Renaissance Investment Management

June 2021

Market Update

Inflation Watch

Inflation has surged in recent months with the trailing 12-month change in the Consumer Price Index (CPI) reaching 5.0% as of the end of May. Meanwhile, the bond market has been remarkably indifferent to the recent increase in inflation—the 10-year Treasury bond yield ended last week at 1.37% and has actually declined over the past several months. As a result, the real yield on 10-year Treasuries (defined as yield minus the trailing inflation rate) has fallen to -3.6%, its lowest in over 20 years.

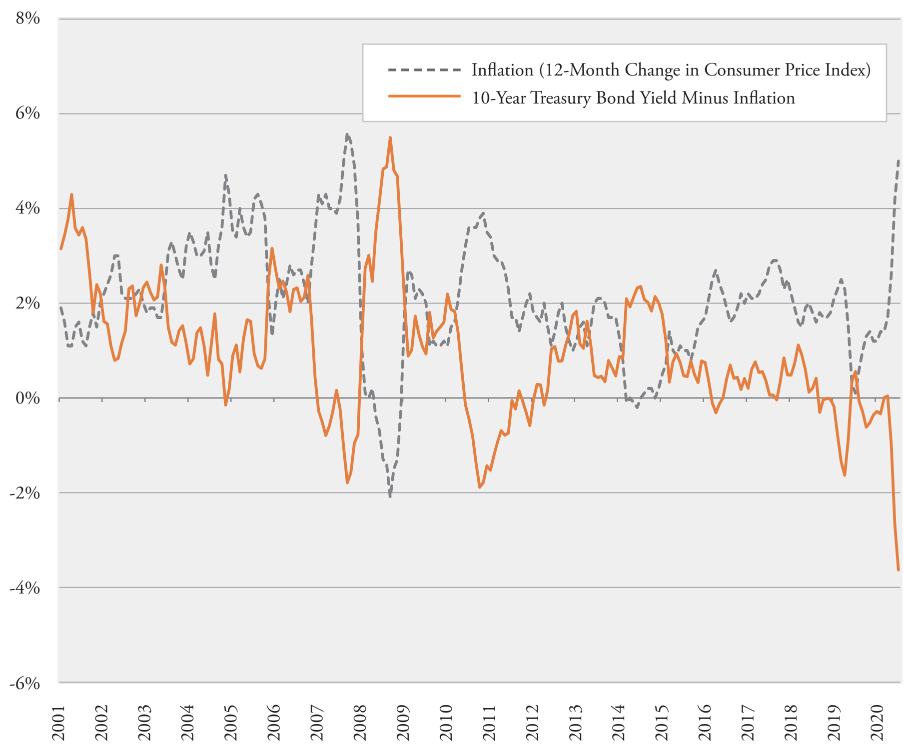
Many investors believe that the recent increase in inflation is being driven by temporary mismatches in the economy as consumer demand is surging faster than producers can provide goods. If those mismatches are only temporary, they will slowly work themselves out as the economy more fully reopens. Yet, the recent surge in prices along with elevated levels of government deficits have clearly raised concerns about future inflation rates among investors.

The Federal Reserve concluded its meeting last week with higher expectations for inflation in 2021, along with an earlier time frame for interest rate hikes. The Fed now sees core inflation (defined as CPI less Food and Energy) rising to 3.4% this year, above its previous estimate of 2.4%, and they boosted their estimate for GDP growth to 7%—a rate that has not been seen since the 1980s. The Fed also indicated that there could be two interest rate increases by 2023. Previously, their forecast indicated that there would not be any rate hikes until 2024.

In addition, Fed Chair Jerome Powell stated that there had been initial discussions about when to pull back on the Fed's $120 billion in monthly bond purchases, which have contributed to lower bond yields throughout the economic recovery. He indicated that those discussions would likely be continued in coming months as the economy continues to heal.

All in all, strong economic growth, rising inflation, and the potential for a tighter interest rate policy by the Fed suggest that bond yields are likely to trend higher over the next few years.

INFLATION vs REAL 10-YEAR TREASURY YIELD



Data from 12/31/2001–6/18/2021

Sources: Bloomberg

DISCLOSURES

This Market Update reflects the thoughts of Renaissance as of June 18, 2021. This information has been provided by Renaissance Investment Management. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision, nor should it be considered a recommendation. The views and opinions expressed are those of the Chief Investment Officer at the time of publication and are subject to change. There is no guarantee that these views will come to pass. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing.

PERFORMANCE

If Renaissance or benchmark performance is shown, it represents historically achieved results, and is no guarantee of future performance. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the

Continued

results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the benchmark or Renaissance performance shown and the actual performance results achieved by any particular client. Benchmark results are shown for comparison purposes only. The benchmark presented represents unmanaged portfolios whose characteristics differ from the composite portfolios; however, they tend to represent the investment environment existing during the time periods shown. The benchmark cannot be invested in directly. The returns of the benchmark do not include any transaction costs, management fees or other costs. The holdings of the client portfolios in our composites may differ significantly from the securities that comprise the benchmark shown. The benchmark has been selected to represent what Renaissance believes is an appropriate benchmark with which to compare the composite performance.

The value of an investment may fall as well as rise. Please note that different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client or prospective client's investment portfolio. Investor principal is not guaranteed and investors may not receive the full amount of their investment at the time of sale if asset values have fallen. No assurance can be given that an investor will not lose invested capital. Consultants supplied with these performance results are advised to use this data in accordance with SEC guidelines. The actual performance achieved by a client portfolio may be affected by a variety of factors, including the initial balance of the account, the timing and amount of any additions to or withdrawals from the portfolio, changes made to the account to reflect the specific investment needs or preferences of the client, durations and timing of participation as a RIM client, and a client portfolio's risk tolerance, investment objectives, and investment time horizon. All investments carry a certain degree of risk, including the loss of principal and are not guaranteed by the U.S. government.

REFERENCED INDEX

(Indices are unmanaged and are not available for direct investment.)

Consumer Price Index—The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item.

Renaissance Investment Management
800.837.3863 ■ 513.723.4500 ■ Fax: 513.723.4512 ■ www.reninv.com