BAIRD
Private Wealth Management

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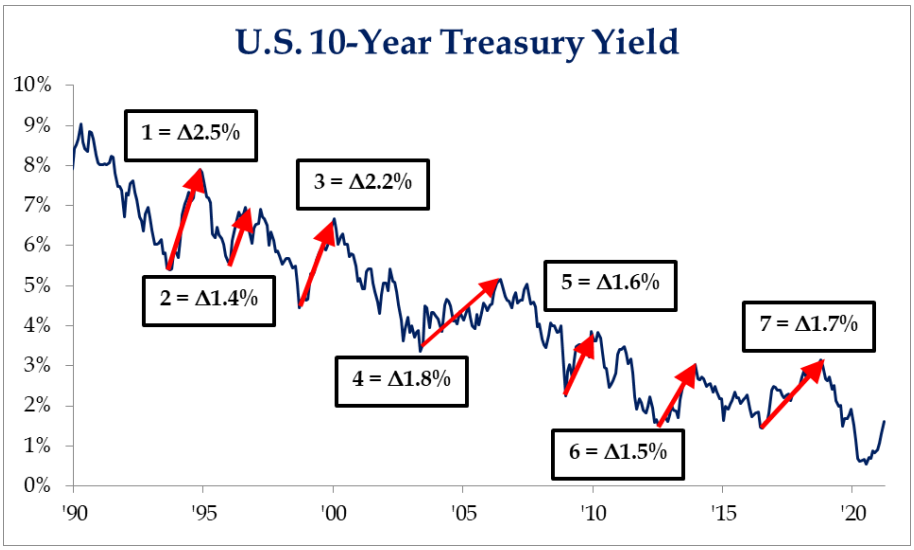
Prepared by Strategas Securities, a Baird Company

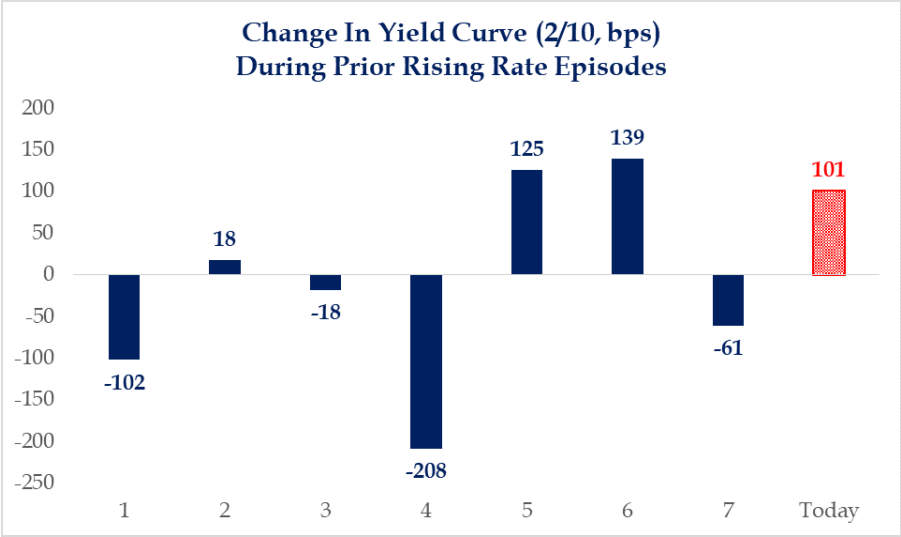
AVERAGE RATE RISE WAS 1.8% DURING PRIOR INTEREST RATE INCREASES

In our work, we often show the below chart and the seven identified periods since 1990 as those where we have seen rising rates. The average rise across those seven periods is 1.8%. To give investors an idea of how that stacks up today, rates have increased from 0.54% to 1.61%, an increase of 1.07%. Should interest rates fail to rise further, it would be a smaller rise than prior rising rate periods over the last 30 years.



YIELD CURVE DRAMATICALLY STEEPENED IN ONLY TWO OF THOSE PERIODS

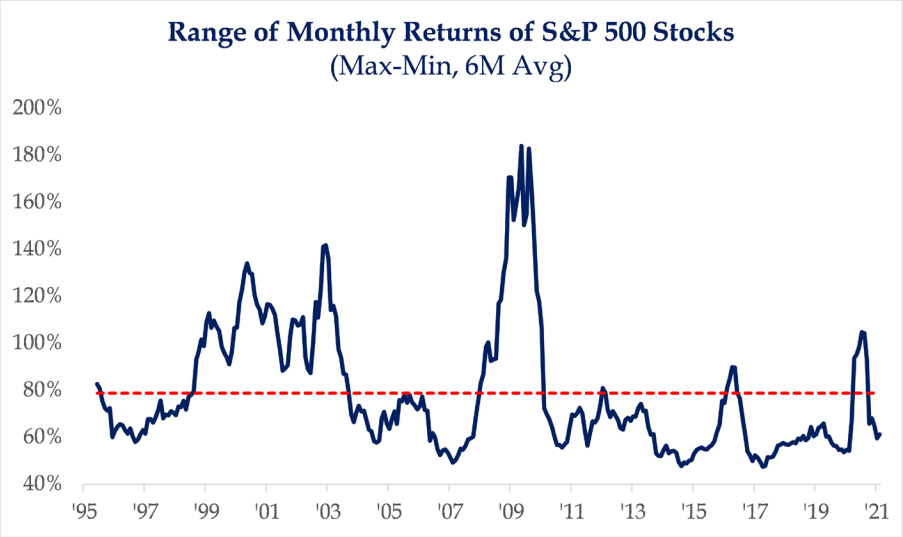
Looking at the change in the yield curve across those same seven periods shows that during only two of the periods did the yield curve steepen the same way it has today. Looking at those two time periods in isolation, the only sector to outperform in the S&P 500 both times is Consumer Discretionary. Perhaps the more interesting takeaway is that the sector which outperformed in the 12-months following the rate peaks is Real Estate.



Please see the Appendix on page 3 for important disclosures.

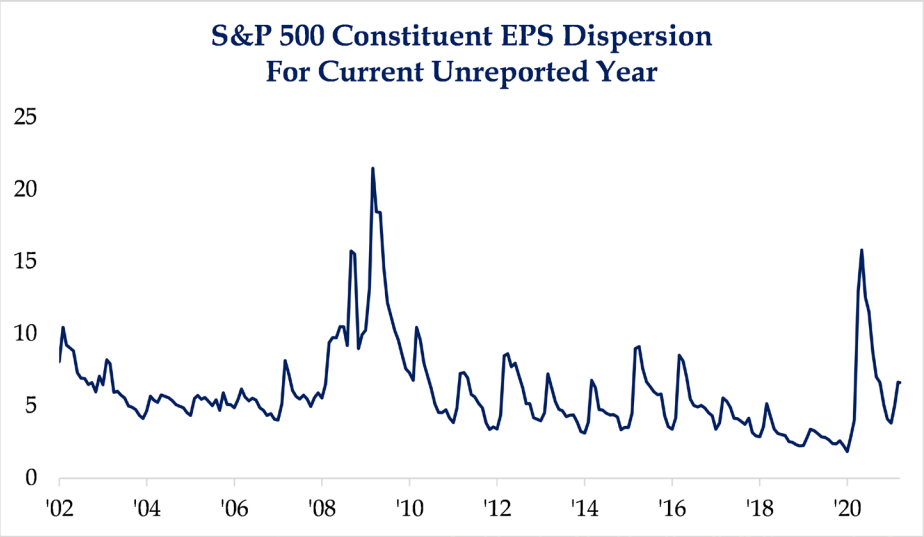
PRICE DISPERSION BELOW LONG-TERM AVERAGE

Following the spike in price dispersion at the start of the Covid-19 pandemic, the range of month returns among S&P 500 companies has start to trend lower since its peak in July of 2020 and is now below its long-term average back to the mid-1990s. With price dispersion lower than average, the environment may seem tough for active managers to outperform. A more sustained period of market volatility will likely see dispersion turn higher and could be a welcome development for active managers.



2021 EPS DISPERSION SHOWING LESS VOLATILITY VS. 2020

An interesting data point, but perhaps not as surprising, is that the variation among 2021 annual EPS estimates is much lower than last year. With the U.S. in the nascent stages of an economic reopening and historic recovery with undeniable upside surprise, the path forward for S&P 500 aggregate earnings appears much clearer than at the beginning stages of the pandemic.



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