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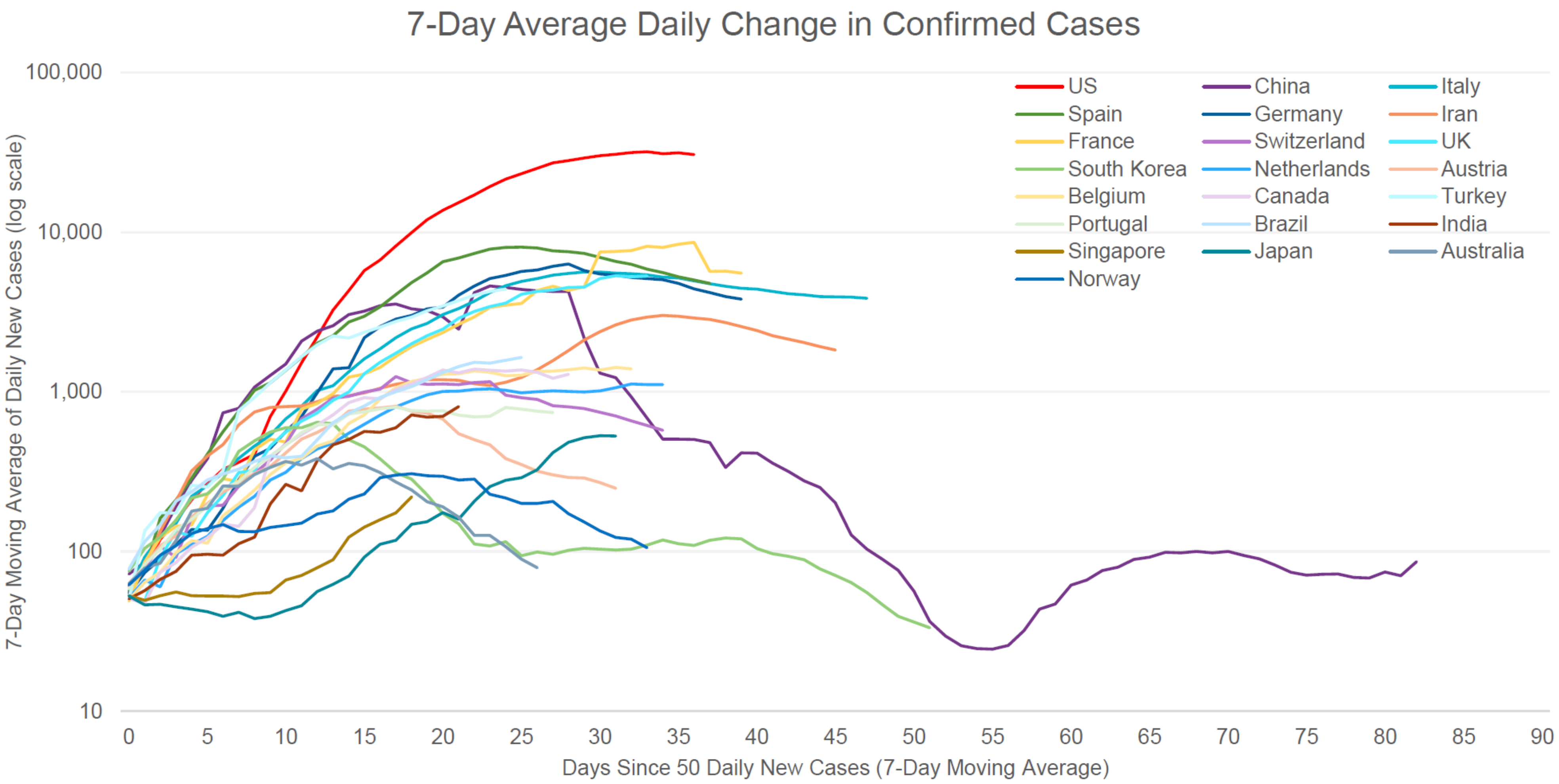
Investing Through Crisis: Business and Personal Approaches to Investing During COVID-19 and Beyond

April 20, 2020

Nathan Torinus MBA, CFP®
Financial Advisor | Chief Revenue & Strategy Officer | Partner

Snapshot of COVID-19 Case Growth Globally

Where Are Cases Slowing?



Source: Natixis PRCG, Bloomberg. As of 4/13/20.

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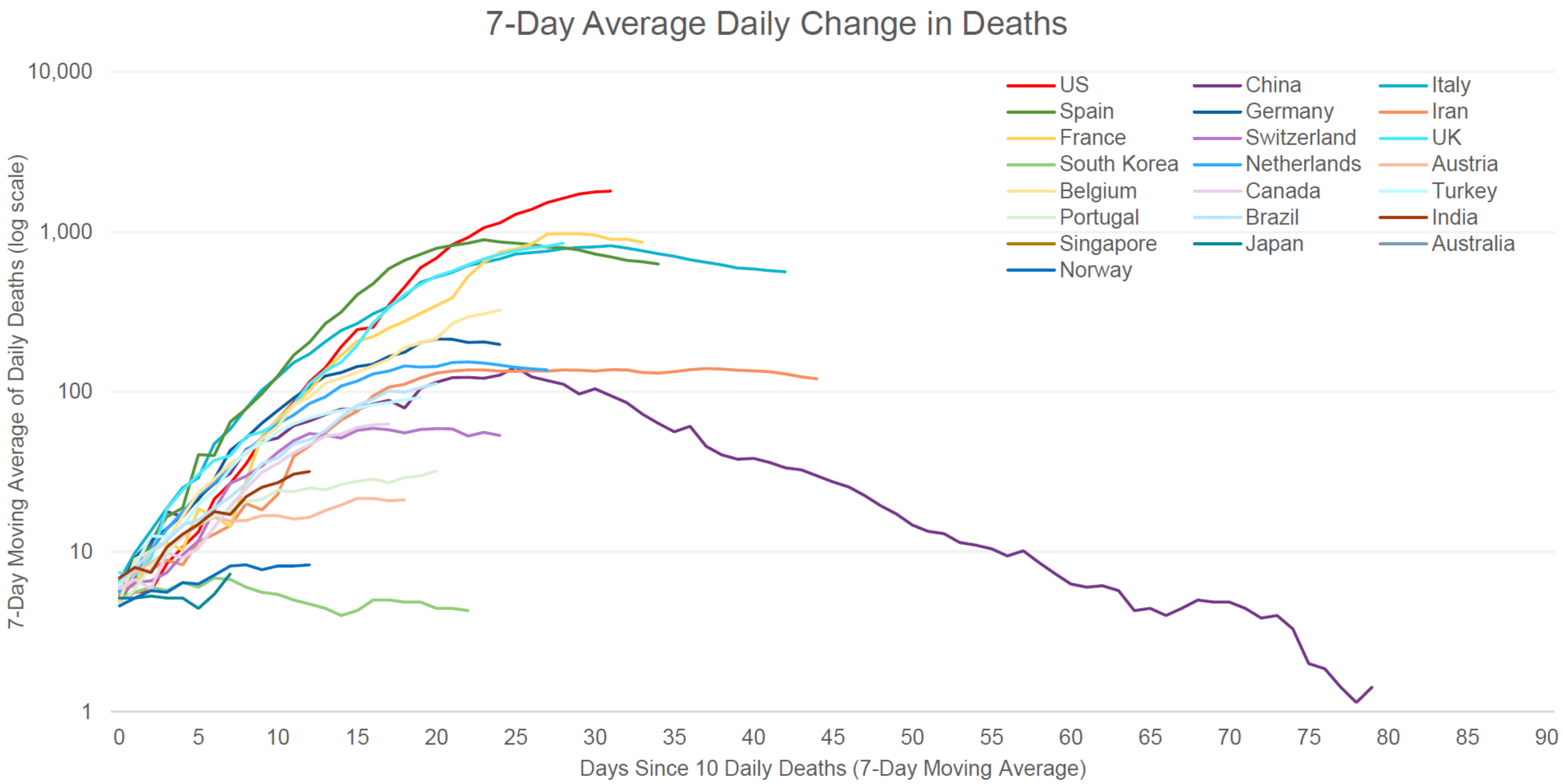
Snapshot of COVID-19 Deaths Globally

Where Are Deaths Slowing?



Source: Natixis PRCG, Bloomberg. As of 4/13/20.

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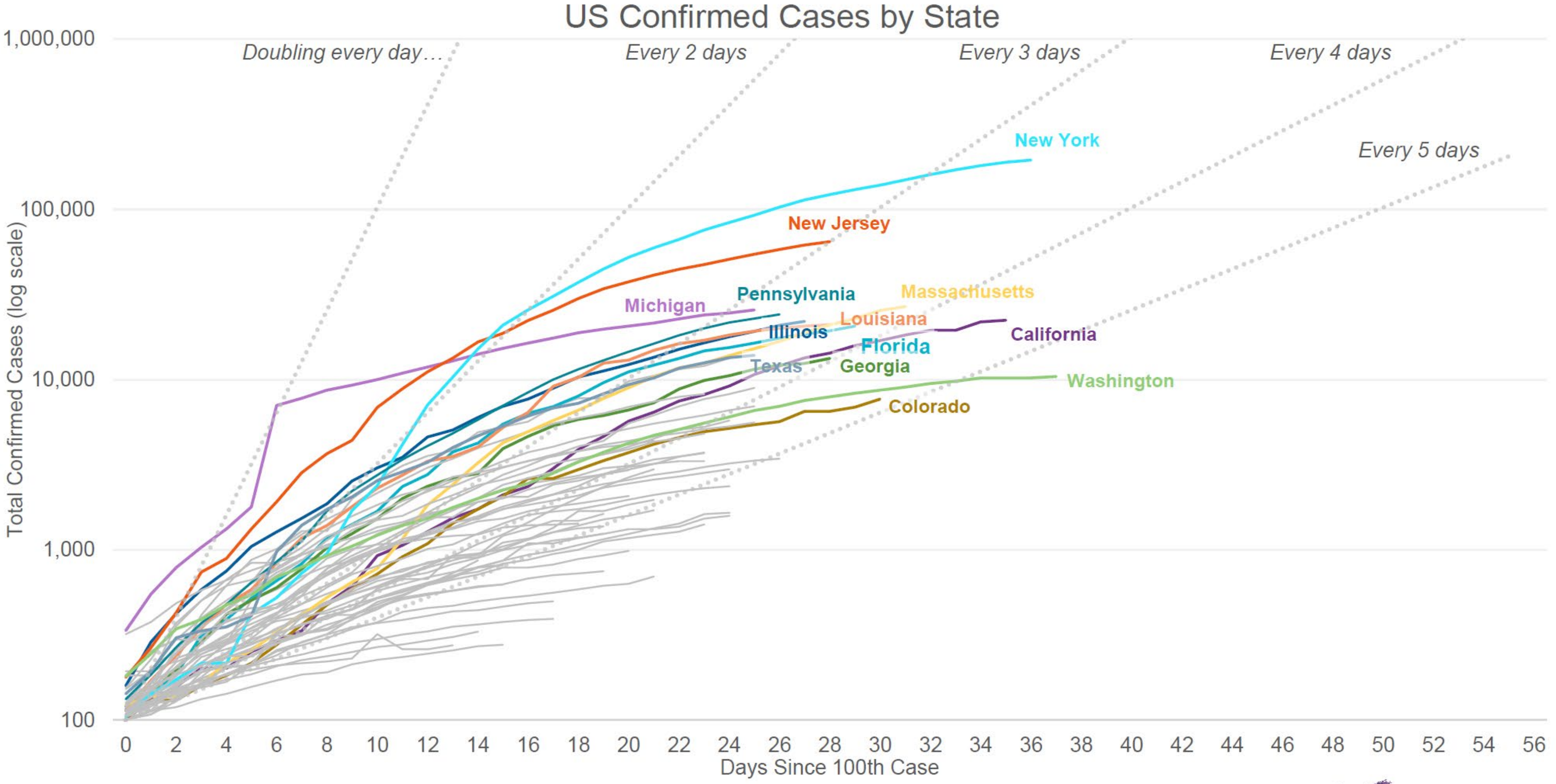
Snapshot of COVID-19 Case Growth Domestically

US Hot Spots



Source: Natixis PRCG, COVID Tracking Project. As of 4/13/20. Gray lines represent all other states.

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Signals the Market is Looking to Confirm

1. Control of the spread of the virus
2. Prospects for re-occurrence later in 2020
3. Impact of shelter in place directives on economic activity

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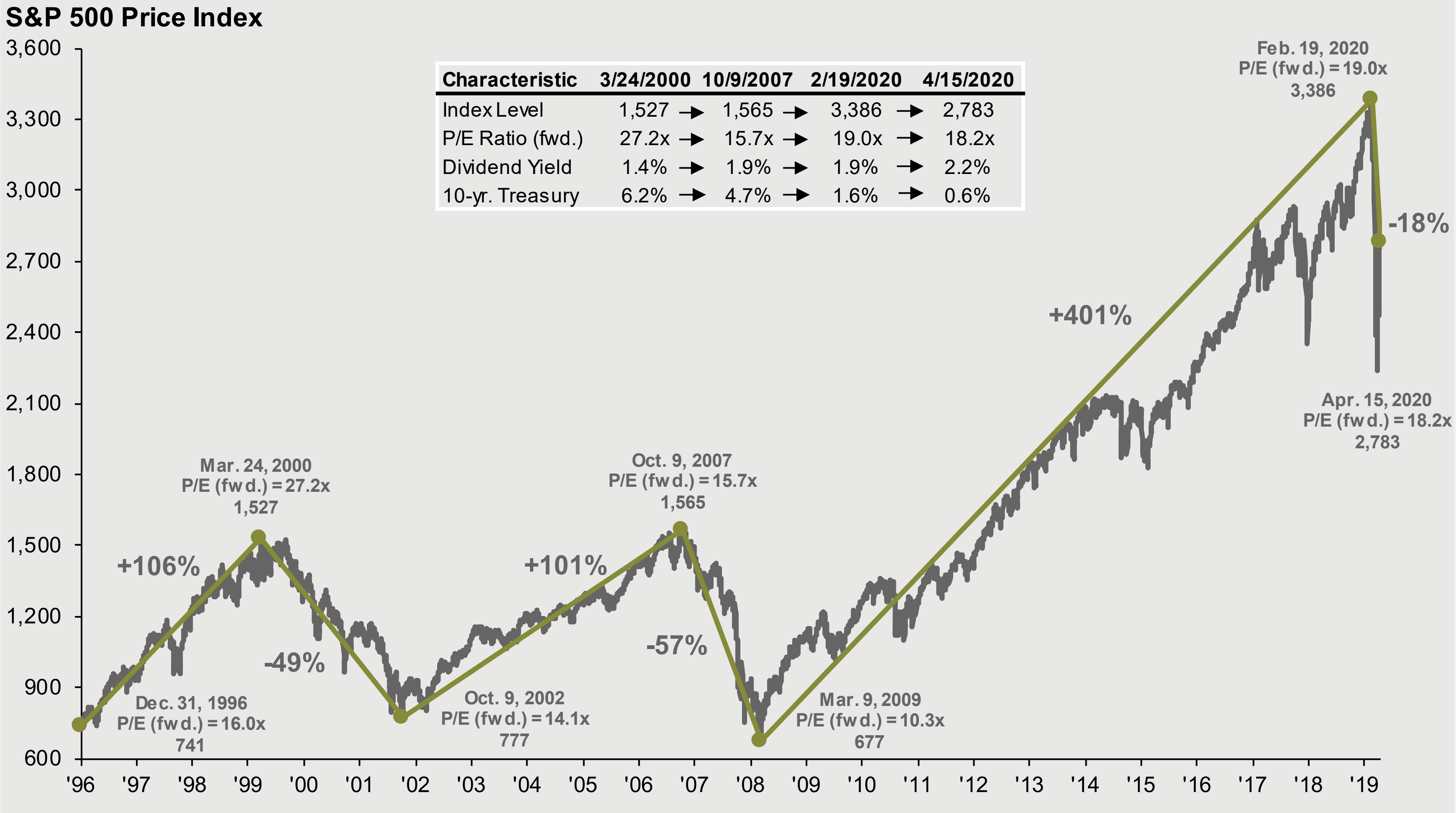
Considerations:

- Longer-term shut down lessens ability of fiscal and monetary policy to bridge the gap.
- Changes in timelines to widespread testing, a vaccine, an effective treatment technique, or herd immunity could materially impact market expectations in either direction.

Federal Govt. Recommends Phased Opening of Economy

1. **State/Regional Gate Criteria** (must meet before phased opening can begin)
   - Downward trajectory of new patients w/ symptoms and confirmed cases during preceding 14 day period
   - Hospital system can treat all COVID patients w/o crisis
   - Robust testing regime in place for health care workers
2. **Phase 1** (only after gate criteria satisfied)
   - At risk populations shelter in place
   - All populations practice social distancing when in public
   - Non-essential travel minimized
   - No gatherings of more than 10 people
   - Remote work encouraged
3. **Phase 2** (after additional 14 days satisfying gate criteria)
   - Offices return to on site work in phases, with special cases accommodated
   - Gatherings of <50 people permitted
   - Non-essential travel resumes
4. **Phase 3** (after additional 14 days satisfying gate criteria)
   - At risk populations resume social interaction
   - Offices resume work as normal

Some Historical Perspective – US Equities



Characteristic	3/24/2000	10/9/2007	2/19/2020	4/15/2020
Index Level	1,527 →	1,565 →	3,386 →	2,783
P/E Ratio (fwd.)	27.2x →	15.7x →	19.0x →	18.2x
Dividend Yield	1.4% →	1.9% →	1.9% →	2.2%
10-yr. Treasury	6.2% →	4.7% →	1.6% →	0.6%

- Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
- Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
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Anatomy of the COVID Sell-Off

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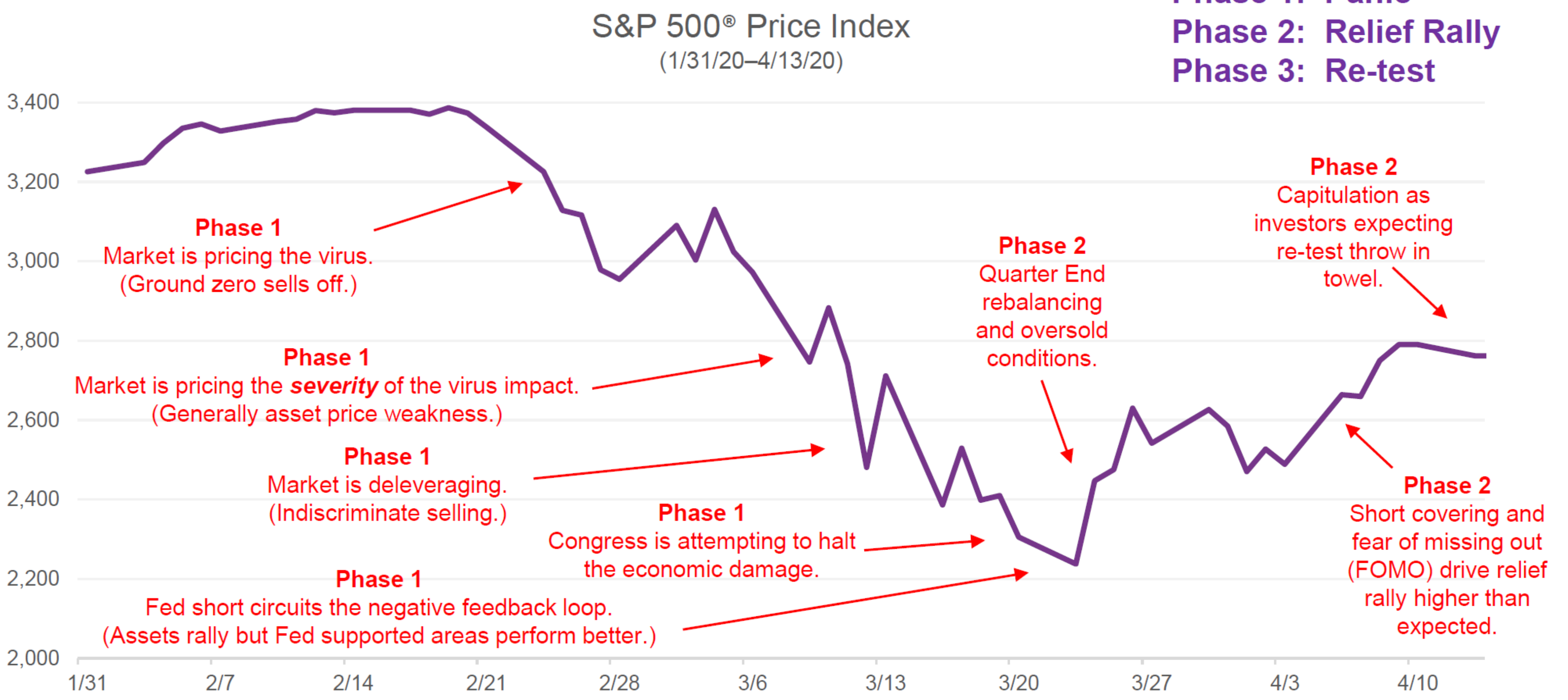
Stages Of The Sell-Off

Phase 1: Panic
Phase 2: Relief Rally
Phase 3: Re-test



Source: Natixis PRCG, FactSet.

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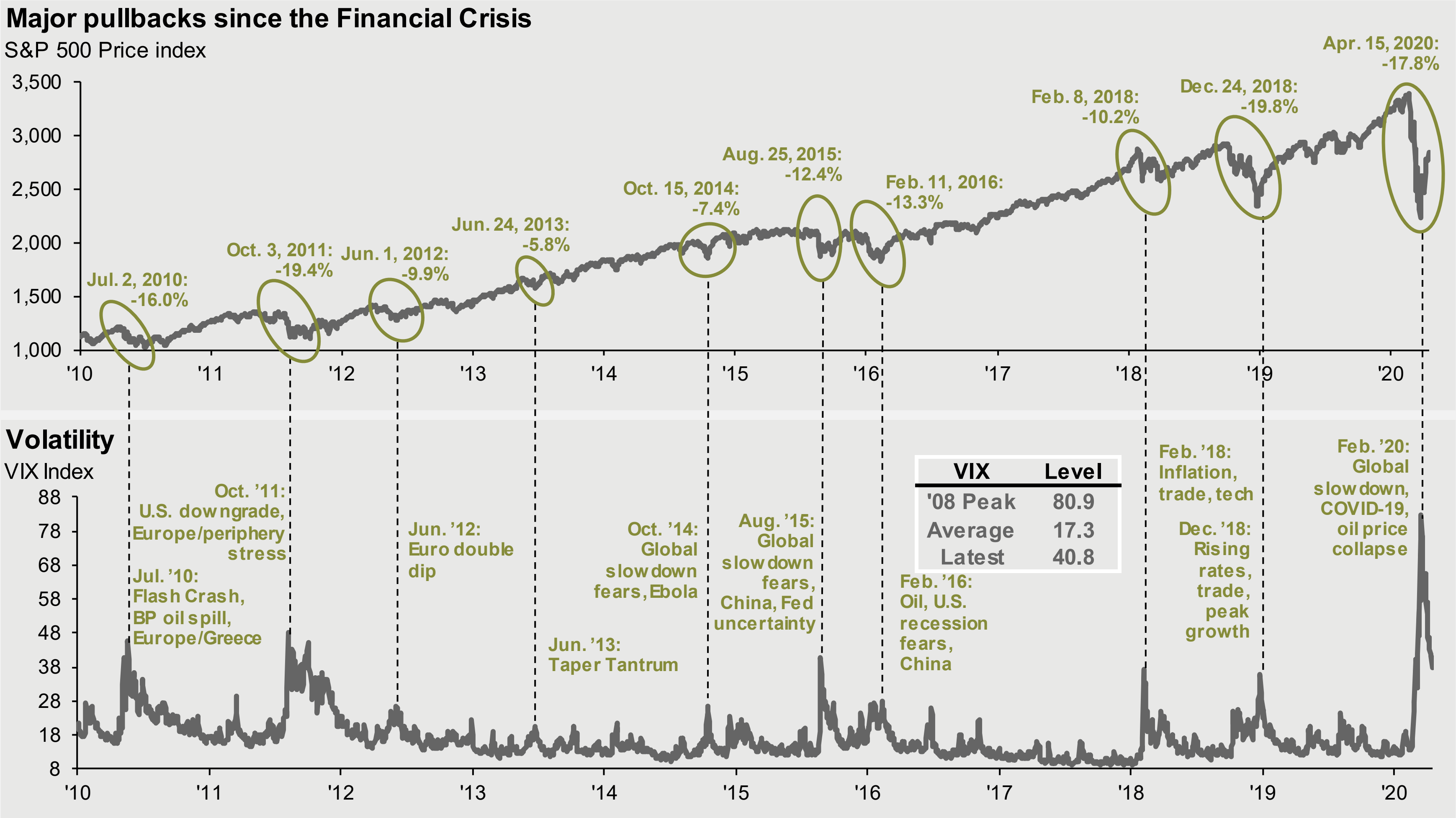
Setbacks and Rebounds: US Equities 2010-20



- Source: CBOE, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
- Drawdowns are calculated as the prior peak to the lowest point.
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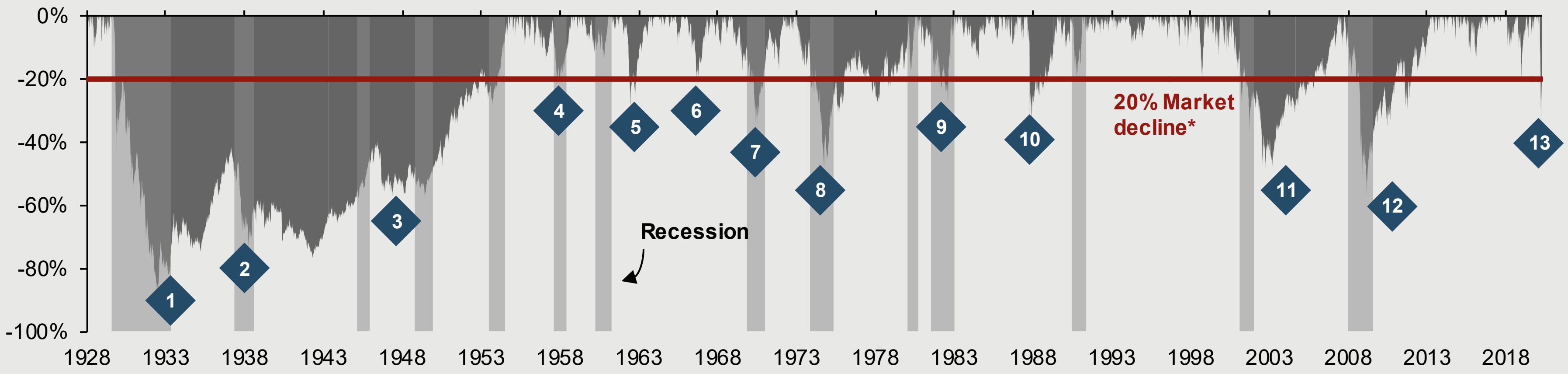
Depth of Market Declines in Past Bears

U.S. recessions and S&P 500 composite declines from all-time highs



Characteristics of bull and bear markets

	Market correction	Bear Market			Macro environment				Bull markets		
		Market peak	Bear return*	Duration (months)*	Recession	Commodity Spike	Aggressive Fed	Extreme Valuation	Bull begin date	Bull return	Duration (months)
1	Crash of 1929 - Excessive leverage, irrational exuberance	Sep 1929	-86%	32	◆			◆	Jul 1926	152%	37
2	1937 Fed Tightening - Premature policy tightening	Mar 1937	-60%	61	◆		◆		Mar 1935	129%	23
3	Post WWII Crash - Post-war demobilization, recession fears	May 1946	-30%	36	◆			◆	Apr 1942	158%	49
4	Eisenhower Recession - Worldwide recession	Aug 1956	-22%	14	◆		◆	◆	Jun 1949	267%	85
5	Flash Crash of 1962 - Flash crash, Cuban Missile Crisis	Dec 1961	-28%	6				◆	Oct 1960	39%	13
6	1966 Financial Crisis - Credit crunch	Feb 1966	-22%	7			◆	◆	Oct 1962	76%	39
7	Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	17	◆	◆	◆		Oct 1966	48%	25
8	Stagflation - OPEC oil embargo	Jan 1973	-48%	20	◆	◆			May 1970	74%	31
9	Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	20	◆	◆	◆		Mar 1978	62%	32
10	1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3				◆	Aug 1982	229%	60
11	Tech Bubble - Extreme valuations, .com boom/bust	Mar 2000	-49%	30	◆			◆	Oct 1990	417%	113
12	Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	◆	◆	◆		Oct 2002	101%	60
13	Global Slowdown - COVID-19, oil price war	Feb 2020	-18%	1	◆				Mar 2009	401%	133
	Averages	**-**	**-42%**	**22**					-	**166%**	**54**

- Source: FactSet, NBER, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
- *A bear market is defined as a 20% or more decline from the previous market high. The related market return is the peak to trough return over the cycle. Periods of "Recession" are defined using NBER business cycle dates. "Commodity spikes" are defined as movement in oil prices of over 100% over an 18-month period. Periods of "Extreme Valuations" are those where S&P 500 last 12 months' P/E levels were approximately two standard deviations above long-run averages, or time periods where equity market valuations appeared expensive given the broader macroeconomic environment. "Aggressive Fed Tightening" is defined as Federal Reserve monetary tightening that was unexpected and/or significant in magnitude. Bear and Bull returns are price returns.
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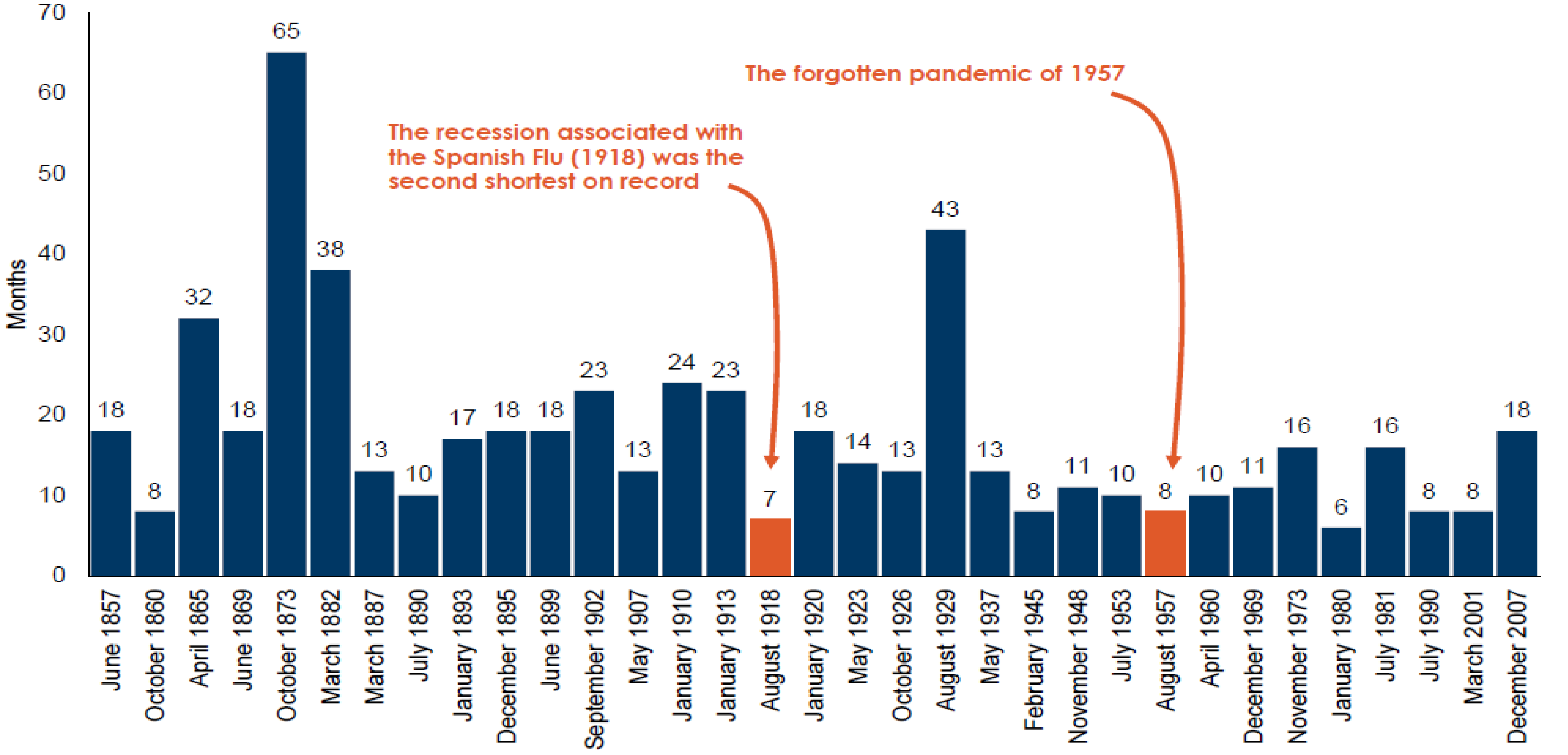
Worst Pandemic In History Sent The U.S. Into Short Recession In 1918

Modern Science And The Modern World Are Very Different Than They Were In 1918

Length of All U.S. Recessions on Record



Source: NBER

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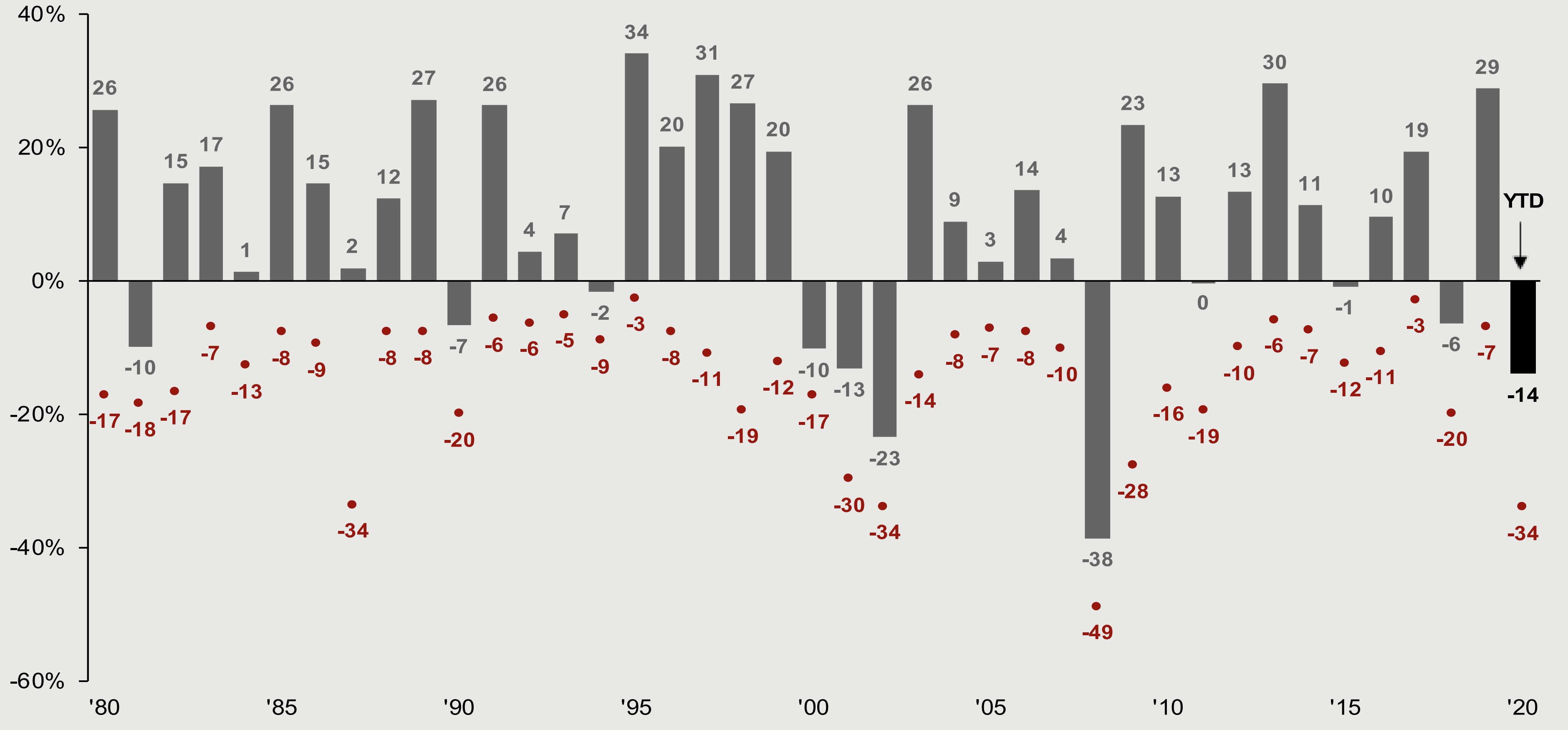
Year-End Returns vs. Intra-Year Low Points

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.8%, annual returns positive in 30 of 40 years



- Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
- Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%.
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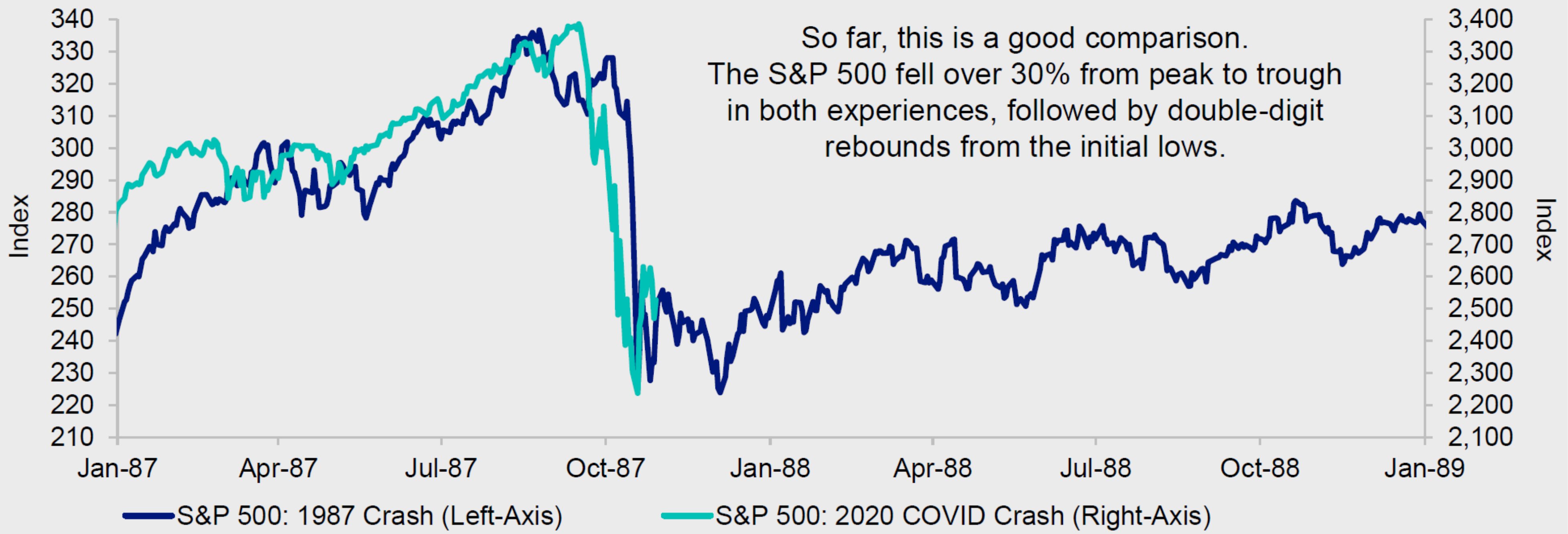
Interesting Parallels w/ a Recent Shock Driven Bear

6. 1987 crash versus 2020 COVID crash

Invesco

US equities from 1987-1989 (left-axis) and from 2019-Present (right-axis)



Source: Bloomberg L.P., Invesco, 04/02/20. An investment cannot be made in an index. **Past performance does not guarantee future results.**

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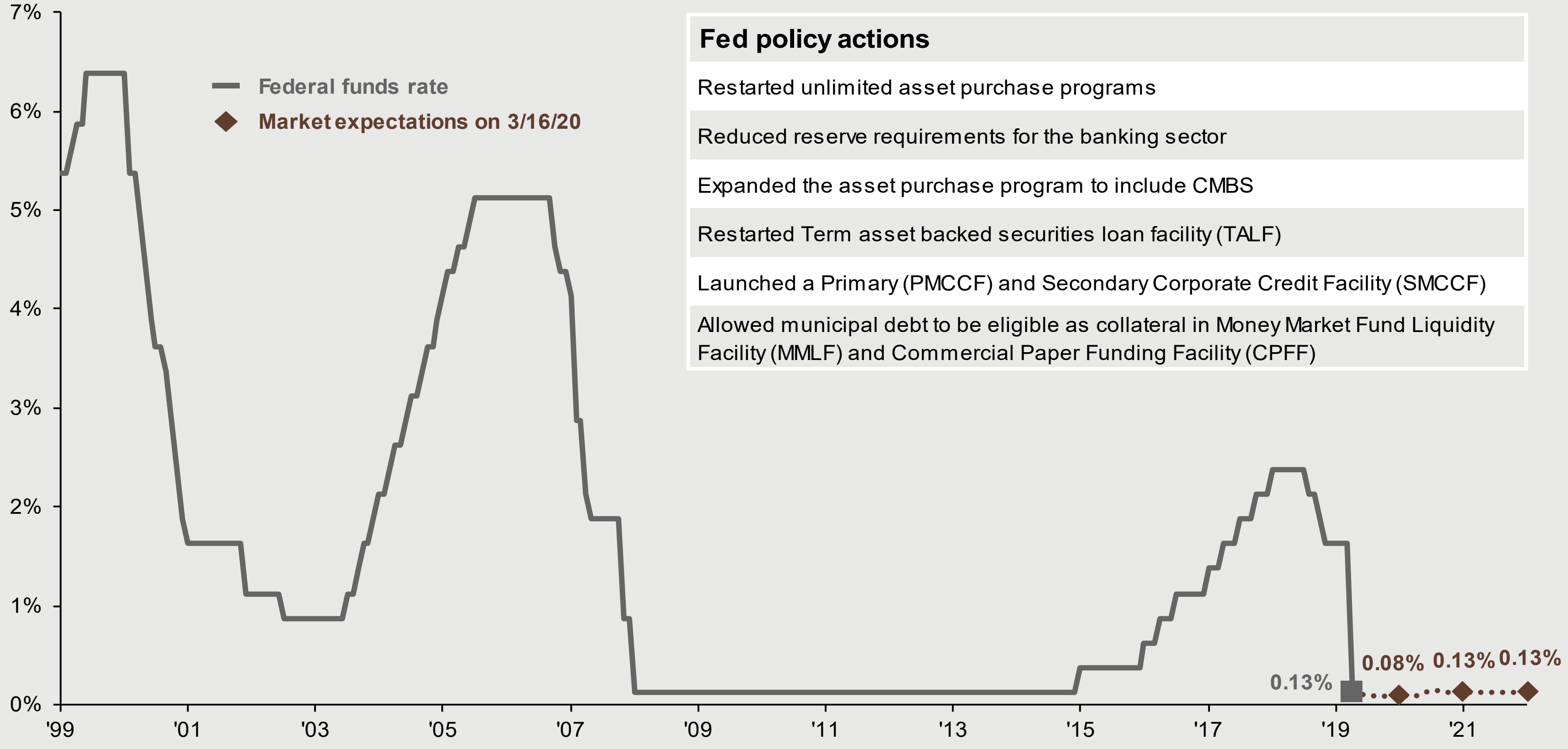
Central Bank Responses are Massive

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Fed policy actions
Restarted unlimited asset purchase programs
Reduced reserve requirements for the banking sector
Expanded the asset purchase program to include CMBS
Restarted Term asset backed securities loan facility (TALF)
Launched a Primary (PMCCF) and Secondary Corporate Credit Facility (SMCCF)
Allowed municipal debt to be eligible as collateral in Money Market Fund Liquidity Facility (MMLF) and Commercial Paper Funding Facility (CPFF)

- Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
  Market expectations are the federal funds rates priced into the fed futures market as of the following date of the March 15, 2020 emergency cut and are through December 2022.
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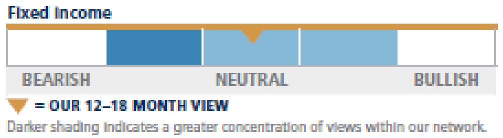
The Fed is buying everything in sight



"It's an indisputable fact: Central banks have been hard at work, digging deep into their respective toolboxes to limit the extent of the economic damage."

Manulife Investment Management

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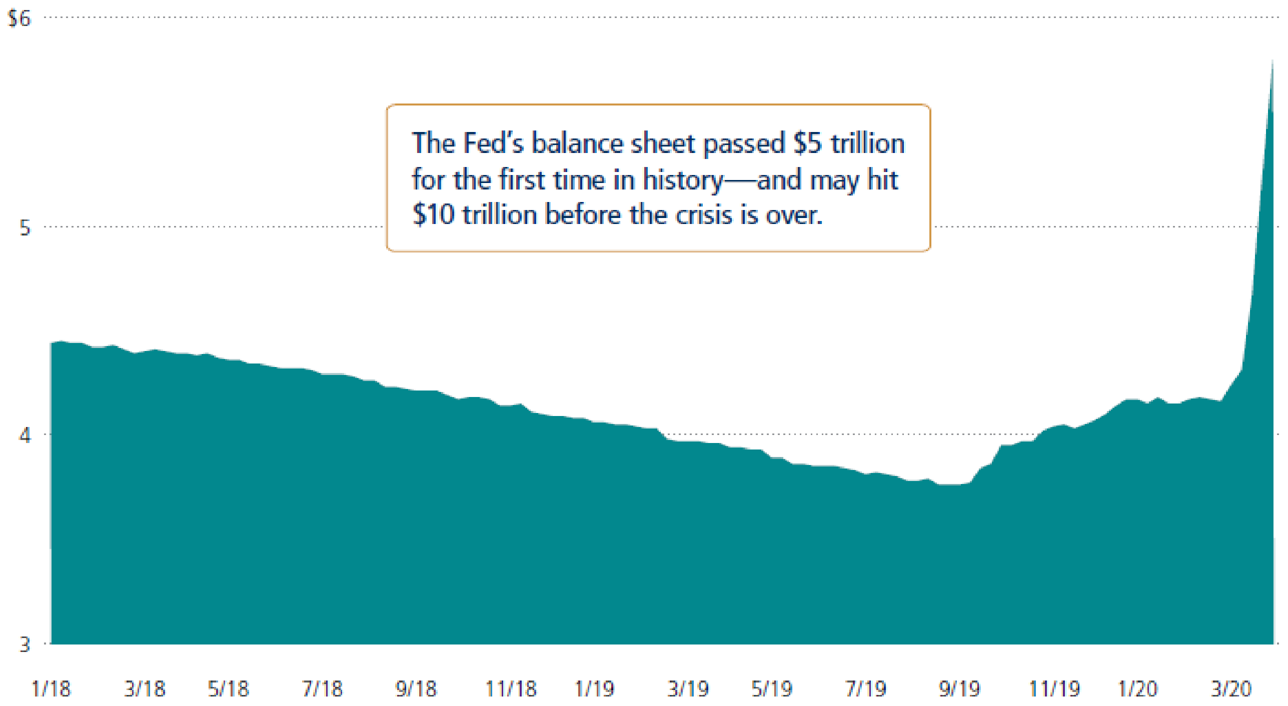
U.S. Federal Reserve (Fed) assets have spiked (in trillions)



Historic monetary stimulus, including:

- **$700B+ in purchases** of U.S. Treasury securities, mortgage-backed securities, CMBS, and agency MBS
- **$300B in new financing** to support the flow of credit to employers, consumers, and businesses
- **Establishment of primary and secondary market corporate credit facilities** to provide liquidity for new and outstanding corporate bonds
- **Establishment of Term Asset-Backed Securities Loan Facility** to support credit to consumers and businesses
- **Expanded Money Market Mutual Fund Liquidity Facility** to facilitate the flow of credit to municipalities
- **Expanded the Commercial Paper Funding Facility** to facilitate the flow of credit to municipalities
- Slashed policy rate to 0%

Source: Federal Reserve, FactSet, 3/31/20. Quantitative easing (QE) is a monetary policy in which a central bank purchases government debt or other fixed-income securities in an effort to lower interest rates, increase the money supply, and stimulate economic growth. MBS refers to mortgage-backed securities; CMBS refers to commercial mortgage-backed securities.

Impact of Oil Prices and Domestic Production

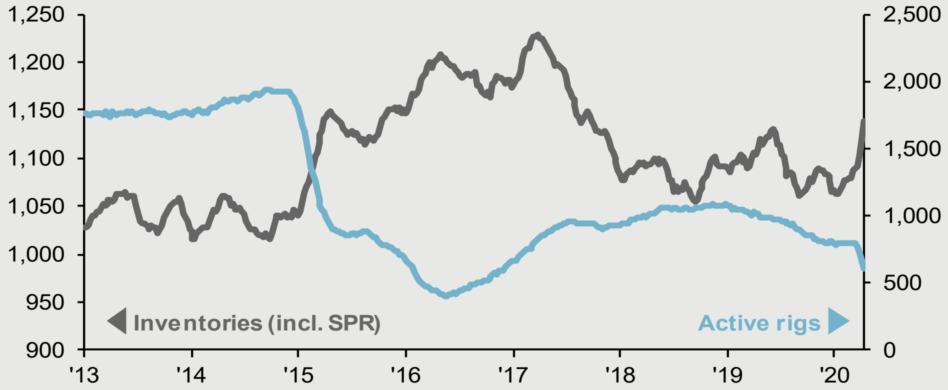
Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

Production	2017	2018	2019	2020*	2021*	Growth since '17
U.S.	15.7	18.0	19.5	19.0	18.7	19.4%
OPEC	36.8	36.8	34.7	33.7	34.3	-6.8%
Russia	1.9	2.0	2.0	2.0	2.0	5.9%
Global	**98.1**	**100.8**	**100.6**	**99.4**	**100.2**	**2.1%**
Consumption						
U.S.	20.0	20.5	20.5	19.1	20.4	2.2%
China	13.6	14.0	14.5	13.7	15.4	13.2%
Global	**98.7**	**100.0**	**100.8**	**95.5**	**101.9**	**3.2%**
Inventory Change	-0.6	0.9	-0.2	3.9	-1.7	

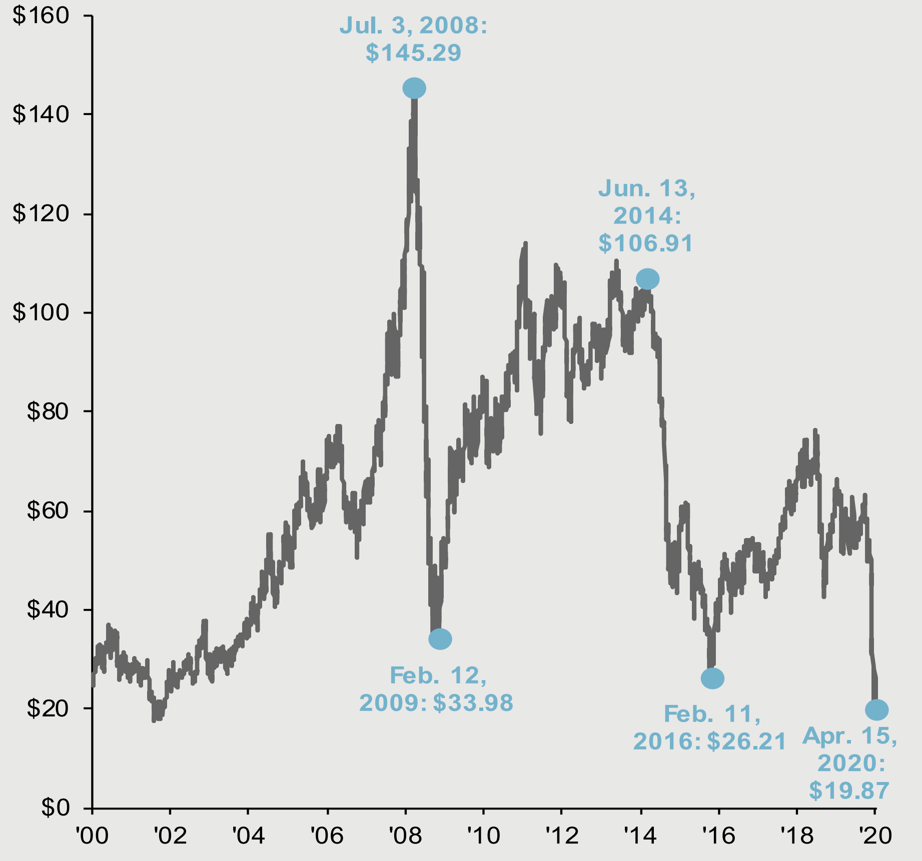
U.S. crude oil inventories and rig count**

Million barrels, number of active rigs



Price of oil

WTI crude, nominal prices, USD/barrel



- Source: J.P. Morgan Asset Management; (Top and bottom left) EIA; (Right) FactSet; (Bottom left) Baker Hughes.
- *Forecasts are from the April 2020 EIA Short-Term Energy Outlook and start in 2020. **U.S. crude oil inventories include the Strategic Petroleum Reserve (SPR). Active rig count includes both natural gas and oil rigs. WTI crude prices are continuous contract NYM prices in USD.
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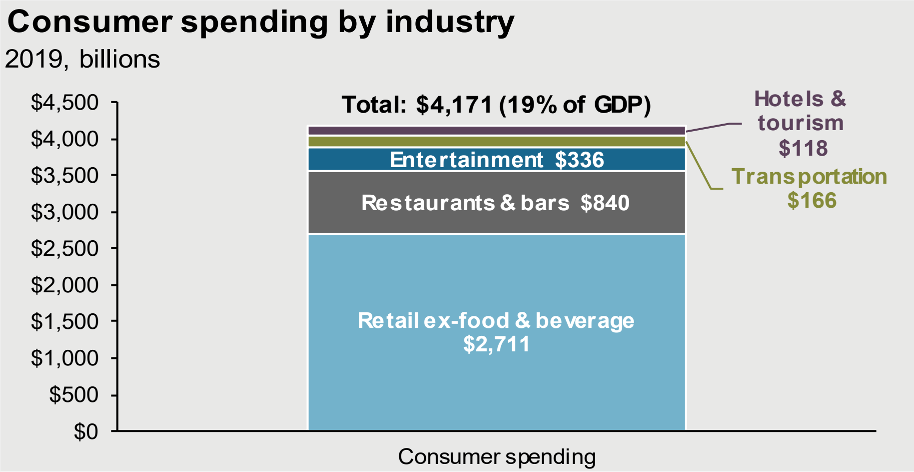
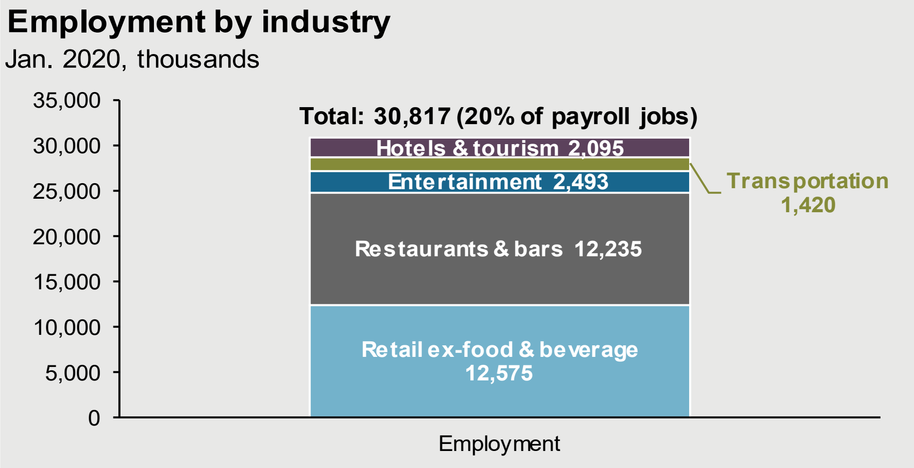
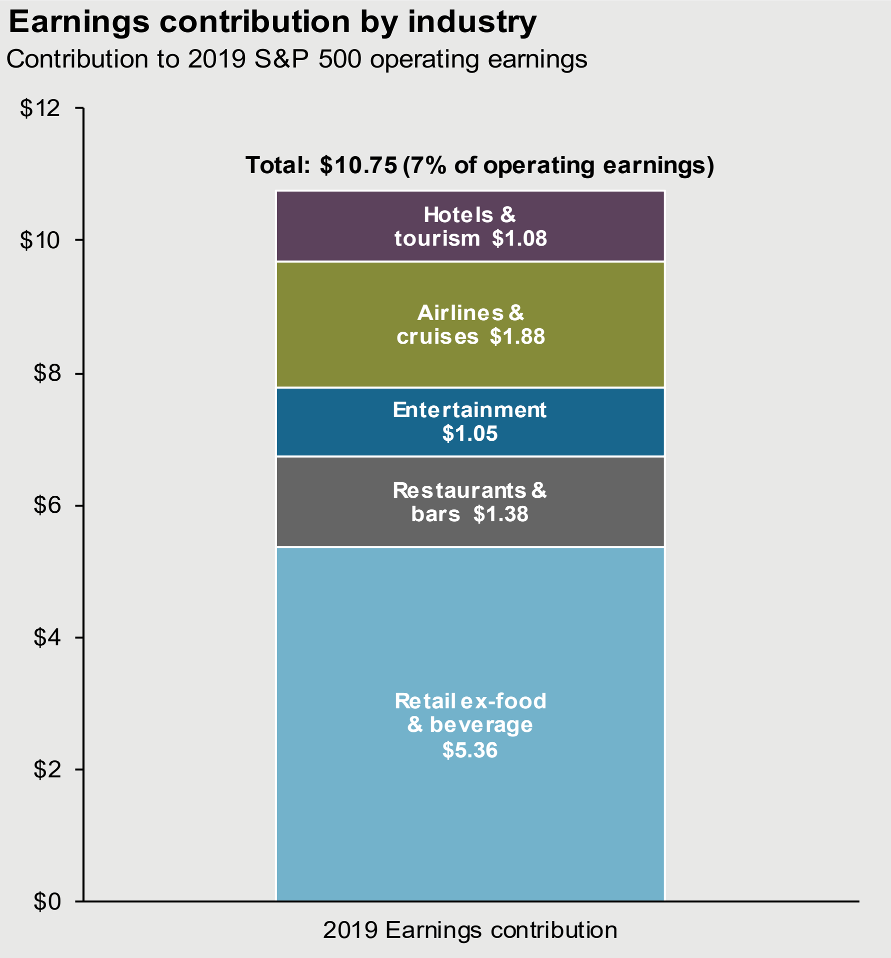
Most Impacted Industries: More Jobs than Earnings







- Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Factset, S&P 500, J.P. Morgan Asset Management. Consumer spending (2019 annual): membership clubs, sports, amusement parks, campgrounds, movies, theaters, museums, libraries, casino gambling, purchased meals and beverages, packaged tours, air and water transportation, hotels and motels, and select retail goods and services. Employment (January 2020): air and water transportation, transit and ground passenger transportation, support activities for air and water transportation, arts, entertainment, recreation, accommodation, food services and drinking places, and retail ex-food and beverage stores. Earnings (2019 operating): hotels restaurants and leisure; airlines; select entertainment and travel booking companies; multiline and specialty retail; and textiles apparel and luxury goods.
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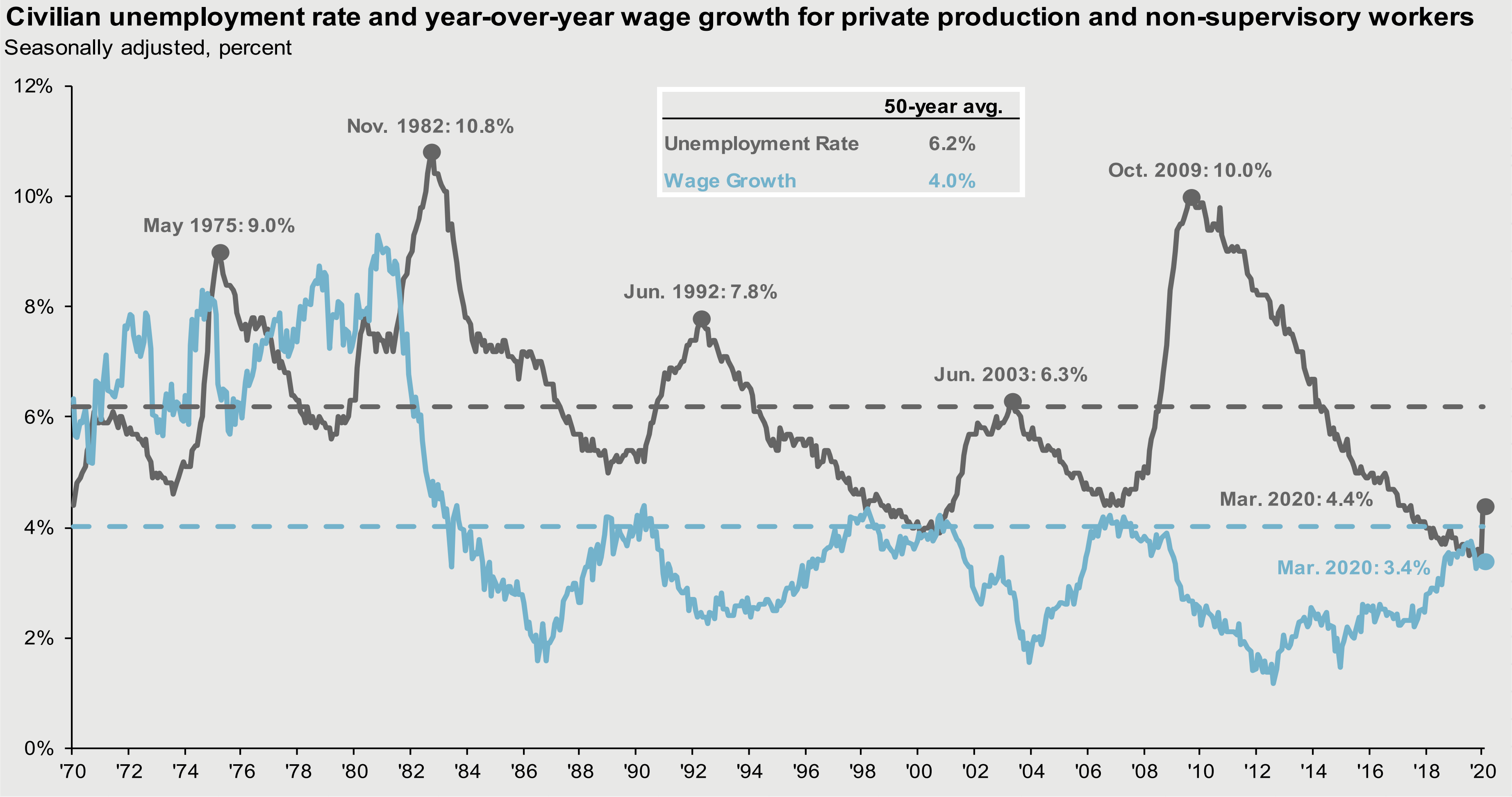
Unemployment Rate: US 1970-2020



- Source: BLS, FactSet, J.P. Morgan Asset Management.
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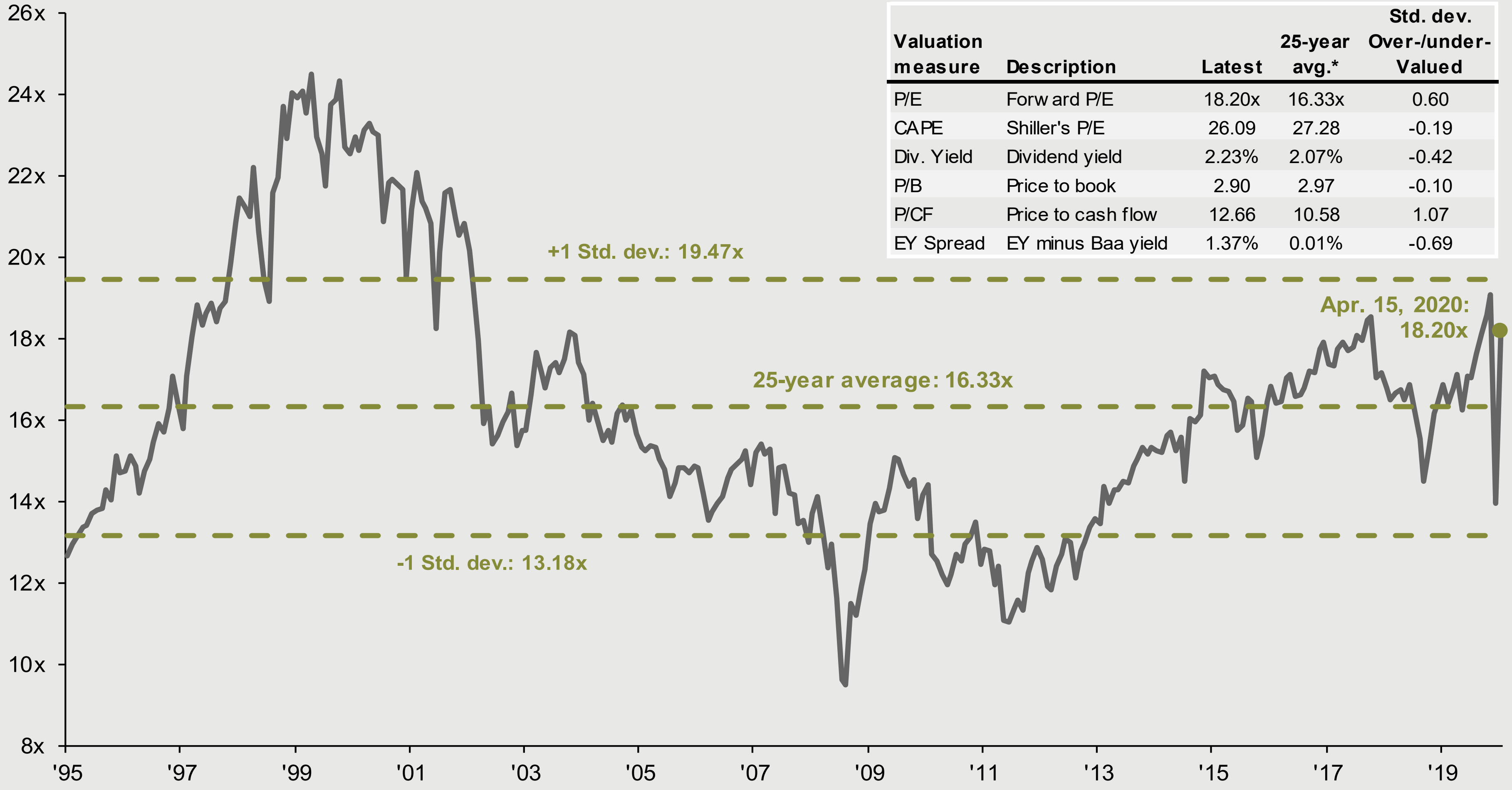
Price as a Function of Earnings – US Equities

S&P 500 Index: Forward P/E ratio



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	18.20x	16.33x	0.60
CAPE	Shiller's P/E	26.09	27.28	-0.19
Div. Yield	Dividend yield	2.23%	2.07%	-0.42
P/B	Price to book	2.90	2.97	-0.10
P/CF	Price to cash flow	12.66	10.58	1.07
EY Spread	EY minus Baa yield	1.37%	0.01%	-0.69

- Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
- Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since April 1995, and FactSet for April 15, 2020. Current next 12-months consensus earnings estimates are $153. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure.
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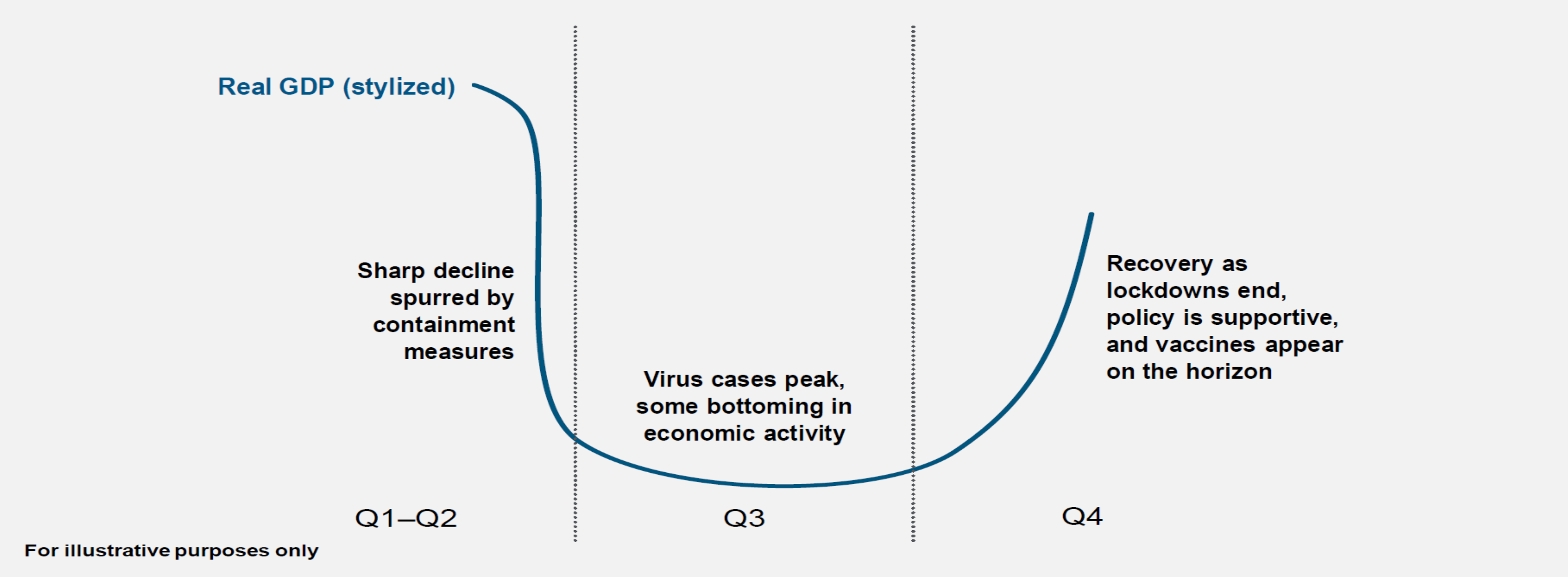
Broadest Consensus around U-Shaped Recovery

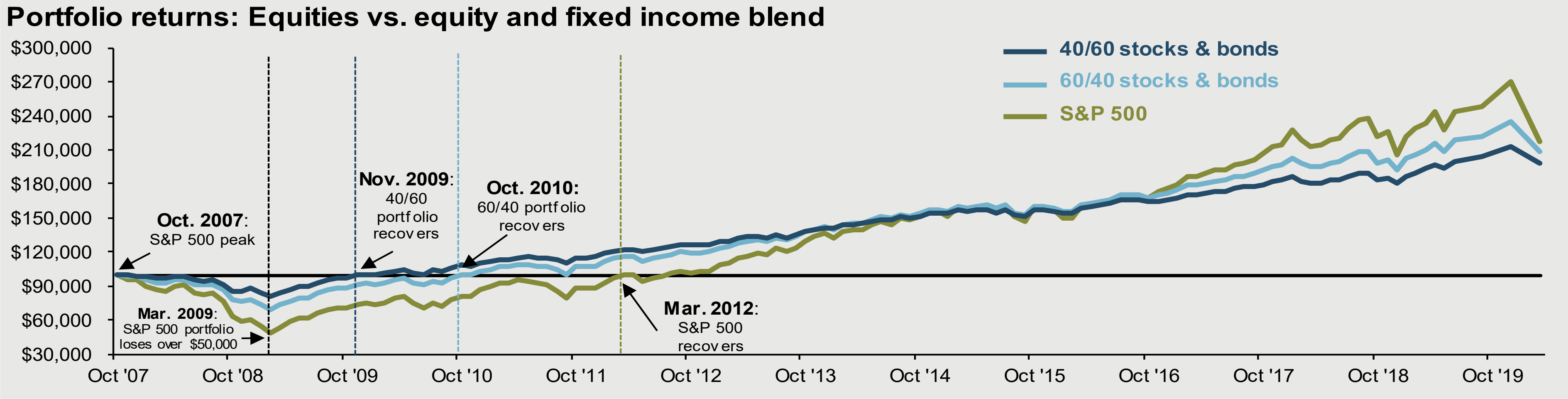
Cyclical Outlook: From Hurting to Healing

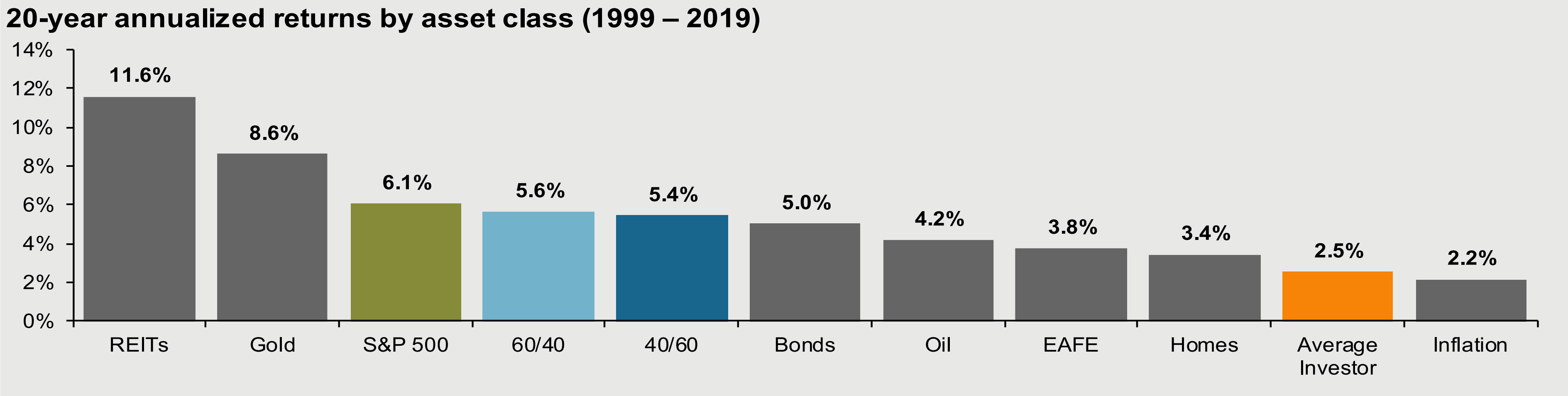
We expect the global economy and financial markets to transition from intense near-term pain to gradual healing over the next six to 12 months



As of March 2020
Source: PIMCO
Refer to Appendix for additional outlook and risk information.

Market Returns vs. Avg. Investor Returns





- Source: J.P. Morgan Asset Management; (Top) Barclays, Bloomberg, FactSet, Standard & Poor’s; (Bottom) Dalbar Inc.
- Indices used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Bloomberg Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz., Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/19 to match Dalbar’s most recent analysis.
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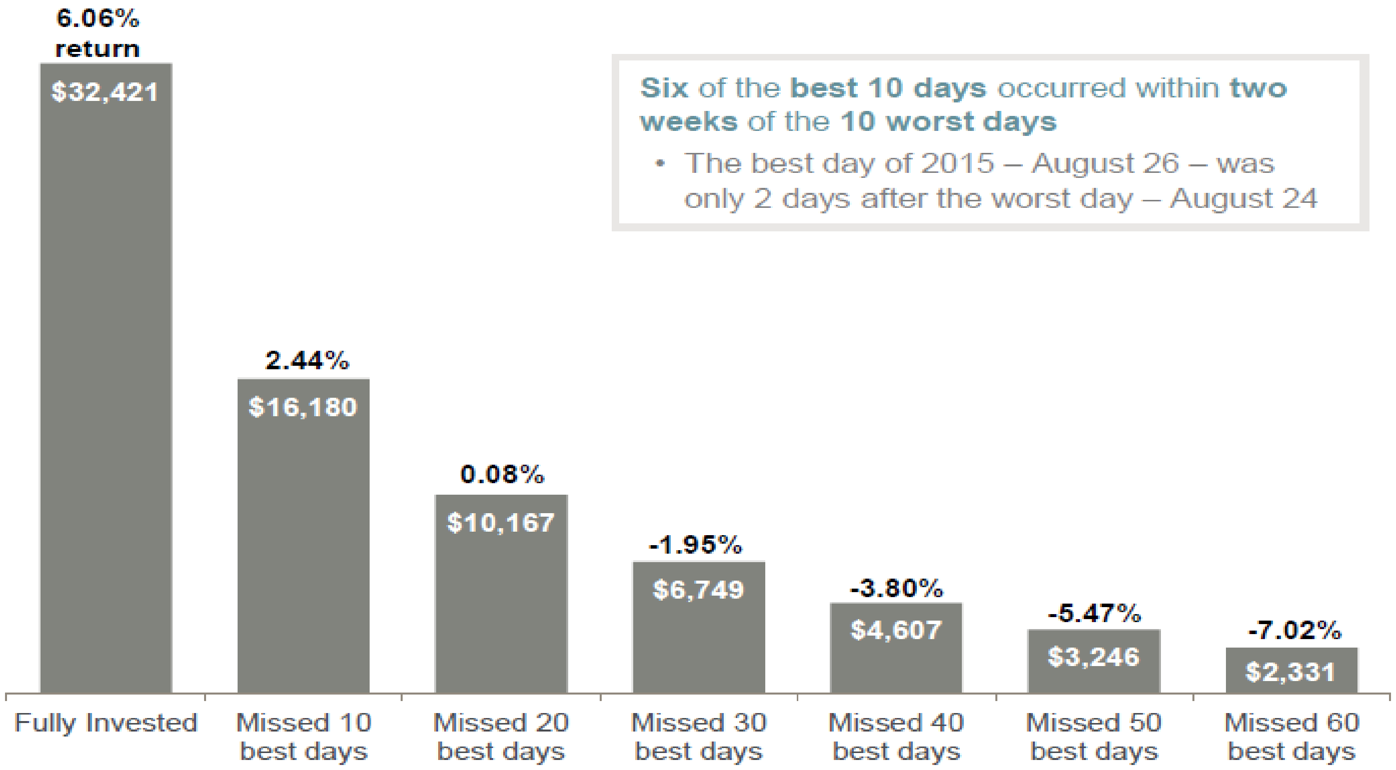
Investor Behavior: Rewards for Staying In

Returns of the S&P 500

Performance of a $10,000 investment between January 3, 2000 and December 31, 2019

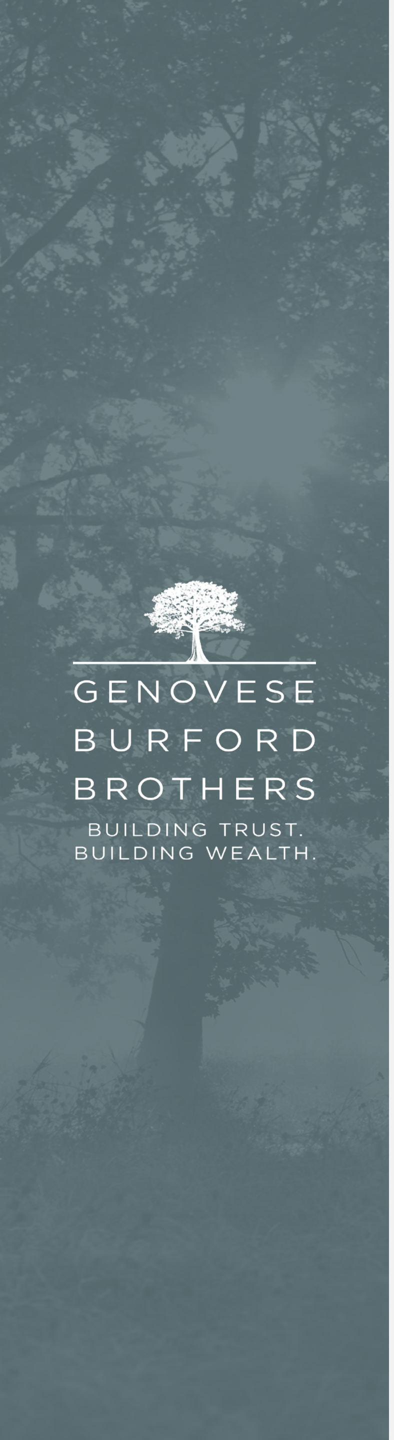


PLAN TO STAY INVESTED

Trying to time the market is extremely difficult to do. Market lows often result in emotional decision making. Investing for the long term while managing volatility can result in a better retirement outcome.

Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2019.

J.P.Morgan
Asset Management



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Explanation of Indices

An Index is a portfolio of specific securities (common examples are the S & P, DJIA, NASDAQ), the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. It may not be fair to compare asset allocated portfolios to indexes as these portfolios contain many different investments.

S&P 500 Composite Total Return is an unmanaged market capitalization weighted price index composed of 500 widely held common stocks listed on the NYSE, American Stock Exchange and Over-The-Counter market. The index includes dividend reinvestments.

The Russell 2000 Index is an index of primarily domestic smaller-cap stocks.

The MSCI EAFE® Index comprises 21 MSCI country indices, representing the developed markets outside of North America: Europe, Australasia and the Far East.

The MSCI EM® Index comprises 26 MSCI country indices, representing the emerging markets in Latin America, South Asia, Russia, the Middle East, and the Far East.

The Barclays Capital Credit Bond Index is an index based on all publicly issued intermediate fixed-rate, non-convertible investment grade domestic corporate debt. Also included are Yankee bonds, which are dollar-denominated SEC registered public, convertible debt issued or guaranteed by foreign sovereign governments, municipalities, or government agencies, or internal agencies.

The Barclays Capital Intermediate U.S. Govt/Credit is an index based on all publicly issued intermediate government and corporate debt securities. Average maturity of 4–5 years.

The GSCI is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully-collateralized basis with full reinvestment. The combination of these attributes provides investors with a representative and realistic picture of realizable returns attainable in the commodities markets. Individual components qualify for inclusion in the GSCI on the basis of liquidity and are weighted by their respective world production quantities. Possible means of implementation include the purchase of GSCI-related instruments, such as the GSCI futures contract traded on the Chicago Mercantile Exchange (CM) or over-the-counter derivatives, or the direct purchase of the underlying futures contracts.

The FTSE NAREIT All REIT –Total Return (price and income) index includes all 211 REITs currently trading on the New York Stock Exchange, the NASDAQ National Market System and the American Stock Exchange.

The T-Bill –3-Month Yield is an average reflecting the annualized monthly yield on all actively traded T-Bills maturing in 90 days quoted on a discounted basis in the secondary market. The 3-Month Treasury Bill is guaranteed by the U.S. Government as to payment of principal and interest, yet involves risk of principal loss if sold prior to maturity.

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Curious to learn more or discuss your situation?

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Next FBC Webinar: Monday, April 27
Beyond the CARES Act and PPP
Presented by Curt Rocca, DCA Partners