



Quarterly Economic Update

September 16, 2020



MACROECONOMIC COMMENTARY

Fiscal/Monetary Policy

By Michael McNair

The House returns on September 14th and government funding expires on September 30th. House Speaker Nancy Pelosi and Treasury Secretary Steven Mnuchin have agreed to keep stopgap spending measures and coronavirus relief talks separate. It will be difficult to reach a deal on coronavirus relief without a forcing function like linking it to the stopgap government funding measure. Our base case is now that a phase four coronavirus relief bill will not get approved before the election. There is no longer a catalyst to force Congress to reach a deal before they leave to go home and campaign now that both sides have seemingly agreed to fund the government through a continuing resolution - though the length of the stopgap funding measure has not been agreed upon. Republicans prefer a resolution that funds the government through the election in November, while Democrats are targeting January on the hopes that they will have unified control of government by then.

The President's move to fund the increased unemployment benefits with the use of an executive order further reduced the odds for a pre-election deal. The President is forbidden from moving money allocated for one purpose to another without the approval of Congress. However, the Trump administration was able to find enough leeway to get the unemployment benefits by diverting some CARES Act funding through executive action. The need –and willingness - to fund the increased unemployment benefits was the impetus to force the GOP to agree on a large phase 4 deal. Republican's enthusiasm for a deal, which was never high, is waning now that Trump has found a way to fund UI via executive action.

Democrats, on the other hand, view coronavirus relief as "must-pass" pass legislation and believe Republicans will eventually cave in to their demands if they wait long enough. However, Republicans are thinking of life after Trump and many fear a potential Tea Party challenge more than a general election contest. Thus, they are wary of supporting a large spending measure.

There is still hope for a deal despite our skepticism. The UI benefits that were made possible by Trump's executive order are going to run out before the election, which will put some pressure on both parties to act. Further, both sides are largely in agreement with the measures that should be included in a phase four bill. Typically both sides come to the table with contrasting agendas but there is a wide set of overlapping policy priorities with the phase four stimulus. Both sides want higher unemployment benefits, increased funds for fighting COVID-19 (increased funding for testing, therapeutics, and vaccine development), stimulus checks, and more PPP funds to name a few. The disagreement is almost entirely on the size of the stimulus bill.

Republicans initially proposed a \$1 trillion bill and the Democrats opened with \$3.4 trillion. Both sides have moved roughly 1/3 and countered with \$1.3 trillion and \$2.2 trillion for Republicans and Democrats, respectively. Secretary Mnuchin even floated \$1.5 trillion in a public hearing.

The Democrats do not appear to be backing off their \$2.2 trillion target, and there isn't much reason to expect they are going to. Meanwhile, Republicans no longer feel much pressure to agree to something in the \$1.5 to \$1.8 trillion range, the figure that seemed likely when the two sides were close to agreement on most issues.

The Republicans recently released the details of their Phase 4 coronavirus relief "skinny" package. We do not believe this bill has the support to meet a 60 vote threshold because the Democrats are unlikely to accept a 'skinny' deal in the half a trillion range. This bill should be viewed more as a political document meant to provide vulnerable Republicans an opportunity to be on record supporting relief measures and it forces Democrats to vote against the measure. However, we believe the details of the bill provide us a good idea of what measures a phase four deal could include. It is the dollar amounts that are unlikely.

The summary of the Republican "skinny" package:

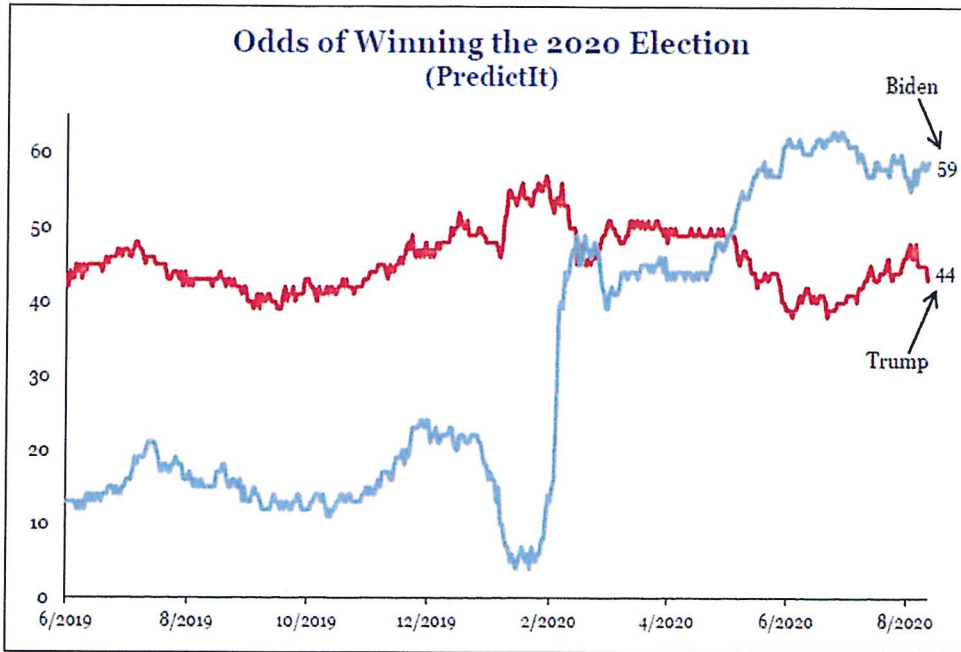
- Reduces ability of Fed facilities to make loans after January from \$500B to \$296B and from \$454B to \$250B for making loans, loan guarantees, or other investments in programs and facilities for the Fed to provide liquidity to the financial system to support lending to eligible businesses, States, and municipalities.
- To date, approximately \$259B remains unallocated.
- Redirects \$146B towards small business funding.
- Provides \$300 per week in enhanced unemployment benefits through Dec. 27th.
- Allow small businesses (including self-employed individuals, sole-proprietors, and independent contractors) that (1) meet the SBA's revenue size standard, if applicable; (2) have 300 or fewer employees; and (3) demonstrate at least a 35 percent reduction in gross revenue in a 2020 quarter relative to the same 2019 quarter to receive a second PPP loan.
- Second PPP loans will be equal to 2.5X average monthly payroll costs, with a maximum loan value of \$2M. The uses of these loans will be subject to existing regulations implemented by the SBA and Treasury, with eligible uses expanded to cover certain worker protective, supplier, and operational expenses.
- Simplifies the forgiveness application process for current and future PPP borrowers receiving loans of under \$150,000 or less. Includes reforms to require new applications show revenue loss and retain business documents. Provides \$50M in additional resources for audits using existing PPP funding.
- Forgives \$10B loan to USPS if cash balance drops below \$8B.
- Extends deadline to Sep. 30, 2021 for spending already appropriated money.
- \$105B in education funding.
- \$16B for COVID testing and contact tracing.
- \$31B for vaccine and therapeutic development.

- \$20B in farm assistance.
- \$500M for fisheries.
- \$15B in Child Care grants.
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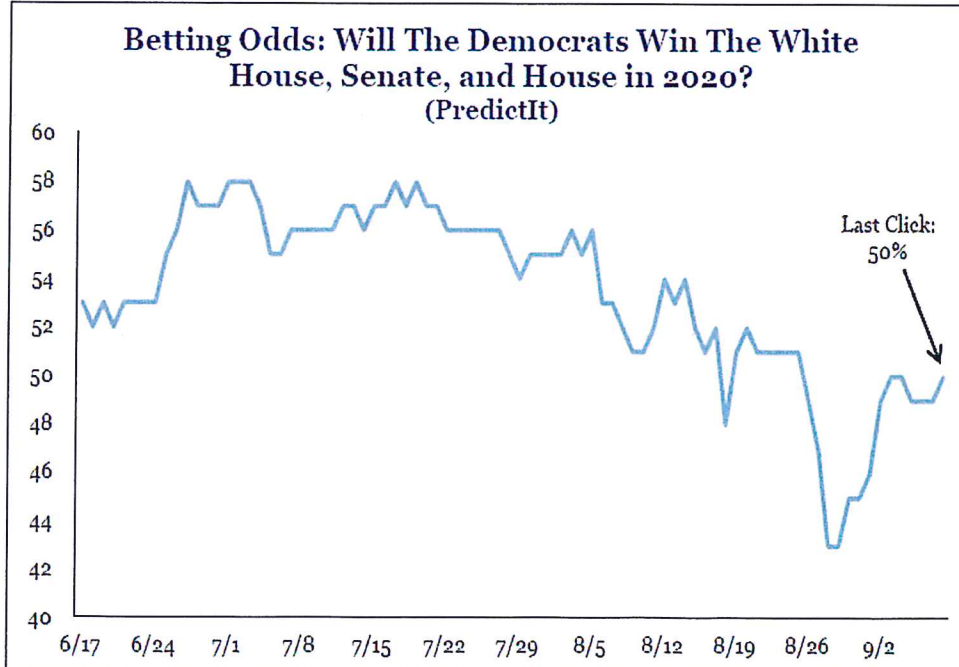
Election

The outcome of the upcoming election will play a vital role in shaping fiscal policy over the coming years. Therefore, we present the some of our favorite election numbers and charts that we are using to formulate our election forecast.

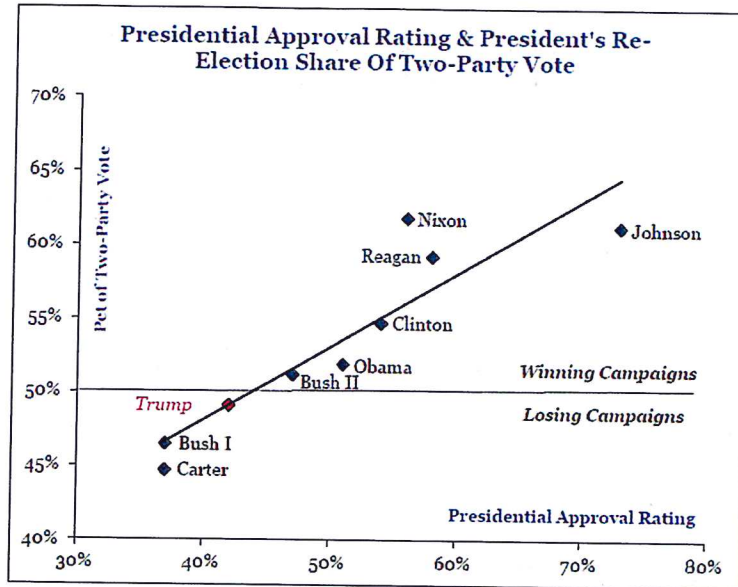
The betting odds currently favor Biden with a 59% chance of winning.



While the betting markets are pricing in a 50/50 chance of a Democrat sweep:

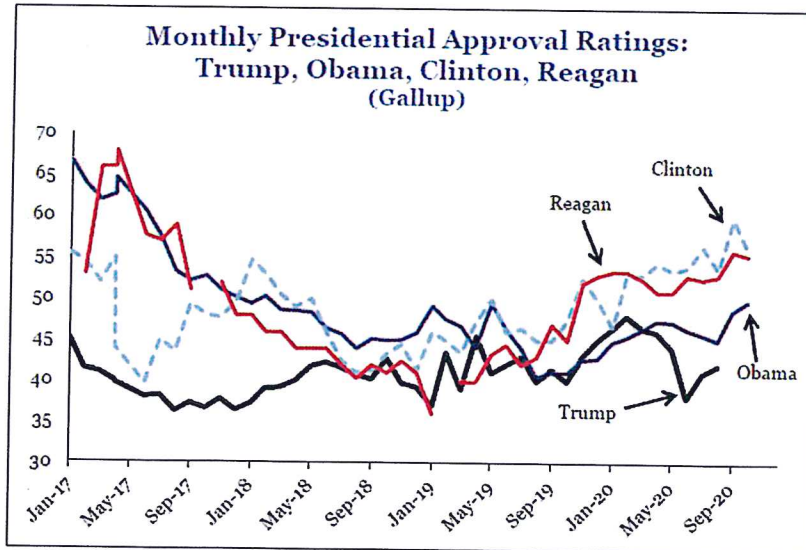


Trump is behind in the polls and betting odds but his Gallup approval rating has been rising. For most of the summer Trump was near Carter and Bush I but his numbers have improved. Currently his approval rating is consistent with receiving 49% of the vote.



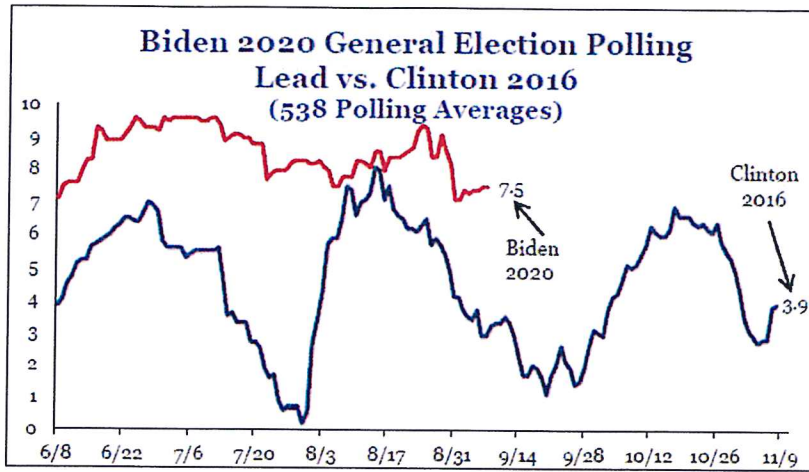
Source: Strategas RP

Based on history, we should expect Trump's approval numbers to accelerate over the coming weeks. Presidential approval declines coming out of the primary season and improves into the election.



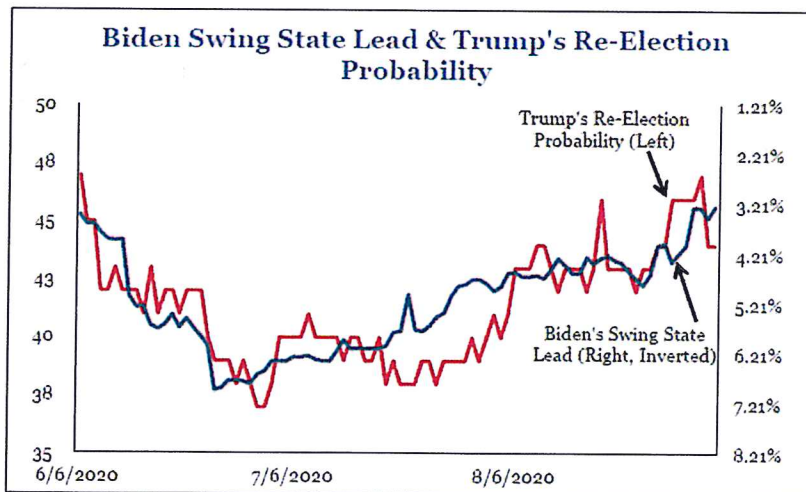
Source: Strategas RP

Biden's 7% lead in the national polls is large but it's the swing states that matter for the election outcome. Based on the polling data, there is a 4% difference between the national vote and the swing states.



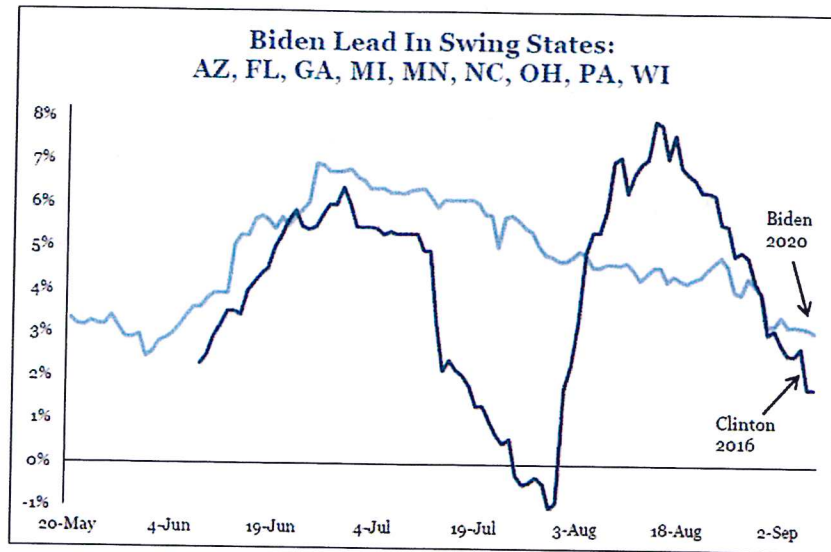
Source: Strategas RP

Biden's election odds are tightly correlated with his lead in the swing states.



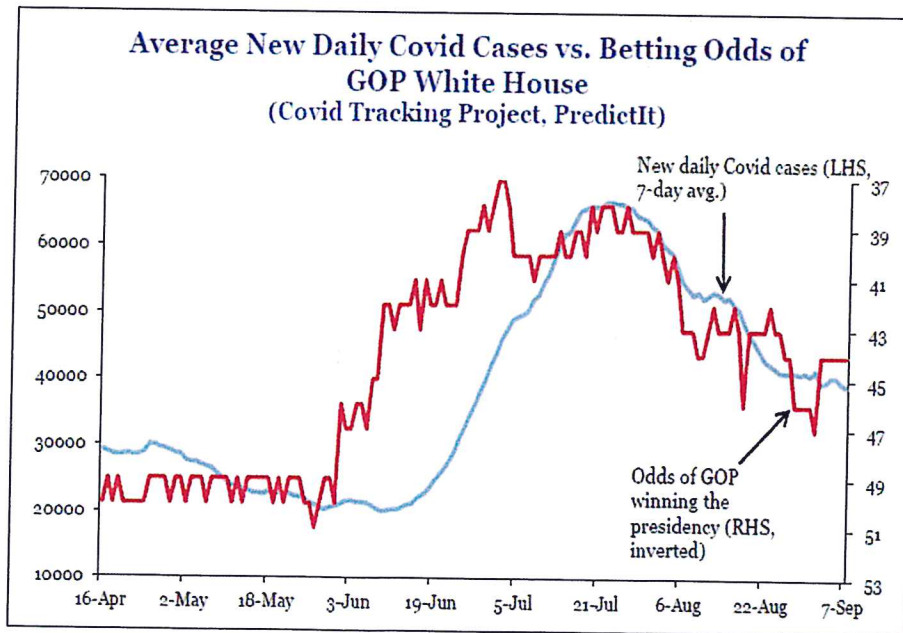
Source: Strategas RP

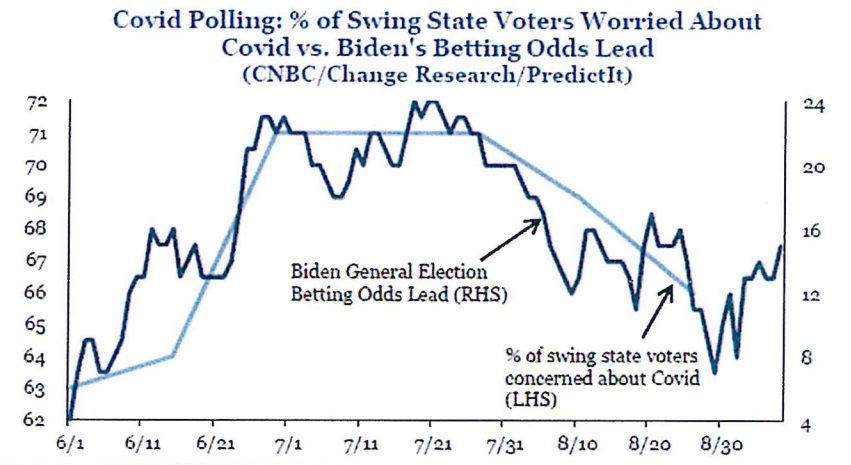
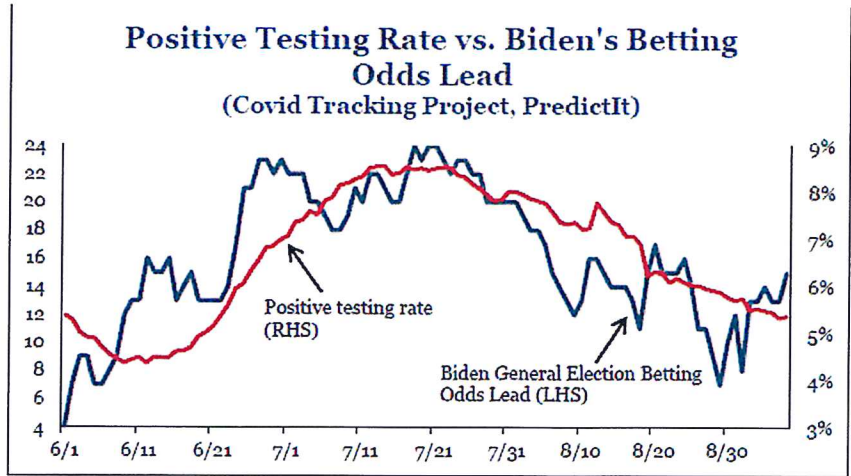
And the election is tightening in these crucial states.



Source: Strategas RP

The progression of the virus over the next two months will play a major role in determining who wins the election. Trump's odds have improved right in line with the improvement in COVID new cases. According to Washington policy analyst, Dan Clifton, "Waning COVID-19 coverage has elevated crime as a more salient issue. As such, the political environment has shifted and the betting markets interpret this shift as positive for Trump."





Source: Strategas RP

Economic Outlook

By Josh Husted

V-shape? K-shape? W? L? ABCDEFG? At this point in the economy's recovery off the Spring lows, we have heard a veritable alphabet soup of prognostications about what the shape of recovery will ultimately look like. While comparing the economic rebound to letters makes for great headlines, it fails to capture the granularity necessary for an actionable and productive discussion on what the future holds for Main Street and Wall Street. The COVID-19 induced recession is unique in its place in history as a black swan event that is most comparable to a natural disaster. The Fed did not murder this bull market, nor did our excess lead to asset bubbles that popped. The closest comparison in modern history would be the effects of the 1918 "Spanish Flu" pandemic that caused approximately 500K US deaths.

Economics

V, L or 'Nike Swoosh'? Economists Debate Shape of Global Recovery

By Simon Kennedy and Michelle Jamrisko

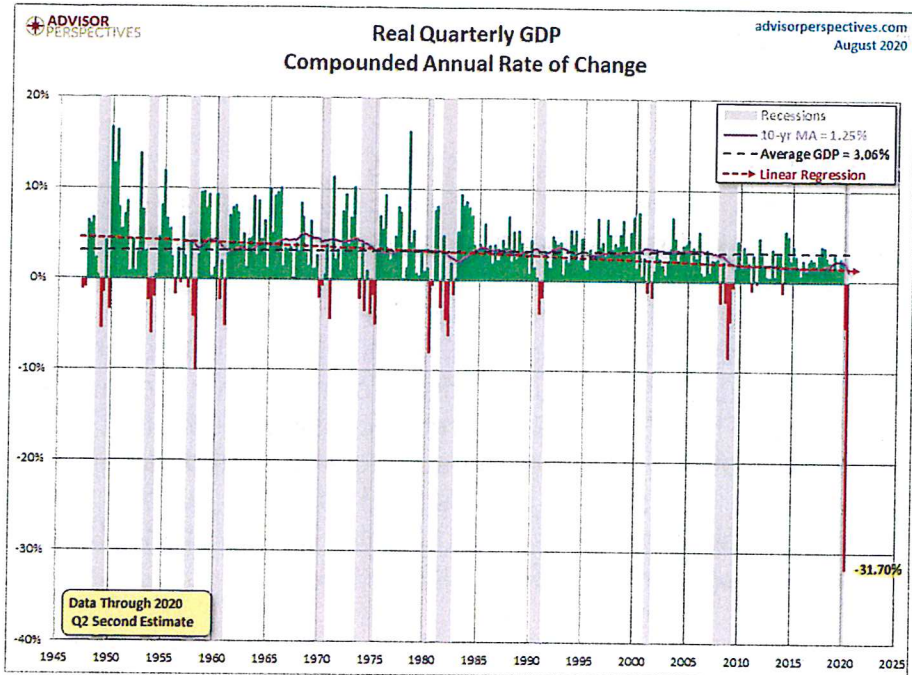
April 1, 2020, 7:30 PM CDT Updated on April 2, 2020, 4:56 AM CDT

Our research has uncovered several interesting similarities that are worth noting. The 1918 pandemic occurred in the shadow of WWI amidst an economy that little resembled ours today. For example, manufacturing and agriculture employed 61% of the workforce in 1918, versus 10% in 2020. While the demand for products needed for the war effort largely offset the effects of such a severe pandemic on aggregate economic activity, there were pockets of pullbacks in the data, including merchant revenues down 40%-70%, retail grocery revenues down 33%, and department stores down 50%.

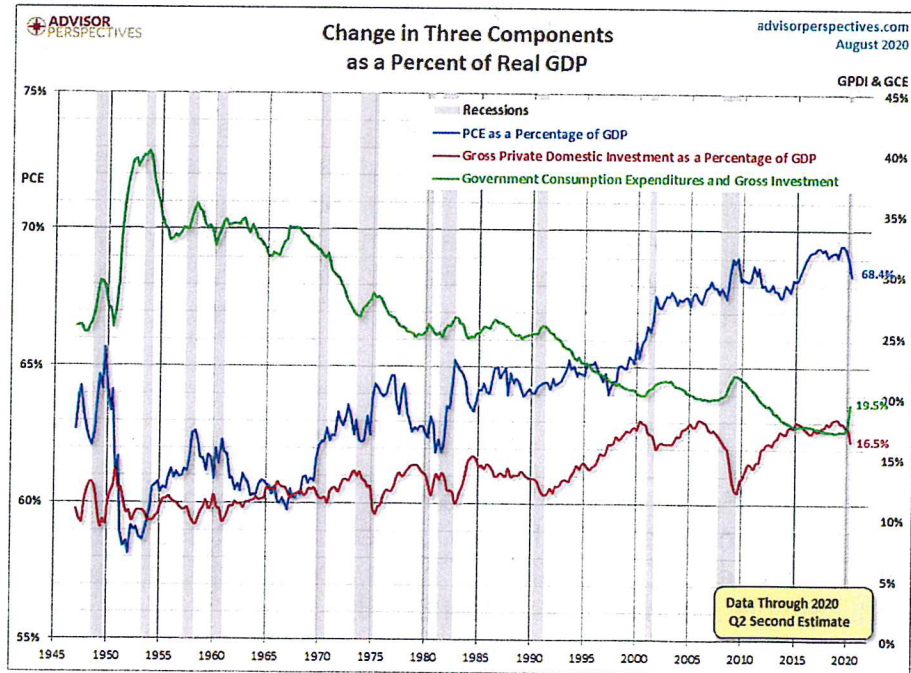
Despite the economic and human costs, the economy quickly and strongly rebounded in 1919 for much of the same reasons it is doing so today- the transitory nature of a pandemic and the strong fiscal policy response. Because of WWI, the US government expanded debt by 36% of GDP. By comparison, US debt levels as a % of GDP have risen only 30% since the start of 2020. In practice, that means the fiscal stimulus occurring in 1918 was not only 6% of GDP higher (an additional \$1.1 trillion in today's dollars), it was already occurring when the pandemic broke out! Imagine the net effect if everyone had received their government stimulus checks in January as an economic inoculation just in time for the outbreak of COVID. The market might not have even blinked!

GDP

Beginning with real GDP, the second estimate for Q2 came in at -31.7%, marking the largest single quarter decrease in the history of the United States. Net exports were the largest positive component of GDP at +90 basis points, while personal consumption dropped 24.76% and private investments lost 8.66%.



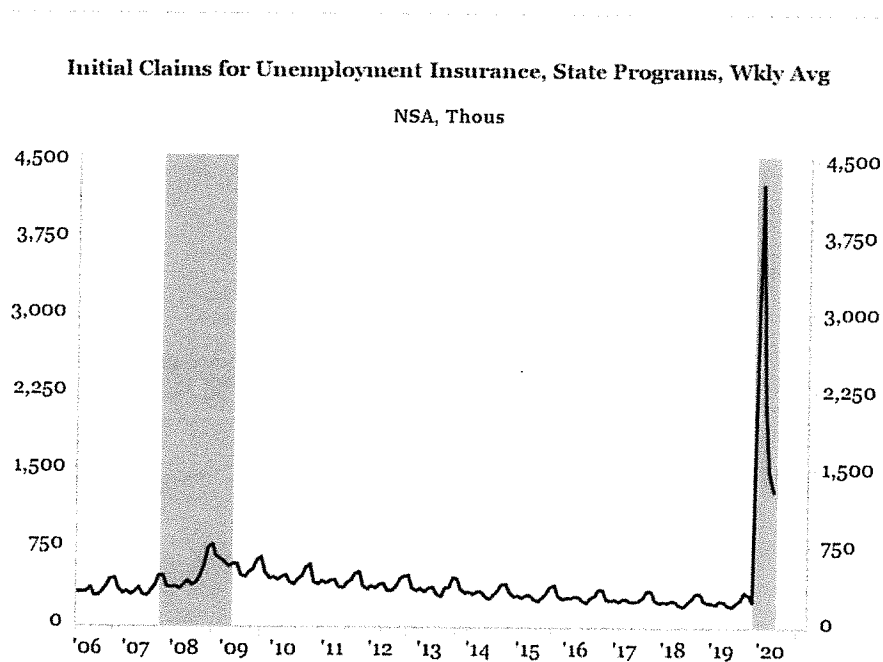
Government expenditures increased by 82 basis points on an absolute level, and jumped significantly as a percent of GDP. The chart below visualizes how three of the four GDP components historically contribute to GDP. As one would expect, government spending as a GDP contributor increases rapidly during recessions as officials try to deploy federal dollars to compensate for lost growth.



Consumer spending sharply rebounded as lockdowns began to lift in May / June, but have trended sideways the past two months. Nominal consumer spending rose 1.9% m/m in July and estimates for August are soft as well. While employment is historically the primary driver of consumer spending, the impact of unprecedented government stimulus funds cannot be ignored. During typical recessions, consumer staple companies see customers switch to private label products and value offerings. The opposite has occurred this time, as many consumers are flush with cash, yet have limited options on where to spend it. Premiumization, upselling, and strength of branded products have been the hallmarks of this recession for consumer product companies. On an additional point of note, the elevated savings rate will continue to be a headwind until consumer confidence returns and the end of the pandemic is within view.

Employment

U.S. employers added nearly 5 million jobs in June and 2 million in July, helping bring down the unemployment rate to almost 10%. The latest jobs report surprised to the upside even further as unemployment dropped to 8.4%. U.S. payroll employment rose +1.371 million m/m in August, which puts the level of nonfarm payrolls at 140.9 million. Initial jobless claims have been trending down in recent weeks, and job openings continue to trend upward (6.6 million).



Source: Department of Labor

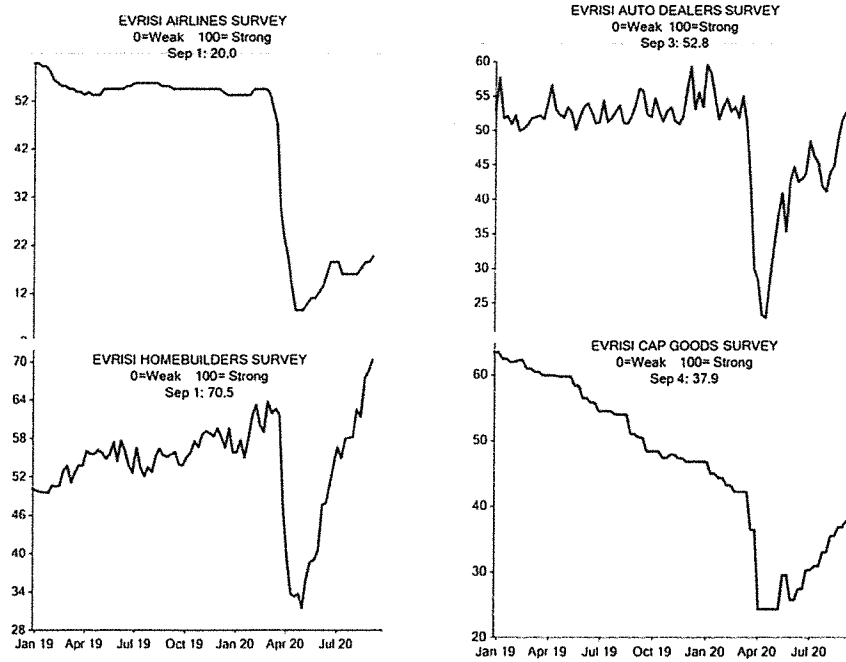
The labor force participation rate has dropped precipitously to 82.1% and the ratio of employed civilians to non-institutionalized civilians is down to 77.1% (peaked at 81.6% in 2000). As a result of the COVID-19 pandemic, the current age 25-54 cohort would require a 5.6 million participant increase to match its mid-2000 peak. US non-farm payrolls peaked at 152.5mm in February- we need about +1 million/month into 2021 just

to get back to a “normal” recession. Typically, recessions caused a step-change in employment that has lingering effects long past the point at which the economy has been “fixed”. Early retirements, disillusioned workers, and permanent job losses require countervailing forces strong enough to lift employment back to prerecession levels (IE new investments, technologies, innovation, etc).

Wage growth is a tad misleading at its 4.63% latest click. Because of the substantial job loss among lower-paid workers, average wages only increased due to a mix shift. Switching data sets to the Employment Cost Index for wages and salaries shows a deceleration to 2.87% Y/Y.

Economic Indicators

Concurrent and leading economic indicators are supportive of continued growth. A proprietary survey of US company sales conducted by Evercore ISI ticked down last week to 47.6, but remained in an uptrend. Industrial production increased 35% and durable goods orders are up 130%. OECD’s global LEI increased again in August and has recovered about 80% of its plunge. Eurozone industrial production rebounded from sub-80s levels to 95.6. An important leading indicator, surveys of China sales, has soared past pre-pandemic levels to 48.8 (bottomed out near 30).

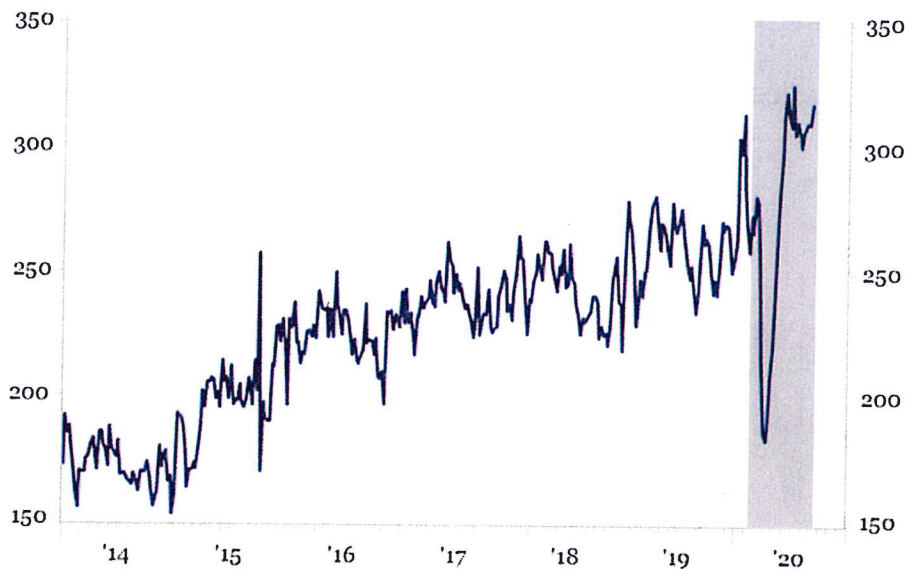


The surveys above from Evercore ISI illustrate a snapshot of how the pandemic has produced clear winners and losers among various industries. Industries that rely on congestion and mobility have suffered in the era of lockdowns and social distancing, while homebuilding, suburban living (commuting), and outdoor activities have all seen a boost to varying levels.

To further illustrate this point, the chart below from the Mortgage Bankers Association details the mortgage loan applications received from consumers looking to purchase a home. While much ado has been made about ultra-low interest rates encouraging consumers to refinance, the overall activity belies a healthy underlying new purchase market. Housing sector activity is surging from strong demand and tight inventories and has driven new housing starts to 1.5 mm in July.

MBA: Volume Index: Mortgage Loan Applications for Purchase

SA, Mar-16-90=100



Source: Mortgage Bankers Association

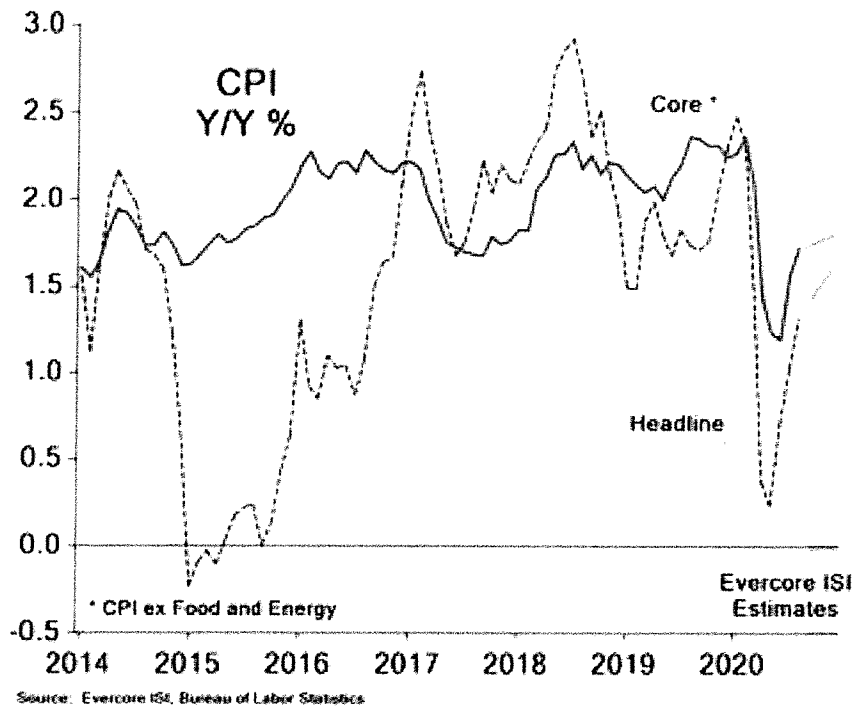
Inflation

We are in the midst of a grand experiment with the scope of the Fed's abilities. The Fed has updated their mandate and appears to be willing to do whatever it takes to encourage relation. While it remains to be seen how effective the toolkit of the Fed is at spurring inflation, the economic impact of trillions of USD in money supply growth cannot be overlooked. While stimulus measures have been unprecedented, they have mainly been aimed at patching the lockdown. Instead of comparing the size of the US fiscal response to its own history, one should compare it to the size of the US economy for a sense of perspective.

For those worried about runaway inflation, the data we see are not supportive of this type of environment. Sustained inflation requires increased expectations, tight demand variables (IE unemployment or the output gap), and supply shocks). While we do see pockets of inflation (used cars, lumber, etc.), relative price increases do not lead to inflation. It requires the whole basket of goods in CPI to be rising.

Headline CPI was +1.32% Y/Y in August, slightly higher than expected, but nowhere near a danger zone. Digging in to the data, we call out a few components that might be of interest to our readers:

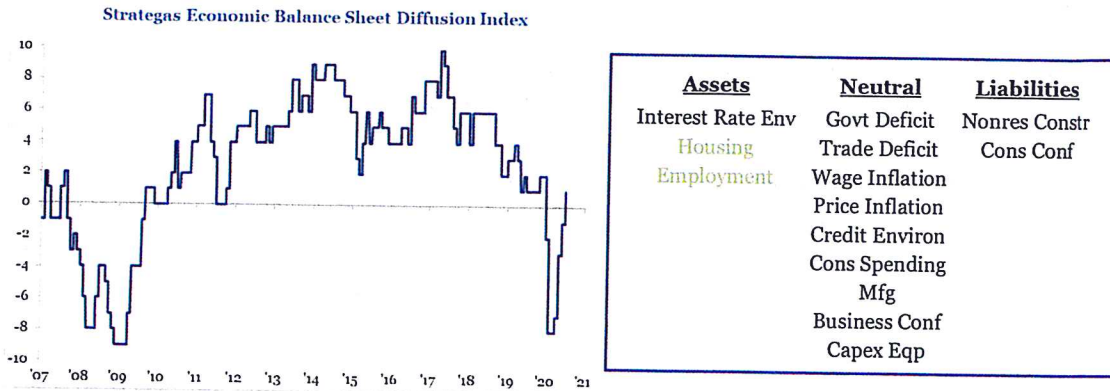
- Gasoline prices climbed +2.0%.
- Clothing prices rose +0.6%.
- Used car prices accelerated +5.4% m/m.
- Airline fares climbed +1.2%.
- Rent gains for primary shelter are down to 2.9% Y/Y
- Food at home slipped -0.1% as meat prices plunged for a second consecutive month.
- Restaurant prices rose +0.3%.



Economic Balance Sheet

We conclude our discussion of the economic update with a visual holistic view of the economy compiled by Strategas Research Partners. This “Economic Balance Sheet” stands at a net +1 in Assets vs. Liabilities, heavily recovered from the low of -8 in February. While this is a largely subjective exercise, it is always profitable to take a step back and block out the daily noise. The US economy appears to be at the beginning of a new period of economic expansion, with one of the swiftest recessions and bounce-backs ever recorded. The immediate future is undoubtedly fraught with risk, as progress on a vaccine will not be without its speed bumps, and the lasting economic impact will vary by industry. While not all data we track are trending in the same direction (they

rarely are), we are constructive on the future of the US economy and its ability to drive strong returns relative to the global economy. As always, we will continue to closely monitor risk factors and adjust our views accordingly.



Economic:	<u>Jul '19</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul '20</u>
Assets	4	4	4	4	5	5	2	1	1	1	1	1	3
Liabilities	3	3	3	3	3	3	4	9	9	8	4	2	2
Net	1	1	1	1	2	2	-2	-8	-8	-7	-3	-1	1

RSA PORTFOLIO STRATEGY

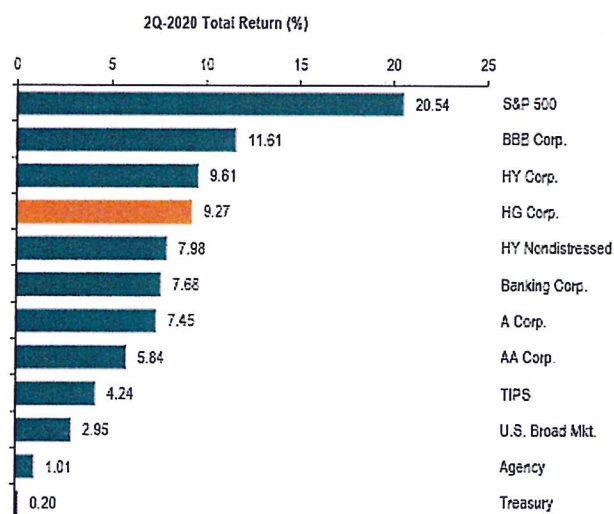
Interest Rates and Fixed Income Strategy

By Julie Barranco

When we last met in early June, the financial markets were still recovering from the widespread damage, economic and otherwise, brought on by the spread of Covid-19 worldwide. Economic data was continuing to improve and in some cases was much better than expected. This positive sentiment was occasionally challenged by negative news surrounding the spread of the virus, but overall the mood was good. The performance of the equity market, and credit spreads within the fixed income market reflected this positive sentiment, producing strong returns for the month. For the month of June high-grade credit outperformed within fixed income, and even slightly outperformed the S&P 500. This was due at least in part to the Federal Reserve finally beginning purchases of corporate bonds through one of the many liquidity facilities set up a few months before when the markets were in crisis. The chart below shows a summary of returns for the quarter ended June 30:

2Q 2020 Returns

Figure 6: Broad Asset Class Total Return Performance, 2Q 2020



Source: ICE Data Indices, LLC, Bloomberg.

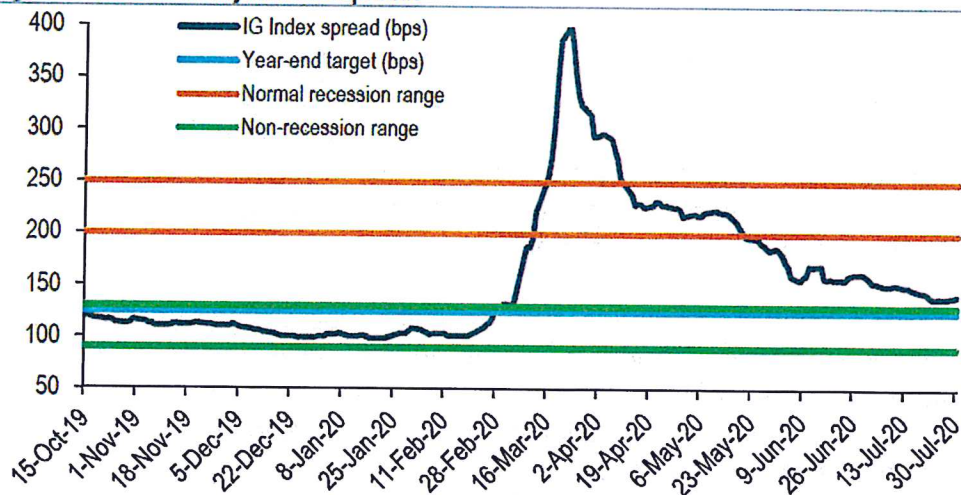
Source: BofA Global Research

For the quarter, equities provided the best returns by far, bouncing back sharply from the lows in March. High grade and high yield credit were the next best performers, returning well over 9% for the quarter. Government related securities returned the least as the risk-off trade faded.

Into July, economic data was initially strong and surprised to the upside; corporate earnings reports also were coming in better than expected, and further contributed to the risk-on trade. At the July meeting, the Federal Reserve reconfirmed its commitment to maintaining low interest rates and providing liquidity as needed to the bond market. Since the beginning of the pandemic the Fed's balance sheet has grown significantly, although numerous emergency lending facilities that they created have seen modest use. Later in the month the market began to focus again on economic data; the historic drop in GDP from the previous quarter, while expected, was still shocking. This, coupled with rising Covid-19 cases around the country and some renewed business closures during the month, led to increased investor concerns regarding the continued economic recovery.

Despite already low levels, U.S. Treasury yields continued to fall across the yield curve during July. Longer-dated maturities rallied more than shorter-dated maturities, resulting in a flattening of the curve. Treasuries returned a healthy 1.2% for the month, however this paled in comparison to returns from the credit sector. Spreads in both the high grade and high yield sectors continued tightening through July as talk of additional fiscal stimulus, a supportive Fed and demand for yield offset worries about the increase in Covid-19 cases and a slowing of the economic recovery. A more subdued pace of corporate bond issuance helped to support credit spreads as well. For the month, high yield credit outperformed, returning roughly 4.8% for the month while high grade credit returned close to 3.2%. Only equities performed better, at 5.6% for the month. The chart below depicts the strong rally in credit spreads after the abrupt widening in March. While the bulk of the tightening is obviously behind us, there is still a little room left for further appreciation.

Figure 6: Continued rally in credit spreads



Source: ICE Data Indices, LLC, BofA Global Research

Source: BofA Global Research

August saw the positive tone in the market continue. Earnings season was starting to wind down and investors were somewhat relieved that while things weren't great, they were not as bad as expected. That said, many companies will continue to struggle with the effects of the virus and weakened demand. Other positive news included a strong July employment number, as well as initial unemployment claims dipping below 1 million claims for the first time since March. By mid-month economic data was more of a mixed bag, and markets were reactionary around the data but overall did not see much change. As news around the virus improved and the number of hospitalizations in the U.S. declined, investor confidence strengthened. Equities continued to climb and the Treasury yield curve saw a bit of steepening.

Some of this steepening was due to volatility on the longer-end of the curve after Federal Reserve Chair Jerome Powell's speech at Jackson Hole late in the month. In the speech he provided details of the policy review that the Fed had started a couple of years ago, and concluded that they will target a 2% inflation rate on average going forward. Because the Fed has undershot this 2% target for the last several years, the implication is that now they will allow it to overshoot the 2% target for a few years. Additionally, the Fed noted that it will not rely on the natural rate of unemployment to decide when to start raising rates, and that it will be much less relevant to policy decisions going forward.

For the month, equities were by far the best performing asset class. Within fixed income, high yield corporates performed the best, returning nearly 1% for the month. High grade corporates posted a positive excess return for the month, but total return was negative at (1.15) % as Treasuries were also negative on the month. Government-related securities also posted negative returns for the month, although less negative than Treasuries.

September has gotten off to a bumpy start. After another strong employment report showing 1.4 million jobs added and the unemployment rate dropping to 8.4%, rates sold off a bit and the curve steepened. However as the sell-off in the equity market broadened out from just the technology and energy sectors, Treasury yields rallied again and the curve re-flattened. September is often a sluggish month for the markets, so we will see where things move from here.

With the improved market conditions and declining volatility since the lows reached back in March, we have continued to be somewhat active within the fixed income portfolio. Within the corporate sector we participated in a few higher quality new issues including AT&T, Bunge and CVS, adding intermediate and longer dated maturities. Within the secondary market we added an additional position in CVS, as well as some short dated Occidental Petroleum and Kraft Heinz. All of these purchases were offered at attractive spreads within their sectors and allowed us to add yield without a large amount of credit risk. Corporate spreads have been tightening steadily since late March as we previously discussed; with levels not quite back to their pre-pandemic levels, we could see them continue to grind tighter. With yields at such low levels currently, investors are reaching for yield wherever they can get it, and this should

support credit spreads going forward. Additionally, a slow down of new issuance is expected as many companies have already refinanced or issued new debt as conditions have improved. This decline in issuance will also be supportive for credit spreads. We continue to be overweight the credit sector, with a shorter duration position than that of the Index. We will continue to look for attractive names/maturities to selectively add to the credit sector, particularly if we get any further weakness in spreads that provides an opportunity.

In the agency debt sector we have seen spreads remain stable and fairly tight. After a brief move wider in spreads back in the spring, spreads have steadily narrowed and are close to their pre-pandemic levels. We had an issue called early as well as a maturity within the last couple of months, and only replaced a portion of those proceeds. We bought an intermediate bullet issue offered at a nice spread relative to comparable agency issues. Because spreads have been and continue to be fairly small within this sector, we have found it prudent to invest cash within the credit or even mortgage sector more so than the agency sector. We would expect any upcoming trades to be maintenance type trades to replace a call or maturity, or perhaps a swap to adjust interest rate risk. We do not anticipate adding any significant new money to this sector given the tightness of spreads versus Treasuries.

Spreads have remained fairly stable within the mortgage sector as well. With rates continuing to decline since our last meeting and the Fed continuing to buy mortgage securities outright, the mortgage sector has performed well. With the continued strength in housing coupled with the historically low mortgage rates, activity has been strong. Prepayments remain elevated which has led to a bit of drag on mortgage security returns, but overall this sector has seen plenty of support. Activity within this sector has included purchasing 2% and 2.5% 30-year pools, as well as a 2% 15-year pool. These purchases were made to reinvest prepayments and to raise weightings in these coupons. Additionally, the Fed has been a large purchaser of these coupons, which has led to strong performance versus other coupons in the stack. Despite adding money to the sector, we are still underweight versus the index, and therefore have room to add to the sector when opportunities arise. We will also continue to monitor interest rate movements and adjust duration as needed.

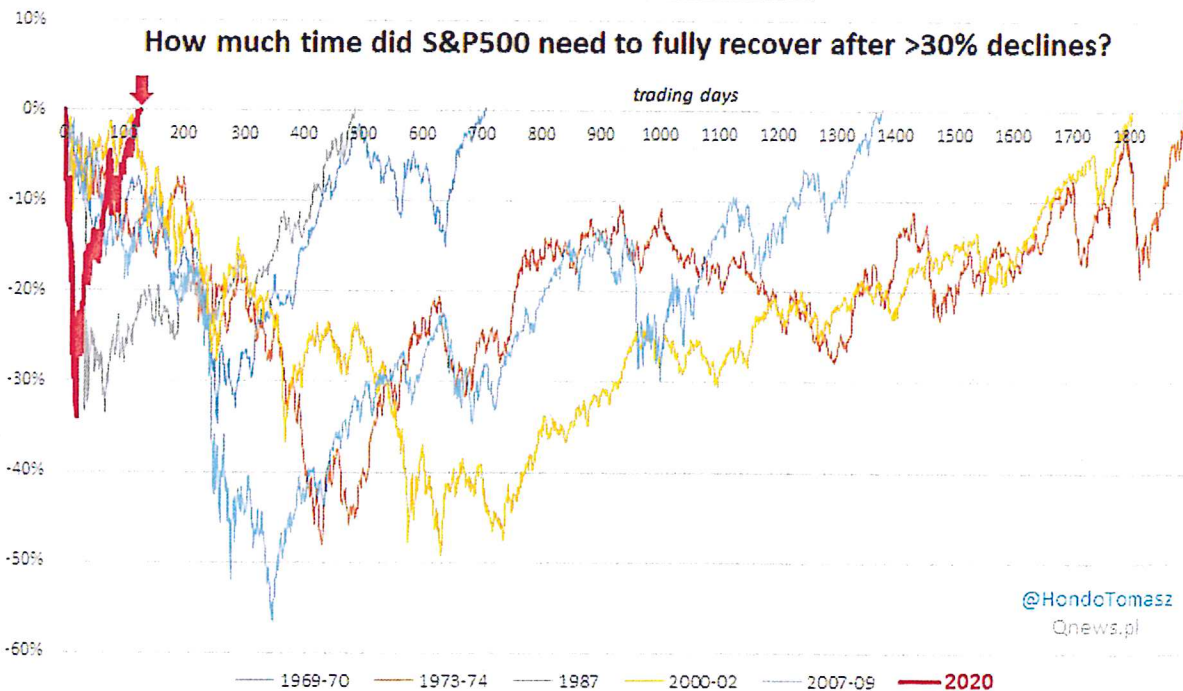
Lastly, we had no activity within our Treasury portfolio since the last meeting. With rates at historic lows, we do not see much value within this sector. We continue to be underweight the index, however our duration is a bit longer than the index to help offset this underweight to a degree. Should the longer end rally to even lower yields, we will be well positioned and performance should benefit. We continue to watch yield levels closely and will adjust our Treasury positions and duration as needed.

Domestic Equity Strategy

By Adam Rogers

We typically use this section to provide a quick review of recent equity performance and to dig in to the backdrop for the future by identifying where we are in the cycle. In the analysis of the cycle, we like to look at four indicators. Usually, the top or end of the cycle is accompanied by signals such as problematic inflation, hawkish Fed posture, above normal valuation, and euphoric sentiment, whereas the bottom would show the opposite. This time we will need to be more thematic in our analysis, as this year we have been presented with circumstances outside of normal cyclical market behavior. A moderate recovery and expansion, with reasonable growth expectations and lack of investor euphoria was quickly and violently halted by an unexpected shock. This shock was quickly met with unprecedented fiscal and monetary response. We have since recovered all the losses from that shock and expanded on pre-shock highs (*see chart below*). However, the market looks very different now than it did before this experience, and some interesting themes and topics for discussion have emerged that supersede our normal cyclical analysis. **First**, monetary policy shifted into a new gear with coordinated fiscal policy, getting money directly into the hands of people rather than relying solely on the previous tool of printing money to buy and boost financial assets. **Second**, a reflation debate is gaining attention with excessive easing and challenging demographics pitted against each other. **Third**, growth vs. value is reaching extreme, unprecedented performance diversions and some stocks are benefiting wildly. **Fourth**, the equity risk premium is gaining acceptance as the preferred valuation tool in an era of free money. **Lastly**, retail trading and speculative fervor is very apparent.

Exhibit 1: Quick Recovery

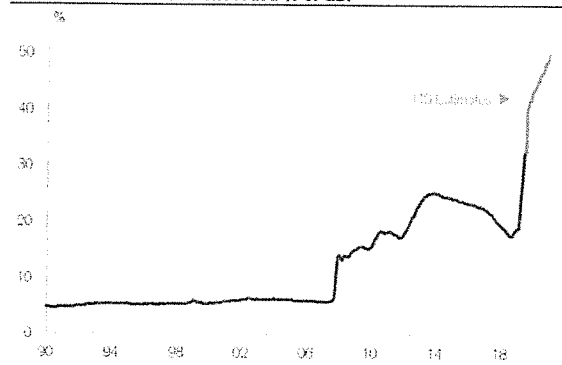


Fed and Fiscal Actions

“Don’t fight the Fed” is an old adage which certainly works as a rule more often than it fails. What stands out to us is that due to memories of the financial crisis, the playbook for response from both fiscal and monetary policy makers was still fresh and as the economy ground to a halt, political gridlock and bickering vanished and aid was quickly rolled out. Trillions of dollars of fiscal and monetary stimulus flooded the economy with unprecedented speed and coordination. This has many in the financial community asking if this cooperation is a look into the future and a playbook we can use as a backstop going forward.

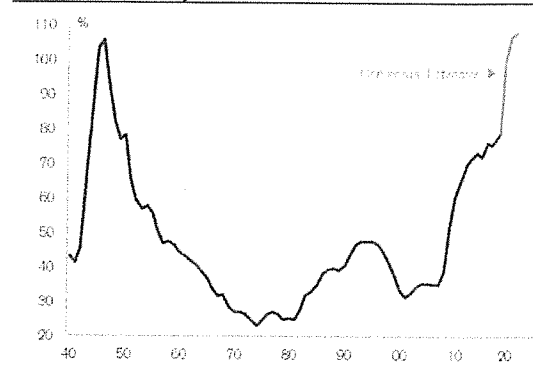
Exhibit 2: Coordinated Policies

Federal Reserve Balance Sheet at a % of GDP



Note: 3 month moving average with most recent data point being actual value. CS Economics team estimates
Source: Federal Reserve, BEA, The BLOOMBERG PROFESSIONAL™ service, Credit Suisse

US Federal Debt Held by the Public as a % of GDP



Note: 2020 and 2021 are consensus estimates
Source: OMB, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

We have a section of this report dedicated to this topic with a summary of actions taken so we won't repeat them here, but we will emphasize the fact that 2020 presented a very unique set of circumstances. The coordination of fiscal deficit spending and fed money printing worked because in this unique circumstance it was practical and unarguable to do so. Usually deficit spending is resisted for political purposes, with both parties providing historical examples of slowing down the pace of economic aid in times where it was needed.

What has this meant for equities? Quite simply, the drop in consumer spending coupled with the onrush on government transfer payments led to a jump in savings, which of course equates to a jump in investment, which helps explain asset prices.

Consumer Wallet

	Feb-20	Jul-20	Change	% of July Disposable Income
Comp & Other Income	\$41,332	\$39,276	-\$2,056	73%
Govt. Transfer Payments	\$9,745	\$14,878	\$5,133	27%
Disposable Income	\$51,077	\$54,154	\$3,077	100%
Expenditures	-\$46,862	-\$44,503	\$2,359	-82%
Savings	\$4,215	\$9,651	\$5,436	18%

Note All measured on an annualized per capita basis

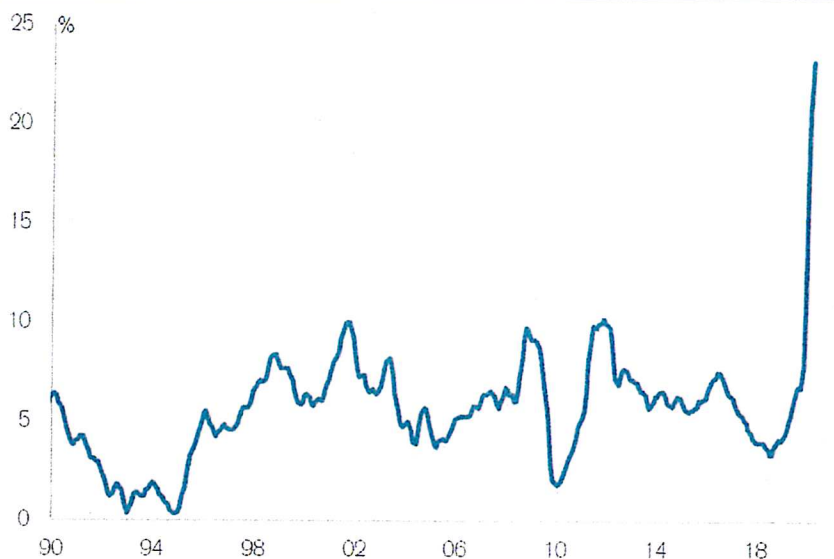
Source: BEA, the BLOOMBERG PROFESSIONAL™ service, and Credit Suisse

Inflation

With trillions of newly printed dollars thrown into circulation, one could conclude that inflationary problems are on the horizon. This is a very easy conclusion to jump to given the simplistic and very reasonable assumption that more dollars → lesser value of dollars → inflation. Observing the chart of M2 below it becomes obvious the Fed is doing everything they can to create it.

Exhibit 3: M2 Growth

M2 Growth

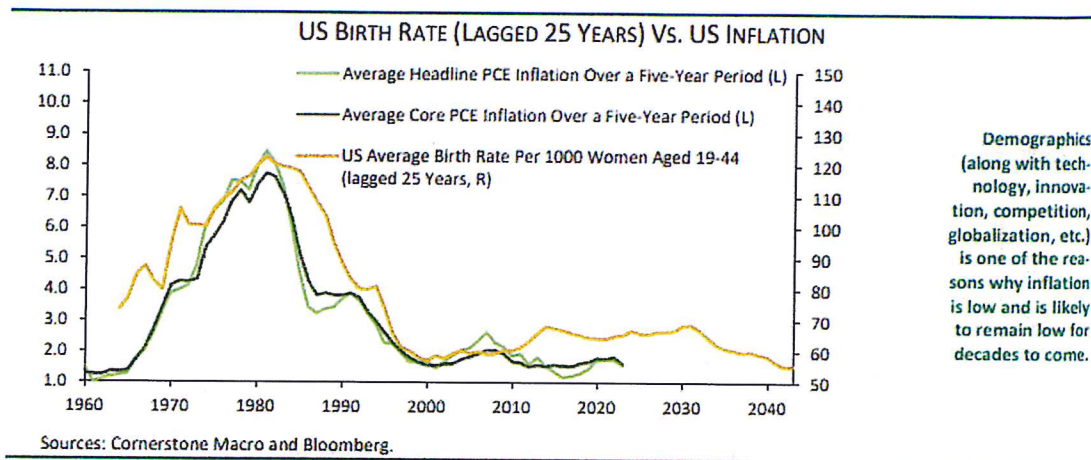


Note: 3 month moving average with most recent data point being actual value

Source: Federal Reserve, the BLOOMBERG PROFESSIONAL™ service, and Credit Suisse

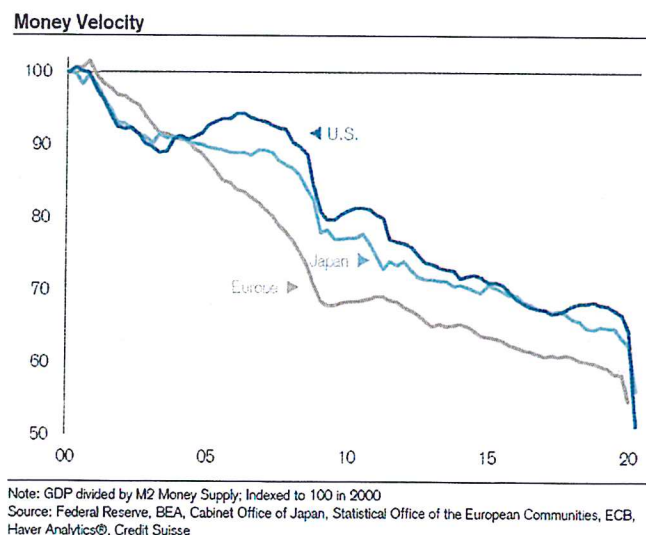
So where is the inflation? Historically M2 growth is a good leading indicator for inflationary pressure, but there are equal if not more powerful factors at play here, creating an opposing disinflationary force. Many point to a lack of bank lending, but it's more informative to go straight to the root of the problem - demographics. True, dollars are born through the banking system and credit creation. Lending standards and bank willingness to lend are part of that equation but the less obvious piece is overall demand for credit. Demand can't keep up with supply as population's age across developed markets.

Exhibit 4: Demographics and Inflation



This is a structural problem that is with us for the foreseeable future. The 25-year-olds who borrow money for cars and houses can't be produced overnight. So the balancing act of lower velocity and higher M2 will likely continue for quite some time.

Exhibit 5: Lower Velocity

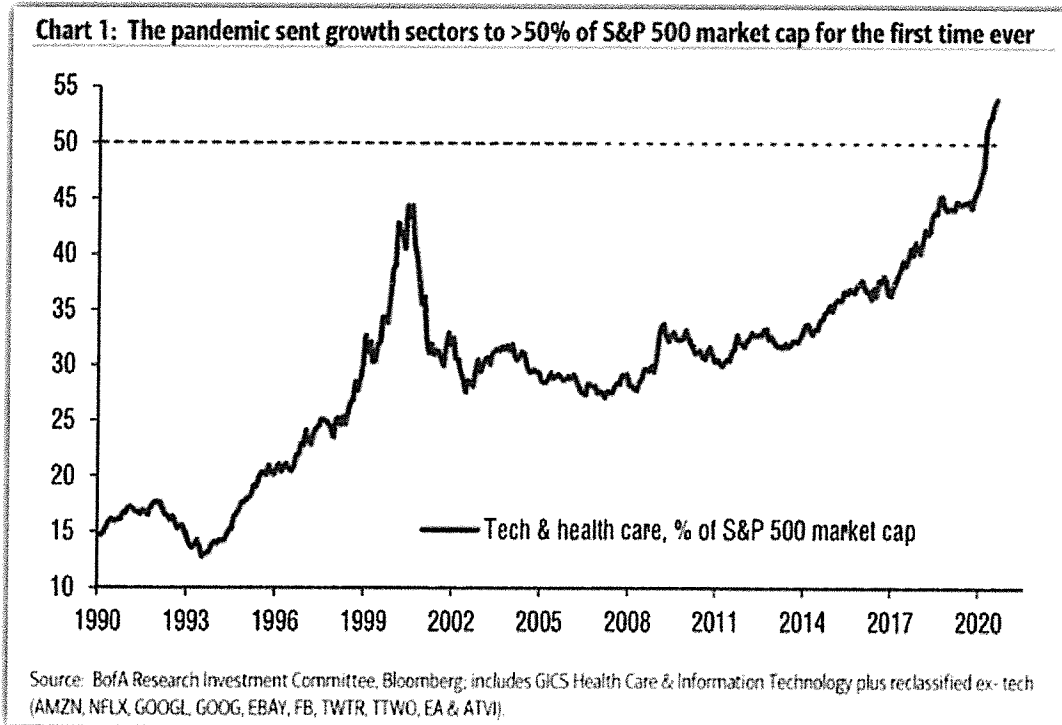


While supply disruptions and demand shocks for certain goods may create short term pricing disruptions, we are skeptical that sustained problematic inflation will be a concern going forward.

Growth vs Value

Another important theme of the moment is the relative performance of growth stocks to value stocks. Due to the low growth macro environment, names that are growing are precious and investors have bid them up relative to value in ratios we haven't seen before. Two growth sectors, Tech and Healthcare, now comprise over 50% of the S&P500.

Exhibit 6: Tech and Healthcare

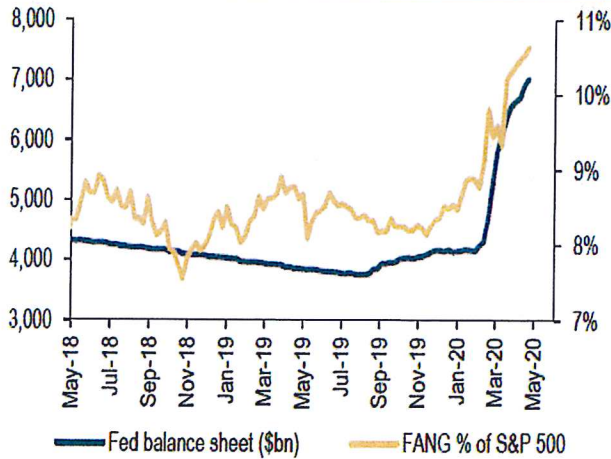


Zooming in, much of the concentration has been within the top 5 names of the S&P (AAPL, MSFT, AMZN, FB, and GOOG). The size of these companies is nothing short of staggering. A 5% daily move in Apple is the equivalent of creating or erasing Starbucks. These are, indeed, great businesses with scalable models and low capital requirements, but the largess of the Fed has played a key role in directing investment dollars in their direction.

Exhibit 7: Fed and FANG

Chart 1: The same chart: Fed balance sheet vs FANG

FANG stocks % weight of S&P 500 and Fed balance sheet (\$bn), as of 5/21/20

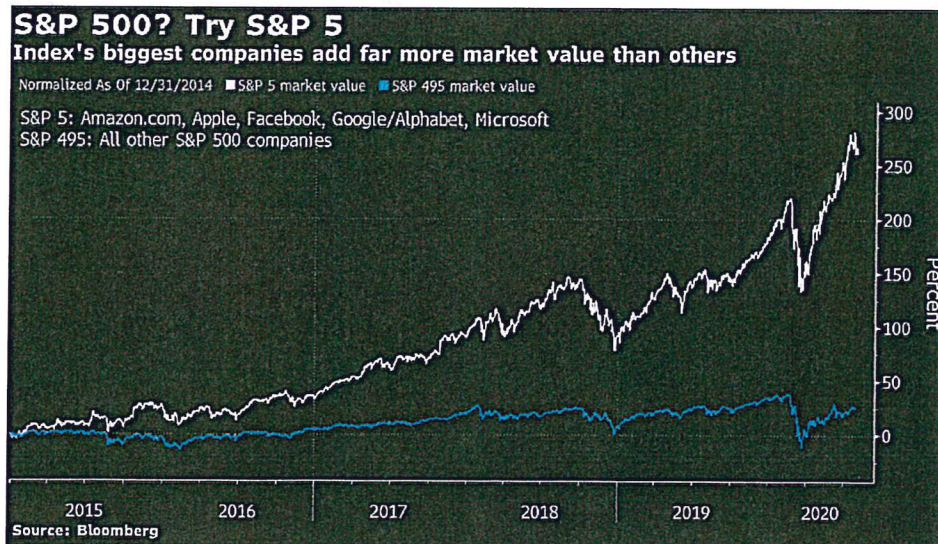


Growth stocks such as AAPL, FB, GOOG, MSFT, and AMZN are a scarce resource in today's environment. A perfect storm of low economic growth and plentiful liquidity are sending growth names higher and higher.

Source: BofA US Equity & Quant Strategy, FRB, FactSet

The top 5 names now make up 25% of the index and the performance differential over the past 6 months has been extreme.

Exhibit 8: The S&P 5



As the fortune of the S&P 500 has become more and more reliant on the performance of fewer names, we are exploring strategies to rotate funds out of this particular index and into alternative equity baskets. Equity diversification is prudent practice, and index investing has historically been the means of action to achieve a diversified portfolio, which will grow and benefit from the technology and productivity gains of the nation.

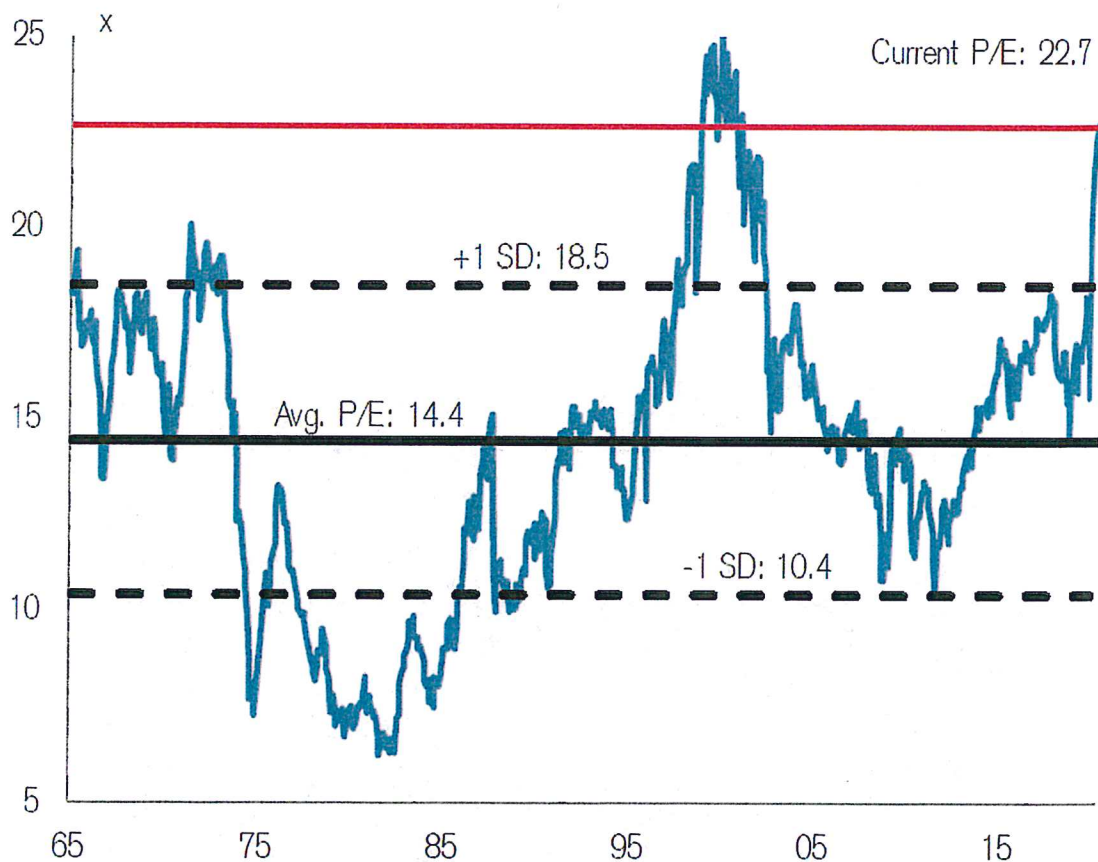
With 25% of the index dedicated to 5 companies, the diversification we seek is less available so we must find it elsewhere. Over the past few months we have begun rotating funds out of the S&P 500 and into a diversified basket of smallcap value stocks. This is not a wholesale change of long term strategy, but it is a reaction to the extremes we see in the market and we will ramp up or slow down this shift as the market dictates.

Valuation

Much of the performance from the lows has been due to multiple expansion and P/E multiples are extremely elevated. There is no debating that point.

Exhibit 8: SPX P/E

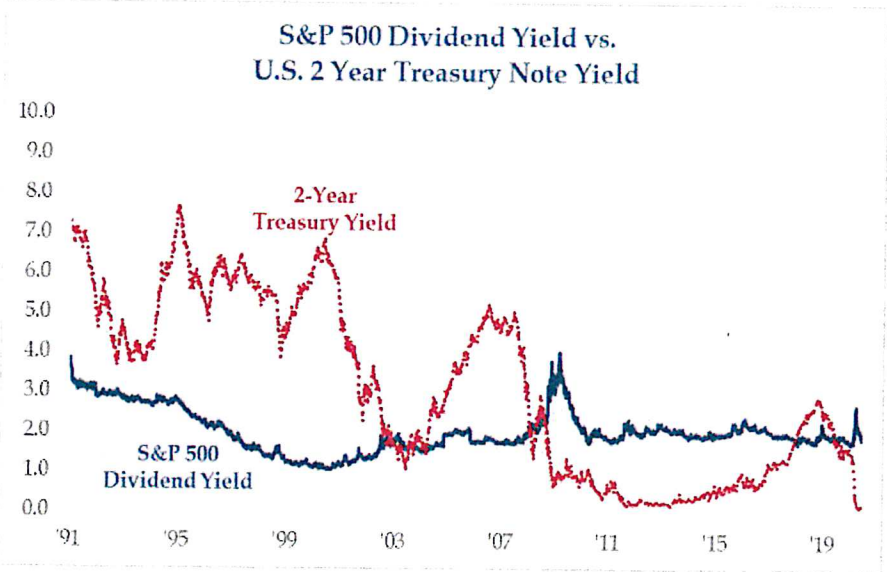
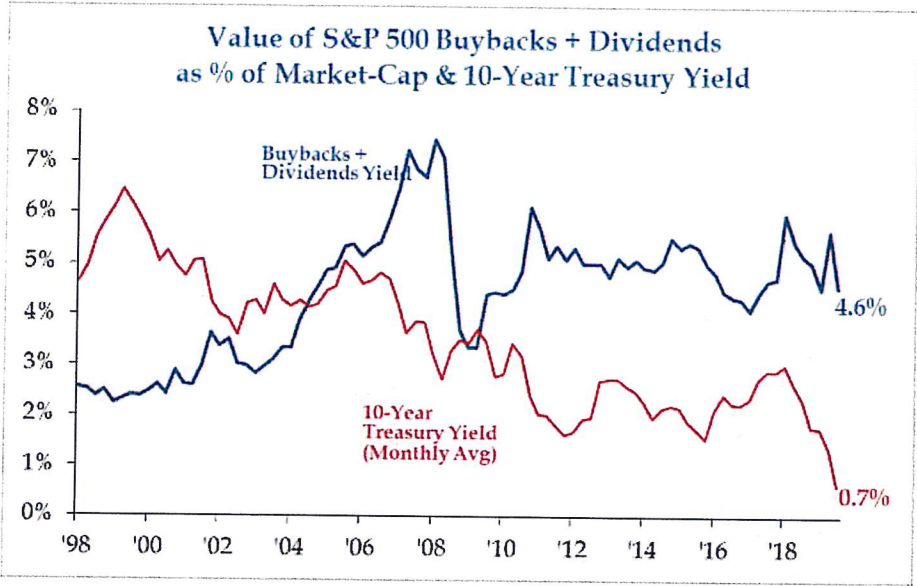
S&P 500 NTM P/E



Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

What is interesting right now is the mental exercise of valuing equities when money is free. Capital has historically cost something and if it doesn't (or costs very little), what is the appropriate tool to discover fair value? The absolute measure of valuation (P/E) must be looked at in context with a relative measure (Equity Risk Premium) which accounts for the extremely low interest rate environment we live in. So rather than simply asking, "are equity valuations extended", we ask, "how expensive do they look vs bonds"? Below are a few charts showing this comparison.

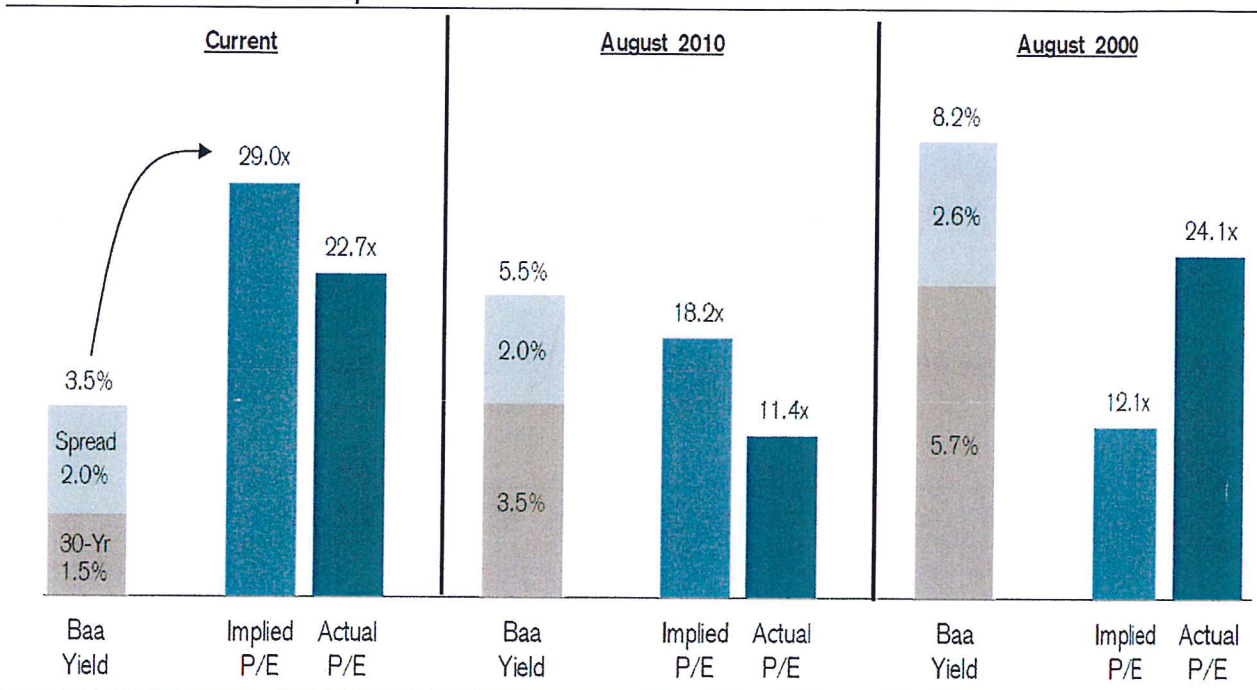
Exhibit 9: Equities or Bonds



Strategas came up with a catchy name for the environment in which equities look expensive until you compare them with alternatives – T.I.N.A. (There Is No Alternative). The acronym gained popular use in 2013, when valuations and a lackluster economy were bemoaned as reasons to exit equities but the characteristics of alternatives were even worse. Interestingly, the S&P is up roughly 160% from the day we first heard of T.I.N.A.

Exhibit 10: Implied Multiples

Bond Yields vs. S&P 500 Multiples



Note: Implied P/E based on the inverse of the Baa yield

Source: Standard and Poor's, Moody's, FactSet, Thomson Financial, Credit Suisse

Sentiment and Speculation

In the wake of Covid-19, the sudden disappearance of sports left many gamblers stranded without an outlet. For many, the stock market has served as a substitute with some gambling champion personalities leading the charge. The following charts show quite clearly that the amount of hot money entering the market has accelerated.

Exhibit 11: Retail trading

E-Trade & TD Ameritrade Daily Average Revenue Trades



Retail traders are going all-in



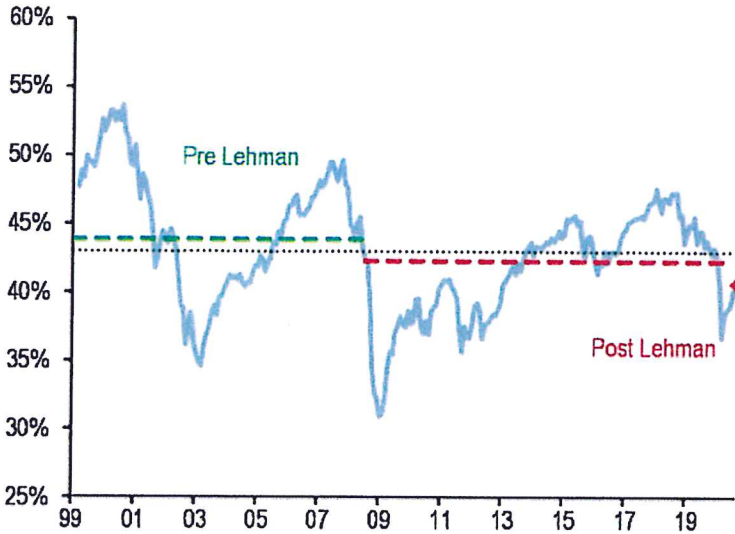
Much of this acceleration in retail participation coincided with Schwab moving to match upstart Robinhood in offering commission-free trades. Other online brokers quickly followed suit, and with no fence around trading, retail investor behavior has obviously changed. In fact, we've seen a few days with volatility and equities both trading higher due to heavy call buying. This is rare, and is yet another data point showing some of the excesses in the market.

Interestingly, while most short-term sentiment indicators are flashing warnings of excessive speculation, medium to longer-term positioning data still show a global hesitation to embrace equities. The two charts below show global allocations to equities and bonds and show clearly that despite the recent enthusiasm, a wholesale rotation into equities out of bonds has yet to occur.

Exhibit 12: Global Positioning

Figure 6: Implied equity allocation by non-bank investors globally

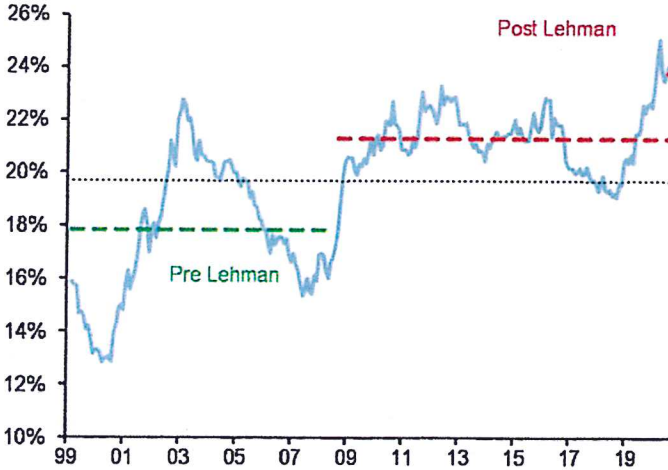
Global equities as % total holdings of equities/bonds/M2 by non-bank investors. Dotted lines are averages.



Source: J.P. Morgan

Figure 7: Implied bond allocation by non-bank investors globally

Global bonds held by non-bank investors as % total holdings of equities/bonds/M2 by non-bank investors. Dotted lines are averages.



Source: J.P. Morgan

Summary and Positive Thoughts

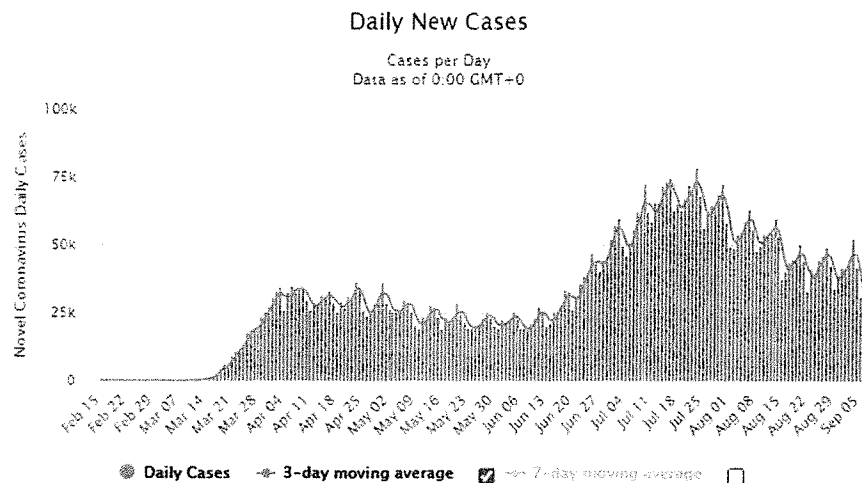
- Policy makers acted with unprecedented speed to stabilize the economy. Equities are making new highs as M2 explodes higher. This was a unique circumstance and we don't see the coordination of Fiscal and Monetary policies as a given going forward. Also, don't fight the fed.
- M2 exploding higher has many worried about inflation. The Fed has been desperately trying to create inflation for 10 years. Demographics and velocity are thwarting those efforts and will likely continue to do so.
- Growth vs Value is at extreme levels and the S&P is very top-heavy. This isn't unprecedented but warrants caution. We are gently reallocating within equities to take single name risk down in the portfolio.
- Absolute valuations are elevated relative to history, but cheap capital changes the standard. Relative to bonds, equities are the cheaper alternative.
- Long term positioning remains supportive for equities, though short term there is some excessive enthusiasm that needs to be flushed out.

From an equity market perspective this has been an unusual and exhausting year. Up 13% doesn't seem very stressful but the trip to this point has certainly added some gray hair to the equity staff. We've talked many times about the fallacy of trying to time the market, and this year provided a great example of the power of staying the course. We'll continue to monitor the themes above and adjust our convictions as the data rolls along, always keeping in mind that short term losses are the cost of admission to long term equity returns.

We've yet to mention the root cause of 2020 angst. So to end on a positive note, daily new cases of Covid-19 are trending downward across the US. We are hopeful this is sustainable.

Exhibit 13: Declining Cases

Daily New Cases in the United States



International Equity Strategy

By Steve Lambdin

After the slaughter of global equities in the first quarter, the second quarter posted a comeback rally for the ages, as nearly all equity markets around the globe moved meaningfully higher in the period. One of the quickest bear markets in history was met with one of the sharpest rallies we have ever witnessed. We saw the announcement of fiscal and monetary stimulus measures at an epic level in addition to positive news on the vaccine front as catalysts to push many equity markets significantly higher in the period. In fact, these announced measures amount to almost 29% of global GDP. This is at levels unseen in the lifetime of most people. All of this seemed to lead investors to expect some type of a grand re-opening of the global economy leading to a V-shaped economic recovery. China has been more aggressive in re-opening its economy, as Japan, Europe, and the U.S. remain well behind in re-opening measures, as social distancing remained much in place. The truth is this process will be much longer than what seems to be implied in the equity markets and it could be a few years before output measures are at pre-COVID-19 levels. It seems like April and May could have been the trough of the downturn, as many companies experienced better demand in the June and July timeframe. No doubt that all of the actions taken to fight this virus on the health front has thus far prevented a much worse outcome. Outside of COVID-19, social unrest around the globe remained a hot issue in the second quarter. Protests in Hong Kong and Taiwan remain active, while social discontent and upheaval were also an issue in the U.S.

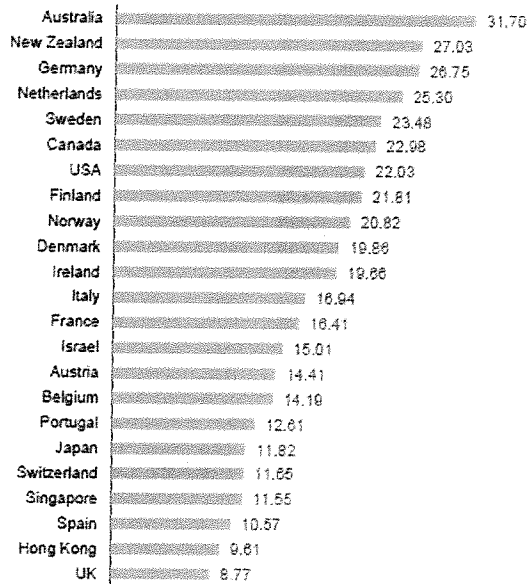
	Quarter	Annualized		
		1 Year	5 Year	10 Year
US Treasury Bills (one month)	0.02%	1.34%	1.07%	0.55%
Barclays Capital US Gov't/Credit Inter Bond	2.81%	7.12%	3.46%	3.13%
Standard & Poor's 500	20.54%	7.51%	10.73%	13.99%
Russell 1000 Value (large cap value)	14.29%	-8.84%	4.64%	10.41%
Russell 2000 (small cap)	25.42%	-6.63%	4.29%	10.50%
Morgan Stanley Europe, Australasia and Far East (EAFE)	14.88%	-5.13%	2.05%	5.73%
MSCI Emerging Markets	18.08%	-3.39%	2.86%	3.27%
Wilshire REIT	10.56%	-12.30%	3.98%	9.22%

Source for returns: Morningstar™ as of 6/30/2020.

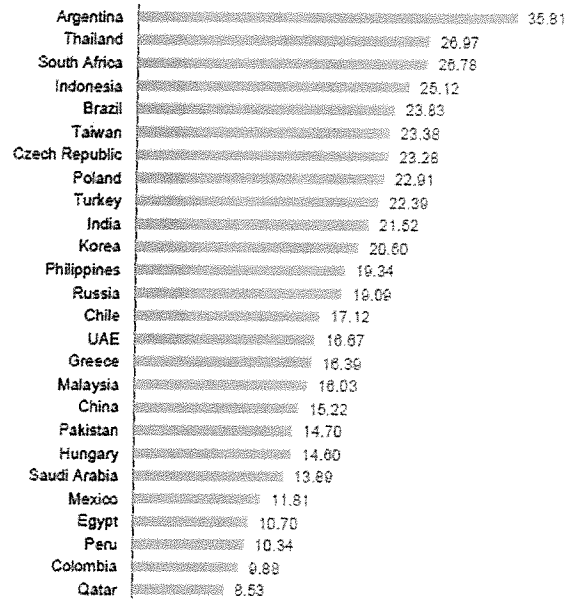
The MSCI EAFE Index (net dividend) and the MSCI Emerging Markets Index returned +14.9% and +18.1% respectively during the second quarter of 2020 vs. +20.5% for the S&P 500 Index. The S&P 500 Index continued to be a global equity market leader as U.S. Technology shares were in high demand from global investors as a way to position for an equity rebound in the global pandemic. As the equity markets rebounded through the quarter, the U.S. dollar weakened as investors began to put risk back on in the markets outside of the U.S. This helped returns as currency movements provided about +2.3% for unhedged U.S. investors. The European region was slightly stronger than the Pacific region as the German and Netherlands equity markets were up +27%

and +25% respectively as business prospects in these two countries seems much better as Europe begins to re-open from COVID-19. Cyclical sectors were stronger vs. the more defensive sectors of the markets as Technology, Materials, and Industrials performed well vs. the Energy and Consumer Staples sectors. WTI Crude oil rose by +91% in the quarter as normalcy returned to the oil markets from a more balanced supply/demand outlook.

Ranked Developed Markets Returns (%)



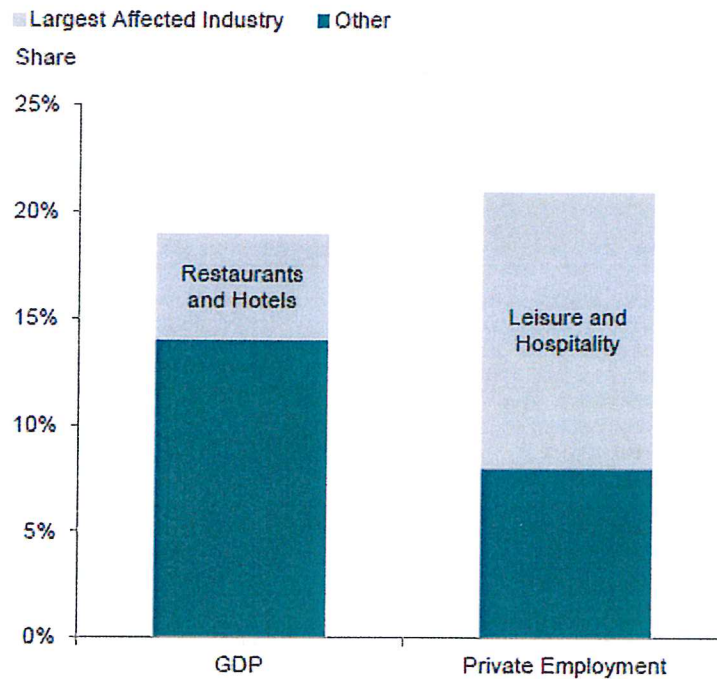
Ranked Emerging Markets Returns (%)



Sources: Resource Consulting Group, MSCI

So far into the third quarter of 2020 thru the Labor Day holiday, global equities continue to perform well as stimulus packages around the globe are serving to calm the equity markets and provide investors opportunities to put risk back on. Many equity markets are at or very near record highs. The sheer size of these fiscal and monetary packages is simply staggering. We have never seen anything like this before. The goals of these measures is to provide enough relief until the global economy can “crank” back up. So far these actions have been well received, but the cost will be high for years to come. Progress on the vaccine front seems to be steady at the moment, but with a bit less news flow than a few months back. Projections on a vaccine are anywhere from a few months out to a couple of years. Obviously, the quicker the timeline, then the quicker an economic recovery and perhaps further equity market gains. The MSCI EAFE Index and the MSCI Emerging Markets Index are up approximately +5.5% and +11% respectively through early September, vs. +11% for the S&P 500 Index. The U.S. equity market as well as the emerging markets are providing the leadership at the moment as investors continue to find comfort in the global equity markets.

Sectors Most Impacted by COVID-19



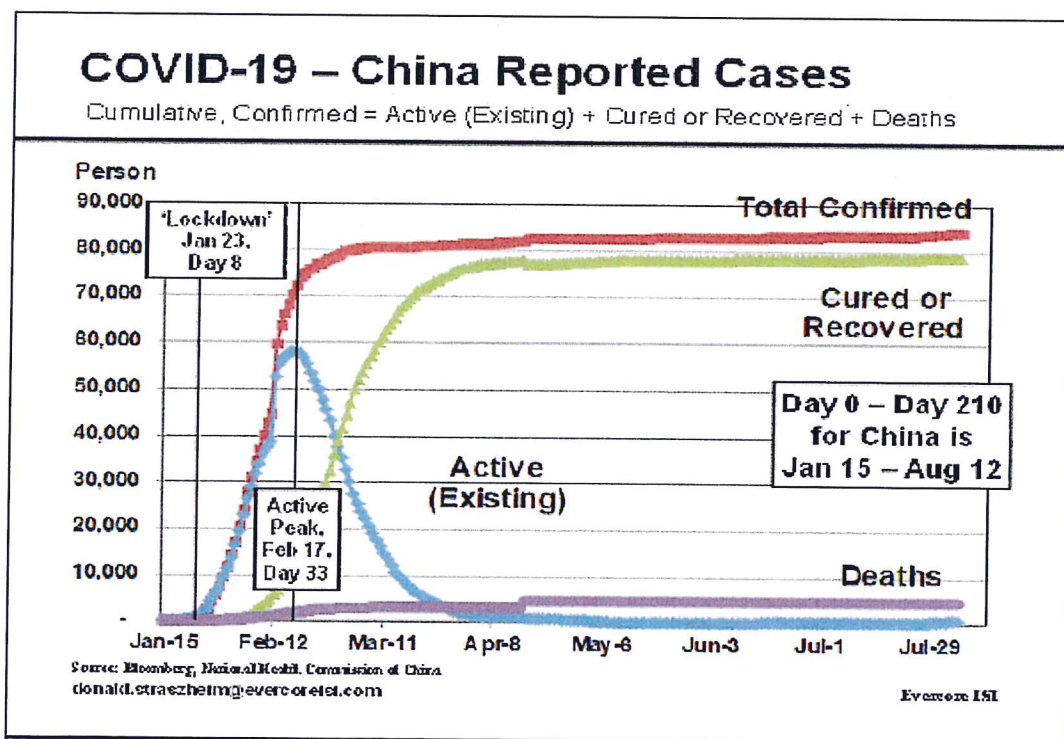
Source: Fidelity Investments Q3 2020 Quarterly Market Update

Asia Update

Asian equities reversed course from the previous quarter to record very good returns across the region in the second quarter. These equity markets seem to catch a tailwind from investors seeking the “re-opening trade” as the Asian economies were the first ones to lift restrictions in an effort to jumpstart these economies. The Japanese equity market did manage a +11.9% return in the quarter on the heels of aggressive stimulus measures being undertaken by the Bank of Japan (BOJ). Perhaps structural weakness and persistent deflation issues served to keep Japanese equities more contained than other markets. Australian equities surged by +29% as a rebound in commodity prices coupled with its own stimulus measures provided a nice backdrop for an equity rebound. Hong Kong equities lagged in the period from continued civil unrest, which seems to continue to deepen. Overall, the MSCI Pacific region rose +14.2% in the period, which we believe was decent in the current state of affairs in the second quarter.

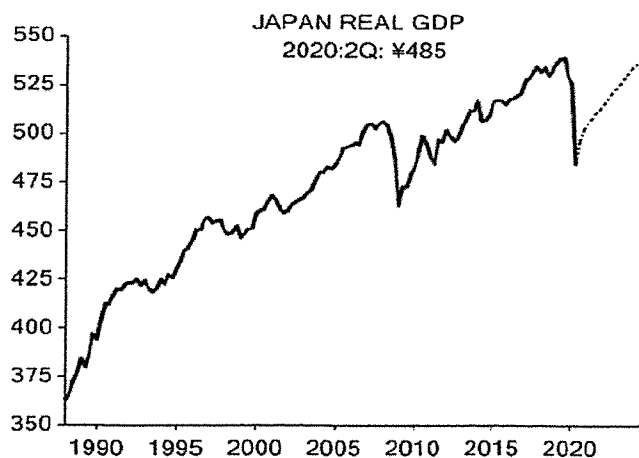
China’s economy shrugged off the effects of COVID-19 in the first quarter as GDP expanded by +3.2% in the second quarter. This was a bit of a surprise and was above what most analysts were expecting as a recession was avoided. The economy here seemed to gain momentum as the quarter progressed and perhaps showed a playbook by how other regions will perform in the quarters to come. Government leaders have announced more measures to encourage spending to keep the rebound going and The

People's Bank of China (PBOC) is making monetary policy more accommodative. Industrial production rose in each month of the second quarter as more factories reopened and construction activity started back again. Automobile production gained further momentum in June, rising +13.4% in June after a +12.2% increase in May. Fixed asset growth also rose in the second quarter after falling in the previous quarter. Officials point to a large pipeline of infrastructure projects that have yet to start, which should bode well for the near future. Exports are recovering as well, as July exports rose +10.4%, which is the best levels of 2020. This could get even better as Europe and the U.S. begin to open back up. Retail sales are trending in the right direction as July sales were only down -1.1% from a year earlier, which is the best level since the early days of COVID-19. We believe this trend should continue provided we do not have a reversal of COVID-19 infections. July CPI rose +2.7% from a year earlier, which was higher than in June as disruption from flooding in central and southern China played havoc with transportation routes. We expect this to maintain near current levels over the near term until normalcy is restored to these transportation routes. Going forward, we expect the recovery to continue and perhaps even pick up a little more steam. Of course, this is contingent upon no second wave of the COVID-19 virus. But again, the main issue here is still trade relations with the U.S. Investors need to be watchful for developments on this key issue as this could affect the equity markets substantially.



Source: Evercore ISI

The Japanese economy continued to be plagued with a state of emergency and lockdowns from COVID-19 in the second quarter. The economy here remains in a recession as second quarter GDP fell -7.9% from the previous quarter, or -28.1% from a year earlier. This is a record contraction and marks the third consecutive quarter of negative growth in this economy. This gives a new meaning to the phrase “nothing is moving” as it’s hard to realize an economic disaster of this magnitude. To counter this economic collapse, the Bank of Japan pledged to buy an unlimited amount of government bonds, increased its planned purchases of corporate debt by a factor of four, and increased its support for more bank lending. In addition, the government has launched two massive stimulus packages of 117 trillion yen (\$1 trillion USD) each. This is stimulus of epic proportions for an economy of Japan’s size. In addition, Prime Minister Shinzo Abe announced his resignation in late August, citing health concerns. Perhaps this will give a fresh look at issues that have been plaguing this economy for the last 8 years under Abe’s leadership. The list of potential successors is long at the moment. Industrial production seemed to hit a trough in April, but has been rising each month since. However, it still remains -16% on a year over year basis in July. Perhaps baby steps forward will turn into something bigger in the months ahead. Japan’s leading economic index is showing some signs of life as July’s reading of 86.9 is the highest level since February. After posting the lowest readings since the great recession, consumer confidence has rebounded to 29.3% in August, signaling that stimulus measures are bringing life back to the outlook here. As expected, the labor market continued to loosen up over the last few months from the pandemic as the jobless rate rose to 2.9% in August, while the jobs-to-applicant ratio fell to 1.08. The job outlook is getting tougher on the margin as job losses are starting to mount even in this region. Looking out over the next few months, we expect this economy will exit the recession as growth should take hold in the third quarter. How sustainable it is after this is a real guess at this point. Progress on the virus front as well as new leadership here will have a lot to do with this. We expect the equity markets here will be paying close attention to these issues.



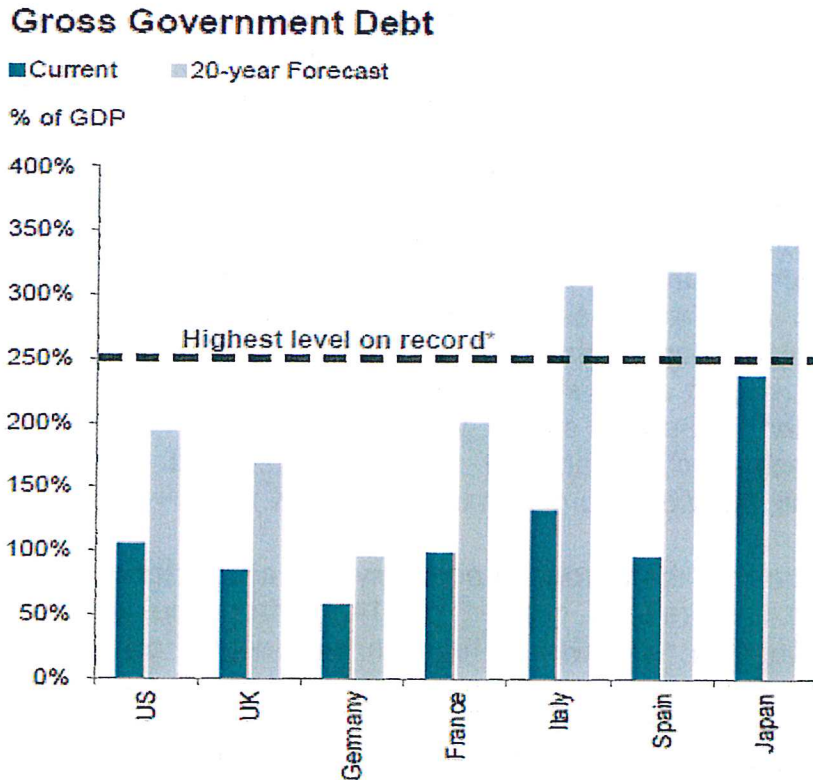
Sources: Evercore ISI

Europe Update

As we saw in other regions around the globe, central bank actions and government fiscal responses to the COVID-19 pandemic took center stage in the Eurozone economy. All of the associated stimulus actions gave investors a lot of comfort about the future here and they pushed equities up sharply to the best quarterly returns in five years. The European Central Bank (ECB) responded with a 600-billion-euro pandemic purchase program coupled with a clear ability to increase this if and when necessary. Also, the European Commission (EC) temporarily relaxed rules surrounding fiscal deficits and announced a recovery plan with several parts worth 2.4-trillion-euro, with part of this financed by the first-ever bonds jointly issued by the European Union (EU). When we add up all of the proposed stimulus actions in this region, it is on par with what we have seen in the U.S. as a percentage of GDP. This is much larger than what we expected would happen a few short months ago. These actions led to a surge in the equity markets, led by German stocks, which gained nearly +27% in the period, as the important automobile, chemical, and electrical equipment industries re-opened for business. Overall, the MSCI European Index (ex. U.K.) rose +18.8% in the quarter.

Coming as no surprise, the European economy was a disaster as second quarter GDP fell -11.8% from the previous quarter, or -14.7% from the year earlier period and officially entered into a recession. This was the deepest contraction we have ever witnessed in this economy. In addition, a recent report put output in this economy all the way back to levels seen in 2005. In a repeat from the previous quarter, the economies in France, Spain, and Italy were hit the hardest as pandemic quarantine measures were especially strict in these countries relative to other countries in the Eurozone. April marked the peak of the downturn for industrial production with increases each month since, as June production rose +9.1% from a month earlier. Industries are slowly returning to production as the pandemic begins to loosen its grip on the region. However, it will be some time before production gets back to pre-pandemic levels. The economic confidence index is sensing better times could be ahead of us as the August reading rose to 87.7%, which is the highest levels since the pandemic. Demand is starting to comeback in many businesses. Retail sales are coming back as June sales were up +5.3% from May. As with other data points, retail sales troughed in April and have been on a steady rise. Online sales have been exceptionally strong since the height of the pandemic as people have been sheltered in place. Core CPI continued to move downward over the last few months and was reported to be up only +.4% year over year in August. This is right at a record low and has got the ECB worried about the potential for deflation if the rebound falls apart from a potential second wave of the pandemic. This could be a serious situation to keep a focus on. Employment readings continue to surprise us somewhat as the July unemployment rate rose to 7.9%. It looks as if stimulus measures aimed at keeping workers on payroll have been successful. However, once these measures begin to wane, we look for unemployment to move up further from current levels. To update our view on the Eurozone economy, the rebound has been better than what we were looking for several months back. Stimulus measures have been much better than

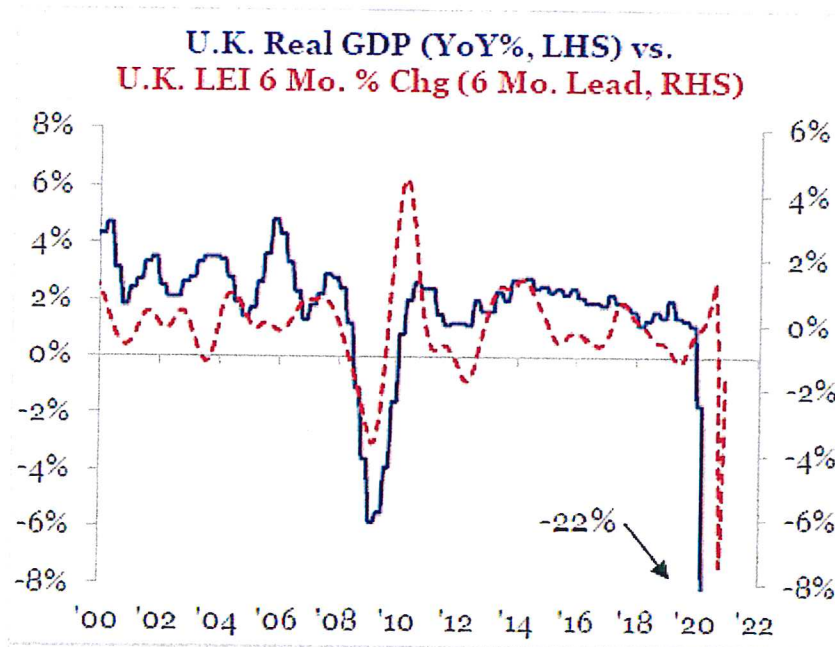
anticipated, resulting in more stability in the region. We will see how the re-opening of this economy progresses from here.



Source: Fidelity Investments Q3 2020 Quarterly Market Update

The issues facing the U.K. economy have not changed lately. COVID-19 and Brexit continue to wreak havoc on the region. It's been hard to ease up on lockdowns as the region suffers from a high infection and death rate. In addition, the pandemic has brought Brexit negotiations down to almost a standstill as little to no measurable progress has been made lately. Also, many believe the government and the Bank of England's (BOE) response to the pandemic has been lacking relative to other regions around the globe. As a result of this perception, the MSCI U.K. Index posted an +8.8% return in the second quarter, the worst performance of any region around the globe. Investors have found other places to be in the recent market melt-up rather than having to deal with Brexit issues on top of the pandemic. GDP fell -20.4% in the second quarter from the previous quarter, or -21.7% from the year earlier. This was the biggest contraction of any country in Europe as the U.K. officially entered a recession. At this point, it's probably a huge risk to wind down any support measures in the economy at this time. Industrial production is following the same pattern as other regions as June production was up +9.3% from last month. Most of the strength came from manufacturing as production facilities begin to slowly open. Retail sales rose +2% in July from June in another sign the economy is getting better on the margin. This is better than on the surface as we continued to see store closures and more job losses in the retail sector. Core CPI rose +1.8% in July, which was anticipated as food prices

were becoming elevated. This has been opposite of what is seen in other regions, but should be temporary as contributing factors to this rise are expected to subside over the next few months. At its early August meeting, the Monetary Policy Committee (MPC) voted to maintain the main benchmark interest rate at .10%, but increase its bond purchase target by another 100 billion pounds to 745 billion pounds. These stimulus measures continue to target a recovery from the recession induced by the pandemic. With stimulus targeted at workers, employment indicators continue to look rather resilient. June unemployment remained steady at 3.9%, much better than anticipated. However, many workers remain on some type of furlough and are being supported by government furlough programs. This is probably masking the true unemployment picture at the moment. Things will probably change on this in the months to come. In summary, Brexit uncertainty and the slowing decline in COVID-19 cases vs. other regions will probably keep any relative outperformance of the equity markets off the table in the near term.

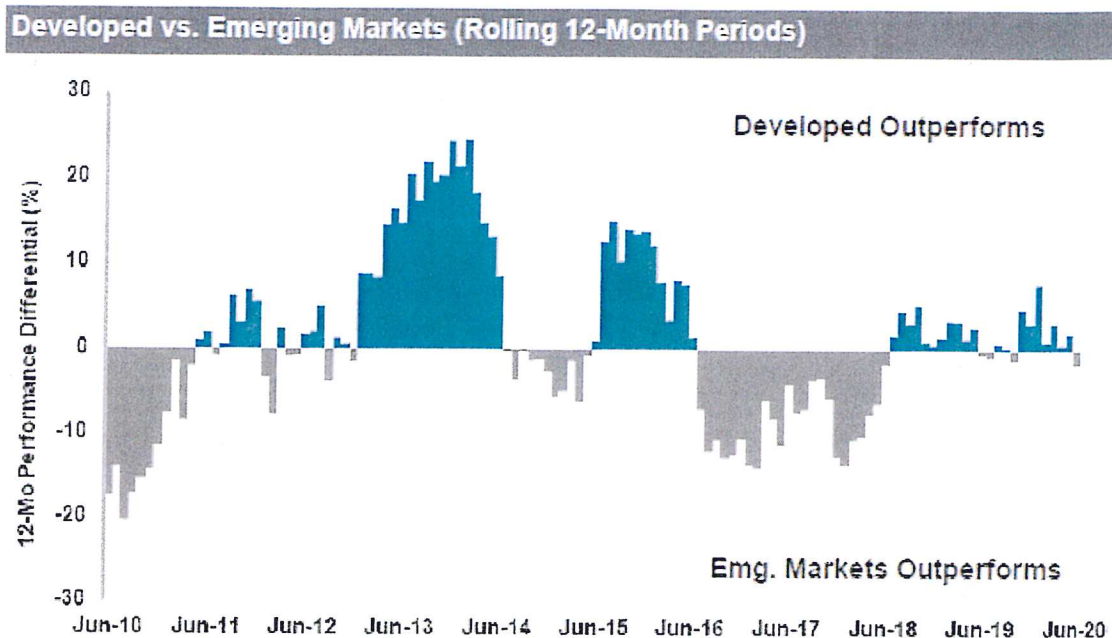


Sources: Strategas

Emerging Markets

Emerging market equities bounced back substantially in the second quarter as China's economy showed signs of bouncing back, central banks in several countries cut interest rates and put other stimulus measures into place, and commodity prices rebounded significantly. All of this was a nice formula for emerging markets equity outperformance. The MSCI Emerging Markets Index rose +18.1% in the period, which was better than what we saw in the large cap developed markets. The commodity producing countries of Indonesia, Brazil, and South Africa experienced a sharp rebound after a route in the previous quarter. However, all countries in the MSCI Emerging Markets Index

experienced positive returns. China is showing signs of accelerating economic activity as it was one of the first countries to lift lockdown measures. We expect the rest of the Asian countries to continue to move forward as well. However, we are worried about India's growth going forward as its public health response to the COVID-19 seems to be lacking relative to other countries. But all in all, we see plenty of opportunities for emerging markets to perform well as we move further into a re-opening of the global economy.



Sources: Baird Q2 2020 Chartbook; MSCI; Factset

International Equity Activity/Strategy

Global equities have come a long way in the last five to six months. The rally has been nothing short of impressive as the significant monetary and fiscal responses provided the time necessary for a gradual resumption of business activity over the last couple of months. How strong the rebound in activity going forward is a major wildcard at the moment. A lot of this will depend on the progress being made on a vaccine for COVID-19. If a vaccine can be developed over the next few months, then prospects for 2021 look fairly good. If not, then things can become very questionable going forward. Another issue that global investors will be watching will be the U.S. elections in November. Obviously if we see a change of leadership, then this could bring an element of significant volatility into the marketplace. Considering the excellent run we have had in the global equity markets and the issues that lie in front of us over the next few months, we expect to see quite a few swings in the equity markets. From a valuation standpoint, most global markets seem to be more than fairly valued at the moment, as we need to see economic activity continue to pick up and translate into

global earnings in order to justify the move in equities over the last few months. Central banks remain with fingers on the trigger to deliver even more stimulus if this is needed, which should bring comfort to investors. Another issue to keep an eye on is the ongoing trade relations between the U.S. and China. This still remains very contentious and can take an even nastier turn at any moment. We have seen very little progress on this front over the last few months.

We sold \$63 million of our emerging markets equity portfolio (EEM) in late April to take some quick profits from our late March purchase. We continue to be active with our put/call writing strategy on EEM, as premiums remain attractive for this in the current equity market climate. Emerging market equities still remain an asset class that looks attractive to us over the long-term. Our current allocation to Emerging Market equities is approximately 3.50% of total assets and approximately 10.0% for MSCI EAFE equities across our TRS, ERS, and JRF portfolios. *(Credit is given to the following entities for charts provided: Baird Chartbook, MSCI, Factset, Strategas, Cornerstone Macro, Morningstar, Resource Consulting Group, Evercore ISI, Fidelity Investments, RIMES, Capital Group World Markets Review)*