



We'll get you there.

Economic and Industry Market Outlook

Seek Diversification in Alternatives

September 7, 2022

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Comprehensive Insights

Top-down macro analysis

Economic data
Interest rates
Earnings
Valuations
Investment cash flows

Industry data
Interviews with industry and service line leaders

Bottom-up industry and service insights





CLA Legislative Update

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Major Tax Changes Avoided in 117th Congress

Individual
income tax
rates

Capital gains
rates

1031 exchanges

Carried interest

SALT cap
extension or
repeal

3.8% net investment
income tax on active
business income

Changes to
estate and gift
tax rules

Inflation Reduction Act

Tax Implications

- New 15% minimum tax on corps (with “book” income over \$1 billion)
- 1% excise tax on publicly traded companies on stock buybacks
- Excess business loss limitations extended through 2028
- Increase in research credit against payroll tax for start-up small businesses
- IRS funding for enforcement activities
- Tax breaks for clean vehicles
- 30% credit for certain energy-efficient remodeling costs, subject to a \$1,200 annual limit (as opposed to \$500 lifetime cap)
- 30% clean energy credit – previously called “REEP” – for more expensive residential energy items
- Changes to the energy efficient commercial building deduction (Section 179D)
- New energy efficient home credit is increased and extended (Section 45L)

Directly
impacts
Real
Estate





CLA Economic and Market Outlook Updated September 2022

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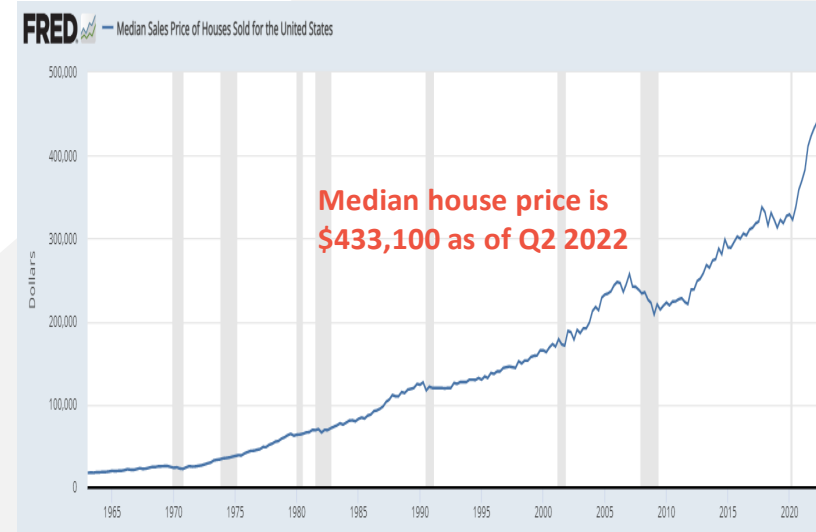
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Economic Data Shows the Reopening is Real



Source: St. Louis Fed

Consumer spending is robust



Source: St. Louis Fed

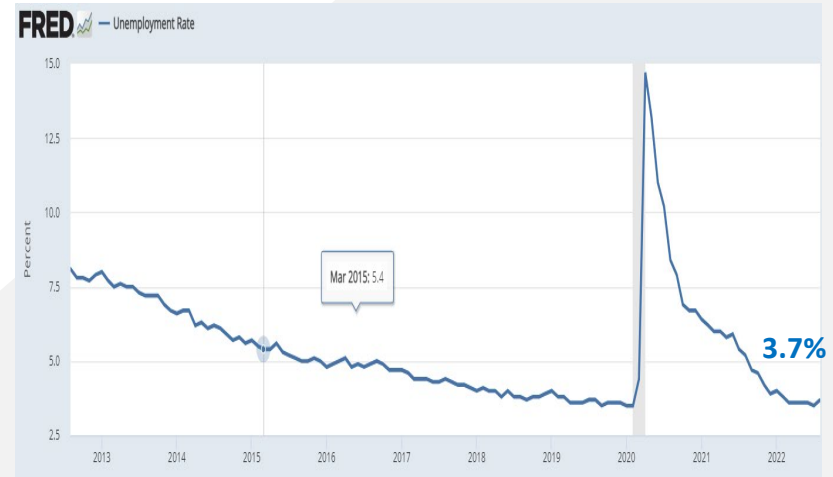
Housing prices hit new highs



Economic Data Shows the Reopening is Real



Source: St. Louis Fed



Source: St. Louis Fed

Higher inflation → Higher rates

Unemployment at pre-COVID levels

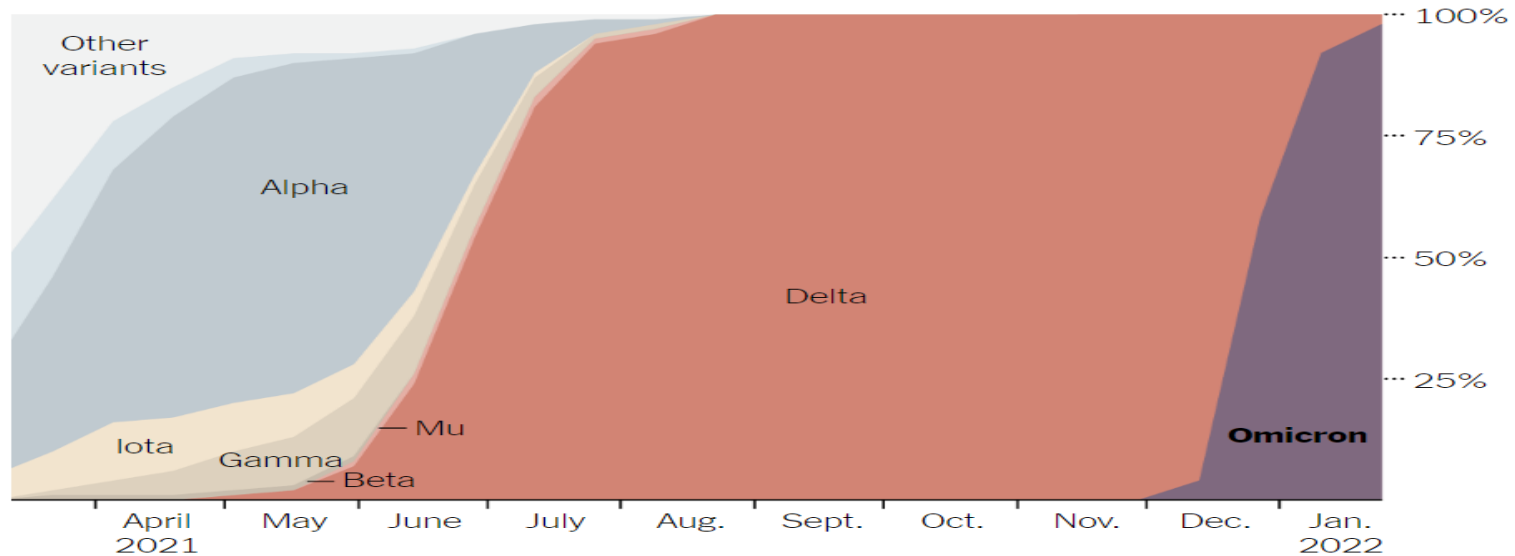




COVID continues to be a challenge

Waves of Variants in the United States

Omicron has pushed aside Delta as the dominant variant in the United States. (For other countries, see [CoVariants](#).)



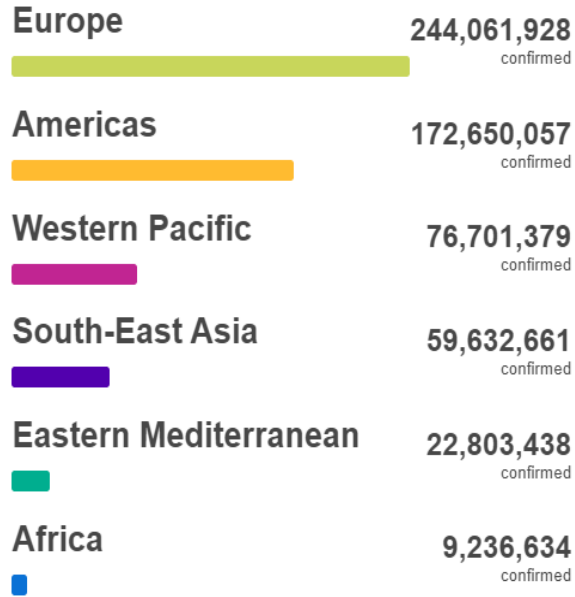
Expect New COVID-19 Variants in the United States

Source: [Tracking Omicron and Other Coronavirus Variants - The New York Times \(nytimes.com\)](#)





COVID Continues to Be a Challenge



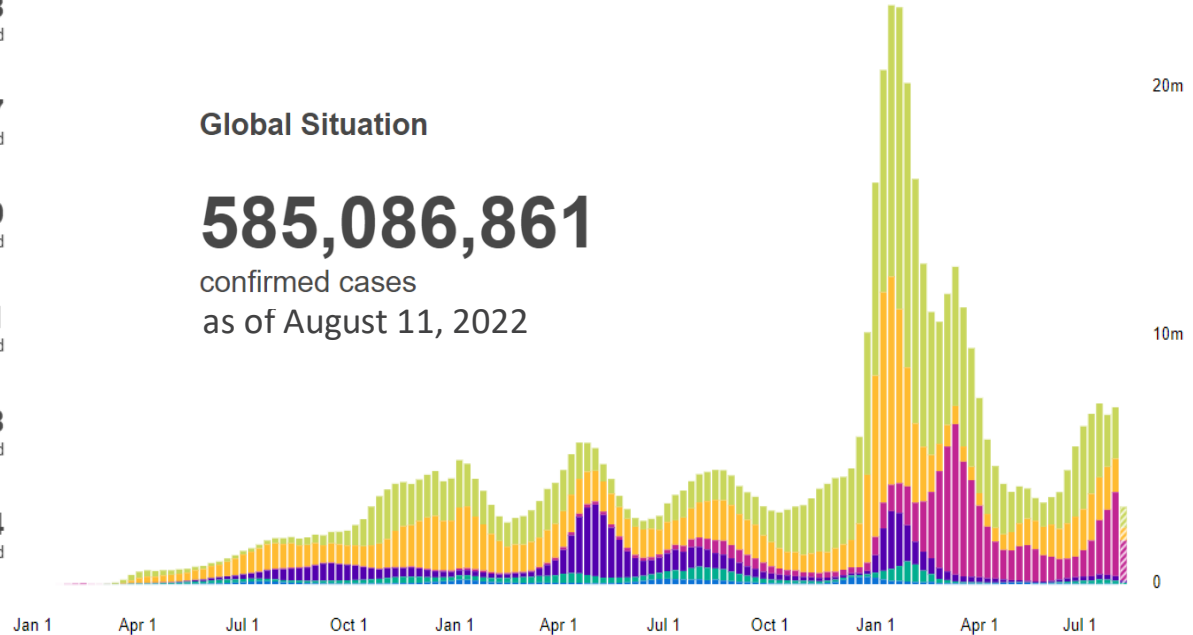
Source: World Health Organization

▨ Data may be incomplete for the current day or week.

Global Situation

585,086,861

confirmed cases
as of August 11, 2022

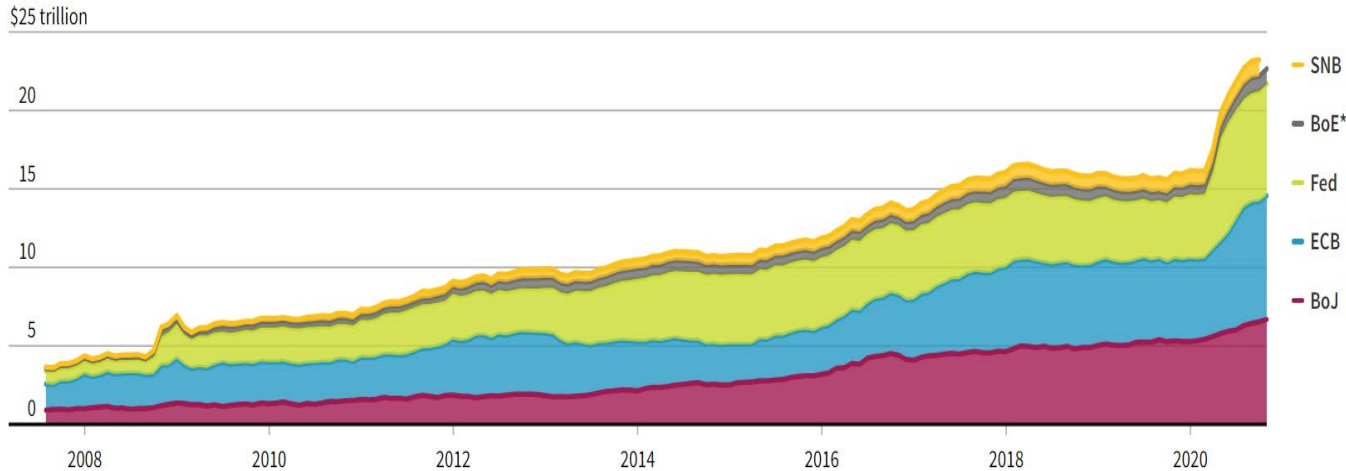


Number of COVID-19 Cases Globally

[Source: WHO Coronavirus \(COVID-19\) Dashboard](#) | [WHO Coronavirus \(COVID-19\) Dashboard With Vaccination Data](#)



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

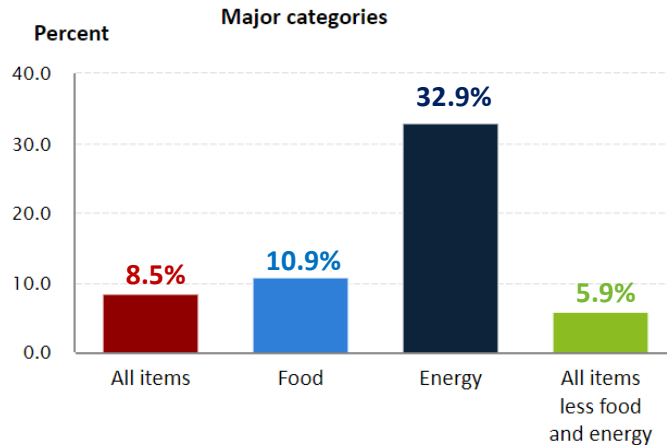
[Source: Thomson Reuters](#)



Inflation is Likely to Remain Front and Center

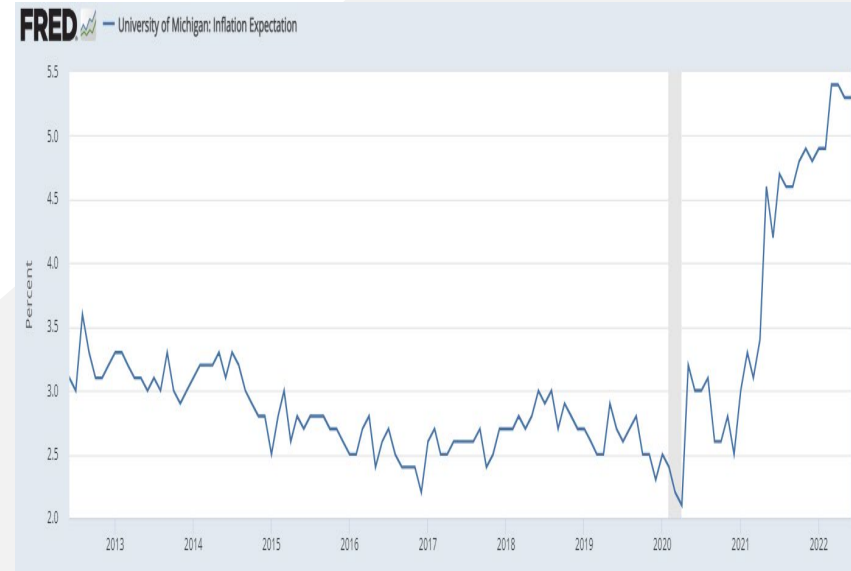


12-month percentage change, Consumer Price Index, selected categories, July 2022, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

Higher prices driven by energy ...



Source: St. Louis Fed

... Driving future inflation expectations

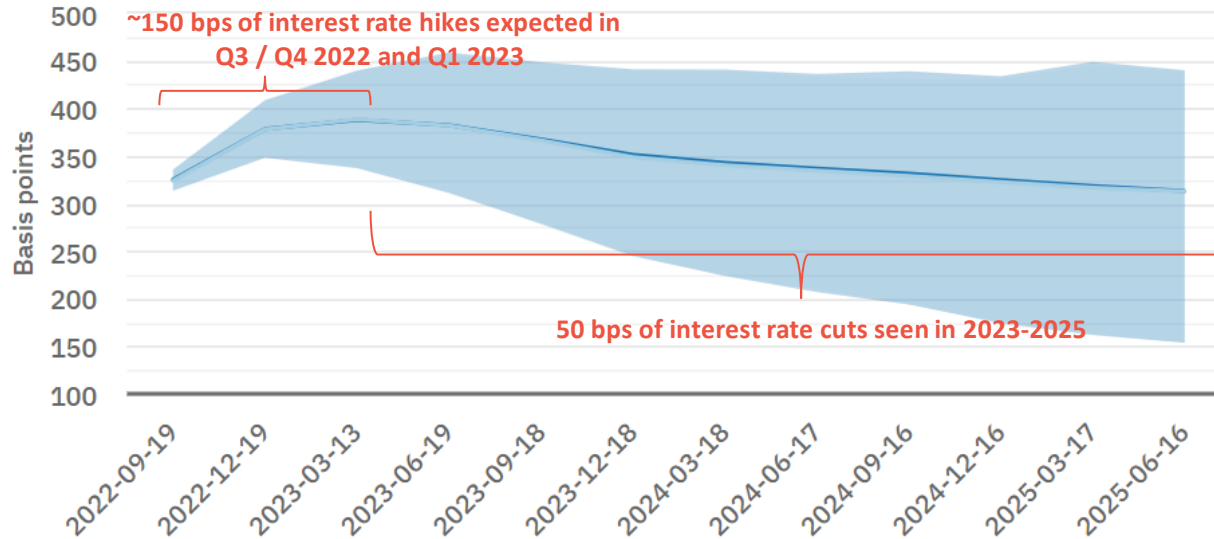




Expect Interest Rates Hikes in 2022 but Cuts starting in 2023

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)





Supply Chain Stress is Starting to Ease



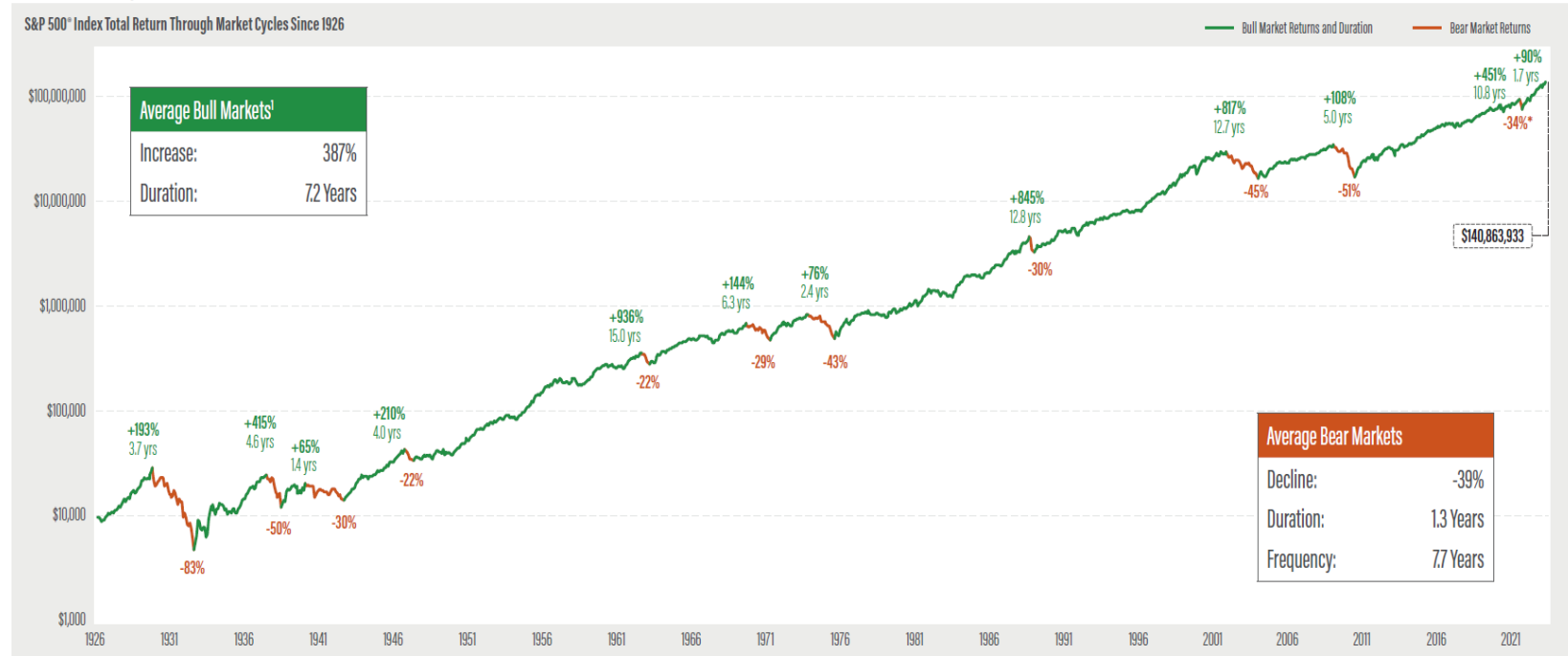
Global shipping rates still elevated but off highs

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



Bull & Bear Cycles – An Historical Perspective

The Law of Market Cycles



Source: FactSet, S&P 500 Index as of December 31, 2021. The index is unmanaged, is not available for investment and does not incur expenses. Daily performance is not available from 1926.

Past performance is no guarantee of future results.

¹ Average does not include current bull market.

* This chart uses monthly returns although this most recent bear market uses daily performance for consistency with the rest of the brochure.





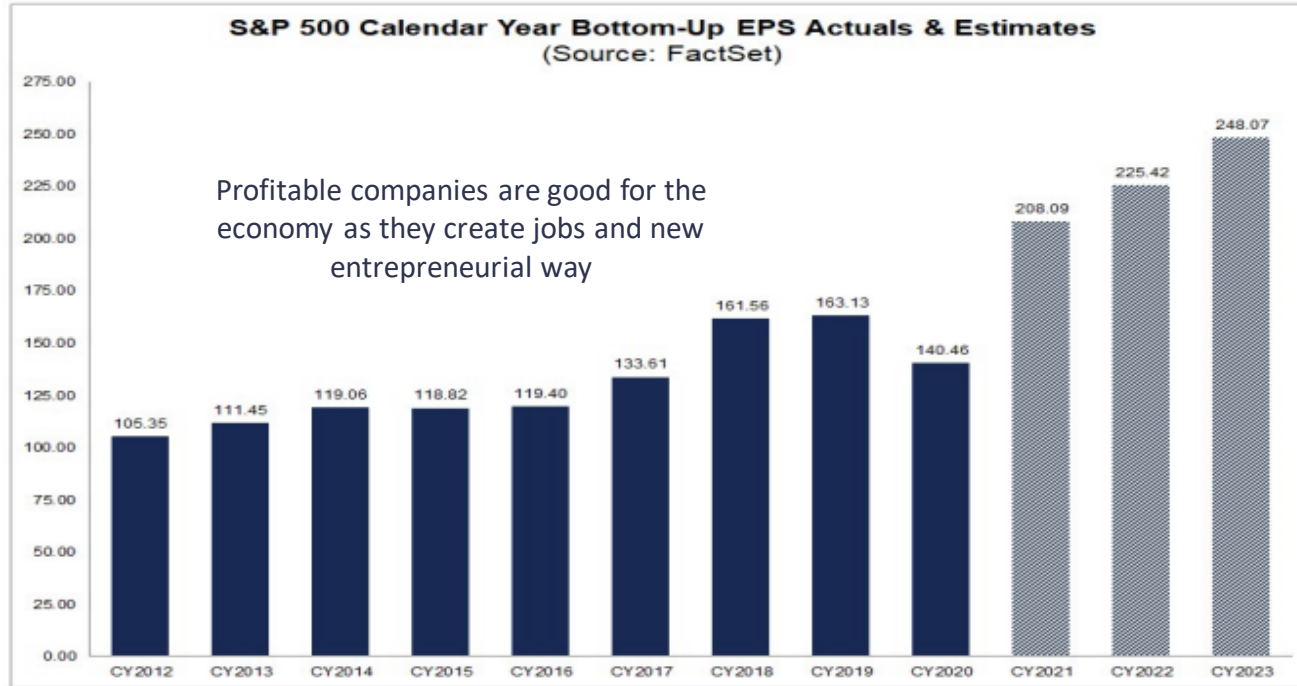
Outlook for Public and Private Companies

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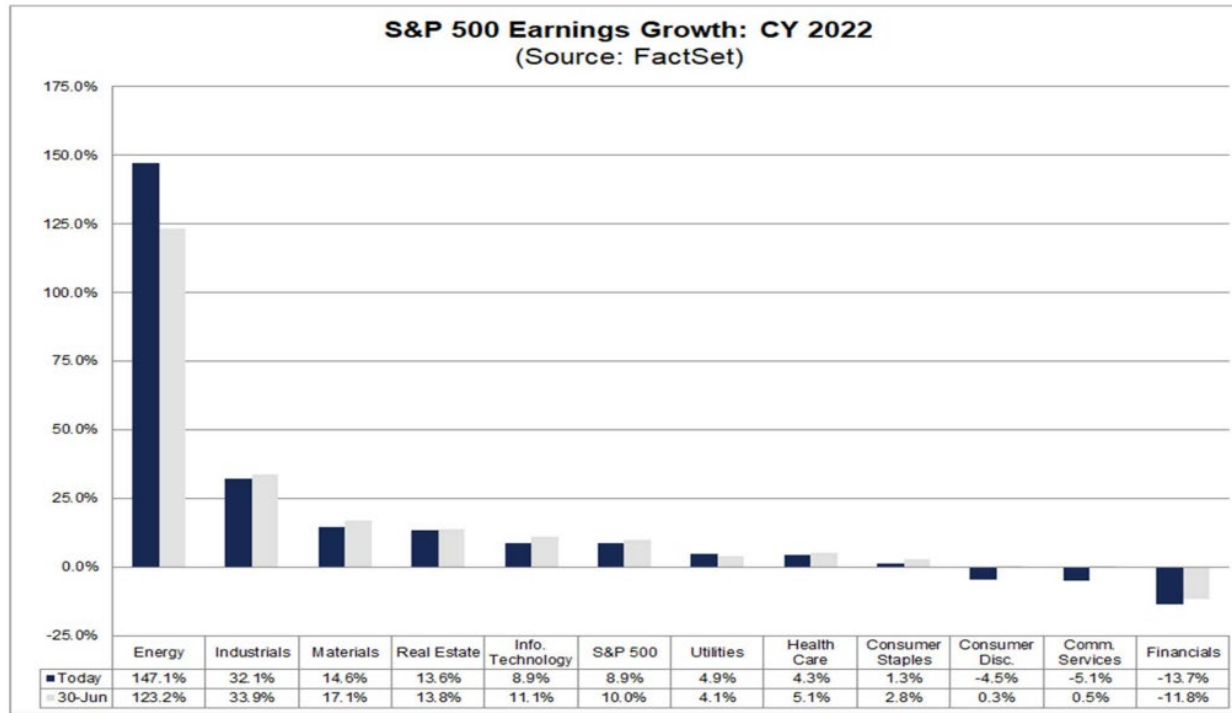
2022 May Surpass the Record Profitability in '21



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



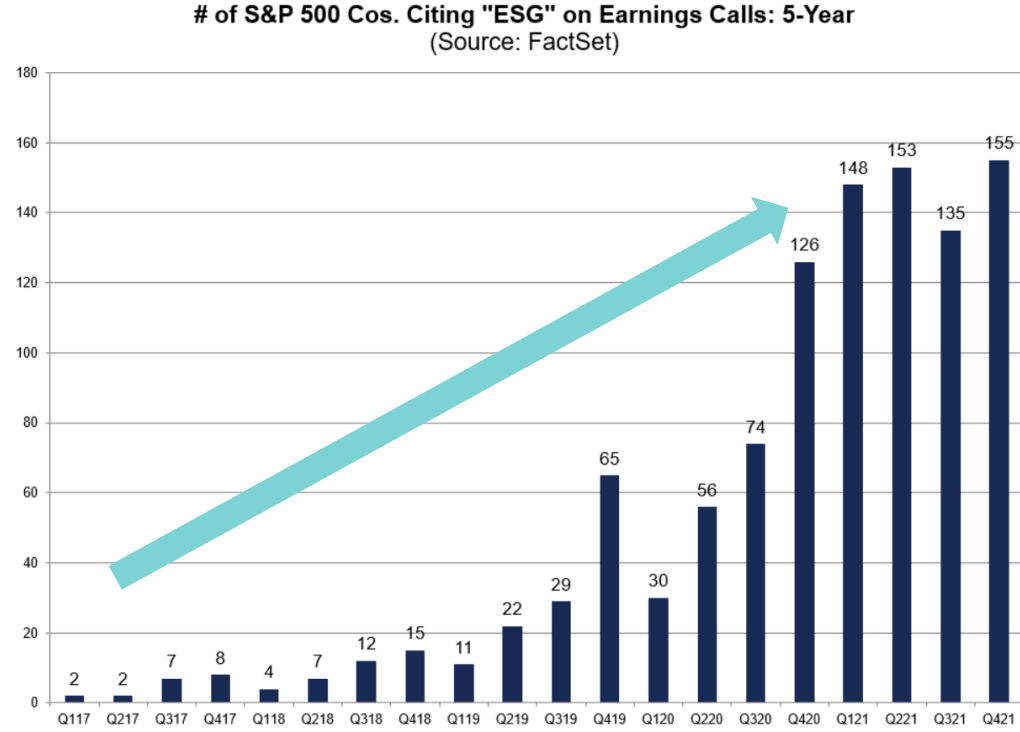
Industry Differentiation Will Become More Stark



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



Companies Are Preparing Their Response to ESG



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

*ESG is "Environmental Social and Governance"

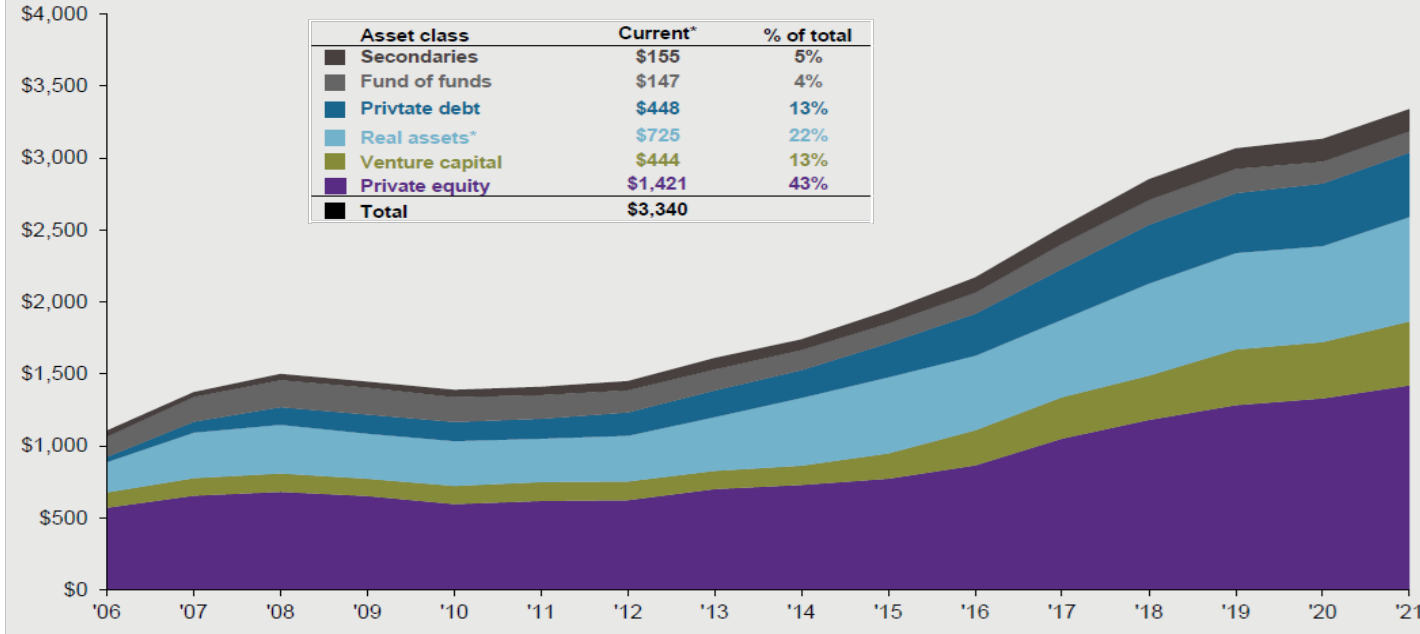




Private Companies — Leading Indicators

Dry powder by asset class

Cumulative dry powder, USD billions



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

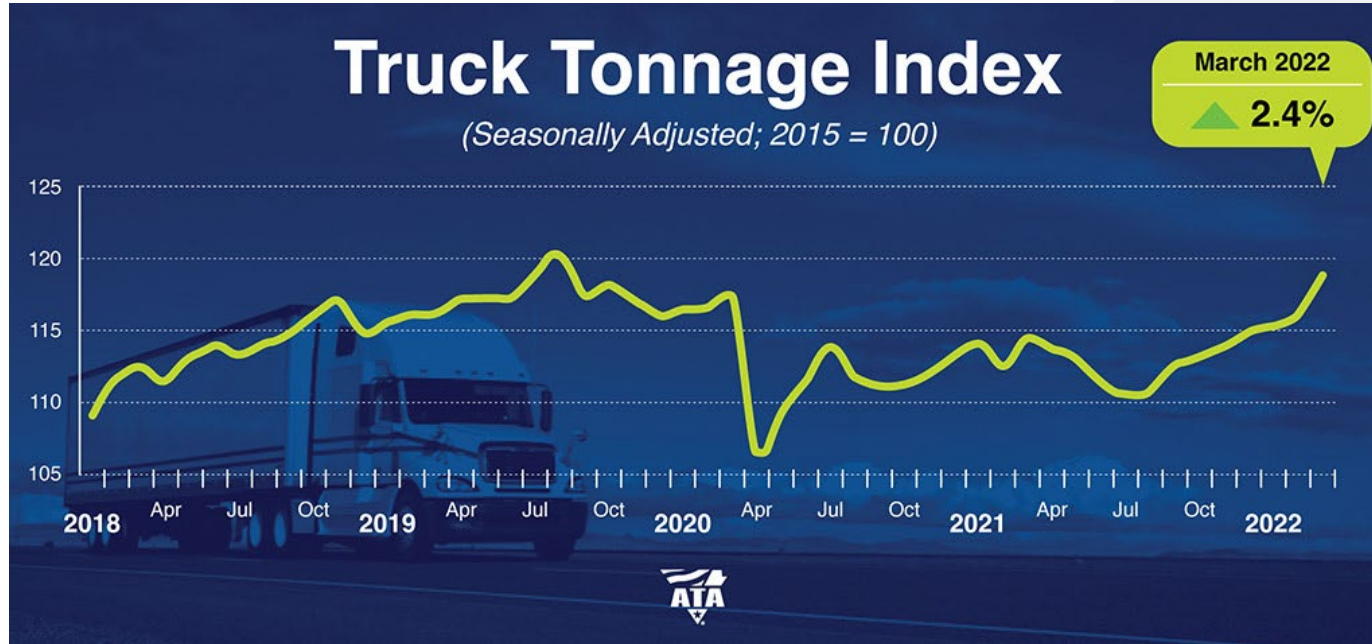


Companies Staying Private Longer



Source: BlackRock

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

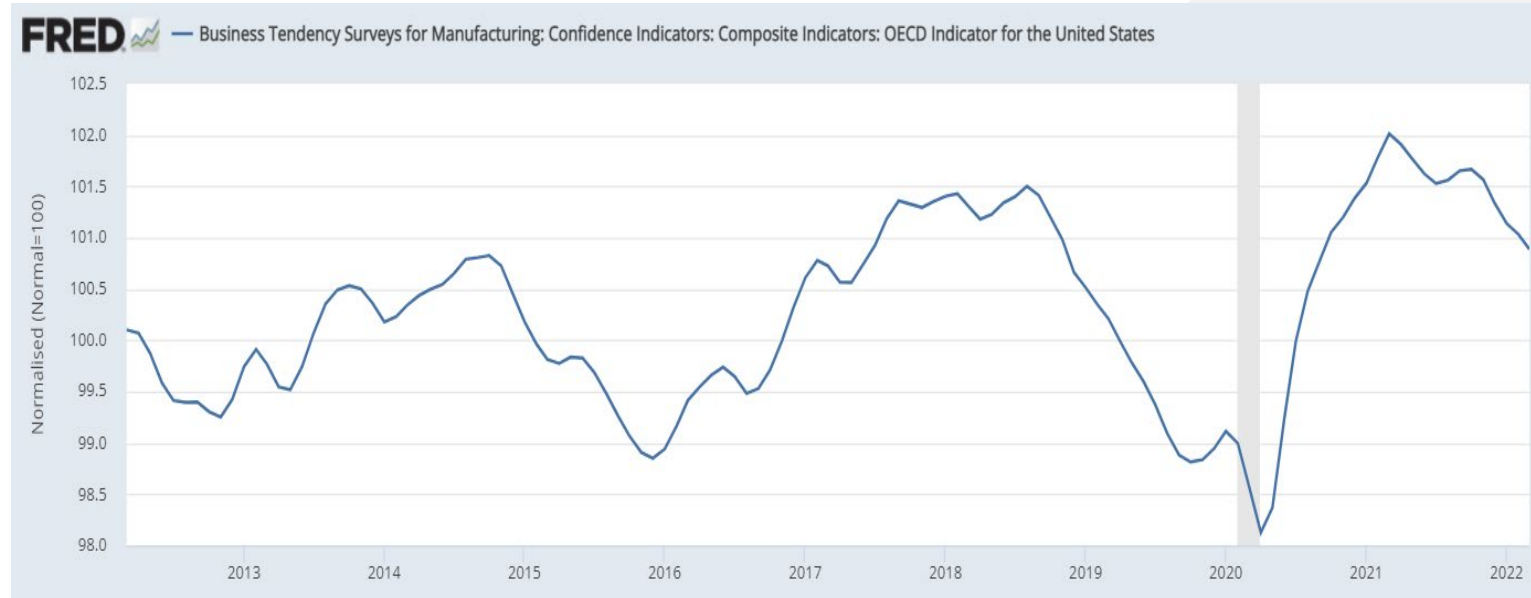


[Source: American Trucking Association](#)





Manufacturers Remain Confident But Cautious



Source: St. Louis Fed





Private Company Outlook & Industry Insights

Challenges

Supply chain concerns to continue for another 12-18 months

- › **Transportation and logistics**

Higher interest rates and taxes will be headwinds to select industries — however, companies doing active risk mitigation

- › **Manufacturing and distribution, agribusiness**

Labor remains difficult to source though mitigated in the long-term by investments in automation and higher worker pay

- › **Construction**

Opportunities

Record profitability is expected to continue given pricing power in unregulated industries

- › **Health care, construction**

Companies are looking to technology (AI / machine learning / logistics) to improve bottom-line efficiency

- › **Higher ed, agribusiness**

We expect more M&A activity driven by private equity roll-ups and vertical integration

- › **Financial institutions, telecom**

ESG awareness ramping up

- › **Retail, construction, agribusiness**

At CLA, we have a depth of **industry experience** informing our economic views





Select Industry Insights

Susan Sabo
Managing Principal of Financial Institutions

"The rate of consolidation will continue to be high across banks below \$1bln in assets and credit unions with less than a \$100M assets."

Allyson Baumeister
Managing Principal of Manufacturing and Distribution

"Many business owners feel good about the first six months of 2022 year — but there is more uncertainty around pent up demand and inventory as we get into the latter half."

Brandon Knight
Managing Principal of Transportation and Logistics

"Given equipment and driver shortages, clients are expecting billing rate increases. Additionally, companies are using technology to improve efficiency and focus on more regional and profitable routes."

Robbie Walker
Managing Principal of Agribusiness

"Many of our clients who sell into grocery stores or distribution centers saw record profitability during COVID, and some used this as an opportunity to sell or expand their operations."





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



Four Market Themes for 2022 and Beyond



**Prepare your
portfolio for higher
interest rates and
taxes**



**Dig deeper for
bottom-line growth**



**Seek diversification
in alternatives**

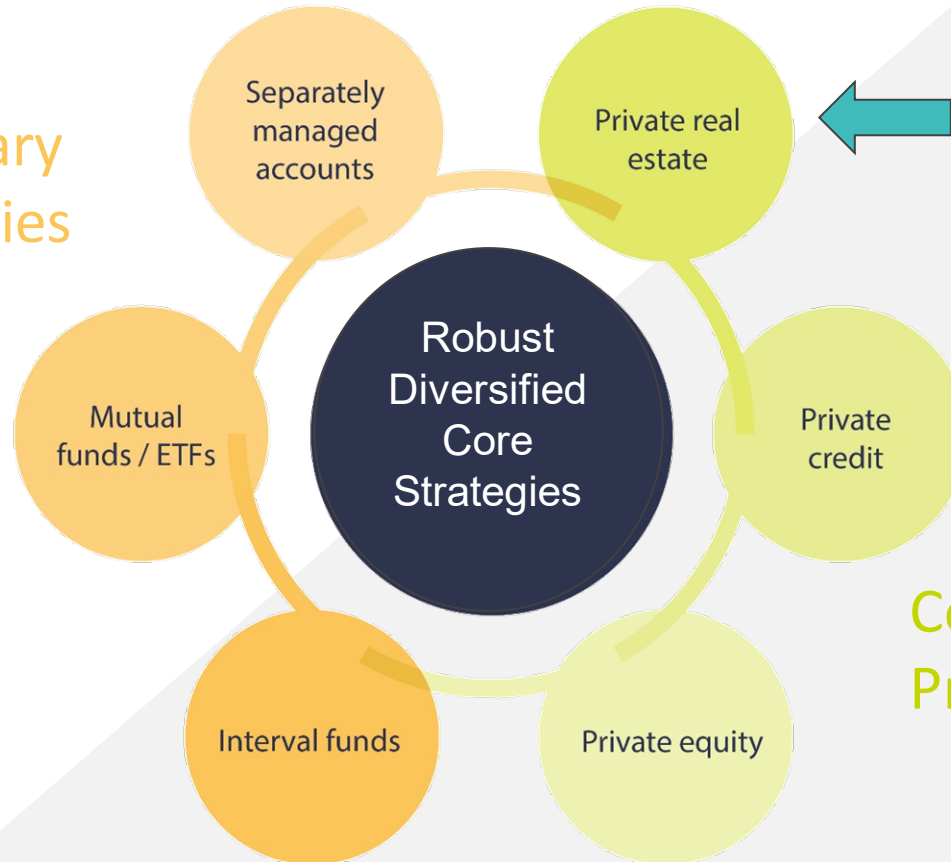


**Invest sustainably
with ESG**



How We Construct Portfolios at CLA

Complementary
Public Strategies



Real Estate is an
important part of a
**CLA Total Return
Portfolio**

Complementary
Private Strategies



Contact CLA to discuss how we can serve you and help you achieve your goals



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