
Global Economic Update

3rd Quarter 2020

Key Areas of Focus

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.



Second Quarter of 2020 – Markets Rally, Economic Reality Grim but Improving

March 31, 2020

Equities down over 25% following two exogenous shocks

Fed rates at zero, QE + other measures in place

Social distancing, record claims for unemployment

Inflation expectations fall below 1%

Supply disruptions / demand destruction

10-Yr UST yield below < 0.7% (spreads widened)

Oil price at \$20/barrel

June 30, 2020

Equities remain down YTD but have recovered materially

Fed holding rates at zero, QE + other measures in place

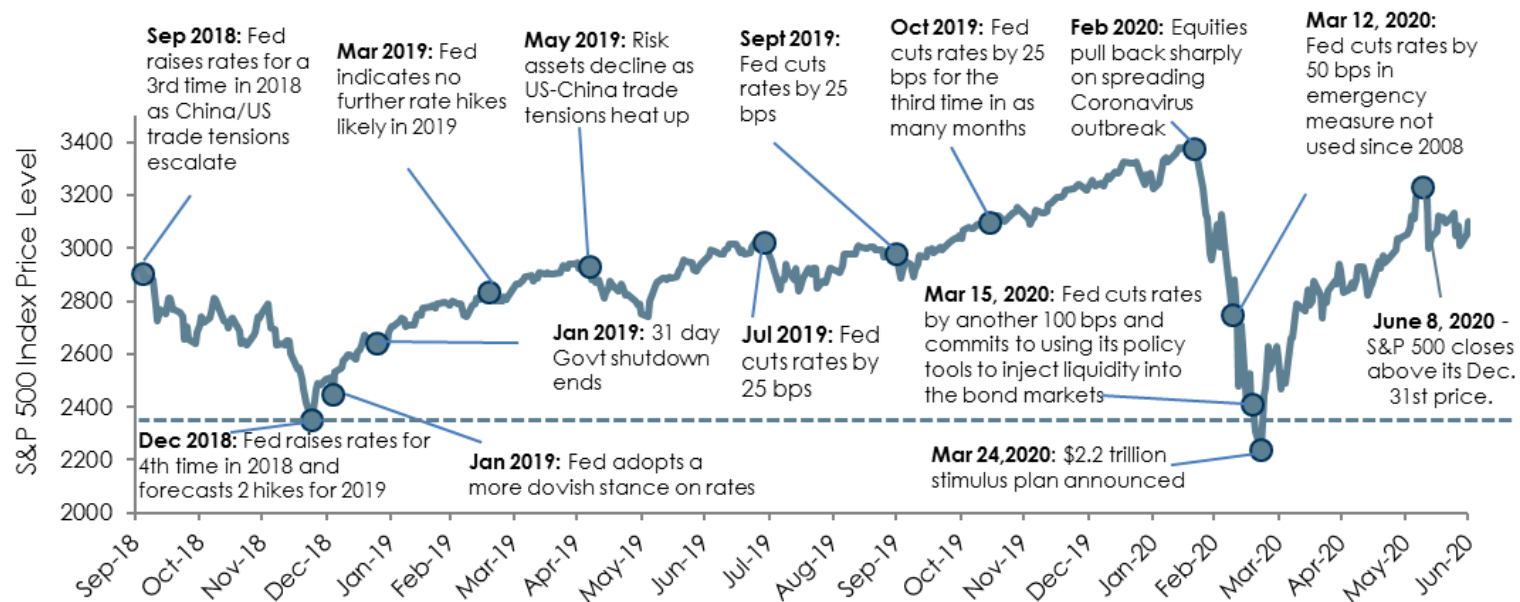
Continued social distancing, unemployment improving

Inflation expectations rise, but still well below 2% Fed target

Demand improving as restrictions are relaxed

10-Yr UST yield < 0.8%, spreads nearing historic averages

Oil prices bouncing off lows, remain below \$40/barrel

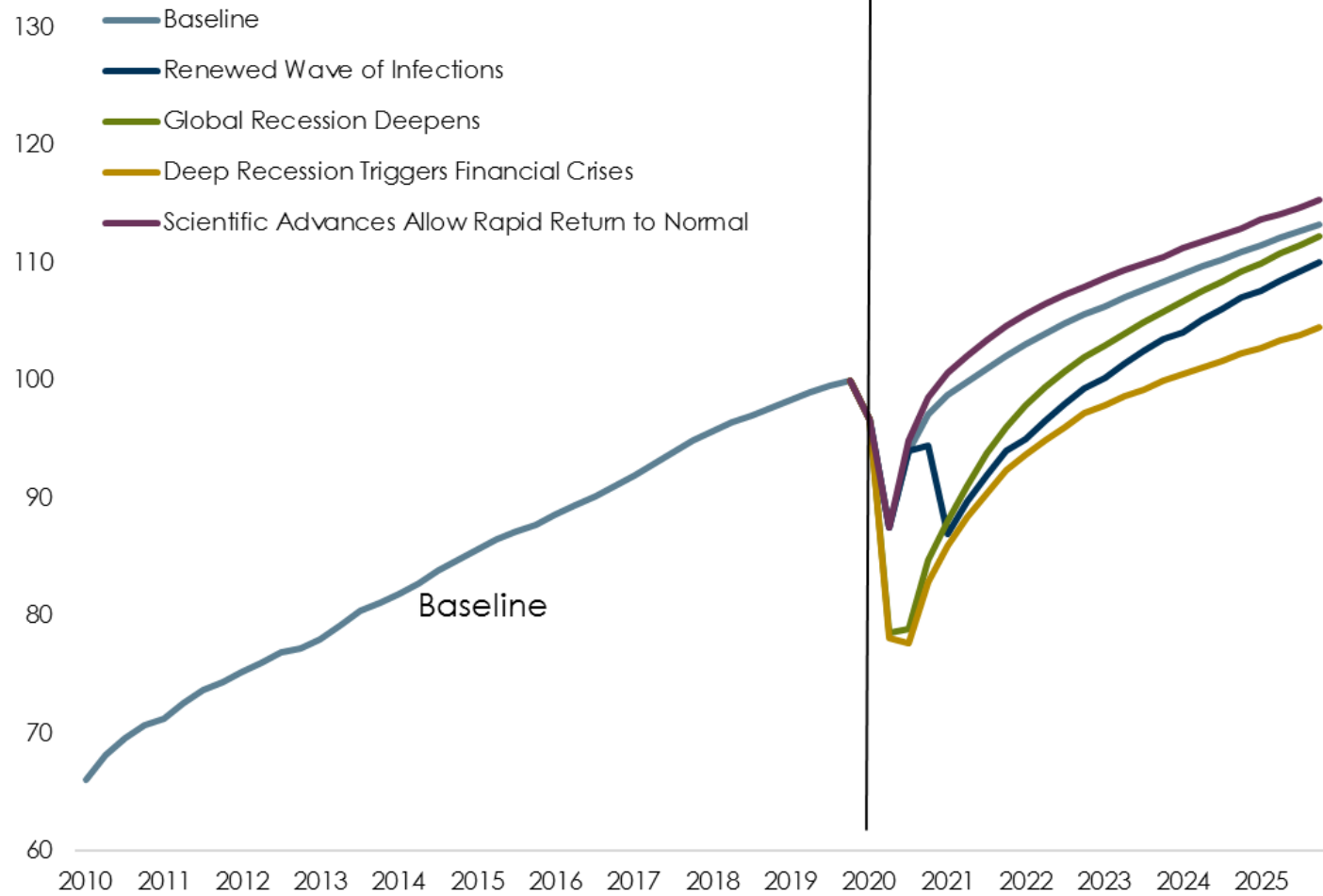


Source: ACG Research, Bloomberg (as of June 30, 2020)

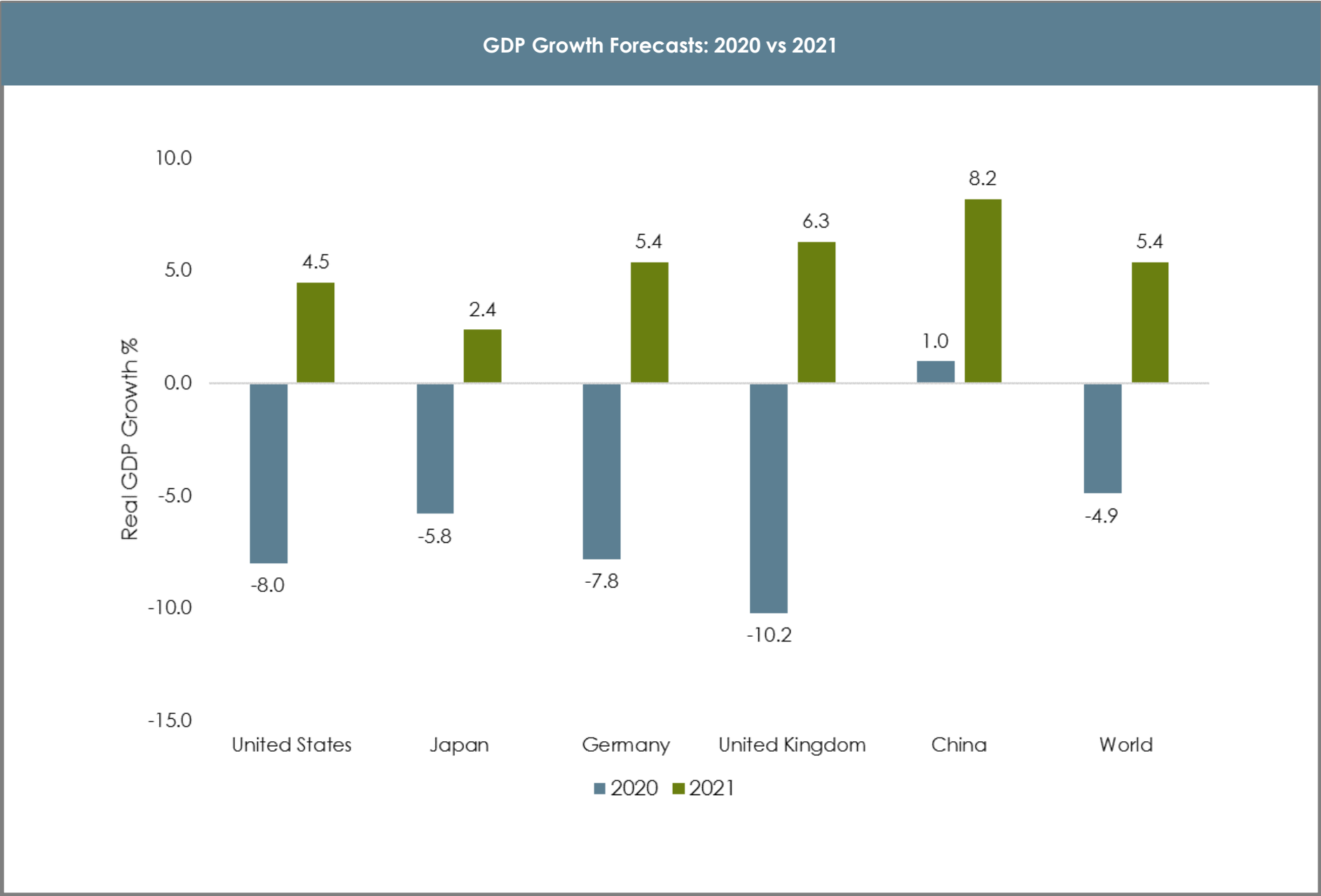
What is the Path to Recovery from COVID-19?

World GDP

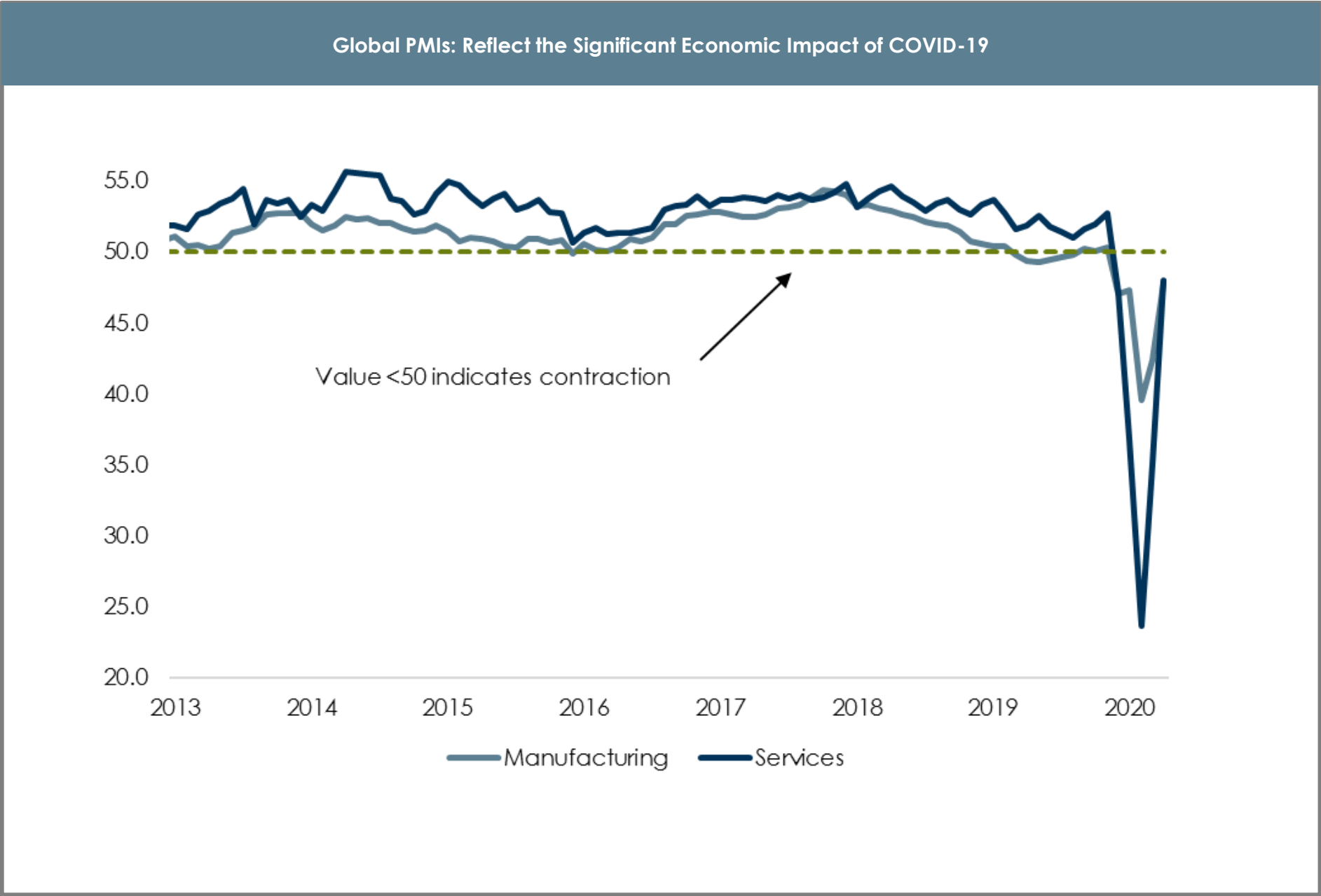
Q4 2019 = 100



Source: ACG Research, Oxford Economics, Haver Analytics

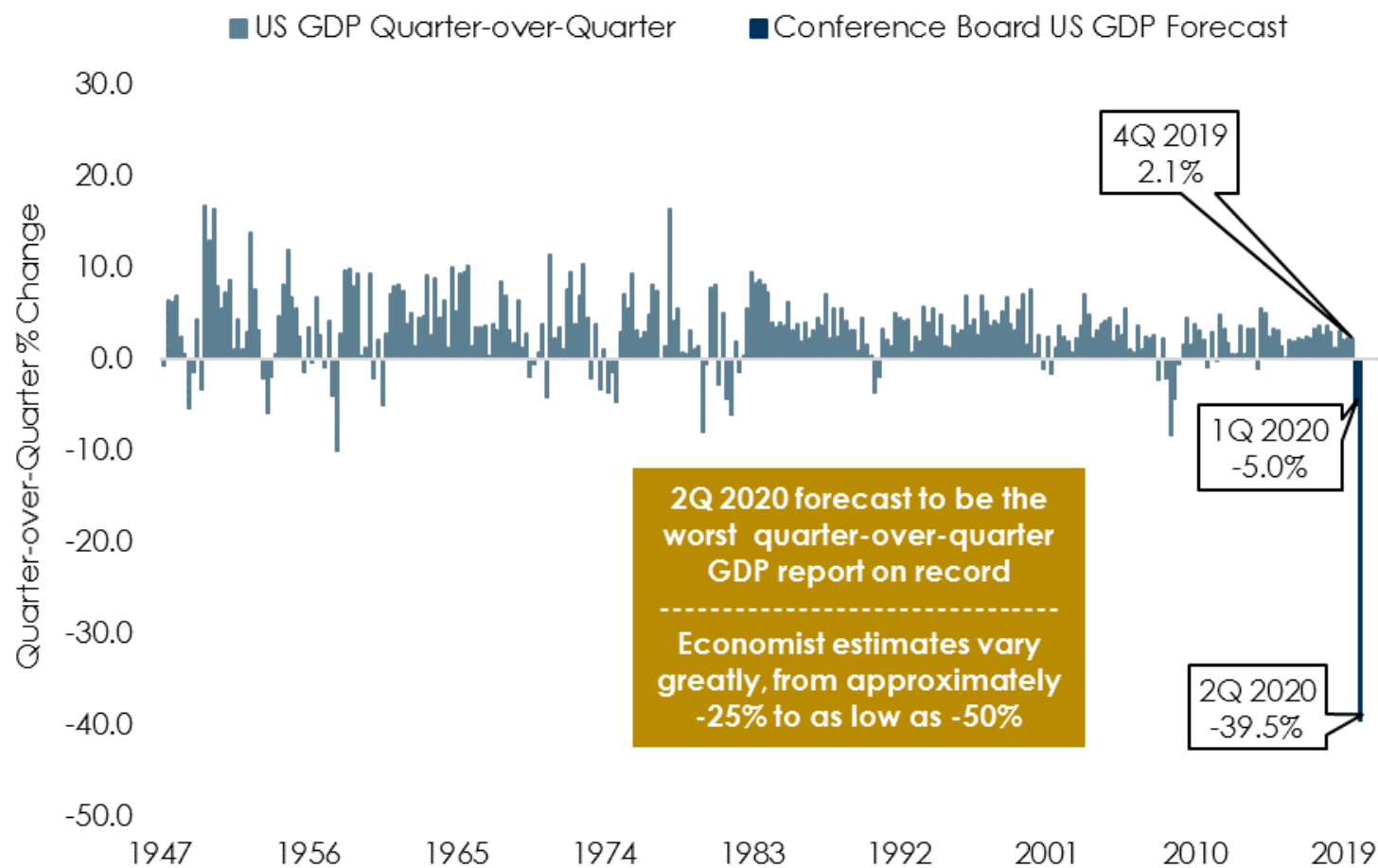


Source: ACG Research, IMF (as of June 30, 2020)

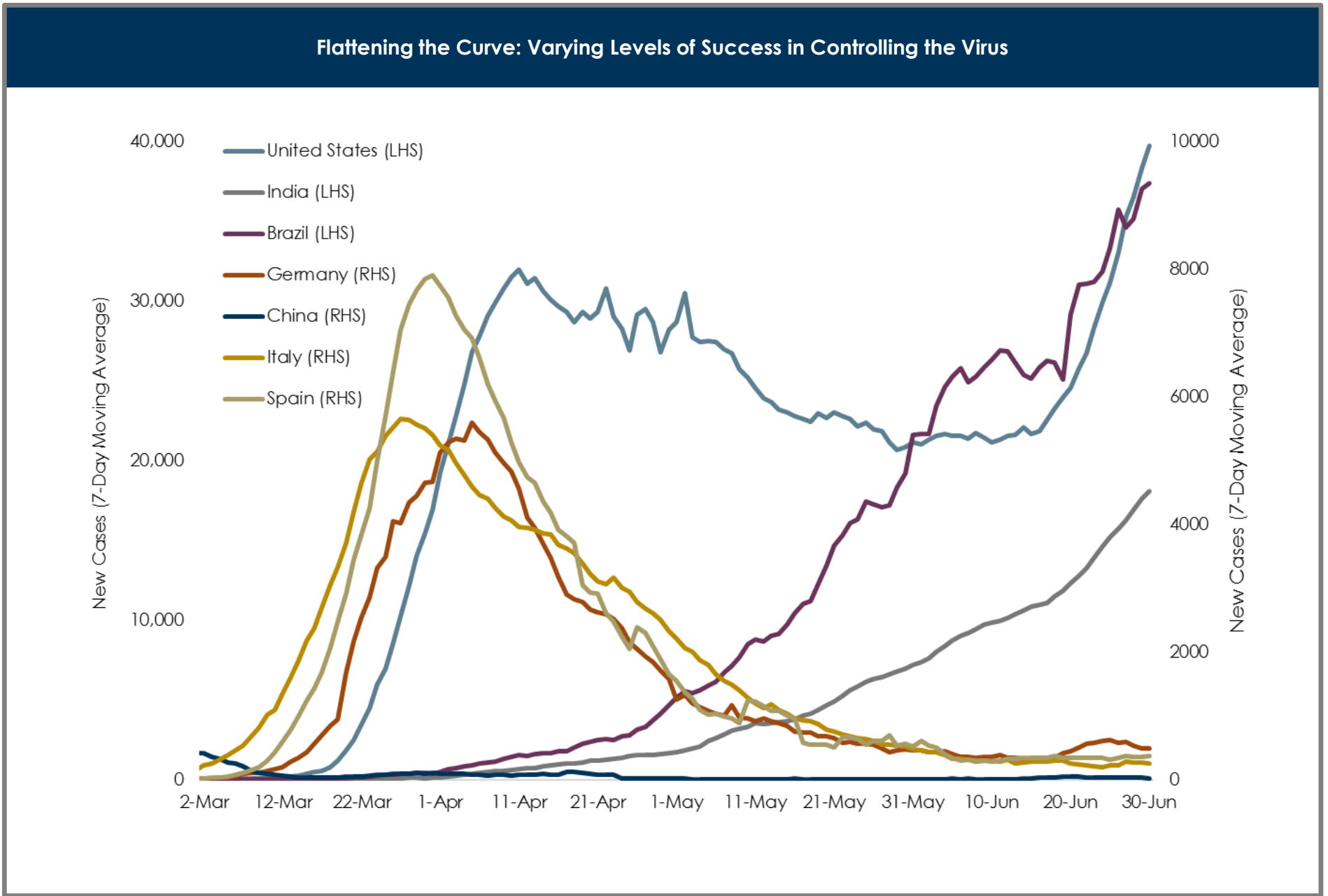


Source: ACG Research, JP Morgan Markets (data as of June 30, 2020)

US GDP: Unprecedented Sudden Stop Leads to Recession, Depth & Shape of Recovery Less Certain

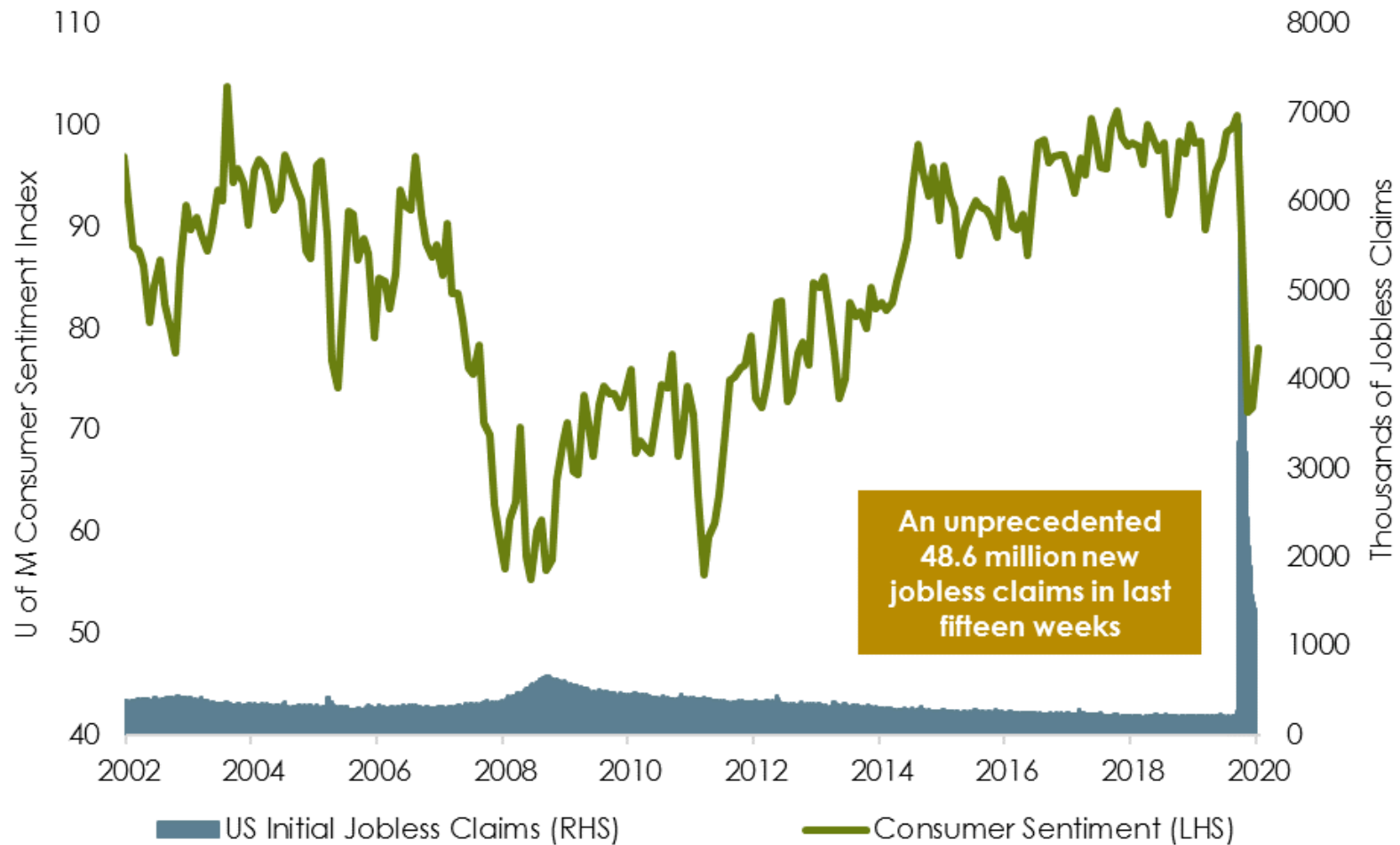


Source: ACG Research, Bloomberg, Bureau of Economic Analysis, Conference Board (as of June 30, 2020)



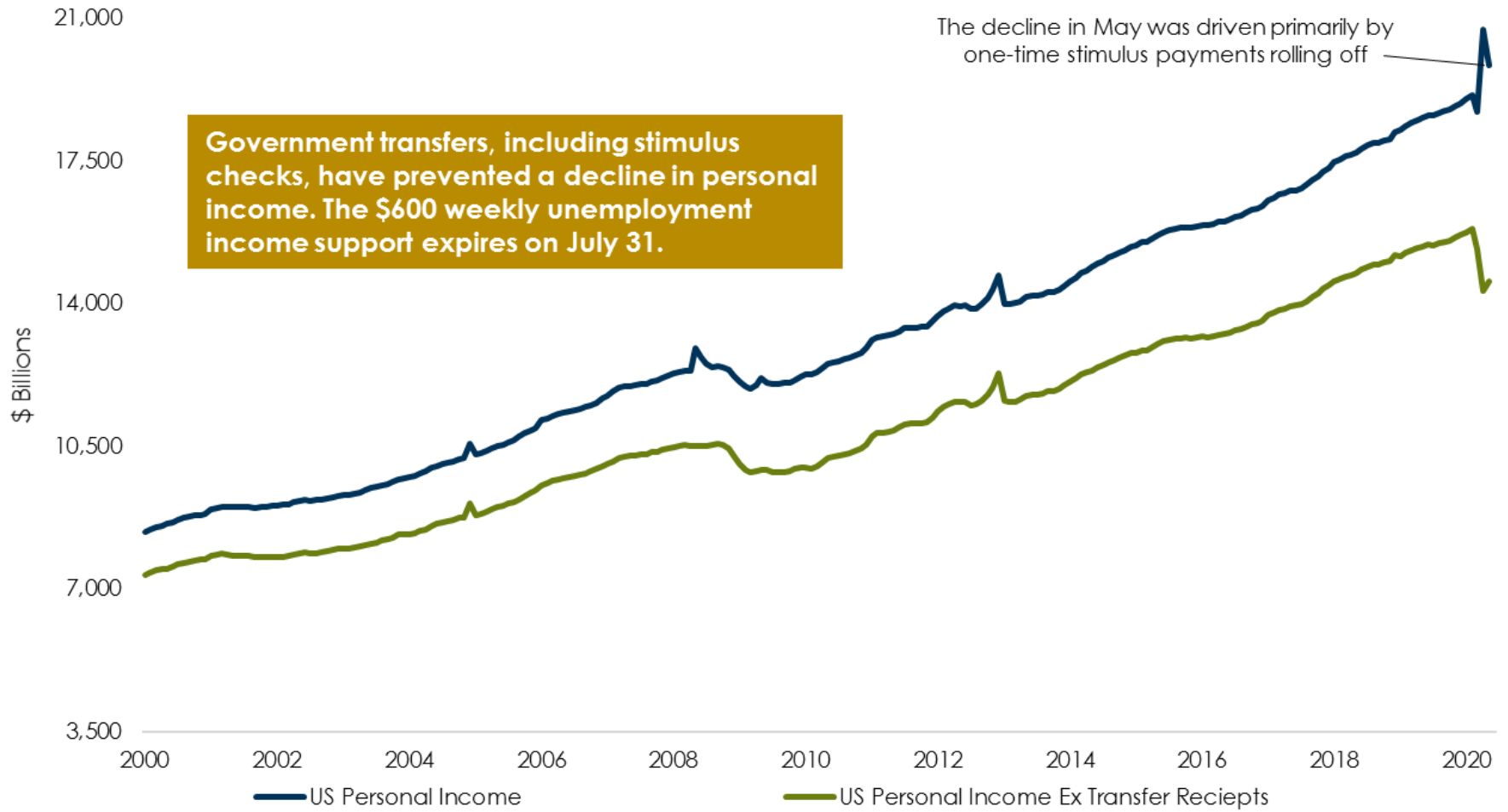
Source: ACG Research, European Centre for Disease Prevention and Control (as of June 30th, 2020)

Confidence is Key: Targeted & Timely Stimulus Intended to Support Consumers



Source: ACG Research, Bloomberg, University of Michigan (as of June 30th, 2020)

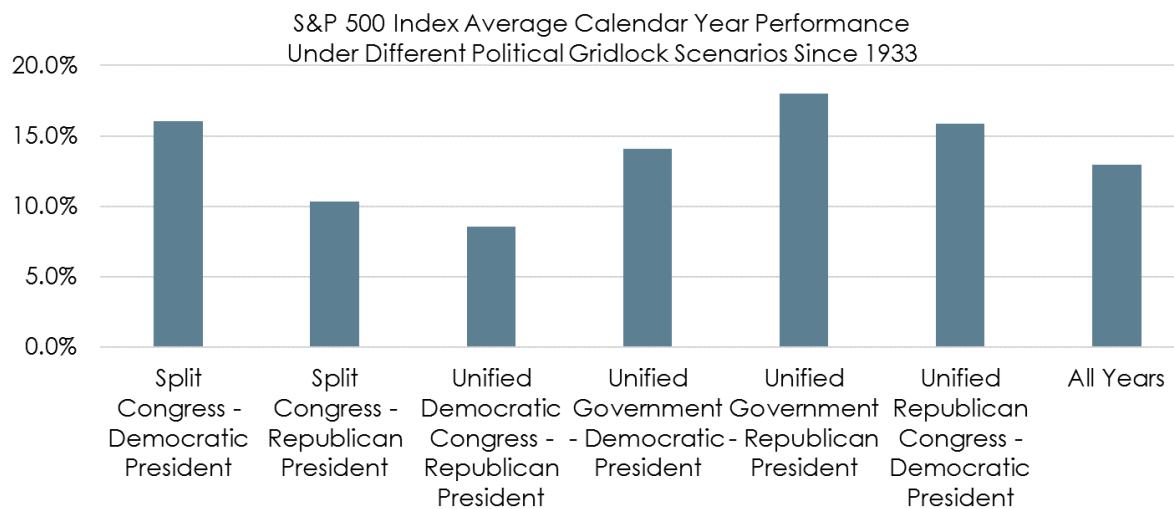
Confidence is Key: Targeted & Timely Stimulus Intended to Support Consumers



Source: ACG Research, BEA, Bloomberg, (as of June 30th, 2020)

Election Year: Election Cycles Generally have Limited Impact

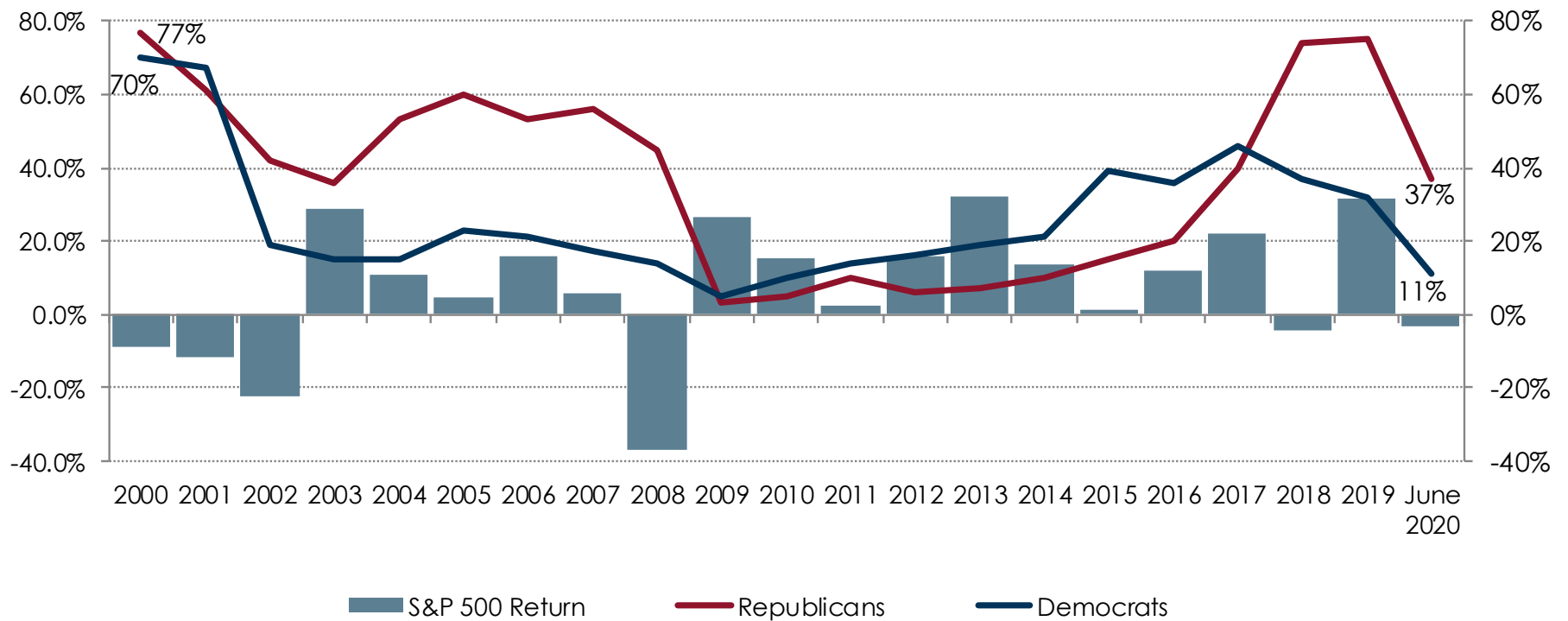
Year	President	Senate	House	S&P 500 Price Performance			
				Feb - Aug	Sep - Oct	Nov - Jan	Calendar Year
1960	Democrat	Democrat	Democrat	2.4%	-6.3%	15.7%	-3.0%
1964	Democrat	Democrat	Democrat	6.2%	3.7%	3.2%	13.0%
1968	Republican	Democrat	Democrat	7.2%	4.6%	-0.4%	7.7%
1972	Republican	Democrat	Democrat	6.9%	0.4%	4.0%	15.6%
1976	Democrat	Democrat	Democrat	2.0%	0.0%	-0.8%	19.1%
1980	Republican	Republican	Democrat	7.2%	4.2%	1.6%	25.8%
1984	Republican	Republican	Democrat	2.0%	-0.4%	8.2%	1.4%
1988	Republican	Democrat	Democrat	1.7%	6.7%	6.6%	12.4%
1992	Democrat	Democrat	Democrat	1.3%	1.1%	4.8%	4.5%
1996	Democrat	Republican	Republican	2.5%	8.2%	11.5%	20.3%
2000	Republican	Democrat	Republican	8.8%	-5.8%	-4.4%	-10.1%
2004	Republican	Republican	Republican	-2.4%	2.4%	4.5%	9.0%
2008	Democrat	Democrat	Democrat	-6.9%	-24.5%	-14.7%	-38.5%
2012	Democrat	Democrat	Republican	7.2%	0.4%	6.1%	13.4%
2016	Republican	Republican	Republican	11.9%	-2.1%	7.2%	9.5%
Election years ex 2008 (avg)				4.6%	1.2%	4.8%	9.9%
All years ex 2008 (avg)				3.5%	0.8%	4.3%	9.0%



Source: ACG Research

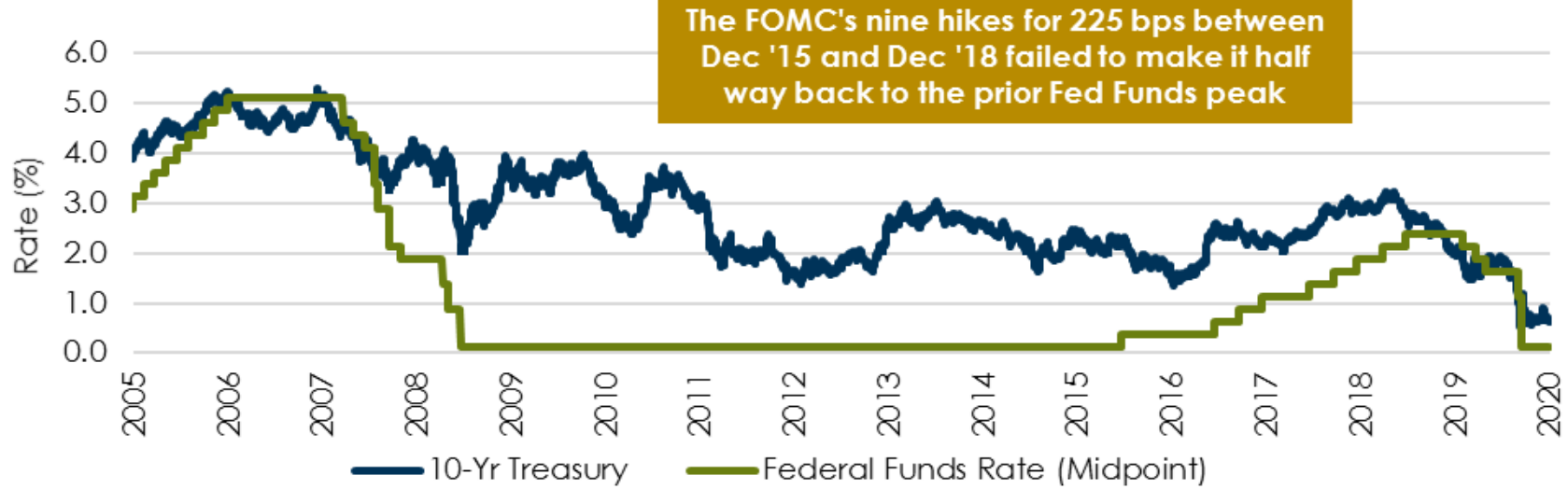
Election Year: Economic Conditions are Frequently Viewed Through a Political Lens

S&P 500 Return and % of Respondents Who Rate National Economic Conditions as Excellent or Good



Source: ACG Research, Pew Research Center (as of June 30, 2020)

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

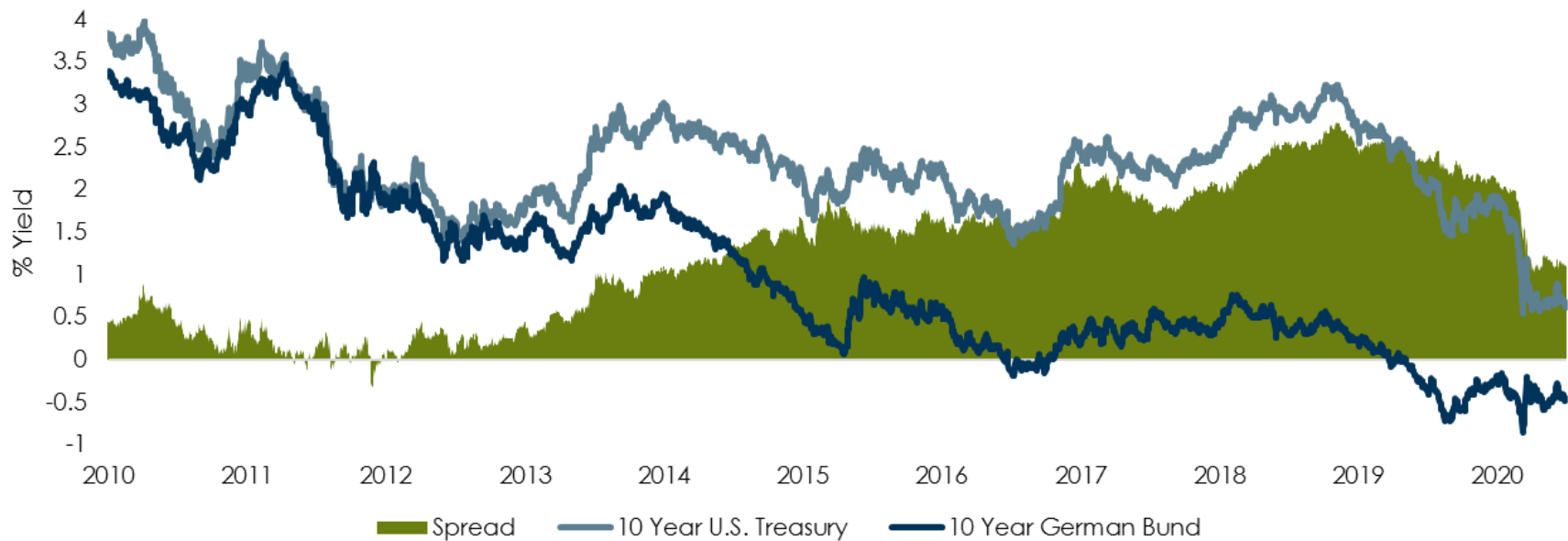


The Fed's Expanded Toolkit

- | | |
|---|--|
| Zero Bound Rates | New - Reduced Bank Reserve Requirements |
| Asset Purchases (unlimited QE) | New - Primary Market Corporate Credit Facility (PMCCF) |
| Primary Credit Rate/Discount Window | New - Secondary Market Corporate Credit Facility (SMCCF) |
| Central Bank Liquidity Swaps | New - Foreign & International Monetary Authorities (FIMA) Repo Facility |
| Primary Dealer Credit Facility (PDCF) | New - Municipal Liquidity Facility (MLF) |
| Money Market MF Liquidity Facility | New - Main Street Lending Program |
| Commercial Paper Funding Facility (CPFF) | New - Paycheck Protection Program Liquidity Facility (PPPLF) |
| Term Asset-Backed Securities Loan Facility (TALF) | |

Source: ACG Research, Bloomberg, Federal Reserve (as of June 30, 2020)

Global Central Banks: Asset Purchase Programs a Staple with Rates Already Near Zero



Major Global Policy Responses

Bank of England

- Asset purchases: \$920 billion planned
- Term Funding Scheme (TFSME)
- Covid Corporate Financing Authority (CCFF)
- Contingent Term Repo Facility (CTRF)

European Central Bank

- Asset Purchases: \$1,500 billion planned
- Targeted Longer-Term Refinancing Operations (TLTRO III)

Bank of Japan

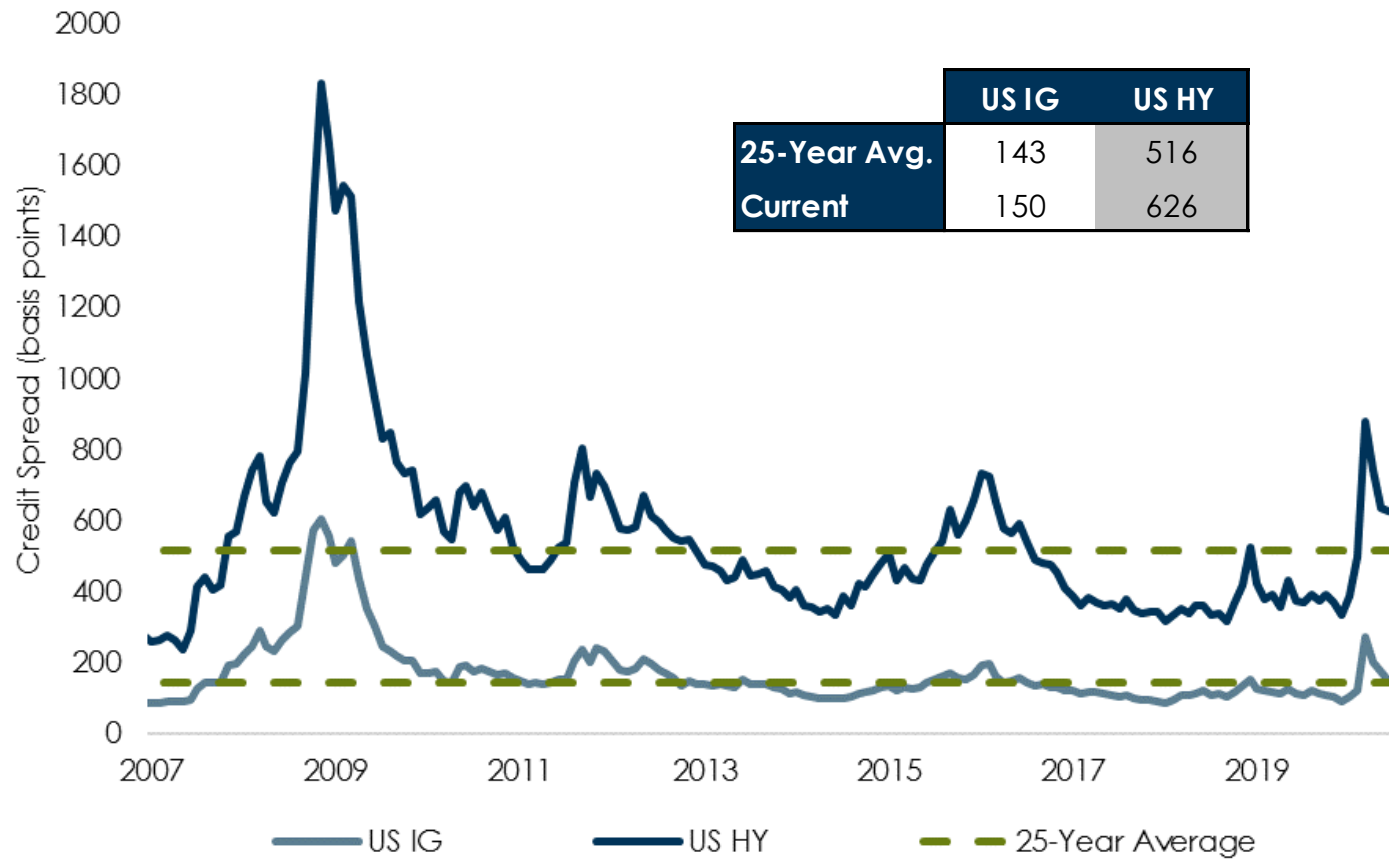
- Asset Purchases: \$865 billion planned
- Special Funds-Supplying Operations to Facilitate Corporate Financing
- Securities Lending Facility (SLF)

European Commission

- Proposed \$840 billion in joint debt to be issued by the EU as aid to the bloc's hardest hit countries

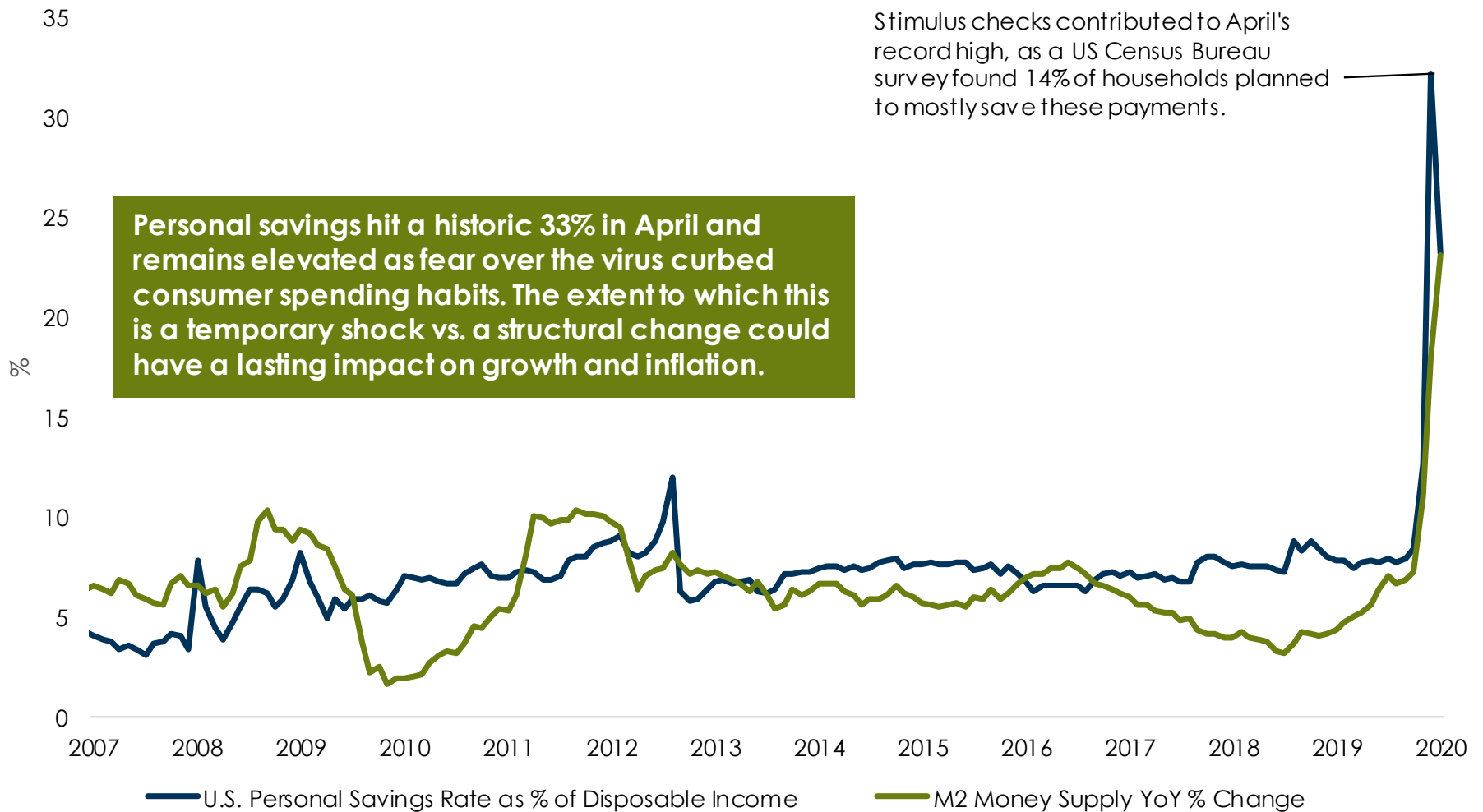
Source: ACG Research, Bloomberg, FRED , (as of June 30, 2020).

Corporate Credit: Spreads Rally with Fed Support



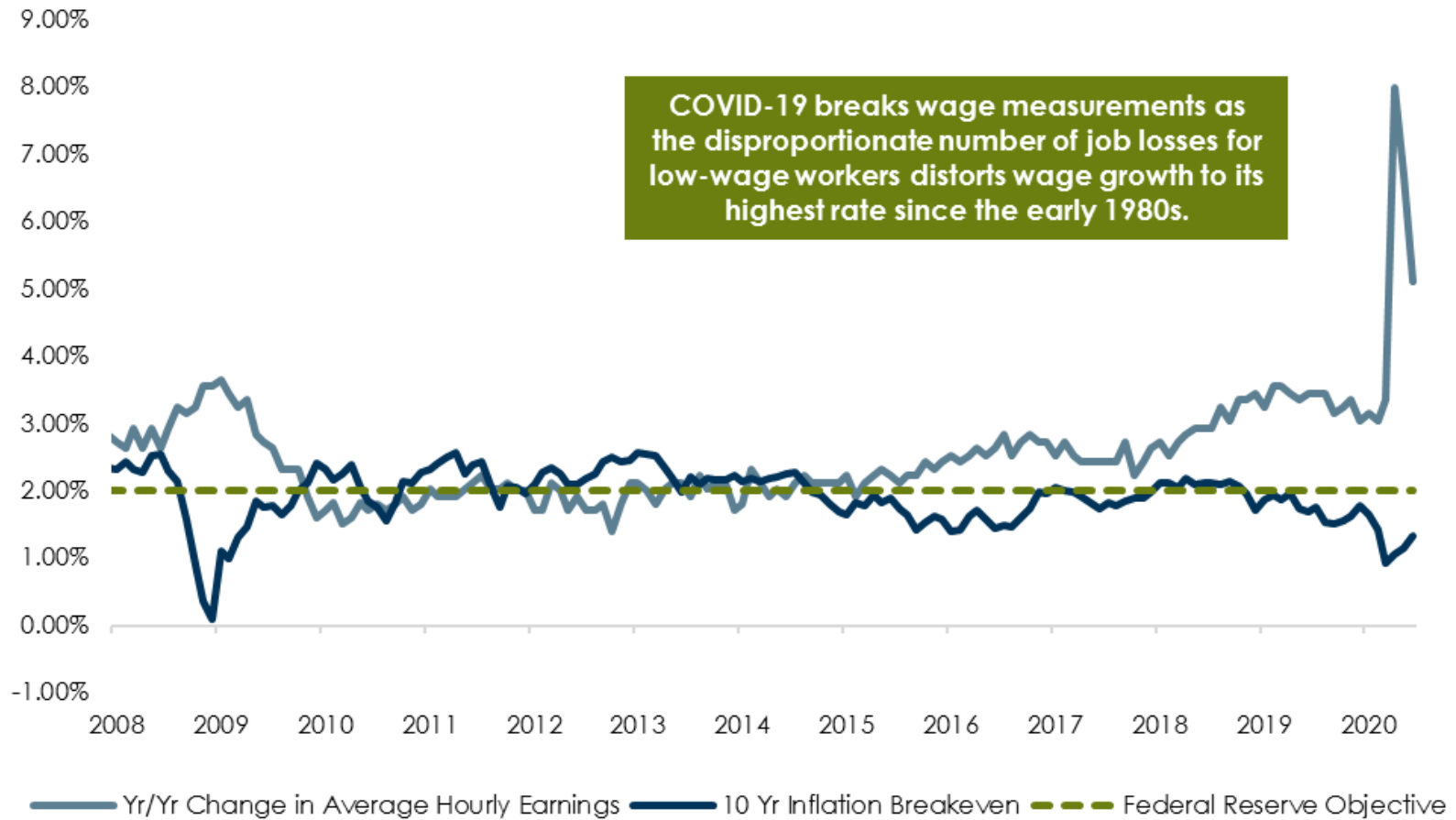
Source: ACG Research, Bloomberg Barclays Indices (as of June 30th, 2020)

Inflation Expectations: Money Supply Increases while Consumers Hoard Cash

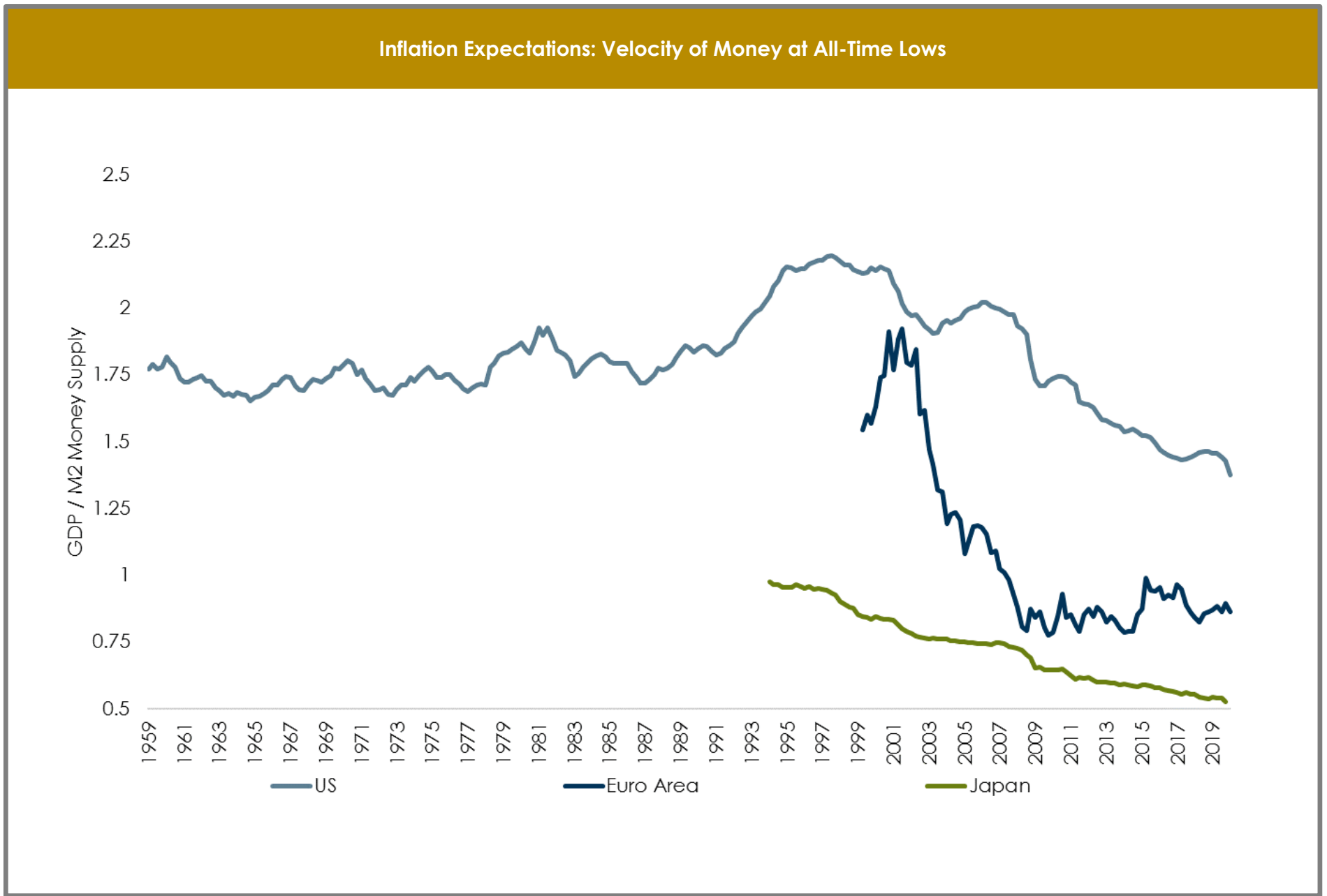


Source: ACG Research, Bloomberg (As of June 30, 2020)

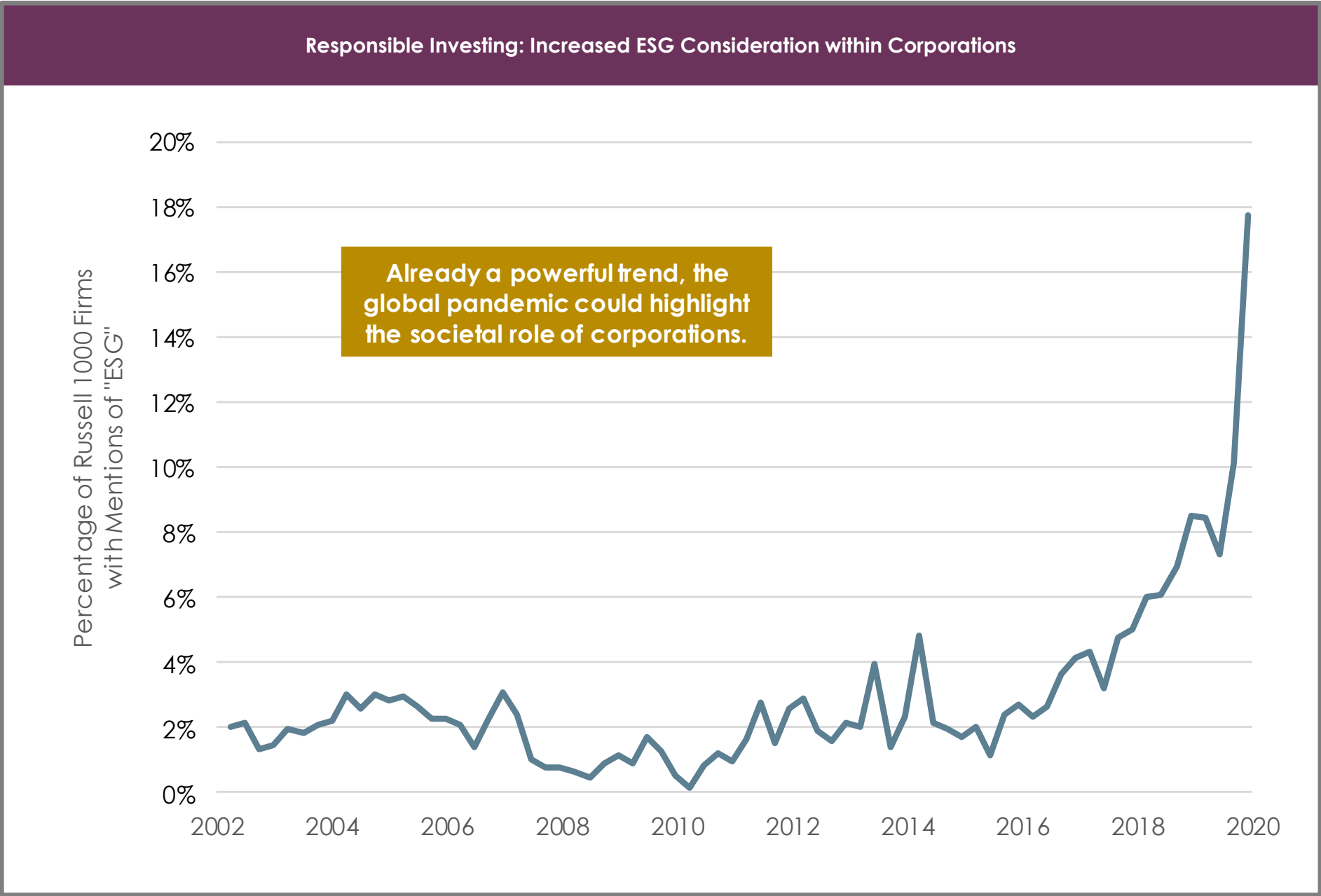
Inflation Expectations: Falling Further Below Target, Wage Growth Distorted by Employee Profiles



Source: ACG Research, Bloomberg (Inflation as of June 30, 2020)



Source: ACG Research, Bloomberg, FRED, European Central Bank (as of June 30th, 2020)



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

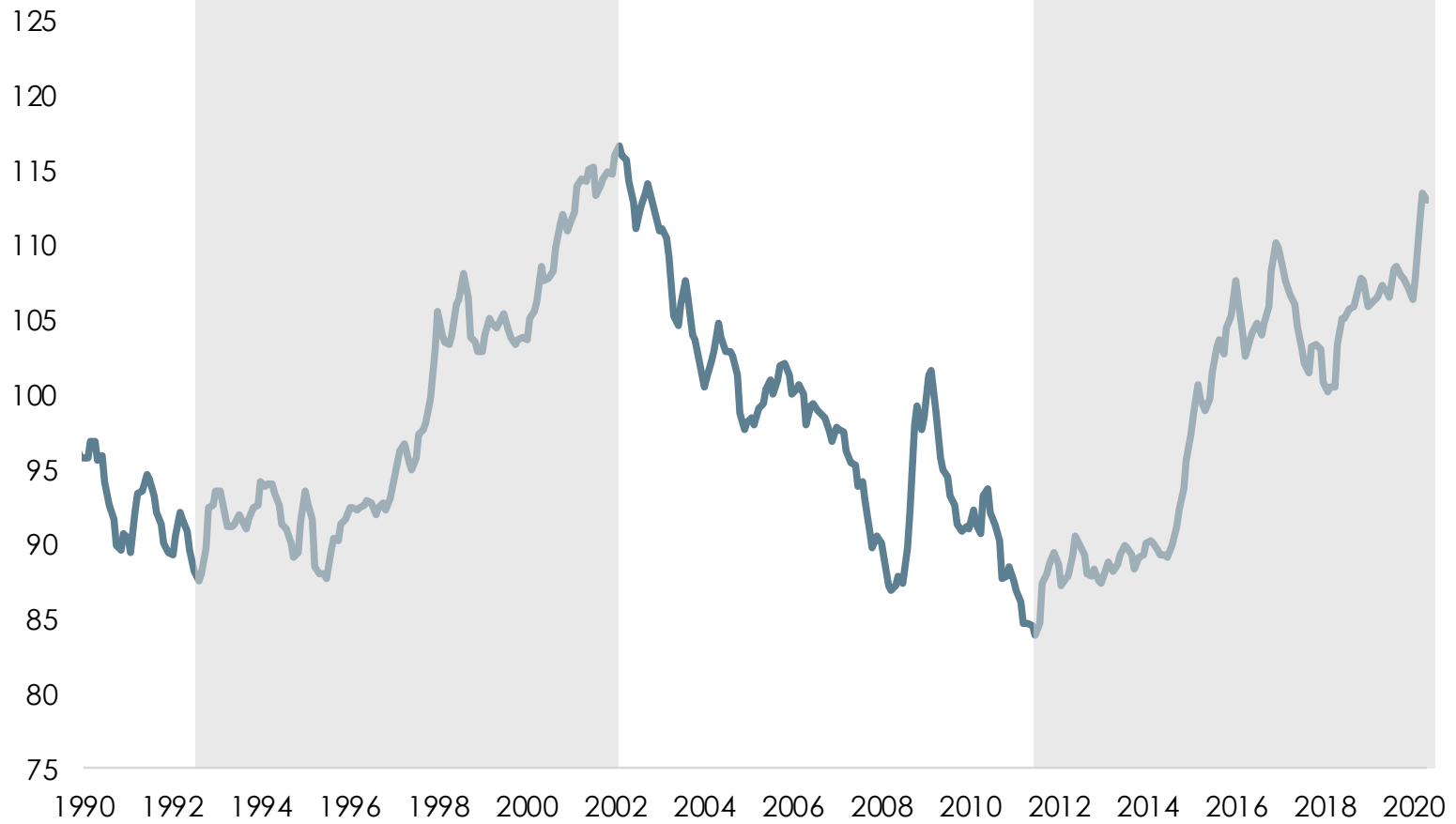
Responsible Investing: ETFs with an ESG Tilt Have Outperformed Amid the Year-to-Date Declines



Source: ACG Research, Bloomberg, iShares (as of June 30th, 2020)

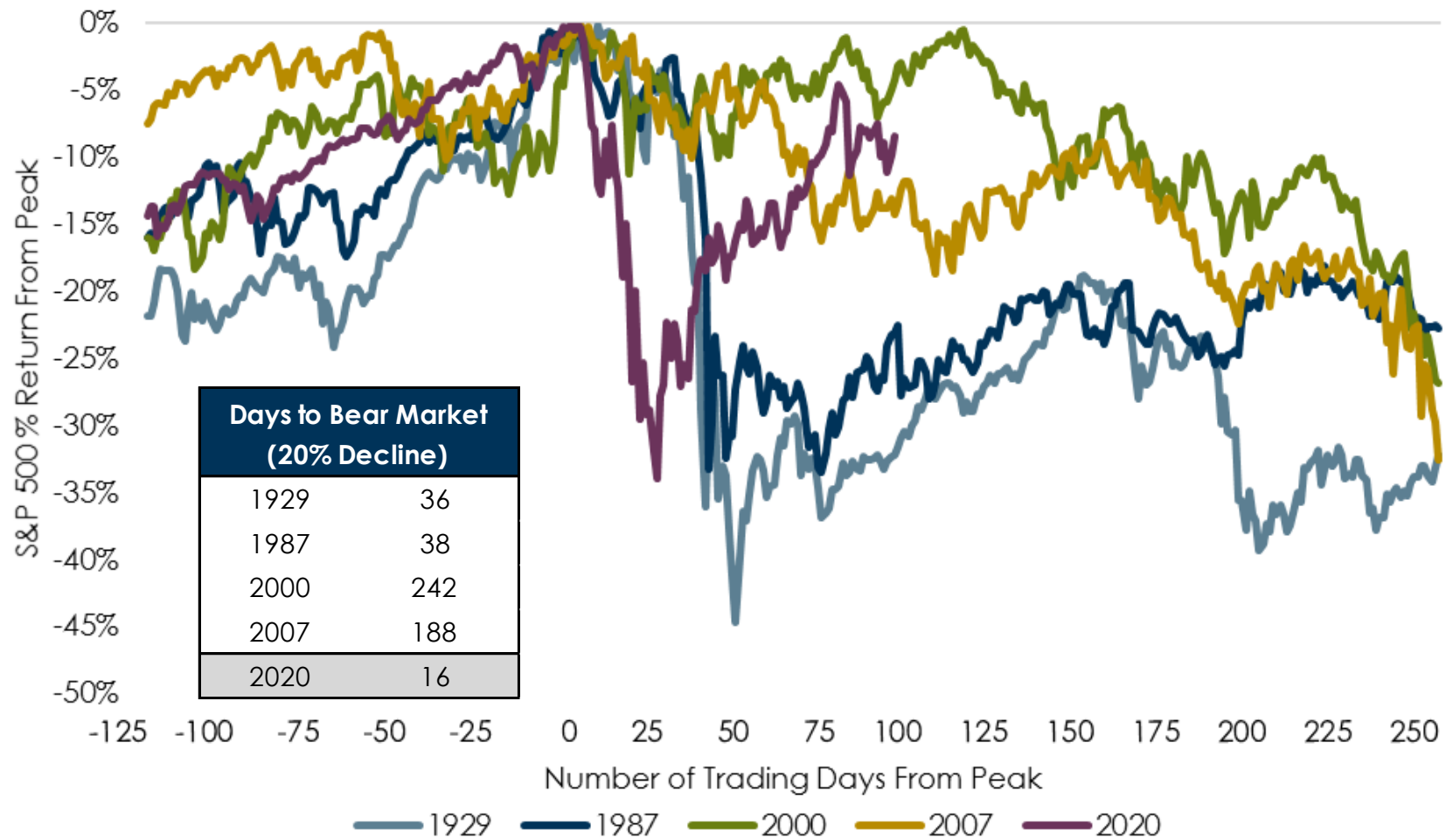
US Dollar – Due for a Period of Weakness?

Trade Weighted US Dollar Index: Broad, Goods and Services
(1990 - Current)



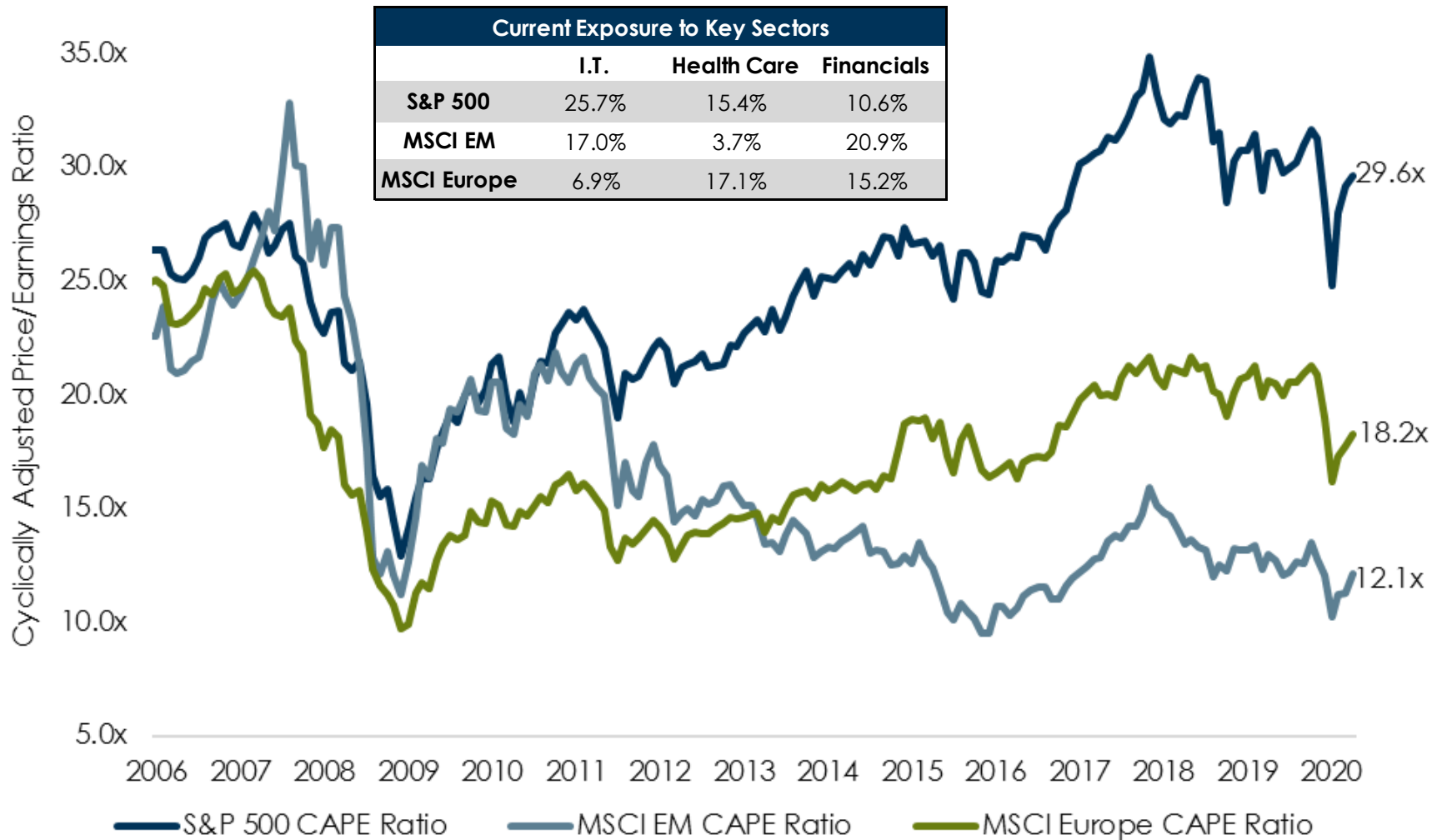
Source: ACG Research, Bloomberg (as of June 30th, 2020)

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

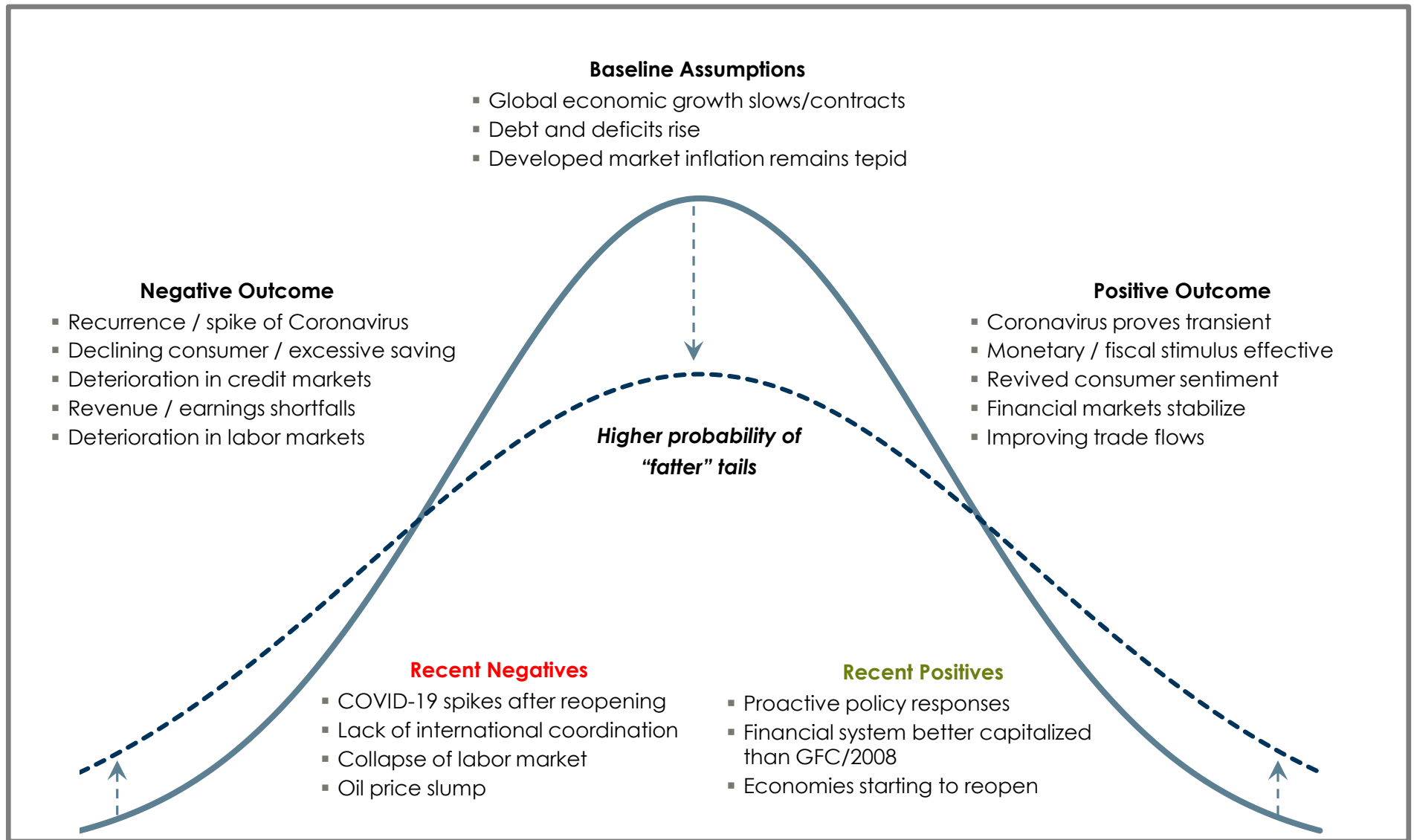


Source: ACG Research, Standard & Poor's (as of June 30th, 2020)

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



Source: ACG Research, Bloomberg, Robert Shiller (as of June 30th, 2020)



Implementation Strategies

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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