



CAPSTONE
FINANCIAL ADVISORS

Quarterly Market Review



Q3 2021



Quarterly Market Review

THIRD QUARTER 2021

- This report features world capital market performance and a timeline of events for the past quarter.
- It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.
- The report also illustrates the impact of globally diversified portfolios.

OVERVIEW:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Market Performance

Select Currency Performance vs. US Dollar

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Global Fixed Income

Impact of Diversification



Quarterly Market Summary

CAPSTONE COMMENTARY

MARKET REVIEW

A SEPTEMBER SELL-OFF DAMPENED THIRD-QUARTER RETURNS FOR GLOBAL STOCKS

- The global stock market rose to an all-time high in early September on generally upbeat corporate earnings results and forward guidance amid an improving economic backdrop. However, markets became jittery throughout September.
- Concerns around the Chinese property market, Fed monetary policy, Congressional budget impasse, and signs of a slowing economic recovery all put downward pressure on stocks, which broadly finished the third quarter in negative territory.

BOND RETURNS WERE FLAT AMID A LATE-QUARTER SURGE IN RATES

- Global bond markets finished almost flat in the third quarter as late-quarter bond price declines offset interest payments earned by investors throughout the period. Bond prices declined because interest rates (which move in the opposite direction of bond prices) rose sharply in September.
- Rates moved up in reaction to the September Federal Reserve meeting, which provided greater clarity on the Fed's expected plans to taper (reduce) bond purchases later this year and eventually increase short-term rates next year.

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Quarterly Market Summary

CAPSTONE COMMENTARY



MARKET OUTLOOK

DESPITE INCREASED VOLATILITY, STOCKS LIKELY TO MOVE HIGHER INTO 2022

- Stock market volatility is set to increase but shouldn't reach extreme levels throughout the rest of the year. Said differently, investor worries about inflation, the Delta variant, Washington D.C. politics, and rising rates, are likely to result in bigger stock market swings and potentially raise correction risk (a decline of 10% or more from peak). However, absent renewed recessionary factors, we do not expect a bear market (a decline of 20% or more) anytime soon.
- Moreover, while the Fed is preparing to take its foot off the monetary accelerator, their policy will remain accommodative for quite some time. As such, central bank policy should continue to support risk assets, and together with better-than-expected corporate earnings growth supported by a robust macroeconomic backdrop, we expect stocks to move higher into 2022.

INTEREST RATES ARE SET TO RISE, BUT AT A MODEST PACE, AND WILL STILL REMAIN RELATIVELY LOW







- We expect longer-term interest rates to slowly grind higher into next year as Delta variant concerns subside, reopening continues, and economic growth reaccelerates.
- Although the Fed's recent guidance has seemingly been more hawkish (i.e., willing to allow interest rates to rise to keep inflation under control), if recent monetary tightening history is any guide, the Fed will likely move more slowly than current forecasts suggest. Additionally, the "neutral" rate (the Fed's longer-term target interest rate) is likely to end up in the 2%-to-3% range, which is considered relatively low by historical standards.
- Rising interest rates will put some downward pressure on bonds in the short term. But in the likely scenario of modest rate increases over a long period, bond markets are not going to be disrupted, and bond investors will not suffer through permanent or severe capital losses. The breadth and depth of demand for bonds, particularly high-quality bonds, remain strong. As such, bond returns over the long term are likely to be positive, and eventually, higher than in recent past years due to the higher income (yield) that bonds will offer investors as interest rates rise.

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Quarterly Market Summary

INDEX RETURNS

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
3Q 2021	STOCKS				BONDS	
	-0.10%	-0.66%	-8.09%	-0.08%	0.05%	0.09%
						
Since Jan. 2001						
Avg. Quarterly Return	2.4%	1.7%	2.9%	2.5%	1.1%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.4%	-2.7%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2021 Q1	2015 Q2

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. Data provided by Dimensional Fund Advisors. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Bloomberg data provided by Bloomberg.



Long-Term Market Summary

INDEX RETURNS AS OF SEPTEMBER 30, 2021

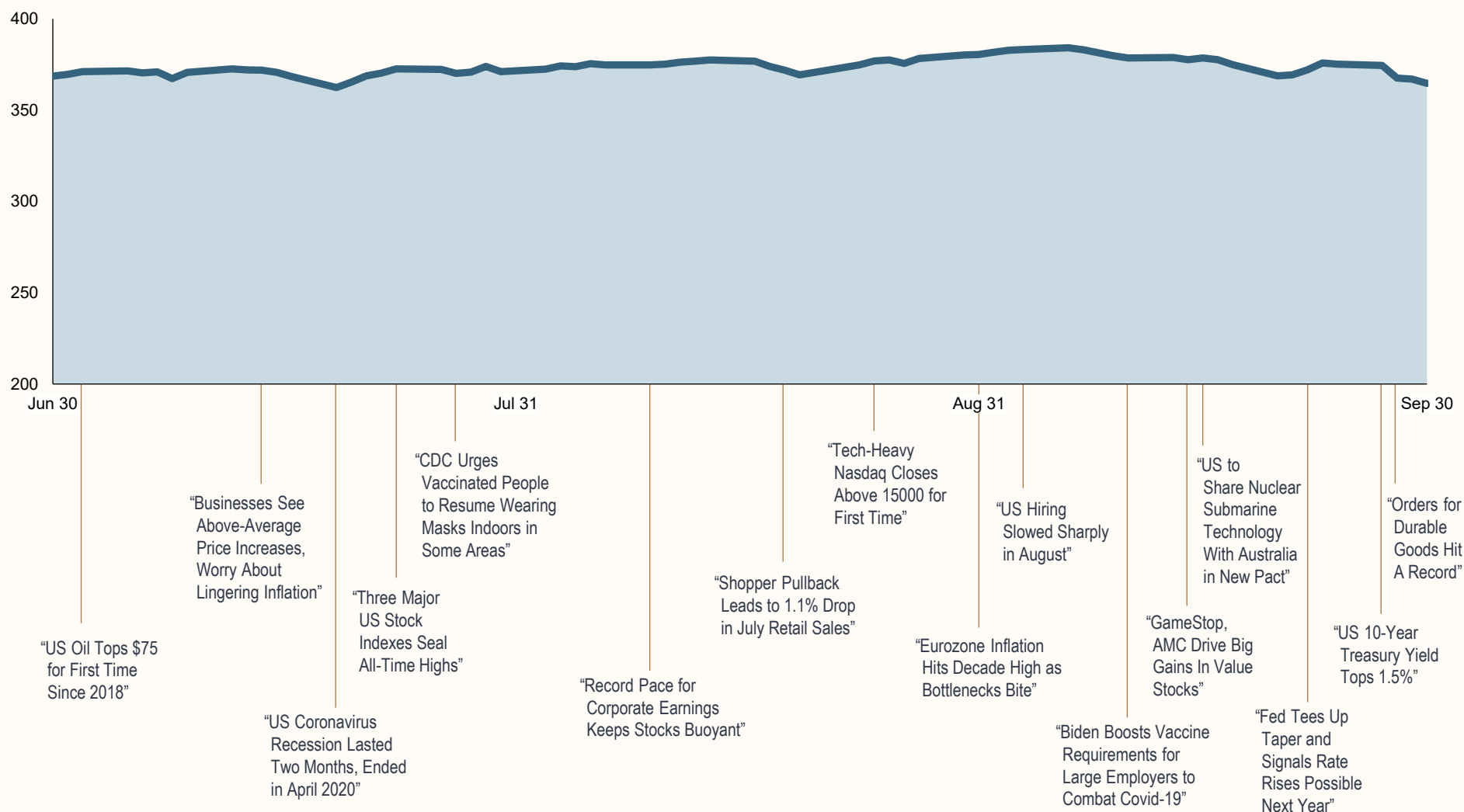
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	31.88% ↑	26.50% ↑	18.20% ↑	31.61% ↑	-0.90% ↓	-0.54% ↓
5 Years						
	16.85% ↑	8.88% ↑	9.23% ↑	4.65% ↑	2.94% ↑	2.71% ↑
10 Years						
	16.60% ↑	7.88% ↑	6.09% ↑	8.70% ↑	3.01% ↑	3.87% ↑

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World Stock Market Performance

MSCI ALL COUNTRY WORLD INDEX WITH SELECTED HEADLINES FROM Q3 2021



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

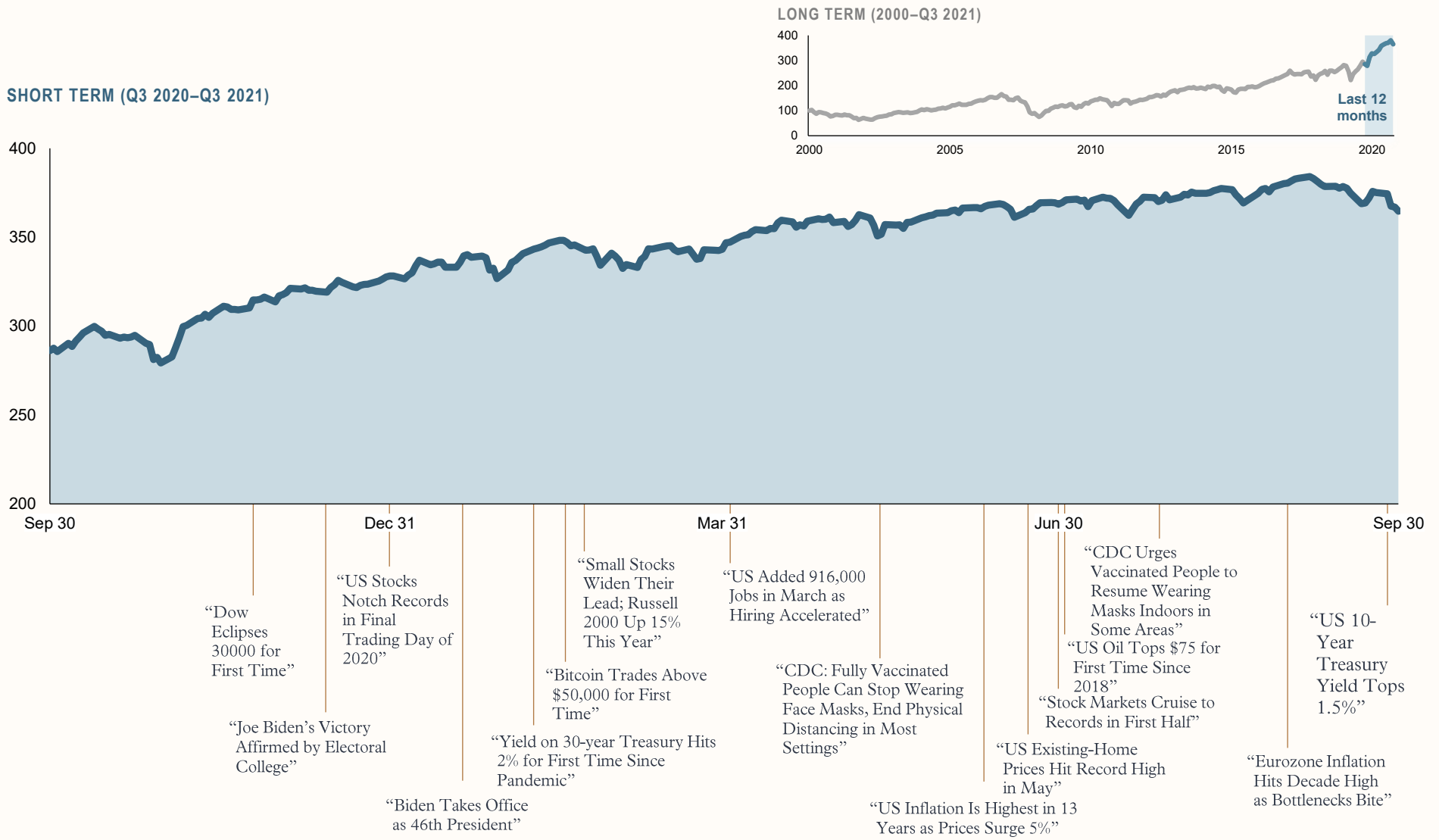
Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.



World Stock Market Performance

MSCI ALL COUNTRY WORLD INDEX WITH SELECTED HEADLINES FROM PAST 12 MONTHS



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.

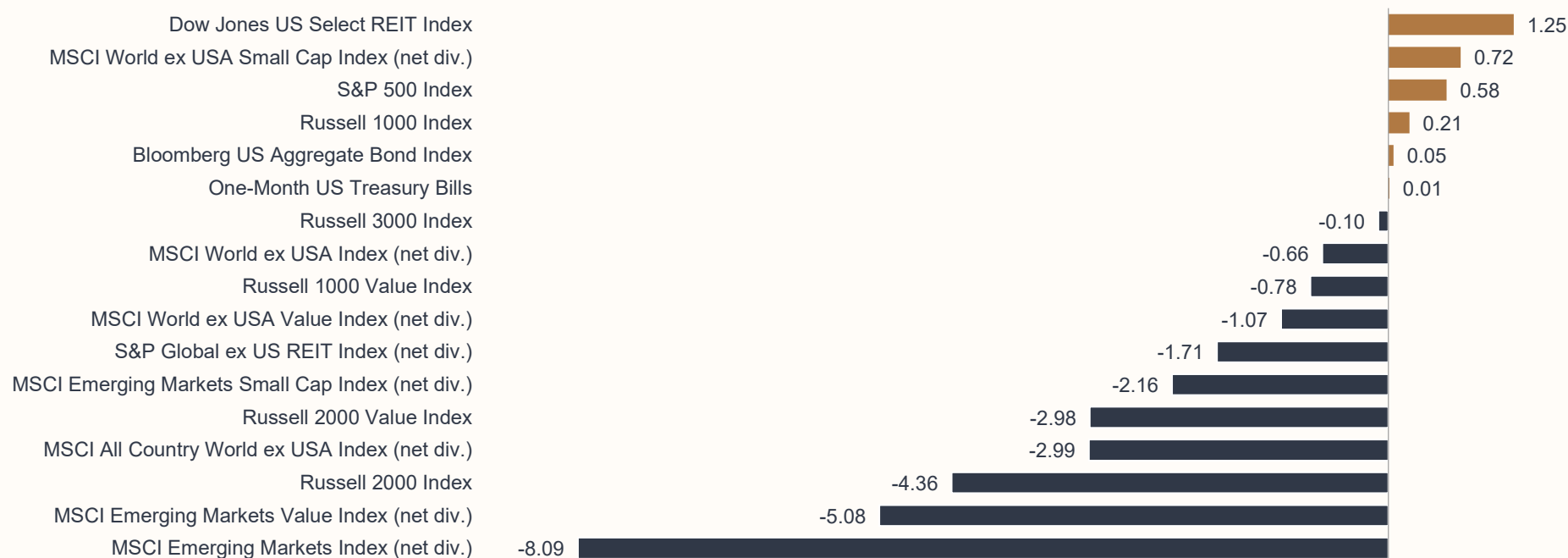
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**



World Asset Classes

THIRD QUARTER 2021 INDEX RETURNS (%)

- Equity markets around the globe declined in the third quarter. Looking at broad market indices, US and non-US developed markets outperformed emerging markets.
- Value performance was mixed in the US, with small value outperforming small growth but large value underperforming large growth. Value underperformed growth in non-US developed markets and outperformed in emerging markets.
- Small caps underperformed large caps in the US but outperformed in non-US developed and emerging markets.
- REIT indices outperformed equity market indices in the US and underperformed in non-US developed markets.



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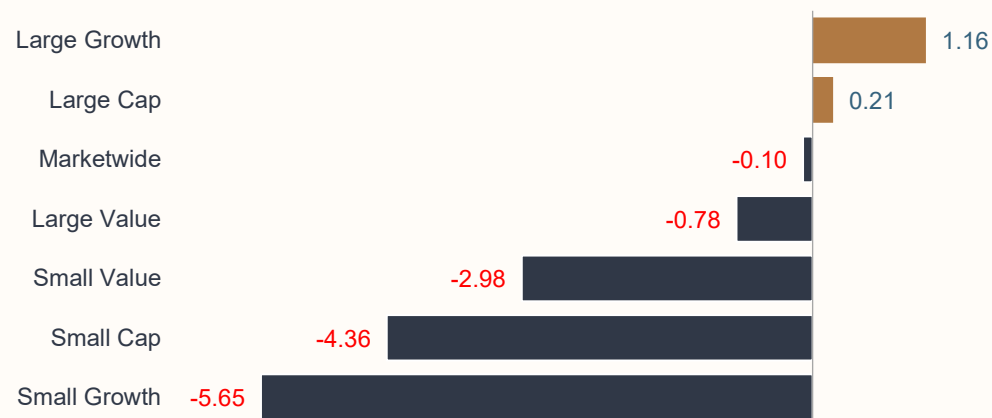


US Stocks

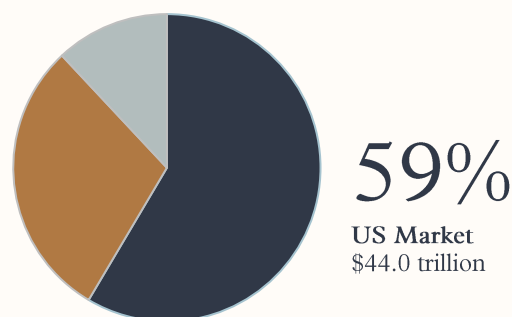
THIRD QUARTER 2021 INDEX RETURNS

- The US equity market was flat for the quarter and outperformed non-US developed markets and emerging markets.
- Value underperformed growth in large cap stocks but outperformed growth in small cap stocks.
- Small caps underperformed large caps.
- REIT indices outperformed equity market indices.

Q3 '21 RANKED RETURNS (%)



WORLD MARKET CAPITALIZATION—US



Data Series	* Annualized					
	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Large Growth	1.16	14.30	27.32	22.00	22.84	19.68
Large Cap	0.21	15.19	30.96	16.43	17.11	16.76
Marketwide	-0.10	14.99	31.88	16.00	16.85	16.60
Large Value	-0.78	16.14	35.01	10.07	10.94	13.51
Small Value	-2.98	22.92	63.92	8.58	11.03	13.22
Small Cap	-4.36	12.41	47.68	10.54	13.45	14.63
Small Growth	-5.65	2.82	33.27	11.70	15.34	15.74

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved.



International Developed Stocks

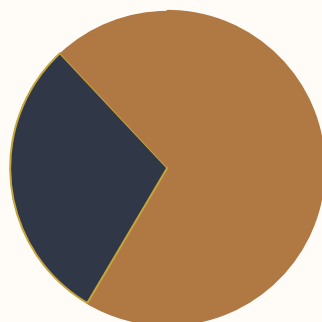
THIRD QUARTER 2021 INDEX RETURNS

- Developed markets outside the US declined less than 1% for the quarter and underperformed US equities but outperformed emerging markets.
- Value underperformed growth.
- Small caps outperformed large caps.

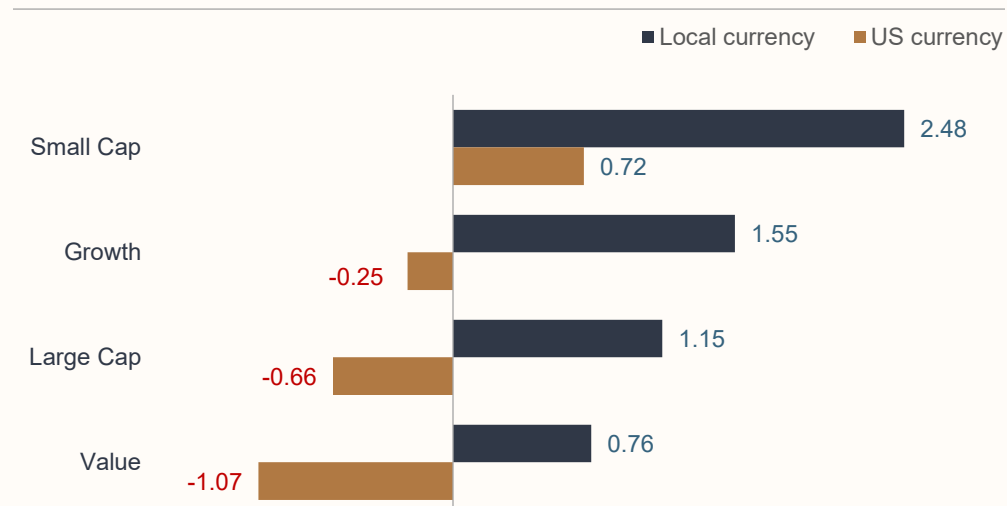
WORLD MARKET CAPITALIZATION—INTERNATIONAL DEVELOPED

30%

International Developed Market
\$22.2 trillion



Q3 '21 RANKED RETURNS (%)



PERIOD RETURNS (%)

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	0.72	10.71	30.14	9.50	10.33	10.03
Growth	-0.25	6.99	20.50	11.93	11.21	9.64
Large Cap	-0.66	9.19	26.50	7.87	8.88	7.88
Value	-1.07	11.15	32.60	3.45	6.25	5.95

* Annualized

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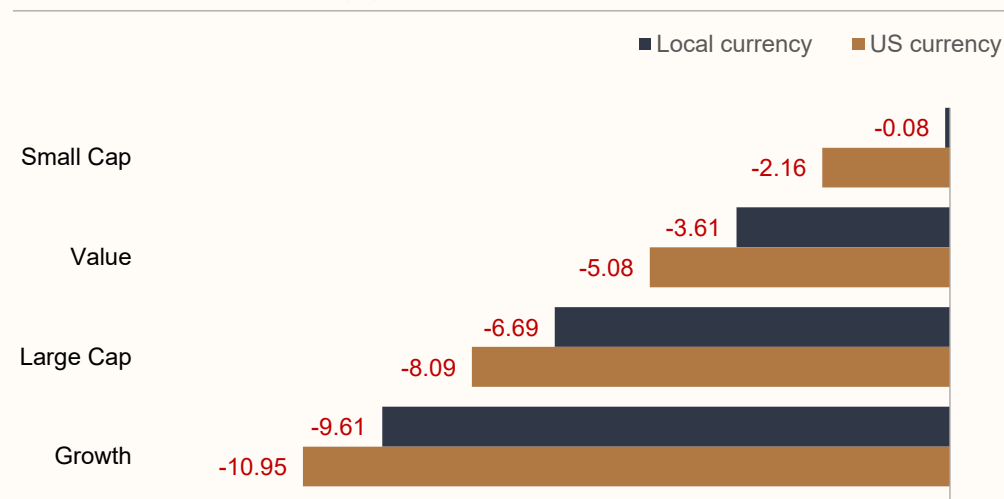


Emerging Markets Stocks

THIRD QUARTER 2021 INDEX RETURNS

- Emerging markets posted negative returns for the quarter, underperforming the US and non-US developed equity markets.
- Value outperformed growth.
- Small caps outperformed large caps.

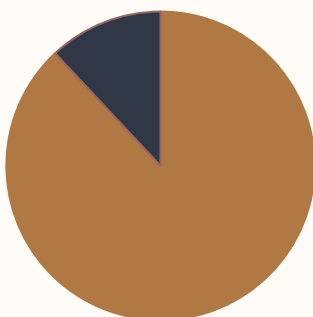
Q3 '21 RANKED RETURNS (%)



WORLD MARKET CAPITALIZATION—EMERGING MARKETS

12%

Emerging Markets
\$9.0 trillion



PERIOD RETURNS (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	-2.16	17.20	43.24	13.11	9.75	7.21
Value	-5.08	4.43	28.43	4.77	6.87	3.79
Large Cap	-8.09	-1.25	18.20	8.58	9.23	6.09
Growth	-10.95	-6.46	9.28	12.15	11.36	8.23

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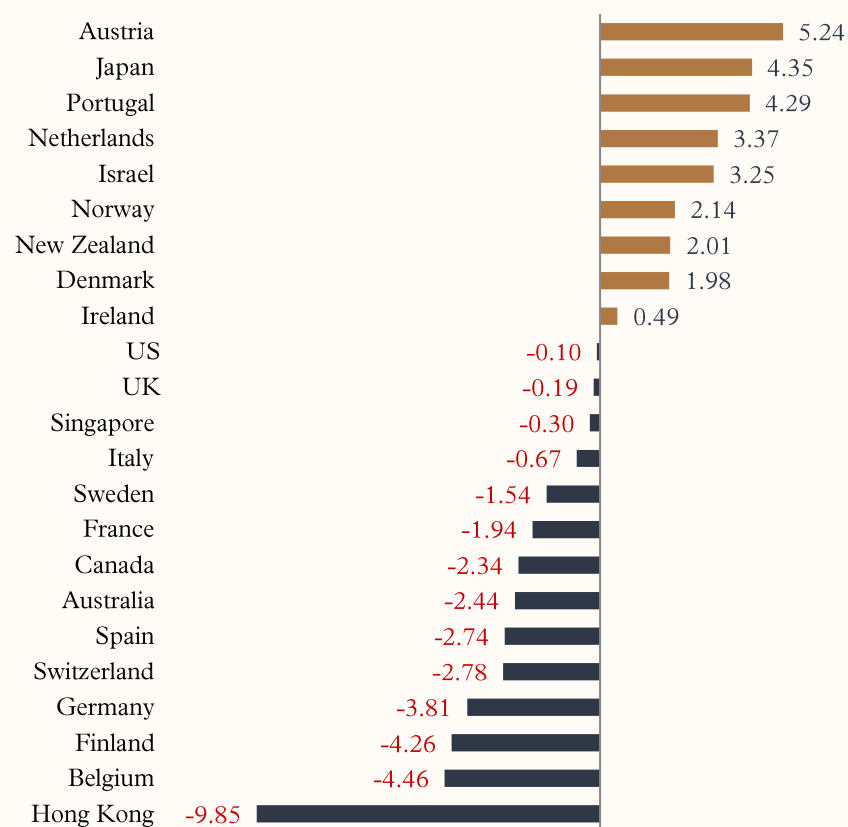


Select Market Performance

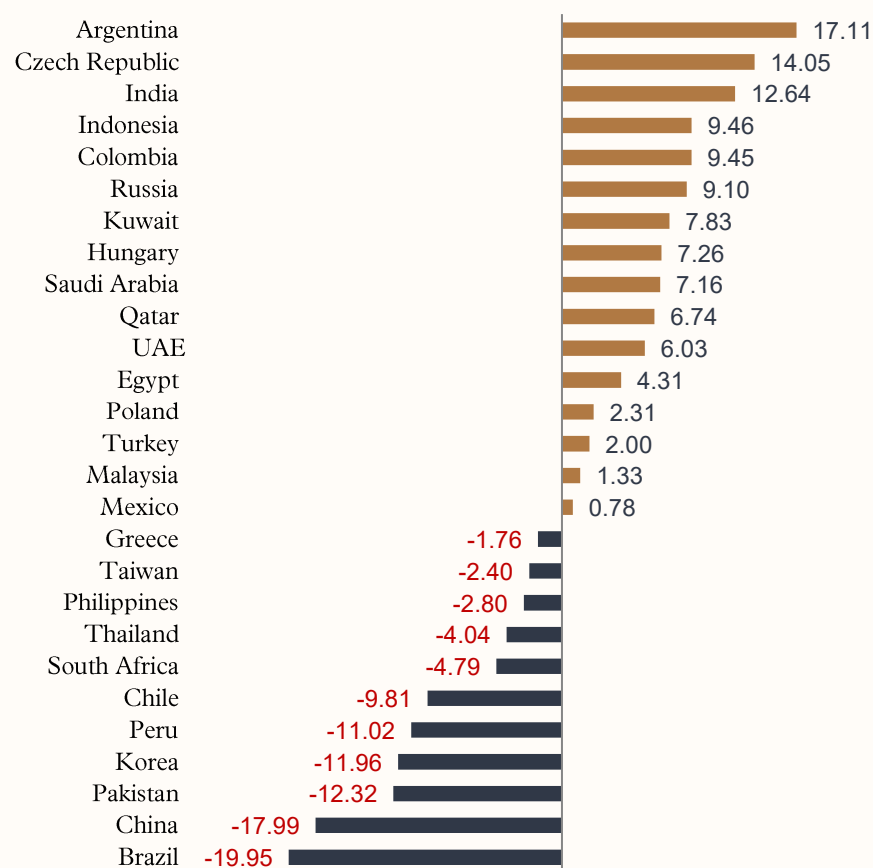
THIRD QUARTER 2021 INDEX RETURNS

- In US dollar terms, Austria and Japan recorded the highest country performance in developed markets, while Belgium and Hong Kong posted the lowest returns for the quarter. In emerging markets, Argentina and the Czech Republic recorded the highest country performance, while Brazil and China posted the lowest performance.

Q3 '21 RANKED DEVELOPED MARKETS RETURNS (%)



Q3 '21 RANKED EMERGING MARKETS RETURNS (%)



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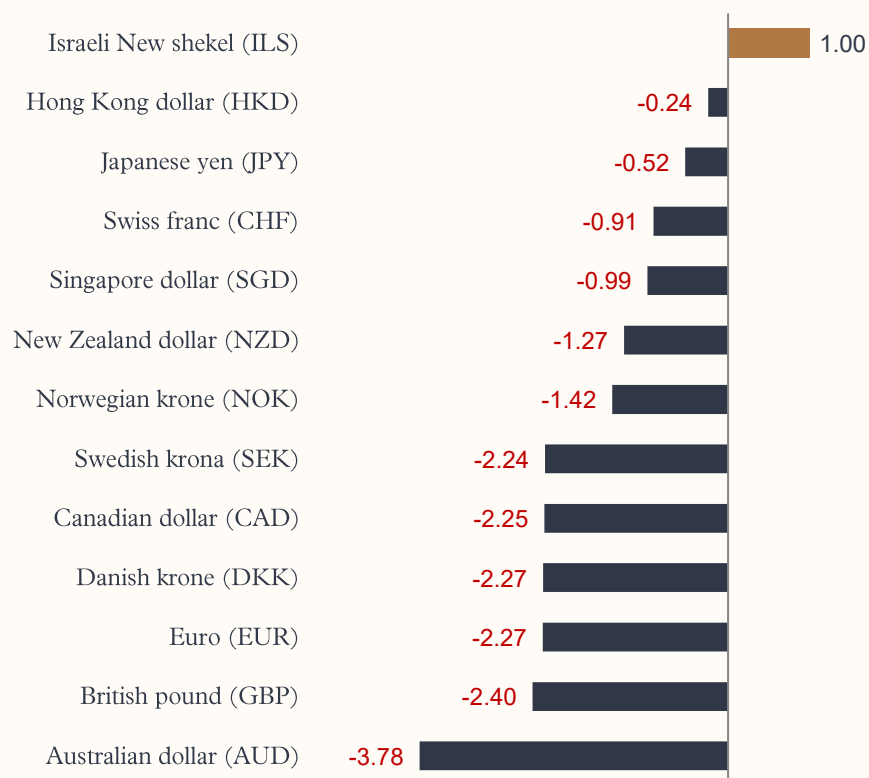


Select Currency Performance vs. US Dollar

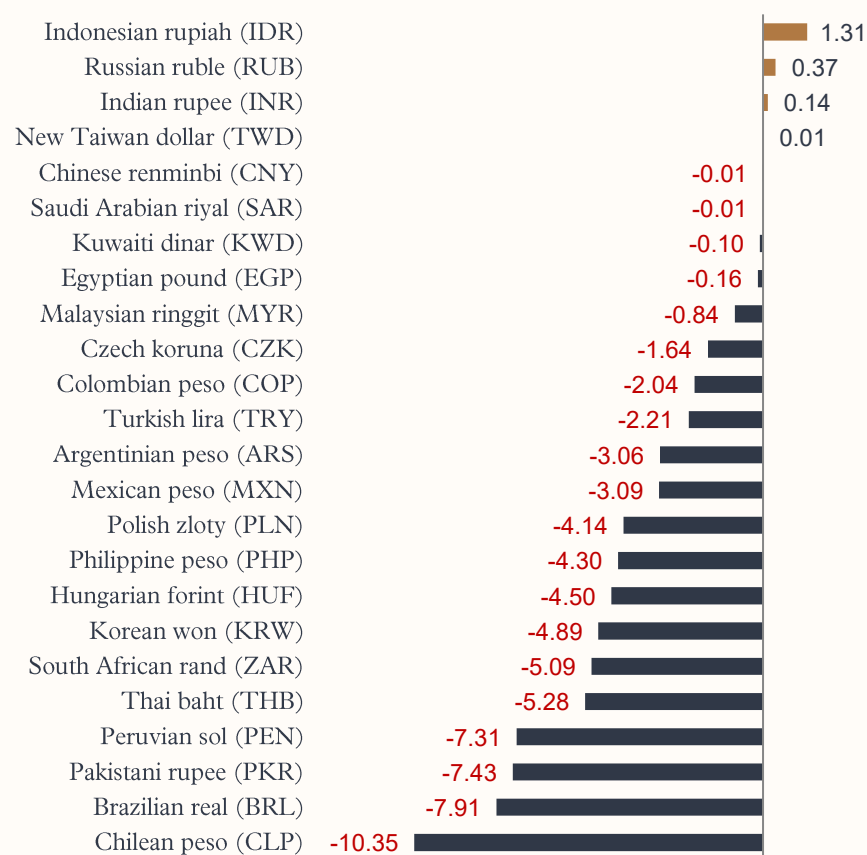
THIRD QUARTER

- In emerging and developed markets, most currencies depreciated vs. the US dollar.

Q3 '21 RANKED DEVELOPED MARKETS (%)



Q3 '21 RANKED EMERGING MARKETS (%)





Real Estate Investment Trusts (REITs)

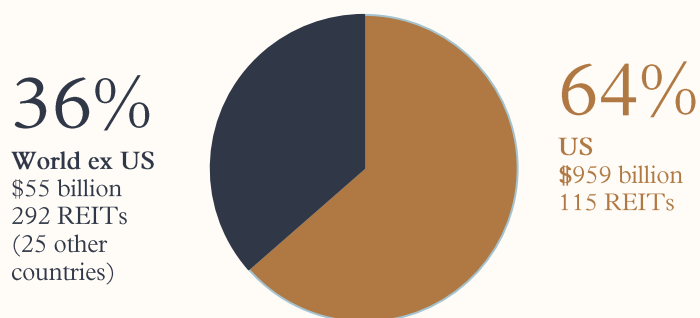
THIRD QUARTER 2021 INDEX RETURNS

- US real estate investment trusts outperformed non-US REITs during the quarter.

Q3 '21 RANKED RETURNS (%)



TOTAL VALUE OF REIT STOCKS



PERIOD RETURNS (%)

Asset Class	QTR	YTD	1 Year	3 Years**	* Annualized	
					5 Years**	10 Years**
US REITS	1.25	24.48	40.56	8.32	5.68	10.53
Global ex US REITS	-1.71	7.80	24.01	4.52	3.28	6.81

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



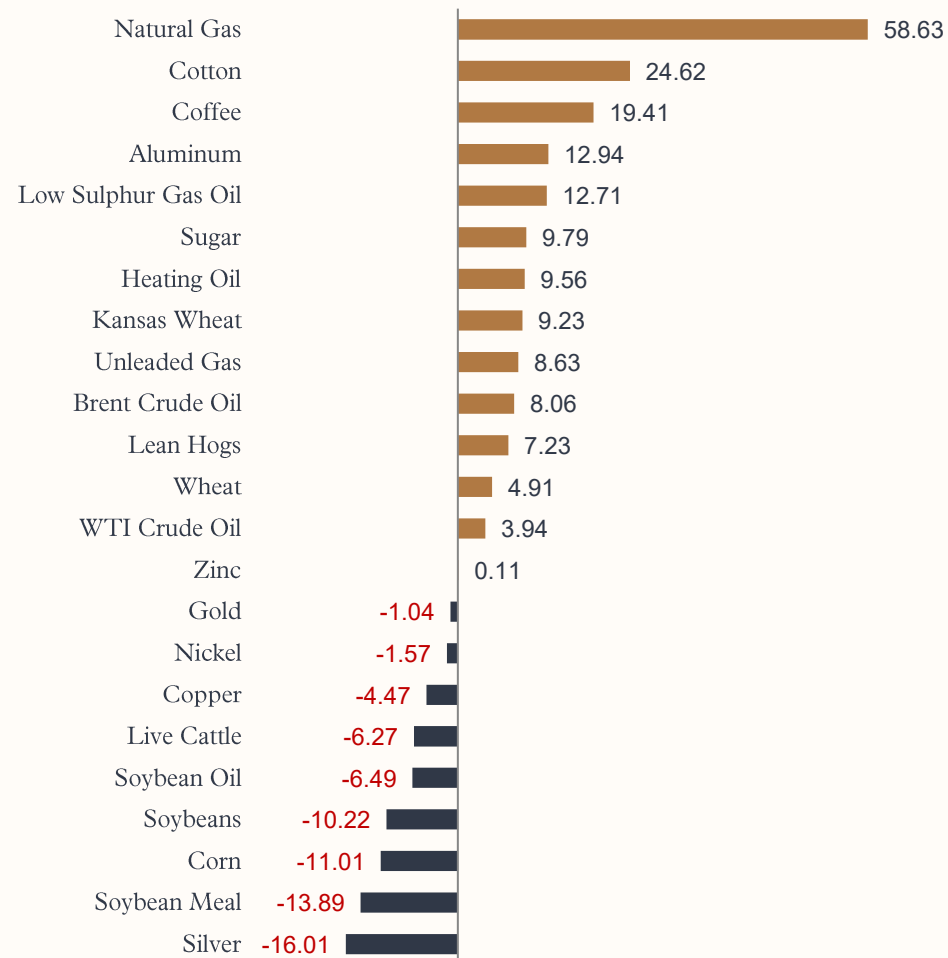
Commodities

THIRD QUARTER 2021 INDEX RETURNS

- The Bloomberg Commodity Index Total Return returned 6.59% for the third quarter of 2021.
- Natural Gas and Cotton were the best performers, gaining 58.63% and 24.62%, respectively.
- Silver and Soybean Meal were the worst performers, declining 16.01% and 13.89%, respectively.

PERIOD RETURNS (%)		* Annualized				
Asset Class	QTR	YTD	1 Year	3 Years**	5 Years**	10 Years*
Commodities	6.59	29.13	42.29	6.86	4.54	-2.66

Q3 '21 RANKED RETURNS (%)



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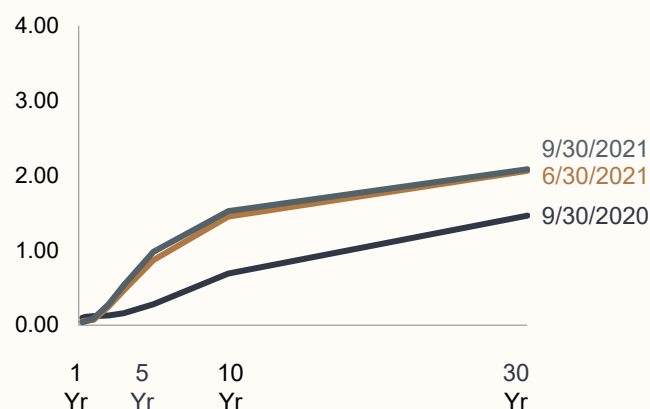


Fixed Income

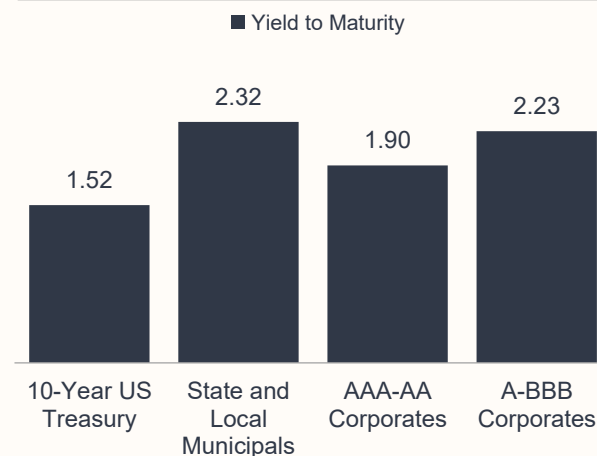
THIRD QUARTER 2021 INDEX RETURNS

- Interest rates in the US Treasury fixed income market generally increased during the third quarter. The yield on the 5-year Treasury note rose 12 basis points (bps), ending at 1.00%. The yield on the 10-year Treasury note increased 8 bps to 1.54%. The 30-year Treasury Bond yield rose 1 bp to finish at 2.05%.
- On the short end of the curve, the 1-month Treasury bill yield increased 2 bps, ending at 0.07%, while the 1-year Treasury bill yield decreased 1 bp to 0.09%. The 2-year Treasury note yield increased 5 bps to 0.30%.
- In terms of total returns, short-term corporate bonds returned 0.11%. Intermediate-term corporate bonds gained 0.08%.
- The total return for short-term municipal bonds was 0.08%, while intermediate munis lost 0.04%. Revenue bonds performed in line with general obligation bonds for the quarter.

US TREASURY YIELD CURVE (%)



BOND YIELD ACROSS ISSUERS (%)



PERIOD RETURNS (%)

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*
Bloomberg US TIPS Index	1.75	3.51	5.19	7.45	4.34
Bloomberg US High Yield Corporate Bond Index	0.89	4.53	11.28	6.91	6.52
Bloomberg US Government Bond Index Long	0.46	-7.40	-10.13	9.17	3.34
Bloomberg US Aggregate Bond Index	0.05	-1.55	-0.90	5.36	2.94
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.02	-0.28	-0.11	2.77	1.90
ICE BofA 1-Year US Treasury Note Index	0.02	0.11	0.17	1.88	1.46
ICE BofA US 3-Month Treasury Bill Index	0.01	0.04	0.07	1.18	1.16
Bloomberg Municipal Bond Index	-0.27	0.79	2.63	5.06	3.26
FTSE World Government Bond Index 1-5 Years	-1.00	-3.06	-0.93	2.18	0.98

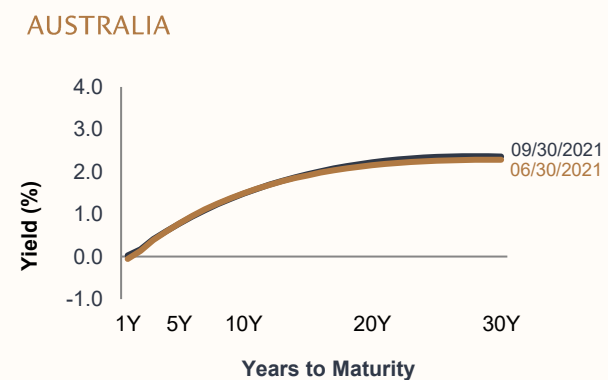
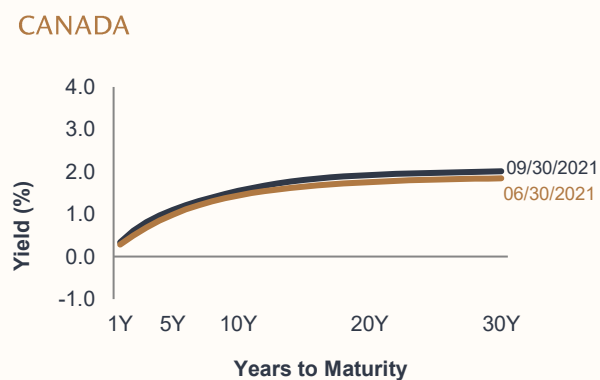
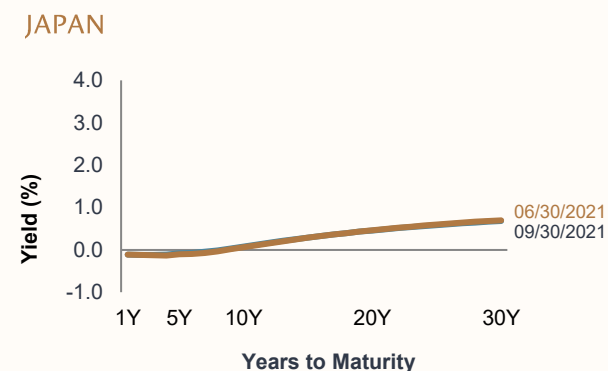
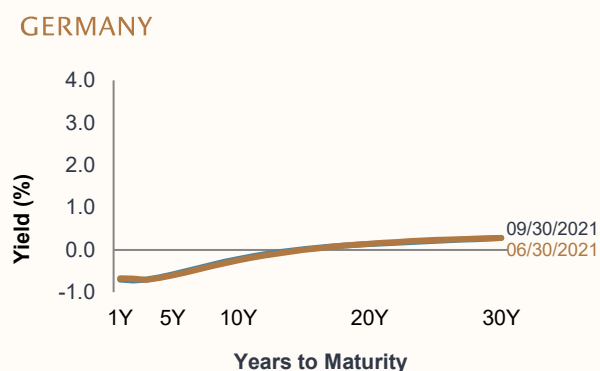
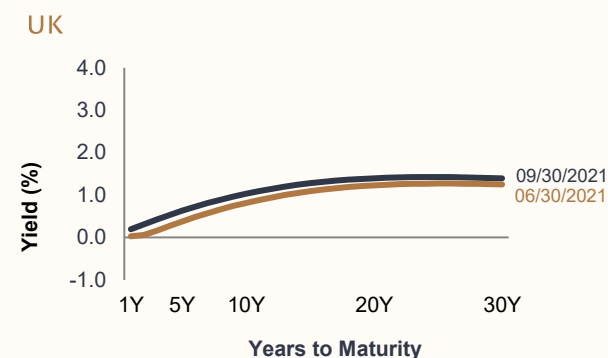
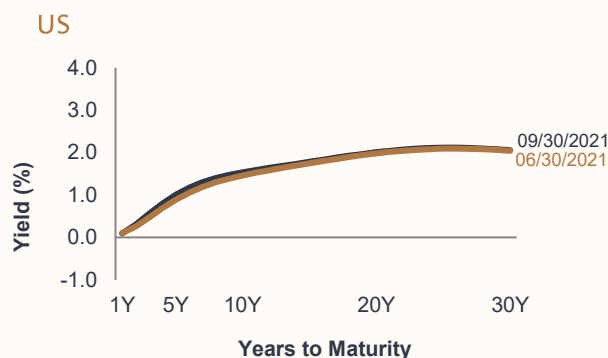
One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2021 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2021 ICE Data Indices, LLC. S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



Global Fixed Income

THIRD QUARTER 2021 YIELD CURVES

- Government bond yields in the global developed markets generally increased for the quarter.
- Term premiums were mixed in developed markets.
- Short- and intermediate-term nominal interest rates were negative in Japan and Germany.



CHANGES IN YIELDS (BPS) SINCE 6/30/2021

	1Y	5Y	10Y	20Y	30Y
US	-1.0	11.9	7.6	2.7	1.0
UK	16.7	25.2	21.6	16.6	14.4
Germany	-2.7	2.3	3.6	-0.8	0.2
Japan	-0.1	2.0	1.2	-0.3	-1.8
Canada	5.4	11.2	10.7	16.5	16.8
Australia	8.3	-0.6	-1.2	6.7	8.1



Impact of Diversification

THIRD QUARTER 2021

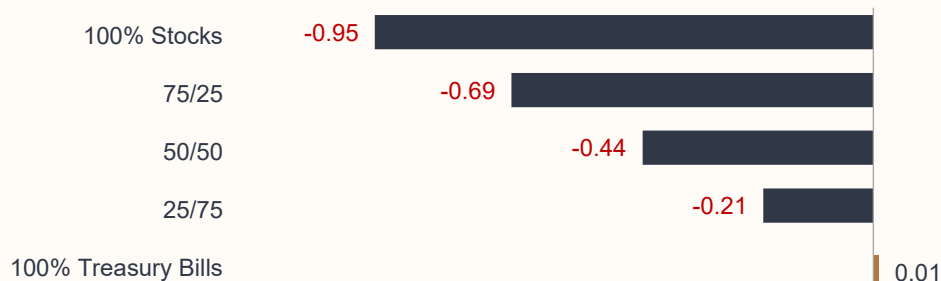
- These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification.
- Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

PERIOD RETURNS (%)

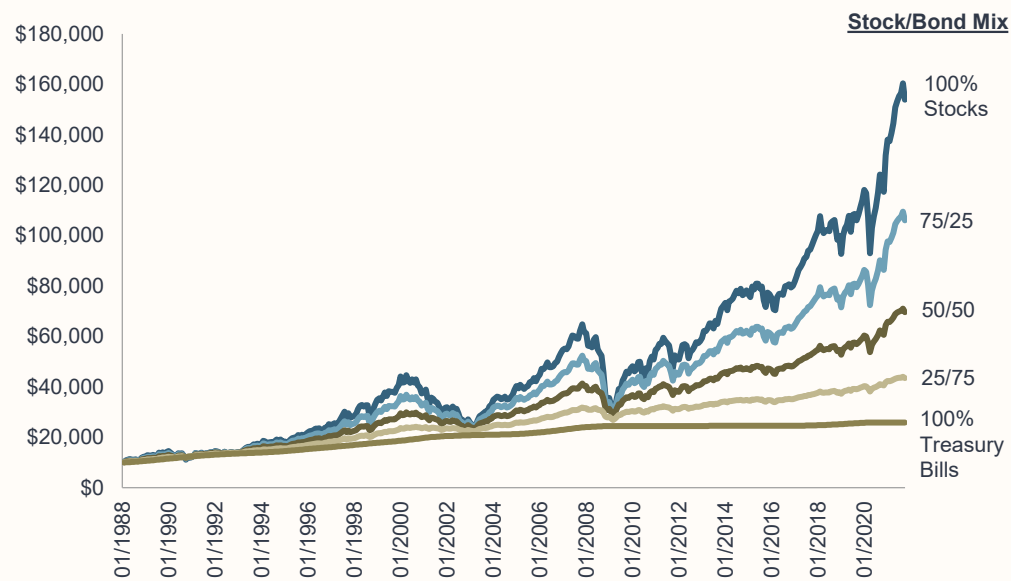
* Annualized

Asset Class	YTD	1 Year	3 Years**	5 Years**	10 Years**	10-Year STDEV ¹
100% Stocks	11.49	27.98	13.14	13.77	12.50	13.46
75/25	8.57	20.59	10.34	10.68	9.58	10.09
50/50	5.68	13.47	7.38	7.53	6.61	6.72
25/75	2.83	6.62	4.28	4.31	3.60	3.35
100% Treasury Bills	0.02	0.04	1.05	1.05	0.55	0.23

Q3 '21 RANKED RETURNS (%)



GROWTH OF WEALTH: THE RELATIONSHIP BETWEEN RISK AND RETURN



¹ STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio. Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2021, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).



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