SECOR Asset Management

Market & Macro, Equity and Credit Review

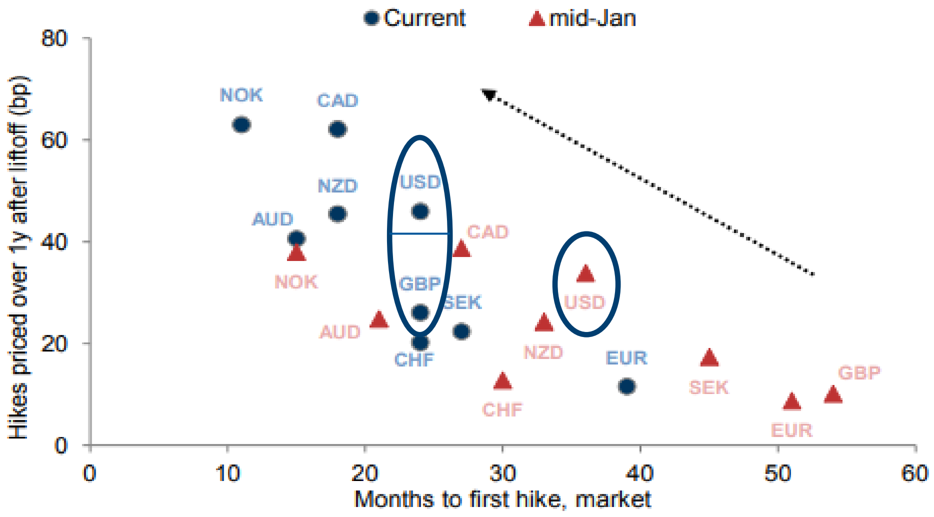
March 8, 2021

Macroeconomic Update

Macroeconomy: Brief Update

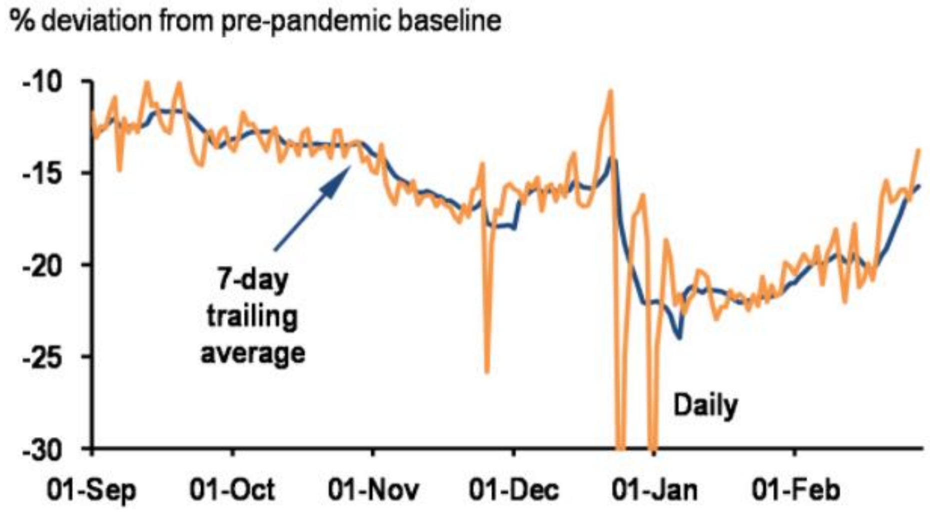
- **Latest Macro and Virus/Vaccine Data Largely Positive:**
  - Global manufacturing PMI, broad-based improvement in February (55 vs 54.2 in January)
  - Trade also improving +3.8% yoy in February/Services still restrained by partial lockdowns
  - New Covid-19 cases down from recent peaks/vaccination launches progressing, despite some hiccups
- **Improving Global Growth and Virus/Vaccine Expectations Raising Interest Rate and Reflation Concerns**
  - Market advancing its timetable for start of policy normalization

Market Expectation of 1st Rate Hike[1]



Source: GS

Global Mobility[2]



Source: JPM

1. **Market expectations for rate hike - - current vs mid-January: US ~20 months vs. ~35 months. UK ~20 months vs. ~55 months**
2. **Global mobility rising rapidly but still 10+% below pre-pandemic baseline**

Country/Regional Briefs

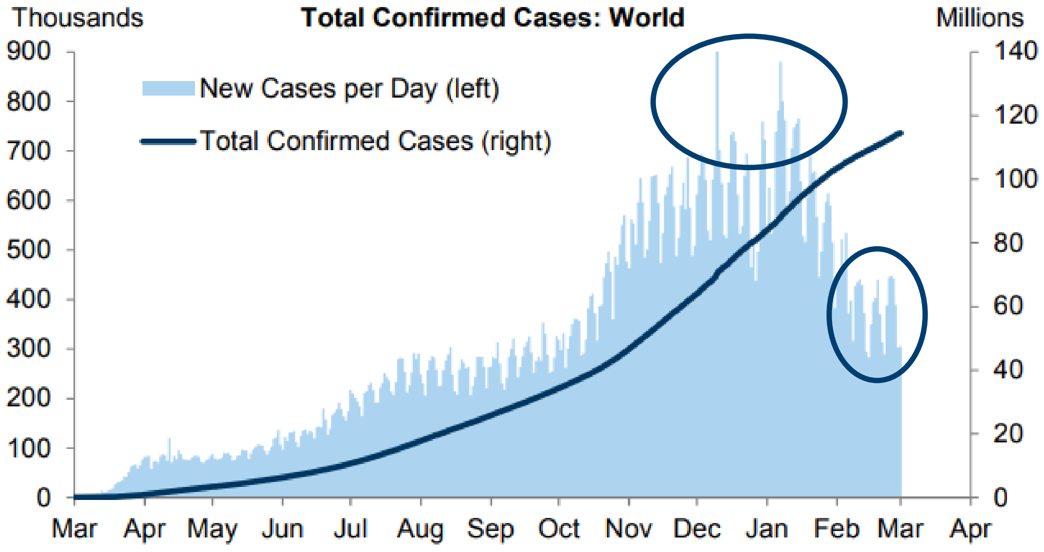
- **US: 2021 Growth Expected to Surge in Wake of Unprecedented Stimulus and Widespread Vaccinations**
  - Senate passed $1.9 trillion of additional stimulus last week
    - Proposal for multi-year infrastructure plans to follow
  - States starting to ease Covid-19 related restrictions
- **Euro Area Benefiting from Global Strength in Manufacturing & Trade**
  - Service sector continuing to be restrained by 2nd wave of lockdowns
  - ECB expected to lean against tightening of financial conditions
- **UK: Chancellor Announced Much Larger Than Expected Stimulus Package Last Week**
  - Additional support ~2.5% of GDP, ~1.5% points above expectations
  - Now on track to return to pre-pandemic output level by end of year
- **China: Government's 6% or More 2021 Growth Target Appears Attainable**
  - Consistent with 3% fiscal deficit and modest credit tightening
  - Potential concerns include lackluster consumer spending and real estate prices rising to unsustainable levels
- **Most Emerging Markets (EM) in Relatively Strong Positions, Particularly vs "Temper Tantrum"**
  - Average current account balance ~1.5% GDP currently compared with average of ~0.4% of GDP since 2000

Covid-19 Update

Global Covid-19 cases and fatalities still increasing but significant slowing in rate of increase[1]

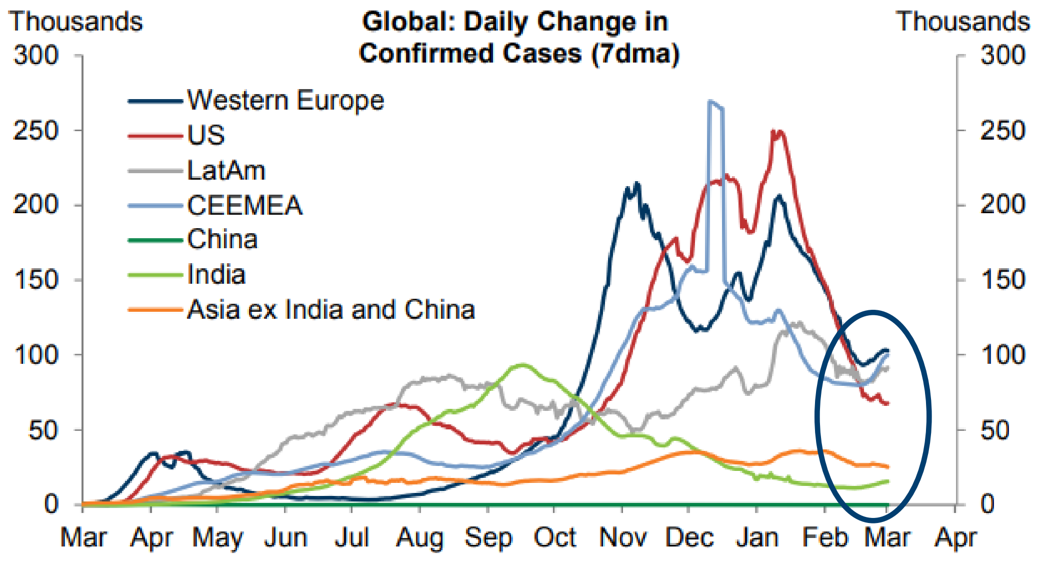
Slowing in case growth widespread across globe, though new cases increased slightly in US and Western Europe in the past week

Total Confirmed Global Cases



Source: One World in Data, JHU, GS

Major Countries/Region: Daily Change



Source: Our World in Data, JHU, GS

1. Global new increase 306K on March 1 vs ~700K in early January. Global fatalities 7.3K on March 1 vs 16K in early January.

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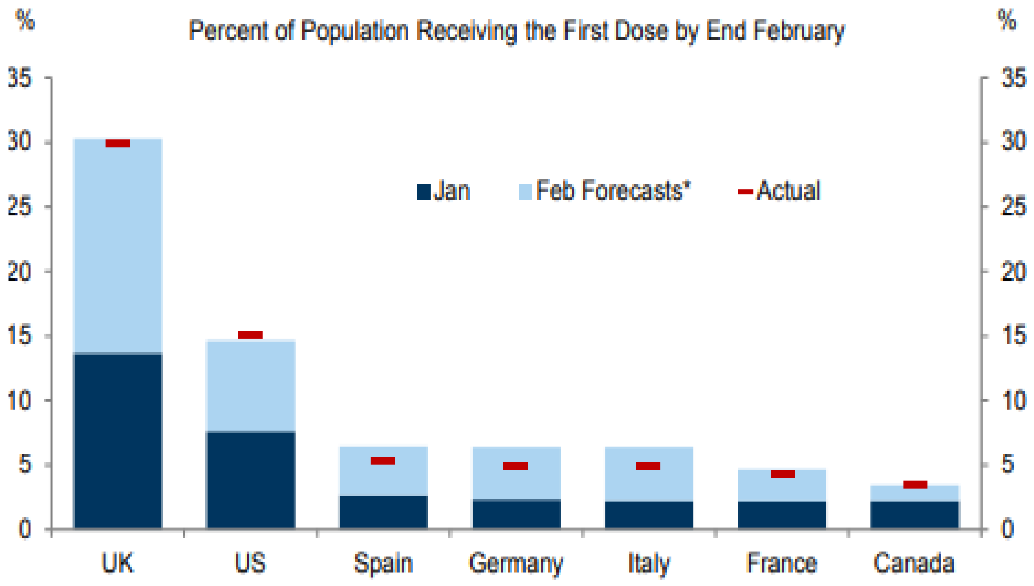
Covid-19 Update: Vaccinations

- Among major developed markets (DM) UK, followed by US, getting off to better start than European neighbors
- Pace expected to pick up as supply increases[1]

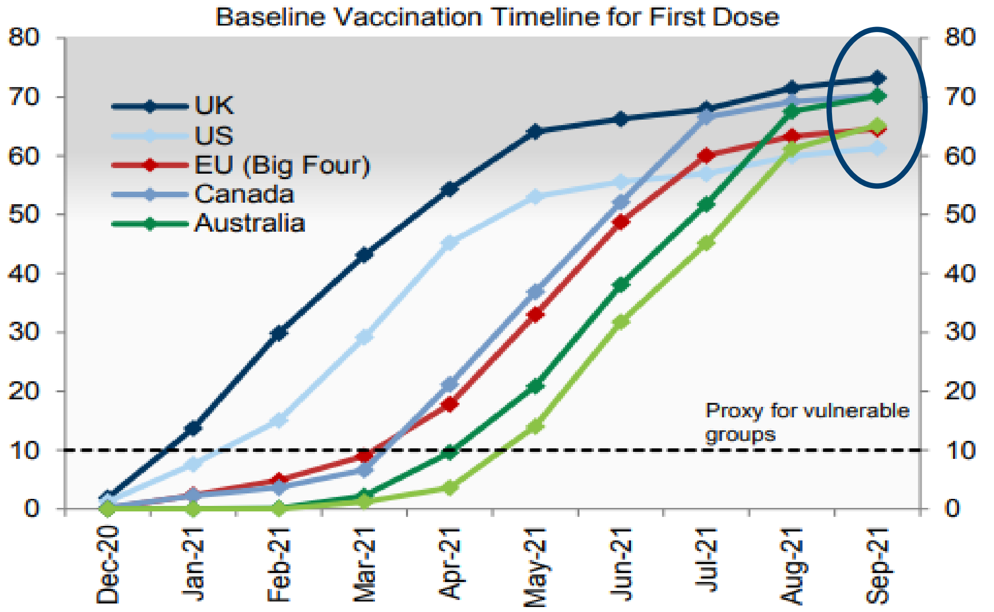
- By September between 65% and 75% of the population of the of the major DMs are expected to have received their first dose

Vaccinations in Major DMs



Source: One World in Data, GS,
*GS Forecast at start of February

Timetable of First Dose[2]



Source: GS

1. J&J vaccine recently approved in US and approvals expected soon in other countries. Novavax expected to begin supplying most countries in April
2. Biden has pledged that the US will have enough doses of the corona virus vaccine to vaccinate all American adults by the end of May.

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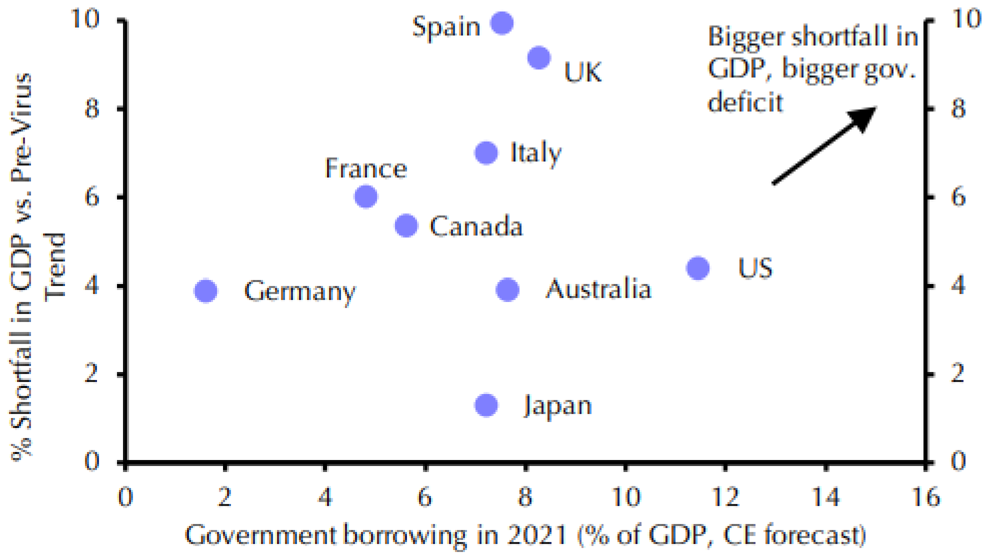
US Post-Pandemic Stimulus Outlier Among Major DMs

- US weathered 2020 recession relatively well
- GDP shortfall relative to pre-pandemic trend ~4%, among best for major DMs (ex Japan)
- Expected 2021 US deficit (~12%) upside outlier

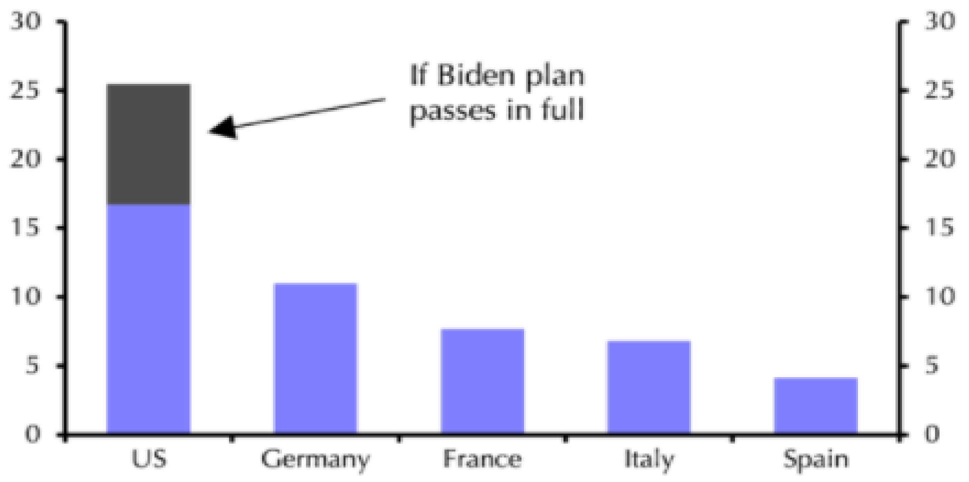
- Post-pandemic stimulus for US significantly larger than planned stimulus for DM counterparts
- US policymakers contend “running economy hot” acceptable risk in current environtment[1]

GPD Shortfall & Government Deficit



Source: CE

Estimated Fiscal Stimulus (% GDP)



Source: CE

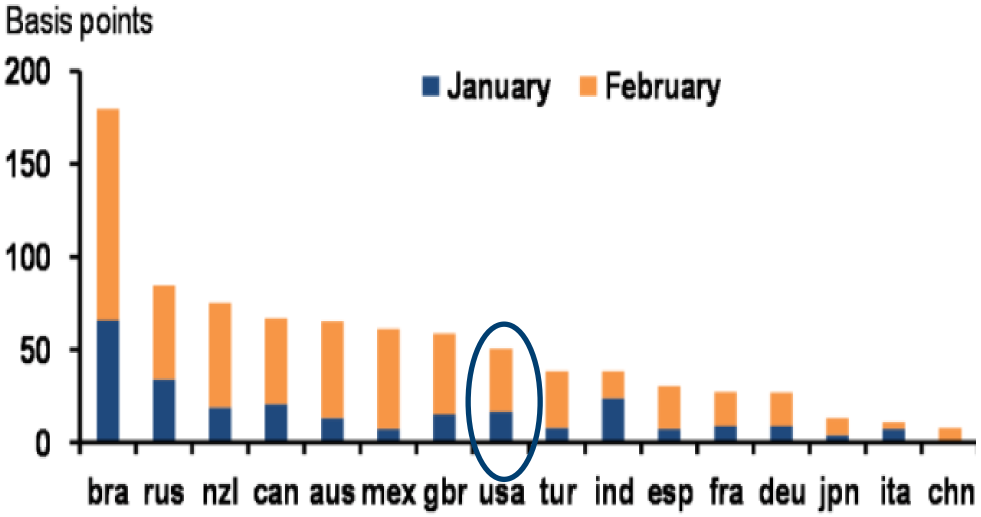
1. For example, Brainard (Fed Governor): when we take into account factors such as ~4 million who left labor force since the pandemic started extra stimulus is an acceptable risk.

Government Bond Yields Up Significantly Since Start of Year

- Promising news on Covid-19 and global growth arguably key common factors underpinning increase in yields thus far in 2021
  - Domestic factors accounted for outsized increases in some countries such as Brazil[1]

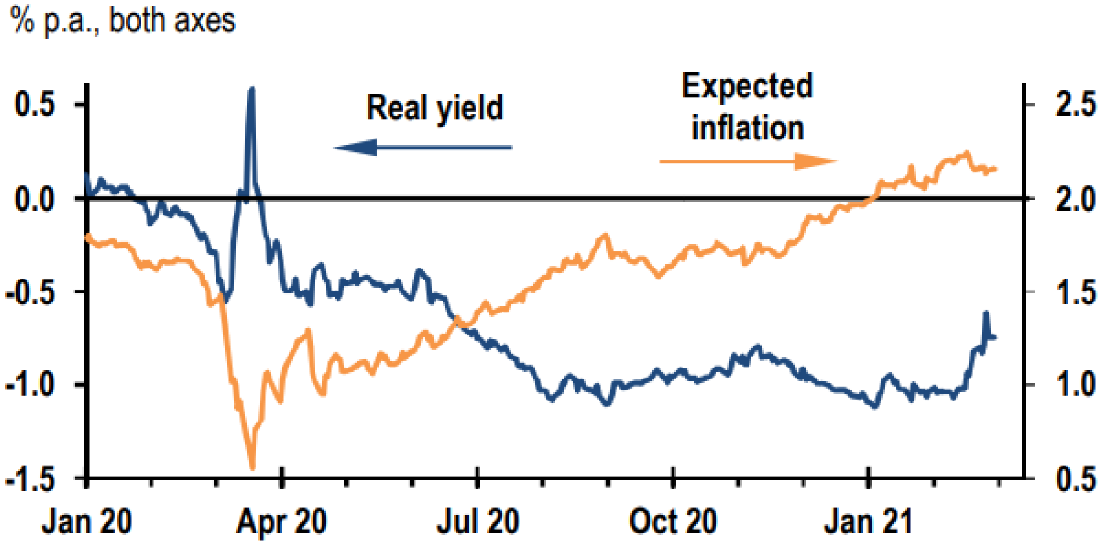
- Looking at US 10-year Treasury yield since the start of 2020:
  - Rise in expected inflation key driver of increase in yields from 0.5% late April to 2+% in January
  - Significant stimulus associated with Biden's Covid-19 Relief Plan key factor in past few weeks

10-Year Government Yield, change YTD



Source: Bloomberg, JPM

US 10-year Treasury Yield Components



Source: JPM

1. **Concerns about policy credibility seemingly underpin outsized increase in Brazil.**

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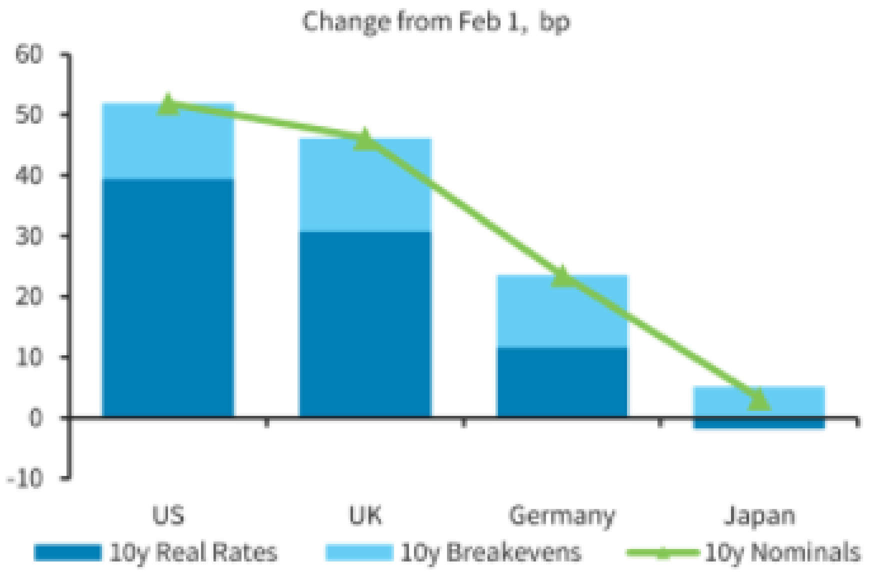
Recent Jump in Bond Yields: US vs DM Counterparts

- Rise in 10-year Government rates since February concentrated in real yields
- Rate increases consistent with firming in growth expectations, particularly in US and UK[1]

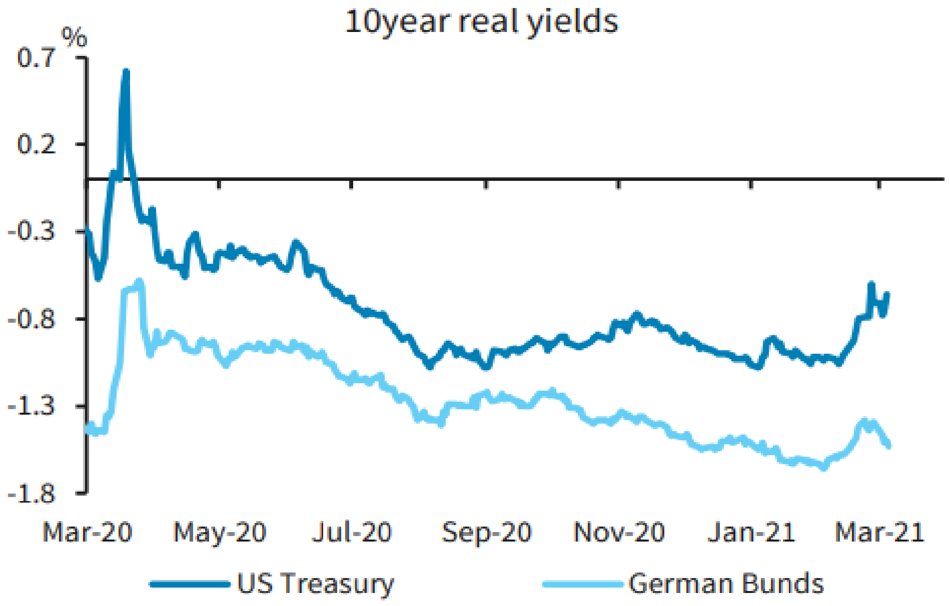
- Real 10-year yields still in negative territory in major DMs
- But with growth expectations firming in the US and moderating in Europe, it might be easier for Fed than for the ECB to look through recent pressure on rates[2]

Recent Yield Rise: Composition



Source: Bloomberg, Barclays

10 Year Treasury & Bonds: Real Yields



Source: Fed, Haver Analytics, Barclays

1. **UK's one-shot vaccine policy seems to be working, over 30% of population vaccinated**
2. **Source, Barclays bond strategists**

Increases in Bond Yields Giving Investors Much to Ponder

- **Reassuring Factors Include:**
  - Central bankers seemingly committed to keeping rates “low for longer”
    - Powell: Recent increases in yields appear warranted/acceleration not major concern:
      - US outlook improved considerably since December / increase in inflation in 2021 likely to be transitory[1]
    - ECB expected to step up PEPP purchase pace, if needed
  - Inflation expectations contained, particularly in context of average inflation targets
    - G3 5yr/5yr inflation swaps: US (~2%), EMU (~1.25%), Japan (~0.25%)
  - Structural backdrop conducive to low rates[2]
    - Demographics, low productivity growth, ongoing QE programs, bond markets increasingly global
- **Skeptics, However, Question Whether Spending Plans Will Rekindle Inflation and Upset Markets:**
  - (i) Output gaps might narrow much faster than expected /consumers could spend excess savings sooner than expected
  - (ii) Central Bankers have the tools to contain inflation but…
    - Will they use them and if they do, might equity risk premiums narrow and government-debt servicing costs soar?

1. **Powell recently noted US 2021 growth outlook revised from ~4% in December for 6% currently. Base effects related largely to lockdowns last spring are expected to result in transitory jump in 2021 inflation, particularly in the first half of the year.**
2. **Structural case for low bond yield discussed in 2019 SECOR paper**

Market Performance

(USD)	YTD	2020	2019	2018
Equities				
MSCI ACWI	1.96%	16.26%	26.60%	-9.42%
MSCI EAFE	0.66%	7.82%	22.01%	-13.79%
MSCI EM	3.91%	18.31%	18.42%	-14.57%
MSCI US	1.91%	20.73%	30.88%	-5.04%
Fixed Income				
BarCap Global Agg Total Return (Hedged)	-2.27%	5.58%	8.22%	1.76%
Citi US 10+ Govt Bond Index	-11.61%	17.72%	14.89%	-1.89%
BarCap US High Yield Total Return (Unhedged)	0.55%	7.05%	14.32%	-2.08%
Oil				
WTI Crude	35.74%	-11.47%	9.67%	-4.49%
Brent Crude	33.95%	-13.24%	5.01%	-2.05%
Currency				
USD/EUR	2.73%	-8.25%	1.86%	7.00%
USD/GBP	-1.13%	-3.07%	-3.76%	6.16%
USD/JPY	4.84%	-4.99%	-1.00%	-2.54%
USD/CNH	0.34%	-6.73%	1.38%	5.53%
USD/TRY	1.70%	24.88%	11.93%	40.19%
USD/ARS	7.39%	40.55%	58.95%	100.07%

Source: Bloomberg. Returns through Friday March 5, 2021

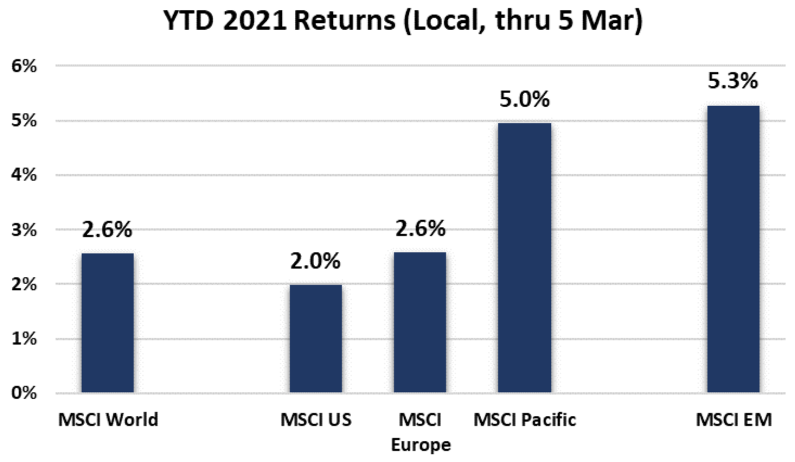
Sovereign Bond Yields

Source: Bloomberg. Yields through Friday March 5, 2021

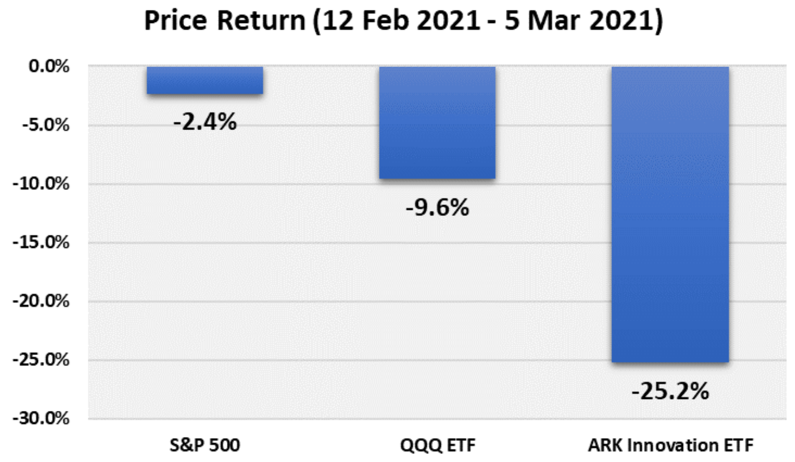
Equity Update

Taper Tantrum Part 2?

- Despite the ~60 bps rise in bond yields in the US, US stocks remain in positive territory so far in 2021, although they have modestly lagged those of non-US stocks.



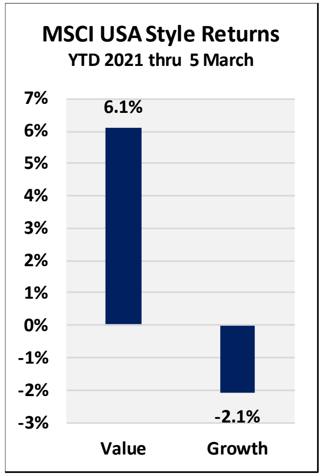
- The impact of higher interest rates over the past few weeks has been felt most severely among the most speculative stocks.

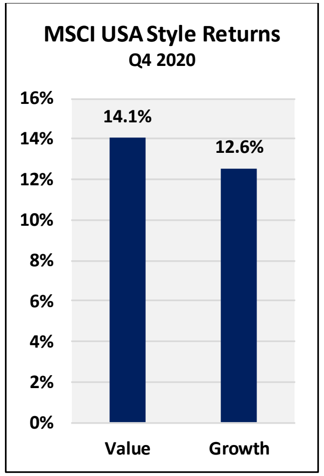


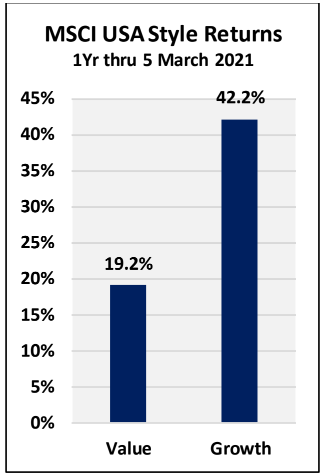
Sources: MSCI, Standard & Poor's, Yahoo Finance.

Taper Tantrum Part 2?

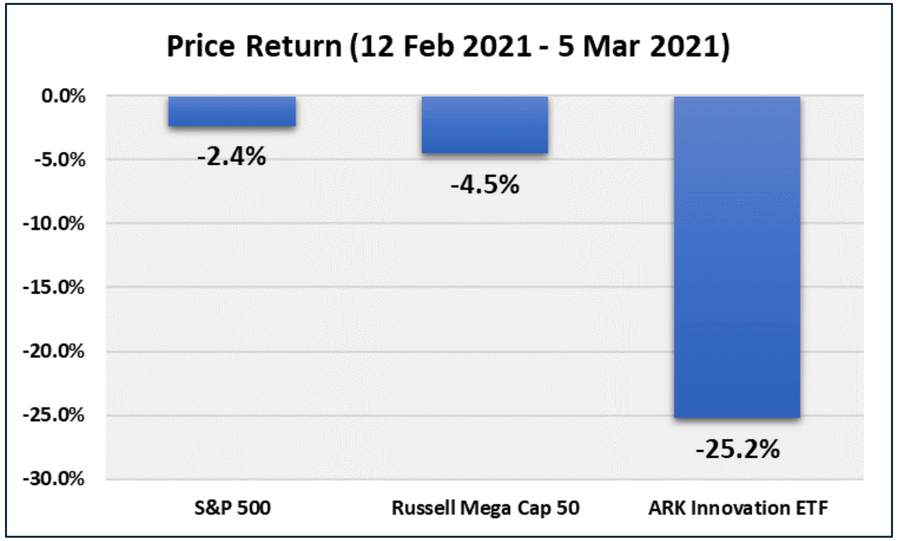
- Higher rates and a steepening yield curve have also contributed to the continuing rally in Value stocks versus Growth stocks that began in Q4.







- While the Mega-Cap stocks have underperformed recently, their underperformance versus the broad market has been modest and much better than the most speculative stocks.

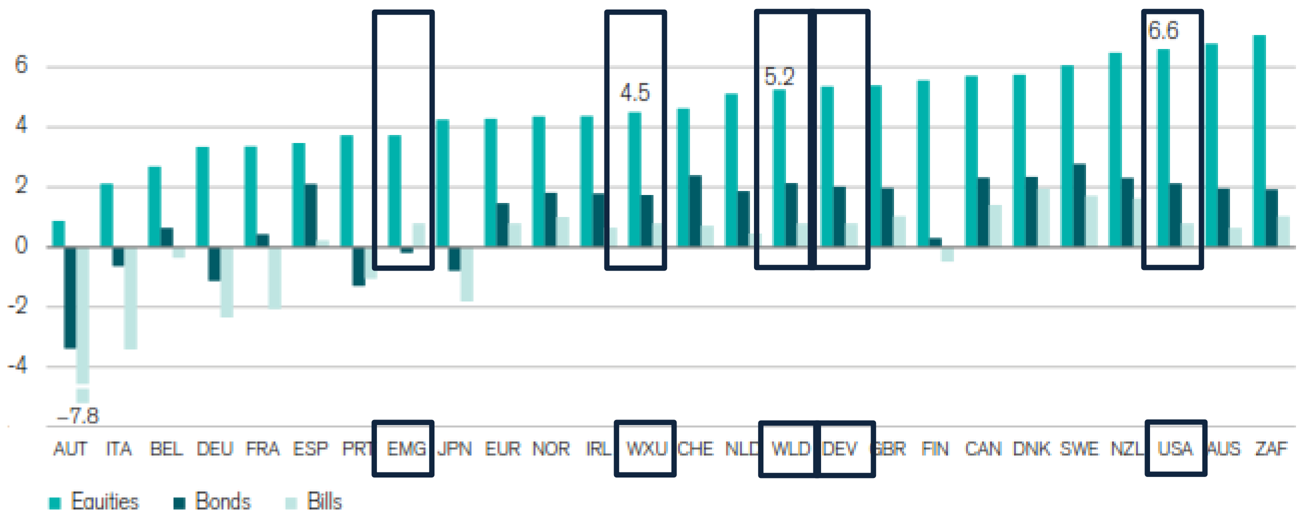


Source: MSCI, Standard & Poor's, FTSE Russell Indices, Yahoo Finance.

Long-Term Equity Returns

- Credit Suisse released their annual update of long-term investment returns that updates the global time series compiled by Dimson & Marsh* that goes back to 1900.

Figure 4: Real annualized returns (%) on equities versus bonds and bills internationally, 1900–2020



  - US has been the third highest returning market (real terms) since 1900 (+6.6%), trailing only Australia and South Africa.
  - Developed Markets composite returned 5.3%; World ex-US 4.5%.
  - Emerging Markets composite has been a relative laggard at 3.9%; composite World return 5.2%.

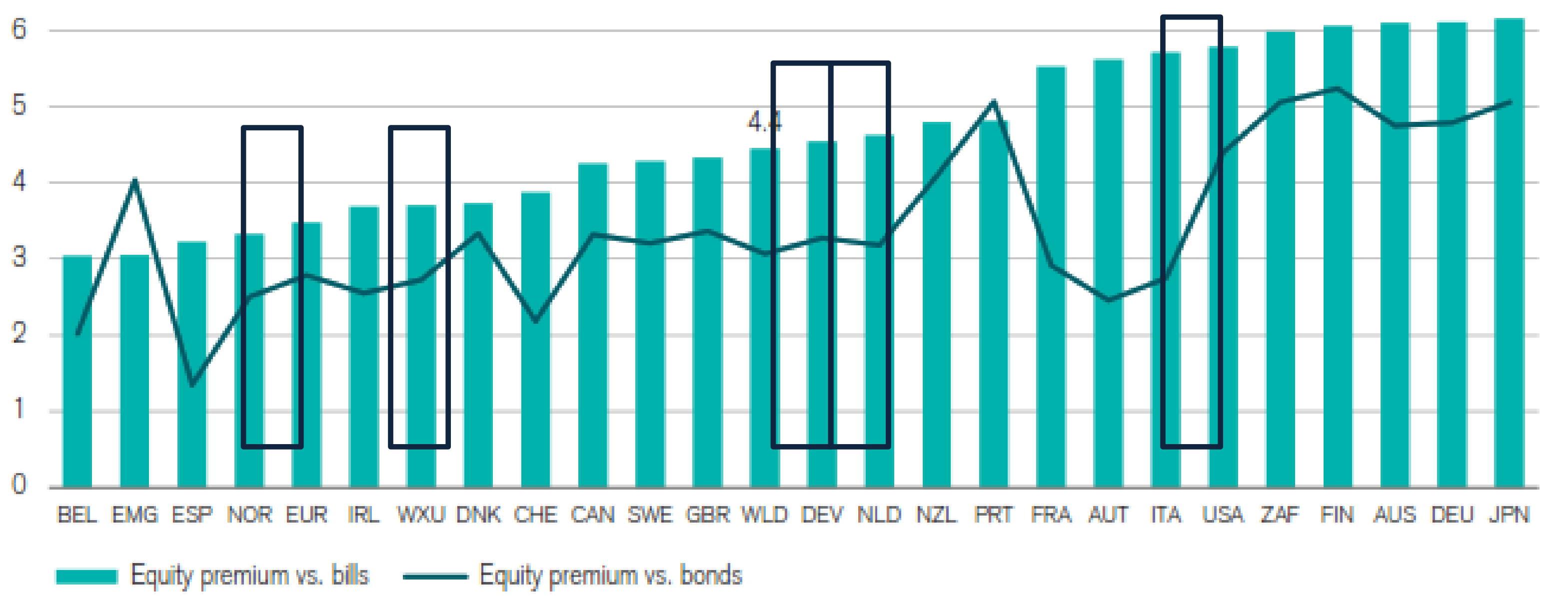
Elroy Dimson, Paul Marsh & Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002.

Source: Credit Suisse Investment Research.

Long-Term Equity Risk Premium

- Equity Risk Premium around the world has averaged 4.4% vs T-bills, 3.1% vs bonds.

Figure 11: Worldwide annualized equity risk premium (%) relative to bills and bonds, 1900–2020

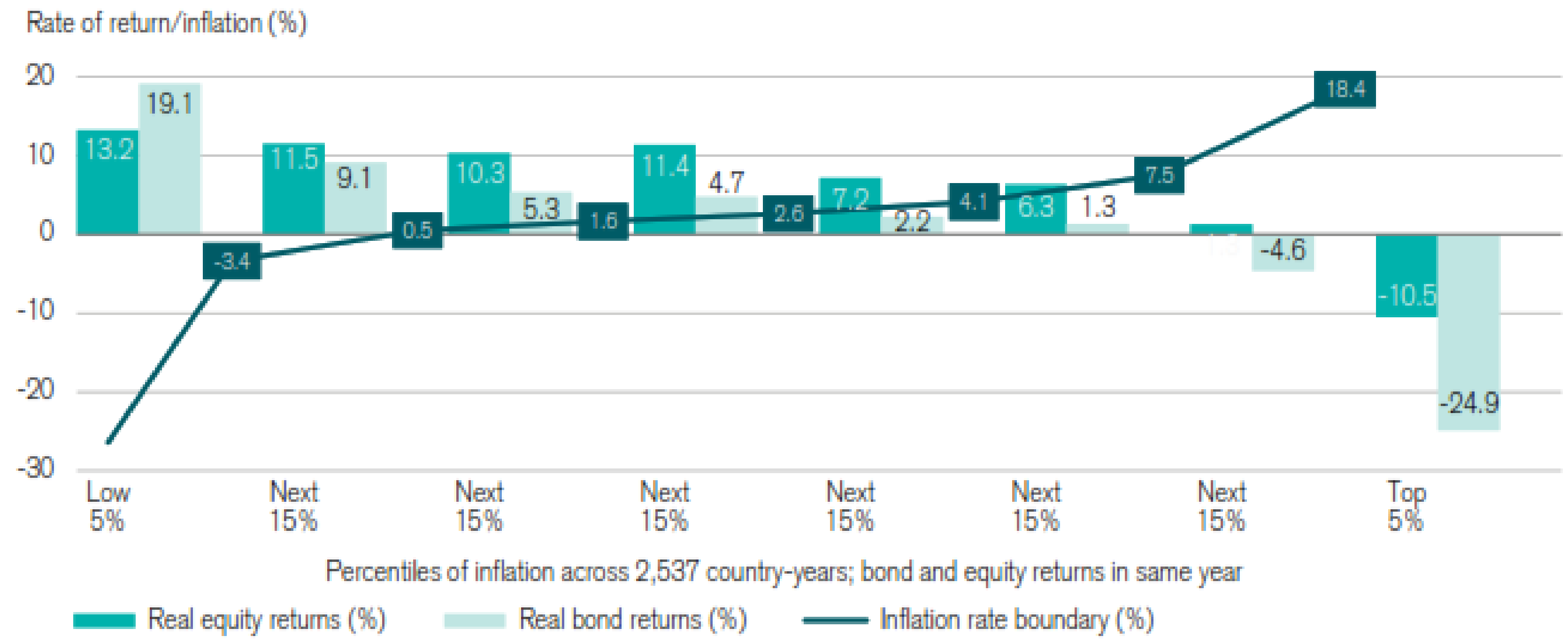


 - US market again near the top at 5.8%, similar to other DMs such as France, Germany & Japan.
 - Developed Markets composite of 4.6%; Emerging Markets just 3.0%.
 - Europe composite risk premium is at the low end, 3.4%.

Source: Credit Suisse Investment Research.

Equity Returns & Inflation

Figure 5: Real bond and equity returns versus inflation rates, 1900–2020



(note: excludes hyperinflationary years of 1922-1923 in Germany, 1921-1922 in Austria.)

- Stocks outperformed bonds in all inflationary environments except for periods of extreme deflation.
- Stocks performed especially well in periods of low inflation – double-digit real returns when inflation was below median 2.6%.

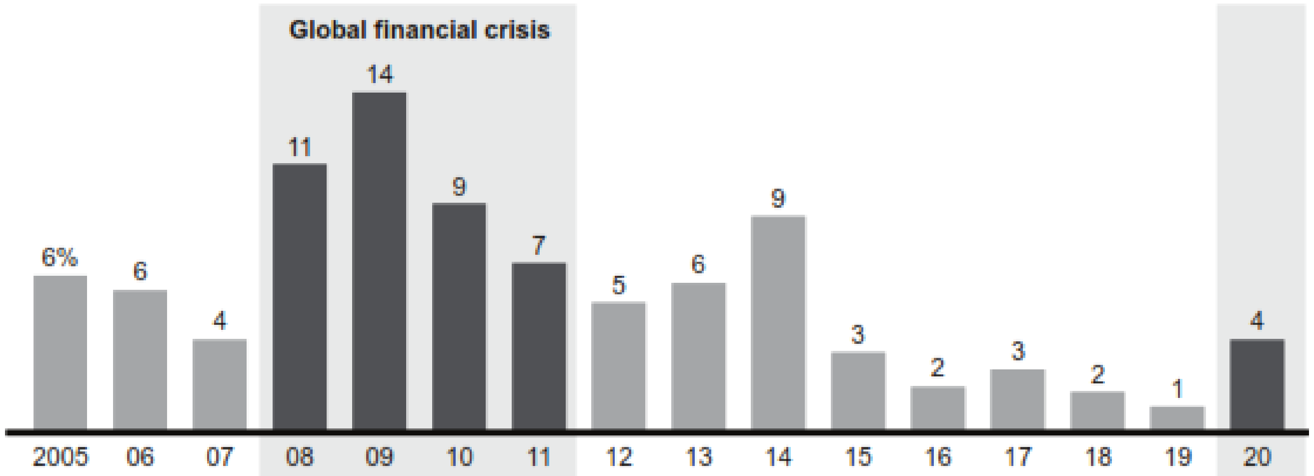
Source: Credit Suisse Investment Research.

Private Equity – Write-Offs in 2020

Write-offs in Buyouts were blunted in 2020 relative to the GFC from swift and aggressive central bank action, strong recovery in equity and credit markets.

- Loss rate in 2020 of 14% was approximately half that experienced in the GFC and even slightly lower than the 17% median from 2005-2019.
- Similarly, the share if deals exited with a MOIC less than 1.0x in 2020 was also well below GFC levels and in-line with the median 22% for the period 2005-2019.

Write-offs for buyout deals, by year of exit



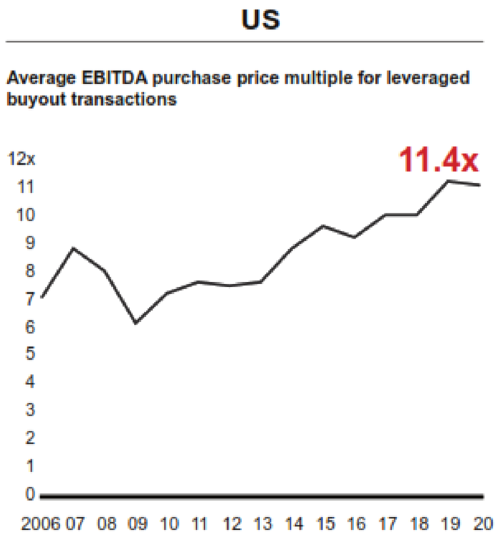
	2005	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20
Loss rate (%)	12	17	10	26	30	23	27	19	12	23	14	9	17	12	9	14
Share of deals with MOIC less than 1 (%)	22	19	17	26	37	25	33	20	19	27	21	20	27	22	13	20

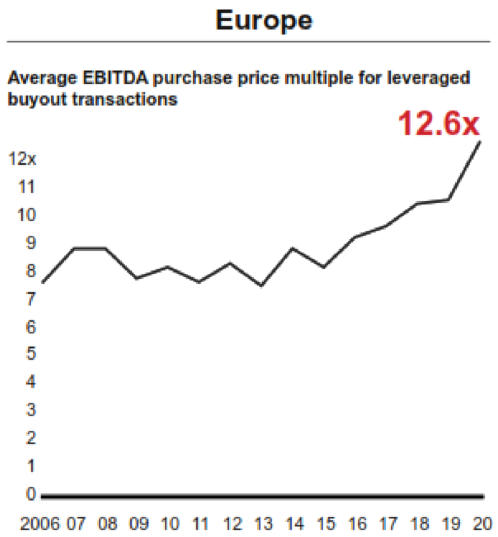
Notes: Write-offs are poor-performing investments that are classified by the investment manager as unrecoverable and usually considered a complete loss; loss rate is the ratio of loss on defaulted deals (total value to paid-in of less than 1) and total contributions to all deals; MOIC is multiple on invested capital; includes fully realized global buyout deals with more than $50 million in invested capital; excludes real estate and infrastructure deals

Source: CEPRES Market Intelligence, Bain Private Equity Report 2021.

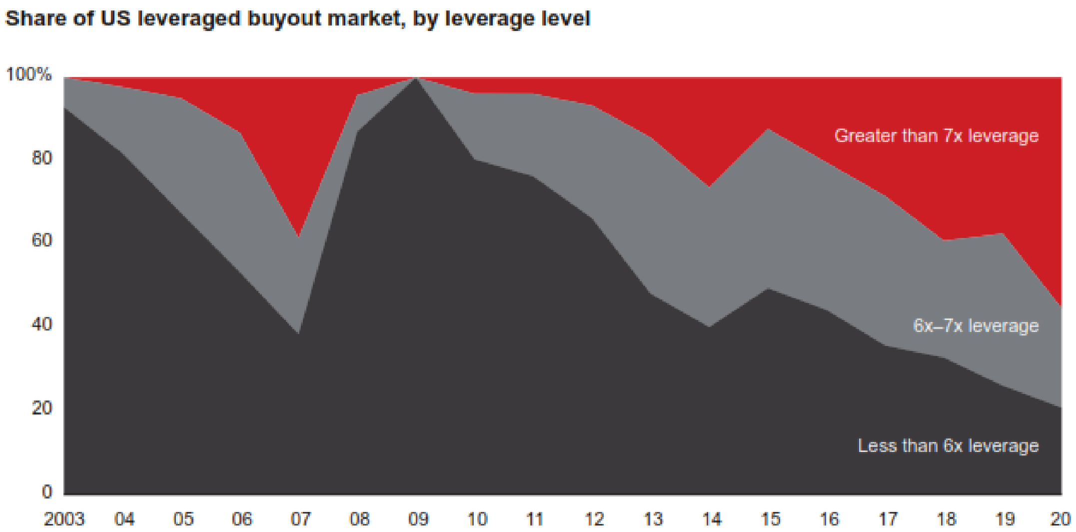
Buyout Deal Multiples & Leverage

- Deal multiples continued to rise in 2020 in both the US & Europe.
  - More than 2/3 of deals in the US in 2020 were at 11x or higher.





- And leverage accelerated in 2020 with more than half of all deals done at more than 7x EBITDA.



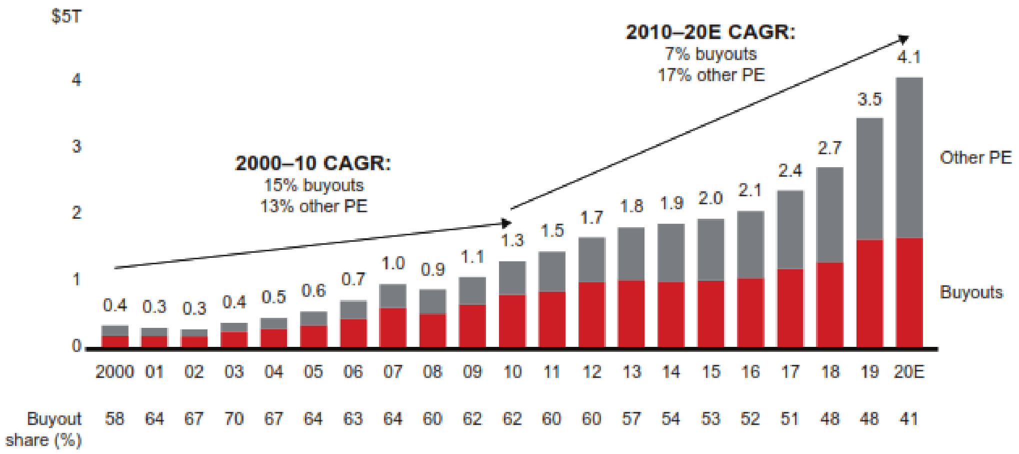
Sources: S&P LCD, Refinitiv LPC, Bain Private Equity Report 2021.

Evolution of Buyouts

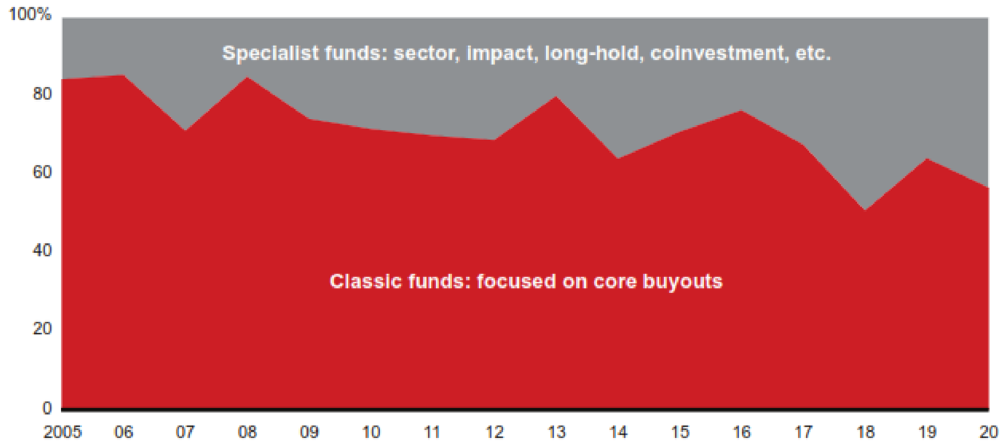
- Buyouts no longer dominate the private equity industry.
  - Buyout funds held 41% of all PE assets at the end of 2020, down from 62% year-end 2010.
  - Buyout AUM grew 7%/yr. over the last decade; non-buyout PE alternatives (Growth Equity, VC, Distressed) grew at 17%.

- Within buyouts, core funds that provide diversified exposure across multiple sectors have seen their share eroded by specialist funds such as sector specific, ESG-oriented, co-investment funds.

Global private equity assets under management (as of year-end)



Buyout fund capital raised, by year closed and type of focus



Note: Classic funds defined as buyout funds with a diversified focus across sectors and no specific differentiators on where to play

Sources: Preqin, Bain Private Equity Report 2021.

Credit Update
High Yield

High Yield – February 2021 Performance Update

Sector	Feb 2021	YTD 28 Feb 2021
Automotive	0.50	0.63
Banking	0.02	-0.31
Basic Industry	0.14	0.63
Capital Goods	0.12	0.29
Consumer Goods	0.87	0.73
Energy	2.38	3.89
Financial Services	-0.17	0.18
Healthcare	-0.14	0.07
Insurance	0.00	-0.39
Leisure	1.03	1.51
Media	-0.70	-0.63
Real Estate	0.21	0.35
Retail	0.09	0.68
Services	-0.07	0.18
Technology	0.10	0.07
Telecommunications	-0.72	-0.49
Transportation	1.31	2.50
Utility	-0.49	-0.63
Total	**0.35**	**0.73**

Rating	Feb 2021	YTD 28 Feb 2021
BB	0.01	0.05
B	0.43	0.64
CCC	1.33	2.96
CC	8.19	14.77
C	4.69	56.88
D	0.0	35.06
Total	**0.35**	**0.73**

- Positive news led to further spread tightening
  - Increasing vaccine distribution & falling cases
  - Next round of fiscal stimulus on track
- Positive spread return outweighed negative duration return

Source: NCRAM

HY – Special Topic: CCCs

- The CCC segment has seen meaningful change over the past year
  - OAS has significantly compressed
    - High quality issues downgraded into CCC
    - Lower quality names exiting due to default

Table 1 – Changes in the CCC-rated segment of the HYBI

	% OF HYBI	# OF ISSUES	OAS (BPS)
FEBRUARY 2020	12.1%	265	1163
FEBRUARY 2021	12.5%	306	662
CHANGE IN CCC INDEX	0.4%	41	-501

Source: ICE

- Reduction in OAS wasn't just due to issues entering and leaving the segment – "CCC survivors" who rode out the period of market turbulence also saw significant spread tightening

Table 2 – Changes in the CCC-rated segment of the HYBI

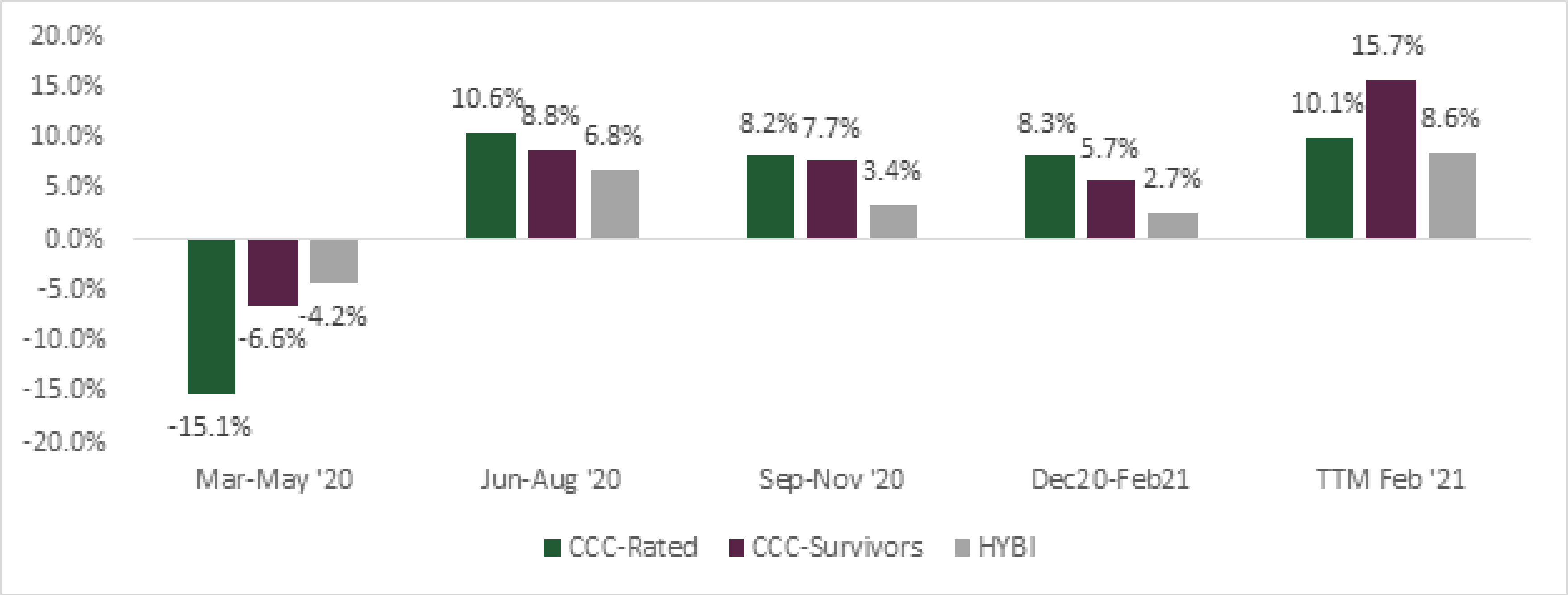
	FEB-2020	FEB-2021	CHANGE
CCC-RATED INDEX (OAS)	1163	662	-501
CCC-SURVIVORS	913	592	-321
DIFFERENCE	250	70	

Source: ICE, DDJ

Source: DDJ

High Yield – Special Topic: CCCs

- "CCC survivors" outperformed over 12-month period
- Sector breakdown is an important consideration
  - CCC-rated index had 10-12% in Energy over last 12 months, versus 3-5% for "CCC survivors"
  - "CCC survivors" had more Healthcare and less Leisure
- Conclusion: importance of active management for CCC investments, due to differentiation between issues in this sector



Source: DDJ

Credit Update
Emerging Market Debt (EMD)

EMD – February 2021 Performance Update

- February saw a continuation of January’s market volatility
- Rising US rates had a negative impact on both Hard Currency (HC) and Local Currency (LC) EMD in February
  - -2.6% and -2.7%, respectively
- Story for FX more mixed
  - Stronger commodity prices positive
  - Higher US rates negative, as this drove demand for USD
- EMD Corporates outperformed sovereigns, returning -0.2%
  - Lower duration & strong fundamentals

Source: BlueBay

EMD – Feb Performance Update

EMBI Global Diversified

Country	Allocation (%)	Feb 2021 Return %	YTD 2021 Return (%)
Bahrain	2.57	-0.50	-1.09
Brazil	3.09	-2.62	-5.21
Chile	2.87	-4.34	-5.70
China	4.15	-0.65	-0.70
Colombia	2.94	-4.64	-7.44
Dom. Republic	2.67	-3.92	-6.55
Egypt	2.64	-2.93	-4.15
Indonesia	4.55	-3.74	-4.03
Kazakhstan	2.64	-3.81	-4.90
Malaysia	2.67	-3.06	-4.60
Mexico	4.90	-2.03	-5.42
Oman	2.44	-0.25	1.32
Panama	2.94	-5.94	-8.25
Peru	2.87	-6.29	-7.82
Philippines	3.10	-3.99	-4.56
Qatar	3.54	-4.35	-5.30
Russia	3.39	-2.67	-3.60
Saudi Arabia	3.81	-2.20	-3.51
South Africa	2.53	-1.96	-3.08
Turkey	3.50	-1.50	-1.80
Ukraine	2.52	-2.30	-3.03
Uruguay	2.46	-5.54	-7.73
Total	**100.00**	**-2.55**	**-3.61**

GBI-EM Global Diversified

Country	Allocation (%)	Feb 2021 Return %	YTD 2021 Return (%)
Brazil	8.22	-4.26	-10.30
Chile	2.59	-1.30	-4.06
China	10.00	0.02	1.24
Colombia	5.34	-3.54	-7.13
Czech Republic	3.80	-2.71	-2.65
Dom. Republic	0.14	2.15	2.25
Hungary	4.05	-3.80	-3.20
Indonesia	9.48	-3.39	-3.76
Malaysia	7.11	-1.87	-2.24
Mexico	9.49	-5.46	-6.68
Peru	2.69	-3.71	-5.14
Philippines	0.15	0.32	0.83
Poland	8.30	-1.46	-0.97
Romania	3.27	-2.30	-1.21
Russia	7.04	-0.72	-3.50
South Africa	7.58	-0.72	-2.42
Thailand	8.71	-5.17	-4.83
Turkey	1.91	-1.55	0.73
Uruguay	0.12	-0.91	0.07
Total	**100.00**	**-2.68**	**-3.72**

Source: J.P. Morgan. Allocation as of 31 Jan 2021. Excluded countries with <2% allocation from EMBI Global table. GBI-EM returns are unhedged in $

EMD – Outlook

- Local rates and FX looking particularly attractive

Figure 3: PIMCO emerging market balance sheet vs. income statement framework

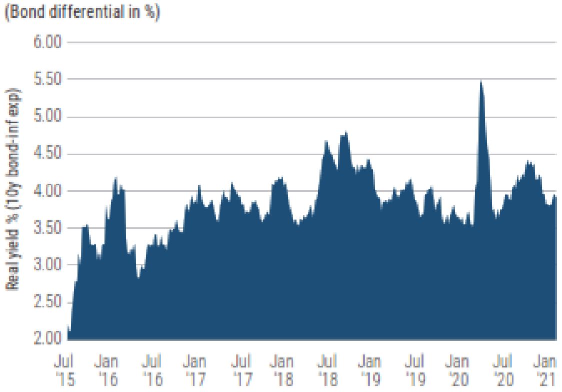
For illustrative purposes only. Source: PIMCO

Figure 2: The U.S. dollar may be at a pivot point

Source: Federal Reserve Board, as of 31 December 2020

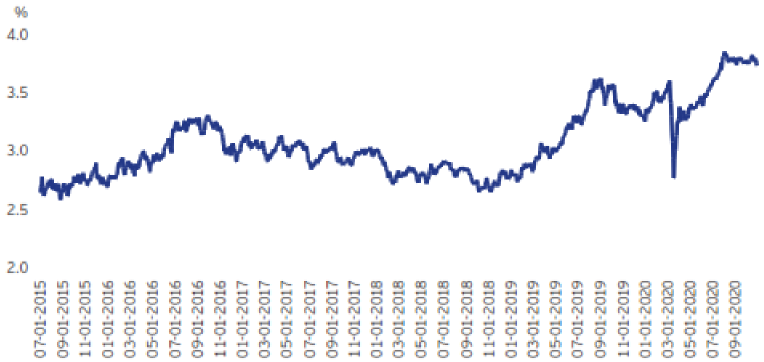
Past performance is not a guarantee or a reliable indicator of future results.

Figure 5: Emerging markets 10-year real rates remain attractive vs. domestic markets



Source: PIMCO and Bloomberg, as of January 2021

Figure 5: 10-year real yield differential between selected EM and developed market countries



Source: Bloomberg, data from July 1, 2015 to Oct. 30, 2020. EM countries are Brazil, Mexico Colombia, South Africa, India and Indonesia. Developed market countries are US, Europe, UK, Japan and Australia.

Source: PIMCO, Invesco

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