3/16/20 IAG Webcast Transcript & Disclosures

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As we record this, global markets continue to experience extreme volatility. Markets—both equity and fixed income—are reacting acutely to the global coronavirus pandemic. Additionally, there continues to be human tragedy from the coronavirus spread.

In light of the current environment, we want to provide you with our research team's latest views on the pandemic's impact on the economy and the capital markets. Representing the Investment Advisory Group today are:

Keith Lerner – Chief Market Strategist
Andy Richman – Managing Director of Fixed Income
Michael Skordeles, US Macro Strategist
And Eylem Senyuz – Global Macro Strategist

We will begin the presentation with a brief overview of developments and global containment efforts. For that I'll turn it over to Eylem Senyuz. Eylem?

Hi there – I am Eylem Senyuz, I am the Global Macro Strategist covering global markets for Truist Wealth.

I have been studying publicly available data for COVID-19 since mid-January and let me provide you an update on what we see in publicly available data.

Here is an interesting chart we have – it is a bit busy sorry about this and let me try to explain what we are trying to analyze.

This chart shows confirmed cases of COVID-19 for certain selected countries, in total as of now, there are 141 countries with confirmed cases – so almost the entire planet is dealing with this and I filtered the countries that have higher than 100 cases. The important countries for today's webinar have thicker lines than the others ones; like Italy, US or South Korea.

The x axis is showing you the number of days after the first 100th confirmed case in the country, this is to show you the growth of the spread after it reaches to a certain point. This is a log scale chart so that we can see growth rates better and I added a 33% growth rate line for comparison purposes it is the dotted black line and it is pretty clear

that many countries are following that line currently especially in Europe and also the US but there are some success stories out there.
Let me start with the first three countries that are Hong Kong, Singapore and Japan --- all are very crowded countries in Asia and growth rates significantly lower than the others. I think the important story for all other countries is South Korea – the virus' spread was very fast initially but with extreme testing they were able to drop the growth rates significantly – on average they tested 10k people a day, much better than any country in the world.
Let me show you two more countries.
Italy is here the green one– the whole country is in lockdown with cases over 20k and the growth rate is still running at 33% rate but slowly slowing – this week we will see if the lockdown is working in Italy.

We will see the effect of extreme measures Italy and other European countries are taking.
And finally here is the US relative to other countries we are at the beginning of the story andthe question is how many more days we have to go through to get to a point where Italy is today and eventually where South Korea is today. Assuming we conduct more testing than we did in the past, and it looks like that's what we will be doing this week and next couple weeks with number of available tests improved in the US and that effort could increase the confirmed cases.
Hopefully we will replicate Korea's success and we have another two weeks to go in high growth rates but if we achieve the same Korean success we shall see similar growth rates like Korea has today. With that I'll hand over the mic.

Thanks Eylem. This is Mike Skordeles, US Macro Strategist for Truist Wealth. I am going to cover a high level review of our economic outlook.
The coronavirus outbreak will reduce global economic growth. There will be a slowdown in the US as well, we may see a negative quarter of gross domestic product, or GDP.
As Eylem just outlined, China, and Singapore and South Korea experiences are a template that illustrates – from an epidemic standpoint and arguably from an economic standpoint as well – it is better to cancel public events and restrict travel for several weeks than to let the virus spread and devastate many more people. In that scenario, the economic response mimics a prolonged natural disaster.
There is a temporary disruption in activity here in the US, as the cancellations of everything from travel and conferences and meetings to schools and sporting events.
This will impact the US economy, which is seventy percent consumer activity, and roughly forty-five percent of the total is services.
These are restaurants and retail stores, and airlines and hotels to dentists and plumbers and auto mechanics. The exception is within the primary care medical fields, where activity has spiked, but even other types of health care are being delayed. Moreover, many of these employees are hourly and cannot work from home.

Additionally, on the goods side, the production shut downs in China and South Korea are rippling through supply chains, and delaying the delivery of some goods and parts and components.

Nonetheless, these are temporary disruptions rather than permanent impairment and activity will restart. Of course, that takes down full year growth but growth does resume. As we previously stated in our commentaries, it is too early to peg the exact magnitude. There are a lot of moving parts and we certainly don't know how long activity might be shut down in the US as well as travel bans.

Furthermore, we expect some offsetting stabilizers, including eased financial conditions and another Fed rate cut – or some other response, along with responses from other global central banks. Most central banks have said they'd do whatever was necessary, and have certainly been doing so this past week. For now, I'll leave the rate discussion to my friend Andy to outline. Suffice it to say, that lower interest rates and easier financing conditions should make it much easier for consumers and companies to weather the storm, and help boost growth once activity does return.

Additionally, fiscal stabilizers should also help. The House bill passed on Friday had overwhelming bi-partisan support and has features such as paid sick leave, enhanced jobless benefits, and increased food assistance, which should help support those hourly workers I mentioned earlier. Also, there is more funding for Medicare, which helps states deal with the health care costs.

Ultimately, our estimate of the US economic impact due to the outbreak is really wide since there are so many uncertainties. It could slice off a modest half percent from GDP if everything returns rather quickly, to a more than a full point of growth if things drag on for a while. That reduces our expected 2020 GDP range closer to one percent for all of 2020.

And lastly on the economy, I want to address US recession talk. Of course, the chances of a US recession have definitely gone up. As I mentioned, we could very likely see a negative quarter of GDP, in the second quarter, but the US had a good amount of momentum built up. And when we compare the circumstances heading into prior recessionary periods to the current environment, whether it's recent job growth and wage gains or credit quality and personal savings rates or other indicators, the US was clearly stronger in 2020 than those prior periods. Furthermore, while many individuals and companies have scaled back activity, most companies have not been laying off workers. In fact, some have said they will continue to pay hourly workers during the shutdown. This is a key determinant of whether the US will have a recession. Thus, our base case remains that there will be a great deal of short-term disruption, and of course, we cannot rule out a recession, but that we skirt a recession here in the US.

OK, so that's it for me: over to Keith for the equity perspective.

Thank you Mike.

Before we go into the details, our bottom line upfront is while the short-term is uncertain, our take is that for investors who have a longer time frame, there is a high probability that stocks will be higher from current levels, five years from now, three years from now, and odds also favor higher prices 12-18 months from now, though the path forward will continue to be extremely volatile near term with the potential of further overshoots.

Unlike coming into the year, where prices and valuations were very stretched to the upside and signs of investor complacency; now a lot of bad news is being priced into the market and the bar for positive surprises is low. That said, the repair process will take time.

Let me now walk you through some of the charts that support this view.

First, this has been a remarkable period. In just a few weeks the market has gone from a record high to decline of 26% for the S&P 500. This is the fastest market decline in history.

Uncertainty bred volatility. And during this period we have seen extremely wide swings and market moves with each headlines.

This chart shows that the average daily price swings for the S&P 500 for the past 10 days has averaged about 4.5%. This is very unusual but similar to what we saw in October 2008 during the depth of the Great Recession and before that around the '87 crash.

This volatility is set to stay heightened near term.

But as a long-term investor, you have to ask yourself what's priced into the market. It's not about good or bad, it's all about where things are relative to expectations.

With a 26% decline the market is effectively already "fully pricing in" an average recession. There have been wide variations but the median market decline around recession has been about 21% and the average has been about 28%

Of course, a potential recession could be greater than average. However, it is also important to understand that once stocks find their low during a recession, a year later, markets have climbed an average of 32% and a median of 37%, historically. So even if we go lower first, the probabilities suggest markets should recoup those losses on a subsequent rally.

Also, during the entire recession period, the S&P 500 has averaged a 0% return, that's right a flat return. With markets acting as a discounting mechanism, much of the damage to stocks tends to occur prior to the recession and before it is half way over.

The next slide, is a measure of investor sentiment. At extremes investor sentiment is used as a contrarian indicator as when everyone is leaning one way the market moves the other.

Investors have moved from complacency to fear.

This is a good thing from a longer-term perspective. What you are looking at here is something called the put/call ratio. The easiest way to think about this ratio is investor demand for downside market insurance.

Coming into this year, with the big run up in stock and stocks record highs, there was little investor demand for downside protection. In fact, this was the least amount in several years and is one of the reasons we thought the market was vulnerable to bad news in the first quarter.

However, following the market decline, we have seen the demand for downside protection skyrocket. This is much like premiums spiking "after the flood" already happened. The last time we saw something close to this was in late December 2008,

during the very end of that downturn, which was preceded by a big move higher in stocks over the next year.
On the next slide, you will see valuations have come down quite dramatically. The problem is the 'E' or the earnings in the price-to-earnings is unknown and likely needs to come down sharply. However, a key question for longer-term investors is: Are the economic effects of the coronavirus likely to be similar to a storm or will it cause permanent damage to the economy and earnings? If it's a short-term impact, then markets should eventually be able to overlook a flat or negative years in earnings. We believe it is likely to be more temporary.
From a longer-term perspective, stocks also look very attractive to most other asset classes, for those investors who can stand the much higher volatility and downside risks of stock. For example, the S&P 500's dividend yield is now above the 30-year US Treasury yield for the first time since the financial crisis.
Lastly, be prepared for these large price swings in both directions to continue. After a shock period, where many investors were caught off guard, there tends to be a repair process and a battle between fear and greed that often lasts weeks and months.
That said, we'll end where we began. Equities already reflect recession-like conditions. We believe longer-term opportunities are starting to present themselves, while the day-to-day price swings are likely to remain heightened for the foreseeable future. Investors should also remember that there is a high price to be paid for comfort. From our vantage point, the long-term return outlook is improving for investors who are not forced sellers at current levels.

Thanks Keith, were going to talk about the bond market here and certainly it's been a wild ride in the bond markets as we've seen in the equity market as well. On the news that's been coming, we saw the whole US Treasury curve fall below 1%. That means 30-year bonds fell under 1%, 10-year bonds fell under 0.5%, and the whole curve shifted down for the first time in the history of our US fixed income markets.
We saw the curve shift under 1% and saw record low yields on the 10- and 30-year bond and this was largely driven as a safe haven trade. Everyone was saying, "Get me out at any cost" of almost every asset class except US treasuries being the safe haven asset class. And we think that's going to continue but we also think we're seeing some opportunities arise in the fixed income markets as well as Keith mentioned on the equities side.
And if you look a little bit forward here, you see that high quality bonds, while they've held up fairly well relative to equities, they have really largely done their job. They have had some volatility in them. I talked about that 10-year rate falling below half a percent, they have now risen back to about 0.8% as central banks around the globe have stepped up to lower rates and promote stability. The fed also stepped up and has now announced two intermeeting cuts to bring the Federal Funds Rate down to zero. The first time that's happened since the financial crisis of 2008-2009. The Fed also announced they are going to continue to buy bonds at a clip of $500bn of US Treasury notes and $200bn of agency-backed mortgage backed securities. This is designed to promote liquidity in the markets and also stability as well. We think the fed will continue

to monitor the situation closely and add to this if they need to contain the stability so rates are going to stay low for quite some time. They may bounce up and down, but we're going to see low rates, get used to them. We've had them for now 35+y ears rates heading a downward direction. We think they will stay low for a long time.
But we also have seen some dislocations. And if you look, we've seen those in investment grade corporate bonds and high yield bonds. And what we've noticed in that is that the spread in those bonds is that the difference you get in yields between those and US Treasuries has ramped up dramatically in the last two weeks. And what happened, much like the equity market, people were running for doors, and we saw a lack of liquidity and people were saying, "Get me out at any price", and there was some dislocation in the fixed income market. So those spreads have really jumped up here and for longer term investors, much like in the equity markets, we think there's opportunity starting to arise.
Can it get worse? I think the answer is yes. As people need liquidity, want to go to cash, you're going to see those spreads jump up quite a bit. And people are going to rush to the save haven of the US dollar and the Treasury Note, but for long-term investors, as we come through to this, there are some pretty compelling opportunities coming out here, if you're willing to take that risk.
Primarily in the fixed income area, people don't want risk, they're taking that in the equity area, and for that we'd say keep most of your portfolio still with a solid portfolio of high quality bonds -- another dislocation we've seen is in the municipal market. The muni market has had a strong run, we've seen record inflows, with over a 1-year streak of inflows in the muni mutual funds. We've now seen money coming out of muni bonds, and the valuation have gotten compelling versus the Treasury Note. When we came into the year, just 2.5 months ago, valuations looked rich. Now those valuations look good. So if you're looking for solid tax-free income right now, you won't have liquidity of Treasury Notes, but you could pick up some pretty attractive yields on a comparative basis to Treasury Notes. Will they get more attractive? Maybe. But from a long term perspective, these valuations have not been there for quite some time. We expect more central bank action, we expect more liquidity to be put in by the Federal Reserve, which they announced this week as well in the repo markets and buying more bonds which is quantitative easing, which hasn't happened since financial crises. Expect more of the unconventional policies, we expect more fiscal stimulus and for bonds to do their job hopefully to help keep that portfolio solid. But opportunities from other areas, particular high grade municipal and also investment-grade bonds, for those willing to go with a little more risk in their fixed income allocation.

Thank you team - We acknowledge that much uncertainty remains. However, it rarely pays to invest on the worst case scenario, though it does make sense to have a diversified portfolio to help cope with uncertain outcomes. Our advisors are here to provide their best counsel, but they can only do so if they have the full picture of your finances, your goals and your concerns. With a holistic view and thoughtful approach, we can make informed decisions for today, and tomorrow.

Thank you for the trust you have placed in our team. We’re committed to keeping you informed through this rapidly changing situation. If you have questions, do not hesitate to contact your advisor and visit Truist.com for the latest information.

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