

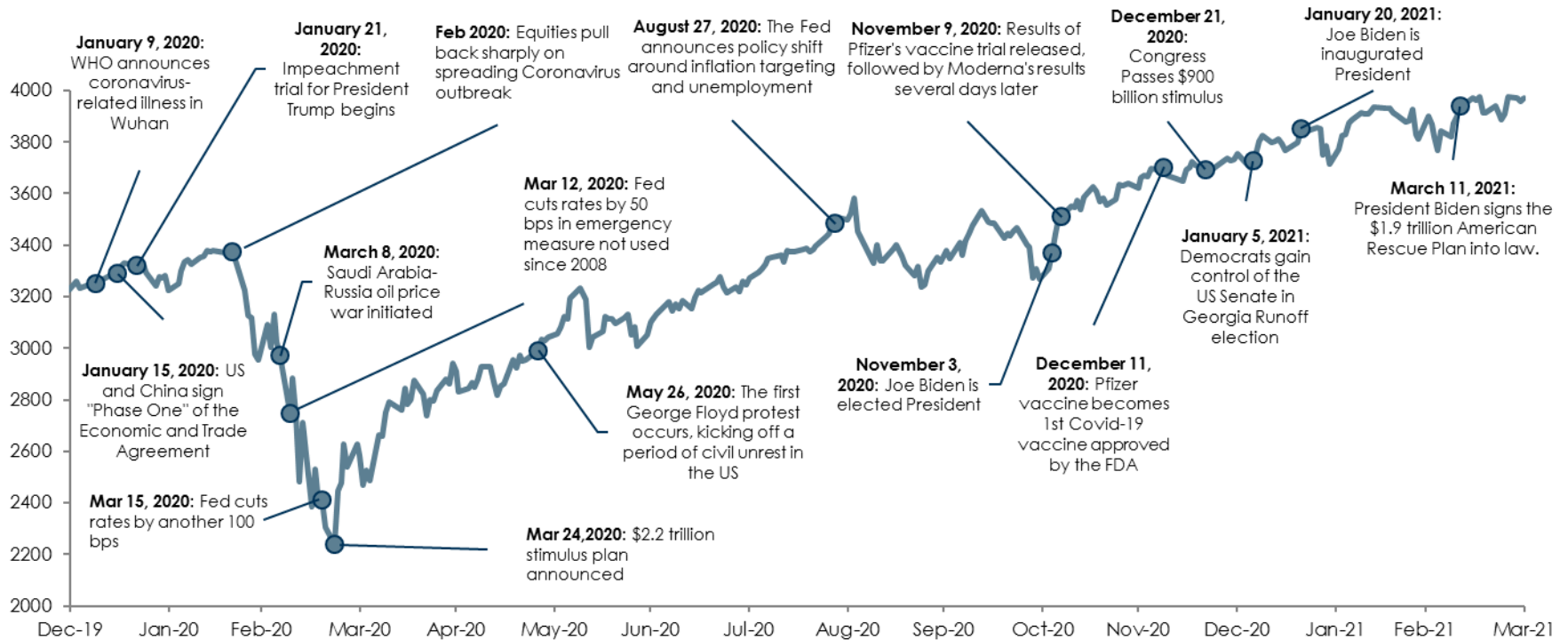
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## Global Economic Update

2<sup>nd</sup> Quarter 2021

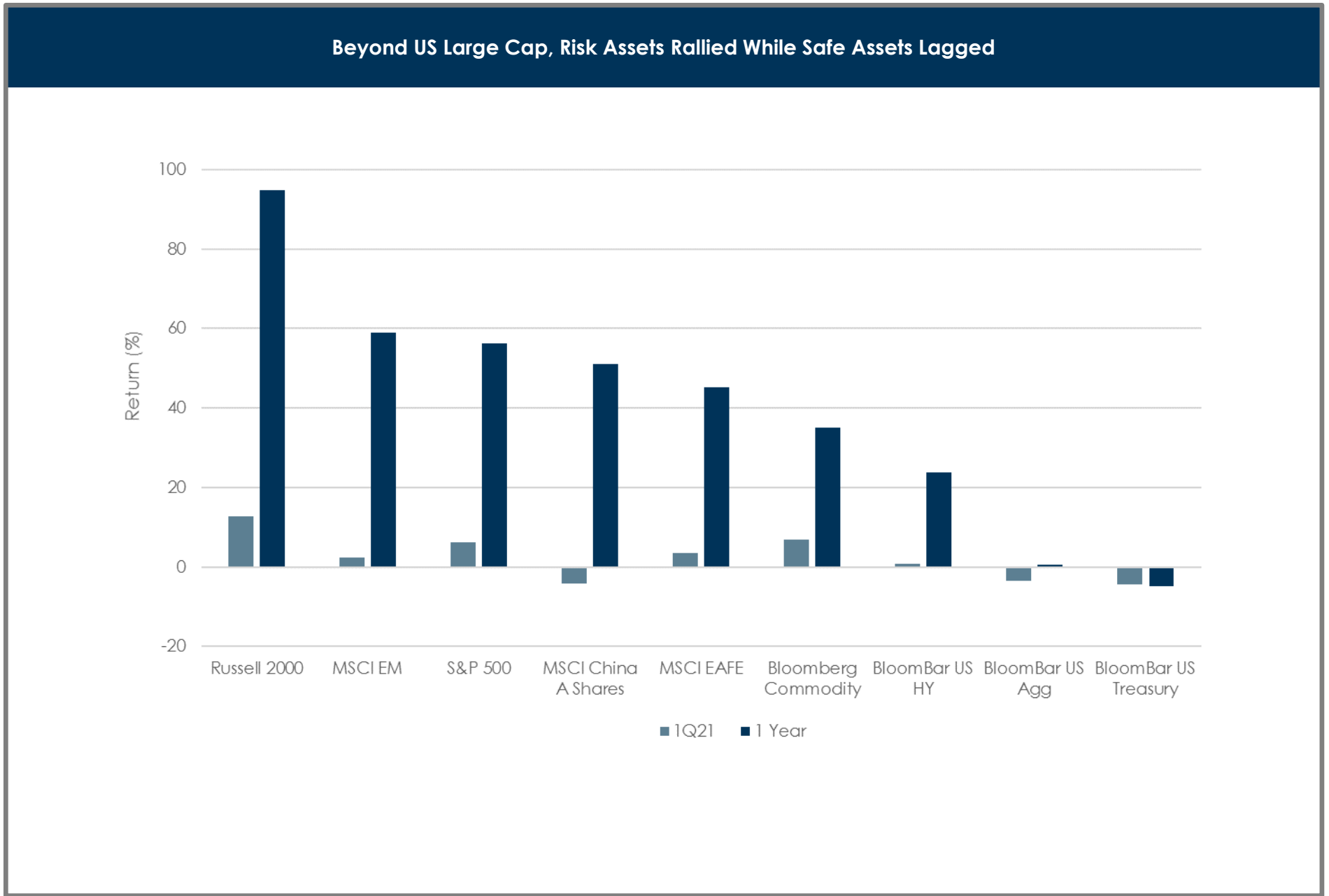
- **Virus count has declined** from January 2021 peak as vaccinations accelerate
- **Economies are reopening** with GDP and earnings forecasts rising
- Fed is still on hold and **additional fiscal stimulus** is expected
- **Job market is strengthening**, leading to improved consumer sentiment
- A steeper yield curve supports a **stronger economic outlook**
- A surge in demand could trigger **short-term spike in inflation**
- S&P 500 continues to reach **new highs and cyclical sectors recover**
- Investors try to **balance “fear” vs. the “fear of missing out”**

### Stocks Have Rallied Significantly Over the Last Year



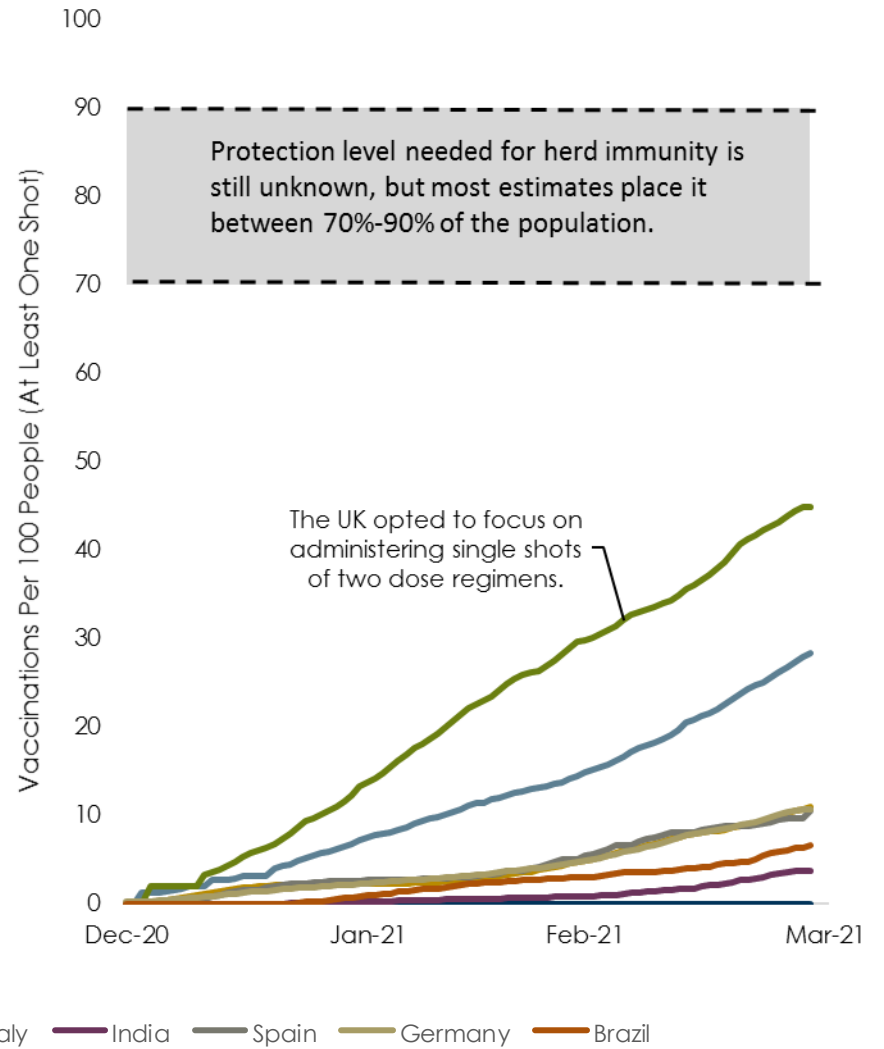
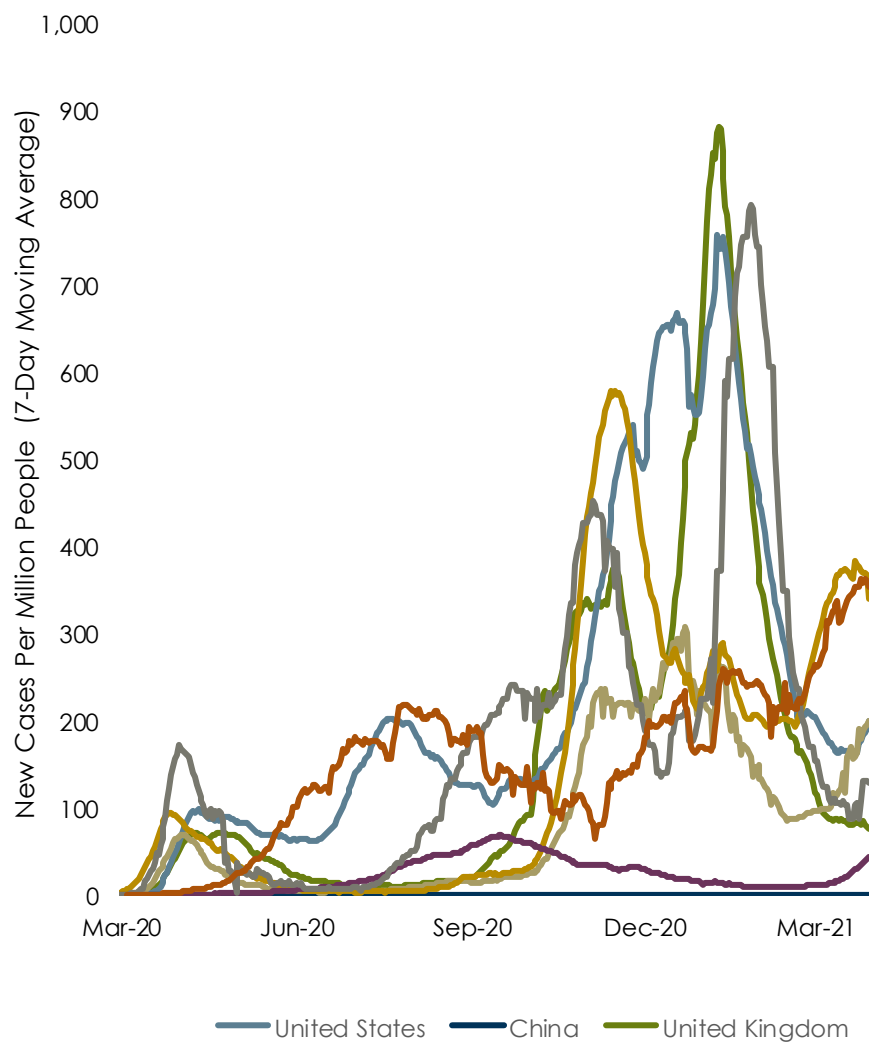
Source: ACG Research, Bloomberg (as of March 31, 2021)

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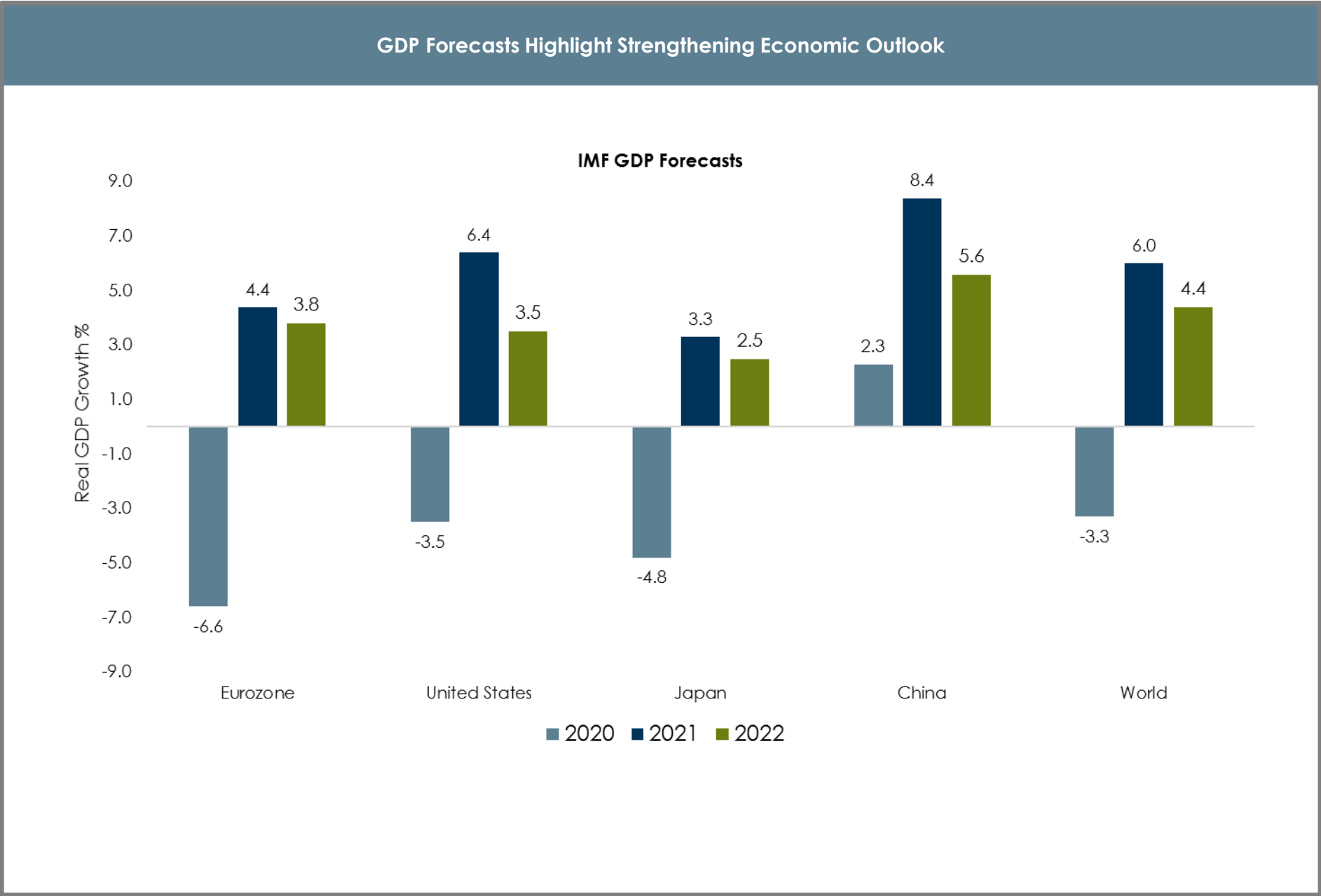


Source: ACG Research, Bloomberg (as of March 31, 2021)

Virus Count Generally Improving and Herd Immunity Anticipated by Late Summer



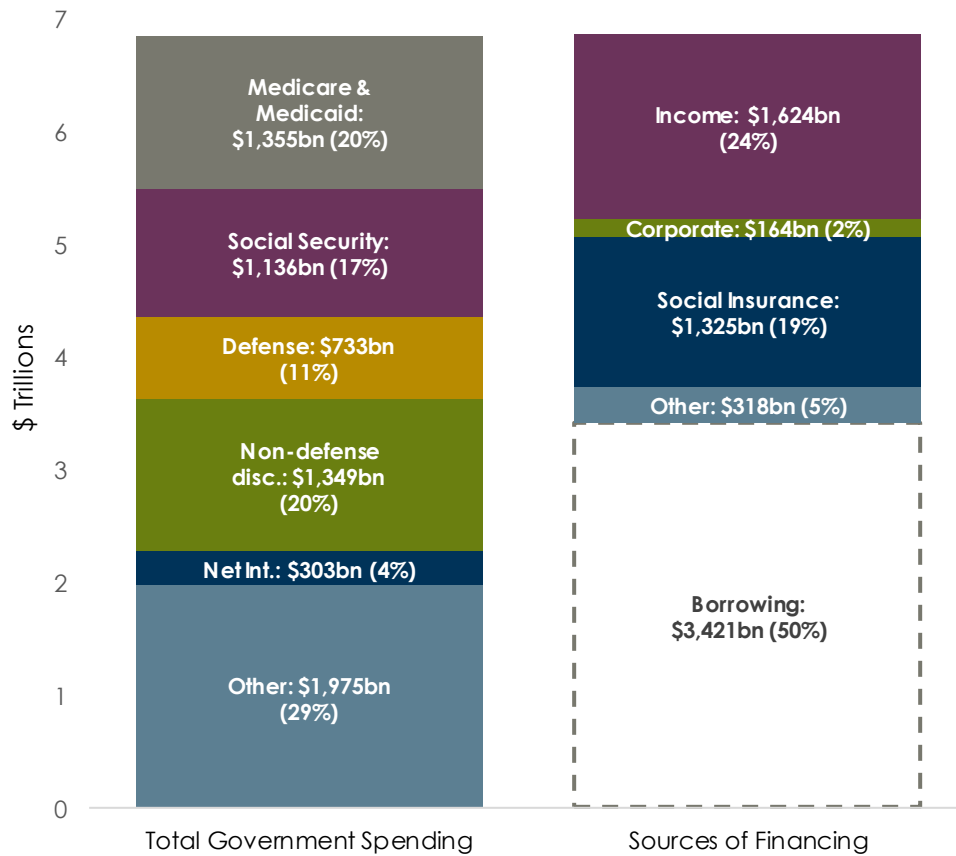
Source: ACG Research, Our World in Data(as of March 31, 2021)



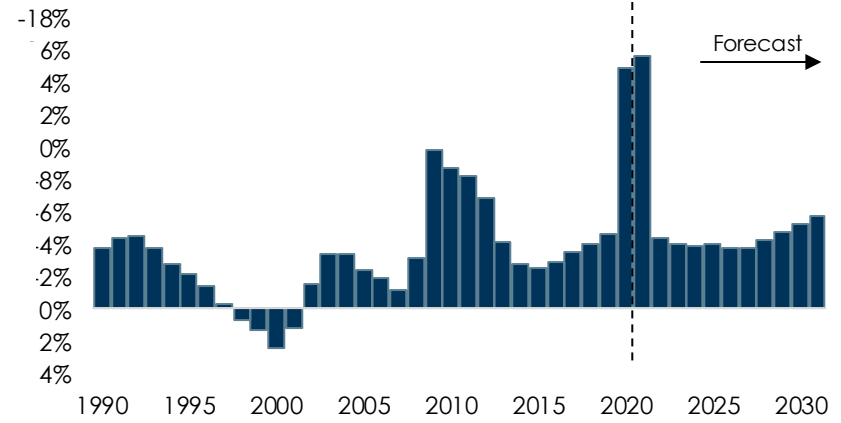
Source: ACG Research, IMF (as of March 31, 2021)

Fiscal Stimulus (Borrowing) Leads to Federal Debt Levels Not Seen Since WWII

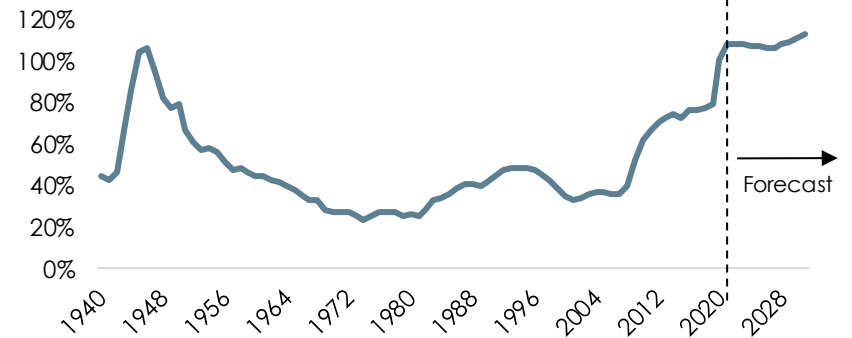
2021 Federal Budget



Federal Budget surplus/deficit % of GDP, 1990-2031 CBO Baseline

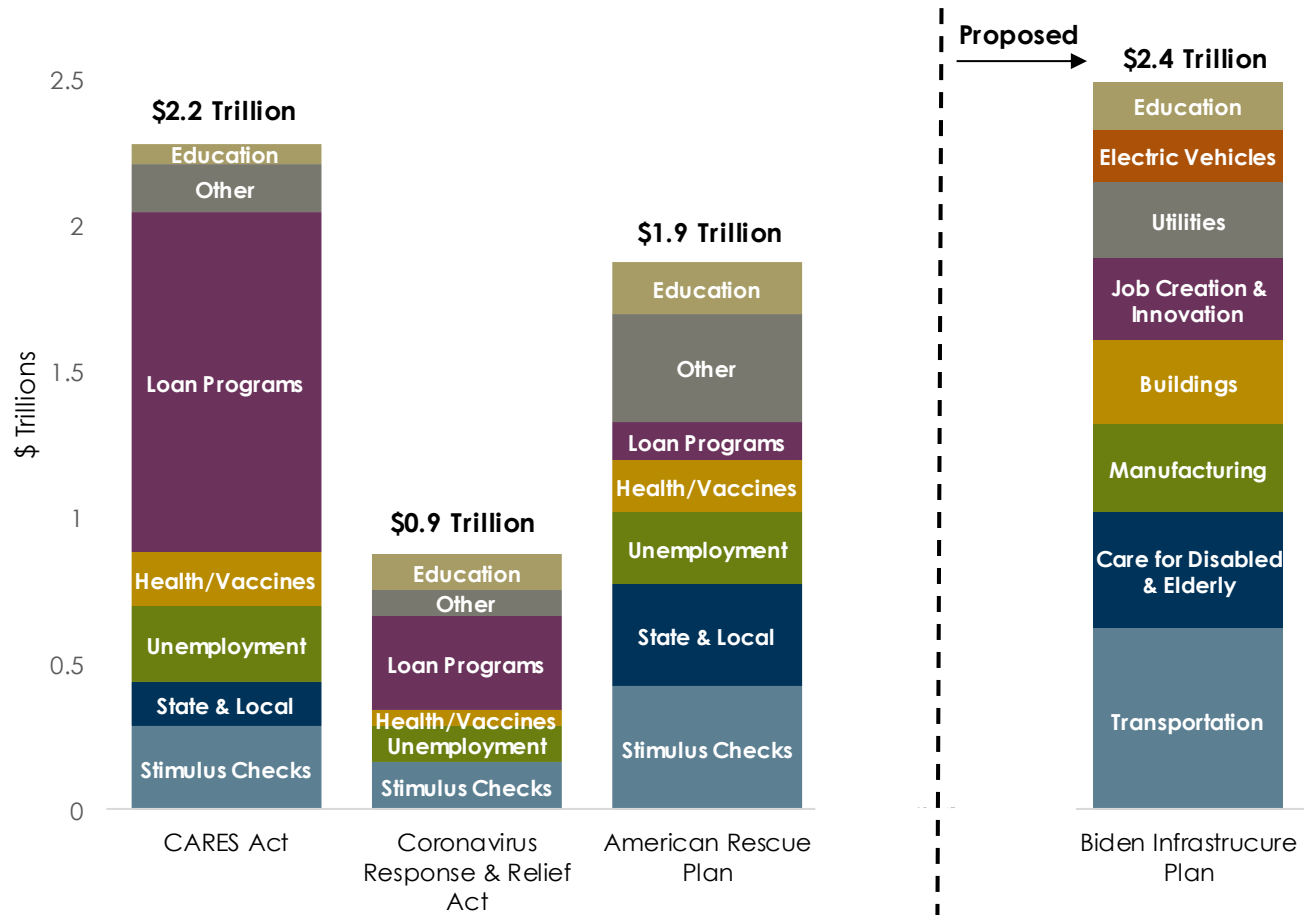


Federal Net Debt % of GDP, 2021 CBO Baseline, end of fiscal year



Source: ACG Research, CBO (February budget figures adjusted for new stimulus package), JP Morgan(as of February 28, 2021)

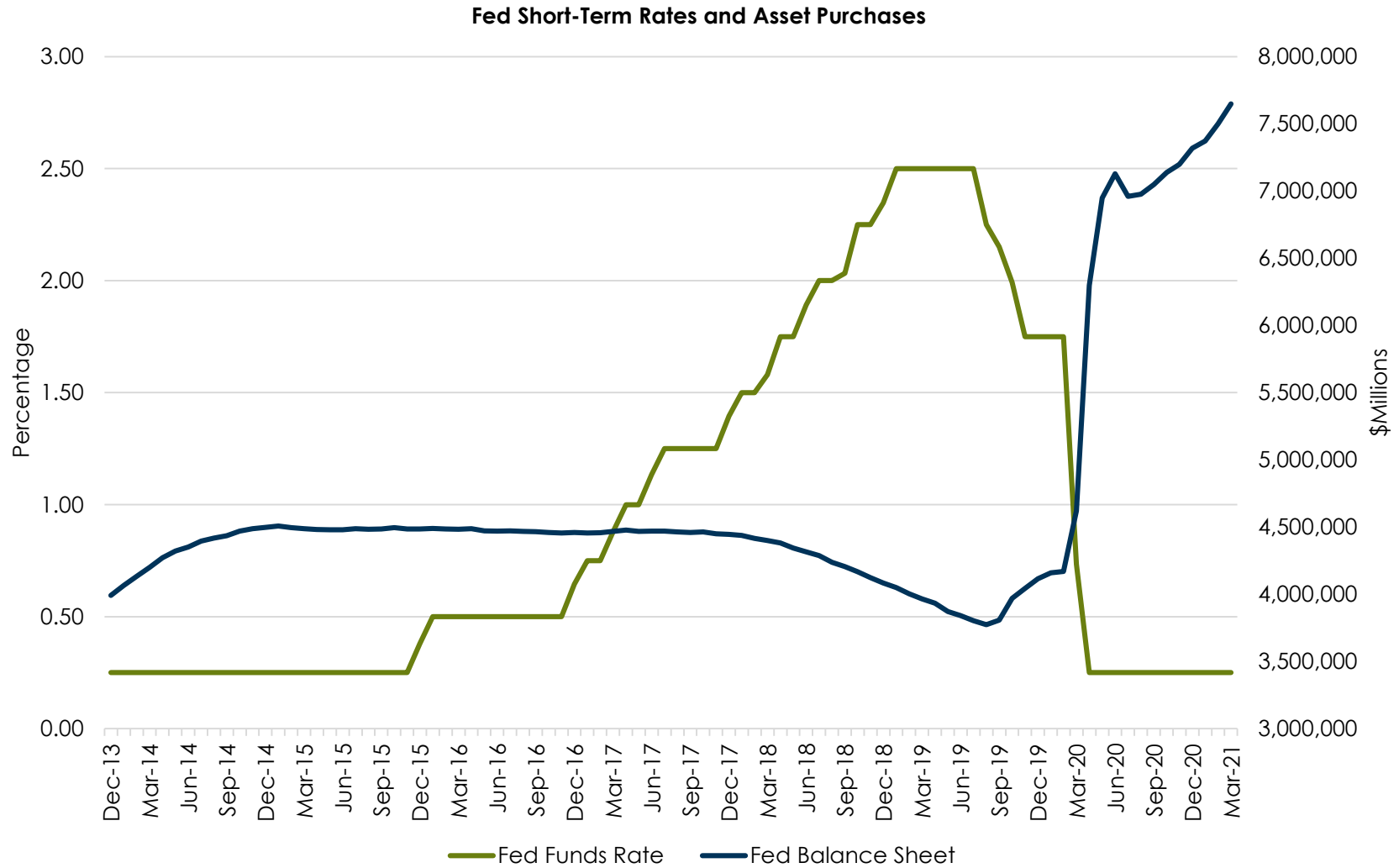
Aggressive Fiscal Spending Likely to Continue Under Current Leadership



Source: ACG Research, The White House

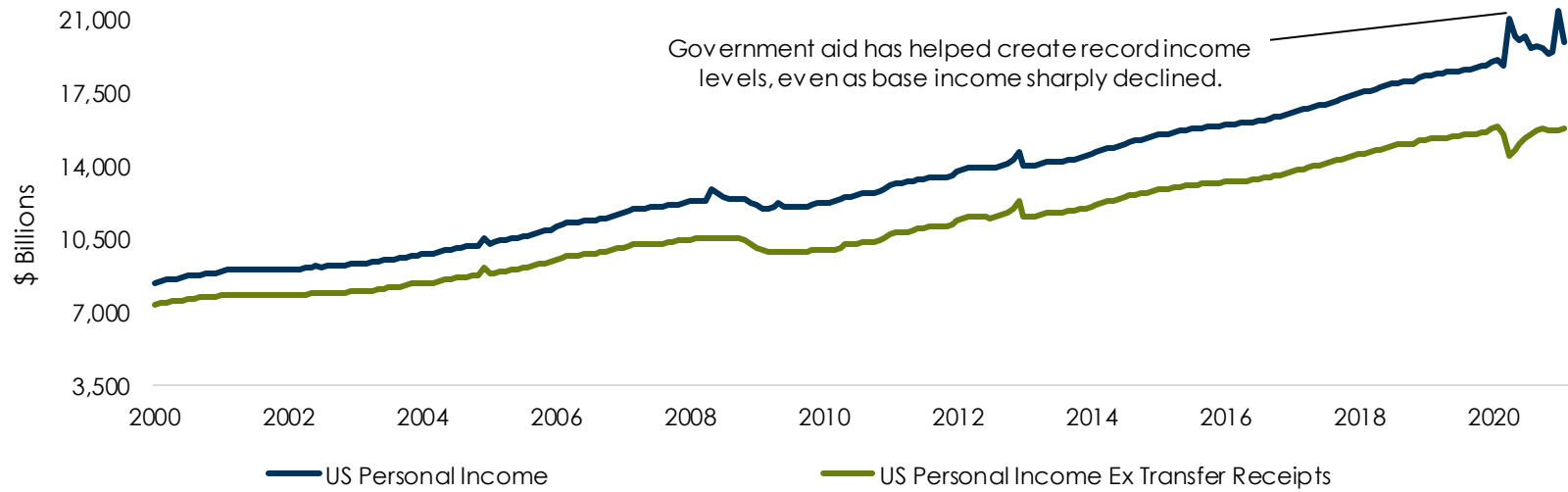
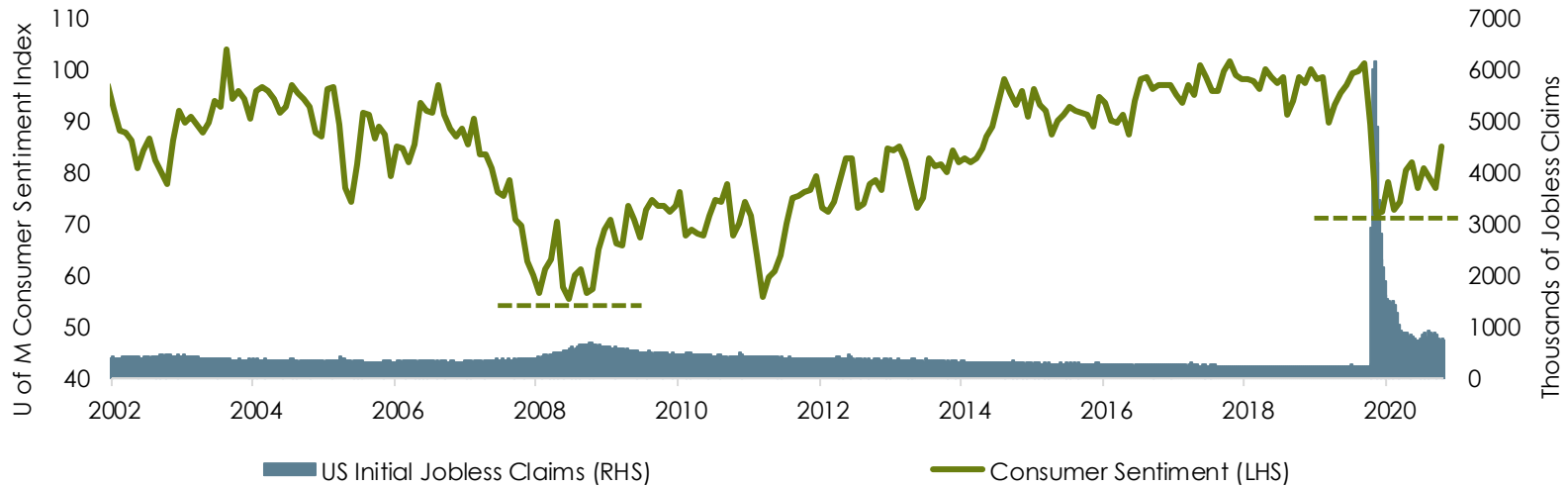


Monetary Policy Still Supportive, but Less Impactful Going Forward



Source: ACG Research, St. Louis Federal Reserve (as of March 31, 2021)

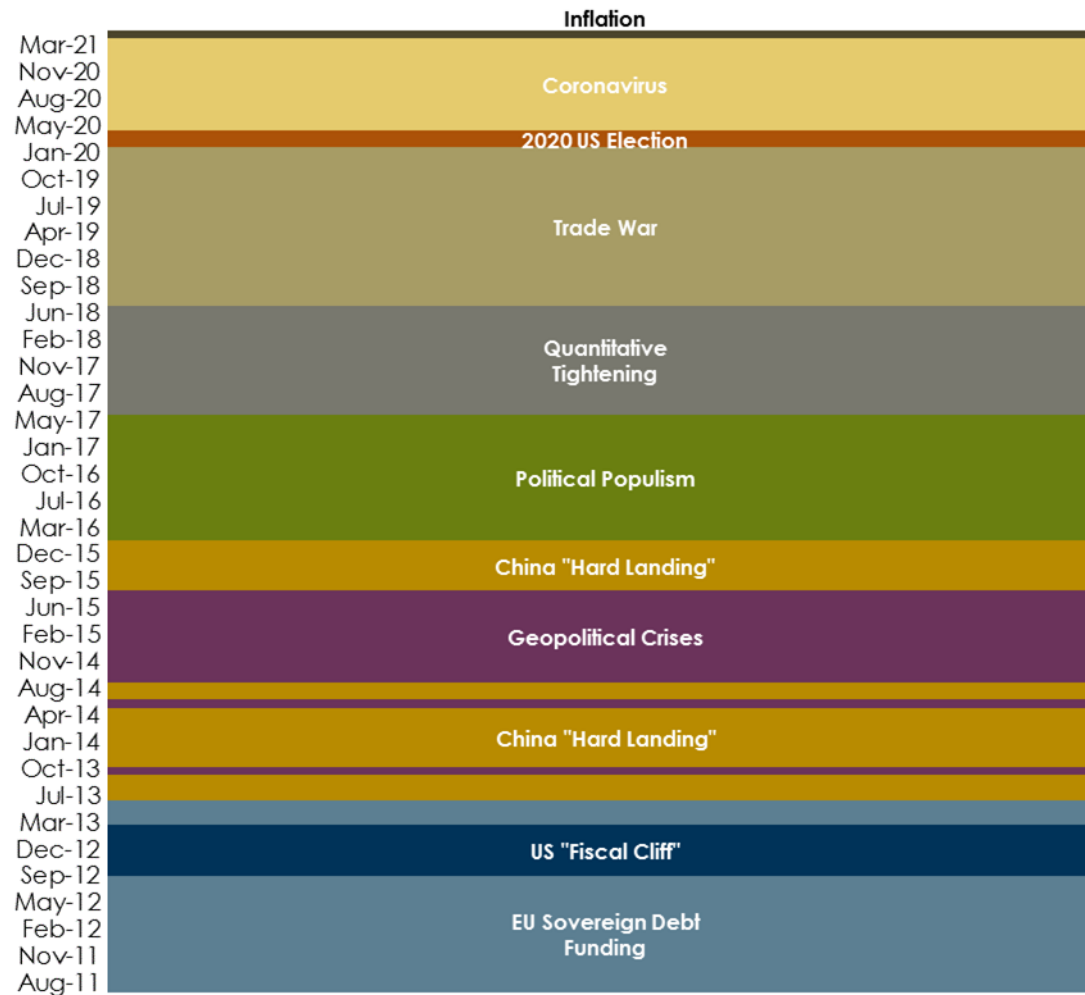
Consumer Confidence Remains Above GFC Levels Following Targeted & Timely Stimulus



Source: ACG Research, Bloomberg, University of Michigan (as of March 31, 2021)

## Investors Try to Balance “Fear” vs. the “Fear of Missing Out”

History of top answers for “biggest tail risk” in Global Fund Manager Survey



Source: ACG Research, BofA Global Fund Manager Survey (As of March 31, 2021)

Three Blow-Ups So Far in 2021 Stemming from Concentration, Opacity and Leverage.



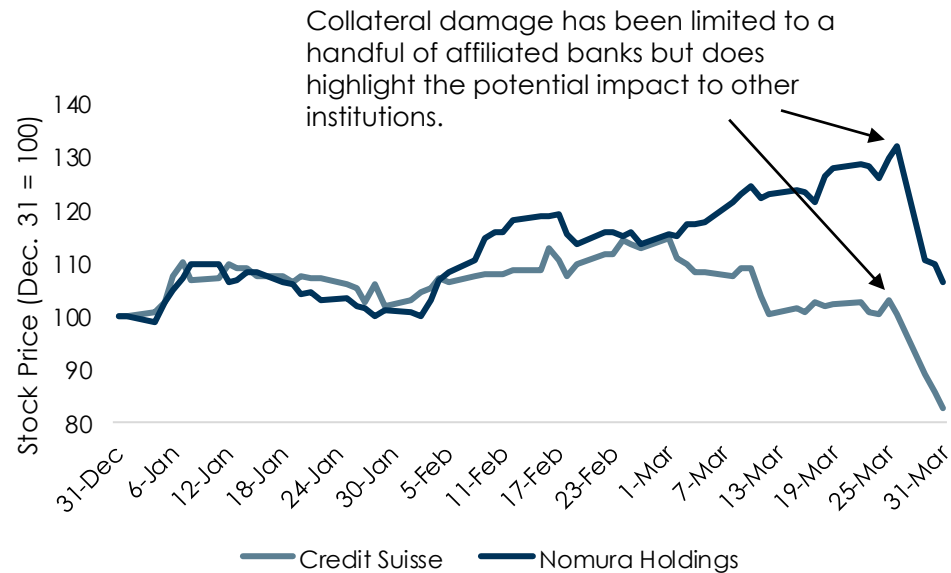
**January 2021**  
Melvin Capital  
\$4.5 Billion loss



**March 2021**  
Greensill Capital  
\$10 Billion in funds frozen



**March 2021**  
Archeegos Capital Management  
\$5-10 Billion in losses to exposed banks

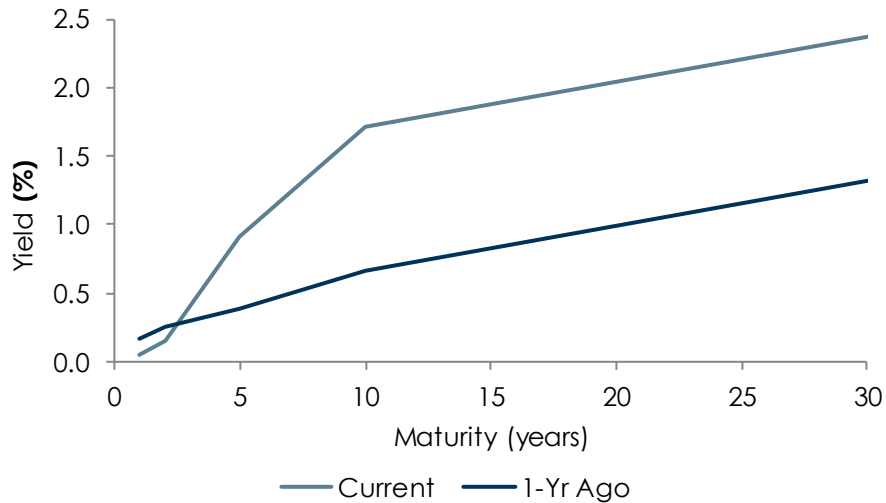


Source: ACG Research, Bloomberg (data as of March 31, 2021)

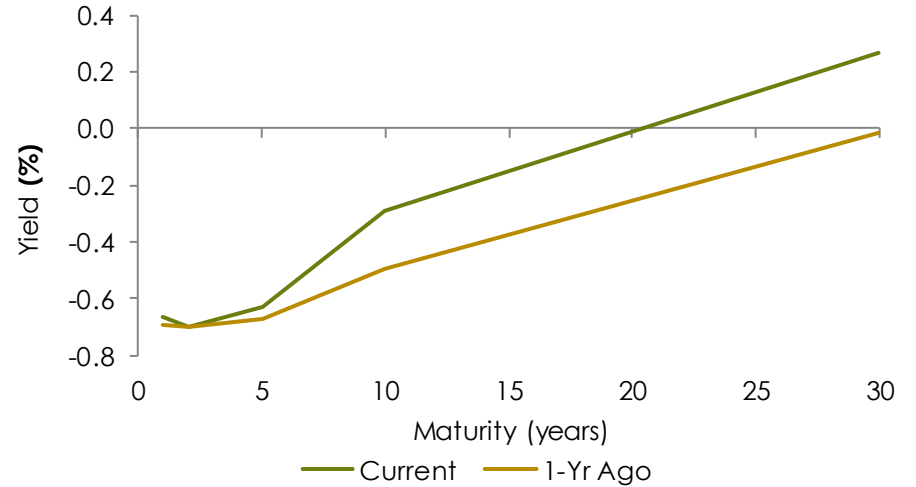
**Government Bond Yields: Longer-Term Rates Rising, Steeper Yield Curves Support Growth Outlook**



**US Treasury Yield Curve**

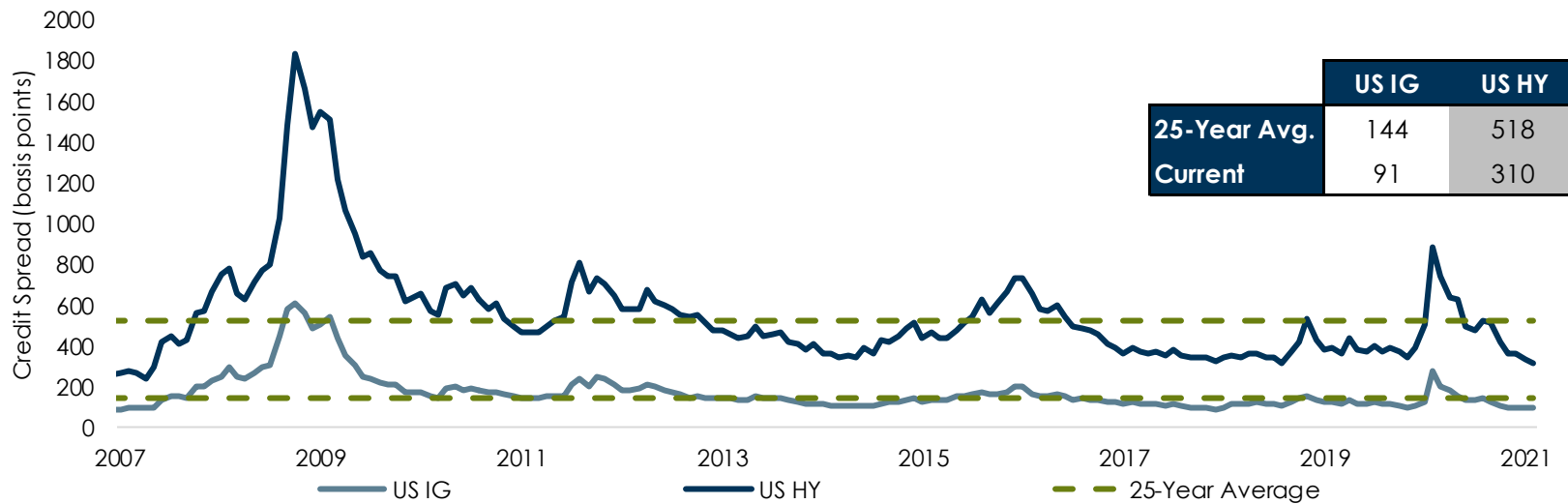
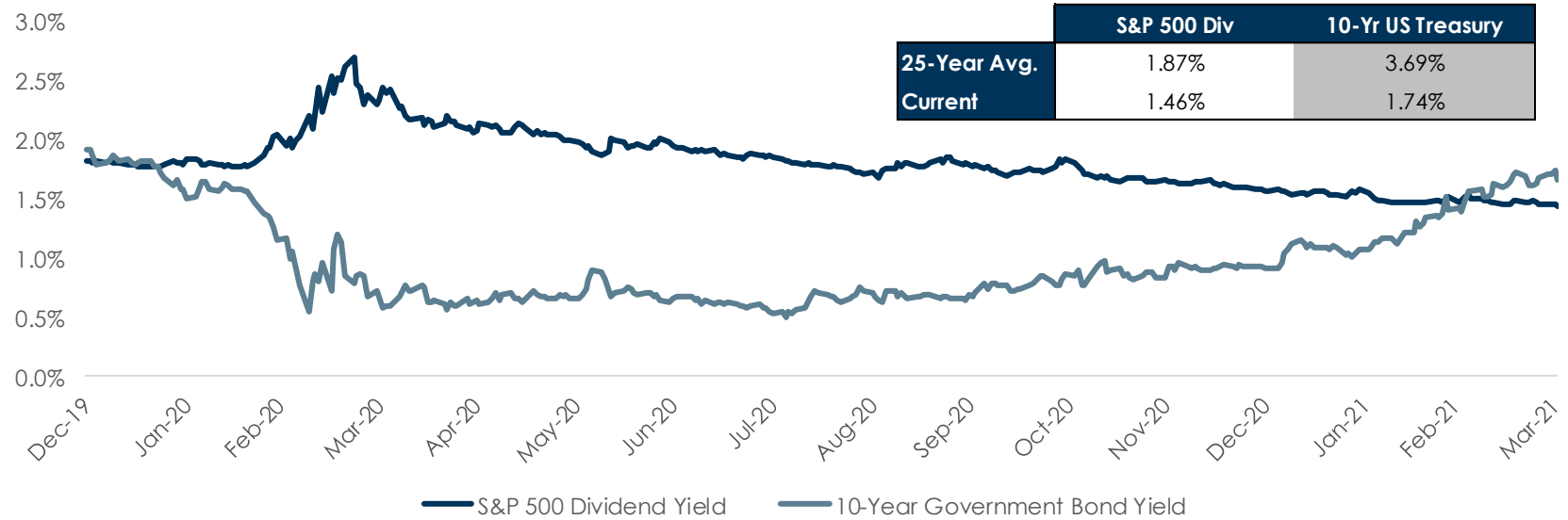


**German Bund Yield Curve**

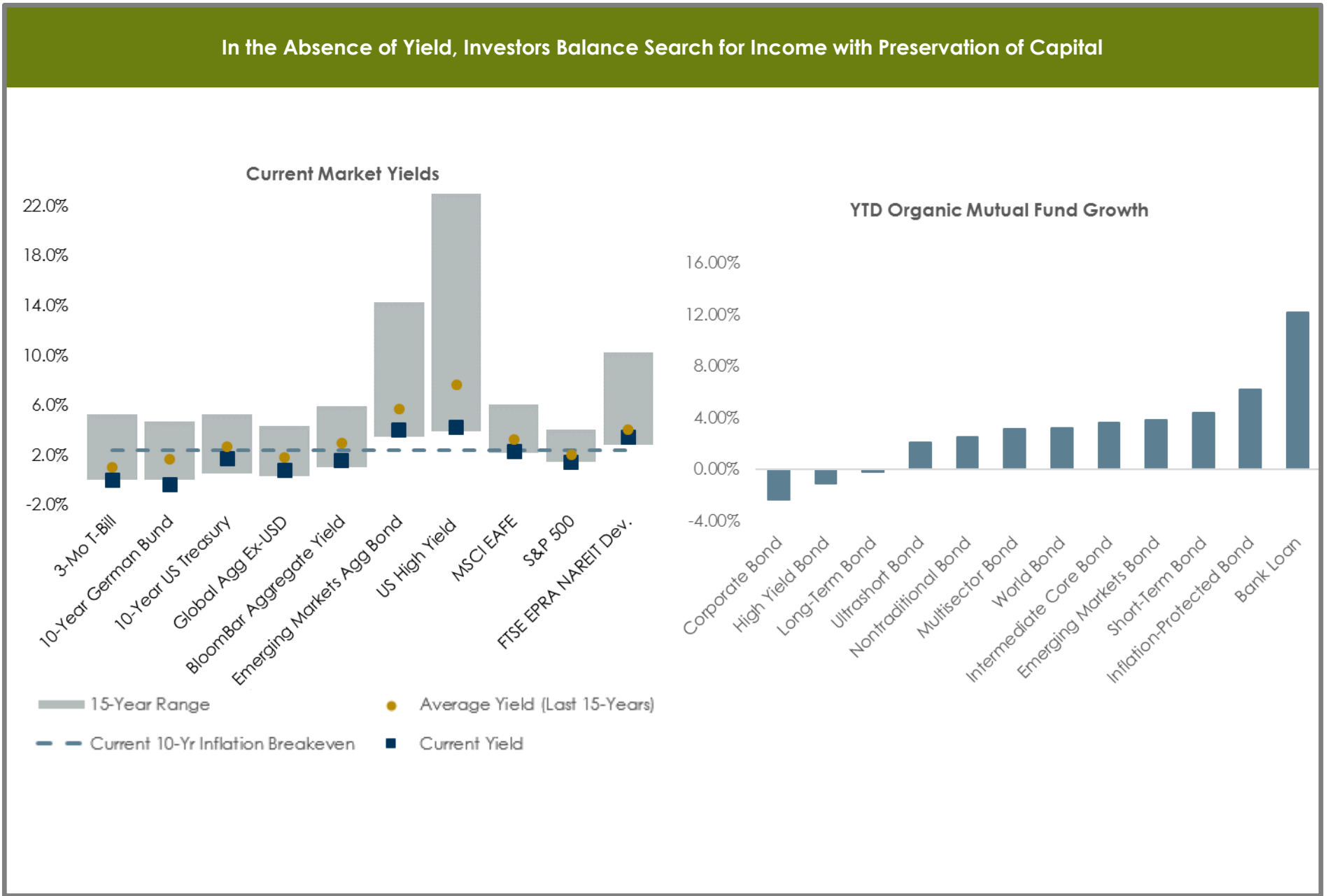


Source: ACG Research, Bloomberg, (as of March 31, 2021)

Long-Term US Treasury Yields are Rising and Corporate Credit Spreads Continue to Tighten, Both Below Historic Averages

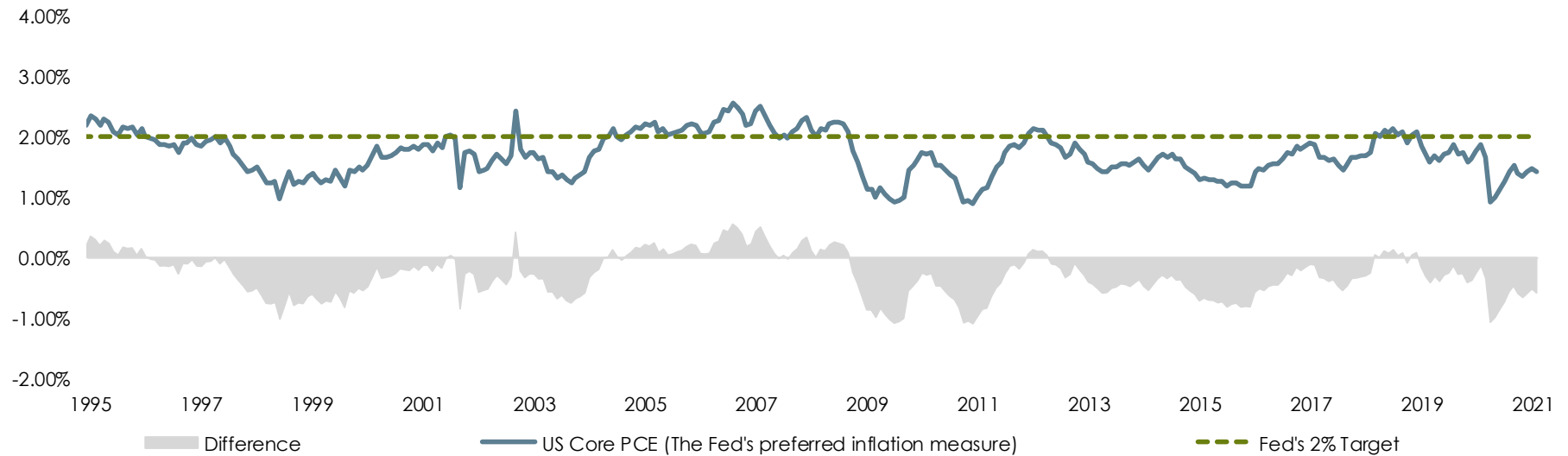


Source: ACG Research, Bloomberg (as of March 31, 2021)



Source: ACG Research, Bloomberg (as of March 31, 2021)

## Inflation Expectations: Years of Low Inflation Cause Fed to Relax its 2% Target



### Deflationary Signals

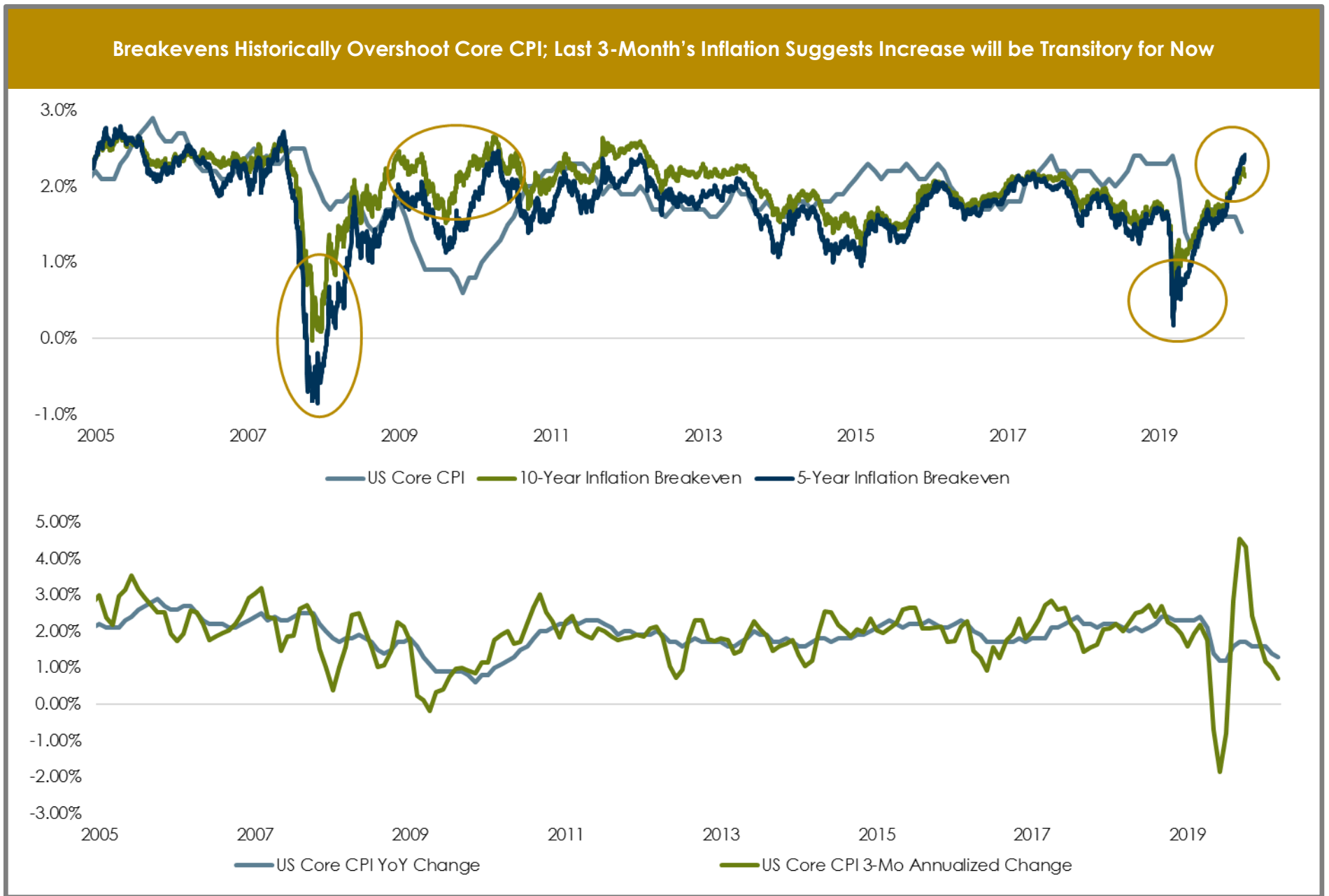
- Demographic trends (lower birth rate, aging population)
- Technological innovations
- Stagnant wage growth
- Unemployment
- High savings rate
- Reduced velocity of money
- Inequality

### Inflationary Signals

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

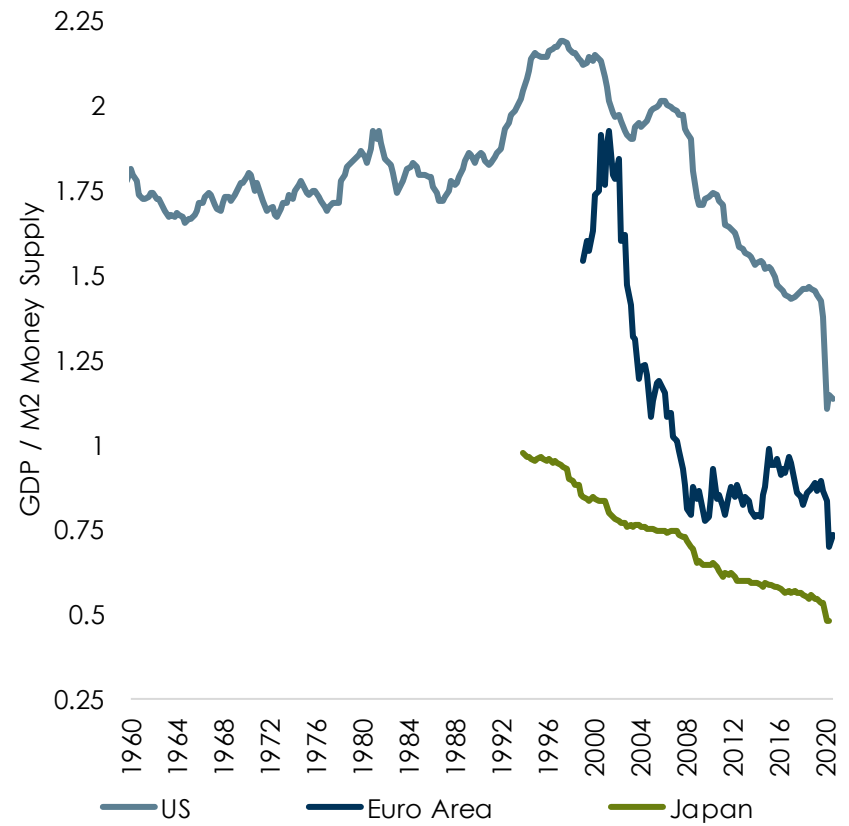
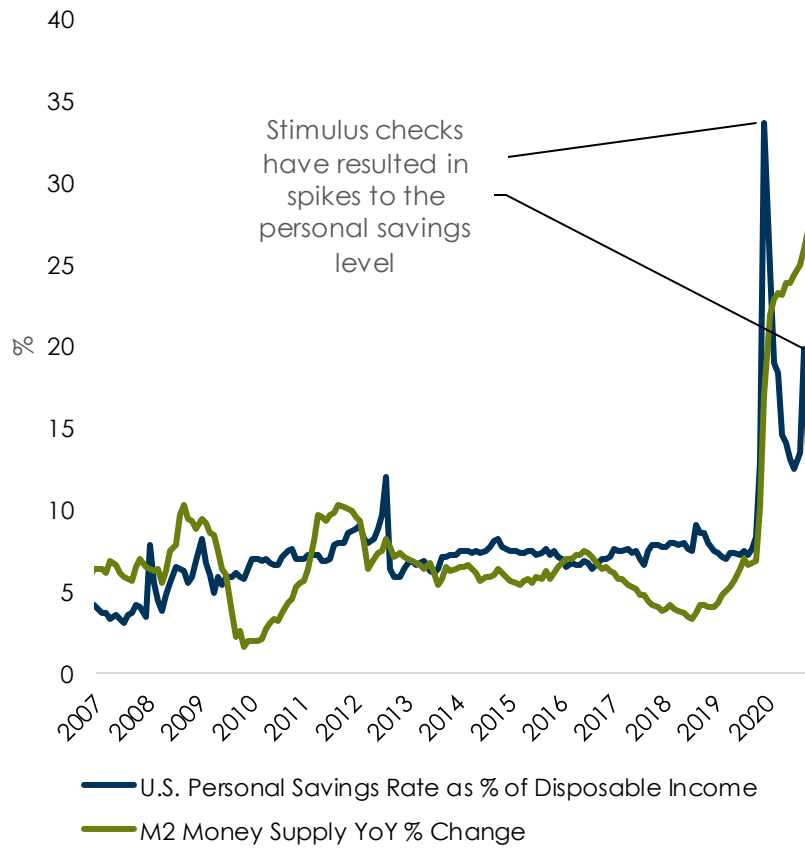
Source: ACG Research, Bloomberg (as of March 31, 2021)



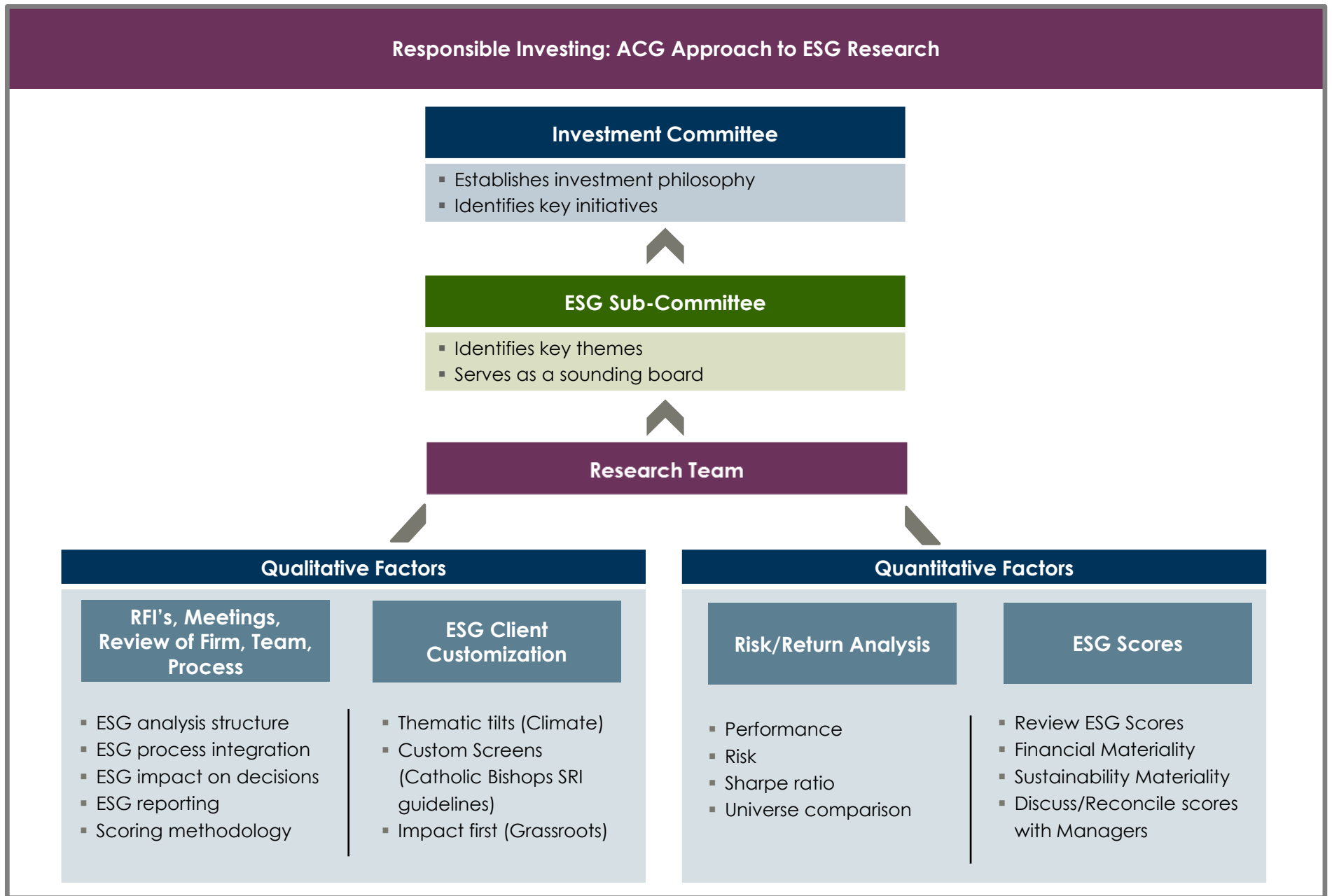


Source: ACG Research, Bloomberg (as of March 31, 2021)

**Inflation Expectations: Money Supply Increases but Consumers Hoard Cash with Velocity of Money Near All-Time Low**

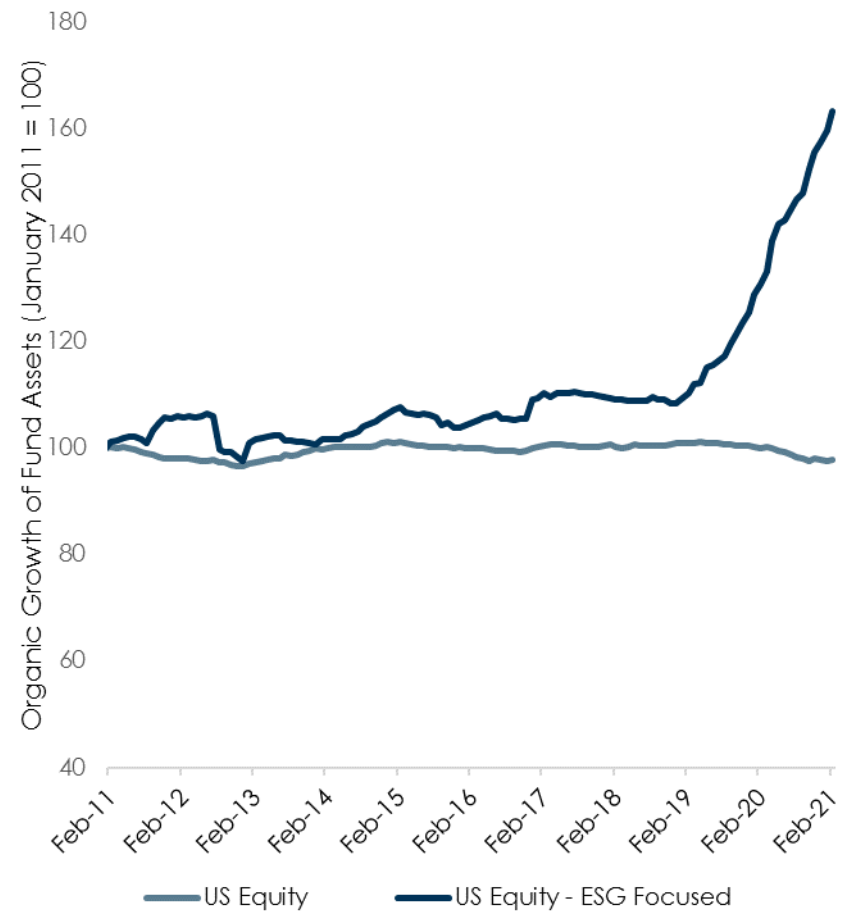


Source: ACG Research, Bloomberg (As of March 31, 2021)



Source: ACG Research

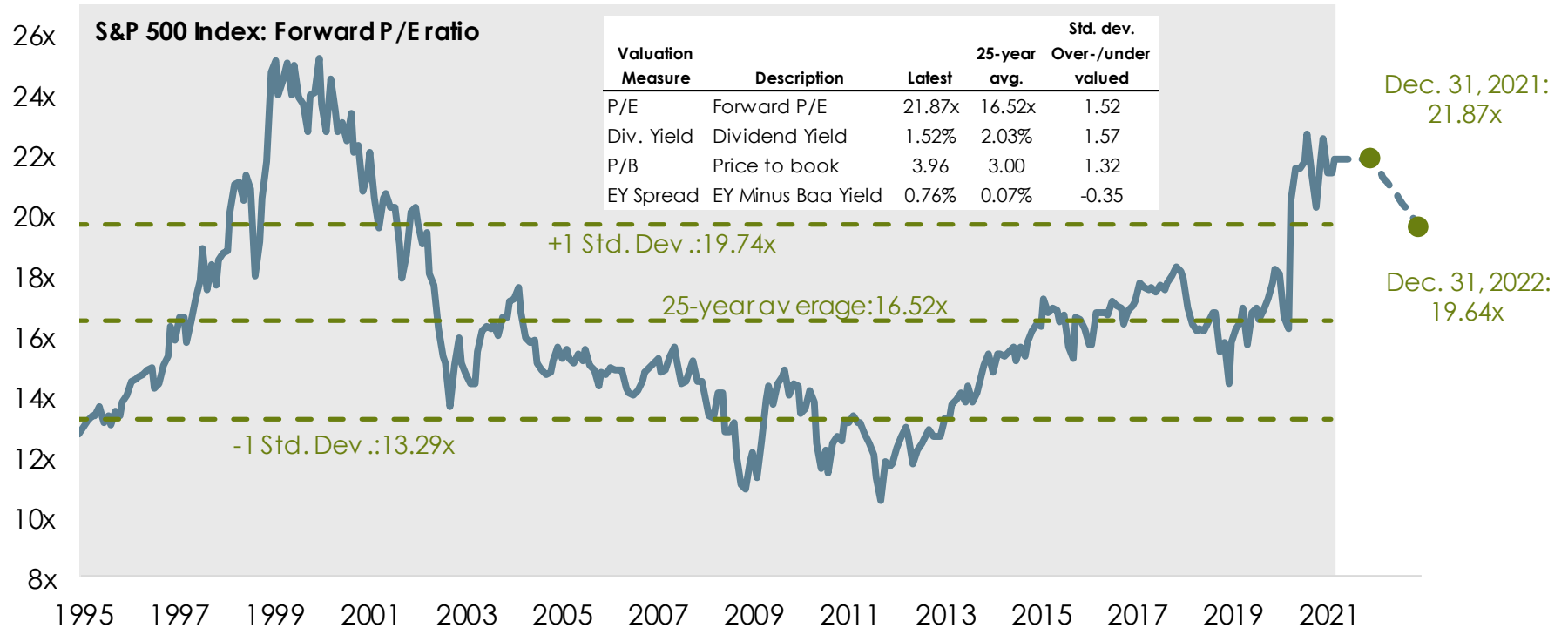
Responsible Investing: Funds with an ESG Tilt Attract Asset Flows and Corporations Take Note



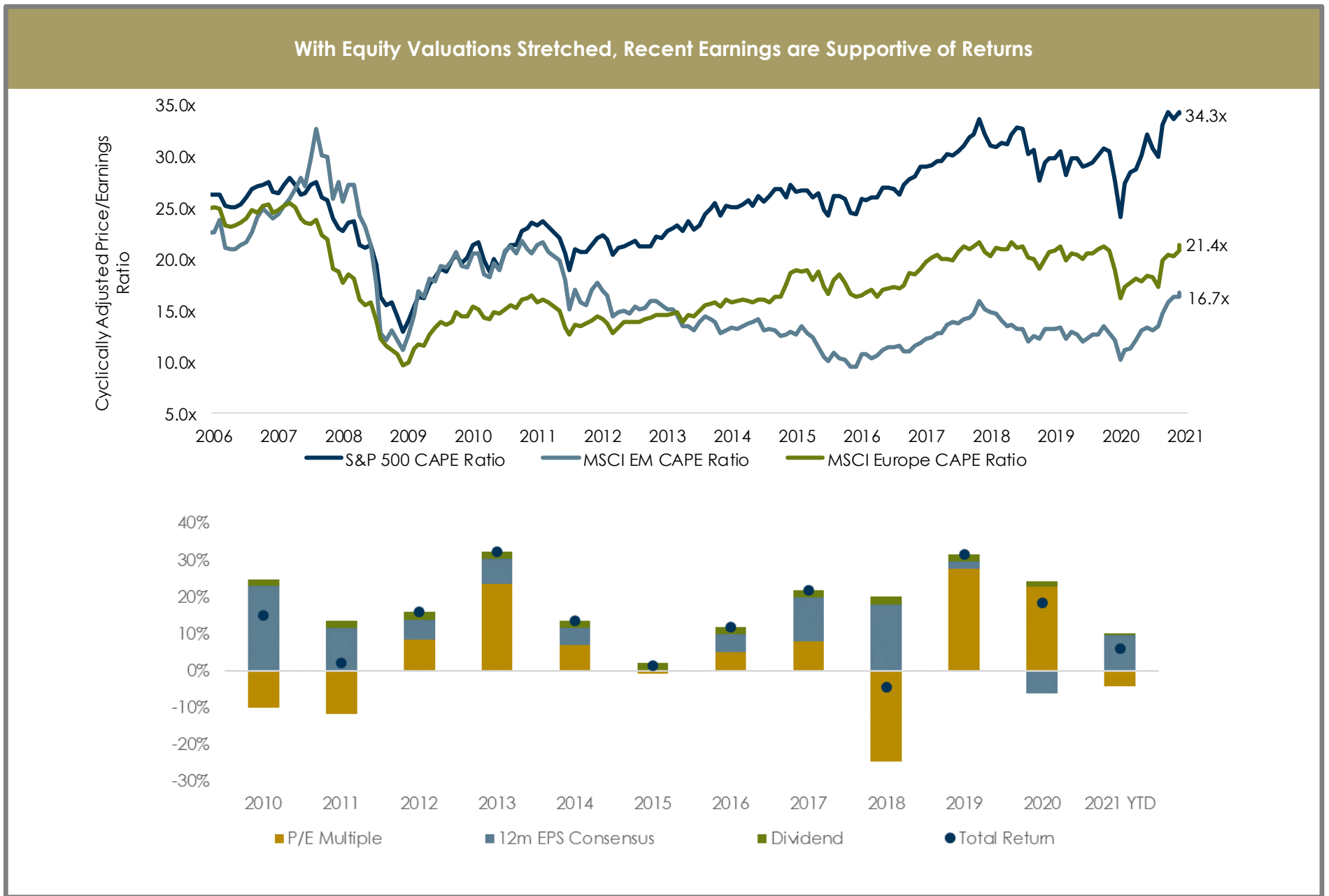
Source: ACG Research, Morningstar (as of February 28, 2021)

### Is the Market Too Optimistic on the Earnings Recovery?

- Based on several metrics, the S&P 500 Index appears expensive (3/31/21 closing price of 3973)
- Consensus earnings estimates for 2021 (\$182) suggest a forward p/e of 21.9x (vs. 25-year average of 16.5x)
- Consensus estimates are higher for 2022 (\$202), yet the forward p/e for '22 is still 19.6x (vs. 25-year average of 16.5x)

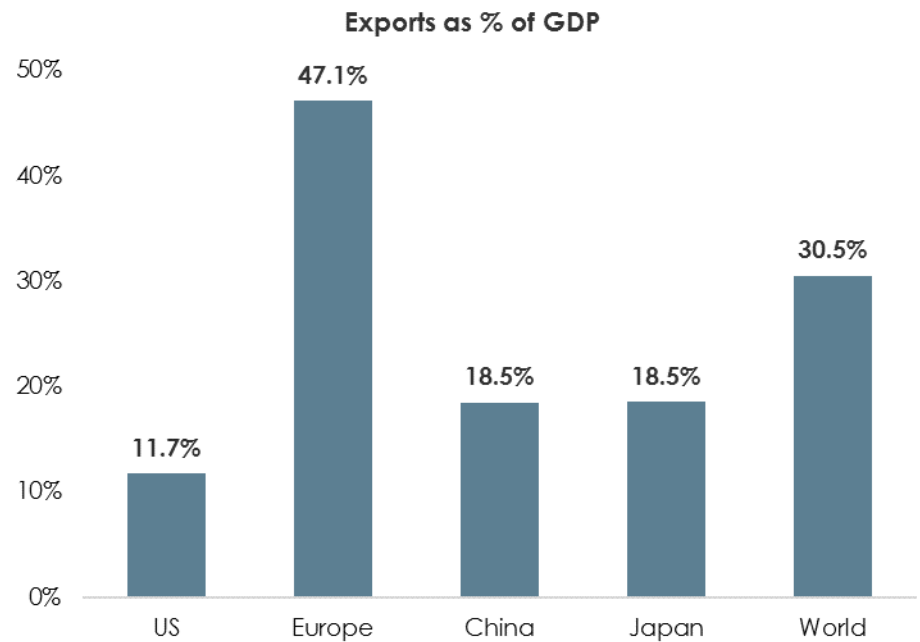
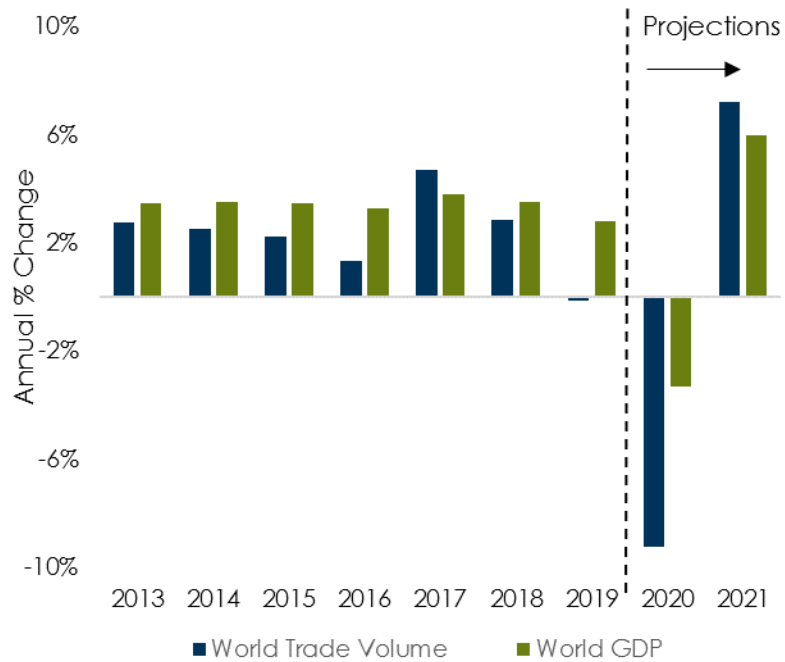


Source: FactSet, FRB, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management

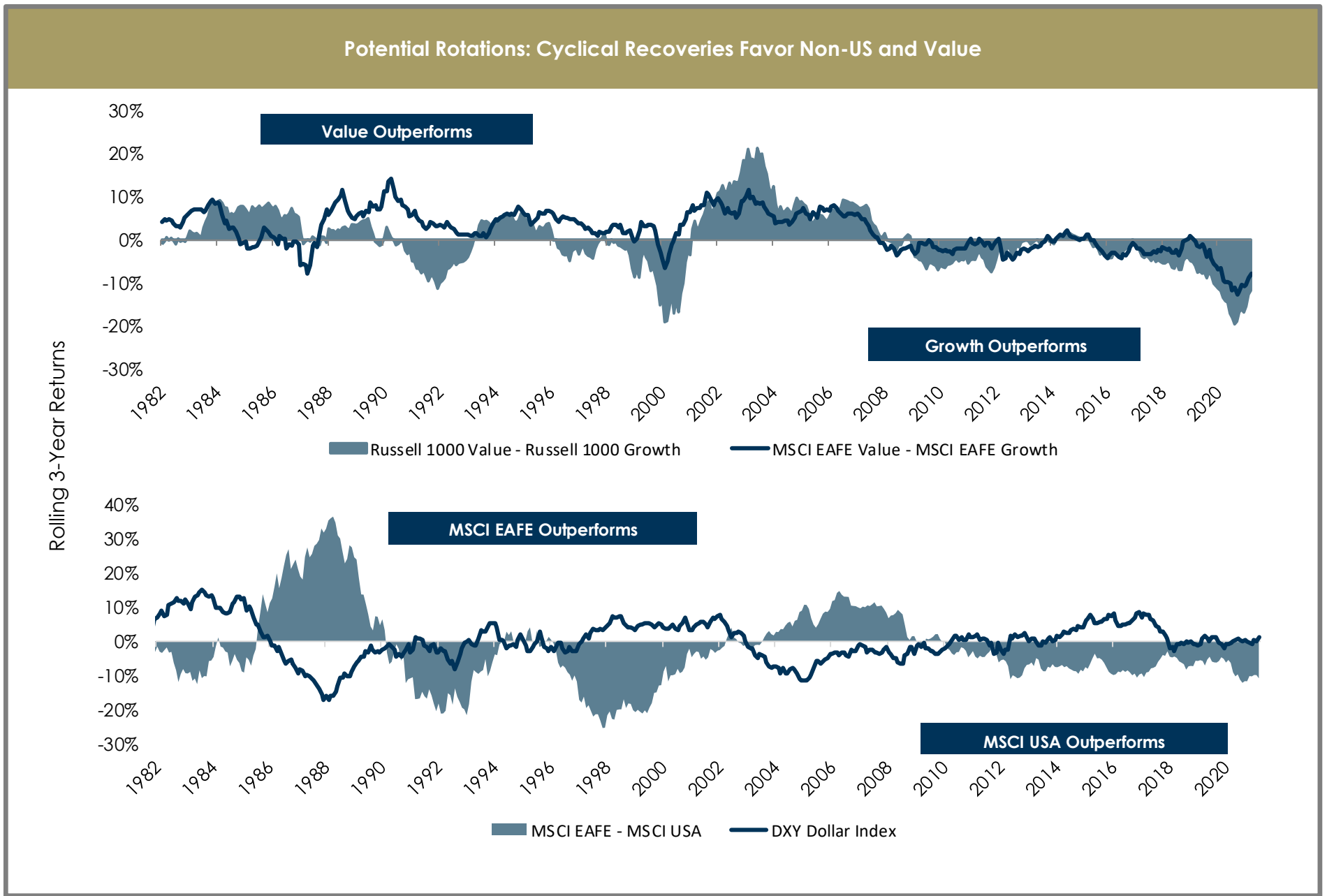


Source: ACG Research, Bloomberg, Robert Shiller (as of February 28, 2021)

Potential Rotations: A Rebound in Trade Would Favor Non-US Assets

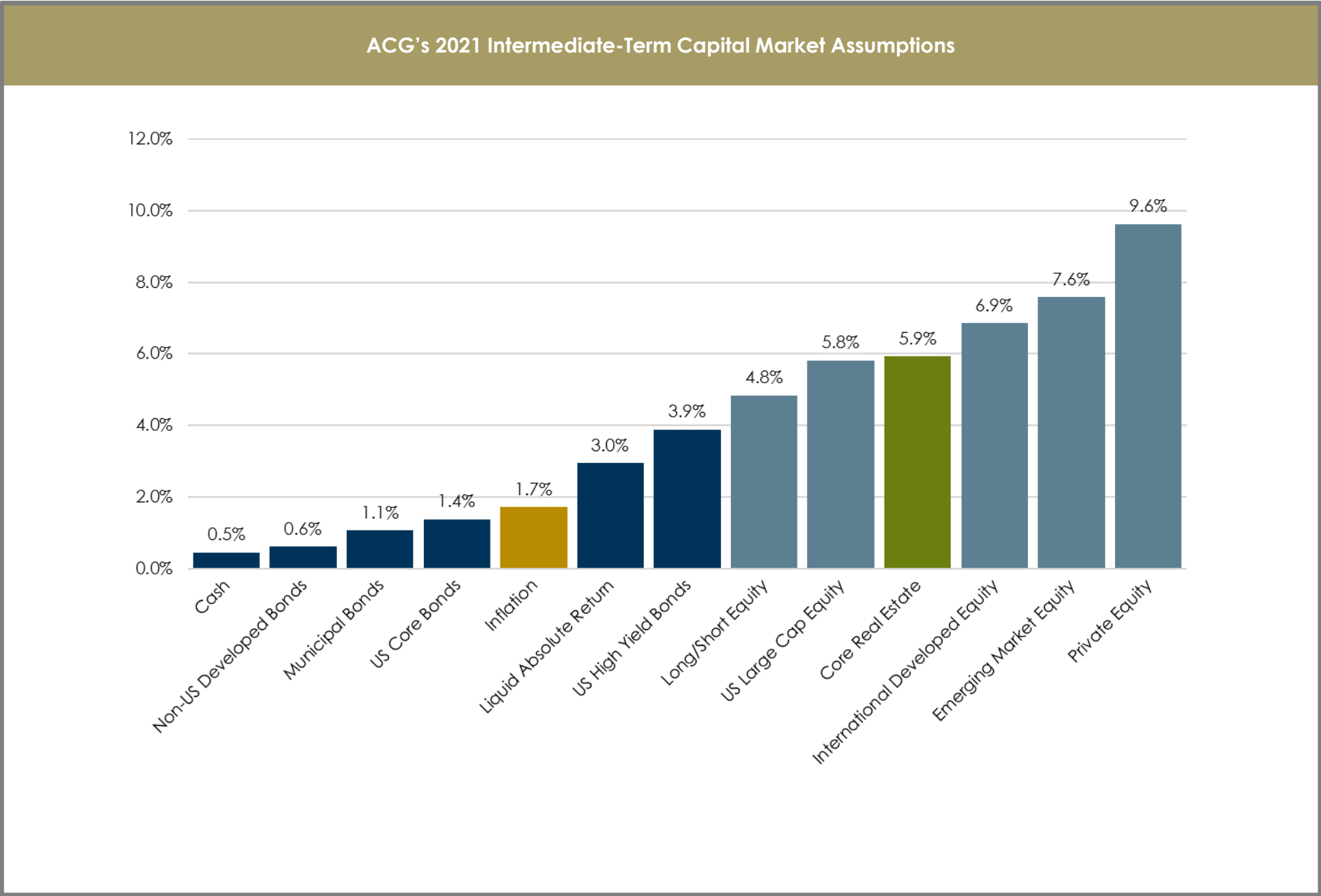


Source: ACG Research, Bloomberg, WTO, IMF (as of March 31, 2021)

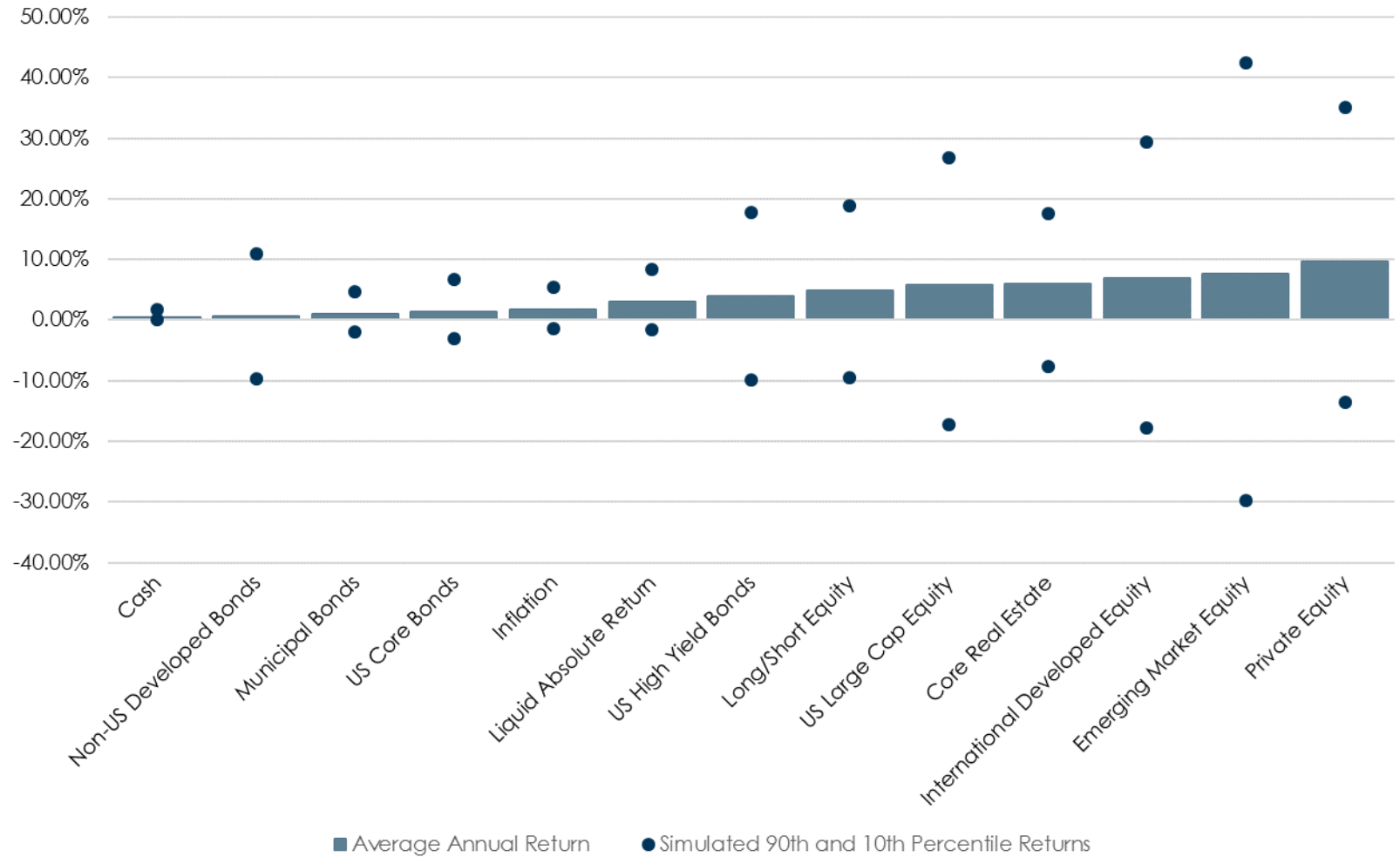


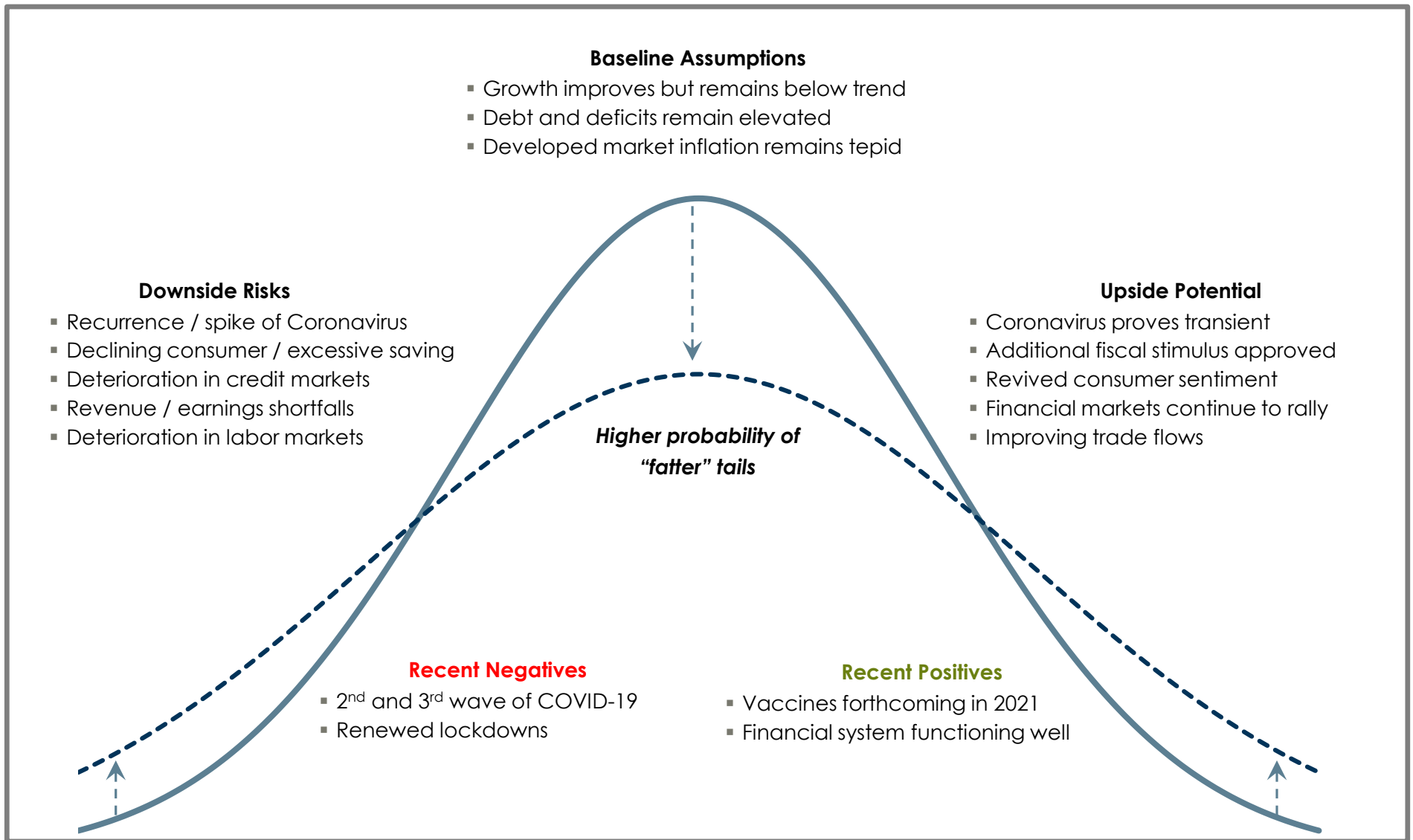
Source: ACG Research, Bloomberg, MSCI, Morningstar (as of March 31, 2021)





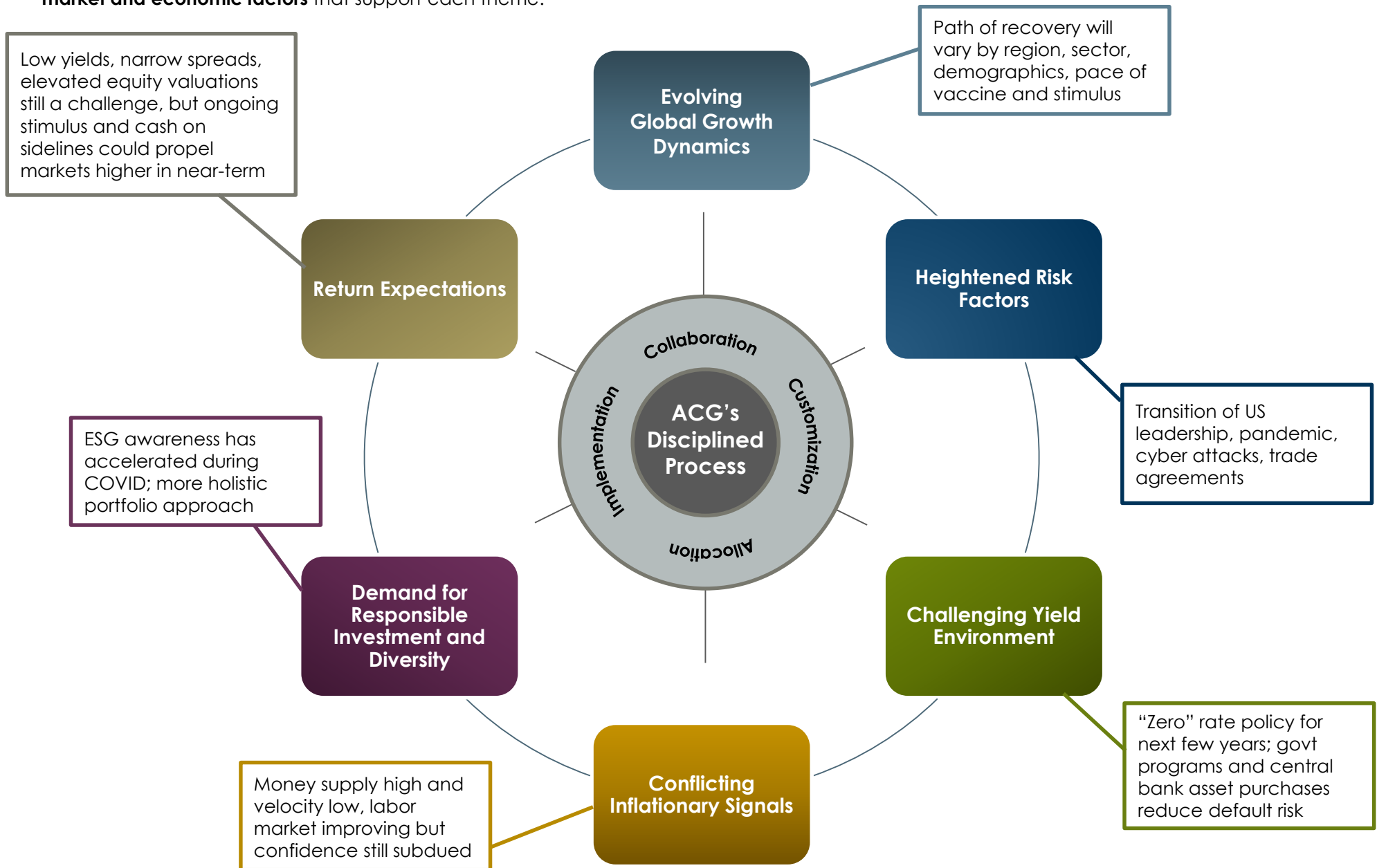
ACG's 2021 Intermediate-Term Capital Market Assumptions





## Key Areas of Focus

ACG's Investment Committee outlines key themes that will drive investment returns **over the intermediate term**. In this quarterly update, we highlight **market and economic factors** that support each theme.



## Implementation Strategies

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### 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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