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## Global Economic Update

2<sup>nd</sup> Quarter 2020

## Key Areas of Focus

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ACG's Investment Committee routinely identifies key areas of focus or themes that will drive investment returns **over the intermediate term**. In this quarterly update, we highlight **market and economic considerations** relevant in the context of enhancing risk-adjusted outcomes.



**January 1, 2020**

Equity markets near all-time highs, no obvious stress points

Fed had cut rates 0.75% in 2019 to support slowing growth

Labor market stable, unemployment near record low

Inflation low/stable (slightly below Fed 2% target)

Trade relations with China improving

10-Year treasury yield at 1.92%, credit spreads tight

Oil price at \$66/barrel

**March 31, 2020**

Equities down 20% - 30% following two exogenous shocks

Fed cuts a further 1.50%, announces QE + other measures

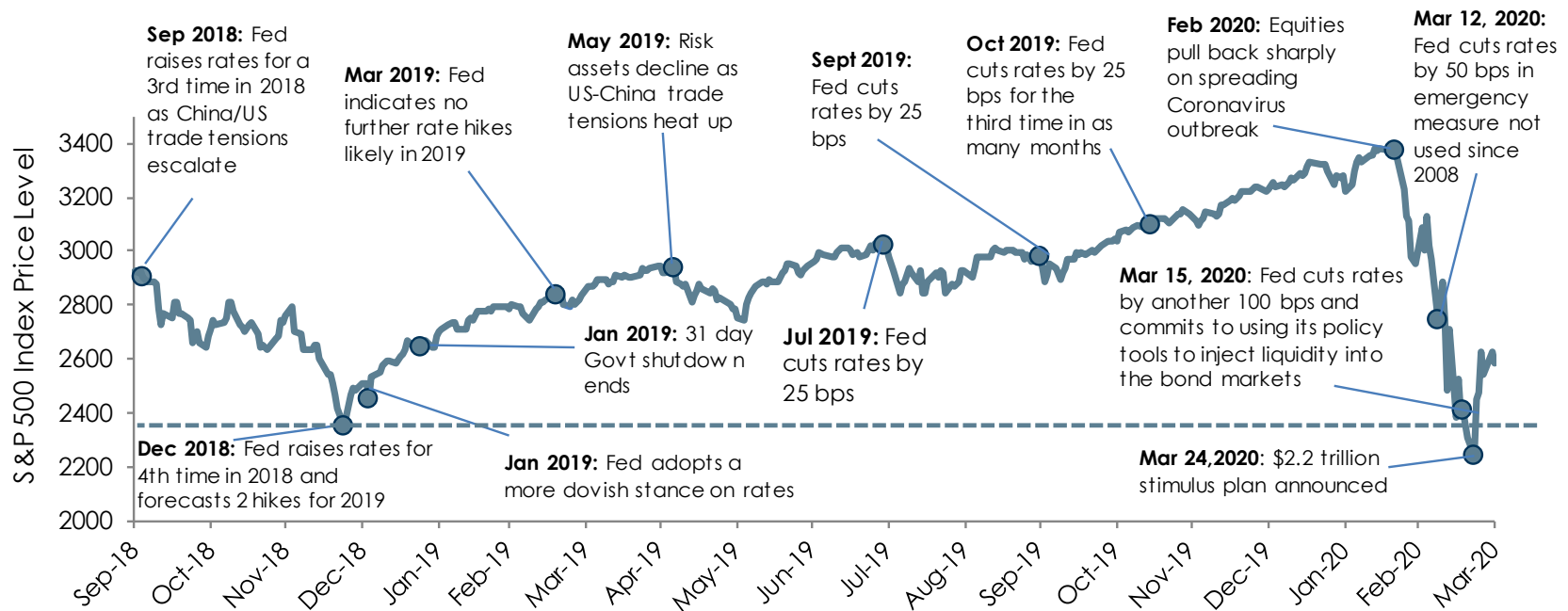
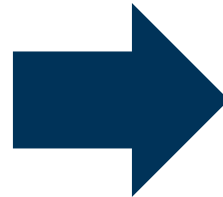
Social distancing, record claims for unemployment

Inflation expectations fall below 1%

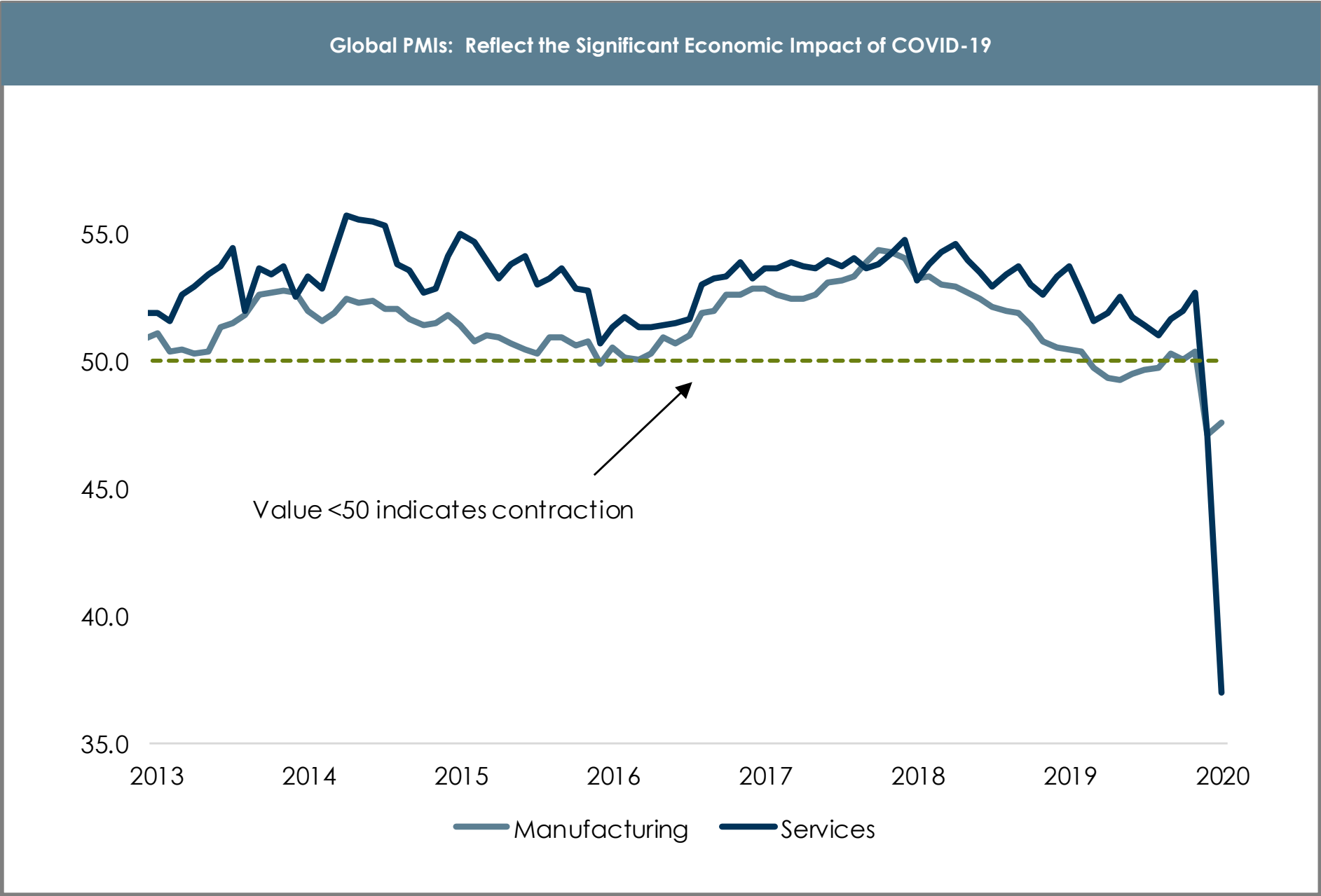
Supply disruptions / demand destruction

10-Yr UST yield falls < 0.7%, spreads widen, liquidity tested

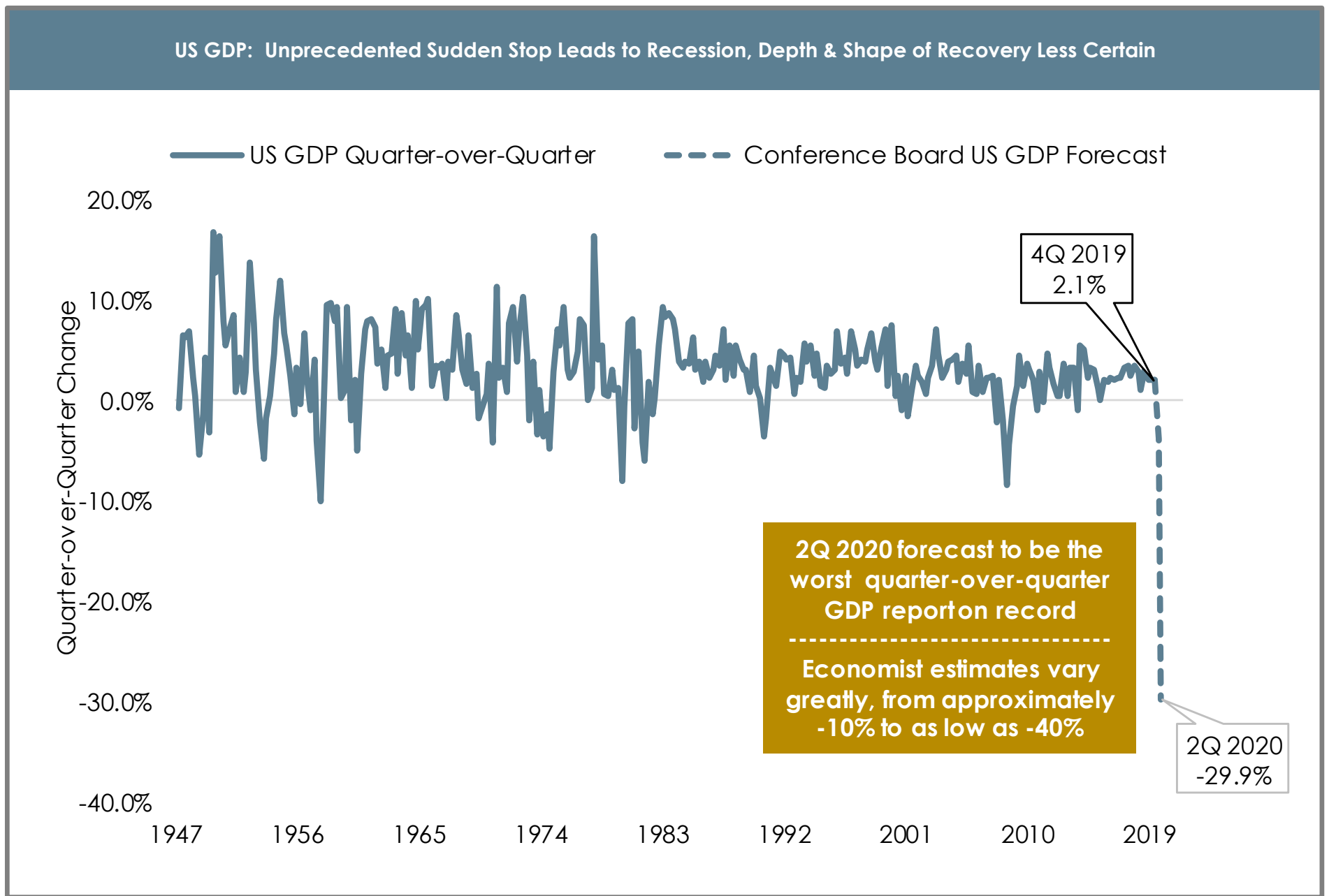
Oil price just over \$20/barrel



Source: ACG Research, Bloomberg (as of March 31, 2020)

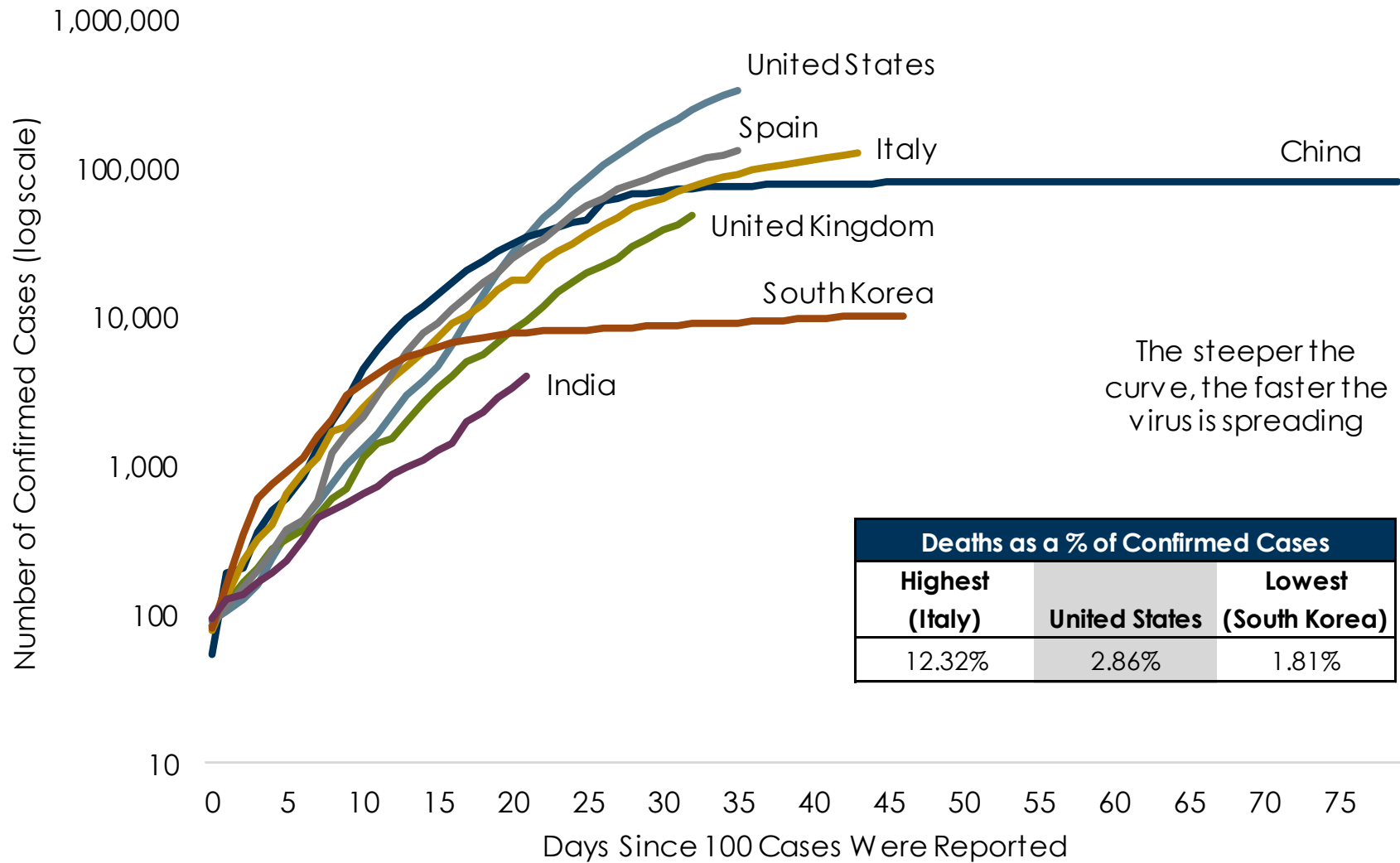


Source: ACG Research, JP Morgan Markets (as of March 31, 2020)

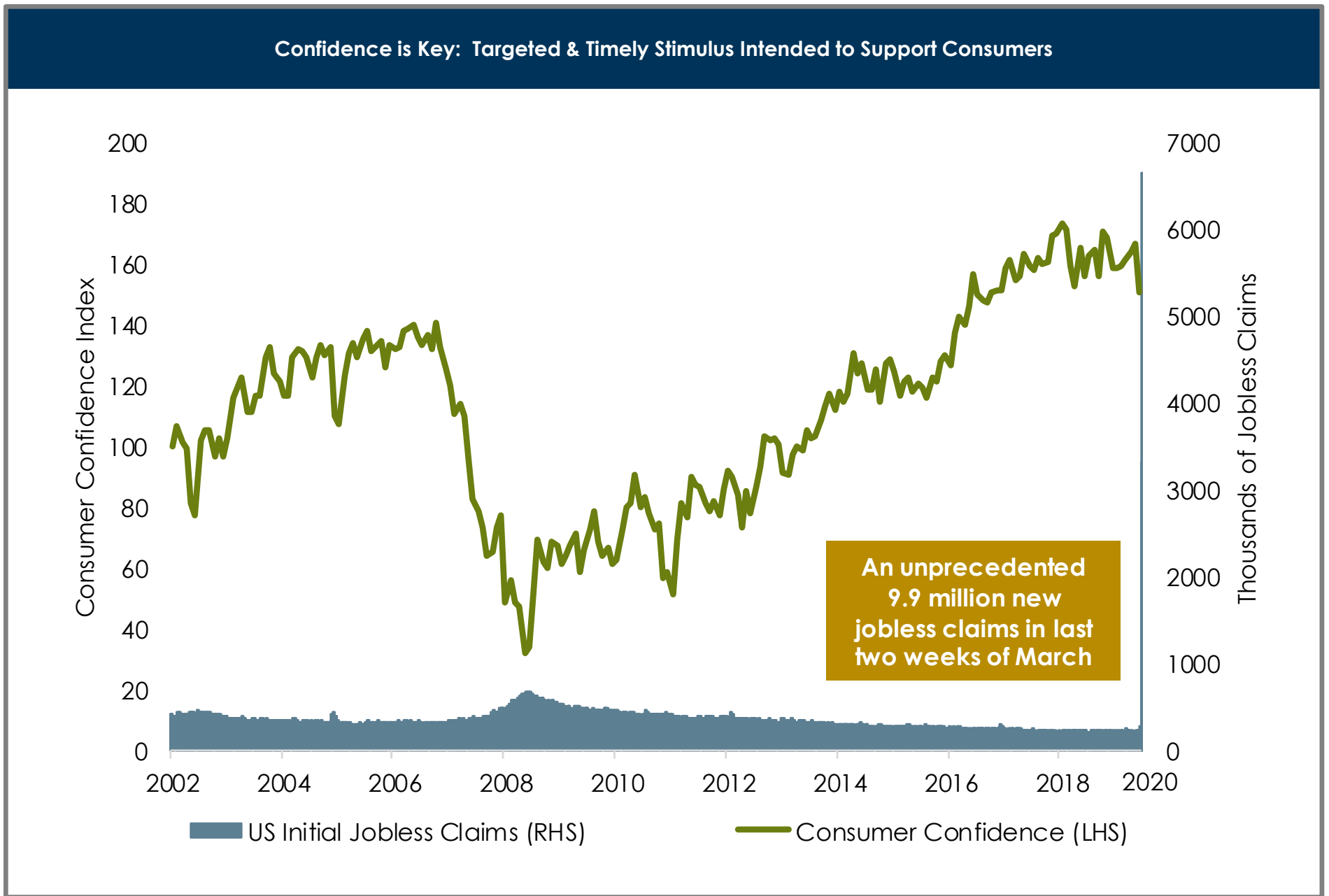


Source: ACG Research, Bloomberg, Bureau of Economic Analysis, Conference Board (forecast as of March 25, 2020)

Flattening the Curve: Containing the Spread of COVID-19 is a Global Priority

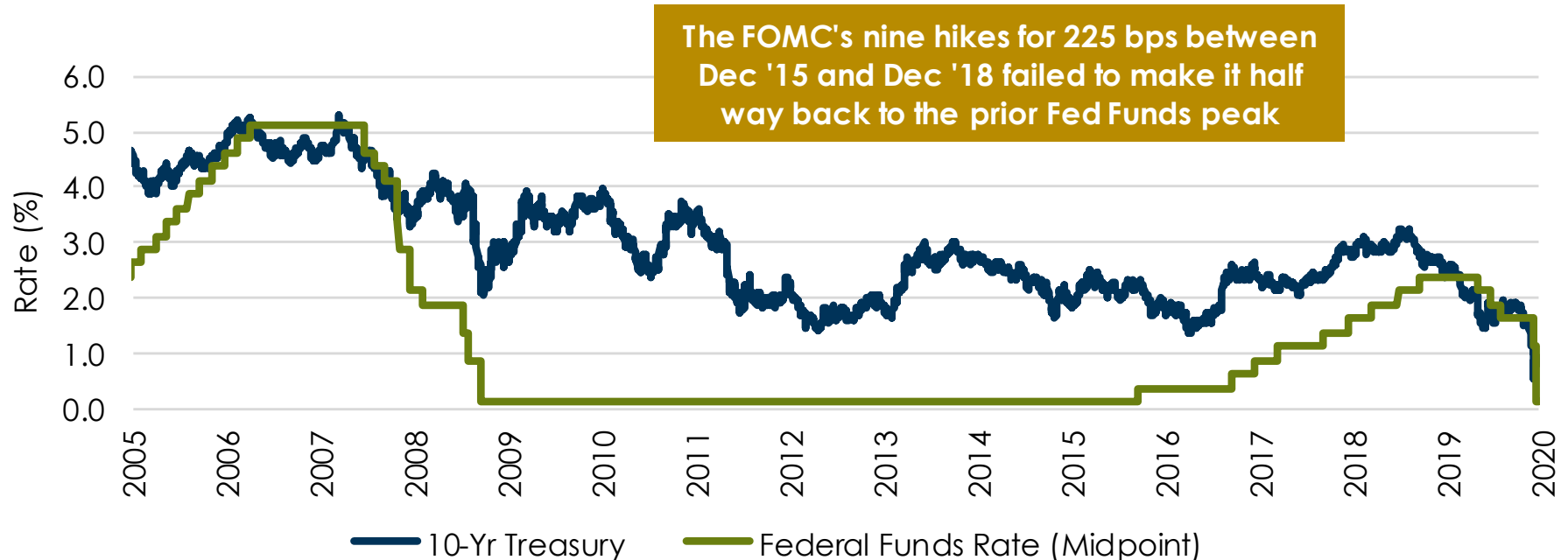


Source: ACG Research, European Centre for Disease Prevention and Control (as of April 6, 2020)



Source: ACG Research, Bloomberg (as of March 31, 2020)

US Federal Reserve: Policy Pivot Transitions Quickly to “All Hands on Deck”



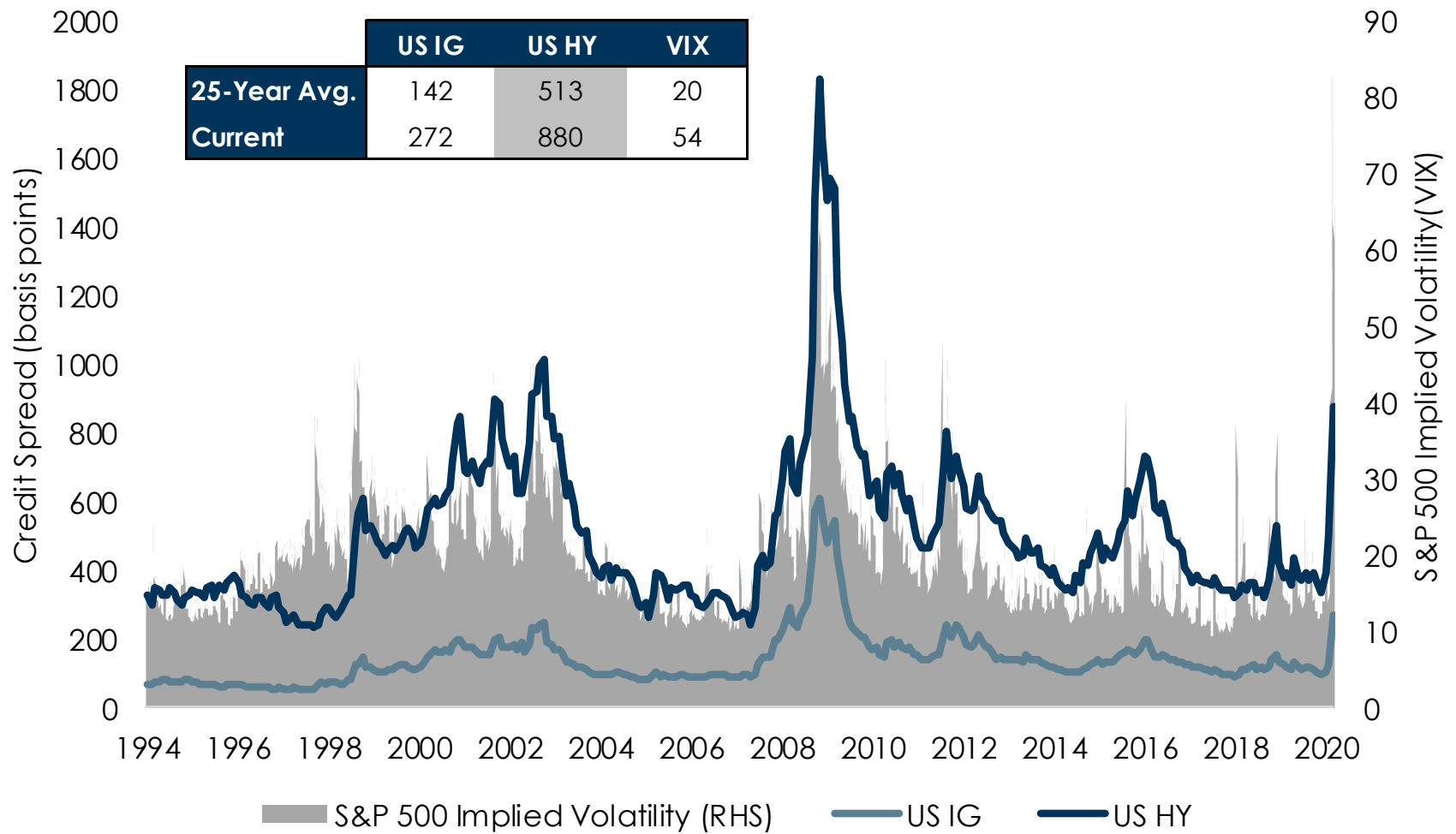
The Fed's Expanded Toolkit

Zero Bound Rates	Commercial Paper Funding Facility (CPFF)
Asset Purchases (unlimited QE)	Term Asset-Backed Securities Loan Facility (TALF)
Primary Credit Rate/Discount Window	<b>New</b> - Reduced Bank Reserve Requirements
Central Bank Liquidity Swaps	<b>New</b> - Primary Market Corporate Credit Facility (PMCCF)
Primary Dealer Credit Facility (PDCF)	<b>New</b> - Secondary Market Corporate Credit Facility (SMCCF)
Money Market MF Liquidity Facility	<b>New</b> - Foreign & International Monetary Authorities (FIMA) Repo Facility

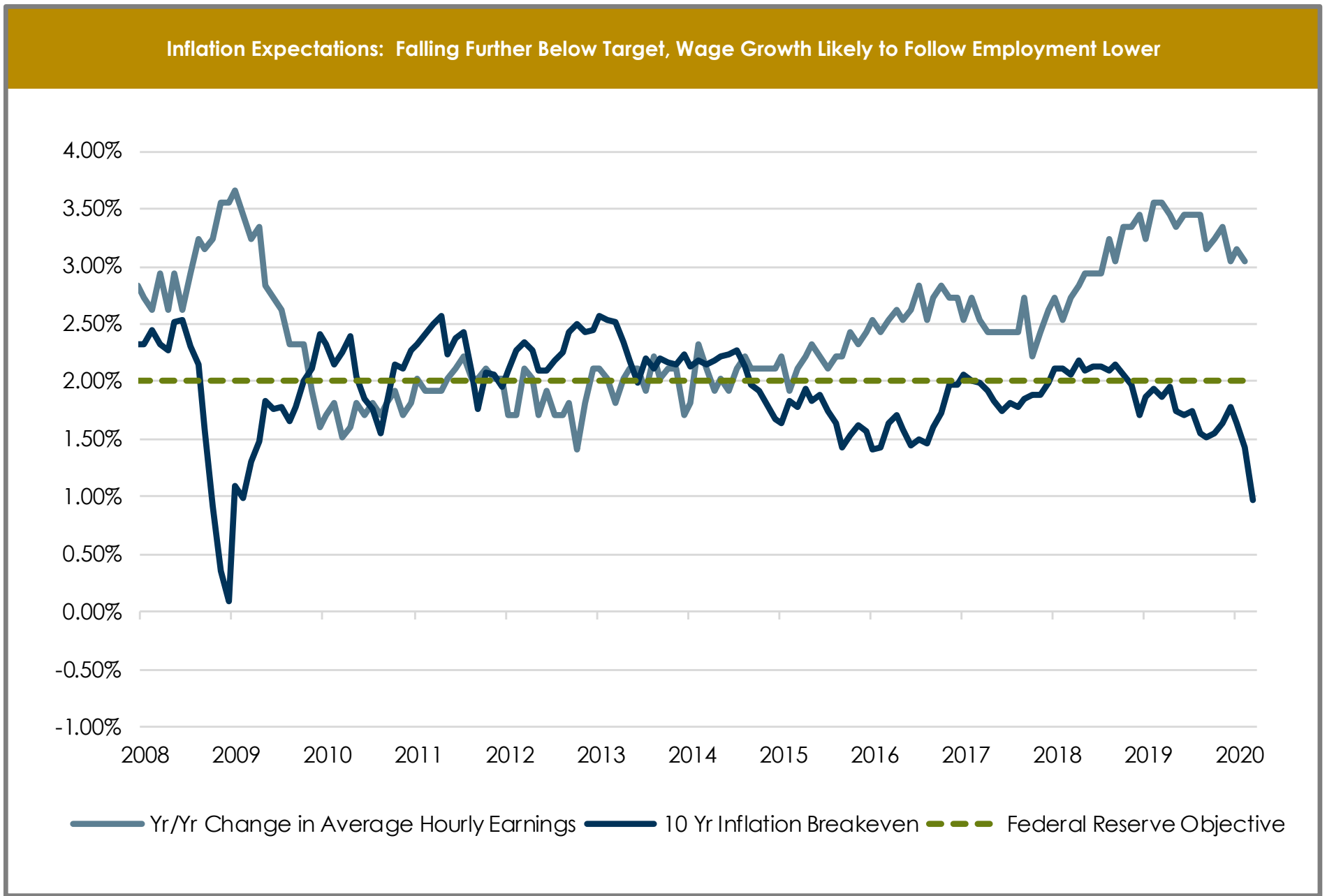
Source: ACG Research, Bloomberg, Federal Reserve



Corporate Credit: Spreads Reflecting Cash Flow Uncertainty and Liquidity Concerns

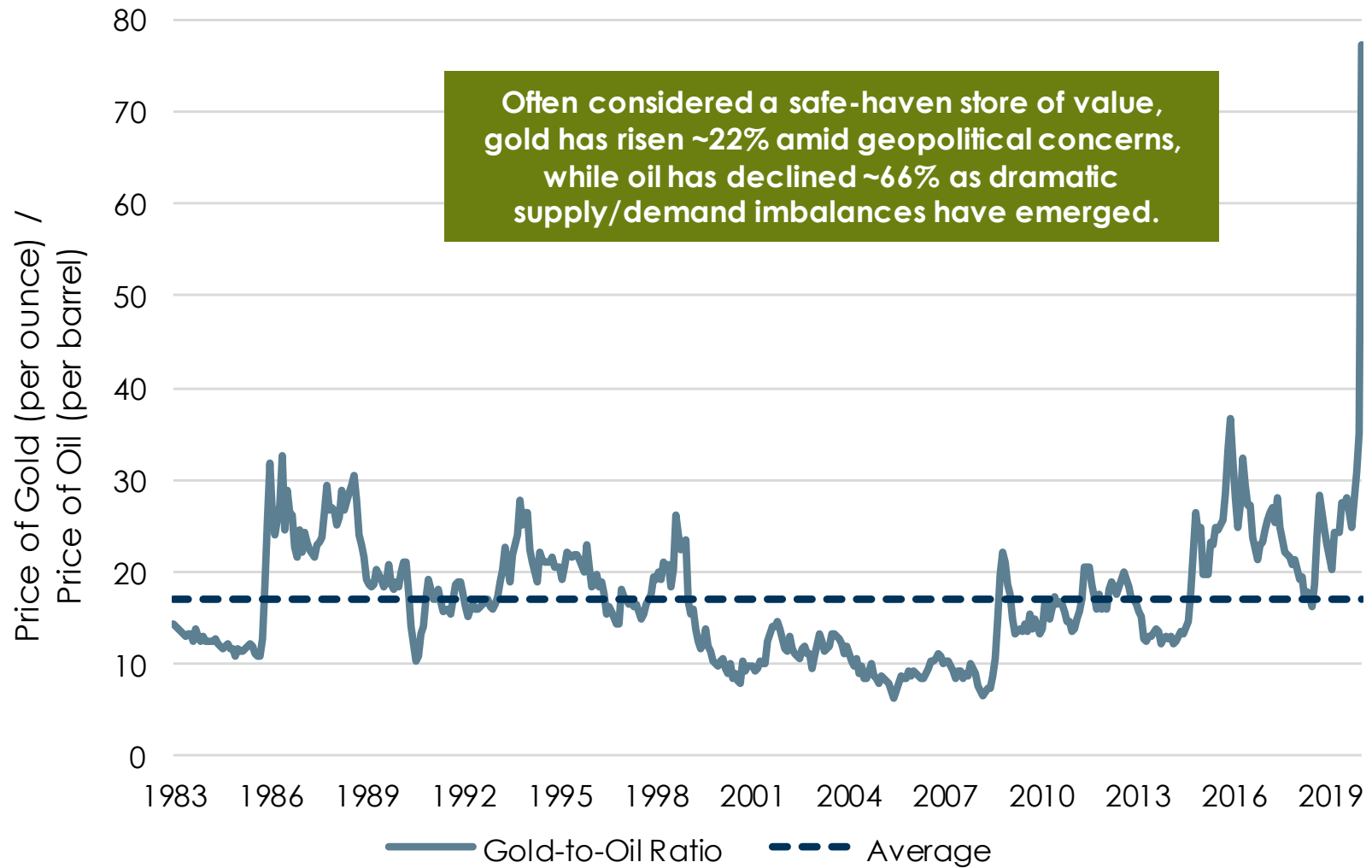


Source: ACG Research, Bloomberg Barclays Indices (as of March 31, 2020)

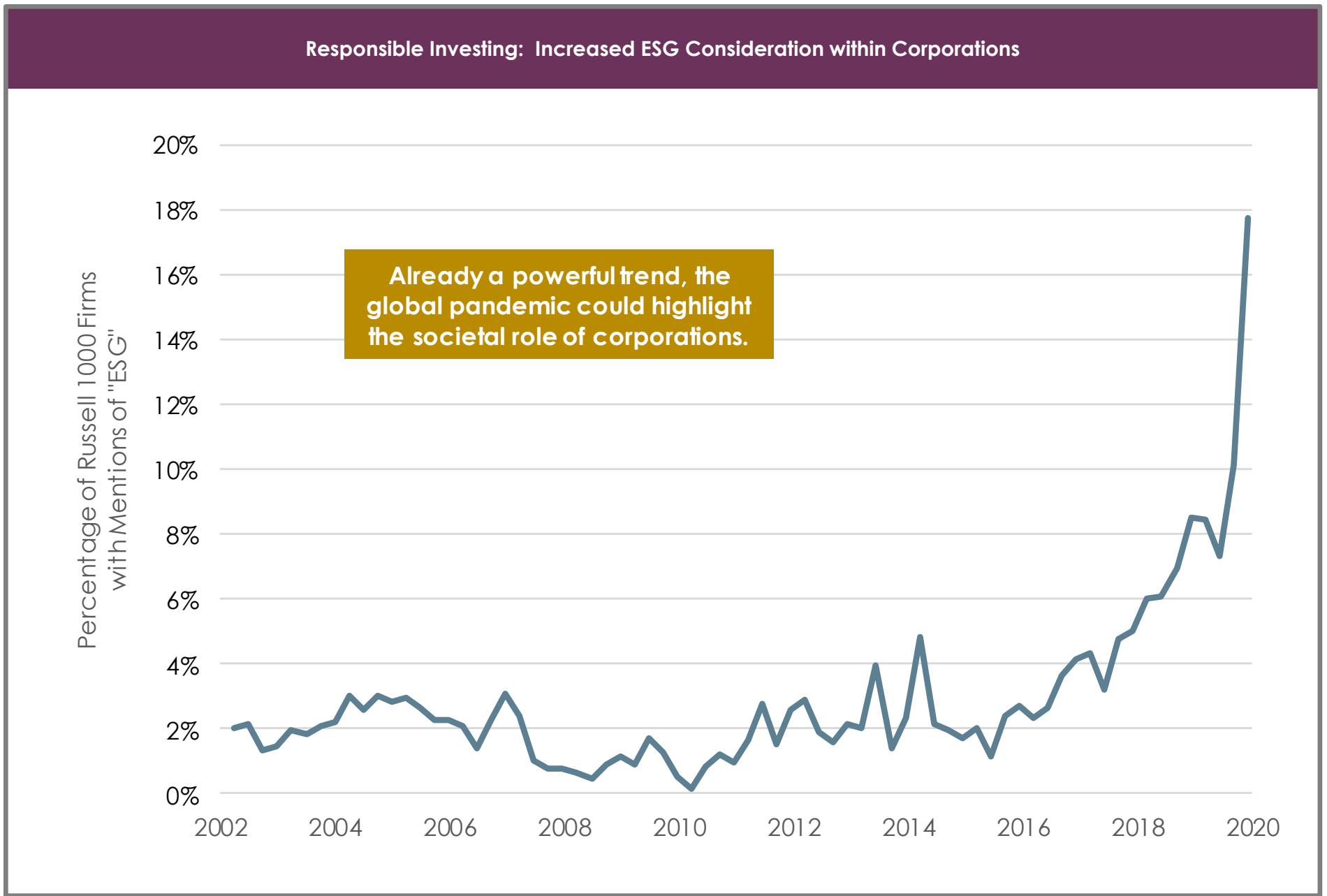


Source: ACG Research, Bloomberg (as of March 31, 2020)

Inflation Expectations: The World's Most Watched Commodities Are Diverging

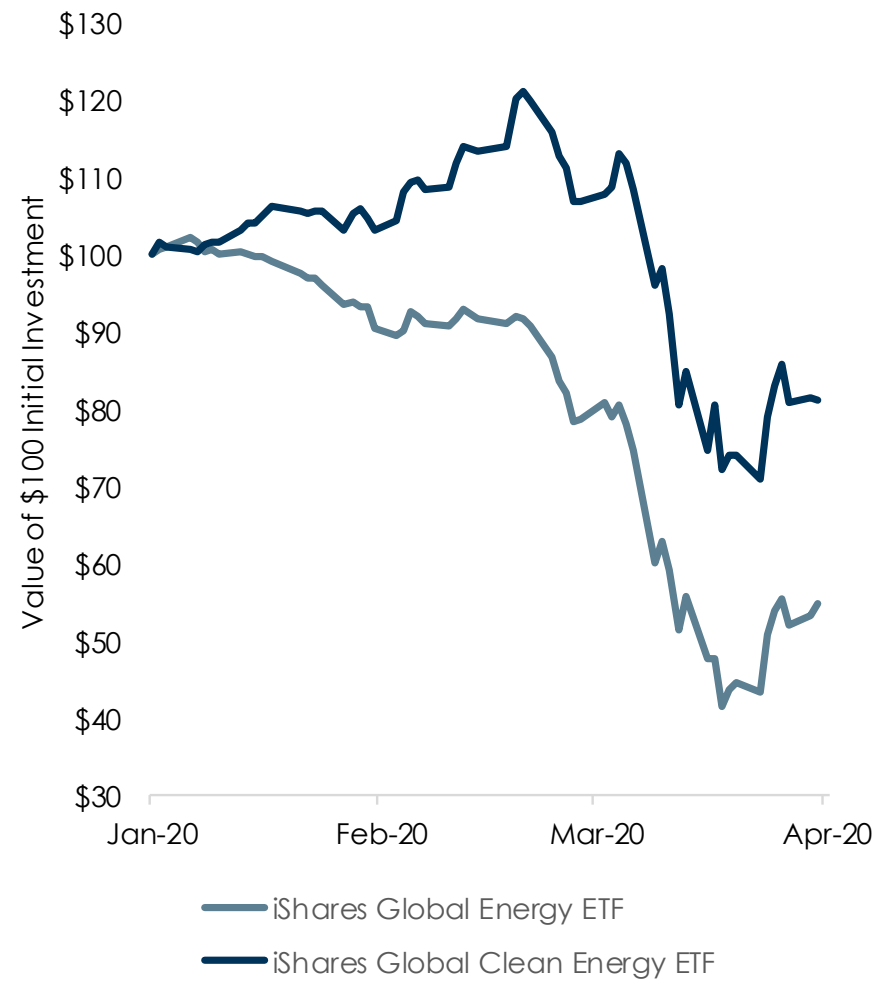
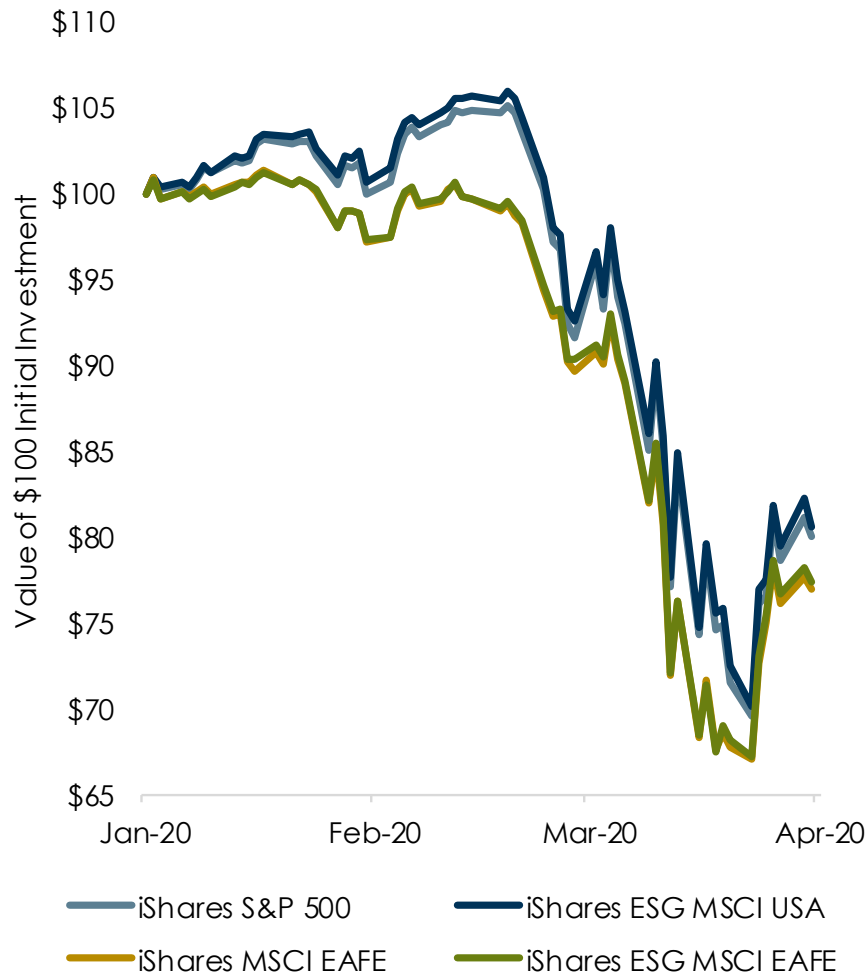


Source: ACG Research, Bloomberg (as of March 31, 2020)



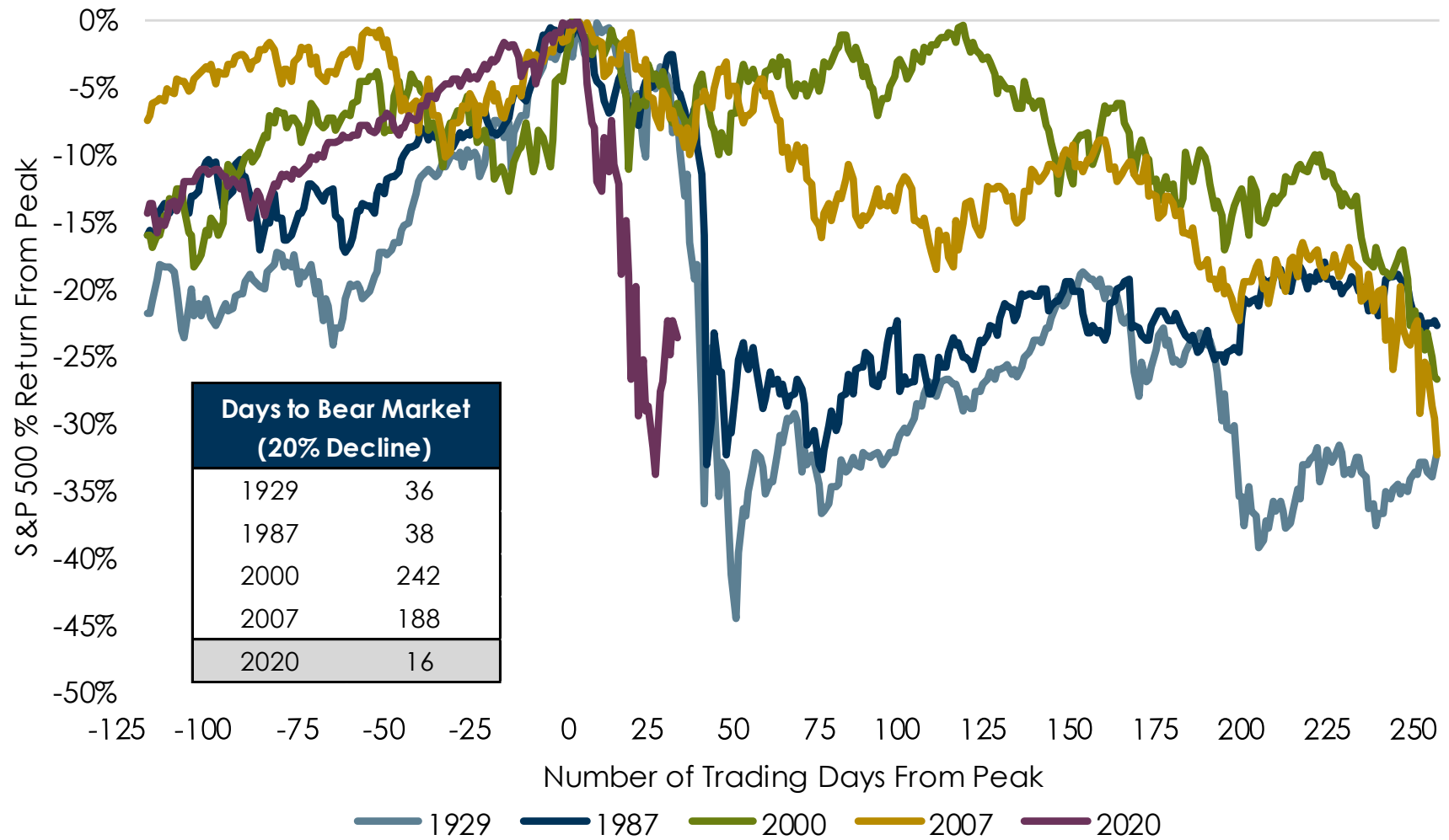
Source: ACG Research, BlackRock (BTAP – BlackRock Text Analytics Platform)

Responsible Investing: ETFs with an ESG Tilt Have Outperformed Amid the Year-to-Date Declines



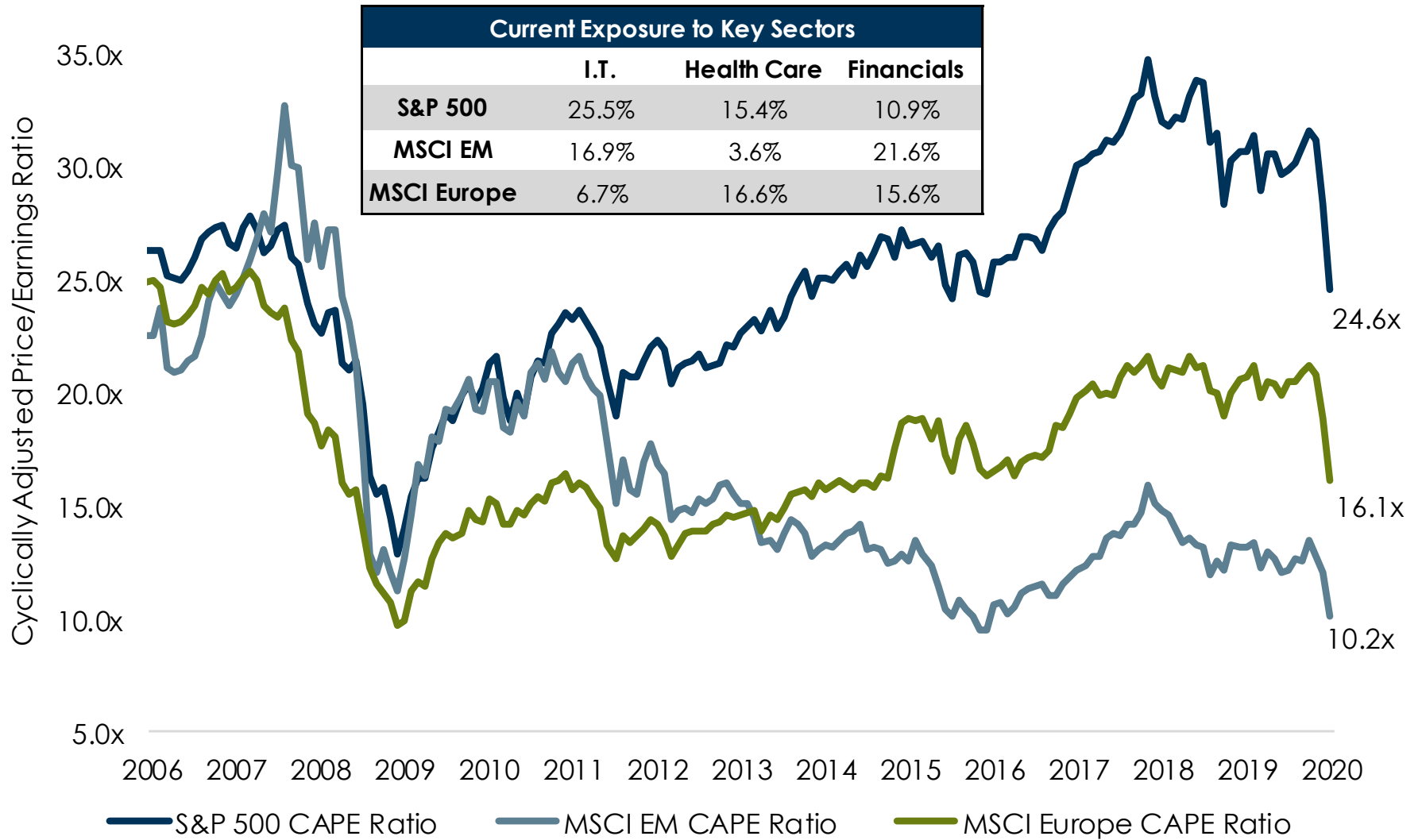
Source: ACG Research, Bloomberg, BlackRock (iShares)

Breathtaking Speed: Relative to Historic Bear Markets the 2020 Experience Stands Apart

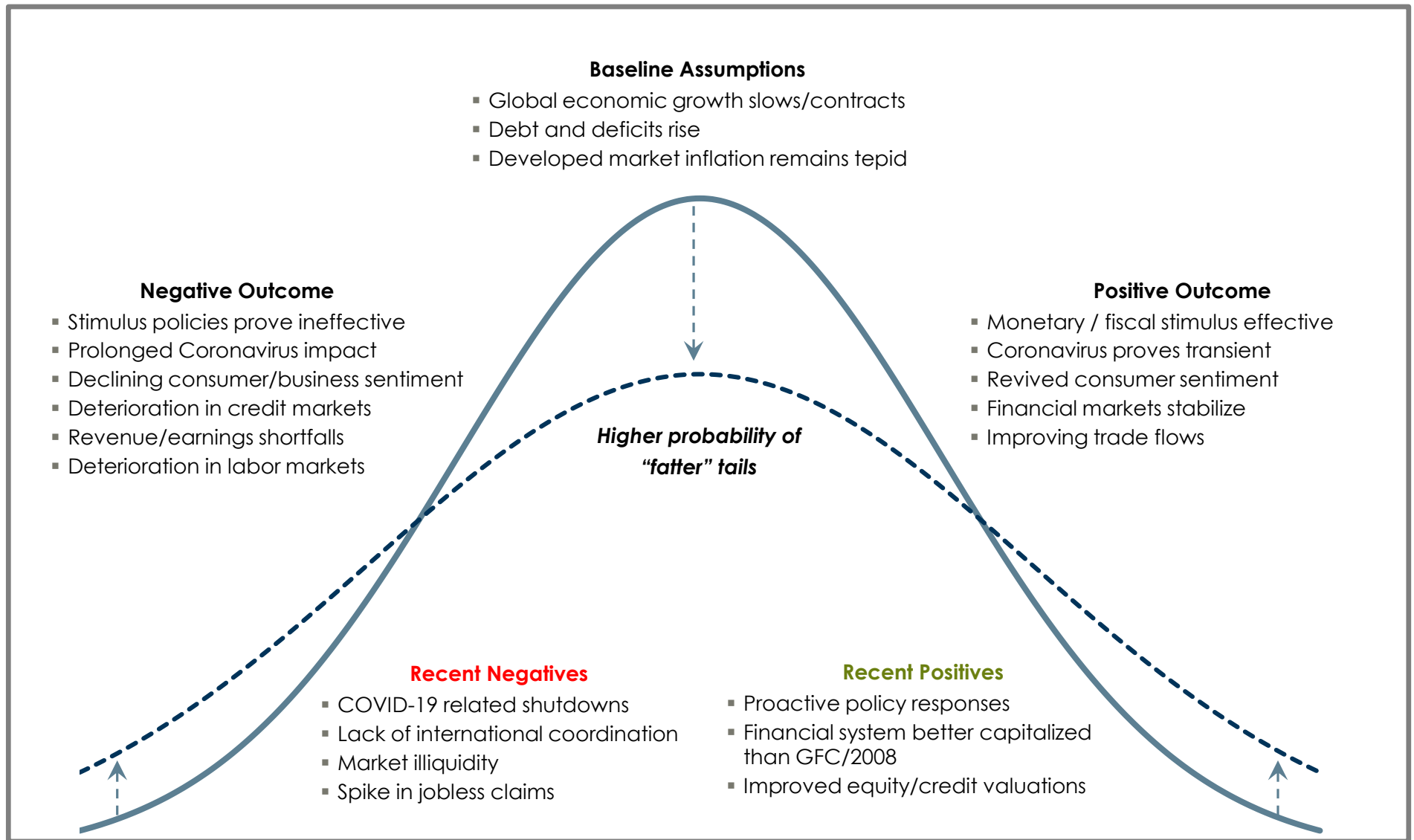


Source: ACG Research, Standard & Poor's (as of March 31, 2020)

Equity Valuations: Well Below Recent Highs Given 1Q Sell-Off, Sector Exposures Making a Difference



Source: ACG Research, Bloomberg, Robert Shiller





## Implementation Strategies

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### Evolving Global Growth Dynamics

- Maintain long-term strategic allocations
- Pursue active/focused/opportunistic strategies in less efficient markets

### Heightened Geopolitical & Social Risks

- Embrace global diversification, with a modest reserve of dry powder
- Private strategies can limit near-term price impacts

### Challenging Yield Environment

- Maintain high-quality core fixed income exposures for portfolio ballast
- Incorporate "non-traditional" strategies for flexibility and yield enhancement

### Conflicting Inflationary Signals

- Shorter-dated fixed income and floating rate securities protect against inflationary surprise
- Diversified real assets can provide enhanced income amid rising prices

### Demand for Responsible Investment

- Consider a high-quality portfolio orientation
- Opportunities in both stocks and bonds for impact oriented investment

### Muted Return Expectations

- Revisit overall risk tolerance and investment objectives
- Focus on strategic plan versus frequent tactical shifts

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