



Market Outlook  
**Feast or Famine**  
*Q4, 2020*

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## DISCLOSURES

## SUMMARY

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“ *This did not start as a financial crisis, but it is morphing into a major economic crisis, with very serious financial consequences...There’s a long road ahead.*”

Carmen Reinhart, *World Bank Chief Economist, Oct 16, 2020*



# Q3, 2020 Market Review

QTD & YTD TOTAL RETURNS

## ASSET CLASS RETURNS

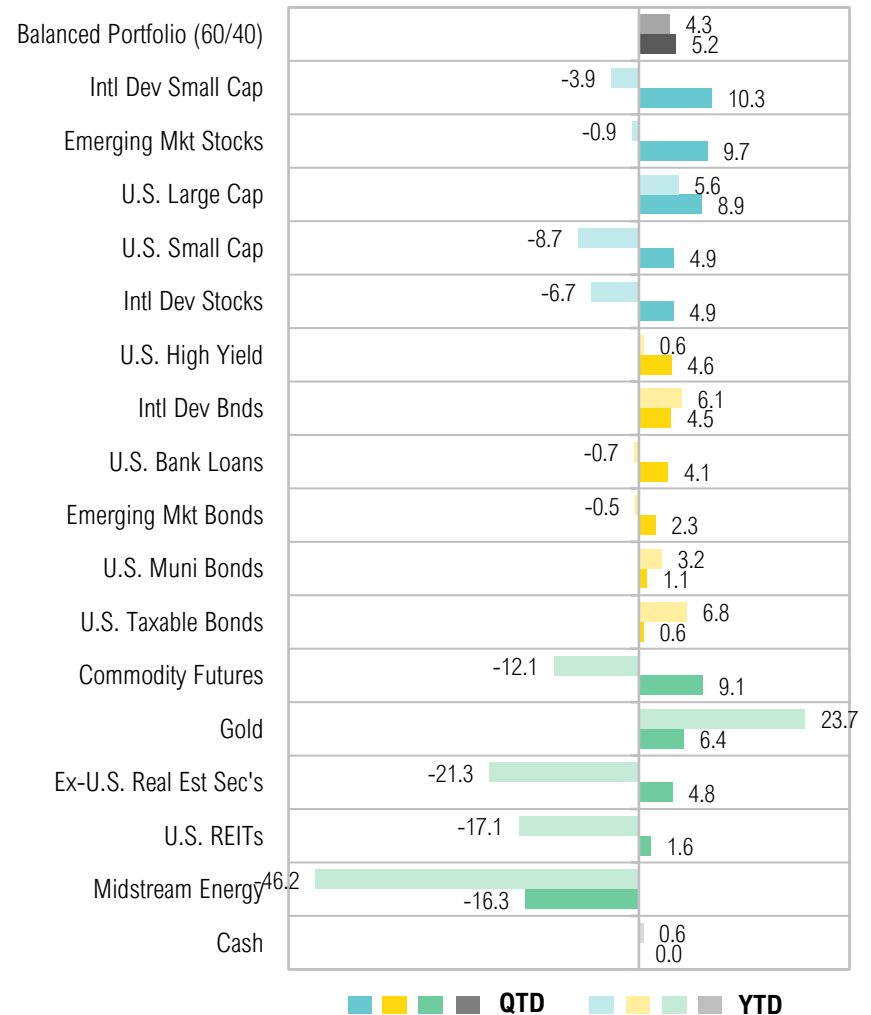
- Risk assets performed well with international developed small cap stocks (+10.3%) and commodity futures (+9.1%) being notable top-performers.
- U.S. large cap stocks, as measured by the S&P 500 Index, remain the only stock market in positive territory for the year to date. This despite earnings estimates for the next 12 months being 11% below where they were on January 1.
- The 12-month forward P/E ratio for the S&P 500 Index reached 22.8 during Q3, its highest level since 2000.
- The energy sector fell 20% in Q3 and remains deeply out of favor due to an anemic demand backdrop that kept oil and gasoline inventories above their 5-year ranges for most of the quarter.
- All fixed income and credit sectors rallied for the quarter as rates remained low and credit spreads narrowed on continued support by the Federal Reserve and an overall increase in risk appetite.
- While still positive, U.S. investment-grade bonds were the worst performing sector, delivering 0.6% for the quarter.
- High yield bond spreads narrowed by 94 basis points from 6.44% to 5.50% as the Fed continued to support the corporate credit markets through the purchase of bonds and bond ETFs. As of September 30, the Fed has purchased \$8.6 billion of ETFs and \$4.4 billion of direct bonds (just over 1% of what was authorized).
- It remains feast or famine in the real assets space with energy-related assets continuing to languish while gold added to its impressive year-to-date lead over other major asset classes.

Source: Bloomberg

## Q4, 2020 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

## KEY MARKET TOTAL RETURNS



“*The recovery will be stronger and move faster if monetary policy and fiscal policy continue to work side by side to provide support to the economy until it is clearly out of the woods.*”

**Jerome Powell**, *Federal Reserve Chairman, October 2020*

# Growth, Inflation & Policy Summary

## COMMENTARY & MARKET DATA

### GROWTH

- *The global economy is gradually emerging from the severe recession it entered earlier in the year. Growth has been stabilized but underlying economic and market trends expose an extremely uneven recovery – parts of the global economy remain in depression while some sectors are booming.*
- *U.S. real GDP growth is expected to have dropped 4.4% year-over-year in Q3 but is expected to bounce back in 2021.*

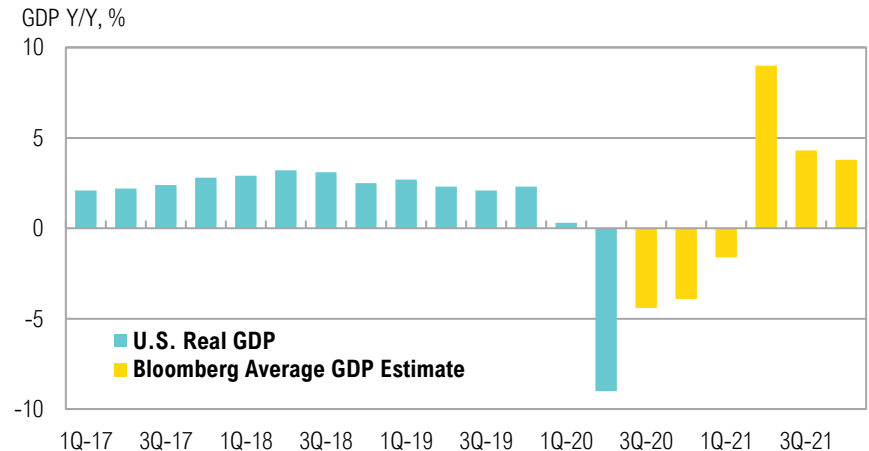
### INFLATION

- *U.S. headline and core inflation rose modestly during the quarter. While current inflation is low, long-term inflation expectations as measured by the 10-year treasury-implied or breakeven inflation rate trended higher over the quarter, ending September at 1.6% (up from 1.3% in June).*
- *Global inflation will stay contained during the crisis. Tech and excessive debt levels will also subdue inflation until MMT-inspired “helicopter money” becomes ongoing policy.*

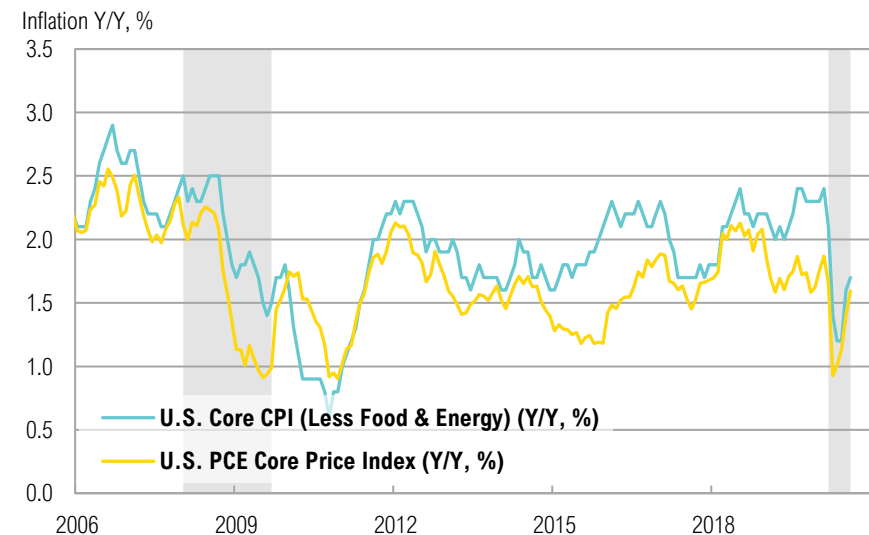
### POLICY

- *To date, fiscal stimulus has been more reactive (replacing lost income) than proactive (stimulus). We expect that to change next year regardless of who controls Congress and the White House.*
- *The structural change to higher inflation may take as long as until the next general election in 2024, but we believe it may be inevitable given shifting demographics there is no political appetite or will for the alternative.*

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



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



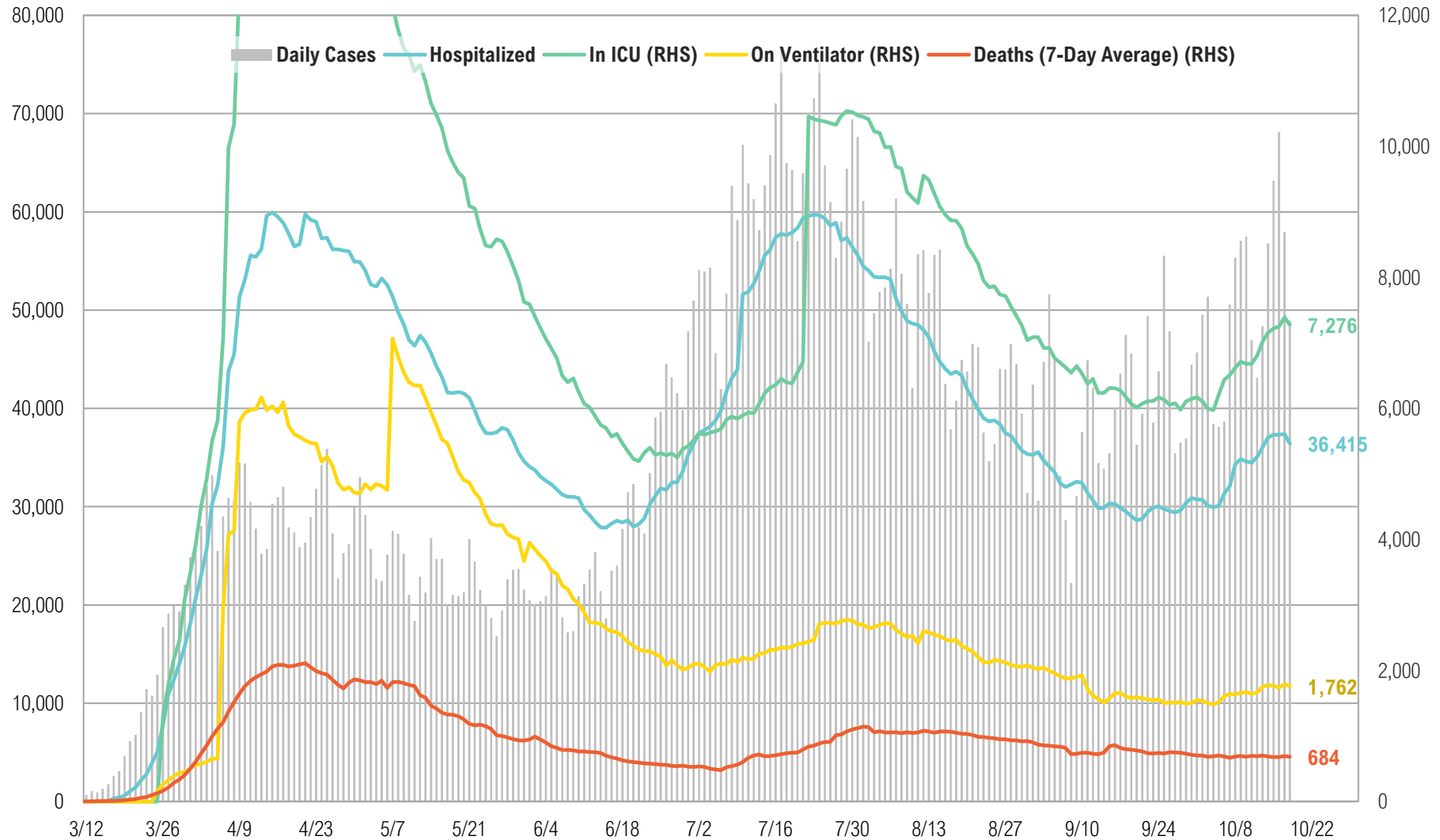


# Surge in Cases & Hospitalizations But Not Deaths

U.S. COVID-19 PATIENTS CURRENTLY HOSPITALIZED, IN ICU, ON VENTILATOR, AS OF 10/18/2020

Daily Cases & Hospitalizations

In ICU, on Ventilator & Deaths



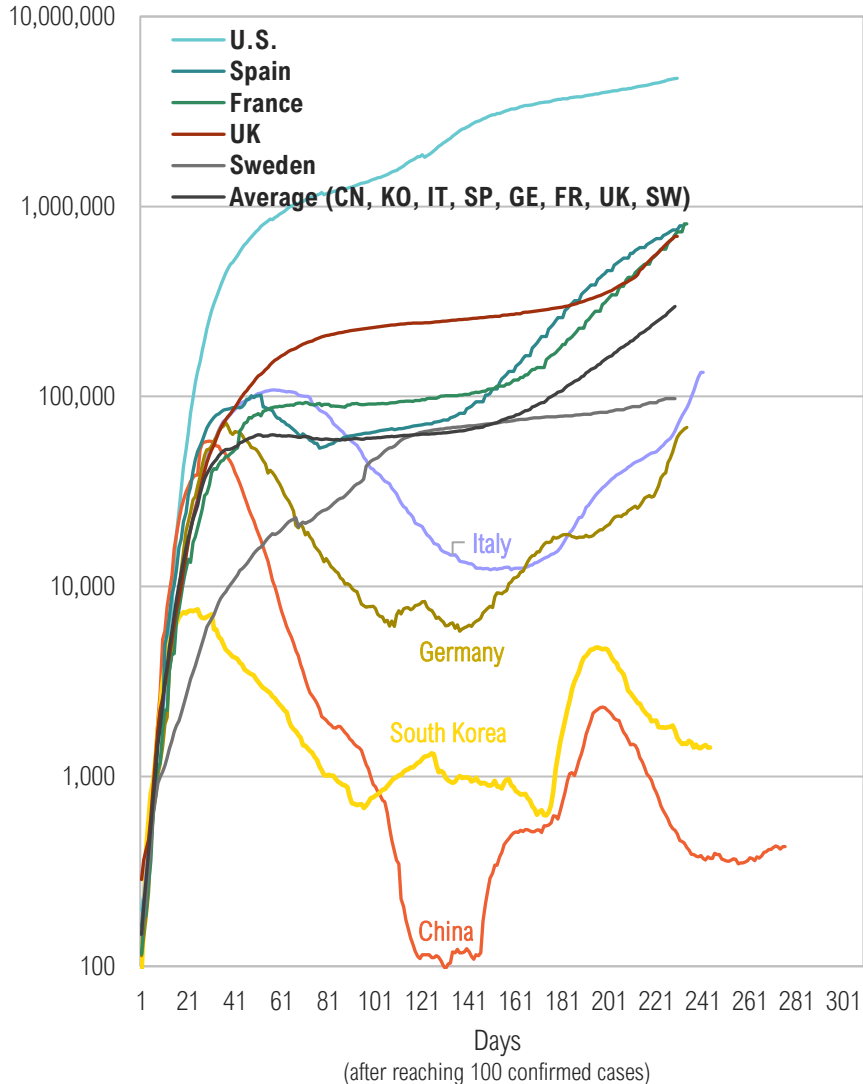
Source: CovidTracking.com



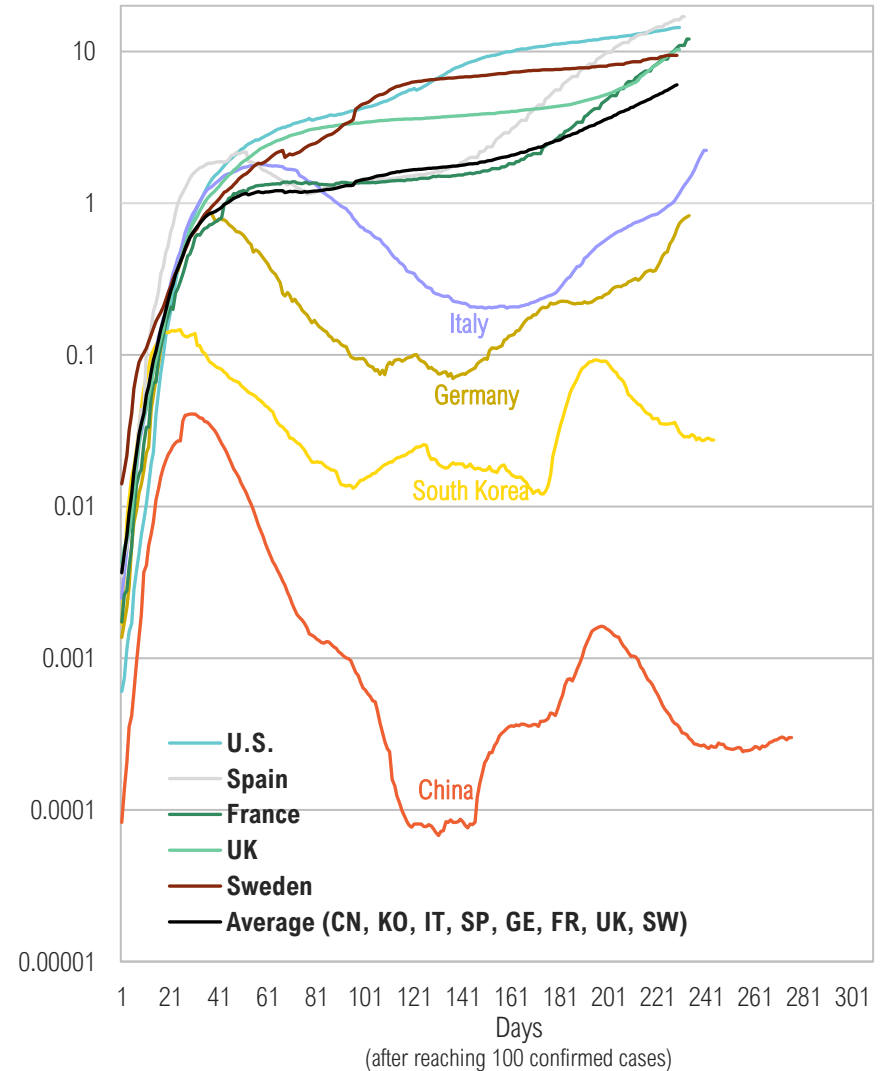
# Similar Patterns Are Playing Out Across the World

DAILY ACTIVE CASES (TOTAL CASES LESS RECOVERIES & DEATHS) AFTER REACHING 100 CONFIRMED CASES

Active Cases, Log Scale



Active Cases Per 1,000 People, Log Scale



Source: Bloomberg, CDC

# Tracking the Recovery

VARIOUS MARKET & ECONOMIC INDICATORS, WEEKLY

	6/5	6/12	6/19	6/26	7/3	7/10	7/17	7/24	7/31	8/7	8/14	8/21	8/28	9/4	9/11	9/18	9/25	10/2	10/9	10/16
<b>Virus</b>																				
New Covid-19 Cases (U.S.)	152,172	151,695	185,821	269,112	339,595	416,292	468,328	460,721	434,003	376,891	358,392	298,725	294,030	279,807	243,779	279,712	314,969	306,686	341,555	391,730
New Covid-19 Fatalities (U.S.)	6,131	5,218	4,237	5,834	4,144	5,256	5,331	6,400	7,925	8,079	7,114	6,749	6,256	5,880	5,136	5,401	5,278	5,058	4,954	4,908
Lockdown Index (0-100)	73	73	69	69	69	69	69	67	67	67	67	67	67	67	67	67	63	63	63	63
<b>Economy</b>																				
Jobless Claims (000') <sup>1</sup>	1,620	1,561	1,463	1,460	1,427	1,395	1,513	1,377	1,207	988	839	890	826	837	866	796	827	799	809	886
Gasoline Inventories (Mn Barrels) <sup>1</sup>	258	259	257	255	257	252	249	247	247	248	247	244	239	235	232	232	227	228	227	225
New York Fed Economic Index	-9	-9	-8	-8	-7	-7	-8	-7	-7	-6	-6	-5	-5	-5	-6	-5	-5	-5	-4	-4
Public Transit Ridership (%)	-61	-58	-55	-53	-52	-52	-53	-53	-52	-50	-49	-50	-50	-49	-49	-51	-41	-37	-52	-46
Mortgage Applications (%) <sup>2</sup>	4	10	14	10	9	15	8	10	8	6	8	9	9	9	12	12	15	13	11	10
Consumer Comfort <sup>1</sup>	39	40	41	43	43	44	45	44	45	44	44	44	45	48	48	50	49	48	48	48
Same Store Sales (YoY%) <sup>1</sup>	-7	-10	-8	-6	-6	-7	-6	-8	-9	-7	-3	-3	1	5	0	-1	2	2	2	1
Restaurant Booking (YoY%)	-75	-65	-60	-58	-57	-62	-59	-57	-54	-52	-49	-45	-41	-33	-42	-39	-35	-48	-34	-38
Active Oil Rigs (%) <sup>2</sup>	-70	-71	-72	-72	-73	-73	-74	-73	-74	-74	-75	-73	-74	-73	-74	-74	-73	-72	-72	-70
Steel Production (%) <sup>2</sup>	-36	-36	-35	-35	-34	-32	-31	-30	-29	-29	-28	-26	-25	-26	-24	-22	-23	-21	-21	-20
<b>Financial Markets</b>																				
S&P 500 (%) <sup>2</sup>	-1	-6	-4	-7	-3	-1	0	0	1	4	4	5	9	6	3	3	2	4	8	8
Russell 2000 (%) <sup>2</sup>	-10	-17	-15	-17	-14	-15	-12	-12	-11	-6	-6	-7	-6	-8	-10	-8	-12	-8	-2	-2
Russell Microcap (%) <sup>2</sup>	-10	-16	-13	-15	-12	-14	-11	-11	-11	-4	-3	-5	-4	-8	-9	-4	-11	-7	0	-1
Financial Conditions	0	-1	-1	-1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bbg U.S. Corp HY Spread (Bps)	536	611	578	615	600	597	556	504	488	479	498	501	475	488	496	490	537	510	469	471
NYSE % above 200-day MA	38	24	27	21	27	27	34	35	37	44	51	46	53	51	46	47	41	48	58	57
VIX	25	36	35	35	28	27	26	26	24	22	22	23	23	31	27	26	26	28	25	27

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.

## Q4, 2020 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

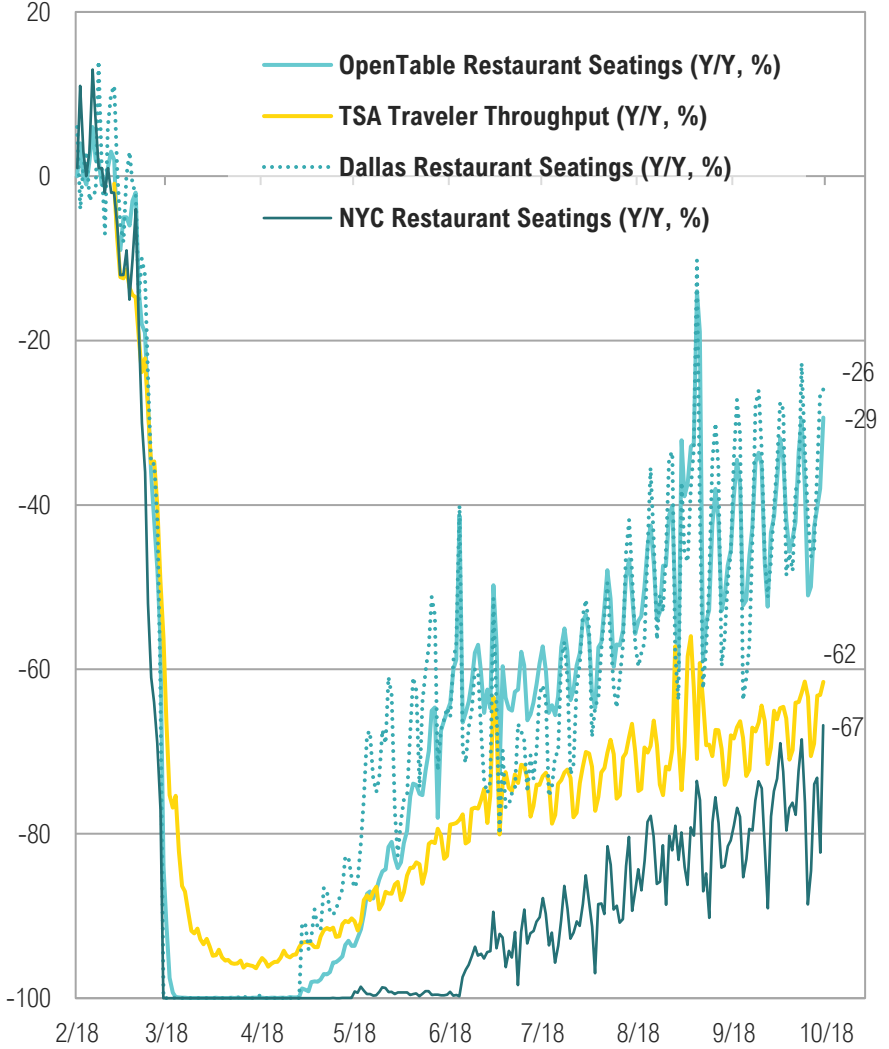
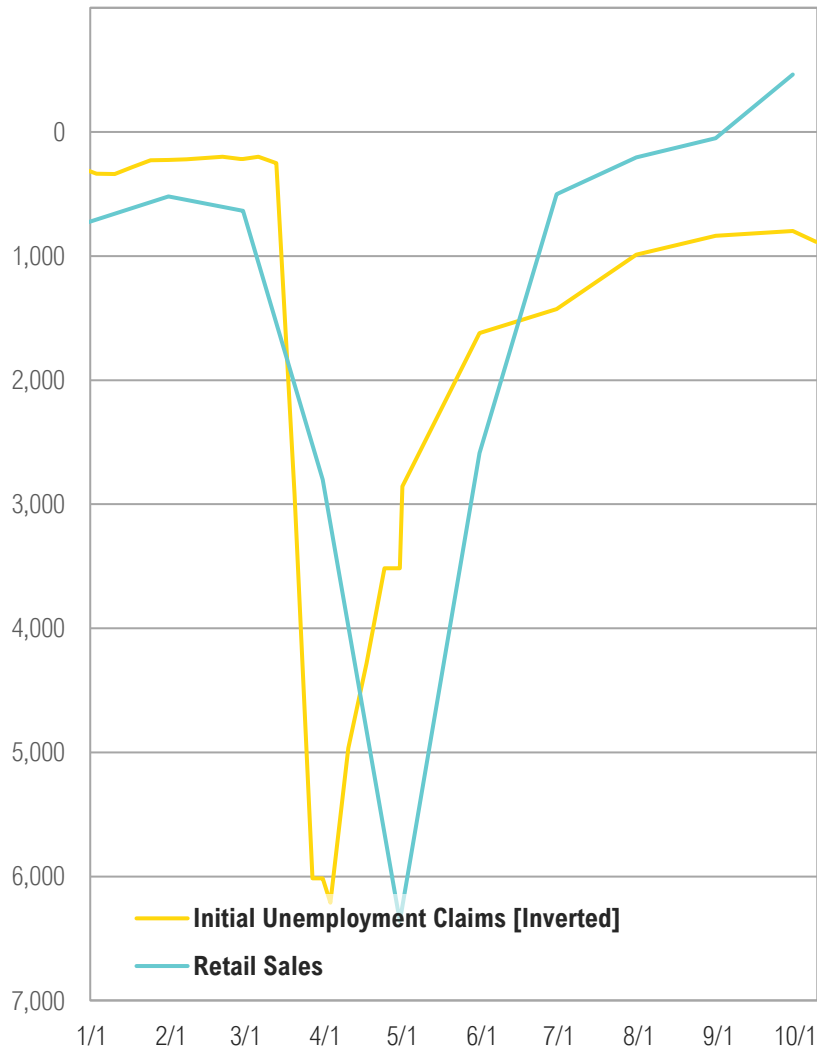
# Feast in Retail Sales, Famine in Labor Market

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

Initial Unemployment Claims (NSA), '000s

Retail & Food Sales, \$Bn

Y/Y, %

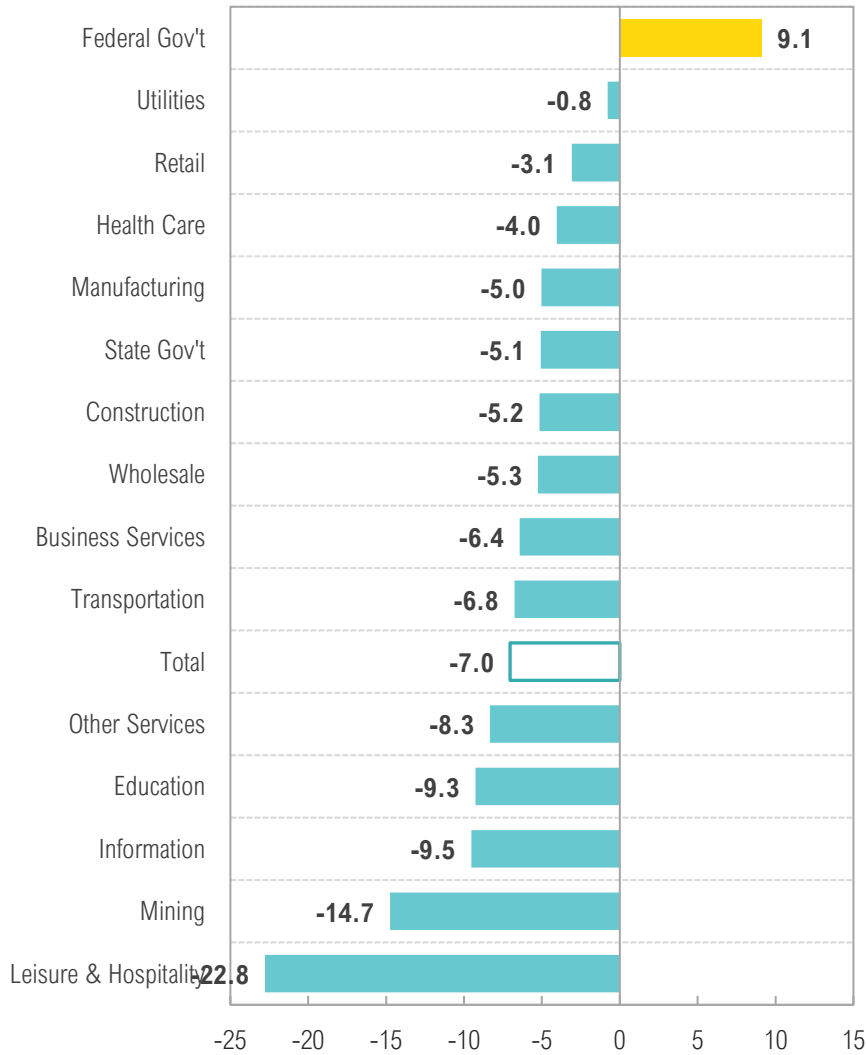


Source: Bloomberg, OpenTable, TSA

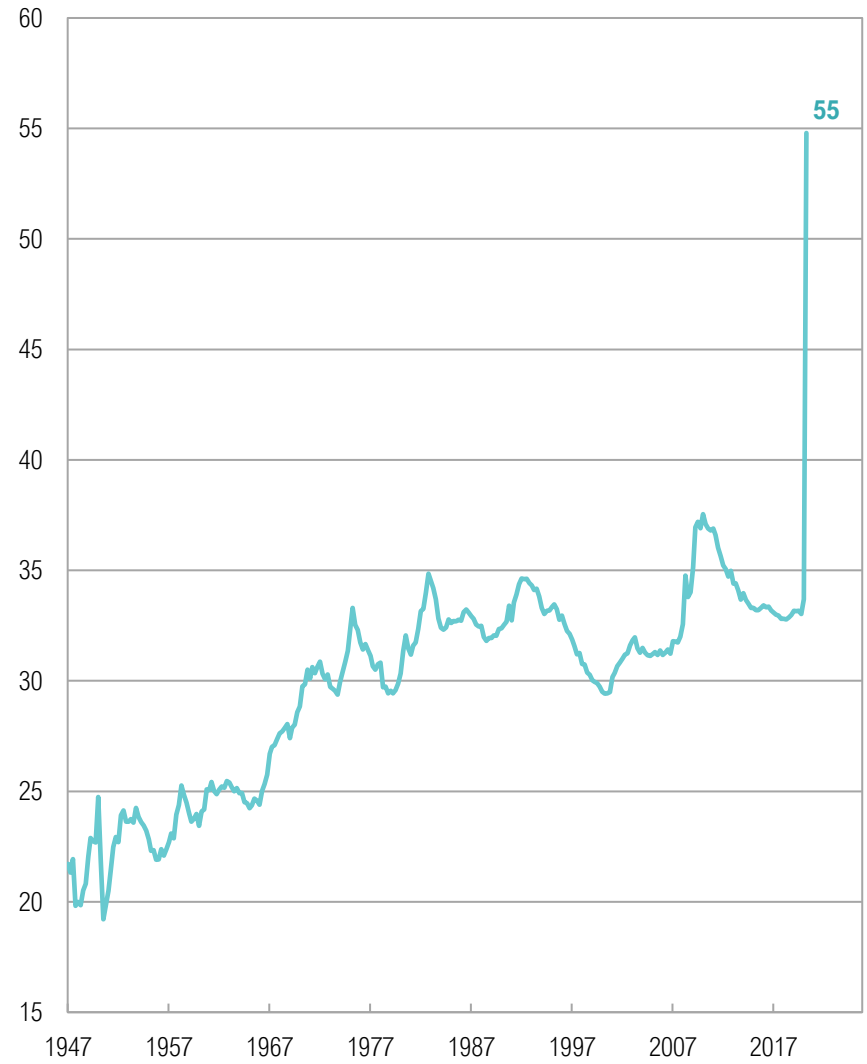
# Feast in Government Spending, Famine in Leisure & Hospitality

NONFARM PAYROLLS BY INDUSTRY (LHS) & GOVERNMENT SPENDING AS % OF GDP (RHS), AS OF 9/30/2020

Payroll Change from February 2020, %



Gov't Spending/GDP, %

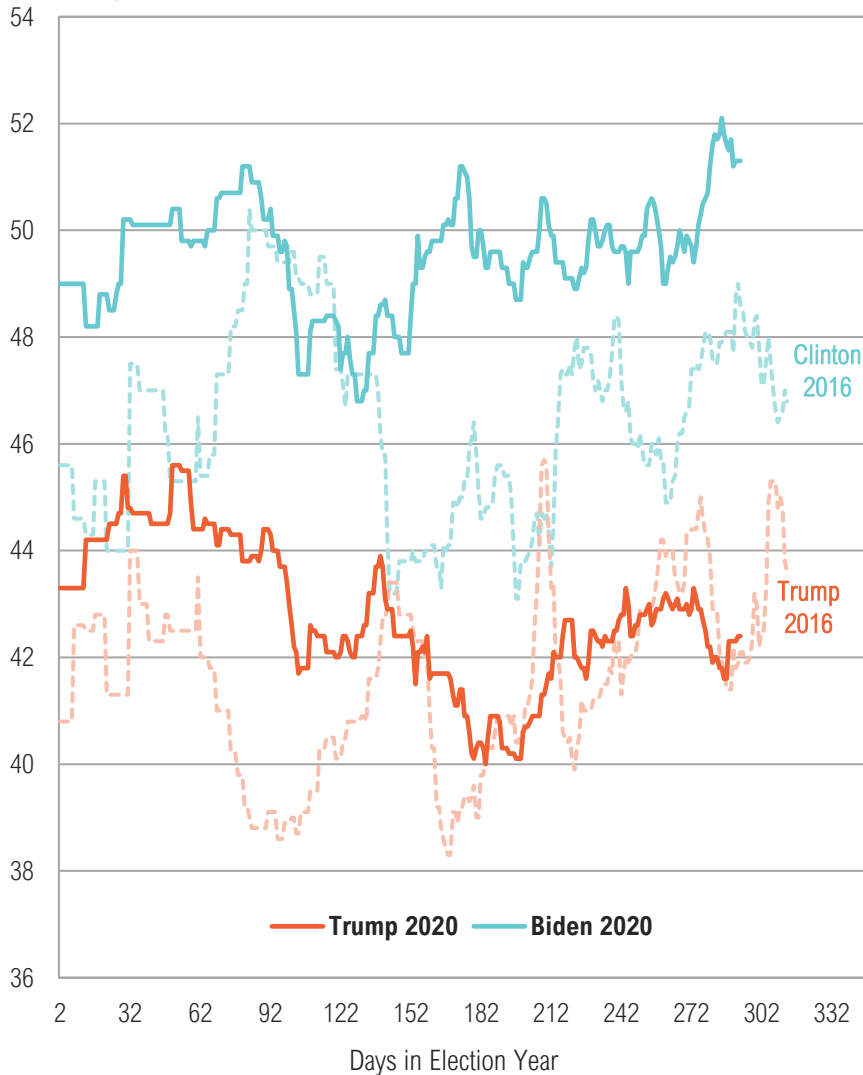


Source: Bloomberg

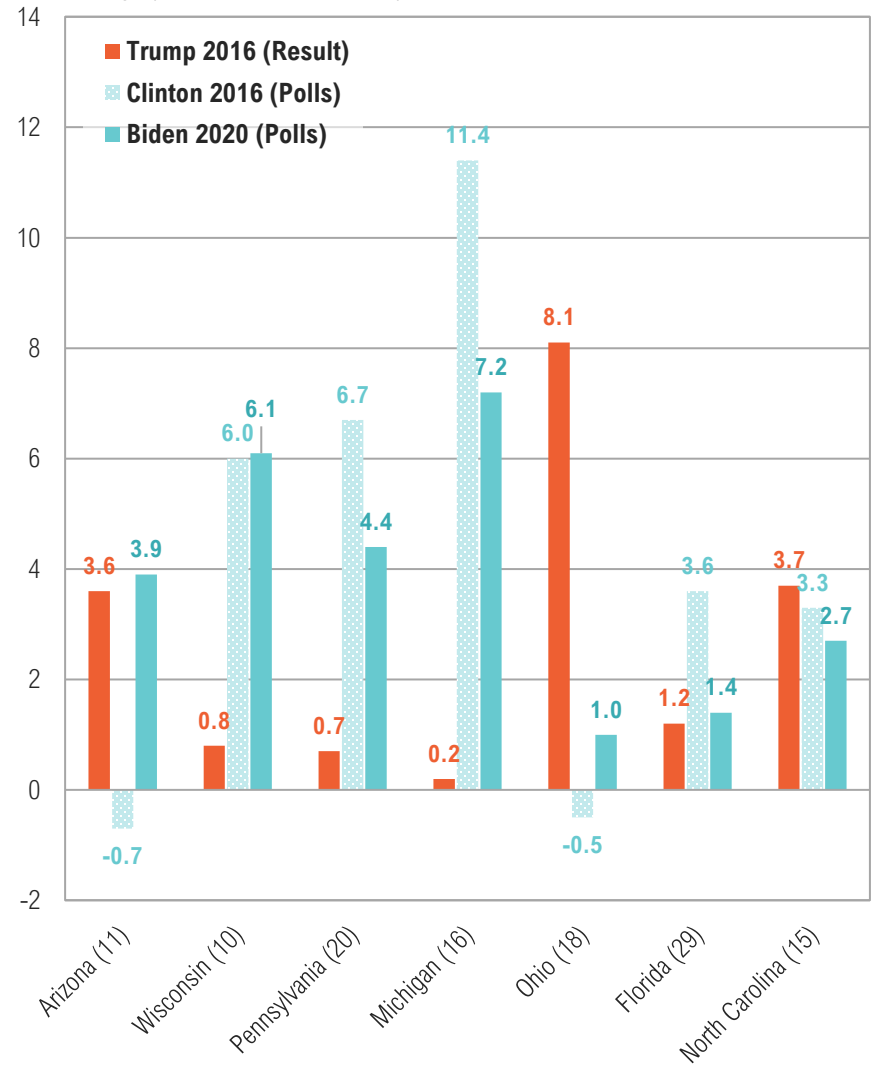
# The Battle for the White House

2016 & 2020 U.S. PRESIDENTIAL CANDIDATE POLL AVERAGES, AS OF 10/18/2020

Poll Average, %



Poll Average (10/17/16 & 10/17/2020), %



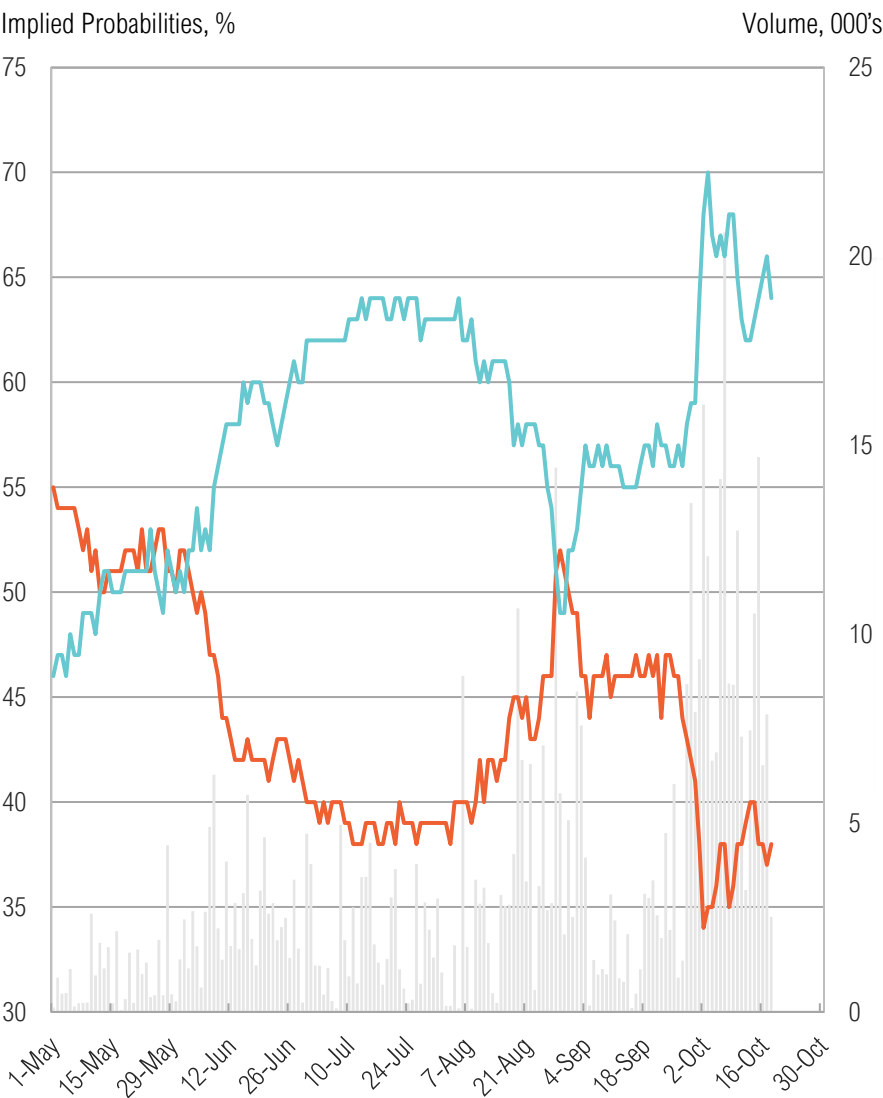
Source: Bloomberg, Real Clear Politics  
Biden and Clinton data as of 10/17/2016 and 10/17/2020, respectively. Electoral votes in brackets.

## Q4, 2020 Market Outlook

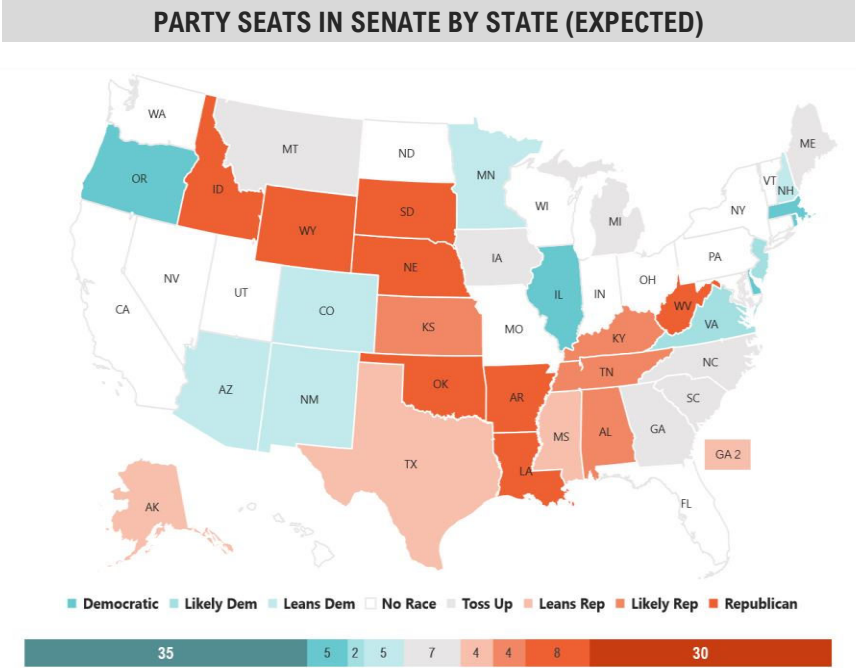
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# The Battle for the Senate

IMPLIED PROBABILITIES (LHS) AND EXPECTED POLITICAL PARTY SEATS IN SENATE BY STATE (RHS), AS OF 10/18/2020







Source: Real Clear Politics, Bloomberg



# Scenario Analysis of Possible Policy Outcomes

POTENTIAL POLICY OUTCOMES UNDER POSSIBLE 2020 ELECTION RESULTS

White House	Congress	Tax Policies	Spending Policies
<p>Biden, Harris</p>  <p>IMPLIED PROBABILITY<sup>1</sup>: 32%</p>	<p>“Blue Sweep”</p>	<ul style="list-style-type: none"> <li>• Restore top individual tax rate to 39.6%</li> <li>• Increase taxes for high income individuals (&gt;\$400K): payroll taxes, cancelling 1031 exchanges</li> <li>• Tax cap gains and dividends as ordinary income (income &gt;\$1MM)</li> <li>• Carried interest taxed as ordinary income</li> <li>• Increase corporate tax rate to 28%</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure: &gt;\$1 Tn infrastructure spending</li> <li>• Healthcare: build on Affordable Care Act; limit drug price increases</li> <li>• Social: expand safety net</li> <li>• Education: increase max value of Pell grants, free public higher education for low-income families</li> </ul>
<p>Trump, Pence</p>  <p>27%</p>	<p>“Blue Sweep”</p>	<ul style="list-style-type: none"> <li>• Status quo: extend 2017 Tax Cuts and Jobs Act</li> <li>• Temporarily suspend employee Social Security payroll tax</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure: &gt;\$1 Tn infrastructure spending</li> <li>• Defense: Provide funding for National Defense Strategy</li> </ul>
<p>Biden, Harris</p>  <p>13%</p>	<p>Split</p>	<ul style="list-style-type: none"> <li>• Potential increase in top individual tax rate</li> <li>• Potential increase in corporate tax rate</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure: &gt;\$1 Tn infrastructure spending</li> <li>• Healthcare: potentially build on Affordable Care Act; possible limitation of drug price increases</li> </ul>
<p>Trump, Pence</p>  <p>11%</p>	<p>Split</p>	<ul style="list-style-type: none"> <li>• Status quo: extend 2017 Tax Cuts and Jobs Act</li> <li>• Potentially index capital gains to inflation</li> <li>• Temporarily suspend employee Social Security payroll tax</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure: &gt;\$1 Tn infrastructure spending</li> <li>• Healthcare: potentially reduce Medicare payments</li> <li>• Social: potentially reduce welfare spending particularly on SNAP and TANF</li> <li>• Defense: potentially provide funding for National Defense Strategy</li> </ul>

Source: Deloitte, Cato Institute, joe Biden.com, whitehouse.gov, Reuters.com, taxfoundation.org, NY Life Investments, Moody's.

<sup>1</sup> Implied probability based on offshore betting market, PredictIt. Odds may not add up to 100% due to rounding, PredictIt spreads, and other factors.



## EQUITY

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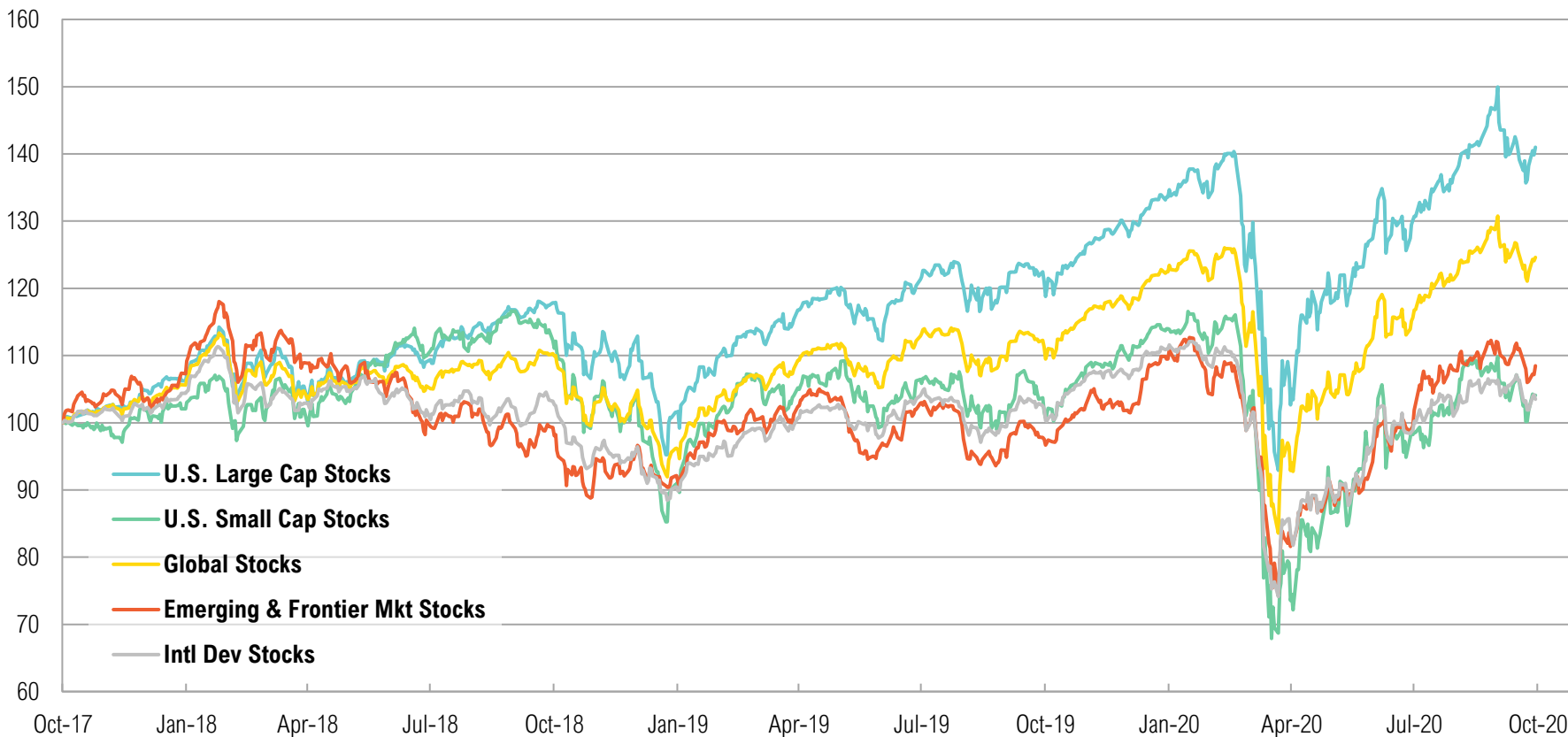
“*...one of the things that's going on in the crisis is people are seeing that there continues to be efficiency in scale. As the world continues to digitize, it requires greater investment, and that obviously advantages companies with scale.*”

David Solomon, Goldman Sachs CEO, Oct 14, 2020

# Equity Returns

## CALENDAR YEAR & TRAILING TOTAL RETURNS

Growth Index, 3 Years



Asset Class	Benchmark	QTD	YTD	2019	2018	2017	2016	2015	1-Yr	3-Yr	5-Yr	10-Yr
U.S. Large Cap Stocks	S&P 500 Index	8.9	5.6	31.5	-4.4	21.8	12.0	1.4	15.1	12.3	14.1	13.7
U.S. Small Cap Stocks	Russel 2000 Index	4.9	-8.7	25.4	-11.0	14.7	21.4	-4.3	0.3	1.7	8.0	9.9
Intl Dev Stocks	MSCI EAFE Index	4.8	-7.1	22.0	-13.8	25.0	1.0	-0.8	0.5	0.6	5.3	4.6
Emerging & Frontier Mkt Stocks	MSCI EM Index	9.6	-1.2	18.4	-14.6	37.3	11.2	-14.9	10.5	2.4	9.0	2.5
Global Stocks	MSCI ACWI Index	8.1	1.4	26.6	-9.4	24.0	7.9	-2.4	10.4	7.1	10.3	8.5

Source: Bloomberg

Returns for periods greater than one year are annualized.

### Q4, 2020 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

# Equity Summary

## COMMENTARY & MARKET DATA

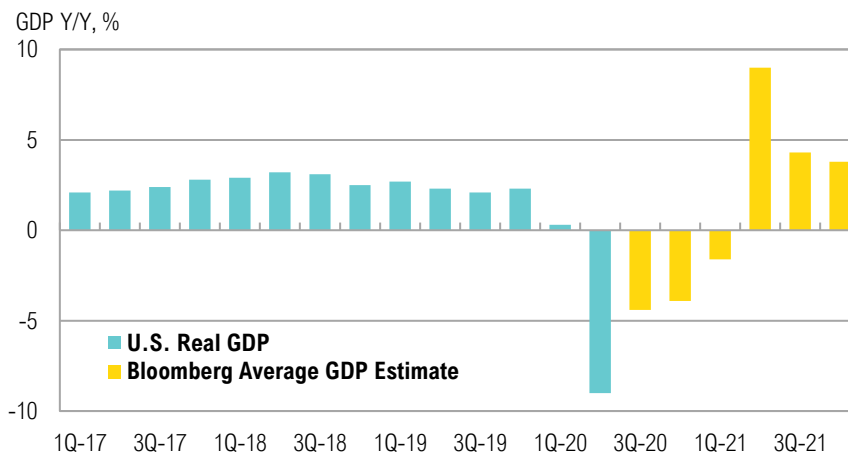
### PUBLIC MARKETS

- *On an absolute basis, 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 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. Hold some, but stay underweight.*
- *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 equity remain relatively stable as higher growth rates should drive earnings growth in excess of developed peers; tactical outlook impacted dramatically by significant disruption due to Covid-19 crisis and the potential for a liquidity crisis in several countries.*

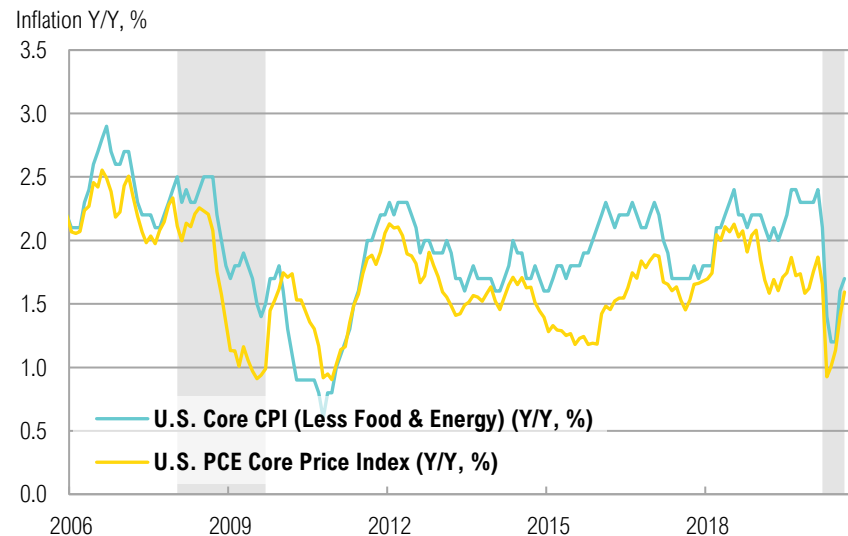
### PRIVATE MARKETS

- *Even net of higher fees, select investments in high quality venture capital and private equity can add value for clients that have the capacity for reduced liquidity.*
- *Secondaries may be particularly attractive if investors who may have overallocated to private markets late in the cycle are forced to seek liquidity in the coming months/years.*

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



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

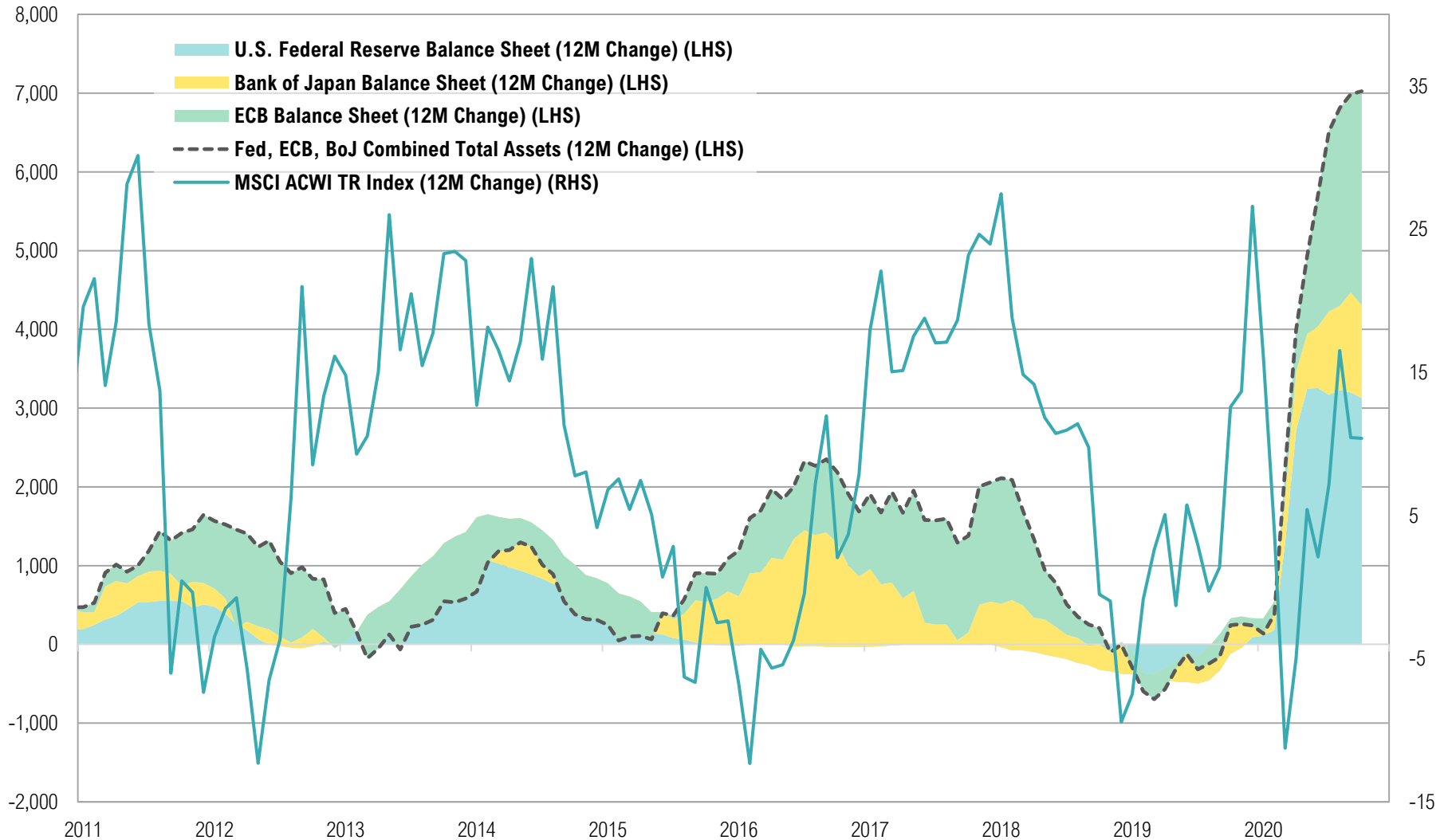


# Central Bank “BS” and Global Stocks

CENTRAL BANK BALANCE SHEETS 12-MONTH CHANGE VS. MSCI ACWI Y/Y % CHANGE, 1/1/2011 – 10/20/2020

Balance Sheet 12-Month Change, \$Bn

MSCI ACWI Y/Y, %

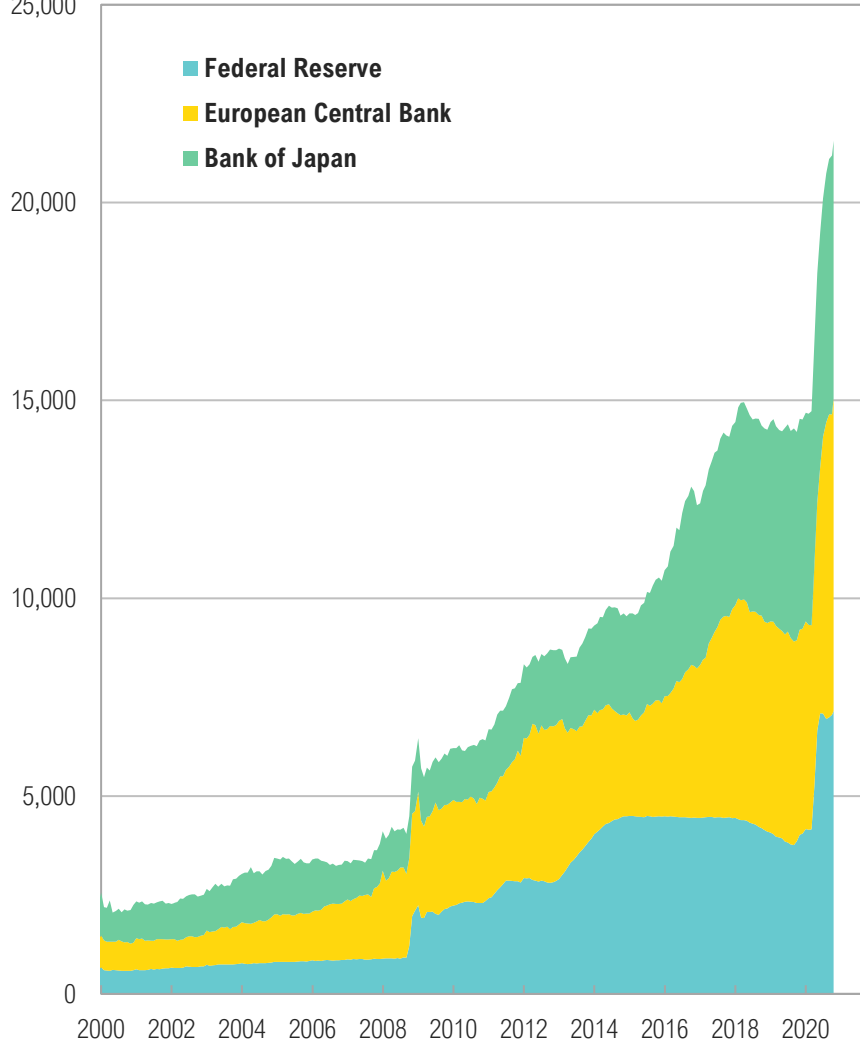


Source: Bloomberg, SpringTide calculations

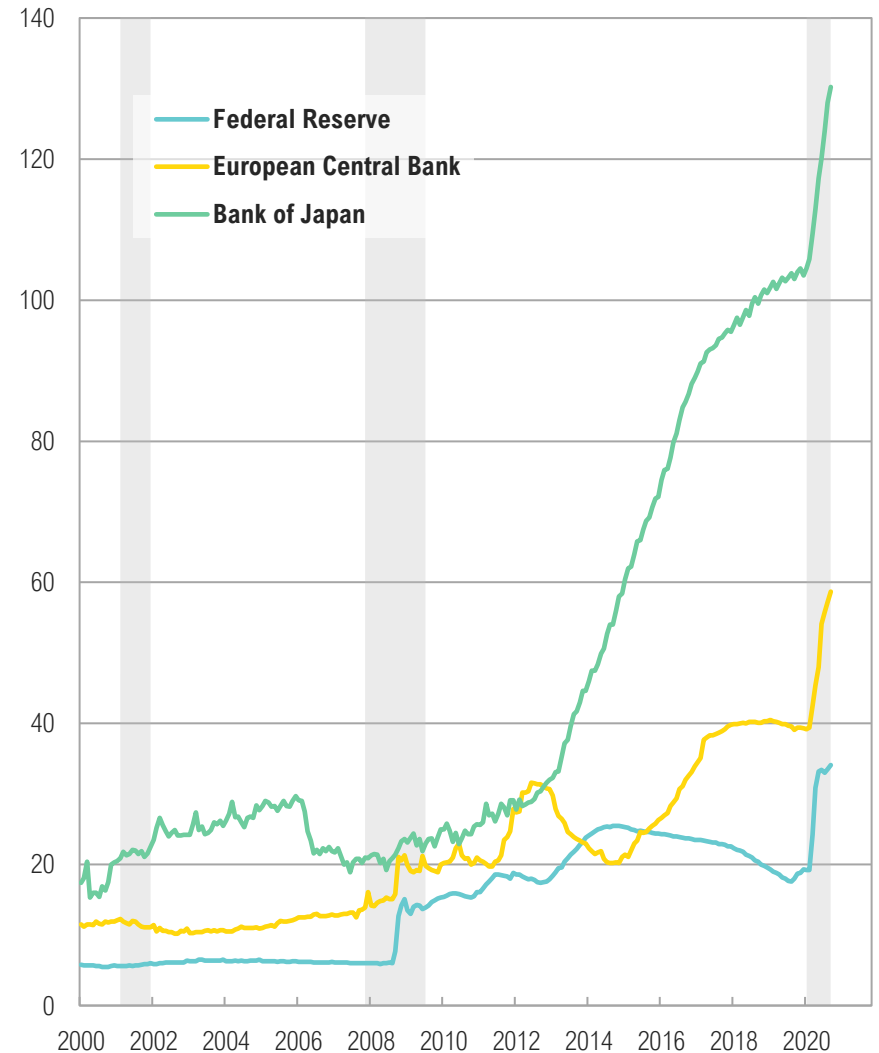
# Fed Can Provide More Stimulus Relative to Other Central Banks

CENTRAL BANK BALANCE SHEETS (LHS), CENTRAL BANK BALANCE SHEETS AS % OF GDP (RHS), 1/1/2000 – 9/30/2020

Balance Sheet, \$Bn  
25,000



Central Bank Balance Sheet to GDP, %

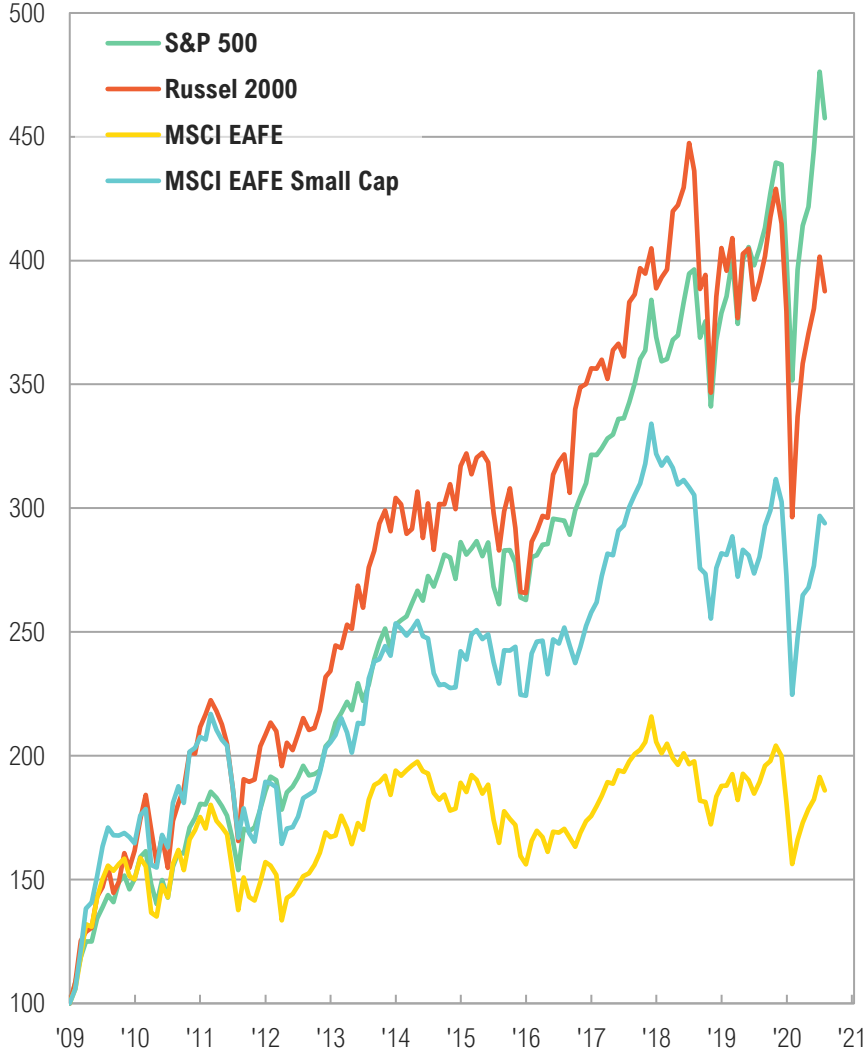


Source: Bloomberg

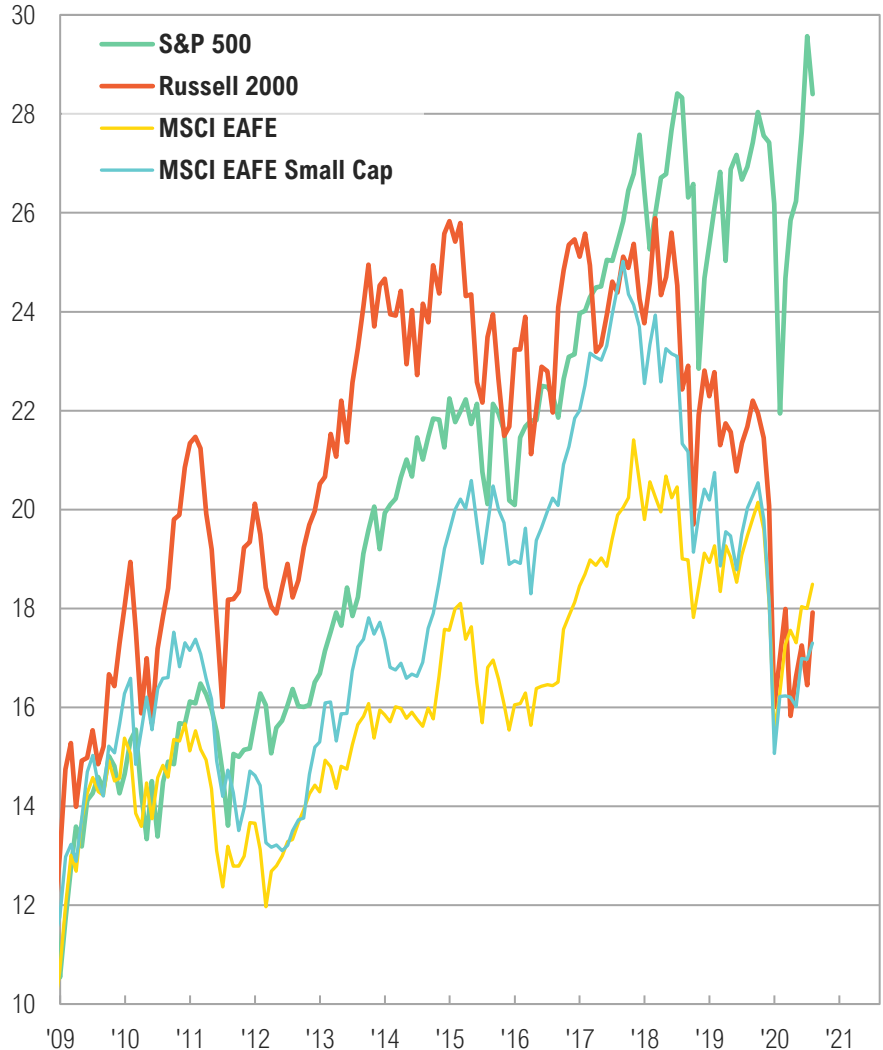
# Feast in U.S. Large Cap, Famine in International & Small Cap

SELECT INDEX RETURNS (LHS) & LONG-TERM PRICE-EARNINGS RATIOS (RHS), 3/1/2009 – 9/30/2020

Growth of 100



Long Term P/E Ratio

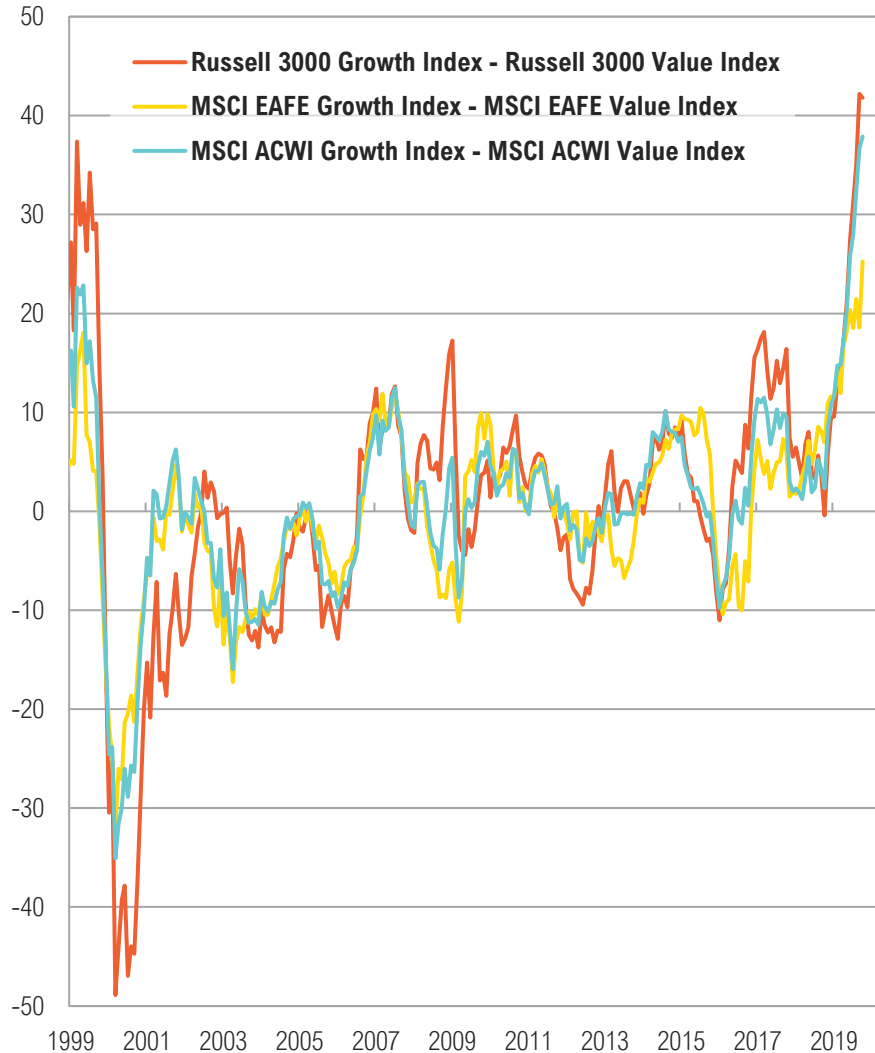


Source: Bloomberg

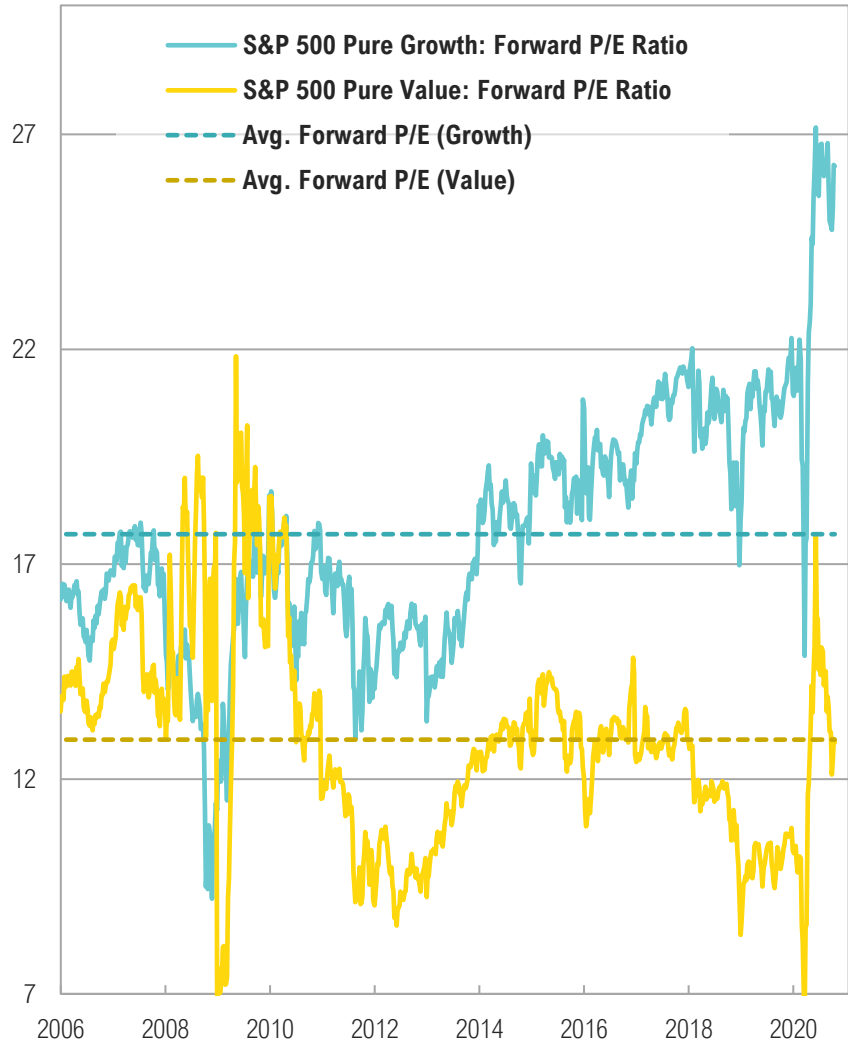
# Feast in Growth, Famine in Value

SELECT INDEX RETURNS (LHS) & LONG-TERM PRICE-EARNINGS RATIOS (RHS), AS OF 10/9/2020

Rolling 1-Year Return, %



Forward P/E Ratio



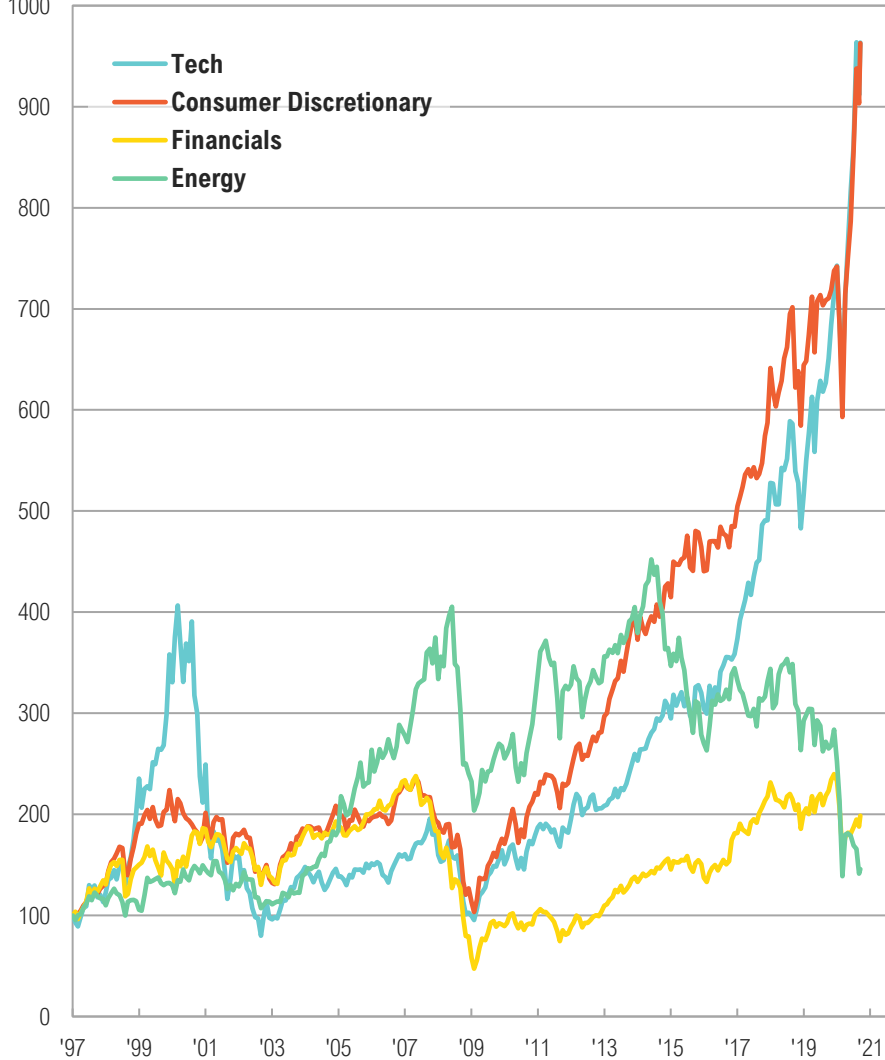
Source: Bloomberg



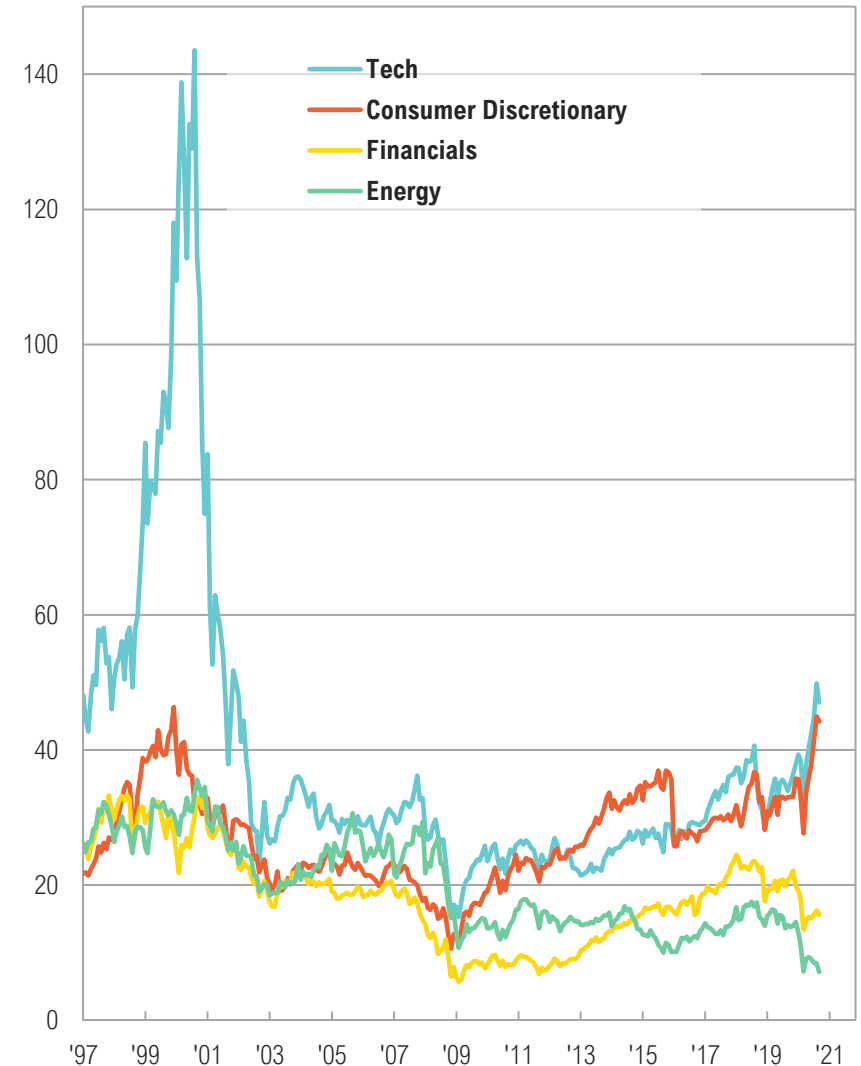
# Feast in Tech & Consumer Discretionary, Famine in Financials & Energy

SELECT SECTOR RETURNS (LHS) & LONG-TERM PRICE-EARNINGS RATIOS (RHS), 1/1/1997 – 9/30/2020

Growth of 100  
1000



LT P/E Ratio

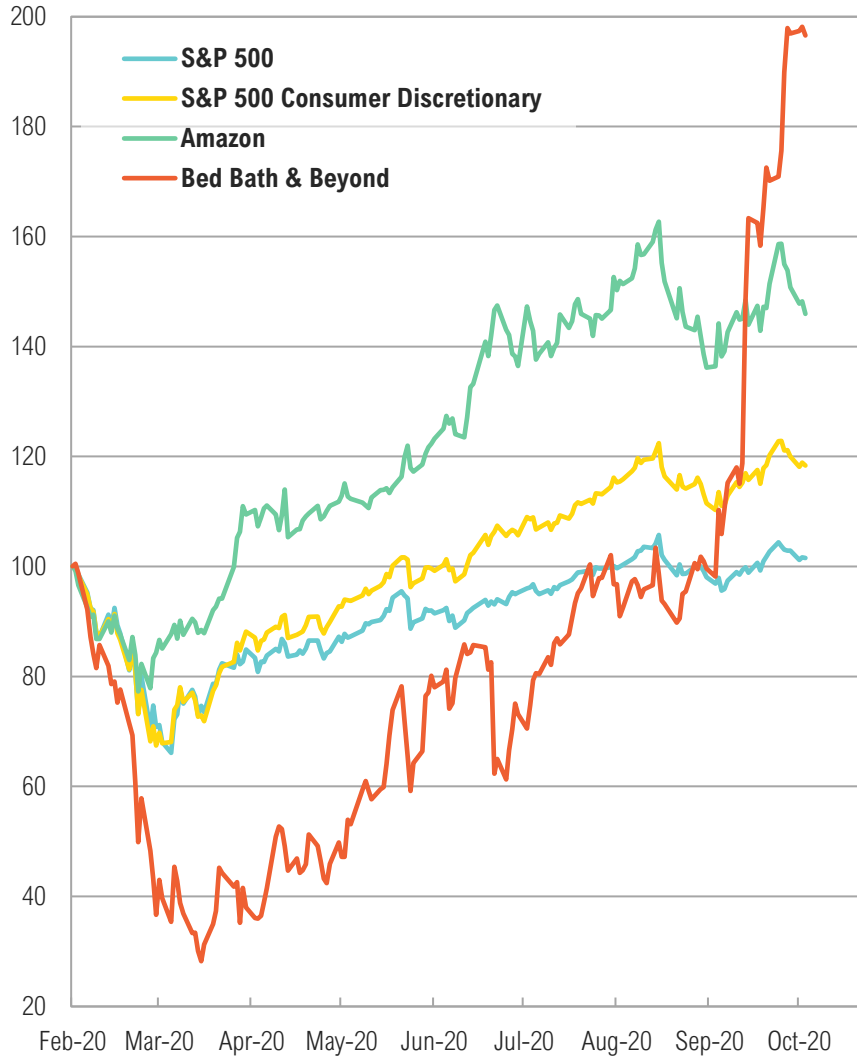


Source: Bloomberg

# Feast in Online & Home, Famine in “Going Out”

EQUITY INDEX & SELECT SECTOR PERFORMANCE (LHS) & RETAIL SALES BY CATEGORY Y/Y % (RHS), AS OF 10/21/2020

Growth of 100

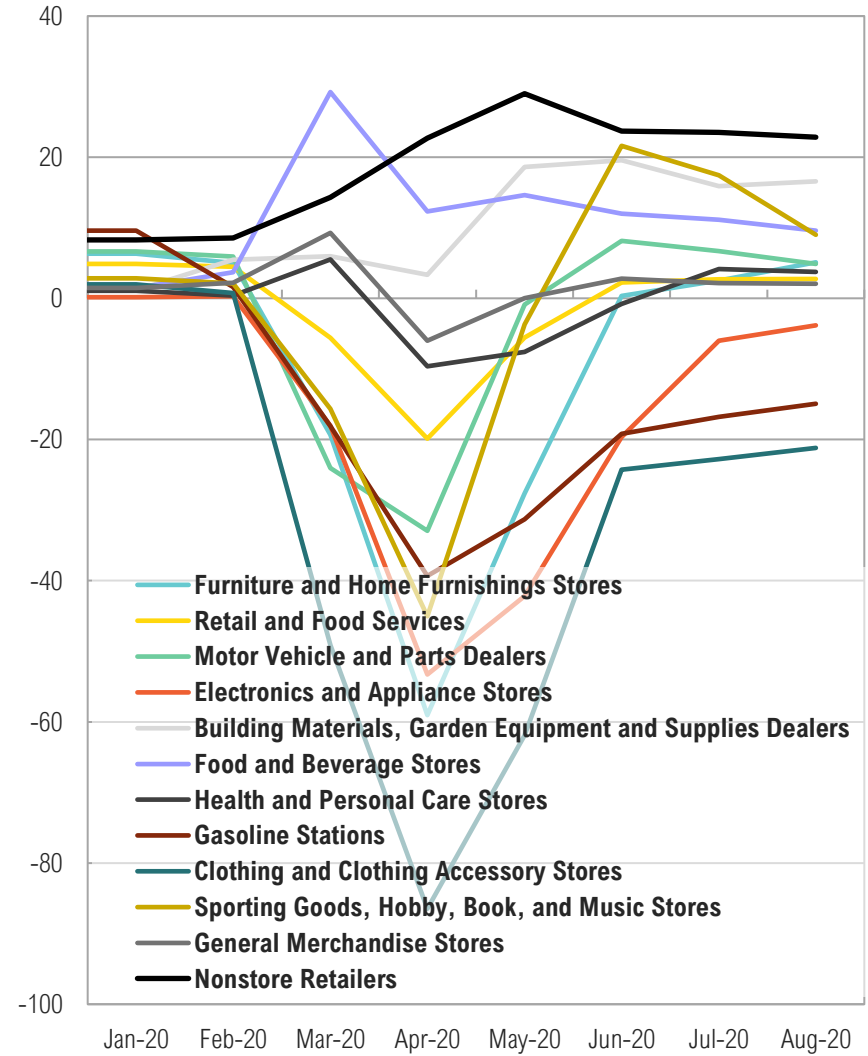


Source: Bloomberg, FRED

## Q4, 2020 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

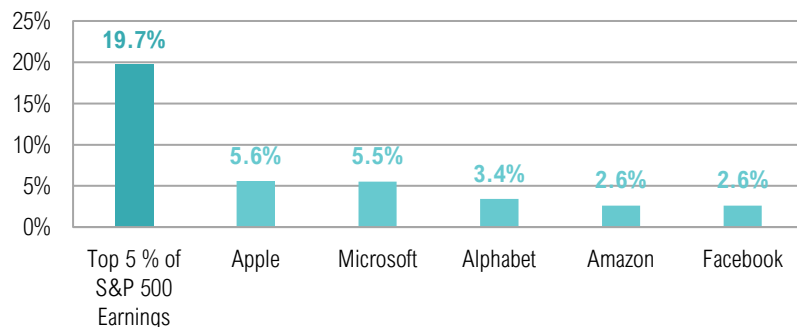
Change, Y/Y %



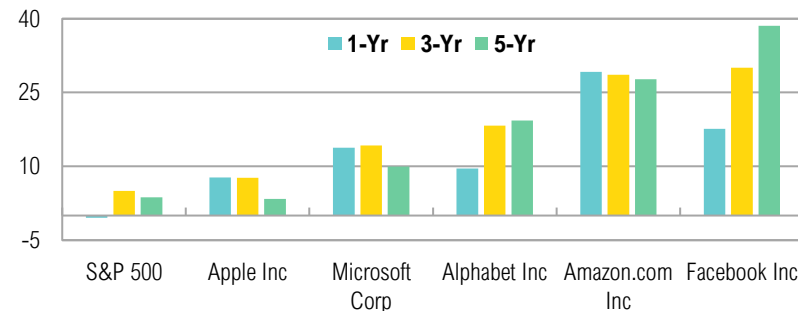
# Winner Take All Markets are Still Justified by Earnings & Growth

TOP 5 COMPANIES % OF S&P 500: EARNINGS, REVENUE GROWTH & MARKET CAP, AS OF 9/30/2020

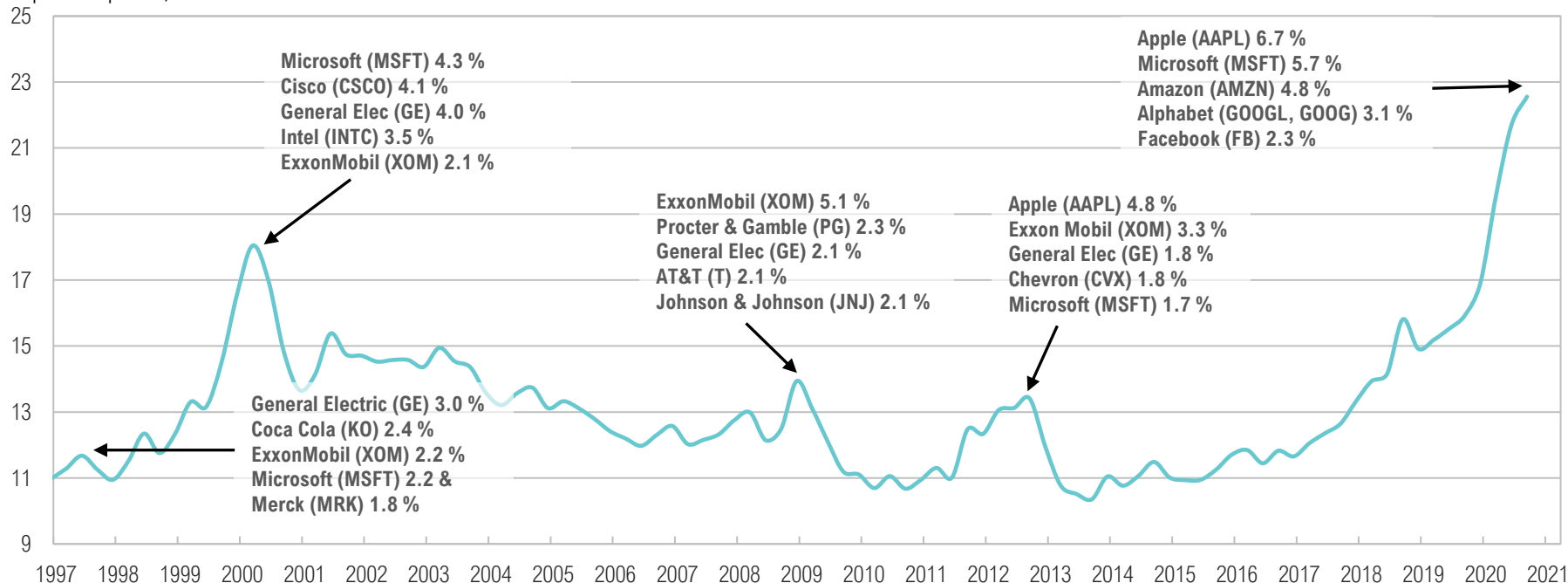
Top 5 Companies % of S&P 500 Earnings



Top 5 Companies Trailing Revenue Growth



Top 5 Companies, % of S&P 500



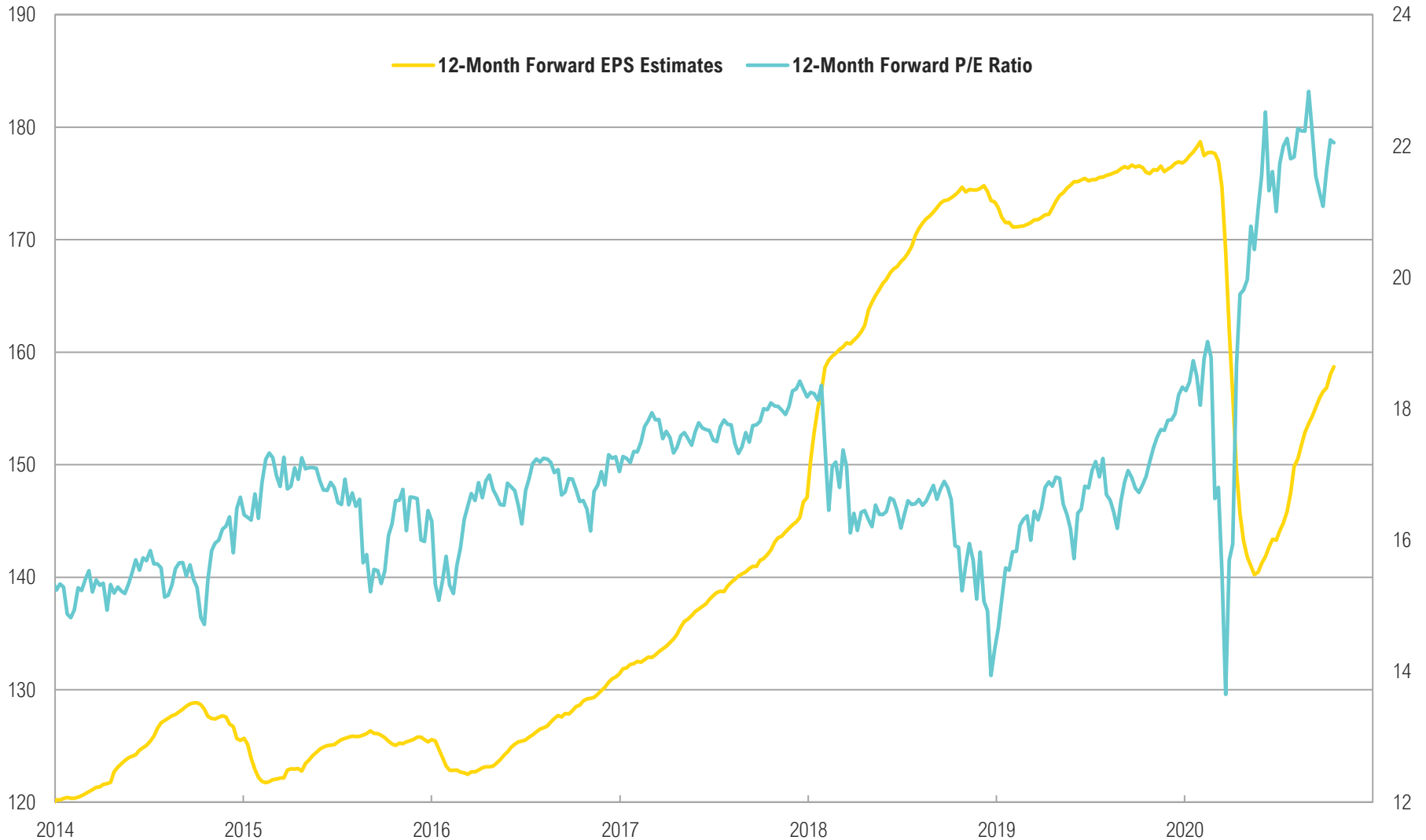
Source: Bloomberg

# Feast in Prices, Famine in Earnings

S&P 500 12-MONTH FORWARD P/E RATIO VS. 12-MONTH FORWARD EPS ESTIMATES, AS OF 10/16/2020

12-Month Forward EPS Estimate

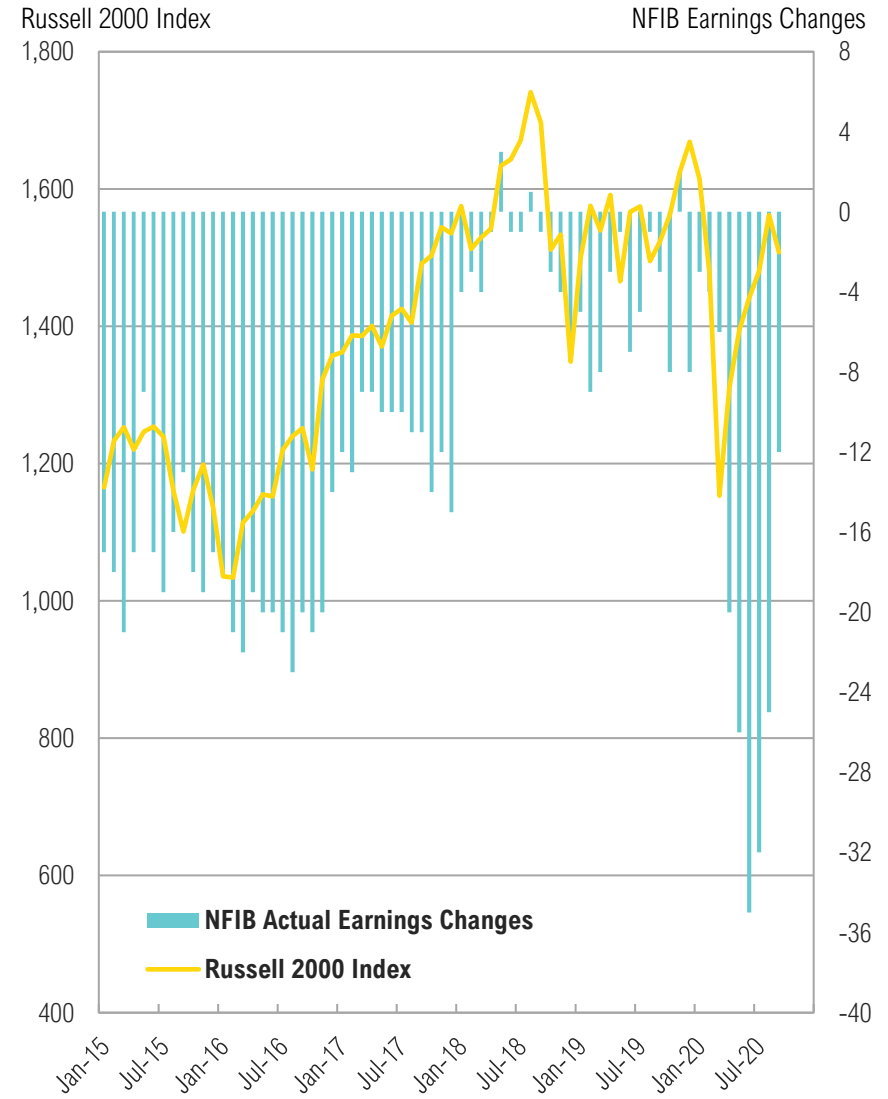
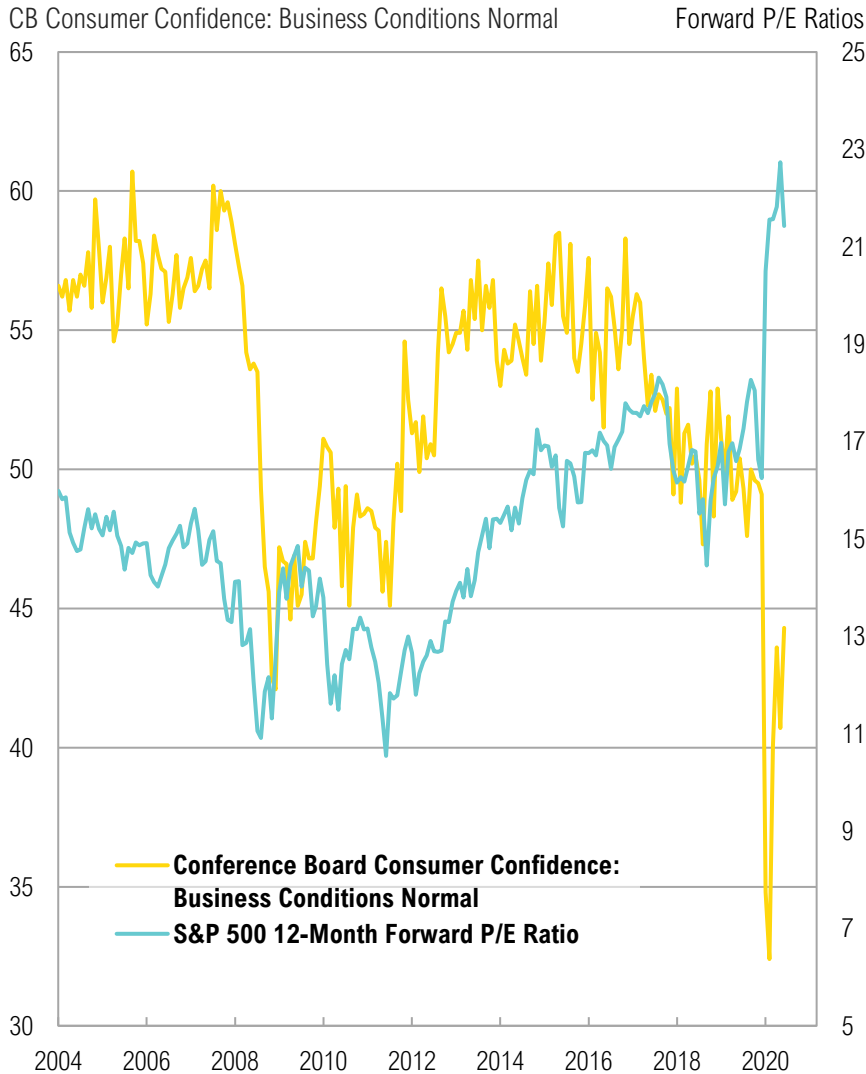
12-Month Forward P/E Ratio



Source: Bloomberg

# Wall Street vs. Main Street

CB CONSUMER CONFIDENCE BUSINESS CONDITIONS VS. S&P FORWARD P/E RATIO, RUSSELL 2000 INDEX VS. SMALL BUSINESS



Source: Bloomberg

# Venture Activity: Increased Exits, but Overall Stress

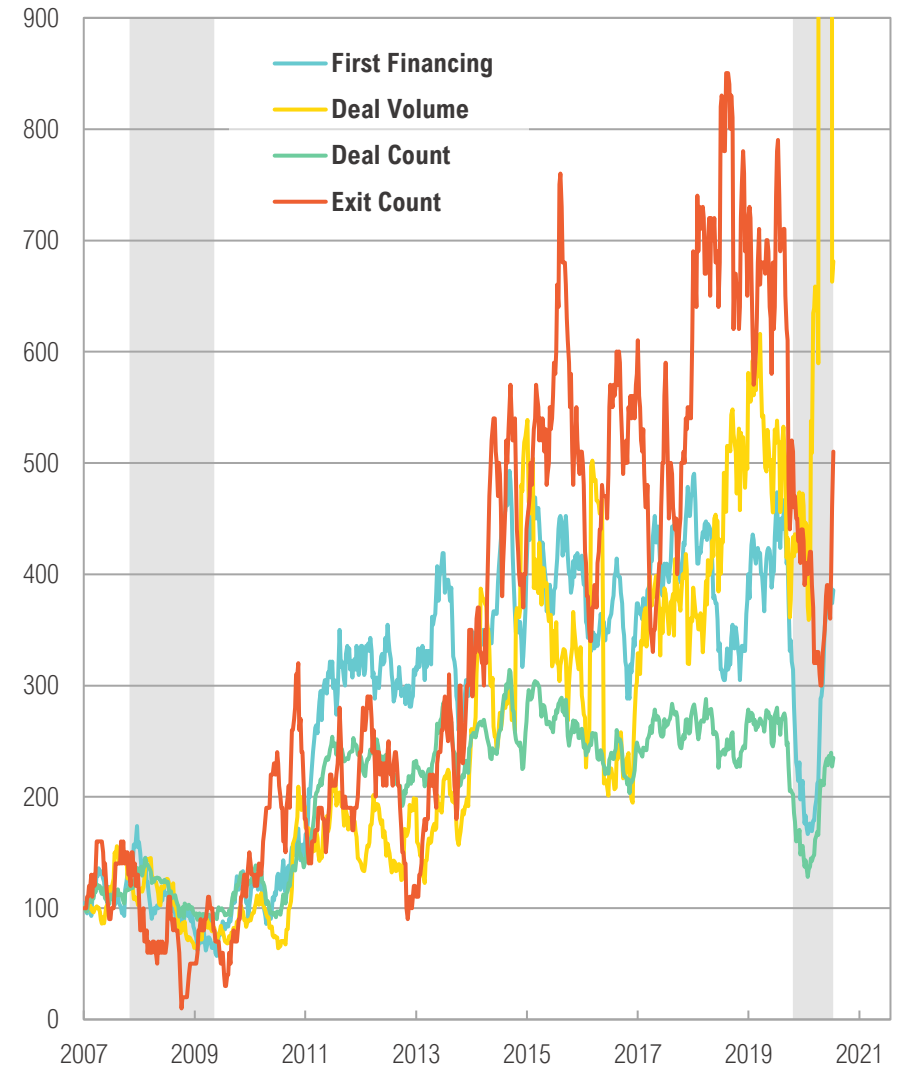
BLOOMBERG U.S. STARTUP (VENTURE CAPITAL) INDICES, 4/9/2007 – 10/19/2020

Venture Index



Source: Bloomberg

Bloomberg U.S. Startup Barometers, Growth of 100



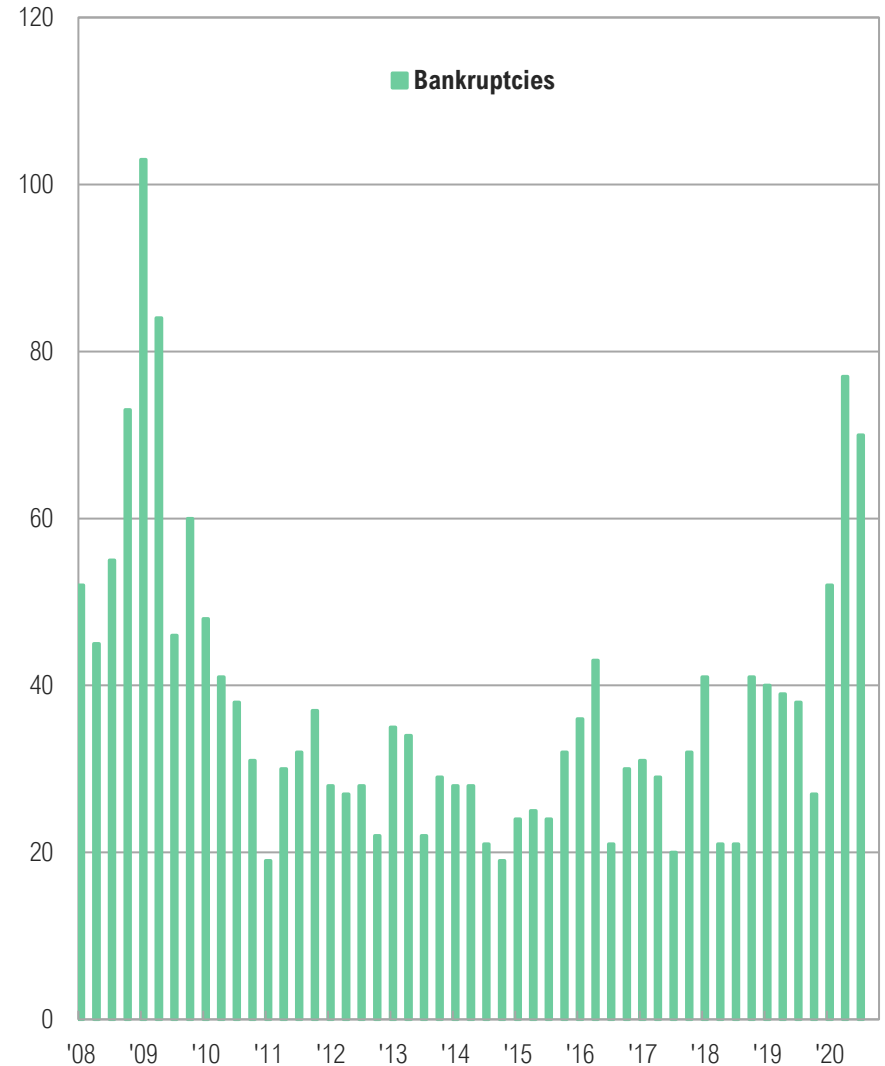
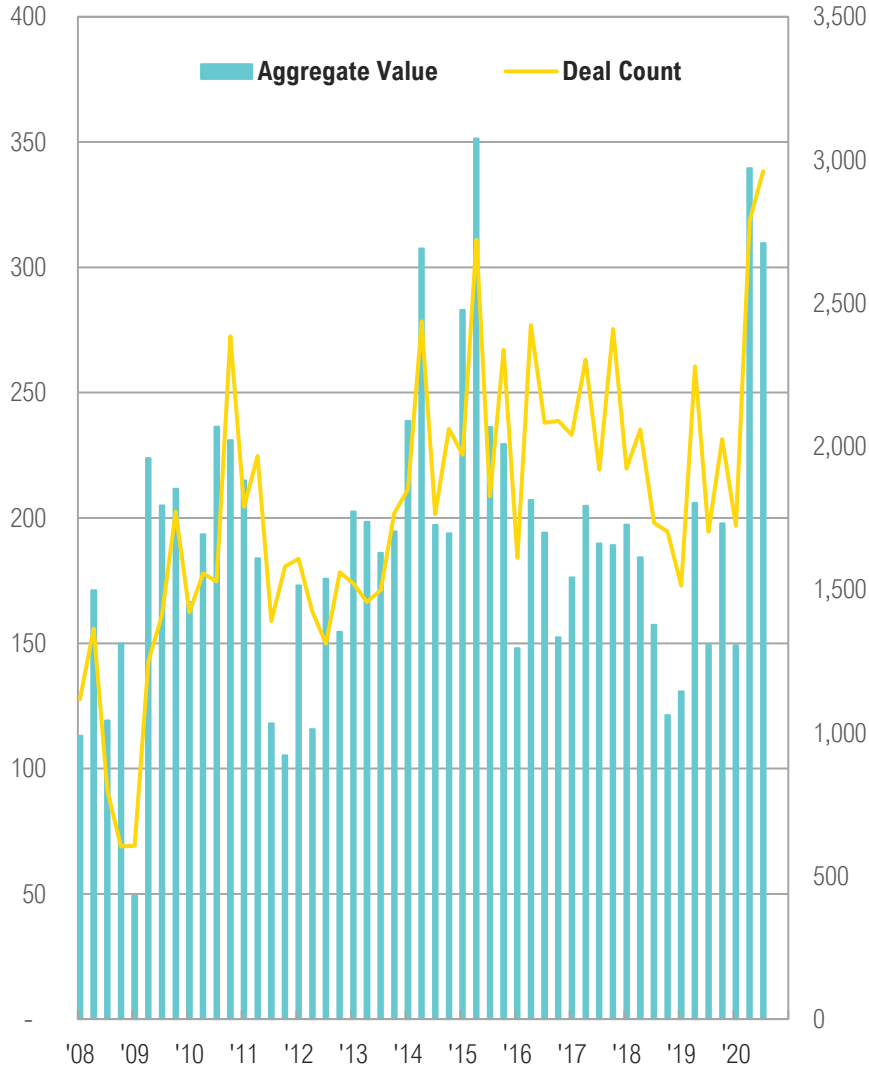
# Feast in IPOs, Famine in Bankruptcies

IPOs & EQUITY OFFERINGS (LHS) VS. NUMBER OF BANKRUPTCY FILINGS (RHS), AS OF 9/30/2020

Aggregate Deal Value Announced, \$Bn

Total Deals Announced

Total Bankruptcies



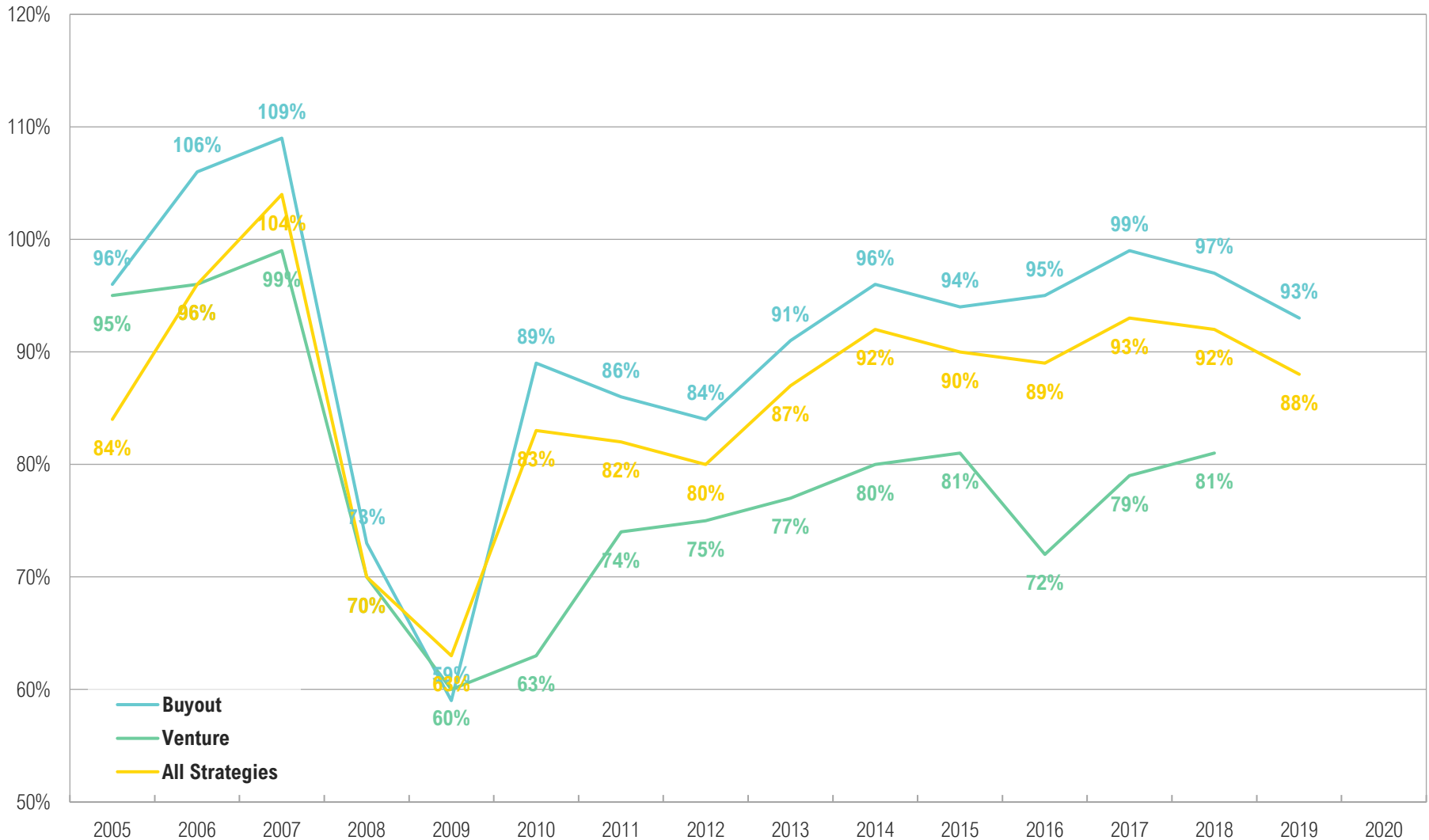
Source: Bloomberg



# Buyout & Venture Secondaries Should Get Interesting

BUYOUT, VENTURE CAPITAL & ALL PRIVATE EQUITY MEDIAN SECONDARY DISCOUNT TO NET ASSET VALUE, 2005 - 2019

Pricing, % of Net Asset Value (NAV)



Source: AltAssets, Setter Capital, Aberdeen, Palico

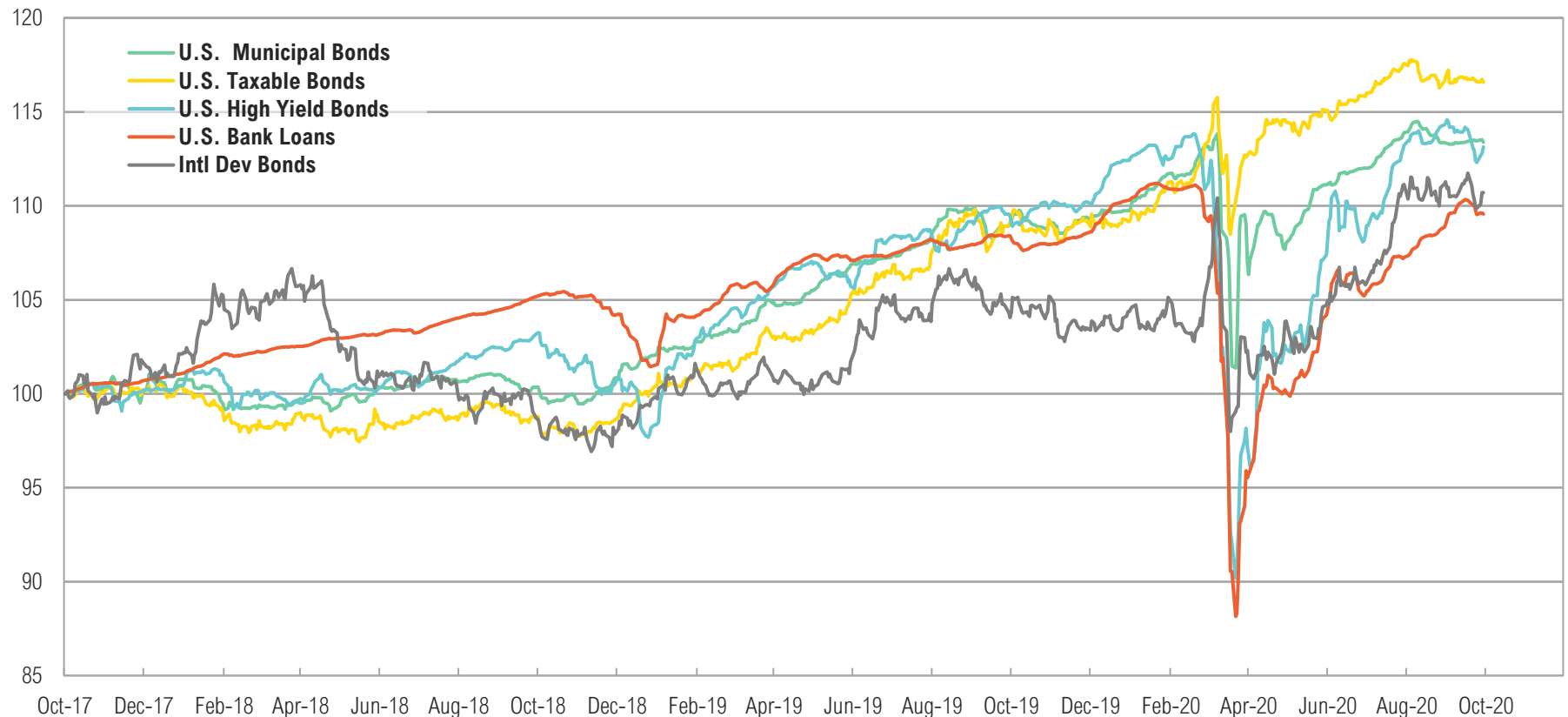
“ *Post-GFC experience shows that low interest rates don't trickle down. They inflate financial assets primarily owned by the rich. The idea is to increase borrowing, but the last thing we need is more debt.*”

**Sheila Bair**, *Former Chair of the FDIC, June 12, 2020*

# Fixed Income & Credit Returns

## CALENDAR YEAR & TRAILING TOTAL RETURNS

Growth Index, 3 Years



Asset Class	Benchmark	QTD	YTD	2019	2018	2017	2016	2015	1-Yr	3-Yr	5-Yr	10-Yr
U.S. Municipal Bonds	BBgBarc Municipal 1-10Y Blend 1-12Y Index	1.1	3.2	5.6	1.6	3.5	-0.1	2.4	3.7	1.7	2.3	3.2
U.S. Taxable Bonds	BBgBarc US Agg Bond Index	0.6	6.8	8.7	0.0	3.5	2.6	0.5	2.7	1.8	2.3	3.7
U.S. High Yield Bonds	BBgBarc US Corporate High Yield Index	4.6	0.6	14.3	-2.1	7.5	17.1	-4.5	4.5	9.5	4.5	11.5
U.S. Bank Loans	S&P/LSTA Leveraged Loan Index	4.1	-0.7	8.6	0.4	4.1	10.2	-0.7	3.5	6.7	3.7	8.2
Intl Dev Bonds	S&P International Sov Ex-US Bond Index	4.5	6.1	4.6	-2.3	11.3	1.6	-6.6	-3.6	2.2	-0.3	2.5

Source: Bloomberg

Returns for periods greater than one year are annualized.

### Q4, 2020 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

# Fixed Income & Credit Summary

## COMMENTARY & MARKET DATA

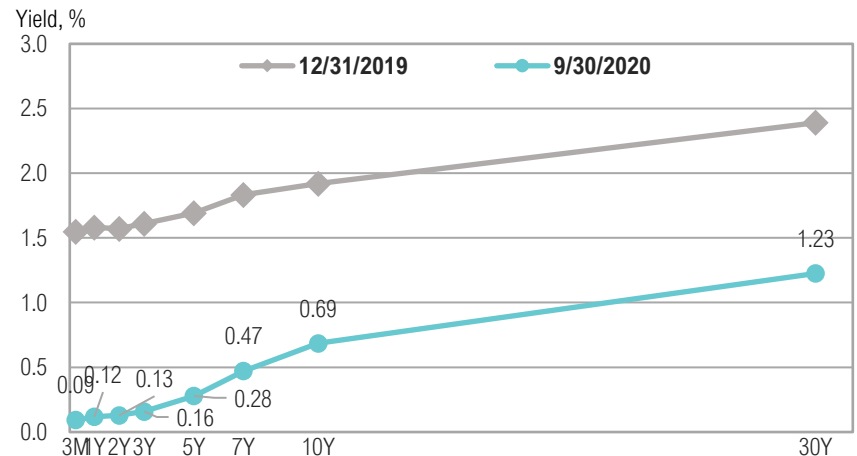
### FIXED INCOME/ RATES

- *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 liquidity injections, 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).*

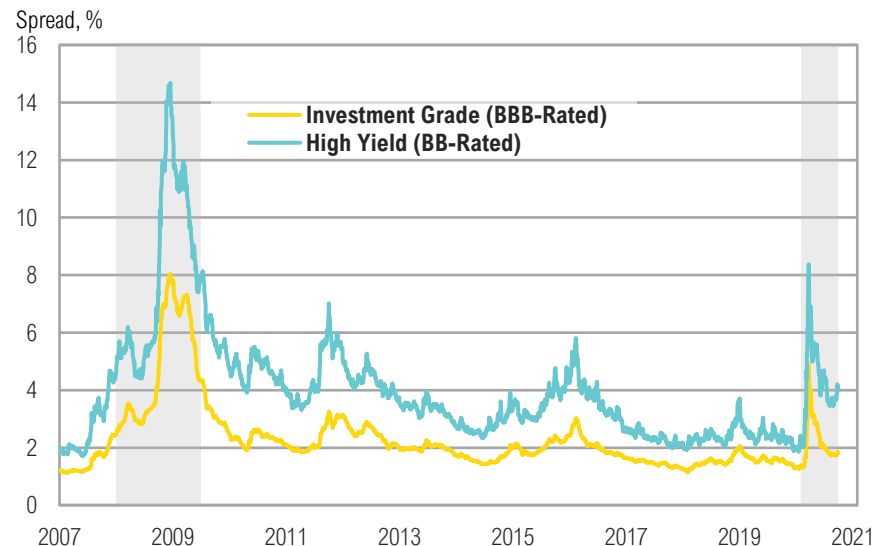
### CREDIT

- *Over the quarter, high yield bond spreads narrowed by 94 basis points from 6.44% to 5.50% as the Fed continued to support the corporate credit markets through the purchase of bonds and bond ETFs. As of September 30, the Fed has purchased \$8.6 billion of ETFs and \$4.4 billion of direct bonds (just over 1% of what was authorized).*
- *Central Bank intervention has removed tail risks in investment-grade bonds and some high yield bonds. While riskier segments of the market could continue to rally short-term, the risks for any sector that falls outside of government support remain substantial and require much lower clearing prices.*
- *Private credit remains attractive given higher rates of return and heightened economic volatility creating opportunity.*

### TREASURY YIELD CURVE

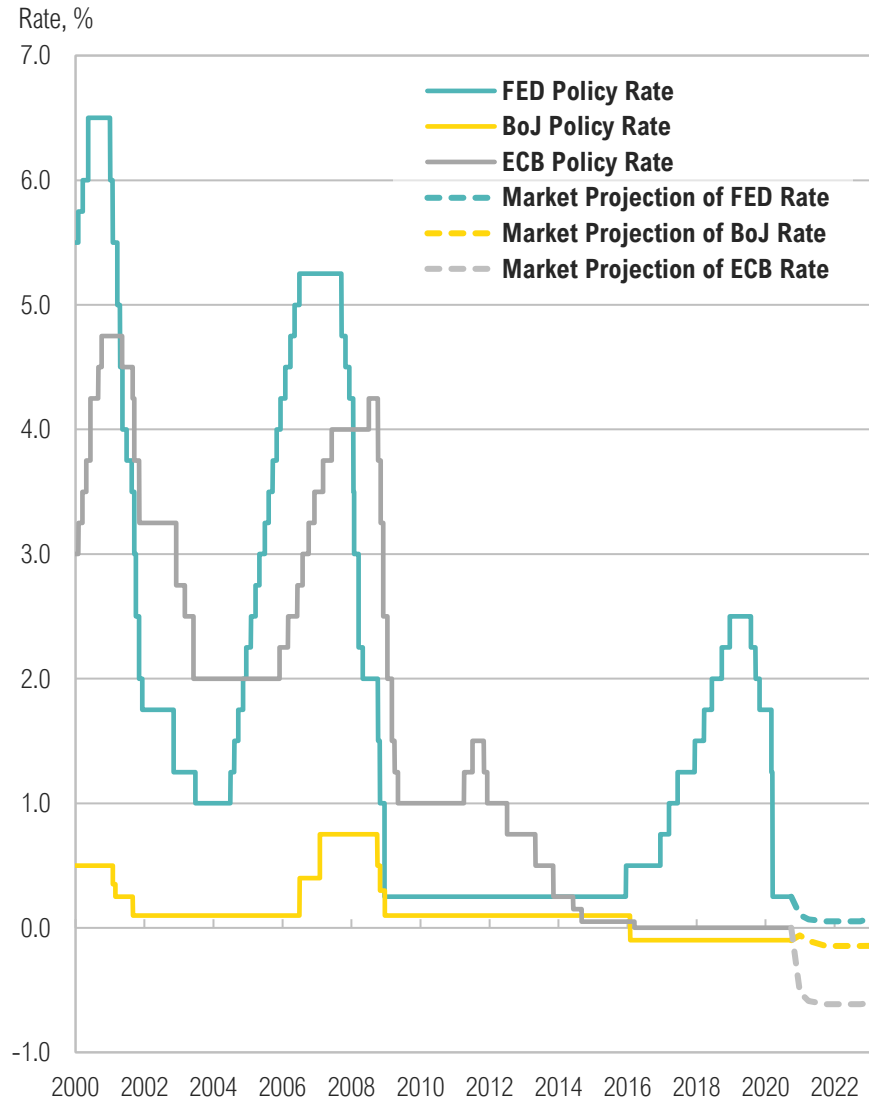


### CREDIT SPREADS



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

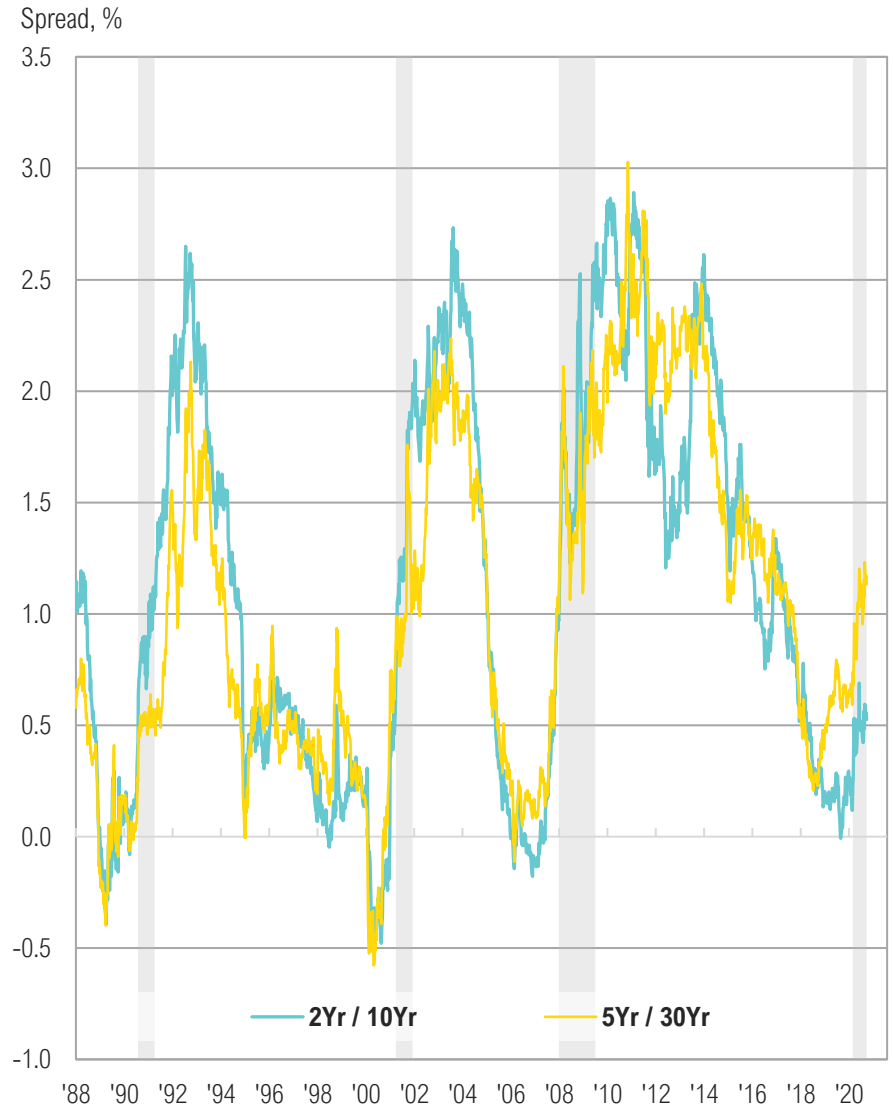
CENTRAL BANK POLICY RATES & RATE EXPECTATIONS (LHS), U.S. TREASURY YIELD CURVES (RHS), AS OF 9/30/2020



Source: Bloomberg, FRED

## Q4, 2020 Market Outlook

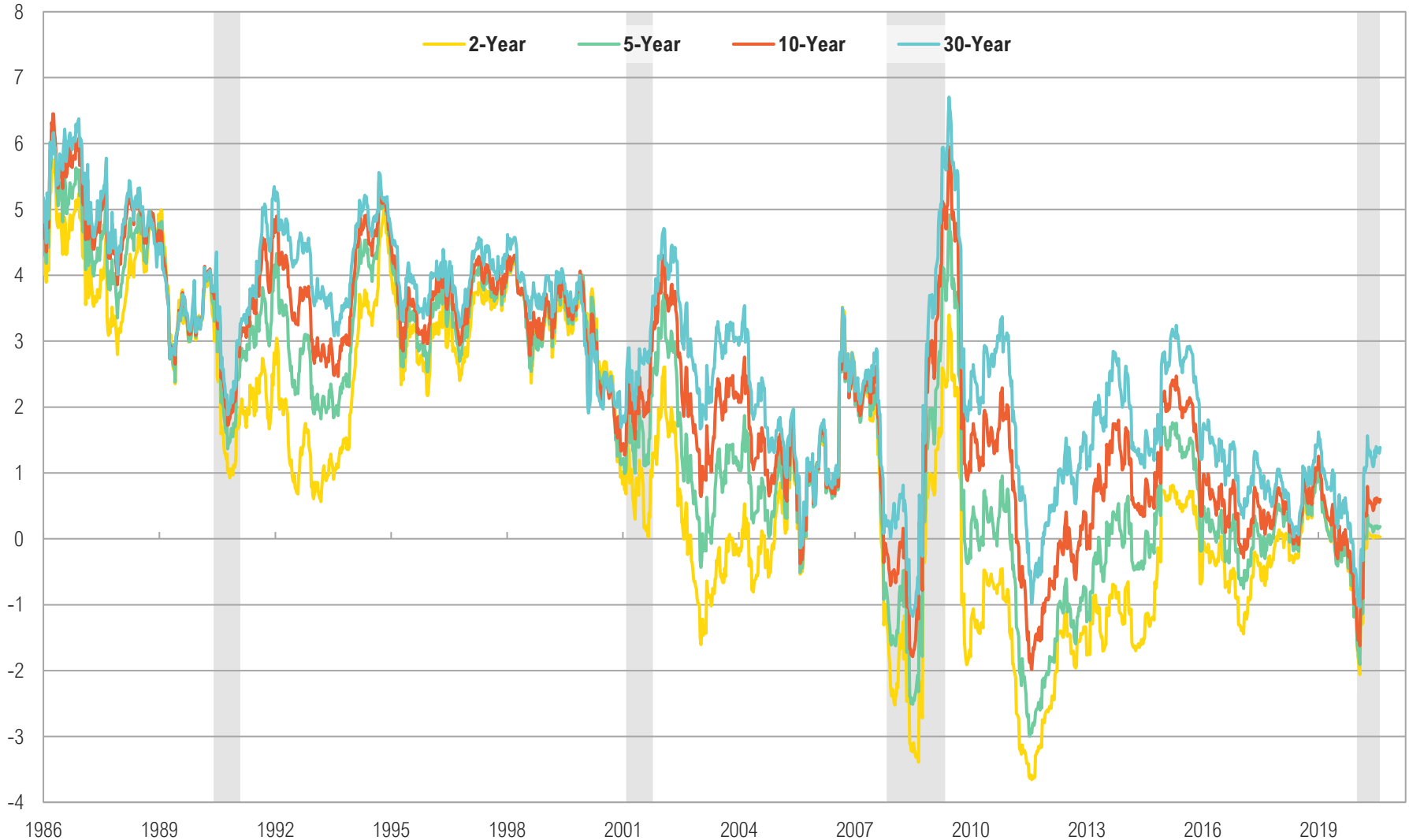
SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION



# No Free Lunch in Bonds: the Only Real Yield is Now in Long End

U.S. TREASURY YIELDS ADJUSTED FOR INFLATION AS MEASURED BY CPI, 1/1/2014 - 10/2/2020

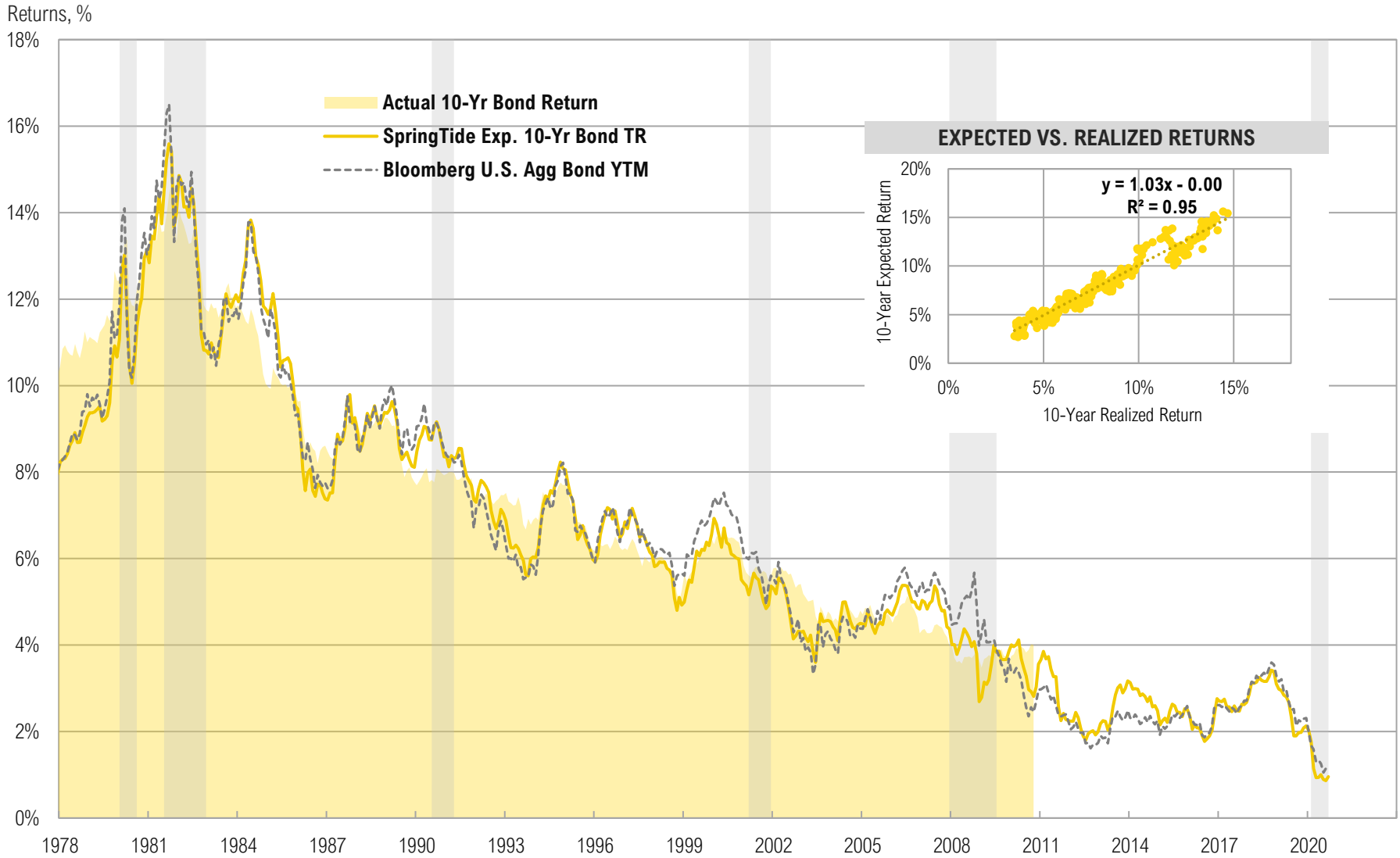
Real Yield, %



Source: Bloomberg

# Core Bond Expected Returns ~1% for Next 10 Years

ACTUAL RETURNS VS. EXPECTED RETURNS FOR U.S. CORE BONDS, AS OF 9/30/2020



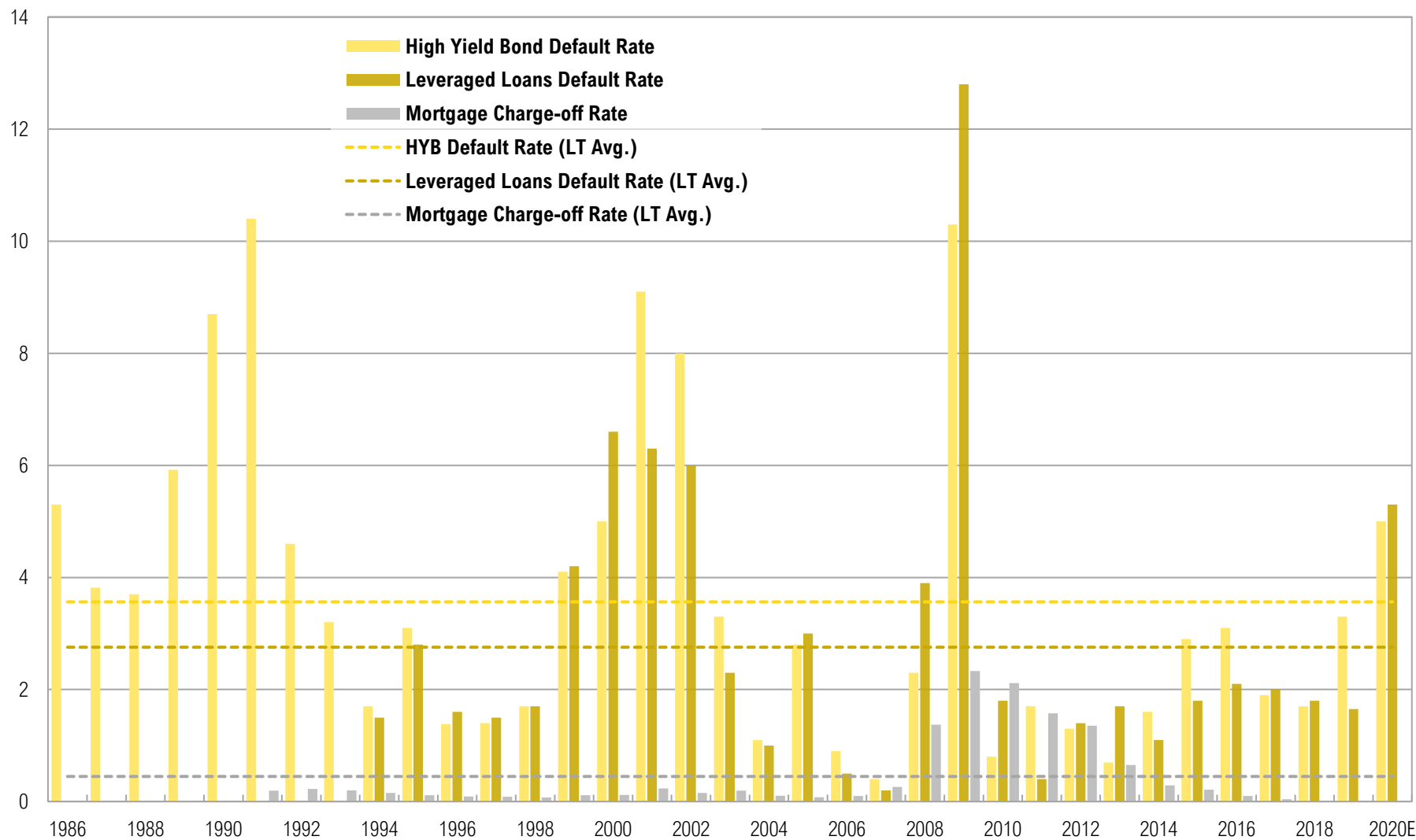
Source: Bloomberg, SpringTide



# 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 9/30/2020

Default Rate, %

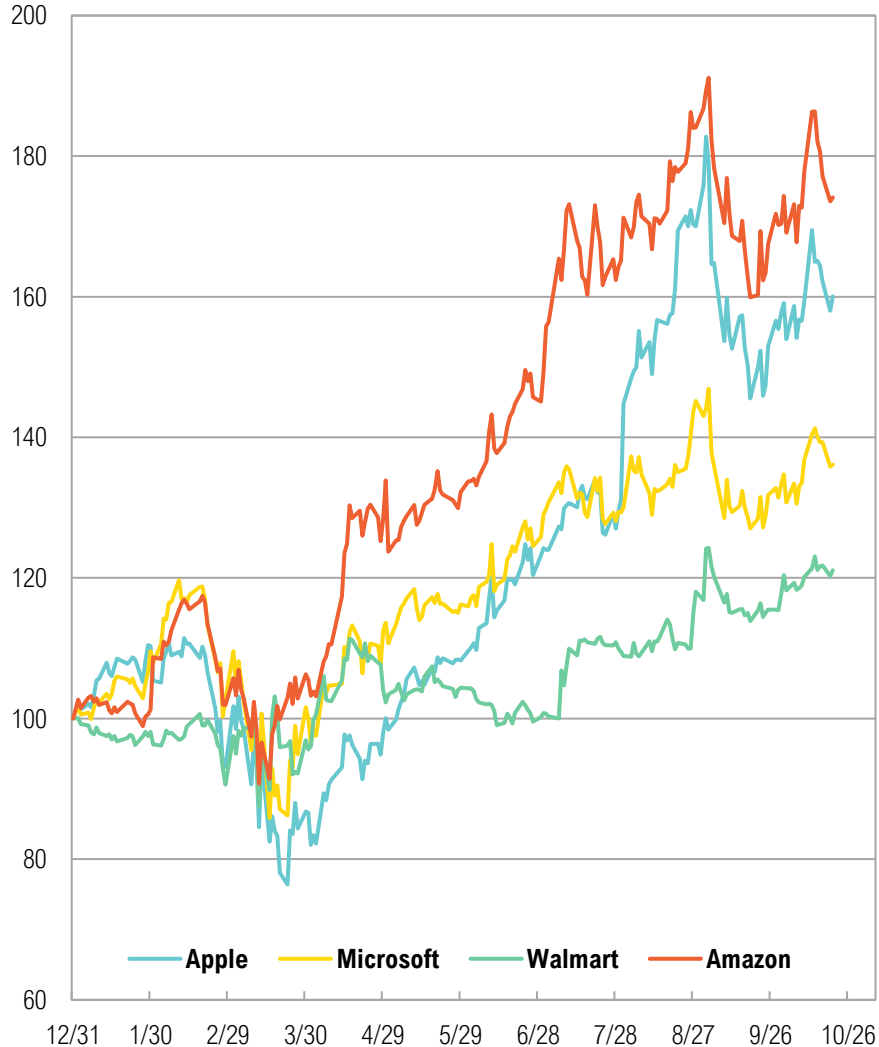


Source: Bloomberg, Moody's, S&P, JP Morgan, FRED

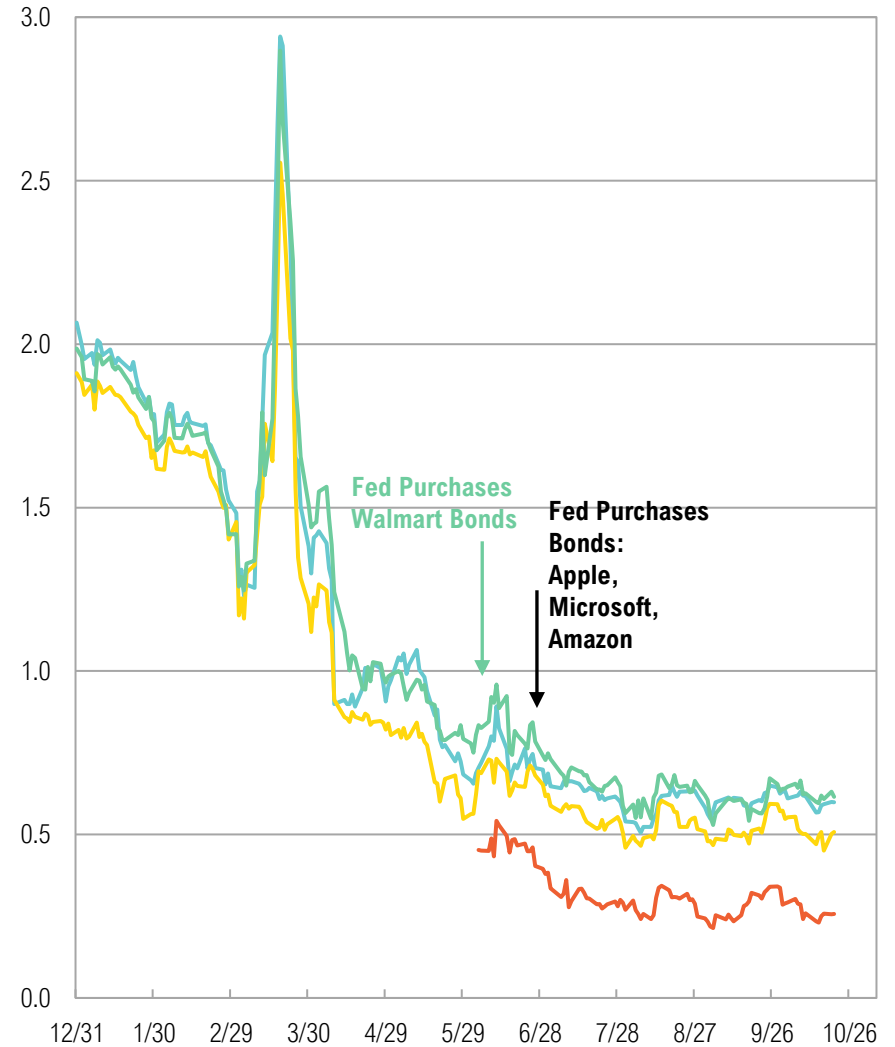
# Fed Purchases of Corporate Bonds

APPLE, MICROSOFT, WALMART, AMAZON: STOCK GROWTH OF 100 (LHS), BOND YIELD-TO-MATURITY (RHS), AS OF 10/20/2020

Growth of 100



Yield-to-Maturity, %

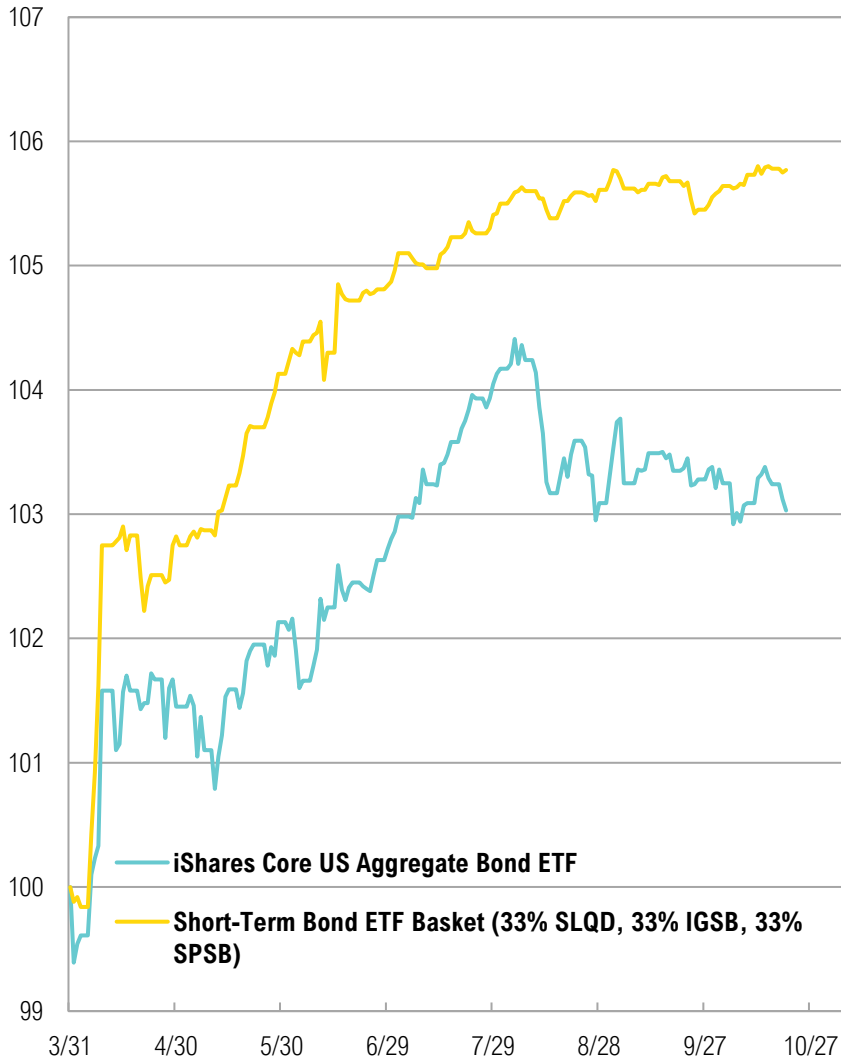


Source: Bloomberg

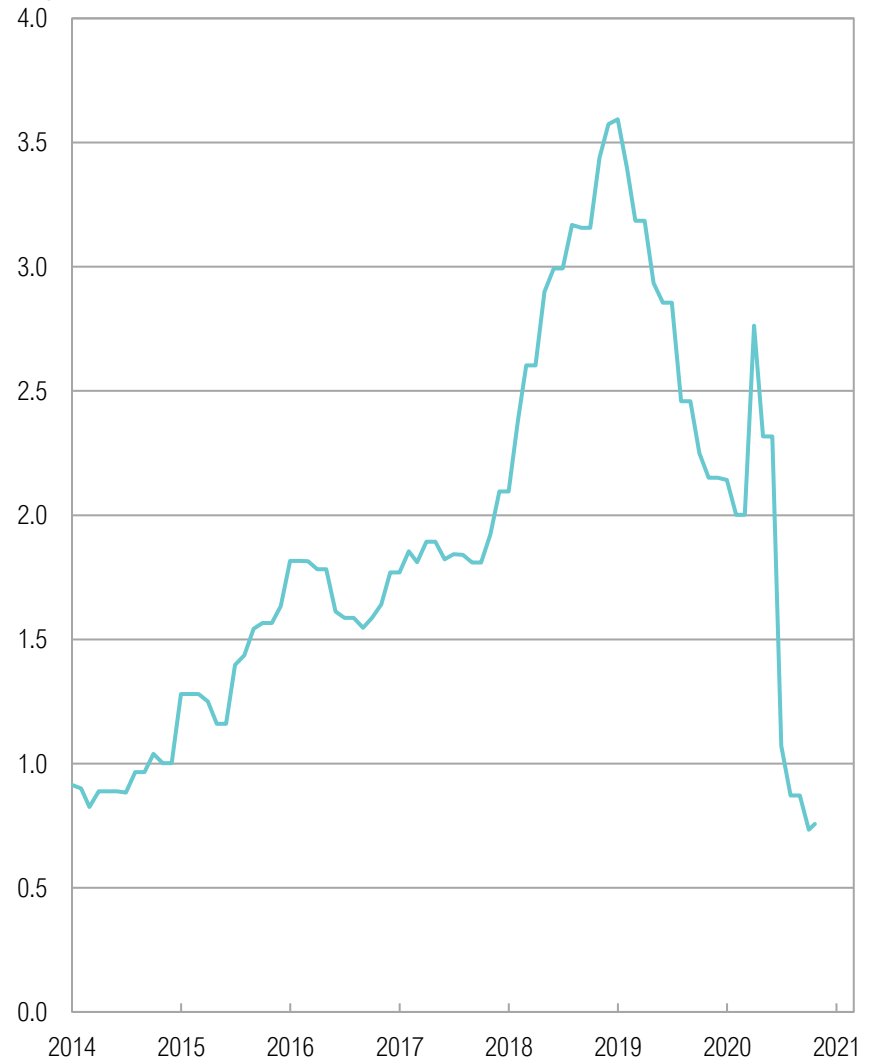
# Short-Term Corporate Bond ETF Basket vs. U.S. Core Bonds

SHORT-TERM BOND ETF BASKET VS. iSHARES CORE U.S. AGGREGATE BOND ETF, AS OF 10/20/2020

Growth of 100



Avg. Yield of Short-Term Bond ETF Basket, %



Source: Bloomberg, Morningstar  
Yield is represented by SEC Yield.

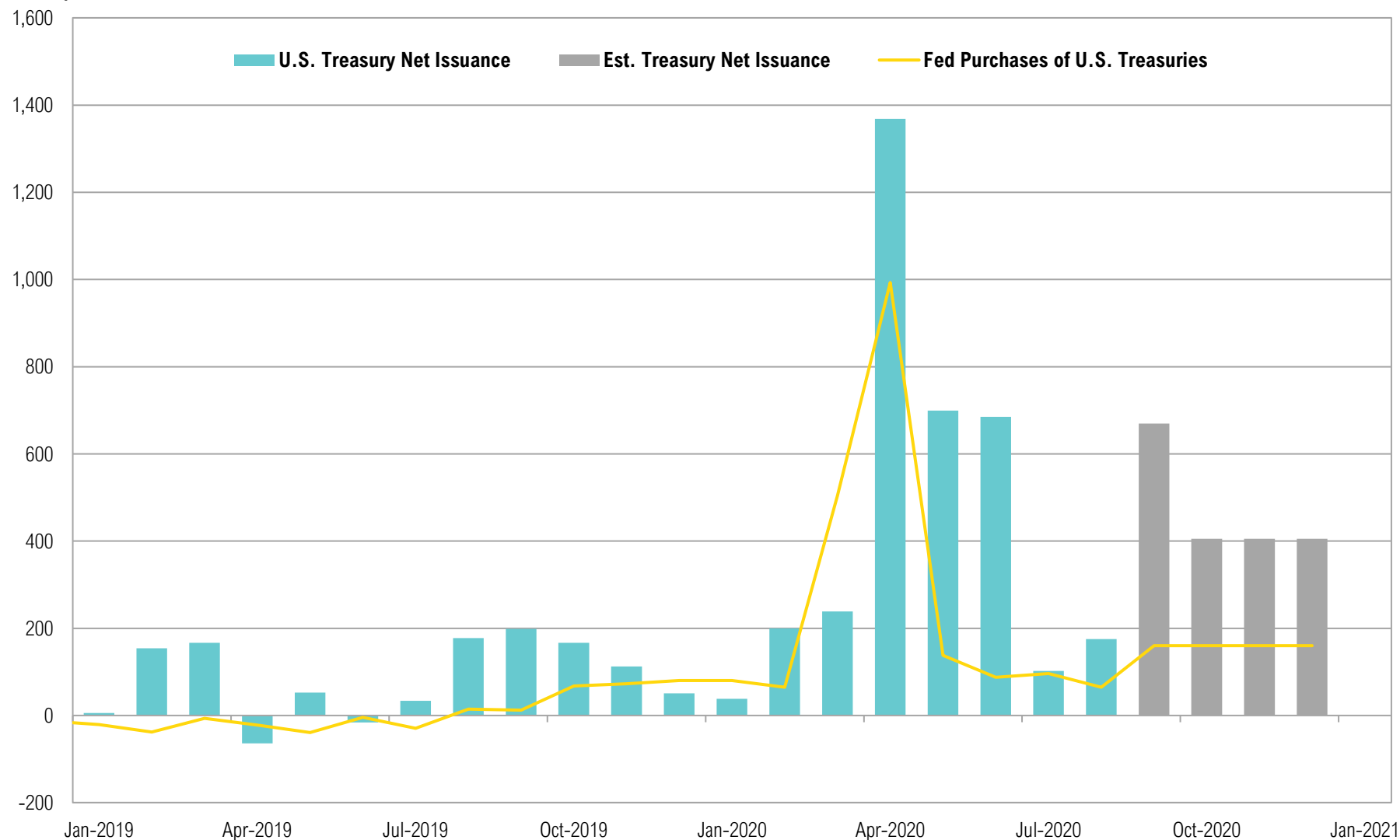
**Q4, 2020 Market Outlook**

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

# The Fed Will Likely Have to Increase Purchases To Keep Up with Issuance

U.S. TREASURY NET ISSUANCE VS. FED PURCHASES OF U.S. TREASURIES, AS OF 8/31/2020

Treasury Securities, \$Bn



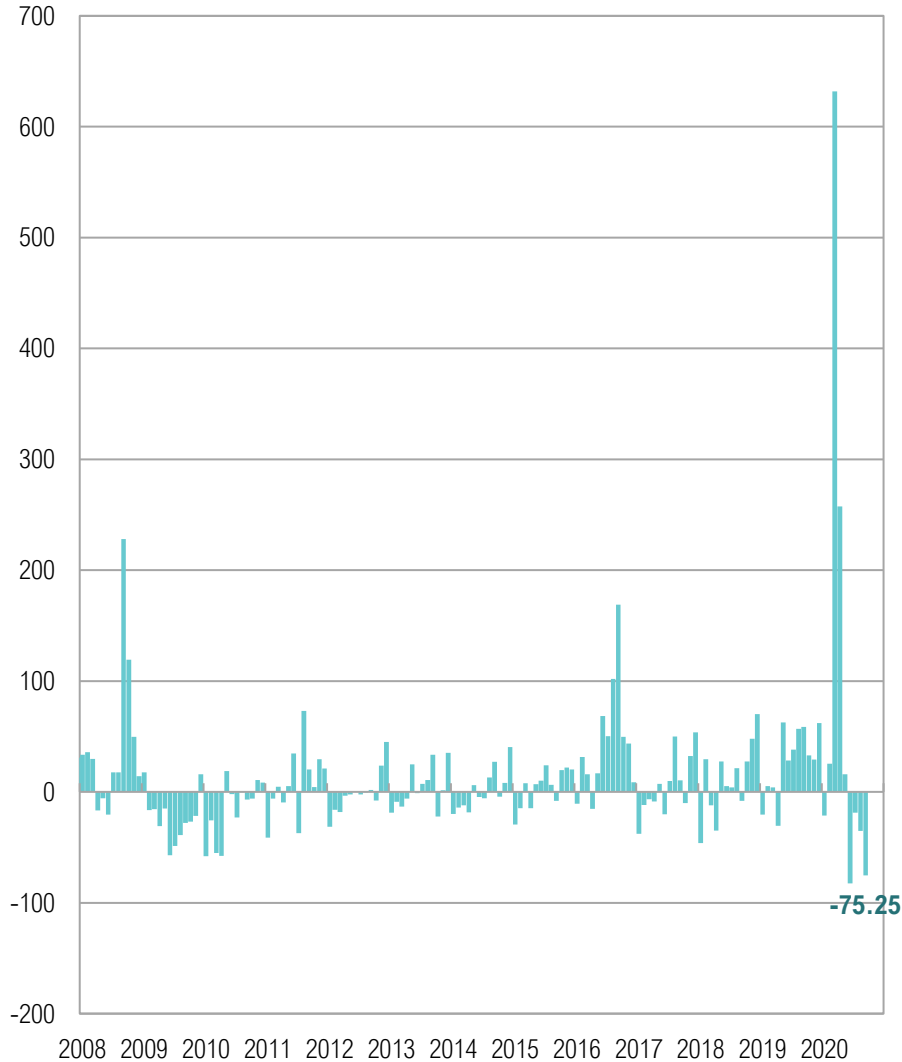
Source: Bloomberg

Estimated Treasury Net Issuance is based on U.S. Department of the Treasury's August Press Release: <https://home.treasury.gov/news/press-releases/sm1077>

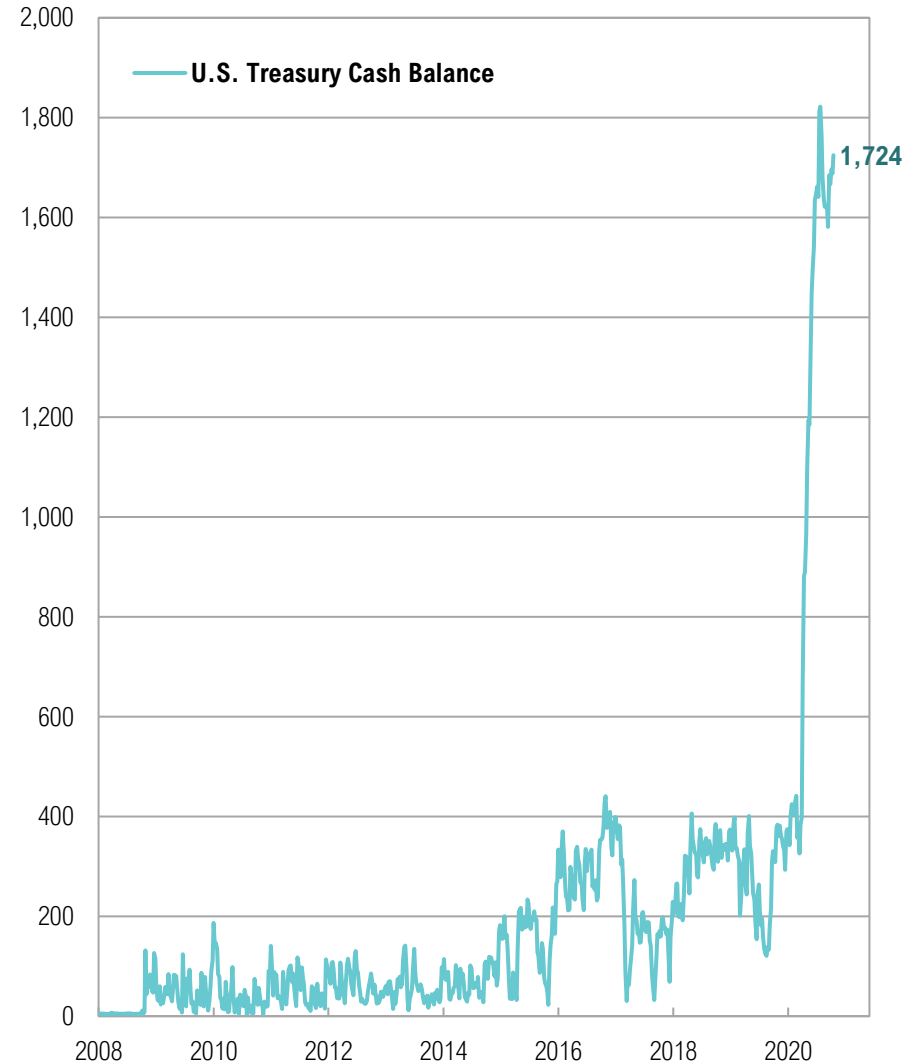
# Buyers Have Enabled U.S. Treasury to Build Enormous Cash Reserve

TREASURY MONEY MARKET MONTHLY FUND FLOWS (LHS) VS. U.S. TREASURY CASH BALANCE (RHS), 1/1/2008 – 10/15/2020

Monthly Fund Flows, \$ Billions



Cash Balance, \$ Billions



Source: Bloomberg

## REAL ASSETS

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“

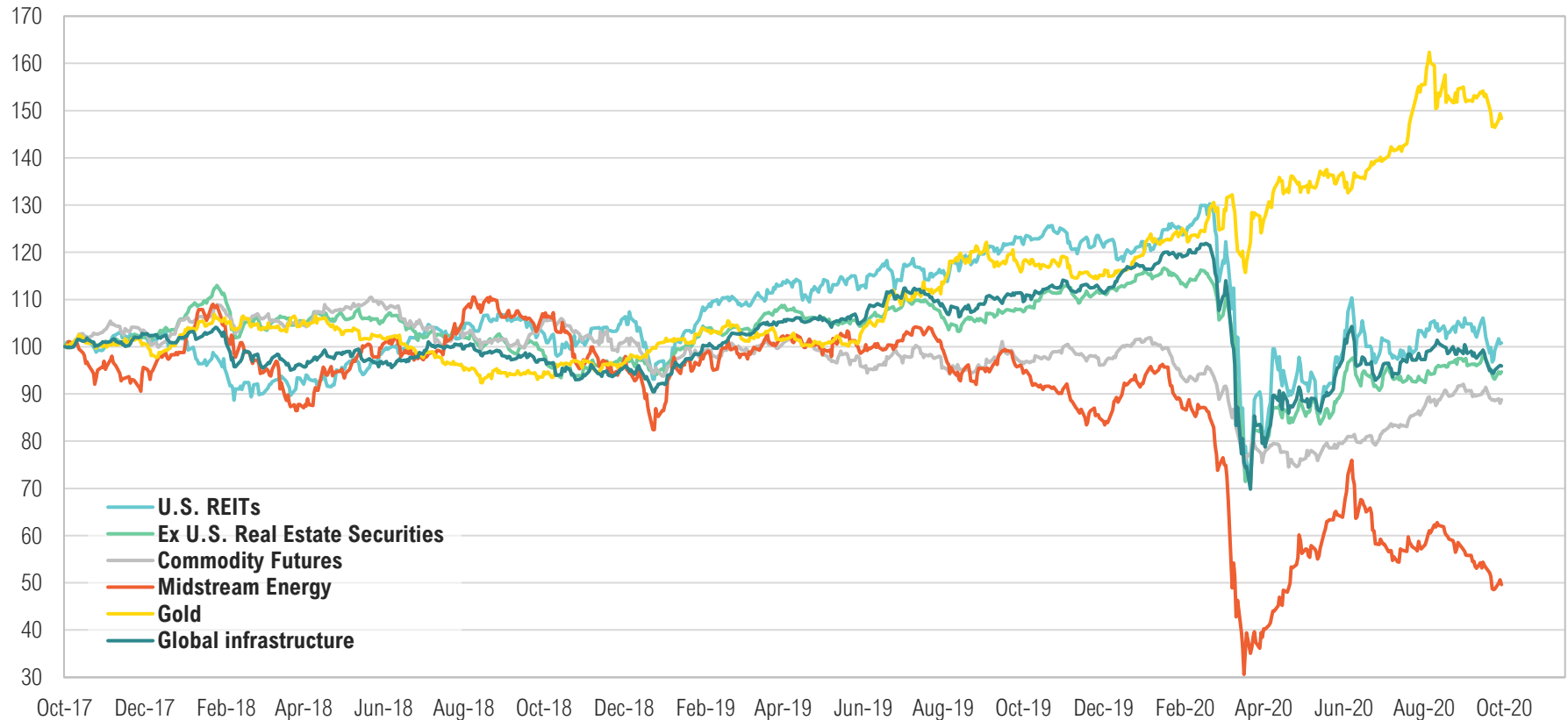
*We concluded then (2010) that gold does not have a role as a strategic asset class in clients' already well-diversified portfolios. We have updated the research and the evidence is even more compelling today than it was then.”*

**Goldman Sachs Investment Strategy, April 5, 2020**

# Real Asset Returns

## TRAILING & CALENDAR YEAR TOTAL RETURNS

Growth Index, 3 Years



Asset Class	Benchmark	QTD	YTD	2019	2018	2017	2016	2015	1-Yr	3-Yr	5-Yr	10-Yr
U.S. REITs	MSCI US REIT Index	1.3	-17.9	24.3	-5.8	3.7	7.1	1.3	-18.8	-1.0	2.7	6.6
Ex U.S. Real Estate Securities	S&P Global Ex US REIT Index	4.8	-21.3	24.7	-6.5	16.7	4.0	-2.8	-17.7	-0.7	2.6	5.1
Broad Commodity Futures	Bloomberg Commodity Index	9.1	-12.1	7.7	-11.2	1.7	11.8	-24.7	-8.2	-4.2	-3.1	-6.0
Energy Partnerships	Alerian MLP Index	-16.3	-46.2	6.6	-12.4	-6.5	18.3	-32.6	-48.4	-20.8	-11.6	-4.2
Gold	LBMA Gold Price AM	6.4	23.7	18.8	-1.1	11.9	9.1	-11.4	26.6	13.5	10.9	3.7
Global Infrastructure	S&P Global Infrastructure Index	1.6	-18.1	27.0	-9.5	20.1	12.4	-11.5	-13.9	-1.4	4.5	5.5

Source: Bloomberg

Returns for periods greater than one year are annualized.

### Q4, 2020 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

# Real Assets Summary

## COMMENTARY & MARKET DATA

### COMMODITIES

- *Commodities are in a bottoming process as declining demand is being met with reduced supply. Coupled with a potential structural shift higher in inflation in the coming years, we are near (or at) an attractive entry point.*
- *Gold will continue to benefit if the pool of negative-yielding sovereign debt (>\$16 trillion now) grows or fiscal spending/quantitative easing programs persist.*

### REAL ESTATE

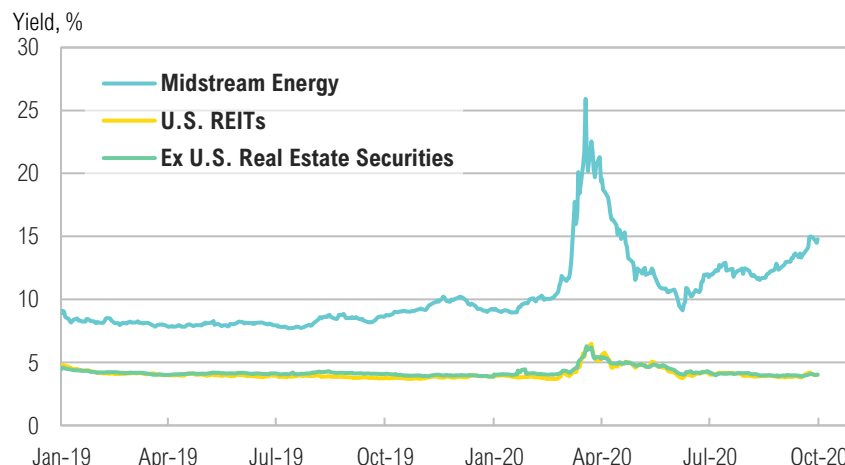
- *Private real estate portfolios were marked up fractionally in Q2, trailing public REITs, but with REITs still down 17.9% for the year-to-date through September, further write-downs – particularly in office and retail – should not be ruled out if the Covid-19 crisis drags on.*
- *Opportunities have emerged 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

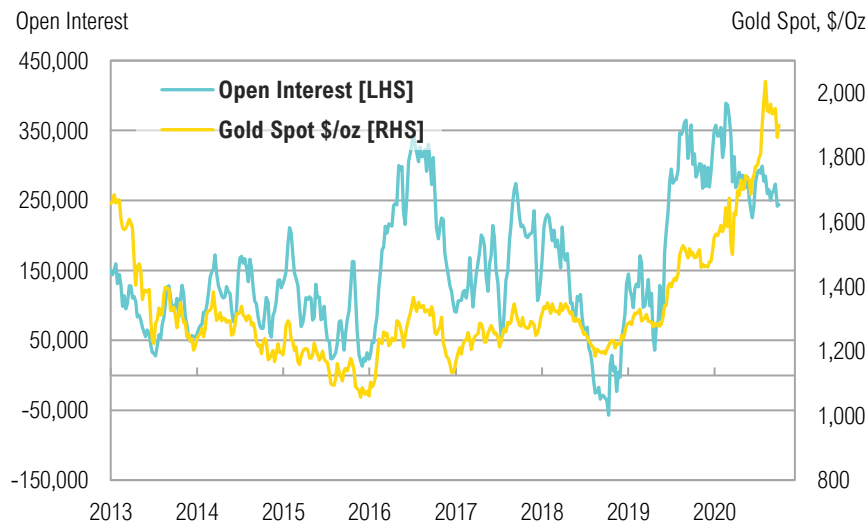
- *The energy space remains oversupplied in the short-term, but reduced supply should force the market into balance in 2021.*
- *After the purge, the midstream space should be able to return to its roots as the low-growth, higher return on asset business it was over a decade ago.*
- *On the oil supply side, per Baker Hughes, the U.S. rig count declined 68% (from 805 to 261) for the YTD through Sep.*

Source: Bloomberg

### REAL ASSETS & INFRASTRUCTURE YIELDS



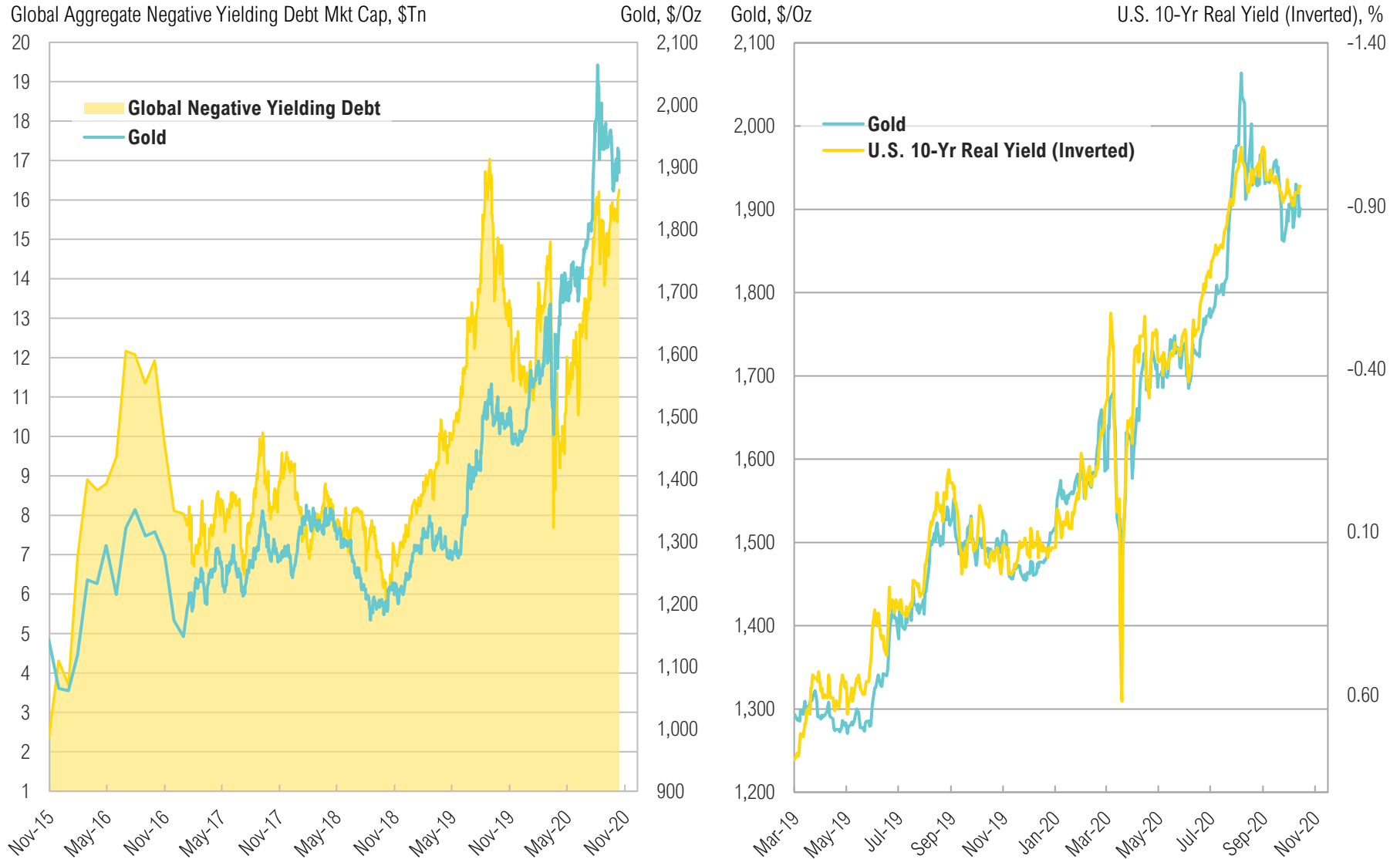
### OIL PRICES





# Why Gold? Gold Viewed as an Alternative Safe Haven

GOLD & NEGATIVE YIELDING DEBT MARKET CAP, GOLD VS. U.S. 10-YEAR REAL YIELD, AS OF 10/14/2020

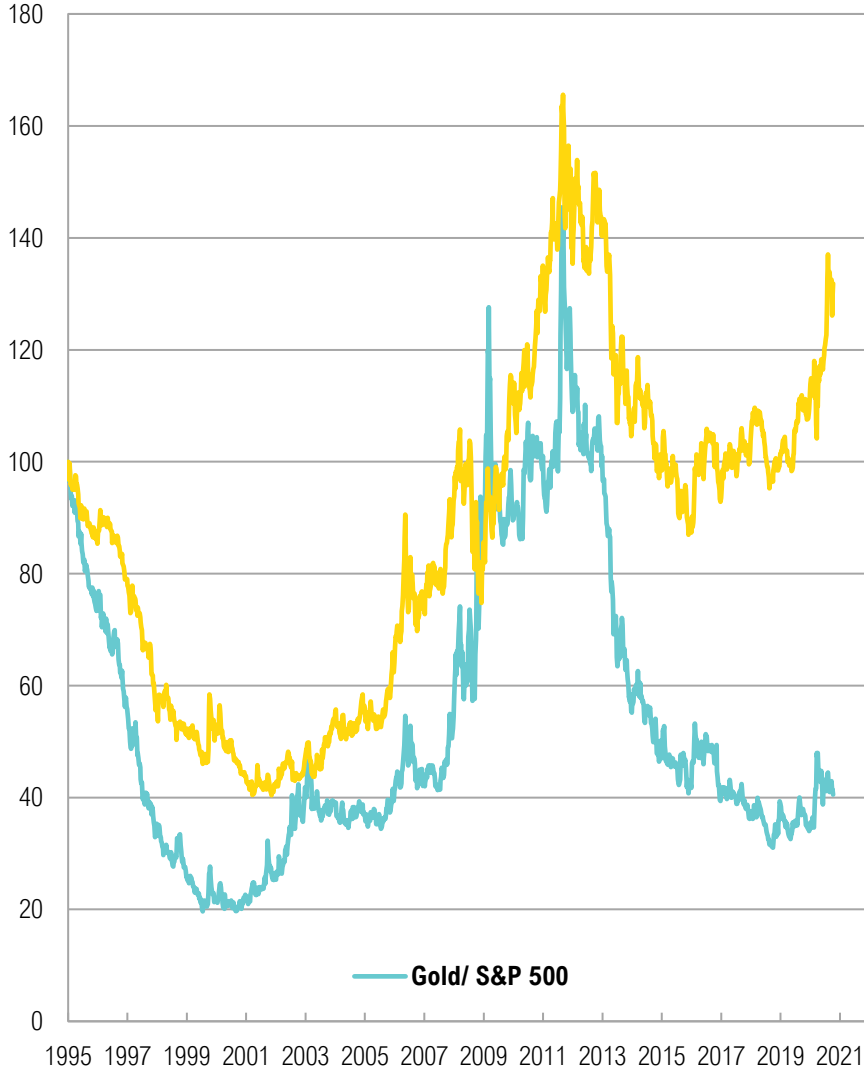


Source: Bloomberg

# Gold has Room to Run vs. Core Stocks & Bonds... & Miners Have Room to Run vs. Physical

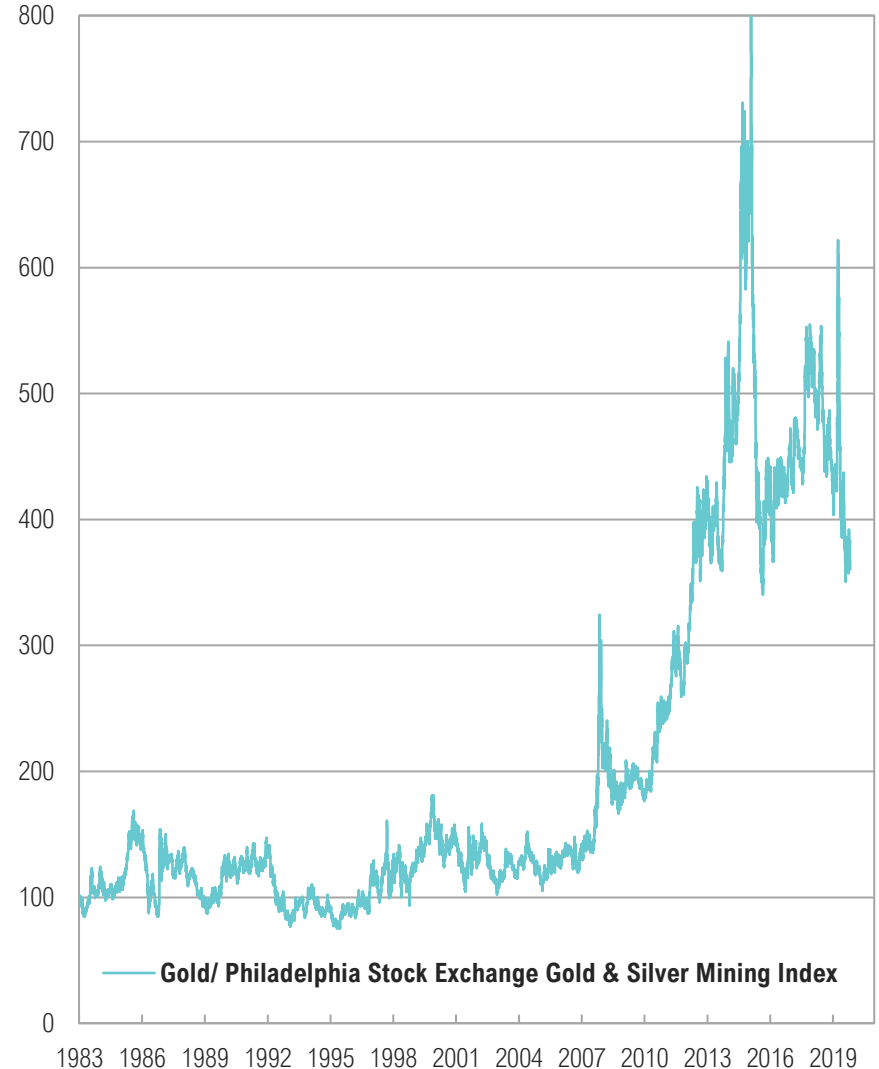
GOLD RELATIVE PERFORMANCE VS. S&P 500 (LHS), GOLD VS. GOLD MINERS (RHS), AS OF 10/9/2020

Growth of 100, 1/1/1995 = 100



Source: Bloomberg

Ratio: Growth of 100, 12/19/1983 = 100

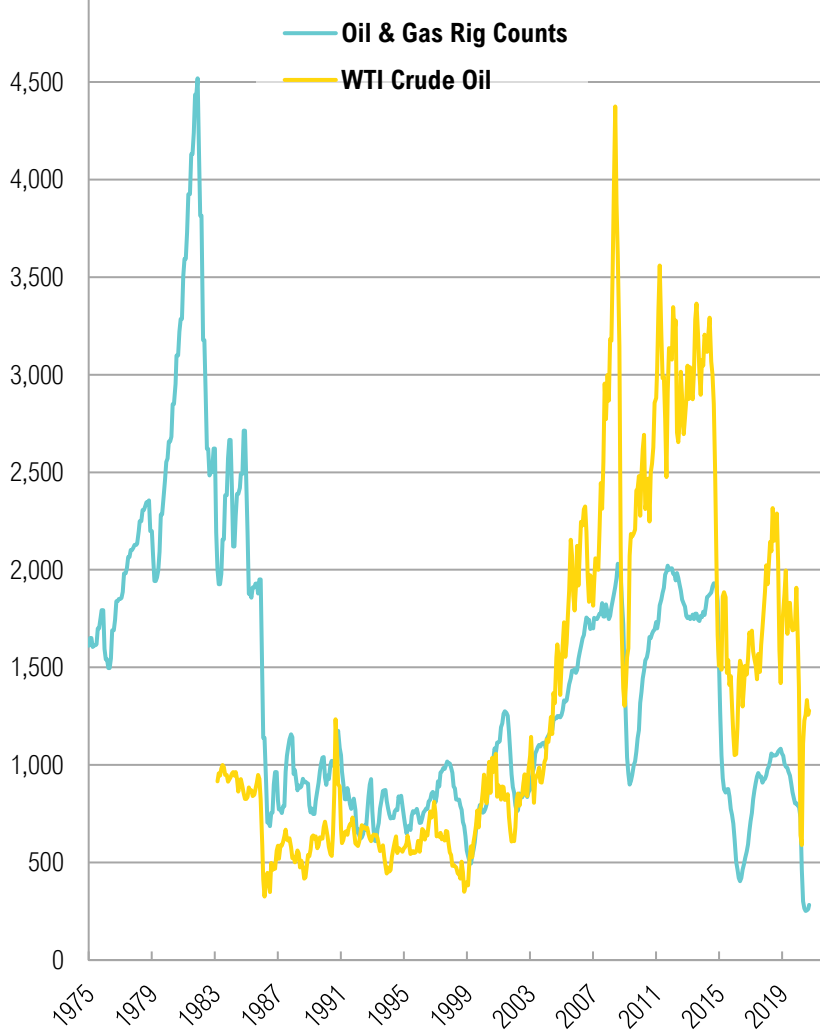


# Oil & Gas Decimated, Sector is Likely Bottoming

BH OIL & GAS RIG COUNT VS. WTI CRUDE OIL (LHS) & MLP MEDIAN DISTRIBUTION COVERAGE (RHS), AS OF 10/16/2020

Oil & Gas Rig Count

5,000



WTI Crude Oil, \$/bbl

160

Median MLP Distribution Coverage

1.8

140

120

100

80

60

40

20

0

1.6

1.4

1.2

1.0

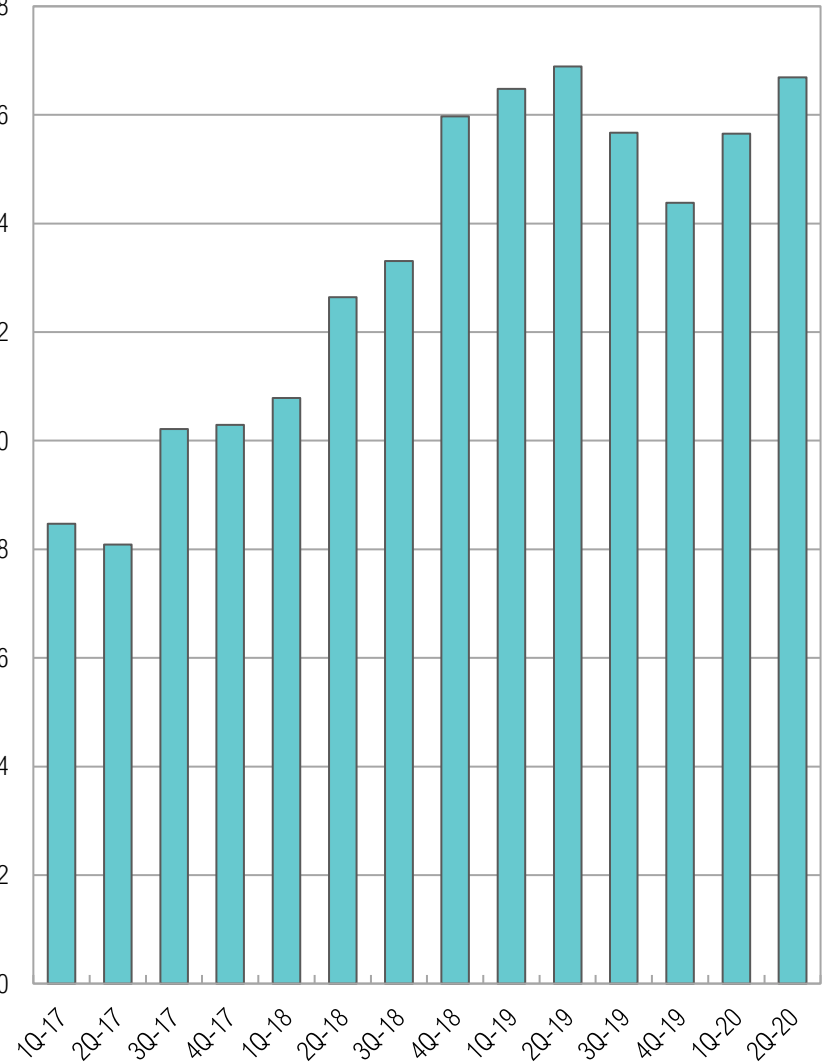
0.8

0.6

0.4

0.2

0.0



Source: Bloomberg, Baker Hughes, SpringTide calculations

**Q4, 2020 Market Outlook**

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

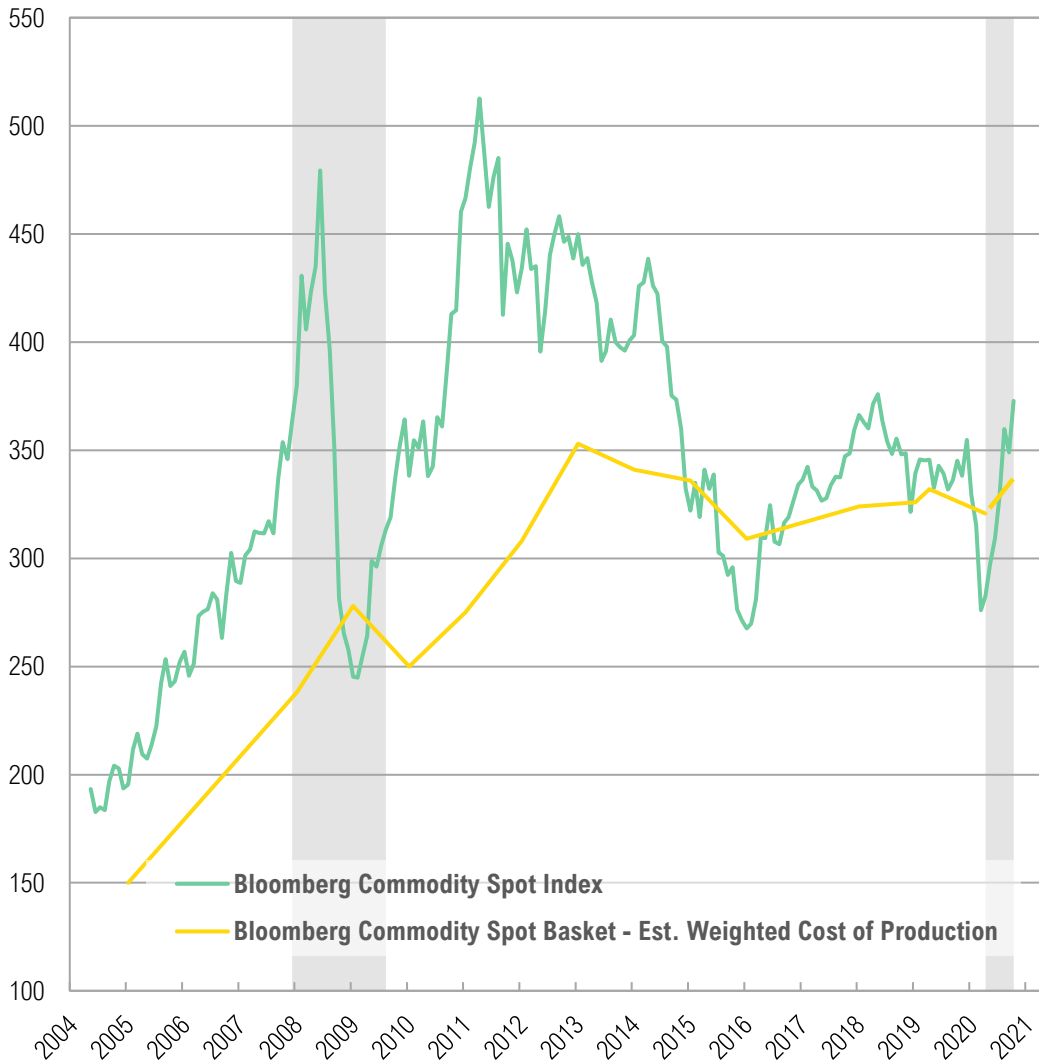
**Page 47**



# Commodities Above Marginal Cost of Production

BLOOMBERG COMMODITY SPOT INDEX VS. ESTIMATED WEIGHTED COST OF PRODUCTION, 1/1/2004 – 9/30/2020

Index, Cost of Production



Source: Bloomberg, Core Commodity Management (COP), Q3, 2020 COP is estimated.

## COMMODITY PRICES VS. COP | 9/30/20

Commodity	Cost of Production (COP)	Price	Price vs. COP
WTI Crude	\$59.0	\$40.2	-32%
Brent Crude	\$64.0	\$41.8	-35%
RBOB Gasoline	\$1.7	\$1.1	-34%
Heating Oil	\$1.7	\$1.1	-34%
Natural Gas	\$3.4	\$3.0	-12%
Corn	\$3.8	\$4.1	8%
Wheat	\$6.5	\$6.3	-3%
KC Wheat	\$6.3	\$5.7	-9%
Soybeans	\$8.7	\$10.7	23%
Soybean Meal	\$256.0	\$379.1	48%
Soybean Oil	\$0.2	\$0.3	121%
Lean Hogs	\$0.6	\$0.7	23%
Live Cattle	\$1.1	\$1.0	-4%
Sugar	\$0.1	\$0.1	4%
Coffee	\$1.1	\$1.0	-6%
Cotton	\$0.9	\$0.7	-17%
LME Aluminium	\$2,122.0	\$1,834.5	-14%
CMX Copper	\$2.3	\$3.2	39%
LME Nickel	\$12,368.0	\$16,023.0	30%
LME Zinc	\$2,168.0	\$2,519.0	16%
Gold	\$1,010.0	\$1,923.0	90%
Silver	\$12.0	\$25.1	109%
Platinum	\$1,050.0	\$891.7	-15%

OPPORTUNISTIC

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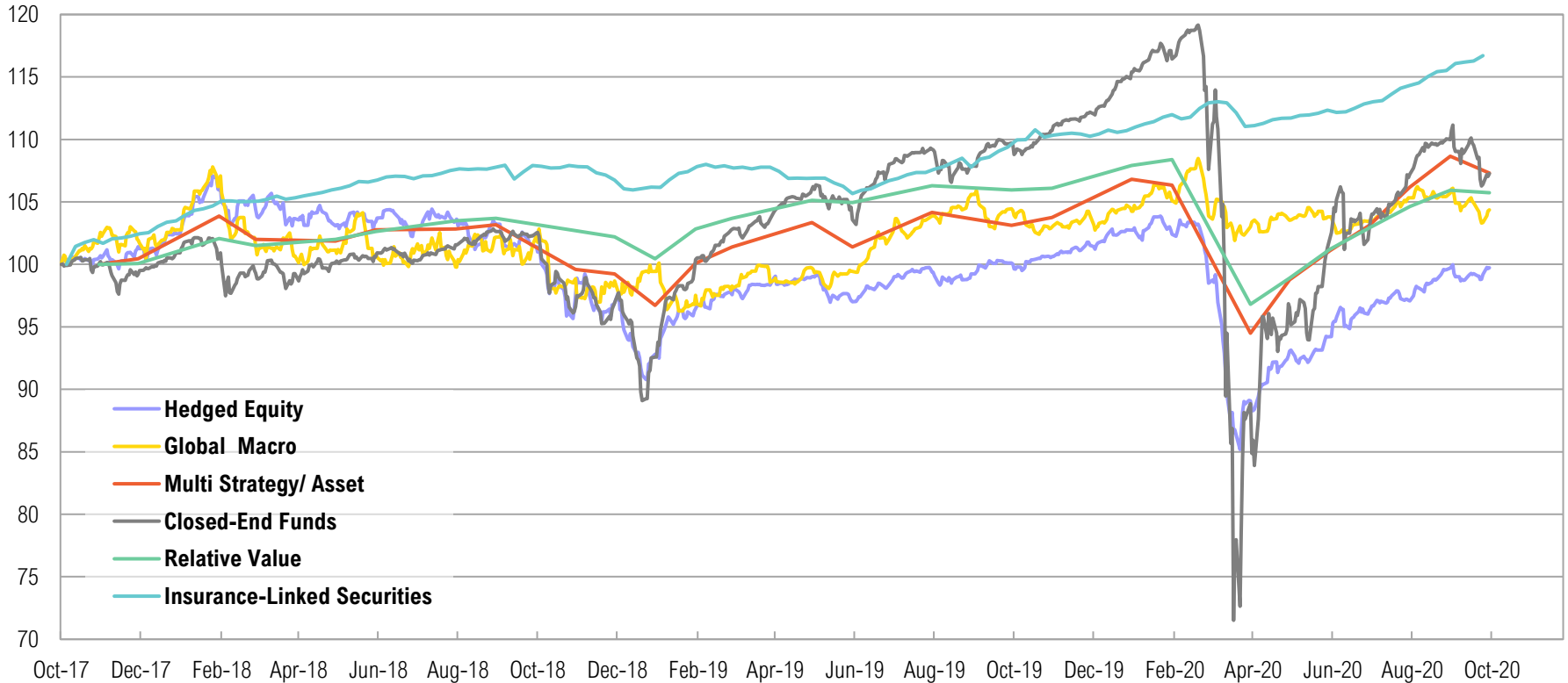
“*My sense is that economic anxiety means electoral volatility.*”

Tim Kaine, Lawyer and Politician

# Opportunistic Strategy Returns

CALENDAR YEAR & TRAILING TOTAL RETURNS

Growth Index, 3 Years



Asset Class	Benchmark	QTD	YTD	2019	2018	2017	2016	2015	1-Yr	3-Yr	5-Yr	10-Yr
Hedged Equity	HFRX Equity Hedge Index	3.6	-3.0	10.7	-9.4	10.0	0.1	-2.3	-0.4	0.0	1.6	0.7
Global Macro	HFRX Macro-CTA Index	0.8	0.1	4.8	-3.2	2.5	-2.9	-2.0	-0.1	1.4	0.1	-0.2
Multi Strategy/ Asset	HFR1 Fund Weighted Composite Index	4.0	0.4	10.4	-3.9	8.6	5.5	-1.1	3.8	3.0	4.2	3.7
Relative Value	HFR1 Relative Value Index	2.8	-2.0	7.1	0.6	5.1	7.6	-0.3	-0.5	2.2	3.6	4.2
Short Bias Equity	HFRX Short Bias Index	-22.9	-34.8	-19.6	12.4	-11.2	-4.8	1.3	-39.1	-16.5	-13.7	-10.2
Insurance-Linked Securities	SwissRe Global Cat Bond Index	3.4	5.2	4.4	2.8	0.5	6.6	4.3	6.3	5.5	4.0	5.7
Closed-End Funds	S-Network Composite Closed-End Index	4.2	-7.0	24.6	-8.5	14.4	14.9	-1.1	-2.3	2.3	7.7	6.0

Source: Bloomberg

Returns for periods greater than one year are annualized.

## Q4, 2020 Market Outlook

SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION

# Opportunistic Strategies Summary

## COMMENTARY & MARKET DATA

### OPPORTUNITY SET IN CORE ASSET CLASSES

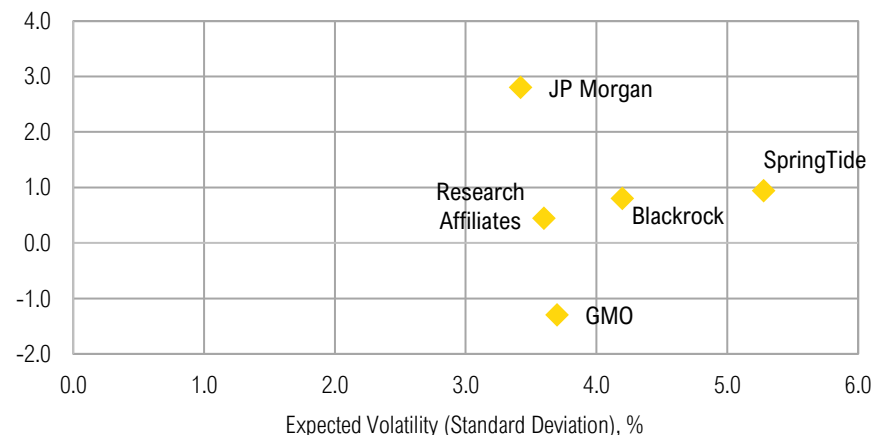
- The yield on a diversified portfolio of global stocks and U.S. bonds rose slightly to 1.72%, but it remains near all-time lows.
- Near record low hurdle rate/opportunity cost of U.S. core 60/40 portfolios (expected 10-year nominal returns of ~3%) and higher expected volatility

### OPPORTUNISTIC STRATEGIES

- Multi-strategy hedge funds, as measured by the HFRI Fund Weighted Composite, were the top performing asset class in Opportunistic Strategies in Q3 (+7.4%).
- Despite low opportunity cost, high fees and declining manager alphas remain a large deterrent for most hedge fund allocations; however, the “riches are in the niches” – exceptional boutique managers have the potential to add value given increased volatility.
- Closed-end funds climbed higher (+4.2%), trimming year-to-date losses to -7.0% for the asset class. Average discounts narrowed by less than 1% to -8.7%, significantly below the long-term average of -5.5% discounts.
- The closed-end funds space is attractive as discounts have widened to over 10% across almost all sectors.

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

Exp. Total Return, 10-Yr %



### BALANCED PORTFOLIO (60/40) YIELD

Yield, %

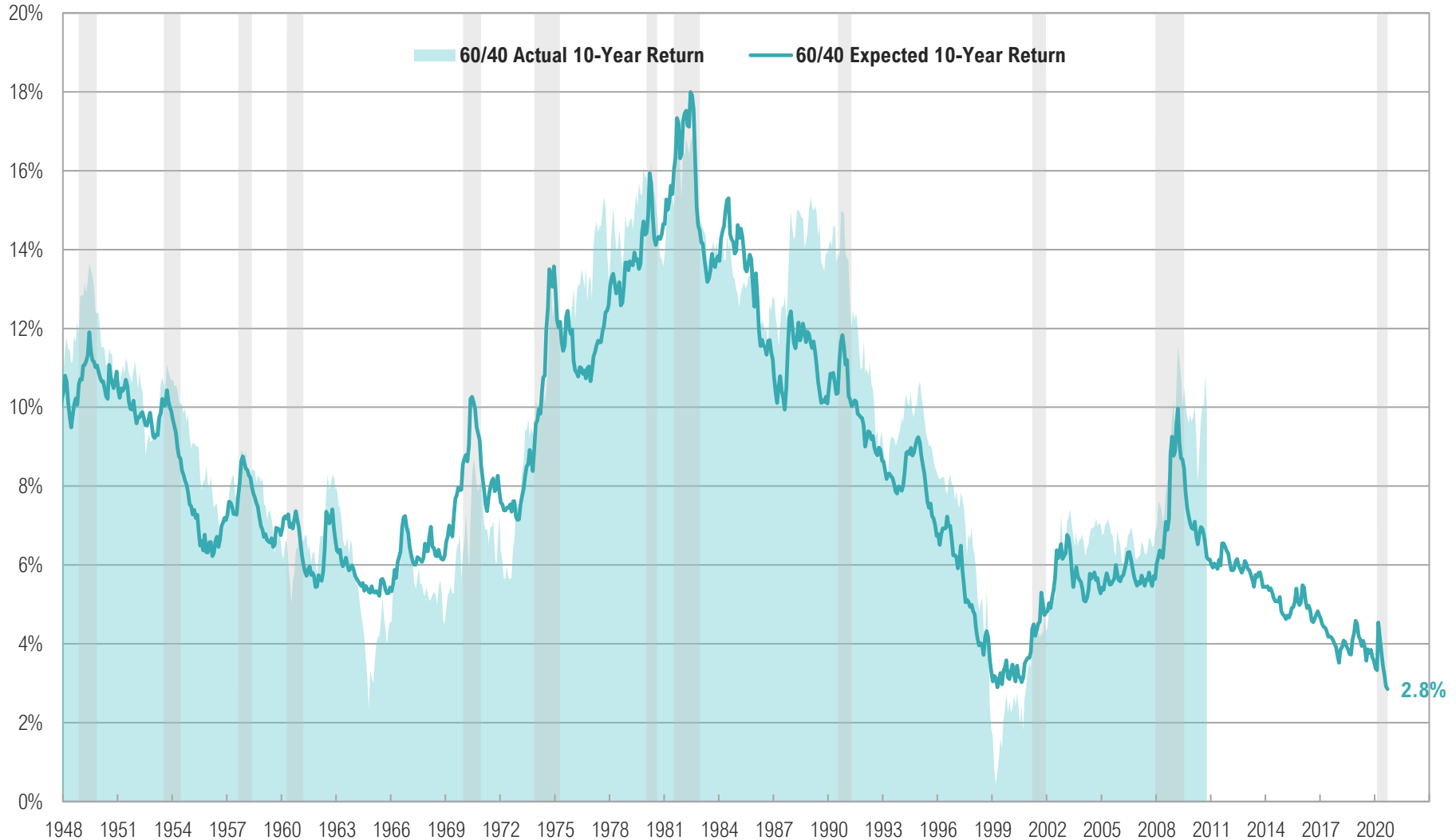


Source: Various, external CMAs are as of March to October 2020 and are nominal. GMO assumptions are 7-year, others shown are 10-year. GMO vol is estimated.

# Expected Returns for a 60/40 Remain Low

ESTIMATED 60/40 PORTFOLIO 10-YEAR RETURNS VS. ACTUAL 10-YEAR RETURNS, 1/1/1948 – 9/30/2020

Returns



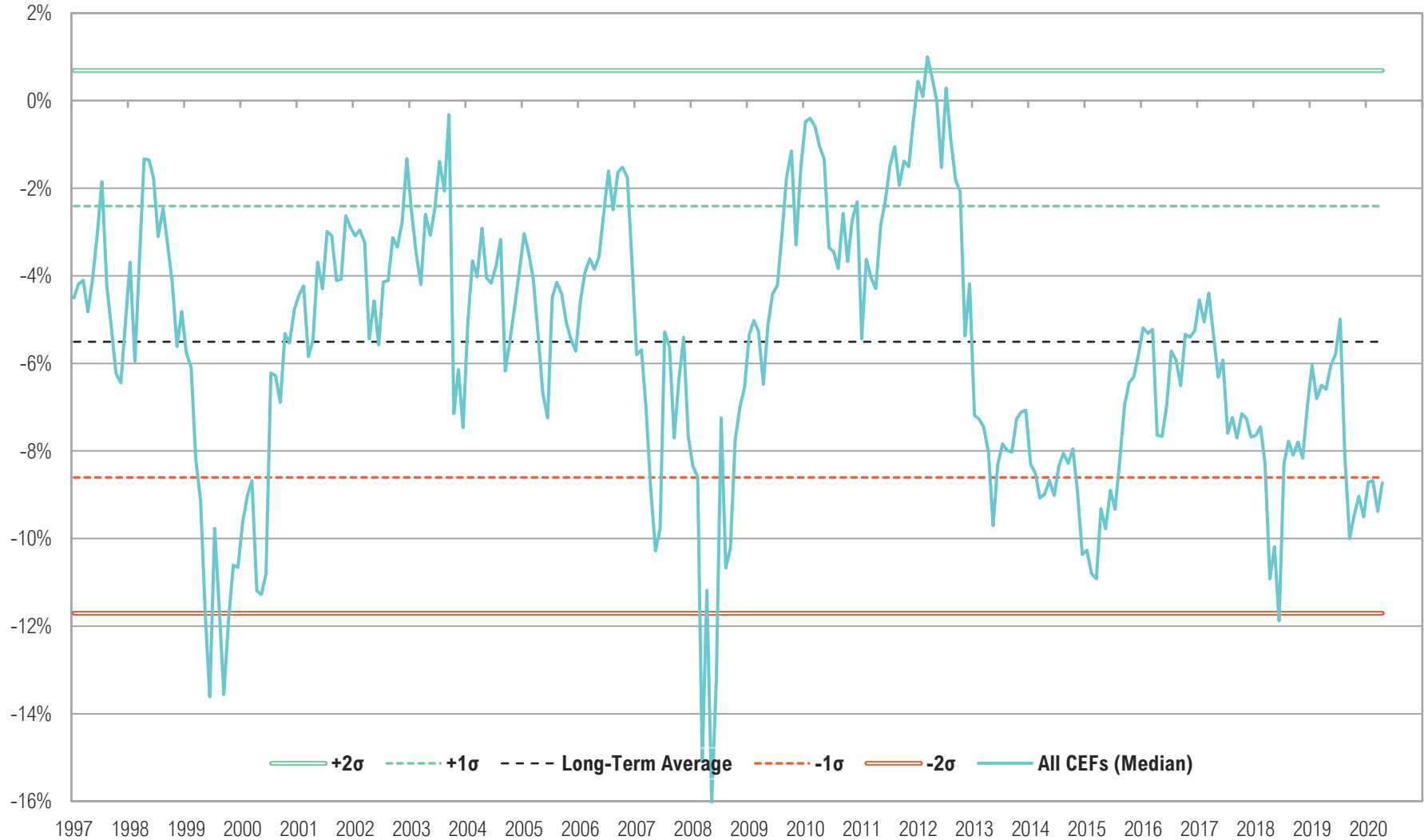
Source: Bloomberg, S&P, Shiller, SpringTide calculations



# Closed-End Fund Discounts Remain Attractive

CLOSED-END FUND UNIVERSE MEDIAN PREMIUM/ DISCOUNT TO NET ASSET VALUE, 1/1/1998 – 10/20/2020

Premium/Discount to NAV, %



Source: Morningstar, SpringTide calculations

## ASSET ALLOCATION

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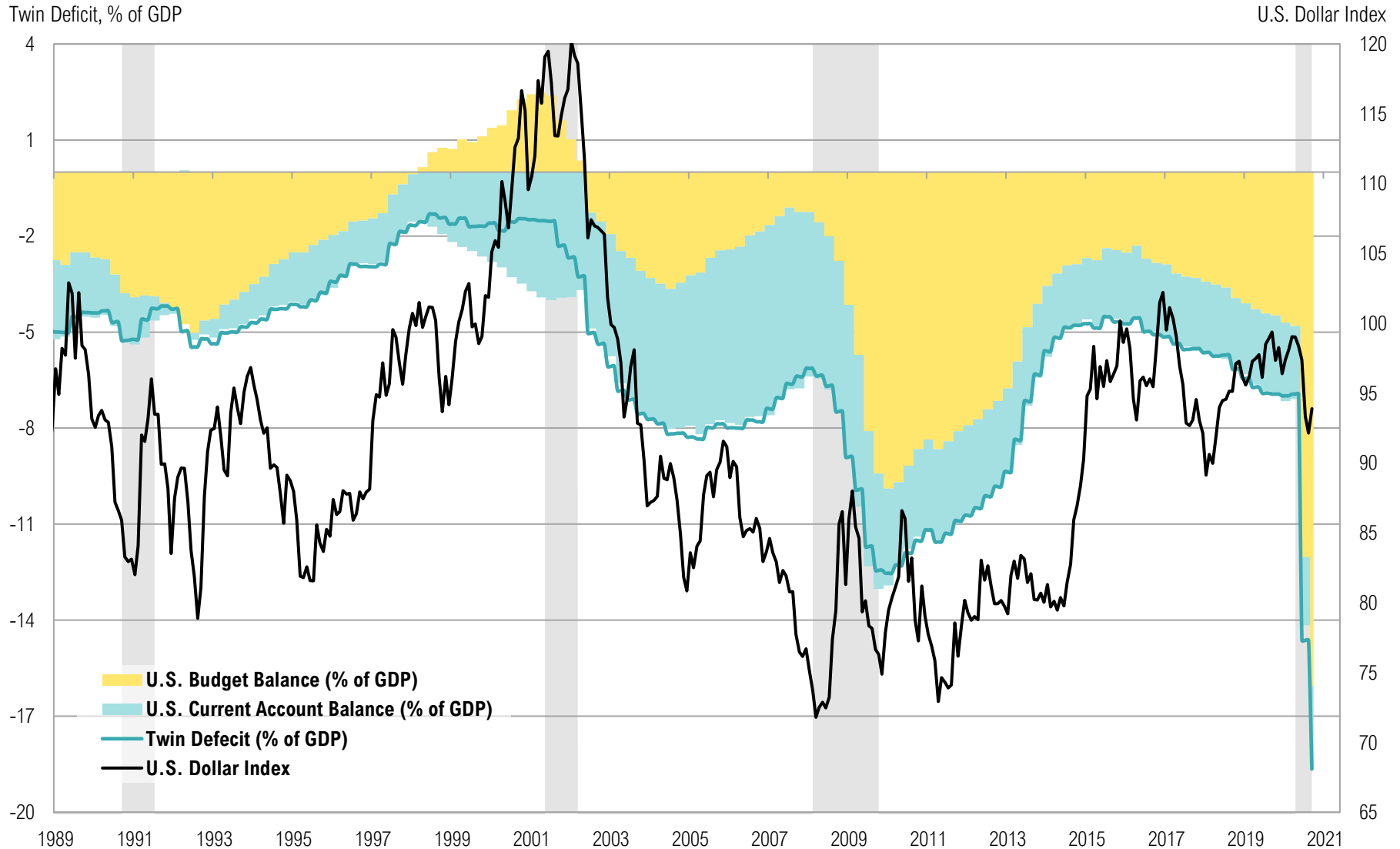
“ *Over the last two centuries, the fraction of inflation’s long-run variation explained by long-run money growth has been very high, and relatively stable, in the United States, the United Kingdom and several other countries.*”

Luca Benati, *European Central Bank, March 2009*

Source: ECB working Paper No. 1027, March 2009: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1027.pdf>

# Growing Twin Deficit Will be a Major Headwind for the Dollar

U.S. BUDGET & CURRENT ACCOUNT BALANCE AS A % OF GDP VS. U.S. DOLLAR INDEX, 1/1/1989 – 9/30/2020



Source: Bloomberg

Assumes the Current Account deficit remains unchanged from Q2, 2020 at -2.6% of GDP.

**Q4, 2020 Market Outlook**

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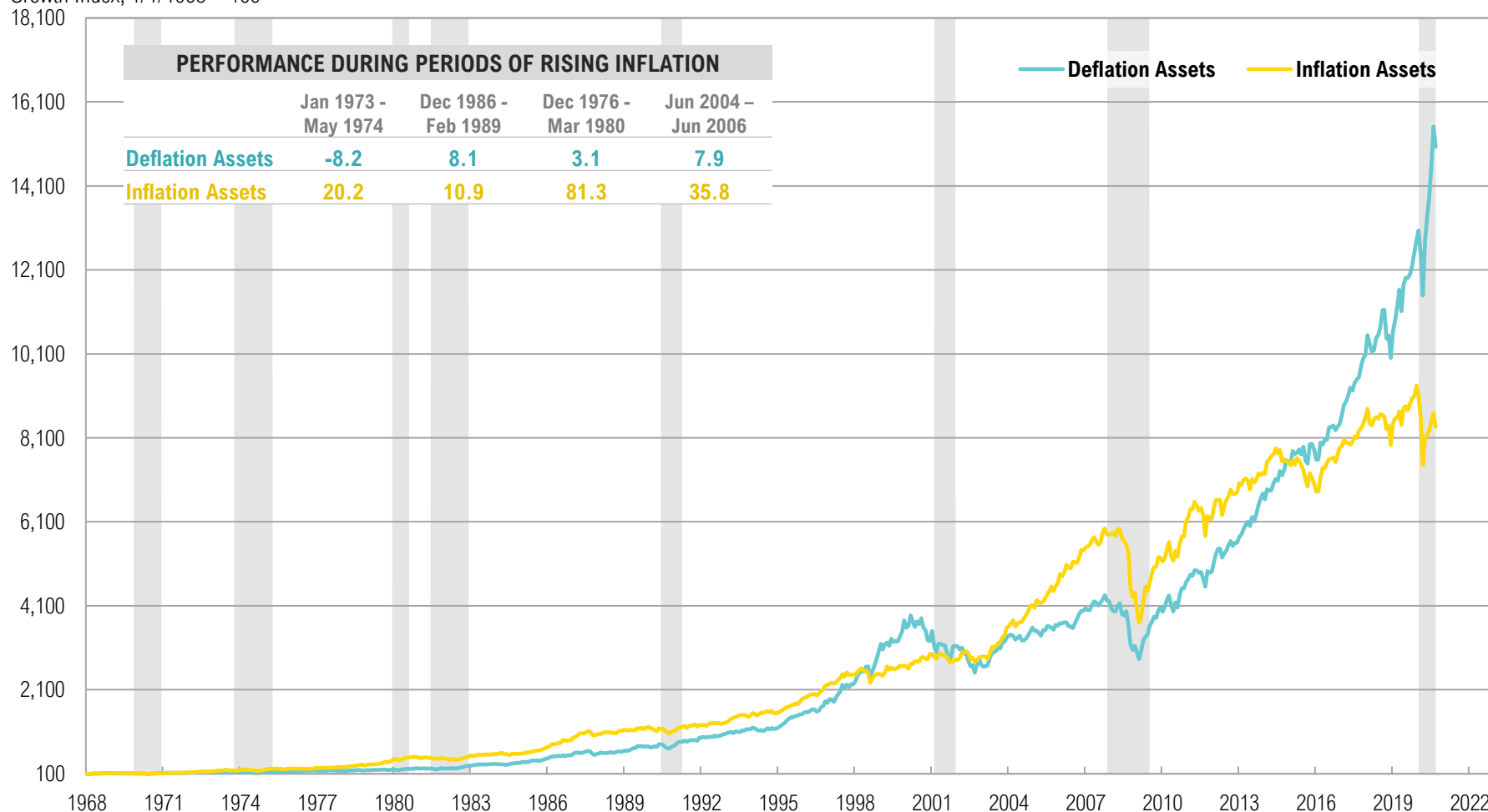
SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION



# Time to Tilt from Deflation to Inflation Assets

INFLATION ASSETS VS. DEFLATION ASSETS GROWTH OF 100, 1/1/1968 – 9/30/2020

Growth Index, 1/1/1968 = 100



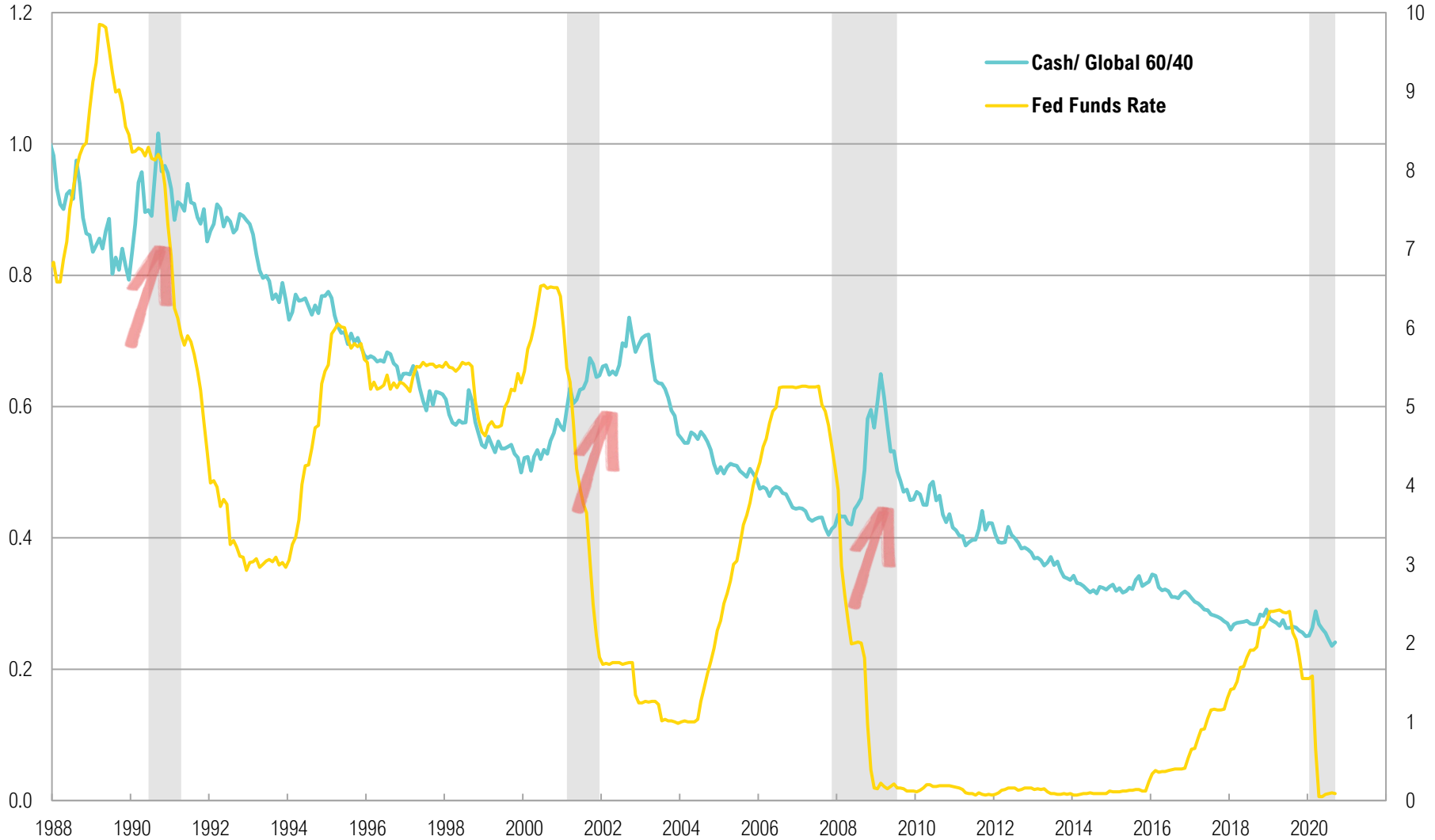
Source: Bloomberg. Total return data shown in table is cumulative. Data as of 9/30/2020. Performance for Deflation Assets represented by the following total return indices (equal weighted): U.S. IG Bonds = Bloomberg U.S. Corporate Bond TR Index; Government Bonds = IA SBBI U.S. IT Govt TR Index; U.S. Large Cap Stocks = IA SBBI 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 SBBI 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 Vale NR Index, Banks = S&P 500 Banks TR Index, Energy = S&P 500 Energy TR Index.

# Cash Priced in Global 60/40

CASH VS. GLOBAL 60/40 PORTFOLIO (RATIO) & FED FUNDS RATE, 1/1/1988 – 9/30/2020

Cash/ Global 60/40, Ratio

Fed Funds Rate, %



Source: Bloomberg

Global 60/40 Portfolio returns are represented by (60%) MSCI ACWI GR Index and (40%) Bloomberg Global Aggregate Bond Index.

**Q4, 2020 Market Outlook**

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SEE IMPORTANT DISCLOSURES AT THE END OF THIS PRESENTATION



# Asset Class Correlations

10-YEAR TRAILING CORRELATIONS, AS OF 9/30/2020

Asset Class	U.S. Large Cap Stocks	U.S. Small & Micro Cap	Intl Dev Large Cap Stocks	Intl Dev Small & Micro Stocks	Emerging & Frontier Mkt Stocks	Global Stocks	Private Equity	Venture Capital	U.S. Intern-Term Muni Bonds	U.S. Short-Term Muni Bonds	U.S. High Yield Muni Bonds	U.S. Intern-Term Bonds	U.S. Short-Term Bonds	U.S. High Yield Bonds	U.S. Bank Loans	Intl Developed Bonds	Emerging & Frontier Mkt Bonds	Public BDCs	U.S. REITs	Ex U.S. Real Estate Securities	Private Real Estate	Commodity Futures	Midstream Energy	Gold	Long/Short Equity	Managed Futures	Relative Value	Closed-End Funds	Insurance-Linked Securities	Digital Assets	Cash & Cash Equivalents
U.S. Large Cap Stocks	1.00																														
U.S. Small & Micro Cap	0.90	1.00																													
Intl Dev Large Cap Stocks	0.86	0.76	1.00																												
Intl Dev Small & Micro Stocks	0.85	0.79	0.95	1.00																											
Emerging & Frontier Mkt Stocks	0.74	0.66	0.83	0.82	1.00																										
Global Stocks	0.96	0.86	0.96	0.94	0.86	1.00																									
Private Equity	0.36	0.28	0.39	0.38	0.38	0.39	1.00																								
Venture Capital	0.32	0.24	0.34	0.32	0.33	0.34	0.78	1.00																							
U.S. Intern-Term Muni Bonds	-0.01	-0.07	0.07	0.09	0.12	0.05	0.00	0.05	1.00																						
U.S. Short-Term Muni Bonds	0.10	0.02	0.14	0.17	0.17	0.14	0.07	0.09	0.81	1.00																					
U.S. High Yield Muni Bonds	0.13	0.10	0.20	0.22	0.25	0.19	-0.07	-0.06	0.77	0.57	1.00																				
U.S. Intern-Term Bonds	-0.10	-0.17	-0.06	-0.06	0.07	-0.06	0.03	0.10	0.75	0.53	0.56	1.00																			
U.S. Short-Term Bonds	-0.37	-0.43	-0.30	-0.36	-0.17	-0.33	-0.05	0.03	0.36	0.31	0.09	0.67	1.00																		
U.S. High Yield Bonds	0.77	0.74	0.79	0.78	0.76	0.83	0.39	0.33	0.30	0.35	0.44	0.19	-0.25	1.00																	
U.S. Bank Loans	0.66	0.68	0.63	0.68	0.57	0.68	0.31	0.25	0.21	0.30	0.42	0.03	-0.43	0.86	1.00																
Intl Developed Bonds	0.30	0.19	0.46	0.48	0.57	0.43	0.20	0.21	0.40	0.38	0.34	0.47	0.26	0.46	0.24	1.00															
Emerging & Frontier Mkt Bonds	0.54	0.47	0.63	0.61	0.68	0.64	0.19	0.20	0.59	0.54	0.66	0.45	-0.05	0.80	0.66	0.60	1.00														
Public BDCs	0.76	0.82	0.68	0.72	0.59	0.76	0.34	0.29	0.16	0.24	0.31	0.03	-0.38	0.81	0.83	0.27	0.65	1.00													
U.S. REITs	0.65	0.65	0.60	0.59	0.55	0.65	0.27	0.32	0.32	0.21	0.43	0.35	-0.06	0.69	0.58	0.41	0.63	0.66	1.00												
Ex U.S. Real Estate Securities	0.72	0.65	0.86	0.86	0.87	0.84	0.33	0.31	0.24	0.10	0.22	0.15	0.02	0.75	0.52	0.65	0.72	0.59	0.65	1.00											
Private Real Estate	0.11	0.03	0.20	0.20	0.20	0.17	0.65	0.60	0.22	0.23	0.11	0.20	0.16	0.29	0.25	0.22	0.24	0.18	0.21	0.24	1.00										
Commodity Futures	0.54	0.52	0.60	0.61	0.64	0.62	0.30	0.19	0.04	0.13	0.13	-0.10	-0.18	0.63	0.49	0.47	0.49	0.50	0.36	0.59	0.14	1.00									
Midstream Energy	0.69	0.65	0.59	0.62	0.53	0.67	0.45	0.33	0.15	0.22	0.20	0.08	-0.33	0.72	0.73	0.27	0.54	0.77	0.54	0.54	0.17	0.46	1.00								
Gold	0.11	0.07	0.16	0.20	0.35	0.19	0.11	0.11	0.32	0.35	0.20	0.42	0.32	0.25	0.05	0.59	0.37	0.15	0.15	0.27	0.08	0.46	0.14	1.00							
Long/Short Equity	0.92	0.90	0.88	0.92	0.84	0.95	0.37	0.31	0.02	0.16	0.24	-0.07	-0.38	0.84	0.76	0.37	0.62	0.81	0.62	0.77	0.13	0.63	0.71	0.21	1.00						
Managed Futures	0.37	0.22	0.33	0.31	0.30	0.37	0.15	0.14	0.23	0.24	0.23	0.35	0.17	0.29	0.15	0.33	0.29	0.21	0.32	0.38	0.11	0.23	0.20	0.36	0.33	1.00					
Relative Value	0.73	0.73	0.75	0.78	0.69	0.78	0.29	0.23	0.27	0.32	0.50	0.05	-0.43	0.89	0.91	0.32	0.75	0.83	0.61	0.71	0.24	0.58	0.75	0.13	0.86	0.24	1.00				
Closed-End Funds	0.82	0.77	0.79	0.81	0.75	0.85	0.37	0.30	0.33	0.34	0.43	0.18	-0.28	0.88	0.78	0.42	0.78	0.84	0.74	0.78	0.20	0.56	0.77	0.24	0.85	0.27	0.86	1.00			
Insurance-Linked Securities	0.14	0.09	0.11	0.13	0.11	0.13	0.05	0.05	0.08	0.17	0.26	0.09	-0.17	0.31	0.32	0.30	0.30	0.22	0.26	0.24	0.07	0.33	0.22	0.20	0.30	0.22	0.33	0.26	1.00		
Digital Assets	0.11	0.02	0.24	0.24	0.19	0.17	0.01	0.01	0.20	0.03	0.19	0.18	-0.13	0.17	0.15	0.26	0.21	0.03	0.08	0.27	-0.04	0.12	0.19	0.15	0.16	0.15	0.18	0.19	0.18	1.00	
Cash/Ultra-Short Bonds	-0.32	-0.33	-0.34	-0.44	-0.37	-0.35	-0.09	-0.07	-0.12	-0.07	-0.19	0.10	0.46	-0.34	-0.40	-0.27	-0.30	-0.29	-0.12	-0.06	-0.09	-0.31	-0.23	-0.08	-0.42	0.00	-0.34	-0.30	-0.17	-0.29	1.00

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

Correlations for asset classes with less than 10 years of benchmark data are calculated since inception.

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## DEFINITIONS

Asset class performance was measured using the following benchmarks: U.S. Large Cap Stocks: S&P 500 TR Index; U.S. Small & Micro Cap: Russell 2000 TR Index; Intl Dev Large Cap Stocks: MSCI EAFE GR Index; Emerging & Frontier Market Stocks: MSCI Emerging Markets GR Index; U.S. Intermediate-Term Muni Bonds: Bloomberg Barclays 1-10 (1-12 Yr) Muni Bond TR Index; U.S. Intermediate-Term Bonds: Bloomberg Barclays U.S. Aggregate Bond TR Index; U.S. High Yield Bonds: Bloomberg Barclays U.S. Corporate High Yield TR Index; U.S. Bank Loans: S&P/LSTA U.S. Leveraged Loan Index; Intl Developed Bonds: Bloomberg Barclays Global Aggregate ex-U.S. Index; Emerging & Frontier Market Bonds: JPMorgan EMBI Global Diversified TR Index; U.S. REITs: MSCI U.S. REIT GR Index, Ex U.S. Real Estate Securities: S&P Global Ex-U.S. Property TR Index; Commodity Futures: Bloomberg Commodity TR Index; Midstream Energy: Alerian MLP TR Index; Gold: LBMA Gold Price, U.S. 60/40: 60% S&P 500 TR Index; 40% Bloomberg Barclays U.S. Aggregate Bond TR Index; Global 60/40: 60% MSCI ACWI GR Index; 40% Bloomberg Barclays Global Aggregate Bond TR Index.



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