

QUARTERLY



COORDINATES

COVID-19



A JOURNEY THROUGH
THE UNKNOWN

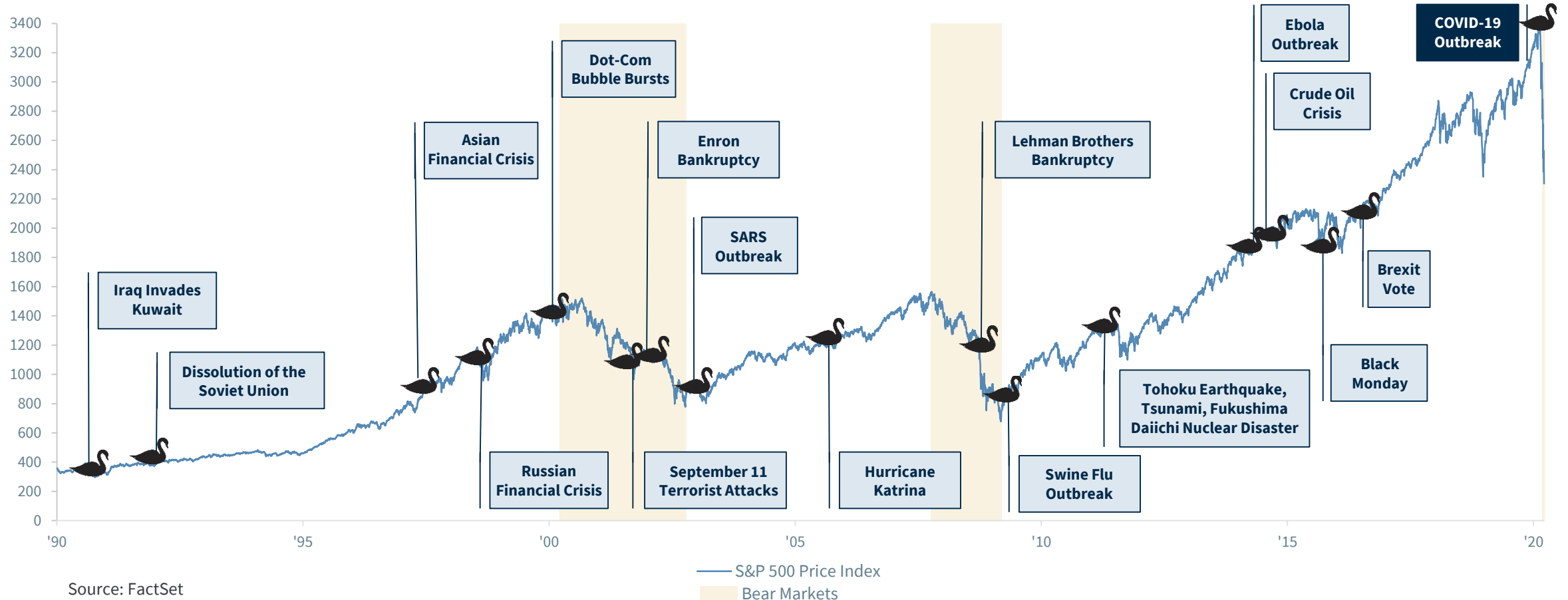
A JOURNEY THROUGH THE UNKNOWN: AGENDA

- 1** Black Swans: History of Overcoming Them & COVID-19 Update
- 2** Economy: The “K” Economy
- 3** Policymakers: Speed and Magnitude of Response
- 4** Fixed Income: Interest Rates Lower For Longer
- 5** Equities: Catalysts To Rally
- 6** The US Equity Market is Not the US Economy

WHAT IS A BLACK SWAN EVENT?

‘BLACK SWANS’ ARE TYPICALLY OUTSIDE ANYONE’S SCOPE INITIALLY, BUT CAN OFTEN BE RATIONALIZED WITH THE BENEFIT OF HINDSIGHT

- While the individual events can be debated, what holds true is that the US stock market has faced a number of ‘surprising’ events over the last 30 years alone. While some happenings are less shocking than pandemics or natural disasters, and although some may take longer to recover from, the market has always persevered.



Source: FactSet

THE US HAS THE BENEFIT OF LEARNING FROM ASIA AND EUROPE

DIFFERENT COUNTRIES ARE AT DIFFERENT STAGES OF THE COVID-19 TRANSMISSION. US CASE GROWTH COULD PEAK WITHIN THE NEXT TWO WEEKS.

- With vaccine development still underway, the second wave risk scenario needs to be accounted for as countries plan to reopen.



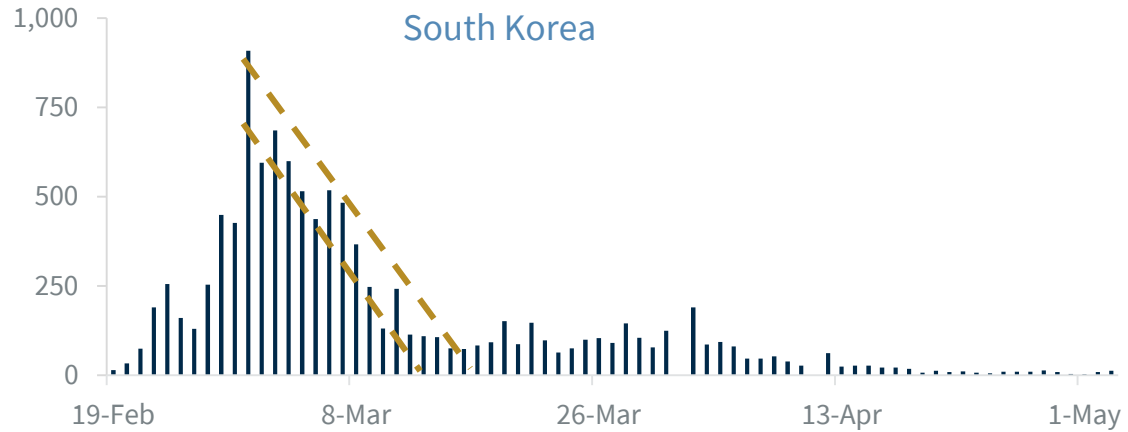
Austria's Roadmap to Reopening

- April 14:** Small Stores & Parks Will Reopen
Masks Required in Grocery Stores & on Public Transit
- May 2:** All Other Stores (Including Malls & Salons) Will Reopen
- Mid-May:** Restaurants & Hotels Will Reopen
Schools & Graduations Will Be Assessed
- End of June:** Large Gatherings, Movie Theaters, Public Pools, Churches, & Sport Facilities Will Be Assessed
- Summer:** Domestic Travel Will Be Assessed; International Travel Likely Dependent On Vaccine

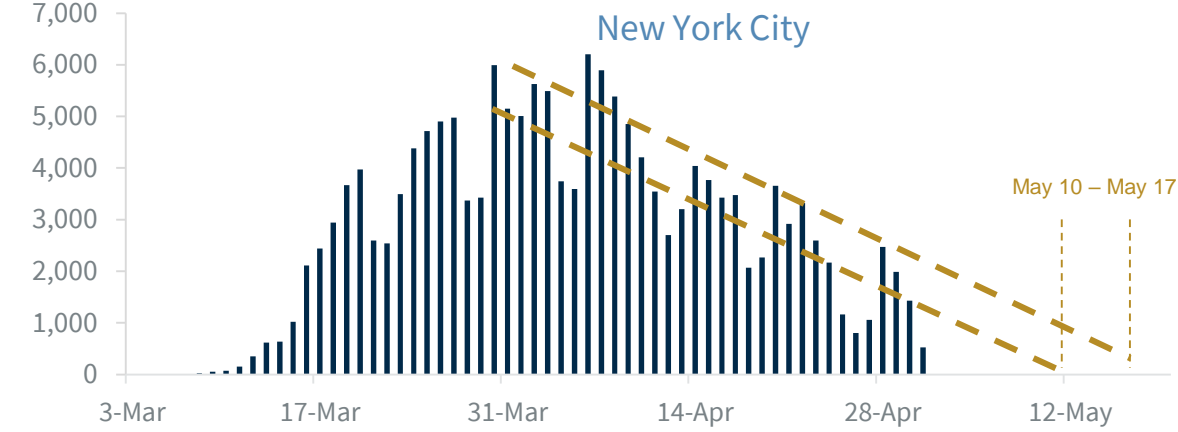
Other Discussions:

- Sector-by-Sector, Industry-by-Industry Approach Based on Criticality (UK, Italy)
- Essential vs. Non-essential (Spain)
- Staggered Approach to Avoid Mass Transit Congestion (Denmark)
- Contact Tracing (Germany)

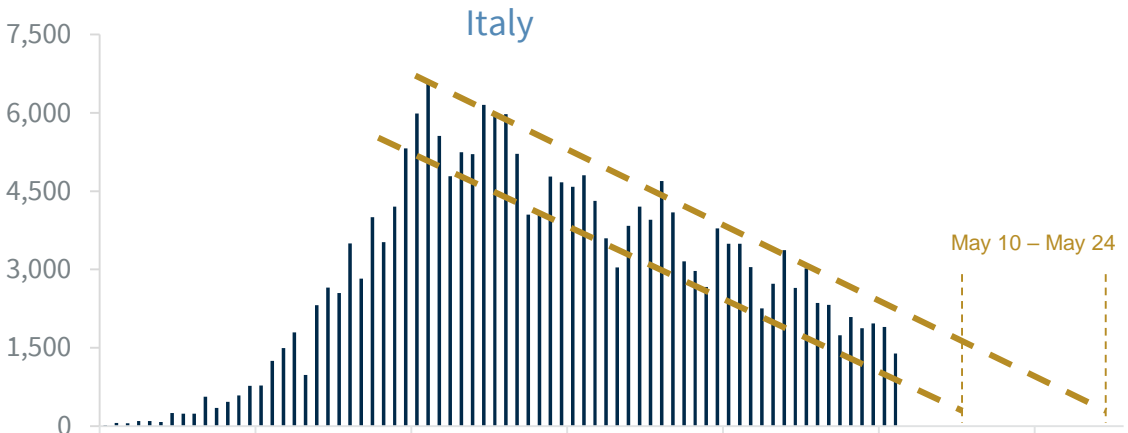
COVID-19 TRENDS



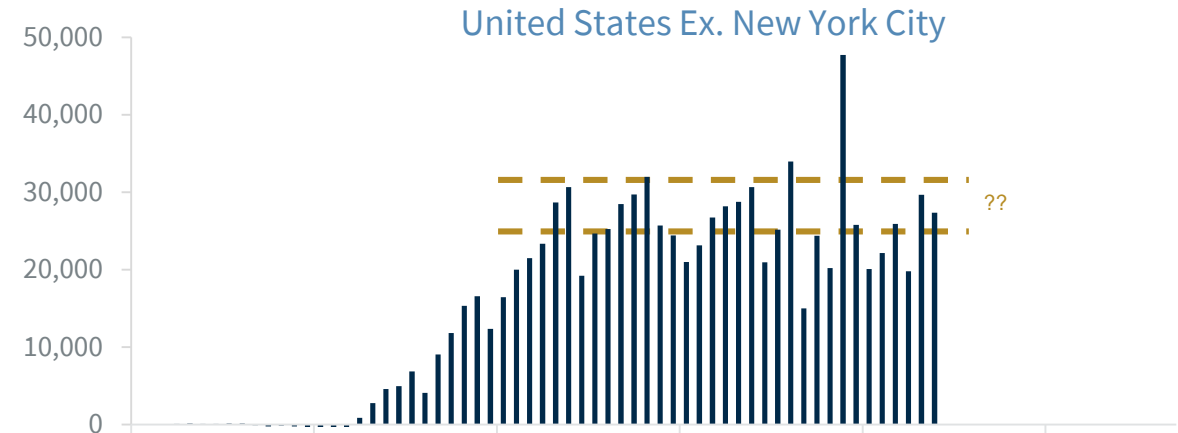
Source: FactSet



Source: FactSet



Source: FactSet



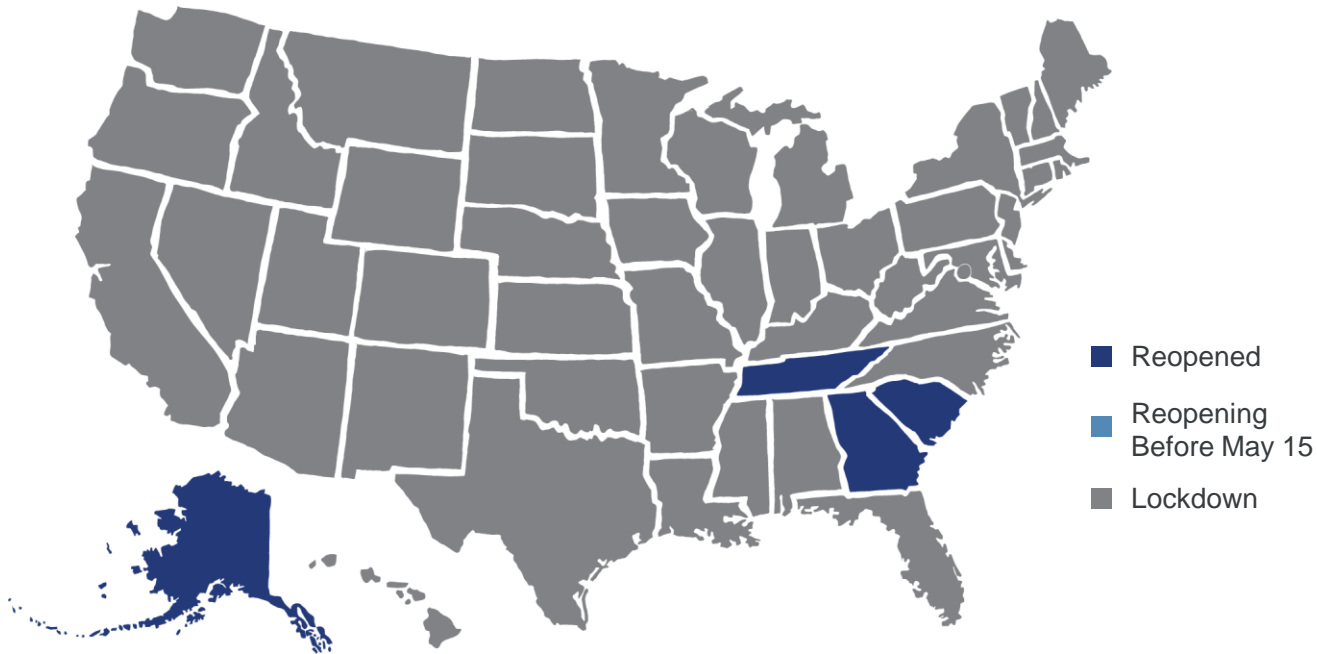
Source: FactSet

THE PACE OF REOPENING ACCELERATES

THE STATES ARE REOPENING, BUT FAR FROM OPERATING AT FULL CAPACITY

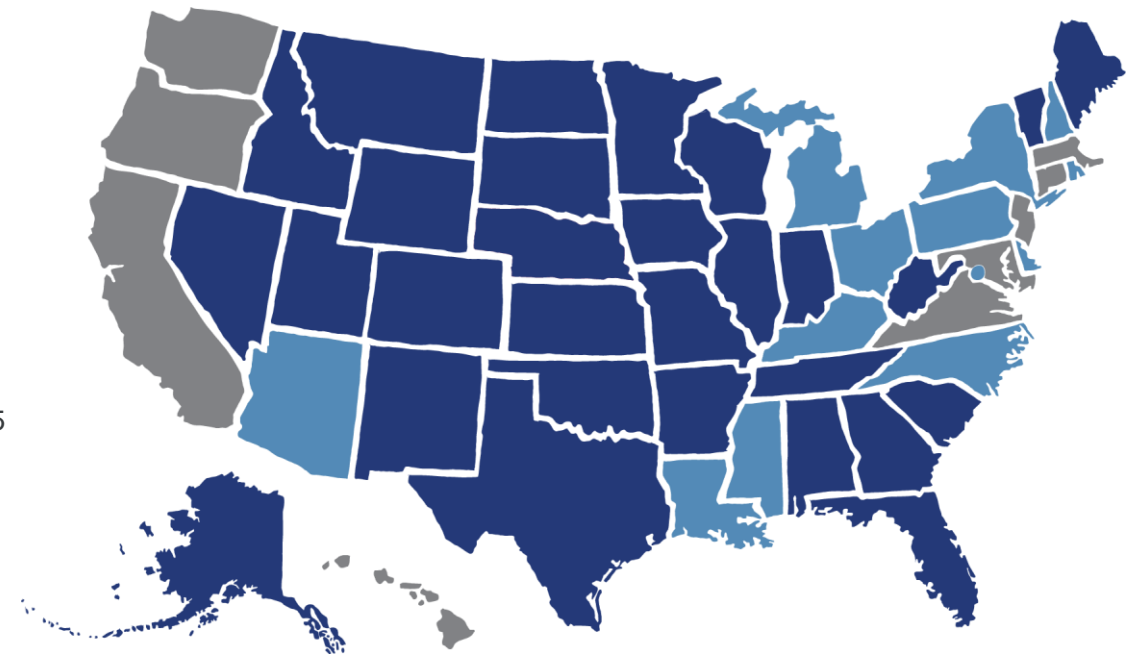
- Many states have reopened certain segments of their economies since last week, but most are limiting the reopening to essential and low-contact activities and businesses. Other states that have been significantly more impacted by COVID-19 remain under stay-at-home orders at least until May 15.

States Reopened One Week Ago (April 27)



Source: Raymond James Equity Research

States Reopening Today (May 4)



Source: Raymond James Equity Research

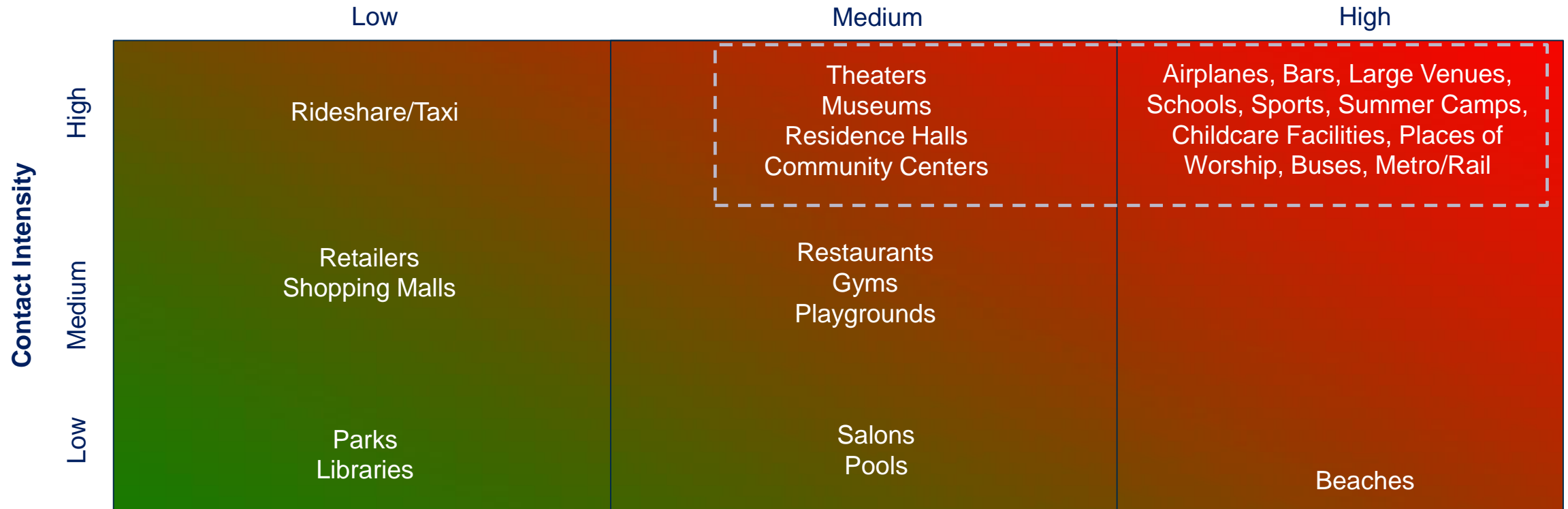
CONTACT INTENSITY AND FREQUENCY

AMERICANS REMAIN WORRIED ABOUT THE IMPACT OF COVID-19

- Despite Americans remaining concerned about the health issues surrounding COVID-19, states are slowly re-opening and basing some of their plans/phases on the intensity and frequency of contact.

Potential Strategy for Re-Opening

Contact Frequency

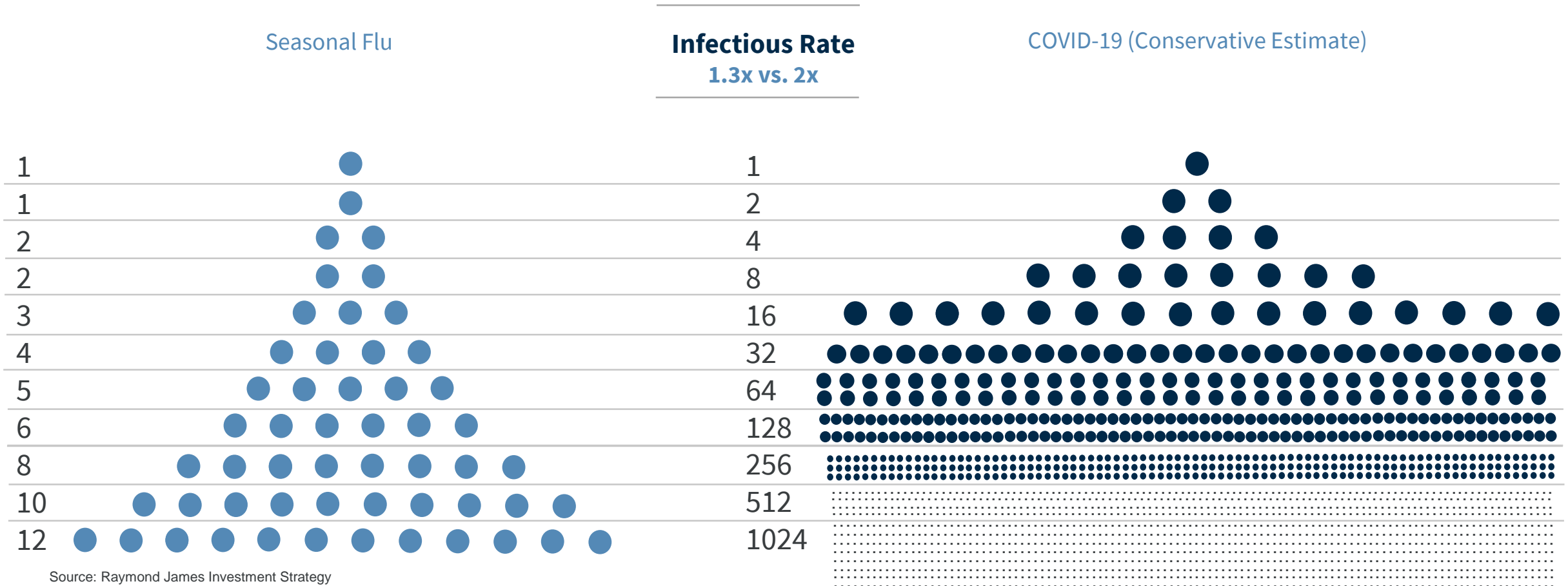


Source: CDC

SEASONAL FLU VS. COVID-19

THE SEASONAL FLU IS LESS INFECTIOUS THAN COVID-19

- The seasonal flu has been around for a long time, and vaccines developed through the years keep its infectiousness rate very low. On the other hand, COVID-19 is almost twice as infectious, and without a vaccine the spread is exponential.

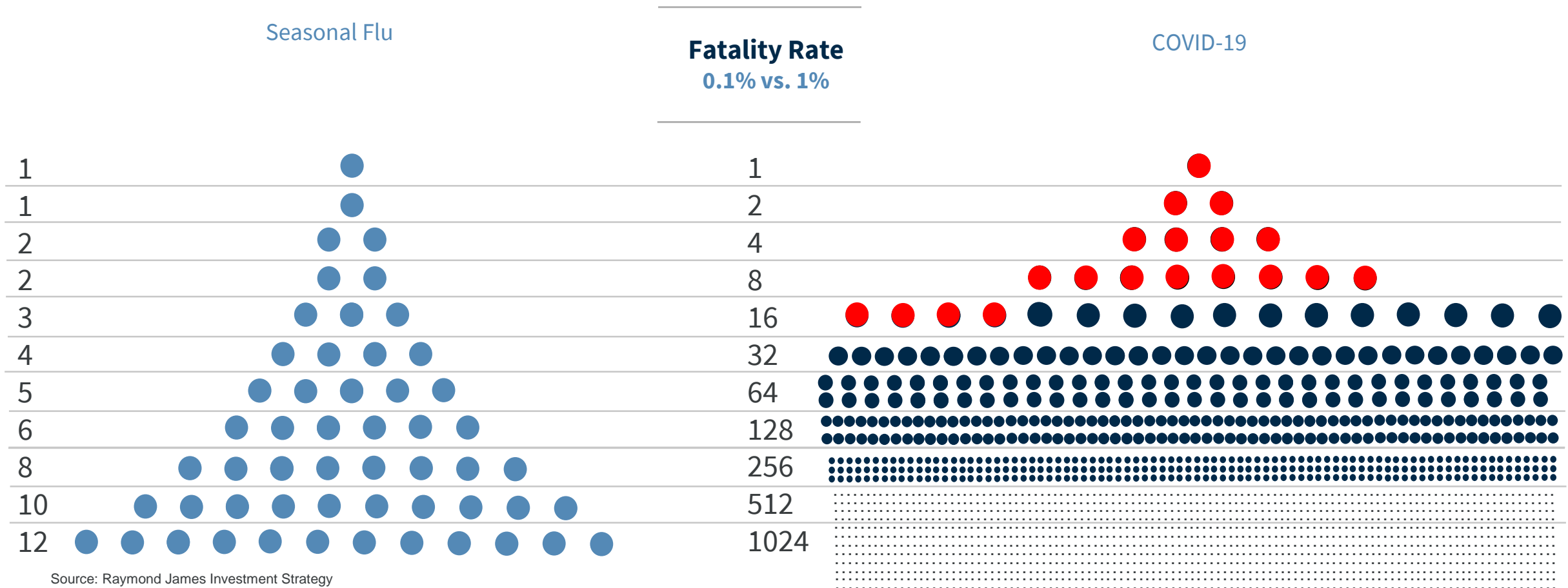


Source: Raymond James Investment Strategy

SEASONAL FLU VS. COVID-19

THE SEASONAL FLU IS ALSO SIGNIFICANTLY LESS DEADLY THAN COVID-19

- Only 2% of seasonal flu cases require hospitalization, while almost 20% of COVID-19 cases do. COVID-19's fatality rate is estimated to be between 1 and 3.5%, but even on the lower end of the estimate, it is still 10x deadlier than the seasonal flu.



SEASONAL FLU VS. COVID-19

THE POWER OF COMPOUNDING

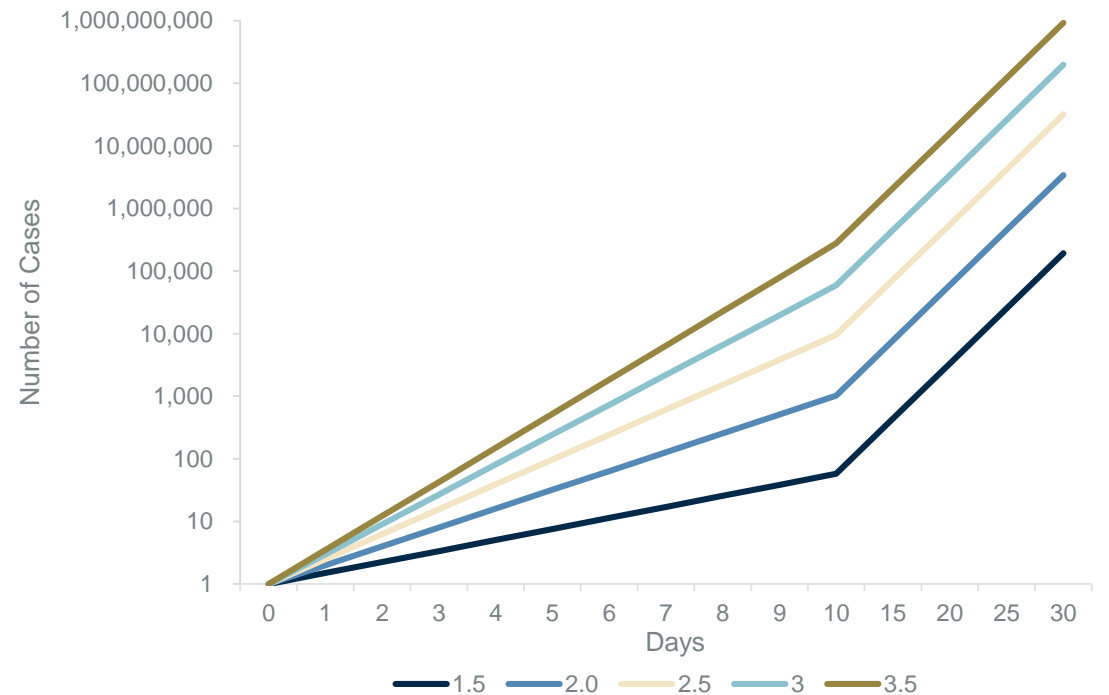
- The estimated range of infection for COVID-19 is between 2x and 3.5x. Although the difference might not seem much, with an infection rate of 3x, it could mathematically take just over 30 days to infect the entire population of the United States, and just a few more days to infect 1 billion people at a 3.5x infection rate.

Infection Rates and Number of New Cases

| Days | Infection Rate | | | | | |
|------|----------------|-----------|------------|-------------|-------------|---|
| | 1.5 | 2.0 | 2.5 | 3 | 3.5 | |
| 0 | 1 | 1 | 1 | 1 | 1 | 1 |
| 1 | 2 | 2 | 3 | 3 | 4 | |
| 2 | 2 | 4 | 6 | 9 | 12 | |
| 3 | 3 | 8 | 16 | 27 | 43 | |
| 4 | 5 | 16 | 39 | 81 | 150 | |
| 5 | 8 | 32 | 98 | 243 | 525 | |
| 6 | 11 | 64 | 244 | 729 | 1,838 | |
| 7 | 17 | 128 | 610 | 2,187 | 6,434 | |
| 8 | 26 | 256 | 1,526 | 6,561 | 22,519 | |
| 9 | 38 | 512 | 3,815 | 19,683 | 78,816 | |
| 10 | 58 | 1,024 | 9,537 | 59,049 | 275,855 | |
| 15 | 438 | 7,776 | 72,420 | 448,403 | 2,094,772 | |
| 20 | 3,325 | 59,049 | 549,937 | 3,405,063 | 15,907,174 | |
| 25 | 25,251 | 448,403 | 4,176,082 | 25,857,196 | 120,795,103 | |
| 30 | 191,751 | 3,405,063 | 31,712,119 | 196,353,085 | 917,287,815 | |

Source: Raymond James Investment Strategy

Infection Rates and Number of Cases



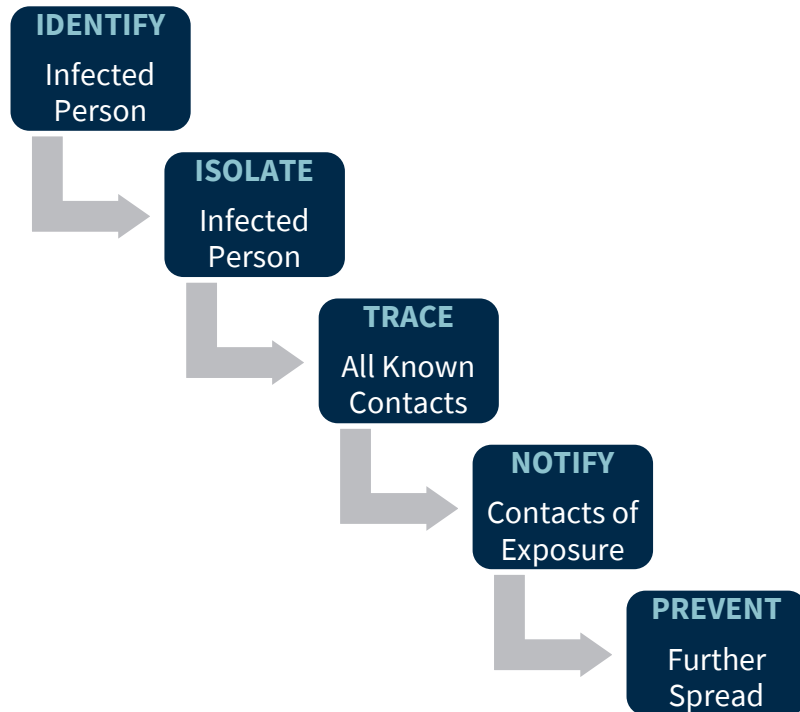
Source: Raymond James Investment Strategy

A PIECE OF THE PUZZLE: CONTACT TRACING

CONTACT TRACING IS IMPORTANT TO SAFELY REOPEN OUR ECONOMY, BUT IT IS NOT A STAND ALONE SOLUTION

- The goals of contact tracing are to encourage the quarantine of infected people and to trace those that have previously or are currently in contact with those infected.
- While these goals seem both reasonable and productive, the implementation of contact tracing proves to be quite challenging. Neither methodology (Traditional or Tech-Based) is without faults, and both still rely upon the other pieces of the puzzle, such as readily available testing.

Steps for Contact Tracing Success



Methodologies

Traditional Approach

+ Pro

- Job Creation
- Laws Protecting Patient Privacy Rights

- Con

- Time Consuming
- Subjected To Human Error (i.e., Forgotten Contacts)

Tech-Based Approach

+ Pro

- Exposed Persons Are Immediately Notified
- Multiple Contacts Notified At Once

- Con

- Data Privacy Concerns With Location Services
- Accuracy Concerns With Bluetooth

OFFICIAL RECESSION CALL DELAYED, BUT WE ARE IN ONE

FIVE TOOLS USED BY NBER TO DETERMINE RECESSION

Real GDP on Product and Income

Economy-Wide Employment

Real Income

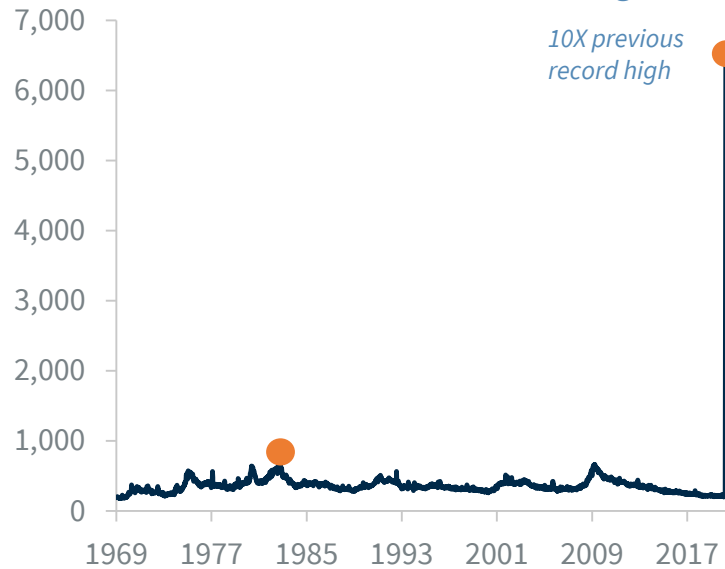
Real Sales

Industrial Production

“Determinations of recession have taken between 6 and 21 months. There is no fixed timing rule. The committee waits long enough so that the existence of a peak or trough is not in doubt, and until it can assign an accurate peak or trough date.”

-NBER (National Bureau of Economic Research)

Jobless Claims Rise to Record High



— Jobless Claims - in 000s

Source: FactSet

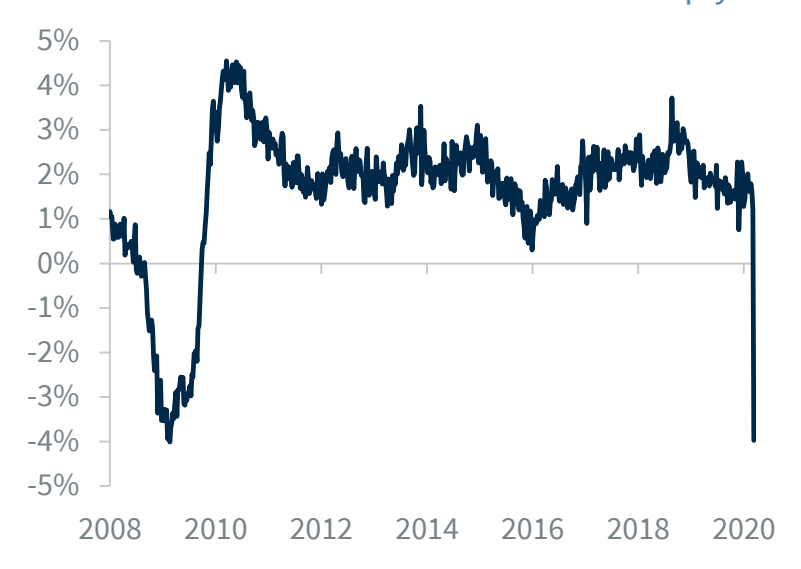
ISM New Orders at 10-Yr Low



— ISM Manufacturing - New Orders

Source: FactSet

Real-Time Indicators Contract Sharply



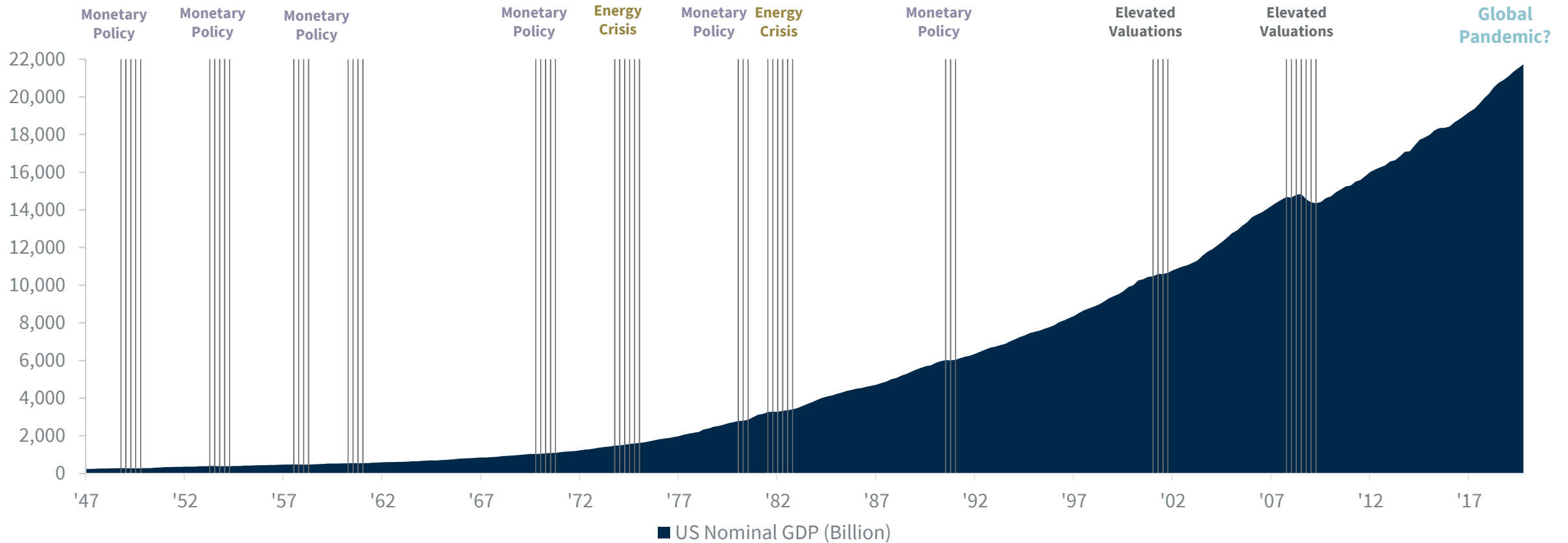
— New York Fed Weekly Economic Indicator (%YoY)

Source: FactSet

PREVIOUS US RECESSIONS

SINCE 1947, THE US ECONOMY HAS EXPERIENCED 11 RECESSIONS

- The COVID-19 outbreak could be the catalyst for the first virus-induced recession. Since 41 states have implemented stay-in-home orders, consumer spending (which accounts for ~70% of US economic growth) is essentially on lockdown.



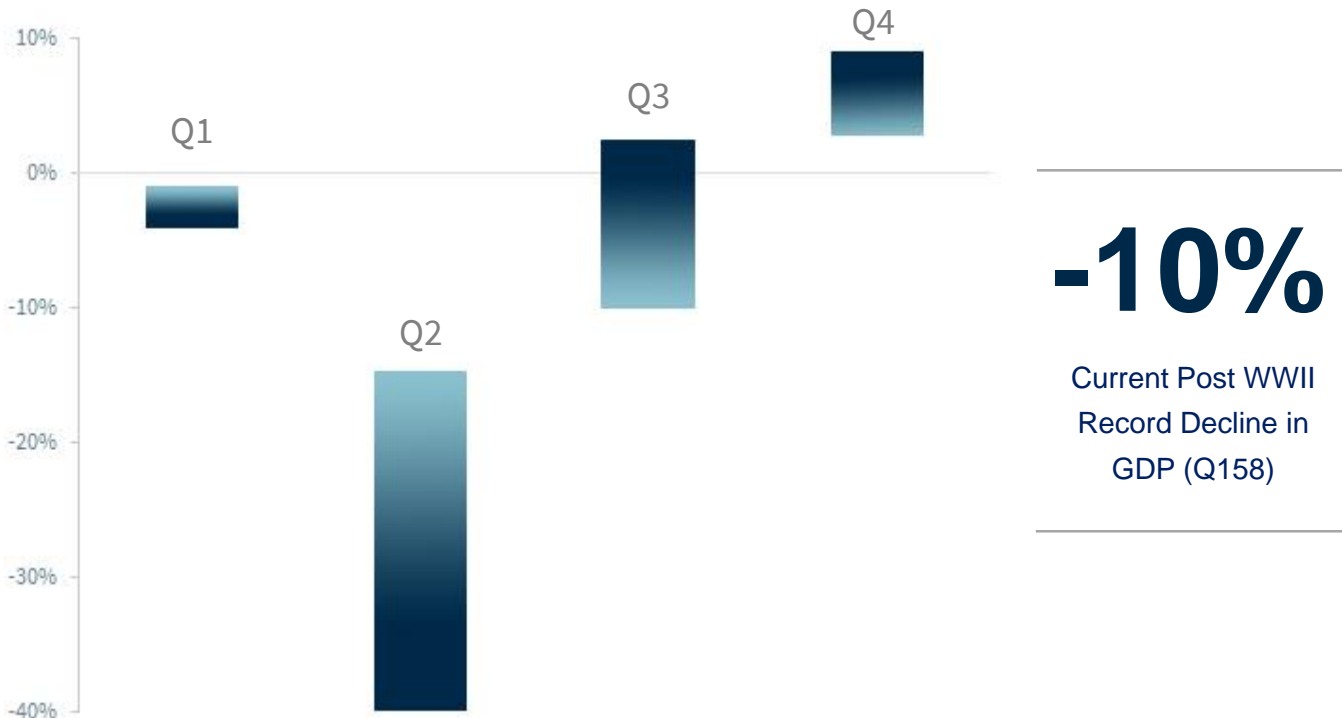
Source: FactSet

US AND GLOBAL ECONOMIC GROWTH DETERIORATING RAPIDLY

THE SHARP DECLINE IN GDP GROWTH IS LIKELY TO BE STAGGERING AND UNPRECEDENTED

- The decline in the second quarter is on pace to be historic, but will likely lead to a rebound during the second half of the year.
- The decline will be due to mandates by state and local governments, as some of the largest states have ordered people to “stay in place.”

Estimated Forward Looking GDP Estimates

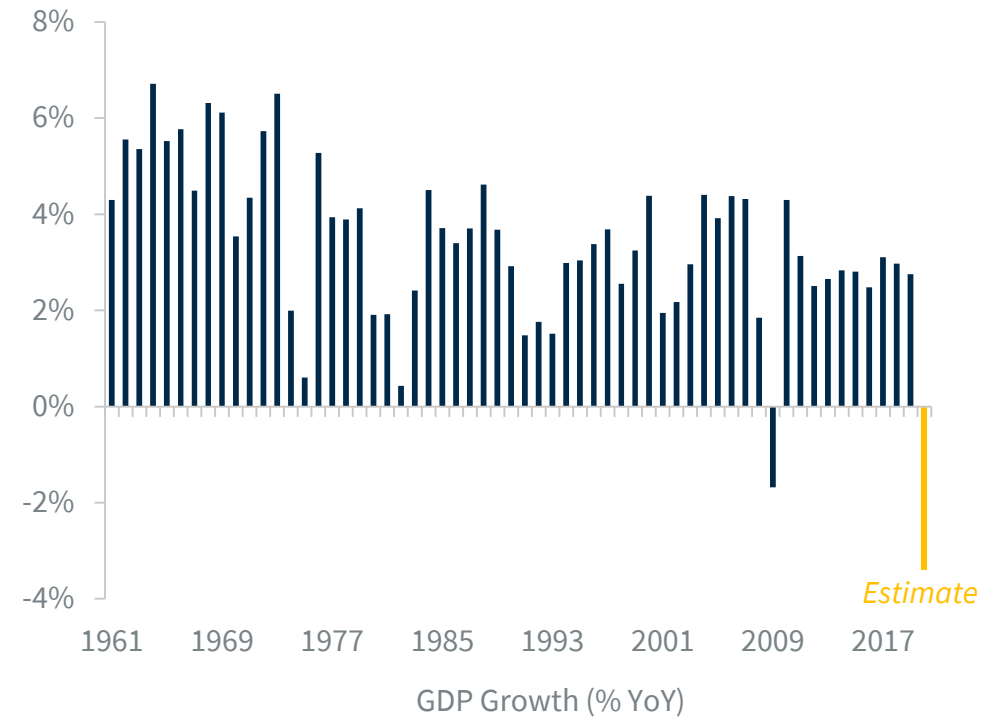


-10%

Current Post WWII
Record Decline in
GDP (Q158)

Source: Raymond James Investment Strategy Group

Global Economy Set to Post Worst Annual GDP

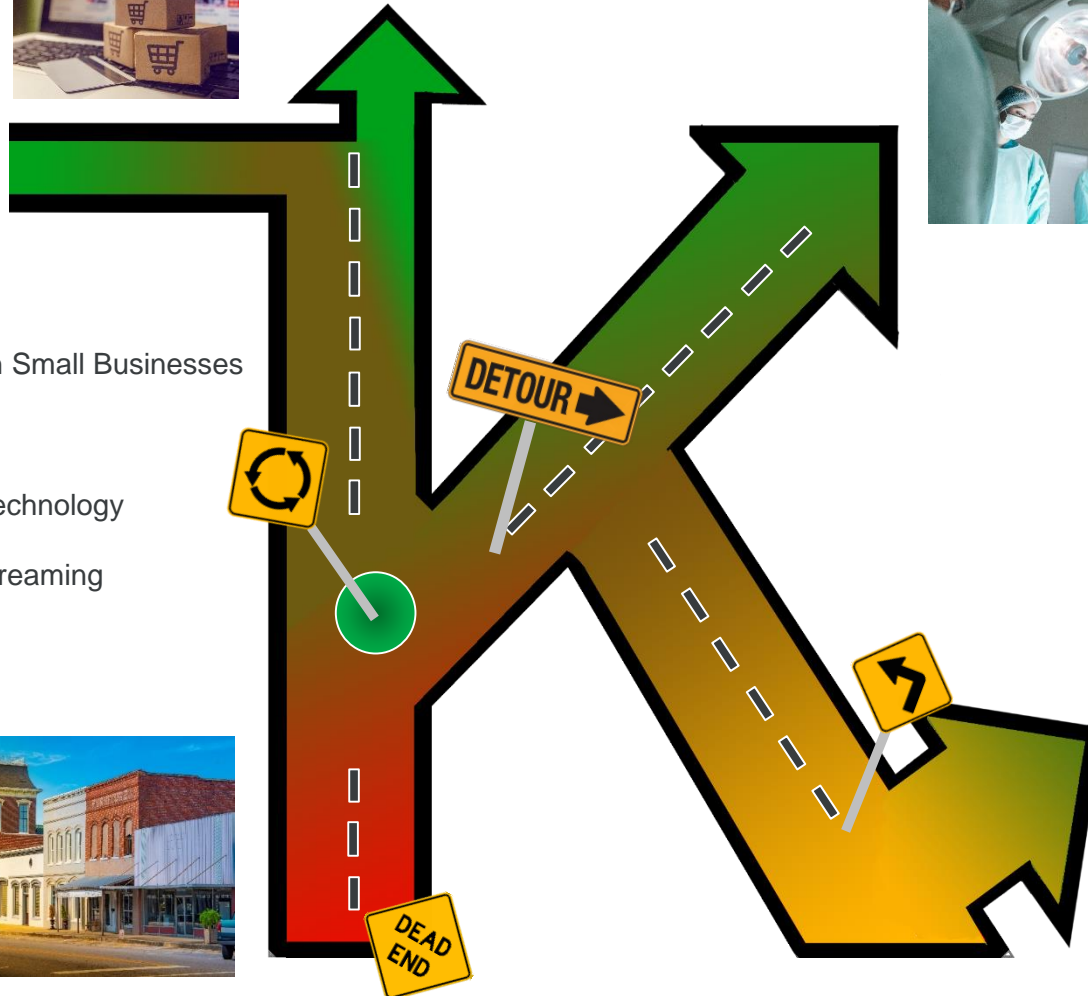


Source: FactSet

THE ECONOMIC ROADMAP UNDER THE SURFACE



- Over-Leveraged, Cash-Flow Driven Small Businesses
- Airlines, Entertainment, Car Sales
- Home Improvements, Surgeries, Technology
- Medical Supplies, E-Commerce, Streaming

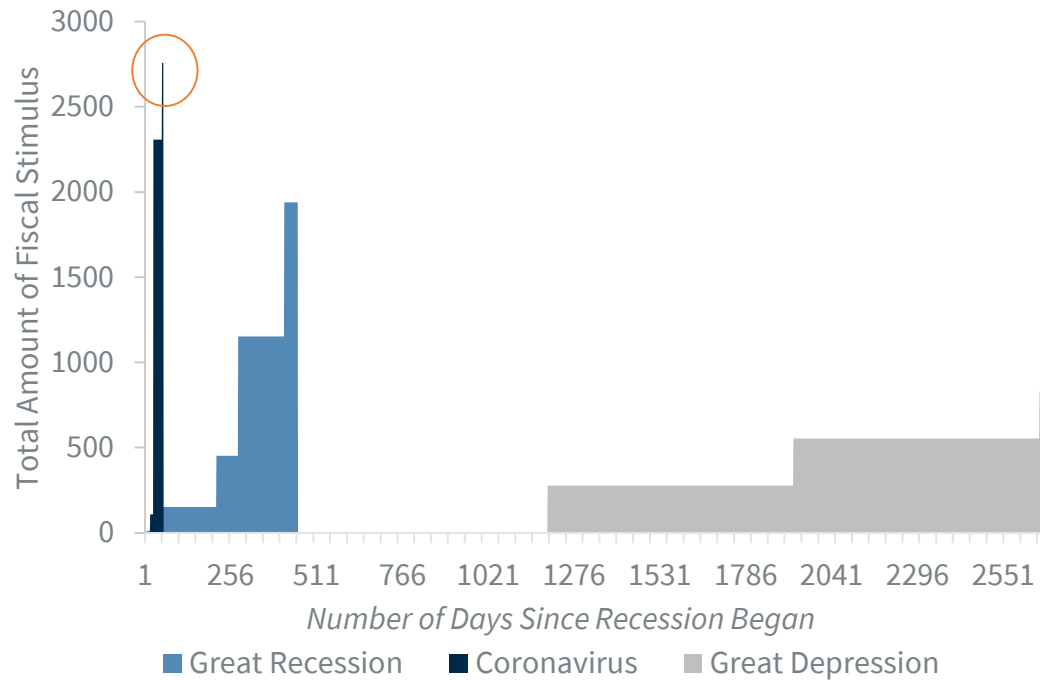


FED AND CONGRESS ACTED SWIFTLY AND AGGRESSIVELY

THE SPEED AND SIZE OF THE STIMULUS HAS BEEN UNPRECEDENTED

- Since the start of the recession (assuming March 1), it took Congress less than 30 days to pass \$2+ trillion in stimulus.
- In the early signs of economic weakness, the Fed brought interest rates to zero with two swift emergency rate cuts, announced an unlimited amount of purchases through quantitative easing measures, and widened the scope of its purchases to include municipal and corporate bonds.

Congress Acting in Unprecedented Fashion

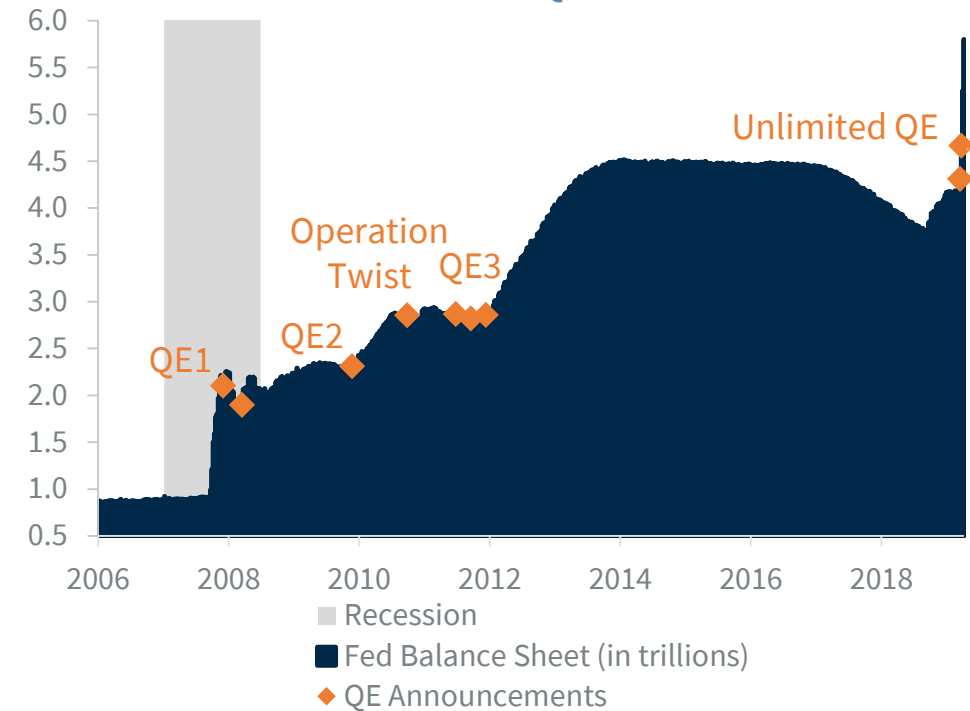


Source: FactSet. Stimulus listed in billions.

2

Emergency Cuts in 10 Days Unprecedented.
Interest Rates Essentially to Zero

Fed Balance Sheet With QE Announcements



Source: FactSet

TREASURY YIELDS LIKELY TO REMAIN LOWER FOR LONGER

FIVE REASONS INTEREST RATES ARE UNLIKELY TO RISE SIGNIFICANTLY

Weak Growth

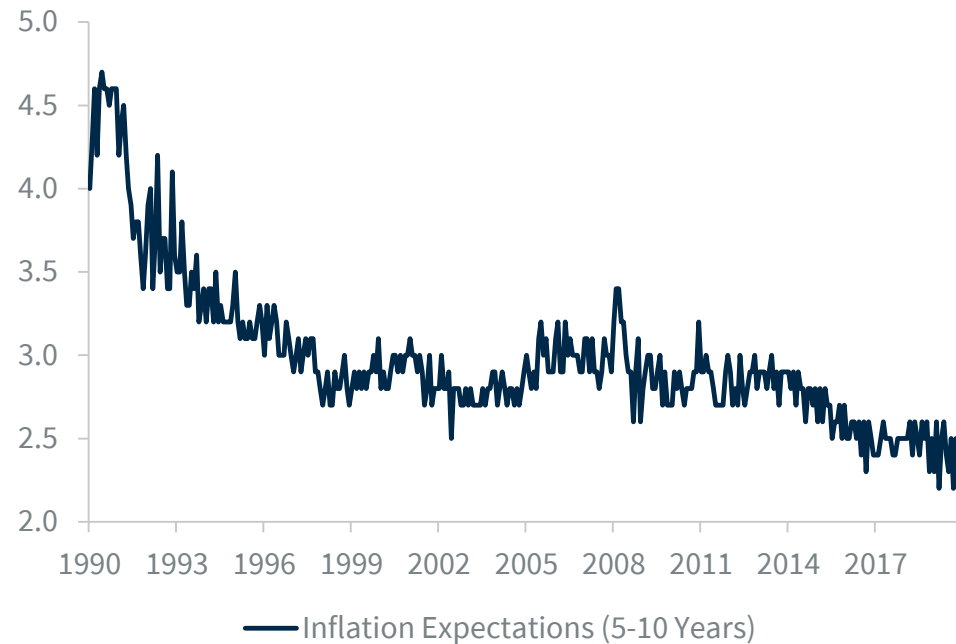
Muted Inflation

Central Bank Easing & Buying

Increased Foreign Demand

Aging Demographics

Inflation Expectations at Record Low

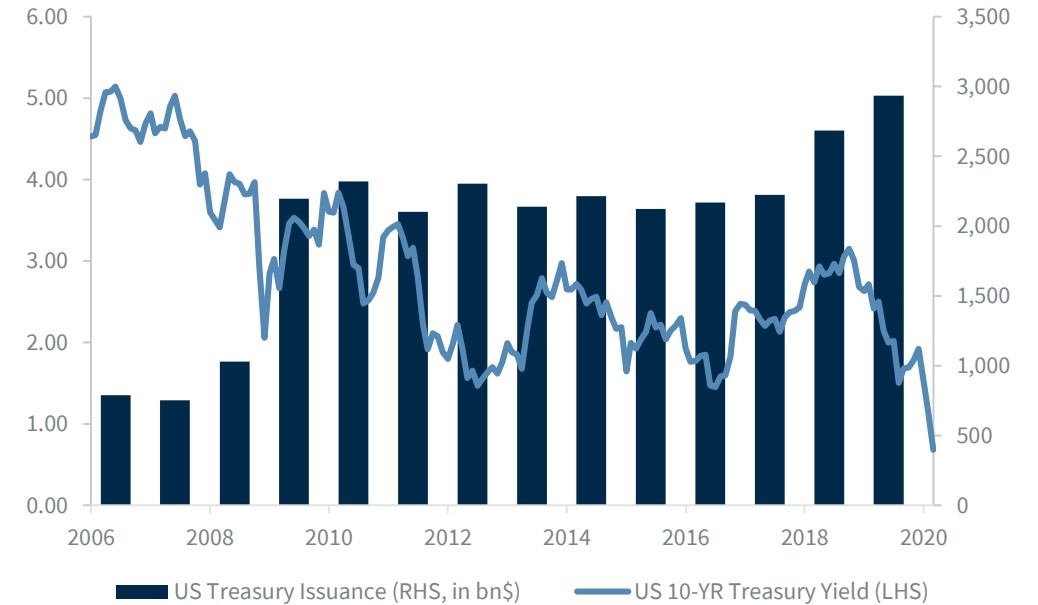


Source: FactSet

1%

Year-End 10-Year
Treasury Yield
Forecast

Increased Supply Has Not Stopped Yield Decline

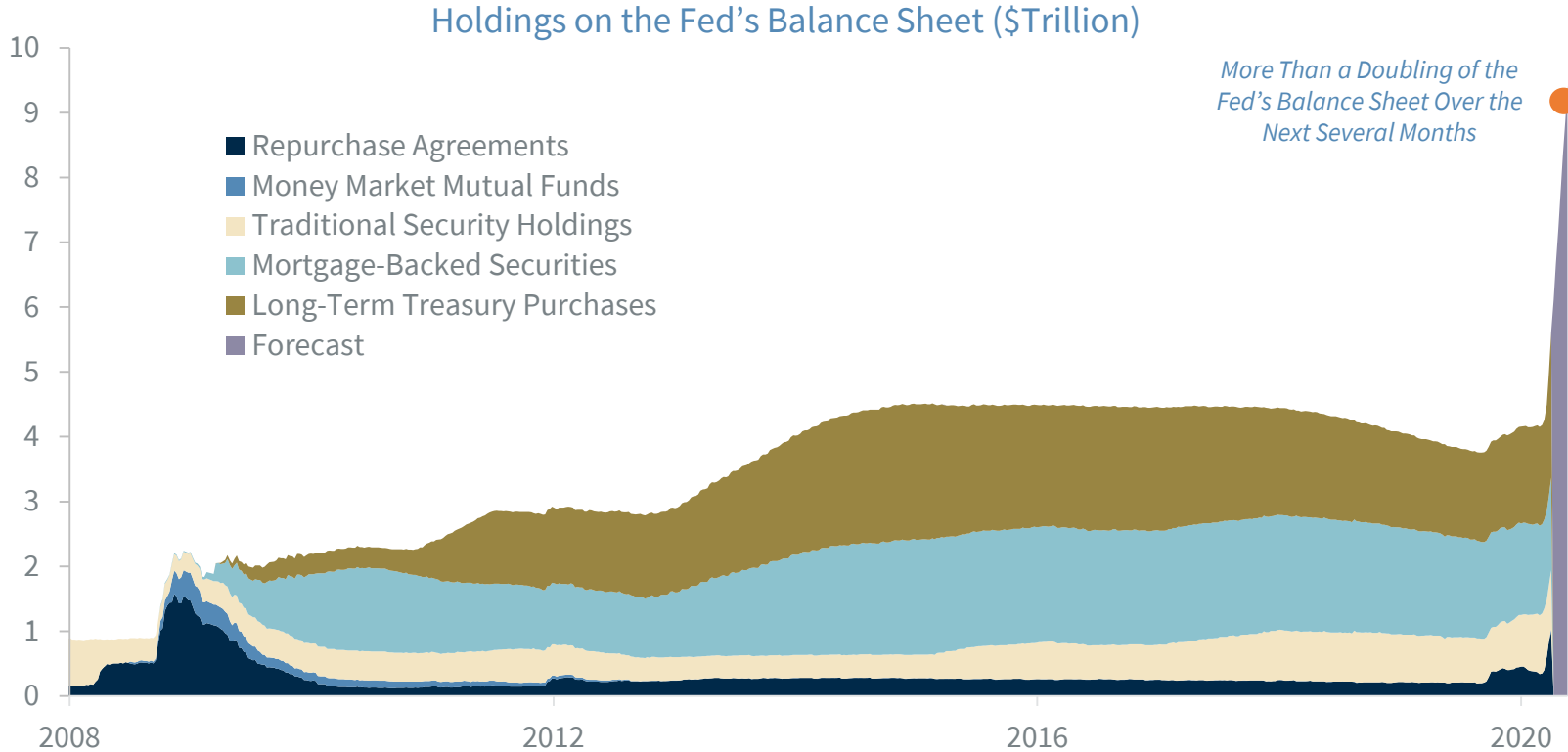


Source: FactSet

FED BUYING SUPPORTIVE OF CERTAIN SECTORS

FED PURCHASE PLANS EXPANDED TO MUNICIPALS AND INVESTMENT-GRADE CORPORATES

- Fed purchases are another reason we favor investment-grade bonds and municipals.
- Fed purchases should support agency mortgage-back securities, however, pre-payment risk reduces their attractiveness.



CONSIDER BUYING WHAT THE FED NOW HAS THE POWER TO PURCHASE:

- Municipals (+)
- Investment-Grade Corporates (+)
- Mortgage-Back Securities (=)

FOUR CATALYSTS TO PROPEL THE EQUITY MARKET

WITH MARKET VOLATILITY STILL WELL ABOVE ITS HISTORICAL AVERAGE, THERE ARE FOUR CATALYSTS THAT COULD CALM INVESTOR FEARS AND PROPEL THE EQUITY MARKET HIGHER OVER THE INTERMEDIATE TO LONGER TERM



Aggressive
Monetary
Policy



Aggressive
Fiscal Policy



Development
of a
Therapeutic
or Vaccine



No Longer
Dominating
the Nightly
News

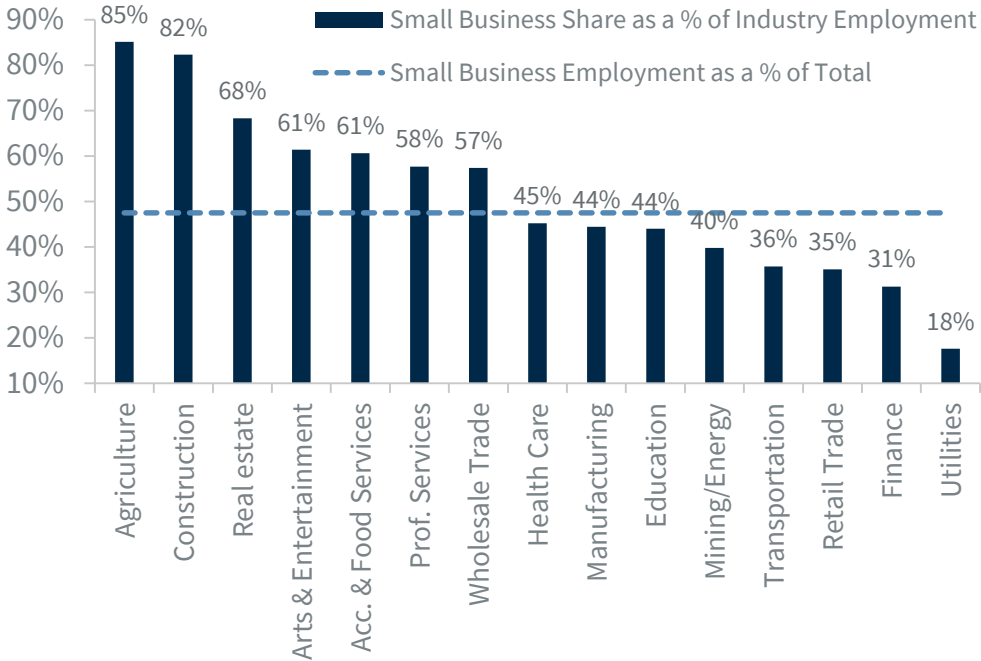


THE STOCK MARKET IS NOT THE ECONOMY

THE EQUITY MARKET HAS STRONGLY RALLIED WHILE ECONOMIC DATA HAS DETERIORATED. WHILE THIS SEEMS INCONSISTENT, IT IS IMPORTANT TO REMEMBER THAT THE STOCK MARKET IS NOT NECESSARILY THE US ECONOMY.

- The US economy has over 28 million companies. Small businesses make up ~99% of all firms and ~48% of all employment in the US.
- The S&P 500 receives more of its revenues from overseas, so it should benefit from a turnaround in global growth.

1 Small Businesses as a % of Total Employment

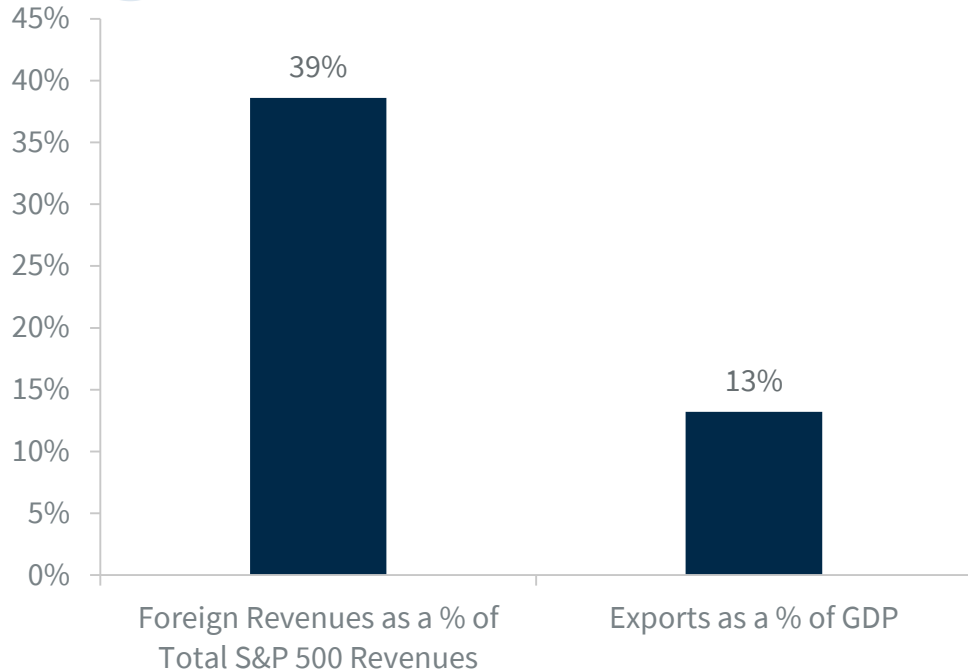


Source: FactSet

55%

S&P 500 trailing 12-month revenues equivalent to 55% of US nominal GDP

2 S&P 500 Receives More Revenues From Overseas



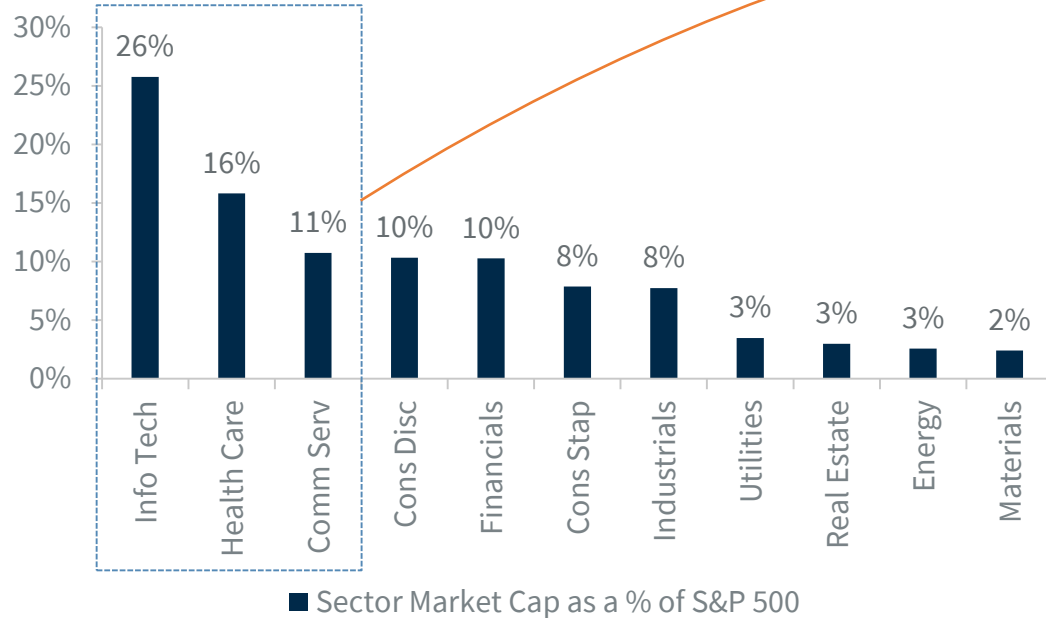
Source: FactSet

THE STOCK MARKET IS NOT THE ECONOMY

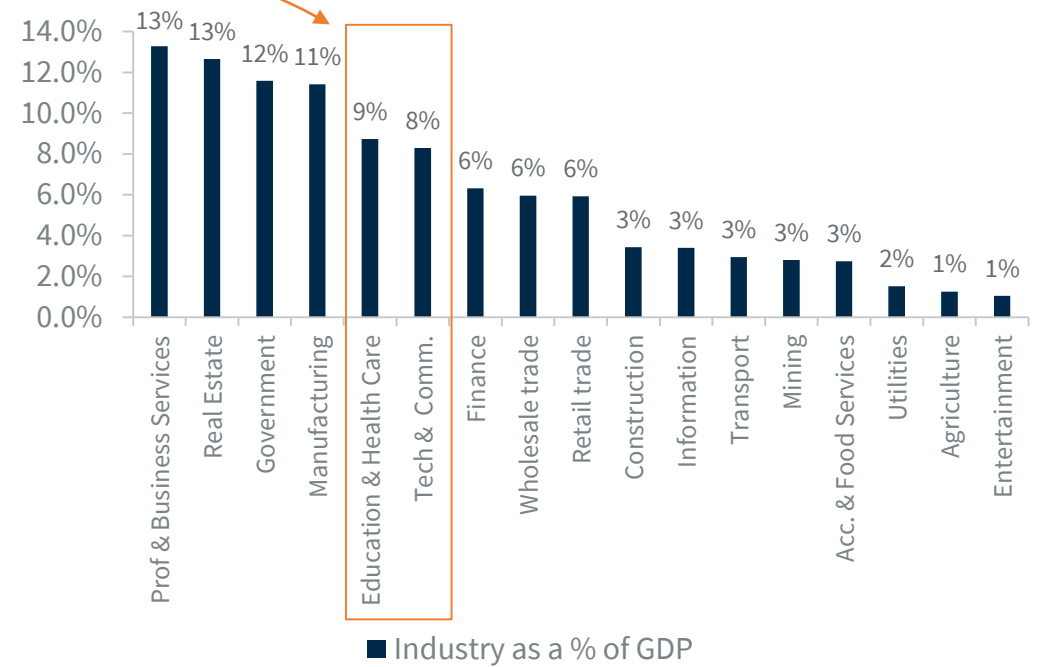
S&P 500 NOT REFLECTIVE OF UNDERLYING US ECONOMY

- The three biggest sectors of the S&P 500—Tech, Health Care, and Communication Services—represent 52% of the market cap of the S&P 500 versus only representing about 17% of the US economy.
- Professional and business services, real estate and government spending are the largest components of the US economy.

3 Sector Weightings of the S&P 500



Economy Has Less Exposure to More Resilient Sectors



~52% vs 17%

Source: FactSet

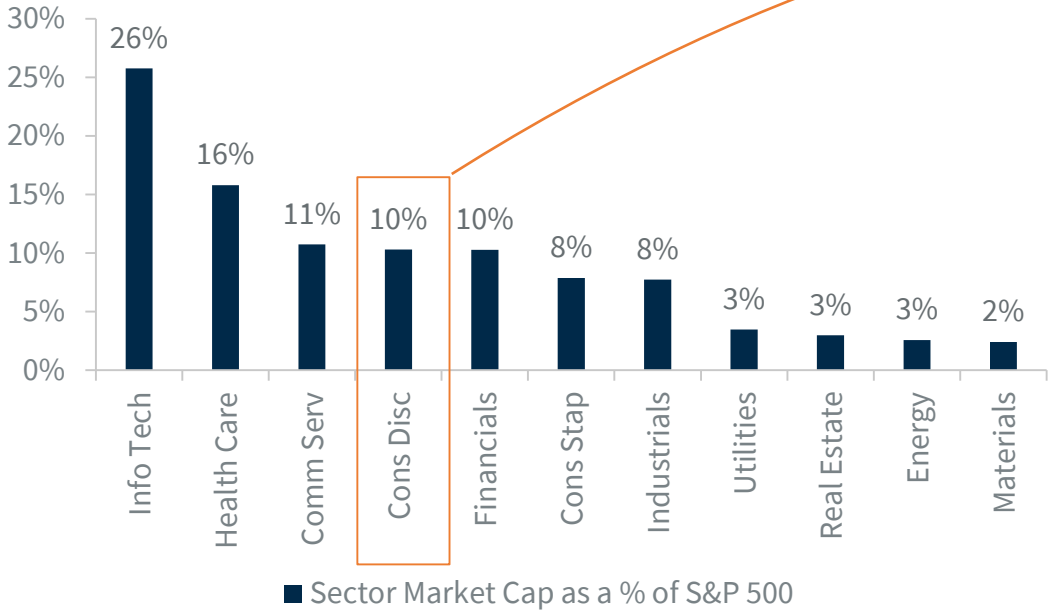
Source: FactSet

THE STOCK MARKET IS NOT THE ECONOMY

CONSUMER DISCRETIONARY SECTOR HEAVILY WEIGHTED TO E-COMMERCE AND HOME IMPROVEMENT

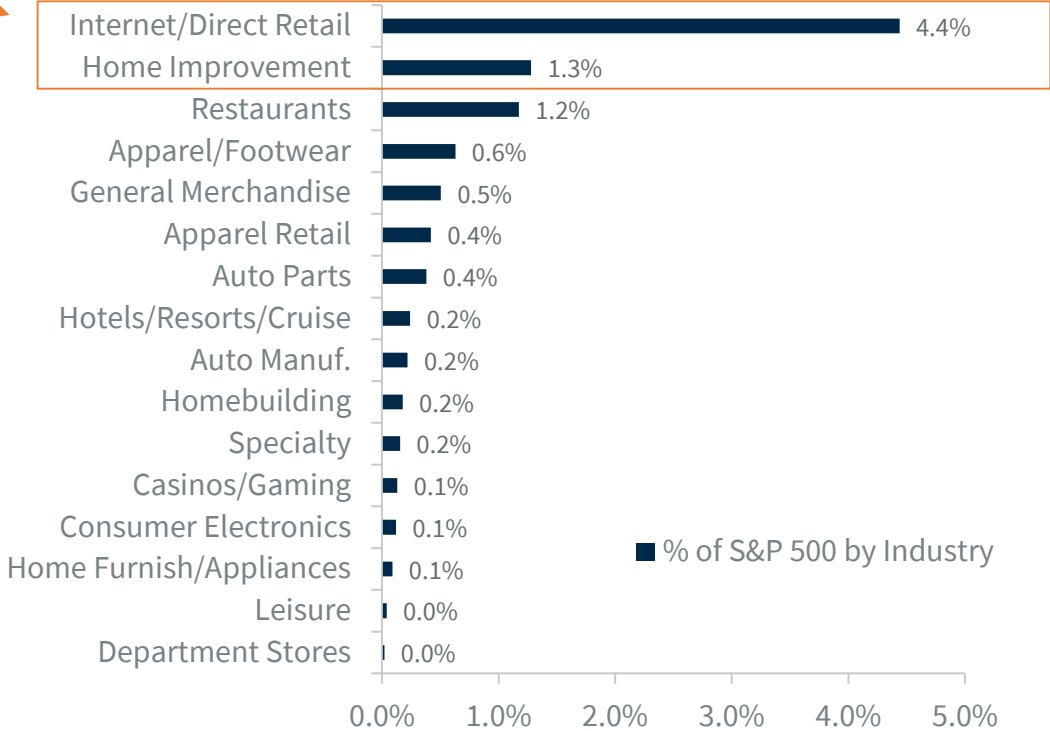
- Internet/direct retail and home improvement companies make up over half (~57%) of the Consumer Discretionary sector.
- Department stores, leisure, home furnishings, casinos, auto manufacturers, hotels, and homebuilders make up ~1% of the S&P 500.

4 Sector Weightings of the S&P 500



Source: FactSet

At-Risk Industries Make Up Small Portion of S&P 500

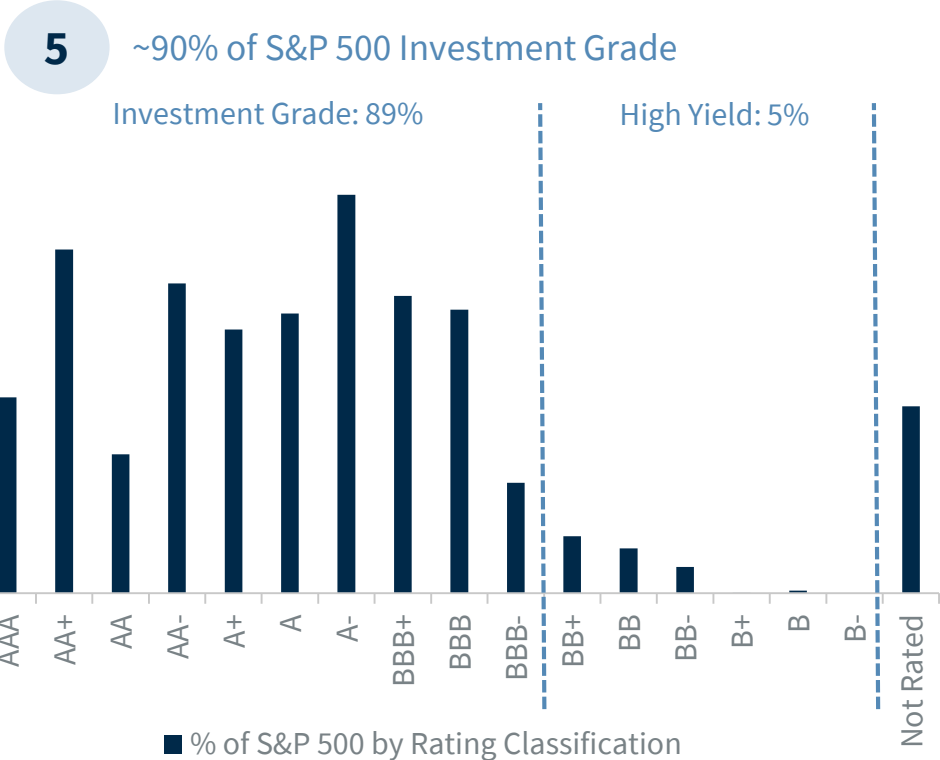


Source: FactSet

THE STOCK MARKET IS NOT THE ECONOMY

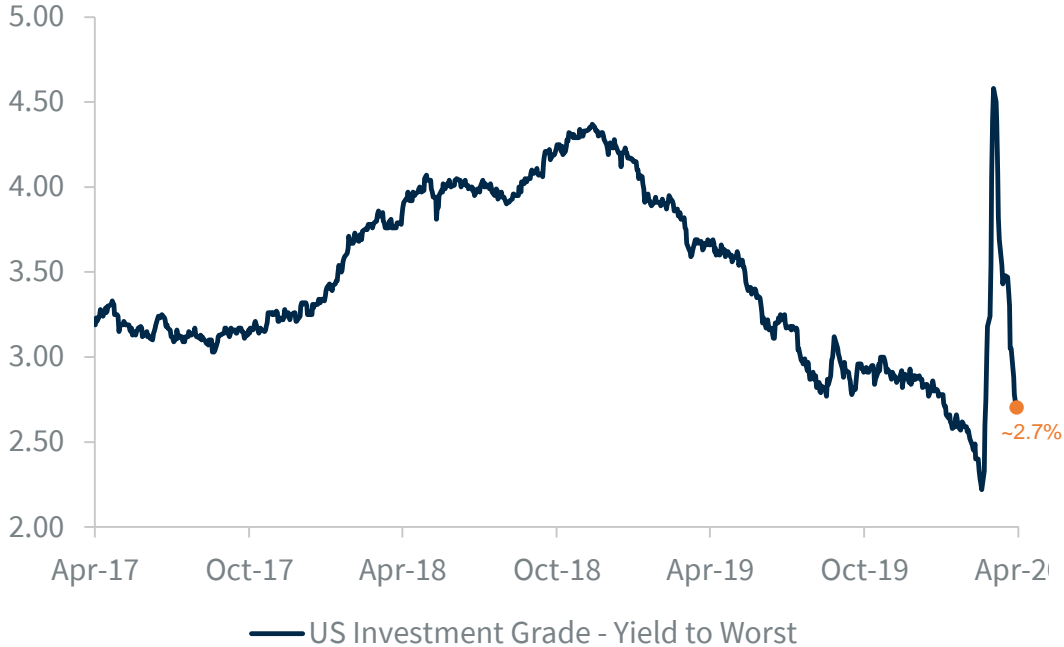
FINANCING CONDITIONS FAVOR THE LARGEST AND HIGHEST QUALITY COMPANIES

- ~90% of the S&P 500 is rated as investment grade, which should give these companies access to financing and allow them to benefit from the Fed’s corporate bond purchases.
- Interest rates, on average, are much more favorable for S&P 500 companies over small businesses.



Source: FactSet

Corporate-Bond Yields Remain ‘Relatively’ Low



Source: FactSet

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Matt Barry, CFA
Investment Strategy Analyst

Scott Brown
*Senior Vice President, Chief
Economist*

Liz Colgan
Investment Strategy Analyst

Giampiero Fuentes
Investment Strategy Analyst

J. Michael Gibbs
*MD, Equity Portfolio & Technical
Strategy*

Kevin Giddis
MD, Chief Fixed Income Strategist

Taylor Krystkowiak
Investment Strategy Analyst

Joey Madere, CFA
Senior Portfolio Analyst

Richard Sewell, CFA
Senior Portfolio Analyst

Anne B. Platt
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[S&P 500](#) | The **S&P 500 Total Return Index**: The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

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DATA SOURCES:

FactSet

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