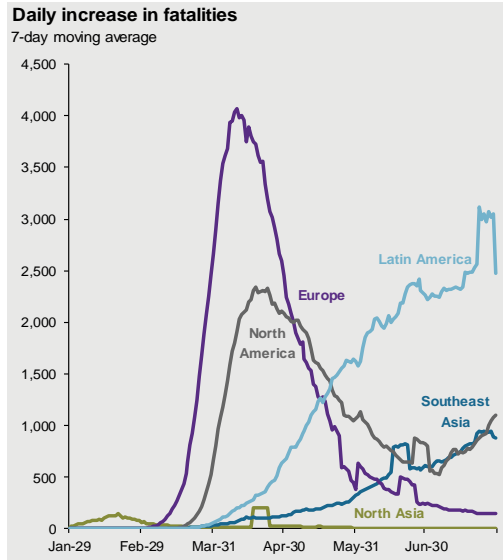
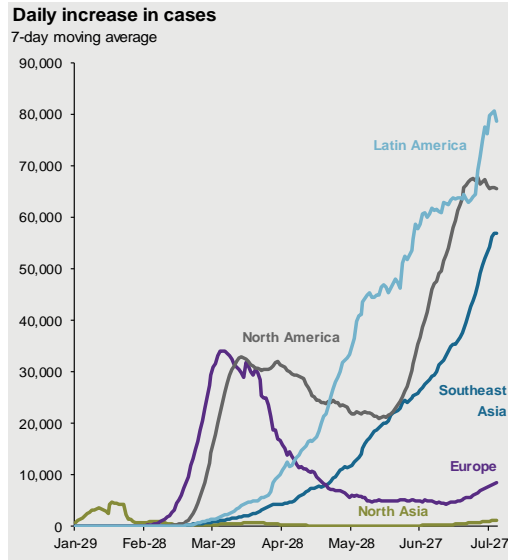




Client Update – CARES, HEROES and HEALS (07/31/2020)

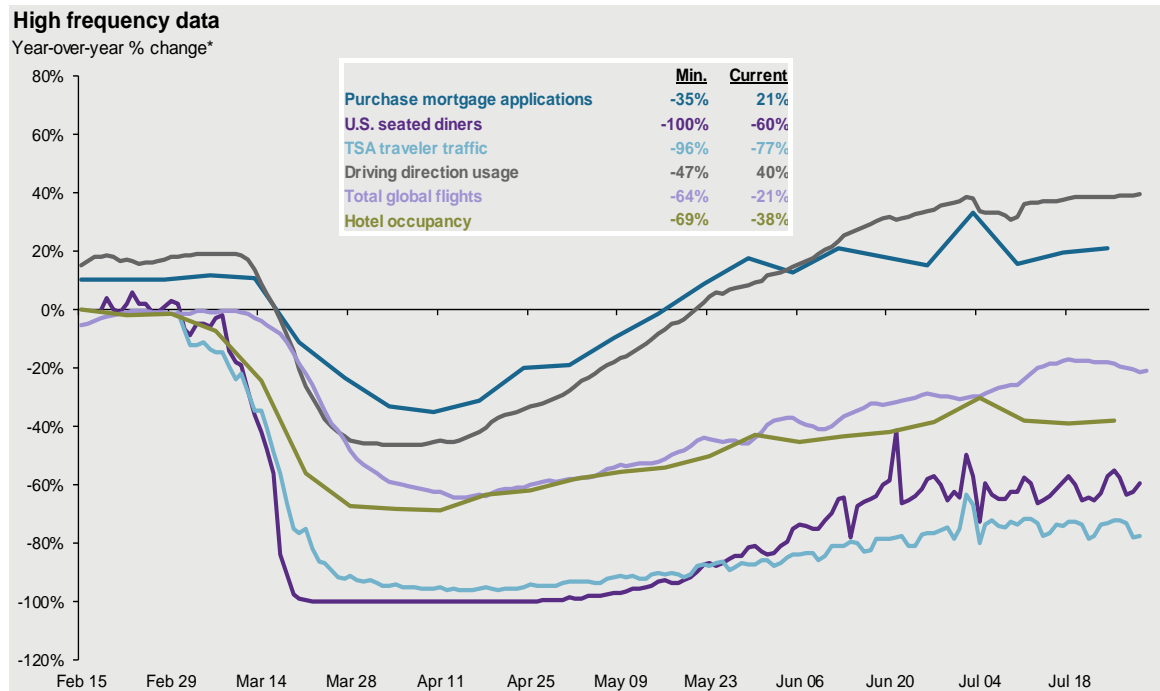
Latest Developments and Economics



As virus cases have resurged and are increasing broadly across the United States the impact has been a pausing, or in some cases, reversing of the reopening of the U.S. economy and people returning to work. There have been announcements of more than 6,000 retail store closings (Pier 1, Microsoft, JC Penney, Dunkin Donuts, etc.) and companies announcing the intention of permanent job cuts (e.g.: American Airlines– 25,000; United – 36,000). States are also instituting regulations and quarantine travel

1 Source: JP Morgan

restrictions to curb the increase in virus cases and plans for students returning to school are uneven and problematic. Some good news on the virus front is that the death rate has been slowing and several vaccines are in late stage development worldwide which could be approved by the end of the year. In the meantime, the virus-impacted economic data continue to slide. The first reading of 2020 Q2 US GDP on Thursday was -32.9% (on an annualized basis), which was shocking but not unexpected (Eurozone preliminary Q2 GDP was -12.1% with many nations down double digits). The more critical prospect now the recovery may not progress as quickly as previously thought.

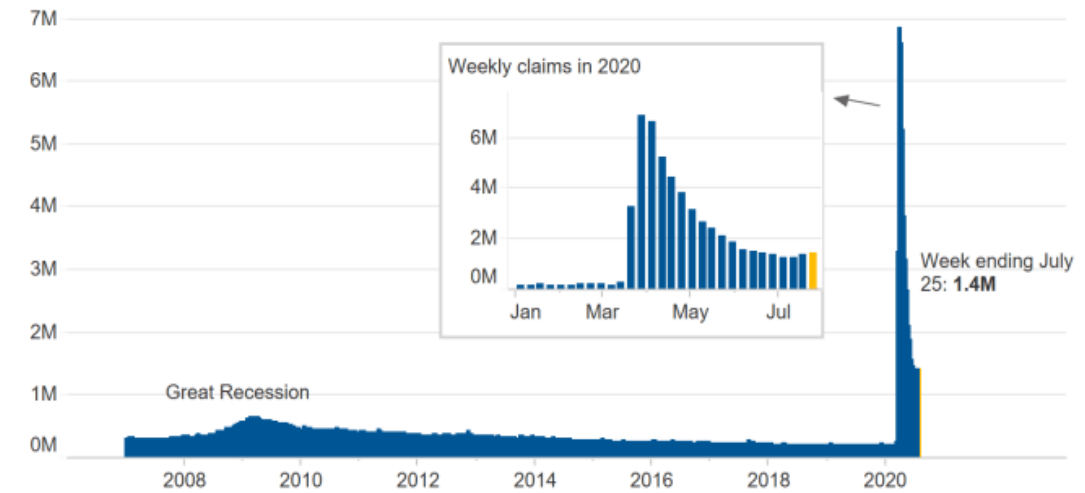


High frequency data confirms the slowdown in many consumer related activities. Air travel, hotels and restaurant visits have bounced from their initial lows in March and April but have stalled in June and July. The big-ticket purchases of homes and automobiles still have momentum (see purchase mortgage apps in chart) and have not suffered the same decline.

2 Source: JP Morgan

Consumer confidence has also declined in the face of rising joblessness and the inability to move forward with in-person shopping as was hoped. The University of Michigan Consumer Sentiment Index dropped to 72.5 in July from over 100 early in 2020. Another sign of the delay in reopening came through weekly initial unemployment claims. As the chart shows the initial claims, while still historically high, were on a steady decline until last week when they unexpectedly increased back above 1.4 million. This has led to an estimate of up to 30 million people (1 in 5 working age people) currently collecting unemployment in the country.

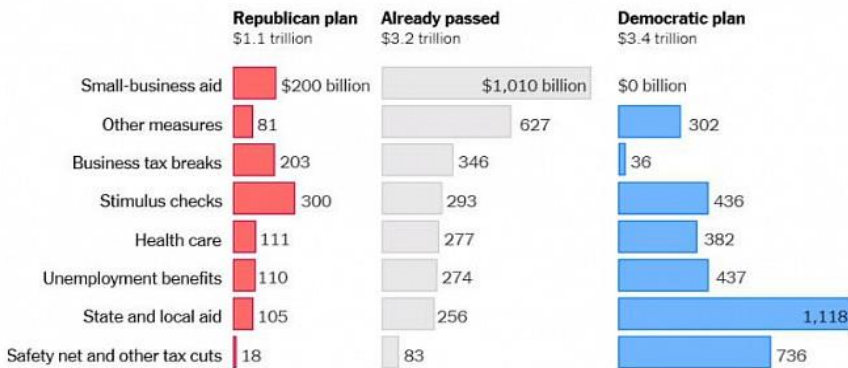
Initial claims for unemployment insurance



SOURCE: Department of Labor. Data is seasonally adjusted. Data through July 25, 2020.

This brings us to where we are now with Congress negotiating a fourth round of government support to help get through the pandemic. The CARES Act was the legislation that enabled the \$600 in unemployment supplement to state benefits and the supplement ended on 07/31/20. The House passed the \$3.4 trillion HEROES Act in May to extend the \$600 weekly benefit until 2021 and provide another round of direct payments to citizens. The Senate waited to see how the CARES Act helped the economic recovery progress before proposing their own \$1.1 trillion bill last week entitled HEALS Act. The two bills are nowhere close to compromise currently and Congress is scheduled for its traditional recess in August. The main sticking points between the two are the amount and length of supplemental unemployment

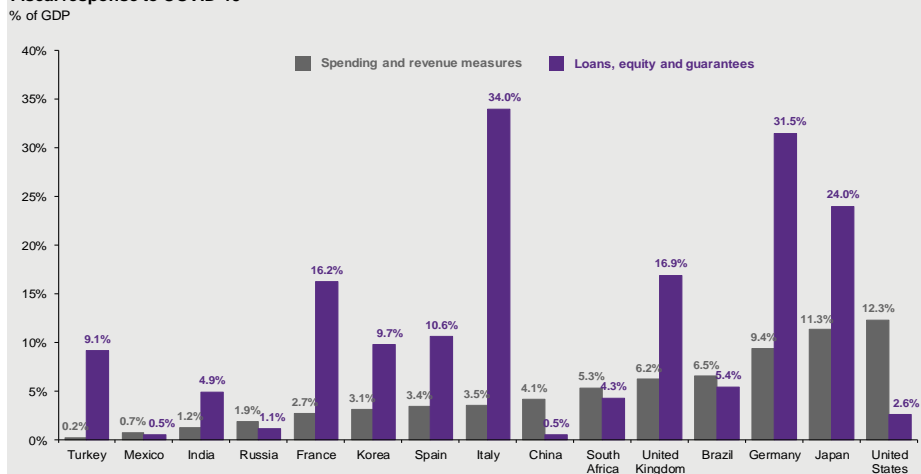
Exhibit 1: A comparison of the Democratic and Republican Stimulus Plans from the CRFB



Source: New York Times, CRFB

benefits, aid to state and local governments and employer legal liability protection from virus lawsuits. A complete loss of supplemental unemployment benefits with no change in reopening would have a significant impact on consumer spending. The European Union also passed a pan-union \$2.6 trillion spending package to aid the countries in the EU – a first of its kind spanning member countries in the union. In fact, massive fiscal and monetary stimulus are currently the order of the day around the world. The chart to the right expresses fiscal stimulus around the world by country as a percent of that country's GDP.

Fiscal response to COVID-19



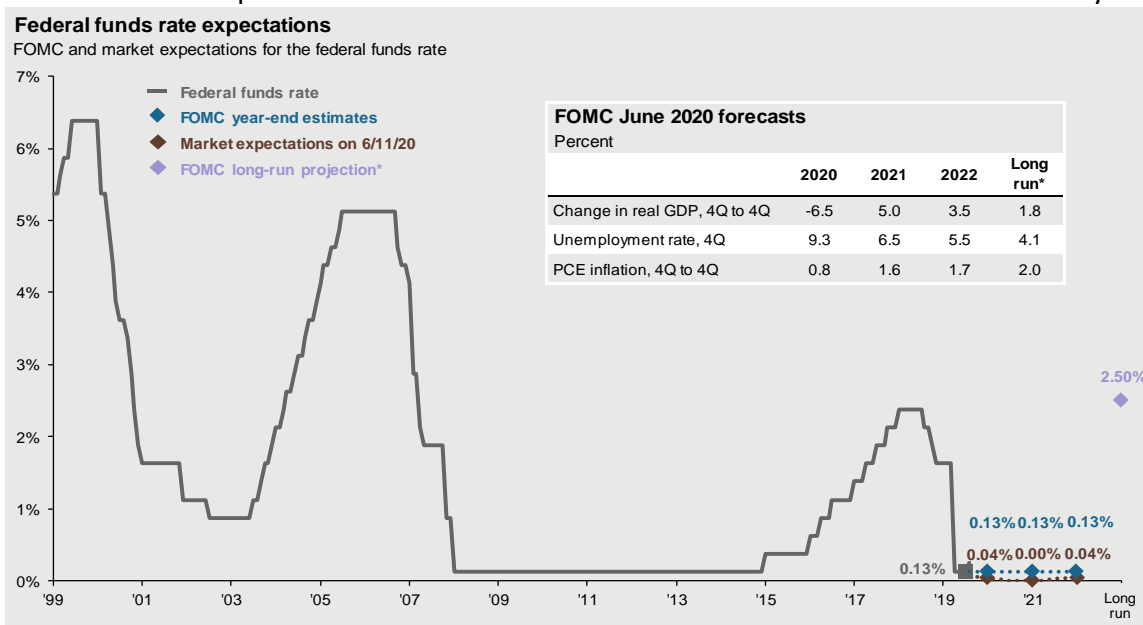
3 Source: JP Morgan

In addition to the virus, which has been dominating headlines, there are other significant developments that deserve similar attention with respect to their impact on the U.S. and world economy. The previous update already mentioned the dramatic policy differences between the two choices for president in the upcoming election. That election is now less than 100 days away and candidate Joe Biden is set to make his running mate announcement next week.

We also have rapidly rising tensions in relations between the United States and China focused on both the economic and geopolitical front. China has been the first country to report post-pandemic growth with estimated 2020 2Q growth at +3.2% (far from its targeted 6.0-6.5% growth rate but positive nonetheless). There have been recent multiple incidents: Huawei was banned from supplying the UK's 5G network; Chinese maritime maneuvers regarding disputed Taiwan and the South China Sea have brought a U.S. response of sending 3 aircraft carriers to the region; and this past week the U.S. closed the Chinese consulate in Houston due to suspected espionage emanating from that location (China has retaliated by closing the U.S. consulate in Chengdu). The current climate is certainly not conducive to furthering the trade negotiations between the two countries and cast some doubt on the trade agreements put into place last year.

Financial Markets

The result of this week's FOMC meeting and press conference reiterated that the virus is causing tremendous human hardship in the U.S. and around the world and that the economic recovery will follow the path of the



virus. The Federal Reserve confirmed that it is committed to using its full range of tools to support the U.S. economy. Interest rates are currently at historic lows (with the 10-Year Treasury below 0.60%) and do not look to be increasing any time soon (see projected path in chart).

4 Source: JP Morgan

The US dollar had a terrible July with trade-weighted index down over 4% (and 10% since March). This could be related to extended economic impact of the virus and increased US government spending to confront it.

The S&P continues its impressive rebound. As of 7/31/20 the total return of the index was 5.64% for the month of July and puts the 2020 total return at 2.38%. Many of the S&P 500 companies have reported 2020 Q2 earnings and the results are mixed. Many expect this quarter

S&P 500 - YTD

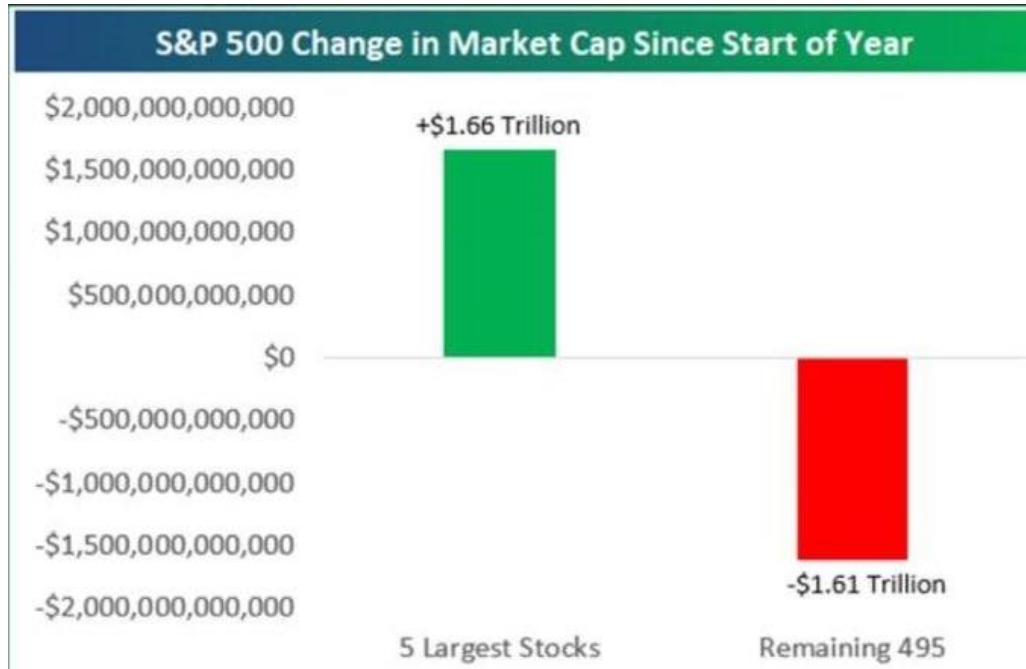


SOURCE: CNBC



to be the trough and for company earnings to recover in future quarters. For some industries analysts can still focus on revenue and earnings growth while for other industries the rate of cash burn (i.e.: airlines) or revenue risk (i.e.: banks) are the more important metrics.

The large technology companies were in focus this past week and they did not disappoint in terms of revenue and earnings. Amazon (sales up 40%), Facebook (earnings up 98%) and Apple (sales up 11%; profits up 12%) are some examples of why growth stocks continue to outperform value stocks year-to-date (approximately +16% vs. -13% respectively). There have been some strong performers beyond tech in the 'stay at home' stocks such as



home builders, appliances (Whirlpool) and delivery services (UPS). While the entire S&P 500 is historically expensive at a P/E of about 22 the leaders are truly the tech stocks. Bepsoko Investment Group calculated the chart to the left which shows that the largest 5 stocks (Apple, Amazon, Facebook, Alphabet and Microsoft) have added \$1.66 trillion in market capitalization to the S&P 500 this year while the aggregate of the remaining 495 stocks in the index subtracted \$1.61 trillion in market capitalization.

5 Source: Bespoke Investment Group

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