OPAL
WEALTH ADVISORS

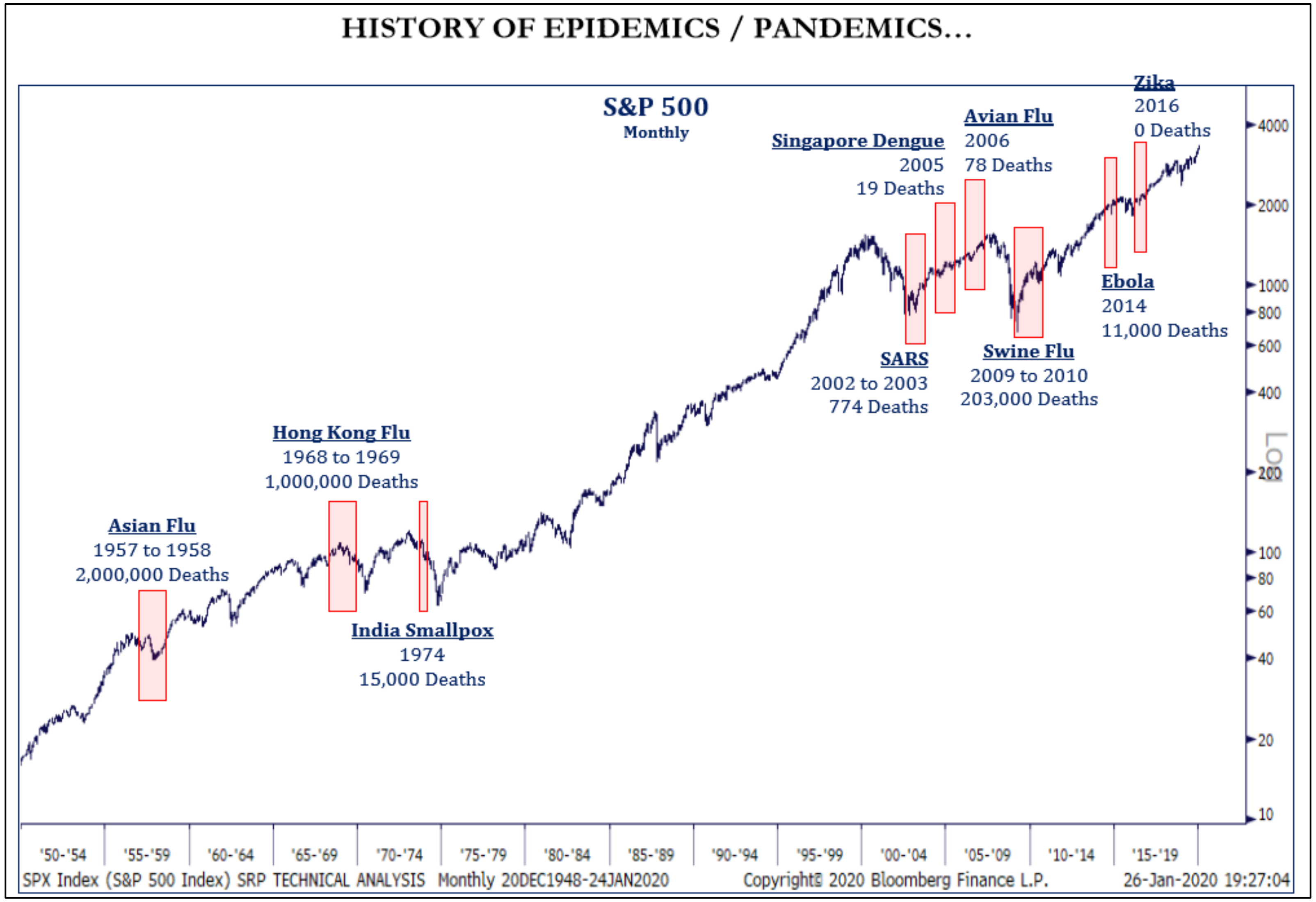
# Perspective on Market Volatility

July 14, 2020

# Perspective on the Coronavirus

Although there are short term negative reactions to epidemics, ultimately, the health of the global economy and magnitude of monetary & fiscal stimulus dictate the direction of risk markets. Both SARS and Swine flu coincided with global stimulus measures to combat recessions. As a result, markets rallied after initial volatility.

Global government measures to shut down economies and quarantine healthy citizens was unique.

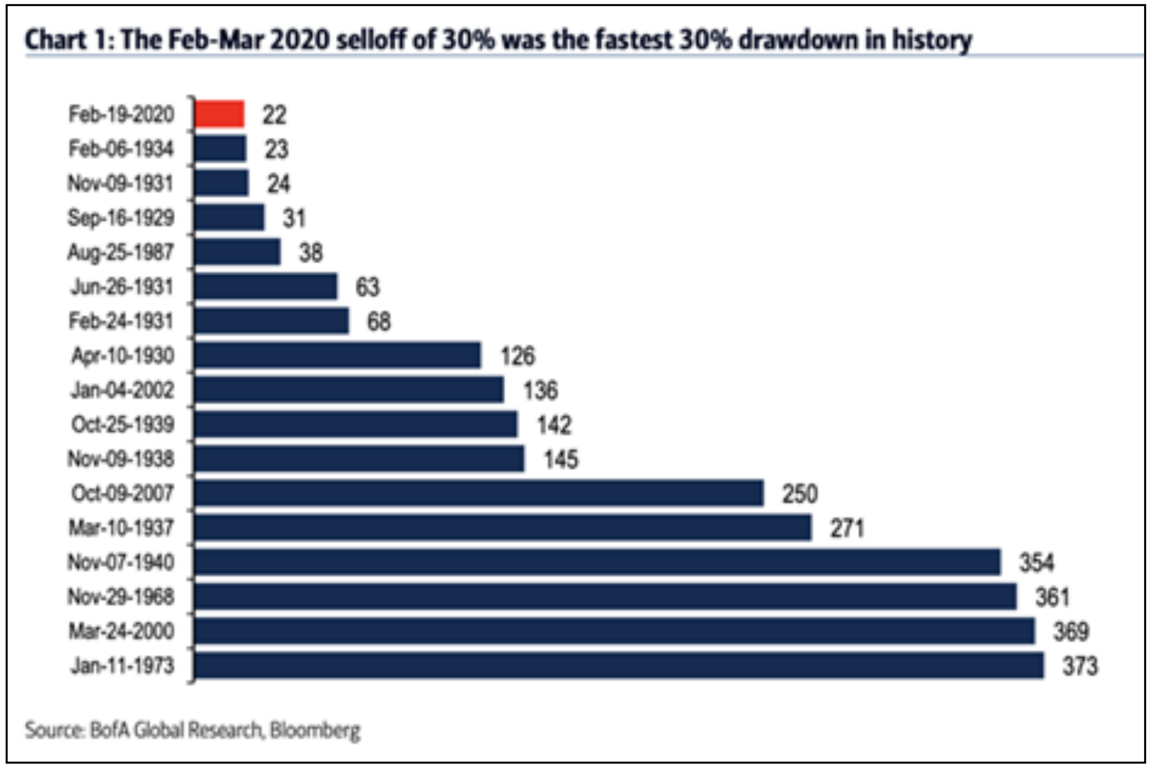


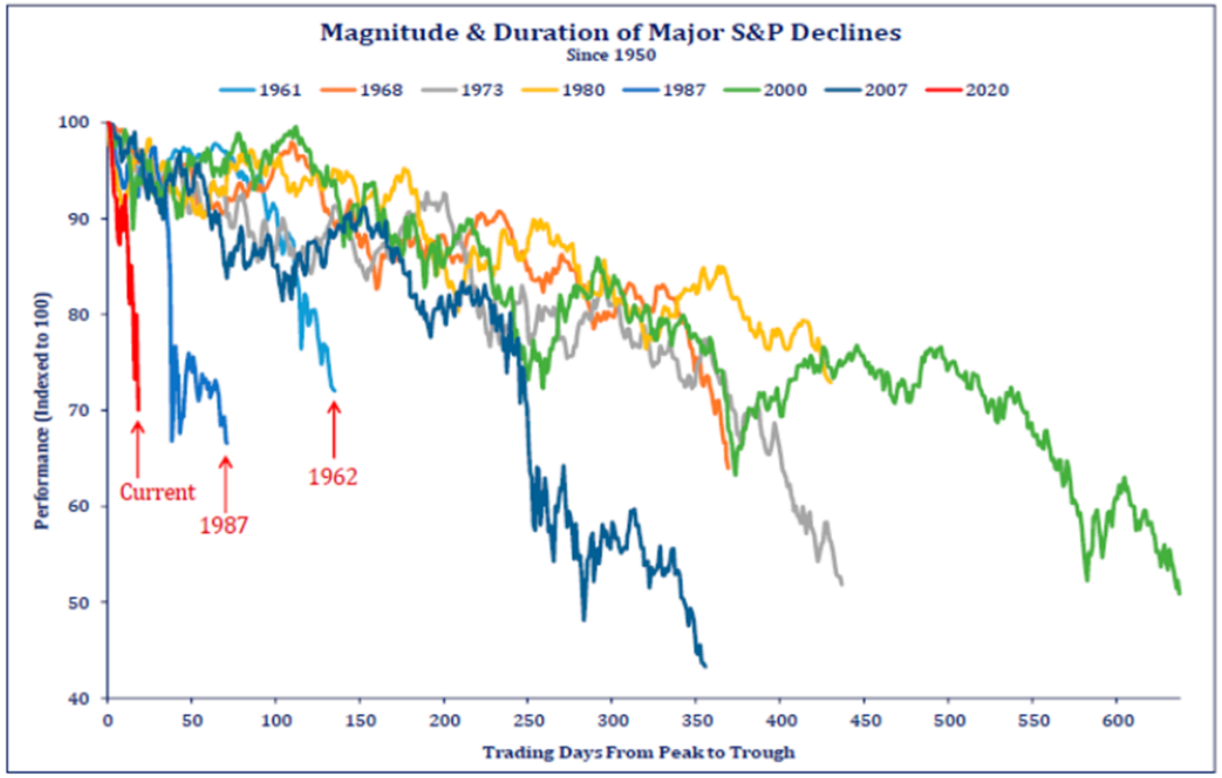

Source: Strategas Research

# Market Reaction

# Market Reaction

Initial market reaction similar to 9/11 & Hitler's invasion of France.



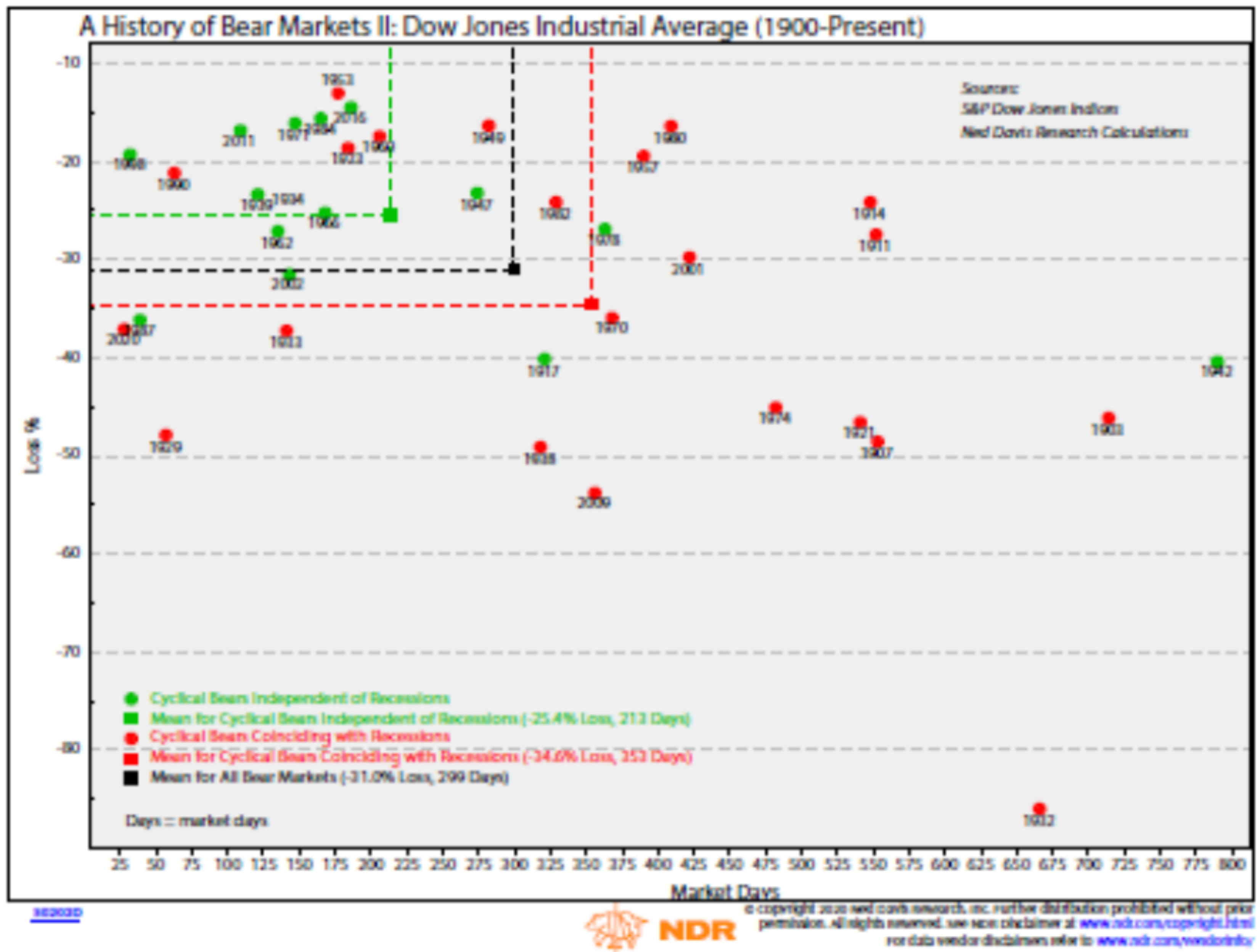




Source: BofA, Strategas, Ned Davis

# Market Reaction

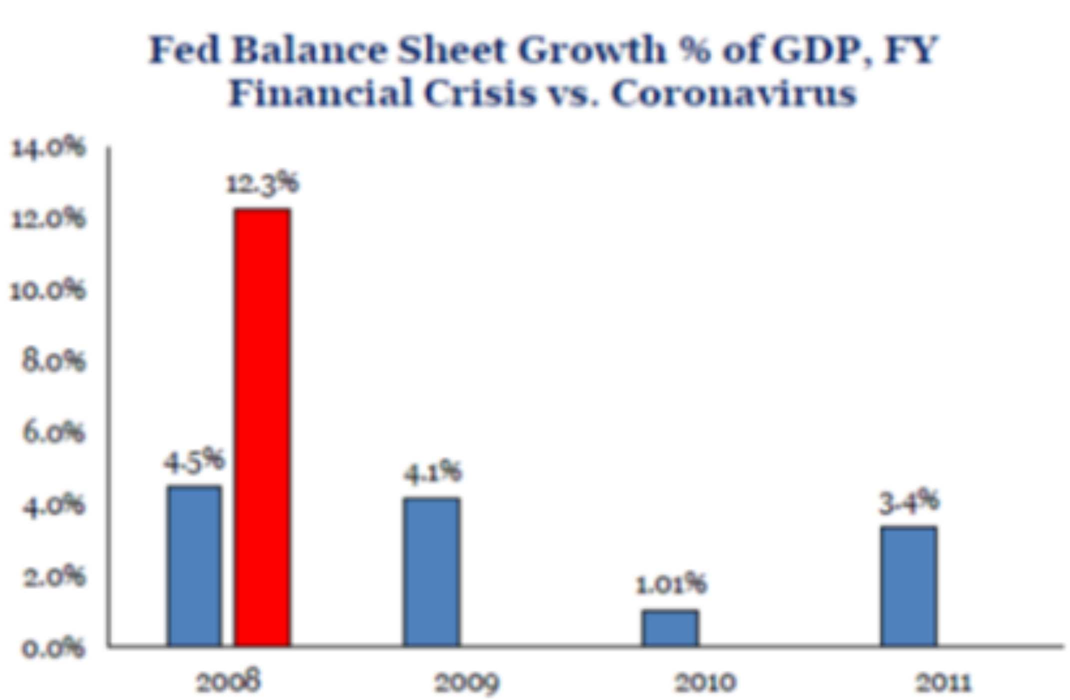
Initial market reaction similar to 9/11 & Hitler's invasion of France.

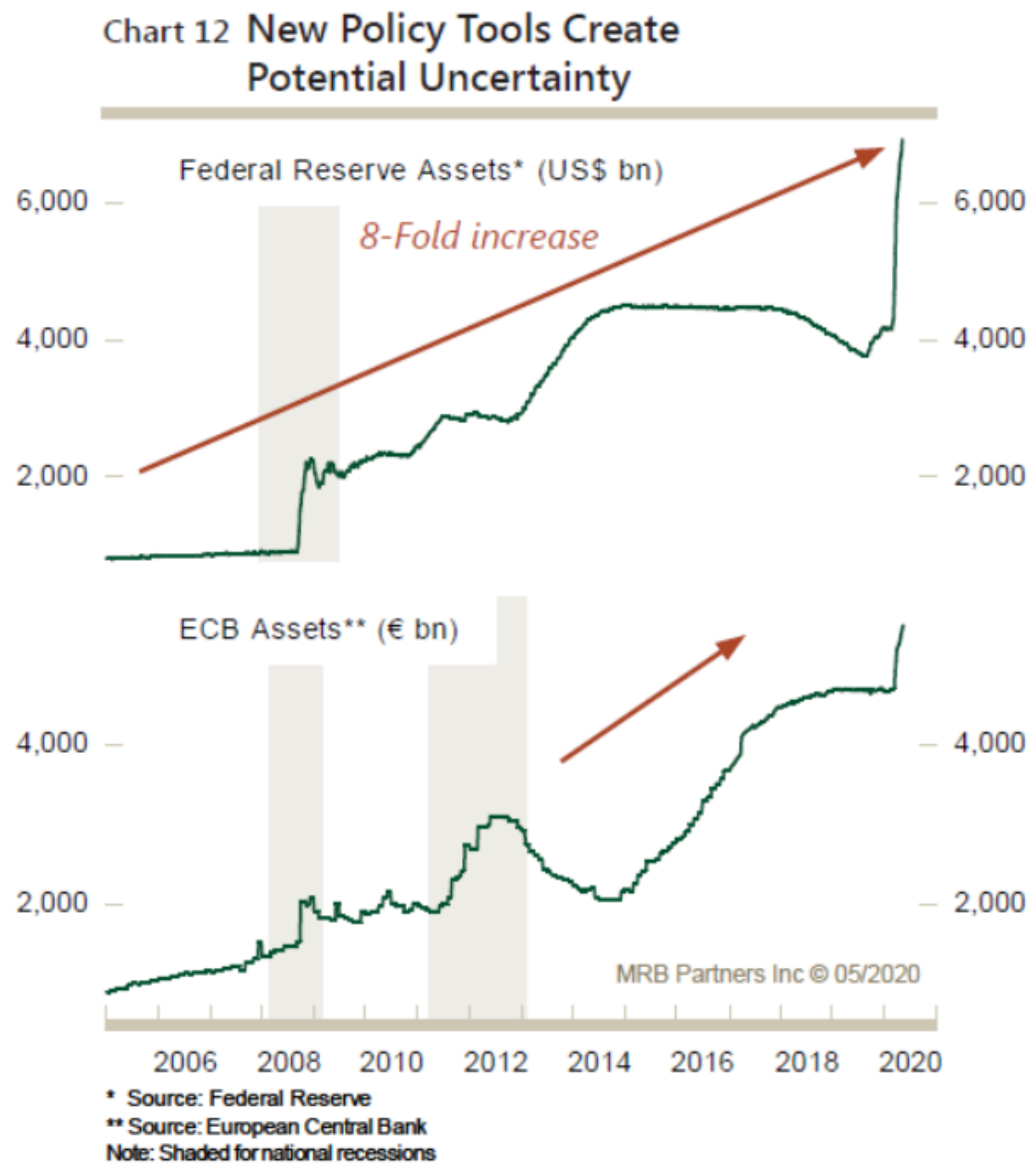
## 2020 cyclical bear shortest on record, but top 3rd in severity

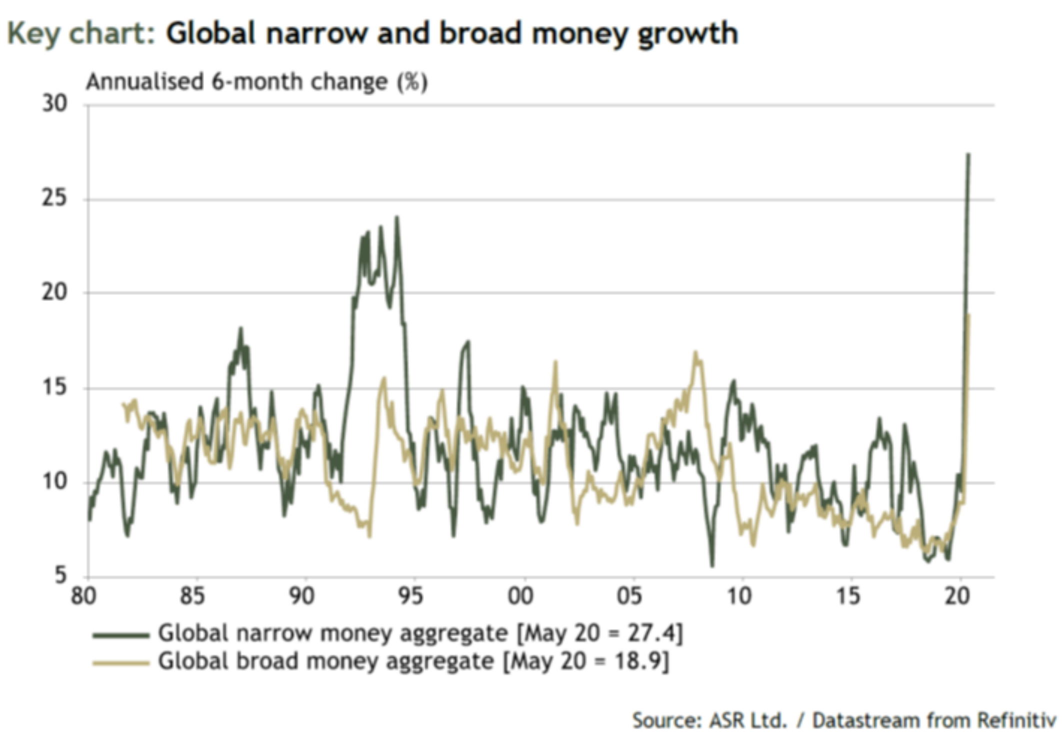



Source: Ned Davis

# Monetary Policy Response – Central Bank Response

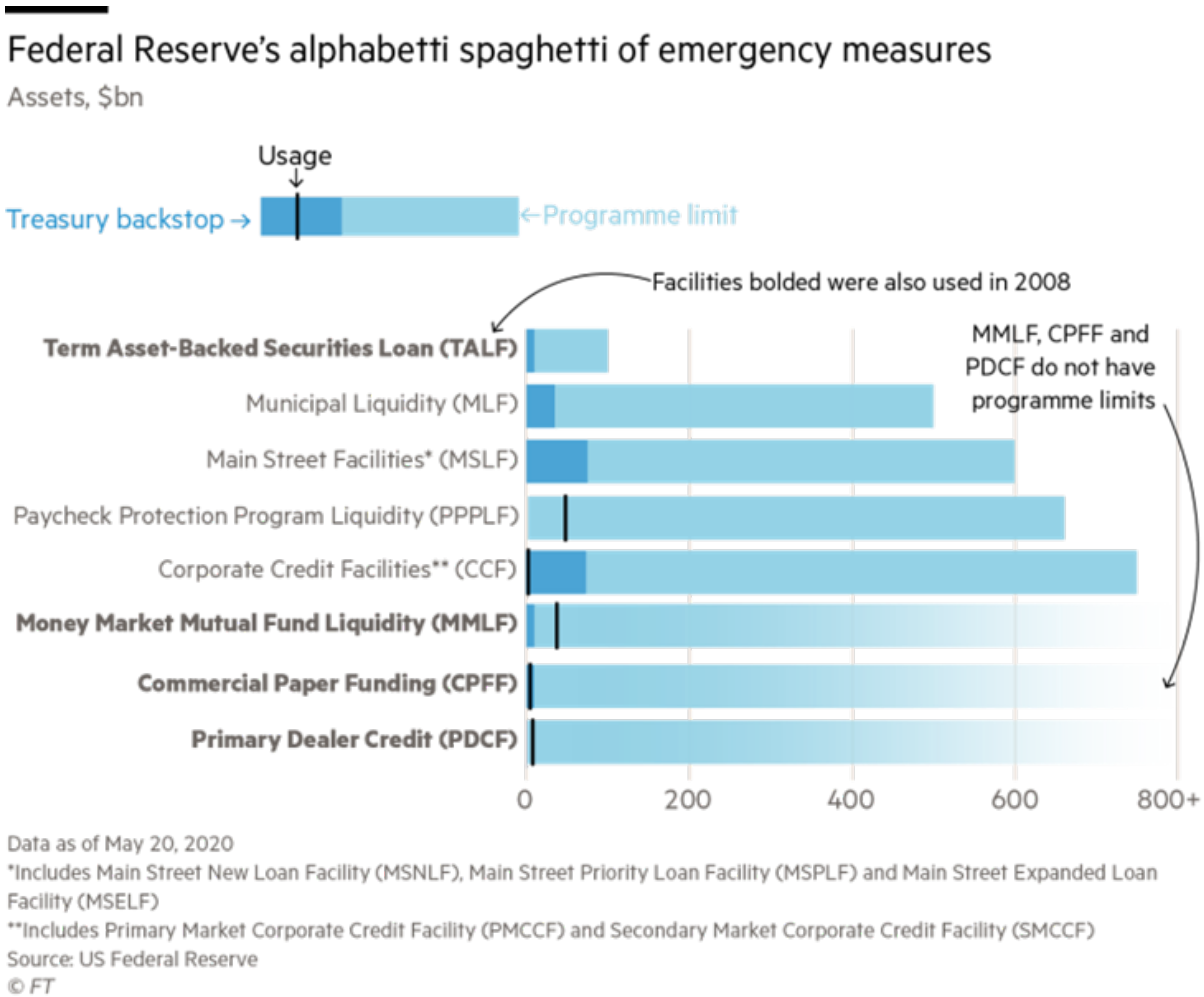



Source: ASR Research, Strategas, MRB Partners

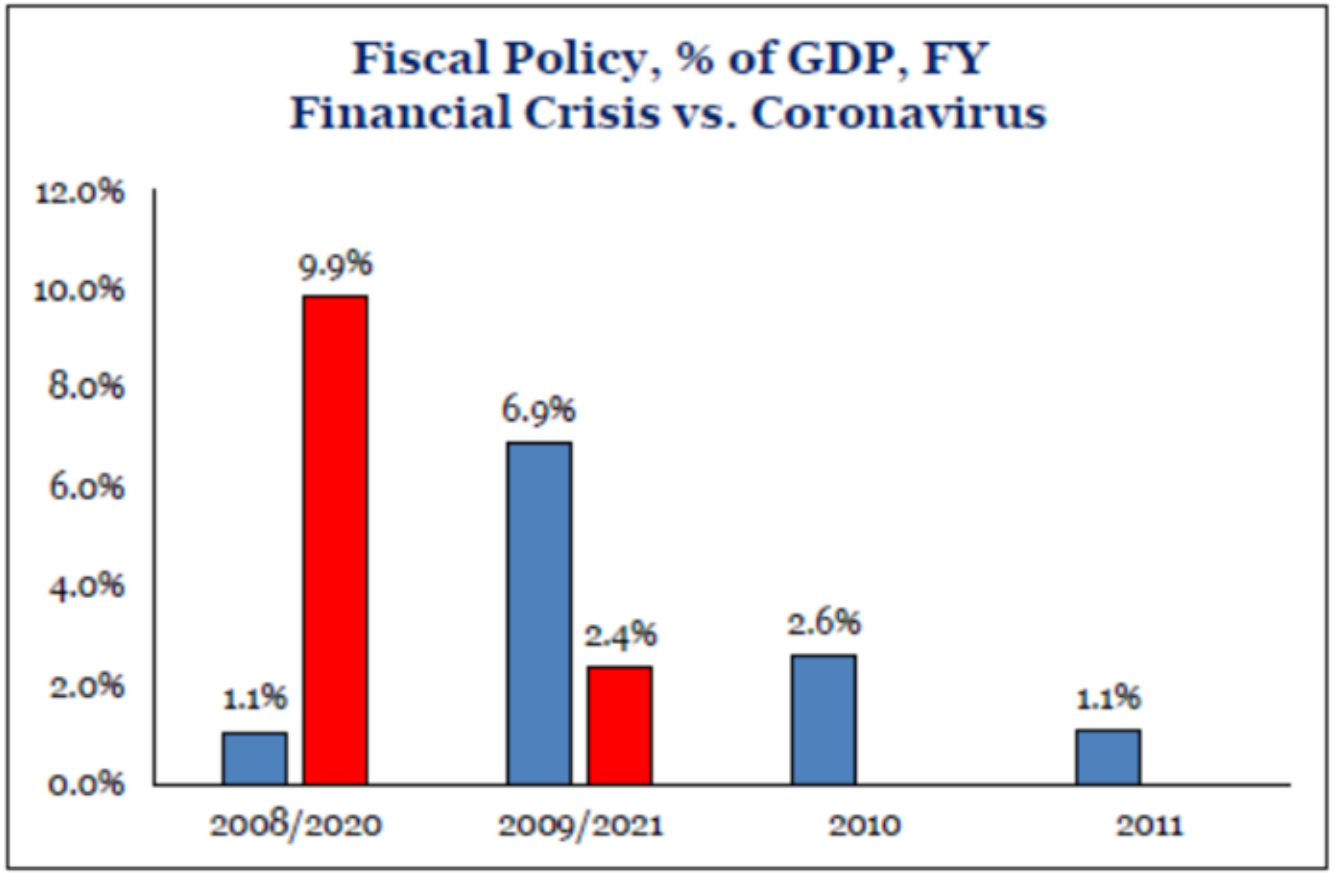
# Monetary Response – Fed Is Not Out of Arrows

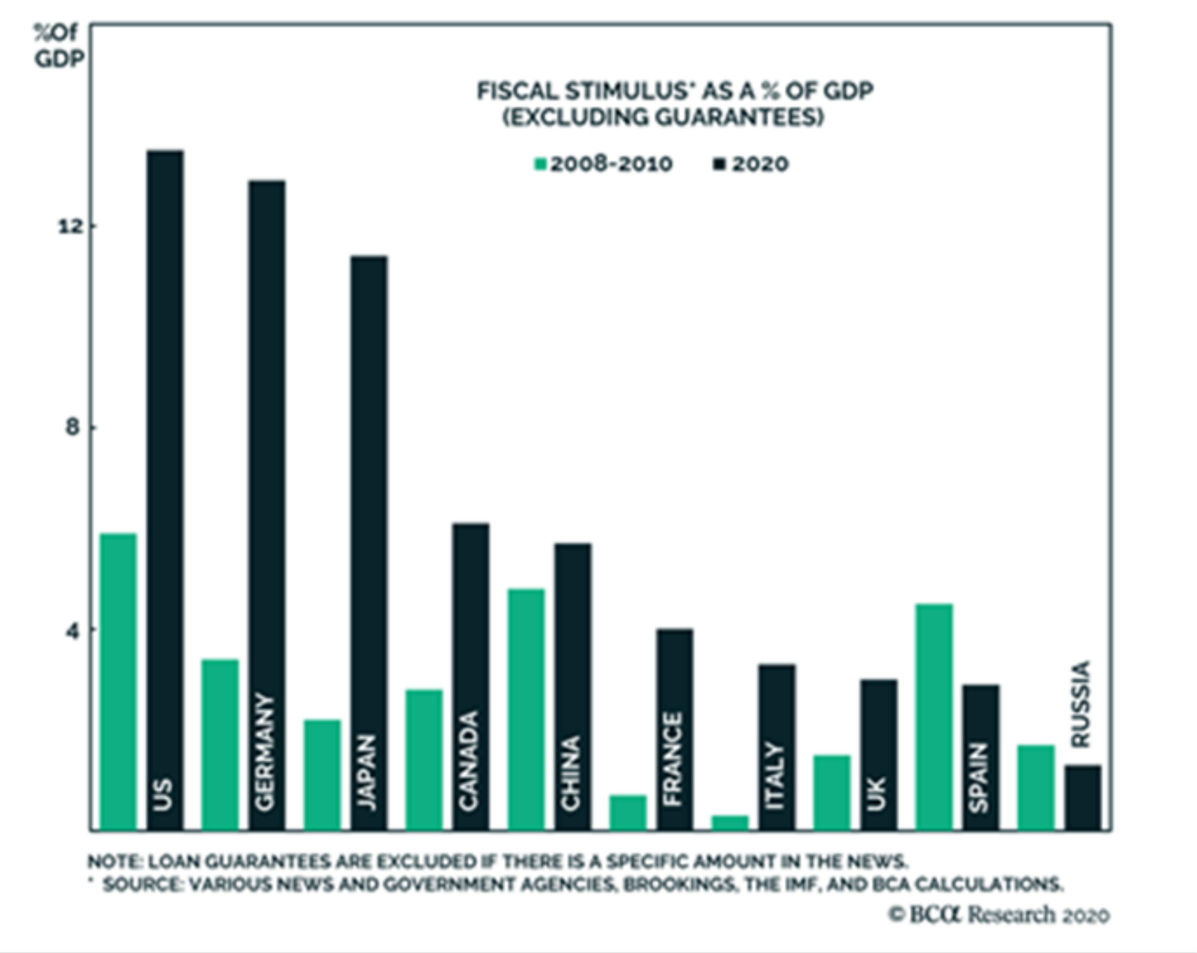



Source: Bianco Research

# Fiscal Response

Arguably late and delayed by politics, but of significant magnitude.

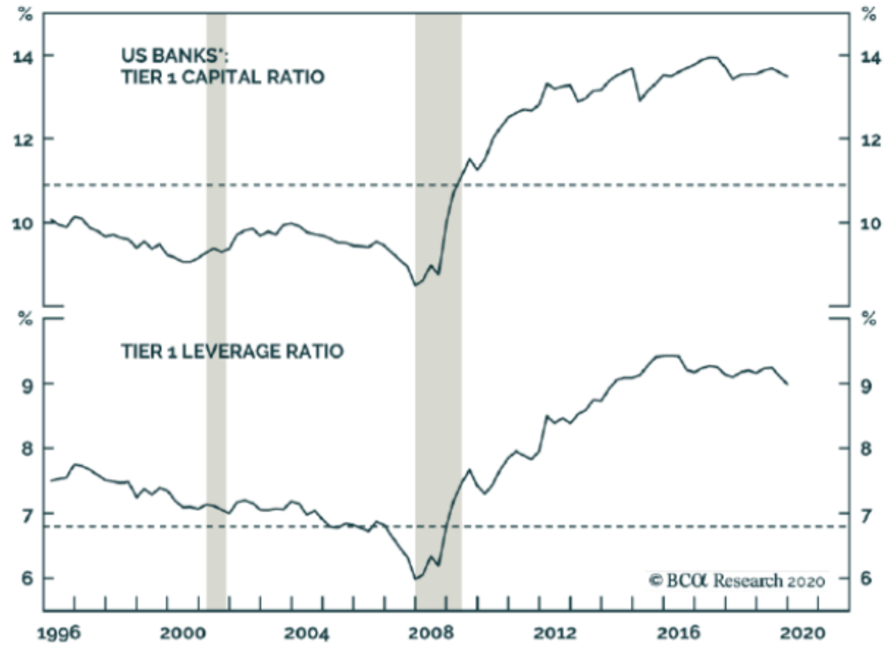



Source: Strategas, BCA

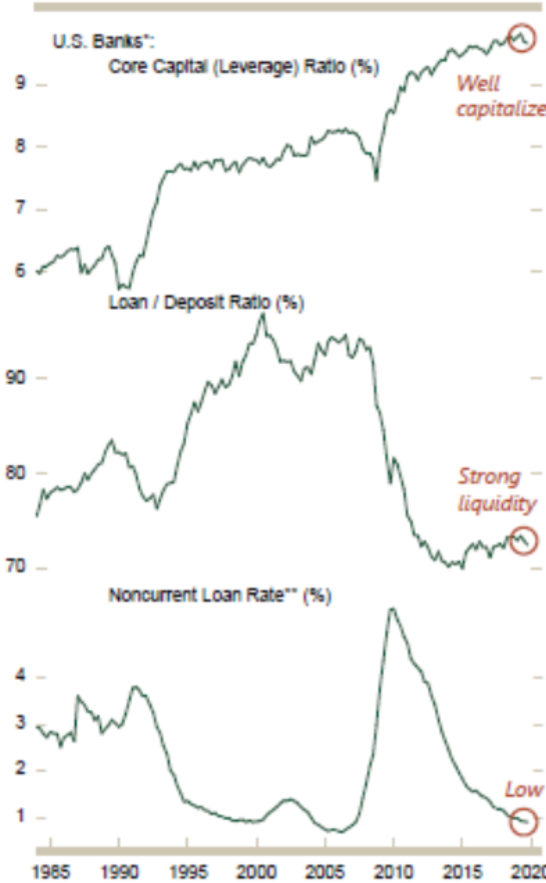
# This Is Not 2008

Despite bank stock price collapse, there are no imminent credit concerns with the US banking system. Banks continue to lend through the crisis.

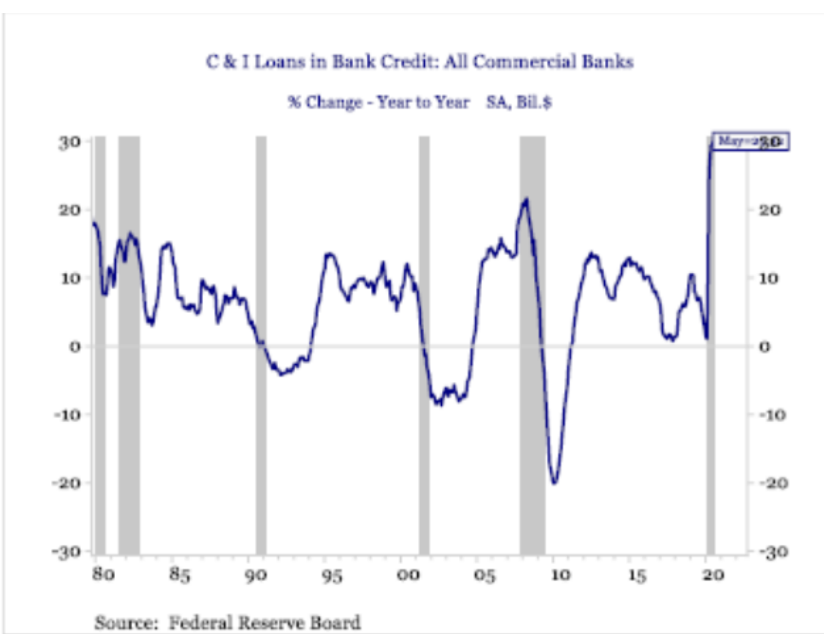



* SOURCE: FEDERAL RESERVE BANK OF NEW YORK.
NOTE: DASHED HORIZONTAL LINES DENOTE THE MINIMUM ESTIMATED VALUES IN "SEVERELY ADVERSE SCENARIO" ACCORDING TO THE 2019 FED STRESS TEST.
NOTE: SHADING DENOTES NBER-DESIGNATED RECESSIONS.

Chart 11 Banks Have Entered The Recession From A Position Of Strength




* Source: FDIC
** Non-performing loans divided by total loans outstanding
MRB Partners Inc © 05/2020




Bank Losses vs Earnings and Capital (USD, Bln)

| | |
|---|---|
| Implied Bank Losses | -271 |
| Earnings Hit from Rate Moves | -40 |
| Losses + Earnings Hit | -311 |
| US Bank Earnings (Prior Year) | 211 |
| Implied Hit to Bank Capital | -100 |
| Current Level of Bank Capital | 1,200 |
| Current Excess Capital | 280 |


Source: BCA, Strategas, Bridgewater

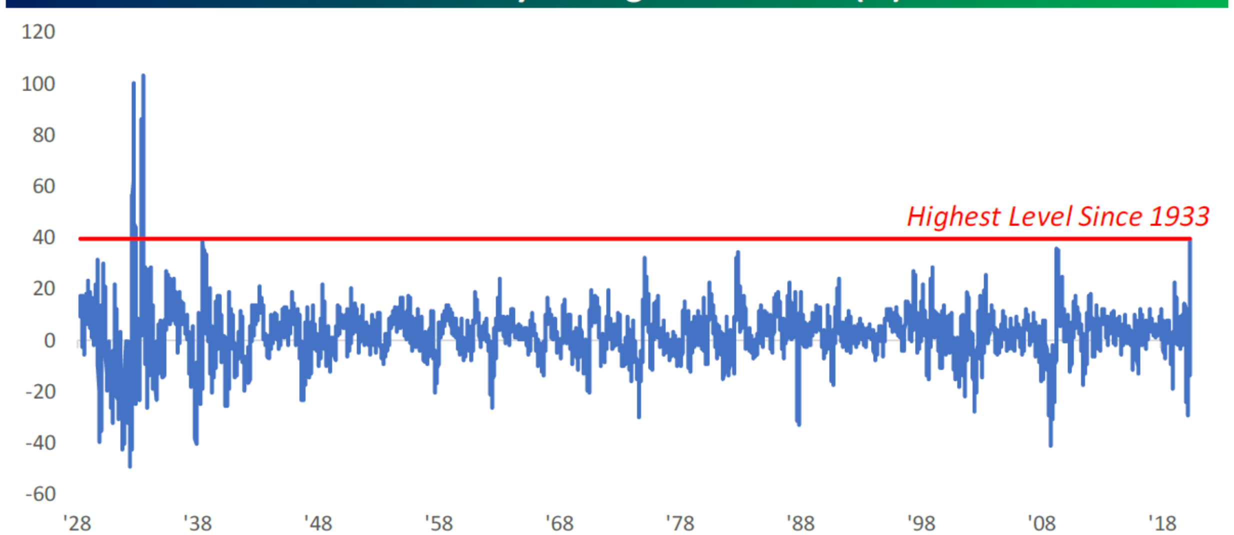
# Market Reaction

## *Rally off the Lows – One of the Greatest in Market History (But Very Narrow)*

**S&P Forward Performance Following Best 40-Day % Changes**

| | Date | 40-Day % Change | +20-Days | +65-Days | +125-Days | +250-Days |
|---|---|---|---|---|---|---|
| 1. | 5/5/2009 | 33.6% | 3.1% | 10.3% | 14.6% | 33.0% |
| 2. | 5/19/2020 | 30.6% | ? | ? | ? | ? |
| 3. | 10/11/1982 | 29.5% | 4.4% | 9.1% | 13.7% | 24.7% |
| 4. | 2/20/1975 | 24.6% | 1.7% | 10.2% | 3.3% | 20.5% |
| 5. | 12/4/1998 | 22.6% | 5.8% | 10.3% | 13.4% | 19.7% |
| 6. | 3/7/1991 | 20.7% | -0.1% | 0.7% | 3.7% | 9.8% |
| 7. | 2/22/2019 | 18.8% | 0.3% | 0.3% | 4.7% | 20.8% |
| 8. | 11/16/2001 | 17.9% | -0.4% | -4.3% | -4.1% | -20.6% |
| 9. | 6/17/1997 | 17.6% | 4.7% | 5.9% | 6.6% | 20.4% |
| 10. | 12/20/1962 | 17.4% | 3.9% | 5.7% | 11.4% | 18.4% |
| | | **Average** | 2.6% | 5.4% | 7.5% | 16.3% |
| | | **% Positive** | 77.8% | 88.9% | 88.9% | 88.9% |
| | | **Historical Average** | 0.7% | 2.2% | 4.3% | 8.8% |
| | | **Historical % Positive** | 61.1% | 66.0% | 70.2% | 73.8% |

**S&P 500 100 Calendar Day Rolling Performance (%): 1928 - 2020**




**The S&P 500 is producing years' worth of returns in just a matter of days [1]**

| | Days from 20% Pullback to Trough | Days from Peak to Trough | Peak to Trough | Days to recover w/in 5% of Peak from Peak | Days to recover w/in 5% of Peak from Low |
|---|---|---|---|---|---|
| 3/12/2020 | 11 | 33 | -34% | 110 | 77 |
| 9/29/2008 | 161 | 517 | -57% | 1,932 | 1,415 |
| 3/12/2001 | 576 | 929 | -49% | 2,518 | 1,589 |
| 10/19/1987 | 46 | 101 | -34% | 636 | 535 |

Source: Bespoke Investment Group, Strategas, BlackRock

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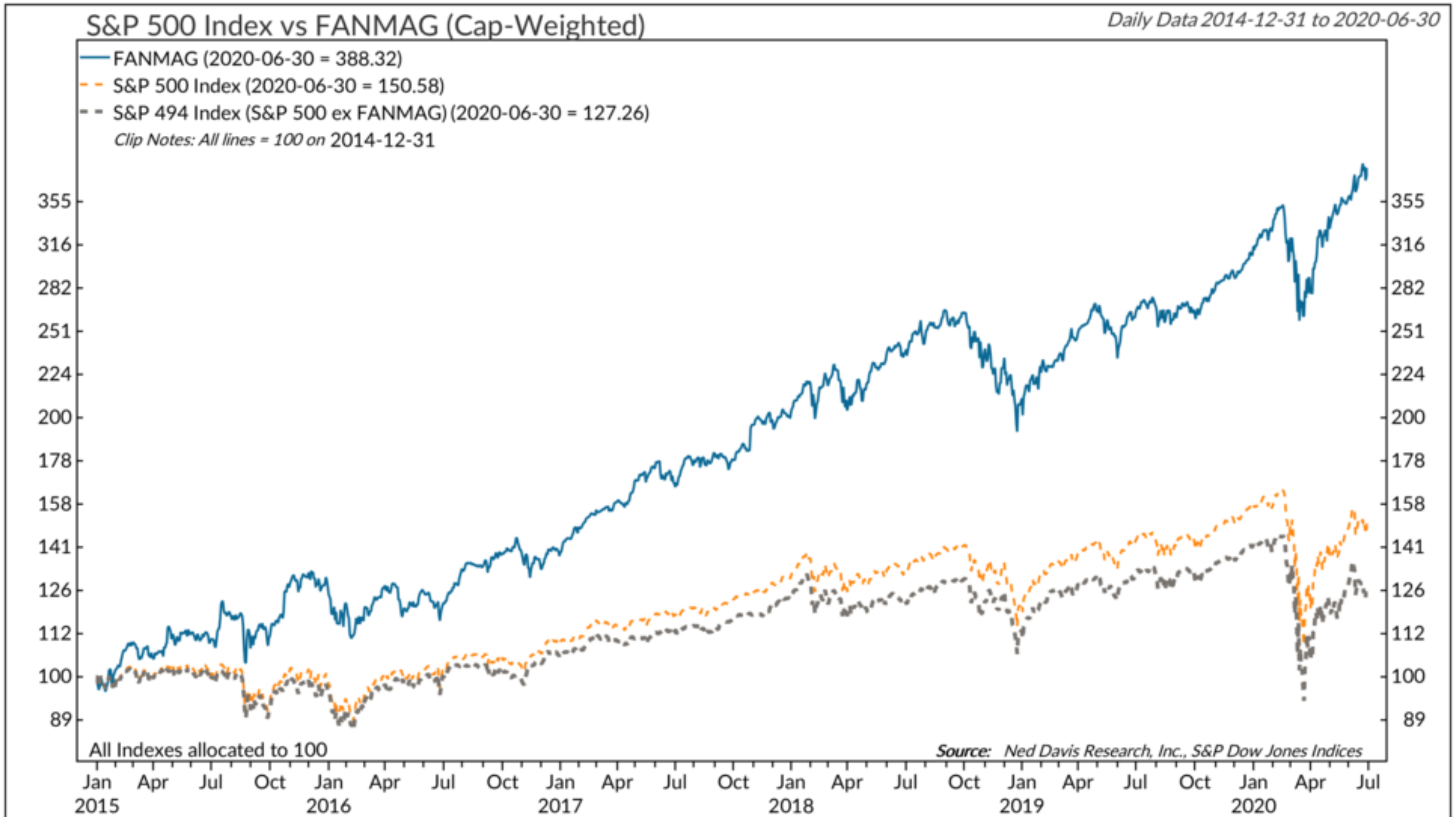
# Market Reaction

*Rally off the Lows – Greatest in Market History (But Very Narrow)*




| Ticker | Name |
|---|---|
| FB | Facebook |
| AMZN | Amazon.com |
| NFLX | Netflix |
| MSFT | Microsoft |
| AAPL | Apple |
| GOOGL | Alphabet |

| Index (Cap-Weighted) | Gain/Annum % 2014-12-31 to 2020-06-30 | YTD % 2019-12-31 to 2020-06-30 |
|---|---|---|
| FANMAG | 27.97 | 25.99 |
| S&P 500 Index | 7.72 | -4.04 |
| S&P 494 Index (S&P 500 ex FANMAG) | 4.48 | -10.08 |

*Customized client version of DAVIS230B*

NDR



Source: Ned Davis

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# Market Reaction

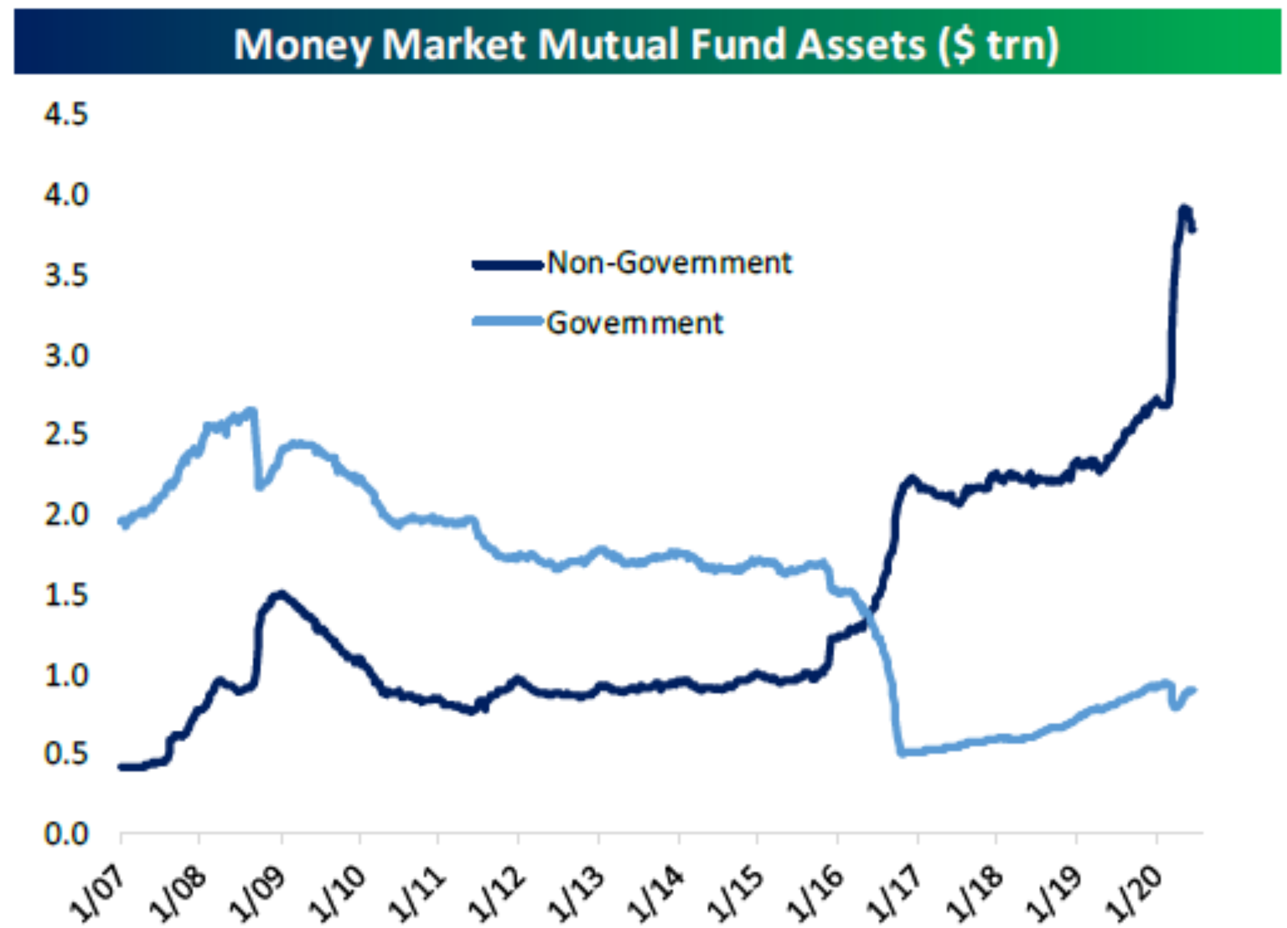
*Rally off the Lows – Greatest in Market History Missed by Retail Investors*

**ICI Fund Flows (bn USD)**

| | 1 Week | 4 Week | 13 Week | 52 Week | All Per. |
|---|---|---|---|---|---|
| **Total Mutual Fund + ETF** | **7.6** | **74.1** | **91.3** | **-75.9** | **1375.6** |
| Commodity Mutual Fund + ETF | 2.5 | 4.5 | 25.9 | 44.4 | 36.8 |
| Hybrid Mutual Fund + ETF | -1.4 | -0.1 | -0.4 | -82.4 | -163.3 |
| Total Bond Mutual Fund + ETF | 25.1 | 95.6 | 146.3 | 261.2 | 1233.9 |
| Taxable Bond Mutual Fund + ETF | 22.2 | 82.5 | 131.9 | 209.1 | 1060.3 |
| Municipal Bond Mutual Fund + ETF | 2.9 | 13.2 | 14.5 | 52.2 | 173.7 |
| Total Equity Mutual Fund + ETF | -18.6 | -25.9 | -80.5 | -299.6 | 268.8 |
| Domestic Equity Mutual Fund + ETF | -14.1 | -10.0 | -21.1 | -226.6 | -459.7 |
| World Equity Mutual Fund + ETF | -4.5 | -15.9 | -59.4 | -73.0 | 728.5 |
| **Total ETF** | **6.8** | **59.3** | **140.2** | **423.0** | **2133.3** |
| Commodity ETF | 2.5 | 4.5 | 25.9 | 44.3 | 35.6 |
| Hybrid ETF | 0.1 | 0.1 | 0.4 | 3.5 | 14.5 |
| Total Bond ETF | 8.7 | 31.3 | 81.8 | 181.7 | 658.8 |
| Taxable Bond ETF | 8.3 | 28.9 | 78.3 | 166.5 | 616.1 |
| Municipal Bond ETF | 0.3 | 2.3 | 3.5 | 15.2 | 42.7 |
| Total Equity ETF | -4.5 | 23.4 | 32.1 | 193.6 | 1424.3 |
| Domestic Equity ETF | -4.2 | 18.0 | 47.9 | 185.0 | 959.0 |
| World Equity ETF | -0.3 | 5.4 | -15.8 | 8.6 | 465.4 |

**ICI Fund Flows (Percentile of All Periods)**

| | 1 Week | 4 Week | 13 Week | 52 Week | All Per. |
|---|---|---|---|---|---|
| **Total Mutual Fund + ETF** | **58.8** | **97.0** | **69.4** | **4.5** | **72.0** |
| Commodity Mutual Fund + ETF | 98.9 | 95.7 | 99.4 | 100.0 | 100.0 |
| Hybrid Mutual Fund + ETF | 17.6 | 63.0 | 66.4 | 17.0 | 0.2 |
| Total Bond Mutual Fund + ETF | 99.4 | 100.0 | 97.5 | 69.2 | 97.3 |
| Taxable Bond Mutual Fund + ETF | 99.7 | 100.0 | 98.3 | 67.0 | 97.3 |
| Municipal Bond Mutual Fund + ETF | 96.5 | 100.0 | 74.6 | 82.3 | 96.3 |
| Total Equity Mutual Fund + ETF | 2.9 | 9.0 | 2.4 | 0.0 | 11.0 |
| Domestic Equity Mutual Fund + ETF | 3.4 | 39.0 | 47.9 | 0.3 | 0.0 |
| World Equity Mutual Fund + ETF | 4.7 | 3.9 | 1.3 | 0.0 | 64.9 |
| **Total ETF** | **57.5** | **98.4** | **96.1** | **86.5** | **100.0** |
| Commodity ETF | 98.9 | 95.7 | 99.4 | 100.0 | 100.0 |
| Hybrid ETF | 90.5 | 32.4 | 56.9 | 85.9 | 97.8 |
| Total Bond ETF | 97.8 | 99.2 | 100.0 | 99.6 | 100.0 |
| Taxable Bond ETF | 98.1 | 99.2 | 100.0 | 99.6 | 100.0 |
| Municipal Bond ETF | 90.5 | 98.1 | 95.3 | 97.2 | 100.0 |
| Total Equity ETF | 12.1 | 68.3 | 30.5 | 62.1 | 99.4 |
| Domestic Equity ETF | 13.9 | 74.4 | 79.0 | 83.2 | 99.4 |
| World Equity ETF | 22.6 | 53.7 | 2.4 | 2.1 | 93.4 |



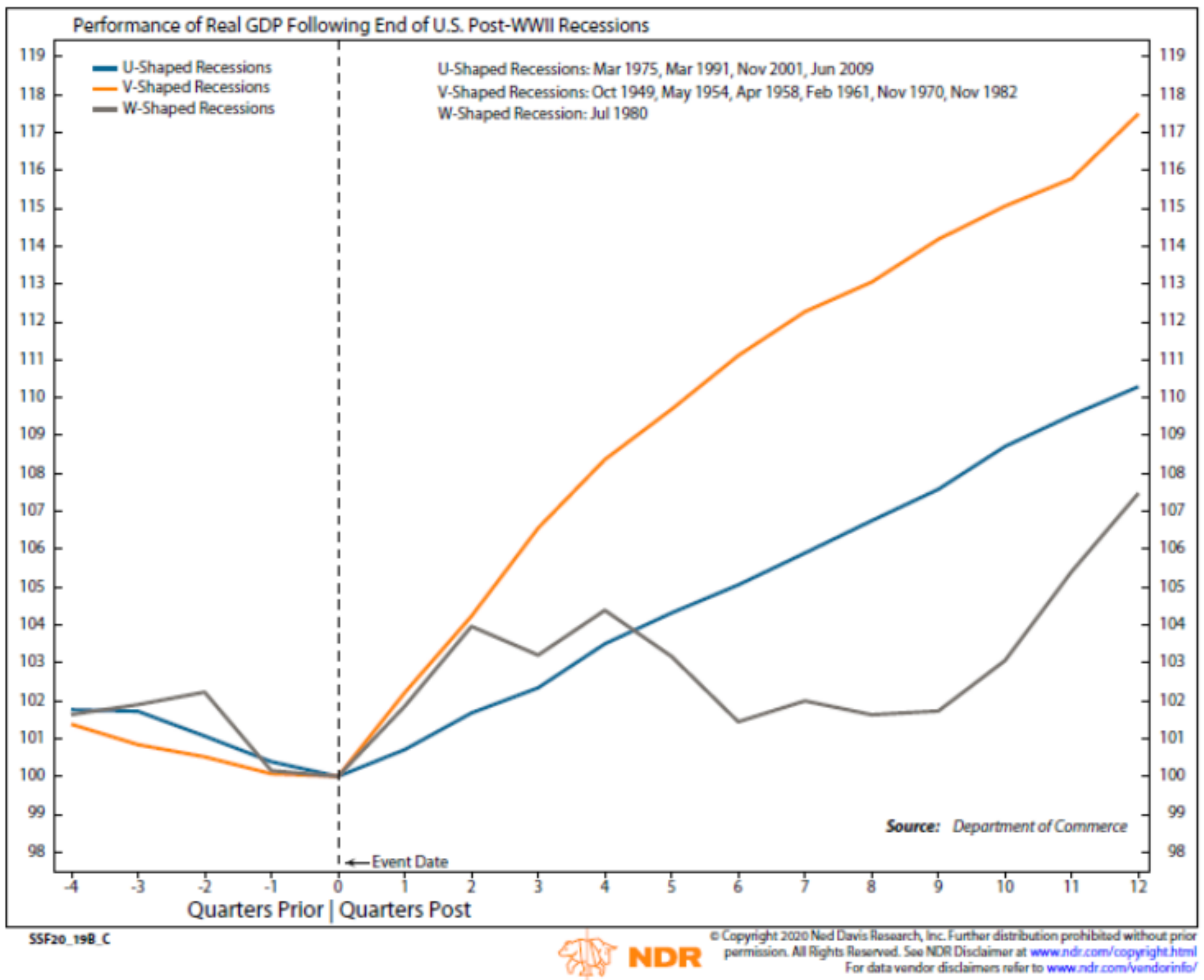

Source: Bespoke Research

# Economic Impact

What Determines the Shape of Recovery?
Employment, the Consumer, and the Path of the Virus

# Perspective on the Coronavirus

*Does the shape or letter matter?*




## 2009 skews average SPX returns in U-shaped recoveries

**S&P 500 Index Performance After Post-War Recession End Dates**

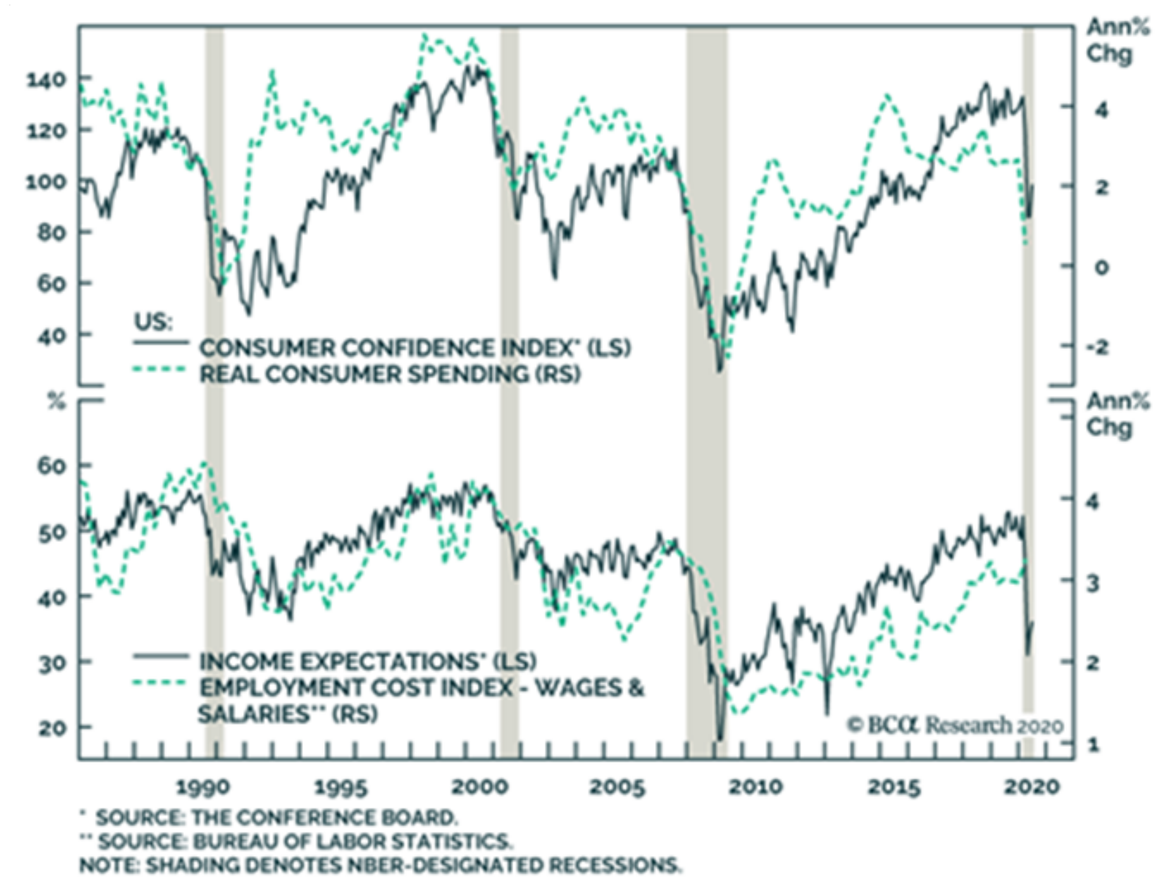
| Recession End Date | Recession Type | 6-Month % Change | 12-Month % Change | 24-Month % Change | 36-Month % Change |
|---|---|---|---|---|---|
| 10/31/49 | V | 12.7 | 21.8 | 43.0 | 52.9 |
| 5/31/54 | V | 17.3 | 29.9 | 54.9 | 62.5 |
| 4/30/58 | V | 18.2 | 32.6 | 25.2 | 50.4 |
| 2/28/61 | V | 7.3 | 10.3 | 1.3 | 22.6 |
| 11/30/70 | V | 14.3 | 7.8 | 33.8 | 10.1 |
| 3/31/75 | U | 0.6 | 23.3 | 18.1 | 7.0 |
| 7/31/80 | W | 6.5 | 7.6 | -12.0 | 33.6 |
| 11/30/82 | V | 17.2 | 20.1 | 18.1 | 45.9 |
| 3/31/91 | U | 3.4 | 7.6 | 20.4 | 18.8 |
| 11/30/01 | U | -6.4 | -17.8 | -7.1 | 3.0 |
| 6/30/09 | U | 21.3 | 12.1 | 43.7 | 48.2 |
| Mean | All Cases | 10.2 | 14.1 | 21.8 | 32.3 |
| Median | All Cases | 12.7 | 12.1 | 20.4 | 33.6 |
| Mean | U | 4.7 | 6.3 | 18.7 | 19.3 |
| Median | U | 2.0 | 9.9 | 19.2 | 12.9 |
| Mean | V | 14.5 | 20.4 | 29.4 | 40.7 |
| Median | V | 15.7 | 20.9 | 29.5 | 48.1 |
| Mean | U Minus V | -9.8 | -14.1 | -10.6 | -21.5 |
| Median | U Minus V | -13.7 | -11.1 | -10.3 | -35.2 |

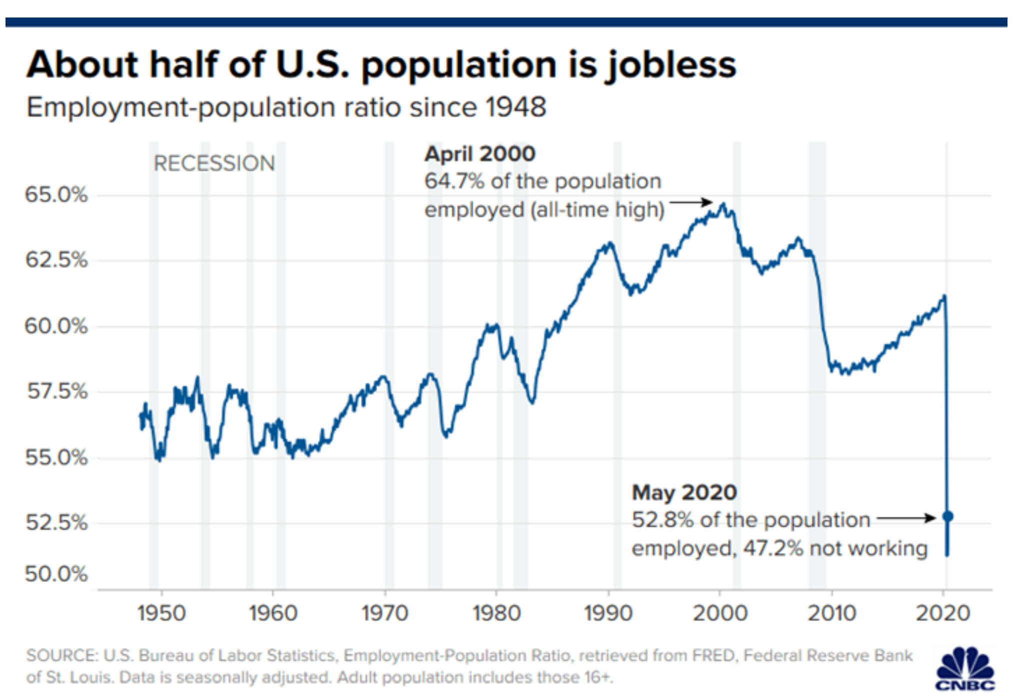
Source: S&P Dow Jones Indices. Recession dates determined by National Bureau of Economic Research.

Ned Davis Research T_SSF20_19.2

Source: Ned Davis Research

# Impact of the Coronavirus – US Labor Market & Consumer Spending Shock


Source: BCA

# Looking Forward – Will the Well Run Dry?

**The Fiscal and Monetary stimulus measures in the trillions, with more of each still on its way…**

- We showed last month how between the Families First Act, the CARES Act, the PPP and Healthcare enhancement ACT, $2.04 trillion of stimulus is being injected into "main street" over a 180-day window…
- … contrast that to the 2008 financial crisis where the main street targeted response was only around $340 billion spread over 2 years. Today's Main Street stimulus is more than 20 times larger on a daily basis than the great financial crisis. With that amount of cold hard cash raining down on the real economy, *It is likely that households and small businesses are far more flush* than the dire macro economic data might otherwise suggest. [1]

Assuming a peak unemployment rate of April's 14.7%*, that may equate to an increase in nearly 11.2%, sharply higher than the 2008 Global Financial Crisis

| Unemployment Rate Trough-Peak Change | |
|---|---|
| 2008 | 5.6% |
| 2020 est | 11.2% |

Haircutting peak household income by 11.2% implies a potential daily loss of ~$20 per household, on average.

| Median Household Income | |
|---|---|
| 2008 | $50,303 |
| 2020 est | $65,706 |

| Daily Household Income | |
|---|---|
| 2008 | $138 |
| 2020 est | $180 |

| Lost Daily Household Income | |
|---|---|
| 2008 | -$7.65 |
| 2020 est | -$20.11 |

| Main Street Stimulus per day per HH | |
|---|---|
| 2008 | $4 |
| 2020 est | $86 |

| HH Income Net of Stimulus | |
|---|---|
| 2008 | $134 |
| 2020 est | $246 |

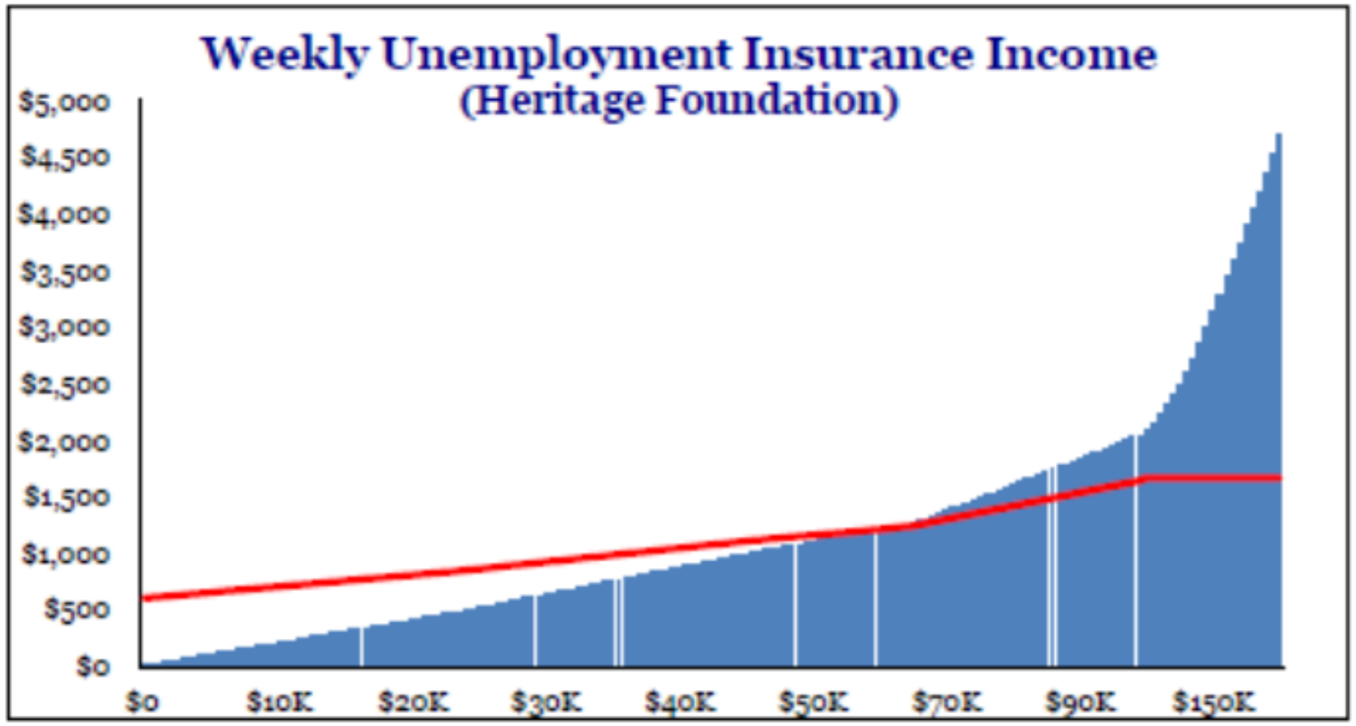
| HH Income as a % of Pre-Crisis Peak | |
|---|---|
| 2008 | 97% |
| 2020 est | 137% |

Massive main street stimulus injected over a narrow 180-day window, may equate to more than $11 billion a day on average, the equivalent of ~$86 per household, per day.

In total, these massive holistic real-economy cash injections are the equivalent to average household income being ~37% HIGHER for through September, than it was just before the pandemic…

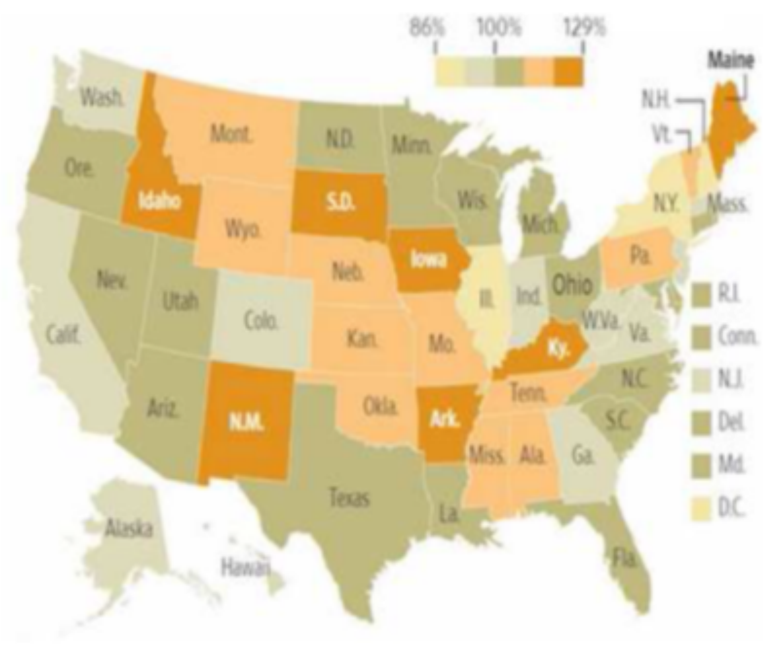
Source: Blackrock

# Looking Forward



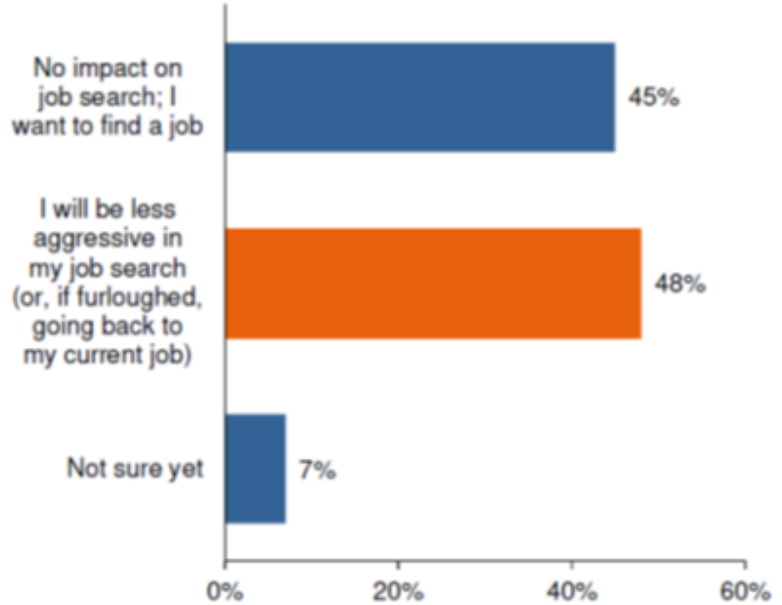

**60% of unemployed workers are getting +100% wage replacement from enhanced benefits**

**Share of a worker's wages replaced by unemployment benefits (by state)**




**48% of jobless workers (and 28% of companies) say extra benefits have dis-incentivized rehiring**

**Unemployed worker survey:** Will enhanced benefits of $600 per week change how aggressively you seek employment (or remain on furlough)?

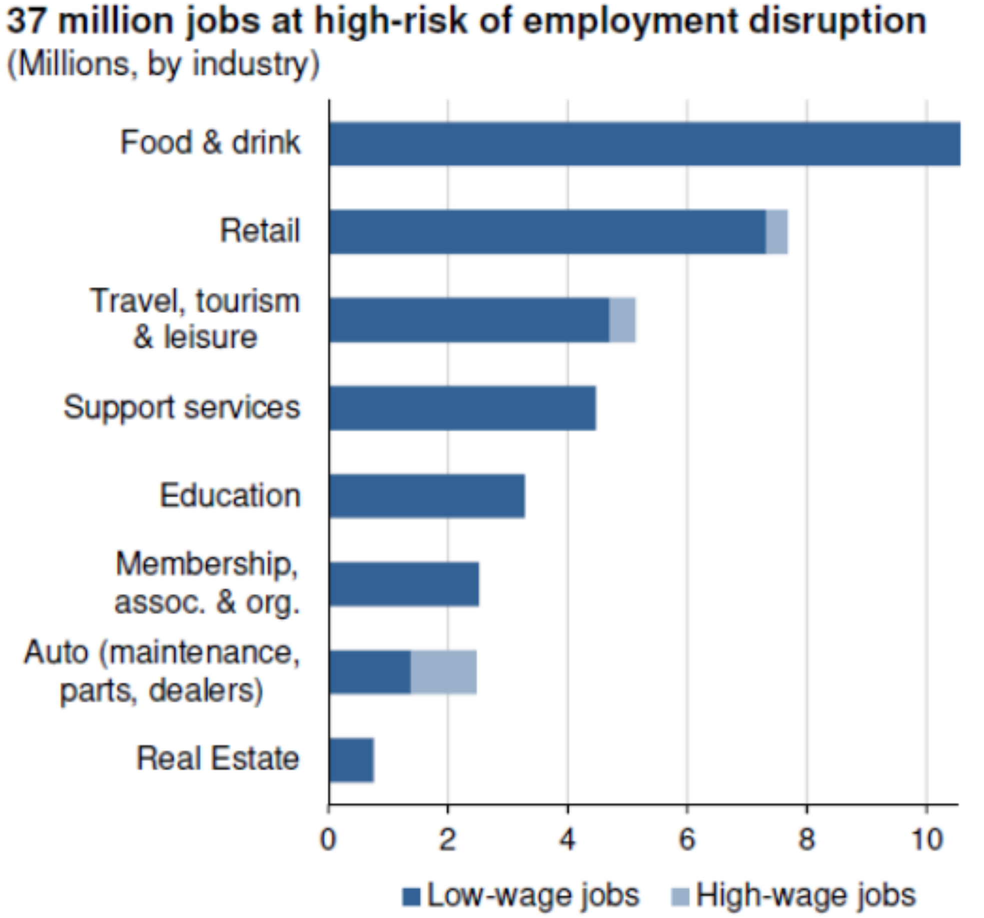



Source: Allianz, Strategas

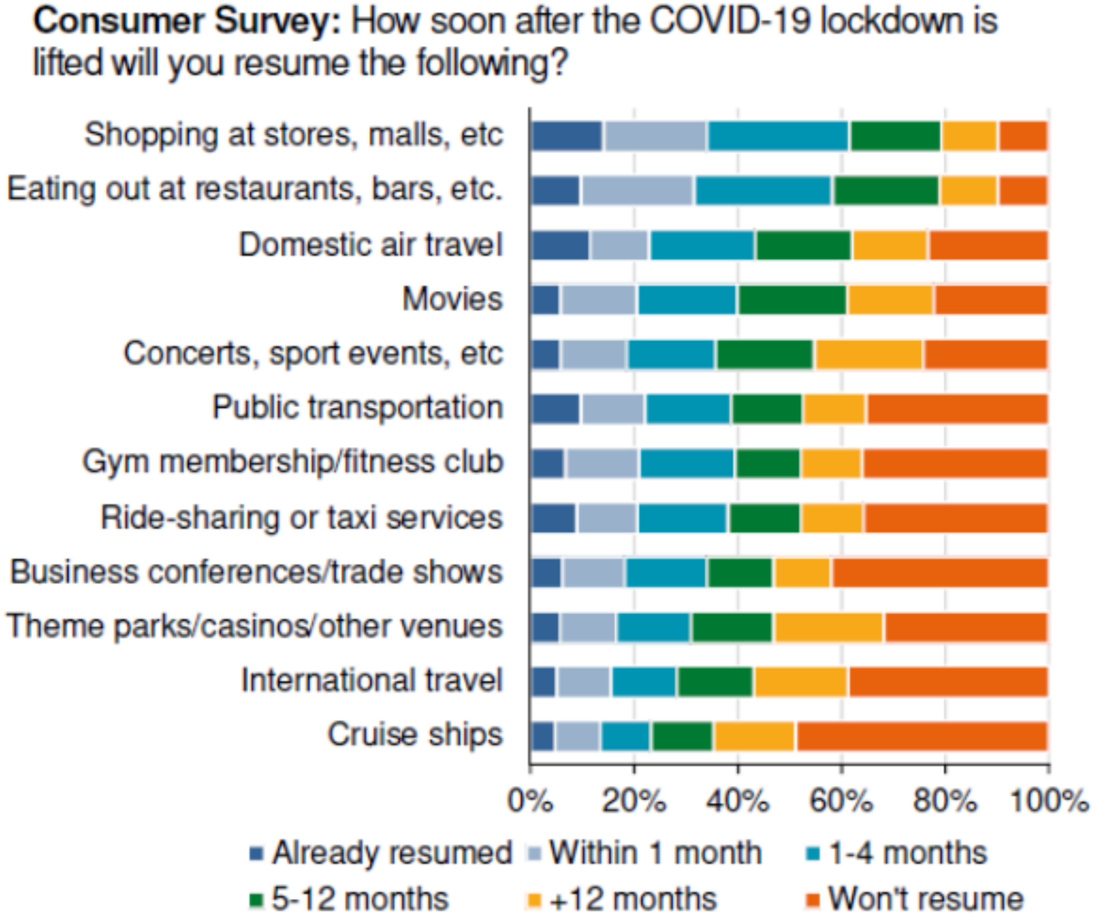
# Perspective on the Coronavirus

The path out of economic shut down – V shape looks unlikely given consumer patterns (> 2/3 of our economy!).

**How many of the +20 million people unemployed are temporary vs. permanent layoffs?**



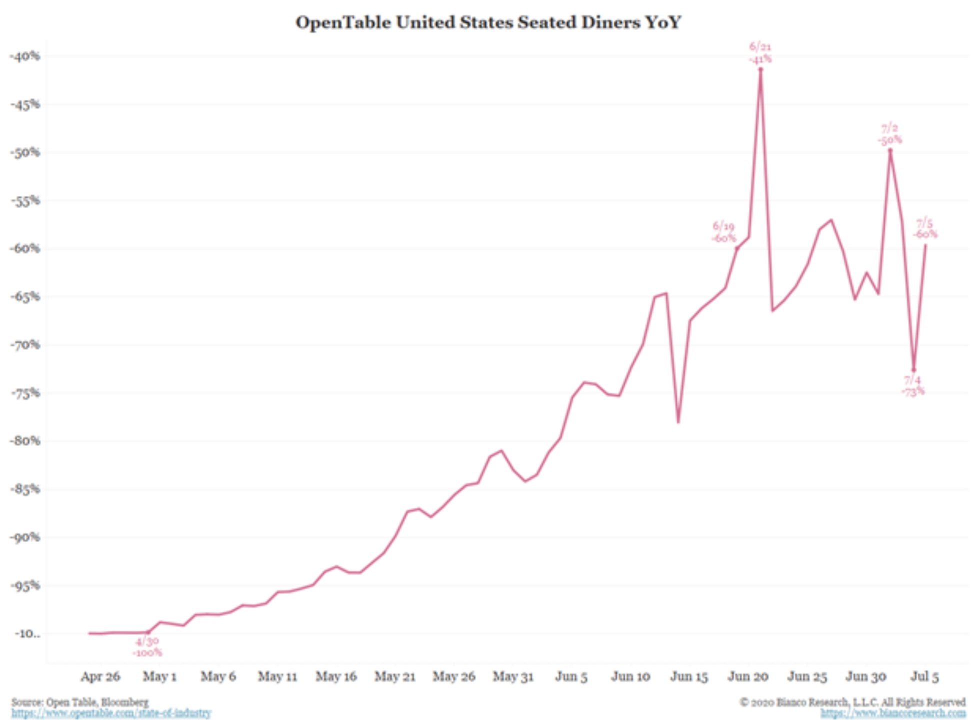

**A durable shift in consumer spending patterns could be a challenge for some industries**

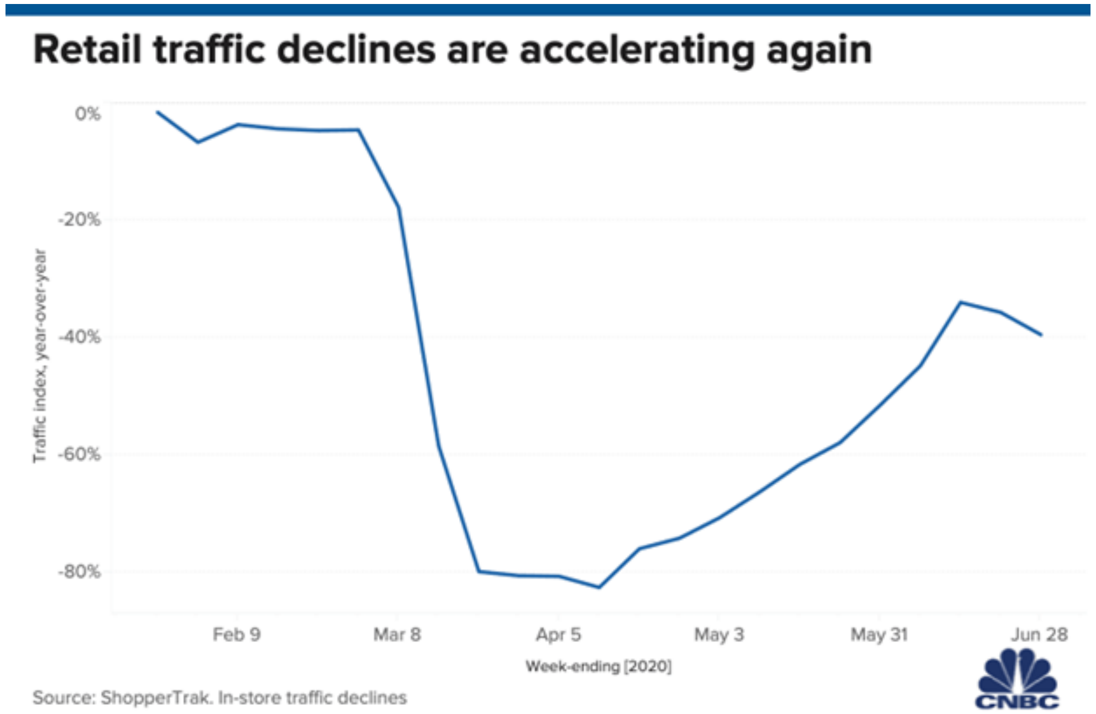


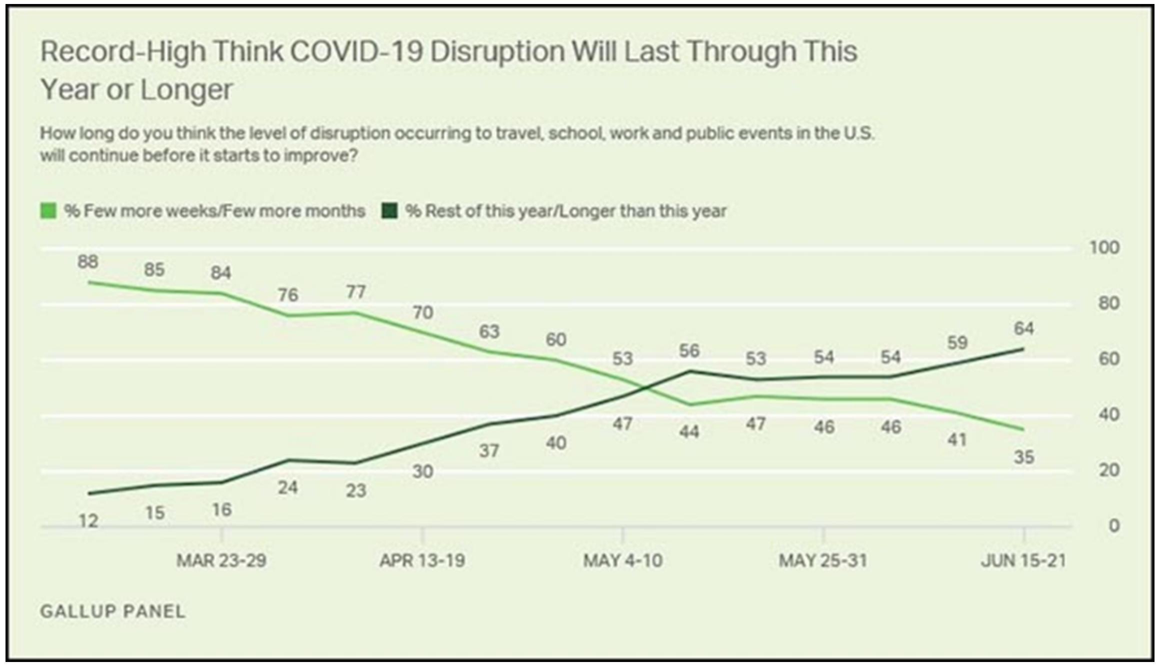

Source: Allianz

# Perspective on the Coronavirus

The path out of economic shut down – V shape looks unlikely given consumer patterns (> 2/3 of our economy!).
Virus spreading in the Sunbelt shows how fragile the recovery is.




Source: Bianco, Allianz

# Looking Forward

# Market Reaction

*History Does Rhyme… Expect Volatility*

**S&P 500 Performance Following Rebounds From 30%+ ATH Declines**

| | S&P 500 Change (%) | | | | |
|---|---|---|---|---|---|
| Date | One Week | One Month | Three Months | Six Months | One Year |
| 6/1/32 | 3.86 | 4.55 | 92.50 | 52.95 | 121.36 |
| 5/26/70 | 12.34 | 6.03 | 17.20 | 22.80 | 43.73 |
| 10/3/74 | 12.06 | 18.63 | 13.54 | 30.88 | 38.01 |
| 12/4/87 | 5.09 | 14.30 | 19.37 | 18.99 | 21.39 |
| 10/9/02 | 10.72 | 15.19 | 19.42 | 11.49 | 33.73 |
| 3/9/09 | 11.43 | 26.61 | 39.30 | 52.75 | 68.57 |
| **Average** | **9.25** | **14.22** | **33.56** | **31.64** | **54.46** |
| **Median** | **11.08** | **14.74** | **19.39** | **26.84** | **40.87** |

**S&P 500 15%+ Quarterly Gains**

| Date | Qtr % Chg | 2 Qtr % Chg | Next Qtr % Chg | Next 2 Qtrs % Chg | Next Year % Chg |
|---|---|---|---|---|---|
| 12/31/28 | 15.18 | 27.22 | 4.85 | 12.57 | -11.91 |
| 3/31/30 | 17.20 | -16.64 | -18.62 | -26.05 | -33.61 |
| 9/30/32 | 82.39 | 10.53 | -14.36 | -27.60 | 20.30 |
| 6/30/33 | 86.50 | 57.66 | -10.91 | -8.62 | -10.08 |
| 6/28/35 | 21.18 | 7.79 | 13.18 | 31.15 | 44.92 |
| 12/31/35 | 15.88 | 31.15 | 11.09 | 10.50 | 27.92 |
| 6/30/38 | 36.00 | 9.57 | 5.88 | 13.67 | -6.06 |
| 9/29/39 | 17.77 | 16.48 | -2.58 | -4.77 | -16.65 |
| 3/31/43 | 18.53 | 30.85 | 6.65 | 4.32 | 3.80 |
| 9/30/70 | 15.80 | -6.05 | 9.43 | 19.12 | 16.78 |
| 3/31/75 | 21.59 | 31.19 | 14.19 | 0.61 | 23.28 |
| 12/31/82 | 16.79 | 28.31 | 8.76 | 19.53 | 17.27 |
| 12/31/85 | 16.04 | 10.13 | 13.07 | 18.72 | 14.62 |
| 3/31/87 | 20.45 | 26.10 | 4.22 | 10.33 | -11.25 |
| 6/30/97 | 16.91 | 19.49 | 7.02 | 9.64 | 28.10 |
| 12/31/98 | 20.87 | 8.41 | 4.65 | 11.67 | 19.53 |
| 6/30/09 | 15.22 | 1.78 | 14.98 | 21.30 | 12.12 |
| 9/30/09 | 14.98 | 32.49 | 5.49 | 10.63 | 7.96 |
| 6/30/20 | 19.95 | -4.04 | ? | ? | ? |
| | | **Average** | **4.28** | **7.04** | **8.17** |
| | | **Median** | **6.27** | **10.56** | **13.37** |
| | | **Avg. Since WW2** | **9.09** | **13.51** | **14.27** |
| | | **Avg. All Qtrs** | **1.95** | **3.78** | **7.75** |

Source: Bespoke

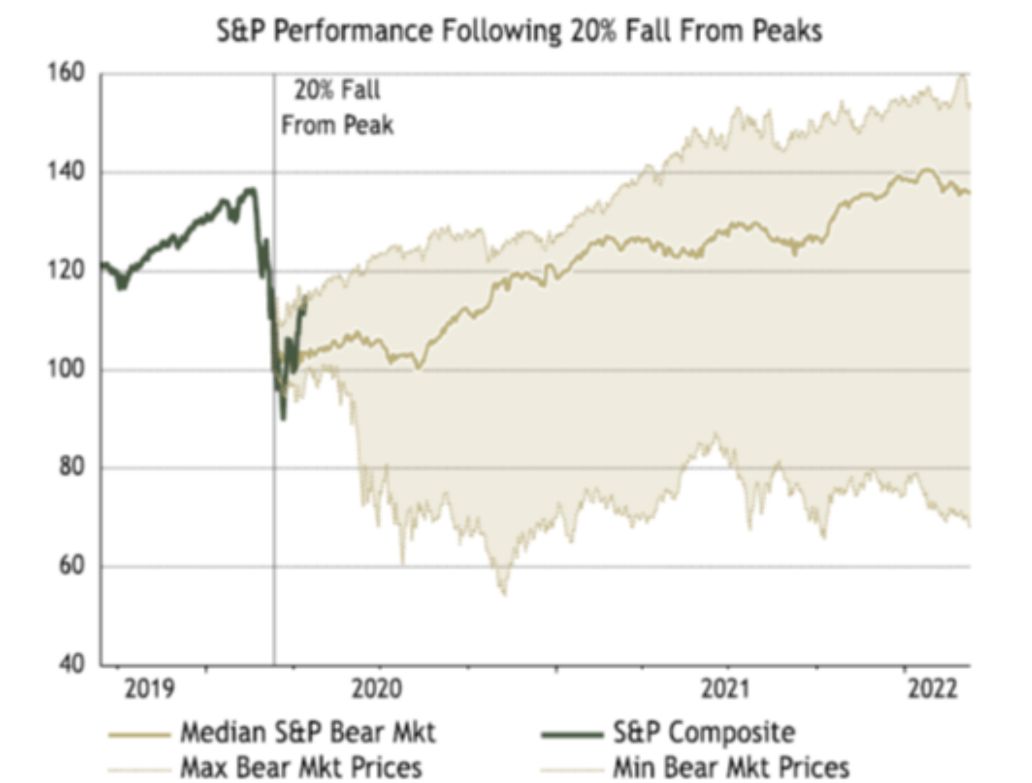
# Market Reaction

*History Does Rhyme… Expect Volatility*

## Chart 15: Bear Market Profiles since 1950 - From Peak Value


Source: ASR Ltd. / Bloomberg LLP / Consensus Economics / Datastream from Refinitiv

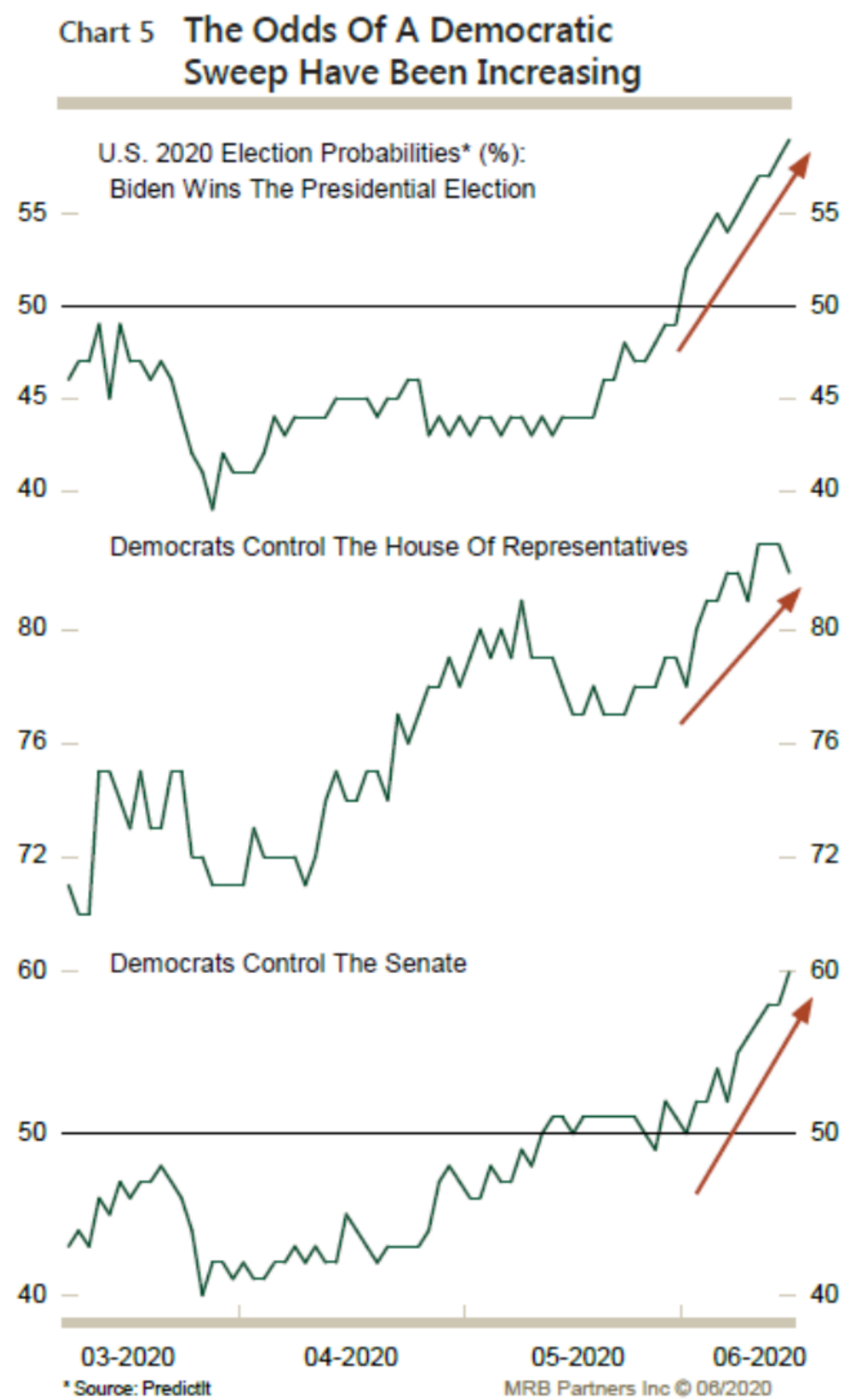
## Chart 16: The Pattern of Rallies After 20% Falls



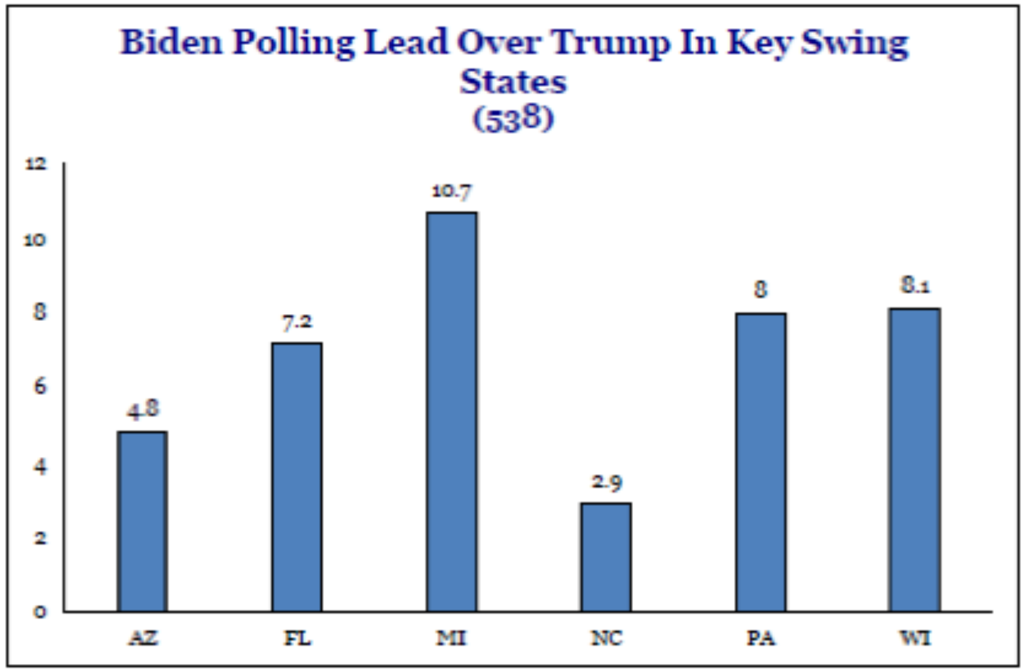

Source: ASR Ltd. / Datastream from Refinitiv

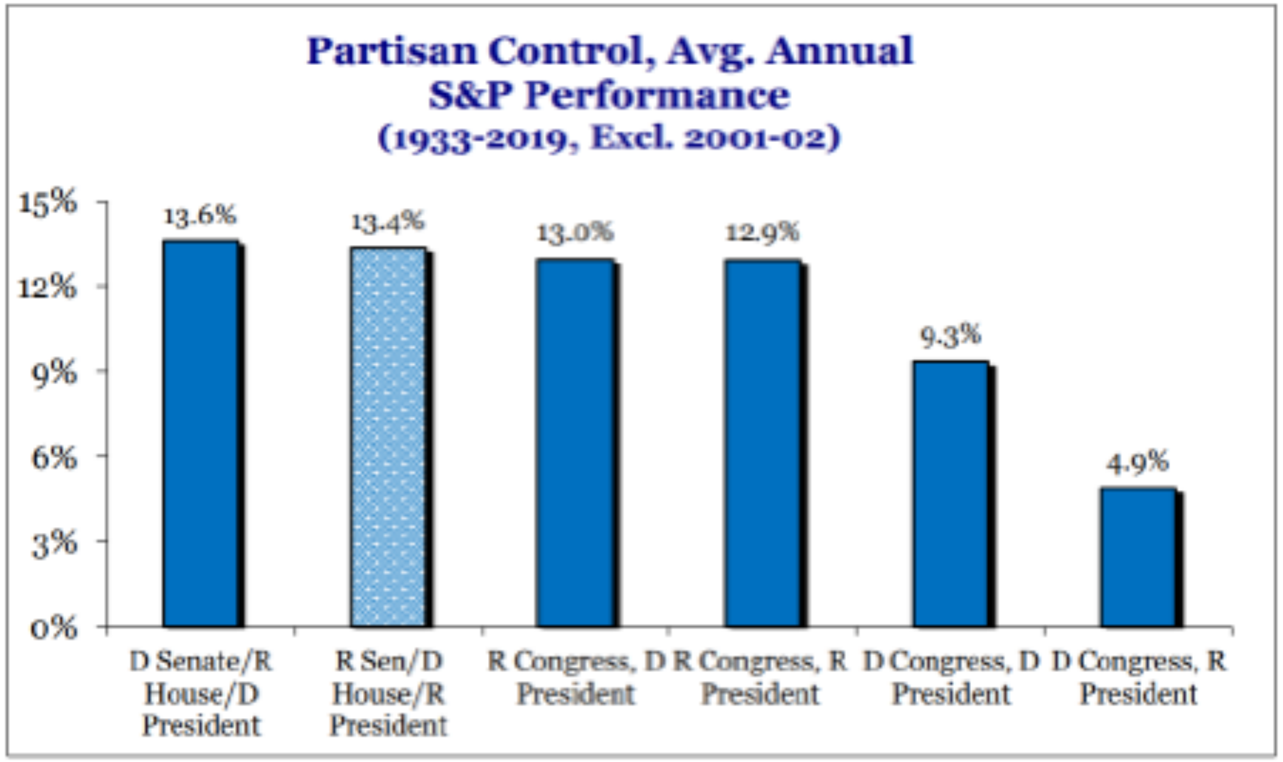
Source: ASR Ltd

# Supplemental Charts of Interest – Elections/Politics




TRUMP IS LOSING IN EVERY SWING STATE

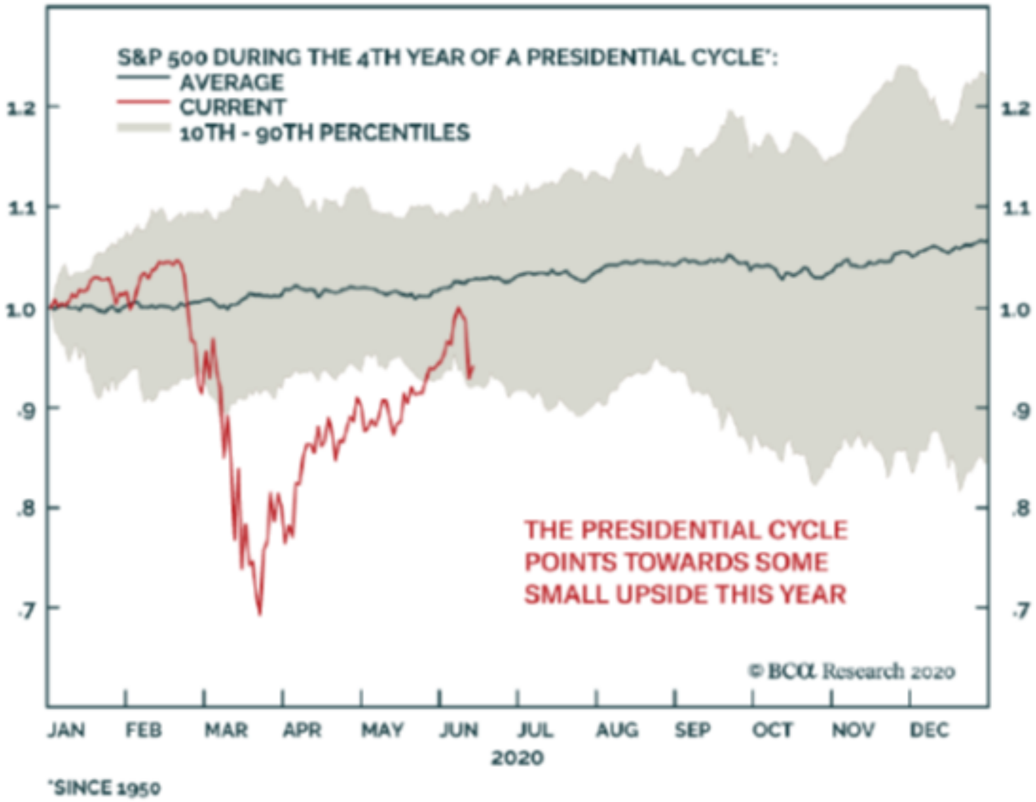


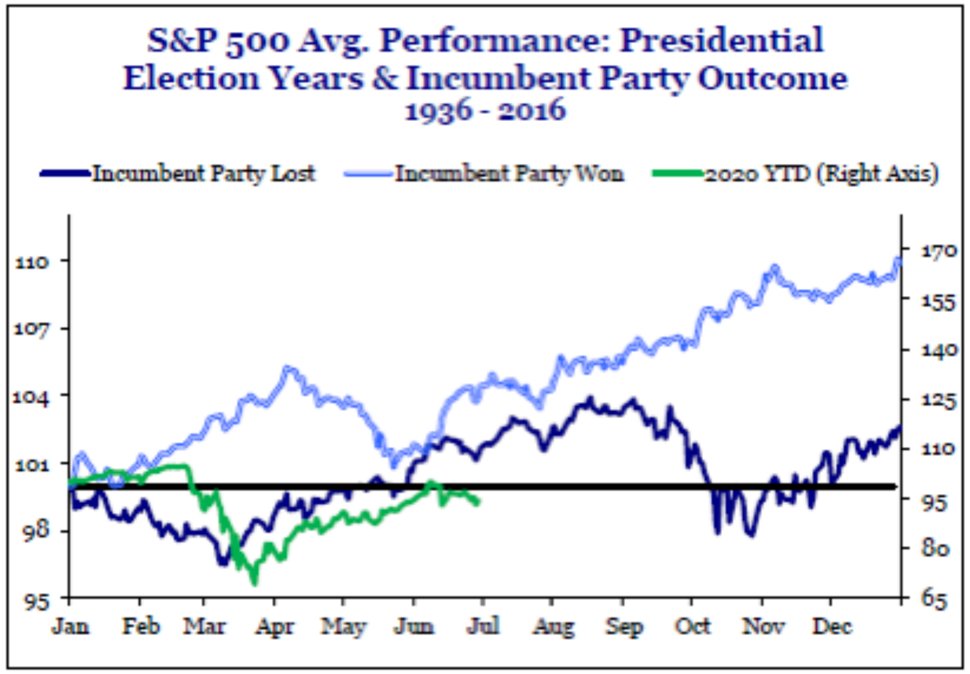



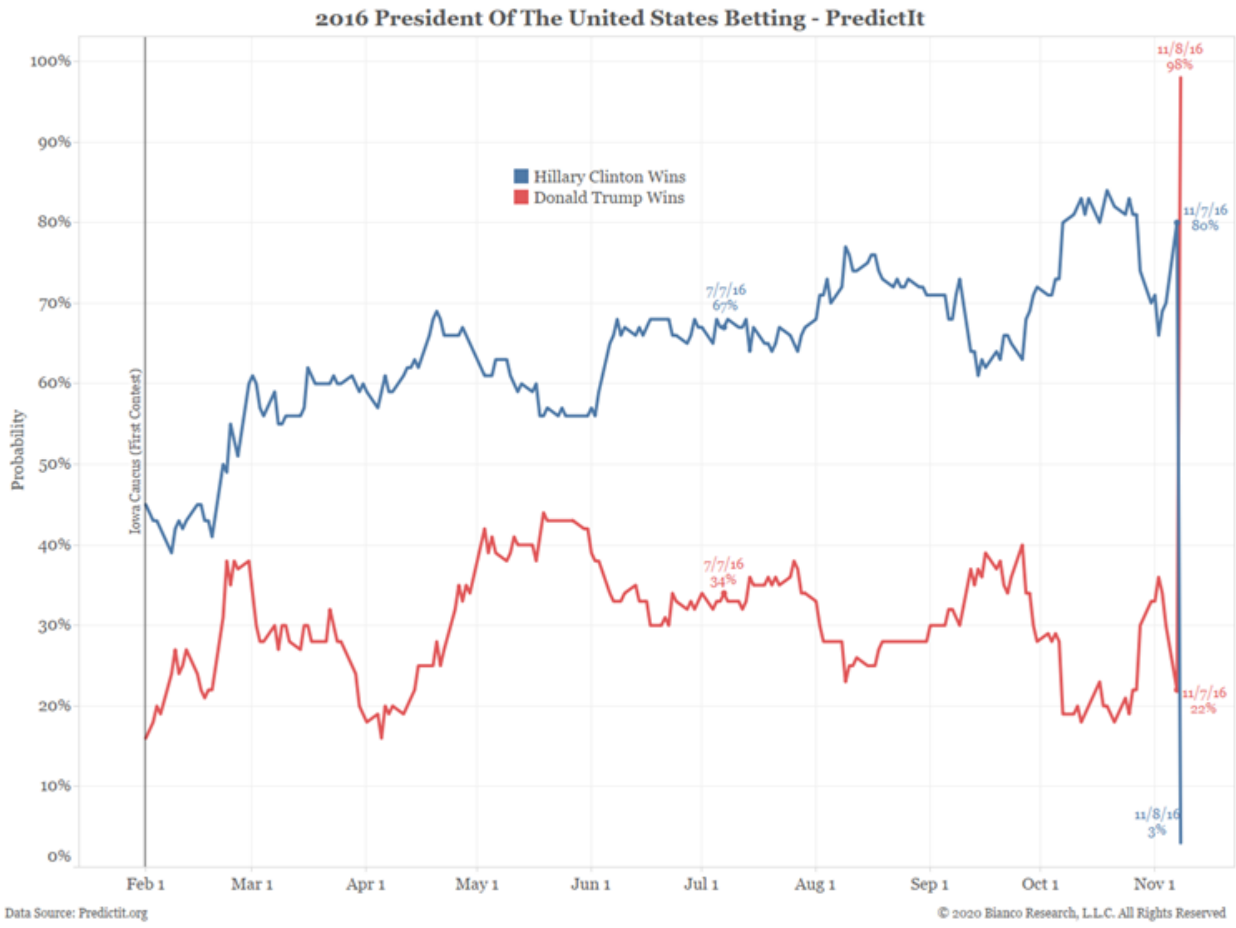

Source: MRB, Strategas

# Supplemental Charts of Interest – Elections/Politics: On the Other Hand…

Markets do no price in risk until October. Polling data has not been accurate.



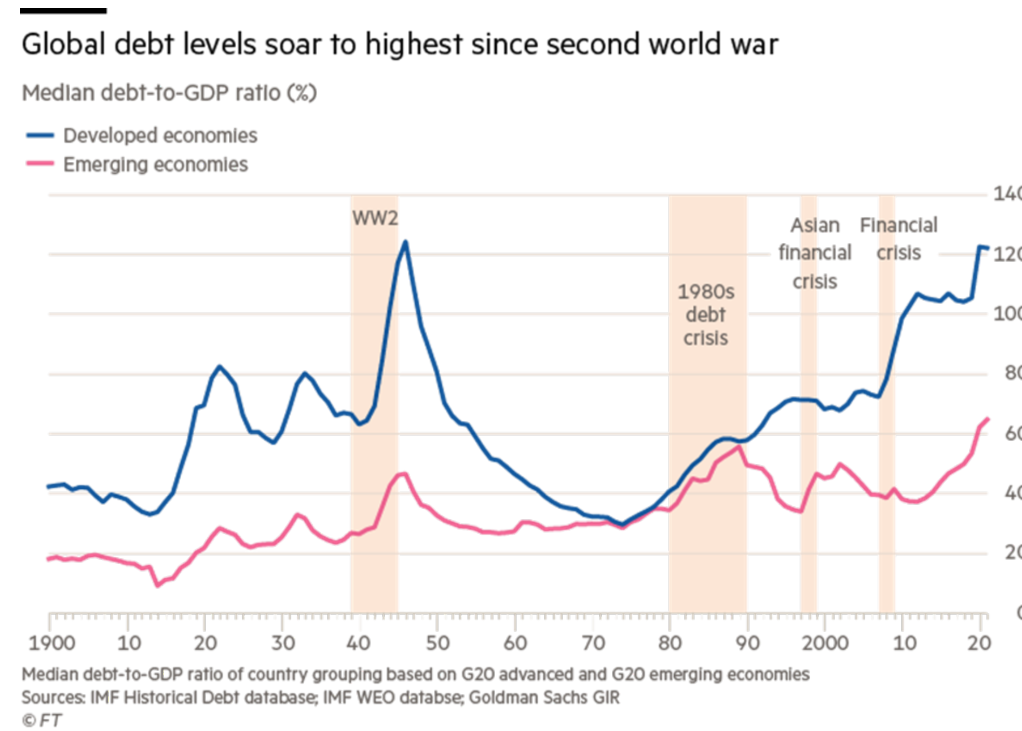



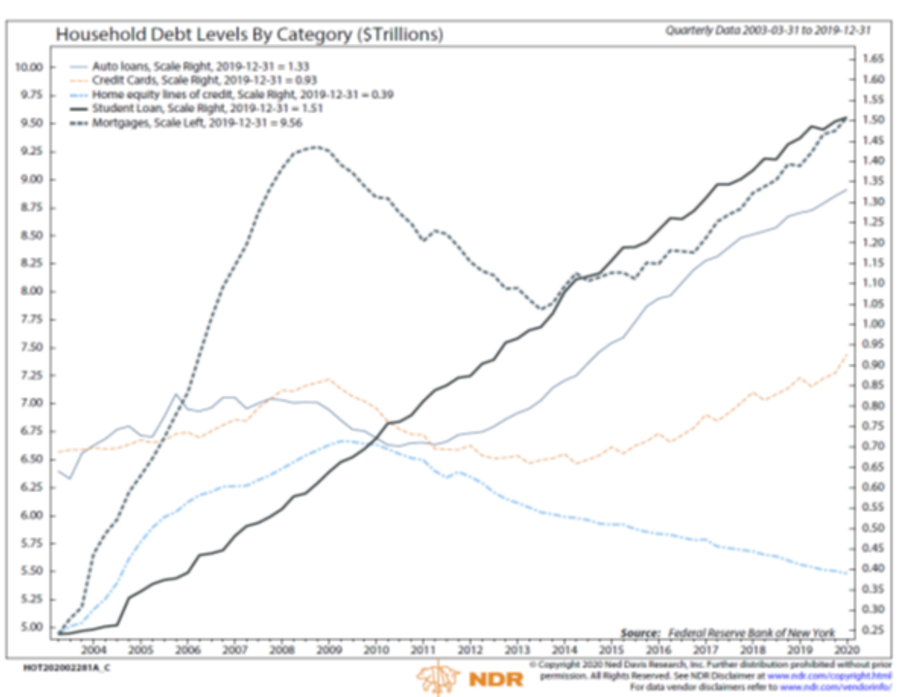



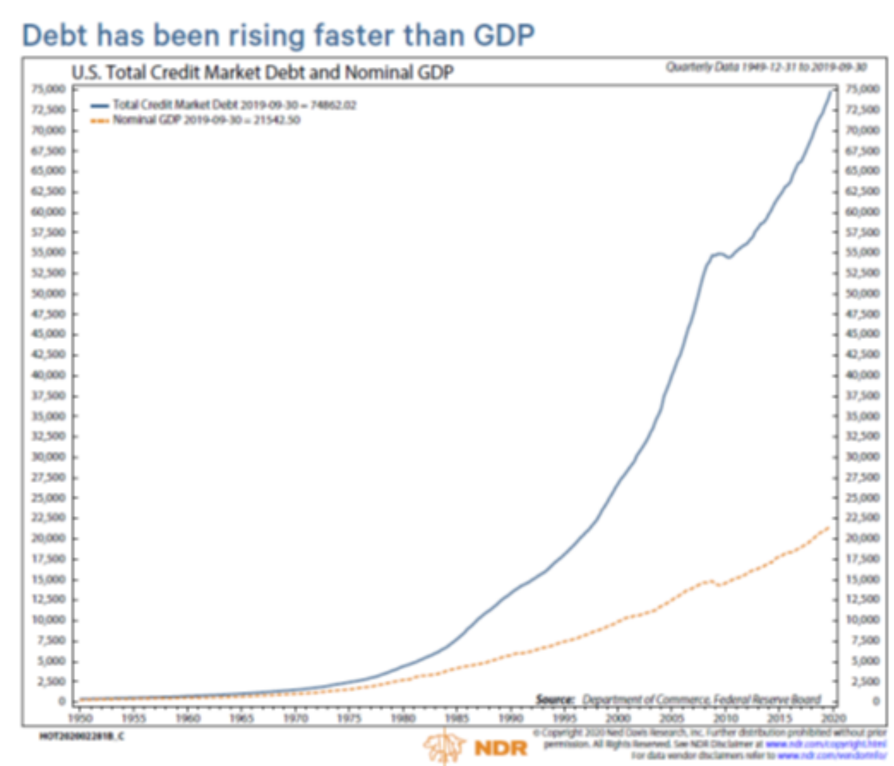

Source: Bianco, Strategas, BCA

# What Could Go Wrong?

## *Global Debt Explosion amplified by the Covid Crisis*


Source: Ned Davis, Financial Times, BCA

# Looking Forward

## *Charts to Watch*

| Short-Term Technicals<br>POSITIVE | Regulatory Insights<br>MIXED | Economic Developments<br>NEGATIVE |
|---|---|---|
| + 50% Fibonacci Retracement level for S&P 500 (2947 = 61.8%) cleared along with 200 day moving average (3000) in June<br><br>+ Credit spreads tightening, copper prices are rallying off the bottom and semiconductor prices are outperforming the S&P 500<br><br>- Two-year Treasury Yields: Flailing 2 year prices demonstrate lack of confidence in growth<br>- Ultra short technical are overbought. Put/ Call ratios show no fear in equities.<br><br>+ Equity Mutual Fund Flows finally turned positive. Sentiment Surveys are still bearish.<br><br>+ S&P futures positioning is net short (2016 levels despite the S&P move.<br>+ Policy Uncertainty Index remains elevated<br><br>* Credit spreads are critical to recovery<br>* Watching small cap, REITs, banks, & transports to confirm the turn | +/- Reopening of America is critical for sustained equity moves<br><br>- The longer states remain closed the higher risks for permanent unemployment, bankruptcies, and defaults. The result is a dampened recovery<br><br>+ Additional stimulus in the works (individuals and state/local government). Potential for "on-shoring" tax incentives<br><br>+ Total monetary/fiscal response in the US is $10 trillion (6 months of GDP)<br><br>+ Fed purchases of corps, munis, and ETFs minimizes liquidity risk<br><br>- Election year rhetoric will heat up<br>- Trade War Part II?<br>- Government Covid decisions create uncertainty<br><br>- Path of the virus post re-open or next flu season<br><br>* Watch Oxford Covid Government Response Tracker Data – remains stringent despite re-openings | - All economic data are a function of when shut-in orders lift<br>- This poses a scientific and political dilemma<br><br>- Earnings and GDP will be horrific – how will markets react?<br><br>- Market reactions depend on CoVid news of the day<br><br>+ Econ data easily surpassing pessimistic expectations in May and June<br><br>* Watching NY Fed's Weekly Econ Index for a turn and other high frequency data:<br>- Weekly jobless claims<br>- Weekly retail sales<br>- Rail car data<br>- Bankruptcy filings |

# Market Reaction

## *History Does Rhyme…*

### THE OPPORTUNITY COST OF WAITING FOR THE BELL TO RING

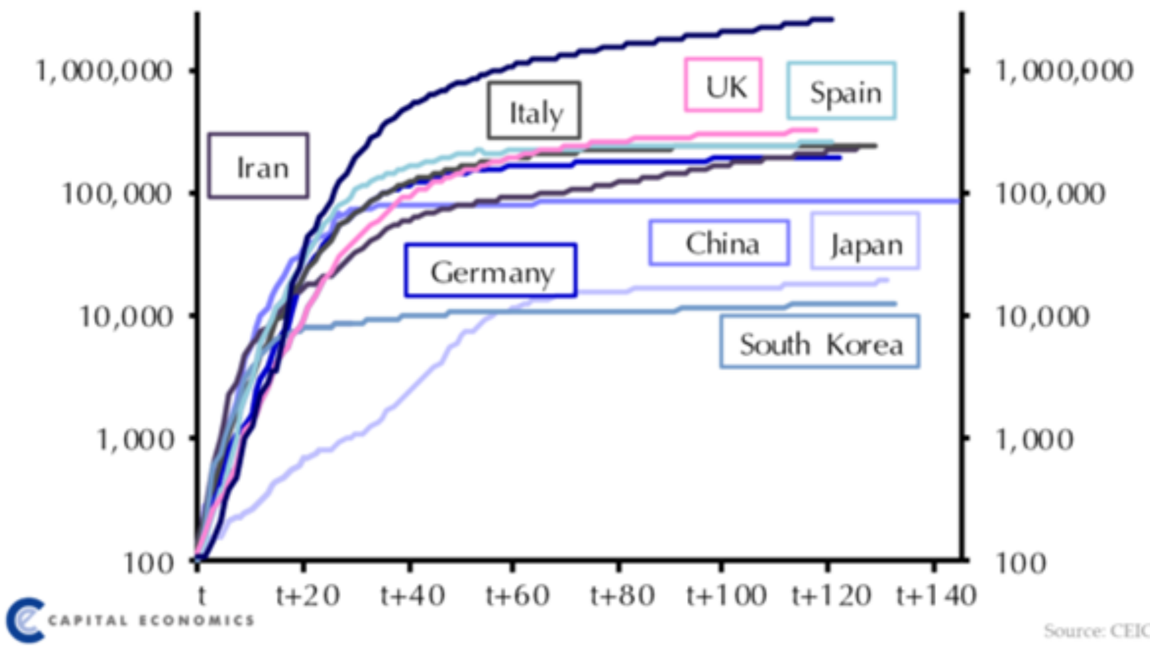
| S&P Market Bottom | EPS Bottom Quarter * | Market Bottom Lead-Time * | Assumed EPS Turn Around Date | S&P Price Return From Bear-Market Bottom through Turn Around Date | Recession End | S&P Price Return From Bear-Market Bottom through Recession End Month |
|---|---|---|---|---|---|---|
| 10/22/1957 | 3Q 1958 | 3Q Before | 1/31/1959 | 42.3% | Apr-58 | 11.4% |
| 6/26/1962 | ***No earnings declines exhibited during this bear market.*** | | | | ***Bear market without accompanying recession.*** | |
| 10/7/1966 | 3Q 1967 | 3Q Before | 1/31/1968 | 26.0% | ***Bear market without accompanying recession.*** | |
| 5/26/1970 | 4Q 1970 | 2Q Before | 4/30/1971 | 50.0% | Nov-70 | 25.8% |
| 10/3/1974 | 3Q 1975 | 3Q Before | 1/31/1976 | 61.9% | Mar-75 | 33.8% |
| 8/12/1982 | 1Q 1983 | 2Q Before | 7/31/1983 | 58.7% | Nov-82 | 35.3% |
| 12/4/1987 | ***No earnings declines exhibited during this bear market.*** | | | | ***Bear market without accompanying recession.*** | |
| 10/11/1990 | 4Q 1991 | 4Q Before | 4/30/1992 | 40.4% | Mar-91 | 27.0% |
| 10/9/2002 | 4Q 2001 | 4Q After | 4/30/2002 | N/A | Nov-01 | N/A |
| 3/9/2009 | 3Q 2009 | 2Q Before | 1/31/2010 | 58.7% | Jun-09 | 35.9% |

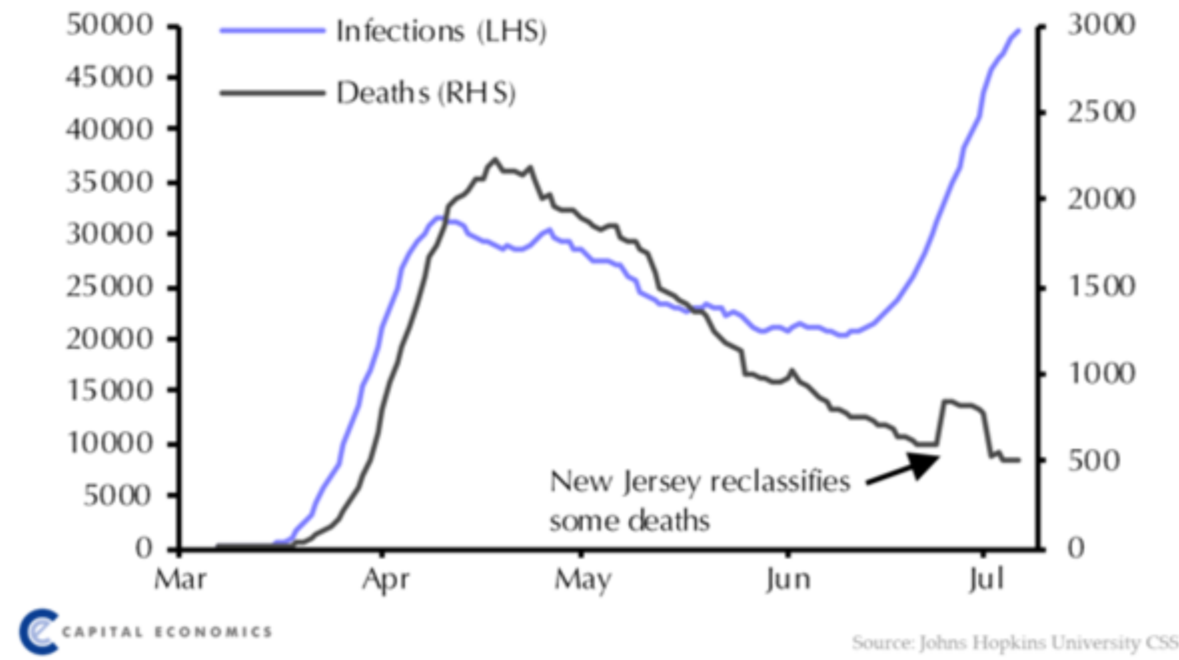
* Source: Strategas

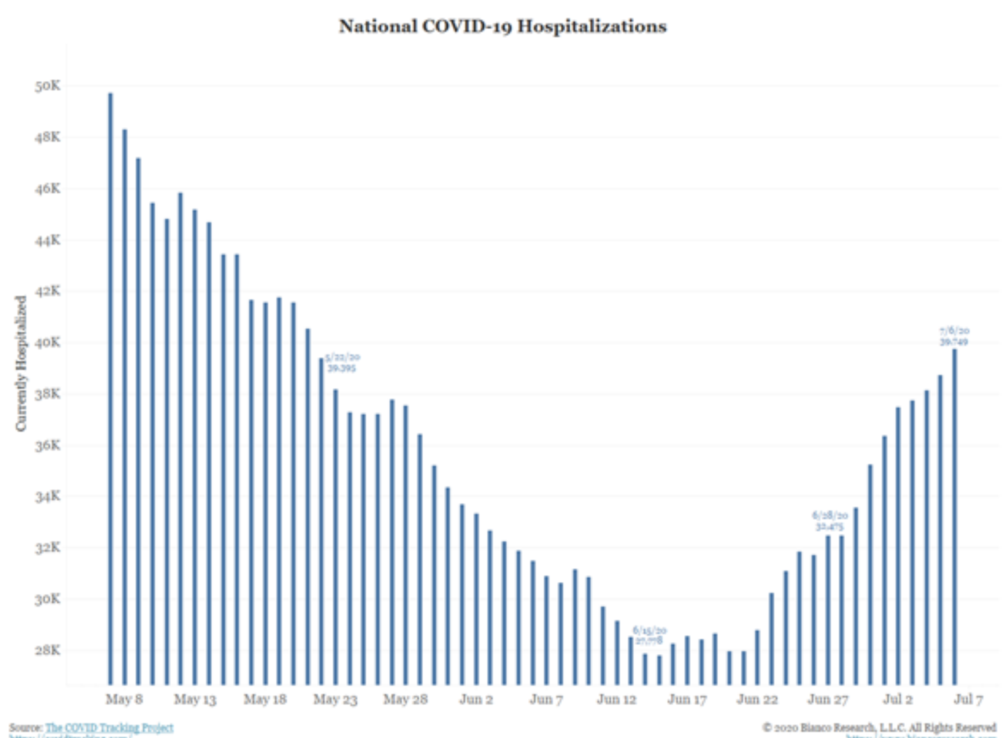
# Perspective on the Coronavirus

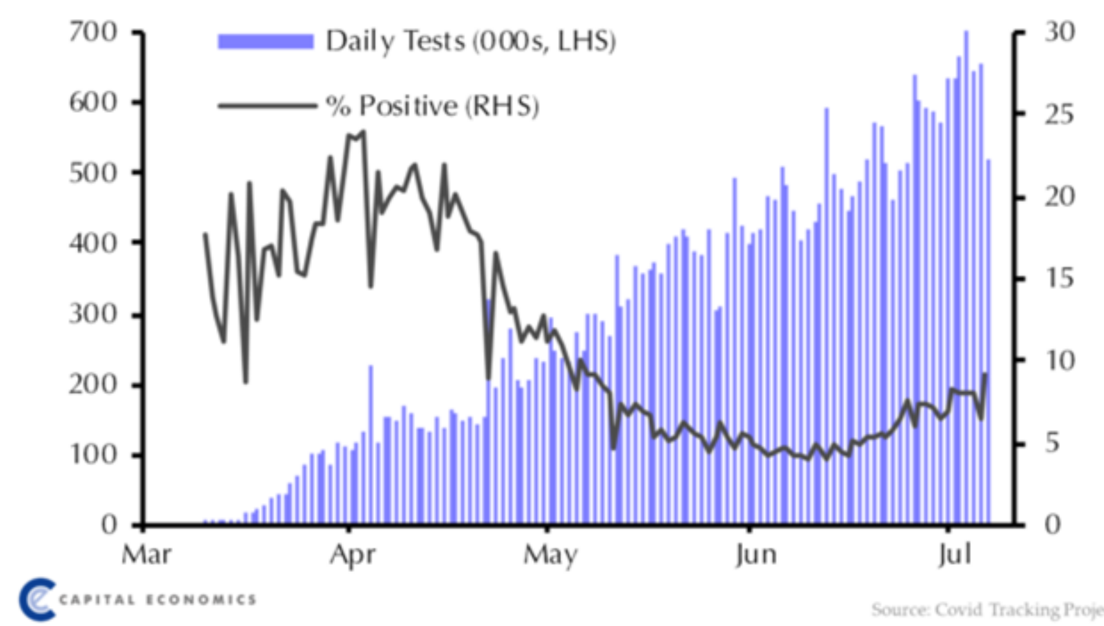
## *Signs of Flattening*

**Confirmed Cases**



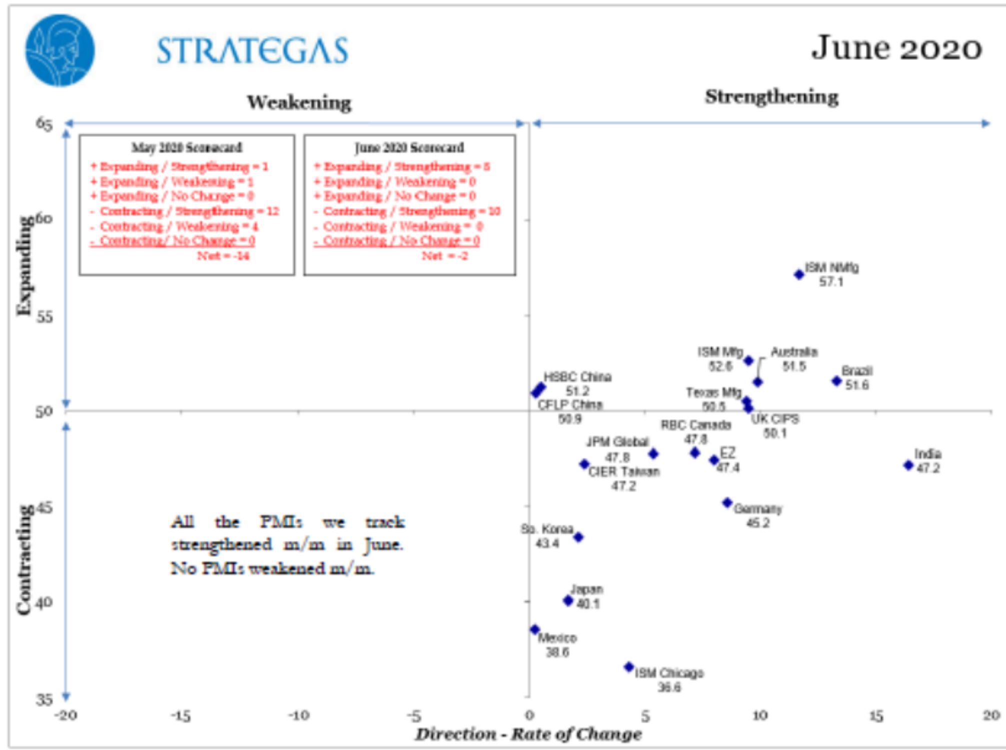



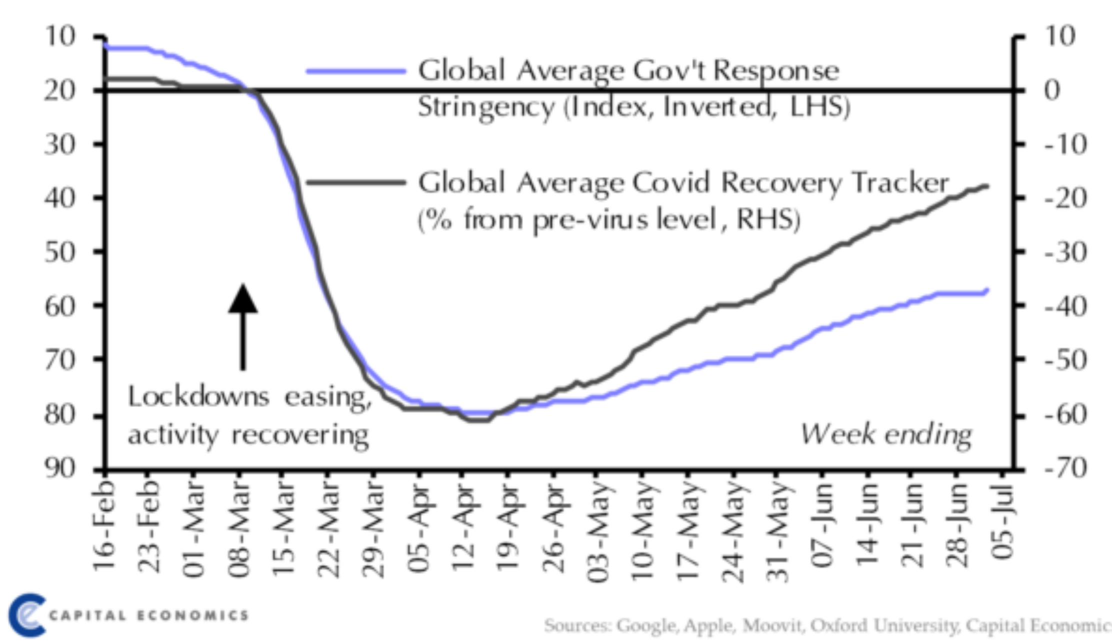



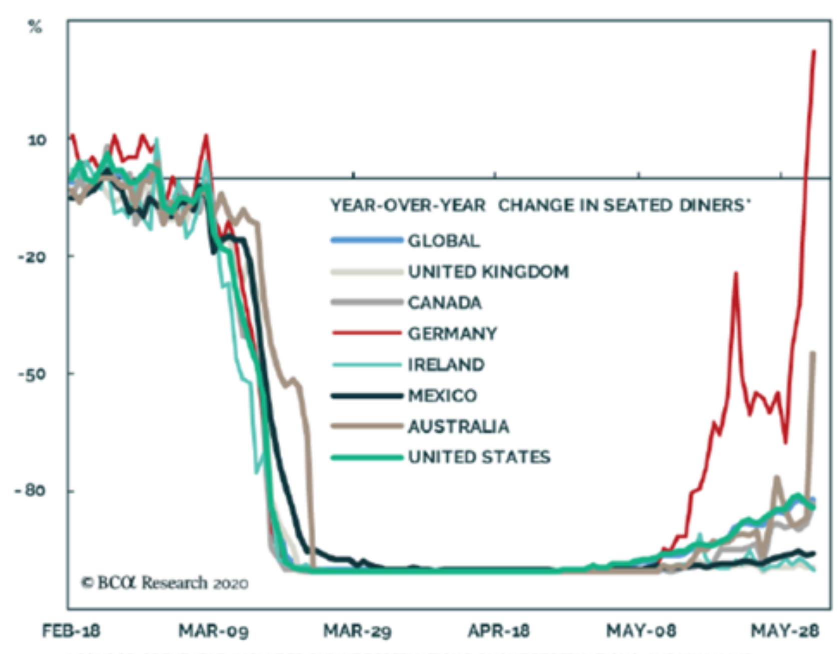

Source: Capital Economics

# Perspective on the Coronavirus

## The path out of economic shut down – robust business activity but subdued consumer spending.



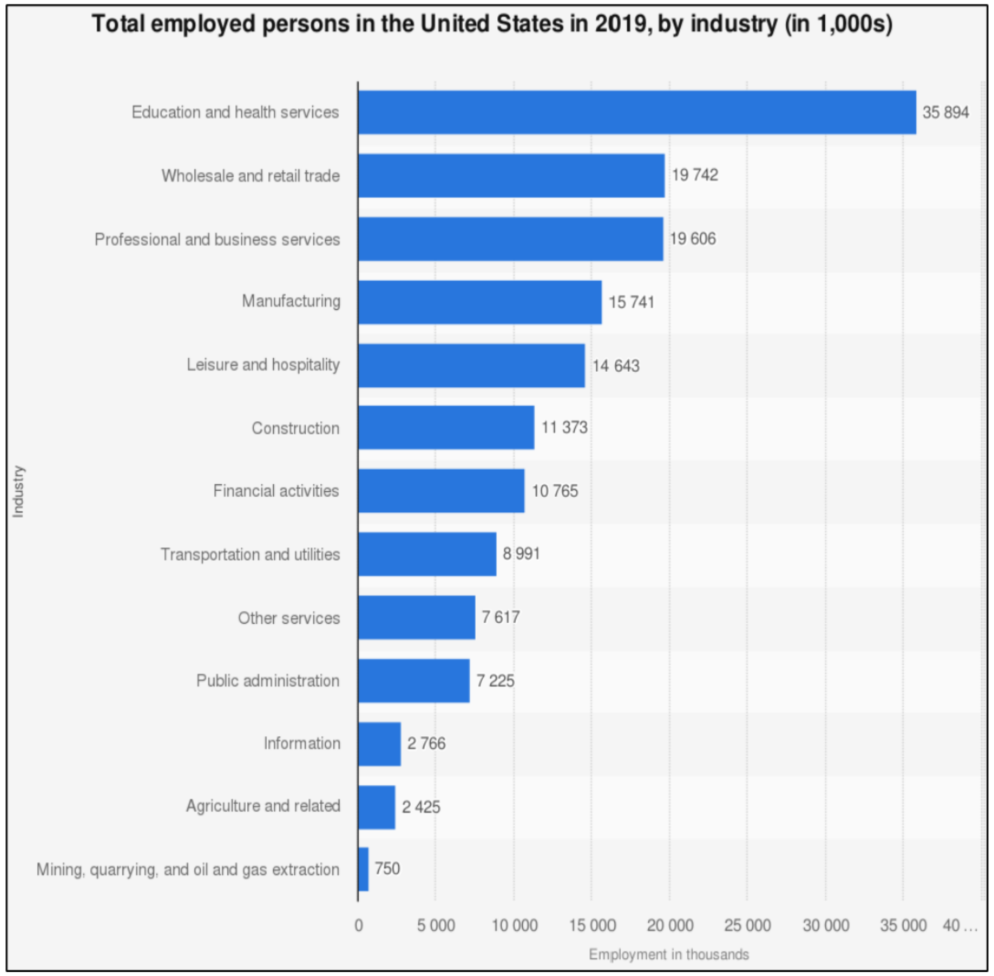



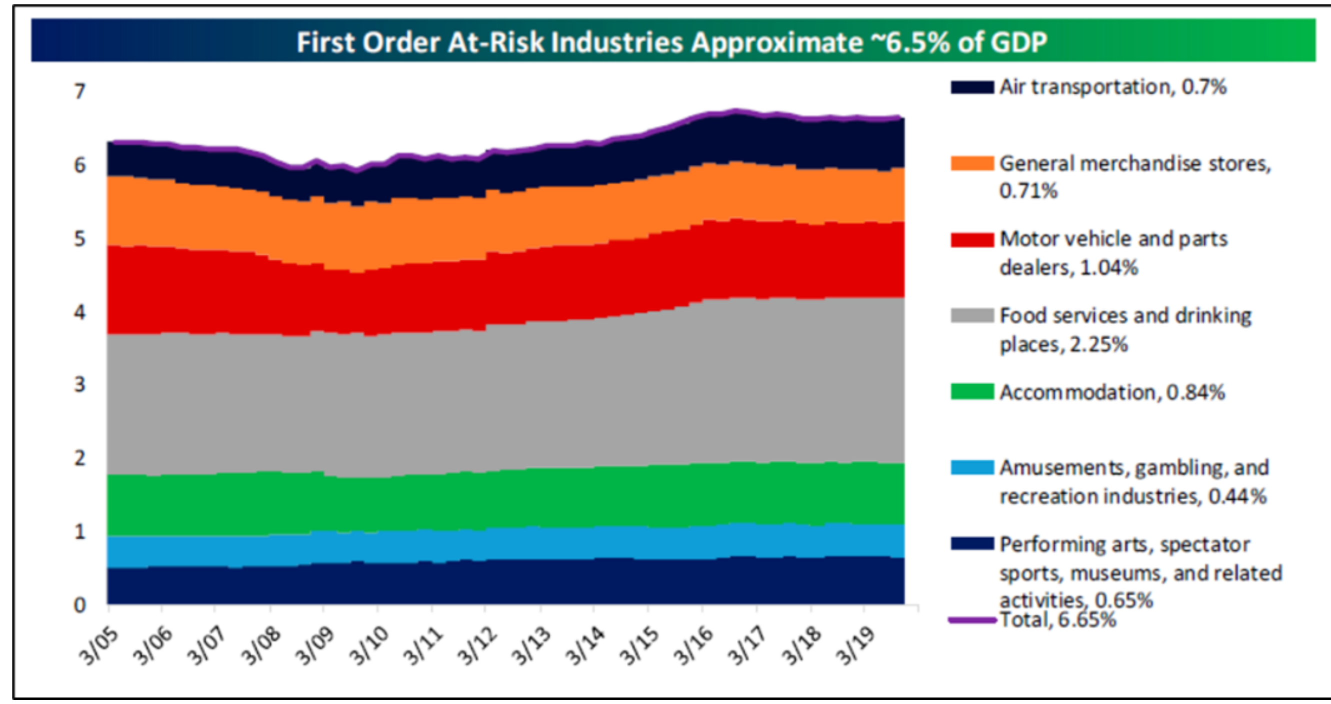



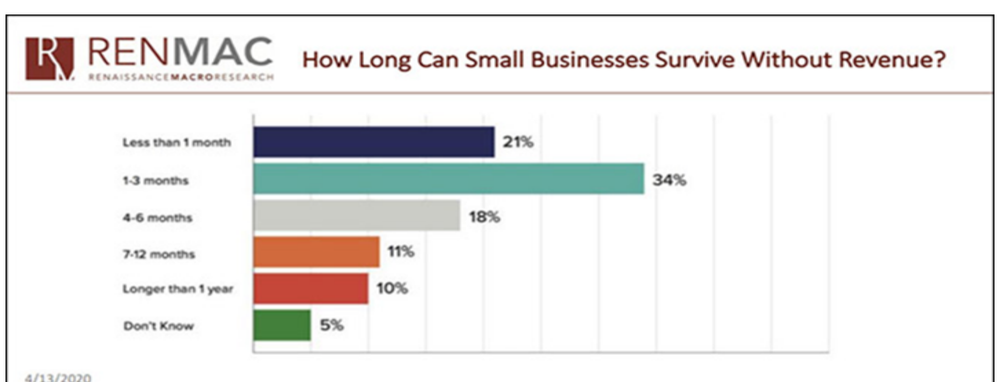

Source: Capital Economics, ASR Ltd., Strategas

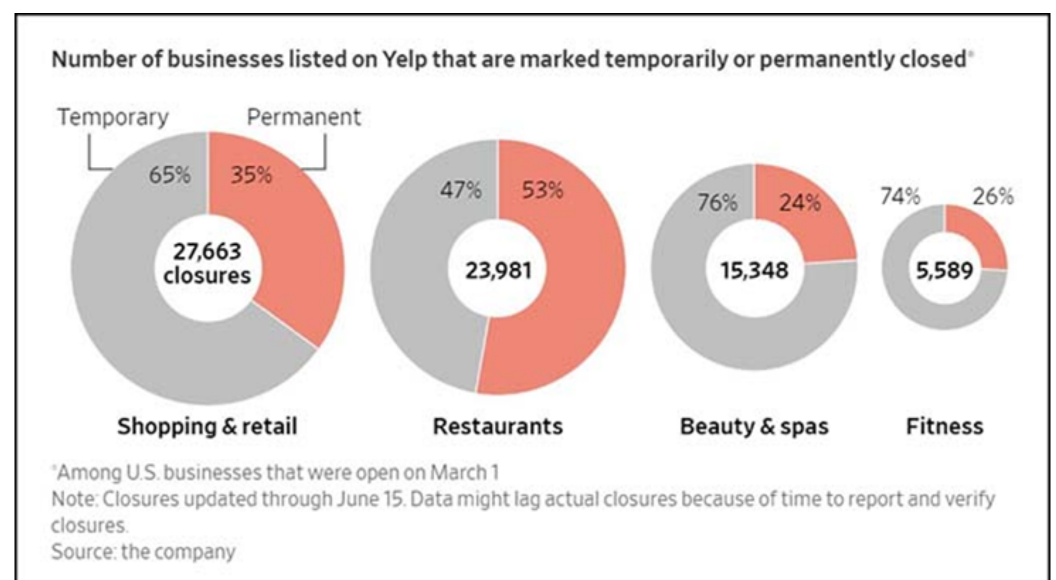
# Impact of the Coronavirus

## *Employment and GDP Contribution by Industry – Small Business Struggles*




Source: Statista, Bespoke

# Investment Themes

# Opal Asset Allocation Dashboard

Asset Allocation Dashboard – July 7, 2020

## Opal Wealth Advisors Asset Allocation Recommendations[1]

| Equity | – 2 | – 1 | 0 | + 1 | + 2 |
|---|---|---|---|---|---|
| Beta | | | | | |
| Value | | | | | |
| Growth | | | | | |
| Large-Cap | | | | | |
| Small-Cap | | | | | |
| U.S. | | | | | |
| Developed International | | | | | |
| Emerging International | | | → | | |
| Technicals (200 Day Moving Average) | | | | → | |

| Fixed Income | – 2 | – 1 | 0 | + 1 | + 2 |
|---|---|---|---|---|---|
| Duration | | | | | |
| Investment Grade | | | | | |
| High Yield | | | | | |
| Loans | | | | | |
| Non-U.S. | | | | | |

| Currencies | – 2 | – 1 | 0 | + 1 | + 2 |
|---|---|---|---|---|---|
| U.S. Dollar $ | | ← | | | |
| Euro € | | | → | | |
| Japanese Yen ¥ | | | | | |
| British Sterling £ | | | | | |

| U.S. Macro Conditions | – 2 | – 1 | 0 | + 1 | + 2 |
|---|---|---|---|---|---|
| Monetary | | | | | |
| Fiscal | | | | | |
| Economic | | | | | |
| Valuation | | | | | |

| Developed International Macro Conditions | – 2 | – 1 | 0 | + 1 | + 2 |
|---|---|---|---|---|---|
| Monetary | | | | | → |
| Fiscal | | | | | |
| Economic | | | | | |
| Valuation | | | | | |

| Emerging International Macro Conditions | – 2 | – 1 | 0 | + 1 | + 2 |
|---|---|---|---|---|---|
| Monetary | | | | | |
| Fiscal | | | | | |
| Economic | | | | | |
| Valuation | | | | | |

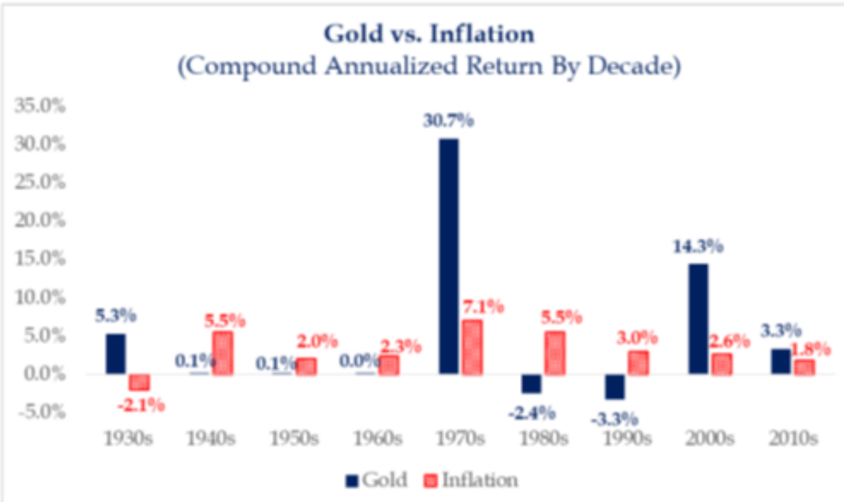
| Real Assets | – 2 | – 1 | 0 | + 1 | + 2 |
|---|---|---|---|---|---|
| Oil | | | | ← | |
| Precious Metals | | | | | |
| Industrial Metals | | | | → | |
| Timber | | | | | |
| Agriculture | | | | | |
| Private Real Estate | | | | | |
| Public REITs | | | | | |

[1] Recommendations are intended to reflect a 12-24 month forecast.

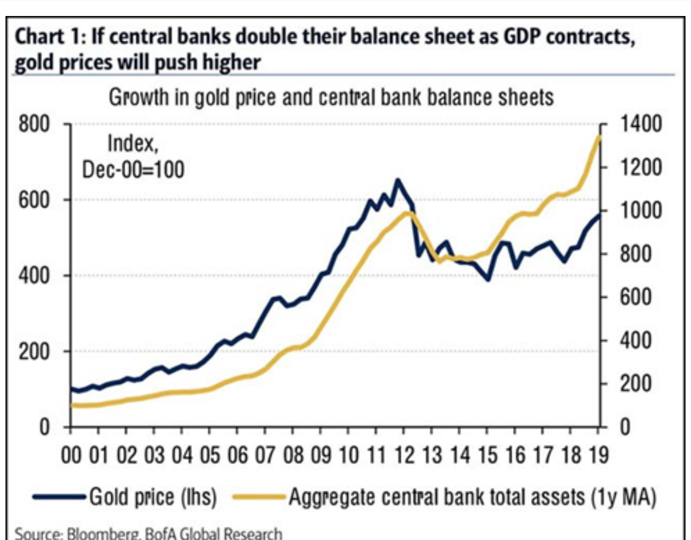
The presence of an arrow indicates a recent change (right arrow = upgraded; left arrow = downgraded).

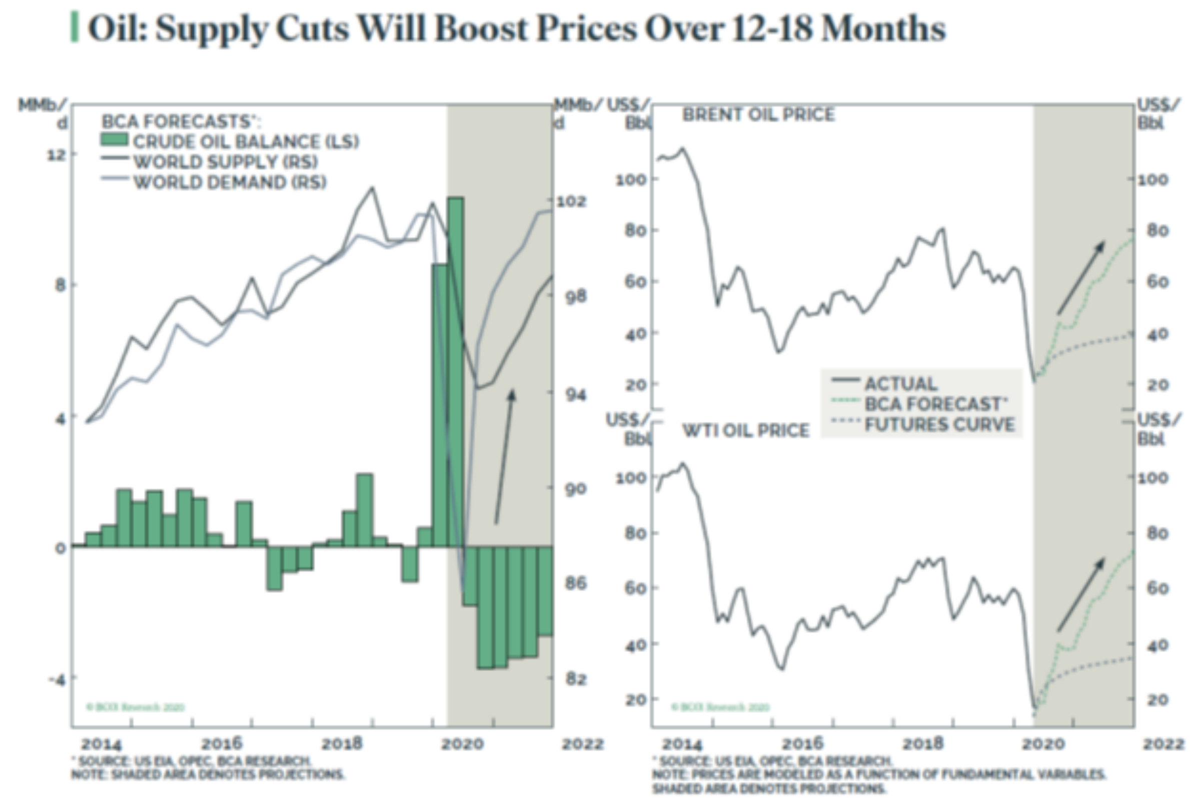
# Supplemental Charts of Interest

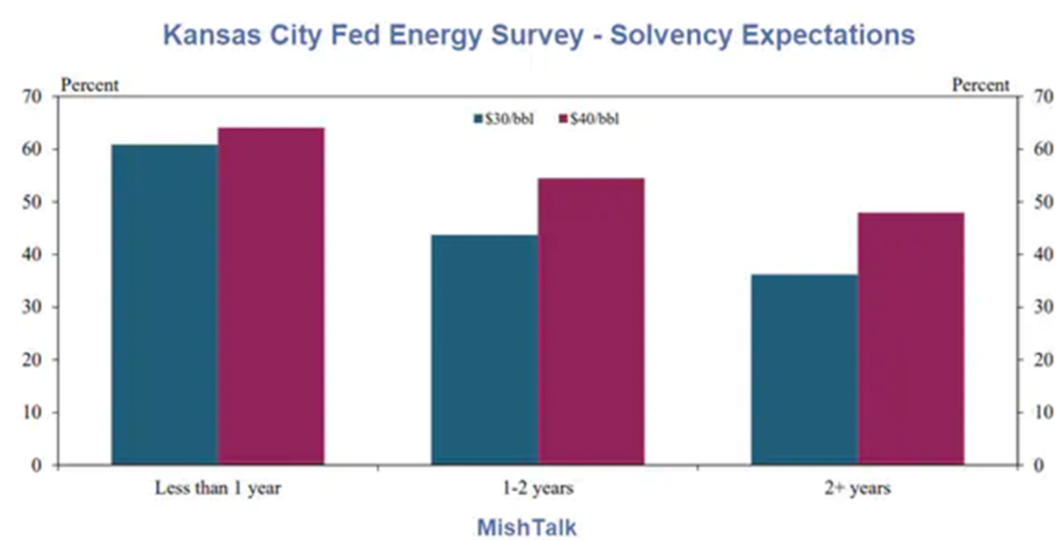
## *Gold & Energy*







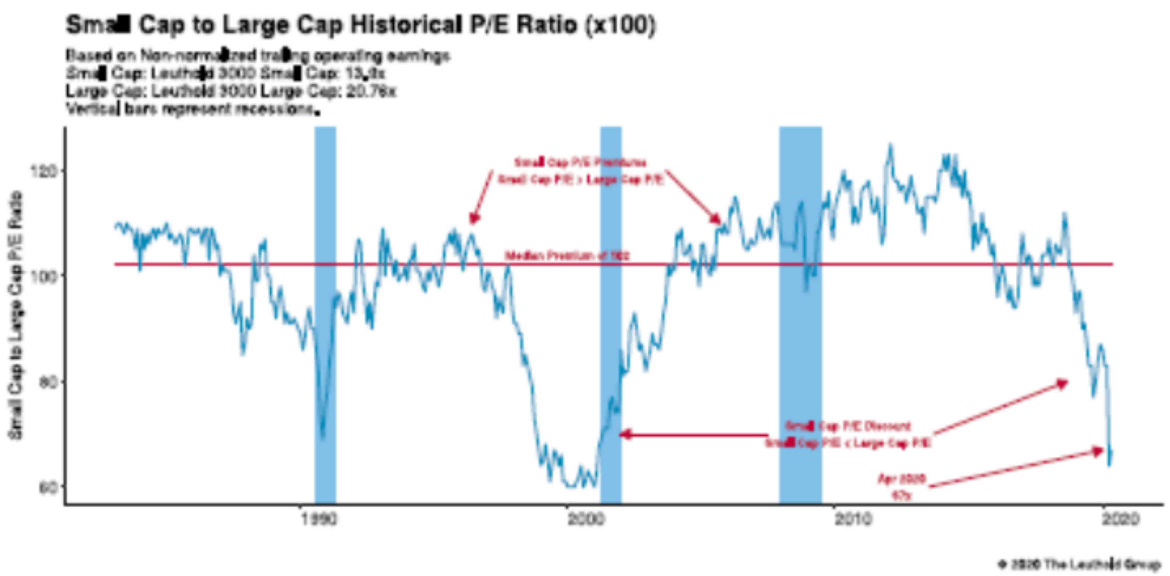




Source: BCA, Strategas, Murenbeeld

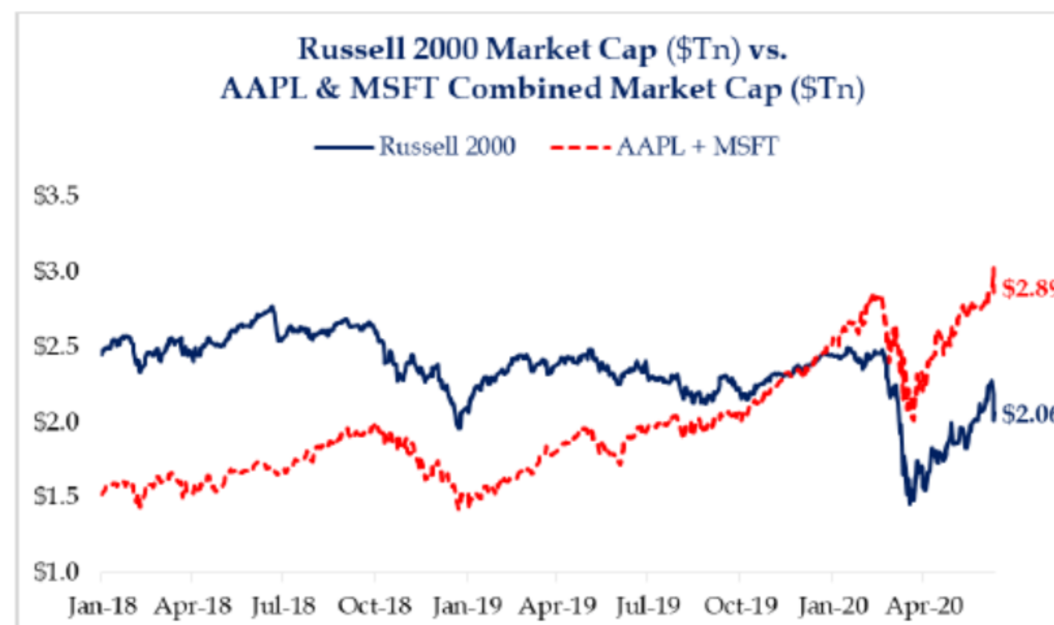
# Supplemental Charts of Interest

## *F.A.Q. Small Caps*




| Year | +1 Month Large | +1 Month Small | +3 Months Large | +3 Months Small | +6 Months Large | +6 Months Small |
|---|---|---|---|---|---|---|
| 1982 | 18.7% | 16.1% | 38.1% | 46.1% | 47.9% | 64.6% |
| 1987 | 14.7% | 16.2% | 20.5% | 29.9% | 21.3% | 34.7% |
| 1990 | 6.6% | 1.2% | 7.7% | 6.4% | 30.0% | 45.4% |
| 2002 | 15.3% | 16.0% | 20.0% | 21.5% | 12.5% | 14.7% |
| 2009 | 26.9% | 36.7% | 40.2% | 54.5% | 54.5% | 72.1% |
| 2020 | 25.2% | 21.3% | ? | ? | ? | ? |

Large-Cap vs. Small Cap Performance Coming Out Of Bear Markets


Source: Leuthold, Strategas

# Supplemental Charts of Interest

## *F.A.Q. International*

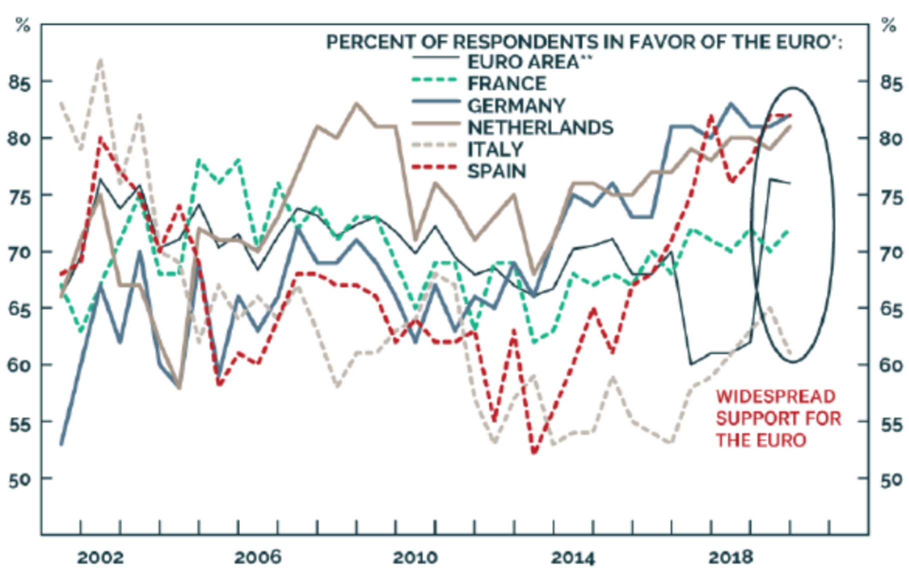




Chart 6 A Shift In Equity Leadership Is Likely

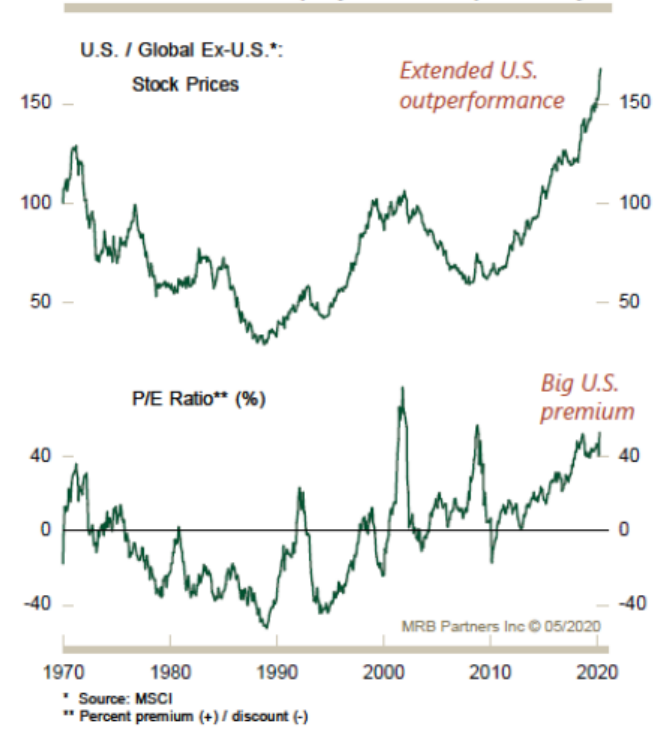
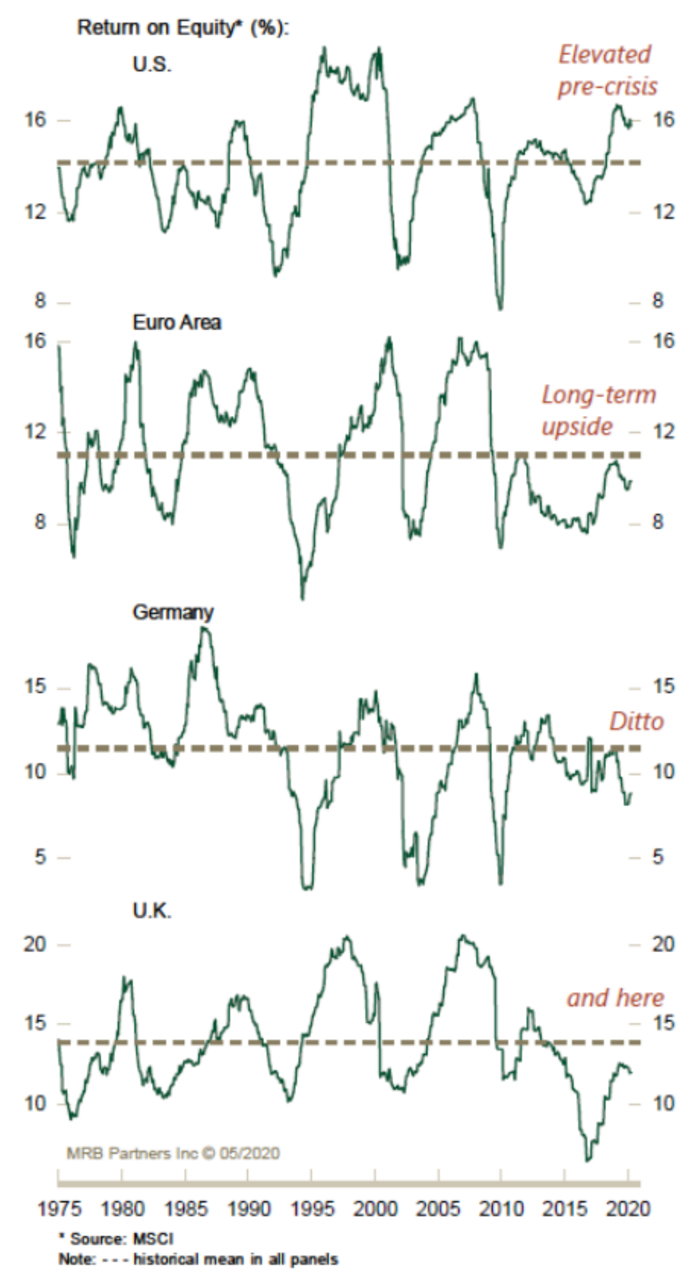


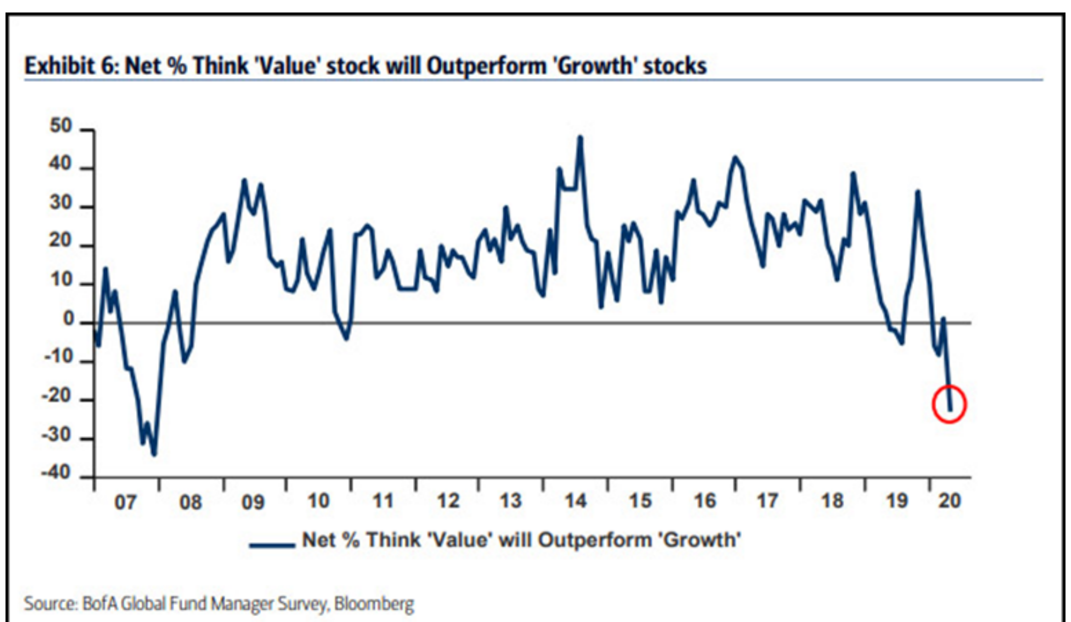

Chart 4 Regional ROEs Have Diverged In Recent Years



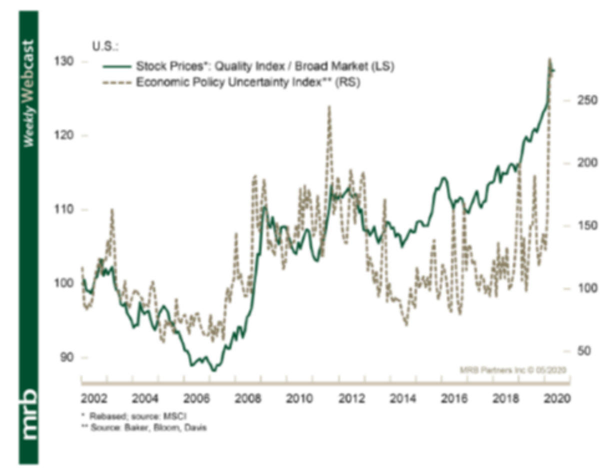

Source: MRB, Bank of America

# Supplemental Charts of Interest – Value vs. Growth

4 factors aid growth: 1) weak aggregate earnings 2) low rates 3) technological shifts 4) quality trade.

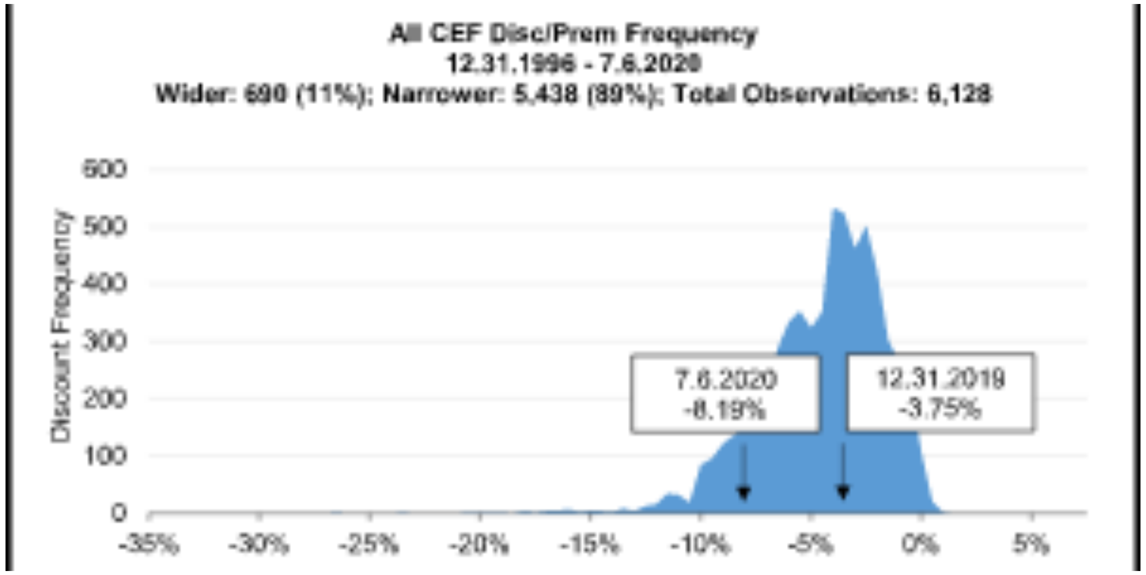


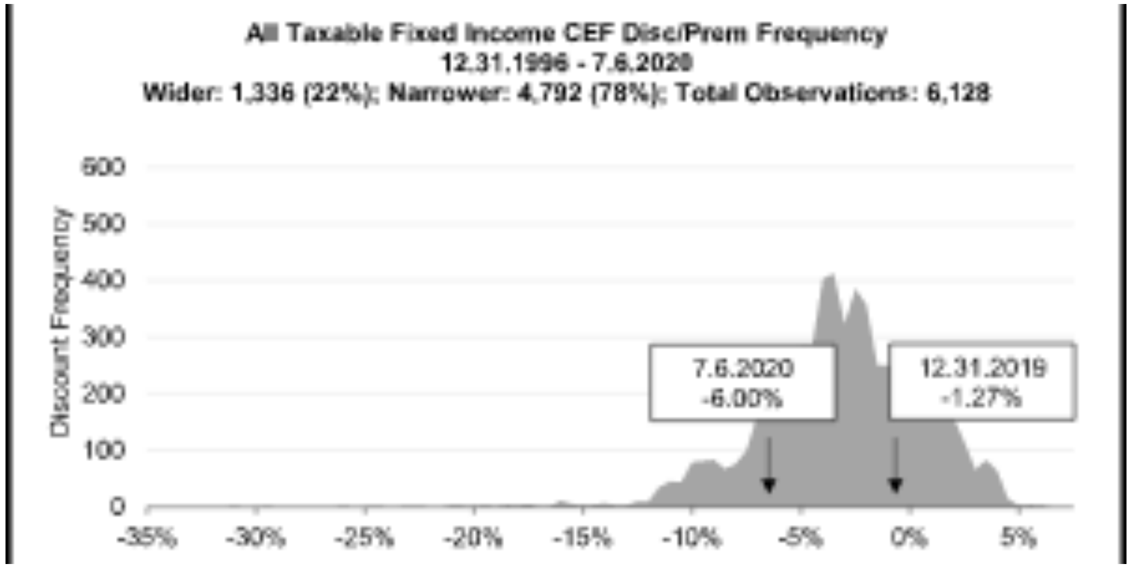


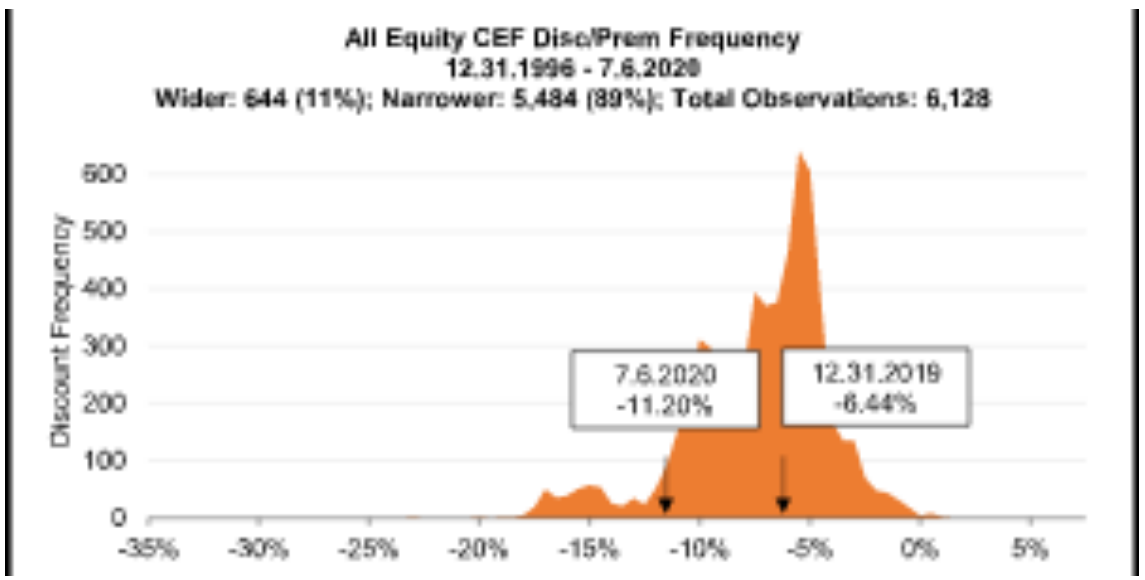


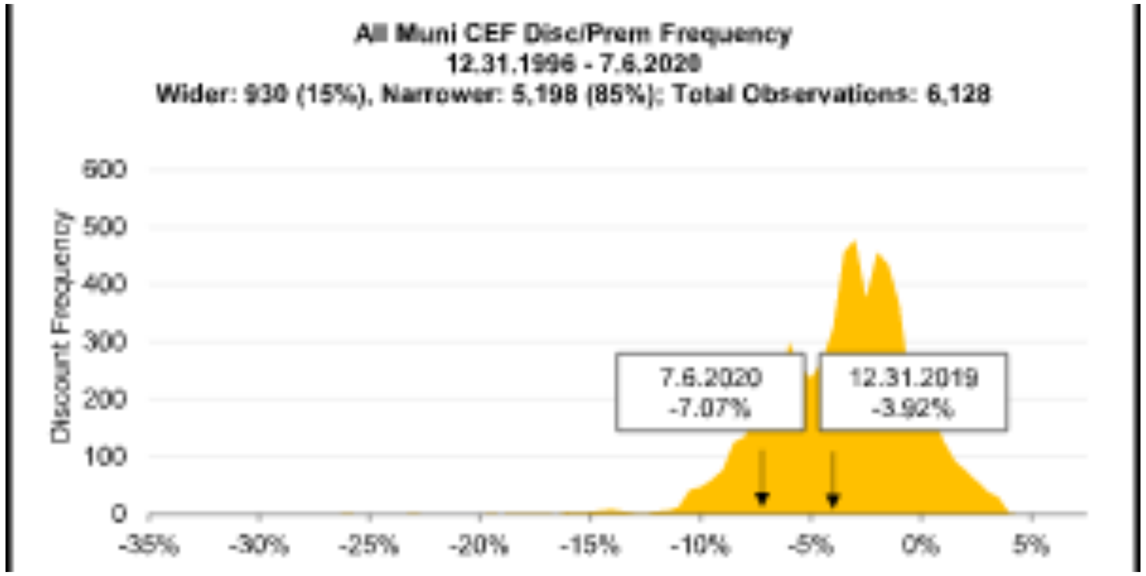
Source: Bank of America, Strategas, MRB

# Supplemental Charts of Interest – CEFs



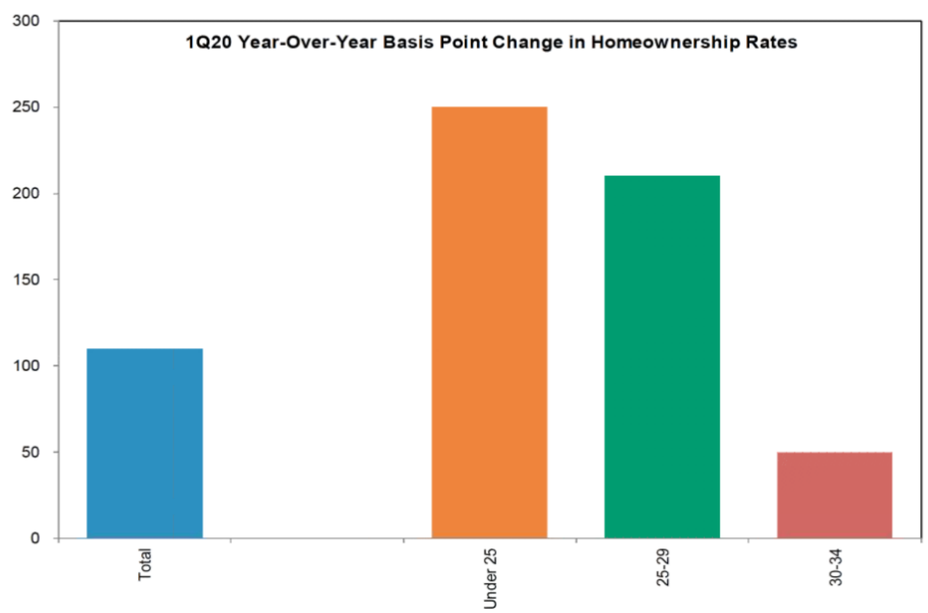




Source: RiverNorth Capital Management

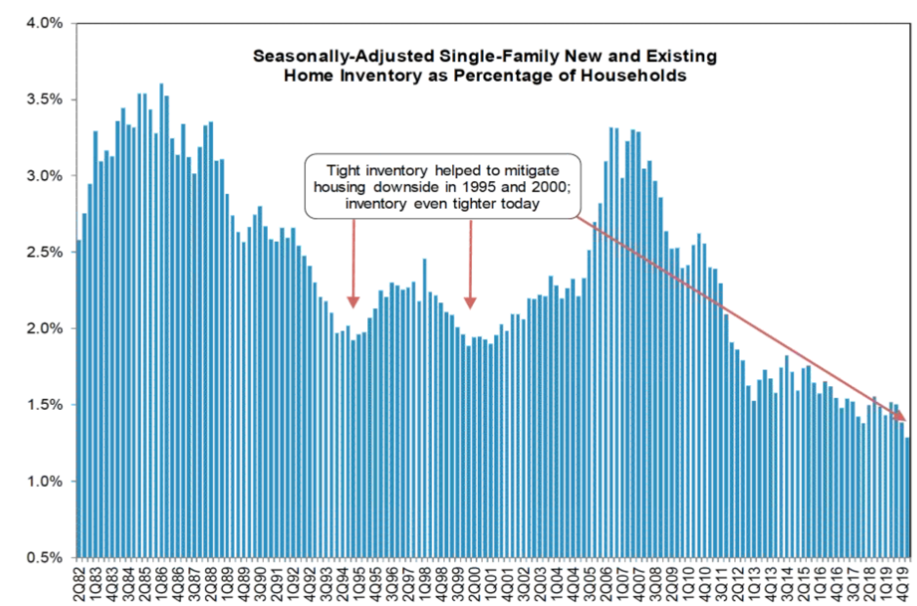
# The Bullish Thesis for Homebuilders

Record low inventories, record low rates, increased affordability and younger demographic shift provide healthy backdrop.

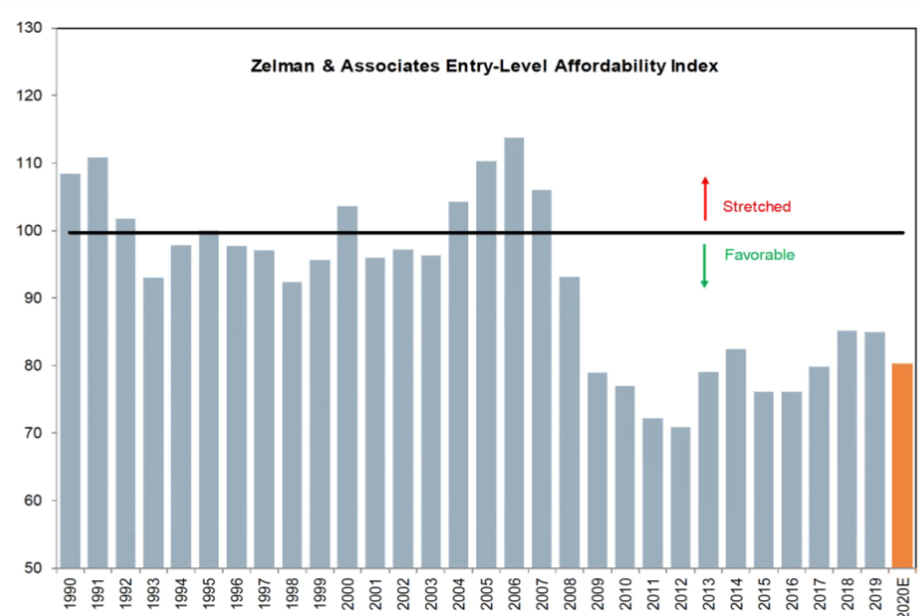
## Younger Adults Leading Expansion



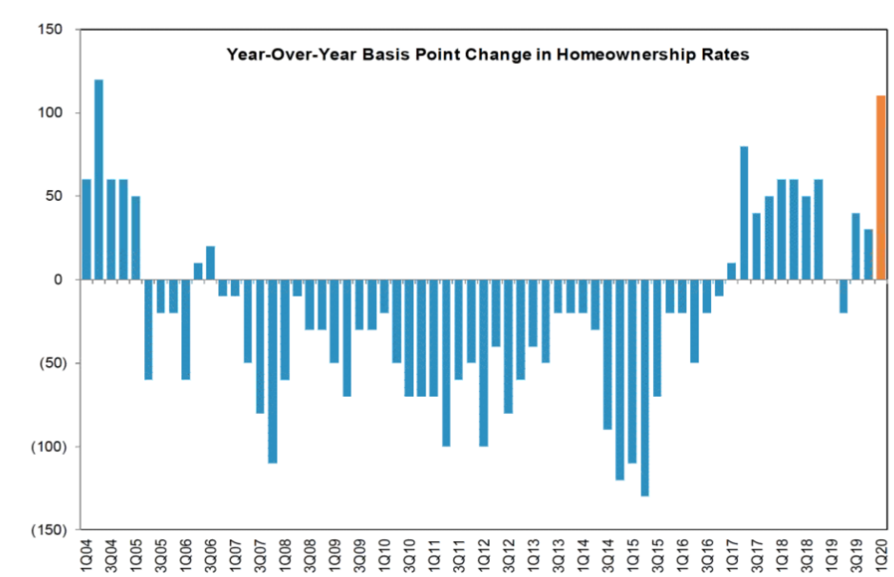

## Outlook also Supported by Tight Inventories




## But Still Improved Affordability for Buyers




## Homeownership Levels on a Robust Path




Note: The National Homeownership Rate was 65.3% in 1Q20

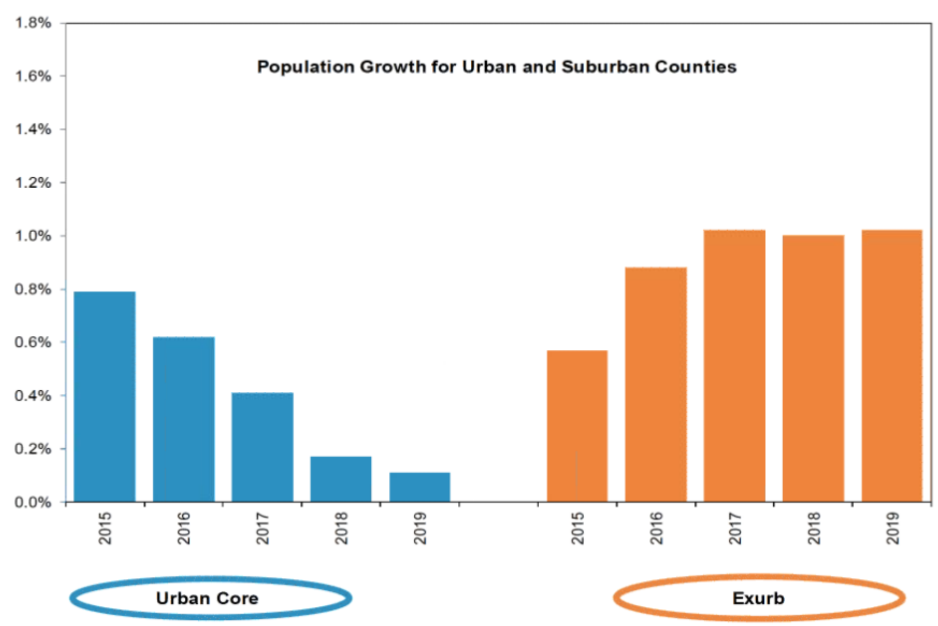
Source: Zelman Associates

OPAL WEALTH ADVISORS

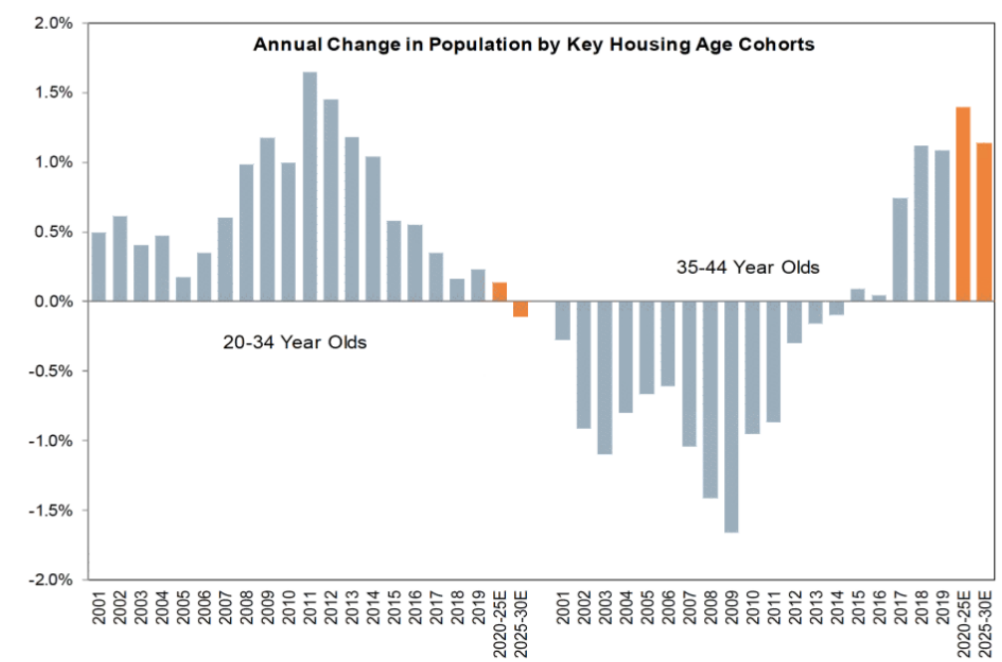
# Supplemental Homebuilders Charts

Urban to suburban shift, higher family formation, resilient sales, and higher positive equity for homeowners.

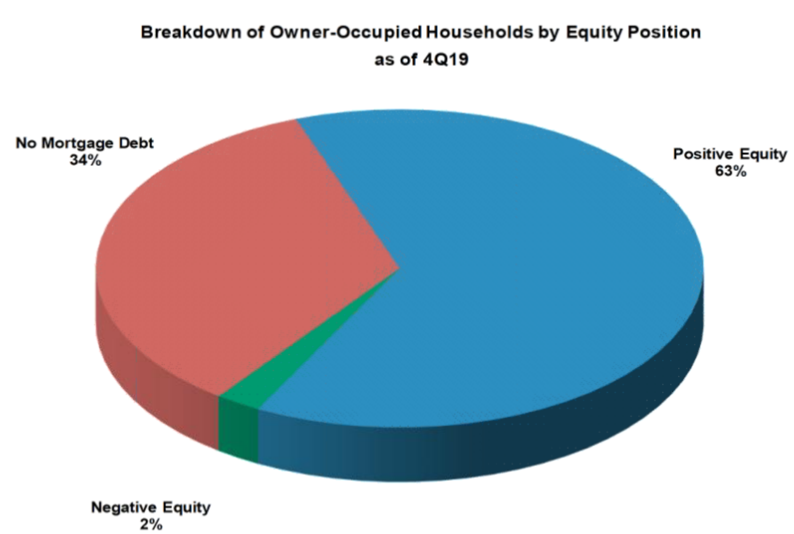
## Shift to Suburbs/Exurbs Was Already Underway




## And Should Continue with Family Formation




## More "Skin in the Game" Mitigates Pressure




## New Home Sale Declines "Less than Feared"

- Zelman Homebuilder Contacts' Orders Down 30% in April
  - First half of April down ~45%
  - Second half of April down 20-25%
- Bright Spots from Public Builder 1Q20 Earnings Season
  - DR Horton: April net orders down 11%
  - Century Communities: April net orders down only 1%
- Zelman "Western Markets Homebuilding Report"
  - Five consecutive weeks of sequential improvement and less-negative YOY trends (AZ, CA, NV) from 71% to 21% on average

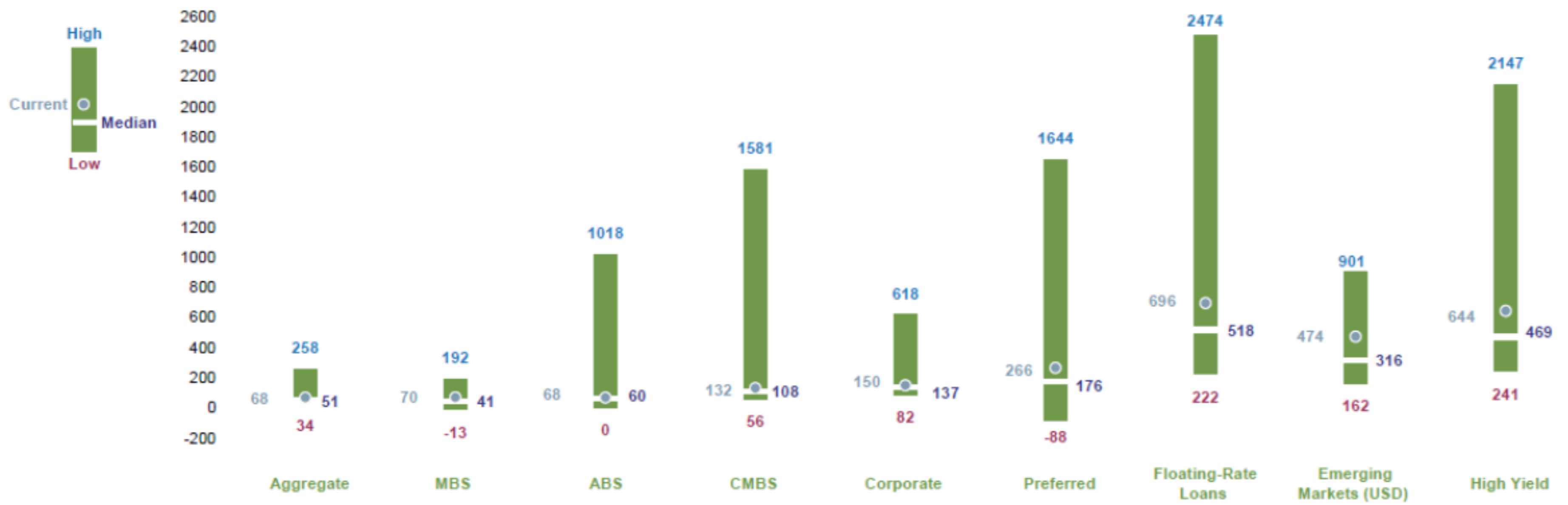
Source: Zelman Associates

# Supplemental Charts of Interest

## *Historical Context of Fixed Income Valuations*

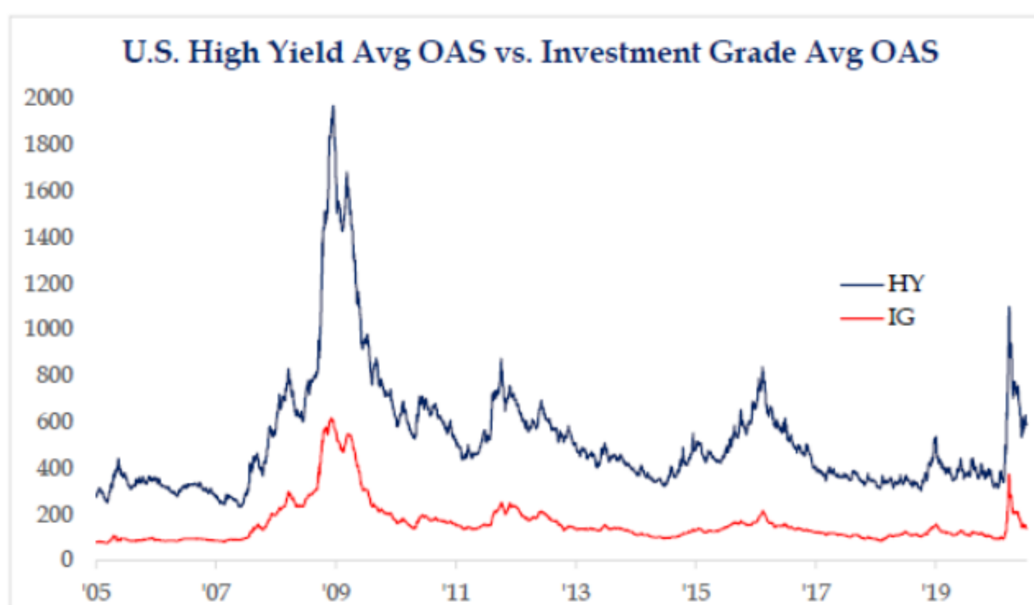
### Fixed Income

Spread analysis (bps)




| | Aggregate | MBS | ABS | CMBS | Corporate | Preferred | Floating-Rate Loans | Emerging Markets (USD) | High Yield |
|---|---|---|---|---|---|---|---|---|---|
| **Max Spread Date** | 12/3/2008 | 12/3/2008 | 1/6/2009 | 11/21/2008 | 12/3/2008 | 3/9/2009 | 12/19/2008 | 10/24/2008 | 12/15/2008 |
| **Min Spread Date** | 1/31/2018 | 7/27/2010 | 10/1/2009 | 1/31/2018 | 2/22/2007 | 12/6/2017 | 3/31/2006 | 6/1/2007 | 6/1/2007 |
| **Spread on 12/31/19** | 39 | 39 | 44 | 72 | 93 | 17 | 461 | 291 | 360 |
| **Spread on 12/31/18** | 54 | 35 | 53 | 86 | 153 | 242 | 551 | 415 | 533 |
| **Spread on 12/31/17** | 36 | 25 | 36 | 62 | 93 | -30 | 405 | 285 | 358 |

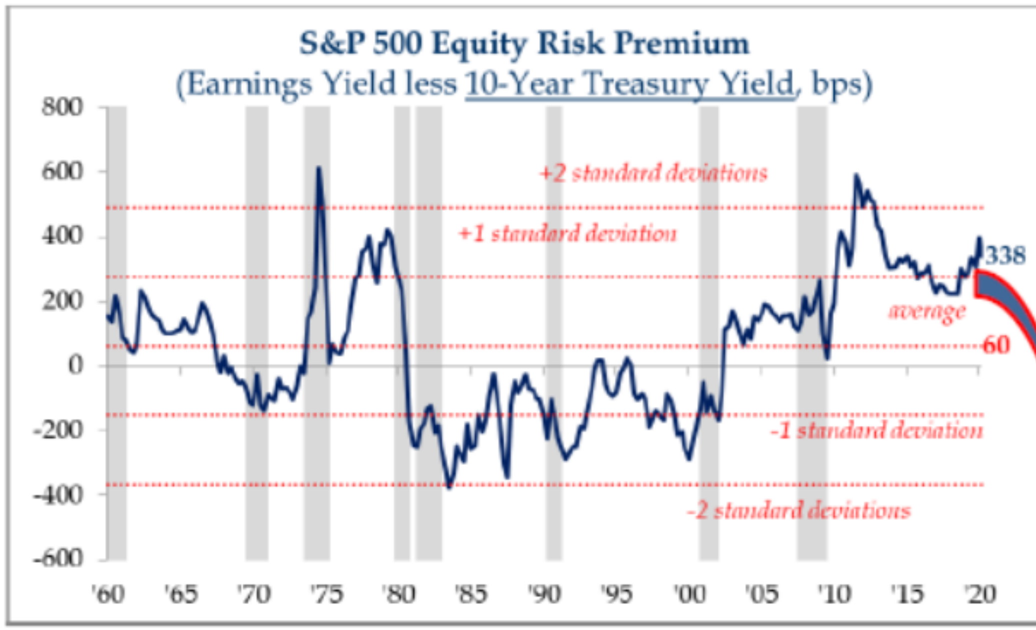
Source: Factset as of 6/30/20. Spread history measures past 15 years. Data provided is for informational use only. See end of report for important additional information. All fixed-income spreads are in basis points and measure option-adjusted

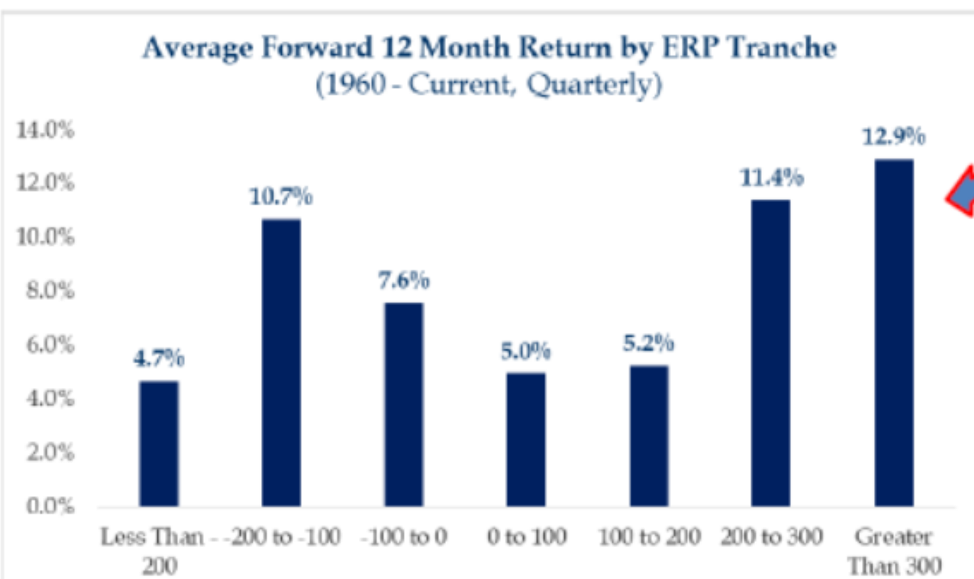


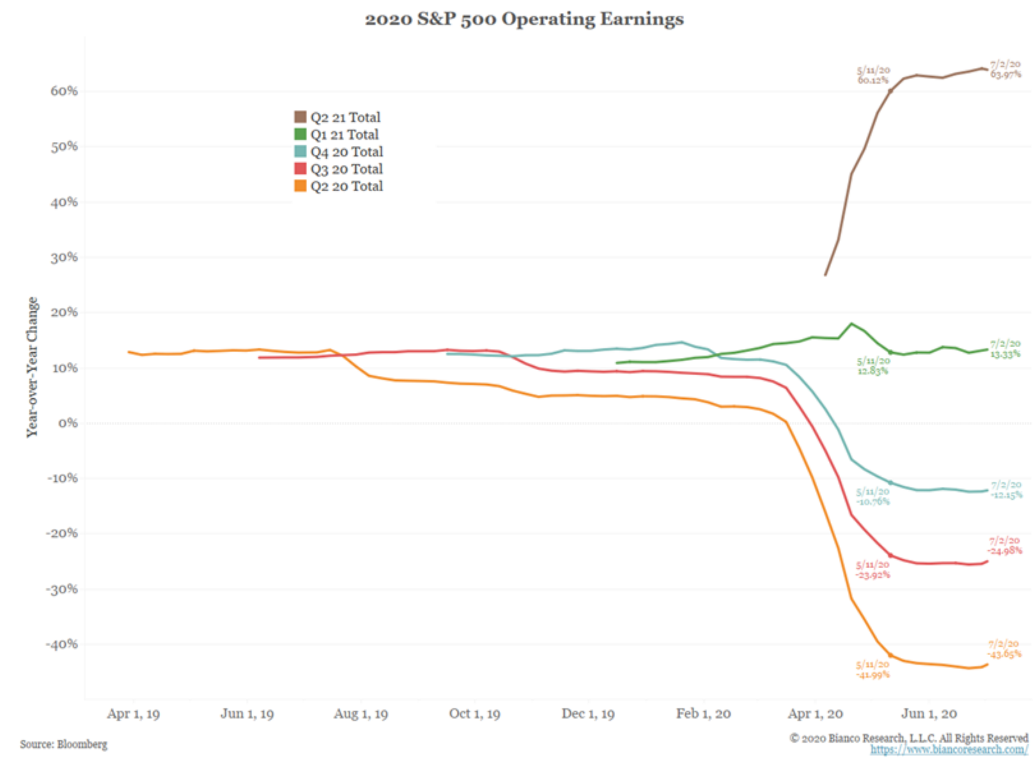

Source: Eaton Vance, Strategas

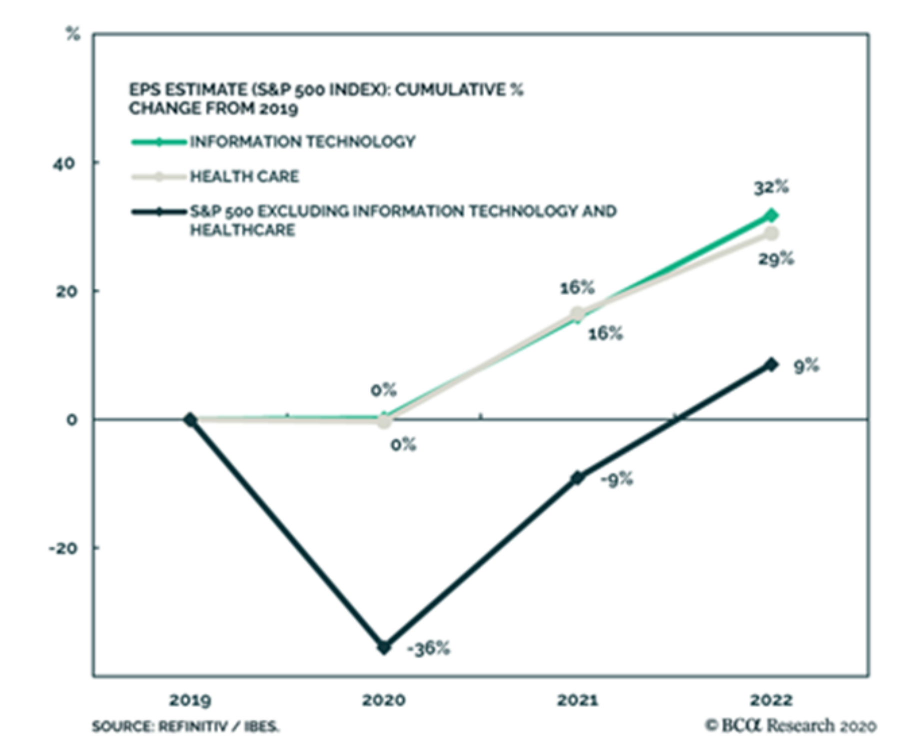
# Supplemental Charts of Interest

## *Historical Context of Equity Valuations*




Source: BCA, Bianco, Strategas

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