
Global Economic Update

4th Quarter 2020

Key Areas of Focus

ACG's Investment Committee routinely identifies key areas of focus or themes that will drive investment returns **over the intermediate term**. In this quarterly update, we highlight **market and economic considerations** relevant in the context of enhancing risk-adjusted outcomes.



March 31, 2020

Equities down over 25% following two exogenous shocks

Fed rates at zero, QE + other measures in place

Social distancing, record claims for unemployment

Inflation expectations fall below 1%

Supply disruptions / demand destruction

10-Yr UST yield below < 0.7% (spreads widened)

Oil price at \$20/barrel

November 30, 2020

Equities rally on vaccine news, YTD performance positive

Fed holding rates at zero, QE + other measures in place

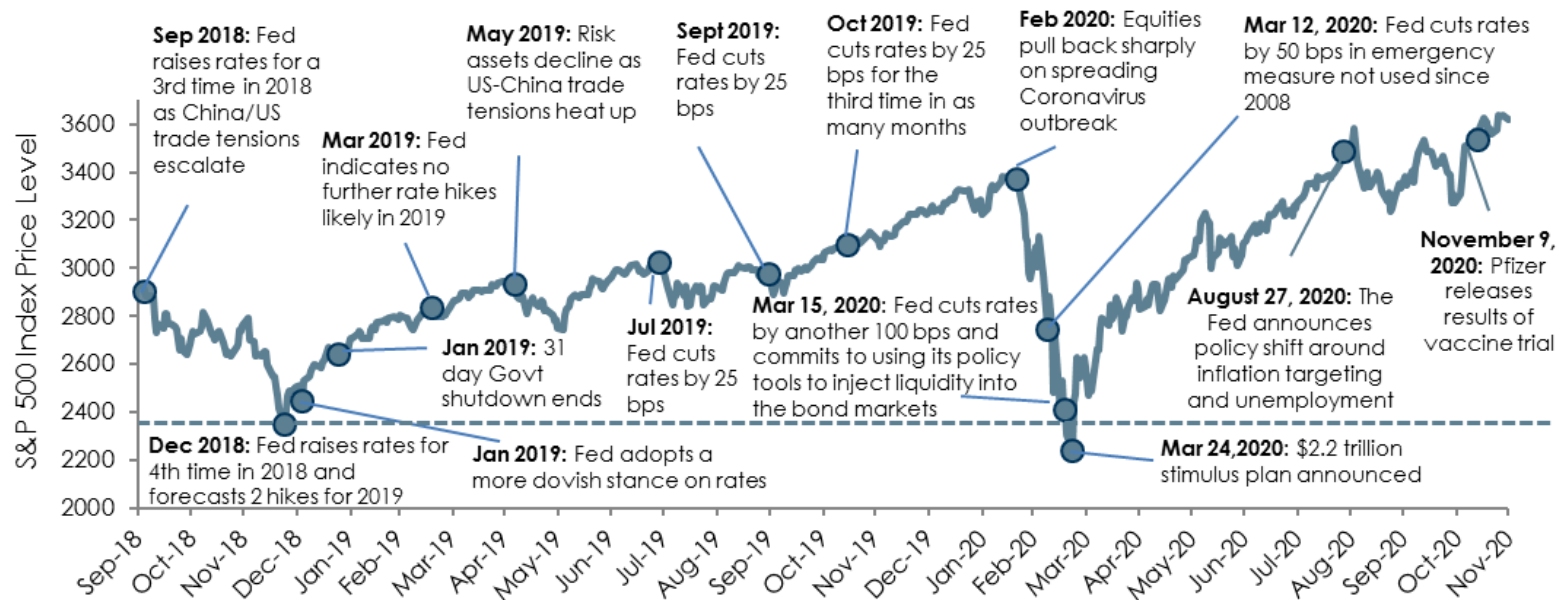
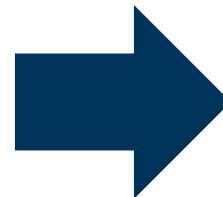
Continued social distancing, unemployment improving

Inflation expectations rise, but still below 2% Fed target

Demand improving but some restrictions are reintroduced

10-Yr UST yield < 0.90%, spreads below historic averages

Oil prices bouncing off lows, remain ~ \$45/barrel



Source: ACG Research, Bloomberg (as of November 30, 2020)

Breathtaking Speed: Relative to Historic Bear Markets the 2020 Experience Stands Apart

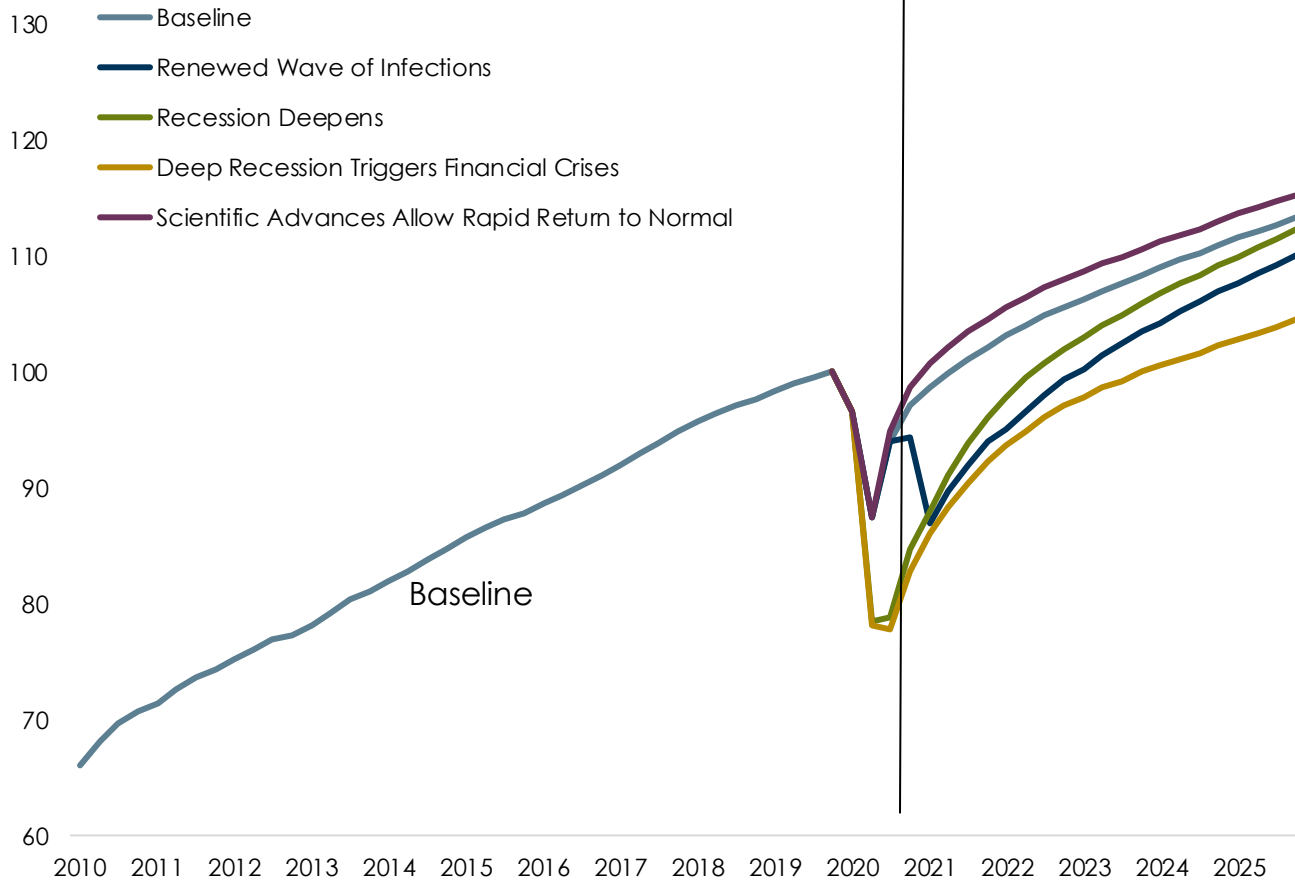


Source: ACG Research, Standard & Poor's (as of November 30, 2020)

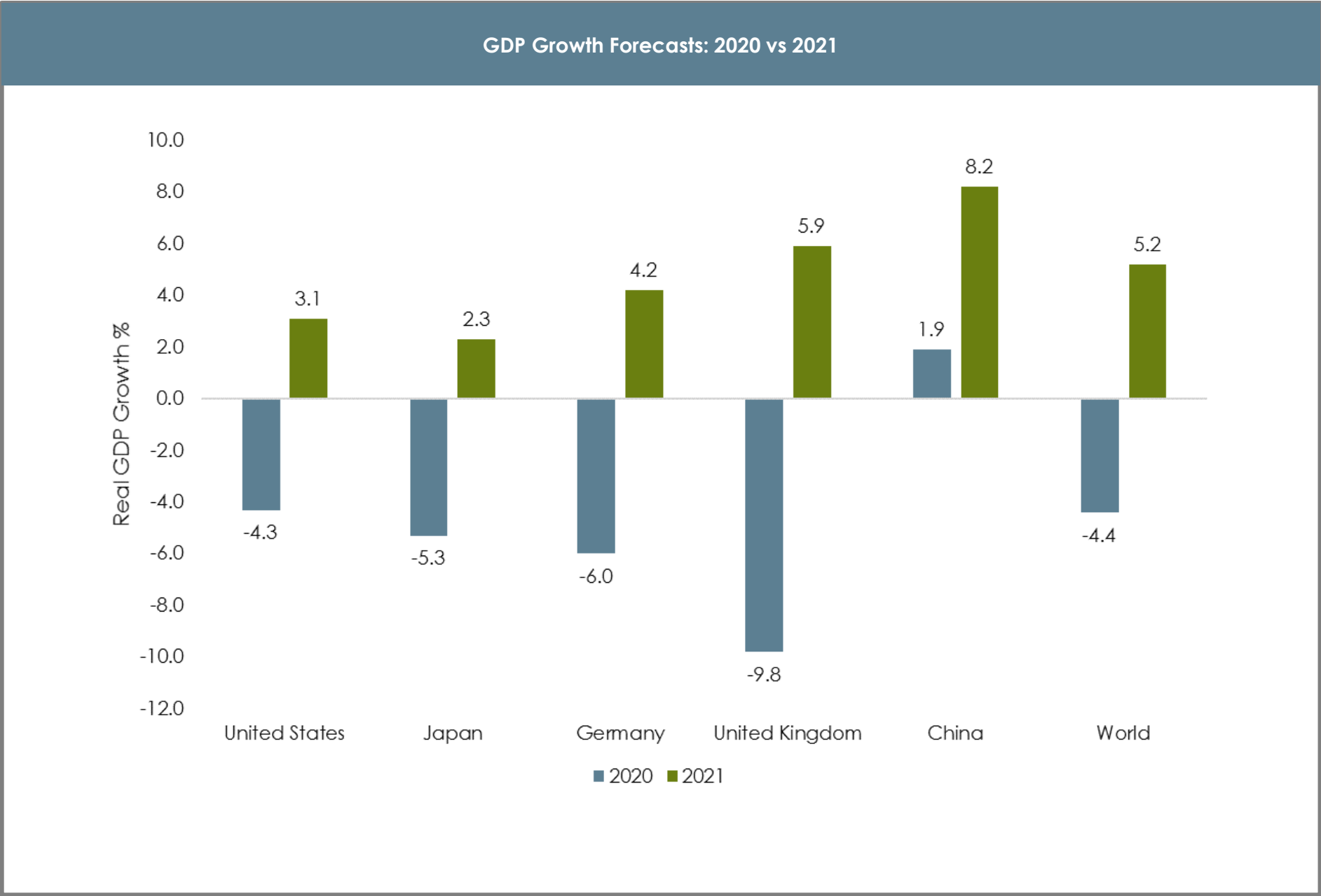
Path to Recovery will be Sector and Region Specific

World GDP

Q4 2019 = 100

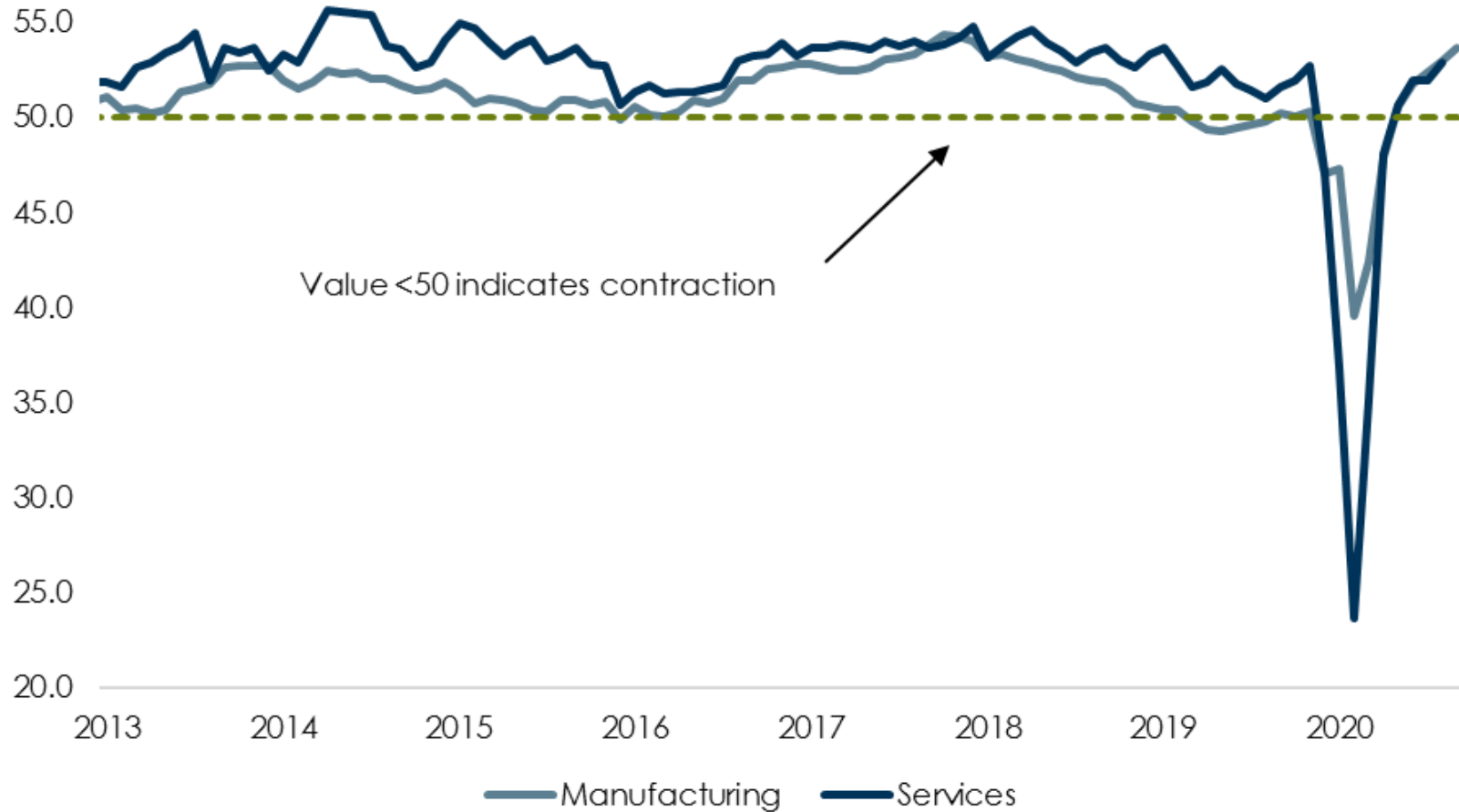


Source: ACG Research, Oxford Economics, Haver Analytics



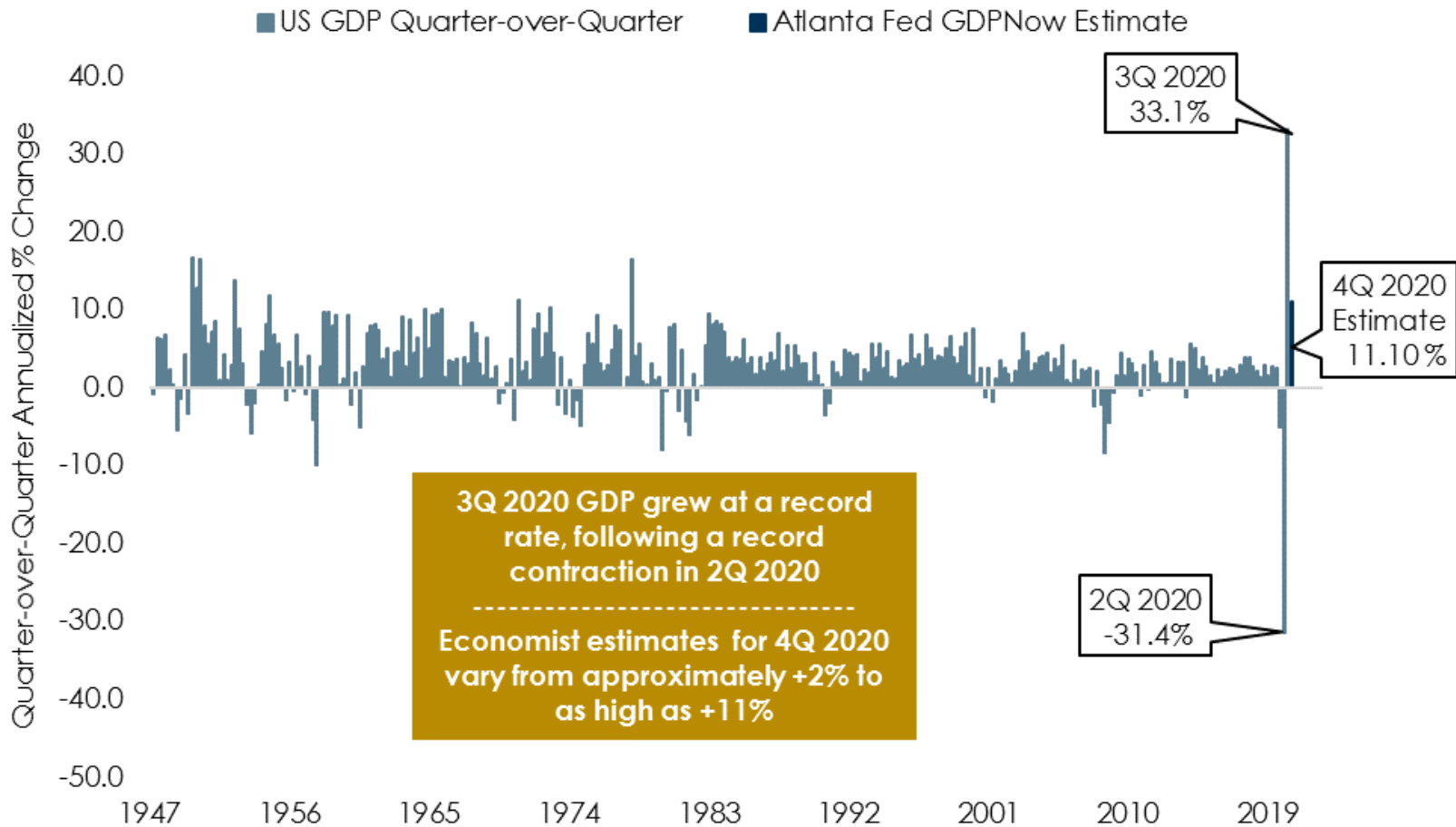
Source: ACG Research, IMF (as of September 30, 2020)

Global PMIs: Reflect the Significant Economic Impact of COVID-19

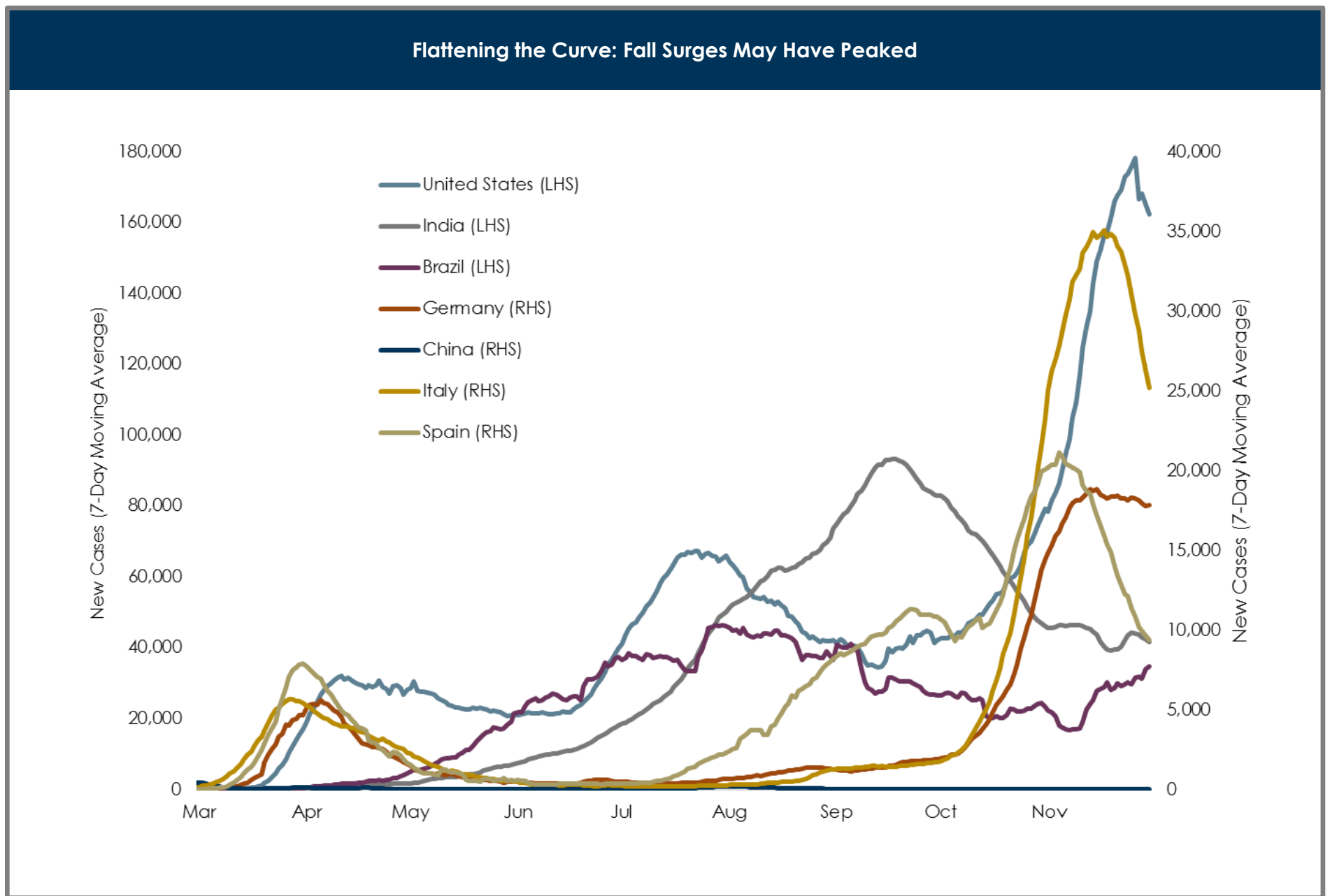


Source: ACG Research, JP Morgan Markets (data as of November 30, 2020)

US GDP: Unprecedented Sudden Stop Leads to Recession, Depth & Shape of Recovery Less Certain

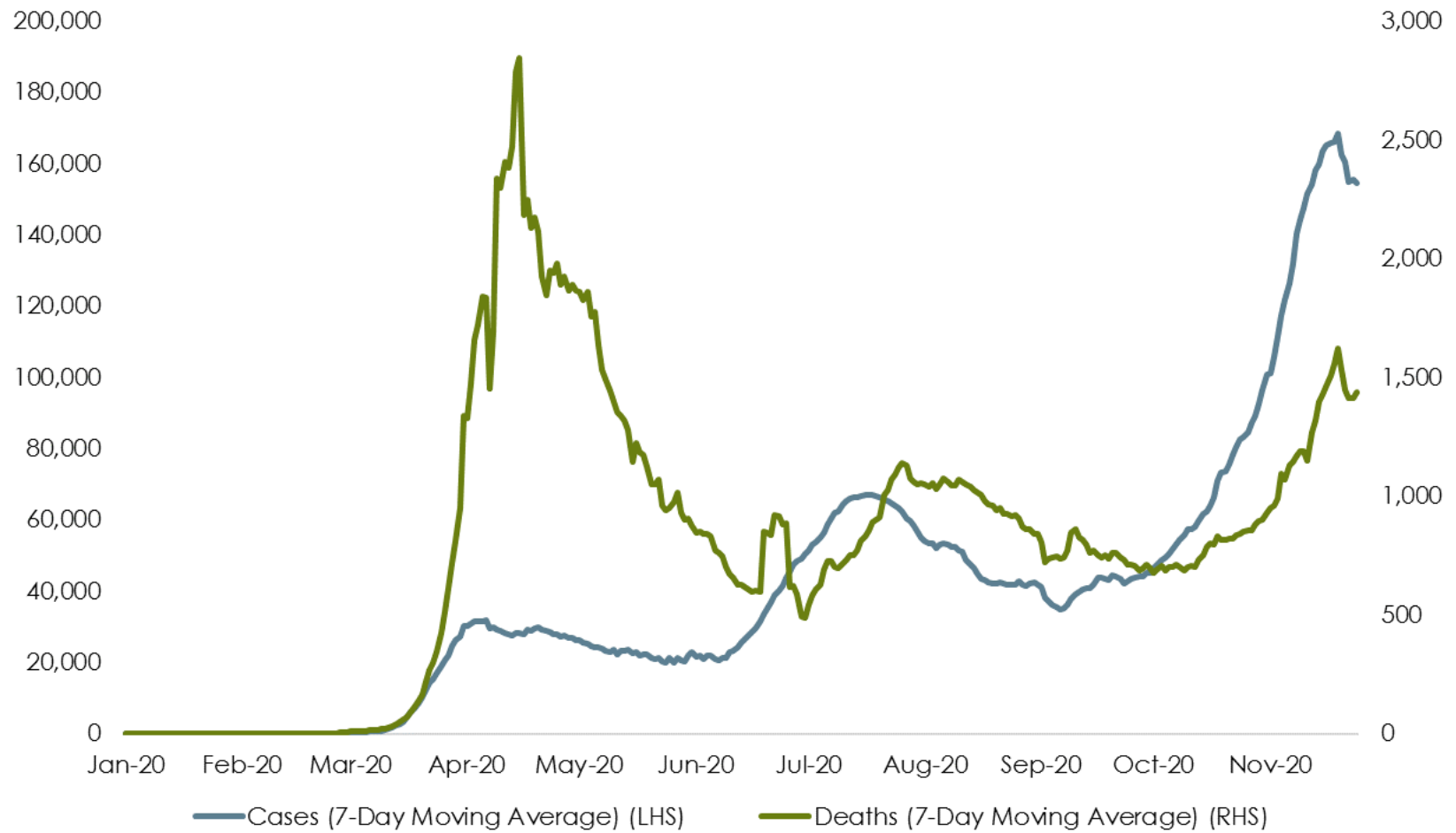


Source: ACG Research, Bloomberg, Bureau of Economic Analysis, Atlanta Federal Reserve Bank (as of November 30, 2020)



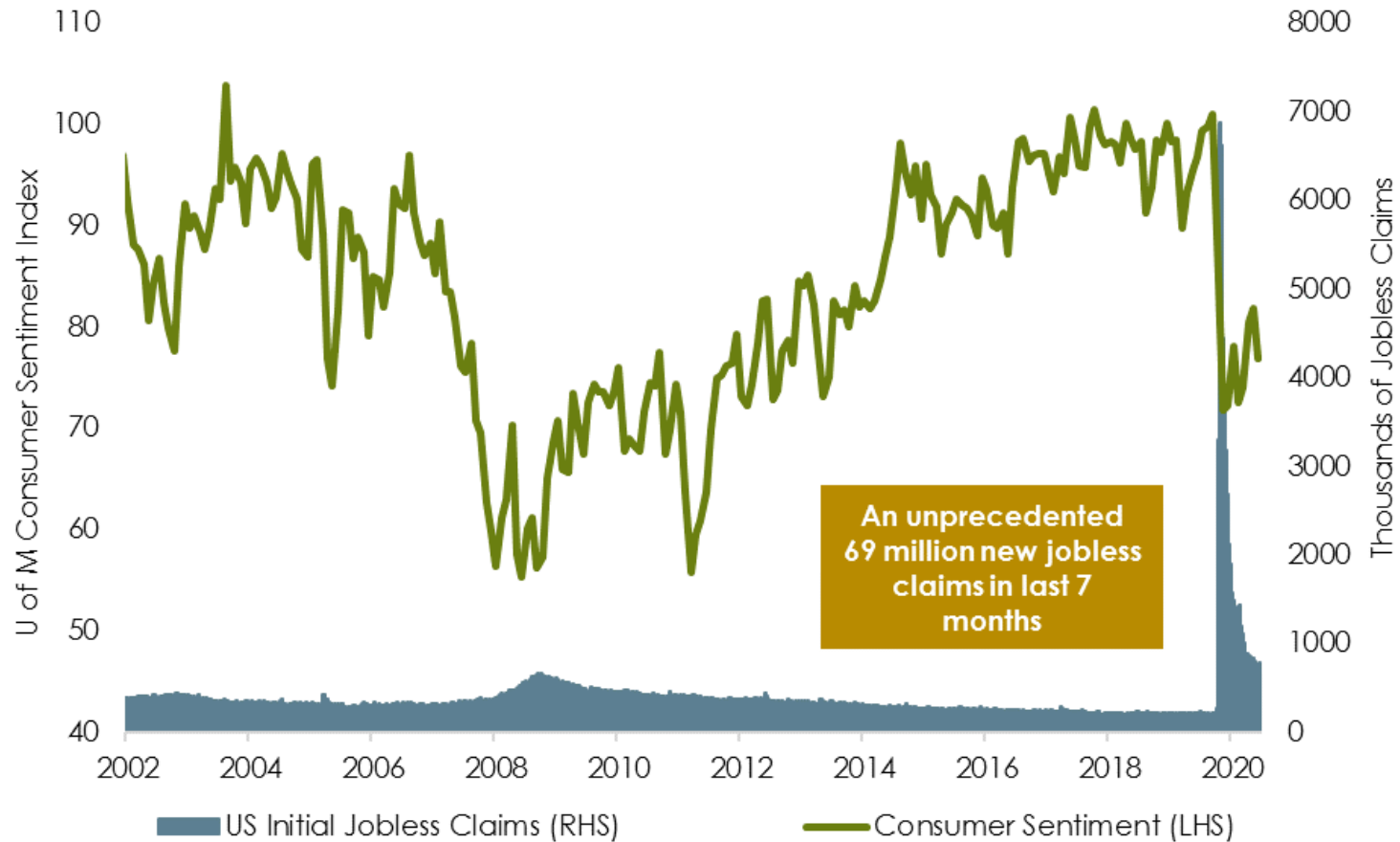
Source: ACG Research, European Centre for Disease Prevention and Control (as of November 30, 2020)

Flattening the Curve: Mortality Rate Remains Below April's High



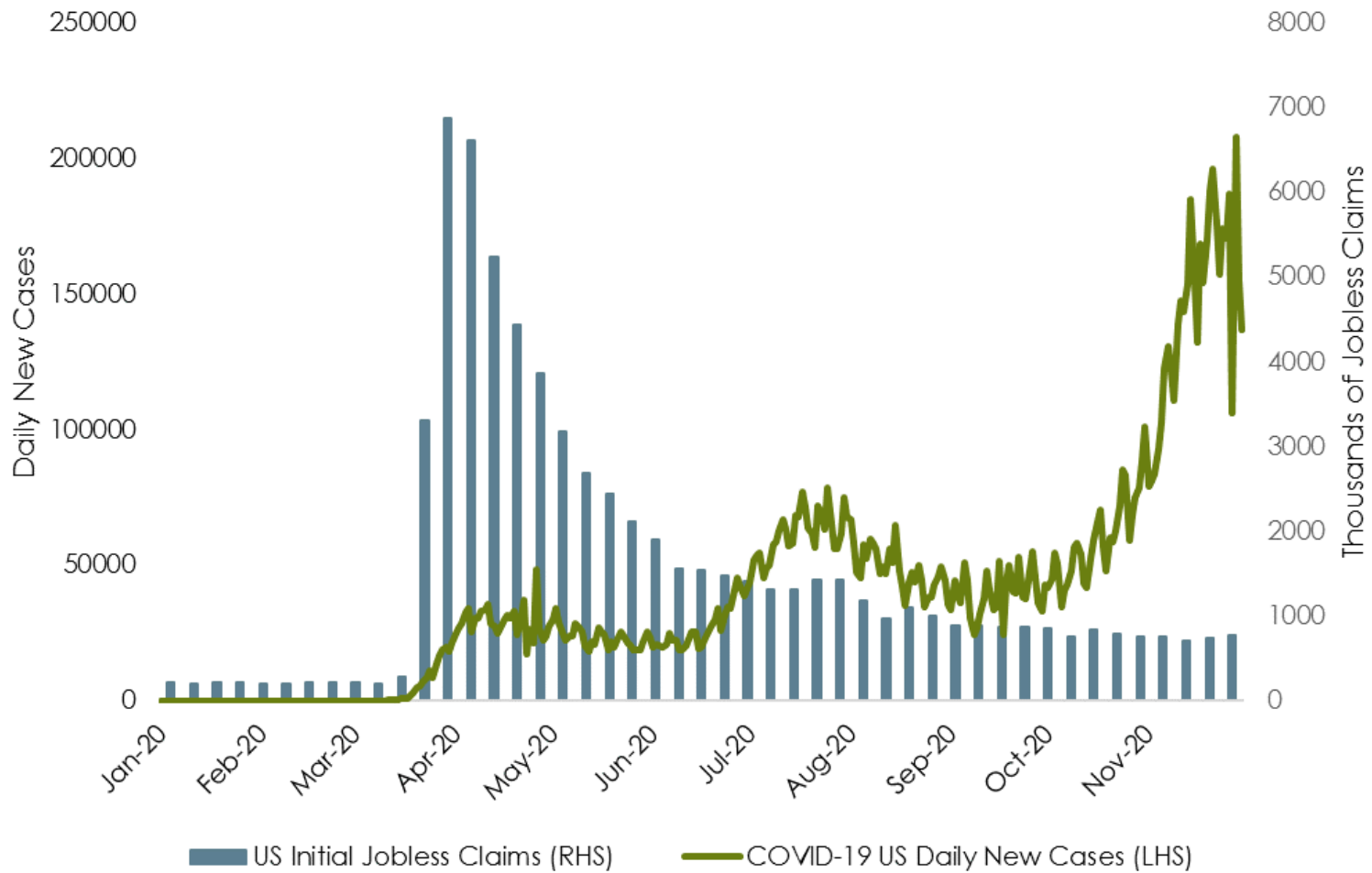
Source: ACG Research, Centers for Disease Control and Prevention (as of November 30, 2020)

Confidence is Key: Targeted & Timely Stimulus Intended to Support Consumers



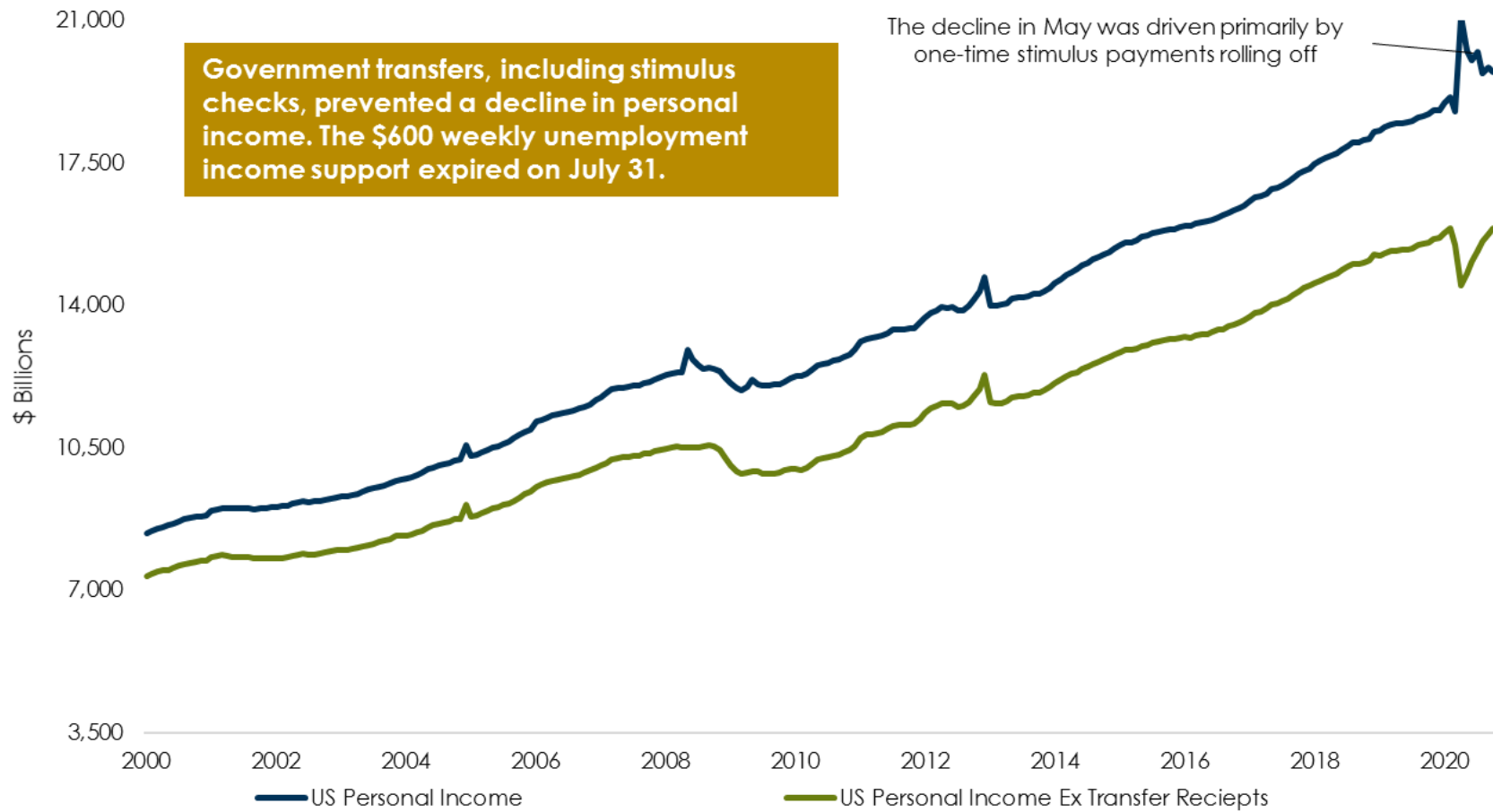
Source: ACG Research, Bloomberg, University of Michigan (as of November 30, 2020)

Confidence is Key: No Second Surge in Jobless Claims Despite Surge in Daily Cases



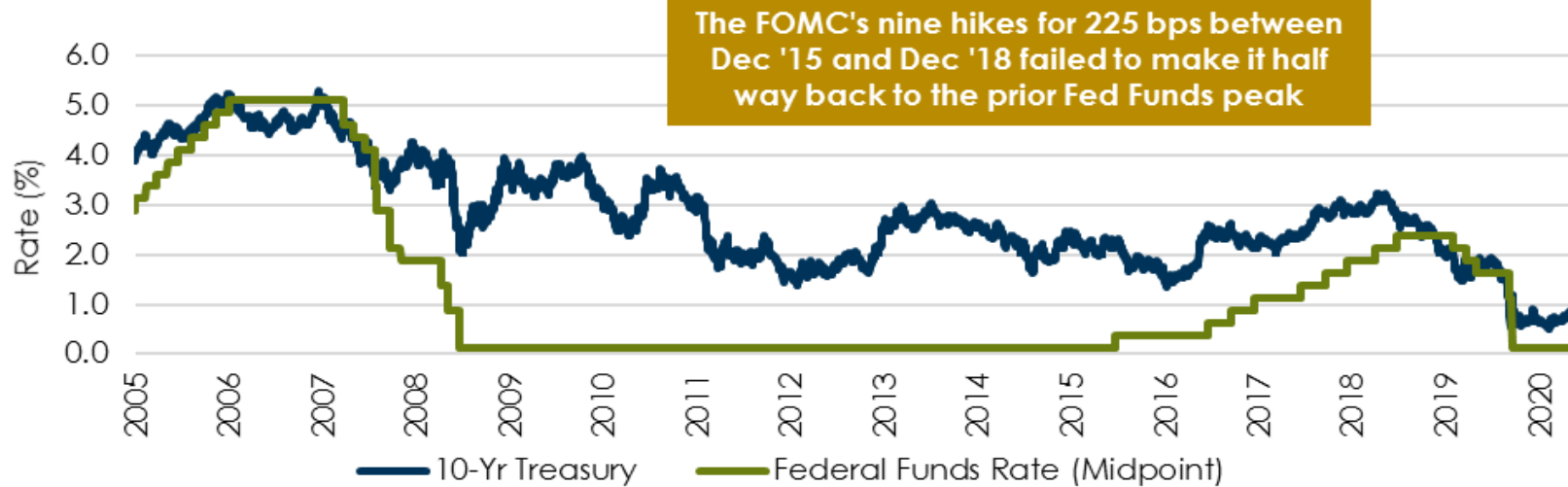
Source: ACG Research, Bloomberg (as of November 30, 2020)

Confidence is Key: Targeted & Timely Stimulus Intended to Support Consumers



Source: ACG Research, BEA, Bloomberg, (as of October 30, 2020)

US Federal Reserve: Policy Pivot Transitions Quickly to “All Hands on Deck”



The Fed's Expanded Toolkit

Zero Bound Rates

Asset Purchases (unlimited QE)

Primary Credit Rate/Discount Window

Central Bank Liquidity Swaps

Primary Dealer Credit Facility (PDCF)*

Money Market MF Liquidity Facility*

Commercial Paper Funding Facility (CPFF)*

Term Asset-Backed Securities Loan Facility (TALF)**

New - Reduced Bank Reserve Requirements

New - Primary Market Corporate Credit Facility (PMCCF)**

New - Secondary Market Corporate Credit Facility (SMCCF)**

New - Foreign & International Monetary Authorities (FIMA) Repo Facility

New - Municipal Liquidity Facility (MLF)**

New - Main Street Lending Program**

New - Paycheck Protection Program Liquidity Facility (PPPLF) *

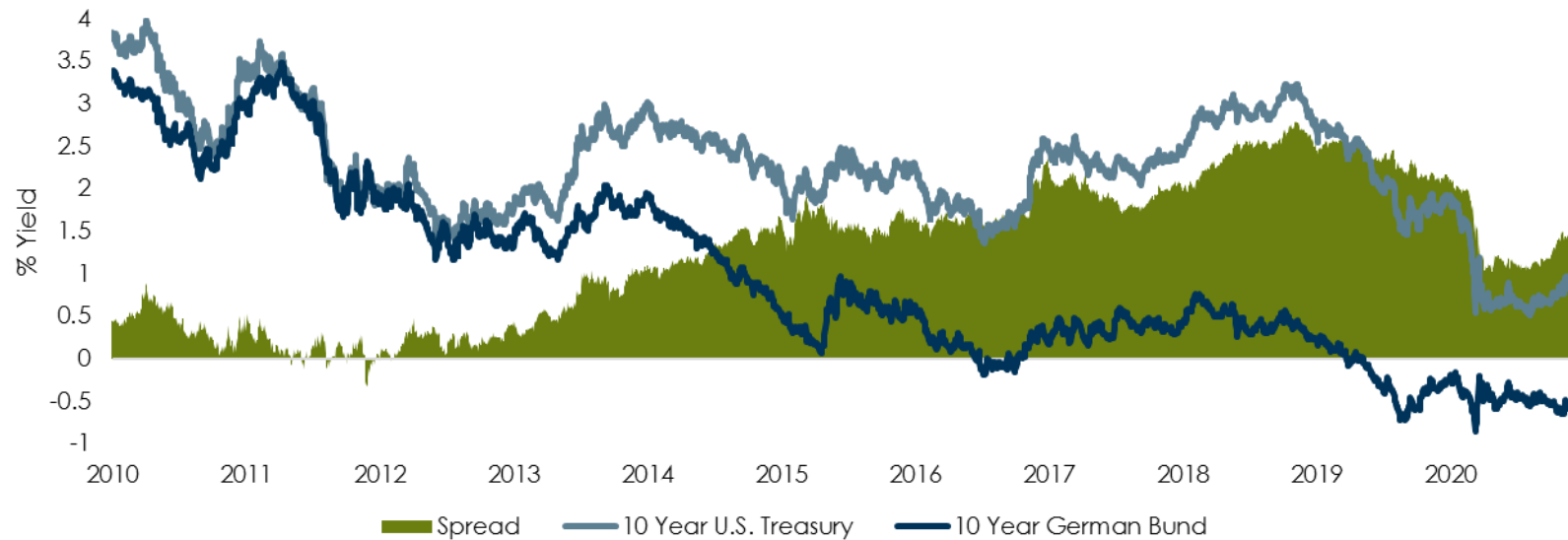
-Certain programs enacted in conjunction with the Treasury Department are scheduled to expire soon:

*Extended through March 31st, 2021

**Expiring on or around December 31, 2020

Source: ACG Research, Bloomberg, Federal Reserve (as of November 30, 2020)

Global Central Banks: Asset Purchase Programs a Staple with Rates Already Near Zero



Major Global Policy Responses

Bank of England

- Asset purchases: \$920 billion planned
- Term Funding Scheme (TFSME)
- Covid Corporate Financing Authority (CCFF)
- Contingent Term Repo Facility (CTRF)

European Central Bank

- Asset Purchases: \$1,500 billion planned
- Targeted Longer-Term Refinancing Operations (TLTRO III)

Bank of Japan

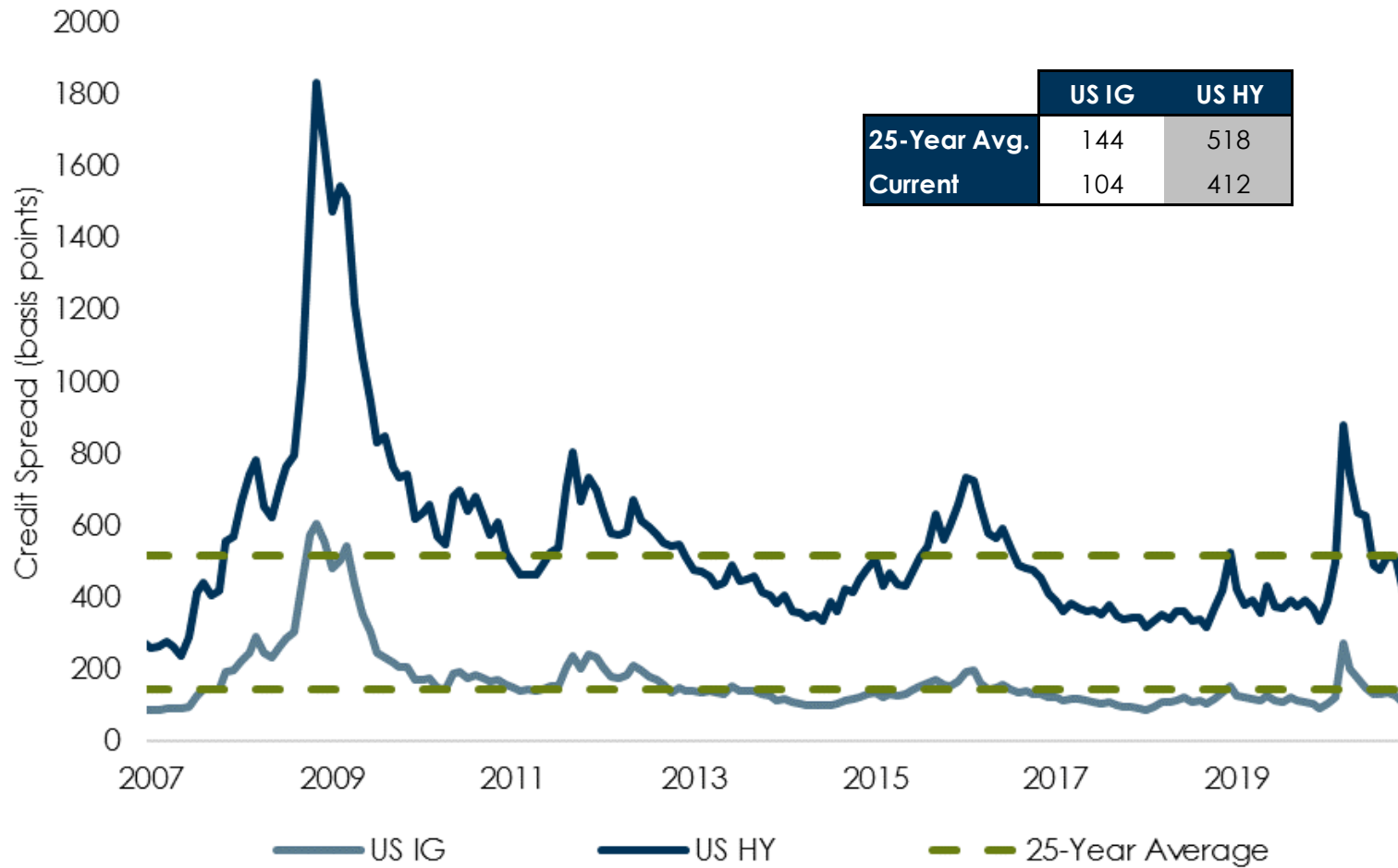
- Asset Purchases: \$865 billion planned
- Special Funds-Supplying Operations to Facilitate Corporate Financing
- Securities Lending Facility (SLF)

European Commission

- Proposed \$840 billion in joint debt to be issued by the EU as aid to the bloc's hardest hit countries

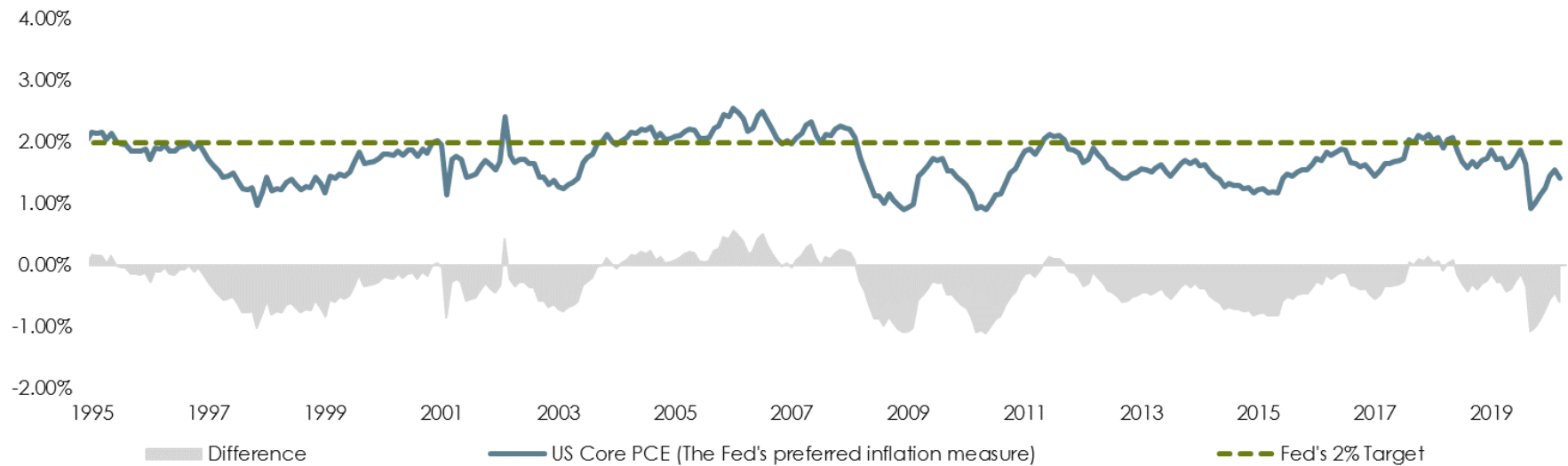
Source: ACG Research, Bloomberg, FRED (as of November 30, 2020).

Corporate Credit: Markets Respond to Fed Support



Source: ACG Research, Bloomberg Barclays Indices (as of November 30, 2020)

Inflation Expectations: Years of Low Inflation Lead the Fed to Relax its 2% Target



Deflationary Signals

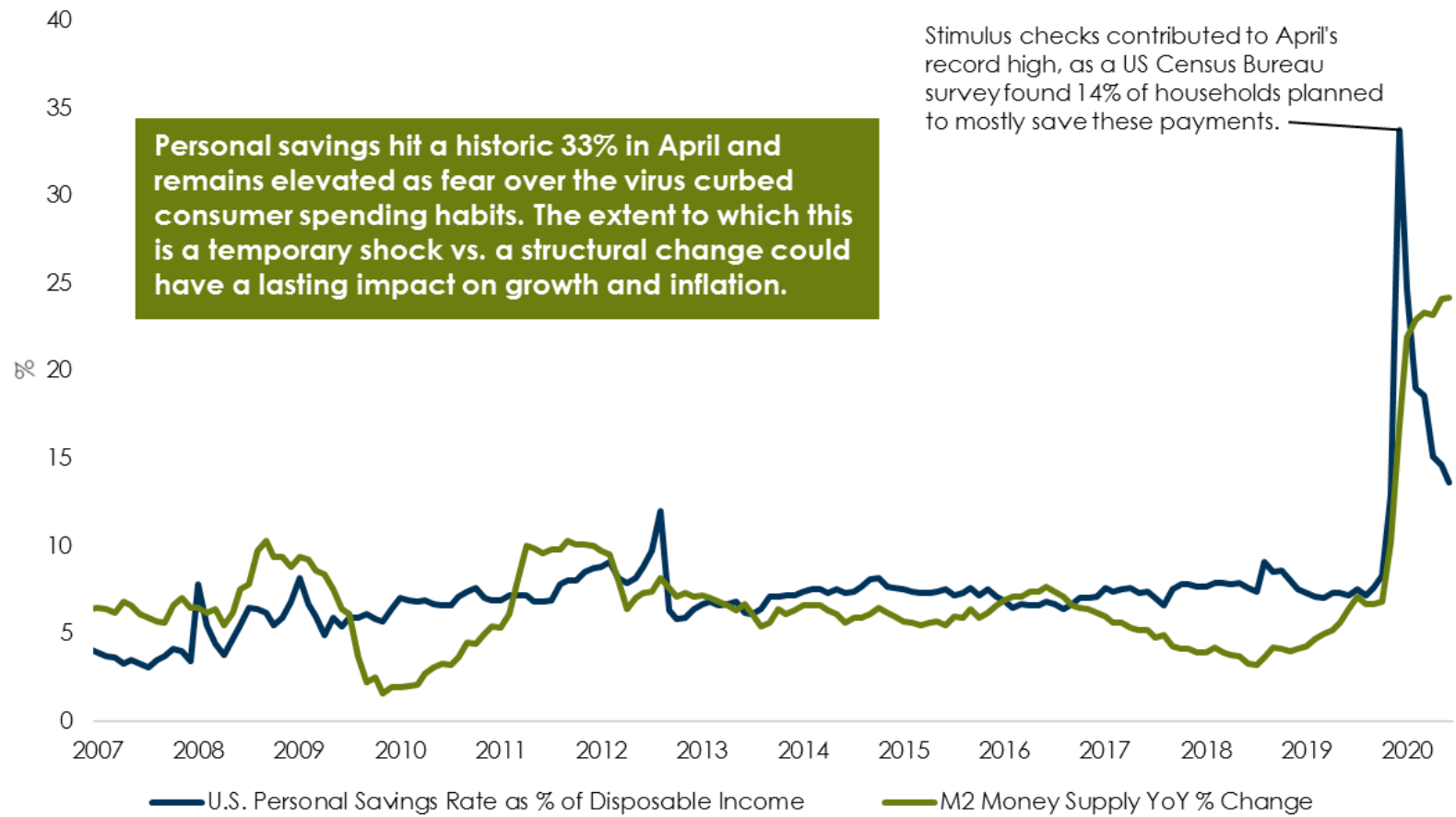
- Demographic trends (lower birth rate, aging population)
- Technological innovations
- Stagnant wage growth
- Unemployment
- High savings rate
- Reduced velocity of money
- Inequality

Inflationary Signals

- Fed accommodation
- Consumer demand induced by economic recovery
- Fiscal policy support
- Weaker USD
- Supply chain disruption
- Deglobalization
- Reduced Competition

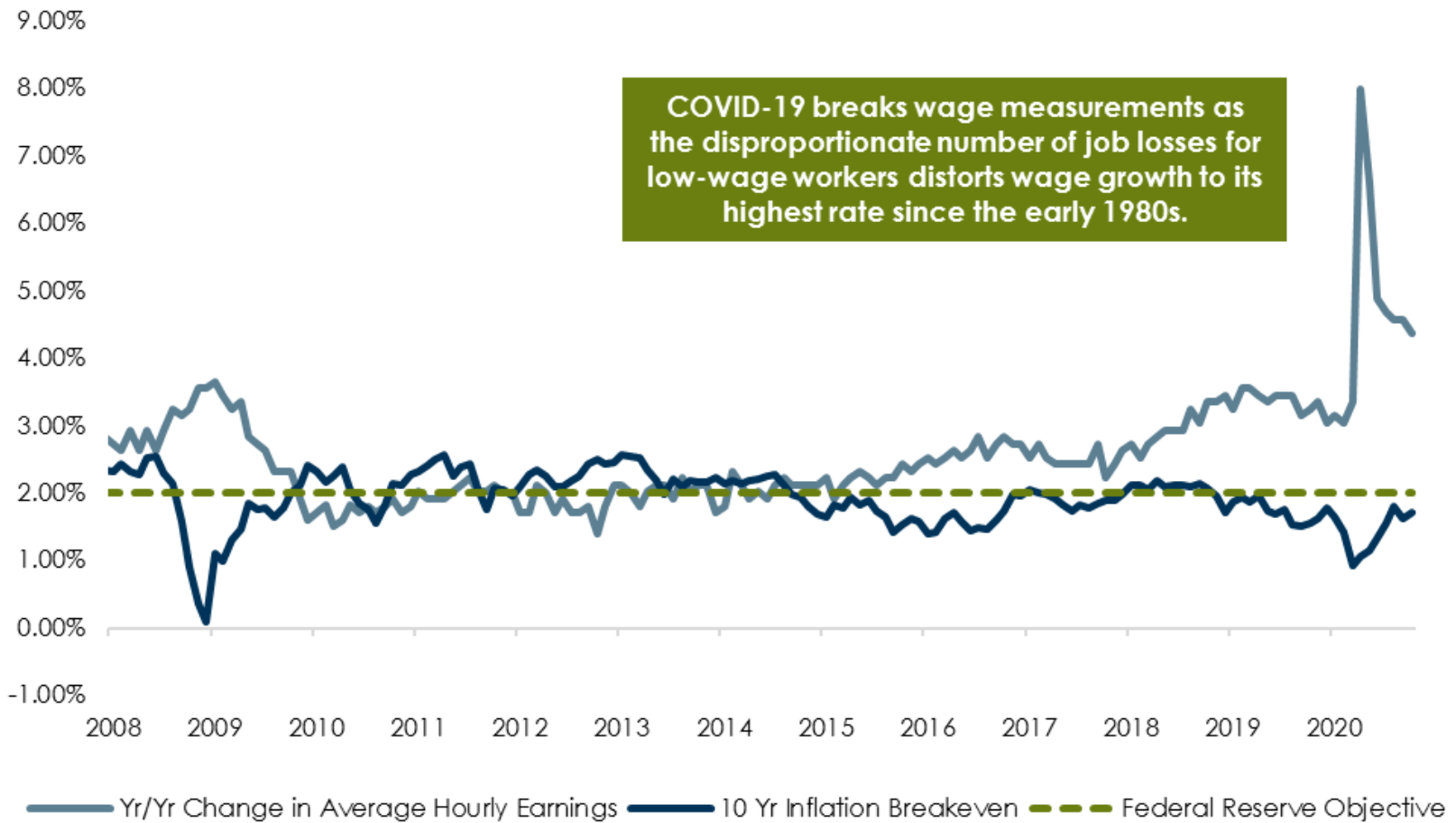
Source: ACG Research, Bloomberg (as of October 31, 2020)

Inflation Expectations: Money Supply Increases while Consumers Hoard Cash

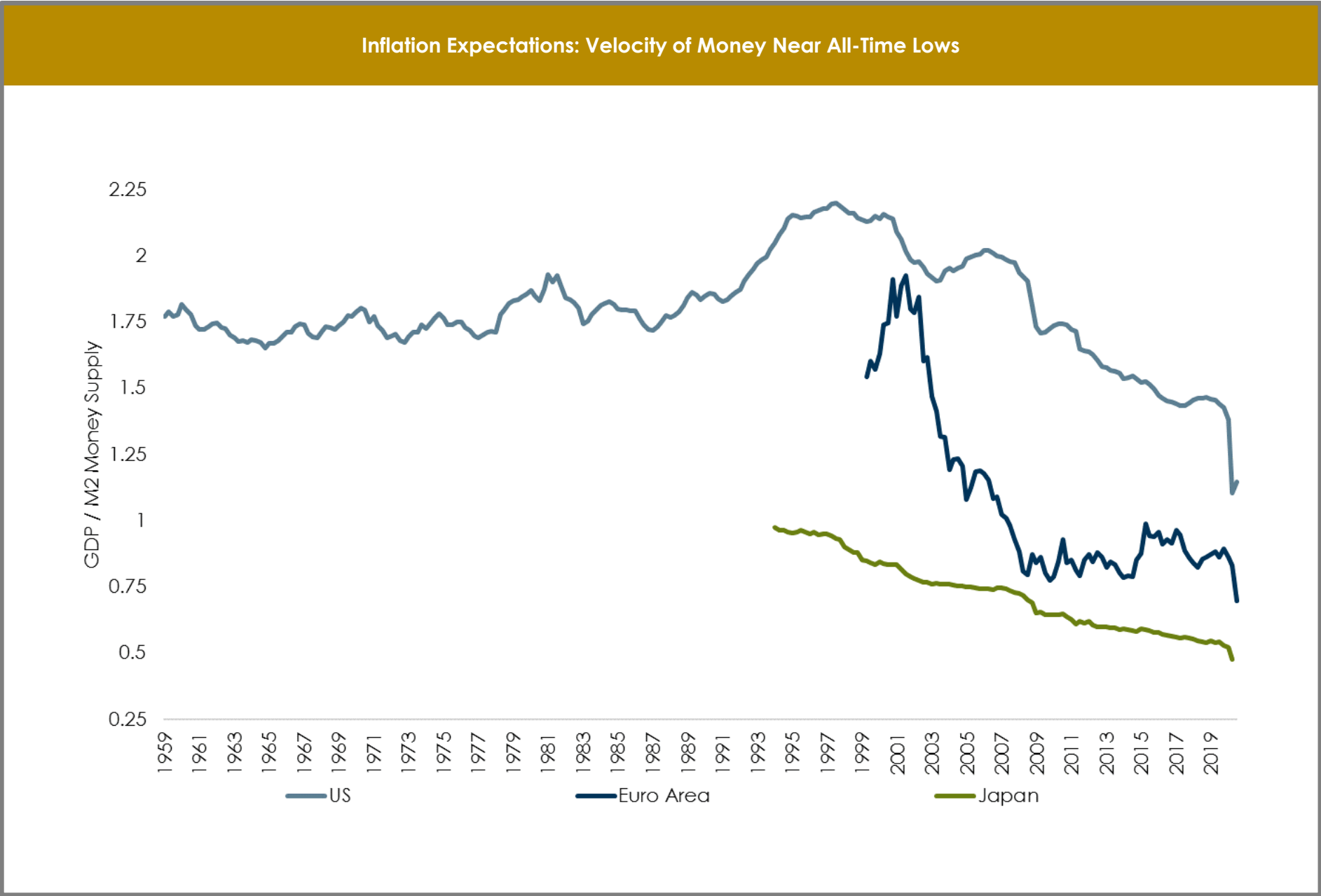


Source: ACG Research, Bloomberg (As of October 31, 2020)

Inflation Expectations: Falling Further Below Target, Wage Growth Distorted by Employee Profiles



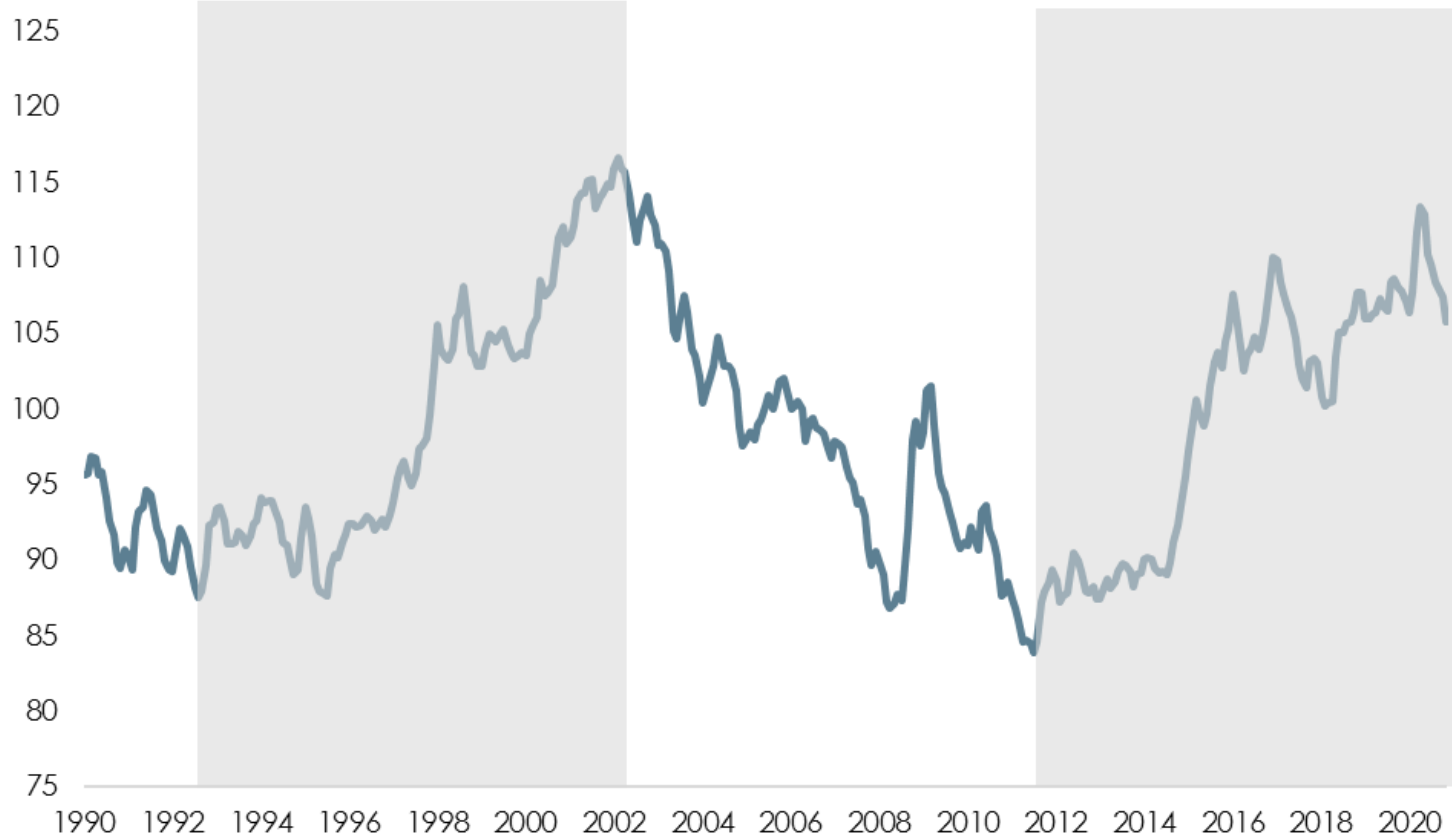
Source: ACG Research, Bloomberg (As of October 31, 2020)



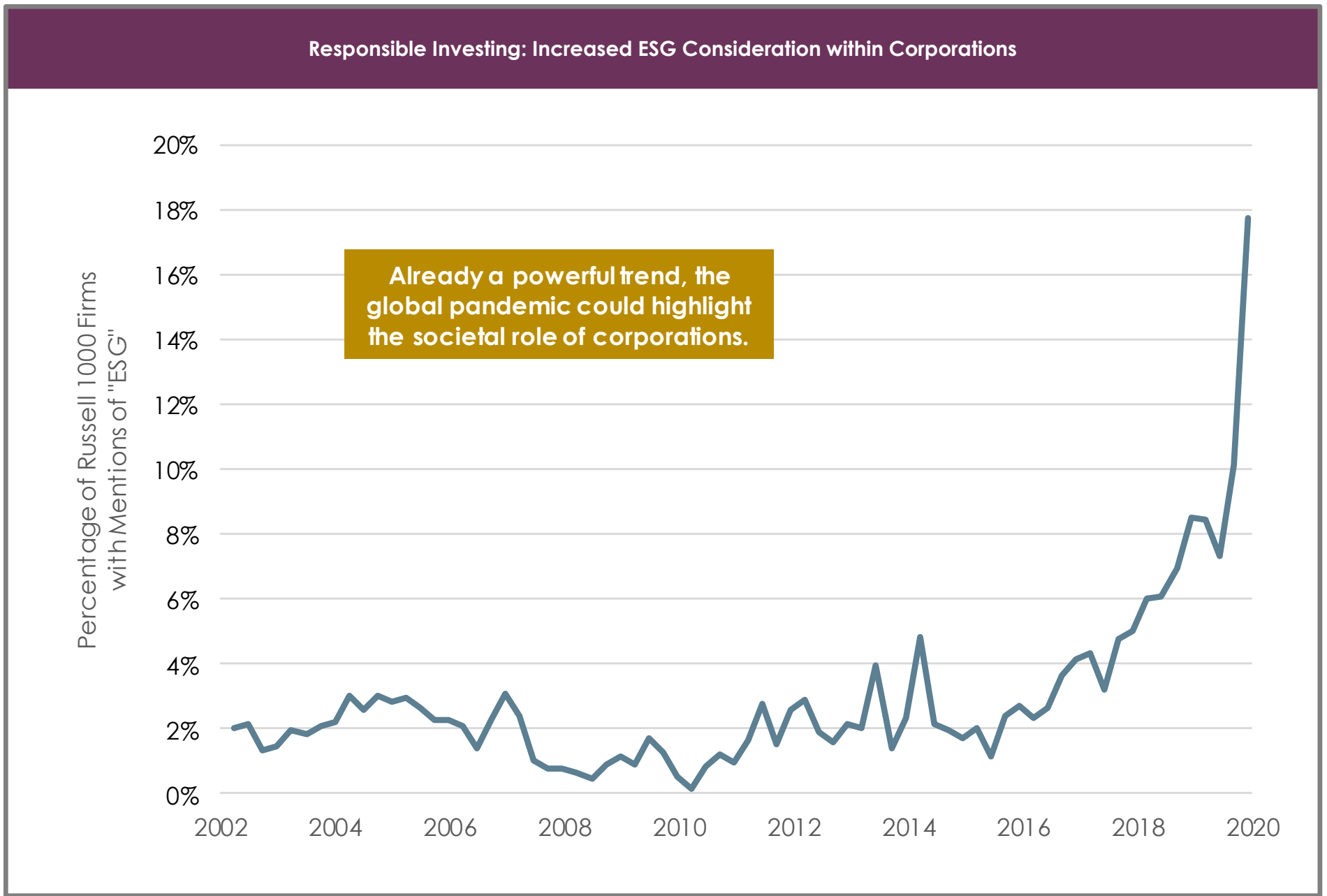
Source: ACG Research, Bloomberg, Japan Cabinet Office retrieved from FRED, European Central Bank (as of September 30, 2020)

US Dollar – Due for a Period of Weakness?

Trade Weighted US Dollar Index: Broad Goods and Services
(1990 - Current)

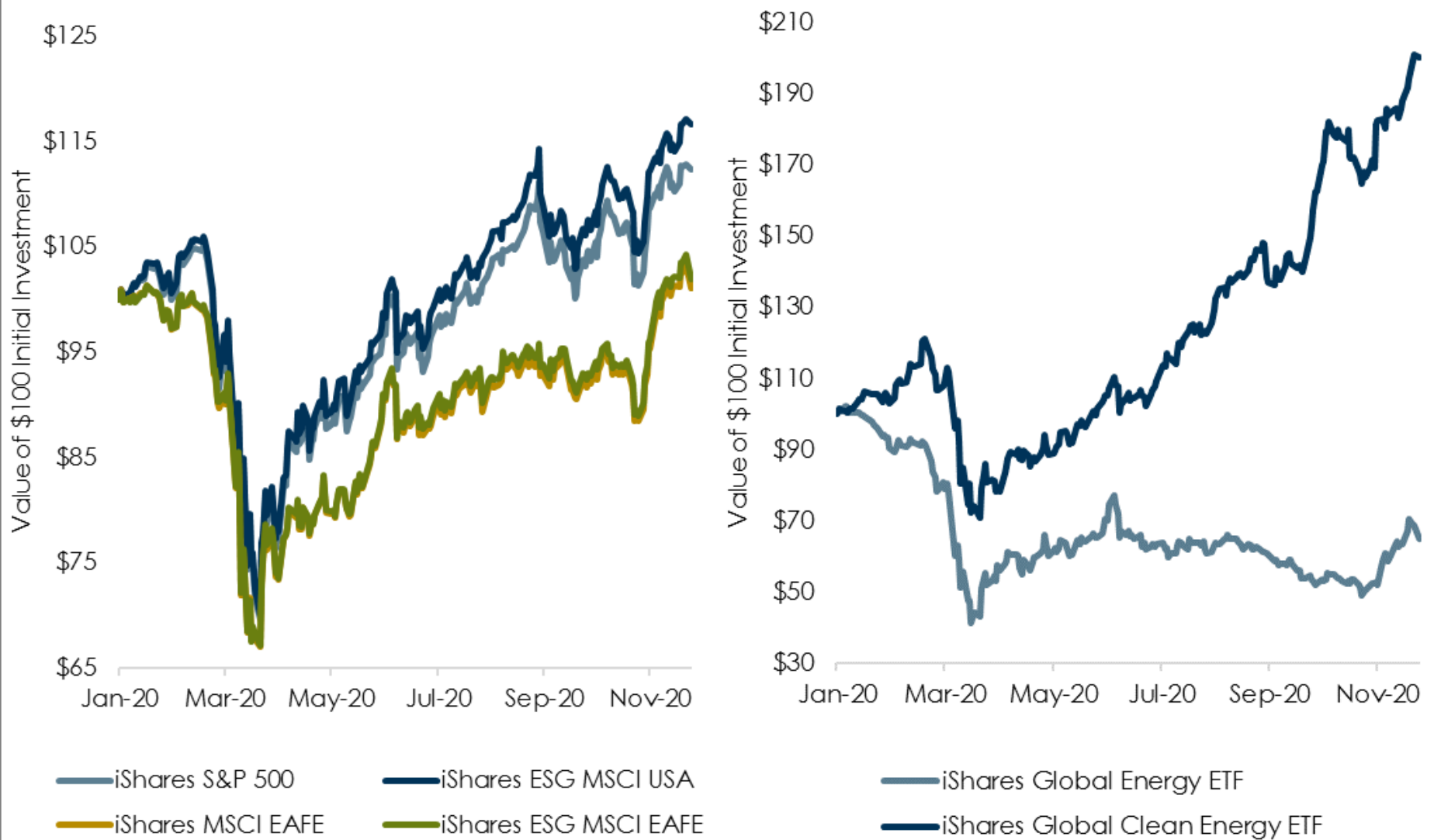


Source: ACG Research, Bloomberg (as of November 30, 2020)



Source: ACG Research, BlackRock (BTAP – BlackRock Text Analytics Platform)

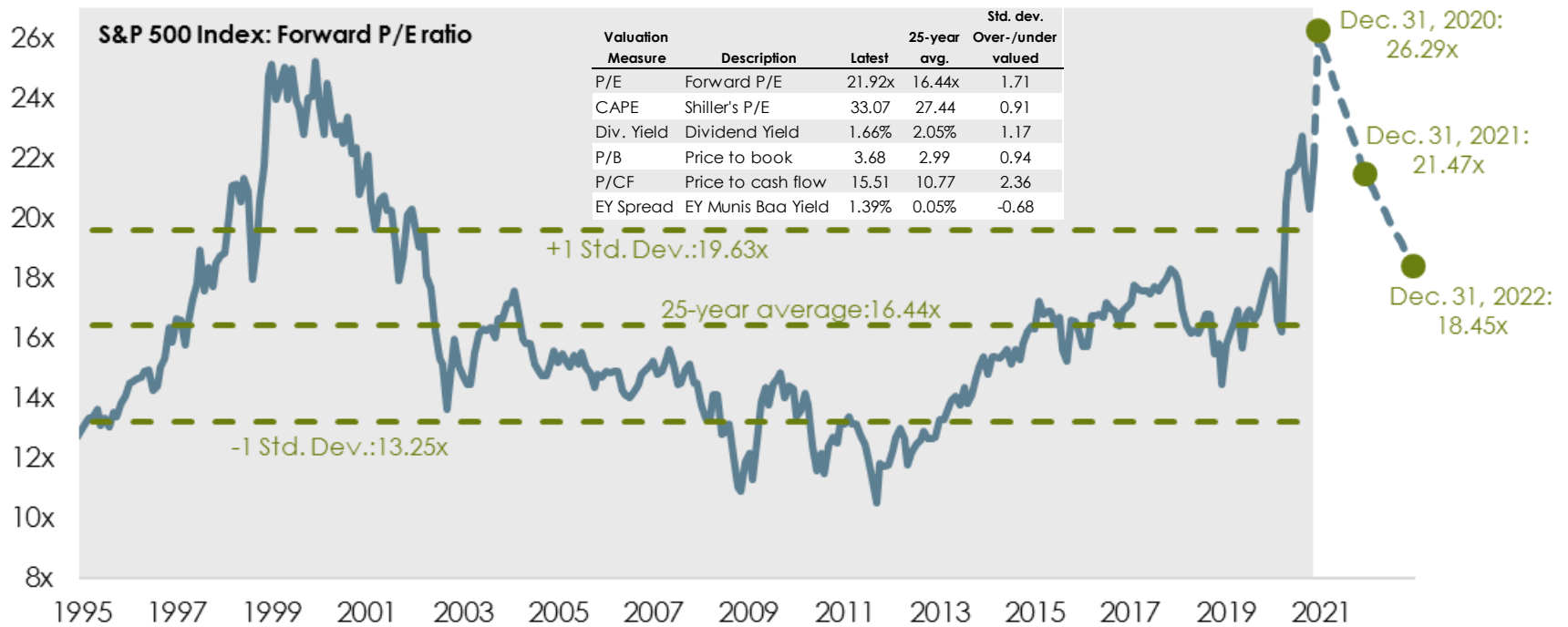
Responsible Investing: ETFs with an ESG Tilt Have Outperformed Amid the Year-to-Date Declines



Source: ACG Research, Bloomberg, iShares (as of November 30, 2020)

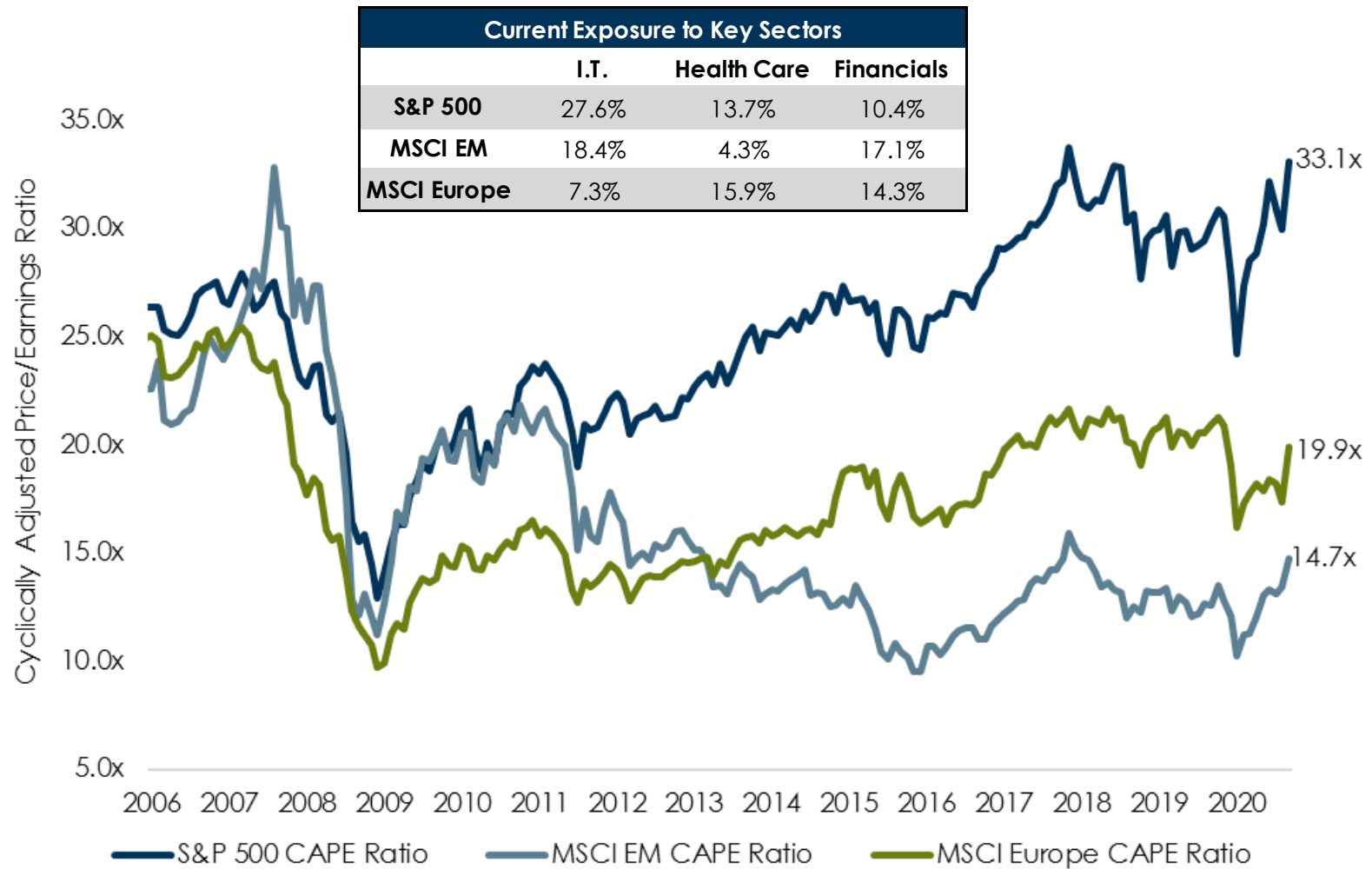
Is the Market Too Optimistic on the Earnings Recovery?

- **Based on several metrics, the S&P 500 Index appears expensive (11/30/20 closing price of \$3622)**
- The challenge is that there is limited visibility into near-term earnings
- Estimates for end of 2020 vary:
 - Standard & Poors est. \$121 (forward p/e = 30.0)
 - Yardeni Research est. \$135 (forward p/e = 26.8)
 - JP Morgan est. \$138 (forward p/e = 26.3)
- Consensus estimates are higher for 2021 (\$169) and 2022 (\$196), yet the forward p/e for '22 is still 18.5x (vs. 25 year average of 16.4x)



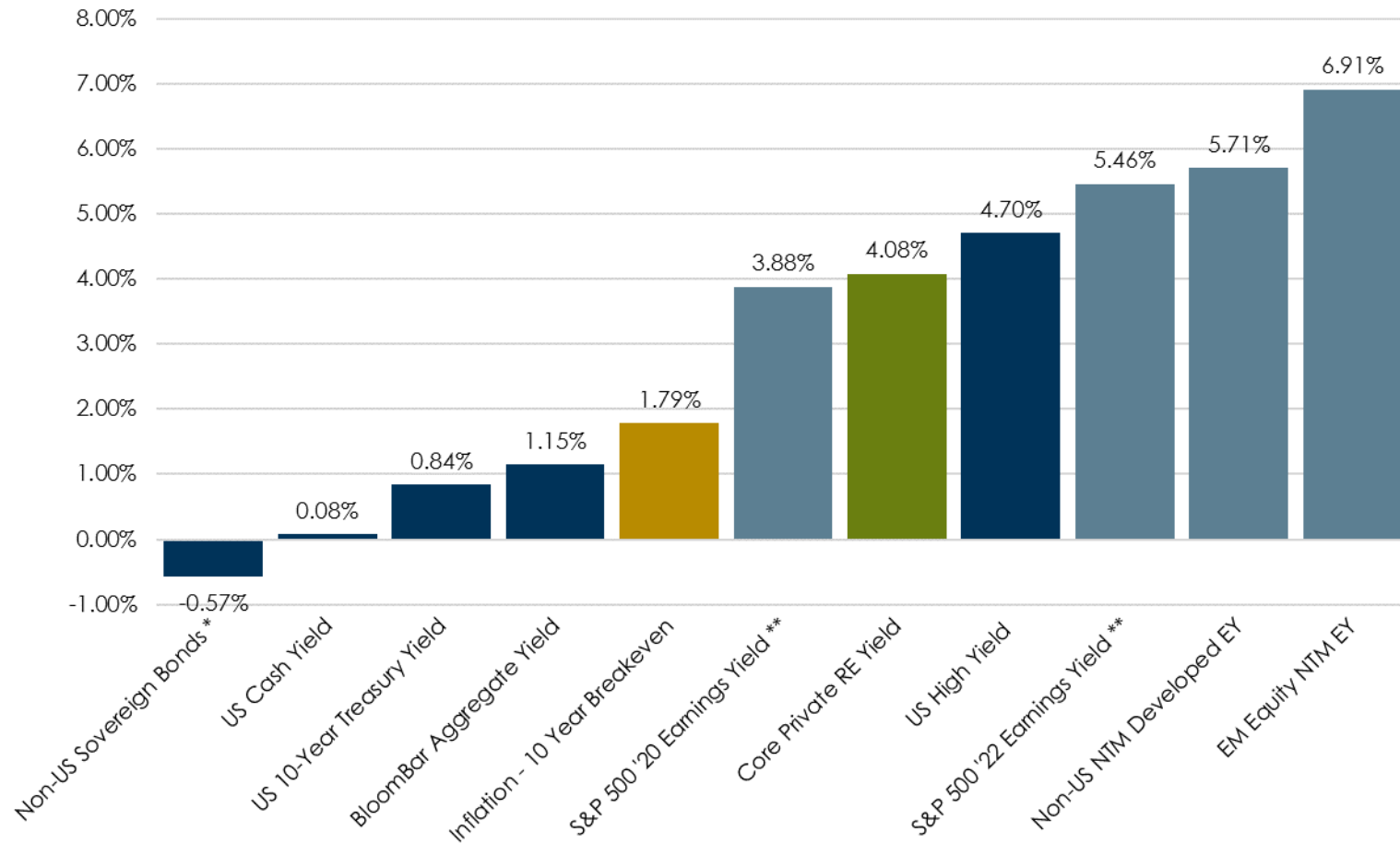
Source: Yardeni Research, FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.

Equity Valuations: Below Recent Highs Given 1Q Sell-Off, Sector Exposures Making a Difference



Source: ACG Research, Bloomberg, Robert Shiller (as of November 30, 2020)

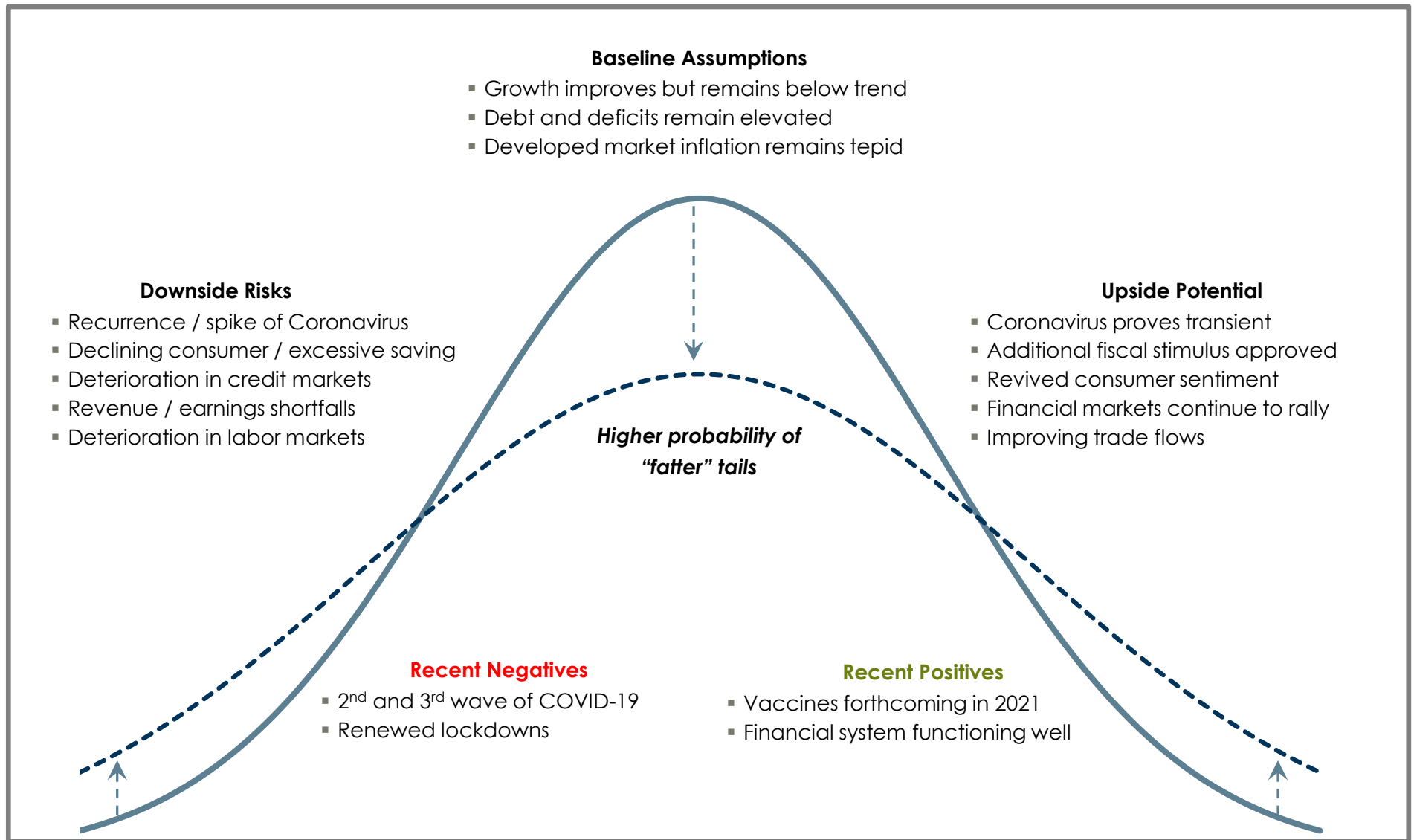
What Alternatives are There to Equities?



* German 10-Year Bund yield used as a proxy for Non-US Sovereign yields

** Earnings yield is the inverse of p/e ratio e.g. F2020 p/e of 26 = EY of 1/26 or 3.9%

Source: Bloomberg (as of November 30, 2020)



Implementation Strategies

Evolving Global Growth Dynamics

- Maintain long-term strategic allocations
- Pursue active/focused/opportunistic strategies in less efficient markets

Heightened Geopolitical & Social Risks

- Embrace global diversification, with a modest reserve of dry powder
- Private strategies can limit near-term price impacts

Challenging Yield Environment

- Maintain high-quality core fixed income exposures for portfolio ballast
- Incorporate "non-traditional" strategies for flexibility and yield enhancement

Conflicting Inflationary Signals

- Shorter-dated fixed income and floating rate securities protect against inflationary surprise
- Diversified real assets can provide enhanced income amid rising prices

Demand for Responsible Investment

- Consider a high-quality portfolio orientation
- Opportunities in both stocks and bonds for impact oriented investment

Muted Return Expectations

- Revisit overall risk tolerance and investment objectives
- Focus on strategic plan versus frequent tactical shifts

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