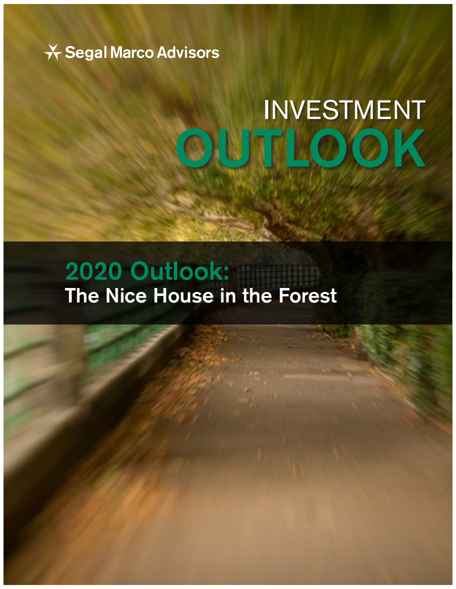
Segal Marco Advisors

INVESTMENT OUTLOOK

Q1 Update to the 2020 *Investment Outlook*: COVID-19 Prevention, Mitigation and Adaptation



This is the first quarterly update to Segal Marco Advisors' 2020 *Investment Outlook*.

In our January 2020 *Investment Outlook*, we concluded that the world in general looked poised for persistent growth which, while at a fairly modest level generally, would continue to support risk assets for the next 12 to 18 months. We noted, however, that there were potential risks to this result in the form of unexpected exogenous causes that one could speculate about, but not predict the specifics (timing or severity) with any accuracy.

But we didn't see this one coming at all. We don't think anyone really did.

Yet here we are with U.S. equity markets down, the U.S. 10 year having touched levels below 0.6 percent, oil prices crashing to new lows, negative GDP likely defining a global recession and jobs disappearing faster than ever before. This is the most dramatic and far-reaching negative surprise that any of us have ever experienced.

The question on everyone's mind now is, of course: what comes next? We think there are three stages that are relevant to seeking an answer to that question.

Prevention

For this outbreak of COVID-19, that ship has sailed. While some might argue that a global pandemic could have been prevented, it wasn't and the most we can do from this one is to learn from our mistakes in order to do the best we can to avoid the next outbreak. It does seem that global cooperation and communication may be one of those places where process improvement is possible, yet global anything feels like another vessel having left port. We hope that the folks at the World Health Organization are, in their rare spare moments, forming task forces and such to examine what can be done in the future. Certainly some mechanism for an expanded effort to quickly develop vaccinations or other treatments would seem to be a fairly reasoned response.

Mitigation

This is, of course, where we are now. Webster defines this stage as "making a problem less severe." From physical distancing (we prefer this as a descriptor as you should seek to be very social just via non-contact forms) to washing hands/parcels/groceries, etc. to travel restrictions, this has been painful for most of us in one way or another. This process has had a very different effect upon citizens depending upon their circumstances.

For some, it meant the almost immediate loss of jobs. Many of the newly unemployed have little or no savings. For others, it was a reduction in assets designated for a hopefully long and self-reliant retirement. Restaurant workers were told to go home without a paycheck, while healthcare workers became overwhelmed by long, hard and dangerous hours.

There is one class of people who are adjusting to working from home, while others are dealing with making choices about paying the rent or the car payment. We have been told that the virus is very egalitarian in that it doesn't care who you are or what you do for a living, yet it has inordinately struck down citizens who live in close proximity to one another, particularly in central cities, as well as people of color.

Despite these trials and tribulations, the world will persevere. Asset values will recover and businesses will come back to health, albeit at different speeds and degrees and characteristics. Jobs will return and we will buy appliances and other stuff we want and need.

A key question is one of the many uncertainties: when will we return to "normal?" At this point, the answer is very certain: no one truly knows. A related and important question that we can and should begin to wrestle with is: what will be different?

Adaptation

Without some form of massive and highly effective immunization, this virus is likely to revisit us or resurge even after having been successfully mitigated this time around. This fact suggests a return to "normal" will actually mean a return to something else than the normal of January 2020. This new reality, with the degree of change being largely related to how successful we are at future prevention and mitigation, could have dramatic implications socially and economically.

With supply chains disrupted, particularly for vital goods such as pharmaceuticals, nations may seek to protect strategic industries and further the trend towards deglobalization. This could create higher prices for certain goods unless the protection is accompanied by fiscal support from governments.

The trends towards cyber-shopping and cyber-everything may accelerate. Telemedicine may become commonplace. Drones could deliver. Virtual teaching might be widely accepted and university campuses retooled for other purposes, such as assisted living facilities. Working from home is found to be a positive surprise for productivity and the need for office space is dramatically reduced, while suppliers of home office goods and supplies benefit. Mass transit may become less strained, curtailing roadway traffic and resulting in fewer dollars spent on automobiles, maintenance and gasoline, as well as a welcome reduction in associated carbon-based pollution. Potentially infected physical currency and branch banks may virtually disappear. The impacts on the travel and leisure industry have such a wide distribution of options and is so dependent upon an unknown path that it is difficult to speculate at this juncture. Anticipated labor shortages are delayed as the boomers stay in the workplace in order to bolster retirement savings. In general, citizens save more and spend less in reaction to having their bank accounts decimated during a period of unemployment.

For investors there are pluses and minuses imbedded in these potential changes with betting on certain outcomes likely to create the usual winners and losers. There is little doubt, however, that the trillions of dollars in lost GDP worldwide, even with an associated injection of a like amount of fiscal and monetary stimulus, will not simply vanish into thin air, but rather will take a bite out of growth rates across the globe. How big that is and how much it hurts will depend upon how quickly and effectively we adapt to a different normal. Friedrich Nietzsche said "that which does not kill us makes us stronger." But that is only true if we use painful experiences to learn and grow. Our next focus must be on adaptation.

Shoutout to our healthcare heroes, essential workers and all first responders. Thank you, bless you and be safe.

Revised Outlook for Asset Classes

Our base case is that there still is a great deal of uncertainty due to the pandemic, particularly regarding the flattening of the pandemic cases curve, the possibility of future waves and the mechanisms by which the world "reopens." It is clear to us that the U.S. Federal Reserve (the Fed) will do "whatever it takes," but sentiment, as opposed to fundamentals, are likely to drive markets in the near term, notwithstanding monetary and fiscal steps. This makes risk assets, even those that are attractively priced, susceptible to volatility during this period.

Equities

Given the above, it makes sense to directionally move back toward targets in U.S. large-cap equities, where possible, with the high degree of volatility and liquidity needs likely arguing for many plans to at least move back to the lower end of their target range. Assessing individual plan liquidity is important in this regard as capital calls and benefit needs or other outflows are likely to influence the degree of capital available for rebalancing. We would not sell depreciated high yield or bank loans to rebalance into equity allocations.

With continued global economic uncertainty, we believe that larger-cap stocks will, generally, fare better until the scope of the pandemic begins to subside as investors seek the comfort of more well-known names. In addition, many smaller companies in some of the severely impacted industries simply may not be able to weather this storm. Given the 12–18 month timeframe we use for our asset class views, we are modestly below neutral for small cap and would not rebalance back in that direction at this juncture. That being said, if the economic uncertainty is clarified more quickly we would revisit this view.

Uncertainty about the effectiveness of stimulus in the eurozone, partially due to differing needs and capacity in the north and south, along with the perception of a greater sense of security investing in the U.S. (along with the USD staying fairly strong despite rising debt loads), creates less of a headwind for U.S. stocks versus Non-U.S. developed. We have moved from Neutral to a somewhat below-normal return outlook versus our long-term capital market assumptions for developed non-U.S. stocks. We continue to believe active management is critical for non-U.S. developed given both the opportunities and the variability of virus response. This perspective includes international small cap as well. We are concerned about emerging markets equity and debt as the flight to quality continues to hold until there is more clarity about the effects of the pandemic. In addition, many of these economies will struggle to provide the support necessary to offset the effects of the pandemic due to a reliance on external funding and investment. More commodity-sensitive economies are likely to fare worse. We move from somewhat above normal to neutral in emerging-market equity and emerging-market debt. Again, suggesting active management may serve investors well.

Despite the existence of some very good companies with excellent prospects trading at historically attractive valuations, we currently do not favor the value indexes over the growth indexes across U.S. capitalization. Embedded in the value indexes are a number of sectors and companies that will struggle to recover and passive overweighting of a value index is not recommended. If active management is utilized in an investor's value allocation, we are more comfortable with adding some weight to value.

Fixed Income

After hitting historically low yields in long bonds, Treasuries continue to be both a source of liquidity and safety for investors, creating a volatility in yields and a constantly shifting yield curve. After widening out to 2008 levels in the early stages of the pandemic crisis, credit spreads have come back in but remain elevated, creating opportunities for investors with liquidity to invest in bonds. Despite the historically low interest rates on the long-end of the curve, the combination of Fed support and the opportunity in spread sectors is compelling enough that we remain neutral to our long-term assumptions in core fixed income. With the potential for a continued strong USD and negative yields persisting in non-U.S. sovereign debt, we remain below neutral to our long-term assumptions. Commodity prices have followed consumption lower, most notably oil, thus reducing the prospects for inflation in the near term. This leaves the short-term prospects for TIPS below our long-term assumptions even in their role as a safe haven investment.

Some attractive opportunities in high yield and bank loans have developed as the Fed is basically backstopping investors' positions at least in the higher quality end. In that vein, we do favor the higher quality end of both with a focus on selectivity and active management. Generally a good entry point, however, volatility is likely to exist and some industries and sectors will struggle.

Alternatives

In the alternatives bucket, we see substantial challenges for many investors in private equity to deploy capital and receive distributions — although there will be selective opportunities in some sectors to acquire assets at materially lower valuations. We had been slightly below neutral for taking new positions in private equity and continue that perspective. Private credit appears relatively compelling in light of loan restructurings, providing needed liquidity and other creative solutions. Deal flow may be challenged and we remain neutral relative to long-term capital market assumptions.

We had been opportunistically favorable to certain energy investments, but current uncertainty has us moving from slightly positive back to neutral looking out 12–18 months. Commodities in general will struggle over this period and we move from neutral to somewhat below-normal return expectations.

Real estate is likely to face challenging times until we see stabilization of both the pandemic and the economic environment. Challenges include suspension of rent payments by many tenants and the general view that working from home is likely to continue for longer than the pandemic, putting pressure on offices. Exits by many small businesses also create difficulties for investors in the retail space. Transactions will slow given difficulty in executing price evaluation and due diligence. Difficulty projecting reliable lease-up assumptions complicates underwriting. We have modified our perspective for future investments in real estate to slightly below neutral versus long term CMAs.

While regulated and contracted infrastructure assets (*e.g.*, water and power) are anticipated to maintain during the crisis, GDP-sensitive assets such as airports will be affected more dramatically. Signal remains at neutral in the short-term for infrastructure.

Summary of Outlook Views

The tables on the following pages provide a snapshot of our forward-looking observations on the key macroeconomic factors driving markets and the direction of specific asset classes.

Introduction to Segal Marco Advisors' Signals

Our global macro signals are represented by arrows that reflect select economic indicators' directional movement. Gray-shaded boxes indicate a change in our view of a particular economic indicator from the previous quarter.

There is a set of five signals for each asset class, represented by shaded circles ranging from an above-normal return outlook (dark green) to a below-normal return outlook (dark red), with the middle circle indicating a neutral outlook (gray.) The views represented for each of the asset classes are *relative* to our 10-year capital market assumptions.

If our views on an asset class change from quarter to quarter, that change is represented by an arrow that stretches from the previous quarter's signal to that of the current quarter.

Global Macro Signals and Outlook

Key:

↓	↘	→	↗	↑
Negative	Neutral, Trending Lower	Neutral	Neutral, Trending Higher	Positive

Developed Markets

Market	GDP Growth	Inflation	Policy Rate	Currency	Equity Valuations
U.S.	↓	→	↓	↗	→
GDP growth declined -4.8% in Q1, shrinking at the fastest pace since the Global Financial Crisis. Unemployment claims surged to new highs in the quarter as the coronavirus pandemic ground economic activity to a low level. The Fed cut rates to zero as part of a massive stimulus plan for the U.S. economy. Inflation is still moderate, though fiscal and monetary stimulus could help trigger it in the future. Valuations now sit near the historic median.					
Eurozone	↓	↘	→	↘	↗
GDP growth contracted -3.8% in the quarter as the growing pandemic took a toll on the region's economy. Like the Fed in the U.S., the European Central Bank announced it would start a new bond-buying program aimed at spurring growth in the region. The euro declined against the USD, and inflation also decreased. Equity valuations are a bit below the long-term median and are cheaper than U.S. stocks.					
U.K.	↓	↗	↘	↓	↗
GDP growth slipped -0.2% QOQ in Q4, but it is almost inevitable that Q1 growth will contract further, given that the economy has been mostly shut down for much of March. The pound declined against the USD. The policy rate was lower as the Bank of England cut rates to an all-time low. Equity valuations look cheap compared to U.S. stocks.					
Japan	↓	↘	→	→	↗
Growth fell -1.81% QOQ in Q4, and growth is likely to continue to decline in Q1. The yen stayed flat in Q4, and the Bank of Japan held the policy rate steady. Inflation declined, and equity valuations are moderate compared with most developed markets.					

Note: Arrows reflect impact on growth except for policy rates where they reflect directional movement.

Key: ↓ Negative | ↘ Neutral, Trending Lower | → Neutral | ↗ Neutral, Trending Higher | ↑ Positive

Emerging Markets

Market	GDP Growth	Inflation	Policy Rate	Currency	Equity Valuations
China	↘	↗	→	↘	→
GDP growth sank -6.8% during the quarter. While China registered a steep decline in growth, the country's economy seemed to be opening up after being largely shut down for months with the outbreak. The policy rate stayed steady. The yuan fell against the USD. Equity valuations are close to long-term averages, thus were neither rich nor cheap.					
Rest of EM	↓	↘	N/A	↘	↗
Economic growth plunged in Q1 with the virus outbreak. Slowing demand for commodities and a stronger USD were major headwinds for emerging markets. EM stocks fell in the quarter, but valuations still sit near historic median. EM currencies and inflation were largely lower.					

Note: Arrows reflect impact on growth except for policy rates where they reflect directional movement.

Asset Class Signals and Outlook

Key: ● Below Normal ● ● Neutral ● ● Above Normal

Equities

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
U.S. Large Cap	○	○	●	○	○	Large-cap stocks should be relatively well-positioned while the global pandemic continues, as investors seek comfort in more well-known names. Valuations have come down almost to median, making large caps more appealing than they were at year-end.
U.S. Small Cap	○	● ←	○	○	○	Investors are likely to favor large caps over small caps in the pandemic environment. Further, many smaller companies in severely impacted industries may simply not be able to weather this current economic storm. If the economy's prospects improve in the next year or so, however, small caps could perform well over the next 12 to 18 months. Valuations now stand solidly below median in small cap, but the environment is not favorable in the short term.
Int'l Dev. Large Cap (Unhedged)	○	● ←	○	○	○	Uncertainty about the effectiveness of stimulus in the eurozone, along with the perception of greater security investing in the U.S., creates less of a headwind for U.S. stocks versus non-U.S. developed. The U.S. dollar has remained strong despite falling U.S. rates and rising debt loads, which is another reason to favor U.S. over non-U.S. developed at this point.
Int'l Dev. Small Cap (Unhedged)	○	● ←	○	○	○	Similar perspective as to international developed large cap. With uncertainty surrounding the state of the eurozone economy and the effect of the stimulus, investors will likely favor U.S. equities. International small caps will be more vulnerable to the economic downturn than large caps.
Emerging Markets (Unhedged)	○	○	● ←	○	○	As investors' flight to quality continues, emerging markets are likely to lag. In addition, many emerging economies will struggle economically in the context of the pandemic. The dollar's resilience also is likely to sting emerging markets, many of which carry USD-denominated debt loads. Given that China has made progress in fighting the virus (and that China is a relatively large portion of the index), EM has less potential downside risk than it could have at this time.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

Key: Below Normal — Neutral — Above Normal

Fixed Income

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
U.S. Core	○	○	●	○	○	Yields fell across the curve in Q1 as the Fed dropped short-term rates and with continued investor demand for long-term Treasuries. Current yield/duration profile still not compelling, particularly as Fed stimulus ramps up, but safety of core bonds in this environment is a positive.
Non-U.S. Core (Hedged)	●	○	○	○	○	Safety of international sovereign debt is somewhat appealing, though yields remain low to negative in many countries.
Emerging Market Debt (Hedged)	○	○	● ←	○	○	Similar to EM equity, expectations for EM debt are lower as investors favor safer asset classes and with prospects for EM countries uncertain as these countries navigate the pandemic.
High Yield	○	○	●	○	○	With the Fed essentially backstopping investors' positions, there are some substantial opportunities in high yield. We favor the higher-quality end with a focus on selectivity and active management. Spreads are significantly higher than the median as of end of Q1, adding to HY's appeal. Default rates could rise with the economic shutdown, though. We do note that there will likely be uncomfortable periods as well for HY and bank loans as sentiment overwhelms fundamentals.
Bank Loans	○	○	●	○	○	Much the same story here as with HY — there are solid opportunities in bank loans, especially with Fed support. Bank loans have snapped back after being hit hard recently, but there is still opportunity in the sector. Again, favor the higher-quality end with emphasis on active management.
Treasury Inflation-Protected Securities (TIPS)	○	○	●	○	○	Inflation could be on the horizon with huge fiscal and Fed stimulus. However, it may take some time to materialize. As investors gravitate toward safer asset classes, TIPS will likely be supported by sentiment.
Structured Credit	○	○	●	○	○	Forced selling has continued across the structured credit landscape, as mutual funds and REITs liquidate assets to raise cash. Moreover, the Fed's TALF 2.0 initiative offers a rare opportunity to access long-term non-recourse financing to purchase high-quality ABS assets. Overall, these dynamics have resulted in considerable pricing and valuation dislocations across the RMBS, CMBS, ABS and CLO complexes, affording investors access to asymmetric risk/return investment opportunities.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

Continued on the next page

Key: Below Normal — Neutral — Above Normal

Fixed Income *(continued)*

Private Credit	○	○	●	○	○	The ability and willingness of corporate management teams to repay their debt burdens is widely expected to be challenged and/or altered on the back of the COVID-19 outbreak. Specifically, managers of the stressed and distressed credit variety are well-positioned to offer corporate management teams a variety of solutions, including but not limited to, the restructuring of existing credit facilities, providing short-term bridge financings to satisfy near-term liquidity needs and managing bankruptcy workouts. Additionally, managers across the credit spectrum with direct origination expertise should be well-positioned to structure and execute debt instruments and facilities with highly attractive terms and robust covenant protections. In a similar vein, mandates with the ability to opportunistically navigate across and within the credit capital stack (*e.g.*, public and private, secured and unsecured, structured and corporate, term loans and rescue/bridge financings, etc.) offer investors a unique entry point into a highly dislocated and robust opportunity set.
Long Bonds	○	●	○	○	○	Long government yields have decreased substantially since the prior quarter, while long credit yields have increased as spreads have widened. Aside from any further policy rate cuts, the current yield/duration profile remains unattractive. Long bonds still remain an asset class primarily for interest rate hedging.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

Key: Below Normal — Neutral — Above Normal

Alternatives

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
Hedge Funds	○	○	●	○	○	Market volatility has increased considerably with the economic impact of the COVID-19 outbreak still unknown. Challenged earnings guidance and an elevated default rate are anticipated results. Strategies such as long/short equity, specialized credit (notably structured credit and stressed/distressed credit) and global macro offer investors unique means to capitalizing on an otherwise unprecedented market environment. On the other hand, merger arbitrage is a strategy less primed to benefit from prevailing market conditions amid the growing likelihood of deals falling through or being delayed, combined with the (surprisingly) tight and unattractive deal spreads.
Multi-Asset Class Strategies (MACS)	○	○	●	○	○	Liquid alternative strategies that provide greater investment flexibility and emphasize tactical asset allocation decision-making are strongly favored in the current market environment. More specifically, global tactical asset allocation, style/alternative risk premia and hedge fund replication strategies are better suited to preserve capital during periods of stress through attractive cross-asset class correlation dynamics while introducing upside optionality through effective asset allocation decision-making. Risk parity and other risk-balanced strategies will likely offer less attractive asymmetric risk/return profiles given their long-only nature and investment rigidity (relative to other multi-asset class mandates).
Private Equity	○	●	○	○	○	For vintage-year funds seeking to exit investments, distributions are expected to moderate and returns dip due to sluggish M&A volume and lower mark to market valuations. General partner use of credit facilities in lieu of capital calls to fund transactions at the front end of the crisis will abate IRR's from plunging for a limited time. Potential tightening of syndicated leverage loan market poised to be a financing headwind, especially at the mega/large cap end of the buyout market. However, as fundraising slows, pent-up dry powder will provide a ready source to acquire assets at materially reduced valuations that could enhance future returns. Certain sectors such as healthcare, bioscience, technology, media and telecommunications will be bright spots in an overall challenged private market. Secondary funds are well positioned to acquire interests at meaningful discounts from motivated LP's seeking liquidity.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

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Key: Below Normal | Neutral | Above Normal

Alternatives *(continued)*

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
Real Estate						Rising unemployment and physical distancing policies will negatively impact real estate valuations and returns across property sectors. Non-essential retail as well as lodging assets will continue to bear the brunt of shelter-in-place policies and reduced economic activity. Multi-family properties, especially workforce housing, will experience a decline in net operating income from tenants unable to pay rent. Office sector may stumble as tenants seek rent relief or to shrink space as the economy struggles and remote working arrangements suffice. Critical supply-chain warehouse industrial, data centers and healthcare assets will be more resilient. Transactions are expected to slow given widening bid-ask spreads and the difficulties to perform due diligence. Core funds will face increased redemption pressures from LP's needing liquidity. Value-add strategies will experience potentially longer hold periods and lower valuations given the challenges of completing repositioning projects and achieving lease-up goals. Opportunistic strategies that can pursue both debt and equity at reduced pricing are more advantageously positioned.
Infrastructure						Overall outlook is neutral but will vary by sector. Core assets such as power and water, which are supported by strong contractual cash flows, should hold up better in the current disruption. Transportation assets with revenues tied to GDP or volume-based revenues, such as airlines, toll-roads, rail and ferries, will continue to feel the brunt of the crisis and experience deeper valuation changes. Midstream energy sector will be under pressure given energy pricing variability and lower through-put from demand drop although storage assets will retain and appreciate in value. Communications and renewables should maintain better with increased focus and support from governments. Defensive nature of this asset class should result in continued strong capital flows as investors seek stability and income. Attractive opportunities could appear in the public-to-private space, particularly in hard-hit energy companies. Funds with capital to deploy can take advantage of reduced valuations.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

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Key: Below Normal — Neutral — Above Normal

Alternatives *(continued)*

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
Commodities	○	●	← ○	○	○	Outlook for commodities is bearish. Negative demand shocks from the crisis will continue to resonate across sectors. With OPEC+ struggles to agree on a reduced output quota, combined with weak transportation demand, global oil price will remain low in the near term. Oil price poised to rebound once producers reach a steady agreement on output and global trade and transportation recover. Gold is likely to remain a safe haven following first quarter's market volatility and precious metals are expected to perform positively in 2020. On the other hand, industrial metals are likely to face strong downward pricing pressure due to global slowdown of both manufacturing and construction activities globally. Regarding agricultural, short-term price increase of food and grains looms if global supply chain disruption continues and storage runs low in various regions of the world.
Energy	○	○	●	← ○	○	Weak global demand for crude from economic shutdowns, along with oversupply and storage capacity issues, will keep prices low despite international agreements to reduce production. U.S. producers have proved resilient, but will come under increased pressure as prices hover around break-even points. A rebound may emerge at the back end of the current crisis, as current conditions offer good entry point to acquire assets at reduced valuations and with limited competition. Natural gas demand will remain soft in the near term resulting in price erosion, but are anticipated to recover as production declines and demand from power generators increase. Renewables will be hindered by lack of government support in the current environment, but increased cost efficiency and competitiveness will be rewarded post-crisis.
Timber	○	●	○	○	○	While long-term asset values may hold up, the short- and intermediate-term outlook for timber is challenged. Both softwoods and hardwoods face headwinds. A global economic slowdown and rising U.S. unemployment are expected to slow residential construction, repair and remodeling activities. Demand for shipping boxes and paper products serve to partially offset reduced lumber revenues. Large, high-quality saw timber is set to experience contracting demand and lower prices. Internationally, China's closure has resulted in reduced manufacturing, rising log inventories and suppressing an immediate recovery in log imports. Domestic demographic growth and lower interest rates serve as long-term tailwinds.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

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Key: Below Normal — Neutral — Above Normal

Alternatives *(continued)*

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
Farmland	○	○	●	○	○	Farming is deemed an essential service and, therefore, returns may be less impacted by the pandemic than for other asset classes. Valuations in many areas remain robust. Farmland is considered a more defensive asset class and as a result could see more interest from institutional investors as the economic disruption continues. Few transactions are taking place, however, which could put upward pressure on prices. In the shorter term, perishable products, such as strawberries, milk and eggs, are likely to suffer given disruptions to the supply chain. Additionally, if the crisis persists into the summer, many farmers may face labor shortages as fewer immigrants are available to work. Crops such as soybeans and corn can be stored and thus are less impacted by short-term disruptions. Cotton is currently being used to make face masks. The low interest rate environment is a plus allowing for a lower cost of borrowing for capital and operational needs.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

Segal Marco Advisors

Questions? Contact Us.

To learn more about how our forward-looking views can help to enhance your investment strategy, contact your Segal Marco Advisors consultant or Chief Investment Officer Tim Barron at 203.621.3633 or tbarron@segalmarco.com.

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