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Dear Partners in Ministry,

Enclosed is the 2021 2nd quarter statement for your account(s) at the United Methodist Foundation (statements from 7/1/17 are accessible online). Net of fees, the returns of the fund models are:

As of 6/30/2021	2nd Qtr 2021	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	**6.35%**	**10.64%**	**34.23%**	**14.97%**	**14.32%**	**8.98%**
Agg. Ex-Carbon	5.87%	9.88%	n/a	n/a	n/a	n/a
benchmark*	6.24%	11.54%	35.38%	14.44%	13.91%	9.50%
Moderate Fund	**4.69%**	**7.17%**	**23.51%**	**11.81%**	**10.85%**	**7.04%**
Mod. Ex-Carbon	4.15%	6.55%	21.20%	n/a	n/a	n/a
benchmark*	4.56%	7.75%	24.04%	11.61%	10.67%	7.79%
Conservative Fund	**2.70%**	**3.39%**	**12.48%**	**8.01%**	**6.90%**	**5.29%**
Con. Ex-Carbon	2.49%	3.17%	11.17%	n/a	n/a	n/a
benchmark*	2.81%	3.72%	12.69%	8.31%	7.15%	5.84%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized. See the monthly performance reports online: https://umfnic.org/investment-performance-reports/

Market Commentary from Envestnet | PMC

Brandon Thomas, Chief Investment Officer of Envestnet|PMC, concluded their "Economic and Market Overview: Second Quarter 2021" report with the following observations and commentary:

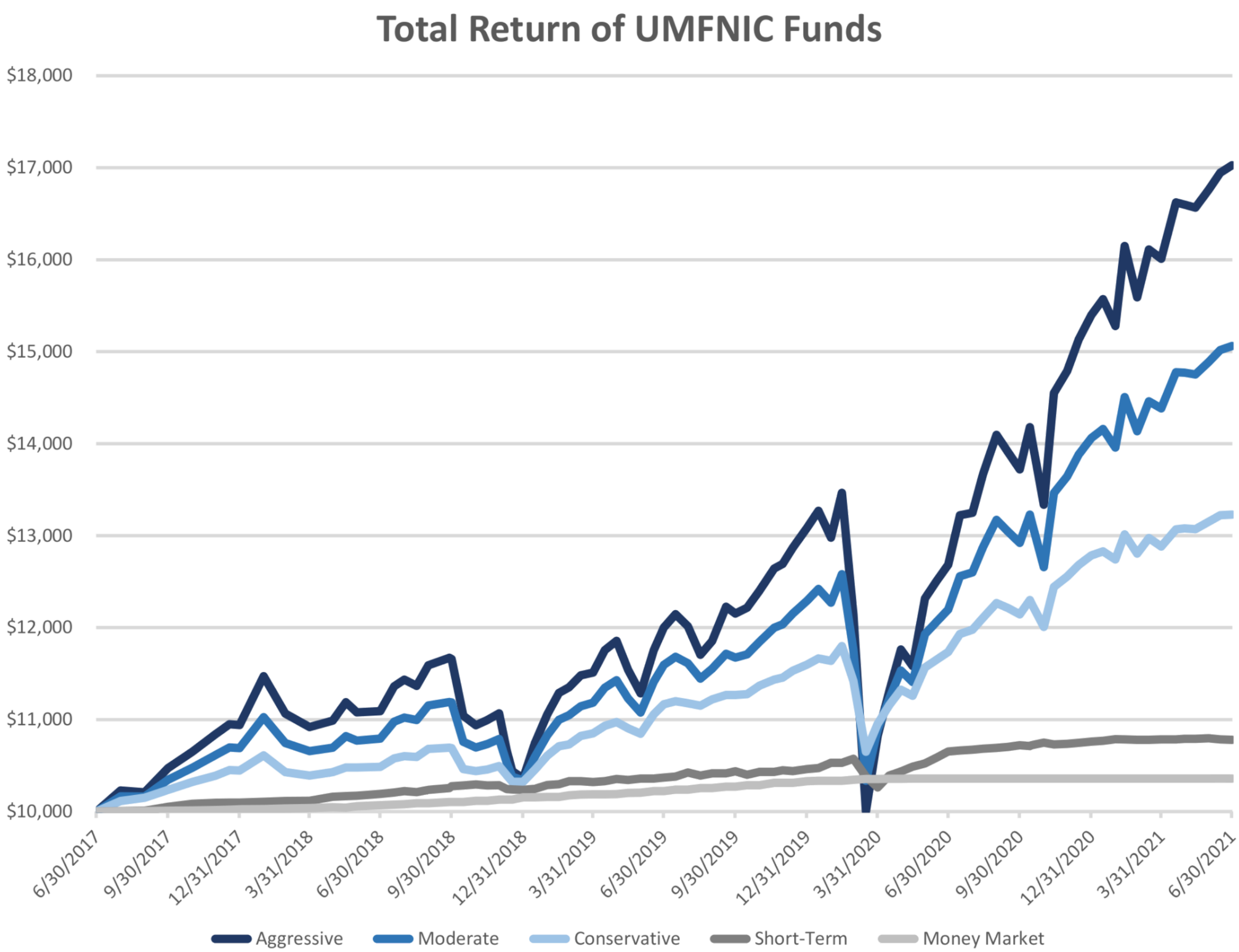
> "The global economy is forging ahead as it continues to recover from the very severe, but also very brief, recession triggered by the pandemic. The confluence of factors such as accelerating business re-openings resulting from a decline in virus cases, aggressive monetary policy implemented by world central banks, and historic levels of fiscal stimulus in the US have created favorable conditions for the economy. A byproduct of these conditions is that asset prices have risen to, in certain cases, extreme valuations. Another implication of the combination of simultaneous massive stimulus and an aggressive FOMC monetary stance is that inflation has spiked. Despite the FOMC's declaration that the rise in prices is "transitory," inflation remains elevated. Fed governors are concerned enough that more of them now believe they will need to raise interest rates earlier than had previously been anticipated. The Fed is worried that a wage-price spiral may develop, where rising wages would increase disposable income, which in turn would cause increased demand for goods and an attendant rise in prices. While the rising wage component of the equation has not yet materialized due to the disincentives to work provided by the high unemployment benefits, it could eventually become an issue. Among the concerns cited by economists are that new variants of the virus that are causing issues in Europe and other parts of the world could make their way to the US; equity prices are at valuations that risk a correction; and rising gasoline prices could eat into consumers' disposable

> income and erode confidence. In addition, trade wars and other geopolitical risks – including US-China and US-Russia relations – always pose a potential threat to growth."[1]

"asset prices have risen to, in certain cases, extreme valuations"

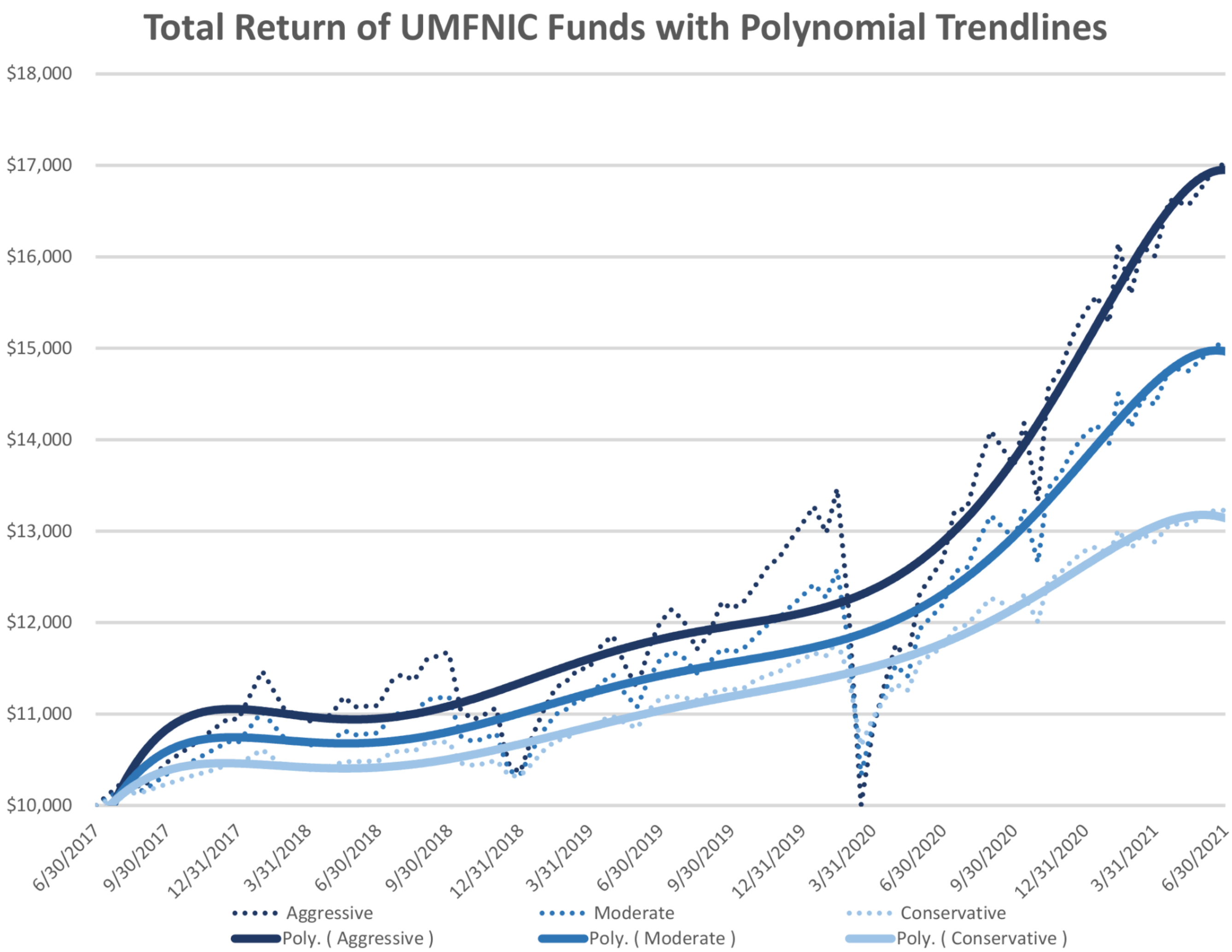
The Foundation converted to a new subaccounting system on July 1, 2017. I often think of that time four years ago as a "new beginning" for the Foundation, especially as a former database professional. Four years have flown by. A lot has transpired in that time, including some significant market volatility.

What do the total returns of the Foundation's funds look like since 2017? The data is at my fingertips:



The graph above depicts hypothetical investments of $10,000 on June 30, 2017, in the five main investment funds offered by the Foundation: **Aggressive** (85% stocks, 15% bonds), **Moderate** (60% stocks, 40% bonds), **Conservative** (30% stocks, 70% bonds), **Short-Term** (PTSHX, "ultra-short, high quality fixed income securities"), and **Money Market**. The graph depicts the hypothetical portfolio values, net of fees, and with all income and capital gains reinvested.

One may think by simply looking at the graph and the steep incline of the recovery that "asset prices have risen to ... extreme valuations." But graphs of a volatile market can be deceiving. Consider the following graph of the same data (less the Short-Term Fund and Money Market), emphasizing polynomial trendlines to help us conceptualize a smoother and less threatening encounter with market volatility:



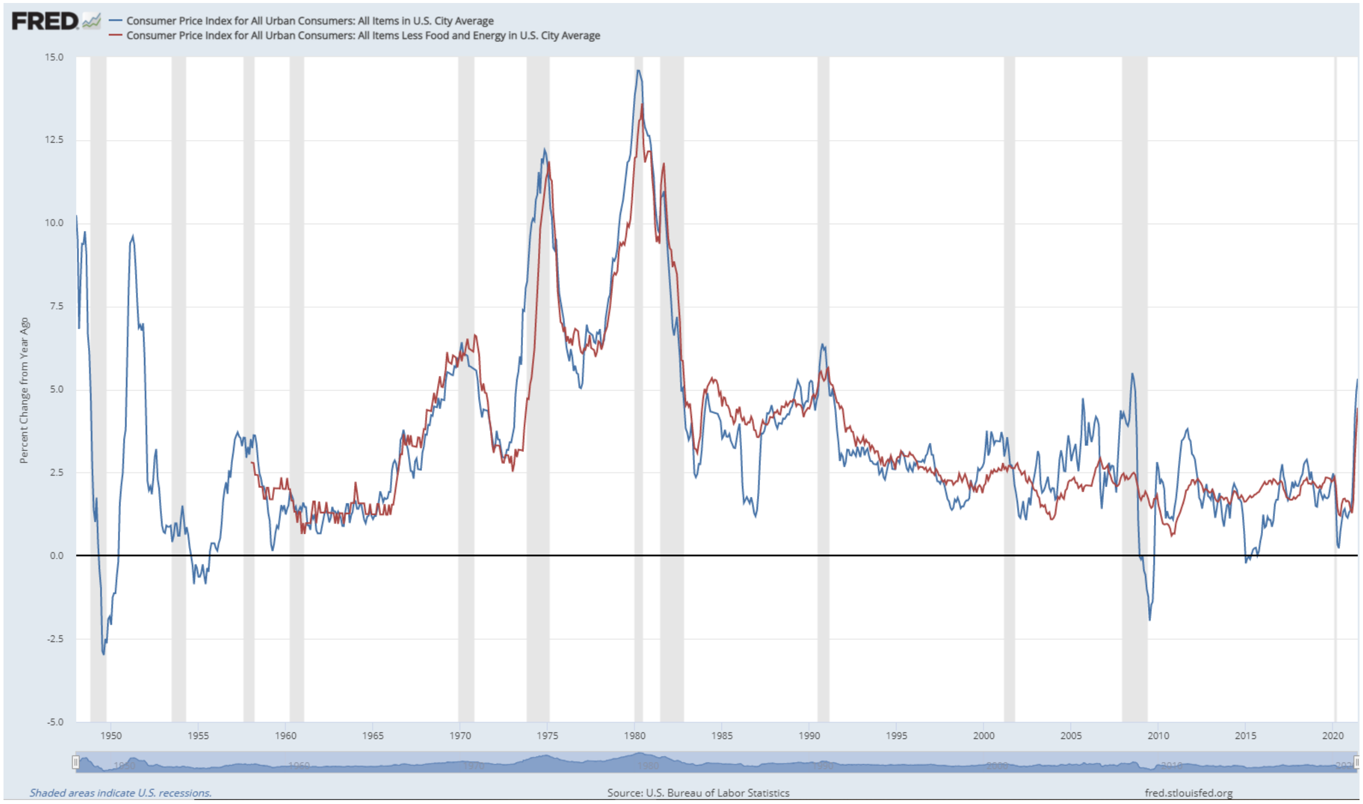
In 15 months the hypothetical Aggressive portfolio went from $10,000 to $11,471, and then three months later it went down to $10,360. After the next 13½ months, the portfolio went to $13,465. One month later it gave up all of those gains in the early days of the COVID panic and went back to almost exactly $10,000! Talk about an emotional roller coaster! The government unleashed an unprecedented amount of Fed policy actions and Congressional fiscal stimulus, and then look what happened in the next 15½ months, it skyrocketed 70%!

The jagged lines and dramatic declines of the first graph can be scary. Over a significant period of time, such as four years, if the portfolios behaved exactly like the trendlines in the second graph, we would likely ***feel*** much better, but the ***end results would be exactly the same***. I hope this illustrates how taking a long-term view of the markets can help us smooth out the sensations of what can feel like a roller coaster ride at times.

This also illustrates why it is so important to invest with the clearest view you can get on your time horizon for when you will (or may) need to distribute cash from investments. Spending plans and asset allocation work together to avoid having to distribute large amounts of invested funds at the wrong time.

"inflation remains elevated"

There is currently a lot of talk of inflation concerns, but let's put the recent jump in prices in context:



The above graph depicts changes in CPI from 1948 to now. The gray columns are recessions. The thinnest gray column on the right is the most recent recession that technically ended in April 2020. It was severe and short. Inflation hasn't been an issue in nearly 40 years. Federal Reserve Chair Jerome Powell recently commented, "Inflation has increased notably and will likely remain elevated in coming months before moderating … [to] longer-term inflation expectations … well anchored at 2 percent ... While asset valuations have generally risen with improving fundamentals as well as increased investor risk appetite, household balance sheets are, on average, quite strong, business leverage has been declining from high levels, and the institutions at the core of the financial system remain resilient."[3]

In the near-term, I believe the market will face moments of volatility as it digests the progress of the post-pandemic recovery and consolidates valuations through sector rotation. Do not worry. Parents can admire their teenagers riding roller coasters and know they will be safe in the end. 😀

Be safe and be blessed,

Chris Walters

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[1] https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf
[2] https://fred.stlouisfed.org/graph/?g=ANNk
[3] https://www.federalreserve.gov/newsevents/testimony/powell20210714a.htm