



2020 Mid-Year Capital Markets Forecast Update

Near-Term Sentiment + Long-Term Forecast

July 2020

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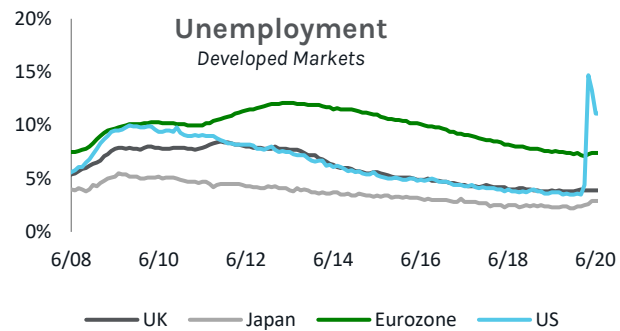
EXECUTIVE SUMMARY

“The Great Lockdown” as coined by the International Monetary Fund resulting from the health crisis, COVID-19 pandemic, has led to a significant loss in human life, extreme unemployment, financial instability, and a dramatic drop-in economic activity. This health crisis has caused a human crisis and an economic crisis.

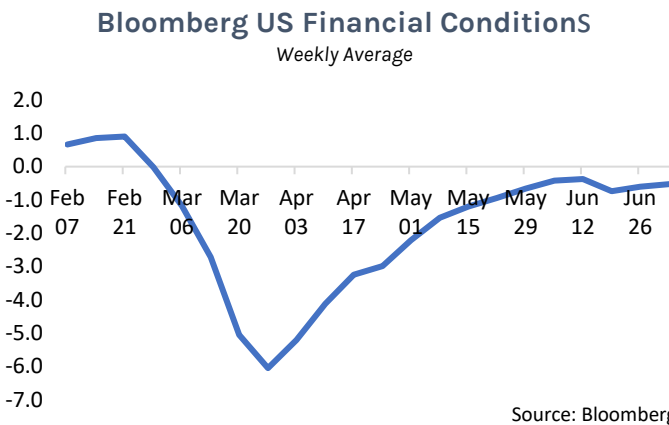
Beginning in early March 2020, global economic activity was purposely halted to stem the spread of COVID-19 for about two to four months depending on the region. The halt in economic activity reduced aggregate demand for goods and services particularly in the travel and leisure, restaurant, entertainment, retail, and oil and gas industries. In turn, that reduction in demand created a liquidity crisis for corporations in those sectors, corporations in affiliated industries, and for their employees.

We anticipate a 4-5% decline in global GDP (based on Bloomberg and IMF forecasts) for calendar year 2020 with some of that decline representing a permanent loss of activity. Unemployment is currently at levels that rival or exceeds previous crises, particularly in the U.S. Consumer and corporate balance sheets are starting to fray even in the face of record low interest rates and sizable fiscal and monetary stimulus.

On top of that, we still expect that U.S. presidential and congressional elections, trade uncertainty, socioeconomic inequality, and the potential for a meaningful reoccurrence of the virus will increase the volatility and noise in the investment markets. Despite this uncertainty, financial conditions have been improving, interest rates are extremely low, consumers are still flush from government stimulus and there is the potential for continued monetary and fiscal support.



Source: Bloomberg



Source: Bloomberg

This sudden and unexpected economic crisis prompted us to revise our long-term return assumptions, mid-year, for the first time in Syntrinsic history. In addition, we have reassessed our outlook for global growth, trade, fiscal and monetary policy, inflation, and sustainability – key drivers of our near-term sentiment. The anticipated reduction in economic growth, and lower inflation and interest rate expectations leads to lower long-term return forecasts relative to our pre-COVID [2020 Capital Markets Forecast](#) published in January. Our near-term sentiment also has shifted to highlight the opportunities and risks that have arisen from the global shut-down of economic activity.

Amidst these uncertainties and risks in the marketplace, Syntrinsic remains grounded in our approach to forecasting the investment markets. The long-term forecast serves as the underlying foundation for our strategic asset allocation efforts, providing a reliable way to anticipate the returns likely available from the different asset classes. Our near-term sentiment generally looks at opportunities to more tactically adjust allocations to asset classes and market segments with a three-year perspective in mind.

NEAR-TERM SENTIMENT SUMMARY

A green highlight indicates improvement in sentiment from January to July, while red indicates a reduction in sentiment.

Asset Class/Segment	1Q 2020 Near-Term Sentiment	3Q 2020 Near-Term Sentiment
Global Equities	Neutral/Positive	Neutral
U.S. Equity	Neutral/Positive	Neutral/Positive
Non-U.S. Developed	Neutral/Negative	Neutral
Emerging Markets	Neutral	Neutral
Global Fixed Income	Neutral/Negative	Neutral
Core Bond	Neutral/Negative	Neutral
Core Plus Bond	Neutral	Neutral
Non-U.S. Developed	Negative	Negative
Emerging Markets	Neutral	Neutral
Real Assets	Neutral	Negative
Real Estate	Neutral	Negative
Commodities	Negative	Negative
Hedge Fund Strategies	Neutral	Neutral

Near-Term Sentiment

The pandemic and its economic collateral damage will define the next few years. As we look across major asset classes, we are now Neutral on equities, fixed income, and hedge fund strategies, while we are Negative on real assets. Outside of real assets, this shift means that we do not see a particularly compelling opportunity in any one asset class relative to the others. And while private assets can be a valuable portfolio tool for qualified investors, in those spaces, broad asset class forecasts are not as meaningful as strategy-specific characteristics.

LONG-TERM FORECAST SUMMARY

Summary Changes

Asset Class/Segment	Index	3Q 2020 10-Year Forecast	1Q 2020 10-Year Forecast	Change from Previous Forecast
Global Equity	MSCI ACWI	6.10%	6.70%	-0.60%
US Large Cap	S&P 500	5.55%	5.95%	-0.40%
US SMID Cap	Russell 2500	6.05%	6.45%	-0.40%
Non-US Dev. Large Cap	MSCI EAFE	6.00%	6.75%	-0.75%
Non-US SMID Cap	MSCI ACWI ex-US SMID	7.00%	7.80%	-0.80%
Emerging Markets Equity	MSCI EM	8.90%	9.65%	-0.75%
Private Equity	Cambridge US Private Equity	7.85%	8.25%	-0.40%
Private Debt	Cliffwater Direct Lending	6.65%	6.70%	-0.05%
Real Estate				
Private Core Real Estate	NCREIF ODCE	5.70%	6.10%	-0.40%
Private Core-Plus Real Estate	NCREIF ODCE + 120bps	6.90%	7.30%	-0.40%
Global Listed Real Estate	FTSE NAREIT/EPRA Global	5.50%	5.75%	-0.25%
US Listed Real Estate	FTSE NAREIT/EPRA United States	5.70%	5.85%	-0.15%
Global ex-US Listed Real Estate	FTSE NAREIT/EPRA Global ex-US	5.20%	5.65%	-0.45%
Commodities				
Commodities	S&P GSCI	1.85%	1.85%	0.00%
Hedge Fund Strategies				
Hedge Fund Strategies	HFRI FoF Composite	2.40%	3.05%	-0.65%
Equity Hedge	HFRI Equity Hedged	3.70%	4.35%	-0.65%
Global Fixed Income	Barclays Global Agg	0.80%	1.05%	-0.25%
US Core Bond	Barclays US Agg	1.80%	2.60%	-0.80%
US Core Plus Bond	Barclays 80% US Agg/ 20% HY	2.50%	3.10%	-0.60%
Non-US Developed Bond	FTSE WGI ex-US	0.10%	0.00%	0.10%
Emerging Markets Bond	JPM EMBI	5.10%	5.65%	-0.55%
Cash	3 Mo Trsy	1.20%	2.00%	-0.80%

Long-Term Forecast

The pandemic's anticipated long-term economic impact is so severe that it has lowered the ten-year forecast return for almost all asset classes and market segments. While investment markets and the underlying economy can diverge for months or even a few years, ultimately, the markets reflect real economic growth and interest rates. Economists and analysts around the world anticipate that it will take at least a few years to stabilize the global economy. Only then could growth return to something close to the pre-COVID trend of roughly 1.9% per year

global real economic growth. As disappointing as these revisions are, it is better to be realistic about the markets so that one can allocate accordingly.

I. NEAR-TERM SENTIMENT

Global Macroeconomic Themes

At the beginning of 2020, we highlighted global growth, fiscal and monetary policy actions, inflation, sustainability, trade, and geopolitical uncertainty as the key macroeconomic themes for 2020. While the global pandemic and the resulting shutdown have shifted the narrative, those key themes remain most relevant.

As we evaluate these near-term themes, we acknowledge that many uncertainties remain as to the breadth and depth of the virus and its implications on the timeline for fully reopening the economy. In addition, an unprecedented amount of fiscal and monetary stimulus is still flowing through the global economy supporting individuals and companies, and potentially masking and/or delaying the effects of the collapse in production, trade, and employment because of the shutdown. One of the questions that we have kept at the forefront when evaluating our near-term sentiment is, “Are we post-crisis or still in the first crisis?” Perspectives on that question can profoundly impact one’s outlook.

From Syntrinsic’s perspective, we remain in the midst of the first crisis through both public health and economic lenses. Through a health lens, clearly COVID-19 is spreading dramatically, and we do not yet have a vaccine or other comprehensive intervention. From an economic lens, while parts of the world are closing or opening at varied speeds and degrees, the economic interventions so far are still early and short-term in nature, particularly in the United States. These persistent crises are masked in part by an investment market that fell for three weeks, then turned on a dime March 23. While the investment markets may appear to be post-crisis for now, they are not good indicators of the pandemic or its collateral socio-economic damage (see Syntrinsic’s [Stock Market Vs. The Real Economy](#)).

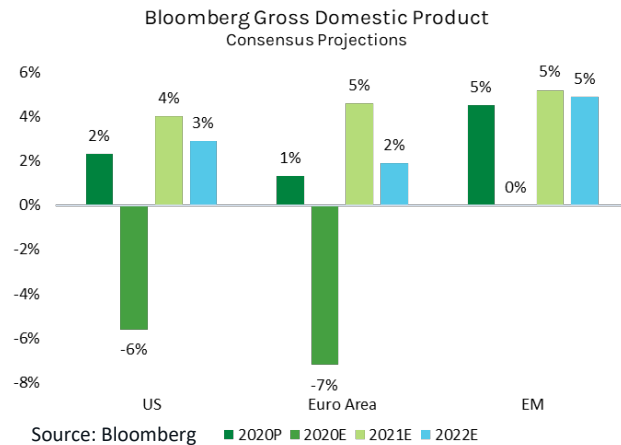
Even Lower Global Growth Ahead

The shutdown to stem the spread of the coronavirus has led to a significant decline in economic activity globally. As a result, trade has contracted, consumption and production have declined, and unemployment rose to levels not seen since the Great Depression. This extreme shock to the system is weighing on corporate profits and household income. While some economies have begun to reopen, the reopening has been complicated and slow particularly since there is currently no solution to the virus (i.e. standardized health measures, vaccine). The financial shock of the shutdown and the slow return to a pre-crisis normal will weigh heavily on global growth over the coming years. The International Monetary Fund expects a deep downturn in global growth, with growth declining 4.9% in 2020¹ and rebounding 5.4% in 2021. This is a little more severe than Bloomberg consensus which estimates a 3.8% decline for 2020 and 5.1% rebound for 2021. All growth forecasts—including our own—are greatly affected by several factors that remain unknown; specifically, economic growth will be heavily dependent on the timeline and degree of disruptions to economic activity to stem the

¹ IMF, World Economic Outlook Update June 2020

spread of the virus and the timeline and degree of additional fiscal policy support in each region.

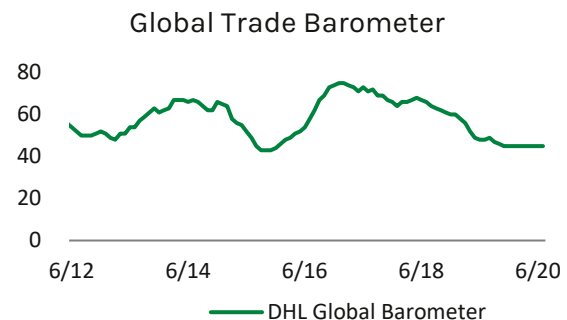
As we look out over the next year, our projections for a decline in growth are in line with Bloomberg estimates. However, we are more cautious on the shape of the recovery. We expect a U-Shaped or Swoosh Recovery (see Syntrinsic’s [Shape of the Recovery](#)), rather than a V-shaped recovery as some demand will be permanently lost, and the extreme downturn in activity will weigh on consumer psyche and corporate behavior.



The United States entered this crisis with increasing leverage in the corporate sector, fiscal deficits, and rising inequality. This crisis has only exacerbated those issues. Rising debt burdens will put pressure on earnings and business investment. Increasing inequality, which is first and foremost a human crisis, will have economic implications that affect foreign policy, trade, free flow of labor, and corporate engagement. Higher fiscal deficits, while needed to support the near-term economy and potentially combat inequality, could have long term negative implications for growth. Our base case estimates the return to trendline growth will take at least three to four years.

Trade and Globalization Under Pressure

Global trade has been declining over the last several years since the Great Financial Crisis, as the desire for protectionist measures (e.g. tariffs, subsidies, and quotas) to support intellectual property, workers, and businesses has gained traction around the world. In 2019, the United States engaged in trade wars with China, Europe, Mexico, and Canada, while Europe dealt with its seemingly perpetual Brexit. Though some of those tensions have eased, the global pandemic produced another hit to global trade, putting a spotlight on the fragility of global supply chains and thus elevating the questions around the need for de-globalization.



Source: Bloomberg, Based on import and export data of intermediates and early-cycle commodities for China, S Korea, Germany, Indian, Japan, UK and USA.

Globalization links trade, investment, data, ideas, technology, and people (e.g., workers, tourists, students, etc.) and has led to some of the economic growth we have seen over the last 100 years. The shutdown from the pandemic has caused many to question whether regional and local economies should be de-linked from each other or at the very least take steps to dramatically slow globalization further. Over the last several months, global supply chains across industries have been disrupted and/or severed because of the slowdown in

activity, the limited movement of goods, and/or the lack of workers. This breakdown has made it challenging to produce key products such as medical equipment, drugs, and food. Historically, globalization was about price and manufacturing efficiencies creating mutual dependencies across regions. Those mutual dependencies are now causing fear,² which could further increase protectionist measures and lead to a delinking of our global economy.

Fiscal and Monetary Policy Continue to be the Focus

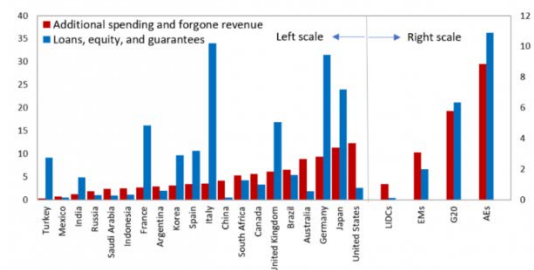
To combat this crisis, central banks globally have reacted with extreme monetary policy tools to provide liquidity to the private sector and ensure the proper functioning of the financial system. These tools, drawn from playbooks developed during the Great Financial Crisis, include lowering interest rates, asset purchases across the spectrum of ratings, lending facilities, and loan guarantees. For example, in March 2020, the U.S. Federal Reserve Bank (The Fed) launched a \$2.3 trillion program that touches almost every corner of the U.S. financial system (see Syntrinsic’s [Market Liquidity and the U.S. Federal Reserve](#)). In addition, governments globally have enacted an \$11 trillion³ fiscal policy response that is the largest since World War II to replace lost income, support employment, and maintain the health of the economy during this crisis. The support has been in the form of cash transfers, tax deferrals, loans, equity injections and guarantees.

As we look ahead, with the timeline for containing the virus unclear, fiscal and monetary policy will continue to be the focus. Monetary policy will be needed to maintain the functioning of the financial system and ensure access to credit for businesses and individuals. Coupled with monetary policy, fiscal policy will need to continue programs that not only replace income (i.e., one-time transfers of cash and increased unemployment benefits) but spur economic growth (i.e., capital investments).

Based on rhetoric from central bank presidents, we anticipate that central banks will remain accommodative (loosening monetary policy), stabilizing and backing the financial markets through the tools highlighted above for the foreseeable future.^{4,5} However, the timeline for fiscal support, particularly in the United States, does not match the likely length of the health and economic crisis. Here in the United States (U.S.), fiscal support is currently capped at four to five months from the early parts of the pandemic’s U.S. escalation; few experts see the pandemic tapering (or the economy fully restarting) by this August. In the U.S., discussions on fiscal stimulus have taken a backseat to the presidential election, social justice issues, and police reform. With virus cases on the rise and the timeline for fully reopening unclear, it will

Large fiscal packages

Advanced economies and, to a lesser extent, emerging market economies have deployed a significant level of above- and below-the-line fiscal measures. (percent of GDP)



Sources: National authorities; and IMF staff estimates.
 Note: Data are as of June 12, 2020. Country groups are weighted by GDP in purchasing power parity-adjusted current US dollars. Revenue and spending measures exclude deferred taxes and advance payments. For details, see the Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. AEs = advanced economies; EMs = emerging markets; G20 = group of twenty; LDCs = low-income developing countries.

² The Economist, COVID-19 is teaching hard lessons about China-only supply chains

³ IMF, Fiscal Policies for a Transformed World

⁴ U.S. Federal Reserve, Chair Powell’s Press Conference June 10, 2020, European Central Bank

⁵ European Central Bank, Press Conference, Christine Lagarde March 12, 2020

be hard to achieve any meaningful pick-up in sustainable economic growth and employment without another round of sizeable fiscal stimulus globally.

In contrast, European fiscal support is expected to last anywhere from six to 24 months, depending on the country. And on the horizon, we see increased appetite for fiscal stimulus outside the U.S. as noted in [Non-U.S. Developed Markets](#). Japan established a \$1.1 trillion package in May, the European Commission is negotiating a plan to raise \$841 billion in July, and the UK is in talks to unveil a stimulus package in July.

Inflation Likely to Remain Low

There are increasing concerns amongst some analysts about a potential pickup in inflation from swelling fiscal deficits due to rising fiscal and monetary stimulus. However, as we mentioned in our [2020 Capital Markets Forecast](#), inflation has been, “facing headwinds over the last several years because of gaining demographics, ongoing technological innovation, and continued globalization.” While we recognize that this crisis has altered and called into question the course of globalization, we continue to believe that higher inflation is not one of the likely outcomes of this crisis (see Syntrinsic’s [Inflation, Please](#)).

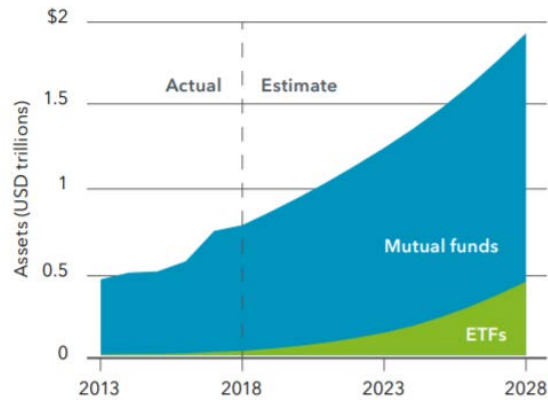
Sustainability

The convergence of intensive health, economic, social justice, and environmental issues has brought the topic of corporate sustainability to the forefront. Over the last several years, investors have been integrating environmental, social, and governance (ESG) factors into their investment decision-making, though mainly focusing on companies’ environmental footprints and corporate governance practices. However, in the last six months, the inequities brought on by the global health pandemic and racial injustice have changed the conversation around the world. Corporations and investors have shifted their focus to more broadly include social factors such as racial and gender diversity across organizations, and companies’ engagement with and responsibility towards employees and communities. More and more investors are looking at how to use capital to drive real change and the role corporations can play in stemming the inequities in society. In the first quarter of 2020, global sustainable open-ended funds brought in \$40 billion of new assets, 41% increase Y/Y (\$7bn in U.S.).⁶ While the Department of Labor has sought to slow this shift in investor behavior (see Syntrinsic’s [The Value of Pensions](#)), in practice, the government cannot insert itself into investment markets in such a highly politicized, invasive, and inconsistent manner.

⁶ Blackrock, Sustainable investing, resilience amid uncertainty

Sustainable swell

Assets of sustainable mutual funds and ETFs, 2013-2028



Sources: BlackRock, with data from Broadridge/Simfund, June 2018

Syntrinsic continues to believe that all investing has impact. We recognize that holding companies accountable for more than just financial return can potentially mitigate risk, enhance performance, and create positive impact. BlackRock’s most recent study⁷ showed that annualized returns of ESG focused indexes from 2012 to 2018 in both developed and emerging markets matched or exceeded the standard index, with comparable volatility. The recent downturn showed the resiliency of sustainable companies with MSCI reporting that 15 of 17 sustainable indices and Morningstar’s 51 out of 57 sustainable indices outperformed broad market counterparts.⁸

⁷ BlackRock Investment Institute, Sustainable investing: a “why not” moment

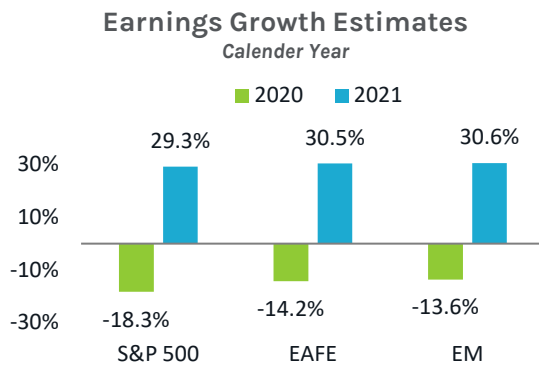
⁸ Morningstar, Sustainable Funds Weather the First Quarter Better Than Conventional Funds, April 3, 2020

Global Equities

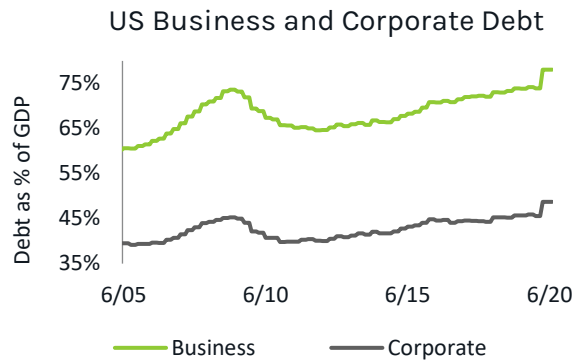
We have downgraded Global Equities to **Neutral** from Neutral/Positive because of unattractive valuations and the inherent risks we see in the economy from the global economic shock. We remain concerned that inability to contain the spread of the virus could lead to a second wave of lockdowns and potential drawdowns in the equity market. That being said, global central banks' liquidity programs have improved financial conditions and provided a backstop for investment markets globally.

The global economy was on good footing entering into this health crisis and sizeable policy measures to date have thus far prevented an extreme financial crisis. Looking out over the coming years, we anticipate a restructuring in the way companies do business resulting in changes to supply chains, digital applications, shifts to doing business online, and remote work environments, all with a focus on long-term resilience and sustainability. We anticipate that U.S. companies are better positioned to benefit from these changes and remain Neutral/Positive on the U.S., relatively stronger than our sentiment on Non-U.S. Developed and Emerging Markets.

Similar to its global counterparts, U.S. corporate earnings have been declining and are expected to be negative in 2020, rebounding in 2021. Fed action has provided access to credit for corporations, while debt issuance, through May, reached over 90% of levels seen in all of 2019, well on track to surpass 2019 levels (Source: Federal Reserve). This debt issuance has provided a liquidity lifeline to many companies, offsetting declining or zero revenues.



Source: Bloomberg, as of 6/30/20

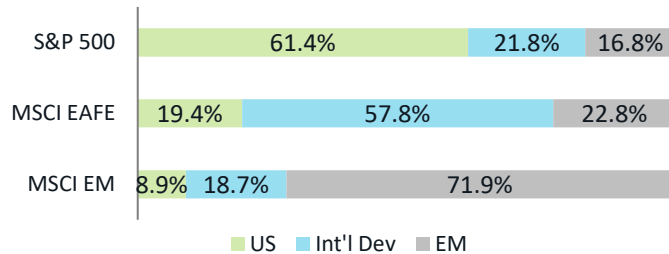


Source: Bloomberg, Federal Reserve

The increasing corporate resilience (i.e., swift move to online/remote work, supply chain shifts, internet-based sales), the Fed backstop, and limited relative reliance on trade, keeps U.S. more positive on U.S. equities on a relative basis. However, as 2020 progresses, our near-term outlook could be affected by the U.S.'s persistent inability and lack of willingness to contain the virus, which is leading to slower reopening and more shutdowns. Additional risks on the horizon include increasing corporate leverage, continuing trade negotiations, election headlines and outcomes, and rising civil unrest from social justice issues.

We have upgraded the Non-U.S. Developed equity outlook to **Neutral** from Neutral/Negative. Europe, the UK, Japan, and other developed nations have relatively attractive valuations and early signs are showing that their unprecedented, coordinated fiscal policy response and public health measures are working, particularly in Europe and Japan (see Syntrinsic’s [Non-U.S. Developed Outlook](#)). However, these same countries have higher exposure to trade relative to the U.S. and Emerging Markets, a heavy reliance on financials, and structural limitations (i.e., labor market stringency) that impair innovation keep U.S. from shifting our sentiment to Neutral/Positive.

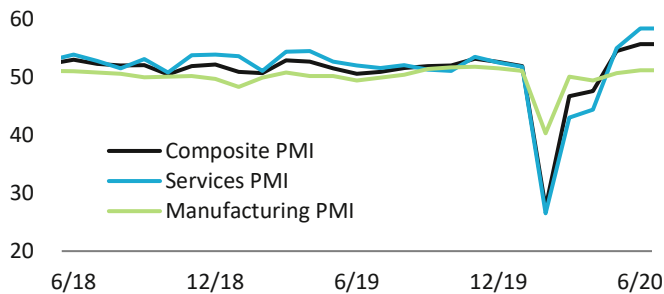
Revenue Exposure by Region



Source: Morningstar as of 4/30/20

We are maintaining our **Neutral** sentiment on Emerging Markets as opportunities for growth and recovery are muted by increasing risks from trade, a resurgence of the virus, and more limited monetary and fiscal support.

China PMI



Source: Bloomberg, Caixin

China is the largest and most influential constituent of Asia which makes up almost 75% of the EM Index. As the original epicenter of this health crisis, China appears to be on a path to recovery, with official manufacturing Purchasing Managers Index (PMI) climbing to a three-month high of 50.9 in June, better than economists’ forecasts⁹. The reopening of the economy, strong public health

measures, and accommodative fiscal and monetary measures have helped boost demand and growth. While trade also remains an issue, it is partially muted as trade uncertainty over recent years has accelerated supply chain shifts to countries outside of China. We are also concerned about the potential for resurgence of the virus and tensions with the U.S. and Hong Kong.

Outside of Asia, however, the lockdown has had outsized effects on supply chains, causing disruptions in food and medical supplies and exacerbating already weak economic conditions, particularly in Latin America. In India, a big constituent of the emerging market complex, economic growth was slowing prior to the crisis and the country already suffered from a high fiscal debt burden and higher inflation. These challenges have weighed on the country’s ability to enact accommodative measures to combat the fallout from one of the

⁹ WSJ, China’s Economic Recovery Picks Up Further Momentum, June 30, 2020. A reading above 50 indicates an expansion.

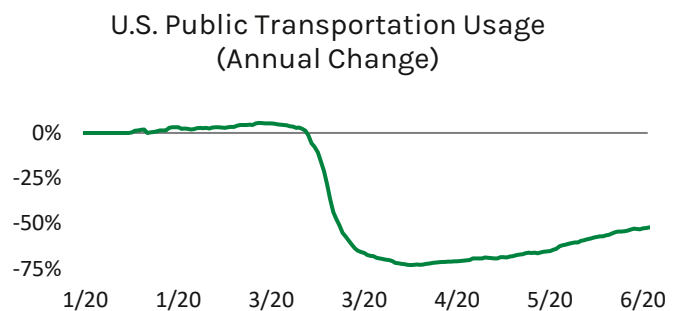
world's largest lockdowns. Many smaller emerging market countries also have had limited ability to enact policy and health measures to counteract the crisis.

Real Estate

Weak global growth and labor market conditions have become a headwind for real estate. Prior to the pandemic, supply and demand fundamentals were in a healthy balance. The shutdown of the economy and need for social distancing has altered the demand picture for real estate, particularly retail, hotels, and office buildings. We anticipate that if and when a solution to the virus becomes clearer and social distancing restrictions potentially are lifted, there could be a rebound in aggregate demand for real estate. But the timeline for this rebound is still in question and far from guaranteed. In addition, vacancy rates have not yet reflected the full impact of the coronavirus pandemic because of eviction moratoriums and fiscal stimulus payments that are close to expiring (see Syntrinsic's [Missed Rent](#)). Once those stimulus measures expire; we expect to see additional stress in the real estate market. As a result, we are downgrading our sentiment for Real Estate from Neutral to **Negative**.

Commodities

Since 2015, we have continued to maintain a **Negative** sentiment on commodities in general and the energy sector specifically. The sector has a low return opportunity but with high volatility - something we have seen play out these last few years (see Syntrinsic's [Energy and Economic Vitality](#)). Even prior to the COVID-19 pandemic, we saw energy as a range-bound sector given the supply and demand balance. With the pandemic, economic activity has slowed dramatically and thus made the sector even less appealing and riskier. The chart to the right highlights the decline in public transportation usage as a result of the shutdown.



Source: Bloomberg, Moovit (average of New York area, Chicago and Los Angeles).

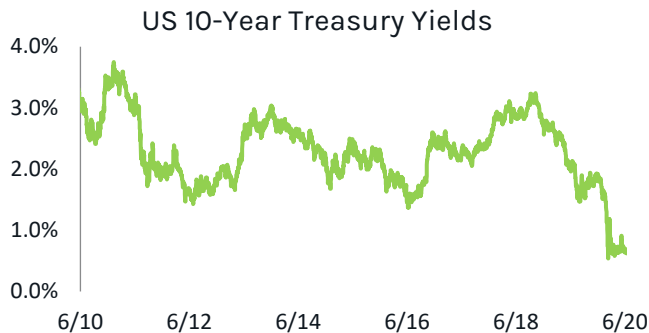
Even with extreme monetary and fiscal stimulus support, some expect around \$30 billion¹⁰ in energy sector bankruptcies for the six months through June 2020, exceeding the total in 2019. That said, the current pressures combined with growth in new traditional and renewable technologies could create compelling investment opportunities ahead and bears monitoring.

¹⁰ Haynes and Boone, LLP Oil Patch Bankruptcy Monitor

Hedge Fund Strategies

We maintain a **Neutral** sentiment for Hedge Fund Strategies. While the broader investment opportunity across equities and fixed income has moderated some over the last six months, the opportunity set remains attractive due to elevated investment volatility and more pronounced dispersion between assets. Relative to Global Fixed Income, Hedge Fund Strategies offer differentiated sources of potential alpha and portfolio diversification.

Global Fixed Income



Source: Bloomberg, US Treasury

As mentioned previously, central bank intervention around the globe has provided a backstop to fixed income markets, leading us to upgrade our sentiment to **Neutral** from Neutral/Negative. Extremely low interest rates (see chart of 10-Year Treasury yield to the left) limit the return potential and reduce the diversification benefits of the asset class long-term, which keeps U.S. from a more positive view.

Within the developed fixed income markets, we favor the U.S. versus. Non-U.S. Developed as U.S. interest rates are more attractive on a relative basis. In the U.S., the Fed has taken on the explicit role as lender of last resort, supporting investment-grade credit issues and some high yield issues. While low interest rates diminish the return potential, seniority in the capital structure and current spread levels offset risks to the downside and support an upgrade in U.S. Core Bond to **Neutral** from Negative.

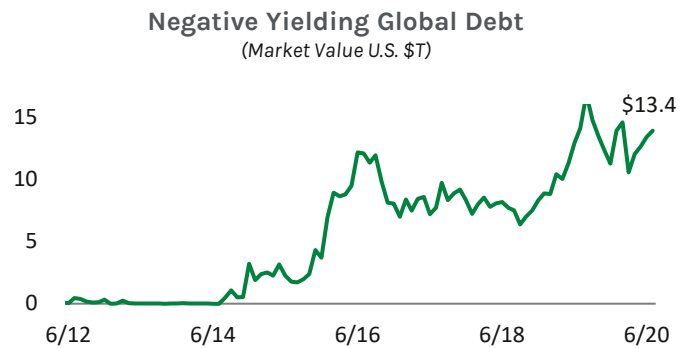
Increasing corporate leverage, a likely increase in defaults through 1Q 2021, and significant credit spread tightening from mid-March to today, temper our outlook on U.S. Core Plus Bonds; thus, we retain our **Neutral** sentiment. We expect more defaults through at least early 2021— if not longer—as the stimulus eases and the economy reopens. Offsetting the increasing risk of default, borrowers have low interest rates, and issuers have increased access to liquidity through monetary and fiscal policy. Fiscal measures have replaced corporate income, while monetary measures provide access to liquidity in the face of lost income and the lower interest rates to support higher debt burdens. Currently, cash positions are strong as companies have borrowed debt and cut dividends and stock buybacks. In the first 50 days of 2020, investment grade companies issued \$1 trillion in debt, more than the first 11 months of 2019.¹¹ In 2Q 2020, companies in the U.S. cut dividends by \$42.5 billion.¹² However, even with the broad-based support and Fed backstop, we favor more resilient credit instead of the broad

¹¹ Bloomberg, Global Policy Makers Face a Choice

¹² WSJ, U.S. Companies Slashed Dividends at Fastest Pace in More Than a Decade

bond market; this bias dictates the need for active management within U.S. Core and Core Plus Fixed Income.

For Non-U.S. Developed bonds, our thesis remains unchanged from January’s Forecast. We expect the total return to be low and, in some cases, negative, re-affirming our **Negative** sentiment. Non-U.S. Developed countries have issued approximately \$13.4 trillion of debt that is currently yielding negative interest rates as of the end of June. Based on recent statements from foreign central



Source: Bloomberg Indices

banks, we expect them to maintain accommodative policies that will keep interest rates at or below zero to support growth and combat the current crisis. The opportunity cost for long-term investors of holding negative yielding debt is high.

Emerging market debt saw strong spread widening during 1Q of 2020 and has been among the last credit segments to see any recovery. The liquidity programs of developed economy central banks have provided indirect support to emerging market sovereign and corporate markets, but the backstops and guarantees do not extend to emerging market debt, making the asset class inherently riskier. Outside of China, which is the largest constituent, emerging market countries have limited policy measures to combat the economic fallout from the virus. As a result, we are maintaining our **Neutral** sentiment on emerging market debt, as we believe yields—while robust—are not currently compensating investors for the additional risks.

II. LONG-TERM FORECAST

Overview

The economic environment has deteriorated since the beginning of the year with the shutdown bringing economic activity almost to a halt. While economic activity should recover as regions are able to reopen for a sustained period, we anticipate a U-shaped recovery, rather than something quicker or steeper. In that scenario, some production will be permanently foregone not just delayed (i.e. retail spending, travel and leisure, and energy usage), unemployment will linger, and the effects of the unemployment and social distancing will weigh on consumer behavior. The permanent loss in economic activity and our expectations for a slower return to trend growth has led to a reduction in our 10-year capital markets forecast for real economic growth and thus for most asset classes and market segments.

The implications of current and future fiscal and monetary policy actions on the economy remains unclear. As mentioned earlier in our near-term forecast, current policy actions potentially are masking the underlying health of the economy, making it challenging to definitively project economic growth for the next several years. As with all forecasting, there is always uncertainty about the future. Instead of a mythical crystal ball, we are using the plethora of information highlighted in our near-term sentiment to make an educated decision about the long-term return potential of the capital markets.

This mid-year update provides a summary of the changes to our forecasts for global equities, global fixed income, and real estate. Return forecasts for global equities, global fixed income, and real estate are the primary inputs in our forecasts for hedge fund strategies, private equity, private debt, and private real estate; thus, those forecasts have been updated accordingly. For more detailed information on how we develop our forecasts for each asset class, please refer to Syntrinsic's [2020 Capital Markets Forecast](#).

Global Equities

Across global equities, Syntrinsic has lowered our 10-year forecast, with the greatest reductions coming from economic growth assumptions for Non-U.S. Developed and Emerging Markets.

Asset Class/Segment	Index	3Q 2020 10-Year Forecast	1Q 2020 10-Year Forecast	Change from Previous Forecast
Global Equity	MSCI ACWI	6.10%	6.70%	-0.60%
US Large Cap	S&P 500	5.55%	5.95%	-0.40%
US SMID Cap	Russell 2500	6.05%	6.45%	-0.40%
Non-US Dev. Large Cap	MSCI EAFE	6.00%	6.75%	-0.75%
Non-US SMID Cap	MSCI ACWI ex-US SMID	7.00%	7.80%	-0.80%
Emerging Markets Equity	MSCI EM	8.90%	9.65%	-0.75%

Syntrinsic's public equity forecasts are based on expectations for real economic growth, inflation, and yield. Below we outline the changes to the previous forecasts and our rationale.



Real Growth in Gross Domestic Product (GDP)

For our GDP forecasts, we rely in part on forecasts from key governmental and quasi-governmental sources such as the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), and the U.S. Congressional Budget Office (CBO). For this mid-year forecast, we also incorporated Bloomberg consensus estimates for 2020 and 2021 into our analysis. Recognizing that the situation is evolving, the Bloomberg consensus estimates are timely, incorporate a diverse set of assumptions and expectations, and provide complimentary insights. We have used this data to check our internal research efforts. After careful review, we have used the Bloomberg Consensus estimates to establish a three-year GDP growth picture, then incorporated our previous estimates for long-term growth and the shape of the recovery to develop a ten-year growth forecast.

Ten-Year Real Economic Growth Assumption

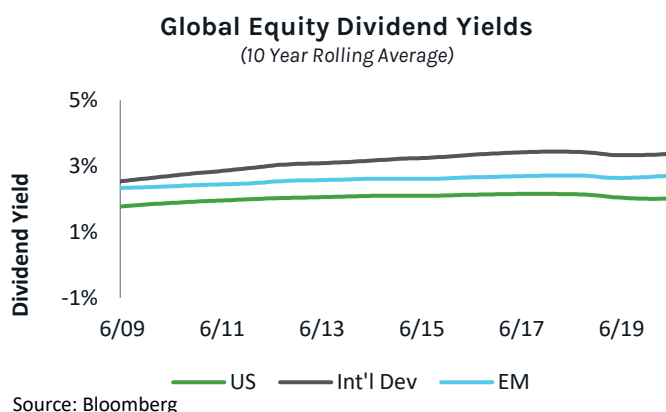
	3Q 2020 Forecast	1Q 2020 Forecast	Change (%)
U.S.	1.47%	1.90%	(0.43%)
Non-U.S. Developed	0.87%	1.40%	(0.53%)
Emerging Markets	3.43%	4.10%	(0.67%)

Inflation

Our estimate for inflation has not changed due to the crisis. As mentioned previously in our near-term sentiment, we do not see higher inflation as one of the likely outcomes of this COVID crisis. The pressures we highlighted in our forecast at the beginning of the year of changing demographics, technological innovation, and globalization remain. In the near term, the downward pressure on demand will be deflationary; however, because of the extreme fiscal and monetary stimulus, we anticipate that inflation will trend back towards Central Bank targets, though continue to fall modestly below those targets.

Dividend Yields

As of April 30, 2020, 279 companies (10%) of total dividend paying public companies had canceled dividends to preserve cash. These cuts represent a loss of \$194 billion in dividends between February 2020 and April 2020.¹³ This decline in dividends will put pressure on dividend yields over the near-term; however, we expect yields will trend higher in the coming years as the economy recovers, as has happened in previous crises.



As such, we have updated our methodology for forecasting dividend yields to analyze historical trends over 10 years rather than considering only the most recent trends. Using historical versus recent trends is more indicative of an economic cycle and better reflects the potential trajectory of yields coming out of crisis. As a result of this change in methodology, forecasts for U.S. yields remained relatively flat, whereas the forecast for Non-U.S. Developed and Emerging Markets yields decline by approximately 0.19% and 0.15% respectively.

Ten-Year Dividend Yield Assumptions

	3Q 2020 Forecast	1Q 2020 Forecast	Change (%)
U.S.	2.01%	1.95%	0.06%
Non-U.S. Developed	3.36%	3.55%	(0.19%)
Emerging Markets	2.70%	2.85%	(0.15%)

¹³ MSCI: Robust Selection Paid Dividends, May 22, 2020

Listed Real Estate

Asset Class/Segment	Index	3Q 2020 10-Year Forecast	1Q 2020 10-Year Forecast	Change from Previous Forecast
Real Estate				
Global Listed Real Estate	FTSE NAREIT/EPRA Global	5.50%	5.75%	-0.25%
US Listed Real Estate	FTSE NAREIT/EPRA United States	5.70%	5.85%	-0.15%
Global ex-US Listed Real Estate	FTSE NAREIT/EPRA Global ex-US	5.20%	5.65%	-0.45%

While trading like equities, the structural differences and historic correlations of these real estate-based securities result in Syntrinsic treating listed real estate as an asset class distinct from other equity sectors. In the public markets, investors generally invest in Real Estate Investment Trusts (REIT). The building blocks of the long-term forecast for REITs are yields, inflation, and a premium to Net Operating Income (NOI).



REIT Yields

Historically, we have used current distribution yields in our forecast; however, given the extreme impact to yields because of the decline in REIT prices, we have changed our methodology to use historical 10-year REIT distribution yields. A REIT's distribution yield is calculated as by using the most recent annualized distribution and dividing it by the REIT's share price. In this current environment, prices have been declining for REITs as investors become more concerned about the asset class and the impact of this crisis on long-term distributions. As mentioned in our near-term forecast, we still are early in the crisis and distribution rates have not yet declined though we expect that they will going forward. Moving to a 10-year average of distribution yields better reflects REIT yields over an economic cycle rather than a short-term market dislocation. As a result, we are expecting REIT yields to decline about 0.20% - 0.30% across regions.

Ten-Year REIT Yield Assumption

	3Q 2020 Forecast	1Q 2020 Forecast	Change (%)
Global	3.81%	4.00%	(0.19%)
U.S.	3.89%	4.10%	(0.21%)
Global ex-U.S.	3.62%	3.90%	(0.28%)

Net Operating Income (NOI) Premium

Net Operating Income represents the “earnings” of a REIT. In the past, we have assumed 0.15% global NOI growth premium (premium of total returns accounting for yield and inflation on a long-term historical basis) for anticipated growth in NOI. We have eliminated this premium from our long-term forecast due to downward pressures on Real Estate demand created from the COVID-19 pandemic outlined in our near-term sentiment. Going forward, we expect global REIT NOI will not experience a premium above inflation.

Global Fixed Income

Asset Class/Segment	Index	3Q 2020 10-Year Forecast	1Q 2020 10-Year Forecast	Change from Previous Forecast
Global Fixed Income	Barclays Global Agg	0.80%	1.05%	-0.25%
US Core Bond	Barclays US Agg	1.80%	2.60%	-0.80%
US Core Plus Bond	Barclays 80% US Agg/ 20% HY	2.50%	3.10%	-0.60%
Non-US Developed Bond	FTSE WGI ex-US	0.10%	0.00%	0.10%
Emerging Markets Bond	JPM EMBI	5.10%	5.65%	-0.55%

The building blocks for our fixed income return forecast are the structural drivers of interest rates, expectations for real economic growth, and inflation.



Given the decline in real GDP growth we outlined above, we anticipate long-term risk-free rates at approximately 3.30%, down from our 1Q 2020 estimate of 3.75%.

In addition to the decline in our long-term interest rate forecast, the one-year average current yields for Core, Non-U.S. Developed, and Emerging Markets have declined since beginning the of the year. High yield average one-year current yields have increased slightly, reflecting the market’s expectation for increasing default rates.

At current yields, our forecast still anticipates that interest rates will rise moderately over the decade. For all fixed income segments, our annualized forecast return is still slightly lower than the current yields.