OUTLOOK | **2021**

The new economic cycle:

Investing for a post-COVID world

FINDINGS & OPPORTUNITIES

Private Bank

citi®

OUTLOOK | **2021**

Watchlist

Are you positioned for the new economic cycle?

With COVID-19's departure in 2021, we expect the new economic cycle to strengthen.

However, many clients still have portfolios positioned for 2020, and almost all hold too much cash.

Our Outlook 2021 report sets out strategies to help you get positioned for 2021 and beyond.

And our Outlook Watchlist presents a customized view of your portfolio's positioning in relation to our themes.

We can also offer you customized analyses to help you:

- Get a holistic view of all your investments held at Citi and elsewhere
- Understand whether your cash is working hard enough
- Determine your portfolio's environmental, social and governance impact
- Gauge your positioning relative to your peer group's portfolios

To receive the analyses of your choice, please ask your relationship team.

OUTLOOK | **2021**

WATCHLIST

Contents

Overview

Investing for a post-COVID world

DAVID BAILIN
Chief Investment Officer

The new economic cycle is set to strengthen in 2021. Investors need to take action to prepare portfolios for a post-COVID-world.

We believe this is an important time to be an investor.

The confluence of four factors calls for taking action:

- A faster-than-usual economic recovery
- Accelerating innovation
- Structurally low interest rates
- A mispricing of assets due to COVID

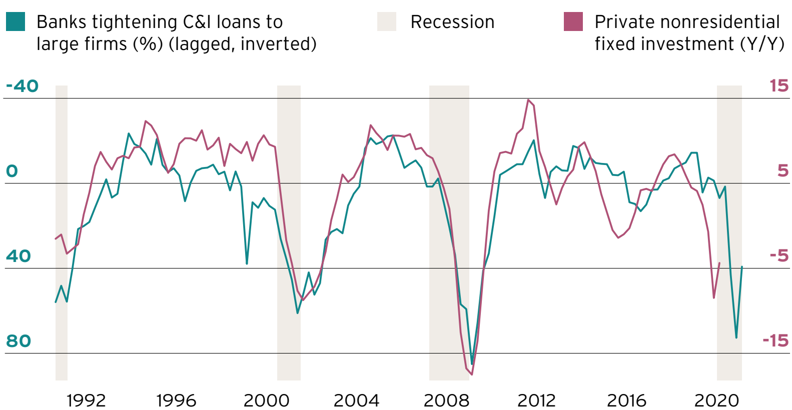
With the cost of capital low, smart managers are likely to use technology to improve and expand the operation of their companies, which should be especially good for equities – FIGURE 1.

Our tactical asset allocation is therefore bullish as the new economic cycle strengthens – see **Our positioning**.

We suggest:

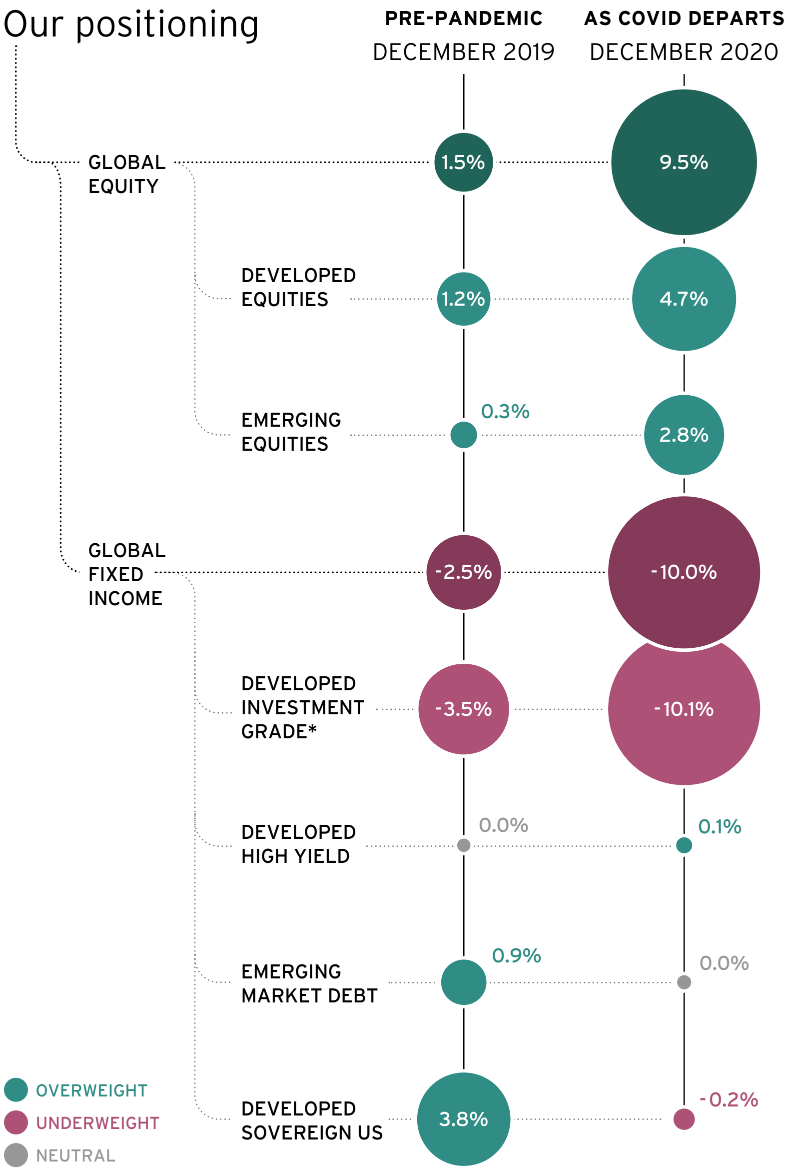
- Determining how much cash is really needed for safety purposes and investing the rest
- Considering altering portfolio composition by replacing some debt with equity
- Increasing the exposure to our unstoppable trends in your overall equity portfolio
- Exploiting mean reversion as valuations normalize coming out of the pandemic
- Reflecting only the best yield opportunities in fixed income holdings
- For suitable investors, including capital markets strategies that can create income from volatility
- Seeking advice continuously, drawing on our ability to provide insight and analysis into portfolios

FIGURE 1. AS LENDING STANDARDS EASE, CAPITAL INVESTMENT RISES



Source: Haver, as of 26 Nov 2020.

Our positioning



Office of the Chief Investment Strategist, Citi Private Bank, as of 28 Nov 2020
*Factors in non–US Developed Market Investment Grade underweight

Opportunities

GLOBAL SMALL- AND MID-CAP EQUITIES

SELECT BEATEN-DOWN NATIONAL AND REGIONAL MARKETS

COVID CYCLICALS INCLUDING FINANCIALS, INDUSTRIALS AND REAL ESTATE

PRIVATE EQUITY STRATEGIES FOCUSING ON SMALL- AND MID-CAP FIRMS UNABLE TO ACCESS PUBLIC MARKETS

DISTRESSED REAL ESTATE STRATEGIES, PARTICULARLY FOCUSING ON HOSPITALITY ASSETS

REPLACING SOME LOW- AND NEGATIVE YIELDING BONDS IN PORTFOLIOS WITH:

- GLOBAL "DIVIDEND GROWER" AND SELECT HIGH DIVIDEND YIELD EQUITIES
- SELECT FIXED INCOME ASSETS, INCLUDING MORTGAGE CREDIT AND BOND-LIKE ALTERNATIVES
- CERTAIN ALTERNATIVE STRATEGIES THAT MAY PROVIDE RECURRING DISTRIBUTIONS
- CAPITAL MARKETS STRATEGIES THAT SEEK INCOME FROM VOLATILITY

HYPER-CONNECTIVITY INVESTMENTS, INCLUDING 5G SUPPLIERS AND BENEFICIARIES

EXPOSURE TO THE ONGOING RISE OF ASIA

INNOVATIVE HEALTHCARE-RELATED PROVIDERS LINKED TO AGING POPULATIONS

RENEWABLE ENERGY

As COVID releases its grip

STEVEN WIETING
Chief Investment Strategist and Chief Economist

With an end to the pandemic coming into view, we highlight the key considerations for investing for a new economic cycle.

COVID's eruption in early 2020 tore through global markets, altering the price of every asset in the world.

Even after the discovery of two or more potential vaccines, it seems less well accepted that COVID's departure will reprice all assets again as it leaves.

The US Federal Reserve has strongly signaled a zero-interest rate policy for the next three years at a minimum.

After inflation, the Fed's policy target rate would be about -2% through 2023 if the Fed sticks to its guidance.

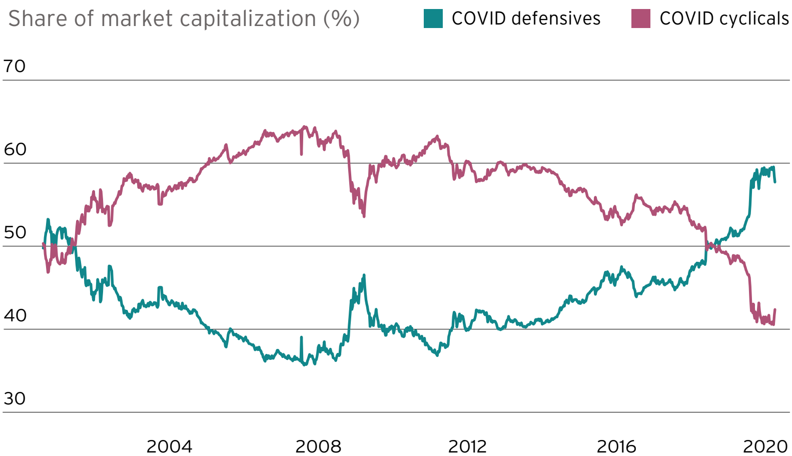
As COVID retreats, we look for large-scale rotation into certain sectors and regional markets – see **Our positioning**.

The relationships between many asset prices have stretched very far from their long-term mean - FIGURE 2 - so we stress **Exploiting mean reversion**.

We stress replacing particular bonds in portfolios with income-producing substitutes – see **Overcoming financial repression**.

We continue to stress long-term exposure to **Unstoppable trends**, including those related to digitization that have performed strongly amid the pandemic.

FIGURE 2. MEAN REVERSION IN STORE



Source: Bloomberg and FactSet as of 20 Nov 2020. COVID cyclicals: Financials, industrials, energy, materials, real estate, consumer discretionary ex–Amazon. COVID defensives: IT, healthcare, communication services, consumer staples, utilities, Amazon. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. For illustrative purposes only. Past performance is no guarantee of future results. Real results may vary. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

The long-term outlook for asset classes: What's changed for 2021 and beyond

GREGORY VAN INWEGEN
Global Head of Quantitative Research and Asset Allocation,
Citi Investment Management

Our strategic asset allocation methodology flashes a warning sign for certain fixed income investment categories and lowers expected returns from others.

Determining your strategic asset allocation – an appropriate mix of global asset classes to hold in your portfolio – is the most important decision you take as an investor.

Over the long term, it will shape both your returns and the amount of risk you take.

Our own strategic asset allocation methodology forecasts asset class returns - or Strategic Return Estimates (SREs) - over a ten-year horizon.

Other things being equal, it then recommends larger allocations to asset classes with higher SREs and smaller allocations to those with lower SREs.

The flood of central bank liquidity in 2020 helped drive SREs for fixed income and cash lower.

The SRE for Global Developed Equity – which includes the US, Europe and Japan – is 5.0%.

By contrast, Global Emerging Equity – shares from developing economies such as China and Brazil has an SRE of 9.2%.

For investors willing to sacrifice liquidity and increase risk, Real Estate is an attractive asset class, with an SRE of 8.8%.

Private Equity is a standout, benefiting from pandemic-related dislocations with an SRE of 14.2%.

FIGURE 3. STRATEGIC RETURN ESTIMATES (%)

GLOBAL DEVELOPED EQUITY	5.0
GLOBAL EMERGING EQUITY	9.2
GLOBAL DEVELOPED INVESTMENT GRADE FIXED INCOME	1.2
GLOBAL HIGH YIELD FIXED INCOME	3.9
GLOBAL EMERGING FIXED INCOME	3.6
US CASH	0.7
HEDGE FUNDS	4.0
PRIVATE EQUITY	14.2
REAL ESTATE	8.8
COMMODITIES	1.2

Source: Citi Private Bank Asset Allocation team, preliminary estimates as of 31 Oct 2020. Strategic Return Estimates are in US dollars; all estimates are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Strategic Return Estimates are no guarantee of future performance.

The critical importance of staying fully invested

DAVID BAILIN
Chief Investment Officer

STEVEN WIETING
Chief Investment Strategist and Chief Economist

GREGORY VAN INWEGEN
Global Head of Quantitative Research and Asset Allocation,
Citi Investment Management

Trying to time the market in 2020 was almost impossible. For 2021, we recommend you put your core portfolio's excess cash to work.

Sitting on the sidelines in cash waiting for better entry-points typically results in missing some of the equity markets' strongest up-days.

The cost of missing out on just the ten strongest up-days in the S&P 500 Index over the last two decades was high – **FIGURE 4.**

Many investors waiting on the sidelines in 2020 have missed the first phase of the pandemic recovery.

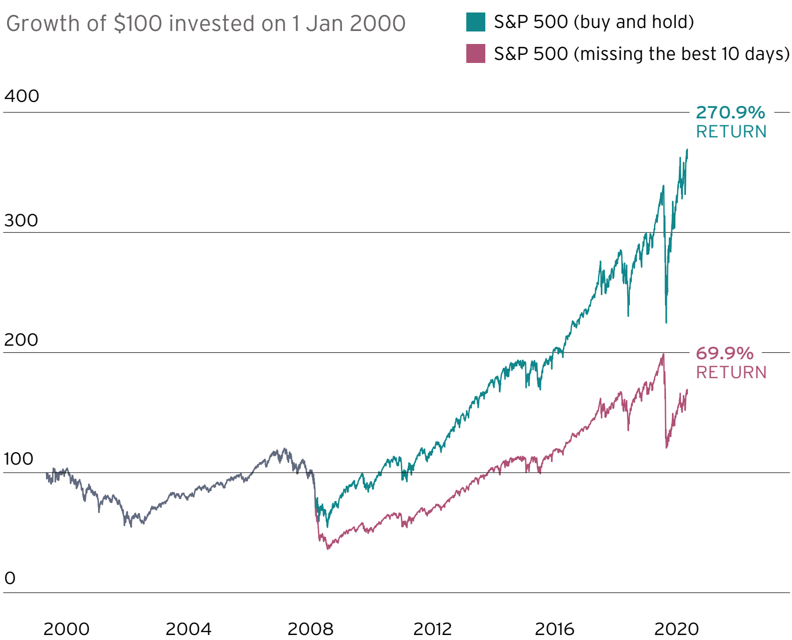
Given our view of market opportunities in a post-COVID world, investors should maintain cash balances based on their portfolio requirements and establish or maintain full core positions.

The onset of financial repression means that cash will earn little and that bonds will provide less diversification value.

Ask the Global Investment Lab to perform an analysis of your core investment portfolio, highlighting excess cash and other areas where you are not following a long-term plan, including alignment to our investment themes.

Your Investment Counselor can then work with you to get your core portfolio fully invested and help keep it that way.

FIGURE 4. THE PERILS OF MARKET TIMING



S&P 500 total returns with and without the 10 best days (1 Jan 2000 - 21 Oct 2020) Source: Global Asset Allocation, Global Investments Lab, Bloomberg, as of 24 Nov 2020. Past performance is no guarantee of future results. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only. Past performance is no guarantee of future returns. Real results may vary.

Keeping your portfolio strong: Introducing the gap analysis

PHILIP WATSON
Head of the Global Investment Lab

VISWANATHAN VENUGOPALA
Head of the Lab for Family Offices

Trying to time the market in 2020 was almost impossible. For 2021, we recommend you put your core portfolio's excess cash to work.

Core portfolios that follow a customized, robust, long-term plan are likelier to achieve their risk and return objectives than those that do not.

We analyzed some 6,000 client portfolios over the three years to October 2020.

We found that the portfolios that have most closely followed the plans we recommended have generally outperformed those that have not over that period – **FIGURE 5.**

Common deviations from the plan include ignoring entire asset classes or regions of the world, holding concentrated positions in a security or sector, and hoarding excess cash.

A gap analysis can highlight these and other divergences between your core portfolio and your customized plan.

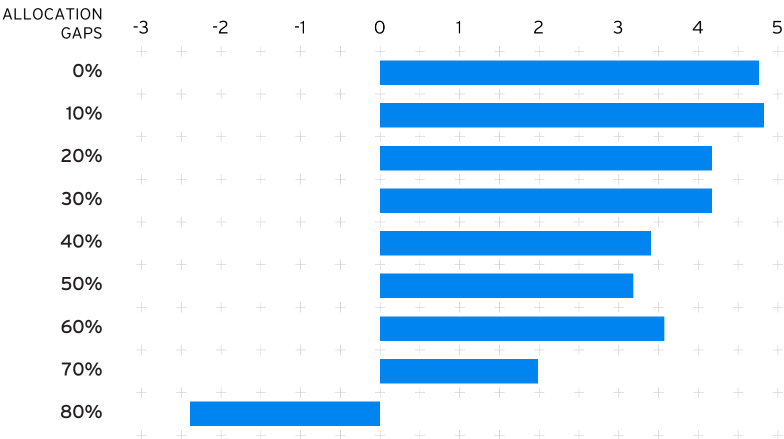
As well as your overall asset class positioning, a gap analysis explores your core portfolio's exposures and can identify risks due to macroeconomics, concentrations and other factors.

Having identified gaps in your portfolio construction, we can suggest strategies to help realize your plan.

Please ask your Private Banker or Investment Counselor about getting a gap analysis of your core portfolio.

FIGURE 5. THE IMPORTANCE OF FOLLOWING YOUR PLAN

Median 36-month performance (%)



Source: Citi Private Bank Global Investment Lab, as of 31 Oct 2020. Divergence from our recommended allocation is represented here by allocation gaps. Allocation gaps measure the degree to which clients' portfolios follow our recommended allocations at all risk levels. The lower the gap percentages, the more aligned the portfolios with our recommended allocations. A reading of 0% indicates full alignment with our recommendation. This information is drawn from the Private Bank's proprietary data covering 6,000 continuing client portfolios whose reference currency is US dollars. Past performance is no guarantee of future returns. Real results may vary.

Exploiting mean reversion

Reversion to the mean and what it means for portfolios

Capitalize on distressed opportunities

Reversion to the mean and what it means for portfolios

STEVEN WIETING
Chief Investment Strategist and Chief Economist

JOSEPH FIORICA
Head of Global Equity Strategy

KRIS XIPPOLITOS
Head of Global Fixed Income Strategy

As asset price valuations and relationships between assets normalize, exposure to the pandemic's losers might be a winning strategy in 2021.

COVID-19 has caused huge – but temporary – economic and financial market disruption.

Many assets' valuations and the relationships between them have strayed far from their long-term average or "mean."

As COVID-19 retreats in 2021, we believe that valuation distortions will unwind.

Amid this "reversion to the mean," we expect certain areas to be major beneficiaries.

These include COVID cyclical sectors, such as financials, industrials and real estate, as well as hotels, restaurants and airlines.

Small- and mid-cap equities globally and some of the most beaten-down national and regional markets also stand to rebound further.

By contrast, equities that performed strongly for much of the pandemic period may face underperformance, creating a challenge for momentum investors.

Still, we do not advocate divestment from COVID defensives such as the technology, media and telecom winners of 2020.

Instead, we advise against having too great an overall weighting in such holdings, including excessive concentration in individual equities.

We also expect the economic recovery to strengthen "COVID cyclical" corporate debt.

FIGURE 6: US MARKET HAS MOST COVID DEFENSIVES

	COVID CYCLICALS (%)	COVID DEFENSIVES (%)
US	32.8	67.2
CHINA	40.6	59.4
EM ASIA EX-CHINA	41.4	58.6
EUROPE EX-UK	48.3	51.7
UK	55.4	44.6
JAPAN	56.3	43.7
LATIN AMERICA	64.4	35.6
CEEMEA	70.5	29.5
ASIA EX-JAPAN	75.2	24.8

COVID cyclicals: Financials, industrials, energy, materials, real estate, consumer discretionary ex–Amazon. COVID defensives: IT, healthcare, communication services, consumer staples, utilities, Amazon. Source: FactSet as of 26 Nov 2020. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. For illustrative purposes only. Past performance is no guarantee of future results. Real results may vary.

Capitalize on distressed opportunities

DANIEL O'DONNELL
Global Head of Citi Investment Management Alternatives

JEFFREY LOCKE
Head of Private Equity and Real Estate – Americas

MARC RUCINSKI
Head of Private Equity and Real Estate – Asia

COVID-19's widespread financial distress creates opportunities for private market strategies as valuations revert to the mean over time.

There are growing signs of financial distress within sectors hit hardest by the pandemic.

Such distress can provide investment opportunities accessible via certain private equity and real estate strategies.

In real estate, we see potential among hospitality assets.

Initially, we expect to see bank foreclosures and then some owners that prove unwilling or unable to navigate the path to full recovery in hotel occupancy levels and other metrics – **FIGURE 7**.

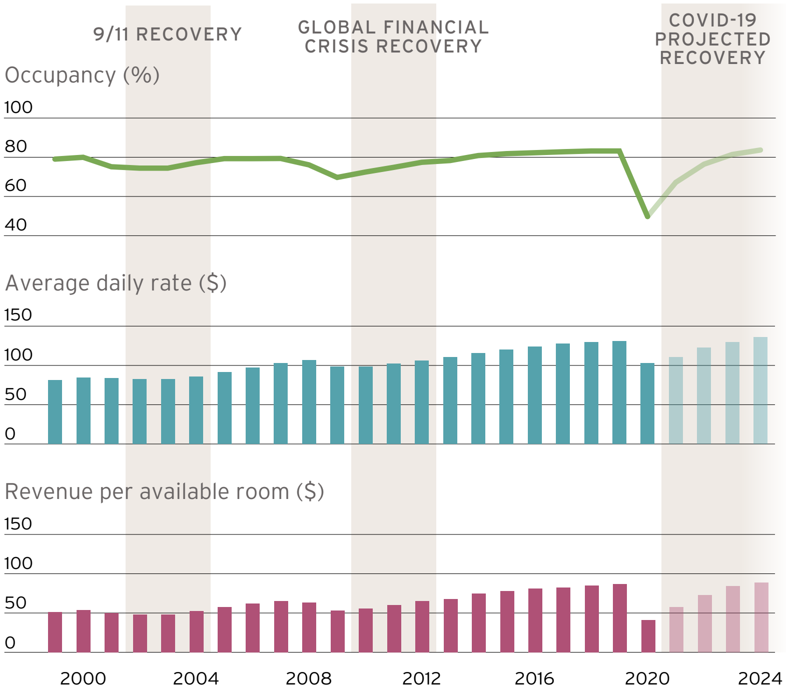
To capitalize upon the opportunity we see, we recommend seeking partners with demonstrable value-add hospitality experience of investing across cycles.

COVID has also created a need among businesses in many industries to bolster their balance sheets and find a way back to growth.

However, certain small- and mid-cap firms are unable to access public market financing, creating an opportunity for private equity sponsors to provide flexible solutions.

More importantly, this has also created new opportunities for managers to acquire companies that would not have required additional capital but for the health crisis.

FIGURE 7. TOTAL US HOTEL MARKET: HISTORICAL AND PROJECTED PERFORMANCE



Sources: STR; CBRE, US Hotel Outlook, as of Jul 2020. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be guarantees of future events.

Overcoming financial repression

The return of financial repression

STEVEN WIETING
Chief Investment Strategist and Chief Economist

Financial repression represents a threat to your core portfolio. Focus on assets offering positive real income streams and diversification.

"Financial repression" involves keeping interest rates artificially low while allowing inflation to erode the real value of cash and bonds.

Highly indebted governments may use financial repression to reduce their debt burdens in the years ahead.

Such policies would make it even harder to earn vital income in core portfolios.

In the last era of financial repression, equities generated positive real returns, whereas cash and US Treasuries struggled - **FIGURE 8**.

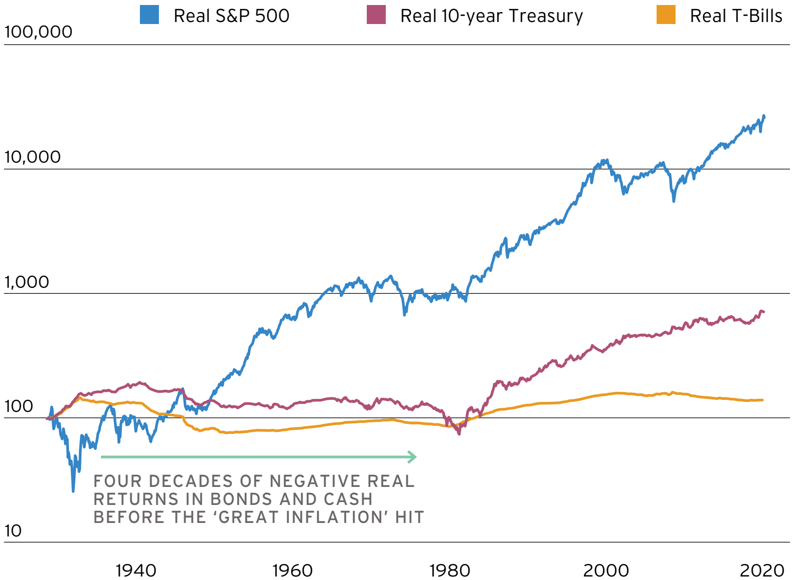
Financial repression thus calls for a major shift in asset allocation.

We urge investors with excess cash to put it to work or risk losing purchasing power.

We do not advise complete divestment from very low-yielding bonds, as they can still offer diversification potential, as the early pandemic turmoil showed.

We do recommend seeking some substitute strategies involving dividends, select fixed income assets, capital markets, and certain alternative investments.[1]

FIGURE 8.
EQUITIES OUTPERFORMED DURING THE LAST FINANCIAL REPRESSION



Source: Haver Analytics as of 23 Oct 2020. Note: Log scales are used. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be guarantees of future events.

[1] Alternative investments are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in the fund, potential lack of diversification, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and advisor risk.

How dividend equities work overtime in your portfolio

JOE FIORICA
Head of Global Equity Strategy

Amid financial repression, we believe that certain dividend equities can play a valuable role in generating portfolio income.

Broadly speaking, equities are now more of an income-generating asset class than high quality fixed income. We believe dividends can substitute for a portion of portfolio income that many bonds no longer provide.

"Dividend growers" are companies that have consistently increased their dividend payments over time. As the global economic recovery becomes entrenched, we expect dividend grower equities to resume their long-term, lower-volatility outperformance.

We also favor combining dividend grower equities with select high dividend yield equities.

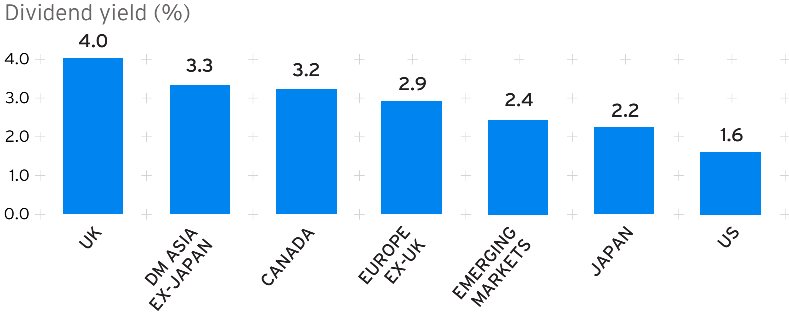
This likely involves increasing exposure to more cyclical dividend payers that aim to maintain high payouts going forward.

Indeed, among the highest-yielding global industry groups, we see an array of COVID winners and losers.

We believe that having a mix of cyclical and defensive sector exposure can help capture both yield and price upside, while mitigating downside risks.

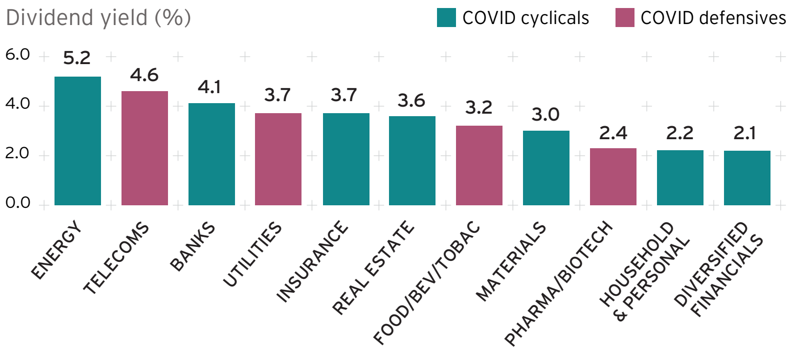
We advocate global dividend exposure, highlighting that the prospective dividend yield on European and developed Asian equities is on average twice that of their US counterparts. (Movements in currency could either increase or decrease the return.)

FIGURE 9. DIVIDEND YIELDS BY REGION



The chart shows estimated 2021 dividend yields for MSCI Indices. Source: Bloomberg, as of 24 Nov 2020. Past performance is no guarantee of future returns. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

FIGURE 10.
GLOBAL CYCLICALS AND DEFENSIVES: AMONG THE HIGHEST YIELDERS



The chart shows estimated 2021 dividend yields for MSCI All Country World sector indices globally. Source: Bloomberg, as of 24 Nov 2020. Past performance is no guarantee of future returns. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

Finding yield in a repressed world

KRIS XIPPOLITOS
Head of Global Fixed Income Strategy

Financial repression puts many bonds right in the firing line. But we still see potential for positive real returns and diversification within this asset class.

Negative real interest rates make it harder to seek returns that exceed inflation from many bonds.

If inflation causes the real yield to turn negative, the total value of the capital borrowed is also reduced.

However, bonds with very low or negative yields can still react favorably in "risk-off" periods, so they may still provide diversification value. We therefore do not advocate complete divestment from such bonds.

Interest rate risks are elevated and nominal rates may double from present levels, which could have severe negative price impacts upon parts of fixed income portfolios.

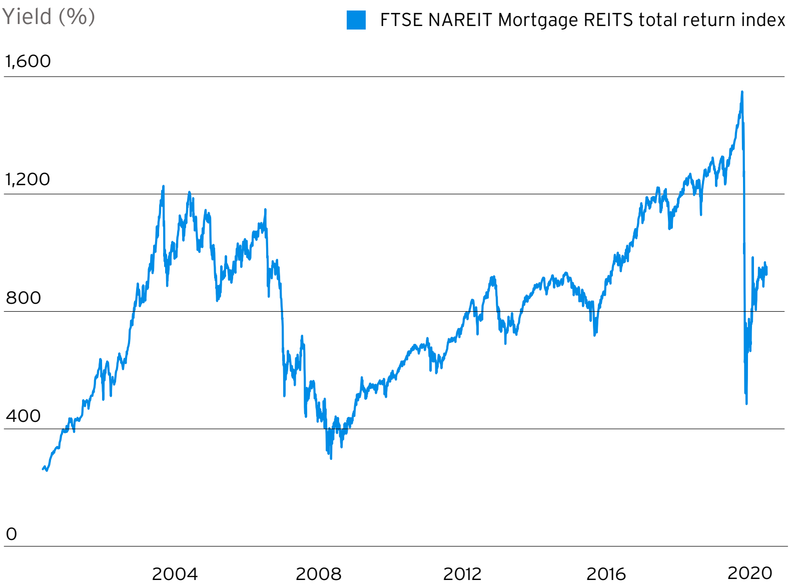
But we still see potential for seeking yield in select parts of the fixed income market.

We favor certain investment grade opportunities, such as US dollar-denominated BBB-rated issuers – and for US taxpayers – munis with a "down-in-quality" bias.

We highlight fallen angels – or investment grade bonds downgraded to high yield status – as well as preferred securities and mortgage credit.

We also look to bond-like alternatives, such as still-depressed mortgage real estate investment trusts (MBS REITs) - **FIGURE 11.**

FIGURE 11. MBS REIT SECTOR STILL DEPRESSED



Source: Bloomberg and Bloomberg Barclays Indices as of 10 Nov 2020. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

Taking alternative paths to portfolio income

DANIEL O'DONNELL
Global Head of Citi Investment Management Alternatives

ALEX RIZEA
Private Equity and Real Estate Research Director

MICHAEL YANNELL
Hedge Fund Research Director

Certain private equity, real estate, and hedge fund strategies offer distributions, diversification and the potential for profit.

For qualified investors willing to sacrifice liquidity and assume more risk, we recommend certain alternative strategies.

These strategies may provide opportunities to receive recurring distributions, as well as helping to diversify portfolios.

The distributions are not income in the traditional sense, as they may be paid intermittently, but their effect can be similar.

We favor opportunistic private debt managers with flexible mandates that invest throughout the capital structure.

In public markets, hedge fund strategies can help pursue portfolio yield objectives, including structured credit managers and relative value fixed income managers.

Creating yield from volatility

IAIN ARMITAGE
Global Head of Capital Markets

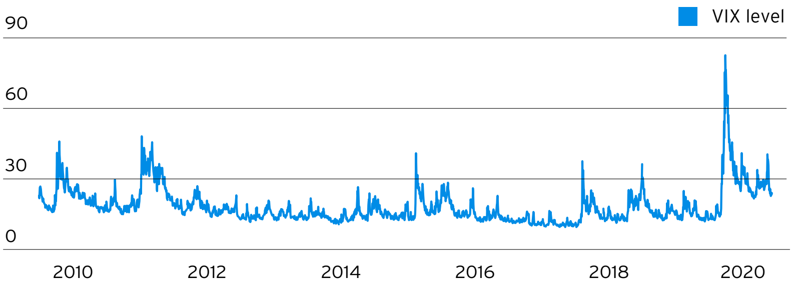
We expect equity volatility to remain elevated. Convert this volatility into a valuable source of income.

Investor fearfulness as expressed by higher implied volatility has been running above long-term average levels.

We advise qualified clients who are willing to increase their risk level to use capital markets strategies that generate income from that volatility.

As well as seeking income, such strategies may enable buying into equities at lower levels.

FIGURE 12. ELEVATED VOLATILITY



Source: Bloomberg, as of 7 Nov 2020. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only. Past performance is no guarantee of future returns. Real results may vary.

Unstopppable trends

Unstoppable trends are changing the world

STEVEN WIETING
Chief Investment Strategist and Chief Economist

Unstoppable trends are reshaping the world around us. As well as transforming the ways we live and work, they are creating long-term opportunities and risks for portfolios.

Unstoppable trends are powerful multi-year phenomena that are transforming business and everyday life.

As disruptive forces, they create both risks and opportunities for your core and opportunistic portfolios.

The events of 2020 have certainly reinforced our case for investing in unstoppable trends.

Many of the assets that relate directly to our existing themes have performed strongly amid the pandemic.

Our latest trends focus upon the new era of 5G-enabled "hyper-connectivity" and the transition to a more sustainable world.

We update our existing trends of **The rise of Asia** and **Increasing longevity**.


UNSTOPPABLE

Greening the world

MALCOLM SPITTLER
Investment Strategist

JOSEPH FIORICA
Head of Global Equity Strategy

Market forces – rather than government mandates alone – are now powering the switch from fossil fuels to renewables. The investment case for renewables just became even more compelling.

Throughout its entire history, the adoption and use of renewables has been supported by incentives, good intentions and legislative mandates, rather than market forces.

In 2020, however, clean energy became the cheapest new source of electricity in most of the world – **FIGURE 13**.

Three complementary energy shifts are occurring simultaneously: technological innovation and rollout of new sources of energy, electrification, and a great efficiency drive.

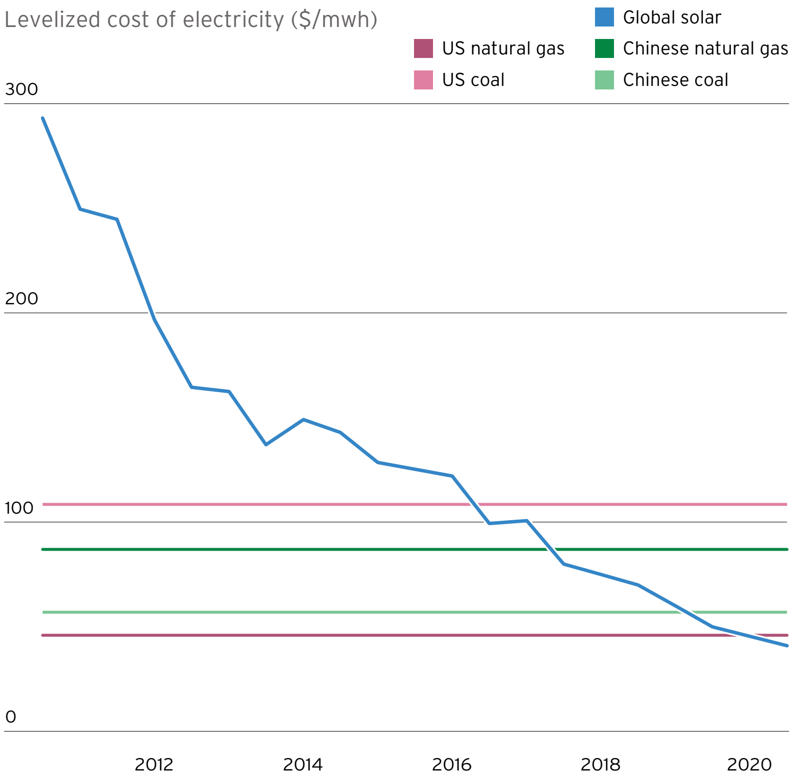
Together, we believe these three forces form part of a much bigger Unstoppable trend - Greening the world - a multi-faceted transition to a more sustainable world.

We expect further gains in technological innovation, electrification and efficiency in the coming years.

We identify multiple potential beneficiaries such as electric carmakers, battery makers, infrastructure suppliers and installers, and smart appliance makers.

By contrast, fossil fuel energy companies are likely to come under increasing pressure over the coming decades.

FIGURE 13. CLEANER ENERGY IS NOW CHEAPER TOO



Note: Fossil fuel energy prices are depicted at their 2020 levelized cost for clarity.
Source: Bloomberg, as of 28 Oct 2020.

The age of hyper-connectivity is upon us

JOSEPH FIORICA
Head of Global Equity Strategy

MALCOLM SPITTLER
Investment Strategist

5G wireless data and other technologies will help bring about an age of hyper-connectivity. Seek portfolio exposure to its enablers and other beneficiaries.

The world is in the midst of a digital revolution that is about to enter its next phase.

The full-scale rollout of fifth generation (5G) wireless data networks will begin in 2021.

5G and advances in competing satellite technologies will see a large increase in devices connected to the internet, with a vast increase in data produced – **FIGURE 14.**

That data will help producers and consumers alike make better decisions, with multiple potential benefits to productivity, growth, the environment, health, and personal convenience.

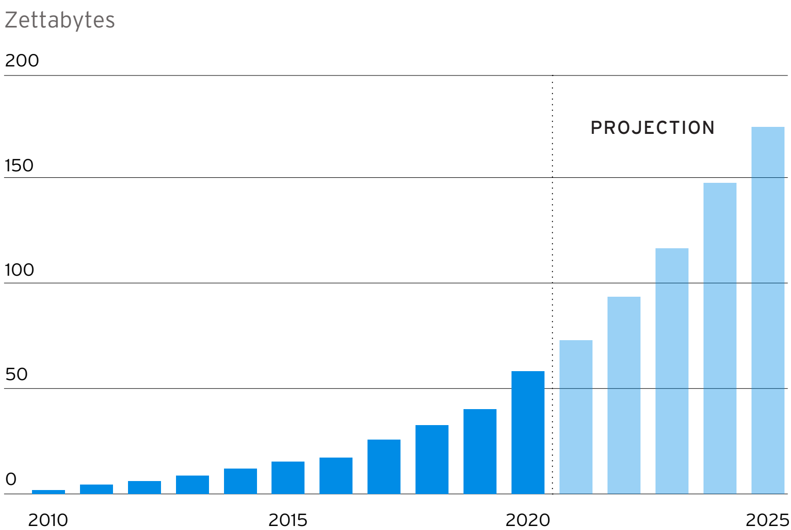
Hyper-connectivity may also accelerate our other Unstoppable trends, particularly within digitization, such as cybersecurity and artificial intelligence.

It is also critical to **The rise of Asia** and **Increasing longevity.**

We seek investment opportunities among near-term beneficiaries including those involved in the rollout of 5G.

We also favor longer-term beneficiaries in areas such as autonomous driving, telemedicine, and "smart cities."

FIGURE 14. THE PROLIFERATION OF DATA



Source: Data Age 2025, sponsored by Seagate with data from IDC Global DataSphere, May 2020. All forecasts are expressions of opinion and are subject to change without notice and are not a guarantee of future events

The rise of Asia: Asian development in a "G2 world"

DAVID BAILIN
Chief Investment Officer

KEN PENG
Head of Asia Investment Strategy

With Asia's importance in the world economy rising, we also expect continued strategic competition between the US and China. Both developments offer compelling potential investment opportunities.

We expect a continuing shift in economic power towards Asia over the coming decades, as well as increasing strategic competition between the US and China – the "G2 powers."

This will likely see moderate escalations in trade and corporate restrictions, but no military confrontation or complete economic decoupling – **FIGURE 15.**

Technology is a key battleground of G2 strategic competition, with the possibility of the emergence of separate supply chains across two distinct centers of economic gravity. Beneficiaries could include semiconductor equipment makers from Taiwan, Korea, Japan and Europe.

As China's economic development continues, industries such as consumer brands, e-commerce, logistics, travel & leisure, healthcare, insurance and wealth management stand to gain.

Southeast Asia is likely to need more infrastructure, with likely beneficiaries including construction, automation, shipping commodities, and real estate.

Asian firms exposed to alternative energy and electric vehicles, and those with strong governance, may also be in greater demand.

FIGURE 15. WHAT NEXT FOR G2 RELATIONS?

SCENARIO	FEATURES	MARKET IMPLICATIONS
STRATEGIC COMPETITION (BASE CASE)	▪ Strategic competition in the technology and security realms ▪ Moderate escalations in trade and corporate restrictions ▪ No military conflict	Invest in domestic and regional demand, dual tech standards, extra infrastructure, supply chain relocation
EASING TENSIONS (BULL CASE)	▪ More diplomatic engagement ▪ China adopts friendlier foreign policies ▪ Return of multilateral trade deals ▪ No escalation in economic restrictions	Positive global growth, stable international trade
INTENSIFIED DECOUPLING (BEAR CASE)	▪ Proxy military engagement, likely in South China Sea ▪ Severe disruptions of supply chains and commercial activity	Invest in defense, gold, avoid South China Sea

Source: Office of the Chief Investment Strategist, Citi Private Bank, as of 8 Nov 2020.

Increasing longevity: The healthcare opportunity

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The rapid aging of the world's population presents many challenges for society, particularly related to healthcare. For a variety of innovative companies, we believe this represents an opportunity.

The world's elderly population is growing quite rapidly.

Addressing their healthcare needs poses many challenges, highlighted by the COVID-19 pandemic.

For the providers of innovative healthcare-related solutions, we see increasing longevity as an opportunity.

Cancer is already the second-leading cause of death worldwide, with prevalence increasing with advancing age.

Personalized medicine seeks to identify an individual's susceptibility to disease, prevent disease if possible, detect problems earlier on, and then customize treatment.

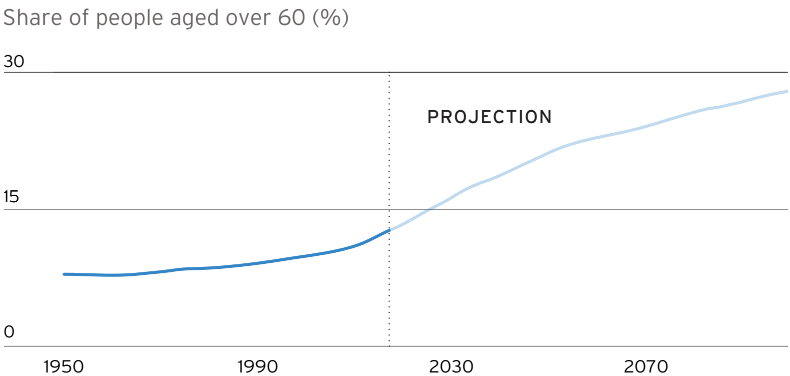
Developers of novel diagnostics and therapies that seek to change the way we treat cancer and other conditions are likely beneficiaries.

After the pandemic, we expect greater government support for diagnostics and testing, and vaccine development, as well as greater pressure to improve vaccination rates.

Our preferred exposure here is through life sciences companies that provide tools for vaccine development and manufacture, as well as the makers of vaccine packaging and providers of transport.

Innovators in such areas as telehealth and wearable technologies could also see increased demand.

FIGURE 16. THE GRAYING OF THE WORLD



Source: United Nations, 2019 Revision of World Population Prospects Report, as of August 2019. Accessed December 2019. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

Implementing our themes

Our themes can be customized to your specific needs, as part of your core portfolio holdings or opportunistically. They span multiple asset classes and can be implemented by proprietary or third-party managers, as well as via capital markets strategies.

Here we present a selection of the implementation possibilities that we currently see. Your relationship team and our product specialists stand ready to customize them to your requirements.

Exploiting mean reversion

COVID-cyclical equity sectors

Small- and mid-cap equities globally

Select beaten-down national and regional markets

COVID-cyclical corporate debt

Private equity strategies focusing on small- and mid-cap firms unable to access public markets

Distressed real estate strategies, particularly in hospitality assets

Strengthening emerging market currencies, notably in Asia

Strategies linked to a steeper US interest rate curve

Overcoming financial repression

Global dividend grower equities

Select high dividend yield equities

Certain investment grade opportunities, such as US dollar-denominated BBB-rated issuers

For US taxpayers, munis with a “down-in-quality” bias

Investment grade bonds downgraded to high yield status

Preferred securities

Bond-like alternatives, such as REITs

Certain alternative strategies that may provide recurring distributions

Capital markets strategies that seek income from volatility

Unstoppable trends

Greening the world

Electric carmakers, battery makers, infrastructure suppliers and installers, and smart appliance makers

Other firms at the cutting edge of new energy development, electrification, or energy efficiency

"Carbon transition aware" companies

Water resources and infrastructure

Digitization: The age of hyperconnectivity

Near-term beneficiaries including those involved in the rollout of 5G

Longer-term beneficiaries in areas such as autonomous driving, telemedicine, and "smart cities"

Cybersecurity exposure

The rise of Asia

Semiconductor equipment makers from Taiwan, Korea, Japan and Europe

China development beneficiaries inc. consumer brands, e-commerce, logistics, travel & leisure, healthcare, insurance and wealth management

Southeast Asia infrastructure expansion beneficiaries, including construction, automation, shipping commodities, and real estate

Asian alternative energy and electric vehicles, firms with strong governance

Increasing longevity: The healthcare opportunity

Developers of novel diagnostics and therapies

Life sciences companies that enable vaccine development and manufacture

Makers of vaccine packaging and providers of transport

Telehealth and wearable technologies

Innovators and solutions providers across medtech

Glossary

ASSET CLASS DEFINITIONS

Cash is represented by US 3-month Government Bond TR, measuring the US dollar-denominated active 3-Month, fixed-rate, nominal debt issues by the US Treasury.

Commodities asset class contains the index composites — GSCI Precious Metals Index, GSCI Energy Index, GSCI Industrial Metals Index, and GSCI Agricultural Index — measuring investment performance in different markets, namely precious metals (e.g., gold, silver), energy commodity (e.g., oil, coal), industrial metals (e.g., copper, iron ore), and agricultural commodity (i.e., soy, coffee) respectively. Reuters/Jeffries CRB Spot Price Index, the TR/CC CRB Excess Return Index, an arithmetic average of commodity futures prices with monthly rebalancing, is used for supplemental historical data.

Emerging Markets (EM) Hard Currency Fixed Income is represented by the FTSE Emerging Market Sovereign Bond Index (ESBI), covering hard currency emerging market sovereign debt.

Global Developed Market Corporate Fixed Income is composed of Bloomberg Barclays indices capturing investment debt from seven different local currency markets. The composite includes investment grade rated corporate bonds from the developed-market issuers.

Global Developed Market Equity is composed of MSCI indices capturing large-, mid- and small-cap representation across 23 individual developed-market countries, as weighted by the market capitalization of these countries. The composite covers approximately 95% of the free float-adjusted market capitalization in each country.

Global Developed Investment Grade Fixed Income is composed of Barclays indices capturing investment-grade debt from twenty different local currency markets. The composite includes fixed-rate treasury, government-related, and investment grade rated corporate and securitized bonds from the developed-market issuers. Local market indices for US, UK and Japan are used for supplemental historical data.

Global Emerging Market Fixed Income is composed of Barclays indices measuring performance of fixed-rate local currency emerging markets government debt for 19 different markets across Latin America, EMEA and Asia regions. iBoxx ABF China Govt. Bond, the Markit iBoxx ABF Index comprising local currency debt from China, is used for supplemental historical data.

Global High Yield Fixed Income is composed of Barclays indices measuring the non-investment grade, fixed-rate corporate bonds denominated in US dollars, British pounds and Euros. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Ibbotson High Yield Index, a broad high yield index including bonds across the maturity spectrum, within the BB-B rated credit quality spectrum, included in the below-investment-grade universe, is used for supplemental historical data.

Hedge Funds is composed of investment managers employing different investment styles as characterized by different sub categories – HFRI Equity Long/Short: Positions both long and short in primarily equity and equity derivative securities; HFRI Credit: Positions in corporate fixed income securities; HFRI Event Driven: Positions in companies currently or prospectively involved in wide variety of corporate transactions; HFRI Relative Value: Positions based on a valuation discrepancy between multiple securities; HFRI Multi Strategy: Positions based on realization of a spread between related yield instruments; HFRI Macro: Positions based on movements in underlying economic variables and their impact on different markets; Barclays Trader CTA Index: The composite performance of established programs (Commodity Trading Advisors) with more than four years of performance history.

High Yield Bank Loans are debt financing obligations issued by a bank or other financial institution to a company or individual that holds legal claim to the borrower's assets in the event of a corporate bankruptcy. These loans are usually secured by a company's assets, and often pay a high coupon due to a company's poor (non-investment grade) credit worthiness.

Private Equity characteristics are driven by those for Developed Market Small Cap Equities, adjusted for illiquidity, sector concentration, and greater leverage.

INDEX DEFINITIONS:

The **FTSE Nareit Mortgage REITs Index** is a free-float adjusted, market capitalization-weighted index of US Mortgage REITs. Mortgage REITs include all tax-qualified REITs with more than 50 percent of total assets invested in mortgage loans or mortgage-backed securities secured by interests in real property.

The **MSCI All Country World Index** is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 27 emerging markets.

The **S&P 500 Index** is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large-cap segment of the market, with over 80% coverage of US equities, it is also an ideal proxy for the total market.

The **VIX** or the Chicago Board Options Exchange (CBOE) Volatility Index, is a real-time index representing the market's expectation of 30-day forward-looking volatility, derived from the price inputs of the S&P 500 index options.

OTHER TERMINOLOGY:

Adaptive Valuations Strategies is Citi Private Bank's own strategic asset allocation methodology. It determines the long-term mix of assets for each client's investment portfolio.

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Additionally, the underlying collateral supporting non—Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support may result in a downgrade of a mortgage bond's credit rating and lead to a higher probability of principal loss and increased price volatility. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. Default risk may be pronounced in cases where the MBS security is secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans.

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements. Price volatility may also occur from other factors including, but not limited to, prepayments, future prepayment expectations, credit concerns, underlying collateral performance and technical changes in the market.

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