SECOR ASSET MANAGEMENT

Macroeconomic and Equity Update

November 28, 2022

Global Macroeconomic Overview

- **Some Welcomed Signs of Near-term Resilience in Most Recent Economic Reports**
  - Good news, however, tempered by realization that significant challenges remain ahead

- **Latest Data with Notable Exception of China Largely Exceeded Expectations**
  - US economy on track for 3% growth rate in current quarter
  - Europe thus far weathering Russia's gas cutoffs better than expected
  - Mobility normalizing in Asia outside of China
  - Global retail sales recovering[1] aided by fading adverse supply shocks and bottlenecks

- **Considerable Headwinds Remain, However**
  - Weakness in global manufacturing PMIs underscore caution in industrial sector
  - Goods and commodity prices may be moderating but with …
    - Developed Market wage increases not yet consistent with central bank targets
  - Central banks may not have to raise rates much further but …
    - They need to maintain restrictive policies until core inflation is tamed

1. JPM's global consumer goods spending aggregate increased 0.3% in September, the first gain since June. DM auto rates and US retail sales were strong in October.

Country / Regional Briefs

- **US: Fed Signaling Less Hawkish Tilt/Latest Data: Upside Surprises With Nuances**
  - "Substantial majority" agreed slower hiking pace would "likely soon be appropriate"[1]
    - Uncertain lags and effects of tightening on economy and inflation
    - Recession almost as likely next year as baseline below-potential growth forecast
  - Latest retails sales and employment data above expectations
    - Well publicized tech layoffs not a canary in the coal mine[2]
  - Latest PMI data point to slowing but…
    - Extent of weakness in November's flash PMI may be overstated
  - Housing remains weak, despite monthly increase in volatile new home sales.[3]

- **Euro Area: Worst Fears Not Coming to Fore but Growth Slowing/Inflation High**
  - GDP managed to expand at 0.8% annual rate in Q3
    - Economic activity has surpassed expectations in the past few months[4]
  - Inflationary concerns and tighter financial conditions expected to slow Q4 growth
    - Headline consumer inflation (HICP) up 10.6% yoy in October
    - Recent softening in natural gas prices not yet fully reflected…
  - But with core inflation 5% yoy in October
    - Further ECB tightening expected

1. November FOMC minutes
2. Tech firms account for one-quarter of US equity market cap but only 0.1% of US payrolls and 0.2% of wage income
3. Existing home sales and housing starts declined in October. New home sales despite an unexpected 7.5% jump in October were still 5.8% below a year ago
4. Latest reading for Euro Area: JPM's 'Newcaster' Revision index relatively strong ~2

Country / Regional Briefs - continued

- **UK: Chancellor Hunt's Fiscal Package/Latest Data Mixed at Best**
  - New fiscal consolidation package, if fully implemented…
    - Promises to put public finances on stable footing over medium term…
    - But remains to seen whether it will be implemented
  - Many of provision in Hunt's plan back-loaded and…
    - General election must take place no later than June 2025
  - Latest data: Inflation high/unemployment low but above trough
    - October headline CPI jumped to 11.1% yoy. largely due to food prices
    - Core inflation unchanged at 6.5% and unemployment rate edged up to 3.6% in October

- **China: Zero Tolerance Covid Policy Confronted with New Challenge**
  - Government recently published 20-point plan to refine virus controls
    - But with new Covid-19 cases surging to highest level since early spring and…
    - Cities with high/mid-risk districts accounting for ~65% of GDP, concerns are mounting
  - No major change in Covid policy announced thus far
    - But premier announced some policies aimed at supporting economy[1]

1. At State Council meeting premier announced: RRR cut, pushing forth on major construction projects, and encouraging more bank lending to "ensure timely deliveries of pre-sold home."

Flash November PMIs Consistent with Economic Weakness & Moderating Prices

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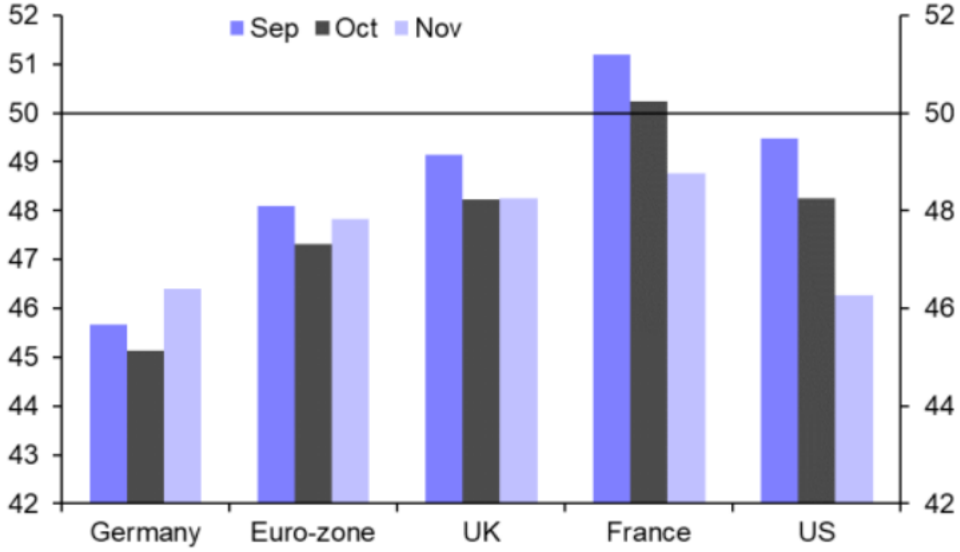
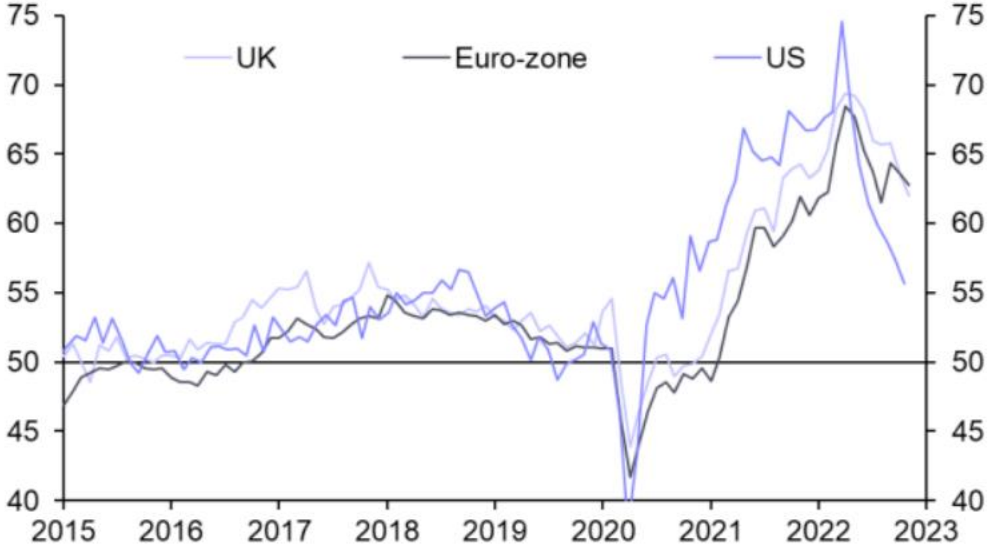
Composite Manufacturing PMI



Source: S + P Global, Refinitiv, CE

PMI: Output Price Indicator



Source: S + P Global, Refinitiv, CE

- Flash manufacturing composite PMIs for Europe and the US consistent with declining economic activity
- November reports for Euro area and UK better than expected, while US report downside surprise[1]

- Price pressures still high in historical context but easing
- Latest UK and the Euro area output-price indictors down from recent peaks, while US indicator has fallen to 20-month low

1. Sharp decline in latest US flash report not consistent with alternative data. ISM manufacturing PMI at 50.2 in October and durable good new orders were up 1% m/m in October.

Some Good News in Latest Monthly Data

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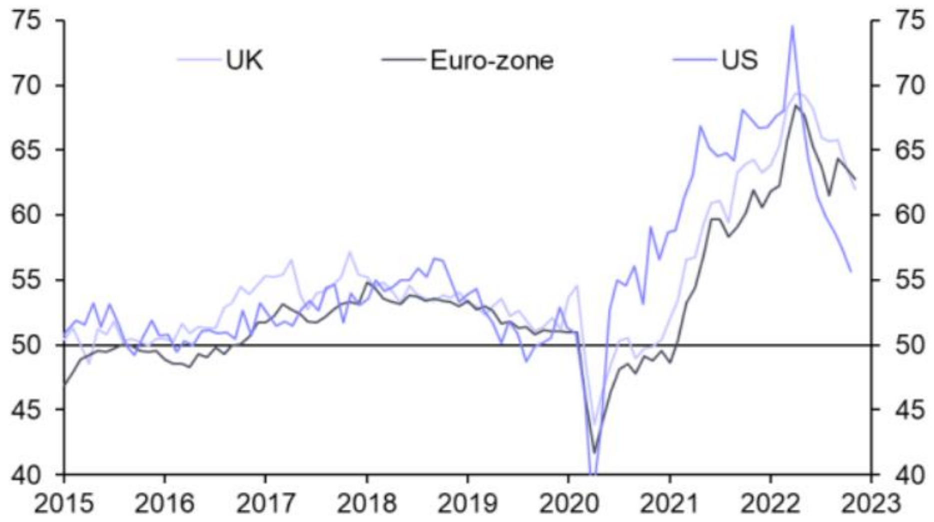
Citigroup Economic Surprise Index[1]

Source: Refinitiv, CE

- Despite weakness in the latest PMIs, recent monthly data included several upside surprises, particularly in retail sales and employment
- Citigroup's surprise index shows that the major Developed Market's economic releases largely exceeded expectations in the past month, while Emerging Market data were broadly in line with the expectations

G7 Product Shortages (Z Score)[2]



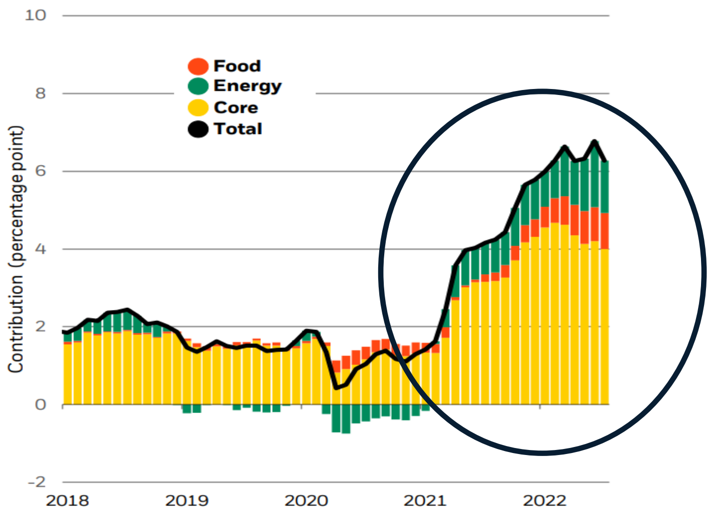
Source: Refinitiv, CE

- Easing supply shortages seemingly underpin recent upside surprises
- Auto industries in North America and Europe in particular benefitting from improved supply availability

1. Citigroup's Economic Surprise index measures sum of differences between releases for key macroeconomics data and consensus forecast
2. CE's G7 product shortage indicator is composite of barometers such as delivery times and backlogs

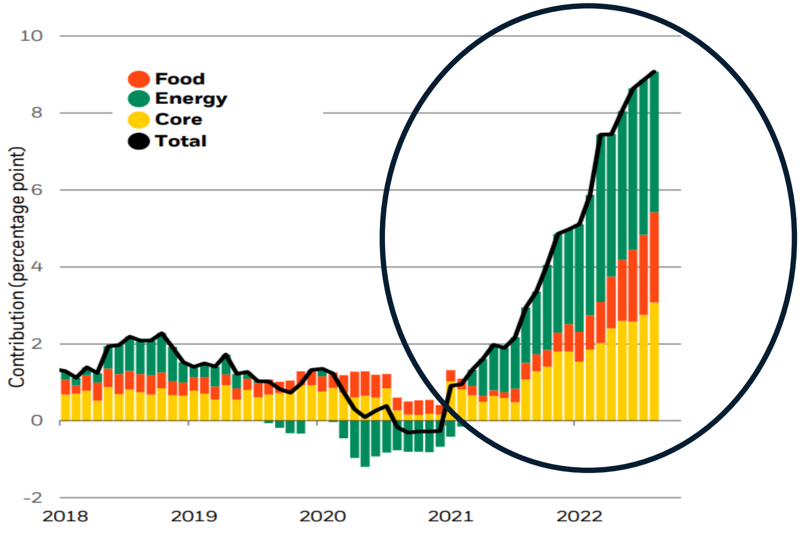
Inflation Composition: US and Euro Area[1]

US CPI



Source: BEA, Haver, BlackRock

Euro Area CPI



Source: Eurostat, Haver, BlackRock

- Surge in US CPI in 2021 and 2022 largely due to core inflation (gold area)
- Core inflation in US appears to be peaking

- In contrast, surge in Euro area's consumer inflation over the past two years was largely due to energy (green area)
- But core inflation in Europe, albeit lower than in the US, is rising

1. Charts plotted through August 2022. October 2022 consumer inflation in US and Euro Area respectively ---Headline: 7.7% and 10.6%, core: 6.3% and 5.6%.

Selected Inflation Indicators: US Core Goods / Core DM Trimmed Inflation[1]

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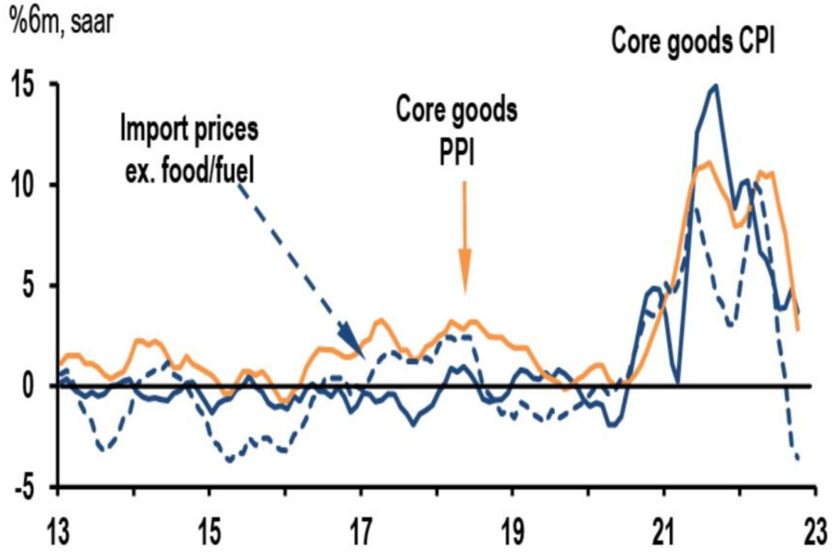
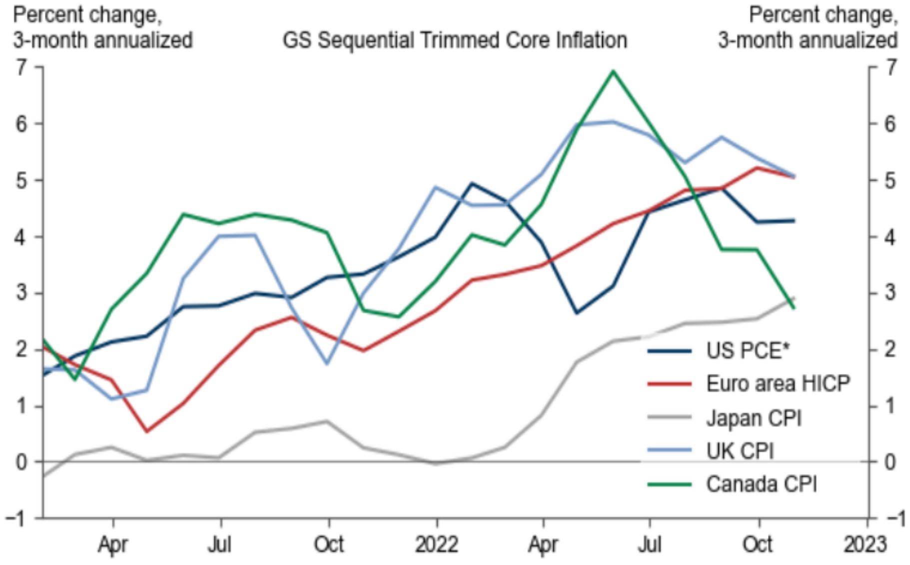
US Core Goods Inflation



Source: BLS, JPM

DM Trimmed Core Inflation



Source: Various national sources, GS

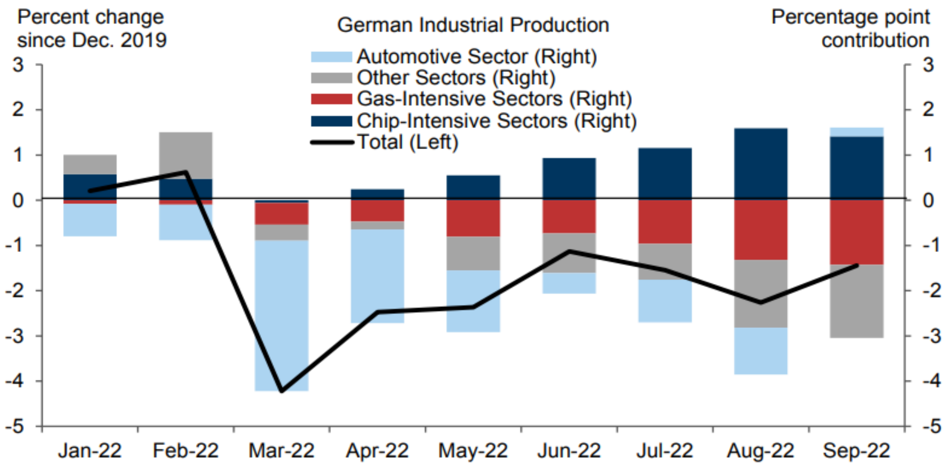
- US core goods inflation (amber & solid blue lines) has moderated significantly but is still far above pre-covid levels
- Service prices, however, which are more closely linked to wages, and rents are stickier

- Trimmed core inflation is currently running above central bank targets with notable exception of Japan[2]
- 3-Month trimmed averages through October are ~5% for Euro area and UK, 4.2% for US[3] and ~3% for Japan and Canada

1. GS sequential trimmed core inflation systematically trims one-third of month-to-month changes to eliminate outliers
2. As discussed in prior (November 14) macro presentation, BoJ Governor contends Japan needs higher wages/inflation lasting change in deflationary mindset
3. GS economists estimate October (PCE*) at 3.3%

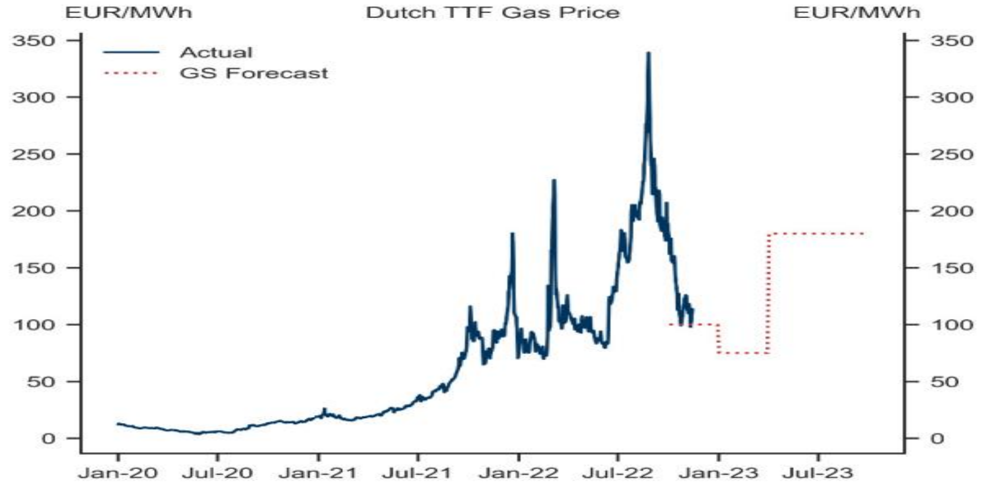
Euro Area: Largely Weathering Natural Gas Curtailments Thus Far

Germany's Industrial Production



Source: Haver Analytics, GS

Dutch TTF Gas Price[1]



Source: Haver Analytics, GS

- Europe has cut Russian gas imports by 80% without a material adverse effect on economic activity
- Germany's industrial production is currently only ~1% below its pre-pandemic level as easing bottlenecks are lifting chip and auto production and offsetting weakness in energy-intensive production
- TTF gas prices are down significantly from their recent peak as conservation and mild weather have reduced gas consumption by 20% -25%
- Gas storage in Europe is currently ~40% above its seasonal average but GS economists forecast renewed upward price pressures (red line) in the spring as surplus is depleted

1. 60% decline in prices from early Summer peak covers period through end of October. Russia's share of Europe's gas imports has fallen from 40% pre invasion to 100%. Last week Russia threatened to cutoff exports to Moldova and prices jumped 8% to Euro 124.5 per MWh

US Consumer: Current Strength / Significant Ongoing Headwind

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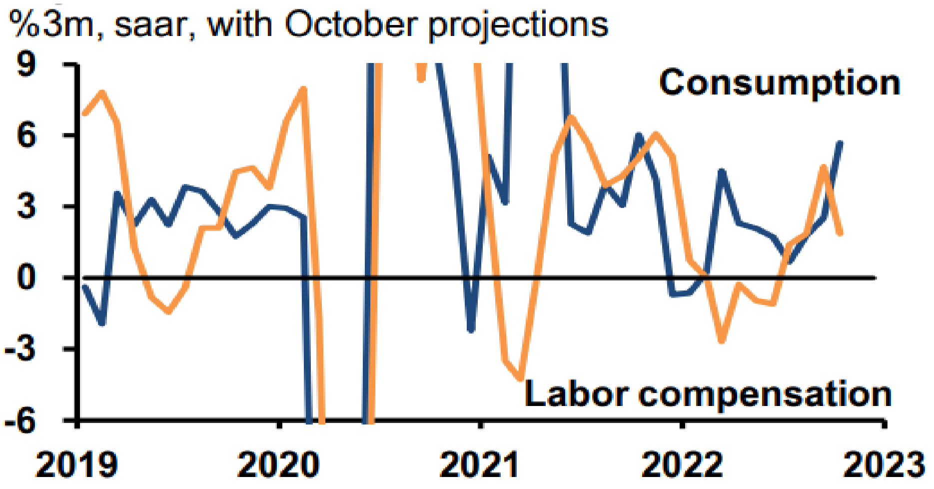
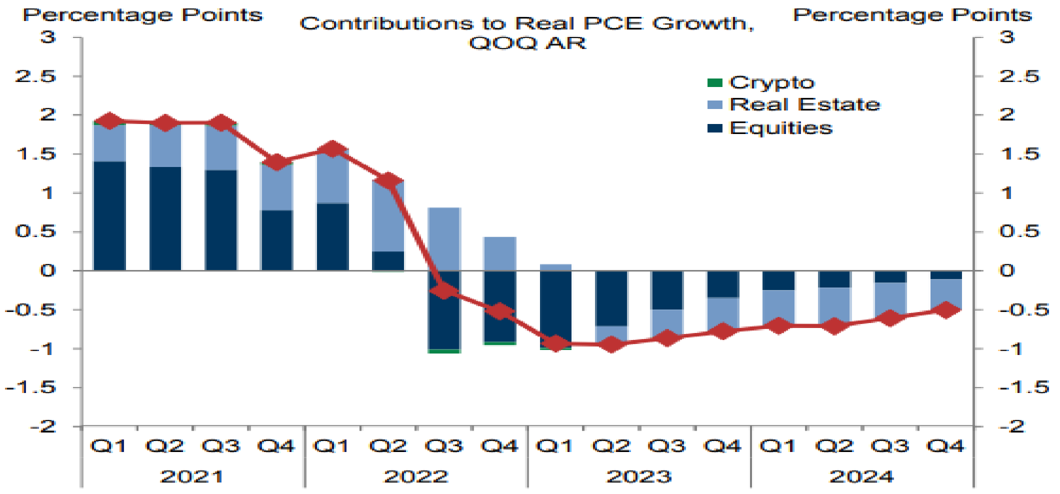
Real Consumption / Compensation



Source: BEA, JPM

- Real personal consumption expenditures on track to rise at 3% annual rate in this quarter
- Rising incomes and moderating core goods prices are lifting purchasing power
- Income growth expected to remain supportive in 2023[1] but…

Wealth Effect on Consumption



Source: BEA, JPM

- Wealth effect shifting to negative due to weakness in equities, expected softening in house prices[2]. **Crypto not material at macro level[3]**
- Excess saving still considerable but concentrated among upper-income consumers.[4] Credit card balances increased 15% yoy in Q3, largest increase in over two decades[5]

1. 2023 income likely to be supported by: continuing wage and employment gains, higher COLA adjustment — e.g., social security benefits + 8.7%, and higher interest payments
2. GS economists forecast 12% decline in house prices through end – 2024
3. **Crypto space circular; largest creditors customers and crypto-related companies, major banks not material creditors**
4. Excess savings down from recent peak but still above $1.2 trillion, "As Saving Shrink….", H, Torry, WSJ, November 21, 2022
5. Federal Reserve Bank of N.Y.

Market Performance Through to 25 November

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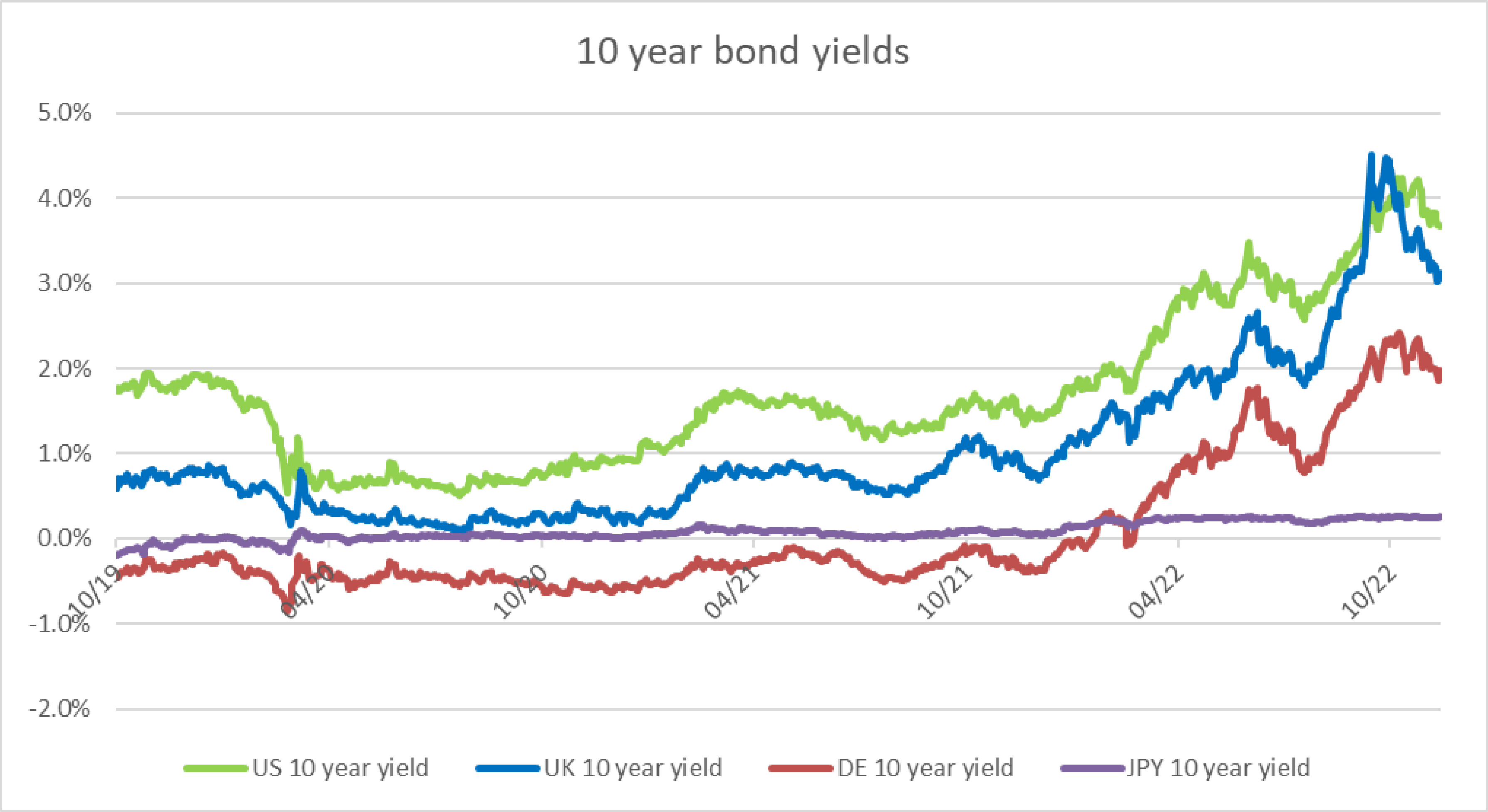
(USD)	Since 11/18	YTD	2021	2020	2019
Equities					
MSCI ACWI	1.51%	-15.81%	18.54%	16.26%	26.60%
MSCI EAFE	2.15%	-13.69%	11.26%	7.82%	22.01%
MSCI EM	-0.09%	-21.57%	-2.54%	18.31%	18.42%
MSCI US	1.50%	-15.97%	26.45%	20.73%	30.88%
Fixed Income					
BarCap Global Agg Total Return (Hedged)	0.71%	-10.23%	-1.39%	5.58%	8.22%
Citi US 10+ Govt Bond Index	3.10%	-27.89%	-4.63%	17.72%	14.89%
BarCap US High Yield Total Return (Unhedged)	1.05%	-10.65%	5.26%	7.05%	14.32%
Oil					
WTI Crude	-4.78%	6.60%	54.09%	-10.28%	0.43%
Brent Crude	-4.55%	12.54%	48.83%	-12.31%	-2.72%
Currency					
USD/EUR	-0.41%	9.30%	7.57%	-8.25%	1.86%
USD/GBP	-1.38%	12.00%	0.86%	-3.07%	-3.76%
USD/JPY	-0.45%	20.95%	11.52%	-4.99%	-1.00%
USD/CNH	1.07%	13.13%	-2.11%	-6.73%	1.38%
USD/TRY	0.08%	40.10%	78.97%	24.88%	11.93%
USD/ARS	1.51%	61.18%	22.11%	40.55%	58.95%
USD/RUB	0.03%	-18.84%	1.35%	19.10%	-10.48%

Source: Bloomberg
Past performance does not guarantee future results.

Sovereign Bond Yields

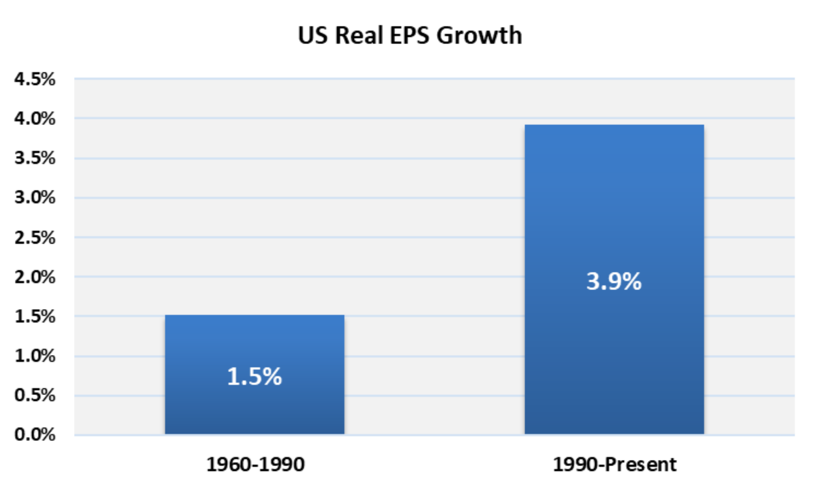


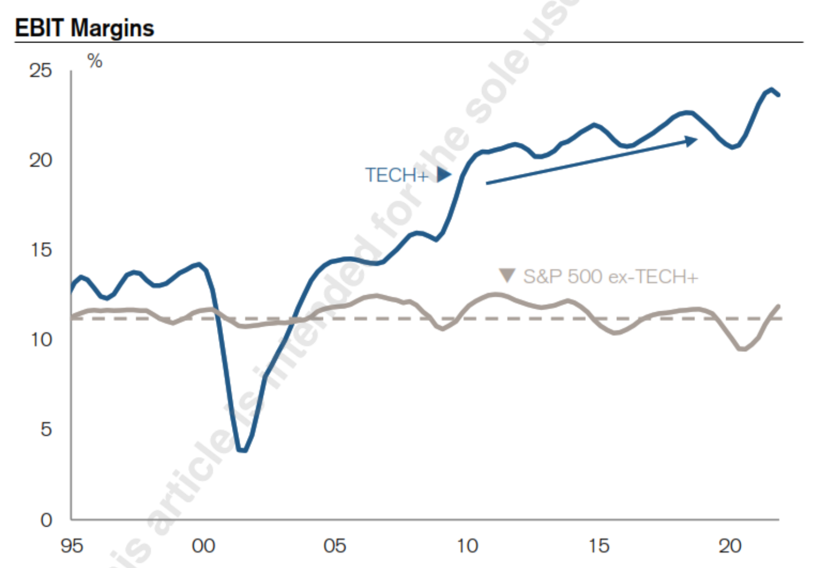
Source: Bloomberg

Equity Update
November 28, 2022

The Death of Globalization?

- **One of the tailwinds cited as contributing to the above-average earnings growth experienced in recent decades has been lower costs through increasing globalization**
  - Other possible contributors to rapid earnings growth include declining interest rates, falling corporate tax rates and lighter regulation, among others.
- **Global economic integration, however, was dealt a blow from COVID-induced supply-chain problems and heightened geopolitical tensions/war.**
- **Despite the tailwind, the contribution to earnings growth has been minimal for Non-Tech sectors as their margins have remained unchanged over the last 2 decades+.**
  - Lower costs have been passed on to consumers – good for keeping a lid on inflation but seemingly little impact on corporate earnings growth for companies that make stuff.
  - Increasing margins for Tech+ likely owes more to digitization of the world economy and the scalability of Tech+ business models and less to increased global integration – "Software is eating the world." - Marc Andreessen.
  - Corporate earnings, however, have likely been positively impacted less directly by higher demand for goods and services from rising incomes/low inflation associated with increased globalization.

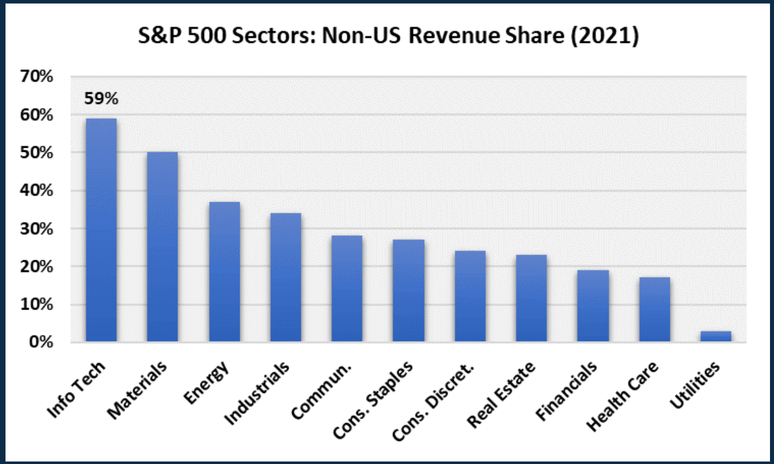




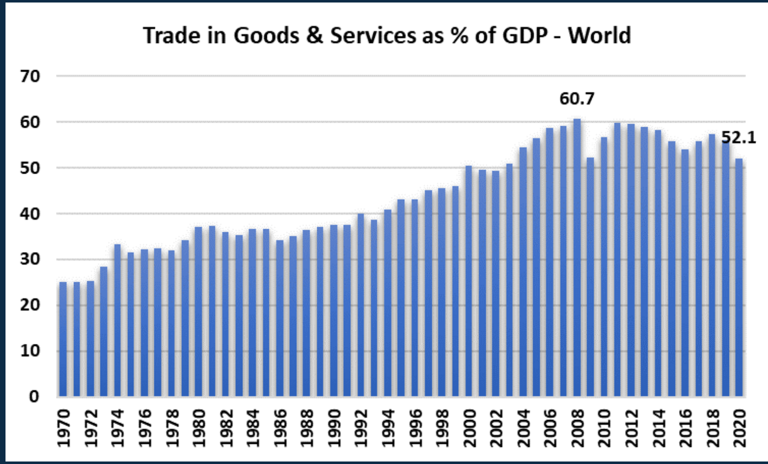
Source: Professor Robert Shiller's website, Standard & Poor's, FactSet, Credit Suisse.

The Death of Globalization?

- **The Tech sector is the S&P 500 sector with the largest portion of its revenue from outside the US and is therefore unlikely to be completely immune to any rollbacks in globalization.**
  - Apple manufactures ~$200B of iPhones and has been a beneficiary of globalization.



- **Globalization, as measured by trade in goods and services as a percentage of GDP, had actually peaked more than a decade ago.**
  - After a post-GFC rebound, global trade as a percentage of global GDP has trended down from ~60% to 52% in 2020.
  - However, over the past 10 years (ending Q3 2022), S&P 500 real earnings have grown at a well-above average rate of 5.5%/yr. despite the decline in global trade.



Source: World Bank, Standard & Poor's, Goldman Sachs, SECOR.

Globalization – JPMAM's Take

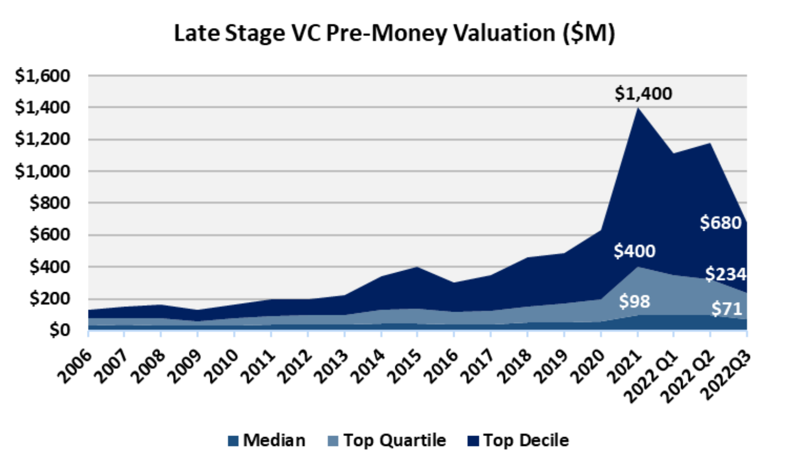
- **JPMAM foresees globalization evolving to a multi-polar world of politically-aligned trading blocs.**
  - Greater regionalization driven by rising nationalistic policies, often at the expense of economic considerations. Supply chains diversify with production moving closer to demand; e.g., CHIPS and Science act.
    - US & Western Europe, China & Russia with EMs opportunistically trading off the two poles.
  - Low wage economies who had been among the big winners over the last few decades are at greatest risk from new regime.
  - Innovation and increased automation are also likely to disproportionately impact the low wage economies.
  - In addition to rising nationalism, shifts in regulation, taxes, climate policies and data security expected to contribute to the shift to this multi-polar model.
- **Overall, increasing frictions in the value chain a net contributor to inflation/lower globalization dividend.**
- **Will companies be more successful in passing on rising costs than they were in retaining the benefits of lower costs over the last several decades?**

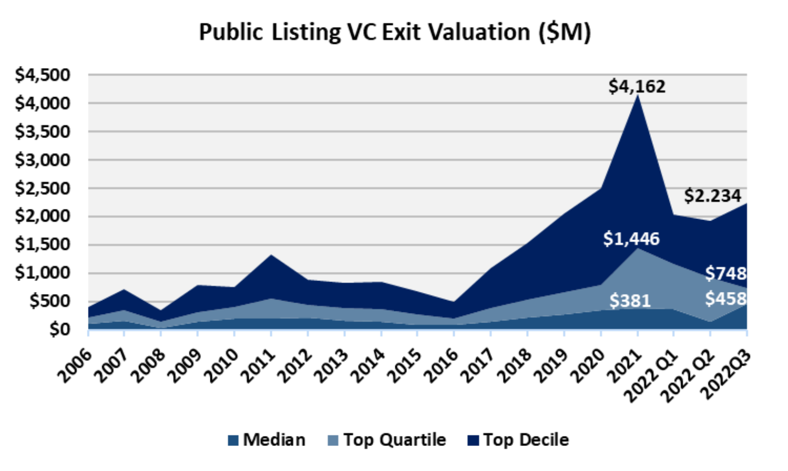
Source: JPM Asset Management, *2023 Long-Term Capital Market Assumptions*.

Late-Stage Venture Capital

- **Even before the FTX implosion, Late-Stage VC valuations had begun to reflect the pain of public markets, particularly among the unicorns.**
  - Top decile late-stage valuations were cut in half from 2021 to Q3 2022, from $1.4B to $680M.
  - Top quartile was reduced from $400M to $234M; median valuation from $98M to $71M.
  - Note: NASDAQ Composite Index -32% YTD thru 30 Sept 2022.

- **Valuations of VC-backed companies that exit via the public markets show a similar pattern.**
  - Exit valuations for the top decile and top quartile have been nearly cut in half from 2021.
  - However, the median valuation has actually increased as far fewer companies went public in Q3 and public market investors have become more discriminating in the quality of company brought to market.





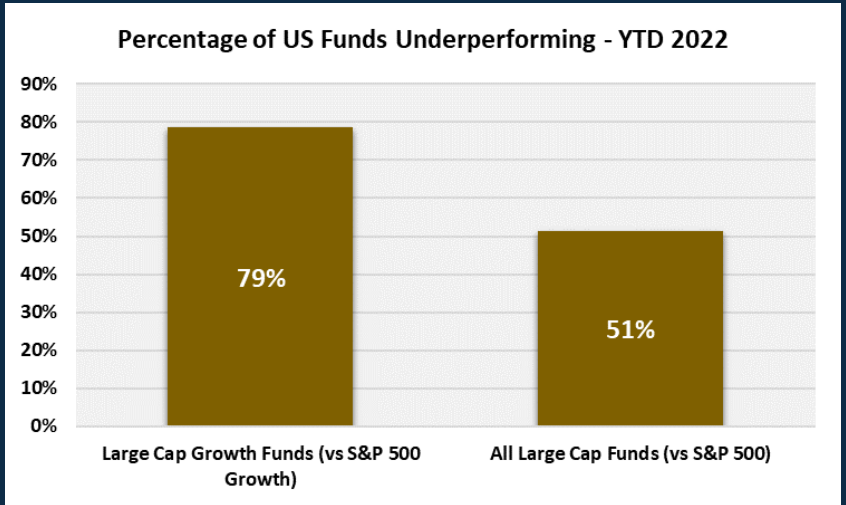
Source: Pitchbook.

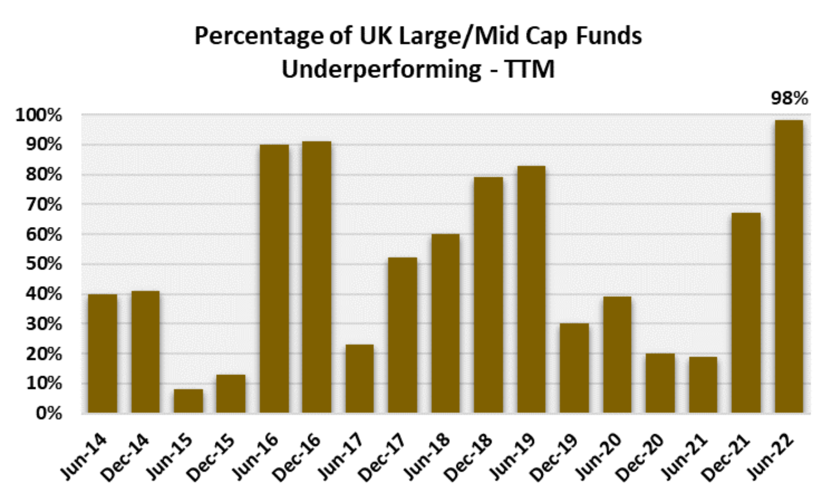
SPIVA Scorecards – Mid-Year '22 Lowlights

79% of active US growth managers underperformed their style benchmark in the first half of 2022 despite the underperformance of the Mega-Cap technology companies and the poor performance of the Growth universe overall.

- Active managers have often been reluctant to overweight the largest index constituents, which explains much of the poor performance of growth managers over the long run but should have been a benefit in the first half of 2022.
- It also appears that they were caught chasing performance of the other index highfliers just as they peaked.

- **Despite a high level of return dispersion in the UK, 96% of UK Large/Mid-Cap funds underperformed in the first half and 98% underperformed over the TTM ending mid-2022.**
  - Active UK Large/Mid cap active managers had until recently been one of the relative bright spots for active management globally.



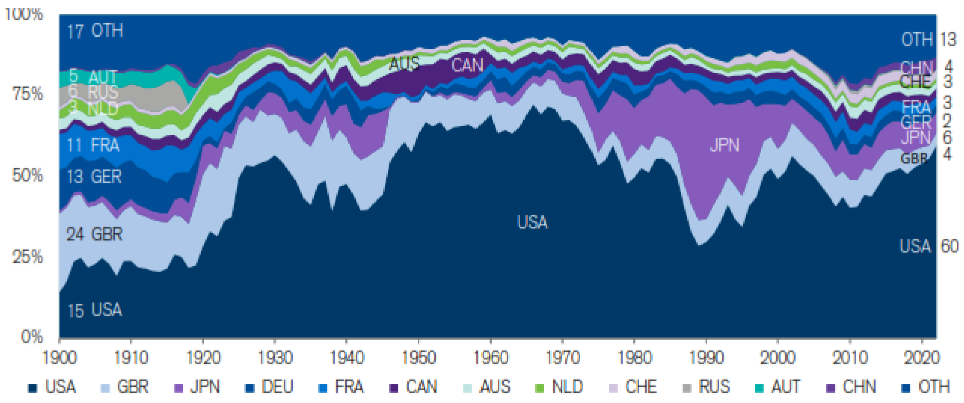


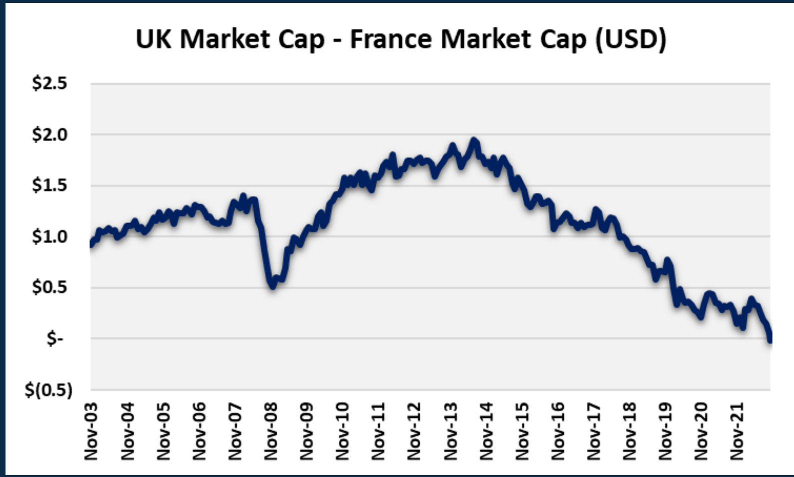
Sources: SPIVA US Scorecard Mid-Year 2022; SPIVA Europe Mid-Year Scorecard 2022.

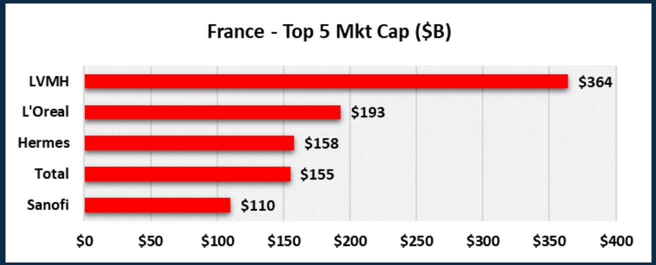
France Equity Market Caps Tops UK

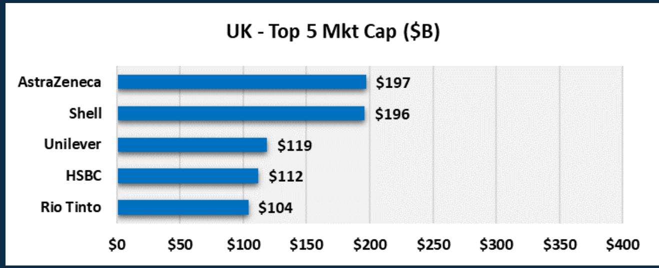
- **The total market cap of listed equities in France recently surpassed that of the UK market (in USD terms) for the first time.**
  - Rally in Paris-listed luxury companies and a relatively weaker pound have contributed to the change in European market cap leadership.

Share of Global Market Cap 1900 - 2022









Source: Credit Suisse Global Returns Yearbook 2022, Bloomberg. Data as of 14 Nov 2022.

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