Perspectives on a Challenging Year

Q3 2022 Investment Outlook

Segal Marco Advisors

Overview

After a difficult first quarter in 2022, the second quarter did not offer any relief. In our recent article, "Change is Difficult," we discussed how this year has been characterized by massive disruption. That disruption has come not just in the financial backdrop, where we have endured historic shifts in interest rates and multi-decade highs in inflation, but also in changes to many other aspects of our lives.

In the macro environment, we've seen:

- Global change in monetary policy (i.e., beginning the process of unwinding massive liquidity driven by monetary and fiscal underpinnings)
- Inflation hit 40-year highs
- First meaningful interest rate increases in decades

In the geo-political backdrop, there is:

- War
- Energy and food instability

The social backdrop includes:

- Changing nature of workplace
- In the U.S., the first change in woman's rights with the overturn of *Roe v. Wade*
- Continuing evolution of COVID-19 and impacts on life

And, most importantly for this discussion is the change to the market backdrop, from double-digit **positive** returns of 2021 to both stock and bond markets' double-digit **negative** returns through June 2022.

If you thought the pandemic was bad enough for your psyche, this year has not provided any relief.

There is a behavioral finance theory, called recency bias, that says people put too much emphasis on recent experiences and extend that experience into the future. This may cloud your judgment on what lies ahead.

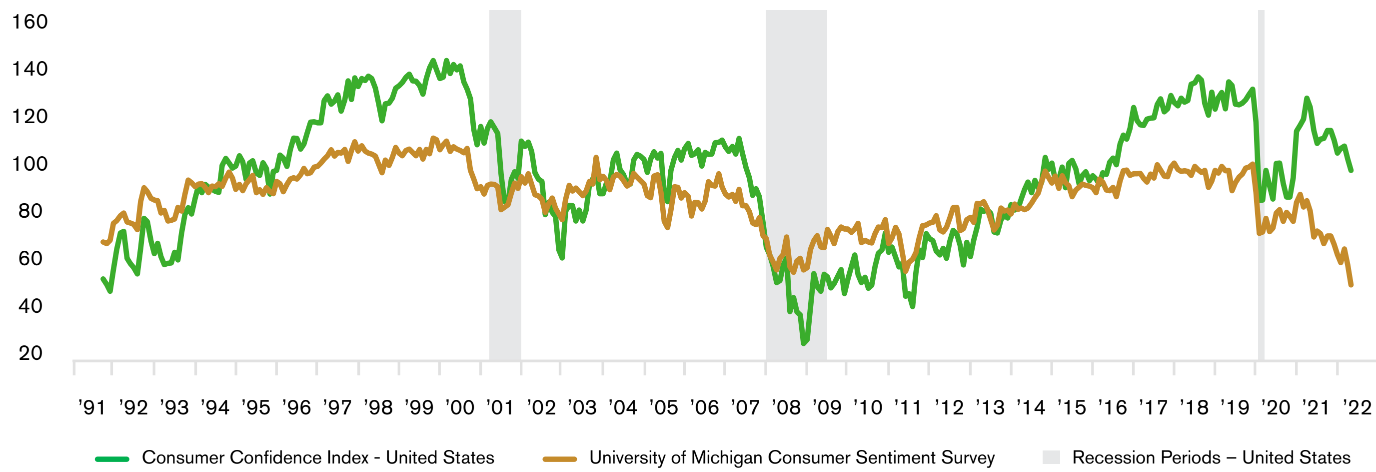
The opposite of recency bias is the gambler's fallacy, where you believe that because the most recent past has occurred at certain frequency, the opposite is more likely to occur in the future. This is more a "reversion-to-the-mean" type of hypothesis.

We present both theorems as the perfect interaction of where we sit today. Let's look at both sides.

This *Investment Outlook* was written in late August 2022.

Today people are as pessimistic as they have been in years. The graph below shows two consumer sentiment indicators as evidence that pessimism abounds. The only time it looked worse was in the depths of the Great Financial Crisis.

Consumer Sentiment



Source: Factset as of June 30, 2022, the most recent data available

It is not hard to understand why people feel bad when you think about the long list of 2022 upheavals we outlined above. Then, add the June GDP print of -0.9 percent which comes on the heels of the -1.6 percent result in Q1 of this year, and the logical conclusion might be we are in a recession. Then, add the statement that it is going to get worse from here, and that is recency bias working.

But let's look at the other side of the coin — the gambler's fallacy, so to speak.

The negative GDP print was largely driven by a -14 percent residential investment component and change in inventories. With mortgage applications dropping due to the increase in mortgage rates, the red-hot housing market is cooling. Does anyone think this is bad? Prices were getting crazy. The inventory decrease is the cooling of the post-pandemic consumer goods demand (which has shifted to consumer services, like travel) but again, this may not be all bad (unless you are Target or Walmart).

In the GDP numbers, other components are still positive and not indicative of a recessionary environment. For example, personal consumption was positive, although there was a -0.5 percent decline in real incomes. That decline in real income is certainly not positive, but of late we have seen substantial declines in energy (gas in particular) that should give a boost to incomes in the coming months, as well as feed through to a decline in components of the CPI. Add to the list the continued strength in employment, and the argument for recession versus just slower growth becomes much more nuanced.

Equity markets

Global equity markets fell again during the June quarter, although July did provide a respite. Saying markets fell is a bit of an understatement, as the month of June was very bad for almost every single global market except China. Thus, the quarter was negative in a big way, double-digit negatives with a low of -24 percent for Brazil, to the best/negative of -10 percent in the UK.

In the U.S., the S&P 500® was down -16 percent in the quarter and the equal weighted S&P was down -14 percent. Small capitalization stocks fell -17 percent, reflecting the nowhere-to-hide environment. Negative sentiment certainly outweighed any positives (like retail sales or employment numbers) and of late corporate earnings announcements are strong. With about three quarters of companies in the S&P 500 reporting as of July 31, the numbers are positive across many sectors. While retailers struggled as purchases of goods slowed, others like Hilton Hotel and Resorts, where spending is shifting, had strong earnings per share. Energy was again the leader in positive earnings surprises, but many tech-related companies, like Apple, Alphabet and Microsoft, were upbeat on the quarter results as well as the outlook for the balance of the year.

Outside of the U.S. is a more mixed story. Europe is struggling under the weight of energy and inflation, although even within developed Europe, Italy versus France or Germany versus the UK are unique stories. Emerging markets are also a very mixed bag of inflation and food concerns. Commodities-related areas, such as Latin America, which had benefited from surging commodity prices, are now dealing with recent slowdown coupled with inflation. China was the standout performer in the quarter, posting a +6 percent return and was the sole positive market around the globe as the country reopened from COVID-19 shutdowns. Unlike most central banks, which are tightening, the Bank of China is providing stimulus to spur growth. The strength in the U.S. dollar has continued of late with the dollar and euro hitting parity in mid-June before sliding back. U.S. multinationals have discussed headwinds on earnings due to the dollar's strength that bears watching as we think about the balance of 2022.

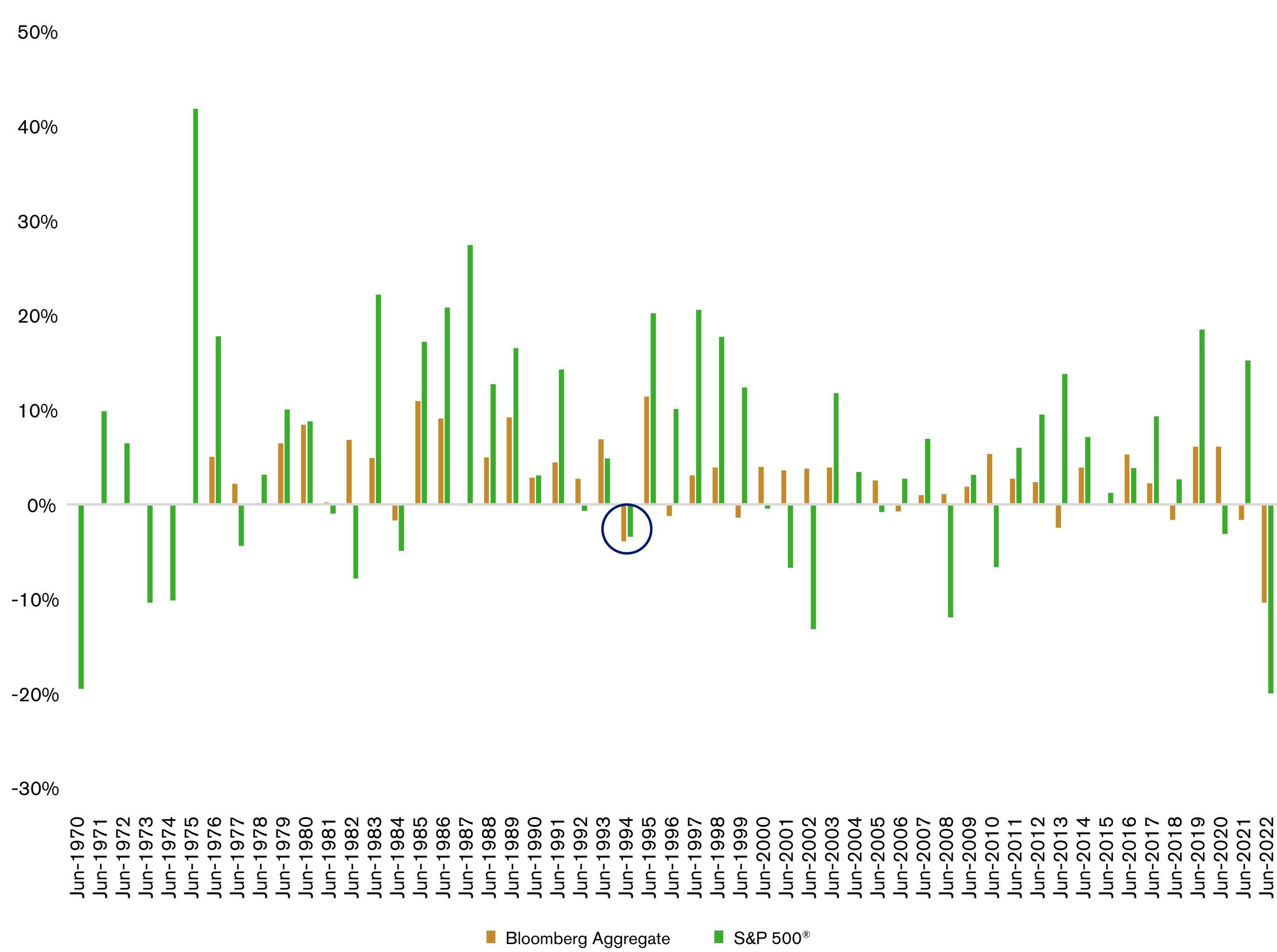
U.S. Trade-Weighted Dollar Exchange Rate Index

Source: Factset

Fixed income markets

While in late June the fixed income markets saw a respite from the selling pressures, it was not enough to bring the Bloomberg U.S. Aggregate Bond Index into positive territory. The month of June was down -1.6 percent, but the quarter was -4.7 percent, bringing the year to date to -10.3 percent. So, both stocks and bonds were negative again, the first time both were negative since 1994. It seems clear that the market believes the U.S. Federal Reserve (the Fed) is serious about its intention of raising rates to quell inflation.

Stock and Bond Performance



Source: Investment Metrics

Corporate credit-related bonds were down significantly in the quarter, reflecting worries over a slowdown in growth/recession and the impact on repayments. Investment-grade credit has declined close to -12 percent year to date. Corporate debt was trading by quarter end with an expected 11 percent default rate, a marked increase and a level of default not actually ever experienced in the investment grade market history. High yield bond spreads jumped over 244 bps in the quarter to 569 bps by quarter end. However, the reality of the repayment profile of high yield and leveraged loans is solid, with the next two years being pretty small, relative to later years. This is also true of the municipal market where budgets had been strengthened by fiscal stimulus and tax collections.

Non-U.S. debt markets have continued to decline, with emerging markets particularly hard hit. The Emerging Market Bond Index (EMBI) is down over -26 percent year to date. Struggling with rising inflation, central banks are raising interest rates. Some EM countries are struggling to service their debt in this environment — Sri Lanka defaulted on its sovereign debt and Pakistan and Bangladesh are in talks with the IMF for support, resulting in both rising worry and rising yields. Many countries' debt in trading is at levels of 10 percent and over. Which leads to the good news in all of this: the absolute increase in yields available to investors. With the 30-year Treasury at just over 3.19 percent at quarter end from 1.19 percent on December 31, 2021, and the one year up to 2.42 percent from 1.23 percent. One-year municipal bonds went from 0.19 percent up to 1.64 percent; the forward yield environment is positive.

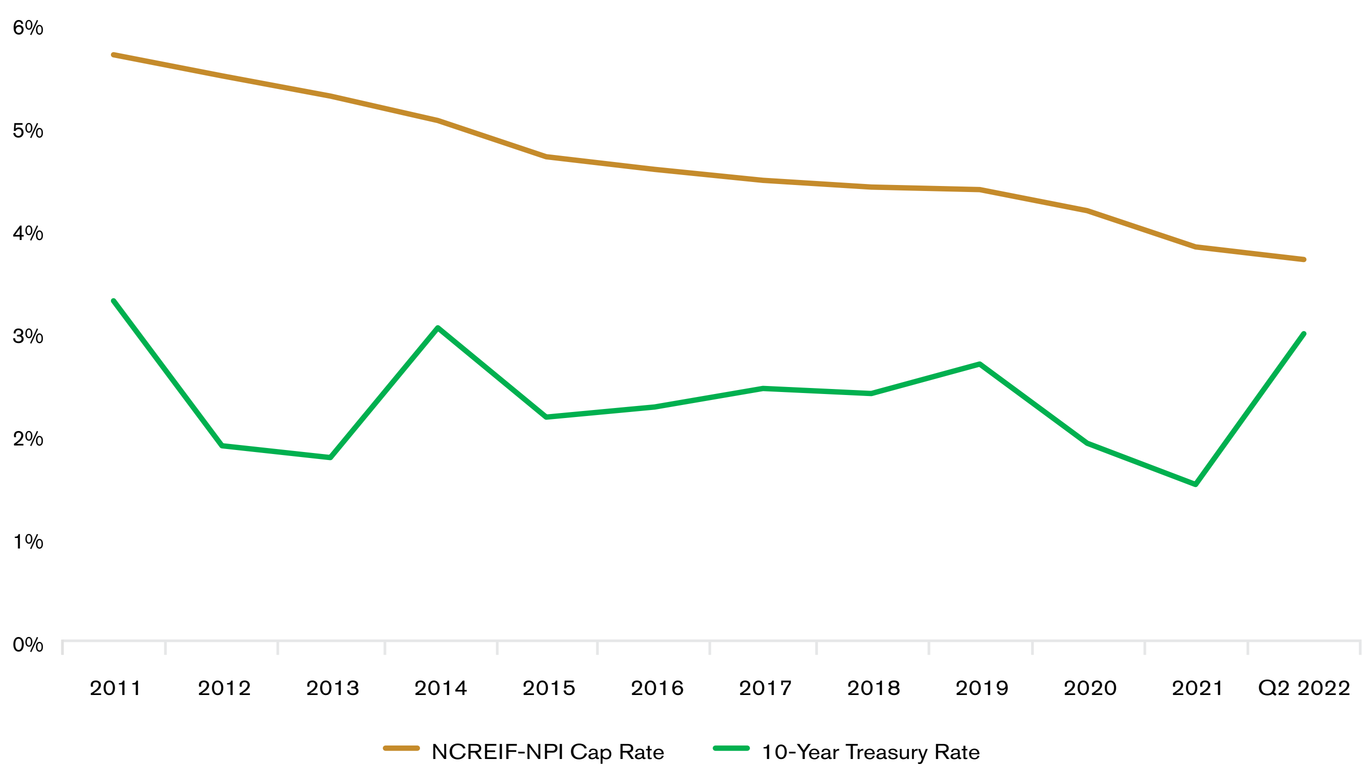
Last month, we speculated that we had seen the worst absolute numbers in fixed income, and if the recent market performance is any indication, the gambler's fallacy is in play. While we expect continued volatility, we could see the market settle into a trading range without the huge spikes characteristic of the first half of 2022.

Private markets

Private markets continue to provide a positive dampening to the volatility of the public markets. We do expect to see pressures on valuation throughout private equity, real estate and credit markets creep into returns throughout the second half of 2022. But on the flip side, the delayed mark to market is proving beneficial to total plan return/risk profiles. With first quarter returns in, the numbers are lower than 2021 but are positive relative to public markets on an absolute and relative basis. The increasing yield environment facing all private markets, including credit, is a good news/bad news situation and investors should anticipate active management and selection as key drivers of incremental returns.

Real estate and Infrastructure continue to see positive returns. In the core open end real estate area, the NCREIF-ODCE returned 4.76 percent for the quarter, driven by appreciation of 3.89 percent and income of 0.87 percent. The positive dynamics of industrial and multi-family persisted while office, in particular, continued to struggle. Regional performance continues to come from the South (3.61 percent) and West (3.87 percent) as demographic shifts support growth. Cap rates continue to trend down as do the relative income levels versus fixed income equivalents, as can be seen in the graph below. Infrastructure is also seeing positive fundamentals, as inflation characteristics and organic demand trends for rebuilding core infrastructure persist.

Capitalization Rates & 10-Year U.S. Treasury Rates



Sources: NCREIF and FRED

Private credit faces the same pros and cons from rising yield levels that we noted in the fixed income markets section. There is mountain of worry that bond investors are climbing as it relates to credit-related instruments. While the private debt market is not totally immune, there has been the advantage of floating rates to buoy the assets as well as lock-ups helping to mitigate volatility. Of course, potential recession or a slowdown in growth will impact companies in the private area as well, and we anticipate continued activity in work out, refinance or other support for private credits to increase. The strong fundraising environments that we noted in our last quarter review will also provide dry powder for opportunities as they arise in the more bifurcated economic backdrop that we face.

Hedge funds/multi-asset funds are, of course, made up of all the underlying betas that we have discussed throughout this investment review and are thus not immune to the negative return profile of all assets of late. Even the commodity components of many multi-asset funds did not help in the recent quarter as we saw the declines of the year in many commodity-related assets, especially energy. Energy was down -14.6 percent in the quarter (but still up +58 percent year to date) and industrial metals have fallen -26 percent year to date. Housing-related commodities have seen a downturn with the slowdown in starts and home mortgage applications.

Returns from macro hedge funds have been compelling, as they took advantage of the varied range of outcomes and fundamentals provided a fertile ground for selection. The HFRI global macro index returned +1.4 percent in the quarter and is up 17.8 percent year to date. We continue to think the tactical and active management characteristics of multi-asset and hedge funds will be positive for the return/risk profile of these funds, given the economic and financial backdrop.

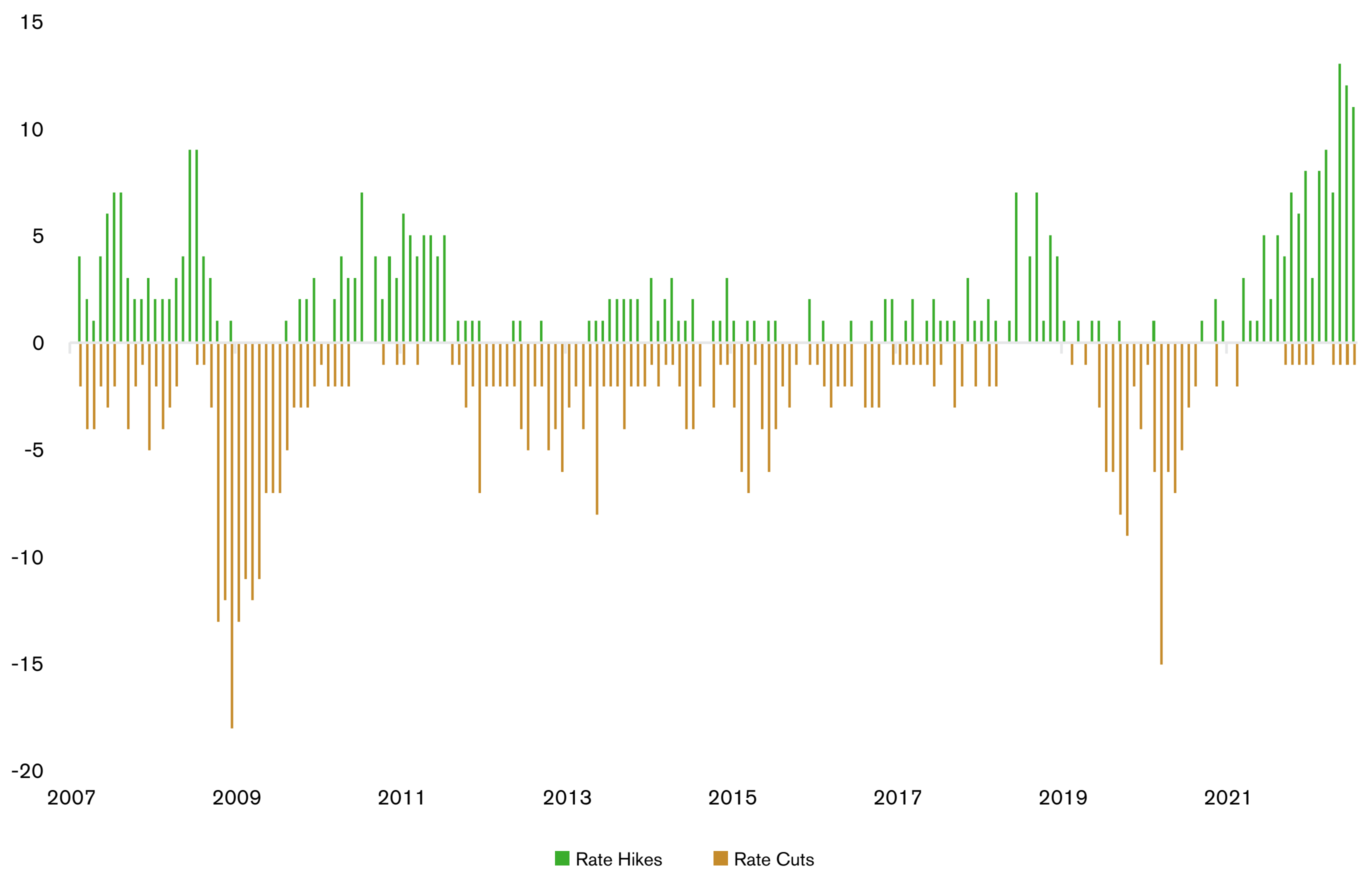
Private equity deals are seeing a pullback in activity. Higher interest rates mean higher borrowing costs and, coupled with higher discount rates, are pushing down valuations. Exits are non-existent as business owners are delaying selling until pricing is more favorable. However, public share price weakness may lead to an uptick in take-privates. GP-led secondaries market is still deep and allowing for liquidity transactions. Be wary of the press overselling the current environment as if it is the dotcom bust 2.0. Yes, areas like crypto have characteristics that resemble the "eyeballs" narrative as valid pricing metrics, but by and large this is not a rampant issue. We do expect valuations to continue to decline from 2021 levels, but the dry powder available to commit to businesses, combined with the positive time factor for private equity firms, will help. One interesting trend this year has been the use of structured debt, which is gaining a bigger role in deal financing. Since the IPO market is essentially closed, late-stage companies in need of cash are using convertible debt or a similarly structured product. While there is always an interest in these debt products because they are relatively non-dilutive, dealmaking in convertible debt has grown over the last couple of months. We do expect distributions to continue to be lower in the near term, but if public markets rebound a pickup in exits is possible late in the year.

Final notes

We ended last quarter's review with "2022 has had a difficult start." So, we will repeat, "2022 has had a difficult start." Shifts in regimes, such as we are experiencing, are rarely without pain.

The graph below reviews the continued rate changes by central banks so far this year. The global withdrawal of liquidity is ensuing, and the markets have reacted at a very fast pace.

Rate Changes per Month by 20 Central Banks



Source: Bloomberg, Capital Economics

If you believe this will break inflation's back, then it should be worth the short-term pain for long-term gain. If July's market performance is an indication that the market believes the outcome is positive, then our recency bias will be shed. But our best guess — and, given the environment, it is a guess — is that while we have seen the worst, this is not a straight path upward for stocks or downward for interest rates. As we have reiterated in our communication to clients, we have seen inflation before, we have seen interest rate rises before and we have endured market declines before. Take a step back and think about your recency bias as the headlines of pessimistic outlooks abound.

Outlook for Canada

After a positive quarter ended March 31, GDP of 0.8 percent (year/year falling to 3.1 percent), signs of slowing appeared in May and June. However, expectations are for a positive number when the quarter that ended on June 30 is in the books. The unemployment rate fell to a new record low of 4.9 percent at the end of June, as fewer people searched for work. People aged 55 and older are choosing to leave the workforce. This tight labor market is also pushing up average wages, contributing to higher real incomes and saving rates, although inflation continues to eat into real income.

Early forecasts for positive, albeit slower, growth in Q2 and persistent inflation are pointing to continued interest rate hikes. Canada's inflation rate hit 7.7 percent in May, near a 40-year high. To combat rising and persistent inflation concerns, the Bank of Canada made an unprecedented move, raising its target for the overnight rate by 100 bps to 2.5 percent in July. Additionally, the central bank raised its inflation forecast for 2022 to 7.2 percent, then falling to 3 percent by the end of 2023. With this backdrop, Canadian fixed income markets continue to struggle, posting YTD losses of -9.0 percent through early August 2022. As with many developed economy markets, the S&P/TSX Composite Index struggled in Q2 returning -13.8 percent, erasing prior gains and resulting in a year-to-date return of -11.1 percent. All sectors, except energy, showed large declines including health care, information technology, materials and real estate.

Recent strength in the USD has marginally driven down the Canadian dollar (v. USD) exchange rate from 0.79 to 0.77 as of June 30, 2022.

While global growth has been hit hard by rising energy costs and inflation, Canada benefited from higher oil, natural gas and grain prices. In the first half of 2022, Canada continued to be the fastest growing Group of 7 economy.

Summary of Outlook Views

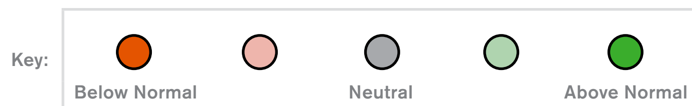
The tables on the following pages provide a snapshot of our forward-looking observations on the direction of specific asset classes.

Asset Class Signals and Outlook

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 (gray). The views represented our 12–18 month perspective for each of the asset classes are *relative* to our longer-term expectations (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.

Return Outlook



Equities

Opportunity Set	Below Normal		Neutral		Above Normal
U.S. large cap	○	●	○	○	○
With recession prospects rising and higher input costs, the outlook is more nuanced and company specific. A stronger USD will also potentially impact large companies versus smaller ones. Valuations have come down but still sit at the long-term median; selection will be key for second half of the year.					
U.S. small cap	○	●	○	○	○
Similar to large caps, but small companies struggle more due to inflationary factors and labor shortages, two things that dominate the U.S. economy right now. Valuations in small cap look relatively cheap right now, but given the potential headwinds in the area, active management will be key.					
Int'l dev. large cap (unhedged)	●	○	○	○	○
Europe has multiple challenges right now, including energy shortages and supply shocks due to the Russia/Ukraine conflict, spiraling inflation and political leadership changes in places like Italy and the UK. All of this makes for an unattractive near-term investment outlook. Corporate earnings had been relatively strong in Europe, but growing headwinds may hinder them during the rest of 2022. Price/earnings ratios look fairly cheap versus history but given the outlook, caution is advised.					
Int'l dev. small cap (unhedged)	●	○	○	○	○
Similar to developed market large cap, but pack in even more drawbacks, including greater sensitivity to inflation and to other recessionary factors.					
Emerging markets (unhedged)	○	●	○	○	○
A strong USD means countries with a lot of dollar-denominated debt will experience increased repayment costs. Supply shocks and inflation coupled with the continued China zero-COVID policy provide the backdrop for economic uncertainty. Valuations are sitting at the long-term median, so EM stocks are not cheap. Country and company selection are paramount, so active management is advised.					

Return Outlook

Key:					
	Below Normal		Neutral		Above Normal

Fixed income

Opportunity Set	Below Normal		Neutral		Above Normal
U.S. core	○	○	●	○	○
It was the worst first half for Treasury bonds in recorded history and all bond categories are sharply negative so far in 2022. However, as interest rates continue to rise in the U.S., yield on core bonds are looking more attractive relative to other fixed income sectors. Investment-grade credit looks somewhat more appealing than high yield in deteriorating economic conditions. Hard to imagine the second half being a repeat of the first.					
Non-U.S. core (hedged)	●	○	○	○	○
Similar to non-U.S. developed market stocks, the economic backdrop for Europe is negative, with lower growth, Russia/Ukraine conflict ongoing, high inflation and rising political uncertainty and possibly weaker earnings. The European Central Bank is set to end its bond-buying program, which will end a previous support for bonds. Developed markets outside Europe are also feeling the pressure of inflation, and central banks are responding with rising rates. Caution is advised.					
Emerging market debt (hedged)	○	●	○	○	○
With volatility in currencies expected to continue due to the uncertain outlook, local currency debt is exposed versus sovereign debt. Despite the high-yield advantage, there is likely a large degree of outcomes that here again warrant active management.					
High yield	○	●	○	○	○
If economic indicators continue to turn more negative, high yield may be challenged. With interest rates rising, the risk of default grows. Spreads widened in the quarter that ended on June 30 but have come back of late, providing less valuation rationale in the short term.					
Bank loans	○	○	●	○	○
Higher yields and slowing growth are headwinds for bank loans, but bank loans' floating rate feature is a major benefit right now as interest rates keep rising. Their senior position in the capital stack and typically secured status are also points in bank loans' favor.					
TIPS	○	○	●	○	○
Given the uncertainty around inflation expectations, the benefits of TIPS may provide some upside potential, with outperformance in unanticipated inflation regimes. TIPS, while negative so far in 2022, are not down as much as nominal bonds and thus have provided some protection. This could continue.					

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Return Outlook

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

Fixed income

<table>
<tr><th>Opportunity Set</th><th>Below Normal</th><th></th><th>Neutral</th><th></th><th>Above Normal</th></tr>
<tr><td>Structured credit</td><td>○</td><td>○</td><td>●</td><td>○</td><td>○</td></tr>
<tr><td colspan="6">Along with virtually all other risk assets, CLO debt tranche performance suffered in the quarter that ended on June 30 as spreads widened. Issuance was still relatively strong during the quarter despite the market volatility, providing a technical support to the market; however, expectations are for a material reduction in the second half of the year which could put further pressure on prices. Despite this dynamic, relative to similar-rated corporate credit markets, CLO debt tranches offer compelling yield advantages in the current environment. The ability of managers to navigate through the current volatility we expect will drive dispersions in returns moving forward.</td></tr>
<tr><td>Private credit</td><td>○</td><td>○</td><td>●</td><td>○</td><td>○</td></tr>
<tr><td colspan="6">Private credit funds have thus far weathered market volatility fairly well, as the floating rate nature of loans insulates investors from the harmful impact of rising interest rates and in many cases actually benefits from that dynamic. In addition, we have not yet seen a degradation in underlying credit quality as both balance sheets and income statements remain relatively strong. However, given the high levels of debt many of these companies have taken on, private credit investments would not be completely insulated from a slowdown in economic activity. We remain cautiously optimistic on the asset class.</td></tr>
<tr><td>Long bonds</td><td>○</td><td>○ →</td><td>●</td><td>○</td><td>○</td></tr>
<tr><td colspan="6">In the quarter ending June 30, the yield for the long Treasury sector rose again by 78 bps to end the quarter at 3.33 percent, and long Treasuries returned -11.93 percent. This puts year-to-date total return for the sector at an eye-opening 21.25 percent. Inflation repricing and term premium dynamics further out on the curve were the most significant drivers in both time periods. The negative outlook from last quarter end is less certain as the asymmetric return profile argument has further diminished, with yields rising in response to Fed policy and global economic developments. Year-over-year inflation remains historically high, and expectations are for more price volatility to long bonds as capital markets accept this reality. However, a great deal appears to be priced into the long-dated segments of the Treasury curve, creating opportunities in the next 12–18 months as correlations reestablish themselves.</td></tr>
<tr><td>Municipals</td><td>○</td><td>○</td><td>●</td><td>○</td><td>○</td></tr>
<tr><td colspan="6">Once again, the yield on the tax-exempt municipal bond index rose significantly to 3.21 percent by June 30. Although this 61 bps yield increase was less than the 149 bps increase experienced the prior quarter, it still led the index to return -2.94 percent in the quarter. The taxable and tax-exempt municipal bond asset classes had experienced a strong rally since the onset of the pandemic, but tailwinds disappeared in the quarter that ended on March 31 as inflation repricing impacted all areas of fixed income. As with bonds overall, the outlook is unclear, due to the changes in data, but one could argue that a lot of the negative performance damage has already taken place. Retail demand will always be high for these instruments, which creates a reliable bid, particularly as the Muni/Treasury ratio becomes more compelling at these elevated yields.</td></tr>
</table>

Return Outlook

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

Alternatives

<table>
<tr><th>Opportunity Set</th><th>Below Normal</th><th></th><th>Neutral</th><th></th><th>Above Normal</th></tr>
<tr><td>Hedge funds</td><td>○</td><td>○</td><td>○ →</td><td>●</td><td>○</td></tr>
<tr><td colspan="6">We have remained selective in identifying managers and strategies that have a demonstrated history of isolating alpha as a means to generating returns rather than exploiting prevailing beta risks. Due to the healthy amount of market dispersion, short portfolios have proven effective in serving as a positive source of alpha and absolute return, while many net long portfolios have not. Accordingly, we are looking to emphasize those strategies that provide net neutral/ low net long postures and/or access to more targeted and idiosyncratic catalysts and events. CTA managers, along with many macro strategies have provided positive returns in a difficult stock and bond environment. Hedge fund strategies have seen a boost in asset flows through the first half of 2022, as many investors have looked to these mandates for flexibility and downside protection amid the growing market uncertainty and sharp moves across capital markets.</td></tr>
<tr><td>Multi-asset class strategies (MACS)</td><td>○</td><td>○</td><td>●</td><td>○</td><td>○</td></tr>
<tr><td colspan="6">MACS saw mixed performance results during the quarter that ended on June 30. The first half of 2022 highlighted the value of aligning capital with managers and strategies that are adept in assessing and trading relative value across asset classes, both long and short, while those with long-only mandates suffered in the market declines. We believe the prevailing macro dynamics are likely to continue for some time, so we are emphasizing strategies that have a demonstrated history of tactically investing across asset classes and will look to trim and/or eliminate those that offer a less conducive risk-return profile.</td></tr>
<tr><td>Private equity</td><td>○</td><td>○</td><td>●</td><td>○</td><td>○</td></tr>
<tr><td colspan="6">Recent public equity drawdown is likely to produce some near-term performance drag on a mark-to-market valuation basis, although some sectors, such as early stage venture, may be impacted more moderately. Outlook unchanged with regards to the headwinds posed by rising rates and the negative effect on cost of capital on enterprise valuations. However, strong buyout cash flow operating businesses and compelling venture innovations are poised to be more resilient. Larger equity contributions resulting from increased cost of debt financing will enable transactions, but at the same time could lead to more moderate returns in the near term. Any sector and strategy-specific purchase price or financing round softening given changing economic conditions will continue to offer attractive entry points anticipated to pay dividends when exiting in future vintage years. Special situation investment opportunities remain well-positioned to perform in down market scenarios.</td></tr>
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Return Outlook

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

Alternatives

Opportunity Set	Below Normal		Neutral		Above Normal
Real estate	○	○	●	○	○
Outlook remains cautiously positive, but fundamentals will vary across property types. The industrial sector continues to be the prime contributor of asset class returns, largely driven by attractive income generation and the strength of the warehouse subsector. The near-term forecast for the multifamily sector remains strong, although bifurcated by region with the South and West driving performance. Both the industrial and multifamily sectors possess defensive attributes in a slowing economy and a measure of inflation buffering. Retail and office are likely to remain a drag on performance, as tenants continue to reassess their need for traditional office space and retailing will experience ongoing negative headwinds from the expansion of e-commerce and the current oversupply of assets. Further write-downs within these sectors should be anticipated. Alternative property types, such as single-family rental, self-storage, senior housing, medical office and studios, continue to benefit from strong fundamentals.					
Infrastructure	○	○	○	●	○
Infrastructure will continue to attract strong investor interest globally, due to positive income-generating and inflation-protecting qualities. Distributions are anticipated to remain on par with recent trends. Given large fund closings, the pace of fundraising is likely to slow for the remainder of the year. There may be some performance headwinds experienced from overpriced larger transactions, but favorable valuations remain in more niche sectors, as well as the small and mid-cap sized market. Economic essential sectors, such as communications, power and transportation, are anticipated to hold up better during near-term recessionary periods. Rapidly expanding private and public net zero carbon initiatives will continue to offer attractive opportunities to invest in energy transition, renewables power and energy storage.					
Commodities	○	○	●	○	○
Outlook remains positive in the near term with rising agricultural commodities and energy prices and moderating gold and industrial metal prices. Energy prices are expected to stay elevated due to geopolitical tensions affecting supplies and below five-year-average inventory levels. Market uncertainty from sanctions affecting Russia's oil production, OPEC decisions and the rate of U.S. oil and natural gas production increases will contribute to volatile conditions. Agricultural prices are likely to continue to rise in the near term, supported by strong demand and tighter supplies from lower crop production. Industrial metal prices are anticipated to continue to subside, due to weakening demand, increasing recession concerns and lower metals production related to energy-intensive smelting processes. Gold prices are positioned to revert to long-term averages as the Fed continues to raise rates.					

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Return Outlook

Key: Below Normal — Neutral — Above Normal

Alternatives

Opportunity Set	Below Normal		Neutral		Above Normal
Energy	○	○	○	●	○

Overall, the energy market is expected to remain positive over the near term. Oil and gas exploration and production companies' balance sheets are in relatively good condition and rising commodity prices provide revenue momentum. Midstream distribution and storage fundamentals appear particularly attractive, with increasing commodity demand increasing throughput volumes, while the sector trades at a discount to the broader equity market. Ongoing acceleration of clean energy initiatives will continue to support renewables' growing share of the total energy market despite constraints imposed by rising supply chain costs.

Opportunity Set	Below Normal		Neutral		Above Normal
Timber	○	○	●	○	○

Demand has been impacted by the Fed's higher interest rate policy, which will continue to result in a less favorable environment for single family residential construction as signaled by declining builder sentiment and declining housing starts. Although sustained increased consumer prices will continue to affect home-buyer spending patterns, timber values' positive correlation with inflation provides portfolio benefits in current conditions. An undersupply of single-family housing in the U.S. and increased acceptance of remote work arrangements are sector tailwinds, although increased input costs from lingering supply chain disruptions will impact affordability in the near term. Elevated sawmill capacity in the U.S. South and heightened acknowledgment of the carbon credit market by corporations are positives for income-based returns for timberland investors.

Opportunity Set	Below Normal		Neutral		Above Normal
Farmland	○	○	○	●	○

The overall outlook for farmland remains positive given strong land values, elevated commodity prices and increased focus on more sustainable and tech-driven agriculture production. Despite heightened market volatility, farmland values have remained relatively stable, suggesting that appetite and fundamental appreciation may serve to offset the effects of rising interest rates. The ongoing war in Ukraine and supply chain disruptions have driven increased commodity prices and supply/demand imbalances, which translates positively for domestic farm operators. Investor demand in the asset class remains strong due to its low volatility, favorable correlation with inflation and attractive income generation. Headwinds loom from more recurring and severe drought conditions brought on by ongoing climate change.

Questions? Contact Us.

To learn more about how our forward-looking views can help enhance your investment strategy, contact your Segal Marco Advisors consultant, Chief Investment Officer Sue Crotty or Catherine Hickey, Vice President, Communications and Intellectual Capital.

In Canada, contact your Segal Marco Advisors Canada consultant or Joe Cerullo, Senior Consultant.

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Who we are

Investors rely on Segal Marco Advisors to achieve their long-term goals and create better financial outcomes. We are an employee-owned, independent global investment consulting firm serving more than 600 clients with combined advisory assets exceeding $500 billion.

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