MARKET UPDATE

Economic Market Update – Second Quarter, 2021

July 16, 2021

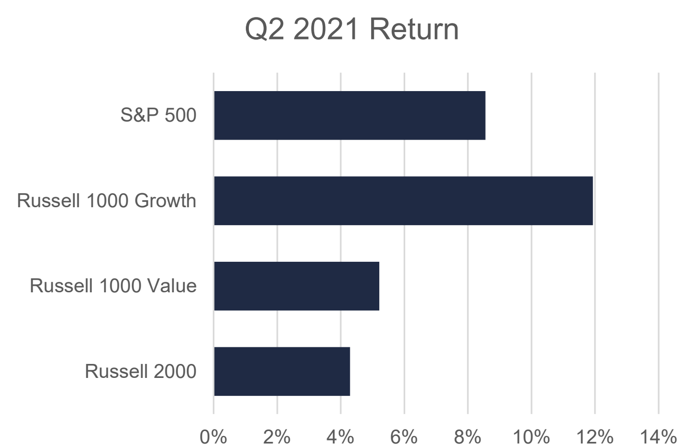
- The S&P 500 continued to hit new highs over the course of Q2, leading to the second-best start to a calendar year for the index this century
- Returns were strong across nearly every asset class
- Stock returns were solid across styles and market sectors, with only Utilities finishing the quarter in the red
- Fixed income markets stabilized during the quarter, clawing back some of the losses experienced in Q1, which was one of the worst quarters for bond investors in history
- Style, sector, and fixed income leadership began to shift in Q2, an indication that our base case of an early transition to a mid-cycle environment remains likely

Fulton | PRIVATE BANK

Fulton | FINANCIAL ADVISORS

After a first quarter that featured a wide divergence between stock and bond returns, the second quarter of 2021 saw strong returns across nearly all asset classes. In the United States, the S&P 500 Index and the Long-Term U.S. Treasury Index both returned over 5%. This return pattern has rarely occurred historically given that long-term bonds tend to rally the strongest when market volatility is high and equity markets are in turmoil. The second quarter of 2021 was the first time both assets returned greater than 5% since 1995, and such an occurrence has only happened 12 times since 1980. Given the rarity of this event, what might it be signaling about where markets could be headed in the months ahead? An evaluation of the historical data suggests that the current strength in equity markets is likely to continue. In the 12 previous examples of 5+% performance for both stocks and long-term bonds, the stock market generated further gains in the next quarter 83.3% of the time, seeing a median increase in the S&P 500 of around 8%.

U.S. Equity Markets

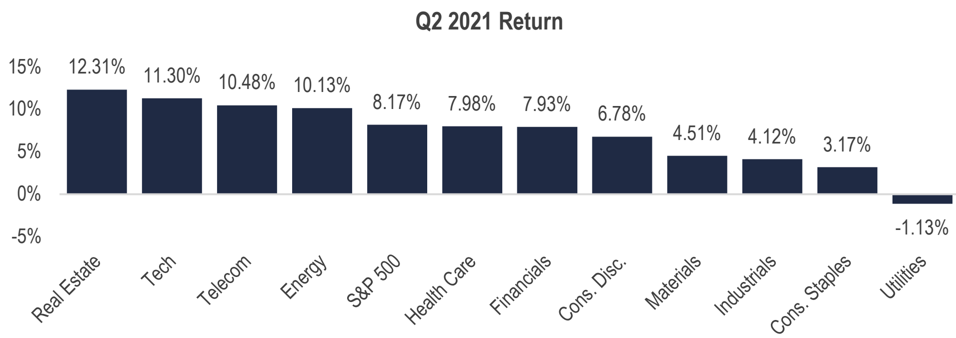


The bellwether for U.S. stock returns, the S&P 500, finished the quarter up 8.55%[1]. Adding to a strong Q1, the index is now up 15.25% year to date – the second best first-half return this century, trailing only 2018. After leading the market in the past two quarters, small-cap stocks underperformed their large-cap peers in Q2, with the Russell 2000 Index returning 4.29% for the quarter. Small-cap stocks still lead year to date, however, up 17.54% over the last 6 months. U.S. equity performance continued to vary widely by style during Q2, but saw a reversal of the trends that dominated the first three months of the year. Small-cap gave back some of the relative gains over large-cap in Q2, and value gave back some of its relative gains to growth in both large- and mid-cap. Our base case, which we laid out in detail in pieces published earlier this year, expects an accelerated economic and market cycle, and the return to large-cap growth market leadership provides some initial evidence that this scenario is playing out. We may be exiting the part of the economic cycle in which cyclical and small-cap stocks have historically performed the strongest and begun the rotation to a more mid-cycle environment. The Russell 1000 Growth Index, which is comprised of both large- and mid-cap firms, returned 11.93% for the quarter vs. the

Q2 2021 Returns

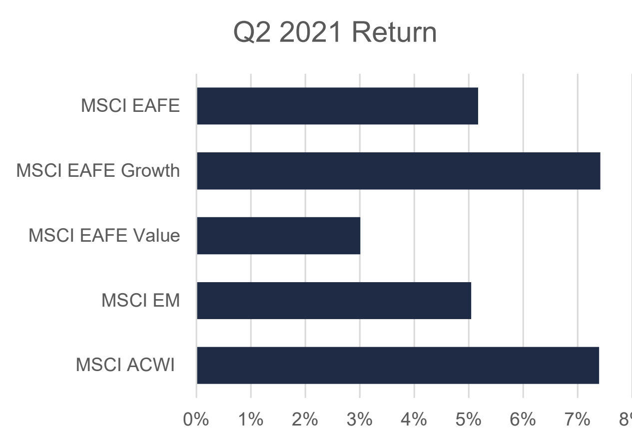
	Value	Blend	Growth
Large	5.0%	8.5%	11.9%
Mid	3.8%	3.6%	3.4%
Small	5.2%	4.5%	3.8%

5.21% return of the Russell 1000 Value Index. Small-cap was the only area that continued to see value in the leadership position, with the Russell 2000 Value Index returning 4.56% vs. the Russell 2000 Growth Index's return of 3.92% on the quarter. Performance also continued to vary widely across sectors and industries in the second quarter, but leadership was mixed among sectors traditionally thought of as value-oriented and those considered growth-oriented. Real estate saw a significant recovery in Q2, posting the best return of any sector at 12.31%. Energy firms also continued their strong run from Q1, rising an additional 10.13% in Q2 to put the sector's YTD return at 42.37%. Sectors dominated by growth-oriented firms also rallied in Q2. Led by the FANMAG[2] stocks, which outperformed the S&P 500 by more than 5% for the quarter, Information Technology returned 11.30% and Communication Services returned 10.47% in Q2. The sole sector experiencing a negative return on the quarter was Utilities. Strong market performance was broad-based across underlying industries in Q2 and for the year so far, with only five industries (out of a total of 63) ending the first half of the year in the red. Commodity producing industries were especially strong, occupying seven of the top ten spots for quarterly performance.



International Equity Markets

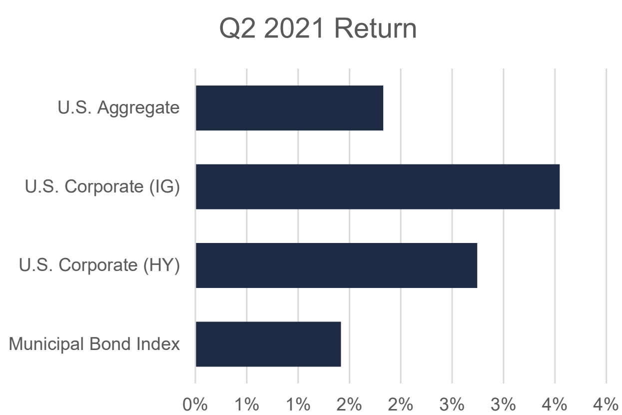
After outperforming for the first time in two years during Q1 2021, international equities lagged in Q2 on the back of strong U.S. performance. Six of the seven major MSCI geographic regions posted positive returns on the quarter; Japan was the lone outlier, with Japanese equities largely treading water to finish the quarter down 0.01%. Year to date has seen broad strength however, with each region up at least 6.95% over the previous six months. The MSCI EAFE Index of major developed international equity markets returned 5.17% for the quarter. The growth/value reversal was present internationally as well, with the MSCI EAFE Growth Index returning 7.42% vs. the 3.01% return of the MSCI EAFE Value Index. Emerging markets posted the



lowest return of any segment for the second quarter in a row, but developing markets still posted a respectable 5.05% return for the quarter. The underperformance of the EM index relative to developed markets was driven by relative weakness in Chinese equities, which comprise around 34.5% of the index and posted a return 1.70% in Q2. ***Summing up equity markets globally for the quarter, the MSCI ACWI Index, a proxy for the global stock market, returned 7.39% in Q2 and is now up 12.30% for the year through June.***

U.S. Fixed Income Markets

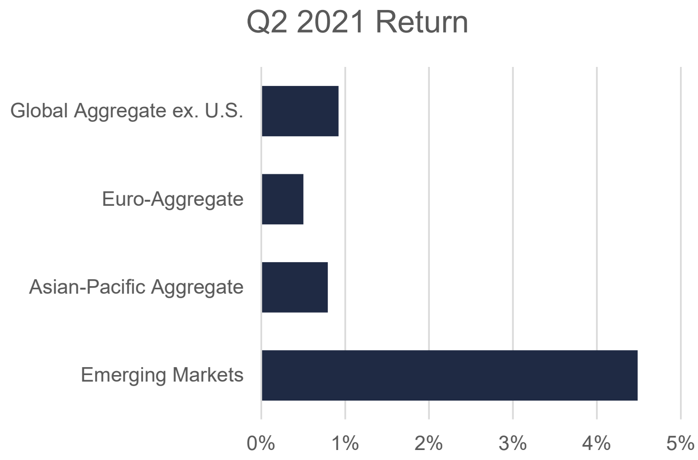
After a historically poor quarter in Q1, fixed income prices began to stabilize in Q2 and recover from the losses experienced in the first three months of the year. Emerging inflation concerns pushed yields up in Q1, especially at the long end of the yield curve, but those fears began to wane in Q2, resulting in a flattening of the curve and a rise in bond prices. While these rate moves were not quite enough for fixed income investors to recover all the losses experienced in Q1, the worst quarter for bond performance since 1981, they are a positive development that signals market participants are in line with our view that inflationary pressure is likely to be transitory. The Bloomberg Barclays U.S. Aggregate Bond Index, a broad measure of the performance of investment-grade fixed income markets in the U.S., rose 1.83% in Q2 and now is only down -1.60% for the year. The decline in interest rates was most beneficial for longer duration assets, with long-term US. Treasury bonds rebounding 6.5% in Q2. Investment-grade credit rallied as well, with the Bloomberg Barclays US Credit Index ending the quarter up 3.32%. TIPS posted a strong quarter as well, up 3.25%.



International Fixed Income Markets

International fixed income lagged on the quarter, despite the tailwind of a slightly weaker US dollar. The Bloomberg Barclays Global Aggregate ex. U.S. Bond Index, a proxy for the global investment-grade credit universe outside of the United States, returned 0.92% for Q2. Bonds in Europe and Asian saw muted returns, which may have been driven by less progress against COVID-19 relative to the U.S. Emerging market bonds were one bright spot for international fixed income in Q2, with the JPMorgan Global Core Emerging Market Bond Index returning 4.49%.

While the second quarter saw a shift in leadership both across and within asset classes, the winners of Q1 continue to lead thus far year to date. Our base case continues to expect a faster transition from an early-cycle to mid-cycle environment than in previous cycles. This transition increasingly looks like it began in the second quarter, and a more detailed examination of what we expect for the economy and markets in the back half of 2021 will follow in the weeks ahead.



[1]All returns are total returns unless otherwise stated; international returns are net returns in USD.
[2]Facebook, Amazon, Netflix, Microsoft, Apple, & Google

ABOUT THE AUTHOR

Matthew T. Brennan, CFA®
Portfolio Manager

Matthew is a portfolio manager and leads the investment strategy group for Fulton Private Bank and Fulton Financial Advisors. He was a National Merit Scholar at the University of Chicago, where he graduated with a B.A. in Political Science. He is a Chartered Financial Analyst (CFA®) charterholder and is a member of the CFA® Institute and the CFA® Society of Philadelphia.

Fulton Financial Advisors and Fulton Private Bank operate through Fulton Bank, N.A. and other subsidiaries of Fulton Financial Corporation.

The information and material in this report are being provided for informational purposes only, and are not intended as an offer or solicitation for the purchase or sale of any financial instrument or to adopt a particular investment strategy.

Information has been obtained from sources believed to be reliable, but Fulton Financial Advisors or its affiliates and/or subsidiaries (collectively "Fulton") do not warrant its completeness, timeliness or accuracy, except with respect to any disclosures relative to Fulton. The information contained herein is as of the date referenced above, and Fulton does not undertake any obligation to update such information. Fulton affiliates may issue reports or have opinions that are inconsistent with, or reach different conclusions than, this report.

All charts and graphs are shown for illustrative purposes only. Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice.

Any opinions and recommendations expressed herein do not take into account an investor's financial circumstances, investment objectives or financial needs, and are not intended as advice regarding, or recommendations of, particular investments and/or trading strategies, including investments that reference a particular derivative index or other benchmark.

The investments described herein may be complex, involve significant risk and volatility, and may only be appropriate for highly sophisticated investors who are capable of understanding and assuming the risks involved. The investments discussed may fluctuate in price or value and could be adversely affected by changes in interest rates, exchange rates or other factors.

Past performance is not indicative of future results. The value or income associated with a security may fluctuate, and investors could lose their entire investment. Asset allocation and diversification do not assure or guarantee better performance, and cannot eliminate the risk of investment losses.

Investors must make their own decisions regarding any securities or financial instruments mentioned herein, and must not rely upon this report in evaluating the merits of investing in any instruments or pursuing investment strategies described herein. You should consult with your own advisors as to the suitability of such securities or other financial instruments for your particular circumstances. In no event shall Fulton be liable for any use by any party of, for any decision made or action taken by any party in reliance upon, or for any inaccuracies or errors in, or omissions from, the information contained herein.

Securities and Insurance products are not a deposit or other obligation of, or guaranteed by the bank or any affiliate of the bank; are not insured by the FDIC or any other state or federal government agency, the bank or an affiliate of the bank; and are subject to investment risk, including the possible loss of value.

Fulton makes no representations as to the legal, tax, credit, or accounting treatment of any transactions or strategies mentioned herein, or any other effects such transactions may have on investors. You should review any planned financial transactions that may have tax or legal implications with a tax or legal advisor.

Recipients of this report will not be treated as customers of Fulton by virtue of having received this report. No part of this report may be redistributed to others or replicated in any form without prior consent of Fulton.

Fulton | PRIVATE BANK   Fulton | FINANCIAL ADVISORS