Edward Jones
MAKING SENSE OF INVESTING

In Market Madness, Let Quality Stocks Be Your Guide

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Buy-rated companies mentioned in this report:

- **American Tower** (AMT; $249.59)
- **Berkshire Hathaway** (BRK.B; $218.55)
- **Chevron** (CVX; $85.63)
- **Comcast** (CMCSA; $44.56)
- **Duke Energy** (DUK; $79.71)
- **FMC Corporation** (FMC; $109.15)
- **IBM** (IBM; $125.07)
- **Lockheed Martin** (LMT; $395.59)
- **Lowe's** (LOW; $165.51)
- **Medtronic** (MDT; $107.86)
- **PepsiCo** (PEP; $139.94)

Source: Reuters. Prices and opinion ratings as of market close 8/28/20 and subject to change.

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COVID-19 fears caused equities to fall to bear market levels, ending the 11-year bull run. The market has rebounded from its lows; however, given the uncertainty related to when things will return to normal, we expect to see market volatility and pullbacks in the short term, creating the opportunity to have discussions about rebalancing, and where appropriate, adding quality stocks that are trading at attractive prices. There are opportunities and risks in each sector, and we recommend taking a diversified, quality approach.

Health Care: The health care sector provides the medical supplies needed to navigate the COVID-19 crises. We believe Medtronic (MDT) is attractively valued.

Consumer Staples: The coronavirus has had a mixed impact on consumer staples companies. We recommend PepsiCo (PEP).

Utilities: We believe that traditional regulated utilities will ultimately be some of the least affected by an economic downturn, and we recommend Duke Energy (DUK).

Energy: The energy sector is very challenged in the short term due to excess supply and lower demand. We think Chevron (CVX) will weather the storm.

Consumer Discretionary: The coronavirus pandemic is negatively impacting consumer spending. We recommend Lowe's (LOW).

Industrials: We think the coronavirus outbreak will have a significant near-term impact on the sector. We believe defense contractors like Lockheed Martin (LMT) are less impacted.

Materials: The materials sector is sensitive to commodity prices and general economic activity, but we continue to have a positive long-term outlook on FMC Corp (FMC).

Financial Services: Recession fears have negatively impacted financial services stocks. We recommend Berkshire Hathaway (BRKB).

REITs: Social distancing is having a negative impact on real estate. We recommend shares of American Tower (AMT).

Technology: Technology companies are dealing with supply-chain disruptions and softening demand in some areas. We recommend IBM (IBM).

Communication Services: The impact to the communication services sector is mixed. We think Comcast (CMCSA) represents an opportunity.

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Health Care: The health care sector provides the medical supplies needed to navigate the COVID-19 crises, and many companies in the sector are working on potential treatments or vaccines. Because spending on health care is necessary in good times and bad, health care has held up better than many other sectors.

For the equipment and services subsector, medical device companies will be negatively impacted by fewer hospital procedures, particularly elective procedures. In addition, insurers could be negatively impacted by lower enrollment as people lose jobs and health care benefits. The economic stimulus bill includes money for hospitals, which should allow for the continued purchase of needed medical supplies.

In the biopharmaceutical and life sciences subsector, demand for drugs is still strong, though we expect some delays in clinical trials for new drugs. From a testing and treatment perspective, regulators have expedited approvals for tests, and numerous drug companies are working on treatment options, including vaccines. However, it could take some time for any potential treatment to become widely available. It is difficult to predict what benefit, if any, these treatments could have on earnings growth given we don't know how long they will be needed or if the company will decide to profit on the sales.

Despite the defensive nature of health care, the sector continues to trade at a discount to the overall market on a price-to-earnings-ratio basis. Given the pullback in share prices, we believe opportunities exist throughout the sector, particularly in companies that have exposure to innovation and strong, growing dividends, such as **Medtronic (MDT).**

Consumer Staples: The coronavirus has had a mixed impact on consumer staples companies. Companies that have large foodservice exposure (i.e., sell to restaurants) could see a negative short-term impact to sales and earnings during the crisis. Food distributors should feel the impact the most, but food companies that make products for foodservice or products eaten on-the-go (e.g., beverages and snacking products) may also see fewer sales.

However, for food companies, we also see a potential offsetting benefit in more people eating at home.

Some household-product companies have benefited from increased demand for cleaning products, and their stock prices have already outperformed as a result.

Long-term, we think the coronavirus epidemic may accelerate the trend of people ordering groceries online. This should help grow sales of large-brand-product companies such as **PepsiCo (PEP)** because its brands are often prominently displayed on these websites. PepsiCo has strong positions in highly popular grocery categories, such as snacks, with Frito Lay, and in beverages.

Utilities: COVID-19 has not impacted utility companies directly. Over the past few years, utility stocks have been trading based on interest rate movements with stocks rising as interest rates declined.

However, during the recent downturn, utilities stocks fallen along with interest rates. The utilities sector has not acted as defensively as we have seen in previous downturns.

We believe that traditional regulated utilities will ultimately be some of the least affected by the economy. The regulated segments will continue to earn a return on the capital invested on utility infrastructure.

Utility companies with exposure to nonregulated businesses, especially those related to the energy sector, have underperformed those utilities without such exposure. We would expect that trend to continue should we see continued volatility in the overall market.

We believe the recent market decline has presented clients an opportunity to buy quality utility companies, such as **Duke Energy (DUK)**, which we view as relatively less affected by the economic downturn.

Energy: The energy sector remains challenged in the short term given the relatively low-oil-price environment. The near-term outlook for oil prices remains weak, as oil inventories have built rapidly and will likely remain elevated into 2021, which will keep a lid on prices. A resurgence in COVID-19 cases is a significant risk to oil demand and prices.

Although up from their recent lows, oil prices continue to be at uneconomic levels for most North American producers. A prolonged downturn in oil prices could lead to significant balance-sheet stress, production declines and dividend cuts. We are most concerned about the health of the exploration & production and equipment & services subsectors. While the near-term outlook is challenging and we expect significant volatility to continue, we remain focused on owning stocks in the integrated oil subsector, such as **Chevron (CVX)**, and in the storage & transportation and refining & marketing subsectors over the long term, where companies have strong balance sheets that allow them to weather commodity-price weakness and support dividends.

Consumer Discretionary: The coronavirus pandemic is negatively impacting consumer-spending most directly due to job losses and furloughs, local government stay-at-home and social-distancing orders, and closures or limited hours and services for retailers and restaurants. While we expect e-commerce sales to be robust with more people at home and out shopping less, we don't believe it will be enough to offset the traffic declines at physical retail locations.

We expect restaurants will feel the most negative effect due to closures, and nonessential retailers will feel the impact of less traffic and fewer impulse trips as consumers stay at home. We believe the government's stimulus package will put more money in consumers' pockets, which should help drive demand for consumer companies. We believe investors should focus on companies with strong financial positions, those gaining market share prior to the downturn, and companies rapidly investing in technology to be leading the way in the changing consumer landscape.

One company that fits the bill would be **Lowe’s (LOW)**. We expect Lowe's to benefit longer-term from continued growth in remodeling due to aging homes, low interest rates, and improved profitability from investments in information technology. We would avoid companies with high debt levels, those struggling prior to the consumer slowdown, and companies that have limited ability to invest in and utilize technology.

Industrials: Given the sensitivity of the industrial sector to economic growth, the coronavirus outbreak will have a significant near-term impact on the sector, including disruption of operations due to supply and labor shortages, as well as a negative effect on demand as companies defer investments in their businesses. While the impact is likely to be broad-based across industrials, we see airlines and aerospace companies with exposure to commercial aircraft as the most heavily impacted due to the weakening in travel demand.

Meanwhile, we think defense contractors, such as **Lockheed Martin (LMT)**, are unlikely to be materially impacted given ongoing global conflicts and the government funding of defense spending. A key development is the stimulus package passed by the U.S. government. Specifically for industrials, there are funds for the airline industry, corporate loans for distressed businesses, and some funding allocated to firms important to national security. We believe this helps to ease some near-term concerns about financial flexibility, particularly for the airline and aerospace industries. However, Congress included numerous constraints on bailout funds in order to ensure benefits to employees and customers and not shareholders.

Consistent with our view that the sector is "offense" (i.e., outperforming in rising markets and underperforming in falling markets), industrials have underperformed year-to-date amid the market volatility. While it is difficult to predict the timing of a recovery, we would expect industrials to outperform in an environment of improving economic sentiment.

Materials: The materials sector is sensitive to commodity prices and general economic activity, both of which have been negatively impacted by the outbreak. As a result, the sector has declined further than the broader S&P 500 year-to-date.

We would expect the basic chemicals and metals producers to be most impacted, while the industrial gases and agriculture markets should be more resilient during the slowdown. Industrial gas firms have long-term contracts that require minimum purchases, and agriculture activity should continue during the slowdown, as planting and harvest seasons are not typically affected by general economic trends.

Crop-protection chemical firm **FMC Corp (FMC)** is on the Edward Jones Stock Focus List, reflecting our positive long-term outlook for the company, which was bolstered by its acquisition of DuPont's crop-chemical portfolio in 2018.

Over the long term, we prefer specialized materials firms that focus on innovative products over the more basic commodity and chemical producers that are more reliant on commodity prices.

Financial Services: Financial services stocks have underperformed the S&P 500 year-to-date, which we believe can be partially attributed to memories of the financial crisis of 2008-2009. Relative to that period, however, financial services companies are more tightly regulated, less leveraged and better capitalized.

U.S. banks, for example, have already endured years of annual stress testing, subjecting their business models, operations and balance sheets to severe economic scenarios. As a result, we believe that they are prepared for this crisis and will endure, with dividends intact.

For investors looking for financial stocks to add to their portfolios, we recommend insurer **Berkshire Hathaway (BRKB)**. At the end of 2019, BRKB was holding $128 billion in cash, which represents almost one-third of the company's current market value. In this environment, we believe that BRKB has many

opportunities to put that cash to work, including buybacks and investments in public and private companies.

REITs: As citizens across the country practice social distancing, foot traffic has slowed for entire segments of the economy, such as retail stores, dine-in restaurants and entertainment venues. In some places, all nonessential businesses have shut down, potentially affecting owners of that real estate. Even the historically more defensive health care REIT subsector has not been immune, as elderly senior-housing occupants are at risk of contracting the virus.

Landlords may have to renegotiate lease contacts for struggling tenants or allow them to defer rent. We generally believe that the REITs have solid balance sheets, but the duration and magnitude of the downturn, as well as the effectiveness of government stimulus, will determine whether they can maintain their dividends.

We prefer REITs that exhibit one or more of the following qualities: diversification by tenant and geography; long-term lease structures; and being positioned to benefit from long-term growth trends, such as e-commerce and mobile data usage, like **American Tower (AMT)**.

Technology: The major challenges facing the technology industry can be grouped into three buckets: manufacturing in China, the supply chain and overall demand. While manufacturing capacity has been challenged for the sector, reports indicate that manufacturing capacity is rebounding in China.

However, while manufacturing is recovering, the various shutdowns of businesses across the globe has impacted the overall supply chain, limiting the movement of materials and delivery of goods. Demand is the final component, which will vary across companies. For example, a software subscription company may not experience as much of a fall in demand because software is not dependent on manufacturing or the global supply chain.

On the contrary, semiconductor and hardware companies may experience supply-chain disruptions or a decrease in demand. An example would be semiconductors that go into PCs or smart phones, where demand will likely be weaker due to companies closing.

We believe it is paramount in times of elevated uncertainty and volatility to invest in companies that have strong balance sheets and more predictable earnings. We favor software and services companies in this environment because their businesses will likely be less impacted compared with other technology names because of less reliance on physical manufacturing and the global supply chain.

One of our top ideas is **IBM (IBM)**, which is positioned well within the software industry with its recent acquisition of RedHat. The company is also not as reliant on global manufacturing or the global supply chain as some other technology peers. We believe the current valuation and yield offer a compelling opportunity for long-term investors.

Communication Services: Companies in the communication services sector face varying levels of risk associated with the COVID-19 pandemic. While companies with exposure to theme parks and motion picture production and distribution are facing pressure currently due to travel and crowd restrictions, we believe these businesses will recover after restrictions are lifted and feel positive about their longer-term outlook.

Also, companies with TV-advertising revenue could see cuts in ad activity. We estimate that companies with exposure only to online advertising could see reduced activity, but we still expect growth in total online ad revenue for the year.

We anticipate companies that generate most of their revenue from wireless and Internet services will be least impacted as customers rely on these services for connectivity. Companies in this sector that have faced forced closures of operations, such as theme parks, may realize some tax benefits from the government stimulus legislation.

We are highlighting **Comcast (CMCSA)** because we feel that its consumer Internet service and business data services will continue to see strong demand due to the need for connectivity. We recognize that its NBC Universal division will struggle in the short term due to cuts in ad spending and the closure of theme parks and film production. We estimate that NBCU results will start recovering in the third quarter and into 2021 as parks reopen and film production resumes. Also, we anticipate that NBCU will benefit from political ad spending in the fall and coverage of the Summer Olympics in 2021.

The list below highlights one Buy-rated company from the Edward Jones Stock Focus List for each sector. Each company has a solid financial position, strong management team, and what we believe is a sustainable competitive advantage.

Sector	Company Name	Symbol	Price	% off 52 Week High	Dividend Yield	Dividend Outlook	S&P/Moodys Credit Rating
Health Care	Medtronic PLC	MDT	$107.86	12%	2.2%	Rising	A/NR
Consumer Staples	PepsiCo	PEP	$139.94	5%	2.9%	Rising	A+/A1
Utilities	Duke Energy	DUK	$79.71	23%	4.8%	Rising	A-/Baa1
Energy	Chevron	CVX	$85.63	32%	6.0%	Stable	AA/Aa2
Consumer Discretionary	Lowe's	LOW	$165.51	3%	1.5%	Rising	BBB+/Baa2
Industrials	Lockheed Martin	LMT	$395.59	11%	2.4%	Rising	A-/A3
Materials	FMC Corporation	FMC	$109.15	3%	1.6%	Rising	BBB-/Baa2
Financials	Berkshire Hathaway	BRK.B	$218.55	6%	0.0%	No Dividend	AA/Aa2
REITs	American Tower	AMT	$249.59	8%	1.8%	Rising	BBB-/Baa3
Information Technology	IBM	IBM	$125.07	21%	5.2%	Rising	A+/A2
Communication Services	Comcast Corp Cl A	CMCSA	$44.56	7%	2.1%	Rising	A-/A3

Source: FactSet, S&P/Moody's, Edward Jones. Prices and opinion ratings as of 8/28/20 and subject to change. Past performance is no guarantee of future results.

Maintaining Your Balance Through the Ups and Downs

While the impact from coronavirus on results will have a range of implications across different equity sectors in the near term, remember to focus your attention on time horizons much longer than four or even eight years. Your financial goals and investment strategy should remain top priorities, regardless of the near-term environment. By maintaining an appropriately diversified portfolio and staying invested for the long term, you will be in a better position to weather any uncertainty or market volatility that may arise in the future.

Please see our opinion on each of the companies mentioned in this report for more information on the benefits, valuation, and risks of investing in these stocks.

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