MATRIX PRIVATE CAPITAL GROUP

CIO Market Outlook Q4 2021: "Post-Delta" Inflation and Recovery

November 2021

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As we head into the home stretch for 2021, we are reminded that despite some fits and starts, the market and economy have been very strong this year. Correspondingly, new concerns have arisen - product shortages, supply chain disruptions and inflation are now top of mind for both investors and consumers.

The big question for many is whether recent inflation trends will be short-lived, as we are being told by the Fed, or if there is something more structural happening, given the highly accommodative fiscal and monetary policies globally. Our view is that it is a medium-term phenomenon: lasting longer than the Fed expects but shorter than the doomsday sages would lead you to believe. The supply-chain bottlenecks from the sudden resumption in global growth "post-COVID" should ultimately get resolved, but there are some signs that rising home prices and wages may continue to have an effect on prices. And, of course, the wild card is in the highly unpredictable commodity price index. Despite all this, we remain focused on U.S. economic growth, corporate earnings, and investor confidence, all of which are also big drivers of asset prices.

Display 1: Big "Post-COVID" Inflation Surge in the US

Data from October 11 – September 21. Source: Bureau of Labor Statistics: Consumer Price Index for All Urban Consumers: All Items in U.S. City Average.

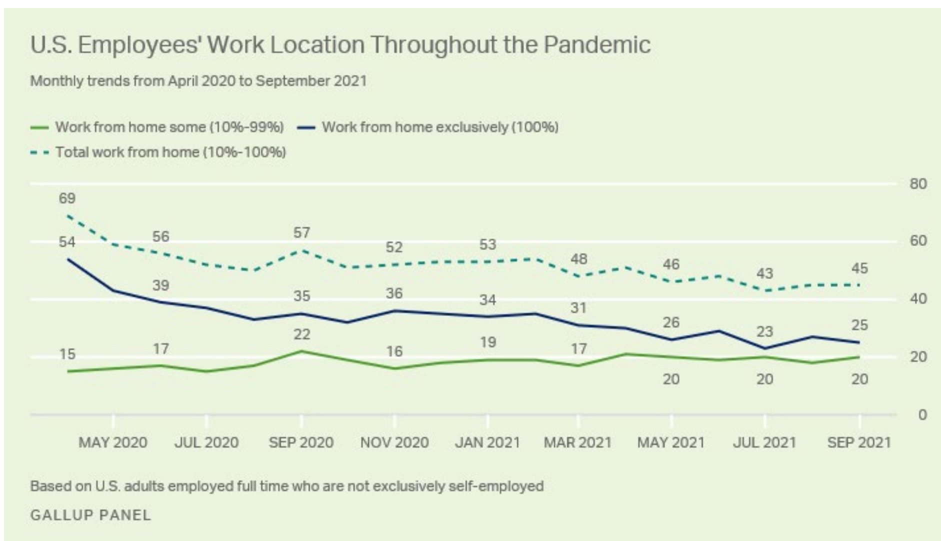
Evolving Economic and Consumer Trends

As is becoming increasingly clear, the pandemic is not going to simply 'end' but is something that the world will have to contend with for the foreseeable future. Despite increasing vaccination rates here in the U.S. and other developed countries, we continue to battle new variants and have to adapt our lives accordingly. This is evident in the way we work today as close to half of the labor force spends at least part of the week working remotely (Display 2).

Such persistent trends give rise to new anxieties, but also opportunities. For example, digitalization continues to have a profound impact on consumer behavior. More of us are taking advantage of restaurant delivery, online grocery shopping, telemedicine and remote-learning, despite the easing of many COVID restrictions. So much so that these technologies now have become permanent fixtures of our lives. Consequently, we believe investing has also changed – strong global macroeconomic forces coupled with technological changes are creating thematic trends we have to be increasingly aware of.

Finally, we must note that the overall pace of the recovery in most major economies has been quite strong. In the U.S., we are already surpassing our "pre-COVID" level of economic activity. With subsiding COVID restrictions and ample liquidity, our expectation is that growth will persist over the next few quarters.

Display 2: Remote Working is Here to Stay



Source: Gallup.

Tactical Allocation Views

Given our views, we remain positive on risk assets such as equities. As asset allocators and ultimately risk managers, we see opportunity to continue to further diversify our portfolios across geographies, as well as individual sectors and themes. Tactically, we advocate adding exposure to other developed economies including the U.K. and Europe, as growth numbers look promising. A mild risk is the U.S. dollar strengthening from potential Fed rate-tightening, but we believe the strong economic backdrop in the developed world more than outweighs this risk. We have a slight preference for more cyclical sectors,

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like financials and energy, at the expense of growth sectors like technology and communications.

Within fixed income, we have a slight preference for credit risk to duration risk given individual companies' balance sheet strength and the likelihood of a continuing rise in interest rates. Finally, we believe that commodity prices tend to trend over time and we are seeing some strong moves in the market today. We think that it is prudent to maintain a modest exposure to commodities in a portfolio both as return generator and a hedge against further rise in inflation. As always, we believe in being nimble and willing to shift our views as new data comes to light.

+, ==, – denotes positive, neutral and negative views, respectively

Q4 '21 — **Asset Class Views**

Broad Assets	– –	–	==	+	++
Equities					
US Equity					●
Developed Non-US					●
Emerging Markets				●	
Fixed Income					
US Rates			●		
High Yield Credit			●		
Emerging Credit			●		
Commodities					
Crude Oil				●	
Gold		●			
Broad Comm.				●	

Asset Class Views

US Equity Sectors	– –	–	==	+	++
Technology		●			
Healthcare			●		
Cons. Staples				●	
Utilities			●		
Cons. Discretionary			●		
Materials			●		
Industrials			●		
Financials				●	
Energy			●		
Communications		●			
Real Estate			●		

Global Regional	– –	–	==	+	++
United States				●	
United Kingdom				●	
Eurozone			●		
Developed Asia		●			
Emerging Asia		●			
Latin America		●			
Eastern Europe				●	
Frontier Markets					●

Commodities & FX	– –	–	==	+	++
Gold		●			
Silver		●			
Crude Oil				●	
Natural Gas				●	
Agriculture				●	
Metals			●		
Developed FX		●			
Emerging FX		●			

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MPCG-21-65