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SOL CAPITAL MANAGEMENT COMPANY

Client Investment Letter

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The continued economic re-opening and successful vaccine distribution in many regions (especially in the U.S.) allowed for a release of pent-up consumer demand. However, global supply lines remain somewhat dislocated because of the pandemic's disruption and are not quite able to keep up with demand. As a result, inflation numbers continue to make headlines as ordinary consumers grapple with higher prices on energy, real estate, airfare, and used cars. Global financial markets recorded solid returns in the second quarter. Equities continued their broad rally, with some change in leadership, while bond markets began to recover as yields unexpectedly fell.

Asset managers and policymakers alike are debating how persistent this bout of inflation might be. Is it just a byproduct of pent-up demand meeting short-term supply chain bottlenecks, or are we experiencing a return to 1970s-style inflation? Furthermore, the future direction of government spending, stimulus, and tax rates globally pose multiple sources of uncertainty for many market participants. Guessing the outcome of these overhangs may drive investors to overreact, making big changes to their portfolios, and potentially doing more harm than good to their future financial stability.

In response to these unknowns, we, as always, urge caution, patience, and discipline. On inflation, we tend to side with the Federal Reserve's view that the current headline-grabbing price increases should be more transitory in nature, though we do expect marginally higher inflation versus the lackluster levels we witnessed since the Global Financial Crisis. Fortunately, there are a number of ways to protect a portfolio against rising prices that do not require a drastic overweighting towards more volatile alternative assets such as gold and other commodities. A well-diversified portfolio of equities has a proven track record of withstanding sustained inflationary periods (see Appendix A).

Regarding tax rates, we encourage investors to not focus on the worst-case scenario(s) that might circulate through the media. Much time-consuming negotiation and wrangling go into tax legislation, as it is naturally one of (if not) the most politically sensitive. Pre-maturely generating capital gains in the anticipation of higher tax rates could be a dangerous strategy – especially as we approach yet another election year in the United States. In the meantime, there are several tax-efficient strategies we continue to employ when managing taxable portfolios, such as a heavier utilization of exchange-traded funds (ETFs) and tax loss harvesting when available and applicable.

More pressing than these issues is the uncertainty surrounding COVID-19's Delta variant, which continues its rapid spread around the globe. How national and local governments tackle this threat is of utmost concern to financial markets. Will we witness the re-imposition of social-distancing measures, or instead will there be more of a concerted effort to convince unvaccinated populations to receive their doses, lessen the strain on

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the health care system, keep most businesses open, and allow the economic recovery to continue?

As investors, it is impossible to time these health crises and policy developments, where short-term outcomes can meaningfully pivot on "man-made" (and ever-evolving) responses by government and society at large. Now is not the time to make portfolios overly aggressive, nor is it the time to become overly conservative. Broad diversification across asset classes, sectors, styles, and geographies, coupled with periodic rebalancing to your strategic, long-term asset allocation target is a time-tested way to navigate uncertainty in markets, politics, and the economy over the long term.

Financial Markets Performance

"Performance across styles and capitalizations remained uneven. In the second quarter, international, growth, and large-cap equity indices accelerated relative to the broad U.S. market, value, and smaller caps."

Equities

Global equity markets continued to move higher during the second quarter, extending the strong gains achieved in the first three months of 2021 (see Exhibit 1). In the U.S., all major stock indices reached new highs as the economic reopening and expansion swung into full gear. That said, since quarter-end, all markets in the U.S. have experienced more volatility, reflecting some caution about the possible spread of the Delta variant in the U.S., as well as concerns about rising input costs.

All S&P 500 sectors posted positive returns between April and June, with the exception of utilities (-0.40%). Technology and real estate posted low-teens growth, taking over the lead from energy and financials as the reopening broadened with a pickup in business activity. Still, energy and financials posted solid 11.3% and 8.4% returns, respectively for the quarter. Retail activity also picked up as evidenced by accelerating performance in consumer and health care indices.

Performance across styles and capitalizations remained uneven. In the second quarter, international, growth, and large-cap equity indices accelerated relative to the broad U.S. market, value, and smaller caps. The latter categories rose at a more moderate pace relative to their robust first quarter rally, but due to their sensitivity to the global economic restart, still finished ahead for the first half of 2021.

Equities in developed markets outside the U.S. continued to advance relative to the first quarter but also met headwinds from the new Delta variant. This new health threat took a toll on Japanese equity returns and the yen, as social-distancing restrictions were reimposed amid rising cases.

In addition to the return of pandemic restrictions and rising inflation, emerging market stocks were hammered by rising geopolitical tension across several regions. A stalemate in OPEC negotiations also contributed to volatility as emerging markets are more economically sensitivity to commodities and manufacturing costs. Most notably, China's moves to more tightly control commodity prices and technology companies triggered a sudden reversal to the commodity price surge and clipped the multiples on many of the country's behemoth technology and e-commerce stocks.

Financial Market Performance Cont.

Exhibit 1

Total Return* for Selected Equity Indices	Second Quarter (03/31/21 to 06/30/21) %	First Half (12/31/20 to 06/30/21) %	Year-to-Date (12/31/20 to 7/31/21) %
S&P 500 Index	8.5	15.3	18.0
S&P 500 Growth Index	11.9	14.3	18.6
S&P 500 Value Index	5.0	16.3	17.2
Russell 3000 (Total U.S. Market) Index	8.2	15.1	17.1
Russell 2000 (Small-Cap) Index	4.3	17.5	13.3
Russell 2000 (Small-Cap) Growth Index	3.9	9.0	5.0
Russell 2000 (Small-Cap) Value Index	4.6	26.7	22.2
MSCI All Country World ex-U.S. Index (Net)	5.5	9.2	7.4
MSCI All Country World ex-U.S. Growth Index (Net)	6.6	6.5	4.9
MSCI All Country World ex-U.S. Value Index (Net)	4.3	11.7	9.7
MSCI EAFE (International) Index (Net)	5.2	8.8	9.6
MSCI Emerging Markets Index (Net)	5.0	7.4	0.2
MSCI ACWI Commodity Producers (Net)	8.1	23.1	21.6

Source: Bloomberg LP. *Includes price appreciation plus dividends and/or interest.

Fixed Income

The second quarter saw a dramatic decline in U.S. yields that took markets by surprise, as futures curves had predicted a path higher. A cool-off from the rapid rise in the first quarter, as well as a short squeeze of like-minded institutional investors positioned for an expected increase in rates contributed to the reversal.

The Bloomberg Barclays U.S. Aggregate Bond Index rose 1.8% during the second quarter as longer-dated Treasuries and investment-grade bonds rose (see Exhibit 2). Nonetheless, the index remained in negative territory by mid-year. Securitized debt also rallied as equities pared gains with reduced risk appetite at quarter-end. Similarly, U.S. and U.K. investment-grade bonds delivered positive performance as rates backed up. Global government debt, as well as European investment-grade bonds were flat, as growth prospects on the continent lagged.

High-yield bonds were up 2.6%, with lower quality issues continuing to outperform. Investors' hunger for yield and the asset class' relatively low duration drove performance. Meanwhile, emerging market debt rose mainly due to the decline in U.S. yields, making U.S. debt appear relatively less attractive. The rapid rise and fall in U.S. yields have defined a wide corridor for rates volatility globally this year.

"The rapid rise and fall in U.S. yields have defined a wide corridor for rates volatility globally this year."

Financial Markets Performance Cont.

Exhibit 2

Total Return* for Major Fixed Income & Hedge Fund Indices	Second Quarter (03/31/21to 06/30/21) %	First Half (12/31/20 to 6/30/21) %	Year-to-Date (12/31/20 to 07/31/21) %
Bloomberg Barclays U.S. Aggregate Bond Index	1.8	(1.6)	(0.5)
Bloomberg Barclays U.S. Government/Credit Index	2.4	(2.0)	(0.7)
ICE BofAML 1-3 year U.S. Broad Market Index	(0.1)	(0.2)	(0.0)
ICE BofAML U.S. High Yield BB-B Bond Index	2.6	2.9	3.4
JP Morgan Non-U.S. Global Bond Index (GBI) Hedged	0.2	(2.2)	(0.8)
JP Morgan EMBI Global Index in USD (Emerging Markets)	3.9	(1.0)	(0.5)
HFRX Equal Weighted Strategies Index (Hedge Funds)	1.7	3.4	2.7

Source: Bloomberg. *Includes price appreciation plus dividends and/or interest.

"Expansion across most major economies remains unsynchronized, with growth rates dependent on vaccine rollouts and the ability to sustainably reopen (see Appendix B)."

Global Economic Update

Expansion across most major economies remains unsynchronized, with growth rates dependent on vaccine rollouts and the ability to sustainably reopen (see Appendix B). China led the global recovery, with real GDP growing by just under 8% year-over-year in the second quarter. Meanwhile, the U.S. moved convincingly into the middle phase of the business cycle, growing at an annual 6.5% between April and June and surpassing pre-pandemic levels. After a delayed start towards recovery, conditions in Europe appear to be improving, with human mobility measures approaching U.S. levels as the E.U.'s vaccine rollout gains momentum.

In the U.S., high-frequency economic activity is almost back to normal, including air travel and the hotel sector, the latter of which is only 10% below its pre-pandemic levels. Prices are rising in many areas, most notably energy, real estate, used cars, and airfare. However, other "stickier" areas of the inflation index (e.g., food, medical care, education) are not experiencing such drastic price increases, when compared to discretionary spending and areas with more significant recent supply chain disruptions, suggesting that the drivers of inflation may be temporary.

The labor market remains tight with report after report confirming a surplus of job openings to the number of job seekers (see Appendix C). The causes continue to be debated but are likely a combination of some workers opting for retirement amid the pandemic, a plethora of low-paying jobs rendered

Global Economic Update Cont.

less attractive amid enhanced unemployment benefits (due to expire in September) and Child Tax credit, as well as moderate wage inflation stemming the outflow of workers from their current positions.

Concurrently, productivity has surged as businesses become more flexible and utilize technology more efficiently (see Appendix D). In fact, medium-term productivity levels are predicted to increase by 4% between 2020 and 2022, a significant increase over the post-2008 expansion.[2] Many professional industries are seeing increased efficiencies from accelerated digitization of the workplace, spurred by pandemic measures, with significant time savings from remote work and cost savings from foregone travel expenses. Consumers continue to move away from brick-and-mortar retail toward e-commerce. Finally, typical post-recession "creative destruction" is underway as unprofitable businesses downsize or exit the market.

In China, household consumption (which continues to claim a greater share of GDP each year[3]) is finally gaining momentum after being hit hard last year. Savings rates, though high as compared to the U.S. and other major economies, have declined to pre-pandemic levels. The unemployment rate remained roughly unchanged in the second quarter, with stubbornly higher rates for younger citizens, but migrant labor from the interior has recovered to pre-Covid levels.

However, Beijing's determination to restrain financial leverage, continued supply chain shortages, and sporadic virus outbreaks and lockdowns (e.g., Guangdong province) have dampened growth rates and outlooks. Industrial growth is decelerating as the current expansion matures, and rising material costs have squeezed margins for Chinese manufactures.

Elsewhere, Euro-area sentiment surveys of the service industry and consumer confidence rose to multi-year highs. Similar to the U.S., supply-side disruptions and shortages in Europe should diminish over time. In India, the daily number of new Covid-19 cases began to stabilize toward quarter-end and into July. Activity has broadly picked up, from mobility and electricity consumption to rail freight and automobile production. The story is somewhat similar in Brazil as an improvement in the virus situation and a gradual reopening has improved business and consumer sentiment. Conversely in Mexico, credit growth has been hampered by the continued weak investment outlook and increased regulatory uncertainty.[4]

"...productivity has surged as businesses become more flexible and utilize technology more efficiently (see Appendix D). In fact, medium-term productivity levels are predicted to increase by 4% between 2020 and 2022, a significant increase over the post-2008 expansion.[2]"

[1] J PMorgan Asset Management

[2] Goldman Sachs Global Investment Research

[3] As of 2019, approximately 40% of China's GDP was household consumption, up from an all-time low of 35% in 2010). Source: The World Bank Group.

[4] Goldman Sachs Global Investment Research

Investment Strategy

"At SOL Capital, we always take a Strategic, Objective, and Long-term approach to investing. We base all our decisions on our clients' specific needs and tolerances, seeking to ensure they are taking an appropriate amount of risk consistent with their stated goals.

As most major economies continue their trek toward (if not farther into) mid-cycle territory, investors should not be complacent. In this area of the business cycle, there tends to be a greater dispersion of returns across asset classes, regions, and sectors. As the proverbial life vest of cheap money and fiscal support is gradually removed, more firms will be left to sink or swim. The market as a whole is fully valued and earnings expectations are high (perhaps overly optimistic for certain sectors). Meeting those expectations quarter after quarter, even year after year, may prove difficult for some firms (or even broad sectors). This could trigger volatility going forward and underscores our continued emphasis on rebalancing to long-term asset allocation targets as well as broad diversification and active management – both in equities and fixed income.

At SOL Capital, we always take a Strategic, Objective, and Long-term approach to investing. We base all our decisions on our clients' specific needs and tolerances, seeking to ensure they are taking an appropriate amount of risk consistent with their stated goals. We believe assets that are not needed for several years (if not decades) should be invested in equities to allow them the opportunity to grow beyond inflation. These assets will always face volatility and uncertainty over the course of your investment horizon, but diversification will protect them against tail risks stemming from any one firm, sector, or even region. Assets that will be required in the near term should never be exposed to such levels of risk and volatility, even within bond markets. Yields may be meager, but money that you need in the coming weeks and months should not find its way into low-quality bonds or illiquid products that offer the chance (but never the promise) of higher yields. In every environment, from the most sanguine to the most chaotic, protection of your capital is our first, second, and third priority.

Equities

Within equity allocations, we continue to balance our exposure between growth and value. The reliance of the former on technology and e-commerce sectors suggests it could benefit if rates remain lower for longer than anticipated and/or as the economy goes through periodic episodes of rising virus cases and reimposed social distancing measures. At the same time, should the spread of the Delta variant spur a large portion of the unvaccinated population (both in the U.S. and abroad) to seek inoculation and the economy avoids a temporary slowdown, cyclically positioned value stocks stand to gain as activity continues to speed up, while prices (and eventually interest rates) rise.

Beyond a balance of style, we continue to recommend a healthy exposure to international equities. Europe's vaccination rollout is finally finding its footing and restrictions are being lifted across the continent. Therefore, while U.S. growth may already be reaching a peak, there is more room for Europe to grow in the coming quarters. Furthermore, while they are currently experiencing volatility from a variety of factors, emerging markets continue to offer some of the highest expected long-term returns among traditional asset classes for investors.

Investment Strategy Cont.

Fixed Income

Interest rates remain low by any historical standard and credit spreads are extremely tight. While that does not imply an impending correction in fixed income markets, it does mean investors should not rely on risk-free bonds to generate the income they might need. Long-duration Treasury bonds are not providing enough yield to beat inflation, and should rates begin to move up again, they are exposed to significant price risk. Diversification is warranted and required, particularly as volatility in interest rates picks up during this reset period.

We continue to take a barbell approach within fixed income. On one end, we focus on high-quality government and corporate bonds with short durations. These securities provide a ballast in volatile markets but offer the opportunity to reinvest in higher-yielding bonds more quickly should rates begin to rise. On the other end of the barbell (where appropriate), we include flexible strategies that provide exposure to sectors of the bond market that offer more yield (though with more volatility), such as corporate credit, bank loans, emerging market debt, and convertible securities.

In Conclusion

A "Goldilocks" scenario of dovish monetary policy and robust fiscal stimulus contributed to a rather docile appreciation of both equity and fixed income markets in the second quarter. We have come a long way since the depths of early 2020, but risks and uncertainties remain on the horizon.

The Delta variant continues to infect millions around the world, and how societies and governments respond to it may dictate economic growth and market returns in the near term. Furthermore, investors are at the mercy of several large upcoming policy decisions (e.g., infrastructure spending, tax rates, the "tapering" of monetary stimulus). Any update on these pending announcements may trigger volatility in the short term as markets digest the information and could have longer-term ramifications for the economy and investors. That said, rest assured that we are working tirelessly to monitor markets and the economy to ensure your portfolios are appropriately invested and prepared for any eventuality.

If there are any changes in your financial situation, liquidity needs, and/or investment goals, please let us know. If you have a question about financial markets or would like to discuss your portfolio in more detail, please do not hesitate to call us at +1 (301) 881-3727 or email us at client.services@sol-capital.com.

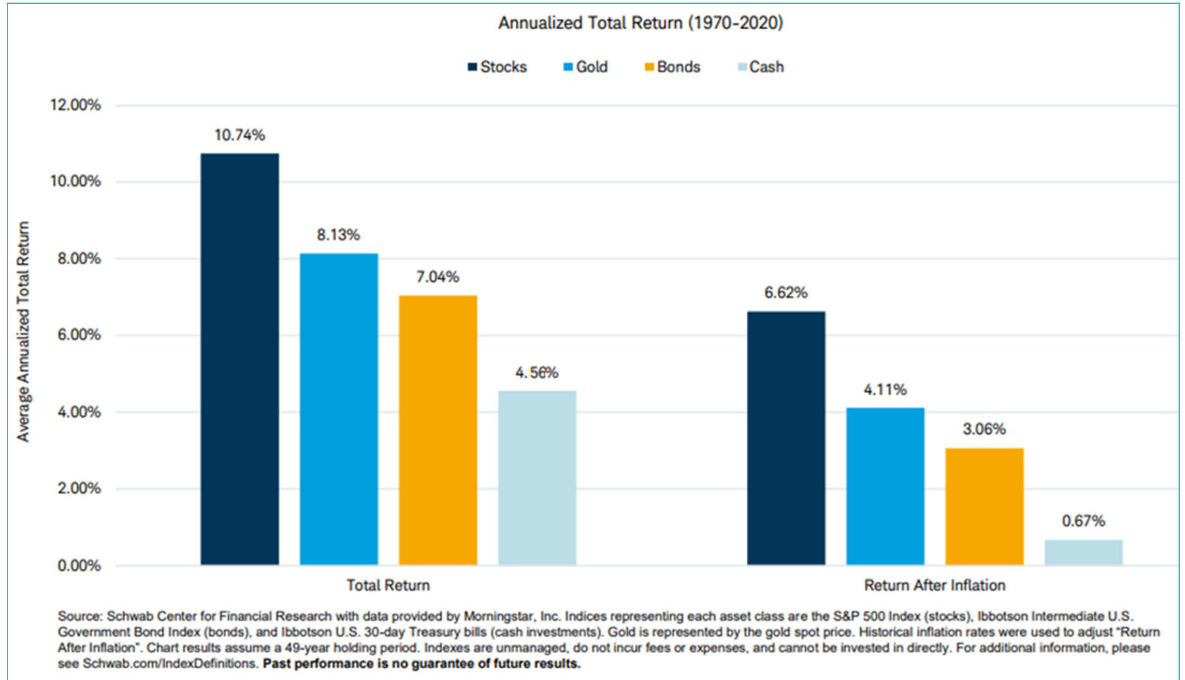
With our best regards,

SOL Capital Management Company

"...rest assured that we are working tirelessly to monitor markets and the economy to ensure your portfolios are appropriately invested and prepared for any eventuality."

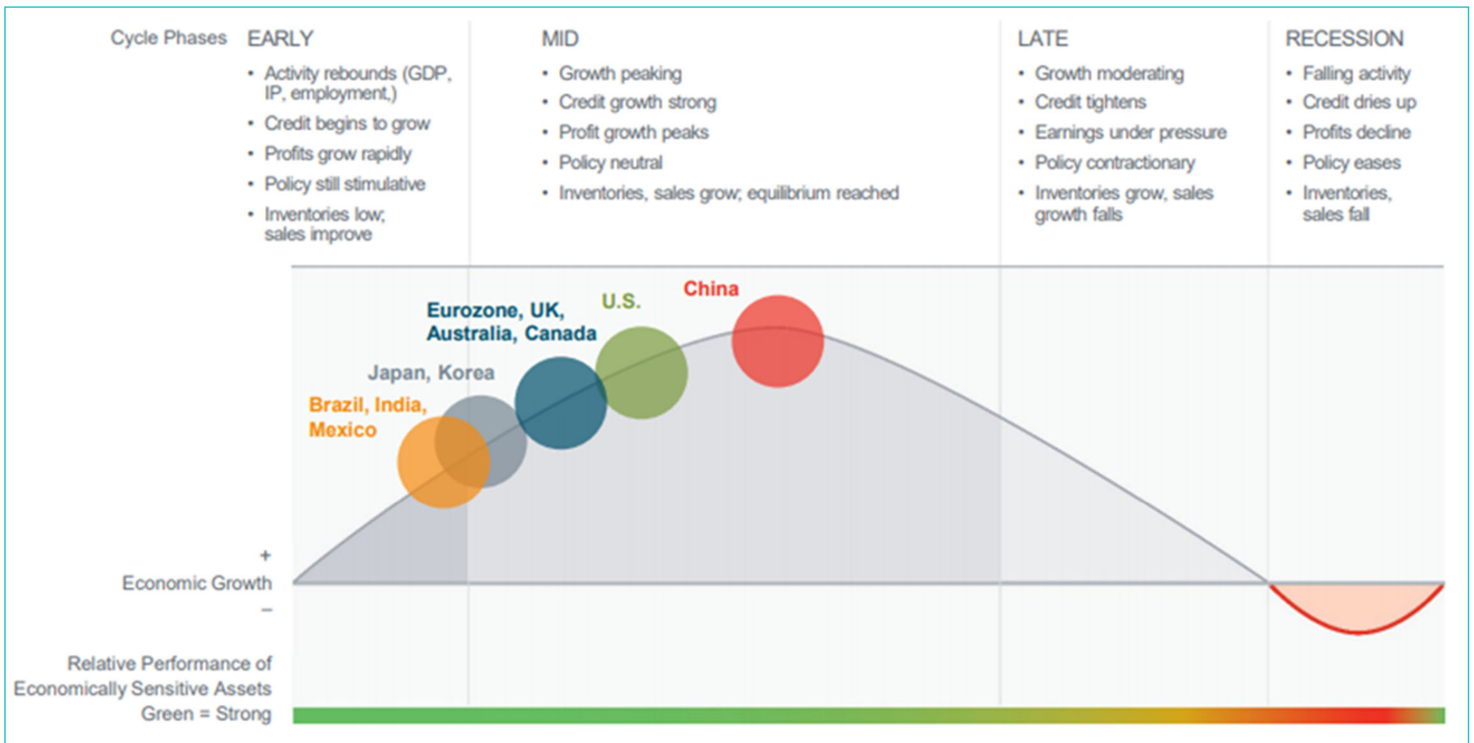
Appendices

Appendix A: Equities Hedge Against Inflation



Source: Charles Schwab, Data as of December 31, 2020.

Appendix B: Business Cycle Framework



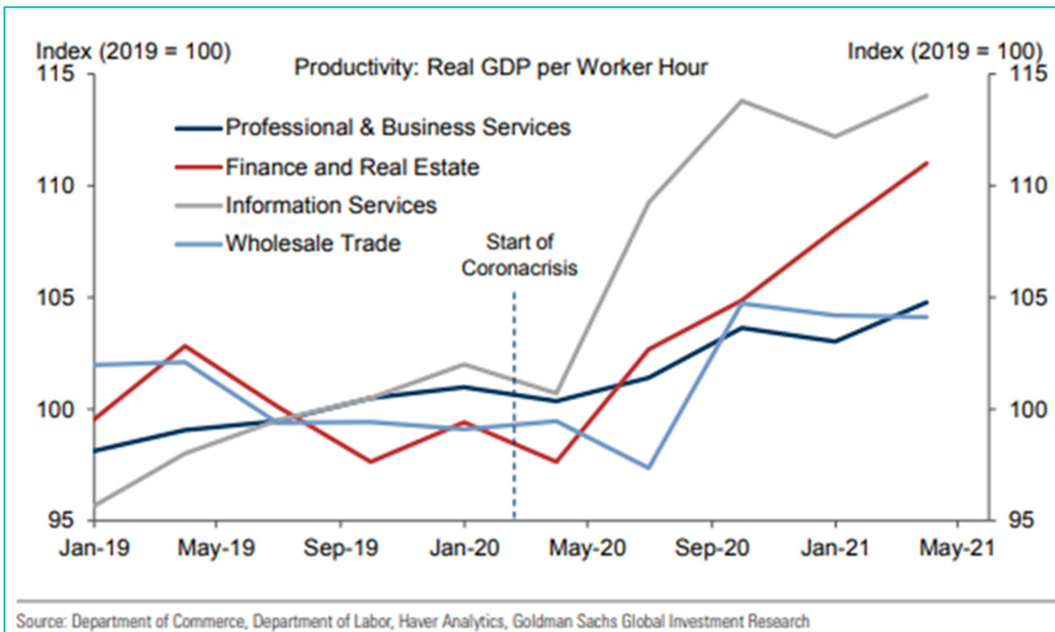
Source: Fidelity Investments. Data as of 30 June 2021.

Appendices Cont.

Appendix C: NFIB mall Business Jobs Report, jobs hard to fill

Source: JPMorgan Asset Management. Data as of 31 May 2021.

Appendix D: Productivity Surge in Non-Virus-Sensitive Services



Source: Goldman Sachs Global Investment Research.

Disclosures

SOL CAPITAL MANAGEMENT
111 Rockville Pike, Suite 750
Rockville, MD 20850
Phone: 301.881.3727

3 Columbus Circle, Suite 2120
New York, NY 10019
Phone: 212.710.4698

www.sol-capital.com
E-mail: sol@sol-capital.com

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