BLACK SWAN
CORONAVIRUS

March 16, 2020

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CORONAVIRUS' UNPRECEDENTED IMPACT ON THE GLOBAL ECONOMY & FINANCIAL MARKETS

Global Economic Impact

Apple Closing All Stores Outside China Until 3/27

Disney Parks Closes For First Time Since 9/11

Major Sports Leagues Suspend Seasons

~300 Million Students Out Of School Worldwide

Spain Joins Italy In Lockdown – Only Grocery Stores & Pharmacies To Remain Open

Travel to Europe Banned

Google Encourages All US Employees To Work From Home

NYC St. Patrick's Day Parade Cancelled For First Time In 258 Years

Walmart to Close 24-Hour Stores Overnight to Clean and Restock

Financial Markets Impact

Federal Reserve cuts rates to zero to support the econom

Circuit Breakers Halt Trading For First Time Since 1997

Worst % Drop For Dow & S&P 500 Since October 1987

Asset Managers Pricing In 80% Chance of US Recession

Best % Gain For Dow & S&P 500 Since October 2008

Worst Daily Decline For Oil In 29 Years

Entire Treasury Yield Falls Below 1% For First Time

S&P 500 Enters Bear Market In 16 Trading Days

COVID-19 – WHAT IS IT?

CO - VI - D - 19

CORONA **VI**RUS **D**ISEASE 20**19** ← **YEAR DISCOVERED**

TYPE OF INFECTIOUS AGENT: **S – A – R- S – CO – V - 2**

SEVERE **A**CUTE **R**ESPIRATORY **S**YNDROME **CO**RONA **V**IRUS **2**

2-2.5
Reproductive Rate

80%
Recovery Rate

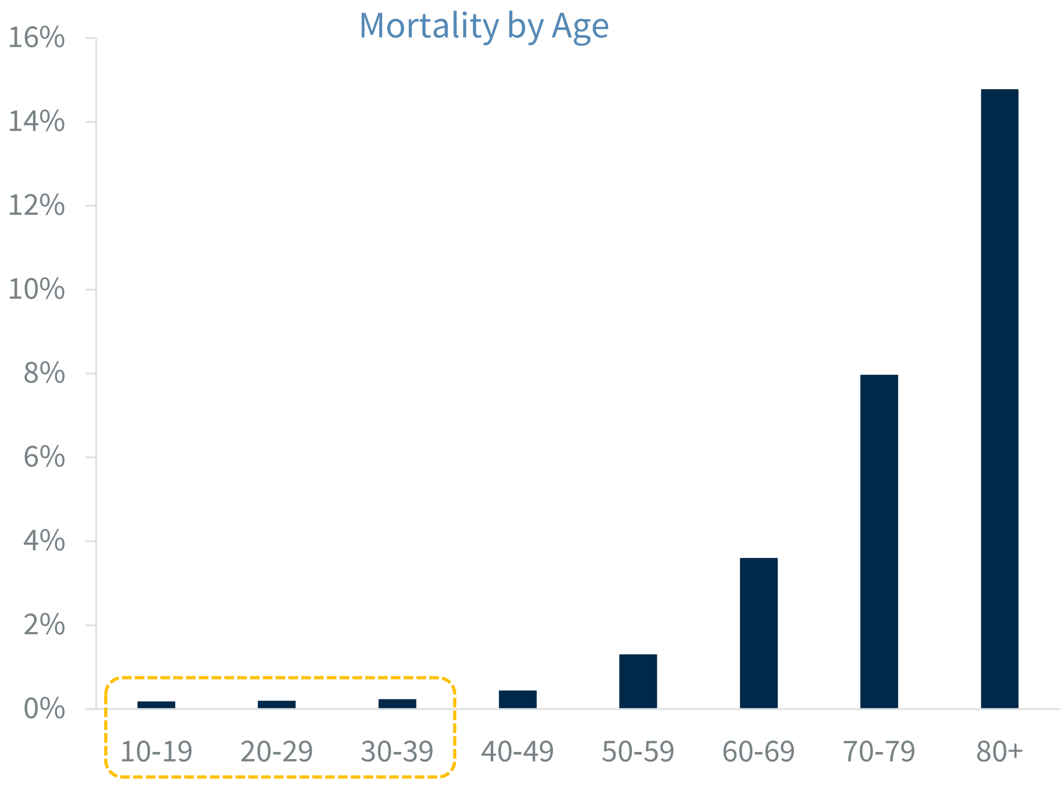
175,058 CASES IN 158 COUNTRIES

- **31-Dec**: Chinese Health Authorities Treating "Pneumonia-Like" Cases of Unknown Cause
- First Death in China
- **15-Jan**
- Japan, South Korea, Thailand, & US All Confirm Cases
- Travel Ban on Wuhan
- WHO Declares Global Health Emergency
- **30-Jan**: US Restricts Travel from China
- First Death Outside China
- Diamond Princess Cruise Ship Quarantines Thousands in Japan
- China Death Toll Surpasses SARS Global Death Count
- New Cases in Hubei Province Spike (~15,000)
- **14-Feb**
- Iran Announces Cases
- Towns in Italy on Lockdown
- Trump Administration Requests $1.25 Billion Response Bill
- First Case in Latin America
- **29-Feb**: Cases in Europe Spike
- First US Death Prompts More Travel Restrictions
- US Officials Approve Widespread Testing After CDC's "Glitch"
- Italy Implements Full Quarantine
- European Travel Ban; WHO Declares Global Pandemic
- Trump Declares National Emergency
- **15-Mar**: Spain Implements Full Quarantine

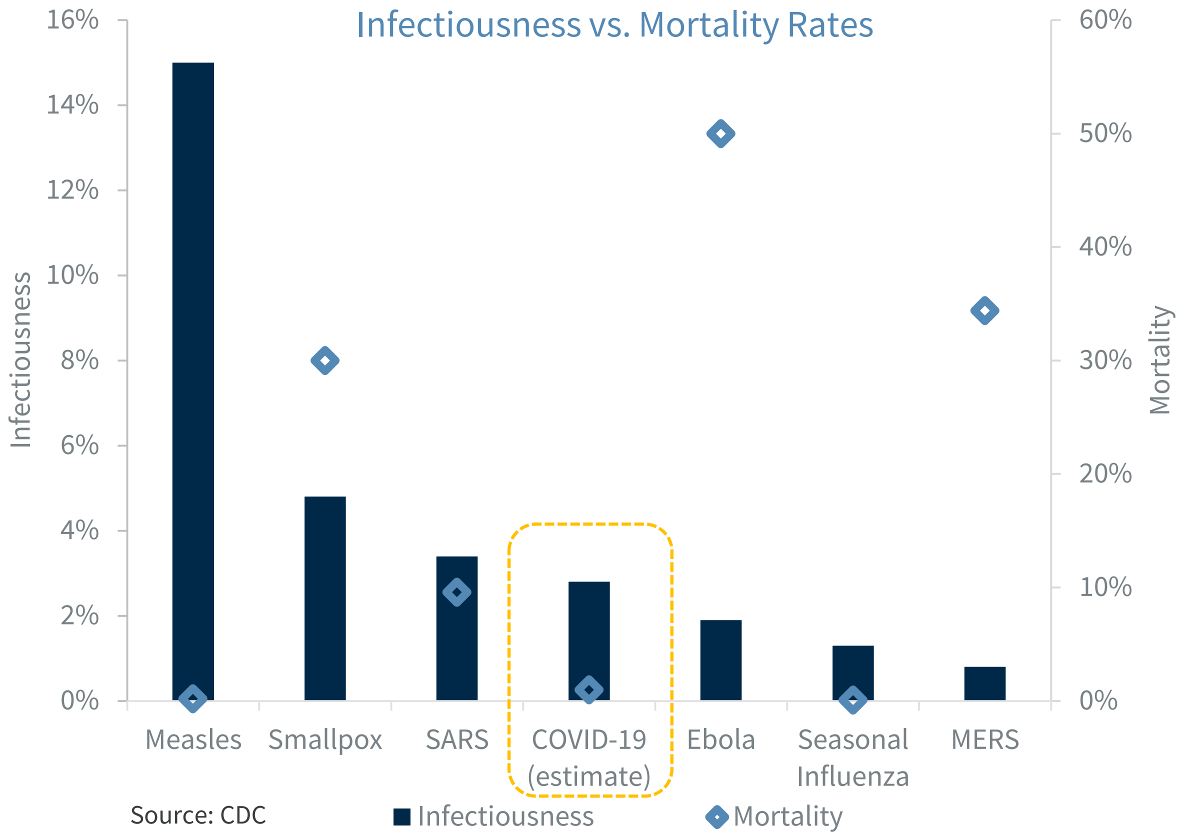
WHAT IS COVID-19?

HEIGHTENED MARKET CONCERNS AS CORONAVIRUS CASES INCREASE AND THE VIRUS SPREADS TO ADDITIONAL COUNTRIES

- The mortality rate by age is skewed toward the elderly, with over 93% of reported deaths affecting people over 60 years old.



Source: CDC



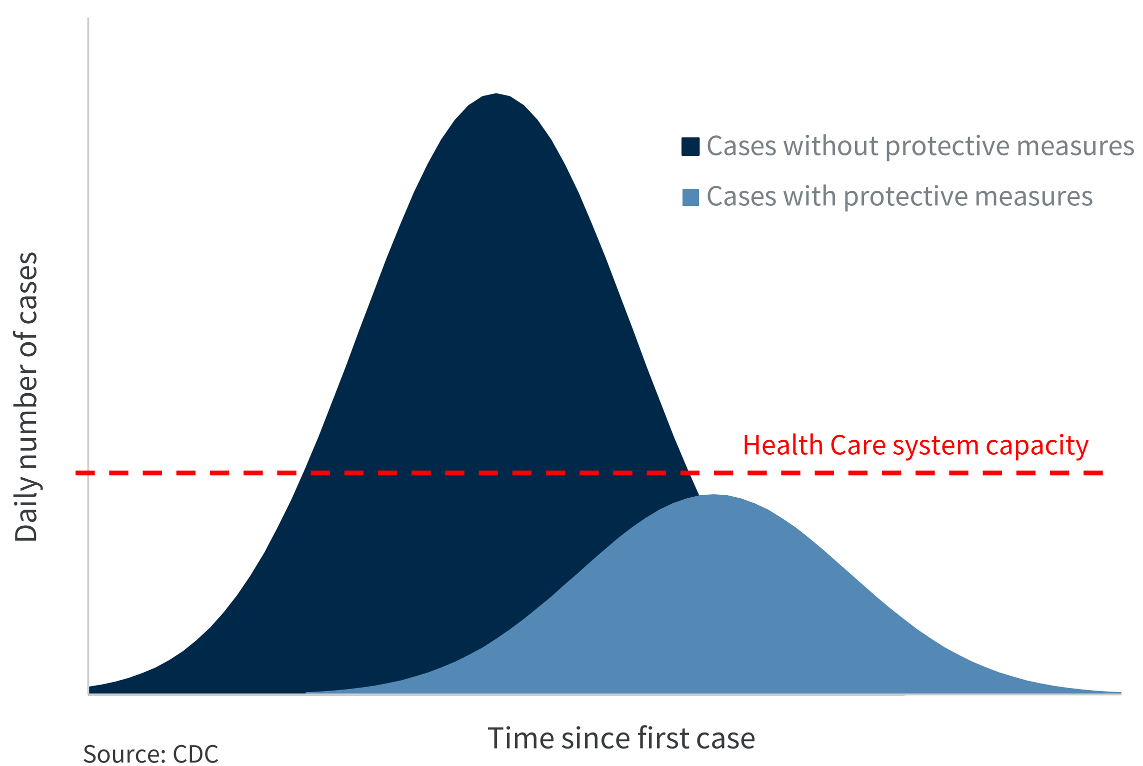
Source: CDC

WHAT IS COVID-19?

HEIGHTENED MARKET CONCERNS AS CORONAVIRUS CASES INCREASE AND THE VIRUS SPREADS TO ADDITIONAL COUNTRIES

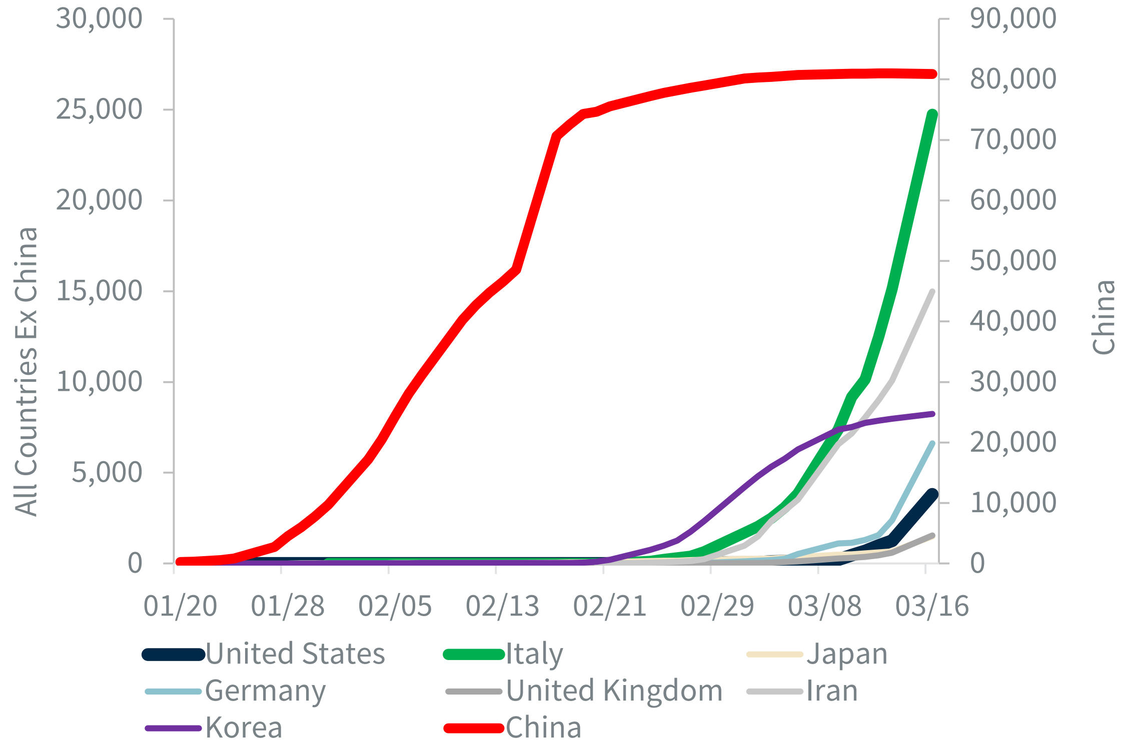
- After earlier ignoring the spread of the virus, markets are currently on edge, as there are now 175,058 reported global cases (~6,700 deaths) most of which are in China. The number of countries with reported cases has risen substantially, as 158 countries now have a reported case.

Protective Measures Matter



Source: CDC

Number of Global Cases (in Thousands)



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HEALTHCARE POLICY – CHRIS MEEKINS

CHRIS MEEKINS, RAYMOND JAMES HEALTHCARE POLICY ANALYST

We continue to believe things are going to get worse before they get better.

Time is necessary to provide clarity.

There is a natural delay in time between any change in mitigation behavior and a corresponding change in the number of people testing positive.

- **Travel Restrictions:** Expect travel restrictions to happen in different waves with some domestic air travel, then all air travel; then mass transit; then ride sharing; then possibly even some auto though we think that is unlikely right now.
- **Business Restrictions:** Business restrictions similar to what we are seeing in France are likely in areas in the US with community spread.
- **Gov. Health:** The federal government will likely mobilize both the National Disaster Medical System and the military to increase medical surge capacity.
- **Estimates:** We estimate that though we only have 3,000 identified cases, the likely number of cases is between 12,000-18,000. It is entirely possible the number could be above 30,000 without us knowing it because of failures in testing.
- **Four Scenarios:** “Stop Everything Now” Scenario; “Procrastinator” or “Eventually We Get It” Scenario; “Saved by Summer” Scenario; “Failure IS an Option” Scenario.

HEALTHCARE POLICY – FOUR SCENARIOS GOING FORWARD

SCENARIO 1: "STOP EVERYTHING NOW"

Summary: The US economy basically shuts down all non-essential activities for two weeks starting Monday, March 16 (or a few days after). Testing dramatically increases so an accurate baseline of infection becomes available. We see a notable increase in cases, but those cases are before the de facto shutdown has occurred. By the end of the two week period, cases dramatically slow and nearly all individuals with the virus are identified in the US. This allows the US to slowly begin reopening activities with active monitoring in areas where community spread has subsided.

Scope and Duration: We believe in this scenario the number of infections stays below 500,000 and we will have turned the corner by late April.

Economic Impact: The economic impact is severe in scope, but limited in duration. If the virus stops spreading quickly as a result of these actions, we believe the consumer confidence bounce back will be quicker than in the other scenarios.

SCENARIO 2: "PROCRASTINATOR" OR "EVENTUALLY WE GET IT"

Summary: Areas impacted by community spread will shut down after dragging their feet a bit. As additional communities see community spread, they will follow course with restrictive actions, but they fail to preemptively act before spread breaks out in their areas. The public largely ignores warnings until the death rate ticks up (likely within next 16 days) and then the public accepts the meaningful action that is necessary. At that moment, all activities from the "Stop Everything Now" scenario are triggered

Scope and Duration: We believe in this scenario the number of infections stays below 1,000,000 and we will have turned the corner by Memorial Day.

Economic Impact: Pain is prolonged because immediate actions were not taken. The public will cautiously resume spending but the early part of the summer vacation season would likely not occur. The extended unemployment for summer will cause a fiscal hit that the government will have to figure out how to offset.

HEALTHCARE POLICY – FOUR SCENARIOS GOING FORWARD

SCENARIO 3: SAVED BY SUMMER

Summary: Federal, state, and local leaders fail to limit the spread in a meaningful way. The American public fails to appreciate the threat and fails to take meaningful actions to prevent meaningful spread. This lack of action allows the virus to continue to double every week. The sole saving factor is that, for reasons we don't fully appreciate now, the virus reproduction rate slows in the summer. That gives government entities time to catch up and the public time to take real action that they failed to initially take.

Scope and Duration: We believe in this scenario the number of infections will surpass 1,000,000 and we will have turned the corner by July 4.

Economic Impact: The economic pain lasts longer and is deeper than necessary. Summer vacation and travel season is a near utter loss. Most consumers remain cautious about being near anyone at malls, restaurants, and bars for at least three months after this peaks. Unemployment increases notably and a recession is likely through the third quarter at minimum.

SCENARIO 4: "FAILURE IS AN OPTION"

We do not currently expect this scenario to occur and believe it has the lowest probability of the four scenarios.

Summary: Summer does not result in a natural buffer to slow the virus. Community spread continues without ceasing until we reach herd immunity. Government leaders fail to take action in enough time and the virus spreads uncontrolled. The public largely ignores the virus as many of them are not getting sick, but are asymptomatic carriers. In the end hundreds of millions of people are infected and a million die.

Scope and Duration: We believe in this scenario the number of infections exceeds 100,000,000 with 1,000,000 deaths and we will still be dealing with this on Labor Day.

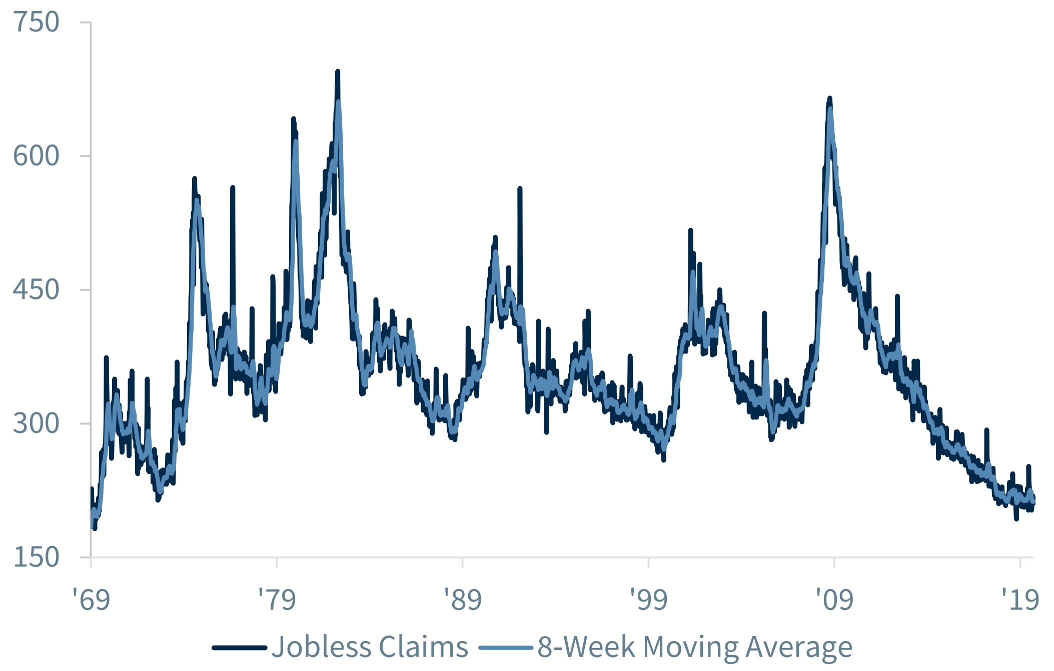
Economic Impact: Unemployment spikes, credit systems are bent to the point of breaking, economic growth is nonexistent for at least three quarters. Consumers will be hesitant to spend and go out in the communities for fear of this virus or whatever next virus may come. Support for walling America, through trade restrictions and others, skyrockets and has economic repercussions

ECONOMIC FUNDAMENTALS STRONG HEADING INTO CORONAVIRUS

BEFORE THE CORONAVIRUS OUTBREAK, US ECONOMIC FUNDAMENTALS WERE STRENGTHENING

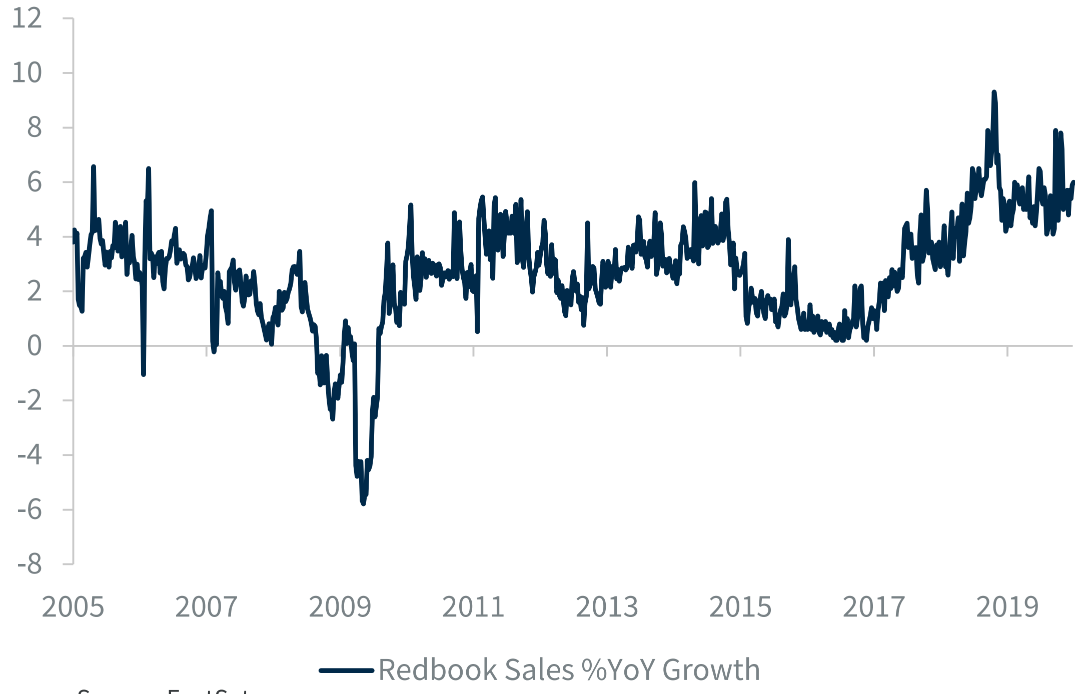
- The US labor market was robust, as jobless claims remained near multi-decade lows and job growth was strengthening.
- The strengthening labor market was supportive of consumer confidence and consumer spending, as consumer spending (evidenced by Redbook sales) was well above the previous 15-year average.

Jobless Claims Reflect Labor Market Strength



Source: FactSet

Consumer Spending Still Upbeat



Source: FactSet

IMPACT OF SOCIAL DISTANCING ON ECONOMIC GROWTH

SOCIAL DISTANCING IS LIKELY TO SLOW CONSUMER SPENDING, WHICH WILL WEIGH ON ECONOMIC GROWTH

- According to OpenTable data, restaurant traffic has plummeted and is down ~40% nationwide. Areas with widespread outbreaks of the virus have been the hardest hit, as New York and Seattle, for example, have seen restaurant traffic fall ~60% year-over-year (YoY).
- This is consistent with our anecdotal evidence, as food courts have been empty, and consumers have flooded grocery stores to prepare to stay at home and take part in social distancing.

YoY Traffic at Restaurants Plummeting Nationwide

Year-over-Year Change in Restaurant Traffic

	2/23	2/24	2/25	2/26	2/27	2/28	2/29	3/1	3/2	3/3	3/4	3/5	3/6	3/7	3/8	3/9	3/10	3/11	3/12	3/13
Global	4%	1%	-1%	-3%	-4%	-1%	0%	0%	-9%	-11%	-7%	-9%	-8%	-5%	-4%	-17%	-21%	-22%	-31%	-36%
US	5%	2%	0%	-3%	-3%	-1%	1%	1%	-8%	-12%	-7%	-8%	-8%	-5%	-5%	-17%	-21%	-22%	-32%	-36%
LA	29%	12%	15%	5%	0%	8%	13%	-3%	-1%	4%	7%	-5%	1%	-2%	-15%	-27%	-23%	-26%	-38%	-48%
Boston	14%	5%	3%	1%	12%	1%	22%	1%	1%	-10%	-4%	11%	7%	-1%	10%	-14%	-29%	-30%	-47%	-56%
New York	13%	7%	1%	1%	-2%	1%	-2%	-2%	-6%	-12%	-12%	-9%	-15%	-10%	-4%	-18%	-30%	-36%	-52%	-61%
Seattle	12%	1%	0%	3%	5%	7%	0%	-18%	-29%	-31%	-31%	-36%	-34%	-35%	-25%	-47%	-49%	-54%	-58%	-63%

Source: OpenTable. Data represents year-over-year restaurant traffic in respective country/city by day.

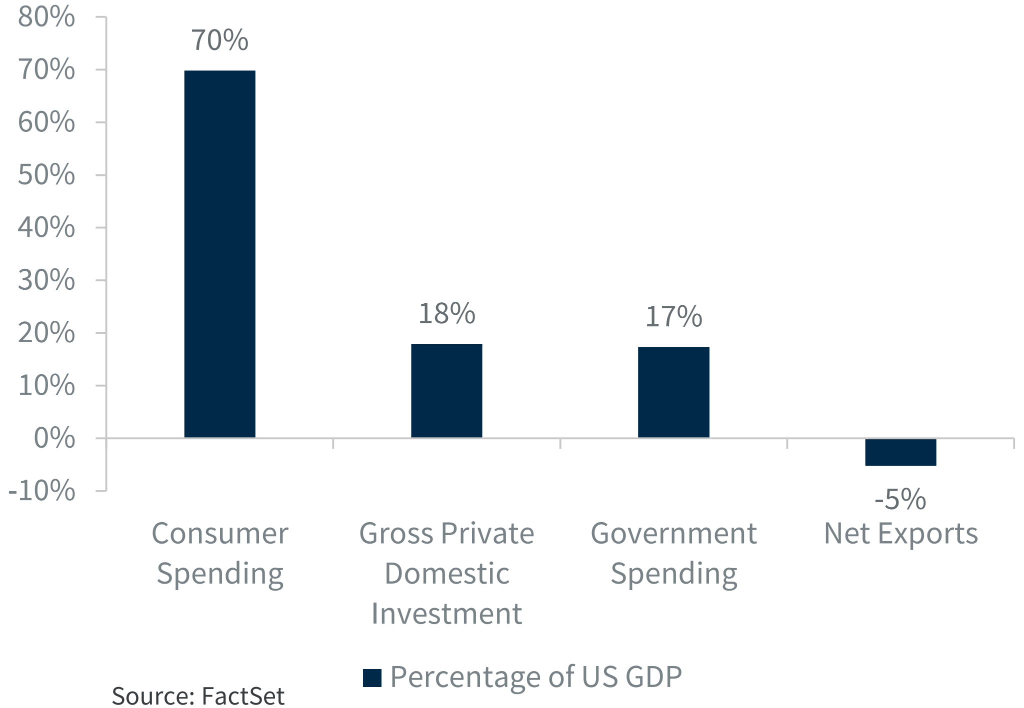
Anecdotal Evidence of Coronavirus Impact – Empty Airports

IMPACT OF SOCIAL DISTANCING ON ECONOMIC GROWTH

SOCIAL DISTANCING TO SEVERELY IMPACT ECONOMIC GROWTH

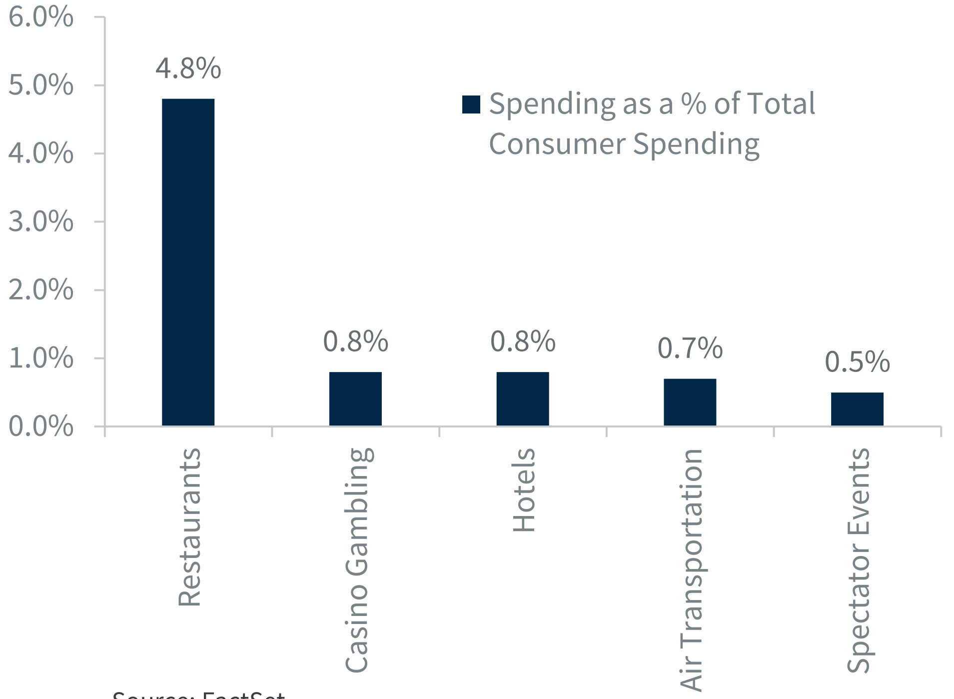
- A decrease in consumer spending as a result of social distancing may severely impact economic growth, as consumer spending makes up ~70% of US GDP.
- In fact, spending at “virus impacted” areas such as restaurants or spectator events makes up ~8% of total consumer spending or ~5% of total US GDP. This suggests that if virus-impacted spending falls ~10%, US GDP will be hampered by ~0.5%.

Consumer Makes up the Largest Portion of GDP



Source: FactSet

Virus Spending as a % of Total Consumer Spending



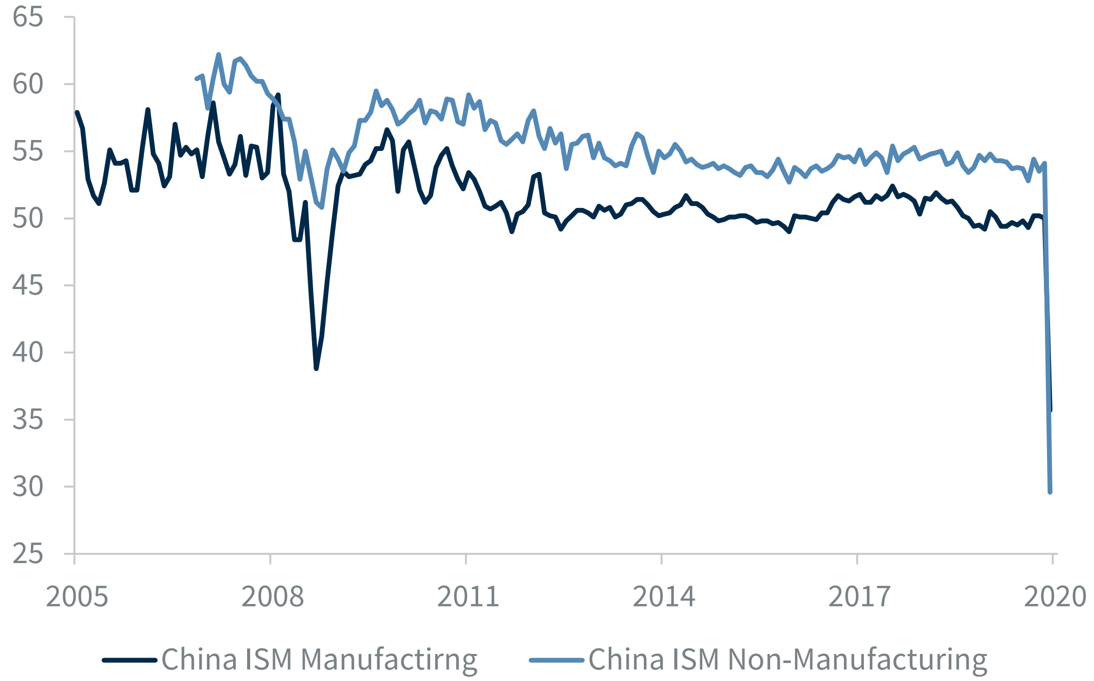
Source: FactSet

IMPACT ON ECONOMIC GROWTH

IMPACT ON CHINESE ECONOMIC GROWTH APPARENT IN ECONOMIC DATA

- As the Chinese government took significant measures to quell the spread of the coronavirus, the negative impact has filtered through to both economic data and economic growth forecasts.
- Both the Chinese manufacturing and non-manufacturing PMIs fell sharply into contraction territory and are at the lowest level on record. Additionally, China fixed investment declined on a year-over-year basis (-25%) for the first time on record.

China PMI Surveys at Record Lows

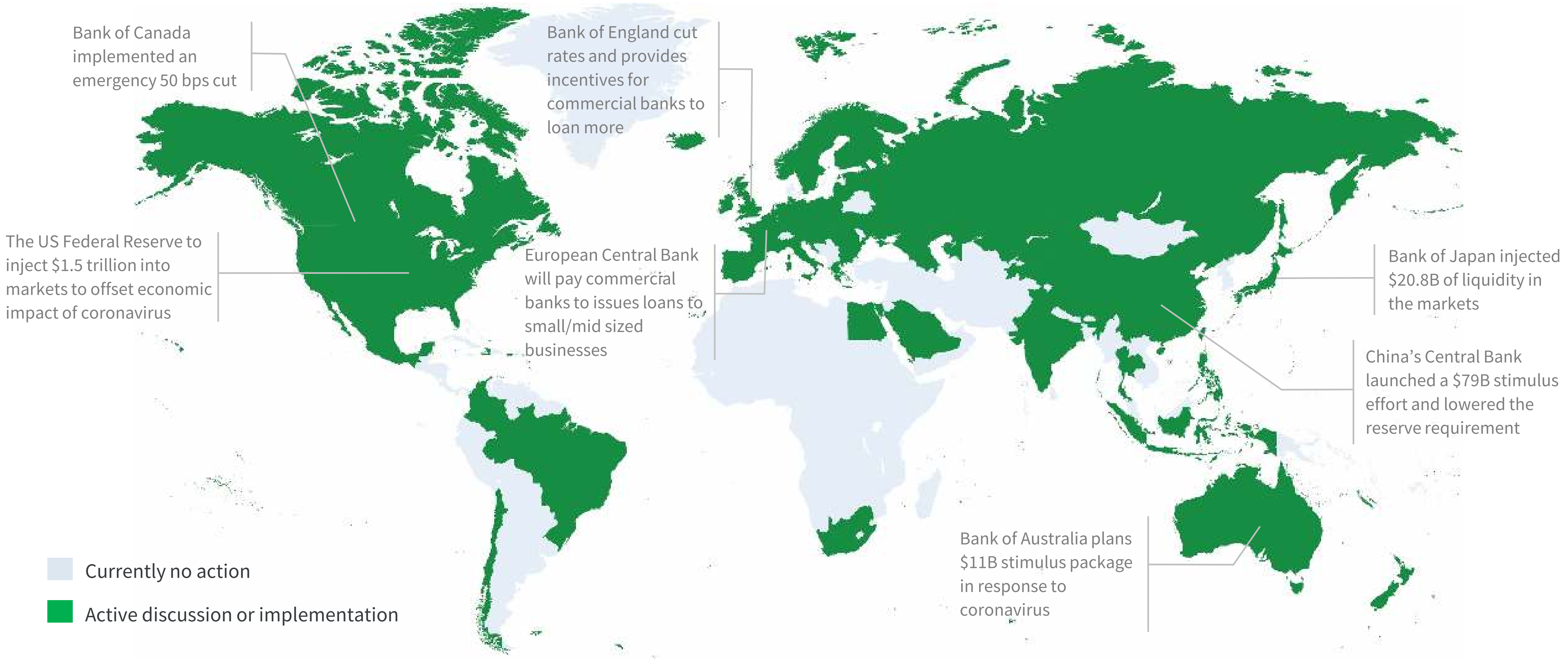


Source: FactSet

China Fixed Investment Sharply Contracts

Source: FactSet

COUNTRIES THAT HAVE IMPLEMENTED OR ARE DISCUSSING IMPLEMENTING STIMULUS

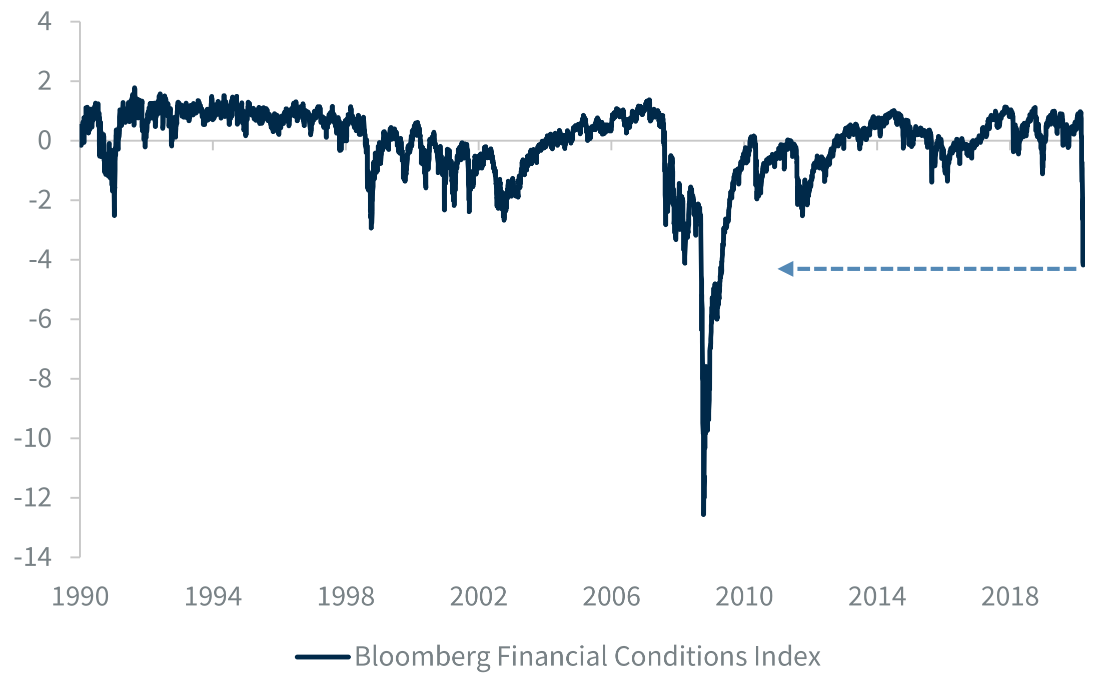


US FINANCIAL CONDITIONS TIGHTEN FURTHER

FINANCIAL CONDITIONS CONTINUE TO TIGHTEN TO RECESSIONARY LEVELS

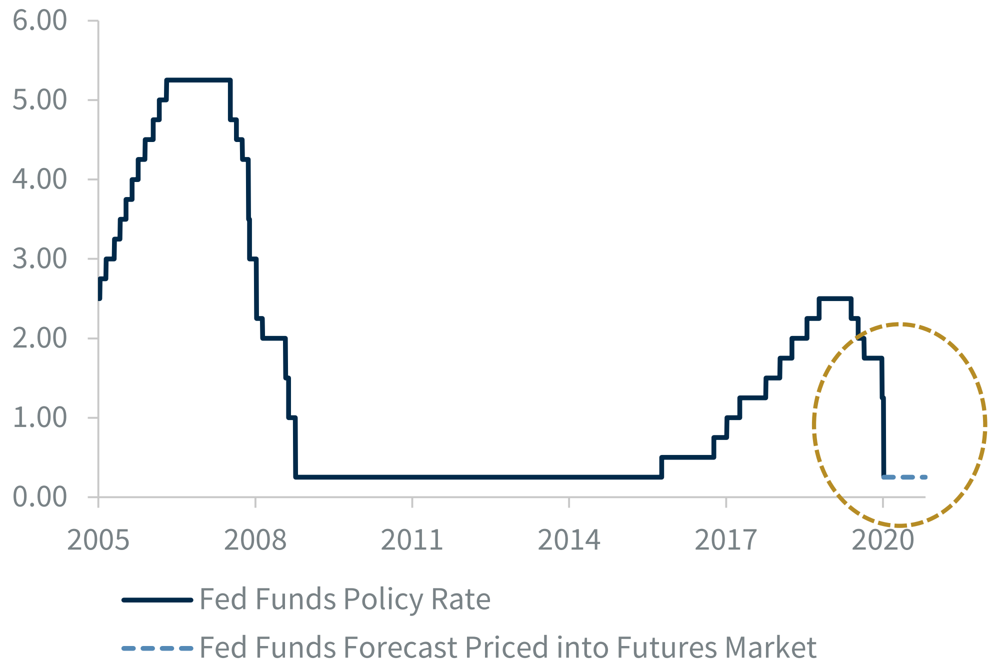
- As a result of the increased market volatility, financial conditions in both the US and euro zone continue to tighten and are now near levels of previous recessions.
- This will likely lead global central banks to further ease monetary policy. When looking at the futures market, the market is pricing in that the Fed will leave policy rates at zero into year end.

Financial Conditions Tighten to Recessionary Levels



Source: FactSet

Fed Cuts Rates to Zero; Begins QE



Source: FactSet

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GLOBAL CORONAVIRUS UPDATE: GOVERNMENT POLICY POTENTIAL

ED MILLS, RAYMOND JAMES WASHINGTON POLICY ANALYST

Emergency Declaration – Stafford Act

- **Emergency Declaration.** President Trump declared a national emergency on March 13, 2020
- **Disaster Funds.** Gives federal government access to $50 billion in disaster funds.
- **Regulatory changes.** Removes some existing regulatory hurdles and guidelines to facilitate a faster government response to the pandemic. Including expanded Medicaid coverage.
- **Small Business Loans.** Provides small businesses access to low interest loans.
- **Student Loans.** Federal government backed student loans have their interest frozen.
- **Strategic Petroleum Reserves (SPR).** Federal government will max out eligible purchases of the strategic petroleum reserves.

Federal Reserve/Bank Regulators

- **Fed Meeting.** Fed funds rate cut to 0 – 0.25%. Sunday's (3/15) rate decision and press conference replace this week's meeting.
- **Support for liquidity**. Fed increasing purchases of Treasuries to support liquidity, expect expanded purchases of other assets.
- **Credit.** Push by bank regulators to give more leeway (forbearance) on lines of credit to impacted businesses, push from Congress to allow Fed to purchase/guarantee troubled assets.

Source: Raymond James Research

GLOBAL CORONAVIRUS UPDATE: GOVERNMENT POLICY POTENTIAL

ED MILLS, RAYMOND JAMES WASHINGTON POLICY ANALYST

Congressional Response – Outline of Families First Coronavirus Response Act

- **Free testing.** Free testing for everyone who needs a COVID-19 test, including the uninsured.
- **Paid sick leave.** 14 paid sick days for businesses with less than 500 employees, which will be partially reimbursed with a tax credit – employers with fewer than 50 employees can apply for a hardship waiver.
- **Food assistance.** $900 million in nutrition assistance will be provided for students who are out of school and for food banks and seniors. Work requirements for certain food benefits are suspended during the pandemic.
- **Unemployment assistance.** Additional funding for states that experience a 10% increase in unemployment. This is the first in what we expect to be multiple efforts to provide additional state and local funding.
- **Expanded Family and Medical Leave (FMLA).** Expands existing FMLA protections that provide up to 12 weeks of time off (with the protection against being fired) to provide pay during this time off. Pay is for individuals diagnosed with COVID-19 or caring for someone with the illness. Pay is 2/3 of monthly earnings up to $4,000 cap, retroactive to 1/19. Only applies to companies with fewer than 500 employees.
- **Healthcare worker protections.** Expanded federal safety and health protections for frontline healthcare workers.
- **Congress** - House voted 363-40; Senate expected to pass this week.
- **Next Steps:** Congress is expected to tackle other plans (payroll tax holiday, economic response in coming weeks/months).

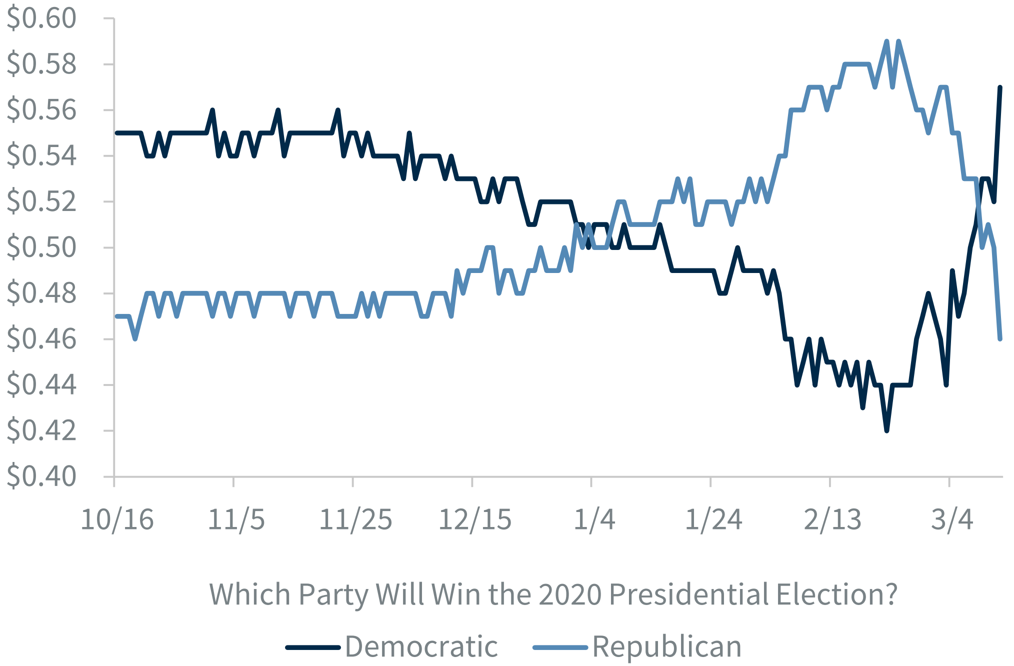
Source: Raymond James Research

POLITICS TURNING INTO AN EQUITY MARKET HEADWIND

CORONAVIRUS HAMPERING PRESIDENT TRUMP'S RE-ELECTION PROSPECTS

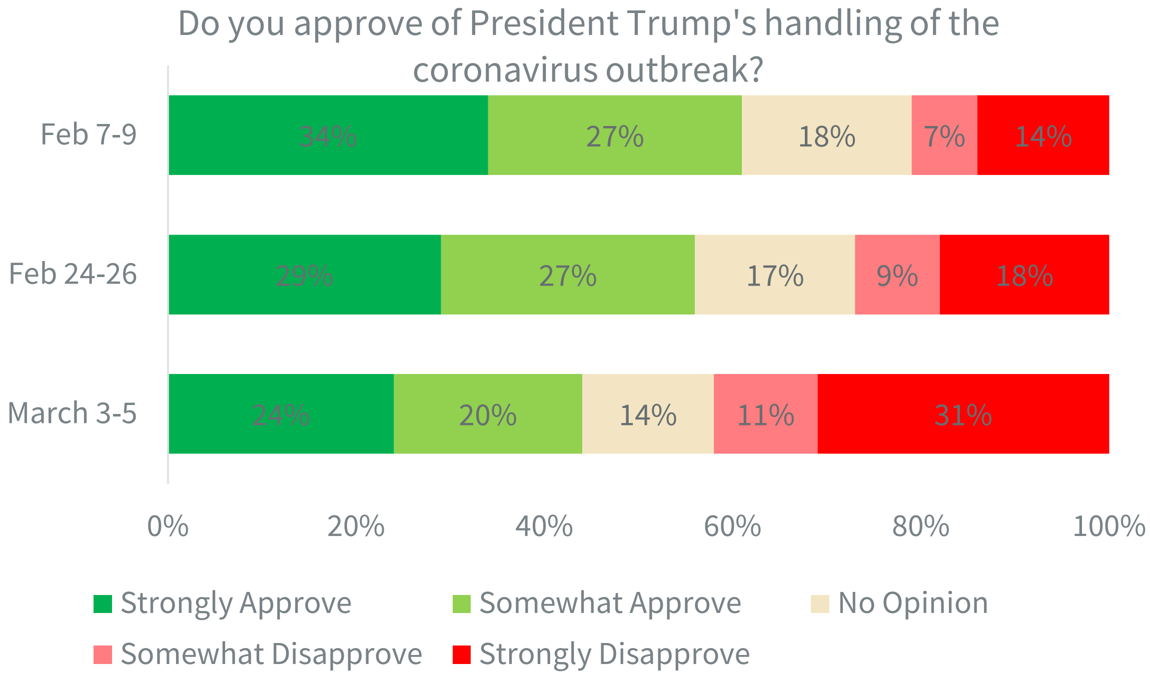
- Given Joe Biden's recent surge in the Democratic polling and coronavirus impacts, the probability is that Republicans have plummeted over recent weeks and Democrats are now the most likely favorite to win the White House in November.
- This is in part due to President Trump's response to the coronavirus, as his approval rating in regard to the handling of the coronavirus has declined over the past month.

Democrats Overtake Republicans as the Favorite



Source: Predictit, Data Source: Bloomberg

Trump Coronavirus Approval Fading



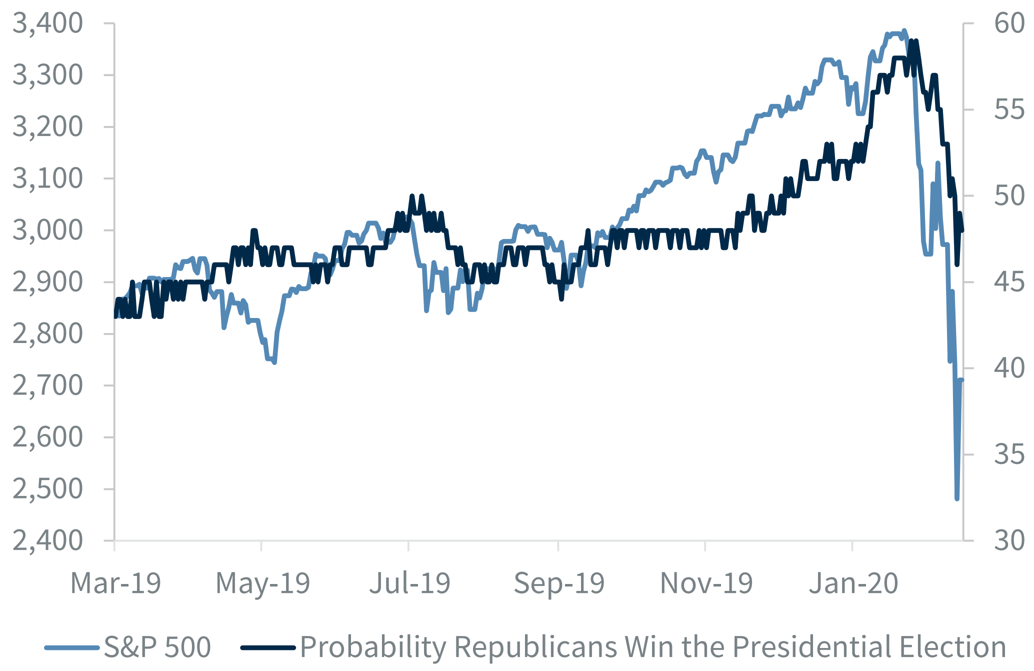
Source: Predictit, Data Source: Bloomberg

POLITICS TURNING INTO AN EQUITY MARKET HEADWIND

PROBABILITY OF DEMOCRATIC SWEEP IN NOVEMBER RISING SHARPLY

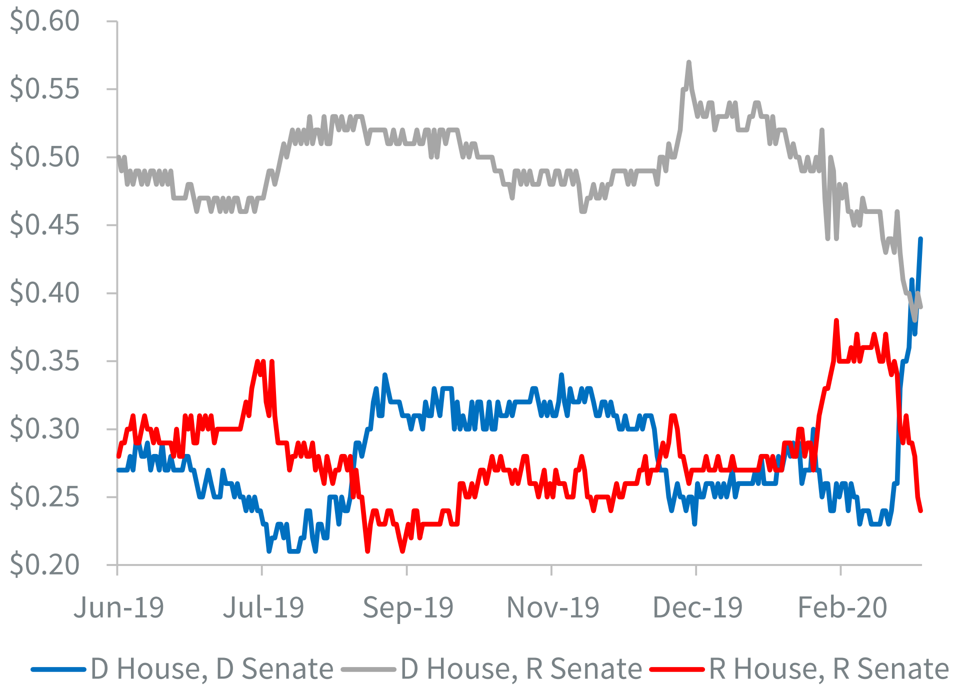
- The probability that President Trump will win re-election has closely tracked the S&P 500, so when the equity market declined, so too did President Trump's re-election prospects.
- Additionally, the probability of a Democratic sweep of Congress is now seen as the most likely outcome in November. This is an equity market headwind, as the potential roll back of the corporate tax cuts would hamper future earnings and margins.

Trump Win Probability Falling With Equity Market



Source: Predictit, Data Source: Bloomberg

Democratic Sweep Probability Rising



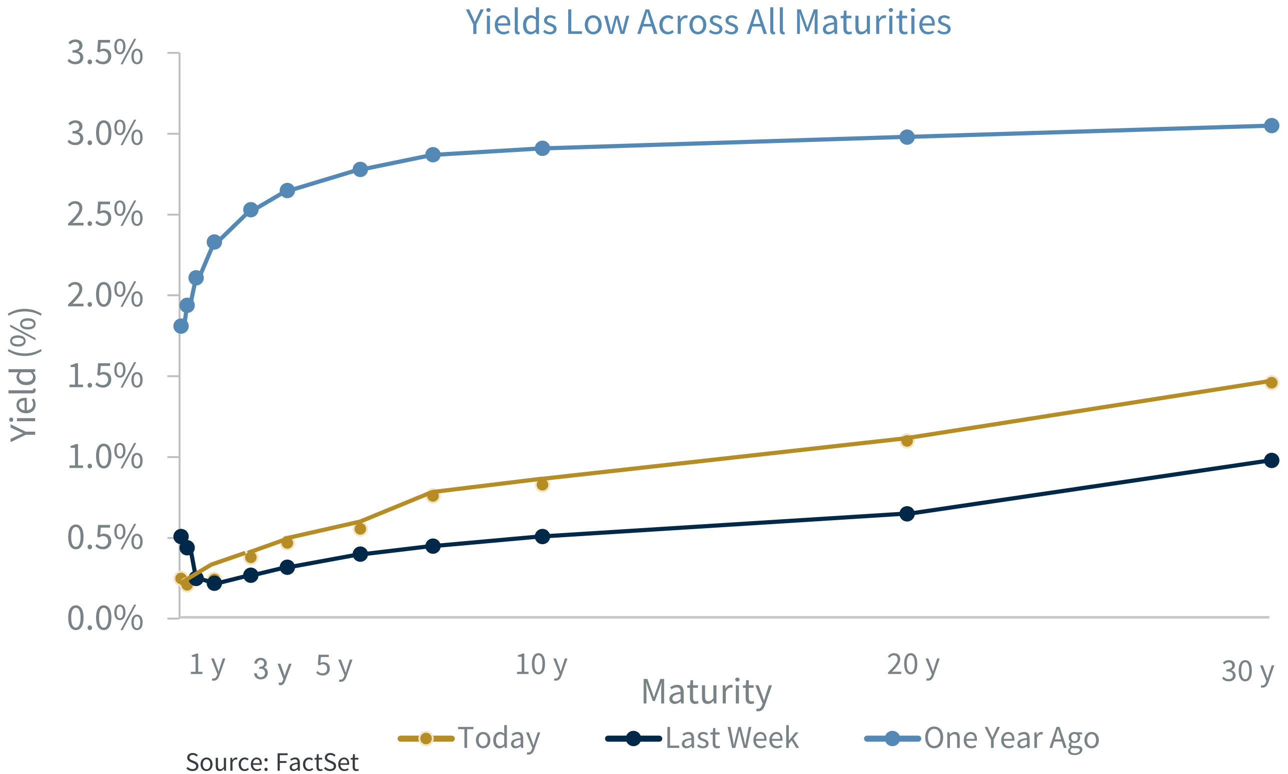
Source: Predictit, Data Source: Bloomberg

FIXED INCOME MARKET PRICING IN RECESSION

TREASURY YIELDS FALL TO RECORD LOWS AMIDST CORONAVIRUS CONCERNS

- Both the 10-year and 30-year Treasury yields moved to record lows during the past week, reflecting the flight to safety amidst the coronavirus volatility.
- Additionally, Treasury yields across all maturities fell below 1% for the first time on record.

Source: FactSet



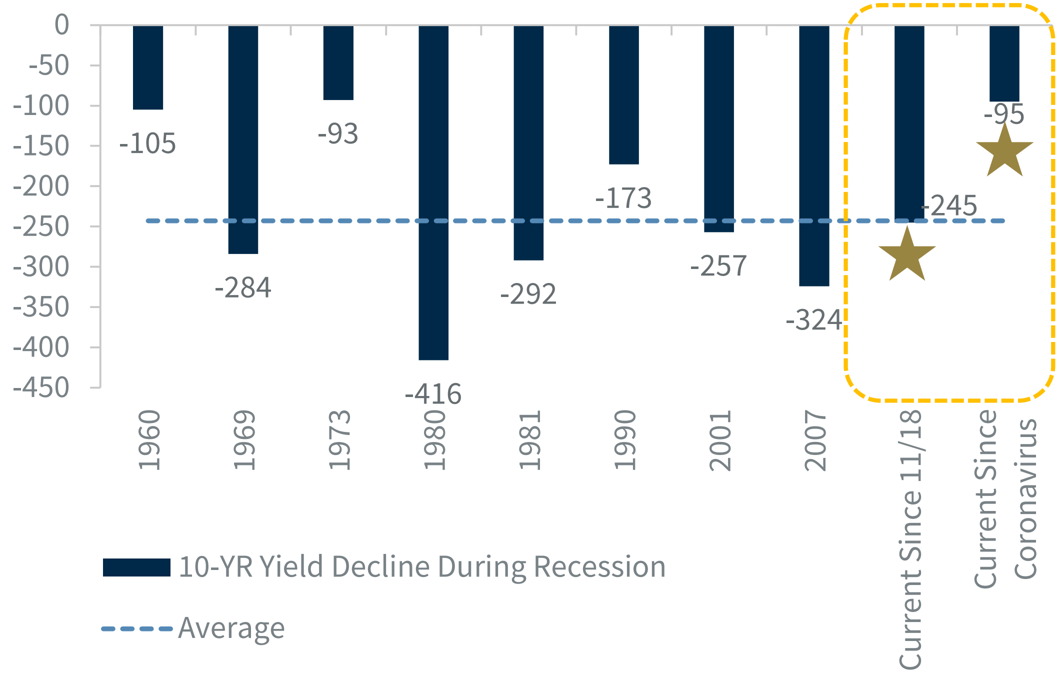
Source: FactSet

FIXED INCOME MARKET PRICING IN RECESSION

THE SHARP DECLINE IN INTEREST RATES SUGGESTS THE FIXED INCOME MARKET IS PRICING IN A RECESSION

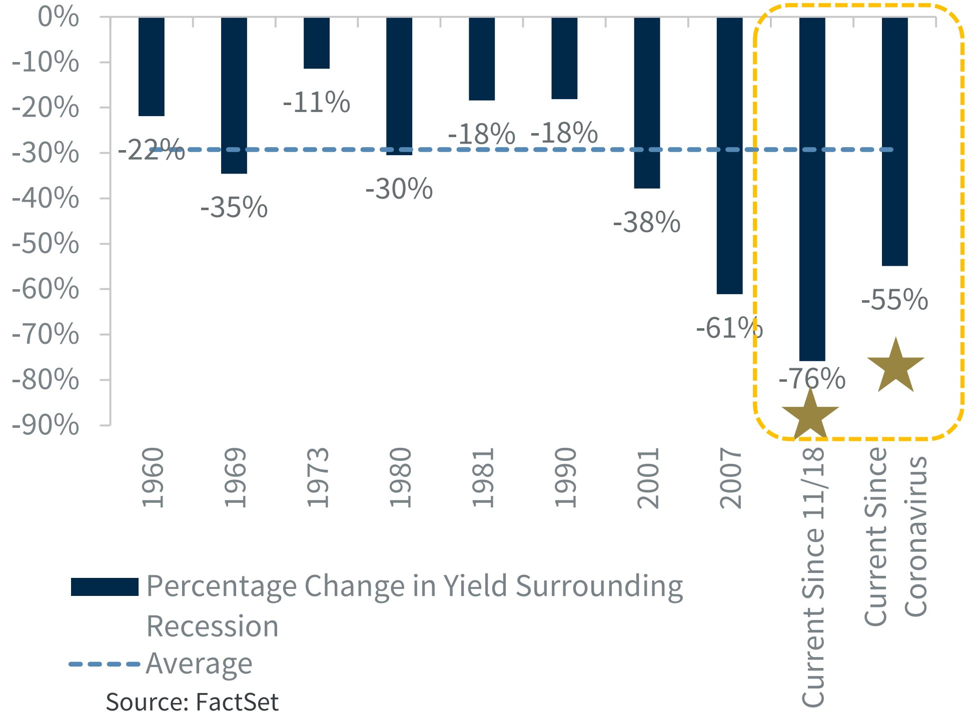
- Since the cyclical high in yields in 2018, 10-year Treasury yields have declined ~245 bps. This is in line with the decline in yields leading up to previous recessions.
- However, since we are coming off such a low base in yields, when looking at the percentage decline in yield, the most recent decline is the largest decline on record and far surpasses that of previous recessions.

Level of Yield Decline During Recession



Source: FactSet

% Yield Decline During Recession



Source: FactSet

Denotes level at lows last week

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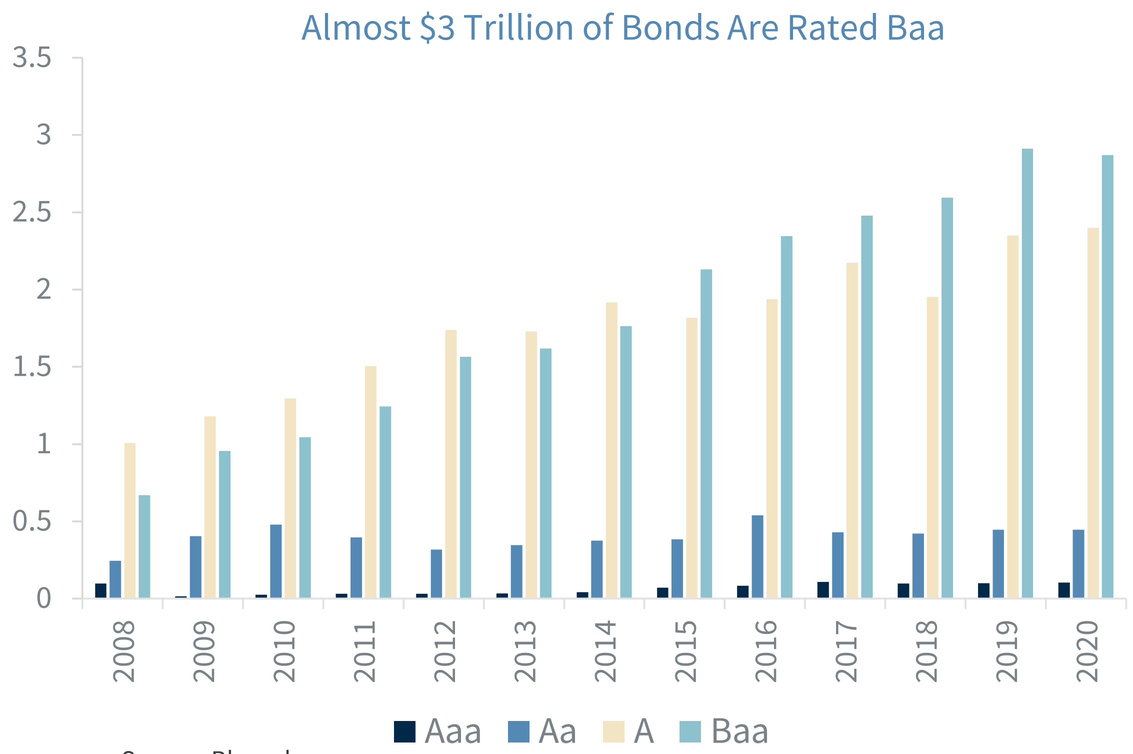
FIXED INCOME CREDIT SPREADS

CREDIT SPREADS HAVE BEEN WIDENING UP AND DOWN THE YIELD CURVE

- Spreads have widened significantly in the last week, approaching levels not seen since 2016.
- The size of the US corporate bond market is currently ~$6 trillion of which ~$2.9 trillion is Baa rated.



Source: Bloomberg

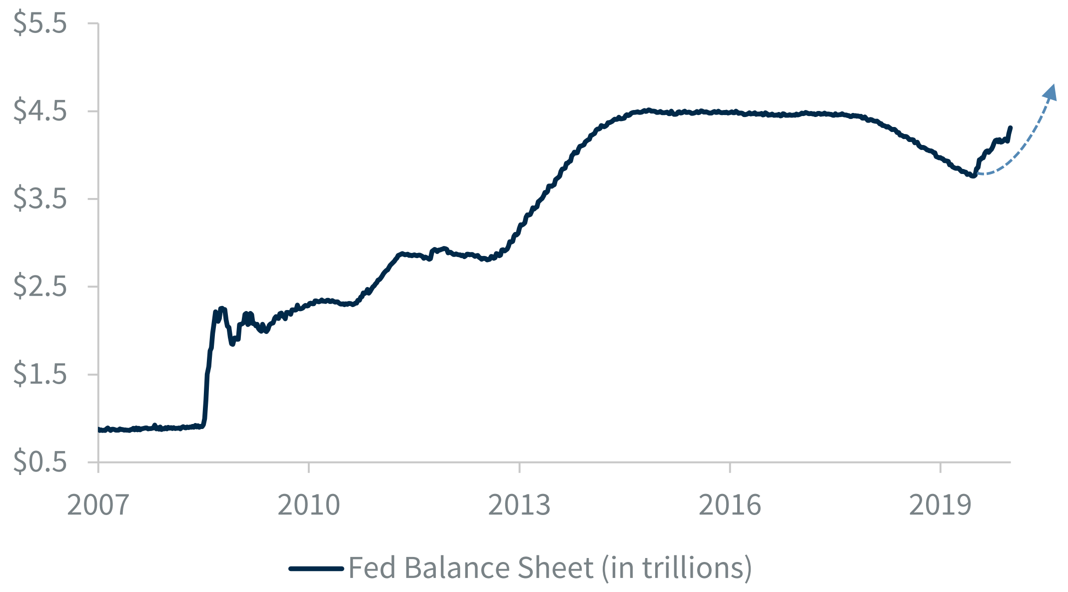
Source: Bloomberg

FIXED INCOME AND FEDERAL RESERVE

THE FEDERAL RESERVE SEEKS TO INCREASE LIQUIDITY

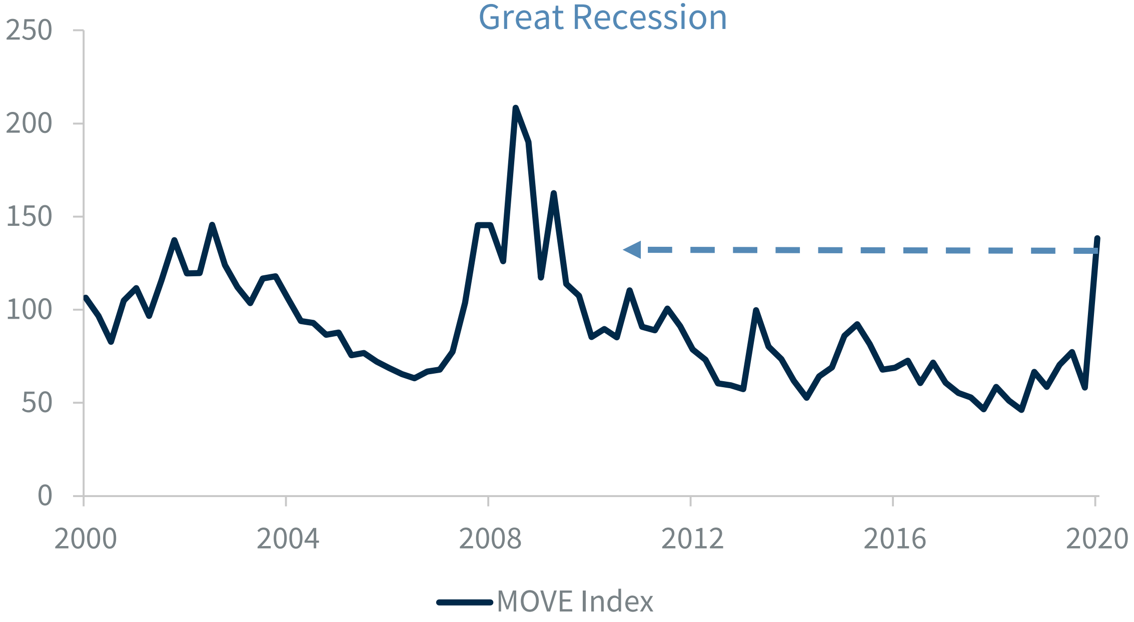
- After a concerted effort to reduce its size, the Fed's balance sheet has grown since September 2019 to its current $4.3 trillion and is likely to exceed the previous high seen between 2014-2018.
- Fixed income volatility has moved sharply higher in recent weeks and has not been at levels this elevated since 2008. We expect this volatility to continue at least in the near term.

Fed's Balance Sheet Likely to Rise to Record High



Source: Bloomberg

Volatility in the Bond Market at Highs Not Seen Since the Great Recession



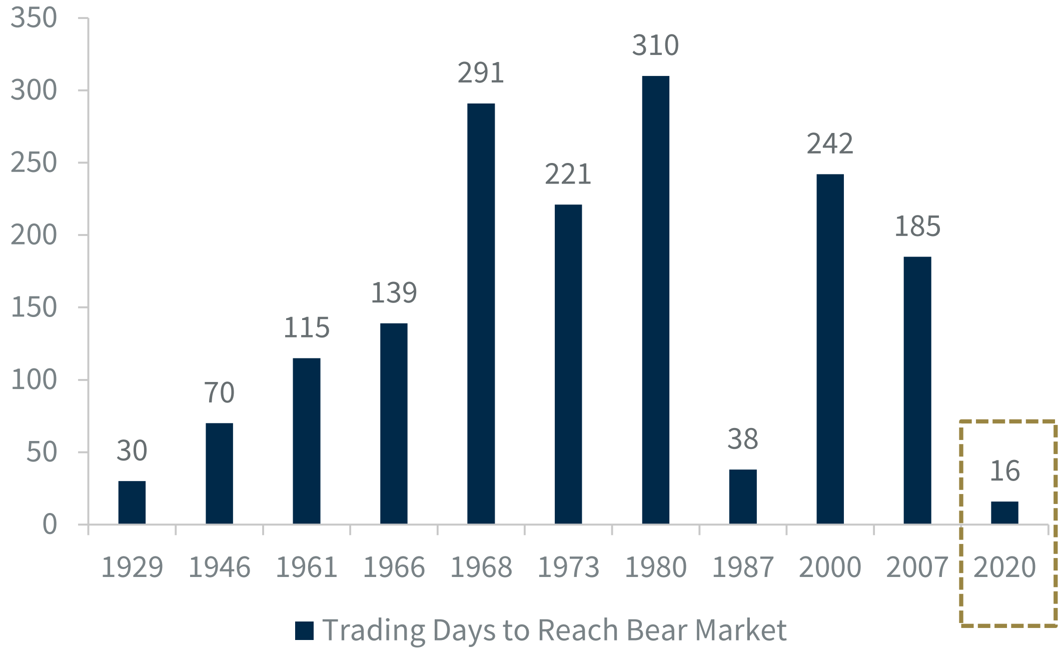
Source: Bloomberg

FROM BULL TO BEAR AT A RECORD PACE

THE DECLINE IN EQUITY MARKETS HAS BEEN SWIFT AND UNPRECEDENTED

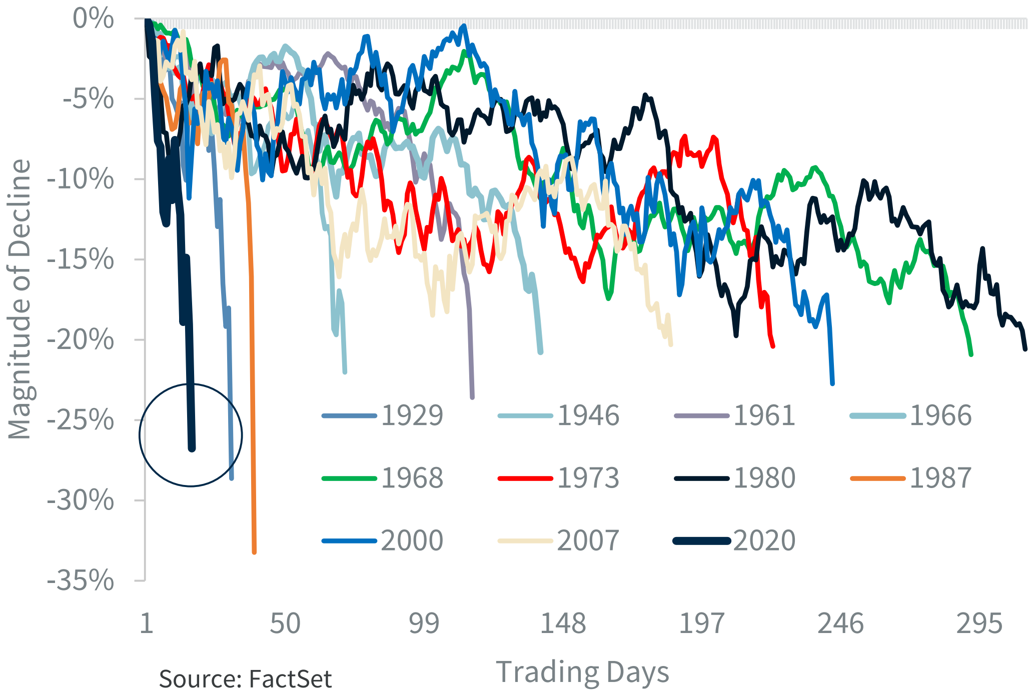
- The sharp decline in the equity market brought an end to the most recent bull market, which ironically celebrated its 11th birthday last week.
- The 20% decline (what is classified as a "bear market") was the fastest from a record high in history, as it took the S&P 500 only 16 trading days to fall into bear market territory.

Fastest 20% Decline From Record High in History



Source: FactSet

Trajectory of Other Bear Markets



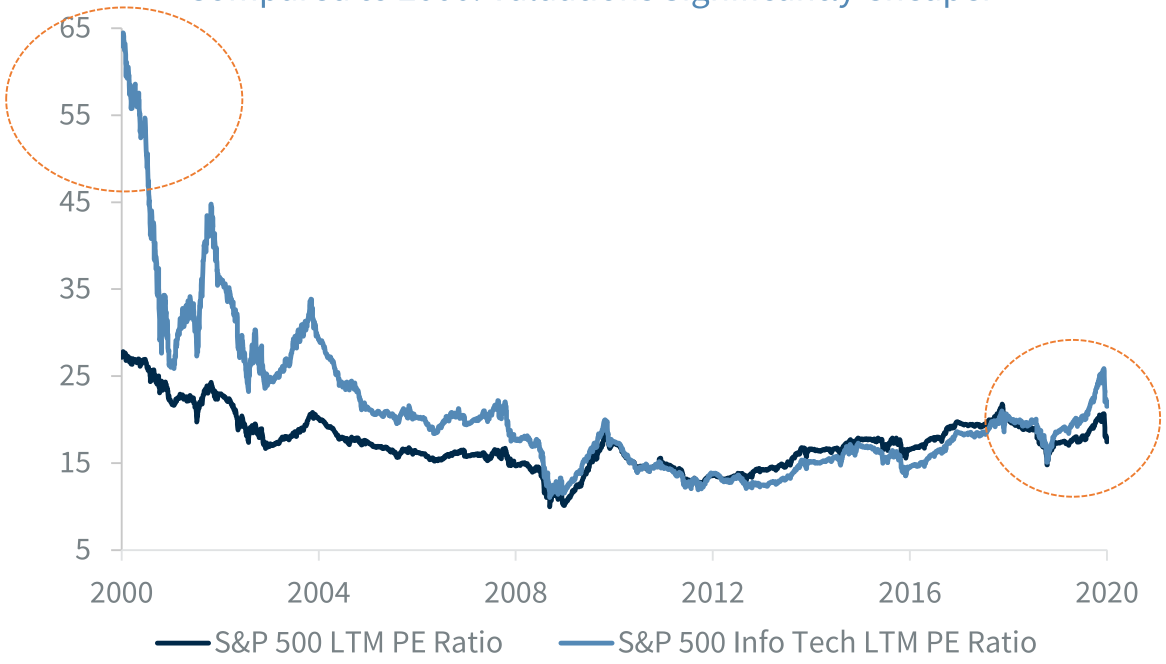
Source: FactSet

CURRENT ENVIRONMENT NOT LIKE 2000 AND 2008

THE ENTRANCE INTO BEAR MARKET TERRITORY BROUGHT FEARS OF BULL MARKETS PAST. IT IS OUR VIEW THAT THE CURRENT ENVIRONMENT IS NOT LIKE 2000 OR 2008 FOR A NUMBER OF REASONS.

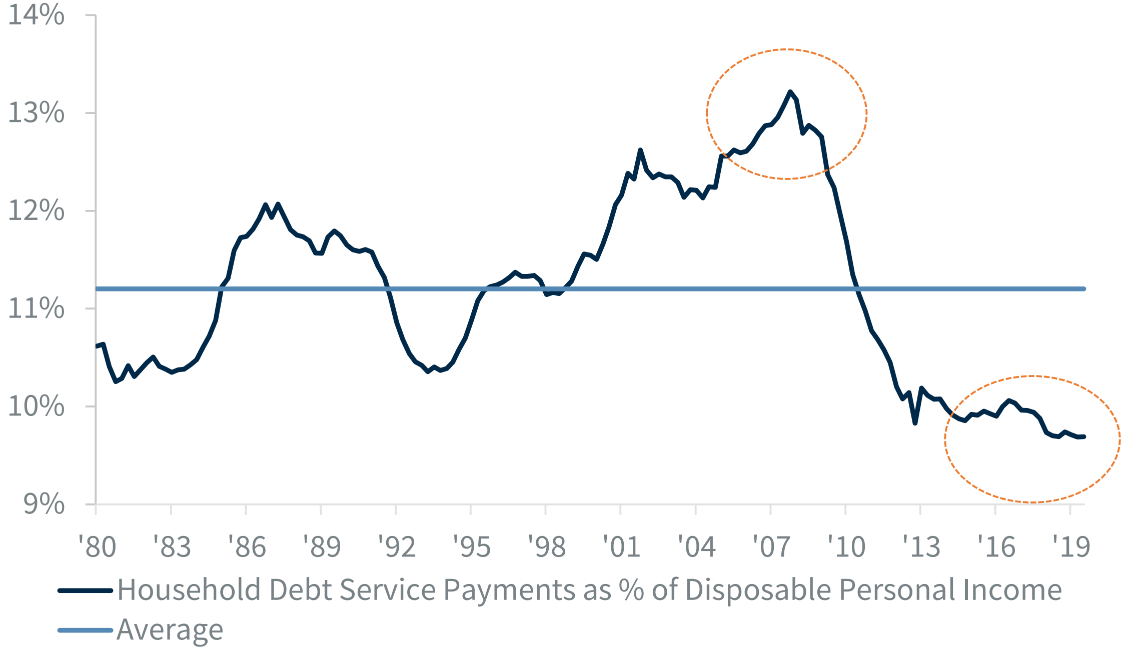
- Compared to 2000, the Fed is more accommodative, interest rates are significantly lower, the Information Technology sector weighting is more in line with its earnings, and valuations are significantly cheaper.
- Compared to 2008, balance sheets for corporations and households are substantially healthier, interest rates are lower, and the housing sector is much improved.

Compared to 2000: Valuations Significantly Cheaper



Source: FactSet

Compared to 2008: Consumers Significantly Healthier



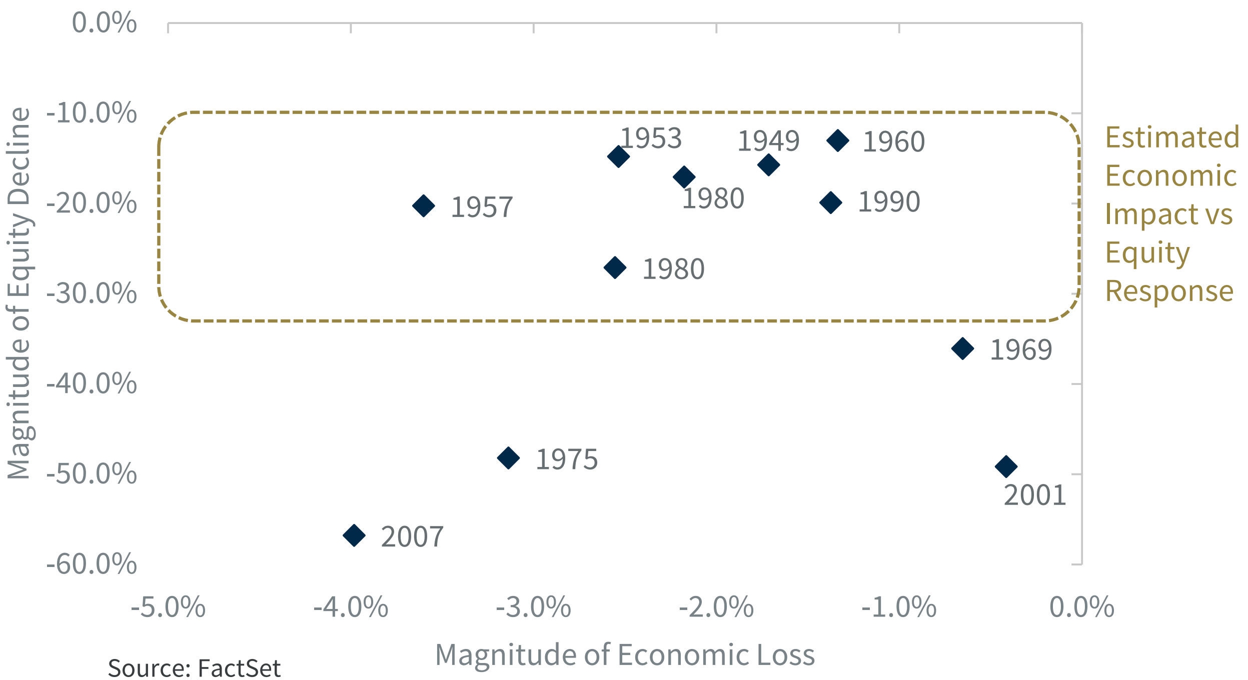
Source: FactSet

WHAT'S PRICED INTO THE EQUITY MARKET?

IF WE ENTER A RECESSION, IT SHOULD BE SHORT IN DURATION AND SHALLOW IN NATURE

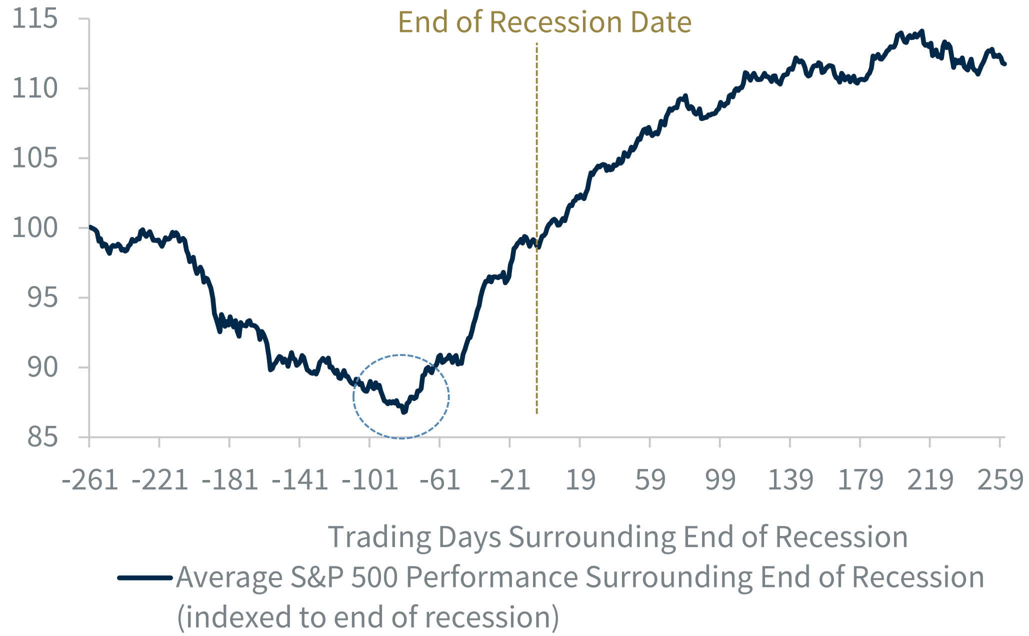
- If we enter a recession, our economist, Dr. Scott Brown forecasts that it would be short term in nature. In previous recessions, the S&P 500 has declined ~33% on average, with a median decline of 24%.
- Historically, given that the equity market is a forward looking mechanism, equities bottom ~4 months prior to the end of the recession. Given that we expect any recession to be short term in nature, this suggests that we may be nearing a bottom.

Equity Declines versus Negative Economic Impact



Source: FactSet

Equities Typically Bottom Prior to Recession Ending



Source: FactSet

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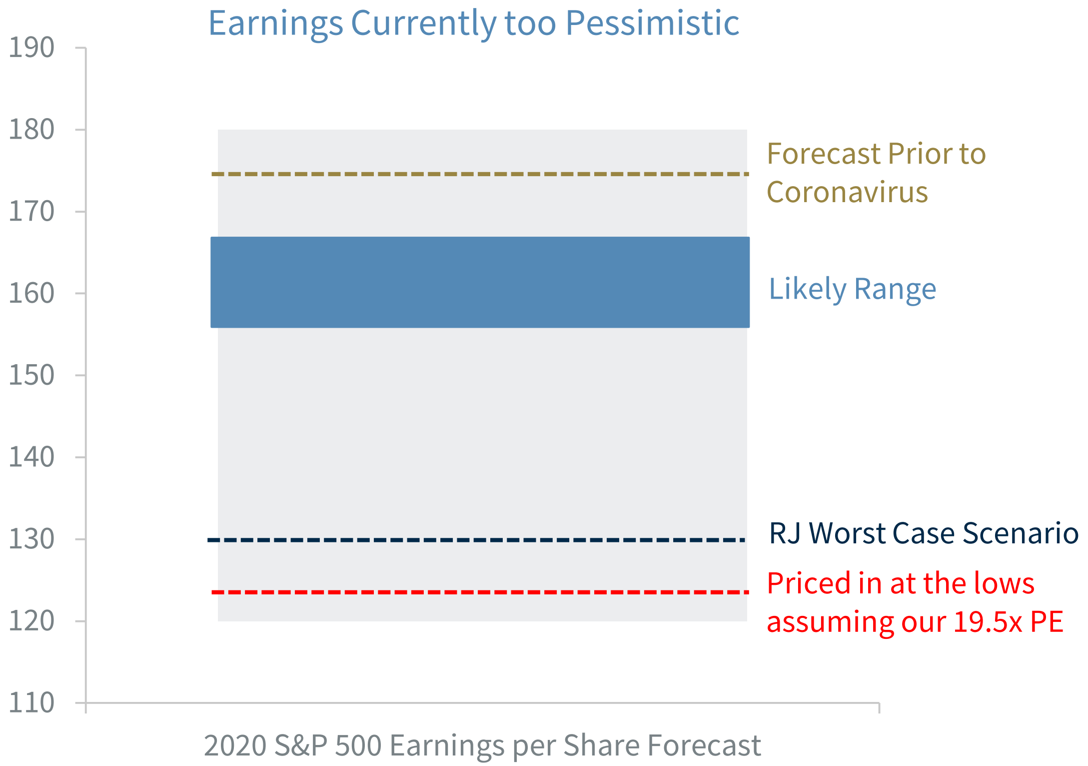
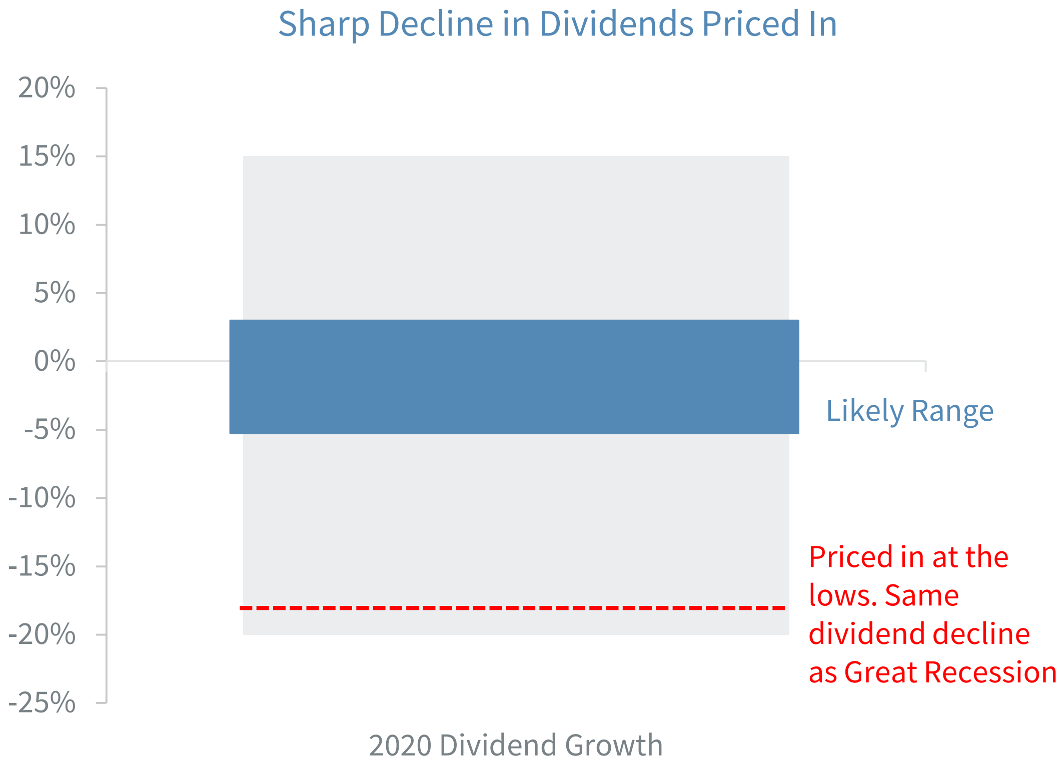
WHAT'S PRICED INTO THE EQUITY MARKET?

CURRENT EQUITY LEVELS LIKELY PRICING IN TOO SHARP A DECLINE IN BOTH EARNINGS AND DIVIDENDS

- Applying our fair-value 19.5 last 12 month PE on the equity market, the **current** S&P 500 level is suggesting that earnings per share in 2020 could fall to $125 and dividends could fall ~17-18% year-over-year.
- Relative to our forecasts, these levels are likely too pessimistic, as we expect the worst-case scenario for 2020 earnings to be ~$130, with a most likely outcome of $162/share.



Source: FactSet



Source: FactSet

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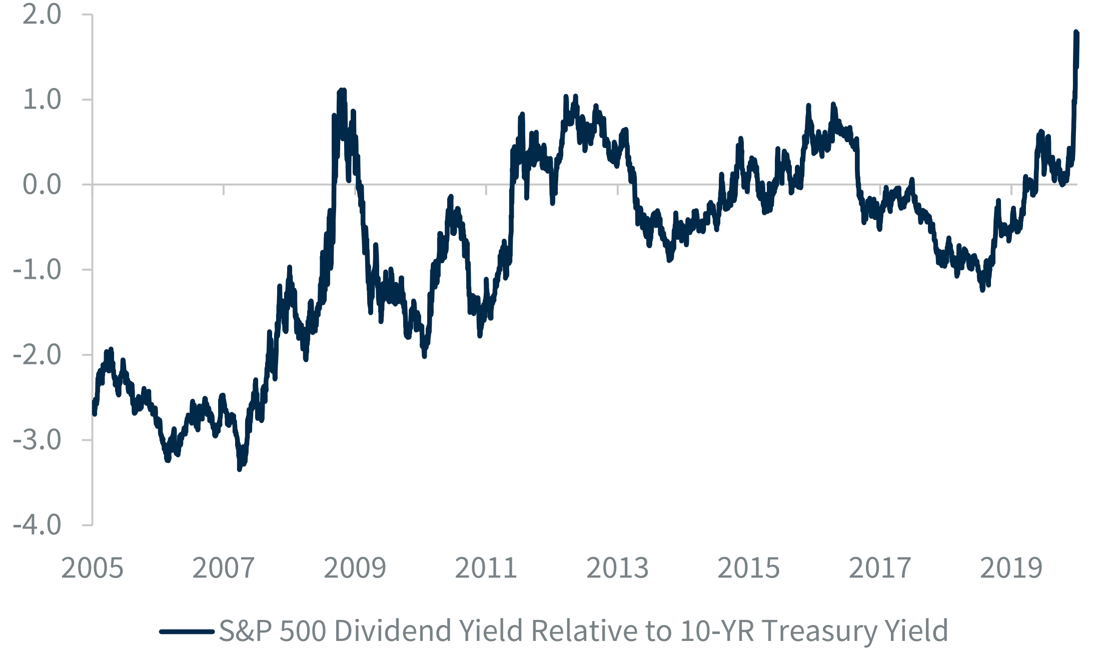
FUNDAMENTAL FACTORS SUPPORTING EQUITIES

LONGER TERM, FUNDAMENTALS CONTINUE TO SUPPORT HIGHER EQUITY PRICES FROM CURRENT LEVELS

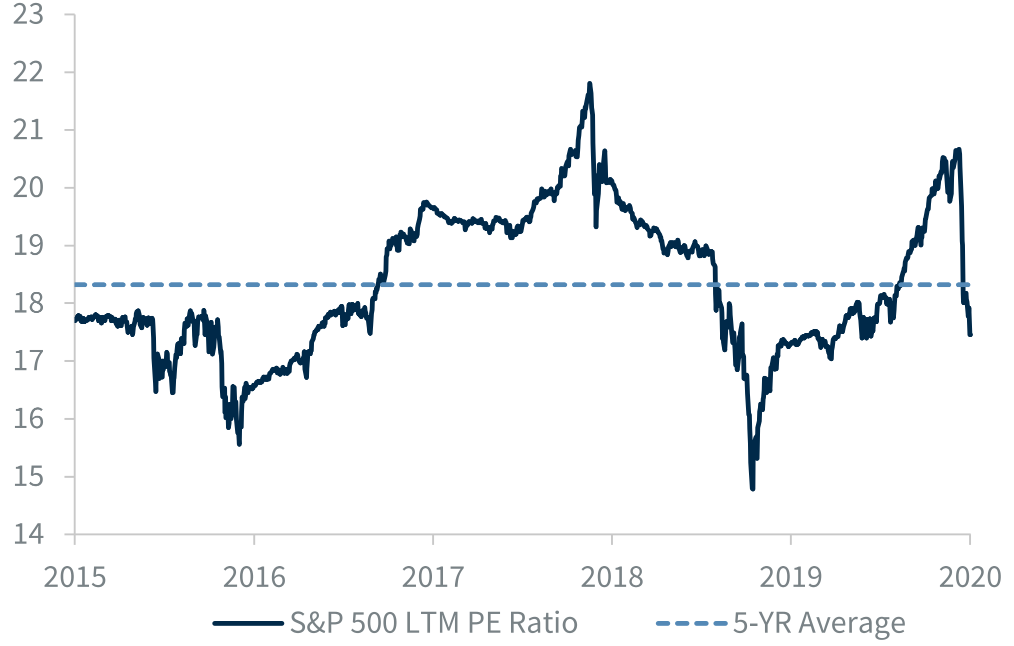
- With Treasury yields near record lows, the spread between the S&P 500 dividend yield and the 10-year Treasury yield is now at the widest level on record. Additionally ~78% of S&P 500 companies have a dividend yield greater than the 10-year Treasury yield.
- While valuations were stretched at the start of the year, the decline in equities has made valuations significantly more attractive as the S&P 500 LTM PE is now well below the previous 5-year average and our fair value target of 19.5x.

S&P 500 Dividend Yield Well Above 10-Year Treasury Yield



Source: FactSet

Valuations Below Historical Average



Source: FactSet

EQUITY MARKETS: TIMING AND OPPORTUNITIES

CATALYST AND POSITIONING:

- Case outbreaks: In China, as cases plateaued, Chinese equities did move lower in sympathy with outbreaks around the globe and resulting plunge in stock markets; however, they began to outperform on a relative basis.
- Fiscal and monetary responses, and market reaction: Uncertainty regarding economic impact is a catalyst for panic selling; fiscal measures (basically giving money to businesses and individuals) will reassure investors the impact will be less severe.
- For those with 12-24 month time horizons, we would look for opportunities among our overweight rated sectors: **Technology, Financials,** and **Industrials** as these will benefit from a recovery in the economy. Our other overweight sectors- **Health Care** and **Communications Services** sectors offer attractive fundamentals as well as defensive characteristics.

Returns since February 19

Sector	Since 2/19
Consumer Staples	-12.1%
Health Care	-12.9%
Real Estate	-14.7%
Information Technology	-18.0%
Utilities	-18.2%
Communication Services	-18.3%
S&P 500	-19.9%
Consumer Discretionary	-22.4%
Materials	-23.5%
Industrials	-25.4%
Financials	-26.0%
Energy	-41.4%

Returns on March 13

Sector	1 Day
Financials	13.2%
Information Technology	12.0%
S&P 500	9.3%
Communication Services	9.2%
Energy	8.8%
Real Estates	8.6%
Consumer Staples	8.4%
Industrials	7.8%
Health Care	7.0%
Materials	6.9%
Consumer Discretionary	6.1%
Utilities	5.6%

Returns over the last 12 months

Sector	12 Month
Information Technology	16.9%
Consumer Staples	2.9%
Health Care	-0.8%
Communication Services	-1.0%
Real Estate	-1.3%
Utilities	-1.3%
S&P 500	-3.6%
Consumer Discretionary	-6.7%
Financials	-13.0%
Industrials	-15.8%
Materials	-16.8%
Energy	-50.2%

Source: FactSet

OIL PRICE IMPACT ON ENERGY SECTOR AND ECONOMY

OIL PRICES IMPACT ENERGY COMPANIES AND THE GLOBAL ECONOMY; WHAT IS THE LIKELY END GAME?

Low Oil Prices Are Painful for the Energy Sector…

- The **global oil industry** cannot sustainably function with oil prices at current levels – and the next 6 to 12 months will be the industry's toughest period since at least 2016.
- We are already seeing a large number of oil companies making sharp cuts to **capital investment budgets** – as these cuts take place, supply will fall, and this will help rebalance the oil market.
- In times like these, energy investors should focus on stable companies with **investment-grade balance sheets.**

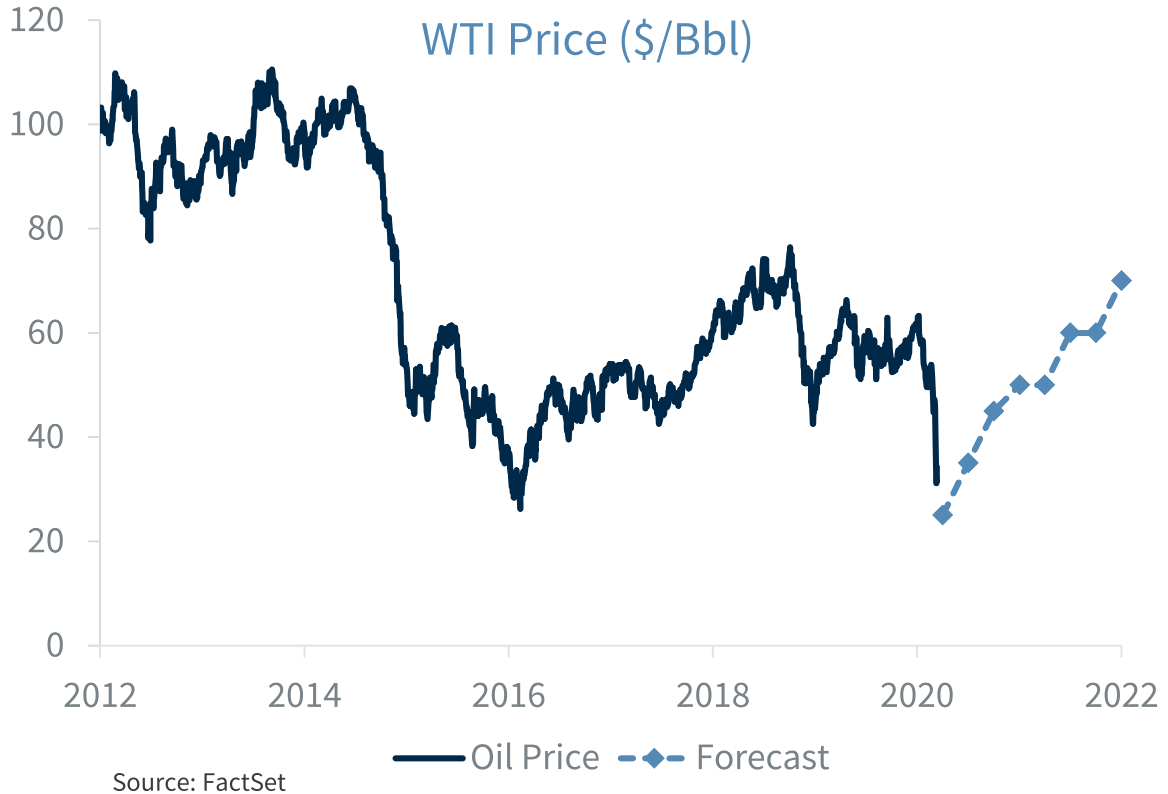
… But Are Helpful for the Overall Global Economy

- For the vast majority of American consumers, low oil prices are beneficial: they translate into **cheap gasoline.**
- On the flip side, 2 million US **jobs** directly involve energy, and another 8 million have an indirect link.
- Cheap oil is also a stimulus for most other major economies, such as **China, Japan, and Germany.**
- But current prices are not viable for Saudi Arabia and Russia, which is why the **price war is bound to end.**

2020 AND BEYOND OIL OUTLOOK

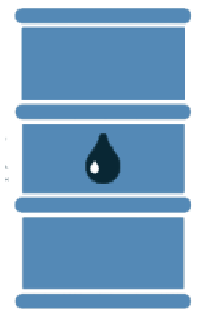
OIL PRICES ARE CURRENTLY AT THE LOWEST LEVELS SINCE 2016, FOR TWO REASONS:

- Reduced demand as a result of transport and economic disruptions due to the virus crisis, which was compounded by:
- The sudden price war between Saudi Arabia and Russia



Source: FactSet

We forecast that oil will **bottom in 2Q** – marking the worst-ever oversupply conditions – at $25/Bbl, lowest since 1999



$45/Bbl

Year-End 2020 WTI Crude Oil Estimate

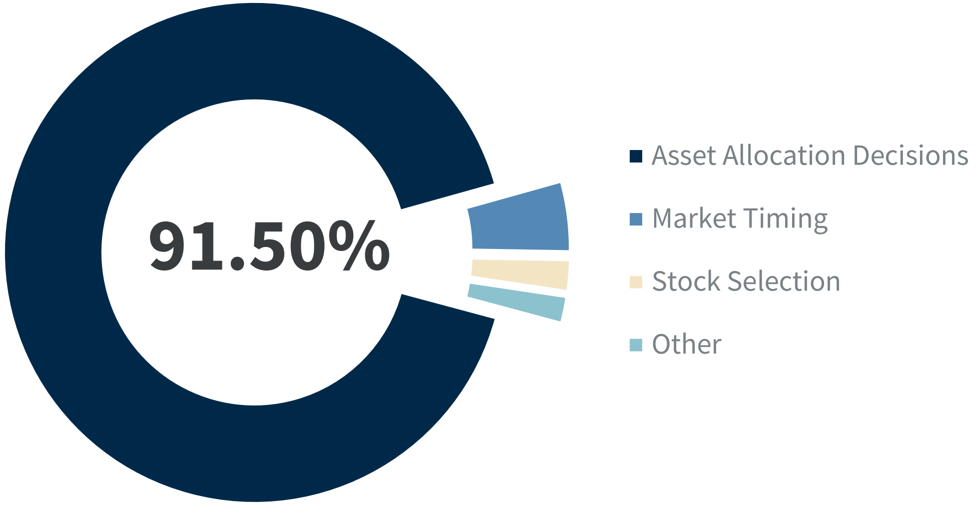
We then expect a **V-shaped bounce** to at least $45/Bbl by year-end 2020, with slower recovery to an average of $55/Bbl in 2021

INVESTOR GAME PLAN

THE MAJORITY OF PORTFOLIO RETURNS COME FROM ASSET ALLOCATION DECISIONS

- Asset allocation decisions amount to over 90% of returns, while market timing and stock selection account for less than 10% of returns.

Determinants of Portfolio Return



Source: Brinson, Beebower and Associates

10 Things investors should remember

1. Take care of yourself

2. Stay calm and do not panic

Do not make emotionally charged, panic decisions

3. Stick to your plan

You and your advisor created the right allocation for you in calmer times don’t abandon it now

4. Make sure you are properly diversified and know what you own

5. Remember your time horizon

6. Have cash on hand for short-term liquidity needs

7. Talk with your advisor

Review your risk tolerance
Rebalance your portfolio if applicable
Tax-loss harvesting if appropriate

8. Dollar-cost average

9. It’s about percentages, not points.

1,000 points on the Dow is now ~5%, while 1,000 points in 2009 was ~14%

10. Remain long-term optimistic

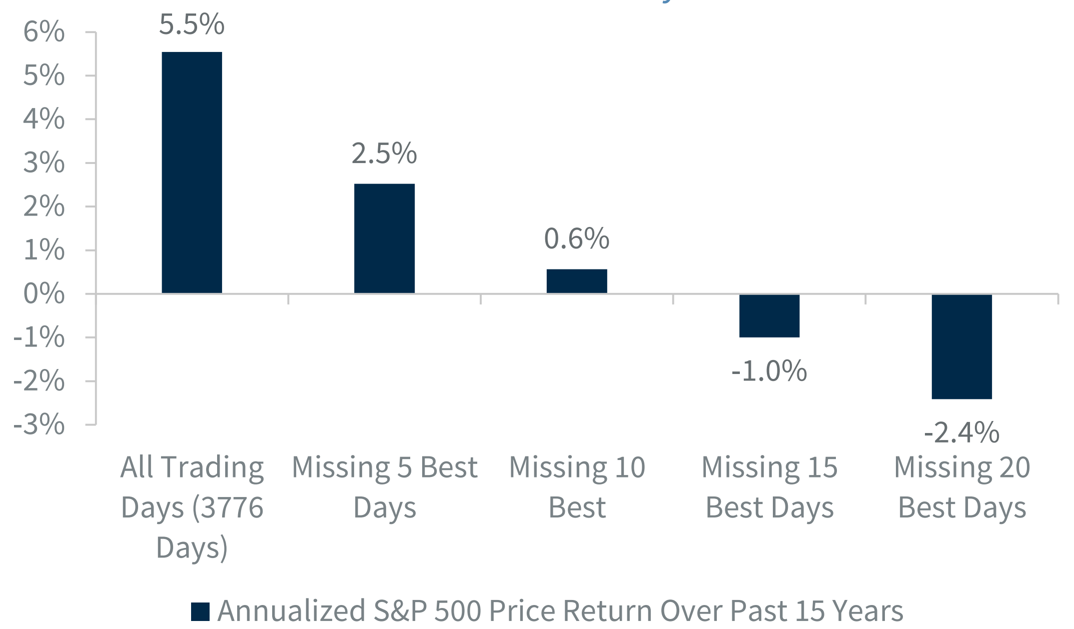
We have had both volatility and viral outbreaks before

AVOIDING THE PANIC TRADE

GIVEN THE RECENT SHARP DECLINE IN THE EQUITY MARKET, IT IS NATURAL FOR INVESTORS TO PANIC SELL. HOWEVER, WE CAUTION INVESTORS FROM DOING THIS, BECAUSE IF YOU MISS THE BEST DAYS, YOUR PORTFOLIO WILL SIGNIFICANTLY UNDERPERFORM.

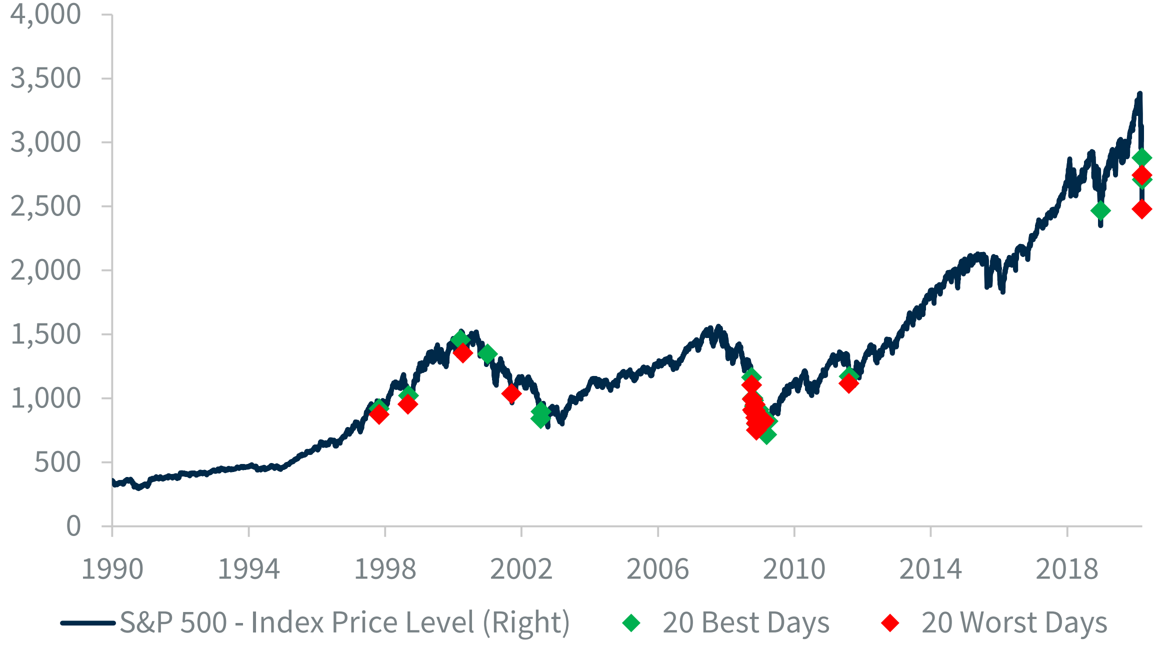
- While sharp sell-offs are uncomfortable, it should be noted that the best days for the market historically coincide with market sell-offs or immediately follow them. If you were to miss these 20 best days, the annualized 15-year S&P 500 performance is ~800 bps below that of other time periods.
- While volatility is likely to continue in the near term, given that the long-term underlying fundamentals of the market remain supportive, we caution investors from panic selling as it could lead to significant underperformance going forward.

Performance if Best Days Missed



Source: FactSet

Best Trading Days Occur Near Significant Downturns



Source: FactSet

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INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Investing in emerging markets can be riskier than investing in well-established foreign markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

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FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg Barclays US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg Barclays US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

US DOLLAR | The U.S. Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" (value) when compared to other currencies.

200 DAY MOVING AVERAGE | The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days

US INDEXES AND EQUITY SECTORS DEFINITION

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.

RUSSELL 2000 | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

GERMAN BUND | A bund is a debt security issued by Germany's federal government, and it is the German equivalent of a U.S. Treasury bond.

SMALL CAP | Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks.

LARGE-CAP STOCK | also known as big caps are shares that trade for corporations with a market capitalization of $10 billion or more. Large-cap stocks tend to be less volatile during rough markets as investors fly to quality and stability and become more risk-averse

MSCI AC WORLD EX-US | **The MSCI AC ex USA** Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries*. With 2,215 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

LATAM | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

ASIA EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

COMMODITIES DEFINITION

BLOOMBERG BARCLAYS COMMODITY INDEX | Bloomberg Barclays Commodity Index is a commodity group sub index of the Bloomberg CITR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

BLOOMBERG BARCLAYS EMERGING MARKETS AGGREGATE BOND INDEX | The Bloomberg Barclays Emerging Markets Aggregate Bond Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

DATA SOURCES:

FactSet and Bloomberg.

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