



# Ten for 2021

## Midyear Update

Last November, the heads of our four investment platforms identified the key themes they anticipated would guide investment decisions in 2021. With the year now half over, we revisited these concepts to see how they've played out thus far, give ourselves an interim grade out of five for each one, and assess our outlook for the second half of 2021.



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## MACRO: THE WORLD AFTER THE CORONAVIRUS

### 1 A RETURN TO EARLY-CYCLE DYNAMICS—BUT NO SUBSTANTIAL REFLATION

**What we said:** Following many years of late-cycle dynamics, the coronavirus pandemic caused a deep recession that has set a low base from which to rebound. We now face early-cycle dynamics not seen for a decade—above-trendline GDP and corporate earnings growth, declining unemployment and rock-bottom interest rates. In addition, we see limited drivers of substantial inflation before 2022, and, without significant continuing fiscal stimulus, no clear change in the underlying causes of secular stagnation.

**What we've seen:** The big change since we met in November is the sheer boldness of U.S. President Biden's fiscal plans. The \$1.9 trillion American Rescue Plan was arguably baked into market expectations already, but there is a lot more to come. It's unclear how much will survive the legislative process, but it seems likely to be the "significant continuing fiscal stimulus" that we thought necessary to generate structural rather than transient, low base-effect inflationary pressure.

#### GRADE:

★★★★☆☆

**We think inflation is likely to fall back, but we are more sensitive to upside risk than at the start of the year.**

A lot of economic data has been running hot, particularly Purchasing Managers' Indices (PMIs). The IHS Markit U.S. Composite PMI hit 63.5 in April, marking the fastest level of expansion since the series began in 2009, and rose still further to 68.7 for May and 63.7 for June. The one wobble in the subset of survey data has been in business confidence, and that has been due to potentially inflationary issues such as supply-chain disruption and capacity constraints. The headline level of 57.1 for the May Eurozone Composite PMI was the highest since February 2018, input cost inflation hit a decade high and output cost inflation hit the highest level in the series' history. The June figure was even higher, at 59.5. Similarly, the Caixin China General Composite PMI remains below levels reached late last year, but input and output cost inflation hit four-year and 10-year highs, respectively. China's producer prices, a bellwether for global inflationary pressures, exceeded expectations by rising 9% between May 2020 and May 2021.

Realized year-on-year consumer price inflation rose to 5.4% in June in the U.S. In the Euro area, inflation reached 2% in May—just above the central bank's target and as high as it has been since October 2018. Housing markets are running very hot. And while U.S. job creation appears to be slowing, with unemployment stuck just under 6%, underlying data such as job availability suggests that this is largely about difficulty with hiring people, which is itself potentially inflationary. That said, current inflation and hiring issues do appear to be focused in areas particularly exposed to the pivot to re-opening, and many supply-chain bottlenecks could loosen up as that re-opening progresses and broadens.

During the first few months of the year, inflation pressures were being priced into precious and industrial metals markets and bond markets, where the U.S. Treasury breakeven inflation rate for the next five years briefly rose above 2.7%, a level unseen since before the Great Financial Crisis. As the high CPI prints came out in the second quarter, however, some of that pricing eased: five-year breakeven inflation had fallen back below 2.5% by mid-June.

Like many other investors, we have been surprised by the strength of the economic indicators and have to acknowledge that some have printed higher than we would have expected from mere year-on-year base effects. While markets are pricing in line with our outlook, it is important to note that this may have less to do with fundamentals than with many investors' assumptions that central banks will always provide price-insensitive support for investment grade bonds. We still think inflation is likely to fall back from its high levels this year to settle at the higher end of the post-financial crisis range, but we are more sensitive to upside risk than at the start of the year, and we expect inflation to be a topic of investor conversation throughout the new cycle.



## 2 POPULISM IS HERE TO STAY

**What we said:** The end of Donald Trump's presidency is not the end of political populism or its causes, in our view, in the U.S. or more broadly. This likely means continued political and geopolitical volatility, but perhaps more importantly, it also makes additional fiscal stimulus more likely, as governments pursue borrow-and-spend policies seeking to address the causes of populist discontent. The efficiency and effectiveness of these policies will likely be key in assessing the likelihood of avoiding secular stagnation.

**What we've seen:** Accusations of "vaccine nationalism," the frosty atmosphere at the first talks between China and the new U.S. administration in Alaska in March, and a hawkish NATO communiqué in June leave little doubt of the abiding and growing frictions in geopolitics and global economic relations. The U.S. has rejoined a number of multilateral agreements and institutions, as expected, but diplomatic efforts such as the end of the 17-year Airbus-Boeing trade dispute appear to be just as much about shoring up traditional alliances against China.

More pointedly, the U.S. is pressing forward with bold domestic fiscal stimulus packages and a new, "Buy American" industrial strategy. This already includes a proposed Strategic Competition Act that aims to improve its ability to compete with China and a ban on exports to certain Chinese supercomputer companies. For its part, China is pursuing an explicitly autarkical economic policy and state financing of the manufacture of critical technologies such as semiconductors. Similar policies, particularly focused on critical technology and infrastructure, can be seen taking shape in large economies such as the European Union, the U.K. and India. In Europe, right-wing populist governments in the east continue to pose challenges to the wider E.U., Brexit continues to cause friction in the west, and the potential for the Green Party to lead a coalition government after Germany's September elections could challenge longstanding fiscal and monetary frameworks in the bloc's largest economy. Latin America is experiencing a surge in support for populists of both the right and the left.

In the U.S. and Europe, we see a shift in the way that fiscal and monetary policies are being articulated, away from the idea that they should be broadly beneficial and toward more explicit social equality-related targets.

GRADE:



**If anything, geopolitical tensions are up and economic policy is becoming more explicitly oriented toward social equality-related targets.**

## 3 ACCELERATED DIGITAL TRANSFORMATION PUTS DOWN ROOTS

**What we said:** During the coronavirus crisis, many consumers and businesses have fully embraced working, shopping and accessing services from home. The case for digitalization and automation in factories, warehouses, offices, homes and other workplaces has been strengthened. Some of this is likely to spring back once the pandemic eases, but in our view the trends have not only accelerated, but permanently transformed many consumer and business practices. During 2021, we will move firmly into the world of 5G connectivity, the Internet of Things and cloud computing.

**What we've seen:** Evidence of a desire to continue working from home after the pandemic is mixed. Ninety-nine percent of 227 human resources leaders surveyed by Gartner during its *Workplace Re-Opening Amid Vaccine Rollout* webinar in March 2021 said that at least some of their workforce would be "hybrid" after the pandemic, with 42% anticipating a majority to adopt hybrid working. Of the 4,264 employees in Gartner's January 2021 *Hybrid Work Employee Survey*, 84% prefer remote or hybrid over onsite working, and more than half said that inflexibility from their employer would make them consider changing jobs. *U.K. workers: a year in the pandemic*, a Deloitte survey published in April, suggested that twice as many workers would like to work from home all or most of the time, compared with pre-pandemic. The same survey indicated that more than a third of under-35s felt "overwhelmed" by working from home, however, and other studies appear to find a similar desire to get back to the office among younger employees, often for the social and career-advancement benefits. Policy statements from major employers are also mixed, with most appearing to embrace some kind of hybrid arrangement. At this stage, it still seems likely that there will be substantially more remote working in major economies in 2022 than there was in 2019. Gartner's June 2021 *Forecast Analysis: Remote and Hybrid Workers Worldwide* estimates that 47% of knowledge workers will be working remotely by the end of 2022, up from 27% pre-pandemic, and that "organizations will be forced to bring forward digital business transformation plans by at least five years as a survival plan" for this environment.

GRADE:



**Evidence of longer-term investment in more and more sectors continues to build.**

Another Gartner study published in March, *Forecast: Public Cloud Services, Worldwide, 2019-2025, 1Q21 Update*, anticipates a further 23% growth in end-user spending on public cloud services in 2021, on top of already rapid growth during the pandemic. Spending on desktop as a service, which doubled in 2020, is expected to rise by another 70% this year, as companies continue to meet the demands of a remote workforce. The report noted that the trend is likely to change shape after 2021, however, as “pedestrian use cases” such as infrastructure and application migration give way to combinations of cloud computing with evolving technologies such as artificial intelligence, 5G and the Internet of Things.

“Industry 4.0” and “smart factory” momentum appear strong, too. The International Federation of Robotics, in its *World Robotics 2020* report published in October 2020, estimates that the global operational stock of industrial robots grew by 166% between 2009 and 2019, to 2.7 million units, and that four million will be installed by 2022. In September, data from the buyer-supplier network thomasnet.com indicated that sourcing for robots was up 91% year-on-year, and 285% for automation engineering services, according to “Demand for Automation, Robots Spikes,” an article by CEO Tony Uphoff for the manufacturing nonprofit SME. In a press release on January 28, 2021, the Robotic Industries Association revealed that 2020 saw U.S. orders of robots from non-automotive sectors surpass automotive robot orders for the first time, as orders for life sciences grew by 69% and for food and consumer goods by 56%. Digitalization and automation are not only growing, but spreading into more and more parts of the economy.

*How COVID-19 has pushed companies over the technology tipping point—and transformed business forever* was the title McKinsey gave to a wide-ranging July 2020 survey of 899 C-level executives worldwide, which brought many of these themes together. It found that digitalization of customer and supply-chain interactions and of internal operations at these companies had accelerated by an average of three to four years. The share of digital products in their portfolios had advanced by seven years (and by 10 years in developed Asia). Most respondents “are already making the kinds of investments that all but ensure they will stick,” according to the report.

## 4 SUPPLY CHAINS BECOME SHORTER AND MORE DIVERSIFIED

**What we said:** Geopolitical uncertainty, economic populism and simple wage and cost convergence have been shortening global supply chains for more than a decade already. The coronavirus pandemic added further impetus to this trend. The ongoing transformation of supply chains can reduce companies’ and industries’ exposure to disruption risk, but at some cost to investors and consumers.

**What we’ve seen:** While it is too early to say how profound and lasting these forces will be, we are seeing new effects on supply: this year’s semiconductor shortage appears at least partly due to U.S. auto manufacturers shifting away from mainland China’s suppliers, for example. Rising demand and national security concerns are leading to large commitments to domestic production. U.S. President Biden has pledged \$50 billion to the cause as part of his administration’s infrastructure spending proposals. Intel has committed \$20 billion to build new fabrication facilities in Arizona. TSMC and Samsung have multibillion-dollar plans for new U.S. production capacity in Arizona and Texas, respectively. The European Union will use its pandemic response fund to target a doubling of its semiconductor manufacturing by 2030. South Korea has recently earmarked \$450 billion for advanced chip manufacturing, India is offering more than \$1 billion to companies that set up chip manufacturing facilities there, and chipmaking is a key element of China’s latest Five-Year Plan.

Looking beyond semiconductors, growing survey evidence suggests business leaders have moved supply-chain resilience and transparency to the top of their agenda. Even before the pandemic, McKinsey analysts had found that a combination of climate change, an increasingly multipolar economic system with raised geopolitical tension, and 30 years of building ever more complex and dispersed supply chains had led management teams at many companies to expect at least one disruption lasting one or two months every three to four years; they estimated that this translates, on average, to losing two-thirds of profits in a single year once every decade. In a report published last August, *Risk, resilience, and rebalancing in global value chains*, the consultancy noted that the pandemic had further raised awareness of these risks and focused attention on transparency into value chains.

### GRADE:



**Business leaders appear to be moving supply-chain resilience and transparency up their agenda, and not just in the semiconductor industry.**

In February this year, an Ernst & Young survey of 200 senior-level supply chain executives across a range of sectors found 60% reporting that the pandemic had raised their supply chains' strategic importance, with "increased visibility" the top priority over the next three years and the third most important aim for 2021 (behind "efficiency gains" and "training workforces for a more automated environment"). The findings are summarized in the article, "How COVID-19 impacted supply chains and what comes next."

The supply-chain risk management firm Everstream Analytics conducted a similarly sized survey at the end of last year, publishing its findings in March in the report, *COVID-19 Survey: Supply Chain Impacts and Post-Pandemic Adjustment Strategies*. More than half of their respondents were looking into alternative logistics and delivery routes, including a notable move to diversify in favor of sea versus air cargo. Focusing on China exposure, it found 27% of respondents planning to move their sourcing elsewhere, with 1.8% planning to move all of their current sourcing out of the country. General supply-chain diversification, reducing reliance on China for critical materials and tariffs and trade-war disruptions were the most commonly cited reasons. While almost 10% of those planning to move supply out of China had already started, the survey also reported that more than two-thirds of the survey's respondents said that this question was not applicable to them, regardless of whether or not they had a strong supply chain presence in China. This likely reflects the structural challenge associated with re-working complex supply chains, as well as the temporary issue that many alternative supplier countries are now facing a bigger struggle with coronavirus than China. Awareness of supply chain risks can move quickly, but doing something about it can be the work of many years.

That is not to say it will not or cannot happen. McKinsey, in *Risk, resilience, and rebalancing in global value chains*, estimates that it is feasible to shift between 16% and 26% of world trade to different countries over the next five years—equivalent to almost \$5 trillion of exports each year.

## FIXED INCOME: STATIC YIELDS, VOLATILE CURRENCIES

### 5 LOW YIELDS AND FLAT CURVES DEMAND OPPORTUNISM IN CREDIT MARKETS

**What we said:** As with every recession, the 2020 coronavirus recession caused credit spreads to widen. Rapid and substantial central bank intervention made this an exceptionally short-lived phenomenon, however, leaving investors with a highly complex mix of early- and late-cycle characteristics, and default and valuation risks. We think this demands a flexible, "go anywhere" approach to credit, backed up by the ability to make relative value assessments across fixed income sectors, broad expertise and nimble decision-making.

**What we've seen:** The mix of early- and late-cycle characteristics has arguably been clearest in fixed income markets so far this year, where a rapid, 80-basis-point rise in U.S. Treasury yields in the first three months left credit markets virtually unscathed. Spreads in both investment grade and high yield markets actually tightened as investors scrambled to offload interest rate risk. Tighter spreads do increase the need to seek out some extra capital appreciation through tactical allocation, however—and attractive opportunities have arisen.

For example, at the end of summer of 2020, in many client portfolios we were shifting away from the "fallen angels" that had led the first part of the market recovery and focusing more on CCCs, which had lagged the higher-rated sectors even though we thought some of them had the quality of single B credits. Those names tended to benefit most from the heightened risk appetite that met the successful vaccine trial results in November. Their relatively short duration made them attractive as the Treasuries sell-off gathered pace, too. By March, higher-rated high yield was beginning to look more attractive again, as interest rate risk had given them a little extra yield even as their spreads had tightened. Our attention turned back to fallen angels as credit rating upgrades began to outnumber downgrades for the first time in more than a year, and as the Treasuries sell-off stalled. With concerns about inflation and rising rates taking hold, we have also been rotating more into floating rate loans: they offer relatively high yields given their seniority in capital structures, very short duration and inflation hedging, and strong retail demand is lending them technical support. Volatile inflation expectations are also likely to create additional opportunities for non-U.S. dollar investors in U.S. markets, as interest rate differentials widen once again and make hedging dollar exposure more attractive.

#### GRADE:

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**Flexibility and a tactical approach across the full range of credit markets has been a key source of return opportunities.**

In addition to these sector-rotation opportunities, the new year has continued to see credit issuer selection making large contributions to portfolio performance. We have noticed new issues quickly re-pricing, in both directions, based on investors' assessment of credit fundamentals.

The flexibility to seek out long-term relative value and short-term tactical trades across the full range of credit markets has so far been a key source of incremental return opportunities in an environment of rapidly rising Treasury yields and spreads grinding tighter. We think this is likely to continue as long as investors assume that central banks stand ready to keep a cap on investment grade yields.

## 6 MACROECONOMIC DYNAMICS WILL BE EXPRESSED THROUGH CURRENCIES

**What we said:** The major central banks have signaled their intention to maintain low interest rates a long way out on the yield curve. With rate volatility suppressed, worldwide growth and inflation differentials are more likely to be expressed through currency markets. Heightened currency volatility and the end of persistent U.S. dollar strength would strengthen the case for dynamic currency hedging.

**What we've seen:** While central banks do appear to have stabilized real yields during the first few months of the year, they could not prevent a run-up in longer-dated nominal yields and therefore a rapid rise in bond market inflation expectations. That run-up in yields coincided with a New Year rally for the U.S. dollar and a continuation of the secular decline in currency market implied and realized volatility. That said, the decline in credit-spread volatility has been still more pronounced, and alongside the quietness of the majors there have been a number of mini-cycles in emerging markets currencies, as well as some unanticipated strength in the renminbi.

At the end of March, however, the upward trend in Treasury yields stalled, before reversing sharply in the second quarter, and the upward trend in the dollar had stalled—a new regime that survived the second quarter's surprisingly high U.S. inflation prints. This appeared to be due largely to anticipation that the Federal Reserve (Fed) would adopt a slightly more hawkish stance to remove some concern about overheated inflation from the market. Currency markets may have shifted attention from potential U.S. monetary tightening in response to persistent higher inflation to the twin deficits and the eventual costs of fiscal stimulus, which could lead to a period of dollar weakness and higher currency market volatility.

### GRADE:

★★☆☆☆

**Currency markets have been subdued and Treasury yields have been the big story so far this year.**

## EQUITIES: CYCLICAL OPPORTUNITIES, LONG-TERM THEMES

## 7 SECULAR GROWTH STOCKS ULTIMATELY PREVAIL OVER CYCLICAL RALLIES

**What we said:** Early-cycle dynamics will likely favor cyclical stocks initially as economic growth accelerates, but ultimately, we believe the looming backdrop of secular stagnation—characterized by low rates, low growth and low return outlooks—will lend support to quality growth stocks and long-duration assets. Nonetheless, if 2020 has taught us anything, it is humility—it remains important to diversify across style factors.

**What we've seen:** As we expected, given the very strong early-cycle flavor of so much of the economic data, cyclical stocks have pulled ahead of both defensive and growth stocks so far this year. What has surprised us is the sheer strength of the economic data and the speed with which value stocks have re-priced: by mid-June, returns to U.S. large-cap value were more than twice those to U.S. large-cap growth.

As U.S. Treasury yields increased their upward momentum in the first quarter of the year, cyclical stocks pulled ahead of higher-quality and growth-oriented stocks, partly due to investors seeking

### GRADE:

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**We still expect the shadow of secular stagnation to help growth stocks eventually, but current dynamics could extend beyond this year.**

out more explicit exposure to the short-term economic recovery, and partly due to concerns about the interest-rate risk of growth companies' longer-dated earnings expectations. U.S. Treasury yields peaked at the end of March, however, and took another leg lower in June, when the Fed adopted a slightly more hawkish stance and appeared to remove some concern about overheated inflation from the market. Combined with a strong earnings season from leading technology companies, this resulted in more balanced performance of cyclicals versus higher-quality and growth stocks in the second quarter.

In short, equity market performance has been closely correlated with the 10-year U.S. Treasury yield. This suggests that their prospects for the rest of the year are likely to be tied to developments in inflation expectations—which, as we note above, are more elevated than we anticipated at the end of last year, but already a little lower following the change in Fed messaging. We still expect the shadow of secular stagnation to assert itself eventually, but inflationary dynamics could persist beyond the end of 2021.

## 8 A THEMATIC APPROACH CAN HELP TO UNCOVER LONG-TERM GROWTH

**What we said:** In a low-growth world, a thematic approach can help identify genuine long-term growth opportunities. The coronavirus crisis has accelerated some key themes, especially the digital transformation of the economy, while also showing how these themes transcend regions and sectors. We believe thematic investing is about finding quality companies exposed to secular growth themes: it must be driven by in-depth research, especially when large-cap growth stocks are trading at such stretched valuations.

**What we've seen:** While we would have acknowledged, at the end of 2020, that base effects would ensure that the world was unlikely to be "low-growth" over the next 12 months, the extent to which it has turned out to be high-growth has surprised us. The corollary to that has been marked outperformance by value and cyclical stocks. Moreover, stocks associated with portfolio strategies focused on secular, technology-related themes such as next generation connectivity and mobility have tended to underperform growth indices as well as value indices, in some cases due to the duration of their earnings expectations and in others due to the strong performance they experienced during the height of the pandemic crisis.

As we describe under theme number three, however, the fundamentals underpinning the transformational trends to which these stocks are exposed are arguably stronger than ever, even if other forces are determining stock market pricing at the moment. We still expect the shadow of secular stagnation to assert itself eventually, re-igniting appetite for reasonably priced secular growth opportunities—but elevated growth and inflationary dynamics could persist beyond the end of 2021.

### GRADE:



**Long duration and strong performance in 2020 has caused thematic stocks to lag the market.**

## ALTERNATIVES: RESILIENCE FOR GROWTH, NIMBLENESS FOR VALUE

## 9 RESILIENT GROWTH WILL BE IN FAVOR—BUT IT WON'T COME CHEAP

**What we said:** We have seen the coronavirus crisis accelerate the trend for private equity to favor businesses with resilient growth prospects and executable plans to add value. This translates to favoring sectors such as software, technology and health care. By region, it manifests as a tilt toward growth markets such as China. Valuation is the biggest risk in our view, which will likely need to be mitigated by implementing significant strategic and operational improvements to accelerate potential earnings growth.

**What we've seen:** The sector tilt of global private equity deals continues to favor traditionally higher-growth industries: according to Preqin, over the 12 months ending in April 2021, 48% of deal value was in information technology and health care, relative to a weighting of 36% for those sectors in the MSCI World Index. We see this tilt to higher growth in our own co-investment programs. During the first six months of 2021, and including investments still pending, 65% of

### GRADE:



**Evidence of the quality-growth tilt in private equity portfolios continues to build.**



the companies to which we committed co-investment capital were projecting annual revenue growth of 10% or more; six years ago that proportion was just 26%. When we look at earnings growth projections, which tell us more about opportunities for profit-boosting operational and strategic enhancements, we see even greater ambition: 83% of the companies we have invested in this year project EBITDA growth of 10% or more.

We think that the changing nature of exits also tells us something about private equity managers' focus on operational business enhancement in the current high-valuation environment. It is notable that, according to Pitchbook data, in the first quarter of 2021 only 12% of private equity exits were made to other private equity firms—down from 48% over the whole of last year, and a long-run average of 41%. Why do businesses that have been through private equity hands look so unattractive to other private equity firms? We think it's because they are fully valued and have little scope for further operational enhancement. By contrast, we would argue that these finely tuned and well-managed companies are perfect for strategic corporate acquirers and the public markets.

## 10 A CONTINUING ROLE FOR OPPORTUNISTIC AND IDIOSYNCRATIC STRATEGIES, LIQUID AND ILLIQUID

**What we said:** Next year will likely bring an unusual mix of early- and late-cycle dynamics, and ongoing pandemic and policy questions. Any resulting volatility or uncertainty is likely to create windows of opportunity for liquid strategies such as equity long/short, distressed and short-term trading strategies, but also for less-liquid strategies such as private equity secondaries, opportunistic credit and structured equity. Idiosyncratic and uncorrelated strategies such as insurance-linked securities and macro trading could help lend stability to portfolios during any periods of increased volatility.

**What we've seen:** The market dynamics described under Theme Numbers 6 and 7—the sell-off in Treasuries, the up-then-down trends in the dollar, the complex push-and-pull between equity styles and sectors—provided a rich opportunity set for trading strategies and other liquid alternatives. Just as important, we believe they are also a reminder of how important it is to seek out new sources of diversification when Treasury yields are so low and inflation expectations are rising, rendering the traditional portfolio hedging asset potentially much less effective.

### GRADE:

★★★★☆

The year has started well for liquid alternatives strategies, particularly those reflecting themes of inflation, the value equity comeback and the search for yield.

The year has started well for liquid alternatives. All of the benchmark HFRI indices of hedge fund performance, as reported by HFR, were in positive territory at the end of June. The HFRI Fund Weighted Composite Index was up by 10.1%. There has been strong performance from Equity Hedge and Event Driven strategies, in particular. Both the Equity Hedge Energy/Basic Materials and the Equity Hedge Fundamental Value Indices had outperformed the S&P 500 Index, at 20.1% and 16.4%, respectively, but so too had the Relative Value Yield Alternatives Index, at 22.1%—reflecting underlying themes of rising inflation, the value equity comeback and the search for non-Treasury sources of income. We believe the potential for extracting alpha from the complexity of the post-pandemic recovery is evident in strong performance by the Event Driven Special Situations and Event Driven Activist Indices, up 13.3% and 13.8%, respectively, by the end of June. And within the Macro indices, while it is no surprise to us to see the Commodity Index up 14.2%, we find it encouraging to see improved returns from the Systematic Diversified and Trend Following Directional Indices, up 7.6% and 7.8%, respectively.

The strong pricing environment for reinsurance that characterized the second half of 2020, after underwriting activity and pricing peaked in June, has persisted into this year. While a more abundant supply of capital may now introduce a ceiling on price increases relative to the 2020 peak, demand remains elevated due to unresolved pandemic-related losses, pressure on existing reinsurance agreements due to Texas winter-storm losses, deterioration of casualty reserves on older balance sheets and anticipation of another active hurricane season.

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