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# Economic and Market Conditions Update

*April 8, 2020*

# Agenda

- Pandemic and the Economy
- Stimulus Plan
- Financial Planning Insights
- Stock and Bond Markets
- Q&A



# Scenario Analysis and What to Watch

*Presented by Brian Andrew*

# Scenario Analysis

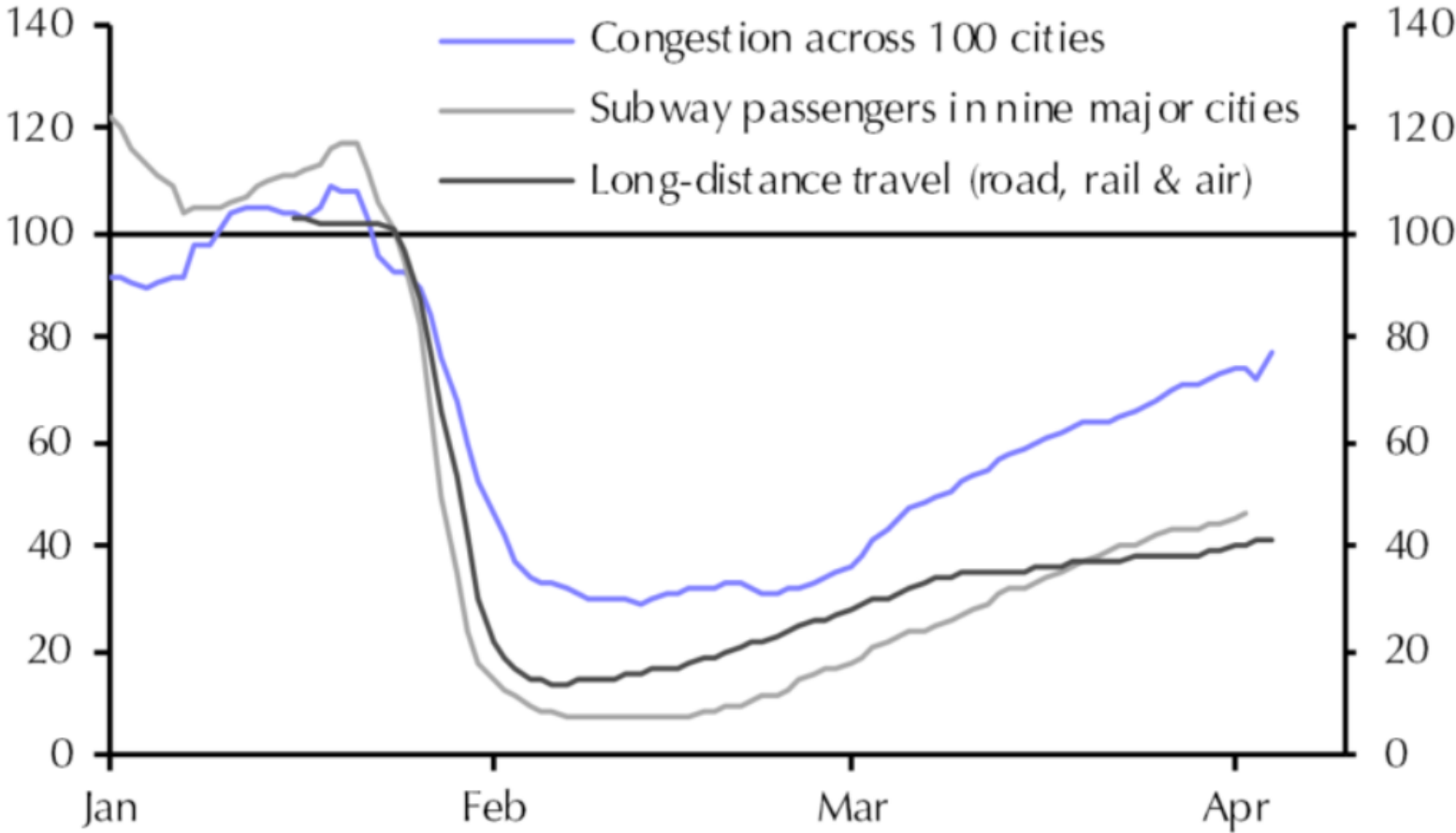
- Best Case
  - » *Virus curve peaks mid-April to mid-May*
  - » *Stimulus provides bridge to improving economy*
  - » *Fed's efforts maintain stability*
  - » *Oil economy doesn't crater*
  - » *Faster development of treatment and vaccine*
- Worst Case
  - » *Virus peak comes late May, wave 2 in November with no treatment or vaccine*
  - » *Economic damage worse and longer lasting*
  - » *Troubled consumer and corporate debt increases bankruptcies, reduces liquidity and causes credit crisis*

Source: BNY Mellon



# Early Recovery In China

## Passenger traffic (% of 2019 level, 7d ave.)

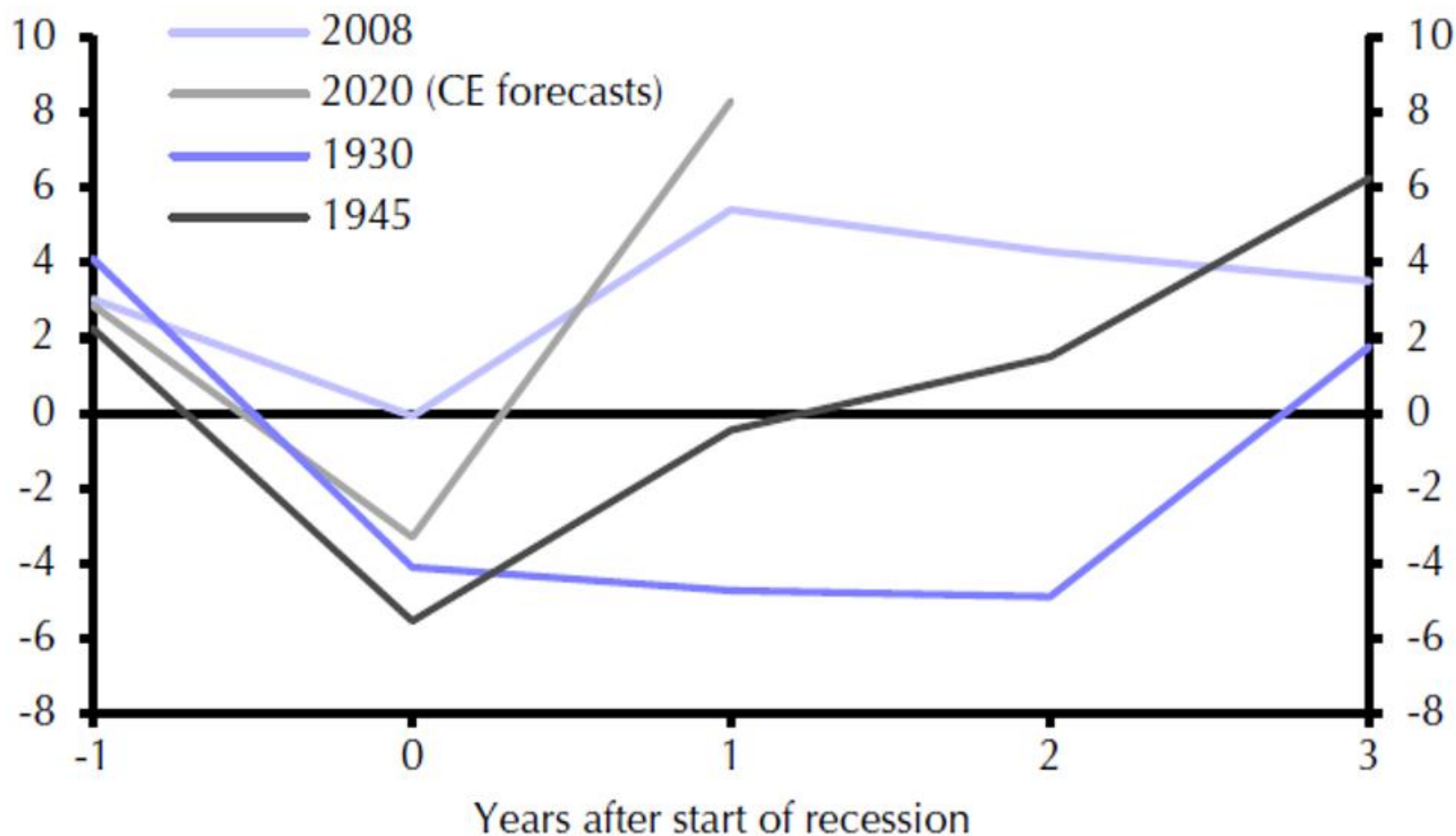


*Dates around the Lunar New Year holiday are compared on a lunar calendar basis*

Sources: Capital Economics, Refinitiv



# What Will The Recovery Look Like?



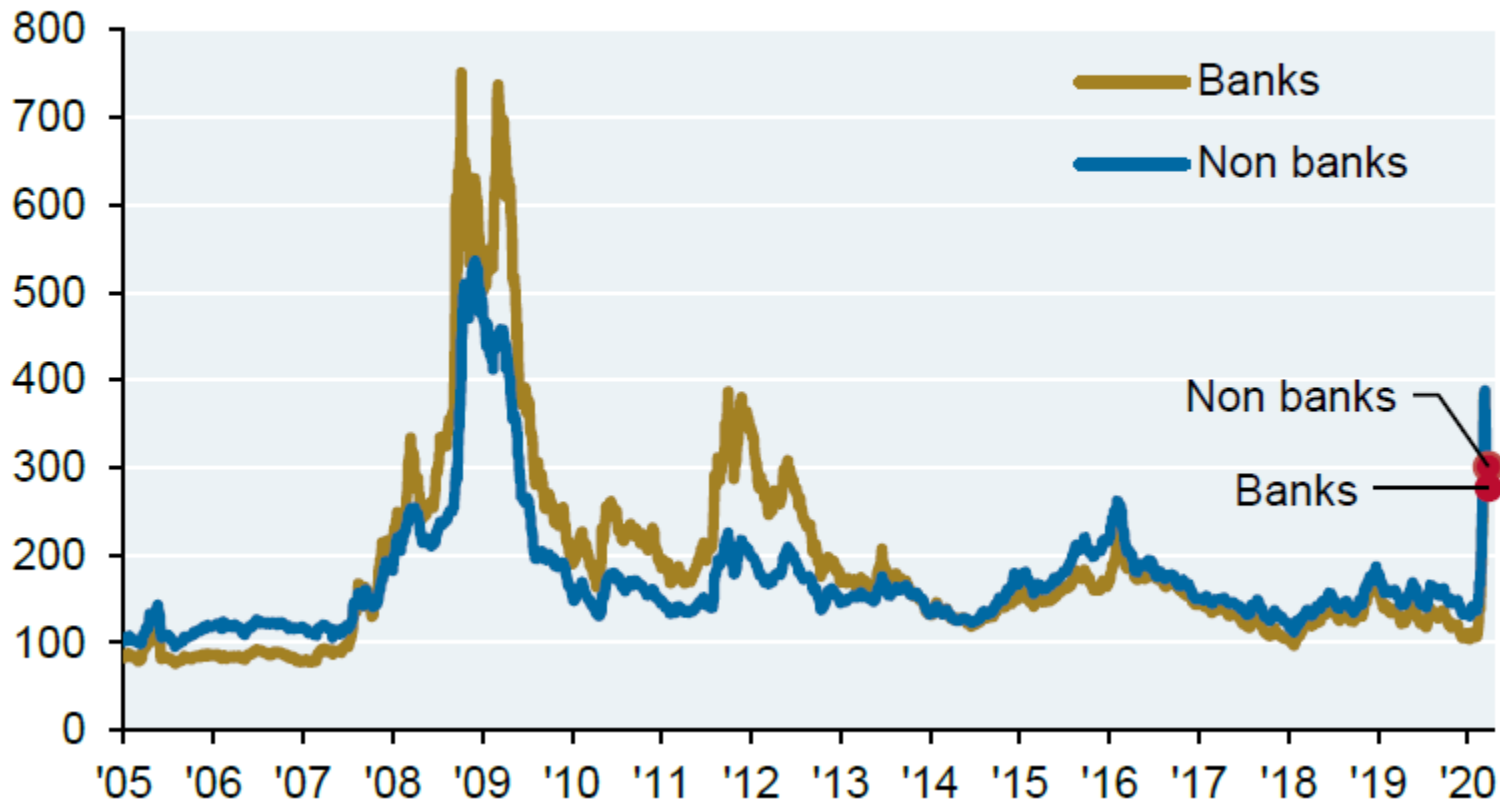
Sources: Maddison, Refinitiv, Capital Economics



# Cues From The Bond Market

## Financial & Non financial investment grade bond spreads

JULI index spread vs Treasury, basis points, banks vs non banks



Source: Bloomberg. April 6, 2020



# Boom! Economic Stimulus Summary

## Global Monetary And Fiscal Stimulus To Fight COVID-19 Impact 2020 Feb to Apr

|                 | Central Bank Liquidity Injection |             | Govt Fiscal Stimulus |             | Central Bank Liquidity Injection and Govt Fiscal Stimulus |              |
|-----------------|----------------------------------|-------------|----------------------|-------------|---|--------------|
|                 | \$ Tln                           | % GDP       | \$ Tln               | % GDP       | \$ Tln  | % GDP        |
| <b>U.S.</b>     | \$2.50                           | 11.7%       | \$2.71               | 12.7%       | \$5.21  | 24.3%        |
| <b>Eurozone</b> | \$1.10                           | 8.3%        | \$0.48               | 3.6%        | \$1.58  | 11.9%        |
| <b>Japan</b>    | \$0.20                           | 3.9%        | \$0.99               | 19.2%       | \$1.19  | 23.1%        |
| <b>U.K.</b>     | \$0.25                           | 9.0%        | \$0.07               | 2.4%        | \$0.31  | 11.4%        |
| <b>China</b>    | \$1.27                           | 8.9%        | \$0.54               | 3.8%        | \$1.81  | 12.8%        |
| <b>Others*</b>  | \$0.62                           |             | \$1.63               |             | \$2.25  |              |
| <b>Total</b>    | <b>\$5.94</b>                    | <b>6.9%</b> | <b>\$6.42</b>        | <b>7.4%</b> | <b>\$12.36</b>  | <b>14.3%</b> |

\*incl RoW and ADS, IMF, WS

Sources: Cornerstone Macro as of 4/3/2020, Federal Reserve





# Help From The Fed

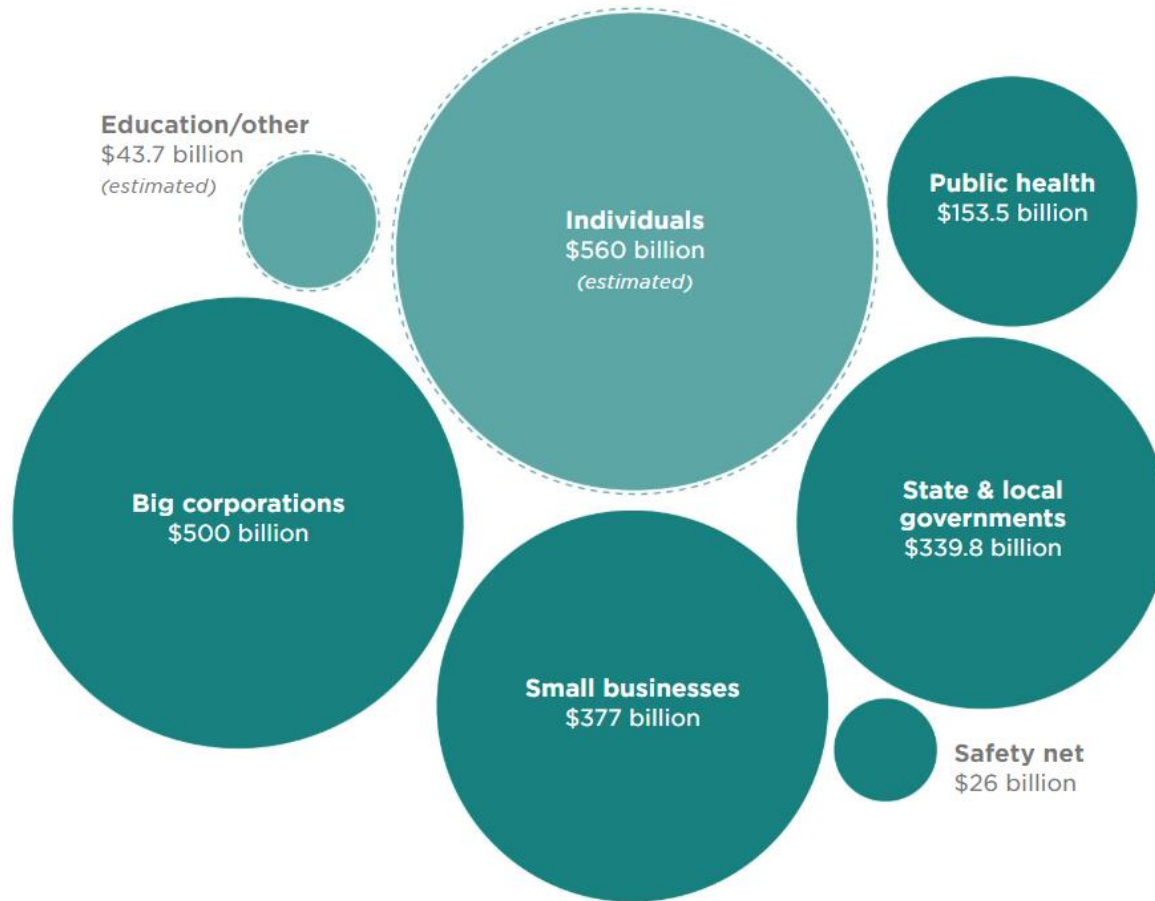
- Reduced Fed Funds interest rate to 0%-.25%
- Purchasing Treasuries and Agency MBS in “amounts needed” (known as quantitative easing)
- Primary and Secondary Market Corporate Credit Facility  
Term Asset Backed Loan Facility
- Money Market and Commercial Paper Liquidity Facility



# Stimulus Plan

## How The \$2 Trillion Breaks Down

The CARES Act provides relief to several groups impacted by the coronavirus pandemic.



Source: Estimates for third relief bill based on bill text, committee and administration numbers.

Credit: Audrey Carlsen/NPR



# Planning In Times of Turmoil

*Presented by Joe Maier*

# Understanding the Behavior

- Neurological
- Loss Aversion
- Regret Aversion
- Herd Mentality
- Add it all up- Loss is painful, loss due to our unique actions is more painful- pain is lessened by following the crowd



# What Do We Do

- Do not avoid emotions, lean into them
- Do not focus on the wrong emotions, focus on the right ones
- Revisit your story
- Control what you can control
- Seek guidance



# Legacy Planning

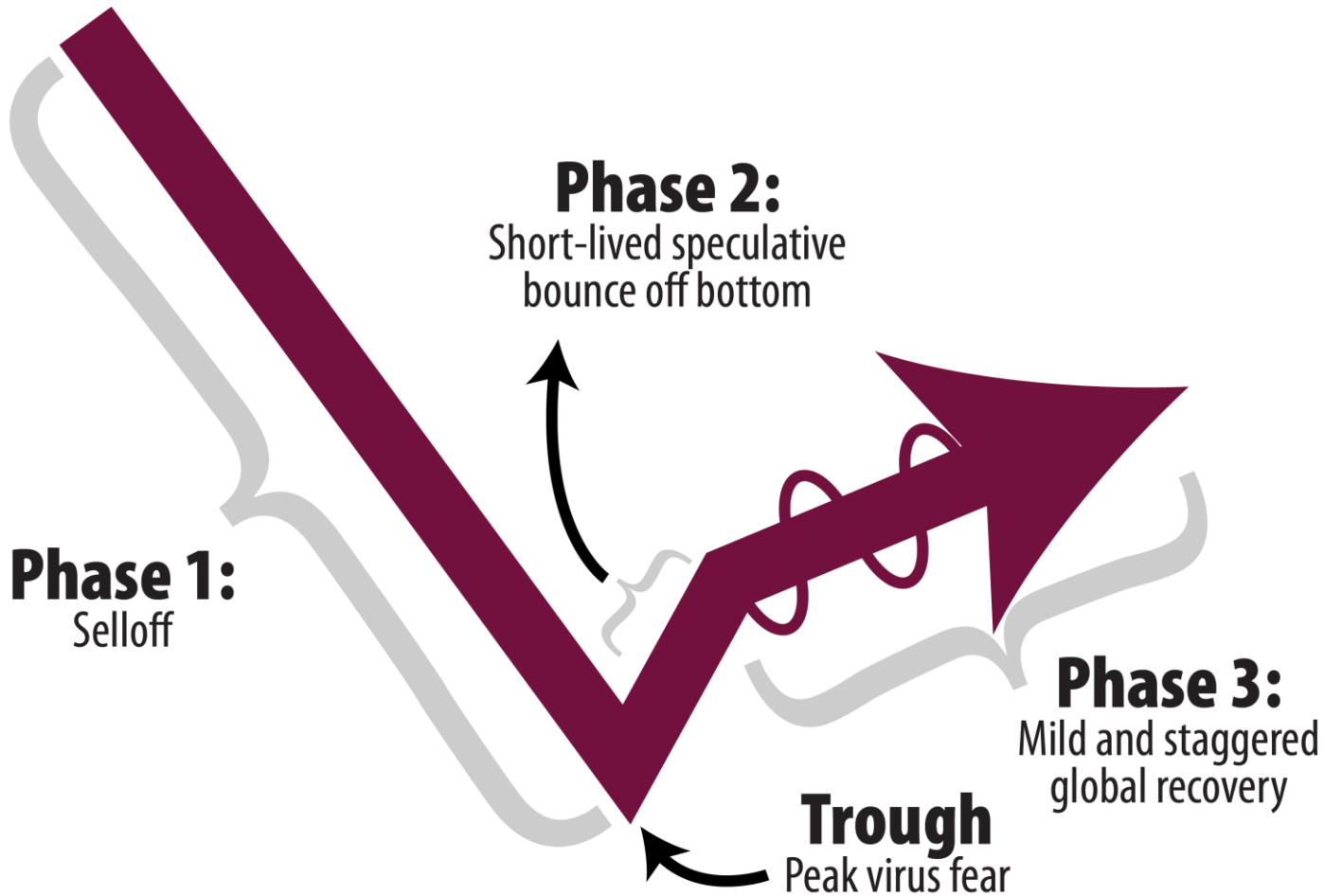
- Strategy to take care of the people you care about
- Right people, right property, right time
- Right people empowered to make the right decisions with the right information
- New world - health care decisions
- Financial decisions (especially in times of turmoil and chaos)



# Stock Market Update

*Presented by Jason Herried*

# Stock Market Recovery



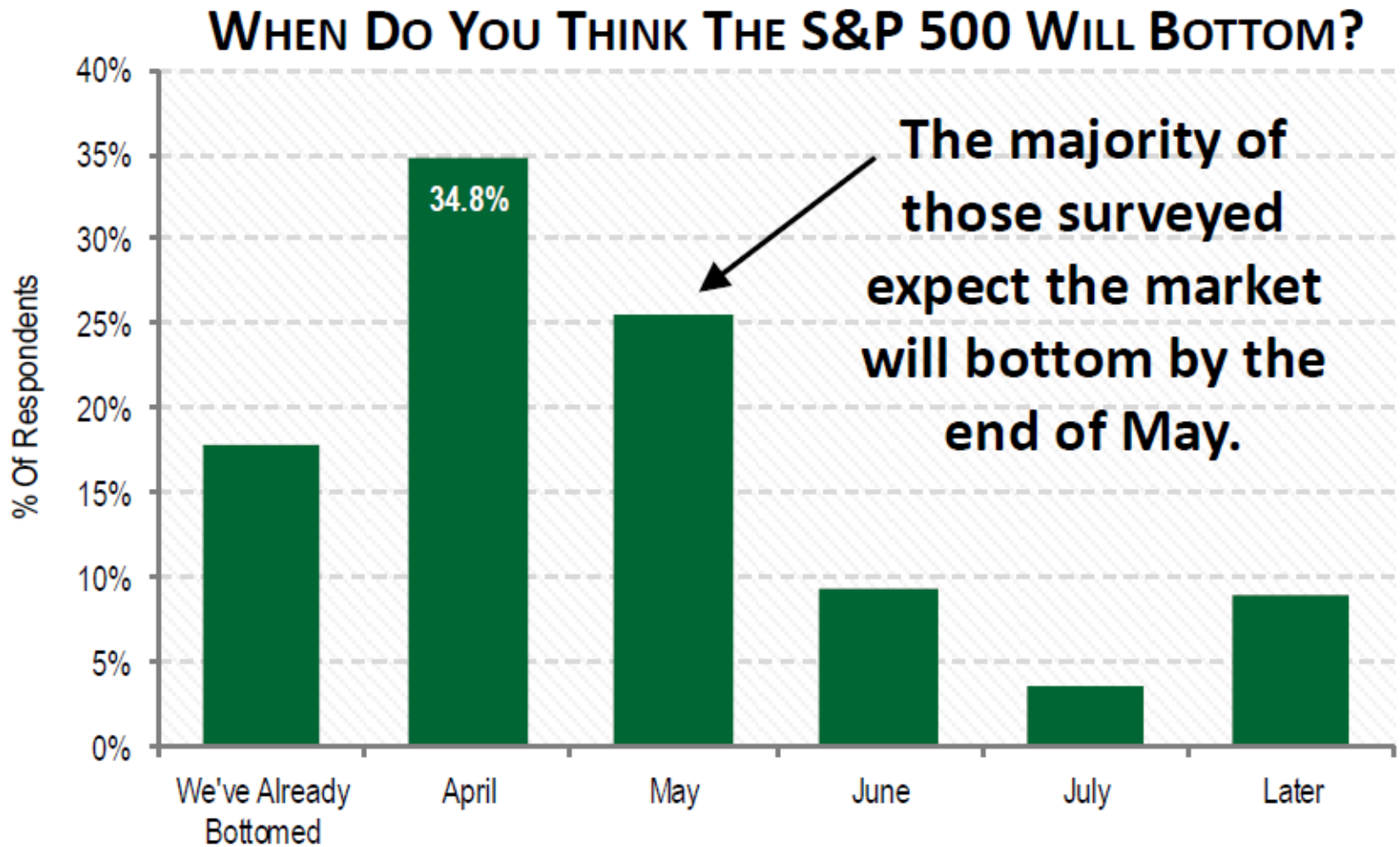
Source: Cornerstone Macro

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# Complacency or Optimism

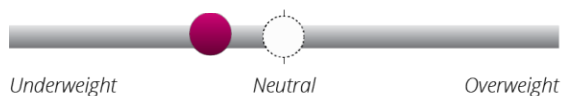


Source: CSM Client Survey March 27-30th



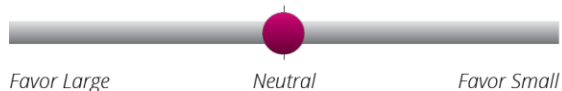
# Equity Positioning 3.31.2020

## Equity Allocation



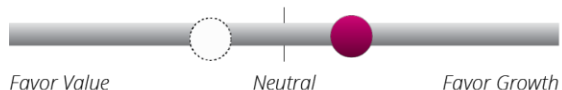
**Equity Exposure:** The COVID-19 virus has dramatically changed the outlook for the economy and earnings. Volatility exploded in March and remains high based on the high degree of uncertainty. Monetary and Fiscal policy offer support, but the significant damage done by the decline will likely mean that the bottoming process may take weeks or months to complete.

## U.S. Large vs. Small



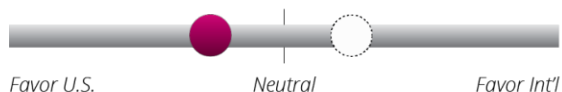
**U.S. Large vs. Small:** While a highly volatile environment favors large companies, valuation levels support small and mid cap (smid) stocks relative to large cap. It should also be noted that the small cap universe is prone to companies with negative earnings. Therefore, we favor strategies that have a larger average market cap, are of higher quality or have demonstrated an ability to add value through stocks selection.

## U.S. Value vs. Growth



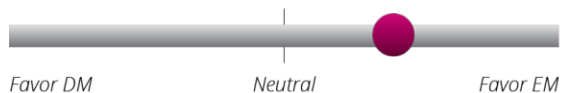
**Value vs. Growth:** The disruption to economic growth removes a key thesis point for the outperformance of value in 2020. Furthermore, lower interest rates and a price war in the oil market add to the pressure. Significant performance dispersion and better valuations on normalized earnings provide some support.

## U.S. vs. International



**U.S. vs. International:** Superior capacity for fiscal stimulus and a more defensive sector composition drove our decision to overweight the US over international. Furthermore, the US Dollar tends to be strong in a risk off environment and therefore increase the risk to international investments.

## Int'l Dev. vs. Em. Market



**International Developed vs. Emerging Markets:** China was the epicenter of the COVID-19 virus and appears to be the first to begin the healing process. This fact has led to relative strength for emerging markets in recent months. The path forward will depend on the strength of the post crisis rebound and the degree that US Dollar strength pressures emerging market currencies. Longer term, we believe attractive investment opportunities exist to capitalize on the growing middle class in that region.

● Current ○ Previous



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