



SECOR Asset Management
Macroeconomic and Equity Update

June 14, 2021

Macroeconomy: Global Cyclical Expansion Progressing but Evolving

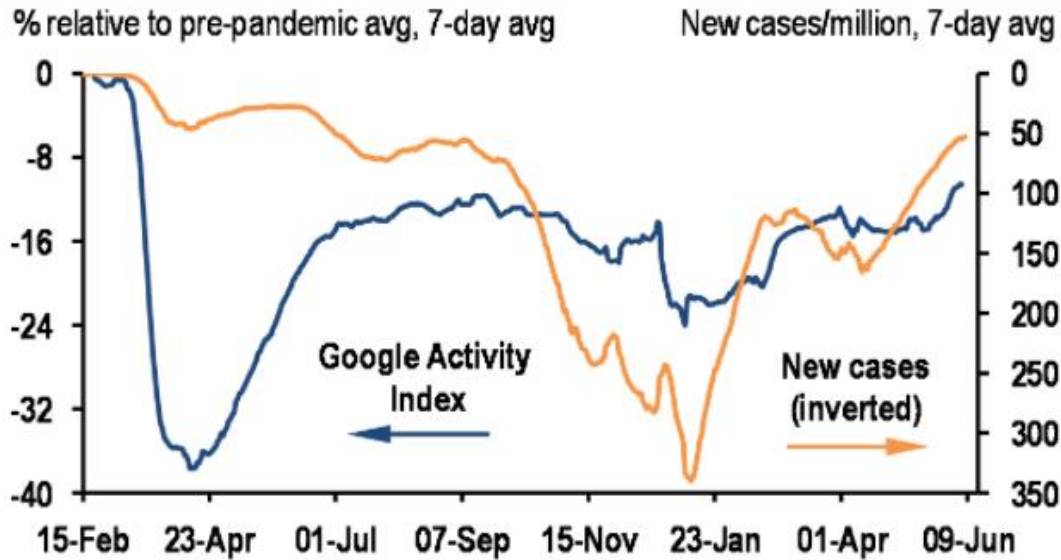
- **Latest Reports Support Forecast for Strong '21-'22 Global Expansion**
 - Mobility continuing to edge up/new virus cases declining/vaccinations increasing
 - Global manufacturing PMI at 11-year high
 - Consumers in strong financial position/goods spending above pre-pandemic levels
 - Bond markets and central bankers seemingly consider inflation spike transitory
- **Evolving Composition of Global Expansion**
 - Vaccinations and virus controls helping Developed Markets (DM) to outpace Emerging Markets (EM) in current quarter
 - DM service sectors starting to reopen and consumers more confident
- **Current Inflation Spike Exceeding Expectations But...**
 - Not expected to halt or even materially slow global-cyclical expansion
 - Considerable slack remains/wages largely contained/inflation expectations anchored
 - However, serious questions are being raised re potential longer-term tail risks
 - Will Fed's new outcome-based mandate prevent timely action?
 - Is central bank independence at risk of being compromised?

Macro Backdrop: Mobility/Virus/Vaccinations

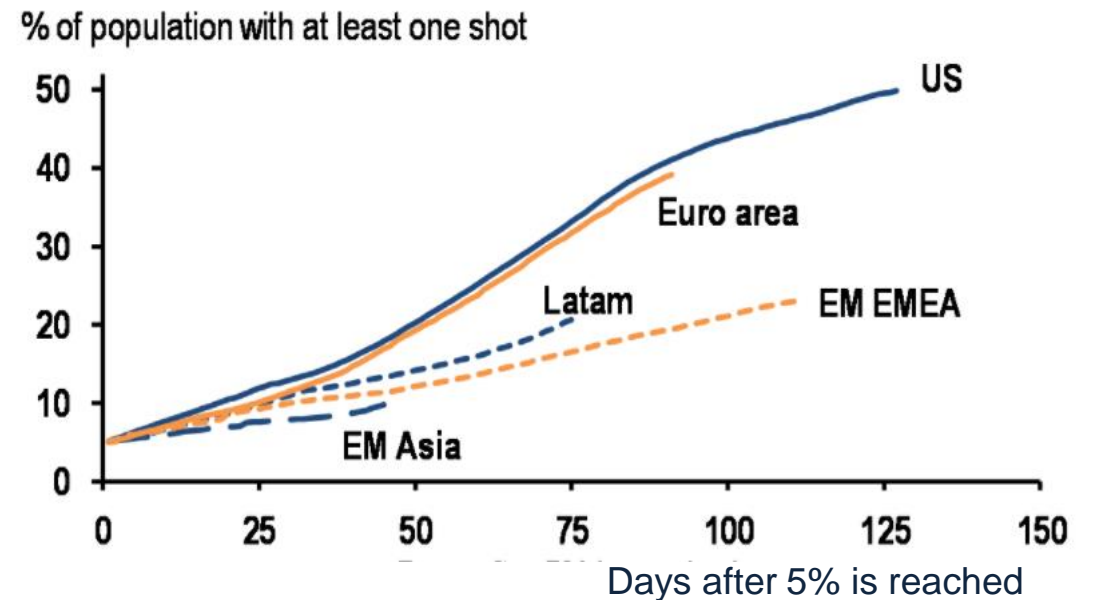
- Global mobility continuing to increase as new Covid-19 cases decline but...
- Progress in containing the virus uneven

- DM economies leading EMs in vaccination rates
- 50% of US population has received one dose
- Euro area catching up to US
- EMs lagging DMs and appear to be one to three quarters away from achieving similar vaccination rates

Global Mobility & New Covid-19 Cases



Covid-19 Vaccination Rates

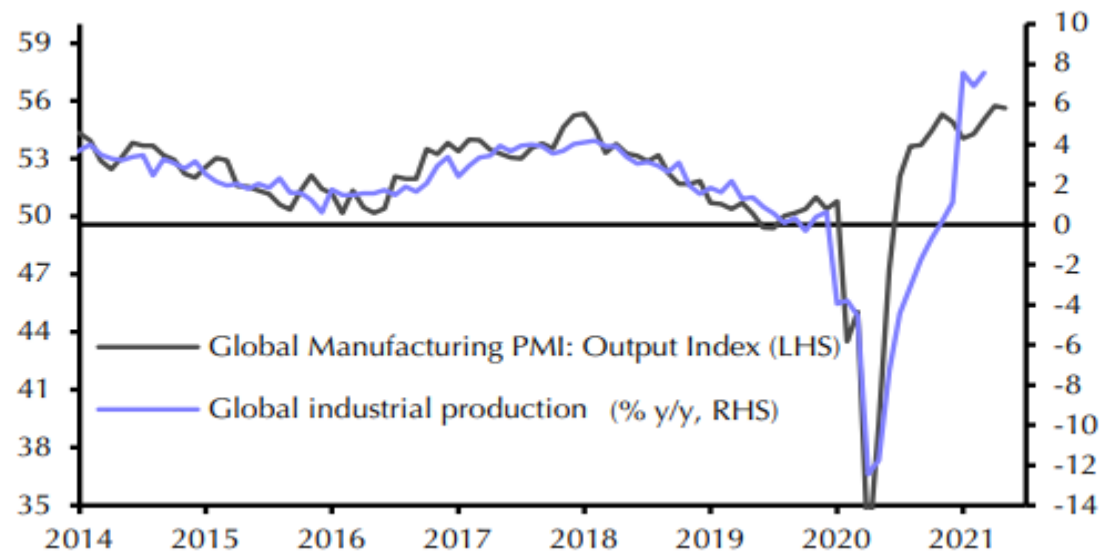


Source: JPM, Google, JHU

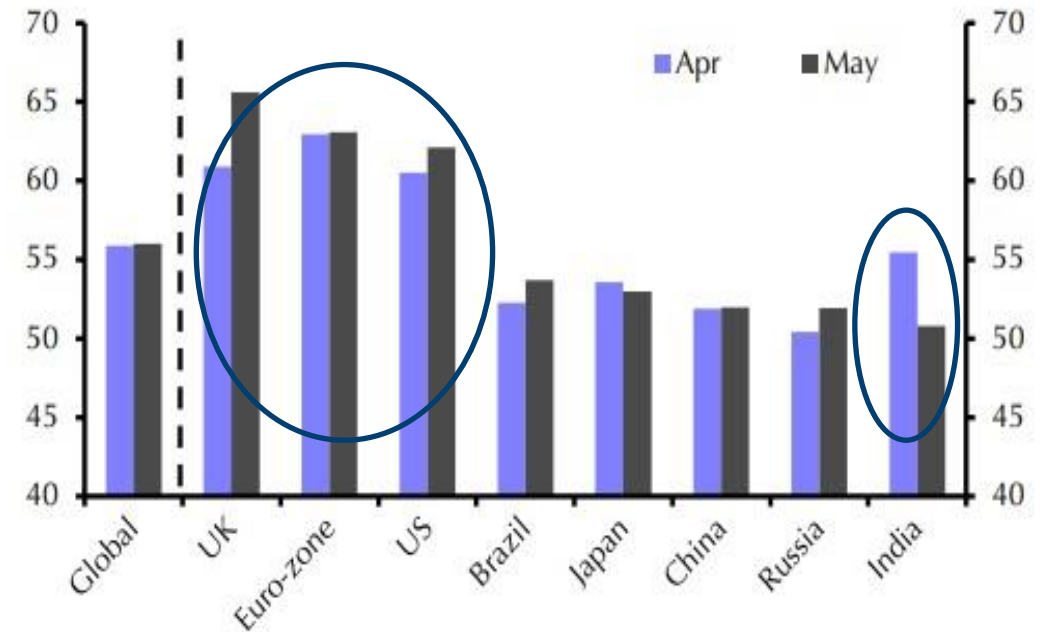
Macroeconomic Backdrop: Latest Marketing PMI

- Global manufacturing PMI at eleven-year high in May
- Industrial production continuing to rebound
- Continuing exceptional strength evident in manufacturing PMIs for major DMs (ex Japan)
- PMIs roughly unchanged in major EM ex India which fell ~5 points to 50.8 in May

Global Manufacturing Output and IP



Country / Regional Manufacturing PMIs



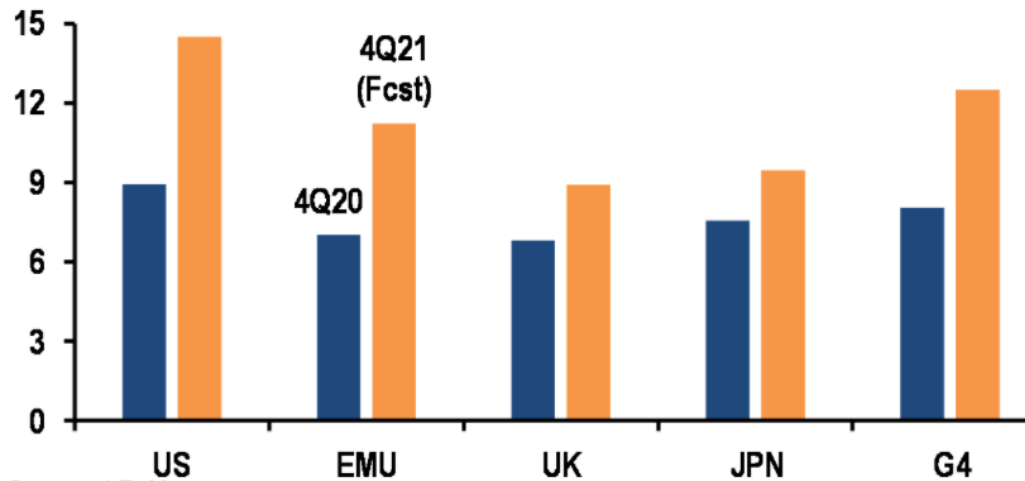
Source: Refinitiv, Markit, CE

Macro Backdrop: DM Consumers' Excess Savings & Consumer Spending on Goods

- DM consumers in strong financial position
- Excess saving continuing to accumulate
- DM consumer spending on goods above pre-pandemic levels
- Consumer spending on goods has recovered to pre-pandemic levels in EM

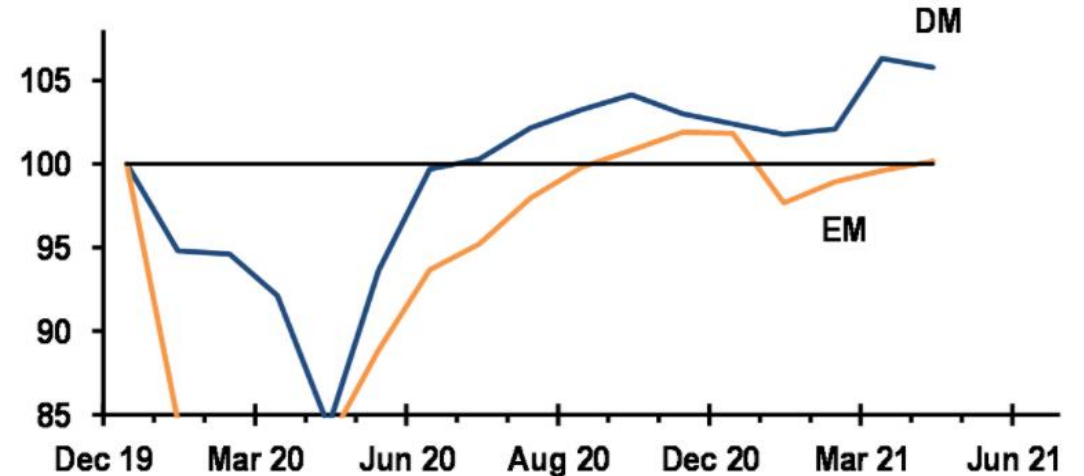
Excess Household Savings

% of household income, actual cumulative saving since 4Q19 less 2019 pace



Consumer Spending on Goods

Index

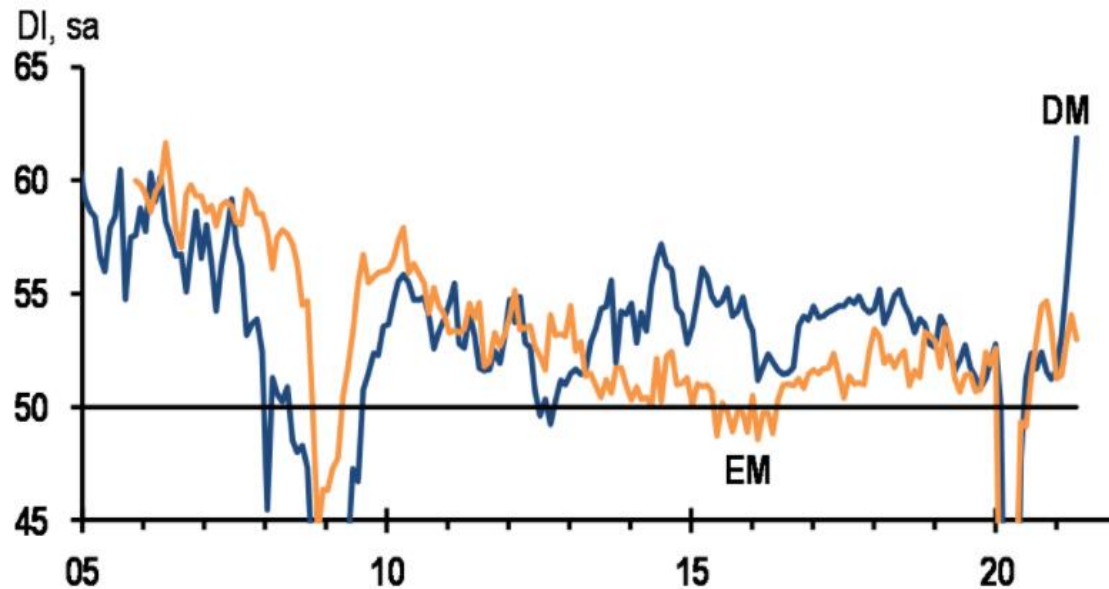


Source: JPM

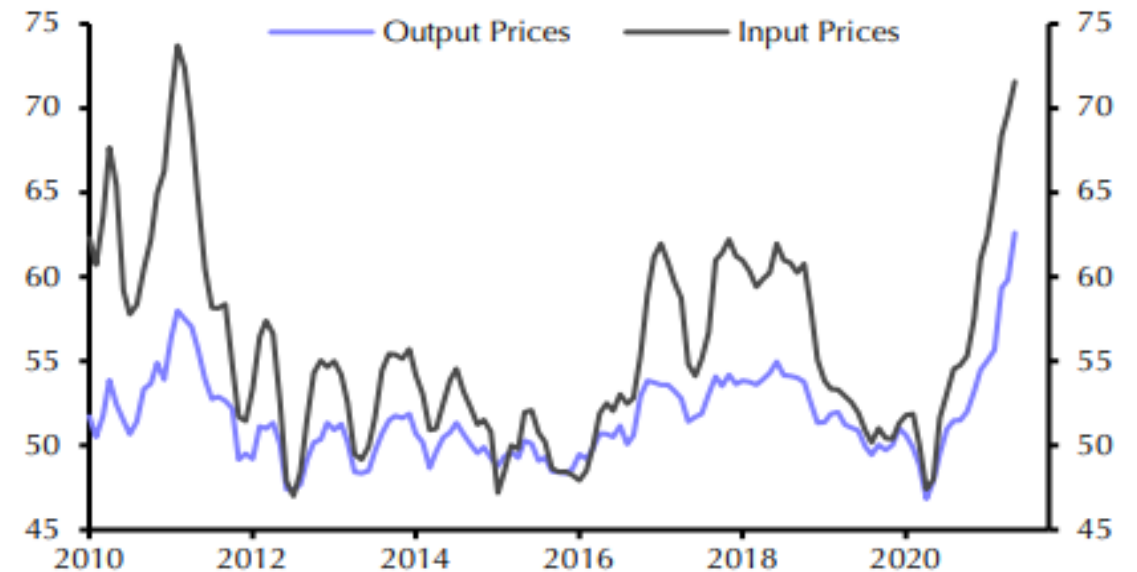
Macro Backdrop: DM Services Rebounding/Bottlenecks Causing Price Pressures

- DM service sector rebounded strongly in April as economies reopen
- EM service activity progress is measured more than in DMs, although it is up from pandemic low
- Global supply bottlenecks and order backlogs putting significant pressures on input and output prices
- Output prices reached highest level since start of data series in late 2009

Global Services PMI



Output and Input Prices

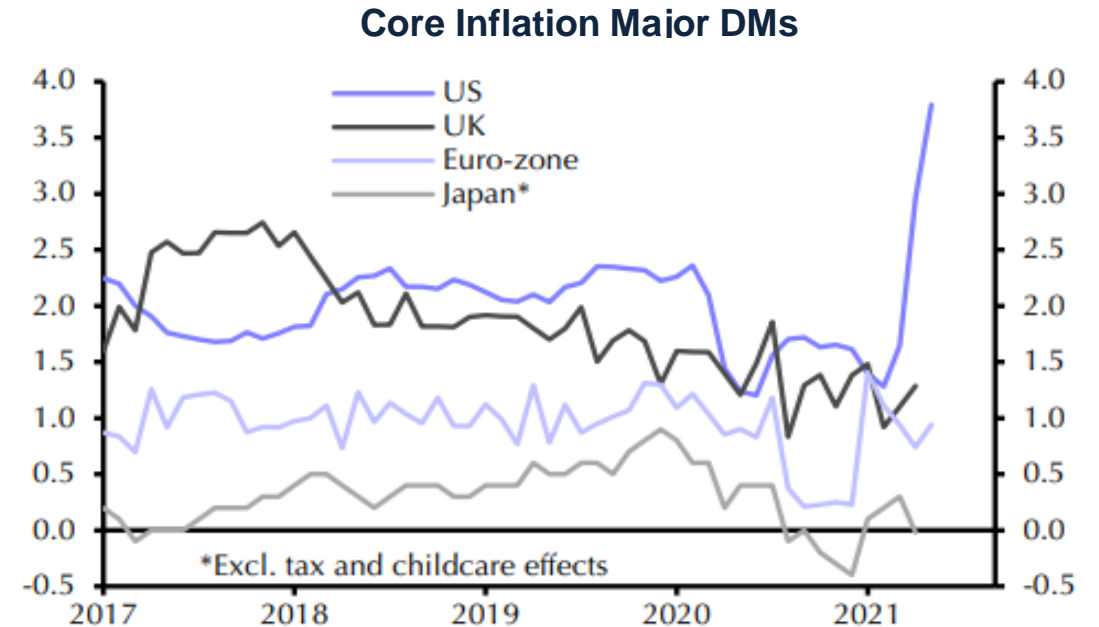
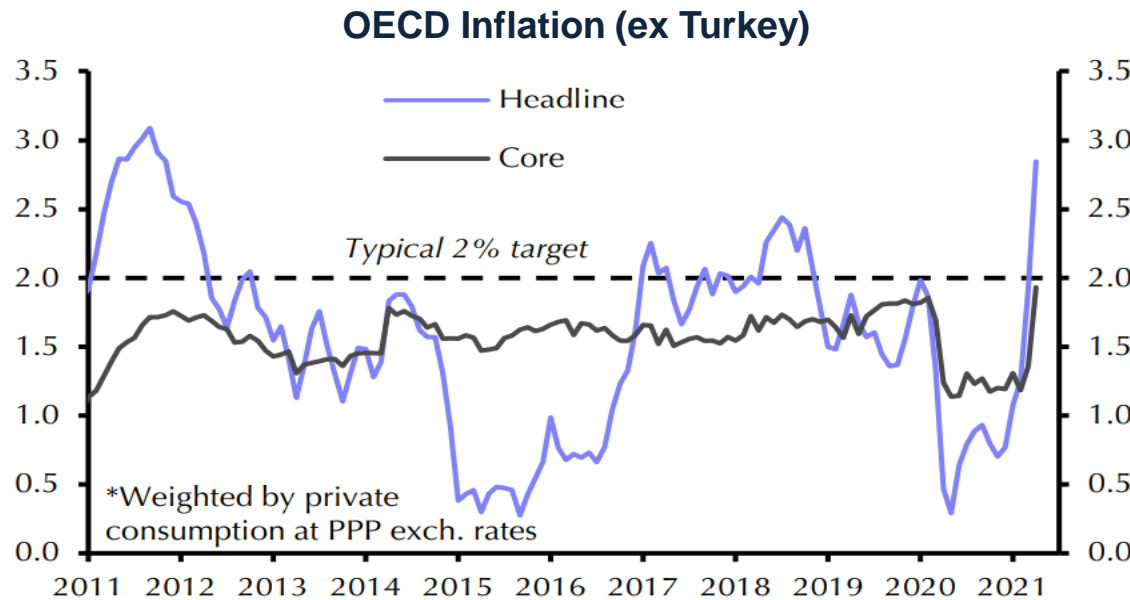


Source: JPM, Markit, Refinitiv, CE

Macro Backdrop: Inflation

- Headline inflation in OECD highest in early 10 years, largely due to energy and base effects
- Core inflation now approaching 2% target, reopening effects (e.g., hotel prices & airfares) underpin much of the latest jump

- Latest US core inflation highest among major DMs
- US reopening earlier and seemingly experiencing more pronounced supply-side constraints



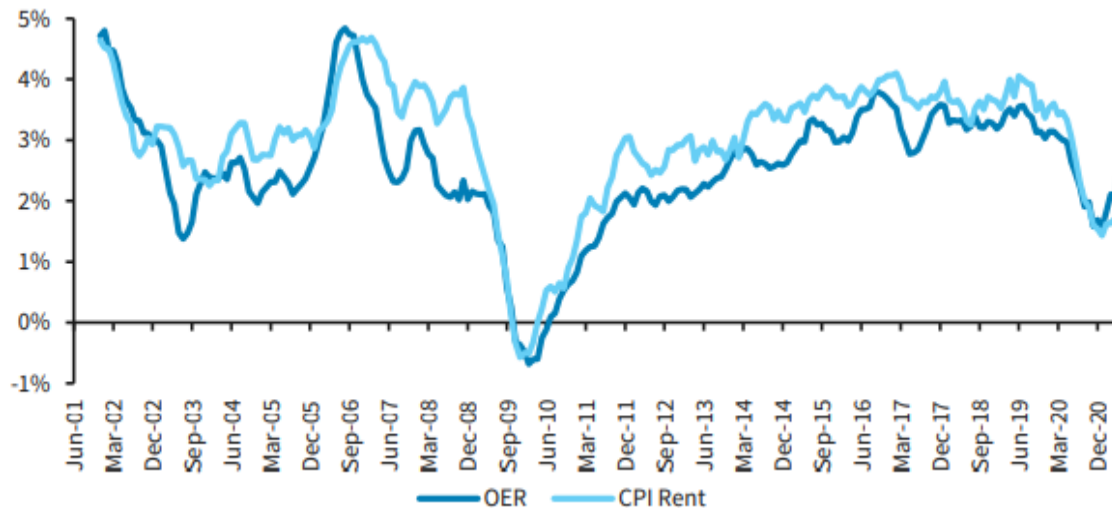
Source: Refinitiv, CE

Macroeconomic Backdrop: US CPI Report for May

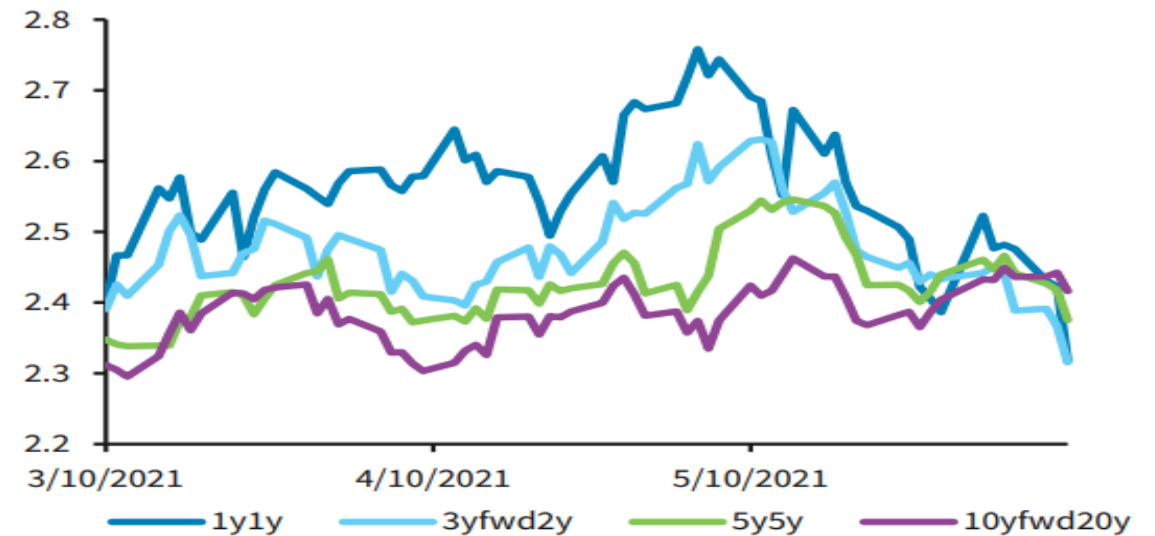
- US CPI provided another upside surprise in May
- Headline (+5% oya) highest in 13 years, core (+3.8% oya) highest in 29 years
- Largely explained by categories such as airfares (+7% m/m) and used cars (+7.3% m/m)
- But heavily weighted and more significant rents and implied housing cost also rose (+0.3 m/m)

- Overall, there appear to be sufficient special factors in latest inflation reports and wage data to keep long-run inflation expectations contained
- Recent wage growth was led by leisure and hospitality sectors, while increases were relatively moderate in professional and business services

CPI Rents and Owners Equivalent Rent



Forward CPI Swaps



Source: Bloomberg, Barclays

Some Thoughtful Economists Cite Longer-Term Inflation Risks

- **Bill Dudley, Larry Summers¹ & Mohamed El-Erian Expressing Concerns re:**
 - Fed’s new “outcome”-based approach for managing monetary policy which a couple of years ago replaced the...
 - “Forecast-based” approach to prevent premature tightening may no longer be appropriate
 - No one anticipated the huge structural transformation that has resulted in the interim ...
 - Fiscal stimulus and saving have reached unprecedented levels, while monetary policy is committed to maintaining...
 - Zero rates until “maximum” employment is reached, and inflation rises to 2% and stays there for some time
 - Dudley: since monetary policy works with lag, “Fed is likely to act too late to prevent the economy from overheating”
- **“Looming Tests for Central Bank Independence”² Placing Treasury-Fed Accord at Risk Also Potential Concern**
 - Fed capped T-bond yield at 2.5% to finance WW2 then after contentious battle regained independence in 1951...
 - Providing foundation for Volcker and other central bankers to initiate 40-year disinflationary regime in early 1980s
 - Central bankers’ excessive confidence in their models in current environment worrisome
 - If inflation doesn’t remain contained, they may have to backtrack on commitment to keep rates low for longer or...
 - Risk political encroachment on their independence
 - Expanding mandates of central banks is another possible and related threat to independence³
 - Traditional mandates focus on best outcomes for the whole economy such as stable prices and maximum employment
 - Efforts underway to expand mandates to include additional factors such as climate change and equity...
 - Arguably laudable goals but should/will central bankers be given mandate to set social policies?

1. leading positions on the Fed and Treasury: Dudley (Head of NY Fed), Summers (Secretary of Treasury)

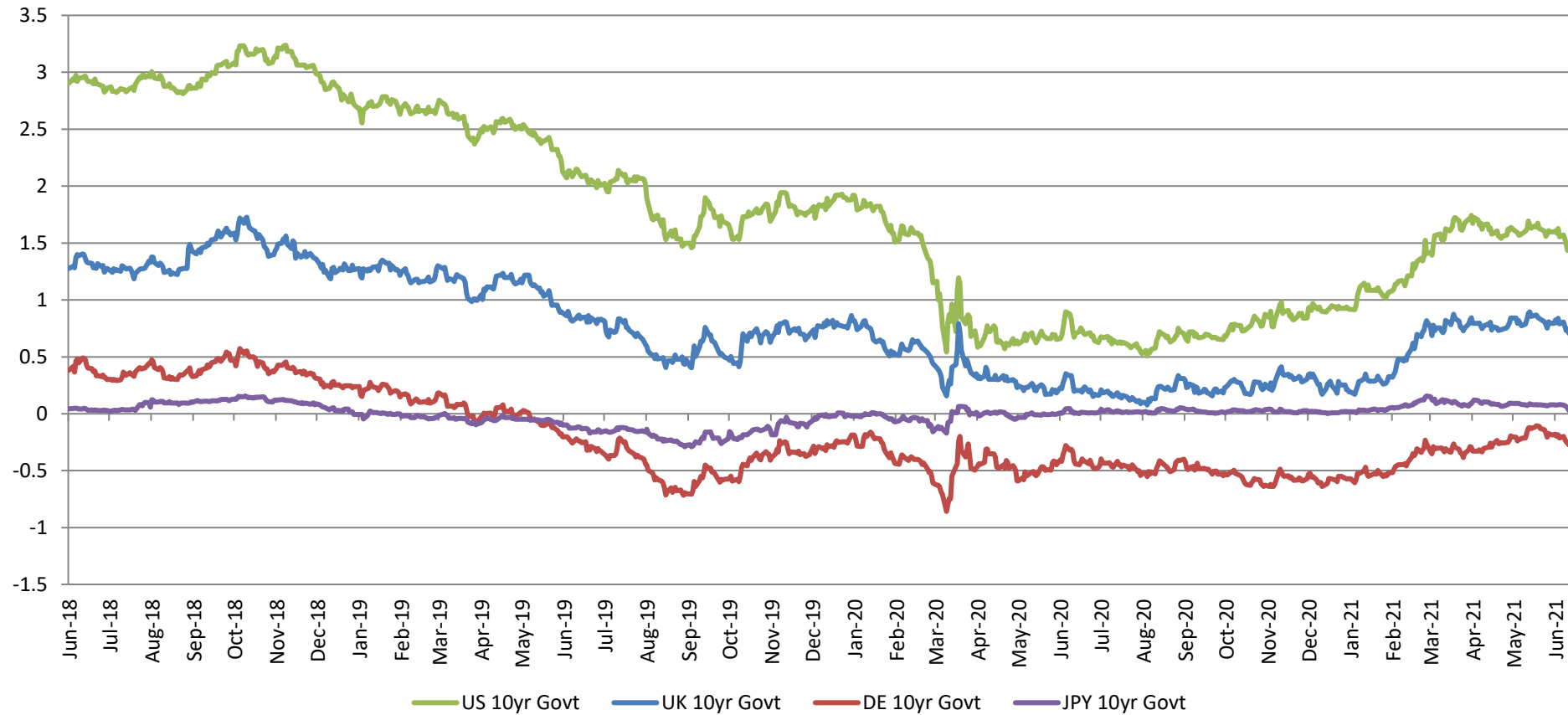
2. Mervyn King, NYU professor and former Governor of Bank of England

3. Brad Tank, CIO Neuberger Berman, Michael Belongia and Peter Ireland, WSJ (June 10, 2021)

Market Performance through June 11

(USD)	Since 4/30	YTD	2020	2019	2018
Equities					
MSCI ACWI	2.75%	12.15%	16.26%	26.60%	-9.42%
MSCI EAFE	4.70%	11.60%	7.82%	22.01%	-13.79%
MSCI EM	2.84%	7.81%	18.31%	18.42%	-14.57%
MSCI US	1.66%	12.92%	20.73%	30.88%	-5.04%
Fixed Income					
BarCap Global Agg Total Return (Hedged)	0.74%	-1.49%	5.58%	8.22%	1.76%
Citi US 10+ Govt Bond Index	2.66%	-9.24%	17.72%	14.89%	-1.89%
BarCap US High Yield Total Return (Unhedged)	1.07%	3.04%	7.05%	14.32%	-2.08%
Oil					
WTI Crude	11.70%	46.15%	-10.40%	7.46%	-3.39%
Brent Crude	9.67%	41.56%	-12.86%	3.17%	-1.47%
Currency					
USD/EUR	-0.57%	1.03%	-8.25%	1.86%	7.00%
USD/GBP	-1.94%	-3.27%	-3.07%	-3.76%	6.16%
USD/JPY	0.44%	6.34%	-4.99%	-1.00%	-2.54%
USD/CNH	-1.09%	-1.53%	-6.73%	1.38%	5.53%
USD/TRY	0.51%	12.31%	24.88%	11.93%	40.19%
USD/ARS	1.68%	13.05%	40.55%	58.95%	100.07%

Sovereign Bond Yields



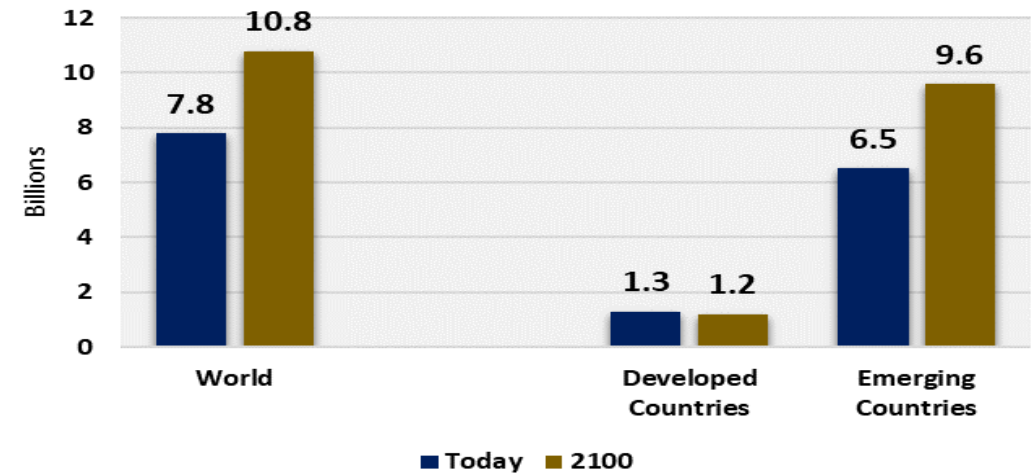
Source: Bloomberg

Public Equity Update

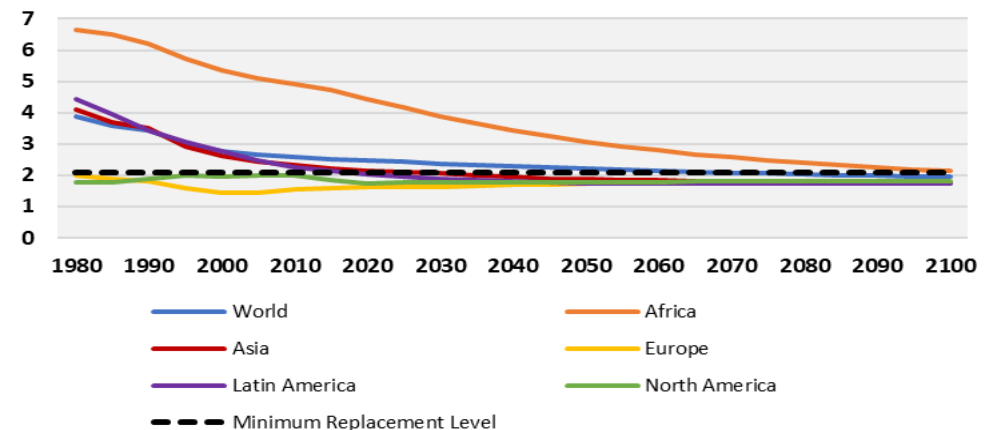
Demographics - World

- World population is forecasted by the UN to grow by roughly 40% from 7.8 billion people today to 10.8 billion people in 2100.
 - All the forecasted population growth is expected to come from emerging countries while the population of developed countries is expected to contract slightly.
- And within emerging countries, all the growth is expected to come from Africa, the only region with a current fertility rate above the 2.1 level estimated as the rate needed to maintain the current population level.

World Population - Today & 2100 Forecast



Fertility Rates 1980-2020 & Forecast to 2100



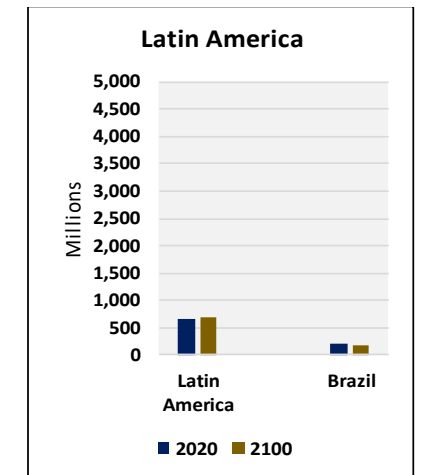
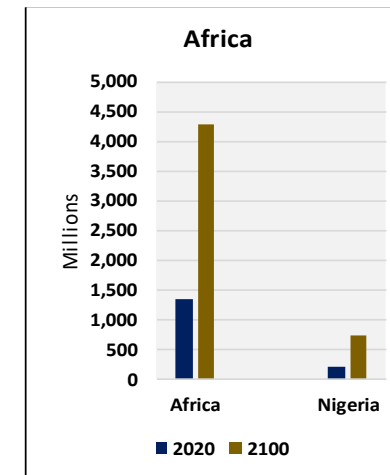
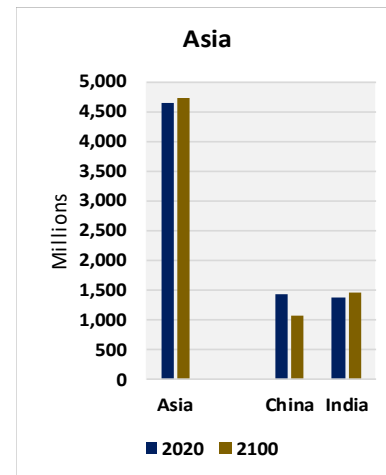
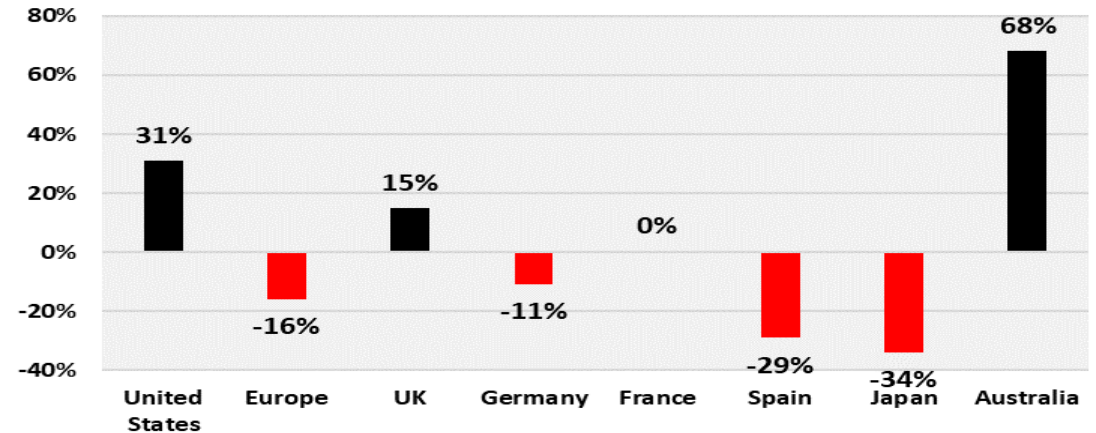
Source: United Nations Dept of Economic and Social Affairs, World Population Prospects 2019.

Demographics – Developed & Emerging Countries

- The US is expected to add approx. 100 million people by 2100 - a 31% increase over today's population – driven by immigration.
 - Europe's population is expected to contract, with the UK a notable exception. Contraction is more pronounced in southern Europe.
 - Japan is expected to lose approx. one-third of its population, with its population having already peaked a decade ago.

- Populations in Asia and Latin America are expected to remain relatively stable overall while the population of Africa is expected to boom.
 - Asia: China -26%, India +5%
 - Africa: Nigeria +256%
 - Lat Am: Brazil: -15%

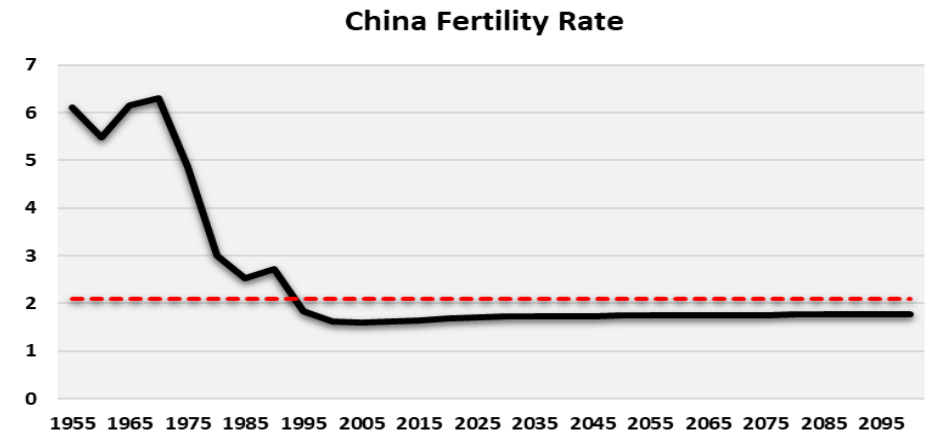
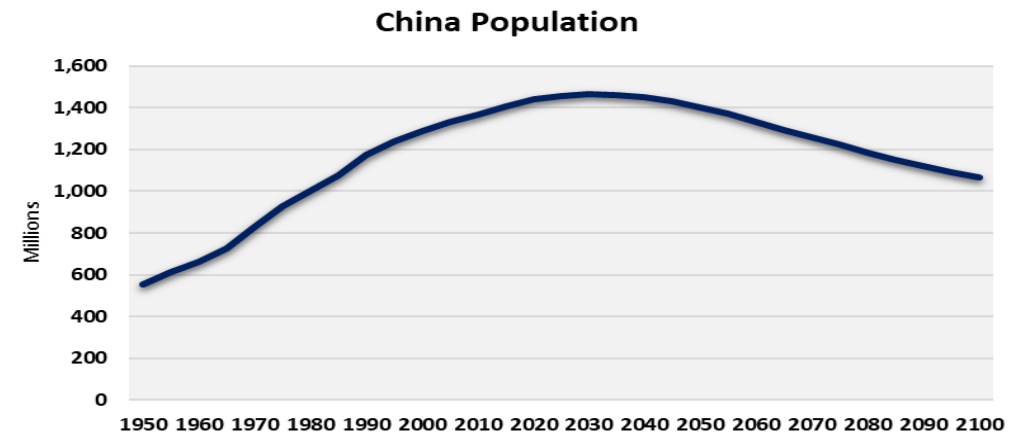
Forecasted Change in Population 2020-2100



Source: United Nations Dept of Economic and Social Affairs, World Population Prospects 2019.

Demographics - China

- The recent relaxation of China's fertility restrictions is intended to address the demographic consequences of its former one-child policy that was implemented in the late 1970s to control population growth.
 - China's population nearly doubled from 1950 (554 million) to 1980 (1.0 billion).
 - The term "one-child policy" is a bit of a misnomer as rural parents were allowed a second child in the case where the first child was a girl and exemptions were also granted for certain ethnic groups. This policy was then relaxed to a two-child policy in 2016 and to three children today.
 - Since the implementation of the one-child policy China's population has grown to 1.4 billion, but with the decrease in fertility China's population is expected to peak around 2025-2030.



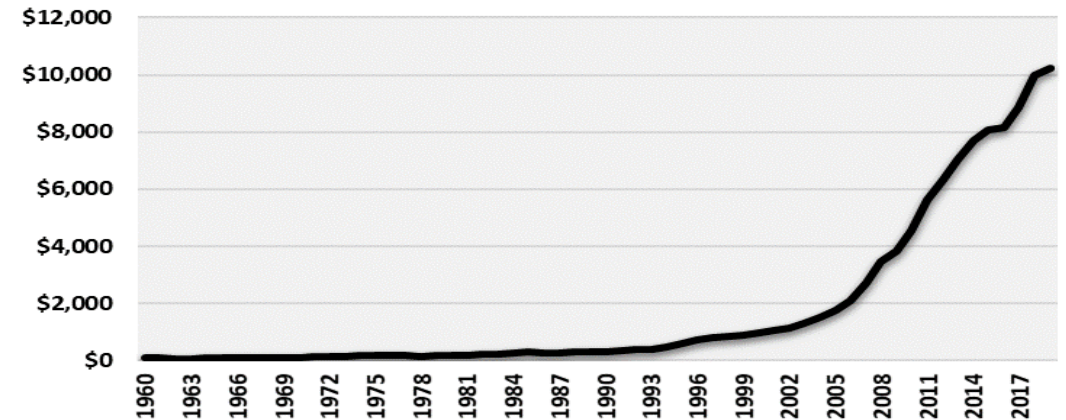
Source: United Nations Dept of Economic and Social Affairs, World Population Prospects 2019.

Demographics - China

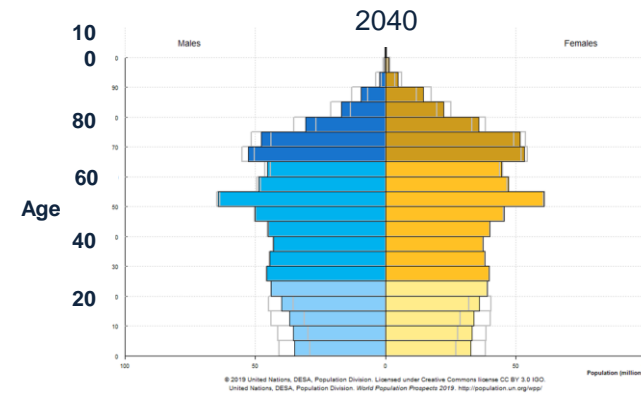
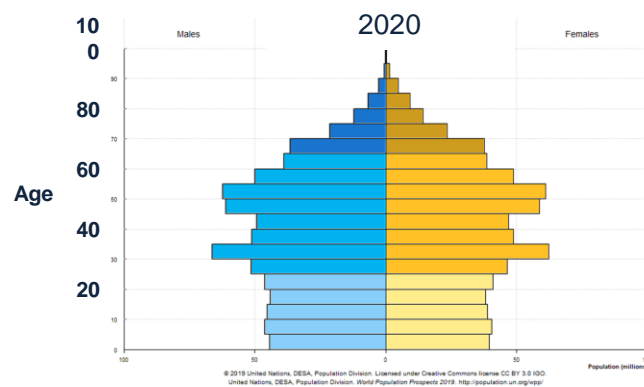
- The good news is that over the period the one-child policy has been in place China's GDP Per Capita has grown by 11%/year from 1980 (\$195) to 2019 (\$10,217) while adding approx. 400 million people.
- However, past policies have created undesirable demographic imbalances.

China GDP Per Capita

Constant 2019 USD



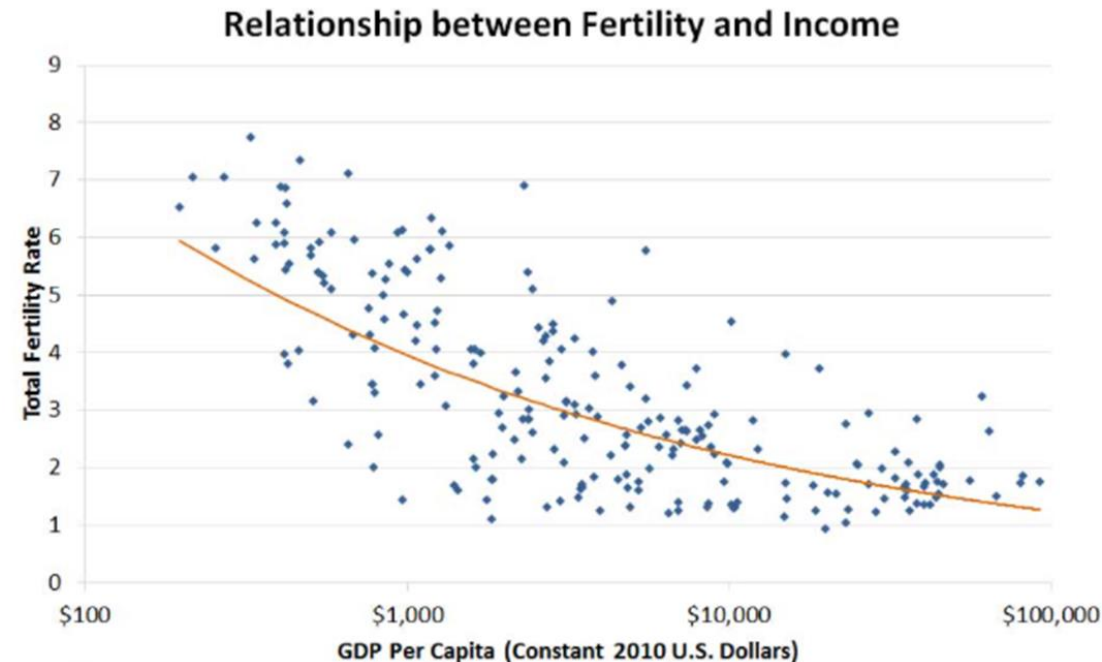
- Census data shows a 5.2% increase in those aged 60 or above to 17.4% today from 12.2% a decade ago. (Expected to grow to 30.0% in 2040).
- And the group aged 15-59 contracted from 69.1% to 64.9% over the last decade (and is expected to fall to 55.8% in 2040).



Source: United Nations Dept of Economic and Social Affairs, World Population Prospects 2019.

Demographics - China

- And China's attempt to increase births faces an uphill battle as wealthier nations tend to have lower fertility rates and fertility has tended to decrease as wealth increases.



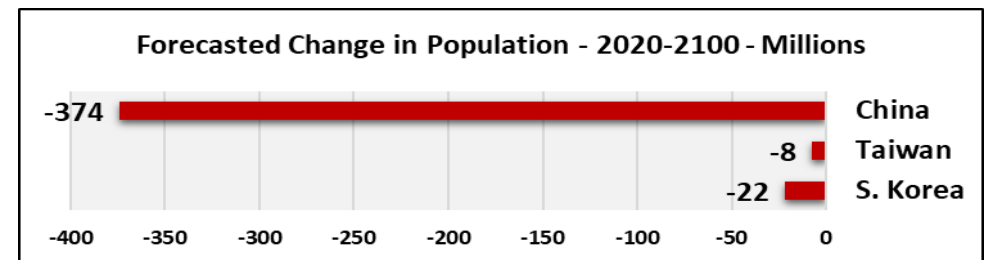
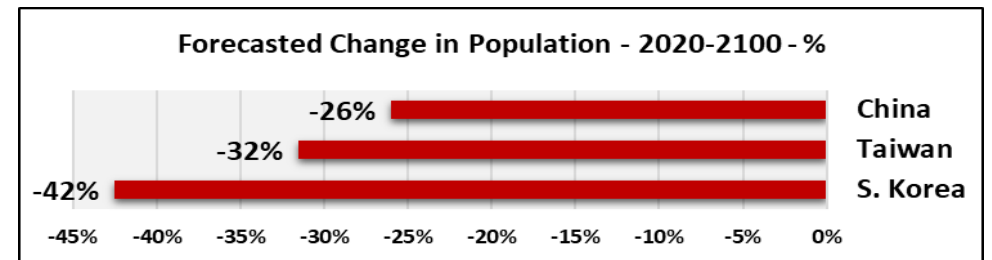
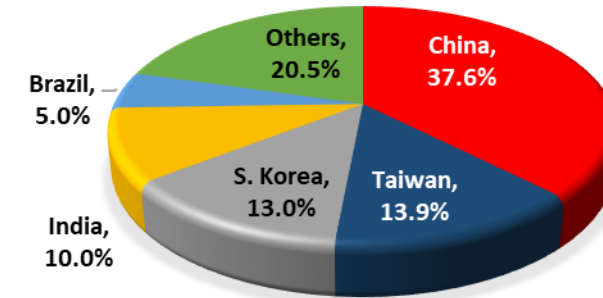
- Besides economic reasons, behaviors entrenched over the prior decades are likely to be resistant to change.
 - Births increased slightly in 2016 after the last relaxation of restrictions, but then resumed their decline over the following four years to a record low fertility rate of 1.3 today.

Demographics – Emerging Markets

- The demographic tailwind that Emerging Markets have enjoyed over the past several decades, particularly in Asia, will soon turn to a decided headwind.
 - China, South Korea and Taiwan comprise 64.5% of the MSCI index as of 31 May 2021 and are expected to lose 26%, 32% and 42% of their populations by 2100, respectively.
 - That represents a combined reduction in population of 400 million people (1.5 billion to 1.1 billion).
 - Similar to China, populations in South Korea and Taiwan are expected to peak in 2025 and 2030, respectively.

MSCI EM WEIGHT

31 MAY 2021



Sources: MSCI, United Nations Dept of Economic and Social Affairs, World Population Prospects 2019.

Demographics – Emerging Markets

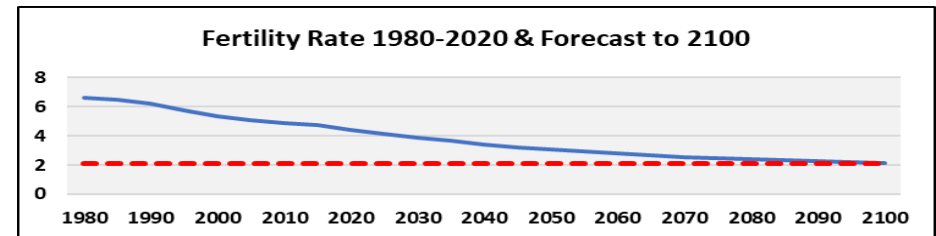
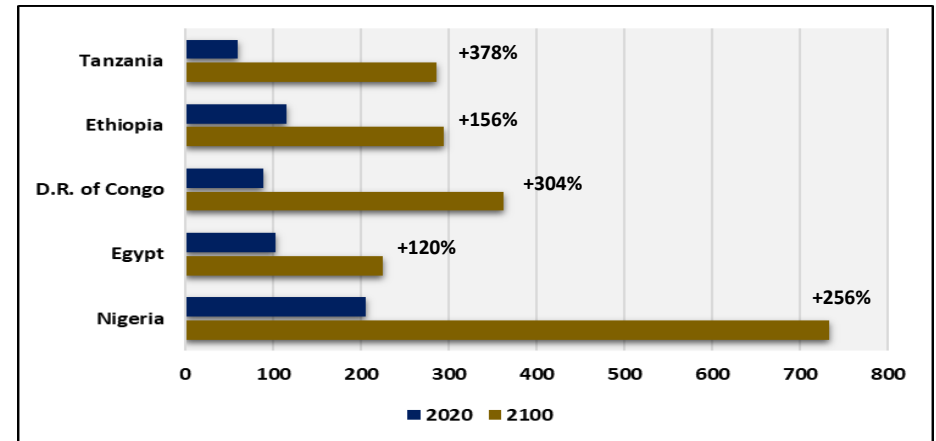
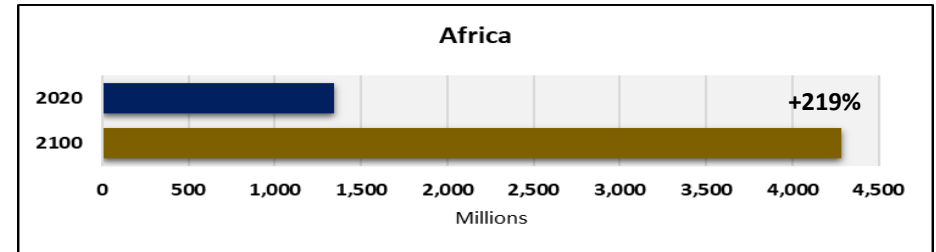
- The demographic case for the remainder of the MSCI EM countries is slightly better.
 - India’s population is expected to grow at a much slower rate than in the recent past, adding 67 million people, a 5% increase over its current 1.38 billion.
 - Overall, the combined population of the current MSCI EM index constituent countries is expected to remain almost unchanged from now to the end of the 21st century, from 4.60 billion people to 4.61 billion, a 0.4% increase. (the combined population of existing EM countries doubled in the last 50 years, from 2.19 billion in 1970 to 4.60 billion today.)
 - The combined population of the MSCI EM countries is expected to peak in 2055 at 5.18 billion.
 - Other notable growers include Pakistan (+82%) and Egypt (+120%); Russia (-14%) and Brazil (-15%) are expected to contract.

Country	Population (millions)		% Change	Change
	2020	2100		
Argentina	45.2	56.8	26%	11.6
Brazil	212.6	180.7	-15%	-31.9
Chile	19.1	17.3	-9%	-1.8
China	1,439.3	1,065.0	-26%	-374.3
Colombia	50.9	45.2	-11%	-5.7
Czech Republic	10.7	10.3	-4%	-0.4
Egypt	102.3	224.7	120%	122.4
Greece	10.4	6.6	-37%	-3.8
Hungary	9.7	6.9	-29%	-2.8
India	1,380.0	1,447.0	5%	67.0
Indonesia	273.5	320.8	17%	47.3
Malaysia	32.4	40.1	24%	7.7
Mexico	128.9	141.5	10%	12.6
Pakistan	220.9	403.1	82%	182.2
Peru	33.0	39.2	19%	6.2
Philippines	109.6	146.3	34%	36.7
Poland	37.8	23.0	-39%	-14.8
Qatar	2.9	4.2	44%	1.3
Russia	145.9	126.1	-14%	-19.8
Saudi Arabia	34.8	42.2	21%	7.4
South Africa	59.3	79.2	34%	19.9
South Korea	51.3	29.5	-42%	-21.7
Taiwan	23.8	16.3	-32%	-7.6
Thailand	69.8	46.0	-34%	-23.8
Turkey	84.3	86.2	2%	1.8
UAE	9.9	12.9	31%	3.0
Total EM	4,598.4	4,617.1	0.4%	18.7

Source: United Nations Dept of Economic and Social Affairs, World Population Prospects 2019.

Demographics - Africa

- Africa is expected to be the driver of population growth over the coming decades.
 - Africa’s population is expected to triple from now until 2100, growing from 1.3 billion today to 4.3 billion at the end of the century.
 - Population growth is forecasted across all regions of Africa.
 - The continent’s fertility rate is expected to decline from today’s 4.4 to 2.1 in 2100.



Source: United Nations Dept of Economic and Social Affairs, World Population Prospects 2019.

Demographics - Implications

1. Long-term Supply/Demand for risky assets - Retirees do not buy stocks.
2. Some have speculated on a negative relationship between aging populations and equity market valuations.¹
3. China is likely to have a difficult time reversing its low/declining fertility rate – economic/behavioral headwinds.
4. Peaking demand for China's property/residential real estate markets (real estate accounts for ~30% of China's GDP²).
5. China's aging population complicates its transition to a consumption-based economy requiring increased saving for retirement; we believe resources will need to be allocated to growing health care and pension demands.
6. Demographics represent one more dimension where today's EMs more closely resemble DMs (along with higher equity correlations, slower growth, etc.)
7. Productivity gains will be needed to offset demographic trends to continue economic growth.
8. Can Africa experience the same kind of economic growth in the 21st century that 20th century EMs experienced?

Sources: 1) Liu, Zhaeng & Spiegel, Mark, *Boomer Retirements: Headwinds to US Equity Markets?*, San Francisco Fed. 2) Asia Property HQ. *China Real Estate Market Outlook for 2021*.

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