

# The State of the Market

## Lower & Later: Repricing an Uncertain Future

March 2020

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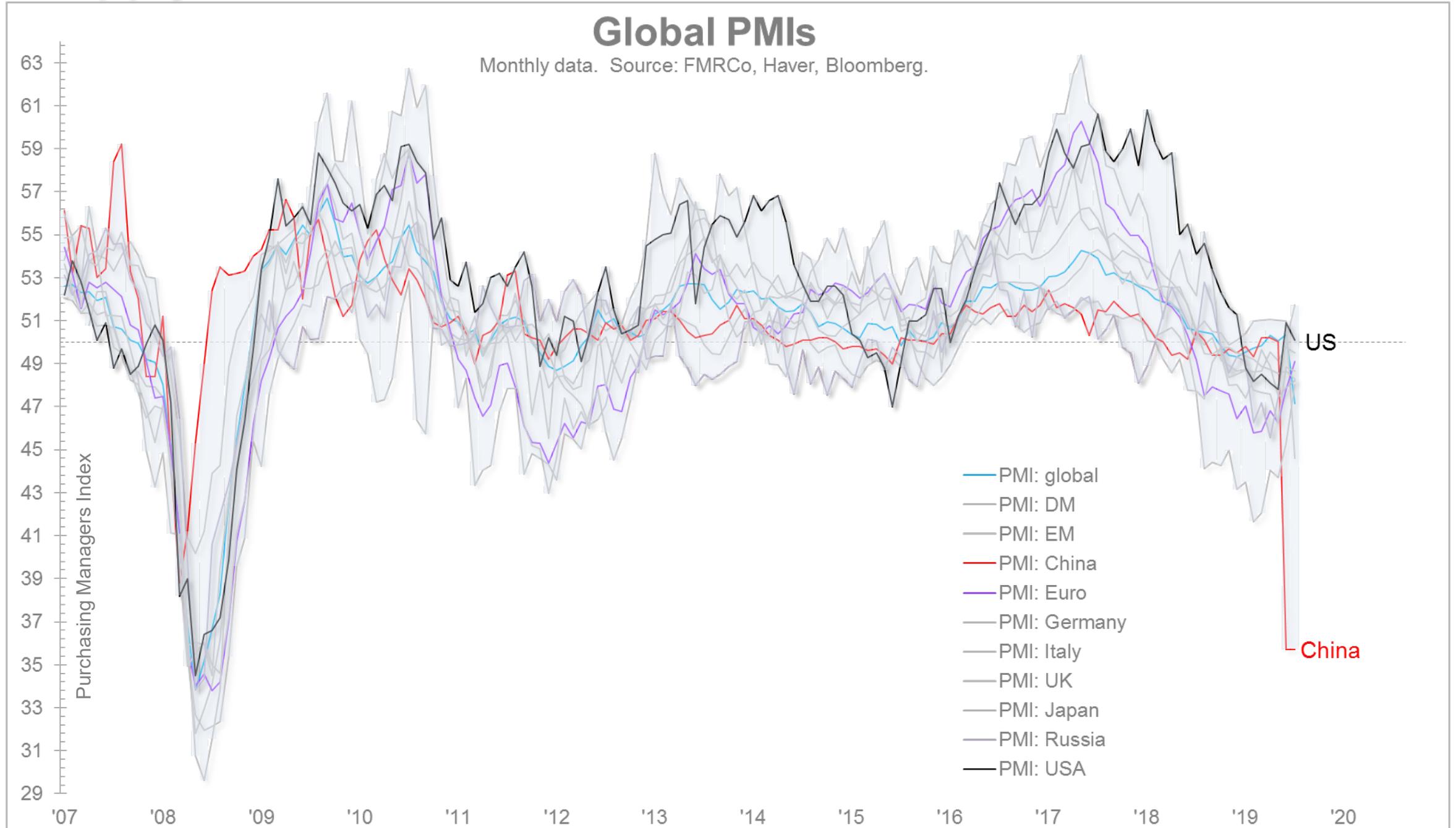
Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 02/28/2020.



# What Just Happened?

## Covid-19 Goes Global

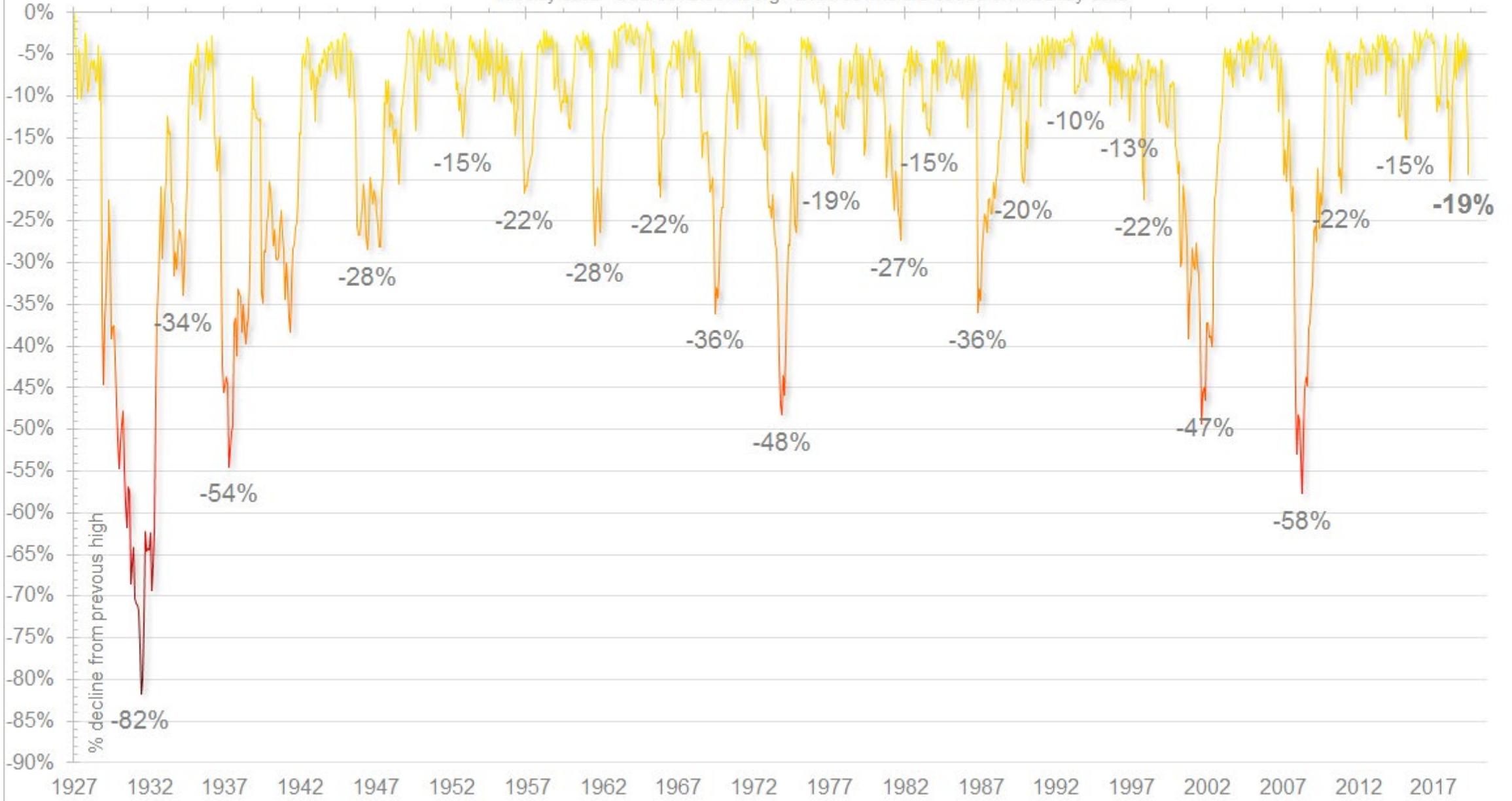
# Supply & Demand Shock



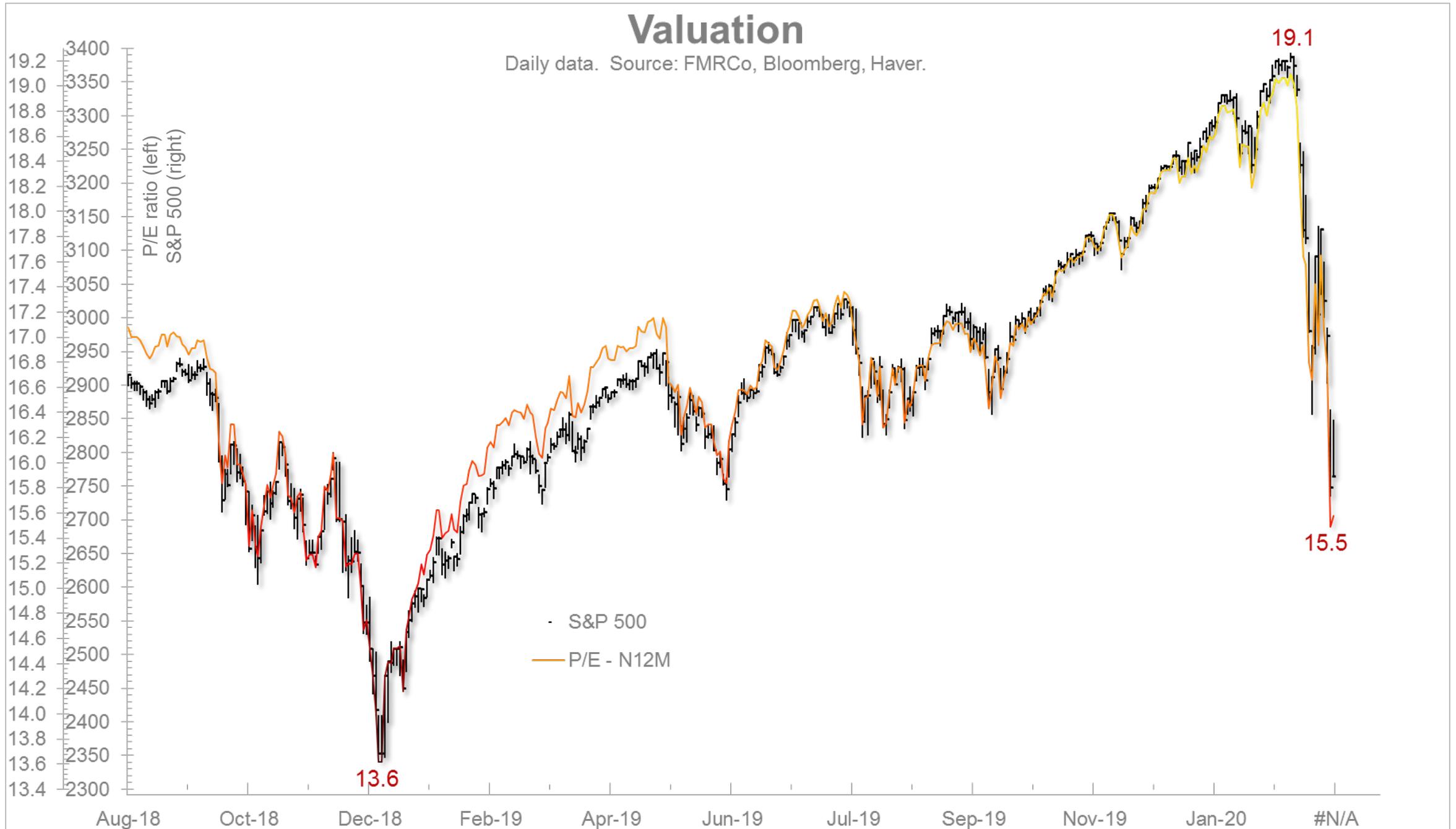
# The Decline in Historical Context

## S&P 500 Index Drawdowns - from 2 year highs

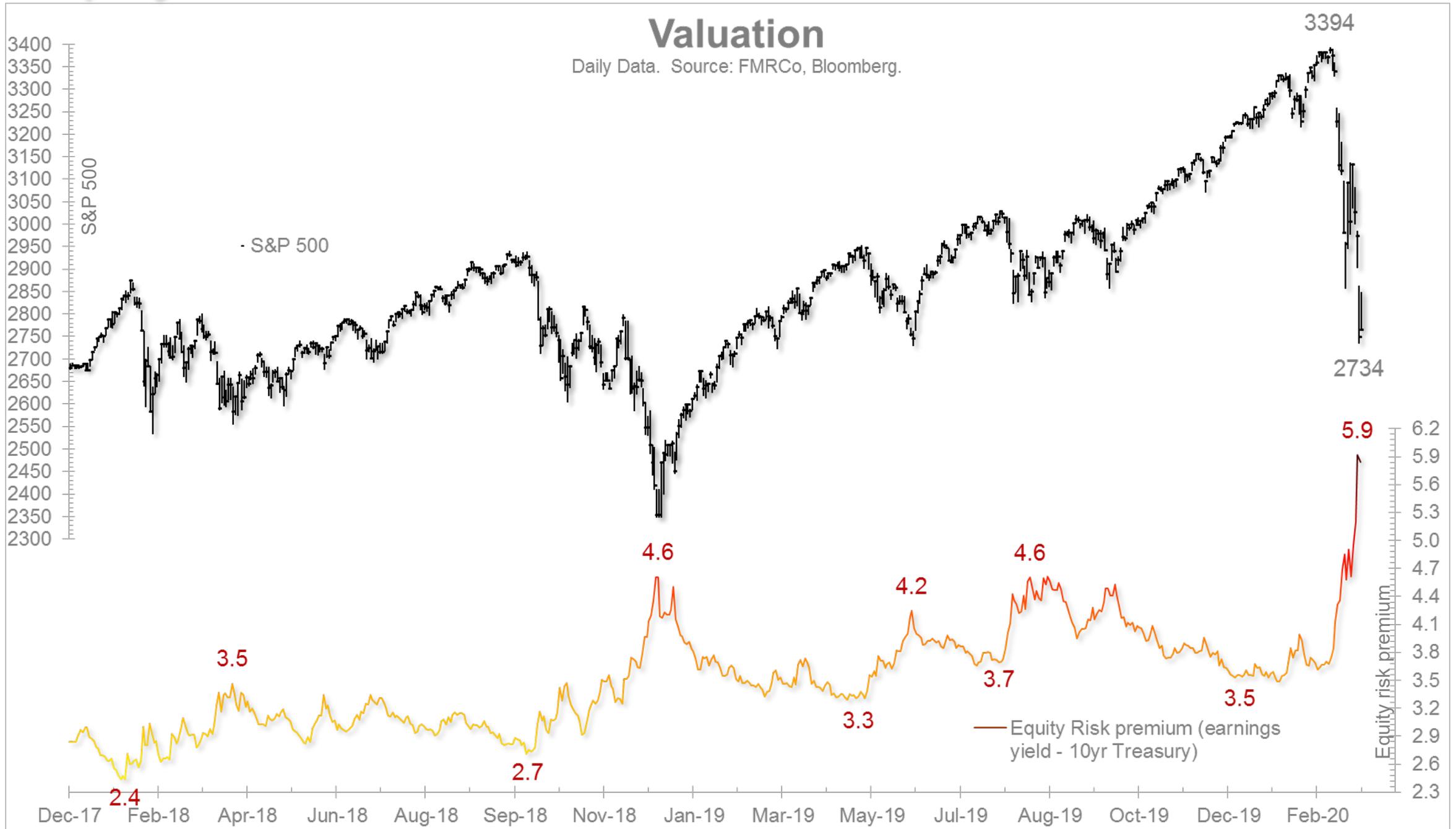
Weekly data. Source: Bloomberg. Drawdowns are based on intraday data



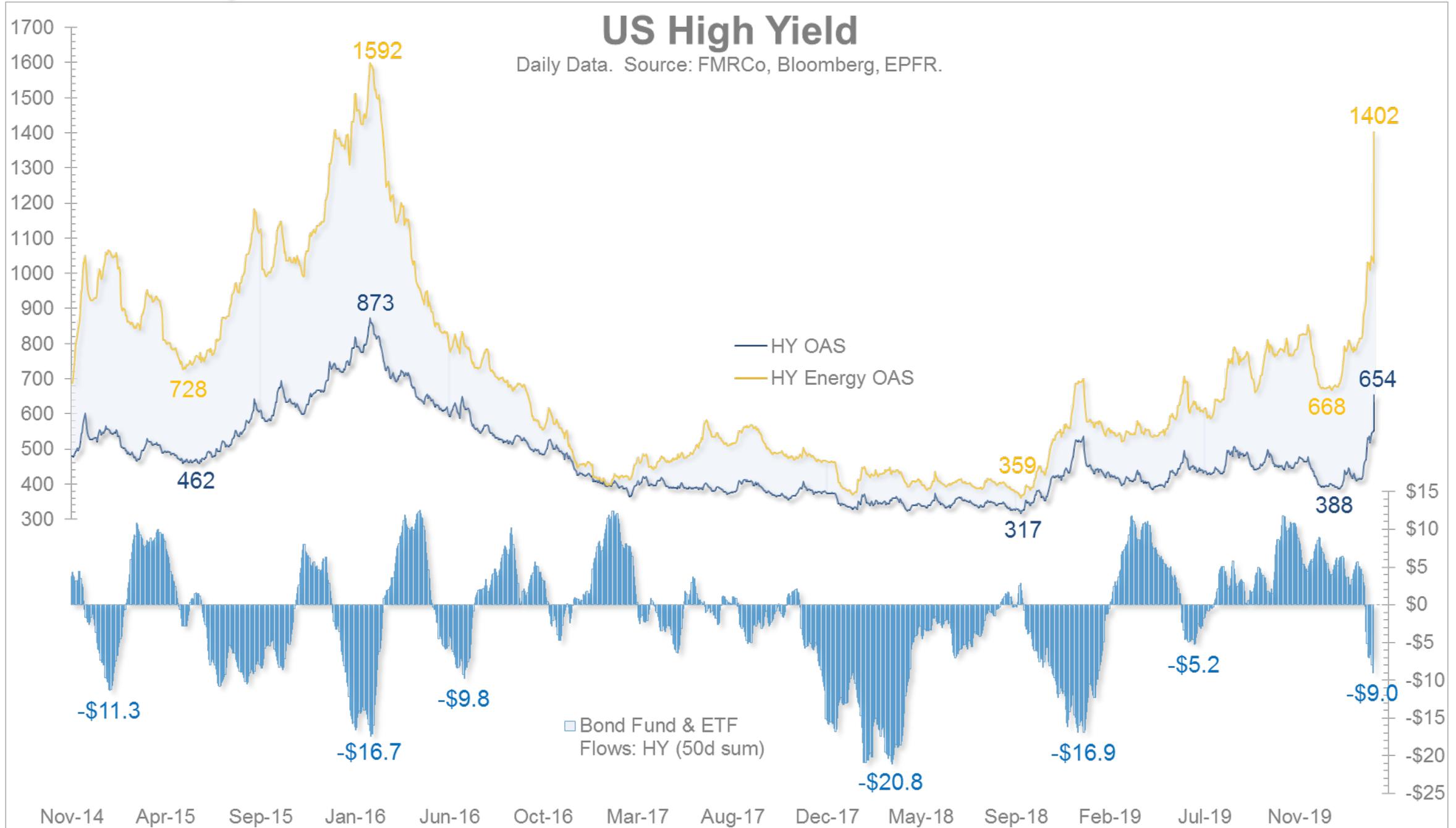
# Valuation Reset



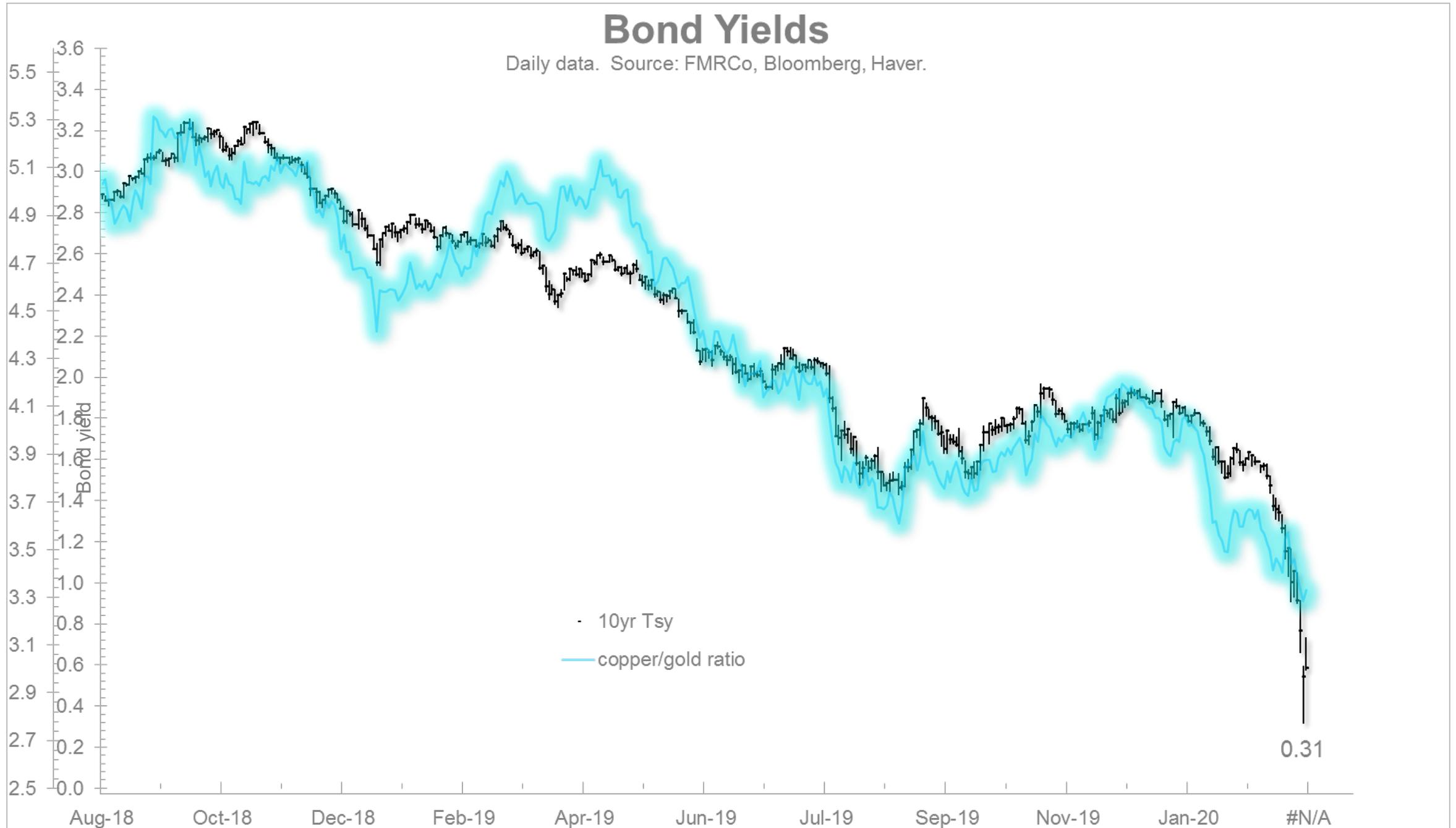
# Equity Risk Premium



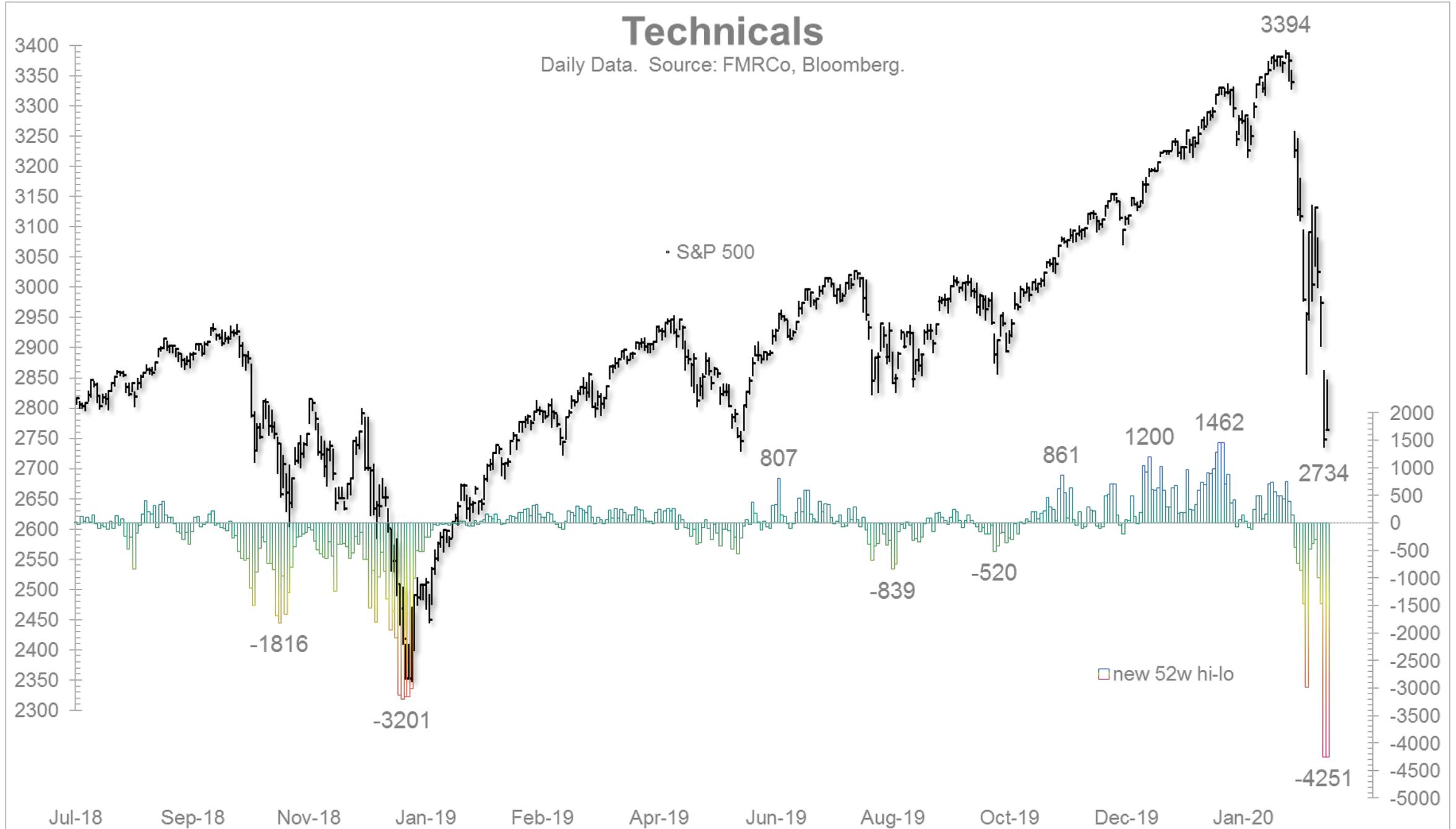
# Credit Spreads



# Bond Yields at Record Lows



# Oversold

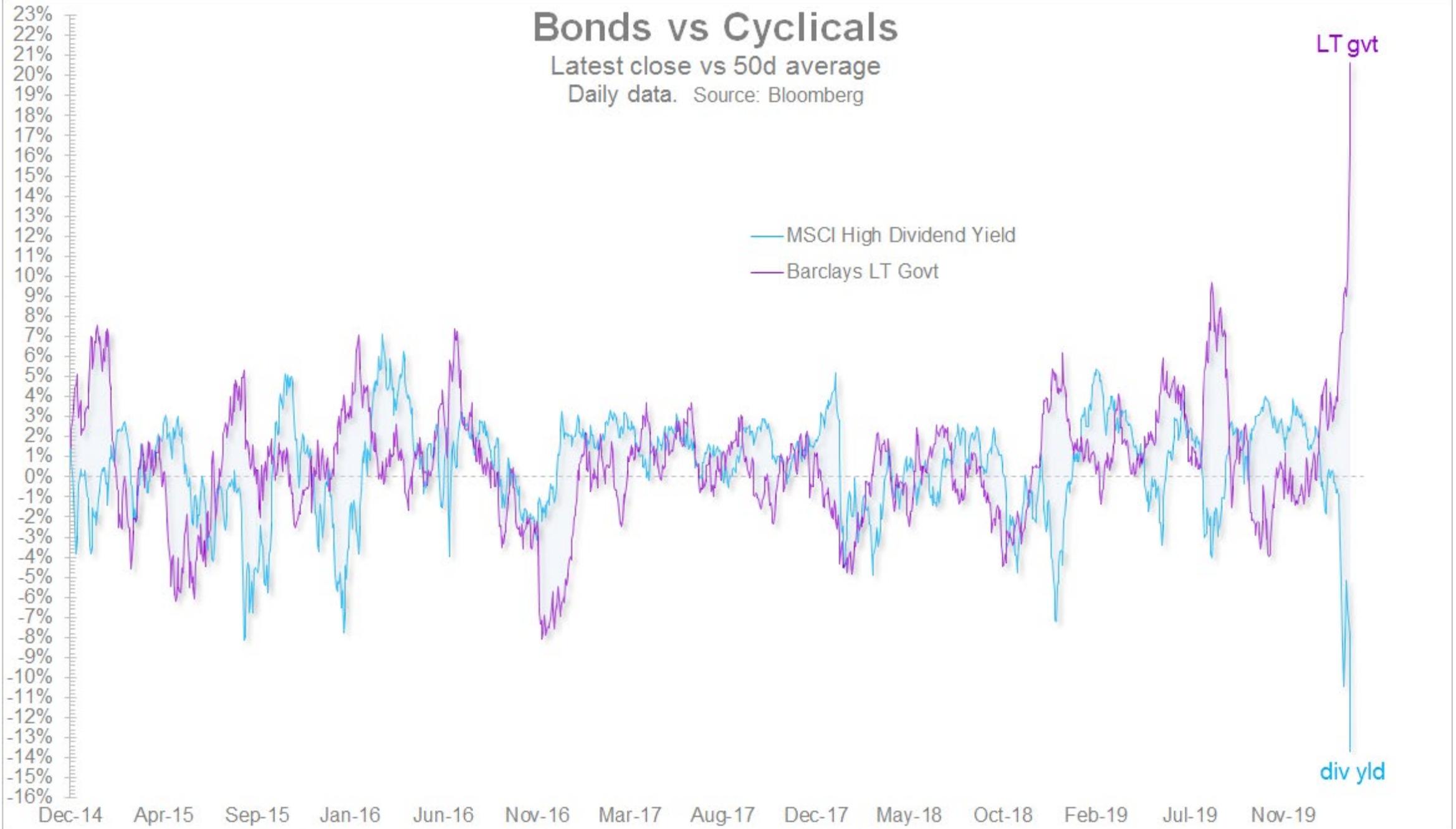


# Rotation at an Extreme

## Bonds vs Cyclicals

Latest close vs 50d average

Daily data. Source: Bloomberg

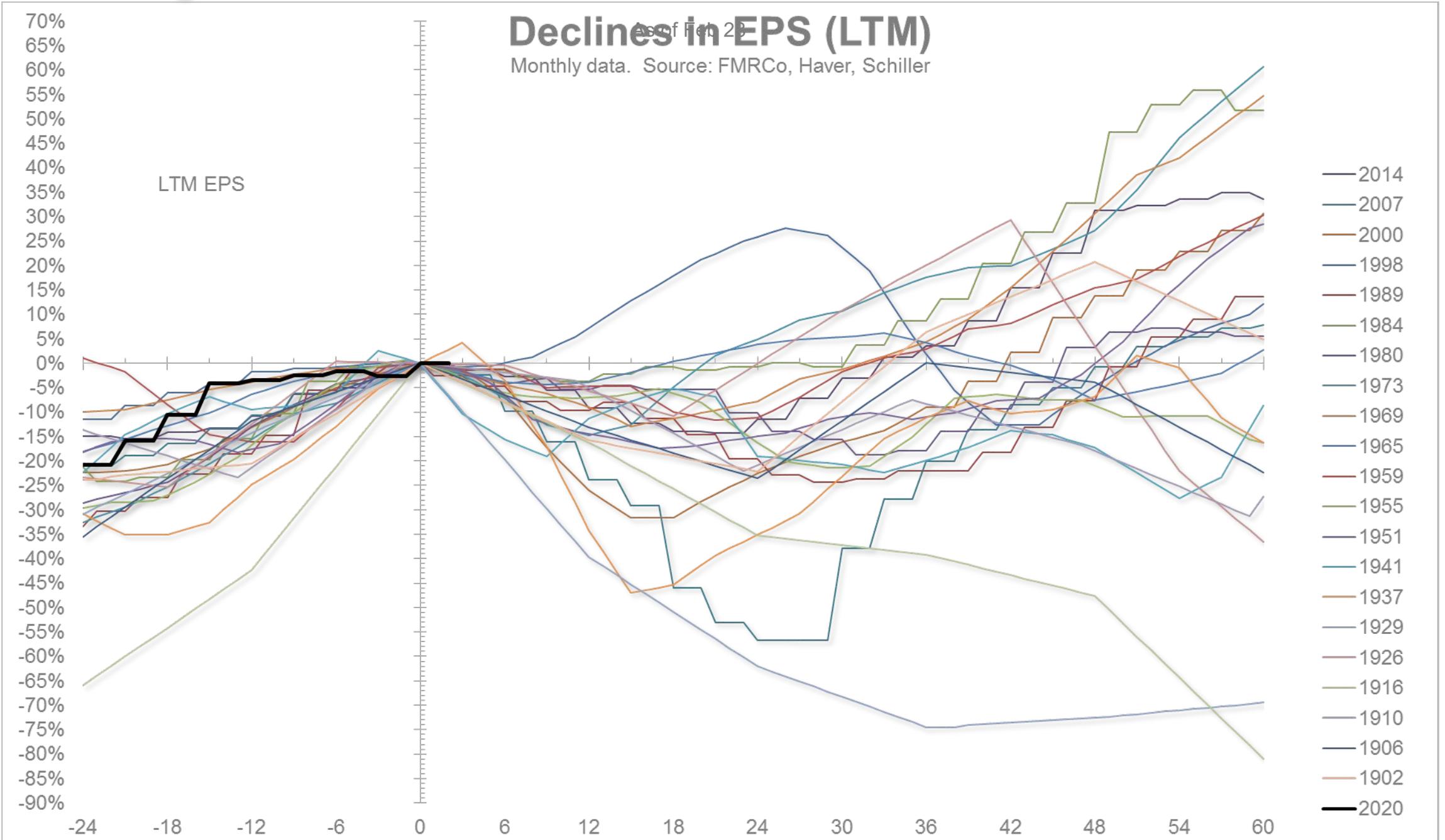


# Technical Recession? Historical Analogs

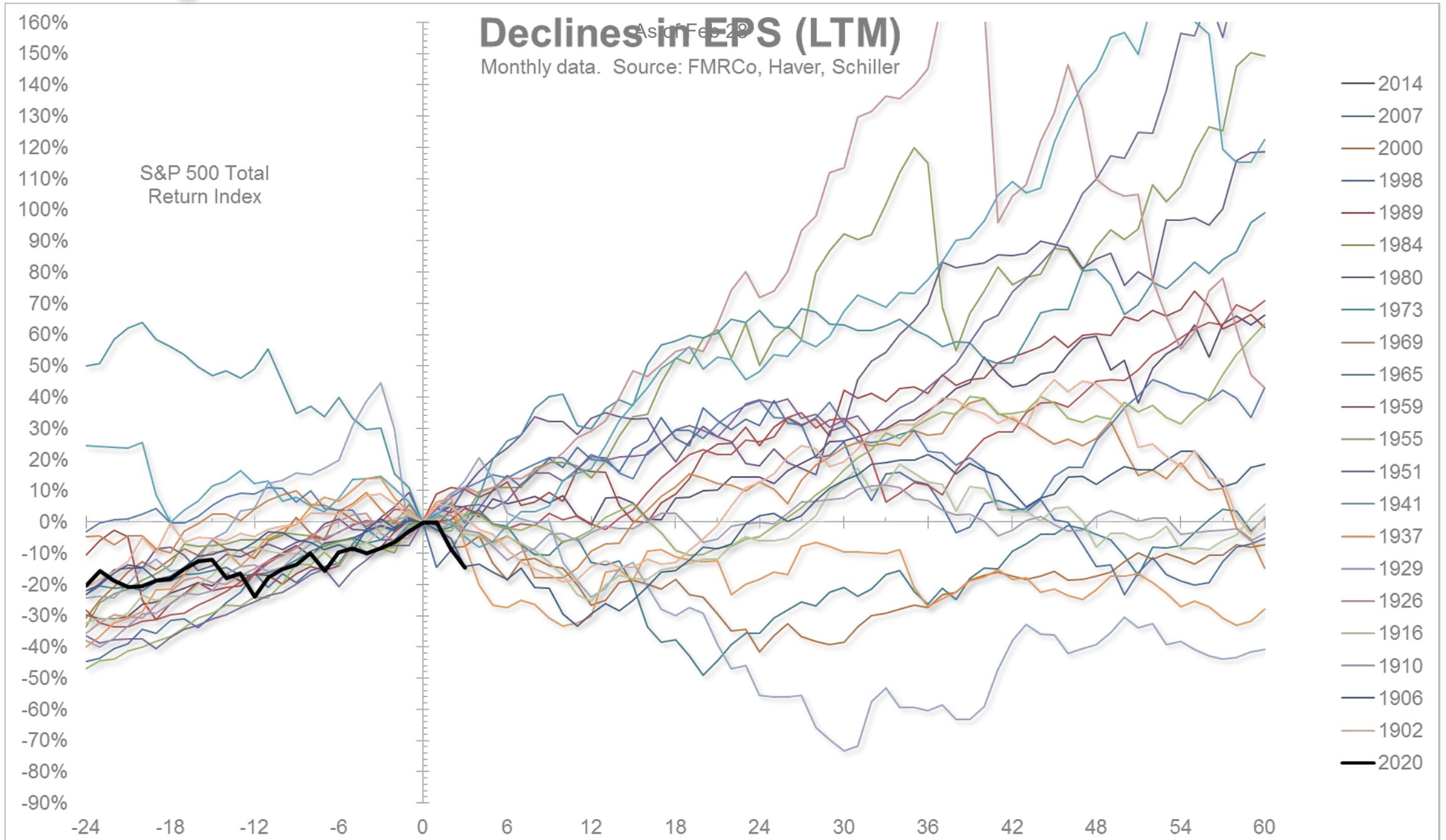
# Earnings Declines

## Declines in EPS (LTM)

Monthly data. Source: FMRCo, Haver, Schiller



# Earnings Declines

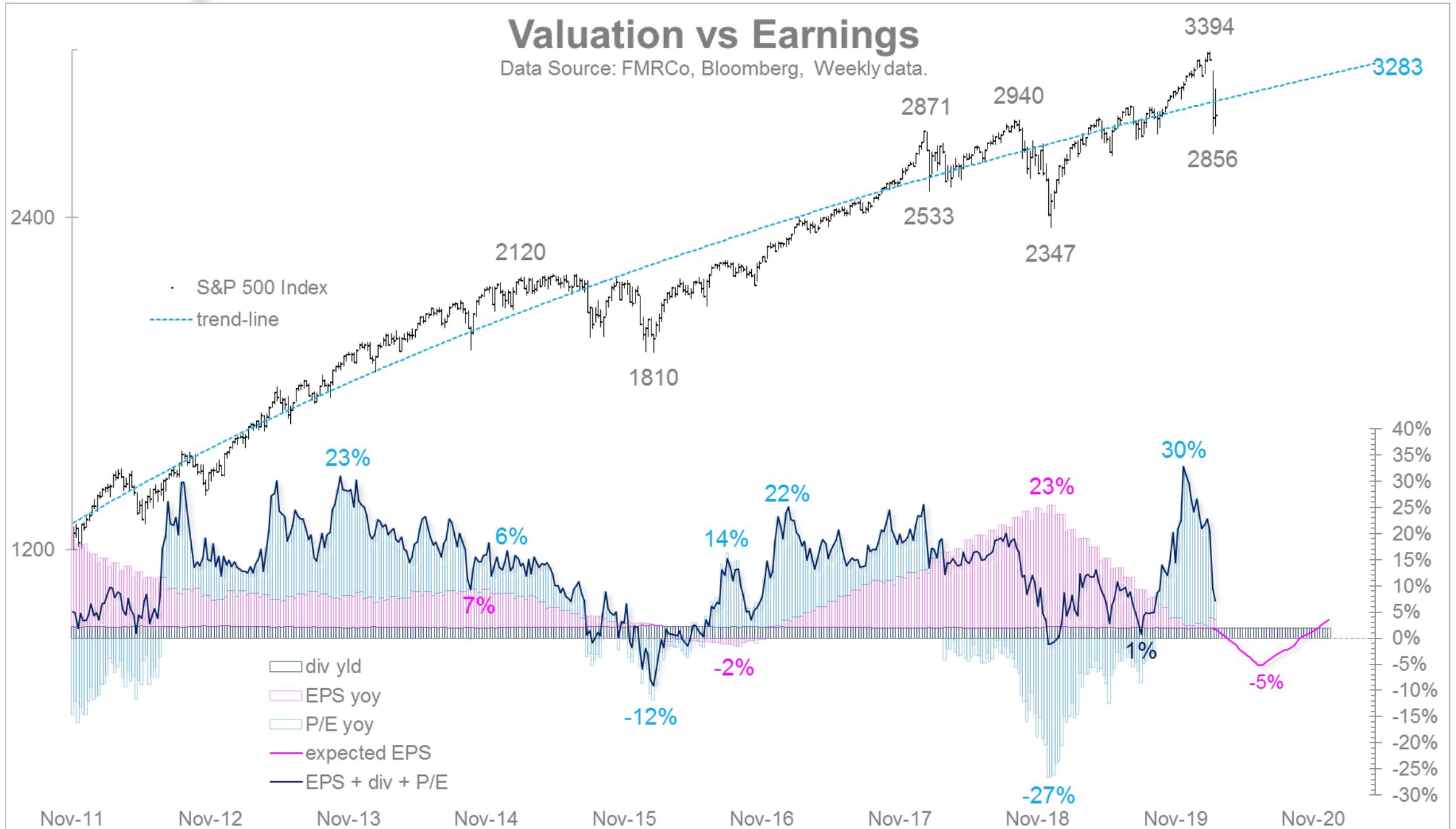


# Recession! Buy or Sell?

	1998			1990			1967	
	SPX	%rec		SPX	%rec		SPX	%rec
4/30/1998	-5%	1%	6/29/1990	-5%	9%	4/29/1966	-4%	2%
5/29/1998	-5%	1%	7/31/1990	-5%	12%	5/31/1966	-11%	2%
6/30/1998	-6%	1%	8/31/1990	-17%	10%	6/30/1966	-10%	3%
7/31/1998	-6%	1%	9/28/1990	-20%	6%	7/29/1966	-11%	2%
8/31/1998	-20%	1%	<b>10/31/1990</b>	<b>-20%</b>	<b>17%</b>	8/31/1966	-21%	8%
9/30/1998	-21%	1%	11/30/1990	-18%	30%	9/30/1966	-19%	9%
10/30/1998	-22%	3%	12/31/1990	-13%	68%	<b>10/31/1966</b>	<b>-22%</b>	<b>14%</b>
11/30/1998	-8%	6%	1/31/1991	-16%	72%	11/30/1966	-15%	31%
12/31/1998	-9%	7%	2/28/1991	-8%	88%	12/30/1966	-15%	30%
<b>1/29/1999</b>	<b>-6%</b>	<b>18%</b>	3/29/1991	-4%	90%	1/31/1967	-15%	29%
2/26/1999	-6%	5%	4/30/1991	-5%	86%	2/28/1967	-8%	46%
3/31/1999	-8%	5%	5/31/1991	-6%	79%	3/31/1967	-7%	49%
4/30/1999	-6%	2%	6/28/1991	-6%	48%	4/28/1967	-6%	60%
			7/31/1991	-5%	31%	5/31/1967	-6%	42%
			8/30/1991	-6%	12%	6/30/1967	-7%	18%
			9/30/1991	-4%	3%	7/31/1967	-4%	19%
			10/31/1991	-5%	2%	8/31/1967	-3%	14%
						9/29/1967	-4%	8%
						10/31/1967	-4%	6%
						11/30/1967	-7%	3%
						12/29/1967	-3%	2%

	2007-2009			2000-2002			1973			1970	
	SPX	%rec		SPX	%rec		SPX	%rec		SPX	%rec
10/31/2007	-5%	9%	8/31/2000	-8%	1%	1/31/1973	-4%	0%	5/30/1969	-5%	1%
11/30/2007	-11%	7%	9/29/2000	-9%	3%	2/28/1973	-8%	0%	6/30/1969	-11%	2%
12/31/2007	-9%	9%	10/31/2000	-16%	4%	3/30/1973	-9%	0%	7/31/1969	-17%	2%
<b>1/31/2008</b>	<b>-19%</b>	<b>35%</b>	11/30/2000	-17%	10%	4/30/1973	-11%	0%	8/29/1969	-15%	2%
2/29/2008	-16%	29%	<b>12/29/2000</b>	<b>-19%</b>	<b>22%</b>	5/31/1973	-15%	0%	9/30/1969	-14%	5%
3/31/2008	-20%	63%	1/31/2001	-18%	22%	6/29/1973	-15%	0%	10/31/1969	-15%	7%
4/30/2008	-16%	73%	2/28/2001	-22%	58%	7/31/1973	-16%	0%	<b>11/28/1969</b>	<b>-14%</b>	<b>22%</b>
5/30/2008	-13%	87%	3/30/2001	-30%	69%	8/31/1973	-16%	2%	12/31/1969	-18%	29%
6/30/2008	-19%	85%	4/30/2001	-30%	84%	9/28/1973	-14%	4%	1/30/1970	-22%	23%
7/31/2008	-24%	81%	5/31/2001	-21%	87%	10/31/1973	-10%	4%	2/27/1970	-21%	42%
8/29/2008	-21%	78%	6/29/2001	-23%	88%	<b>11/30/1973</b>	<b>-20%</b>	<b>25%</b>	3/31/1970	-20%	50%
9/30/2008	-30%	79%	7/31/2001	-25%	88%	12/31/1973	-23%	27%	4/30/1970	-26%	58%
10/31/2008	-47%	56%	8/31/2001	-28%	87%	1/31/1974	-23%	29%	5/29/1970	-36%	75%
11/28/2008	-53%	72%	9/28/2001	-39%	88%	2/28/1974	-25%	34%	6/30/1970	-33%	72%
12/31/2008	-48%	82%	10/31/2001	-34%	76%	3/29/1974	-22%	34%	7/31/1970	-34%	67%
1/30/2009	-49%	85%	11/30/2001	-32%	77%	4/30/1974	-26%	47%	8/31/1970	-31%	66%
2/27/2009	-53%	89%	12/31/2001	-28%	84%	5/31/1974	-28%	54%	9/30/1970	-25%	68%
3/31/2009	-58%	78%	1/31/2002	-30%	65%	6/28/1974	-28%	51%	10/30/1970	-23%	62%
4/30/2009	-50%	83%	2/28/2002	-31%	49%	7/31/1974	-34%	54%	11/30/1970	-24%	45%
5/29/2009	-45%	68%	3/29/2002	-29%	28%	8/30/1974	-42%	52%	12/31/1970	-19%	9%
6/30/2009	-44%	56%	4/30/2002	-32%	10%	9/30/1974	-47%	57%	1/29/1971	-16%	3%
7/31/2009	-45%	48%	5/31/2002	-32%	4%	10/31/1974	-48%	73%			
8/31/2009	-38%	32%	6/28/2002	-39%	4%	11/29/1974	-44%	68%			
9/30/2009	-37%	15%	7/31/2002	-50%	2%	12/31/1974	-46%	74%			
10/30/2009	-35%	5%	8/30/2002	-46%	3%	1/31/1975	-42%	83%			
			9/30/2002	-48%	5%	2/28/1975	-35%	87%			
			10/31/2002	-51%	23%	3/31/1975	-32%	82%			
			11/29/2002	-44%	16%	4/30/1975	-33%	67%			
			12/31/2002	-44%	22%	5/30/1975	-27%	57%			
			1/31/2003	-46%	27%	6/30/1975	-25%	54%			
			2/28/2003	-48%	19%	7/31/1975	-27%	47%			
			3/31/2003	-49%	24%	8/29/1975	-31%	7%			
			4/30/2003	-45%	28%	9/30/1975	-32%	5%			
			5/30/2003	-42%	25%	10/31/1975	-31%	1%			
			6/30/2003	-38%	31%						
			7/31/2003	-38%	19%						
			8/29/2003	-38%	5%						
			9/30/2003	-36%	2%						

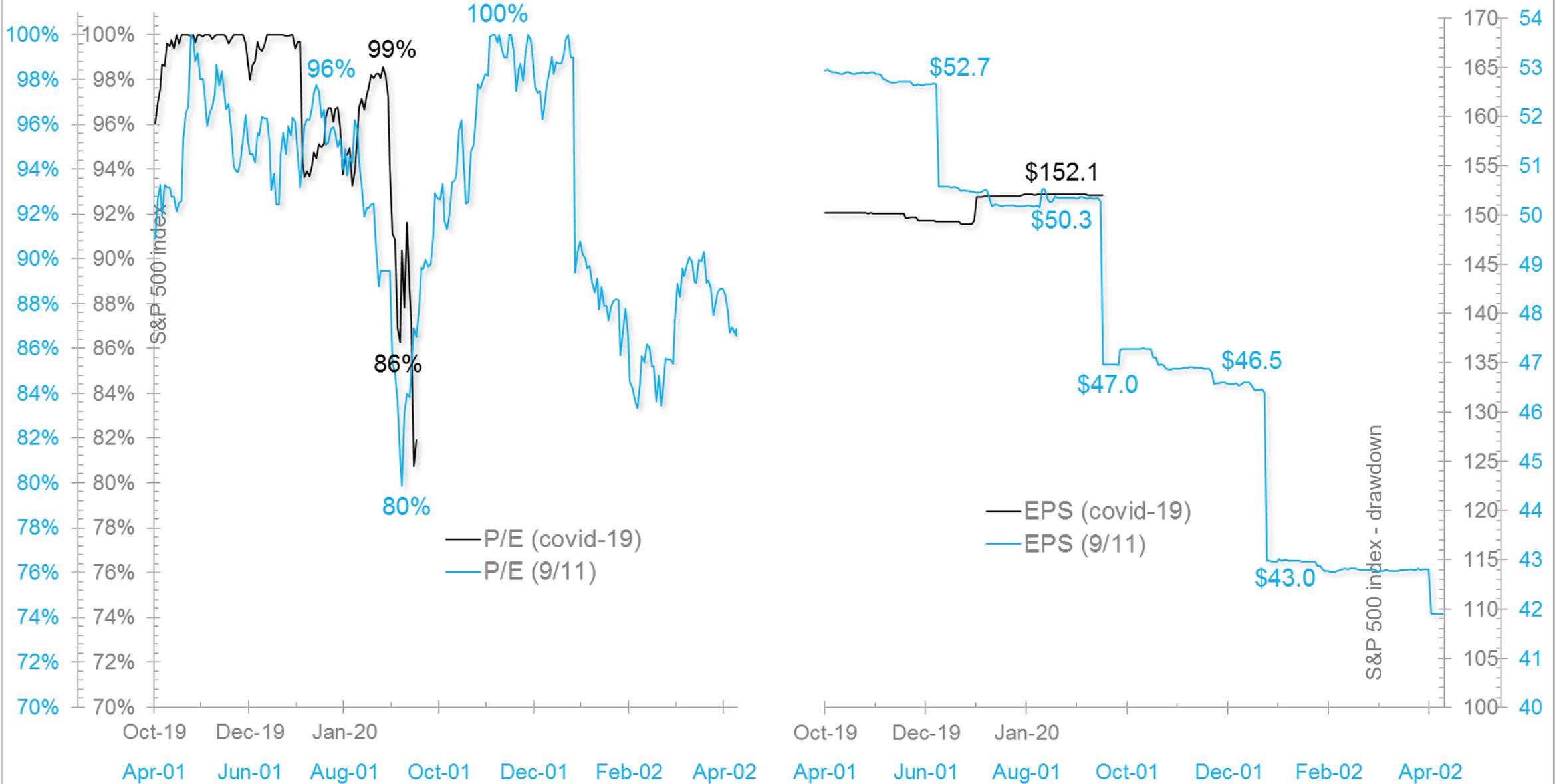
# Earnings & Valuation



# The 9/11 Analog

## 9/11 as Analog to Coronavirus

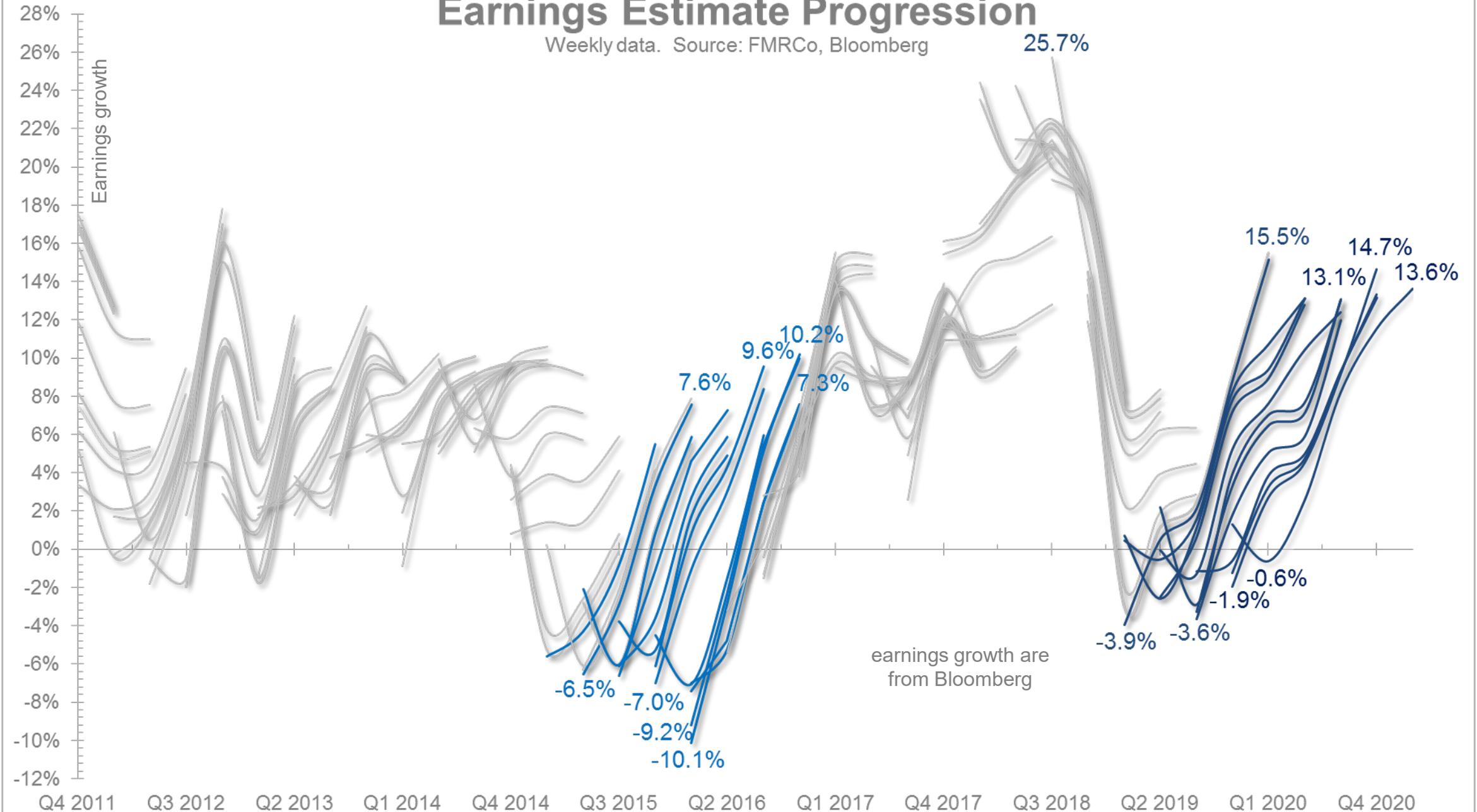
Daily data. Source: Bloomberg



# Earnings Estimate Progression

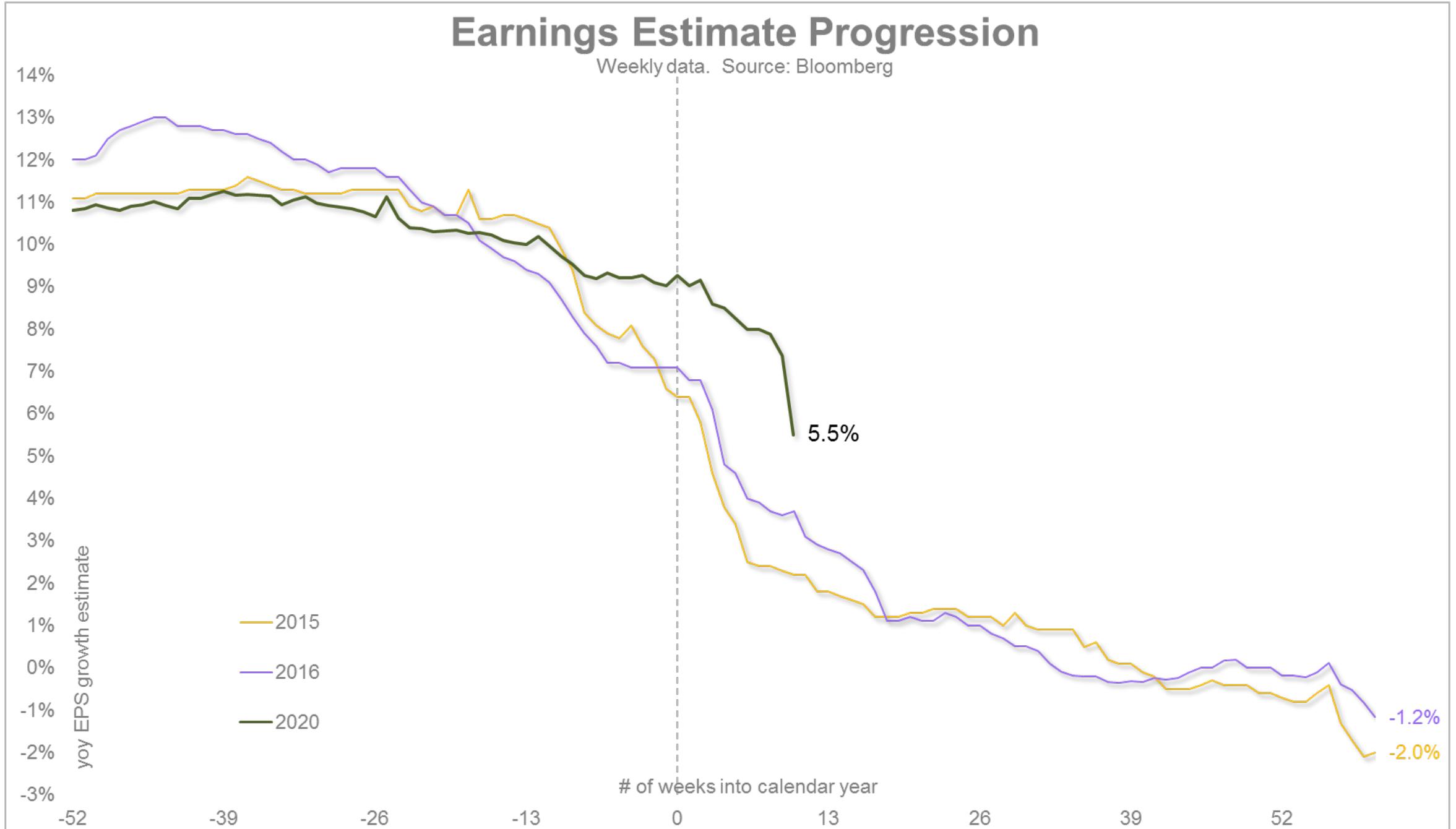
## Earnings Estimate Progression

Weekly data. Source: FMRCo, Bloomberg



earnings growth are from Bloomberg

# 2016 vs Now



# Three Dimensional Puzzle

ATH 3394  
 current 2754 -19%  
 EPS \$161

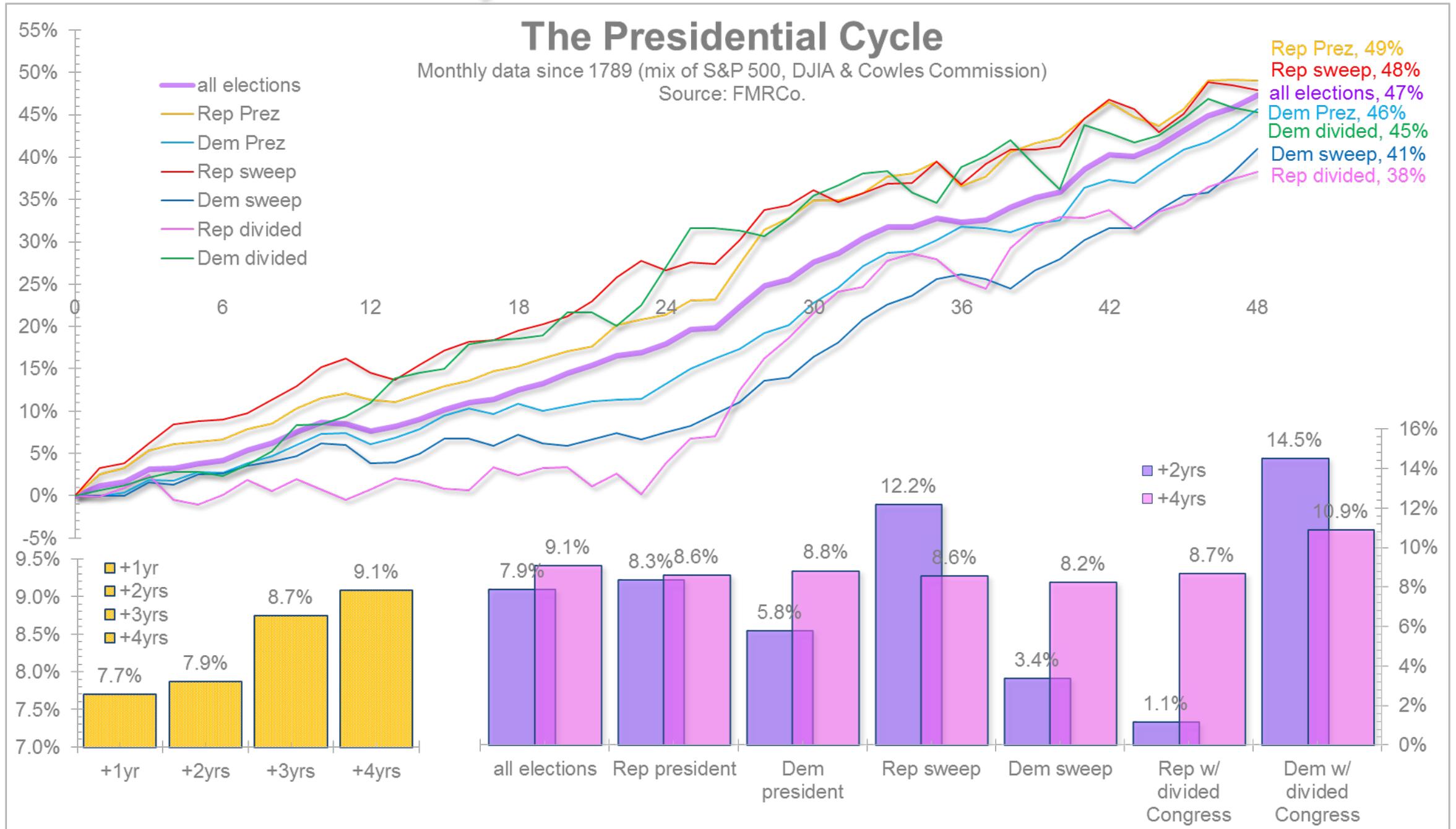
EPS	U		L		V	
Q4 2019	\$ 161	0%	\$ 161	0%	\$ 161	0%
Q1 2019	\$ 157	-2%	\$ 153	-5%	\$ 153	-5%
Q2 2019	\$ 154	-5%	\$ 145	-10%	\$ 145	-10%
Q3 2019	\$ 156	-3%	\$ 148	-8%	\$ 151	-6%
Q4 2019	\$ 159	-1%	\$ 150	-7%	\$ 157	-2%
Q1 2020	\$ 162	0%	\$ 153	-5%	\$ 163	2%
Q2 2020	\$ 164	2%	\$ 155	-3%	\$ 170	6%
Q3 2020	\$ 167	4%	\$ 158	-2%	\$ 177	10%
Q4 2020	\$ 170	6%	\$ 161	0%	\$ 184	14%

vs ATH	19 x		19 x		19 x		vs current	U	L	V
Q1 2019	2989	-12%	2906	-14%	2906	-14%	Q1 2019	9%	6%	6%
Q2 2019	2920	-14%	2761	-19%	2761	-19%	Q2 2019	6%	0%	0%
Q3 2019	2970	-13%	2808	-17%	2871	-15%	Q3 2019	8%	2%	4%
Q4 2019	3020	-11%	2855	-16%	2986	-12%	Q4 2019	10%	4%	8%
Q1 2020	3071	-10%	2904	-14%	3105	-9%	Q1 2020	12%	5%	13%
Q2 2020	3124	-8%	2953	-13%	3230	-5%	Q2 2020	13%	7%	17%
Q3 2020	3177	-6%	3004	-12%	3359	-1%	Q3 2020	15%	9%	22%
Q4 2020	3231	-5%	3055	-10%	3493	3%	Q4 2020	17%	11%	27%

vs ATH	17 x		17 x		17 x		vs current	U	L	V
Q1 2019	2674	-21%	2600	-23%	2600	-23%	Q1 2019	-3%	-6%	-6%
Q2 2019	2613	-23%	2470	-27%	2470	-27%	Q2 2019	-5%	-10%	-10%
Q3 2019	2657	-22%	2512	-26%	2569	-24%	Q3 2019	-4%	-9%	-7%
Q4 2019	2702	-20%	2555	-25%	2672	-21%	Q4 2019	-2%	-7%	-3%
Q1 2020	2748	-19%	2598	-23%	2779	-18%	Q1 2020	0%	-6%	1%
Q2 2020	2795	-18%	2642	-22%	2890	-15%	Q2 2020	1%	-4%	5%
Q3 2020	2842	-16%	2687	-21%	3005	-11%	Q3 2020	3%	-2%	9%
Q4 2020	2891	-15%	2733	-19%	3126	-8%	Q4 2020	5%	-1%	13%

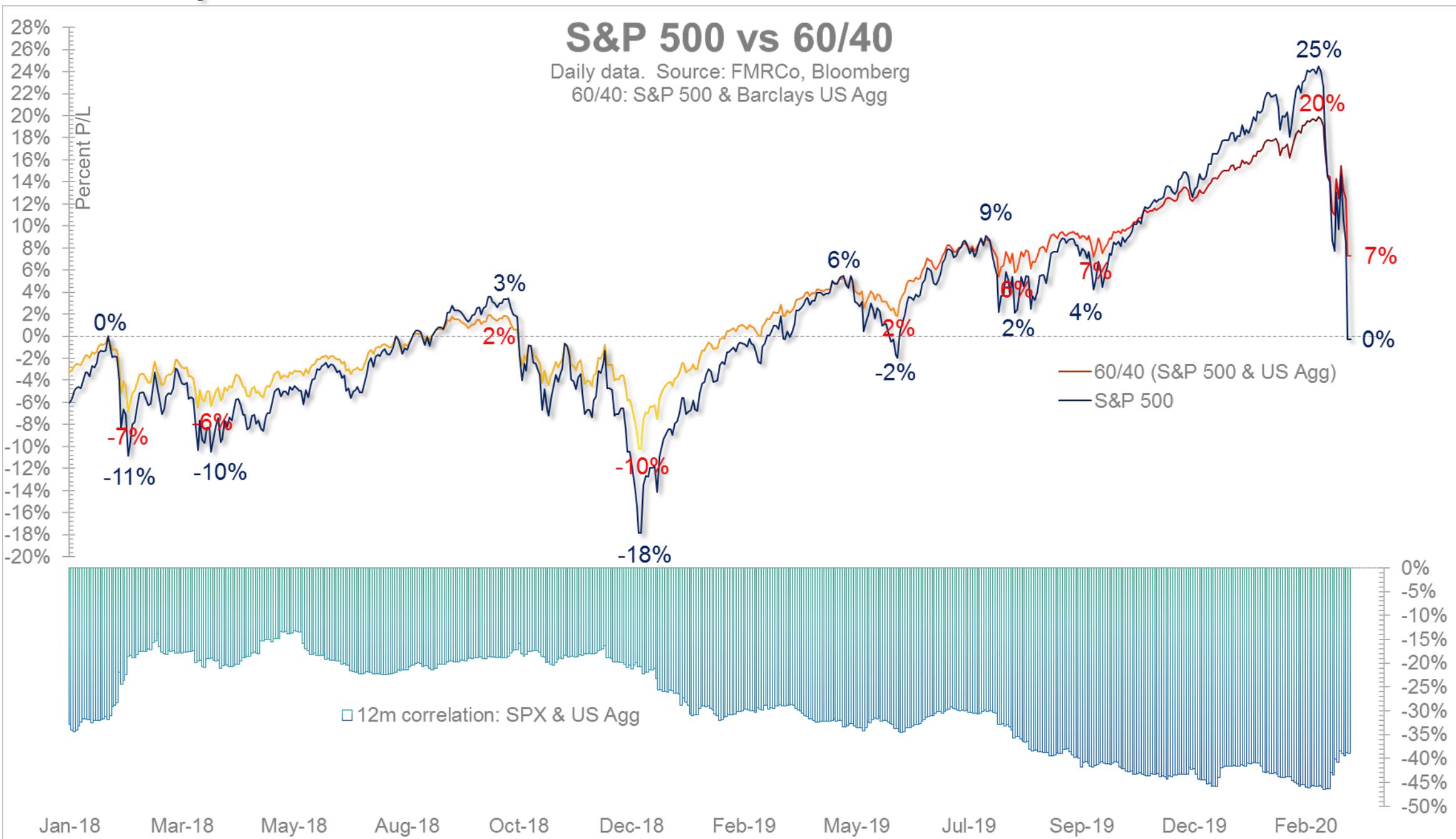
Oh Yeah....  
**There's an Election!**

# The Presidential Cycle

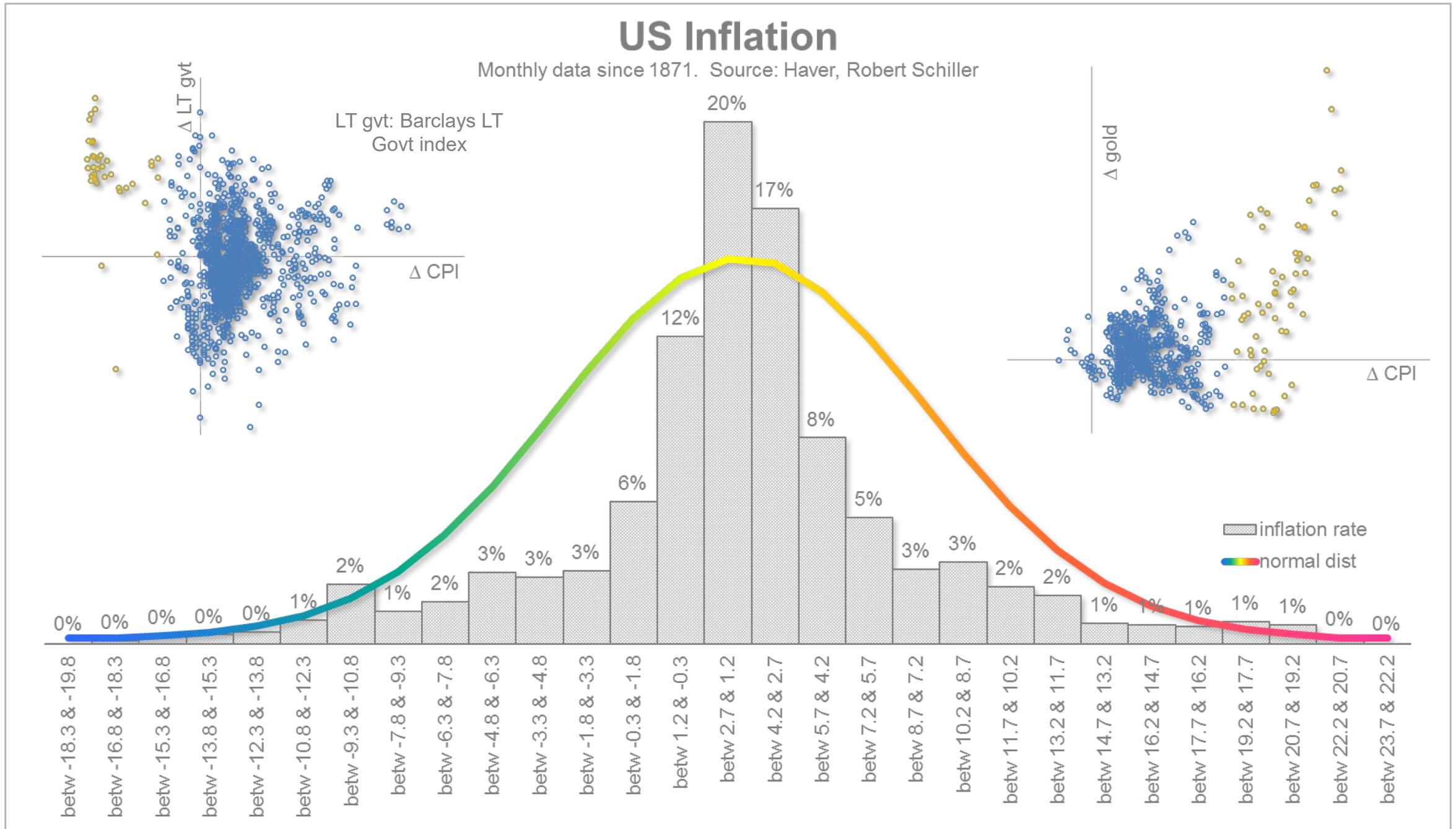


# Play the Middle Protect the Tails

# The Importance of Diversification



# Protect the Tails



# Thank You! 🙌🙌🙌

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Sources for correlation slide: All data downloaded from Haver Analytics. All country and regional equity indices: MSCI. All bond indices: Barclays Capital. Gold: Handy & Harman. All GSCI: Goldman Sachs Commodity Index. Currencies: Morgan Stanley. Hedge Fund Data: HFRX.

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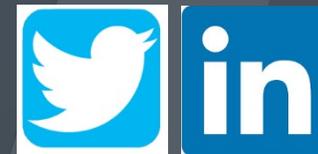
Data source for periodic table: SG: Russell 2000 growth, REIT: MSCI REIT index, SC: Russell 2000, SPX: S&P 500, SV: Russell 2000 value, LG: Russell 1000 growth, EUR: MSCI Europe, EAF: MSCI EAFE, EM: MSCI EM, LV: Russell1000 value, HY: Bloomberg Barclays high yield, JPN: MSCI Japan, EMD: JP Morgan EMBI, TIPS: Bloomberg Barclays TIPS, LT: Bloomberg Barclays long duration, gold: Bloomberg spot gold, IGB: Bloomberg Barclays investment grade bonds, HFs: HFRX hedge fund index, com: Bloomberg commodities index, cash: 3mo T-Bill yield.

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