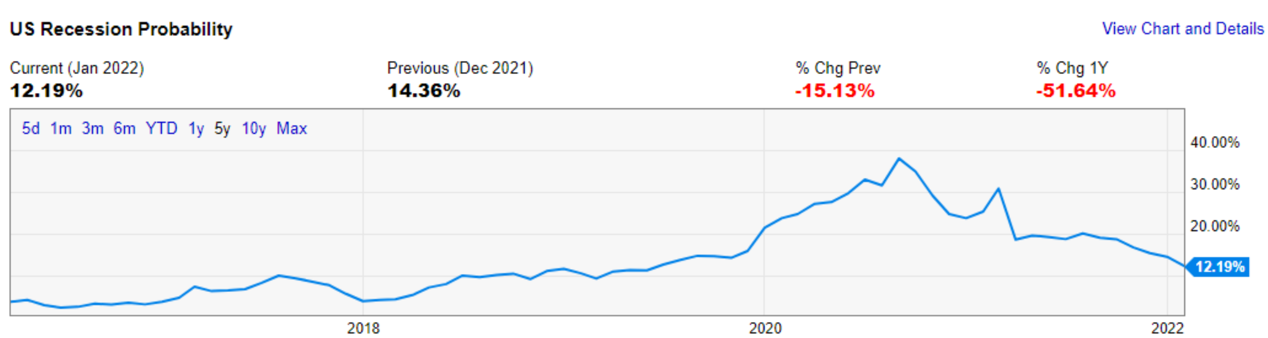
Increased Market Volatility Creates Opportunities in Alternative Strategies

Conshohocken, PA, March 16, 2021 - The last few weeks have seen increased volatility in the equity markets as rates have begun to creep back up surrounding inflation fears and investors temporarily pulling out of big tech names that have driven the S&P's performance for the past few years. As more and more people are vaccinated, the probability of a recession has dipped towards pre-Covid levels (see chart), all while the Federal Reserve is being incentivized to keep treasury yields as low as possible, even with more stimulus hitting the system.



Major US Recession Probabilities - Estrella and Mishkin Indicators

Indicator	Period	Value	% Chg Prev
US Recession Probability	Jan 2022	12.19%	-15.13%

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Despite the recent increase in the 10-Year T-bill moving from 0.93% at the end of the year to over 1.6%, we believe rates (while higher) are still likely to remain significantly below their historic averages for the foreseeable future. The Fed has maintained that they will allow inflation in-excess of 2% but given the continued weakness across many areas of the economy, it is difficult to see inflation approaching that level in the near term. Consequently, yield starved investors continue to look to the private markets to satisfy their income needs.

The recent volatility also reminds us that valuations do matter, and active investing and stock picking are rewarded. With that in mind, we believe hedge funds are very interesting again and we are starting to hear more wealth advisors looking to allocate to hedge fund strategies.

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We expect volatility to continue now that the next round of stimulus is now here and has been fully priced into market valuations. As such, allocating to uncorrelated return strategies remains in focus for many. We remain very bullish on the hedge fund strategy of reinsurance – a non-correlated return stream to both stocks and bonds.

Our partner, Pillar Capital Management has delivered consistent returns and has been one of the best-in-class managers in that space from both a return and risk management perspective. With its focus on natural disaster-catastrophic risk, Pillar was able to avoid many of the event and travel cancelation pitfalls that befell many other insurance focused managers during the pandemic. Pillar's reinsurance strategy is differentiated from the competition primarily because of their limited use of quota shares. While many other reinsurance managers use quota shares to gain the majority of their exposure to the insurance market, quota shares are typically less liquid, less transparent, making risk analysis more difficult, and more expensive. As investors look for uncorrelated returns, they should also consider strategies that have the ability to generate both alpha and beta, not just provide expensive market beta.

For wealth advisors looking for income producing strategies, work-force housing continues to generate yields between 8-9% per year. Our work-force housing partner, Peak Capital Partners, continues to provide high single digit, tax-efficient income to its investors, despite many of the perceived headwinds during the early parts of the pandemic.

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Finally, we look to credit based strategies. With yields stabilizing once again, we are focused on other areas of the market that have the ability to produce income, such as in litigation finance, hard lending, real estate credits, receivable finance, and pharmaceutical, film, or music royalties. Corporate credit has become somewhat less attractive as deal competition in that space has pushed yields lower or impacted covenant protections and coverage requirements.

Within private equity, we believe growth capital remains one of the best opportunities. Managers with a focus on software and SaaS ("software as a service") continues to be attractive and we believe they are in the early innings, potentially growing 4x over the next ten years. This trend is only picking up due to the pandemic and new deal flow continues to accelerate. Some have questioned the continued return potential given the amount of assets that have flowed into these funds, but to date performance has been exceptionally strong.

Economic activity continues to pick up with more of the population getting vaccinated. Valuations have been stretched across the public markets, but we believe hedge funds, real estate and growth equity strategies are all well positioned to produce alpha over the next market cycle. We expect volatility to be elevated this year, but more volatility can increase the opportunity set for many of these strategies.

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For more information on how to access PPB's platform, please contact Frank Burke, CFA, CAIA, Chief Investment Officer, PPB Capital Partners, 484.278.4017 Ext. 108 or at fab@ppbadvisors.com.

About PPB Capital Partners, LLC

Launched in 2008, PPB Capital Partners, LLC (or "PPB" or "the Firm") brings premier alternative investment solutions and streamlined processing to the wealth advisor community. PPB Capital Partners provides a roster of alternative investment managers, as well as builds and operates feeder funds and customized fund of funds for wealth advisory firms.

Important Footnotes and Disclosures

Chart Source: ycharts and New York Fed