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Economic and Industry Market Outlook

September 21, 2022

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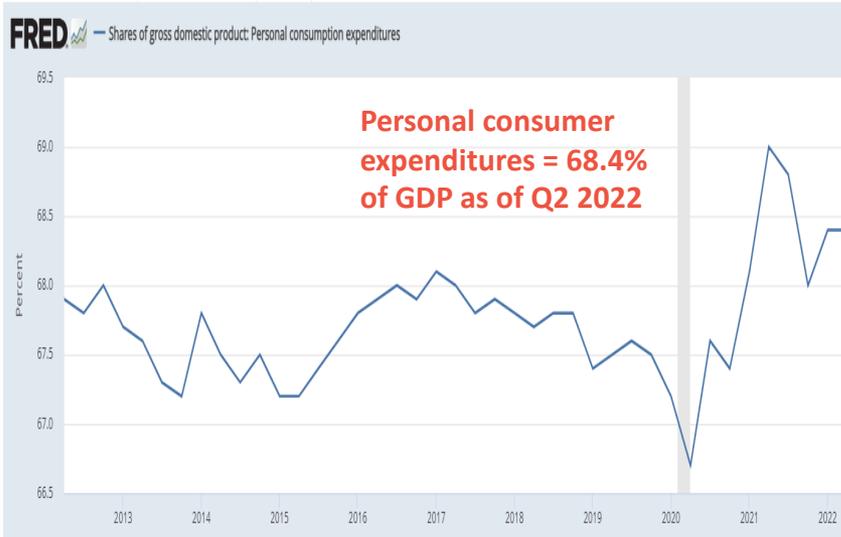
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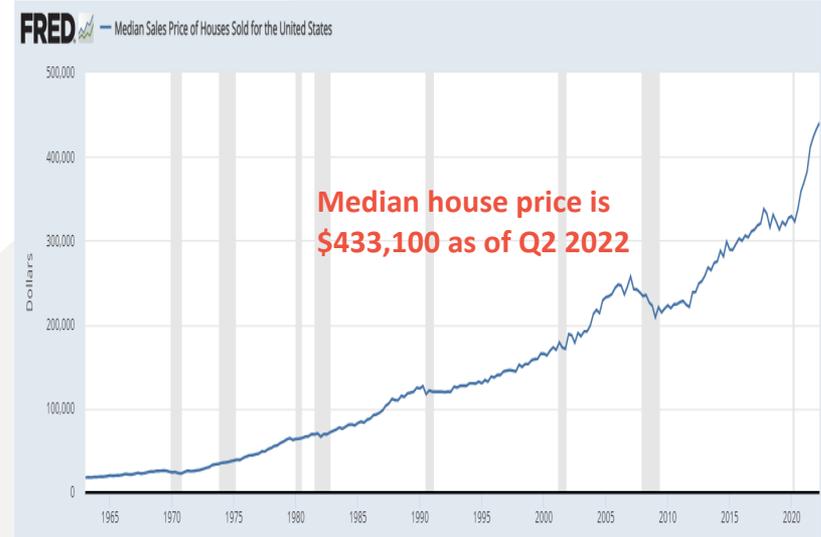


Economic Data Shows the Reopening is Real



Source: St. Louis Fed

Consumer spending is robust



Source: St. Louis Fed

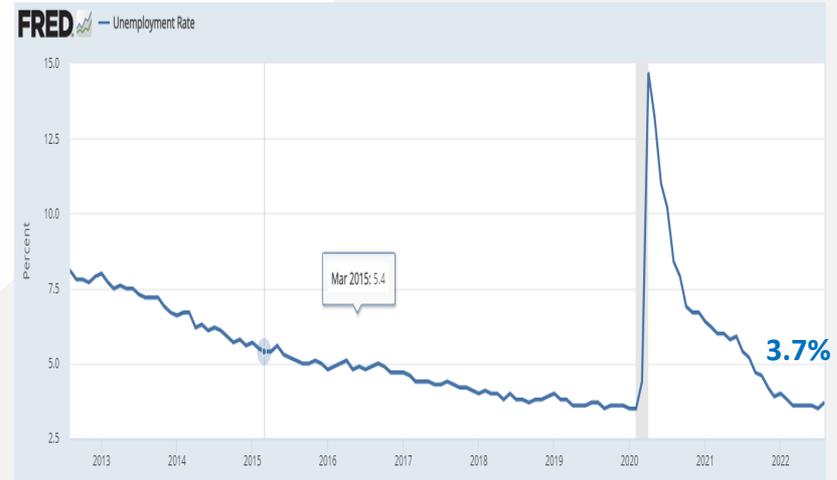
Housing prices hit new highs



Economic Data Shows the Reopening is Real



Source: St. Louis Fed



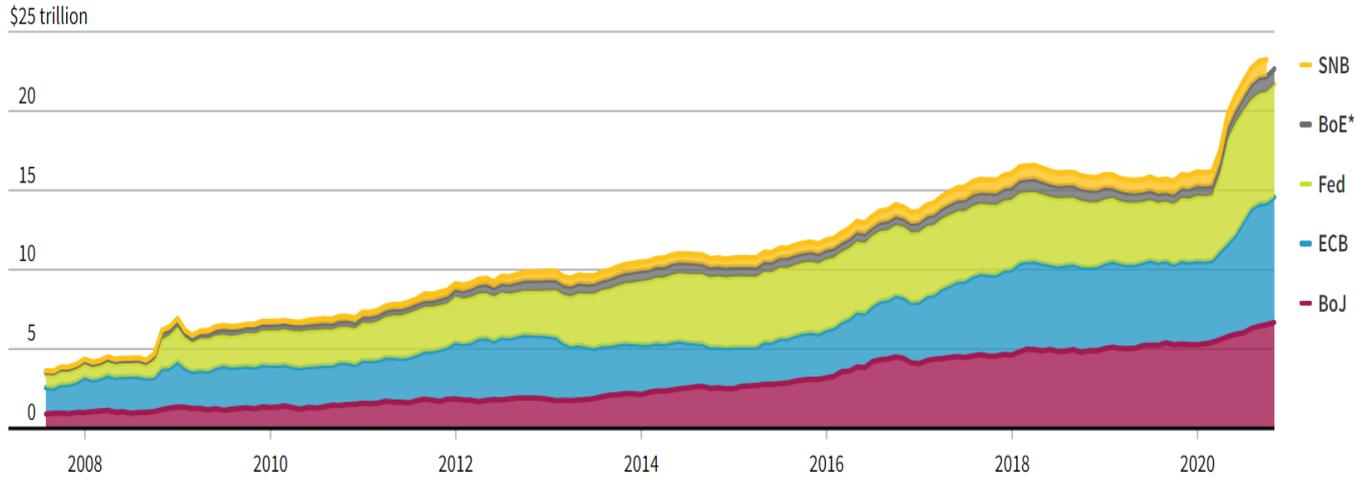
Source: St. Louis Fed

Higher inflation → Higher rates

Unemployment at pre-COVID levels



Global Central Bank Stimulus is still a Tailwind



Central bank balance sheets

Assets for the European Central Bank, Bank of Japan, Federal Reserve, Swiss National Bank, and Bank of England

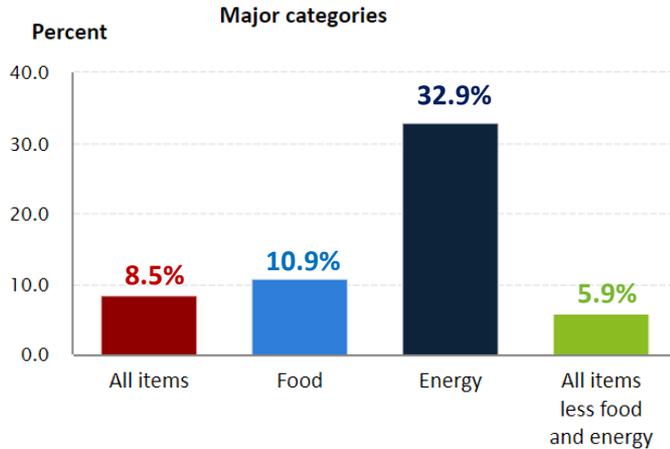
[Source: Thomson Reuters](#)



Inflation is Likely to Remain Front and Center

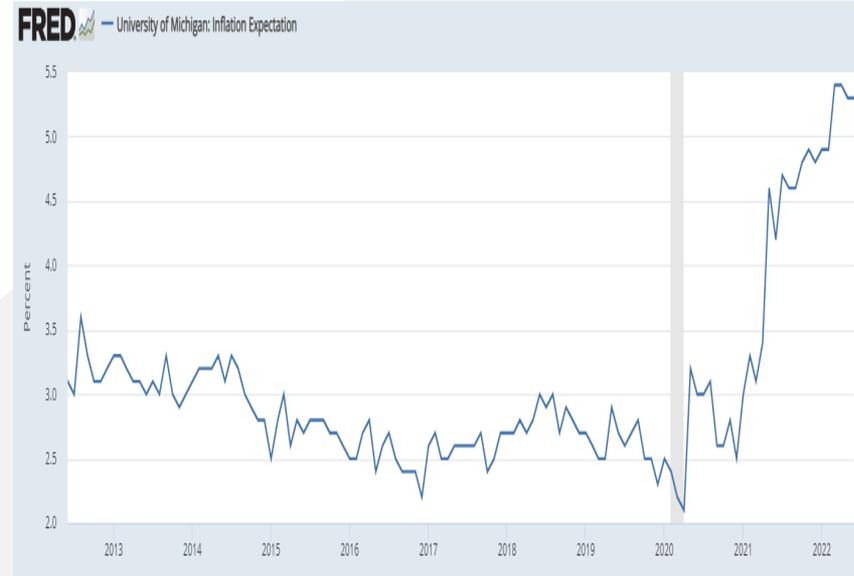


12-month percentage change, Consumer Price Index, selected categories, July 2022, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

Higher prices driven by energy ...



Source: St. Louis Fed

... Driving future inflation expectations

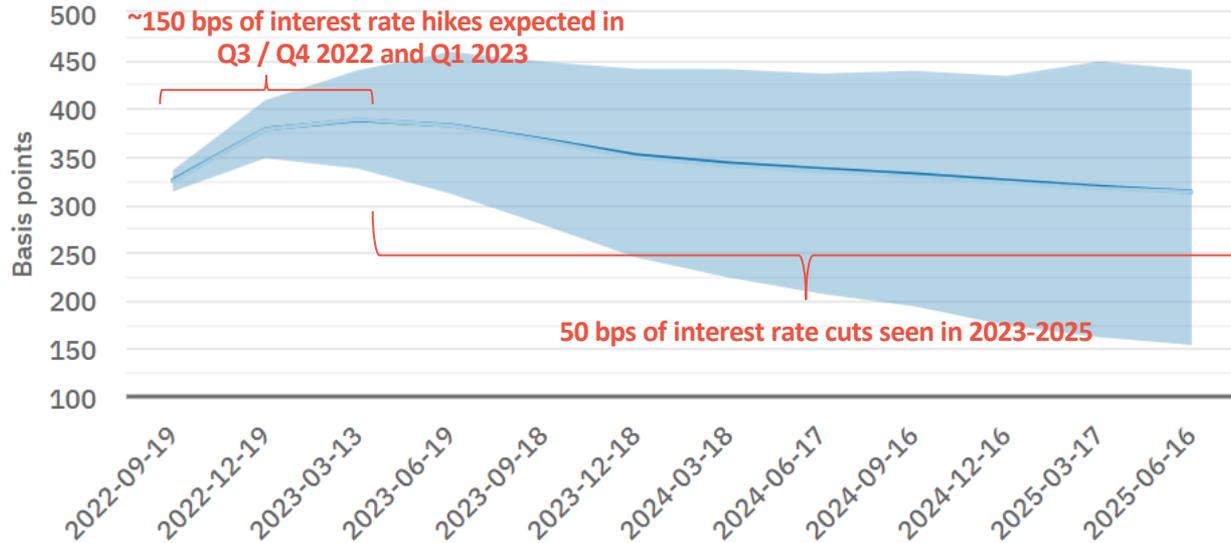




Expect Interest Rates Hikes in 2022 but Cuts starting in 2023

The Expected Future Path of the Three-Month Average Fed Funds Rate

Current target range: 225 - 250 basis points



Source: [Market Probability Tracker - Federal Reserve Bank of Atlanta \(atlantafed.org\)](https://atlantafed.org)





Supply Chain Stress is Starting to Ease

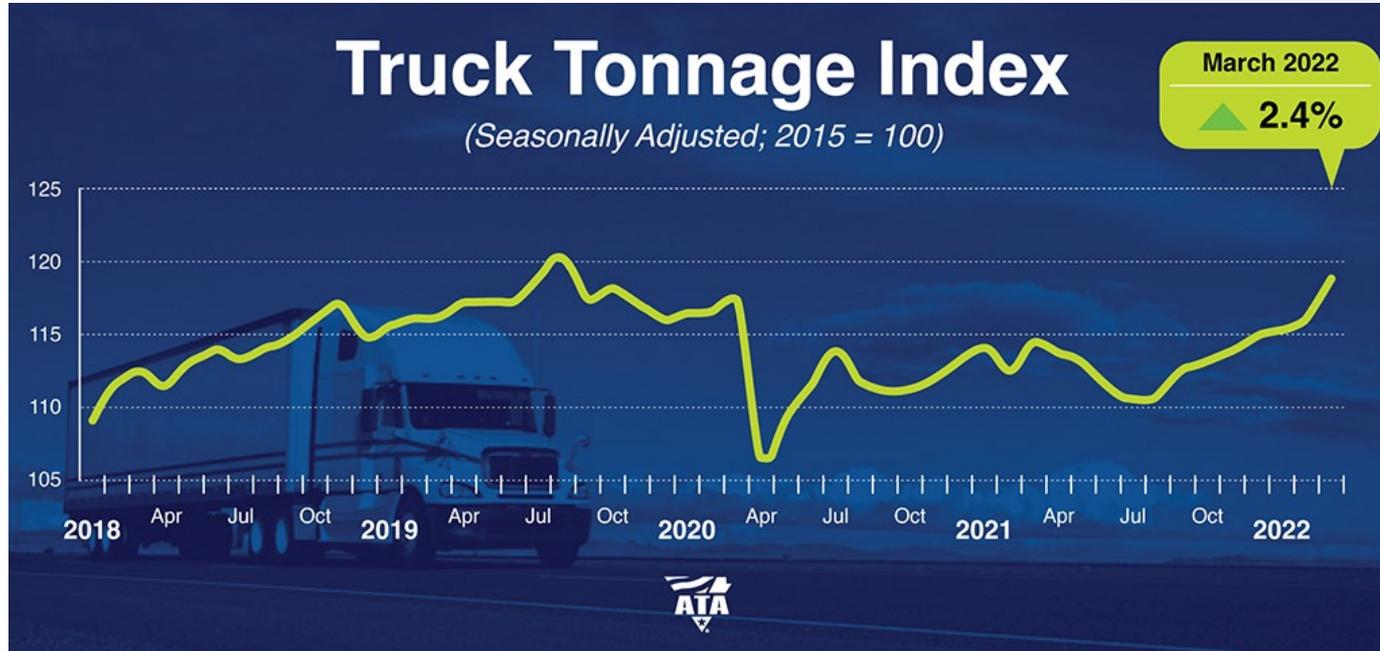


Global shipping rates still elevated but off highs

Source: [Freight Rate Index / Freightos Baltic Container Index](#)



Industry Insights: Pick-Up Seen in For-Hire Trucking Tonnage



[Source: American Trucking Association](#)



Landscape



Summary

- Demand to slow Q2-Q3
- Labor shortages continue due to low participation
- Inflation

Top 3 Strategies To De-Risk

Materials

- Costs will continue to increase
- Squeeze in 1 more \$ increase?
- Shortages on the rise

Logistics

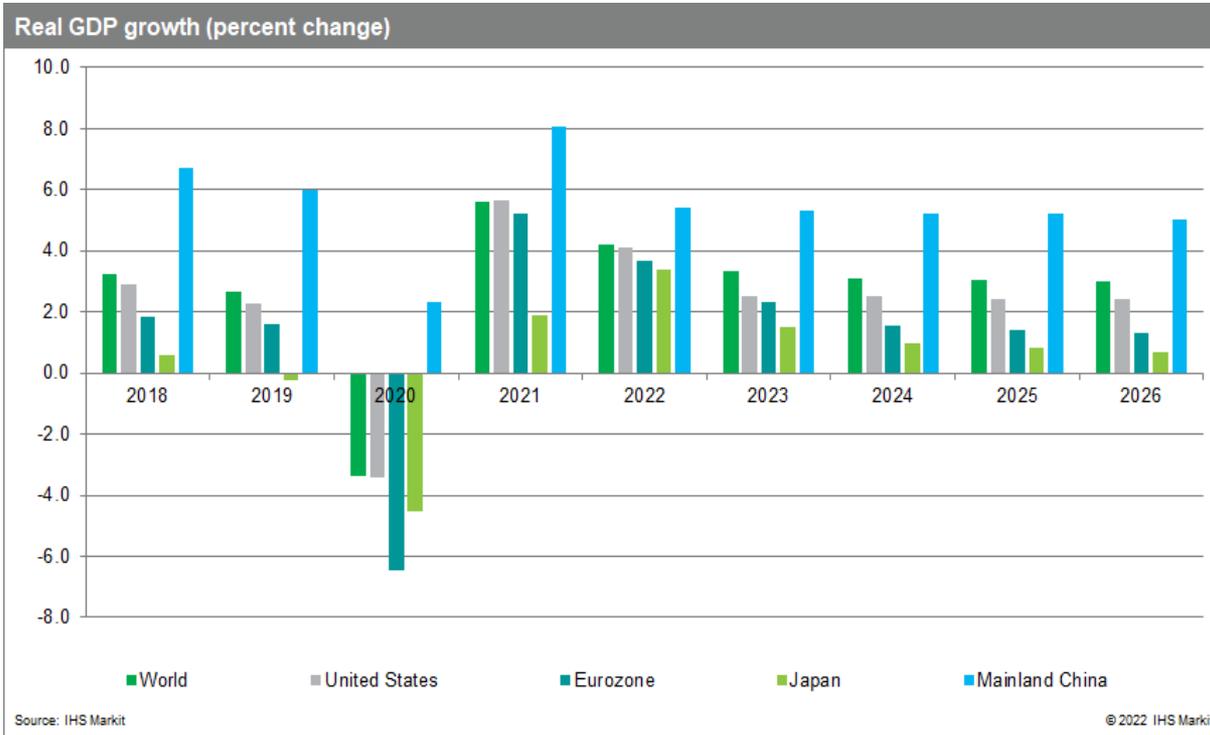
- Container pricing stabilizing...high
- While demand to ease...shrinking FF capacity likely to keep prices up

China global relations and business

- Will continue to function (albeit increasingly strained due to geopolitical issues)
- Covid shutdowns
- FDI up YOY



Strategy #1 – Control Inventory



Source: [IHS Market](#)

ACTION:

- Avoid overestimating demand.
- Don't wind up with too much inventory requiring discounting to unload it.
- Prepare for shifting demand to new products.
- **Balancing act?**
Material shortages...



Strategy #2 – One More Increase?

Overall costs are expected to continue to increase.

ACTION: With slowing demand on the horizon for the second half of 2022, companies might be able to squeeze in one more price increase to end customers.

Markets have never been more tolerant of price increases than now.



Strategy #3 – Re-Think How Goods Move

Challenges:

Traditional RFQs are unreliable.

Rates will change by the time you book freight.

Actions

Rethink how goods move

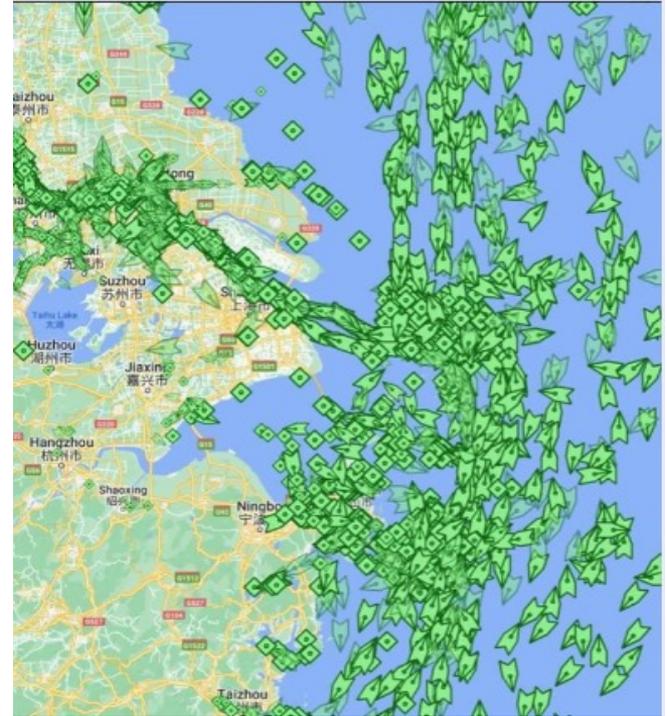
Book 4-6 weeks out

Prepare for overbooking, cancellations

Eliminate storage time by re-routing

Avoid overweight containers

Consider pop up distribution centers closer to ports to avoid weeks of domestic transport delays through congested hubs like Chicago



Vessels awaiting berth off Shanghai Yangshan, world's largest port



Trends for 2022

**Industrial
Automation**

**Additive
Manufacturing**

**Artificial
Intelligence**

Industrial IoT

**Immersive
Technology**

Big Data

**Cloud
Computing**

5G

Wearables

**Sustainable
Manufacturing**





Outlook for Public and Private Companies

We'll get you there.

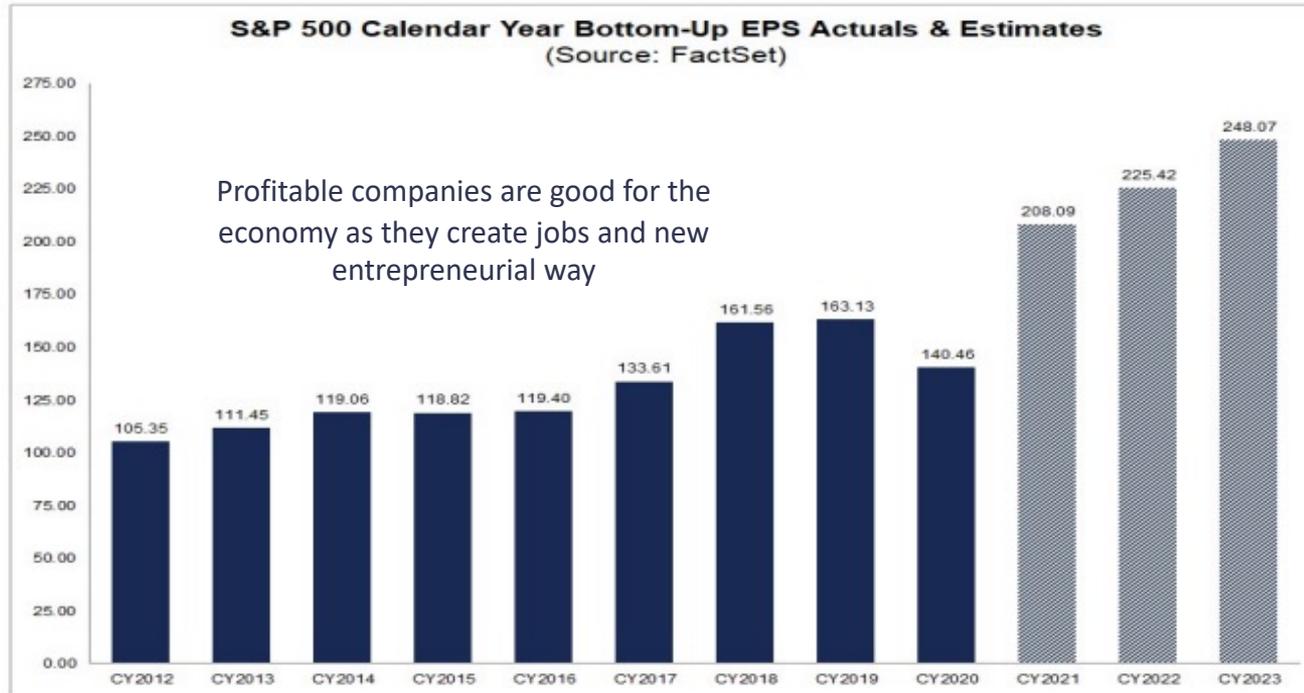
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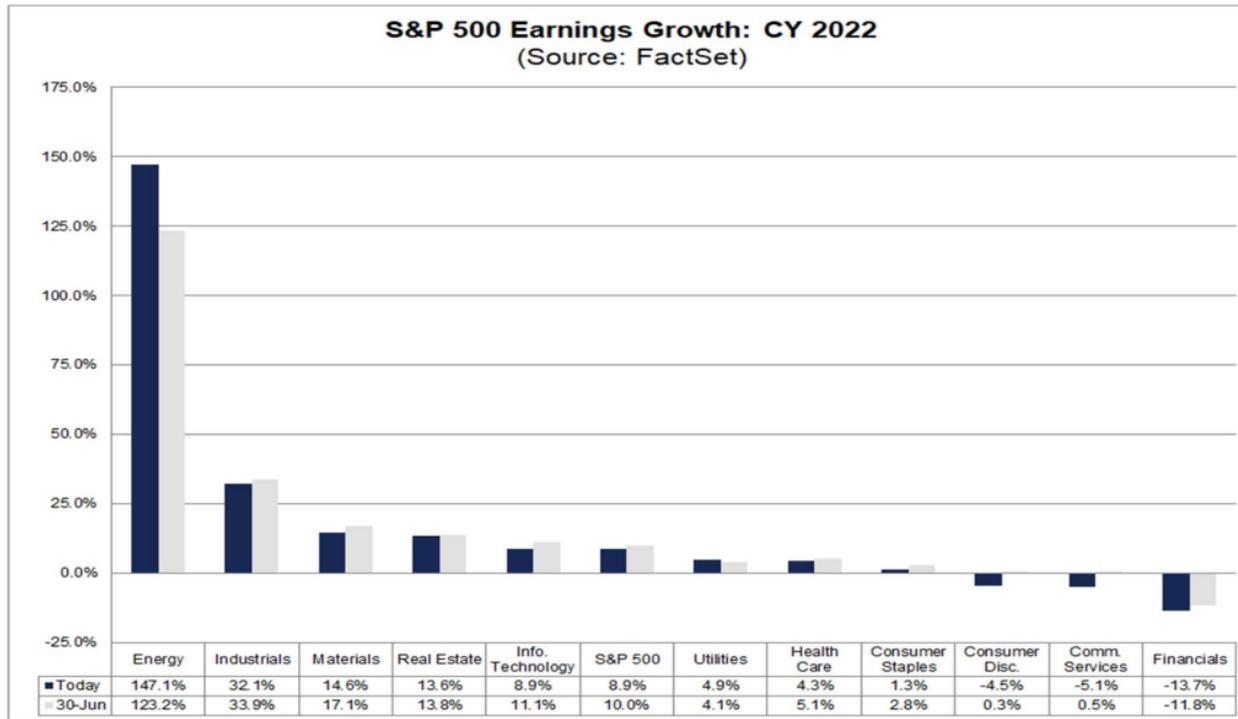
2022 May Surpass the Record Profitability in '21



Source: [Earnings Insight Template 2016.docx \(factset.com\)](#)



Industry Differentiation Will Become More Stark

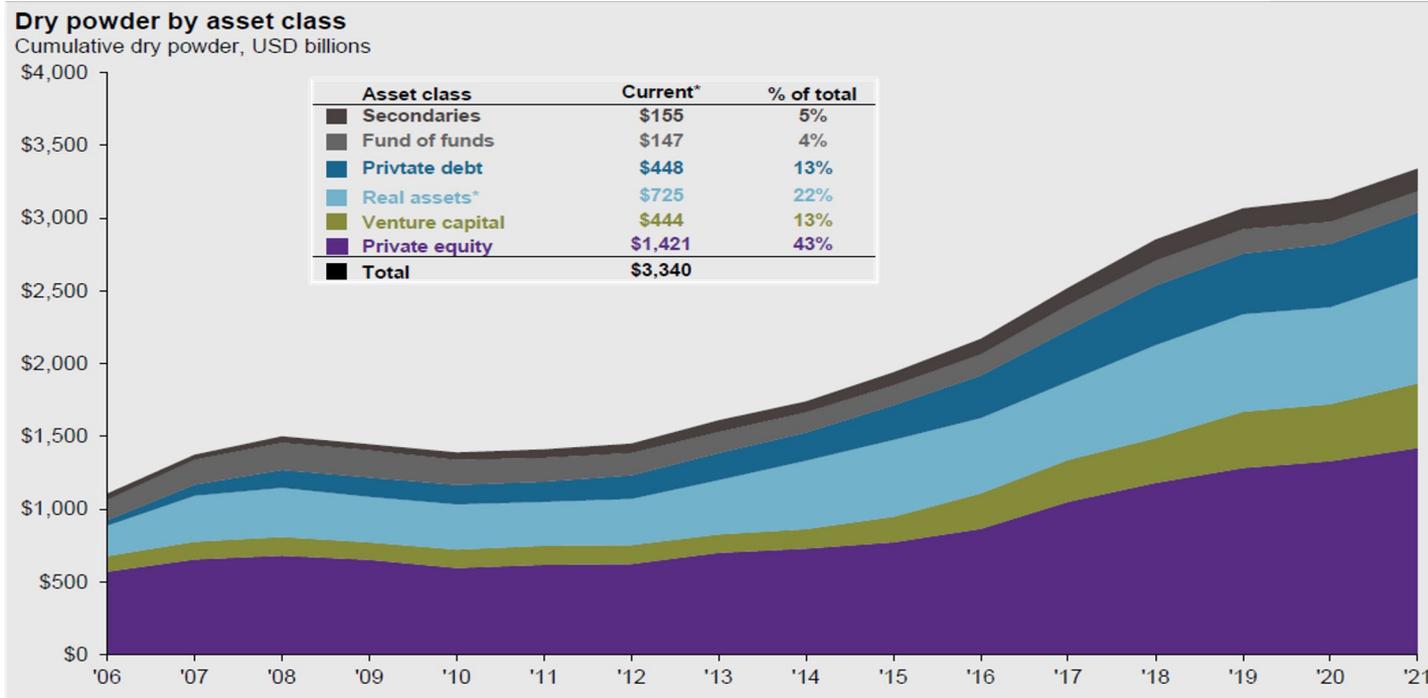


Source: [FactSet Earnings Insight August 5, 2022](#)





Private Companies — Leading Indicators



Source: Pitchbook, J.P. Morgan Asset Management. *Dry powder data is as of March 31, 2021. Percentages may not sum to 100 due to rounding.
*Real assets dry powder includes real estate & infrastructure.
Data is based on availability as of November 30, 2021.

Investors are eager to put cash to work





Companies Staying Private Longer



Source: BlackRock





Real Estate Spotlight: Industry Insights

Megatrends

- Rising interest rates
- Untenable cap rates
- Greater focus on subsectors beyond residential real estate
- Investors continue to embrace the tax benefits of real estate investments
- Great relocation and migration trends
- Regulatory focus on ESG/climate disclosure
- Focus on a dedicated real estate allocation to investment portfolios

Risks

- Record high prices / rents
- Skilled labor shortage
- Exhaustion of rental assistance and mortgage forbearance programs
- Continued lack of affordable housing
- Remote workforce issues
- Reduction in business travel
- Continued proposals to repeal / adjust Section 1031 exchange rules, treatment of carried interest

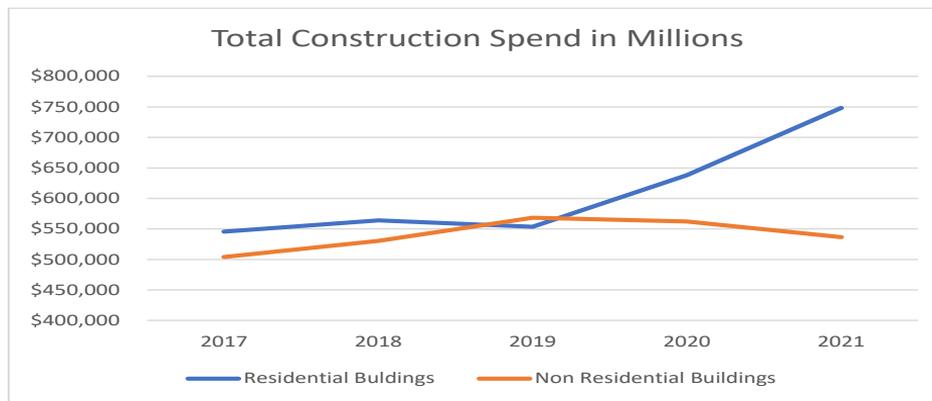
Opportunities

- Key sectors in focus:
 - Logistics and industrial
 - Life sciences
 - Rentals: multi-family and single family
 - Affordable housing
 - Student housing
 - Self storage
- Use of PropTech to more efficiently manage properties
- Increased deal flow for select real estate opportunities
- New ways for investors to gain exposure across public and private markets via internal funds



Construction Spotlight

Current State



- The construction continues to see robust growth
- Since 2017, builders have been focused on the residential sector – particularly single family over multi-family to meet growing demand
- 35% of the construction dollars spent are focused on just twelve markets: New York, Los Angeles, Dallas, Houston, Phoenix, Washington DC, San Francisco, Atlanta, Seattle, Miami, Chicago, Denver
- Within the non-residential building space, relatively little growth has taken place with only 6.5% in construction spend growth between 2017-2021
- COVID work from home & the growth of e-commerce has further challenged the view of new office construction
- Headwinds continue around raw material costs & sourcing – although many of these costs are being passed on to the end consumer

Sources: FMI, IBIS World

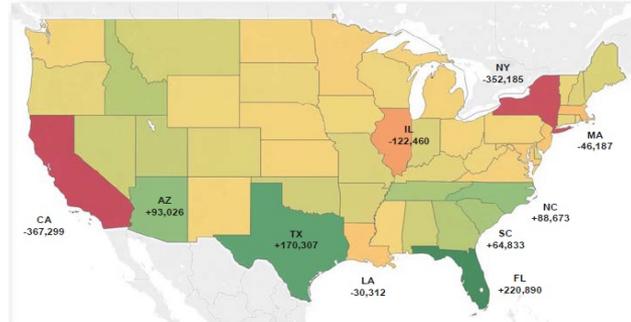
Prepared by: Julian Xavier, MPI Construction



Construction Spotlight, continued

Future State

Population Shifts Drives Construction Spend



- Sentiment among contractors remains strong and positive with robust pipelines and a healthy backlog of work
- Rising interest rates are less of a concern as most contractors have bolstered balance sheets, having taken advantage of PPP loans (highest sector to use PPP) and ERC Credits
- The Infrastructure Investment and Jobs Act signed Nov 2021 has \$550 billion in new federal spending, especially in transportation
- Challenges around construction labor are expected to continue – with focus on using technology to drive efficiency via Digital

Sources: FMI, IBIS World

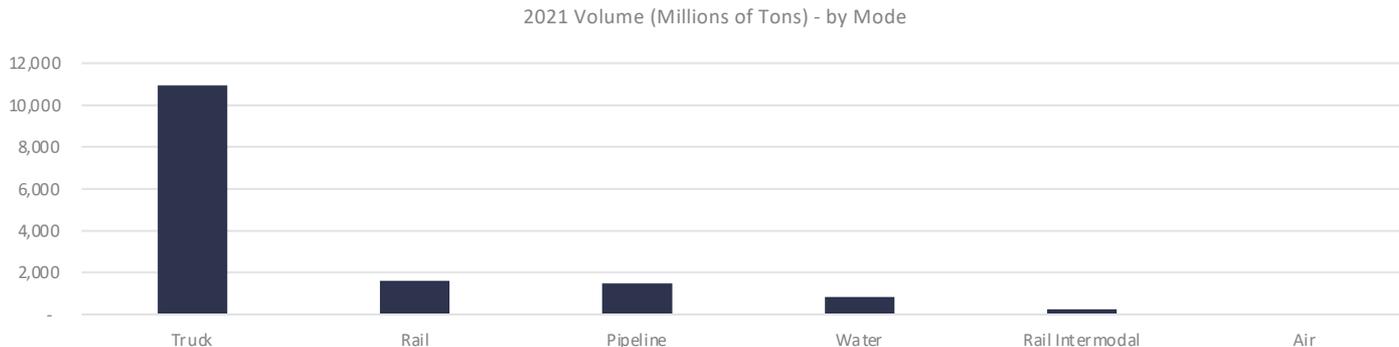
Prepared by: Julian Xavier, MPI Construction



Create Opportunities

Transportation & Logistics Spotlight

Current State



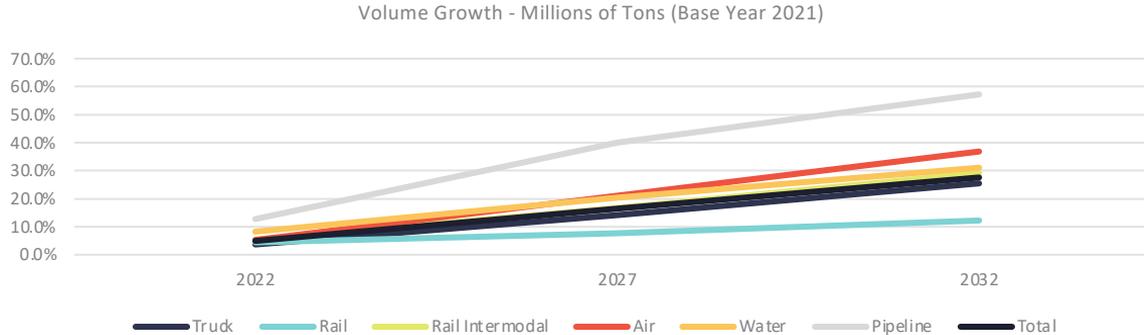
- Motor carriers continue to dominate the transportation industry in both volume and revenue
- Private fleets represent 32.5% of total freight tonnage (trucks only)
- For-hire carriers prevailed through the pandemic as a result of their flexibility and service performance improvements.
- Carriers that continue to focus on being a true logistics expert for their customers will have a competitive advantage
- Higher interest rates is raising financing rates on equipment – compressing margins

Source: American Trucking Association
Prepared by: Brandon Knight, MPI Transportation & Logistics



Transportation & Logistics Spotlight, continued

Future State



- After the recovery in 2021, general and bulk freight is slated to increase at an average rate of 2.1% from 2022 to 2032 though with a heightened risk of sanctions reducing volumes
- Trucks will continue to dominate the overall freight transportation landscape through 2032
- Shippers will continue to press for low-cost/high-quality/flexible transportation services – anything that strengthens their supply chain.
- Truck vehicle demand is anticipated to increase 20% by 2032
- Pressure from shippers and customers to provide more than transportation – logistics services and solutions.

Source: American Trucking Association
Prepared by: Brandon Knight, MPI Transportation & Logistics



Manufacturing & Distribution Spotlight

Current State



CLA's Manufacturing & Distribution team sees 3 key trends:

- **Profitability remains at all-time highs**, as manufacturers pass along double-digit price increases, given continued strong end client demand
- **Supply chain disruption** – many manufacturers may need to change their product mix as input prices rise, and as raw material sourcing remains difficult. Loss of Russia-Ukraine minerals will prolong this disruption.
- **Manufacturing labor remains tight** – This is driven both by the overall shrinking workforce and by outdated perceptions related to safety, cleanliness, and mundane work tasks. Focus will remain on recruiting diverse talent, including focuses on women and young workers.

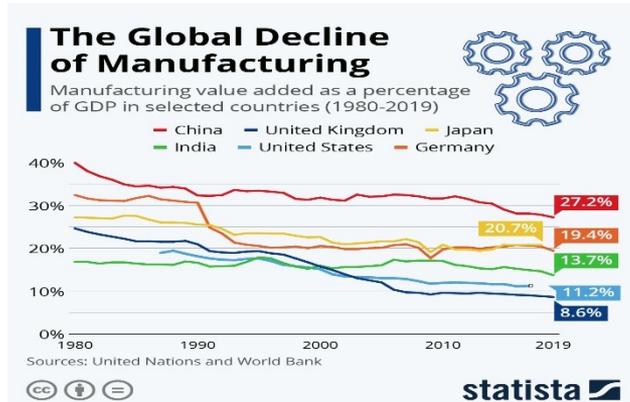
Sources: St. Louis Fed, Statista

Prepared by: Allyson Baumeiser , MPI Manufacturing & Distribution



Manufacturing & Distribution Spotlight, continued

Future State



- **Manufacturing is seeing greatly increased reshoring to the US** – a key reversal from the trend since 1980.
- **Manufacturers are focused on training talent** starting as early as high school with certificate level training that can lead to \$20+/hr jobs as well as perks such as onsite child-care to attract more women to the workforce.
- **Technology and automation** will increase in importance as a solution for both labor and supply chain issues.
- **CLA is watching the decline of manufacturing confidence closely** as a result of macro concerns. Companies are focused on finding domestic supplies for key raw materials – though uncertainty remains on the timing of these supplies.

Sources: St. Louis Fed, Statista

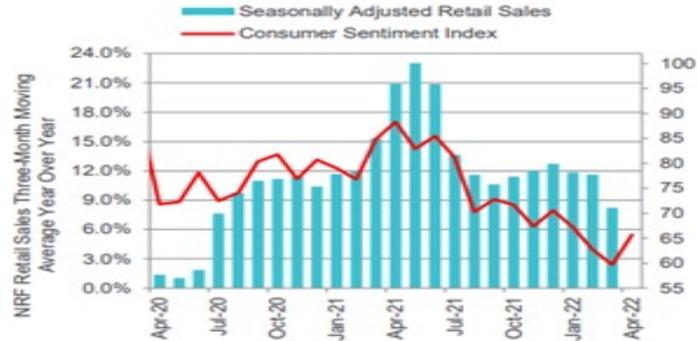
Prepared by: Allyson Baumeiser , MPI Manufacturing & Distribution



Retail Spotlight

Current State

Consumer sentiment remains relatively weak despite an increase in mid-April. Nonetheless, retail sales remain in great shape even as inflation has edged higher.



- Healthy household balance sheets seen as cash levels > debt
- Unemployment is near all-time lows with wages driving spending
- Consumer spending habits have recovered to pre-pandemic levels
- Higher prices are being absorbed well and may come down as supply chain stress is eased
- Falling consumer sentiment is not significantly affecting spending
- **Key takeaway:** The pace of retail sales growth does not suggest a recession

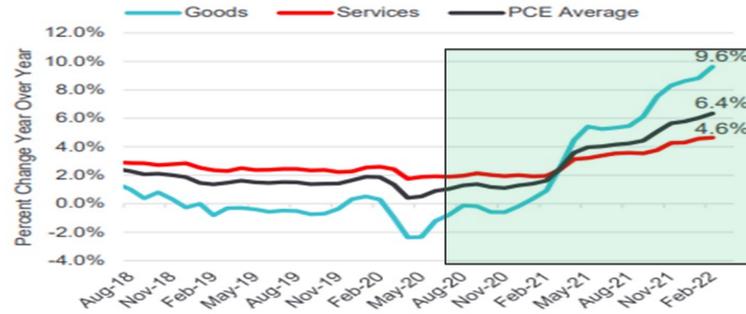
Source: Kleinhenz J. Monthly Economic Review. National Retail Federation. May 2022. <https://cdn.nrf.com>
Prepared by Mrudul Sharma, MPI Retail



Retail Spotlight, continued

Future State

The Personal Consumption Expenditures Price Index was up 6.4 percent year over year as of February. Inflation certainly was not transitory as was expected a year ago.



- The post-pandemic surge in spending is expected to continue despite higher prices
- We see improving supply chain dynamics with companies
 - Using substitutes where possible
 - Increasing inventory levels – while also watching cash
- Easing labor markets seen as retail positions being filled
- **Key takeaway:** retail spending should continue to be healthy given robust personal balance sheets

Source: Kleinhenz J. Monthly Economic Review. National Retail Federation. May 2022. <https://cdn.nrf.com>
Prepared by Mrudul Sharma, MPI Retail





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