

TPW Investment Management

Global Macro Approach

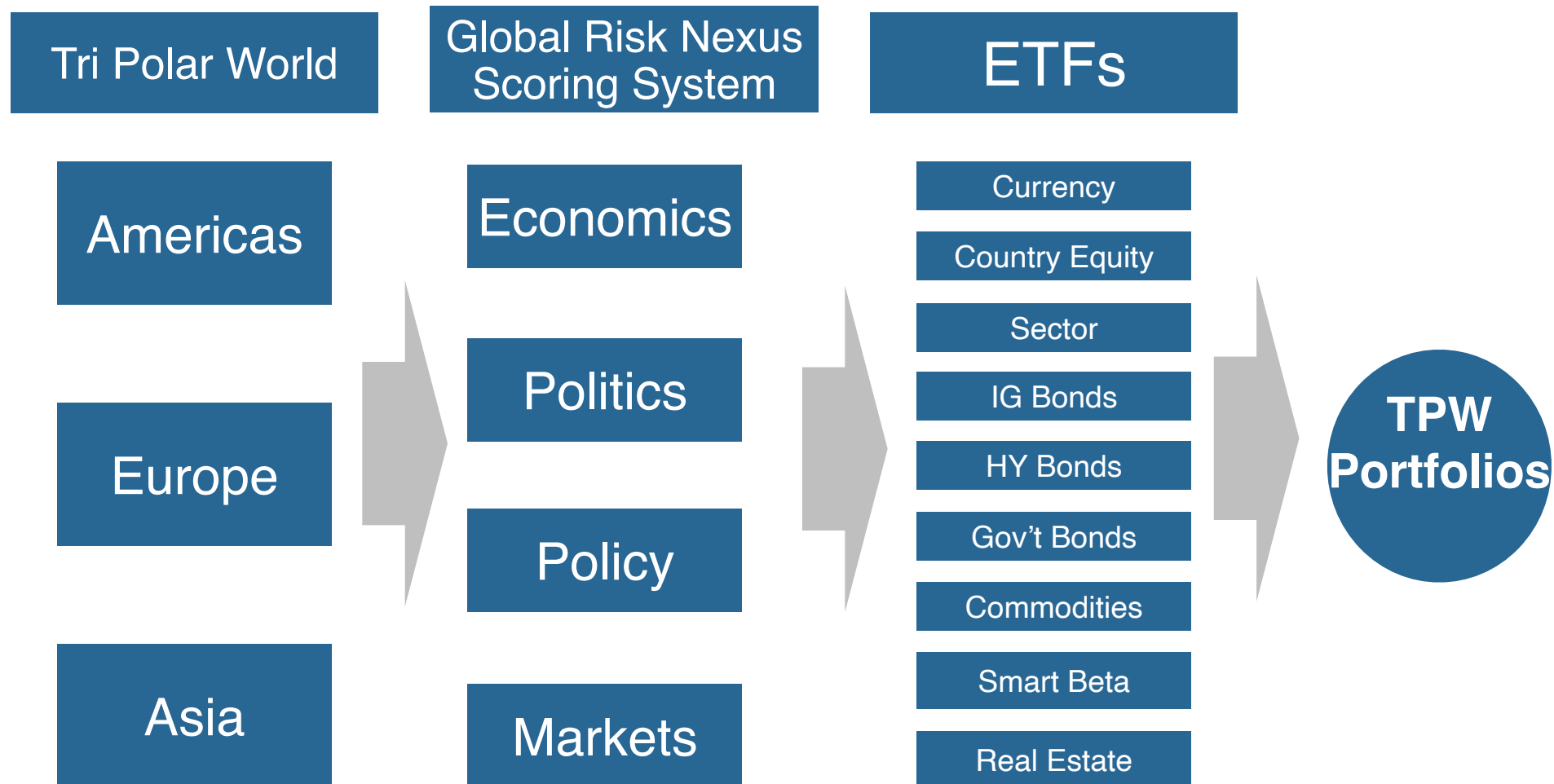
2021 Outlook: A Golden Age for Asset Allocation



Introduction

- TPW Investment Management (TPWIM) is a New York City based investment management firm led by former Morgan Stanley Global Strategist Jay Pelosky.
- TPWIM's mission is to simplify the complex world of Global Macro investing. We do this by employing our unique Tri Polar World (TPW) framework & proprietary Global Risk Nexus (GRN) Scoring System.
- TPWIM offers a range of global, multi asset investment management services including ETF based model portfolio delivery.

Our Mission: Making the Complex Simple



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2021 Outlook: A Golden Age for Asset Allocation

The Great Rotation Begins

- November equity surge just the beginning; US underperformance the tell.
- Multi year equity bull market, bond bear market underpinned by synchronized global economic BOOM - biggest in 50 years.
- Vaccines, record global liquidity & the melding of fiscal & monetary policy coupled with the rebirth of the global consumer provide the underpinnings.
- Overbought conditions coupled with euphoric sentiment suggest healthy, NT pullback. Absent vaccine related deaths, pullbacks should be bought.

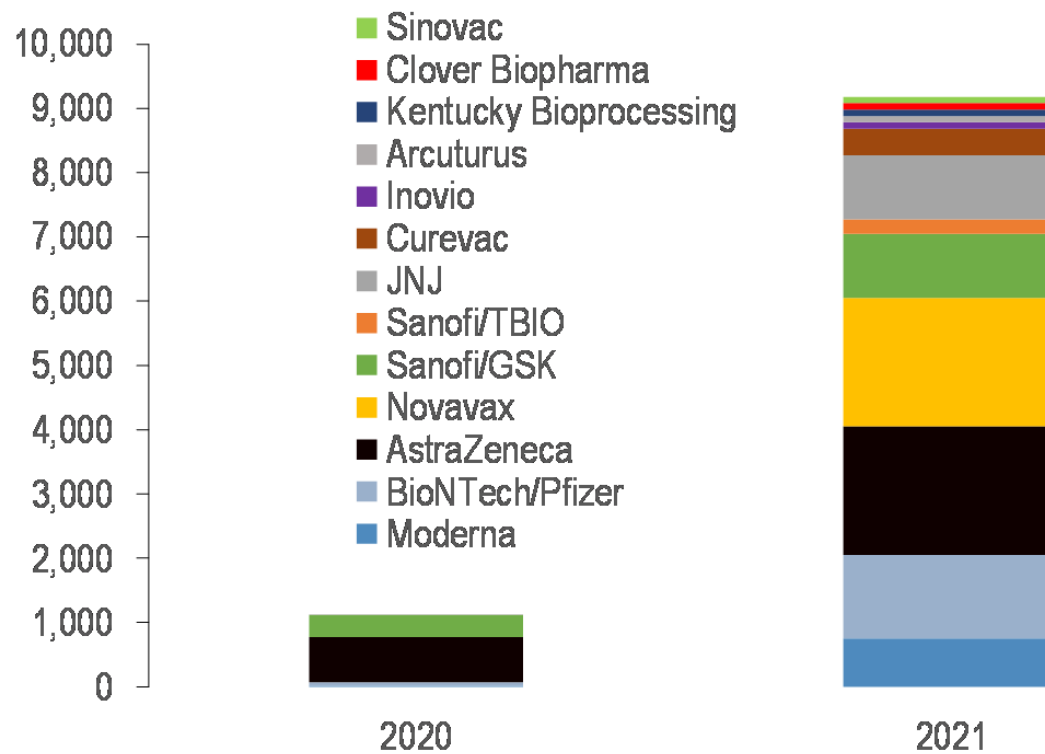
Global Risk Nexus - Health

Speed is Covid-19's Signature

- Vaccines in less than a year vs. the normal decade long process reflect the speed of science.
- Speed of delivery comes next and will leverage the global logistics system.
- Expect mass vaccine acceptance as 1st responders are successfully inoculated.
- Herd immunity likely by Q2-3 in US, Europe and Asia.
- Its often darkest before dawn- that's where we are today with Covid-19.

Herd Immunity by Q2-3?

Vaccine capacity (millions of doses) for 2020 & 2021 as announced by drugmakers



Source: Source: J.P. Morgan, [COVID-19 compendium: Vaccine & therapeutic landscape](#) by Kasimov et al from Oct 2020

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Global Risk Nexus - Economics

- 2021 Global GDP growth likely 6% + (MS forecast 6.4%), best since 1973.
- Inflation surprises to upside as Central Banks' AIT strategy lets it run hot.
- Excess global savings = 7-10% of GDP to support consumption.
- Both US and China will support their working class - good economics and politics.
- Vaccines stimulate service sector catch up to strong manufacturing side.

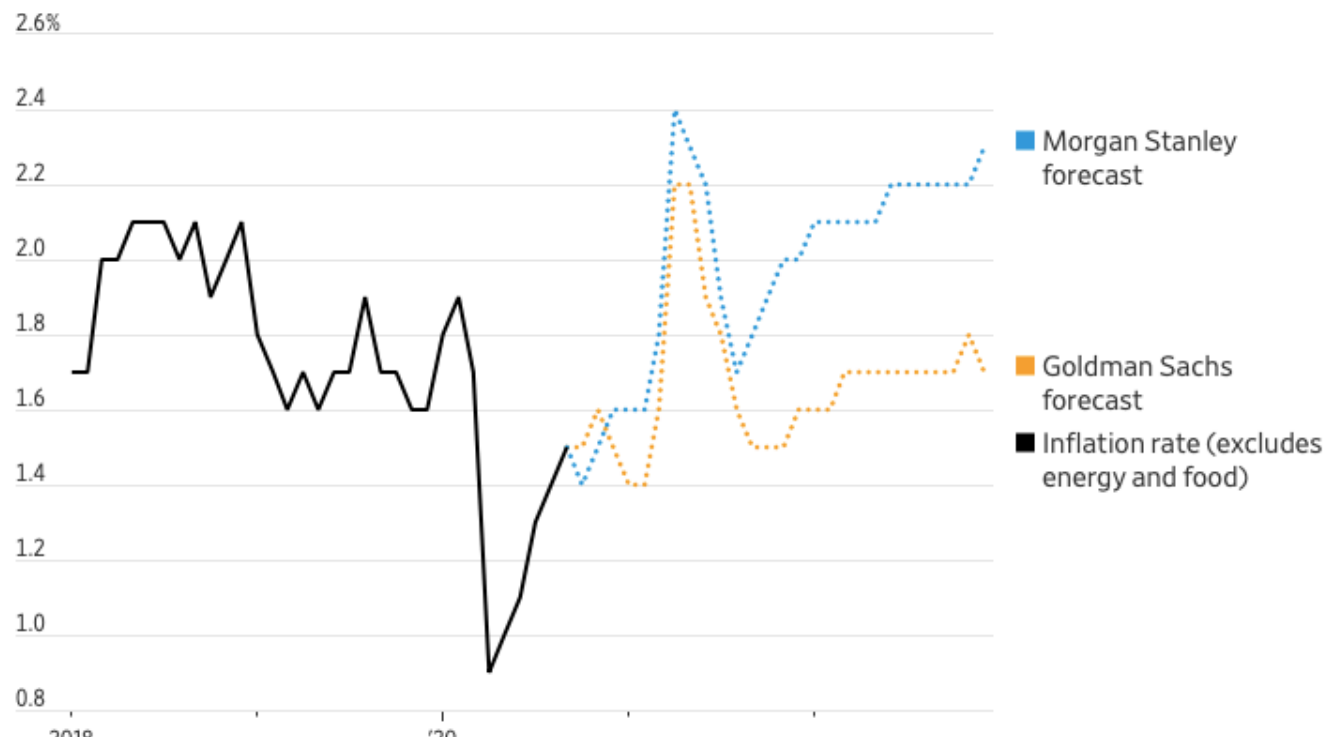
US Fiscal Cliff Risk



Source: BofA Research Investment Committee, Bloomberg

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Inflation Surprise Ahead?



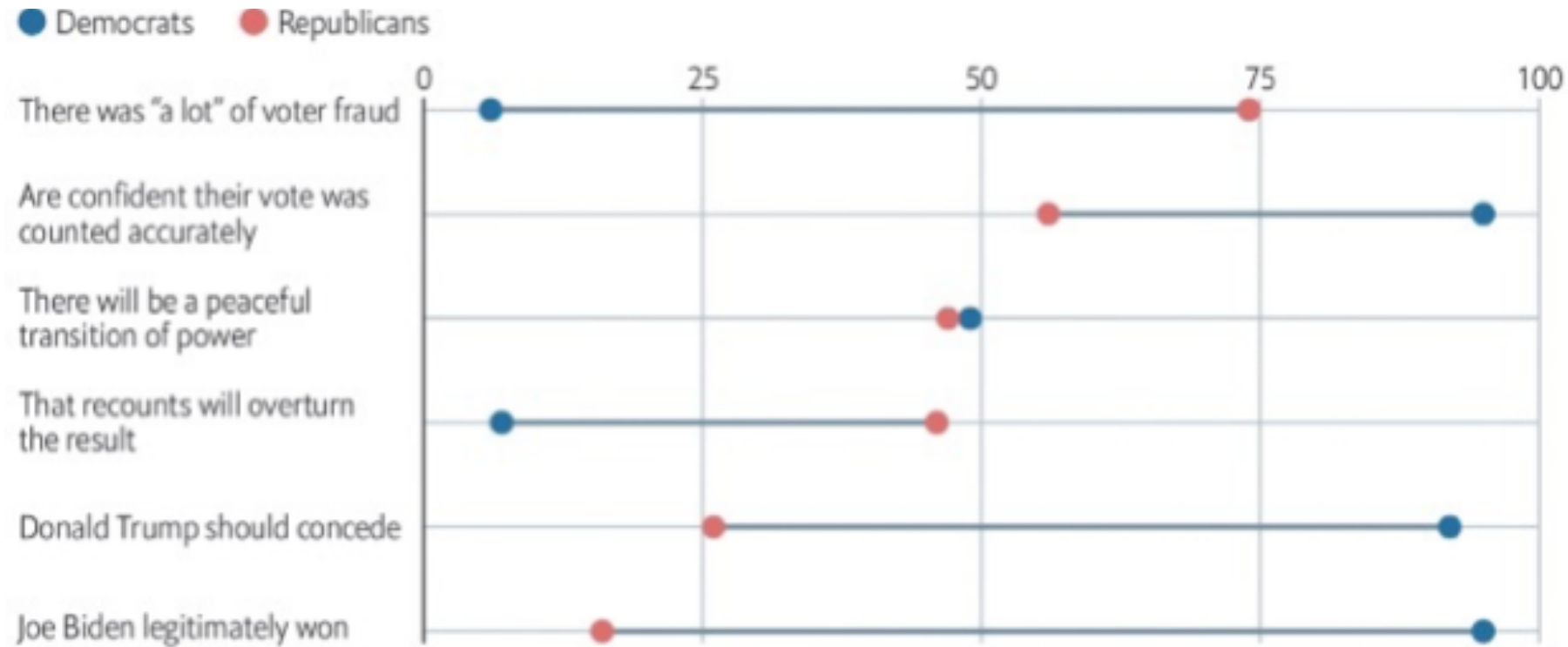
Source: Commerce Department, Morgan Stanley, Goldman Sachs

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Global Risk Nexus - Politics

- Pres. Elect Biden's DC knowledge, the situation he inherits and the economic team he has assembled suggest an active Administration even with a split government (tbd).
- Partisan gridlock, appealing to some, would simply ensure that the US/ Americas fall further and further behind Asia and Europe in a rapidly integrating Tri Polar World.
- Expect the EU's Next Generation Plan to be put in place coupled with a deal on Brexit. Europe has chance to win the 2020s; policy execution the key.
- RCEP boosts Japan, reinforces Asian supply chains and puts China in the drivers' seat of Asian integration.

US: A Post Truth Nation?



Source: YouGov/Economist

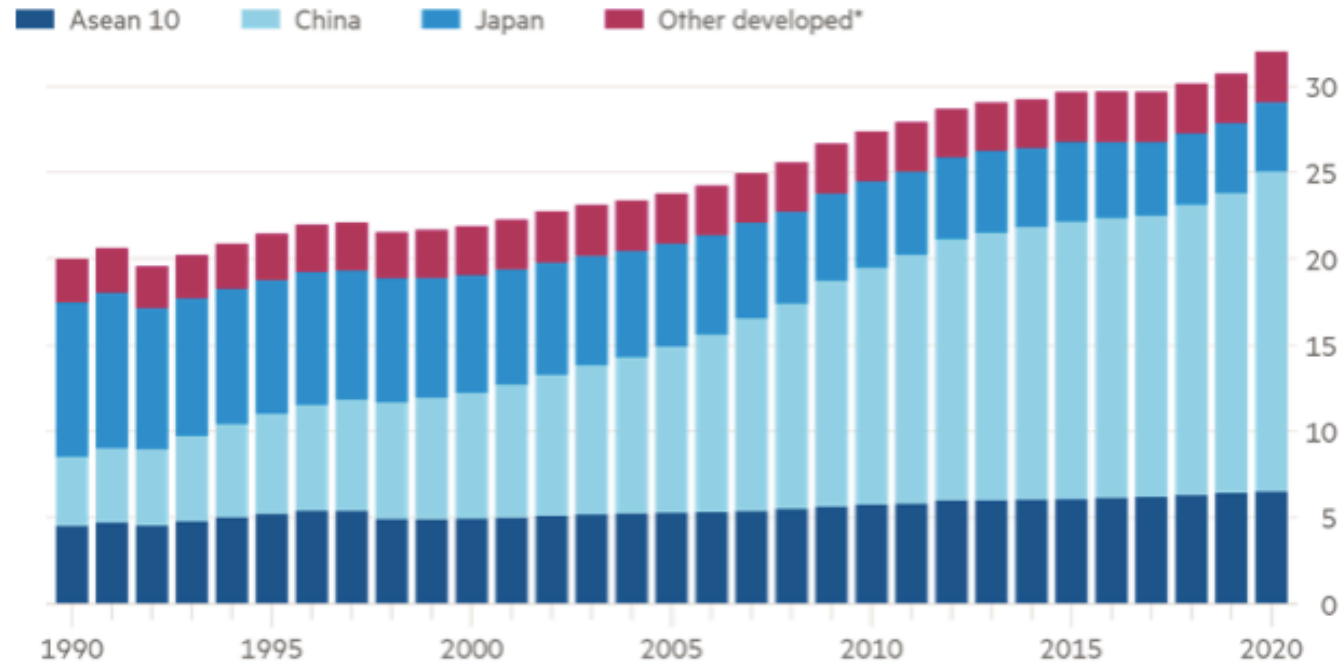
Global Risk Nexus - Policy

- Health policy leads, fiscal policy follows, monetary policy in 3rd place - it's a new world.
- Biden likely to go big on fiscal stimulus (infrastructure and climate) with a focus on full employment - good economics & politics.
- EU Green Deal/JRF likewise ties fiscal and climate together: joint issuance > joint taxation > EU safe asset.
- China's Dual Circulation Strategy (DCS) > stimulates domestic demand > higher rates > strong FX —> good for Asia and the global economy.

Asian Integration Leads the Tri Polar World

The RCEP area now accounts for a third of the global economy

Share of world GDP, at purchasing power parity (%)



* Australia, New Zealand, S Korea

Source: IMF

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Global Risk Nexus – Markets

- Death of Global Macro - Hell No. Golden opportunity for asset allocation/ thematic to add alpha.
- Global economic BOOM suggests Global Equities and Commodities offer best risk-reward.
- We call time on the 40 year bond bull market and expect 10yr UST to yield 1.75% - 2.0% by YE; 2021 YE consensus at 1.2% is way off.
- Vaccines and rising rates = tech “kryptonite”; watch for broad ESG taint given tech exposure.
- Further USD weakness likely; incipient TPW regional FX blocs: Asia/RMB, Europe/Euro, Americas/USD, becoming visible.

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Global Risk Nexus – Markets II

- Great Rotation more than just a trade; decade long US OP gives way to non US equity leadership (Europe-Japan).
- Favor Cyclical / Value, Small Caps, Asia/Lat Am in EM.
- Bond bear market painful for 60-40, Risk Party, etc. Fixed Income focus: US HY, Prefs, EM \$ Debt, Comm RE. Death of Office is dead wrong.
- Commodities in Bull Market- so says Dr. Copper. Favor Industrial Metals, Energy- both clean and fossil, precious metals (Silver, Gold Miners).
- Risks- No more Wall of Worry, Pre emptive Fiscal Tightening, Equity Valuation.

Some Context for 2021 Returns

Table 2: Expected returns outlook 2021

	Base	Bull	Bear
Equities	10%-16%	>20%	<-10%
High yield	6%-8%	>10%	<0%
Investment grade	2%-3%	4%-6%	<0%
Emerging market debt	5%-7%	>10%	<0%
Commodities	8%-12%	>20%	<-10%
Government bonds	-3% < - < -1%	-5% < - < -2%	2%-4%

Source: Robeco. November 2020.

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Global Rotation Leads to Asset Allocation Golden Age



Source: Bloomberg

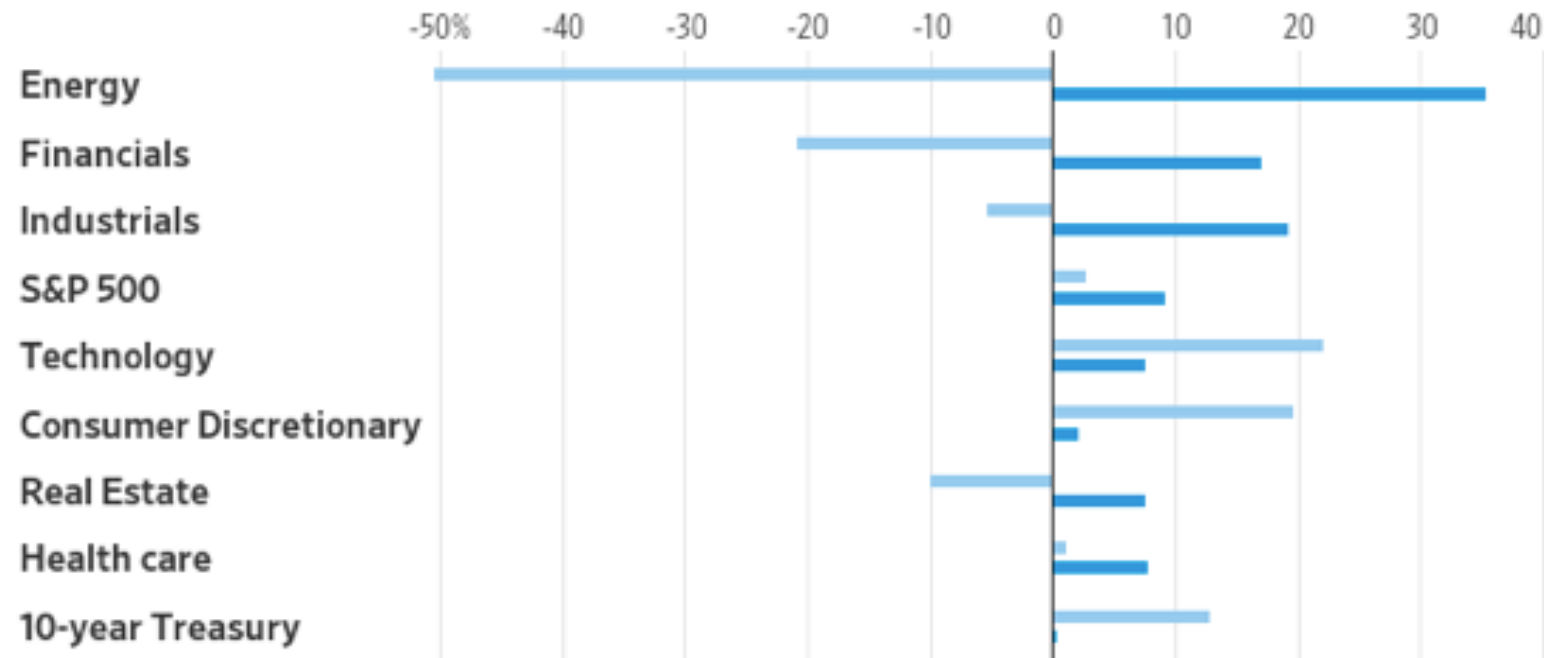
Note: The P/E ratio is based on 10-year trailing average earnings, adjusted for inflation.

Rotation in Action - Early Innings

November's Vaccine Rebound

Total return, selected S&P 500 sectors

■ Year-through-October ■ November*



*Through Friday

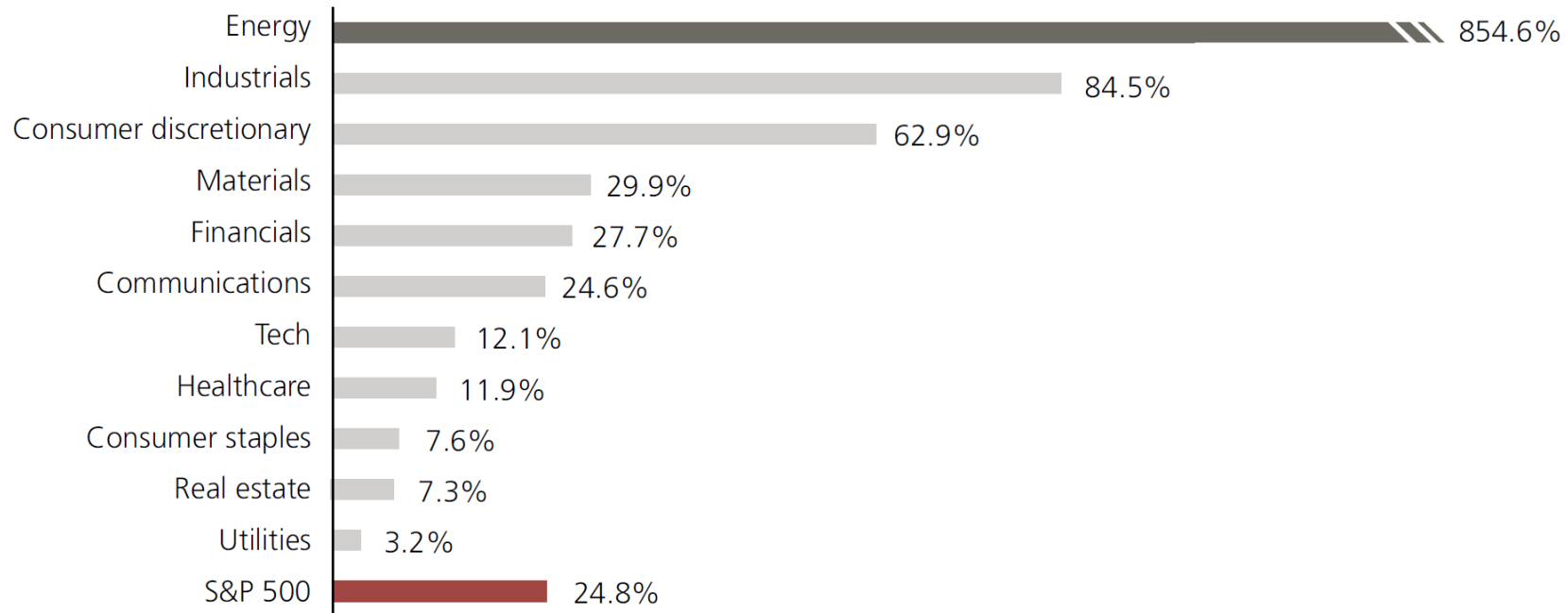
Source:Refinitiv

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EPS Growth Support Rotation - Note Tech

Cyclicals should see higher earnings growth than defensives and technology

Consensus earnings per share growth in 2021, in %

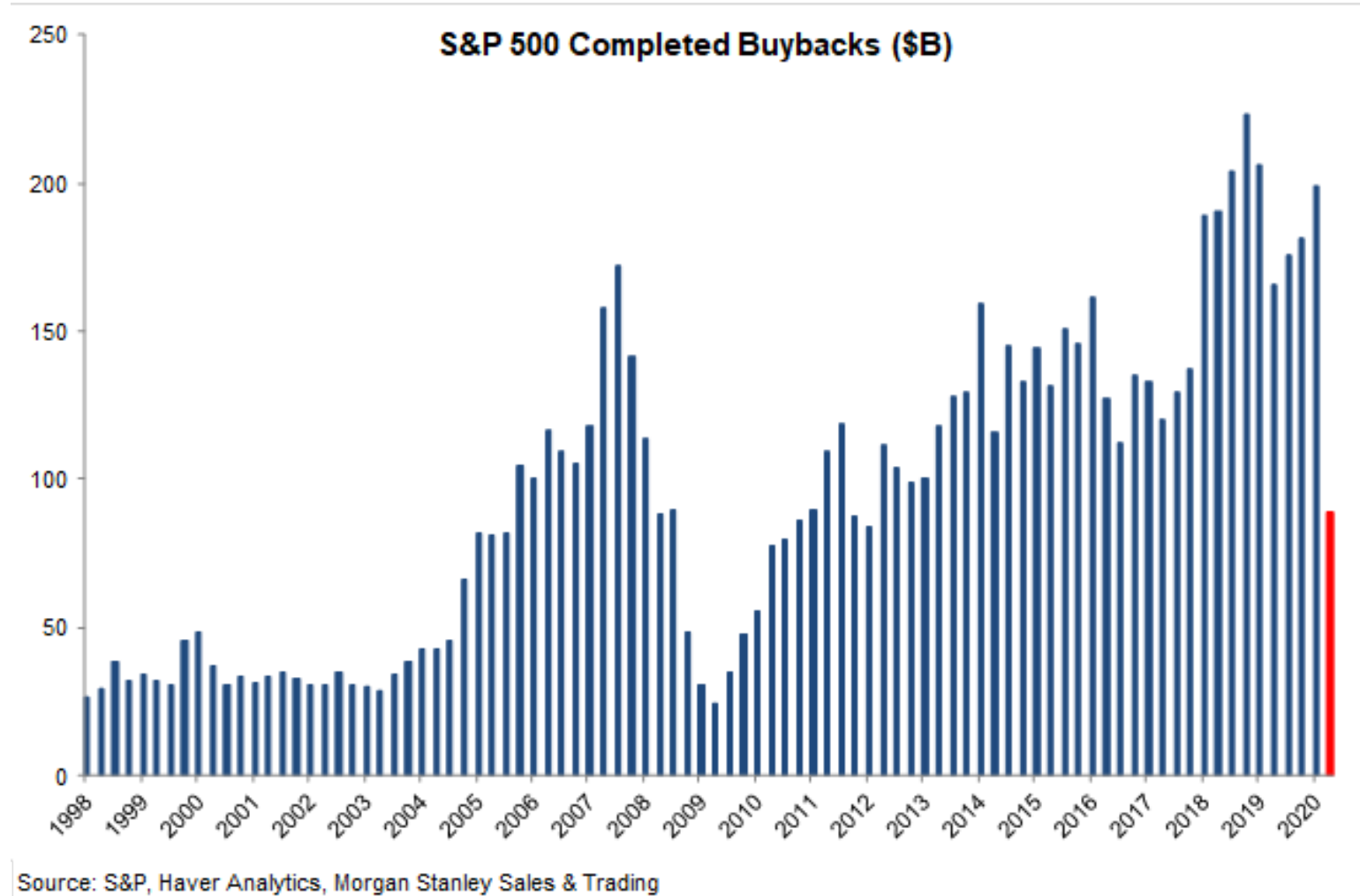


Source: FactSet, UBS as of 12 October 2020

Source: All Star Charts

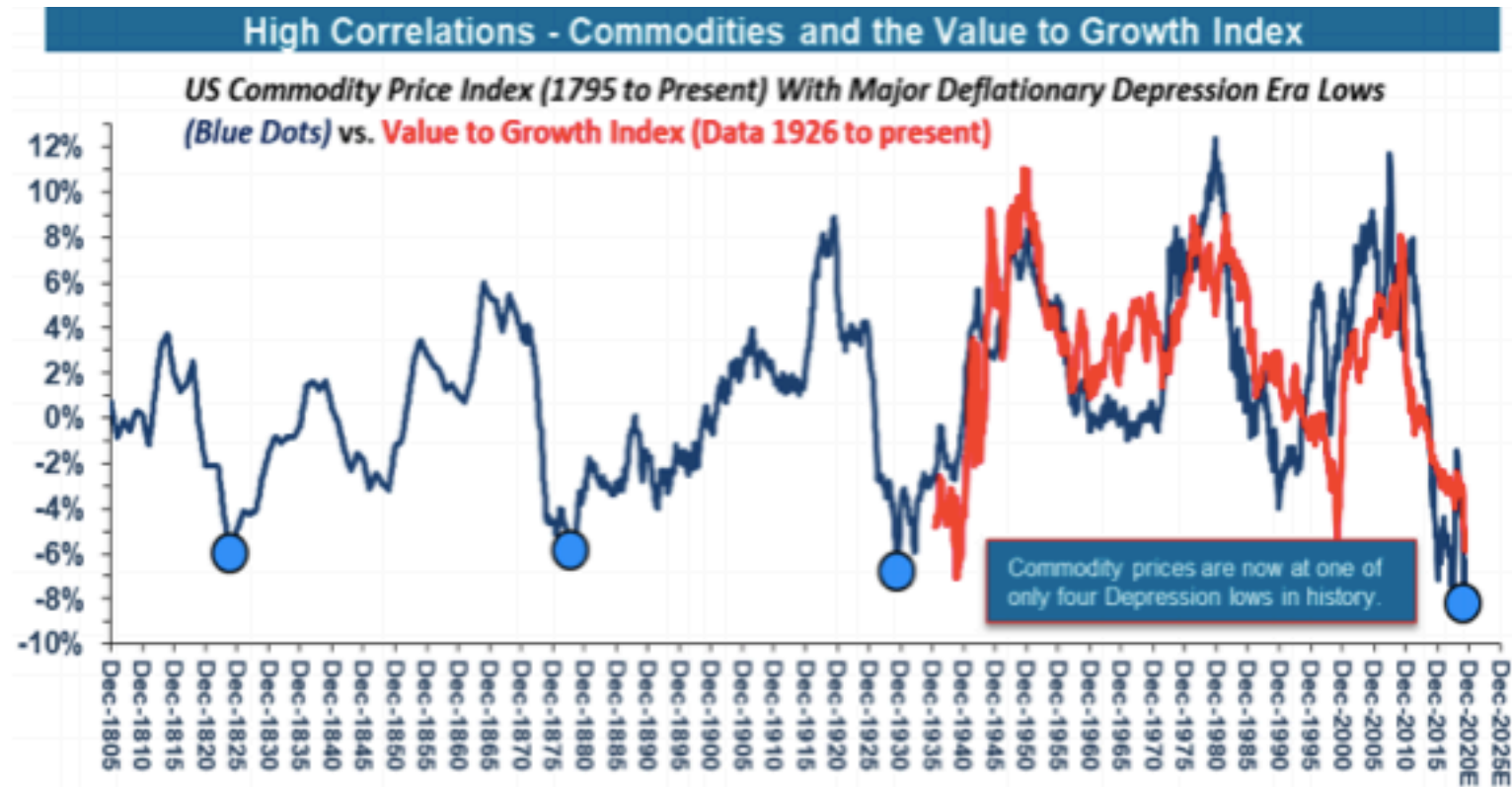
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GDP Boom Joined by EPS and Buyback Boom



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Value Stocks & Global Commodities Lead the Way

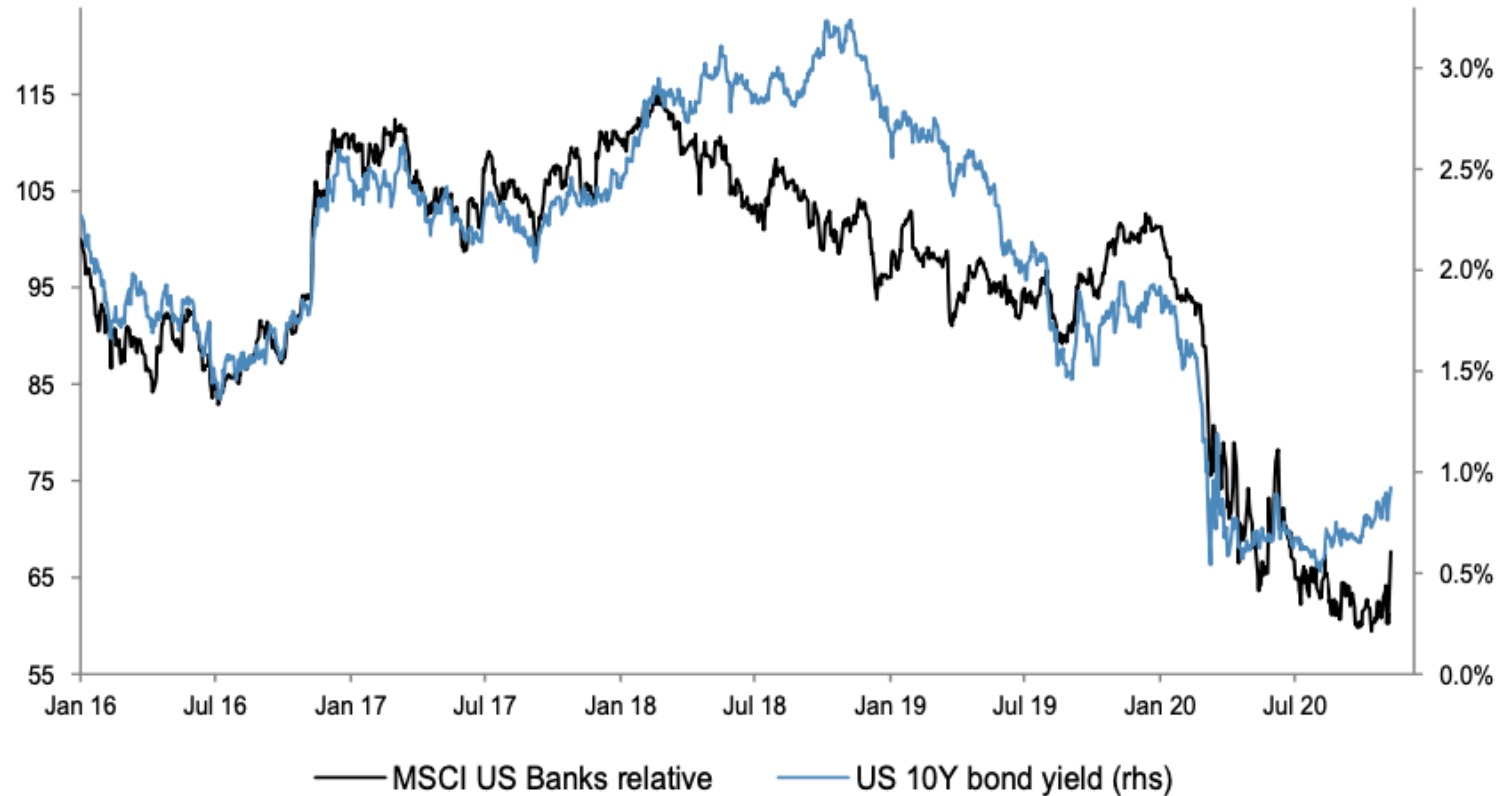


Source: Stifel Equity Research. Last data point June 30, 2020 (latest data available). Blue line represents US Commodity Price Index, a weighted average of selected commodity prices. Indices used in Stifel research: Warren & Pearson Commodity Index (1795-1912), WPI Commodities (1913-1925), equal-weighted (1/3 ea.) PPI Energy, PPI Farm Products and PPI Metals (Ferrous and Non-Ferrous) ex-precious metals (1926-1956), Refinitiv Equal Weight (CCI) Index (1956-994), and Refinitiv Core Commodity CRB Index (1994 to present). Value vs. Growth links the Fama/French (Dartmouth/Tuck web-hosted) series from 1926-77 and the Russell 1000 Total Return Index 1978 to present.

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Rates Are the Fulcrum for the Great Rotation

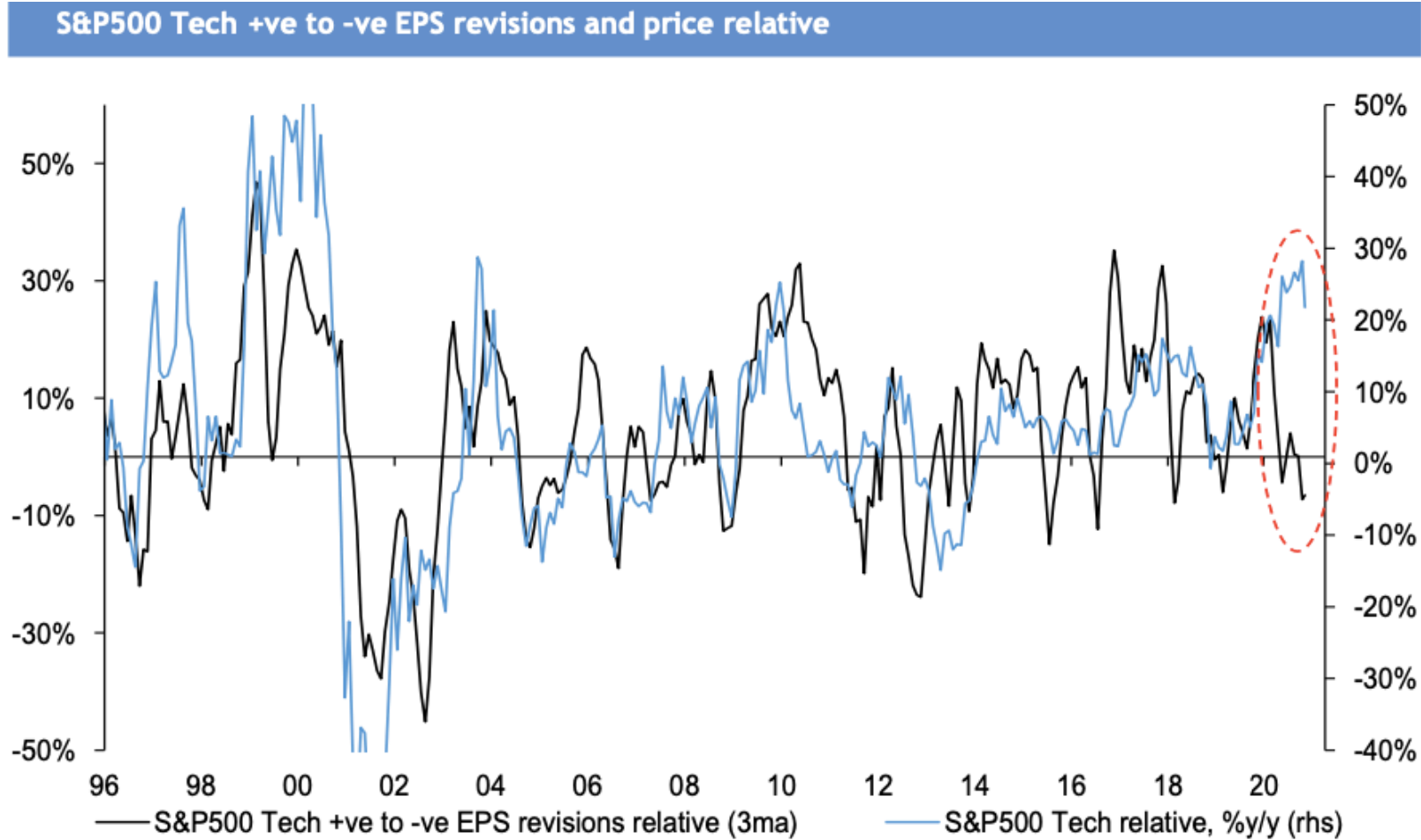
MSCI US Banks relative and 10Y bond yield



Source: Bloomberg Finance L.P.

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Tech Very Exposed to WFH Reversal



Source: IBES

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Long Bond Bear Market Ahead



Source: BofA Global Investment Strategy, Bloomberg

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UST Supply/Demand Imbalance Fuels Higher Rates

Table 1: Treasury supply now much greater than Fed purchases

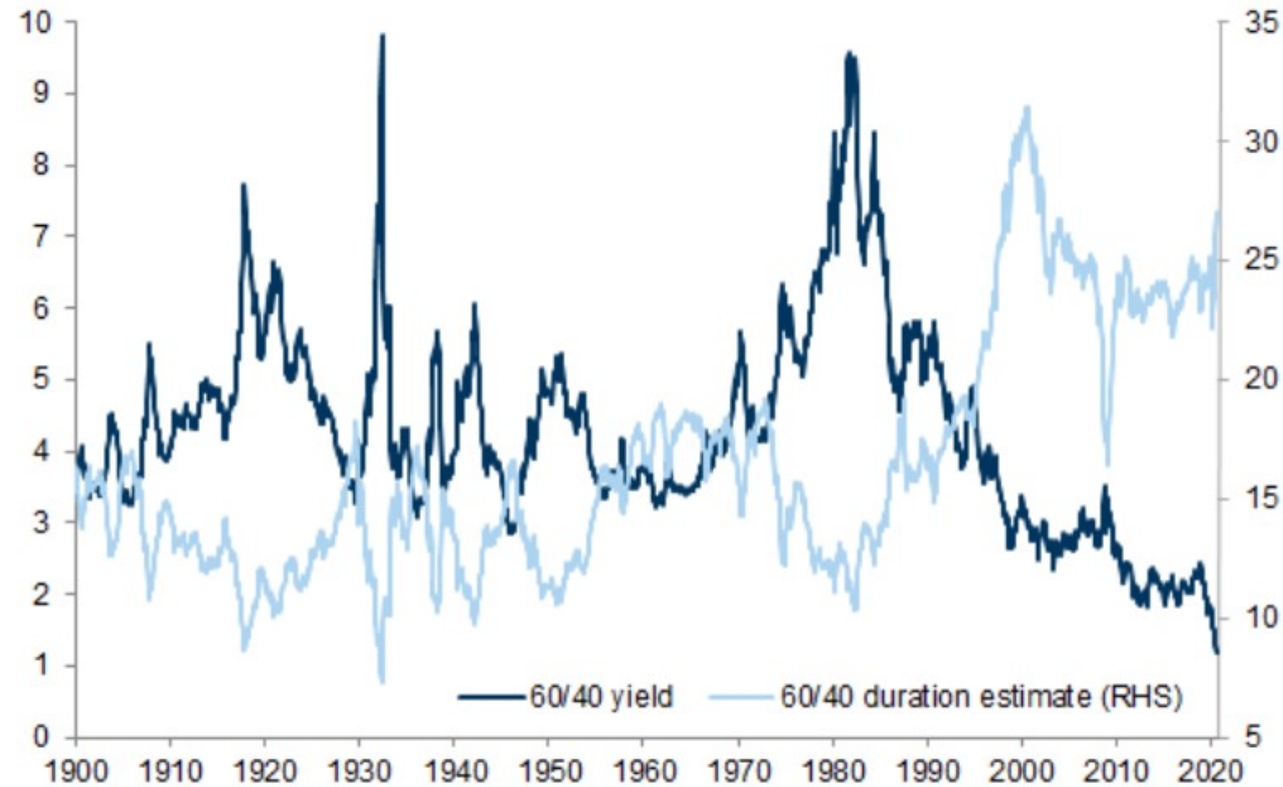
	Net Treasury Supply (\$bn)	Fed Treasury Purchases (\$bn)
3Q '20	504	233
4Q '20	625	237
1Q '21	597	240
2Q '21	618	240
3Q '21	572	240
4Q '21	584	240

Source: BofA Global Research, Federal Reserve

Bond Bear Market Forces 60-40, Risk Parity Rethink

Exhibit 6 : Duration risk for a standard US 60/40 portfolio has increased materially

Data for US (60% S&P 500, 40% US 10-year bonds)

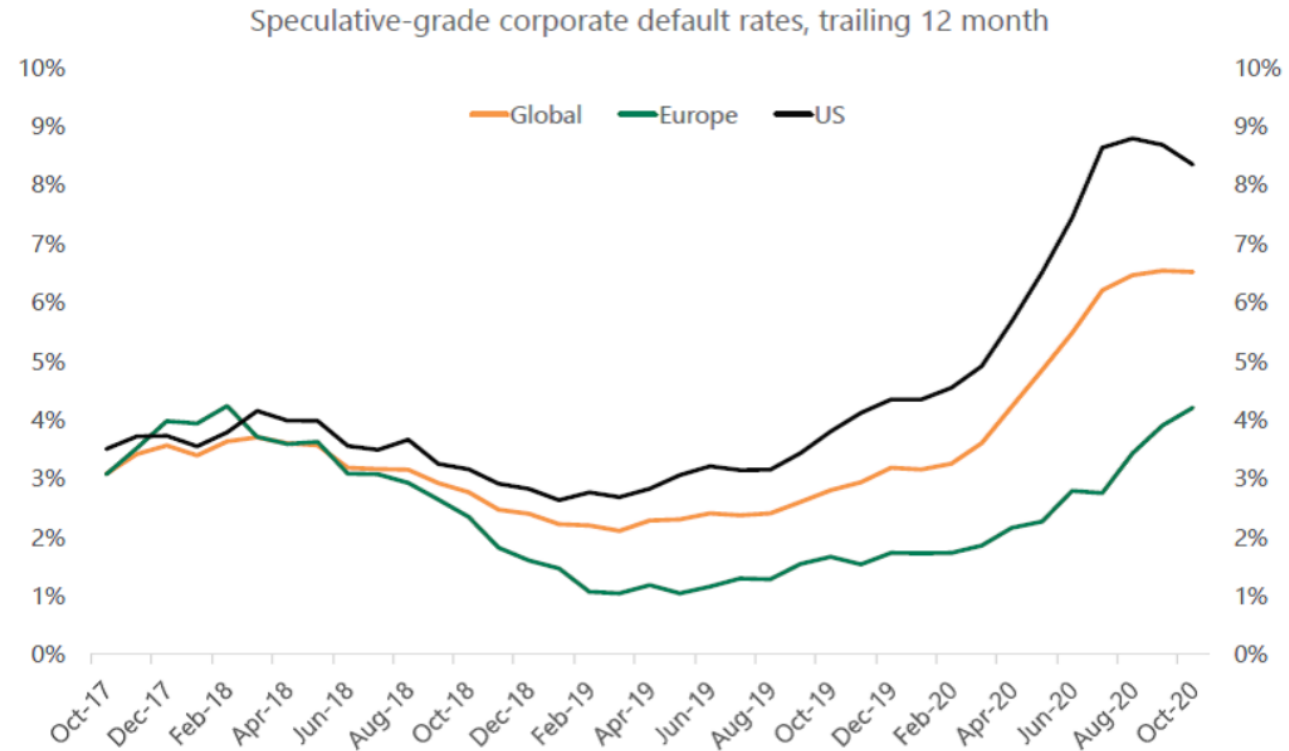


Source: Robert Shiller, Goldman Sachs Global Investment Research

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Prefer HY Credit to Sovereign

Default rates continue to move lower



Source: Moody's, Apollo Chief Economist

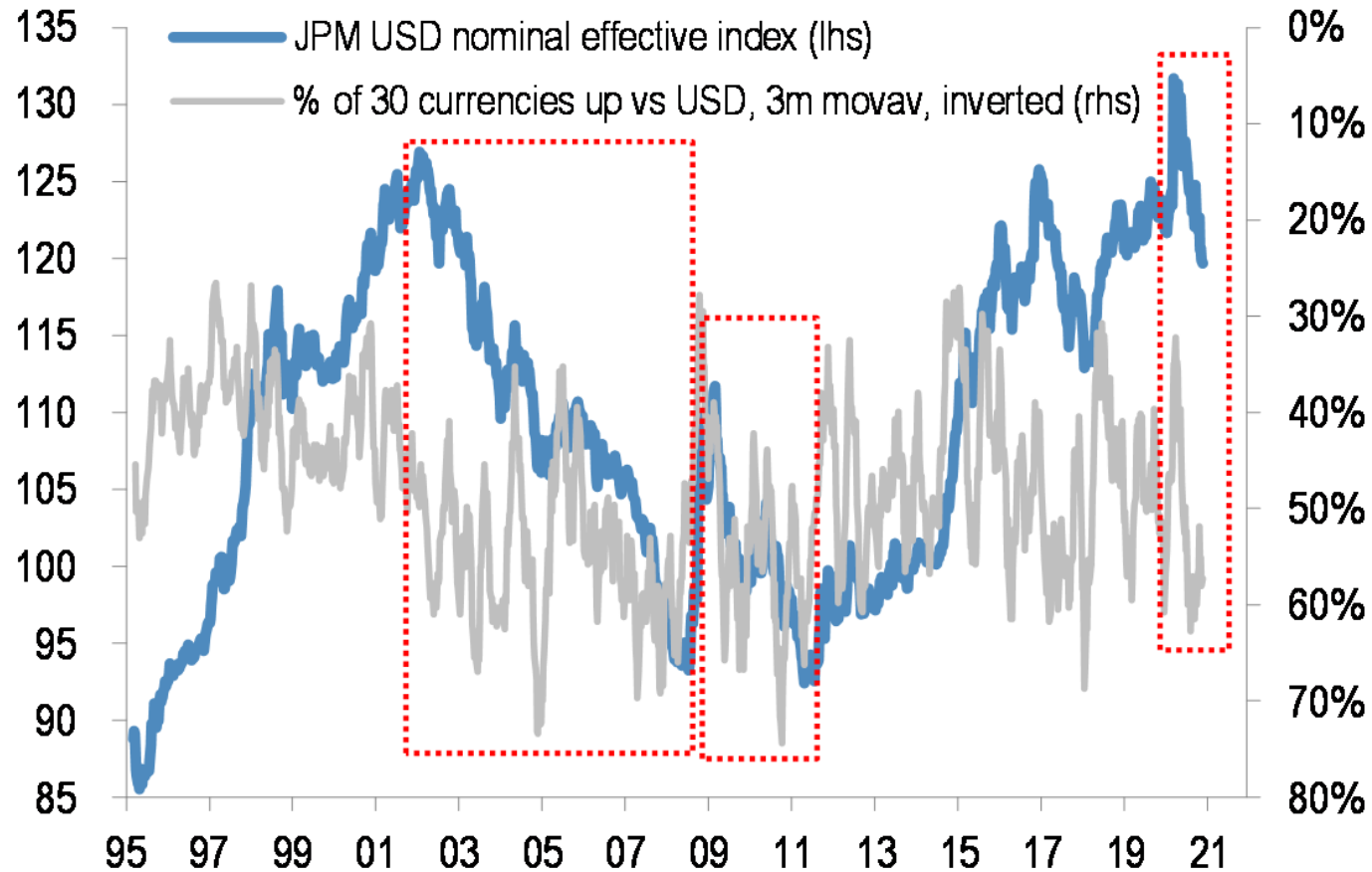
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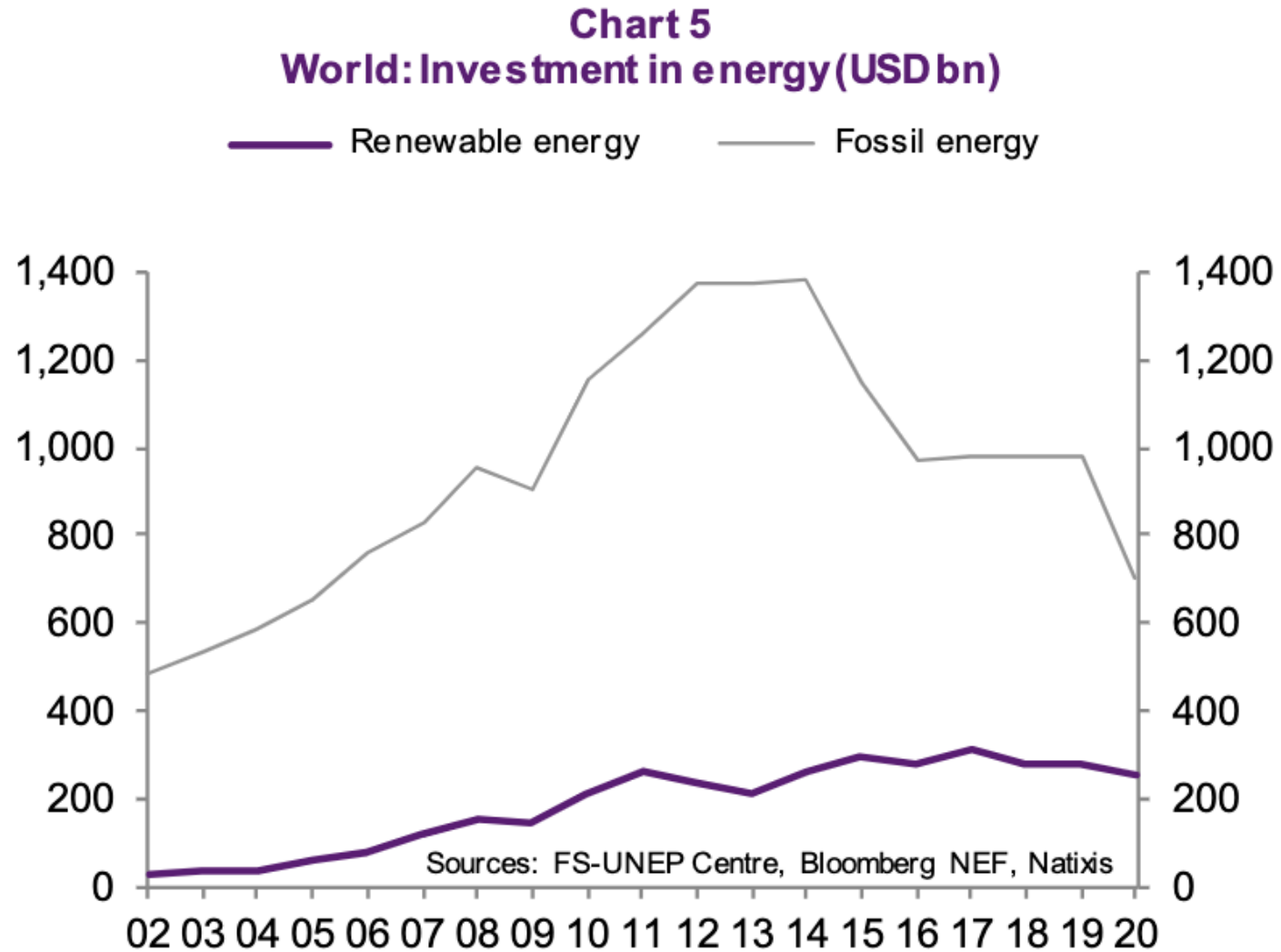
Dollar Weakness Likely to Continue



Source: J.P. Morgan

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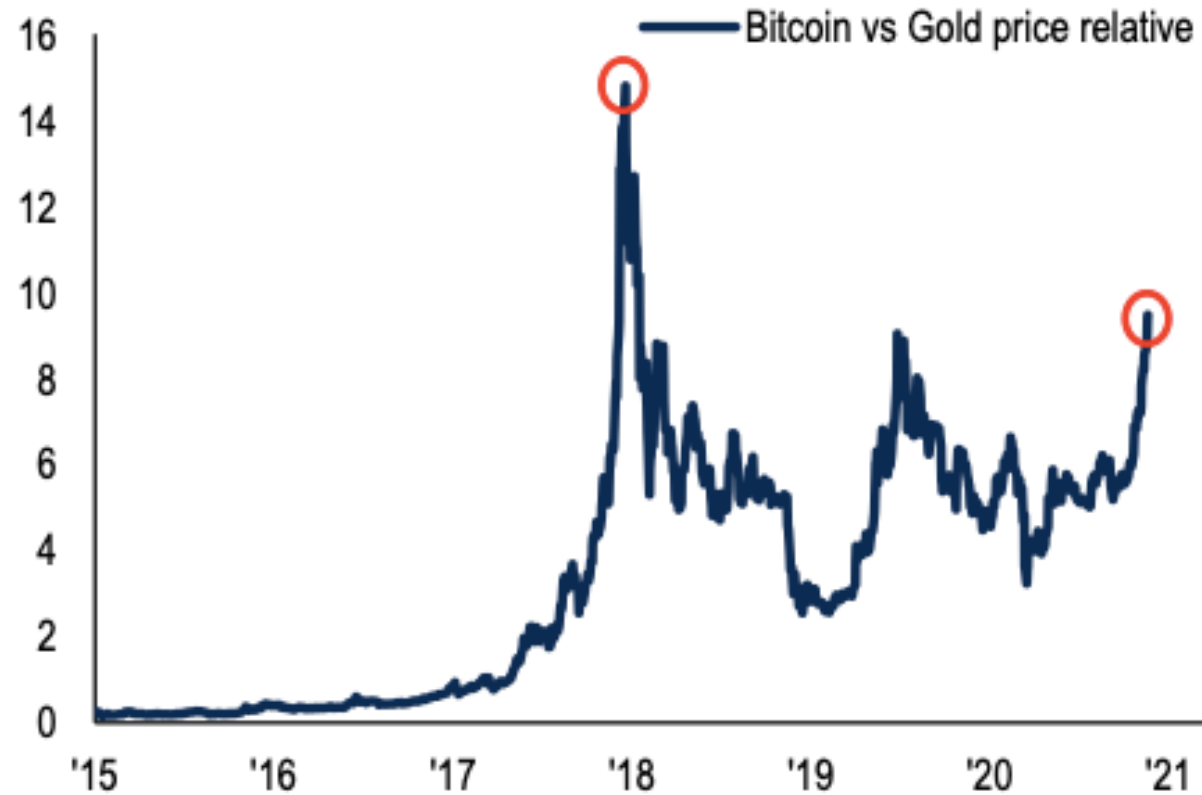
Opportunity in Both Clean & Fossil Energy



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Bitcoin/Gold Compete As Hedges

Chart 4: Bitcoin, gold, & DXY harbingers of higher volatility & yields



Source: BofA Global Investment Strategy, Bloomberg

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Disclosure

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Gross composite returns are calculated gross of investment management fees, net of investment trading expenses and underlying fund costs but does not reflect the effect of income taxes on the investment returns. Actual performance results will be reduced by fees including, but not limited to, investment management fees and other costs such as custodial, reporting, evaluation and advisory services. Performance reflects the reinvestment of dividends, income and capital appreciation. Composite returns are calculated monthly using the time weighted total rate of return methodology. Monthly returns are geometrically linked to calculate quarterly and annual returns.

As fees are deducted quarterly, the compounding effect will be to increase or decrease their impact by an amount directly related to gross portfolio performance, and dependent on direction, magnitude, and order of returns. For example, on a portfolio with a 2% annual fee, if gross performance is 10%, and performance is equally distributed across all four quarters, the compounding effect of the fees will result in net annual performance of 7.81%.

There can be no assurance that the purchase of the securities in this portfolio will be profitable, either individually or in the aggregate, or that such purchases will be more profitable than alternative investments. Investment in any TPWIM Portfolios, or any other investment or investment strategy involves risk, including the loss of principal; and there is no guarantee that investment in TPWIM's Portfolios, or any other investment strategy will be profitable for a client's or prospective client's portfolio. Investments in TPWIM's Portfolios, or any other investment or investment strategy, are not deposits of a bank, savings and loan or credit union; are not issued by, guaranteed by, or obligations of a bank, savings and loan, or credit union; and are not insured or guaranteed by the FDIC, SIPC, NCUSIF or any other agency.

The investment decision-making process has remained intact and has been applied consistently since inception. No leverage, derivatives, or shorts are used. Past performance is not indicative of future results. A copy of the verification letter is available upon request.

*The **TPWIM Global Macro Multi Asset (GMMA) Benchmark** is comprised of 50% MSCI ACWI, 30% Bloomberg Barclays US Bond Aggregate Total Return Index, 10% Bloomberg Barclays Global-Aggregate Total Return Ex US Index Hedged, & 10% S&P GSCI, rebalanced monthly. The MSCI ACWI Index is a free float adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Bloomberg Barclays US Bond Aggregate (LBUSTRUU) is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The Bloomberg Barclays Global-Aggregate Ex US Total Return Index Hedged (BGXUTRUH) measures the performance of global investment grade debt from 23 local currency markets. The S&P GSCI® is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully collateralized basis with full reinvestment. The GMMA Benchmark returns do not include fees or expenses that are associated with managed accounts. You cannot invest directly into an index. A more detailed description of the benchmarks constituents is available upon request.*