



Market Outlook

**Throw the Confetti**

*Q2, 2021*

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## SUMMARY

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“*...the nationwide rollout of Covid-19 vaccines, the persistence of ultralow interest rates, and expectations for torrid economic growth have convinced America's money managers that the stock market still has more room to rise.*”

Semi-Annual Large Money Manager Survey, Barron's, April 25, 2021



# Q1, 2021 Market Review

## QTD TOTAL RETURNS

- **Risky assets rallied** with U.S. small cap stocks (+12.7%) and midstream energy assets (+22.0%) being top performers.
- U.S. large cap stocks, as measured by the S&P 500 Index, added 6.2% for the quarter.
- The 12-month forward P/E ratio for the S&P 500 Index is currently 22.3x, **near its highest level since 2000**.
- Midstream energy added to its strong rally at the end of 2020, rising 22% in Q1. While gasoline demand (the largest end market) is stabilizing, volumes have ranged between 15% to 18% below prior-year levels, according to the EIA.
- Most credit markets rallied slightly as rates rose but credit spreads narrowed. High yield bond spreads ended the quarter at 3.4%.
- Bonds suffered their worst quarterly loss (-3.4%) since the third quarter of 1981, when they lost 4%. To put this return in perspective, there have only been three quarters in history, all in 1980 and 1981, when the Bloomberg Aggregate Bond index lost more 3%.
- Despite concerns about what post-pandemic demand will look like, publicly-traded real estate (REITs) rose 8.8%, driving index yields down to 3.6%.
- After strong gains in 2020, gold retreated 10.9% as real rates rose during the quarter.

## KEY MARKET TOTAL RETURNS

Balanced Portfolio (60/40)	1.4
U.S. Small Cap	12.7
U.S. Large Cap	6.2
Intl Dev Small Cap	4.6
Intl Dev Stocks	3.6
Emerging Mkt Stocks	2.3
U.S. Bank Loans	1.8
U.S. High Yield	0.8
U.S. Muni Bonds	-0.3
U.S. Taxable Bonds	-3.4
Emerging Mkt Bonds	-4.5
Intl Dev Bnds	-6.5
Midstream Energy	22.0
U.S. REITs	8.8
Commodity Futures	6.9
Ex-U.S. Real Est Sec's	2.4
Gold	-10.9
Cash	0.0

■ ■ ■ ■ QTD

Source: Bloomberg

## Q2, 2021 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

“ *We won't be preemptively taking the punchbowl away from the economy...in an effort not to let unemployment get too low...  
I see pockets of concern — pockets of froth. It's not a pervasive indicator that financial conditions are frothy overall, I just don't see that*”

Mary Daly, San Francisco Fed President, March 24, 2021

# Growth, Inflation & Policy Summary

## COMMENTARY & MARKET DATA

### GROWTH SNAPBACK

- *Growth expectations for FY21 have increased since the start of the year, now coming in at 6-7% (Bloomberg, IMF), helped by stimulus, vaccine rollout, and dramatic base effects.*
- *Increased reliance on government spending and generally negative fiscal multipliers, especially in highly-indebted countries, means that longer term real (inflation-adjusted) growth will be constrained.*

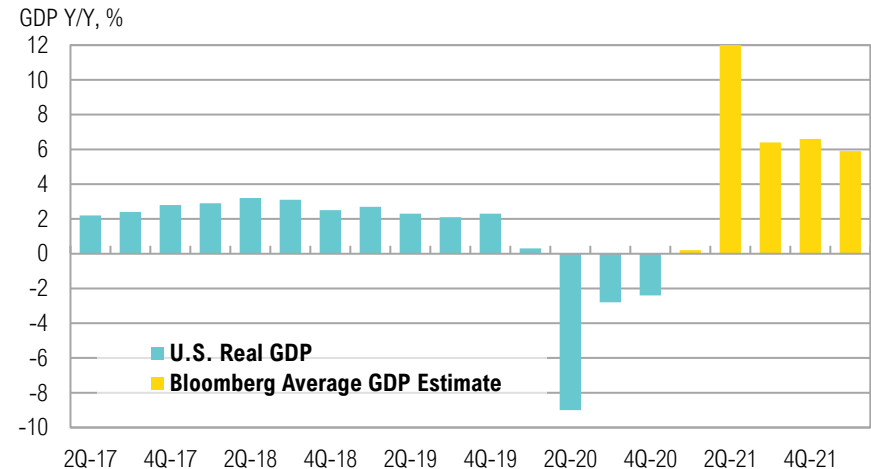
### INFLATION TRENDING HIGHER

- *While current inflation is relatively low, long-term inflation expectations have continued to trend higher. The 10-year TIPS-implied inflation rate is currently 2.4%, a 7-year high.*
- *Economic slack, persistent technology adoption and extreme debt levels will act as a damper on inflation (and bond yields), but the trend to perpetual stimulus should overcome this.*
- ***On balance, we expect inflation to trend higher in fits and starts (higher lows and higher highs) in coming years.***

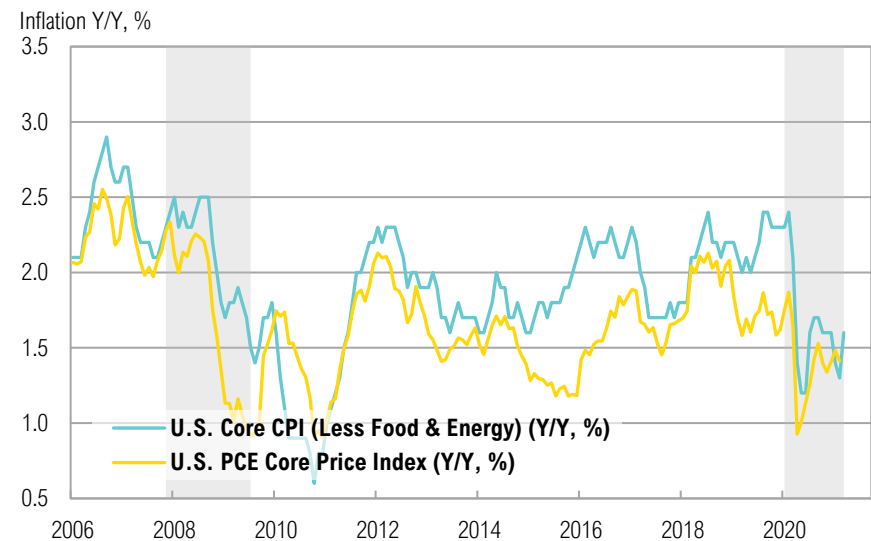
### DISTORTIVE POLICY

- *To date, fiscal stimulus has been more reactive (replacing lost income) than proactive (stimulus).*
- *We believe policy will become increasingly proactive and supportive/ distortive for at least three reasons:*
  1. *Single party control of the U.S. government*
  2. *The de facto merging of the Fed and Treasury*
  3. *The Covid-19 crisis creating the political will for further government spending and bailouts*

### U.S. REAL GROSS DOMESTIC PRODUCT (GDP) GROWTH



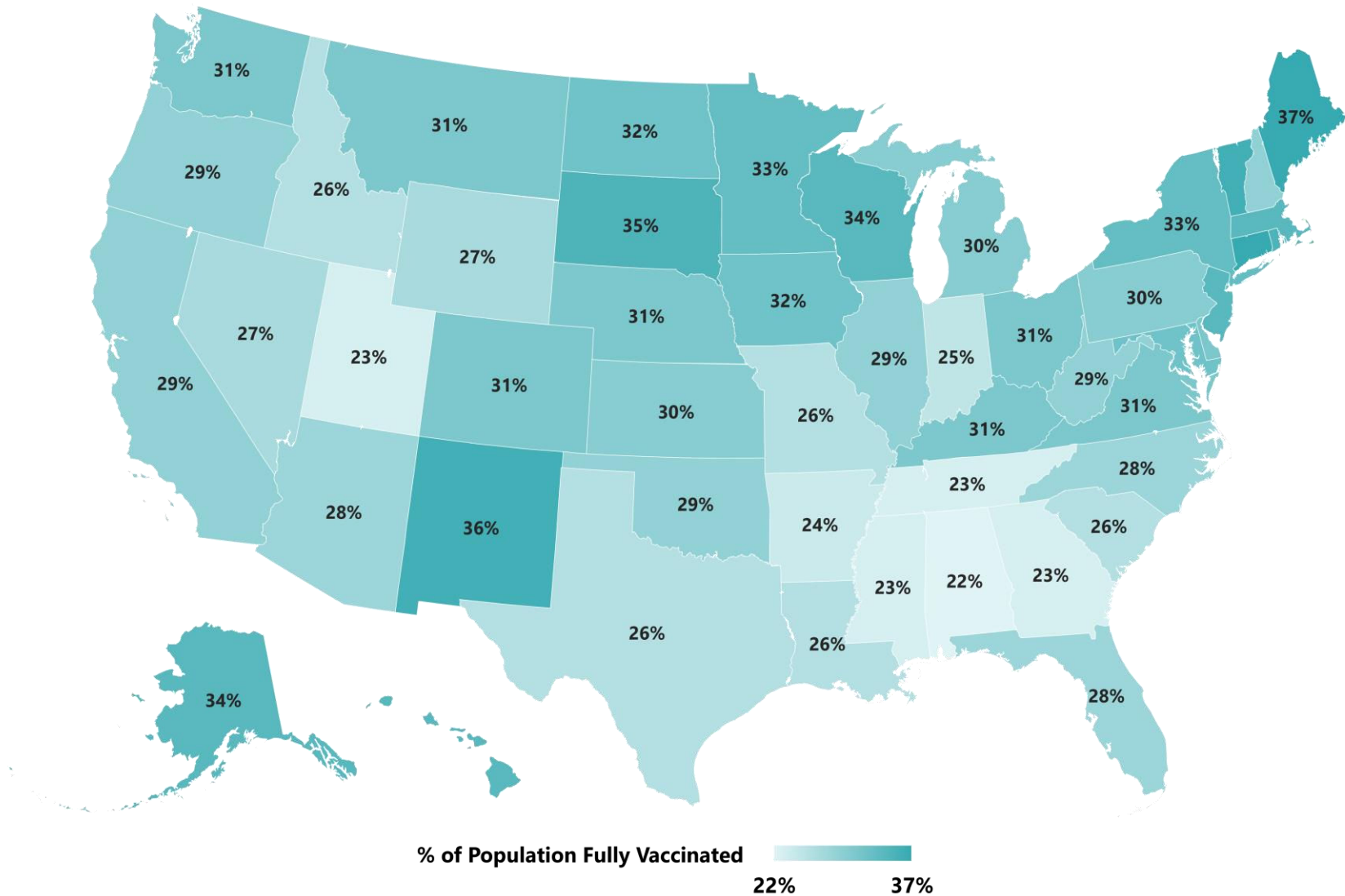
### U.S. HEADLINE & CORE INFLATION (CPI)



Source: Bloomberg

# Vaccinations in the U.S.

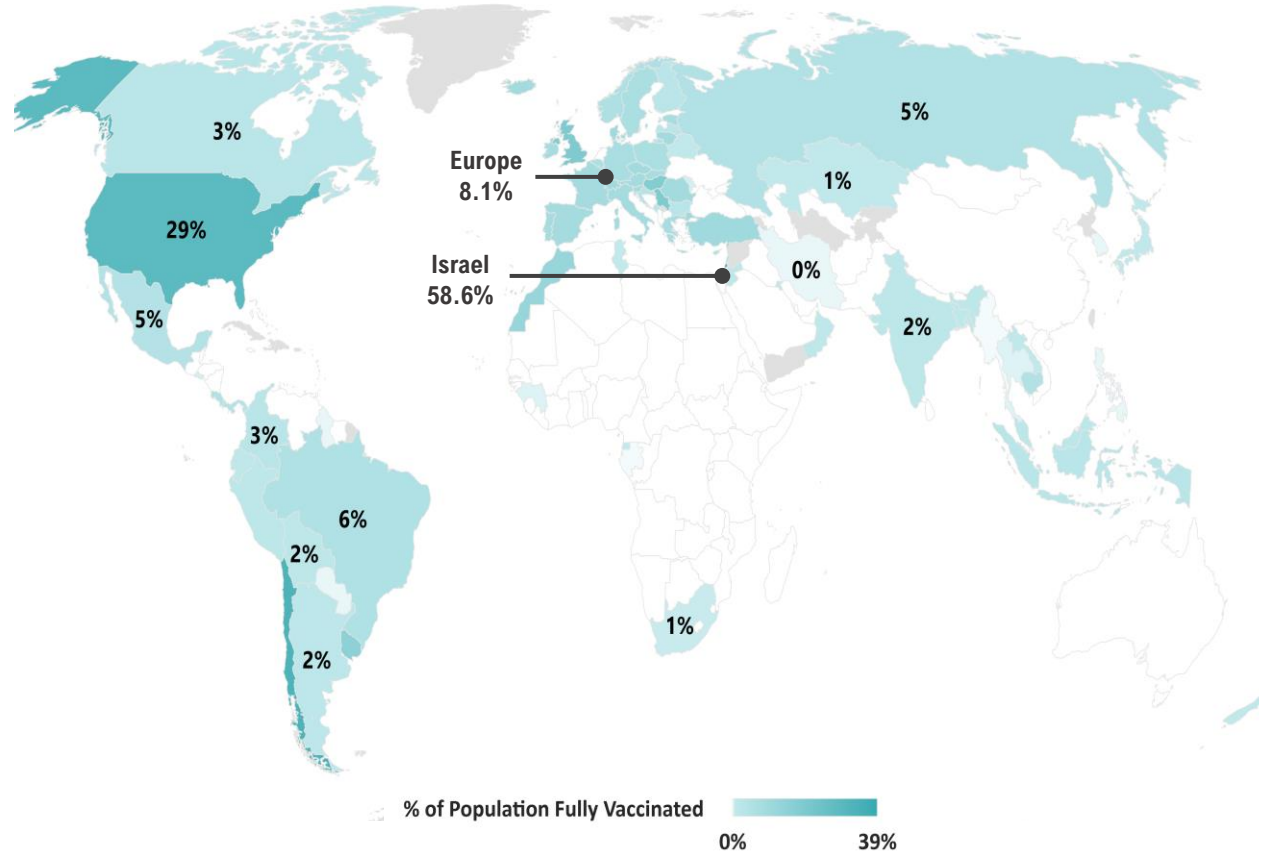
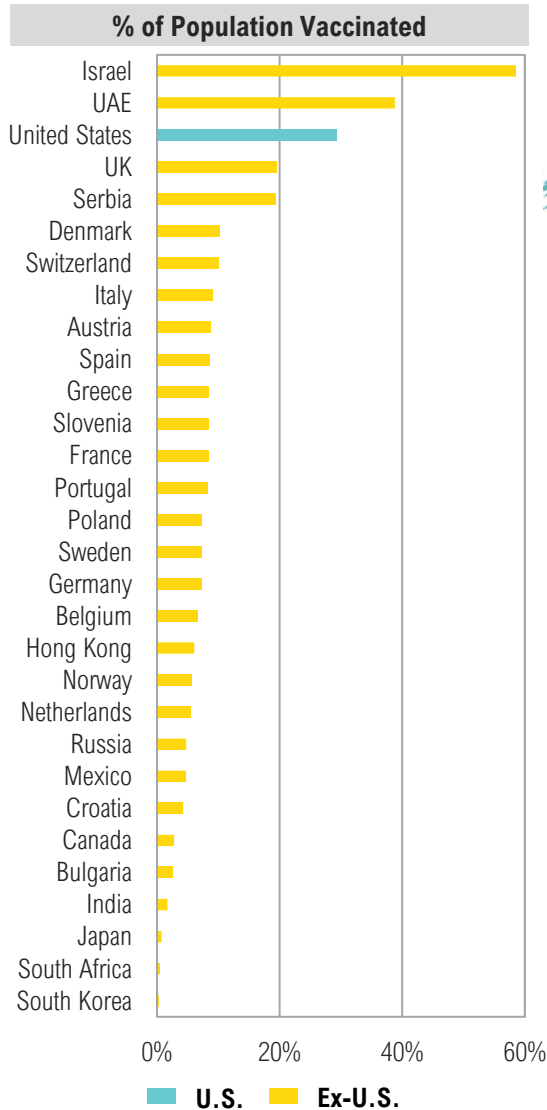
SHARE OF STATE-LEVEL POPULATION THAT ARE FULLY VACCINATED, AS OF 4/27/2021



Source: New York Times, CDC

# Global Vaccinations

PERCENTAGE OF POPULATION FULLY VACCINATED\*, AS OF 4/27/2021



Source: New York Times, Our World in Data

\*Countries with available data.

**Q2, 2021 Market Outlook**

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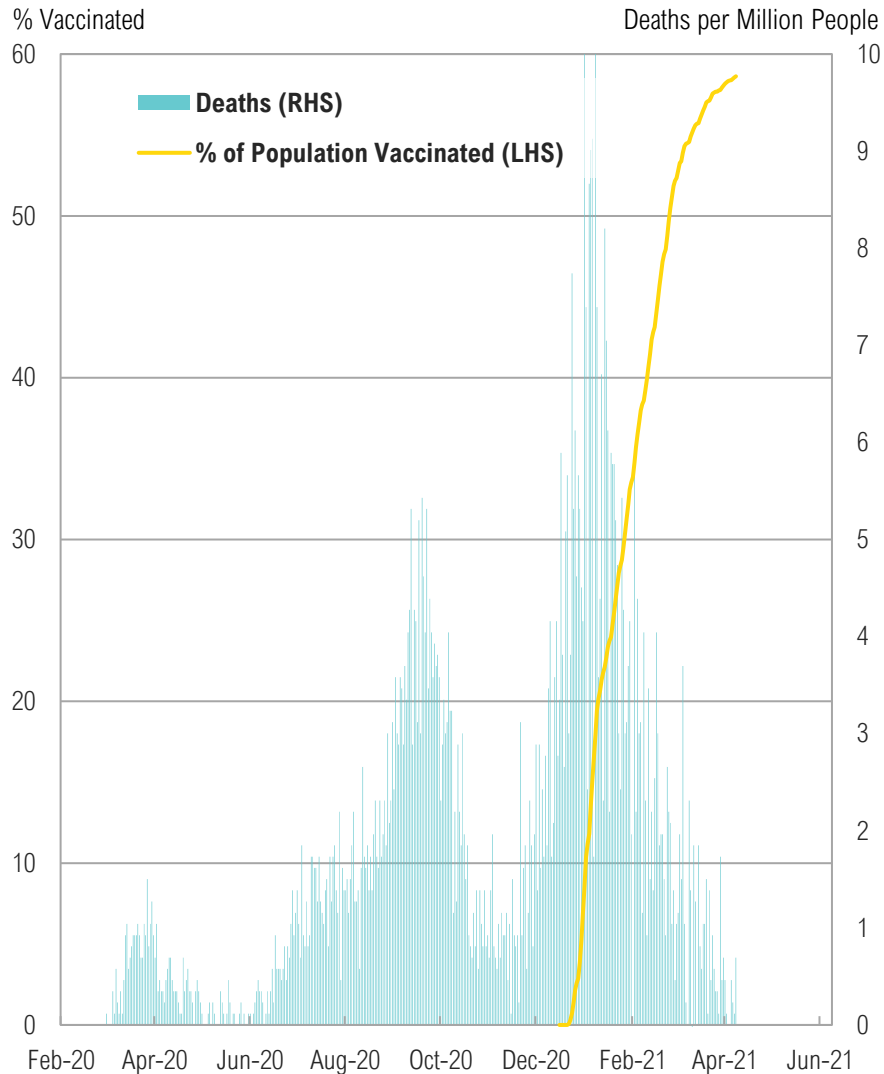
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# Covid Mortality vs. Vaccinations: Israel vs. India

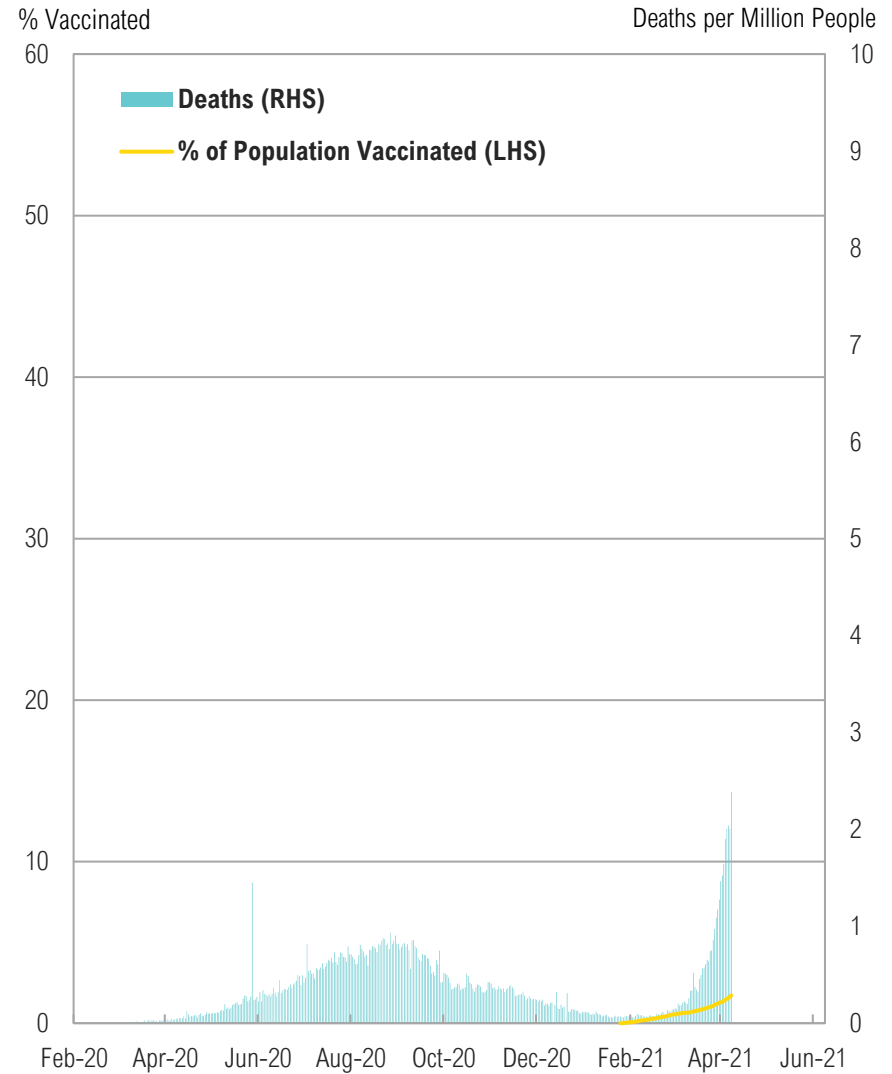
DAILY COVID MORTALITY (PER MILLION PEOPLE) VS. % OF POPULATION VACCINATED, AS OF 4/27/2021

## Israel



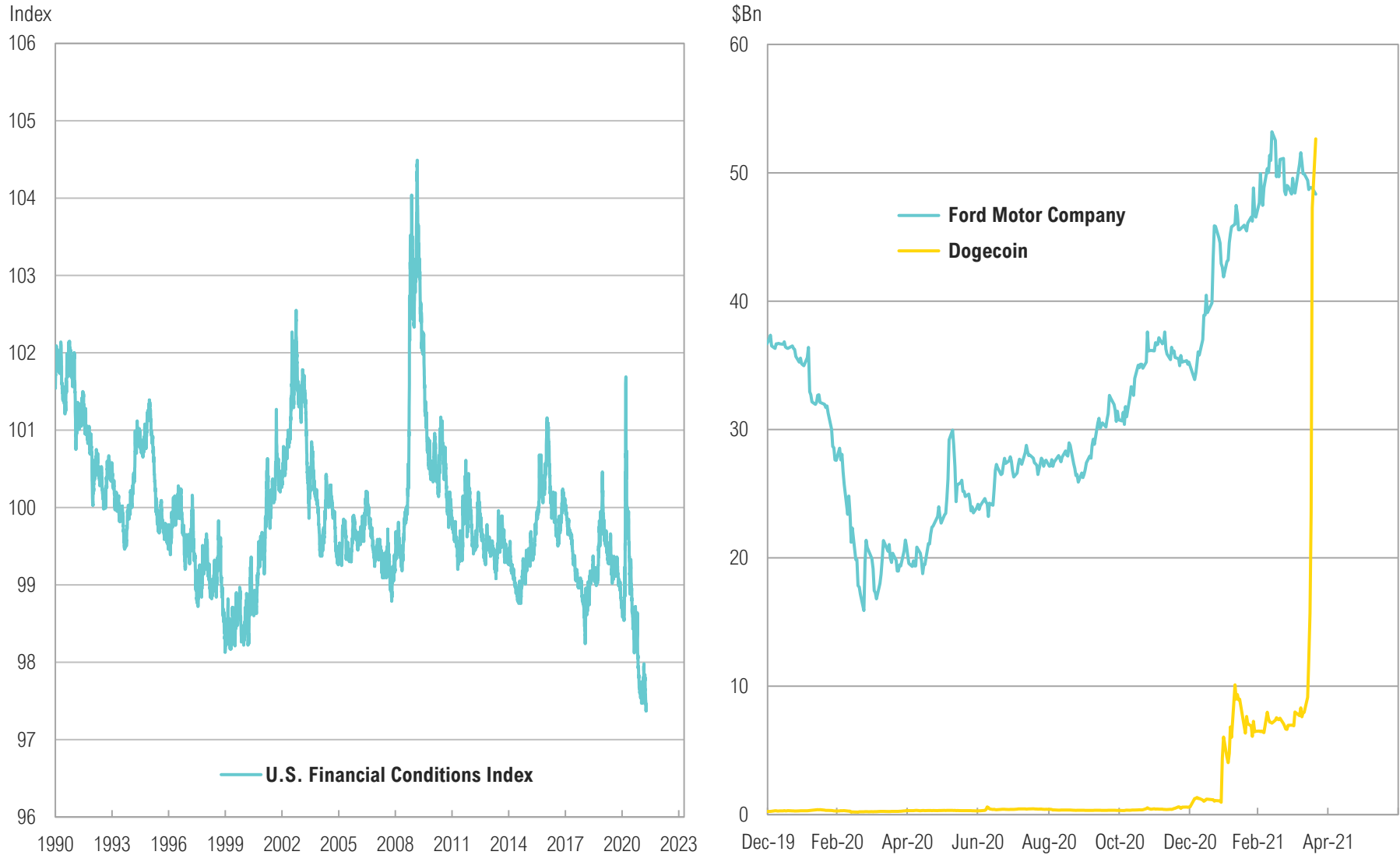
Source: Our World in Data

## India



# Financial Conditions Are the Easiest they Have Ever Been

GOLDMAN SACHS U.S. FINANCIAL CONDITION INDEX (LHS), FORD & DOGECOIN MARKET CAP (RHS)\*, AS OF 4/21/2021



Source: Bloomberg, CoinMarketCap.  
\*Ford & Dogecoin data as of 4/19/2021.

## Q2, 2021 Market Outlook

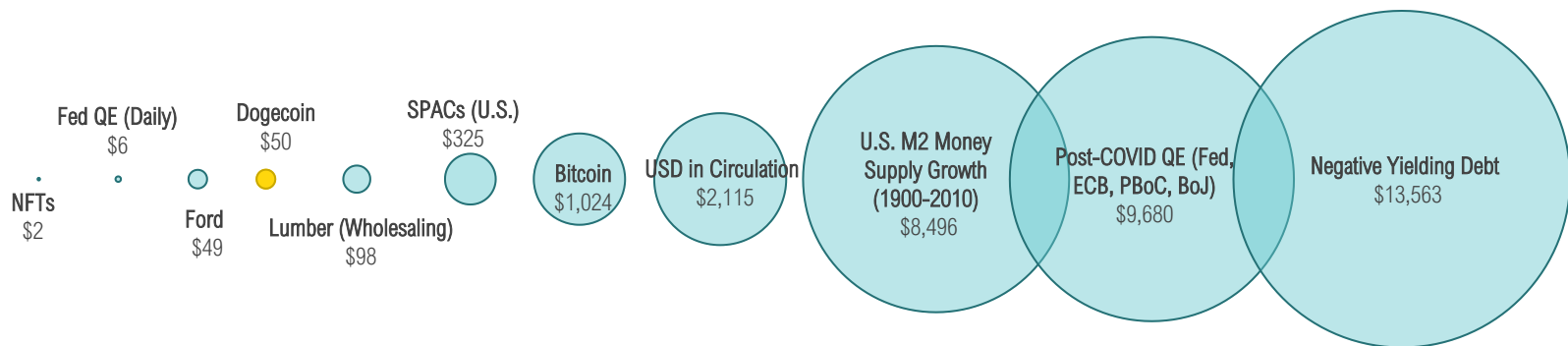
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# Quantitative Easing in Perspective

VARIOUS ASSET, MARKET, MONETARY AGGREGATE & INDEX MARKET SIZES, AS OF 3/31/2021 - 4/28/2021

- The Fed is monetizing (“printing”) about \$120 billion per month, which translates to approximately \$6 billion every weekday or \$250 million every weekday hour.
- For context, average total annual U.S. corporate tax receipts for the last three years have been approximately \$220 billion (created by the Fed every two months).
- Relative to this monetization, other high-profile assets and asset markets seem less frothy. For example, the total NFT market did around \$2 billion of transaction volume in 1Q; Dogecoin is currently worth around \$50 billion; and the entire U.S. SPAC market is approximately \$325 billion.

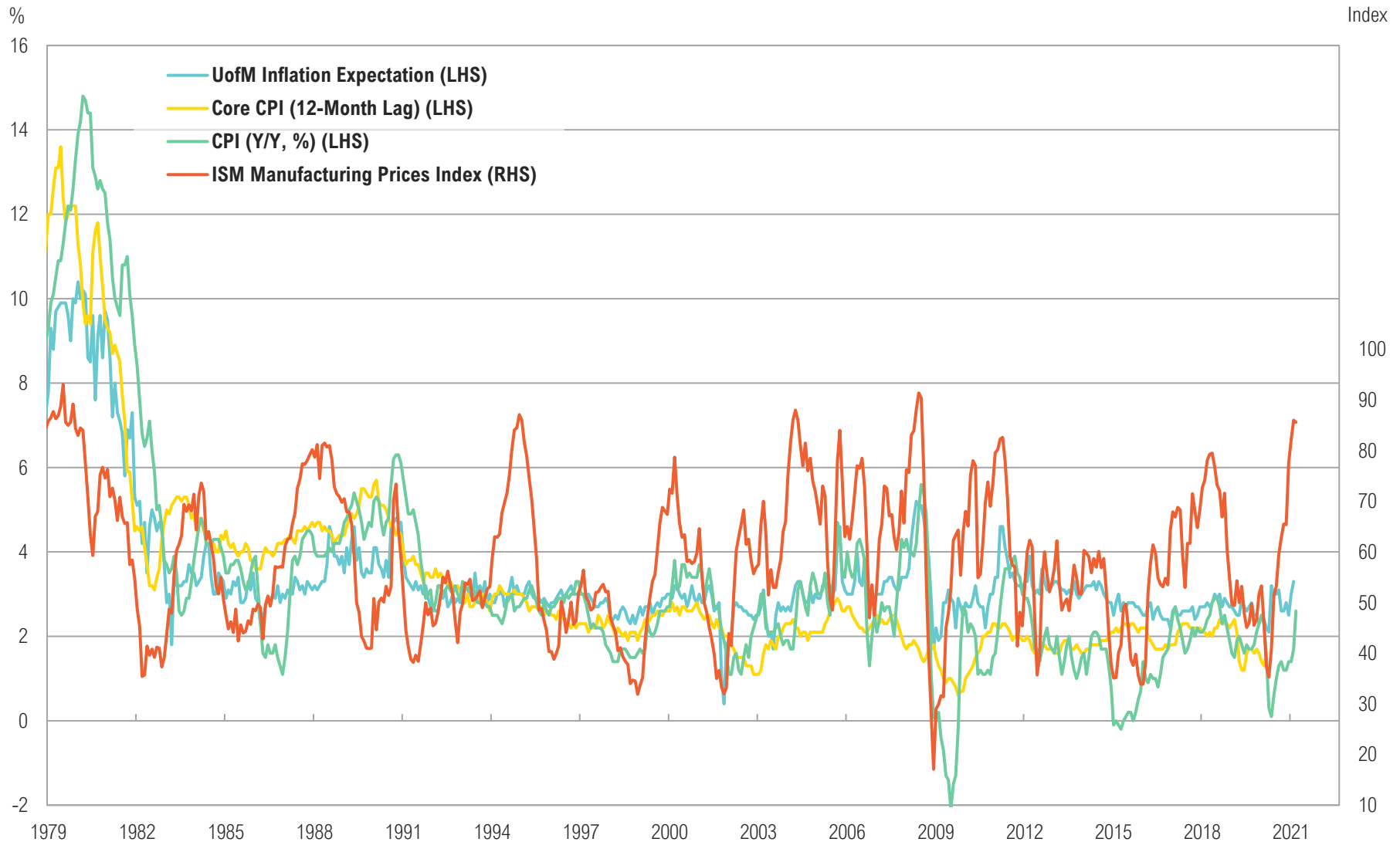
Various Asset, Market, Monetary Aggregate & Index Market Sizes | 3/31/2021 - 4/28/2021



Source: Bloomberg

# Actual & Expected Inflation Are Trending Higher

UOFM INFLATION EXPECTATION\*, CORE CPI, CPI Y/Y % (LHS) & ISM MANUFACTURING PRICES INDEX (RHS) , AS OF 3/31/2021



Source: FRED

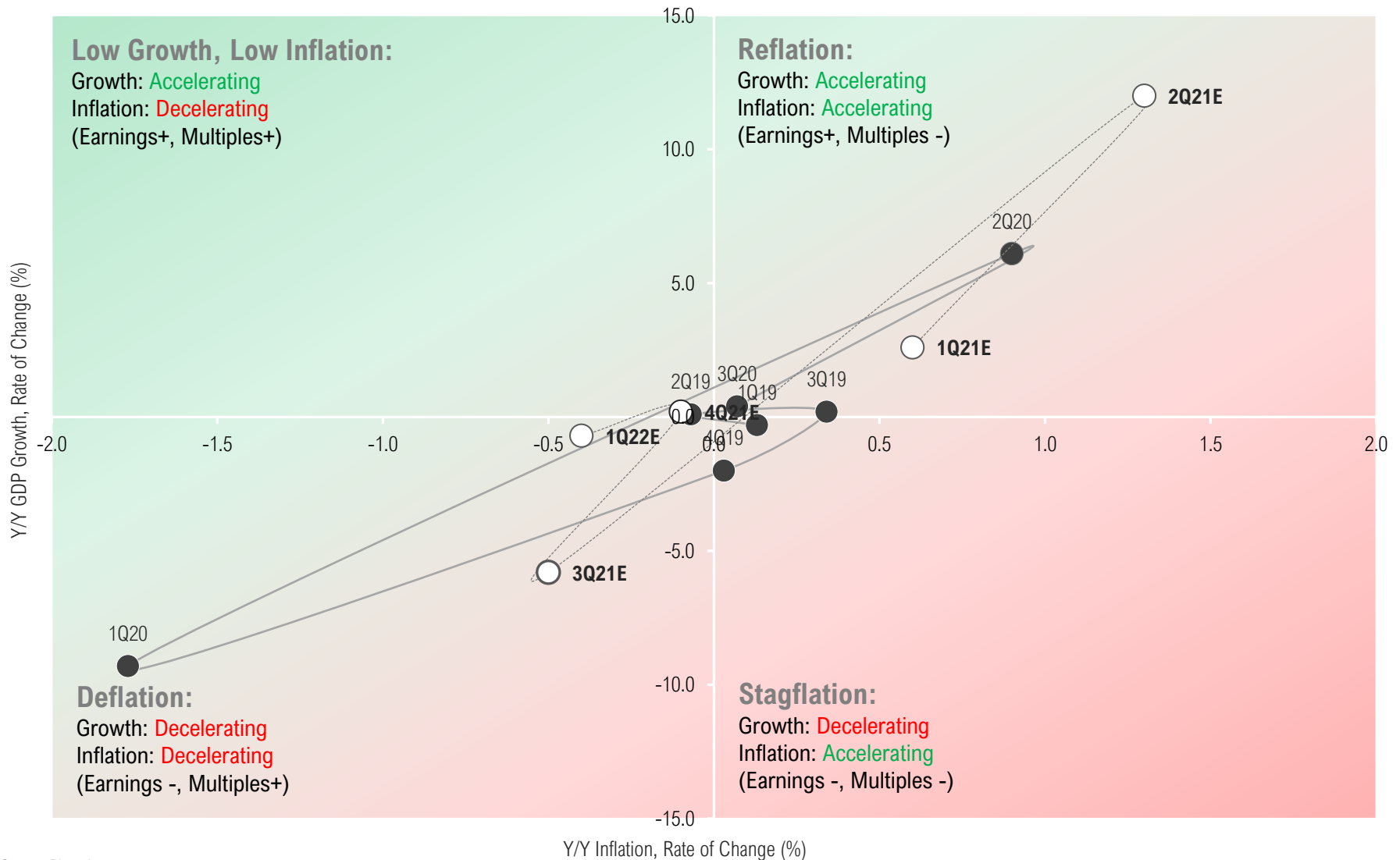
\*UofM data as of 2/28/2021

## Q2, 2021 Market Outlook

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# Reflation Expected to Continue for Rest of 1H21, But Without Policy Governor of Higher Interest Rates

RATE OF CHANGE Y/Y GDP GROWTH VS INFLATION, AS OF 3/31/2021



Source: Bloomberg

# Tracking the Recovery

VARIOUS MARKET & ECONOMIC INDICATORS, WEEKLY

	11/27	12/4	12/11	12/18	12/25	1/1	1/8	1/15	1/22	1/29	2/5	2/12	2/19	2/26	3/5	3/12	3/19	3/26	4/2	4/9	4/16	4/23
<b>Virus</b>																						
New Covid-19 Cases (U.S.)	1,150,189	1,405,142	1,519,308	1,407,243	1,416,129	1,507,449	1,723,187	1,530,945	1,190,197	1,043,427	824,478	638,829	465,125	473,637	417,173	362,743	380,522	443,593	443,999	490,000	473,759	407,196
New Covid-19 Fatalities (U.S.)	10,101	15,421	16,900	18,500	15,450	18,335	22,869	23,239	21,647	22,111	22,118	21,895	13,547	14,212	11,940	9,849	7,476	6,979	5,666	7,063	5,153	4,983
Lockdown Index (0-100)	75	71	72	72	72	72	72	72	72	72	72	68	68	68	64	64	64	62	57	57	57	57
<b>Economy</b>																						
Jobless Claims (000') <sup>1</sup>	828	711	947	929	855	824	899	1,083	937	841	850	868	835	717	757	722	757	651	724	739	623	567
Gasoline Inventories (Mn Barrels) <sup>1</sup>	230	234	238	239	238	237	241	245	245	248	252	256	257	257	243	232	232	232	231	235	235	235
New York Fed Economic Index	-2	-2	-3	-2	-1	-2	-2	-2	-2	-2	-2	-1	-3	-2	-1	0	5	8	10	12	12	12
Public Transit Ridership (%)	-50	-54	-54	-53	-54	-59	-59	-54	-53	-63	-51	-51	-52	-49	-49	-48	-45	-44	-43	-43	-43	-41
Mortgage Applications (%) <sup>2</sup>	11	21	15	17	12	12	11	20	23	18	18	12	6	-7	-5	2	4	6	5	0	-1	4
Consumer Comfort <sup>1</sup>	49	49	48	47	45	44	43	44	46	45	45	46	47	49	49	49	49	50	52	54	54	54
Same Store Sales (YoY%) <sup>1</sup>	3	9	2	3	7	9	6	2	2	4	4	1	4	3	5	8	9	9	10	11	13	14
Restaurant Booking (YoY%)	-57	-58	-60	-55	-58	-61	-55	-47	-54	-49	-43	-60	-45	-34	-33	-31	-23	-21	-16	-17	-19	-17
Active Oil Rigs (%) <sup>2</sup>	-65	-64	-62	-61	-61	-61	-60	-58	-58	-57	-56	-55	-55	-55	-54	-55	-53	-52	-51	-51	-49	-50
Steel Production (%) <sup>2</sup>	-15	-17	-16	-16	-13	-14	-12	-9	-7	-8	-8	-9	-7	-7	-7	-6	-6	-6	-6	-6	-6	-5
<b>Financial Markets</b>																						
S&P 500 (%) <sup>2</sup>	13	15	13	15	15	16	18	17	19	15	20	22	21	18	19	22	21	23	24	28	30	29
Russell 2000 (%) <sup>2</sup>	11	13	14	18	20	18	25	27	30	24	34	37	36	32	31	41	37	33	35	34	35	36
Russell Microcap (%) <sup>2</sup>	13	16	17	20	22	20	28	32	37	37	48	54	52	45	44	60	56	47	51	49	47	48
Financial Conditions	1	1	0	1	1	1	1	1	1	0	1	1	1	0	1	1	1	1	1	1	1	1
Bbg U.S. Corp HY Spread (Bps)	410	377	384	376	376	360	348	350	348	362	333	323	319	326	329	326	337	325	302	292	293	298
NYSE % above 200-day MA	87	88	88	85	85	85	85	86	86	83	86	87	86	81	82	84	81	81	82	82	81	81
VIX	21	21	23	22	22	23	22	24	22	33	21	20	22	28	25	21	21	19	17	17	16	17

Source: Bloomberg, Oxford Government Response Tracker, Moovit and OpenTable.

1 Data references release date, not measurement period, which is lagged by one week.

2 Data represents the percent change from the average of the first two weeks in January.

## Q2, 2021 Market Outlook

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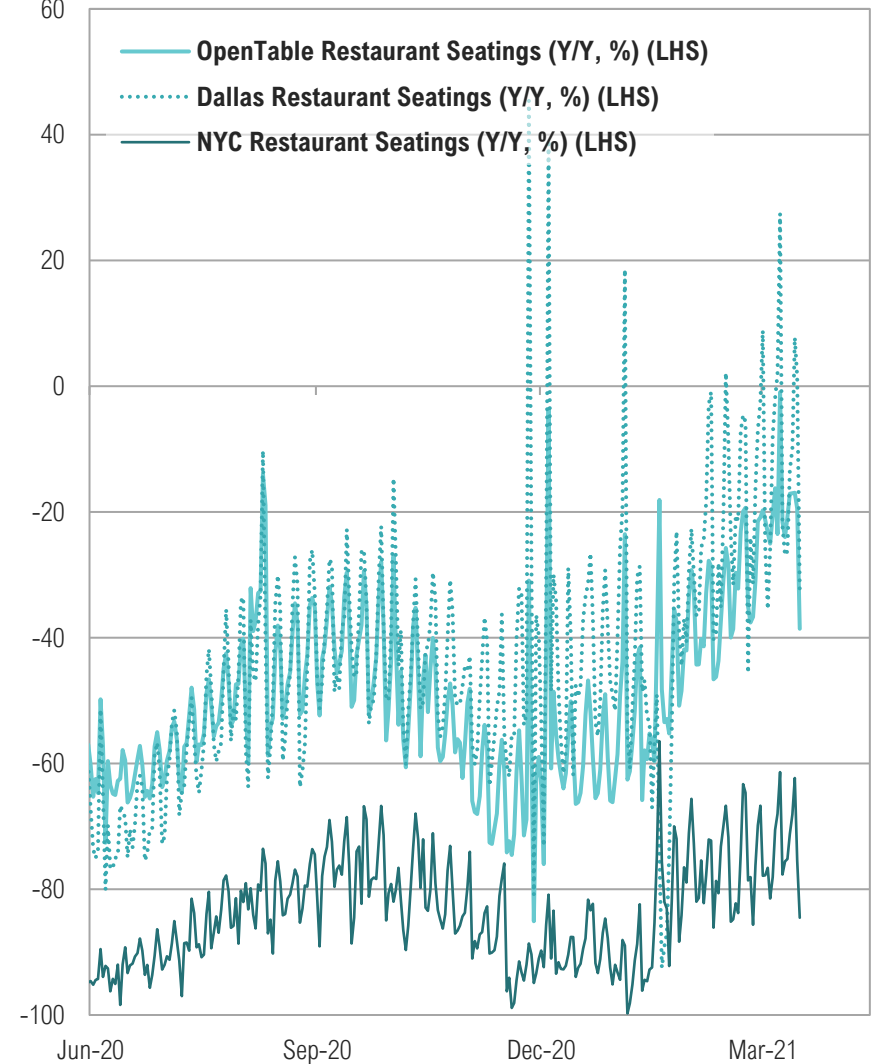
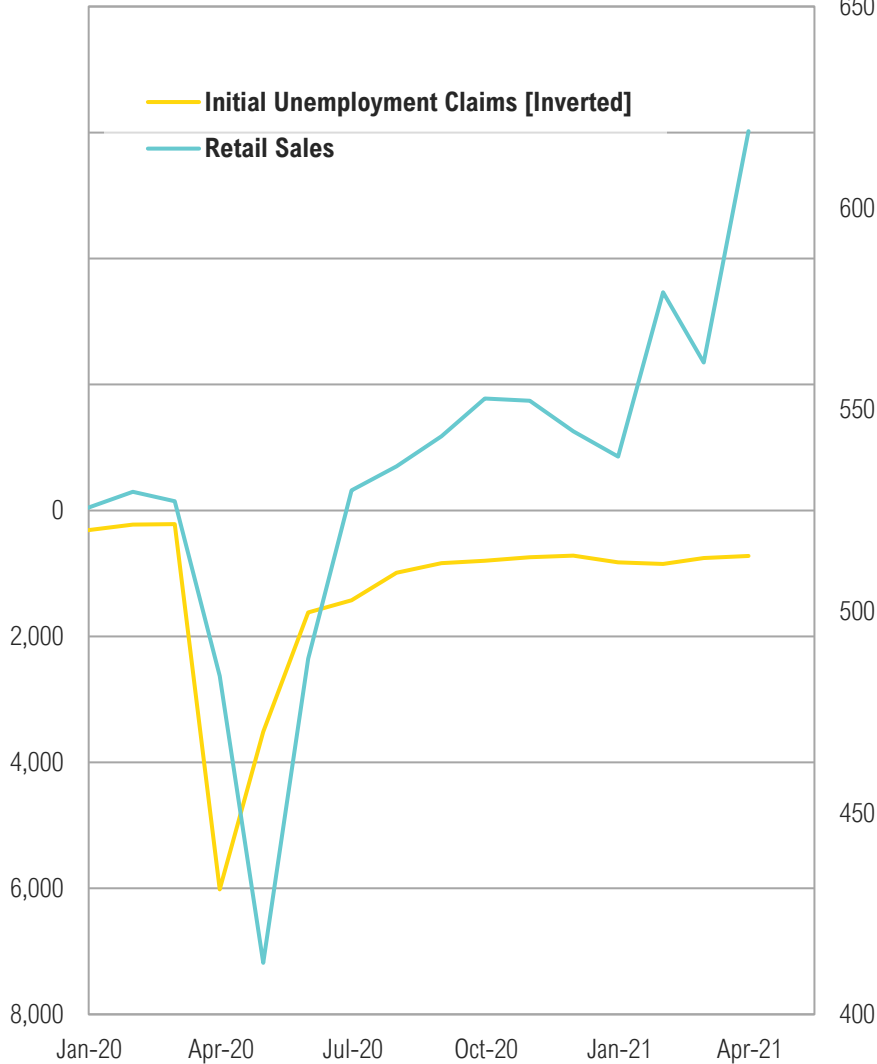
# Retail Sales Jump, Economic Activity Improving

INITIAL UNEMPLOYMENT CLAIMS VS. RETAIL & FOOD SALES (LHS), OPENTABLE SEATINGS & SELECT CITIES (RHS)

Initial Unemployment Claims (NSA), '000s

Retail & Food Sales, \$Bn

Y/Y, %

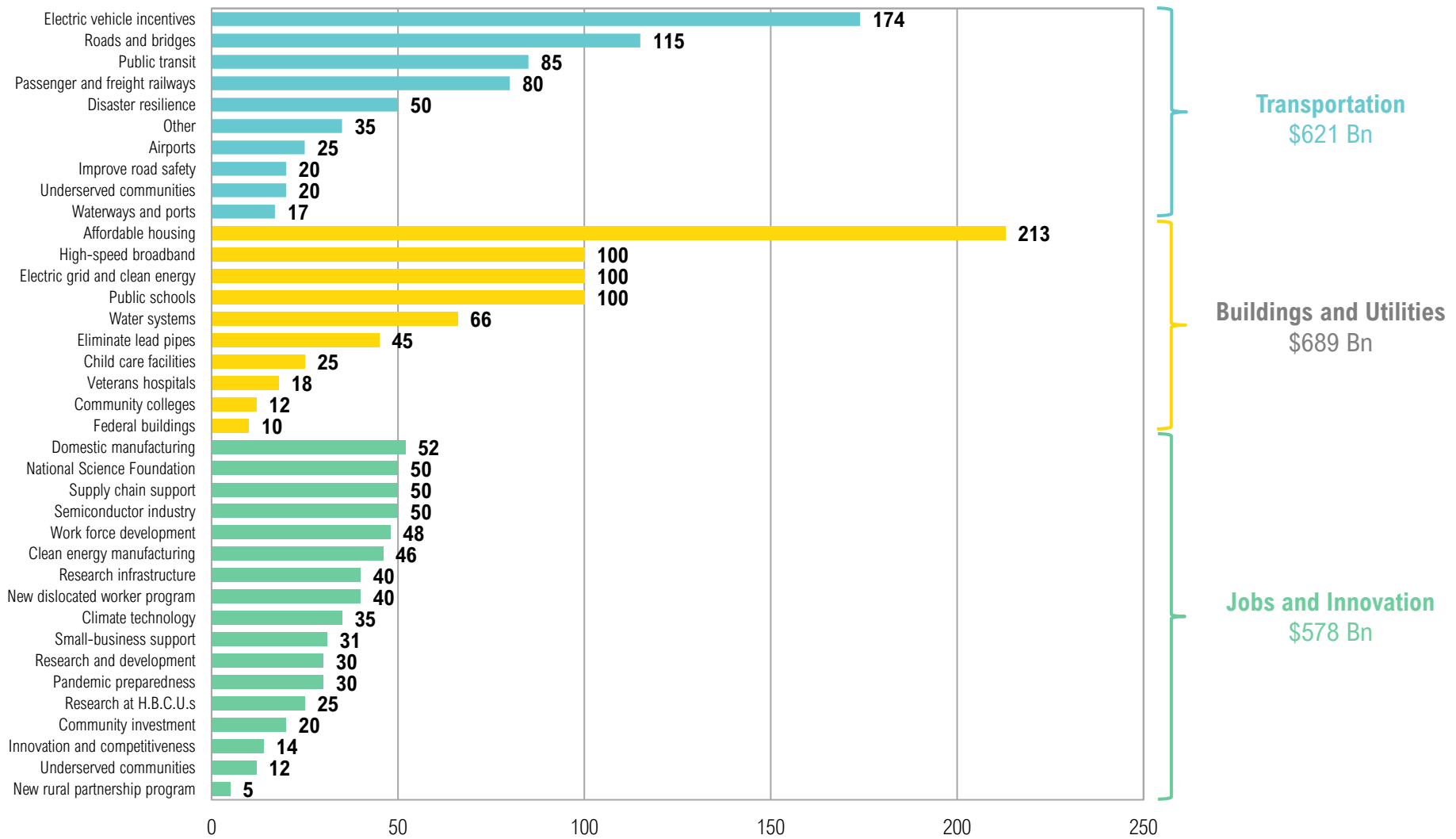


Source: Bloomberg, OpenTable

# Breakdown of Proposed \$2.3 Tn U.S. Infrastructure Spending Plan

WHITE HOUSE PROPOSED INFRASTRUCTURE SPENDING PLAN

Spending, \$Bn



Source: WSJ, NYT, whitehouse.gov

Chart excludes \$400 billion planned for in-home and community-based care for elderly and disabled.

Q2, 2021 Market Outlook

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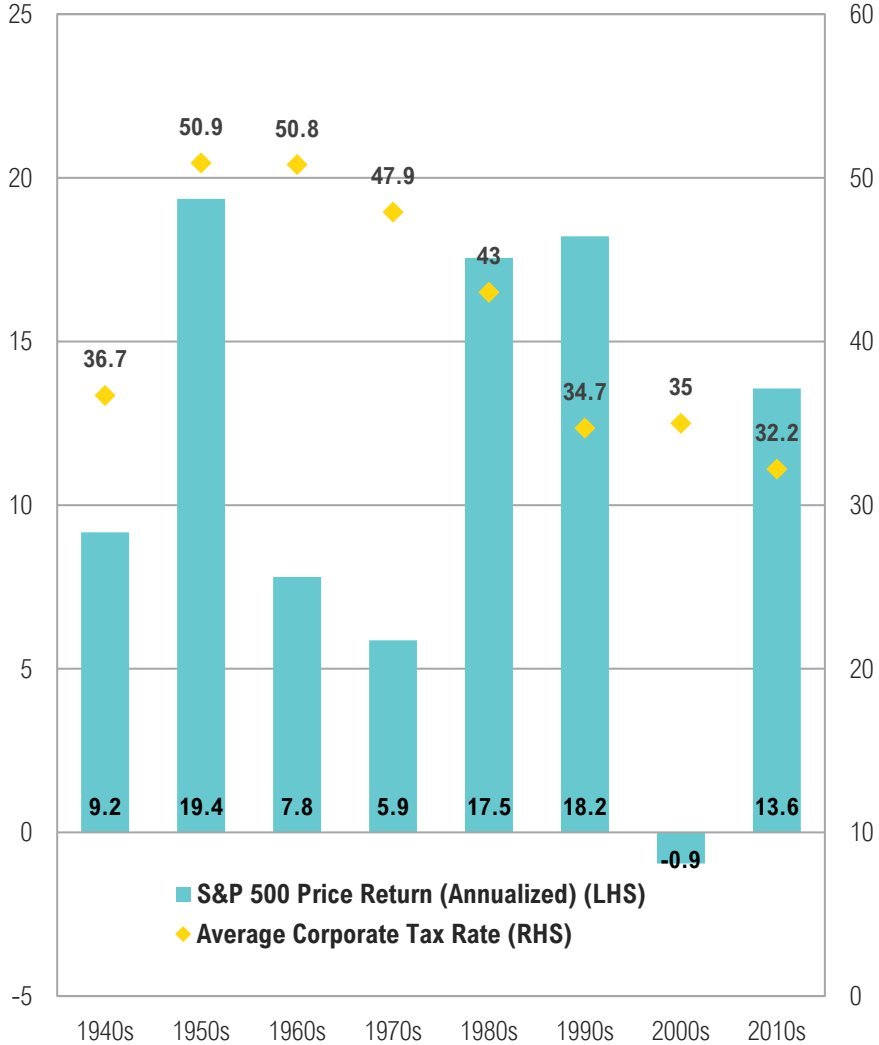


# Corporate Taxes Historically Have Had a Mixed Impact on Equity Returns and Profit Growth

AVG. U.S. CORPORATE TAX RATE VS. S&P 500 RETURNS (LHS) & U.S. CORPORATE PROFIT GROWTH (RHS), 1940 - 2019

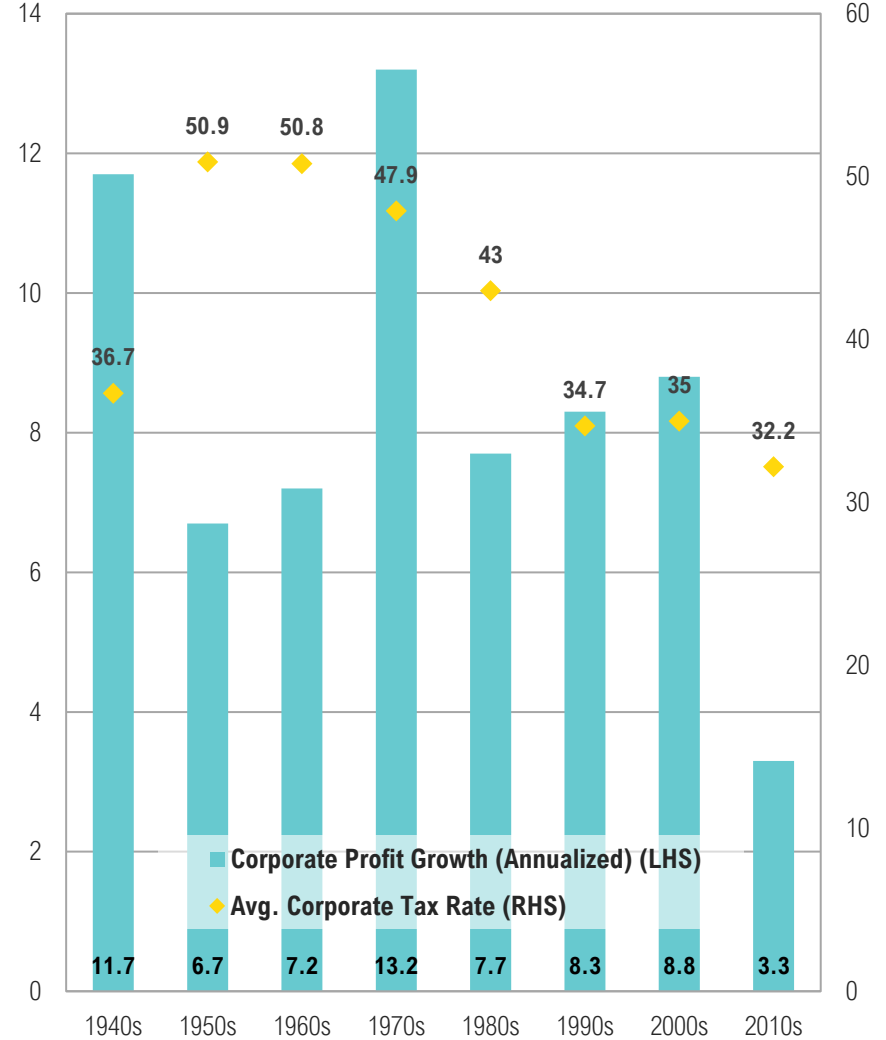
S&P 500 Price Return (Annualized), %

Avg. Corporate Tax rate, %



Corporate Profit Growth (Annualized), %

Avg. Corporate Tax Rate, %



Source: FRED, Bloomberg, IRS

## EQUITY

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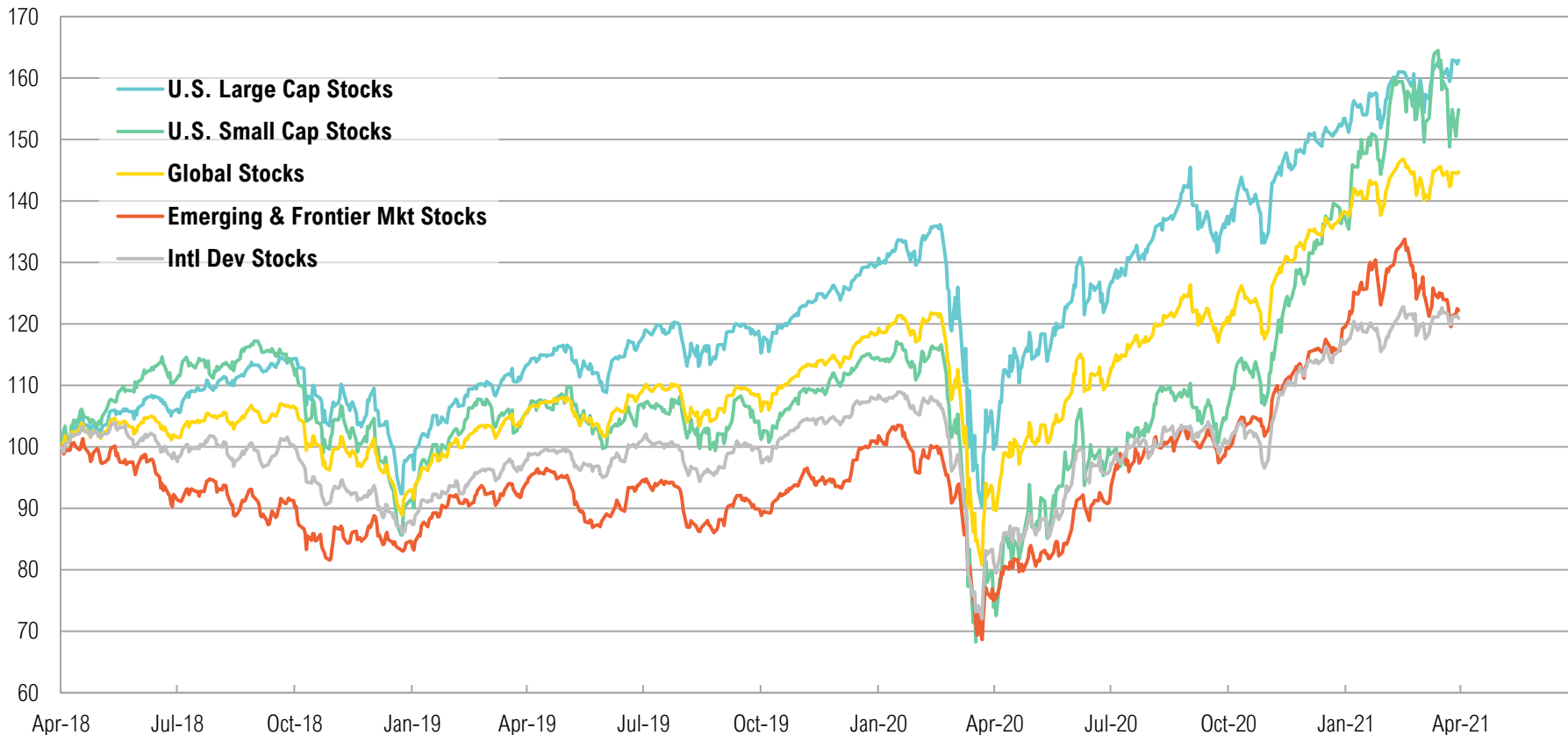
“ *[the confetti] is getting really misconstrued, and I think it's actually doing the opposite of what we want".*

Madhu Muthukumar, Senior Director, Product Management, Robinhood

# Equity Returns

CALENDAR YEAR & TRAILING TOTAL RETURNS, AS OF 3/31/2021

Growth Index, 3 Years



Asset Class	Benchmark	QTD	YTD	2020	2019	2018	2017	2016	1-Yr	3-Yr	5-Yr	10-Yr
U.S. Large Cap Stocks	S&P 500 TR	6.2	6.2	18.4	31.5	-4.4	21.8	12.0	56.4	16.8	16.3	13.9
U.S. Small Cap Stocks	Russel 2000 TR	12.6	12.6	19.9	25.4	-11.0	14.7	21.4	94.7	14.7	16.3	11.7
Intl Dev Stocks	MSCI EAFE NR	3.5	3.5	7.8	22.0	-13.8	25.0	1.0	44.6	6.0	8.8	5.5
Emerging & Frontier Mkt Stocks	MSCI EM NR	2.3	2.3	18.3	18.4	-14.6	37.3	11.2	58.4	6.5	12.1	3.7
Global Stocks	MSCI ACWI NR	4.6	4.6	16.3	26.6	-9.4	24.0	7.9	54.6	12.1	13.2	9.1

Source: Bloomberg

Returns for periods greater than one year are annualized.

## Q2, 2021 Market Outlook

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# Equity Summary

## COMMENTARY & MARKET DATA

### PUBLIC MARKETS

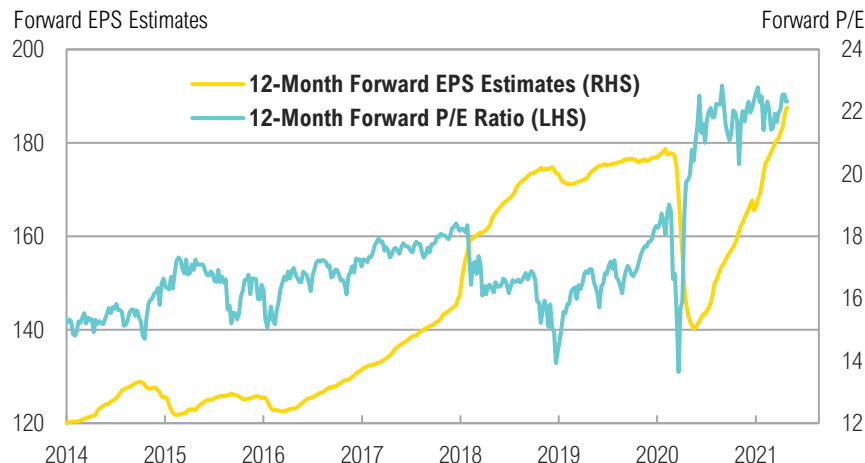
- *U.S. equity valuations are back in the top-quintile, implying muted forward long-term returns substantially below those of the last decade.*
- *U.S. equity valuations are elevated relative to foreign developed and emerging equities, but growth rates are better, and the policy backdrop – including the vaccine rollout – is more supportive in the U.S.*
- *Lower valuations in Europe reflect structural challenges faced by a continent that continues to get squeezed by competition from the U.S. and China.*
- *We continue to favor large cap indices over small cap indices, but active small cap managers over large cap indices, reflecting a better opportunity set for active managers in the small cap space.*
- *Long-term return expectations for emerging market stocks rose during the quarter (from 5.0% to 5.5%) due to a modest change in valuations, but the tactical outlook is less rosy.*

### PRIVATE MARKETS

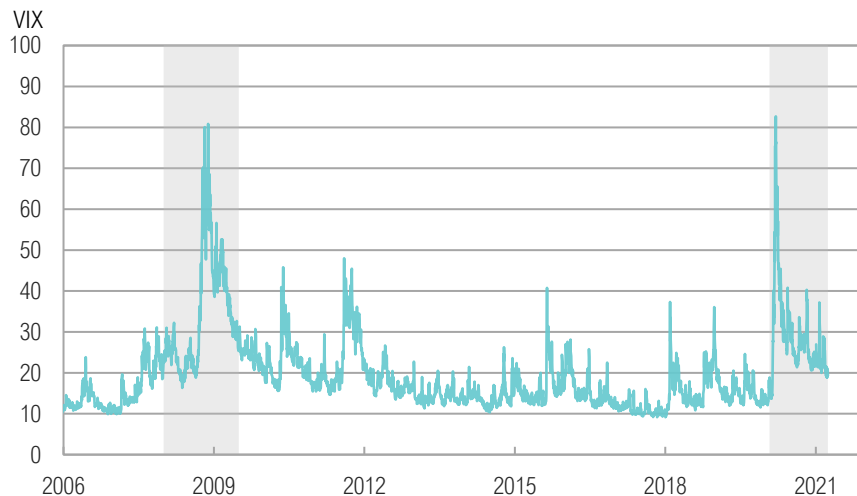
- *Even net of higher fees, select investments in high quality venture capital can add value for clients that have the capacity for reduced liquidity.*
- *Recent SPAC trends should create a robust exit market for 2020 and 2021 venture vintages.*
- *Secondary pricing in larger deals has recovered and no longer attractive, however, opportunities still exist in smaller deals.*

Source: Bloomberg

### S&P 500 12-MONTH FORWARD EPS EST. VS. P/E RATIO



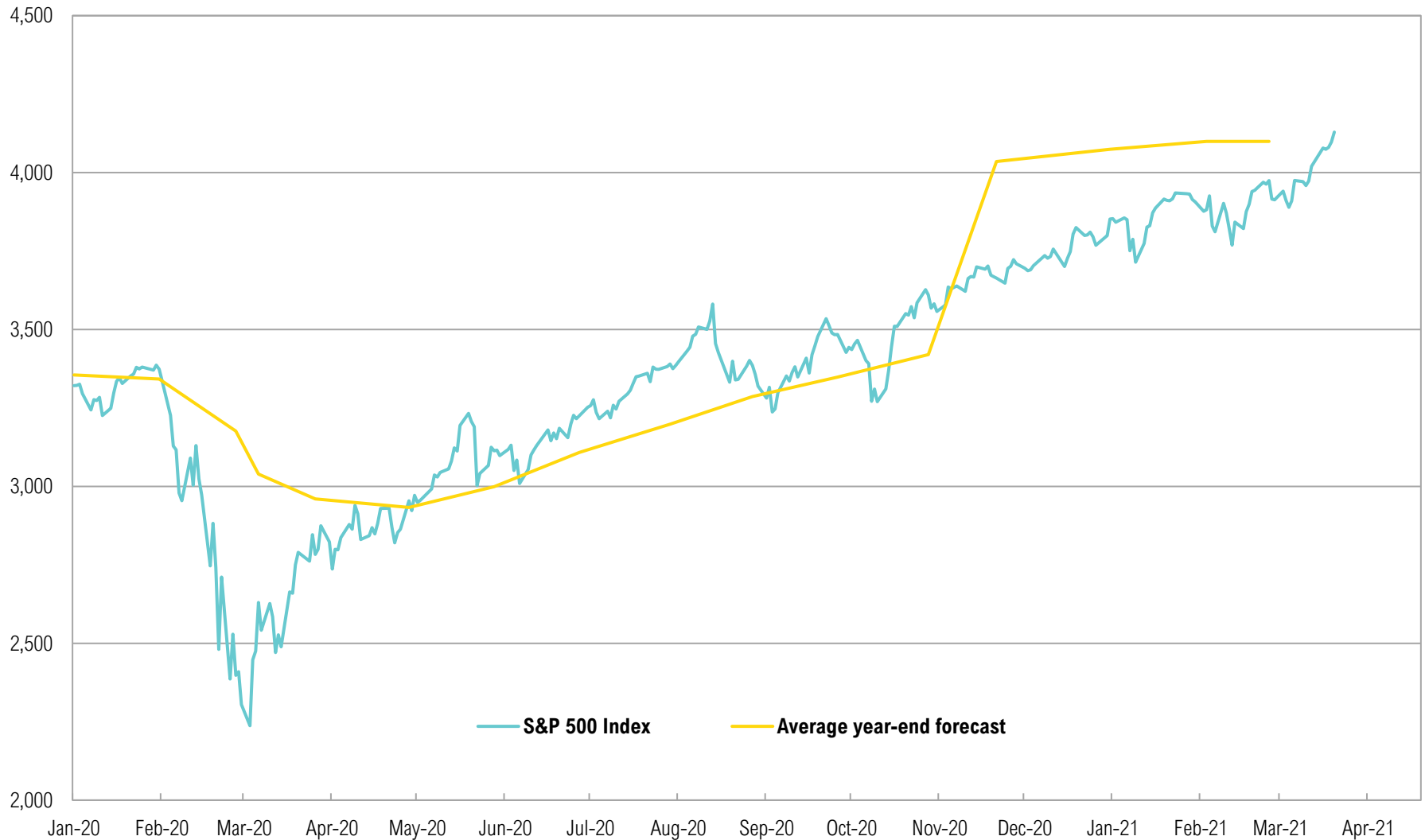
### IMPLIED VOLATILITY INDEX (VIX)



# S&P 500 Already Ahead of Year-End Targets

S&P 500 INDEX & AVERAGE YEAR-END FORECASTS, AS OF 4/9/2021

12-Month Forward P/E Ratio



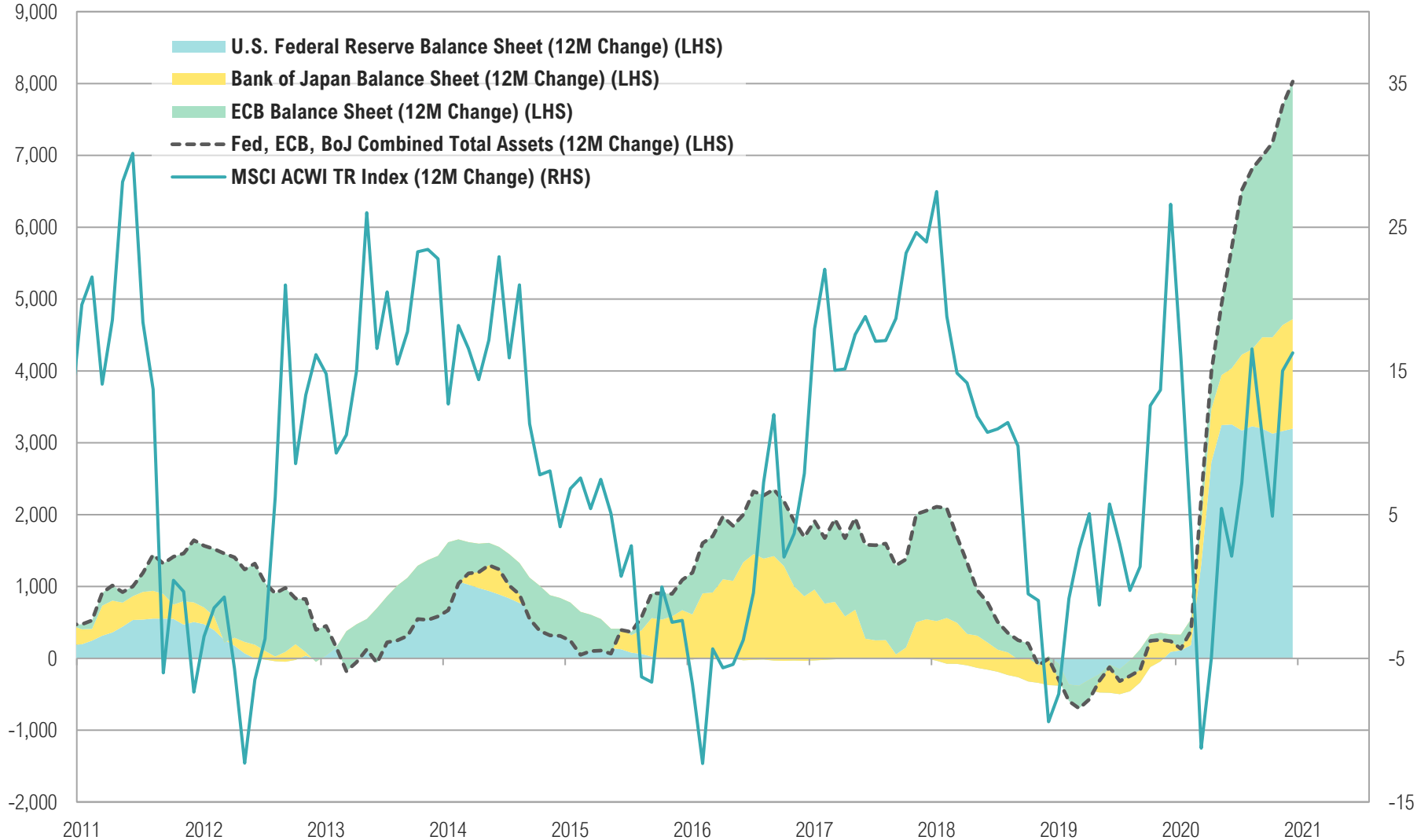
Source: Bloomberg

# Central Bank Balance Sheets and Global Stocks

CENTRAL BANK BALANCE SHEETS 12-MONTH CHANGE VS. MSCI ACWI Y/Y % CHANGE, 1/1/2011 – 12/31/2020

Balance Sheet 12-Month Change, \$Bn

MSCI ACWI Y/Y, %

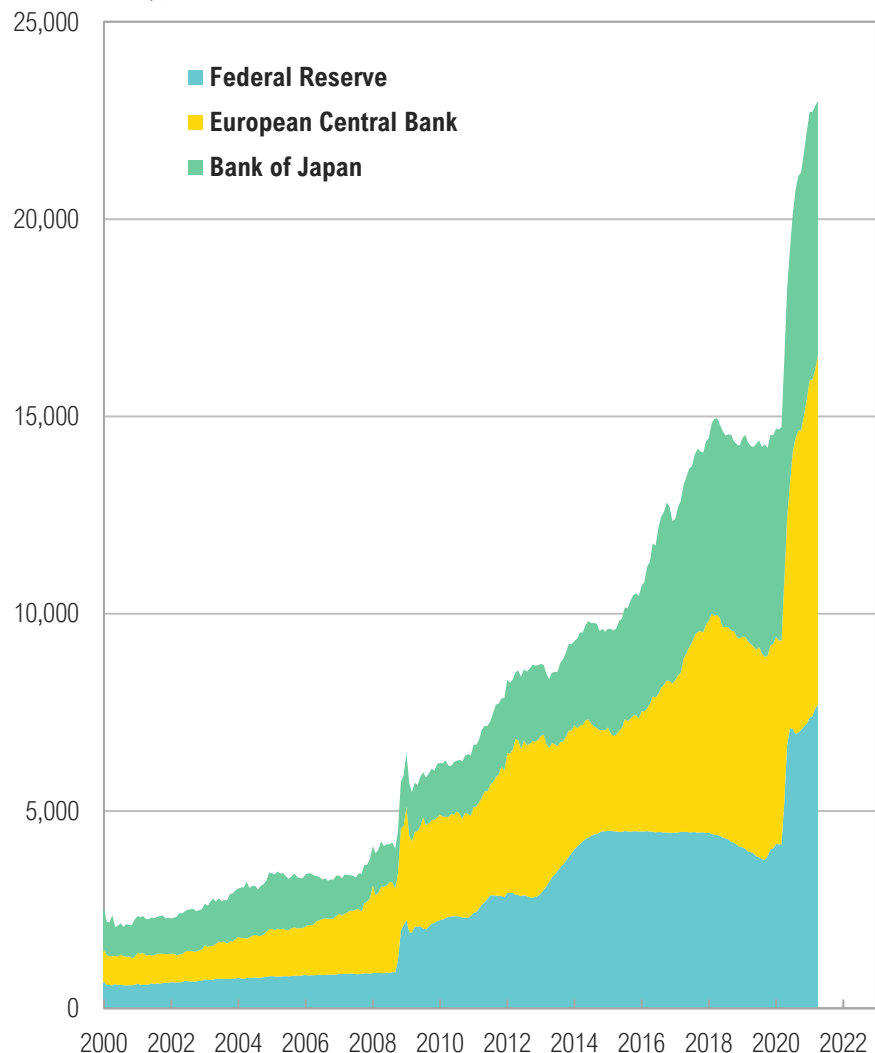


Source: Bloomberg, SpringTide calculations

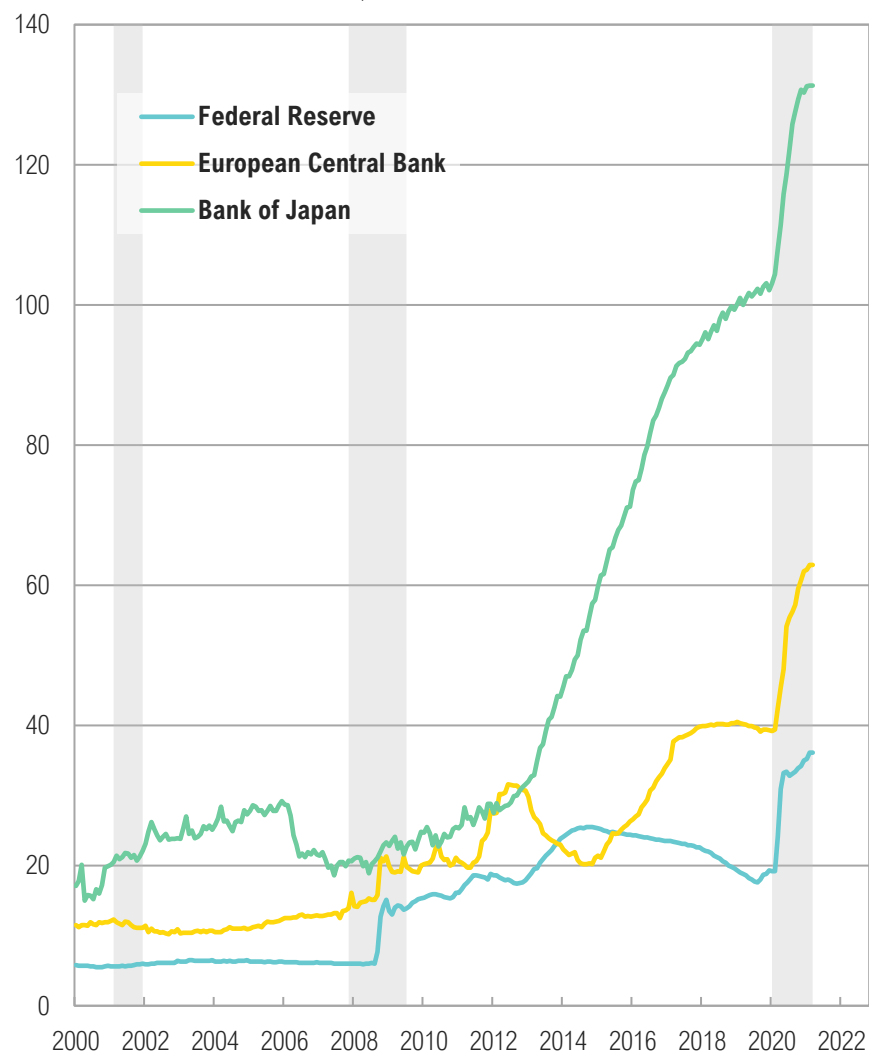
# The Fed Can Provide More Stimulus Relative to Other Central Banks

CENTRAL BANK BALANCE SHEETS (LHS), CENTRAL BANK BALANCE SHEETS AS % OF GDP (RHS), 1/1/2000 – 3/31/2021

Balance Sheet, \$Bn



Central Bank Balance Sheet to GDP, %



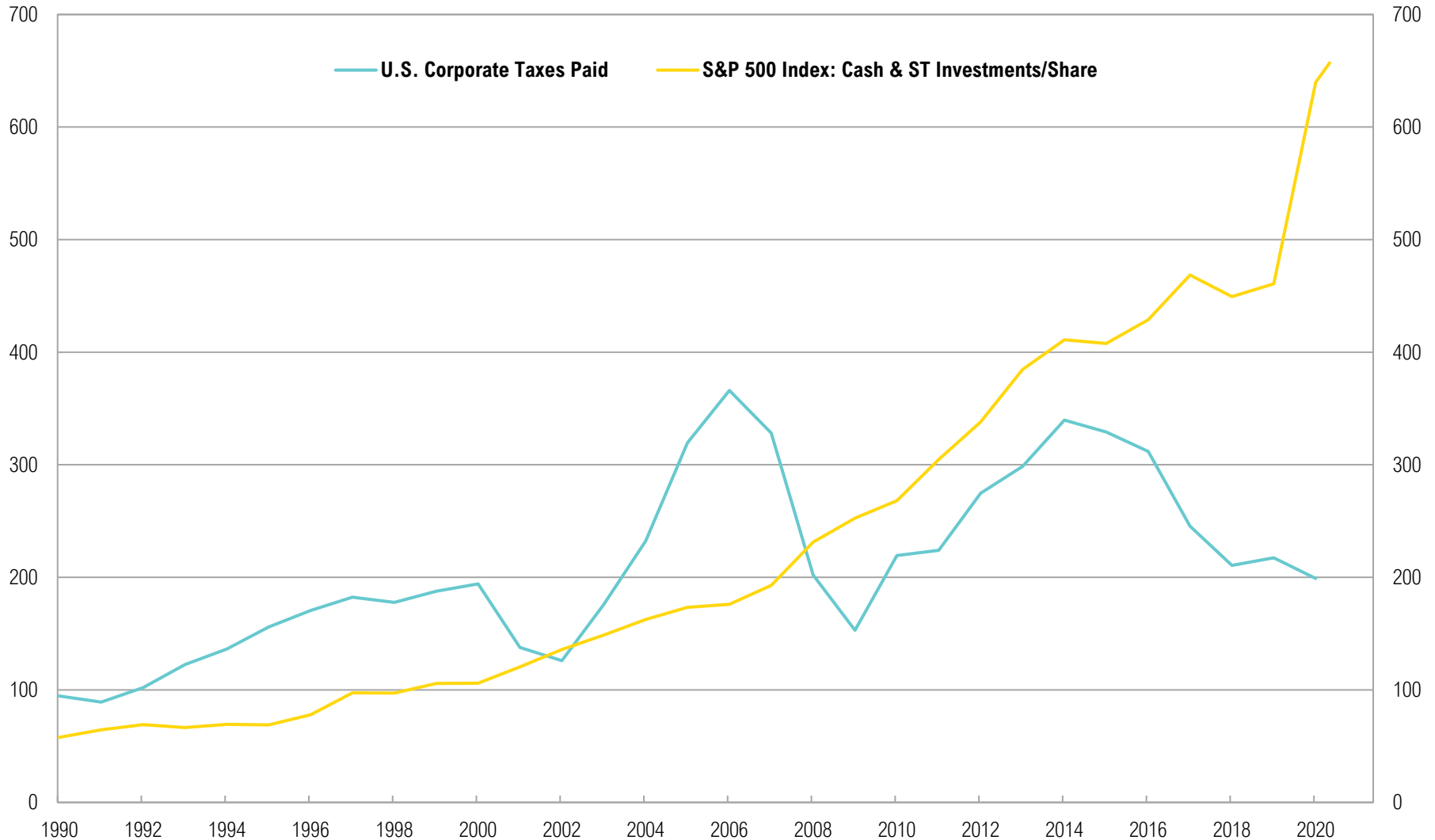
Source: Bloomberg

# U.S. Corporations Are Sitting With Record Cash on Balance Sheets

U.S. CORPORATE TAXES PAID & S&P 500 INDEX CASH AND SHORT-TERM INVESTMENTS PER SHARE, 12/31/1990 – 4/26/2021

U.S. Corporate Taxes Paid, \$Bn

S&P 500 Cash & Short-Term Investments, \$/Share

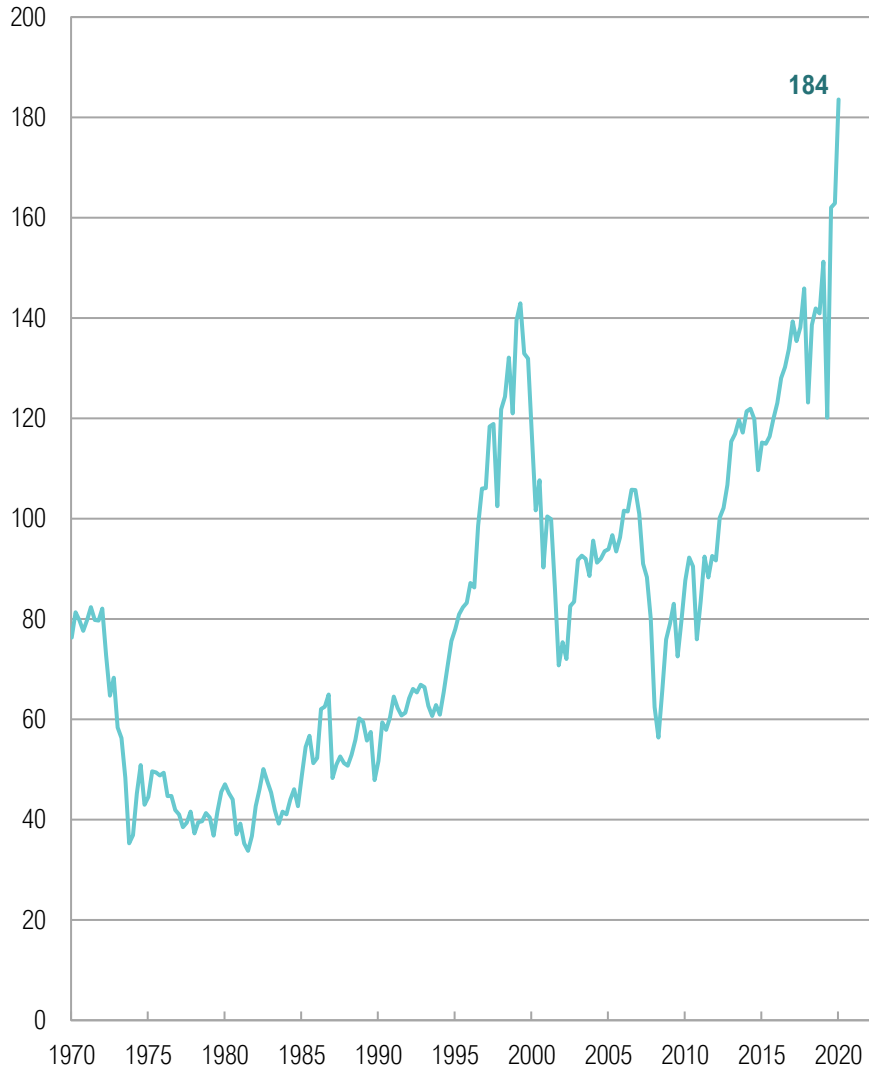


Source: Bloomberg

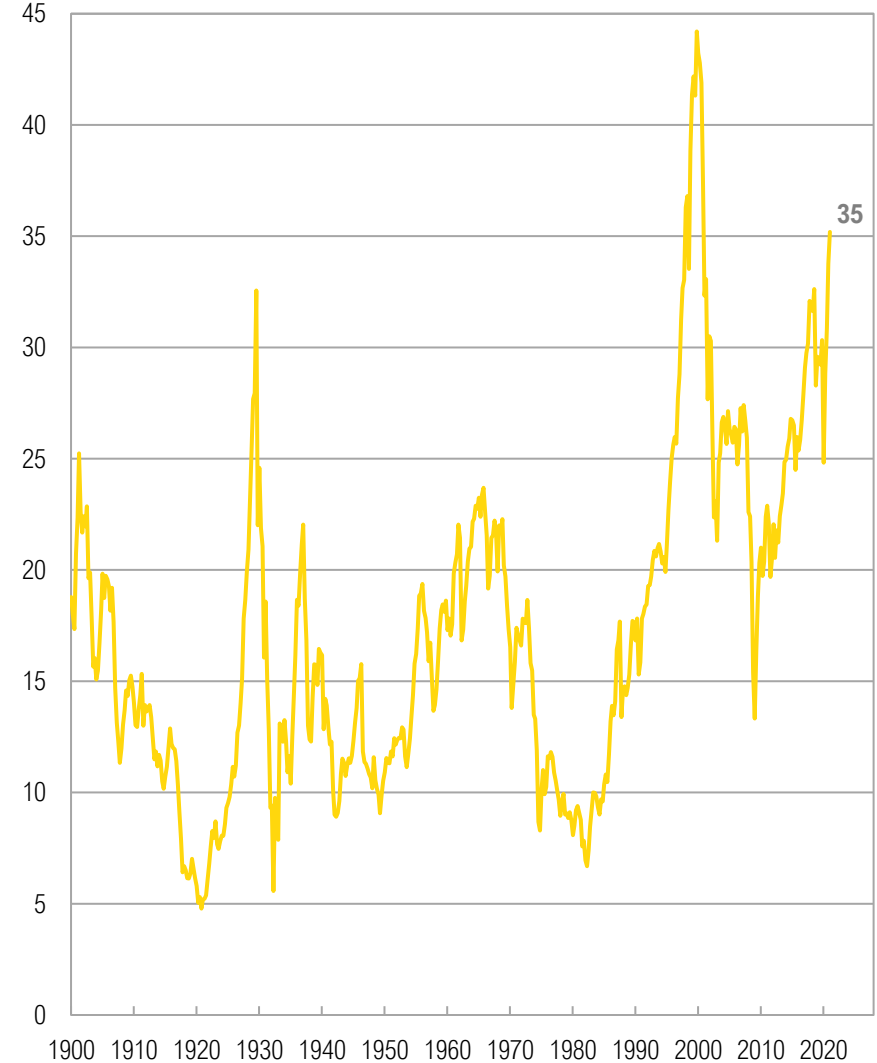
# U.S. Stocks Are Expensive by Many Measures pt.1

U.S. MARKET CAP/ GDP\* (LHS) & CAPE RATIO (RHS), AS OF 3/31/2021

U.S. Market Cap/ GDP, %



Cyclically Adj. P/E (CAPE) Ratio



Source: Bloomberg, Shiller, FRED

\*U.S. Market Cap is represented by the Wilshire 5000 Full Cap Price Index. Data as of 12/31/2020.

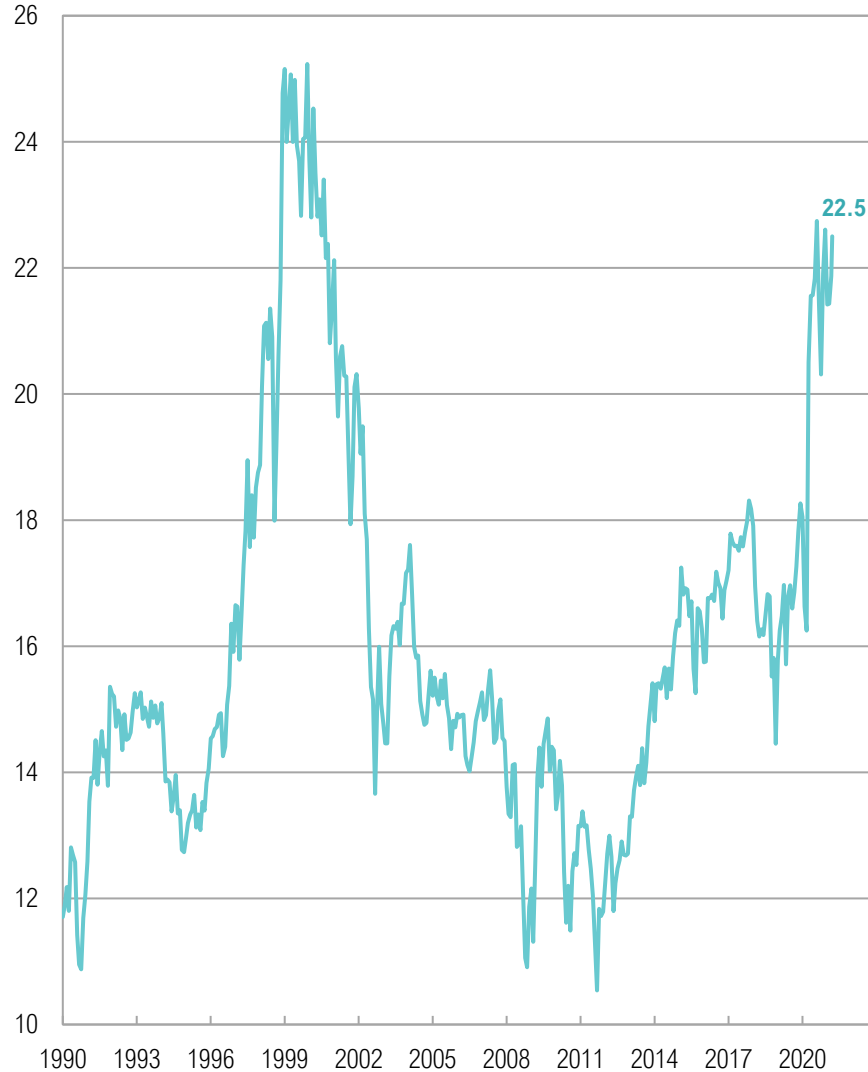
**Q2, 2021 Market Outlook**

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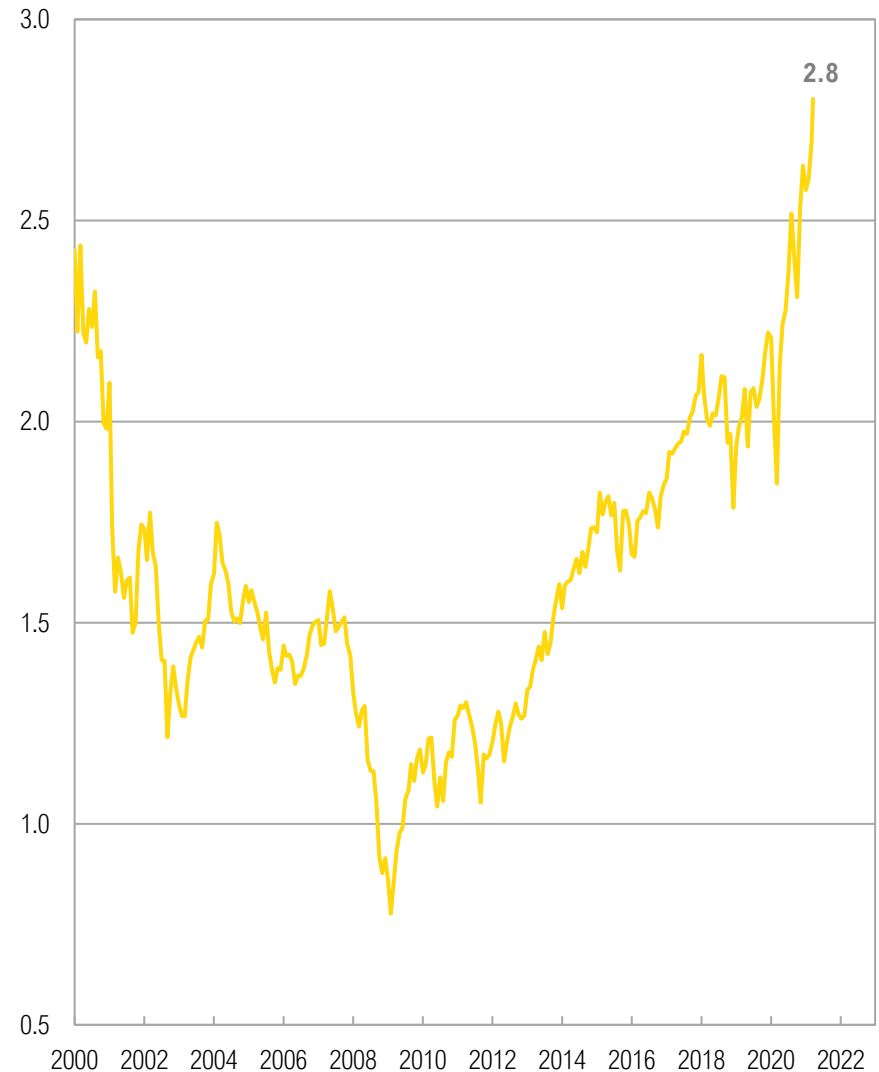
# U.S. Stocks Are Expensive by Many Measures pt.2

S&P 500 12-MONTH FORWARD P/E RATIO (LHS) & S&P 500 12-MONTH FORWARD P/S RATIO (RHS), AS OF 4/15/2021

12-Month Forward P/E Ratio



12-Month Forward P/S Ratio



Source: Bloomberg

# Record Levels of Margin Debt

FINRA REPORTED MARGIN BALANCES IN SECURITIES ACCOUNTS, AS OF 3/31/2021

Reported Margin Debt Balance, \$Bn

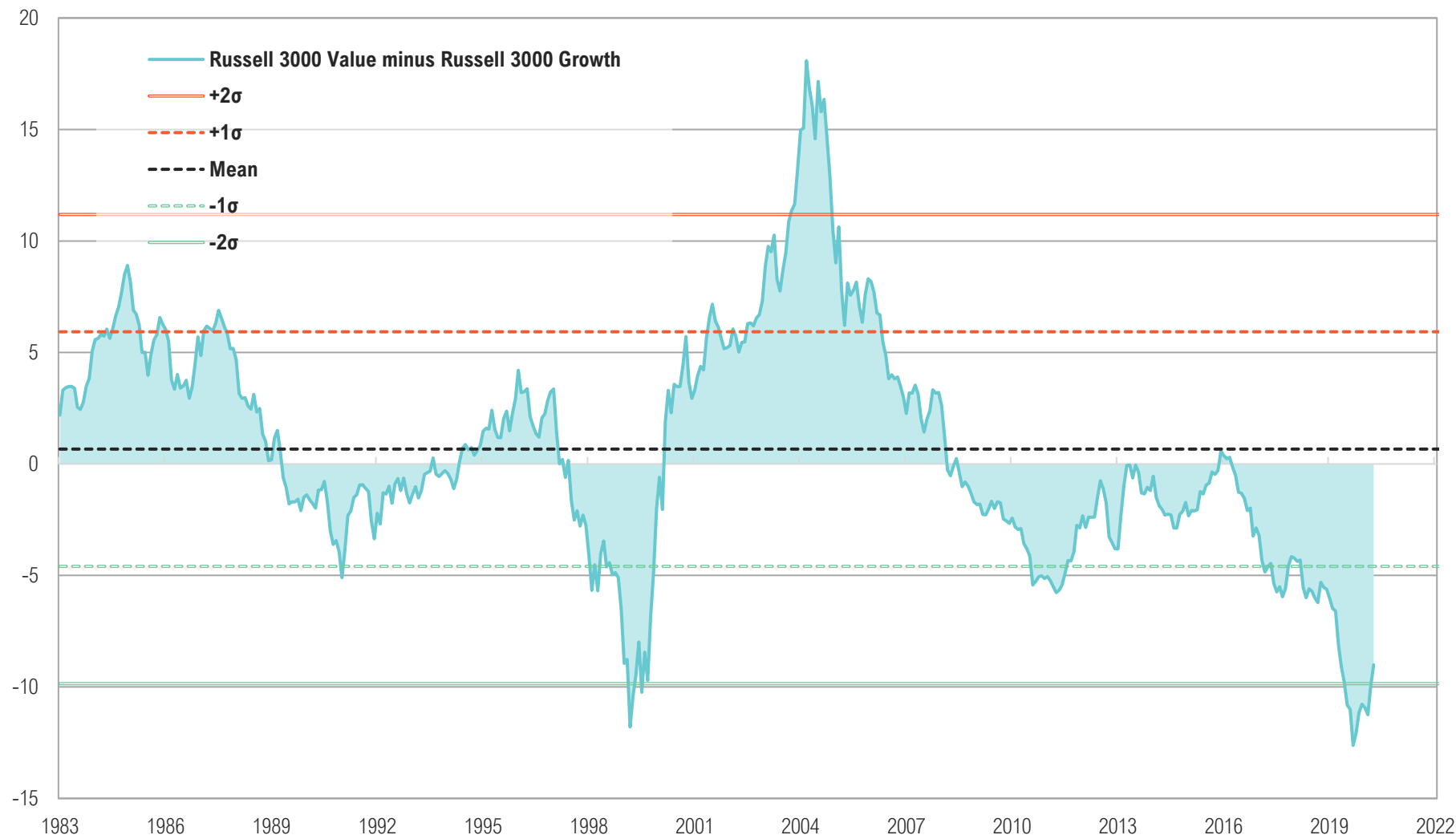


Source: FINRA

# Value is Starting to Outperform Growth, Still Near Relative Extreme

SPREAD: RUSSELL 3000 VALUE VS. RUSSELL 3000 GROWTH, 12/31/1983 – 3/31/2021

Rolling 5-Year Annualized Total Return Spread

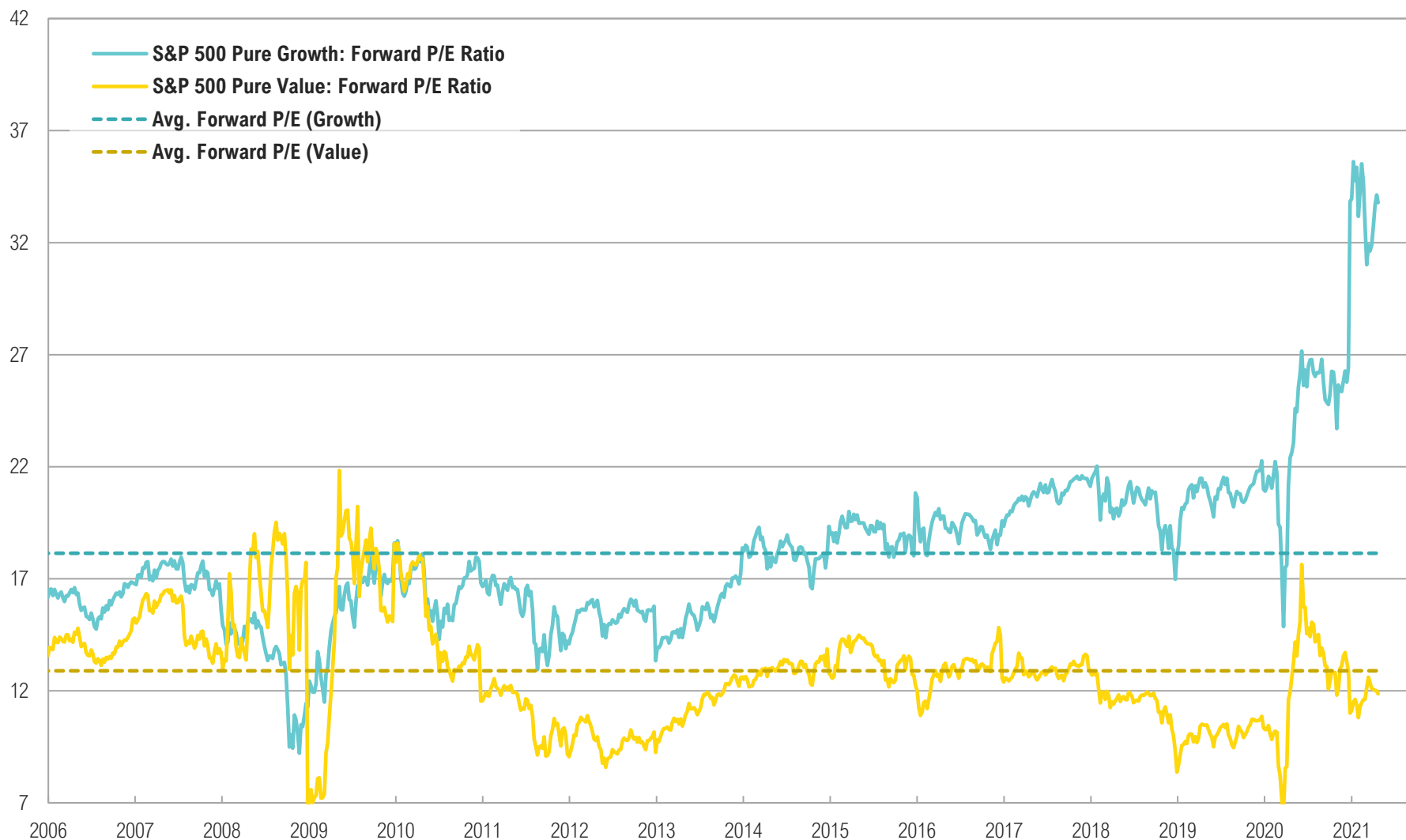


Source: Bloomberg

# U.S. Growth Stocks Substantially More Expensive than Value Relative to Earnings

S&P 500 PURE GROWTH INDEX VS. S&P PURE VALUE INDEX FORWARD P/E RATIOS, 12/31/2005 – 4/22/2021

Forward P/E Ratio



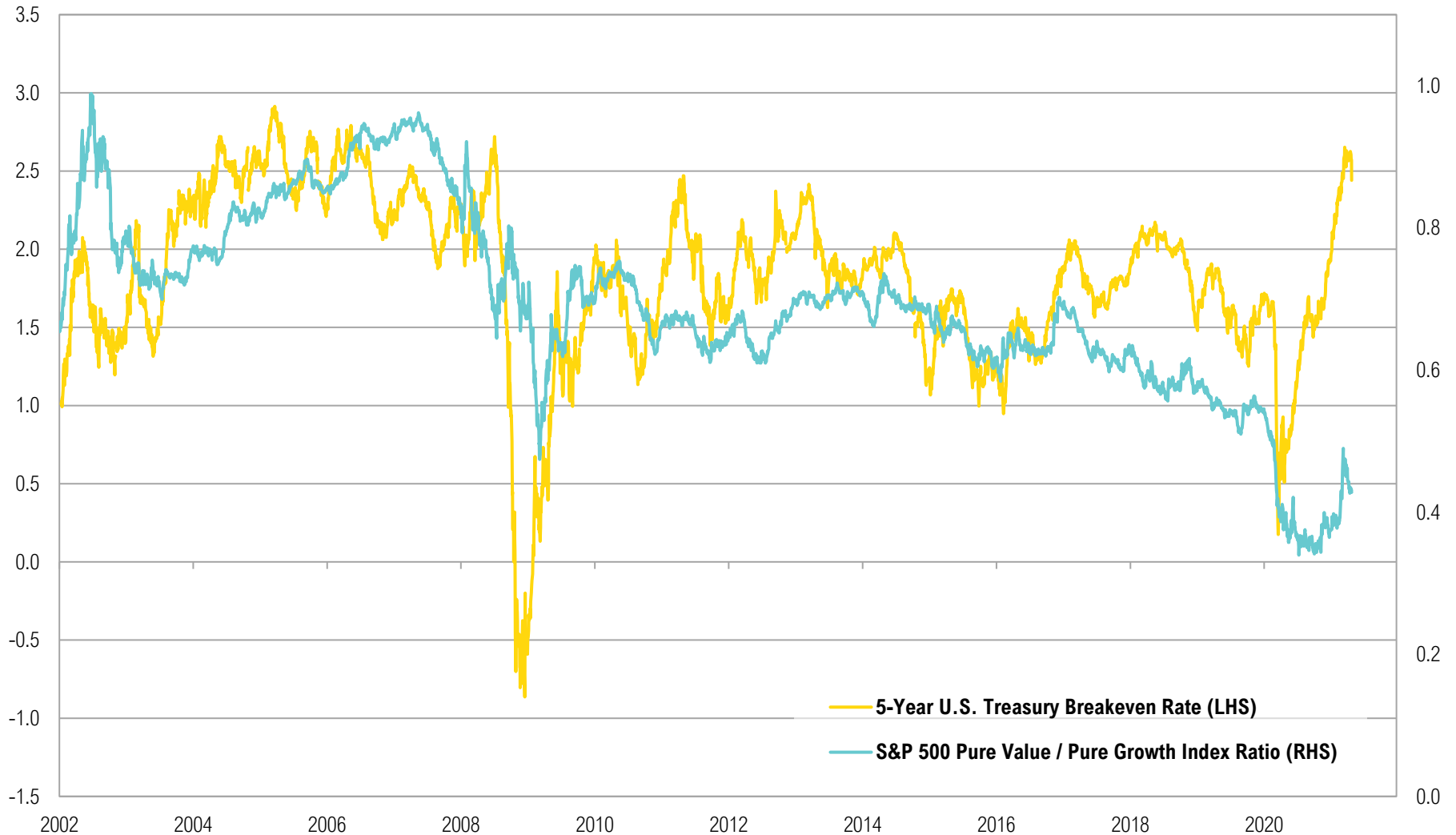
Source: Bloomberg

# Value Stocks Have Benefited From Rising Inflation Expectations

S&P 500 PURE VALUE INDEX/ S&P 500 PURE GROWTH INDEX VS. 5-YR UST BREAKEVEN INFLATION RATE, 1/1/2002 – 4/23/2021

5-Year U.S. Treasury Breakeven Inflation Rate, %

Ratio: Value/Growth

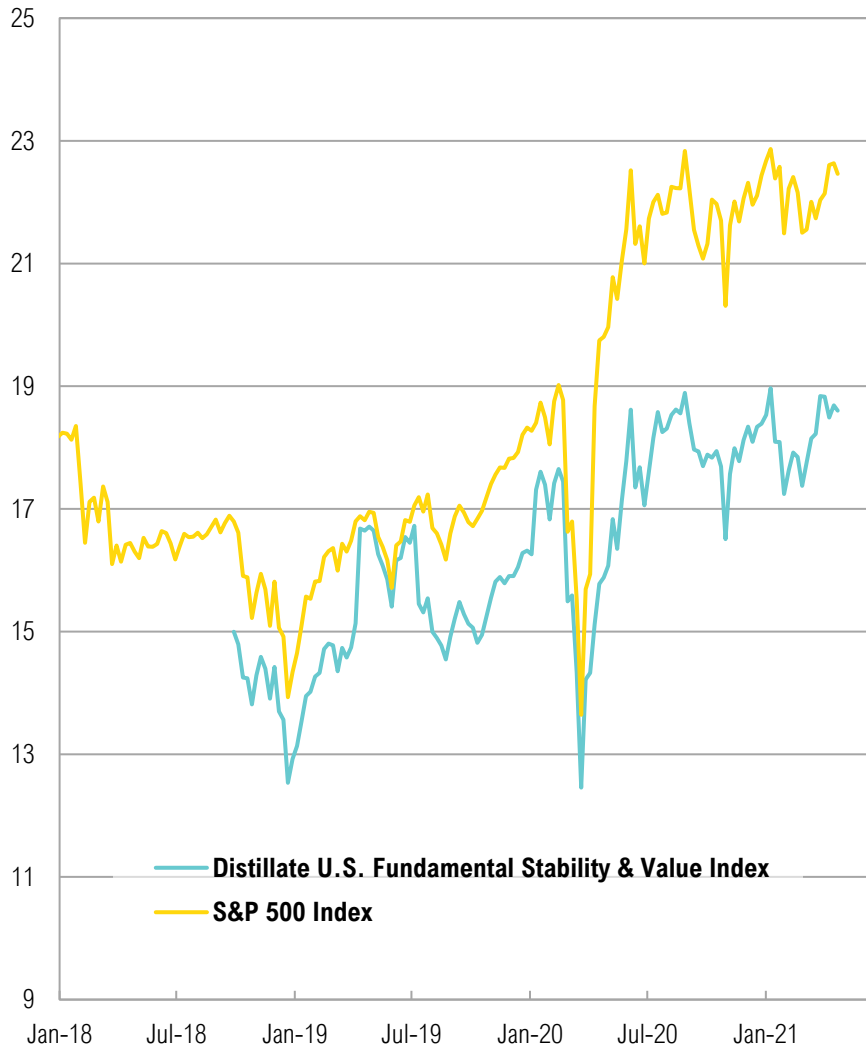


Source: Bloomberg

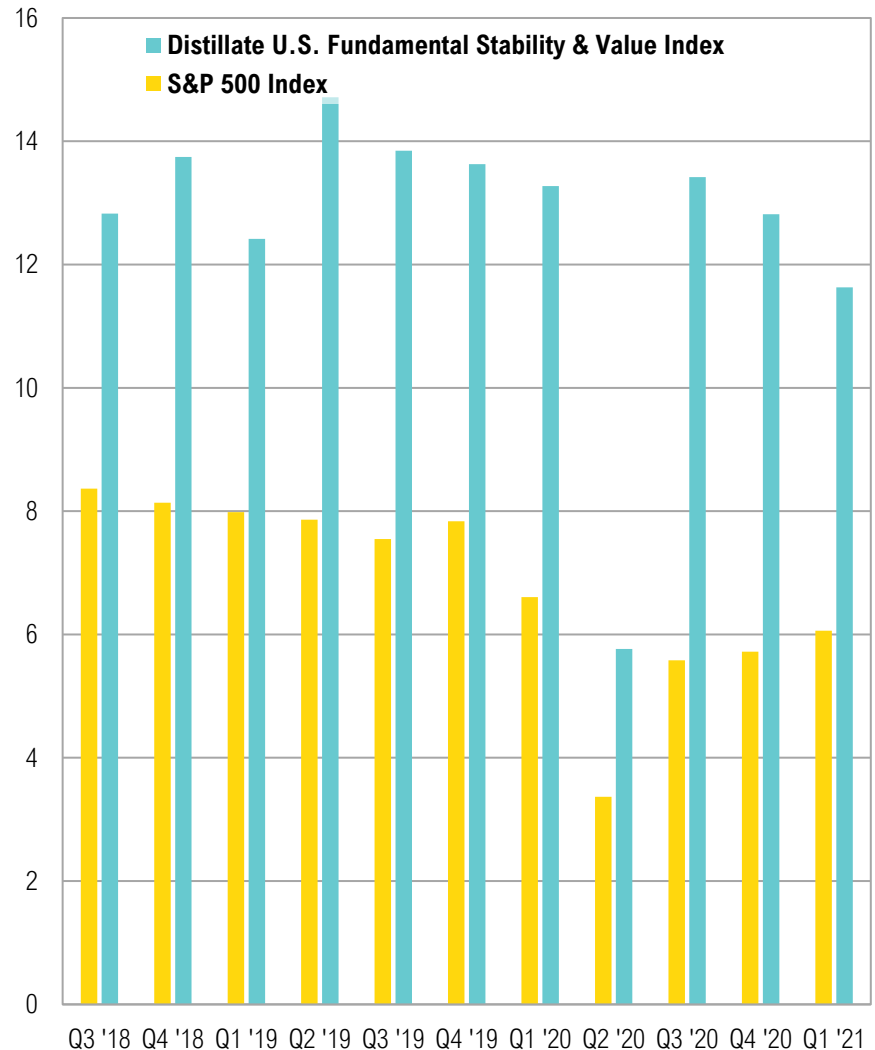
# Reducing Risk in U.S. Large Cap Stocks

DISTILLATE U.S. FSV INDEX VS. S&P 500 INDEX: FORWARD P/E (LHS) & RETURNS ON CAPITAL (RHS), AS OF 3/31/2021

12-Month Forward P/E Ratio



Underlying Returns on Capital, %

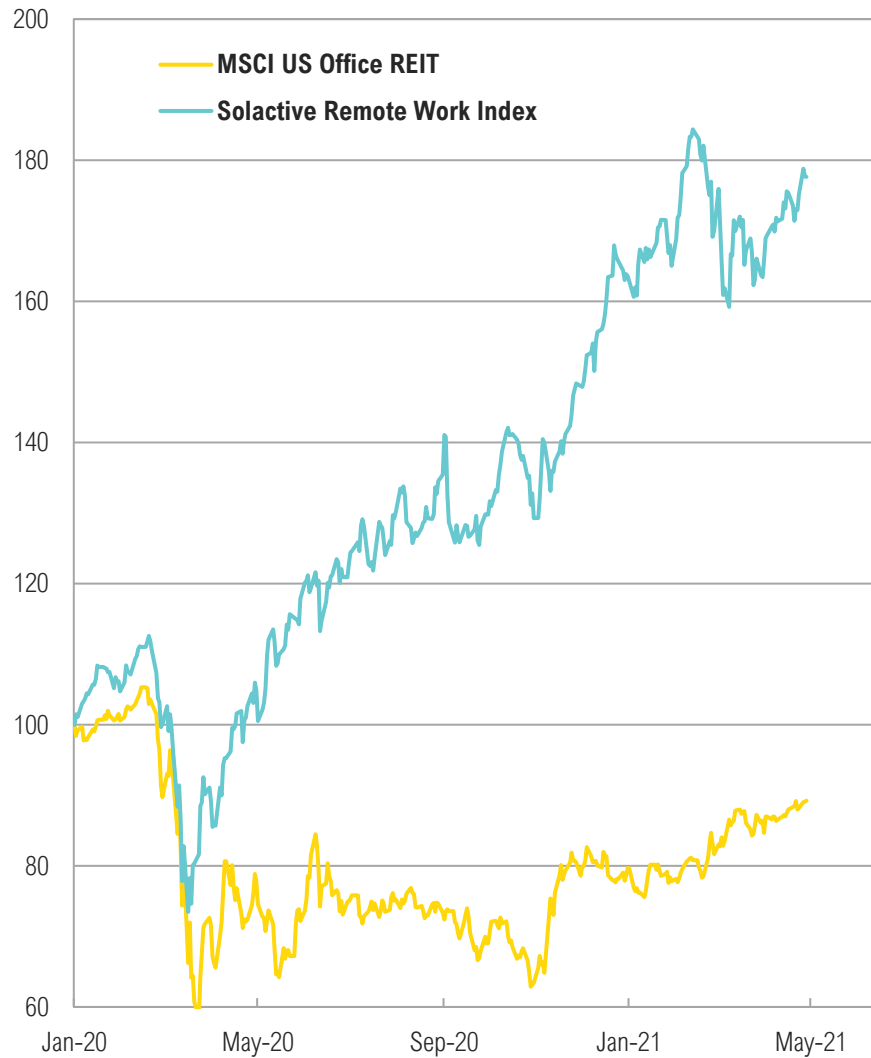


Source: Bloomberg

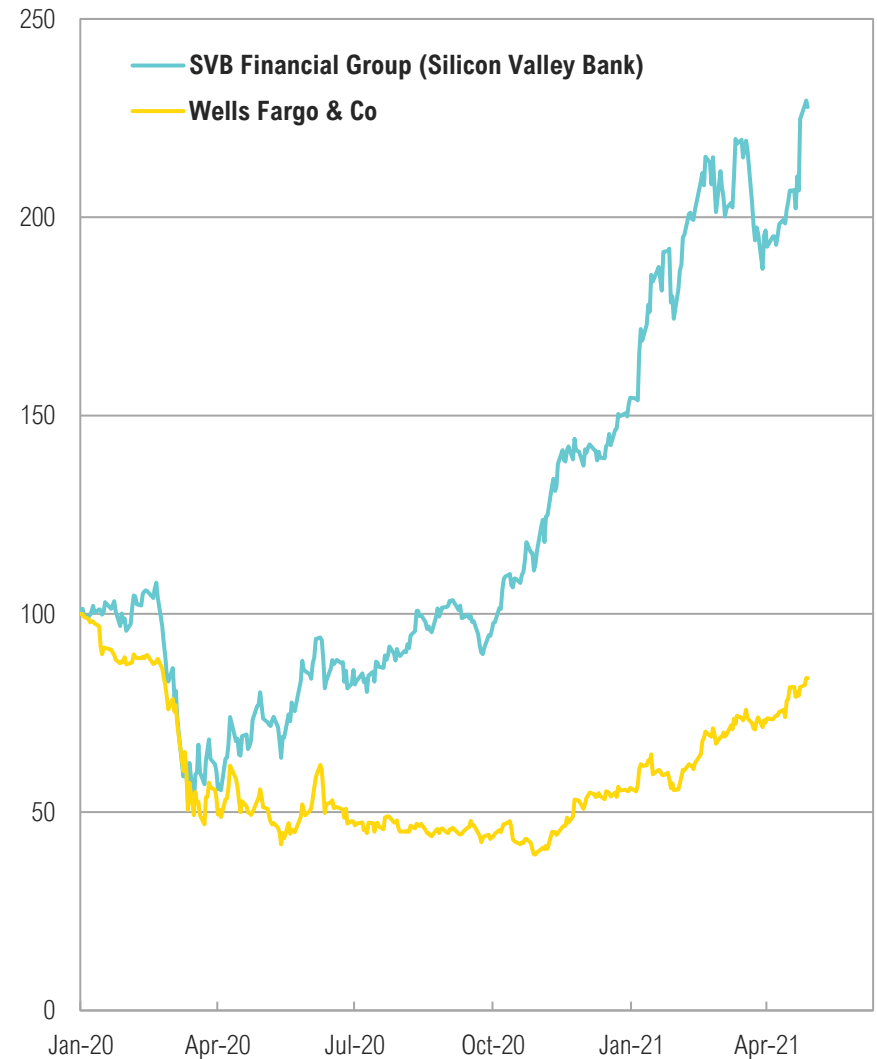
# Winners vs. Losers or Redefining “Normal”?

GROWTH OF 100 COMPARISONS FOR SELECT COMPANIES/ INDICES, 1/1/2020 - 4/28/2021

Growth of 100



Growth of 100

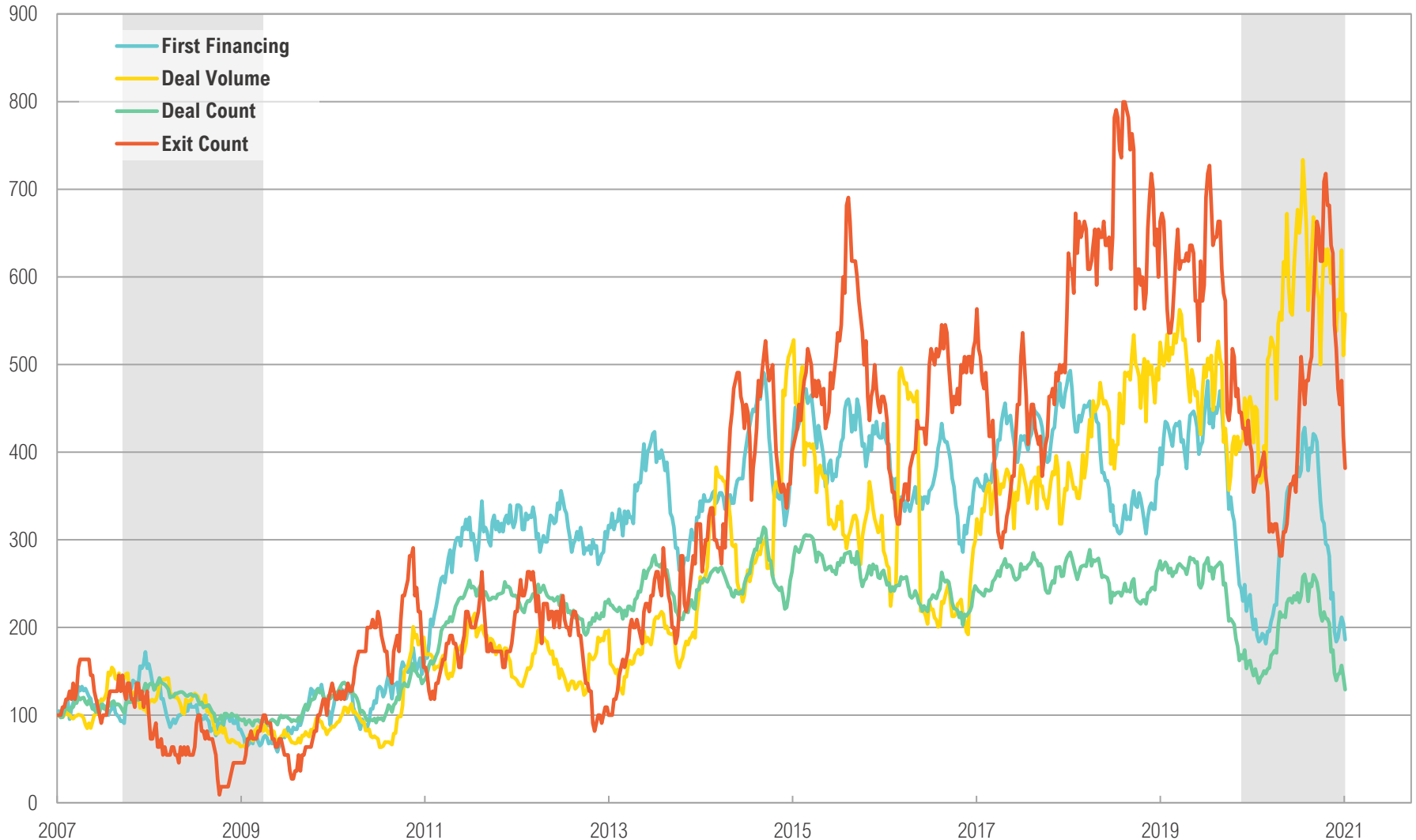


Source: Bloomberg

# Modest Activity Hangover in Venture, But Not Concerning Yet

U.S. STARTUP (VENTURE CAPITAL) INDICES, 4/9/2007 – 4/12/2021

U.S. Startup Barometers, Growth of 100



Source: Bloomberg

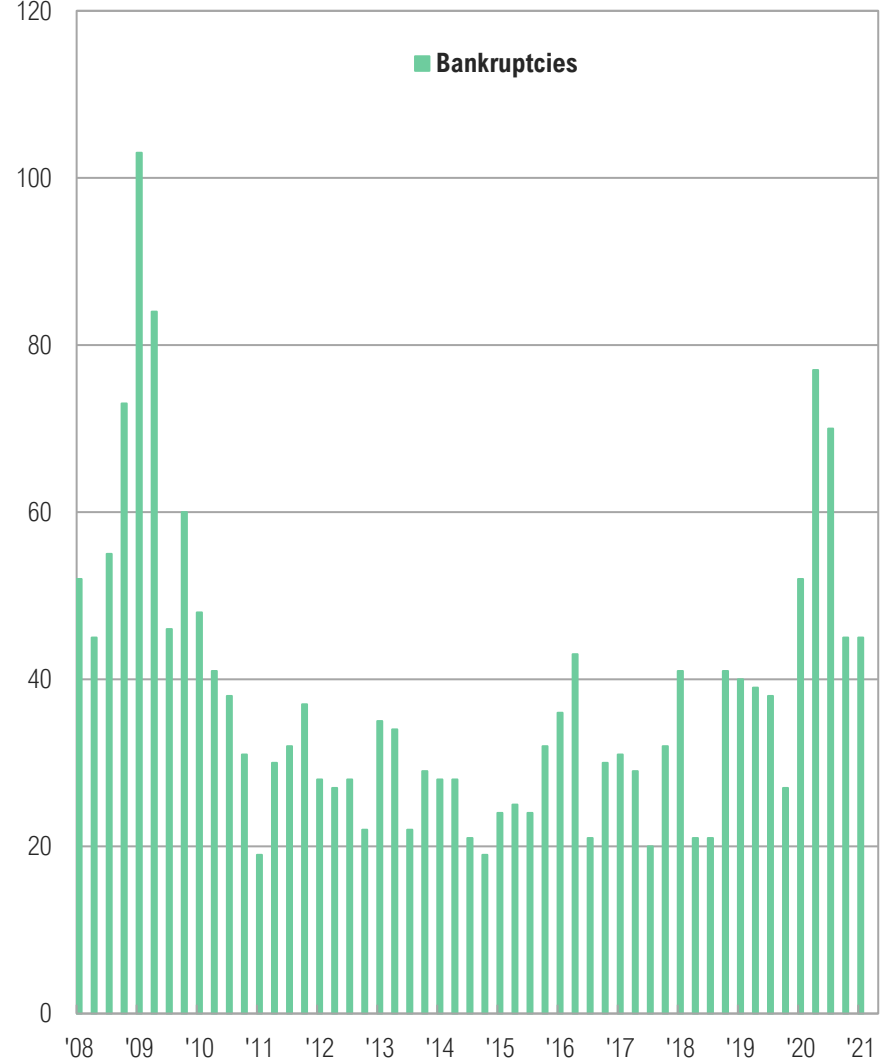
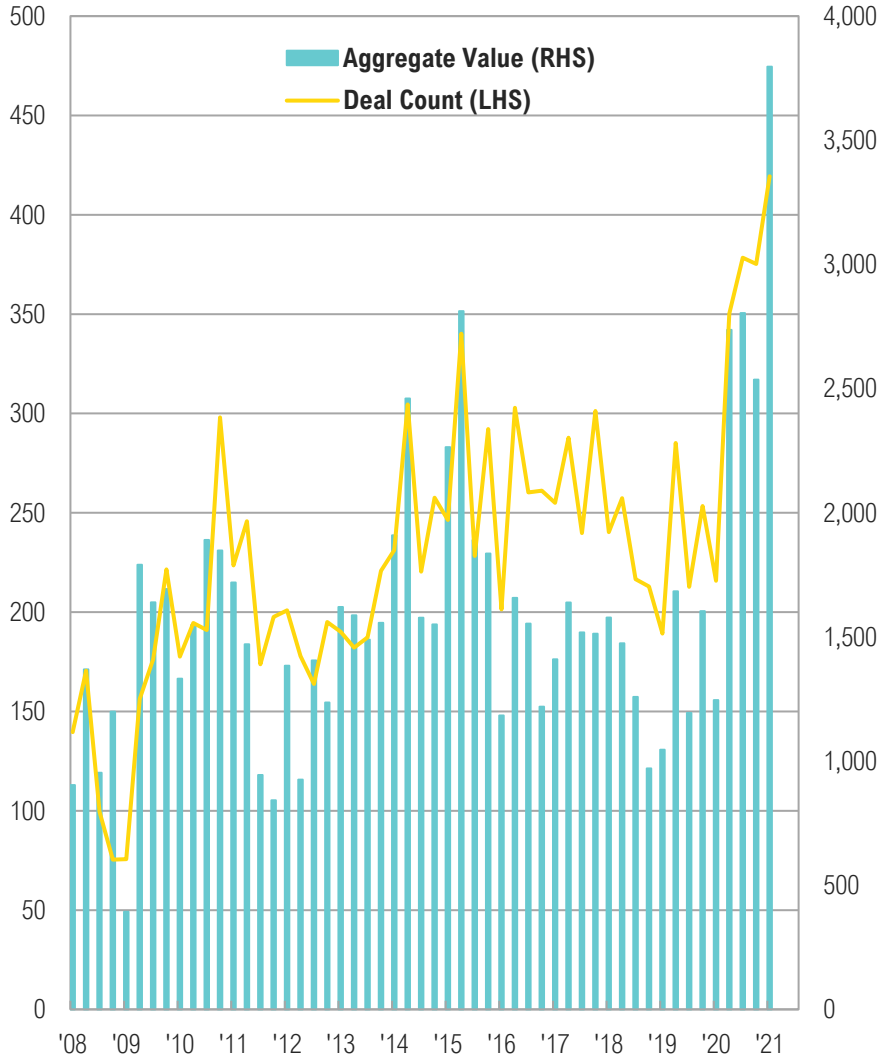
# IPOs vs. Bankruptcies

IPOs & EQUITY OFFERINGS (LHS) VS. NUMBER OF BANKRUPTCY FILINGS (RHS), AS OF 3/31/2021

Aggregate Deal Value Announced, \$Bn

Total Deals Announced

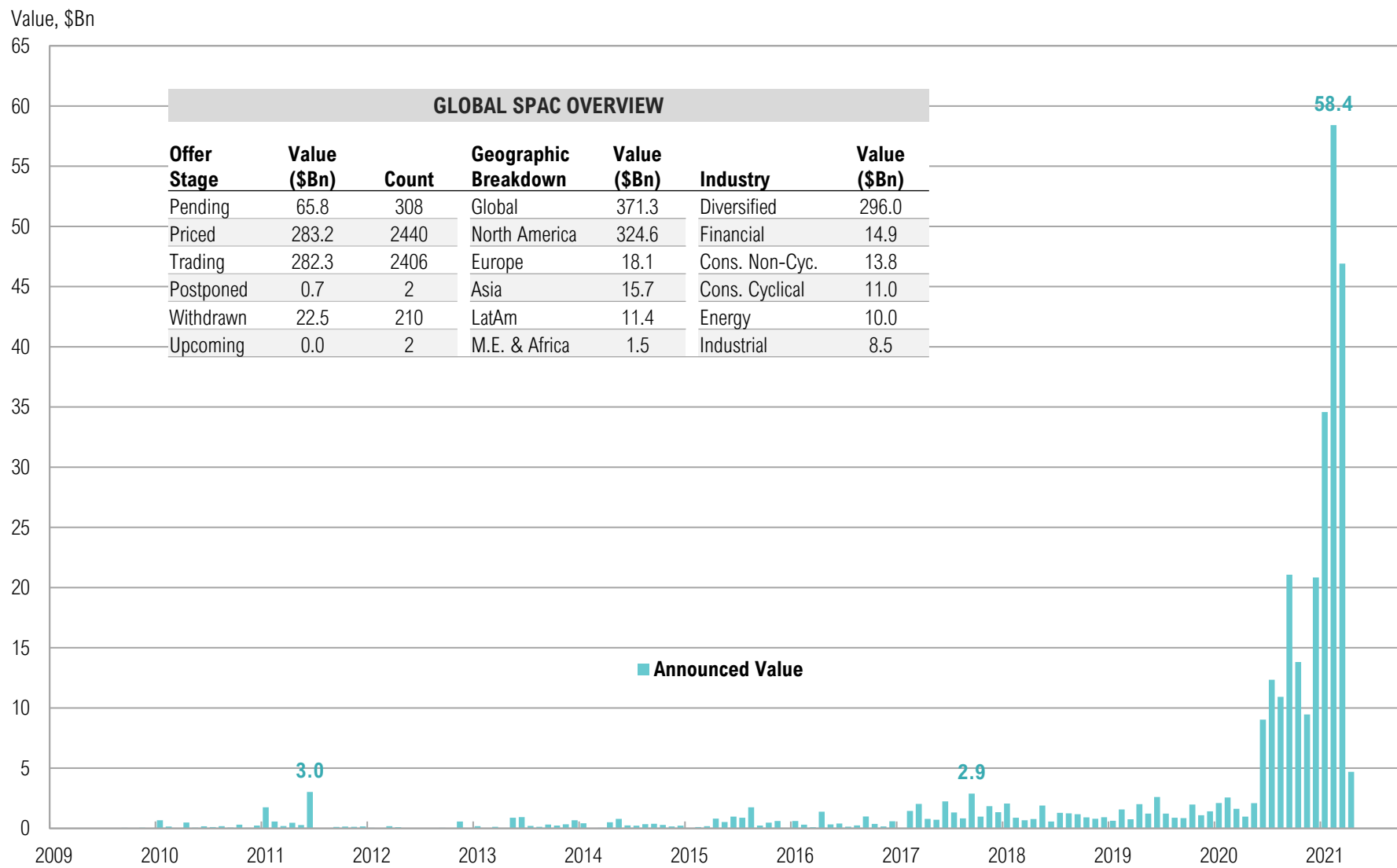
Total Bankruptcies



Source: Bloomberg

# SPAC Announced Deals

MONTHLY VALUE OF ANNOUNCED SPAC DEALS, AS OF 4/14/2020

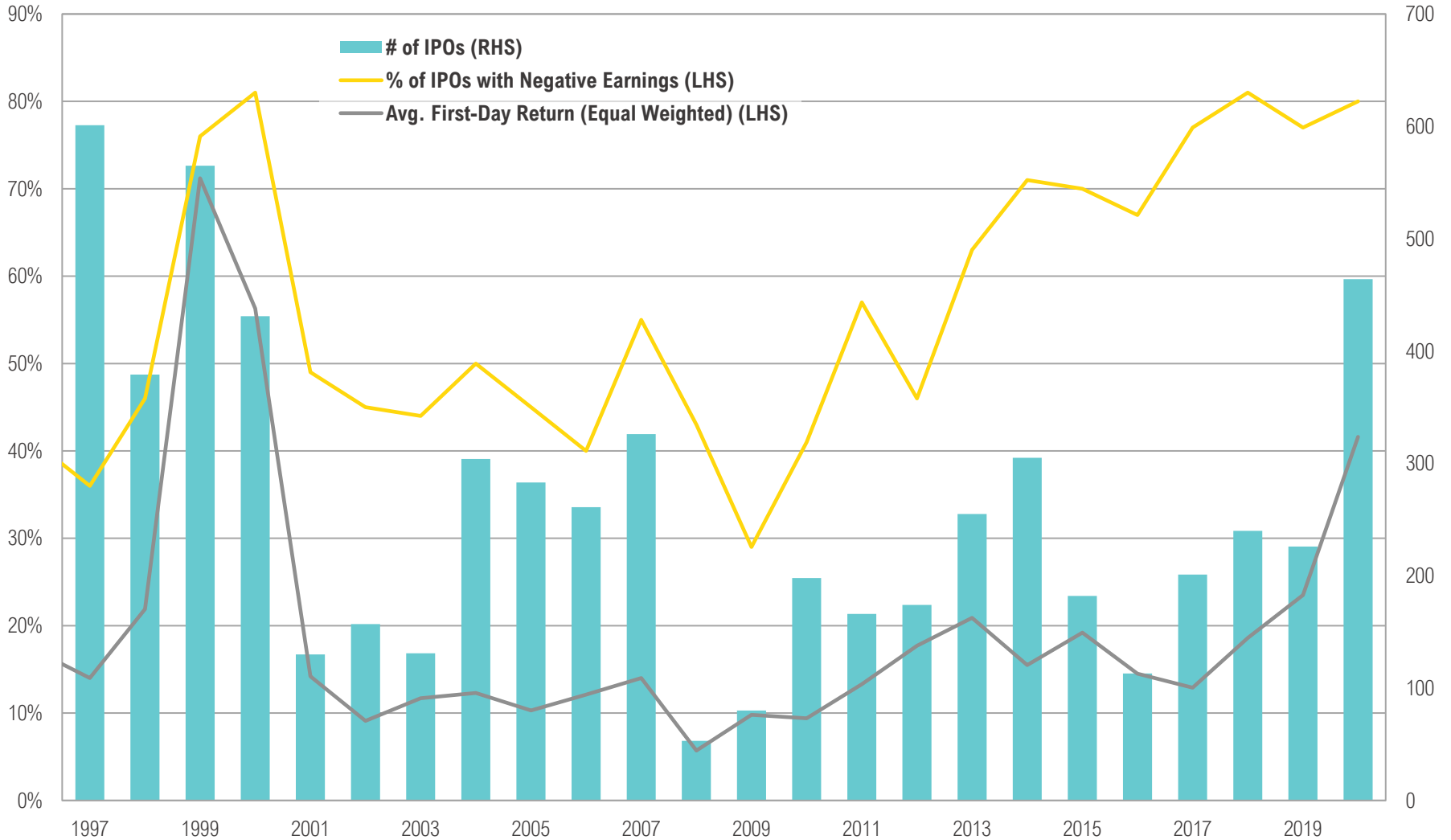


Source: Bloomberg

# Lack of Profits was Not an Issue for Investors in 2020

PERCENTAGE OF IPOs WITH NEGATIVE EARNINGS & AVG. FIRST-DAY RETURN (LHS), NUMBER OF IPOs (RHS), 1997 - 2020

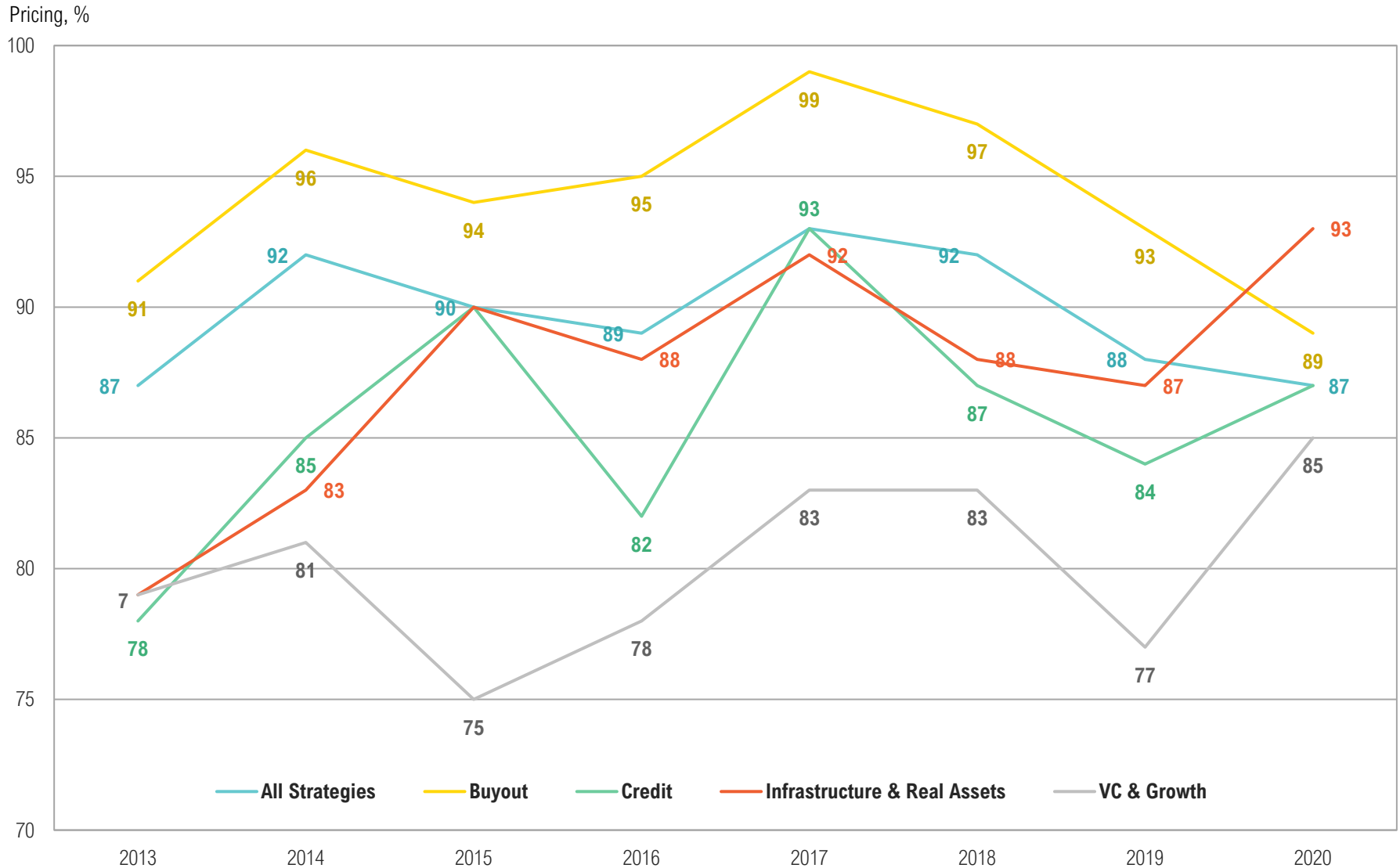
IPOs with Negative Earnings & Avg. First-Day Return (%)



Source: University of Florida (Jay Ritter)

# Buyout & Venture Secondaries Remain Attractive

SECONDARY PRICING: PERCENTAGE OF NET ASSET VALUE, 2013 - 2020



Source: Greenhill

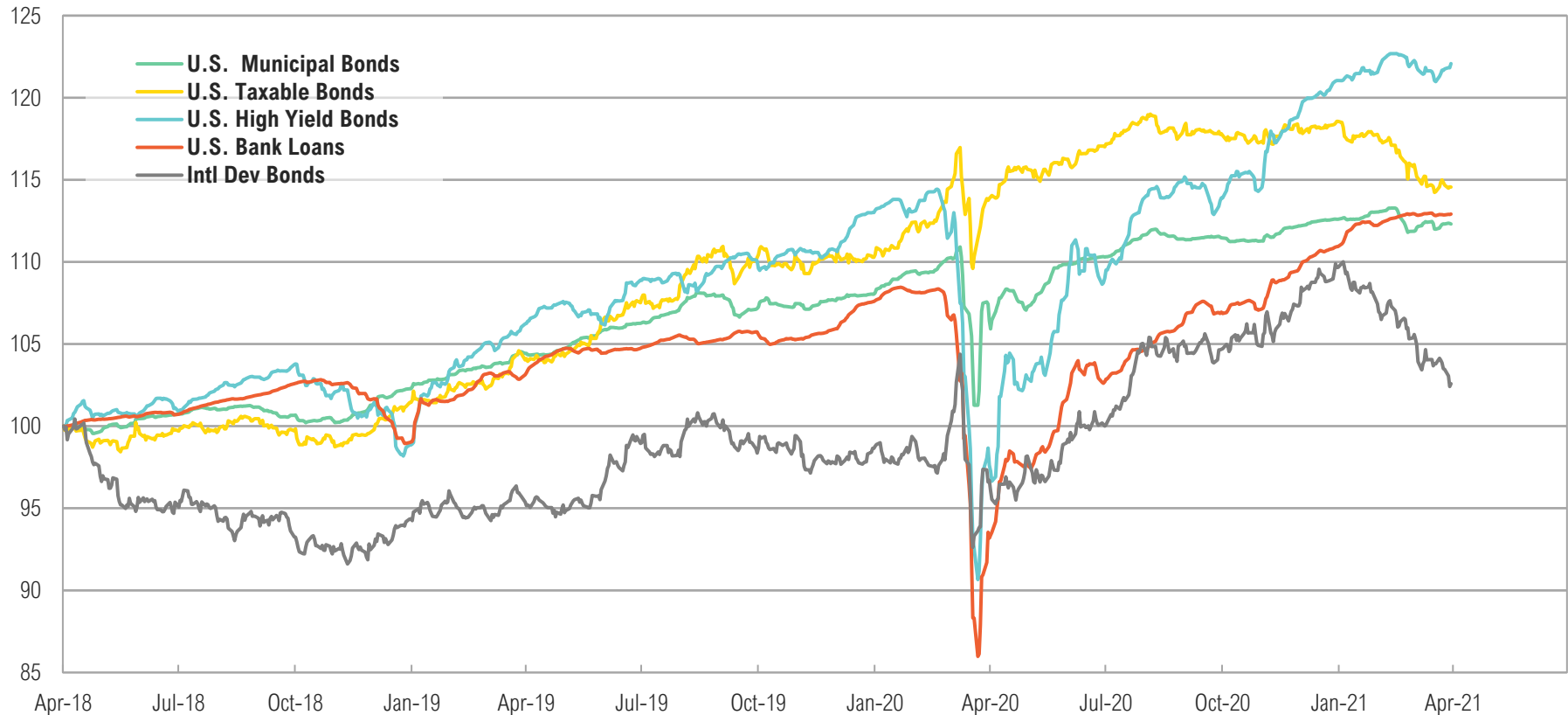
“*MMT teaches us that if we have the real resources we need—that is, if we have the building materials to fix our infrastructure, if we have people who want to become doctors, nurses, and teachers, if we can grow all the food we need—then the money can always be made available to accomplish our goals. That is the beauty of a sovereign currency.*”

**Stephanie Kelton**, *The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy*

# Fixed Income & Credit Returns

CALENDAR YEAR & TRAILING TOTAL RETURNS, AS OF 3/31/2021

Growth Index, 3 Years



Asset Class	Benchmark	QTD	YTD	2020	2019	2018	2017	2016	1-Yr	3-Yr	5-Yr	10-Yr
U.S. Municipal Bonds	BBgBarc Municipal 1-10Y Blend 1-12Y TR	-0.3	-0.3	4.2	5.6	1.6	3.5	-0.1	4.5	4.0	2.7	3.2
U.S. Taxable Bonds	BBgBarc US Agg Bond TR	-3.4	-3.4	7.5	8.7	0.0	3.5	2.6	0.7	4.7	3.1	3.4
U.S. High Yield Bonds	BBgBarc US Corporate High Yield TR	0.8	0.8	7.1	14.3	-2.1	7.5	17.1	23.7	6.8	8.1	6.5
U.S. Bank Loans	S&P/LSTA Leveraged Loan TR	1.8	1.8	3.1	8.6	0.4	4.1	10.2	20.7	4.1	5.3	4.3
Intl Dev Bonds	S&P International Sov Ex-US Bond TR	-6.5	-6.5	11.2	4.6	-2.3	11.3	1.6	6.2	0.9	2.0	1.4

Source: Bloomberg

Returns for periods greater than one year are annualized.

## Q2, 2021 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

# Fixed Income & Credit Summary

## COMMENTARY & MARKET DATA

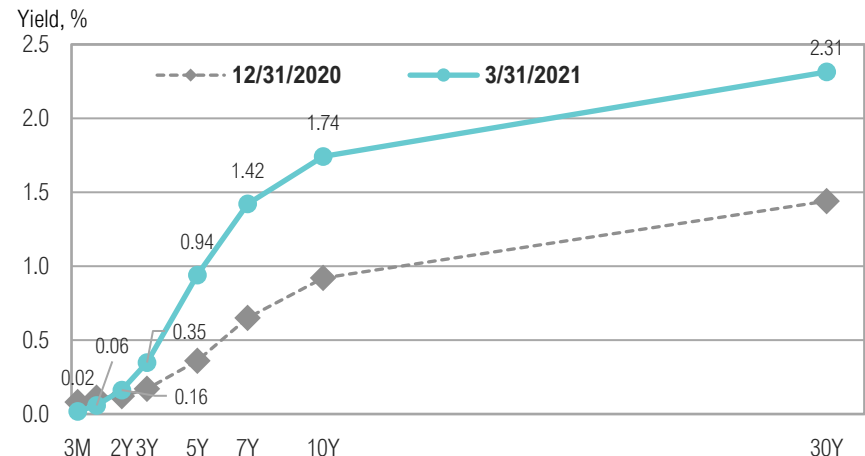
### FIXED INCOME/ RATES

- *Short-term rates will remain low for the foreseeable future.*
- *The Fed's new, somewhat opaque approach to generating inflation adds insult to injury for fixed income investors with low-risk thresholds, substantially raising the risk of negative real yields.*
- *U.S. Treasury yields may rise as a result of massive government spending, but a structural ceiling on developed market rates from demographics and debt overhang will likely not get overcome until persistent MMT-inspired stimulus via some form of ongoing Universal Basic Income (UBI).*

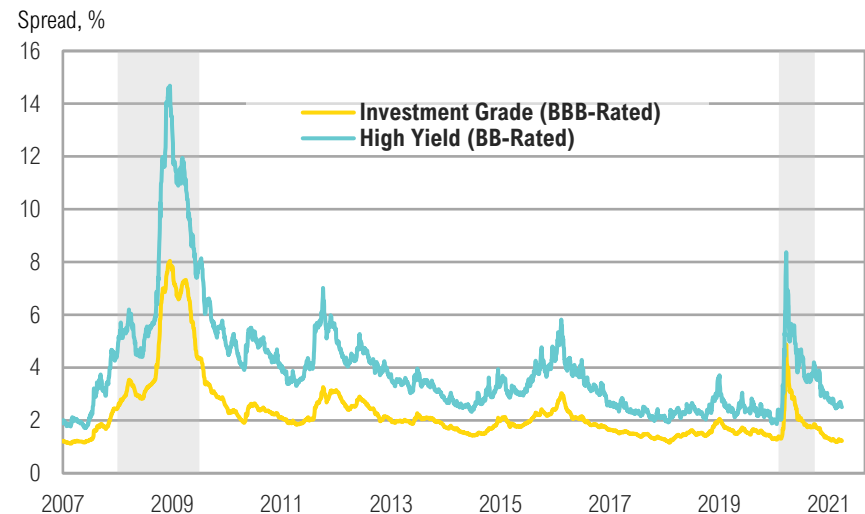
### CREDIT

- *Most credit markets rallied slightly as credit spreads narrowed. High yield bond spreads ended the quarter at 3.4%.*
- *Bonds suffered their worst quarterly loss (-3.4%) since the third quarter of 1981, when they lost 4%. To put this return in perspective, there have only been three quarters in history, all in 1980 and 1981, when the Bloomberg Aggregate Bond index lost more 3%.*
- *Private credit remains attractive given higher rates of return and heightened economic volatility creating opportunity.*

### TREASURY YIELD CURVE



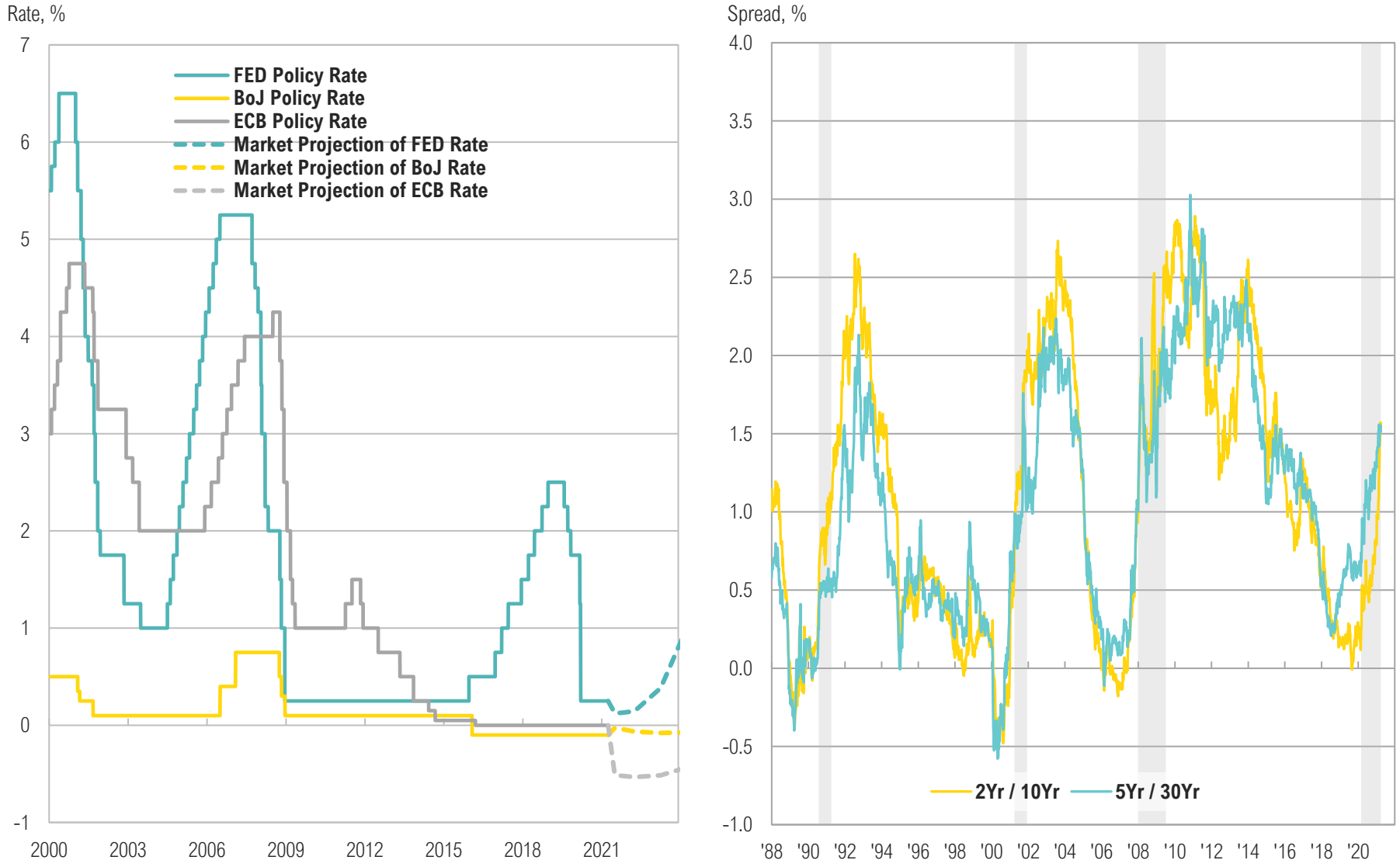
### CREDIT SPREADS



Source: Bloomberg

# The Market is Pricing in Low Short-Term Rates for Several Years, but an Eventual Pickup in Growth/Inflation

CENTRAL BANK POLICY RATES & RATE EXPECTATIONS (LHS), U.S. TREASURY YIELD CURVES (RHS), AS OF 3/31/2021

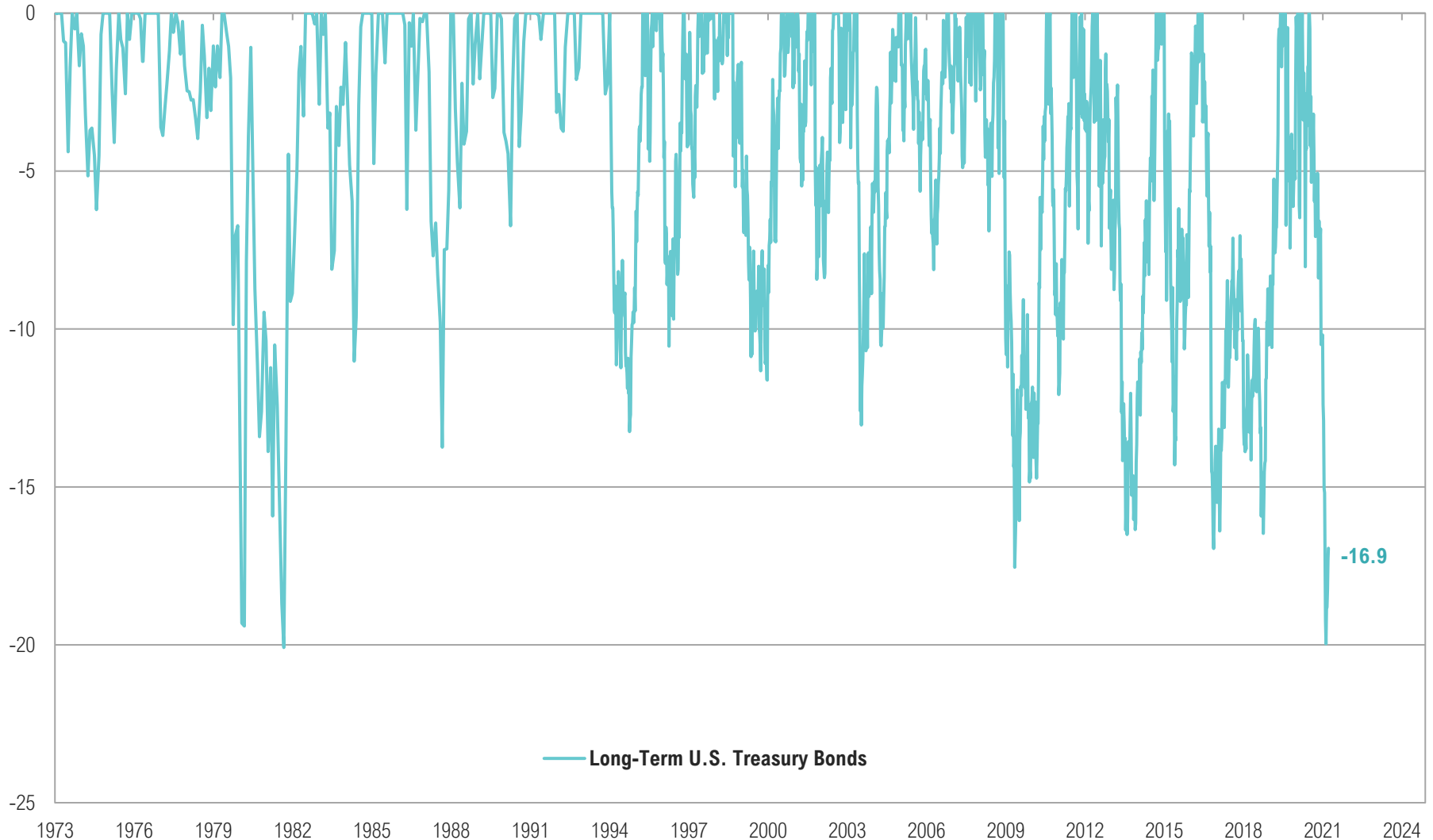


Source: Bloomberg, FRED

# Long-Term U.S. Treasury Bonds Correction

BLOOMBERG U.S. LONG TREASURY INDEX DRAWDOWN, 2/2/1973 – 4/21/2021

Drawdown, %

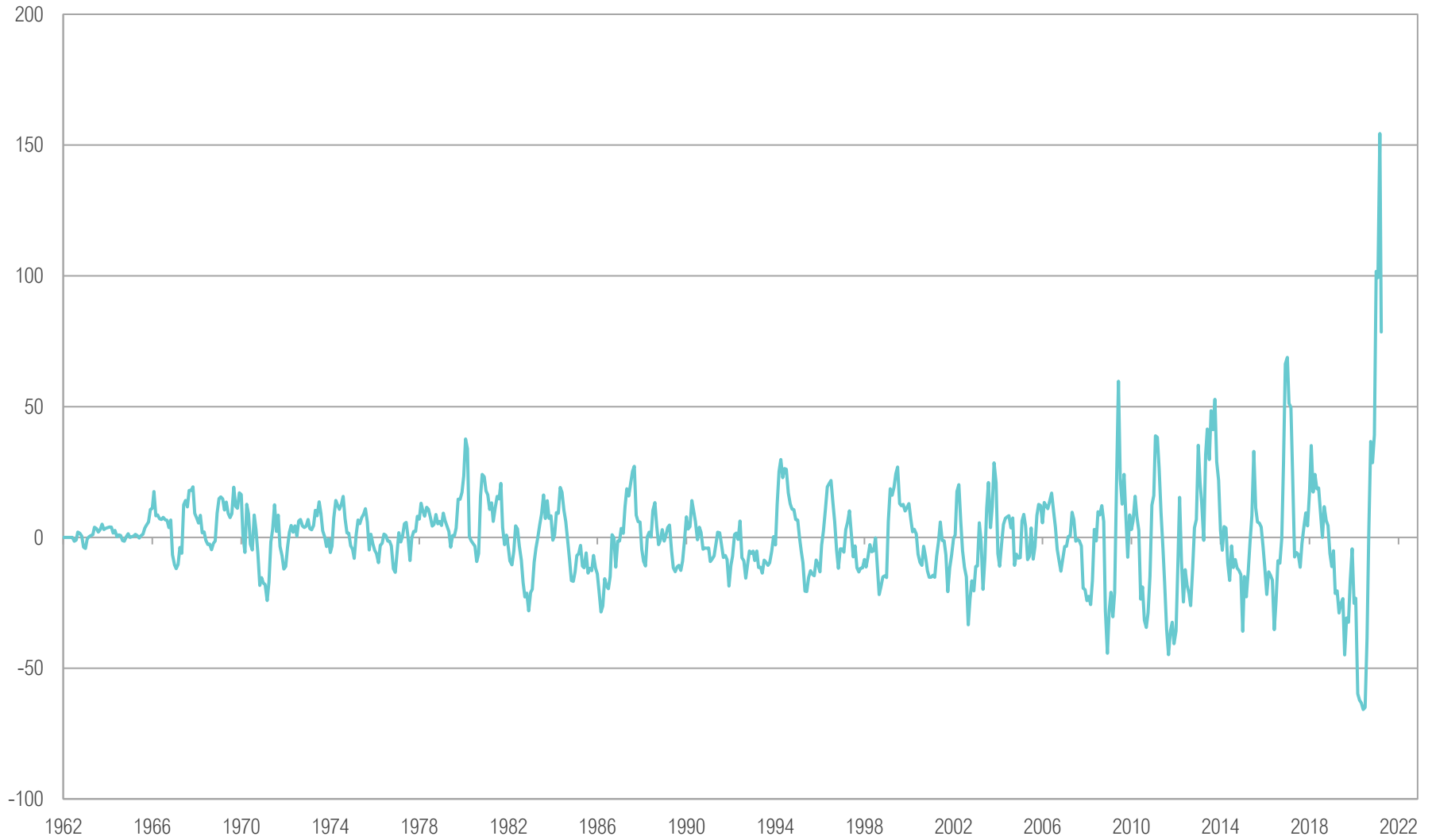


Source: Bloomberg

# Largest Percentage Change in the U.S. 10-Year Yield on Record

U.S. 10-YEAR TREASURY YIELD ROLLING 6-MONTH PERCENTAGE CHANGE, 1/1/1962 – 4/21/2021

6-Month % Change

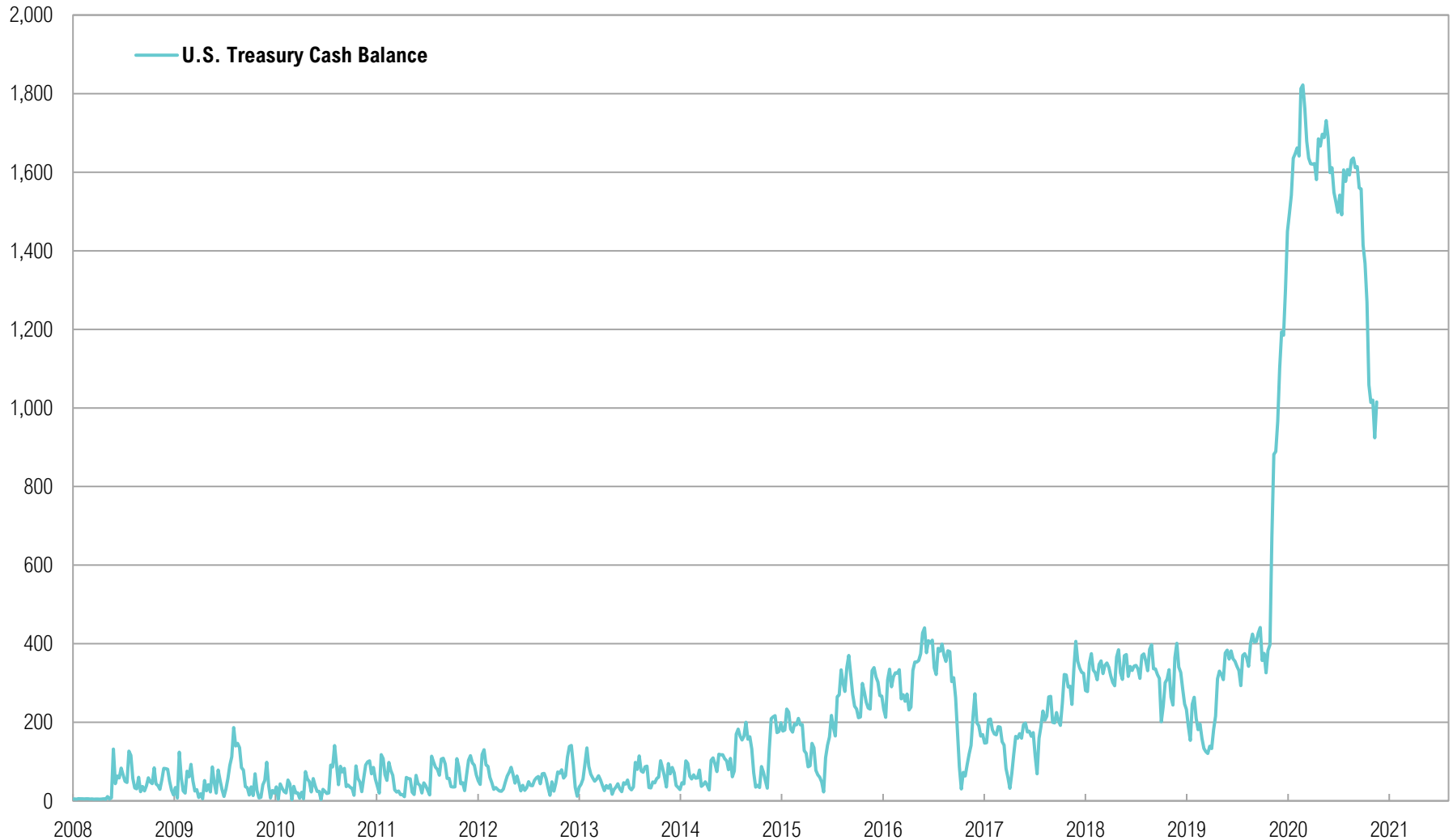


Source: Bloomberg

# U.S. Treasury Cash Balance Declined After Stimulus

U.S. TREASURY CASH BALANCE, 1/1/2008 – 4/16/2021

Balance, \$Bn

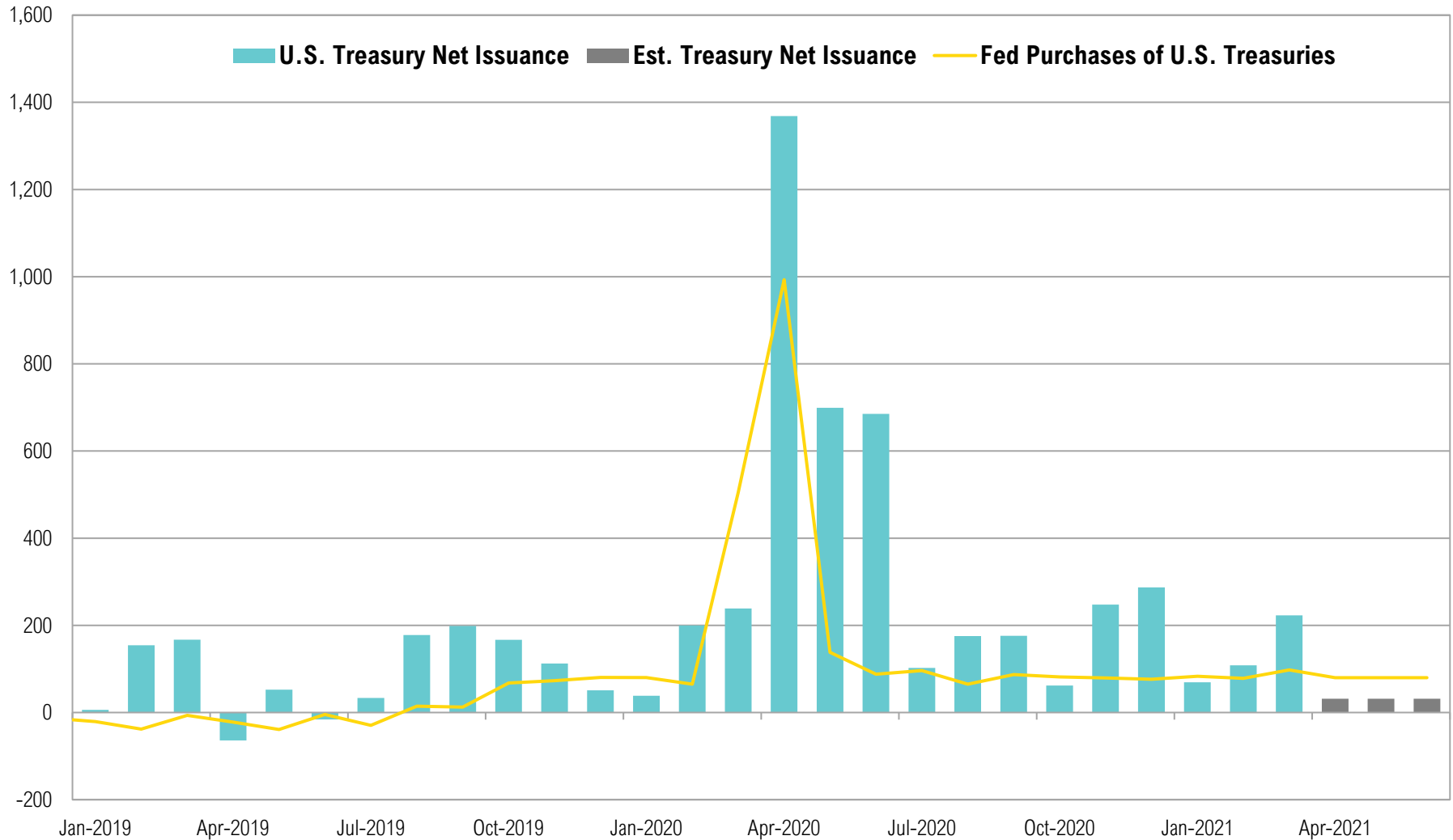


Source: Bloomberg

# Fed Will Purchase More Treasuries Than Projected Issuance in Q2

U.S. TREASURY NET ISSUANCE VS. FED PURCHASES OF U.S. TREASURIES, 1/31/2019 – 6/30/2021

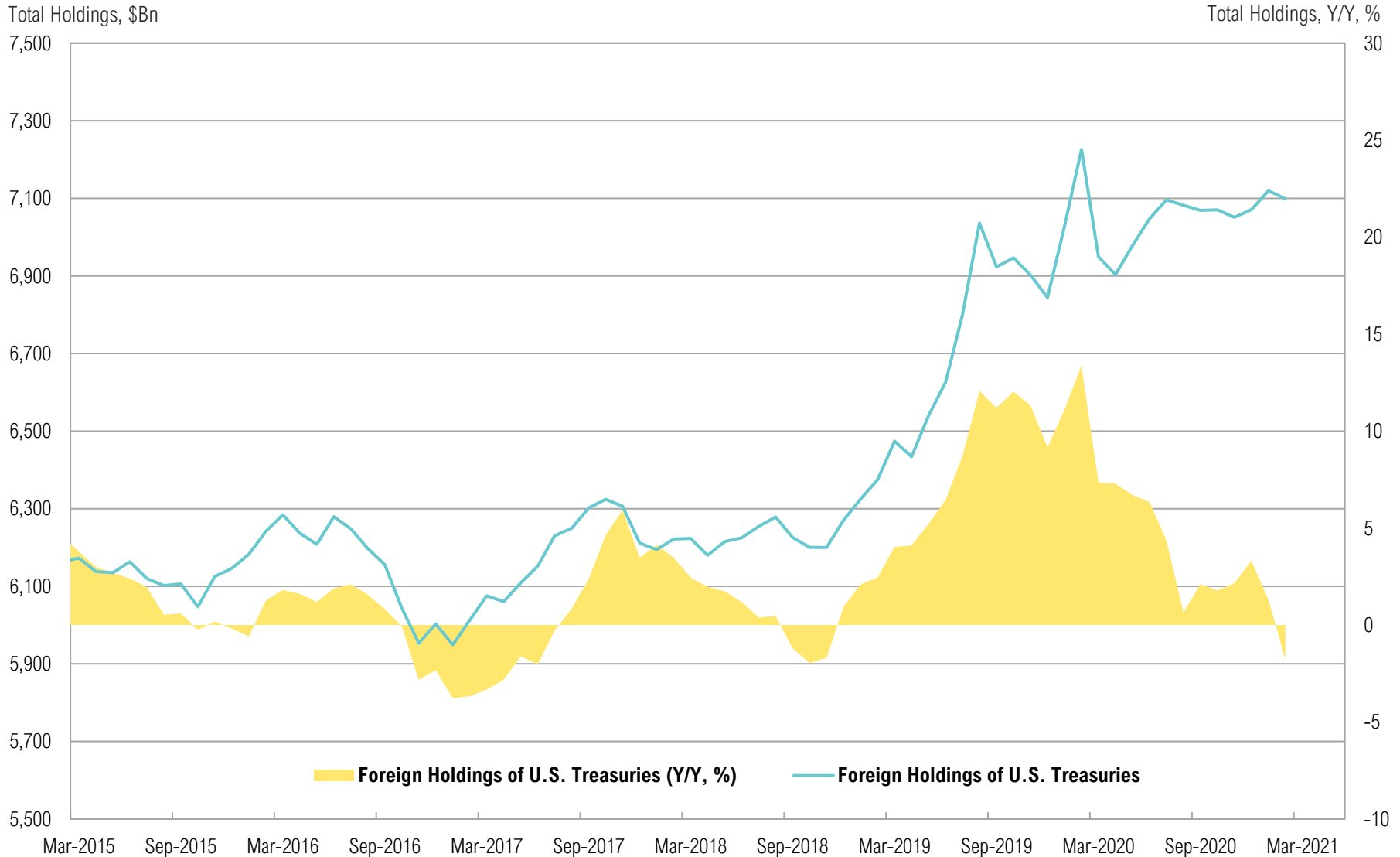
Treasury Securities, \$Bn



Source: Bloomberg, U.S. Department of the Treasury

# Foreign Holdings of Treasuries Increased Since Last Year's Crisis

TOTAL FOREIGN HOLDINGS OF U.S. TREASURIES & Y/Y % CHANGE IN HOLDINGS, AS OF 2/28/2021

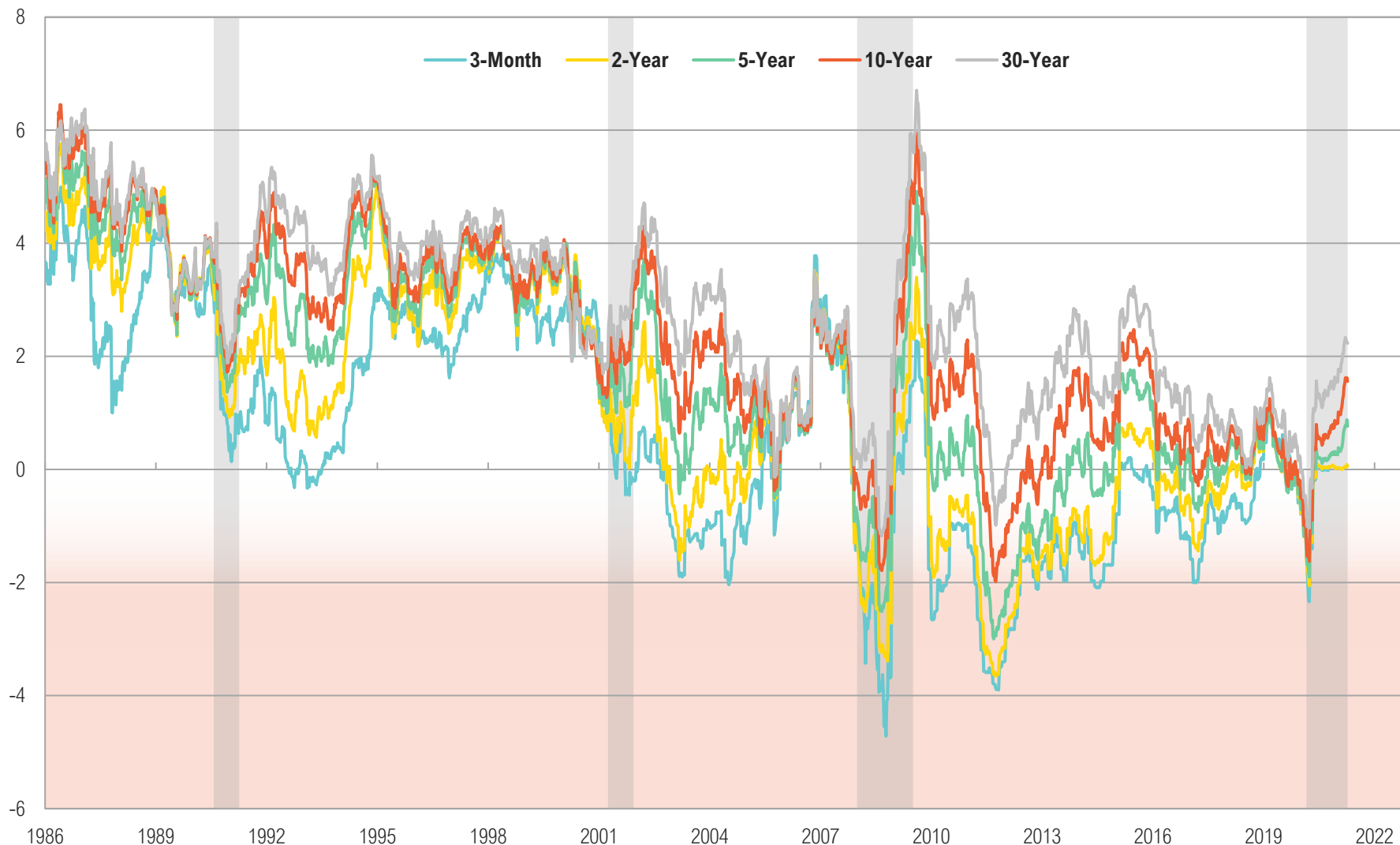


Source: Bloomberg

# Treasury Yields May Not Protect Investors for the Loss of Purchasing Power From Even Modest Inflation

CPI INFLATION-ADJUSTED TREASURY YIELDS BY TENOR, 1/1/1986 – 4/9/2021

Real Yield, %

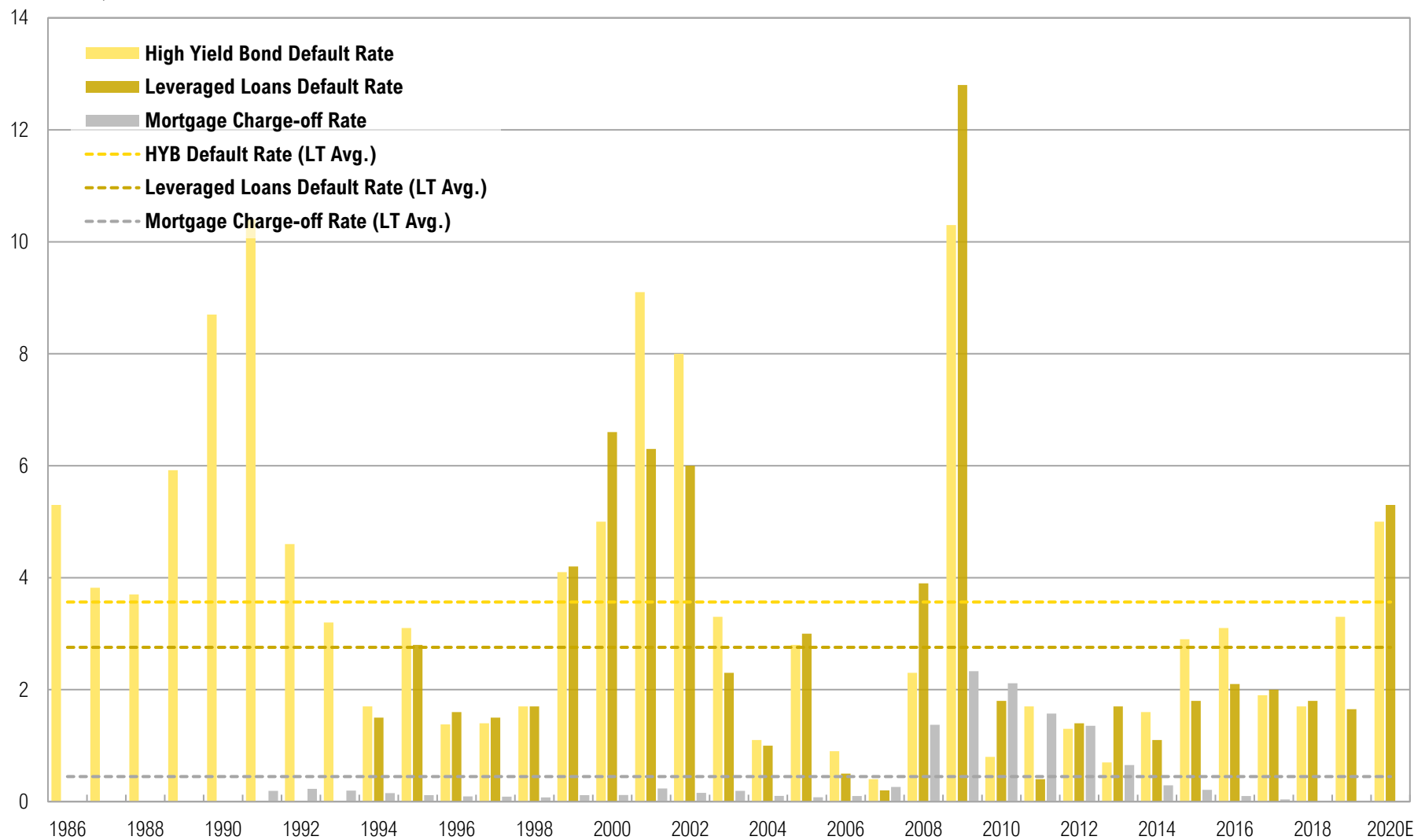


Source: Bloomberg

# An Extra 1.5% in Credit Premium if the Fed Supports High Yield Bonds

HIGH YIELD BONDS, LEVERAGED LOANS AND MORTGAGE CHARGE-OFFS, AS OF 12/31/2020

Default Rate, %



Source: Bloomberg, Moody's, S&P, JP Morgan, FRED

## REAL ASSETS

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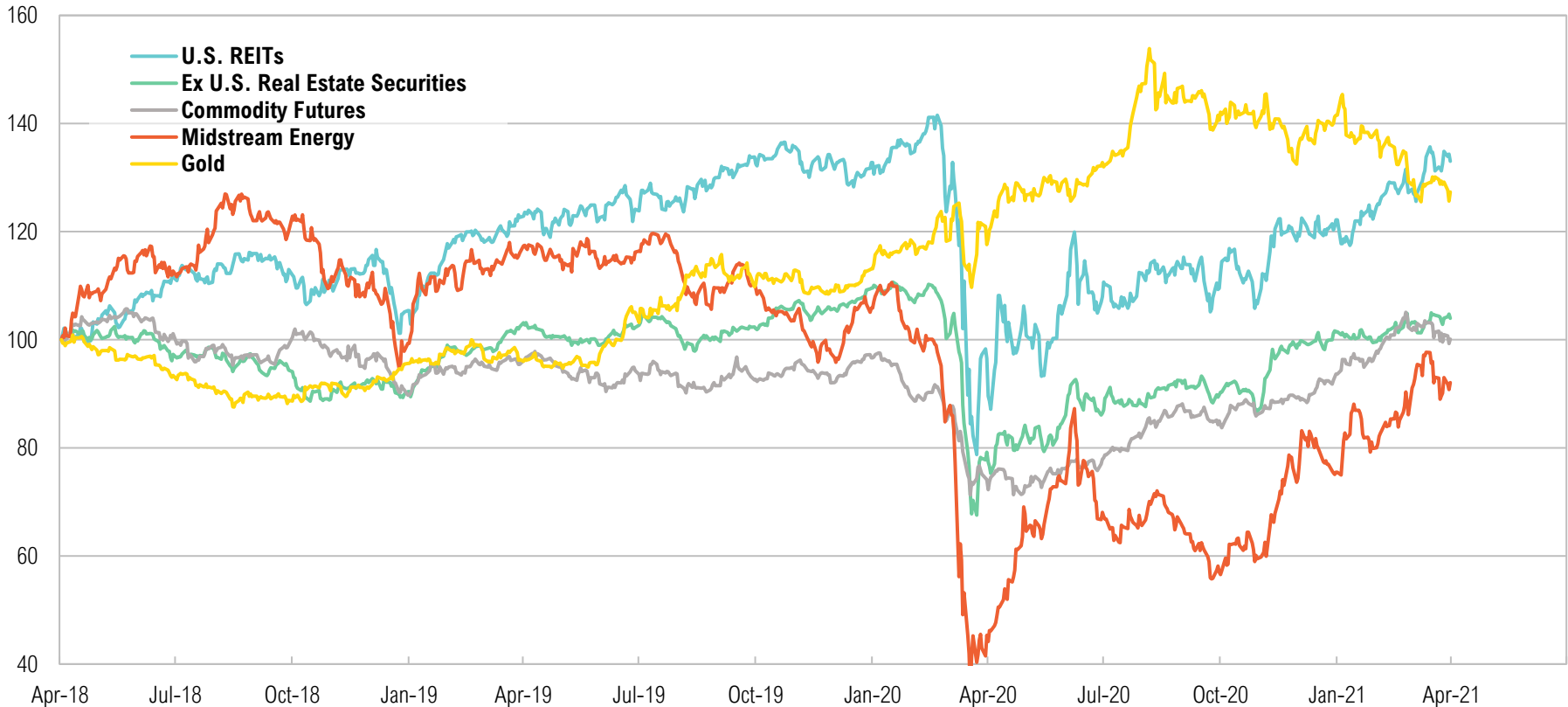
“ *We have seen, over the last four or five months, what I have never seen in my career before, is lumber to move to the level it has.*”

**Sheryl Palmer**, CEO of Taylor Morrison Home, April 2021

# Real Asset Returns

TRAILING & CALENDAR YEAR TOTAL RETURNS, AS OF 3/31/2021

Growth Index, 3 Years



Asset Class	Benchmark	QTD	YTD	2020	2019	2018	2017	2016	1-Yr	3-Yr	5-Yr	10-Yr
U.S. REITs	MSCI US REIT NR	8.5	8.5	-8.7	24.3	-5.8	3.7	7.1	36.1	8.2	4.0	7.2
Ex U.S. Real Estate Securities	S&P Global Ex US REIT TR	2.4	2.4	-9.3	24.7	-6.5	16.7	4.0	37.2	3.0	3.8	5.7
Broad Commodity Futures	Bloomberg Commodity TR	6.9	6.9	-3.1	7.7	-11.2	1.7	11.8	35.0	-0.2	2.3	-6.3
Energy Partnerships	Alerian MLP TR	22.0	22.0	-28.7	6.6	-12.4	-6.5	18.3	103.1	-3.0	-1.3	-0.9
Gold	LBMA Gold Price AM	-10.9	-10.9	24.2	18.8	-1.1	11.9	9.1	5.0	8.4	6.4	1.6

Source: Bloomberg

Returns for periods greater than one year are annualized.

## Q2, 2021 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

# Real Assets Summary

## COMMENTARY & MARKET DATA

### COMMODITIES

- **The commodity bull market is well underway as recovering demand has outstripped supply.** Coupled with a potential structural shift higher in inflation in the coming years, we continue to think commodities provide a better inflation hedge than most other asset classes.
- Gold continues to trade as a proxy for real rates. If inflation picks up and bond yields do not keep pace, gold should perform well.

### REAL ESTATE

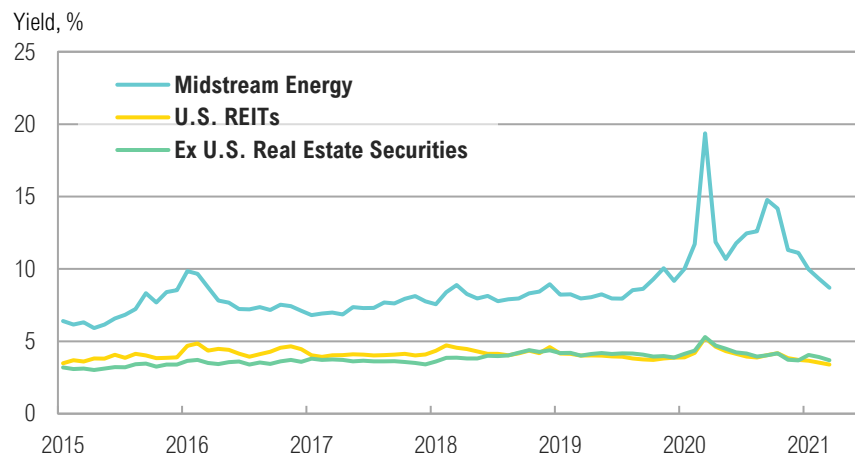
- Commercial real estate is at the epicenter of redefining normal as we exit the Covid-19 crisis. **Shifts in corporate headquarters, flight from urban areas and flexible work environments foster continued uncertainty.**
- Opportunities are emerging in public and private markets as some sectors (industrial, warehouse/ fulfillment) are booming and others are in deep distress (retail, entertainment, hospitality and office).

### ENERGY & INFRASTRUCTURE

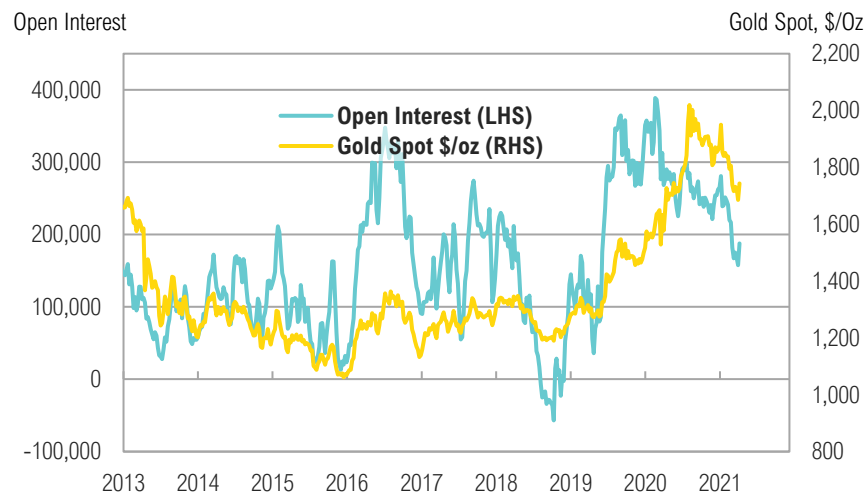
- The energy space has shifted from oversupply to undersupply after the shock of the COVID-19 crisis.
- **According to the Energy Information Administration, U.S. oil production is currently down 13% from pre-Covid levels.**
- The midstream space has dramatically cut capex which should allow free cash flow to continue to grow, as it did in 2020.

Source: Bloomberg

### REAL ASSETS & INFRASTRUCTURE YIELDS

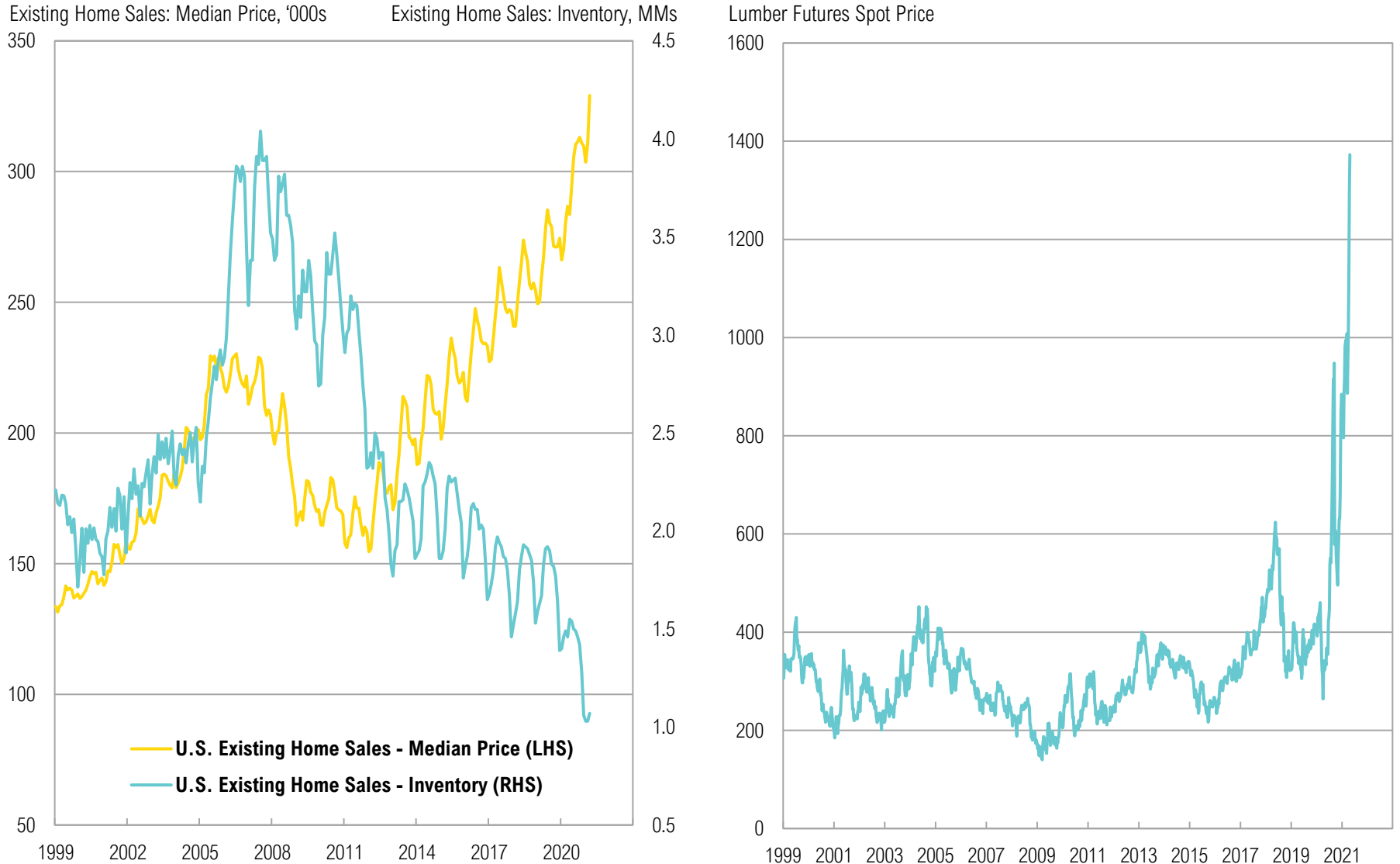


### GOLD FUTURES OPEN INTEREST VS. SPOT PRICE



# Inflation Case Study: Falling Housing Inventories, Rising Construction Costs Are Squeezing Prices Higher

U.S. EXISTING HOME SALES: MEDIAN PRICE & INVENTORY\* (LHS), LUMBER FUTURES SPOT PRICE (RHS), AS OF 4/23/2021

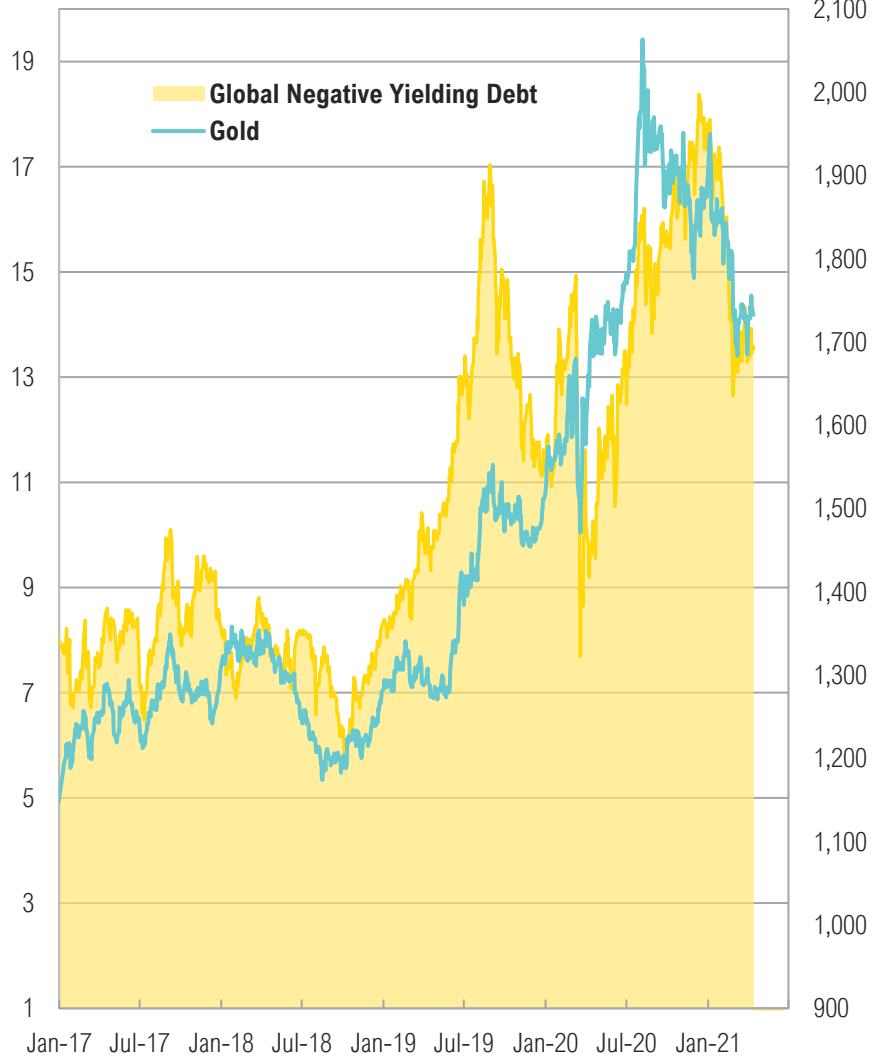


Source: Bloomberg  
\*Data as of 3/31/2021

# Gold Still Viewed as an Alternative Safe Haven

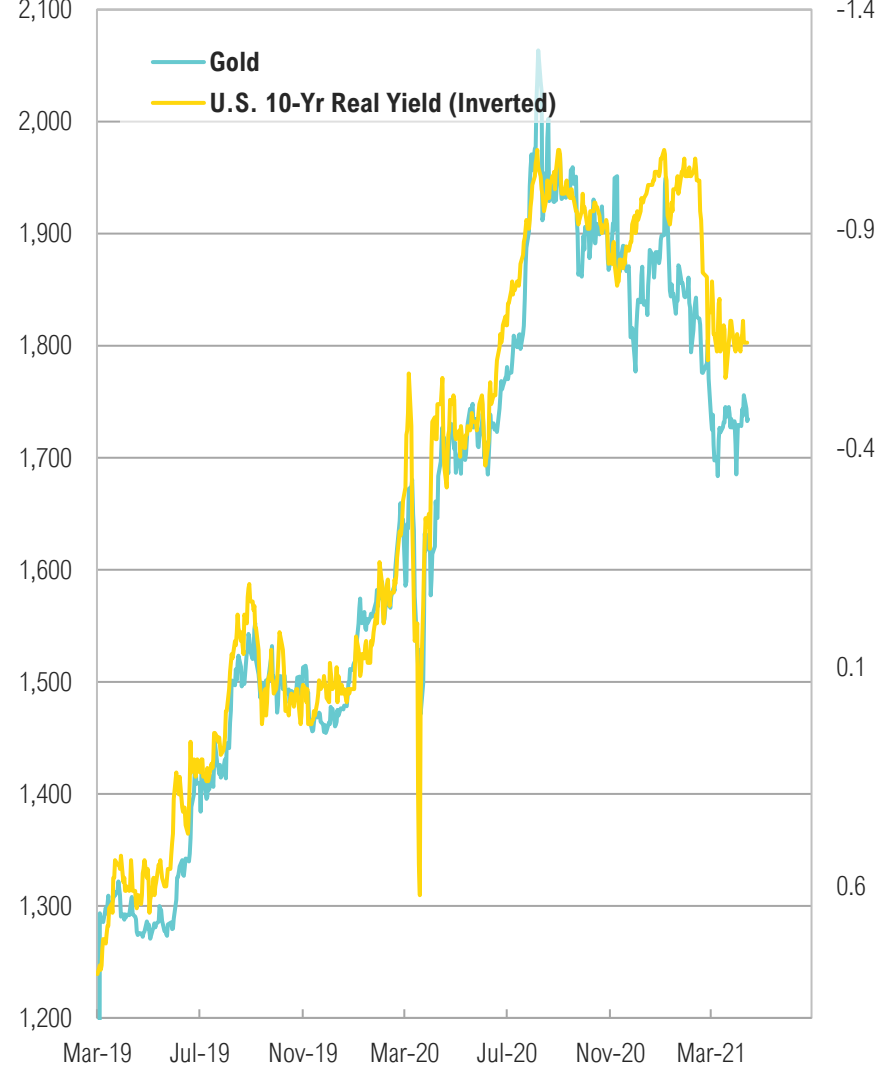
GOLD & NEGATIVE YIELDING DEBT MARKET CAP, GOLD VS. U.S. 10-YEAR REAL YIELD, AS OF 4/14/2021

Global Aggregate Negative Yielding Debt Mkt Cap, \$Tn



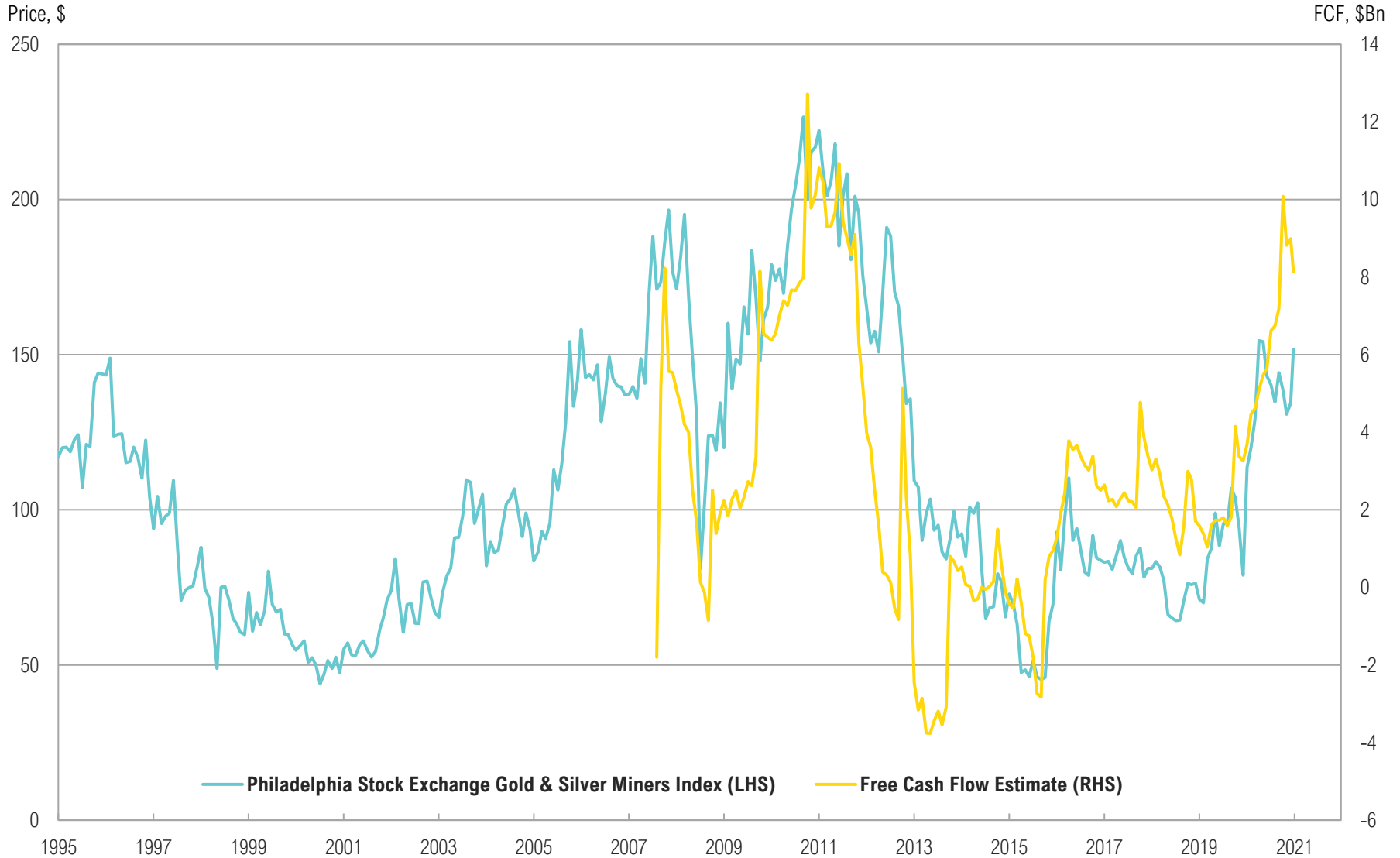
Source: Bloomberg

Gold, \$/Oz



# Gold & Silver Miners Generating Substantial Free Cash Flow

PHILADELPHIA STOCK EXCHANGE GOLD & SILVER MINERS INDEX (LHS) VS. FCF ESTIMATE (RHS), AS OF 4/21/2021



Source: Bloomberg

# MLPs Expected to Continue Capex Cuts, Grow FCF

S&P MLP INDEX CONSTITUENTS AGGREGATE FREE CASH FLOW (FCF) & CAPITAL EXPENDITURES (CAPEX)

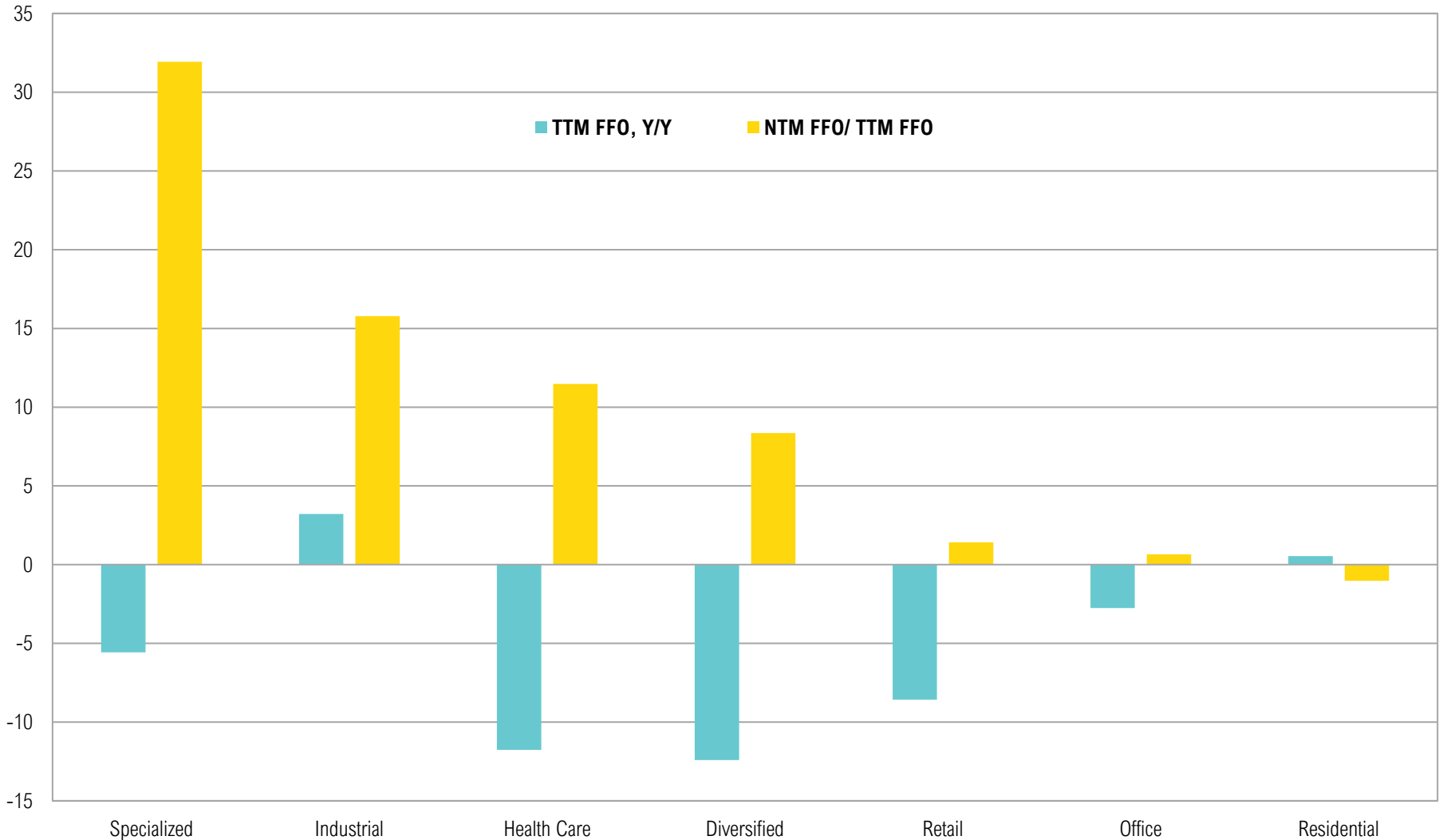


Source: Bloomberg, SpringTide calculations

# Market Expectations for U.S. REITs vs. Trailing 12-Months

U.S. REIT TTM FUNDS FROM OPERATIONS (FFO) PER SHARE GROWTH Y/Y VS. NTM FFO/SHARE GROWTH Y/Y, AS OF 12/31/2020

Average FFO per Share Growth, %



Source: Bloomberg  
Bloomberg REIT Index constituents were used in the calculations; the index consists of 181 listed REITs.

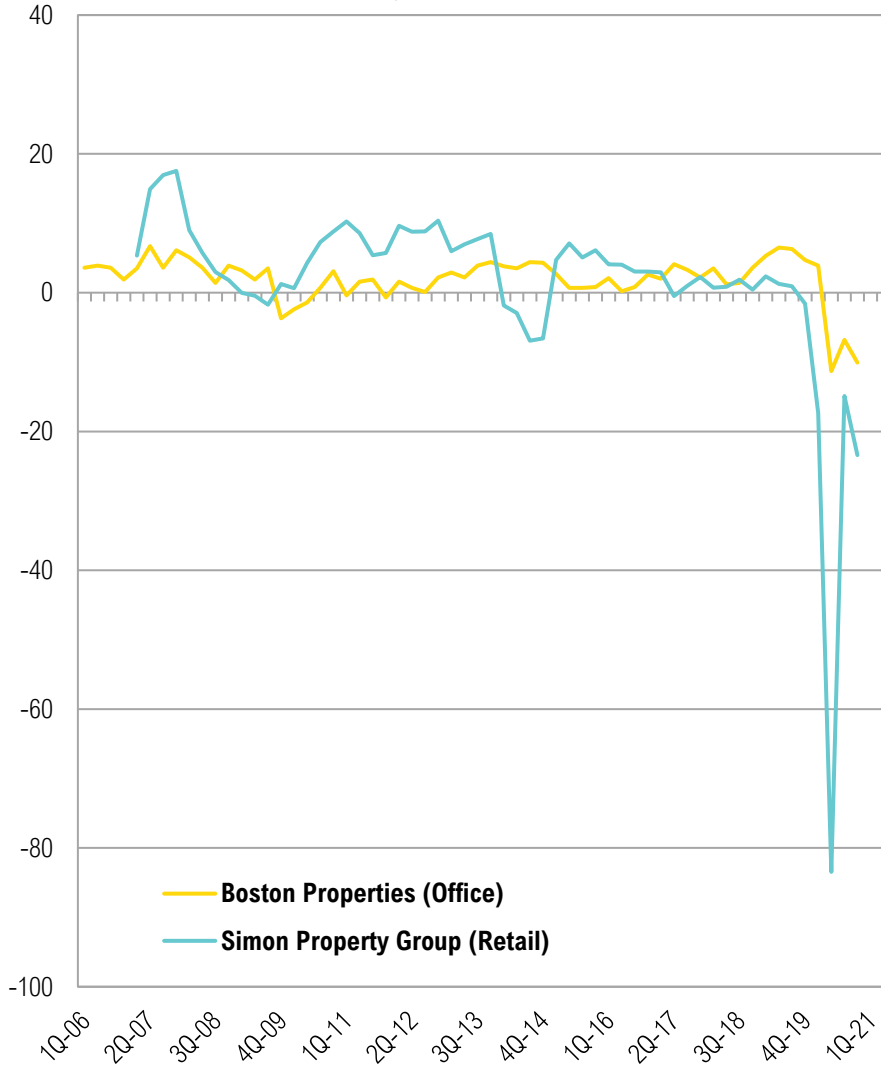
**Q2, 2021 Market Outlook**

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

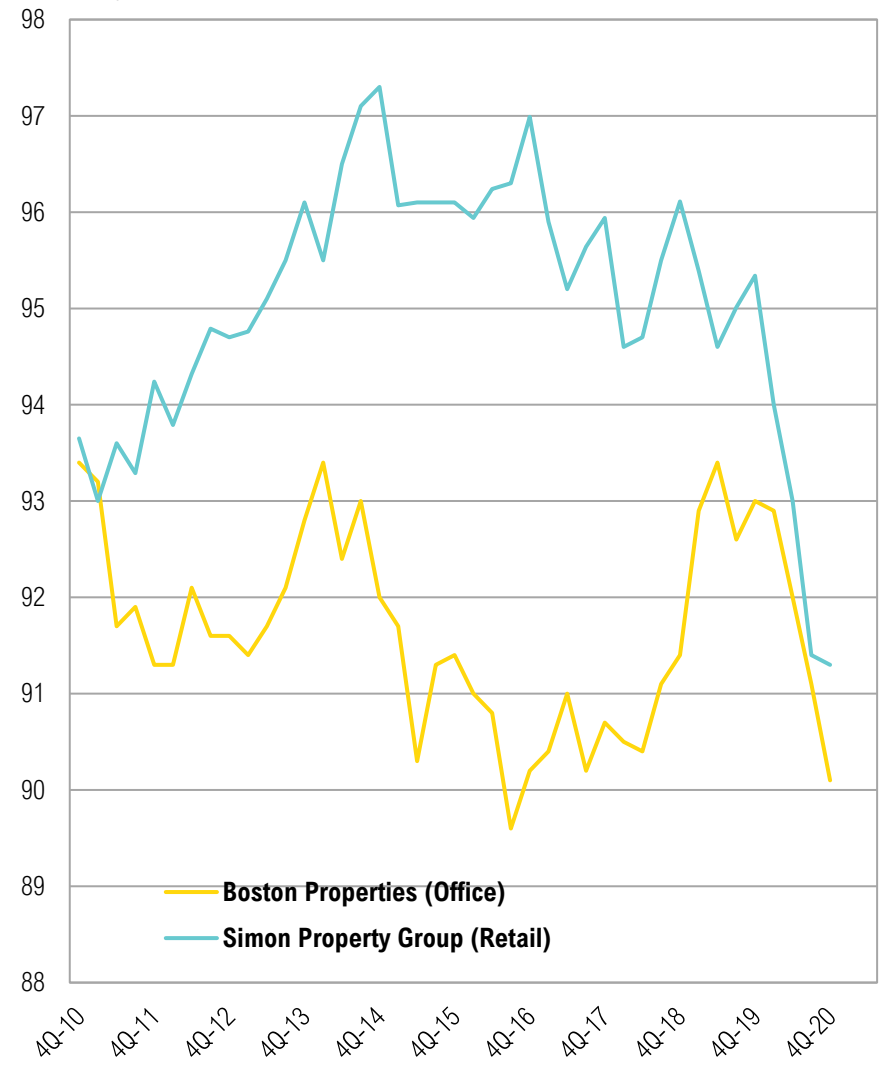
# CRE Rental Revenues and Occupancy Rates Remain Challenged

SELECT REIT RENTAL REVENUE GROWTH & OCCUPANCY RATES, AS OF 12/31/2020

Y/Y Rental Revenue Growth, Quarterly, %



Occupancy Rates, %

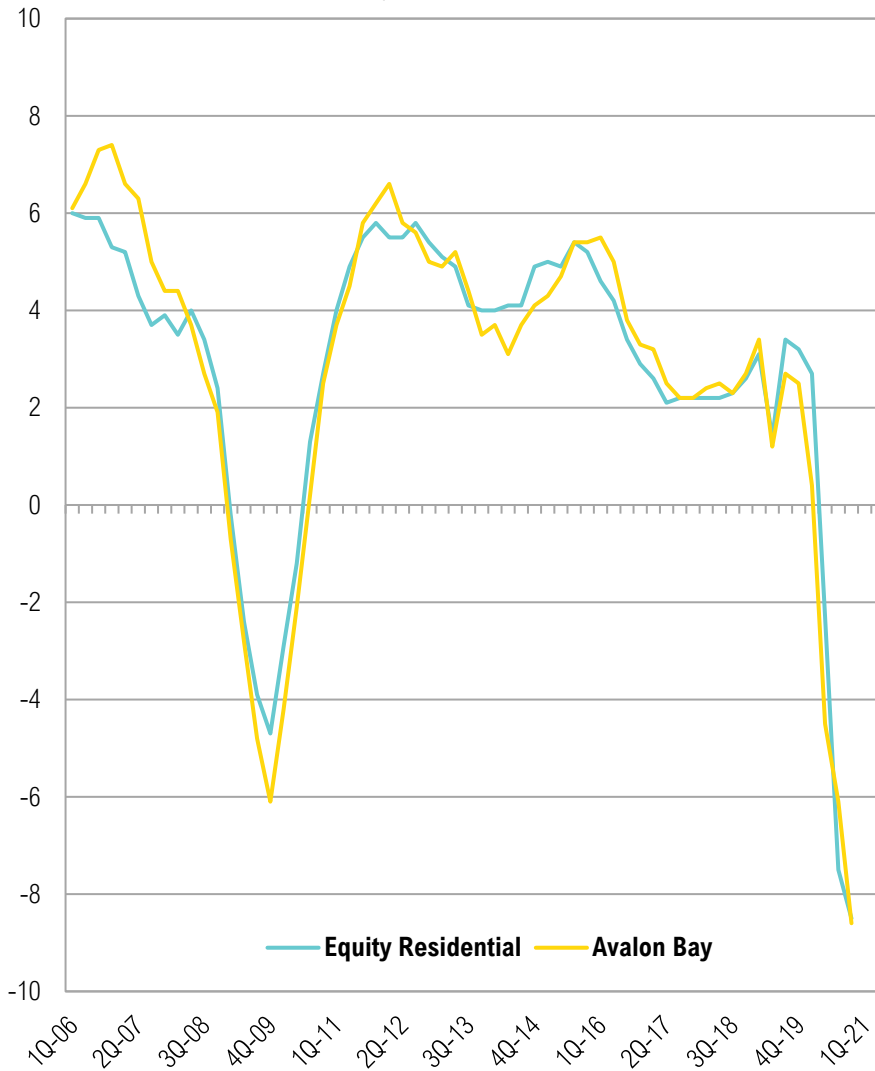


Source: Bloomberg

# Coastal Property Rental Revenues Continued Decline in 4Q

AVALON BAY & EQUITY RESIDENTIAL ESTABLISHED COMMUNITY (SAME-STORE) REVENUE GROWTH, AS OF 12/31/2020

Y/Y Rental Revenue Growth, Quarterly, %



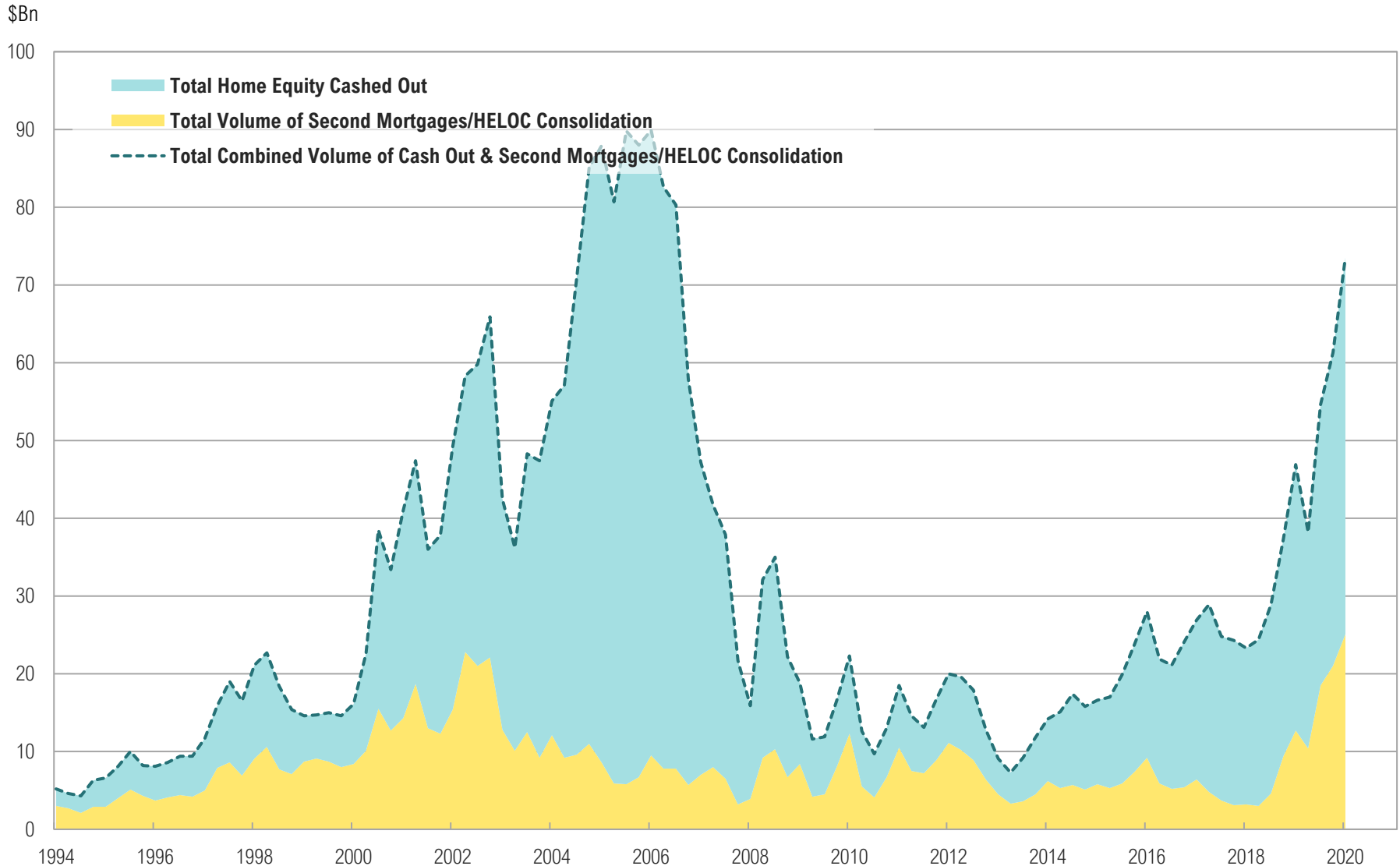
Source: Bloomberg

## AVALON BAY - AVERAGE RENTAL RATE BY GEOGRAPHY, \$

Date	Avg.	Northern Cal	Southern Cal	Pacific NW	Metro NY/NJ	New England	Mid-Atlantic
4Q-20	2,527	2,813	2,212	2,225	2,970	2,746	2,197
3Q-20	2,624	3,052	2,264	2,329	3,059	2,782	2,257
2Q-20	2,634	3,115	2,295	2,338	3,018	2,801	2,237
1Q-20	2,706	3,152	2,420	2,384	3,152	2,840	2,290
4Q-19	2,671	3,126	2,417	2,379	3,117	2,707	2,279
3Q-19	2,673	3,138	2,414	2,406	3,131	2,669	2,278
2Q-19	2,672	3,120	2,393	2,361	3,136	2,772	2,248
1Q-19	2,597	3,014	2,376	2,327	3,064	2,580	2,218
4Q-18	2,574	2,979	2,329	2,335	3,021	2,545	2,235
3Q-18	2,590	2,968	2,316	2,341	3,142	2,537	2,233
2Q-18	2,550	2,915	2,281	2,274	3,121	2,500	2,208
1Q-18	2,522	2,876	2,264	2,252	3,088	2,482	2,171
4Q-17	2,505	2,857	2,248	2,275	3,046	2,447	2,154
3Q-17	2,512	2,862	2,237	2,283	3,069	2,451	2,168
2Q-17	2,471	2,831	2,200	2,205	3,039	2,390	2,159
1Q-17	2,459	2,817	2,171	2,171	3,037	2,407	2,151

# Rising Second Mortgages & Home Equity Withdrawals

FREDDIE MAC'S TOTAL HOME EQUITY CASHED OUT & TOTAL VOLUME OF SECOND MORTGAGES/HELOC, AS OF 12/31/2020

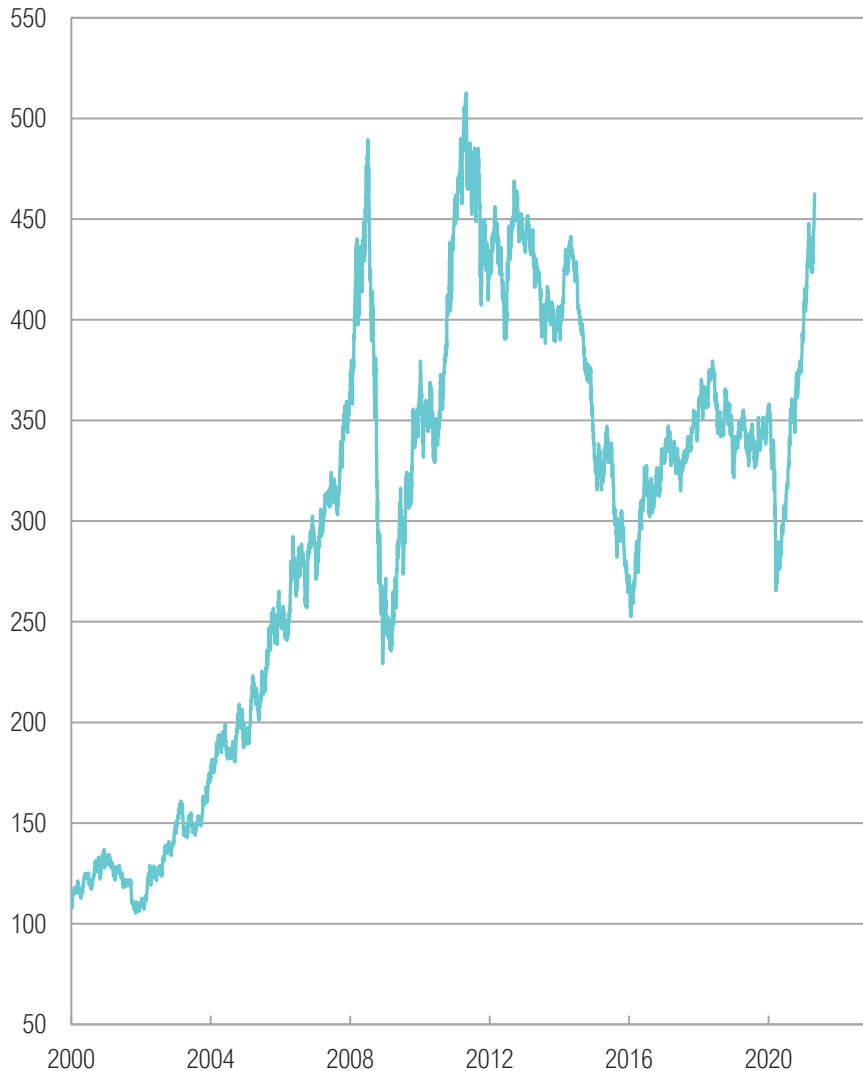


Source: Bloomberg

# Major Increase in Most Commodity Prices for the Past Year

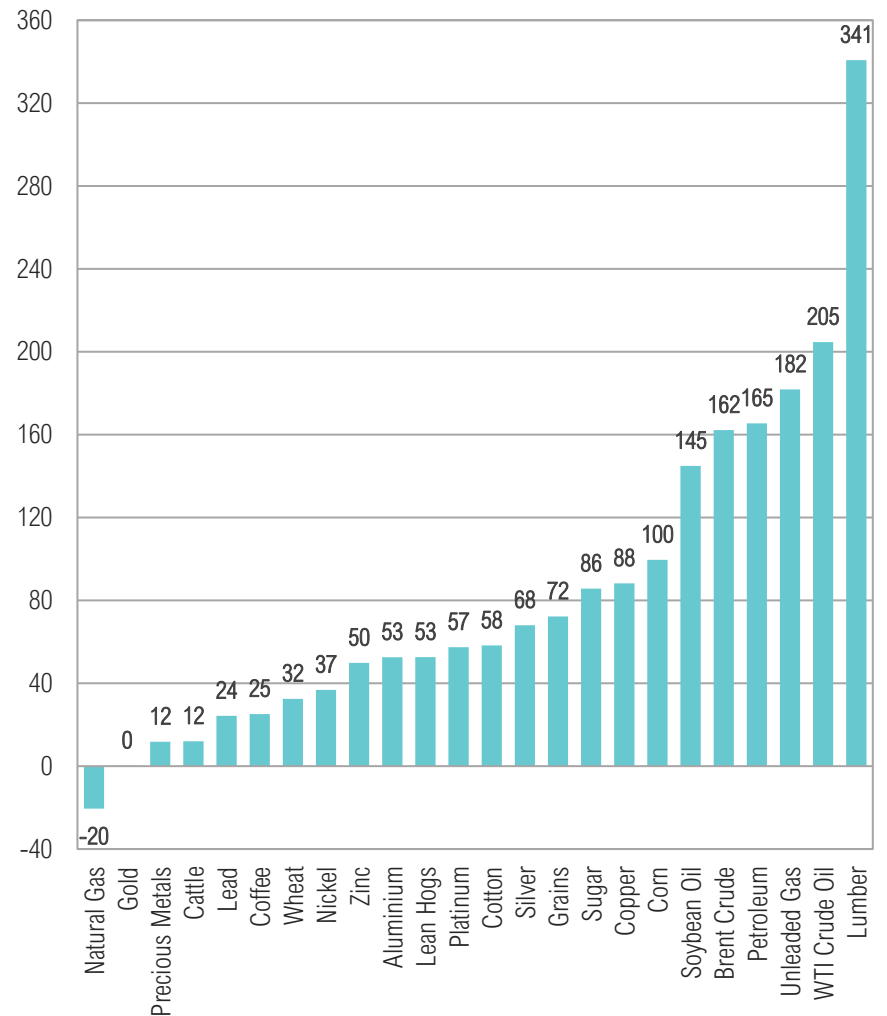
COMMODITY SPOT INDEX (LHS) & Y/Y CHANGE IN PRICE FOR SELECT COMMODITIES (RHS), AS OF 4/27/2021

Price, \$



Source: Bloomberg

Y/Y Price Change, %



## OPPORTUNISTIC

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“

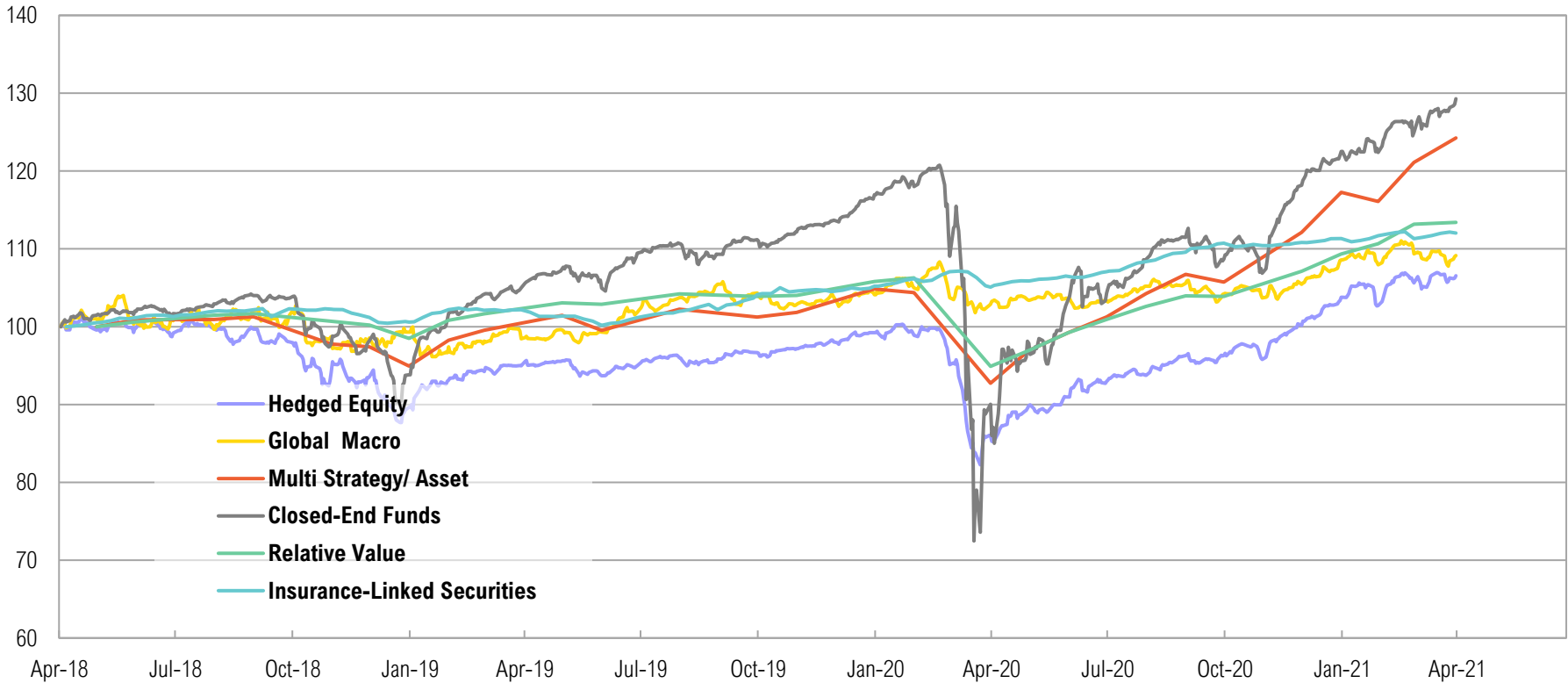
*If the financial system has a defect, it is that it reflects and magnifies what we human beings are like. Money amplifies our tendency to overreact, to swing from exuberance when things are going well to deep depression when they go wrong. Booms and busts are products, at root, of our emotional volatility.”*

Niall Ferguson, Historian & Fellow at Hoover Institution

# Opportunistic Strategy Returns

CALENDAR YEAR & TRAILING TOTAL RETURNS, AS OF 3/31/2021

Growth Index, 3 Years



Asset Class	Benchmark	QTD	YTD	2020	2019	2018	2017	2016	1-Yr	3-Yr	5-Yr	10-Yr
Hedged Equity	HFRX Equity Hedge Index	2.7	2.7	4.6	10.7	-9.4	10.0	0.1	23.9	2.1	4.1	1.3
Global Macro	HFRX Macro-CTA Index	0.5	0.5	3.8	4.8	-3.2	2.5	-2.9	5.6	2.6	1.0	-0.1
Multi Strategy/ Asset	HFRI Fund Weighted Composite Index	6.1	6.1	11.7	10.4	-3.9	8.6	5.5	33.9	7.9	7.7	4.7
Relative Value	HFRI Relative Value Index	3.9	3.9	3.3	7.7	0.6	5.1	7.6	19.7	5.0	5.7	4.7
Insurance-Linked Securities	SwissRe Global Cat Bond Index	0.7	0.7	5.8	4.4	2.8	0.5	6.6	6.6	4.0	3.9	5.7
Closed-End Funds	S-Network Composite Closed-End Index	5.5	5.5	4.8	24.6	-8.5	14.4	14.9	43.6	8.7	9.8	7.5

Source: Bloomberg

Returns for periods greater than one year are annualized.

## Q2, 2021 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

# Opportunistic Strategies Summary

## COMMENTARY & MARKET DATA

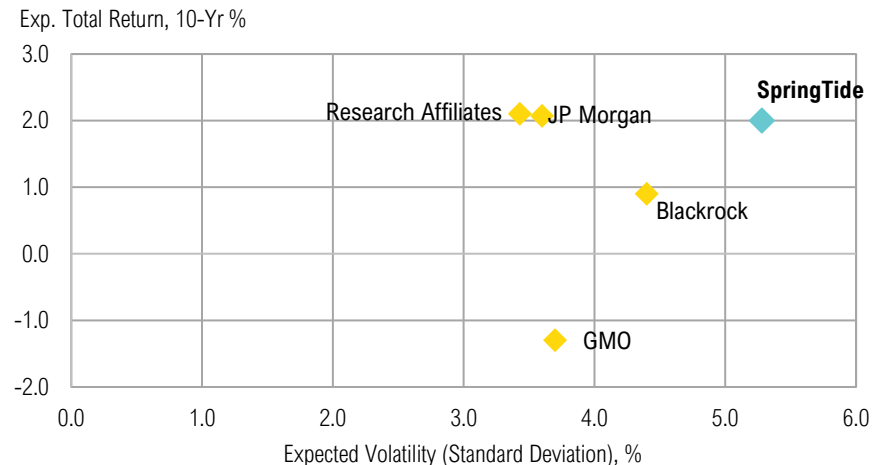
### OPPORTUNITY SET IN CORE ASSET CLASSES

- *The yield on a diversified portfolio of global stocks and U.S. bonds rose modestly to 1.6%, near an all-time low.*
- *Near record low hurdle rate/opportunity cost of U.S. and global balanced portfolios (expected 10-year returns of 2.1% and 2.4%, respectively) and higher expected volatility are somewhat offset by higher fees.*
- *Higher volatility bodes well for high-quality manager alphas, but manager selection remains crucial.*

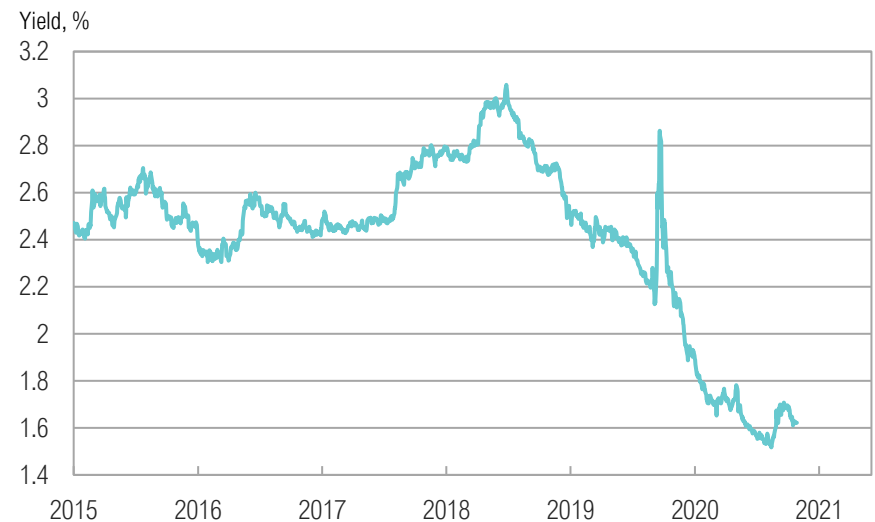
### OPPORTUNISTIC STRATEGIES

- *Despite low opportunity cost, high fees need to be considered carefully; however, the “riches are in the niches” – high quality boutique managers have the potential to add value given expected higher volatility.*
- *Closed-end funds rallied (+5.5%), bringing trailing one-year returns to 43.6%. Average discounts narrowed by 2.8%, from -7.3% to -4.5%, which is now above the long-term average of -5.7%.*
- *Other opportunistic and alternative categories showed mixed performance in Q1, with global macro and insurance-linked securities trailing a global balanced (60/40) portfolio while equity-centric strategies generally outperforming.*

### U.S. CORE BOND RISK/RETURN CMAs



### BALANCED PORTFOLIO (60/40) YIELD



Source: Various, external CMAs are as of March to October 2020 and are nominal. GMO assumptions are 7-year, everyone else is 10-year. GMO vol is estimated.

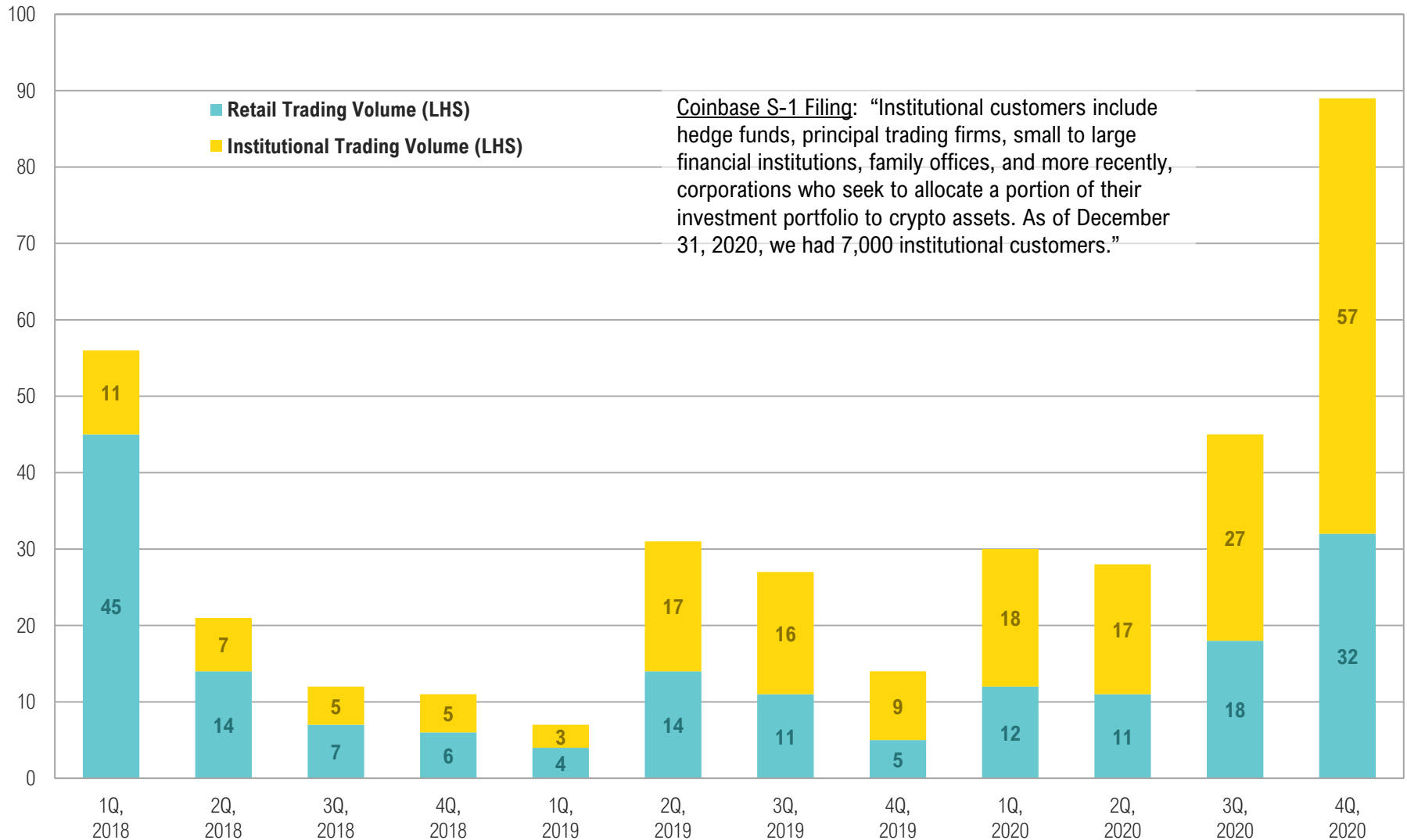
### Q2, 2021 Market Outlook

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# Institutions Join the Crypto Party

COINBASE RETAIL & INSTITUTIONAL TRADING VOLUME, AS OF 12/31/2021

Volume, \$Bn

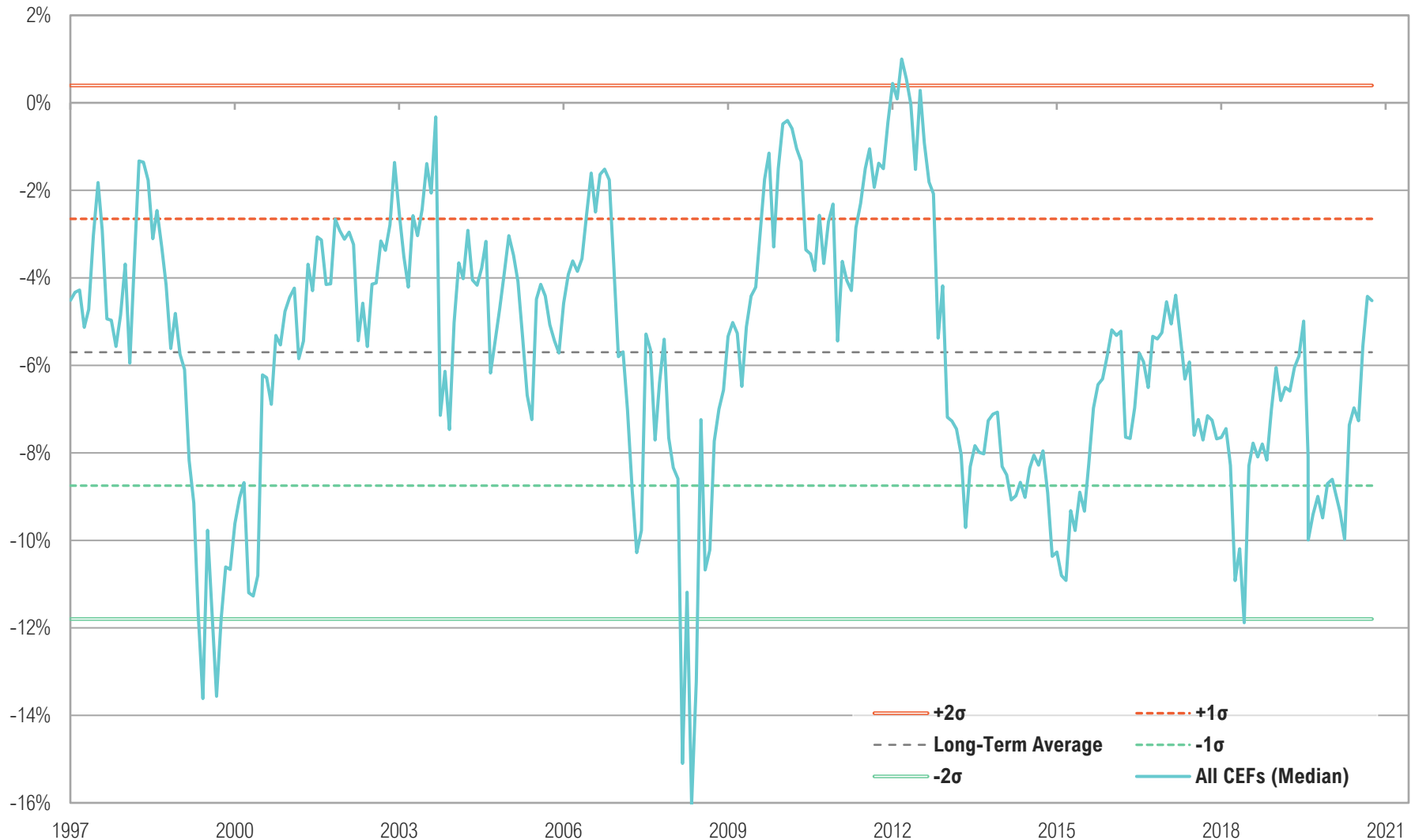


Source: Coinbase

# Average Closed-End Fund Discount Back Above Median

MEDIAN PREMIUM/ DISCOUNT TO NET ASSET VALUE, AS OF 4/21/2021

Premium/Discount to NAV, %



Source: Bloomberg

## ASSET ALLOCATION

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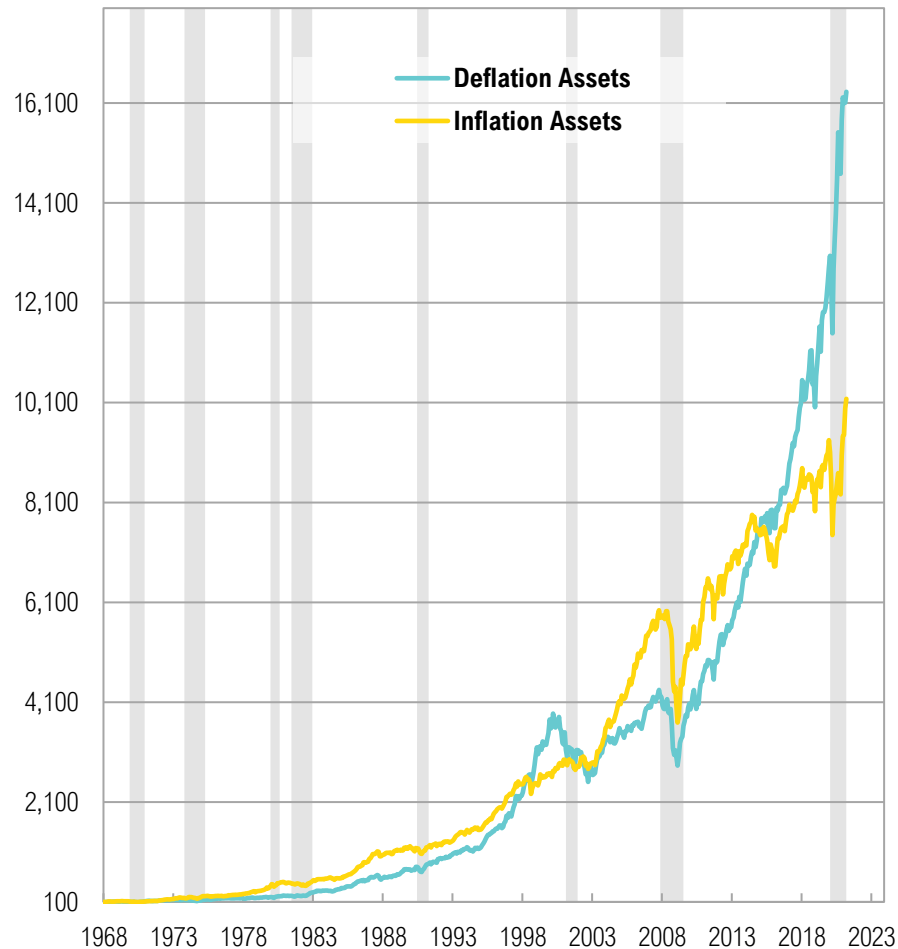
“ *High up on his list and sooner rather than later, will be dealing with the consequences of the biggest financial bubble in U.S. history. Why the biggest? Because it encompasses not just stocks but pretty much every other financial asset too. And for that, you may thank the Federal Reserve.*”

Richard Cookson, Bloomberg, February 4, 2021

# Time to Tilt from Deflation to Inflation Assets

INFLATION ASSETS VS. DEFLATION ASSETS GROWTH OF 100, 1/1/1968 – 3/31/2021

Growth Index, 1/1/1968 = 100



## ASSET CLASS PERFORMANCE DURING INFLATION TRANCHES

Inflation Range (CPI, Y/Y %)	<1%	1 to 2%	2 to 3%	3 to 4%	4 to 5%	>5%
<b>Deflation Assets</b>	<b>2.8</b>	<b>13.4</b>	<b>14.0</b>	<b>10.5</b>	<b>6.3</b>	<b>0.8</b>
U.S. Consumer Discretionary	2.7	19.7	15.0	8.1	-2.8	-13.1
U.S. HY Bonds	-0.8	10.4	12.5	10.3	5.7	-2.0
U.S. Tech	4.2	18.3	23.2	10.5	1.0	-1.7
Growth	0.0	17.3	16.7	11.7	10.6	5.9
U.S. Large Cap Stocks	4.5	14.3	16.0	12.2	12.9	4.6
U.S. Corporate Bonds	4.4	8.5	8.7	11.6	8.4	5.1
U.S. Government Bonds	4.7	5.7	5.6	9.1	8.5	6.4
<b>Inflation Assets</b>	<b>-9.0</b>	<b>6.8</b>	<b>11.9</b>	<b>13.0</b>	<b>8.5</b>	<b>5.2</b>
Intl Dev Large Cap Stocks	-11.0	13.3	13.2	16.4	12.6	5.4
Value	-7.7	12.1	15.1	12.6	11.1	7.9
Cash	1.3	2.4	3.5	4.9	6.4	7.9
Gold	4.0	5.2	6.8	11.1	5.6	21.0
Commodities	-26.1	-4.6	9.1	15.4	17.8	19.9
U.S. REITs	-7.7	12.8	16.6	16.9	0.6	-5.7
U.S. TIPS	1.4	4.7	6.9	7.8	7.1	11.9
U.S. Banks	-13.6	13.2	21.8	11.2	-4.4	-30.6
U.S. Energy	-21.2	2.6	14.4	20.3	20.0	8.8

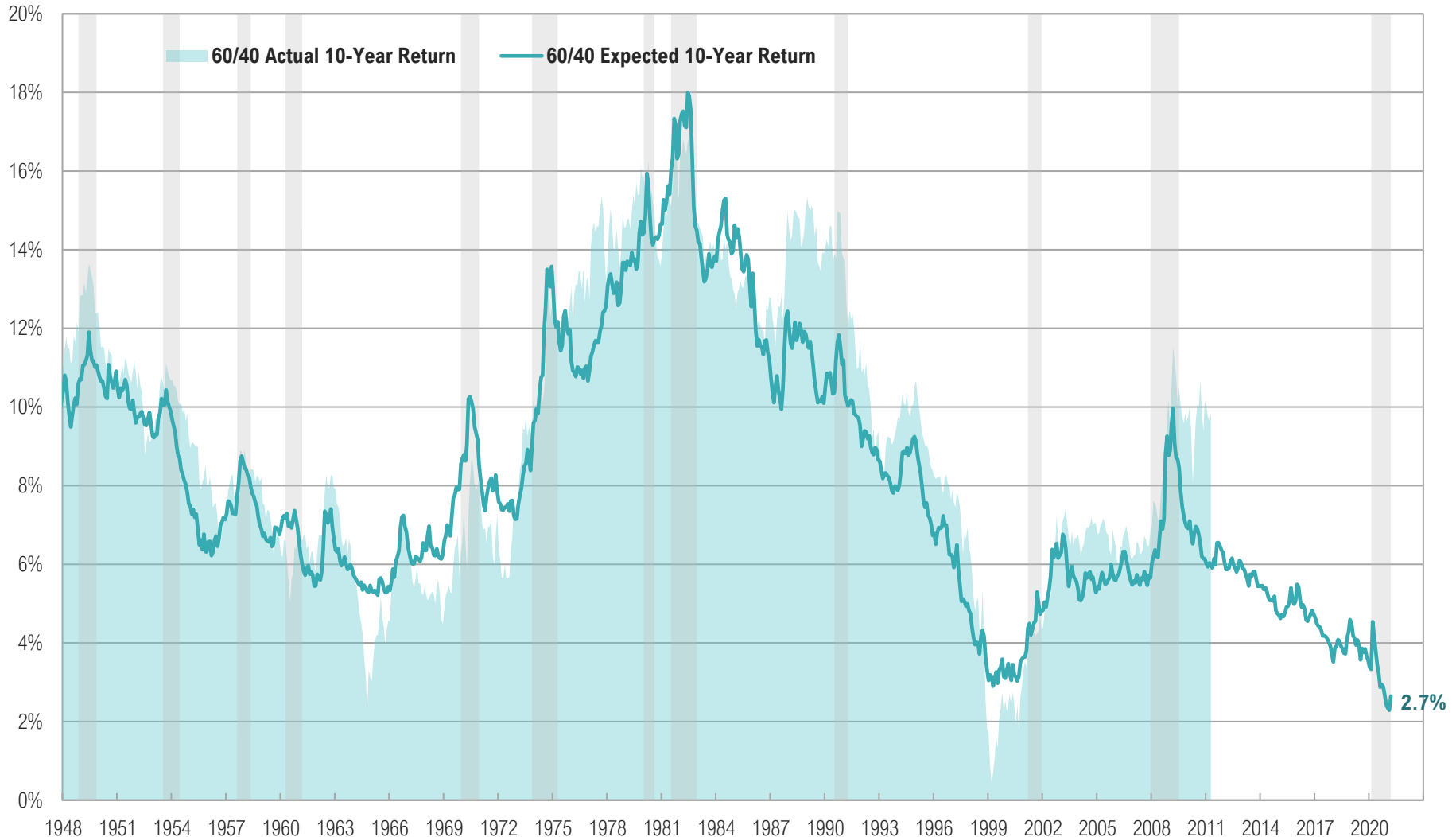
This table represents the average 12-month performance of each asset class at various levels of inflation (CPI, Y/Y %). Deflation Assets and Inflation Assets in this table are a simple average of the underlying asset classes. The data is from 12/31/1960 through 12/31/2020.

Source: Bloomberg. Total return data shown in table is cumulative. Data as of 11/30/2020. Performance for Deflation Assets represented by the following total return indices (equal weighted): U.S. IG Bonds = Bloomberg U.S. Corporate Bond TR Index; Government Bonds = IA SBBU U.S. IT Govt TR Index; U.S. Large Cap Stocks = IA SBBU U.S. Large Stock TR Index/S&P 500 TR Index; Growth Stocks = MSCI USA Growth NR Index; Consumer Discretionary Stocks = S&P 500 Consumer Discretionary TR Index; Tech Stocks = S&P 500 Information Technology TR Index. Performance for Inflation Assets represented by the following total return indices (equal weighted): TIPS = Bloomberg U.S. Treasury U.S. TIPS TR Index, Commodities = Bloomberg Commodity TR Index, Cash = IA SBBU U.S. 30 Day Tbill TR Index, Gold = LBMA Gold Price AM Index, International Stocks = MSCI EAFE TR Index, Real Estate = MSCI U.S. REIT NR GR Index, Value Stocks = MSCI USA Value NR Index, Banks = S&P 500 Banks TR Index, Energy = S&P 500 Energy TR Index.

# Expected Returns for Passive “60/40” Portfolio Near All-Time Low

ESTIMATED 60/40 PORTFOLIO 10-YEAR RETURNS VS. ACTUAL 10-YEAR RETURNS, 1/1/1948 - 3/31/2020

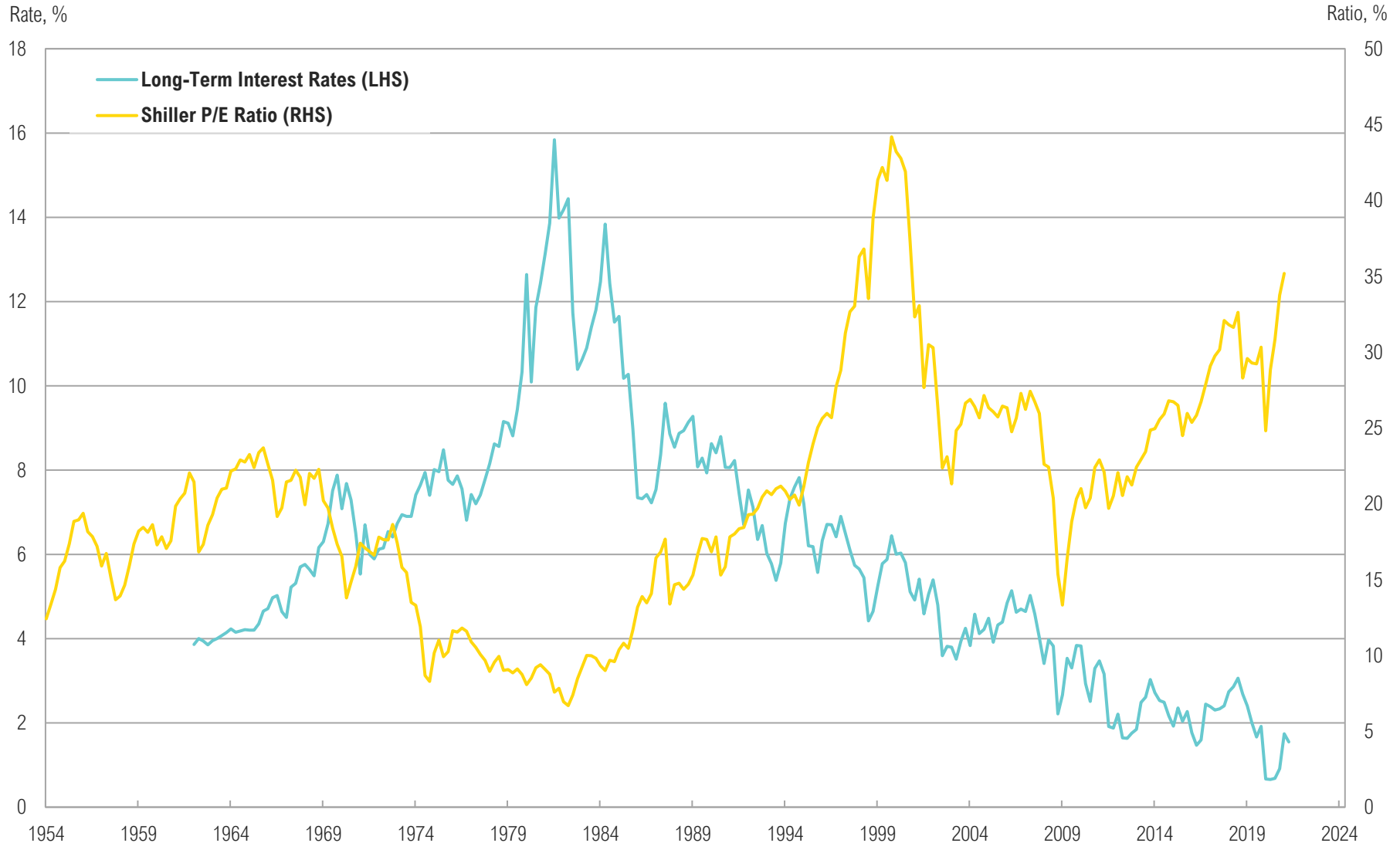
Returns



Source: Bloomberg

# Valuations in the Context of Yields

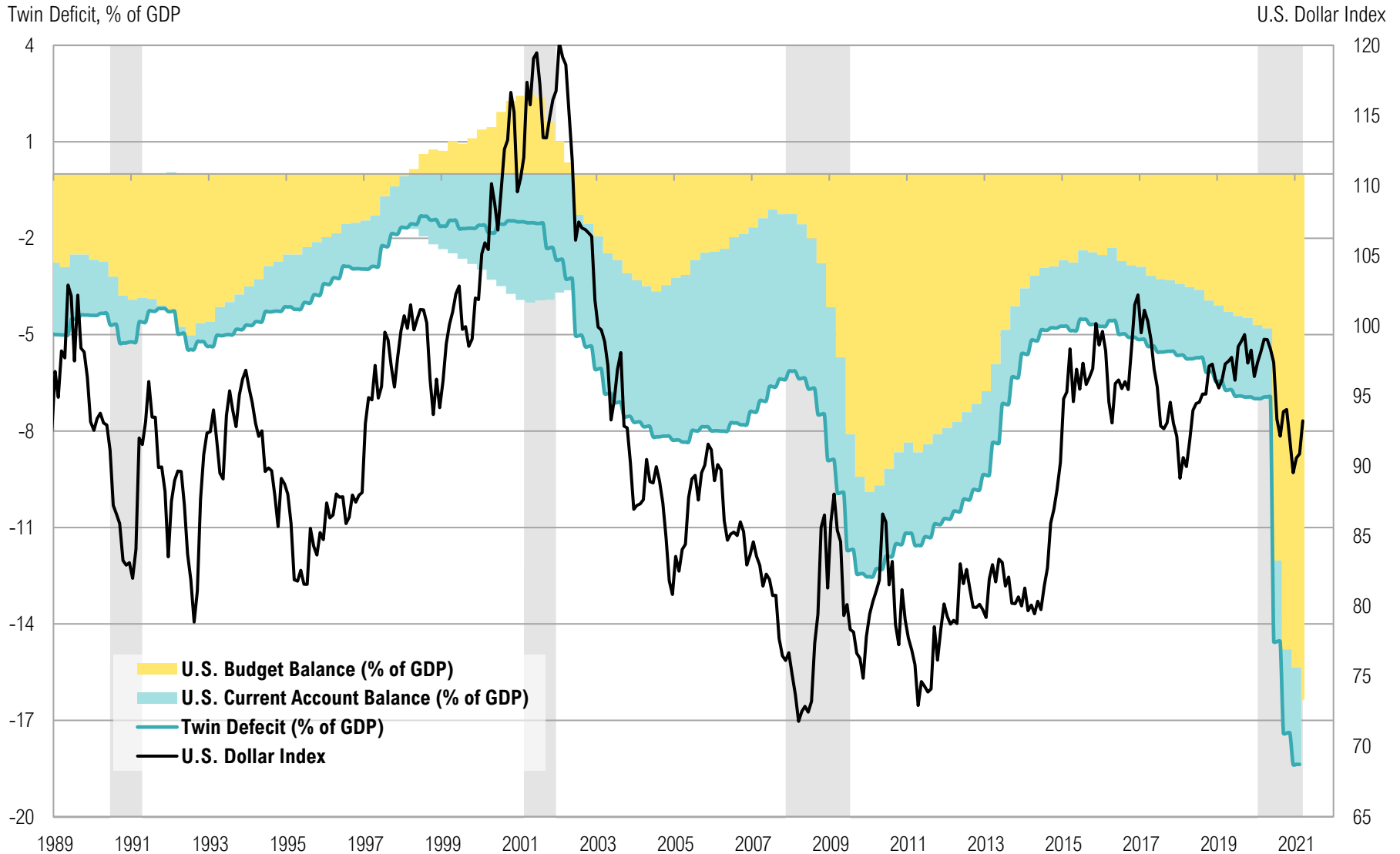
SHILLER P/E RATIO VS. LONG-TERM INTEREST RATES (10-YEAR U.S. TREASURY YIELD), 3/31/1954 – 3/31/2021



Source: FRED

# Growing Twin Deficit = Major Headwind for USD

U.S. BUDGET & CURRENT ACCOUNT BALANCE AS A % OF GDP VS. U.S. DOLLAR INDEX, 1/1/1989 – 3/31/2021

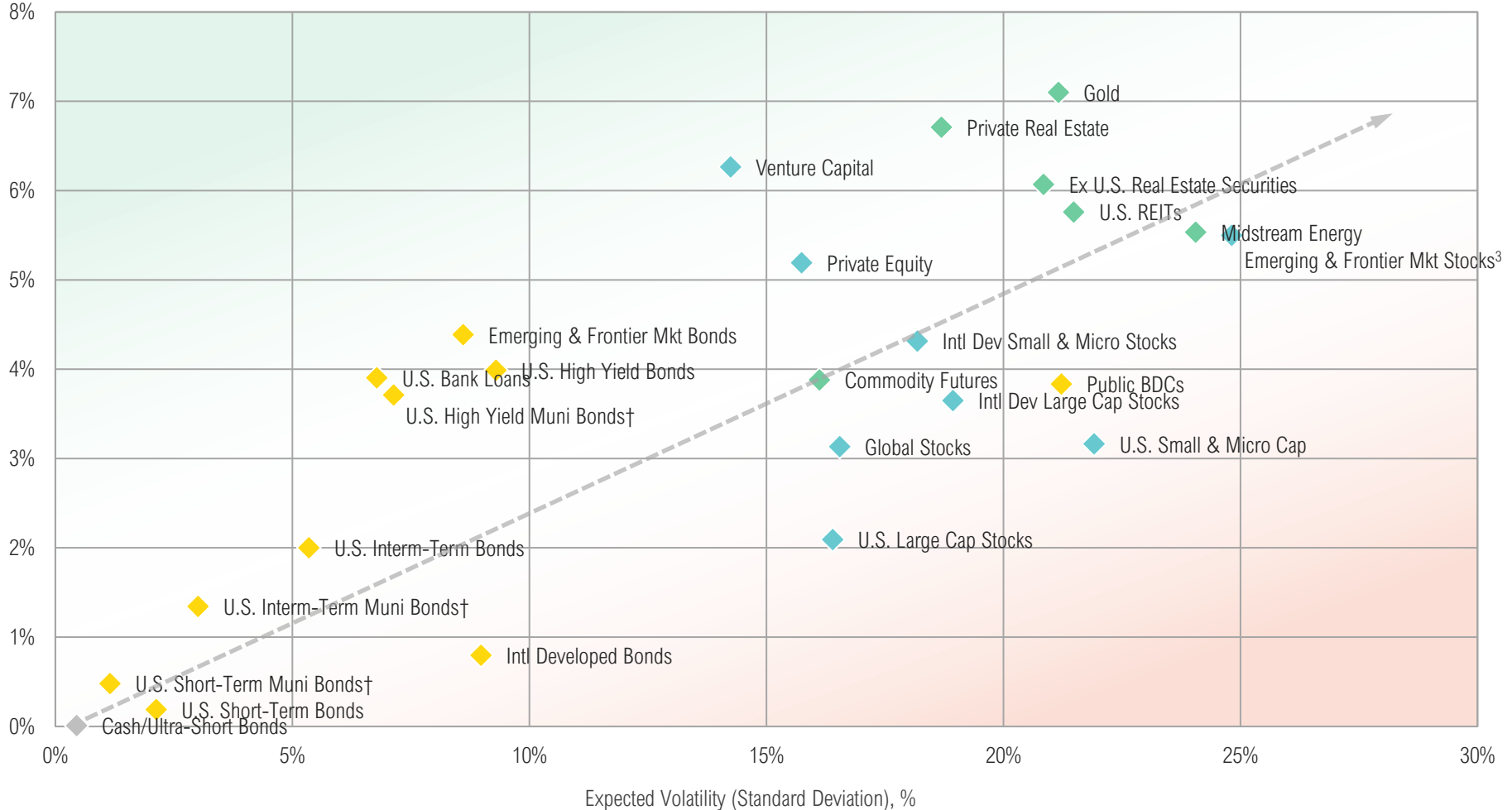


Source: Bloomberg

# Asset Class Returns & Volatility – Strategic Forecasts

ANNUALIZED TOTAL RETURNS & STANDARD DEVIATION FORECASTS, AS OF 3/31/2021

Expected Total Return, %



<sup>3</sup> Estimated returns include impact of currency adjustment

† Reported on a taxable-equivalent basis assuming 35% marginal tax rate.

Source: Bloomberg, CA, Pitchbook, Morningstar, NAREIT, SpringTide calculations

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