

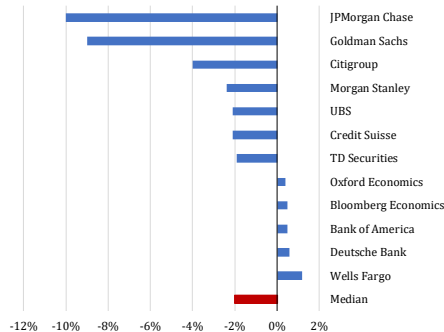
Q2 2020 LOOK AHEAD

Disclaimer

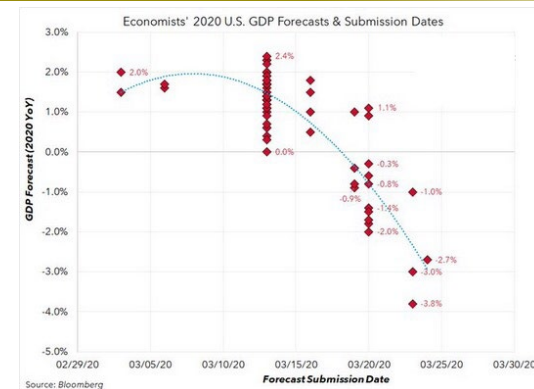
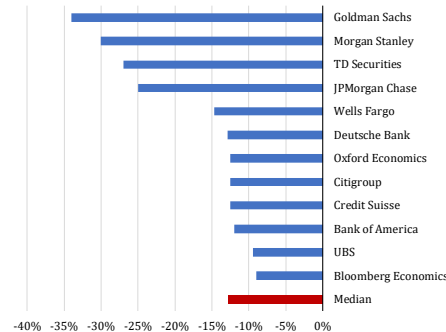
Certain information in this presentation constitutes forward-looking statements. Due to various risks, uncertainties, and assumptions made in our analysis, actual events or results or actual performance of the markets covered by this presentation may differ materially from those described. The information herein reflects our current views only, is subject to change, and is not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as presented. Data are from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented. Past performance is not a guarantee of future results.

Looking at GDP – An Alphabet Soup of Recessions

U.S. Q1 GDP Forecasts



U.S. Q2 GDP Forecasts

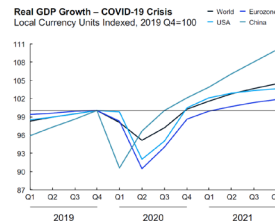


What shape does the recession take?

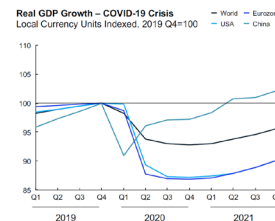
V-Shaped Recovery

- Strong public health response succeeds in controlling spread in each country within 2-3 months
- Strong policy responses prevent structural damage; recovery to pre-crisis fundamentals and momentum

Virus contained
Real GDP, Local Currency Indexed



Muted Recovery
Real GDP, Local Currency Indexed



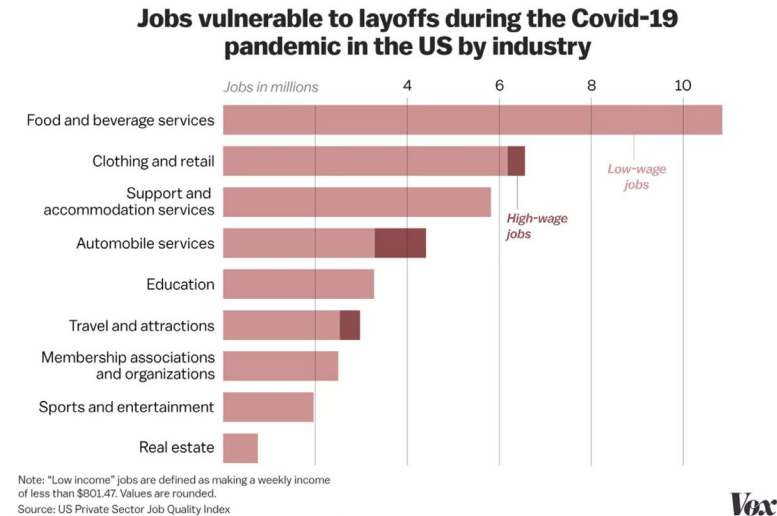
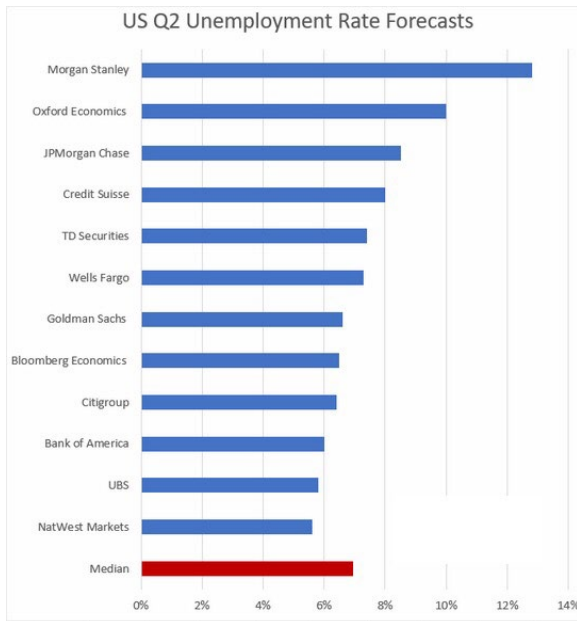
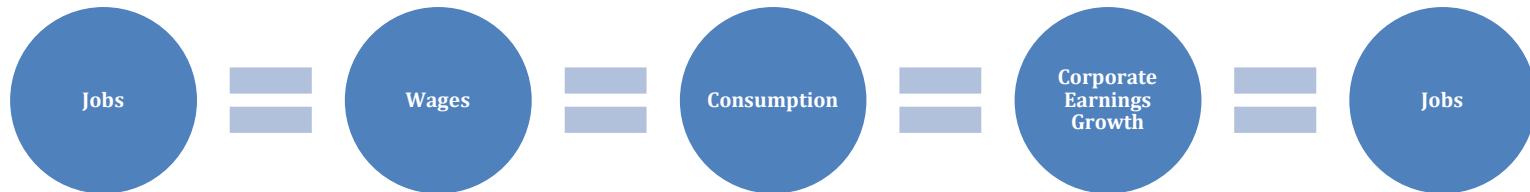
	Real GDP Drop 2019 Q4-2020 Q2 % Change	2020 GDP Growth % Change	Time to Return to Pre-Crisis Quarter
China	-3.3%	-0.4%	Q4 – 2020
USA	-8.0%	-2.4%	Q3 – 2020
World	-4.9%	-1.5%	Q2 – 2020
Eurozone	-9.5%	-4.4%	Q1 – 2021

	Real GDP Drop 2019 Q4-2020 Q2 % Change	2020 GDP Growth % Change	Time to Return to Pre-Crisis Quarter
China	-3.9%	-2.7%	Q2 – 2021
USA	-3.9%	-2.7%	Q1 – 2023
World	-6.2%	-4.7%	Q3 – 2022
Eurozone	-12.2%	-9.7%	Q3 – 2023

Swoosh Recovery

- Public health response initially succeeds but measures are not sufficient to prevent viral resurgence so social distancing continues for several months
- Policy responses partially offset economic damage; banking crisis is avoided; recovery levels muted

Consumer Health = Speed of Recovery



Estimated lost wages could be \$273 billion, or 1.2% of GDP.¹

¹ Lost wages calculated assuming 14 million jobs lost for 20 weeks with average income of \$975 per week

Data Sources: Bloomberg, Vox Media, Phillips & Co. estimates

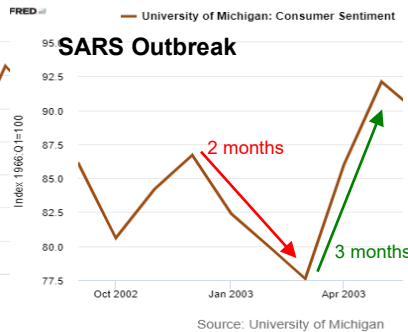
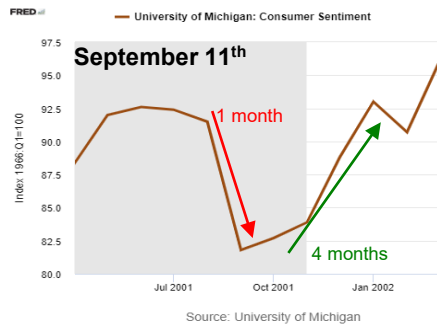
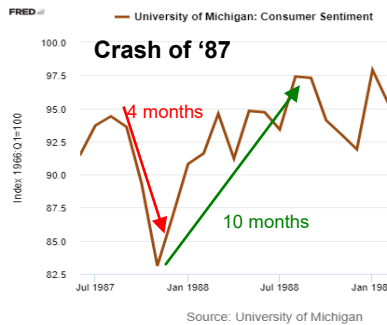
Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Is Stimulus Helping the Consumer?

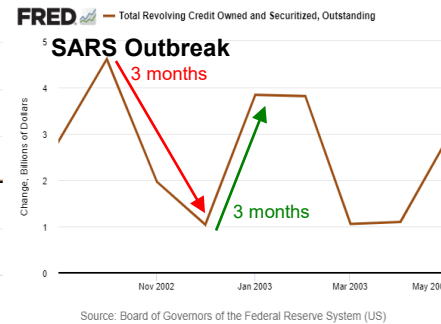
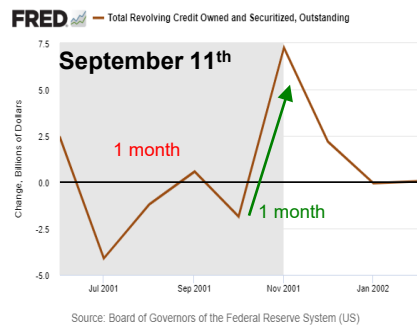
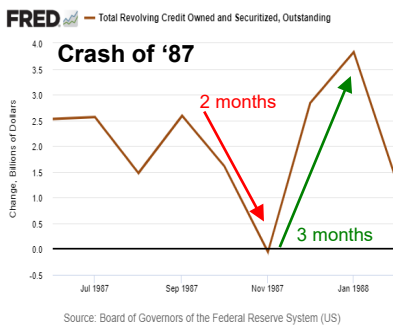
Consumer-Focused Stimulus:

Program	Consumer-Focused Stimulus
Paycheck Protection Program	\$377B
One-Time Checks	\$290B
Expanded Unemployment Benefits	\$260B
Other Personal Support	\$90B
Total	\$1.017T
% of GDP	4.52%

Consumer Sentiment Recoveries Following Major Events Average 6 Months



Animal Spirits for Consumers Returned in an Average of Just Two Months



Investor Sentiment

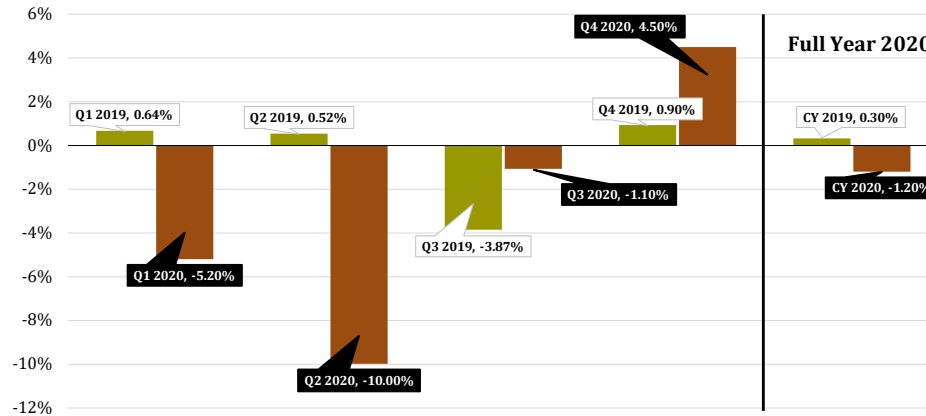
S&P 500 15%+ Quarterly Drops Post WW2

Quarter	% Chg	Next Qtr %	Next 2 Qtrs %	Next Year %
Sep-46	-18.83	2.27	1.40	1.00
Jun-62	-21.28	2.78	15.25	26.70
Jun-70	-18.87	15.80	26.72	37.10
Sep-74	-26.12	7.90	31.19	32.00
Dec-87	-23.23	4.78	10.69	12.40
Sep-01	-15.00	10.29	10.23	-21.68
Sep-02	-17.63	7.92	4.04	22.16
Dec-08	-22.56	-11.67	1.78	23.45
Mar-20	-20.00	?	?	?
Average		5.01	12.66	16.64
Median		6.34	10.46	22.81
% Positive		87.5%	100.0%	87.5%

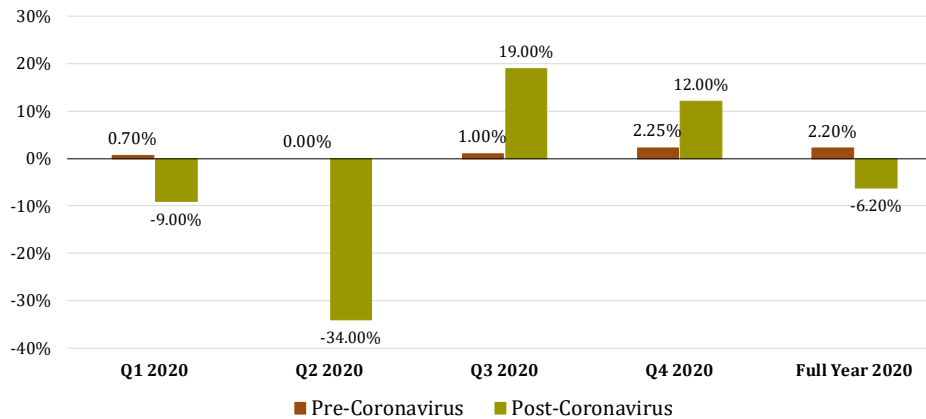
Investors buy quickly and consistently.
7 out of 8 times markets rallied over the next two quarters and year, with an average return of 16.6%

Earnings Expectations

FactSet YoY Comparison S&P 500 EPS Growth w/ Projections



Goldman Sachs U.S. GDP Growth Forecast: Pre- & Post-Coronavirus



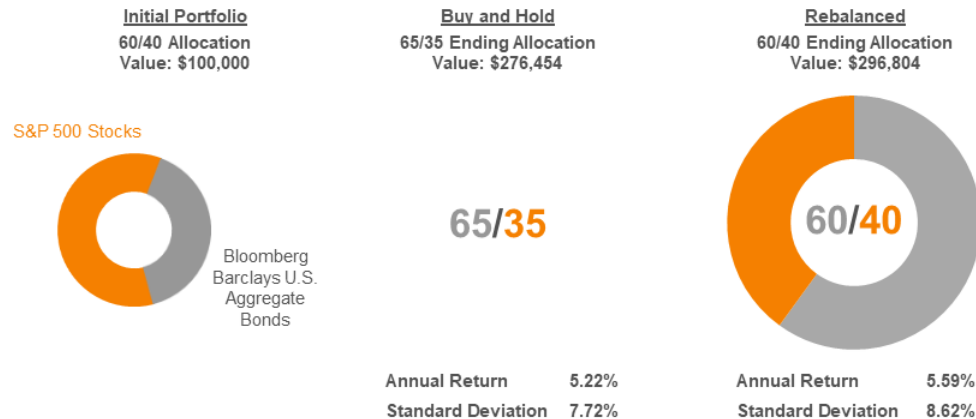
Data Sources: FactSet, Goldman Sachs

Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Rebalancing

Benefits of Portfolio Rebalancing

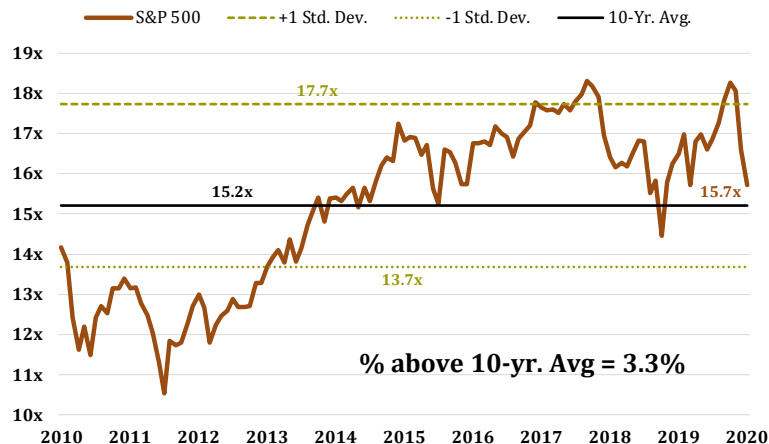
Over 20 years, regular rebalancing increased returns compared to a buy and hold approach, which allows allocations to drift away from the intended targets.



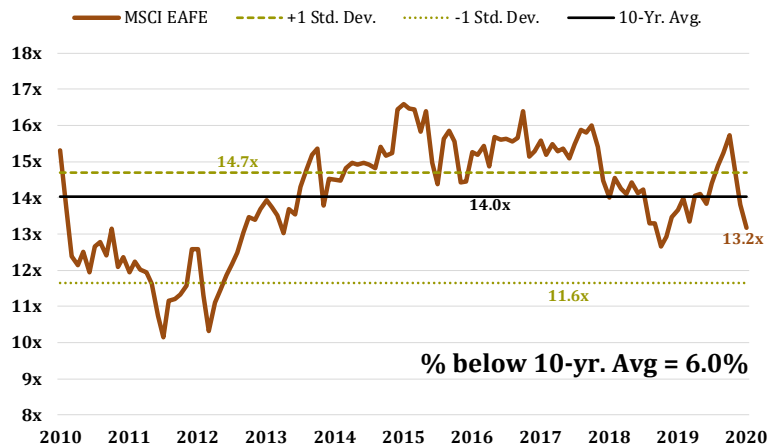
- ❑ Rebalancing your portfolio is critical when asset classes get cheaper. If you have a balanced portfolio you will likely see your fixed income holdings with positive returns in the short run and equities down. Rebalancing is key.
- ❑ As capital markets expectations are adjusted, portfolios may be rebalanced to take on less risk in meeting return requirements.
- ❑ Finally, individuals can add to their retirement savings or taxable portfolio to achieve dollar cost averaging benefits. Foundations and endowments may achieve similar benefits through the addition of donor gifts into their portfolios.

Managing for Mean Reversion

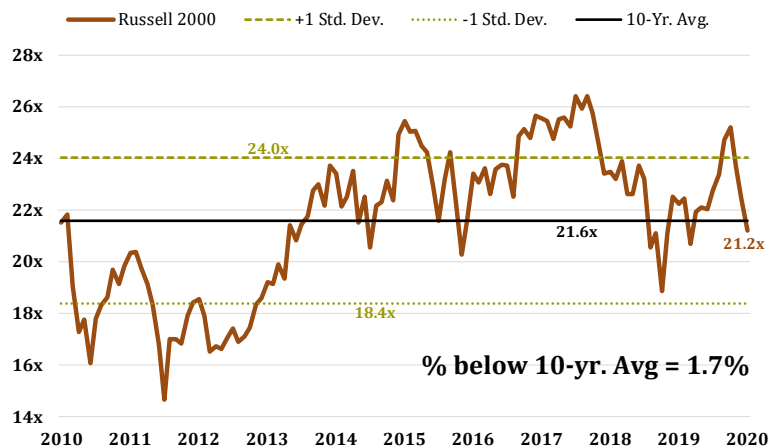
S&P 500 FWD P/E Ratio



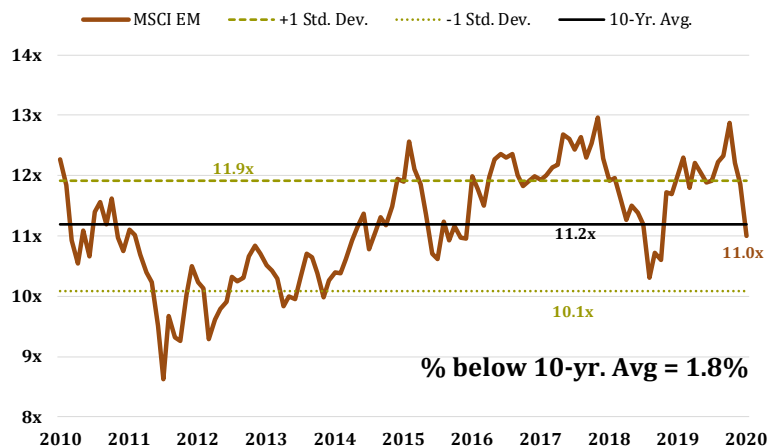
MSCI EAFE FWD P/E Ratio



Russell 2000 FWD P/E Ratio



MSCI EM FWD P/E Ratio

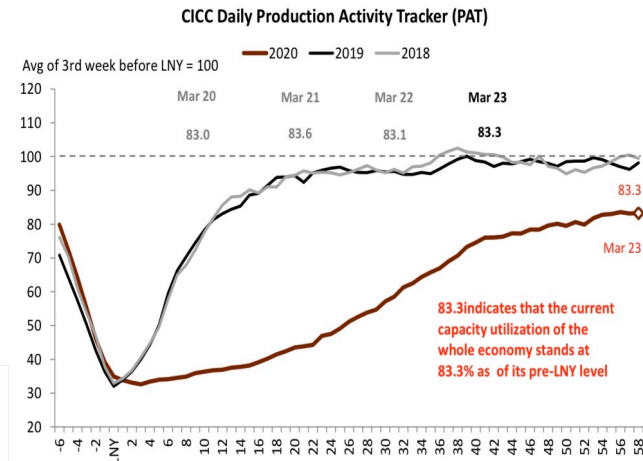
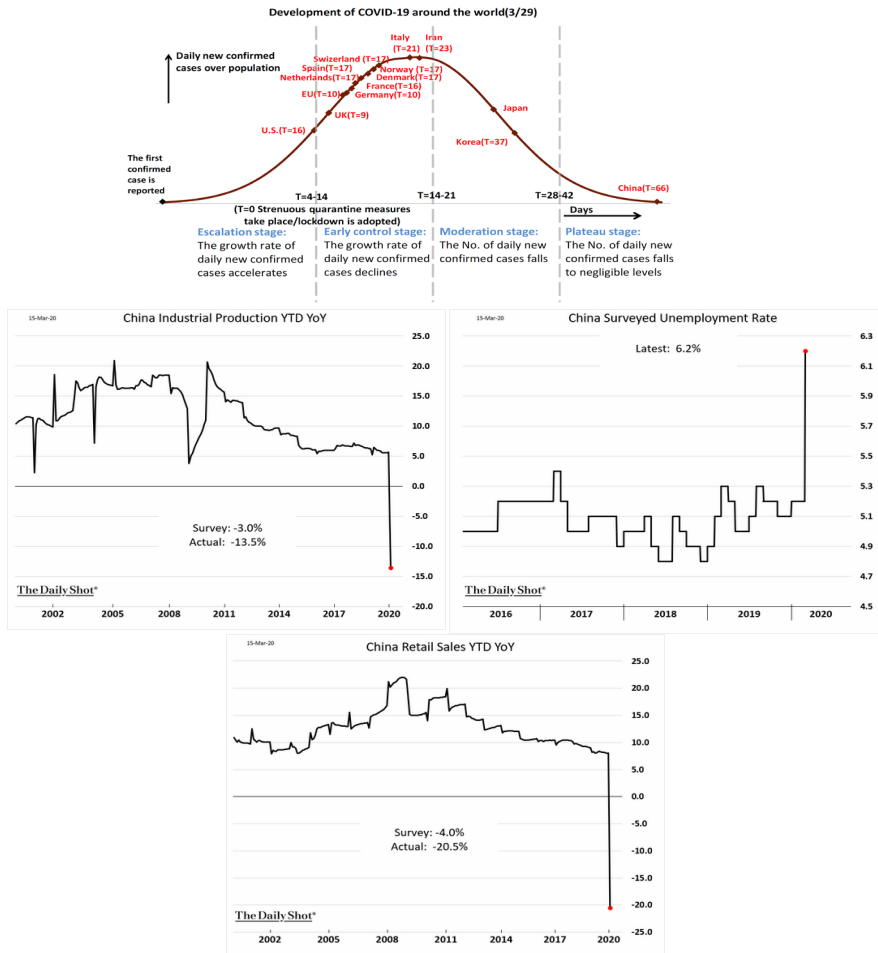


Data Sources: Bloomberg

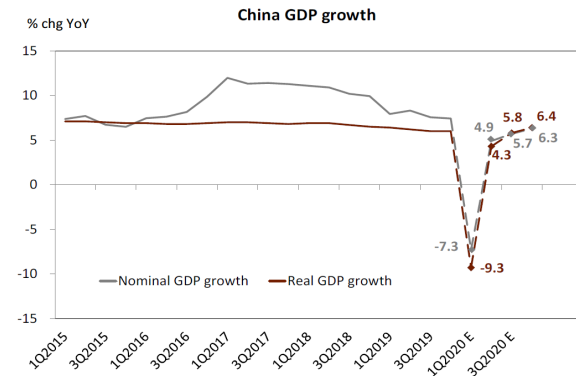
Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

A Model for the Way Out: China

**Where are we in the evolution of COVID-19:
The US and Europe may be 2-3 months behind China**



Path of China growth: a "sudden stop" in 1Q, followed by gradual recovery in 2-4Q 2020

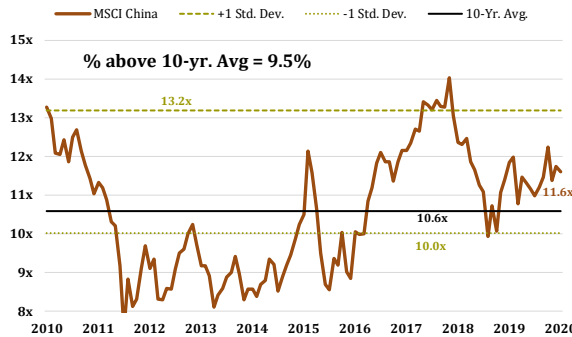


Data Sources: CICC Research, Daily Shot/WSJ

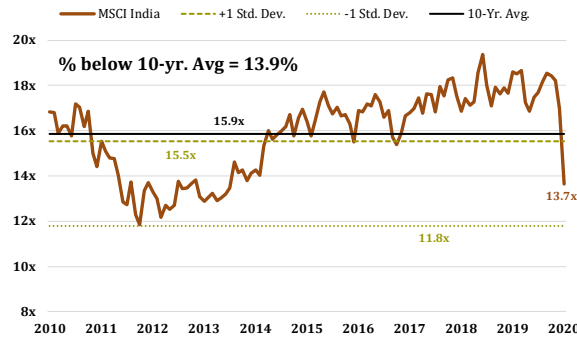
Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Emerging Markets

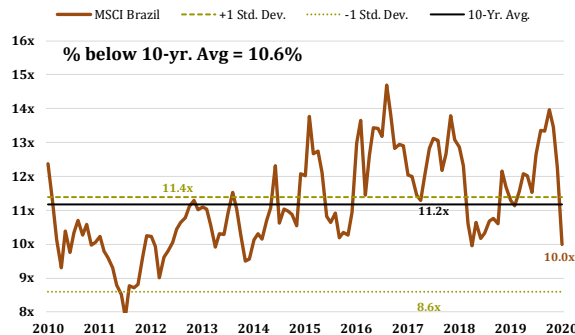
MSCI China FWD P/E Ratio



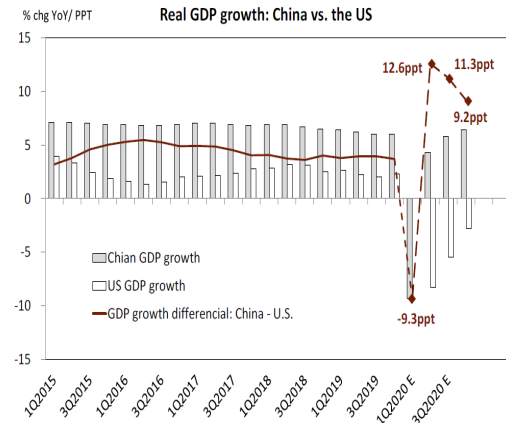
MSCI India FWD P/E Ratio



MSCI Brazil FWD P/E Ratio



The growth differential between China & the world may widen visibly in 2Q2020, and stay elevated in the remainder of the year



Opportunities for Growth

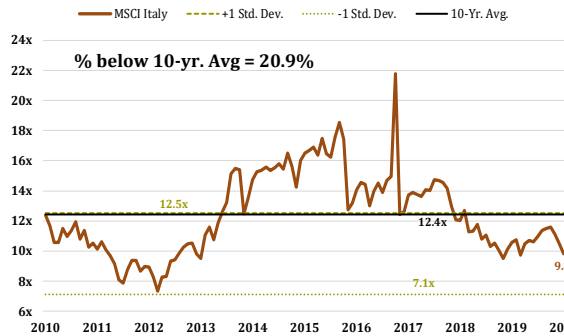
- ❑ Growth rates in Emerging Markets remain the best in the world, with consensus GDP growth estimates approximately 200 basis points higher than Developed Market economies.
- ❑ The projected growth of the middle class in large Emerging Market countries, paired with a recovery in China is likely to support sustained economic and corporate earnings growth

Threats to Growth

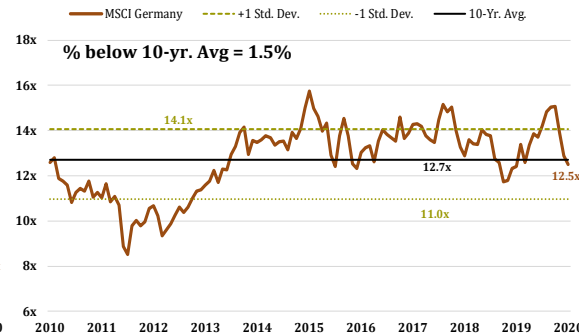
- ❑ Double hump COVID-19 scenario where a second wave extends the recovery
- ❑ Portions of growth are highly tied to economic demands from the United States and other developed countries

International Developed Markets

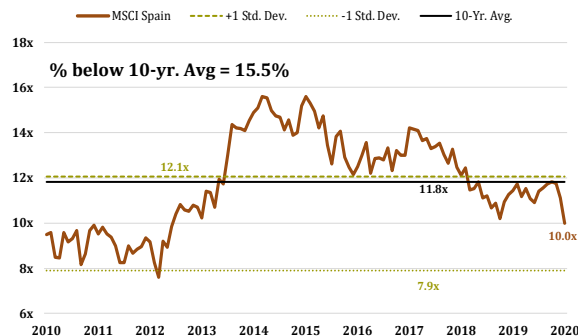
MSCI Italy FWD P/E Ratio



MSCI Germany FWD P/E Ratio



MSCI Spain FWD P/E Ratio



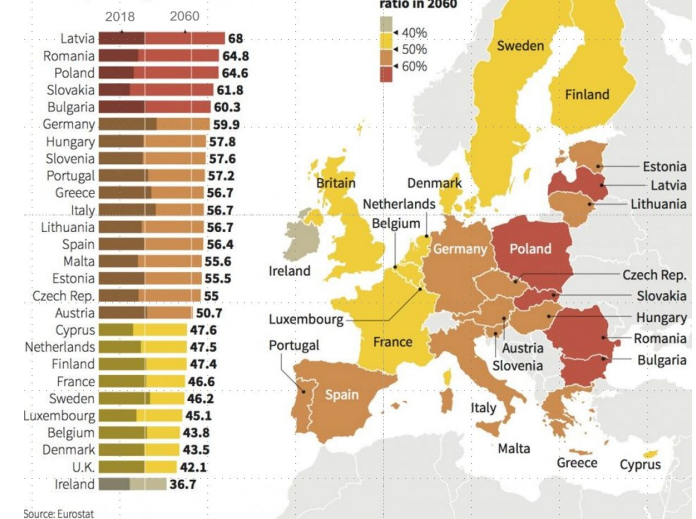
Opportunity for Growth

- ❑ Lower expectations for GDP growth paired with lower inflation and easier valuations could boost International Developed returns in 2020.

Europe's ageing population

PROJECTED OLD-AGE DEPENDENCY RATIO

Number of persons aged 65 as a percentage of number of persons aged between 15 and 64.

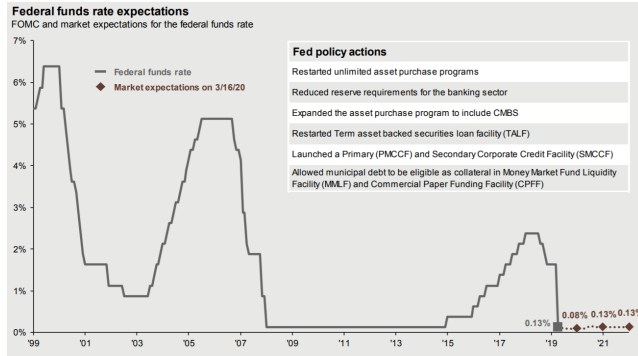


Threats to Growth

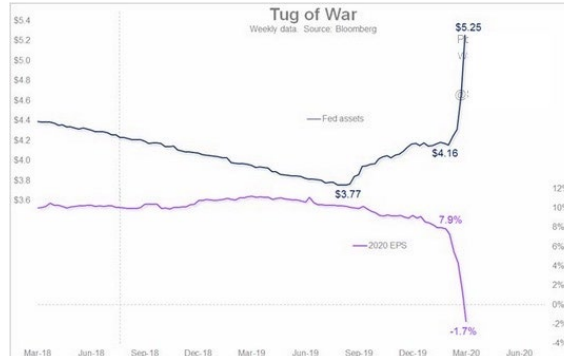
- ❑ Aging populations and low birth rates couple with poor COVID-19 containment
- ❑ In some countries with negative interest rates, high levels of household debt remain a major vulnerability to growth.

U.S. Interest Rates & Other Major Central Banks Expectations

Fed Rate Projections

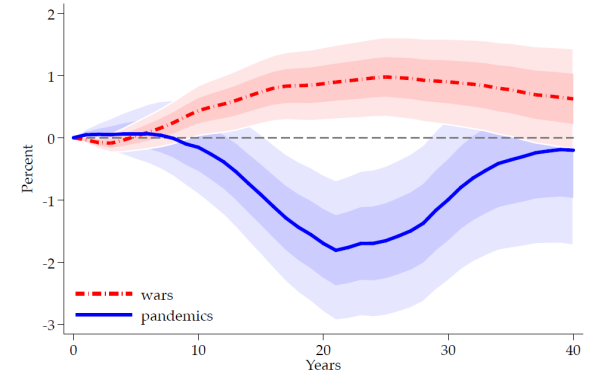


Fed Significantly Expands Balance Sheet

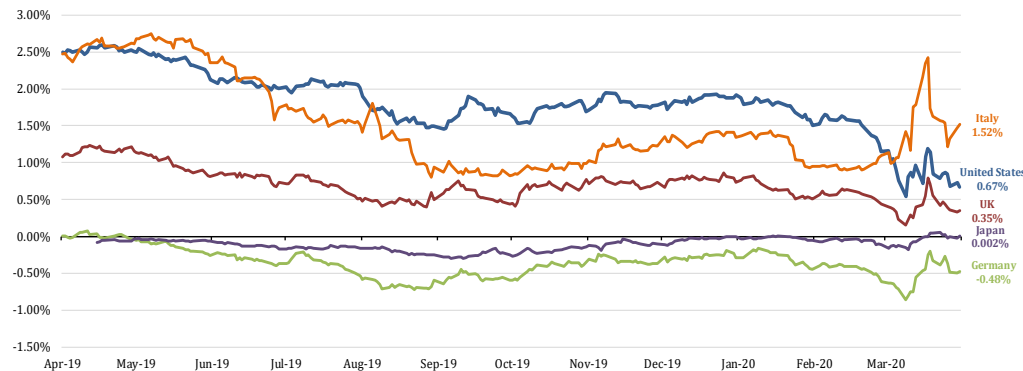


Pandemics & Rates

Response of the European real natural rate of interest following pandemics and wars



Global Rates for 10-Year Treasuries



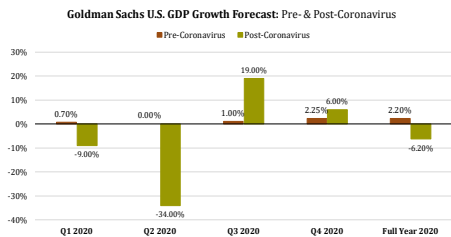
Bloomberg Inflation Forecasts for Major Economies

	2019 Actual	2020 Est	2021 Est	2022 Est
Global	3.40%	2.80%	2.80%	2.90%
Brazil	3.70%	3.50%	3.70%	3.50%
China	2.90%	3.30%	2.10%	2.20%
France	1.30%	1.20%	1.40%	1.40%
Germany	1.40%	1.30%	1.50%	1.70%
India	3.70%	4.80%	4.00%	4.30%
Italy	0.70%	0.40%	1.00%	1.30%
Japan	0.50%	0.50%	0.60%	0.60%
United Kingdom	1.80%	1.30%	1.80%	2.10%
United States	1.80%	1.70%	2.10%	2.20%

- ❑ The new normal is lower interest rates and muted inflation for a longer period of time as the dollar and the United States set global policy
- ❑ The Fed has been taking all necessary actions to keep credit markets liquid

What's Baked in the Cake

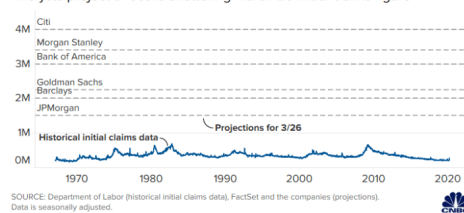
Baked into Investor Expectations



A recession is clearly baked in, predominantly when Goldman Sachs made such a draconian call on March 20th.

Sky-high unemployment claims

Analysts project a record-shattering March 26 initial claims figure

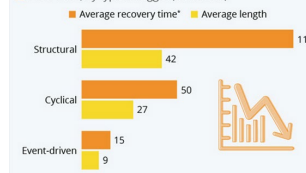


Devastating jobless claims numbers, as the worst forecast came from Citigroup on March 24th before the official numbers came out.

Not Baked into Investor Expectations

Bear Market Recoveries Faster After Adverse Events

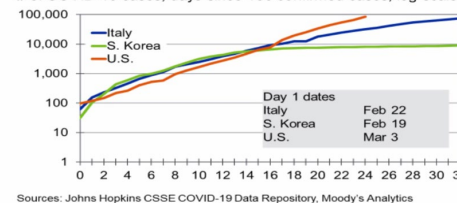
Average length and recovery time of U.S. bear markets since 1800, by type of trigger (in months)



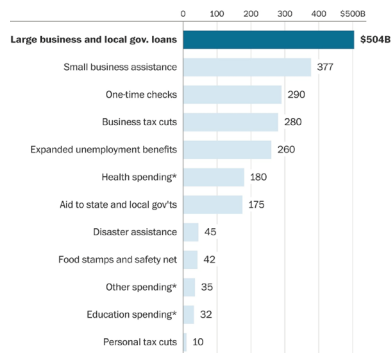
A bear market recovery that is historically fast, based upon external/non-economic factors

U.S. Cases Doubling Every 3-4 Days

of COVID-19 cases, days since 100 confirmed cases, log-scale



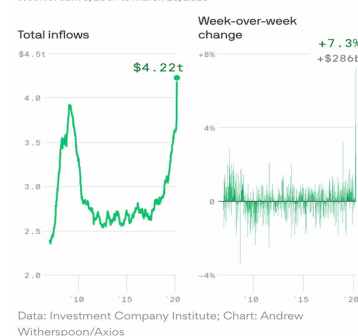
A longer acceleration phase of the virus beyond what Italy is experiencing



Another great example of discounting came in the form of passing the stimulus. Congress and the President, in an unprecedented bipartisan fashion, passed the \$2 trillion stimulus package. This is the largest stimulus bill in American history and, if effectively applied, could provide a boost to GDP of over 9%.

Weekly inflows to money market funds

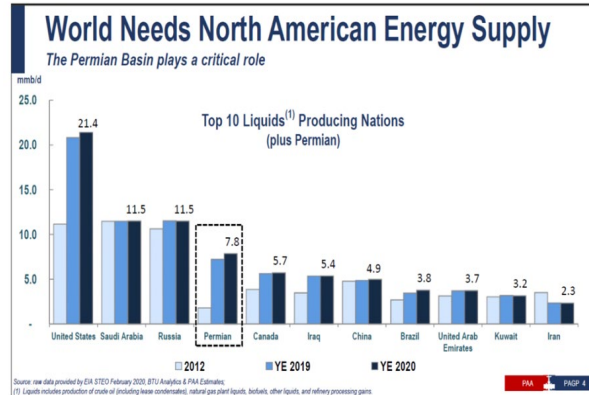
Week of Jan. 3, 2007 to March 25, 2020



A flood of capital re-entering the equity markets that has been piling into money market funds at historic levels

Energy Appendix

U.S. Still Leading Global Oil Production (Permian Basin Key to Production)



Baker Hughes Oil Rig Count

Area	Last Count	Count	Change from Prior Count	Date of Prior Count	Change from Last Year	Date of Last Year's Count
U.S.	27 Mar 2020	728	-44	20 Mar 2020	-278	29 Mar 2019
Canada	27 Mar 2020	54	-44	20 Mar 2020	-34	29 Mar 2019
International	Feb 2020	1,085	+7	Jan 2020	+58	Feb 2019

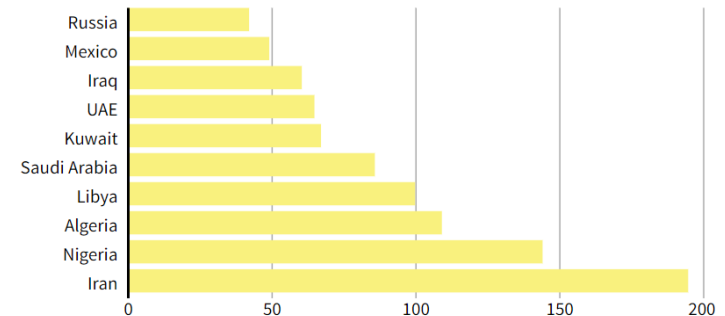
Largest Oil Consuming Countries

#	Country	Daily Oil Consumption (barrels)	World Share
1	United States	19,687,287	20.3 %
2	China	12,791,553	13.2 %
3	India	4,443,000	4.6 %
4	Japan	4,012,877	4.1 %
5	Russia	3,631,287	3.7 %
6	Saudi Arabia	3,302,000	3.4 %

Breakeven Prices Vary Widely but All Are Above Current Levels

FISCAL BREAKEVEN OIL PRICE

in \$/bbl



Data Sources: Bloomberg, Baker Hughes, EIA, Reuters

Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Mean Reversion Dashboard

Style Current P/E as a % of 20-Yr Avg. P/E

	Value	Blend	Growth
Large	89.7%	99.8%	106.3%
Mid	81.7%	90.0%	104.3%
Small	73.0%	95.1%	134.3%

Regional Fwd. P/E as a % of 10-Yr Avg. Fwd. P/E

ACWI	EAFE Index	EM Index	United States	Germany	United Kingdom	China	Brazil	India	Russia
99.1%	94.0%	98.2%	103.3%	98.5%	96.7%	94.8%	89.4%	86.1%	88.5%

Sector Fwd. P/E as a % of 20-Yr Avg. P/E

Materials	Industrials	Financials	Energy	Consumer Discretionary	Technology	Comm. Services	Real Estate	Health Care	Consumer Staples	Utilities
109.3%	93.7%	72.8%	264.7%	111.8%	95.9%	85.7%	102.5%	86.3%	104.8%	116.6%

Data Sources: J.P. Morgan Asset Management, Bloomberg

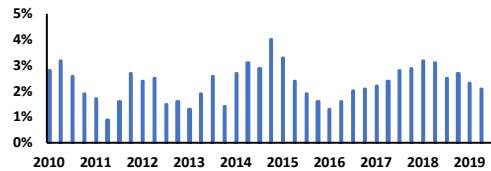
Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Economic Dashboard

U.S. GDP Growth

Estimate as of 3/31/2020

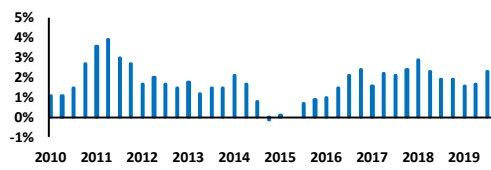
Latest Level	1.2
Change from Prior Quarter	-0.9
Latest Direction	Contracting
Frequency	Quarterly



U.S. Inflation

as of 3/31/2020

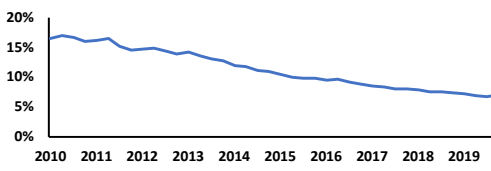
Latest Level	2.3
Change from Prior Quarter	0.0
Latest Direction	No Change
Frequency	Quarterly



U.S. U-6 Unemployment Rate

as of 3/31/2020

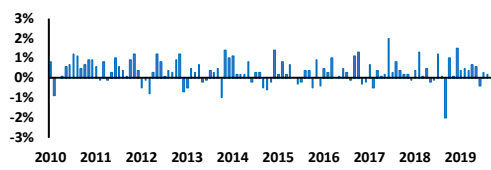
Latest Level	7
Change from Prior Quarter	0.3
Latest Direction	Increasing
Frequency	Quarterly



Retail Sales

as of 2/29/2020

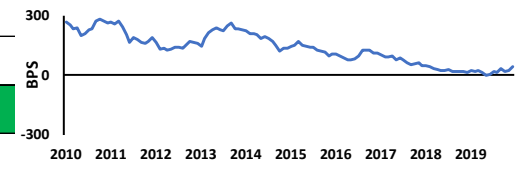
Latest Level	-0.5
Change from Prior Month	-1.1
Latest Direction	Decreasing
Frequency	Monthly



U.S. Treasury Spread 2-Yr vs. 10-Yr Spread

as of 3/31/2020

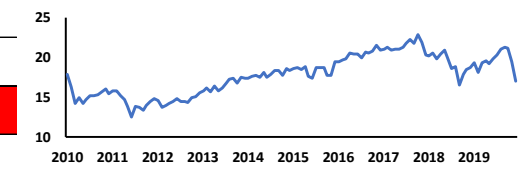
Latest Level	42.4
Change from Prior Quarter	18.9
Latest Direction	Steepening
Frequency	Monthly



S&P 500 Trailing P/E Ratio

as of 3/31/2020

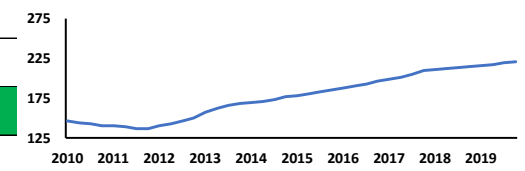
Latest Level	17.0
Change from Prior Month	-2.4
Latest Direction	Decreasing
Frequency	Monthly



Schiller Home Value Index

as of 3/31/2020

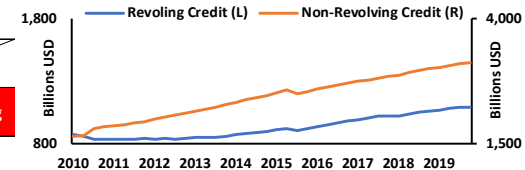
Latest Level	220.8
Change from Prior Month	0.7
Latest Direction	Increasing
Frequency	Monthly



Credit: Revolving / Non-Revolving

as of 3/31/2020

Latest Levels	1090.2
Changes from Prior Month	-3
Latest Direction	Contracting
Frequency	Quarterly



Our View and Recommendations

Our View

- ❑ Trump administration will use all tools necessary with no regard to deficits in order to mitigate the short-term damage of COVID-19
- ❑ Trade war rhetoric and tariffs will be put on hold through the U.S. presidential election to support global demand for U.S. made goods and services
- ❑ Extreme volatility will persist until such time as corporate cash flows can be approximated
- ❑ China will continue to lead the world out of this economic crisis by using extraordinary measures to stimulate domestic demand
- ❑ Equity valuations will revert below the mean, mostly driven by a combination of improved Q3 and Q4 earnings expectations as well as some price contraction
- ❑ Interest rates will remain much lower (near zero) for much longer, perhaps for many years to come, to compensate for any threat of deflation
- ❑ United States, Russia, and Saudi Arabia will build an informal alliance to augment OPEC+ and cut supply to support energy prices

Recommendations

- ❑ Rebalance Rebalance Rebalance. Focus on using multiple time periods to rebalance portfolios back to targets
- ❑ Adjust overall allocations once capital market expectations are available to trade off risk and prospective returns
- ❑ Increase exposure to China as a diversifier to both the United States and general Emerging Markets exposure
- ❑ Realign passive MLP's to more active, cash flow-focused sectors (Energy, Utilities, and Telecom) if you cannot hold individual MLP's

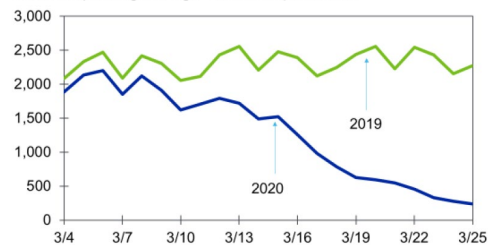
Bruises & Scars

The impact of the economic shutdown will certainly leave bruises and scars on our economy

Likely Bruises

Travel Is Being Hit Hard

Travelers passing through TSA checkpoints, thousands

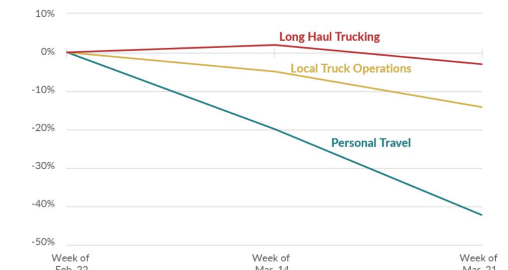


Hotel Occupancy Rates



U.S. Personal Travel Declines Over 40 Percent Since Feb. 22nd

Road traffic by Type, Feb. 22 - Mar. 21



- ❑ **Fossil fuel industry shut ins**
 - Weekly oil rig count is down 24% year-over-year

Potential Scars

- Credit downgrade of the United States
- Higher taxes
- Structural shifts in commercial real estate usage
- Migration patterns to smaller urban centers

Click [here](#) to read our 3/16/2020 blog post, "Tough Medicine"

Data Sources: Moody's, Bloomberg, CBRE Research, Phillips & Co.

Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

THANK YOU

tphillips@phillipsandco.com