, improving on August’s more modest growth and nearing its pre-coronavirus level of economic activity.

Eurozone

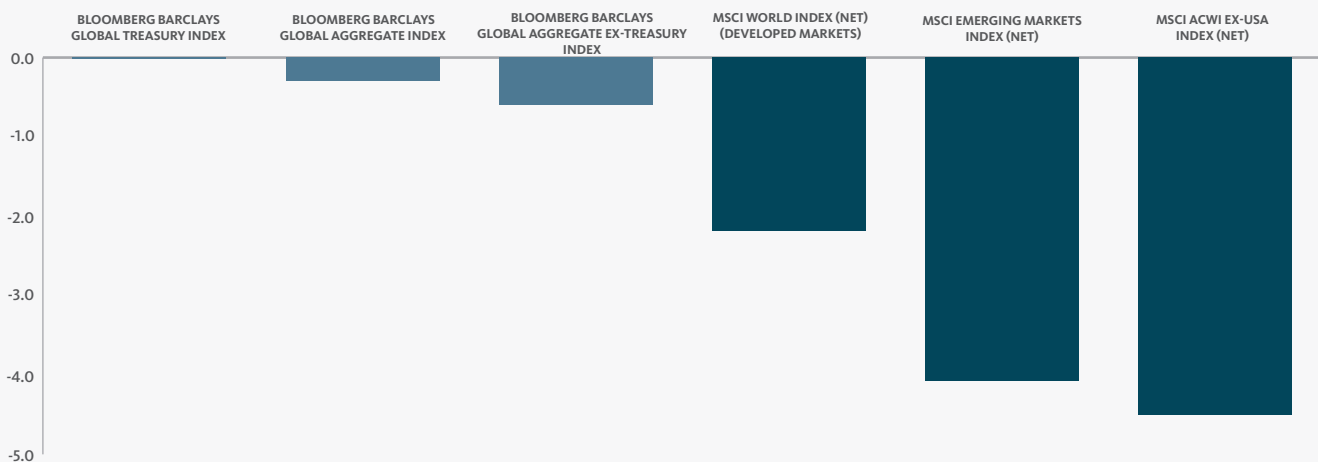
- Growth in eurozone manufacturing activity continued during November in line with the robust pace of the prior two months.
- Eurozone services growth strengthened in November after slowing in October.
- The eurozone unemployment rate continued to decline in September, hitting 7.4%.
- The overall eurozone economy expanded by 2.2% in the third quarter, in line with the second quarter’s 2.1% rate.

Central banks

- The Federal Open Market Committee (FOMC) announced a long-anticipated timetable to reduce its asset purchase program following its early-November meeting. The central bank will shrink its monthly asset purchases by \$15 billion—split between a \$10 billion reduction in Treasury purchases (from purchases of \$80 billion per month in October) and \$5 billion in agency mortgage-backed securities (from purchases of \$40 billion per month in October)—in November and again in December. Reductions were expected to continue until asset

Major Index Performance in November 2021 (Percent Return)

■ FIXED INCOME ■ EQUITIES



Sources: FactSet, Lipper

Key Measures: November 2021

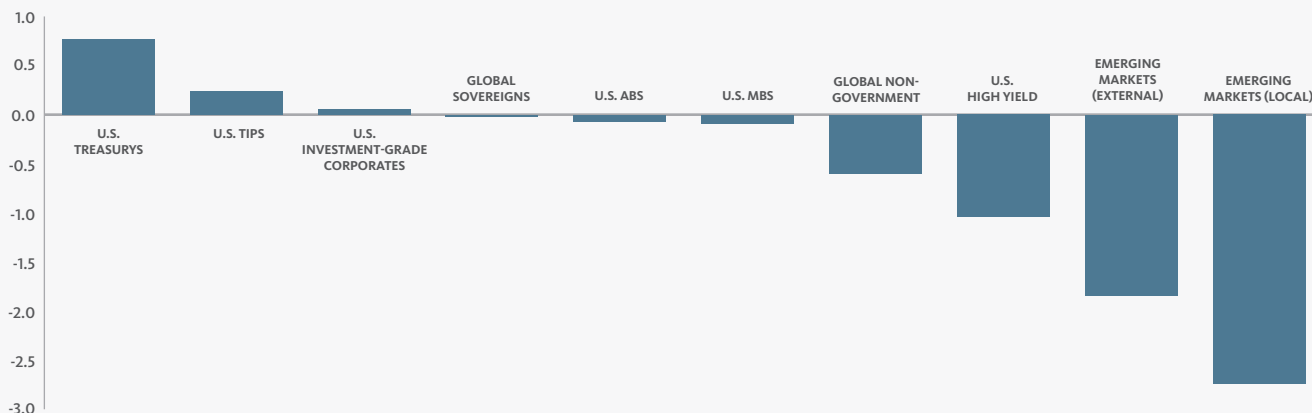
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purchases conclude altogether in June 2022, although the pace can be adjusted “if warranted by changes in the economic outlook.” At the end of November, in testimony to the U.S. Congress, Federal Reserve (Fed) Chair Jerome Powell expressed that high inflation could drive the FOMC to reduce asset purchases at an accelerated pace and conclude the program a few months earlier than planned. Powell was nominated for a second term as Fed Chair by President Biden during the month.

- The Bank of England’s Monetary Policy Committee left its policy orientation unchanged at its early-November meeting, with the bank rate remaining at 0.1% and the maximum allowance for asset purchases at £895 billion. The central bank’s November report on monetary policy upgraded its inflation forecast to peak at 5% in spring 2022, and indicated that a rate hike would be necessary if its economic outlook comes to pass.
- The European Central Bank (ECB) did not hold a meeting on monetary policy during November and continued to pursue a moderately lower pace of net asset purchases under the pandemic emergency purchase program (PEPP) than the target of approximately €80 billion per month that prevailed over the summer. The European Commission’s Autumn Economic Forecast, released in November, showed inflation projections above the ECB’s 2% target in 2021 and again next year, with import prices contributing steeply and compensation to a lesser extent.
- The Bank of Japan (BOJ) did not hold a monetary policy meeting during November. Its short-term interest rate remained at -0.1% and its 10-year government bond yield target held near 0%, while continuing open-ended asset purchases. The central bank downgraded its near-term consumer inflation forecast in its latest quarterly economic outlook.

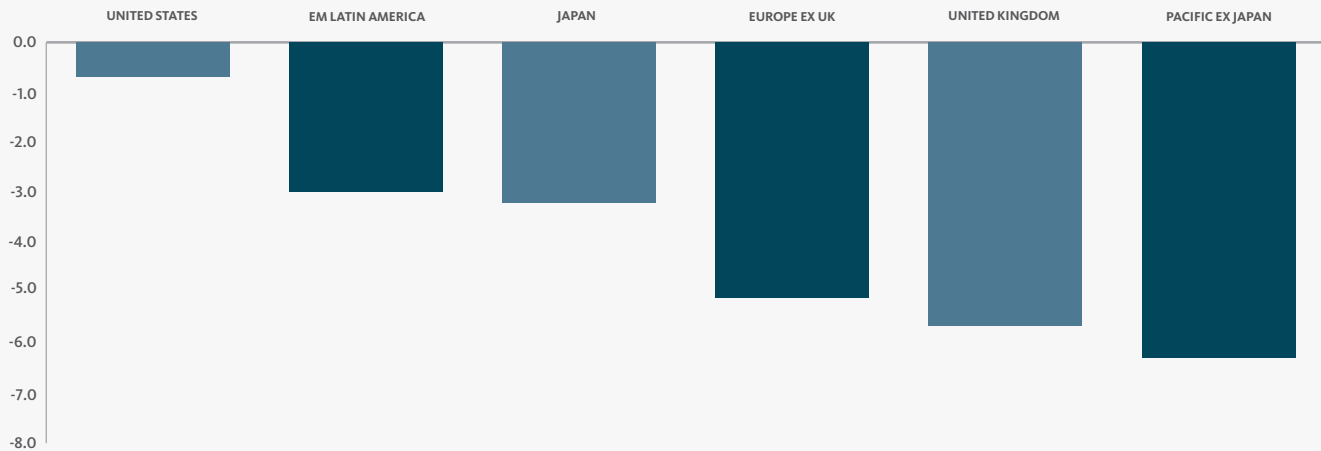
Fixed-Income Performance in November 2021 (Percent Return)



Sources: FactSet, Lipper. See “Corresponding Indexes for Fixed-Income Performance Exhibit” in the Index Descriptions section for more information.

Regional Equity Performance in November 2021 (Percent Return)

■ COUNTRIES ■ REGIONS



Sources: FactSet, Lipper. See “Corresponding Indexes for Regional Equity Performance Exhibit” in the Index Descriptions section for more information.

Portfolio Review

U.S. stocks were mostly down in November outside of large-cap technology-oriented companies. Our U.S. large-cap strategies¹ lagged their benchmarks for the period due to overweights to value and the financials sector, and an underweight to information technology. Smaller U.S. stocks were down sharply for the month. Our U.S. small-cap strategies outperformed as a result of an underweight to healthcare (concentrated in biotechnology companies) and selection within technology and financials. Overseas, equities performed poorly in developed and emerging markets alike during November. Our international developed-market equity strategy underperformed as stay-at-home stocks and sectors like technology and healthcare gained favor amid fears about the omicron variant. Financials and consumer discretionary stocks associated with re-opening underperformed. Most of these are value stocks, and because the strategy is overweight value due to compelling valuation spreads, the strategy underperformed. Our emerging-market equity strategy performed in line with its benchmark during November. An underweight to Chinese internet-related stocks contributed, as did an overweight to information technology in Taiwan and real estate. Overweights to financials in India and energy detracted.

Our core fixed-income strategy slightly underperformed its benchmark during November as non-government fixed-income sectors trailed comparable U.S. Treasuries. An overweight to the long-term segment of the U.S. Treasury yield curve was beneficial as long-term yields fell. A small overweight to corporates (concentrated in financials) and selection within industrials detracted. An allocation to non-agency mortgage-backed securities (MBS) performed well, and an underweight to agency MBS also contributed. Our overweights to asset-backed securities (ABS) and commercial MBS (CMBS) hurt, but our higher-quality bias in both sectors pared some losses. Our high-yield strategy performed in line with its benchmark’s decline during November. Selection within basic industry, retail and leisure were the top contributors, while

¹ Individual holdings will differ between strategies. Not representative of our passive strategies.

selection in energy, healthcare and media detracted. Our emerging-market debt strategy trailed its benchmark during the month. Local-currency debt underperformed hard-currency debt, setting up a challenge for the strategy's underweight to hard-currency debt.

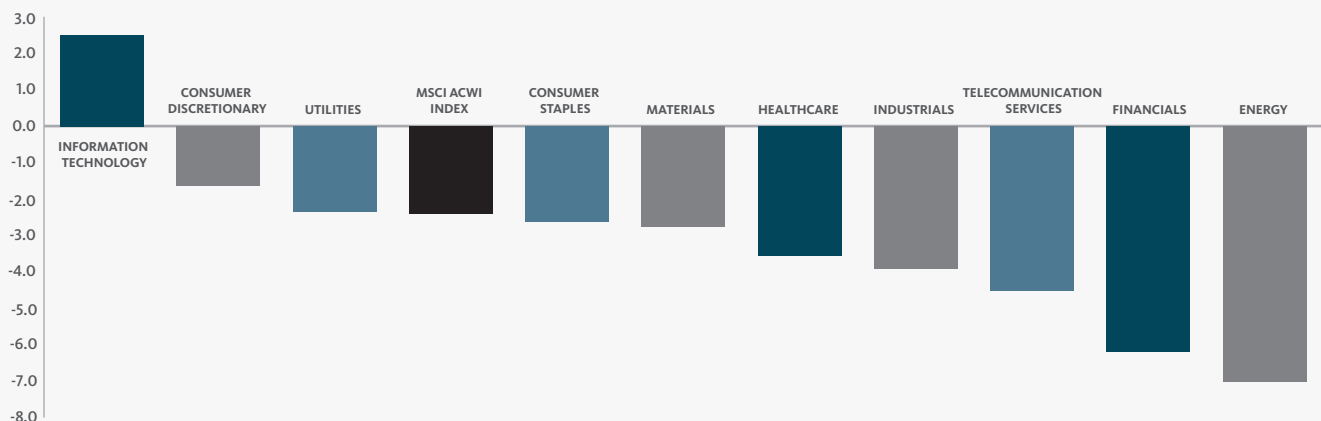
Manager Positioning and Opportunities

High-growth stocks remained expensive relative to the broader market. The top active positions within our U.S. large-cap strategies were overweights to the materials and financials sectors (attractive relative valuations, positioned well for an improving economy). Our U.S. small-cap strategies continued to favor value given its significant discount and reversion potential versus growth. We also prefer quality, and have marginally increased our allocations (cautious view on the market, attractive valuations). Within our international developed-market equity strategy, value remained the largest tactical and strategic overweight, bringing higher exposure to cyclical sectors like energy and industrials. Quality and low-volatility factors have started to look more attractive, but have not yet reached a level where we think it would be prudent to take a sizeable overweight. Our emerging-market equity strategy's top overweights were information technology and materials, while consumer discretionary and healthcare were underweight. Korea and Hungary were modestly overweight at the expense of Taiwan and Saudi Arabia.

With long-term yields still near historically low levels, our core fixed-income strategy has been gradually adjusting its yield-curve posture—reducing an overweight to the 25- to 30-year segment of the yield curve and increasing exposure in the 5- to 10-year segment. Our corporate overweight remained concentrated in financials, industrials and, to a lesser degree, energy. Overweights to ABS and CMBS remained given their attractive risk-adjusted

Global Equity Sector Performance in November 2021 (Percent Return)

■ DEFENSIVES ■ BLENDS ■ CYCLICALS



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

yields, with an emphasis on higher-quality holdings. We maintained an allocation to non-agency MBS, and were underweight agency MBS as the tapering of the FOMC's asset purchases got underway. Our high-yield strategy's largest position remained an allocation to collateralized loan obligations (CLOs), which we believe remain attractive, particularly given the high yields on lower-rated debt and equity tranches. We also had large overweights to basic industry, technology and electronics. Our largest underweights were within telecommunications, capital goods, leisure and services. Our emerging-market debt strategy continued to favor local-currency exposure at the expense of the U.S. dollar. Its largest exposures to local-currency duration were Indonesia, South Africa and Colombia—all of which are at the higher end of the real-yield spectrum. Poland and Thailand, where yields remained low, were the largest underweights.

SEI's View

Recent gloom about flagging economic growth is likely a bit overdone. We expect economic growth—in the U.S. and globally—to continue over the next year or two at a pace that meaningfully exceeds the sluggishness of the years that followed the 2007-to-2009 global financial crisis.

Household wealth is at an all-time high, owing to booming stock and home prices. A big decline in the saving rate has helped cushion the blow to consumer spending; still, saving as a percentage of disposable income remains elevated compared to pre-pandemic levels. We think households generally can adjust to a decline in pandemic relief payments without necessitating a sharp contraction in their expenditures.

The impact of COVID-19 on global supply chains has been a more significant impediment. Vendor deliveries have seldom been as slow in the 74-year history of the Institute for Supply Management's (ISM) survey as they are now, even with the situation having eased slightly since May. Inventories remain exceedingly low relative to demand.

Input costs have been rising rapidly, but companies have been able to compensate by passing along their increased costs to customers. Corporate pricing power is the good news. The bad news is that inflation keeps exceeding consensus expectations. We still expect inflation to run at a higher rate for a longer period than has been commonly assumed, not just over the next one or two years, but well into the decade.

Growth in unit labor costs typically plummets when the economy emerges from recession. Now, however, unit labor costs are running at the fastest pace since the peak of the 2002-to-2007 expansion.

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While commodity inflation and parts shortages may indeed prove transitory, it isn't clear whether the labor shortage and resultant pressure on compensation growth will be as quick to revert to lower levels. The tax and regulatory initiatives of the Biden administration will likely add to the cost pressures facing businesses in the years immediately ahead.

Since U.S. demand is expected to remain robust as economic growth normalizes, it would not be surprising to see companies continue passing along their increased costs. Inflation over the long haul could thus be closer to 3% than the 2% or so currently expected by the Fed and most investors.

If that turns out to be the case, the Fed may be forced to raise interest rates higher and faster over the next three years than anticipated.

A concern that is much nearer in timeframe is the fight in Washington over infrastructure spending and the debt limit. We assume President Biden will get about half of what he is seeking, but the devil will be in the details. Investors are probably right not to react too dramatically to every development. The debt-limit drama, however, could elicit a more significant disruption as the deadline for must-pass legislation nears (again, after earning a temporary reprieve). Although the debt ceiling will be raised, the wrangling over it will almost certainly come down to the wire.

We suggest focusing on longer-term considerations: Economic growth should stay relatively strong in 2022. Households are in solid financial shape and will benefit as employment and wages continue to move higher. Companies are still able to pass along increased costs and maintain high profit margins. Fed policy is still biased toward accommodative credit conditions via ultra-low rates and asset purchases. This should all create a favorable backdrop for risk assets and support a resumption in the coming months of the cyclical/financial/value trend versus growth/technology.

Other developed countries are broadly on the same path as the U.S., and are reacting to the same catalysts.

Purchasing managers' surveys from recent months show that U.S. economic growth is still strong versus pre-pandemic levels. Activity in Europe, led by Germany, appears to be on the upswing—boosted by a decline in Delta (which has allowed for more travel and tourism in Europe) and an increase in EU fiscal support.

The major outlier is Japan, which has been rather weak so far this year versus its industrial-country peers. Inflation-adjusted GDP fell in the first quarter and posted only a tepid gain in the second quarter. Economists blame COVID-19-related restrictions. The global shortage in the supply of semiconductor chips, meanwhile, has impeded auto production. Citizens nonetheless blamed Prime Minister Yoshihide Suga. In response, he has been succeeded as prime minister and leader of the Liberal Democratic Party (LDP) by former foreign minister Fumio Kishida. The LDP retained a comfortable majority in a October 31 election, cementing Kishida's leadership.

U.S. inflation may be near a peak, but further acceleration appears in store for Europe. The immediate concern for households in the region is the cost of energy. Even without energy-production shortages, electricity prices across Europe tend to be much higher than in North America—especially for households, particularly in Germany.

Europe's energy woes probably won't cause the region's governments to deviate from the climate-change agenda they have put in place. The German election underscores this point, as parties from across the political spectrum all committed to reducing carbon emissions.

Beyond energy, Europe's reopening should cause the price of services to rise as they have in the U.S., albeit to far less of an extent. The overwhelming assumption is that any pickup in inflation will be short-lived.

China is dominating investor perceptions of emerging markets. The Xi government's push to enforce "common prosperity" has had far-reaching effects on corporate China. The country's 20-year boom has exacerbated social inequality. Crackdowns on for-profit tutoring companies, major gig employers, and individuals (notably, Jack Ma, the founder of e-commerce giant Alibaba and digital payments company Ant Group) is a brutal but effective way of addressing disparities in wealth and income.

Although some of these moves have hurt foreign equity investors, it's unclear whether the economy itself will be severely constrained. China is a huge country with tremendous internal capital upon which to draw. Foreign companies probably won't cut and run, but they will certainly be forced to play by Beijing's rules if they stay.

We expect diversification of supply chains away from China at the margin, but this has been happening anyway. It is in advanced countries' interests to be more self-sufficient in producing critical products. But China is too big, too efficient and too important a manufacturer for the world to turn its back on.

China's economic growth rate should nevertheless slow as a result of the government's actions. Property development has been the driving force behind its rapid expansion over the past 15 years. Critics of China's economic model have wondered for years if the bill would ever come due. It might be coming due now.

We are watching the trend in commodity prices for hints that pressure on China's construction activity is beginning to reverberate beyond its borders. So far, there has been little sign of that occurring. Iron ore prices have plunged, but that appears to have been caused primarily by government-mandated closures of steel plants in an effort to curb pollution.

Even within China itself, investors seem to be taking the Evergrande debacle in stride. The effective yield on the country's high-yield bonds has been rising sharply since May, but it is nowhere near the 40% yield reached in 2008. In contrast to high yield, the yield on Chinese investment-grade bonds is currently at its lowest level in the past 20 years—indicating no sign of contagion.

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One explanation for the resiliency of the MSCI Emerging Markets Index is the strength of the global economy outside China. The U.S. has been leading the way, but other advanced countries—notably Europe—continue to post improved economic activity.

If history is any guide, however, upside inflation surprises in the G-10 countries suggest that emerging economies will follow suit over the next few months. Unlike advanced countries, where inflation expectations tend to better anchored, central banks in vulnerable emerging economies are forced to raise interest rates sooner than they would prefer in order to dampen inflation pressures and defend their currencies.

Given these concerns, investors might be tempted to avoid emerging-market equities. We believe that would be a mistake. Valuations, particularly relative to the developed world, look especially cheap.

Globally, the earnings of publicly traded companies generally remain robust; we believe that analysts are still underestimating that strength. With the exception of Japan, earnings estimates for 2021 have been raised dramatically versus just six months ago. Forecasts for 2022 earnings have been cut in half from where they were six months ago, but they still are expected to show mid-to-high single-digit gains.

This lowering of the bar for next year could allow for upward revisions in analysts' earnings estimates—assuming, as we do, that the renormalization of global economic growth gets back on track with wider vaccine distribution.

Glossary of Financial Terms

Asset-Backed Securities (ABS): ABS are securities created from pools of loans or accounts receivable such as credit cards, auto loans and mortgage loans.

Bear market: A bear market refers to a market environment in which prices are generally falling (or are expected to fall) and investor confidence is low.

Bubble: A bubble occurs when excessive speculation leads to a drastic increase in asset prices, leaving them at risk to collapse.

Bull market: A bull market refers to a market environment in which prices are generally rising (or are expected to rise) and investor confidence is high.

Cyclical stocks: Cyclical stocks or sectors are those whose performance is closely tied to the economic environment and business cycle. Managers with a pro-cyclical market view tend to favor stocks that are more sensitive to movements in the broad market and therefore tend to have more volatile performance.

Delta variant: The B.1.617.2 (delta) variant of the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), the virus that causes coronavirus disease 2019 (Covid-19), arose during the sharp surge in cases in India during spring 2021 and has now been detected across the globe, including notable increases in cases in the U.K. and U.S.

Fiscal policy: Fiscal policy relates to decisions about government revenues and outlays, like taxation and economic stimulus.

Fiscal stimulus: Fiscal stimulus refers to government spending intended to provide economic support.

Forward price-to-earnings (PE) ratio: The forward PE ratio is equal to the market capitalization of a stock or index divided by forecasted earnings over the next 12 months. The higher the PE ratio, the more the market is willing to pay for each dollar of annual earnings.

Gilt: Gilt refers to a sovereign debt instrument issued by the U.K. government.

Green lending: Green lending refers to the Bank of Japan's effort to strengthen the lending market for environmentally-friendly projects.

Hawk: Hawk refers to a central bank policy advisor who has a negative view of inflation and its economic impact and thus tends to favor higher interest rates.

Inflation-Protected Securities: Inflation-protected securities are typically indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. The principal value of an inflation-protected security typically rises as inflation rises, while the interest payment varies with the adjusted principal value of the bond. The principal amount is typically protected so that investors do not risk receiving less than the originally invested principal.

Monetary policy: Monetary policy relates to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

Mortgage-Backed Securities: Mortgage-Backed Securities (MBS) are pools of mortgage loans packaged together and sold to the public. They are usually structured in tranches that vary by risk and expected return.

NextGenerationEU: NextGenerationEU is an economic recovery fund established by the EU and totaling more than €800 billion projected to be spent between 2021 and 2027. The centerpiece of the programme is a €723.8 billion facility for loans and grants to EU countries for investments.

OPEC+: OPEC+ combines OPEC—a permanent intergovernmental organization of 13 oil-exporting developing nations that coordinates and unifies the petroleum policies of its member countries—with Russia, a major oil exporter, to make collective high-level decisions about oil production levels.

Pandemic Emergency Purchase Programme (PEPP): PEPP is a temporary asset purchase programme of private and public sector securities established by the ECB to counter the risks to monetary policy transmission and the outlook for the euro area posed by the COVID-19 outbreak.

Quantitative easing: Quantitative easing refers to expansionary efforts by central banks to help increase the supply of money in the economy.

Sovereign: A sovereign refers to government-issued debt.

Summary of Economic Projections: The Fed's Summary of Economic Projections (SEP) is based on economic projections collected from each member of the Fed Board of Governors and each Fed Bank president on a quarterly basis.

Taper tantrum: Taper tantrum describes the 2013 surge in U.S. Treasury yields, resulting from the U.S. Federal Reserve's announcement of future tapering of its policy of quantitative easing.

Transitory inflation: Transitory inflation refers to a temporary increase in the rate of inflation.

Treasury Inflation-Protected Securities (TIPS): TIPS are sovereign securities issued by the U.S. Treasury that are indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. The principal value of TIPS rise as inflation rises, while the interest payment varies with the adjusted principal value of the bond. The principal amount is protected so that investors do not risk receiving less than the originally invested principal.

Yield: Yield is a general term for the expected return, in percentage or basis points (one basis point is 0.01%), of a fixed-income investment.

Yield curve: The yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (likelihood of default). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates the yields are closer together.

Index and Benchmark Descriptions

All indexes are quoted in gross performance unless otherwise indicated.

The Bloomberg Barclays 1-10 Year US TIPS Index measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of 1 to 10 years.

The Bloomberg Barclays US Asset Backed Securities (ABS) Index measures the performance of ABS with the following collateral types: credit and charge card, auto and utility loans. All securities have an average life of at least one year.

The Bloomberg Barclays Global Aggregate Index is an unmanaged market-capitalization-weighted benchmark, tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.

The Bloomberg Barclays Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total-return performance of ex-Treasury major world bond markets.

The Bloomberg Barclays Global Treasury Index is composed of those securities included in the Bloomberg Barclays Global Aggregate Bond Index that are Treasury securities.

The Bloomberg Barclays US Corporate Bond Index is a broad-based benchmark that measures the investment-grade, fixed-rate, taxable corporate bond market.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index measures the performance of investment-grade, fixed-rate, mortgage-backed, pass-through securities of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Freddie Mac (FHLMC).

The Bloomberg Barclays US Treasury Index is an unmanaged index composed of U.S. Treasuries.

The Bloomberg Commodity Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the Index. This combines the returns of the Index with the returns on cash collateral invested in 13-week (3-month) U.S. Treasury bills.

The Employment Cost Index is a quarterly economic series published by the U.S. Bureau of Labor Statistics that details the growth of total employee compensation. The index tracks movement in the cost of labor, as measured by wages and benefits, at all levels of a company.

The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

CBOE Volatility Index (VIX Index): The VIX Index tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of *The Wall Street Journal*.

The Employment Cost Index is a quarterly economic series published by the U.S. Bureau of Labor Statistics that details the growth of total employee compensation. The index tracks movement in the cost of labor, as measured by wages and benefits, at all levels of a company.

The FTSE All-Share Index represents 98% to 99% of U.K. equity market capitalization. The Index aggregates the FTSE 100, FTSE 250 and FTSE Small Cap Indexes.

The ICE BofA U.S. High Yield Constrained Index contains all securities in The ICE BofA U.S. High Yield Index but caps exposure to individual issuers at 2%.

The ICE BofA U.S. High Yield Index tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The JPMorgan EMBI Global Diversified Index tracks the performance of external debt instruments (including U.S. dollar-denominated and other external-currency-denominated Brady bonds, loans, eurobonds and local-market instruments) in the emerging markets.

JPMorgan GBI-EM Global Diversified Index tracks the performance of debt instruments issued in domestic currencies by emerging-market governments.

The MSCI ACWI Index is a market-capitalization-weighted index composed of over 2,000 companies, representing the market structure of 48 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in U.S. dollars.

The MSCI ACWI ex-USA Index includes both developed- and emerging-market countries, excluding the U.S.

The MSCI Emerging Markets Index is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

The MSCI Emerging Markets Latin America Index captures large- and mid-cap representation across five emerging-market countries in Latin America.

The MSCI EMU (European Economic and Monetary Union) Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of countries within EMU. The Index consists of the following 10 developed-market country indexes: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal and Spain.

The MSCI Europe ex-UK Index is a free float-adjusted market-capitalization-weighted index that captures large- and mid-cap representation across developed-market countries in Europe excluding the UK.

The MSCI Frontier Emerging Markets Index is a free float-adjusted market capitalization index designed to serve as a benchmark covering all countries from the MSCI Frontier Markets Index and the lower size spectrum of the MSCI Emerging Markets Index.

The MSCI Pacific ex Japan Index captures large- and mid-cap representation across four of five developed-market countries in the Pacific region (excluding Japan).

The MSCI Japan Index is designed to measure the performance of the large- and mid-capitalization stocks in Japan.

MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the U.K. market.

MSCI USA Index measures the performance of the large- and mid-cap segments of the U.S. market.

The MSCI World Index is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed markets. The Index consists of the following 23 developed-market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K. and the U.S.

The MSCI World ex-USA Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S.

The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.

Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Shenzhen Stock Exchange Composite Index tracks performance of A share stocks (which are denominated in renminbi, the local currency) and B share stocks (which are denominated in Hong Kong dollars, an offshore currency) on China's Shenzhen Stock Exchange.

The S&P 500 Index is a market-capitalization-weighted index that consists of 500 publicly-traded large U.S. companies that are considered representative of the broad U.S. stock market.

The TOPIX, also known as the Tokyo Stock Price Index, is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. The Index is supplemented by the subindexes of the 33 industry sectors. The Index calculation excludes temporary issues and preferred stocks, and has a base value of 100 as of January 4, 1968.

The U.S. Dollar Index (DXY Index) measures the value of the U.S. dollar relative to a basket of other currencies, including the currencies of some of the US's major trading partners: the euro, Swiss franc, Japanese yen, Canadian dollar, British pound, and Swedish krona.

Corresponding Indexes for Fixed-Income Performance Exhibit

U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Barclays Global Treasury Index
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg Barclays US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg Barclays US Asset Backed Securities Index
U.S. Treasuries	Bloomberg Barclays US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg Barclays US Corporate Bond Index

Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

Disclosures

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There are risks involved with investing, including loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments.

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