

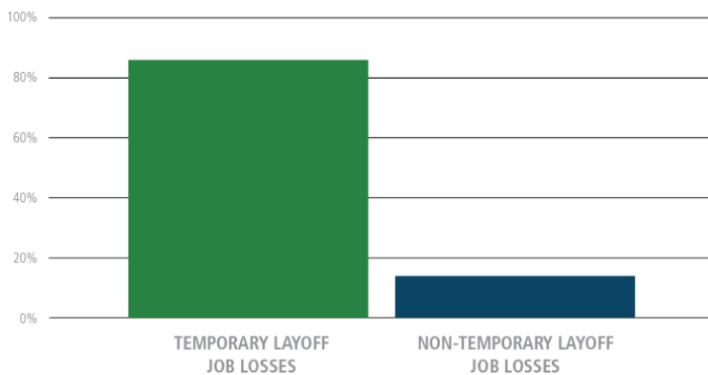


COVID-19 – Update May 16, 2020

This past week saw a smaller amount of news flow regarding anti-viral therapeutic and vaccine testing. Moderna has been cleared to enter Phase 2 trials on roughly 600 healthy volunteers and the plan is to enter Phase 3 testing in the early summer assuming all goes well. The Moderna CEO Stephane Bancel said that in a best-case scenario people may be able to begin receiving vaccinations as early as September but that is only if the efficacy of the vaccine is proven and there are no bumps in the road. The supply would be limited this year due to the company and its partner having to ramp up manufacturing, but the company announced they could make as many as a billion doses in 2021.

Chairman Powell of the Federal Reserve commented this week that we could be in a longer recession if Congress and the White House do not authorize more aid to address the economic fallout. The markets took notice and pulled back slightly. The S&P 500 Index was down 2.2% while the tech-heavy Nasdaq was down only 1.1% while developed international markets were down around 3% and emerging markets were down a little over 2%. In response to Chairman Powell’s verbal nudge to Congress and the administration, we did see the House of Representatives pass a very large spending bill to the tune of \$3 trillion that was viewed as an opening offer to negotiations on the next round of stimulus.

Temporary vs Non-temporary Layoffs
 March 2020

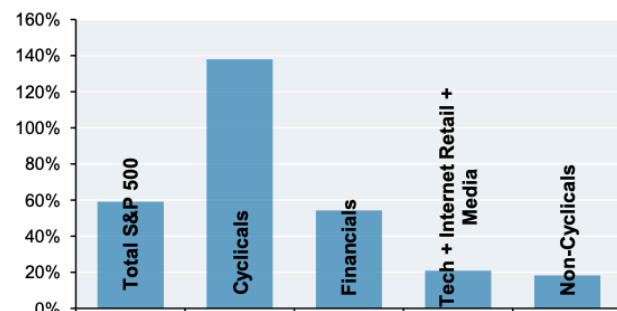


Source: Zacks Investment Research²

The data is showing a large number of job losses, but a big percentage of those losses appear to be furloughs or temporary layoffs as opposed to permanent reductions in employment. There have been a number of surveys of worker’s expectations and an overwhelming majority expect to return to work for their current employer. This would certainly help employers ramp up quickly as it would remove the need for training, recruitment, job search, and background checks with can be very time-consuming. Workers in fields such as technology, management, finance and other professional services saw a much smaller change to

payrolls in March and April as more than half of the job losses have come from retail, hospitality, and other service-sector jobs.

Consensus EPS growth, 2021 vs 2020



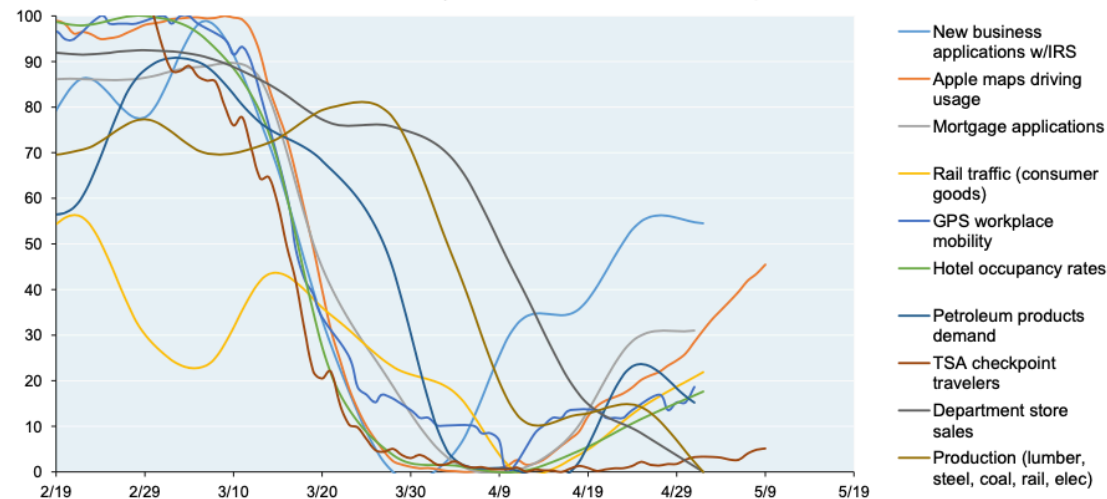
Source: Bloomberg. May 10, 2020

As mentioned in the last update, it is difficult to assess earnings estimates in this environment; however, with expectations for a healthcare solution and a projected return to economic growth in 2021 earnings are expected to rebound dramatically, especially for sectors that have suffered the most during this downturn. Cyclical industries such as airlines, hotels, retail, restaurants, and others that have seen the greatest percentage job and revenue losses should see the largest percentage gains but getting back to previous levels will require confidence on the part of their consumers to engage in these activities at pre-virus levels.

As most states begin to move further down the path of staged re-openings, we are starting to see measures of activity improve. Although the measures are at relatively low levels compared to earlier this year, some of the bigger states such as New York and California were not open during this measurement period. Metrics should continue to improve as those and other states begin to reopen. New business applications with the IRS and mortgage applications reflect confidence by those applicants in their future prospects while a sustained increase in driving here in the US and Europe, along with increased oil purchases by China, has led to higher petroleum demand and an increase in oil futures to nearly \$30 per barrel.

High frequency US data tracker

Index, with 0 = lowest observed value and 100 = highest observed value, Jan 1 2020 to present



Source: WWPA, EIA, AISI, EEI, AAR, Redbook, Census Bureau, TSA.gov, Apple, Smith Travel, MBA, Google, JPMAM. May 10, 2020.

Consumer and business confidence have both fallen, as would be expected. This may be a good thing for future equity market returns because as the bar is lowered it makes it easier for the economy to outperform expectations which can help drive stocks higher. We hope everyone continues to be safe and healthy in the midst of all this!

We will talk to you soon.

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