Market & Economic Outlook 2020 – April Update: It's a COVID-19 Market

Major Indices	1Q20 (12/31/2019 - 3/31/2020) Value	Price Return	Total Return	2020 YTD (12/31/2019 - 4/9/2020) Value	Price Return	Total Return
S&P 500	2,584.59	-20.0%	-19.6%	2,789.82	-13.6%	-13.2%
Dow Jones Industrial Average	21,917.16	-23.2%	-22.7%	23,719.37	-16.9%	-16.3%
NASDAQ Composite	7,700.10	-14.2%	-14.0%	8,153.57	-9.1%	-8.9%
Russell 2000	1,153.10	-30.9%	-30.6%	1,246.73	-25.3%	-25.0%
MSCI EAFE (USD)	1,559.59	-21.2%	-20.4%	1,606.93	-18.8%	-18.1%
MSCI Emerging Markets (USD)	848.58	-19.3%	-19.0%	887.58	-16.0%	-15.6%
Bloomberg Commodity Index	61.86	-23.5%	-23.3%	63.48	-21.5%	-21.3%
Barclays U.S. Aggregate Bond	108.20	2.5%	3.1%	109.12	3.3%	4.0%

Data Source: FactSet

Outlook Summary:

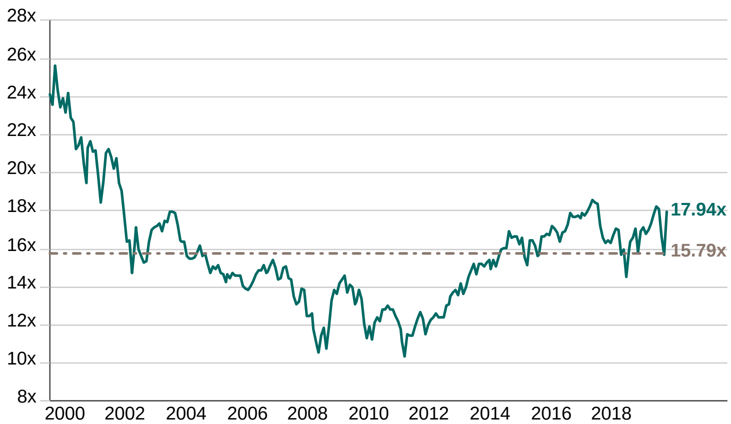
The S&P 500 index dropped 19.6%, including dividends, in the first quarter of 2020 as the global coronavirus (COVID-19) pandemic abruptly shut down world economies, creating significant market uncertainty and investor panic. The economic slowdown currently underway in the U.S. is unprecedented in terms of both the magnitude and suddenness of the decline. We believe the U.S. is in a recession, but expect the downturn to end sometime in the second half of the year, likely paving the way for both GDP and earnings growth to resume at healthy levels in 2021. The market decline has been much deeper than we expected, as we did not anticipate that a massive shutdown of the economy would be necessary to slow the spread of COVID-19. The world has changed since we published our 2020 Market Outlook, "It's a Tom Brady Market," in December. Early 2020 fundamentals such as healthy consumer balance sheets, trade deals, and an expected rebound in business investment, appear secondary today as COVID-19 related deaths mount, and U.S. joblessness exceeds 20 million people. Even Mr. Brady has moved to a different team. **We believe that U.S. GDP growth will be negative in 2020, but growth can resume by the third quarter. While it will be difficult for the S&P 500 index to return to its February high in 2020, we believe the index can end the year above levels on March 31. Our fair value estimate is 3,000, which is 16% above the price on 3/31/20.**

COVID-19 rattled equity markets in 1Q20; not only did the 11-year bull market come to an end, but the S&P 500 index dropped into a bear market (a decline of more than 20%). Equities rallied to begin 2020, and the S&P 500 set 16 new all-time closing highs before peaking on 2/19/20, up 4.8% for the year-to-date (YTD). By then, as outbreaks of COVID-19 were slowing in China, the virus had spread to South Korea and Europe, and investor optimism faded quickly on fears a global pandemic would negatively impact global GDP, including in the U.S. The first U.S. COVID-19 death occurred on 2/28/20; the Trump Administration declared a National Emergency on 3/13/20, and cities in Washington and California would soon declare shelter-in-place advisories. It took just three weeks for the S&P 500 to officially enter bear market territory when, on 3/12/20, the index closed down 26.7% from the February high. By late March, more than 80% of the U.S population was subject to stay at home restrictions, including a dramatic temporary shutdown of non-essential businesses. Less than two weeks later, on 3/23/20, the S&P 500 closed at 2,237, down 33.9% from the high. Following unprecedented levels of U.S. Federal Reserve Bank (Fed) intervention to provide liquidity to fixed income and derivatives markets, and Congress' passage of a $2.2 trillion (T) economic relief package, the S&P 500 rallied 16% from the lows to close the first quarter down 20.0% on a price return basis (excluding dividends). Equities continued to rally in early April and, on 4/9/20, the S&P 500 had increased 24.7% from the 3/23/20 low and was down 13.6% YTD.

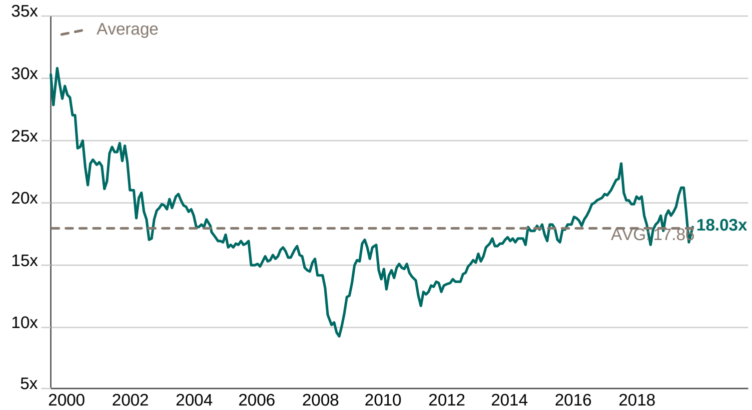
Data Source: FactSet as of 4/9/20. S&P 500 Price Changes 12/31/19 to 4/9/20

Our S&P 500 fair value estimate of 3,000 represents a P/E of 19.4x the current next 12-month (NTM) FactSet consensus EPS estimate of $154. As of 4/13/20, the index traded at 17.9x that estimate, which is above the average S&P 500 P/E of 15.7x (in a range of 10x to 27x) since 2000. Earnings estimates are highly uncertain in the current environment, as 2Q20 and 3Q20 earnings will likely decline dramatically and abruptly due to the government-imposed shutdown. When looking at trailing earnings, the S&P 500 trades at 17.1x 2019 operating earnings of $163, and 18.1x after adjusting for 1Q20. We believe that investors should look beyond expected weak earnings through 3Q20 as earnings growth can improve quickly as businesses begin to reopen and social distancing restrictions are relaxed. While it could take several quarters to get back to early 2020 consumer and business activity levels, we expect substantial improvement in the second half of 2020 as government agencies and business adopt protocols to keep people safe. This includes increased COVID-19 testing to determine both new cases and those previously infected, recommendations to quarantine those exposed through the use of improved contact tracing, and revised social distancing guidelines. All of this, along with progress on drug treatments, can drive a strong fourth quarter this year, with substantial earnings growth (from 2020 levels) possible in 2021. Assuming 2021 S&P 500 earnings grow to $171, up 5% from 2019; our 3,000 fair value is 17.5x that estimate.

S&P 500 Forward P/E Ratio (next twelve months)



S&P 500 Trailing P/E Ratio (trailing twelve months)

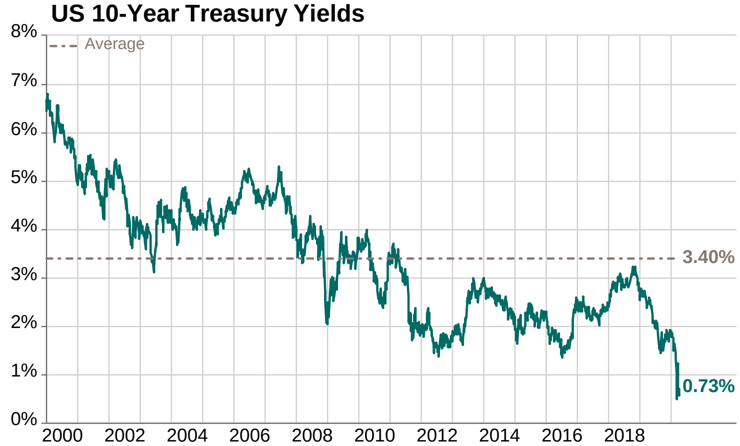


Data source: FactSet as of 4/9/20

The Federal Reserve Bank (Fed) took decisive accommodative action to address the crisis. As the COVID-19 outbreak began to spread in the U.S., the Fed's Open Market Committee (FOMC) moved to lower interest rates and provide market liquidity as soon as severe economic disruption became likely. The FOMC concluded its scheduled January meeting with no changes to its interest rate policy, as the committee saw strength in household spending and weakness in business investment and exports. However, as the crisis unfolded, the Fed held an unscheduled meeting on 3/3/20 and announced a 50 basis point (bp) reduction to its overnight fed funds interest rate target to a range of 1.00% to 1.25%. Just 12 days later, the committee held another unscheduled meeting to announce an additional 100bp fed funds cut, taking its rate effectively to zero (a range of 0.00% to 0.25%). In addition, the Fed announced that it was prepared to "use its full range of tools to support the flow of credit," which included an open-ended increase in quantitative easing that would start with $700 billion (B) available for Treasury and mortgage securities purchases, and ultimately expanded to include liquidity support for money market funds, corporate bonds, municipal bonds, and potentially equity ETFs. By 4/9/20, the Fed committed an additional $2.3T in loan availability for small businesses and their employees, and municipalities. While the Fed moves will not drive economic growth in the near-term, as the U.S. economy is largely shut down, their intervention will provide substantial liquidity to help stabilize markets as traders and investors access capital, and market volatility causes forced liquidations. The Fed's balance sheet will expand dramatically over the next several weeks, from a level of approximately $4.0T in early February to more than $7.0T during the second quarter.

In late February, as equity markets were plunging, investors flocked to U.S Treasury securities, driving prices higher and interest rates lower across the yield curve. The bellwether 10-year Treasury yield dropped to a record low 0.50% on 3/9/20 from 1.92% at the end of 2019. Similarly, the 2-year Treasury yield dropped to 0.19% from 1.57% at year-end. Yields rebounded modestly from those record lows following the Fed's announced intervention, but remain well below long-term averages. We expect low interest rates to remain in place over the balance of 2020, as the pace of the economic recovery will be uncertain and markets will consider a new round of COVID-19 infections, at least until a vaccine is approved. Interest rates are likely to move lower, in our view, if the economic recovery is pushed out to later in the year, but can move higher if GDP growth turns positive by 3Q20 and 4Q20, driving 2021 optimism. Even in that scenario, we expect both 2-year and 10-year Treasury yields to remain well below historical averages. This would support higher equity valuations, in our opinion.

US 10-Year Treasury Yields

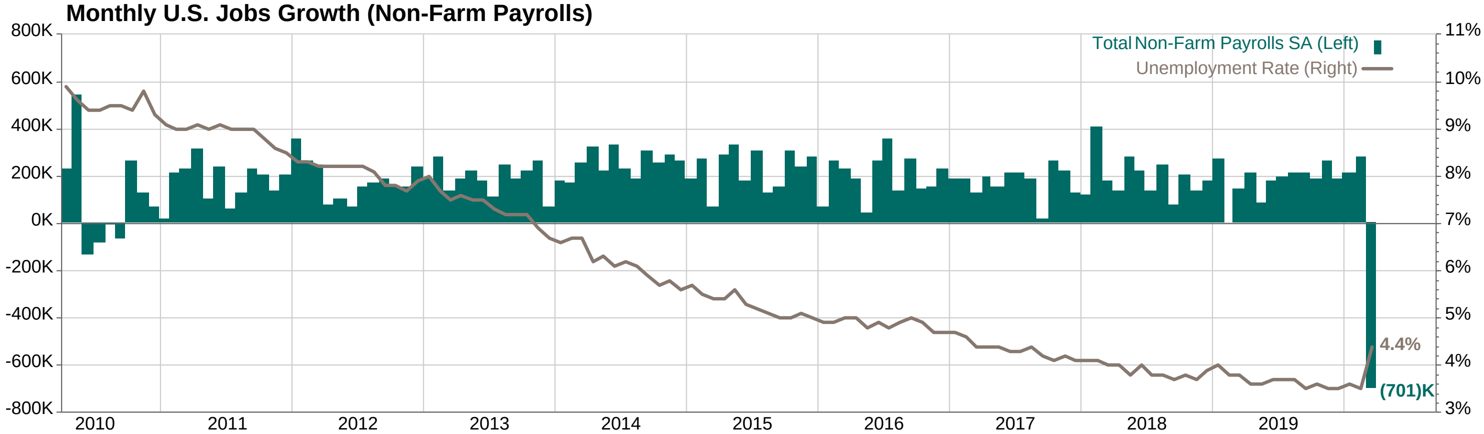


U.S. 2-Year Treasury Yields

Data source: FactSet as of 4/9/20

GDP growth is expected to deteriorate rapidly in 2Q20, with a downturn that began in March, impacting the first quarter as well. It is difficult to predict how bad the near-term economic numbers will be, as we have not seen a time when a large segment of the consumer economy is turned off immediately. Estimates for 2020 GDP have dropped substantially over the past few weeks, and the range of estimates within each quarter remains extremely wide. As of 4/13/20, the FactSet consensus estimate for 2020 GDP growth is -2.5%, including -2.1% in 1Q20, -23.9% in 2Q20, +7.8% 3Q20, and +4.9% in 4Q20. We expect substantial near-term weakness in multiple segments of the $21.7T U.S. economy. This includes Food Service and Accommodations, which comprised 4.8% of 2019 GDP, and is among the hardest hit by the COVID-19 shut down. We have identified eight other segments that we believe are severely impacted by restricted consumer activity, and/or reduced transportation and business investment. The nine sectors (including food service) contributed 19.9% to 2019 GDP. Assuming that those sectors decline by 50%, other non-government sectors (62% of GDP) are down 20%, and government expenditures (18% of GDP) are flat, 2Q20 GDP would decline 22% (before adjustments for inventories and net exports). This decline would reflect a record drop in quarterly GDP in the U.S., as the worst quarterly GDP during the Global Financial Crisis was -3.9% in 2Q 2009, and even the Great Depression maxed out at -12.9% in 4Q 1932. **We believe it is important to note that we do not view the worst case as the base case, and we see upside potential to the 2Q estimate if economic activity begins to ramp up in June.** This would lay the groundwork for GDP growth in 3Q20 and 4Q20. While it is possible that economic activity remains severely restricted beyond the second quarter, which could happen if the COVID-19 spread returns once businesses reopen, we are hopeful that protocols will be enacted to improve the odds of success.

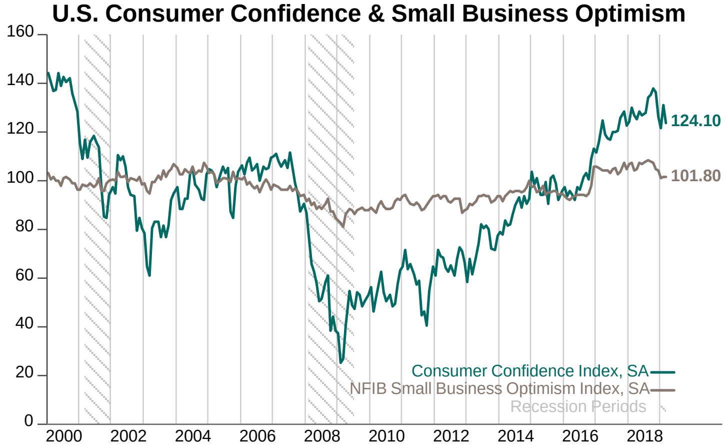
Monthly U.S. Jobs Growth (Non-Farm Payrolls)



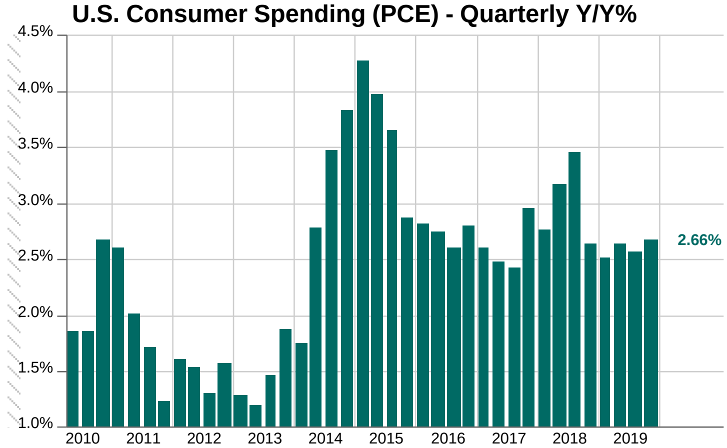
Data source: FactSet as of 3/31/20

The reported unemployment rate in March spiked to 4.4% from 3.5% in February as nonfarm payrolls decreased by 701 thousand. However, monthly jobs surveys are backward looking and completed prior to the end of the month, whereas most of the city and state shelter-in-place guidelines were implemented near the end of March. More immediate data is found in the Labor Department's weekly new jobless claims report, which, over the past three weeks, showed a total of 16.8M new lost jobs. This indicates to us that at least 23 million (M) Americans could be unemployed, suggesting an unemployment rate above 14%. We look for additional job losses over the next few weeks and believe that the unemployment rate could approach 20% by the end of April. Leading into the COVID-19 crisis, both consumer confidence and business optimism surveys had retreated modestly from peak levels, but remained in a healthy zone. Consumer spending was relatively consistent over five consecutive quarters, and had inched higher in 4Q19. These numbers are expected to decline dramatically over the next few months, but also suggest to us that confidence and spending can recover as COVID-19 fades and economic activity resumes. The Federal government fiscal relief package passed in March should help individuals and small businesses stay afloat until the economy is reopened. While jobs growth and business activity may be slower to resume in some industries (such as hotels, travel, and festivals) than others, pent-up demand will be strong and could drive upside in other segments.

U.S. Consumer Confidence & Small Business Optimism



U.S. Consumer Spending (PCE) - Quarterly Y/Y%

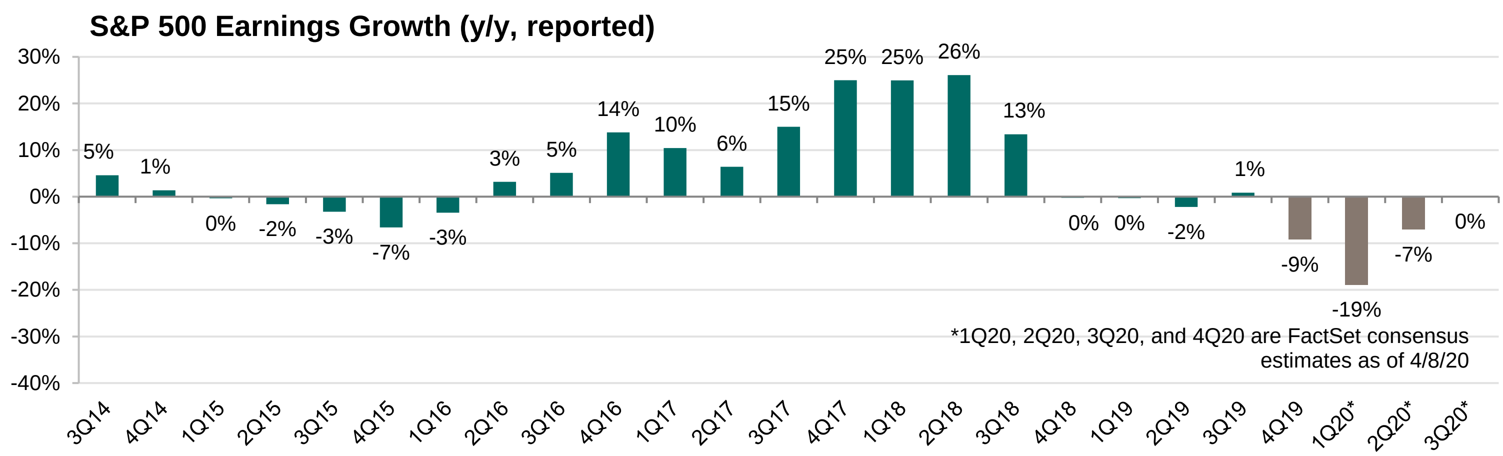


Data source: FactSet as of 3/31/20

Congress passed the $2.2T Coronavirus Aid, Relief, and Economic Security (CARES) Act on 3/27/20. This was a massive package representing 10% of U.S. GDP, and followed other large government support packages from several countries impacted by COVID-19. The Eurozone announced fiscal programs totaling 6.5% of GDP, Canada 5.0%, Australia 4.7% and Germany 4.4%. The $2.2T CARES Act was passed to cushion the impact of economic damage caused by government-imposed shutdowns enacted to slow the spread of the virus. While the relief package will not stop the severe economic contraction that is currently underway, it should provide a bridge of relief for 60 days or more for individuals, small businesses, and large companies. Individuals will receive payments up to $1,200 per adult (for annual income below $99,000) and $500 per dependent child, unemployment benefits are raised and extended, small businesses can access forgivable loans, and companies in distressed industries such as airlines and hotels have access to loan guarantees and direct payments. The bill also provides funds for hospitals, veterans, and aid to states. The CARES Act is the third coronavirus stimulus package following part 1 that provided $8B for vaccine development and COVID-19 testing, and part 2, which included an estimated $100B to provide paid family leave for COVID-19 victims and free virus testing. A fourth relief package is in the early stages of debate and appears to have bipartisan support for additional relief to protect jobs and small businesses. We would not be surprised to see this bill introduced in late April, with a price tag of at least $1.0T. These relief packages will add to government spending in 2020 and 2021 and will increase the budget deficit; however, they are necessary in our view, given the deep economic erosion from the shutdown, and the need to provide assistance to millions of people who have lost jobs.

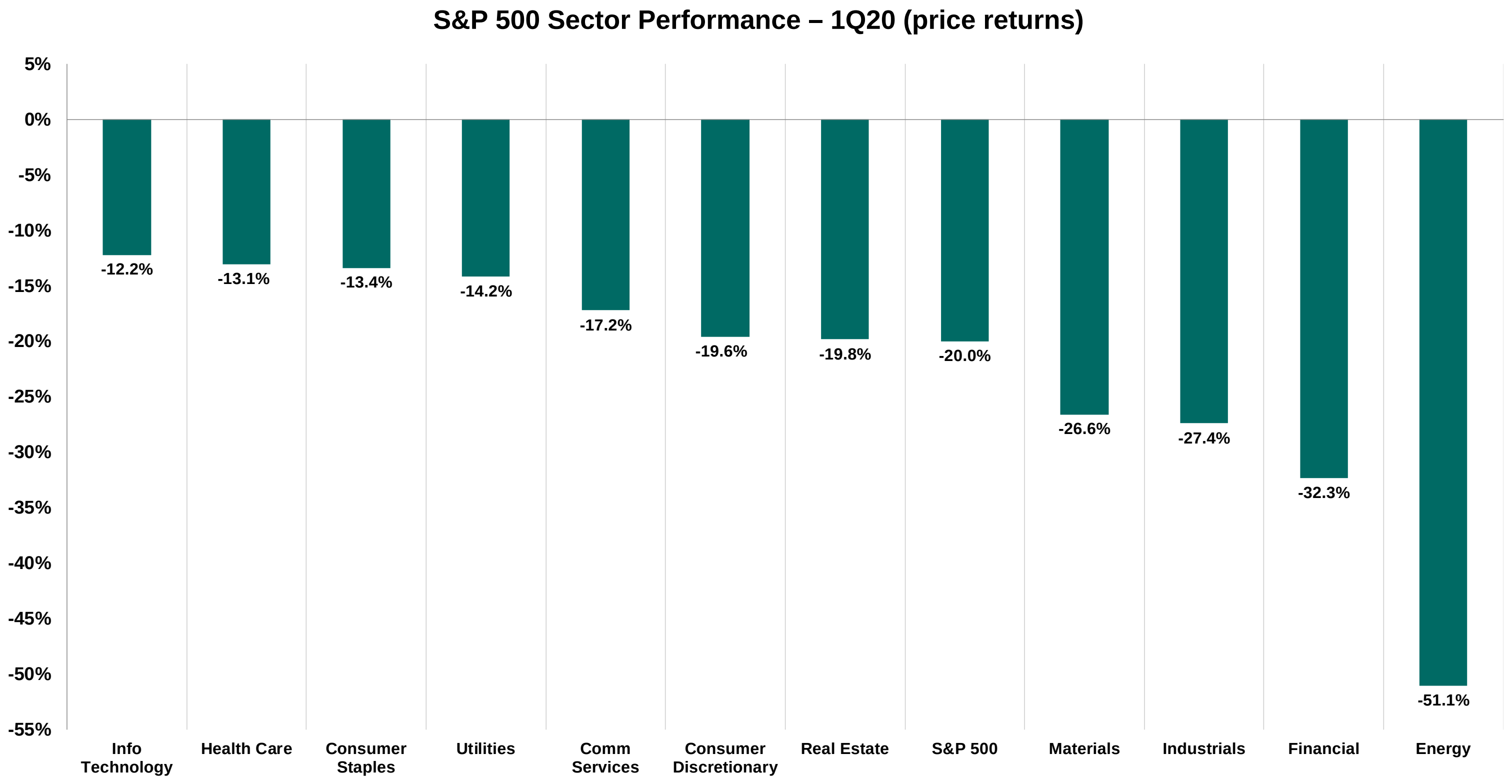
S&P 500 earnings estimates have declined in recent weeks and, as of mid-April, 2020 earnings are expected to decline 9%. Given the potential for economic growth to resume in the second half of 2020, however, we believe that 2021 earnings can grow substantially from depressed levels in 2020, and exceed 2019 results. Just six weeks ago, 2020 earnings were estimated to grow 7%, which was reasonable given easier comparisons from flat earnings for all of 2019, and early 2020 economic data that was ahead of estimates; but COVID-19 has caused material headwinds not only in the U.S. but around the globe as well. FactSet consensus now reflects year-over-year earnings declines for the next three quarters, and improvement to zero growth in 4Q20. We believe there is upside to the 4Q consensus estimate, but before we arrive at the fourth quarter, companies must navigate an extremely challenging environment. Several industries face severe hardship due to a lack of revenue and cash flow; many retailers and restaurant owners can't pay rent, building owners can't pay mortgages, and manufacturers could struggle to pay suppliers. The hardships will ripple through the value chain and multiple industries and their employees will need to access some form of government support. The Federal Reserve and CARES Act are in place to help companies avoid bankruptcy, but as the economy begins to reopen, weaker companies could continue to struggle.

We recommend that investors prioritize high quality companies in their equity portfolios, especially as economic and earnings uncertainty remains high. High quality companies often enhance their competitive positions during periods of economic weakness, as they are able to sustain investment in research and development and have access to cash flow and capital to make strategic investments. Important indicators of high quality, in our view, are market leadership (strong product positions), quality management, resilient profitability (generating income and cash flow), and strong balance sheets.



Data source: FactSet, D.A. Davidson & Co., as of 4/8/20

All 11 S&P 500 sectors declined in 1Q20 but, as the bear market took hold in late February, Technology and traditionally defensive sectors (Health Care, Consumer Staples, and Utilities) outperformed on a relative basis. It is typical for defensive groups to outperform during a recession as companies in these sectors are less exposed to economic weakness. Technology, despite a high relative valuation, was the top relative (i.e. the least bad) sector performer in 1Q20. Many leading technology companies are likely to recover more quickly as economic recovery resumes due demand for productivity-enhancing software, ongoing growth in cloud-based services, and a surge in investment to support remote connectivity. We expect defensive groups and Technology to continue to perform better on a relative basis while COVID-19 and economic uncertainty remain high, but we caution against becoming overly defensive. This is because we believe that market sentiment will improve significantly once the COVID-19 spread is contained and shelter-in-place guidelines are relaxed. At that point, we expect cyclical sectors to lead the recovery. This includes Technology, Industrials, Financials and Materials. In our view, this supports building investment portfolios of high quality companies that are diversified across sectors.



Data source: FactSet as of 3/31/20

Our S&P sector recommendations are updated below.

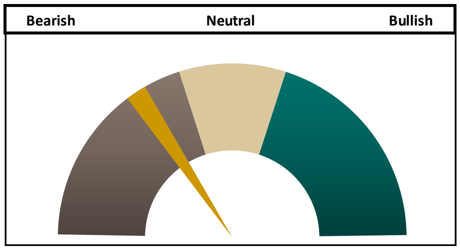
S&P 500 Sector Recommendations - April 2020

GICS Sector	S&P 500 Weight by Market Cap	WM Research 2020 Outlook	Notes	Change
Technology	25.0%	marketweight	well positioned in post-COVID-19 world, rich valuations	
Health Care	15.3%	overweight	on the front lines of COVID-19 battle, valuations attractive	was marketweight
Financials	11.4%	overweight	balance sheets are healthy, will particpate when economy reopens	
Communications Services	10.5%	marketweight	look to market leaders, ad spending to be challenged	
Consumer Discretionary	9.8%	marketweight	direct hit from COViD-19, look beyond retailers	
Industrials	8.1%	overweight	attractive valuations, global exposure a positive as countries reopen	
Consumer Staples	7.7%	marketweight	defensive groups will likely outperform as uncertainty remains	was underweight
Utilities	3.6%	underweight	strong defensive and domestic appeal, but sector is expensive	
Real Estate (REITs)	3.2%	underweight	vulnerable to dividend cuts, watch exposure to hotels and retail	was marketweight
Energy	2.8%	marketweight	rough period due to reduced demand / low oil prices, stick with leaders	
Materials	2.6%	marketweight	some deflationary pressures, stick with specialty products	

Data source: D.A. Davidson Wealth Management Research 4/14/20

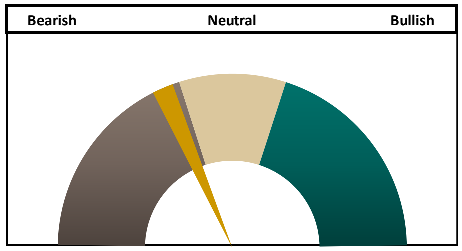
Wealth Management Research Investment Cycle Gauge

Economic Indicator



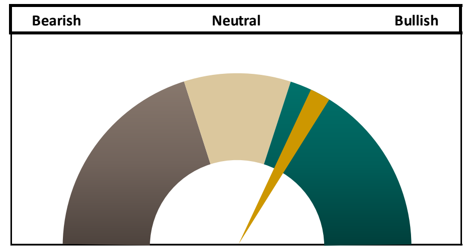
Changes from prior Indicator:
COVID-19 drives U.S. recession, expected short duration

Earnings Indicator



Changes from prior Indicator:
COVID-19 driven earnings decline, visibility limited near-term

Equity Market Indicator (2020)



Changes from prior Indicator:
higher, expect solid gains from 3/31/20

Source data: D.A. Davidson & Co., as of 4/13/20

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publically traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

Other Disclosures:

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on “forward” consensus estimates expected over the next 12 months (NTM).

The yield of the 10-year U.S. Treasury bond is a widely followed barometer of the current U.S. interest rate environment.

S&P 500 earnings growth reflect the year over year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

Non-residential fixed investment is an indicator of U.S. corporate capital expenditures (capex), measured by the amount spent on structures, equipment, and software. Seasonally adjusted annual rate (SAAR) is used to normalize data by adjusting for seasonal changes in business and economic data for a more accurate comparison between different time periods

The ISM Purchasing Managers' Index (PMI) is an indicator of the outlook for the manufacturing (PMI – Manufacturing) and services (PMI – Services) sectors of the economy. The index is based on a wide survey of company executives in these sectors. A reading above 50 indicates expectation for expansion compared to the previous month; a reading below 50 suggests contraction. Seasonally adjusted (SA) is used to normalize data by adjusting for seasonal changes in business and economic data for a more accurate comparison between different time periods. United States and Euro Zone data is provided by IHS Markit, Japan data is provided by Nikkei, United Kingdom data is provided by the Chartered Institute of Procurement & Supply, and China data is provided by Caixin.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time (“term”) to maturity.

The yields of the 10-year and 3-Month U.S. Treasury bonds are widely followed barometers of the current U.S. interest rate environment. The spread is the difference in interest rates between the two securities.

U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending.

Country GDP estimates are aggregated and redistributed by FactSet. This does not constitute investment advice or recommendations of any kind. Estimates data is provided for information purposes only. IMF-Global GDP estimate is the International Monetary Fund’s World Economic Outlook last published on 10/2/19.