

Equities: Investing for the Decade Ahead

Capital Markets Strategy

As of June 30, 2021

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Equity Investing for the 2020's: Innovation, Durability, Vulnerability



1. Macro Outlook: Reopening, Stimulus, Expansion

2. Equity Markets: 2021 Earnings Recovery

3. 10 Year Strategic Positioning: Innovation, Vulnerability and Durability



Macro Outlook: Reopening, Stimulus, Expansion





2020-2021: A Tale of Four Markets

- A sharp correction followed by a dramatic recovery. Growth outperformed Value in the first 10 months of 2020, while Value led following the vaccine announcements in early November
- Timing Growth and Value can create excessive risk. We believe owning innovation and durability can provide balance and opportunity for long-term investors

	PRE-COVID	PANIC	FISCAL & FED RESCUE	VACCINE & REOPENING
Index Performance (%)	12/31/19 – 02/19/20	02/20/2020 – 03/23/20	03/24/2020 – 11/08/2020	11/09/2020– 06/30/2021
S&P 500	5.08%	-33.79%	58.58%	23.68%
Russell 1000 Growth	9.26%	-31.46%	75.49%	19.07%
Russell 2000 Value	-2.09%	-43.14%	53.12%	55.49%

Market Outlook: The Next Twelve Months



1

The Fed continues to support the expansion, but modestly relaxes intervention

2

We believe elevated inflation will likely not derail the market recovery

3

In our opinion earnings should continue to be robust into 2022

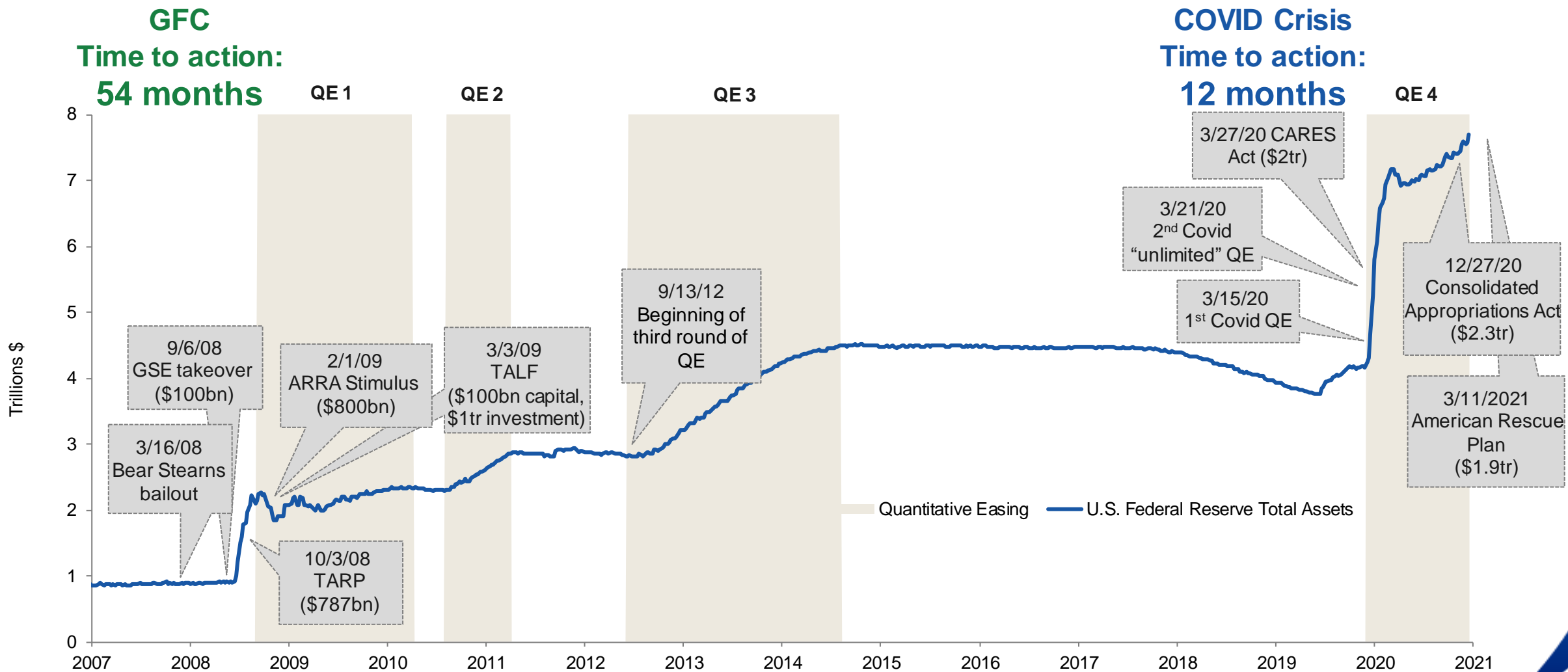
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As growth normalizes post-re-opening, innovation and durability will be key equity themes for investors



Response to the Global Financial Crisis vs COVID-19 Pandemic

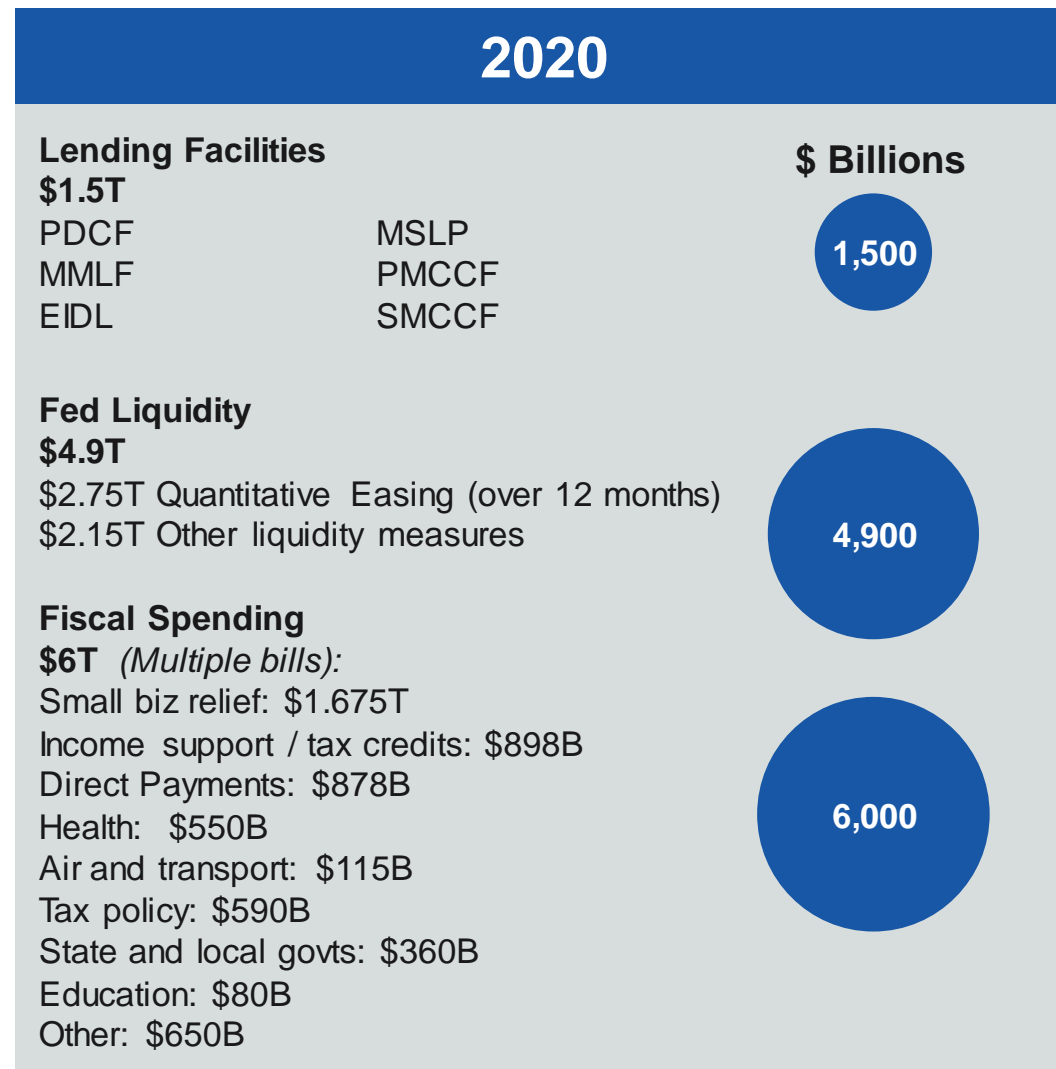
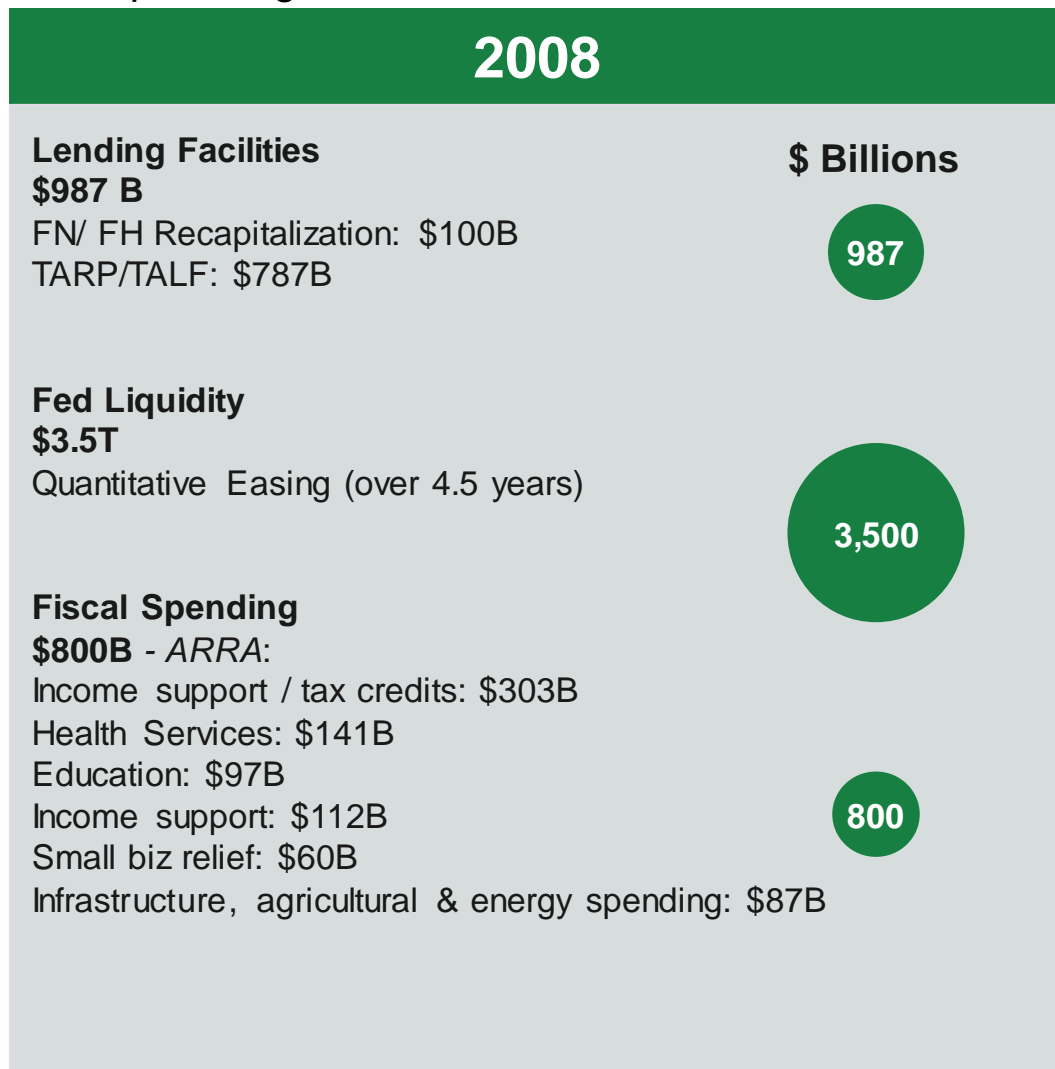
- The fiscal and monetary response to the COVID-19 pandemic was significantly faster and more targeted than the response during the Great Financial Crisis.





Tale of Two Responses

- Relative to the Great Financial Crisis, the Federal Reserve and fiscal policy responded more swiftly and broadly with actions to limit the economic impact of COVID-19. The actions taken indicate that the Federal Reserve and US fiscal policy will likely act as a backstop moving forward.

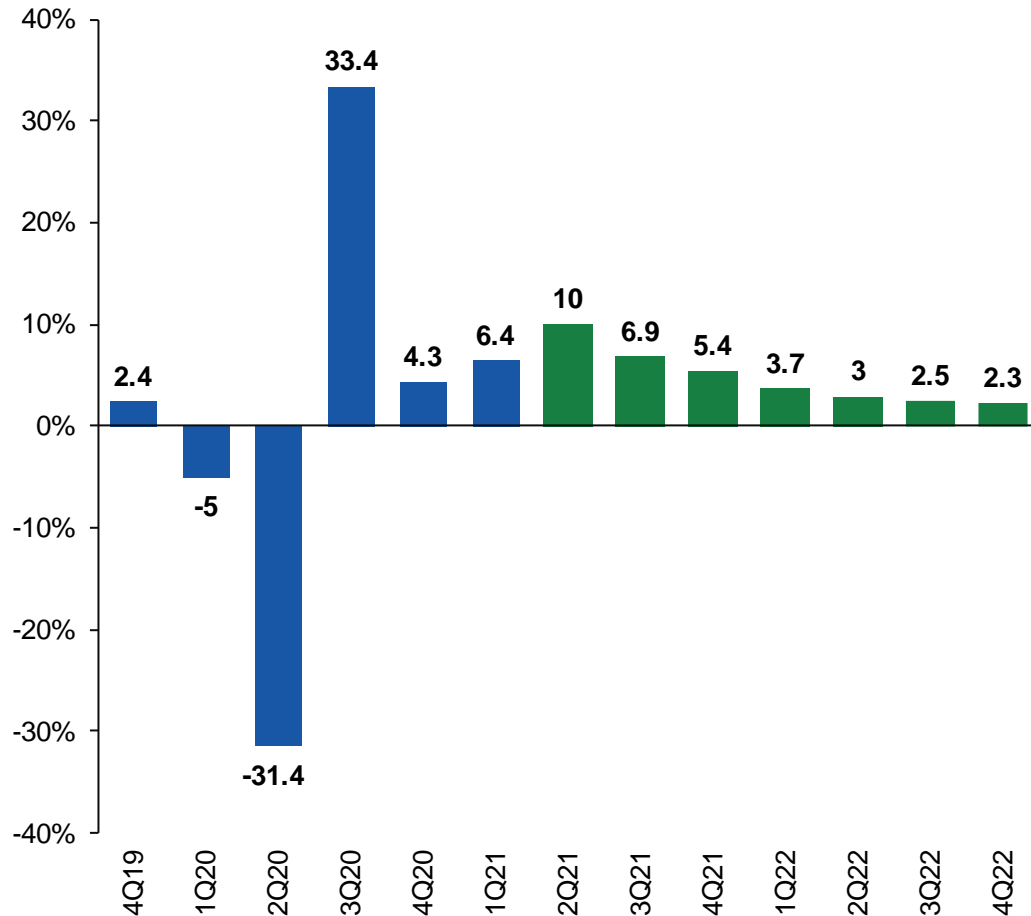




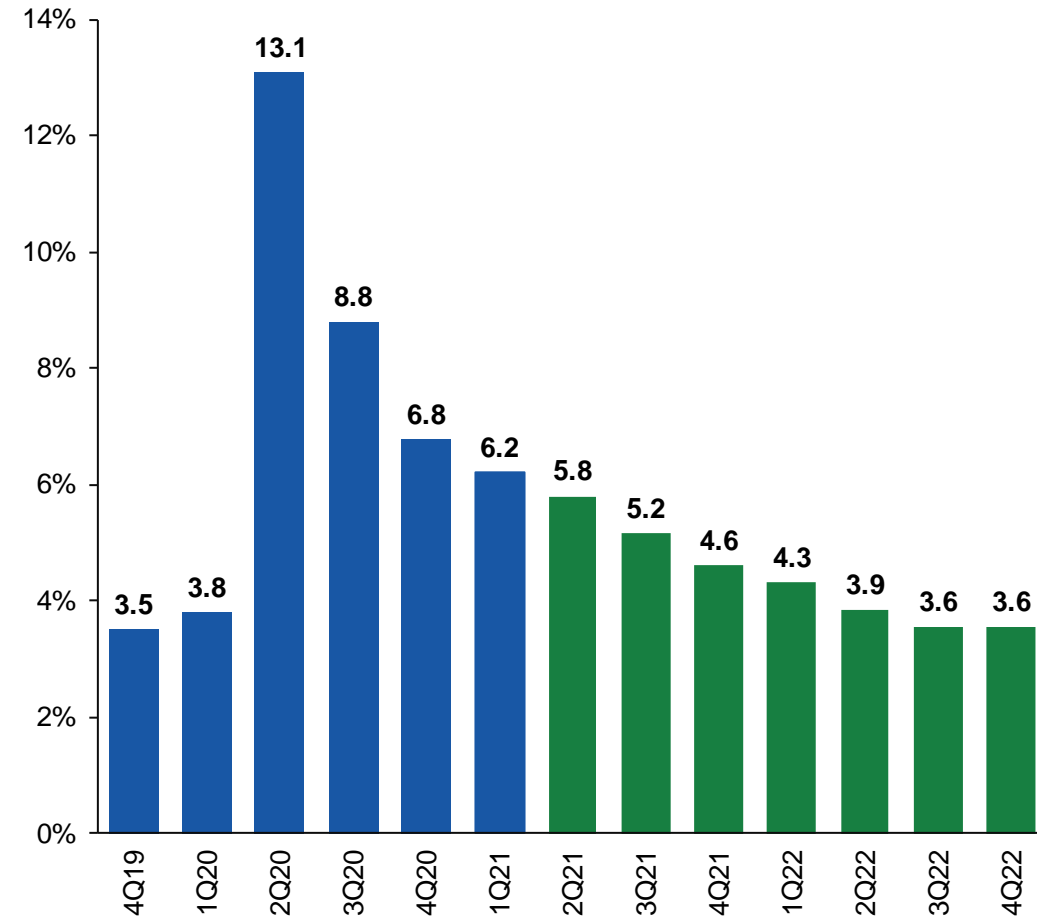
Stimulus Moderated the Depths of the Recession, Economy Recovering

- Economic activity is expected to normalize at slightly above trend levels beginning in the second half of 2021
- Unemployment peaked in 2Q2020 and is expected to continue to decline into 2022

Real GDP QoQ with Consensus Estimates



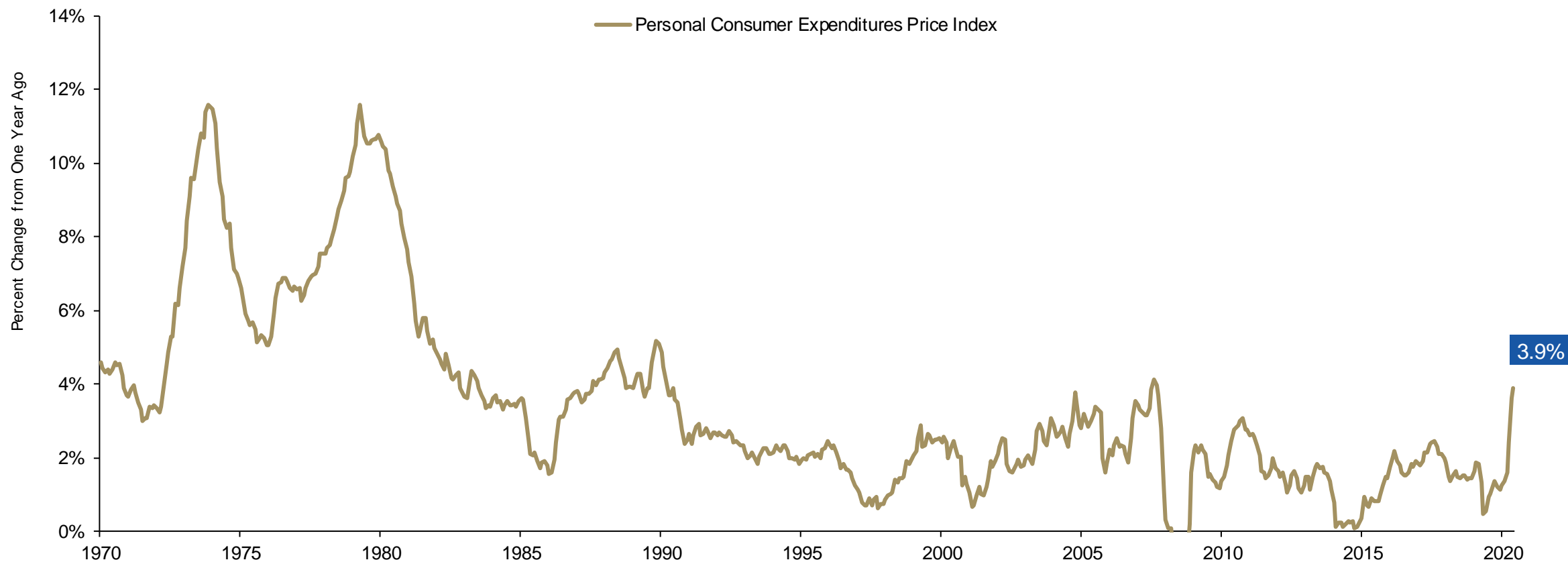
Unemployment Rate with Consensus Estimates





Near-Term Inflation Jolt

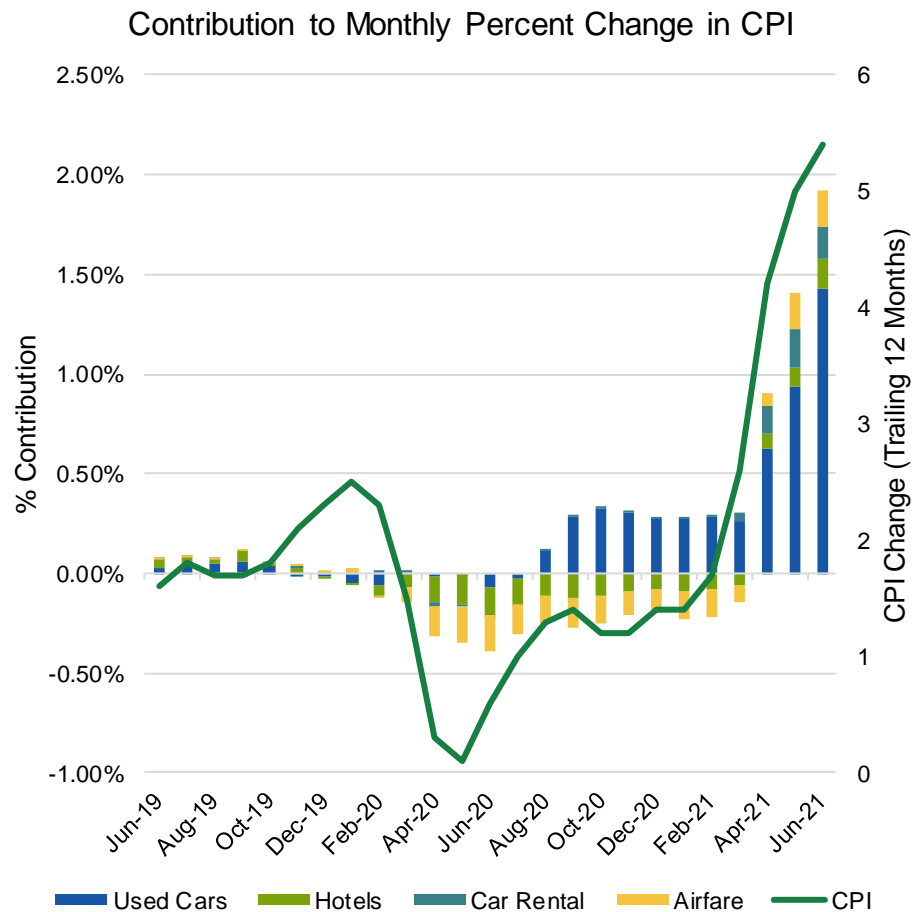
- It is likely that inflation will remain elevated through 2021 amid pent-up demand and supply shortages; however, many of the drivers of rising inflation are likely to be transitory



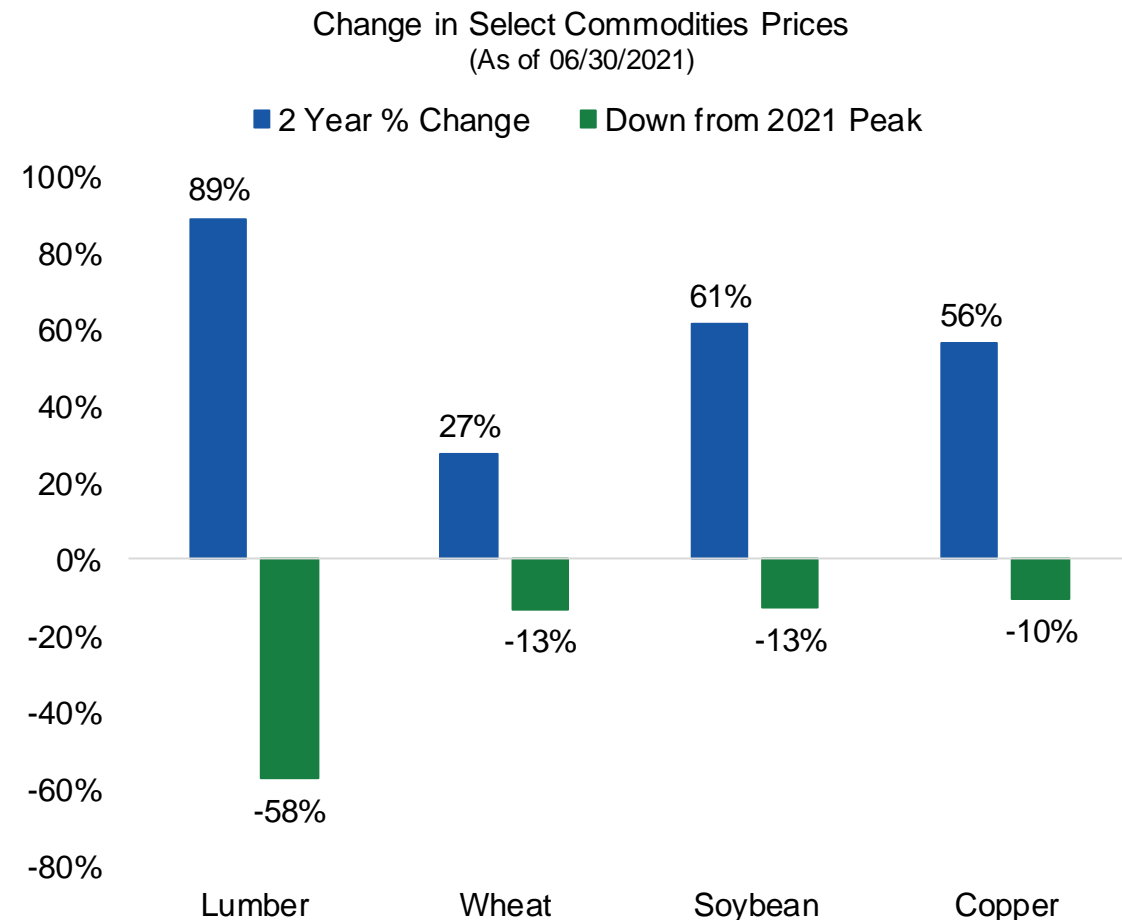


Factors Driving Near-Term Inflation

- The recent acceleration in core CPI has been largely due to a pickup in demand in smaller categories that are related to the economic reopening and pandemic-related shortages
- We do not expect supply disruptions to be sustained long-term and are already seeing softening in commodity prices

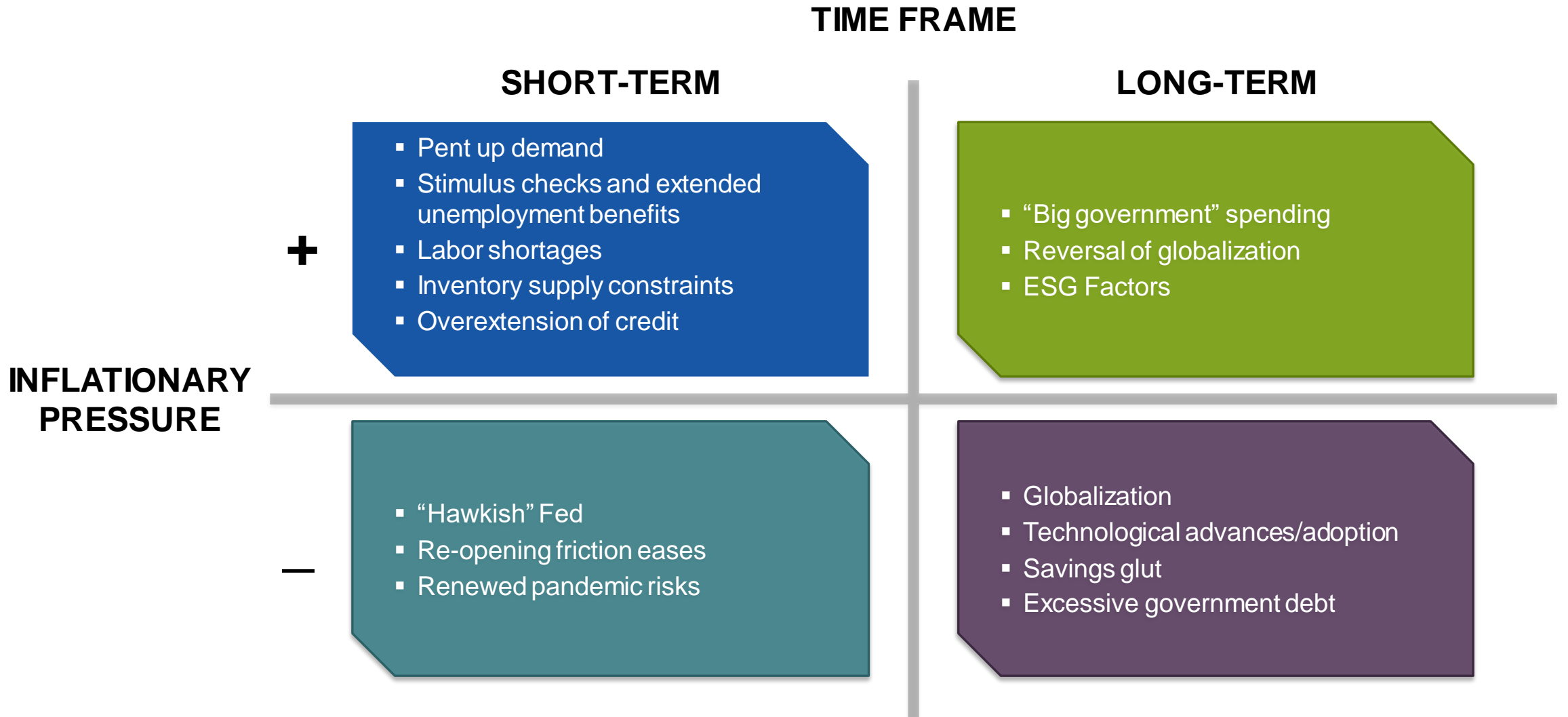


Source: Bloomberg., Data as of 06/30/2021



Source: Lord Abbett

Inflation Risk Matrix

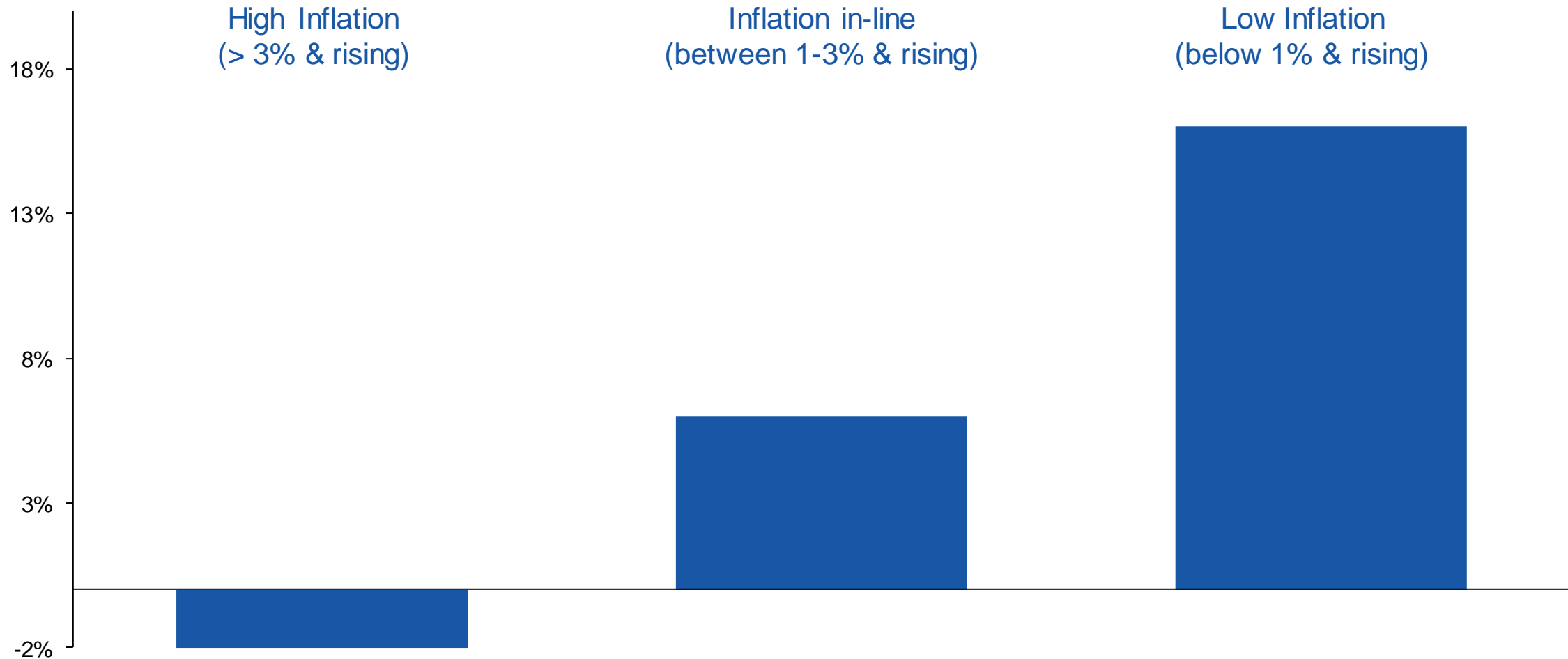




Equities Have Done Well In Modest Inflationary Environments

- Equities tend to perform well in a rising range-bound inflationary environment

S&P 500 Real Total Returns (Sept 1929-Dec 2019)¹

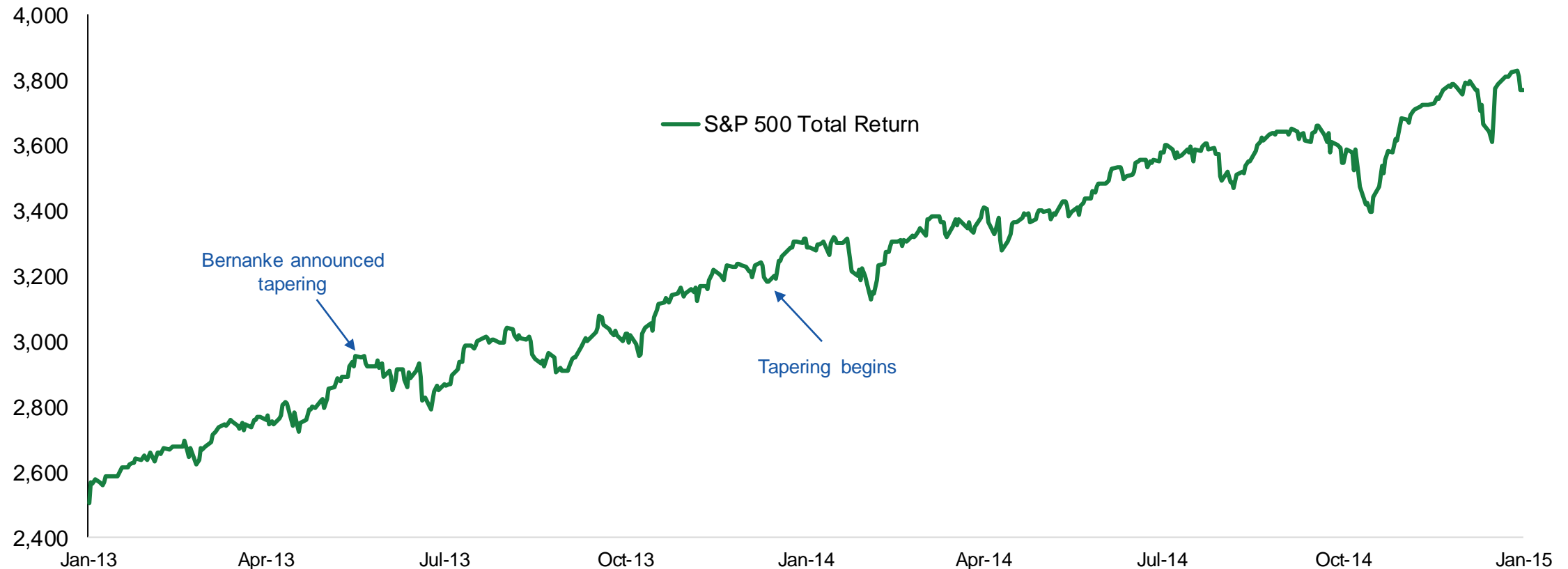


Source: Lord Abbett. ¹Average annualized returns, Sept 1929 – December 2019. Past performance is not a reliable indicator or guarantee of future results. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.



Equities Were Resilient in the 2013 Tapering

- Following the May tapering announcement, the S&P 500 fell 6%, but recovered in the following months and continued to move higher.
- As the Federal Reserve started implementing tapering, the markets had a modest correction but resumed the trend higher
- Over 2013 and 2014, earnings drove equity market returns: S&P 500 EPS rose from **\$106.6 in 2013** to **\$117.7 in 2014**.





Style Performance in Rising Rate Environments

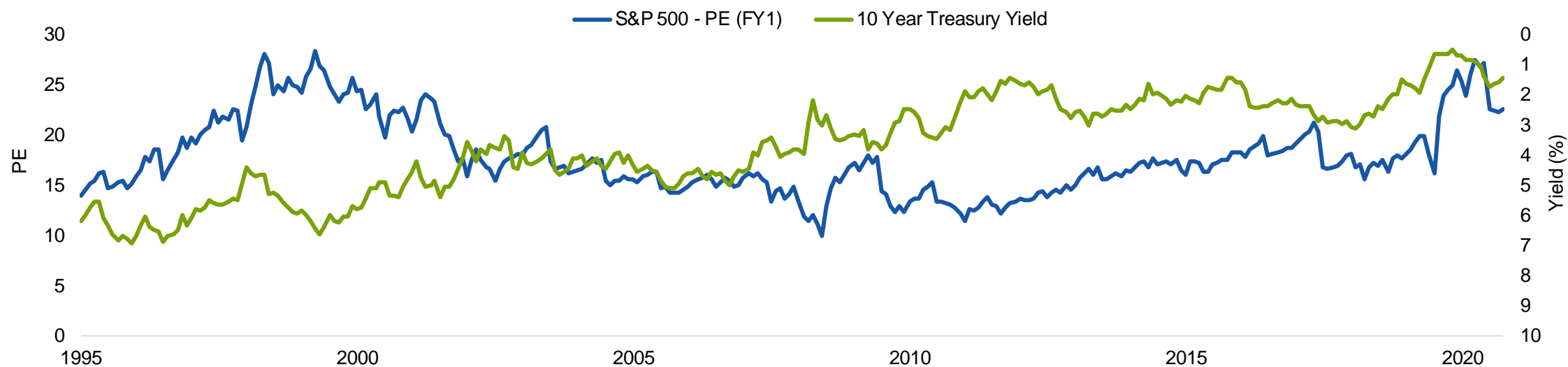
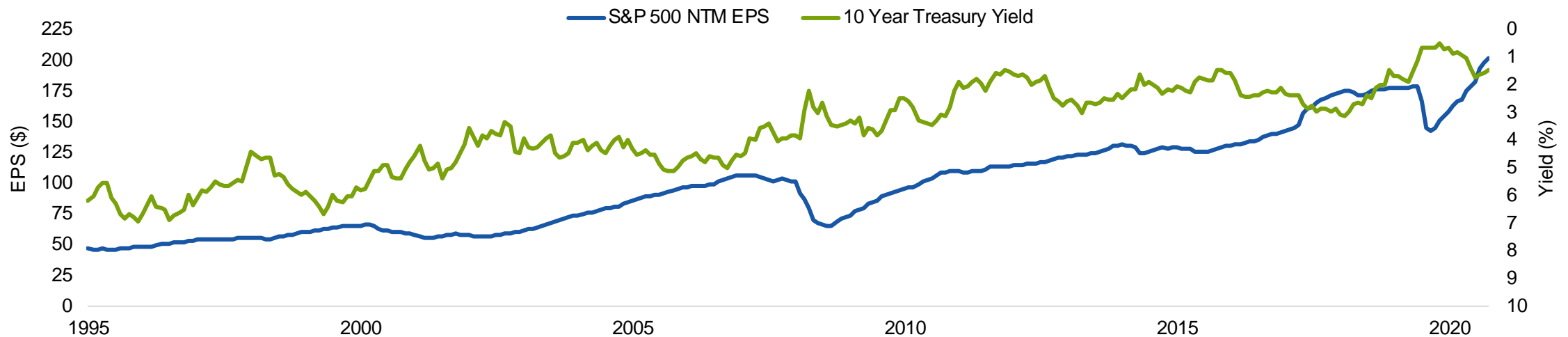
- Equities have historically weathered rising rate environments well, irrespective of style

Period	Russell 1000 Growth Index	Russell 1000 Value Index	Large Caps: Growth Minus Value Spread	Russell 2000 Growth Index	Russell 2000 Value Index	Small Caps: Growth Minus Value Spread	10-year Treasury Trough to Peak	10-year Treasury Yield Increase
09/30/1993 – 11/30/1994	4.11	-2.91	7.02	-1.87	-1.70	-0.17	5.33% - 7.81%	2.48
01/31/1996 – 08/31/1996	4.73	3.16	1.57	6.42	6.63	-0.21	5.81% - 6.83%	1.02
09/30/1998 – 01/31/2000	42.83	15.43	27.40	52.33	3.46	48.87	4.53% - 6.52%	1.99
06/30/2005 – 06/30/2006	6.12	12.10	-5.98	14.58	14.61	-0.03	4.00% - 5.11%	1.11
12/31/2008 – 12/31/2009	37.21	19.69	17.52	34.47	20.58	13.89	2.52% - 3.73%	1.21
08/31/2010 – 03/31/2011	31.20	26.80	4.40	46.04	36.18	9.86	2.54% - 3.58%	1.04
07/31/2012 – 12/31/2013	25.48	27.98	-2.50	35.37	32.03	3.34	1.68% - 2.86%	1.18
06/30/2016 – 12/31/2016	5.64	10.39	-4.75	13.12	24.19	-11.07	1.50% - 2.51%	1.01
08/31/2017 – 10/31/2018	13.98	5.85	8.13	9.78	5.62	4.16	2.14% - 3.15%	1.01
07/31/2020 – 02/28/2021	16.21	24.08	-7.87	45.39	54.31	-8.92	0.55% - 1.56%	1.01
Average	18.75	14.26	4.49	25.56	19.59	5.97		



Robust Earnings and Low Rates are Driving a Strong Market

Valuations reflect the strength of earnings and the low interest rate environment

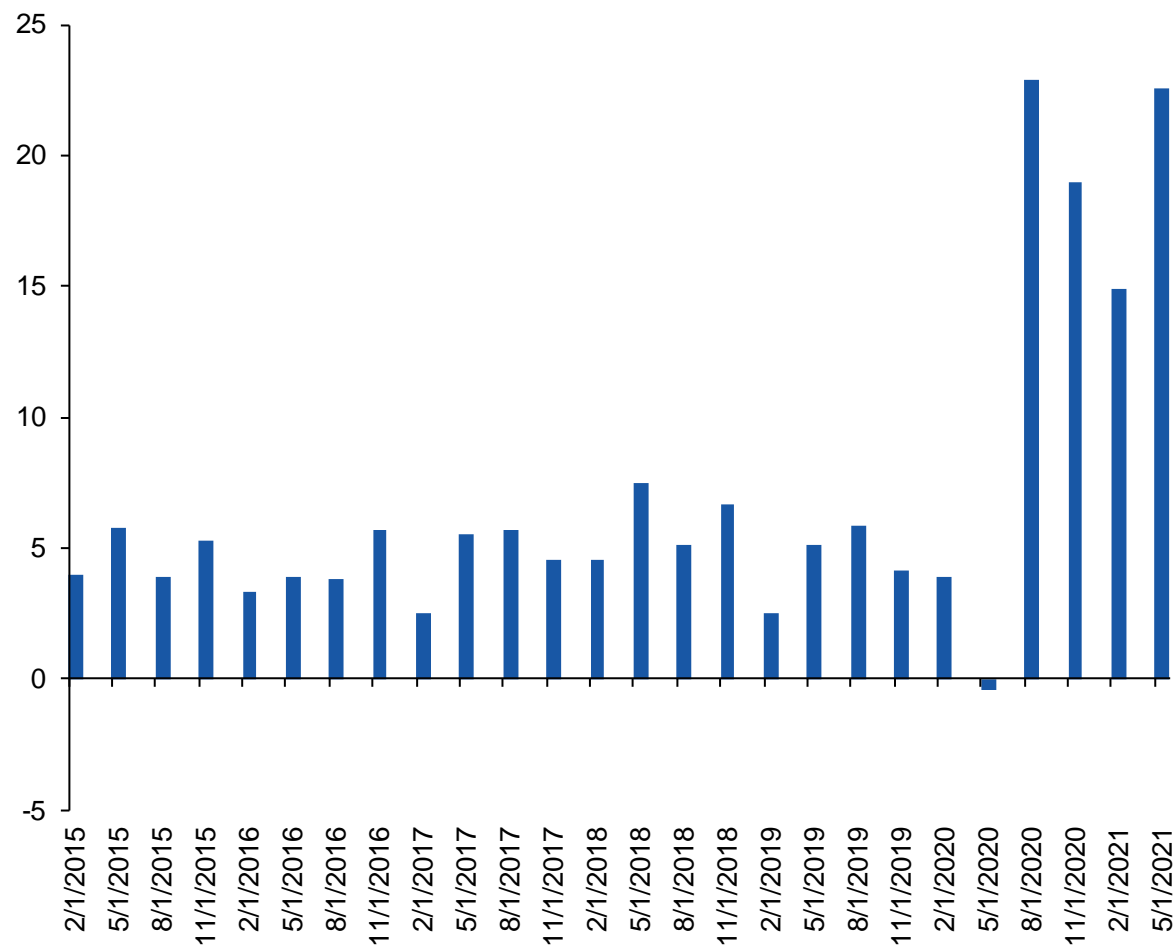




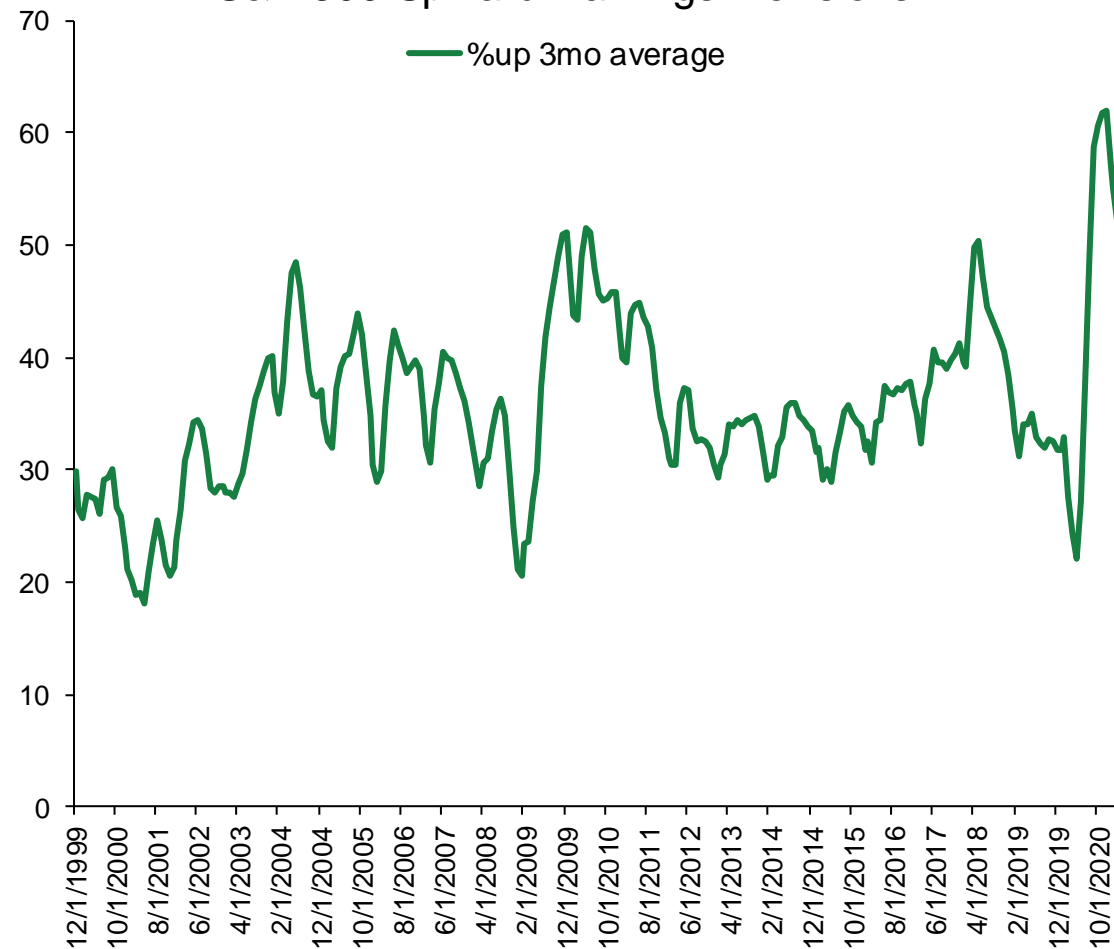
Fourth Quarter in a Row With Dramatically Higher Earnings vs. Estimates

- Stocks have been surprising on the upside largely because estimates fell excessively in 2020.

Historical EPS Surprise



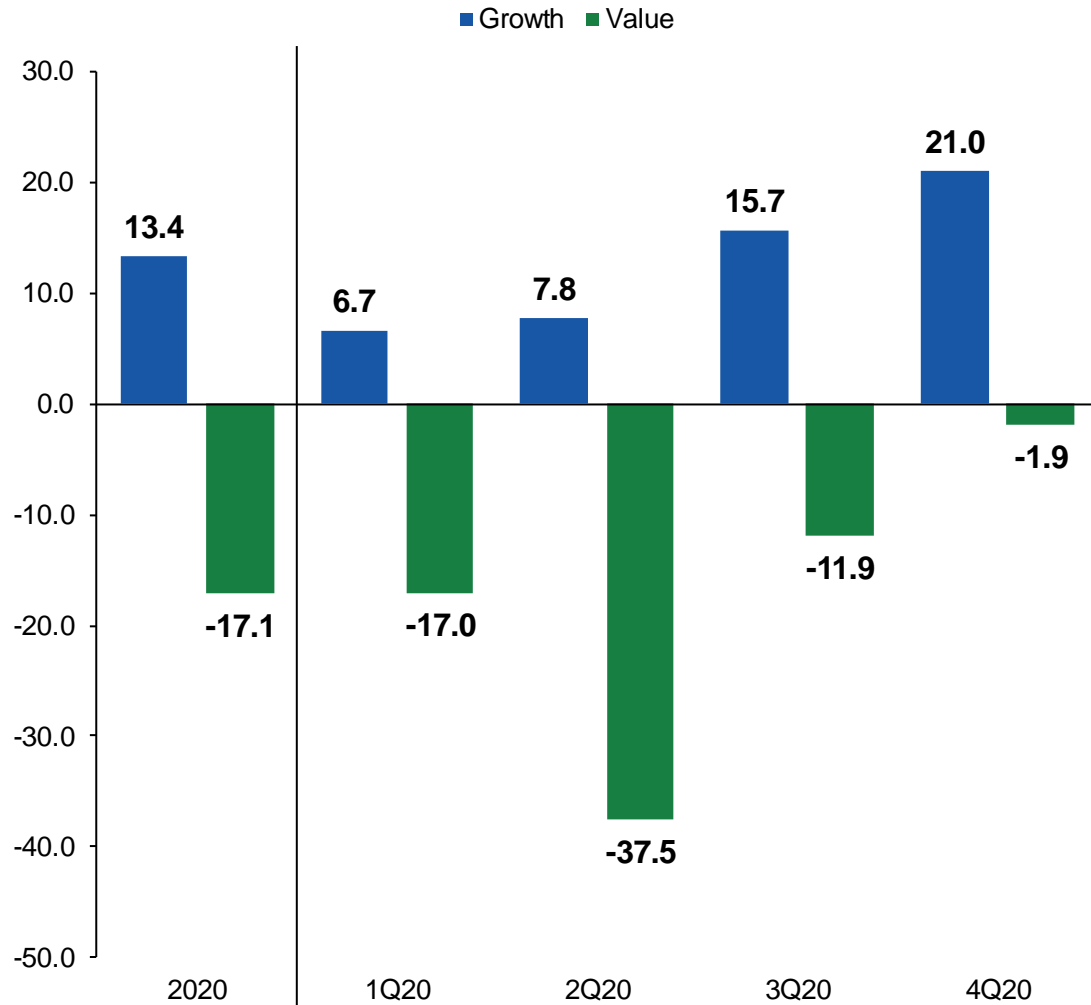
S&P 500 Upward Earnings Revisions



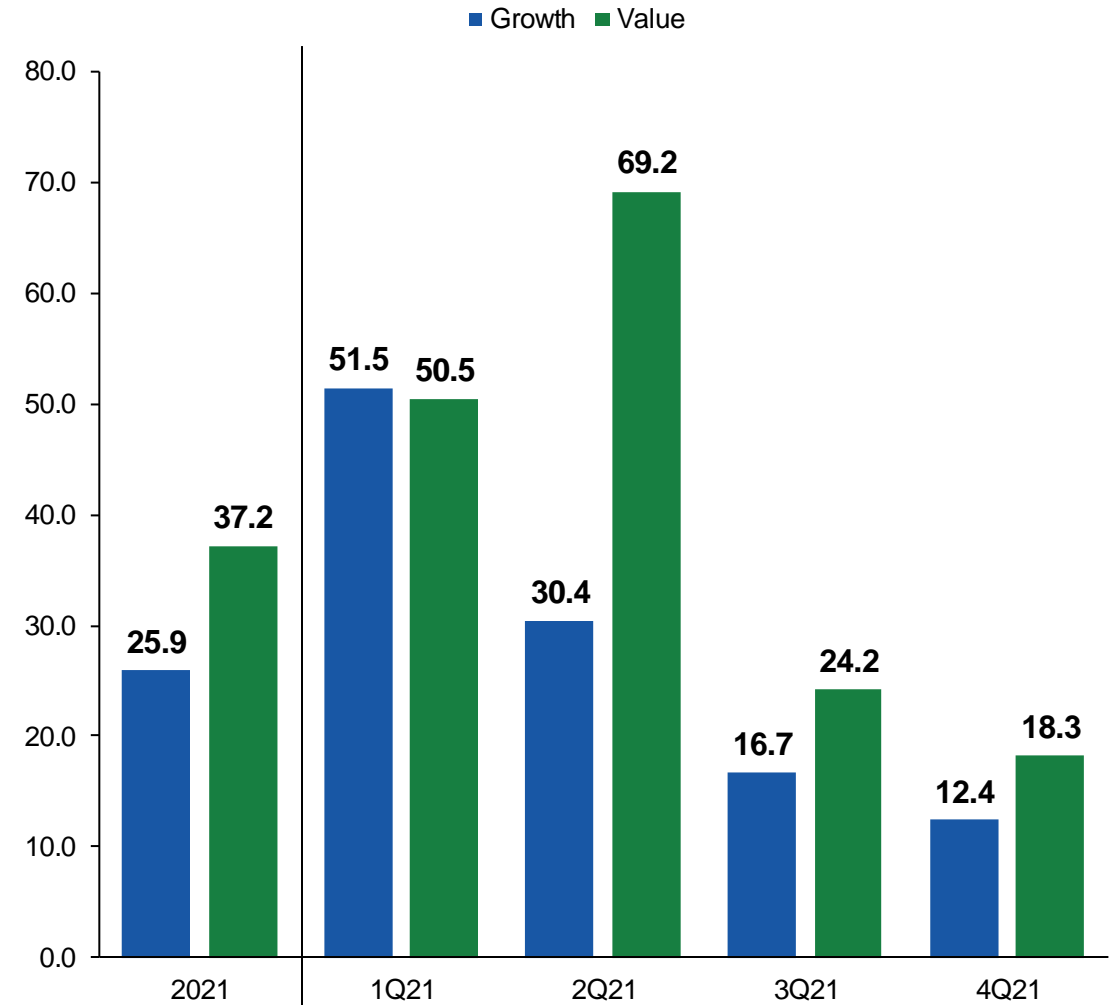


2021 vs. 2020 – Value Earnings Have Surged Off the Bottom This Year

2020 EPS GROWTH: VALUE VS. GROWTH (%)



2021 EPS GROWTH: VALUE VS. GROWTH (%)



Source: Russell, Refinitiv, FactSet and Credit Suisse. EPS = earnings per share. EPS is based on net income as reported. The historical data shown are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett or any particular investment.



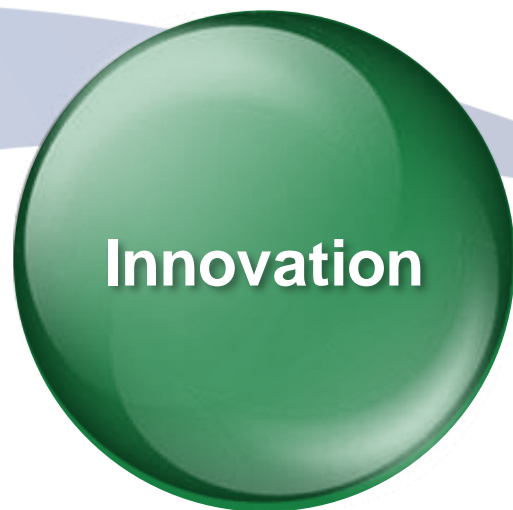
Strategic Positioning: Innovation, Vulnerability, Durability





Rethinking Equity Allocations – Beyond Growth and Value

Classifying Equities into three types



Companies pioneering and leveraging new technologies to grow market share



Companies poorly positioned to withstand the threat of innovation



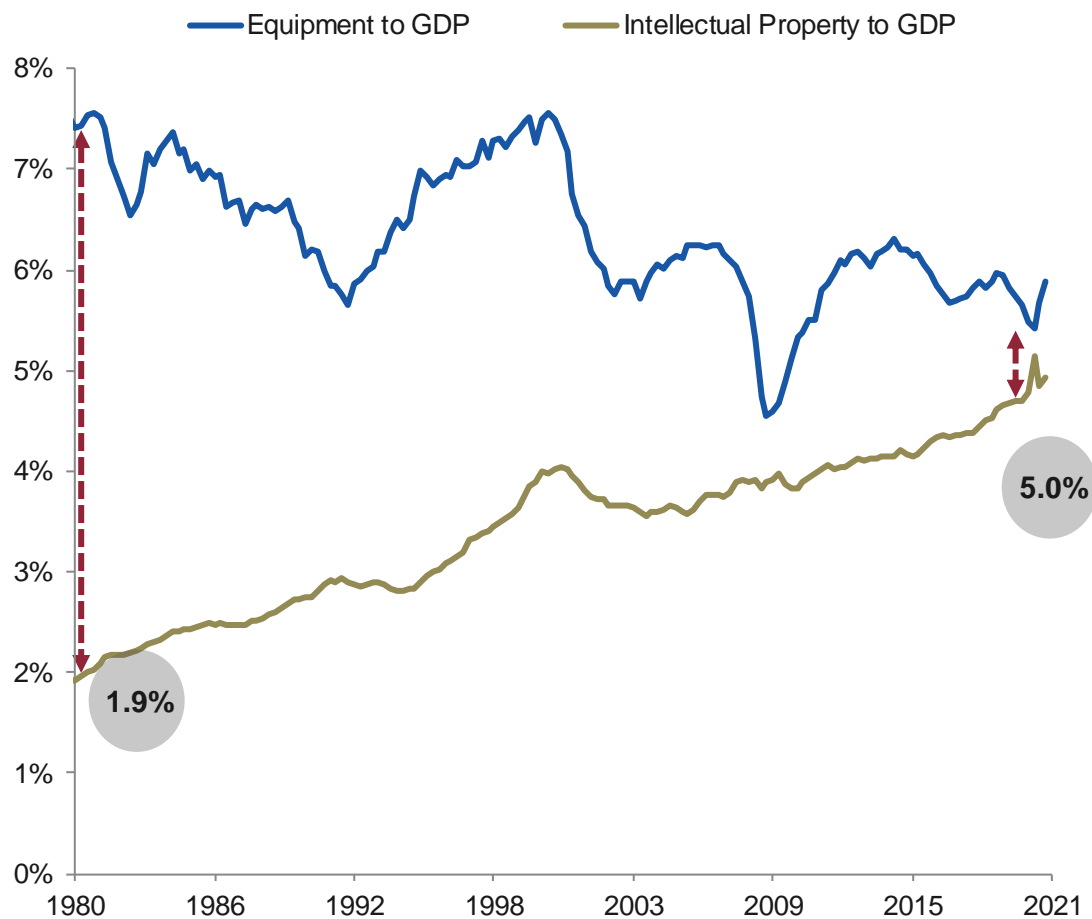
Companies well positioned to adapt and protect their cash flows and market share



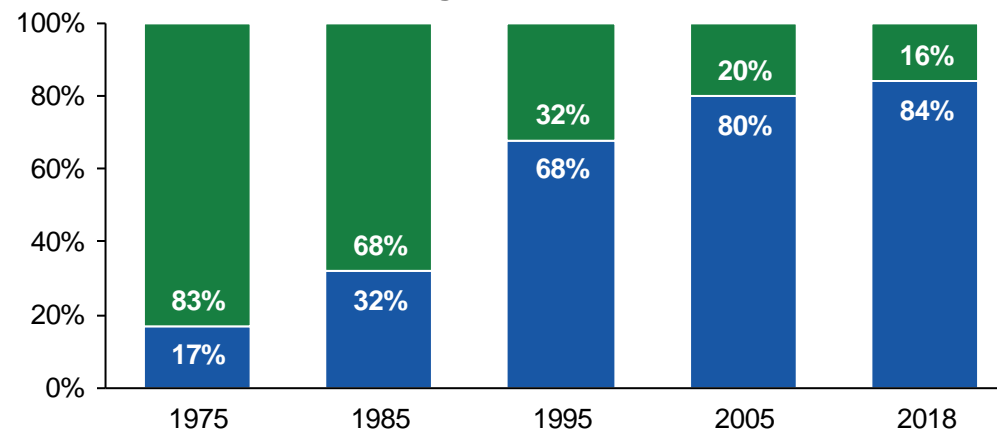
Why Book Value Has Lost Its Relevance

- Companies have dramatically changed their capital intensity from physical to intangible assets
- Book value only includes tangible assets and does not adequately capture this shift

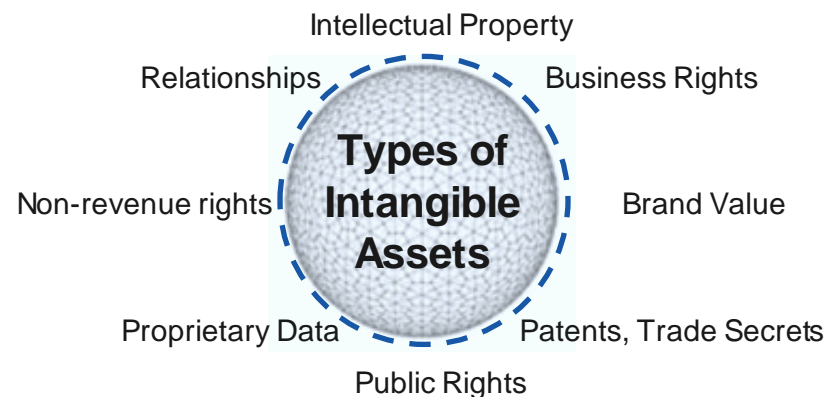
PHYSICAL EQUIPMENT VS. INTELLECTUAL PROPERTY
40 YEAR TRANSFORMATION



ASSET INTENSITY HAS SHIFTED DRAMATICALLY TOWARDS INTANGIBLES
Tangible % of S&P 500 Assets



Intangible % of S&P 500 Assets



Sources: Left chart: Bloomberg. Data as of 01/01/2021. Right charts: BofA Research, The RIC Report, September 8, 2020, "The Secret Life of Value"



Market Leading Companies Often Get Disrupted

Top 10 Companies in the S&P 500 Index Over the Years

1980

1990

1999

2010

2020

Company	Weight (%)
IBM	4.27
AT&T	3.85
Exxon	3.76
Standard Oil of Indiana	2.52
Schlumberger Ltd.	2.41
Shell Oil Co	1.94
Mobil Corp	1.85
Standard Oil of CA	1.84
Atlantic Richfield	1.62
General Electric	1.50

Company	Weight (%)
IBM	2.95
Exxon	2.94
General Electric	2.32
Philip Morris	2.18
Royal Dutch	1.92
Bristol-Myers Squibb	1.61
Merck & Co., Inc.	1.59
Walmart Inc.	1.56
AT&T	1.50
Coca-Cola	1.42

Company	Weight (%)
Microsoft	4.89
General Electric	4.12
Cisco Systems	2.84
Walmart	2.50
Exxon Mobil	2.26
Intel	2.23
Lucent	1.91
IBM	1.58
Citigroup Inc.	1.52
America Online	1.38

Company	Weight (%)
Exxon Mobil	3.23
Apple	2.59
Microsoft	1.84
General Electric	1.70
Chevron	1.61
IBM	1.60
Procter & Gamble	1.58
AT&T	1.52
Johnson & Johnson	1.49
JPMorgan Chase	1.45

Company	Weight (%)
Apple	6.70
Microsoft	5.31
Amazon	4.39
Alphabet	3.27
Facebook	2.07
Tesla	1.69
Berkshire Hathaway	1.43
Johnson & Johnson	1.31
JPMorgan Chase	1.22
Visa	1.17

Oil accounted for 7 of the 10 largest companies

9 companies no longer in the Top 10

Top 6 companies driven by innovative technologies

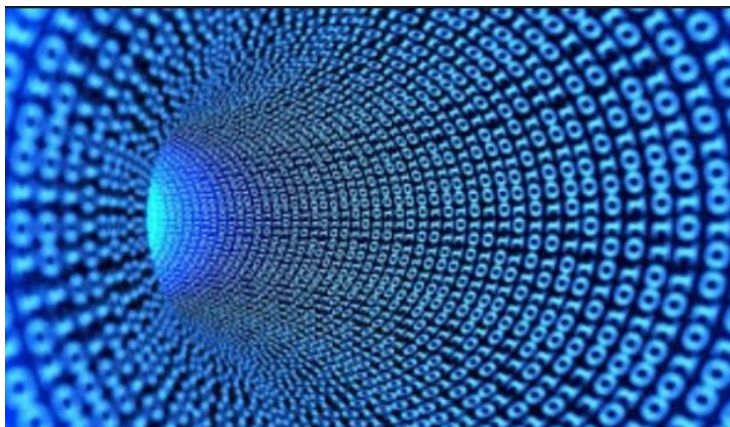


Innovation





Growth Investing in the Age of Innovation

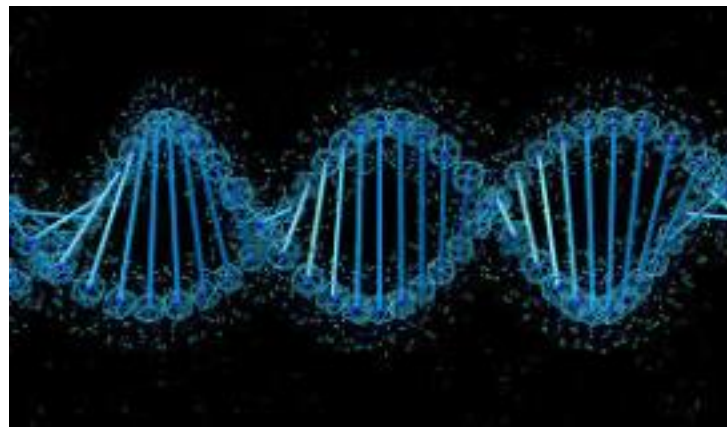


The Technological Revolution

- Cloud Technology
- Artificial Intelligence

EXAMPLES

- Cloud infrastructure
- Internet software
- Autonomous driving
- Digital advertising
- Intelligent robotics



The Genomics Revolution

- Biotechnology
- Devices and Diagnostics

EXAMPLES

- Gene therapy and editing
- Immunotherapy
- Diabetes monitoring
- Cancer diagnostics
- Targeted oncology therapies



Empowerment of the Consumer & Brands

- e-Commerce & Life Brands
- Virtual Empowerment

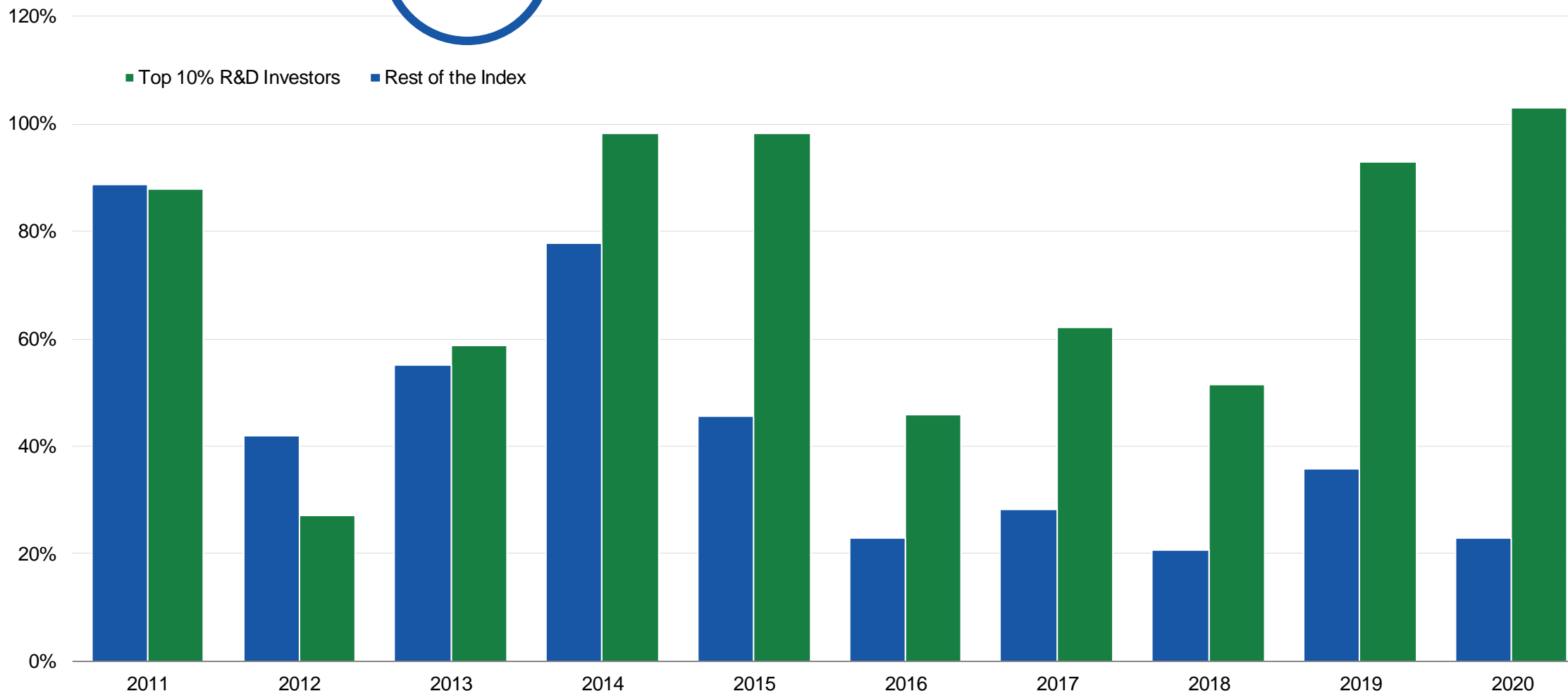
EXAMPLES

- e-Commerce dominant leaders
- Lifestyle-enhancing retailers
- Social networking
- Streaming content, delivery
- Remote learning, tutoring



R&D Intensity Has Been a Strong Predictor of Returns

Innovators outperformed by **29%** on average in the last 10 years



Source: FactSet. Data as of 12/31/2020. Innovative companies are derived from the top-decile investor in R&D by intensity – defined as R&D investment per total revenues – and the subsequent next three years of investment returns (using the Russell 1000 Index). **Past performance is not a reliable indicator or guarantee of future results.** For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment.

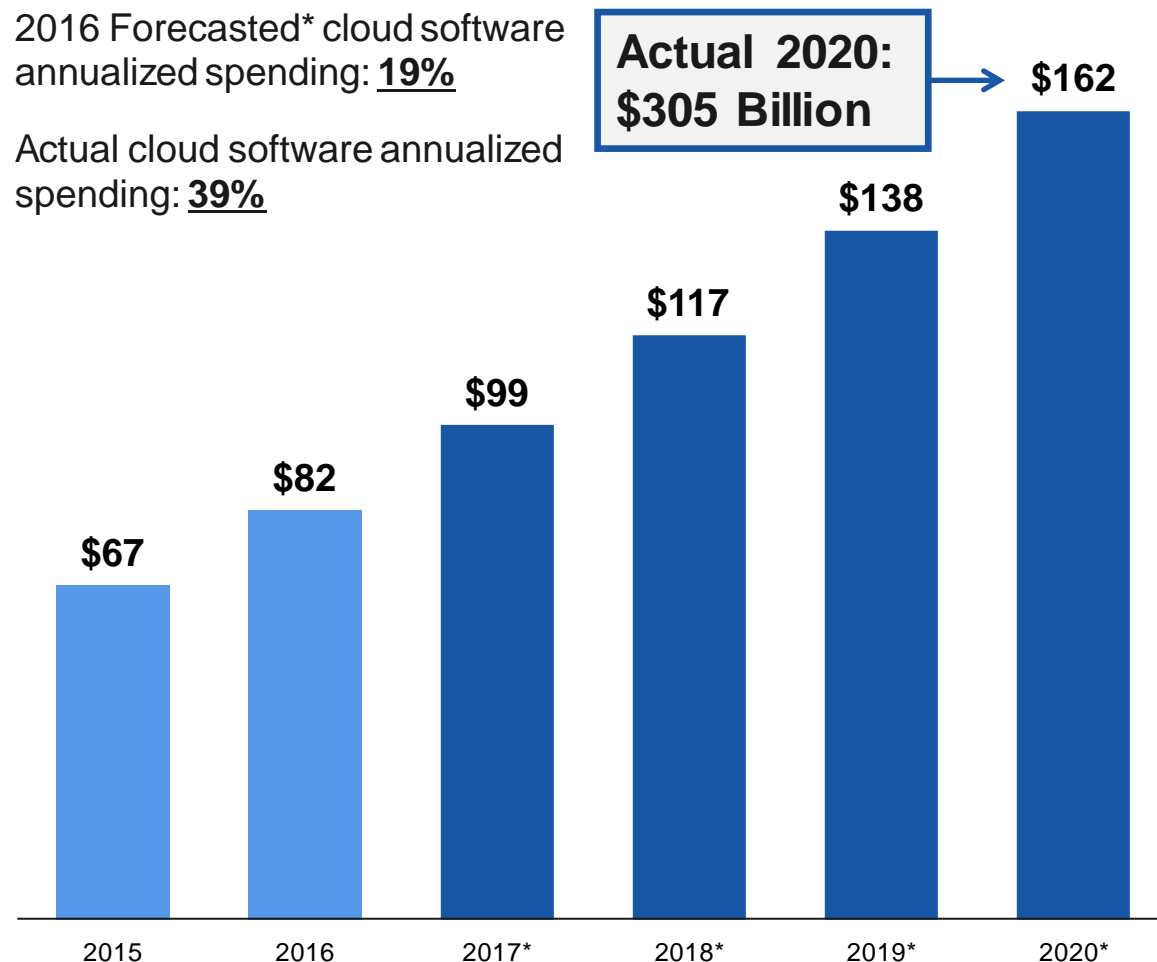


The Market Underestimates Innovation: Growth in Cloud Software & AI

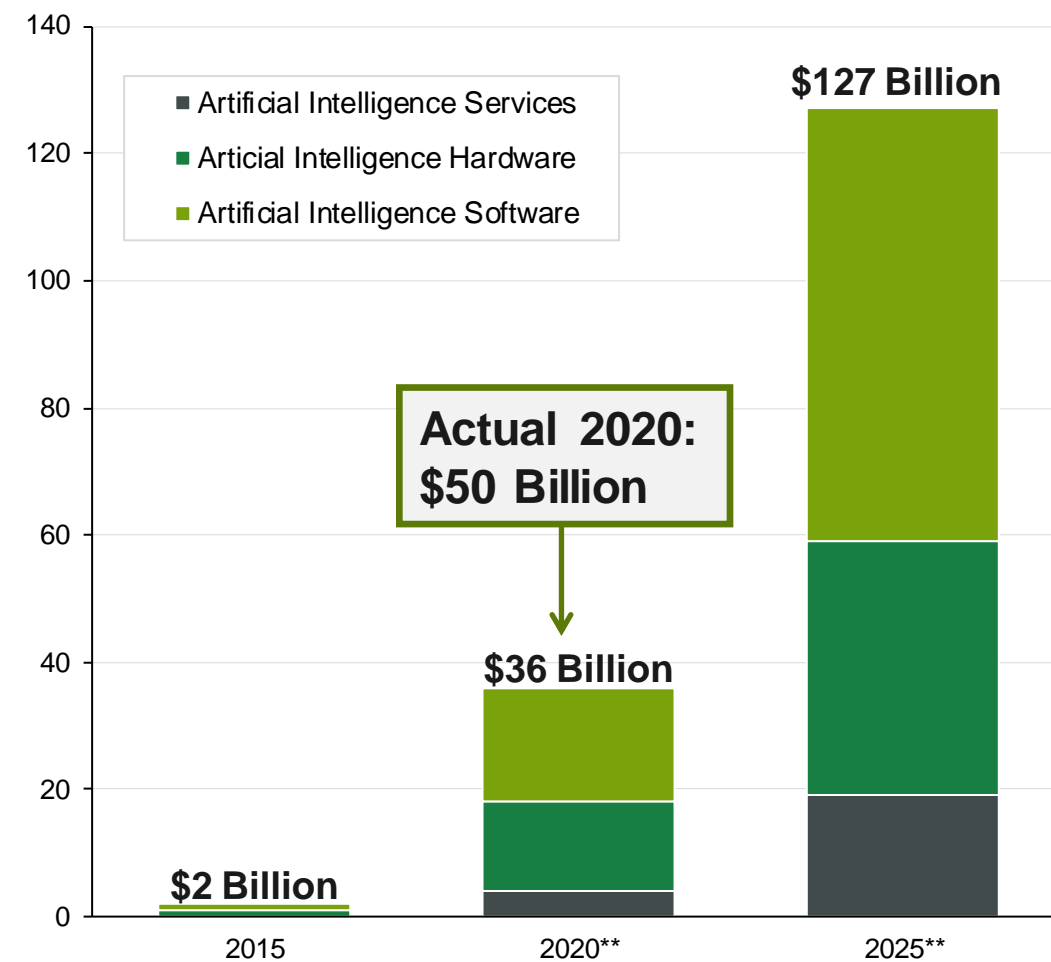
WORLDWIDE SPENDING ON PUBLIC CLOUD COMPUTING, 2015-2020 (\$B)

2016 Forecasted* cloud software annualized spending: 19%

Actual cloud software annualized spending: 39%



WORLDWIDE SPENDING ON ARTIFICIAL INTELLIGENCE, 2015-2025 (\$B)



Source: Cloud software spending: IDC, 2016. * Data represents projections as of 2016. Worldwide Spending on Artificial Intelligence: BofA Merrill Lynch Research Estimates, 2017. **Data represents projections as of 2017. For illustrative purposes only.



Vulnerability

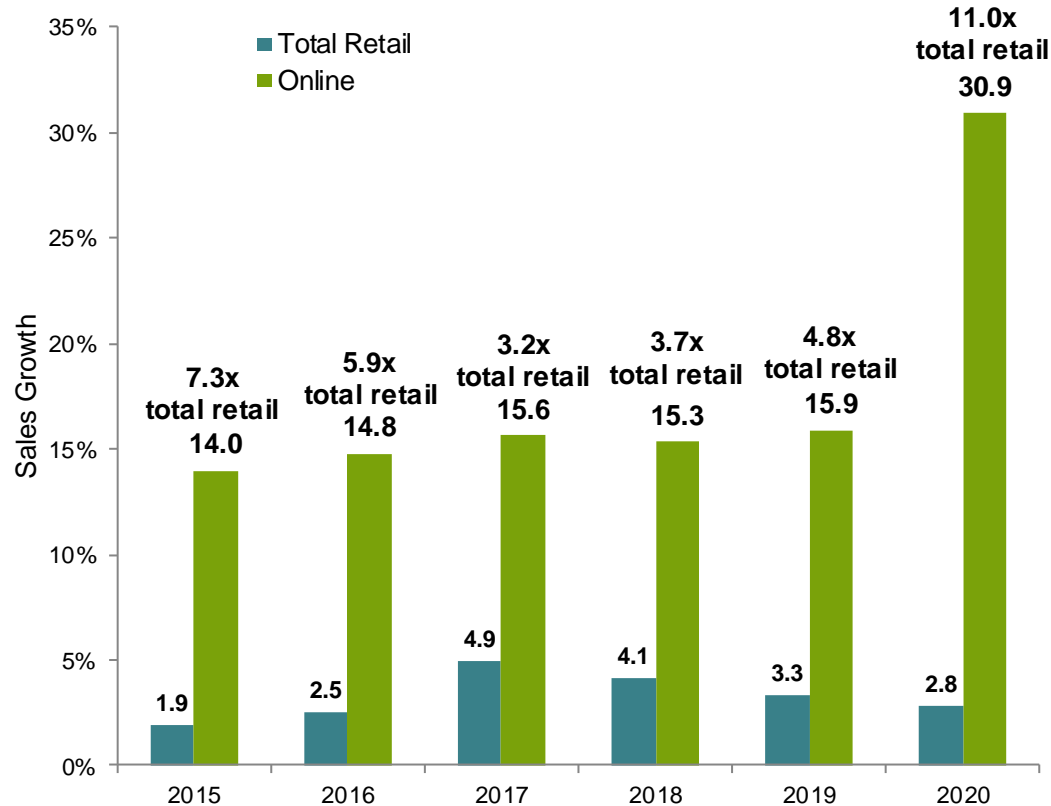




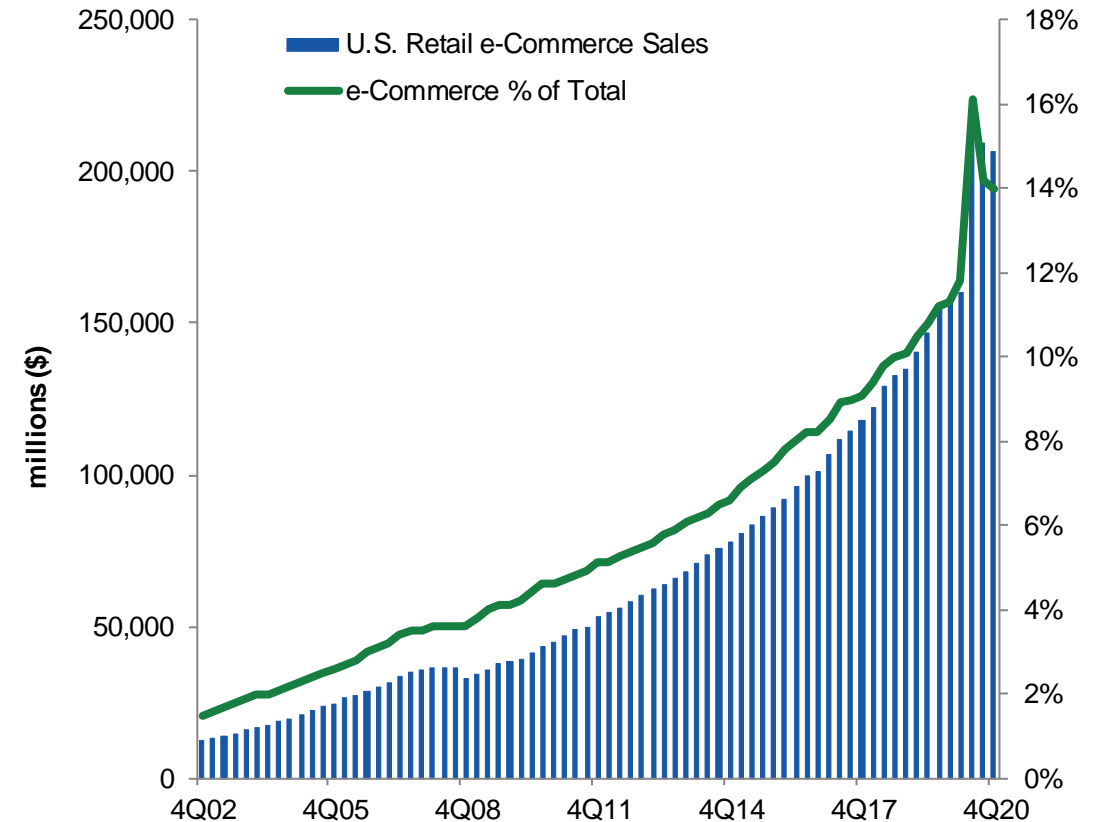
Ecommerce Is Displacing Brick and Mortar Retail

- There has been an irreversible shift from brick and mortar retail to ecommerce since 2000. With the onset of COVID-19 and shelter-in-place mandates, the ecommerce adoption curve has dramatically steepened
- Unless brick and mortar businesses successfully adapt, they will face secular decline

ONLINE SALES GROWTH VS RETAIL



ECOMMERCE AND RETAIL SALES GROWTH (AS OF 12/31/2020)



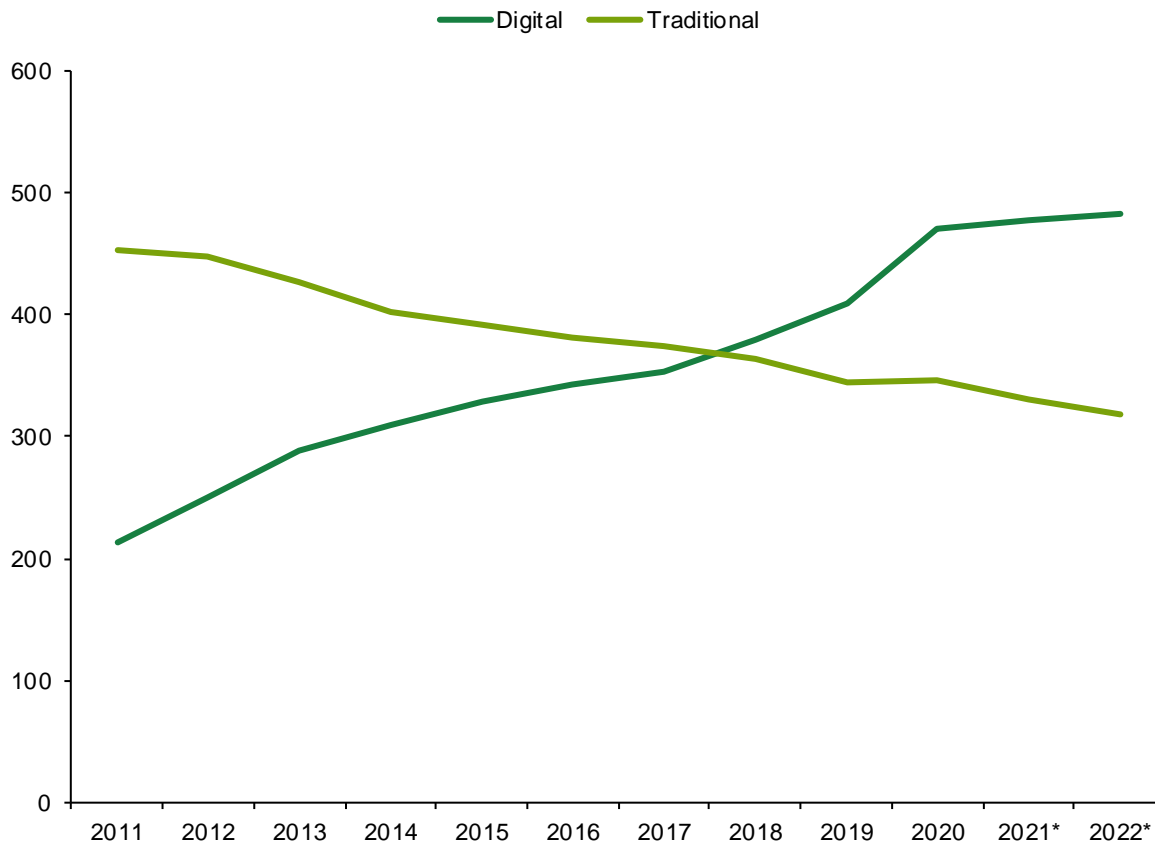
Source: U.S. Census Bureau and Bloomberg. Most recent data available. 1Q18 data are revised estimates. 2Q19 data are preliminary. Estimates are based on data from the Monthly Retail Trade Survey and administrative records. Estimates are adjusted for seasonal variation, but not for price changes. Total sales estimates are also adjusted for trading-day differences and moving holidays. e-Commerce sales are sales of goods and services where an order is placed by the buyer or price and terms of sale are negotiated over an Internet, extranet, Electronic Data Interchange (EDI) network, electronic mail, or other online system. Payment may or may not be made online. For illustrative purposes only.



Digital Media Is Displacing Traditional Media

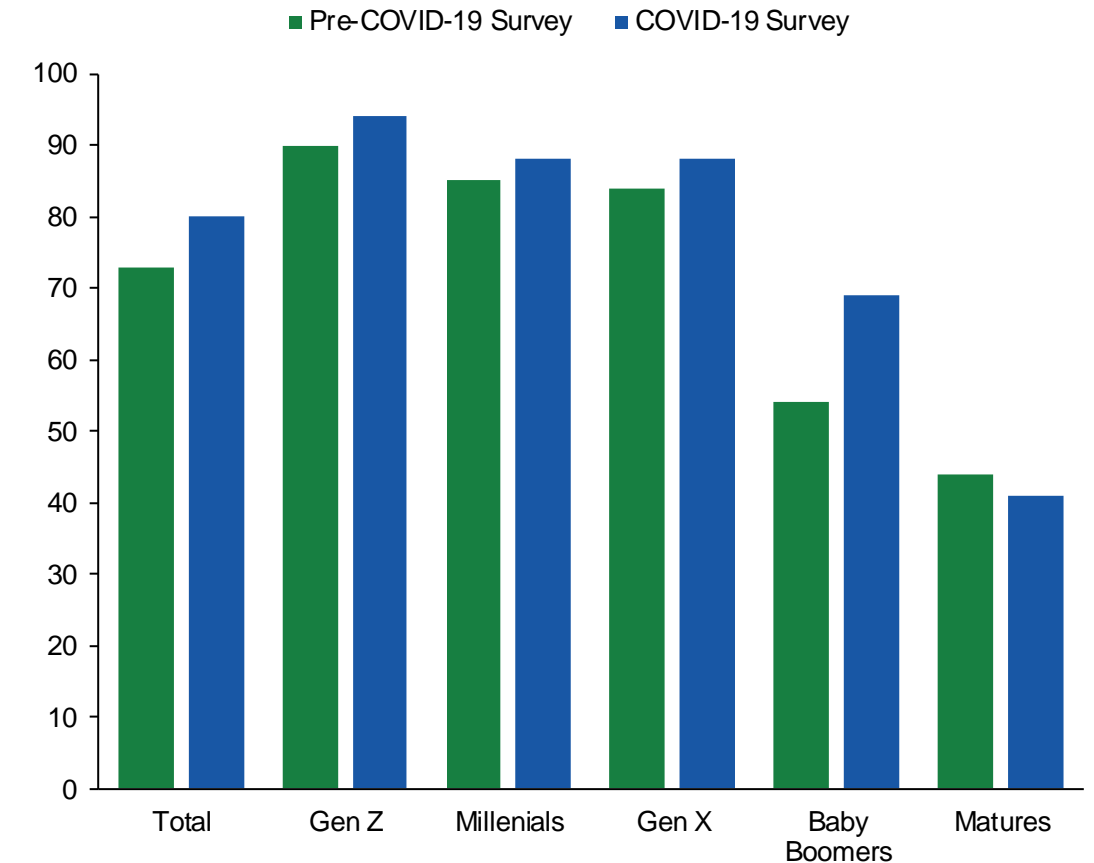
- The traditional form of TV viewership has come under pressure as consumers have shifted to streaming content on-demand

Time spent per day with digital versus traditional media in the United States from 2011 to 2020 (in minutes)



80% of U.S. consumers have a streaming video subscription

Percentage of U.S. consumers with at least one paid streaming video subscription





Durability





IDENTIFYING COMPANIES THAT ARE ADAPTING TO SECULAR TRENDS

Resiliency

High free cash flow generation is potentially a signal of business resiliency and operating strength

Quality

Dividend growth companies are typically market leaders with stable business models and strong balance sheets

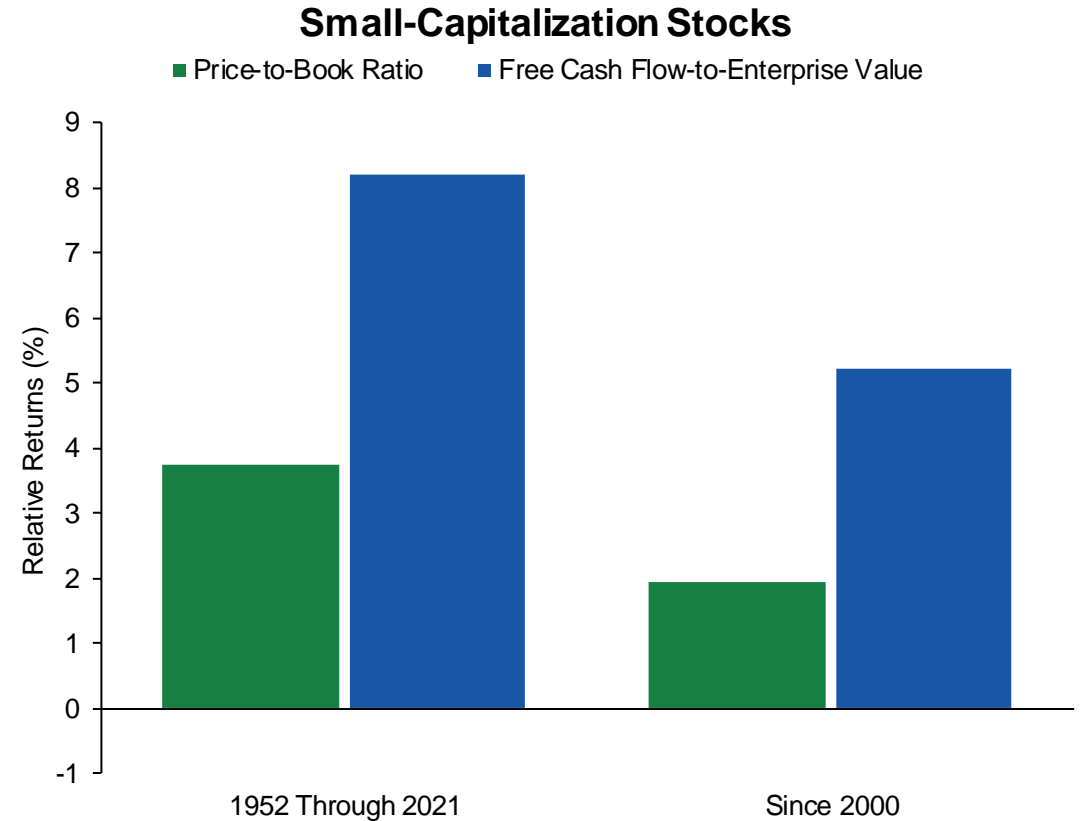
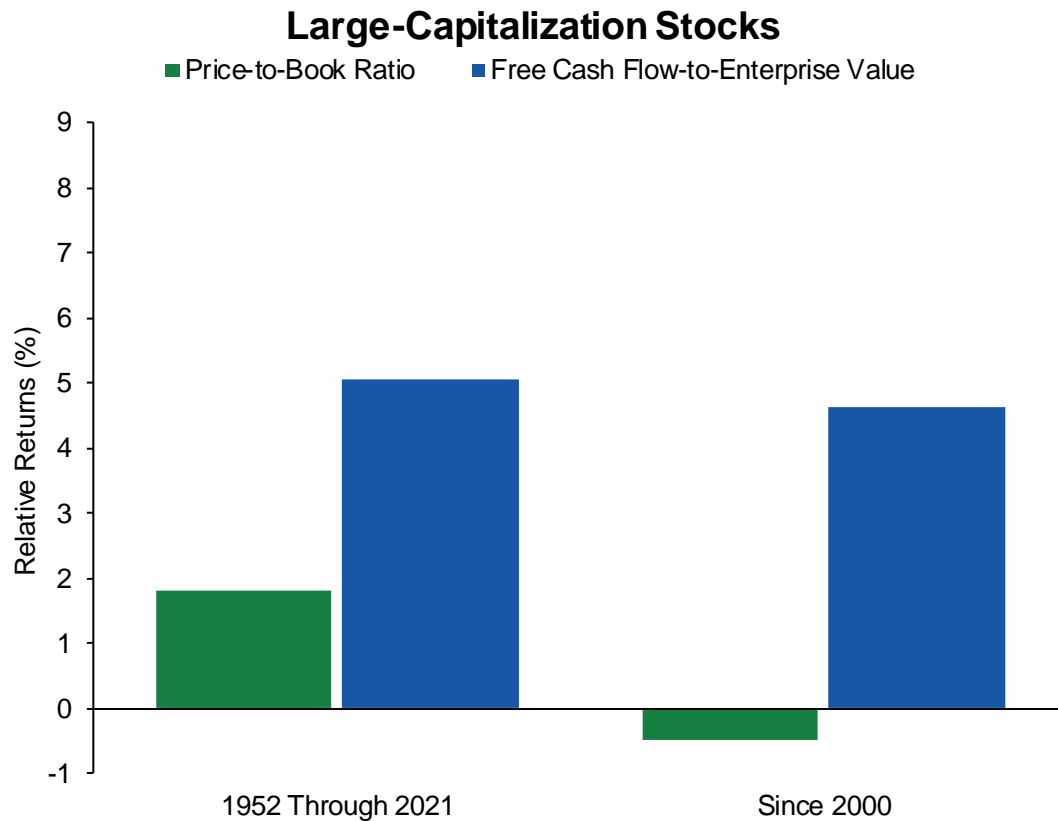


Identifying Durability vs. Price-to-Book Cheapness

- Free cash flow yield has historically been a better indicator than price-to-book for identifying durability as the economy has shifted to more asset-light businesses

Free Cash Flow Yield vs. Formulaic Price-to-Book

Cheapest Quintile based on Price-to-Book Value versus Cheapest Quintile Free Cash Flow-to-Enterprise Value¹
Relative Returns, Annualized (1952 THROUGH JANUARY 20, 2021)



Source: Empirical Research Partners Analysis. ¹Equally-weighted returns; monthly data compounded. Past performance is not a reliable indicator or guarantee of future results. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.



Mitigating Volatility With Compelling Dividend Growers

Dividend growth stocks have historically outperformed the broader market during periods of volatility, helping to keep clients invested through the market cycle

DIVIDEND GROWERS HAVE OUTPERFORMED IN MARKET DECLINES

Max S&P 500 Drawdown Period	S&P 500 Index Return	Dividend Growers ¹ Downside Capture
01/02/2008 - 11/20/2008	-47.7%	82%
01/07/2009 - 03/09/2009	-27.2%	97%
04/24/2010 - 07/02/2010	-15.6%	75%
04/30/2011 - 10/03/2011	-18.6%	82%
04/03/2012 - 06/01/2012	-9.6%	66%
05/22/2013 - 06/24/2013	-5.6%	96%
09/19/2014 - 10/15/2014	-7.3%	79%
07/21/2015 - 08/25/2015	-12.0%	89%
01/04/2016 - 02/11/2016	-10.3%	41%
09/21/2018 - 12/24/2018	-19.8%	79%
05/06/2019 – 06/03/2019	-6.6%	65%
02/20/2020 – 03/23/2020	-33.79%	96%

Average Downside Capture 79%

¹“Dividend Growers” The Dividend Growers Index is a proprietary index that is made up of companies that have grown their dividend for ten or more consecutive years, rebalanced on an annual basis, and is market cap weighted. Max intra-year declines greater than 5%, starting 1/1/2008. Start dates inclusive. Source: FactSet. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is not a reliable indicator or guarantee of future results.** Dividends are not guaranteed and may be increased, decreased, or suspended altogether at the discretion of the issuing company.



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