Chartwell Consulting

CHARTWELL REVIEW

April 2021 — **FIRST QUARTER 2021** — Volume XXVIII, Issue No.1

Light At The End Of The Tunnel

A global pandemic was not on anyone's radar screen in 2020. When the concept took hold last February, stock markets simply plunged. US equity markets experienced their swiftest fall from peak to trough *ever*; the S&P500 fell -35% in just 22 days, ending a 12-year bull market.

The combination of credit spreads ballooning and interest rates subsequently plummeting had a whiplash effect on bond markets. The 10-year Treasury interest yield fell from 1.92% at year-end 2019 to 0.7% at the end of 1Q20. Over the same period, credit spreads on investment grade bonds widened to over 340 bps and over 1,100 bps for high yield. Swift monetary intervention helped normalize spreads. By year-end 2020, spreads were back to pre-pandemic levels.

What a difference a year makes as we fast forward to March 2021. The swiftest fall of the S&P 500 from peak to trough was followed by a swift 5-month recovery, paving the way for a new bull market cycle. The trailing one-year returns shown in Figure 1 demonstrate the strength of the recovery. Other notable highlights include:

- The pandemic's "first wave" resulted in 25 million US layoffs, and headline unemployment spiked to 14.7%. One year later, the unemployment level is down to 9.7 million; a rate of 6%.
- From "worst to first" – small cap and value stocks were laggards until 4Q20, and both continued to outperform in 1Q21. The trailing one-year return for micro-cap stocks was 120.3%.
- WTI oil futures closed negative for the first time *ever* in April 2020. The GSCI Commodities/Natural Resources index sank -42.3% in 1Q20. Oil prices and other commodities rebounded, and the trailing one-year return of the index is 71.3%.
- The $1.84 trillion fiscal relief bill - American Rescue Plan was passed in March. It is likely to help generate the strongest US economic growth since the 1970s over the next two years.

Figure 1: Index Benchmarks

Market Index	Trailing Returns *				
	1Q 21	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**
S&P 500	6.2	56.4	16.8	16.3	13.9
U.S. Top-cap Stocks	5.1	56.3	18.3	17.4	14.6
U.S. Mid-cap Stocks	8.1	73.6	14.7	14.7	12.5
U.S. Small-cap Stocks	12.7	94.9	14.8	16.4	11.7
Non-US Stocks (**EAFE**)	3.5	44.6	6.0	8.9	5.5
Non-US Stocks (**Emerg**)	2.3	58.4	6.5	12.1	3.7
3 mo. T-Bills	0.0	0.2	1.5	1.2	0.6
U.S. Aggregate Bonds	(3.4)	0.7	4.7	3.1	3.4
High Yield Bonds	0.9	23.3	6.5	7.9	6.3
Global Bonds ($Hdgd)	(2.5)	1.5	4.3	3.3	3.9
Consumer Prices, p.a.	*1.2*	*2.6*	*2.0*	*2.2*	*1.7*
Blmbrg Commodities	6.9	35.1	(0.2)	2.3	(6.3)
MSCI World REIT's	6.2	31.3	8.4	5.3	7.2
Chartwell 65/35 Global	3.7	36.4	9.4	10.1	7.7

Figure 2: Average Mutual Fund Returns

Fund Category	Trailing Returns *				
	1Q 21	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**
U.S. Large-cap	7.1	58.1	15.35	15.1	12.7
U.S. Mid-cap	12.0	80.7	13.2	13.8	11.0
U.S. Small-cap	15.6	92.7	12.6	14.1	10.9
International Lg. Cap	3.6	51.5	7.1	9.7	6.0
International Sm. Cap	4.3	70.4	7.4	11.8	9.4
Emerg. Mkt. Equity	2.6	63.1	6.9	12.1	4.3
Balanced/Hybrid	3.4	34.4	9.6	9.4	7.7
General Bond	(5.8)	5.6	6.0	4.9	5.7
High Yield Bond	1.0	22.0	5.8	6.8	5.5
Hedge Funds, Equity	7.4	48.2	10.0	10.2	5.9

*Annualized trailing returns for periods ending 3/31/2021.

Chartwell Consulting (USA), LLC
34 Park Street, Montclair, NJ 07042
chartwell@chartwellusa.com
www.chartwellusa.com
Phone (973) 783-2900
Fax (973) 783-2998

Economies, Economics, Prices, and Policy

	3.31.21	3.31.20
CPI - headline, y-o-y	2.6%	1.5%
CPI - core, y-o-y	1.6%	2.1%
Unemployment Rate	6.0%	4.4%
Labor Force (millions)	160.6	162.9
Employed (millions)	144.1	155.8
Employment/Population	57.8%	60.0%
Growth in Real GDP, (est.)	6.0%	2.1%

At 1.6%, current *core* inflation (ex-food & energy) has dropped from 2.1% on a year-over-year basis. Rising food and energy prices have pushed year-over-year *headline* inflation up to 2.6%.

The unemployment rate declined to 6.0% at the end of March, down from 6.7% at the end of December, but still 2.5% higher than its pre-pandemic level in February 2020. Job growth was widespread in March, led by gains in leisure and hospitality, public and private education, and construction. Nonfarm payrolls rose by 916,000 in March.

The Employment/Population ratio rose from 57.4% at the end of December, to 57.8% at the end of March. The labor force fell by 9,000 persons in the quarter, but unemployment fell by 1.0 million. Among the unemployed, the number of people on temporary layoff declined by 203,000 in March to 2.0 million. The number of permanent job losers, at 3.4 million, was little changed in March, but is 2.1 million higher than February 2020.

Figure 3: Breaking Down 4th Quarter* Real GDP

% Change from Preceding Period *(seasonally adjusted at annualized rates)*

Factor	4Q '20	3Q '20	2Q '20	1Q '20
Real GDP Growth	4.3%	33.4%	(31.4)%	(5.0)%
Nominal GDP Growth	6.3	38.3	(32.8)	(3.4)
Real Final Sales	7.1	43.7	(33.1)	(4.6)
Personal Spending	2.3	41.0	(33.2)	(6.9)
Private Investment	27.8	86.3	(46.6)	(9.0)
- Fixed, Businesses	13.1	22.9	(27.2)	(6.7)
- Fixed, Residential	36.6	63.0	(35.6)	19.0
*- Chg. In Inventories **($bn)***	*$60*	*($1)*	*($298)*	*($52)*
Export growth	22.3	59.6	(64.4)	(9.5)
Import growth	29.8	93.1	(54.1)	(15.0)
Government Spending	(0.8)	(4.8)	2.5	1.1

** BEA third estimate on Mar 25, 2020*

Fourth quarter GDP rose 4.3% on a qtr/qtr basis, extending Q3's tremendous rebound. Data continues to bounce back off last year's historic lows, with the Institute of Supply Management's services index for March registering 63.7%, an all-time high. Growth in the services sector has been indicated for 132 of the last 134 months.

Relief spending thus far has ballooned the U.S. budget deficit. At the end of 2020, federal debt held by the public was equal to 100% of GDP. The Congressional Budget Office expects that number to reach 102% of GDP by the end of FY2021.

The budget deficit was $572 billion for the first fiscal quarter of 2021 - $215 billion more than the deficit recorded during the same period last year, according to the CBO's estimates. Revenue collections were largely the same, but outlays were 18% higher than during the same period in fiscal year 2020. Unemployment compensation accounted for nearly 40% of the rise in outlays.

In March, President Joe Biden signed into law the American Rescue Plan Act of 2021, a $1.9 trillion economic relief package aimed at further addressing the economic effects of the COVID-19 pandemic. This provided a third round of direct-payment stimulus checks and extended the unemployment insurance programs created in 2020's CARES Act, among other things.

The Atlanta Fed's GDP model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter is **+6.0%** as of April 9th. This forecast was marked down from 6.2% earlier in the month.

The Treasury market functioned well over most of the first quarter, although measures of market liquidity deteriorated somewhat toward the end of February. Conditions gradually improved, with the 10-year yield topping out at 1.74% and subsequently retreating.

Per the minutes of the FOMC's March meeting, the Board of Governors agreed to maintain the federal funds rate target of 0-0.25%. Also during the meeting, the Committee voted to continue increases in the Fed's SOMA holdings of Treasuries by a minimum of $80bn per month and agency MBS by at least $40bn per month. Like prior meetings, the Committee indicated that they intend to allow inflation to run moderately over 2% to achieve their 2% target in the long-term. To reach this desired outcome, the Fed will have to maintain their accommodative low-to-zero federal funds rate until inflation exceeds 2% for some time and labor markets reach maximum employment.

Consumer spending, according to data from the Bureau of Economic Analysis, appeared to increase considerably faster in the first quarter than in the fourth quarter of last year, likely boosted by federal stimulus payments sent out in January and March. Likewise, the preliminary reading of consumer sentiment from the Michigan survey moved to its highest level over the past year, reflecting the growing number of vaccinations and the enactment of the American Rescue Plan.

Investors appear to have become more optimistic about the economic outlook against the backdrop of vaccination progress, stronger domestic spending, and additional fiscal stimulus. All told, there is still cause for uncertainty as the emergence of more-contagious strains of the virus in the US and elsewhere pose new risks.

Bonds – Rates Rise, Spreads Fall (Further)

Intermediate- and long-term interest rates jumped in the first quarter of 2021, steepening the Treasury yield curve as investor inflation expectations rose on optimism about the outlook for the economy and expectations of higher Treasury debt issuance. This confidence was also reflected in the further narrowing of both investment-grade and high yield option-adjusted spreads, which ended the quarter below pre-pandemic lows.

In mid-March, the $1.9 trillion ARP stimulus package was signed, sending immediate aid to individuals and businesses and bolstering risk appetite. US investment grade credit spreads further tightened from 92bps to 86bps, outperforming like-duration Treasuries by 0.9%. High yield spreads narrowed 50bps, from 360bps to 310bps, marking a level not seen since before the Great Financial Crisis of 2008.

Central banks remained accommodative via near-zero policy rates, but there was interest rate volatility toward the far end of the curve. The US 10-year Treasury yield rose, ending the quarter at 1.74% and the 30-year at 2.42% - up 83 and 77bps, respectively.

Per Figures 5 and 6, developed market yields moved higher over the quarter, but remained at lower levels amid ongoing support from central banks. The US Treasury yield curve steepened by 82bps in the quarter, as the 30-year yield rose 77bps and the 3-month yield fell 5bps. At 1.74%, the US 10-year is 1.04% higher than it was a year ago. The Fed's accommodative posture has taken 3-month to 2-year rates down even further, by 0.1% y-o-y. The yields on German and Swiss government bonds rose slightly but remained in negative territory while those of British government bonds rose by nearly half a percent.

TIPS exhibited a positive return for the quarter, rising 1.6% as the February core PCE print came out 1.4% higher year-over-year. Though still short of the Fed's historical average 2% target, the monthly data points provided some momentum to the market. The 10-year breakeven inflation rate rose from 1.99% to 2.37% over the quarter.

Agency mortgage-backed securities (MBS) fell 1.1%, underperforming like-duration Treasuries as concerns around rising rates brought volatility to the sector. Non-Agency MBS spreads widened over the period, and commercial MBS fell -2.1%

High yield credit spreads continued to tighten meaningfully during the quarter (down 50 bps) to end the quarter at 310 bps. This represents a move below pre-pandemic levels of spread over like-duration treasuries, though dislocations are still present across sectors and credit ratings. Within high yield, the lower-rated CCC bonds outperformed higher-rated credits during the quarter. As yields continue to grind lower and lax financing conditions remain, the lowest-quality D-rated corporate bonds have delivered a whopping 67% return over the trailing 12-months.

Figure 4: Primary Bond Sector Returns (%)

Index	1Q '21	1 Yr	3 Yrs	5 Yrs
US Aggregate Bond index	(3.4)	0.7	4.7	3.1
US Gov't/Credit: (1-3yrs)	(0.1)	1.6	3.0	2.0
US Treasury: Long	(13.5)	(15.8)	5.9	3.1
US TIPS (1-10yrs)	1.6	8.4	4.9	4.1
Mortgage-Backed (MBS)	(1.1)	(0.1)	3.8	2.4
Commercial MBS	(2.1)	4.9	5.3	3.6
Asset-Backed (ABS)	(0.2)	4.6	3.7	2.6
Inv. Grade US Credit	(4.5)	7.9	6.0	4.7
Leveraged Loans	1.5	12.9	2.5	3.9
US High Yield Credit	0.9	23.3	6.5	7.9
Municipal Bonds, broad	(0.4)	5.5	4.9	3.5
Global Agg., ($ hdgd)	(2.5)	1.5	4.3	3.3
Global Credit, ($ hdgd)	(3.1)	8.0	5.6	4.6
Emerg. Mkts Bonds (US$)	(4.5)	16.0	4.0	5.1

Figure 5: Fixed Income Yields – 1st Quarter 2021

(YTM, % p.a.)	Mar-21	Dec-20	Sep-20	Mar-20	*1-Year Change*
US Treasuries					
3-month	0.03	0.08	0.10	0.08	***(0.05)***
2-year	0.16	0.12	0.13	0.23	***(0.07)***
5-year	0.94	0.36	0.27	0.38	***0.56***
10-year	1.74	0.91	0.68	0.70	***1.04***
30-year	2.42	1.65	1.45	1.35	***1.07***
BarCap Aggregate	1.61	1.14	1.19	1.59	***(0.45)***
BBB Credit	2.55	2.1	2.47	4.32	***(2.22)***
AA Credit	1.96	1.37	1.44	2.12	***(0.75)***
Agency MBS		0.98	1.29	2.18	***(1.20)***
US High Yield	3.36	4.18	5.77	9.44	***(5.26)***
UST 10yr - 3Mo	1.71	0.83	0.58	0.62	***1.09***

Figure 6: Sovereign Bond Yields, selected countries

10-year yields (%)	Mar-21	Dec-20	Sep-20	Mar-20	*1-Year Change*	*1-Year Currency Change*
Germany	(0.4)	(0.6)	(0.5)	(0.5)	0.1	***9.4***
Switzerland	(0.3)	(0.5)	(0.5)	(0.3)	0.0	***4.3***
Japan	0.0	0.0	0.0	0.0	(0.0)	***2.5***
Britain	0.9	0.4	0.3	0.4	0.4	***16.4***
Spain	0.3	0.1	0.3	0.5	(0.2)	***9.4***
United States	1.6	0.9	0.7	0.7	0.9	***nil***
Italy	0.6	0.5	0.9	1.6	(1.0)	***9.4***
Australia	1.6	1.0	0.9	0.7	0.8	***29.0***
Greece (new bonds)	0.9	0.6	1.1	1.9	(1.0)	***9.4***
Poland	1.5	1.3	1.4	1.7	(0.3)	***9.4***
Brazil	9.3	6.8	4.2	7.8	1.5	***(8.8)***
China (5 year)	3.0	3.0	3.0	2.3	0.6	***8.6***
India	6.2	5.9	6.0	6.1	0.0	***4.6***
Russia	7.4	6.2	6.5	7.2	0.2	***3.3***

US Stocks – Rally On

Massive stimulus measures and accelerating COVID-19 vaccination dissemination has boosted optimism for a strong economic recovery. The $1.9 trillion fiscal relief bill (American Rescue Plan, ARP) passed in March is likely to help generate the strongest US economic growth since the 1970's. In the first quarter, rising interest rates and pent-up demand for travel and leisure activities propelled value stocks to outpace growth stocks by the widest margin in nearly two decades. Trailing one-year returns (March 2020 – March 2021) which captured the COVID pandemic are outsized across US equity segments, led by microcap stocks jumping 120%.

For the *quarter*, small cap stocks (+12.7%) were top performers, followed by mid caps (+8.1%) and large caps (+6.2%). Since September 2020, we have experienced a significant change in the growth/value style dynamic. While the broad S&P500 has advanced over 12.7% through March 2021, the Russell 1000 Value index has risen 26.7% while the Russell 1000 Growth index has gained only 4.9%. The value index has been lifted by heavier exposure to the energy and financial sectors that have jumped 48.6% and 39%, respectively. The growth-oriented healthcare and technology sectors gained 10.5% and 5.9% respectively over the same time period.

Whether the rotation from growth to value is sustainable remains to be seen. Against a backdrop of a broader-based economic recovery, there are opportunities for more companies to deliver revenue and earnings growth. For example, during the past few years, only 10 stocks drove 49.8% of the S&P 500 Index's total return. The top five of those stocks comprised 36.5% of the total index. By contrast, year to date 2021, the top five contributors to the S&P 500 Index comprised 27.3% of the index the top 10 stocks represented 40.7% of the index gains.

Figure 7: U.S. Equity Market - Size/Style Returns

			Trailing		
	1Q '21	1-year	3-yrs	5-yrs	10-yrs
Growth					
Large Cap	0.9	62.7	22.8	21.1	16.6
Mid Cap	(0.6)	68.6	19.4	18.4	14.1
Small Cap	4.9	90.2	17.2	18.6	13.0
Value					
Large Cap	11.3	56.1	11.0	11.7	11.0
Mid Cap	13.1	73.8	10.7	11.6	11.1
Small Cap	21.1	97.1	11.6	13.6	10.1

From a factor standpoint, all finished in flat or positive territory year to date. 6 out of 17 commonly-referenced style factors lagged the 6.2% return of the S&P 500 (0.2% to 5.5%) in Q1. Three of the weakest contributing factors were growth oriented – S&P 500 Growth (+2.1%), S&P 500 Pure Growth (+0.8%) and S&P 500 Momentum (+0.2%). These were the top three performing factors in 2020. Top performing factors in Q1 included – S&P 500 High Beta (22.7%), S&P 500 Pure Value (21.9%) S&P 500 Enhanced Value (19.3%) and S&P 500 High Dividend (18.7%).

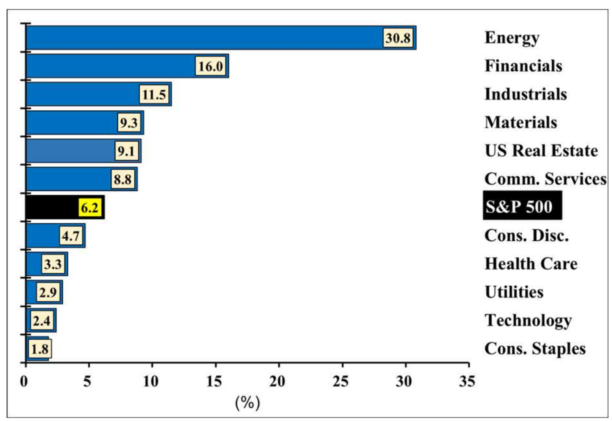
Weakness in fixed income markets has been supporting the value style's recent resurgence in the stock market. The S&P US Treasury Bond Index just completed its worst quarter in its history, falling -3.7% since the start of 2021. Falling credit spreads enabled high yield bonds to fare better. With yields rising and spreads already compressed, dividend-based strategies may begin to look like attractive alternatives to low yielding fixed income.

All eleven sectors of the S&P 500 posted positive returns in Q1, with six outpacing the broad index return. Top performing sectors were those that had suffered the biggest losses in 2020 -

- **Energy** – soared in Q1, rebounding from a 34% decline in 2020. Supported by expectations for more travel in the year ahead, WTI jumped 22%;
- **Financials –** were lifted by higher interest rates and optimism for the global economy. The banking industry rose 23%;
- **Industrials & Materials –** gains of 11.5% and 9.3%, respectively, were also fueled by expectations for an economic rebound in 2021.

The weakest sectors were: consumer staples (+1.8%), technology (+2.4%) and utilities (+2.9%).

Figure 8: US Sector Returns –1st Quarter 2021



As equity markets continue to establish new highs in part via coordinated monetary and fiscal stimulus, investors have been looking past fundamentals and driving stocks to valuation levels not seen since the dot-com craze of the late 1990's. Amid the exuberance, we have witnessed the rise of the Robinhood trader and the resurgence of risky, nebulous investment opportunities. Blank-check special purpose acquisition companies (SPACs) have recently come to prominence, touting endorsements from celebrities such as Shaquille O'Neal and Sir Richard Branson. The recent underperformance of these companies so shortly after they had begun trading serves as a reminder that fundamentals do indeed matter.

International Markets – Sluggish Advance

Global stocks rose as investors looked forward to a strong economic recovery. Developed and emerging markets advanced less than US equity markets, in part due to a more successful COVID-19 vaccination rollout in the US to date. Developed markets advanced 3.5% in Q1; and emerging markets rose 2.3%. The value style outpaced growth for the second consecutive quarter in developed and emerging markets across all capitalization ranges. Small caps continued to outpace their larger cap peers. In currency markets, the US$ strengthened versus most developed and emerging markets, due to expectations for stronger US economic growth in 2021 and generally higher bond yields versus Europe and Japan. By sector, energy and financials led, as investors moved into sectors that suffered the largest losses in 2020. Rebounding oil prices and higher interest rates also buoyed these sectors. As cyclical sectors took the lead, consumer staples, health care and utility stocks lagged the broad market.

Developed markets (MSCI EAFE) rose 3.5% in Q1. Within developed markets, Europe (+4.1%) rose as optimism for a global economic recovery and enhanced stimulus measures from the ECB took hold. Gains were led by energy (BP, Total rose 18% and 12% respectively) and financial (HSBC) stocks. Consumer discretionary stocks also posted strong returns on hopes that Europe's travel and tourism industry will recover in the months ahead. Consumer staples stocks lagged the overall market and utilities and real estate stocks suffered with rising interest rates. Eurozone government bonds retreated as massive US stimulus measures in the US prompted a rise in global bond yields. Worries about potentially higher US inflation also hit eurozone bonds, pushing yields higher. The euro fell 4% versus the US dollar.

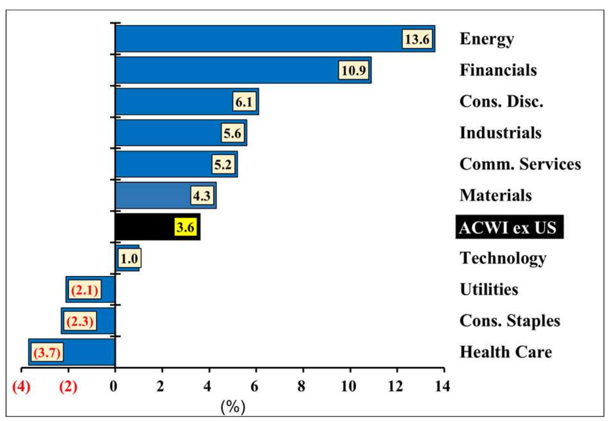
Figure 9: International Equity Markets – Returns

	U.S. Dollar Returns (%)		Local Currency Returns (%)	
thru 3/31/21	1Q '21	1-Yr	1Q '21	1-Yr
World ex-USA	**4.0**	**45.9**	**7.6**	**36.9**
- MSCI Growth	*(0.4)*	*43.5*	*3.5*	*35.3*
- MSCI Value	*8.3*	*47.2*	*11.7*	*37.6*
- Europe	4.1	44.9	7.6	34.5
- Pacific, ex-Japan	4.6	54.0	5.7	34.5
- Japan	1.6	39.7	8.7	43.0
- United Kingdom	6.2	33.5	5.2	20.0
Int'l Small Caps	**4.9**	**65.2**	**8.3**	**54.0**
Emerging Mkts	**2.3**	**58.4**	**4.0**	**53.0**
- EM Asia	*2.2*	*60.1*	*3.5*	*55.0*
- EM Europe	*0.7*	*38.6*	*3.9*	*36.0*
- EM Lat Amer	*(5.3)*	*50.1*	*0.5*	*50.8*
- EM BRIC	*(0.1)*	*48.6*	*0.9*	*47.7*

The Pacific region rose 2.5% during the quarter. Japan, the largest economy in the region, rose 1.6%. Energy and financial stocks led the Japanese market, while health care and consumer staples sectors lagged. The Japanese government declared a state of emergency in January as COVID-19 cases surged to the highest levels of the pandemic, weighing on markets. Less than 1% of Japan's population was vaccinated by the end of March, trailing other advanced economies. The BOJ fined-tuned policy by widening the band around its 0% target for 10-year government bond yields, removing a target for purchases of ETFs, and increasing support for banks coping with negative interest rates. The Japanese yen dropped 7% versus the US dollar. Australia's central bank increased bond purchases to help contain yields amid a global sell-off in government bonds. Their market rose 3.4%, while the Australian dollar fell 1% versus the US$. Hong Kong's market advanced 7.3%, as retail sales snapped a 24-month losing streak and jumped 30%. New Zealand's economy shrank by 1% in 4Q20, sparking concerns of a double-dip recession. Its market dropped -11%. Singapore's purchasing manager index for manufacturing continued to signal expansion, and its market advanced 9%.

Emerging markets (+2.3%) advanced, helped by signs of a global economic recovery, strong semiconductor demand, and rising commodity prices. Asia rose 2.2%, empowered by semiconductor companies as demand for car and consumer electronics components surged. Returns in China (-0.4%) slowed after top-performance in 2020. While the economic recovery continued, government authorities announced plans to withdraw some stimulus measures and indicated concern for debt excesses. Indian stocks (+5%) rose for the fourth consecutive quarter as the economy regained momentum after a deep contraction.

Figure 10: Ex-USA Sector Returns – 1st Quarter 2021



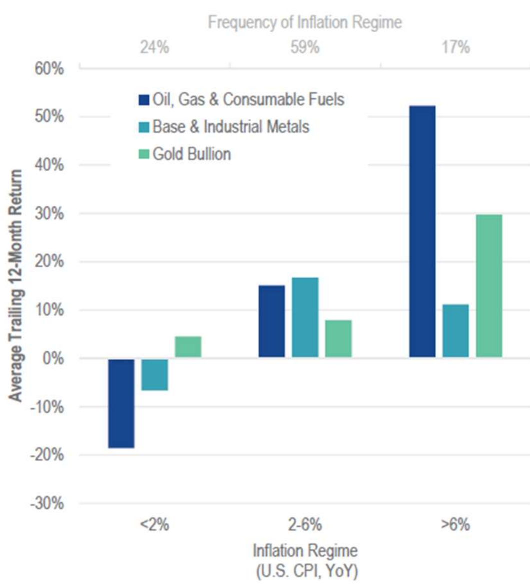
Latin America fell -5.3%, led down by Brazil (-10%) and Argentina (-6%). Emerging Europe rose 0.7%, led by Russia's (+4.9%) commodity-fueled economy. EMEA (emerging Europe, Middle East, and Africa) jumped 6.5%. Emerging Europe is the largest component of the index, but Saudi Arabia (+16.5%), South Africa (+12%), and Kuwait (+7.3%) posted index-topping returns.

The Back Page – Approaching Real Assets

Inflation concerns have resurfaced in the US, following a decade of exceptional monetary and fiscal policy support. Whether or not meaningful inflation will begin to develop is something that remains to be seen, but it is a worthwhile discussion to be had, nonetheless. This time last year, the notion that inflation might pick up would have been met with skepticism by most, but today central banks around the world are pumping liquidity into the financial system via quantitative easing measures, driving up inflation expectations as a result.

The Inflation Trade

Generally, those anticipating an increase in inflation have sought exposure to commodities and their associated equities. The historical connection between these asset classes, economic growth, and inflation is intuitive. Expansion in the global economy increases the demand for raw materials, and limited supply results in higher equilibrium prices for these raw materials. Currently, the Federal Reserve has signaled their willingness to allow near-term inflation to run past its historical average rate of 2%. This has broadly made a positive impact on the desirability of commodities and natural resources. Further, companies in these sectors generally exhibit attractive relative valuations in the current equity market, especially when considering they can generate more free cash at higher price levels of the assets they deal in.

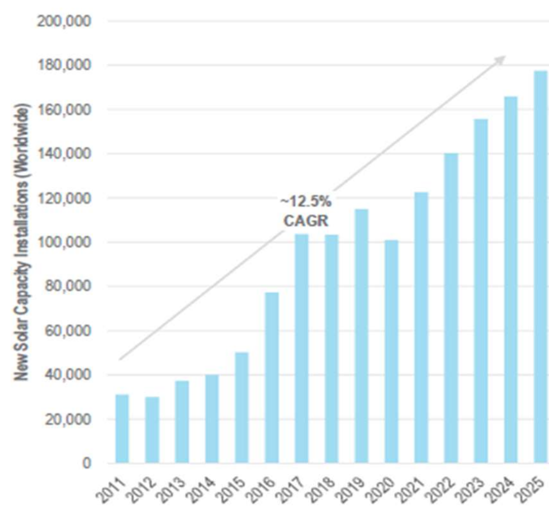


During periods of modest inflation, natural resource equities tend to exhibit outperformance relative to broad US stocks. Prior low demand and prices, particularly in oil, have prompted commodity producers to lower capital expenditures, in turn lowering supply. Now, general sentiment among commodity producers have been on the uptrend, especially within the energy and materials sectors.

The Transition to Clean Energy

Though the desire for sustainability seems unanimous throughout the world, there is much yet to be done in terms of policy and implementation. The move toward a full transition to net-zero carbon emissions will take decades, and governments across the globe are setting targets into the 2050s and 2060s. Though these objectives are set far into the long-term, the immediate opportunities are becoming clearer. Many integrated oil companies are investing heavily in alternative and clean energy. Endeavors in solar energy, wind, renewable biofuels, and more have emerged in the investment landscape in recent years.

With economic tailwinds coming from supply/demand fundamentals and a weaker dollar, the outlook for commodity prices looks strong. These, along with strong financial position and favorable valuations among natural resource equities, help make the case for a real assets fund in investment portfolios.



Real Assets Beyond Energy

Chartwell prefers a diversified approach to the asset class that incorporates exposure to the 'transition resources' that are positioned to benefit from the growing global adoption of not only clean energy, but broader sectors which also support ESG themes: agriculture (precision agriculture, ag biotech, alternative proteins) water (hydropower, wastewater treatment) and sustainability sectors (electric vehicles, storage tech, industrial automation).

Sources: VanEck, CLSA, CRSP, Factset, Bloomberg

Sell high, buy low. See you next quarter!

Chartwell Consulting