CHIEF INVESTMENT OFFICE

Investment Insights

The Great Convergence

May 2020

The opinions are those of the author(s) and subject to change.

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Data as of 5/25/2020 and subject to change.

After the release of the Chief Investment Office (CIO) Insights on The Great Separation, April 2020, and The Great Acceleration, May 2020, comes CIO's The Great Convergence. As we outlined within The Great Separation phases, the Workout Process—the accelerating shift in work, leisure, learning and other activities—is where diverging forces like economic shutdown and economic re-opening, market declines and advancements converge. It's also where Wall Street (the financial markets) and Main Street (the real economy) intersect.

We see five main points at the heart of The Great Convergence:

- unprecedented fiscal and monetary stimulus and support:
- negative real rates;
- a lack of growth and yield worldwide;
- multiple phases of the Workout Process; and,
- the acceleration of innovation and technology.

At this point in the convergence, the market has already begun "separating" the areas of resiliency or growth (technology, healthcare, stay-at-home businesses, take-out, etc.) from the areas most affected by the shutdown and the extended physical distancing environments (hotels, airlines and travel, salons, movie theaters, cruise lines, restaurants, etc.). In addition, this "central point" appears to have fast-tracked wide-reaching adjustments to business models, not to mention daily life changes.

As the economies begin to re-open, we expect various types of recoveries to unfold depending on the segment of the overall economy and industry groups involved. Therefore, no one particular letter shape is likely to characterize the type of recovery path that ultimately unfolds. Importantly, we see the consumer beginning to stabilize and exhibiting signs of life as public sector stimulus filters down to households and small businesses. In our opinion, the path of consumer confidence and spending should be the main driver of both the speed and density of the economic recovery.

Moreover, the market path and/or shape is most likely going to continue taking its cue from the consumer, the momentum of the re-openings, and news regarding virus treatments and vaccine related information. To this point, we expect the market recovery to experience a "square root" shape (Exhibit 5) as it continues to develop in the coming months and through 2021 prior to the New Frontier unfolding.

We present our thinking behind The Great Convergence in the following charts.

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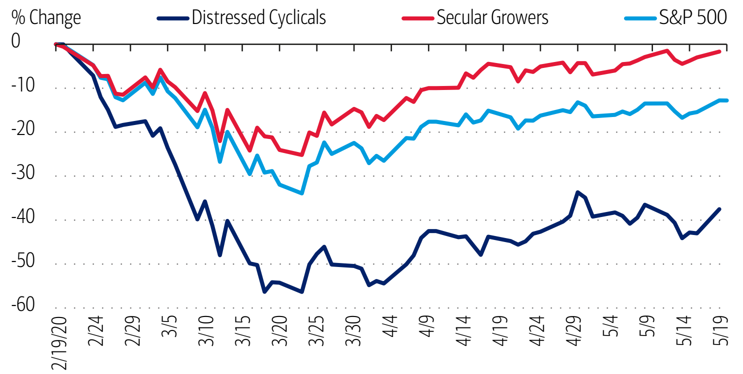
Exhibit 1: Distressed Cyclicals[1] vs. Secular Growers[2]



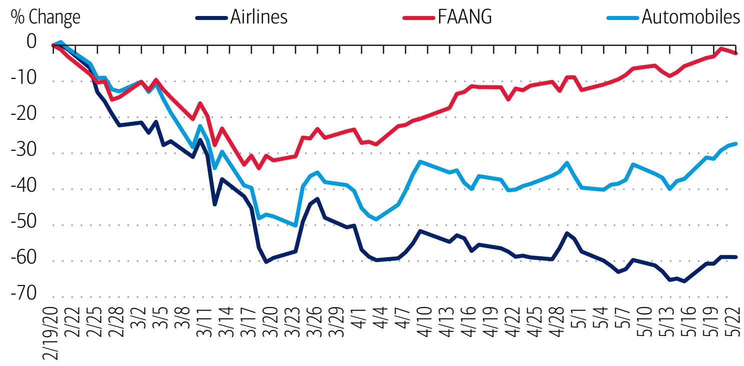
Indexed to February 19, 2020. Source: Bloomberg as of May 19, 2020. Distressed and Secular indexes listed in source 1 and 2. **Past performance is no guarantee of future results.** Short term performance shown to illustrate more recent trend.

[1] **Distressed Cyclicals index** —Airlines, Hotels / Cruiselines, Hotel / Restaurant, Real Estate Investment Trusts (REITs), Casinos / Gaming, Oil & Gas Exploration & Production, Autos, Dept. stores, Retail REITs, Apparel, Diversified banks, Regional banks, Consumer Finance.

[2] **Secular Growers index**—Internet Retail, System software, Application software, Video games, Semis, Specialty REITs, Interactive media, Biotech, Pharma, Life sciences, Medical devices, Comm Equipment.

- Secular growers have handily outperformed distressed cyclicals or the broader index prior to COVID-19, during the recent selloff, and now the rebound.
- Distressed cyclicals bounced off their March 23 bottom and have had a choppy recovery since. Moving into the consolidation phase, distressed cyclicals need to play catch up to give the market more breadth.

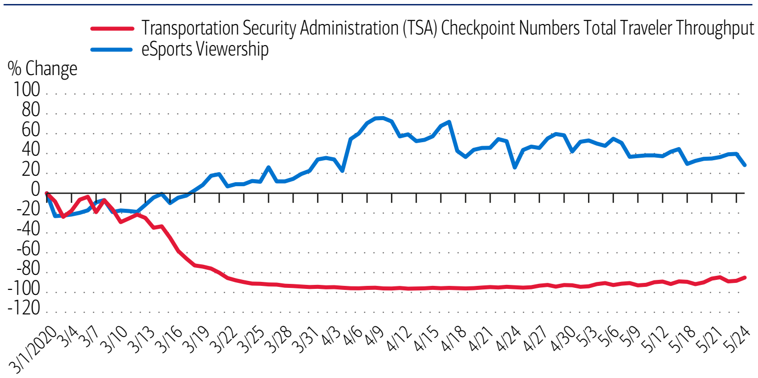
Exhibit 2: The Physical vs. Virtual World: Facebook, Apple, Amazon, Netflix, Google (FAANG) vs Airlines vs. Automobiles



Indexed to February 19, 2020. S&P 500 Airlines Industry Index. S&P 500 Automobile Industry Index. Source: Bloomberg. Data as of May 22, 2020. **Past performance is no guarantee of future results.** Short term performance shown to illustrate more recent trend.

- While the technology leaders within the FAANG cohort have almost fully recovered to their February 19 market top, the airline industry (-59%) and automobiles (-27%) are well off their highs.
- We expect challenged sectors such as the airline and automobile industries to experience differing degrees of recovery from the pandemic shock as state economies begin to re-open.

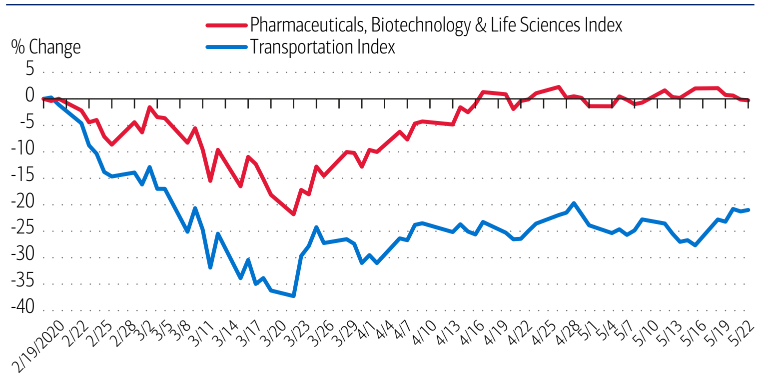
Exhibit 3: Staying In: Airport Passengers vs. eSports



Indexed to March 1, 2020. eSports line tracks the average concurrent Amazon Twitch viewership daily. TSA line tracks the number of U.S. passengers screened daily. Sources: TSA, Twitch. Data as of May 25, 2020.

- The number of U.S. travelers passing through TSA security checkpoints has decreased considerably since March 1 (close to an 85% decline) as demand for air travel has declined amid the COVID-19 spread. On March 1, 2020 nearly 2.3 million travelers passed through TSA. By May 25, 2020, that number was down to 340,769—a decline of 85%, according to the TSA.
- Meanwhile, Amazon's Twitch streaming platform hit an all-time high in viewership for eSports tournaments and gaming-related streaming amid the pandemic quarantine from March through May 15.

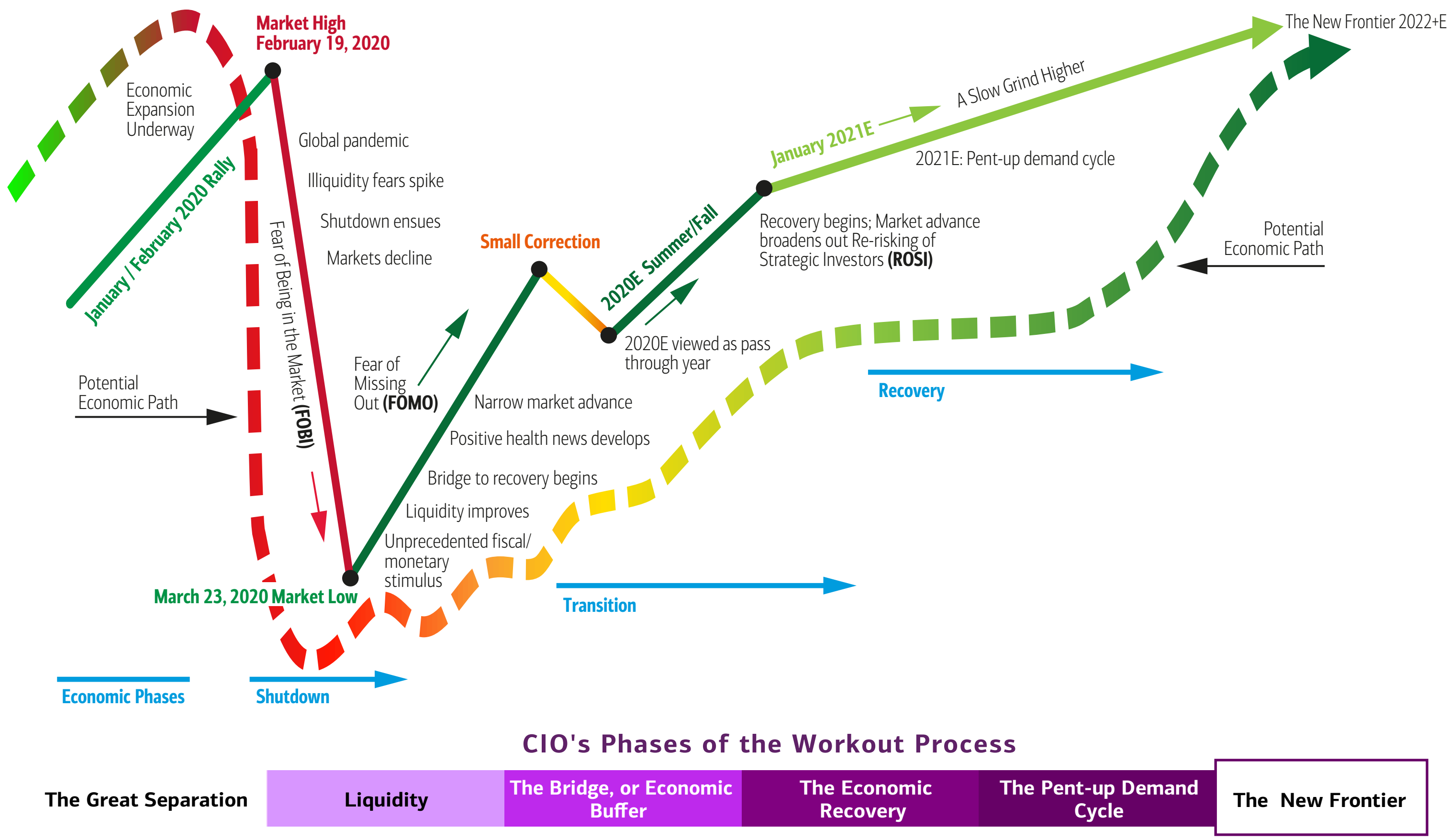
Exhibit 4: Science Gets Us Back: Biotechnology vs. Transportation Industries



Indexed to February 19, 2020. S&P 500 Technology Hardware & Equipment Index. S&P 500 Transportation Industry Index. Source: Bloomberg. Data as of May 22, 2020. **Past performance is no guarantee of future results.** Short term performance shown to illustrate more recent trend.

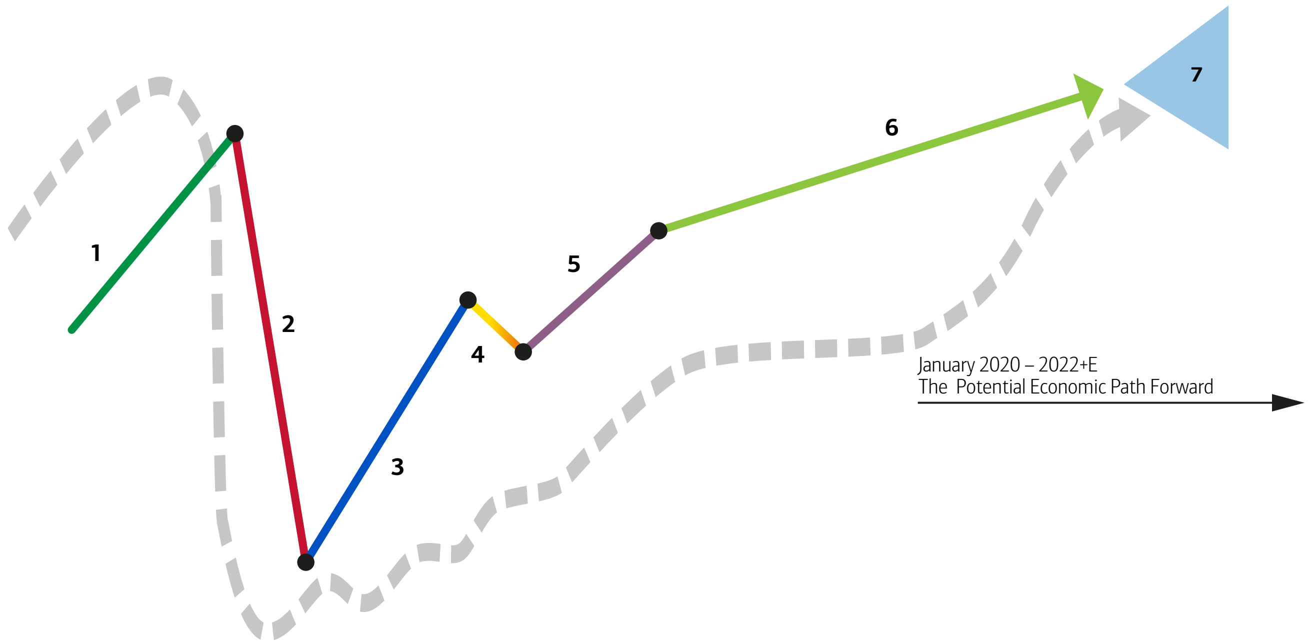
- Travel through any means and movement of goods and people had largely ground to halt owing to state shutdowns and social distancing. In late April, shipping volumes appear to have bottomed as the industrial economy re-started, according to BofA Global Research's current Transport Survey.
- Conversely, in our opinion, science, and specifically the pharmaceutical and life sciences industries are what gets us back into a phased-in re-opening and helps keep the re-opening smoother. We believe we are already seeing signs of market recovery.

Exhibit 5: Shaping up: A "Square Root" Type Recovery Shape.



E=Estimate. Source: Chief Investment Office as of May 21, 2020. **Past performance is no guarantee of future results.**
For illustrative purposes only. CIO views are subject to change.

Exhibit 6: Potential Investment Implications for the “Square Root.”



Jan/Feb 2020	Feb/Mar 2020	Spring — Fall 2020E			2021E	2022E
1	2	3	4	5	6	7
• Megacaps • Utilities / Technology • Brent Crude Oil • Copper • Growth • Flight to Quality	• U.S. Dollar • Gold • Quality, Defensives • Communication Services / Technology • Long-term Treasuries	• Factor Reversal • Low Quality, Weaker Fundamentals • Investment-Grade Corporates • Agency Mortgage-backed-security (MBS) • High Yield Bonds	• Quality, Growth, Yield • Home Improvement/ Do-It-Yourself industries • U.S. large cap • Environmental, Social & Corporate Governance factors • Treasurys • Short- term Corporates and Municipals	• Pharmaceuticals • Communication Services • Technology Leaders • High Yield / Loans	• Reshoring technology/ pharmaceutical supply chains • Industrials • U.S. large cap Technology • Return to high-quality Corporates/ Municipals	• Long-term structural opportunity-themes are accelerated • Residential Real Estate Cycle • Weaker U.S. Dollar • New equity culture driven by demographics • Return to high-quality Corporates/Municipals

CORE PORTFOLIO FUNDAMENTALS

- Maintain a high-equity overweight relative to fixed income
- Use periods of high negative volatility to rebalance and re-risk portfolios
- Within equity allocation, have a solid mix of growth and value with emphasis on U.S.
- Maintain diversification across and within asset classes
- Outside of core asset allocation, consider multiple satellite* exposure to long-term themes and trends

Source: Chief Investment Office as of May 2020. E=Estimate. **Past performance is no guarantee of future results.** For illustrative purposes only.
*Core-satellite investing is a method of portfolio construction designed to minimize costs, tax liability, and volatility while providing an opportunity to outperform the broad stock market as a whole. When assessing your portfolio in light of our current guidance, consider the tactical positioning around asset allocation in reference to your own individual risk tolerance, time horizon, objectives and liquidity needs. Certain investments may not be appropriate, given your specific circumstances and investment plan. CIO views are subject to change.

Exhibit 7: 7s Are Considered Wild at the Point of Convergence

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The 7 "Cs"

1. Consumer Spending Activity
2. Corporate Profits and Balance Sheet Activity
3. Central Bank Activity
4. COVID-19 Treatment, Testing, Tracking Data
5. China/U.S. relationship
6. Credit Spreads
7. Coordination of Global Policy

7 Potential Implications of Convergence "The Square Root" Type of Shape Develops

1. Global pandemic leads to beginning of market drop
2. Shutdown and liquidity lead to FOBI. Markets may decline
3. Unprecedented stimulus leads to stabilization
4. FOMI develops- narrow, sharp advance
5. Economic re-opening broadens market rally as consumer stabilizes
6. Economic recovery prospects extends rally and ROSI ensues
7. Pent-up demand cycle leads to slow grind higher

Unprecedented Fiscal/Monetary Stimulus and Support

•

Negative Real Interest Rates

•

Lack Of Growth and Yield

•

The Great Separation (CIO's 5 Phases Of the Workout Process)

•

The Great Acceleration (Themes & Trends)

MICRO

7 Reasons as to why we think the markets are at these levels

1. The speed of the advance could create a catch-up phase (FOBI to FOMO)
2. U.S. Large Cap indices appear to be built on growth
3. Lack of yield around the world
4. U.S. economy breaking away from the rest of world
5. Investors view 2020 as a "pass-through year"
6. Investors are educated to buy the dips; ROSI takes over
7. Unprecedented fiscal/monetary stimulus for longer

7 Portfolio Considerations Through The Great Convergence

1. Add to diversified strategic equity exposure relative to fixed income on weakness
2. Favor U.S. relative to the rest of their world
3. Prefer U.S. Large caps relative to small caps
4. Favor Quality, Growth, and Yield factors across equities
5. Favor Healthcare, Technology, Communication Services, and Consumer Discretionary sectors
6. Prefer investment-grade bonds in fixed income relative to high yield
7. Elevated volatility may lead to more frequent portfolio assessments, re-balancing and/or considerations of dollar-cost averaging

Source: Chief Investment Office. as of May 21, 2020. CIO publications Investment Insights, "The Great Separation" as of April 2020; "The Great Acceleration" as of May 2020. When assessing your portfolio in light of our current guidance, consider the tactical positioning around asset allocation in reference to your own individual risk tolerance, time horizon, objectives and liquidity needs. Certain investments may not be appropriate, given your specific circumstances and investment plan. CIO views are subject to change.

Index Definitions

S&P 500 Index: Stock market index that measures the performance of 500 large companies listed on stock exchanges in the United States.

MSCI World Pharmaceuticals, Biotechnology and Life Sciences Index is composed of large and mid cap stocks across 23 Developed Markets countries.

Transport index (TI) is derived from the maximum dose equivalent rate at one meter from the surface of a package containing radioactive material.

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Asset allocation, diversification, dollar cost averaging and rebalancing do not ensure a profit or protect against loss in declining markets.

Keep in mind that dollar cost averaging cannot guarantee a profit or prevent a loss in declining markets. Since such an investment plan involves continual investment in securities regardless of fluctuating price levels, you should consider your willingness to continue purchasing during periods of high or low price levels.

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