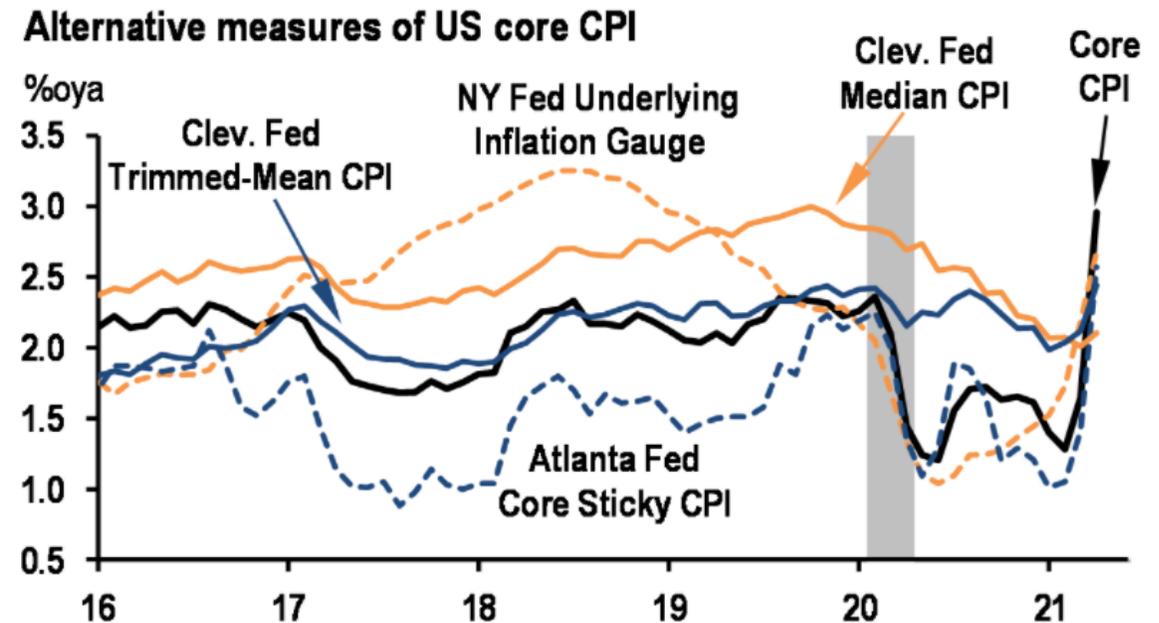
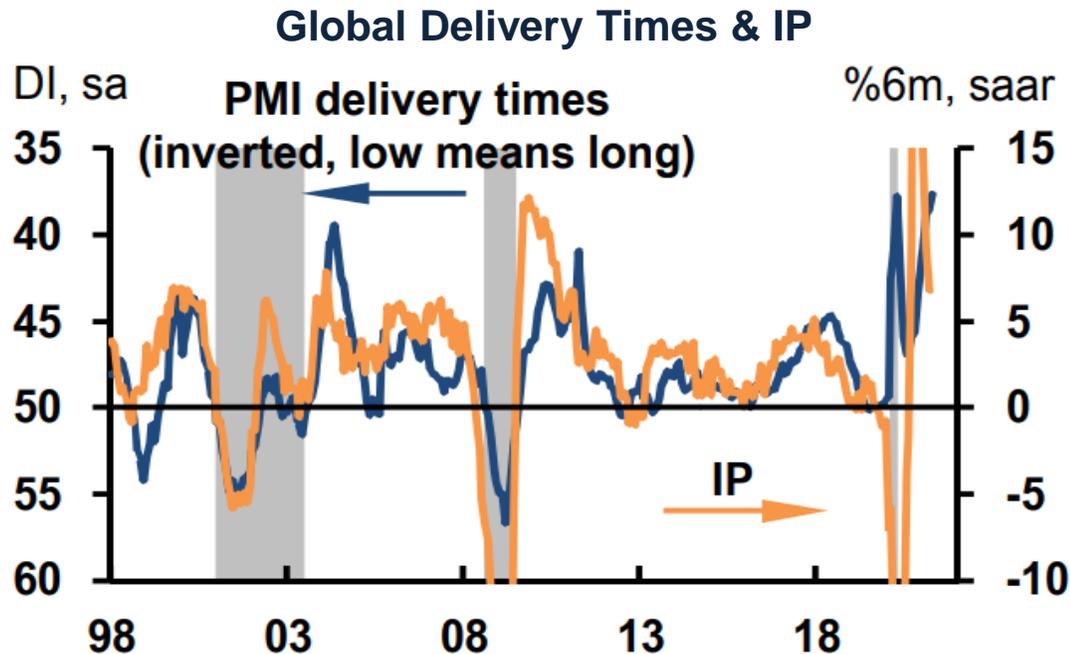




SECOR Asset Management
Macroeconomic, Equity and Credit Updates
May 17, 2021

Macroeconomy: Latest Data... “Two Steps Forward One Step Back”

- **Vaccinations, Reopening and Latest Economic Data Point to Broadening Recovery**
 - Factors that initiated recovery: stimulative policies, strong manufacturing, trade and consumer finances remain in place
 - While vaccination progress is paving the way for continuing reopening and for the service sector to normalize
- **But Manufacturers and Their Suppliers Were Not Prepared for Sudden and Strong Bounce Back**
 - Bottlenecks and reopening of the service sector starting to generate price pressures
 - Still considerable slack in global economy/current inflation pressures should be transitory but bear watching



Source: Markiat, JPM, Various Regional Fed Banks

Country/Regional Briefs

■ **US: Consumer Spending and Output Still Strong**

- Retail sales unchanged over April following outsized 10.7% jump in March / Increase buoyed by stimulus checks
- Industrial production rose 0.7% in April, despite supply-side shortages leading to 4.3% drop in auto sector
- U of M consumer survey depicts rising inflationary concerns¹

■ **Euro Area: Positioned for Robust Bounce as Economy Reopens**

- Larger EU countries vaccinating ~5% of their populations weekly/new virus cases and hospitalization down markedly
- Considerable pent-up demand / private consumption 9% below pre-pandemic levels
- Business surveys strong in April, despite some supply-side disruptions in Q1 output

■ **UK: Economy Building Momentum at End of Q1**

- GDP surprised on upside in March +2.1% (m/m) /Supported by reopening of schools, retail output, etc.
- Household consumption 18% below pre-pandemic level / considerable upside potential as economy reopens

■ **China: Appears to be Settling on Trend-Like Growth Path**

- Credit growth slowing : TSF +11.7% in April vs +12.3% in March/ orderly sector rotation seemingly in progress:
 - Authorities supporting favored industries/discouraging investment in real estate and polluting industries
- PBOC projects that inflation will remain contained, despite recent jump in PPI

1. Core CPI was up 3% oya in April vs. 1.6% in March. The U of M's consumer survey reported that one-year ahead inflation expectations jumped from 3.4% in March to 4.6% in April and median 5-year inflation expectations rose from 2.7% to 1.3% in April. Based the Fed's latest projections, core PCE is expected at: 2.2% ('21), 2.0% ('22) and 2.1% ('23).

Latest Inflation Report: April Price Spike Larger Than Expected

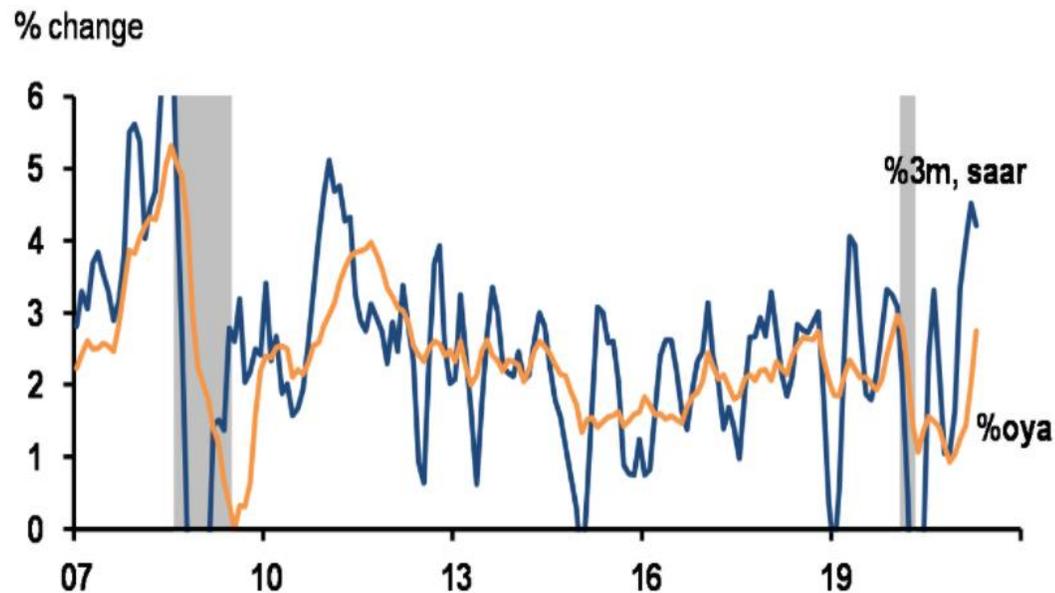
- **Consumer and Producer Prices Recorded Largest Increases in 13 Years in US**
 - CPI up 4.2% and PPI up 6.2% versus a year ago in April
- **Base Effects/Reopening Distortions/Supply-side Bottlenecks Underpin Increases**
 - For more than a year economists have been warning that...
 - Comparisons with year ago, pandemic-depressed levels would create a spike
 - But few foresaw the accompanying reopening pressures and supply-side shortages
 - Prices rose sharply in April in reopening categories: hotel-lodging (+7.7% m/m)/airline fares (10.2% m/m)¹
 - Semiconductor shortages curtailed auto production and increased pre-owned car prices...
 - Record 10% m/m increased in used car prices contributed +0.35pp to increase in core CPI
 - Prices of key commodities: iron, copper and lumber at or near record levels
- **Central Bankers Largely Appear to be Taking Price Spike in Stride**
 - Fed officials repeated that the latest rise largely reflects transitory factors and...
 - They would look through them for now
 - ECB officials: price pressures “generally remain subdued... (but)... risks to this outlook ... tilted to upside”

1. Since prices in many reopening remain below pre-crisis levels, some further adjustments in the coming months is possible

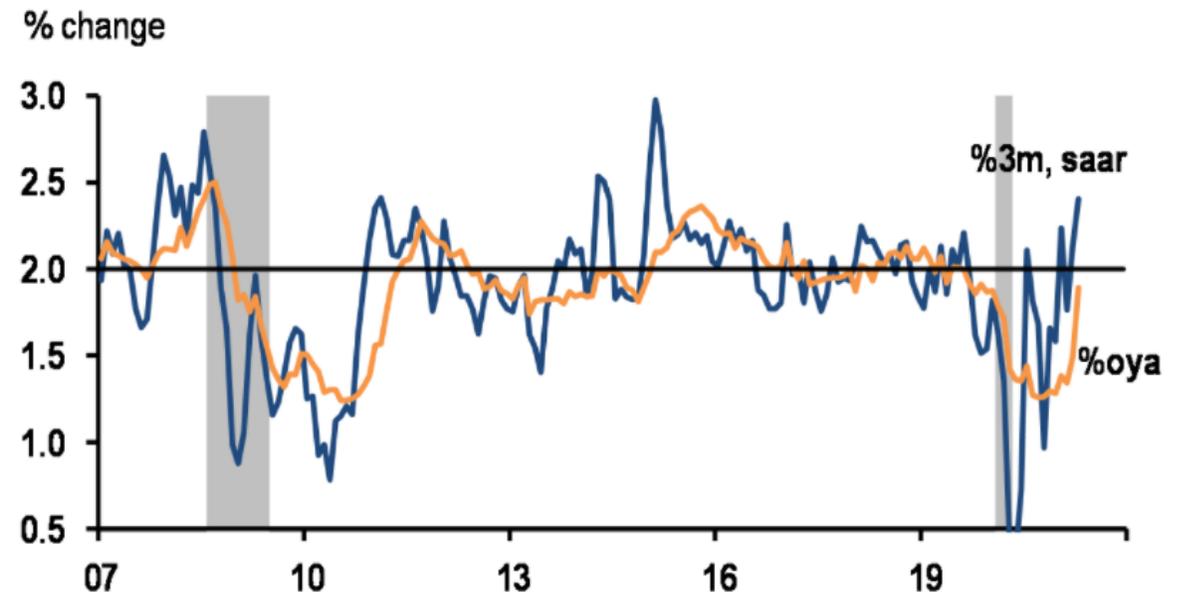
Inflation Also Evident in Latest Global Prices

- Reopening price pressures particularly apparent in US but evident throughout much of the world
- Headline global CPI up at 4.2% annual rate over the past three months
- Spike is also evident in global core prices
- Core CPI up at 2.5% annual rate over the past three months, largely due to rebounding service prices

**Global Headline
CPI**



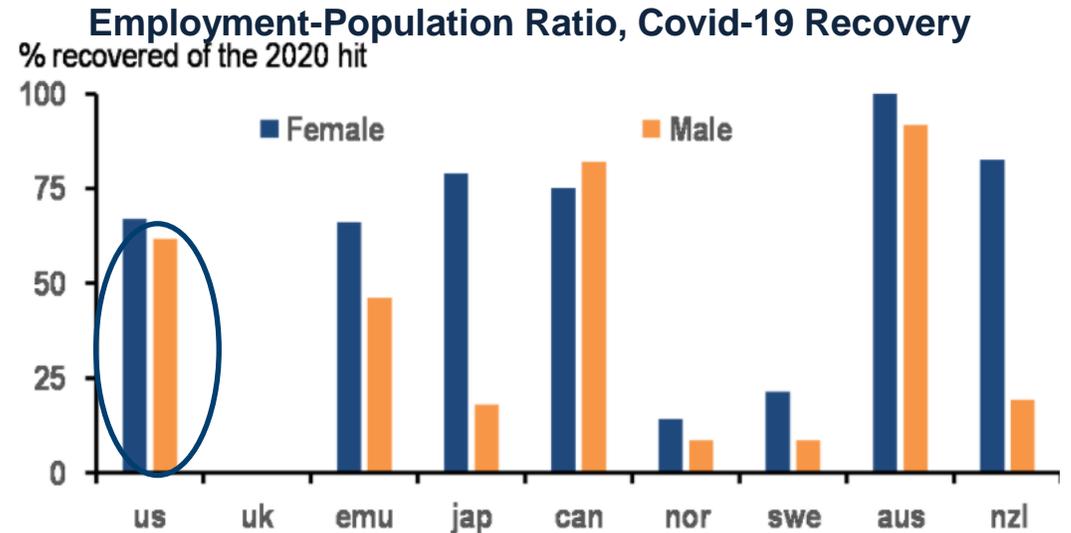
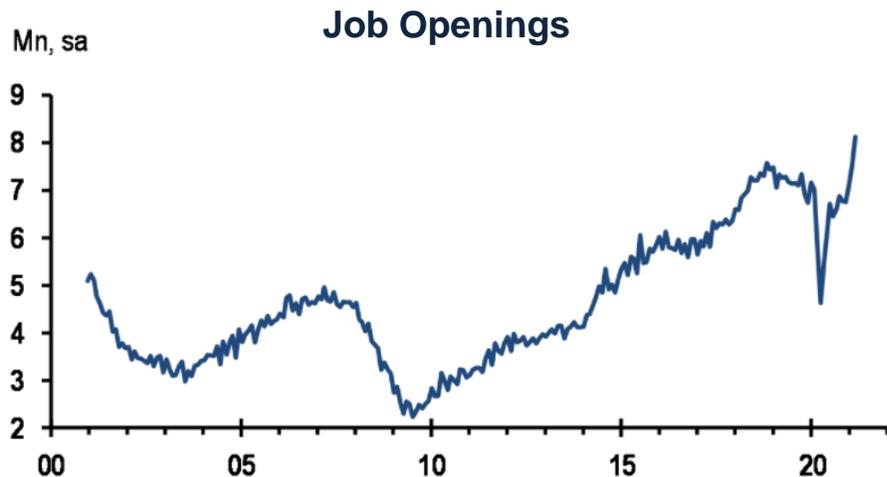
Global Core CPI



Source: JPM

US Labor Market: Latest Report

- **Disappointing April Employment Report: Largely Due to Forecasting Challenges**
 - 266K increase in line with pre-pandemic trend but...
 - Far below 1 million forecast and 770K increase in March
 - Participation rate and average work week edged up¹ / most recent weekly jobless claims at pandemic low (5/13 report)
 - Stronger than expected 0.7% (m/m) increase in private sector hourly wage rate
- **Latest Reports Providing Some Food for Thought Re Topical Employment Issues**
 - Job openings in March at record 20+ year history of “Jolts” report
 - Attractive employment benefits could be restraining labor supply²
 - Covid-19 male/female job recoveries roughly equal in US, despite only ~1/2 K-8 schools open full-time



1. Participation rate increased 0.2% to 61.7%, first increase since August. Average workweek increased 0.1 hours to 35
 2. Current unemployment benefits greater than prior wage income for roughly half the recipients

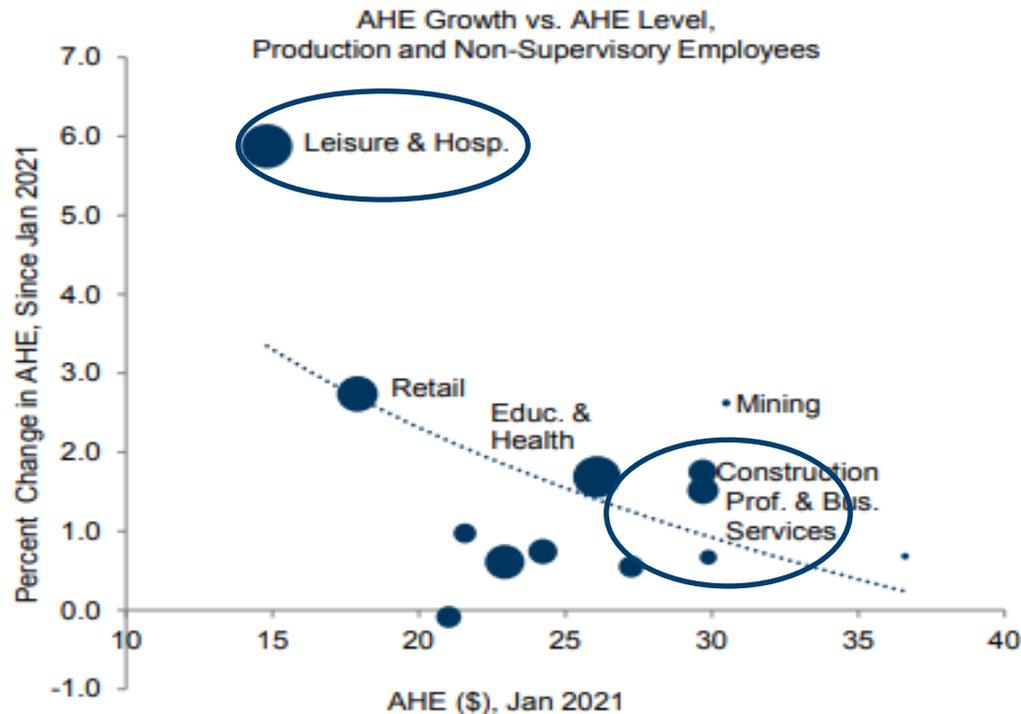
Source: VLS, JPM

US Labor Market: Wage Pressures

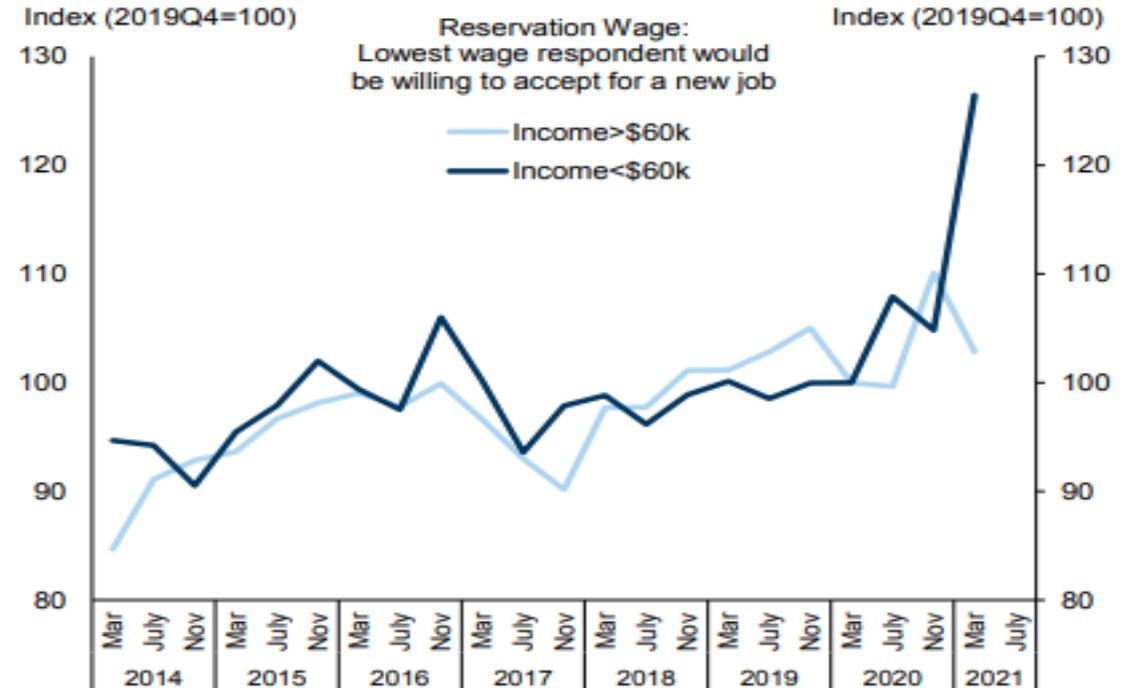
- Recent wage growth led by leisure and hospitality sector +5.9% since January
- Increases relatively moderate in professional and business services

- Reservation wage - minimum wage workers require to participate in labor force - + 20% since last fall for...
- Lower income workers and near trend for higher income workers

Recent Wage Growth by Sector



Reservation Wage (Q4 '19=100)



Source: BLS, GS, Fed

Batteries Threatening to Displace New and Existing Natural Gas Investments¹

- Natural gas displaced coal a decade ago
- Now batteries charged with wind and solar energy threatening to displace natural gas
- Combination of renewable energy and batteries threatening to upend billions in natural gas investments
- Wind, solar and battery installations growing quickly in Texas
- Natural gas capacity has remained flat

Batteries Becoming Cost Competitive

Cost range of generating or discharging power in the U.S., by source

Battery*

\$140 per MWh  \$243

Gas peaking plant

\$151  \$198

Solar photovoltaic + storage†

\$81  \$124

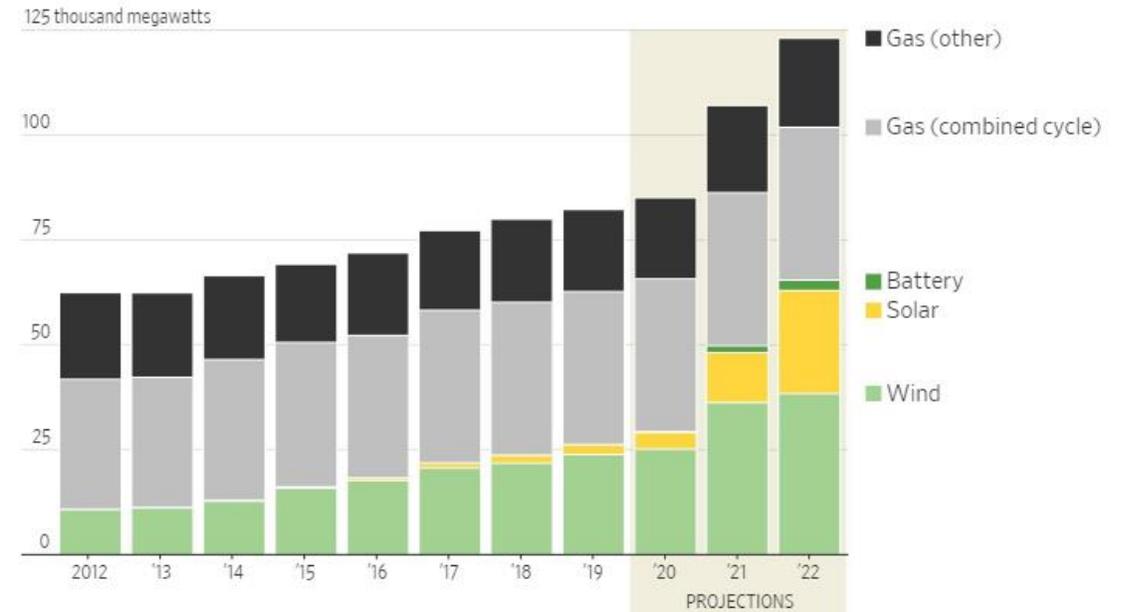
Gas combined cycle

\$44  \$73

*100 MW/200 MWh †500MW/200 MWh

Source: Lazard Levelized Cost of Energy Analysis

Texas Power Generation



Source: Electric Reliability Council of Texas

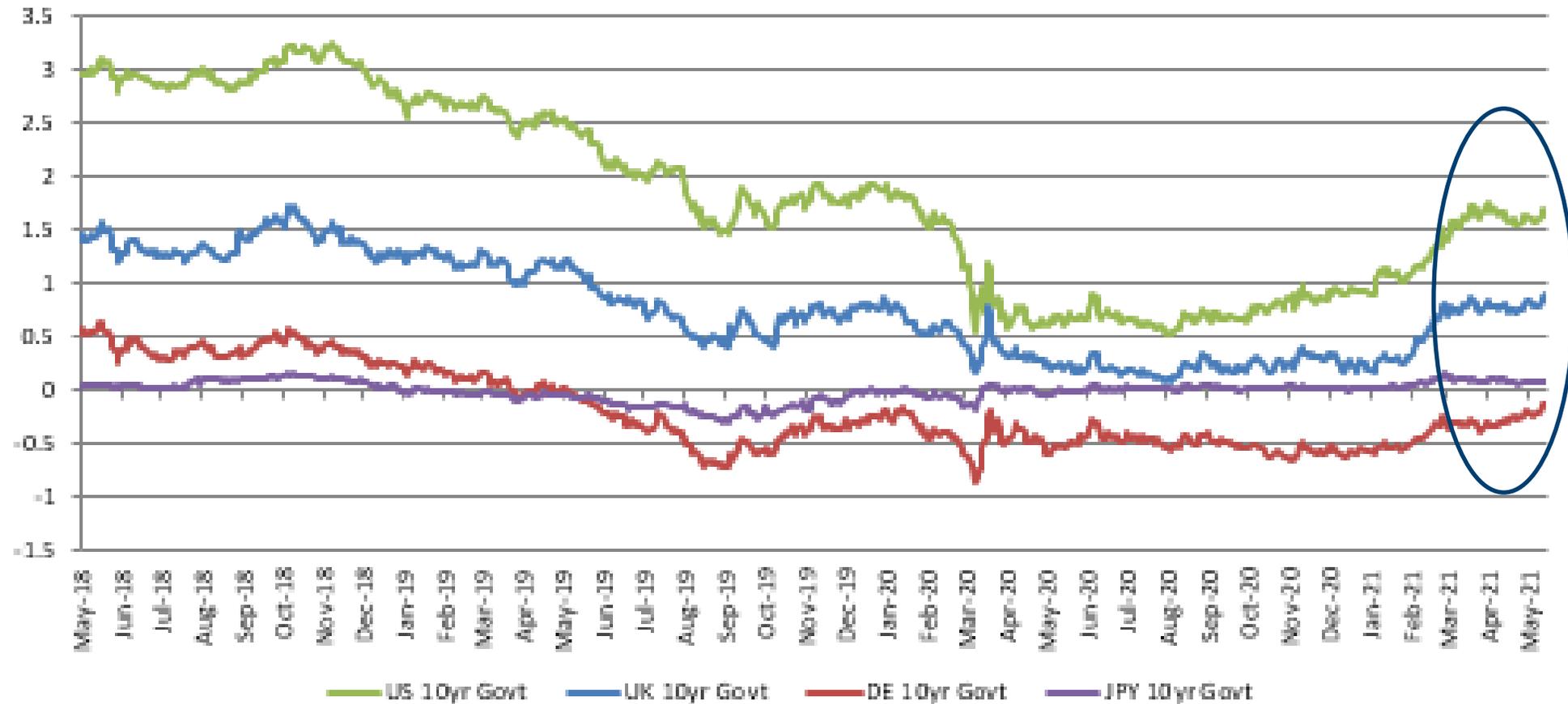
1. "Batteries Challenging Natural Gas as America's No. 1 Power Source", WSJ (5/17/21)

Market Performance as of 14 May 2021

(USD)	Since 4/30	YTD	2020	2019	2018
Equities					
MSCI ACWI	-0.28%	8.83%	16.26%	26.60%	-9.42%
MSCI EAFE	1.26%	7.94%	7.82%	22.01%	-13.79%
MSCI EM	-2.91%	1.79%	18.31%	18.42%	-14.57%
MSCI US	-0.58%	10.43%	20.73%	30.88%	-5.04%
Fixed Income					
BarCap Global Agg Total Return (Hedged)	-0.20%	-2.41%	5.58%	8.22%	1.76%
Citi US 10+ Govt Bond Index	-1.10%	-12.56%	17.72%	14.89%	-1.89%
BarCap US High Yield Total Return (Unhedged)	0.03%	1.98%	7.05%	14.32%	-2.08%
Oil					
WTI Crude	2.82%	34.42%	-10.67%	8.17%	-3.75%
Brent Crude	2.92%	33.44%	-12.96%	3.73%	-1.60%
Currency					
USD/EUR	-0.77%	0.82%	-8.25%	1.86%	7.00%
USD/GBP	-1.69%	-3.02%	-3.07%	-3.76%	6.16%
USD/JPY	0.12%	6.00%	-4.99%	-1.00%	-2.54%
USD/CNH	-0.44%	-0.88%	-6.73%	1.38%	5.53%
USD/TRY	1.73%	13.67%	24.88%	11.93%	40.19%
USD/ARS	0.52%	11.77%	40.55%	58.95%	100.07%

Source: Bloomberg

Sovereign Bond Yields

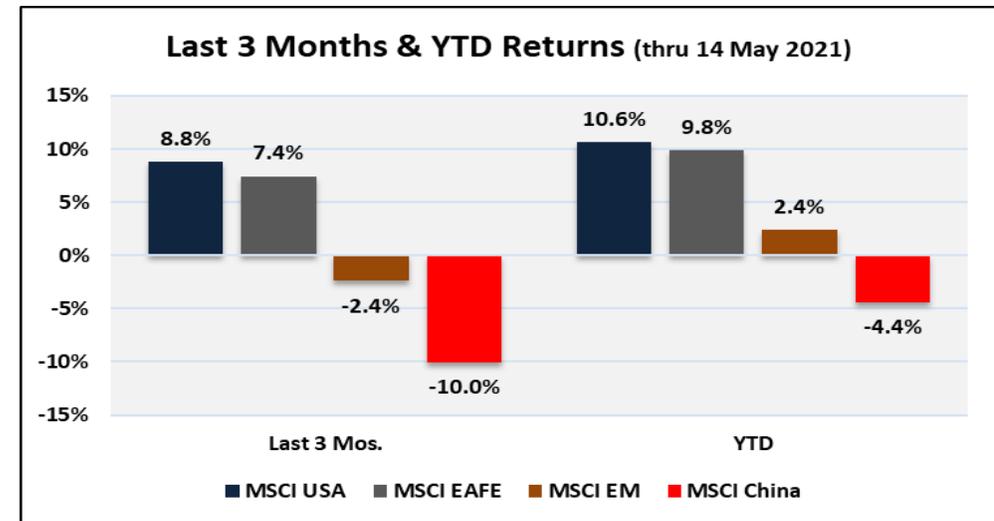
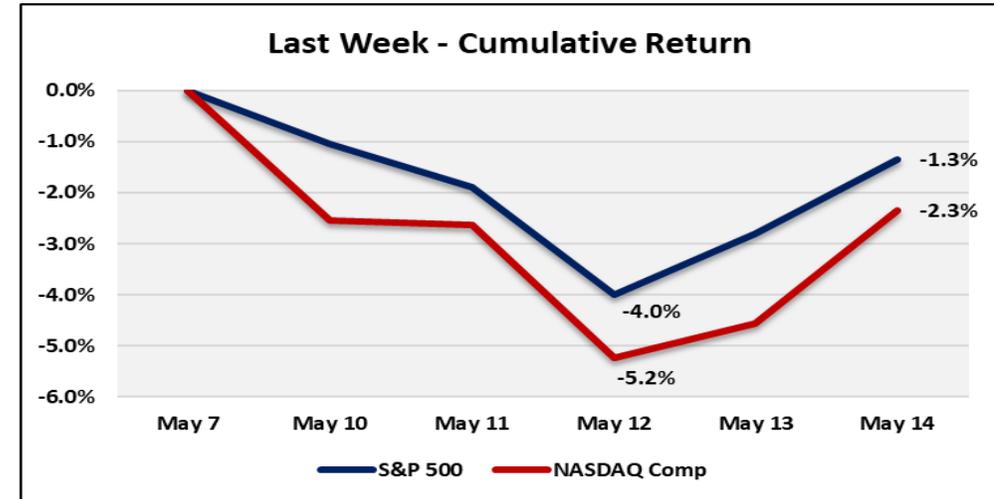


Source: Bloomberg

Public Equity Update

Equity Returns

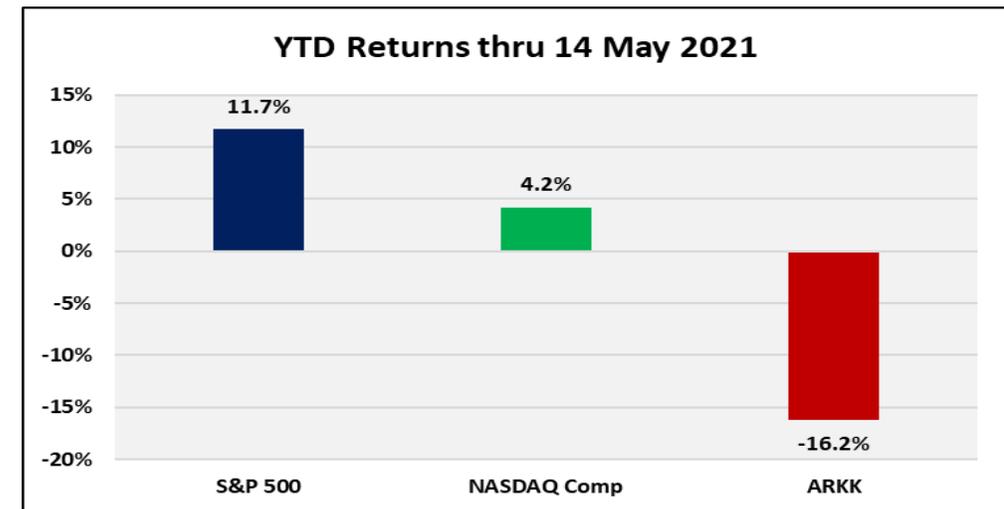
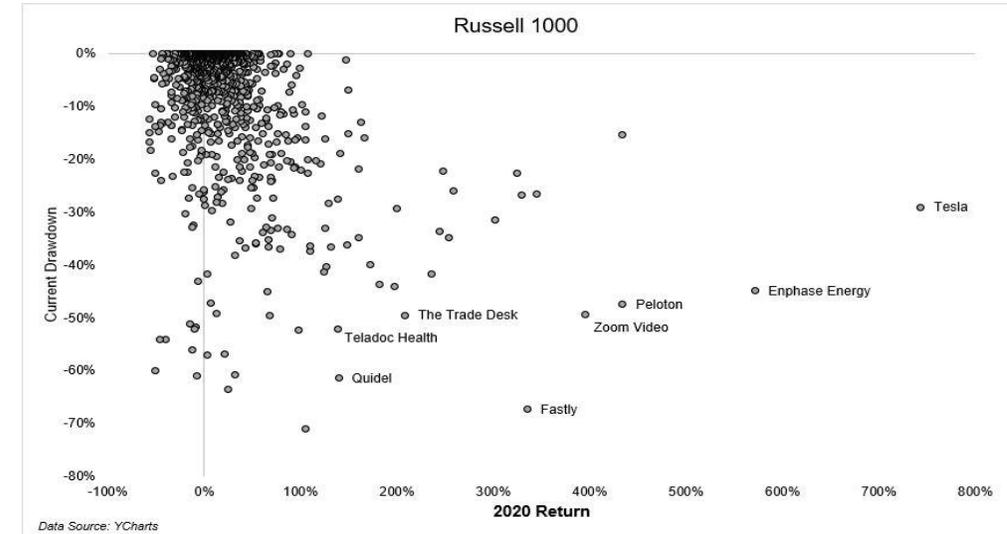
- Equity markets were rattled by the inflation numbers early last week but recovered on Thursday & Friday.
- Despite last week's weakness, recent equity returns in developed markets are still strongly positive.
 - China has been particularly weak as the government attempts to reign in the country's tech giants.



Sources: Standard & Poor's, NASDAQ, MSCI.

Equity Returns

- With the rotation in the market, many of last year's biggest winners are among the biggest losers in the current year.
- And the air has begun to come out of the stock prices of the most speculative companies.

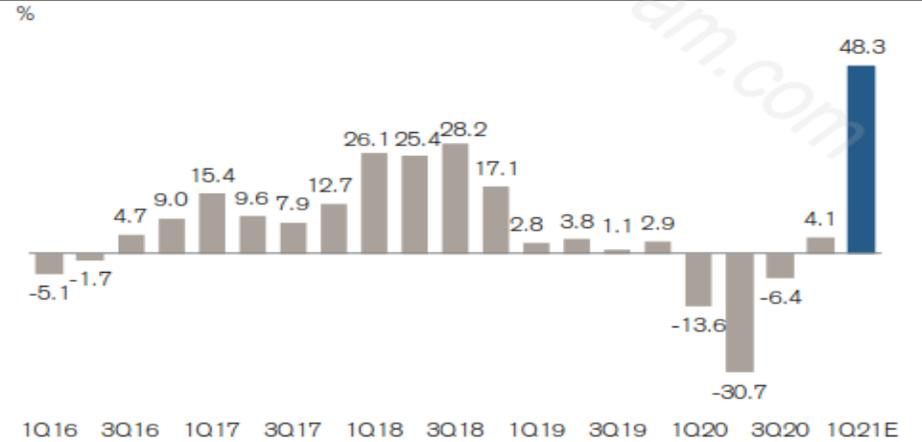


Sources: Ycharts, Standard & Poor's, NASDAQ.

Q1 Earnings - US

- With 91% of the S&P market cap reporting, Q1 EPS has grown 48% YoY.

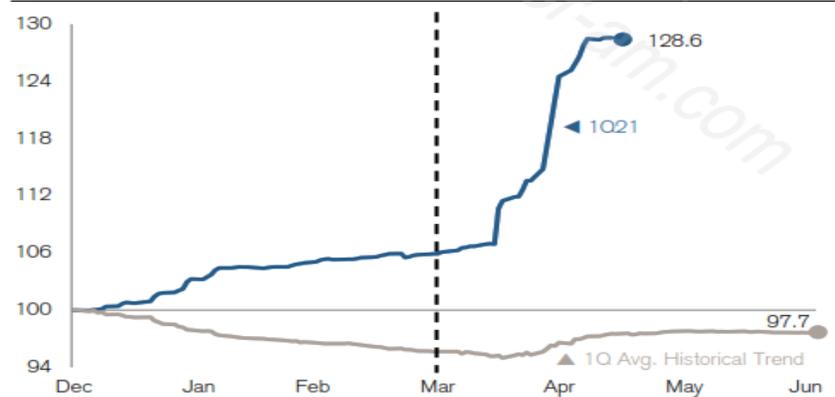
Figure 6: S&P 500 EPS Growth



Note: YoY growth of current constituents; blend of unreported and reported numbers where available

- Earnings have surpassed estimates by 22%, the fourth consecutive quarter of extreme positive surprises.

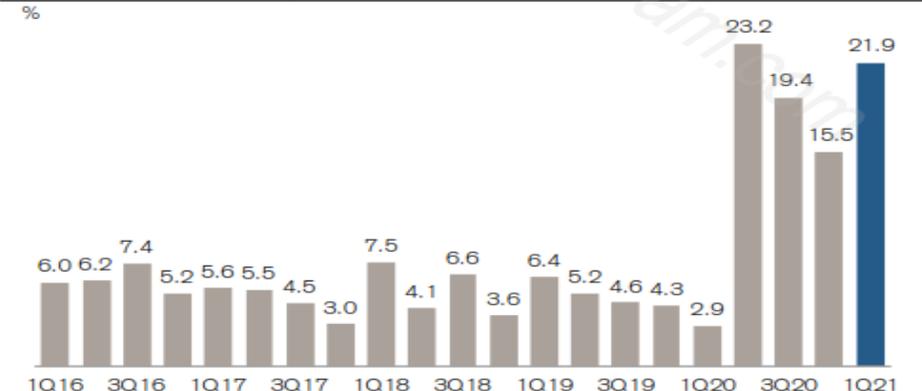
Figure 4: Likely Path of 1Q21 Consensus EPS Growth



Note: Historical trend based on estimates of prior 1Qs from 2011-19.

Sources: Credit Suisse, Standard & Poor's, Refinitiv, FactSet.

Figure 8: S&P 500 EPS Surprise



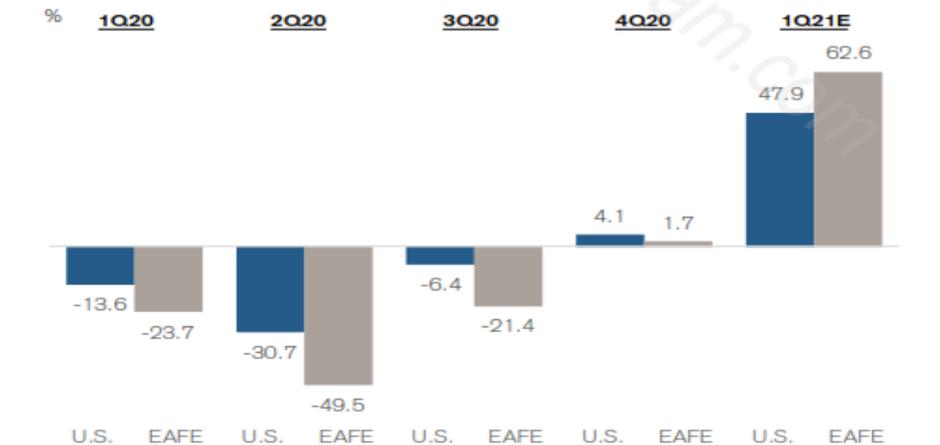
Note: Beat/Miss +/- 1%

Q1 Earnings - EAFE

- EAFE EPS growth has surpassed that of the US in Q1, up 63% YoY.
 - Cumulative EPS Growth for 2020-2021 Q1:
 - US: -13.7%
 - EAFE: -49.9%

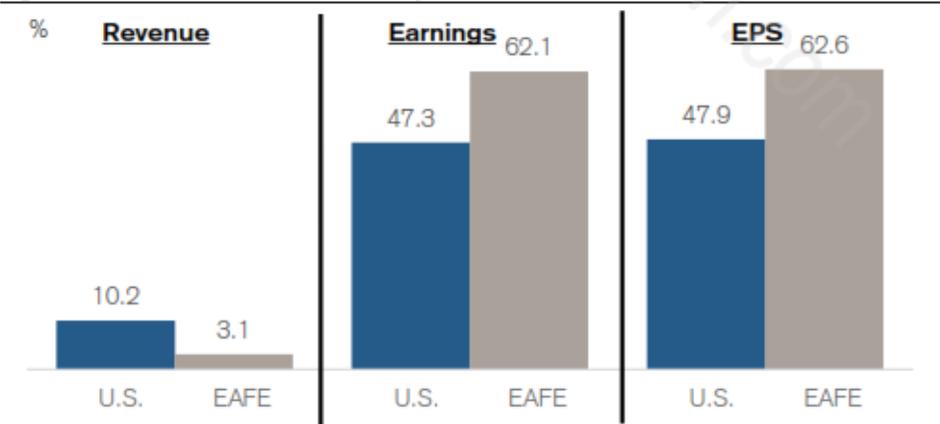
- EAFE’s superior Q1 EPS growth has been driven by its more cyclical-heavy sector mix and its high operating leverage.
 - EPS Surprise in Europe has been stronger than in Japan (16.3% vs 13.8%).

Figure 12: EPS Growth – U.S. vs. EAFE



Note: YoY growth of current constituents; blend of unreported and reported numbers where available

Figure 1: U.S. vs. EAFE – Growth Comparisons



Note: Blend of actuals where available and estimates; S&P 500 and EAFE

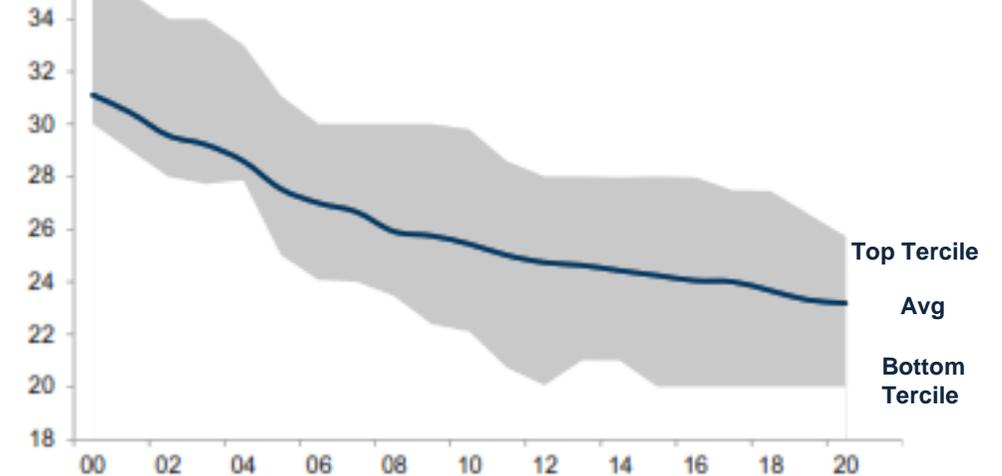
Sources: Credit Suisse, Standard & Poor’s, Refinitiv, FactSet.

Corporate Taxes

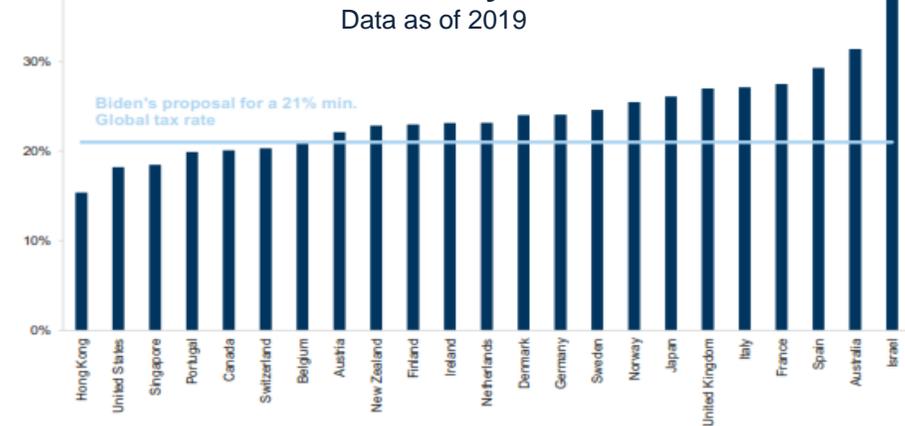
- President Biden’s proposal to raise the statutory corporate income tax rate from 21% to 28% bucks the global trend toward lower corporate income tax rates.
 - UK to raise statutory corporate rate from today’s 19% to 25% in 2023.
 - German Green Party proposes a 25% corporate tax rate without exception and a digital tax on large internet companies.

- President Biden has also recommended a global minimum rate of 21%, which the ROW unsurprisingly supports.
 - French Finance Minister Bruno Le Maire and German Finance Minister Olaf Scholz in joint interviews with *Le Figaro* and *Die Zeit*: “If the Biden administration proposes a 21% rate ... it would be acceptable for us.”

Average Global Statutory Corporate Income Tax Rate
(Avg. 94 Jurisdictions)



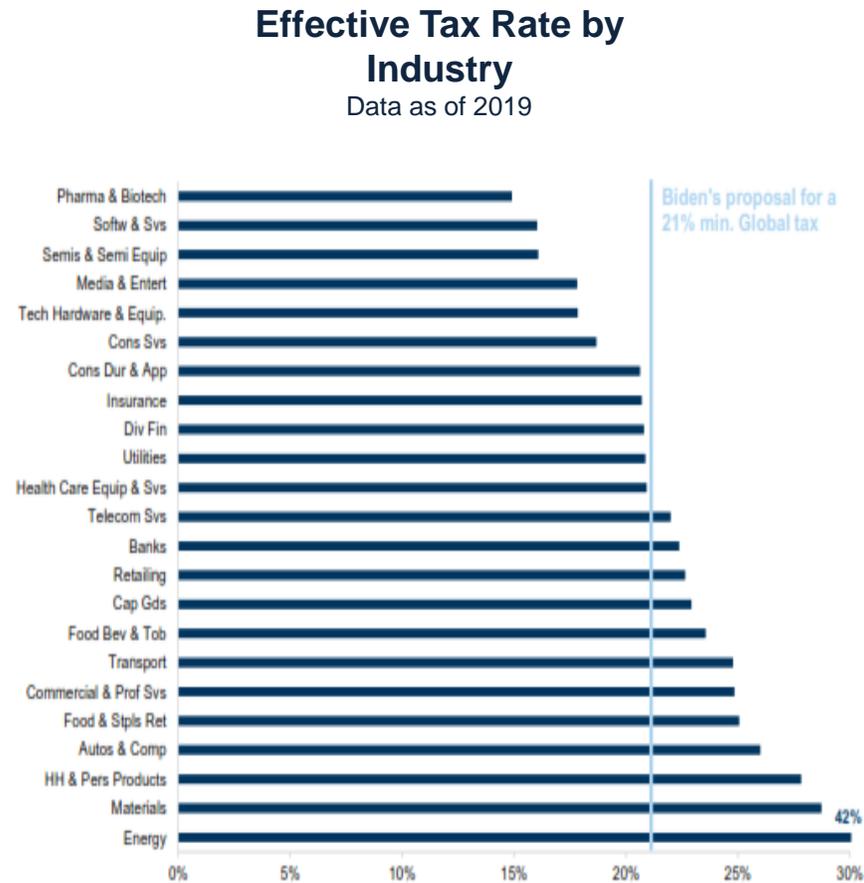
Effective Tax Rate by Country



Sources: OECD, Haver Analytics, Datastream, Worldscope, Goldman Sachs.

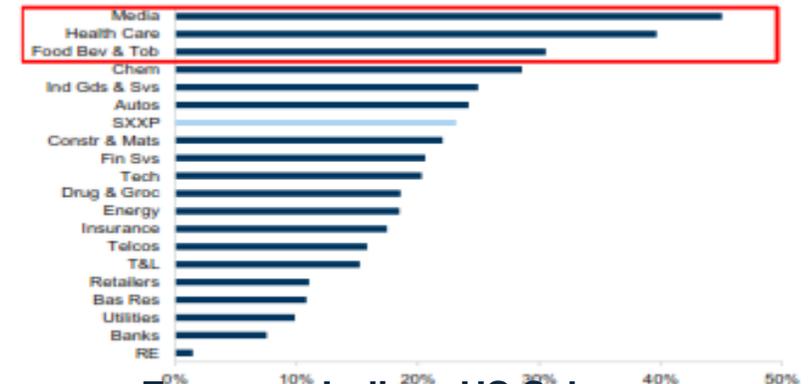
Corporate Taxes

- The Pharma and IT sectors would be most impacted by the global minimum tax.

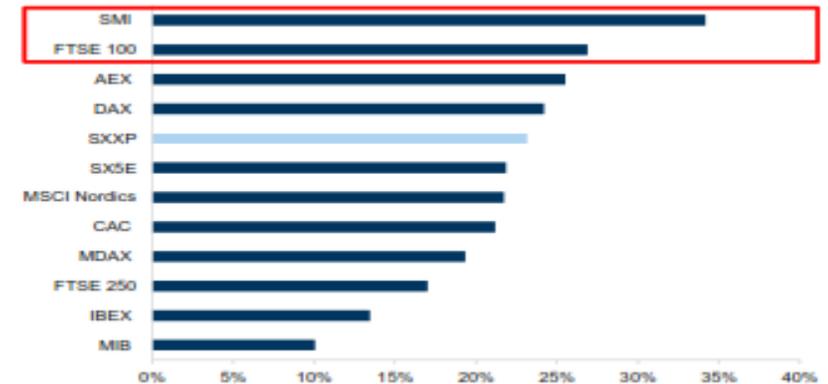


- The higher US tax rate will also impact non-US companies with large US exposures.

European Sectors US Sales Exposure



European Indices US Sales Exposure



Sources: FactSet, Datastream, Worldscope, Goldman Sachs.

Corporate Taxes

- Despite experiencing a recession in the immediate aftermath of the TMT bubble bursting, the GFC and a global pandemic, the US has managed substantially higher real earnings growth in the 21st century than in the prior century.
- Lower taxes (and lower interest expense/rates) have provided a multi-decade tailwind to profit margins in the US, both of which are showing signs of reversing.

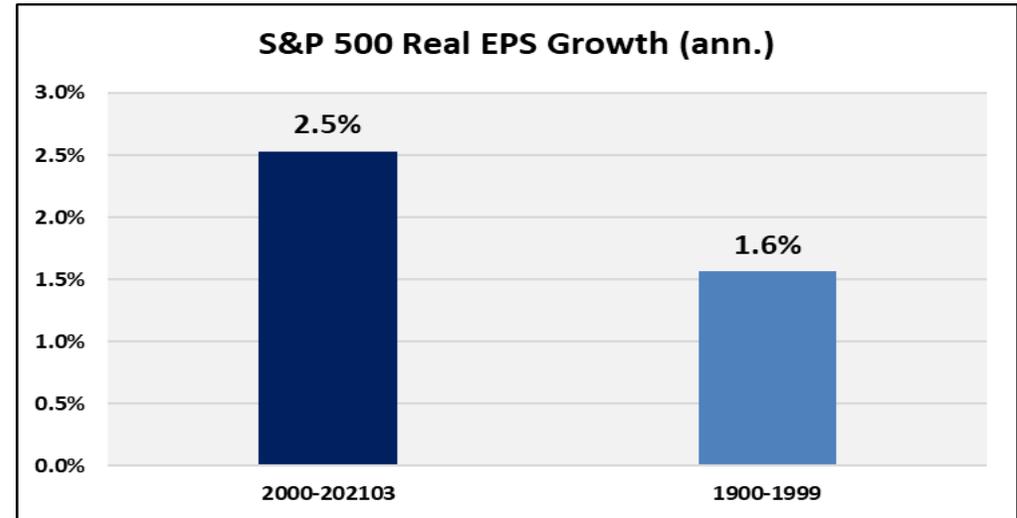
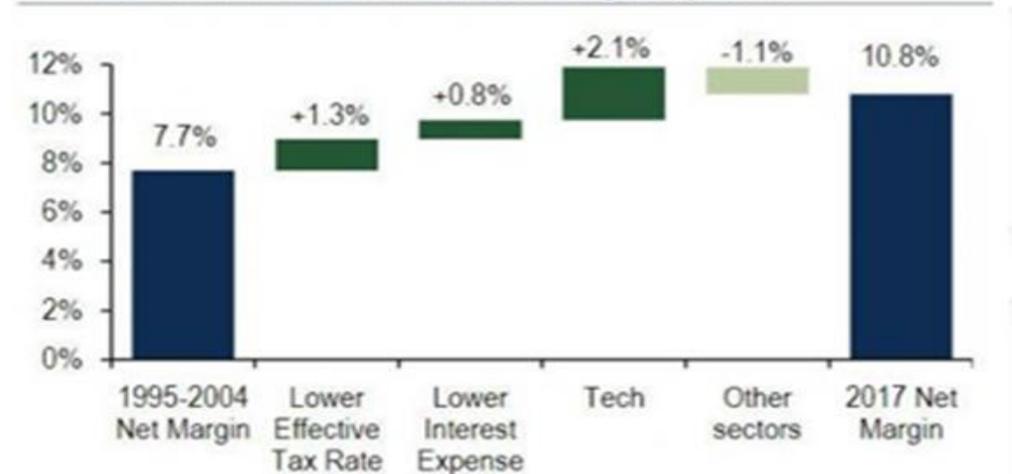


Chart 7: Contribution to S&P 500 net margin expansion



Sources: Standard & Poor's, Professor Robert Shiller's website: <http://www.econ.yale.edu/~shiller/data.htm>, BofA Quant Strategy, FactSet.

Emerging Market Debt (EMD) Update

EMD – April Performance Update

EMBI Global Diversified

Country	April 2021 Return %	YTD 2021 Return (%)
Bahrain	1.13	-0.72
Brazil	2.01	-4.36
Chile	0.83	-5.13
China	0.41	-0.80
Colombia	0.18	-7.72
Dom. Republic	3.02	-3.64
Egypt	2.86	-3.81
Indonesia	1.32	-2.89
Kazakhstan	1.07	-4.43
Malaysia	0.83	-4.79
Mexico	1.92	-3.78
Oman	2.35	4.09
Panama	0.78	-8.10
Peru	-0.06	-9.49
Philippines	1.61	-3.92
Qatar	0.49	-5.34
Russia	1.94	-3.57
Saudi Arabia	0.95	-3.51
South Africa	2.86	-0.28
Turkey	3.43	-4.58
Ukraine	0.24	-3.00
Uruguay	0.81	-6.67
Total	2.22	-2.42

GBI-EM Global Diversified

Country	April 2021 Return %	YTD 2021 Return (%)
Brazil	5.18	-8.38
Chile	-0.49	-6.51
China	1.92	2.22
Colombia	-0.99	-13.29
Czech Republic	4.47	-2.94
Dom. Republic	1.62	6.89
Hungary	3.90	-2.31
Indonesia	2.26	-3.29
Malaysia	1.94	-3.55
Mexico	1.56	-5.91
Peru	-3.38	-14.43
Philippines	-1.22	-3.00
Poland	3.87	-2.78
Romania	2.57	-1.55
Russia	1.22	-4.23
South Africa	3.78	1.35
Thailand	1.17	-7.29
Turkey	3.04	-17.57
Uruguay	1.67	-1.31
Total	2.26	-4.57

Source: J.P. Morgan. Excluded countries with <2% allocation from EMBI Global table. GBI-EM returns are unhedged in \$

High Yield (HY) Update

HY – April Performance Update

Sector	April 2021	YTD 2021
Automotive	1.02	1.72
Banking	1.55	1.19
Basic Industry	1.18	1.79
Capital Goods	0.69	1.88
Consumer Goods	1.02	0.97
Energy	2.48	6.46
Financial Services	0.91	1.32
Healthcare	0.50	0.63
Insurance	0.46	1.21
Leisure	1.12	3.56
Media	0.91	0.53
Real Estate	0.97	1.17
Retail	1.08	2.12
Services	0.74	1.80
Technology	0.78	0.81
Telecommunications	0.44	0.04
Transportation	1.13	4.87
Utility	1.24	-0.36
Total	1.09	2.01

Rating	April 2021	YTD 2021
BB	1.11	0.88
B	0.98	2.17
CCC	1.27	5.49
CC	2.23	18.64
C	3.84	64.94
D	-	35.06
Total	1.09	2.01

Source: NCRAM

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