The Recycled Global Economy

Q1 2021 Investment Outlook

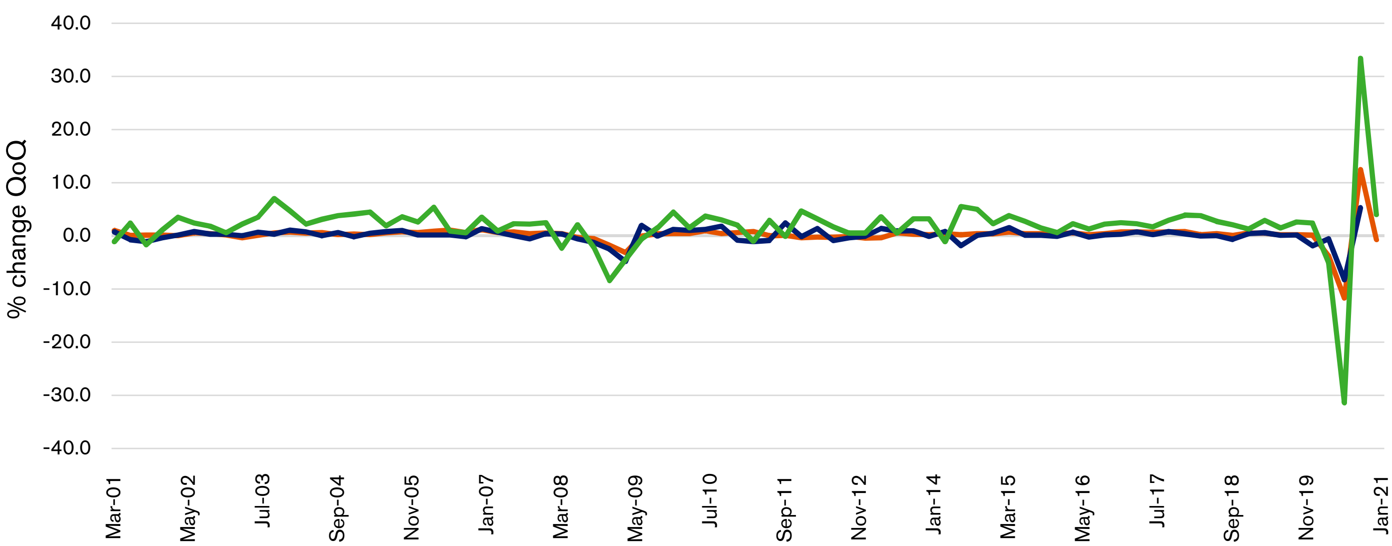
Segal Marco Advisors

Overview

As we start 2021, there's a lot of discussion among market observers regarding the current stage of the economic cycle. Are we in the early stages of recovery after the pandemic or back to the late-stage environment we experienced in late 2019? When the Segal Marco Advisors Investment Committee sat down recently to answer this question, our conclusion was that this wasn't a terribly relevant construct in the face of the overarching characteristics that are embedded in the global economic picture.

Most of these features were true three years ago, one year ago and appear to be accurate today. In effect, we believe we are reliving the pre-pandemic environment in a recycle of the reduced-growth environment that will be temporarily reenergized by stimulus and, we hope, some pent-up demand for spending, but still relegated to a long-term period of slow growth across the developed world.

Real GDP



Source: Factset

This Q1 2021 *Investment Outlook* was written in early February 2021.

Remarking upon consensus

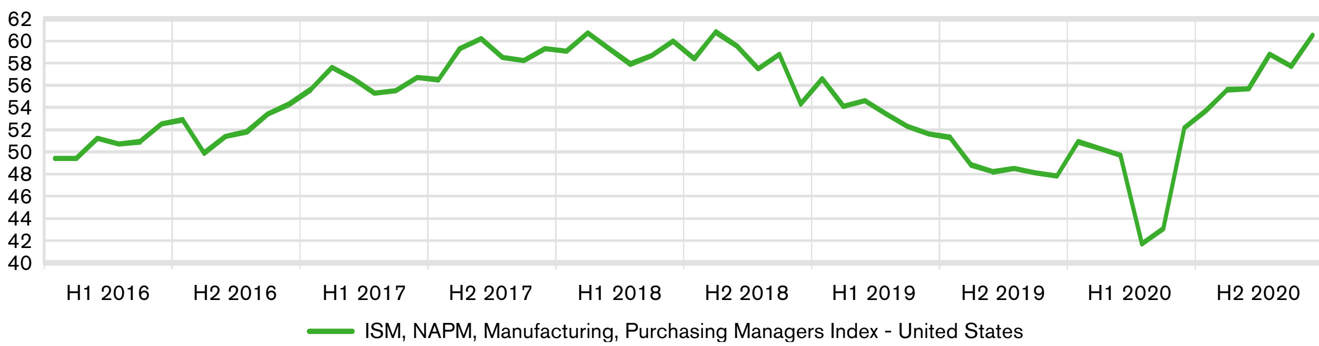
Under the heading of "don't fight the Fed," we believe that interest rates in the U.S. will remain low at least during the next 12 to 18 months, which is our planning horizon. Somewhat connected, but also potentially marching to its own drummer at times, inflation will remain largely in check we believe as it will take some time for employment tightening to impact prices.

Also, the commodity-type inflation from higher growth rates appears to be further down the road with substitutions possible for both labor and raw materials globally. Fiscal and monetary stimulus are likely to continue on the current path, although perhaps the latter at a faster pace with a new U.S. administration with an agenda that is essentially defined by a greater concern for jobs and growth versus the impact of debt and deficits.

We see these conditions being an accurate description not only of the U.S. but of the rest of the developed world.

Finally, our consensus in our recycled economic outlook is that, in general, sentiment from manufacturers, businesses and consumers is back on track.

Purchasing Managers Index — United States



Source: Factset

We also have a consensus view that while the pandemic may not have changed the world's economic prospects, it has accelerated the existing trend towards digitalization. The longer-term impacts of these trends are outside the scope of this brief piece, and much has and will be written regarding what is likely to be one of the seminal forces that will drive peace and prosperity in the decades to come. When combined with income and wealth disparity, diversity and inclusiveness as well as global climate change, there is much to be wrestled to the ground in terms of policies and practices in determining the future state of the world. Finally, it appears, somewhat surprisingly, that capital markets have discounted rancor, political divisiveness and vitriol, even to the point of civil unrest, as being not terribly relevant in the face of favorable earnings and the reemergence of consumers.

Our conclusion at this point: despite valuations being stretched in many markets, risk assets will continue to provide returns in excess of those earned from the fixed income markets — for now.

Returning to neutral

In the global equity markets, we had been somewhat more bearish, relative to our long-term capital market assumptions, towards non-U.S. developed versus the U.S. This was principally based upon long-term structural issues in Europe and Japan, a smaller fiscal and monetary response to the economic halt brought on by COVID-19, and unknown risks regarding Brexit. Our view was that the more attractive valuations overseas were offset by those influences and an expected flight to the stability of the U.S. in the pandemic-driven environment.

Given that Brexit appears to have been managed without catastrophe and the pandemic response has been generally responsive to science and has spawned greater cooperation among EU members, we have concluded that the positives for the non-U.S. developed markets outweigh the negatives. Therefore, we have moved to a neutral stance this quarter in line with our U.S. markets view. While we maintain a neutral outlook, we continue to support allocations to emerging market equity which, we believe will provide attractive returns to patient investors.

Similarly, we had previously voiced concerns that the uncertainty surrounding the pandemic would cause investors to favor large-cap stocks throughout the world. The advent of vaccines arriving much more rapidly than thought possible back in March and the level and sustained application of stimulus created an environment where investors, late in 2020, began to push flows into smaller companies, causing a resurgence of the forgotten segment of the markets.

With a new U.S. administration likely to continue to push for fiscal support, Janet Yellen, known for dovishness during her time at the helm of the Fed, recently confirmed as Treasury secretary and the current Fed chair and membership assuring investors that they are going to keep rates low for long, it behooves us to return small cap, domestic and international, back to a neutral position despite the reality that the pandemic's impact upon the U.S. economy is far from over.

Overview
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Asset Class Signals and Outlook
Questions? Contact Us.

Reliving low interest rates

When historically low interest rates react to economic calamity by going even lower, as occurred in 2020, holders of fixed income assets are rewarded with unexpected price appreciation. The fact remains, however, that owners of these assets today will likely be faced with three options:

- Rates fall further, likely indicating an expectation of further economic decline.
- They stay flat, and the investor earns only that historically low yield.
- They rise, with the resultant short-term price decline.

Consistent with our reluctance to dispute the Fed's stated position, we see rates as operating in a narrow range around current levels. This conclusion leads us to reinforce our view that it will be difficult to achieve long-term expectations in core bonds and even more difficult in non-U.S. core bonds over the next 12 to 18 months, especially given the latter is dominated by rates that are even more negative than they were one year ago.

The "mostly risk-on" environment that is being supported by historic stimulus around the world provides a favorable underpinning for moving out the quality spectrum in the fixed income classes. We repeat our neutral position for high yield, bank loans, emerging market debt and structured credit. For investors with longer-term horizons and appropriate liquidity given their needs, we do embrace investing opportunistically in areas such as structured credit, distressed corporate debt and direct lending. We continue to believe that there are superior ways to express a very risk-agnostic view where there is greater liquidity in the event some calamity strikes again.

Reviving alternatives?

With a more V-shaped recovery, some of the private investment opportunities appear to have stabilized, or even recovered, fairly rapidly. Therefore we are moving our outlook on several alternatives from a somewhat bearish stance to a view more neutral view with our long-term capital market assumptions. Private equity should benefit from low-for-long interest rates with cost of capital quite minimal for the foreseeable future. Distributions are expected to remain positive given improving conditions and exit values. While dry powder is still elevated, this has not been a deterrent to returns thus far. We expect certain sectors, such as tech, healthcare and business services, will provide opportunities in venture and growth equity.

In the main, the real estate markets should also benefit from low rates, especially as investors seek higher-yielding assets. This demand is likely pushing prices higher and moderating the fairly substantial amount of dry powder that has been prevalent of late. We do expect transaction levels to pick up and also, with an end to forbearance at some point in 2021, to create a number of opportunities to capitalize on stressed or distressed situations. With a move in our outlook to a more neutral stance, we think that selectivity is critical as there will likely be pandemic influences felt in the future affecting urban vs. suburban and office and retail vs. multifamily and industrial. Investors will also have to be mindful of programs and policies that are adopted through a new control structure in Washington, DC. Tax policies and the approach to stimulus and healthcare, to name a few, are substantial unknowns.

While we have long awaited promised action to improve aging infrastructure, this promise seems more likely with a unified Congress and White House. There may be a particularly strong emphasis on investments in “green” infrastructure with both the administration’s views and the persistent push by many types of investors to move U.S. corporations towards more ESG-friendly policies. As with real estate, low interest rates encourage investors to seek the yield opportunity of infrastructure, while simultaneously lowering debt service costs for those initiating projects of various types. These factors have encouraged us to move to a neutral stance from slightly bearish, despite the dry powder in the hands of GPs, as this should now work through the system more rapidly.

In our Investment Committee discussions we had significant deliberations about the potential for commodity inflation and some resurgence in a basket of those long-depressed assets. It was our conclusion that, while there may be some upward trends for several specific commodities and that increased global growth should put pressure on prices as well, absent lower unemployment accompanied by wage pressures, a generalized increase seems to still be a more distant event.

Looking for a renewal

2021 will be different in many ways to be sure. While the timeline for vaccination and hoped-for herd immunity has been pushed out after the optimistic reports from late last year, there is a light at the end of what has been a long, dark and destructive tunnel. A new administration in the U.S. has promised to create economic opportunities, restore environmental protections and healthcare rights and rebuild international alliances.

Yet these may come at the cost of greater regulation, more debt and higher taxes for some, if they can be accomplished at all. Japan continues to struggle to create some semblance of return to its former growth; the UK is largely facing an experiment in managing a reversal of decade's long alignment; and for Europe, exiting the tunnel may only mean a long slow train whose engine struggles to climb the next hill. German Chancellor Angela Merkel ends her final term later in the year, creating another unknown for the continent.

Challenges continue for the emerging markets, many of which depend on exports of commodities, which are mired in an extended slump. Although their financial conditions, on average, are more stable than after many past downturns, anticipated growth rates have not been achieved recently, leaving some doubt regarding the long anticipated "emergence." China continues to represent somewhat of a positive outlier in terms of manufacturing stability, and corresponding growth prospects relative to its emerging market counterparts.

Although the longer-term issues of climate change, income and wealth inequality, and slow improvements in productivity still need to be addressed; in the near-term we expect that the levels of stimulus, when coupled with some pent-up consumer spending later in 2021, should allow the global economy to generally pick up where we left off in early 2020.

Therefore, we enter 2021 with cautious optimism around economic recovery with capital markets that will be more in line with the lower and less volatile forecasts in our long-term assumptions. In our view, however, hitting the reset button on this economic cycle does not change the backdrop for the developed world of levels of growth and productivity that, like inflation and interest rates, seem destined to be sluggish for the long-term future. But, at least for now, neutral isn't a bad thing.

Outlook for Canada

The Bank of Canada (BoC) held its policy rate steady at 0.25 percent during the fourth quarter of 2020 in anticipation that the Canadian economy will contract in the first quarter of 2021 (estimated at -2.5 percent) due to the economic shutdowns from COVID-19. Based on the latest monetary policy report, the BoC forecasted that the Canadian economy contracted by -5.5 percent in 2020, despite the positive 5 percent gain made in Q4. Looking further into 2021, a turnaround in GDP growth is expected in the second half of the year due to the vaccine rollout. In the meantime, quantitative easing stimulus and federal government fiscal measures continue to support the economy.

Employment gains slowed during the quarter, with a slight improvement in the unemployment rate from 9 percent down to 8.8 percent at end the year.

WTI Oil continued to appreciate in the quarter, up 20.6 percent to $48.5 USD per barrel.

The Canadian dollar (vs. USD) continued to appreciate during the quarter, up 4.5 percent to 78.7 cents.

The Canadian equity market (S&P/TSX Composite Index) gained 9.0 percent in the quarter, as industrial production started to pick up and the financial sector recovered to 2019 levels. For 2020, the market returned 5.6 percent. Mining, industry production, consumer-related and information technology (mainly Shopify) stocks contributed positively, while the energy, healthcare and real estate sectors suffered significantly.

The Canadian fixed income market had a positive quarter, as the recovery in corporate and provincial credits continued. The FTSE Canada Universe Bond Index returned 0.6 percent for Q4 2020 and 8.7 percent for the year. Higher-yielding corporate bonds as measured by the FTSE Canada Corporate "BBB" Bond Index returned 2.1 percent for the quarter and 9.5 percent for the year.

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.

Global Macro Signals and Outlook

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

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 rose 4 percent in Q4. Unemployment fell in the quarter, as businesses continued to open up amid the COVID-19 pandemic. The Fed kept short-term interest rates at zero and indicated that it was likely to hold rates low for a long time. Inflation was nearly flat with a weaker dollar and uneven economic signals in the U.S. Valuations are above the historic median.					
Canada	↑	↗	→	↗	→
GDP growth in Canada increased a record 8.9 percent in Q3 (the most recent data available). The Bank of Canada left the policy rate unchanged. Inflation rose, as did the Canadian dollar against the USD. Valuations of Canadian stocks are still more moderate than those of U.S. stocks.					
Eurozone	↘	→	→	↗	→
GDP shrank -0.7 percent in the quarter. The ECB kept the policy rate steady and launched $600 billion USD in new stimulus to boost the region's economy as the pandemic drags on. The euro increased against the USD, and inflation was flat. Equity valuations are close to the long-term median and are cheaper than U.S. stocks.					
U.K.	↑	→	→	↗	→
GDP growth surged 16 percent QoQ in Q3 (the most recent data available). The pound rose against the USD; inflation was flat; and the Bank of England kept rates steady in the quarter. Equity valuations are close to their long-term median and cheaper than U.S. stocks.					
Japan	↑	↘	→	→	→
Growth rose a record 5.3 percent in Q3 (the most recent data available), a rebound from Q2's slump. The yen was flat against the dollar, and the Bank of Japan held the policy rate steady. Inflation fell in the quarter. Equity valuations are close to their long-term median.					

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

Emerging Markets

<table>
<tr><th>Market</th><th>GDP Growth</th><th>Inflation</th><th>Policy Rate</th><th>Currency</th><th>Equity Valuations</th></tr>
<tr><td>China</td><td>→</td><td>↓</td><td>→</td><td>→</td><td>↘</td></tr>
<tr><td colspan="6">GDP grew 2.6 percent QoQ in Q4. The Bank of China held rates stable in the quarter. The yuan was flat against the dollar and inflation declined significantly. Equity valuations were a bit higher than the long-term median.</td></tr>
<tr><td>Rest of EM</td><td>↗</td><td>→</td><td>N/A</td><td>↗</td><td>↗</td></tr>
<tr><td colspan="6">Economic growth among EM countries varied as the pandemic continued, but the approval and distribution of COVID-19 vaccines among these countries was a sign that higher growth could be coming soon. A weaker USD continued to be a positive in the quarter, however. Central banks across the EM spectrum continued easy monetary policies at the end of 2020. EM stocks surged in Q4, and valuations now sit above their historic median.</td></tr>
</table>

Asset Class Signals and Outlook

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 our 12–18 month perspective for each of the asset classes are relative to our longer-term expectations (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.

Return Outlook

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

Equities

Opportunity Set	Below Normal		Neutral		Above Normal
U.S. large cap	○	○	●	○	○
Further fiscal stimulus would be a positive for large caps. Interest rates will likely stay low for the near future. Valuations remain well above median, as they were for much of 2020. News-based volatility may decline somewhat, though won't disappear completely.					
U.S. small cap	○	○ →	●	○	○
As the U.S. emerges from the pandemic, small caps are likely to benefit. More stimulus will boost small stocks as well. We recommend that investors rebalance their portfolios to their targets for both large and small caps.					
Int'l dev. large cap (unhedged)	○	○ →	●	○	○
As vaccines for COVID-19 hit the market, the pandemic will likely be diminished significantly in developed markets in 2021. Economies will see brighter prospects for growth in the coming year. Valuations are more appealing than for U.S. stocks.					
Int'l dev. small cap (unhedged)	○	○ →	●	○	○
Similar story to that of large cap. Prospects for small companies will improve as the pandemic starts to fade.					
Emerging markets (unhedged)	○	○	●	○	○
China was the only major global economy to post positive growth in 2020. As the global economy emerges from the pandemic, emerging markets will benefit from stronger global demand and, likely, higher commodity prices.					

Return Outlook

Key: Below Normal — Neutral — Above Normal

Fixed Income

Opportunity Set	Below Normal		Neutral		Above Normal
U.S. core	●	○	○	○	○
The Fed's stated desire to keep interest rates low for the foreseeable future means that U.S. core bonds are more likely to perform below our long-term expectations. Long-term rates are likely to remain rangebound.					
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 EMD are improving as prospects for global demand are stronger. Yields in EMD are relatively attractive to developed market debt.					
High yield	○	○	●	○	○
Defaults are unlikely to tick up if the economy improves in 2021. However, spreads are now far tighter than the historic median. We favor the higher quality end with a focus on selectivity and active management.					
Bank loans	○	○	●	○	○
Bank loan yields are fairly attractive relative to other fixed income sectors. We favor the higher quality end with emphasis on active management.					
TIPS	○	○	●	○	○
More stimulus could lead to more inflation in the future, but it may not emerge right away. Unemployment is still relatively high and wage growth is moderate, both of which may keep inflation from developing in the near term.					

Continued on the next page

Return Outlook

Key: Below Normal ● ● Neutral ● ● Above Normal

Fixed Income

Opportunity Set	Below Normal		Neutral		Above Normal
Structured credit	○	○	●	○	○

CLO debt tranches have, by and large, healed after the massive selloff and volatility of 2020, with the lower-rated tranches (BB and B, in particular) seeing a strong rebound in Q4. However, select opportunities remain in subordinated debt and equity tranches as prices remain below pre-crisis highs and expectations for market-wide default rates have dropped. Issuance picked up materially in 2H20 and CLO portfolio fundamentals have improved, indicating increasing investor appetite. CMBS, despite a broad and swift rally post-crisis, remains a bit “wait and see” in certain areas, particularly in sectors most impacted by COVID-19 as price discovery for underlying collateral remains challenged and transaction activity is still depressed. Suburban real estate markets have benefitted, along with residential mortgage pools.

Opportunity Set	Below Normal		Neutral		Above Normal
Private credit	○	○	●	○	○

As we’ve stated in prior quarters, a number of dynamics that investors were concerned about pre-crisis have resurfaced post-crisis. Most notable are elevated levels of dry powder and intense competition for deal flow resulting in tighter spreads, elevated pricing and diminishing or weakened covenant structures. Buyout activity has begun to pick up, which is a positive for deal flow and opportunities across the private credit spectrum. Many managers were expecting a very ripe and consistent opportunity in stressed and distressed investments, but we question whether or not that opportunity has broadly diminished thanks to the magnitude of monetary and fiscal stimulus. One phenomenon the crisis brought about was a fairly clear bifurcation between good credit managers and “not-so-good” credit managers. We maintain a neutral view to our long-term return assumptions with the recognition that “private credit” encompasses a number of unique strategies and opportunities and would argue manager selection remains critical in this area.

Opportunity Set	Below Normal		Neutral		Above Normal
Long bonds	○	●	○	○	○

Long-term government yields continue to rise and approach 2 percent with short-term yields anchored at approximately 0.10 percent, steepening the yield curve further. Anticipated accelerating growth in the second half of 2021 remains as unpredictable as the taming of the COVID-19 virus, though market driven upward rate pressure on the long end of the curve may continue. This scenario falls under a more inflation-tolerant Fed. Long bonds are an effective interest rate hedge for liabilities.

Opportunity Set	Below Normal		Neutral		Above Normal
Municipals	○	●	○	○	○

A “Blue Wave” in the legislative and executive branches of government may have implications for the broader municipal market-driven by prospects of state and local aid in the face of notable budget gaps, bipartisan infrastructure initiatives and higher tax rates. Higher marginal tax rates would increase the value of tax-exempt income, and may drive price appreciation. While many of these measures could be supportive for the municipal market, policymakers are first focusing on additional economic stimulus vis-à-vis the pandemic. We expect continued volatility in munis in the face of varying interest rate and credit markets, as well as from potential issuance supporting impact investing.

Return Outlook

Key: Below Normal | Neutral | Above Normal

Alternatives

Opportunity Set	Below Normal		Neutral		Above Normal
Hedge funds	○	○	●	○	○

Expected returns of traditional 60/40 portfolios are likely to be low given stretched valuations for equities and record low interest rates. Moreover, cyclical forces, which have proven to be headwinds for hedge fund strategies in recent years, have reversed course of-late. Notably, price dispersion and volatility continued to rise from historically low levels and elevated leverage and default rates loom large. Together, these factors tend to be supportive of active management broadly and alpha generation more specifically, as hedge fund managers are generally well-positioned to generate positive returns on both the long and the short side of their respective portfolios. In particular, long/short equity strategies focused on specific sectors and geographies and global macro are well-positioned to navigate the prevailing uncertainty across liquid capital markets. Relative value strategies are also primed to benefit from the improved market dispersion dynamic. Furthermore, revenue collapses across corporations globally stemming from the COVID-19 pandemic combined with greater refinancing needs have created unique investment opportunities within stressed/distressed corporate credit, securitized credit and specialty finance. On the other hand, merger arbitrage continues to look less attractive amid relatively muted deal activity and the growing likelihood of deals falling through or being delayed. We maintain a relatively cautious stance on quantitative strategies (both directional and non-directional).

Opportunity Set	Below Normal		Neutral		Above Normal
Multi-asset class strategies (MACS)	○	○	●	○	○

Financial markets remain optimistic that the new Biden administration is committed to stabilizing the economy through sufficient monetary and fiscal support, along with a robust plan for broad, efficient and effective COVID-19 vaccine dissemination. Consequentially, credit spreads have continued to tighten and equity valuations have remained rather elevated despite a troubling surge in infection rates and concerns surrounding unemployment, particularly within leisure and hospitality sectors. Overall, market participants have generally embraced positive economic news while dismissing negative news, which has led to euphoric market conditions, at least temporarily. Delving deeper, price dispersion across and within markets has increased and equity volatility has risen from historically low levels. Accordingly, those strategies that are more reliant upon "beta" as a means to generating returns (e.g., risk parity) are more likely susceptible to performance challenges in the near- to intermediate-term. Conversely, those strategies that place a greater emphasis on "alpha" through effective shorting, tactical asset allocation decision-making, security selection and/or market expression are more likely to achieve their respective return targets. Specifically, strategies such as global tactical asset allocation, style/alternative risk premia, and select multi-asset hedge funds are better suited to weather abrupt fluctuations across and within asset classes, while simultaneously offering investors upside optionality through effective asset allocation decision-making.

Continued on the next page

Return Outlook

Key: Below Normal — Neutral — Above Normal

Alternatives

Opportunity Set	Below Normal		Neutral		Above Normal
Private equity	○	○ →	●	○	○
Positive developments identified last quarter anticipated to continue to gain momentum. Deal activity expected to accelerate along with more effective deployment of historically high dry powder level. Several growth sectors such as technology, healthcare, business solutions and consumer will lead the way. Out-of-favor COVID-19-impacted sectors offer value opportunities ahead of a projected steady, but modest recovery. Favorable credit markets and plentiful private debt financing will provide tailwinds overall, although greater equity investment required from sponsors which may moderate returns especially at the larger cap ranges. Valuations across strategies will remain elevated, but middle-market growth companies offer more attractive pricing options.					
Real estate	○	○ →	●	○	○
Outlook varies across property types, but there are signs of a rebound. While industrial and multi-family properties are expected to maintain resiliency and growth momentum, the near-term prospects for office and retail assets are less favorable. Niche sectors such as data centers, self-storage, life sciences and cold storage have all held up well and this trend is expected to continue. Other specialty sectors such as senior living and student housing have experienced some disruption, and future performance will vary across markets. Transaction pace has been sluggish, but is expected to increase along with an improving economy. Strategies that are more opportunistic or focused on transitional type assets should be well-positioned to take advantage of any lingering stress in the market. Anticipate asset class returns to continue upward positive direction observed in the fourth quarter.					
Infrastructure	○	○	○ →	●	○
The asset class is expected to remain resilient with certain sectors such as telecommunications, renewables and healthcare boosted by the pandemic-induced dislocation. Certain transportation assets have also rebounded although the airport sector remains under pressure until aviation traffic and travel volume stabilizes with growing inoculations. Anticipate very minor pricing swings along with a pickup in transaction and investment activity. Sustainable and dependable high income, in a low rate environment, will continue to drive investor demand. Additionally, low borrowing rates will benefit infrastructure owners given high debt levels on stabilized assets. Government focus on infrastructure spending to stimulate economies and create jobs will provide further momentum.					

Continued on the next page

Return Outlook

Key:	Below Normal		Neutral		Above Normal

Alternatives

Opportunity Set	Below Normal		Neutral		Above Normal
Commodities	○	○ →	●	○	○
Supply and demand disruptions caused by COVID-19 will start to stabilize with steadier economic recovery, and any weakening in the dollar along with continued low to negative interest rates globally will further support higher commodity prices. While precious metals have been helped by the weak dollar outlook and sustained central bank liquidity, any uneven growth or rising inflation could provide headwinds. The lower prices for industrial metals have dampened supply incentives, while demand is increasing from grid electrification and the economic recovery in China. Demand for certain agriculture products such as soybeans was initially affected by trade tensions, but tighter supply and greater demand for livestock feed have boosted prices. Energy will continue to be volatile based on fluctuating demand as countries grapple with the pandemic, and crude oil production expected to increase along with adjusted production targets, while output for liquid fuels is expected to be lower.					
Energy	○	○	●	○	○
Overall outlook varies by sector. Sustained government and private market funding to address climate change and energy infrastructure needs, will boost renewables investment. Pandemic-affected slack in energy consumption and rate of demand growth will linger, as only a modest rebound is forecasted over the short-near-term. Crude oil inventories have been building which has impacted prices, and supply normalization will likely remain uncertain as any increased drawdowns associated with economic recovery may be offset by a prospective ramp-up in production globally. Natural gas prices are forecasted to rise with increased power-generation use along with anticipated reduced production levels.					

Continued on the next page

Return Outlook

Key:

●	●	●	●	●
Below Normal		Neutral		Above Normal

Alternatives

Opportunity Set	Below Normal		Neutral		Above Normal
Timber	○	●	○	○	○

Uncertainties remain in the short-near-term outlook. In the U.S., a sustained recovery in single-family housing starts alongside anticipated multi-year period of low interest rates are positives. Adoption rates of virtual work and learning platforms may serve as a long-term tailwind for wood products on the basis of extended remote work arrangements and associated home remodeling, along with an increasing suburbanization trend. Federal policy goals regarding minimum wage increase and federal student loan forgiveness for example, also increases the potential for greater homeownership and demand for timber products. However, globally, uncertain and increased severity of adverse weather events and natural disasters, along with central Europe's beetle infestation likely to result in excess harvest efforts and competitive pressure on U.S.-based producers also present headwinds.

Opportunity Set	Below Normal		Neutral		Above Normal
Farmland	○	○	●	○	○

Outlook remains unchanged given pandemic challenges, such as labor shortages, supply chain issues and demand uncertainty, as well as the overhang from Chinese tariffs. However, continued economic stabilization post-COVID-19 will produce increased demand for liquid fuel and agricultural products although most likely below previous year levels. Pandemic-related challenges are offset to some extent by government support such as the Coronavirus Food Assistance Program and the Market Facilitation Program, low interest rates and stronger commodity prices. Additionally, keen investor interest in the sector by yield-oriented investors, combined with limited farmland sales, are pushing land valuations higher. Although there is current shorter-term uncertainty due to global economics and unpredictable severe weather conditions, the long-term outlook for farmland is more favorable as consumption increases and investors look for yield in a reliable asset class.

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.

In Canada, contact your Segal Marco Advisors Canada consultant or Kathleen Pabla, Vice President and Canadian Director of Research.

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