Plot Twist: What a Difference a Year Makes

Q2 2022 Investment Outlook

Segal Marco Advisors

Overview

What a difference a year makes. Bond and stock markets are both negative year to date (as of the end of May), with bonds underperforming stocks in the quarter that ended on March 31. This is not a common phenomenon nor a welcome one given the dependence of stocks and bonds for portfolio return.

So, what happened?

Well, macro events overwhelmed generally okay-to-positive fundamentals in the economy. This is the story of interest rates, inflation and commodities. The first two protagonists (interest rates and inflation) have become highly problematic and the third (commodities) is the antagonist in the story.

As we closed out 2021, a great year for financial assets, we knew that inflation was an issue, albeit maybe transitory, and that interest-rate increases were likely to occur in future chapters. To this point, the story was good. The economy had just come off a strong year of GDP growth (6.9 percent); unemployment was back to pre-COVID-19 levels; and both consumers and businesses were confident and healthy.

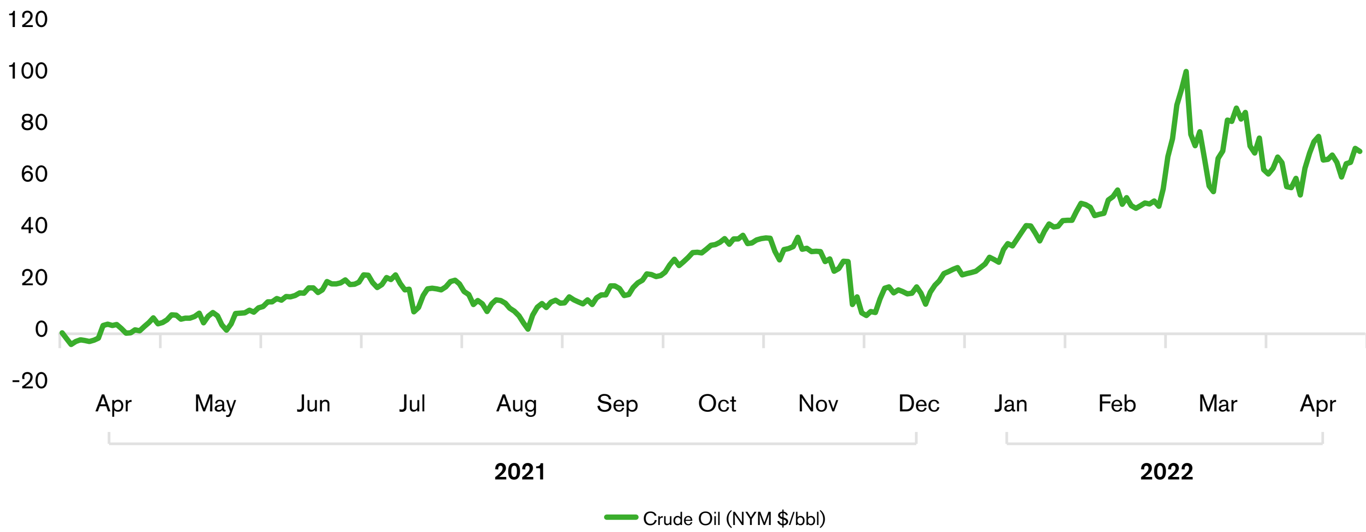
But the antagonist was lurking in the background. Supply chain issues and surging demand put pressure on commodities. Input and output prices were increasing. The U.S. Federal Reserve (the Fed), which acts as both the director and writer of the story, was hopeful that our antagonist was transitory and would leave the story to unfold peacefully and calmly.

Fast forward to 2022, when in February the war in the Ukraine broke out. This needless, horrific war added fuel (pun intended) to the commodity, input and supply chain story. Oil jumped (see the graph on the next page); wheat and agricultural commodities rose; and metals and minerals were higher. The Bloomberg Commodities Index returned 25.6 percent for the quarter that ended on March 31 and 30.7 percent through April.

By now all Americans know, or have felt the impact of, the following numbers: 8.3 percent for CPI for the one year ended April and 6.2 percent for CPI including food and energy.

This *Investment Outlook* was written in late May 2022.

CBOE Volatility Index®



Source: CBOE and Factset, 2022

The Fed has now thrown caution to the wind and signaled in no uncertain terms that inflation is the primary plot thread that needs to be written off. How do you unravel the plot? By raising interest rates to induce slower demand.

Consequently, the Fed increased the federal funds rate by 0.25 percent in March and 0.50 percent in May, bringing it to 0.75 percent–1.0 percent. The market is pricing in another 6+ rate increases in 2022/2023.

So far, we have focused this story on the United States. But we can simply translate it into any number of languages, turn it into a horror story and apply it to other countries. Our antagonist, commodities, is much harder to handle for countries that do not have the luxury of energy independence. Developed Europe, for example, is struggling with energy needs, as well as other vital food commodities, such as fertilizer.

Growth projections for emerging markets, where China dominates the numbers, are also lower due to the recent COVID-19 surges and economic shutdowns. The Reserve Bank of China dropped reserve requirements for banks to boost the economy — though it did not go as far as cutting key interest rates, leaving the one-year median term lending rate at 2.85 percent. The Chinese economy grew 4.8 percent in the quarter that ended on March 31, but retail sales were slower, with the expectation that current shutdowns will further impact the economy in the quarter that will end on June 30.

Other emerging markets, including many Latin American countries, have fared much better of late due to their commodity-linked characteristics. Brazil, Chile, Colombia and Peru, were all up about 30 percent or more in the quarter that ended on March 31. However, inflation has not left them unscathed in this latest surge.

Meanwhile, the fundamental underpinnings in the U.S. are still positive. Employment continues to improve (albeit about a million jobs short of pre-pandemic levels); wages are increasing (although not on a real basis); homes are selling like hotcakes; and spending is good (although slowing most recently). But that does not seem to be reflected in sentiment surveys, with the most recent consumer sentiment dropping to the most pessimistic reading in the data going back to 1995, according to a Bank of America survey. This sentiment drop is exemplified in the latest decline in retail sales.

Where does this story end?

It's hard to tell at this juncture. The standard deviation of outcomes is large. The base case is that the director (the Fed) engineers a slowdown, which will bring down inflation, albeit not back to pre-COVID-19 rates of 2 percent. The base case considers that history tells us the Fed's track record of taming the inflation beast without a recession is not great. The next question, therefore, is how deep a recession will there be? We think there is a case to be made that it will not be severe, given that employment and health of the consumer can keep us anchored.

Equity markets

In the U.S., the equity market has been volatile, reflecting a split personality. One week the market loves value and hates technology. Then, wait, no, we hate ALL stocks. The next moment, technology stocks are up.

There is an old viewpoint that technology does poorly in a rising rate environment as tech companies need to finance faster growth, which gets expensive. But, with growth and inflation concerns present in the markets, there is also a view that technology has pricing power and, thus, could do well. Despite the yo-yoing of the past few months, value won big in the quarter that ended on March 31. Value's outperformance was driven by energy-related stocks returning close to 40 percent, a positive showing for utilities and every other sector was negative for the quarter.

While the good news for the equity markets had been strong earnings along with strong revenue and margins, the bad news is that it means costs have been pushed out to us, the consumers. How long that can last is the $64,000 question, especially considering that the costs of materials and labor are both rising. The long-awaited wage growth we have seen is not insignificant given the percentage of GDP that is related to consumption (68 percent).

But reports of first-quarter earnings have been spotty. Revenue misses, talk of input costs rising and continuing uncertainty in the outlook has been a drumbeat of CEO earnings calls. The good news is that first-quarter earnings have been generally positive, with energy-related companies providing the largest increases and consumer discretionary and financials the lowest.

The hardest-hit sectors in the current decline have been small growth companies. Some of this is to be expected as the euphoria around small unprofitable companies had been reminiscent of the dot-com era. As we saw the positive

IPO market provide a path to liquidity in 2021, the number of profitable tech IPOs were just 22 percent of all new market entrants. This compares to 14 percent in the dot-com years. In the first months of 2022, the Nasdaq has declined over 45 percent, bringing much of this sector back to Earth. As mentioned, we have seen a retrenchment in growth stocks and as is usual when these market shifts in sentiment occur, the baby, bathwater and the tub are all thrown out.

The question now is: can active managers find the long-term quality companies that have been beaten down and leave the losers on the sideline? Small cap median price earnings at 13.5 are below the long-term average of 15.6 and the best relative value in the equity landscape. Manager selection is key to navigating this market, and we continue to espouse having both small and large and growth and value in the portfolio, as timing this shifting landscape is very difficult.

As we noted, the war story has had an outsized influence outside of the U.S. and was felt directly in the negative performance of the financial markets in the first few months of 2022. With the exception of the United Kingdom, which was the best performer of non-U.S. developed markets, as well as other energy-related economies, like Canada and Norway, all other countries were negative.

In addition to growth concerns in China, emerging market stocks continue to be impacted by macro/regulatory issues, the most recent of which is the potential delisting of U.S. American Depositary Receipts, as the U.S. and Chinese regulators have not come to terms on audit-related requirements necessary to continue to trade on the U.S. exchange.

A case can be made that the bloom is off the rose for the pandemic darlings, and in other areas of excess, like some cryptocurrencies, and we could now see a better market. General market valuations seem to have adjusted to the increase in discount rates, and forward earnings are reasonable in many sectors. We continue to favor active management outside the U.S., since the country-specific macro issues will weigh on outlook and results.

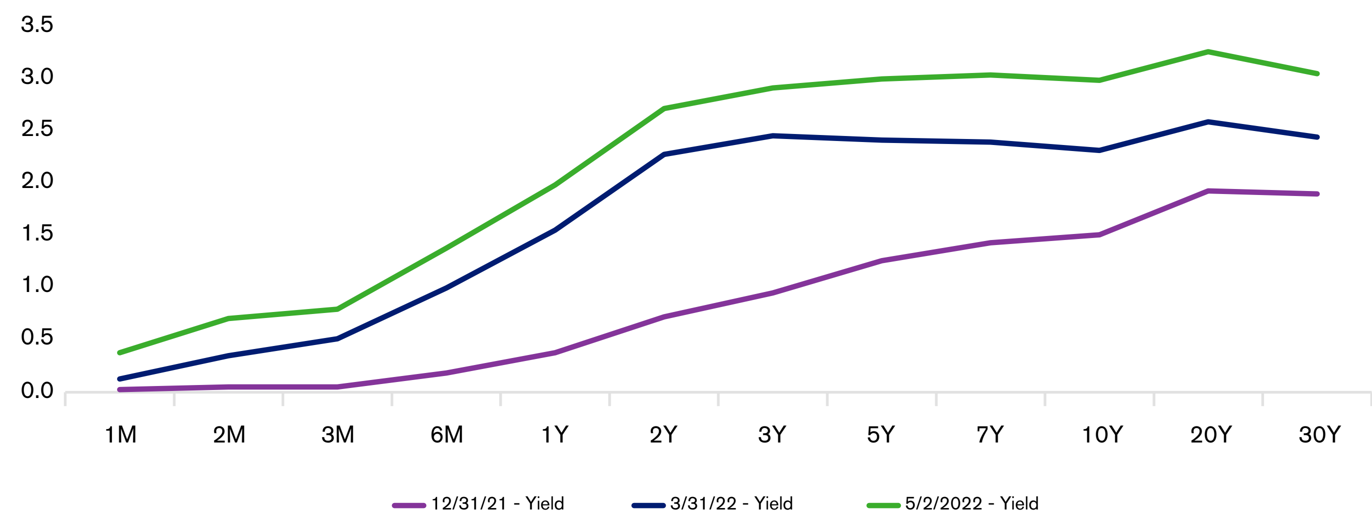
Fixed income

And so, it begins! As mentioned, the long-awaited increase in interest rates began in March with a 25-basis point increase in the Fed funds rate and then 50 basis points in May.

The Bloomberg Aggregate Index underperformed stocks quite a bit for the quarter, although that shifted in April. So much for the safety of bonds.

As the Treasury interest rate curve below demonstrates, we moved at a very fast clip to price in the expected interest rate rises. With an over 200 basis-point rise on the short end and almost doubling of the 10 year, the best-performing bonds during the quarter were, unsurprisingly, floating rate bonds and Treasury Protected Inflation-linked bonds. The worst-performing area was investment grade bonds, where some liquidity trading likely impacted pricing, as well as repricing, of rates.

United States Treasury Yield Curve



Source: U.S. Department of the Treasury and Factset, 2022

Having experienced some of the worst bond performance since the index began publishing, have we seen the worst already? At a minimum we appear to have priced in the interest rate rising component. The question then is: has the market priced in the impact of slower growth and commensurate credit-related risks? If so, we could see a more sanguine bond environment in the back half of the year.

We think you should watch out for credit spreads worsening, especially in high yield, where the current coupon is just not that great a compensation for risk. Municipal valuations are good (after suffering a tough first quarter), and fundamentals are better due to tax receipts and the 2021 stimulus.

Alternatives

Alternative assets will continue to provide diversification benefits to public markets, albeit in part due to the lag in marking prices to market, especially for higher-correlated sub-assets, such as private equity or private credit.

In private equity, after a gangbuster 2021 for new issues, the IPO and SPAC markets have both come back to Earth. Q1 2022 saw virtually no new entrants to public markets, creating an environment for some softening on pricing later in the year. Generally, we would expect later-stage companies to be hurt in the near term with softer new issue markets versus those with a longer trajectory, such as venture related.

Private credit managers continue to raise more and larger-sized funds. While the asset class can have hedging characteristics against rising interest rates (shorter duration and floating rate), the credit component of the fund should be carefully assessed vis-à-vis the potential slowdown in economic activity as interest rate increases take hold. Manager selection is a key to success.

Private real estate continued to provide double-digit returns in late 2021. The 43 percent return from industrial in fourth quarter 2021 was disconcertingly high, while office returns were the only negative sector. All other areas posted positive double-digit returns. The increase in newer sectors of the real estate investment universe, including hotels, self-storage and medical, are providing increased diversification in the investable universe and benchmark.

Infrastructure remains an area of interest due to both demand and the outlook for supply. Infrastructure provides good income and inflation-hedging characteristics, so we expect it to continue to add both diversification and return potential.

Hedge funds have some appeal given the high level of uncertainty in so many facets of the economic landscape. With continued volatility added to this backdrop, some hedge fund subsectors can provide beneficial exposures to the public markets. Global macro and long-short strategies could be good diversifiers to public-only positions.

Commodities are obviously of interest given the macro environment. However, it is not easy to access commodities directly. Most risk-parity portfolios have a component of commodity investments and can be a good way to gain exposure.

Final notes

2022 has had a difficult start. The story is unfolding fast and while our protagonists — inflation and interest rates — have been under pressure, we see the antagonists — commodities — have begun to roll over. Thus, our plot seems to be moving into the final chapters of the messy part of the story.

We will be reading the data and continuing to navigate through the themes set forth in the book.

Outlook for Canada

GDP grew at 1.6 percent in the quarter ended December 31, 2021 and increased to 6.7 percent on an annualized basis, up from the revised 5.5 percent in the quarter ended September 30, 2021. Full 2021 economic expansion of 4.6 percent reflected a late year accumulation of inventories, and reversed the contraction experienced in 2020.

Estimates for the quarter ended March 31, 2022 continued expansion of approximately 1.4 percent driven by consumer demand and higher energy prices. These strong economic conditions also drove down the unemployment rate to 5.3 percent (matching pre-COVID-19 levels) in March 2022, down from 6.0 percent at the end of 2021.

The Canadian dollar (vs. USD) remained basically unchanged at 0.79 as of March 31.

The S&P/TSX Composite Index continued its winning ways in the quarter ended March 31, returning 3.8 percent. The index performance was led first by financials and then energy, with healthy support from industrials and materials.

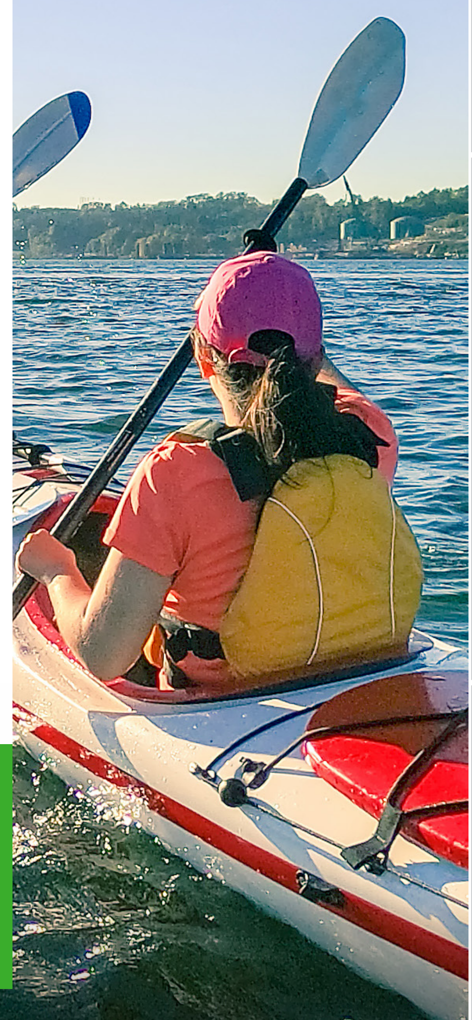
The Canadian yield curve has shifted up, as have many developed economies' yield curves, reflecting the post-COVID-19 recovery. Canada's annual inflation rate quickened its pace to 6.7 percent in March 2022, the highest since 1991. To combat rising and persistent inflation concerns, the Bank of Canada raised its target for the overnight rate by 50 bps to 1 percent on April 13, 2022, matching market expectations. It is the second consecutive rate hike; the biggest in 20 years, pushing borrowing costs to the highest in two years, when the coronavirus pandemic started. Additionally, the central bank raised its inflation forecast for the first half of the year to just below 6 percent compared to the 5 percent predicted in January. It also increased the forecast for 2022 to 5.3 percent from 4.2 percent, blaming Russia's invasion of Ukraine for adding to global commodity prices, energy costs and supply chain disruptions.

The central bank also announced it will end reinvestment and will begin quantitative tightening effective April 25.

Canadian Fixed Income markets posted losses for the quarter ended March 31 (-6.97 percent), mirroring most developed economies sensitivity to a dynamic and rising rate environment.

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.	Neutral, Trending Lower	Positive	Neutral, Trending Higher	Neutral, Trending Higher	Negative
GDP growth fell -1.4 percent in the quarter ending March 31. The Fed increased short-term rates in March and indicated that further hikes were likely. Inflation increased significantly. Valuations are well above the historic median.					
Canada	Neutral, Trending Higher	Neutral, Trending Higher	Neutral, Trending Higher	Neutral	Neutral, Trending Higher
GDP growth in Canada was up 1.6 percent in the quarter ending December 31. The Bank of Canada hiked interest rates in March, the first increase since 2018. Inflation was higher, but the Canadian dollar stayed relatively flat against the USD. Valuations of Canadian stocks are significantly more moderate than those of U.S. stocks.					
Eurozone	Neutral, Trending Lower	Positive	Neutral	Neutral, Trending Higher	Neutral, Trending Lower
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.					
UK	Neutral, Trending Lower	Positive	Neutral, Trending Higher	Neutral, Trending Lower	Neutral
GDP growth rose 0.8 percent in the quarter ending March 31. The pound fell against the dollar. The Bank of England hiked short-term rates, and inflation rose in the quarter. Equity valuations are near their long-term median and cheaper than U.S. stocks.					
Japan	Neutral, Trending Lower	Neutral, Trending Higher	Neutral	Neutral, Trending Lower	Neutral
Growth rose 1.1 percent in the quarter ending December 31. The yen fell against the dollar, and the Bank of Japan held the policy rate steady. Inflation was higher. Equity valuations are close to their long-term median.					

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

Emerging markets

Market	GDP Growth	Inflation	Policy Rate	Currency	Equity Valuations
China	↗	→	↘	→	↗
GDP grew 4.8 percent in the quarter ending March 31. The Bank of China cut short-term interest rates in the quarter. The yuan was flat against the dollar, and inflation was also flat. Equity valuations fell below the long-term median.					
Rest of EM	↘	↗	→	→	→
Economic growth, while still positive, is set to slow with the Russia/Ukraine conflict and supply shocks. Several central banks have raised interest rates partly in response to inflation fears, and they may need to continue to hike in 2022. Valuations sit near their historic median.					

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	○	●	○	○	○
High inflation has persisted and the Fed has begun an aggressive rate-hiking cycle to combat it. Expectations for a recession are growing, and growth in the first quarter of 2022 was negative. This doesn't make a good backdrop for stocks of any capitalization size, though large caps may be better positioned to hold up better in this environment than smaller caps.					
U.S. small cap	○	●	○	○	○
Smaller companies may be more vulnerable both in an economic downturn and to rising rates.					
Int'l dev. large cap (unhedged)	○	●	○	○	○
The oil, corn and wheat shortages stemming from the Russia/Ukraine war have led to high inflation. This also stung the European economy, which grew only minimally in the first quarter. Worries over consumer spending in this environment have hurt tech and discretionary stocks, and the near-term outlook remains challenged.					
Int'l dev. small cap (unhedged)	○	●	○	○	○
Similar to large cap, though problems are exacerbated here as they are for U.S. small cap.					
Emerging markets (unhedged)	○	● ←	○	○	○
The environment for EM has several big near-term challenges: the fallout from the Russia/Ukraine war and China's economic slowdown, caused by a large uptick in pandemic cases. Higher commodity prices may be a positive for commodity producers — but will lead to inflation.					

Return Outlook

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

Fixed income

Opportunity Set	Below Normal		Neutral		Above Normal
U.S. core	○	○	●	○	○
The outlook for core had been below normal because the yield/duration profile on core bonds was fairly unappealing. More recently, however, the yield/duration profile has become more favorable, with the yield on the Bloomberg Aggregate Index more than doubling since last year.					
Non-U.S. core (hedged)	●	○	○	○	○
Similar to equities, outlook is not bright in the near term. Inflation is running high in Europe, and hawkish central banks are ready to combat it (though the ECB has said it won't raise rates in the near term).					
Emerging market debt (hedged)	○	●	○	○	○
Like EM equities, many challenges here. Pandemic-related woes in China along with fallout from the Russia/Ukraine conflict have led to the highest level of EM inflation since 2008. A strong USD is not good for EM countries with much USD-denominated debt. Yields are still higher here, though, than in developed countries.					
High yield	○	●	○	○	○
While high yield has been bolstered lately by energy company debt performance, the prospect of a recession and rising defaults dampens prospects here.					
Bank loans	○	○	●	○	○
Bank loans have a floating-rate feature that protects their prices from declining when rates rise. Their senior position in the capital stack means they are relatively well positioned in the case of default.					
TIPS	○	○	●	○	○
With higher inflation persisting, TIPS should be positioned to perform relatively well. Plans with cost-of-living adjustments (COLAs) as part of their liability may benefit from TIPS in this environment.					
Structured credit	○	○	●	○	○
Structured products, and CLOs in particular, have done a great job at providing downside protection in the current environment of rising interest rates and higher inflation, particularly when compared to comparable corporate bond ratings cohorts. The floating-rate nature of the underlying securities in CLO structures and generally shorter-duration profile of securitized credit investments have provided stability in this market. In addition, CLO issuance is expected to remain robust, which should support prices and credit spreads and allow structured credit to continue to perform well relative to longer-duration corporate bonds.					

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Return Outlook

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

Fixed income

Opportunity Set	Below Normal		Neutral		Above Normal
Private credit	○	○	●	○	○
Much of the private credit universe consists of floating-rate loans, which have held up relatively well in the rising rate and benign credit environment of the first quarter. Money in the ground will continue to benefit from rising interest rates, but new investments face headwinds such as higher debt service costs, lower margins and a market that remains incredibly competitive. As the impact of the public markets flushes its way through the private markets, more attractive entry opportunities may present themselves so long as the economy remains on solid footing and credit remains healthy.					
Long bonds	○	● ←	○	○	○
In the quarter ending March 31, the yield for the long Treasury sector rose 66 bps to end the quarter at 1.55 percent, and long Treasuries returned -10.58 percent. After generating +3.08 percent in total returns in the quarter ending December 31, this Q1 2022 performance was reminiscent of the first quarter of 2021, when the long Treasury sector was down -13.51 percent. Inflation repricing and term premium dynamics further out on the curve were the most significant drivers in both time periods. The difference in the quarter ended March 31 was that the negative outlook from quarter end was modestly less uncertain as the asymmetric return profile argument began to diminish, with yields rising in response to Fed policy and global economic developments. Needless to say, year-over-year inflation is at historically high levels and expectations are for more price volatility to long bonds as capital markets accept this reality, creating plenty of uncertainties (and opportunities) in the next 12 to 18 months.					
Municipals	○	○	●	○	○
The yield on the tax-exempt municipal bond index rose significantly to 2.60 percent by March 31, 2022. This 149 bps rise in yields led the index to return -6.23 percent in the quarter. Since the onset of the pandemic, the taxable and tax-exempt municipal bond asset classes had experienced a strong rally, but tailwinds disappeared in the first quarter as inflation repricing impacted all areas of fixed income. As with Treasury bonds, the outlook is unclear, but one could argue that a lot of the negative performance damage has already taken place. Retail demand will always be high for these instruments, which creates a reliable bid, particularly as the Muni/Treasury ratio becomes more compelling at these elevated yields.					

Return Outlook

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

Alternatives

Opportunity Set	Below Normal		Neutral		Above Normal
Hedge funds	○	○	●	○	○
Hedge fund strategies generally produced negative performance results during the quarter, but preserved capital and displayed strong risk metrics. Losses were largely concentrated within specialist equity mandates focused on growth-oriented sectors, including healthcare and technology. Meanwhile, strategies with directionally neutral postures (e.g., relative value, equity market neutral, multi-strategy, etc.) tended to generate positive performance results. Credit-oriented strategies produced mixed results during the quarter. Overall, strategies that look to isolate alpha through more net neutral positioning continue to be well-placed to capitalize on the prevailing market environment.					
Multi-asset class strategies (MACS)	○	○	●	○	○
MACS saw mixed performance results during the first quarter of 2022. On the back of heightened inflationary pressures and the raising of interest rates, risk assets saw a significant decline during the quarter, with equities being the hardest hit and high yield corporates falling nearly 5 percent. Interestingly, fixed income fell nearly 6 percent during the period, its worst quarter in almost 50 years, as investors looked to avoid or reduce duration risk. The lone safe haven proved to be hard assets, especially commodities, which generally served as effective inflation hedges during the quarter. 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, placing greater emphasis on those strategies that seek to isolate alpha through effective shorting, tactical asset allocation decision-making, security selection and/or market expression.					
Private equity	○	○	●	○	○
Rising interest rates are anticipated to impact transaction and exit activity due to increased borrowing costs and the effect of correspondingly higher discount rates on enterprise valuations. The market is expected to be choppier than the recent post-COVID recovery period, with less sustainable pricing and slowing growth rates in some buyout and later stage venture sectors. Recent transactions or those expected to close over the next 12+ months will be executed at elevated multiples, which could deliver less satisfying performance when exiting in a near-term softer economic and higher-rate market. However, a cooling of purchase multiples and later-round venture valuations also provide favorable entry pricing points, and which could be potentially advantageous when exiting over longer vintage year periods. Despite currently anticipated headwinds, there are strategies well-positioned to deliver relatively attractive performance during uncertain times, which include operationally focused buyouts, turn-around and corporate/debt restructuring special situations, early/seed stage venture, less credit-dependent industry-focused mid-market, and select larger cap buyouts with strong balance sheets and the ability to absorb or pass along rising input costs.					

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Return Outlook

Key: Below Normal — Neutral — Above Normal

Alternatives

Opportunity Set	Below Normal		Neutral		Above Normal
Real estate	○	○	●	○	○

Fundamentals will continue to support the industrial, multifamily and niche sectors, while retail and office are likely to remain a drag on performance. Industrial sector is poised to maintain attractive returns, supported by stable income and increased appreciation from competition for assets. Multifamily sector outlook remains strong, although bifurcated by region with the South and West, driving performance for the property type. Alternative or niche property types such as single-family rental, self-storage, senior housing, medical office and studios will continue to offer appealing opportunities. However, office and retail, which were already negatively impacted by COVID conditions, along with persistent tenant uncertainty and oversupply issues, may experience further write-downs should the economy lapse into a recession.

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

Strong investor demand persists for infrastructure due to its income generation, diversification and inflation protection characteristics. These momentum factors will support transaction activity and elevated asset valuations. Positive trends include expansion of the investment universe into energy transition and climate change, technological advances and sustainability. Favorable and supportive U.S. policies will continue to draw investment capital from other regions. Competition for assets and robust pricing remain challenging overall, but more favorable valuations are available in less efficient sectors, proprietary origination and small-to-mid-market opportunities. Sectors that have rebounded from pandemic-level lows, such as transportation, may run into a second round of headwinds should the economy slow; other essential sectors such as power generation and digital infrastructure may prove resilient.

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

Russia's ongoing war with Ukraine will continue to impact commodity markets as trade disruptions and sanctions will constrain supply and potentially lift prices dramatically. Many agricultural and energy commodity prices are anticipated to remain elevated, given that Russia and Ukraine are key producers of oil and gas, grains (wheat, corn, barley), sunflower oil and fertilizers. Although oil prices are anticipated to be volatile, they should remain above $100/b on average as sanctions on Russia and other corporate actions contribute to falling oil production and inventories. Agricultural prices for key grains and oils will likely stay at or above recent highs due to tight supply and growing consumption. Conversely, industrial metals prices are likely to moderate given weakening demand from China, concerns about a looming recession, declining Treasury yields and Fed interest rate hikes. Gold is poised to benefit as the Fed continues to raise interest rates to combat inflation.

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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>Energy</td><td>○</td><td>○</td><td>○ →</td><td>●</td><td>○</td></tr>
<tr><td colspan="6">Global energy demand will continue to rebound from pre-pandemic levels. The recovery, combined with the oil and gas sector remaining undercapitalized over the past several years, is anticipated to maintain a fundamentally tight market with correspondingly higher global commodity prices over the near term. The invasion of Ukraine and associated supply disruptions along with Russian sanctions will continue to fuel the inflationary commodity pricing cycle that was already underway. The U.S. energy industry is increasingly viewed as a critical provider of solutions to global energy security concerns as a responsible low-cost producer and exporter of both oil and liquid natural gas. The private market sector is well positioned to assist with raising production output, and with increased cost-efficiency and lower breakeven points than a few years ago, remains poised to offer attractive investment opportunities even during an era of hydrocarbon transition. Additionally, energy remains one of the few private equity sectors with low dry powder relative to the perceived opportunity set. Renewables development will gain further momentum as debt and equity capital increasingly flows to the sector, and traditional energy firms continue to diversify holdings to integrate clean energy assets, such as wind and solar, through partnerships and acquisitions as part of a longer transitional strategic plan.</td></tr>
<tr><td>Timber</td><td>○</td><td>○</td><td>●</td><td>○</td><td>○</td></tr>
<tr><td colspan="6">Recent positive upward trends may be trimmed due to higher interest rates, inflationary pressures and geopolitical uncertainty. Currently, demand for lumber remains strong, fueled by new home construction and home remodeling. A housing shortage in the U.S. may sustain prices, which would continue to support home construction, although this could be blunted by rising interest rates and inflationary pressures that impact buyers' affordability. Additionally, supply disruptions associated with the invasion of Ukraine could lead to delays in construction and put additional pressure on input costs. Increased mill capacity in the U.S. South is helping eliminate oversupply issues and timberland managers are benefiting from increased competition for logs. The continued growth of the carbon credit market is a positive as it provides a new and alternative source of income for timberland investors while also reducing supply as trees are left unharvested.</td></tr>
<tr><td>Farmland</td><td>○</td><td>○</td><td>○</td><td>●</td><td>○</td></tr>
<tr><td colspan="6">Despite headwinds in the shape of higher input costs, increased interest rates and geopolitical instability impacting supply chains, the outlook for farmland remains very positive. Russia's invasion of Ukraine has resulted in supply disruptions leading to higher commodity prices for food produce such as wheat, maize, soybeans and vegetable oil. While input prices have also soared (for fertilizer and other chemicals), the impact has been more than offset by higher prices for end produce. Land values have remained elevated, supporting low loan-to-value ratios, which should help offset higher interest rates. Investor demand is strong and expected to remain so given the favorable outlook for farm commodities, the asset classes' historical correlation with inflation and general low volatility characteristics.</td></tr>
</table>

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 Sue Crotty or Catherine Hickey, Vice President, Communications and Intellectual Capital.

In Canada, contact your Segal Marco Advisors Canada consultant or Joe Cerullo, Senior Consultant.

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