



March 2020

Clients and Friends,

Our *2020 Annual Outlook* is our sixteenth consecutive Annual Outlook and we are pleased to share our observations regarding the global economy and capital markets last year, our expectations for the future and our review of key investment themes. This year we have also included two Spotlight sections, one that analyzes what has happened to traditional value-style investing and the other that focuses on Chinese venture capital.

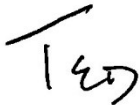
Continuing a tradition with this letter, here are some highlights of our *2020 Annual Outlook*:

- This year's Annual Outlook, *Rebound!*, focuses on the remarkable rebound of markets from their drastic declines in late 2018, with world equity markets enjoying their best year since 2013! In fact, despite its drop in 2018, the S&P 500 increased 257% during the decade of the 2010s in contrast to a cumulative loss of 9% during the decade of the 2000s, qualifying the just-completed decade as a rebound decade.
- Looking forward, we see reasons to be optimistic. We expect global growth to accelerate in 2020 after a mid-cycle slowdown in 2019 and we believe the primary risks to the U.S. and global economies are in the form of unexpected shocks rather than tightening by the Federal Reserve in the near-term. Although unexpected shocks are by definition unpredictable, we suggest a few candidates for consideration.
- Beginning on page 3, we address the general question "Is inflation dead?". We conclude "probably not", but structural changes in the nature of employment and what has become known as the Amazon effect are slowing the linkage between tight employment, rising wages and general inflation. We expect labor markets will continue to tighten, inflation will likely continue its slow-moving progression and Fed rate hikes will be needed, but not soon and possibly not until after 2020.
- Beginning on page 10, we share our thoughts on the return-reducing implications of elevated capital-market valuations. While investment flows and anemic earnings in 2019 may portend trouble ahead for U.S. equities, higher valuations aren't necessarily a precursor to a market decline; some other catalyst is typically required to trigger a correction. We believe earnings growth will likely rebound in 2020, but cracks are beginning to appear in a few riskier corners of the market.
- Beginning on page 13, we provide reasons U.S. stocks have outperformed their international, emerging and frontier market counterparts for the past few years. We also explain why fixed income markets remain unattractive, describe the near-zero after-fee alpha provided by the hedge fund industry for the past few years and address dramatic changes in the U.S. venture capital market that may lead to lower future returns for VC investors.

- Beginning on page 21, we take a detailed look at the outperformance of high-priced stocks vs. value stocks since 2010 by one of the widest margins in history, causing the value/growth relationship to suffer its worst stretch of relative performance in 70 years. Our analysis leads us to conclude that “dumb” value investing – waiting for mean-reversion based on conventional accounting measures with traditional metrics such as price-to-book and price-to-earnings – is likely dead. Buying low and selling high will always matter, but how one measures high and low matters even more in today’s changing investment environment.
- Beginning on page 26, we dig into Chinese venture capital, where Gresham has allocated significant capital for more than a decade. Chinese VC investments have soared in the most recent decade, they now rival VC investments in the U.S. and it may be just a matter of time before China becomes the largest and most important venture market in the world. We explain what has driven Chinese VC growth and the superior investment returns it has provided investors, and changes we see now and expect in the future.

Please contact us if you have questions or comments regarding anything in our *2020 Annual Outlook* or otherwise related to Gresham.

Thank you,

A handwritten signature in black ink, appearing to read 'E. Neild'.

Edward F. Neild, IV
Principal, President and Chief Investment Officer

Encl.: *Gresham 2020 Annual Outlook*