

What to Expect for the Rest of 2020

Cerity Partners Market & Economic Update

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What to Expect in the Back Half of 2020

Second Half of 2020

- Continued impact of COVID-19 on economic fundamentals
- Accommodative monetary policy
- Additional fiscal stimulus
- Areas of dislocation in the credit markets
- Extended stock multiples
- Lack of market breadth
- Emergence of new risks (China, election)

First Half of 2020

- Global pandemic and economic shutdown
- Fastest bear market in history
- “Whatever it takes” Fed policy
- Large global fiscal stimulus
- Recovery in consumer spending
- Disconnect between the economy and the market
- Healing in the credit markets with growth leading the equity markets

The Market and the Economy—Conflicting Signals

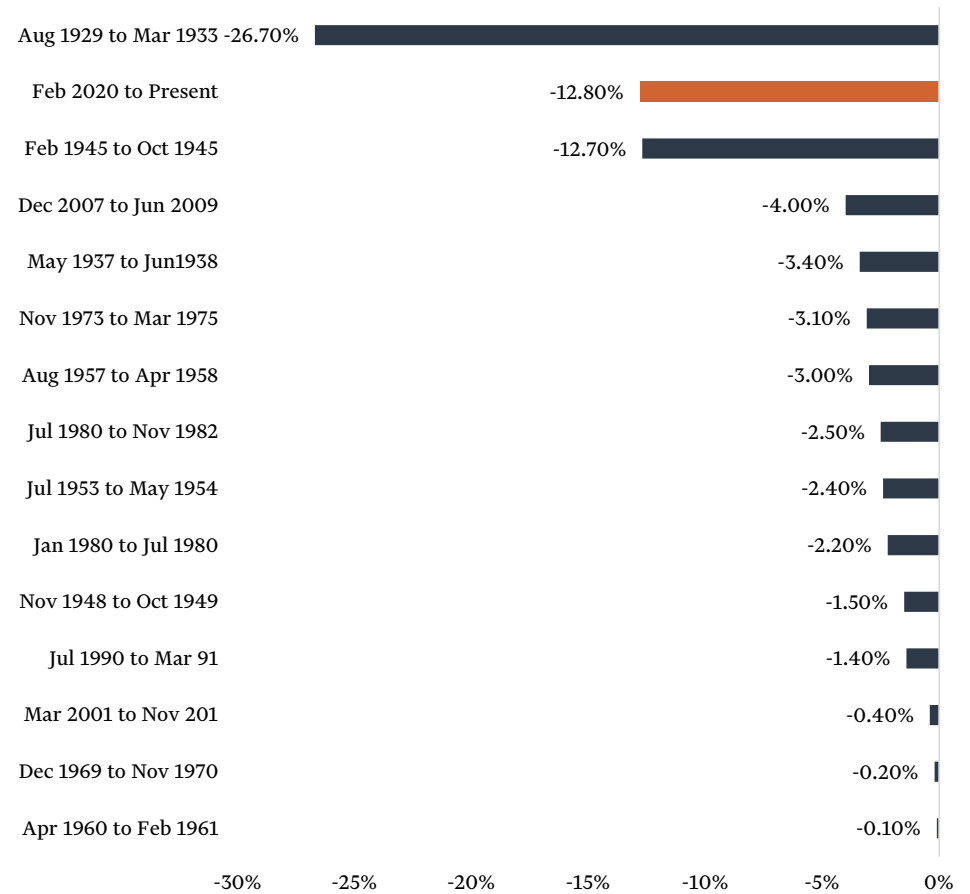
The market has surged off its March low while the economy is in a severe contraction.

S&P 500



Data as of 7/27/2020

Declines in Real U.S. GDP

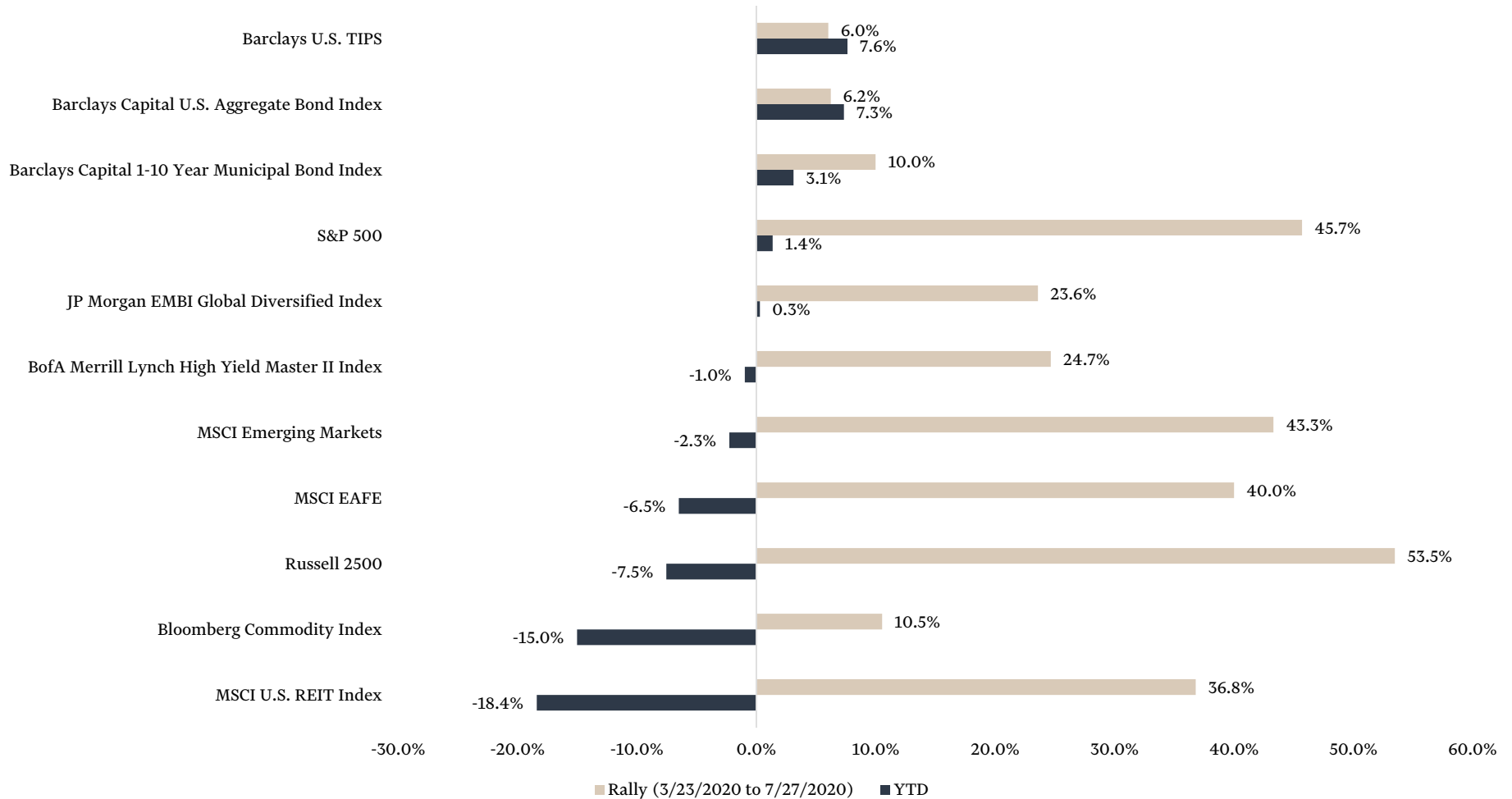


Peak to Trough Decline in Quarterly GDP Except for August 1929 to March 1933 (using annual real GDP from 1929 to 1933)

Places to Hide

Despite the economic damage, investors could still earn positive returns in 2020.

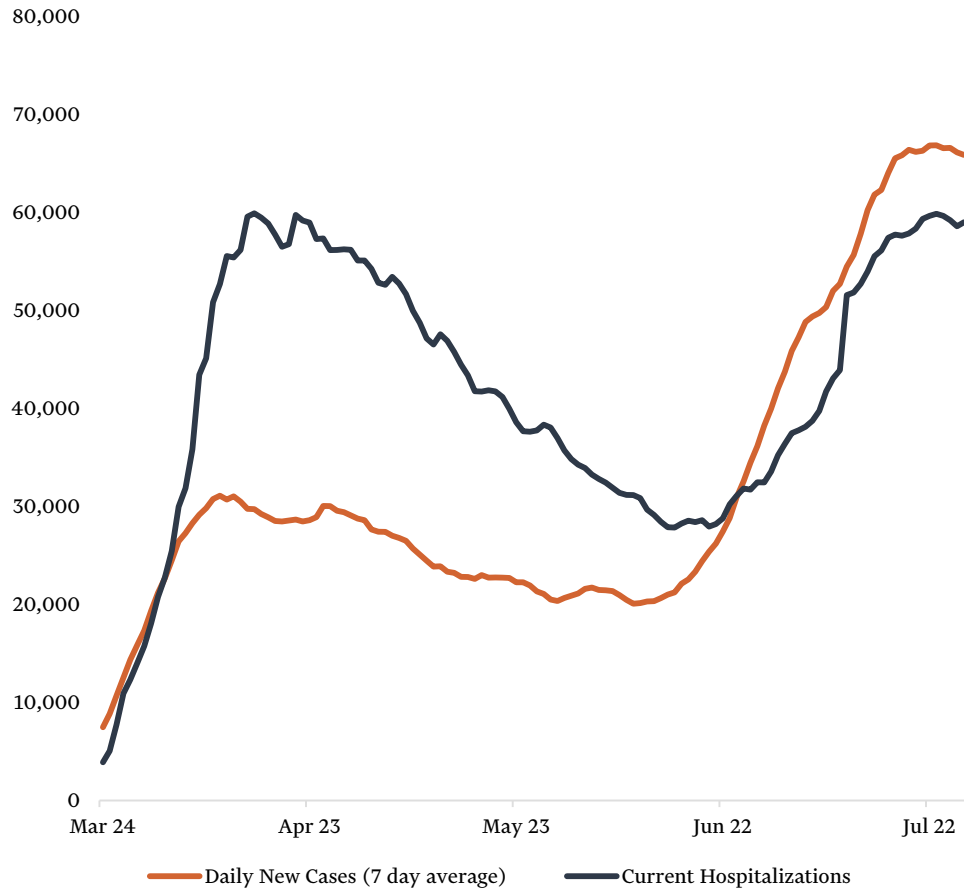
Asset Class Returns



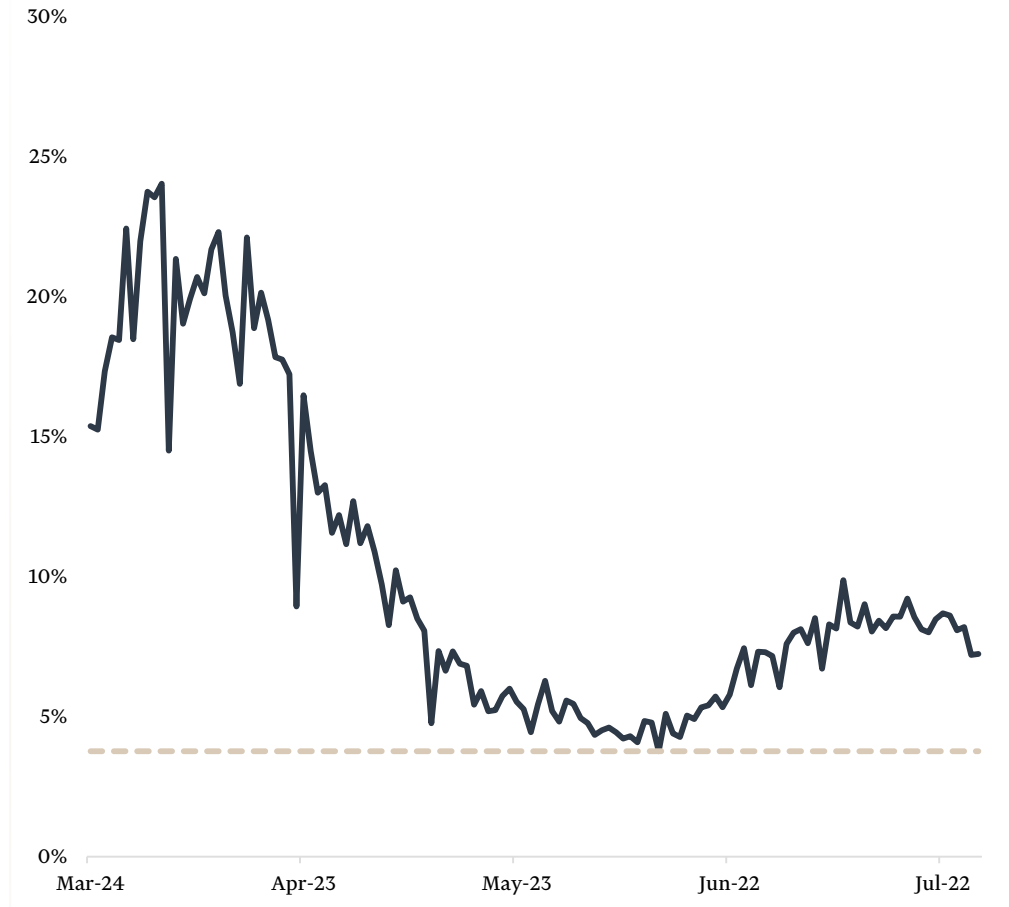
COVID Data in the U.S.

Recent metrics show a resurgence in the COVID case count.

U.S. Daily Cases & Hospitalizations



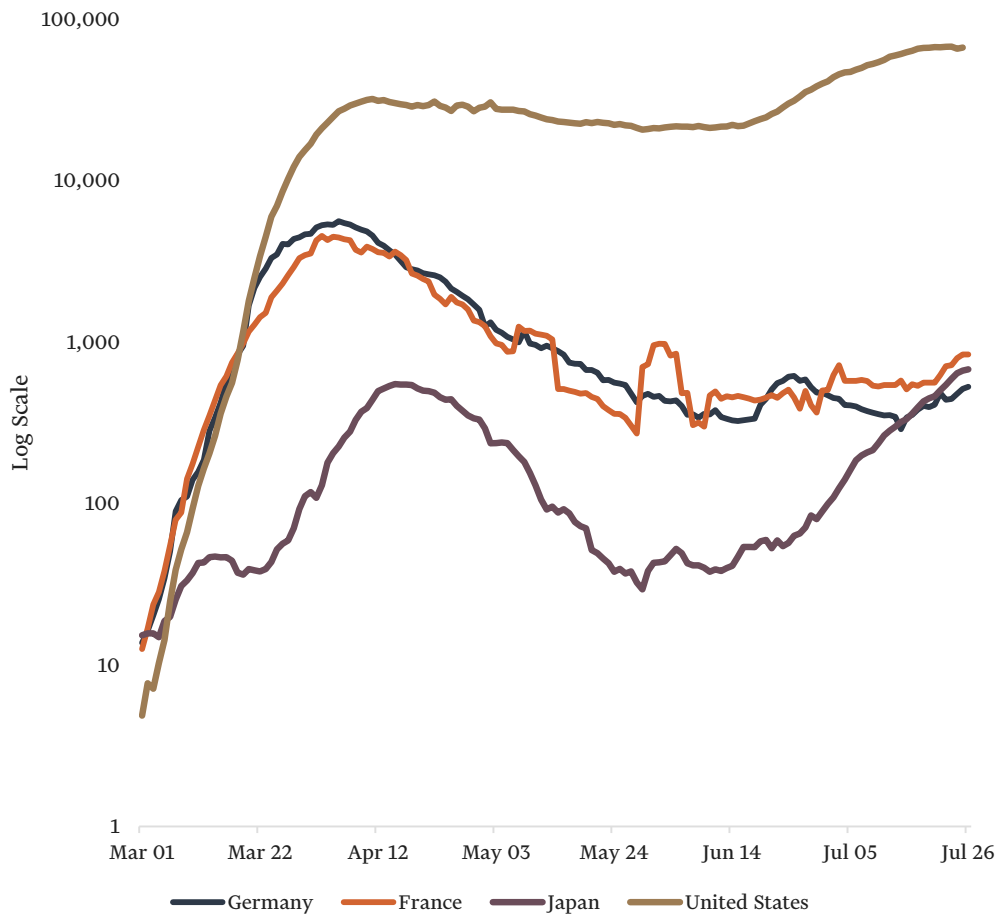
U.S. Positive Test Rate



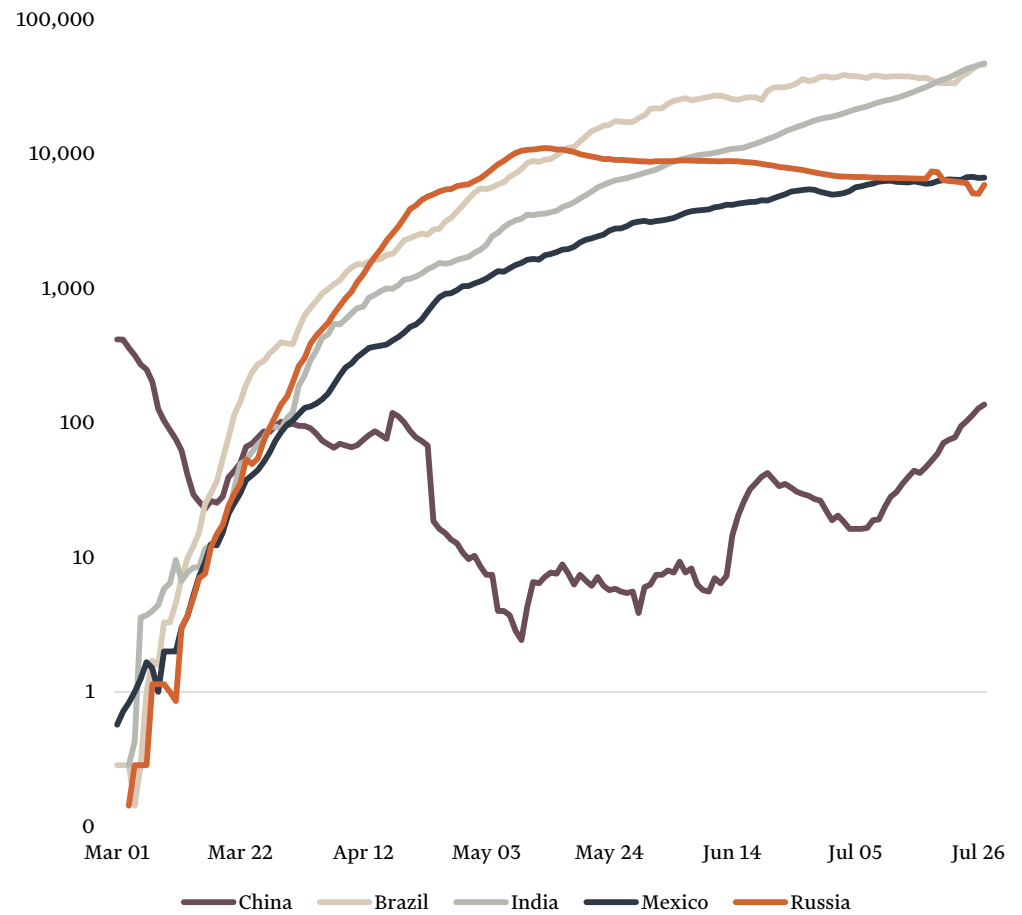
Outside the U.S.

The spread of COVID 19 remains controlled in the developed world.

Advanced Markets Daily New Cases (7 Day Average)



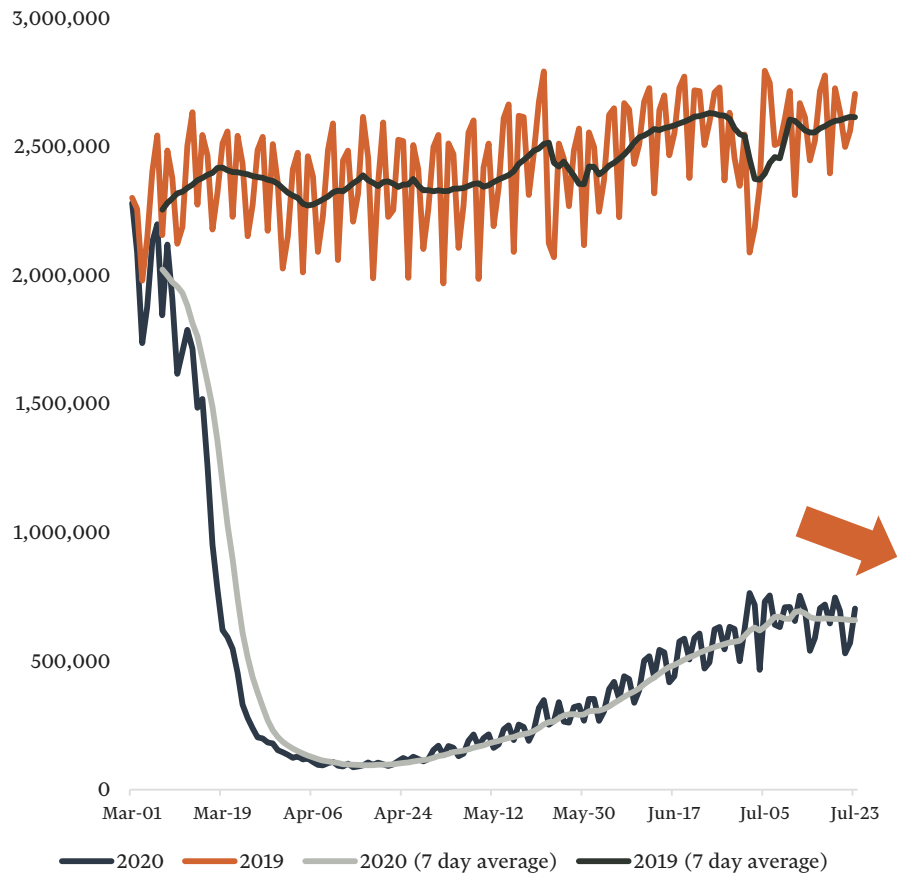
Emerging Markets Daily New Cases (7 Day Average)



What is High Frequency Data Saying?

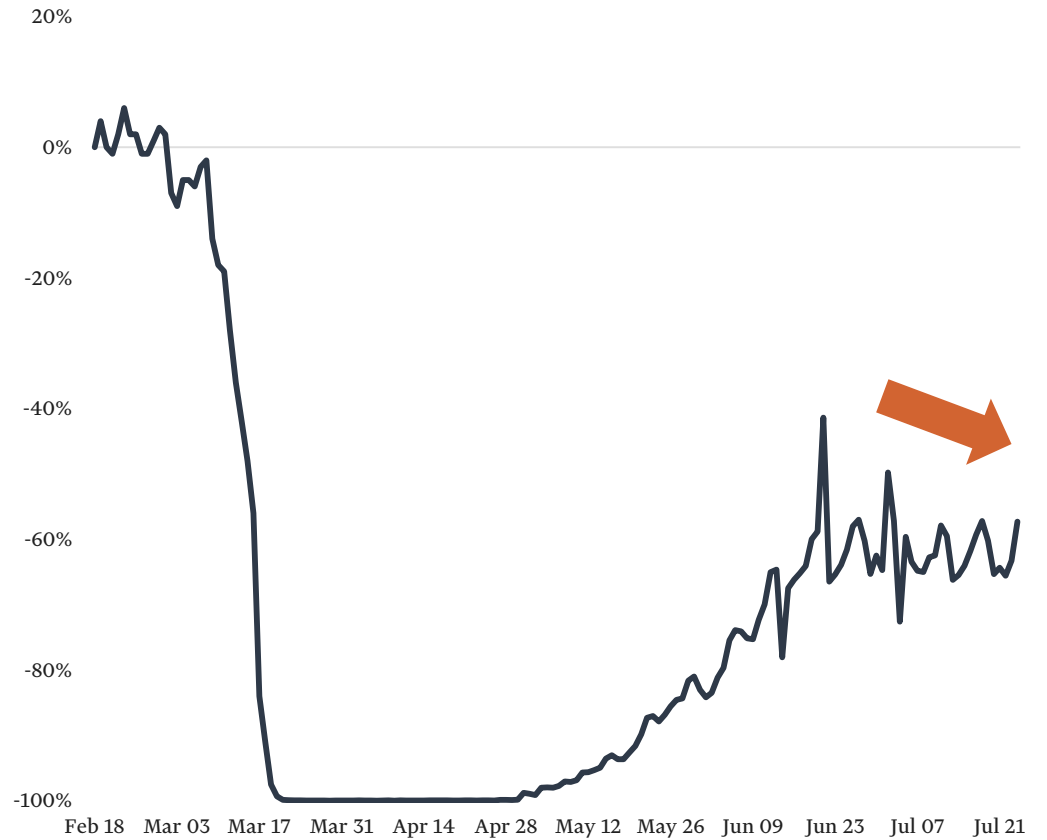
Fundamentals are showing a slow down from the state reclosings.

TSA Checkpoint Travel Numbers



Data as of 7/23/2020

Seated Diners on the OpenTable Network (Year-Over-Year %)

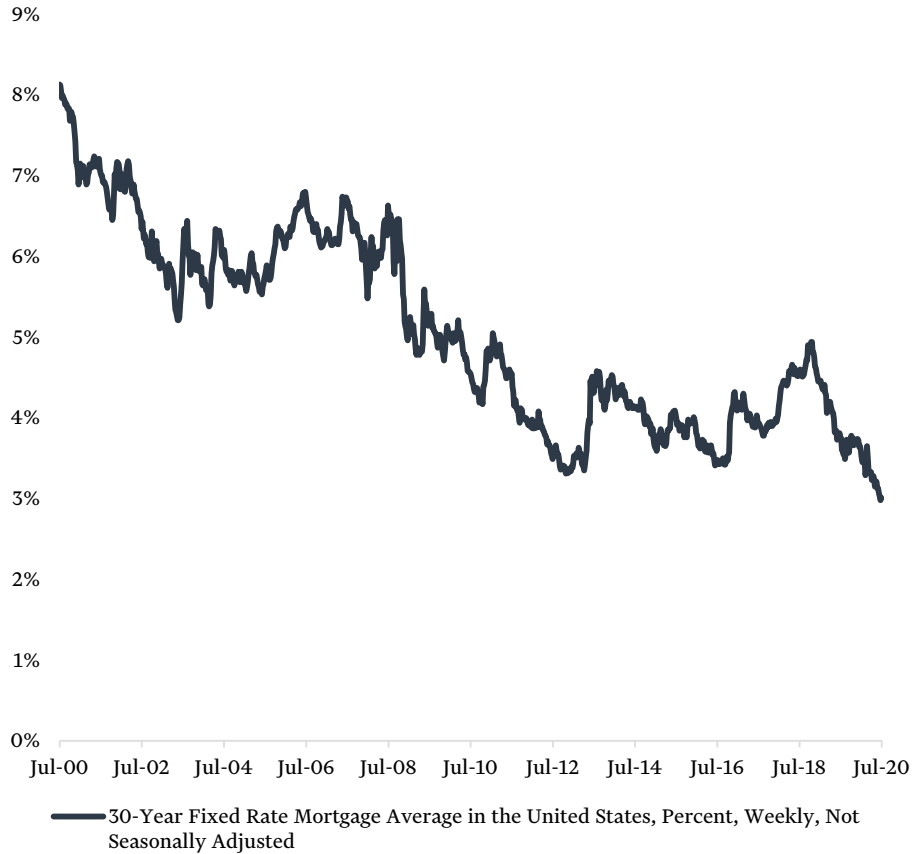


Data as of 7/24/2020

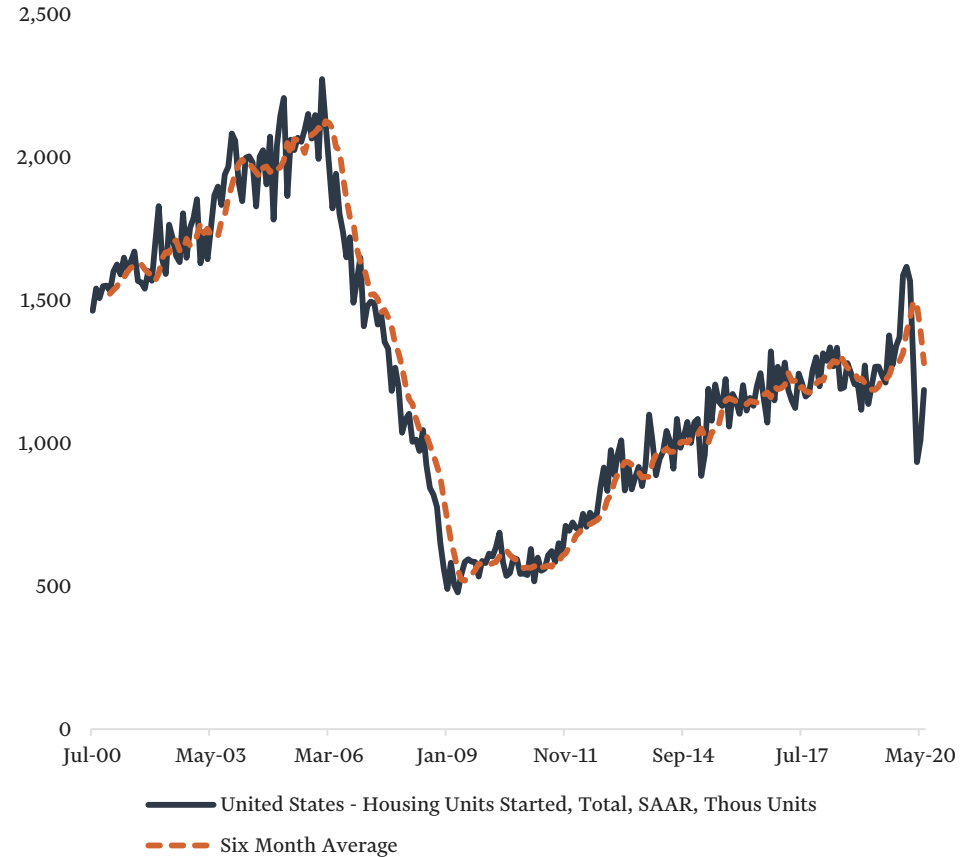
Housing Market

Declining rates and increased mobility have driven a rebound in the housing market.

Mortgage Rate



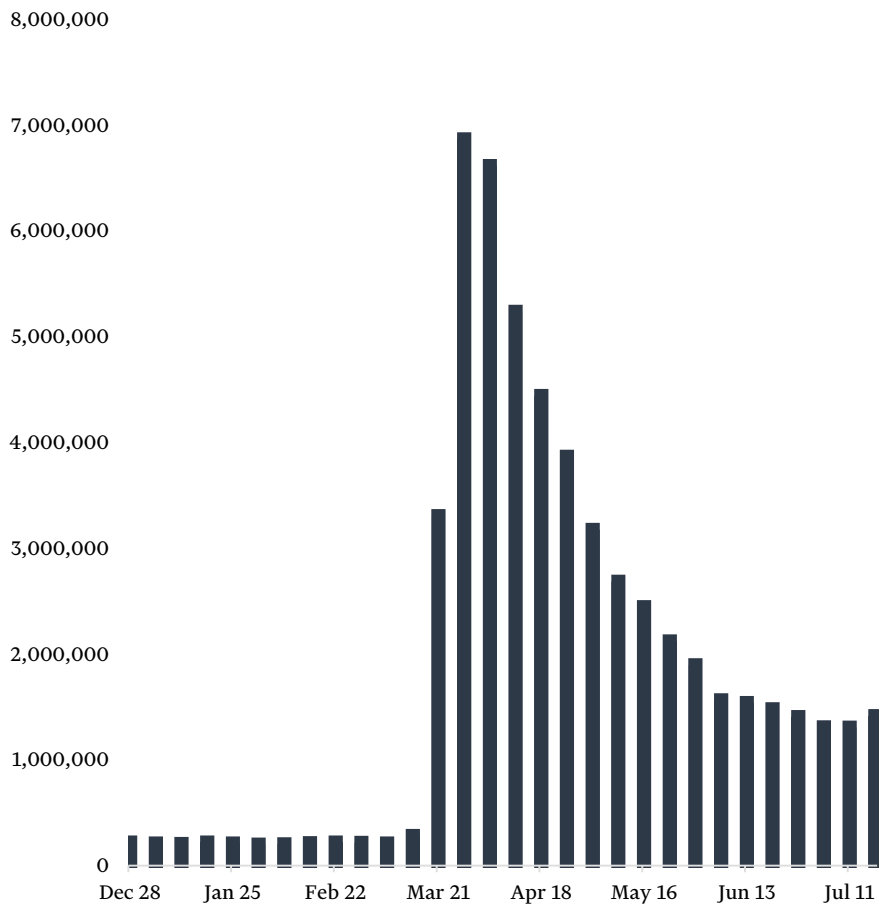
Housing Starts



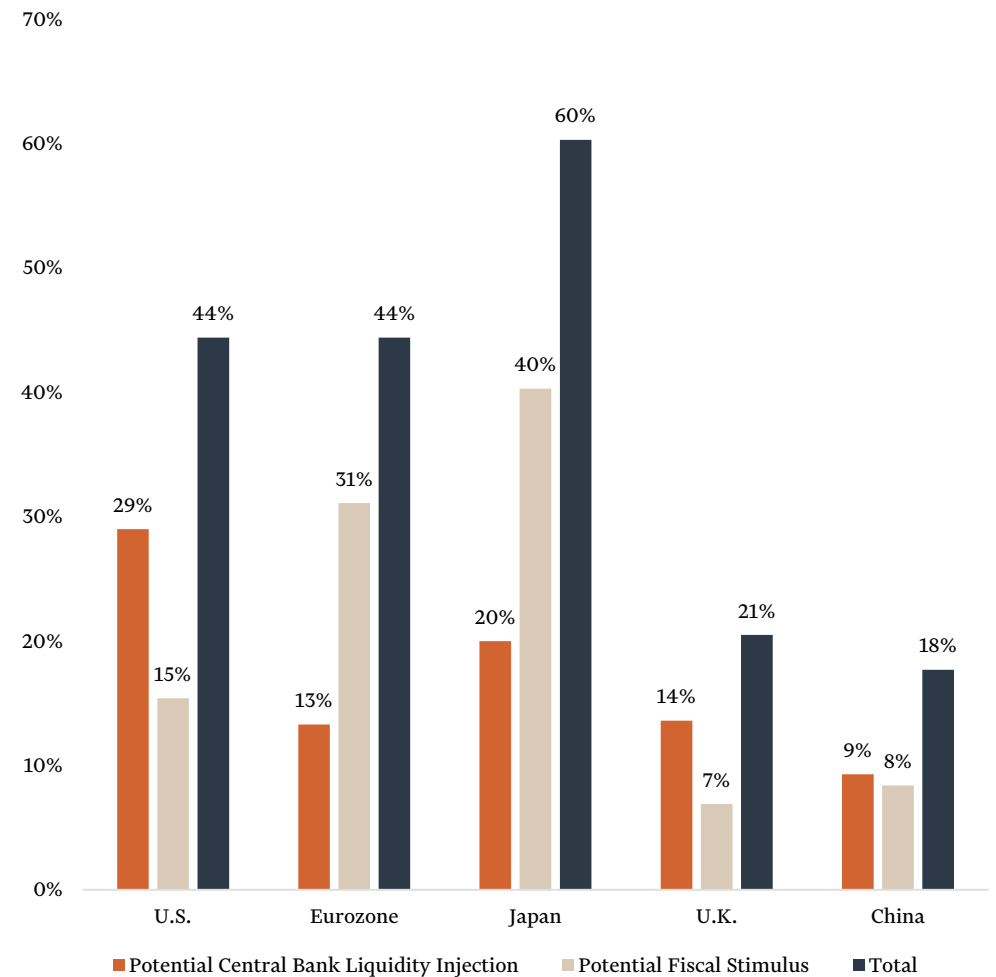
Fiscal Support Needed

Additional fiscal stimulus will be required to boost consumer spending.

Initial Jobless Claims



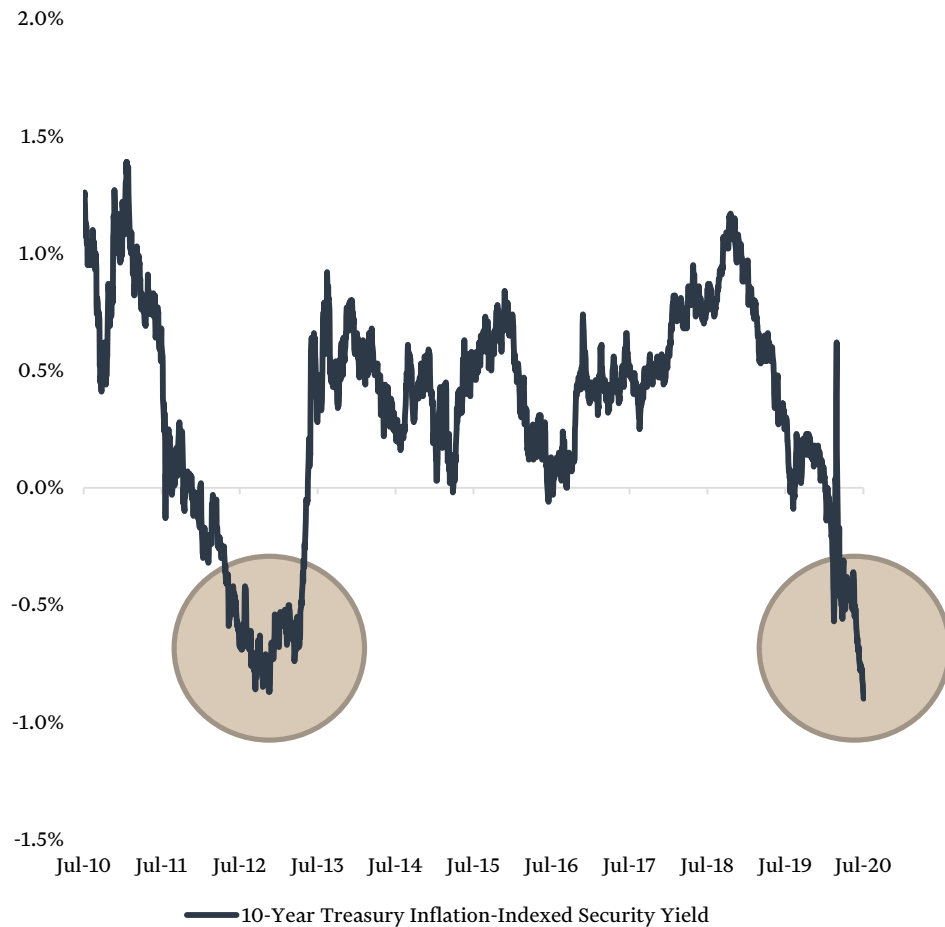
Total Potential Stimulus as a % of GDP



Declining Real Rates

The Fed's commitment to maintain lower rates has numerous consequences for asset markets.

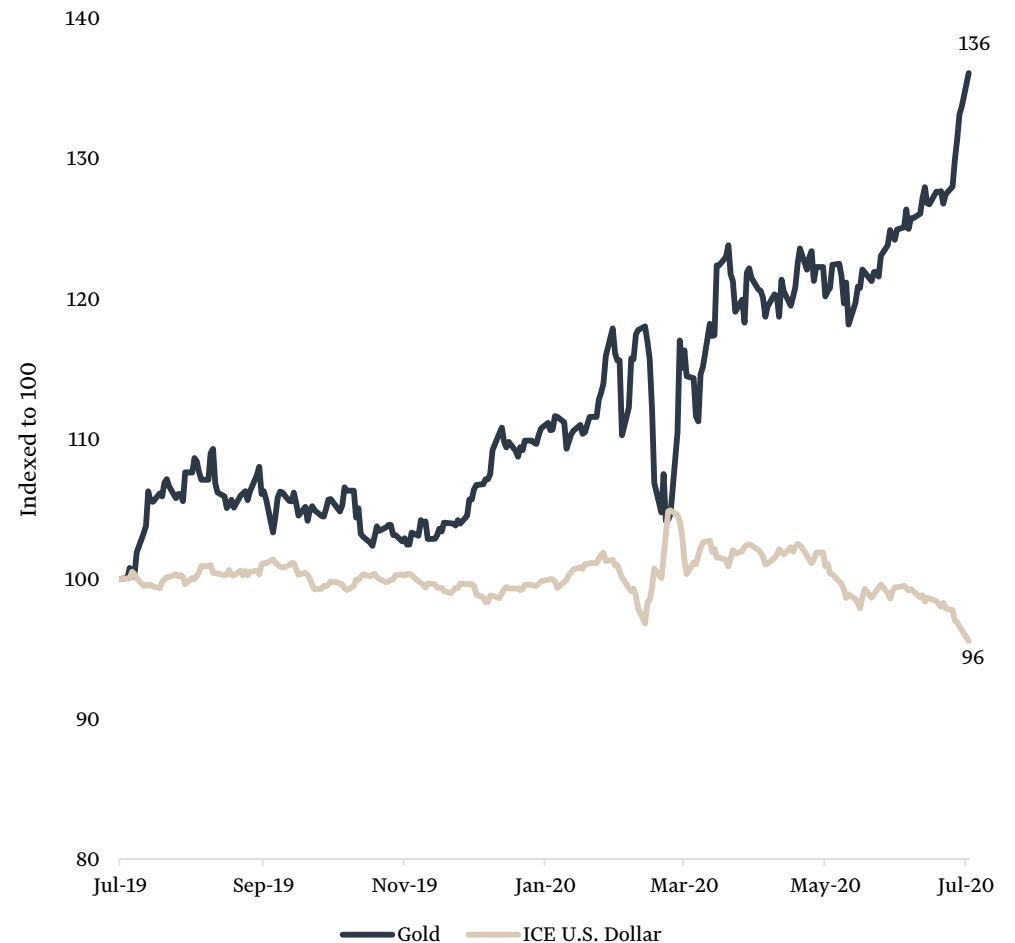
Implied U.S. Interest Real Rate



Data as of 7/23/2020

Advice-driven financial service.

Rising Gold, Falling Dollar



Data as of 7/27/2020

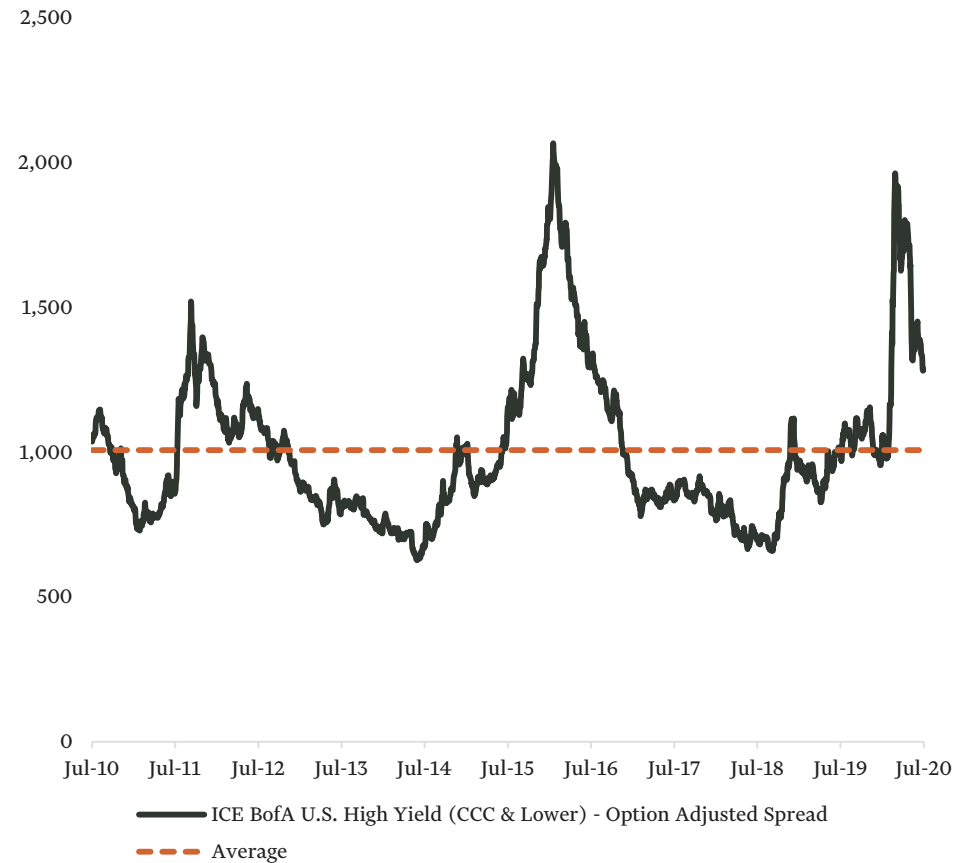
Signs of Normalization in Fixed Income

Areas of the market still showing signs of stress.

U.S. High-Yield Spreads



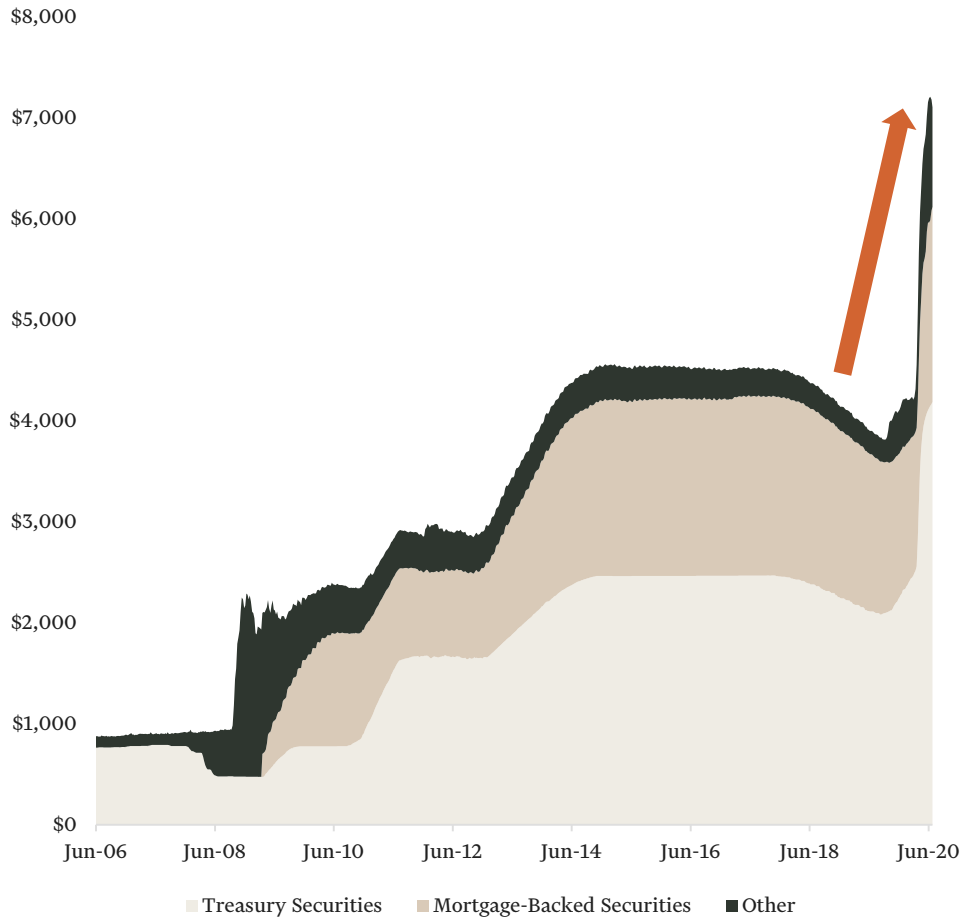
Spreads of U.S. High-Yield CCC Rated & Below



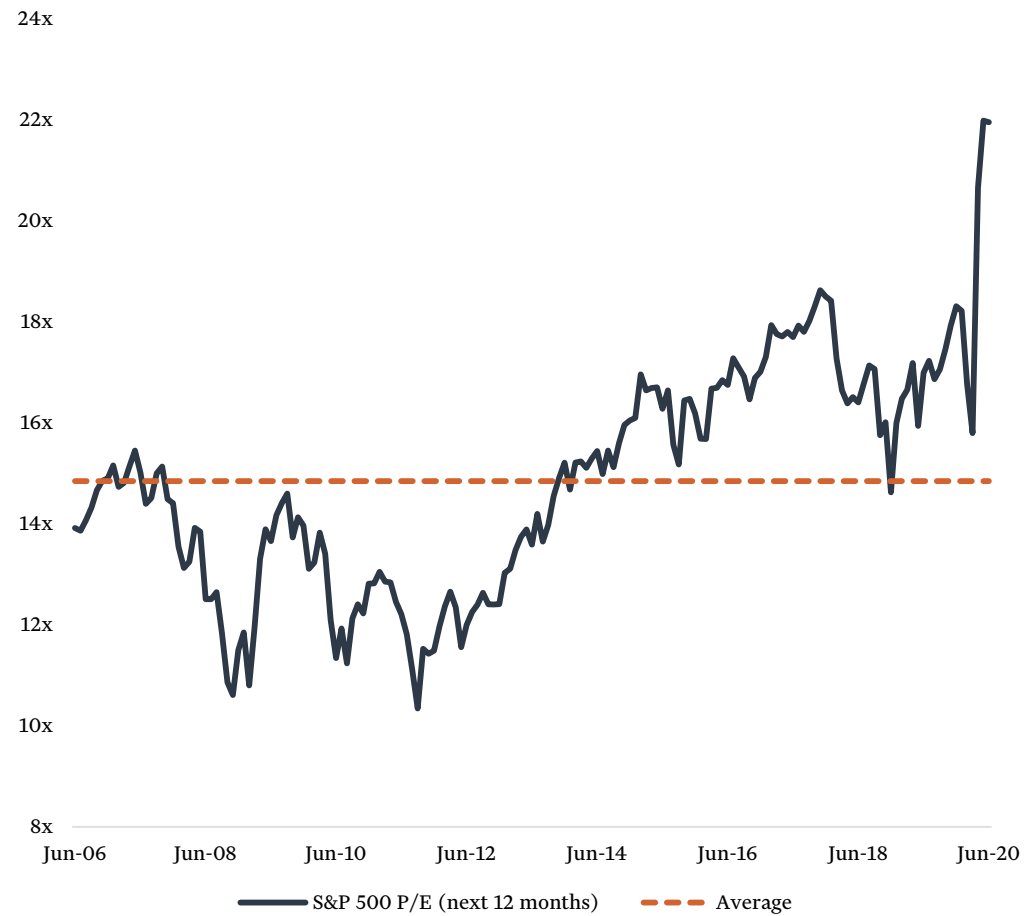
The Market Multiple

Even with uncertainty around 2021 earnings, the market multiple is supported by monetary and fiscal policy.

Federal Reserve Balance Sheet



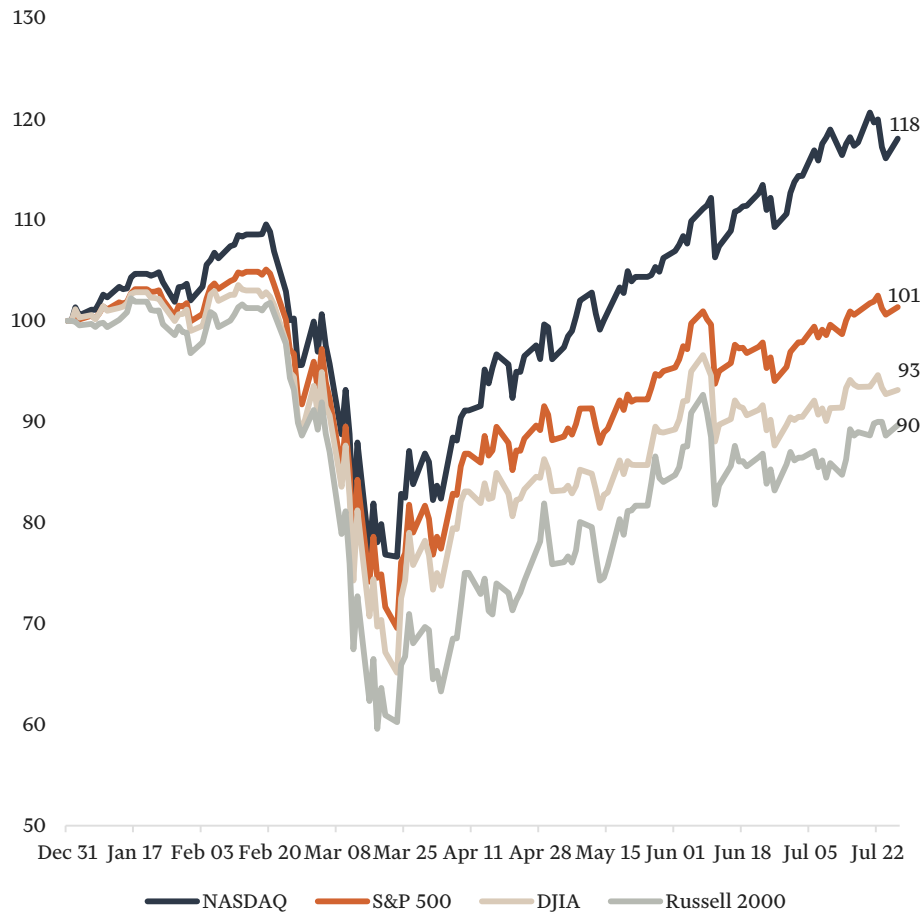
S&P 500 PE Ratio



Not All Indexes are Created Equally

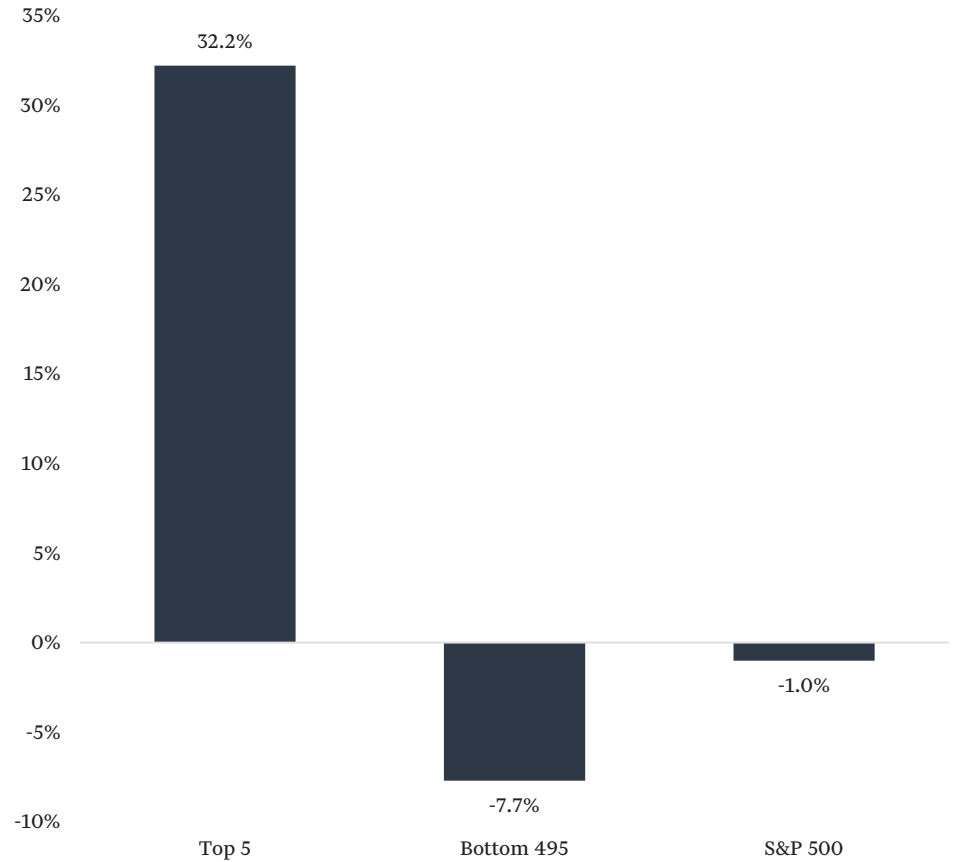
A narrow segment of the market has led the majority of the rally.

Difference in Total Returns Among U.S. Indexes



Data as of 7/27/2020

Top Five Names in the S&P 500 Driving Returns YTD



Data as of 7/17/2020

Concentration Risk in the U.S. Stock Market

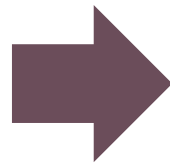
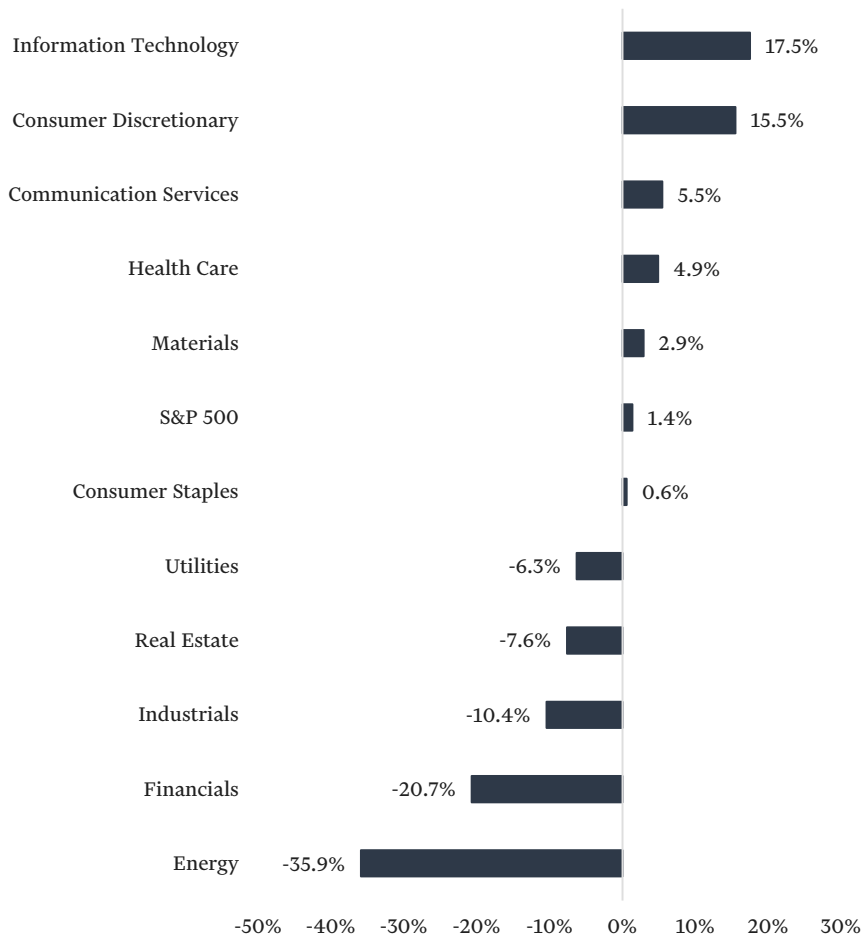
The big keep getting bigger.



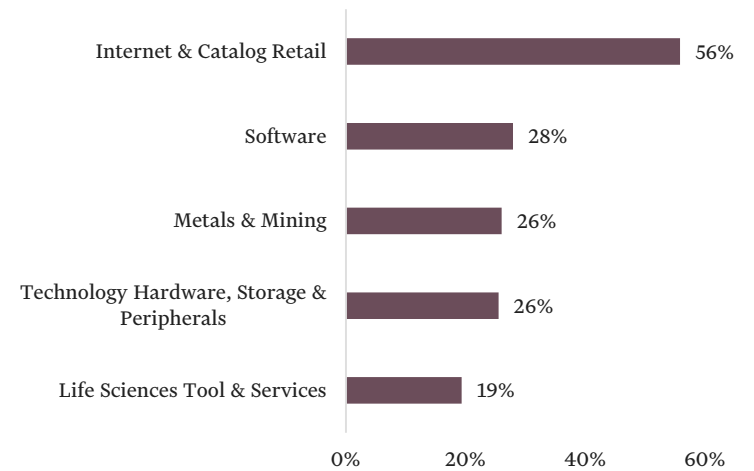
A Tale of Two Markets

Value and growth sectors have diverged further in 2020.

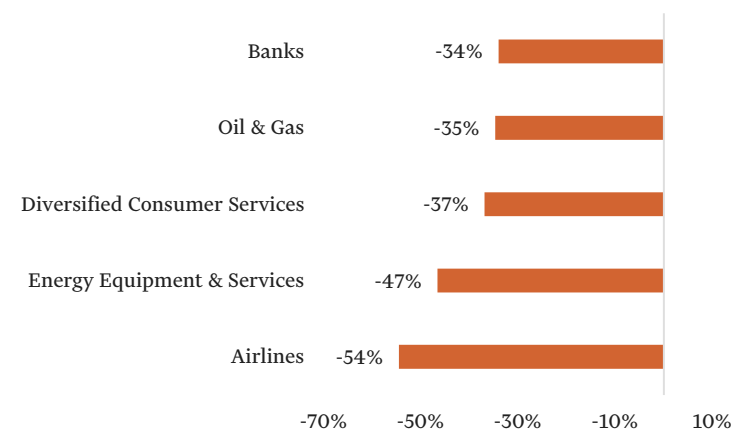
Sector Performance YTD



Top Five Industries



Bottom Five Industries



Additional Risks

With the upcoming election and the renewal of trade frictions with China, the list of market risks is growing.

BREAKING | 21,909 views | Jul 13, 2020, 05:08pm EDT

Biden's Tax Plan Could Cut S&P 500 Earnings By 12%, Goldman Sachs Warns

POLITICS

China vows retaliation after Trump slaps sanctions on it for interference in Hong Kong

PUBLISHED TUE, JUL 14 2020 5:38 PM EDT | UPDATED WED, JUL 15 2020 7:43 AM EDT

Politics

The U.S.-China Trade Deal Risks Falling Victim to Spiraling Ties

Bloomberg News

July 24, 2020, 6:00 AM EDT

Key Takeaways

Recovery will be a process with fits and starts.

International relations are changing (possibly increased onshoring).

COVID-19 crisis has reinforced secular themes (work from home, ecommerce).

Markets are forward looking.

Important Notes

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