Smith Group
ASSET MANAGEMENT

MARKET PERSPECTIVES

APRIL 9, 2020

Equity Market Summary

U.S. Equity Markets	Feb 19-Apr 8	YTD
S&P 500	-18.5%	-14.4%
Russell 1000 Growth	-16.7%	-9.0%
Russell 1000 Value	-22.6%	-21.6%
Russell 2000	-29.4%	-28.3%
Russell 2000 Growth	-26.9%	-23.2%
Russell 2000 Value	-32.1%	-33.6%

Top/Bottom Sectors	Feb 19-Apr 8	YTD
Technology	-16.7%	-6.6%
Health Care	-9.0%	-7.0%
Cons. Staples	-10.0%	-7.7%
Industrials	-25.9%	-23.5%
Financials	-28.1%	-27.3%
Energy	-35.9%	-41.6%

Non-US Equity Markets (in USD)	Feb 19-Apr 8	YTD
MSCI AC World Ex U.S.	-22.1%	-22.6%
MSCI EAFE (Developed)	-21.7%	-22.4%
MSCI Emerging Markets	-20.8%	-21.6%
MSCI China	-10.9%	-8.9%
MSCI Japan	-12.2%	-15.7%
MSCI Italy	-31.3%	-28.9%

Non-US Regions (in USD)	Feb 19-Apr 8	YTD
Developed Americas	-25.8%	-23.3%
Developed Asia	-16.6%	-18.6%
Developed Europe	-23.6%	-23.4%
Emerging Americas	-39.9%	-42.6%
Emerging Asia	-16.6%	-16.4%
Emerging EMEA	-25.9%	-28.7%

What's changed since our last report (on Apr. 3, 2020):

- Coronavirus (CV-19) continues to spread but there are some positive signs that the growth in cases and deaths is beginning to moderate. International borders remain closed and much of the Northern Hemisphere continues in some form of government mandated or self-imposed quarantine. Financial markets are showing signs of stabilization as monetary and fiscal stimulus packages are rolled out around the globe. The CARES Act (H.R. 748) was signed into law authorizing more than $2 trillion in stimulus and stopgap funding for the U.S. economy.

Where are we now:

- CV-19: more than 1.5 million cases and 90,000 deaths worldwide. Reported cases in most all United Nations recognized countries. The U.S. has three times the number of cases of Spain (the next closest country), but the U.S. ranks outside the top 15 countries in number of cases per million citizens. Death rates in Spain and Italy are nearly seven times as high as the U.S. China continues to report relatively lows numbers of new cases but they also took a step to re-close most movie theaters across the country, indicating the virus may be less contained than indicated.

Economy:

- The global economy entered recession in late February or early March and remains in freefall as entire continents have come to an economic standstill.
- Jobless claims have risen by 16.5 million over the past three weeks, implying a current jobless rate of 14.5%. Consensus is moving toward an eventual total of 50 million unemployed by June/July with a move back down to 15-20 million unemployed by year end. But these figures are highly speculative as long as there's no clear path to re-opening the economy.
- The Paycheck Protection Plan loan funding to small businesses, authorized under the CARES Act, is off to rocky operational start yet more than 200,000 loans totaling more than $50 billion have been funded in just the first week. An additional loan pool funding authorization of $250 billion, bringing total funds authorized to $600 billion, appears a near certainty.

Financial Markets:

- U.S. equity markets have rallied significantly, rising 24% from the lows of Mar. 23. The S&P 500 is now 20% below the intra-day highs of Feb. 19, and at the same level it was in early Feb. 2019. The rally has been led by a greater than 35% rise in Energy stocks.
- The Fed's balance sheet is now over $6 trillion, an increase of more than 50% in the last month, and money supply is rapidly climbing, annualizing at close to a 25% growth rate.
- Despite the historic down-market protection appeal of dividend paying stocks, dividend payers are actually underperforming thus far in 2020. The Lipper Equity Income ETF category is trailing the S&P 500 by more than 5% year-to-date. The combination of high dividend and low volatility characteristics has performed even worse as the S&P 500 High Dividend Low Volatility Index is down 27.5% year-to-date, trailing the S&P 500 by 12.6%.

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For additional information on **Smith Group** and our investment strategies and capabilities, please visit www.smithasset.com. The website contains information you may find useful regarding Smith Group including research articles, our economic and financial market outlook and detailed information on our team and investment capabilities.

Earnings:

- Earnings reporting season begins in earnest in two weeks. Earnings expectations are slowly beginning to reflect the recessionary environment but there is much more work to be done. Bottom-up estimates reflect a 4.4% drop in 2020 earnings versus 2019. To date companies have been withdrawing guidance for 2020 but providing little guidance on the level of business activity they are planning for over the coming months.
- Dividend cuts and buyback program suspensions are starting to roll out. To date we count 10% of S&P500 companies have suspended buyback programs and 5% of dividend-payers have cut dividends. Each of those figures are likely to rise meaningfully over the course of the earnings reporting season. Traditionally, companies that cut dividends pay a heavy price from the markets in terms of stock performance; however, given the nature of the current crisis, this time could prove to be different. For example, Boeing has risen 50% since suspending its dividend on Mar. 20.

Summary:

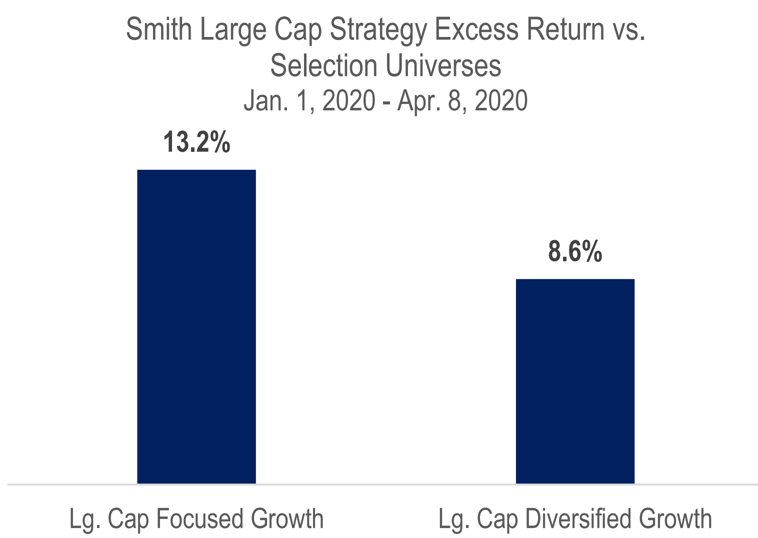
There is no debate about whether or not we have entered a global recession, just the depth and length are in question. The monetary and fiscal response around the world has been nothing short of staggering both in size and speed of response. Central bank balance sheets are exploding and lending rates across the developed world are all effectively zero or below. Fiscal relief packages are dwarfing those during the great recession. Government bond issues are flooding the market but central banks are buying them with expanded balance sheets to keep rates low. There is no doubt about the need for the speed and scope of government pump priming, but this episode may have a lasting effect on how government participation in the economy is viewed. The primary beneficiaries of the first round of U.S. fiscal stimulus are households, small businesses, health care/hospitals, and airlines. The next round of stimulus is likely to be much smaller but targeted toward small businesses, states and municipalities, and hospitals. Like the CARES Act the next round will be more of a "bridge across the divide" than demand based stimulus. A larger infrastructure or consumption stimulus bill will take some significant work to find bipartisan common ground. We expect the industry groups and companies receiving the lion's share of stimulus benefits will lead in the early stages of any market recovery but many of those industries are suffering long-term structural damage and near-term price jumps should not be confused with long-term earnings recoveries.

How is Smith Group's investment process performing?

All things being equal a well executed portfolio of high quality companies at reasonable valuations should provide some protection in a bear market. Of course, each bear is unique and a close eye needs to be kept of market factors. To date in this downturn the Smith Group's investment process has been successful in providing that cushion across most client portfolios managed by the firm. For example, within U.S. large caps Smith Group manages two strategies, Large Cap Focused Growth Equity and Large Cap Diversified Growth Equity, and each has been successful in outperforming their respective benchmarks since the downturn began on Feb. 19. Additionally, each strategy ranked in the top 20% of its peer group for the month of March[1]. Several facets of Smith Group's investment process have proven effective since the downturn began which has led to strong selection across a majority of economic sectors, but most specifically in Information Technology and Health Care.

For an active manager to beat their benchmark they must be able to pick the best stocks and position those stocks into an effective diversified portfolio. One of the challenging features of this market downturn is the significant underperformance of the average stock in the large cap indices relative to the performance of the market capitalization weighted indices. When the average stock is underperforming meaningfully active managers have a taller hill to climb to outperform the market cap weighted indices. Since Feb. 19, the average stock in the S&P 500 has trailed the index by 5.3%, that figure increases to 7.5% for the year-to-date period. Smith Group's investment process has been successful at identifying the best stocks since the downturn began and year-to-date within our large cap strategies. Specifically, the U.S. Large Cap Focused Growth strategy has outpaced the average stock in its selection universe (the Russell 1000 Equal-Weighted Index) by 13.2% and the Large Cap Diversified Growth strategy has outpaced average stock in its selection universe (the Russell 1000 Growth Equal-Weighted Index) by 8.6%.

Smith Group continues to invest in businesses with high quality earnings streams that we believe are well positioned to exceed growth expectations over the long-term and we believe a market environment where companies with the highest quality cash flows and earnings are the most sought after will continue to reward our client portfolios.



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Performance and Indices: All performance returns include the impact of cash, cash equivalents, dividends and interest. The S&P 500, Russell 1000, Russell 1000 Growth and Russell 1000 Value, are unmanaged indices of the shares of large U.S. corporations. The Russell 2000, Russell 2000 Growth and Russell 2000 Value, are unmanaged indices of the shares of small U.S. corporations. The MSCI Europe Australia Far East (EAFE), MSCI Emerging Markets (EM) and MSCI All-Country World ex. U.S. (ACWI ex. U.S.) are a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. All index performance includes capital appreciation and reinvested dividends and is presented gross of fees.

Large Cap Focused Growth Strategy (fka Large Cap Core/Growth) – It is comprised of accounts whose primary objective is growth of principal by investing primarily in stock of large capitalization U.S. companies. Inclusion in this composite requires that accounts are not missing in excess of 5% of the firm's recommended portfolio. A portfolio manager will review for appropriateness of inclusion in the composite any account maintaining a cash position greater than 10%. The most common benchmarks utilized for these accounts are the S&P500 Index and the Russell 1000 Growth Index. The start date for the composite is Jan. 1, 1996. The creation date for this composite is Jan. 1, 2004. At this time, the composite containing accounts that directed trading was closed, and those accounts were added to the composite containing accounts in which Smith Group has discretionary trading authority, creating a composite of all accounts invested in this particular strategy. Accounts are added to the composite at the beginning of the first calendar quarter after full investment of the account. Accounts are removed from the composite at the month end prior to change in account status. Smith Group performance is the total return including cash and cash equivalents, gross of fees, of an asset-weighted composite of all discretionary portfolios. Performance is expressed in U.S. dollars. **Large Cap Diversified Growth Composite** (fka Disciplined Alpha—R1000 Growth)**:** It is comprised of accounts whose primary objective is growth of principal by investing primarily in stock of large capitalization U.S. companies. Inclusion in this composite requires that accounts are in general not missing in excess of 5% of the firm's recommended portfolio. A portfolio manager will review for appropriateness of inclusion in the composite any account maintaining a cash position greater than 10% or missing in excess of 5% of the firm's recommended portfolio. The primary benchmark for these accounts should be the Russell 1000 Growth Index. The start date for the composite is Feb. 26, 2008. The creation date for the composite is Apr. 1, 2008. Smith Group performance is the total return including cash and cash equivalents, gross of fees, of an asset-weighted composite of all discretionary portfolios. Performance is expressed in U.S. dollars. **Net of fee performance** shown reflects the deduction of the maximum applicable fixed rate fee level, 0.60% for Large Cap Focused Growth Strategy and 0.50% for Large Cap Diversified Growth Strategy, of managed assets per year. **Earnings Surprise:** According to many academic studies, earnings surprise has had a positive relationship to relative performance in most time periods and for most companies. However, this does not mean that this relationship exists for all time periods and for all companies. In the recent past, periods coinciding with an inverse relationship between earnings surprise and relative performance have typically been periods in which corporate earnings are not the focus of investors' attention. Additionally, companies which have had a chronic negative relationship between earnings surprise and relative performance are typically those companies whose earnings are not product-driven, such as commodity companies. There is no assurance that the historic positive relationship between earnings surprise and relative performance will exist in the future. Nor is there any assurance that the historic ability of Smith Group to forecast a high rate of positive earnings surprise companies will exist in the future. **Holdings, Economic Sectors and Characteristics:** It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities and economic sectors shown. A list of recommendations made within the last twelve months is available upon request. The information shown is not intended nor should it be construed to be a recommendation to buy or sell an individual security or economic sector. Any portfolio characteristics or holdings that are shown are intended to present the portfolio as it existed on the date of the report. You should not assume that these same characteristics or holdings will exist in the future. [1]Peer Group Comparisons: Based on peer group rankings of the indicated strategies relative to the Morningstar U.S. Large Cap Growth universe. Morningstar Associates, all rights reserved.

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