



April 15, 2020



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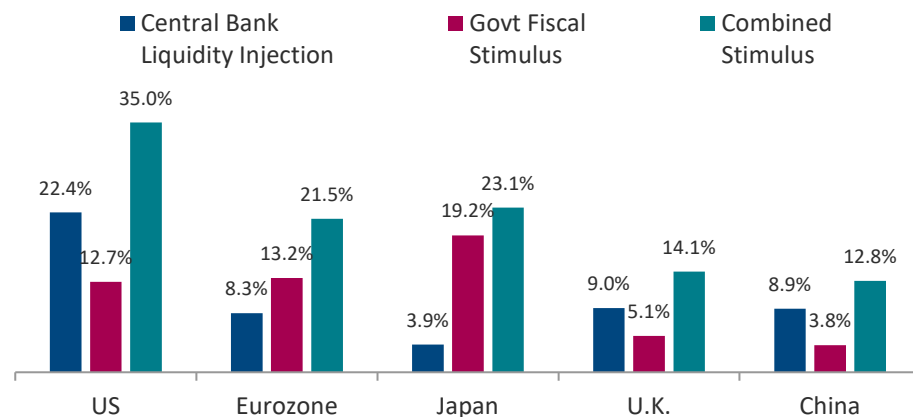
MARKET PERSPECTIVE *from the Investment Advisory Group* Short-term Risk/Reward Mixed After Snapback

What Happened

After the sharpest decline from a record high to a bear market, stocks have come roaring back. Since March 23, the S&P 500 has climbed 27% and is now down only 16% from its record high.

At the March low, the S&P 500 was down 34%. That is worse than the average market decline of 28% around recessions. Stocks became extremely oversold, or stretched to the downside, and investors were bracing for a very negative economic scenario. Since then, however, we have seen massive fiscal and monetary stimulus and a commitment by authorities to do whatever it takes to support the global economy. This has provided investors a degree of confidence and alleviated some concerns of a worst-case scenario. Although these steps cannot solve a health crisis, they can help soften the economic downside.

Major Countries: Monetary & Fiscal Stimulus as % of GDP



Source: Cornerstone Macro, SunTrust IAG

Also helping the market rebound are tentative signs that containment efforts are helping flatten the coronavirus rate of infection curve. The discussion is now shifting to when and how the economy will reopen, although much uncertainty remains on the pace and timeline.

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While acknowledging the wider range of potential outcomes, our team's base case view continues to be that the US economy will likely find a trough in the July/August period. That does not mean that the economy will be operating anywhere close to full capacity, but activity should simply begin to rise from a very depressed level. Given markets tend to look ahead, bottoming on average five months prior to the end of recession, the market is now pricing in an increased likelihood that activity begins to improve during that time period.

| US Economic Recessions | | | S&P 500 Around Recessions | | | | |
|------------------------|---------------|-----------------------------|--|---|--|-----------------------------------|-----------------------------------|
| Recession Begins | Recession End | Recession Duration (Months) | # of Months Stocks Trough Before Recession End | Peak to Trough % Decline Around Recession | % Change from Price Trough to End of Recession | 1-Year % Change from Price Trough | 2-Year % Change from Price Trough |
| Nov-48 | Oct-49 | 11 | 5 | -21% | 18% | 40% | 63% |
| Jul-53 | May-54 | 10 | 9 | -15% | 29% | 39% | 98% |
| Aug-57 | Apr-58 | 8 | 6 | -21% | 11% | 32% | 45% |
| Apr-60 | Feb-61 | 10 | 4 | -14% | 21% | 31% | 5% |
| Dec-69 | Nov-70 | 11 | 6 | -36% | 26% | 45% | 56% |
| Nov-73 | Mar-75 | 16 | 6 | -48% | 34% | 38% | 69% |
| Jan-80 | Jul-80 | 6 | 4 | -17% | 24% | 37% | 15% |
| Jul-81 | Nov-82 | 16 | 4 | -27% | 35% | 58% | 59% |
| Jul-90 | Mar-91 | 8 | 6 | -20% | 27% | 29% | 37% |
| Mar-01 | Nov-01 | 8 | 2 | -37% | 18% | -14% | 6% |
| Dec-07 | Jun-09 | 18 | 4 | -57% | 36% | 68% | 93% |
| Average | | 11 | 5 | -28% | 25% | 37% | 50% |
| Median | | 10 | 5 | -21% | 26% | 38% | 56% |
| % Positive | | | | 0% | 100% | 91% | 100% |
| Max Gain | | | | -14% | 36% | 68% | 98% |
| Max Loss | | | | -57% | 11% | -14% | 5% |

Data Source: SunTrust, NBER, FactSet

Short-term Risk/Reward Now Mixed

Several weeks ago, when the S&P 500 was trading near 2300, we discussed that the risk/reward had become much more favorable. The market was already pricing in a recession. Our work suggested that even if there was more downside, investors would likely recoup those losses on a subsequent snapback. The average return following a market low during a recession has been 37% and 50% over one and two year periods, respectively.

With markets already up 27% from the low in such a short period of time and uncertainty persisting around the depth and duration of the economic downturn, the short-term risk/reward has become more mixed. Unlike at the recent trough, the market is now pricing in some good news, and the margin for error is smaller.

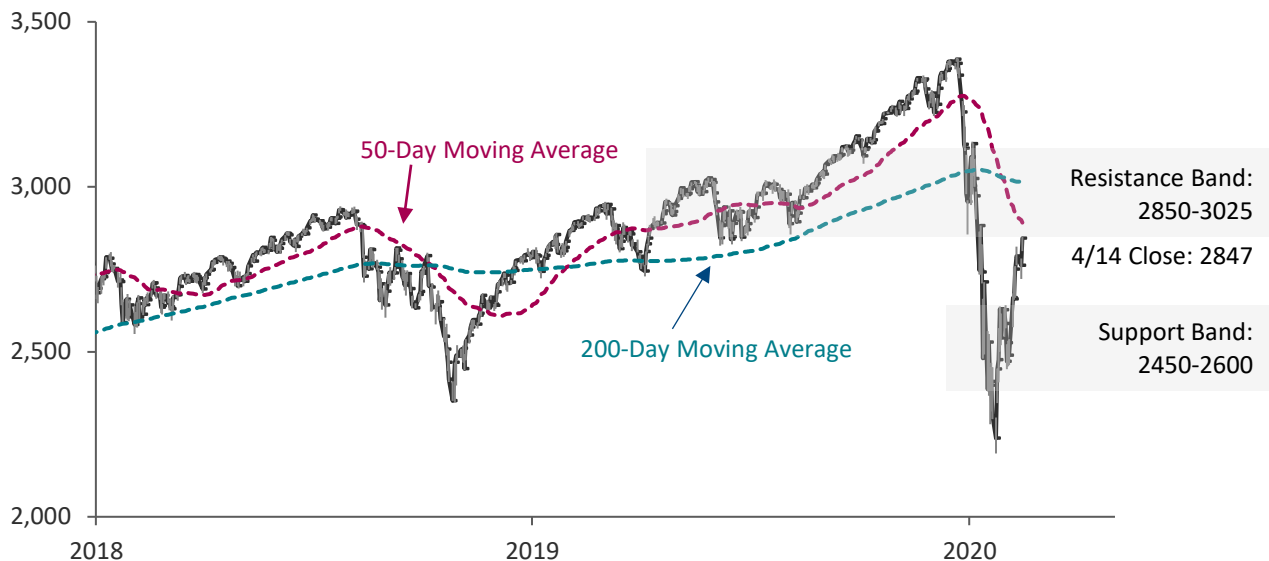


Technical Perspective: Transitioning to A Range

The S&P 500, which is now trading around 2850 (4/14 close), is set to face a band of potential resistance in roughly the 2850-3025 range. This area overlaps with the 50- and 200-day moving averages. Moreover, every buyer of the S&P 500 since last September through the end of February of this year who is still holding a position, has unrealized losses. As stocks move closer to their breakeven level, some investors and traders will look to reduce positions, potentially creating selling pressure.

On the other side, we expect markets to be well supported on any pullbacks toward the 2450-2600 range. Many investors who had excess cash and/or were looking for a retest of the recent low were likely caught off guard by the speed of the market rally. Some of these investors will be anxious to deploy cash on any pullback. This should help limit the depth of any potential setback.

S&P 500



Data Source: SunTrust IAG, FactSet

From a contrarian perspective, our work suggests investor positioning remains a market tailwind. A recently released BofA survey shows that fund managers' equity positioning has moved to the lowest level since March 2009, which was the month the previous bear market ended. Similarly, 50% of fund managers



are overweight cash, a record high. This is consistent with other data sets we track. The Hulbert Stock Newsletter Sentiment Index shows that average recommended exposure to equities is still only 13%, which compares to nearly 80% coming into the year. Moreover, March saw the greatest amount of equity fund outflows from mutual funds and exchange-traded funds since December 2008.

Bottom Line and Positioning

After a very favorable risk/reward environment near the market lows, we view the current short-term outlook as more mixed. Therefore, we would be less aggressive adding to stocks at current levels. Instead, we favor averaging in and becoming more aggressive should a pullback develop. For investors who contemplated selling at the recent low, now that the market has seen a rebound, this is also a good time to revisit asset allocations to ensure consistency with long-term goals and risk tolerance.

From an equity perspective, we maintain a US bias. The US came into this downturn in much better shape relative to most of its global counterparts. We also expect the US to be in a better position throughout this economic downturn and to lead on the other side. The coordinated fiscal and monetary stimulus in the US has been more powerful and implemented faster than in most other countries. We also prefer the US sector composition, which tends to be more growth-style oriented.

We still have a large cap bias, where profitability and balance sheet strength should help these companies navigate a downturn. However, the significant stimulus package should provide some support for small and midcaps as well.

Off the recent lows, the stocks that were hit the most initially have also rebounded the most. This is expected; many of these lower quality companies benefit from the lifeline provided by recent stimulus measures. While this lower quality rally may have a little further to go, longer term we still prefer areas of the market where there is greater earnings visibility. This includes technology, the largest sector in growth, and health care, which is seeing billions of dollars flow into the sector.

As we go through earnings season, we continue to expect market correlations, the degree to which stocks move in unison, to break down. The movement of stocks should become less synchronized as investors start to separate the wheat from the chaff, potentially providing active managers a more fertile environment.



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CN2020-0881 EXP12-2020

