

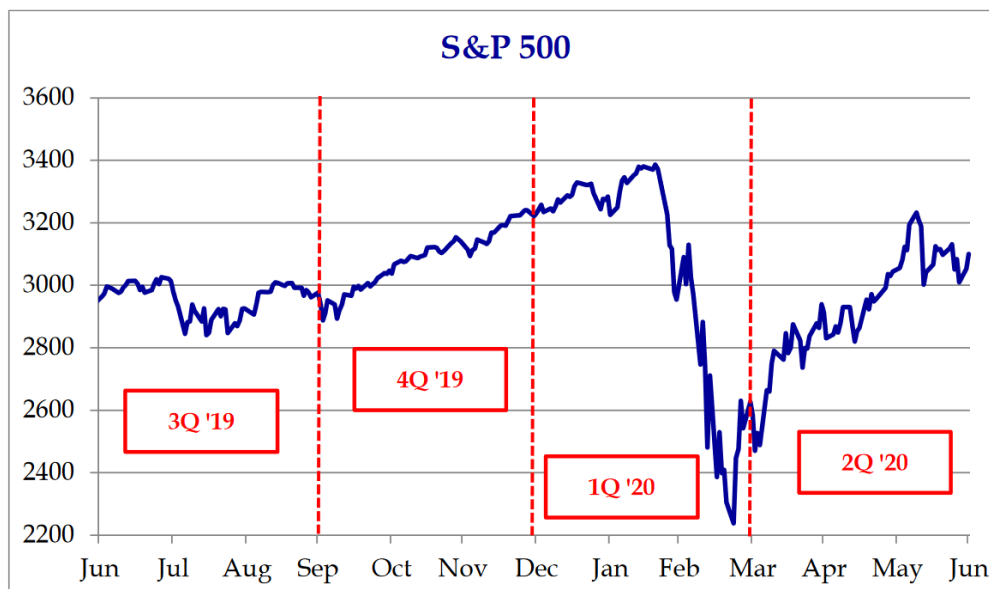
MARKET RECAP – Q2 2020

- You could be forgiven in thinking that the last quarter felt like one of the longest three months of your life. In what now seems an eternity ago, it could be hard to forget that the S&P 500 enjoyed a total return of more than 30% in 2019. What has not been so easy to forget, for bulls and bears alike, has been the violence of the moves, both up and down, in the markets. There has never been a bear market associated with a recession that lasted only four weeks. Then again, there has never been a period in which the awesome economic power of the federal government and the central bank have been brought to bear so quickly. The assets on the Fed's balance sheet now top \$7 trillion, up from \$4 trillion at the start of the year.

| | June 2020 | QTD | YTD | 1-YR | 3-YR | 5-YR | 10-YR |
|-------------------------------------|-----------|--------|---------|--------|--------|--------|--------|
| S&P 500 | 1.99% | 20.54% | -3.08% | 7.51% | 10.73% | 10.73% | 13.99% |
| NASDAQ | 5.99% | 30.63% | 12.11% | 25.64% | 17.88% | 15.07% | 16.91% |
| Dow Jones Industrial Average | 1.82% | 18.51% | -8.43% | -0.54% | 9.07% | 10.59% | 12.97% |
| Russell 2000 | 3.53% | 25.42% | -12.98% | -6.63% | 2.01% | 4.29% | 10.50% |
| MSCI EAFE | 3.40% | 14.88% | -11.34% | -5.13 | 0.81% | 2.05% | 5.73% |
| MSCI Emerging Markets | 7.35% | 18.08% | -9.78% | -3.39% | 1.90% | 2.86% | 3.27% |
| Barclays Agg. Bond | 0.63% | 2.90% | 6.14% | 8.74% | 5.32% | 4.30% | 3.82% |
| Investment Grade Bonds | 2.13% | 9.72% | 6.46% | 11.63% | 7.27% | 6.55% | 5.96% |
| High Yield Bonds | -0.59% | 7.36% | -5.10% | -1.49% | 2.54% | 3.65% | 5.67% |

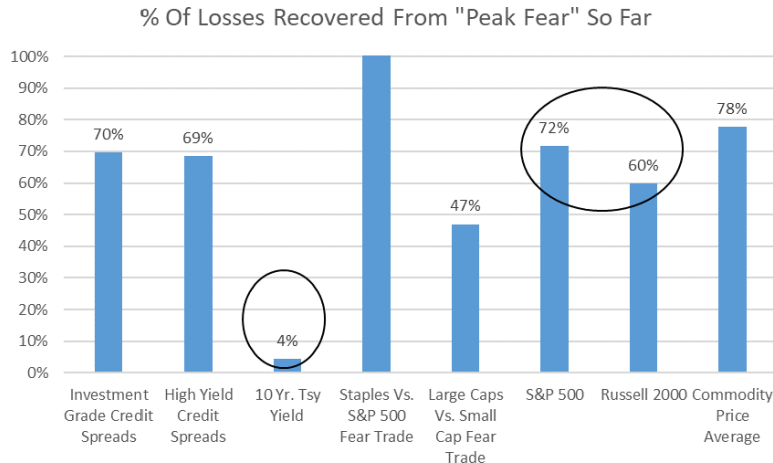
Source: Morningstar

- The S&P 500 Index adding 20.5%, for the best quarter since 1998 and the best second quarter since 1938. Of course, stocks fell 19.6% in the first quarter, so what we really have is a bad case of whiplash in 2020 thus far.



Source: Strategas

- The S&P 500 has recovered ~72% of its losses from 2/20 - 3/23. Other widely followed “confirmation” signals like credit, inflation, and sector signals have recovered ~50%+ of losses from the market’s lows, as Central Bank buying is helping all kinds of assets.



Source: Raymond James

- A 20% quarterly gain is quite rare, but as shown below, previous large quarterly gains have actually led to continued strength. In fact, a quarter later stocks have been higher the past 8 times after gaining at least 15% during the previous quarter.

Best Quarter For The S&P 500 Index Since 1998

Big Quarterly Gains Historically See Continued Strength

| Quarter | Quarterly Gain >15% | S&P 500 Index Return | | |
|------------|---------------------|----------------------|-------------------|--------------------|
| | | Next Quarter | Next Two Quarters | Next Four Quarters |
| Q3 1970 | 15.8% | 9.3% | 19.1% | 16.8% |
| Q1 1975 | 21.6% | 14.2% | 0.6% | 23.3% |
| Q4 1982 | 16.8% | 8.8% | 19.5% | 17.3% |
| Q4 1985 | 16.0% | 13.1% | 18.7% | 14.6% |
| Q1 1987 | 20.5% | 4.2% | 10.3% | -11.2% |
| Q2 1997 | 16.9% | 7.0% | 9.6% | 28.1% |
| Q4 1998 | 20.9% | 4.6% | 11.7% | 19.5% |
| Q2 2009 | 15.2% | 15.0% | 21.3% | 12.1% |
| Q2 2020 | 20.0% | ? | ? | ? |
| Average | | 9.5% | 13.9% | 15.1% |
| Median | | 9.0% | 15.2% | 17.0% |
| % Positive | | 100.0% | 100.0% | 87.5% |

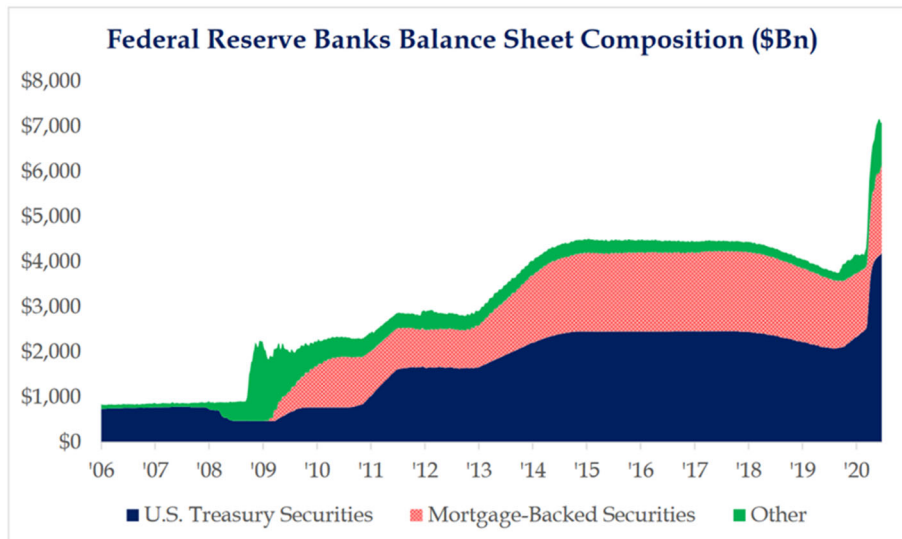
Source: LPL Research

- The progression of quarterly consensus EPS estimates shows that the consensus is estimating the second quarter will present the trough in cycle earnings. It is not unreasonable to believe this is possible since 2Q includes the majority of the weeks the economy was closed, but what may be less

realistic about the progression is the pace of recovery back to the pre-pandemic level. Currently, expectations are for a full recovery in earnings by 3Q'21.



- The lesson learned from the Financial Crisis a decade ago was the bigger the better regarding policy response, and the response from Treasury Secretary Steve Mnuchin and Fed Chair Jay Powell was swift and historic. Led by Mnuchin, the CARES Act did its best to offset spiraling unemployment with income replacement. The more than \$2 trillion spending bill included \$300 billion in one-time stimulus checks, \$300 billion in boosted unemployment benefits, and nearly \$800 billion in forgivable loans for small businesses, known as the Payment Protection Program. The CARES Act propelled personal income in April to 10%, and the savings rate to 33%, which was more than double the previous record. The stock market is betting on another \$1 trillion in fiscal stimulus to arrive in July. In a sense, market bears haven't been just fighting the Fed, they've been fighting everybody.

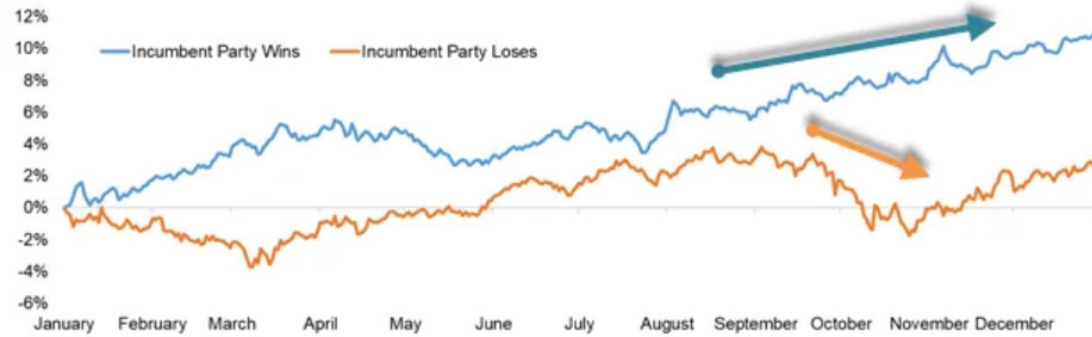


Source: Raymond James

- Turns out, since 1928, the stock market has accurately predicted the winner of the election 87% of the time and every single year since 1984. It is quite simple. When the S&P 500 Index has been higher the three months before the election, the incumbent party usually won, while when stocks were lower, the incumbent party usually lost.

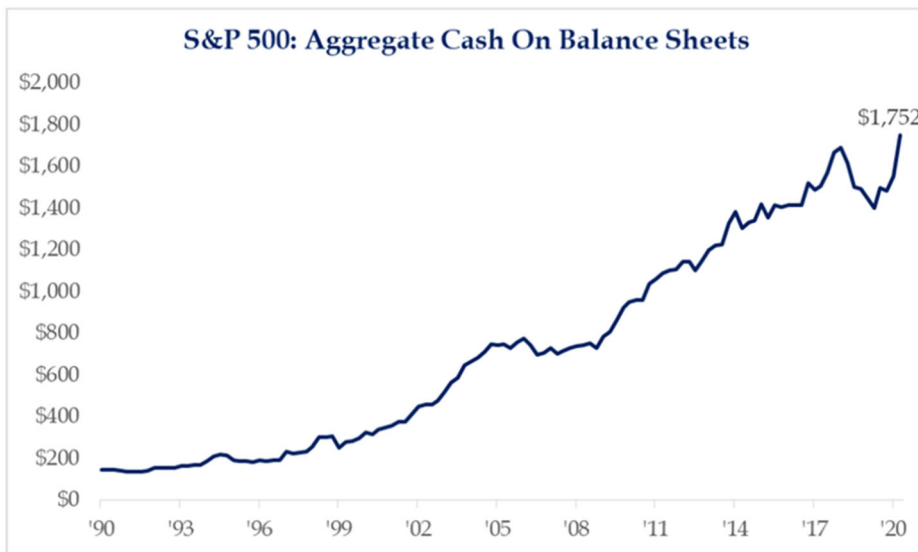
S&P 500 Performance During Election Years (1950 - Current)

Performance Ahead Of The Election Could Give A Clue Who Will Win The Election



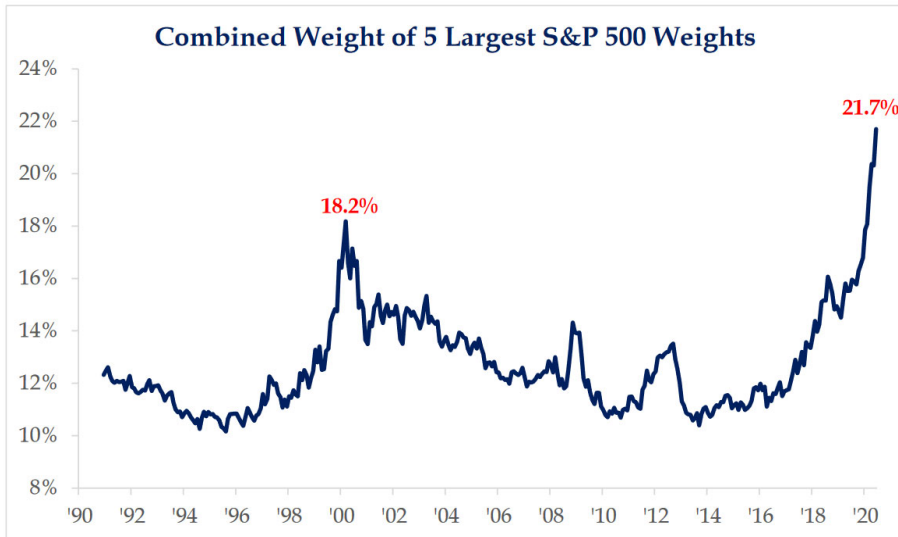
Source: LPL Research, FactSet 06/22/20

- In aggregate, companies in the S&P 500 have more than \$1.75 trillion worth of cash on their balance sheets, based on the latest figures, showing that companies are hoarding cash. We would expect these levels to decline over the coming quarters as cash burn rates remain high for some companies with little to no revenue but should stabilize as costs get under control.



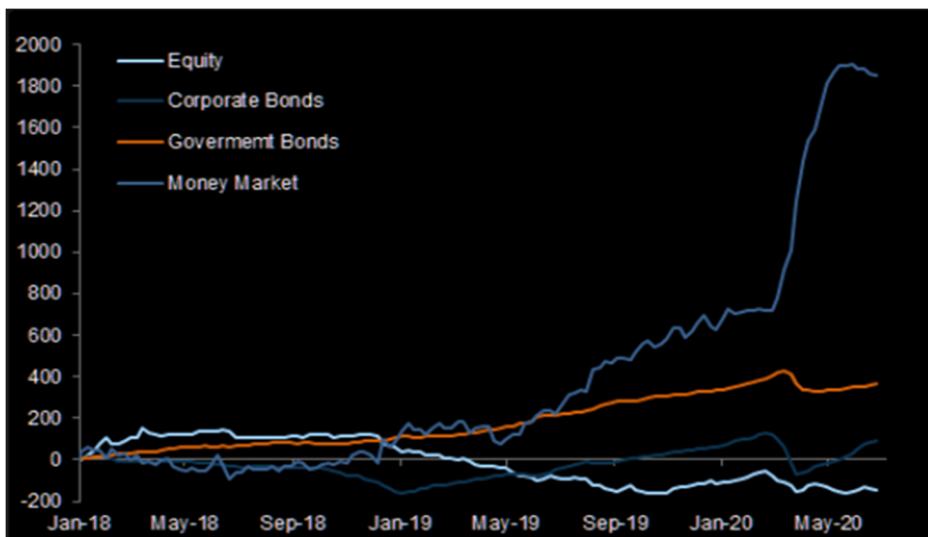
Source: Strategas

- The stock market has been propped up by a handful of mega-cap companies leading into the coronavirus pandemic. The five largest stocks now account for almost 22% of the S&P 500 market cap, exceeding the 18% concentration level reached during the dot-com bubble. Stock-market breadth is an indicator of how many stocks are advancing relative to those that are declining. When a market has narrow breadth, it means a relatively small group of stocks is driving the upside in the market, while the majority of stocks are declining.



Source: Strategas

- During the crisis, investors piled into cash / money markets. Once investors start to enter back into the market, where will the new capital be put to work? At current bond yields, where can investors get yield?



Source: Goldman Sachs

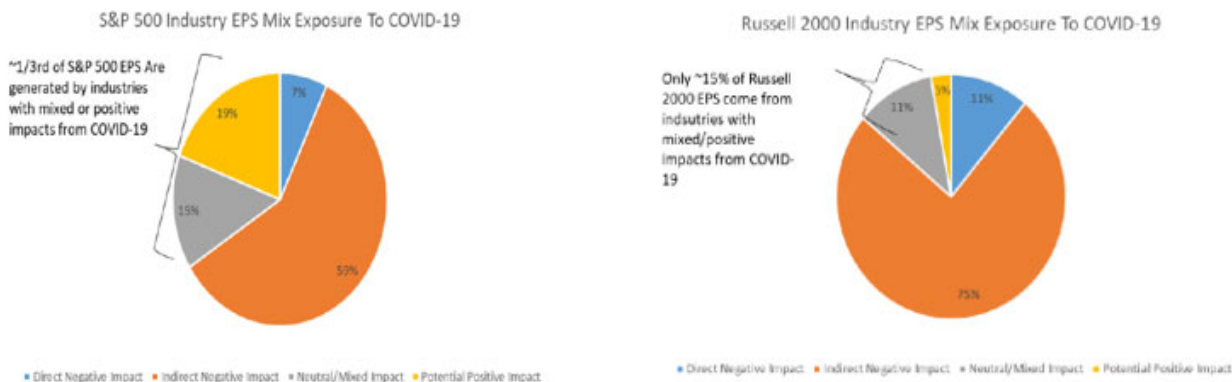
Asset Classes

- As shown below in the grey boxes, diversification generally puts you somewhere in the middle of the return spectrum. That's a feature not a bug, one we see as the first layer of portfolio protection. The idea that anyone is going to consistently overweight to next year's leading styles is crazy; building a structure that minimizes the drag of large losers is far more realistic. In some years that protection isn't necessary, like 2019, but over a 20 - 30-year period all portfolios face periods of drawdown – much like we have seen YTD in 2020. A proactive plan to manage those periods can be the difference between meeting future spending needs or adjusting them.

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | YTD | Ann. | Vol. |
|----------------------|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|
| EM Equity 34.6% | REITs 35.1% | EM Equity 39.8% | Fixed Income 5.2% | EM Equity 79.0% | REITs 27.9% | REITs 8.3% | REITs 19.7% | Small Cap 38.8% | REITs 28.0% | REITs 2.8% | Small Cap 21.3% | EM Equity 37.8% | Cash 1.8% | Large Cap 31.5% | Fixed Income 6.1% | Large Cap 9.0% | REITs 22.2% |
| Comdty. 21.4% | EM Equity 32.6% | Comdty. 16.2% | Cash 1.8% | High Yield 59.4% | Small Cap 26.9% | Fixed Income 7.8% | High Yield 19.6% | Large Cap 32.4% | Large Cap 13.7% | Large Cap 1.4% | High Yield 14.3% | DM Equity 25.6% | Fixed Income 0.0% | REITs 28.7% | Cash 0.5% | REITs 8.3% | EM Equity 22.1% |
| DM Equity 14.0% | DM Equity 26.9% | DM Equity 11.6% | Asset Alloc. 25.4% | DM Equity 32.5% | EM Equity 19.2% | High Yield 3.1% | EM Equity 18.6% | DM Equity 23.3% | Fixed Income 6.0% | Fixed Income 0.5% | Large Cap 12.0% | Large Cap 21.8% | REITs -4.0% | Small Cap 26.6% | Large Cap -3.1% | Small Cap 7.9% | Comdty. 18.6% |
| REITs 12.2% | Small Cap 18.4% | Asset Alloc. 7.1% | High Yield -26.9% | REITs 28.0% | Comdty. 16.8% | Large Cap 2.1% | DM Equity 17.9% | Asset Alloc. 14.9% | Asset Alloc. 5.2% | Cash 0.0% | Comdty. 11.8% | Small Cap 14.6% | High Yield -4.1% | DM Equity 22.7% | Asset Alloc. -4.6% | EM Equity 7.8% | Small Cap 17.7% |
| Asset Alloc. 8.1% | Large Cap 15.8% | Fixed Income 7.0% | Small Cap -33.8% | Small Cap 27.2% | Large Cap 15.1% | Cash 0.1% | Small Cap 16.3% | High Yield 7.3% | Small Cap 4.9% | DM Equity -0.4% | EM Equity 11.6% | Asset Alloc. 14.6% | Large Cap -4.4% | Asset Alloc. 19.5% | High Yield -4.7% | High Yield 7.2% | DM Equity 17.3% |
| Large Cap 4.9% | Asset Alloc. 15.3% | Large Cap 5.5% | Comdty. -35.6% | Large Cap 25.5% | High Yield 14.8% | Asset Alloc. -0.7% | Large Cap 16.0% | REITs 2.9% | Cash 0.0% | Asset Alloc. -2.0% | REITs 8.6% | High Yield 10.4% | Asset Alloc. -5.8% | EM Equity 18.9% | EM Equity -9.7% | Asset Alloc. 6.6% | Large Cap 14.0% |
| Small Cap 4.6% | High Yield 13.7% | Cash 4.8% | Large Cap -37.0% | Asset Alloc. 25.0% | Asset Alloc. 13.3% | Small Cap -4.2% | Asset Alloc. 12.2% | Cash 0.0% | High Yield 0.0% | High Yield -2.7% | Asset Alloc. 8.3% | REITs 8.7% | Small Cap -11.0% | High Yield 12.6% | DM Equity -11.1% | DM Equity 5.3% | High Yield 10.9% |
| High Yield 3.6% | Cash 4.8% | High Yield 3.2% | REITs -37.7% | Comdty. 18.9% | DM Equity 8.2% | DM Equity -11.7% | Fixed Income 4.2% | Fixed Income -2.0% | EM Equity -1.8% | Small Cap -4.4% | Fixed Income 2.6% | Fixed Income 3.5% | Comdty. -11.2% | Fixed Income 8.7% | Small Cap -13.0% | Fixed Income 4.1% | Asset Alloc. 10.0% |
| Cash 3.0% | Fixed Income 4.3% | Small Cap -1.6% | DM Equity -43.1% | Fixed Income 5.9% | Fixed Income 6.5% | Comdty. -13.3% | Cash 0.1% | EM Equity -2.3% | DM Equity -4.5% | EM Equity -14.6% | DM Equity 1.5% | Comdty. 1.7% | DM Equity -13.4% | Comdty. 7.7% | REITs -13.3% | Cash 1.3% | Fixed Income 3.4% |
| Fixed Income 2.4% | Comdty. 2.1% | REITs -15.7% | EM Equity -53.2% | Cash 0.1% | Cash 0.1% | EM Equity -18.2% | Comdty. -1.1% | Comdty. -9.5% | Comdty. -17.0% | Comdty. -24.7% | Cash 0.3% | Cash 0.8% | EM Equity -14.2% | Cash 2.2% | Comdty. -19.4% | Comdty. -2.6% | Cash 1.0% |

Source: JPMorgan Asset Management

- Year-to-date, Large Caps have outperformed Small Caps by 10% - what is the driving force?



Source: Raymond James

Equity Sectors

- Within the S&P 500, Consumer Discretionary (+33%) and Info Tech (+31%) led as FB, AAPL, AMZN, MSFT, GOOGL returned +35% compared with +17% for the rest of the S&P 500. Energy posted a strong recovery in 2Q as oil prices rebounded from \$26/bbl to \$41/bbl in the quarter. Utilities (+3%) and Consumer Staples (+8%) were the worst performing sectors in the quarter, reflective of Cyclicals outperforming Defensives by 9%.

| GICS Sector | June | | | 2Q2020 | | | YTD | | | Wgt |
|---------------|----------|--------------|----------|----------|--------------|----------|----------|--------------|----------|------|
| | Absolute | Contribution | Relative | Absolute | Contribution | Relative | Absolute | Contribution | Relative | |
| Com Serv | -0.13 | -0.02 | -2.34 | 21.08 | 2.18 | -0.74 | 0.04 | 0.10 | 2.85 | 10.3 |
| Discretionary | 5.86 | 0.62 | 3.65 | 36.40 | 3.59 | 14.58 | 9.42 | 1.27 | 12.23 | 11.3 |
| Staples | -0.33 | -0.02 | -2.54 | 8.55 | 0.72 | -13.27 | -5.77 | -0.54 | -2.96 | 6.4 |
| Energy | -0.86 | -0.02 | -3.07 | 32.50 | 0.89 | 10.68 | -35.50 | -1.45 | -32.69 | 2.6 |
| Financials | -0.02 | 0.03 | -2.23 | 12.76 | 1.44 | -9.07 | -23.96 | -3.71 | -21.15 | 10.2 |
| Health Care | -2.09 | -0.30 | -4.31 | 15.39 | 2.54 | -6.43 | 1.03 | 0.38 | 3.84 | 14.6 |
| Industrials | 1.81 | 0.18 | -0.40 | 17.60 | 1.48 | -4.23 | -14.48 | -1.67 | -11.67 | 8.4 |
| Info Tech | 7.03 | 1.76 | 4.82 | 31.86 | 7.70 | 10.03 | 15.42 | 4.35 | 18.24 | 27.3 |
| Materials | 1.91 | 0.06 | -0.30 | 25.98 | 0.67 | 4.16 | -7.97 | -0.19 | -5.16 | 2.6 |
| Real Estate | 2.06 | 0.08 | -0.15 | 13.30 | 0.48 | -8.53 | -12.62 | -0.78 | -9.81 | 3.4 |
| Utilities | -4.76 | -0.14 | -6.97 | 2.85 | 0.13 | -18.97 | -11.72 | -0.59 | -8.91 | 2.9 |

Source: Jefferies

- Investors witnessed the sharpest risk reversals in decades - the post-March 23 rally has also seen a fair amount of dispersion across sectors as well as the duration and quality spectrums.

| S&P 500 Sector Performance (February 19 - March 23) | | ➔ | S&P 500 Sector Performance (March 23 - Current) | |
|--|--------|----------------|--|-------|
| Staples | -24.0% | | Energy | 61.1% |
| Health Care | -27.9% | Technology | 49.0% | |
| Communications | -28.6% | Materials | 47.8% | |
| Technology | -31.1% | Discretionary | 47.6% | |
| Discretionary | -31.7% | Industrials | 41.8% | |
| S&P 500 | -33.8% | S&P 500 | 39.3% | |
| Utilities | -35.6% | Real Estate | 37.7% | |
| Materials | -36.1% | Health Care | 34.8% | |
| Real Estate | -37.7% | Financials | 32.3% | |
| Industrials | -41.7% | Communications | 31.1% | |
| Financials | -42.9% | Utilities | 27.1% | |
| Energy | -55.9% | Staples | 21.1% | |

Source: Strategas

- Looking back at the first half of 2020, the shock to the oil market caused by the Covid-induced economic shutdowns around the globe was unprecedented to say the least, and the second quarter specifically will not soon be forgotten with the memory of negative oil futures prices remaining fresh in many traders' minds. From a demand stand-point, the rebound in consumer demand for gasoline and other refined products later in the second quarter was equally historic with 100% price gains across the space, and that demand recovery was clearly underscored by a quick rebound in refinery runs over the last two months. Looking at the supply side, the un-paralleled, coordinated efforts by global producers to slash output by roughly 10% remains a tailwind on the market right now.

Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

| Production | 2017 | 2018 | 2019 | 2020* | 2021* | Growth since '17 |
|------------------|-------------|--------------|--------------|-------------|-------------|------------------|
| U.S. | 15.7 | 17.9 | 19.5 | 18.6 | 18.1 | 15.4% |
| OPEC | 36.8 | 36.8 | 34.7 | 31.3 | 33.2 | -10.0% |
| Russia | 11.2 | 11.4 | 11.5 | 10.5 | 11.0 | -2.0% |
| Global | 98.1 | 100.8 | 100.7 | 94.8 | 97.4 | -0.7% |
| Consumption | | | | | | |
| U.S. | 20.0 | 20.5 | 20.5 | 18.1 | 19.5 | -2.5% |
| China | 13.6 | 14.0 | 14.5 | 13.6 | 15.3 | 12.9% |
| Global | 98.8 | 100.0 | 100.9 | 92.5 | 99.7 | 1.0% |
| Inventory Change | | | | | | |
| | -0.6 | 0.8 | -0.2 | 2.2 | -2.3 | |

U.S. crude oil inventories and rig count**

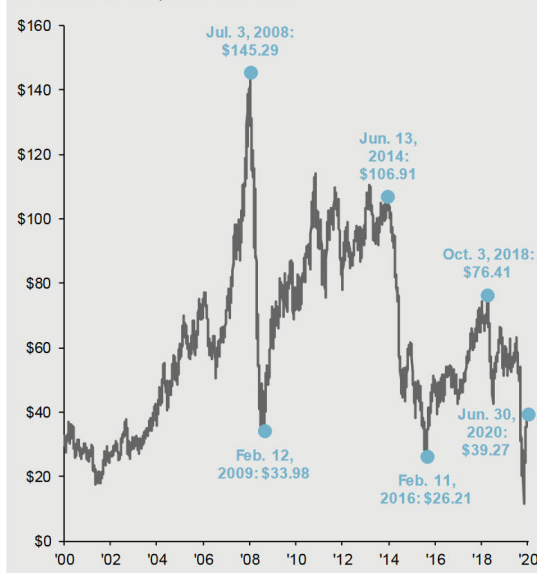
Million barrels, number of active rigs



Source: JPMorgan Asset Management

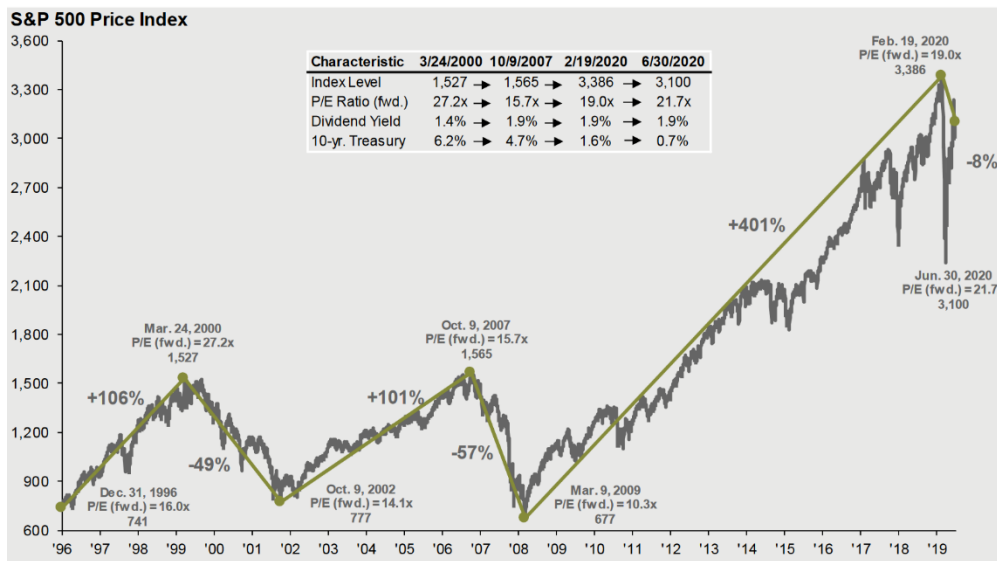
Price of oil

WTI crude, nominal prices, USD/barrel



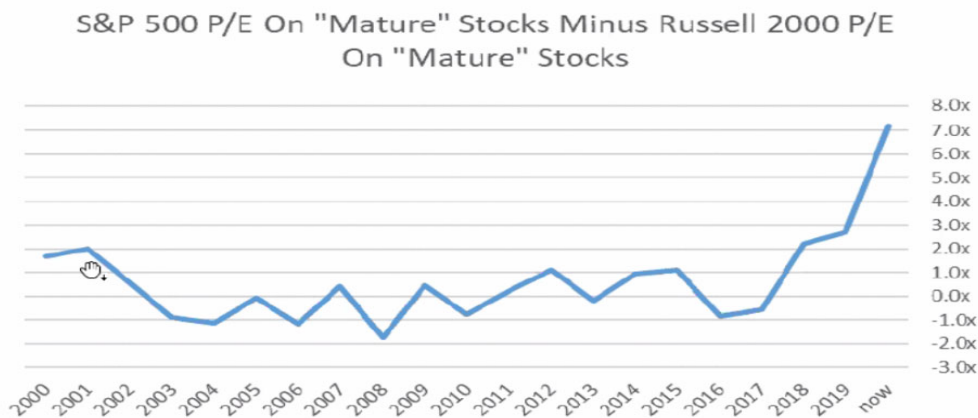
Equity Valuations

- With interest rates in the US near the "effective lower bound," investors have been focused on finding the "upper bound" of equity valuation multiples. The 10-year US Treasury yield stands at 0.65% today, just 15 basis points above its record low. At the same time, the S&P 500 FY2 P/E multiple has expanded to 21x, the highest level since 2002. However, in the context of low rates, the equity risk premium and the yield gap remain above historical averages.



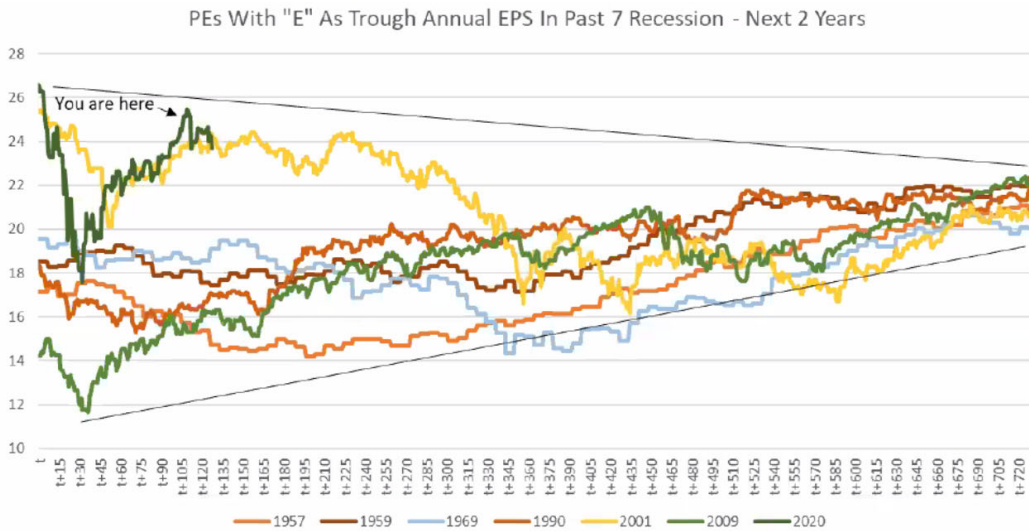
Source: JPMorgan Asset Management

- Small Caps appear VERY cheap – they have historically traded to a valuation premium to Large Caps. Looking at stocks with P/E < 30x (basically excluding the 40% of stocks that don't make money in the Russell 2000), the Russell 2000 hasn't been this inexpensive on a "median" basis in over 20 years, which the S&P 500 at 19x is well above the normal. The spread is now wider than at any point in 20 years, and likely surpassing even late 1990's tech bubble era. The median Russell 2000 stock, is literally cheaper than at any point in the past 20 years.



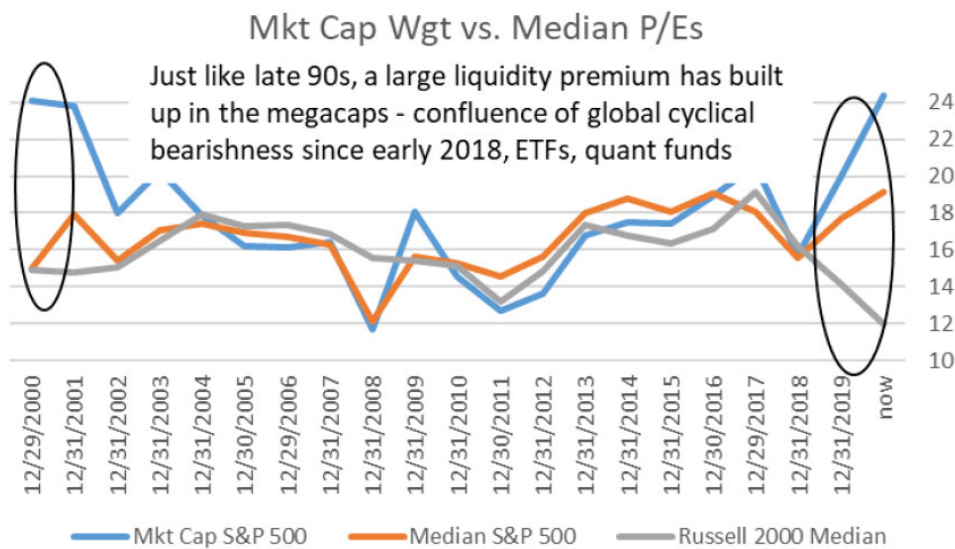
Source: Strategas

- P/E based on trough EPS makes the equity market look a bit expensive, but not outlandish, as over two years, all recessions essentially end up at ~20x - 23x trough EPS.



Source: Raymond James

- Valuations between market caps have never been this wide, similar to late 90s. Last time this normalized, equal weighted indexes and small cap indexes outperformed S&P 500 by ~40-50% over a 3 year period.



Source: Raymond James

Equity Styles

- Much like 2019 (and since the previous market peak), Growth outperformed Value yet again in Q2, with the Russell 1000 Growth (+27.3%) beating the Value Index (14.3%).

| QTD | | | | YTD | | | |
|-------|-------|-------|--------|--------|--------|--------|--|
| | Value | Blend | Growth | Value | Blend | Growth | |
| Large | 14.3% | 20.5% | 27.8% | -16.3% | -3.1% | 9.8% | |
| Mid | 19.9% | 24.6% | 30.3% | -18.1% | -9.1% | 4.2% | |
| Small | 18.9% | 25.4% | 30.6% | -23.5% | -13.0% | -3.1% | |

| Since market peak (October 2007) | | | | Since market low (March 2009) | | | |
|----------------------------------|-------|--------|--------|-------------------------------|--------|--------|--|
| | Value | Blend | Growth | Value | Blend | Growth | |
| Large | 77.2% | 159.6% | 269.6% | 341.9% | 480.0% | 653.8% | |
| Mid | 99.2% | 141.4% | 205.8% | 408.5% | 482.5% | 606.9% | |
| Small | 58.8% | 103.6% | 152.5% | 292.8% | 391.0% | 495.8% | |

| Current P/E vs. 20-year avg. P/E | | | |
|----------------------------------|-------------|-------------|-------------|
| | Value | Blend | Growth |
| Large | 18.1 / 13.6 | 21.7 / 15.4 | 29.8 / 18.8 |
| Mid | 19.8 / 14.2 | 23.9 / 16.1 | 39.2 / 20.4 |
| Small | 27.7 / 16.5 | 55.0 / 20.7 | - / 30.1 |

| Current P/E as % of 20-year avg. P/E | | | |
|--------------------------------------|--------|--------|--------|
| | Value | Blend | Growth |
| Large | 132.9% | 140.9% | 158.5% |
| Mid | 139.3% | 148.5% | 192.2% |
| Small | 168.1% | 265.3% | - |

Source: JPMorgan Asset Management

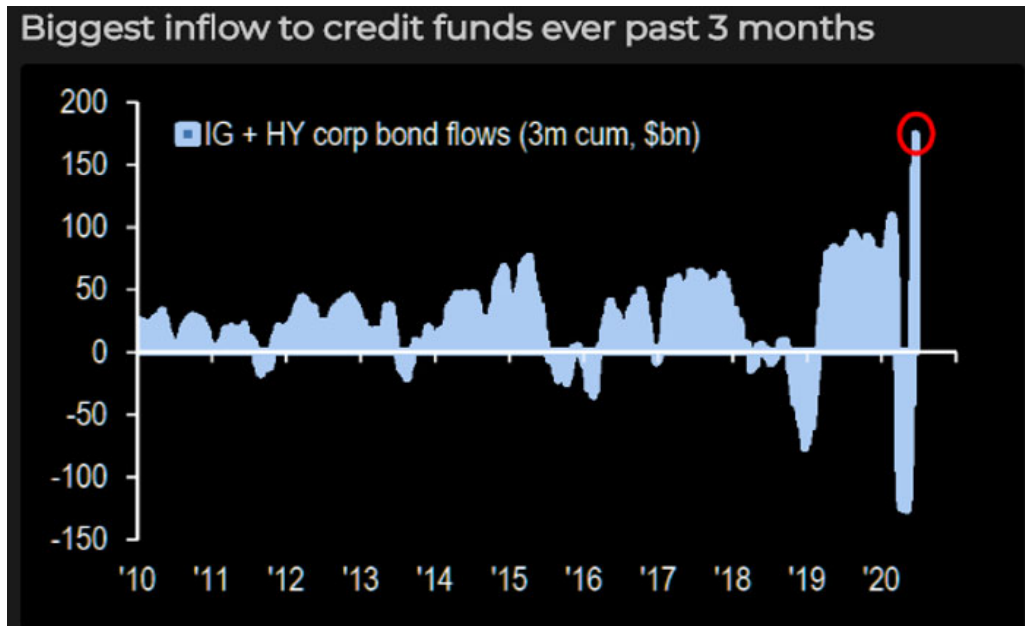
Fixed Income

- If you went to sleep at the end of Q1 and woke back up at the end of Q2, government bonds would appear on the surface to have had a boring month although there was quite a bit more to the story. Long term rates were choppy as investors saw a breakout in rates with the lower quality rally in early June given “V” recovery expectations as well as a potential uptick in inflation following suit. This was fairly quickly a fad as we moved into the end of the month / quarter we saw long term rates fall back lower on fears of a 2nd wave of COVID and less stellar recovery expectations on top of Fed intervention and potential for yield curve controls. In saying all that, we aren’t sold that there were significant structural changes within fixed income other than the Fed was buying and that pushed prices up. We continue to look for any acknowledgement of changes in future policy i.e. negative rates, yield curve control, inflation projections & Fed Fund rate changes.

| | June 2020 | QTD | YTD | 1-YR | 3-YR | 5-YR | 10-YR |
|--------------------------------|-----------|-------|--------|--------|--------|-------|-------|
| Barclays Aggregate Bond Index | 0.63% | 2.90% | 6.14% | 8.74% | 5.32% | 4.30% | 3.82% |
| Investment Grade Bonds | 2.13% | 9.72% | 6.46% | 11.63% | 7.27% | 6.55% | 5.96% |
| High-Yield Bonds | -0.59% | 7.36% | -5.10% | -1.49% | 2.54% | 3.65% | 5.67% |
| Barclays Gov't 1-5YR | 0.07% | 0.41% | 4.18% | 5.34% | 3.27% | 2.32% | 1.84% |
| Barclays Intermediate Treasury | 0.08% | 0.54% | 5.82% | 7.07% | 4.11% | 2.98% | 2.56% |
| Barclays Long-Term US Treasury | 0.13% | 0.25% | 21.20% | 25.41% | 12.04% | 9.26% | 7.74% |
| Treasury TIPS | 1.12% | 4.24% | 6.01% | 8.28% | 5.05% | 3.75% | 3.52% |
| U.S. MBS | -0.09% | 0.67% | 3.50% | 5.67% | 3.97% | 3.23% | 3.06% |

Source: Morningstar

- The most beneficial sector for Q2 with FI was corporate bonds as they rode the massive tailwind of the headlines regarding Federal Reserve purchases of individual corporate bonds and ETFs. The question is, can the returns continue?? Given the current rate environment, upside seems limited.



Source: Bank of America

- Bond Yields... the trend of lower yields continues with credit product clearly outperforming after lagging in Q1. One interesting sector is TIPs (also Precious metals) which continue to see inflows following record government intervention (money printing).

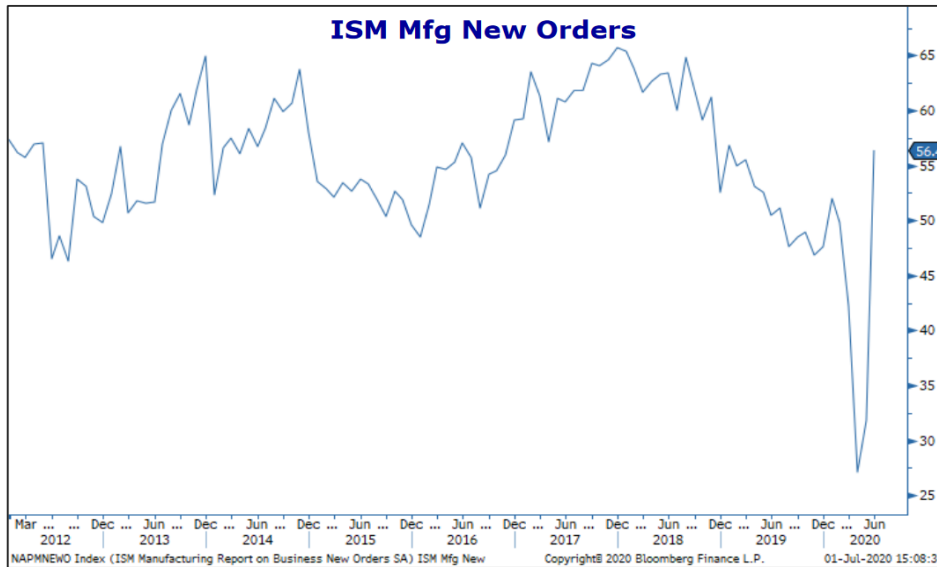
| <u>US Yields</u> | 1Q'19 | 2Q'19 | 3Q'19 | 4Q'19 | 1Q'20 | 2Q'20 | Q/Q Chg (bps) | Y/Y Chg (bps) |
|-----------------------|-------|-------|-------|-------|-------|-------|---------------|---------------|
| Fed Funds Target Rate | 2.50 | 2.50 | 2.00 | 1.75 | 0.25 | 0.25 | 0 | -225 |
| 3-Month T-Bill | 2.31 | 2.06 | 1.80 | 1.50 | 0.07 | 0.14 | 7 | -192 |
| 2-Year Note | 2.29 | 1.74 | 1.62 | 1.56 | 0.23 | 0.16 | -7 | -159 |
| 5-Year Note | 2.23 | 1.76 | 1.55 | 1.68 | 0.38 | 0.29 | -9 | -147 |
| 10-Year Bond | 2.41 | 2.00 | 1.68 | 1.91 | 0.70 | 0.65 | -4 | -135 |
| 30-Year Bond | 2.82 | 2.53 | 2.12 | 2.38 | 1.35 | 1.41 | 6 | -112 |

Source: Strategas

Economic Review

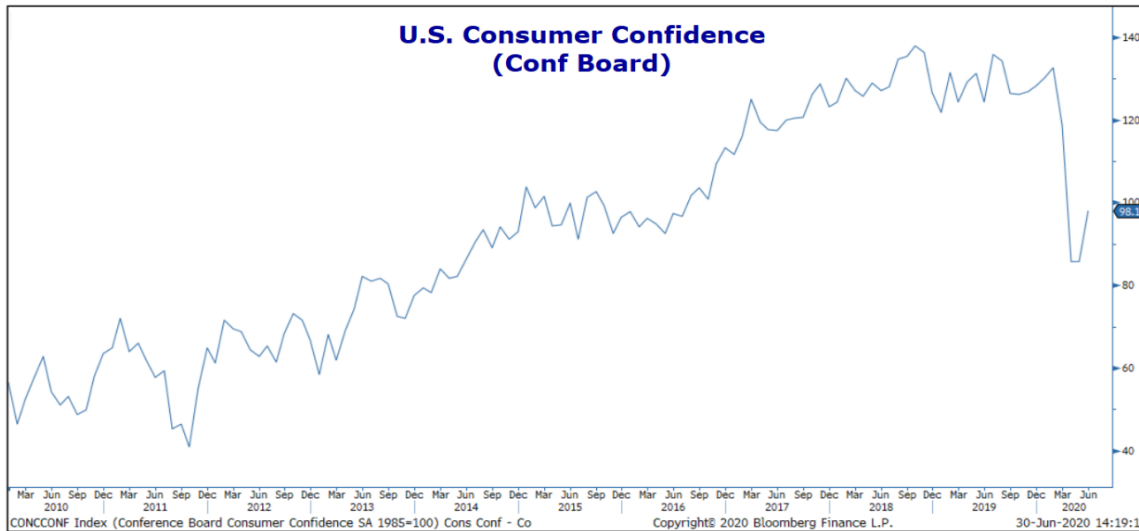
- Economic data, which lags the stock market, hit rock-bottom as expected during April and May, but early signs of a recovery began to appear. After 21 million jobs were lost in March and April, the May jobs report incredibly showed a gain of 2.5 million jobs, widely exceeding economists' estimates, who were expecting another 7.5 million of job losses. Not to mention June's jobs report adding 4.8M jobs. Retail sales saw the largest decline on record in April but increased 18% in May. To be sure, these

reports have miles to go before reclaiming their previous highs, but the latest reports were a step in the right direction.



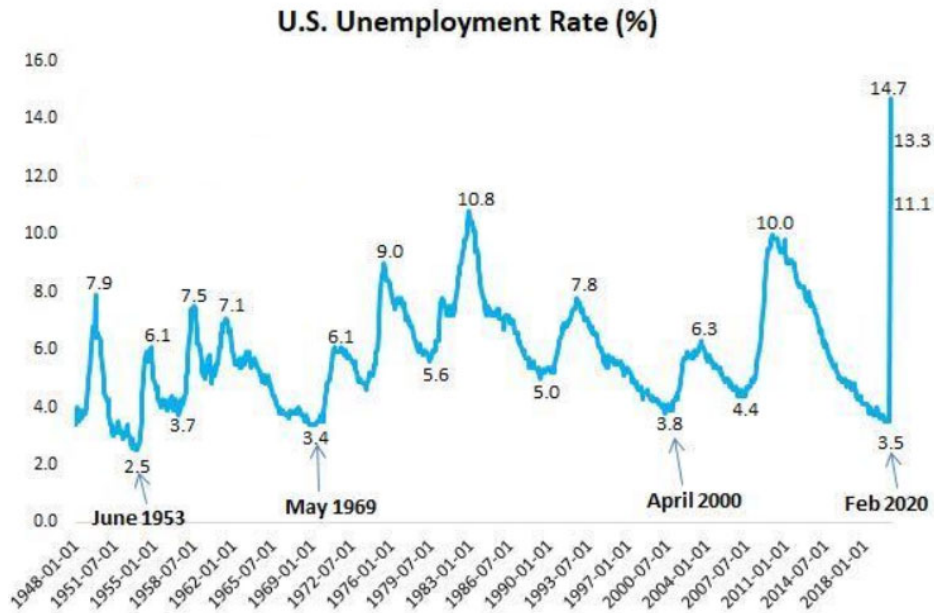
Source: Strategas

- Market confidence continues to rise, fueled by the conviction that any market weakness will be remedied by additional stimulus.



Source: Strategas

- Unemployment fell and the U.S. economy regained 4.8 million jobs in June. The job growth followed May’s payroll gain of 2.7 million and showed people were getting back to work and the economy was healing faster than anticipated. Still, the U.S. labor market is operating with about 15 million fewer jobs than in February, the month before the pandemic struck the U.S. The June unemployment rate fell to 11.1% from 13.3% in May, even though there were significantly more workers who were accurately counted as unemployed in June compared with previous surveys during the pandemic.



Source: Pension Partners

The Backdrop for the Remainder of 2020

The Good

- **Better Economic Data** - Economic data, which lags the stock market, hit rock-bottom as expected during April and May, but some early signs of a recovery have begun to appear. Just look at the jobs data.
- **Better than Anticipated Earnings** – EPS expectations will confirm the bottom and need to stabilize for multiple quarters. We have seen positive revisions to EPS expectation moving forward and the market is pricing in for earnings to fully recover by Q3 2021.
- **Government Intervention** - The lesson learned from the Financial Crisis a decade ago was the better regarding policy response, and the response from Treasury Secretary Steve Mnuchin and Fed Chair Jay Powell was swift and historic.

The Bad:

- **Understanding EPS Impacts** - We are nowhere near understanding COVID's impact to overall EPS, near or long term, but ~\$125 in EPS in 2020E EPS is where we currently stand. We could start to see this move higher, but any shutdowns put this at significant risk.
- **Inflation** – The magnitude of the policy actions used to counteract deflation may, in the end, be hugely inflationary. Higher-than-expected inflation tends to be a major headwinds to equity valuations.

The Ugly

- **Second Government Shutdown** – A second government shutdown would decimate an already fragile economy. Small businesses are the backbone of this country and any derailment of a re-open could be catastrophic.
- **Taper Tantrum of Consumer** – Fiscal support has been epically effective so far, but how do you taper it down? The \$600 unemployment checks expire on 7/31 and the PPP later in the quarter. What happens when these programs roll off? Given that the consumer accounts for 71% of total GDP, what happens if Atlas shrugs?

Disclosures

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