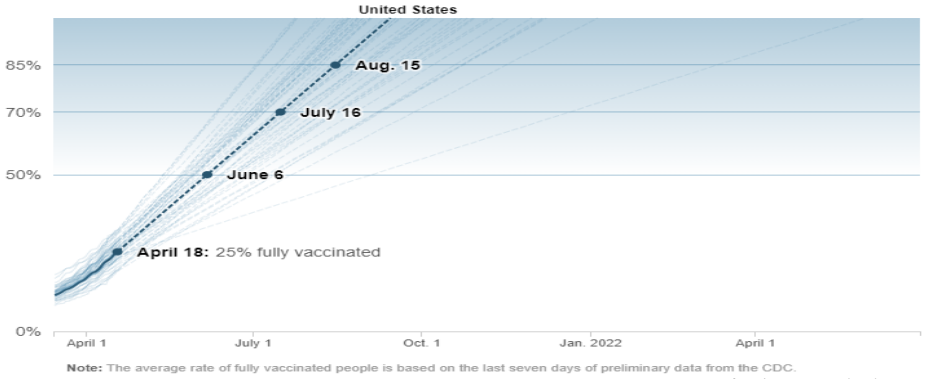
Matthew Rubin
Managing Partner,
Chief Investment Officer
mrubin@matrixpcg.com

Ing-Chea Ang
Director, Quantitative
Research & Investments
iang@matrixpcg.com

THEMATIC OUTLOOK - APRIL 2021

We are positioning for broad recoveries in the U.S. and global economies as the world transitions to a post-Covid reality. The developed world (led by the U.S. and U.K.) is edging towards herd immunity and we believe industries that suffered most over the past year can benefit significantly. Additionally, ultra-accommodative monetary policies and fiscal stimulus in the U.S. will likely benefit industries disproportionately, creating winners and losers. As such, some areas we like are tied to 'main street' recovery such as homebuilders, 'brick-and-mortar' retailers, banks, and transportation.

Display 1: CDC Projects Herd Immunity by Fall

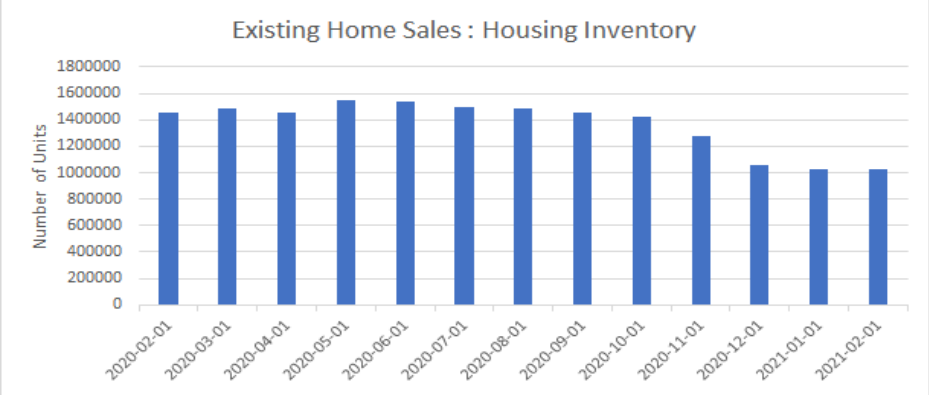


Source: Center for Disease Control and Prevention

Homebuilders

Residential home demand is currently far exceeding supply this year. According to Freddie Mac, there is a shortage in excess of 3.8 million homes, representing a 52% rise above 2018 levels. This deficit is driven both by a dearth of construction over the past decade, in addition to a surge in demand from upgrades and first-time buyers. Correspondingly, we have seen building permits hit the highest levels since 2006, outpacing new construction for eight consecutive months. Our positive outlook is reinforced by the most recent read of the NAHB index, a gauge of homebuilder sentiment, which rose to a reading of 83 in April from 82 in March. Homebuilders are optimistic that revenues will be more than enough to offset rising materials costs, especially lumber.

Display 2: Housing Inventory is Tight as a Result of Supply-Demand Dynamics



Source: National Association of Realtors

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
311 W. Monroe Street, Suite 304
Chicago, IL 60606

Palm Beach
101 Northpoint Parkway West
Palm Beach, FL 33407

Los Angeles
10250 Constellation Blvd
Los Angeles, CA 90067

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP

'Brick-and-Mortar' Retailers

The American consumer is the main driver of the U.S. economy and makes up more than 70% of GDP. Unlike many previous recessions, the U.S. consumer has actually improved its balance sheets during the pandemic by increasing savings over the past year (Display 3). Strong balance sheets imply that businesses, especially those with store-fronts that were materially hurt, might see a strong rebound this year as consumers release pent-up demand. In addition, we believe the most recent round of fiscal stimulus checks will gradually flow back into the real economy through more spending. The combination of tailwinds can benefit a broad host of industries including apparel, automotive, computer and electronics, and department stores, many of which have seen trough earnings and valuations during the pandemic.

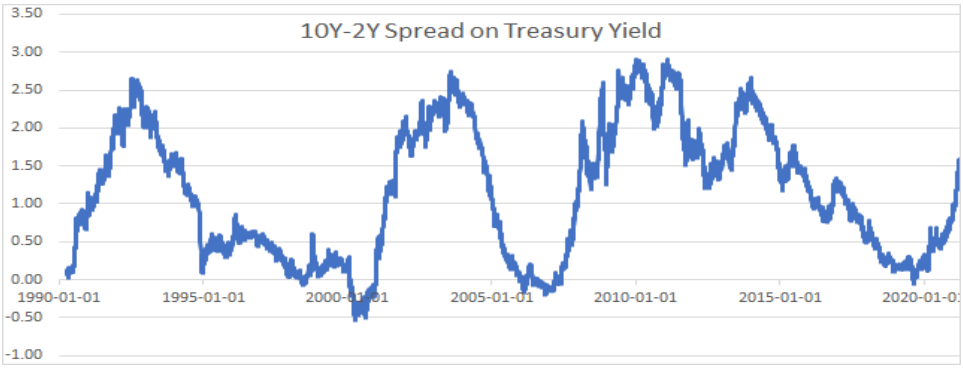
Display 3: American Savings Rate Ballooned During Pandemic

Source: U.S. Bureau of Economic Analysis

Banking and Financials

Despite signs of strong economic recovery, the Fed has been adamant about keeping short-term interest rates in check, partly to bring unemployment rates down. The result is a steepening yield curve that greatly benefits lenders such as banks, as they continue borrowing inexpensively but can charge higher interest rates on loans, which have also increased on the back of a credit cycle recovery. Secondly, the strength in consumer balance sheets have resulted in lower-than-expected defaults, positively impacting bottom-lines. Finally, other areas to be optimistic about include divisions such as asset and wealth management which can see strong profits from fee-based businesses as capital flows and market performance add to asset bases.

Display 4: Steep Yield Curves Historically Benefited Banks



Source: Federal Reserve Bank of St. Louis

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
311 W. Monroe Street, Suite 304
Chicago, IL 60606

Palm Beach
101 Northpoint Parkway West
Palm Beach, FL 33407

Los Angeles
10250 Constellation Blvd
Los Angeles, CA 90067

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP

Transportation

The pent-up demand for travel is quite evident with bookings and flight traffic across the U.S. picking up materially. The TSA has reported that we are now back to approximately 1.1 million travelers daily in March 2021, materially above the 700 thousand at the end of last year. As significant as that may seem, we are still far below pre-pandemic levels, which is in excess of 2 million travelers a day (Display 5). A similar trend can be seen in freight transportation where goods orders and shipments now exceed pre-pandemic demand. It is our expectation that transportation costs will increase due to smaller fleets not adding capacity and spot rates continuing to rise.

Display 5: Air Traffic Rebounding and has a Long Runway

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
311 W. Monroe Street, Suite 304
Chicago, IL 60606

Palm Beach
101 Northpoint Parkway West
Palm Beach, FL 33407

Los Angeles
10250 Constellation Blvd
Los Angeles, CA 90067

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP