



Cyclical Outlook for Global Economy *Annual Review*

January 23, 2023

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Global Cyclical Outlook (2023)



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- **Global Economy 2022 Recap: Expectations for Above-Trend Growth Upended by...**
 - Russia invading Ukraine / commodity prices & inflation surging / tightening financial conditions
- **Entering 2023 “Bent But Not Broken”**
 - Global inflation declining but still above central banks’ targets
 - Confidence weakened but consumer and business financial positions appear secure
- **Baseline Outlook: Global Economy Forecast to Grow at Below-Trend 2.2% Rate This Year**
 - DM (Developed Market) growth restrained by tight financial conditions / EM (Emerging Market) growth supported by China’s reopening
 - *Key identifiable downside risk*: Central bank miscues – e.g., over or under tightening
 - Other identifiable cyclical risks appear to be largely symmetric¹ / US debt ceiling impasse tail risk

Expected Real GDP Growth			
	Global	DMs	EMs
2022	4.6 3.0%	4.0 2.6%	4.7 3.3%
2023	3.6 2.2%	2.5 0.7%	4.4 3.4%

1. Davos 2023 risk report and JPM survey of business leaders highlight a paradox. 51% of respondents predict that profits will rise and 88% expect to keep or add to staff in 2023, yet only 8% are cheerful re prospects for global economy. Top identified risks include climate change, nuclear war, and social conflict.

Global Recessions

Global Real GDP Growth and Per Capita GDP growth (1950-2021, % change)



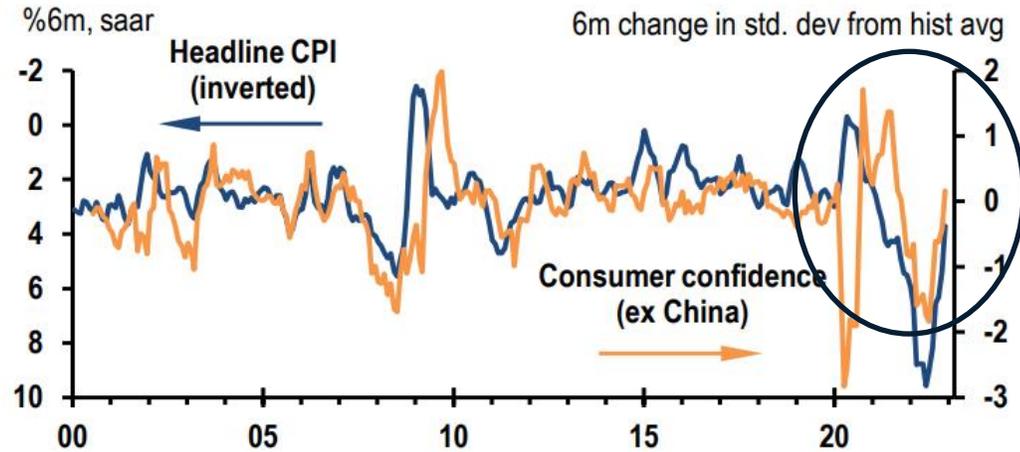
Source: Conference Board

- Global GDP trend growth is currently assumed to be about 3%
- Forecast for 2023 global growth of ~2% if realized would be 1%-point below current trend but not a recession

1. IMF defines a global recession as negative per capita GDP growth. At current world population growth rate (0.84%), our 2023 forecast translates into 1.2% per capita global growth

Global Cyclical Headwinds (2023)

Global Confidence Depressed, Albeit Improving



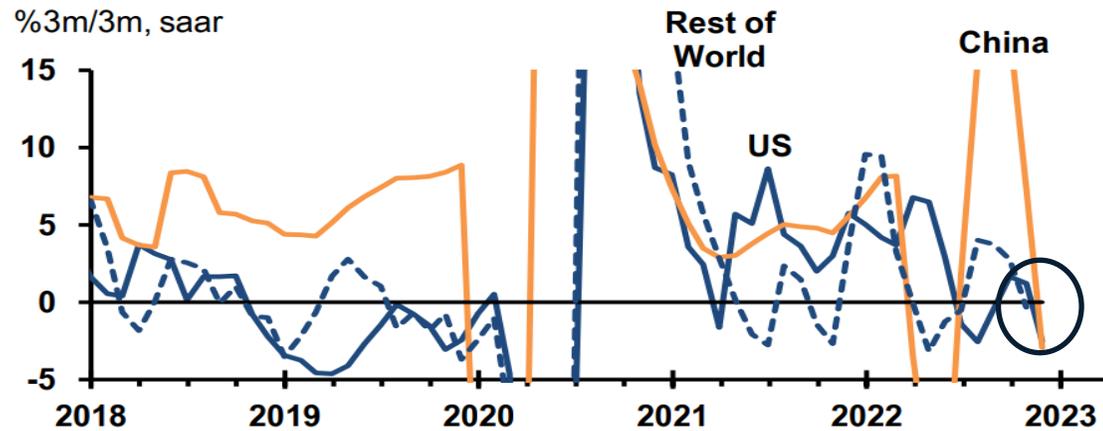
Source: National Sources JPM

Financial Conditions More Restrictive



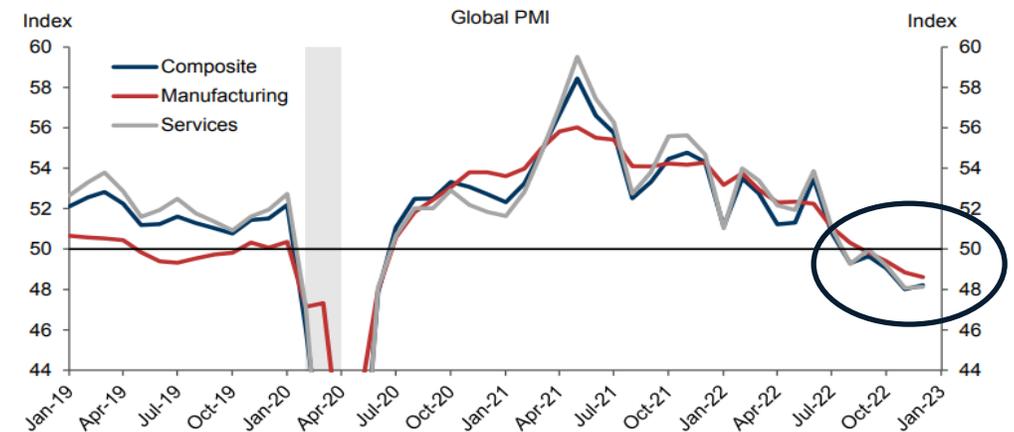
Source: GS

Global Manufacturing Soft



Source: National Sources, JPM

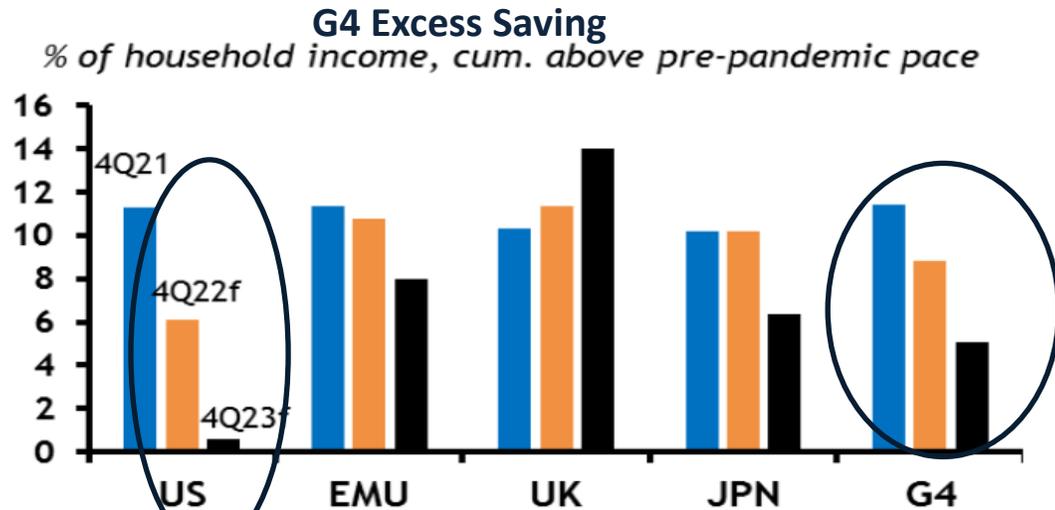
Global PMIs Below 50 Threshold¹



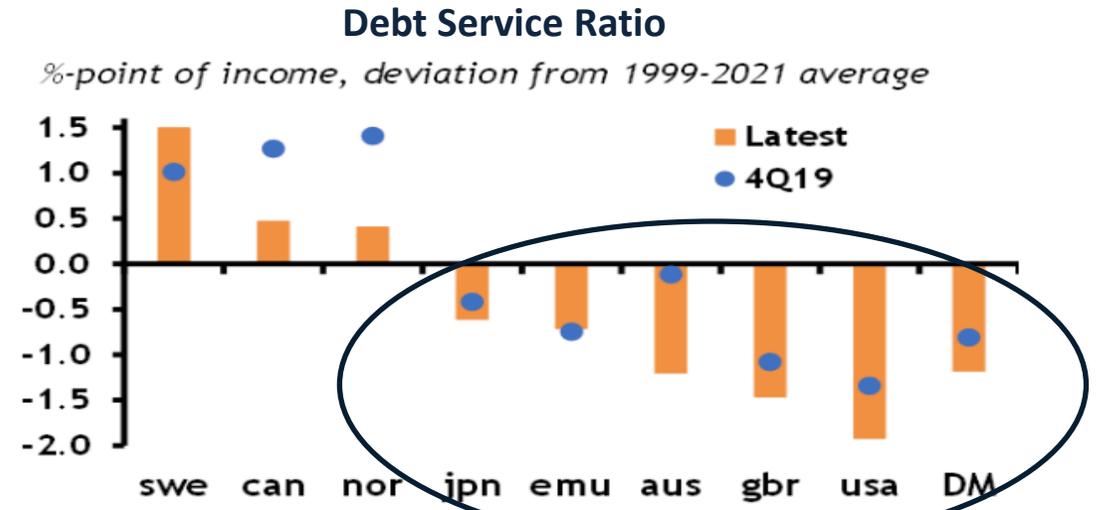
Source: S & P Global, Haver, GS

1. Global PMIs in December at modestly contractionary levels manufacturing (-0.2pt to 48.6) and services (+0.1pt to 48.1).

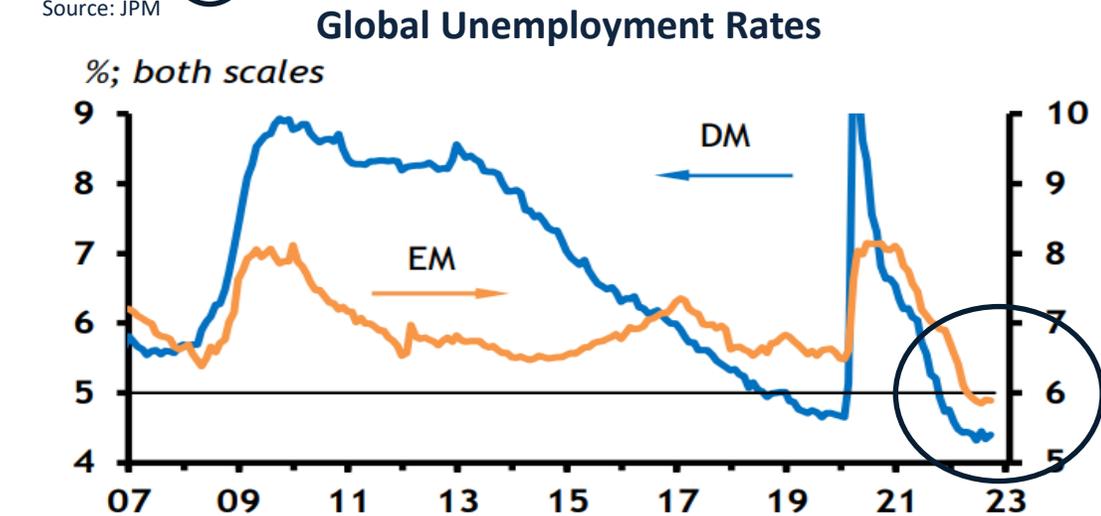
Potential Global Cyclical Stabilizers (2023)



Source: JPM

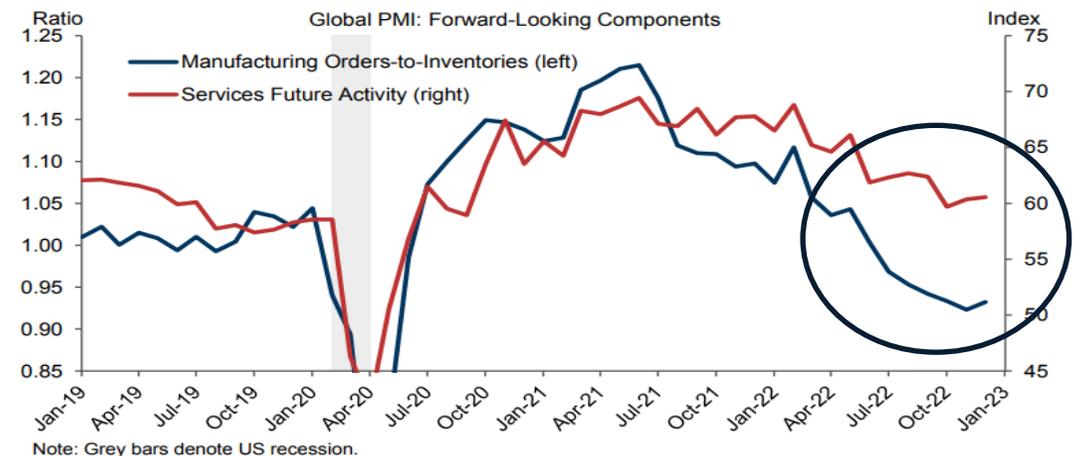


Source: BIS, JPM



Source: GS

Forward PMI Components Encouraging¹



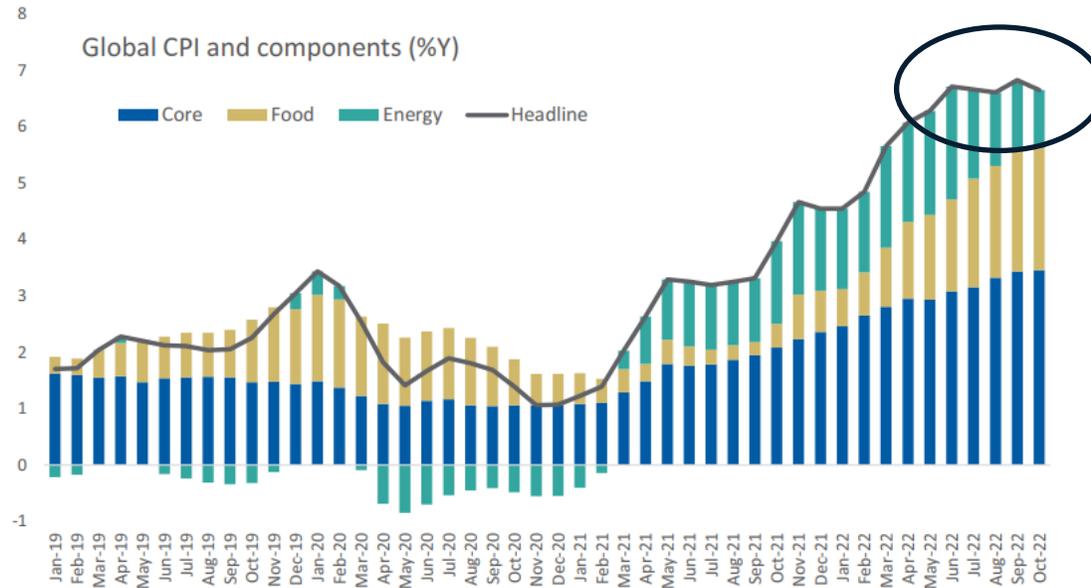
Source: S & P Global, Haver, GS

1. Forward PMI components increased in December: Manufacturing orders-to-inventories ratio at 0.93 and services future activity +0.2pt to 60.6

- **Global Inflation Elevated but Starting to Edge Down from Peak**
 - Headline inflation declining since mid-2022/Core-inflation sticky
- **Commodity and Consumer Goods Prices Disinflationary**
 - Energy and food prices down significantly from recent peaks
 - Spending patterns normalizing/ bottlenecks easing / shortages decreasing
- **Service Prices and Wages Not Yet Tamed**
 - Wage growth in US, UK and Euro Area above central bank comfort levels
 - IMF historical analysis suggests wage-price spiral can be avoided
 - Longer-run inflation expectations still anchored
 - Market rates on new leases in US declining/ promising sign
- **Challenges Remain for Central Banks/ Bumps on Path to Moderation Likely**
 - Collateral effects of Fed tightening subject to debate

Global Inflation Appears to be Peaking & Evolving

Global Inflation¹

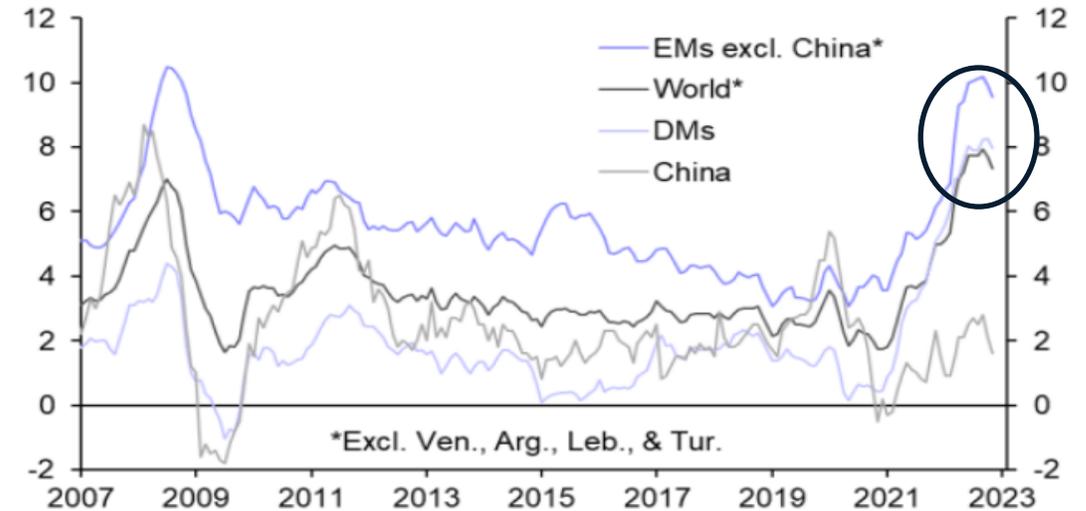


Source: Haver Analytics, MS

- Global inflation up 6.7% yoy (year-over-year) in October, down from 6.8% in September
- Energy inflation (green) receding, food (gold) first decline since invasion of Ukraine but core prices (blue) sticky
- G4 inflation slowed significantly in November (ex. Japan)²

1. Global inflation excludes Russia, Ukraine, Turkey and Argentina
 2. G4 November/October yoy CPI: US (7.1% / 7.7%), Euro area (10% / 10.6%), UK (10.7% / 11.1%), Japan (3.8% / 3%)

Headline CPI (% y/y)

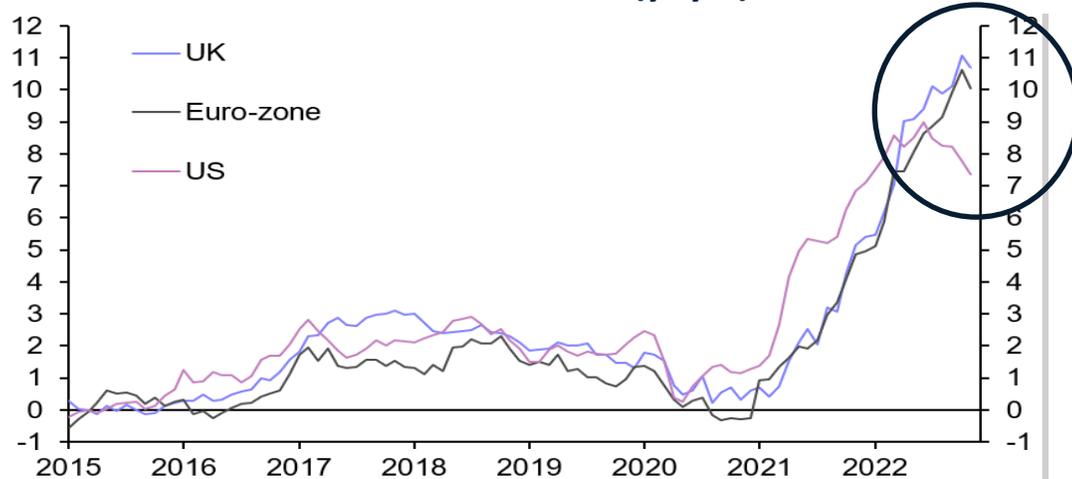


Source: Refinitiv, CE

- Signs of inflation peaking are widespread across all major groupings
- Although global inflation remains elevated, it appears to have peaked across DMs and EMs

Inflation Backdrop: US, Euro Area, UK-- Headline & Core YoY Inflation

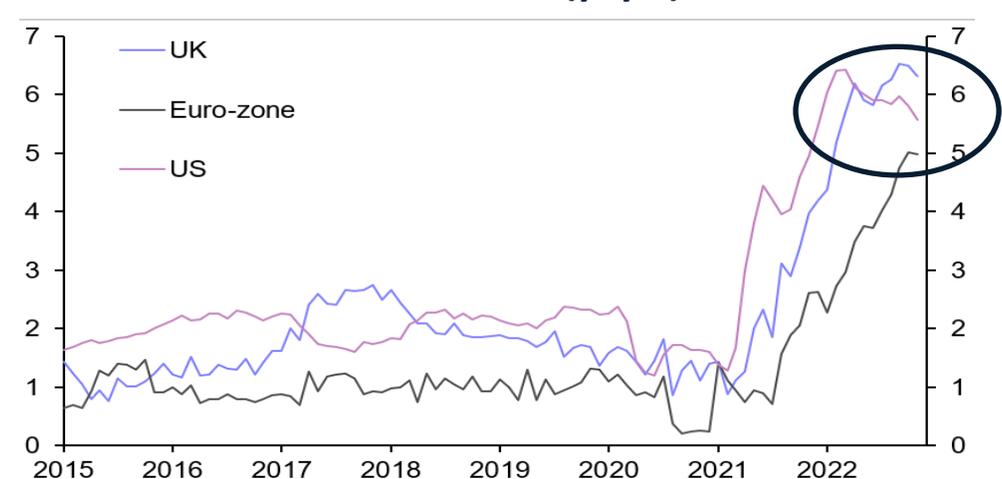
Headline Inflation (yoy%)



Source: Refinitiv

- US, Euro area & UK inflation appears to be peaking-- albeit at multi-decade highs and at different levels. Supply-bottlenecks/ exposure to Russian natural gas key differentiators
- US headline yoy inflation (red line) which faced less pressure from energy prices peaked in mid-year, while Euro area and UK inflation peaked in October

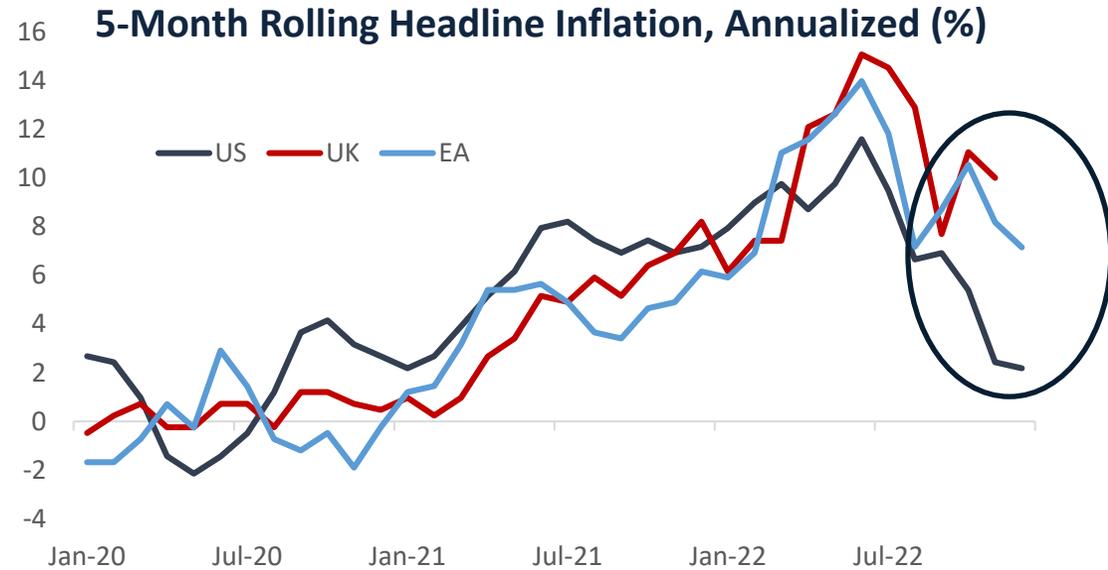
Core Inflation (yoy%)



Source: Refinitiv

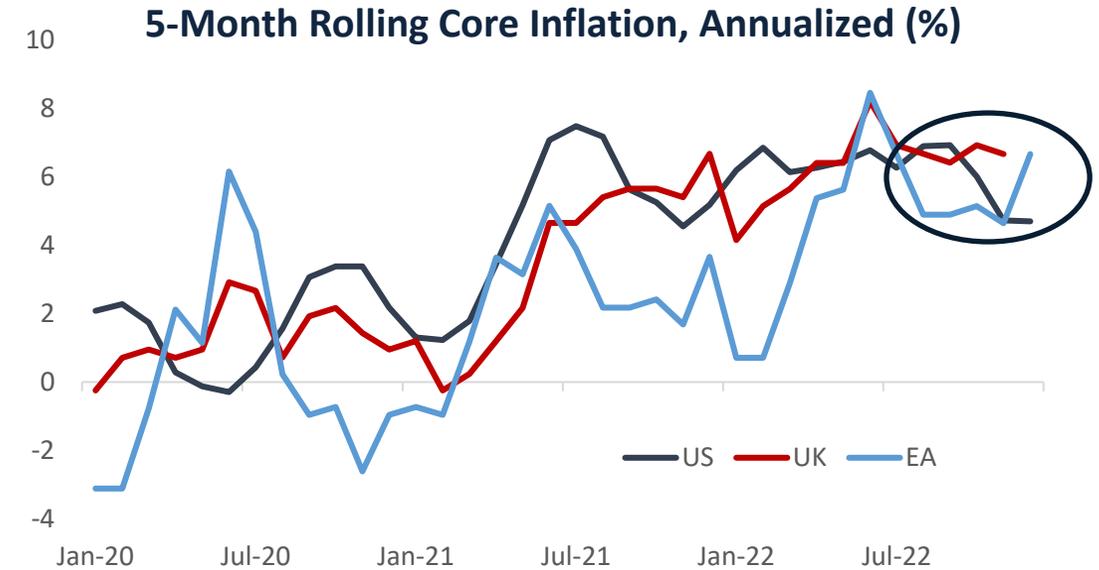
- Core inflation -- consumer goods and services -- also followed different paths in 2022.
- US core inflation peaked at 6.4% yoy in Q1 and moderated to 5.7% in December. UK core stayed in 5.8%- 6.5% range between Q2 and December. Euro area core rose steadily from a 2.3% at start of year and reached 5.2% in

Inflation Recent Trends: US, EA, UK– Headline Disinflation/ Core Sticky



Source: Bloomberg

- Disinflation, more pronounced in recent monthly data, particularly in the US

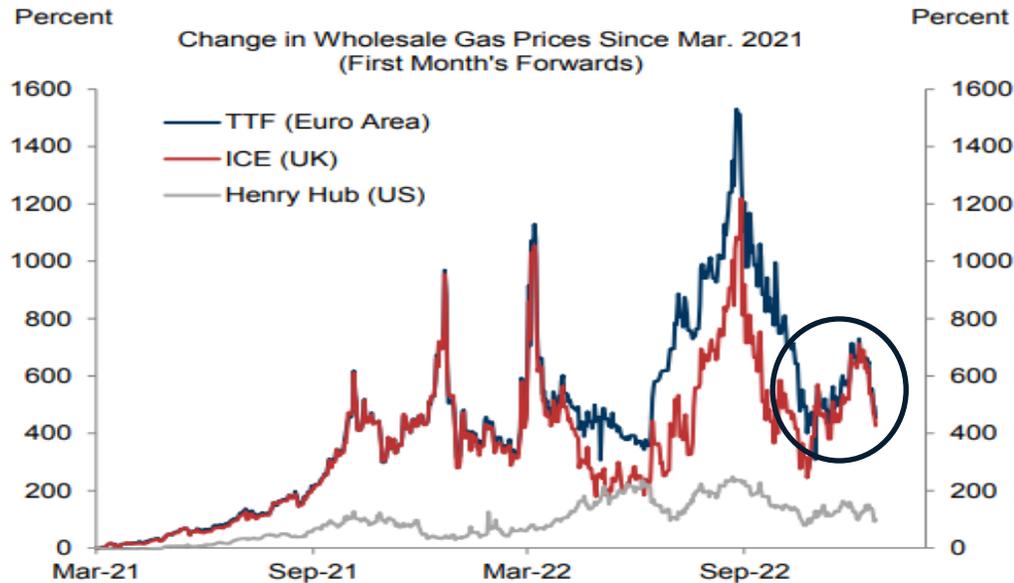


Source: Bloomberg

- Core monthly data seemingly more sticky, particular in UK and Euro Area

Inflation Backdrop: Energy Prices

Natural Gas



Source: Bloomberg, Haver, GS

- Euro area and UK natural gas prices down significantly from recent peaks
- Conservation and imports exceeding expectations. Germany has reduced natural gas consumption by 30% without cutting output significantly

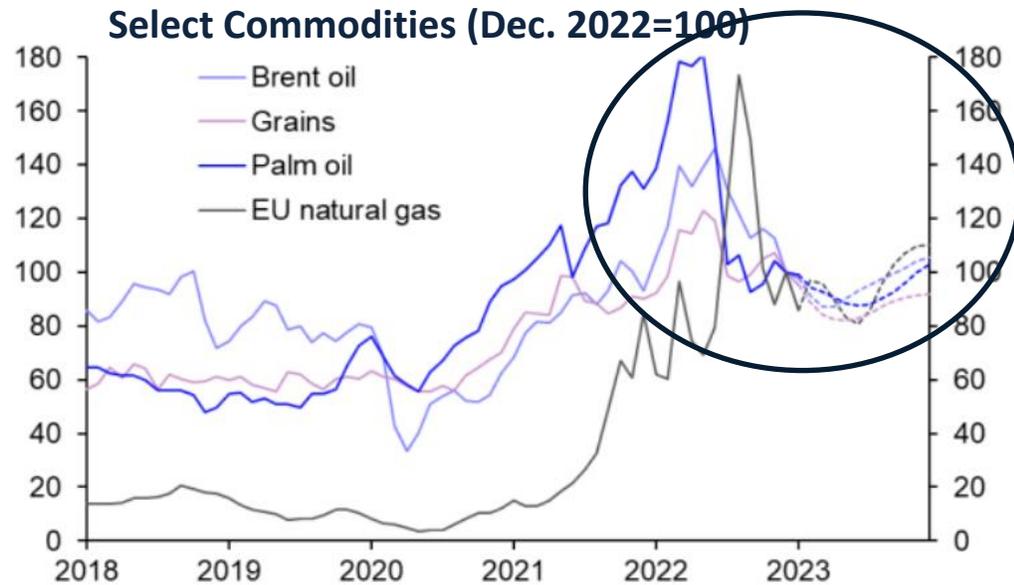
Brent Oil Prices (\$ per BBL)



Source: Macrotrends

- Global oil prices are currently down ~40% from their 2022 peak and ~20% below their 2022 average price
- Prices for key agriculture commodities such as grains and palm oil are also down significantly from their 2022 peaks

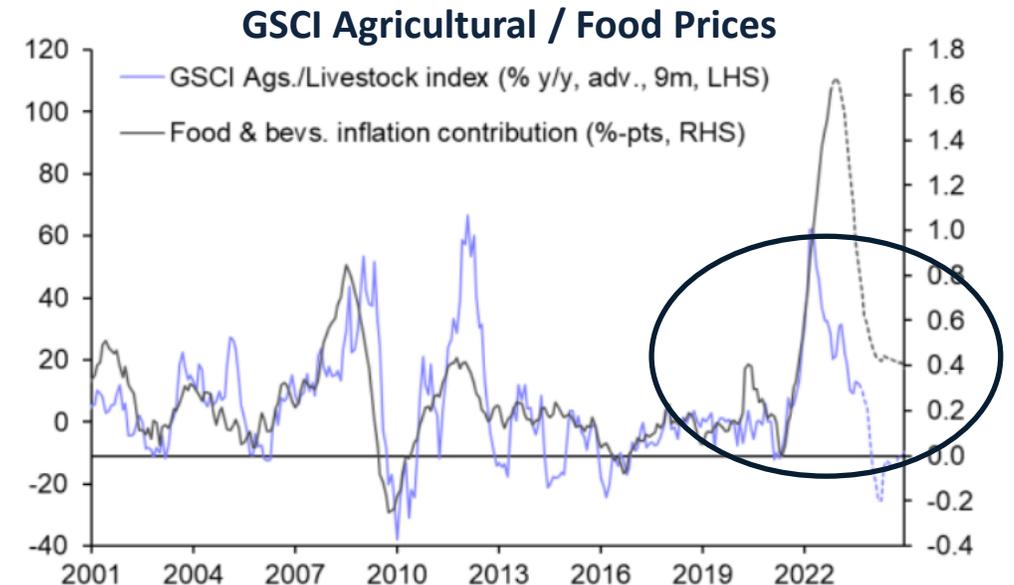
Inflation Backdrop: Commodity Prices/ Recent History & 2023 Forecasts



Source: Refinitiv, CE

- Not only energy but all virtually all commodity prices have fallen significantly since mid-2022 due to weakening demand and easing supply fears¹
- Energy prices in 2023 expected to remain far below 2022 peaks² due to slower global growth and less binding supply constraints

1. CE economists estimate that the base effects of lower commodity prices will reduce headline inflation by ~3%-point in 2023
 2. Brent price forecasts that we monitor put year-end 2023 price per barrel in the \$85 to \$110 range. China's reopening appears manageable— 50% of demand industrial

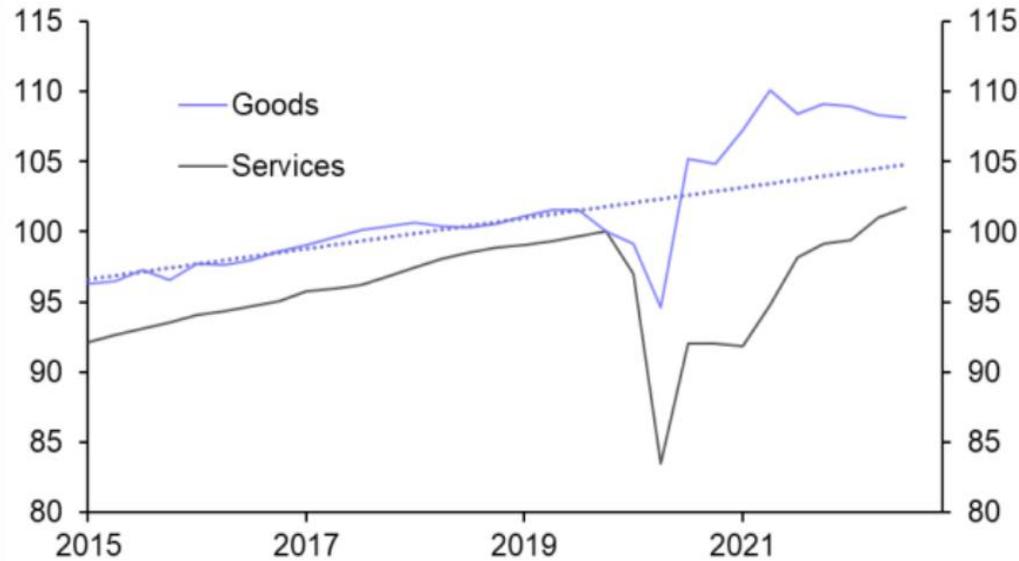


Source: Refinitiv, CE

- Capital Economics economists expect food prices to soften in 2023
- Food prices significant of overshoot levels implied by inputs such as energy and labor costs in 2022

Inflation Backdrop: Spending Patterns / Delivery Time Normalizing

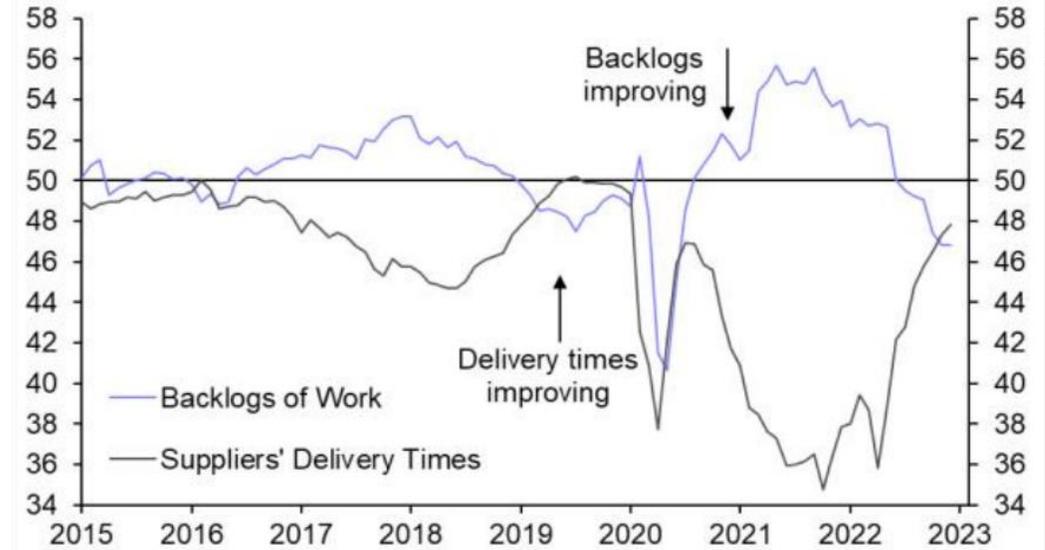
G7 Real Goods & Services Spending (Dec 2019 =100)¹



Source: Refinitiv, CE

- Post pandemic spending on consumer goods (blue line) surged due to pent-up demand, high saving, and health concerns
- More recently spending on services has partially recovered from its pandemic trough as health concerns have diminished

Global Delivery Times & Backlogs



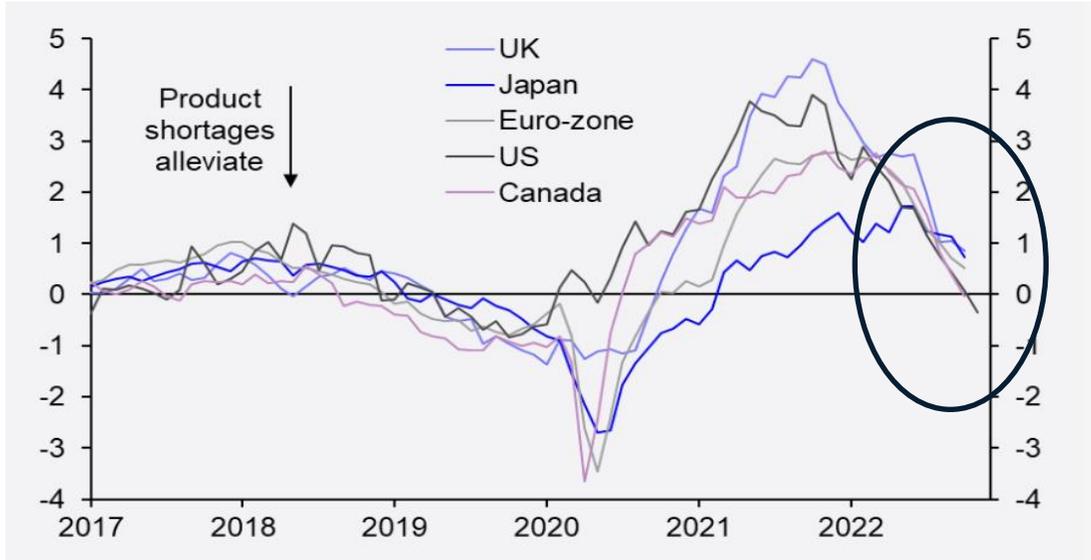
Source: S & P Global

- Normalization of spending patterns in helping to relieve some of the demand pressure on consumer goods prices while...
- Lower commodity prices and easing of bottlenecks is putting downward pressure on output prices

1. G7: Canada, France, Germany, Italy, Japan, UK and US. Y-axis (December 2019=100)

Inflation Backdrop: Product Shortages Decreasing/ Core Goods Prices Easing

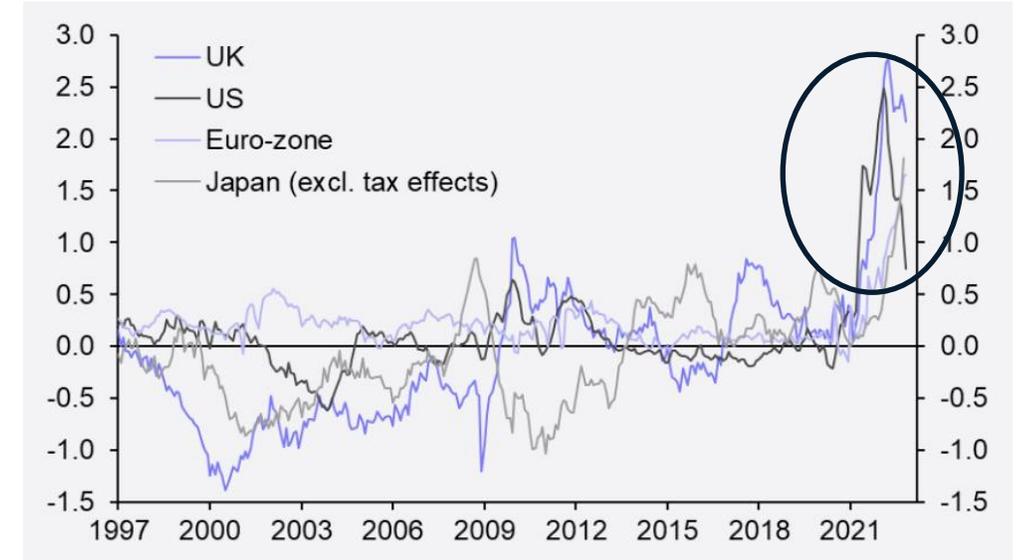
Product Shortage Indicator¹



Source: CE

- Supply-demand imbalances that were driving up core goods inflation appear to be easing
- Product shortages are falling across G7 countries, particularly in the US

Contribution of Core Goods²



Source: Refinitiv, CE

- Average contribution of core goods inflation to headline CPIs in major DMs in November was 0.8% points below March peak
- Marked differences among countries -- sharp declines in US / rises in Euro area and Japan

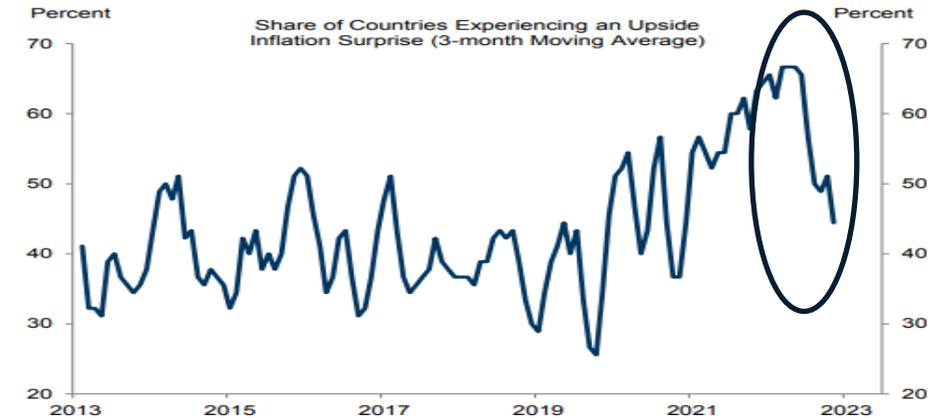
1. Y-axis shows Z-scores
 2. Percentage-point contribution of core goods to headline inflation

Inflation Backdrop: Disinflationary Forces/ Ongoing Challenges

- **Commodities & Consumer Goods Disinflationary Surprise**
 - Commodity and consumer goods prices not only ...
 - Rose rapidly in 2021 and in much of 2022 but ...
 - They rose faster than forecasters expected
 - More recently, however, they have provided ...
 - Downside surprises -- rising less than expected

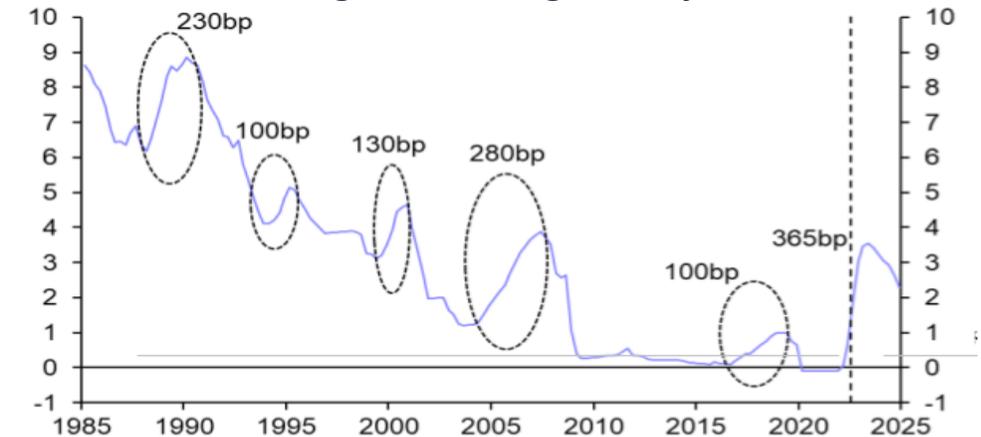
- **Service Prices and Wages Not Yet Tamed, However**
 - Are rising faster than rates consistent with ...
 - Central banks' targets and the banks are ...
 - Responding with hawkish policies
 - Effects of these policies key linchpin in outlook

Inflation Surprises¹



Source: Bloomberg, GS

DM Weighted Average Policy Rate

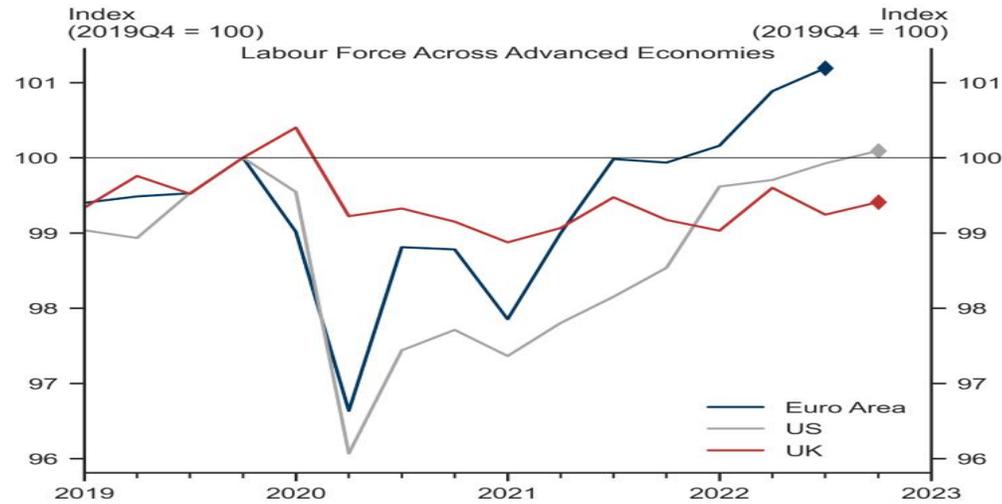


Source: Refinitiv, Eurostat, CE

1. Inflation surprises --- difference between realized yoy headline median CPI forecast of professional forecasters prior to release for 30 countries collected by Bloomberg. Upside surprises in every month between February 2021 and June 2022., But downside surprises in three of the five months ending in November 2022.

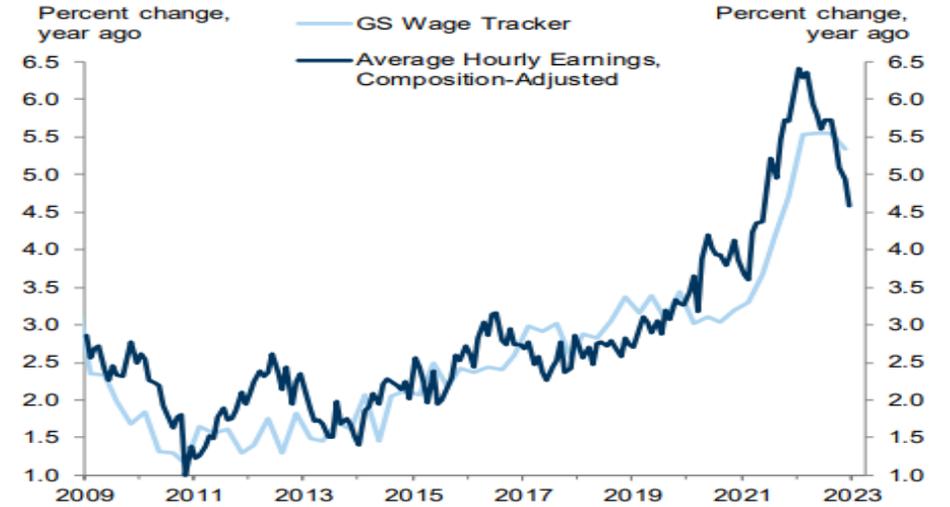
Inflation Backdrop: US, Euro Area, UK Wages

Tight US/UK Labor Markets



Source: Haver Analytics, GS

US Wage Growth: Currently ~4.5%



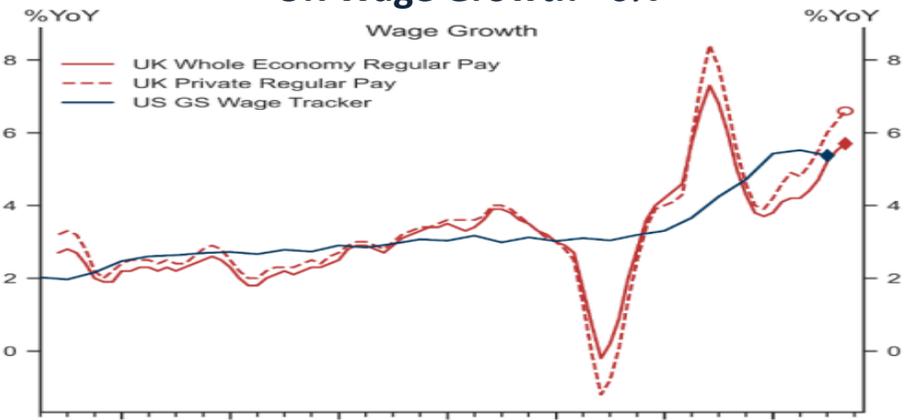
Source: Haver Analytics, GS

Euro Area Wage Growth: Currently ~3.75%



Source: Haver Analytics, GS

UK Wage Growth ~6%



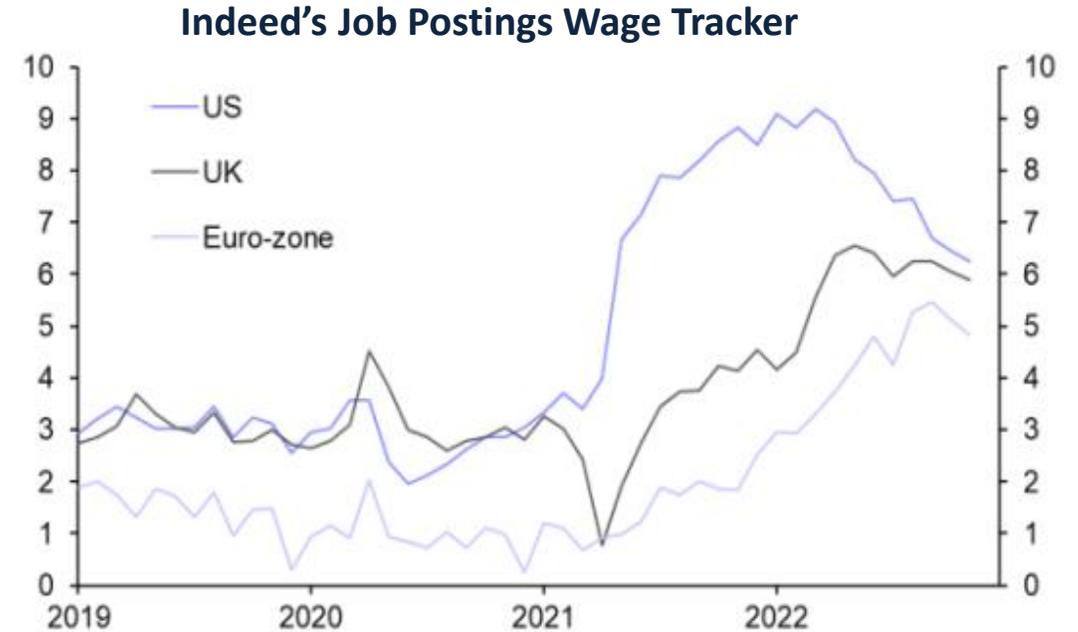
Source: Haver Analytics, GS

Inflation Backdrop: Wage Growth Elevated / Nascent Signs of Peaking



Source: Refinitiv, CE

- Average earnings growth in the UK, US and Canada remains well above levels consistent with central banks' inflation targets¹



Source: Refinitiv, CE

- Timely indicators of wage growth published by Indeed -- which track pay offered in job postings ...
- Have slowed and show tentative signs of turning the corner in the US, UK and Euro area

1. 3% - 3.5% pace growth consistent with Central banks 2% inflation target. US average hourly earnings were up to 4.6% in December yoy, down a March peak of 5.6%.

IMF's Historical Analysis Suggests Wage-Price Spiral Can Be Avoided¹

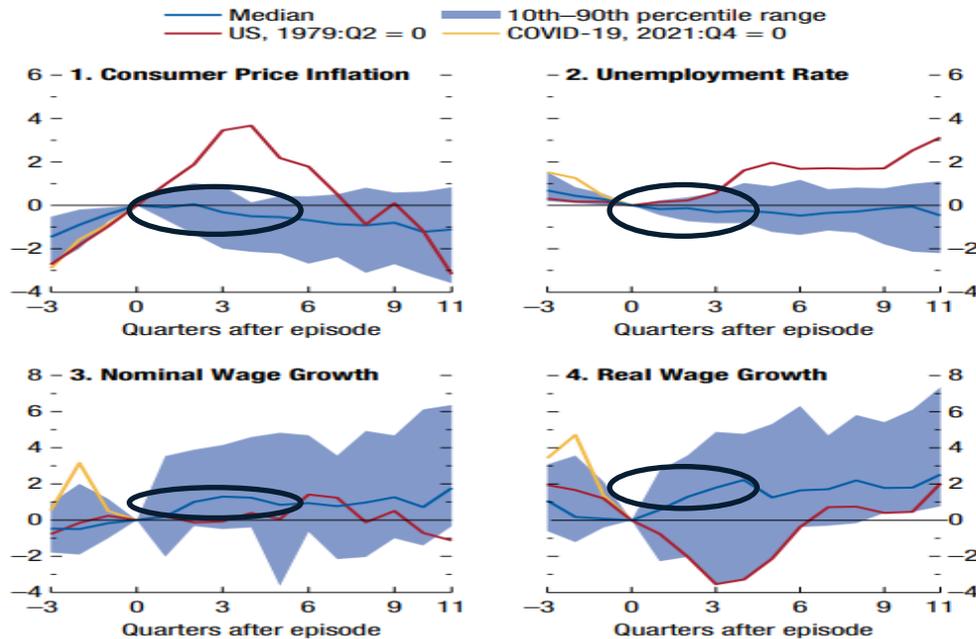
- **Covid-19 Created Unusual Wage -Price Dynamic**
 - Wages rose due to production and labor supply shocks² while...
 - Prices were lifted by unprecedented private saving and pent-up demand
 - Although unusual, such episodes not unprecedented
- **Analysis of Similar Episodes in Advanced Countries**
 - Sample included 22 historical episodes
 - Accelerating nominal wages and prices in prior episodes....
 - Did not lead to a subsequent wage-price spiral
 - Supply chain stocks have tended to have temporary effects on inflation & wage growth
- **Caveats re Empirical Analysis**
 - Data limited/ analysis doesn't prove causality
 - Forward looking analysis suggest that inflation expectations could be increasingly important

1. IMF's World Economic Outlook (October 2022) Wage – "Covid-19 and Wage-price Spiral Risks", Wage-price spiral is defined as several quarters characterized by accelerating wages and prices.

2. Labor supply shocks include lockdowns, health concerns, and increased home-care responsibilities.

Changes in Wages, Prices & Unemployment¹

After past episodes with similar macroeconomic conditions to today's, consumer price inflation typically declined, while nominal and real wage growth increased.



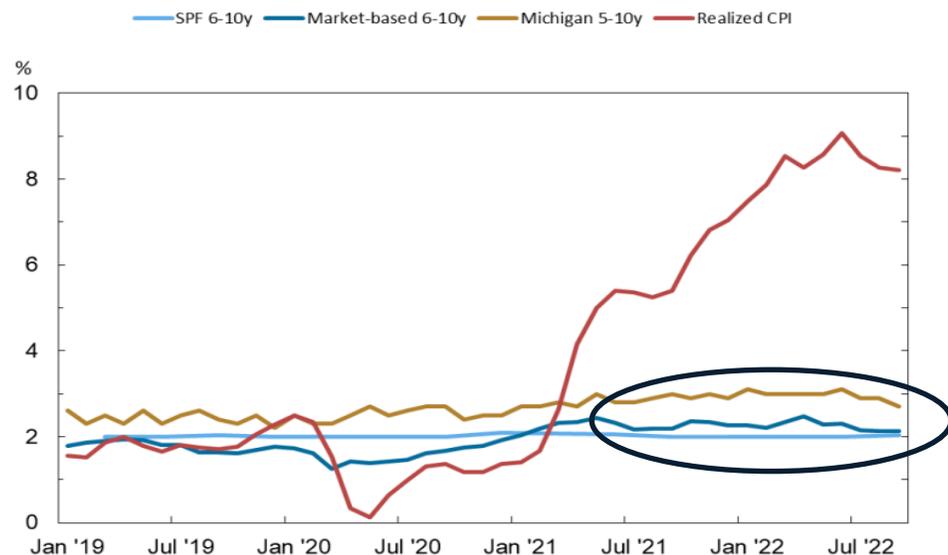
Source: ILO, OECD, BLS, IMF

Note: The figure shows developments following episodes in which at least three of the preceding four quarters have (1) accelerating prices/rising price inflation, (2) positive nominal wage growth, (3) falling or constant real wages, and (4) a declining or flat unemployment rate. Twenty-two such episodes are identified within a sample of 30 advanced economies, the earliest going back to 1960. The COVID-19 episode represents an average of economies in the sample for the period starting in 2021:Q4. See Online Annex 2.3 for details.

- Following the 22 similar past episodes for advanced countries identified by the IMF...
- Inflation and nominal wage growth on average tended to stabilize in subsequent quarters leaving real wage growth broadly unchanged (blue line)
- At same time unemployment tended to edge down slightly
- US inflation extremes (red line) attributed to 1970s OPEQ oil embargo and inept monetary policies in pre-Volcker era

Inflation Backdrop: Longer-Run Expectations Still Anchored

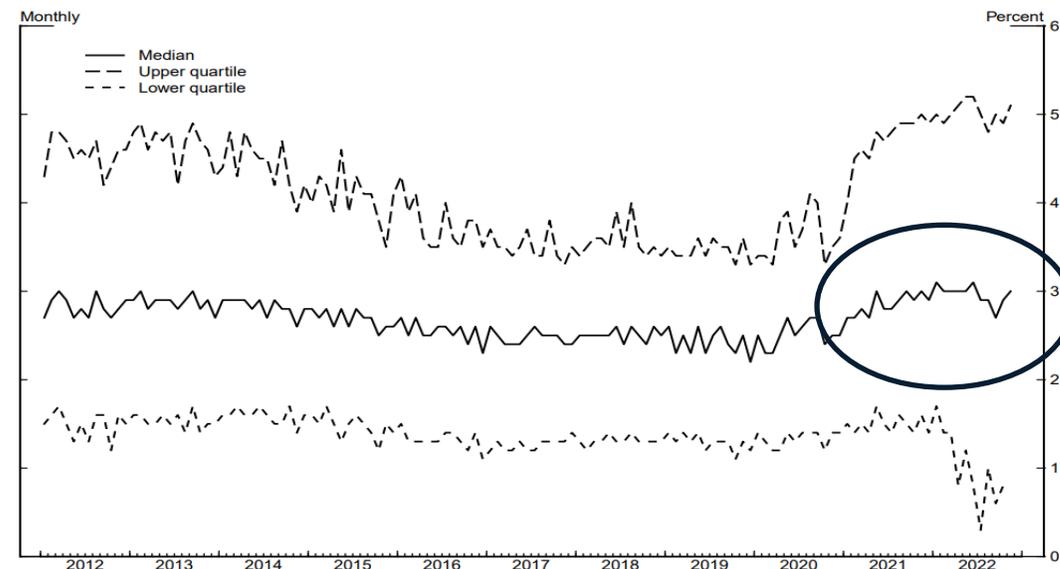
Longer-Run Inflation Expectations



Source: BLS, FRB, U of M, Haver

- Longer-run inflation expectations shape: central banks policies, household & business plans, and wage setting...
- Appear anchored currently based on SPF (survey of professional forecasters)², market-based measures, and U of M household survey

Inflation Expectations: Median / Range¹

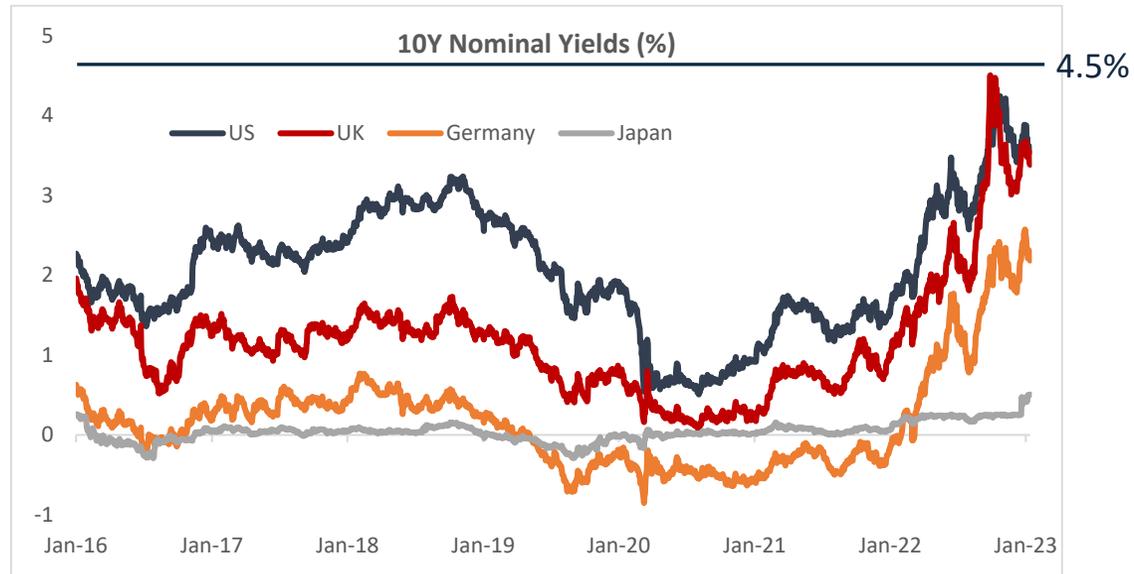


Source: U of M

- Median expectations of longer-term inflation have remained within pre-pandemic ranges consistent with 2% inflation
- Post-pandemic, however, the inflationary surge and subsequent Fed responses have increased the dispersion of expectations

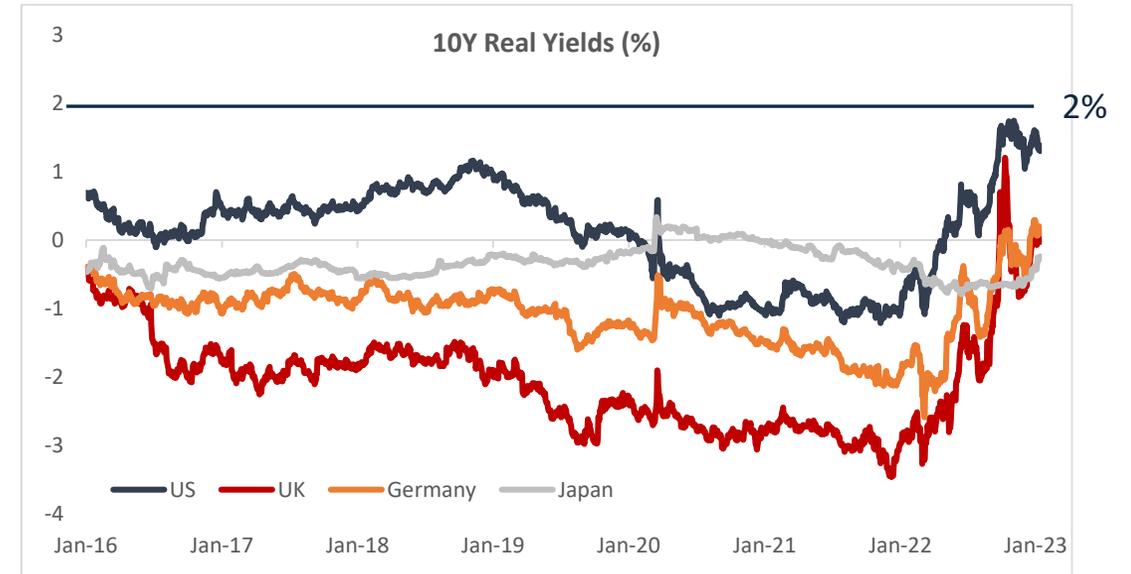
1. Lar Bainard, Fed Vice Chair, distribution can provide important information about how expectations may be changing. November 2022 speech in Switzerland.

Bond Investors Seemingly Confident Inflation Will be Contained



Source: Bloomberg

- US, UK, and German 10Y nominal sovereign yields up from historic lows --currently roughly in 2% - 4% range

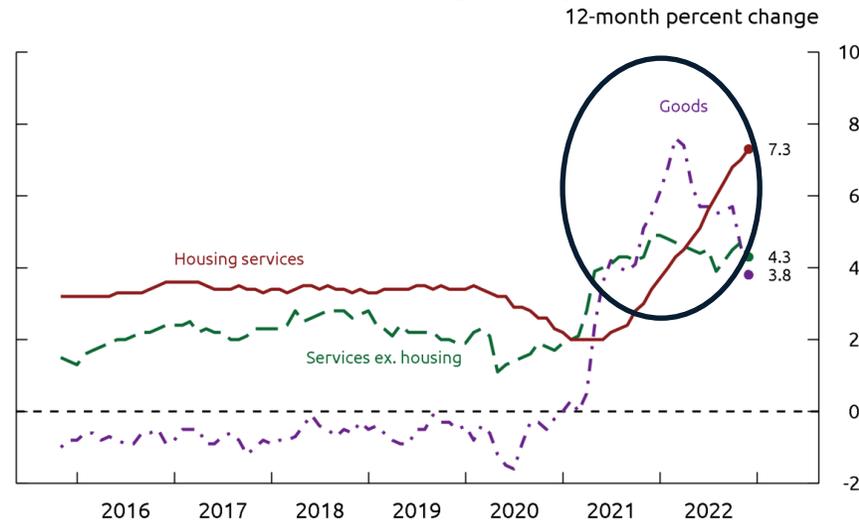


Source: Bloomberg

- Real 10-year sovereign yields still below 2%

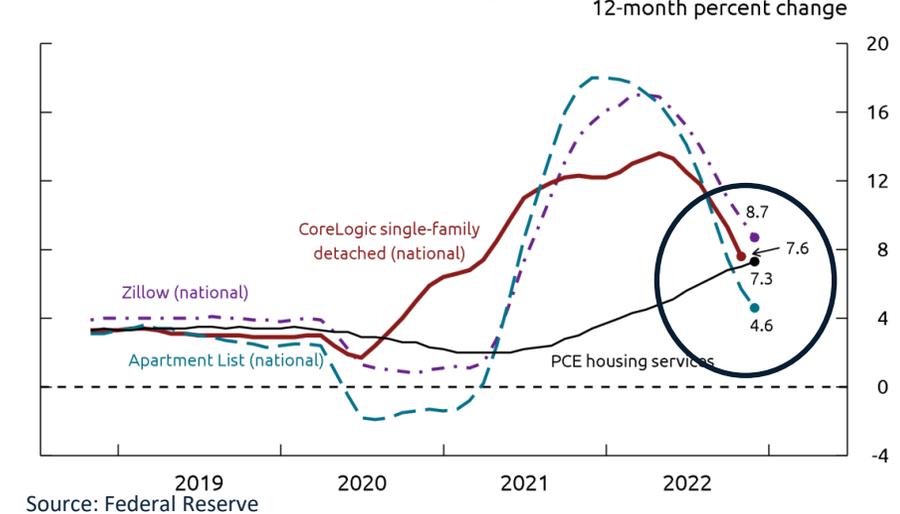
Inflation Backdrop: US Core, Market Rents, Housing Services

Core PCE Inflation: Key Components¹



Source: BEA, BLS, Fed

Market Rents & Housing Service Inflation



Source: Federal Reserve

- Two of the three components of US core PCE support for the expectation that inflation is likely to decline over the course of 2023
- Core goods inflation (dashed blue line) which is falling from re-opening peak as supply chain constraints ease and commodity prices moderate likely to be continuing disinflationary force in 2023
- Housing services inflation continuing to rise (solid blue line)² but with market rents on new lease declining' housing service inflation should also appreciably over the course of the year.
- Outlook for the third component -- core services ex housing -- is more problematic

1. The weights for the three components of core PCE: goods are ~30% core goods, housing services ~20%, and other services ~50%

2. Overall housing services inflation has continued to rise as existing leases turn over and jump to catch up to higher level of rents for new leases. But as long as new lease inflation keeps falling, housing service inflation should begin falling sometime in 2023

- **Worldwide Inflation Peaking at High Level**
Moderating energy and food prices important contributors
- **Commodity and Consumer Goods Prices Point to Further Moderation in 2023**
 - Base effect: energy and food prices expected to rise at slower rates¹
 - Consumer goods prices also expected to be disinflationary force
 - Post-pandemic supply-side distortions diminishing / Shortages and bottlenecks easing
- **Need to Tame Wage Growth, However, for Service Prices to Moderate**
 - Wage growth in major DMs still above levels consistent with 2% inflation target but...
 - Nascent signs of easing encouraging -- wage-price spiral unlikely
 - Survey data, historical supply shocks, inflation expectations still contained...
- **Major Challenges Remain for Central Banks and Bumps on Path to Moderation Likely**
 - Weather, geopolitical events, China's reopening likely, at minimum, to result in interim volatility
 - Central banks still need to tame wages and policy over / undershoots possible

1. CE economists estimate that lower commodity price inflation will knock about 3%-pts off average DM inflation over next year or so.

Fed Tightening Expected to Slow Inflation / Collateral Effects Less Certain

- **Widespread Agreement Among Forecasters that:**
 - US inflation will slow to ~3% by year end

- **But How Much Growth Will Need to Slow and Unemployment Rise Debatable**
 - GS economists’ base case calls for soft landing
 - Unprecedented job openings and monetary lags shorter than commonly presumed¹
 - Bloomberg consensus 70% chance of mild US recession in 2023
 - High inflation and rising rates headwinds for households and businesses
 - Skeptic (Larry Summers in late-2022 interview) “not especially mild recession” expected²
 - Labor markets very tight/ need hawkish Fed policies to tame wages

US Forecast Schematic for 2023 ³				
	Soft Landing	Fed	Consensus	Skeptic
Inflation @YE	3.0%	3.0%	3.0%	~3.0%
GDP	1.5%	0.5%	0.3%	~(1.0)%
Jobless Rate	4.1%	4.6%	4.9%	~6%

1. Unprecedented 4.4 million job openings currently. Recent GS research lagged effect of monetary policy largely 2 quarters. Most of Fed’s tightening in 2022 has already been digested. Little net effect since mid-2022.

2. Summers’ forecasts derived from Dec 2022 MSNBC interview and NBER research paper that he co-authored in Feb 2022.

3. Inflation core PCE for Q4. Fed average of median for ‘23 and ‘24

DM Cyclical Outlook (2023)

- G4 Major DMs: Slow growth in 2023
 - US: 0.8%
 - Euro Area: 0.5%
 - UK: (0.7)%
 - Japan: 1.7%

US Cyclical Outlook (2023)

- **Entering Year With Considerable Resilience**
 - Strong labor markets / inflation moderating / consumer incomes growing
 - Household and consumer balance sheets solid / corporations profitable
- **But At Same Time the Economy is Facing Significant Headwinds**
 - Financial conditions relatively tight / Business and consumer surveys depict caution
 - Interest-sensitive sectors, particularly housing, experiencing weakness
- **External Forecasts for 2023 GDP Growth in Relatively Narrow Range**
 - Soft landing: GDP growth ~1.5%
 - Relatively short-lagged impact of rate increases/reduced job openings slow wage growth
 - “Not especially mild recession:” GDP growth: (1.0)%
 - Extremely tight labor markets / more tightening than Fed or markets expect may be required

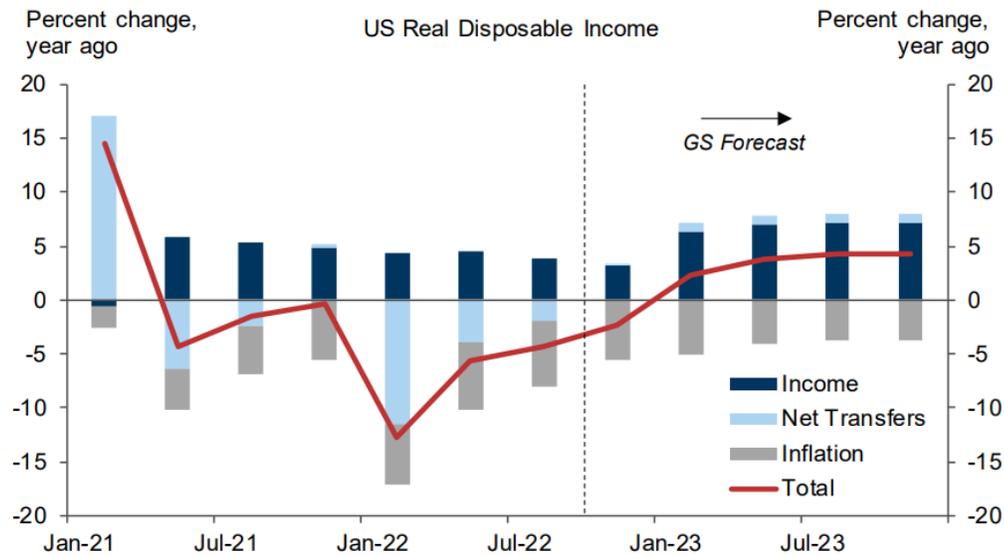
	2022	2023		2022	2023
GDP Forecast¹	2.0%	0.8%	CPI Forecast	8.0%	3.8%

1. Key assumptions underpinning '23 GDP forecast: Inflation recedes to ~3% by YE and Fed able to pause tightening at ~5% terminal rate. GDP growth slowed from 5.9% in 2021 to ~2% in 2022. Forecast for 2023 roughly mid-way between 1.5% soft landing forecast and 0.3% consensus.

US Consumers Appear to be in Relatively Strong Position

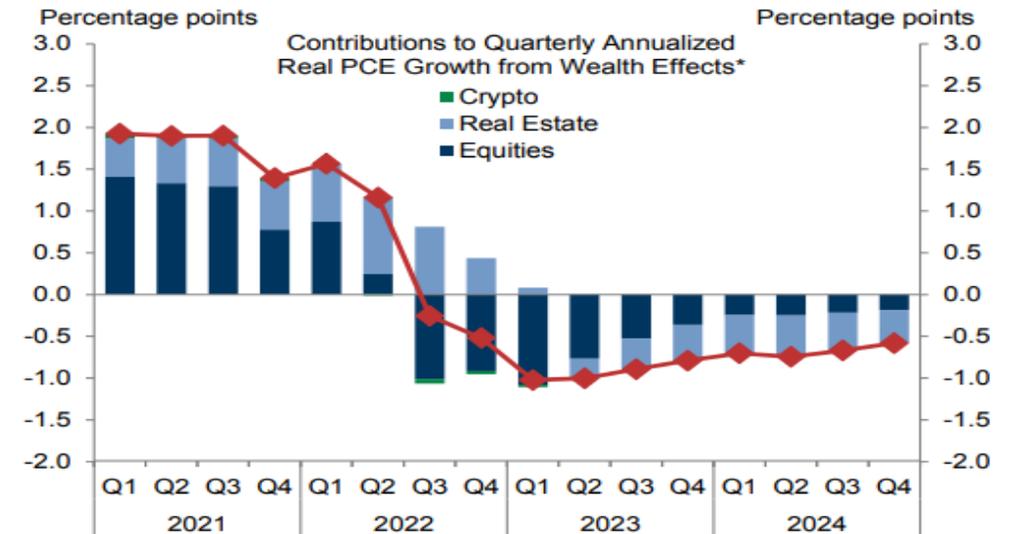
Rising Real Incomes Expected to More Than Offset Negative Wealth Effect¹

Real Income Growth



Source: Department of Commerce, Goldman Sachs

Wealth Effects



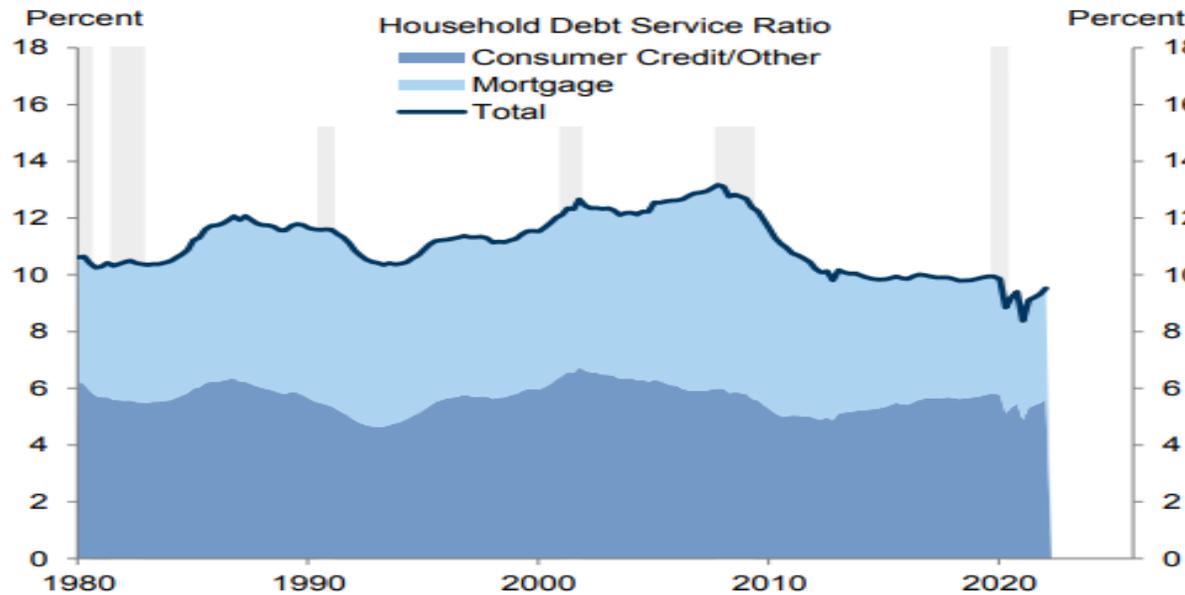
Source: GS

1. GS economists expect the net effect of rising real disposable income (~3.5%) and drag from falling wealth — 12% peak-to-trough decline in home prices saving rate to transformation is to a 1.5% increase in consumer spending in 2023

US Consumers Appear to be in Relatively Strong Position

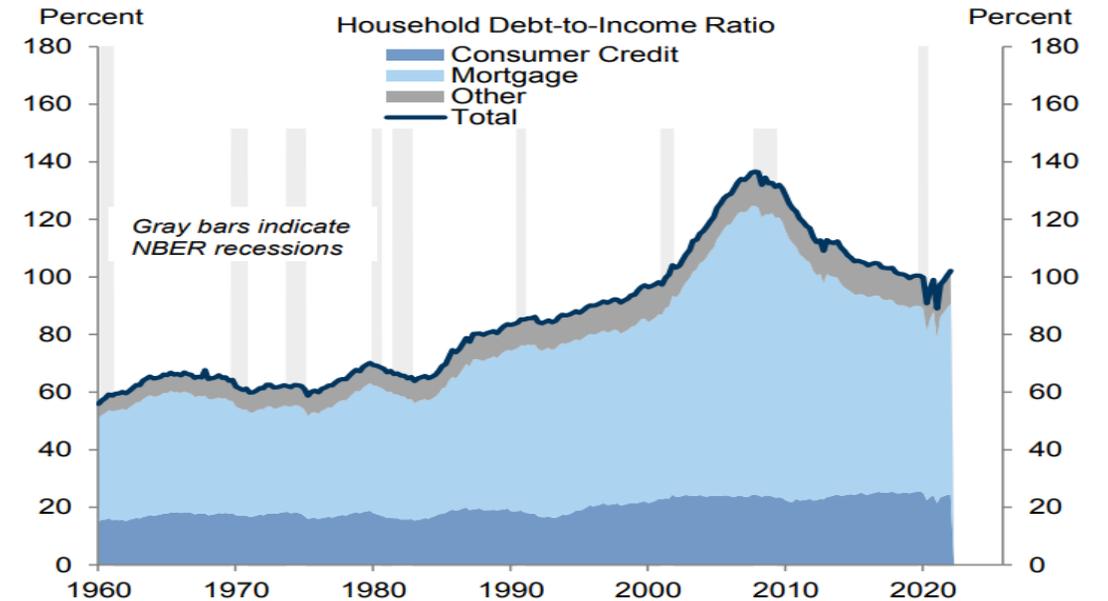
Household Debt Servicing Costs and Leverage Manageable

Debt Servicing Costs



Source: Federal Reserve, GS

Debt-to-Income Ratio

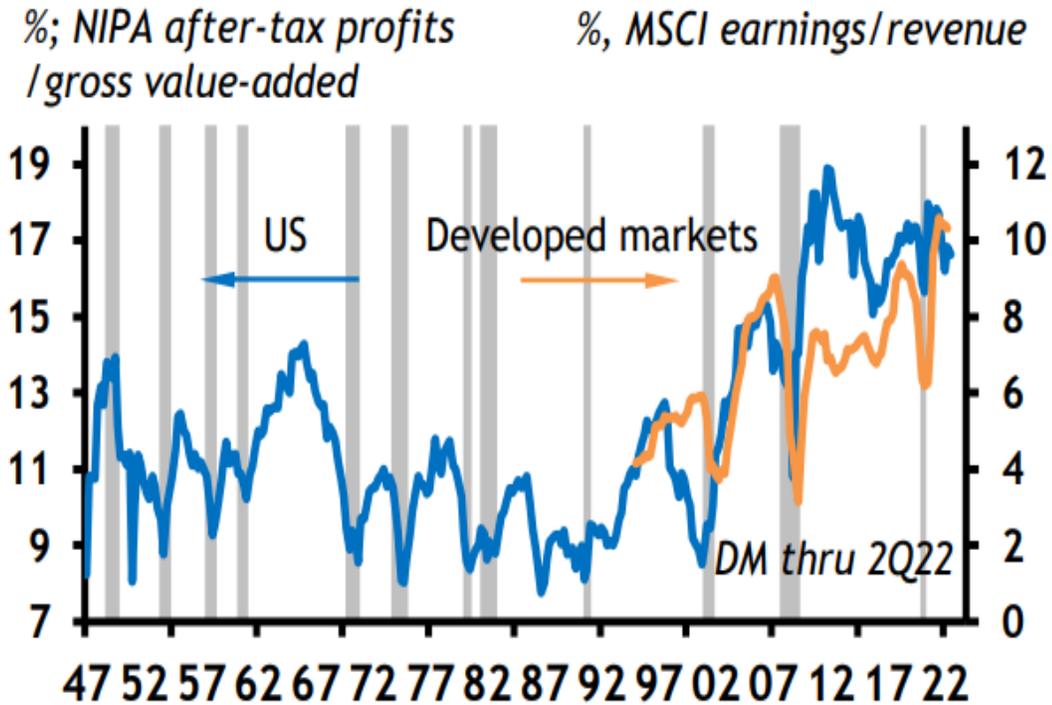


Source: Federal Reserve, GS

Corporate Fundamentals Still Solid

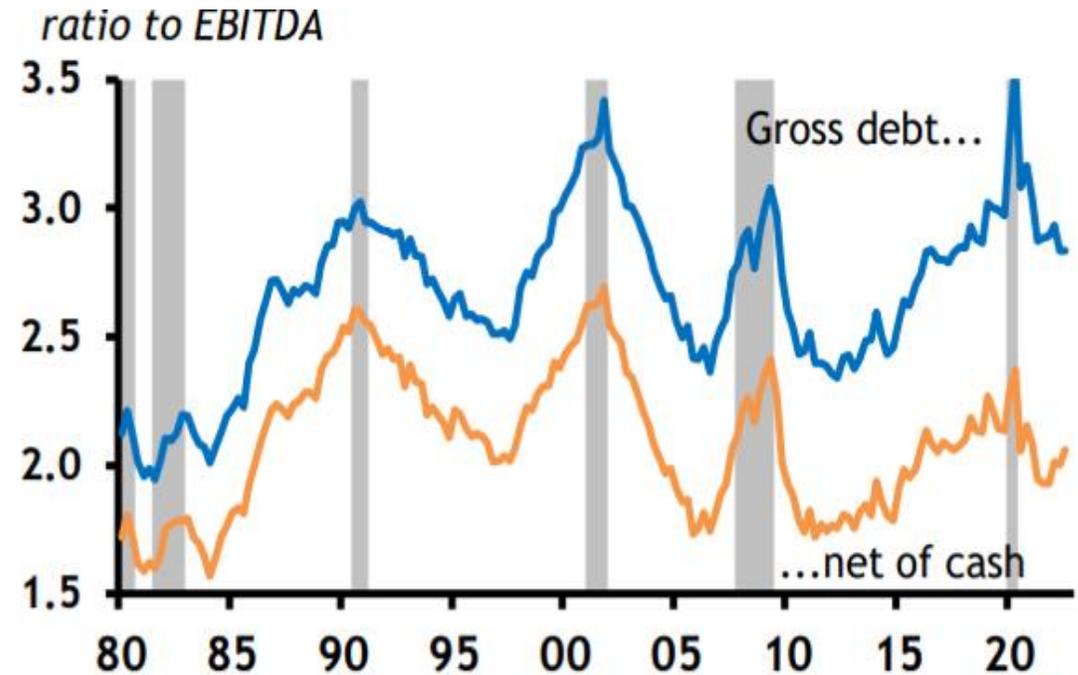
Profit Margins Near Record Levels & Net Corporate Debt Ratio Low

Corporate Profit Margins¹



Source: JPM

U.S. Nonfinancial Corp. Balance Sheets



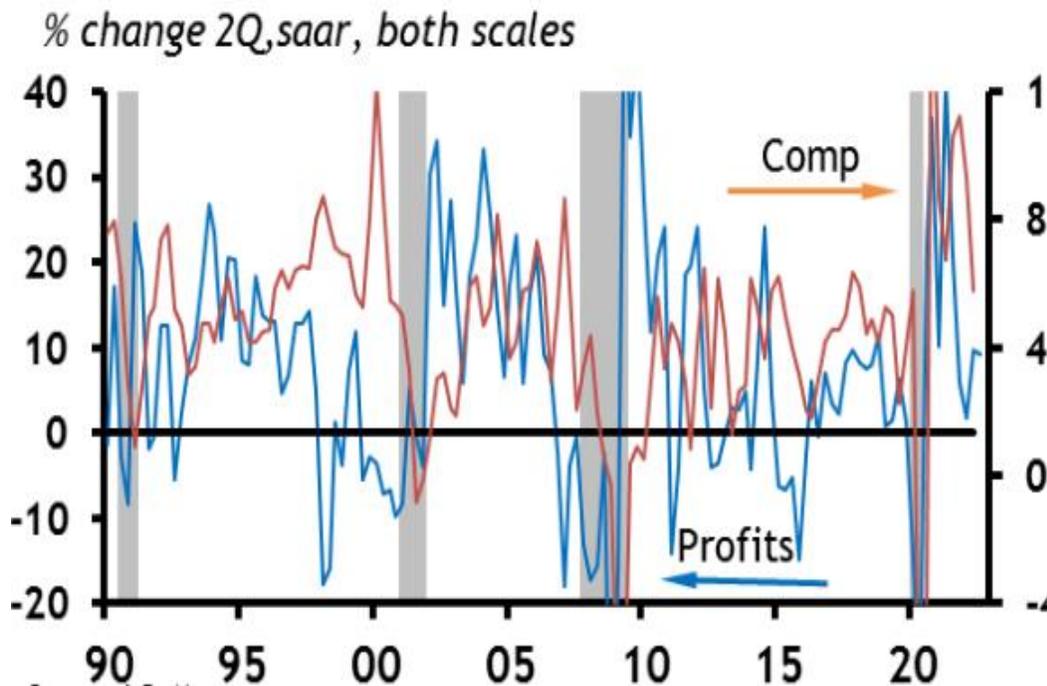
Source: Federal Reserve, BLA, JPM

1. DM MSCI aggregate in a GDP weighted average

US Corporate Profit & Compensation Growth/ Latest Survey Data

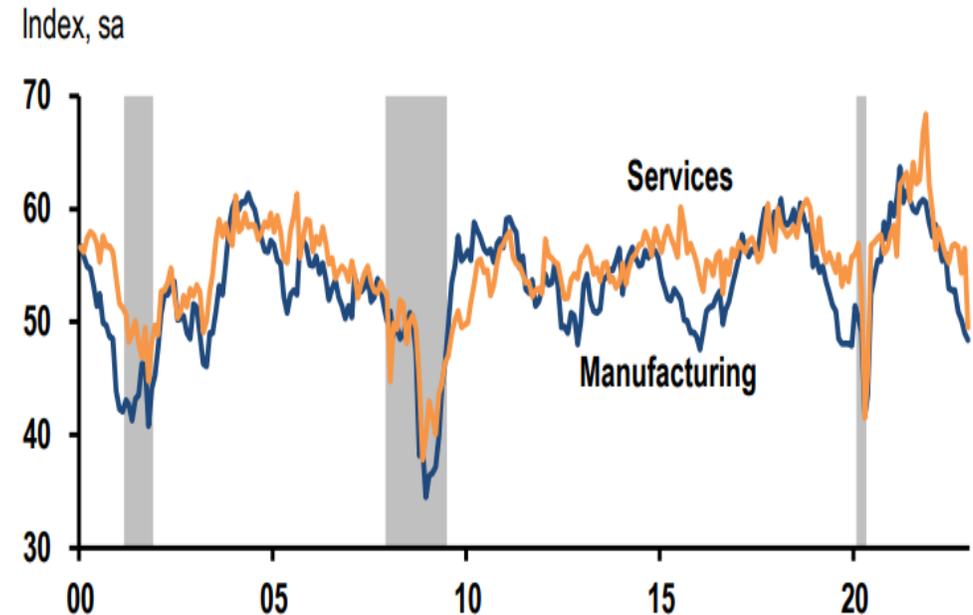
Profits & Compensation/Latest Survey Data Potential Concern

U.S. Corp. Profits & Compensation



Source: JPM

US ISM Survey



Source: ISM

1. The December ISM manufacturing survey declined from 49.0 in November to 48.4, while composite services declined from 56.9 to 49.6. The ISM signal bears watching but with expected Q4 GDP ~ 2.5% and other real data resilient we would not assign too much weight to this the ISM report.

Euro Area Cyclical Outlook (2023)

- **Economy Coping Better Than Expected With Energy Crisis**
 - Latest data reflect resilience: industrial production, unemployment¹
 - Natural gas prices down ~60% from recent peak and back to September 2021 level
 - Mild weather /conservation higher than expected/ increasing natural gas imports
 - Natural storage currently at unprecedented 80% of capacity
 - China’s reopening net positive for Europe via stronger trade (especially Germany)²
- **Inflation Down from Recent Peak but Still Far Above Target**
 - Core CPI expected to reach ~3.5% by year end
 - Further ECB tightening required
 - Stimulative fiscal policies being implement to ease consumers burdens

	2022	2023		2022	2023
GDP Forecast²	3.4%	0.5%	CPI Forecast	8.3%	5.5%

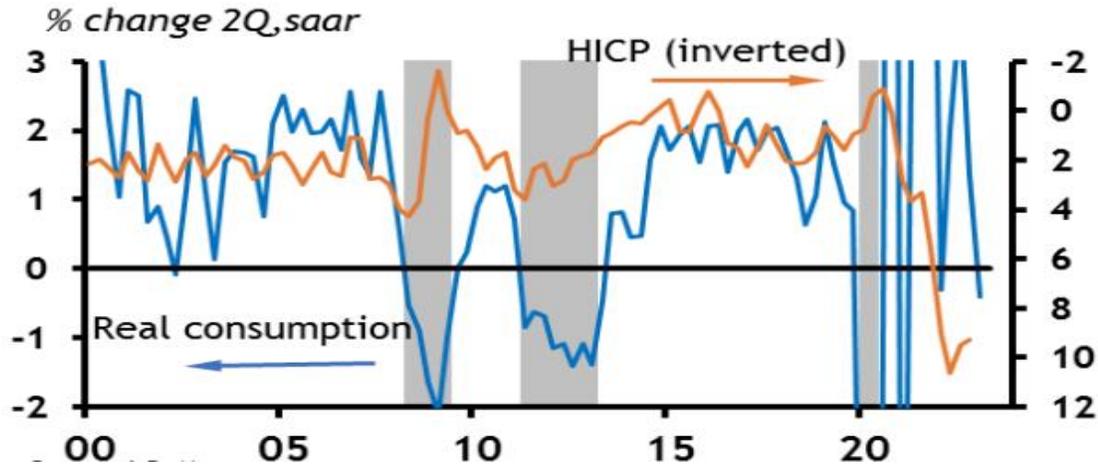
1. Industrial production up 1% in November and unemployment rate at historically low 6.5%

2. GS economists estimate that China’s reopening will raise Euro area’s GDP .growth by 0.2% and core inflation by 5bp after one year.

3. GDP growth slowed from 5.3% in 2021 to ~ 3.4 % in 2022 .Forecast of ~0.5% for 2023 is in line with ECB and recently updated Wall Street forecasts that we monitor. Latest consensus outlook for 2023 GDP growth (0.1)%..

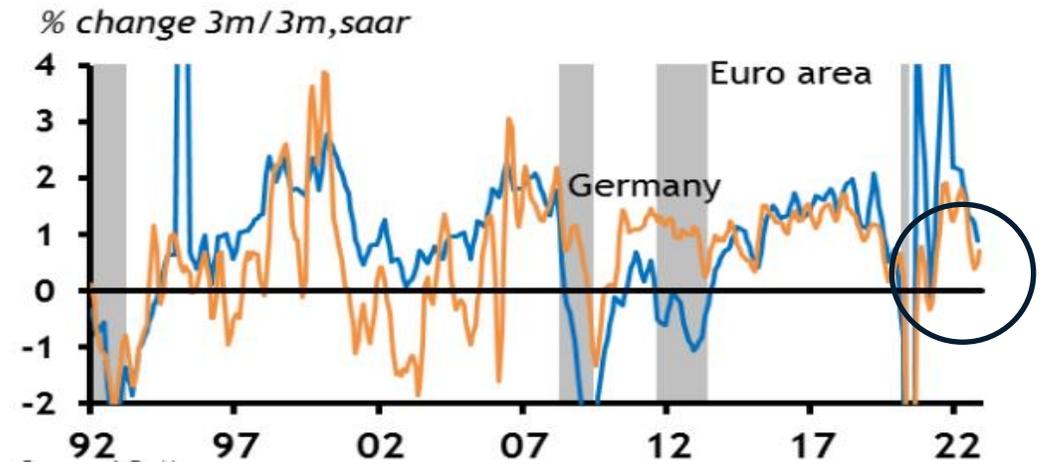
Euro Area Cyclical Outlook (2023)

Inflation Restraining Consumption



Source: JPM

Employment Still Increasing



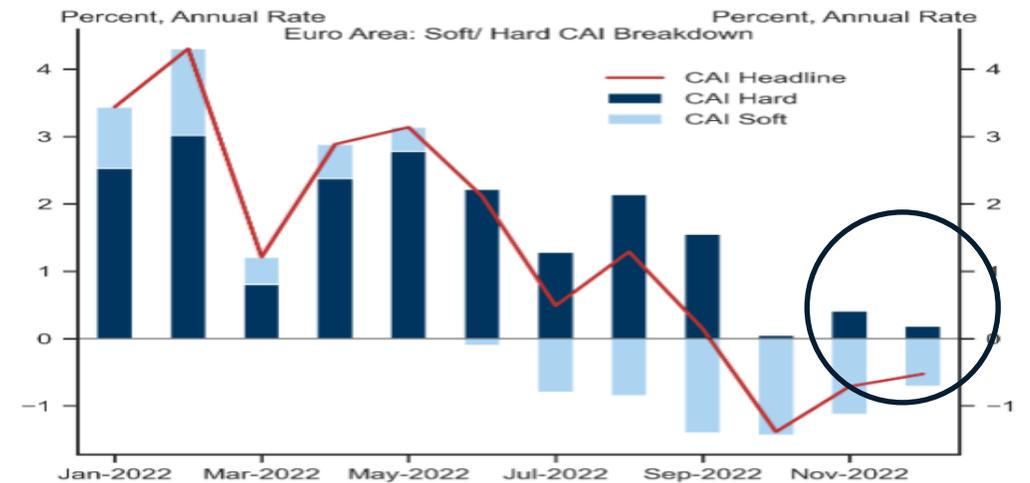
Source: JPM

Real Disposable Income



Source: Haver, GS

Current Activity Indicators Improving¹



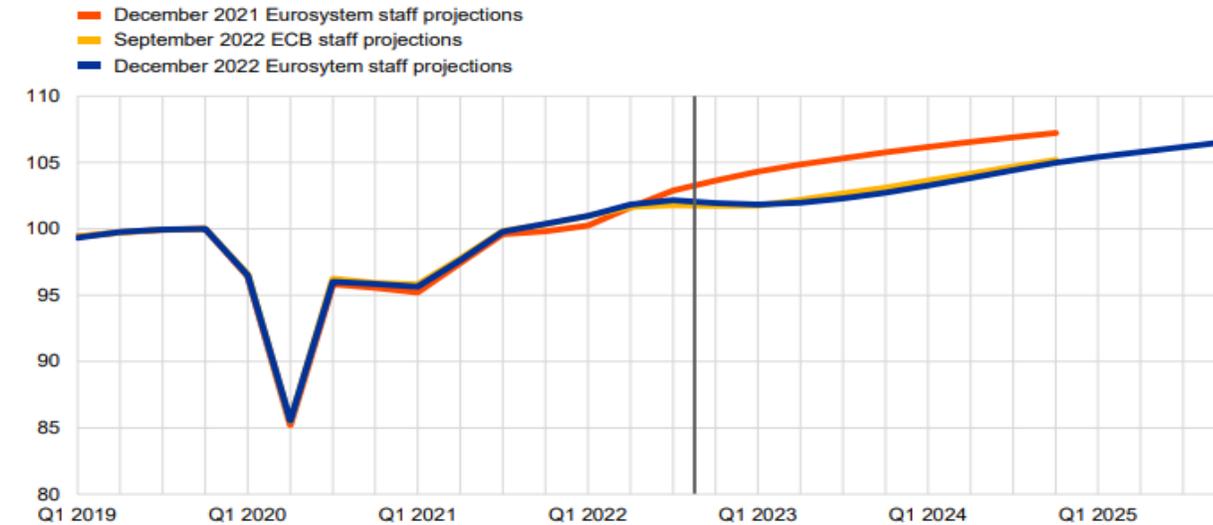
Source: Haver, GS

1. CAI (Current Activity Indicators) are indices maintain by GS. Soft indicator survey data such as PMIs and hard data are economic activity such as industrial production, employment and retail sales.

ECB's Euro Area Cyclical Outlook (2023)

Euro Area GDP

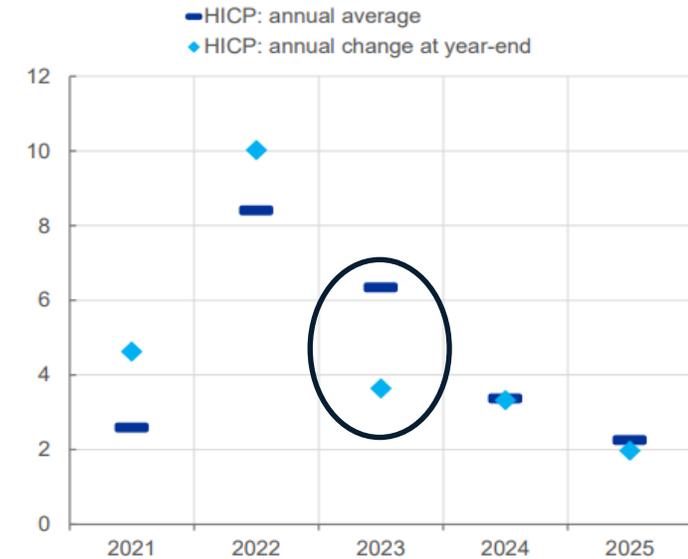
(chain-linked volumes, Q4 2019 = 100)



Source: ECB

- GDP growth expected to remain below the pre-war trajectory...
 - But achieve 0.5% yoy growth in 2023¹
- Growth expected to strengthen over course of year as...
 - Supply bottlenecks resolve, real incomes and foreign demand increase

Euro Area Inflation



Source: ECB

- ECB forecasts that Inflation will moderate over the course of the year but remain above its target
 - Averaging ~6% in 2023 and nearly 4% at YE

1. ECB's downside scenario assumes complete and permanent cutoff of remaining Russian natural gas — 2023 outlook: real GDP — 0.6% and inflation :headline 7.4%, core 4.3% (virtually same as base case)

UK Cyclical Outlook (2023)

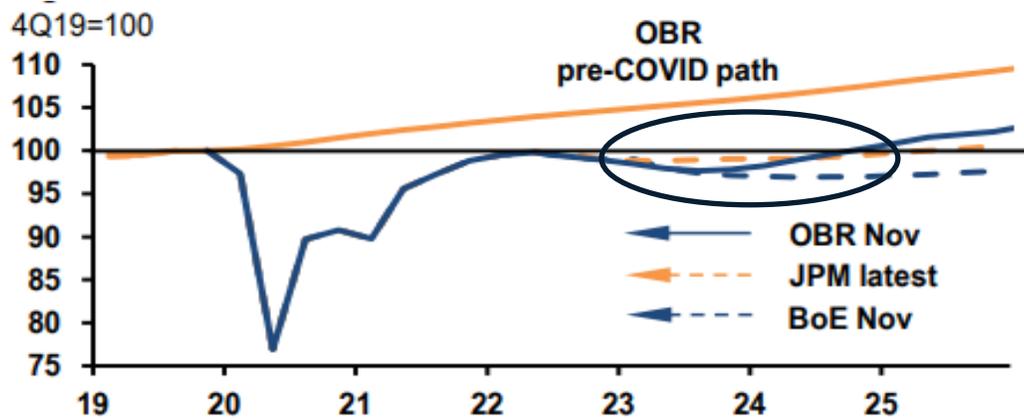
- **Economy Facing Global Headwinds of Inflation and Higher Interest Rates as well as...**
 - Idiosyncratic headwinds: Brexit ramifications, tight labor market, restrictive fiscal policies
- **Latest Economic Indicators Consistent with Stagnation/Mild Recession**
 - Real GNP up 0.1% in November/PMIs and confidence positive in December
 - Drop in natural gas prices lessens downside risk
- **Inflation Sticky, however, Further BOE Tightening Likely**
 - CPI forecast ~4.5% at year-end

	2022	2023		2022	2023
GDP Forecast¹	4.1%	(0.7)%	CPI Forecast	9.0%	6.0%

1. Based on latest data, forecasters becoming more optimistic re: 2023 GDP outlook, our forecast roughly in middle of latest Wall Street forecasts that we monitor but above consensus of ~(1)%

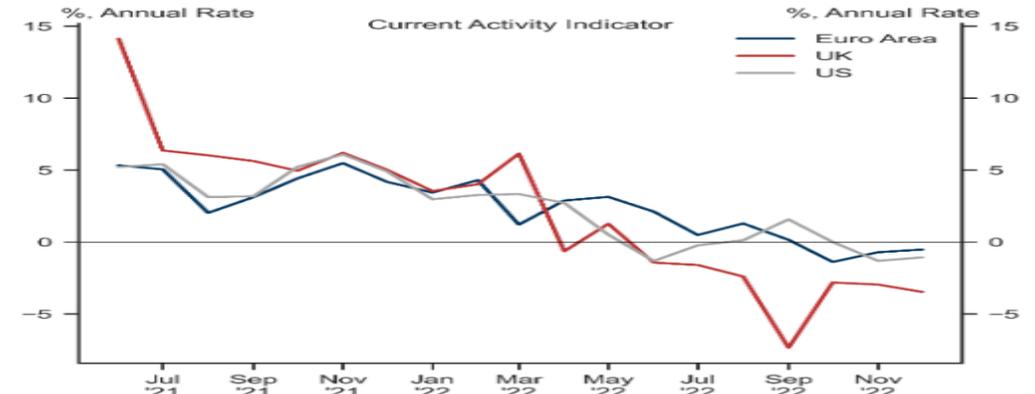
Mild Recession Expected / Current Activity Indicator Relatively Weak

Representative GDP Forecasts



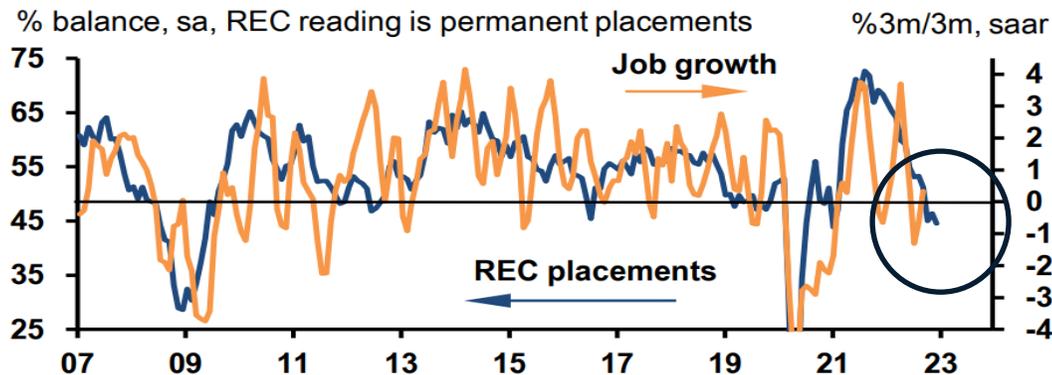
Source: ONS, OBR, BOE, JPM

Current Activity Indicator



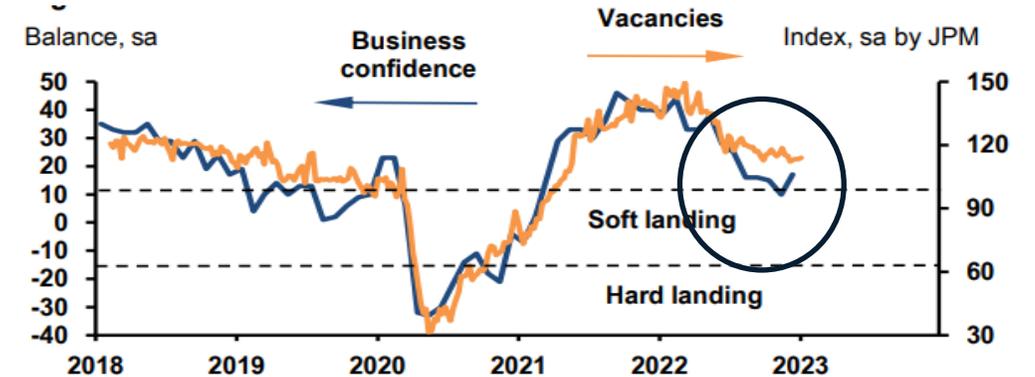
Source: Haver, GS

Job Growth & Placements¹



Source: ONS, MARKIT, REC, KPMG

Business Confidence & Job Vacancies²



Source: Adzura, Lloyds

1. BOE chief economist in recent speech noted that job vacancies have stabilized and are expected to fall from historically high levels
2. PMI employment readings consistent with stable rather than falling employment. Conflicting messages on wage growth. Business expectations point to average wage growth of ~6%, while REC survey data roughly suggest wage growth ~4%.

- **Japan's Economy Expected to Keep Muddling Along**
 - GDP growth for 2023 is forecast to be in line with 2022 pace
 - Core inflation (ex. fresh food and energy) expected to peak in Q1 and...
 - Moderate over the course of the year
- **BoJ Unexpectedly Widened 10-Year Yield Band to ± 50 bp from ± 25 bp in December**
 - Sustainability of YCC (yield curve control) difficult when Fed hikes rates
 - Government officials attributed change to decline in market functionality
 - BoJ at last week's meeting decided to maintain the status quo across all key...
 - Monetary policy parameters including yield curve control

	2022	2023		2022	2023
GDP Forecast¹	1.9%	1.7%	CPI Forecast	2.1%	1.8%

1. Forecast taken from BoJ's January outlook for fiscal years. Inflation core CPI (ex. Fresh food and energy, a key barometer for BoJ)
2. YCC in yield curve control

EM Cyclical Outlook

China: 4.8%

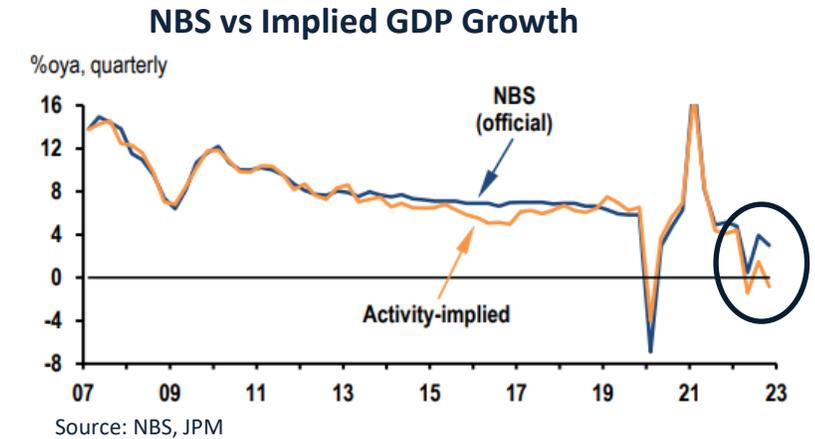
Asia ex. China: 3.5%

Europe: 0.2%

Latin America: 1.0%

China Cyclical Outlook (2023)

- **Abrupt End to Zero-COVID Policy 2022 YE Surprise**
 - Available December data extremely weak/ COVID cases surged
- **Weakness Expected to be Short Lived, However**
 - High frequency data suggest moving beyond peak infections
 - Interim setbacks associated with LNY possible but...
 - Strong recovery beyond Q1 expected



- **Government Refocusing on Growth¹/ Pent-up Demand Another Potential Source for Growth**
 - Monetary and fiscal easing and relaxing housing policies expected
 - Current GDP roughly 5% below pre-pandemic trend
- **Strong 2023 Cyclical Outlook Well Supported but Structural Challenges Remain²**
 - Reopening net plus for global economy, Southeast Asia neighbors particularly benefit from tourism
 - Increased global trade & less supply chain risks more than offset effects of higher commodity prices

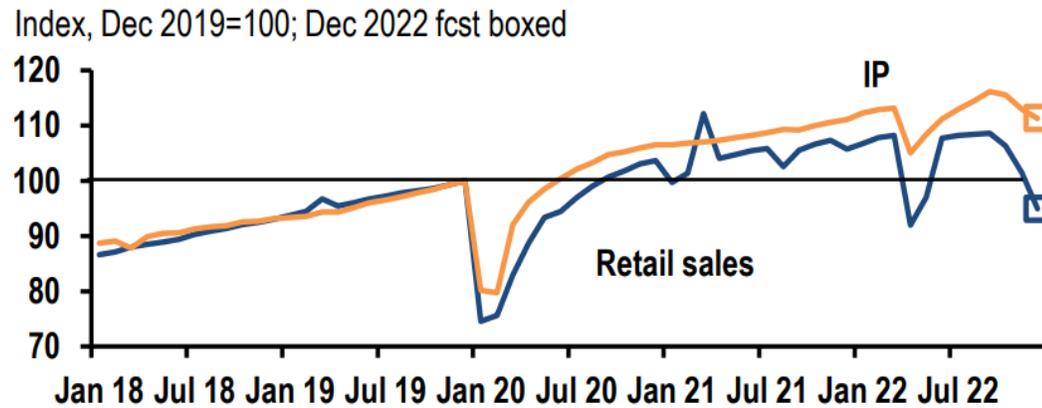
	2022	2023		2022	2023
GDP Forecast³	3.0%	4.8%	CPI Forecast	2.0%	3.0%

1. Number of key provinces in China have announced their growth targets for this year, above 5%. Politburo: “Broad-based improvement” in the economy “to enhance quality of growth meanwhile to encourage reasonable quantity expansion.”
 2. Structural challenges include demographics, housing sector, and US government placing restrictions on exports of cutting-edge semiconductor chips.
 3. Our GDP forecast for China is slightly above consensus – 4.8% -- but below GS forecast 5.2%

China Cyclical Outlook (2023)

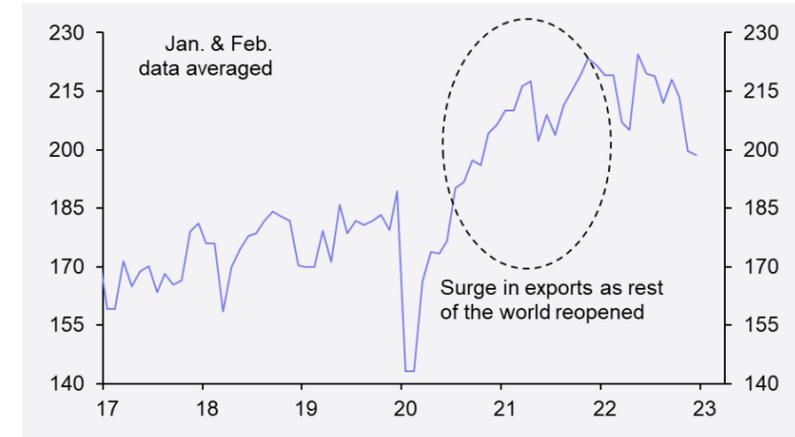
Latest Data Weak

Retail Sales & Industrial Production



Source: NBS, JPM

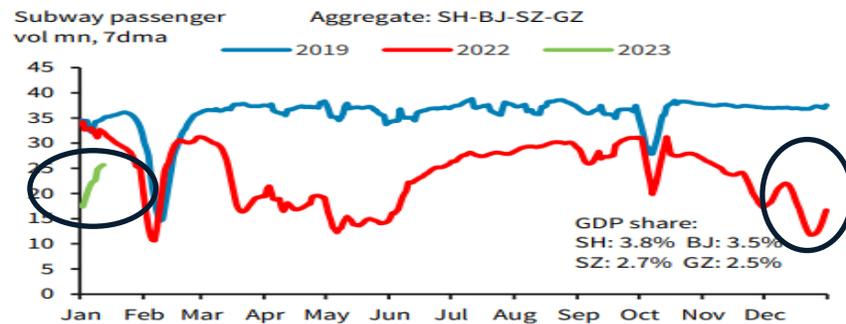
Exports (\$Bn/2010 prices)¹



Source: WIND, CE

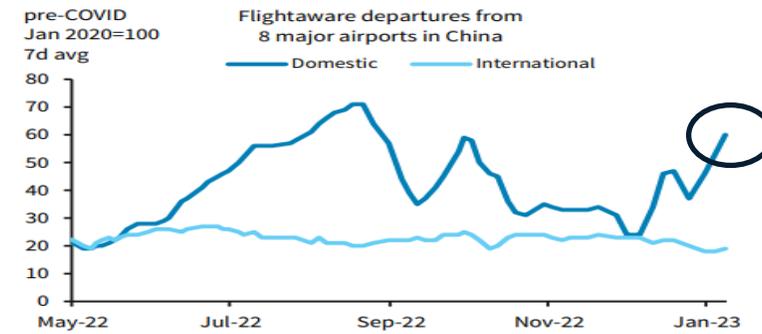
Green Shoots of Post-Zero-COVID U-Turn Recovery

Subway Passengers Volume



Source: WIND, Barclays

Flight Departures

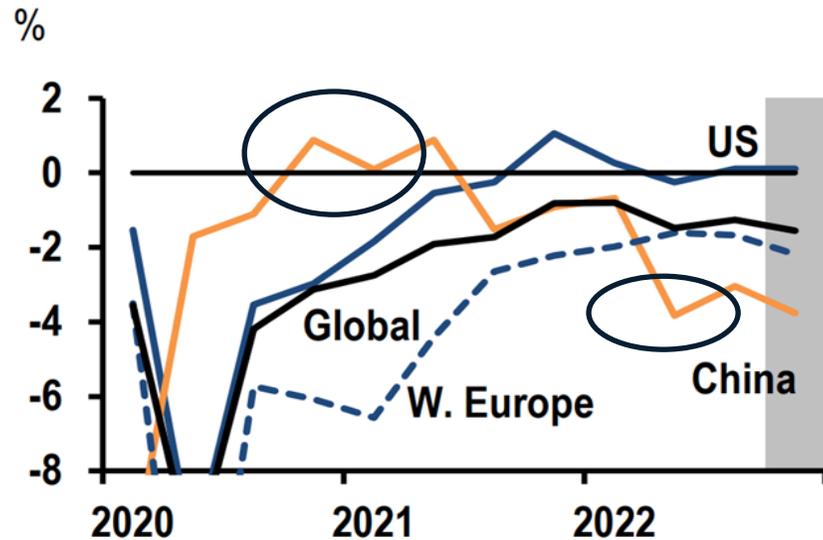


Source: WIND, Barclays

1. China's exports down considerably in last five months. CE economists attribute weakness largely to shift in spending patterns from goods to services as advanced economies move past initial stage of post-COVID re-openings.

China Cyclical Outlook (2023)

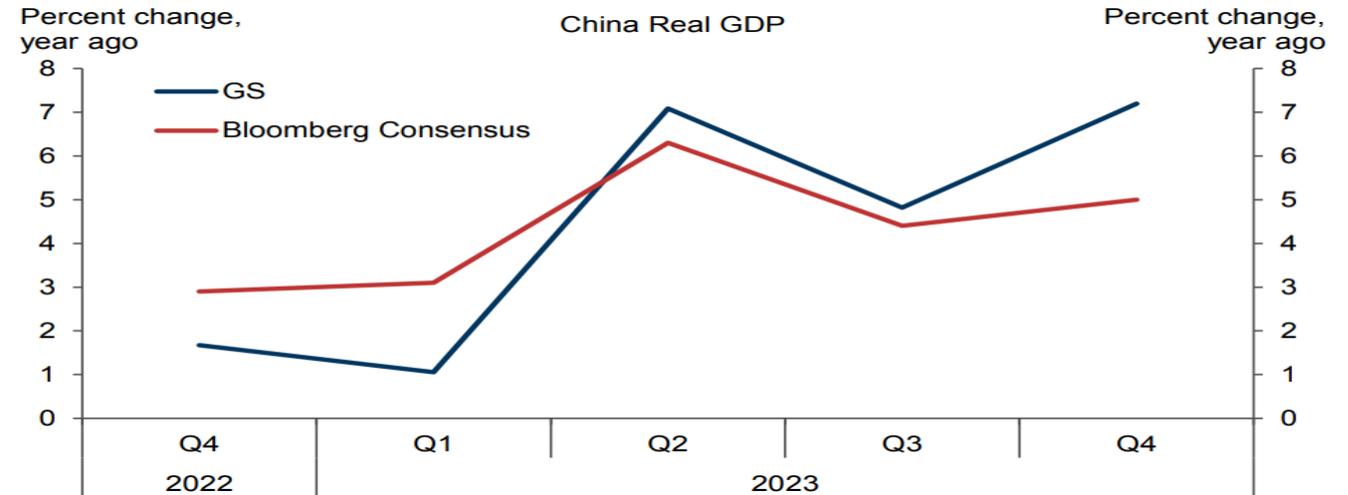
Real GDP vs Potential (Dec. 2019=100)



Source: JPM

- By mid-2021, China was the only economy that (orange line) returned to its pre-pandemic level
- However, over the past year China has moved toward the bottom of the pre-pandemic potential GDP path

GDP Outlook Post Zero-COVID U-Turn



Source: Bloomberg, GS

- Widespread agreement that with reopening China's current economic weakness will be short lived and followed by a strong rebound in economic activity after Q1
- Goldman Sachs China economists more sanguine than consensus

EM ex China Cyclical Outlook (2023)¹

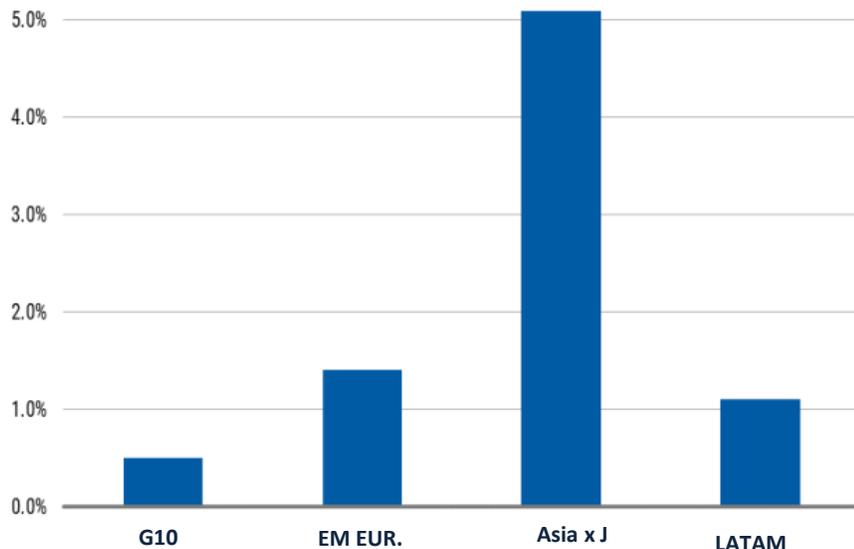
	EM GDP Forecasts		EM CPI Forecasts		
	2022	2023	2022	2023	
Regional EM Groupings	Asia ex. China	4.5%	3.5%	6.7%	4.8%
	Europe	1.0%	0.2%	14.0%	9.0%
	Latin America	3.8%	1.0%	9.0%	6.0%
Selected EM Countries	India	6.9%	6.0%	6.7%	5.0%
	Brazil	3.0%	1.0%	9.3%	4.8%
	Russia	(3.0)%	(2.0)%	13.7%	6.0%

- *Asia(x)EM*: growth relatively strong in 2023 -- India, Philippines, Indonesia in 3%-6% range
- *Europe EM*: growth slowed by inflation, financial conditions, weak external demand in 2023
- *Latin America EM*: growth to weaken in '23--financial conditions, slowing exports, new leaders

1. EM excluding China accounts for ~ 60% of EM. . Europe inflation excludes Turkey. .Latin America inflation excludes Argentina and Venezuela.

Some Wall Street Economists Optimistic Re 2023 Prospects for EM

MS Regional Outlook¹



Source: IMF, MS

- EM growth particularly Asia, is expected to be robust relative to DM

EM Equity Relative Performance vs USD

Emerging equity relative performance and the U.S. dollar, 2021-2023



Source: BlackRock, Refinitiv

- BlackRock economists see more positive backdrop for EM as DM central banks pause, the dollar weakens, and China reopens
- EM in relatively strong financial position with caveat²

1. Principal differences between MS and our forecasts due largely to composition. Above Asia grouping includes China and EM Europe excludes Russia
 2. Blackrock economist note EM has higher levels of currency reserves, smaller current deficits and improved external balances than in past DM tightening cycles. Comment presumably refers to usual EM investment universe. IMF economists warn that about 60% of low-income countries are now in or at risk of distress due to rising rates and relatively high food and energy prices.

Final Thoughts



- **2022 Difficult Year for Macro Forecasters**
 - Inflation exceeded expectations during much of year requiring periodic downward revisions in ...
 - Growth forecasts until the latter part of the year
- **Most Recent News and Inflation Reports More Encouraging**
 - China's reopening should be net plus for the global economy and...
 - Increases likelihood that aggregate EM growth will match or exceed 2022 pace
 - Confidence that global inflation has peaked increasing...
 - Consumer goods, and commodity prices disinflationary...
 - Commodity prices may edge up somewhat but likely to stay far below '22 peaks
- **Taming Inflation Work In Progress / Wage Growth and Rising Service Prices Continuing Concern**
 - Major central banks need to maintain high interest rates to moderate demand
 - Aggregate DM growth expected to be <1%
- **Forecast of Below-Trend Global Growth for 2023 Imbeds Identifiable Headwinds and Stabilizers**
 - Possible central bank miscues major known risk

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