# What the Heck Happened to Our Punchbowl?

## Q1 2022 Investment Outlook

Segal Marco Advisors

# Overview

As 2022 begins, the news is coming at us fast and furiously. “Build Back Better” seems to have been replaced by “Ah, Let’s Not Build Just Yet” as the party in control of Congress demonstrates that it really isn’t. In short, whatever fiscal policy has poured into the punchbowl to date is likely to be all the liquid refreshment America gets for the foreseeable future.

The U.S. Federal Reserve (the Fed) hasn’t told us how high it’s going to push short-term interest rates or over what period, but it appears that at least three one-quarter-point raises are going to greet the partygoers in 2022. In addition, spiking the punch with a nice dose of buying billions of Treasury securities is also probably ending, perhaps simultaneously, without new fiscal stimulus and rate increases.

And, so, what happens when less is poured into the punchbowl? Well, the options are simple: someone has to add something or people decide to leave the party. And by raising rates it is less likely that folks will want to buy fruit punch and spirits.

## Inflate that!

To make matters just that much worse, fruit punch and spirits suddenly became more expensive, along with most everything else, so even if you had a bunch of cash on hand (which, by the way, many consumers and businesses do) and could ignore the cost of capital rising, you still have to be OK with a bigger bill for the same amount of punch.

## And now comes Putin the Pariah

An alternative theme for this year’s first outlook was: “The Russians are coming; the Russians aren’t coming; where is Ukraine anyway?” But in a move we (and most others) did not expect, Vladimir Putin sent Russian troops into Ukraine and at the time of our publication, was waging a battle for control of that country. It is still uncertain how all this will play out, but that uncertainty will likely continue to contribute to the major market volatility swings we have seen so far in 2022. Importantly as well, the impacts regardless will be both widespread and wildly divergent by sector and geography. Our thoughts are with the people of Ukraine and everyone impacted by the senseless brutality of Russia’s unprovoked attack on a peaceful sovereign nation and her people.

This *Investment Outlook* was written in early March 2022.

## But wait there's more...

Variants. A new vocabulary word, one you may not have heard more than once in 20 years, but now, suddenly, everyone knows what it means. With Alpha, Beta, Delta and now Omicron COVID-19 variants it's starting to feel like hurricane season, with experts telling us the storms will just keep rolling along. Toss in a little dose of politicizing science (actually this has always been true — think global warming) then add a dash of confusing and inconsistent messaging, and who wants to go to a party with (1) people wearing masks; (2) people without masks; or (3) people with vaccine cards (possibly forged) instead of name tags? No wonder streaming services have attracted so many new subscribers over the past two years.

## Don't ignore the food and the big game

Yet there are several reasons to think the party may be volatile, but still be a good time:

- Wages are rising more than they have in a long time, particularly for the bottom rung of U.S. workers. With unemployment back to pre-pandemic levels, if you want a job, you can probably find one — perhaps even with a bonus, better benefits, training and what so few workers have had in the past: potential.
- GDP growth is the highest it has been in 40 years.
- Long-term interest rates — which have the greatest impact upon the real cost of borrowing — have only modestly increased and remain on par with levels of two years ago.
- Consumer and business balance sheets are extremely healthy, creating higher demand for goods and services and bolstering investment.
- Even the spread of COVID-19 seems to be heading in the right direction.

Hey, we are looking at a U.S. economy where the Fed is more concerned about the party getting too loud rather than shutting the doors!



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## Slow dancing swaying to the music

Of course, we (and no one else, as far as we know) aren't thinking that 2022 equity returns will look like 2021. In fact, especially given the start so far, we see equity returns being modestly below long-term expectations, with the U.S. still slightly outpacing the rest of the world's total return, but both ending the year in positive territory.

We see it as a more volatile 12 to 18 months as the issues described above play themselves out over time and the inevitable siren song of pundits selling themselves by yelling "fire" periodically cause the revelers to head for the exits. In the U.S.-versus-elsewhere discussion, we believe that stronger growth, even with inflation, will continue to push earnings of U.S. companies to greater levels than the rest of the developed world due somewhat to the greater dominance of firms likely to capitalize upon the trends of automation, electric vehicles and other technology/green opportunities.

As we have noted in past commentary, it's difficult to see past the structural issues facing the eurozone and Japan, creating what appears to be relatively attractive valuations for good reason. The current political circumstances and degree of relative stability make one optimistic that action can be taken to change this dynamic, but for now the rest of the world's party is hamstrung by demographics, desultoriness and debt.

While there was some hope that the emerging markets were going to ramp up the music, the COVID-19 overhang and China's new policy of redistributing wealth at the sacrifice of growth are likely to keep things quiet in the near future.

## I'll cry if I want to

Famous lyrics — you would cry too if this happened to you! Tears will continue to be shed for most traditional fixed income markets and holders. Even if longer rates stay relatively flat, with inflation dropping back to a two-percent-ish number (we think higher for the next year plus and normalizing a bit higher for good measure), investors will earn a negative real return unless they push well out on the quality curve and that doesn't get you paid due to razor thin spreads.

Being a bit more creative as you embrace credit risk with structured and private credit opportunities can ease some of the pain, as these strategies can offer floating rate features that defend in a rising rate environment and provide income to help offset price declines. However, before venturing out on the dance floor, best to be mindful of your liquidity bucket. Further, focusing on favorable duration intermediate (three- to five-) year lockups seems to be a good option.

## Alt rock

Very hard for many to dance to and giving headaches due to complexity and fees, alternative investments have, for the most part, delivered consistent returns across a broad spectrum of exposures and types. We think that will continue with the inevitable bumps and grinds along the way and a premium on selecting the best tunes available.

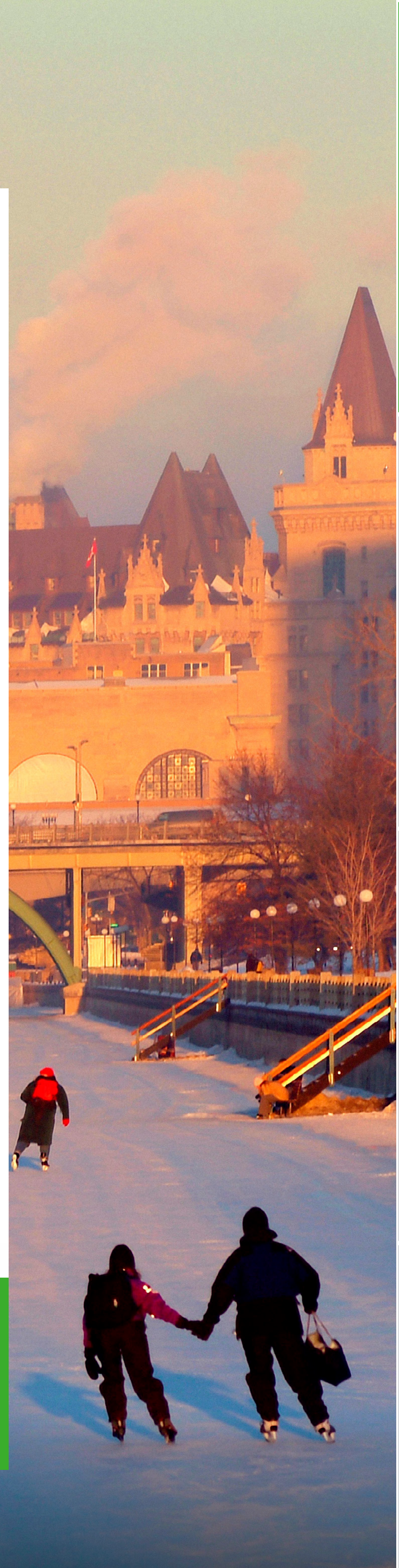
While we are neutral on private equity, real estate, commodities and timber, that is a positive in many ways. We see somewhat-better-than-expected returns in farmland and infrastructure both driven by demand and affected by the movement towards greater sustainability across both sectors regardless of the outcome of stimulus discussions in Washington, DC.

## Designated driver and a two-drink maximum

Although we are cautiously optimistic for equity and alternative returns over the next 12 to 18 months, there are several reasons to be concerned that the longest-running party in history could come to an abrupt end. We have already seen two dramatic reversals during the last three years delivered via monetary and fiscal policy that shook many investors from the stupor of pouring the punch so persistently. In both cases, however, the worst possible reaction was to leave the party.

In fact, the best possible return generator would have been to grab another drink with both hands. We didn't recommend that then, and we still don't now. Investing successfully requires discipline, process and a plan. Being over-served isn't at all consistent with those tenets nor with fiduciary responsibility, but neither is just leaving while the music is still playing.

The biggest problem with getting out is that you also have to get back in. With apologies to all of the market timers out there, no one is right on both. Play the long game, hire great advisors to augment what you do, rebalance and don't be fooled by pundits or prognosticators who make their money playing you for one.



## Outlook for Canada

GDP rebounded, as anticipated, to 5.4 percent by September 30, reflecting tailwinds from ongoing reopening plans. Despite the emergence of the Omicron variant of COVID-19 and volatile weather in BC, fourth-quarter growth is expected to moderate only modestly compared to the third quarter. Global economies have shown greater ability to manage new waves of the virus and Canada is no exception. Growth for 2022 is projected to be above long-term trends, though slightly lagging 2021. Growth in the first quarter could also be severely impacted by the protesting trucker convoy, which has shut down much of the trade flow between the U.S. and Canada and has worsened the supply chain crisis.

Coping with COVID-19 does have its challenges, as has been proven time and again. Despite unemployment falling to 6 percent in November, labor shortages continue to be a concern. Overall job vacancy rate (6 percent in September) is above pre-pandemic levels, and some service sectors are more than double the overall rate. We now see competing forces for consumer capital bolstered by wage growth and government support. Consumer spending has been solid, while appetite for houses remains strong. As reported last quarter, rising mortgage rates may put a dent in the financial condition of many Canadian households.

Despite some intra-quarter volatility, the Canadian dollar (vs. USD) remained basically unchanged at 0.784 vs. September 30, 2021 (0.788).

The S&P/TSX Composite Index rebounded in the fourth quarter posting 5.7 percent, pulling up the annual gain to 21.7 percent. Energy continued to be the best-performing sector in the quarter, supported by real estate and financials for the year.

The Bank of Canada (BOC) has positioned itself to begin rate increases to combat rising inflation concerns, with consensus first-rate increases in late first quarter or early second quarter of 2022. Rising policy rates and persistent inflation could push up yields in the belly of the curve, with the BOC leading the Fed in the rate-hike race. Canadian fixed income markets posted gains for the fourth quarter (1.67 percent). The BOC has maintained its overnight rate target of 0.25 percent; however, we anticipate changes by mid-2022.

### 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

<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>U.S.</td><td>↑</td><td>↑</td><td>→</td><td>↘</td><td>↓</td></tr>
<tr><td colspan="6">GDP growth rose 6.9 percent in the quarter ending December 31. The Fed has kept short-term interest rates at zero in the near term, though it has indicated that rate hikes are likely on the way this year. Inflation increased significantly. Valuations are well above the historic median.</td></tr>
<tr><td>Canada</td><td>↗</td><td>↗</td><td>→</td><td>→</td><td>→</td></tr>
<tr><td colspan="6">GDP growth in Canada was up 1.3 percent in the quarter ending September 30. The BOC left the policy rate unchanged. Inflation was higher, but the Canadian dollar stayed relatively flat against the USD. Valuations of Canadian stocks are still more moderate than those of U.S. stocks.</td></tr>
<tr><td>Eurozone</td><td>↗</td><td>↑</td><td>→</td><td>↗</td><td>↘</td></tr>
<tr><td colspan="6">GDP rose 0.3 percent in the quarter. The euro appreciated against the USD, and inflation was solidly higher. Equity valuations are above their long-term median and are cheaper than U.S. stocks.</td></tr>
<tr><td>UK</td><td>↗</td><td>↑</td><td>↑</td><td>→</td><td>→</td></tr>
<tr><td colspan="6">GDP growth rose 1 percent in the quarter ending December 31. The pound rose against the dollar. The Bank of England hiked short-term rates in December. Inflation rose in the quarter. Equity valuations are near their long-term median and are cheaper than U.S. stocks.</td></tr>
<tr><td>Japan</td><td>↗</td><td>↘</td><td>→</td><td>↓</td><td>→</td></tr>
<tr><td colspan="6">Growth fell 0.9 percent in the quarter ending September 30. The yen fell against the dollar, and the Bank of Japan held the policy rate steady. Inflation was slightly lower. Equity valuations are close to their long-term median.</td></tr>
</table>

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

## Emerging Markets

| Market | GDP Growth | Inflation | Policy Rate | Currency | Equity Valuations |
|---|---|---|---|---|---|
| **China** | ↗ | ↗ | ↓ | → | → |
| GDP grew 4.0 percent in the quarter ending December 31. The Bank of China cut short-term interest rates in the quarter. The yuan rose against the dollar, and inflation increased. Equity valuations fell in line with the long-term median. | | | | | |
| **Rest of EM** | ↗ | ↗ | → | → | ↘ |
| Economic growth is still overall positive despite pandemic and supply chain-related setbacks. More central banks, including Brazil and Russia, have raised interest rates partly in response to inflation fears. EM stocks fell again in the quarter, and valuations sit near their historic median. | | | | | |

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# 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** | ○ | ● ← | ○ | ○ | ○ |
| With the Fed pushing up interest rates, U.S. companies face a valuation headwind. Earnings still look relatively solid but, with continuing uncertainty around the pandemic and inflation, volatility will likely continue. | | | | | |
| **U.S. small cap** | ○ | ● | ○ | ○ | ○ |
| Small caps are likely to be hit by the current sustained increase in inflation. Problems in hiring will also continue to hurt smaller companies. | | | | | |
| **Int'l dev. large cap (unhedged)** | ○ | ● | ○ | ○ | ○ |
| Though inflation has risen significantly in the eurozone, the European Cental Bank is unlikely to raise rates this year. Some geopolitical uncertainty regarding Russia and Ukraine could cause more volatility here. Inflation is more moderate in Japan, where the pandemic had been relatively mild in 2021, but a more recent increase in COVID-19 infections may hinder its economy. | | | | | |
| **Int'l dev. small cap (unhedged)** | ○ | ● | ○ | ○ | ○ |
| Likely to lag long-term expectations for all the reasons international developed large caps will. | | | | | |
| **Emerging markets (unhedged)** | ○ | ○ | ● | ○ | ○ |
| A coming interest rate tightening by the Fed may make for more volatility for emerging markets. Concerns over growth in China persist, especially as that country had major closures late in 2021 as COVID-19 infections rose. Geopolitical tensions between Russia and Ukraine may also hurt, though they may help oil exporters, such as Saudi Arabia. As always, great differentiation among markets and regions. | | | | | |

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### Return Outlook

Key: Below Normal — Neutral — Above Normal

# Fixed Income

| Opportunity Set | Below Normal | | Neutral | | Above Normal |
|---|---|---|---|---|---|
| **U.S. core** | ● | ○ | ○ | ○ | ○ |
| The Fed is set to taper back its bond purchasing program and raise short-term rates this year. Rising inflation is likely to sting core bonds as well. | | | | | |
| **Non-U.S. core (hedged)** | ● | ○ | ○ | ○ | ○ |
| Safety of international sovereign debt is somewhat appealing, though yields remain low to negative in many countries. Returns from the asset class for U.S. investors will be highly influenced by any changes in performance of the U.S. dollar. | | | | | |
| **Emerging market debt (hedged)** | ○ | ○ | ● | ○ | ○ |
| Similar to EM equity, expectations for EM debt are somewhat muted due to continuing pandemic-related woes in many countries. Yields in EM debt are relatively attractive to developed market debt. | | | | | |
| **High yield** | ○ | ○ | ● | ○ | ○ |
| A continued pickup in inflation could mean more defaults in high yield, though any inflation fallout seems to be modest right now. We favor the higher-quality end with a focus on selectivity and active management. | | | | | |
| **Bank loans** | ○ | ○ | ● | ○ | ○ |
| Could be poised to benefit in a rising-rate environment. Bank loan yields are fairly attractive relative to other fixed income sectors. We favor the higher-quality end with emphasis on active management. | | | | | |
| **TIPS** | ○ | ○ | ● | ○ | ○ |
| Inflation's recent uptick has made TIPS more attractive. | | | | | |
| **Structured credit** | ○ | ○ | ● | ○ | ○ |
| As was the case for the quarter ending September 30, at $56.4B, CLO issuance in the quarter ending December 31 was the fourth consecutive record quarter. For the year, issuance totaled $186.7B, which was more than double 2020's volume. Much of the uptick in issuance in the quarter ending December 31 was an effort for managers to issue LIBOR-linked CLOs ahead of December 31 and the ensuing market transition to SOFR. Strong demand should continue to lead to high issuance levels, supporting returns in the asset class, although refinancings amid higher interest rates is likely to slow. We expect higher rates to directly flow through to the housing market and adversely impacting certain structured products, such as MBS. | | | | | |

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Return Outlook

Key: Below Normal — Neutral — Above Normal

## Fixed Income

| Opportunity Set | Below Normal | | Neutral | | Above Normal |
|---|---|---|---|---|---|
| **Private credit** | ○ | ○ | ● | ○ | ○ |
| Given their floating-rate nature, conventional private credit instruments likely stand to benefit from rises in short-term rates, at least in the near term. However, higher borrowing costs and overall cost of capital for underlying businesses could have a negative impact to credit performance depending on the magnitude, velocity and duration of higher rates. This is occurring in the context of elevated dry powder across the industry, tight spreads and deteriorated or non-existent loan covenants. Our expectations for returns remain neutral, but it is possible money already in the ground, particularly in investments made in the immediate aftermath of COVID-19, might be better protected than new investments. | | | | | |
| **Long bonds** | ○ | ○ | ● | ○ | ○ |
| In the quarter ending December 31, the yield for the long Treasury sector fell 14 bps to end the quarter at 1.89 percent, and long Treasuries returned +3.08 percent. After generating -13.51 percent in total returns in the quarter ending March 31, this performance for the quarter ending December 31 on the heels of a 6.46 percent total return in the quarter ending June 30 and +0.47 percent in the quarter ending September 30 was evidence that there remain capital market participants who aren't overly concerned with long-term inflation, need to hedge liabilities and/or have decided to recalibrate the level of equity risk desired in the portfolio. The outlook continues to be uncertain with an asymmetric return profile offering less fundamental support for significant appreciation from here, but the risk-off protection and return potential that long bonds provide in times of market stress can't be overlooked either. Needless to say, expect more price volatility to long bonds as the economy heals and inflation returns, creating plenty of uncertainties in the next 12 to 18 months. | | | | | |
| **Municipals** | ○ | ○ | ● | ○ | ○ |
| The yield on the tax-exempt municipal bond index stayed more or less unchanged at 1.11 percent by December 31, 2021. Demand for these instruments comes mostly from retail investors, with modest appeal still in place as the index generated +0.72 percent in the quarter ending December 31. Since the onset of the pandemic, the taxable and tax-exempt municipal bond asset classes have experienced a strong rally, and modest tailwinds continue to exist through government support as well as a supply/demand dynamic that should be favorable for buyers and holders of these bonds. | | | | | |

**Return Outlook**

| Key: | ● | ● | ● | ● | ● |
|---|---|---|---|---|---|
| | Below Normal | | Neutral | | Above Normal |

# Alternatives

<table>
<tr><th>Opportunity Set</th><th>Below Normal</th><th></th><th>Neutral</th><th></th><th>Above Normal</th></tr>
<tr><td>Hedge funds</td><td>○</td><td>○</td><td>●</td><td>○</td><td>○</td></tr>
<tr><td colspan="6">Hedge fund strategies produced mixed performance results during the quarter ending December 31. Strategies with directionally neutral postures (e.g., relative value, equity market neutral and multi-strategy) tended to generate positive performance results. Meanwhile, specialist equity mandates (e.g., healthcare and technology) and global macro strategies were more acutely impacted by prevailing inflation and interest rate trends, resulting in negative returns on average. Overall, strategies that look to isolate alpha through more net neutral positioning continue to be well-positioned to capitalize on the prevailing market environment.</td></tr>
<tr><td>Multi-asset class strategies (MACS)</td><td>○</td><td>○</td><td>●</td><td>○</td><td>○</td></tr>
<tr><td colspan="6">MACS saw mixed performance results during the quarter ending December 31. Global economies experienced a surge in the COVID-19 Omicron variant, resulting in the reinstatement of restrictions, which had implications across the capital market spectrum. Meanwhile, concerns around a more structural inflation environment forced global central banks to reassess their accommodative policy stances. On balance, equity and commodity markets advanced while sovereign bond yields stagnated throughout the quarter. Accordingly, we remain cautious as it relates to strategies that are more reliant upon beta as a means to generating returns (e.g., risk parity). Instead, we place greater emphasis on those strategies that seek to isolate alpha through effective shorting, tactical asset allocation decision-making, security selection and/or market expression.</td></tr>
<tr><td>Private equity</td><td>○</td><td>○</td><td>●</td><td>○</td><td>○</td></tr>
<tr><td colspan="6">Despite dry powder levels, fundraising and deal activity are anticipated to remain strong, especially in secondary market. Healthcare and technology sectors remain attractive, although caution is well-placed regarding large-cap buyouts. Performance likely to remain on positive track that aligns with long-term asset class assumptions. In the near term, some moderation is reasonable to assume from combination of elevated purchase multiples and issues related to the supply chain, inflation and that higher cost of borrowing. Sector-specific buyout and venture expansion strategies that demonstrate bottom-line value add and earnings growth capabilities are well-positioned to sustain performance in a pricier market environment.</td></tr>
</table>

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Return Outlook

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

# Alternatives

| Opportunity Set | Below Normal | | Neutral | | Above Normal |
| --- | --- | --- | --- | --- | --- |
| **Real estate** | ○ | ○ | ● | ○ | ○ |

Fundamentals continue to display different characteristics and projected outlook by property sector. Strong tailwinds continue to support the multifamily and industrial sectors, while demand for retail and office is likely to remain muted over the near term. Multifamily is expected to perform well as asset values, for stabilized core assets continue to rise, notably in the South and West. Similarly, the industrial sector is expected to continue to benefit from ongoing demand, while increased competition to acquire assets will push valuations that will benefit appreciation performance. Outlook for office remains uncertain as companies continue to assess traditional office space requirements. Similarly, retail sector will face headwinds from the adoption of e-commerce and the current oversupply of assets. Overall, while performance is expected to recover from previous pandemic-related lows, the market will remain bifurcated. Certain niche property types, such as single-family residential, self-storage, senior housing and studios, are all benefiting from strong fundamentals.

| Opportunity Set | Below Normal | | Neutral | | Above Normal |
| --- | --- | --- | --- | --- | --- |
| **Infrastructure** | ○ | ○ | ○ | ● | ○ |

Upward trend buoyed by strong investor demand and a broadening of the asset class is anticipated to continue. The sector will remain resilient and attractive as the global pandemic ebbs, given the asset class's ability to generate income and positive returns with less volatility. The relatively high-income yield combined with inflation protection attributes will support strong investor demand going forward. A broadening of the investment universe due to de-carbonization, technological advances and sustainability initiatives should alleviate some of the concerns around elevated dry powder while also providing greater opportunity for return generation. Despite increased investor interest, entry valuations remain favorable, particularly in some of the emerging sectors and low-to-mid market cap opportunities.

| Opportunity Set | Below Normal | | Neutral | | Above Normal |
| --- | --- | --- | --- | --- | --- |
| **Commodities** | ○ | ○ | ● | ○ | ○ |

Agricultural and certain precious metal commodities prices, particularly gold, are expected to rise due to demand increases and inflationary conditions. Industrial metals outlook remains mixed depending on variable macroeconomic recovery and growth scenarios, however copper stands to benefit from carbon transition initiatives. Energy prices are expected to increase in the near term, but potential hike in supply activity could cool the rise. While commodities overall remain attractive as an inflation hedge and have benefitted from surging post-pandemic demand recovery, a possible economic slowdown related to rising interest rates and supply increases could slow future price appreciation.

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Return Outlook

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

# Alternatives

| Opportunity Set | Below Normal | | Neutral | | Above Normal |
|---|---|---|---|---|---|
| **Energy** | ○ | ○ | ● | ○ | ○ |
| Rising prices consistent with inflationary conditions and demand will continue to be supportive of upstream, downstream and midstream energy strategies. However, while oil and gas assets offer attractive valuations and opportunities for experienced operational-oriented and well-capitalized investors, net zero and environmental, social and governance (ESG) initiatives will continue to gain strength and pose significant headwinds to the fossil fuel industry. Private sector investment in domestic power transmission and distribution is anticipated to grow, along with increased focus on battery development as an essential component of a rapidly evolving carbon-transition economy. | | | | | |
| **Timber** | ○ | ○ | ● | ○ | ○ |
| Timber values are expected to strengthen in the near term, although certain risks hover over the asset class. The U.S. single-family housing market, including both new home construction and repair and remodeling, is expected to remain robust in the near term driven by continued demand from younger homebuyers and a pandemic-induced shift to suburbs and remote working arrangements. Increased capacity by U.S. lumber companies is adding to competition for logs, potentially translating to higher prices for timberland owners, enhancing both income and capital appreciation returns in the near and medium terms. Maturation of carbon credit markets is a potential incremental return driver. Alignment of the asset class with inflationary and ESG trends are tailwinds that are believed to lure investors, potentially providing further support to valuations. Nevertheless, risks to housing demand, such as rising interest rates that will negatively impact affordability for many first-time buyers and costs of construction due to availability of building materials and labor, remain. Internationally, the path of the global economic recovery remains uncertain, as do ongoing political disputes and climate risk. However, resumption of global trade is a positive. | | | | | |
| **Farmland** | ○ | ○ | ○ | ● | ○ |
| The overall outlook for farmland remains strongly positive. Land values grew robustly in 2021 and will continue to do so, given ongoing strong investor demand consistent with global post-pandemic economic recovery. Increasing interest in ESG and sustainability has renewed focus on farmland as an appealing investment option. In the near term, higher crop prices will continue to boost farm incomes. Farmer's balance sheets should remain strong with relatively low debt-to-asset ratios, although rising rates are an obvious concern. Increased inflation-related input costs, such as fertilizer and chemicals, will only partially offset higher the expected higher commodity prices. While fundamentals are expected to remain favorable, possible headwinds include geopolitical risk impacting global trade, supply chain issues and potential spot labor shortages. | | | | | |

# Questions? Contact Us.

To learn more about how our forward-looking views can help enhance your investment strategy, contact your Segal Marco Advisors consultant, Chief Investment Officer Tim Barron or Catherine Hickey, Vice President, Communications and Intellectual Capital.

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