MADISON MOSAIC SERIES

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Mosaic represents Madison's global multi-asset product suite spanning the risk spectrum with 18 distinct portfolios across blended active/passive, ETF and Tax-Sensitive mandates. Madison's Multi-Asset Solutions team has deep experience monitoring worldwide macroeconomic trends and their associated investment implications. Risk management and a commitment to consistency are key components of our philosophy and process. We believe that efficient asset allocation and downside volatility mitigation will lead to increased long-term client investment success.

THIRD QUARTER 2021 REVIEW

Despite an ongoing US economic recovery and still healthy profits, global equities delivered uneven outcomes over the 3rd quarter of 2021. For the quarter, U.S. stocks (Russell 3000) ticked 0.1% lower, while foreign equities (MSCI ACWX-ex US) fell 3.0%; meanwhile, US bonds (Bloomberg US Aggregate) inched ahead 0.1% as interest rates moved marginally higher.

PERSPECTIVES

"Other than that, it is a complete mystery." *- NASA on dark energy (which makes up 68% of the universe)*

*"If I light an electric torch at night out of doors,
I do not judge its power by looking at the bulb,
but by seeing how many objects it lights up."* *-Simone Weil*

Amazingly, the combination of dark energy (68%) and dark matter (27%) accounts for a full 95% of the entire universe. Yet, dark energy and dark matter are largely unknowns. We see their affects on the universe's expansion. Beyond that, dark energy and dark matter are nothing less than mesmerizing mysteries. Yet, perhaps counterintuitively, humans also strongly sense and observe that the universe is, in fact, understandable, elegant, lawful, and coherent. This unitive thread of "truth" that seemingly connects all things is essentially what supports and undergirds the very enterprise of science.

This paradoxical duality of cosmic mystery and truth shouldn't be surprising. We're already accustomed to the Yin and Yang of light and darkness, good and evil, life and death, order and chaos – and so on. To this list we can comfortably add certainty and uncertainty and the associated human traits of arrogance and humility. Back here on earth, we're presently concerned with rising levels of institutional hubris. Our "big picture" response is to remain very intentional in loosely holding our own strong convictions with healthy measures of openness, transparency, and humility. It's what the universe seemingly requires.

OUTLOOK

Looking back, it's fair to say that the long-term trend toward increased globalization and the accompanying, highly elaborate, just-in-time network of codependent supply chains has been an astonishing achievement in producing unprecedented economic efficiencies. That construct is now being challenged. It is also fair to say that the "cost" for creating these efficiencies has now come in the form of various fragilities. Trade wars, COVID, climate change (energy transitions) and escalating government interventions are a few recent destabilizing catalysts.

Shortages are becoming a new and increasingly common consequence. Today's concerning shortage of semiconductors can be linked, in part, to underinvestment stemming from several years of increasingly disharmonious U.S.-China relations. Similarly, worsening energy shortages can be attributed to declining capex in hydrocarbon exploration and production as governments quickly transition to promoting carbon-free energy sources. Relatedly, global electricity prices are already taking a notable turn upward. Finally, staffing shortages and logistic delays remain persistent as the labor force slowly adjusts to working through COVID-related health fears and government disincentives for returning to work.

Economically, we haven't had to deal with scarcity issues since the oil embargo of the mid-1970's. Are we headed for a similar scenario? While not likely, shortages are certainly connected with periods of inflation and/or stagflation. At a minimum, these are risks which investors should at least acknowledge. A shift from transitory to elevated and sustainable inflation would weaken investor confidence and penalize the prospects for most financial assets.

POSITIONING

As previously referenced, portfolios were positioned to emphasize the growing opportunity within China and the greater Northern Emerging-Asia region. However, in a relentless pursuit of achieving "common prosperity" Beijing has continued and even accelerated their regulatory campaign against the private sector by implementing over 100 regulations within the past year, with 75% of them coming in the 3rd quarter alone. China has also taken clear aim toward deleveraging their massive property markets. Leading property developer, Evergrande, now facing bankruptcy, is a prime example underscoring China's commitment to rebalancing and deleveraging this (often speculatively driven) asset class. The side effects from these increased regulatory and deleveraging pressures have created considerable uncertainty around China's future economic growth potential. Simply stated, China's capital market risk levels are rising. Accordingly, we have meaningfully reduced our allocations to China and the Northern Emerging-Asia region across all portfolios.

The Federal Reserve (Fed) is signaling that they are ever closer to achieving their dual mandate of price stability and maximum employment, paving the way for a reduction in their emergency asset purchasing program (Quantitative Easing - QE). Seeking to avoid a miscommunication repeat of the 2013 Taper Tantrum, the Fed has, this time, gone to great lengths in carefully communicating their QE related intentions. While we don't believe an announcement of tapering would have near the shock that it did in 2013, the absolute reduction of liquidity would represent an important sea change that deserves careful monitoring. Financial assets across numerous asset classes remain priced for perfection, leaving them vulnerable to externalities such as a QE-initiated tightening of financial conditions. Our overall posture remains defensive.

SUMMARY

We are confident our portfolios remain well-positioned for a still stressed global economy. We also embrace our ongoing responsibility to insightfully differentiate between attractive and less attractive asset classes as we strive to deliver superior risk-adjusted returns. As we continue to work to reopen the country and return to our new normal, we truly appreciate your confidence in partnering with us.

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The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries. With 1,843 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

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