ROSE CAPITAL ADVISORS

Rose Capital Advisors Market Commentary

Q2 2020

Where We Are

Traversing 2020's worldwide pandemic and economic contraction, investors have been experiencing a "cardinal moment" (from the Latin word *cardo,* meaning *hinge*) — now the third major shock of the 21st century, following (i) the terrorist attacks of September 11th, 2001, and (ii) the Global Financial Crisis of 2008–2009. As expressed recently by a wise and experienced, highly-successful global investor, "We have the worst riots since 1968; the worst economy since the 1930s; the worst pandemic since 1918; the worst U.S.-China relations since 1979; and Mr./Ms. Market so often continue to act as if all is well!"

As investors approach midsummer and the beginning of the second half of what so far has proven to be an extraordinarily tumultuous year, financial markets appear to be engaged in a tug-of-war (sometimes weekly, sometimes daily, and more often than might be expected, even on an intra-day basis) between: (i) fears of permanent damage to employment and small businesses, possibly intensified by renewed economic shutdowns and financial stresses brought on by a potential resurgence in Covid-19 cases; versus (ii) growing optimism in some quarters that a meaningful portion of the economic news flow will continue improving as the U.S. economy potentially traces a "V-shaped" trajectory. In such an environment, investors are seeking insight and answers to several significant (and to us at this point, frustratingly unknowable) questions, among them:

i. Whether a significant second wave of coronavirus cases takes place in the second half of this year;

ii. The specific public health, economic, financial, and government-policy lessons that can be applied to mitigate the deleterious effects of a potential second wave;

iii. The likely shape, severity, and duration of the U.S. recession which officially began in February of this year, and under such circumstances, which geographies, asset classes, investment managers, sectors, industries, and companies are likely to thrive, while which others are likely to sustain the greatest amount of long-lasting damage; and

iv. Whether the second half of 2020 will feature continued high unemployment and a significant number of permanent business closures, financial defaults, and bankruptcies.

In the following sections, we have gathered together a selection of what we consider to be the more important positive and negative drivers of asset prices in the period ahead, followed by our thoughts on portfolio positioning.

Bullish/Constructive Factors and Influences

1. **Monetary Stimulus:** Massive monetary stimulus — amounting to 40% or more of U.S. GDP — has been applied (and is continuing to be applied) by the Federal Reserve in the form of: ultralow short-term interest rates; money supply growth; a multitude of credit and lending support programs; Quantitative Easing (also known as "money printing") to purchase U.S. Treasury securities, state and local government bonds, mortgage-backed issues, investment-grade corporate bonds, and high-yield "junk" bonds; and explicit verbal indications that for the foreseeable future, intermediate- and long-term interest rates are also likely to be suppressed (often referred to as "yield curve control").

2. **Fiscal Stimulus:** Signed into law on March 27, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) introduced an imposingly large $2.0 trillion U.S. Government bipartisan fiscal stimulus package to the economy, including, among other elements: stimulus checks sent directly to most Americans; expanded unemployment benefits; paid sick leave; temporary student debt relief, and a series of sector- and industry-targeted loans, loan guarantees, and investments by the U.S. Treasury. For an additional stimulus package, after the House of Representatives on May 15th passed a $3.0 trillion bill — for, among other elements: more stimulus checks; hazard pay for essential workers; six additional months of COVID-19 unemployment; funding for state, local, and tribal governments; and food and housing assistance — subsequently, the Senate majority leader indicated a preference for an amount closer to $1.0 trillion; mid-June expectations seemed to be pointing toward somewhere in the neighborhood of $2.0 trillion in aggregate additional fiscal support, with some funds earmarked for infrastructure and the final amounts and structures intended to be worked out in July before Congress adjourns for its annual August summer recess.

3. **Better Economic Data:** Even though on June 8th, the National Bureau of Economic Research Business Cycle Dating Committee had officially declared that the U.S. economy in February 2020 reached the end of its 128-month expansion that began in mid-2009, a number of data series, while still well below pre-pandemic levels, have begun evidencing improvements of varying strength and duration from severely depressed levels; somewhat better readings have been registered in: labor markets (in May, the American economy created 2.5 million new jobs, the jobless rate fell to 13.3% from 14.7% in April, and the number of unemployed fell 2.1 million, to a still-distressing 21 million); new filings for unemployment benefits; manufacturing and industrial production activity; crude oil prices; ISM-manufacturing and ISM-nonmanufacturing indices; automobile sales; retail sales (aided by high savings rates and low borrowing costs); airline passenger traffic; mortgage applications, homebuilder sentiment, new home sales, and home prices.

4. **Progress in Dealing With the Pandemic:** As scientists have learned more about the novel coronavirus, more tailored medications have improved treatment and the case fatality rate appears to have decreased considerably since the early days of the pandemic; such outcomes may indicate that if there is a second COVID-19 wave, it is likely to be less deadly than the first. According to the Centers for Disease Control and Prevention, even most individuals over age 65 who are in generally good health are unlikely to die or get severely ill from COVID-19, implying that states and cities should be able to lift their lockdowns safely if they focus on protecting vulnerable Americans. Recognizing that there is no certainty of developing a safe and effective vaccine, starting this summer, the federal government plans to fund and conduct Phase 3 studies (involving tens of thousands of subjects at dozens of sites around the United States) of several experimental coronavirus vaccines — by Moderna Inc., by Oxford University/AstraZeneca PLC, and by Johnson & Johnson, with a separate Phase 3 trial possibly underway as early as July by Pfizer Inc./BioNtech SE. Researchers

anticipate that the trials may possibly yield answers within 6 to 8 months of their launch. On June 16th, the University of Oxford reported that a 6,000-patient trial in Britain showed that a low-cost steroid, dexamethasone, could significantly reduce the mortality rate for hospitalized Covid-19 patients.

5. **Equity Market Rotation:** Although neither persistent nor powerful enough to definitively indicate a confirmed trend, selected indicators of investors' "risk-on" behavior have begun to episodically include some degree of rotation from technology, biotechnology, and social media stocks into the "bodyguards of the markets:" bank stocks (represented by the KBW bank index); transportation stocks (represented by the Dow Jones Transportation Index); and small- and mid-cap stocks (represented by the Russell 2000 index).

6. **Cash Buying Power:** Significant potential investor buying power for financial assets is confirmed by a total of $4.6 trillion in money market funds, the highest level on record according to data from Refinitiv Lipper going back to 1992.

7. **Signs of China-U.S. Detente:** Despite frequently elevated rhetoric between the two nations, China appears to have partially lowered tensions by continuing to buy American soybeans, having purchased at least 10 cargoes since the beginning of June.

Bearish/Cautionary Factors and Influences

1. **Global GDP Contraction:** Assuming that no significant second round of lockdowns occurs in 2020, the OECD (a Paris-based, 37-member intergovernmental group of democratic countries) forecasts that the global GDP will contract by -6.0% in 2020, before growing by +5.2% in 2021. The World Bank (an international lending institution collectively owned by 189 member countries with the United States as the largest shareholder) predicts that the global economy will shrink by -5.2% in 2020 (with a rebound of +4.2% in 2021), making 2020's economic retrenchment one of the four most severe downturns in the past 150 years. Fully 93% of the world's economies are projected to experience recession this year, compared to 60% in 2009 and 80% in the early 1930s.

2. **U.S., Europe, China Slowdown:** The World Bank also expects: the U.S. economy to shrink -6.1% in 2020, followed by a +4.0% rebound in 2021: the 19 Eurozone countries collectively to contract -9.1% in 2020, followed by +4.5% growth in 2021; and China to grow +1.0% in 2020, followed by a +6.9% advance in 2021.

3. **S&P 500 Earnings Shortfall:** Based on mid-June estimates from Yardeni Research, Inc.: (i) full year 2020 S&P 500 earnings are projected to contract -26.4% versus 2019, before rebounding +25.0% in 2021 (where they will still be -8.0% below 2019 levels) and +16.7% in 2022 (where they will have by then advanced +7.4% above 2019 levels); and (ii) quarterly year-over-year S&P 500 earnings are forecast to decline -14.8% in 1Q20; -51.6% in 2Q20; -28.8% in 3Q20, and -4.8% in 4Q20.

4. **Corporate Post-Pandemic Trauma:** With fresh memories of revenue and liquidity pressures experienced in the pandemic-induced economic lockdowns, corporations may be inclined to exercise significant restraint in stock repurchase activity, in capital expenditures, and/or in rehiring the full complement of their laid-off and furloughed employees.

5. **Industry-Specific Damage:** Many companies in industries such as airlines, gaming, bricks-and-mortar retail, live sports, theme parks, and cruise ships, appear likely to experience difficulty returning to sustainable levels of revenue generation, positive cash flow, employment, and earnings.

6. **Election Year and Post-Election Dynamics:** With only 19 weeks from June 23rd until crucial national elections on Tuesday, November 3rd, an anxious and polarized American polity faces significant social media-amplified uncertainty engendered by the coronavirus pandemic, economic retrenchment, social unrest, intermittent flareups of U.S.-China tensions, and worries about how in the post-pandemic era, present and future governmental regulatory actions might affect daily life. Financial asset markets — including stocks, bonds, money market instruments, currencies, and precious metals — are likely to respond positively and negatively, depending on their perceived impact on the economy and corporate profits, to House, Senate, and White House electoral results, and leading up to election day, to the platform proposals of both presidential candidates and their political parties as far as taxation, spending, regulatory, and social programming elements.

7. **Valuation:** Although seemingly justified and rationalized by numerous investors citing ultralow interest rates, price-earnings, price-to-sales, and total U.S. equity market capitalization-to-GDP ratios are in the 90th to 95th richness percentile of their historical values; as of June 18th, the Shiller PE ratio (calculated as price divided by 10-year average inflation-adjusted earnings, and considered to be a reasonably reliable indicator of five-to-ten forward year returns from owning equities, with very high readings tending to be followed by low forward equity returns) was 29.16, 74.4% above its 150-year median value of 16.72 and exceeded only twice before, in 1929 and 1999, prior to multiyear interludes of significant equity market weakness.

8. **Faltering Chinese Growth:** As measured by monthly data covering Fixed Asset Investment, Retail Sales, and Industrial Production, China's recovery from its low point, while proceeding, appears to be rather frail; as a consequence, China's estimated +1.0% to +2.0% GDP growth trajectory for 2020 is also likely to limit the country's demand for globally-supplied services, finished goods, and natural resources, putting somewhat of a damper on global growth.

Portfolio Positioning

1. **Upgrading and Husbanding:** In spite of some degree of unease over the rapidity and robustness of the recovery in U.S. equity prices — as of the S&P 500 market close of 3,124.74 on June 16th, the index was up +39.7% from its closing low of 2,237.40 on March 23rd, and just -7.7% below its all-time record closing high of 3,386.15 on February 19th — our short-term inclination at this point in time is to pay heed to the Federal Reserve's emphatic support of financial asset prices (in market parlance, "don't fight the Fed") while diligently taking advantage of rallies to offload lower-quality, higher-risk assets, redeploy the proceeds into upgrading the quality of portfolio holdings, and selectively husband some cash liquidity to deploy on equity market pullbacks.

2. **Equity Emphasis and De-emphasis:** Especially in an environment of very low U.S. Treasury interest rates, it appears likely that cash-rich, financially-fortified companies with solid growth prospects, and which are at the forefront of disrupting outdated business models, should retain a valuation premium. Within equities one may consider: (i) shifting emphasis from strictly growth sectors and companies towards the inclusion of some value sectors and companies; (ii) very selectively adding small- and mid-cap companies from a primary emphasis on large-capitalization enterprises; and (iii) tactically overweighting toward U.S. domestic over international developed and emerging market equities.

3. **Focus on Strength and Quality:** One may consider to emphasize sectors, companies, and asset managers that can benefit from "the tailwinds of the twenty-twenties [decade]" including: (i) incremental growth in a range of economic scenarios; (ii) a focus on economic repair,

infrastructure spending, and the release of pent-up consumer demand; and (iii) benefiting from deglobalization and onshoring as significant drivers of the investment cycle in capital spending and disruptive innovation. Strategically speaking at the company level in equities, we emphasize judiciously building and maintaining long-term exposure to firms possessing fortress-like, cash-rich balance sheets, limited debt, positive free cash flow generation, dividend strength, and defensible business models able to generate high returns on equity over a long-term time frame.

4. **Growth Sectors vs. Value Sectors:** On a year-to-date basis through mid-May, growth sectors (including technology, healthcare, and communication services) had returned +6.1%, while value sectors (including financial, real estate, energy, utility, and industrial companies) returned -25.6%; this 31.7% growth minus value returns differential is the widest in 31 years, and to us appears to argue for considering some gradual reallocation from selected growth sectors and companies into selected value sectors and companies as named above— with careful attention paid to companies able to generate a high and sustainable 10-year median return on equity – derived from favorable net profit margins and asset turnover more than from the use of large amounts of leverage.

5. **U.S. Dollar Outlook:** In 2017, the DXY U.S. dollar index versus a basket of six major currencies (the euro, Japanese yen, Swedish kroner, British pound, Canadian dollar, and Swiss franc) declined -7.4%; in 2018, it rose +4.3%, and in 2019, it declined -0.2%. As of June 17th, the DXY index was +2.0% year-to-date. Following its strength as a safe-haven refuge asset during the pandemic- and lockdown-induced global financial market turmoil earlier this year (the DXY index had appreciated +6.7% year to date as of March 20), we believe the U.S. dollar may continue a gradual period of weakness as the U.S. dollar's yield advantage has been narrowing versus other major currencies.

6. **Fixed Income Securities:** In taxable and tax-exempt fixed income, emphasis should be placed on short-to-intermediate maturities/durations, and on issuers at the high-quality end of the rating spectrum, both in investment grade and in high-yield bonds.

7. **Alternative Investments / Real Assets:** Our focus continues to emphasize some degree of exposure to gold; high-quality master limited partnerships; and investments in private credit, private real estate, and opportunistic distressed strategies that are positioned to extract substantial value in the aftermath of the significant dislocations set in motion by the coronavirus pandemic.

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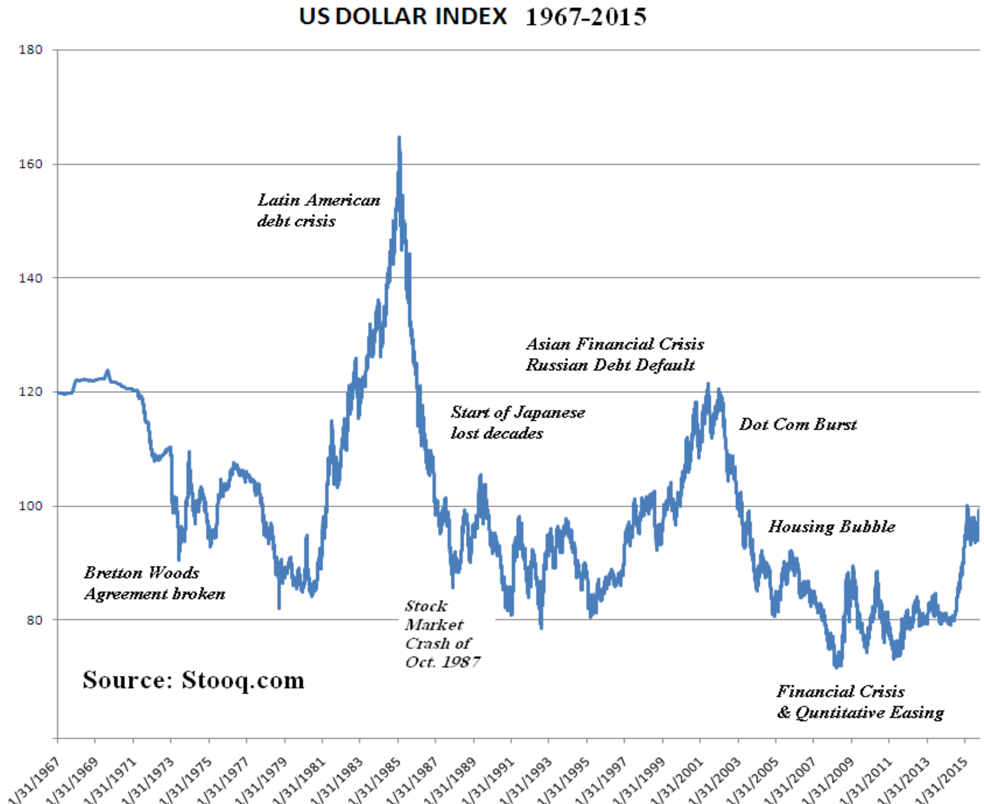


Investors would be wise to pay attention to the exchange rate trajectory of the U.S. dollar, for several reasons, among them, a partial list below:

i. Some degree of depreciation of the U.S. dollar versus other currencies can act as a form of economic stimulus — to increase the price competitiveness of U.S. exports to foreign purchasers of America's goods and services (and conversely, some degree of strength of the U.S. dollar versus other currencies can act as a form of economic hindrance, by reducing the price competitiveness of U.S. exports to foreign purchasers of America's goods and services);

ii. A weaker U.S. dollar means that the dollar equivalent of American companies' profits generated abroad in other countries and other currencies is worth more when translated back into their dollar equivalent for financial reporting purposes (and conversely, a stronger U.S. dollar means that the dollar equivalent of American companies' profits generated abroad in other countries and other currencies is worth less when translated back into their dollar equivalent for financial reporting purposes);

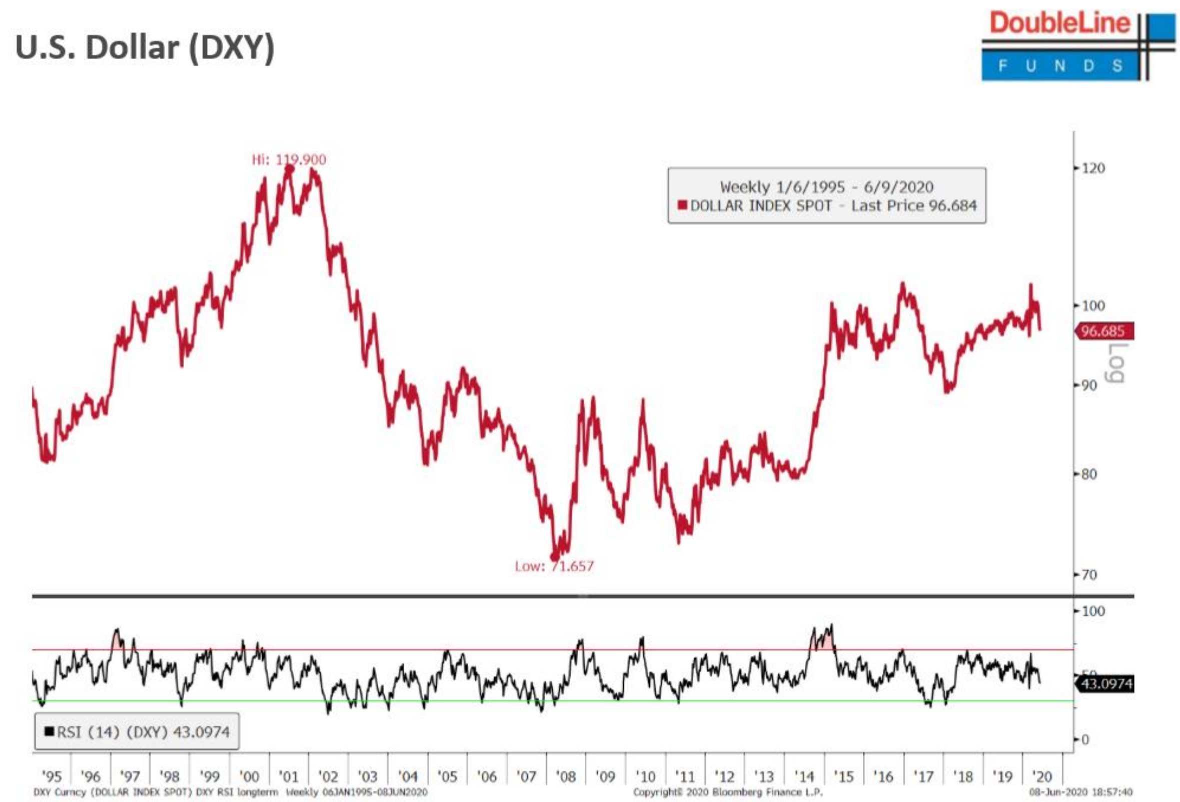
iii. The value of the U.S. dollar versus other currencies may at times function as a form of sentiment indicator, reflecting exports, imports, and balance of payments conditions; relative inflation and interest rate trends; and importantly, flows of portfolio capital, in which foreign investors buy U.S. equities and/or dollar-denominated fixed income securities (because of higher yields than can be earned in their local markets and/or because the U.S. dollar is expected to appreciate versus the foreign investor's home currency) and direct investment capital (where foreign companies and individuals build or buy physical assets or properties in the United States);

iv. Multiyear trends in the foreign exchange value of the U.S. currency may reflect global views of America's politics, partisanship, policies, priorities, public life, commercial innovativeness, and social trends; and

v. As described more fully in point number five in the Portfolio Positioning section above, on a short- and intermediate-term basis, the level of the U.S. dollar versus a basket of currencies may reflect — on a reasonably immediate basis — global investors' attitudes and capital flows towards perceived risk assets such as equities (so-called "risk-on" investment behavior) or perceived safe-haven assets such as short-term U.S. Treasury bills (so-called "risk-off" investment behavior).

The chart above shows the 38-year path of the DXY index of the U.S. dollar from 1967 through 2015. The DXY index is designed, maintained, and published by Intercontinental Exchange, Inc. (ICE) and represents a weighted geometric mean of the U.S. dollar's value relative to six currencies: the 19-European countries' euro, 57.6%; the Japanese yen, 13.6%; the British pound sterling, 11.9%; the Canadian dollar 9.1%; the Swedish krona 4.2%; and the Swiss franc 3.6%.

The DXY index was launched in March 1973 with an initial value of 100.000. As can be seen in the chart on page 6, the all-time high for the U.S. dollar DXY index was 164.720 in February 1985, and the all-time low for the U.S. dollar DXY index was 70.698 on March 16th, 2008. The chart Illustrates weakness in the U.S. dollar following the effective cessation of the Bretton Woods fixed currency agreement in the early 1970s, strength in the dollar in the early 1980s during the Ronald Reagan-Paul Volcker era of high U.S. interest rates, dollar strength as dotcom- and internet- related investment capital flowed to the United States in the mid- and late-1990s, and then essentially range-bound trading behavior over the 2005-2015 interval.



Source: Bloomberg, DoubleLine
DXY: An index of U.S. dollar vs. a basket of currencies. You cannot invest directly in an index.

The chart above shows an expanded view of the 1995-2020 course of the U.S. currency, with the DXY index over the past five years trading substantially between just over 100 and slightly below 90. As of June 19th, the DXY was trading at 97.56. Our outlook calls for the U.S. dollar to exhibit modest further downside over the coming year, for the following reasons:

i. With much of the world's confidence gradually on the increase as the peak of the coronavirus pandemic appears for now to be passing, the "safe-haven" bid for the U.S. dollar may be diminishing;

ii. Following Federal Reserve Chairman Jay Powell's recent declaration of the central bank's intention to keep interest rates low across the yield curve for the next year or longer, the U.S. dollar's interest rate differential above yields in other major currencies has narrowed considerably; and

iii. To us, it appears unlikely that the American authorities would seek to stand in the way of a degree of modest further U.S. dollar weakness — which effectively represents another invigorating policy instrument besides America's already-implemented and ongoing monetary and fiscal stimuli; and

iv. Election-year political dynamics and news flow from both parties' candidates may decrease global investors' appetite for, and level of medium-term confidence in, the U.S. currency.

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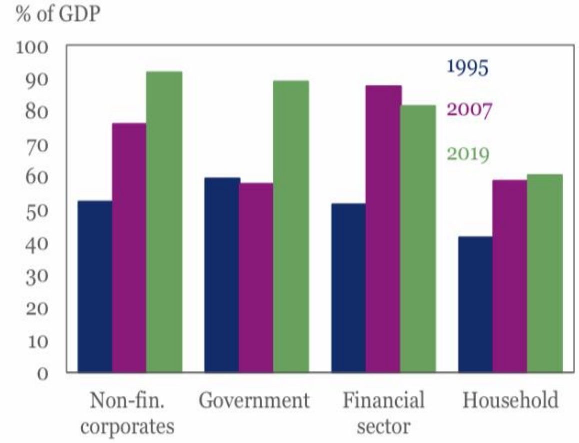
Chart 1: Government debt has doubled to $70T since the 2008 crisis; pandemic response will drive that higher still



Source: IIF, BIS, IMF, National sources

TOTAL DEBT AS A PERCENTAGE OF GDP

By Sector, Year-End 2019 (Dollar Amounts in Trillions)

Area	Households	Non-Financial Corporations	Government	Financial Sector	Total
U.S.	74.3%	73.9%	101.9%	76.9%	327.0%
Euro Zone	57.5%	108.2%	101.8%	123.7%	391.2%
Japan	56.7%	104.7%	229.8%	156.8%	548.0%
China	54.3%	150.3%	53.7%	42.2%	300.5%
Global	60.2%	91.6%	88.9%	81.3%	322.0%
In Dollars (2019)	$ 48.00	$ 74.20	$ 70.00	$ 63.10	$ 255.30
In Dollars (2007)	$ 35.00	$ 43.60	$ 35.00	$ 54.40	$ 168.00

Source: Institute of International Finance, Bank of International Settlements, Have Analytics Inc., National Sources

Conventional economic theory holds that debt essentially represents a form of transferring consumption and investment from the future (when it is scheduled to be repaid) to the present. The current ultra-low interest-rate environment in many parts of the world, together with substantially slower, and in many cases, relatively weak global GDP growth rates, has generated considerable discussion about the benefits and costs of additional government debt issuance, particularly if the proceeds from this new debt issuance have been and are being used primarily to finance increased consumption rather than growth-enabling investment including infrastructure, education, research & development, and healthcare.

After a relatively limited rise of $3.3 trillion in 2018, global indebtedness across all sectors increased by over $10 trillion in 2019 and amounted to more than $255 trillion, representing 322% of global GDP, up more than $87 trillion (40 percentage points) since the beginning of the 2008–2009 global financial crisis. Aggregate worldwide debt has generally exhibited faster-than-GDP growth over the more than two decades from the mid-1990s through the end of 2019. Based on total debt levels at the end of 1995, 2007, and 2019, the left panel above graphically illustrates the proportion of debt (as a percentage of global GDP) borrowed by non-financial corporations, government bodies, the financial sector, and households, with the right panel showing the specific sectoral percentages of debt-to-GDP for selected areas of the world — the United States, the Eurozone, Japan, China, and — including these four areas, as well as aggregate data for a great many other countries not listed in the panel — globally as a whole.

In addition to specifying sector-by-sector debt to GDP ratios, the right-hand panel also displays actual dollar amounts of global aggregate indebtedness, at the end of 2019, and for comparison purposes, at the end of 2007, prior to the onset of the 2008-2009 global financial crisis.

In observing that total global indebtedness amounted to 322.0% of the world's entire GDP at the end of 2019, it is worth keeping in mind that the 2019 totals shown are *before* the coronavirus pandemic, social distancing, economic lockdowns, and severe recessions experienced in many developed and developing economies. Given the further debt buildups and GDP contractions that have been unfolding throughout much of the world during 2020, it is all but certain that this already quite elevated global debt-to-GDP ratio will reach even higher at the end of this year, with some estimates projecting that global indebtedness could amount to over 340% of global GDP by December 31st.

From an investment standpoint, while we maintain a cautiously constructive stance towards financial asset prices, we nevertheless are concerned about the short- and intermediate-term deflationary implications of massive global debt levels (especially government debt), not to mention the potential longer-term inflationary ramifications of such indebtedness. The rationale for our short- and intermediate-term deflationary apprehension stems from numerous econometric studies showing that once government debt in a country surpasses approximately 50% of GDP, the country's potential and actual GDP growth rate tends to slow, due meaningfully to the higher financial burden (including taxes, fees, tariffs, and various surcharges) associated with increased interest and principal repayment obligations. In the United States, the government debt-to-GDP ratio has steadily risen — passing 60%, 70%, 80%, and 90% — to 101.9% over the past 20-plus years. A further cautionary case shows that the government debt-to-GDP ratio for Japan, a highly developed economy which has been mired in stagflation, recessionary conditions, disinflation, and deflation for more than 30 years, has risen dramatically over this three-decade time span, and amounts to 229.8% of Japan's GDP.

Considered on a global basis in dollar terms, total government debt has doubled over the past 22 years, from $35.0 trillion at the end of 2007 to $70.0 trillion at the end of 2019. This 100.0% growth rate for governmental borrowers far outstrips the year-end 2007 through year-end 2019 growth rate of aggregate global debt growth by households (+37.1%); non-financial corporations (+70.2%); and the financial sector (+16.0%). As a consequence, governments have accounted for 40% of the rise in global debt since 2007, with the United States and China representing more than half of this increase.

As meaningfully increased issuance of bonds and loans and high levels of debt relative to GDP affect pricing in asset markets and raise the risk of financial crises, considerable challenges are thereby generated concerning the uses, means, and costs of debt issuance and debt servicing. According to economic theory, at elevated debt-to-GDP levels, because borrowers tend to spend or deploy the proceeds from debt issuance, and lenders tend to save rather than spend debt interest and principal repayment flows, the resultant global savings glut applies downward pressure on interest rates, leading to more borrowing and subpar economic growth rates.

How is all of this debt to be repaid? In theory, the proceeds from borrowing should, over time, generate sufficient asset growth, economic progress, and earnings to pay interest on a timely basis and repay the debt principal at maturity. Throughout human recorded history, massive debt-to-GDP ratios have been brought down to more manageable levels through some combination of three ways:

i. Economic growth generates sufficient capital to service and pay off the debt;

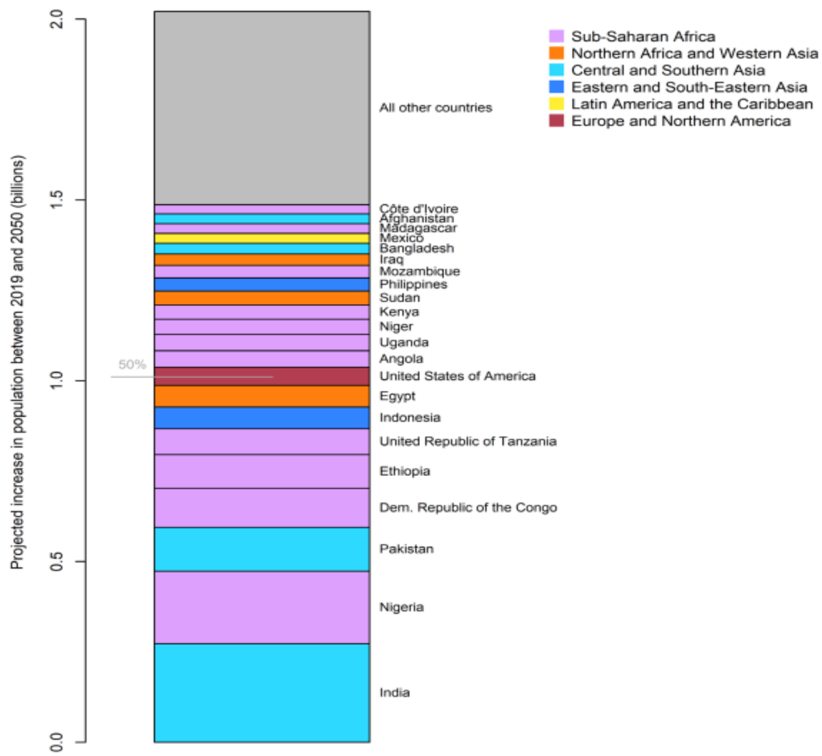
ii. Defaults, bankruptcies, and debt restructurings have effectively wiped out some portion of outstanding debt; and

iii. Intentionally expansive monetary policies lead to printing sufficient quantities of currency for debtors to essentially repay creditors, although in vastly reduced real (inflation-adjusted) terms. For the time being, even though global leverage — especially from the government sector — has risen considerably as a share of GDP over the past decade, global financial conditions remain generally accommodative, with low real interest rates, debt servicing costs, and debt manageability.

It is essential to be mindful of the risks associated with historical waves of debt accumulation that eventually culminate in financial crises. For this reason, we pay attention to current global, country-specific, and sector-specific indebtedness levels and growth rates. We view the past two decades' global debt buildup as a key element underpinning our allocation to select real assets including gold, gold shares, and portions of the energy sector. Because such assets possess low or even negative correlations of returns with most other financial assets, they can serve as a form of portfolio hedge during episodes of financial instability typically associated with unwinds of massive debt growth.

Figure 6. Countries ranked by their contribution to projected global population growth between 2019 and 2050, according to the medium-variant projection

Twenty-two countries will account for around 1.5 billion of the total 2.0 billion people expected to be added to the world between 2019 and 2050



Data source: United Nations, Department of Economic and Social Affairs, Population Division (2019). *World Population Prospects 2019.*

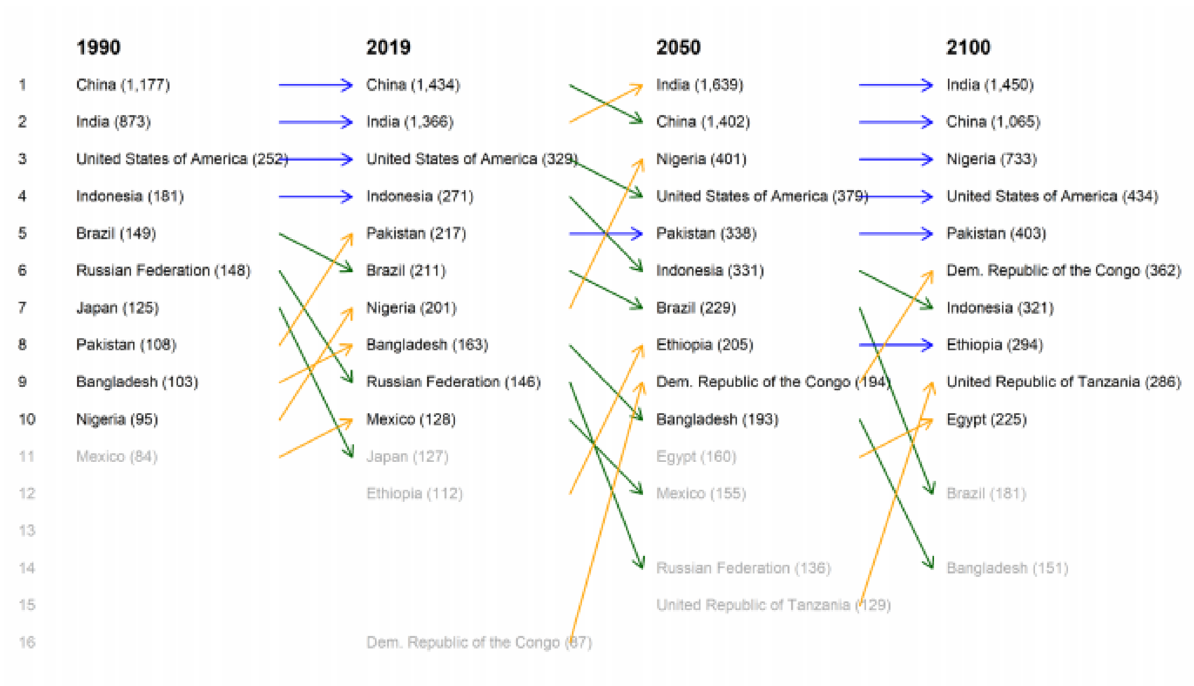
In 1950, the world's total population amounted to 2.6 billion people, and by 1990, the world's population had more than doubled, to 5.3 billion people. By the end of 2019, according to the 26th edition of population estimates and projections by the UN's Population Division of the Department of Economic and Social Affairs, the world's population had risen to 7.7 billion people. The annual growth rate of the world's population reached a peak in the 1965-1970 time frame, when it was growing by an average of 2.1% per year, and since then, the growth rate has slowed to below 1.1% per year in the 2015-2020 half decade.

The world's population is projected to reach 8.5 billion people in 2030 and 9.7 billion in 2050, based on demographic models which assume that: (i) global fertility is projected to fall from 2.5 children per woman in 2019 to 2.2 children per woman in 2050, even including some decline of fertility for countries where large families are still prevalent; (ii) a slight increase of fertility takes place in a number of countries where women have fewer than two live births on average over a lifetime; and (iii) continued improvements in survival prospects and reductions in mortality are achieved for all age cohorts, leading to increased longevity, with life expectancy at birth expected to rise from 72.6 years in 2019 to 77.1 years in 2050. (Recognizing the difficulty of collecting timely and reliable demographic data and formulating population estimates and projecting future trends in fertility, ageing, and mortality, the world's population is estimated to reach 10.9 billion by the year 2100.)

As can be seen in the panel above, of the 2.0 billion population growth projected to occur between 2019 and 2050, 1.05 billion (52%) is projected to take place in countries in sub-Saharan Africa, and 505 billion (25%) is projected to take place in Central and Southern Asia. In descending order, nine countries — India, Nigeria, Pakistan, Democratic Republic of the Congo, Ethiopia, United Republic of Tanzania, Indonesia, Egypt, and the United States of America —are expected to account for more than half of the projected 2.0 billion total increase In global population between 2019 and 2050.

Because of sustained low levels of fertility, and for some countries, high rates of emigration, the populations of more than 50 countries are projected to decrease between 2019 and 2050, of which 26 may experience a reduction of at least 15%.

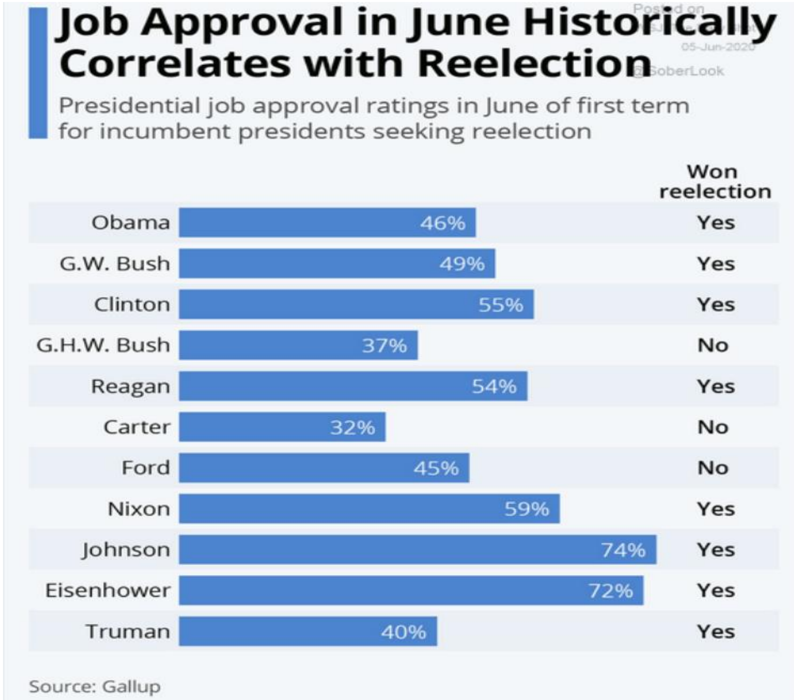
Figure 7. Rankings of the world's ten most populous countries, 1990 and 2019, and medium-variant projection, 2050 and 2100 (numbers in parentheses refer to total population in millions)



Data source: United Nations, Department of Economic and Social Affairs, Population Division (2019). *World Population Prospects 2019*.

The panel above shows the rankings of the world's 10 most populous countries in 1990 and 2019, with projections for 2050 and 2100. Substantial population ranking moves between 2019 and 2050 are projected to be experienced by China, forecast to decrease by 32 million people (-2.3%, to 1.402 billion people) and rank second behind India, projected to increase by 273 million people (+20.0%, to 1.639 billion) to become the world's most populous nation. Nigeria is projected to gain 200 million people (+99.5%, to 401 million) and rank third; the USA is projected to gain 50 million people (+15.2%, to 379 million) and rank fourth; Pakistan is projected to gain 121 million people (+55.8%, to 338 million) and rank fifth; Indonesia is projected to gain 60 million people (+22.1%, to 331 million) and rank sixth, Brazil is projected to gain 18 million people (+8.5%, to 229 million) and rank seventh; Ethiopia is projected to gain 93 million people (+79.5%, to 205 million) and rank eighth; the Democratic Republic of the Congo is projected to add 107 million (+123.0%, to 194 million) and rank ninth; and Bangladesh is projected to add 30 million people (+18.4%, to 193 million) and rank 10th.

Monitoring population growth, age structures, and international migration trends — and their effects on environmental conditions, conflicts over resources, and commercial opportunities (especially focused on the multi-hundred million expansion of the middle class in selected regions and groups of countries in coming decades) — can provide valuable investment insights as to regions, countries, currencies, asset categories, investment managers, sectors, and securities to be emphasized or avoided. At present, for reasons of corporate governance, accounting reliability, and reporting norms, our preference is to gain exposure to sustainable global growth opportunities through emphasis on the highest-quality U.S., European, and Asian "global champion" asset classes, companies, and investment managers.



As of June 23rd, just 14 weeks remain until the first presidential debate (all three debates will begin at 9:00 PM Eastern time, and last for 90 minutes, with no commercial breaks) to be held on Tuesday, September 29th at the University of Notre Dame in South Bend, Indiana; 16 weeks (plus 2 days) remain until the second presidential debate to be held on Thursday, October 15th at the University of Michigan in Ann Arbor, Michigan; 17 weeks (plus 2 days) remain until the third presidential debate to be held on Thursday, October 22nd at Belmont University in Nashville, Tennessee; and 19 weeks remain until national elections are held on Tuesday, November 3rd: (i) for the Presidency; (ii) for 33 of the 100 U.S. Senate seats (and two special senatorial elections, one in Arizona, to fill the vacancy created by the death of Senator John McCain in 2018, and one in Georgia following the resignation of Senator Johnny Isakson due to illness at the end of 2019); and (iii) for all 435 of the seats in the U.S. House of Representatives.

In mid-June, a request was made by President Trump's campaign advisers to the chairman of the nonpartisan Commission on Presidential Debates for a fourth debate to be added to the schedule — earlier than the September 29th kickoff debate — in view of the fact that far more voters are expected to vote early this year.

Even prior to the COVID-19 pandemic, with more than 2.1 million US coronavirus infections, the proportion of votes cast by mail has been on the rise, reaching 25% in 2018. (The state of Colorado instituted all-mail voting in 2013.) Over the past 20 years, 250 million votes have been cast by mail nationally, with a mere 143 confirmed cases of fraud and no evidence that increased mail-in voting appears to favor one party over the other.

Among the sources utilized to assess this year's possible election outcomes are:

i. Gallup poll daily presidential job approval ratings (news.gallup.com) — as shown in the first panel above, historically, all incumbents with an approval rating of 50% or higher as of June in the election year have won reelection, and (with the exception of President Harry Truman, in 1948) presidents with approval ratings lower than 45% have not been re-elected;

ii. First launched on November 3rd, 2014, PredictIt is a Washington, DC-located nonprofit prediction market (owned and operated by Victoria University of Wellington, New Zealand, with support from Aristotle, Inc.) that offers prediction exchanges on political and financial events. PredictIt (www.predictit.org) uses a continuous double auction to sell shares for each event in its markets, meaning that for every person who predicts that an event will take place, there must be another person who predicts that it will not. The site groups related predictions into a market. PredictIt's operating expenses are covered by charging a fee of 10% on earnings in excess of the original investment, and by charging an additional 5% withdrawal fee. At any point in time, participants' financial views can be assessed of the outcome of the presidential election, House and Senate races, and the composition of the electoral college, among other topics. In order to secure a no-action letter from the Commodity Futures Trading Commission, eliminating the risk of prosecution for illegal online gambling, each question is limited to 5,000 traders, and there is an $850 limit on individual investments per question;

Biden's taxation and spending agenda				
Taxation	**$ (bn)**	**Taxation commentary**	**Spending**	**$ (bn)**
Apply 12.4% payroll tax above $400k, split evenly between employers and employees	962	Any changes to Social Security require a supermajority in the Senate, assuming no invocation of "Nuclear Option"	Healthcare (Public Option, Expand ACA)	2,250
Raise corporate tax rate to 28%	1,300	Eliminate roughly half the benefit of Trump corporate tax cuts (which cut corporate tax rates from 35% to 21%)	Infratructure	1,300
Raise Top Rate & Limit Itemization	520	Return top rate to 39.6%, limit whatever deductions remain	Pre K and K-12	850
Tax Cap Gains as Ordinary Income	448	Only applied to people with AGI greater than $1 mm; No step up in basis on death above a given exclusion	Higher education	750
Industry specific taxes	343	Primarily commercial and multifamily real estate ($294 bn of total), based on changes to depreciation schedules	Clean energy research	400
Raise Global Intangible Low Tax Income rate	309	Raise minimum effective corporate tax rate paid on non-US profits	Expand social security	450
Phase out pass through deduction above $400k	219	Consistent with increase in corporate tax rates on incorporated companies, higher taxes on pass-throughs as well	Paid family leave	430
15% minimum tax on book income	166	Conceptually, a corporate version of a minimum tax, except applied based on book income	Drug price reforms	-400
Various tax reductions	-273		**Total spending increases**	**6,030**
Total tax increases	**3,994**			

Source: Cornerstone Macro Research, J.P. Morgan Asset Management, May 2020.

iii. Operating under a similar no-action letter from the Commodity Futures Trading Commission, the small-scale, not-for-profit Iowa Electronic Markets (IEM) represent a group of real-money prediction markets/futures markets operated by the University of Iowa Tippie College of Business (https://iemweb.biz.uiiwa.edu). With some markets available exclusively to academic participants, the IEM allows traders to buy and sell contracts based on political election results and economic indicators. The IEM has frequently been found to predict the results of political elections with a somewhat higher degree of accuracy than traditional polls; and

iv. First launched in mid-June 2020 and updated every day until the election, *The Economist* statistical model (https://economist.com/us-2020-forecast/president), and publicly published source code, apply past patterns of voters' behavior to new circumstances, seeking to ascertain — in light of the health of the economy, growing partisan polarization, "non-response bias" to polling questions, and other factors — how previous presidential candidates in similar positions have fared in the popular vote as well as in the electoral college.

To assess voters' shifting preferences as early November approaches, investors can regularly consult each of the four resources listed above. At the same time, we think it prudent to give advance thought to the range of potential economic, regulatory, taxation, spending, budget deficit, and financial market implications of the national election results — depending on whether Republicans or Democrats win one or more of the White House, the House, and the Senate.

As shown in the second panel above, the current taxation and spending policy positions of Vice President Biden contain numerous base-broadening elements that increase taxes by approximately $4 trillion, while increasing spending to the tune of approximately $6 trillion in areas including healthcare, infrastructure, education, energy research, and other initiatives. Our counsel is to increase exposure — well early in the electoral race — to those asset classes, companies, sectors, and investment managers possessing characteristics allowing them to flourish regardless of the post-election taxation, regulatory, and spending regime.

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