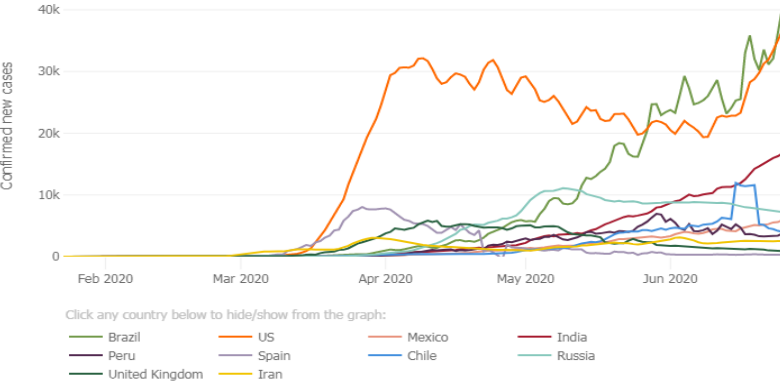




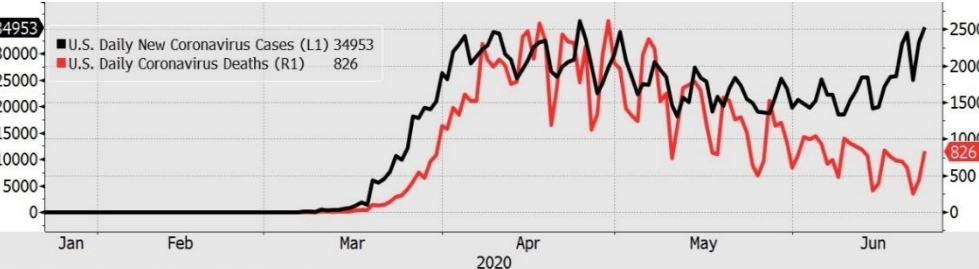
Client Update – A Step Back (06/26/2020)

Latest Developments and Economics

A straight-line recovery from the virus in the U.S. was not expected by most and the last couple weeks put the recovery a step back as it looks a little more like relapse than recovery. As you can see in the chart on the left the U.S. was seeing a decline in total Coronavirus cases but recent hotspots, coupled with advanced reopening, has resulted in an increase in new cases. Around the globe the U.S., Brazil and India are trending up while much of the remaining countries continue their declines in new cases. While this isn't welcome the more positive news is that the number of deaths nationally is trending down significantly with the latest figure at 826 (see chart below).



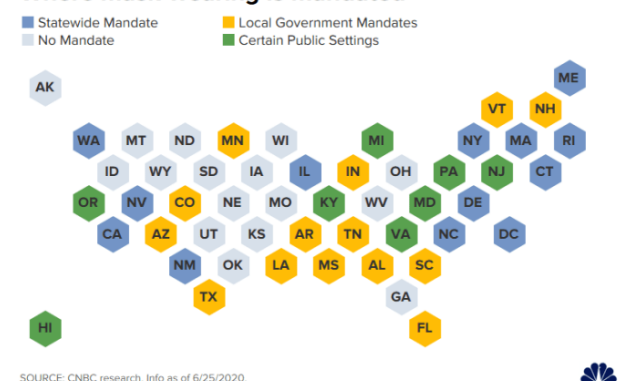
New Coronavirus Cases on the Rise in the U.S.



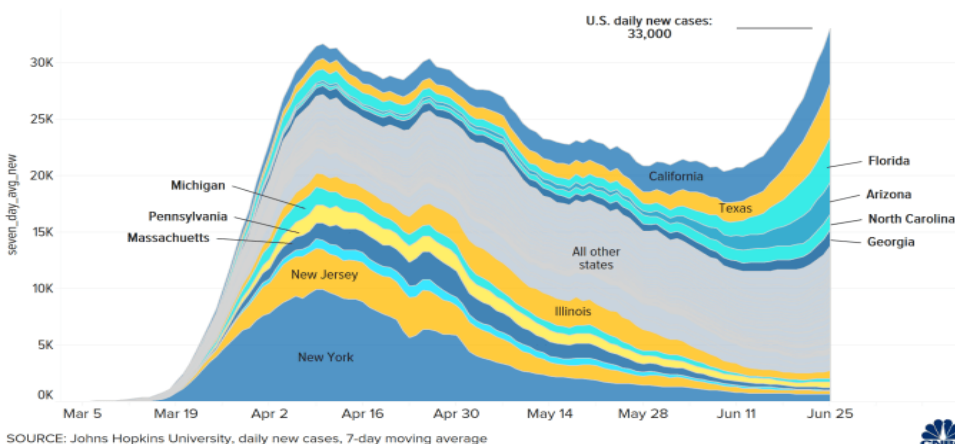
In this country there are 29 states, concentrated in the South and West, that are responsible for much of the new case increases. Florida, Texas, Arizona and California are highlighted as having the greatest percentage increases. Florida recorded new cases of about 9,500 on Friday, shattering the single day record of about 5,500 just two days prior. Those

Source: Bloomberg, Johns Hopkins University
NDUVSCA Index (Coronavirus (2019-nCoV) U.S. confirmed cases) U.S. Covid Deaths, Copyright © 2020 Bloomberg Finance L.P., 27-Jun-2020 12:05:33

Where mask-wearing is mandated

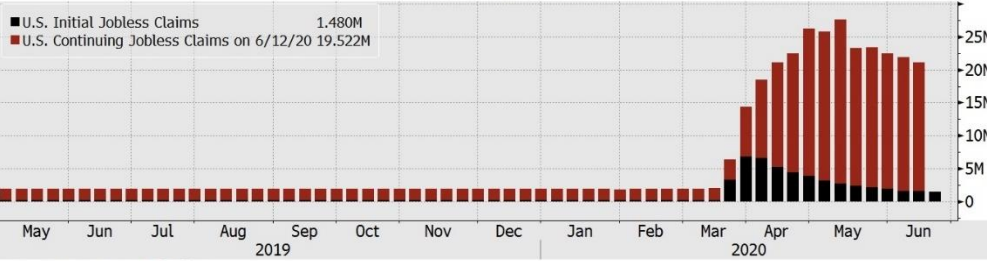


Coronavirus outbreaks



testing “positive” have increased to about 13% of all tested in FL. The age of those contracting the virus has also skewed to those significantly younger. The prevailing thought is that many younger people have not been following precautions with social distancing and individual enforcement is difficult. The result is that states like Texas and Florida have paused, or even reversed, some of the gradual reopening of their economies. Florida has closed all establishments who derive 50% or more of their revenues from alcohol and limited drinking on premises while Texas has again suspended elective surgeries. Also, the call for mandatory mask usage in public places has gained momentum. As you can see in the chart above mask requirements vary significantly among the states. As a global hotspot Americans are now also limited in their ability to travel to Canada through land borders until July 21 at least and barred from travel to countries in the reopened European Union.

U.S. Initial & Continuing Jobless Claims



Source: Department of Labor
 INUC3C Index (US Initial Jobless Claims SA) INITIAL CONT CLAIMS Weekly 03MAY201 Copyright© 2020 Bloomberg Finance L.P. 27-Jun-2020 12:11:49

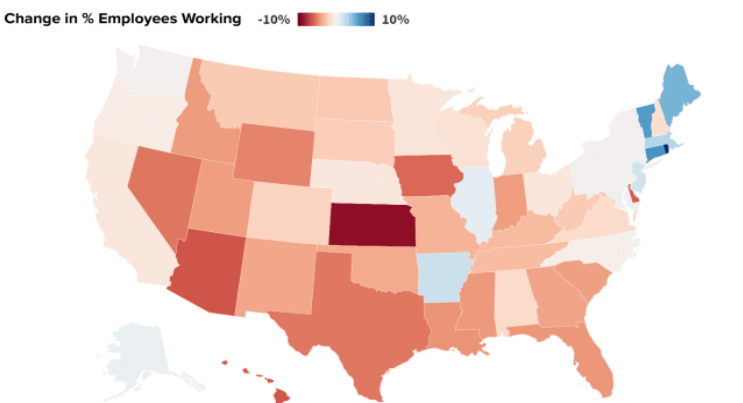
Initial unemployment claims continue to decline slowly and remained near 1.5 million per week while continuing claims dropped to just under 20 million. The slow declines in unemployed are likely to continue as states pause or reverse openings, which prevent more people in retail, hospitality and health care from returning to their jobs. We will also see if

this puts pressure on Congress to extend unemployment supplements (which run out at the end of July) and take up another round of stimulus.

In another sign of an elongated expected recovery the International Monetary Fund (IMF) updated their forecast for global growth. The updated projection downgrades world output to -4.9% globally and -8.0% in the United States (from -3.0% and -2.1% in April) in 2020. According to the IMF *“the recession will be deeper in 2020 and the recovery slower in 2021 than expected in our April forecast. We project a cumulative loss to the global economy of over \$12 trillion over two years (2020-21)”*. They found that 95% of countries are estimated to result in negative per capita income growth this year due to the virus. However, the projection for recovery in 2021 is 5.4% globally and 4.5% in the USA.

Jobs recovery possibly slowing in some states

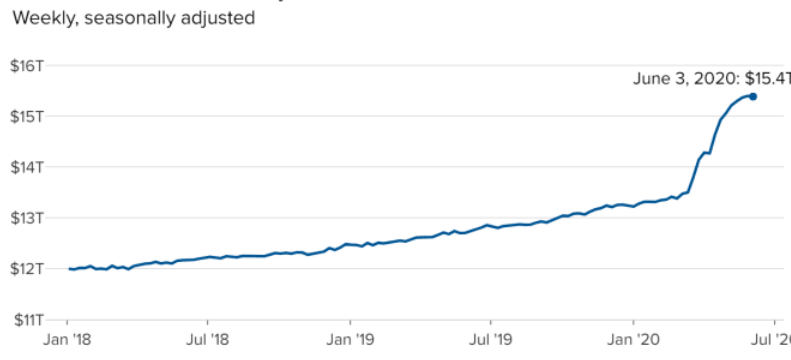
Change in hourly employees going to work for small and medium-sized business, June 24 vs. prior week average. Workers in states shaded red are seeing a decline in employment.



SOURCE: Homebase CNBC

The Federal Reserve also conducted its annual stress test of U.S. banks (CCAR) and found that they are in good financial health. The Fed then subjected them to several different recovery scenarios that extended the length of the virus recovery to see if they would remain financially resilient. The sensitivity analysis included: A recession followed by V-shaped recovery as well as a U-shaped recovery, a W-shaped recovery and a double dip recession. The Board’s results led to Q3 requirements on banks to suspend share repurchases, cap dividend payments, and allow dividends according to a formula based on average earnings over the last 4 quarters. Banks will also be required to update their capital plans later this year.

Commercial bank deposits



SOURCE: Board of Governors of the Federal Reserve System, retrieved from FRED, Federal Reserve Bank of St. Louis. Data includes all commercial banks and is through June 3, 2020. CNBC

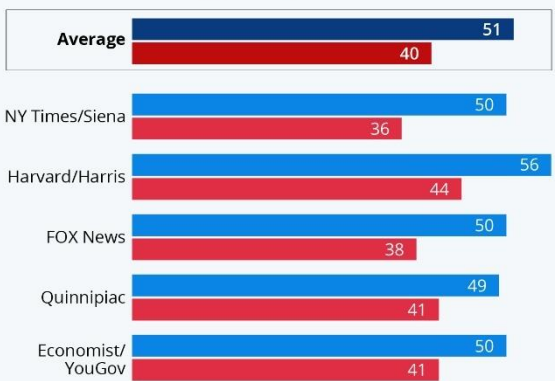
Even though consumer spending is expected to show an increase in May due to the initial lifting of restrictions and manufacturing readings like the Philadelphia and Richmond manufacturing indices have been increasing, there is still an air of conservatism in place and the adage “cash is king” applies. Corporations are cutting costs, raising debt and holding more cash and short-term investments to weather the recession until they get a clearer picture of the recovery. U.S. based large companies saw a median increase in cash and short-term investments of 13.9% in 2020 Q1, compared with less than 4.1% in the prior three quarters. They also repatriated \$124 billion in foreign profits in the same quarter – the most since the tax law

change in 2017. Consumers are also increasing their cash holdings (perhaps due to in part to the government stability payments). Despite very low interest rates deposits at commercial banks have increased substantially as of late and money market mutual funds currently hold about \$4.7 trillion, close to an all-time high.

Trump vs. Biden

Percentage of voters who would vote for each candidate if the election were today

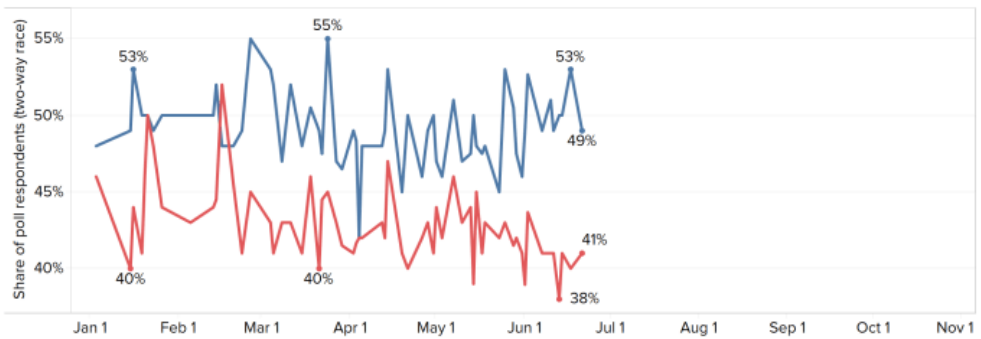
■ Biden ■ Trump



Polls conducted between June 14-June 22
Source: RealClearPolitics



2020: Trump v. Biden



SOURCE: Real Clear Politics, Share of respondents to multiple independent polls, results averaged for multiple polls on the same day.



On a completely different note, since the virus has dominated the headlines and economics, the fact that there is a presidential election coming up later this year has almost been lost. With a little over 4 months to go it is too soon to draw focus on projections, as anything can change but, it is too short a time to ignore the potential implications. The latest polls show a large and widening lead for Joe Biden. The current lead is the largest at this point in the cycle in the last four presidential elections. The economic positions of the two

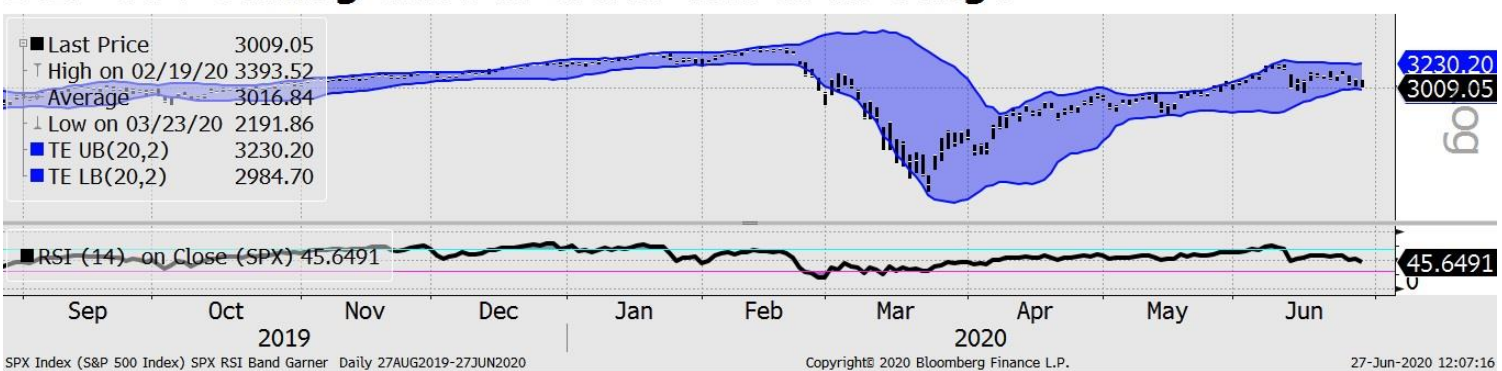
presidential candidates differ significantly. The areas of personal income tax, payroll tax, capital gains taxes and corporate taxes as well the regulatory direction will be the areas that will affect corporate earnings and personal wealth most directly. It does not seem that the markets have priced anything in yet relative to the election outcome, but it is something we will watch. There is still enough time and unknown variables that could result in a continuation of the current trend or for projections to change significantly.

Financial Markets

The spiking of virus new cases, the rollback of the reopening and the Fed bank stress test results caused the U.S. markets to take a step back as well. There is fear that the delays in reopening will further affect corporate earnings this year and raise the possibility of local governments once again imposing shut downs. The S&P 500 ended the week down 2.9% and led to the second weekly drop in three weeks, which puts the S&P negative for June. As you see in the chart below the S&P 500 is

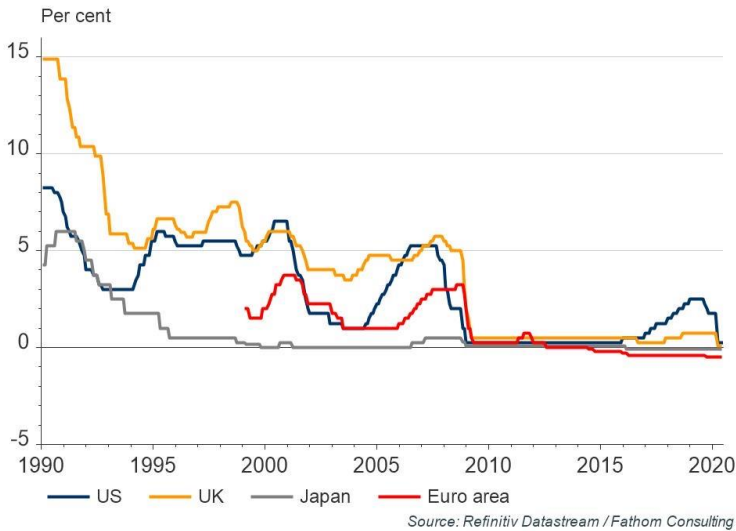
Will Support Hold?

S&P 500 coming close to lower end of its range



at the lower end of its recent range going back to late April. Also, to reiterate, the impact on the S&P by a narrow group of stocks masks some of the weakness underneath and the overall market is currently at elevated P/E levels with more uncertainty introduced in the near term. The market capitalizations of Facebook, Amazon, Apple, Microsoft and Google (Alphabet) currently make up about 22.5% of the market cap of the entire S&P 500. So, those 5 stocks have an outsized influence on the S&P 500 index results.

Interest rates



Fixed Income is back to zero (or less) across the globe as well. As you can see in the chart the only developed central bank raising rates in the last few years was the U.S. Federal Reserve but they started lowering rates last year and quickly dropped to zero recently when the virus impact was recognized to be significant. The election result may have an impact on municipal bond demand should tax rates increase. States and local municipalities will also most likely increase their borrowing to cover the losses from the pandemic. This low interest rate environment may help to create a floor for equities as that is one of the few places to look for return and yield. The current S&P 500 dividend yield of just under 2.0% looks more attractive than the promised 0.64% you would get for buying and holding a 10-year Treasury bond to maturity. Moreover, the current estimated earnings yield of the S&P 500 is north of 3.0%.

Think all the best stocks are in the U.S.? Think again.

75% of the top stocks since 2011 have been based outside the U.S.

Number of the top 50 stocks each year by company location

■ Emerging markets (ex China)
■ China
■ Developed international
■ United States

Index return	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 YTD
U.S.	2.1%	16.0	32.4	13.7	1.4	12.0	21.8	-4.4	31.5	-5.0
Non-U.S.	-13.7%	16.8	15.3	-3.9	-5.7	4.5	27.2	-14.2	21.5	-14.8

Sources: MSCI, RIMES. 2020 as of 5/31/20. Returns in U.S. dollars. Top 50 stocks are the companies with the highest total return in the MSCI ACWI each year. Returns table uses S&P 500 and MSCI ACWI ex USA indexes for U.S. and non-U.S., respectively.

Another area of potential opportunity for equities may be the quicker recovery in international markets. The chart on the first page shows that those countries are having much better experience in minimizing the virus and are continuing with their plans for reopening. Furthermore, while U.S. large cap stocks have dominated their international counterparts overall for returns in recent years, individual international equities have held their own against U.S. securities. The chart shows that from 2012 through 2020 about 75% of the 50 best performing individual stocks globally have been outside the United States.

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