

End of Easy Money

Actionable Ideas Series

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Discussion Points

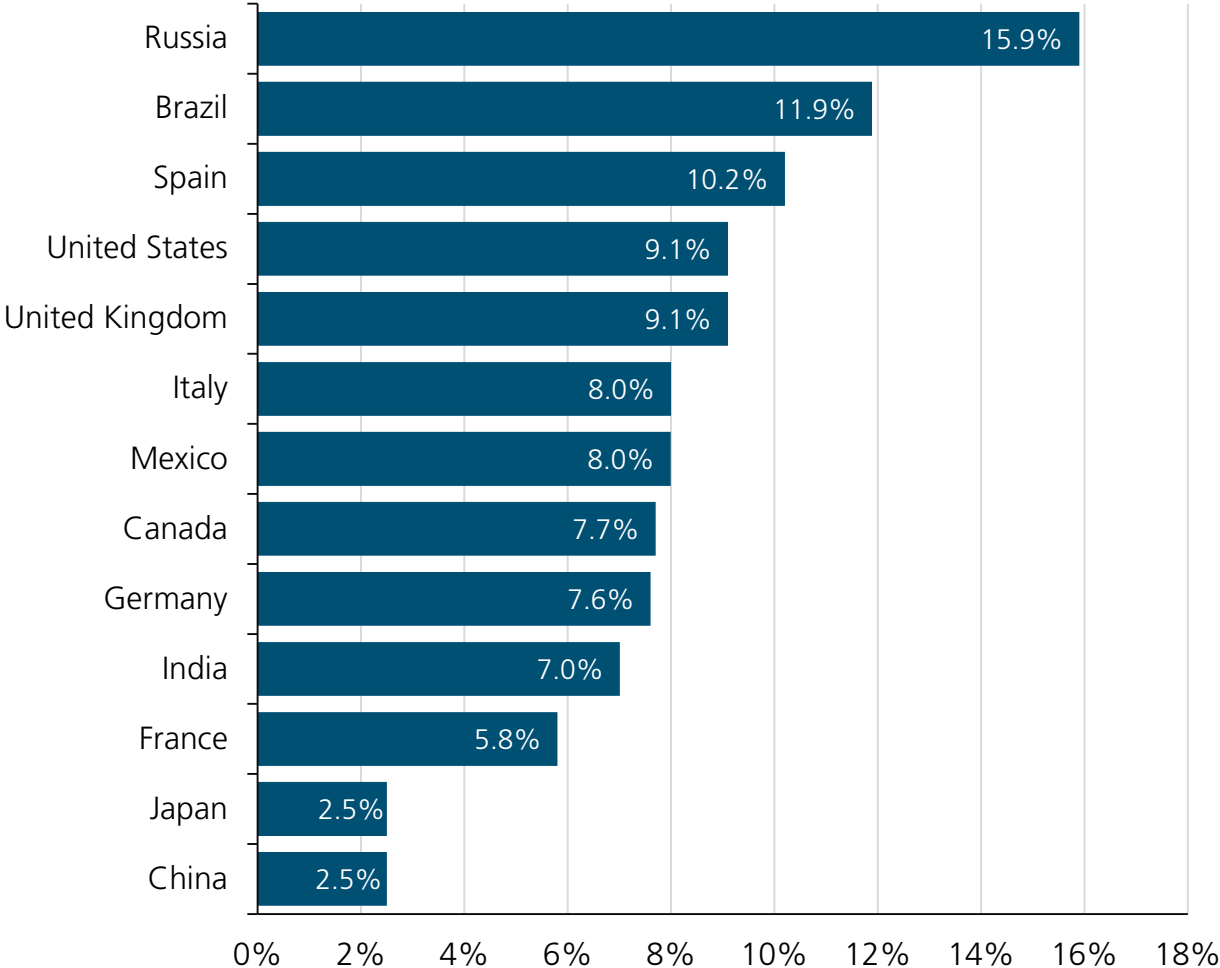
- Short-Term Outlook
 - Evolution of Inflation
 - Fed Policy Response
 - Interest Rates, Housing, Currency, Profits
 - Depth and Duration of Recession / Bear Market
- Longer Term Trends
 - Inflation, Interest Rates and Bond Term Premium
 - P/E Multiples and Equity Risk Premium
- Secular Shifts and Continuing Constants

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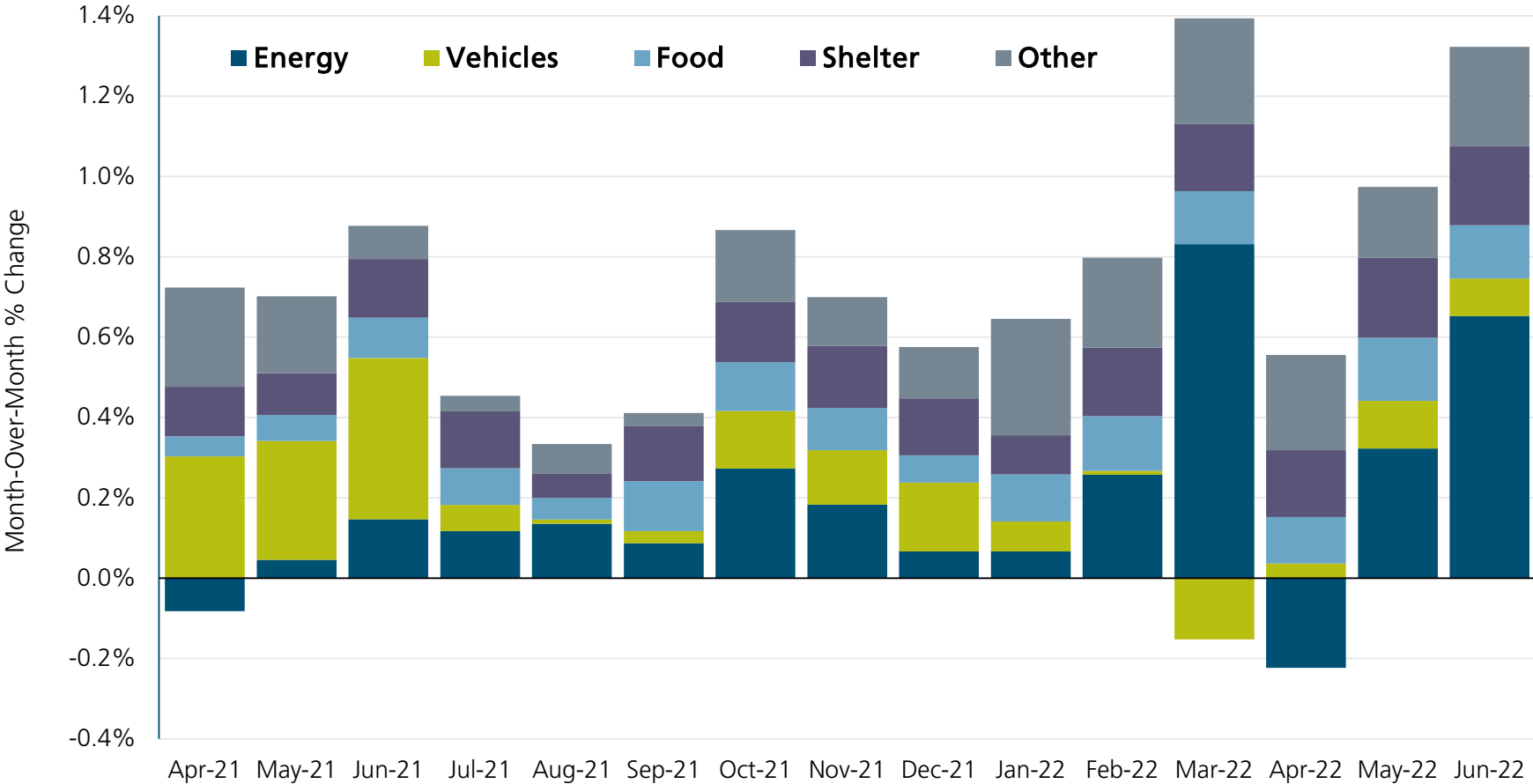
Inflation Elevated Across the Globe

Inflation by Country



Components of Headline CPI Inflation

CPI Components – Contribution by Month

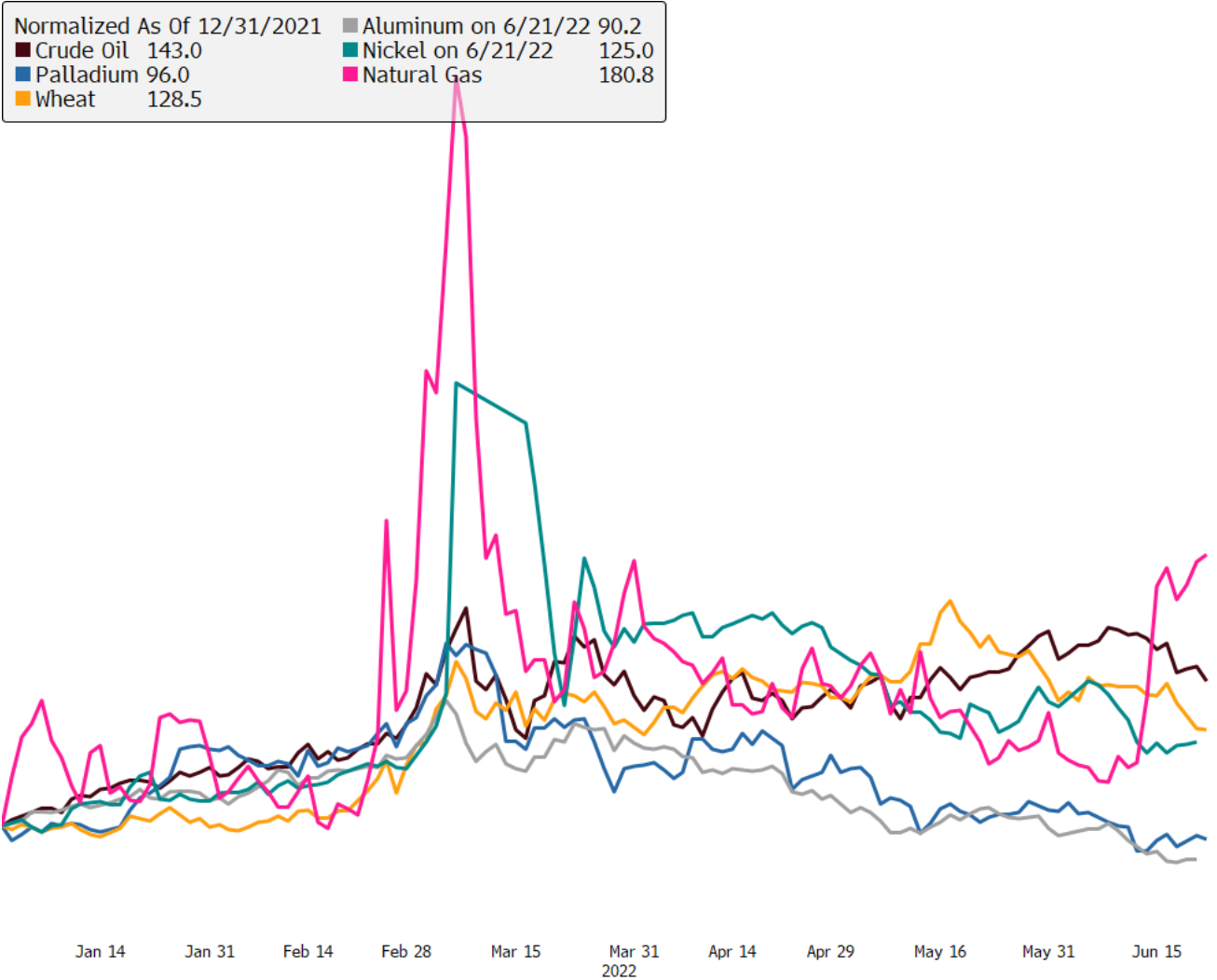


- Energy and vehicle prices have accounted for nearly 40% of CPI inflation over the past 15 months.

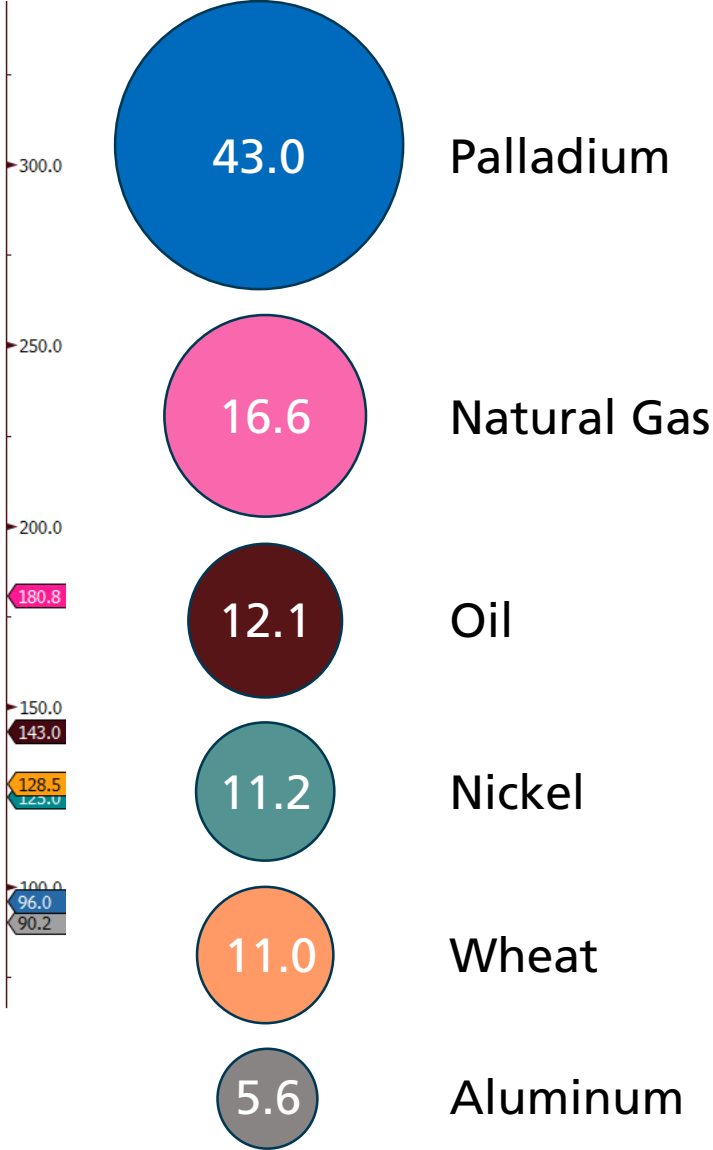
Impact of Ukraine War on Commodity Prices

Commodity Prices, USD, December 31st, 2019 = 100

Normalized As Of 12/31/2021	Aluminum on 6/21/22	90.2
Crude Oil	Nickel on 6/21/22	125.0
Palladium	Natural Gas	180.8
Wheat		128.5



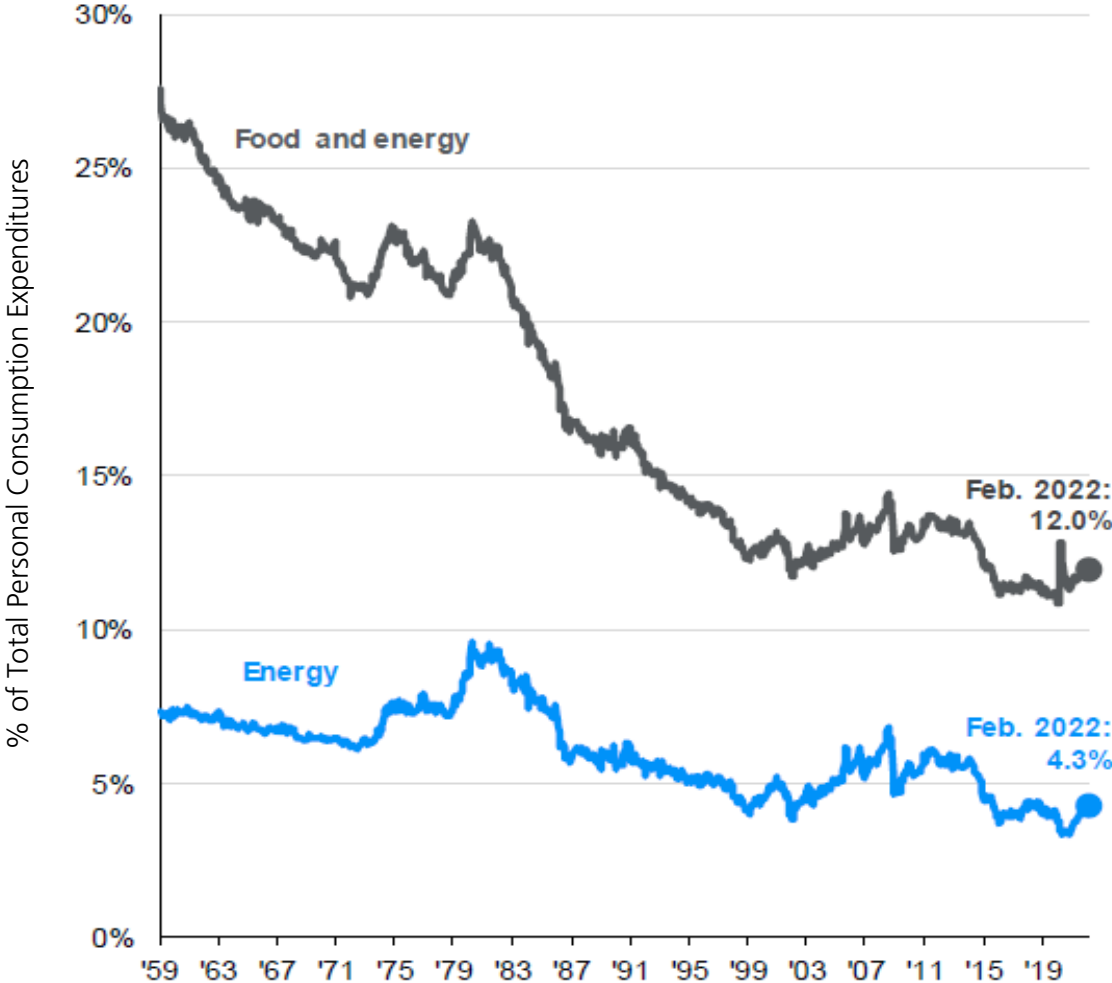
Russian share of global production, 2020, %



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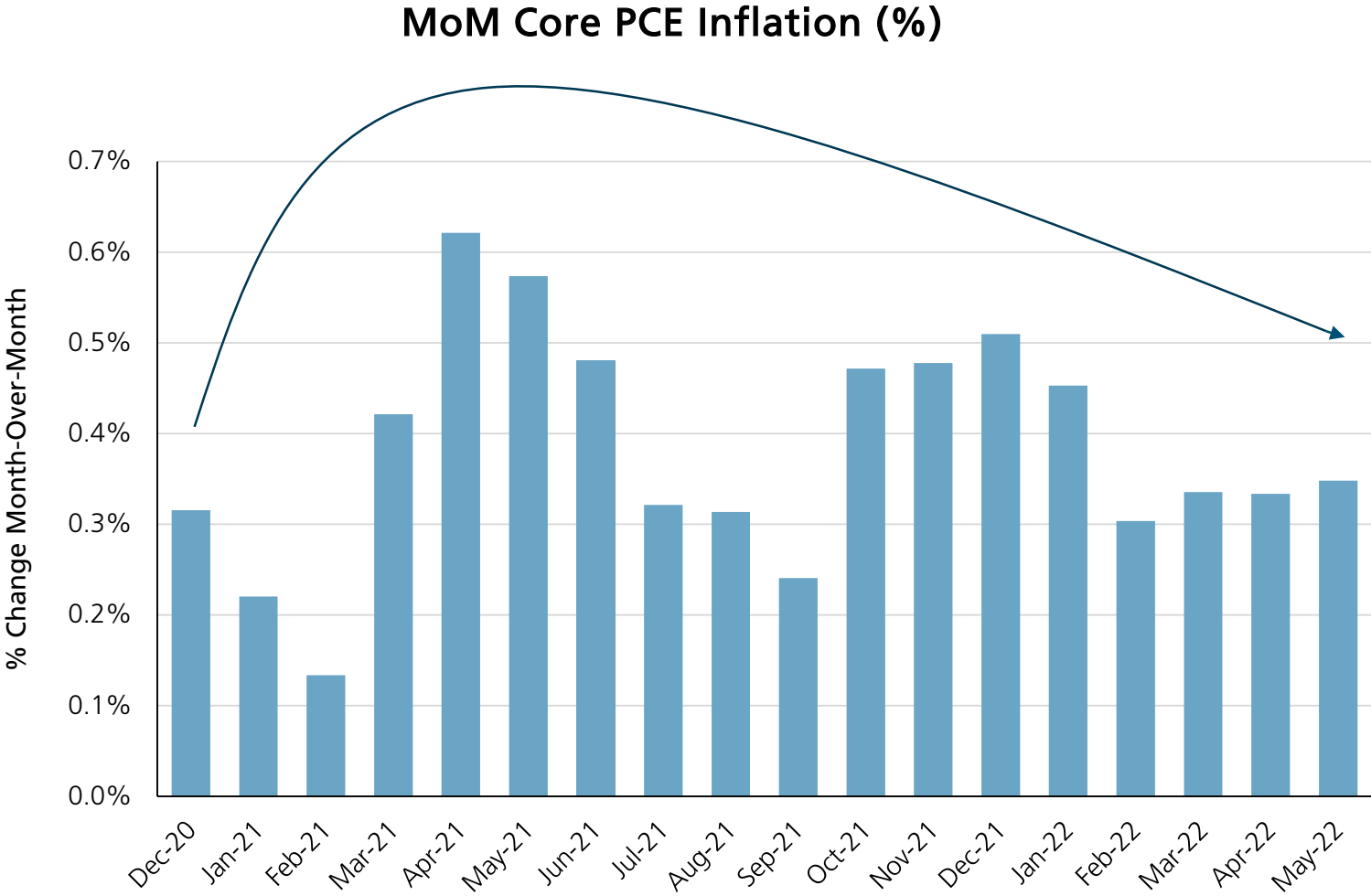
Food and Energy are Smaller Components of Spending

Consumer Spending on Food and Energy



- Consumer spending on food and energy is less than half of what it used to be.

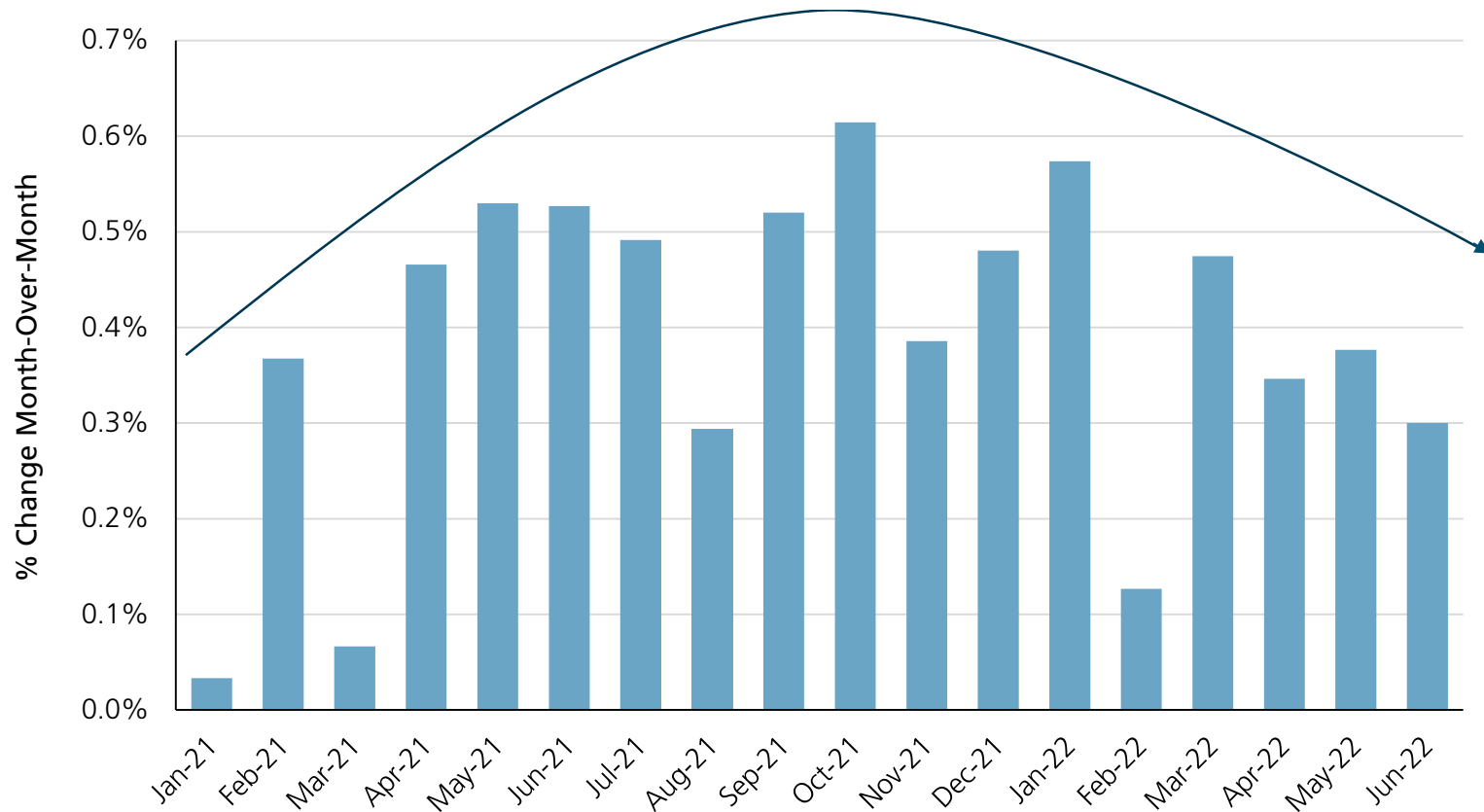
Core Inflation Stabilizing ... and Likely Declining?



- Month-over-month changes in Core PCE Inflation appear to be slowing down.

Wage Inflation Stabilizing ... and Possibly Declining?

MoM Average Hourly Earnings (%)



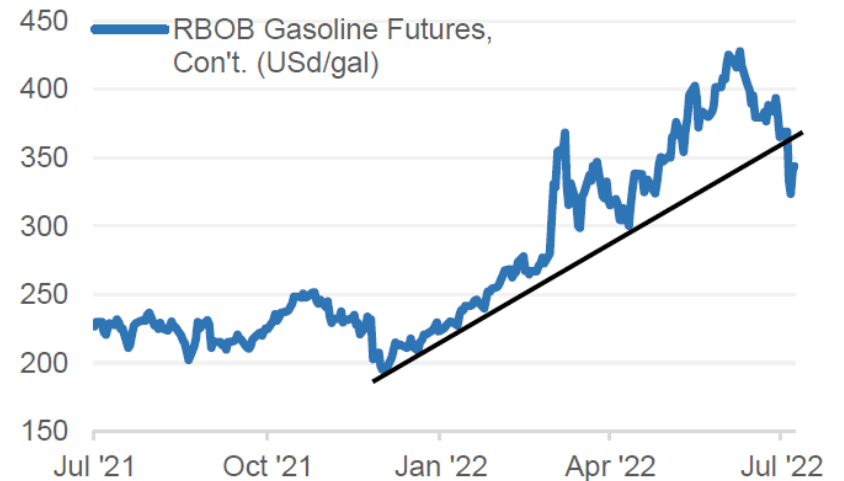
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Recent Disinflationary Trends

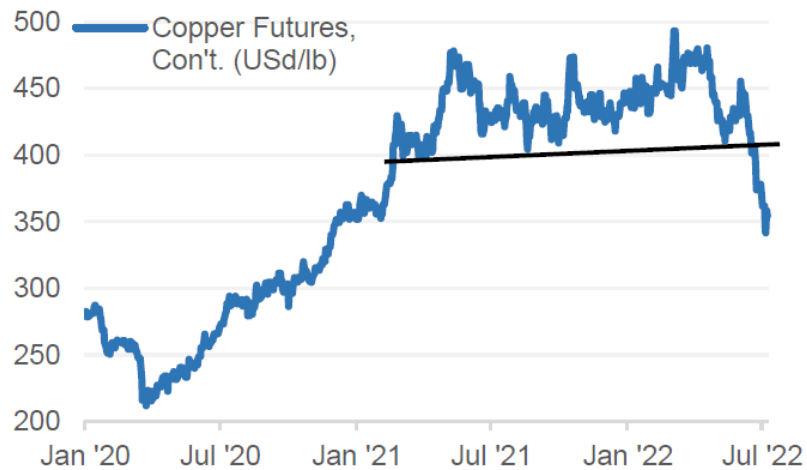
5 Year Breakeven Inflation



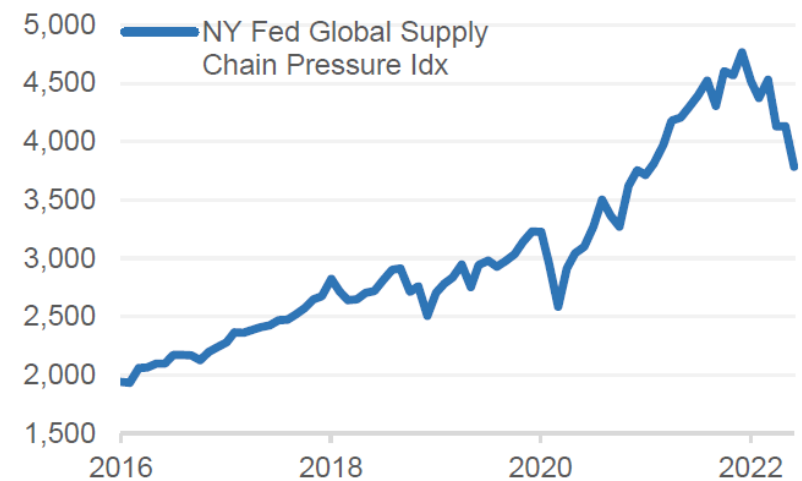
Gasoline



Copper

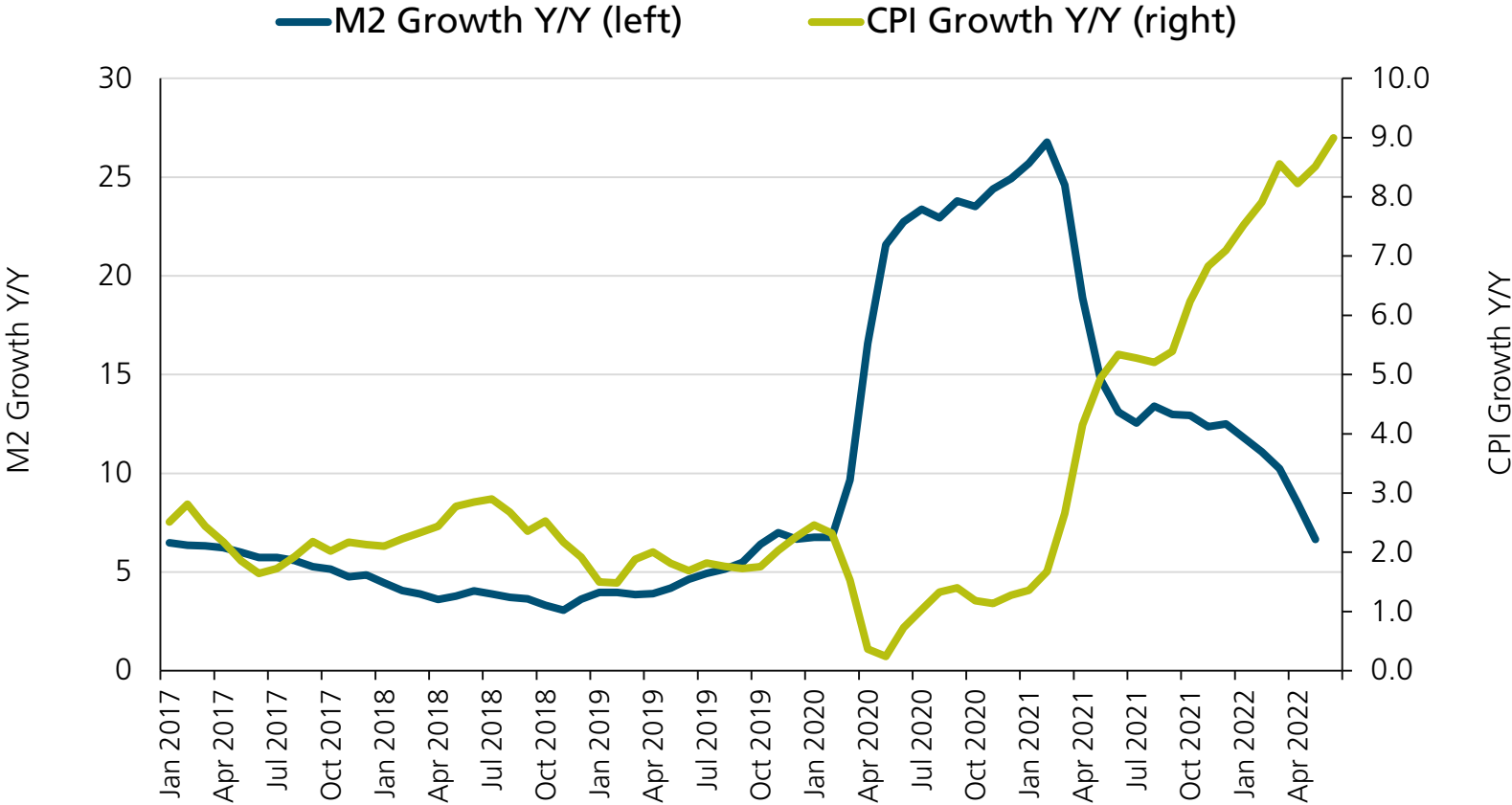


Supply Chain Disruption



Dramatic Slowdown in Money Supply Growth

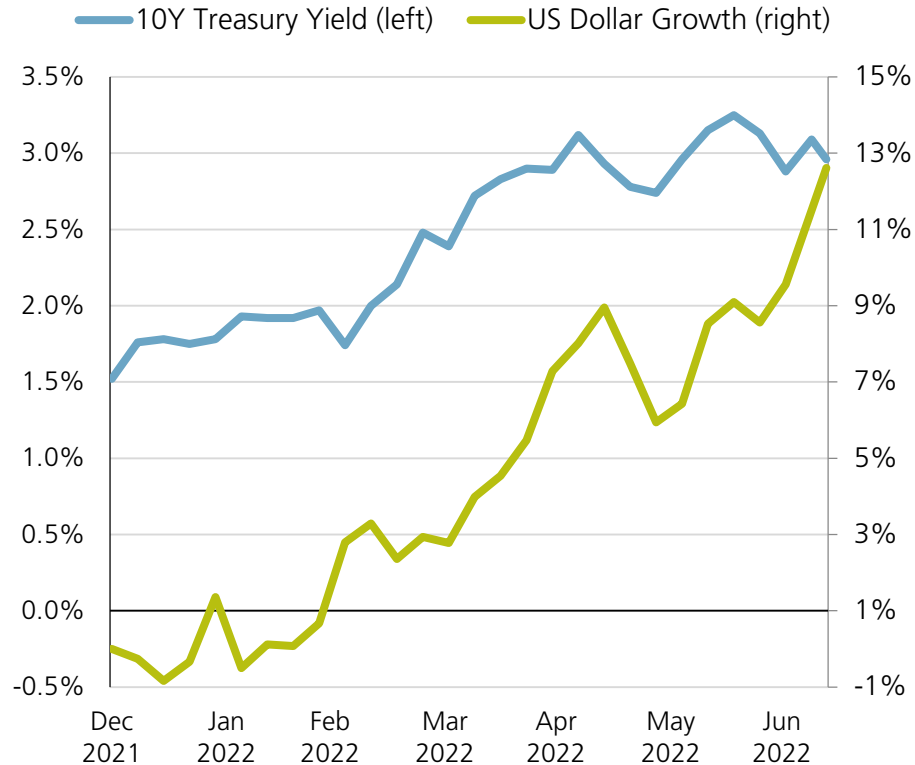
Money Supply Growth and Inflation



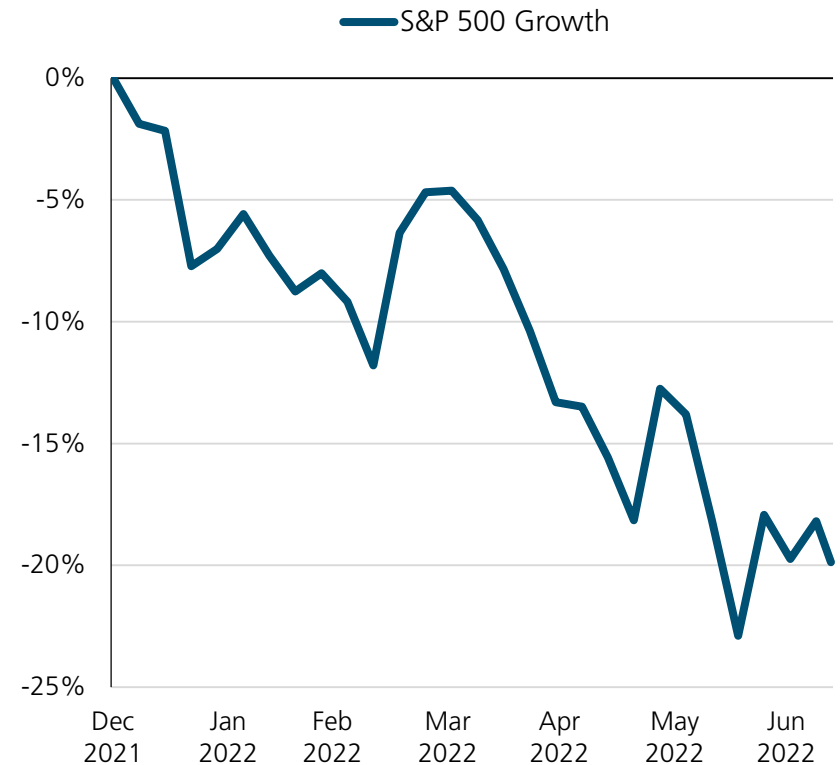
- Changes in money supply tend to lead inflation by about twelve months

Tighter Financial Conditions

Higher Rates and Stronger Dollar



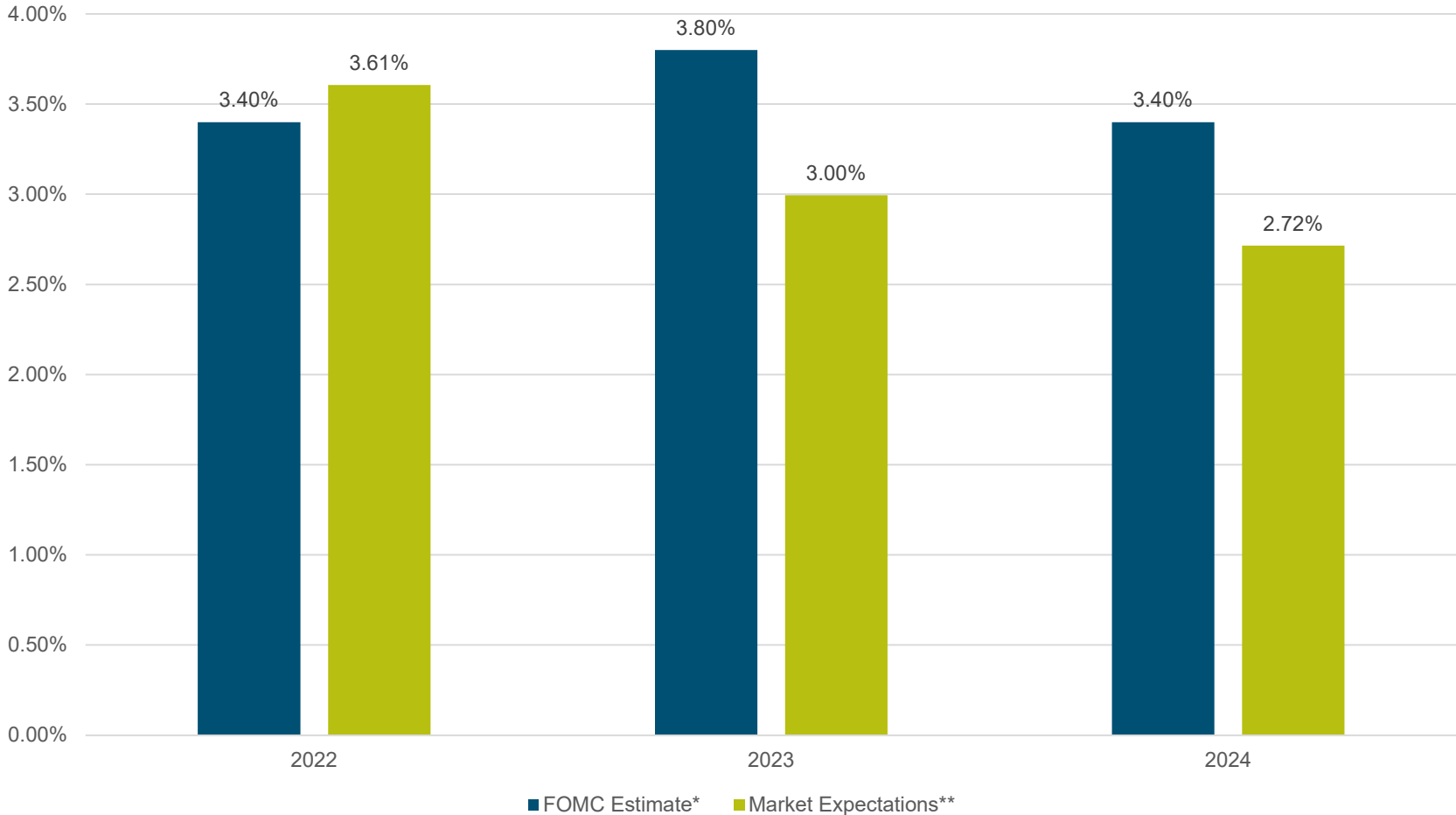
Lower Stock Prices



- Higher rates, stronger dollar and weaker stock prices have significantly tightened financial conditions

Fed Poised to Invert Entire Yield Curve by December

Federal Funds Rate Expectations (%)



- Fed projections and market expectations have moved significantly higher in recent months

Discussion Points

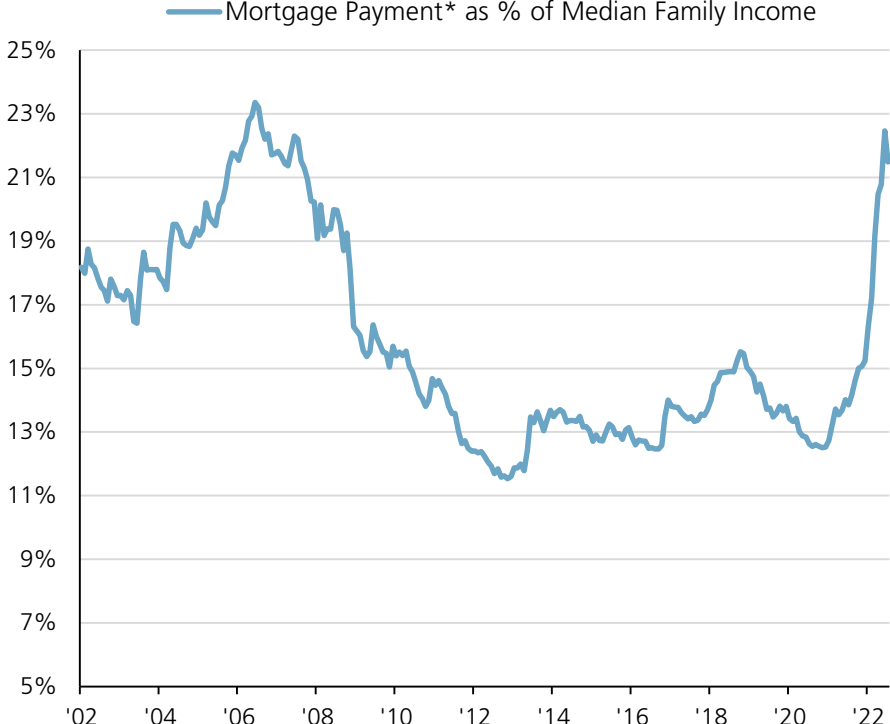
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Housing Headwinds?

Mortgage Rates



Cost of New Mortgage for the Average Home



- Rising mortgage rates and housing prices have pushed mortgage costs to highest level since 2007.

Mortgage payment includes principal, interest, and amortized points/fees. Mortgage payment is based on the single-family Zillow Home Value Index, a 20% down payment, and Freddie Mac average 30-year fixed mortgage rates. Median family income source: Census Bureau (2000-2018) and NAR (2019-2021).

Housing: Not a Repeat of the Financial Crisis

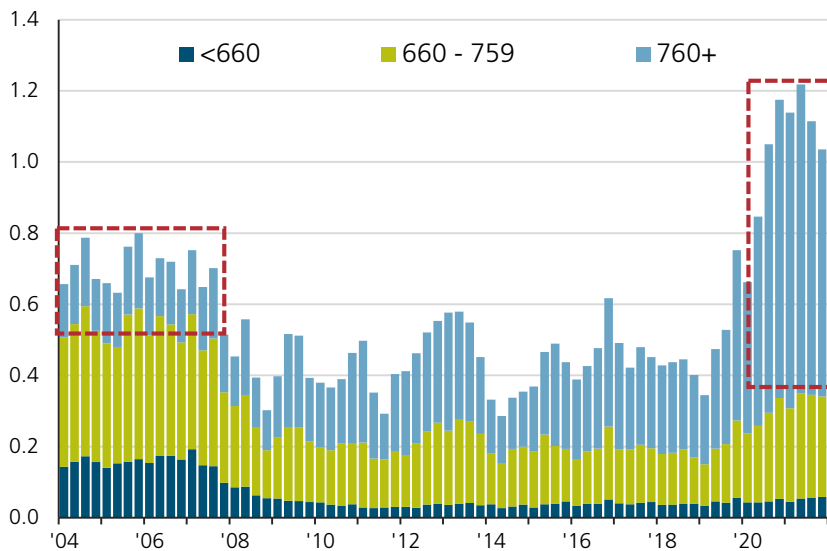
Single-Family Home Inventory (months supply)



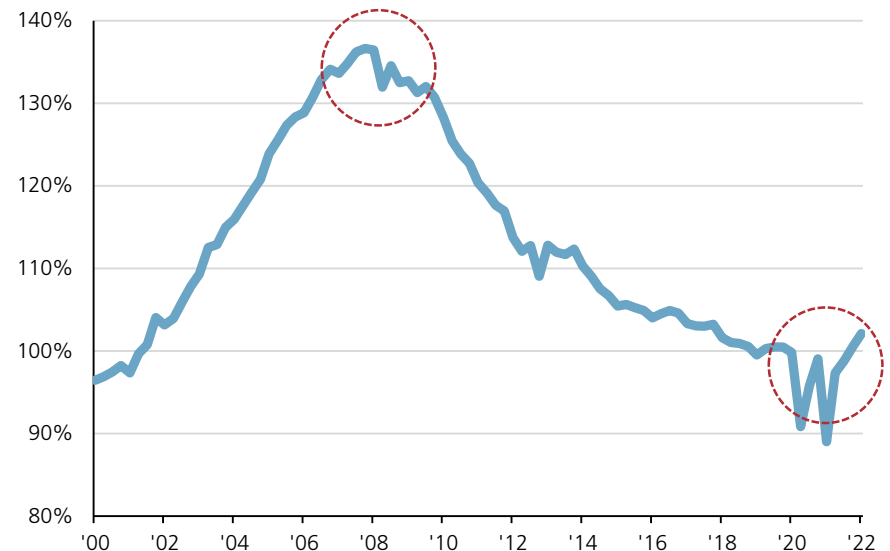
ARMs as % of Mortgage Applications



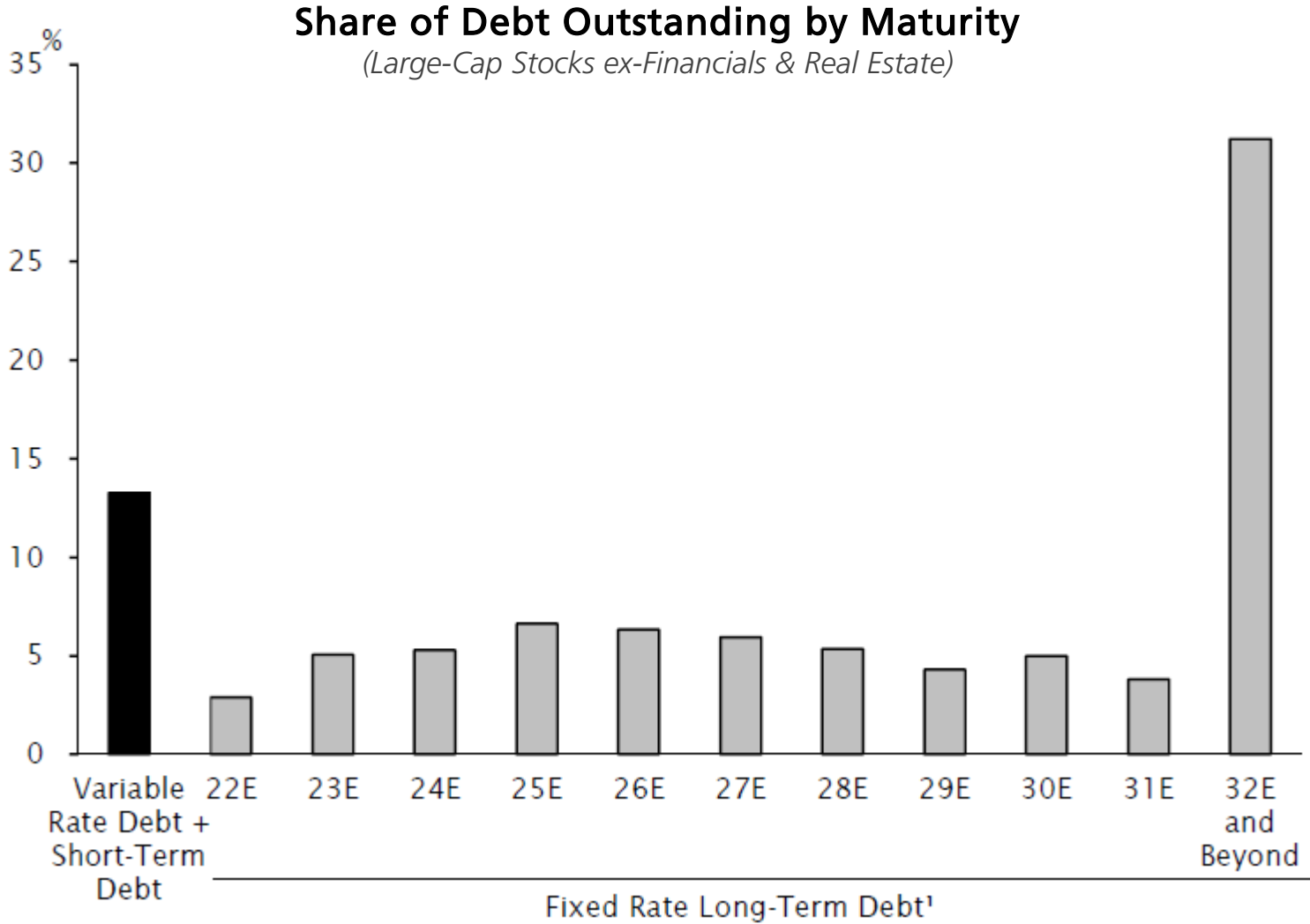
Mortgage Originations by Credit Score (\$T)



US Household Debt-to-Income Ratio



Higher Borrowing Costs ... but Not Imminent

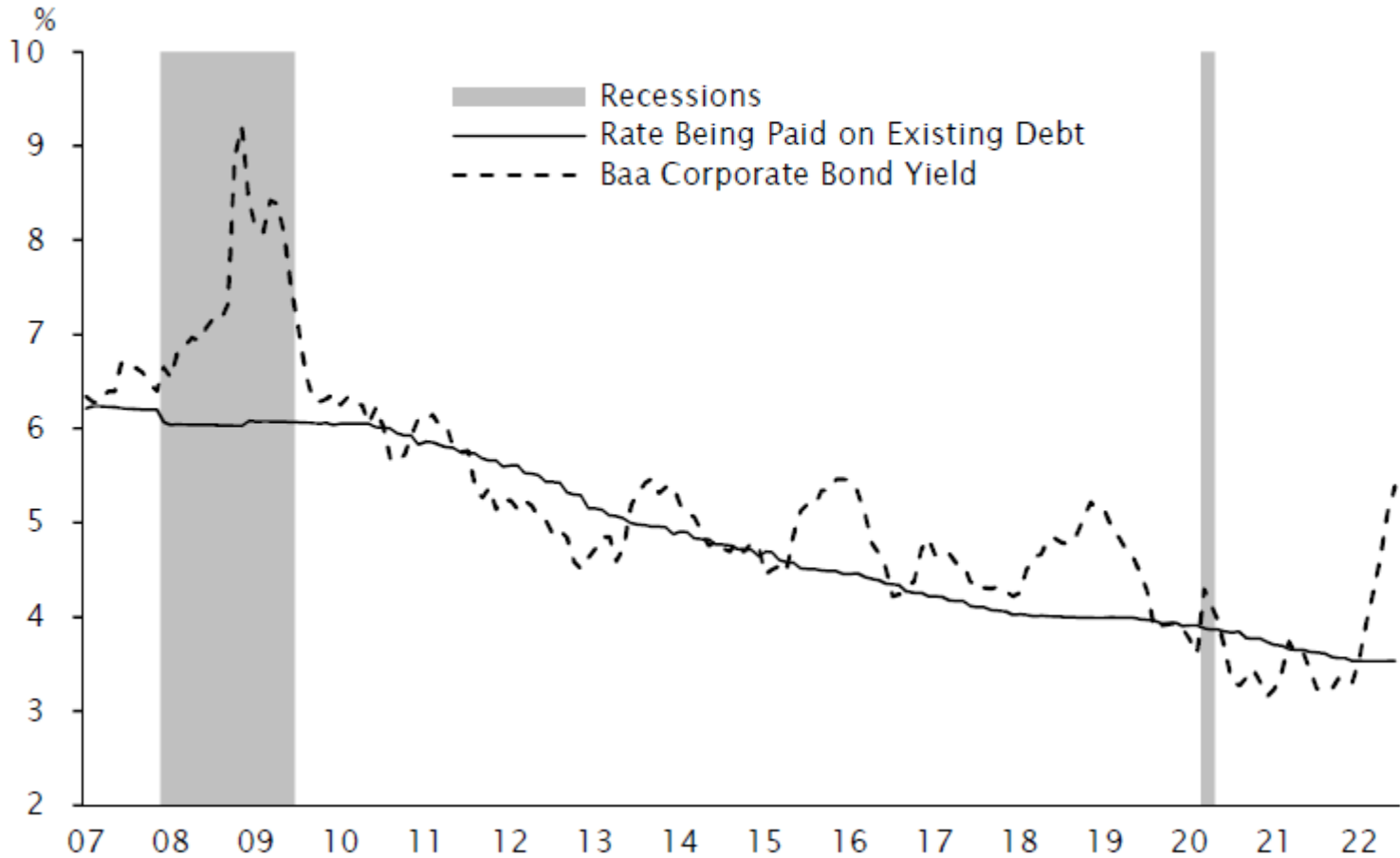


- Companies restructured debt in recent years to longer maturities

Glacial Pass-Through of Higher Borrowing Costs

Average Interest Paid vs. Baa Corporate Bond Yield

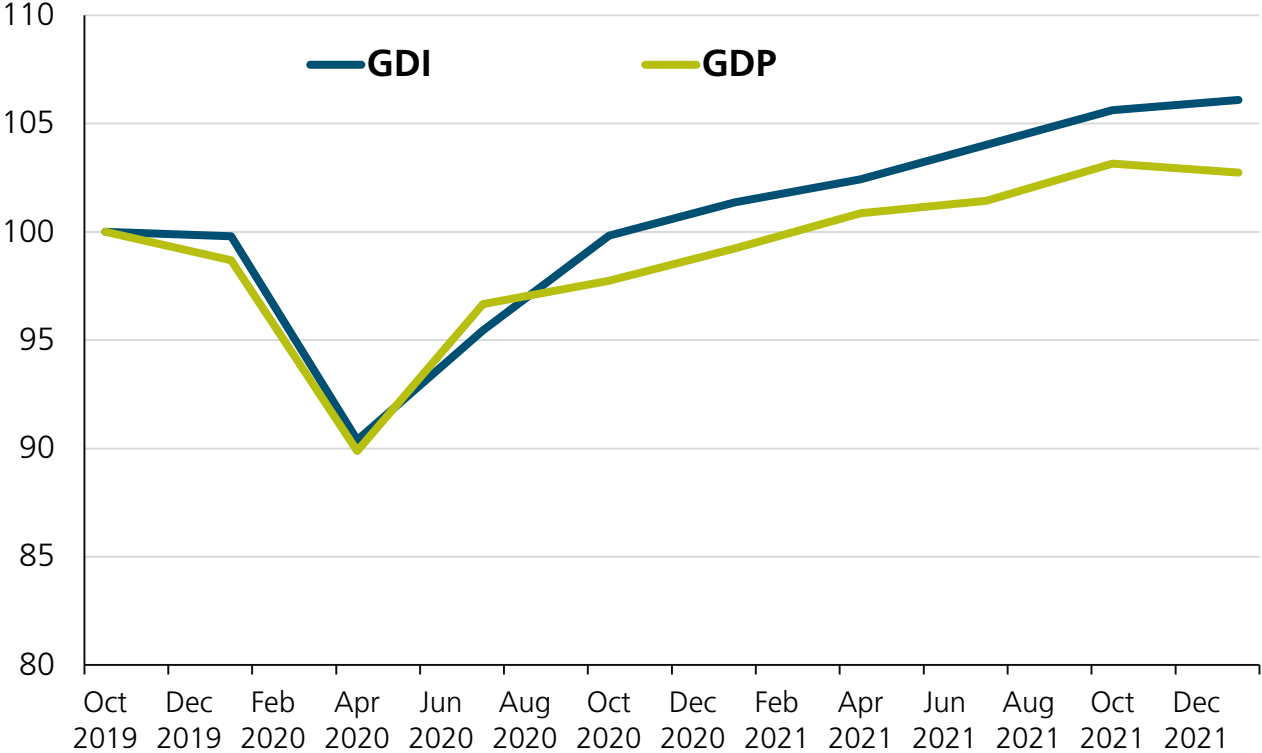
(Large-Cap Stocks ex-Financials & Real Estate)



- Actual interest expense tends to change far slower than changes in corporate bond yields

Divergence Between GDI and GDP in 2022

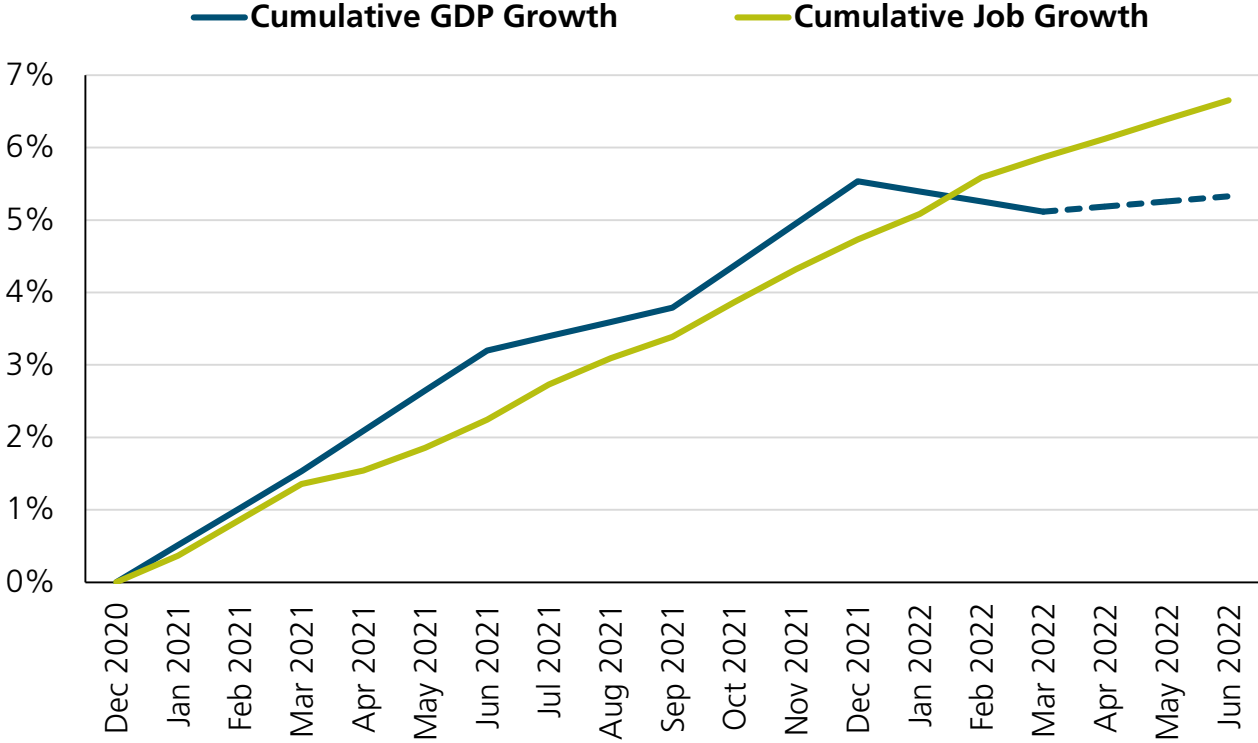
Gross Domestic Income vs. Gross Domestic Product
(Indexed to 100 at Q4 2019)



- Incomes have been stronger in 2022 than GDP

Divergence Between Employment and GDP in 2022

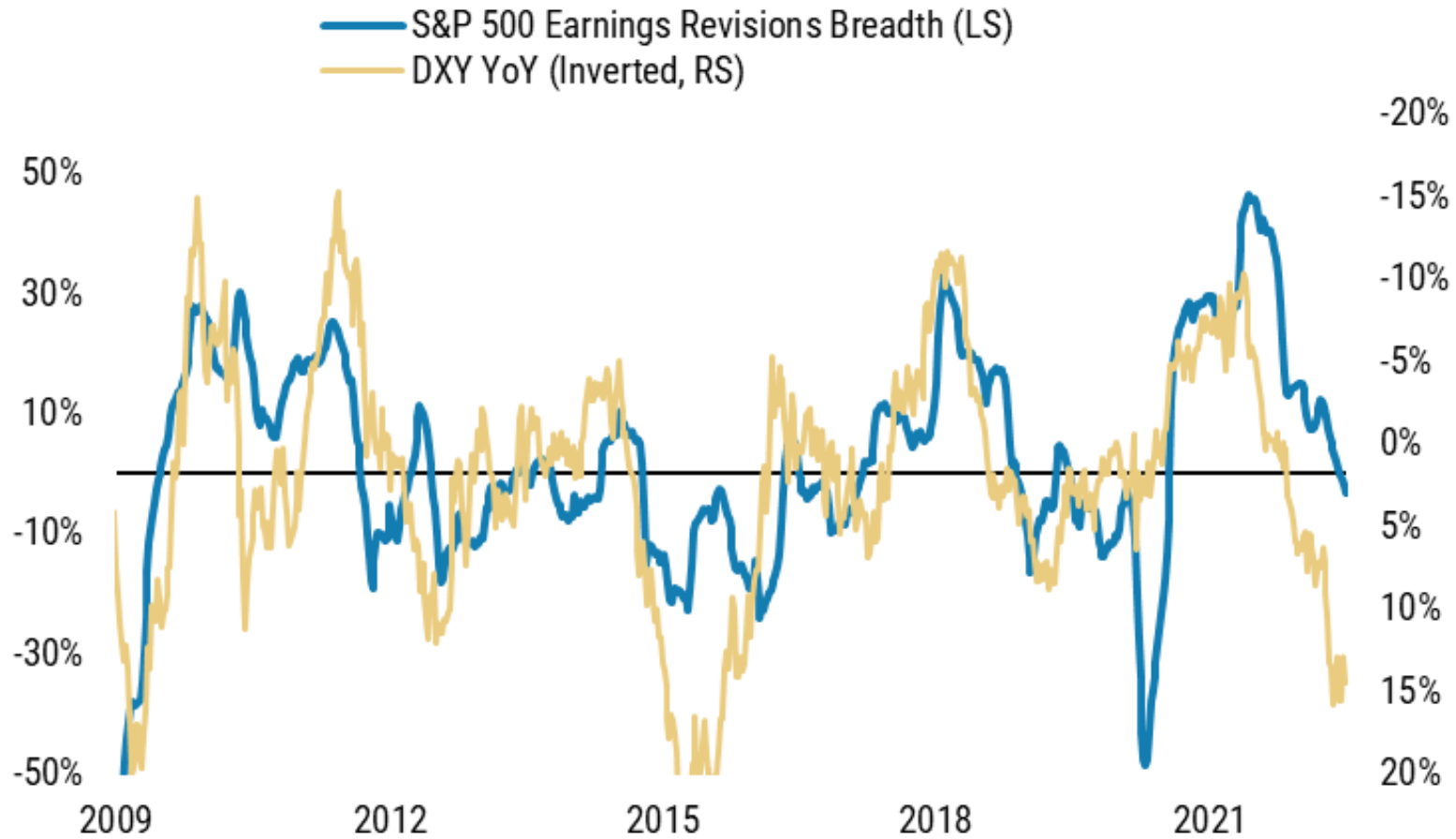
Employment vs. GDP



- TBD

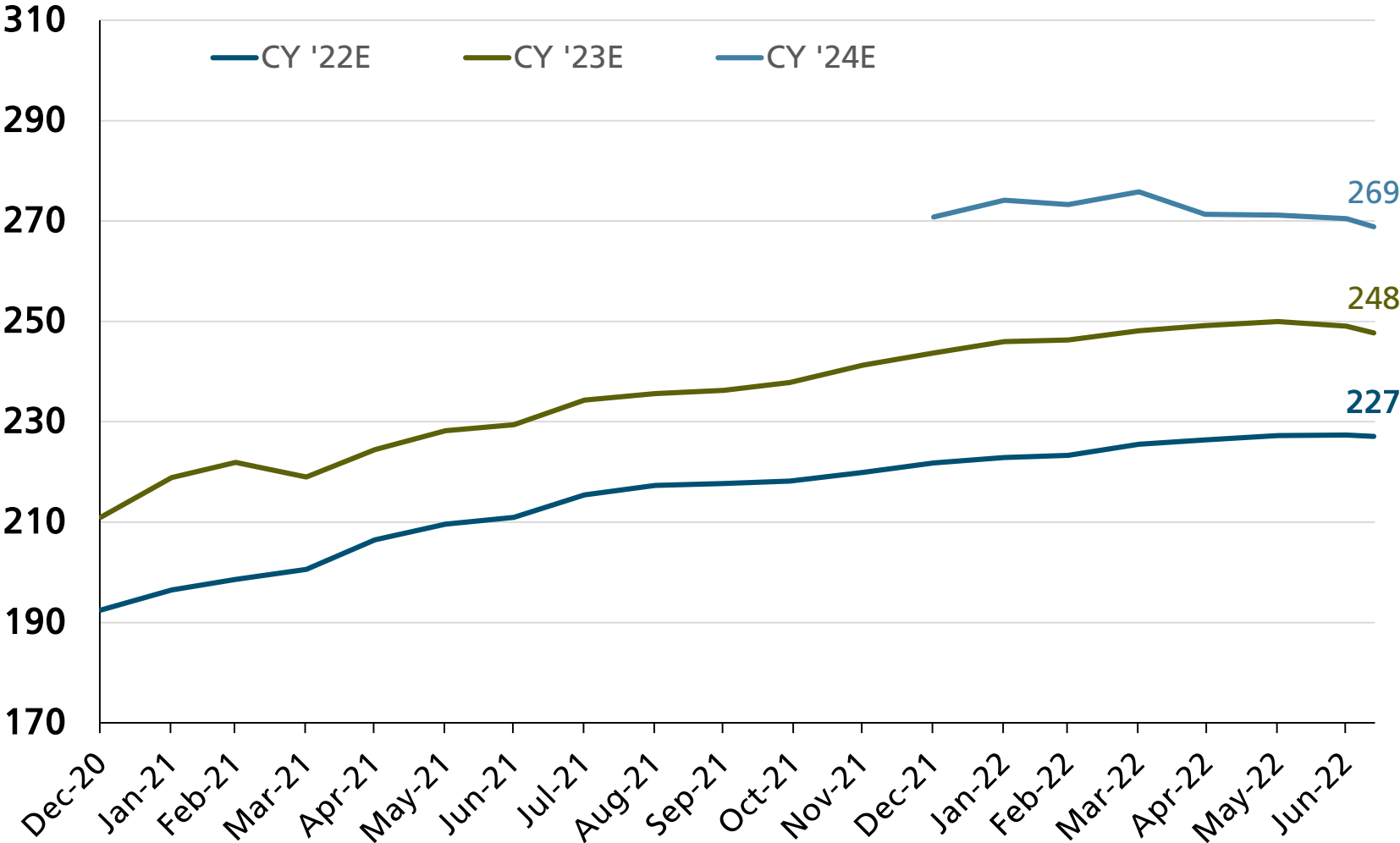
Stronger Dollar and Impact on Earnings

A Strong Dollar Leads to Downward EPS Revisions



Can Earnings Hold Up?

S&P 500 Earnings Estimates Over Time



Bull, Bear and Base Case for Equities

- Higher Rates + Stronger Dollar = Weaker Earnings
- Equity Downside Driven by Trough Multiples ... **OR** ... Trough Earnings
 - Trough P/E multiples likely to remain above 14x
 - Trough 2023 earnings likely to remain above 200
- 12-Month S&P 500 Scenarios:

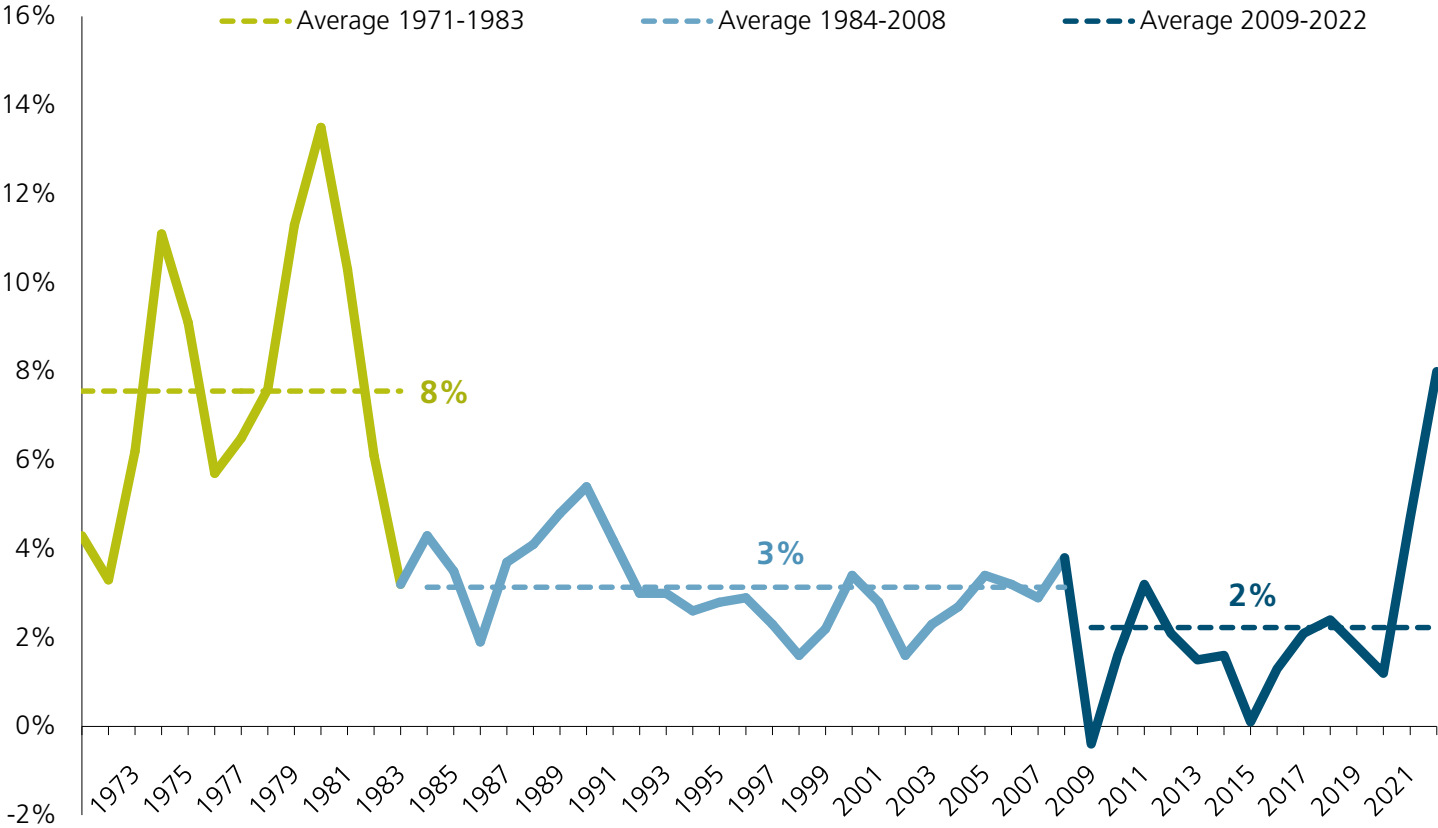
<u>Bear</u>	<u>Base</u>	<u>Bull</u>
3,300 - 3,700	3,700 - 4,100	4,100 - 4,500

Discussion Points

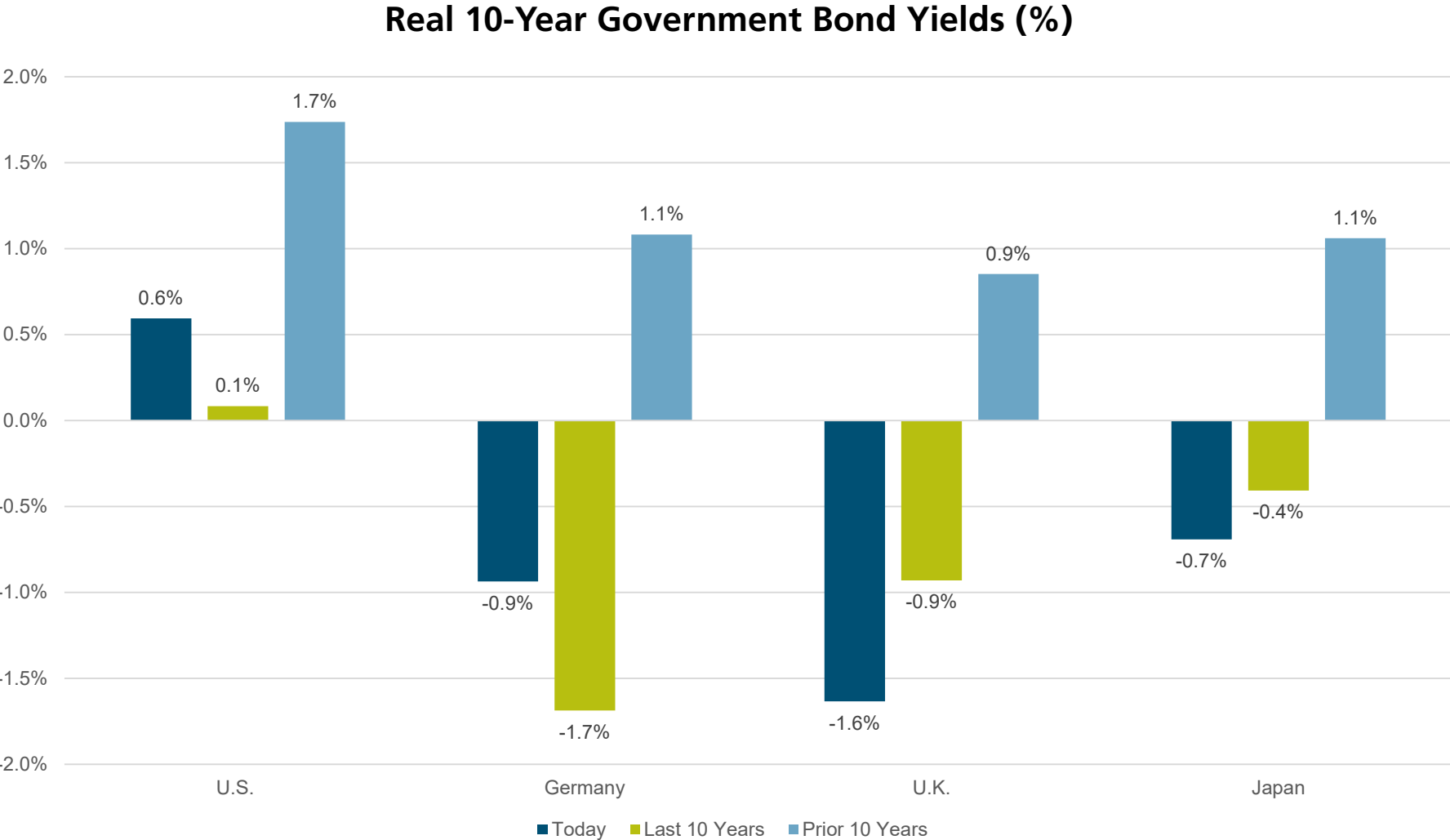
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- **Secular Shifts and Continuing Constants**

Inflation Likely to be Closer to 3%, not 2%

CPI Inflation During Different Regimes



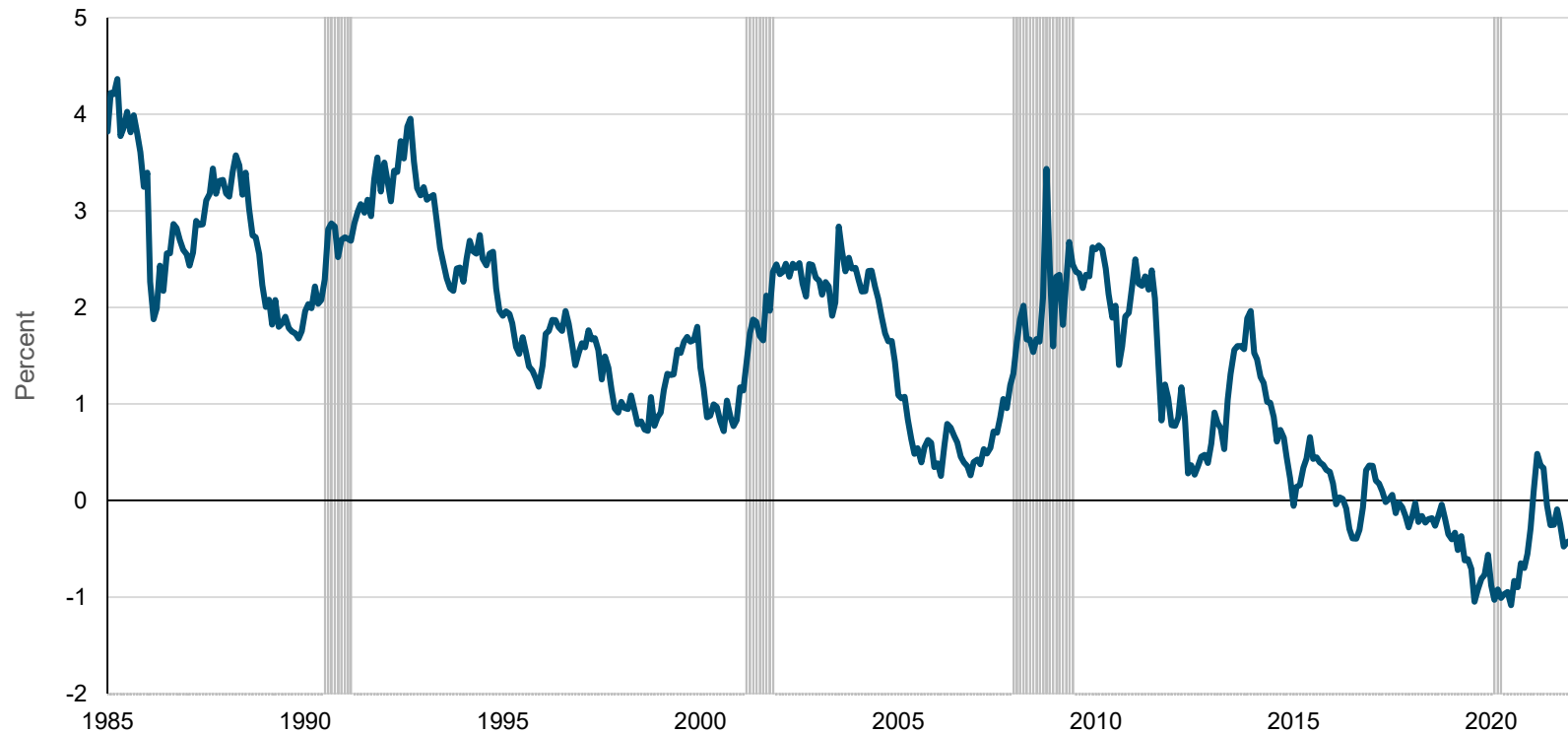
Positive Real Rates Likely in Future



- Real bond yields are rising ... and are likely to be positive for the next several years

Low Treasury Term Premium Likely to Persist

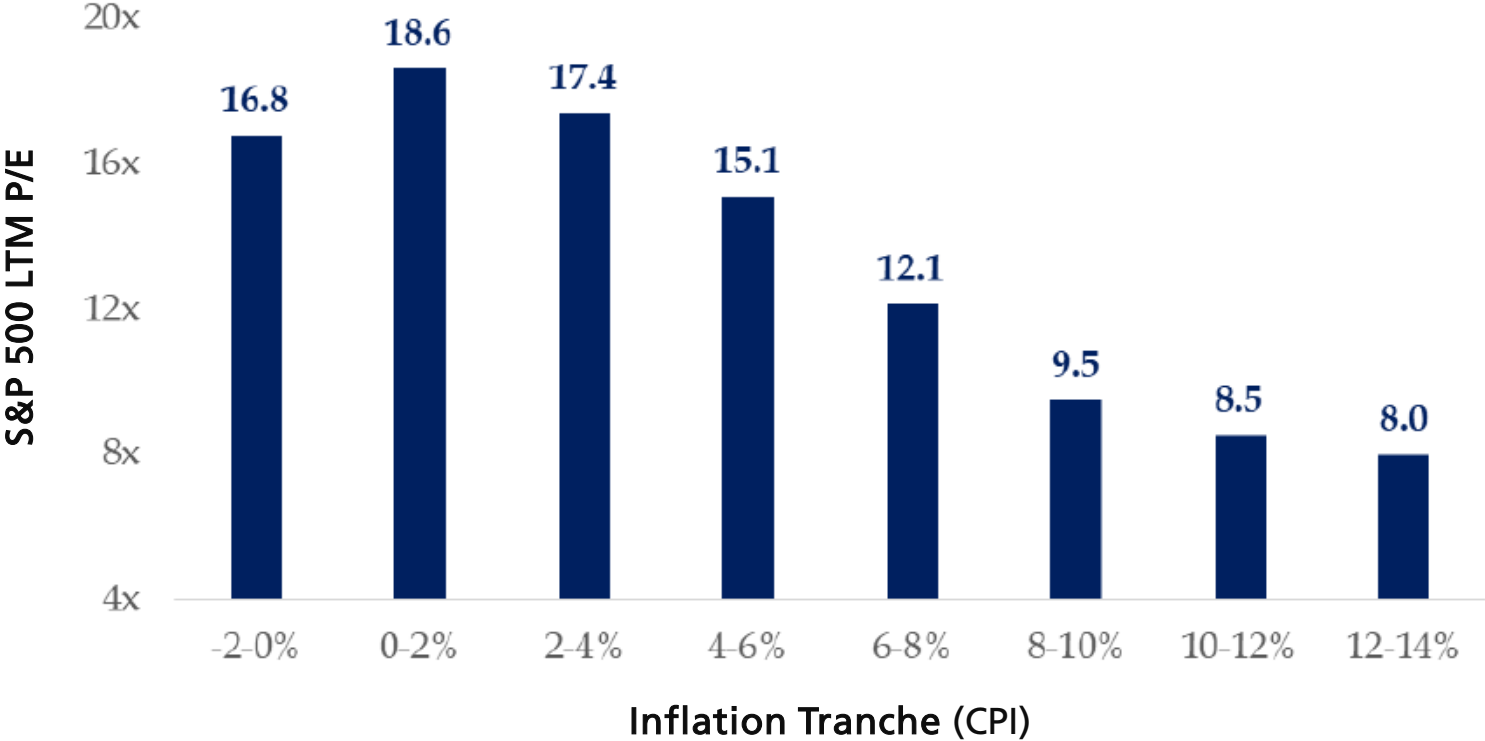
10-year Treasury Term Premium (%)



- Central bank asset purchases have played a big role in decline of the term premium since 1985.
- Low term premium makes inversions more likely and less reliable.

P/E Multiples by Inflation Regime

S&P 500 Valuations vs. Level of Inflation
(1950 - Current)



- Equity P/E multiples are high when inflation is below 4%

NEXT Economic Cycle and Bull Market

- A more normal(ized) backdrop likely in next cycle

Predicted Economic Parameters

Predicted Market Parameters

Inflation	2.8 - 3.3%	P/E TTM	18 - 19x
Fed Funds Rate	2.8 - 3.3%	P/E NTM	16 - 17x
Treasury Bond Yields	3 - 4%	Expected Stock Returns	7 - 11%
Real GDP	1.5 - 2.3%	Expected Bond Returns	3 - 6%
Earnings Growth	6 - 10%	Expected Equity Risk Premium	4 - 5%

Secular Shifts and Continuing Constants

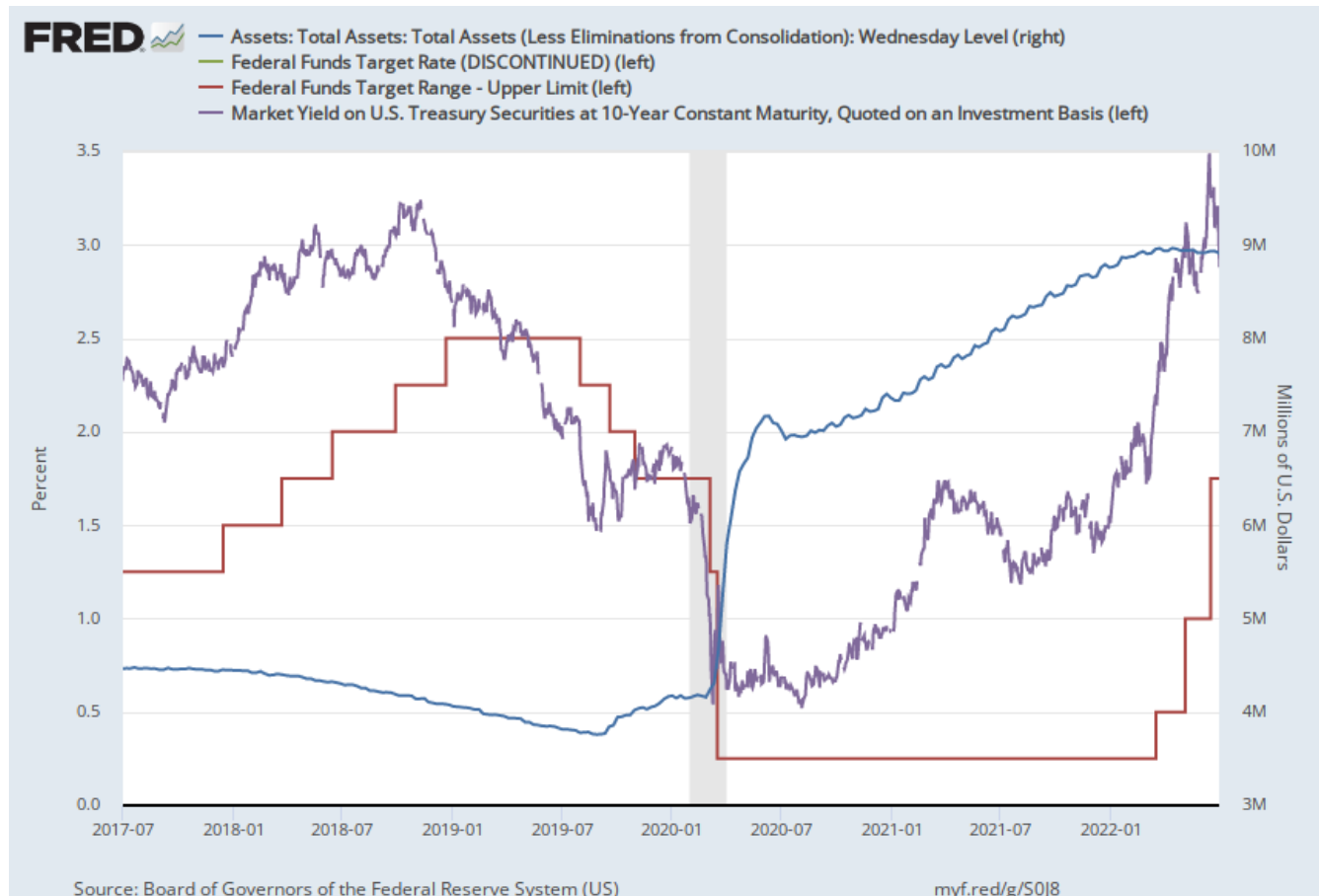
Shifts

- Diversification in private markets
- Profitability and cash flow over growth
- Greater cost of leverage and speculation

Constants

- High quality growth

The Evolving Private Market Landscape

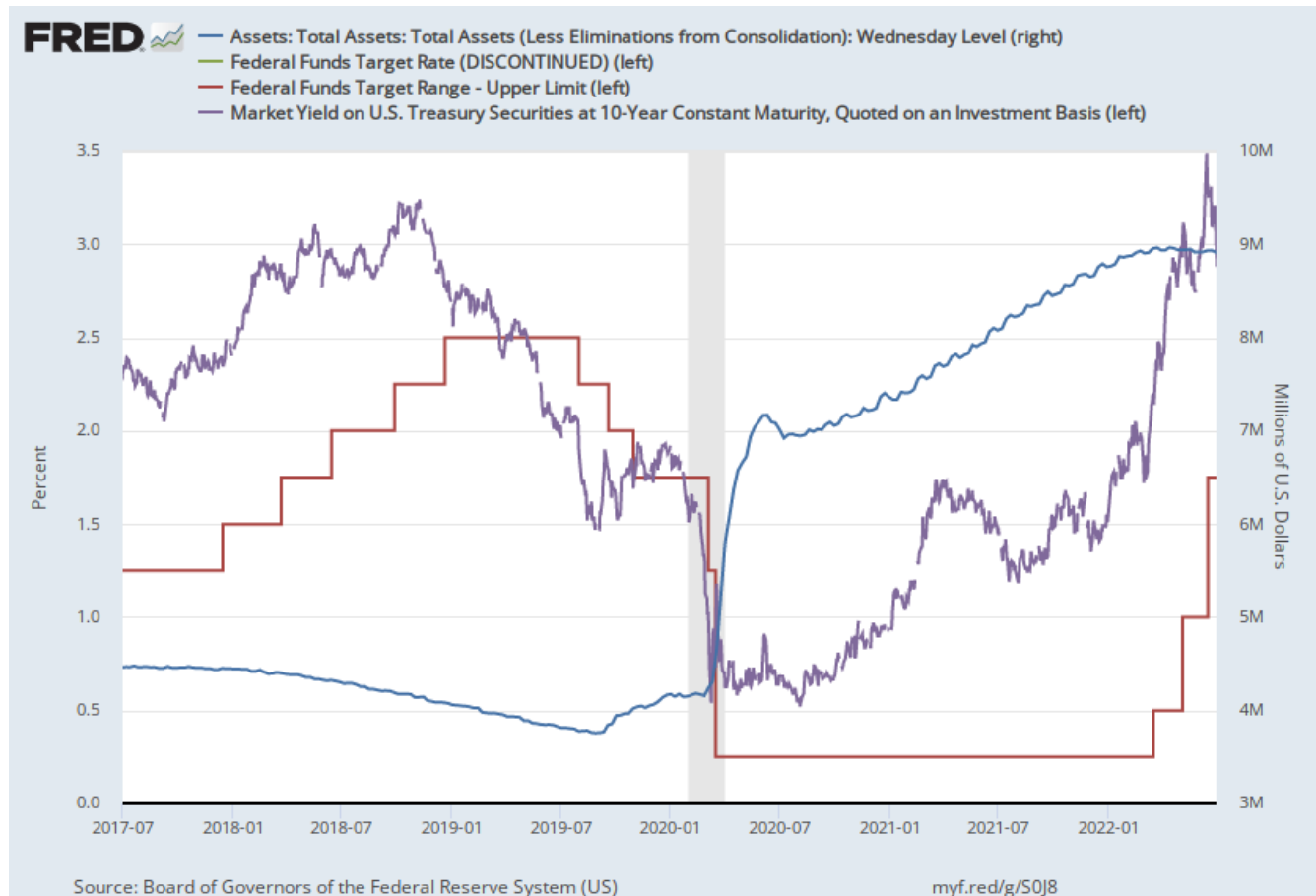


Pre-COVID → COVID → Higher Rates

Phase I

Phase II

The Evolving Private Market Landscape – Phase I

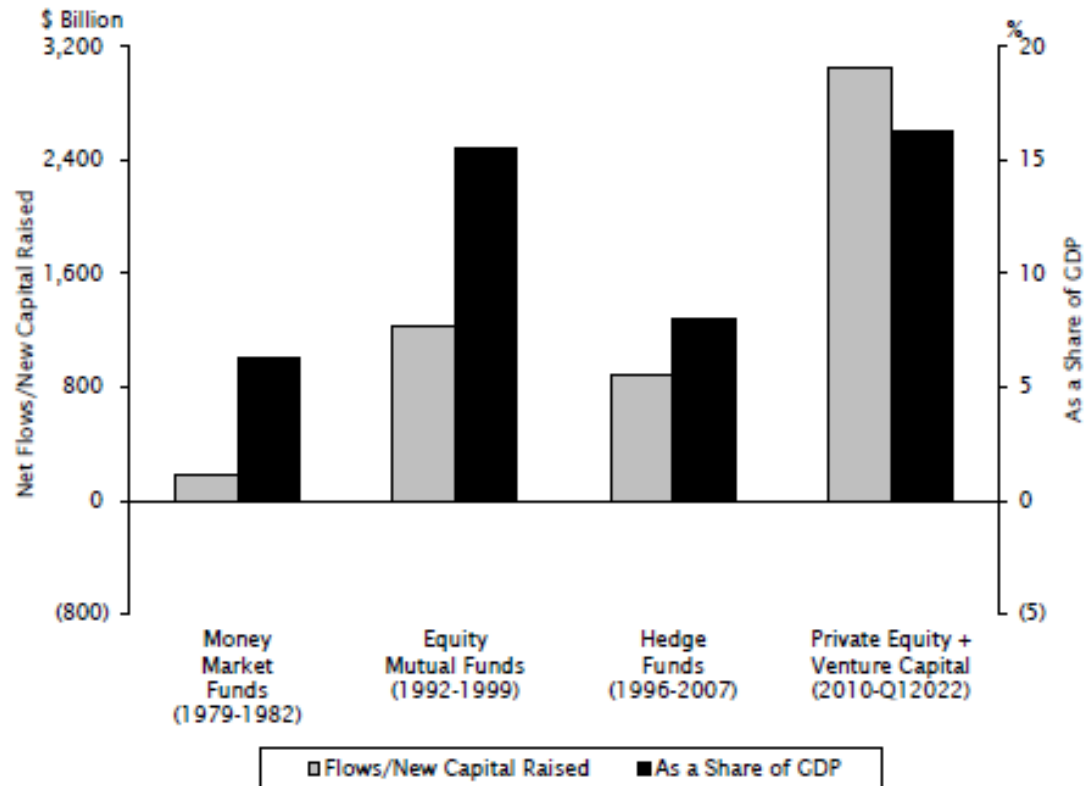


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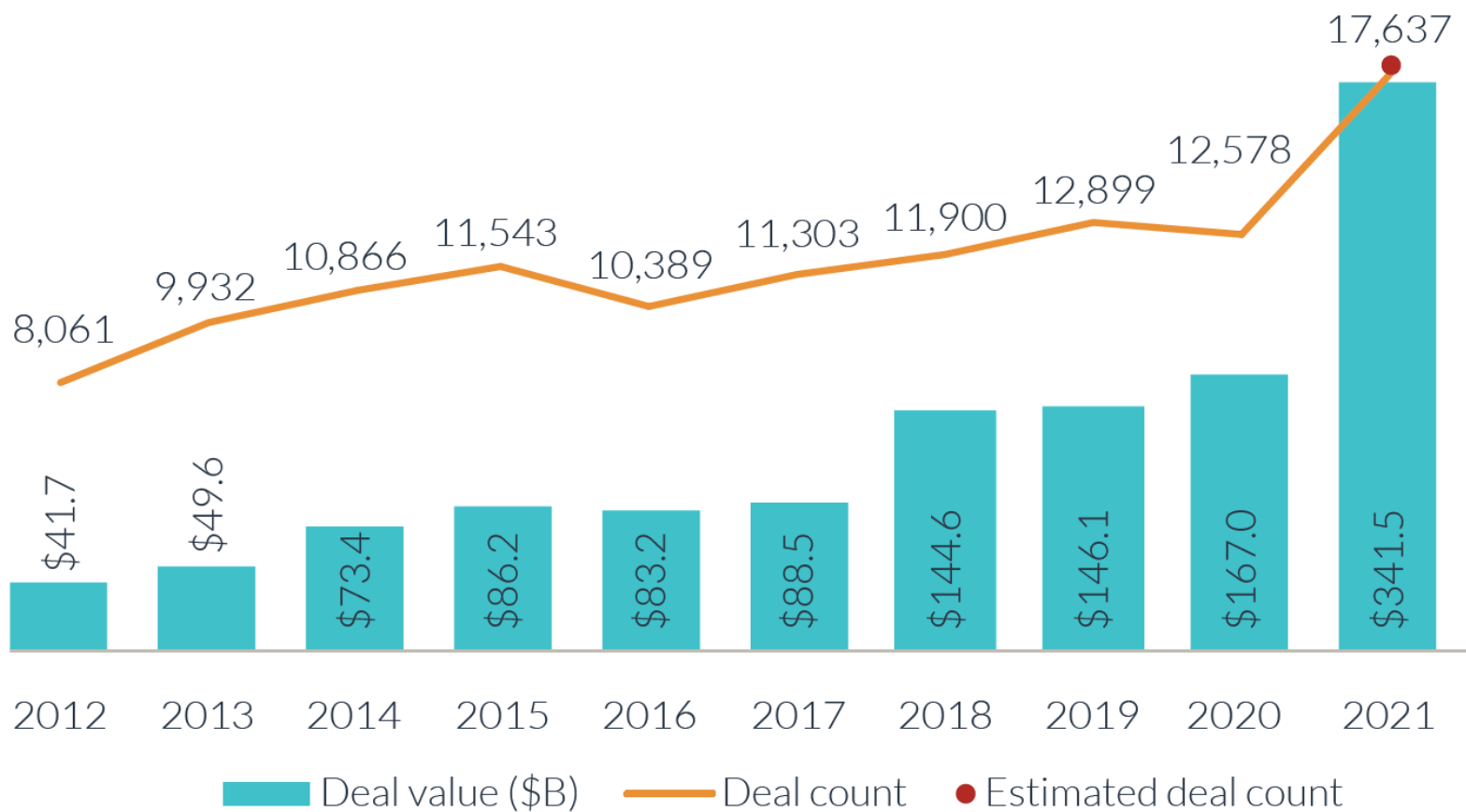
Private Capital Fundraising All-Time High

**Exhibit 2: Net Flows Into Mutual and Hedge Funds and ETFs and New Capital Raised by Private Equity and Venture Capital Firms
Totals and as a Share of GDP
Various Periods: 1979 Through March 2022**



Source: PitchBook, Preqin, Hedge Fund Research, Investment Company Institute, Bureau of Economic Analysis, Empirical Research Partners Analysis.

Venture Capital Deal Value and Count Rocket Higher

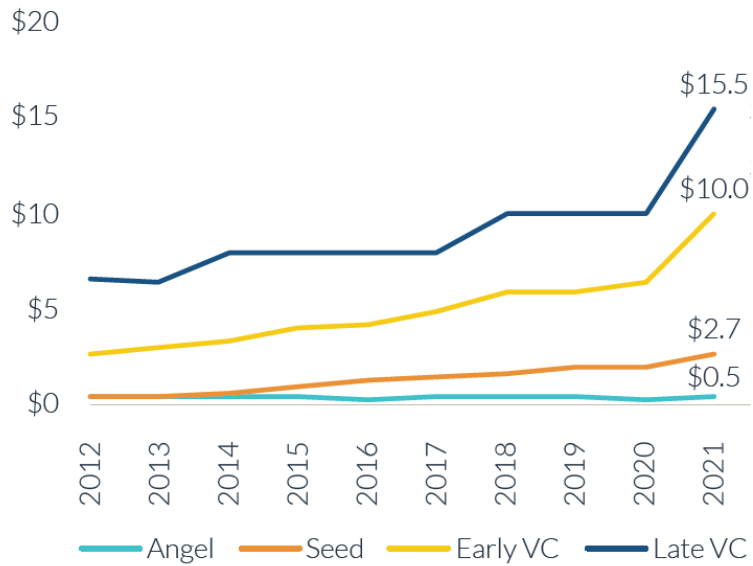


PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Venture Round Sizes and Valuations Follow

Late-stage VC deal size median slides

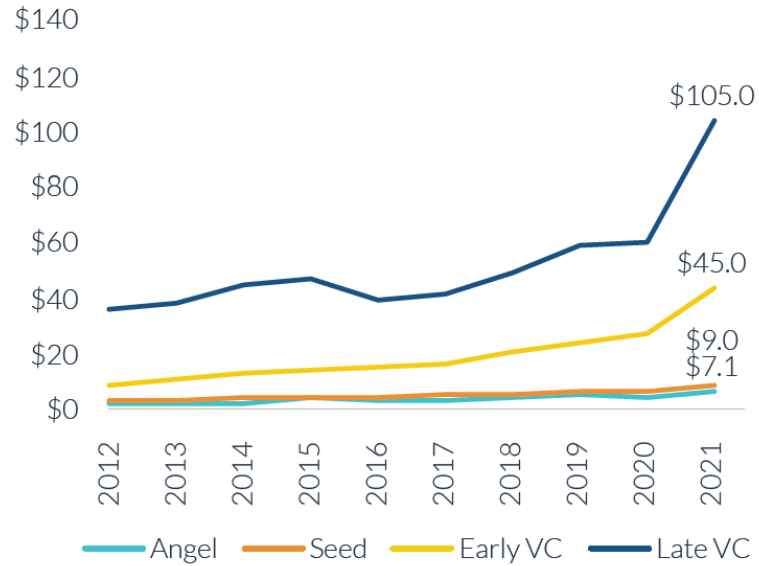
Median US VC deal sizes (\$M) by stage



PitchBook-NVCA Venture Monitor
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Valuations continue growth

Median US VC pre-money valuations (\$M) by stage

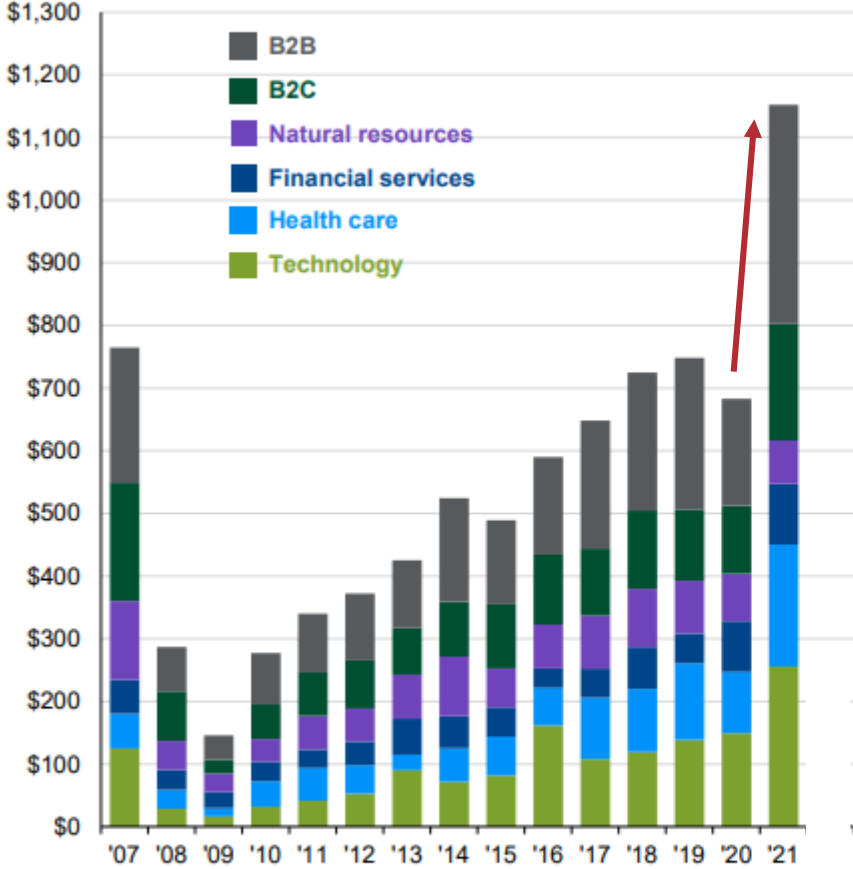


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U.S Private Equity Deals and Multiples – 2021 Acceleration

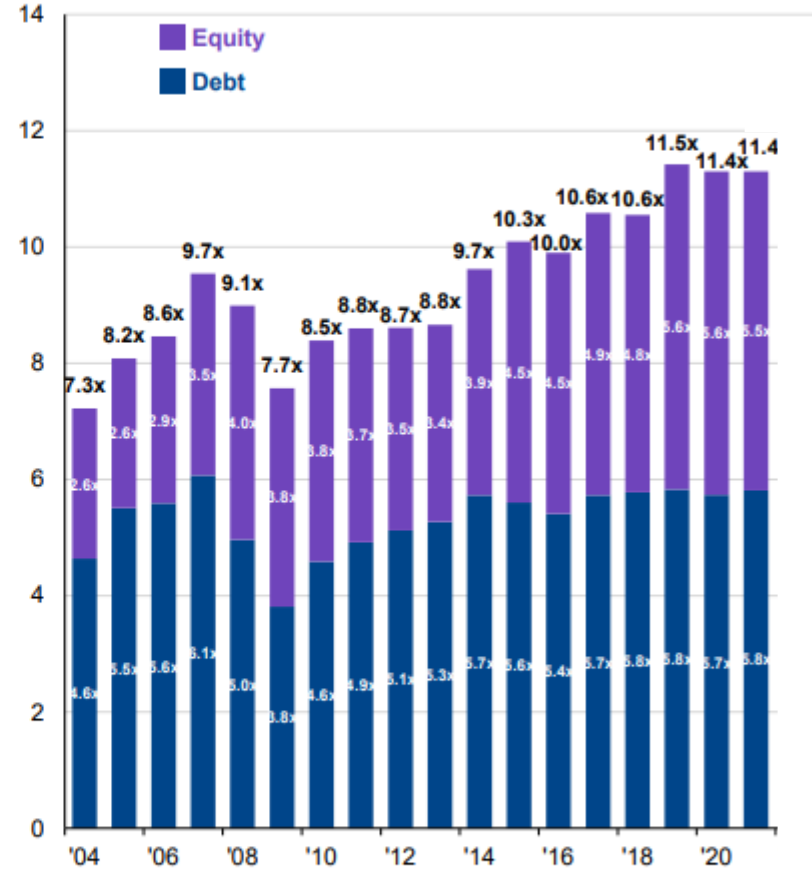
U.S. private equity deals

USD billions



U.S. LBOs: purchase price multiples

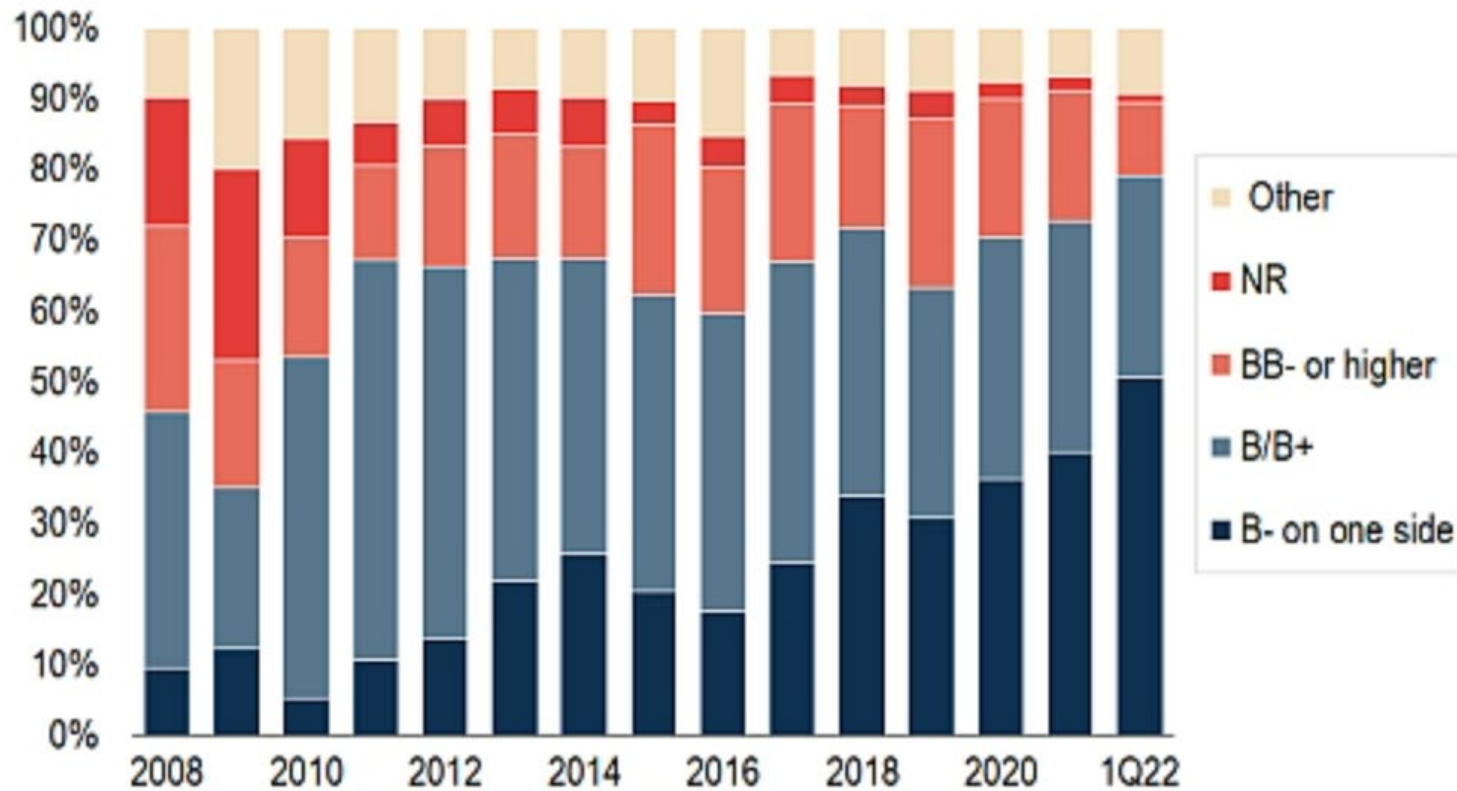
Equity and debt over trailing EBITDA



Source: PitchBook, S&P LCD, J.P. Morgan Asset Management.
 B2B is business to business. B2C is business to consumer. Natural resources = Materials & resources and energy. Private equity and multiple data are as of March 31, 2022.
 Data is based on availability as of May 31, 2022.

Lower Quality Borrowers

US leveraged loan issuance by borrower rating



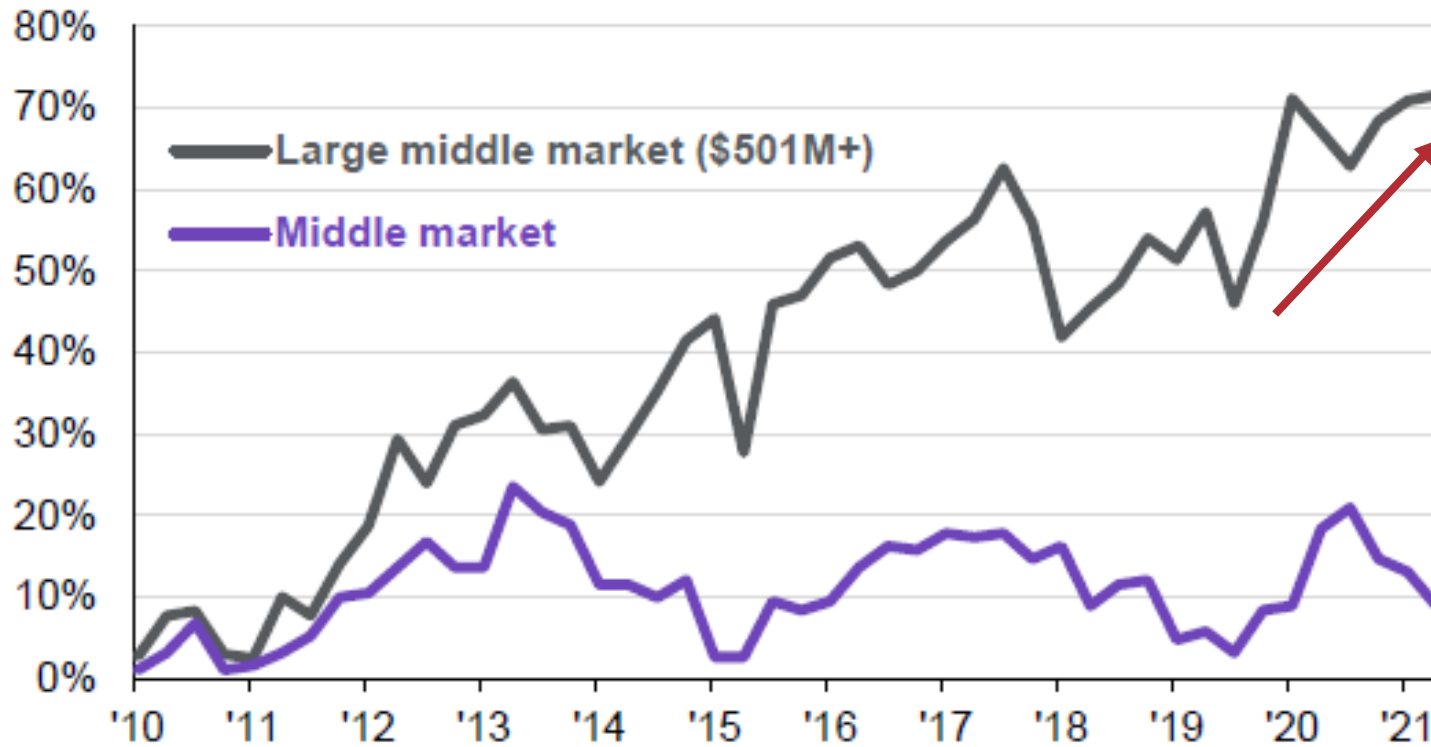
Data through March 21, 2022.

Source: Leveraged Commentary & Data (LCD)

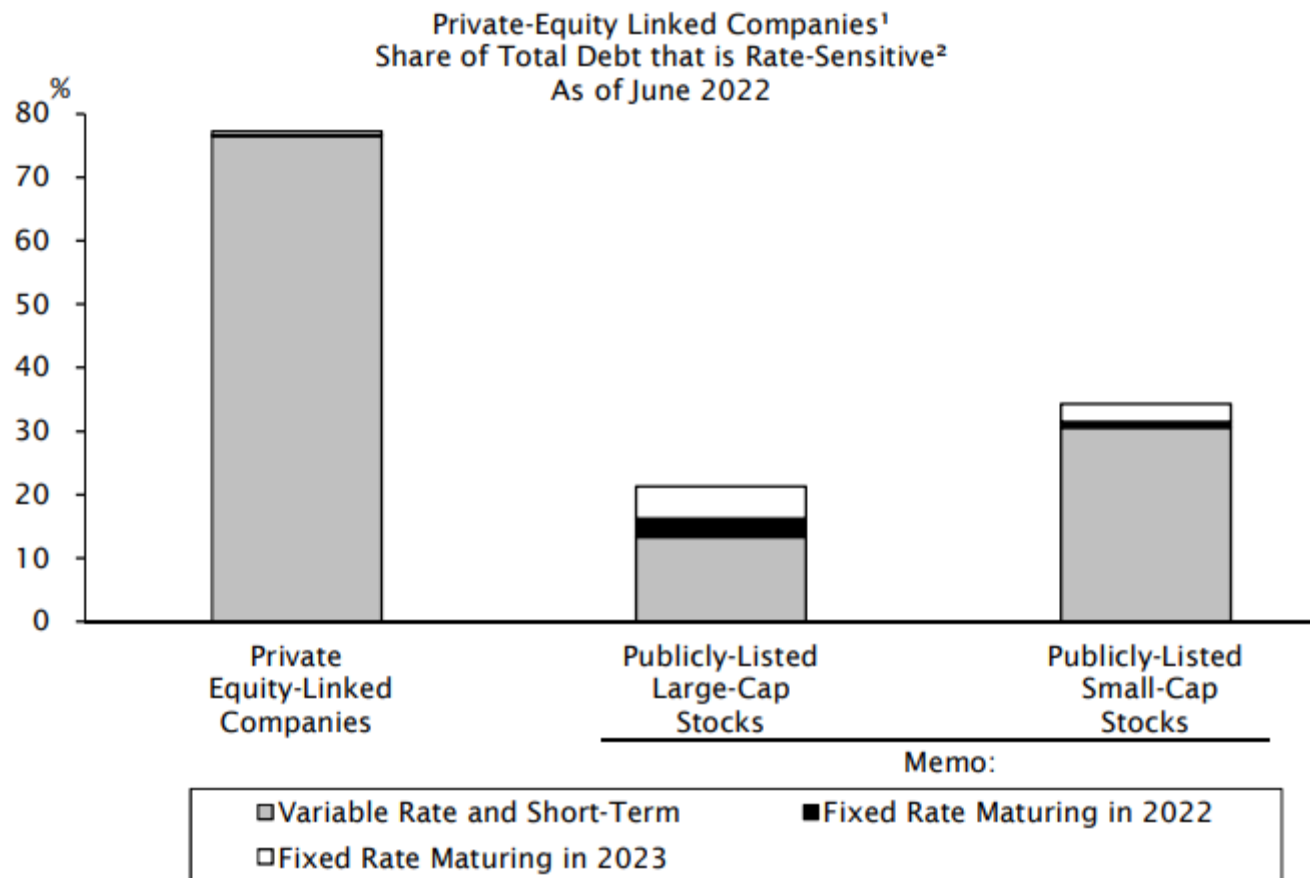
Covenant-Lite loans

Covenant-lite loans

% of total loans, 4Q10– 1Q22, quarterly



Significant Floating Rate Debt

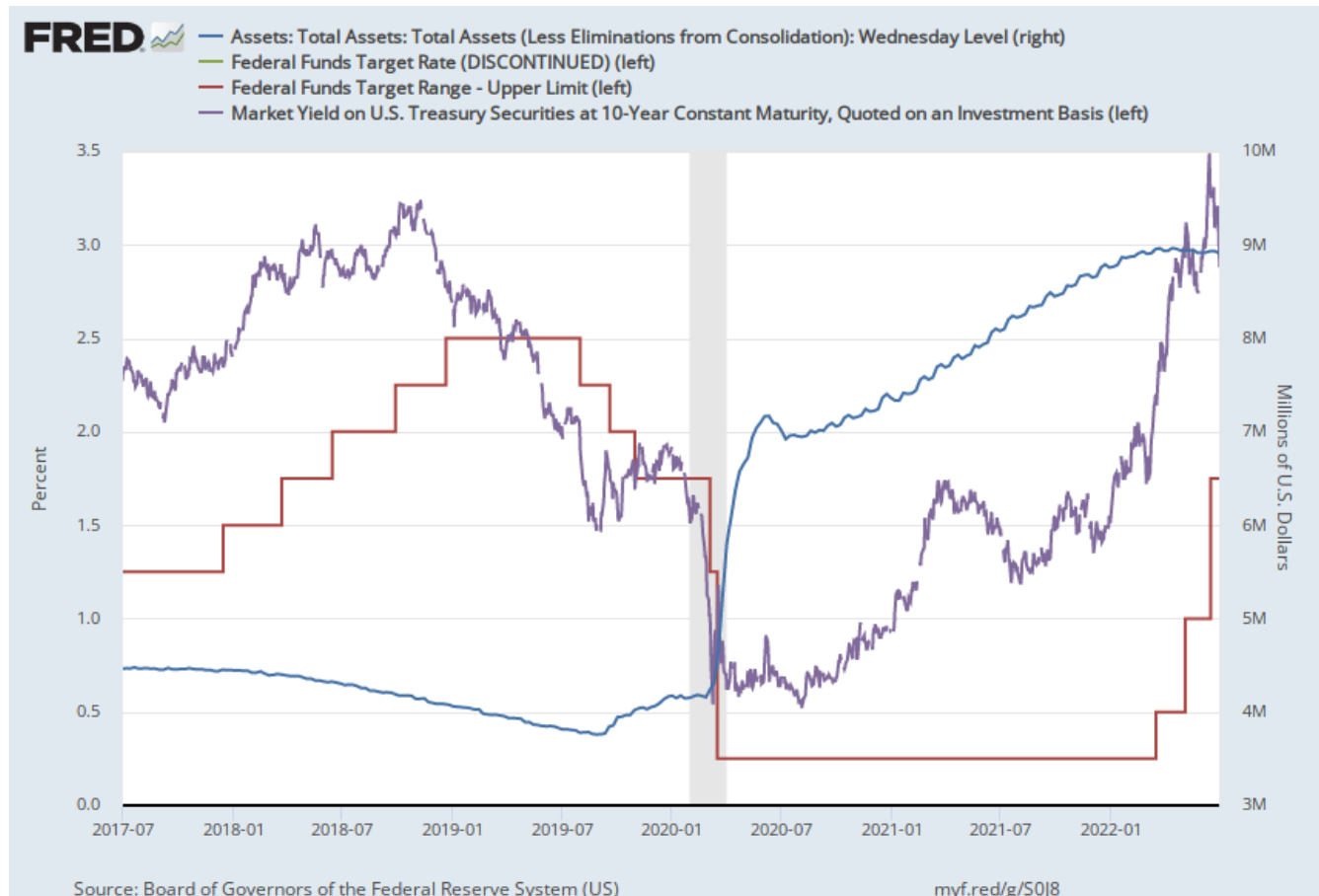


Source: PitchBook, FactSet Research Systems, Empirical Research Partners Analysis.

¹ Private equity-linked firms are those currently backed by private equity. Excludes the private equity firms themselves. All cohorts exclude financials and real estate.

² Rate-sensitive debt is all variable rate debt, short-term debt, and long-term fixed rate debt maturing this year or next year.

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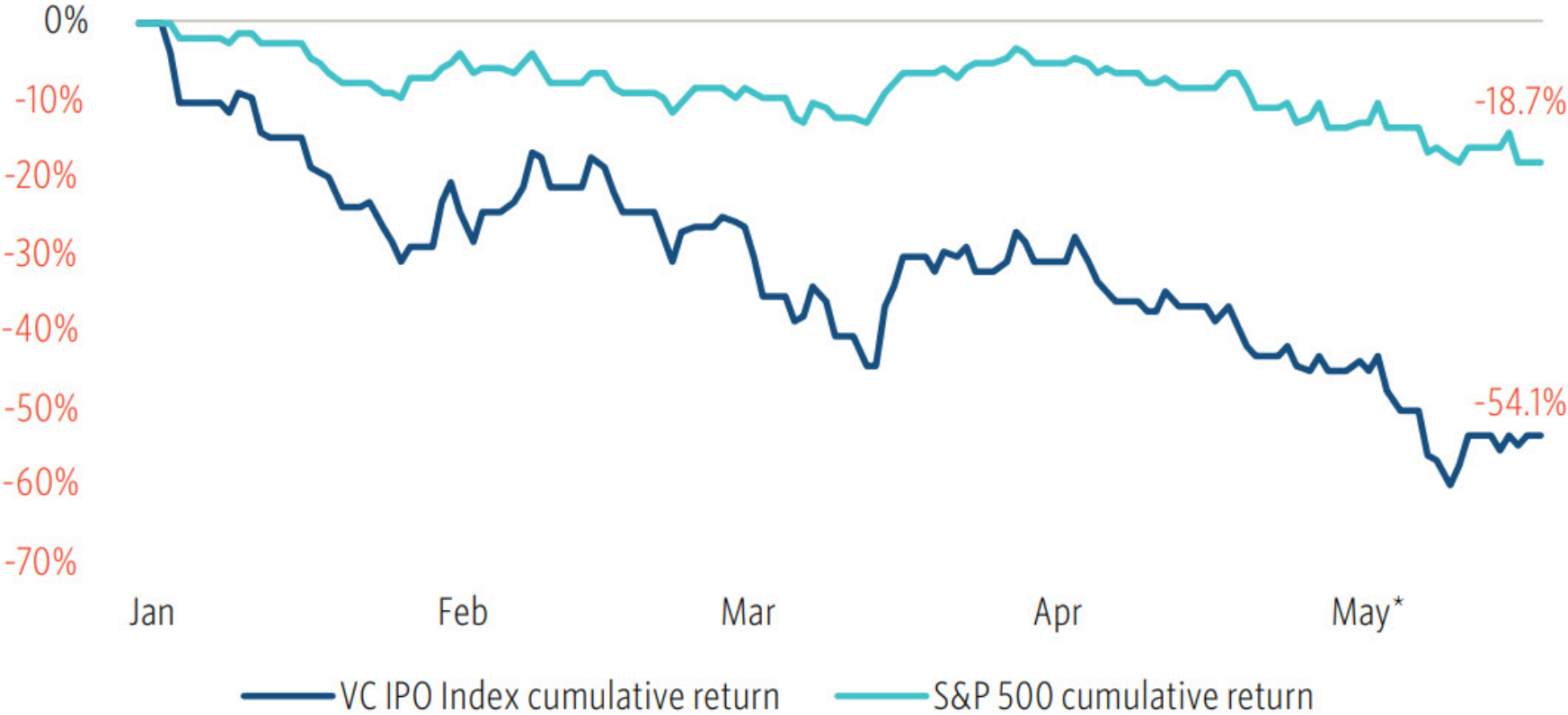


Pre-COVID → COVID → Higher Rates

Phase II

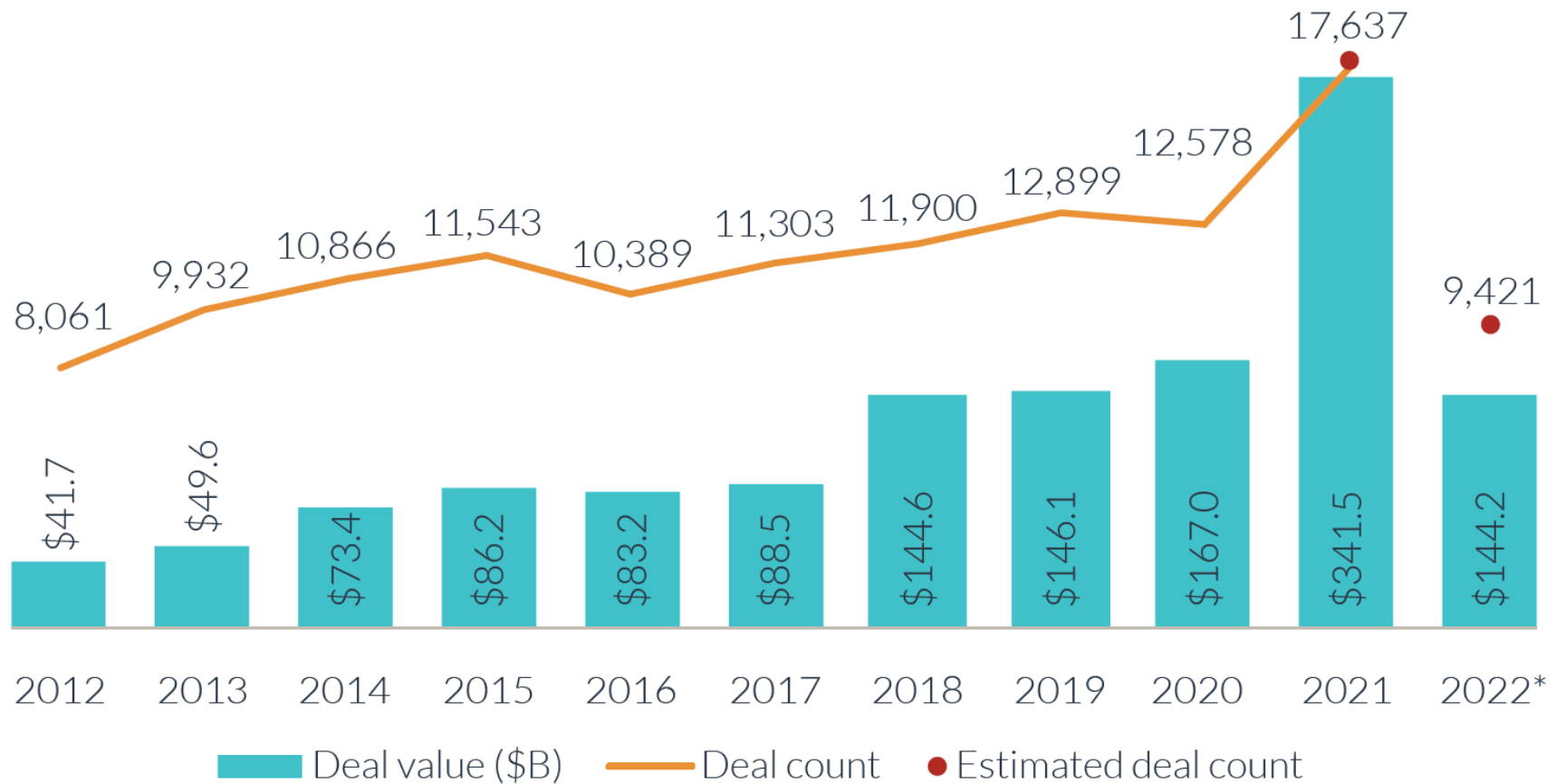
Bad Time for VC Exits

PitchBook VC IPO index vs. S&P 500



Source: PitchBook | Geography: Global
*As of May 20, 2022

Volumes Down but Still Robust



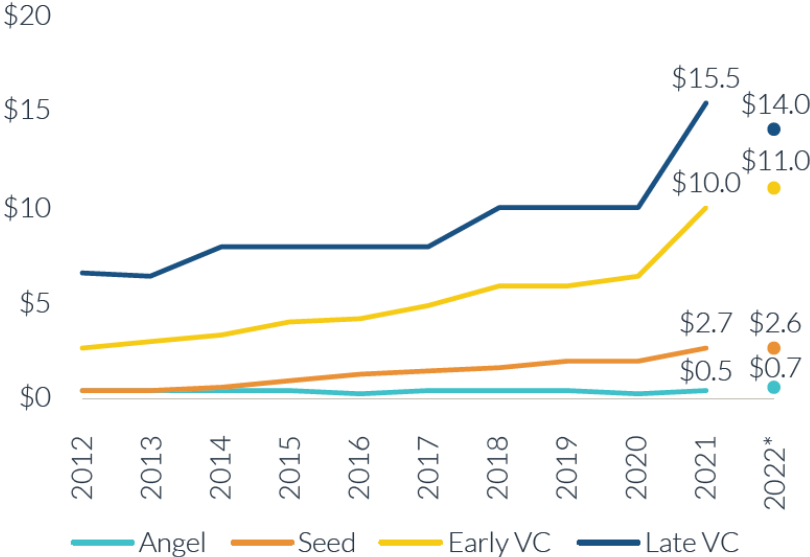
PitchBook-NVCA Venture Monitor

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Deal Size Down but Valuations Up

Late-stage VC deal size median slides

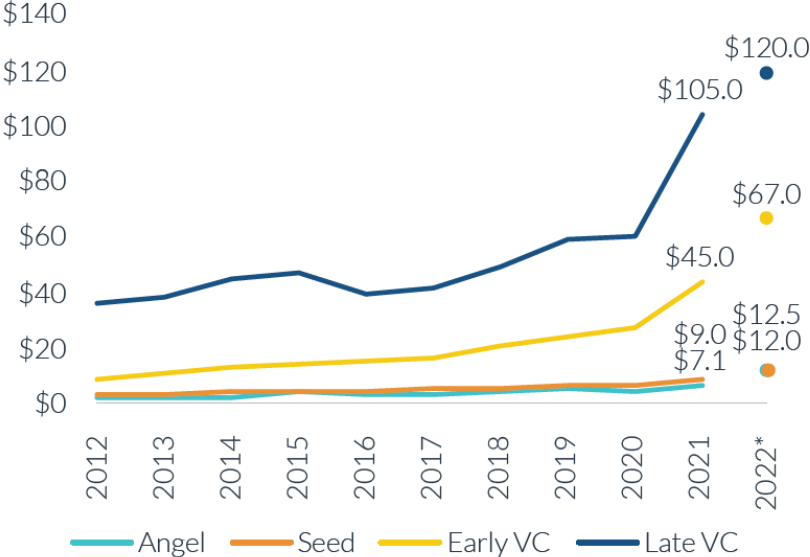
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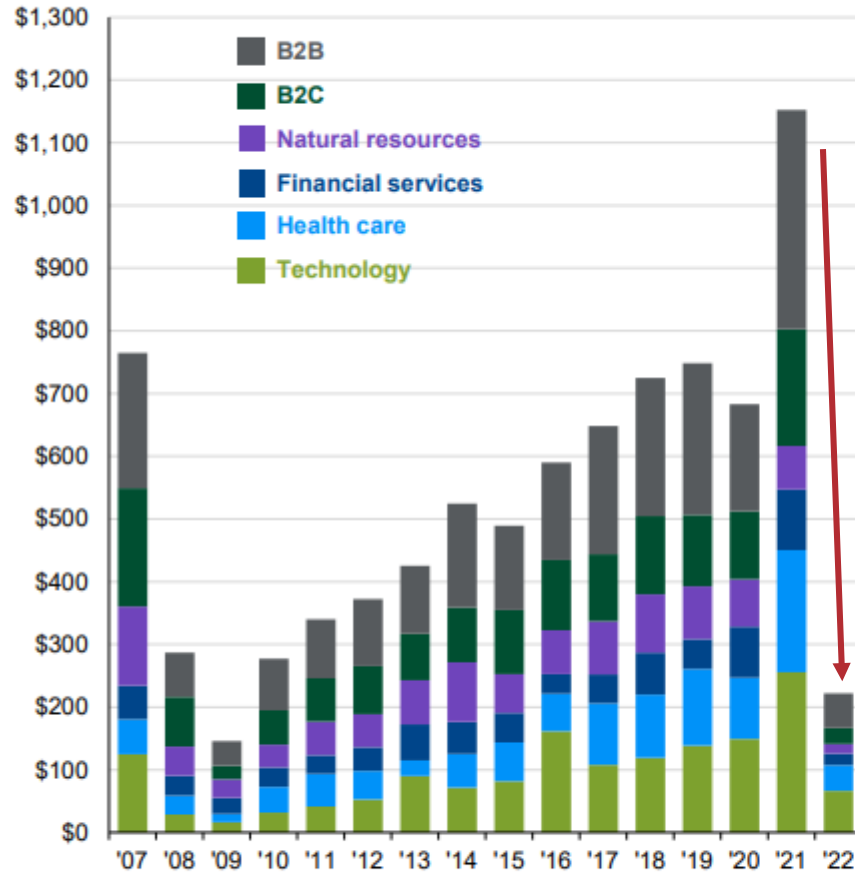


PitchBook-NVCA Venture Monitor
*As of March 31, 2022

U.S Private Equity Deals and Multiples – 2022?

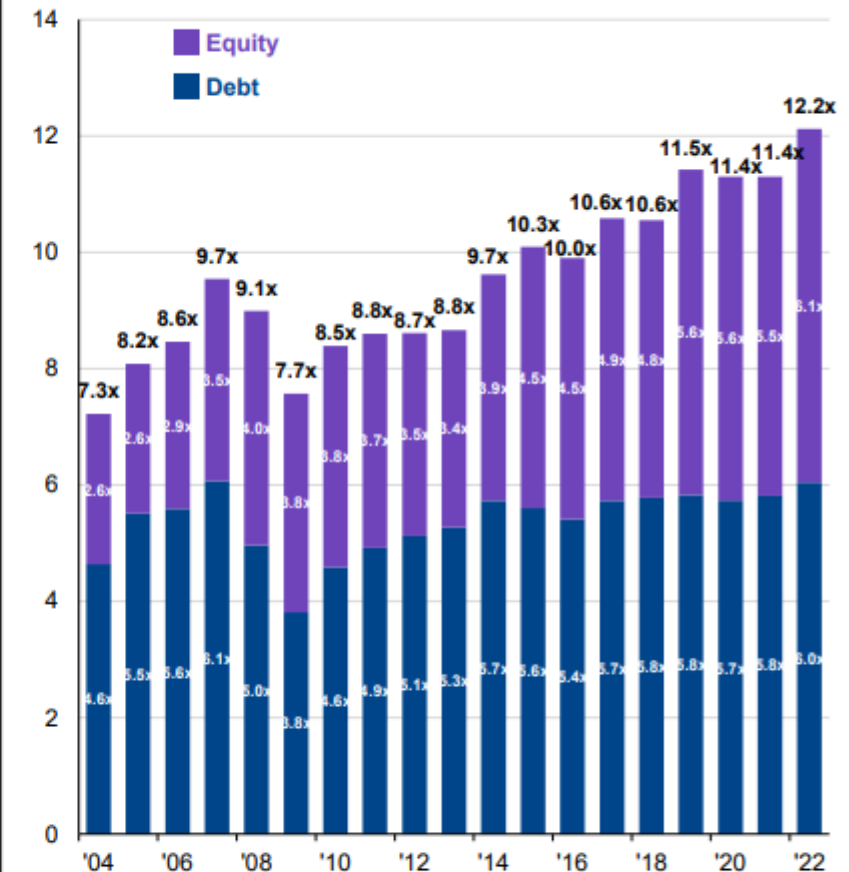
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USD billions



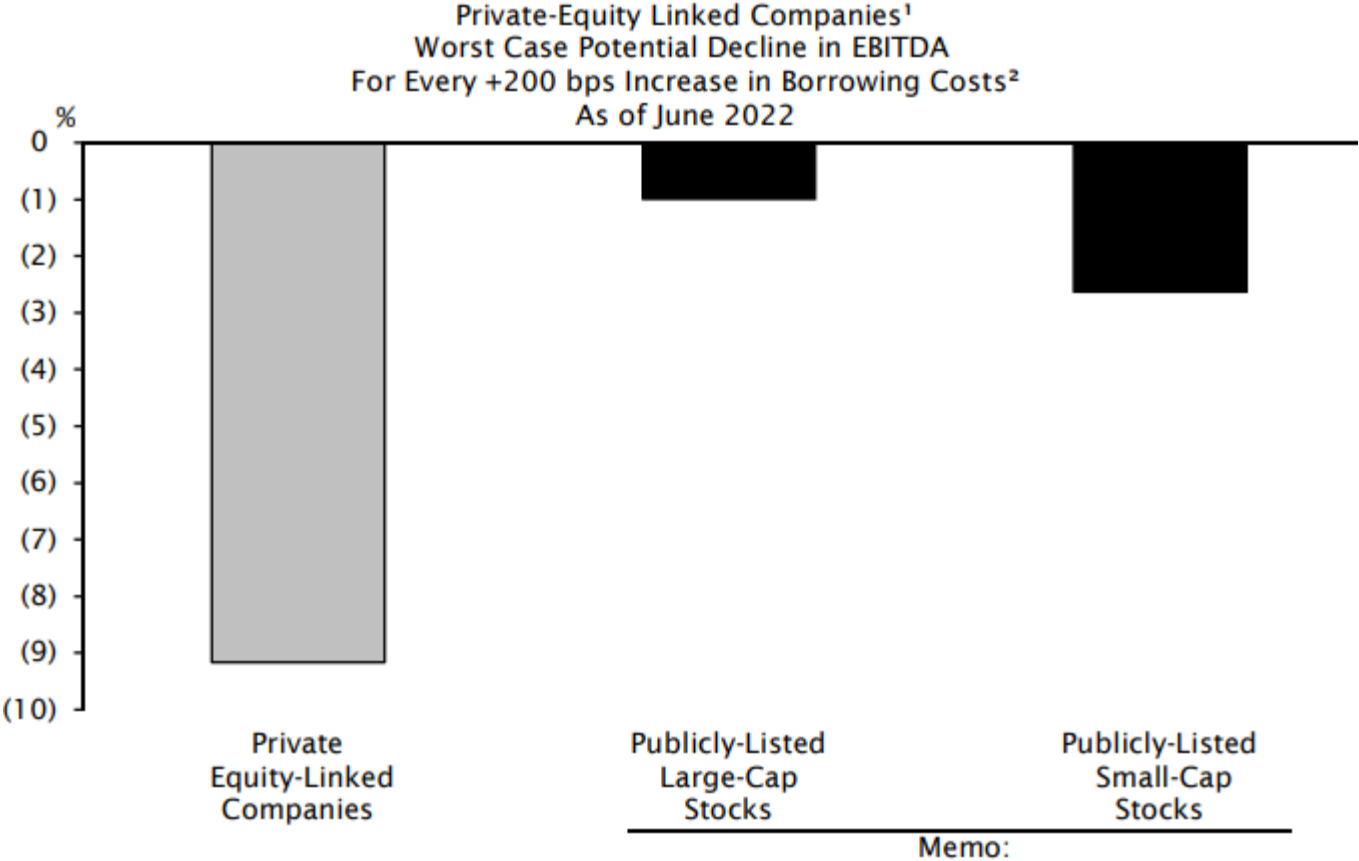
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Higher Borrowing Costs for Private Equity

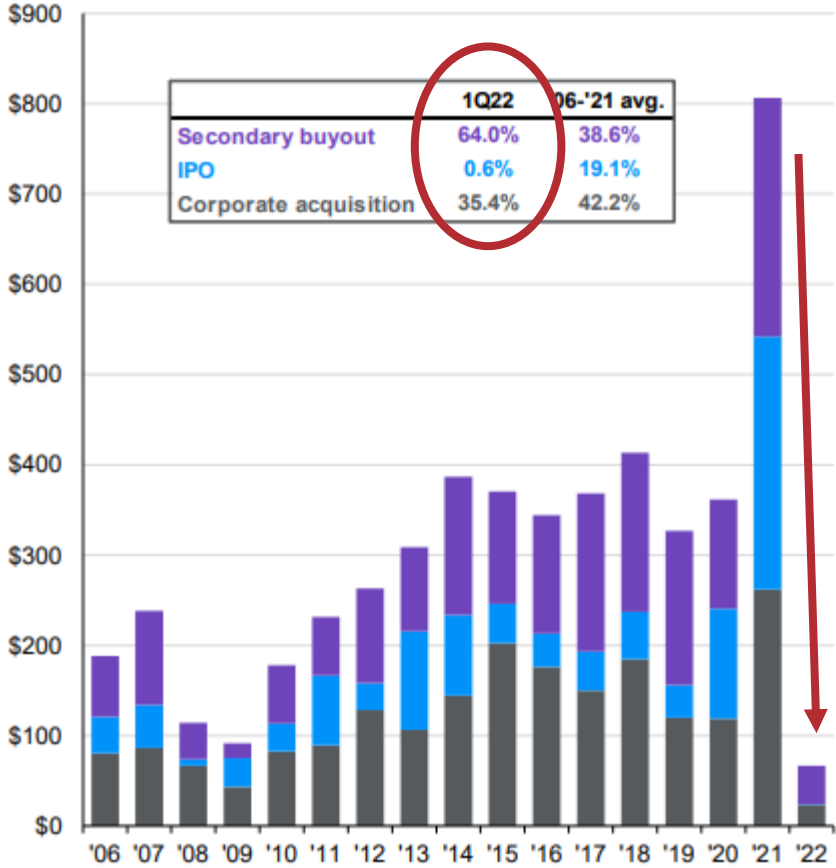


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¹ Private equity-linked firms are those currently backed by private equity. Excludes the private equity firms themselves. All cohorts exclude financials and real estate.
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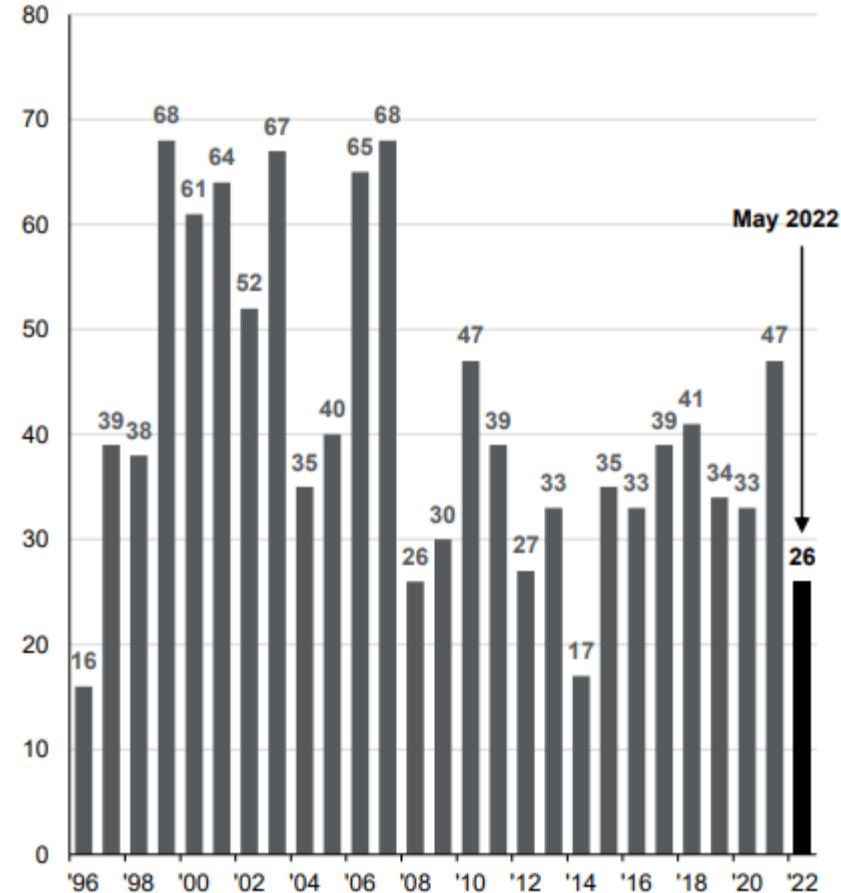
IPO Window Closes

Private equity exits by type

USD billions



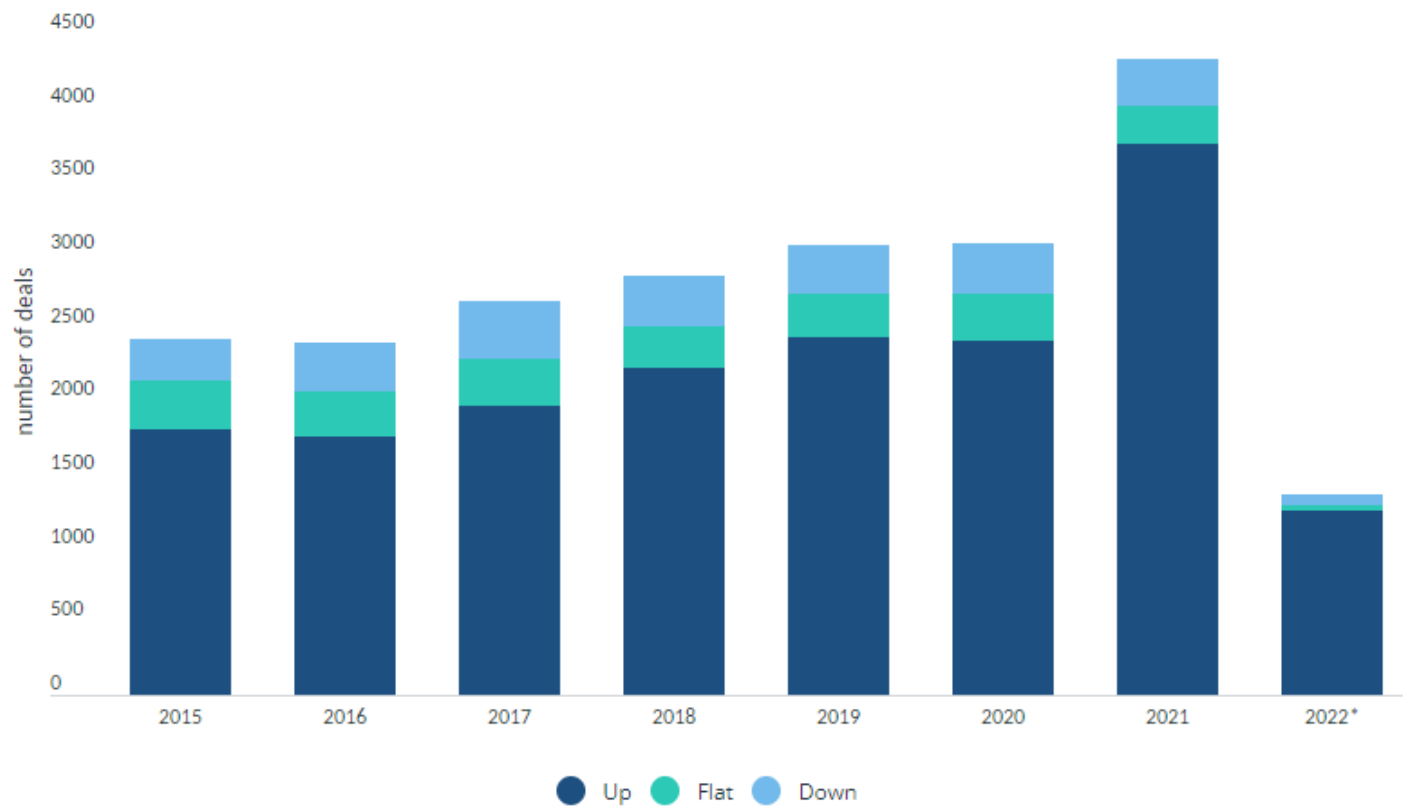
Number of U.S public companies taken private



Source: Dealogic, PitchBook, J.P. Morgan Asset Management.
 Private equity exit data are as of March 31, 2022. Data on the number of companies taken private are as of May 10, 2022.
 Data is based on availability as of May 31, 2022.

Structured Rounds = The New Down Round?

For now, down rounds remain historically low

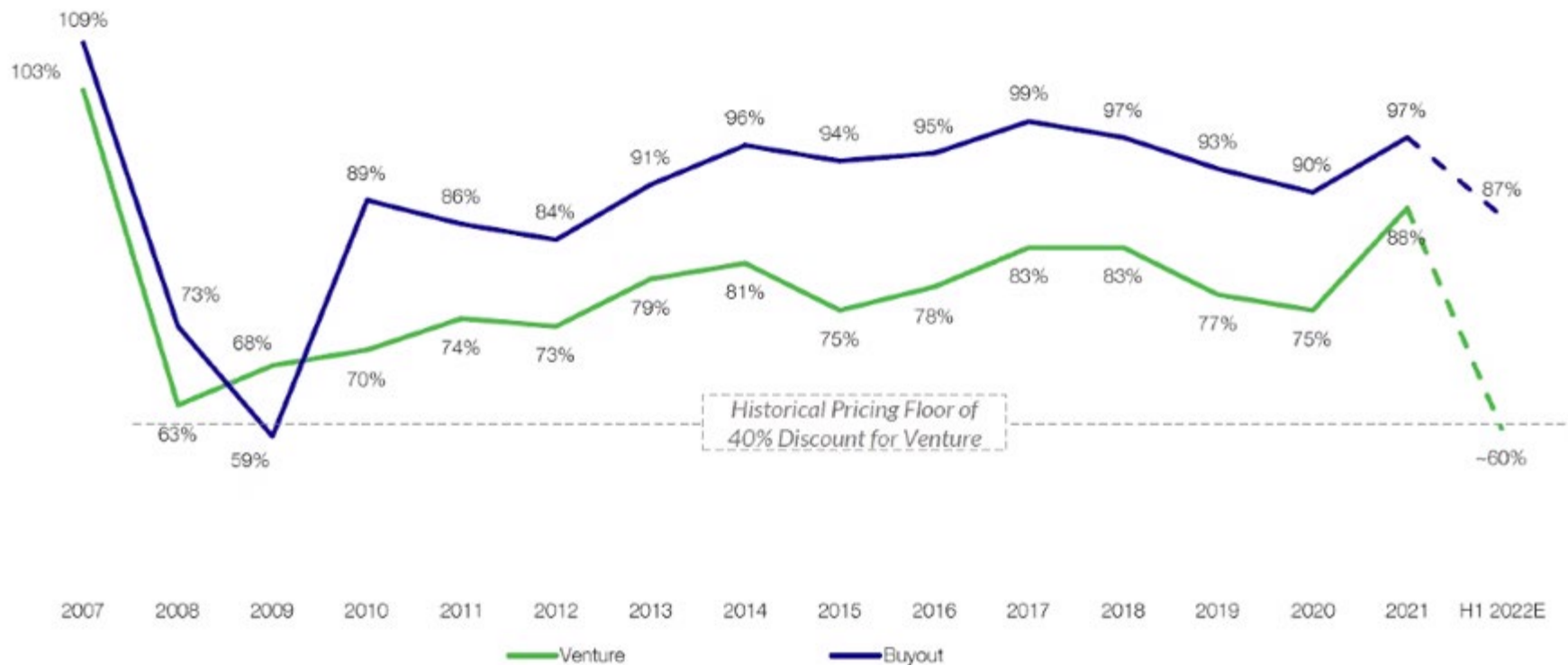


*as of June 13, 2022

Source: PitchBook

Opportunity to be a Liquidity Provider

SECONDARY LP INTEREST PRICING BY STRATEGY (% OF NAV) ⁽¹⁾



Early data suggests that pricing has adjusted downward, as in prior economic cycles

Summary

- Easy money isn't so easy any more
- Quality matters
- Be a liquidity provider
- Flexibility is an advantage

Whittier's All-Weather Approach to Alternative Investing

- Best-in-class managers
- It's more than just multiple expansion
- Flexibility and specialization
- Be a liquidity provider
- Hybrid Architecture

Whittier's All-Weather Approach to Alternative Investing

- Best-in-class managers



- It's more than just multiple expansion



- Flexibility and specialization



- Be a liquidity provider



- Hybrid Architecture



Summary and Key Takeaways

We believe:

- Inflation will moderate soon and then recede gradually
- Short and long rates are less likely to exceed 4%
- Potential recession is less likely to be deep and protracted
- Asymmetric equity upside relative to downside ... in the intermediate term
- High quality profitable growth will continue to be rewarded

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Past performance is no guarantee of future investment results and no investment or financial planning strategy can guarantee profit or protection against losses. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall.

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