SHAW Investment Management of RAYMOND JAMES®

Quarterly Update – March 2019

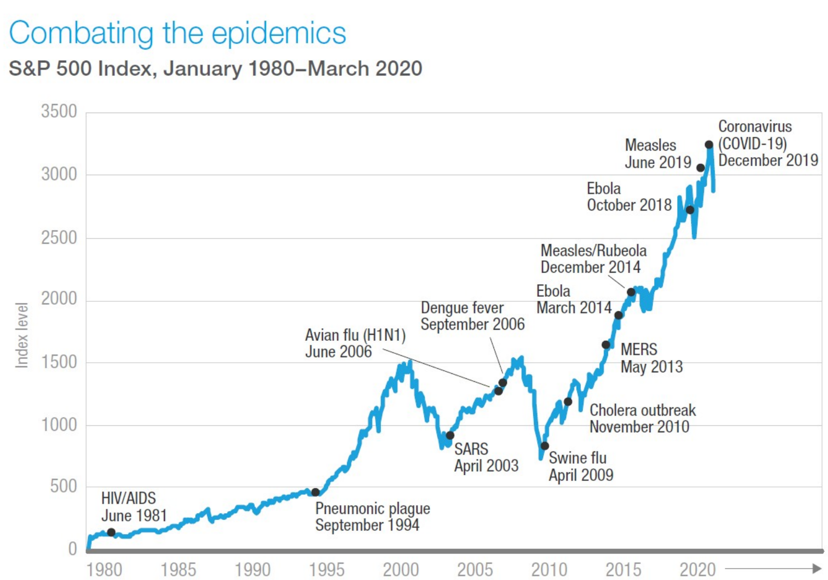
After experiencing one of the longest economic expansion in history, the economy is now turned upside down by the coronavirus (COVID-19). The extensive social distancing mandates have caused many business to temporarily close or significantly reduce operations. The impact of the virus is being felt globally by both citizens and companies. The equity markets have obviously reacted quickly to these developments. Here are the returns of the major asset classes in 2020:

Asset Class	Index	YTD	1yr	3yr*
US Large Cap Stocks	S&P 500	-19.60%	-6.98%	5.10%
Dow Jones Industrial Average	DJIA	-22.73%	-13.38%	4.41%
US Mid Cap Stocks	Russell Midcap	-27.07%	-18.31%	-0.81%
US Small Cap Stocks	Russell 2000	-30.61%	-23.99%	-4.64%
US Dividend Paying Stocks	DJ Select Dividend	-29.35%	-21.70%	-3.14%
International Developed Markets Stocks	EAFE	-22.83%	-14.38%	-1.82%
International Emerging Markets Stocks	EM	-23.60%	-17.69%	-1.62%
US Bonds	Bar Agg Bond	3.15%	8.93%	4.82%

*3yr return is annualized

[1]

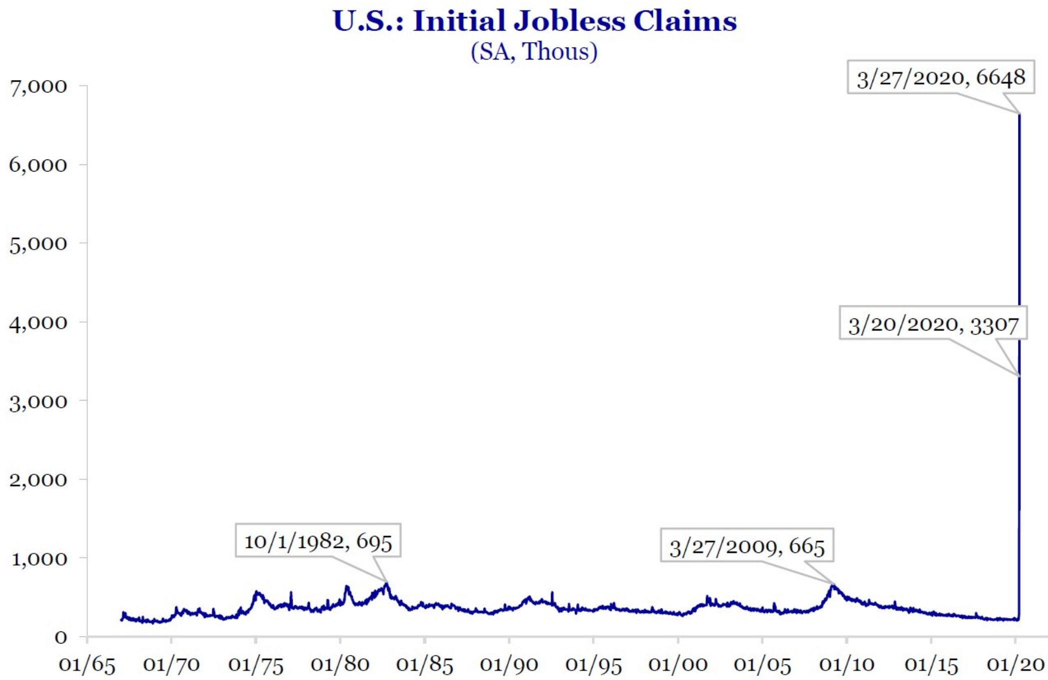
The daily news flow of the coronavirus spreading throughout our country is frustrating and watching the number of deaths caused by this virus is frightening. We have lived through many virus outbreaks and epidemics before, but this health crisis is like none we have witnessed in our lifetimes. As you can see on the graph, the financial markets have historically recovered quickly from these types of shocks. The US was not always directly impacted, but the global economy quickly recovered from SARS, H1N1, Swine Flu, MERS, and Ebola. Unfortunately, because of the speed and severity of this epidemic, governments around the world are taking drastic measures to slow the spread of the virus. The government mandated closure of schools, sporting events, large social gatherings, and partial shutdown of non-essential businesses have caused the economy to grind to a halt. The health impact and the economic impact of this outbreak is monumental.



[2]

[1] Source: Morningstar Advisor
[2] Source: Delaware Funds: Maintaining a Healthy Perspective p.1

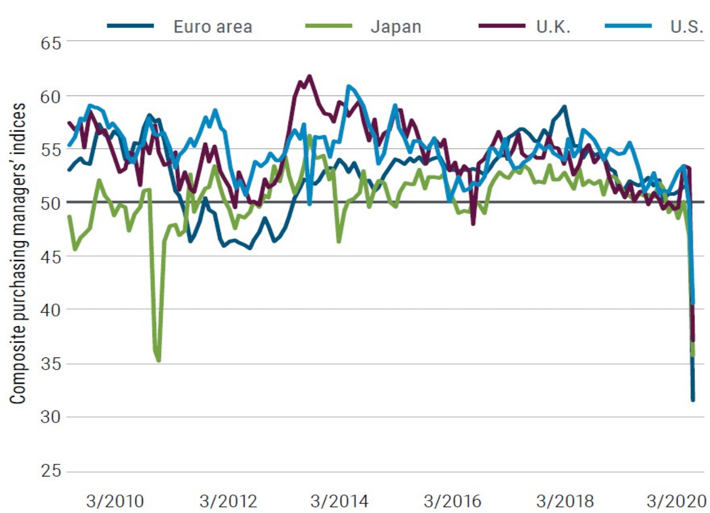
The policy response to the coronavirus has caused a significant jolt to the economy. Even if this crisis proves to be temporary, meaningful damage to the economy has already been done. Take a look at the new jobless claims in the last two weeks of March. Almost 10 million US workers filed for unemployment in two weeks. Dwarfing the previous highs set in 1982 and 2009.



[3]

The world has never experienced mass shutdowns combined with quarantines on this scale. The global PMI (Purchasing Manager's Index) shows the drastic reduction in manufacturing activity around the globe. We believe that a recession in the US is very likely to occur in the 2nd and 3rd quarter of 2020. The million dollar question is, "How long does it last?" The duration of the recession will be dictated by the growth trajectory of the virus. If the virus shows signs of slowing within the next six weeks, we believe the recession could be quite shallow. On the other hand, if virus containment problems continue, this could become a deeper and more prolonged recovery process. At the end of the day, the economic outlook is is unpredictable because the course of the virus is unpredictable.

Figure 1: Plunge in PMIs an early sign of growth shock ahead



Source: PIMCO, Haver Analytics as of March 2020. [4]

[3] Source: Strategas, "Quarterly Review in Charts" p.14
[4] Source: PIMCO Cyclical Outlook, "From Hurting to Healing" p.3

Given the enormous challenges in front of us, the Federal Reserve and US Congress are taking meaningful steps to fight the economic impact of the shutdown. Here are the steps the Congress has taken to combat the effects of the coronavirus.

CONGRESSIONAL RESPONSE TO COVID-19 TO DATE

Step 1: Emergency Response

Immediate support to combat COVID-19 spread and to support health care infrastructure. $8.3 billion to develop vaccines, therapeutics, diagnostics, and health system preparedness.

Step 2: Build Out The Safety Net

Refundable tax credit for two weeks of paid sick leave, refundable tax credit for 10 weeks of paid family medical leave, emergency grants for unemployment insurance, and nutrition assistance waivers.

Step 3: Stimulate The Economy

Direct aid for workers and boost in unemployment paychecks, direct aid for small businesses to maintain payroll, rent, and utilities, business tax relief, $450bn for company loans and loan guarantees, direct aid for airlines and other negatively impacted industries, $150 billion for hospitals, and $150 billion for state governments. 5

In addition to the $2 trillion relief package from Congress, the Federal Reserve has increased its balance sheet over $5 trillion to support financial markets, corporations, money market funds, mortgage back securities, and countless other areas. These are temporary support/relief efforts to "lessen the blow" of the economic impact of the virus and improve the odds of an economic recovery once the health crisis is over. Obviously the government does not have enough money to keep the economy going indefinitely, but they are implementing this relief plan to support the economy based on all the lessons learned from the Financial Crisis in 2008. We believe, at some point (relatively soon) there has to be a plan (to possibly test everyone for COVID-19) and allow the healthy and lower-risk citizens go back to work.

After reading this, you might be thinking, "IS THERE ANY GOOD NEWS?" The answer is yes. We believe this virus originated in China. Since they have been dealing with this months ahead of us, we are watching the health and economic trends in China. One of the most encouraging signs, is the bounce back in non-manufacturing activity in China in the last month. We don't have a high degree of confidence in the information from China, but the general trends can be informative.

[7] Source: Strategas, "Quarterly Review in Charts" p.34

The chart to the right shows the V-shaped recovery in economic activity in China. Much of it is government related stimulus, but it is a good sign nonetheless.

[6]

When we get to the point of "turning the corner" on the coronavirus (hopefully soon), there could be a quick relief rally in the market. Now is the time to look for great opportunities. Historically, a good place to look is high quality dividend paying stocks that we believe are temporarily undervalued. Approximately 82% of the S&P500 companies are paying a higher dividend yield than the 10year treasury bond. [7] Odds are some companies will have to cut their dividend this year, but many have the financial strength to maintain or even grow the dividend.

There is additional good news for those with a home mortgage. The drastic drop in interest rates have given home-owners another chance to reduce their debt payments by refinancing their home. Please speak to the appropriate professional if you would like to consider this option.

We want everyone to remember that markets are always forward looking. If it has already happened, it is typically factored into market prices. We know these are tough times, but this too shall pass. At some point we believe we will overcome the health and economic issues and proceed back to more prosperous times. Historically when the news is the worst and the outlook is bleak, it's the best time to invest in "risky" assets.

Regardless of the happenings in the market, we sincerely hope that everyone stays safe during these difficult times. Thank you for the trust you place in our team.

Lynn Shaw	Lynn Shaw II	Kevin Dallas
Managing Director	1st VP Investments	Sr. Investment Portfolio Analyst

[6] Source: Strategas, "Quarterly Review in Charts" p.15
[7] Source: Strategas, "Quarterly Review in Charts" p.11

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