Conclusions

- Economic recovery underway and uneven
- Trajectory of infections will create improvement
- Global stimulus nearly 29% of global GDP
- Markets’ recovery based on optimism about recovery; stimulus now and in the future; Vaccine; TINA
- Bonds have a place and so do complements
- Election isn’t over – policies matter
- Demographics create unrest and future upside
We’ve Been Here Before

Do you recall the following, in 1968:

- **H3N2 Pandemic** – 100k deaths in U.S.
- **Prague Spring**
- **TET Offensive**
- **Dr. Martin Luther King Jr. assassinated sparking national riots**
- Lyndon Johnson signs the Fair Housing Act to eliminate discrimination from housing practices – and announces he is not running for re-election
- **5000 University students protest in Paris, causing sympathy protests across the country**
- **Robert F. Kennedy is assassinated as he is campaigning for President in LA**
- **DNC sees police and national guard battle anti-war protesters**
- **Arthur Ashe is first African American to win a grand slam tournament**
- **Mexico City** – police and troops fire on student protest
- **Nixon wins**
- **Yale admits female undergraduates for the first time in 267 years**

*Image Source: Smithsonian*
Pausing The Reopening

See How All 50 States Are Reopening (and Closing Again)

Updated July 13, 2020

Source: Johns Hopkins Corona Virus Resource Center
COVID 19 – Round 2

➢ 34 states have higher than recommended positivity
➢ 18 states meet positivity recommendations

Source: Johns Hopkins Corona Virus Resource Center
U.S. Apple Mobility Daily Data

Driving +30%  Walking +16%  Transit -48%

Source: Apple, data through July 13, 2020
Loan Loss Reserves

Provisions for Corporate Loan Losses

- Wells Fargo
- JPMorgan
- Citigroup
- Bank of America

Source: The companies listed, WSJ 7.18.20
Note: JPMorgan figures are reserve build
New Trajectory

U.S. Real GDP
Trillions of dollars

Source: Capital Economics estimates 7/6/20
Housing Recovery

U.S. Mtg Apps for Purchase (MBA)
Seasonally adjusted by CSM, July 10: 313

➢ April 10th -35% YoY
➢ July 10th +15% YoY, 313k units
➢ Urban flight

➢ Secular demographic trend
➢ Real estate contributes over $1 trillion to economy

Source: Cornerstone Macro, National Mortgage Association
Electric and Gas Production

➢ Index 2012=100
➢ Production recovered in June and was actually up .56% over 2019
➢ Supports the improvement in PMI’s

Source: Capital Economics estimates 7/6/20


**Boom! Economic Stimulus Summary**

<table>
<thead>
<tr>
<th>Region</th>
<th>Potential Central Bank Liquidity Injection</th>
<th>Potential Government Fiscal Stimulus</th>
<th>Both</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ Tln % GDP</td>
<td>$ Tln % GDP</td>
<td>$ Tln % GDP</td>
</tr>
<tr>
<td><strong>U.S.</strong></td>
<td>$6.21 29.0%</td>
<td>$3.30 15.4%</td>
<td>$9.51 44.4%</td>
</tr>
<tr>
<td><strong>Eurozone</strong></td>
<td>$1.78 13.3%</td>
<td>$4.02 30.2%</td>
<td>$5.80 43.6%</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>$1.03 20.0%</td>
<td>$2.08 40.3%</td>
<td>$3.11 60.3%</td>
</tr>
<tr>
<td><strong>U.K.</strong></td>
<td>$0.37 13.6%</td>
<td>$0.23 8.3%</td>
<td>$0.60 21.8%</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>$1.33 9.3%</td>
<td>$1.22 8.4%</td>
<td>$2.54 17.7%</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>$0.73 -</td>
<td>$2.67 -</td>
<td>$3.40 -</td>
</tr>
<tr>
<td><strong>Global</strong></td>
<td><strong>$11.44 13.2%</strong></td>
<td><strong>$13.52 15.6%</strong></td>
<td><strong>$24.96 28.8%</strong></td>
</tr>
</tbody>
</table>

Source: Cornerstone Macro as of 7/2/2020, Federal Reserve
First In, First Out

- 50 = Growth!
- China – first in, first out
- The recovery will not be straight up over time

Source: Cornerstone Macro
China’s Deflationary

Source: Cornerstone Macro
Money On Deposit

➢ Fed’s balance sheet has grown
➢ Programs lead to increase in deposits
➢ Money growth leads to inflation when it is spent

Source: WSJ 7.18.20, Federal Reserve     Note: July 2020 data as July 1
It’s Early!

General Election
RCP poll average

Source: Real Clear Politics
Key Policies To Watch

➢ Platform planks will be here in August
  » Taxes
  » Infrastructure
  » Clean energy
  » Regulations
  » Health Care
### Returns

<table>
<thead>
<tr>
<th>Fixed Income</th>
<th>2020 Q2</th>
<th>2020 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays US Aggregate Intermediate</td>
<td>2.1%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Bank of America Merrill Lynch Municipals 1-12 Yr</td>
<td>2.6%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

### US Equity

<table>
<thead>
<tr>
<th>Index</th>
<th>2020 Q2</th>
<th>2020 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>20.5%</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Russell 1000 Growth</td>
<td>27.8%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Russell 1000 Value</td>
<td>14.3%</td>
<td>-16.3%</td>
</tr>
<tr>
<td>Russell 2000 (small-cap)</td>
<td>25.4%</td>
<td>-13.0%</td>
</tr>
</tbody>
</table>

### International Equity

<table>
<thead>
<tr>
<th>Index</th>
<th>2020 Q2</th>
<th>2020 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI ACWI Ex USA (international)</td>
<td>16.1%</td>
<td>-11.0%</td>
</tr>
<tr>
<td>MSCI EM (emerging markets)</td>
<td>18.1%</td>
<td>-9.8%</td>
</tr>
</tbody>
</table>

### Commodity

<table>
<thead>
<tr>
<th>Index</th>
<th>2020 Q2</th>
<th>2020 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomberg Commodity</td>
<td>5.1%</td>
<td>-19.4%</td>
</tr>
</tbody>
</table>

Source: Morningstar Direct as of 6/30/20
S&P 500 Index

Source: Thomson ONE

[Graph showing the historical performance of the S&P 500 Index with key events and market corrections labeled.]
Stimulus and low interest rates increase risk taking
Technology dominates the index
Value stocks are all but ignored

Source: Cornerstone Macro as of June 18, 2020
Not A Tech Bubble

Russell 1000 Growth vs Value

- Relative Price-to-book
- ROE Difference

Growth MORE expensive than value
Growth LESS profitable than value

Source: Cornerstone Macro
Concentration Too High?

- 25% of S&P 500 index in 5 stocks
- Technology dominates the index
- Note – “Communications” not technology – utilities or tech companies
- 5 stocks as large as Financials, Energy, Materials and Industrials combined

<table>
<thead>
<tr>
<th>Name</th>
<th>Industry_Sector</th>
<th>Sector</th>
<th>CUR_MKT_CAP</th>
<th>% of Index</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPLE INC</td>
<td>Technology</td>
<td>Industrial</td>
<td>$1,706.948</td>
<td>6.198%</td>
<td>6.198%</td>
</tr>
<tr>
<td>AMAZON.COM INC</td>
<td>Communications</td>
<td>Industrial</td>
<td>$1,639.976</td>
<td>5.955%</td>
<td>12.153%</td>
</tr>
<tr>
<td>MICROSOFT CORP</td>
<td>Technology</td>
<td>Industrial</td>
<td>$1,629.681</td>
<td>5.918%</td>
<td>18.071%</td>
</tr>
<tr>
<td>ALPHABET INC-CL C</td>
<td>Communications</td>
<td>Industrial</td>
<td>$1,066.509</td>
<td>3.873%</td>
<td>21.943%</td>
</tr>
<tr>
<td>FACEBOOK INC-CLASS A</td>
<td>Communications</td>
<td>Industrial</td>
<td>$711.979</td>
<td>2.585%</td>
<td>24.529%</td>
</tr>
</tbody>
</table>

Source: Standard & Poors
Conclusions

➢ Economic **recovery** underway and uneven
➢ Global stimulus nearly **29% of global GDP**
➢ **Growth** will continue to work, if its quality growth
➢ **Bonds** have a place and so do **complements**
➢ **Election** isn’t over – policies matter
➢ **Demographics** create unrest and future upside
Disclosure

This content is for informational purposes only and is not to be taken as advice or a recommendation to buy or sell any investment. Forecasts, figures, opinions or statements of market trends are subject to change without prior notice. All information presented is considered accurate at the time of publication but no warranty of accuracy is given and no liability with respect to any error or omission is accepted. Charts and graphs, in and of themselves, should not be used as a basis for investment decisions. Past performance is not a guarantee of future results.

Johnson Financial Group is a privately-held financial services company and marketing name for its subsidiaries, Johnson Bank, Johnson Wealth Inc., and Johnson Insurance Services, LLC.

Thank You!