APTUS CAPITAL ADVISORS

MARKET RECAP – Q3 2020

- As far as the markets are concerned, we have little doubt that the strongest two-quarter rally in stocks since 2009 reflects both tremendous economic progress and a paucity of other alternatives. During our previous quarterly review, continuing unemployment claims were still about 17 million. Today, they rest at just over 11 million and falling. The sheer magnitude and speed of the fiscal and monetary response from the Federal government has gone a long way to help the economy recover. But, an increasing number of layoff announcements, along with a rapid decline in the savings rate, suggest that more fiscal aid will be needed before too long to maintain economic momentum.

	Sep. 2020	Q3 2020	YTD	1-YR	3-YR	5-YR	10-YR
S&P 500	-3.80%	8.93%	5.57%	15.15%	12.28%	14.15%	13.74%
NASDAQ	-5.16%	11.02%	24.46%	39.61%	19.79%	19.31%	16.77%
Dow Jones Industrial Average	-2.18%	8.22%	-0.91%	5.70%	9.96%	13.99%	12.67%
Russell 2000	-3.34%	4.93%	-8.69%	0.39%	1.77%	8.00%	9.85%
MSCI EAFE	-2.60%	4.80%	-7.09%	0.49%	0.62%	5.26%	4.62%
MSCI Emerging Markets	-1.60%	9.56%	-1.16%	10.54%	2.42%	8.97%	2.50%
Barclays Agg. Bond Index	-0.05%	0.62%	6.79%	6.98%	5.24%	4.18%	3.64%
Investment Grade Bonds	-0.44%	-0.82%	7.33%	8.89%	7.06%	6.47%	5.48%
High-Yield Bonds	-8.80%	4.33%	-1.00%	1.33%	2.89%	5.18%	5.28%

Source: Morningstar

- Volatility returned last month, with the S&P 500 declining 3.8% on a total return basis in September, but stocks still managed to post the best 3Q since 2010, up 8.9%. The "TINA" (there is no alternative) argument continued for stocks in Q3, as cash (flat), LT treasury bonds (+0.2%), and IG corp. bonds (-0.8%) failed to generate meaningful returns above inflation (CPI +1.4% in May-Aug). Gold rose 6.5% in Q3 and remained the best performing asset class YTD (+25%) despite a 3.6% decline in September. The cap-weighted S&P 500 led the equal-weighted index by 2.3% in Q3, boosted by a strong August (+2.7%) before reversing in September (-1.2%). The VIX Index fell 25% q/q on average in Q3 but rose 20% m/m in September.

Source: Strategas, Y-Axis: S&P Index Value

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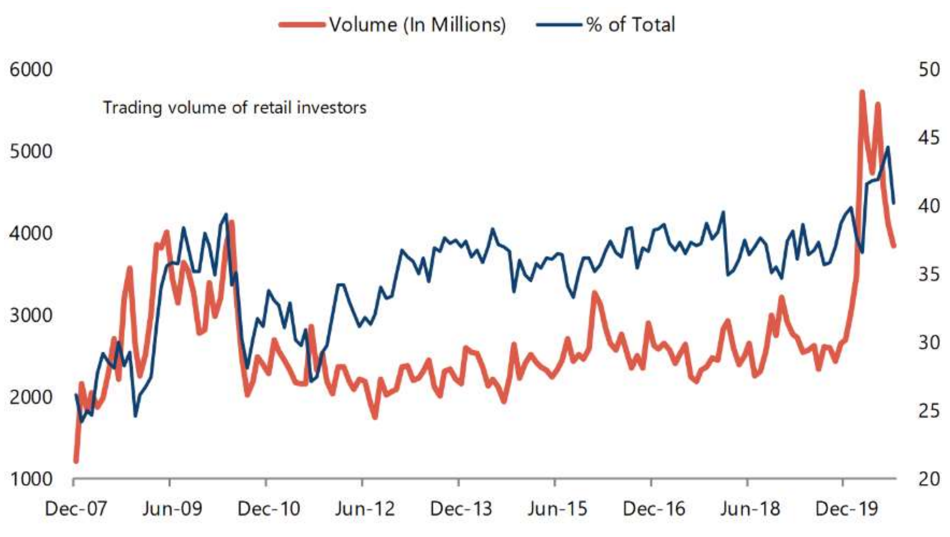
- While the market is not the economy, the market often leads the economy, and we believe the stock market's rally has been nothing short of extraordinary. The S&P 500 Index fully recovered from a bear market correction in just 126 trading days, far and away the fastest recovery in history. The crash in February-March wasn't just your garden-variety bear market either; at 34%, it was the fifth largest drawdown since World War II. Bear market recessions have taken, on average, nearly three years to reach new all-time highs. A sluggish September notwithstanding, the S&P 500 enters October with a positive return for the year.

Source: WSJ

- As of the end of Q3 2020, retail investors make up about 40% of trading volume, up from 25% not long ago.

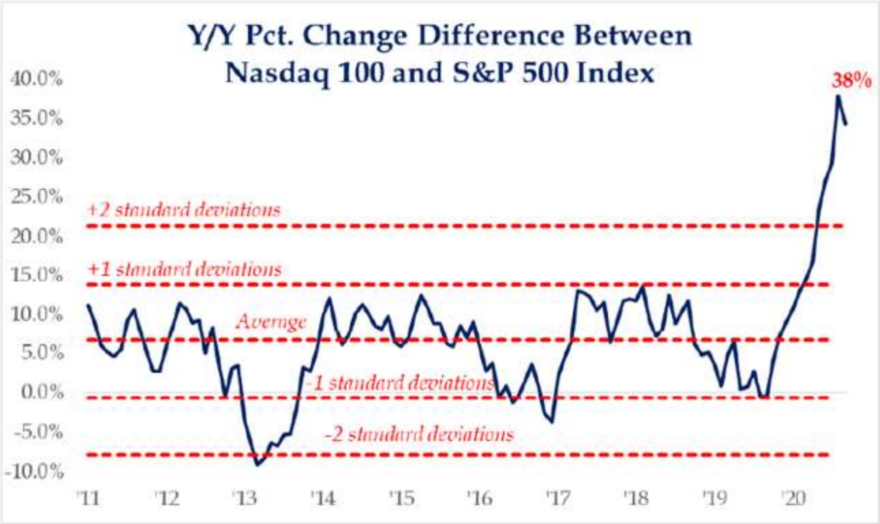


Source: CBOE; Dan Fannon and Team; Jefferies.

- 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 23% of the S&P 500 market cap, exceeding the 18% concentration level reached during the dot-com bubble. Before the Technology carnage that occurred in September, we saw this figure hit a whopping 24%. 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, much like what we have seen this year.

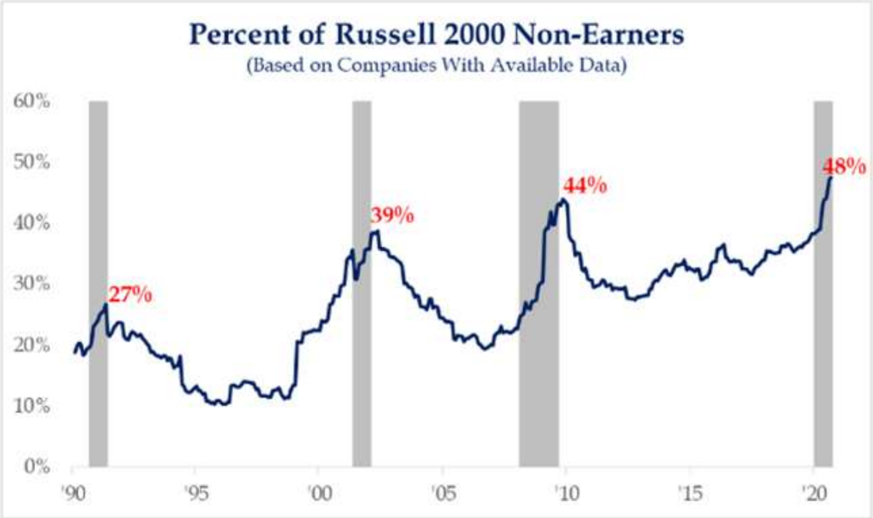
Source: Strategas, As of 9/30/2020

- This makes sense, as the NASDAQ 100, which its constituents include all of the top 5 largest weights in the S&P 500, has had a parabolic move compared to the S&P 500 Index.



Source: Strategas, As of 9/30/2020

- The percentage of unprofitable small-cap companies at the end of September reached 48%, which we view as the most astounding number based on history going back to 1990. From an industry group standpoint, Pharmaceuticals and Biotech make up more than a third of the overall small-cap non-earners with Health Care Equipment a distant second with just over 10% of overall small-cap non-earners.



Source: Strategas, As of 9/30/2020

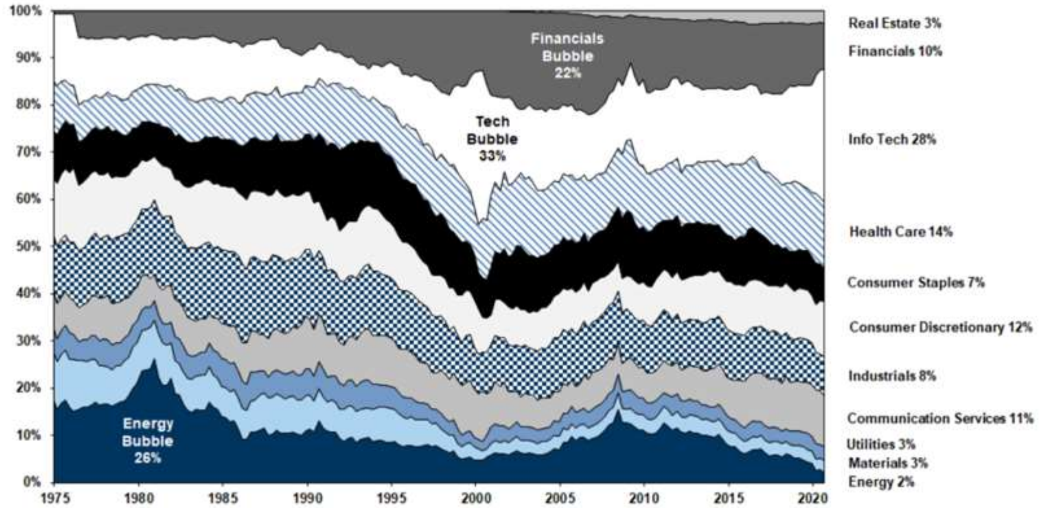
- From our perspective, this year has been all about market cap. As of 9/30/2020, YTD returns are very market cap-biased with the top 25 market caps returning 47% YTD, stocks 26-1000 generally up single digits, stocks 1001-2000 down 2% and the smallest 1,000 down ~24% on average.

Median Valuations by Size Cohort In Russell 3000

Size Rank	Mkt Cap	P/E	P/S	P/FCF	P/B	ROE	2020 EPS Growth	YTD Returns
1-25	353,040	38	7	39	7	27%	3%	47%
26-50	158,507	27	5	33	5	22%	4%	8%
51-100	84,159	27	4	31	6	17%	1%	9%
101-150	54,957	23	4	26	5	15%	2%	16%
151-200	36,247	28	4	37	5	16%	-5%	18%
201-250	27,946	28	3	32	4	12%	1%	8%
251-300	23,891	27	4	32	3	10%	1%	7%
301-350	19,678	25	5	31	5	16%	-6%	25%
351-400	15,692	26	3	28	4	14%	-2%	9%
450-499	13,625	28	4	32	4	13%	-6%	16%
450-500	1,098	19	2	18	2	12%	-4%	4%
501-1000	5,444	23	3	22	3	9%	-15%	-4%
1001-2000	1,497	19	2	18	2	7%	-20%	-2%
2001-3000	254	14	1	10	1	0%	-31%	-24%

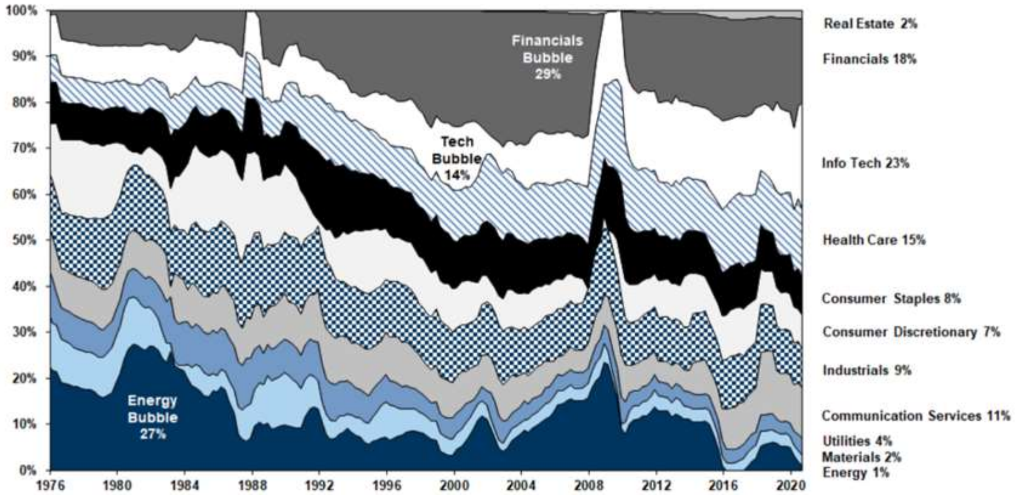
Source: Raymond James, As of 9/30/2020

- From our analysis, sector capitalization of the S&P 500 has shifted significantly over time. Financials was only the third sector since 1975 to represent 20% of the market capitalization of the S&P 500. However, Financials' share of the S&P 500 market cap declined from 22% to as low as 9% in early March 2009. Today, Financials' makes up 10% of S&P 500 market cap. Change over time reflects both evolving industry fundamentals and the shifting composition of the S&P 500 Index constituents.



Source: Goldman Sachs, As of 9/30/2020

- Index weighting has not always correlated with the proportionate contribution to net income. At the peak of the tech bubble, Information Technology never generated more than 14% of the S&P 500's earnings. The profit contribution from Info Tech increased over the past few years and the sector now accounts for 23% of S&P 500 net income.

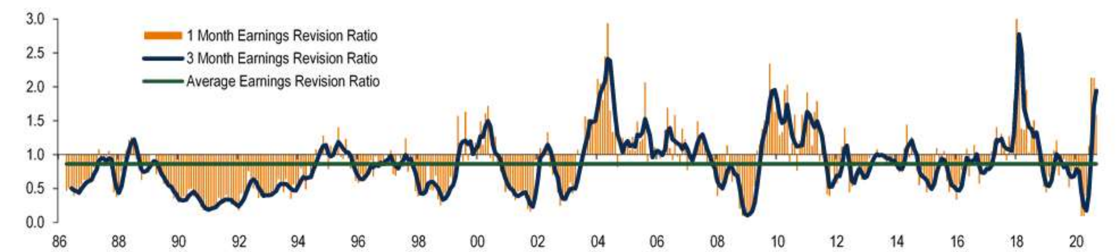


Source: Goldman Sachs, As of 9/30/2020

- The progression of quarterly consensus EPS estimates showed that the second quarter was the trough in cycle earnings. We do not believe it is unreasonable to believe this is possible since Q3 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, general expectations are for a full recovery in earnings by Q3 ’21, as you see earnings revisions being very positive.

Source: Strategas

Chart 1: S&P 500 Earnings Estimate Revision Ratio as of 9/20



Source: BofA US Equity and Quantitative Strategy, I/B/E/S

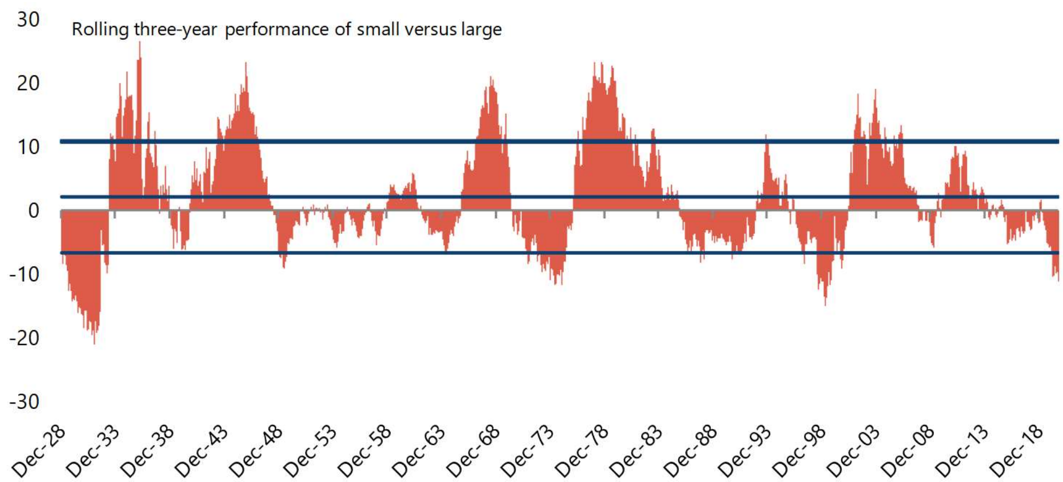
Asset Classes

- 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 could be considered crazy; we see building a structure that minimizes the drag of large losers as far more realistic. From our perspective, 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 through the first two quarters in 2020. We believe a proactive plan to manage those periods can be the difference between meeting future spending needs or adjusting them.

																2005 - 2019	
2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	Ann.	Vol.
EM Equity 34.5%	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 6.8%	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%	Large Cap 5.6%	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 25.5%	Cash 0.5%	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. -0.1%	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 -0.6%	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 26.5%	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 -0.9%	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 -6.7%	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 -8.7%	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%	Comdty. -12.1%	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%	REITs -12.3%	Comdty. -2.6%	Cash 1.0%

Source: JPMorgan Asset Management

- Small caps' underperformance of past 3 years back to levels not seen since August '99.



Source: Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

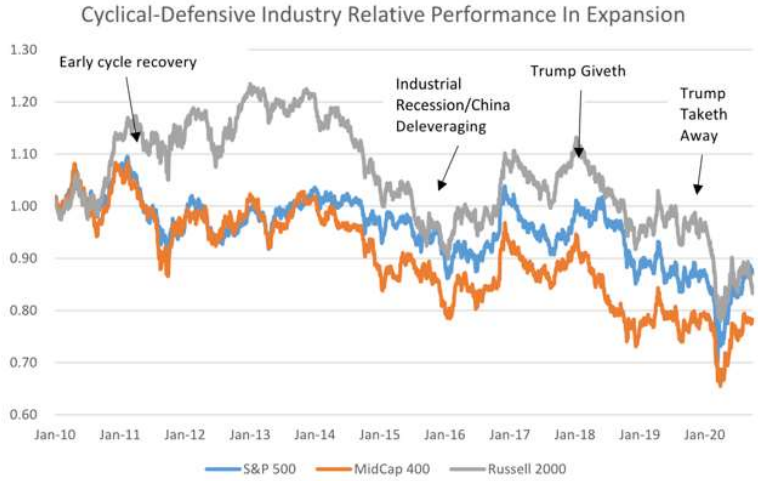
Equity Sectors

- The S&P 500 posted an all-time high of 3,580 on September 2nd (+16% QTD), but finished the quarter at 3,363 (+9%, +6% YTD) as elevated uncertainty around the election and the vaccine weighed on the equity market over the last few weeks. During Q3, Information Technology (+12%) relinquished its index leadership, as cyclical sectors like Consumer Discretionary (+15%), Materials (+13%), and Industrials (+13%) led the S&P 500. Energy (-20%) reversed its strong Q2 performance as concerns around demand kept oil prices range bound. FAAMG returned +14% in the quarter and made up 23% of the S&P 500 and 37% of the Russell 1000 Growth by market cap at quarter-end.

S&P 500 Sectors (Total Return)	2Q'19	3Q'19	4Q'19	2019	1Q'20	2Q'20	3Q'20 (sorted)	YTD
Discretionary	5.3%	0.5%	4.5%	27.9%	-19.3%	32.9%	15.1%	23.4%
Materials	6.3%	-0.1%	6.4%	24.6%	-26.1%	26.0%	13.3%	5.5%
Industrials	3.6%	1.0%	5.5%	29.4%	-27.0%	17.0%	12.5%	-4.0%
Technology	6.1%	3.3%	14.4%	50.3%	-11.9%	30.5%	12.0%	28.7%
Staples	3.7%	6.1%	3.5%	27.6%	-12.7%	8.1%	10.4%	4.1%
Communication Services	4.5%	2.2%	9.0%	32.7%	-17.0%	20.0%	8.9%	8.6%
S&P 500 Total Return	**4.3%**	**1.7%**	**9.1%**	**31.5%**	**-19.6%**	**20.5%**	**8.9%**	**5.6%**
Utilities	3.5%	9.3%	0.8%	26.3%	-13.5%	2.7%	6.1%	-5.7%
Health Care	1.4%	-2.2%	14.4%	20.8%	-12.7%	13.6%	5.9%	5.0%
Financials	8.0%	2.0%	10.5%	32.1%	-31.9%	12.2%	4.4%	-20.2%
Real Estate	2.5%	7.7%	-0.5%	29.0%	-19.2%	13.2%	1.9%	-6.8%
Energy	-2.8%	-6.3%	5.5%	11.8%	-50.5%	30.5%	-19.7%	-48.1%

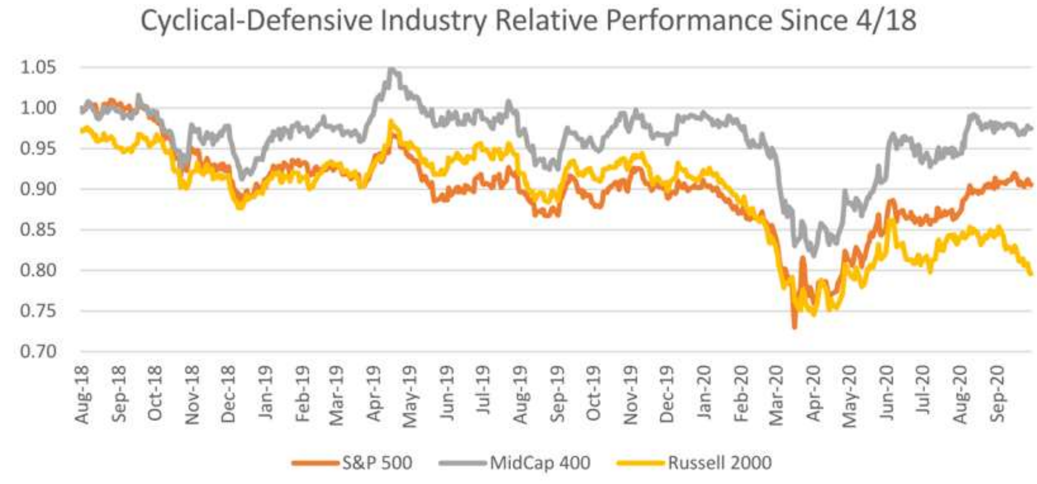
Source: Strategas

- From our view, the rotation from Defensives back to Cyclicals has been impressive since March, but over the long run, we'd expect much larger outperformance as investors become convinced a recovery is sustainable. Cyclical industries have generally outperformed defensive industries in this recovery (which is what we believe should be happening in an economic recovery), but performance was generally trend-less in the modest September pull back. In over the last decade, cyclical industries largely outperformed defensive industries from the beginning of the recovery until early 2011. Then, cyclical and defensive performance was reasonably similar until mid-2014 (China deleveraging, oil crash, etc.). Since mid/late 2014, we believe that investors have been convinced we are "late cycle," and generally we've seen defensive industries outperform cyclical industries.



Source: Raymond James

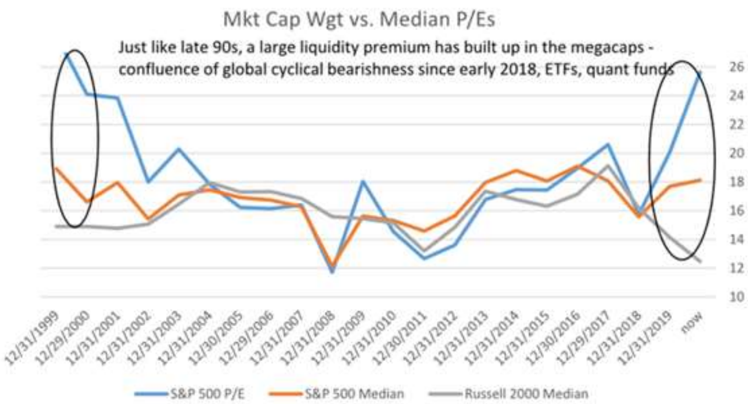
- On a more near-term basis, we view the recovery rally in cyclicals as essentially back to pre-COVID levels in Large/Mid Cap, and near a complete reversal in Small Caps, but still a long way from even on early 2018 levels. If we look at cyclical vs. defensive performance since the trade war with China took a more serious tone (we use April 1, 2018, as the start date), we see cyclical industry underperformance for all indexes. This was exacerbated by the economic impact of COVID-19. The rally since March has allowed cyclical industries to regain most if not all of their underperformance in 1Q20 (except for small).



Source: Raymond James

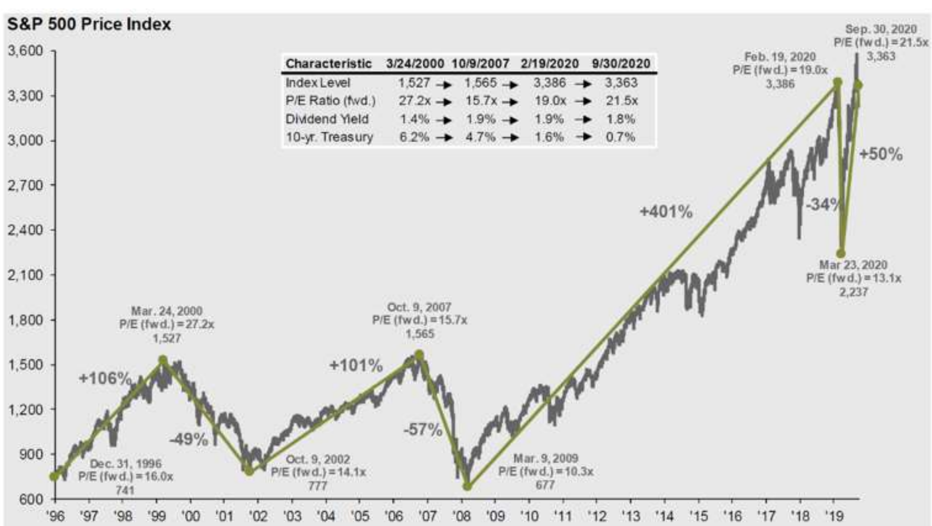
Equity Valuations

- The S&P 500 is considered historically expensive, but the median stock remains inexpensive in our view, assuming we continue to recover economically - the S&P 500 index finished September at ~26x 2020E EPS, very near historic highs, and remarkably similar to the post 9/11 market. However, just like in 1999-2002, valuation breadth is also historic, and while the median S&P 500 stock is slightly above its 20-year median, it is still well below the index P/E, while the Russell 2000 median P/E (ex-negative/low earners) is at ~13x, which is similar to levels seen in the GFC. What we are seeing now in terms of valuation differentials based on size is as extreme as levels seen in the late 1990s.



Source: Raymond James, As of 9/30/2020

- With interest rates in the US near the "effective lower bound of zero", investors have been focused on finding the "upper bound" of equity valuation multiples. The 10-year US Treasury yield stands at 0.75% today, just 25 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.

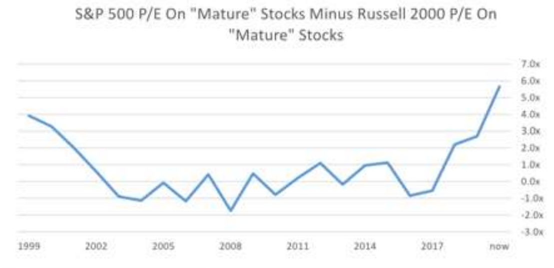


Source: JPMorgan Asset Management

- Given the significant change in the composition of the S&P 500 it trades at all all-time high relative to sales – we believe keeping top-line growth in-line with price gains won't be easy.

Source: Strategas, As of 9/30/2020

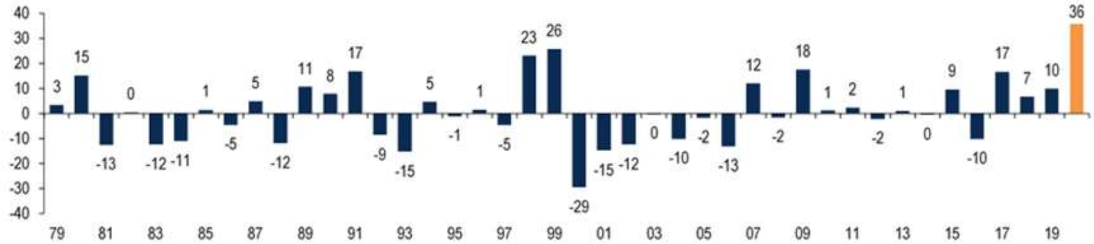
- We believe the outperformance of S&P 500 stocks has created a meaningful P/E premium for the median company in each index, after stripping out companies for which earnings are not a relevant valuation metric (a large portion of the Russell 2000). As of 9/30/2020, the P/E premium for large cap companies relative to small caps has not been this extreme in the past 20 years and is even larger than what was seen in the late 1990s "tech bubble." Furthermore, the median Russell 2000 stock is considered very inexpensive from our point of view. (about the same as GFC).



Source: Raymond James, As of 9/30/2020

Equity Styles

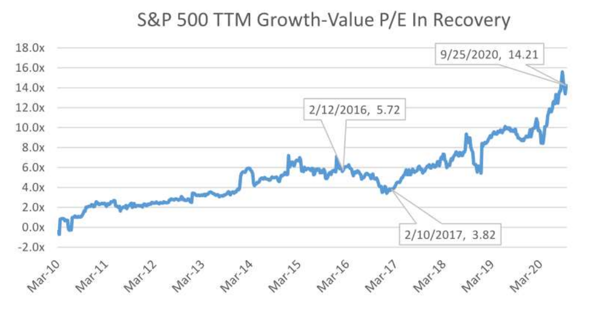
- Although September marked a reversal in Value vs. Growth, the Russell 1000 Growth Index (+24.3%) is still leading the Value index (-11.6%) by 36% YTD, the highest annual spread in history.



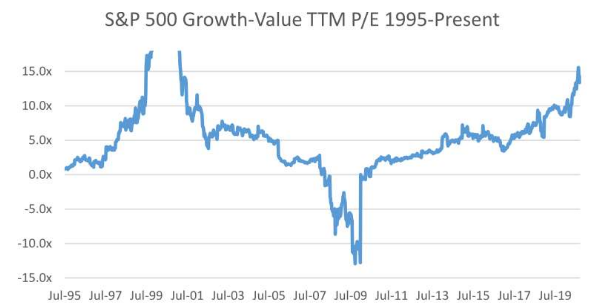
Source: BofA US Equity and Quantitative Strategy, Bloomberg

As of 9/30/2020

- P/E differentials between Growth and Value remain on an upward trajectory of increasing growth P/E premiums – in a 1999/2000 re-run. If we look at the P/E of the S&P 500 growth index minus the P/E of the value index, we see that there has been a very consistent upwardly ticking P/E premium attributed to growth throughout this recovery. During the crisis, growth has only expanded its P/E premium over value. This will end at some point, and we suspect a reversion as in the post-tech bubble market.

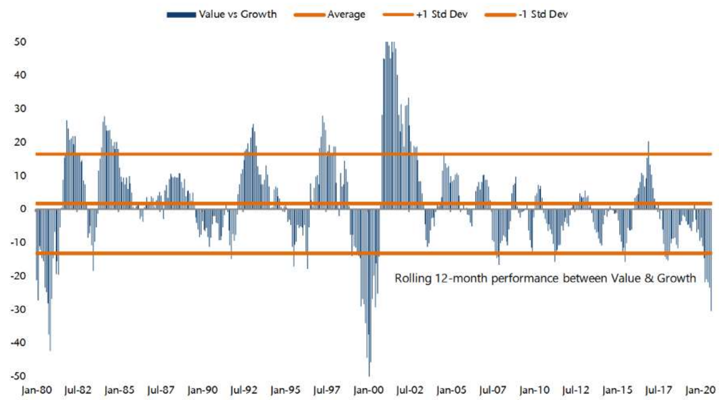


Source: Bloomberg and Raymond James research



Source: Bloomberg and Raymond James research

- Value beats Growth – rolling 12-month difference is now over 30%, last seen in March 2000.



Source: FactSet; FTSE Russell; Jefferies

Fixed Income

- The story of the quarter was the steepening yield curve – which investors and analysts alike have been looking for the long end of the yield curve to reaffirm the economy is starting to poke its head out of the COVID-induced recession. The yield curve has historically always steepened coming out of recessions. The past three months nearly all parts of the yield curve are at their steepest level in quite a while.

	Sep. 2020	Q3 2020	YTD	1-YR	3-YR	5-YR	10-YR
Barclays Aggregate Bond Index	-0.05%	0.62%	6.79%	6.98%	5.24%	4.18%	3.64%
Investment Grade Bonds	-0.44%	-0.82%	7.33%	8.89%	7.06%	6.47%	5.48%
High-Yield Bonds	-8.80%	4.33%	-1.00%	1.33%	2.89%	5.18%	5.28%
Barclays Gov't 1-5YR	0.03%	0.14%	4.33%	4.68%	3.22%	2.21%	1.72%
Barclays Intermediate Treasury	0.07%	0.19%	6.02%	6.03%	4.06%	2.77%	2.34%
Barclays Long-Term US Treasury	0.38%	0.12%	21.35%	16.34%	11.87%	8.21%	7.21%
Treasury TIPS	-0.37%	3.03%	9.22%	10.08%	5.79%	4.61%	3.57%
U.S. MBS	-0.11%	0.11%	3.62%	4.36%	3.68%	2.98%	3.01%

Source: Morningstar

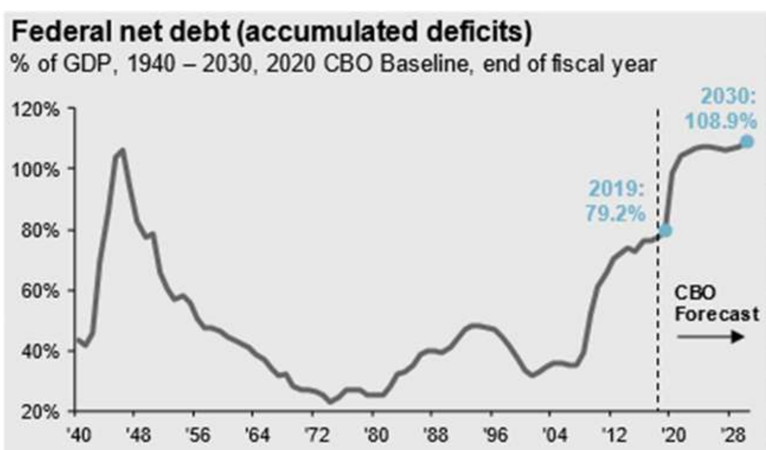
- The Fed has indicated their intent to run inflation over their previous 2% threshold (during the August meeting) with the goal of running inflation mildly above 2% to makes up for less price inflation coming out of the GFC. Do higher inflation expectations point towards more upward movement on the long end of the curve OR will rates be somewhat topped out due to the debt predicament we are in?

CBO's Baseline economic assumptions

	2020	'21-'22	'23-'24	'25-'30
Real GDP growth	-3.8%	2.4%	2.2%	2.2%
10-year Treasury	1.1%	0.9%	1.4%	2.6%
Headline inflation (CPI)	1.4%	1.3%	2.2%	2.2%
Unemployment	8.8%	8.2%	6.4%	4.9%

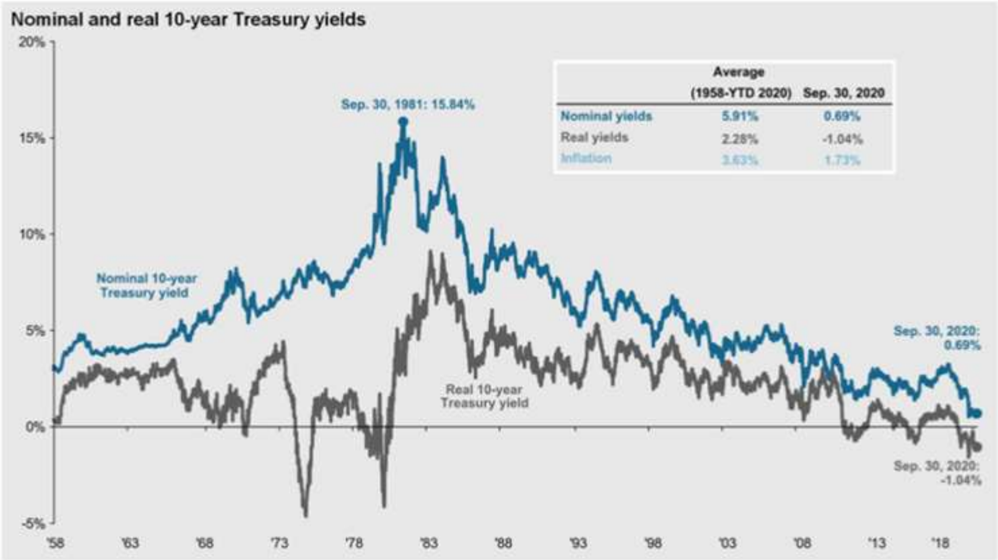
Source: JPMorgan Asset Management, As of 9/30/2020

- The Federal net debt as a % of GDP is near the historic levels seen after WWII. Given the debt load, how much can rates go up before the U.S. is forced to refinance at higher levels?



Source: JPMorgan Asset Management

- On the other hand, unless the Fed continues to buy like the have been, who can fill the void and buy Treasuries at these levels, real rates are -1.04% on the 10-year Treasury.

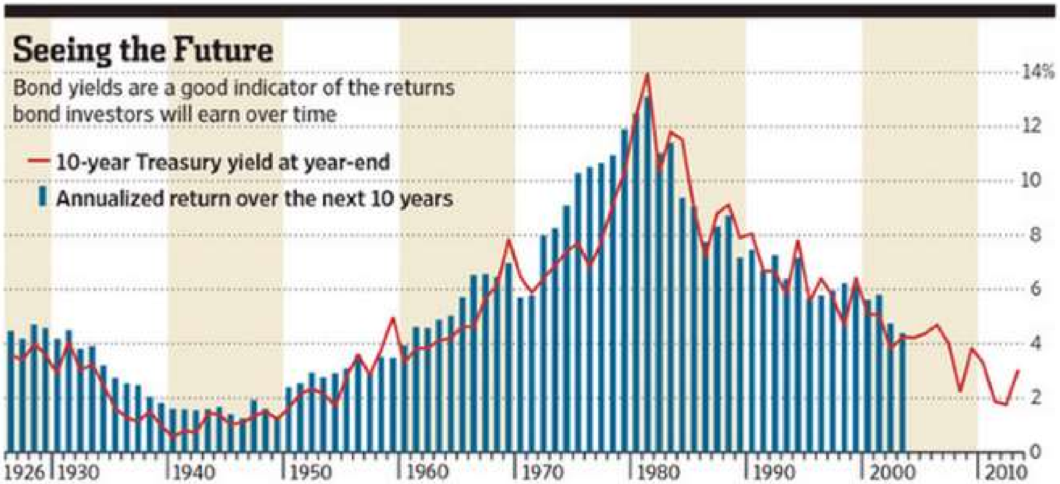


Source: JPMorgan Asset Management, As of 9/30/2020

- The quality and duration of the credit universe - ~49.1% of the investment grade corporate debt outstanding is Baa rated, meaningfully higher than during the GFC. In addition, duration of debt outstanding continues to lengthen as corporations have taken advantage of lower interest rates, locking in lower rates and extending duration.

Source: JPMorgan Asset Management, As of 9/30/2020

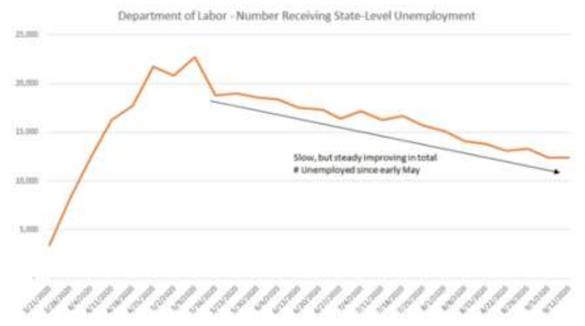
- Moving forward, we view bond's current yields as a generally good predictor of future returns. The 30-year Treasury bond now yields 1.6%, we believe that's a fair estimate for what it will earn over the next few decades. This low yield comes saddled with high interest rate risk. For example, if a 30-year bond's yield rose from 1.6% to 3.6% its price would *fall 37%.*



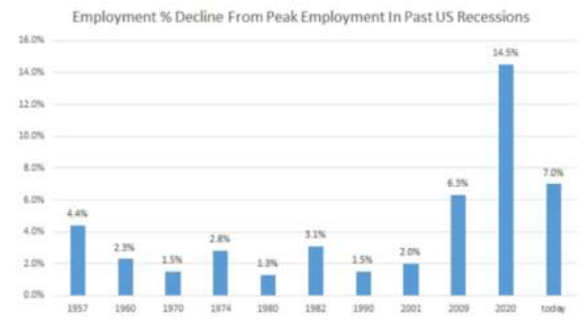
Source: Wall Street Journal

Economic Review

- Job gains in September were a little disappointing to us, but consistent with continued progress. U.S. employment levels are now 7.0% below prior peak levels (Feb.) vs. 14.5% below peak levels in April. We believe that is meaningful progress, but the 7.0% "below peak" level is still worse than the worst of the GFC at 6.3% (and weakest since at least the Great Depression). Ultimately, the degree to which jobs can continue to improve through the winter before a vaccine is deployed in masse is a real question mark, but the more fiscal support given to the unemployed, the more the economy can continue its recovery even with historically high unemployment levels.



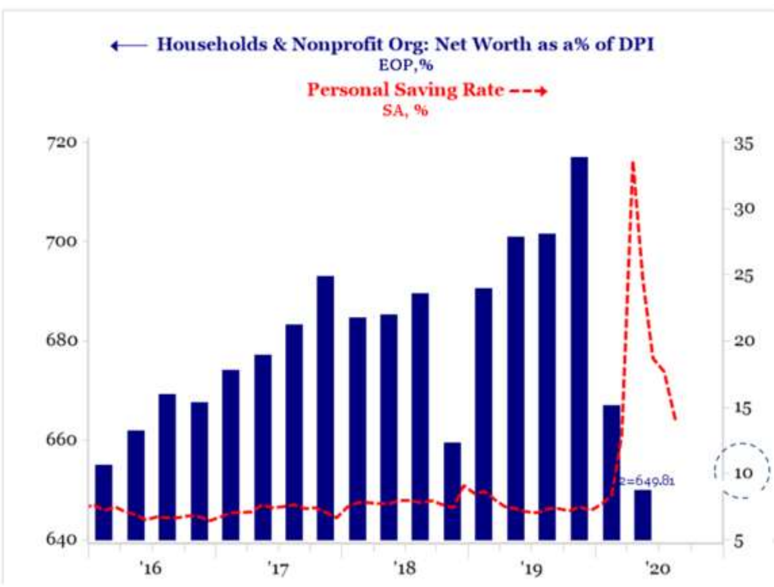
Source: Department of Labor, Raymond James research



Source: St. Louis Federal Reserve, Raymond James research

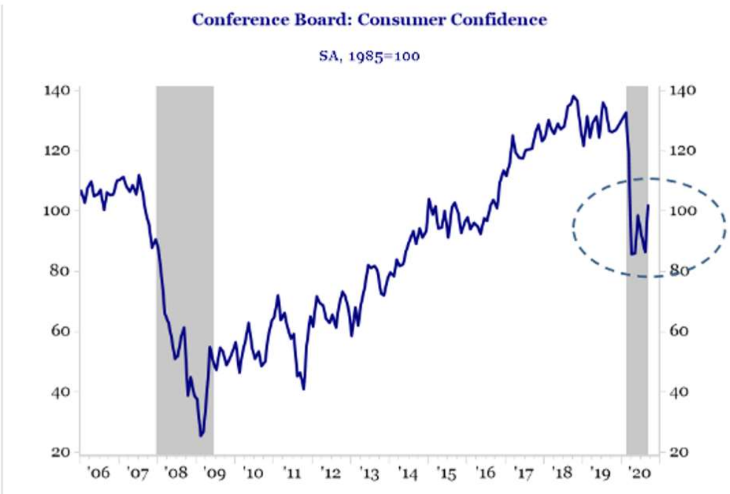
As of 9/30/2020

- Bottom line, we believe patchwork stimulus and personal saving cushions are carrying the U.S. economy at the moment. Against a global backdrop where other durable recoveries look to be taking hold (e.g., China), base case remains one of economic growth, despite the slow movement in D.C. for additional funding & second-wave virus concerns in Europe. We believe Q4 could possibly see a notable slowdown, but the playbook exists to counter this (i.e., more fiscal stimulus in size)



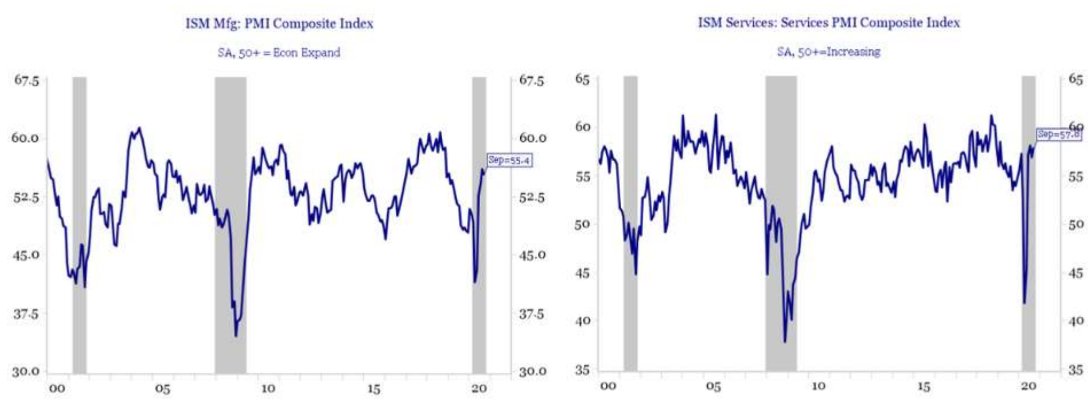
Source: Bureau of Economic Analysis, Strategas, As of 9/30/2020

- U.S. consumer confidence increased in September with the survey rising to 101.8. Both the present situation & expectations components improved. With consumer spending making up 67% of U.S. GDP, this matters to us. Confidence is not back to pre-COVID levels, but the direction is up.



Source: The Conference Board Strategas

- Four months of growth led by the U.S., Germany, and the U.K. have supported a "V-shaped recovery". Fourteen of the 18 surveys we follow grew at an average PMI of 56.3 in September, up from 54.2 in August. The remaining four surveys contracted at a 46.6 average in September: Mexico (42.1), Japan (47.7), South Korea (49.8), and Australia (46.7). We view new orders and production indexes as trending in the right direction and are positioned to support continued expansion. We believe lagging employment numbers will add significantly to all global indexes when re-openings progress and confidence recovers. The JPM Chase Global Index has trended upward since April with Q3 above the historical average. Overall, we believe economic data for manufacturing and services activity point to a continuing recovery.



Source: Institute for Supply Management, Strategas

The Backdrop for the Remainder of 2020

The Good

- ***Better Economic Data*** - Economic data, which lags the stock market, hit rock-bottom as we expected during April and May, but early signs of a recovery have begun to appear. Just look at the jobs data.
- ***Better than Anticipated Earnings*** – We believe the EPS expectations will confirm the bottom and need to stabilize for multiple quarters. We have seen positive revisions to EPS expectation moving forward and believe 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 bigger 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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The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 11.2 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 4.6 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. To be eligible for inclusion in the Index, the security's U.S. listing must be exclusively on The Nasdaq Stock Market (unless the security was dually listed on another U.S. market prior to January 1, 2004 and has continuously maintained such listing). The security types eligible for the Index include common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

*The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries*around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries. With 1,387 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The iShares iBoxx $ Investment Grade Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, investment grade corporate bonds. The iShares iBoxx $ High Yield Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, high yield corporate bonds.

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