Research Review

October 2021

October offered risk-seeking investors handsome gains, with notably strong total returns generated across domestic equities and real assets—a continuation of the prevailing theme of the trailing 18 months. At their meeting in early November, the Federal Reserve (Fed) confirmed the widely anticipated tapering in the pace of their monthly asset purchases, set to begin in November. This represents a pivotal shift in the public sector's influence on the return to a more self-sustaining economic recovery. Despite the formal announcement of a downward adjustment in Fed monetary accommodation, global equity returns remained strongly positive, particularly among the domestic large cap growth sector, which posted close to a 9% total return on the month (as proxied) by the Russell 1000 Growth Index. This nearly double-digit return was the strongest monthly gain since November 2020 and helped send the broader large cap core indices to new all-time high price levels. Fixed income performance was essentially flat across the major market sectors, as a modest monthly increase across nominal Treasury rates served as a headwind to rate-sensitive sector performance while a sharp decline across real interest rates supported the inflation-sensitive corners of the market. Performance in real assets was broadly positive, particularly among Real Estate Investment Trusts (REITs), which posted the strongest monthly gain since April 2021.

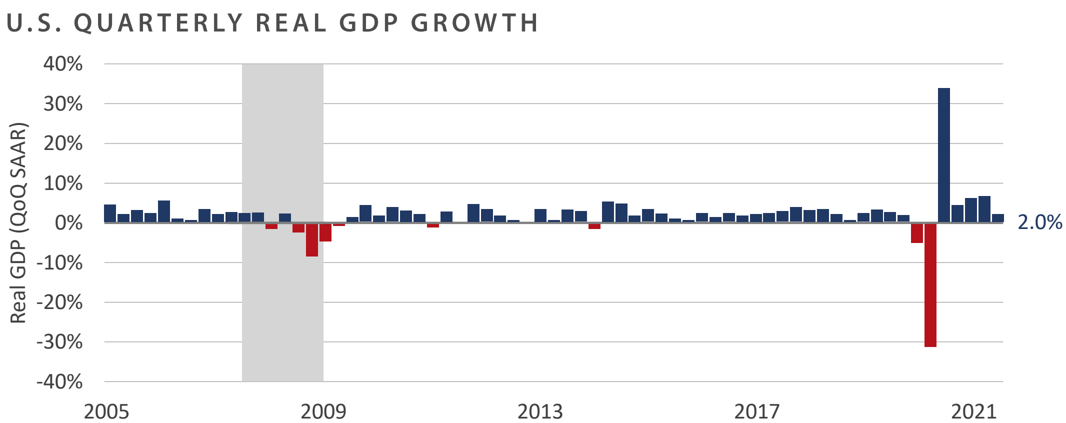
INSIDE THIS ISSUE

CAMDEN CAPITAL

Economic Update

Despite Cooling Growth, Federal Reserve Moves Forward with QE Tapering

Economic activity moderated materially in the third quarter despite the passage of a nearly $2 trillion fiscal stimulus package at the conclusion of the first quarter and widely held expectations for a near-term passage of a multi-trillion-dollar infrastructure bill. Based on the initial estimate of the third quarter period by the Bureau of Economic Analysis (BEA), the U.S. economy grew at a modest 2% quarter-over-quarter annualized pace, the weakest quarterly growth rate since the sharp COVID-related downturn of second quarter 2020.



Data sources: BEA, NBER, Bloomberg, L.P.; Data as of 3Q-2021 (first estimate)

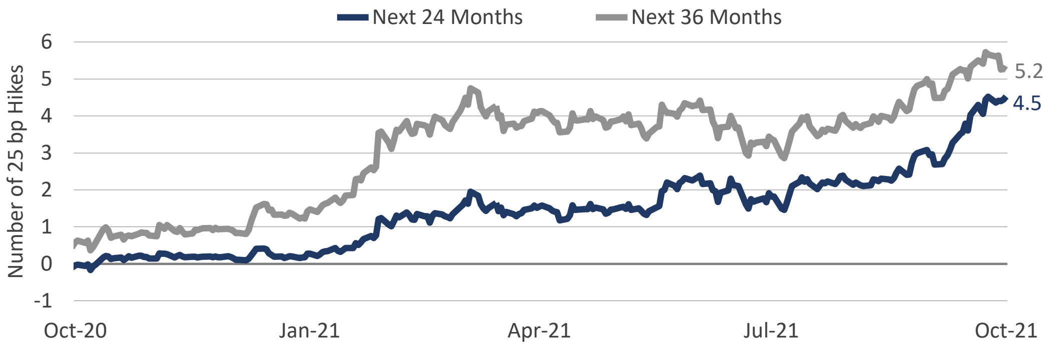
While domestic economic conditions have shown some indications of moderating in recent months, the U.S. economy continues to find itself in a position of relative economic strength, particularly versus key developed market trading partners, the benefit of which continues to buoy relative performance of domestic-oriented sectors versus their international peers.

The Fed capitalized on this position of relative economic strength in early November by announcing the removal of marginal liquidity support through a planned tapering of monthly asset purchases, a process which is set to initiate later in the month. To begin the taper process, the Fed will seek to reduce the pace of asset purchases by $15 billion per month, including $10 billion in Treasuries and $5 billion in agency mortgage-backed securities.

With annual inflation across core personal consumption expenditures (PCE) running 160 basis points (bps) ahead of the Fed's target through September, and continued positive momentum displayed across headline measures of unemployment, the Fed's dual mandate naturally dictates the need for a less accommodative posture.

Market participants have focused their attention on the anticipated path of the federal funds rate, which is expected to begin moving higher in mid-2022, provided economic conditions cooperate. Based on pricing across Eurodollar futures at the end of October, bond market participants have discounted essentially five 25 bps hikes to the policy rate over the next two-to-three years, which would result in a new upper bound on the federal funds rate of 1.50%, versus today's 0.25% target.

MARKET-IMPLIED PACE OF FED RATE HIKES
(Implied by Eurodollar Future Prices)

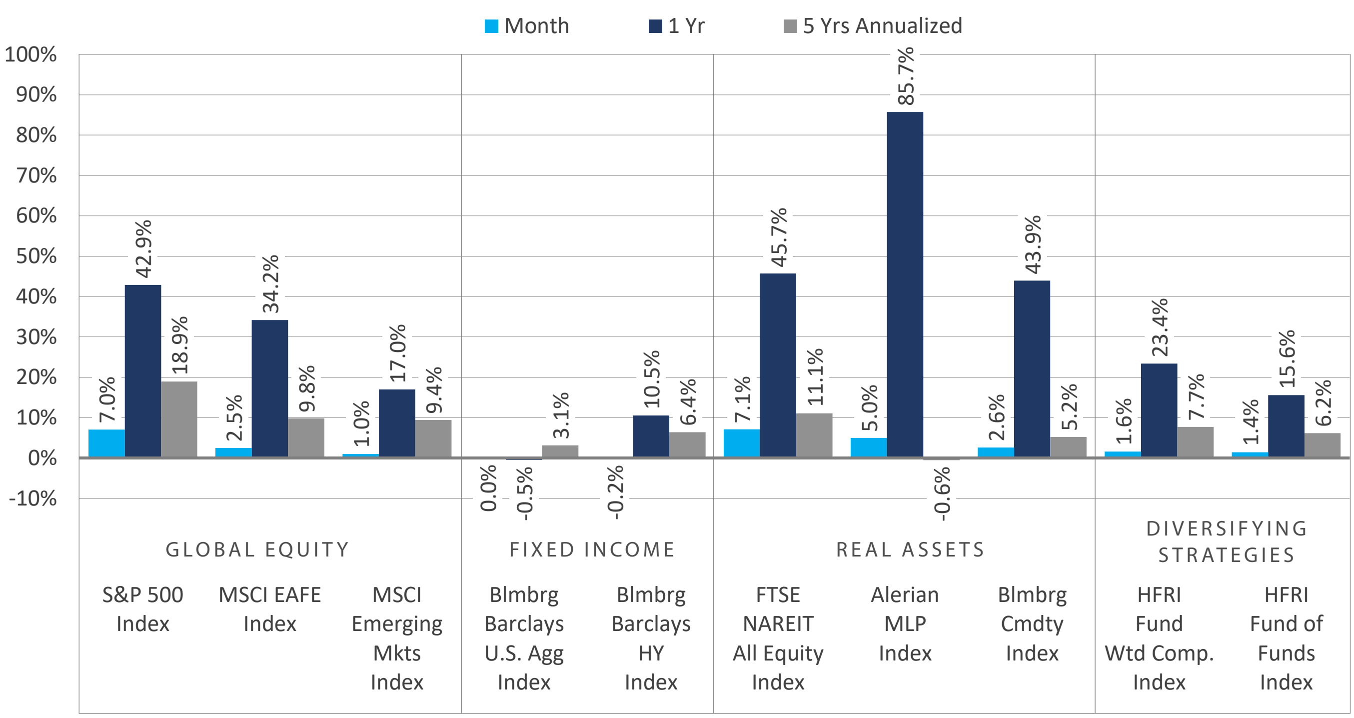


Data sources: Bloomberg, L.P., Morgan Stanley; Data as of October 29, 2021

In summary, October market performance was strongly positive across the major asset classes and sectors, with relative performance continuing to favor the domestic corners of the marketplace, despite the anticipation and eventual announcement of the tapering of monthly Fed asset purchases. In the wake of a presumably undisturbed path of marginal liquidity removal by the Fed over the near-term horizon, numerous increases to the policy rate are expected to follow, with bond market participants already pricing in multiple rate hikes over the coming two-to-three years.

Market Returns

October 2021



Data sources: Lipper, HedgeFund Research

Global Equity

October is known as a month of high volatility with some historically notable market crashes occurring during the month in past years. October 2021 was an exception, however, as equity performance was positive across all major regions. With the acceleration of global COVID-19 vaccination rates, investors have shifted their attention toward economic normalization—specifically, inflation and supply chain issues. Performance in the month was primarily driven by robust third quarter corporate earnings. According to FactSet, 82% of the companies in the S&P 500 that reported earnings through the end of October reported a positive earnings per share (EPS) surprise and 75% reported better than expected revenue.

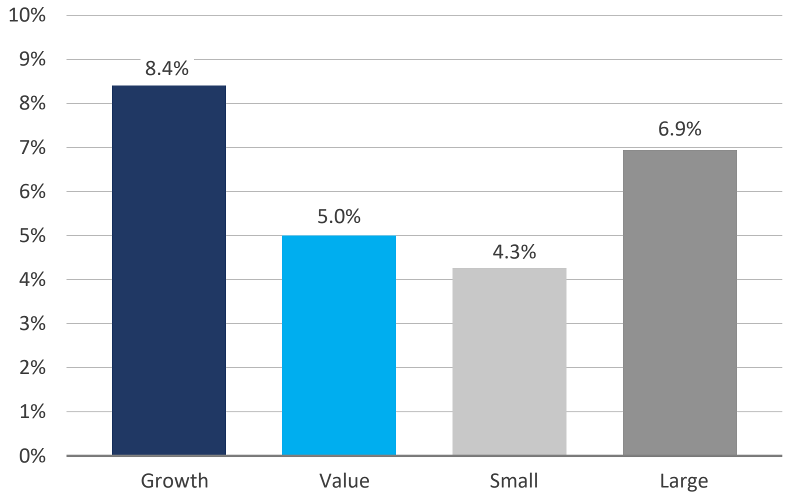
Growth equities outperformed value equi-ties across all market capitalizations. The outperformance of growth equities for the month was driven by strong performance in the information technology and consumer discretionary sectors. Growth and beta were the strongest performing factors, while more defensive factors lagged.

European equities posted gains in October, with third quarter earnings indicating strong demand despite cost pressures caused by inflation and supply chain bottlenecks. The top-performing sectors in the region were utilities, information technology, and consumer discretionary. Europe also saw soaring power prices amid a shortage of natural gas, driving the utilities sector higher. Prices began to decline at the end of the month after after Russian President, Vladimir Putin, called for Russian companies to start filling European storage facilities. UK equities also rose during the month due to strong earnings. Internationally focused sectors—such as financials, with large multinational banks—led the market.

Emerging market equity returns were slightly positive for the month, rebounding from their September lows. Companies within emerging markets also posted strong earnings. Increased vaccination rates improved consumer sentiment, leading to increased interest rates in the region and a surge in commodity prices, which broadly benefited emerging market companies on the top and bottom line. China's equity market was positive for the quarter, as Evergrande began making payments again and investor concerns showed signs of abating.

GROWTH STOCKS HAVE THE STRONGEST START TO THE QUARTER

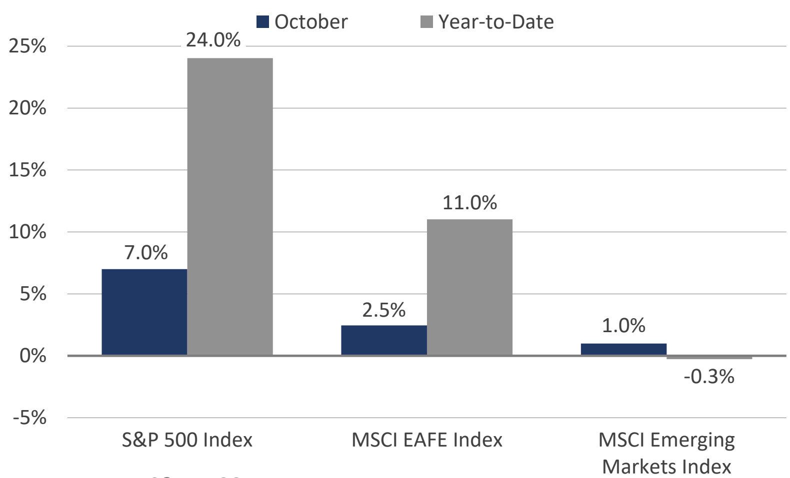
U.S. Style Returns



Data source: FTSE Russell

U.S. EQUITIES ADD TO THEIR YEAR-TO-DATE LEAD

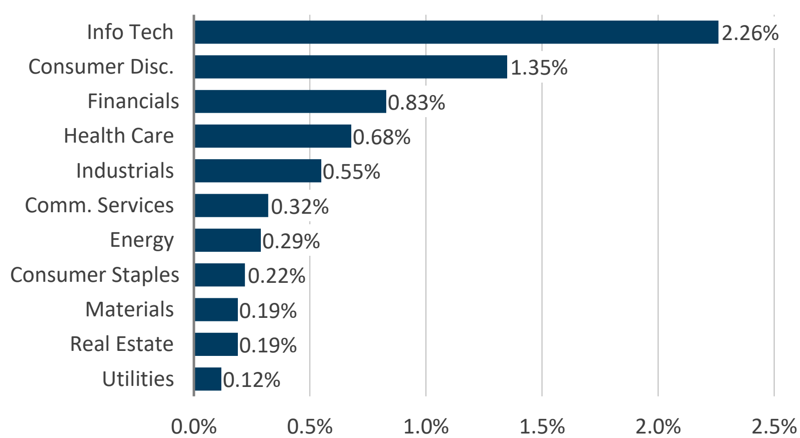
Equity Indices Performance (Returns in U.S. Dollars)



Data sources: S&P, MSCI

TECH MADE THE LARGEST CONTRIBUTION TO THE S&P 500 INDEX'S RETURN

S&P Sector Contribution



Data source: S&P

The Japanese stock market continued to trade around uncertainty and changes in the political landscape. The market declined in October, following low public approval for newly appointed Prime Minister Fumio Kishida, who was elected in late September.

Fixed Income

Long rates rallied in October while the belly of the yield curve sold off, resulting in a relatively flatter yield curve to end the month. Rate movement was primarily driven by market participants pricing in expected monetary tightening in 2022 and slower long-term economic growth. As of the end of the month, the CME FedWatch Tool was pricing in an approximately 75% chance of at least one rate hike by July 2022.

The first estimate of third quarter GDP came in below expectations as supply chain challenges and labor markets weighed on growth. The 2.0% reading came in 0.6% below median sell-side estimates and nearly 1.4% above the lowest GDPNow estimate from the Atlanta Fed. Furthermore, five-year inflation breakevens rose 38 bps to nearly 2.9%. Rising breakeven rates were witnessed globally.

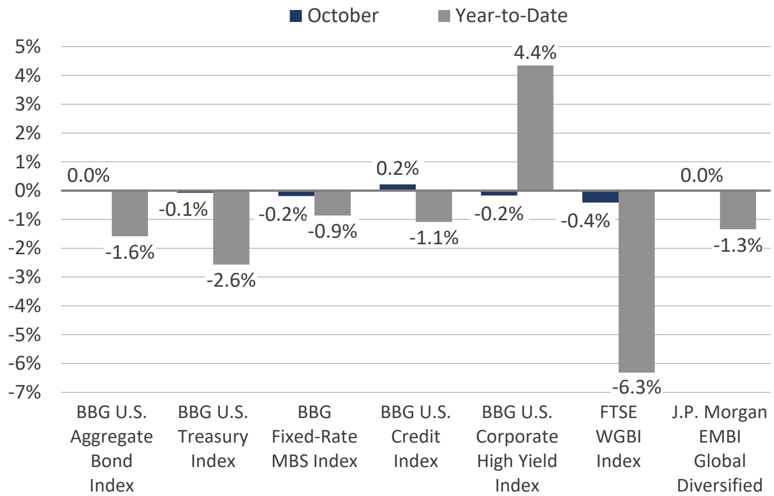
The Fed met on November 2-3 and the consensus view is that the taper will begin in November and conclude in mid-2022, with rate hikes beginning post-taper. However, weakening economic growth compounded by increasing inflation expectations could impact the Fed's expected changes to policy direction.

Credit markets were unfazed by movements in the rate market, with underlying fundamentals remaining intact. Key-rate duration and a flattening yield curve benefited investment grade corporates, resulting in slight outperformance over high yield. Despite inflationary pressures, S&P 500 profit margins remain well above long-term averages, thereby supporting credit valuations.

Market participants are beginning to feel fatigue in the CMBS and ABS markets as torrid issuance results in modestly wider spreads. Notably, single-asset-single-borrower (SASB) deals have been the driver of year-to-date new issuance, with SASB accounting for roughly 75% of the CMBS deals maturing by 2022. The conduit maturity wall has been extended into 2023 and 2024, which means the market could expect SASB deals to become more prevalent over the coming quarters. As a result of an increase in SASB supply beyond the demand for such securities, SASB deals priced wider than initial guidance during the month.

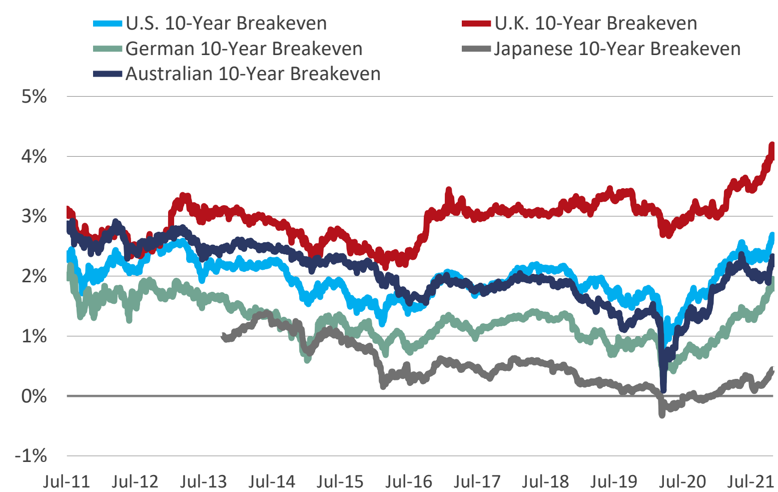
BONDS FLAT FOR OCTOBER WITH ONLY HIGH YIELD GAINING IN 2021

Fixed Income Index Returns



Data sources: Bloomberg, L.P., Lipper

GLOBAL 10-YEAR INFLATION BREAKEVENS MARCH TOWARD DECADE HIGHS



Data source: Bloomberg, L.P.

Real Assets

Real Estate

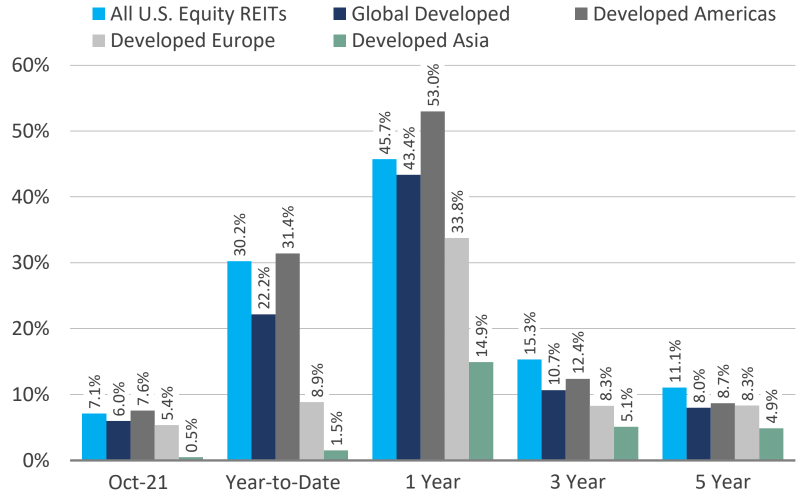
U.S. REITs bounced back in October after a flat third quarter. REIT property types most exposed to supply chain woes and supply-demand misbalancing led performance on the month, with industrial, self-storage, regional malls, and residential housing posting strong performance. Among the factors driving REIT performance for the month were increased inflationary concerns, port congestion across the West coast and related supply chain issues, labor shortages, demand for housing, and massive dry powder chasing deals in the U.S. real estate market—all helping to support REIT pricing in sectors well-positioned for the current macro environment.

Industrial REITs continued to outperform through October as well as year-to-date, returning 14.8% and 40.0%, respectively. While the industrial sector on a year-to-date basis has lagged relative to sectors that were either hit hard during 2020—such as regional malls—or those that have seen massive demand from the shift to work-from-home, like self-storage and residential housing, positive domestic and global factors have shifted investor interest into the sector. Higher market rents across regions, unabated tenant demand outpacing development starts, and attractive capitalization rates contributed to performance.

Self-storage REITs also outperformed during October on strong funds from operations (FFO) and net operating income (NOI) gains across the sector. The strong performance for the month and year-to-date—14.3%and 58.9%, respectively—has been driven by strong occupancy rates, limited new development, and an imbalanced supply-demand dynamic. Self-storage REITs stand to benefit from a post-COVID environment, as labor shortages, the shift to hybrid work, and strong housing growth show few signs of abating, and may continue driving domestic population movement.

REITs ADD TO ALREADY STRONG PERFORMANCE

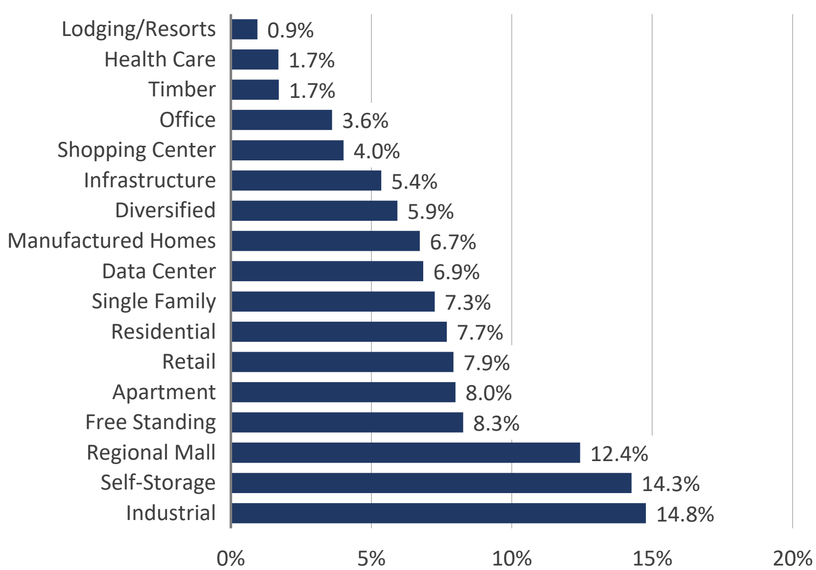
Trailing REIT Performance by Geography



Data source: Bloomberg, L.P.

COVID-19 REPERCUSSIONS CONTINUE TO INFLUENCE REAL ESTATE RETURNS

U.S. REIT Trailing Performance by Property Type



Data source: Bloomberg, L.P.

Natural Resources

Oil prices rose 10.7% in October, closing at \$83.19/barrel and hitting a seven-year high. On a year-to-date basis, oil prices are up roughly 75% from \$48.50/barrel at year-end 2020. Oil demand continues to recover, outpacing global supply with the broad reopening of the global economy. Even as OPEC projects daily oil demand in 2022 to exceed pre-pandemic levels, the organization has been slow to open up the taps, curtailing supply and driving oil prices higher.

After an exceptionally strong third quarter, natural gas prices moderated during October, decreasing 9.8%; however, natural gas prices remain at multi-year highs of \$5.43/MMBtu, versus \$2.54/MMBtu at the end of 2020, doubling on a year-to-date basis. A mild start to the winter season in most parts of the U.S. and Canada has resulted in a moderation of natural gas supply runs as domestic stored supplies have increased and exports of liquid natural gas to Europe and Asia have continued to accelerate.

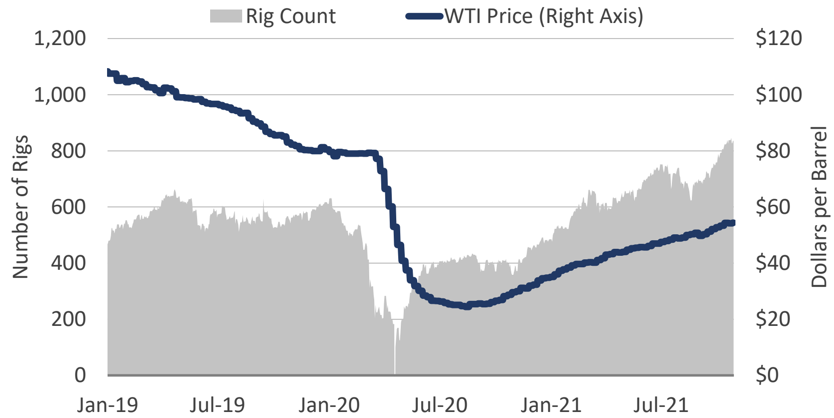
Commodity prices, as measured by the Bloomberg Commodity Index (BCOM), ended October with a gain of 2.6%. Performance was driven by strong returns across oil and base metals, while natural gas and lean hogs detracted.

Infrastructure

Following negative performance in the third quarter, midstream energy infrastructure, as defined by the Alerian MLP Index, gained 5.0% during October, resulting in a year-to-date return of 46.3%. While investors favored upstream companies to the detriment of midstream in the third quarter, moderating commodity prices combined with high demand for domestic oil and gas buoyed investor confidence in midstream assets during the month. Additionally, the financial position of most midstream energy companies continues to improve, with share buybacks, deleveraging of balance sheets, and positive forward-looking guidance painting a favorable environment for midstream.

OIL PRICES RISING FASTER THAN RIG COUNT

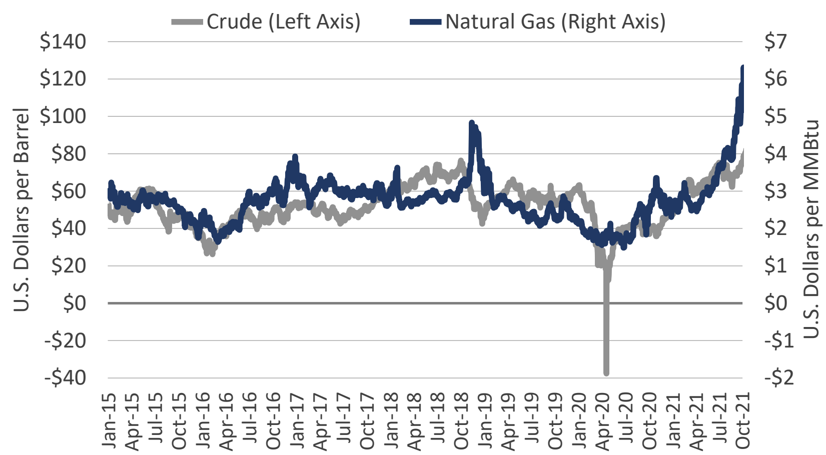
U.S. Rig Count and WTI Price



Data source: Bloomberg, L.P.

NATURAL GAS DROPS ALMOST 10% BUT REMAINS AT MULTI-YEAR HIGH

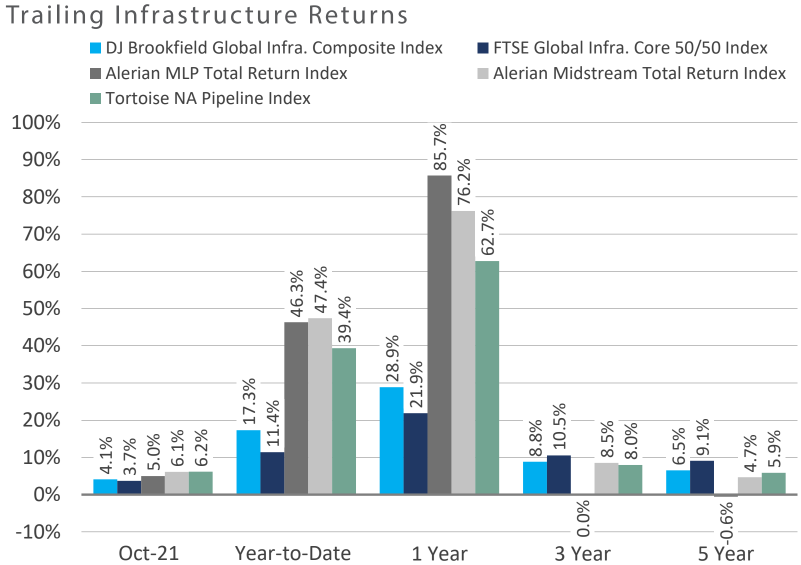
Front Month Crude and Natural Gas Price



Data source: Bloomberg, L.P.

INFRASTRUCTURE RETURNS POSITIVE AMID SUPPLY CHAIN ISSUES AND POLITICAL DEBATE

Trailing Infrastructure Returns



Data source: Bloomberg, L.P.

Listed infrastructure stocks were positive during October, returning 3.7% as measured by the FTSE Global Core Infrastructure 50/50 Index. Performance was led by industrial-based transportation subsectors, with railroads and transportation names returning 19.6% and 11.6%, respectively, on investor confidence of easing supply chain woes and material demand over the coming holiday season.

Diversifying Strategies

Hedge funds broadly advanced during October, with short-term interest rates rising while the yield curve flattened and global equity markets reversed September's losses. With those gains, the total hedge fund industry surpassed $4 trillion in total assets.

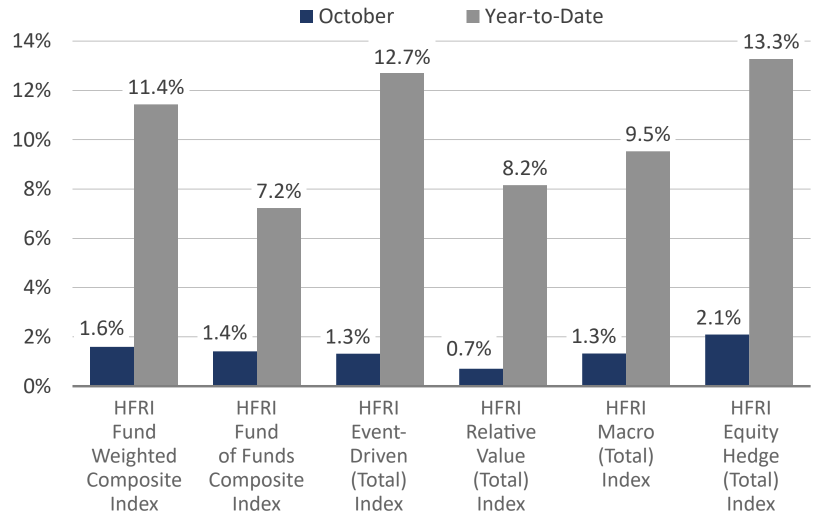
Equity long/short funds generated the strongest gains, with strong contributions from quantitative directional, technology, energy, and fundamental growth strategies.

Event-driven strategies' returns were also positive, with large gains from activist and special situations exposures. The distressed/ restructuring approach slightly detracted from performance as that opportunity set remains limited.

Global macro strategies advanced on gains resulting from the increase in short-term rates and continued strength in the energy complex.

HEDGE FUNDS HAVE STRONG OCTOBER

HFRI Indices Performance Returns (U.S. Dollars)



Data source: HedgeFund Research

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All data is as of October 31, 2021 unless otherwise noted.

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