



COVID-19 Update – Wading through the Water (05/01/2020)

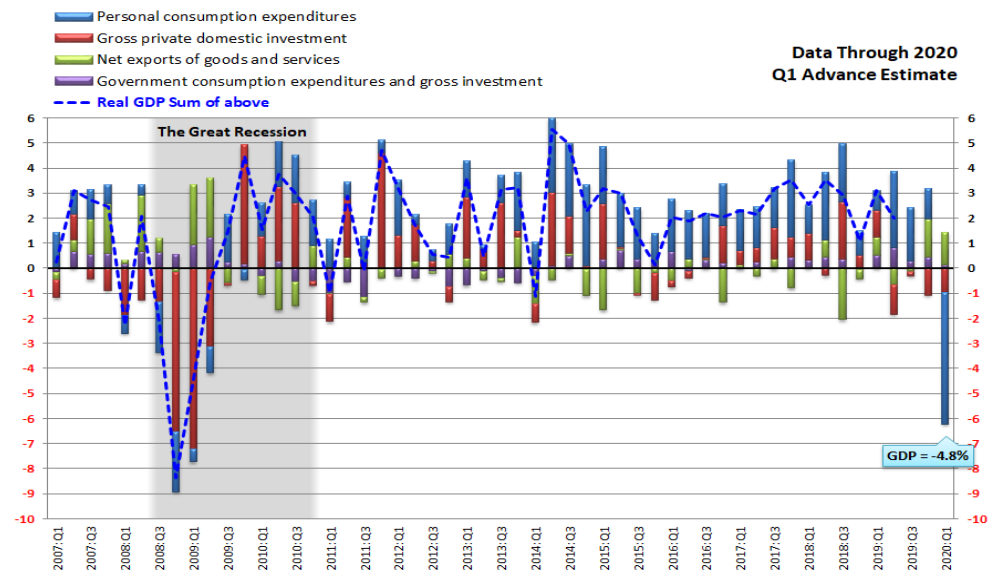
Latest Developments and Economics

More economic data continues to be released and there were two to highlight this past week. The first glimpse of the front end of this came from the initial print of the Q1 2020 Gross Domestic Product (GDP). The initial reading of the value of all goods and services produced in the country was -4.8% annualized. While -4.8% doesn't sound too bad this comes off a positive 2.1% the previous quarter and the COVID-19 lockdowns only cover

**1Q GDP Takes Big Fall
COVID-19 Shutdown sends growth to lowest since 2008**



Contributions to Percent Change in Real GDP Since 2007



the last 2 weeks of the 3-month period.

As expected, the explanation is mainly due to the decline in personal consumption by consumers (-5.26% - blue portion of the bar). Automobiles, clothing, travel and restaurants were among the major declines and food, other “nondurable” household products and housing (due mainly to Jan-Feb) were partial offsets. A decline in business spending also contributed to the decline. Once the data are finalized it is highly likely that March 2020 will be the official beginning of this recession.

The data covering Q1 supports the general estimates that are being published of a Q2 2020 annualized GDP number somewhere in the -20% to -30% range.

The Federal Reserve Bank of Atlanta publishes a running projection of upcoming quarterly GDP based on the same variables on which actual GDP is measured. The line in the chart to the right is the FRB Atlanta estimate for Q2 against the range of top 10 and bottom 10 economic estimates.

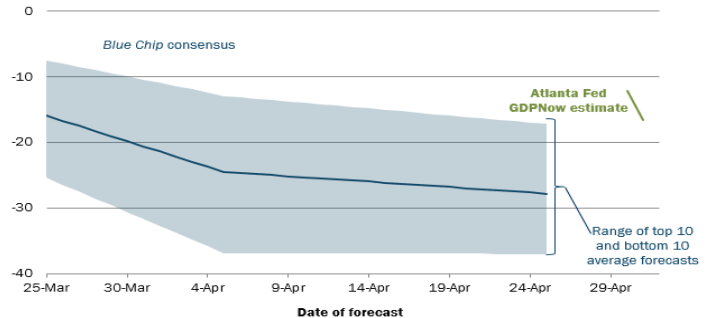


GDPNow

GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

In particular, **it does not capture the impact of COVID-19** beyond its impact on GDP source data and relevant economic reports that have already been released. It does not anticipate the impact of COVID-19 on forthcoming economic reports beyond the standard internal dynamics of the model.

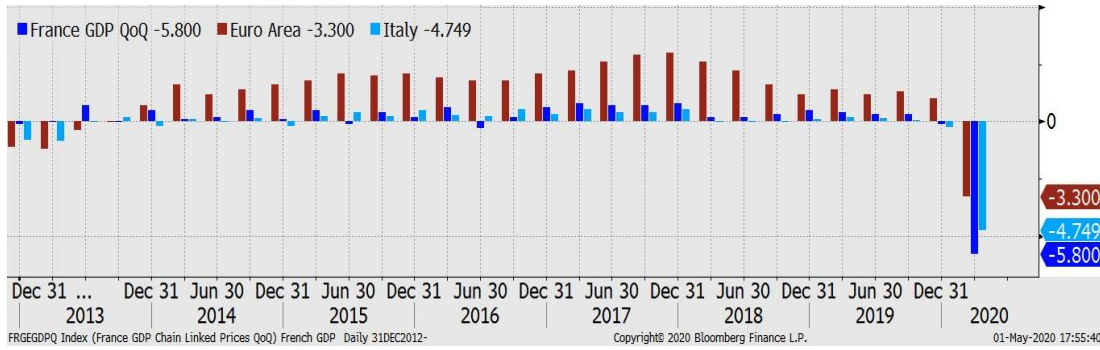
Evolution of Atlanta Fed GDPNow real GDP estimate for 2020: Q2
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts
 Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

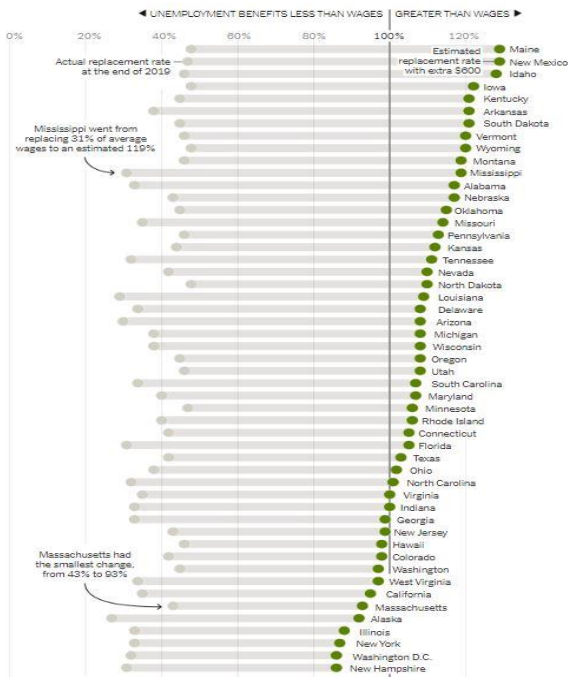
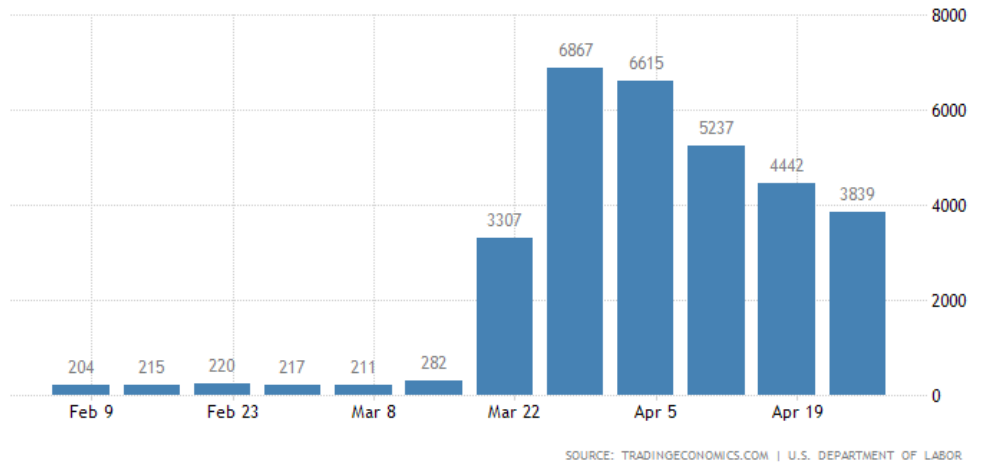
Shrinking Economies

Euro area GDPs plunge in first quarter



This public health and resulting economic Tsunami is not only affecting the United States but is a global disaster as well. The chart to the left shows the awful GDP numbers coming from the Eurozone and, specifically highlights France at -5.8% and Italy at -4.749%. The entire Euro area initial GDP decline reading was -3.3%

The second highlighted economic data this week was the weekly initial unemployment claims. The good news is that the weekly claims fell once again to 3.839 million people but, this makes the 6-week total over 30 million people (roughly 20% of the labor force in the U.S.). Continuing claims in the U.S. (people already on unemployment) reached just under 18 million – the highest reading ever recorded. Many of the workers that are currently on

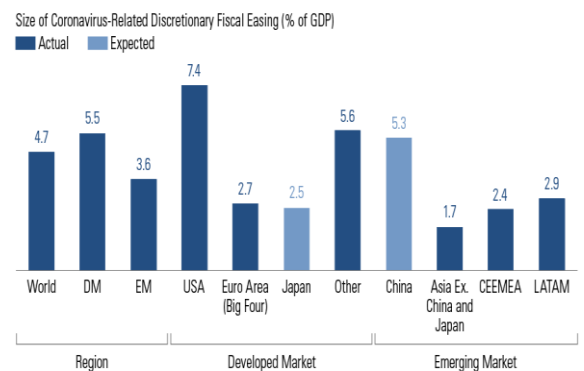


Note: Estimates use average weekly unemployment benefit and average weekly wages from the last quarter of 2019 and add \$600 to the average weekly benefit. Sources: Department of Labor; Emie Tedeschi, Evercore ISI Research

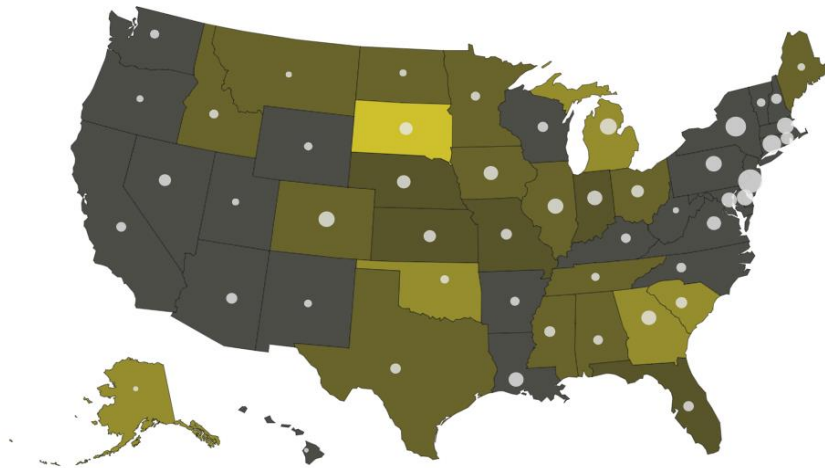
furlough or laid off are skewed to the lower part of the wage scale. The CARES Act recently temporarily increased unemployment benefits by \$600 per week. With the increase in unemployment benefits some companies are reporting that they are willing to hire but cannot find workers. This is most likely due to the temporary increase in total compensation that resulted from the act. Unemployment insurance benefits vary by state, but the CARES Act supplement has put a floor under wages that, in some cases, are higher than average wages in the state. On the Evercore chart to the left each green dot shows the current total unemployment payments with the CARES Act supplement and the line is the 100% average normal state wage. Most are at 100% or beyond.

This is just an example of the unusual lengths that the federal stimulus is going through to put the economy on 'hold' while waiting to get through the virus impact. This week the Federal Reserve Chairman, Jerome Powell, conducted his regular economic press conference and acknowledged the "tremendous human

and economic hardship" brought on by the virus and reiterated the support to the economy given the "considerable risk" to the medium term economic outlook. The support is unprecedented as the federal reserve bond purchases has increased the Fed balance sheet to about



20% of GDP. They are not alone as major economies of the world are using similar tools. This support in economic stimulus is expected to continue around the world as well. The chart above shows support as a percent of each nation's GDP.



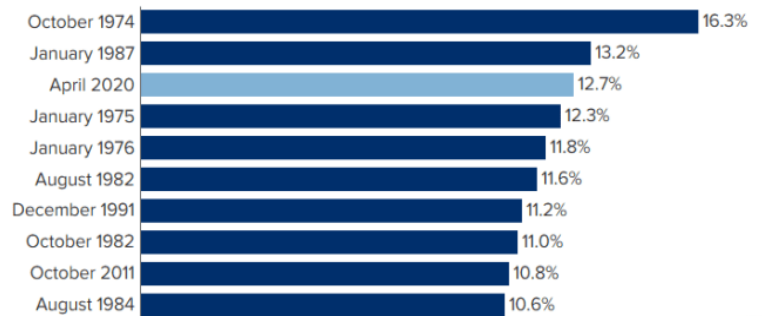
There was additional good news this week as well. The drug Remdesivir by Gilead Sciences has proven effective enough to become available under Emergency Use Authorization (EUA) by the FDA for the treatment of severe COVID-19 patients. This coincides with states planning a first phase of reopening. The map of the country illustrates the plans for each state. The grey states are still under lockdown procedures while the roughly 30 states not in grey had phase 1 reopening plans to begin between April 26 and May 9 (South Dakota never closed down).

Financial Markets

The development in virus treatment, plus the number of states moving to open in some form was enough for measured positive sentiment in financial markets. Though higher than normal volatility persists that didn't stop the markets from recording a return of 12.7% for April, which was the highest since 1987 and good for the third highest month since WW II. While certainly a welcome bit of news we continue to watch the fundamentals of company earnings and company guidance for 2020 and beyond as well. Many companies are reporting Q1 results and they are being met in many cases with a "good news/bad news" scenario. UPS, for example, has seen a significant increase in volume of home deliveries from online shopping but has also experienced a historic drop in business-to-business activity. This uncertainty has prompted many companies to drop further guidance for 2020.

April 2020 the best month in decades for S&P 500

Top months, measured by percent change, since World War II

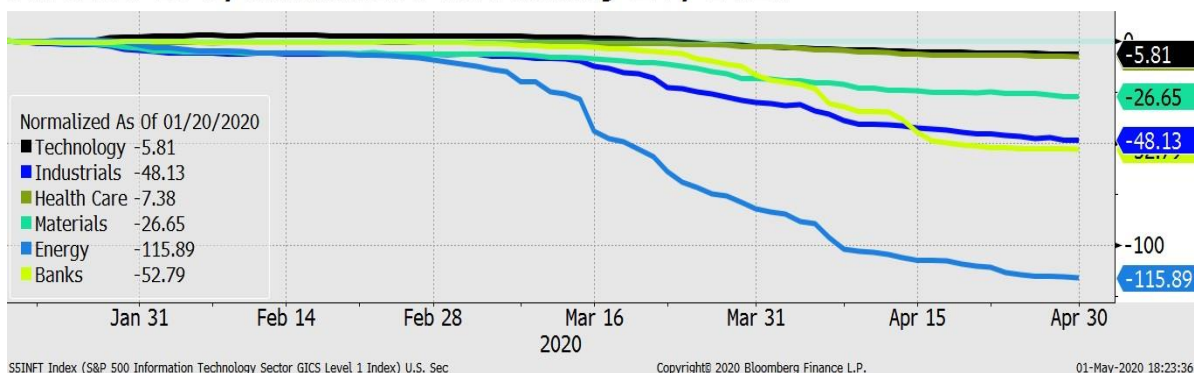


SOURCE: FactSet. Data as of market close on 4/30/20.



Tech Stands Tall, Energy Hit by Virus

Forward EPS, normalized on January 20, 2020



SSINFT Index (S&P 500 Information Technology Sector GICS Level 1 Index) U.S. Sec

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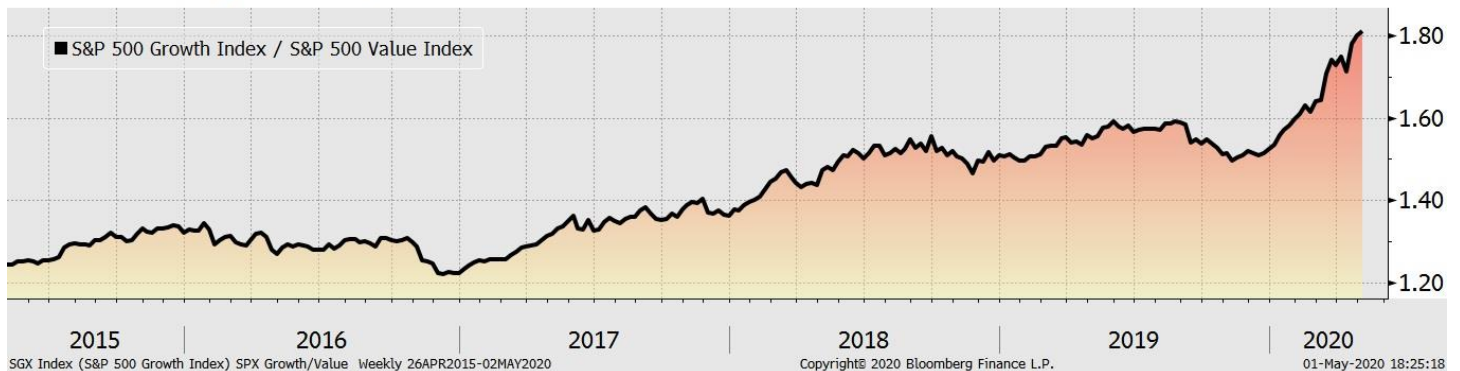
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There has also been a dramatic variety in impact by type of company. Starting each sector at their earnings estimates at 1/20/20, technology companies have decreased their earnings estimates

by approximately 6% while energy companies have decreased estimates by over 115% since the same date.

Growth Stocks' Outperformance

S&P 500 growth / value



This has led to another pattern that has only increased as of late – the outperformance of “growth” companies over “value” companies. Year-to-date in the U.S. the S&P 500 has recovered in April to be down a little over 12% for the year. This does not tell the whole story though as the “value” companies are still down 21% and the “growth” companies (like technology) are only down about 4%. The chart above illustrates the recent dominance of growth returns over value returns that has become even more dramatic in 2020. Furthermore, this outperformance of growth was driven by a very narrow list of companies (like Amazon, Netflix, Microsoft, Apple) that are responsible for most of that performance. Of course, we are still advocates of the benefits of a fully diversified portfolio, which still offers the best balance of risk and return over the long term.

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