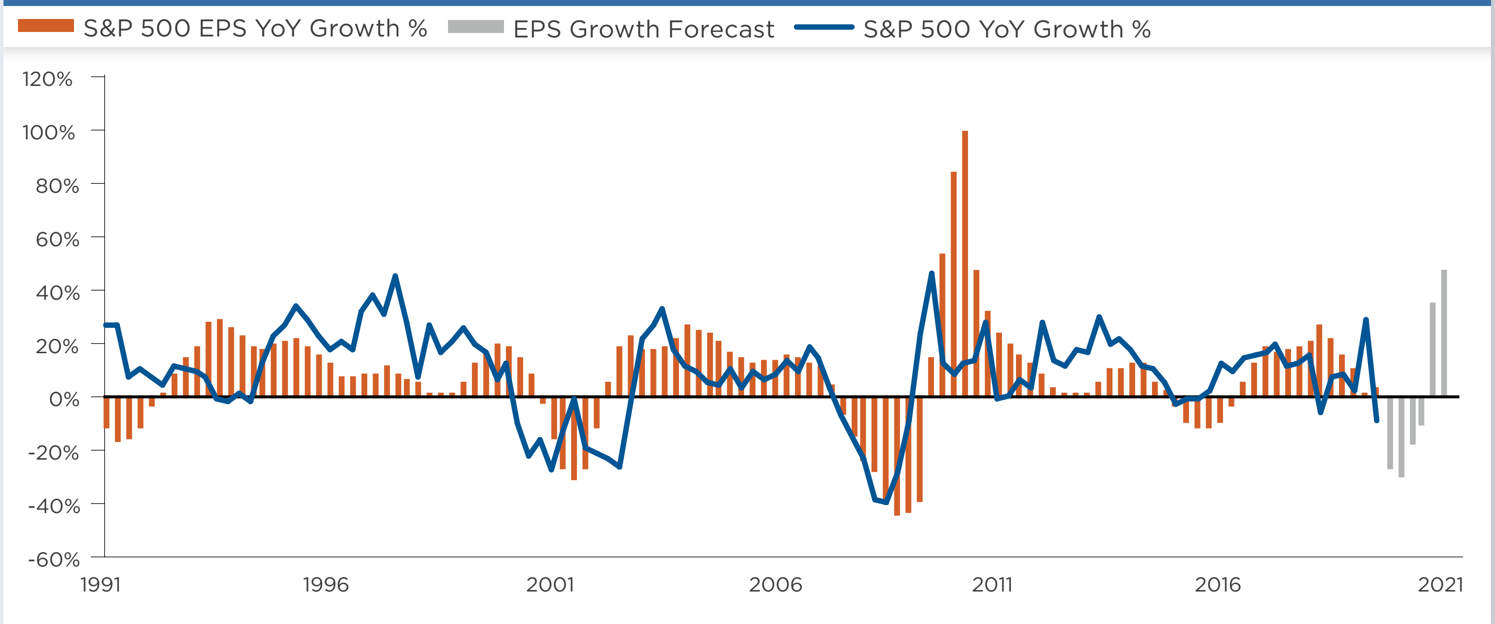
S&P 500 Return vs. EPS Growth



Source: Dow Jones S&P Indices, S&P 500 Index. The S&P 500 Index is unmanaged and is not available for direct investment. Past performance is not a guarantee of future results.

QUARTERLY MARKET OUTLOOK: **THIRD QUARTER 2020**

Equity Outlook

Much of the world was under a lockdown in April, so we expect the brunt of COVID-19's impact on corporate earnings to hit in Q2. Though the earnings slump is likely to improve in the second half of the year, a full earnings recovery may take two to three years.

Stocks to continue a wobbly grind higher – The strong rally in stocks was driven primarily by 1. aggressive and early fiscal and monetary stimulus; and 2. market optimism about a quicker-than-average earnings recovery, starting in 2021. We expect equities to continue to rise in the second half of the year, guided by a sustainable, albeit uneven, economic expansion, low interest rates and a gradual rebound in corporate profits. Occasional downward swings are likely as market sentiment adjusts to the uncertainty around the pandemic. An earnings decline has pushed valuations above historical levels, but still reasonable in our view. However, election and trade uncertainty is likely to keep volatility elevated for the remainder of 2020.

The earnings recovery will take time – Corporate earnings, which drive stock prices over the longer term, are expected to decline this year due to restrictions placed on the economy to contain the spread of COVID-19. The estimated consensus earnings decline for S&P 500 companies is nearly 44% from a year ago, which would be the largest decline since 2008. History shows a full recovery to pre-pandemic levels of corporate profits is unlikely to happen within the next year. Additionally, we expect companies to face higher costs and supply chain disruptions tied to the global pandemic, which is likely to dampen market optimism for a quick rebound and prompt occasional market pullbacks.

Action for Investors

Long-term investors can use periods of volatility to trim overweight allocations and fill in gaps in underrepresented asset classes and sectors. Maintaining diversification across defensive and cyclical sectors may help reduce the risk of loss during the economic downturn and position portfolios to take advantage of the economic recovery.

Investing in equities involves risks. The value of your shares may fluctuate, and you may lose principal. Diversification does not ensure a profit or protect against loss in a declining market.

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