Research Review

MAY 2021

Market performance spanning most major asset classes and categories appeared overwhelmingly positive in April, buoyed by continued economic momentum and ultra-accommodative policy measures. The combination of accelerating economic growth and the passage of a fiscal stimulus package in March—the third in the span of a year—supported concerns of a material rise in inflation, which have been corroborated by sharply rising prices across energy, auto, housing, and other key sectors of the economy. The month was not without other sore spots as well, with the economic recovery displaying certain growing pains related to the rate of improvement across the labor market. From a performance standpoint, global equities marched higher—particularly domestic growth—as smaller cap equities exhibited relative underperformance. Bond performance displayed similar positive broad-based trends, as both credit risk premiums and Treasury interest rates declined materially in the month. In real assets, total returns were strongly positive in April—particularly REITs, which benefitted from continued robust economic conditions and a decline in interest rates.

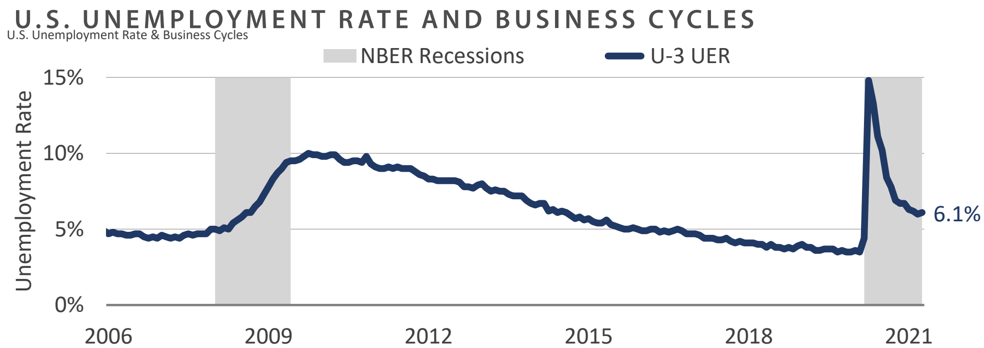
INSIDE THIS ISSUE

CAMDEN CAPITAL

Economic Update

Job Market Gains Moderate in April Despite Accelerating Economic Activity

For the first time since the beginning of COVID-19 containment measures last spring, the headline unemployment rate nudged higher month-over-month, moving from 6.0% in March to 6.1% in April. The bigger story, however, is the sizable miss versus expectations on the payrolls front. For example, the Bloomberg median sell-side consensus estimate called for an increase of 1 million jobs during the month, while the actual payrolls reading printed at just 266,000, including a contraction of 18,000 manufacturing jobs.

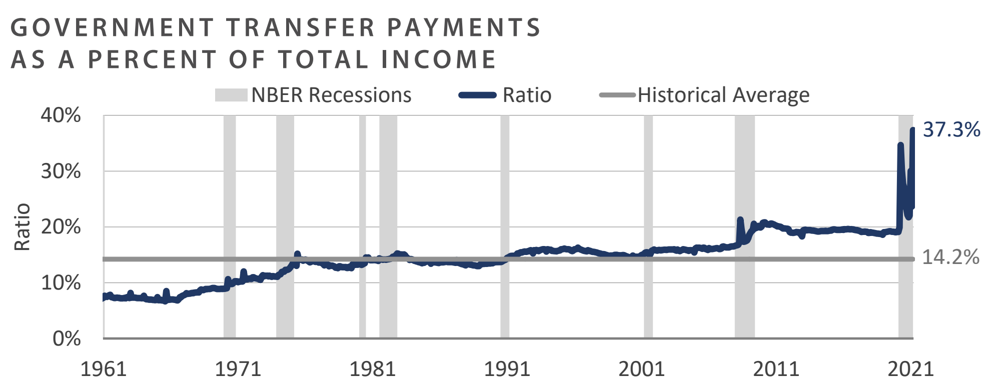


Data sources: Bureau of Labor Statistics, National Bureau of Economic Research, Bloomberg, L.P.

The rise of the headline unemployment rate for the first time since April 2020 and the significant miss to the downside on payrolls may be enough evidence for the Federal Reserve (Fed) to delay tapering the current pace of quantitative easing, the adjustment to which is speculated to take place at the Fed's upcoming annual *Jackson Hole Economic Symposium* in June.

The setback in labor market gains in April may ultimately prove to be a temporary stumble; it may alternatively foreshadow future friction and potentially limit economic growth potential as it relates to support from labor fundamentals returning to healthy, pre-COVID levels. A certain subset of the labor force may question the economic viability of returning to work amid an extraordinarily supportive unemployment benefit backdrop and a recent third installment of stimulus checks, hindering the recovery's ability to reach potential. This phenomenon may manifest across various government-related data sets, with a secularly subdued labor force participation rate front-and-center of this topic, despite immense progress made across headline measures of labor market strength since the depths of COVID-19 in spring 2020.

Governmental aid, particularly in the form of stimulus payments as part of the three fiscal stimulus packages enacted over the trailing year, has resulted in a sharp increase in government transfer payments as a share of overall employee incomes. Through March, this ratio stood at a staggering ~40% of total personal income, a record high and a recent development that runs the risk of blunting longer-term economic growth potential should current accommodative policies fail to be reined in once COVID-19 is firmly in the rearview mirror.

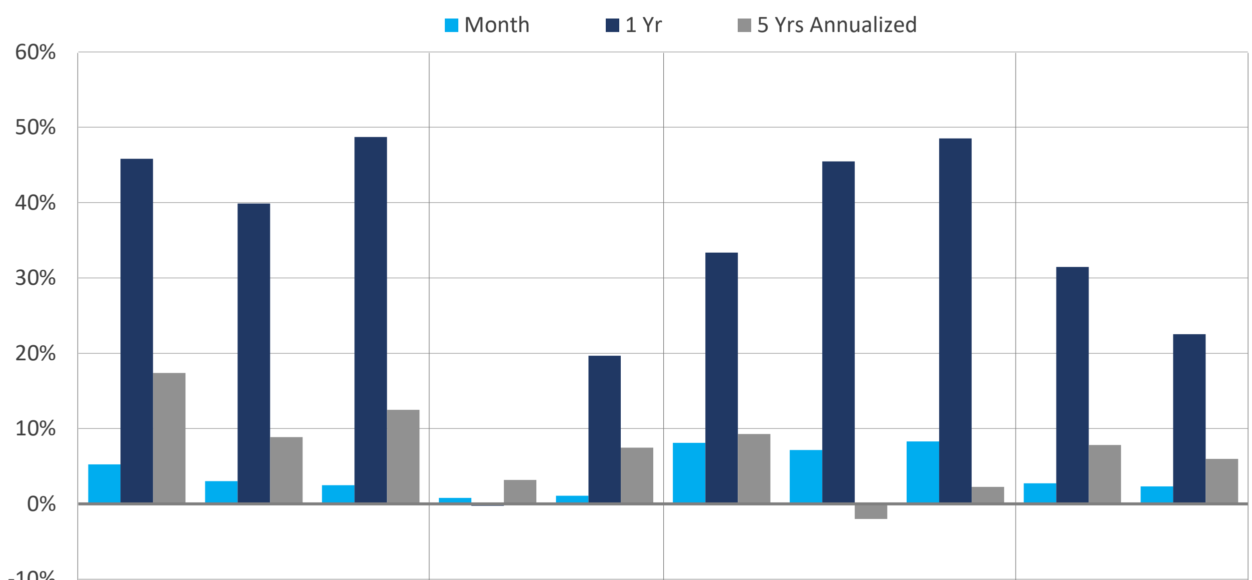


Data Sources: Bloomberg, L.P., Bureau of Economic Analysis; Data as of March 2021

To conclude, market performance across the major corners of the global investible universe was broadly positive in April, as risk exposure continued to be rewarded amid favorable market conditions, including near-zero policy rates, elevated levels of Fed quantitative easing, and the recent passage of a third fiscal stimulus package in the U.S. Longer-term risks continued to mount, however, particularly related to the supply of labor capital in the years ahead among the ranks of many stimulus-receiving recipients.

Market Returns

April 2021



	GLOBAL EQUITY			FIXED INCOME		REAL ASSETS			DIVERSIFYING STRATEGIES	
	S&P 500 Index	MSCI EAFE Index	MSCI Emerging Mkts Index	Blmbrg Barclays U.S. Agg Index	Blmbrg Barclays HY Index	FTSE NAREIT All Equity Index	Alerian MLP Index	Blmbrg Cmdty Index	HFRI Fund Wtd Comp. Index	HFRI Fund of Fund Index
Month	5.2%	3.0%	2.5%	0.8%	1.1%	8.1%	7.1%	8.3%	2.7%	2.3%
1 Yr	45.8%	39.9%	48.7%	-0.3%	19.7%	33.4%	45.5%	48.5%	31.5%	22.5%
5 Yrs Annualized	17.4%	8.9%	12.5%	3.2%	7.5%	9.3%	-2.0%	2.3%	7.8%	6.0%

Data sources: Lipper, HedgeFund Research

Global Equity

- Global equity markets continued their strong rally throughout the month of April. Capital inflows into equity markets—specifically through exchange-traded funds (ETFs)—continued to set records, as year-to-date 2021 flows have outnumbered any previous full year, with the exception of 2017. Buoyed by increased vaccination rates and eased restrictions, U.S. consumer personal spending and sentiment data for April came in above expectations.

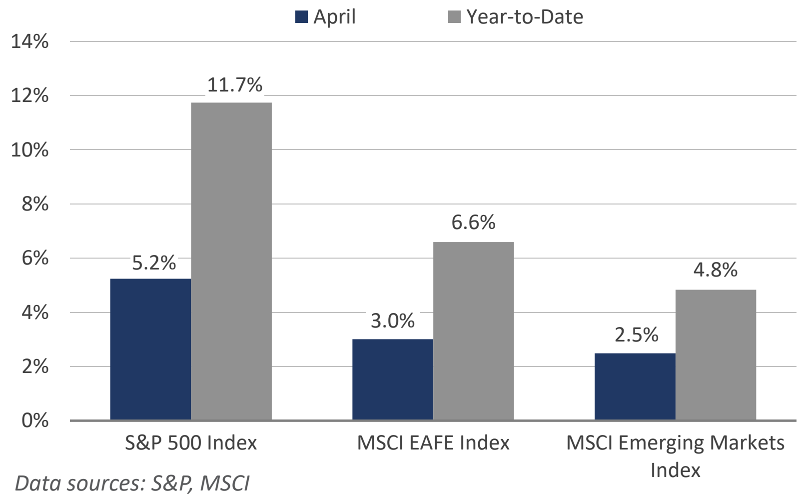
- The S&P 500 gained more than 5% for the month, with the REIT, communication services, and consumer discretionary sectors leading performance. The worst-performing sector for the month was energy, despite a rally in oil prices.

- The rotation into value and small cap stocks that led the market during the first quarter paused in April. The Russell 1000 Index, for example, posted a gain of 5.4% over the month, while the Russell Micro Cap Index was flat, at 0.3% for the month.

- UK equities performed well with continued progress in the fight against COVID-19. The country has noted positive signs of economic recovery with the continuation of the vaccination program, as evidenced by a rise in retail sales in March and the strong manufacturing and services PMI data in April. Conversely, equity markets in Continental Europe lagged their UK peers, with countries such as France, Germany, and the Netherlands facing a third wave of COVID-19, causing leaders to reintroduce lockdown measures. Additionally, the EU vaccine rollout has been sluggish because the region was slower in bulk-ordering vaccines compared to other developed economies, leading to vaccine supply shortages. Consequently, the euro zone gross domestic product (GDP) contracted 0.6% in the first quarter and continues to lag the U.S. and the majority of other developed economies.

U.S. EQUITIES STORNGEST IN 2021

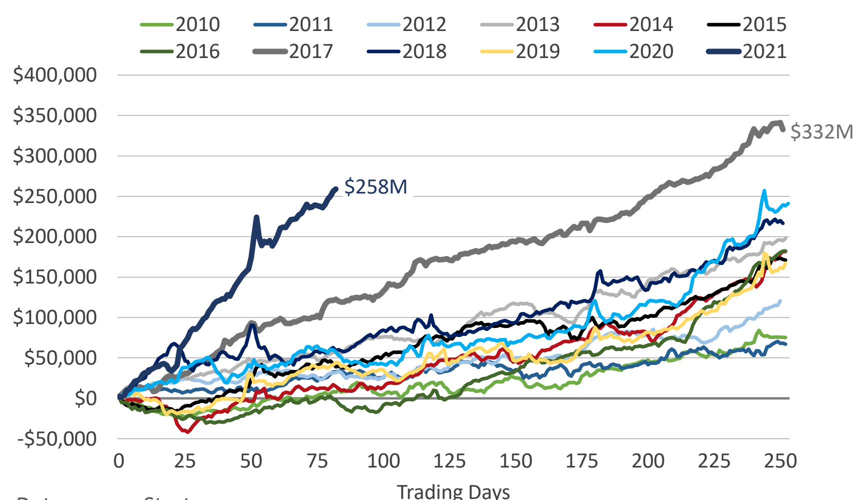
Equity Indices Performance (Returns in U.S. Dollars)



Data sources: S&P, MSCI

EQUITY FLOWS OUTPACING PRIOR YEARS

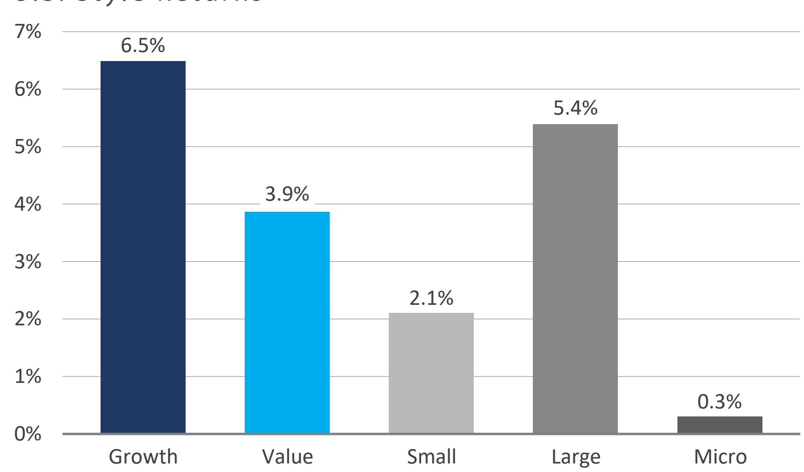
Cumulative Daily Equity ETF Flows



Data source: Strategas

GROWTH AND LARGE CAP LEAD

U.S. Style Returns

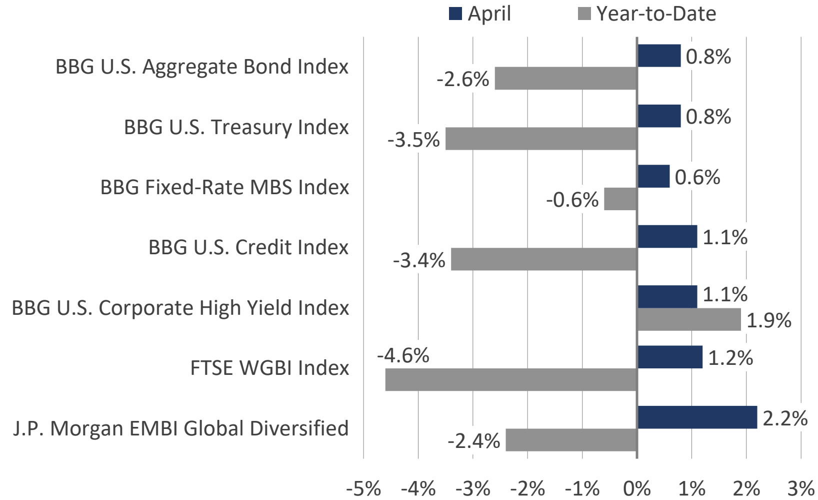


Data source: FTSE Russell

- Within emerging markets, China and Taiwan drove performance. The two countries cumulatively account for over 50% of the weight of the index. The Chinese economy continued on its path to normalization, and witnessed improvement in service sectors. The COVID-19 crisis in India exacerbated throughout the month as the country faced a second wave, leading to record-setting numbers of daily cases and deaths.

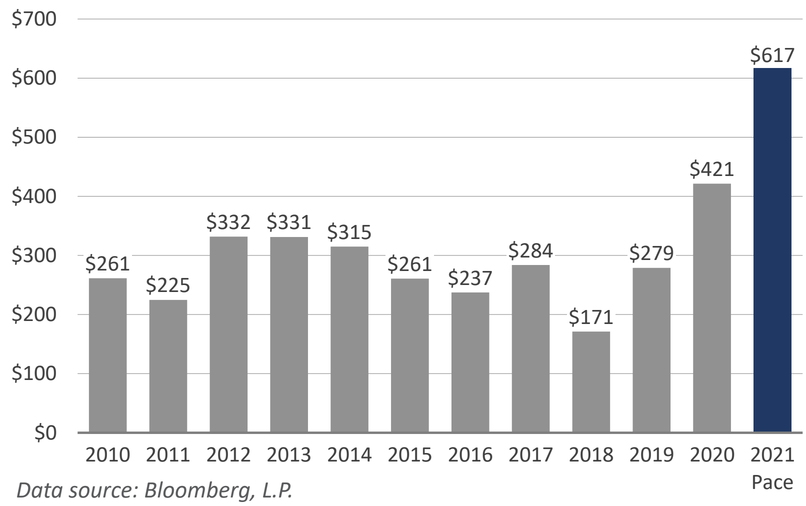
- Japanese equities performance was weak during April due to a number of contributing factors. First, COVID-19 infections rose as the vaccine rollout lagged other major economies, causing the prime minister to declare a state of emergency in Tokyo, Osaka, and other major areas. Additionally, the Bank of Japan has announced that it will be decreasing its purchases of ETFs and will no longer buy any ETFs tracking the Nikkei. Lastly, Japanese equities were hurt by the rotation back to growth stocks.

POSITIVE RETURNS OFFSET SOME OF 2021's WEAKNESS
Fixed Income Index Returns



Data sources: Bloomberg, L.P., Lipper

HIGH YIELD BONDS ON PACE FOR RECORD ISSUANCE VOLUMES (in Billions)



Data source: Bloomberg, L.P.

Fixed Income

- 10-year Treasury yields declined modestly following a sharp rise during the first quarter. Despite the decline in nominal yields, 10-year breakeven inflation rates rose by 4 basis points (bps) to 2.4%, an indication that market participants still see risk of an above-trend inflationary period.

- The Bank of Canada became the first major central bank to begin tapering its monetary support, announcing a 25% reduction in weekly asset purchases. The Canadian central bank further noted the potential for interest rate hikes beginning in 2022. The announcement did not appear to trigger concerns of monetary tightening outside of Canada, with U.S. and European debt yields experiencing relatively little movement following the announcement.

- Default expectations for high yield bonds and leveraged loans continue to decline as growth expectations for 2021 have improved. Citibank reduced its high yield and leveraged loan default rate forecasts from 3.4% and 3.6% to 2.8% and 3.2%, respectively. Current forecasts represent a substantial decline relative to the realized default rate for high yield bonds in 2020 of 7.0%.

- Credit spreads continued to tighten across most credit assets, with assets in COVID-impacted sectors such as energy and transportation seeing the most spread compression. This represents substantial spread compression off the widest measure witnessed in March 2020, where investment-grade, high yield, and leveraged loan spreads were all in their 95th percentiles. Notably, high yield bond spreads ended the month at 293 bps, moving inside 300 bps for the first time since 2007.

- Credit fundamentals for securitized sectors have improved alongside economic sentiment, with delinquency rates continuing to decline for residential mortgages, commercial mortgages, and unsecured consumer loans in April. Although top-line performance trends have improved, a "K-shaped" recovery dynamic has emerged, with long-term delinquencies comprising a larger share of overall delinquency rate has declined.

Real Assets

Real Estate

- U.S. REITs gained over 8% in April, bringing year-to-date returns to just above 17%. The rotation into more economically sensitive sectors expected to benefit from the COVID-19 vaccine rollout across the U.S. seems to have subsided over the month, with all property sectors performing relatively in line with the index.

- The property sectors most negatively impacted by the pandemic – malls and hotels – posted strong returns through the first quarter and continued with some momentum through April. Although hotels will likely see demand return following a year of people limiting travel, the prospects for malls appear more questionable. Given recent performance, malls are now valued on par with industrial on a price to net asset value basis.

- Self-storage REITs showed strong performance over the month, responding to a number of constituents posting stronger than expected earnings, driven by increased occupancy and stronger rents.

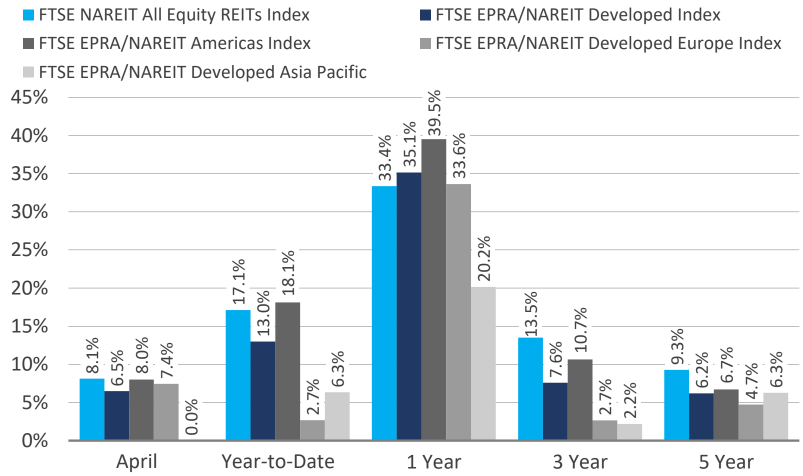
Natural Resources

- Oil prices continued to strengthen throughout the month, with the front month contract increasing 7.5%. Oil production declines across the U.S. and OPEC have been largely supportive of prices. However, in their April 1st meeting, OPEC decided to gradually curtail production cuts beginning in May. At the same time, rig counts across the U.S., a leading indicator of oil production, has risen more than 25% year-to-date.

- The Energy Information Administration anticipates increased demand for transportation fuel products. Jet kerosene has seen some pickup in demand as U.S. passenger volumes hit 60% of same week 2019 volumes, the highest they have been since the beginning of the pandemic. However, the shifting mix of airline fleets and changes to routes flown relative to those in place pre-COVID may result in fuel demand lagging passenger volumes.

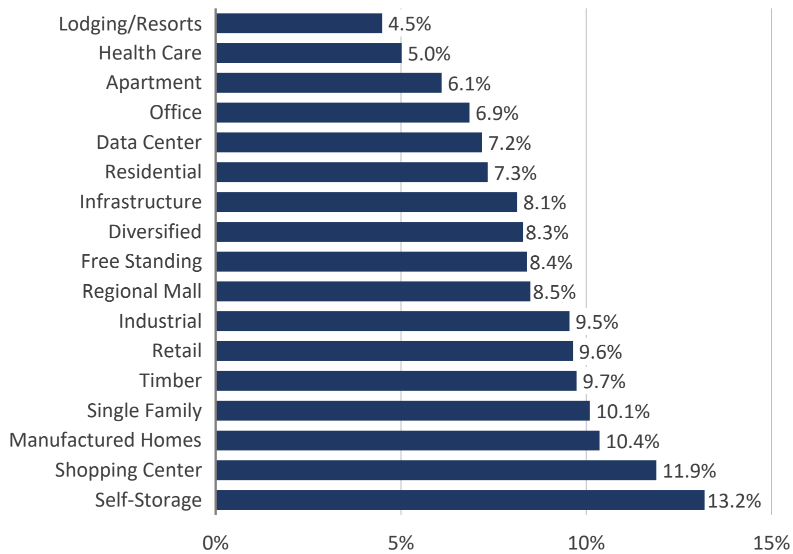
REAL ESTATE STRONGLY POSITIVE YEAR-TO-DATE

Public Real Estate Index Trailing Returns



Data source: NAREIT

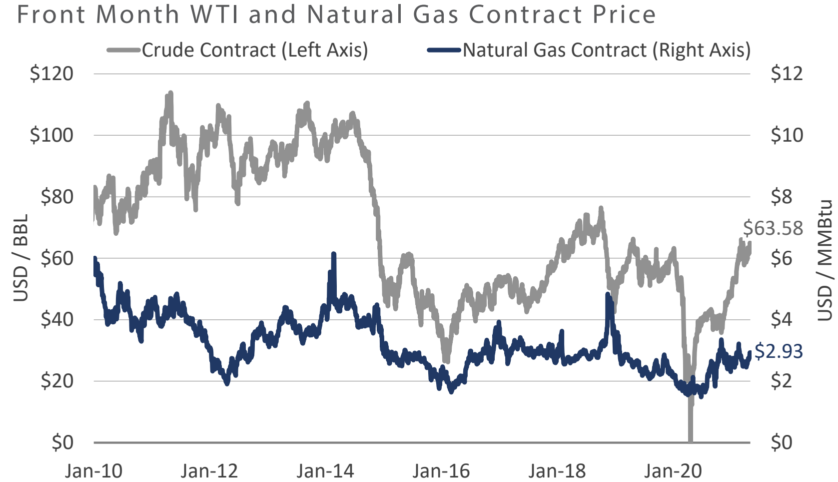
SECTOR PERFORMANCE FAR LESS DISPARATE THAN PRIOR PERIODS



Data source: NAREIT

ENERGY PRICES INCREASE WITH RECOVERY

Front Month WTI and Natural Gas Contract Price



Data source: Bloomberg, L.P.

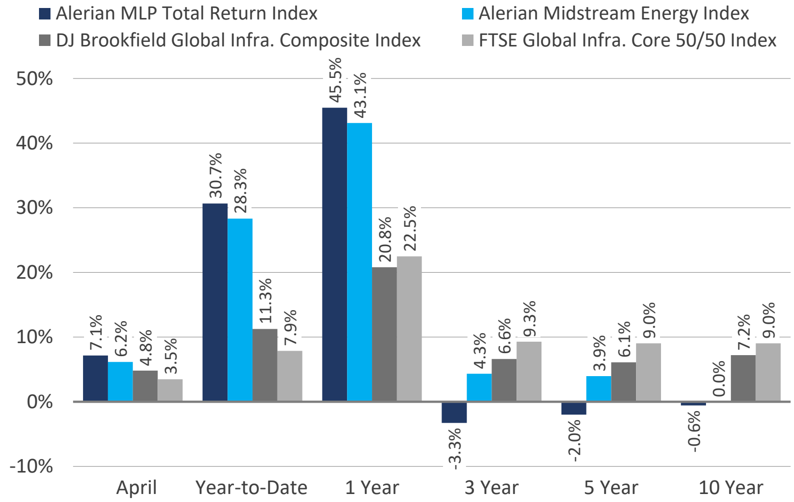
- Commodity prices, as measured by the Bloomberg Commodity Index (BCOM), ended April up 8.3% for the month and 15.8%year-to-date, driven primarily by strong returns across agricultural products.

Infrastructure

- Midstream energy infrastructure equities continued their recovery. The strong performance follows gains in energy commodities and strength in the broad energy sector. The financial position of most midstream energy companies continues to improve, with share buybacks and deleveraging of balance sheets.
- Listed infrastructure continued its strong performance over the past year. Toll roads and marine ports led performance for the month, as global economic activity recovers.
- Renewable energy stocks, as tracked by the Global Listed Infrastructure Organization sector index, continued to decline over the month (-2.6%) following a strong 2020.

INFRASTRUCTURE ADDS TO 1-YEAR GAINS

Trailing Infrastructure Returns



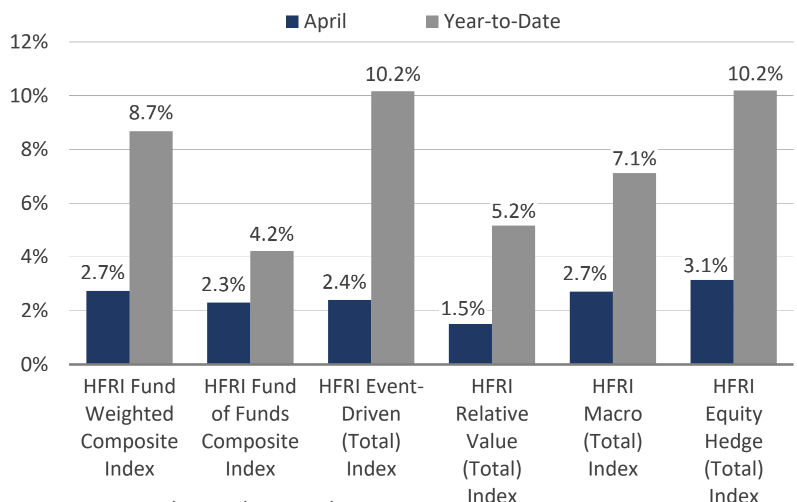
Data source: Bloomberg, L.P.

Diversifying Strategies

- Hedge funds continued to generate strong performance through the end of April, driven by strong corporate earnings and investor optimism, as international vaccination efforts continue to progress.
- Equity hedge managers finished with strong performance for the month, led by high-beta, long-biased quantitative strategies, as well as technology and fundamental sector-focused strategies.
- Event-driven managers were able to take advantage of dislocations in merger arbitrage and special situation deals to end the month with strong performance.
- Merger arbitrage and special situations profited from tightening spreads, with recent weakness in the broader SPAC market driving increased liquidity back into traditional event-driven markets.
- Global macro performance was driven primarily by commodity and trend-following commodity trading advisors (CTAs), who profited from tightening global supply chains as a result of the COVID-19 pandemic.

HEDGE FUNDS OFF TO STRONG START IN 2021

HFRI Indices Performance Returns (U.S. Dollars)



Data source: HedgeFund Research

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All data is as of April 30, 2021 unless otherwise noted.

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