

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades, creating a sense of height and architectural scale. The sky is a pale, overcast grey. The buildings are arranged in a way that they appear to converge towards the top center of the frame.

CFRA

The Three Rs: Retreat, Rally & Retest

U.S. Equity Outlook

APRIL 22, 2020

Topics of Discussion

– **Negatives**

- Elevated Confidence & Valuations
- Historical Misguidance
- Foundering Fundamentals → Plummeting Prices

– **Positives**

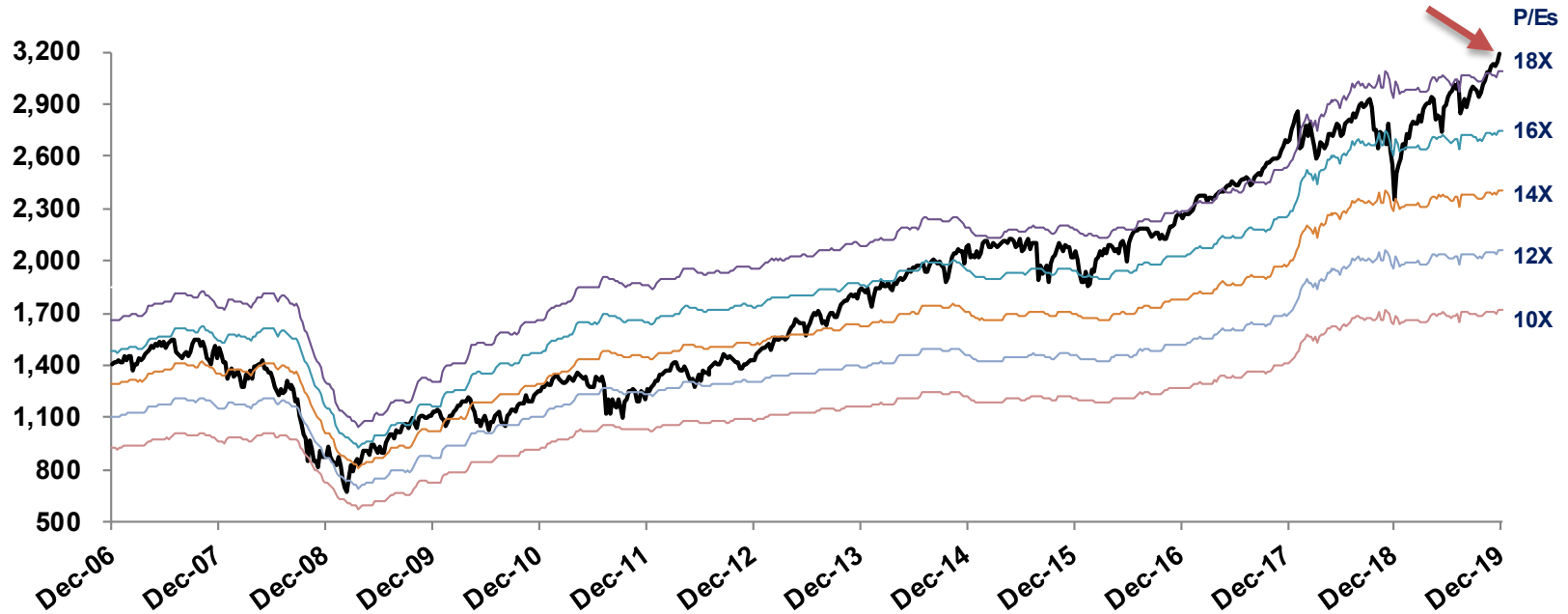
- Fiscal & Monetary Stimulus
- Dramatic Revaluations
- Focus on 2021 GDP & EPS Projections

– **Actions**

- Worst-to-First
- Anticipating a Retest Through Seasonal Rotation

Making Valuations Looked Vulnerable

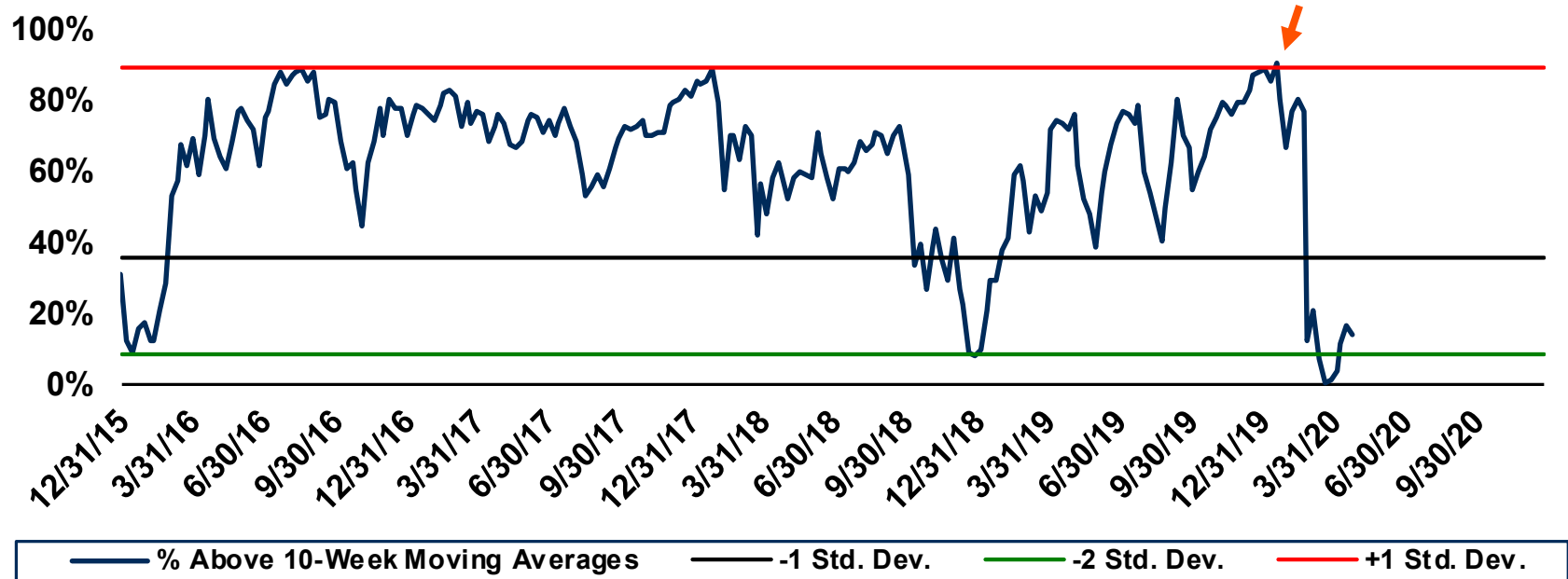
S&P 500 Price Level Surrounded by Next 12-Month (NTM) P/E Multiples



Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 1/31/20.

S&P 1500 Sub-Indus. vs. 200D Moving Average

Two Extremes in Two Weeks



Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 4/21/20.

HISTORY: Guide but Not Gospel

	1st U.S. Case	30 Days % Chg.	60 Days % Chg.	90 Days % Chg.
Virus				
SARS	3/12/2003	8.0	16.1	22.5
H1N1	3/25/2009	6.4	9.0	10.0
MERS	5/2/2014	2.3	4.9	2.6
Ebola	9/30/2014	1.1	4.8	6.0
ZIKA	2/2/2016	4.7	8.9	9.4
Covid-19	1/21/2020	1.6	(30.6)	(15.0)
Average		4.0	2.2	5.9

Source: CFRA, CDC, S&P Global. Past performance is no guarantee of future results.

EPS Declines & P/E Contractions During Recessions Since WWII

Economic Recessions				S&P 500			Corresponding Corrections/Bears				Months
Peak	Trough	Months	GDP %	EPS	Price	P/E Low	Peak	Trough	Months	% Chg.	Before
02/28/45	10/31/45	8	NA	0.0	16.4	14.2	07/10/44	09/14/44	2.2	(6.9)	7.7
11/30/48	10/31/49	10	(1.5)	1.3	8.7	5.9	06/15/48	06/13/49	11.9	(20.6)	5.5
07/31/53	05/31/54	10	(2.4)	2.7	17.9	9.2	01/05/53	09/14/53	8.3	(14.8)	6.8
08/31/57	04/30/58	8	(3.6)	(15.6)	(3.9)	11.9	08/02/56	10/22/57	14.7	(21.6)	13.0
04/30/60	02/28/61	10	(1.3)	(8.8)	16.7	16.3	08/03/59	10/25/60	14.8	(13.9)	8.9
12/31/69	11/30/70	11	(0.7)	(11.2)	(5.3)	13.2	11/29/68	05/26/70	17.9	(36.1)	13.1
11/30/73	03/31/75	16	(3.1)	3.6	(13.1)	7.0	01/11/73	10/03/74	20.7	(48.2)	10.6
01/31/80	07/31/80	6	(1.9)	(4.3)	5.7	6.7	10/05/79	11/07/79	1.1	(10.2)	3.9
07/31/81	11/30/82	16	(1.4)	(17.2)	5.8	7.6	11/28/80	08/12/82	20.4	(27.1)	8.1
07/31/90	03/31/91	8	(1.3)	(7.1)	5.4	13.0	07/16/90	10/11/90	2.9	(19.9)	0.5
03/31/01	11/30/01	8	(0.1)	(26.5)	(1.8)	21.9	03/24/00	10/09/02	30.5	(49.1)	12.2
12/31/07	06/30/09	18	(4.0)	(38.2)	(37.4)	14.1	10/09/07	03/09/09	17.0	(56.8)	2.7
Averages:		11	(1.9)	(10.1)	1.3	11.7	Averages:		13.5	(27.1)	7.7

Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 4/21/20.

Bear Market Magnitudes Based on Prior Bull Market Advances

Bull Top	Duration of Bull		Total % Gain		Valuation at Top	
	Short	Long	Small	Large	Cheap	Expensive
6/15/1948	(21)		(21)		(21)	
8/2/1956		(22)		(22)	(22)	
12/12/1961	(28)		(28)			(28)
2/9/1966	(22)		(22)		(22)	
11/29/1968	(36)		(36)			(36)
1/11/1973	(48)		(48)		(48)	
11/28/1980		(27)		(27)	(27)	
8/25/1987		(34)		(34)		(34)
7/16/1990	(20)		(20)		(20)	
3/24/2000		(49)		(49)		(49)
10/9/2007		(57)		(57)		(57)
2/19/2020		???		???		???
Averages	(29)	(38)	(29)	(38)	(27)	(41)

Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 4/21/20.

This Bear Market's Sector Rotation vs. History

	2/19-3/23		Since WWII	
S&P 500 Sector	% Chg.	S&P 500 Sector	% Chg.	Outperf.
Consumer Staples	(24.3)	Health Care	(12)	85%
Health Care	(28.5)	Consumer Staples	(13)	85%
Communication Services	(28.7)	Real Estate	(17)	71%
Info. Technology	(31.5)	Utilities	(23)	77%
Consumer Discretionary	(33.8)	Materials	(23)	46%
S&P 500	(33.9)	All Sub-Industries	(25)	NA
Utilities	(35.9)	Financials	(27)	46%
Materials	(37.2)	Info. Technology	(27)	62%
Real Estate	(40.2)	Energy	(28)	46%
Industrials	(41.9)	Consumer Discretionary	(28)	31%
Financials	(43.3)	Communication Services	(30)	38%
Energy	(56.4)	Industrials	(30)	15%

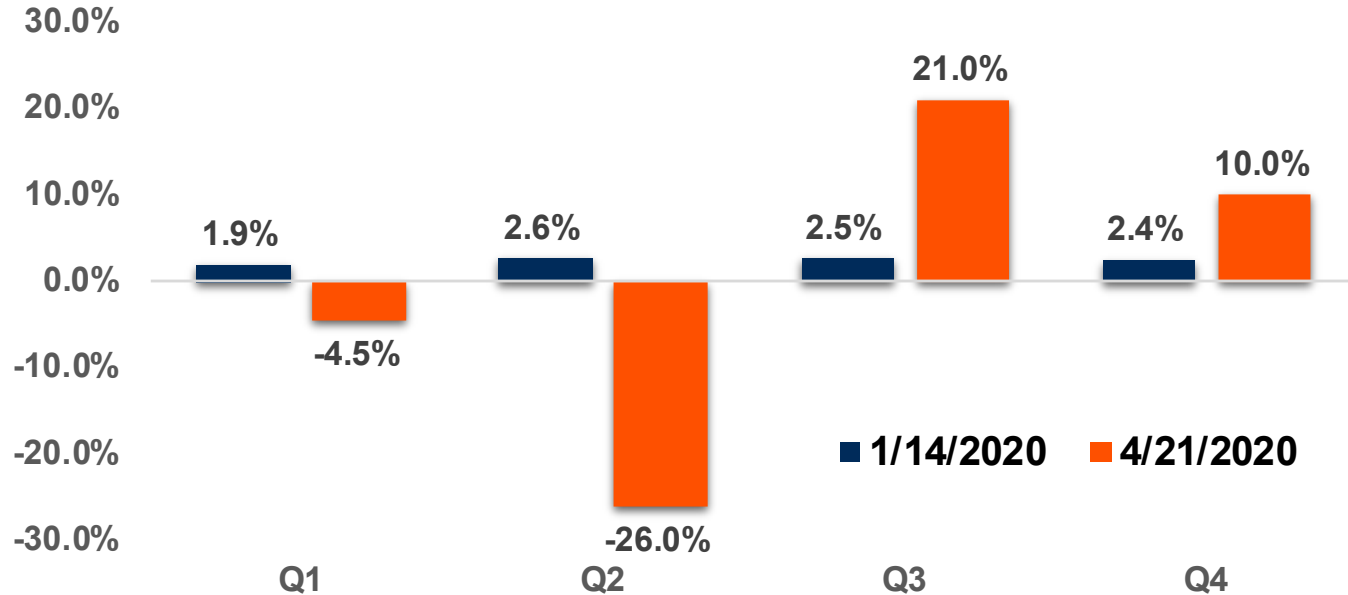
Source: CFRA, S&P Global. Past performance is no guarantee of future results.

Decelerating Global GDP Growth Projections

Regions	1/14/20	4/21/20	Difference
Global GDP	3.3%	0.5%	(2.8)
>Advanced Ecos.	1.7%	-2.7%	(4.4)
>Emerging Ecos.	4.4%	2.5%	(1.9)
>U.S.	2.3%	-3.0%	(5.3)
>Europe	1.1%	-3.2%	(4.3)
>Japan	0.2%	-1.0%	(1.2)
>China	5.7%	3.0%	(2.7)

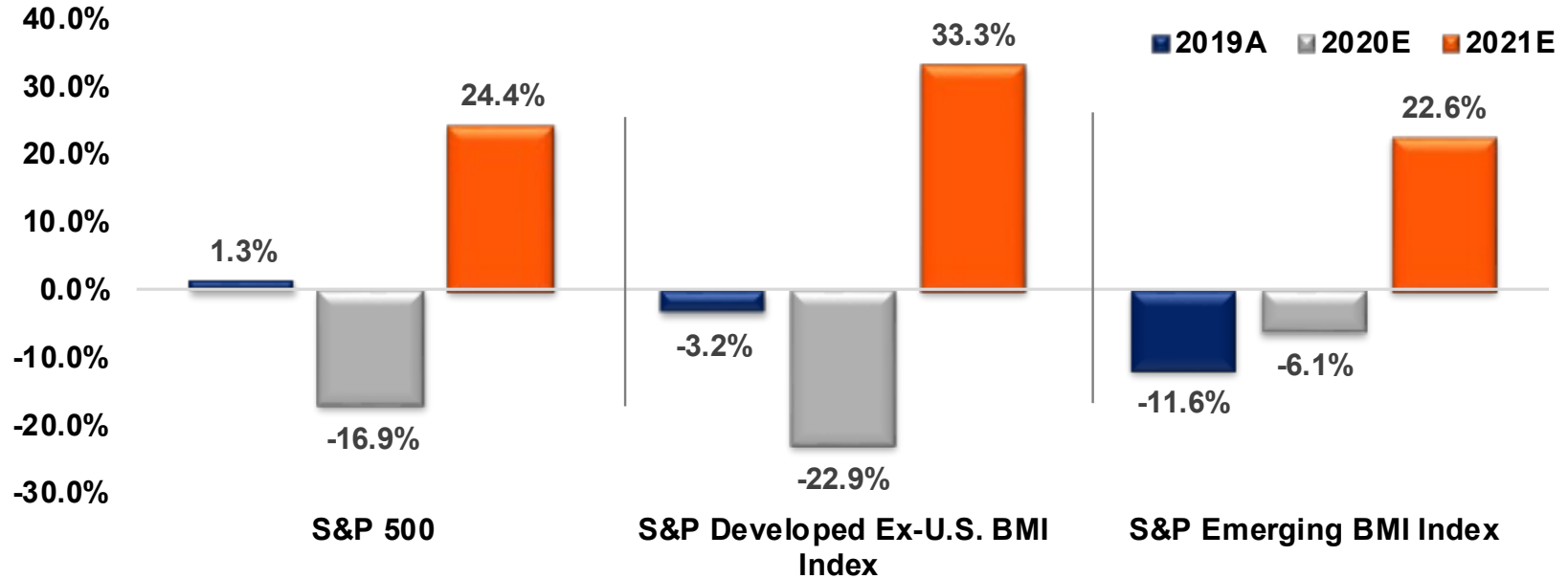
Source: Action Economics. Past performance is no guarantee of future results.

Decelerating 2020 U.S. GDP Growth Projections



Source: Action Economics. Past performance is no guarantee of future results.

Looking Beyond the EPS Valley?



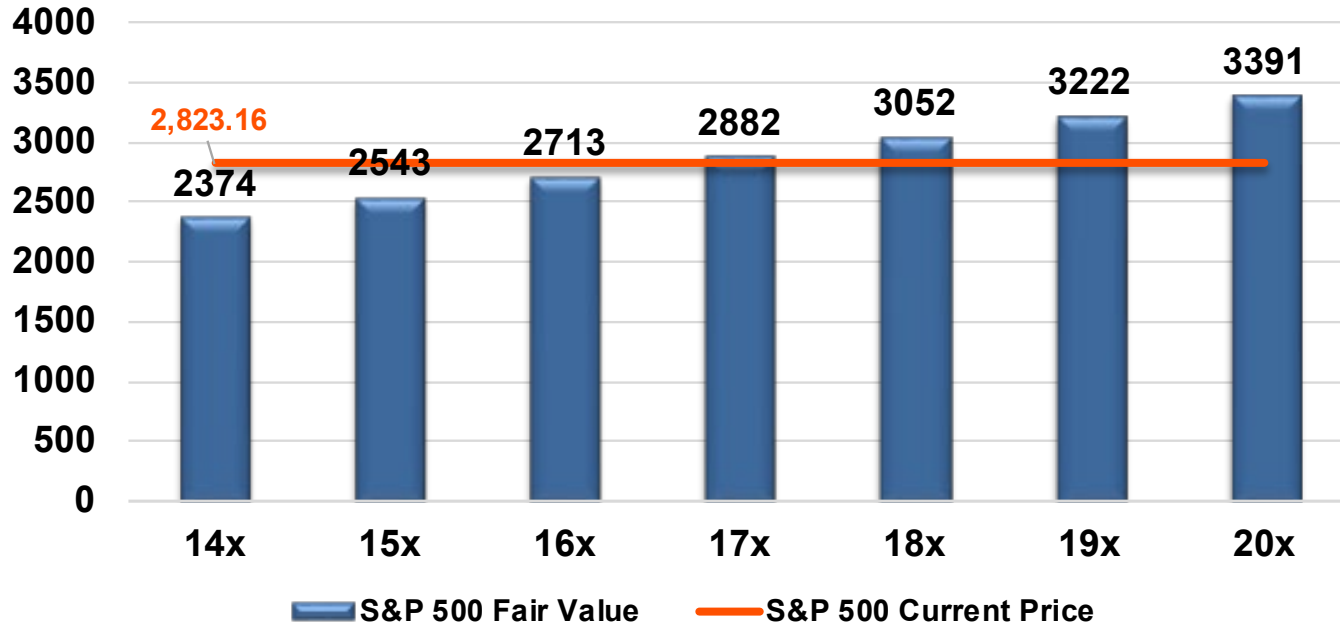
Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 4/21/20.

Diminishing S&P 500 EPS Growth Expectations

S&P 500 Sectors	Year-Over-Year % Changes			
	Q1E	Q2E	2020E	2021E
Comm. Services	(6.4)	(22.8)	(10.9)	15.0
Consumer Disc.	(38.9)	(69.6)	(34.9)	65.6
Consumer Staples	2.2	(2.5)	0.9	7.6
Energy	(66.2)	(146.0)	(110.5)	NM
Financials	(15.7)	(33.7)	(25.0)	19.8
Health Care	1.1	(9.8)	(0.2)	14.1
Industrials	(33.9)	(61.3)	(34.0)	57.1
Info. Technology	(0.4)	(4.4)	(0.3)	19.6
Materials	(19.9)	(24.1)	(15.3)	30.0
Real Estate	(16.3)	(44.6)	(28.9)	20.8
Utilities	2.0	3.5	3.4	5.6
S&P 500	(12.9)	(30.8)	(16.9)	24.4

Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 4/21/20.

S&P 500 Prices Based on 2020e EPS & P/E Ratios



Source: CFRA, CDC, S&P Global. Past performance is no guarantee of future results. Data as of 4/21/20.

Counter-Trend Rally

Regions/Sizes/Sectors	% Chg.	Best S&P 1500 Sub-Inds.	% Chg.
Energy	43.4	Copper	48.8
Health Care	34.6	Managed Health Care	48.6
Utilities	34.4	Oil & Gas Storage & Trans.	46.1
Real Estate	33.4	Oil & Gas Refining & Mktg	43.2
Materials	30.3	Gold	43.2
Consumer Discretionary	29.5	Distillers & Vintners	43.0
Industrials	28.7	Health Care Equipment	40.8
S&P 500 Value Index	28.7	Integrated Oil & Gas	40.6
S&P 500	28.5	Worst S&P 1500 Sub-Inds.	% Chg.
S&P 500 Growth Index	28.3	Ind. Power Producers	7.0
S&P MidCap 400	28.1	Food Retail	7.0
Info. Technology	26.7	Diversified REITs	6.5
Financials	26.5	Publishing & Printing	5.9
S&P Global 1200	25.5	Oil & Gas Drilling	4.6
Consumer Staples	23.9	Dvfd Real Estate Activities	3.9
S&P SmallCap 600	21.3	Airlines	3.7
Communication Services	19.5	Drug Retail	(1.7)
Positive Sectors:	100%	Positive Sub-Industries:	99%

Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data: 3/23/20-4/17/20.

Central Bank & Government Stimulus

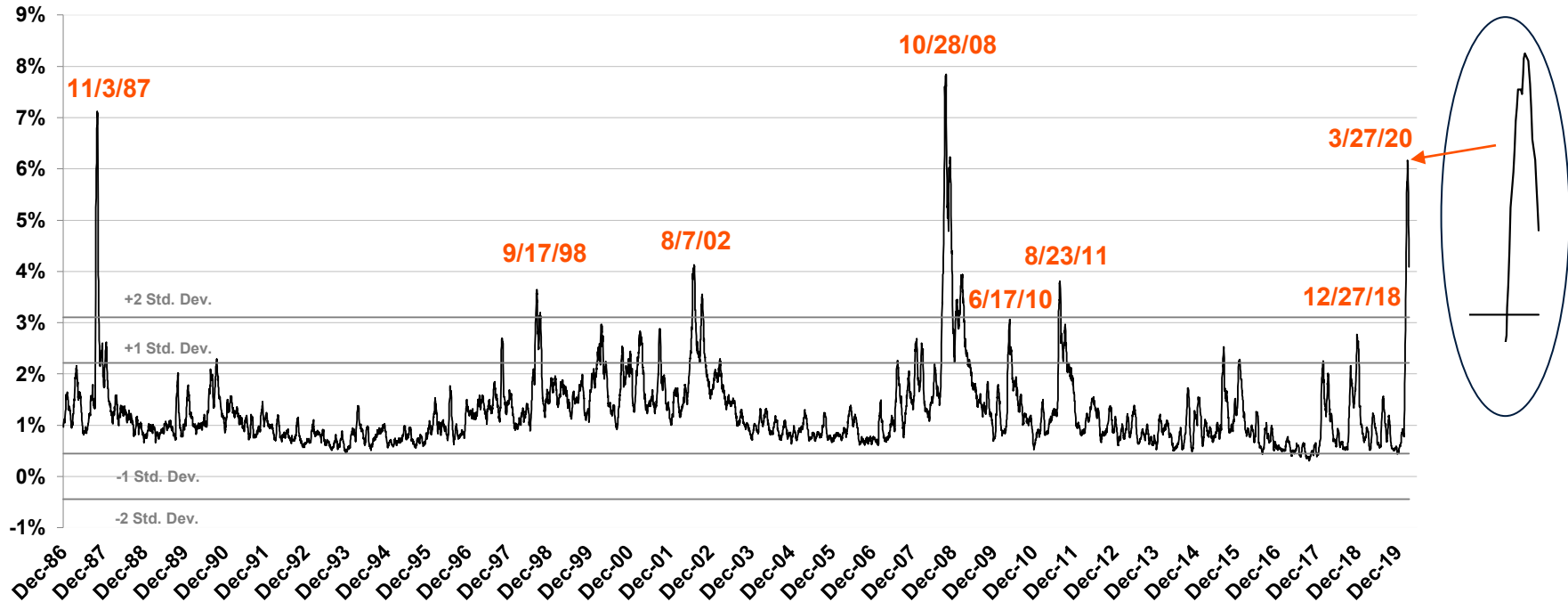
- The Fed short-term rates by 150 basis points
- Resurrected the Money Market Mutual Fund Liquidity Facility
- Expanded its asset purchases to include municipal bonds
- ECB: Pandemic Emergency Purchase Program (PEPP)
- BOE: Rate cuts, pound infusion, bond purchases
- SNB: Currency intervention & ease negative rate burden for banks
- Penalty free withdraws from 401K and IRA retirement accounts
- U.S. Congress' \$2 trillion stimulus package

Depressed Sector Valuations at 3/23 Low

S&P 500 Sector	Absolute P/E Ratios			Relative P/E Ratios		
	Current	Average	Prem/(Disc)	Current	Average	Prem/(Disc)
Comm. Svcs.	14.6	15.7	(7)	1.03	0.95	8
Cons. Disc.	18.8	19.1	(1)	1.33	1.17	13
Cons. Staples	16.4	17.8	(8)	1.16	1.10	6
Energy	17.3	17.2	0	1.22	1.04	18
Financials	8.5	13.2	(36)	0.60	0.82	(27)
Health Care	12.6	16.9	(26)	0.89	1.02	(13)
Industrials	13.0	16.6	(22)	0.92	1.02	(10)
Info. Tech.	17.0	21.3	(20)	1.20	1.25	(4)
Materials	13.7	16.1	(15)	0.97	0.99	(2)
Real Estate	31.1	40.6	(24)	2.19	2.33	(6)
Utilities	14.6	14.9	(2)	1.03	0.93	10
S&P 500	14.2	16.4	(14)	NA	NA	NA
S&P 500 Growth	18.0	17.0	6	1.27	1.11	15
S&P 500 Value	11.1	13.8	(20)	0.78	0.91	(14)

Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 3/23/20.

Volatility Peaks Typically Signal An Approaching Bottom



Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 4/13/20.

WORST TO FIRST: Six Month Price Return Differentials

Decline Date	% Drop	Six Months Later		
		% Change S&P 500	% Point Difference	
			Sectors	Sub-Inds.
1990	(19.9)	27.8	17.6	50.1
1998	(19.3)	29.1	11.9	(11.6)
2000-02	(49.1)	11.5	8.6	17.1
2007-09	(56.8)	50.2	36.1	126.0
2011	(19.4)	29.1	4.3	21.9
2018	(19.8)	25.3	0.4	(8.0)
2020	(33.9)	???	???	???
Average		28.8	13.1	32.6

Source: CFRA's MarketScope Advisor. Data as of 3/23/20.

WORST TO FIRST: Sectors

S&P 500 Sectors	% Chg.
Energy	(56.0)
Financials	(43.0)
Industrials	(41.8)
Real Estate	(38.0)
Materials	(36.4)
Utilities	(35.9)
S&P 500	(33.9)
Consumer Discretionary	(31.9)
Information Technology	(31.2)
Communication Services	(28.6)
Health Care	(28.1)
Consumer Staples	(24.3)

Source: CFRA's MarketScope Advisor. Data as of 3/23/20.

WORST TO FIRST: S&P 500 Sub-Industries

S&P 500 Sub-Industries	% Chg.	Representative Stock
Airlines	(57.3)	Alaska Air (ALK 32 ****)
Department Stores	(68.0)	Kohl's Corp. (KSS 20 **)
Hotels, Resorts & Cruise Lines	(59.3)	Hilton Worldwide (HLT 68 ***)
Household Appliances	(56.4)	Whirlpool Corp. (WHR 105 ***)
Motorcycle Manufacturers	(56.0)	Harley Davidson (HOG 21 ***)
Oil & Gas Drilling	(68.9)	Helmerich & Payne (HP 19 **)
Oil & Gas Equipment & Services	(64.0)	Baker Hughes (BKR 13 ***)
Oil & Gas Exploration & Production	(59.5)	Cabot Oil (COG 19 ****)
Oil & Gas Refining & Marketing	(61.1)	Phillips 66 (PSX 62 ****)
Oil & Gas Storage & Transportation	(57.3)	Kinder Morgan (KMI 15 ****)

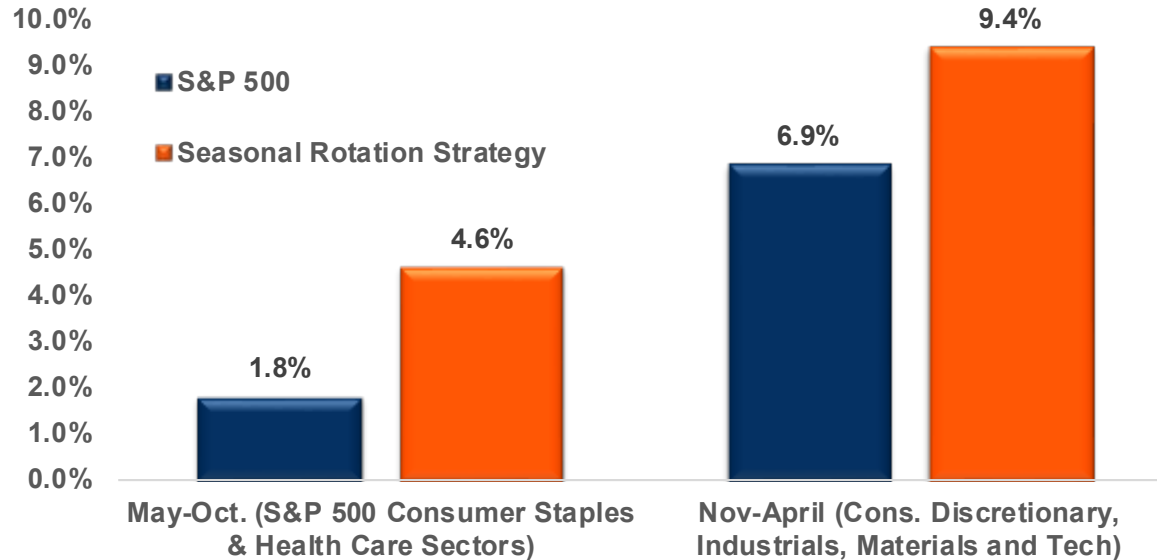
Source: CFRA's MarketScope Advisor, S&P Global Market Intelligence. Data as of 3/23/20.

The Seven Rules of Wall Street

- Let Your Winners Ride, But Cut Your Losers Short
- As Goes January, So Goes the Year
- Sell in May, Then Go Away
- No Free Lunch on Wall Street (Oh Yeah, Who Says?)
- Don't Get Mad -- Get Even!
- Don't Fight the Fed (At Least for Too Long)
- There's Always a Bull Market Someplace

Seasonal Sector Rotation

Average Six-Month Price Changes



Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data: 4/30/1990-12/31/19.

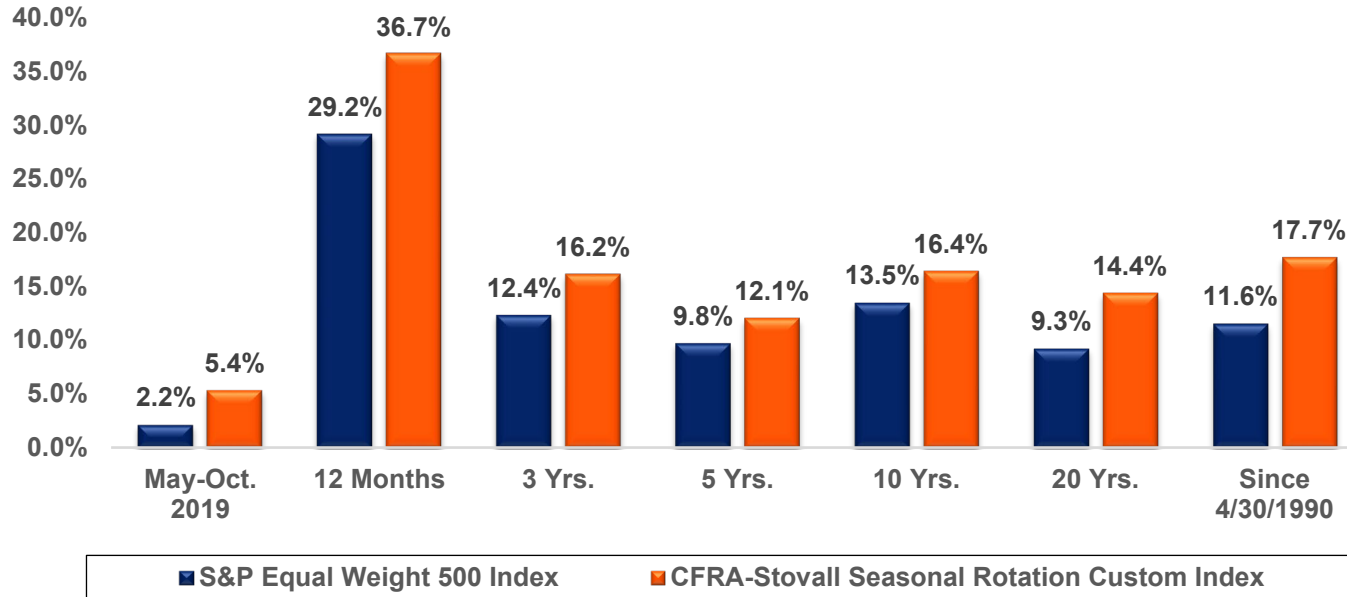
“Sell in May” After Bear-Market Bottoms?

Dates		Prior % Decline	May-Oct.		
Start	End		S&P 500	CS & HC	Beat?
4/30/1990	10/31/1990	(20)	(6.4)	10.1	1
4/30/1998	10/31/1998	(19)	(0.4)	5.7	1
4/30/2003	10/31/2003	(49)	15.6	7.3	0
4/30/2009	10/31/2009	(57)	20.0	18.7	0
4/30/2012	10/31/2012	(19)	2.2	6.6	1
4/30/2019	10/31/2019	(20)	4.2	7.1	1
Average		(31)	5.9	9.2	67%

Source: CFRA, S&P Global. Past performance is no guarantee of future results.

CFRA-Stovall Seasonal Rotation Custom Index

Compound Annual Total Returns: 4/30/1990 - 12/31/2019



Source: CFRA, S&P Global. Past performance is no guarantee of future results. For more information, please visit: <https://www.paceretfs.com/products/szne>.

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