AMERICAN REALTY ADVISORS
INSTITUTIONAL CAPITAL MANAGEMENT

LONGER-TERM OUTLOOK ON INFLATION

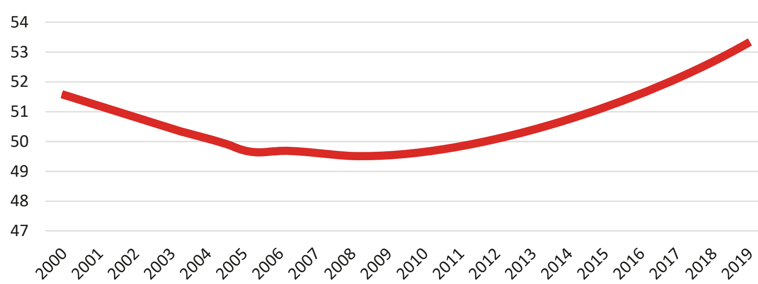
The Case for (and Against) Stronger Longer-Term Inflation

FACTORS THAT WOULD **DRIVE** ABOVE-AVERAGE LONG-TERM INFLATION

Demographic Labor Constraints:

A large population leaving the workforce (Baby Boomers) compared to size of replacement cohort (Millennials, Gen Z) drives required rate of pay to compete for fewer workers.

Age Dependency Ratio, 2000 - 2019[1]



Nationalism:

Growing protectionist sentiment and onshoring could unwind cost gains that were achieved via decades of globalization.

Liquidity:

$30T[2]

in global fiscal and monetary stimulus creating unprecedented liquidity for finite resources, investments.

Policy:

Fed, by allowing inflation, reduces national debt by virtue of depreciated currency.

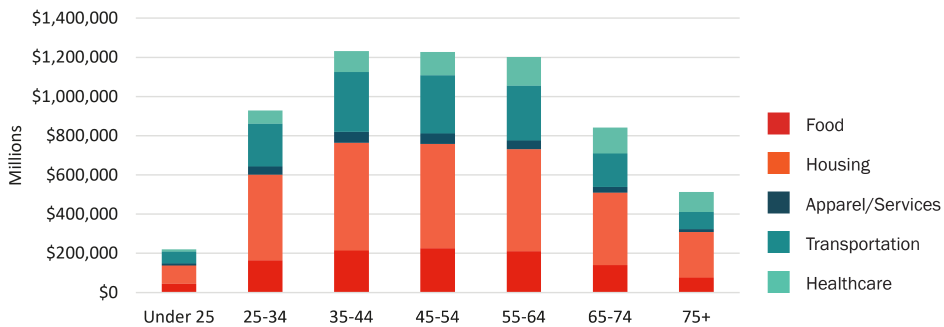
21,316 Government-implemented interventions that are viewed as being harmful to global trade.[3]

FACTORS THAT WOULD **PREVENT** ABOVE-AVERAGE LONG-TERM INFLATION

Demographic:

Spending tends to lessen as individuals retire; Baby Boomers retiring in larger numbers creates aggregate softer demand.

Consumer Expenditure, Select Categories by Age Group[4]



Technology:

Investment in productivity-enhancing technology allows for cost savings to be passed on to consumers (can offset demographics-induced contraction of potential labor force).

Labor Availability:

Lower-cost global labor competition + existing slack in domestic market lessen inflationary wage pressures.

At roughly $23/hour, manufacturing labor costs in the U.S. are:

- **3x** more than China
- **4.8x** more than Mexico
- **7.7x** more than Vietnam

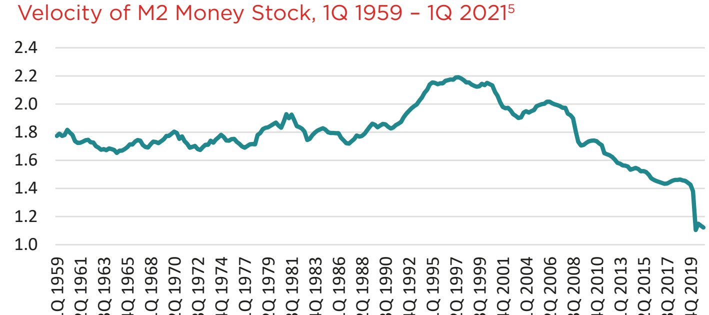
Policy:

Fed's position is to allow for gradual inflation to stave off over-inflating while simultaneously bolstering economic growth via still-low rates (the "Goldilocks" scenario whereby price stability is achieved).

Money Velocity:

Velocity of money (rate at which money is exchanged) sank in 2020 to lowest level in St. Louis Fed's 61-year data set history but has been decreasing steadily across advanced economies since QE started more than a decade ago (structural trend).

Velocity of M2 Money Stock, 1Q 1959 – 1Q 2021[5]



WE BELIEVE THE SCALES ARE MORE FIRMLY TIPPED AGAINST ABOVE-AVERAGE INFLATION MATERIALIZING BEYOND THE NEAR TERM.

Notes

[1]Age dependency ratio is the ratio of dependents (those younger than 15 or older than 64) to working-age population as a proportion of dependents per 100 working-age population. Source: American Realty Advisors based on data from the World Bank. [2]Global monetary and fiscal stimulus to fight COVID-19 impact, February 2020 through March 2021. Source: American Realty Advisors based on data from Central Trust Company and Cornerstone Macro as of Q1 2021. [3]Cumulative trade measures from November 2008 to present. Source: American Realty Advisors based on data from Global Trade Alert as of June 2021. [4]Source: American Realty Advisors based on data from the Bureau of Labor Statistics. Data as of 2019. [5]The M2 velocity metric is calculated as the ratio of quarterly nominal GDP to the quarterly average of M2 money stock. The metric measures the frequency at which one unit of currency is used to purchase domestically produced goods and services within a given period time – in other words, it is the number of times one dollar is spent to buy goods and services per unit of time. Source: American Realty Advisors based on data from the Federal Reserve Bank of St. Louis as of June 2021.

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Forward-Looking Statements

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