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CAPITAL PARTNERS

Are the Prices Right?

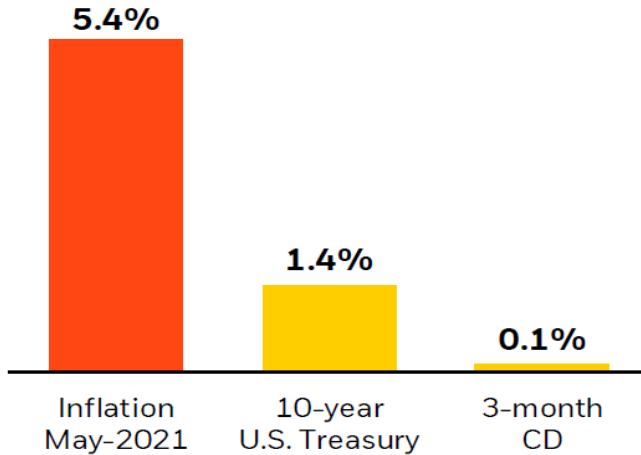
Understanding Inflation: A Student
of the Market Special Edition

Today's Inflation Challenge

Unlike previous inflationary periods, interest and savings rates are not keeping up

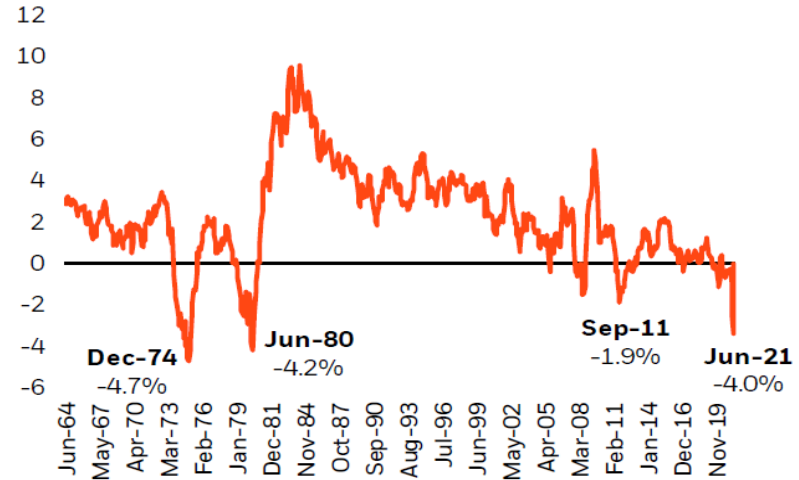
Inflation versus interest and savings (bank CDs) rates today

As of 6/30/21



Largest gap between interest rates and inflation since 1980

10-year U.S. Treasury yield minus inflation (CPI), as of 6/30/21



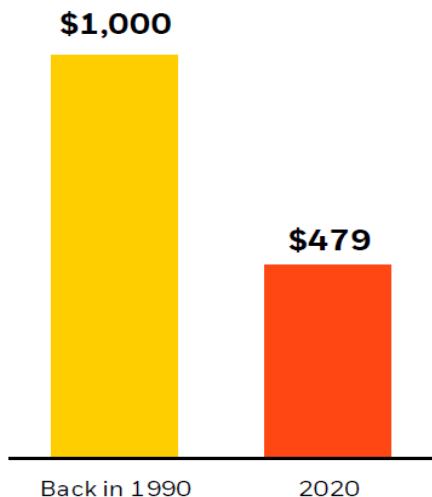
Source: Bureau of Labor Statistics, as of 6/30/21 and Morningstar. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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Inflation's Damaging Impact Over Time

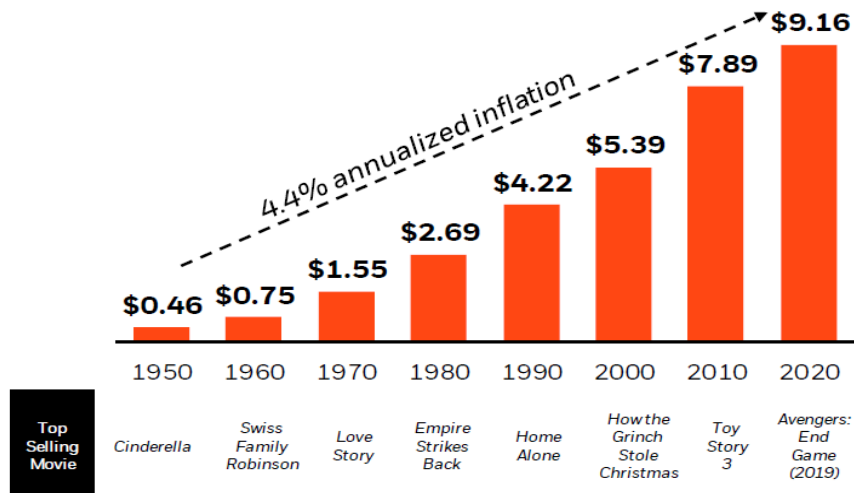
Loss of purchasing power over time due to inflation

Change in real-dollar value of \$1,000 from 1990 to 2020, based on CPI over that time period



Average admission price to movie theaters over the years

Average ticket price, including all theaters and showtimes



Source: Statista.com and USA Today as of 6/30/21. Annualized inflation calculated by BlackRock. Best selling movie in 2020 was "Bad Boys for Life". Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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The Inflation Index Touches Everyone

Inflation is used to...

1

Adjust income payments (affecting 80M+ Americans)

- Social Security (COLA adjustments)
- Government assistance (food stamps, school lunch, etc.)
- Wage adjustments (collective bargaining agreements and contract negotiations)
- Federal tax bracket adjustments

2

Indicate the strength of the economy

- Generally, the stronger the economy, the higher inflation is

3

Adjust time value of economic series

- Also referred to as a “deflator”

Agenda

**INFLATION'S
RECENT SPIKE**

**WHY INFLATION
HAS BEEN LOW**

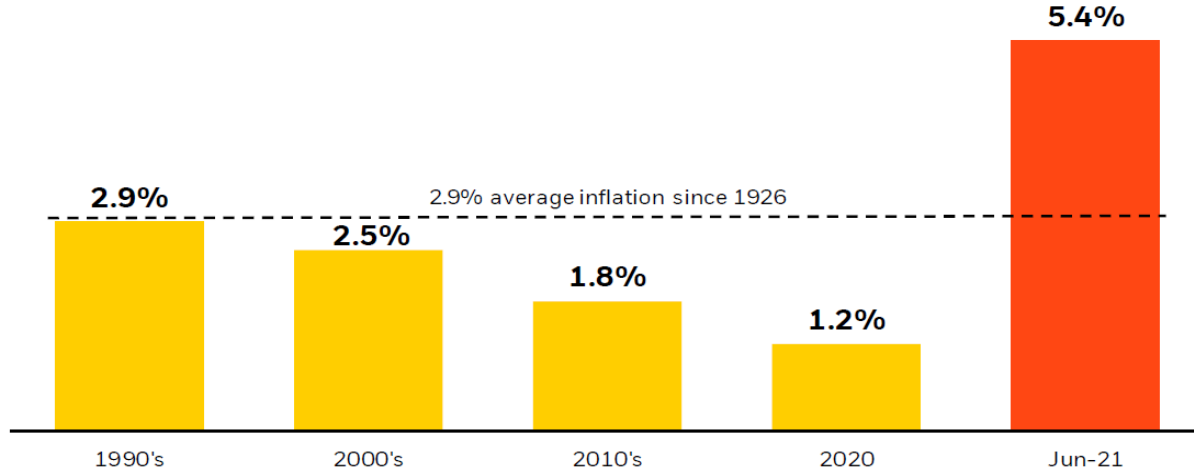
**INFLATION IN
PORTFOLIOS**

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Inflation Spikes Higher

Today's inflation spike

Average consumer price index (CPI) per decade as of 6/30/21



Source: Bureau of Labor Statistics, as of 6/30/21.

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Four Potential Reasons Inflation is Rising

Market-based expectations of inflation have been rising recently – here's why:



Policy

The Federal Reserve's flexible target for inflation of an average of about 2%, letting it drift above following periods where it's below.



Fiscal boost

The total fiscal stimulus efforts provided in the wake of COVID-19 is about double the pandemic-inflicted loss in gross domestic product and is close to 25% of 2020 GDP.



Pent-up demand

Consumers haven't been able to spend freely due to COVID-19 restrictions. The result is a jump in the U.S. personal savings rate from a low of 8% pre-pandemic to 20.5% in January.



Rising production costs

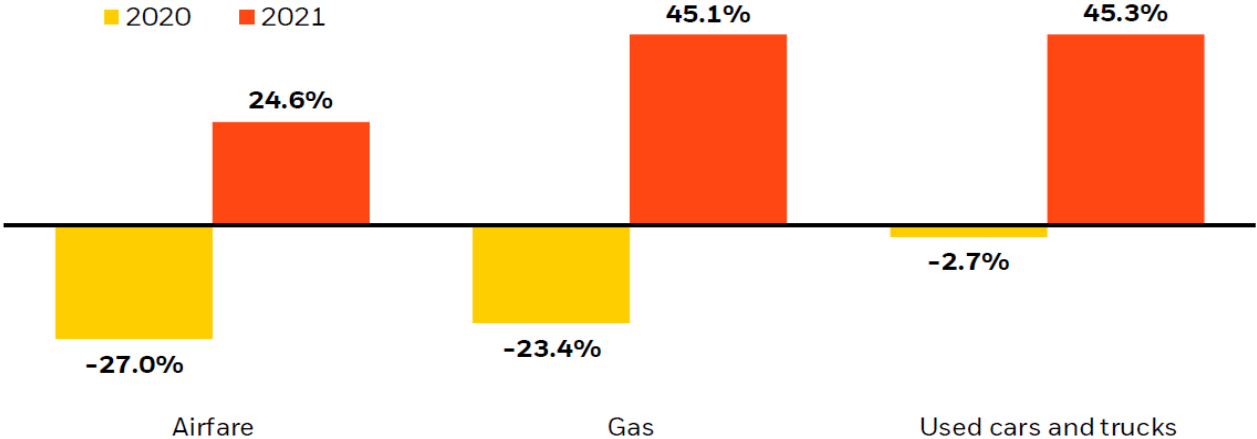
As companies seek out ways to eliminate or reduce supply chain concentration in one region of the globe, production costs could move higher as industries consider more than just the lowest-cost options.

Source: BlackRock.

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Pandemic Played Havoc With Prices

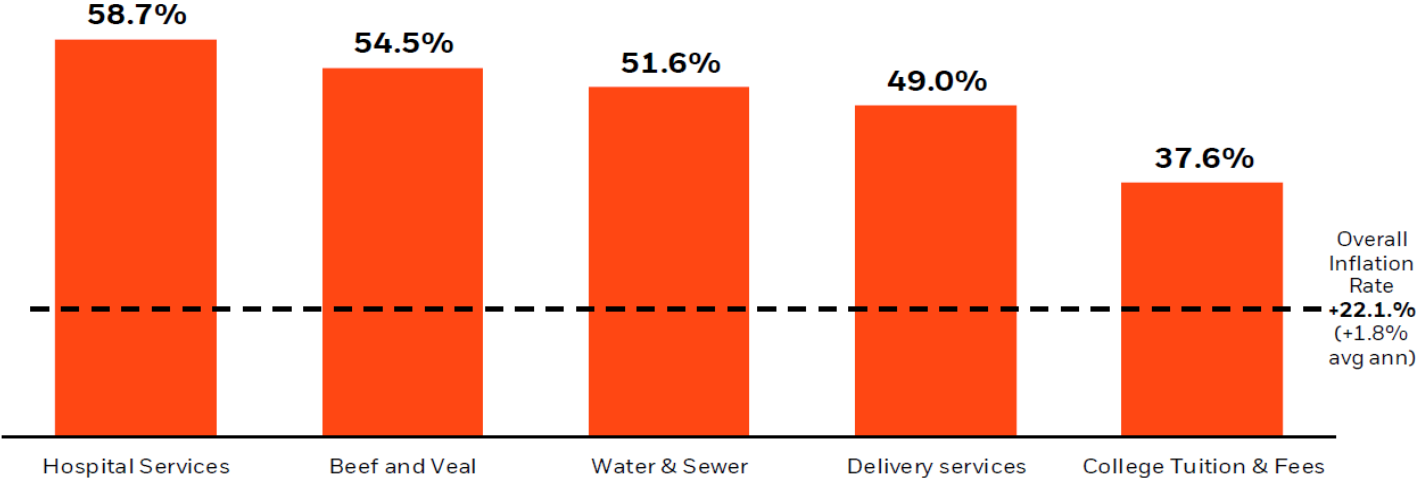
Price change in 2020 versus 2021
Selected inflation components in 2020



Source: Bureau of Labor Statistics, as of 6/30/21.

Items That See Consistent Inflation Pressure

Price change over the last 10 years
Selected inflation components, cumulative



Source: Bureau of Labor Statistics, as of 6/30/21.

Agenda

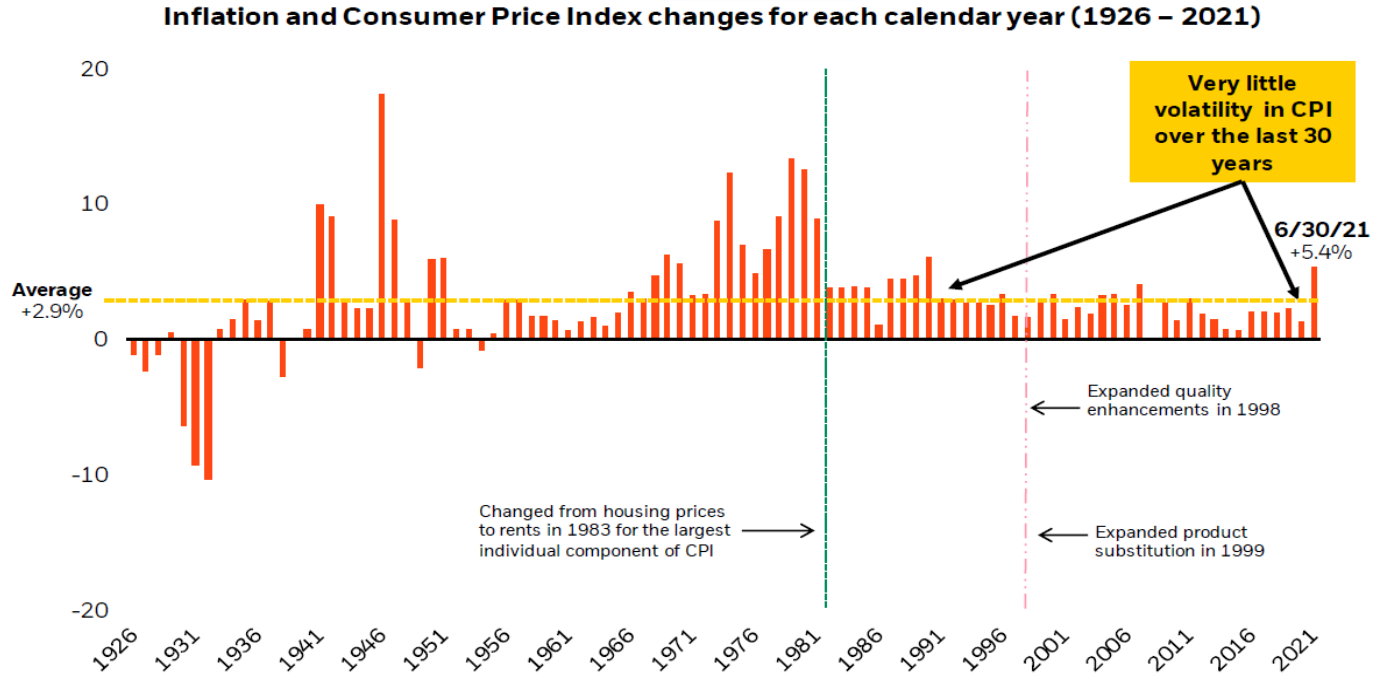
**INFLATION'S
RECENT SPIKE**

**WHY INFLATION
HAS BEEN LOW**

**INFLATION IN
PORTFOLIOS**

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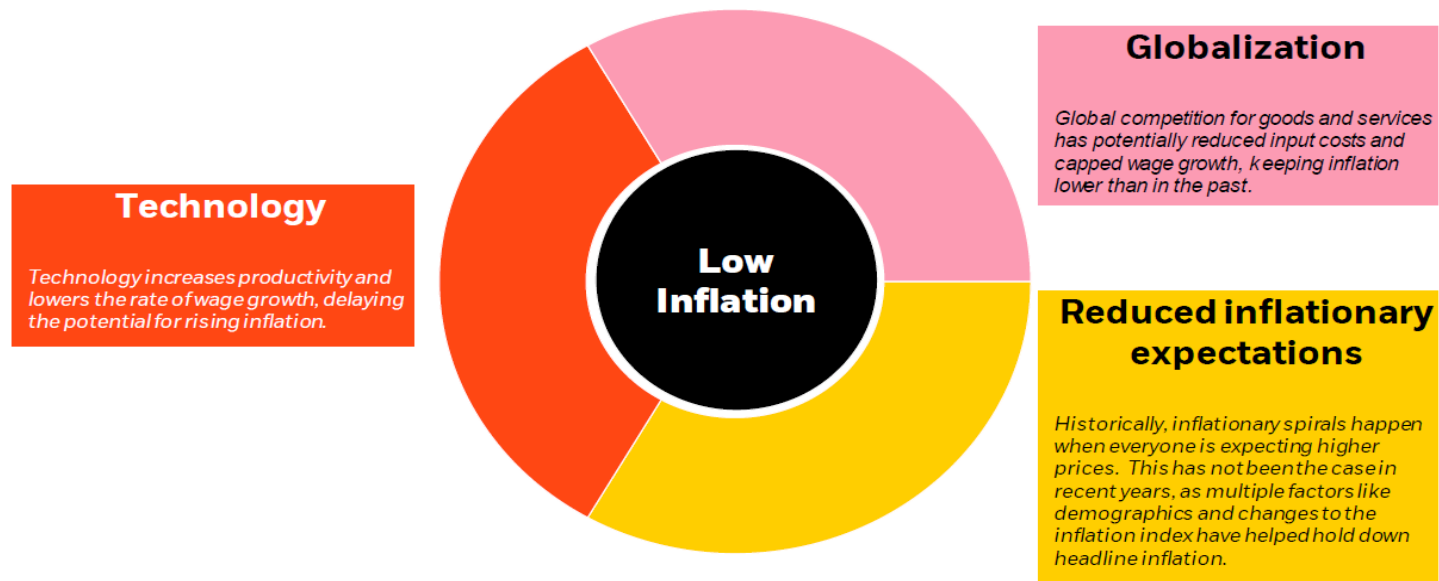
Inflation History



Source: U.S. Bureau of Labor Statistics and Morningstar, as of 6/30/21. Consumer Price Index is the Consumer Price Index Urban, as defined and measured by the U.S. Bureau of Labor Statistics.

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Why Has Inflation Been So Low For So Long?

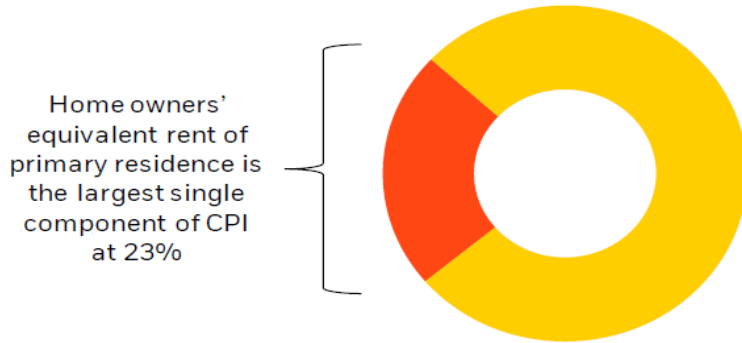


Source: BlackRock

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Replacing Housing Prices With Owners Equivalent Rent in 1983

CPI Weight Towards “Housing”



The largest historical differences in housing prices and owners equivalent rent

Year	Home Prices	CPI Owners' Equivalent Rent	Difference
Apr-2021	14.6%	2.0%	12.6%
2004	13.6%	2.3%	11.3%
2005	13.5%	2.5%	11.0%
2013	10.7%	2.5%	10.2%
2009	-3.9%	0.7%	-4.6%
2011	-3.9%	1.8%	-5.7%
2007	-5.4%	2.8%	-8.2%
2008	-12.0%	2.1%	-14.1%



Not seeing recent housing inflation in the CPI

Housing prices have burst higher, but rents are trailing pretty dramatically

Source: Bureau of Labor Statistics, as of 5/31/21. Actual example from the U.S. Bureau of Labor Statistics website.

Quality Enhancements in the CPI Expanded in 1998

Quality enhancements: More tv channels but a higher cable bill

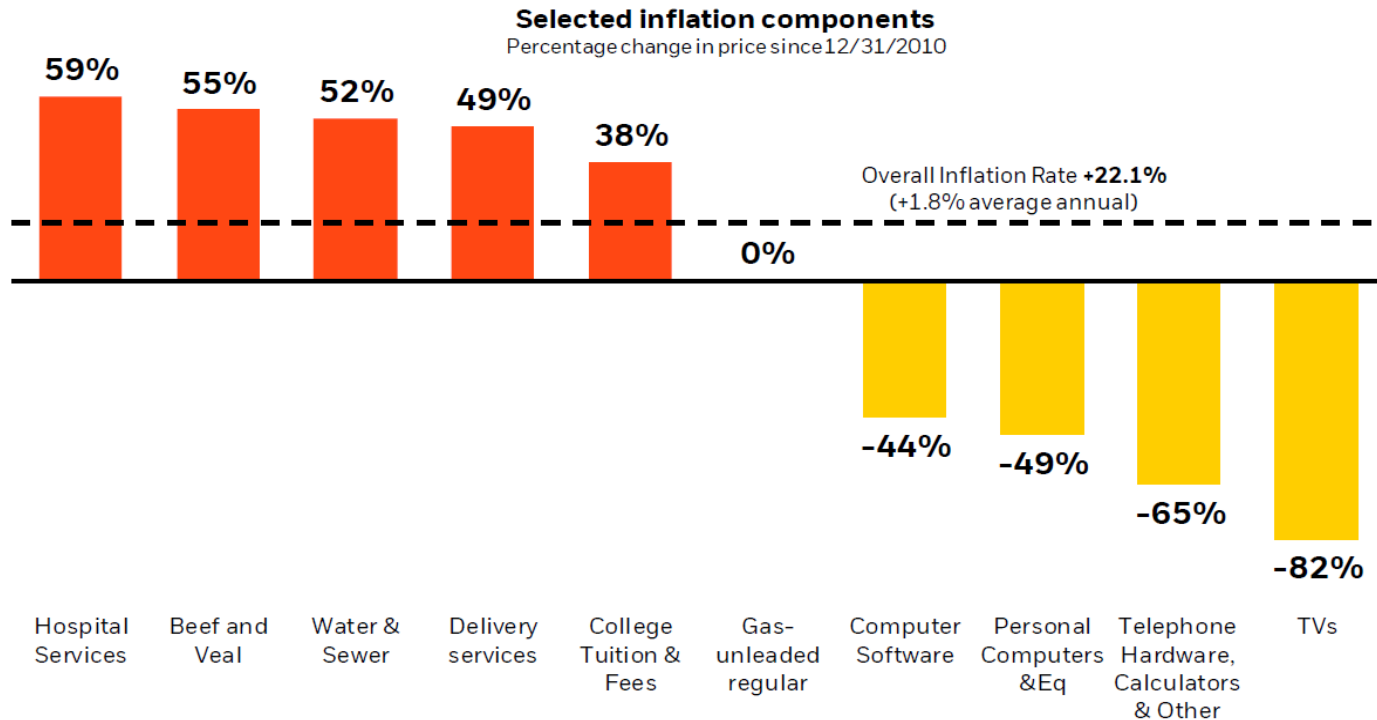
	Cable Plan A	Cable Plan B	
Cost	\$40	\$47	 +18% price increase
Channels	71	80	
Cost per channel	\$0.56	\$0.59	 +4% reported inflation in the CPI

Source: Bureau of Labor Statistics, as of 5/31/21. Actual example from the U.S. Bureau of Labor Statistics website.

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Inflation Disconnect

Big price change disparities in items within the inflation index



Source: BlackRock and Bureau of Labor Statistics as of 6/30/21.

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Agenda

**INFLATION'S
RECENT SPIKE**

**WHY INFLATION
HAS BEEN LOW**

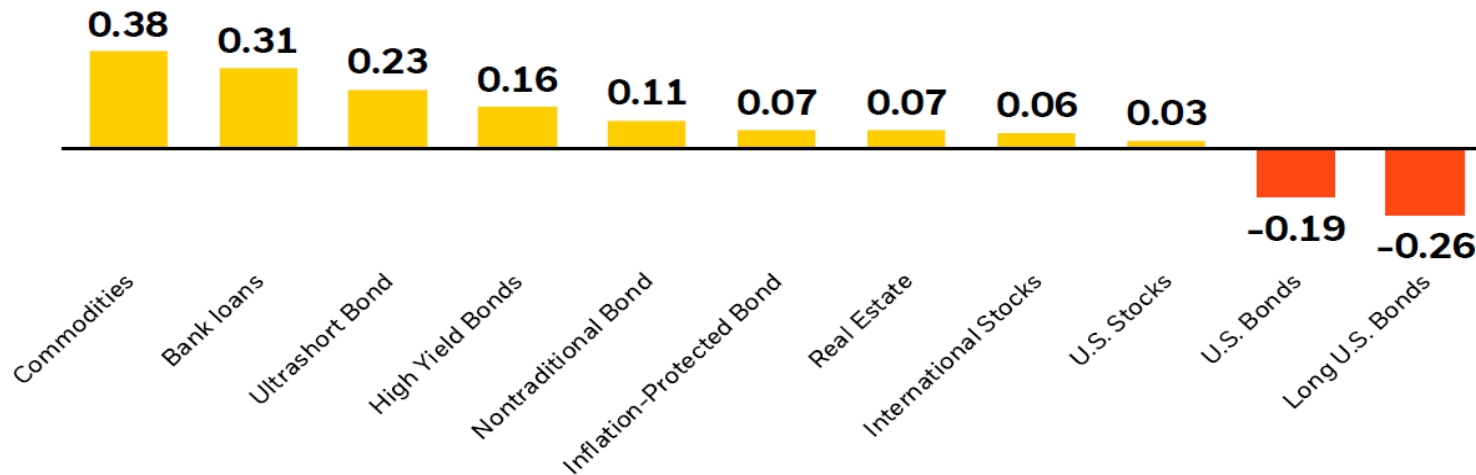
**INFLATION IN
PORTFOLIOS**

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Asset Classes That Move With Inflation

Correlation of select asset classes to inflation

20-year correlation with U.S. BLS CPI (ended 6/30/21)

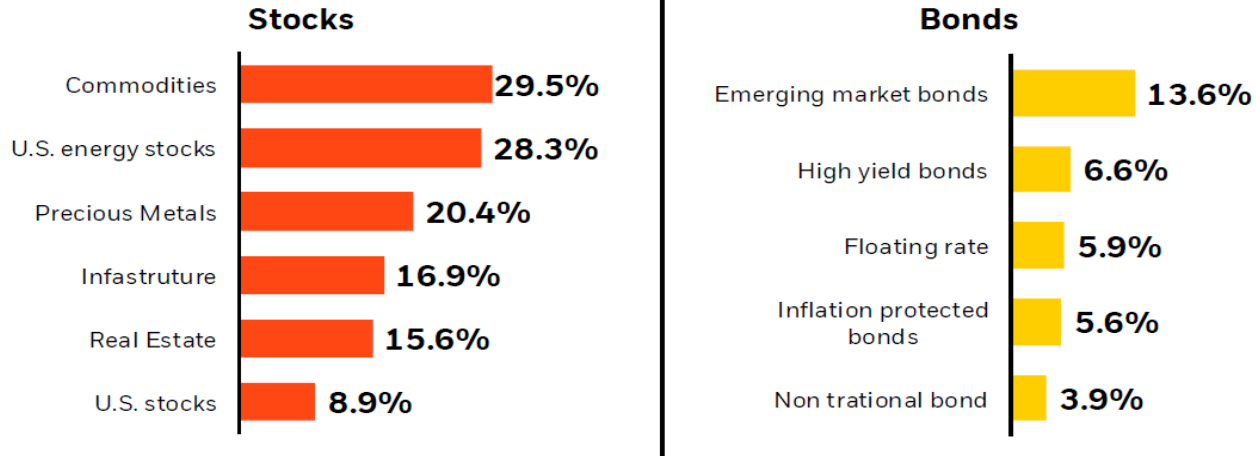


Source: Morningstar as of 6/30/21. Commodities are represented by the S&P GSCI TR Index, Bank loans by the S&P/LSTA Leveraged Loan TR Index, Ultrashort bonds by the Morningstar US Fund Ultrashort Bond category, High yield bonds by the BBgBarc US Corporate High Yield TR Index, Nontraditional bonds by the Morningstar US Fund Nontraditional bond category, Inflation-protected bonds by the Morningstar US Fund Inflation-protected bond category, Real Estate by the Morningstar US Fund Real Estate category, International stocks by the MSCI EAFE NR Index, U.S. stocks by the S&P 500 Index, U.S. bonds by the BBgBarc US Agg Bond TR Index, and Long U.S. bonds by the BBgBarc US Treasury 20+ Yr TR Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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Asset Class Performance With Higher Inflation

Performance of various asset classes when inflation has been above average
(since 1990, calendar years when inflation has been above 3%)



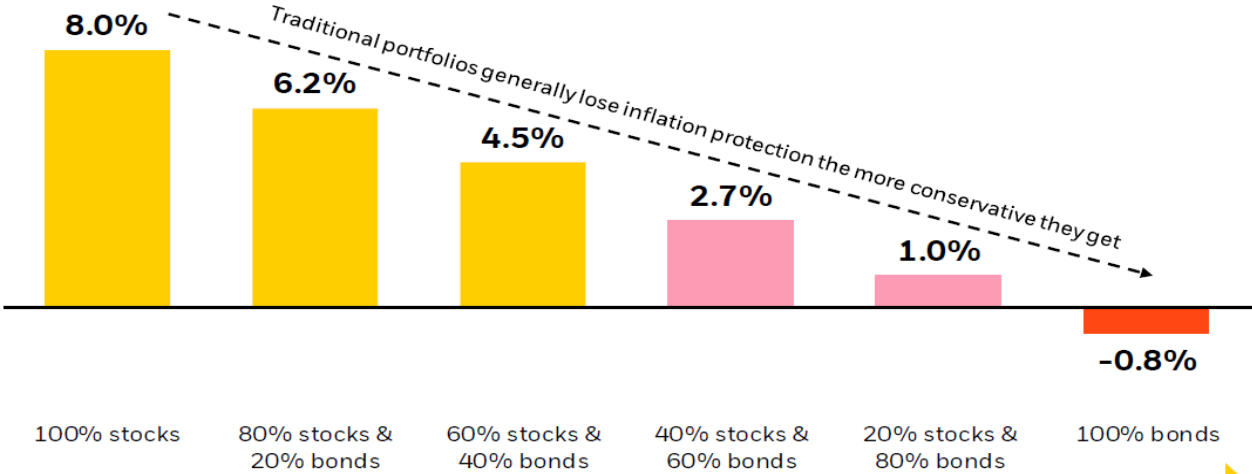
Source: Morningstar as of 6/30/21. Commodities are represented by the S&P GSCI TR Index, Bank loans by the S&P/LSTA Leveraged Loan TR Index, Ultrashort bonds by the Morningstar US Fund Ultrashort Bond category, High yield bonds by the BBgBarc US Corporate High Yield TR Index, Nontraditional bonds by the Morningstar US Fund Nontraditional bond category, Inflation-protected bonds by the Morningstar US Fund Inflation-protected bond category, Real Estate by the Morningstar US Fund Real Estate category, International stocks by the MSCI EAFE NR Index, U.S. stocks by the S&P 500 Index, U.S. bonds by the BBgBarc US Agg Bond TR Index, and Long U.S. bonds by the BBgBarc US Treasury 20+ Yr TR Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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Inflation Is A Potential Problem For Retirees

Investors typically lose inflation protection as they move closer to retirement

Scenario test performance of various stock and bond portfolio in a +1% inflation shock (12 month period)



Investors generally “de-risk” their portfolios the closer they get to retirement

Source: BlackRock (Portfolio Risk Tool). Data as of 6/30/21. This material is provided as an educational tool and should not be considered investment advice. BlackRock cannot be held responsible for any direct or incidental loss resulting from applying any of the information provided in this publication or from any other source mentioned. BlackRock is not engaged in rendering any legal, tax or accounting advice. Please consult with a qualified professional for this type of advice. It is not possible to invest directly in an index. Past performance does not guarantee or indicate future results. **IMPORTANT:** The projections or other information generated by the BlackRock Economic Scenario Tester™ regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Please see the Important Notes for additional information.

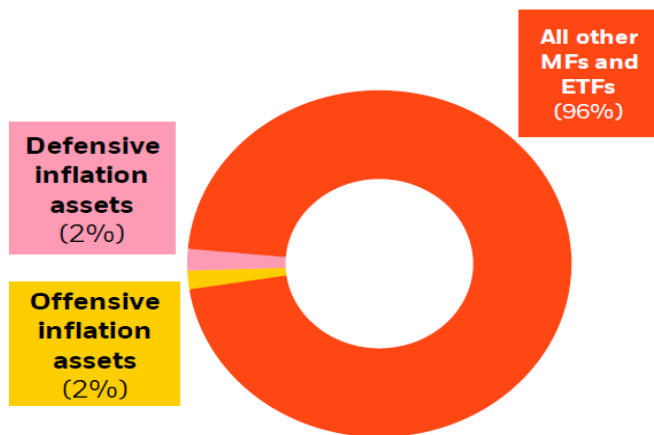
Inflation Offense and Defense In A Portfolio

	Asset Class
Offense	Commodity Strategies
	Natural Resources (Gold, Energy, Mining)
	Real Assets (Securities)
	REITS
Defense	Inflation Protected Bond
	Global Inflation Protected Bond
	Unconstrained Fixed Income
	Floating Rate Income

Source: BlackRock

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Investors Are Potentially Underweight Inflation Fighters



Offensive inflation fund categories	% of all MF and ETF assets
Real Estate	0.7%
Commodities Focused	0.5%
Equity Precious Metals	0.2%
Equity Energy	0.2%
Energy Limited Partnership	0.1%
Natural Resources	0.2%
Defensive inflation fund categories	% of all MF and ETF assets
Inflation-Protected Bond	0.9%
Bank Loan	0.4%
Unconstrained Bond	0.6%

Source: Morningstar as of 6/30/21. Commodities are represented by the S&P GSCI TR Index, Bank loans by the S&P/LSTA Leveraged Loan TR Index, Ultrashort bonds by the Morningstar US Fund Ultrashort Bond category, High yield bonds by the BBgBarc US Corporate High Yield TR Index, Nontraditional bonds by the Morningstar US Fund Nontraditional bond category, Inflation-protected bonds by the Morningstar US Fund Inflation-protected bond category, Real Estate by the Morningstar US Fund Real Estate category, International stocks by the MSCI EAFE NR Index U.S. stocks by the S&P 500 Index, U.S. bonds by the BBgBarc US Agg Bond TR Index, and Long U.S. bonds by the BBgBarc US Treasury 20+ Yr TR Index. Past performance does not guarantee or indicate future results. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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Summary

INFLATION'S RECENT SPIKE

- Interest rates and savings rates not keeping up
- Pandemic played havoc with prices
- Certain items will still have price pressure

WHY INFLATION HAS BEEN LOW

- Globalization, tech and other factors have kept inflation low
- Inflation calculation changes have taken out volatility
- Price change disparities in items within the inflation index

INFLATION IN PORTFOLIOS

- Focus on asset classes that move with inflation
- Retirees most vulnerable to high inflation
- Most investors are underweight inflation fighters

It's more important than ever to have a financial plan in place to make sure that you're not losing out to inflation!

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Student of the Market: Inflation Edition

Returns as of 6/30/20	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
S&P 500 TR USD	40.79	17.65	14.84
BBgBarc US Agg Bond TR USD	-0.33	3.03	3.39
BBgBarc US Treasury 20+ Yr TR USD	-10.72	3.17	7.12
MSCI EAFE NR USD	32.35	10.28	5.89
US Fund Bank Loan	10.15	3.90	3.49
US Fund Commodities Broad Basket	48.08	3.25	-4.08
US Fund Emerging Markets Bond	9.26	4.76	4.29
US Fund Equity Energy	70.12	-4.80	-6.23
US Fund Equity Precious Metals	11.83	5.29	-4.43
US Fund High Yield Bond	14.69	6.21	5.48
US Fund Inflation-Protected Bond	7.04	3.88	2.85
US Fund Infrastructure	24.23	7.01	7.78
US Fund Nontraditional Bond	7.92	3.77	2.82
US Fund Real Estate	36.79	7.03	9.08
US Fund Ultrashort Bond	0.98	1.66	1.19

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of 6/30/21 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Past performance is no guarantee of future results. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

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Student of the Market: Inflation Edition

BlackRock Economic Scenario Tester™

About the Analysis: The BlackRock Solutions® (BRS) portfolio risk model, from which this stress testing data is derived, is a proprietary multi-factor model which can be applied across multiple asset classes. The model uses over 111,750 distinct risk factors (including over 1,750 for fixed income, currencies and alternatives and over 110,000 for equities). In designing risk factors, BRS attempts to capture and model the key market movements that would occur in the defined scenario to illustrate the impact of the chosen stress on the asset classes. There are three types of stress testing available in this tool – historical date range, BRS constructed shocks and implied shocks.

- **Historical Date Range:** Defined using the starting and ending date values for each risk factor in the model.
- **BRS Constructed Shocks:** May either reflect actual changes in the market over specified historical time horizons or shifts in rates based on portfolio/risk manager expectations. Please see the “About the Stresses” section below for more information on the BRS constructed shocks.
- **Implied Shocks:** Reflects a shock to one or more of a few select risk factors. Tool then uses the BRS covariance matrix to imply shocks for the rest of the factors. Shocks can be specified in either basis points/% terms or in terms of the number of standard deviations the shock would shift the risk factor.

The risk model assumes that the stresses are applied to the world as it exists as of the date the report is run (data is updated monthly). Further, it assumes that the stresses take place over the course of a year and the returns shown are total returns including a year’s worth of income for all income-producing asset classes. Results from this analysis will vary over time as the underlying data is updated and may vary with each use.

About The Asset Classes: Please note that other investments not considered in the illustration may have characteristics similar or superior to those included in the analysis. Global Materials Stocks are represented by the S&P Global 1200 Materials Sector Index. Global Real Estate Stocks are represented by the FTSE EPRA/NAREIT Developed Index. Commodities are represented by the Dow Jones UBS Commodity Index. US High Yield Bonds are represented by the Barclays High Yield Index. US TIPS are represented by the Barclays US TIPS index. Cash is represented by the Barclays 1-3 Month Treasury Bill Index. US Bonds are represented by the Barclays US Aggregate Bond Index.

About The Events: Inflation +1% - Assumes the Consumer Price Index rises 1%.

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