



May 2021

Investment Outlook

# Investment Outlook for 2021: The Risks to Goldilocks

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Shawn Reynolds, Portfolio Manager

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# Today's Speakers

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*CEO*



**Shawn Reynolds**

*Portfolio Manager*



**Charles Cameron**

*Deputy Portfolio Manager*

# Now What?

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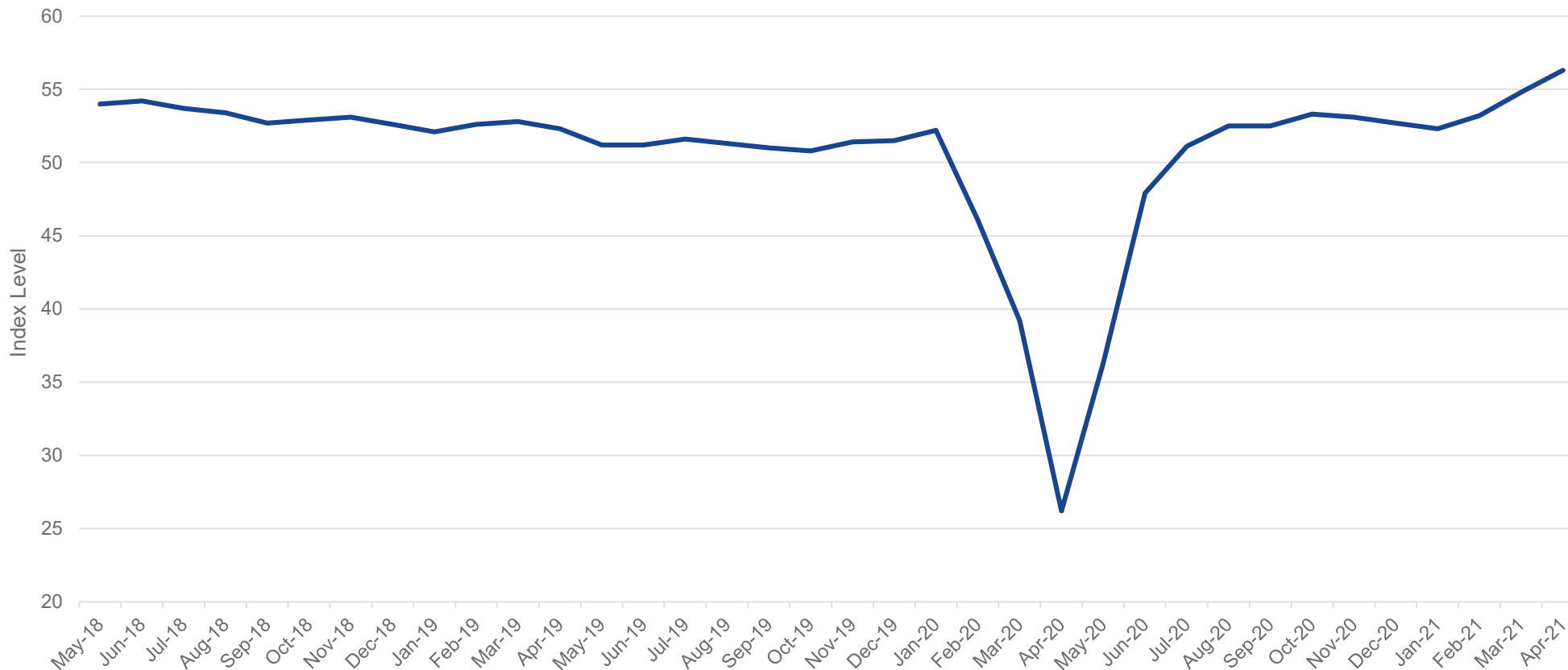
- **“Goldilocks” Scenario. The mainstream, high-probability consensus.**
  - Rate increases pause between 1.5 and 2%; stock markets continue to make new highs
  - Economic growth moderates, China is already tapering; U.S. spending also tapers
  - Growth stocks still shine. Gold.
- **“Wage Inflation” Scenario. Controversial.**
  - Commodity prices already in bull market.
  - But wage inflation is uncertain. Wage inflation is the driver of a longer-lasting inflation and can be hard to extinguish. Won’t know until late 2022. Value does well. Gold.
- **“Higher Rate Surprise” Scenario. Big surprise.**
  - Tremendous stimulus drives interest rates between 2% and 2.25% by the end of 2021, we believe. This is more likely than the market expects.
  - With rising rates, bonds will fall further. May be okay for equities but potentially bearish.

# Goldilocks... Rolling Recovery: Asia, U.S., Europe



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## J.P. Morgan Composite PMI



The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends. The value and movements in the PMI and its components can provide useful insight to business decision makers, market analysts, and investors and is a leading indicator of overall economic activity. A reading above 50 indicates expansion, and a reading below 50 indicates contraction.

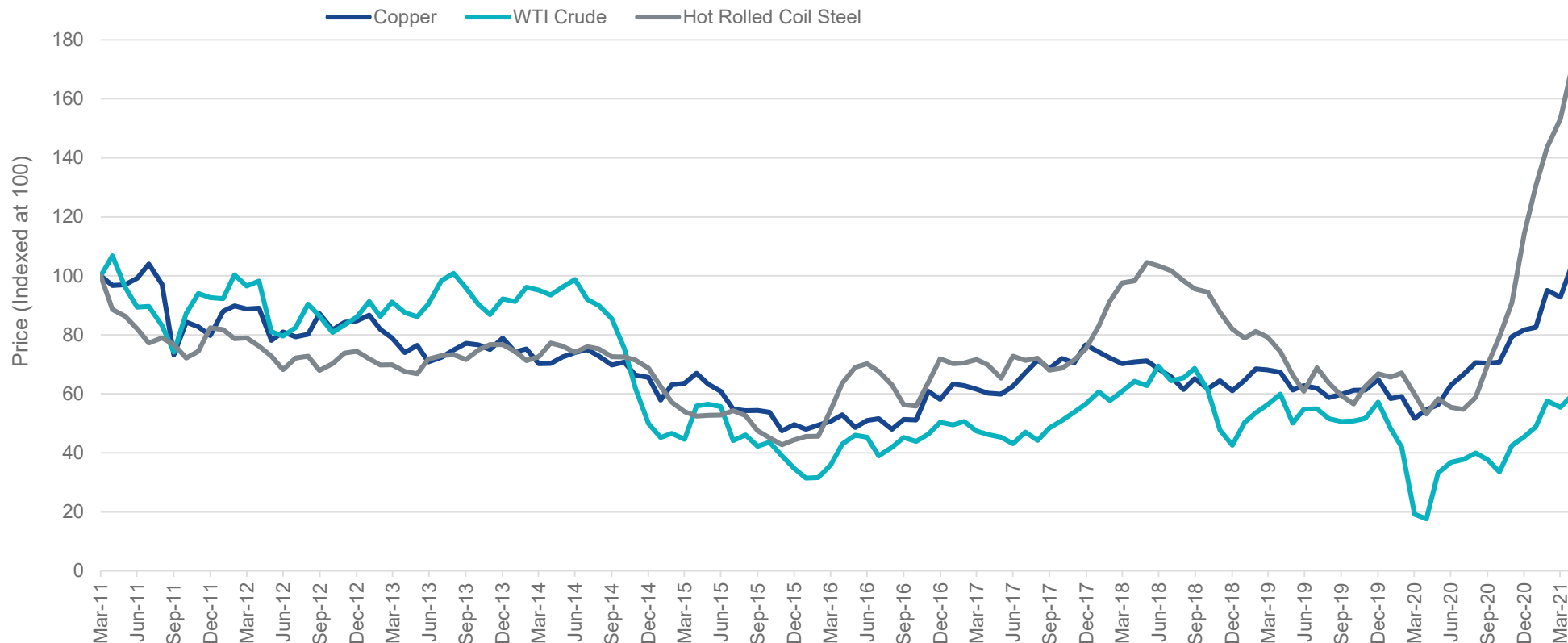
Source: Bloomberg. Data as of April 30, 2021. Past performance is not a guarantee of future results. Please see end of presentation for more information.

# Have I Already Missed the Inflation Trade?



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## The Commodities Rebound (Copper, WTI, Steel)



Source: Bloomberg. Data as of May 21, 2021. Prices for the commodities listed are determined using the generic first futures contracts. West Texas Intermediate is the main oil benchmark for North America as it is sourced from the United States, primarily from the Permian Basin. The oil comes mainly from Texas. It then travels through pipelines where it is refined in the Midwest and the Gulf of Mexico. The main delivery point for physical exchange and price settlement for WTI is Cushing, Oklahoma.

Past performance is not a guarantee of future results. Please see end of presentation for more information.

# No Wage Inflation Camp: Japan, Demographics

## 10 Year Nominal Bond Yields in Developed Markets, %



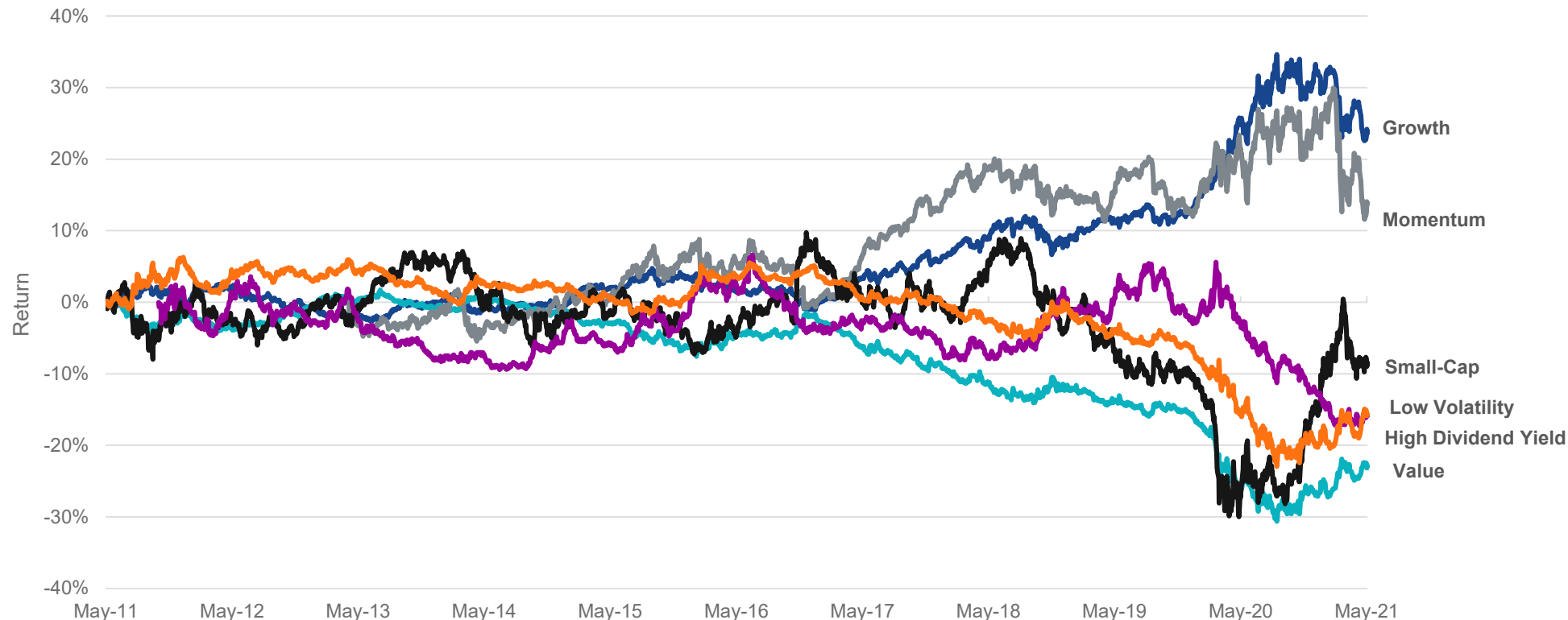
Source: Bloomberg. Data as of May 21, 2021. For each country listed, the data shown is the generic 10YR government bonds. Past performance is not a guarantee of future results. Please see end of presentation for more information.

# No Wage Inflation Camp: “Don’t You Get Disruption”?



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## Technology, Innovation Lead to Deflation Concern (“The Ark View”)



Factor types are measured by using ETF proxies for major indices relative to the S&P 500 Index. Growth is measured using the iShares Russell 1000 Growth ETF which tracks the Russell 1000 Growth Index; Value is measured using the iShares Russell 1000 Value ETF which tracks the Russell 1000 Value Index; Momentum is measured using the iShares MSCI USA Momentum Factor ETF which tracks the MSCI USA Momentum SR Variant; Small-Cap is measured using the iShares Core S&P Small-Cap ETF which tracks the S&P SmallCap 600 Index; Low Volatility is measured using the iShares MSCI USA Min Vol Factor ETF which tracks the MSCI USA Minimum Volatility (USD) Index; High Dividend Yield is measured using the Vanguard High Dividend Yield ETF which tracks the FTSE® High Dividend Yield Index Information should not be construed as a recommendation or solicitation to buy or sell any securities shown above.

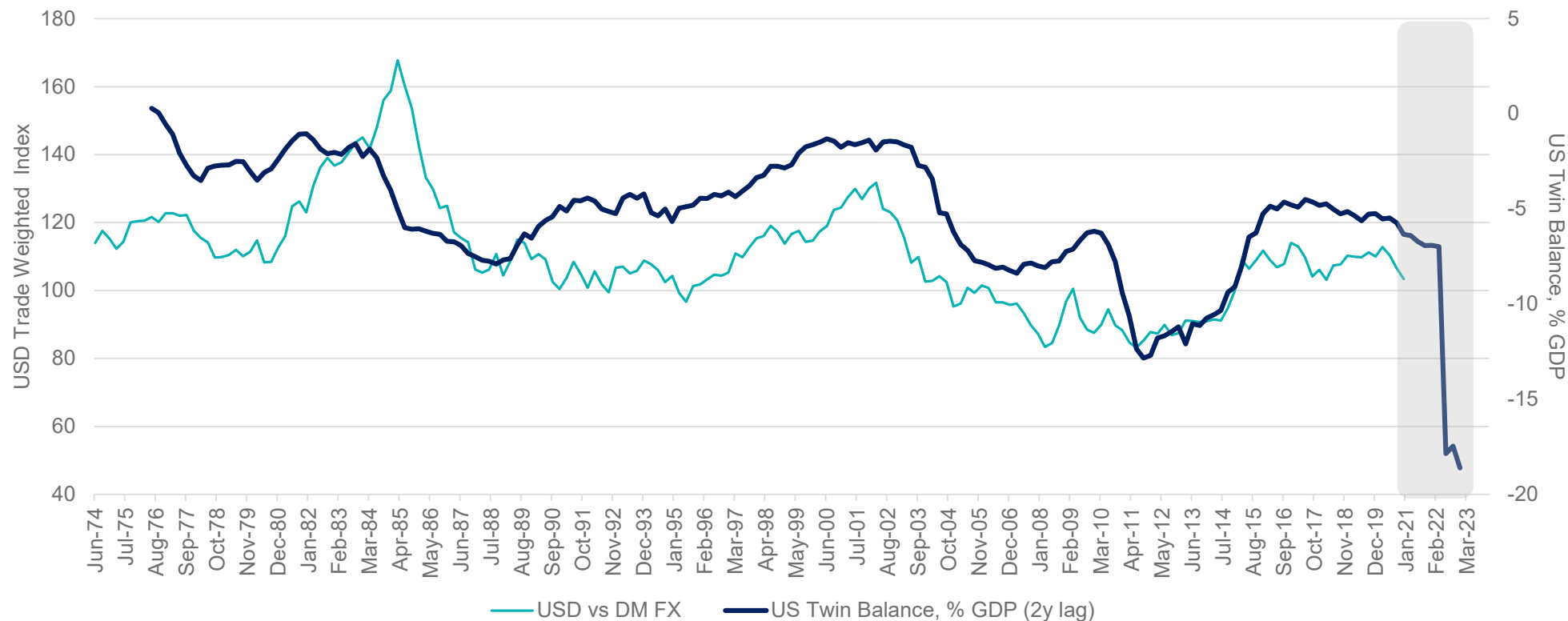
Source: Koyfin. Data as of May 21, 2021. Factor types defined by Koyfin using specific ETFs relative to the S&P 500 Index. Past performance is not a guarantee of future results. Please see end of presentation for more information.

# Pro-Inflation View: And this WON'T Cause Problems??

## “Twin” Macro Issues Overwhelm Technology’s Deflationary Impact

- When the US runs large fiscal and current account deficits, historically, USD tends to suffer

USD vs Developed Markets (DM) FX and US Twin Deficits



Economies that have both a fiscal deficit and a current account deficit are often referred to as having "twin deficits." The trade-weighted US dollar index, also known as the broad index, is a measure of the value of the United States dollar relative to other world currencies. It is a trade weighted index that improves on the older U.S. Dollar Index by using more currencies and the updating the weights yearly. Please see end of presentation for more information.

Source: Bloomberg. Data as of March 31, 2021. Past performance is not a guarantee of future results.



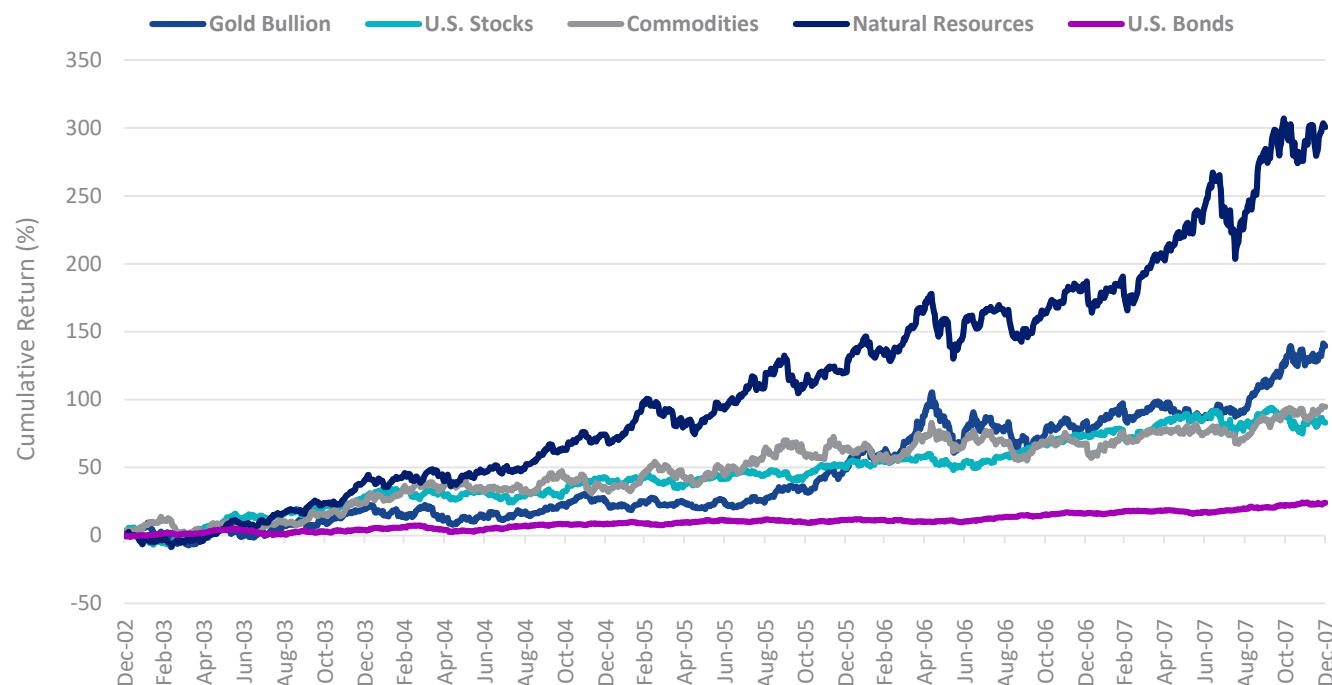
# Inflation Investments In 2000s



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## Returns of Real Assets (Commodities, Gold, Natural Resources Equities) relative to Stocks

December 31, 2002 to December 31, 2007



December 31, 2002 to December 31, 2007	Total Return	+/- (vs. Stocks)	Annualized
<b>Natural Resources</b>	300.77%	217.91%	31.98%
<b>Gold Bullion</b>	139.53%	56.67%	19.08%
<b>Commodities</b>	94.76%	11.90%	14.25%
<b>U.S. Stocks</b>	82.86%	--	12.82%
<b>U.S. Bonds</b>	24.17%	-58.70%	4.42%

Source: Bloomberg. Data as of December 31, 2007. This time frame was selected to show performance of selected asset classes during the last period of inflation in the U.S. Commodities are measured using the Bloomberg Commodity Index; Natural Resources are measured using the S&P Global Natural Resources Index; Gold is measured using the spot price per troy ounce; U.S. Stocks are measured using the S&P 500 Index; U.S. Bonds are measured using the Bloomberg Barclays US Aggregate Bond Index. Past performance is not a guarantee of future results. Please see end of presentation for more information.

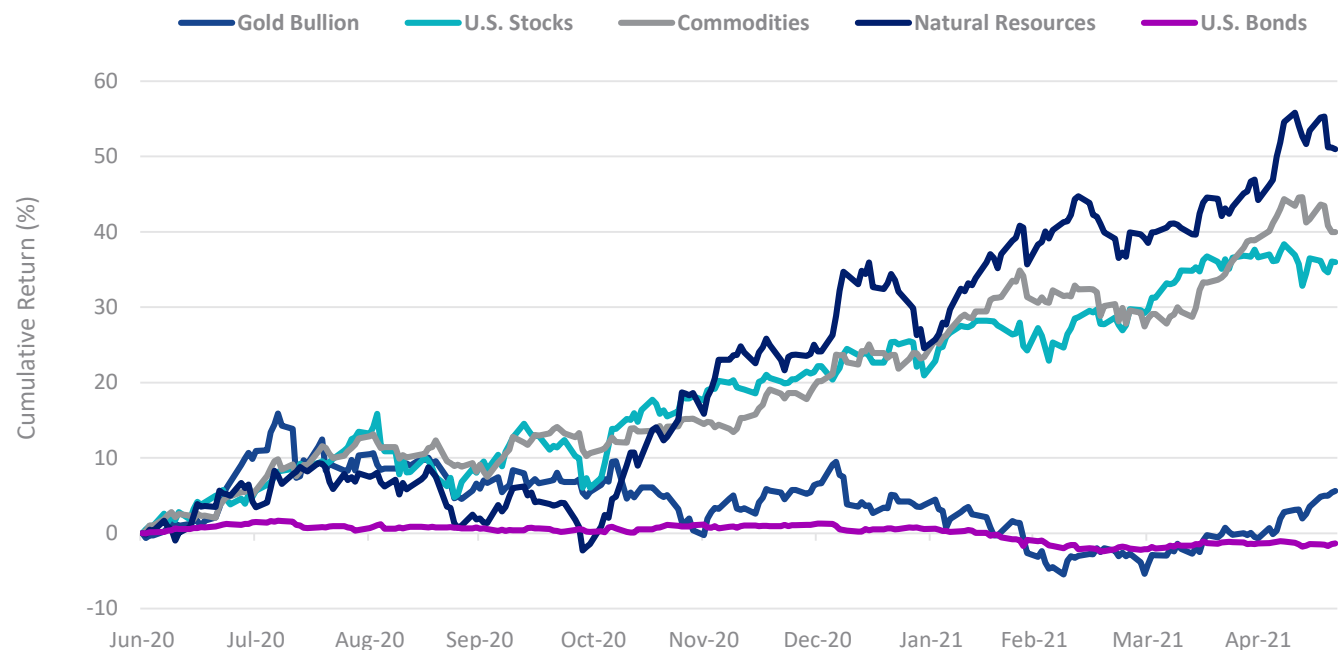
# Inflation Investments In this Cycle



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## Returns of Real Assets (Commodities, Gold, Natural Resources Equities) relative to Stocks

June 30, 2020 to May 21, 2021



June 30, 2020 to May 21, 2021	Total Return	+/- (vs. Stocks)	Annualized
<b>Natural Resources</b>	50.97%	15.01%	58.82%
<b>Commodities</b>	39.99%	4.03%	45.90%
<b>U.S. Stocks</b>	35.96%	--	41.20%
<b>Gold Bullion</b>	5.63%	-30.33%	6.35%
<b>U.S. Bonds</b>	-1.37%	-37.33%	-1.54%

Source: Bloomberg. Data as of May 21, 2021. Commodities are measured using the Bloomberg Commodity Index; Natural Resources are measured using the S&P Global Natural Resources Index; Gold is measured using the spot price per troy ounce; U.S. Stocks are measured using the S&P 500 Index; U.S. Bonds are measured using the Bloomberg Barclays US Aggregate Bond Index. Past performance is not a guarantee of future results. Please see end of presentation for more information.

# Supply Response, Cost Maintenance Aiding Recovery

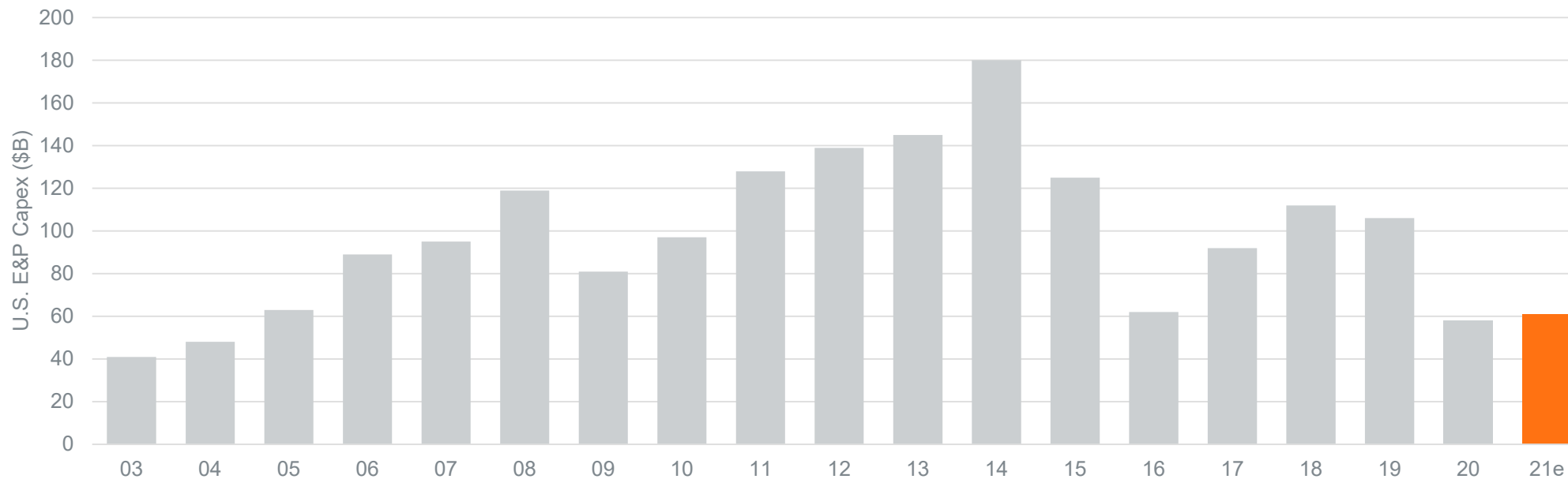


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## E&Ps Spending Less on New Production

- Capital expenditures (capex) came down dramatically during the pandemic, with only modest increases expected in 2021
- Oil price breakevens have remained relatively steady and should help capable producers get back to positive free cash flow generation, we believe

## U.S. E&P Capex



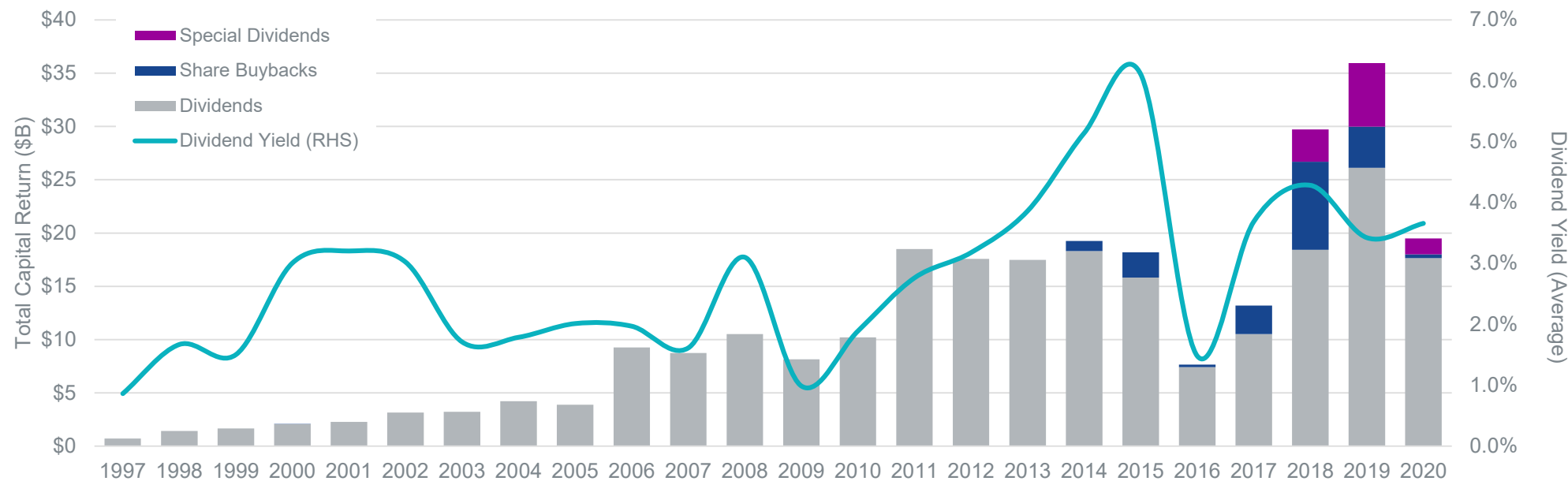
Source: Evercore ISI. Data as of December 2020. “E&P” stands for exploration and production. An exploration & production (E&P) company is in a specific sector within the oil and gas industry. Exploration and production is the early stage of energy production, which includes searching and extracting oil and gas. An E&P company finds and extracts the raw materials used in the energy business. Capital expenditures represent money spent by a business or organization on acquiring or maintaining fixed assets, such as land, buildings, and equipment.

# Commitment To Financial Prudence Paying Off

## Miners Lead By Example

- Balance sheets remain healthy and, in particular, in the gold and diversified mining sectors
- We believe that investors should continue to see capital return programs improve as a means of rewarding investors

## “Big 6”<sup>\*</sup> Mining Capital Return & Dividend Yield



The reader should not assume that an investment in the securities identified was or will be profitable. Not a recommendation to buy or sell a security.

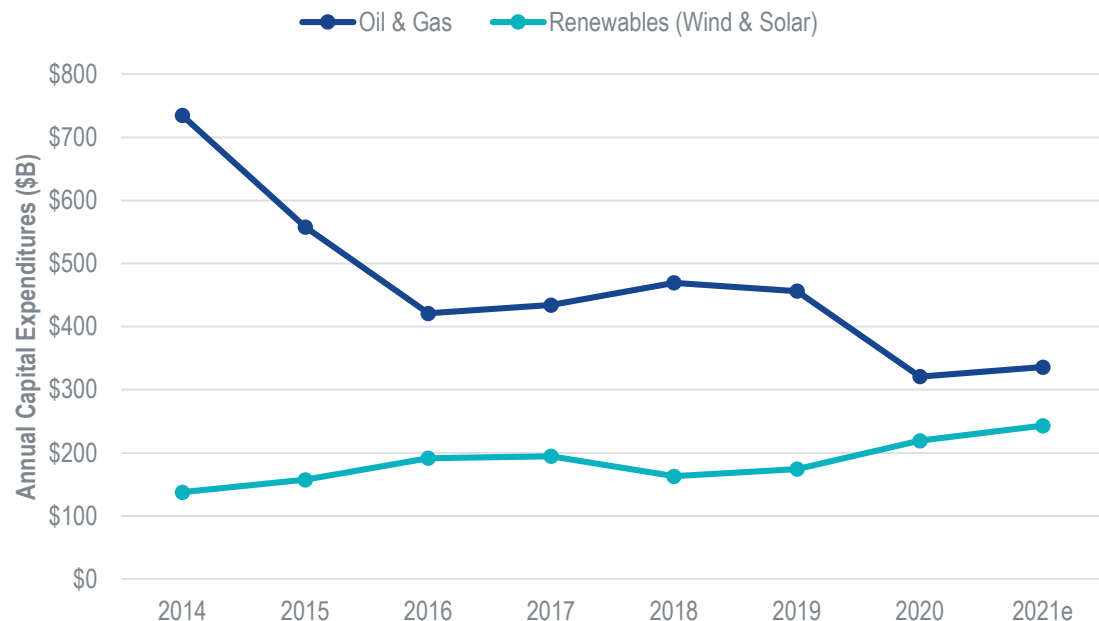
Source: VanEck, Bloomberg. Data as of September 2020. <sup>\*</sup>“Big 6” mining companies include Anglo American, BHP, Glencore, Rio Tinto, Teck Resources and Vale. Past performance is not a guarantee of future results.

# Resource Transition Could Total ~\$110 Trillion

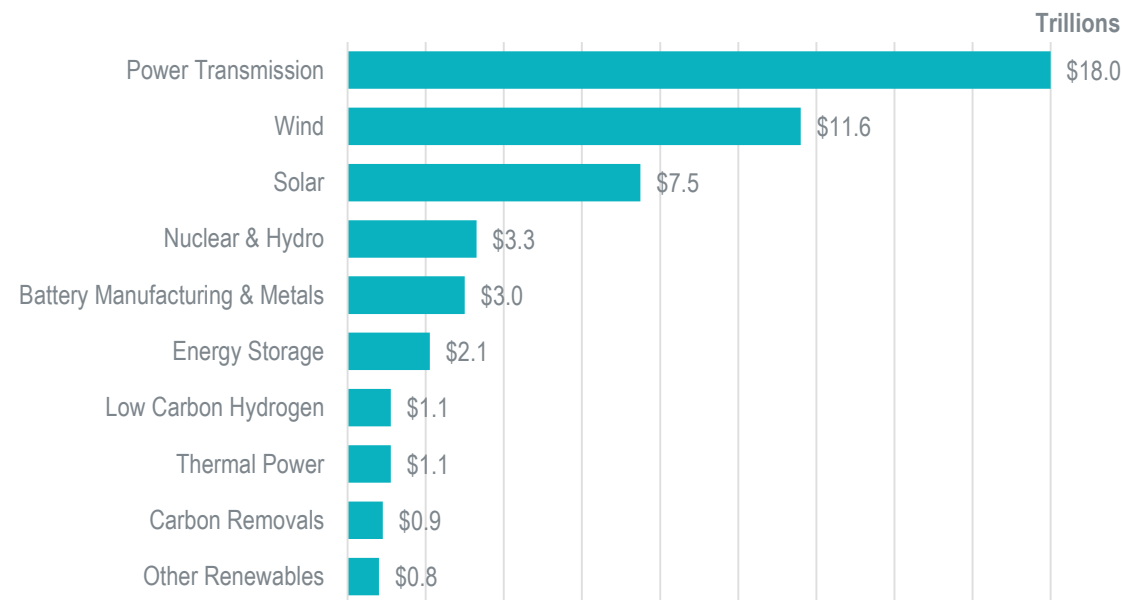
## A Multi-Decade Transition In Its Early Beginnings

- Though the world appears aligned in terms of the need for sustainability, there is still much to be done in terms of policy and action
- The outlook for a number of resources related sectors should be supported by long-term carbon-reduction policies/plans

### Annual Capital Expenditures by Project Category



### Estimated Cumulative Spending by Category to Reach Net-Zero



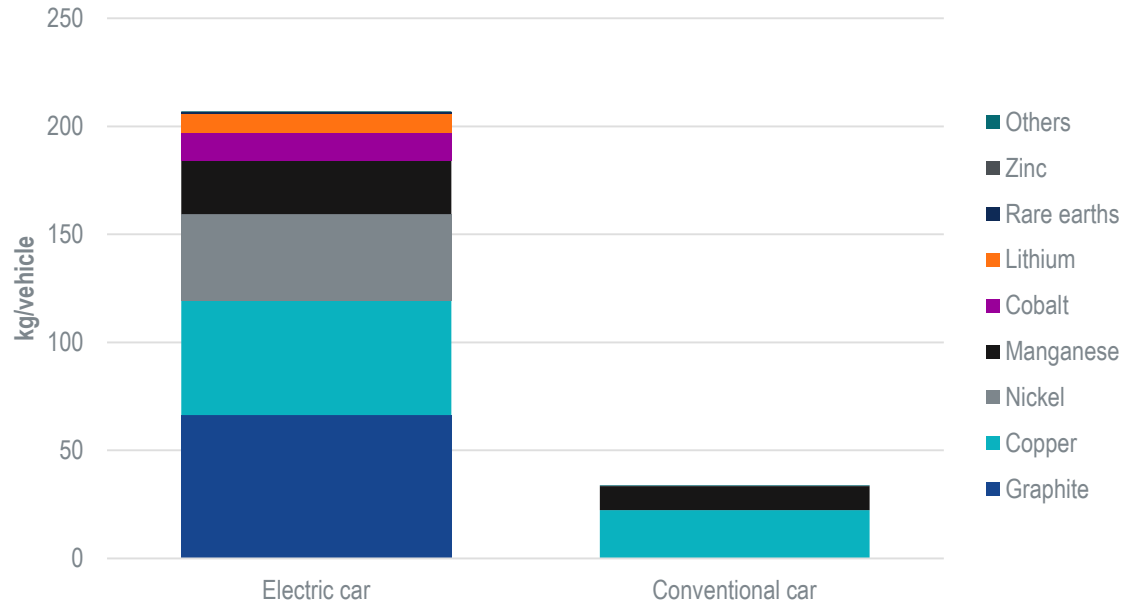
Source: Rystad Energy (right), Wood Mackenzie (left). Data as of May 2021. Net zero is a target of completely negating the amount of greenhouse gases produced by human activity, to be achieved by reducing emissions and implementing methods of absorbing carbon dioxide from the atmosphere. Capital expenditures represent money spent by a business or organization on acquiring or maintaining fixed assets, such as land, buildings, and equipment.

# “Green” Metals Seemingly One Of The Primary Beneficiaries

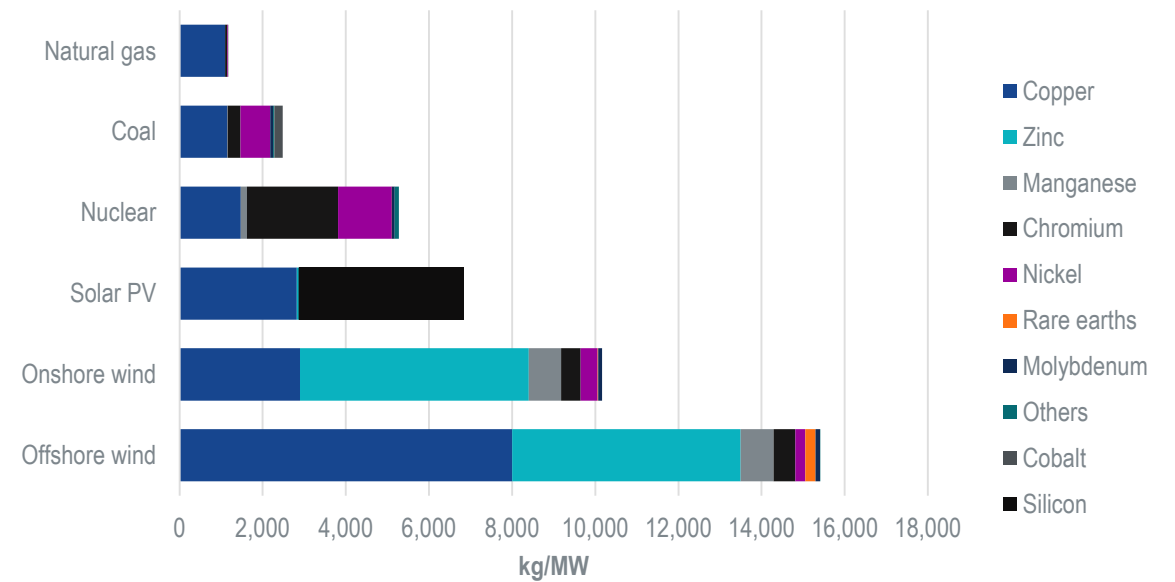
## Transitions Are Metals Intensive

- Metals remain a key player in the transition resource space
- Supply risk and end use varies—however, opportunity for growth on the whole still exists, we believe

### Minerals Used in Electric Vehicles



### Minerals Used in Clean Energy Technologies



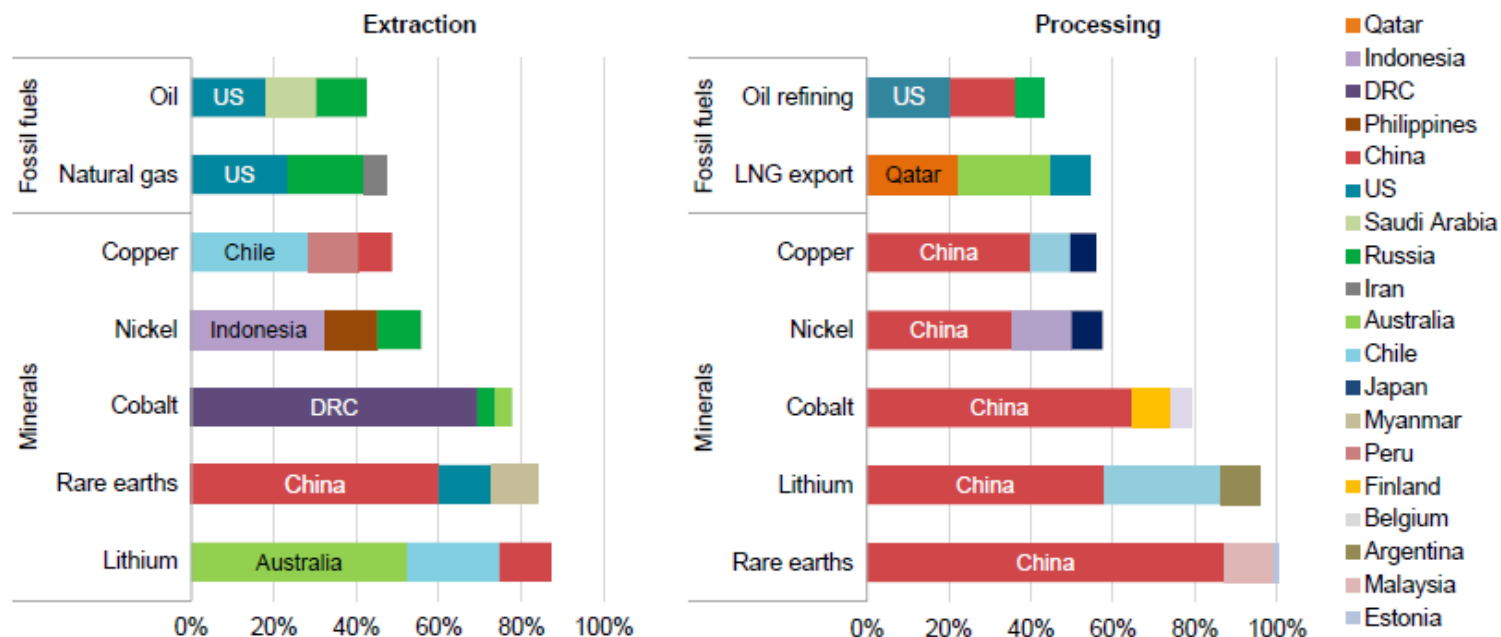
Source: IEA. Data as of May 2021. Green metals and minerals are those considered vital to the manufacturing of renewable (or "green") energy, and/or associated energy efficiency, technologies. Please see end of presentation for more information.

# Processing the Transition Risks

## Production of Needed Minerals More Geographically Concentrated

- The location of vital materials for transition efforts raises geopolitical risk concern and could add to overall cost
- Processing of critical elements heavily skewed within China which raises reporting and overall climate risk issues

### Top 3 Producing Countries of Selected Minerals and Fossil Fuels (2019)



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Notes: LNG = liquefied natural gas; US = United States. The values for copper processing are for refining operations.  
Sources: IEA (2020a); USGS (2021), World Bureau of Metal Statistics (2020); Adamas Intelligence (2020).

# Index Descriptions

**All indices listed are unmanaged indices and include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment in the Strategy. An index's performance is not illustrative of the Strategy's performance. Indices are not securities in which investments can be made.**

The J.P. Morgan Global Composite PMI™ is produced by IHS Markit in association ISM and IFPSM. Global composite PMI indices are compiled by IHS Markit from responses to monthly questionnaires sent to companies in manufacturing and services survey panels in over 40 countries (see table, right for full coverage), totaling around 27,000 companies. These countries account for 89% of global gross domestic product (GDP).

The Bloomberg Barclays US Treasury Index measures USD-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

The trade-weighted US dollar index, also known as the broad index, is a measure of the value of the United States dollar relative to other world currencies. It is a trade weighted index that improves on the older U.S. Dollar Index by using more currencies and the updating the weights yearly.

Factor types are measured by using ETF proxies for major indices relative to the S&P 500 Index. Growth is measured using the iShares Russell 1000 Growth ETF which tracks the Russell 1000 Growth Index (The Russell 1000® Growth Index measures the performance of the large- cap growth segment of the US equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index); Value is measured using the iShares Russell 1000 Value ETF which tracks the Russell 1000 Value Index (The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected and historical growth rates. The Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index); Momentum is measured using the iShares MSCI USA Momentum Factor ETF which tracks the MSCI USA Momentum SR Variant Index (The MSCI USA Momentum SR Variant Index aims to reflect the performance of the MSCI USA Momentum Index, wherein all changes driven by the index rebalances of the MSCI USA Momentum Index are distributed over three days leading into the rebalancing effective date); Small-Caps is measured using the iShares Core S&P Small-Cap ETF which tracks the S&P SmallCap 600 Index (The S&P SmallCap 600 Index (S&P 600) is a stock market index established by Standard & Poor's. It covers roughly the small-cap range of American stocks, using a capitalization-weighted index. To be included in the index, a stock must have a total market capitalization that ranges from \$700 million to \$3.2 billion at the time of addition to the index); Low Volatility is measured using the iShares MSCI USA Min Vol Factor ETF which tracks the MSCI USA Minimum Volatility (USD) Index (The MSCI USA Minimum Volatility (USD) Index aims to reflect the performance characteristics of a minimum variance strategy applied to the large and mid cap USA equity universe. The index is calculated by optimizing the MSCI USA Index, its parent index, in USD for the lowest absolute risk (within a given set of constraints)); High Dividend Yield is measured using the Vanguard High Dividend Yield ETF which tracks the FTSE® High Dividend Yield Index (The FTSE® High Dividend Yield Index which measures the investment return of common stocks of companies characterized by high dividend yields). Information should not be construed as a recommendation or solicitation to buy or sell any securities shown above.

Bloomberg Commodity Index is designed to be a highly liquid, diversified benchmark for commodities as an asset class. The Bloomberg Commodity Index is composed of futures contracts on 20 physical commodities.

S&P® Global Natural Resources Index includes 90 of the largest publicly traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across three primary commodity-related sectors: agribusiness, energy, and metals & mining which tracks the global natural resources and commodities businesses.

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The Bloomberg Barclays US Aggregate Bond Index measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The Index includes treasuries, government-related and corporate securities, mortgage backed securities (agency fixed-rate and hybrid ARM pass-throughs), ABS and collateralized mortgage backed securities (agency and nonagency).



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