Segal Marco Advisors

INVESTMENT OUTLOOK

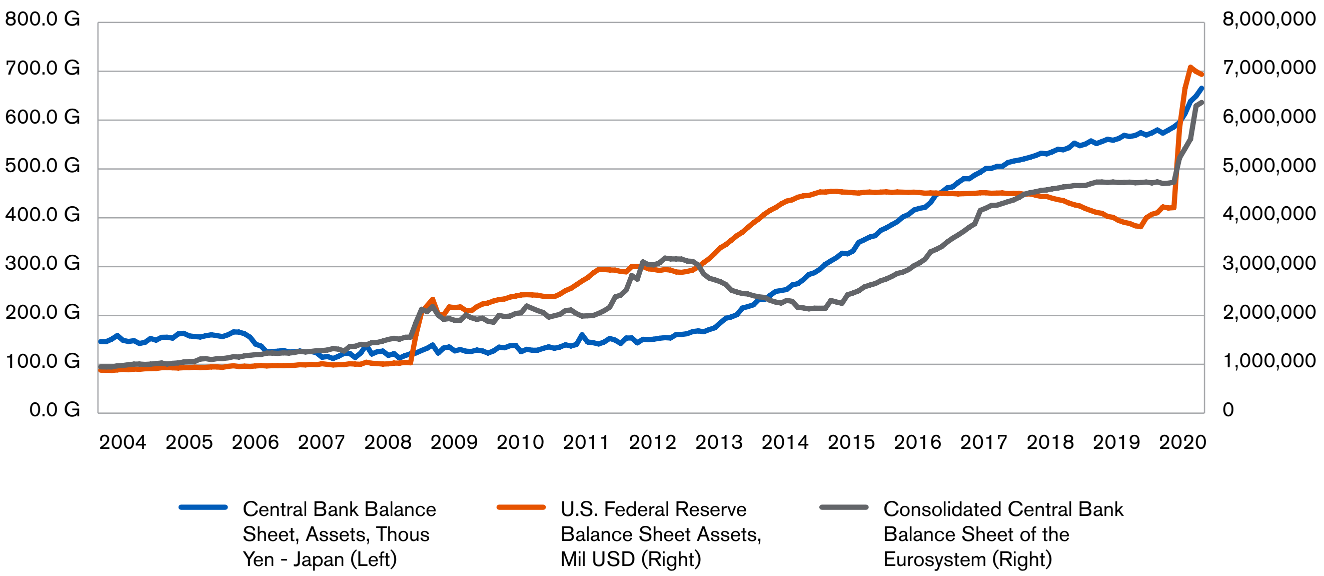
Q2 Update to the 2020 *Investment Outlook*: A Shot in the Arm

Just what the doctor ordered in the midst of a pandemic: a massive fiscal dose in one arm followed by a record-breaking monetary injection in the other. While this was more substantial in the U.S. than in many other countries as illustrated in the graph below, the level of global policy commitments was much greater than what occurred after the Global Financial Crisis (GFC) and were applied with a needed urgency.

Most recently, the EU announced stimulus commitments that were also historic and the U.S. Congress is considering a fifth shot of fiscal assistance. The results? As heart-stopping as the fall in risk asset prices in February and much of March was, so too was the recovery in equities, and much of the credit world. At this point, the S&P 500® is only down approximately 4.5 percent from the high-water mark reached on February 19. Internationally, as measured by the MSCI EAFE index, stocks are down approximately 7.0 percent since that same date. Over the same time frame, the spreads on high-yield bonds have gone from 336 at the end of 2019 to 880 at the end of Q1, and back to 626 in Q2.

This is the second quarterly update to Segal Marco Advisors Canada's [2020 *Investment Outlook*.]

Global Central Bank Balance Sheets



Source: Segal Marco Advisors using data from Factset, 2020

On a macro-indicator basis, however, the return to better health has been slower to take hold. The unemployment rate in the U.S., which had been a very low 3.5 percent in February, rose to a record high 14.7 percent in April as lockdowns around the country as well as related policies aimed at halting the spread of COVID-19 were implemented. By June, as many states began the painful and tenuous process of reopening, unemployment had only fallen to 11.1 percent, an indication that there are more long-lasting effects of the pandemic on the workforce. Statistics like these don't tell the entire story. In February there were only about 5.5 million people registered on the unemployment rolls, but even with the level of recovery we have seen there are now around 17.8 million without jobs. In terms of U.S. GDP, the Q4 2019 increase of 2.1 percent became a 5.0 percent decline in Q1 2020 with expectations that Q2 GDP will decline, with estimates ranging from 25 to 40 percent. Regardless, what had been a late-cycle, slower-growth economy in the U.S. has very quickly become a recession. Other statistics in the U.S., from Purchasing Manager Index (PMI) readings to consumer confidence, show similar characteristics: late-cycle indicators at the end of 2019, a rapid collapse in Q1 followed by some level of recovery, but not yet returning to levels seen prior to the pandemic.

2020 has been a brutal year for international economies and it's likely that they will continue to struggle at least through the end of year. In Europe, the outlook worsened in May and June, with the European Commission projecting growth for the rest of 2020 will be "incomplete" and "uneven." There are glimmers of hope: PMI data in Europe was stronger in June, and consumer spending in the eurozone is rising. Nevertheless, a sustained recovery in the near term is unlikely with the possibility of another wave of infections. Even though GDP growth in Japan contracted less than expected in Q1, that country is still grappling with controlling the virus and has not yet moved toward substantially reopening its economy. Meanwhile, emerging markets are all at different points on the virus/economic reopening curve. China has made meaningful progress in containing its own outbreak, and while China's economy contracted 6.8 percent in the Q1, much of the country has reopened and manufacturing output and fixed-asset investment are expected by economists to accelerate through 2020. But other emerging market countries have less rosy near-term outlooks. GDP in emerging markets is forecast to decline 2.5 percent this year, according to the World Bank, the first contraction in 60 years. Central banks in many emerging markets have ramped up monetary stimulus programs in response, but it may take time for these countries to truly recover economically.

The Challenge for Investors

The path forward from here for investors, however, is in many ways similar to the virus itself — every day we learn a little bit more, but there still isn't clarity regarding where to plant our next step as we trek towards the hoped-for COVID-free future. Many parts of the world have appeared to emerge from the earlier infectious spread with much lower cases, hospitalizations and deaths. The U.S. is on a different trajectory with new records for cases being reported and expectations that although testing and treatments have improved, hospitalizations and mortality will follow. U.S. stimulus has substantially increased the indebtedness of the U.S. government, certainly relative to other developed nations (some of which have gone into the pandemic with much worse balance sheets than the U.S.), but its nature as a reserve currency and haven in times of stress have kept interest rates low despite increased borrowing pressure. Market valuations have taken the same roller coaster ride, but have now settled in to where, for the most part, stocks around the world are expensive by most traditional measures, with no major block standing out as an irrationally cheap opportunity. But the alternative of lower-risk assets, particularly high-quality bonds, has never been more expensive, and is thus priced with the lowest future returns in the modern era. Importantly, we must be aware that the virus will determine when economies can safely reopen and recover, and health officials and policymakers will need to be prepared to respond accordingly.

With all of this we have multiple unknowns that defy straightforward analysis and conclusions. First, the pandemic itself creates an unstable platform for growth and prosperity. Will it reemerge globally? Can we develop therapies that are effective? Will there be a vaccine that can immunize against the spread? When would that be broadly available? Second, what is the degree of stimulus that may be necessary particularly if the economic effects of the pandemic are more prolonged? Will central bankers continue to provide support and, if so, to what degree? Will governments stand alongside the banks with fiscal stimulus? Will all this stimulus create an inflationary environment, which could derail the entire recovery? There is also the unknown regarding how consumers and businesses respond even post pandemic to many of the actions that were implemented during this time frame. Are there long-lasting behavior changes from physical distancing and working from home? Finally, there is an election of some importance in the U.S. in November with the potential for the affirmation of one of two very different agendas for the country going forward.

With these seminal questions as a backdrop there are also societal challenges in the process of being addressed. While the horrific murders of George Floyd and others take center stage in assessing the treatment of Black and other people of color worldwide, there are growing divisions across a broad spectrum of human interests. Income inequality, gender bias, and LGBTQ+ rights are also at the forefront of the issues that have long simmered without full resolution.

Little Change in Our Outlook for Asset Classes

Turning now to changes in our outlook for asset classes over the next 12 to 18 months, there are few that are of note. We continue to believe that, despite current consternation regarding pandemic cases and other influences, the U.S. equity market will perform in line with expectations and modestly favourably relative to developed non-U.S. stocks broadly. We had been neutral on U.S. core bonds, but, given the new levels of interest rates and the pressure to keep them low, we are moving our perspective to one notch below that suggesting that they will perform somewhat below longer-term expectations. Unlike the GFC, the bond market has learned not to fight the U.S. Federal Reserve (the Fed). Whereas in 2008/2009 long-term bond yields held up reasonably well skeptical of monetary policy, we have a 30-year Treasury yield just north of 1.25 percent against a Fed commitment of 2.0 percent inflation over the long run. For high-yield and bank loans we continue to be neutral, but see more warning signs here particularly if the Fed begins to step back from its historic support of these credits. For private equity, we have believed that it was a difficult vintage year environment prior to the pandemic principally due to lower mark to market valuations. We now are finding that there are a growing number of opportunities for private investing which are likely to benefit investors putting capital to work during the next year plus. Private markets started to reflect more broadly the mark to market valuation impact from COVID-19 induced economic stress resulting in wider bid-ask spreads, transaction slow-down and reduced exit values across a number of sectors. Although these factors will pose performance headwinds in the near term, the reduced valuations also provide select opportunities to acquire assets at attractive prices that will likely benefit investors with dry powder as markets recover.

Looking Ahead

While the unknowns described above may seem daunting, we do believe that Fed Chairman Jerome Powell continues to stand ready with his needle full of monetary stimulus to be applied when needed. Parenthetically, we have some concerns about the patient's growing addiction problem, but that is for another time. We also come down on the side of Congress and the White House administering a hypodermic of fiscal support. In an election year who would want to say to the voter "we are fine with bread lines"?

And then there is the response of the American people to the pandemic. One of the unique characteristics that has helped to drive America's economic success has been our ability to think independently and to hold dear the rights of the individual. Yet we also owe our success in an almost contrary way to our ability to pull together as a unit when necessary. World War II is but one example. For those that study the history of that event you well remember that the road to unity was not without setbacks. Even being involved at all was a controversy that was overcome only by a sneak attack emergency. While we have not yet recognized as a nation that the potential for dire consequences from this pandemic is equally real, we are confident that, with renewed emphasis from our leaders, we will make the sacrifices necessary to move our economy back on track. That being said, it sure would be great to get a shot in the arm with a vaccine to end COVID-19 once and for all.

Outlook for Canada

In response to the COVID-19 economic crisis, the Bank of Canada launched a Quantitative Easing program, its first time doing so. Starting April 1, 2020, the Bank of Canada has stated that it will buy up to $5 billion in Government of Canada bonds per week, and subsequently added a purchase program for both provincial and corporate bonds. The Bank of Canada interest rate remained unchanged during the quarter at 0.25 percent.

On the fiscal side, the Government of Canada announced the COVID-19 Economic Response Plan, their stimulus package aimed at providing direct support for individuals and businesses. As a result of this unprecedented stimulus, the Government of Canada registered a $343.2 billion dollar deficit in 2020. This resulted in Fitch Ratings cutting Canada's rating one notch to AA+ with concern of higher public debt-to-GDP ratios from the crisis.

The Bank of Canada expects Real GDP to decline -7.8% in 2020, representing the worst drop in economic activity since the Great Depression. The unemployment rate ended the quarter at 12.3 percent, a significant increase from 7.8 percent at the end of Q1, although down from a record high of 13.7 percent recorded in May 2020.

Following a historical quarterly loss in Q1, the price of WTI oil made a significant recovery in Q1, up 91.8 percent to $39.3 per barrel.

The Canadian dollar (vs. USD) gained 2.9 percent during the quarter, ending at 73.8 cents.

The Canadian equity market (S&P/TSX Composite Index) gained 16.97 percent in Q2 with almost all sectors in positive territory, with resource and Information Technology sectors leading the way. Stock market darling Shopify was up 119 percent during the quarter and became the most valuable stock on the TSX, surpassing the Royal Bank.

The Canadian fixed income market had a very strong quarter, as investors favoured safe assets when faced with uncertainty, and the Bank of Canada aggressively intervened in the provincial and corporate bond markets to increase the liquidity. The FTSE Canada Universe Bond Index returned 5.9 percent for the quarter. Higher-yielding corporate bonds, as measured by the FTSE Canada Corporate BBB Bond Index. returned 9.7 percent for the quarter as credit spreads narrowed.

Summary of Outlook Views

The tables on the following pages provide a snapshot of our forward-looking observations on the key macroeconomic factors driving markets and the direction of specific asset classes.

Introduction to Segal Marco Advisors Canada's Signals

Our global macro signals are represented by arrows that reflect select economic indicators' directional movement. Grey-shaded boxes indicate a change in our view of a particular economic indicator from the previous quarter.

There is a set of five signals for each asset class, represented by shaded circles ranging from an above-normal return outlook (dark green) to a below-normal return outlook (dark red), with the middle circle indicating a neutral outlook (grey.) The views represented for each of the asset classes are *relative* to our 10-year capital market assumptions.

If our views on an asset class change from quarter to quarter, that change is represented by an arrow that stretches from the previous quarter's signal to that of the current quarter.

Global Macro Signals and Outlook

Key: ↓ Negative | ↘ Neutral, Trending Lower | → Neutral | ↗ Neutral, Trending Higher | ↑ Positive

Developed Markets

Market	GDP Growth	Inflation	Policy Rate	Currency	Equity Valuations
Canada	↓	↓	→	↗	↗
GDP growth in Canada tumbled in Q1. While the Bank of Canada left the policy rate unchanged, it launched a major quantitative easing program as stimulus for the economy. Inflation declined while the Canadian dollar rose against the USD. Valuations of Canadian stocks are still more moderate than those of U.S. stocks.					
U.S.	↓	↓	→	↘	↘
GDP growth declined -32.9 percent in Q2, shrinking at the fastest pace since such records began. Unemployment fell in the quarter, however, as businesses began to reopen after COVID-19 outbreak-related closures. The Fed kept short-term interest rates at zero but ramped up its overall stimulus with loans to businesses and bond buying. Inflation fell in the U.S. as the economy severely contracted. Valuations are above the historic median.					
Eurozone	↓	↘	→	↗	→
GDP growth contracted -12.1 percent in the quarter, as the toll of the COVID-19 outbreak deepened on the eurozone's economy. The ECB kept the policy rate steady but broadened its stimulus program through a variety of other measures. The euro increased against the USD, though inflation fell. Equity valuations are close to the long-term median and are cheaper than U.S. stocks.					
U.K.	↓	↗	→	→	↗
GDP growth slipped -2.2 percent QoQ in Q1, the largest quarterly drop in UK GDP since 1979. The pound remained relatively flat and the Bank of England kept rates steady in the quarter. Equity valuations look cheap compared to U.S. stocks.					
Japan	↗	→	→	→	↗
Growth fell -0.6 percent QoQ in Q1, following the Q4's -1.9 percent contraction. This was Japan's first recession since 2015. The yen stayed flat, and the Bank of Japan held the policy rate steady. Inflation was also relatively stable. Equity valuations are moderate compared with most developed markets.					

Note: Arrows reflect impact on growth except for policy rates where they reflect directional movement. Shading represents a shift in our view from the previous quarter.

Key: ↓ Negative | ↘ Neutral, Trending Lower | → Neutral | ↗ Neutral, Trending Higher | ↑ Positive

Emerging Markets

Market	GDP Growth	Inflation	Policy Rate	Currency	Equity Valuations
China	↗	↘	↘	→	↗
GDP growth rebounded 11.5 percent QoQ in Q2, as the country's economy emerged from outbreak-related lockdown. The Bank of China cut rates in the quarter in an effort to stimulate the economy. The yuan remained steady in the quarter, and inflation declined. Equity valuations were a bit higher than the long-term median.					
Rest of EM	↘	↘	N/A	↘	↗
While China's economy picked up meaningfully in the quarter, economic growth lagged in many emerging market countries as they continued to struggle to contain their virus outbreaks. A weaker USD was a positive in the quarter, however. Central banks across the EM spectrum cut interest rates in an effort to stimulate economies. EM stocks surged in Q2 and valuations now sit well above the historic median.					

Asset Class Signals and Outlook

Key: Below Normal — Neutral — Above Normal

Equities

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
U.S. Large Cap	○	○	●	○	○	Large cap stocks should still be to be relatively well-positioned, as investors continue to favour safety in the pandemic. Technology and healthcare stocks may outperform, which is also favourable for U.S. companies. Valuations are now well above median, diminishing their appeal a bit after Q2. Expect news-based volatility.
U.S. Small Cap	○	●	○	○	○	Investors are likely to favour large caps over small caps in the pandemic environment. Further, many smaller companies in severely impacted industries may simply not be able to weather this current economic storm. In addition, valuations now stand at historically high levels.
Int'l Dev. Large Cap (Unhedged)	○	●	○	○	○	While the eurozone has made progress in containing its virus outbreak, uncertainty about any further waves of infection may hold it back. Major tech and healthcare companies, which will likely lead in the pandemic, are most often U.S.-based.
Int'l Dev. Small Cap (Unhedged)	○	●	○	○	○	Similar perspective as international developed large cap. With uncertainty surrounding the state of the eurozone economy and the effect of the stimulus, investors will likely favour U.S. equities. International small caps will be more vulnerable to the economic downturn than large caps.
Emerging Markets (Unhedged)	○	○	●	○	○	As China recovers from its COVID-19 outbreak, its economic outlook is improving. However, other emerging markets are still struggling and their recoveries will likely be prolonged.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

Key: ● Below Normal ● ● Neutral ● ● Above Normal

Fixed Income

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
U.S. Core	○	●	○	○	○	Given the new, low levels in interest rates, as well as the Fed's stated desire to keep them low for the foreseeable future, we feel that U.S. core bonds are more likely to perform below our long-term expectations.
Non-U.S. Core (Hedged)	●	○	○	○	○	Safety of international sovereign debt is somewhat appealing, though yields remain low to negative in many countries.
Emerging Market Debt (Hedged)	○	○	●	○	○	Similar to EM equity, expectations for EM debt are lower as investors favour safer asset classes and with prospects for EM countries uncertain as they navigate the pandemic.
High Yield	○	○	●	○	○	Still neutral on HY, though wary of the asset class if the Fed pulls back on its historic level of support. We favour the higher-quality end with a focus on selectivity and active management. Spreads have come in since Q1, but are still wider than the historic median.
Bank Loans	○	○	●	○	○	Much the same story here as with HY — there are solid opportunities in bank loans, but less so if the Fed pulls back. Again, favour the higher-quality end with emphasis on active management.
Treasury Inflation-Protected Securities (TIPS)	○	○	●	○	○	Inflation could be on the horizon with huge fiscal and Fed stimulus. However, it may take some time to materialize, and the Fed has said that deflationary forces are more prominent now. As investors gravitate toward safer asset classes, TIPS will likely be supported by sentiment.
Structured Credit	○	○	●	○	○	The Announcement Effect of the Fed has had a large impact on pricing within structured credit markets, particularly in higher-quality, higher-rated TALF-eligible assets. Spreads have rallied materially and in some markets are back to pre-crisis levels, dramatically impacting the value proposition and return potential within those markets. However, the continued prospect of further downgrades in the below-investment-grade loan and bond markets means subordinated tranches in structured products may continue to see weakness in the months ahead until the virus is better contained in the U.S. For some, more opportunistic managers and strategies, this creates a wealth of opportunity.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

Continued on the next page

Key: Below Normal — Neutral — Above Normal

Fixed Income *(continued)*

Private Credit	○	○	●	○	○	As expected, we have seen a proliferation of managers raising "stressed/distressed" or "dislocation" funds in an attempt to deploy capital into the rapidly evolving dislocation in credit markets. Depending on the future path of the virus and its impact on economic activity, many businesses could find themselves in need of unique/bespoke financing solutions as fiscal stimulus either runs out or marginal benefits fade from additional stimulus programs. This could create a considerable opportunity for managers that have sourcing, underwriting and structuring expertise to drive favourable outcomes for investors in structures that provide an element of downside protection. However, once again, this asset class has generated a tremendous amount of interest as fundraising through the first six months of this year has outpaced the same period in 2019. Manager selection remains critical.
Municipals	○	○	●	○	○	Muni supply and demand have been strong in 2020, as interest rates have fallen amid the COVID outbreak. Performance has been solid, though munis still lag Treasury performance YTD. Spreads remain at all-time lows. Ongoing monetary easing is still a positive dynamic for munis, though fall elections may contribute to volatility as with many asset classes.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

Key: Below Normal — Neutral — Above Normal

Alternatives

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
Hedge Funds	○	○	●	○	○	The significant divergence between the underlying economy and financial markets has given rise to a more conservative investment approach and a more defensive posture. Strategies such as long/short equity and global macro are likely best positioned to navigate the prevailing uncertainty across liquid capital markets. Moreover, we anticipate elevated dispersion across and within the credit capital markets as the COVID-19 pandemic leads to disparate outcomes on more idiosyncratic levels, thus leading to unique investment opportunities within structured credit and stressed/distressed corporate credit strategies. On the other hand, merger arbitrage is a strategy less primed to benefit from prevailing market conditions amid the growing likelihood of deals falling through or being delayed, combined with the (surprisingly) tight and unattractive deal spreads.
Multi-Asset Class Strategies (MACS)	○	○	●	○	○	With elevated geopolitical tensions, a looming U.S. presidential election, and an ongoing pandemic, it seems reasonable to expect heightened volatility across asset classes to persist for the foreseeable future. In this vein, those strategies that are more reliant upon “beta” as a means to generating returns (e.g., risk parity) are more likely susceptible to performance challenges in the near- to intermediate-term. Conversely, those strategies that place a greater emphasis on “alpha” through effective shorting, security selection and/or market expression are more likely to achieve their respective return targets. More specifically, strategies such as global tactical asset allocation, style/alternative risk premia and select multi-asset hedge funds are better suited to preserve capital during periods of stress through attractive cross-asset class correlation dynamics while introducing upside optionality through effective asset allocation decision-making.
Private Equity	○	●	○	○	○	Conditions anticipated in Q1 start to gain momentum, with decreased mark to market valuations resulting in a less favourable exit environment for more mature funds over the next several quarters, while offering at the same time select attractively-priced buying opportunities for investors with dry powder. Lower valuations, sluggish M&A activity and a tighter credit market have impacted the frequency and magnitude of distributions, which collectively suggest that near-term returns may not meet expectations. Some of the more resilient strategies in the current market include small/mid buyouts, secondaries, early-stage venture and distressed debt/equity — special situations.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

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Key:	●	●	●	●	●
	Below Normal		Neutral		Above Normal

Alternatives *(continued)*

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
Real Estate	○	●	○	○	○	Near-term outlook remains bearish, although the disruption will create select opportunities for investors with a higher risk tolerance and capital. Retail, leisure and to a lesser extent student housing which have been the hardest hit sectors to date, are braced to remain under pressure. While rent collections for both the multifamily and office sectors have held up better than anticipated so far, an extended economic downturn along with increased acceptance of remote working arrangements could lead to reduced office tenant space requirements, while rising unemployment will impact rent collections and occupancy for multifamily assets. Property types such as data centers and warehouses are anticipated to display more resilience and valuations to remain stronger. No immediate end in sight to expanded bid-ask spreads. That will continue to affect transaction volumes. Core funds are experiencing increased demand for redemptions as net income comes under increased pressure and valuations decline. Higher returning funds likely to experience valuation declines as business plans are paused and investment hold periods are extended. Opportunistic funds with less constraints are well positioned to take advantage of pricing anomalies that arise from the economic disruption.
Infrastructure	○	○	●	○	○	Near-term outlook varies across strategies as regulated networks and communications assets likely to remain resilient, while more GDP-linked assets (e.g., passenger transportation and toll roads) anticipated to be more adversely impacted by ongoing pandemic crisis over the next several quarters. However, assuming continued lifting of travel restrictions, this sector is expected to continue to recover over the intermediate to longer term. Energy consumption and demand is expected to fall by 6 percent in 2020, representing the biggest drop in global energy demand in modern history. Renewables is the singular energy sector experiencing growth, which is expected to continue given low operating costs and preferential access to many power systems. Transaction activity is slowly picking up, although it remains well below pre-pandemic levels. Fund-raising is also back on track after a short hiatus in March/April and should continue to attract strong investor interest, particularly from yield-oriented investors. Lower valuations should also present an attractive entry point for value add strategies.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

Continued on the next page

Key:					
	Below Normal		Neutral		Above Normal

Alternatives *(continued)*

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
Commodities	○	●	○	○	○	Outlook overall remains bearish. The pandemic has impacted not just demand but also supply as lockdowns and travel restrictions have slowed economic activity. As the global economy stalls, most commodities are expected to decline further, with the exception of agriculture and precious metals. The energy sector has been the hardest hit with coal, crude oil and natural gas all posting significant declines. Crude oil prices will continue to struggle to climb, especially in the absence of a satisfactory global production agreement. Metals and minerals will continue to experience price declines and volatility resulting from the pandemic that may accelerate with economies moving into recession. Agriculture commodities are expected to stabilize, although supply chain issues not likely resolved until the virus is contained. The outlook for precious metals as a safe haven is more positive with further price increases expected for 2020.
Energy	○	○	●	○	○	Over the next few quarters, the lingering effects of the ongoing pandemic and global economic strain, along with the absence of a unified OPEC production policy, will continue crude oil price softness due to decreased demand and maintained levels of supply. Natural gas prices, while also adversely impacted, are poised for a comparatively stronger rebound due to broader production declines. U.S. shale producers' return on equity results have not met investor expectations, and will continue to be challenged in the face of ongoing company budget cuts, production declines and increased bankruptcies. Energy sectors are anticipated to experience a rebound in the intermediate term in a global economic recovery scenario especially involving the developing markets, but demand growth rate likely to be moderate. Renewables will gain momentum due to falling costs and broad policy support, but must navigate supply chain disruptions to complete projects and uncertain governmental incentive programs.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

Continued on the next page

Key: Below Normal | Neutral | Above Normal

Alternatives *(continued)*

Opportunity Set	Below-Normal Return Outlook		Neutral Return Outlook		Above-Normal Return Outlook	Comments for Quarter
Timber	○	●	○	○	○	Suppressed global economic activity serves as a headwind to the intermediate forecast for timber. Uncertainty regarding supply and demand has risen for virtually all end markets of softwoods and hardwoods since the start of the pandemic. Pulp and paper markets face challenges from shifting societal behaviors of digitization. Pulp and paper connected to consumer demand are expected to be relatively stronger but are tempered by repositioned supply from other areas. Rebounding new home construction and surprisingly strong demand from the renovation and remodeling segment are positives for logs; however, easing pressures on logistics and supply may create price softness. As individuals return to work, at-home projects may slow as well. China's re-entry into the log market has introduced support within the region.
Farmland	○	○	●	○	○	The impact of the pandemic has varied across crop types with corn, soybeans and meat being the hardest hit sectors to-date. Demand for corn is heavily dependent on the demand for ethanol, which has been negatively impacted by travel decline stemming from shelter-at-home policies. Additionally, travel policies and virus fears have led to labor shortages, putting crops at risk. The impact is expected to be short-lived however, with some crop types already experiencing a rebound as supply-chain issues get resolved. Some near-term relief to the sector expected from the recently enacted Coronavirus Food and Aid Program, which will allocate aid to the hardest hit sectors and help support farm incomes. Farm debt is on the rise as farmers seek to secure working capital during these volatile times, however, debt rates remain very low and land valuations remain strong. As a result, debt-to-asset ratios have not changed significantly.

These views represent our 12–18 month perspective relative to longer-term expectations (10+-year capital market assumptions).

Segal Marco Advisors

Questions? Contact Us.

To learn more about how our forward-looking views can help to enhance your investment strategy, contact your Segal Marco Advisors Canada consultant or Chief Investment Officer Tim Barron at 203.621.3633 or tbarron@segalmarco.com, or President Ruo Tan at 416.642.7792 or rtan@segalrc.ca.

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