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FROM THE DESK OF ERIK OROS

This Friday marks the long-awaited start of the 2020/1 Olympics in Tokyo. Many hoped the games would serve exclamation point on the global emergence from the depths of the pandemic. This triumph has come under scrutiny from both the game's organizers and investors who have begun to question the durability of the global recovery.

Long Term Treasury Yields

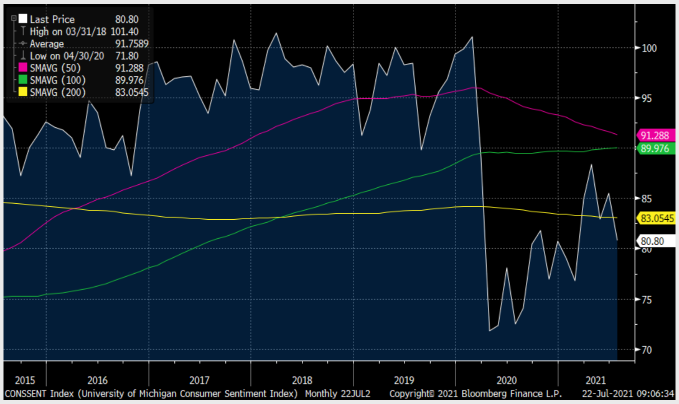
Nowhere has this uncertainty been more acutely reflected than in the Treasury Market. As investors focused on headline grabbing inflation prints, bottlenecks, and the potential for Fed Tightening, long term treasury yields have reversed violently lower in two short months. Many could have viewed June's Fed meeting as overtly hawkish, proclaimed by Chair

Powell as the "talking about talking about tapering" meeting. Yet the Fed's insistence that inflationary pressures remain temporary and resolve to maintain ultra-easy monetary conditions lessened concerns that the FOMC would be forced into preemptive tightening due to inflation. Faith in the Fed Put remains alive and well.

Two Year Forward Implied Policy Rate

The material reset in the long end of the treasury market has been attributed to factors beyond Fed-speak. Wall Street's zealous over-positioning towards the crowded "reflation trade" unwinding in dramatic fashion, disappointing employment data, and the uneven nature of the inflationary figures concentrated in used car prices and airlines tickets, are each undoubtedly important factors. However, perhaps most potent, as we enter what might be the fastest earnings growth quarter in nearly a century the dreaded word "peak" has begun to make its way into many investor's psyche.

University of Michigan Consumer Confidence

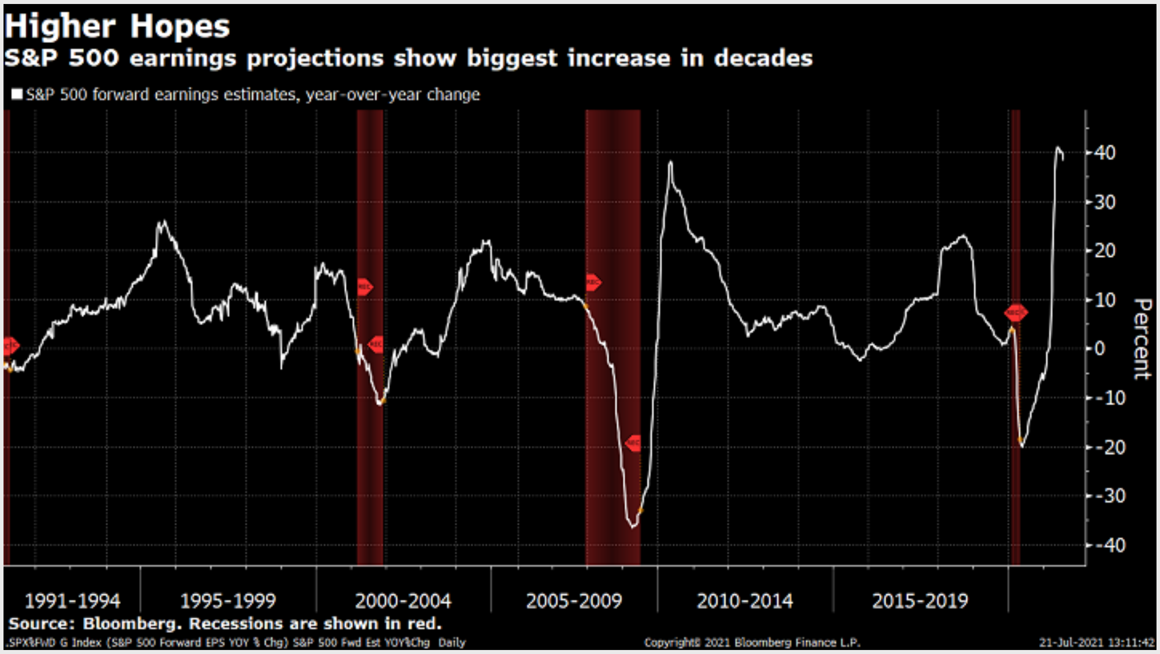


Citi Economic Surprise Index

In practice, the fears that growth may be as good as it gets are in many ways warranted and extend beyond economic momentum of the economy. Prospects for additional fiscal spending have been replaced by apprehension over higher taxes and fiscal drag. Fed tightening may not be imminent but is certainly on the horizon. The proliferation of the highly contagious Delta variant only adds to such uncertainty around the outlook into the back half of '21 and into next year.

While the bond market has certainly adjusted expectations for potential deceleration, as is often the case, no one remembered to tell bullish Wall Street equity analysts and macro forecasters. Margins, already near record highs are expected to push to new heights. Wall Street has forecasted 4.2% GDP growth in 2022 following 6.6% in 2021. As the reopening continues to conclusion and we lap very easy comparables it raises the question of whether the growth trajectory of the economy has materially accelerated over the medium to long term. A difficult case to make as uncertainty grows.

S&P Forward Earning Estimates, Y/Y Change



Indicator	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Economic Activity										
Real GDP (YoY%)	2.5	3.1	1.7	2.3	3.0	2.2	-3.5	6.6	4.2	2.4
Consumer Spending ...	3.0	3.8	2.8	2.6	2.7	2.4	-3.9	7.9	4.1	2.5
Government Spendin...	-0.9	1.8	1.8	0.9	1.8	2.3	1.1	1.9	1.9	1.2
Private Investment (...	5.6	5.5	-1.5	3.5	6.3	1.7	-5.2	10.7	6.3	3.4
Exports (YoY%)	4.2	0.4	0.3	3.9	3.0	-0.1	-12.9	5.5	6.2	5.0
Imports (YoY%)	5.0	5.2	1.7	4.7	4.1	1.1	-9.3	13.6	5.5	4.0
Industrial Production (Yo...	3.0	-1.4	-2.2	1.3	3.2		-7.0	6.1	4.3	2.4
Price Indices										
CPI (YoY%)	1.6	0.1	1.3	2.1	2.5	1.8	1.2	3.8	2.7	2.2
PCE Price Index (YoY%)							1.2	3.1	2.3	2.1
Core PCE (yoy%)	1.6	1.2	1.6	1.7	2.0	1.7	1.4	2.7	2.3	2.1

In such an environment where deceleration becomes a greater fear, multiple expansion, the driving force behind the past decades bull-market becomes all the more challenging. With valuations broadly at nose-bleed levels and the prospect for higher rates, investors must become more accustomed to a market where expected returns have the potential to be muted.

What if expected returns are lower? Undoubtedly, it is more important than ever to be focused on idiosyncratic vs. systemic risk factors. Investors may be wise to focus on those strategies, companies, and exposures whose outcomes depend more so on execution than the whims of the Mr. Market.

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