

Economic & Market Outlook

March 5, 2020

Presented by

Benjamin A. Pace, III
Chief Investment Officer

Jim Lebenthal
Chief Equity Strategist

Tom Cohn
Partner

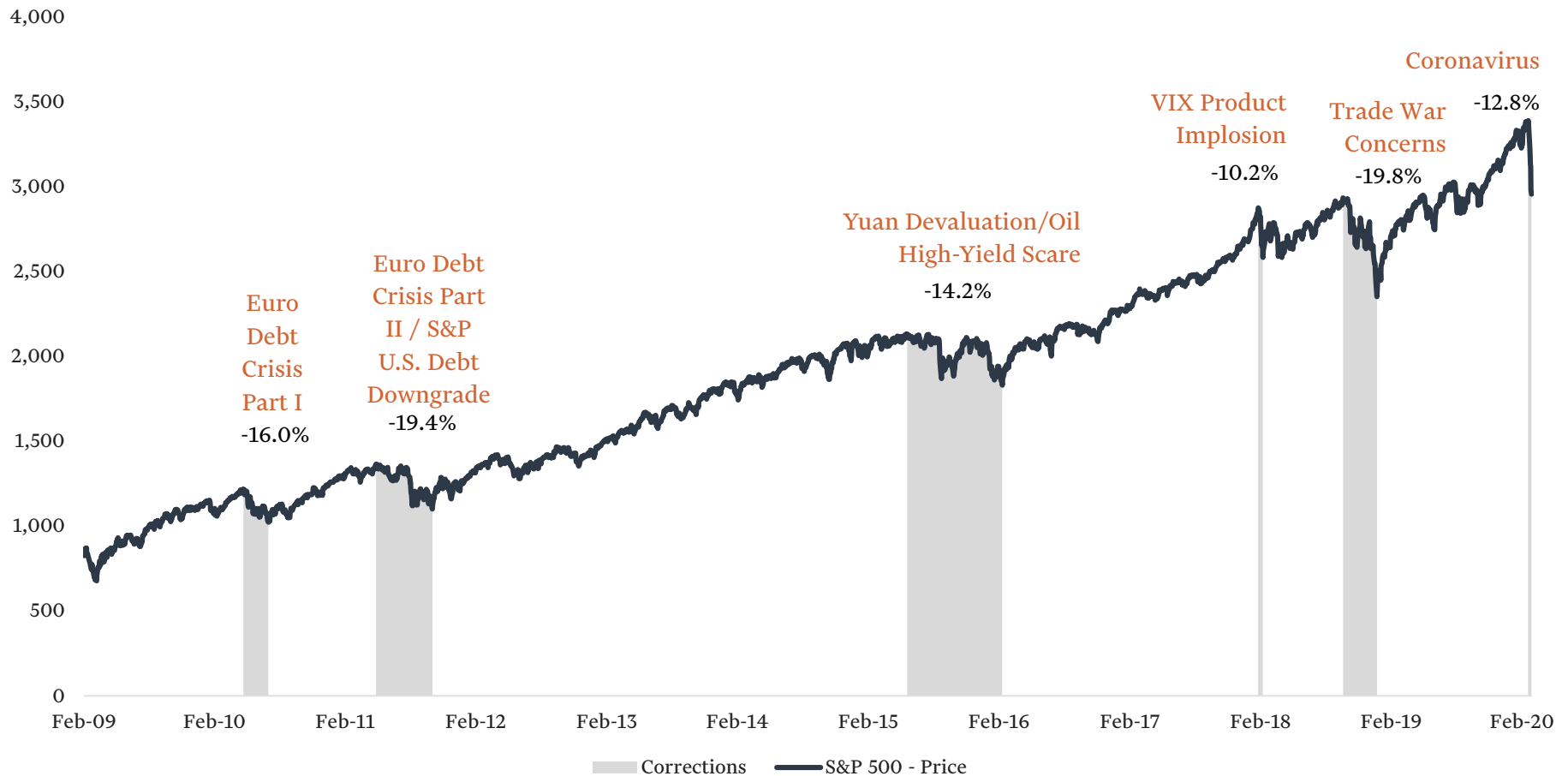
Key Points

1. Coronavirus has slowed global growth, expect a U-shaped recovery
2. No recession in the U.S.
3. Europe and Asia may dip into a recession
4. Lowered expectations for interest rates
5. Focusing on asset allocation for the long term with potential tactical tilts

The Current Correction – Been There Before

The recent sell-off reflects a downgrading of global growth due to the impact of the coronavirus, but we expect business earnings to recover in the back half of 2020.

S&P 500

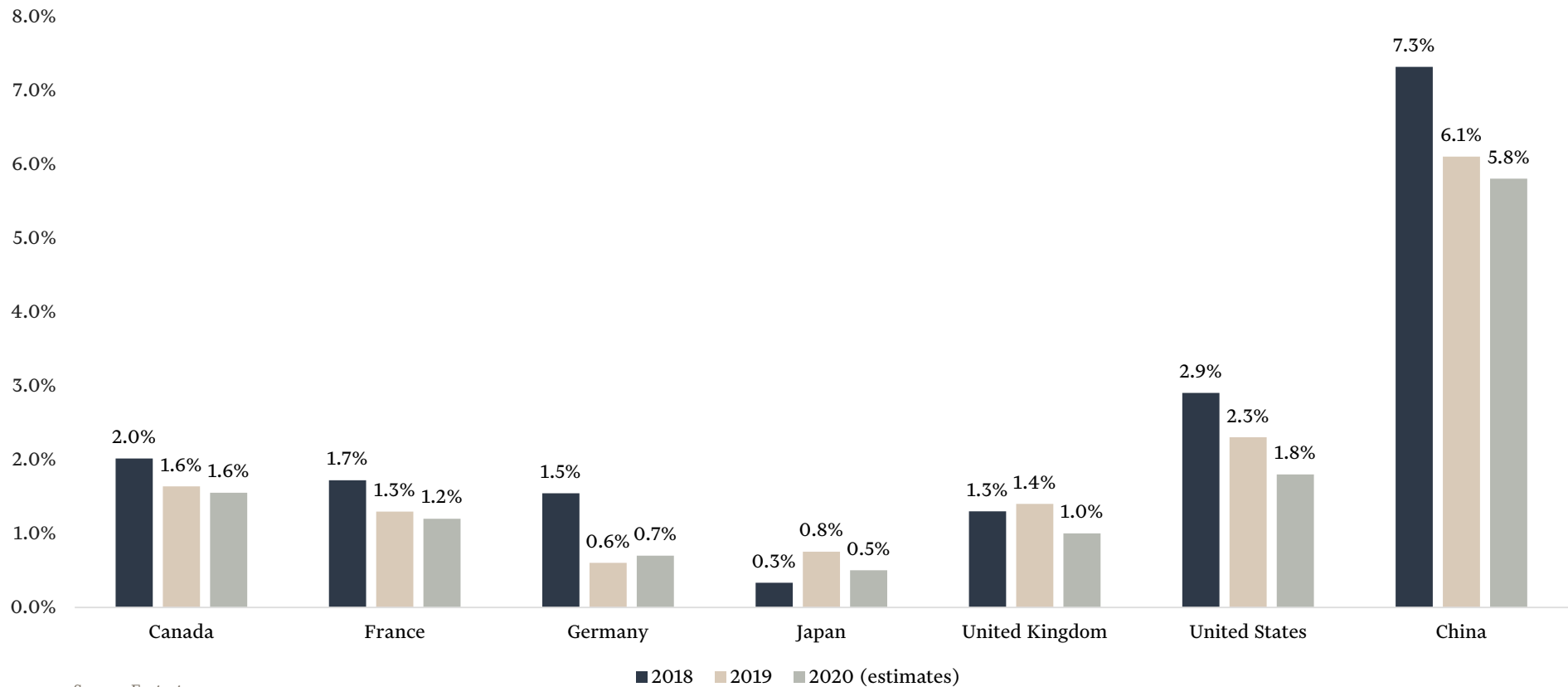


Source: IMF, Factset

Global Growth Estimates Coming Down

Analysts have lowered their 2020 economic forecasts to reflect the expected demand and supply slowdowns in Q1 and Q2.

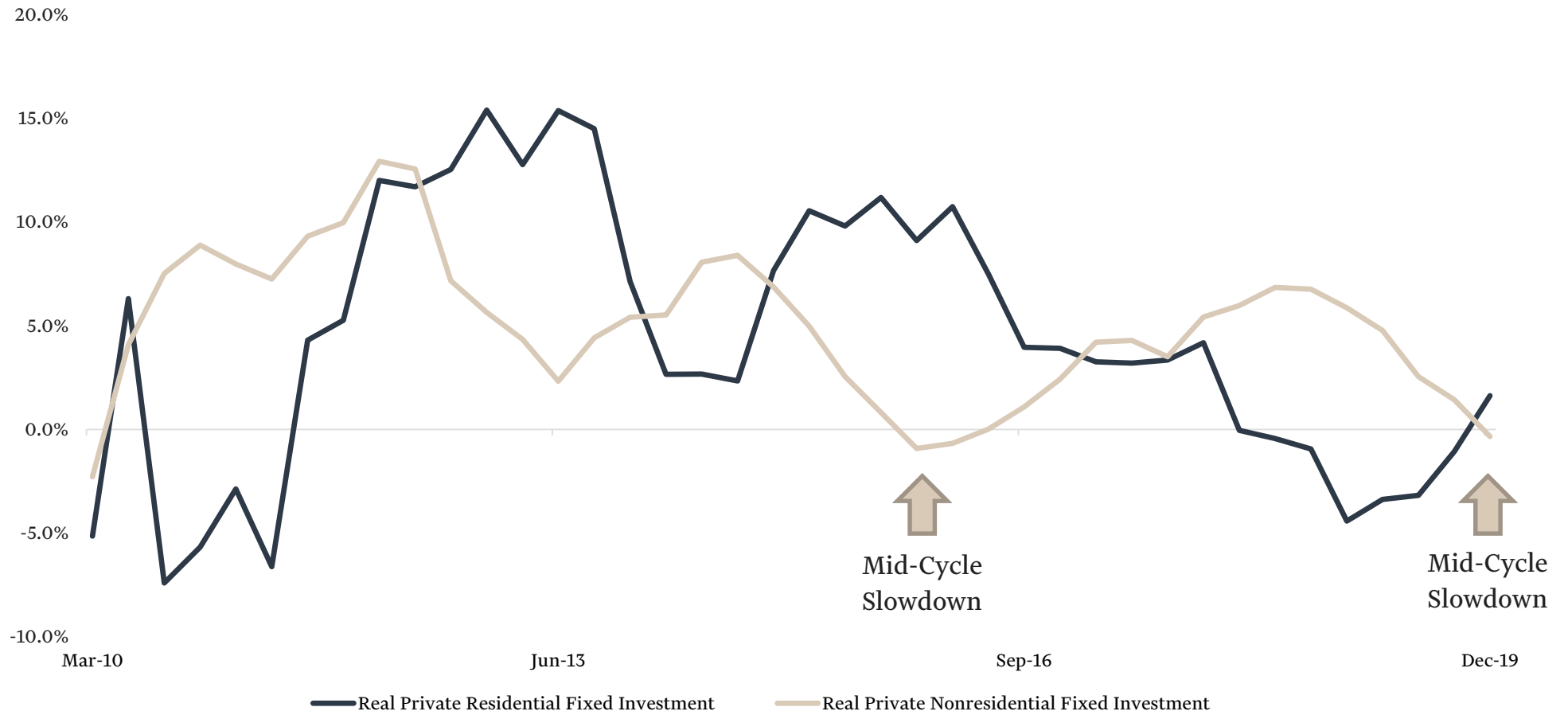
Major Economy Real Growth Rates



No U.S. Recession in 2020

Another mid-cycle slowdown driven by a reduction in capital expenditures

Real Investment Growth

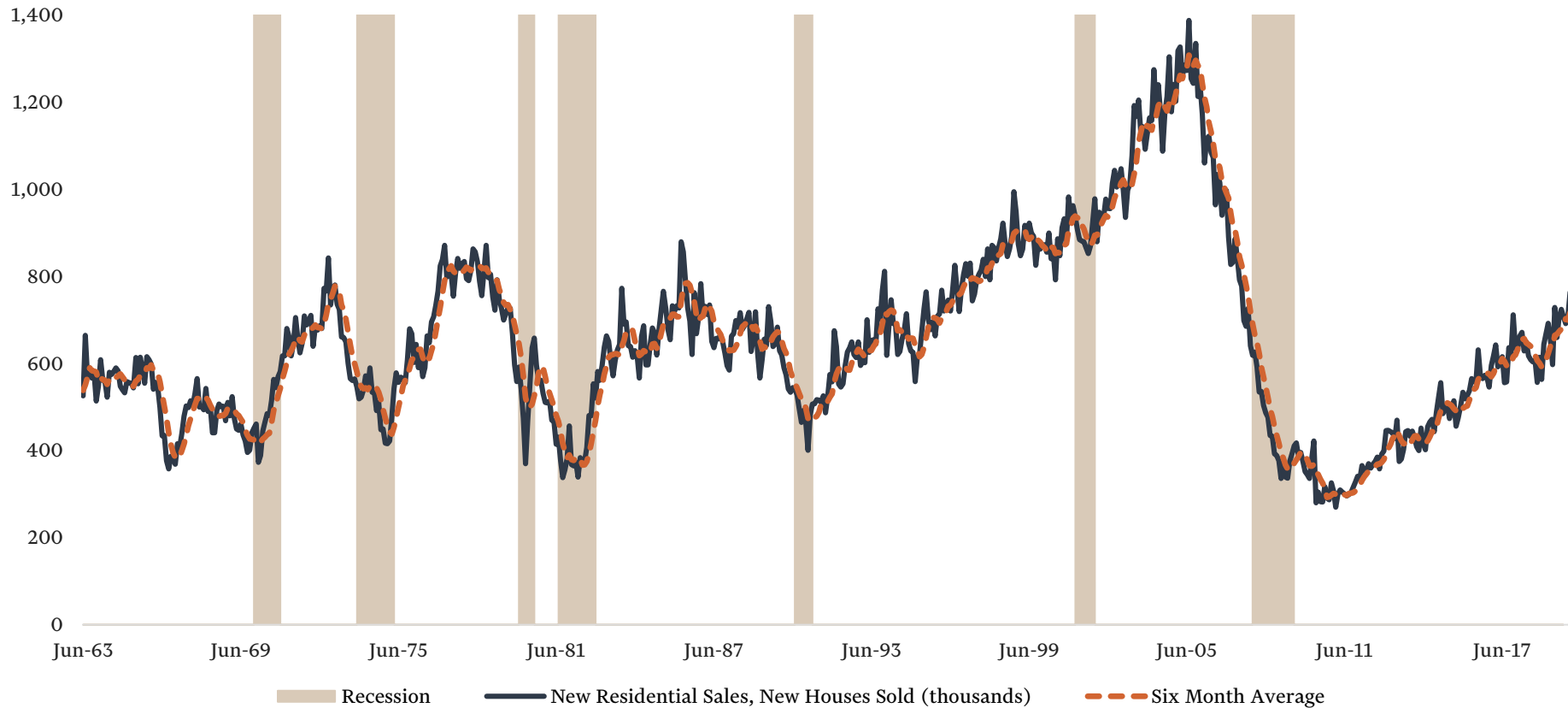


Source: Factset

Housing Market Rebound

Looser monetary policy is already flowing through to the housing market.

Housing Market Still Recovering

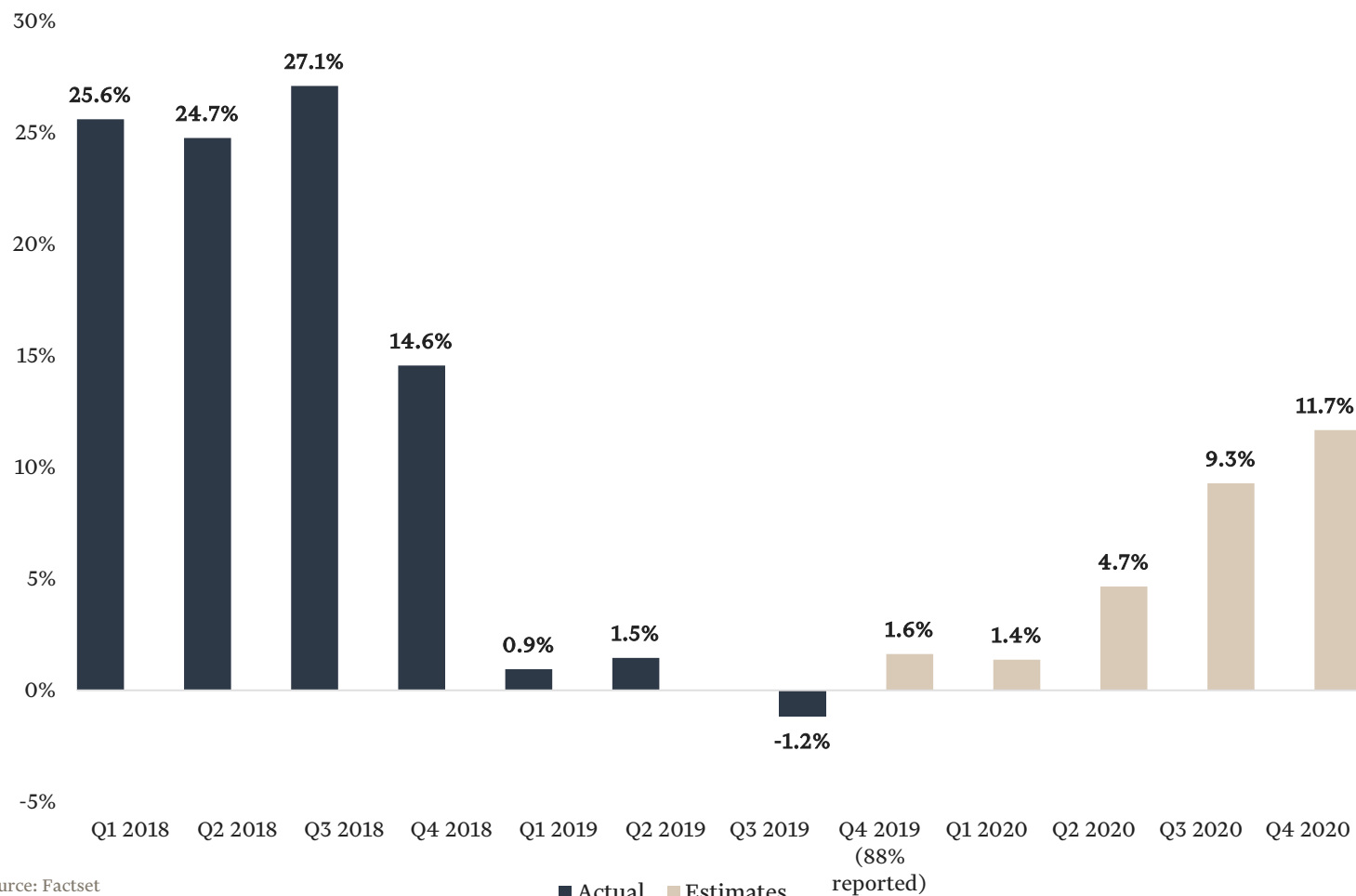


Source: Factset

Flat Earnings for 2020

Expect further cuts in the estimates for Q1 and Q2 earnings, followed by a U-shaped recovery in Q3 and Q4.

Factset Quarterly S&P 500 Operating Earnings per Share Growth Rates



Source: Factset

Economic Data Has Yet to Reflect the Coming Slowdown

China's February economic data offers a glimpse into the decline in fundamentals that should hit the rest of Asia and Europe in March and April.

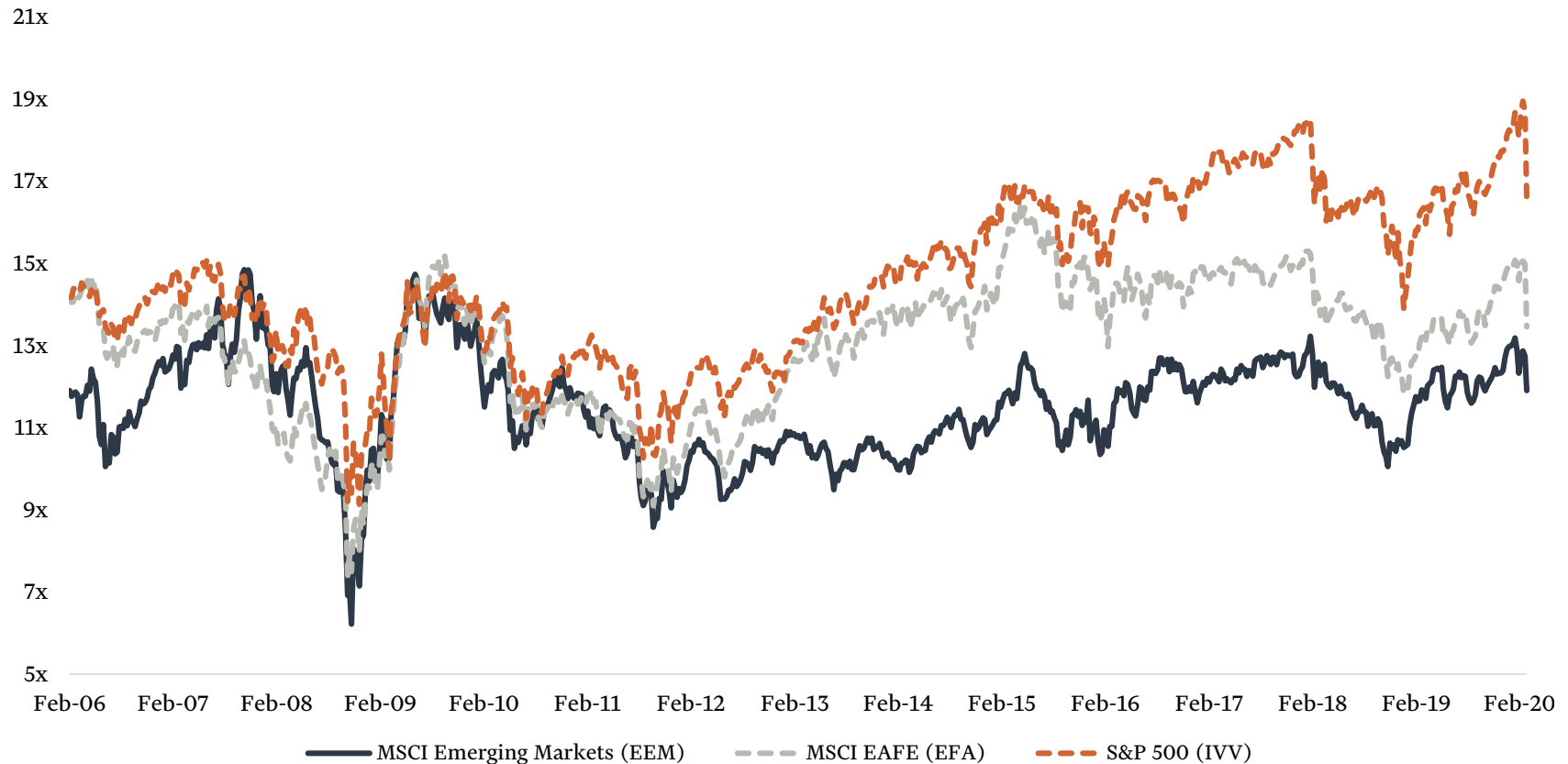
Manufacturing PMIs	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
World	50.5	50.4	49.8	49.4	49.3	49.5	49.8	49.9	50.3	50.1	50.4	47.2
United States	52.4	52.6	50.5	50.6	50.4	50.3	51.1	51.3	52.6	52.4	51.9	50.7
Brazil	52.8	51.5	50.2	51.0	49.9	52.5	53.4	52.2	52.9	50.2	51.0	52.3
Canada	50.5	49.7	49.1	49.2	50.2	49.1	51.0	51.2	51.4	50.4	50.6	51.8
Mexico	49.8	50.1	50.0	49.2	49.8	49.0	49.1	50.4	48.0	47.1	49.0	50.0
China	50.8	50.2	50.2	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	40.3
India	52.6	51.8	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5
Japan	49.2	50.2	49.8	49.3	49.4	49.3	48.9	48.4	48.9	48.4	48.8	47.8
South Korea	48.8	50.2	48.4	47.5	47.3	49.0	48.0	48.4	49.4	50.1	49.8	48.7
France	49.7	50.0	50.6	51.9	49.7	51.1	50.1	50.7	51.7	50.4	51.1	49.8
Germany	44.1	44.4	44.3	45.0	43.2	43.5	41.7	42.1	44.1	43.7	45.3	48.0
Italy	47.4	49.1	49.7	48.4	48.5	48.7	47.8	47.7	47.6	46.2	48.9	48.7
Spain	50.9	51.8	50.1	47.9	48.2	48.8	47.7	46.8	47.5	47.4	48.5	50.4
United Kingdom	55.1	53.1	49.4	48.0	48.0	47.4	48.3	49.6	48.9	47.5	50.0	51.7
Russia	52.8	51.8	49.8	48.6	49.3	49.1	46.3	47.2	45.6	47.5	47.9	48.2

Source: Factset

Valuations Gap Provides Cushion

While European and Asian growth rates may turn negative during 2020, cheaper valuations may provide a buffer for equity investors.

P/E Ratios (Next 12 Months)



Source: Factset

Lowering Our Forecast for Rates

With the off-cycle 0.50% (50 basis points) cut in the Fed Funds rate, we have lowered our forecast for rates in 2020.

10-Year Treasury Note Yield

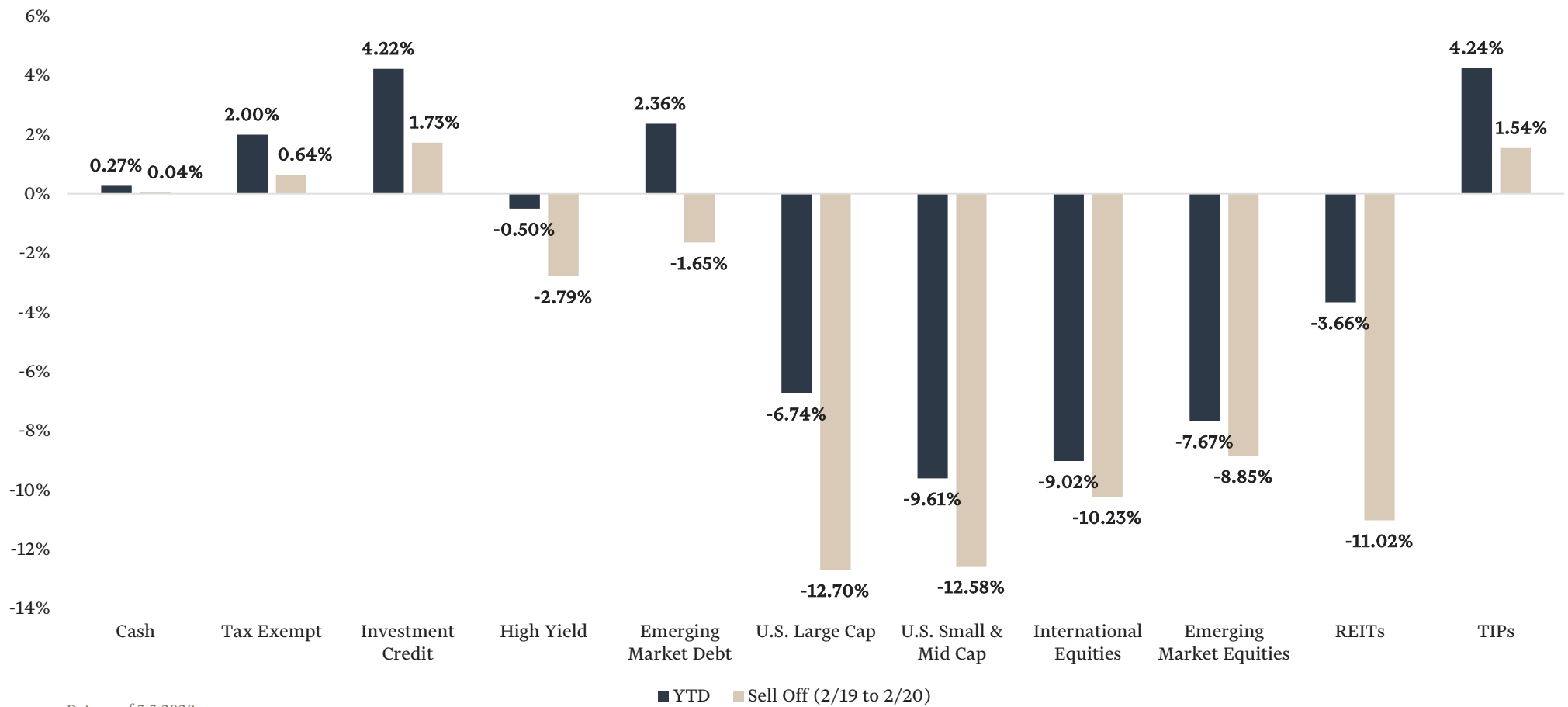


Source: Factset

Asset Class Performance During the Sell-Off

Diversification worked.

Asset Class Performance



Data as of 3.3.2020
Source: Factset

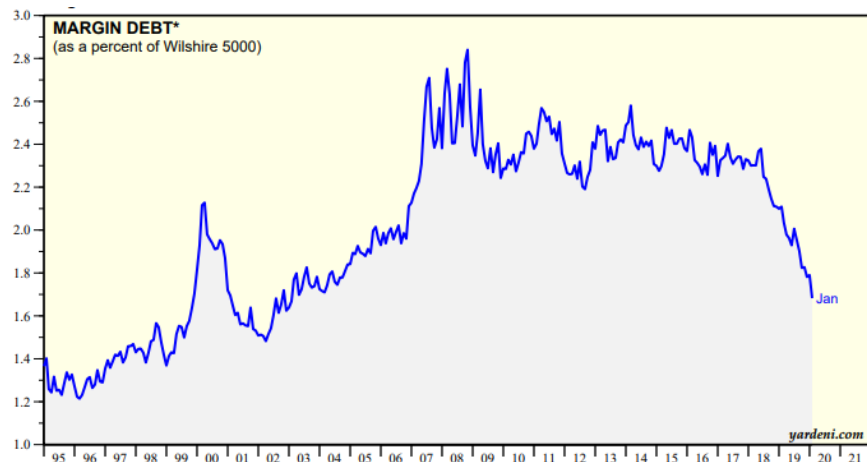
What are Stock Market Conditions Telling Us?

Things to watch

- Equity mutual fund and ETF flows
- Investor sentiment
- Volatility indices
- Technical factors: Short-Term Trading Index (TRIN), Relative Strength Index (RSI), put-call ratios
- Margin debt levels

No Euphoria Preceding the Downturn

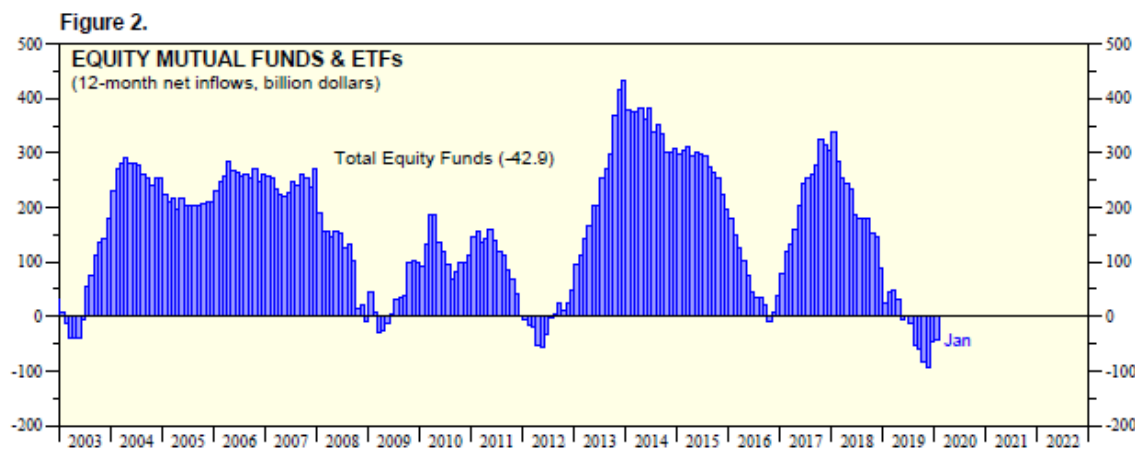
Conditions were not euphoric prior to this downturn.



* Debit balances in margin accounts at broker/dealers.
Source: New York Stock Exchange through December 1996, FINRA thereafter, and Haver Analytics.

Source: Yardeni Research, Morningstar Direct

Equity Funds Yearly Flows



The Market Multiple

Lower rates should act as a tailwind for market multiples if growth concerns dissipate.

S&P 500 Forward P/E Ratio



Source: Factset

All Eyes on Credit

High-yield spreads have widened, but there are few signs of distress outside of the energy sector.

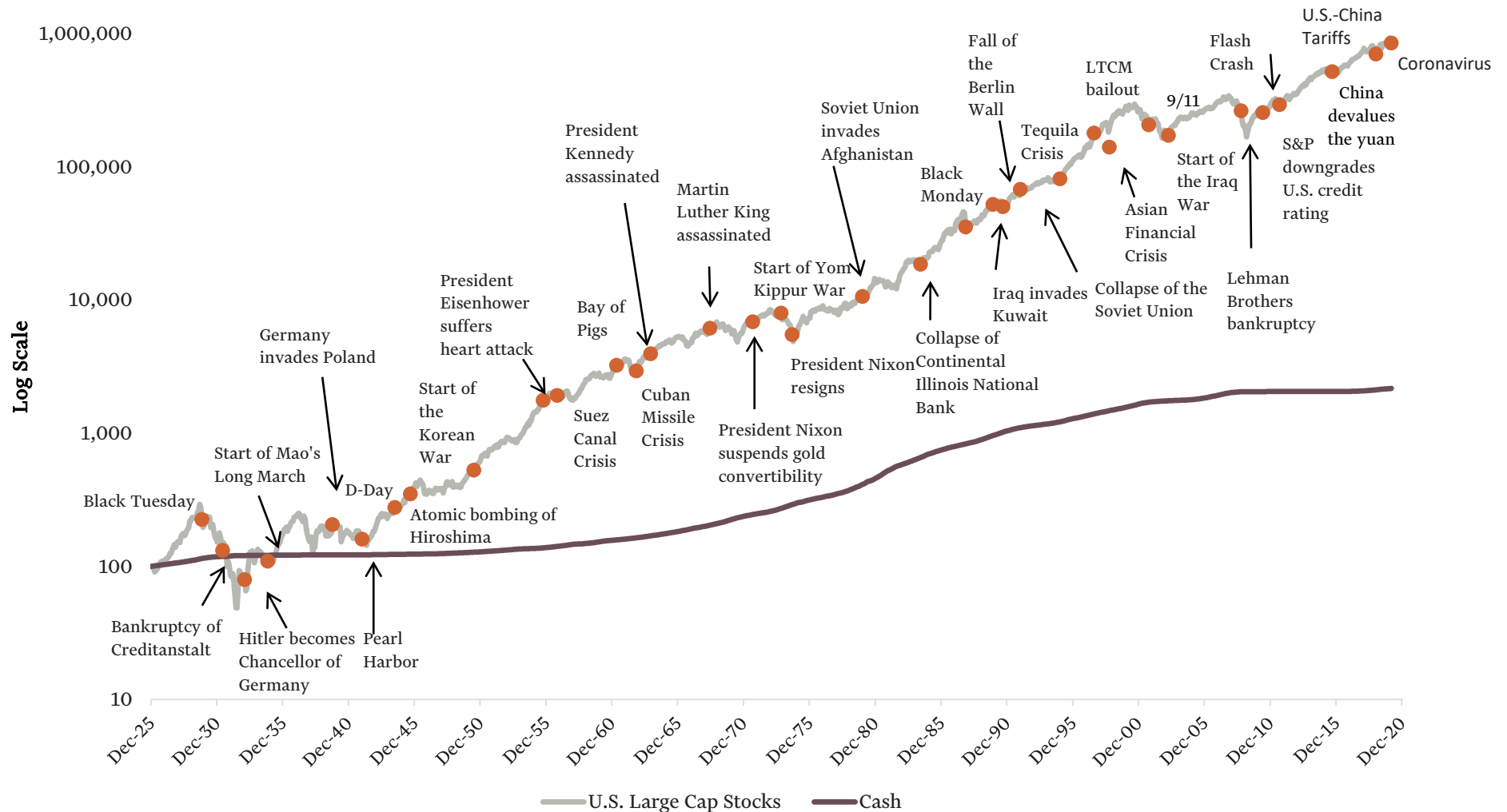
U.S. High-Yield Credit Spreads



Source: Factset

Focus on Asset Allocation for the Long Term

Risk and concerns have and will always exist.



Source: Factset

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