Quarterly Commentary

New York's 529 Advisor-Guided College Savings Program®

Q2 | 2021

Performance commentary

All of the Plan's age-based and asset allocation portfolios delivered positive returns during the quarter and remain above their benchmarks over year-to-date and one-year periods. Outperformance in the second quarter was driven by our equity overweight relative to bonds. In particular, a preference for U.S. REITs and European equities benefited the portfolios. However, within the U.S., a tilt toward value stocks detracted as yields retraced from cycle highs amid market concerns about the Delta variant and slowed economic reopening.

▲ PERFORMANCE CONTRIBUTORS	▼ PERFORMANCE DETRACTORS
Equity overweight **Emphasis on U.S. REIT equities**	**Modest tilt toward value over growth** **Duration underweight as yields declined**

Market commentary

Global equity markets rallied as the economic picture improved in response to accelerated vaccine rollouts, reopening economies and continued stimulus. U.S. large cap stocks led the way with an 8.5% return, while U.S. small caps gained 4.3%. Growth stocks rebounded relative to value stocks, although value has outperformed to-date in 2021.

Within **fixed income markets**, investors searched for yield and inflation hedges in spread products such as emerging market debt, U.S. investment grade credit, U.S. and European high yield, and inflation-linked bonds. In terms of duration, the U.S. outperformed as investors favored relatively higher Treasury yields over deeply negative real yields from European sovereign bonds. After reaching a post-crisis high of 1.74% at the end of March, 10-year Treasury yields fell 29 basis points during the quarter to 1.45%, with the decline helping growth stocks outpace value.

The quick rebound in activity following economic reopening has fueled **inflation** in some countries. While the Federal Reserve continues to view current inflation as temporary, it has become slightly more hawkish in discussing tapering. The typical Fed committee member now expects two rate hikes sometime in 2023, up from zero just three months ago.

Oversight by J.P. Morgan's Multi-Asset Solutions Group

- Dedicated team of more than **100 investment professionals**[1]
- More than **$304 billion in global assets** under management[1]
- Builds 529 Plan portfolios, selects investments and **makes adjustments as market conditions change over time**

CONTRIBUTORS

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[1] As of June 30, 2021.

Asset allocation and trade commentary

We made the following tactical adjustments as market conditions changed during the quarter:

- Maintained constructive posture on U.S. large cap and international developed stocks throughout April
- Leaned into cyclical and value stocks viewed as beneficiaries of economic reopening and vaccine rollouts, specifically in Europe, Japan and the U.K.
- Reduced exposure to U.S. equities, including small caps, in May to lock in gains; shifted assets into U.S. REITs and further leaned into international developed stocks
- Collapsed our high yield exposure as spreads tightened toward quarter-end and reallocated to higher-quality U.S. core bonds
- Reduced investment grade credit exposure to neutral as spreads neared all-time tights; increased our cash target to maintain a duration underweight of 0.25-0.5 years

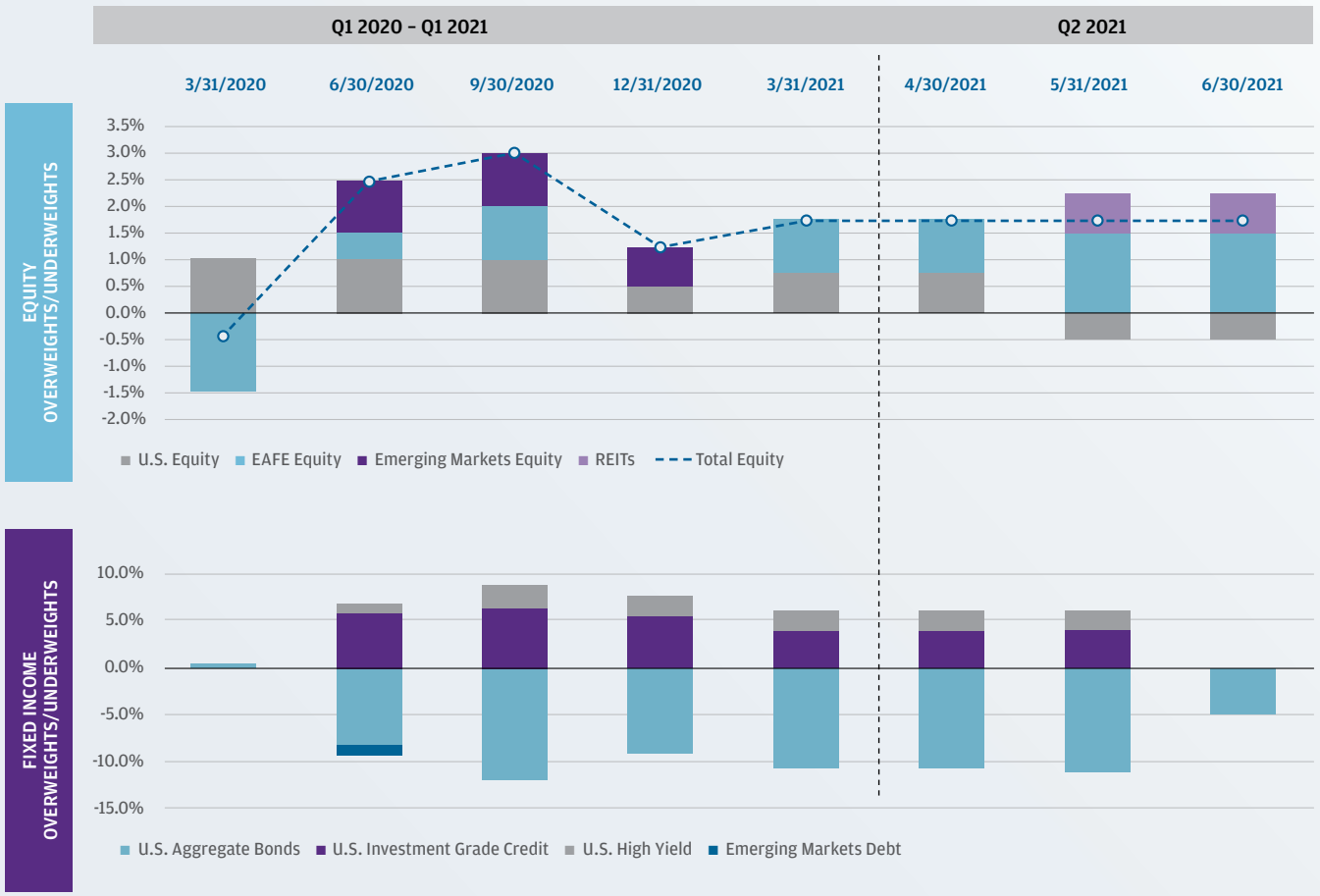
Outlook

The quarter's most notable development was the Federal Reserve's more hawkish pivot. As the U.S. economy moves toward mid cycle, other developed countries remain largely in early cycle. Signals that the Fed will eventually raise rates help mitigate inflation fears while still leaving policy extremely supportive today. Inflation is elevated for now, but appears set to return toward target in 2022. Going forward, we expect both fiscal and monetary policy to remain accommodative, but below their peaks.

With an overweight in stocks and a preference for cyclical regions, we anticipate renewed focus on earnings quality and secular growth themes. We're overweight Europe, U.K. and Japan, but feel it's too soon to return to emerging markets. We're more balanced between large and small caps in the U.S., where we expect strong earnings-per-share upside to support stocks and ease valuation concerns.

The size of our equity overweight held steady during the quarter, but shifted away from U.S. large and small caps and leaned toward international developed and U.S. REIT stocks as preferred markets.

EVOLUTION OF EQUITY AND FIXED INCOME POSITIONS



Source: J.P. Morgan Asset Management; as of 6/30/2021. *Shown for illustrative purposes only.* **Past performance is no guarantee of future results.** The manager seeks to achieve the stated objectives. There can be no guarantee the objectives will be met. +/- represents overweight/underweight relative to strategic asset allocation targets set in August 2019.

A mild underweight to duration and reduced credit exposure reflect our belief that rates along the yield curve will increase slowly and that credit spreads are already very tight. Moderately higher U.S. rates also point to more support for the dollar in the second half of 2021. As spreads tightened during the second quarter, we took the opportunity to shift from credit to U.S. core bonds. Our bright spots for credit are lower-quality investment grade and higher-quality high yield, where upgrades may provide additional returns.

Our 529 Plan portfolios are positioned for further upside in economic growth and risk asset returns. Inflation risks are fading, but we continue to closely watch risks relating to vaccine/virus data, earnings growth and policy.

Click here to learn more about Plan portfolios and performance.

FOR MORE INFORMATION

To learn more about college investing or New York's 529 Advisor-Guided College Savings Program:

- Consult your financial professional
- Visit www.ny529advisor.com
- Call 1-800-774-2108 (M-F, 8am-6pm ET)

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