MADISON MOSAIC SERIES

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Madison INVESTMENTS

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.

SECOND QUARTER 2021 REVIEW

Stock investors were once again rewarded, as global equities rallied to record highs during the 2nd quarter of 2021. Equities with links to commodities, primarily energy, were also stellar performers. For the quarter, U.S. stocks (Russell 3000) advanced 8.2%, while foreign equities (MSCI ACWI-ex U.S.) returned 5.5%; meanwhile, U.S. bonds (Barclays U.S. Aggregate) rose 1.8% as interest rates declined.

PERSPECTIVES

"It is easier to resist at the beginning than at the end." *- Leonardo da Vinci*

"Pride makes us artificial, and humility makes us real." *-Thomas Merton*

Seasons begin and seasons end. This is a framework that we can all understand. We don't even need a calendar; we simply recognize the natural seasonal rhythms and connect the dots. Sometimes, however, identifying beginnings and endings can prove to be anything but simple. Economic (and market) cycles are increasingly like that; monetary and fiscal interventions are now much more commonplace. Today, financial markets are routinely "managed" (distorted) to lift and sustain both investor and consumer sentiment. It's like falsely living in perpetual summer. So, keeping this in mind, we might ask where are we now in our current cycle? Is this really, truly summer?

The current sunny narrative that permeates today's financial markets is centered around the idea that we are in the early stages of our next long-term economic cycle. If true, that would be welcome news. But is that the correct forecast? We prefer to emphasize what is real and organic (natural and sustainable) while looking past and through that which is artificial and inorganic. Our assessment is that our current economic warmth is heavily influenced by massive levels of unsustainable monetary and fiscal stimulus. When this "front" passes, our economic temperature will quickly, and naturally, turn to the chillier side. From this perspective, we don't think it's too early to prepare for a fast-approaching autumn.

OUTLOOK & POSITIONING

The U.S. share of global economic activity continues to decline. The growing presence and impact of China alone has been remarkable, with its share of global GDP growing from 10% to 18% in just the past ten years. Also, due to structural and growing U.S. fiscal and trade deficits, we believe that the U.S. dollar, over the long-term, will likely weaken relative to other foreign currencies. Accordingly, we are focusing on the highest growth countries and regions that the globe has to offer by continuing to maintain our allocations to international equities (such as Asia). Relatedly, with China representing 18% of world GDP and only 2% of global portfolios, the stage appears set for China to bullishly claim a larger piece of the global portfolio pie.

Due to declining fiscal stimulus, we expect U.S. economic growth to slow over the 2nd half of 2021 and into early 2022. This could pressure corporate profits. The narrative around inflation is that it will remain elevated in the near-term. Our current view is that current inflation fears will slowly subside and, with some exceptions, prove to be largely transitory. There are also a few supply and demand related issues that will need to be efficiently resolved to keep the current, fiscally driven, expansion from losing its momentum.

Labor markets are out of balance; as it stands now, many unemployed workers are unduly incentivized to not work. In short, current jobless benefits exceed the expected compensation for returning to work. So, the question for many is - why work? This issue is being slowly addressed, state by state, as jobless benefits are being reduced. We believe the labor healing process (labor participation normalizing) will prove to be choppy, slow, and difficult. This constrained labor pool could elevate employment costs and squeeze profit margins, especially for labor intensive industries.

Global demand for energy (and other infrastructure commodities) has remained quite strong as we continue to recover from the COVID-19 induced global recession. Meanwhile, the ramp-up of additional supply to meet this resurgent demand is proving to be a challenge, with associated commodity pricing continuing to rise. Many facets of the global energy and infrastructure materials industries have experienced significant under-investment for well over a decade. Today we are beginning to pay the price. The remedy to our current commodities crunch will take more than a few months or even years to fully address, thereby fostering a likely continuation of opportunities in securities with links to commodities.

Due to years of persistently low levels of new home construction, a structural shortage of U.S. housing has developed over the past ten years. More recently, COVID-19's impact exacerbated this deficit as remote work, a newfound desire for space, and record low mortgage rates created a dramatic surge in single-family housing demand. Highly motivated housing buyers were quickly confronted with a limited inventory of existing homes and sharply higher building costs (such as lumber) for new housing. This created a sudden supply/demand imbalance and pushed U.S. home prices to record levels, with U.S. median home prices rising a remarkable 23.6% over the past year. Now, just as suddenly, it appears that declining affordability has abruptly flipped current home buying plans on their head, with home buying intentions now at their lowest levels since 1982! Our view is that the U.S. housing market will cool at these price levels. A modest pricing retracement can't be ruled out. Longer-term, U.S. housing remains an attractive sub-sector.

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.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of U.S. fixed income securities. The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors.

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