



# QUARTERLY COORDINATES

Fourth Quarter 2020 Outlook  
The Road to Recovery

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## QUARTERLY COORDINATES FOURTH QUARTER: **AGENDA**

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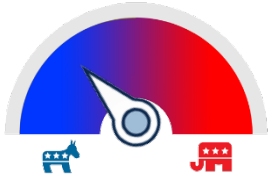
- 1** Politics: Voters Are At A Crossroads
- 2** COVID-19: Navigating The Path Of The Virus
- 3** Economy: Road to Recover Is Under Construction
- 4** Fixed Income: Yields Have No License To Move Higher
- 5** Equities: No Need To Go Off-Road
- 6** Dollar & Commodities: Oil Prices Hoping To Avoid A Second-Wave Detour
- 7** Market Volatility: Asset Allocation Parameters As Rumble Strips



## PRESIDENTIAL ELECTION CHECKLIST

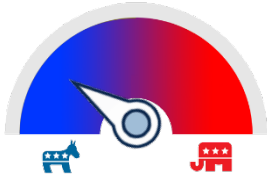
### Polling Metrics

#### Polling/Betting Markets



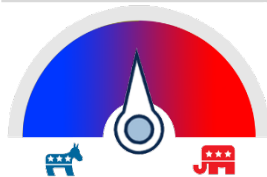
Both polling (8.1 point national lead) and betting markets (66% probability) suggest that Joe Biden is the favorite.

#### Swing State Polling



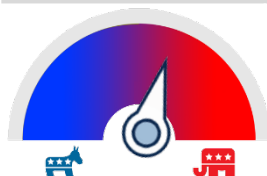
Joe Biden leads in betting markets in all six swing states.

#### Approval Rating



Trump's approval rating remains below 50%, and is on the cusp where previous candidates lost reelection.

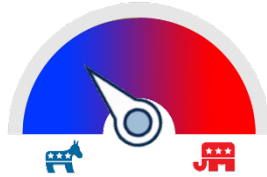
#### Ohio Factor



Ohio has predicted the winner in each election since 1964. President Trump currently leads in Ohio betting markets.

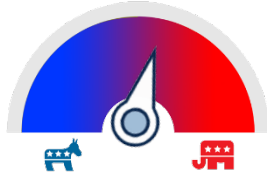
### Capital Market Indicators

#### Economy



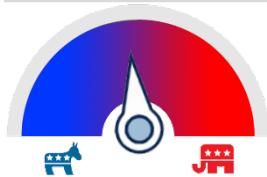
No president has ever won reelection with a recession in the two years leading up to the election in the post-WWII era.

#### Three-Month Equity Performance



The three-month performance of the S&P 500 has predicted 20 out of the last 23 elections. The demarcation line is 3,294.

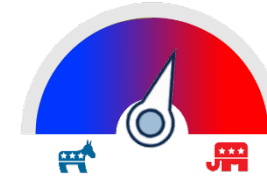
#### Three-Month Dollar Performance



The three-month performance of the dollar has predicted six out of the last seven elections. Currently, the demarcation line is 93.3.

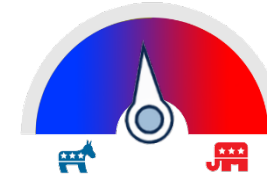
### Enthusiasm

#### Google Searches



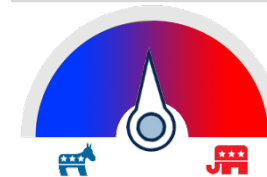
President Trump is seeing greater google search traffic than former VP Biden.

#### Party Registrations



Both Dems and Reps have seen outflows in party registrations in key swing states, while independents have grown.

#### Total Money Raised



President Trump has outraised Biden (\$1.3 billion to \$0.9 billion); however, Biden currently has more cash on hand.

### Overall Race Indicated by Checklist





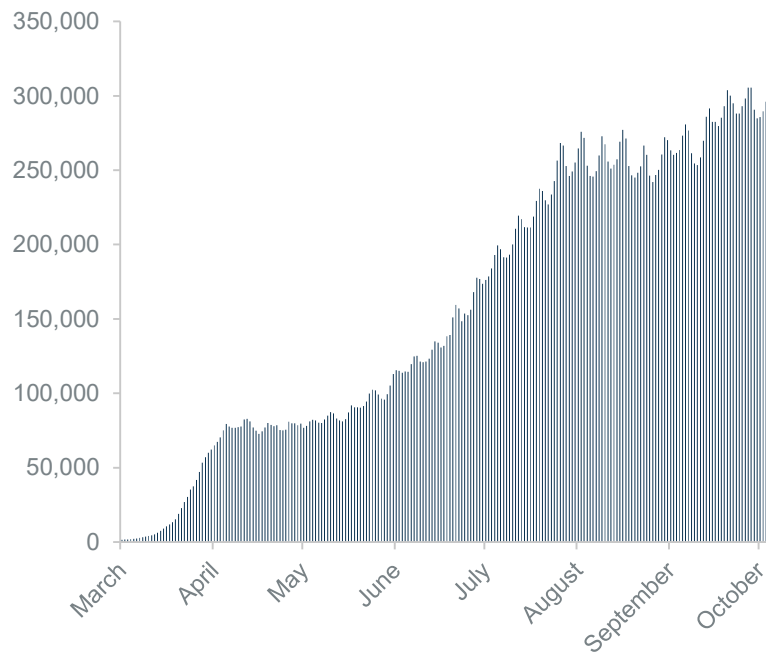


## COVID-19 UPDATE: WORLDWIDE

### DAILY NEW CASES IN THE WORLD ARE PLATEAUING, DAILY NEW DEATHS DECLINING, AND MORE PEOPLE ARE RECOVERING

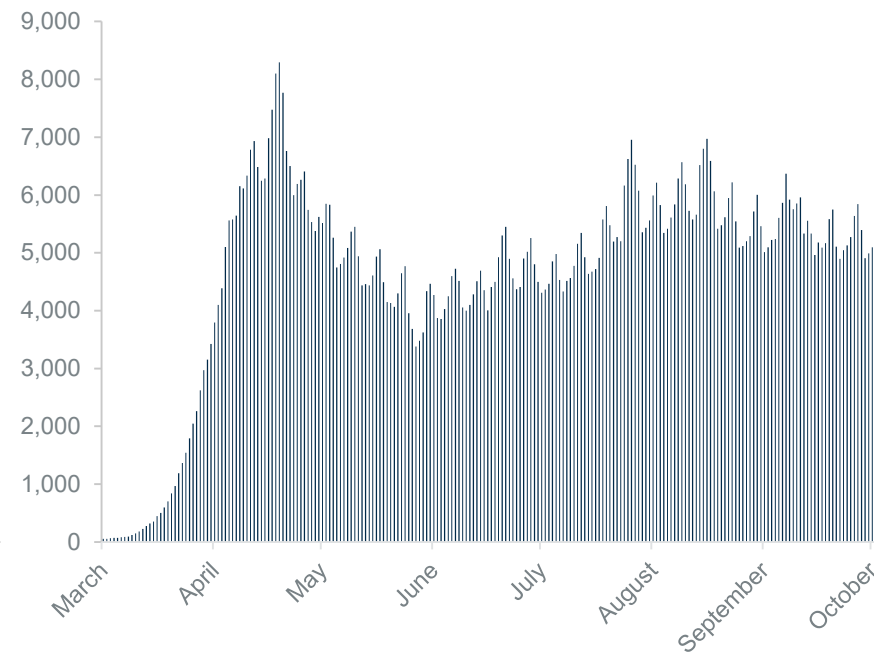
- The number of COVID-19 daily new cases in the world appears to have slowed and hopefully peaked. Similarly, the number of daily new deaths has been trending lower since August.
- Over 23 million people have recovered from COVID-19, and the increasing number of daily recoveries is about to match the number of daily new cases.

World Daily New Cases  
(5-day moving average)



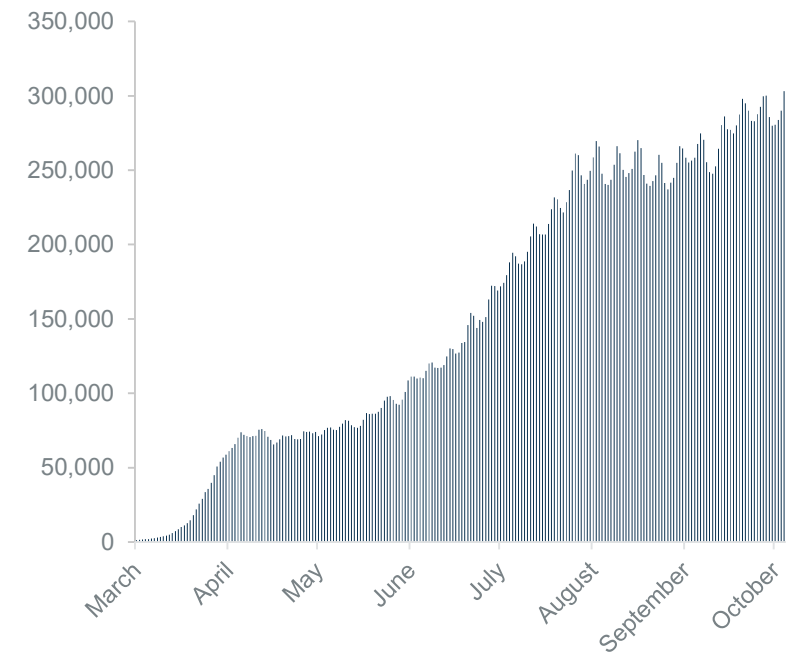
Source: FactSet, as of 10/4/2020

World Daily New Deaths  
(5-day moving average)



Source: FactSet, as of 10/4/2020

World Daily Recovered  
(5-day moving average)



Source: FactSet, as of 10/4/2020

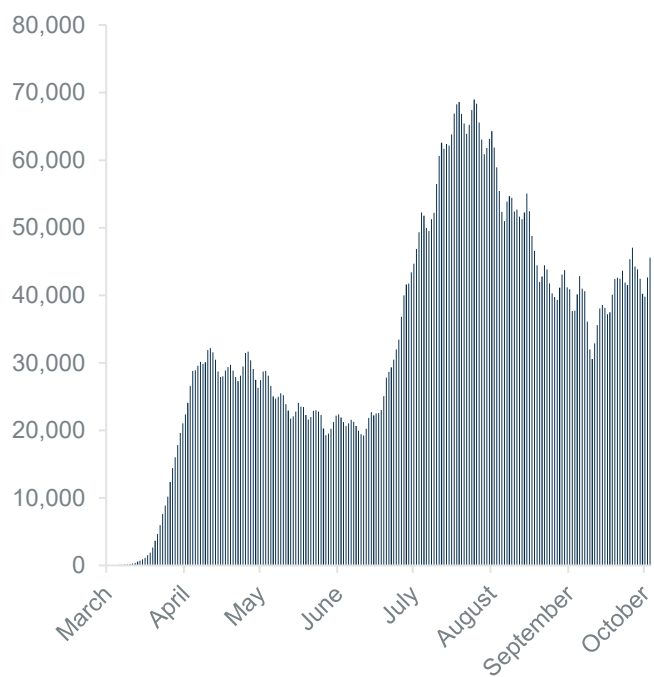


## COVID-19 UPDATE: UNITED STATES

### DAILY NEW CASES IN THE US SEEM TO BE PLATEAUING, BUT LOOKING UNDERNEATH THE SURFACE ...

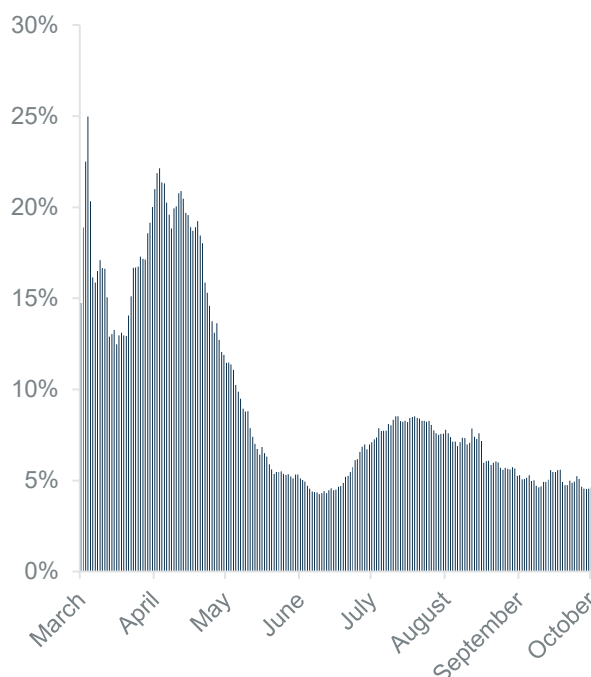
- The number of COVID-19 daily new cases is at an inflection point, potentially building a third wave.
- However, looking at individual regions reveals a concerning trend. The hard-hit South and West are experiencing a decline in new cases while the Midwest is experiencing an increase in new cases.

US - Daily New Cases  
(5-day moving average)



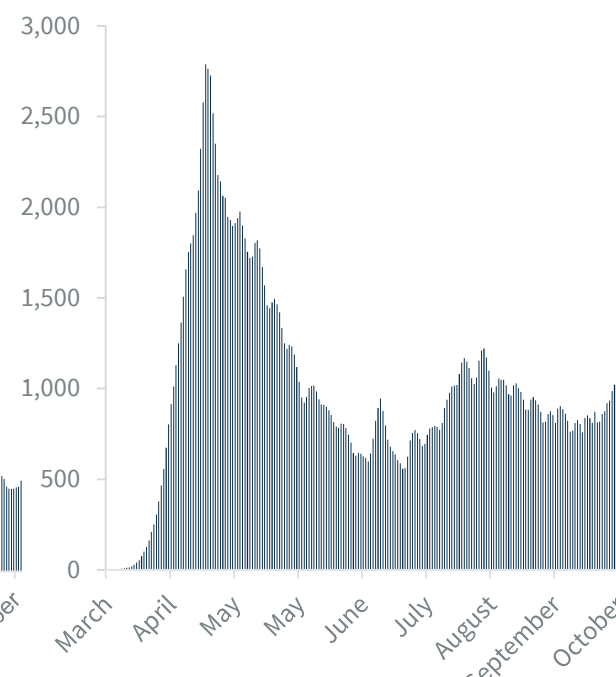
Source: FactSet, as of 10/4/2020

US - Daily Positivity Rate  
(5-day moving average)



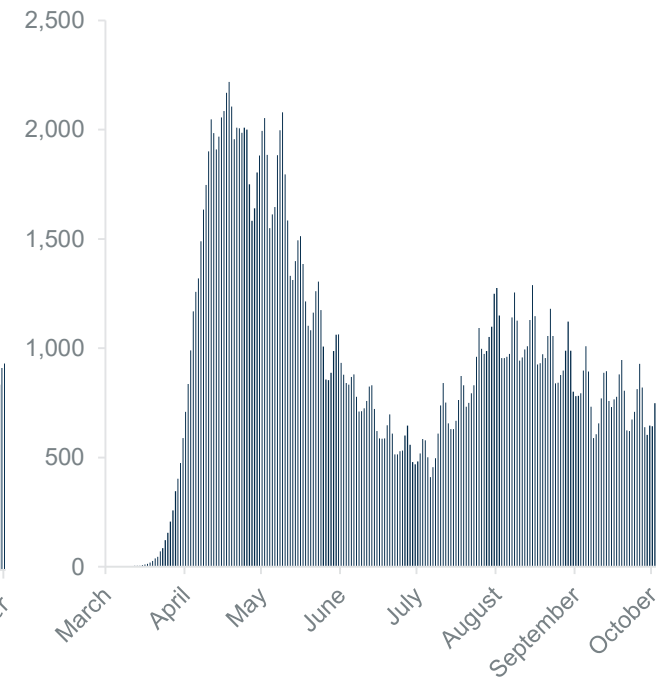
Source: FactSet, as of 10/4/2020

US - Daily New Hospitalizations  
(5-day moving average)



Source: FactSet, as of 10/4/2020

US - Daily New Deaths  
(5-day moving average)



Source: FactSet, as of 10/4/2020

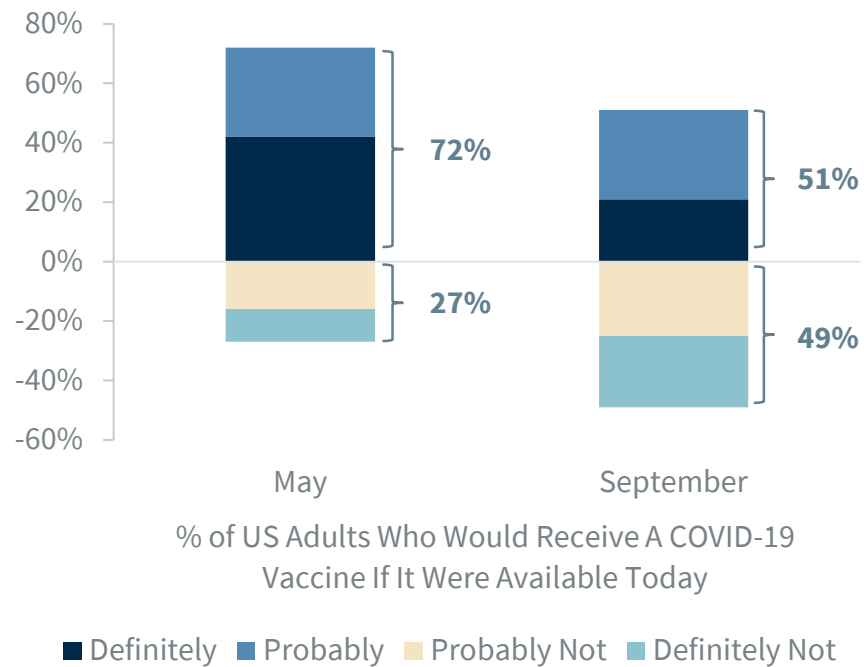


## VACCINE DEVELOPMENT & DEPLOYMENT

COVID-19 IS ON PACE TO BECOME ONE OF THE LEADING CAUSES OF DEATH IN 2020. WHILE THE MARKETS ARE ANXIOUSLY AWAITING THE RESULTS, THE SENTIMENT AMONGST THE PUBLIC IS MIXED, WITH THE WILLINGNESS TO RECEIVE THE VACCINE DECLINING OVER THE LAST FEW MONTHS.

- Ultimately, safety, efficacy, and the production timeline will dictate how quickly a vaccine could help mitigate the health crisis, but a widespread or public willingness to be vaccinated is just as critical as most scientists suggest that 60-80% of the population would need to receive the vaccine in order to truly curb the outbreak.
- Since May, the public trust in the safety and the effectiveness of the vaccine has diminished regardless of political affiliation, gender, race, age, and education.

### Decreased Willingness to Receive a COVID-19 Vaccine

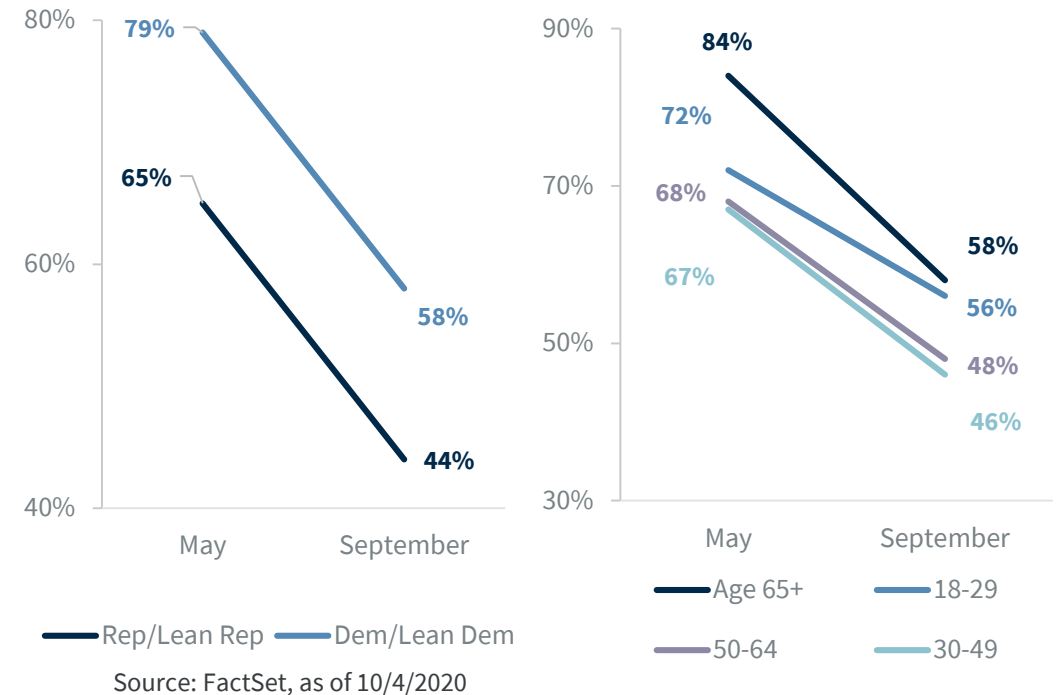


Source: Pew Research Center

**~85%**  
Probability of a  
vaccine by year end  
for limited use

**\$5**  
Rapid test with  
**50 Million**  
to be produced in the  
month of October

### Decreased Willingness Across All Demographics



Source: FactSet, as of 10/4/2020

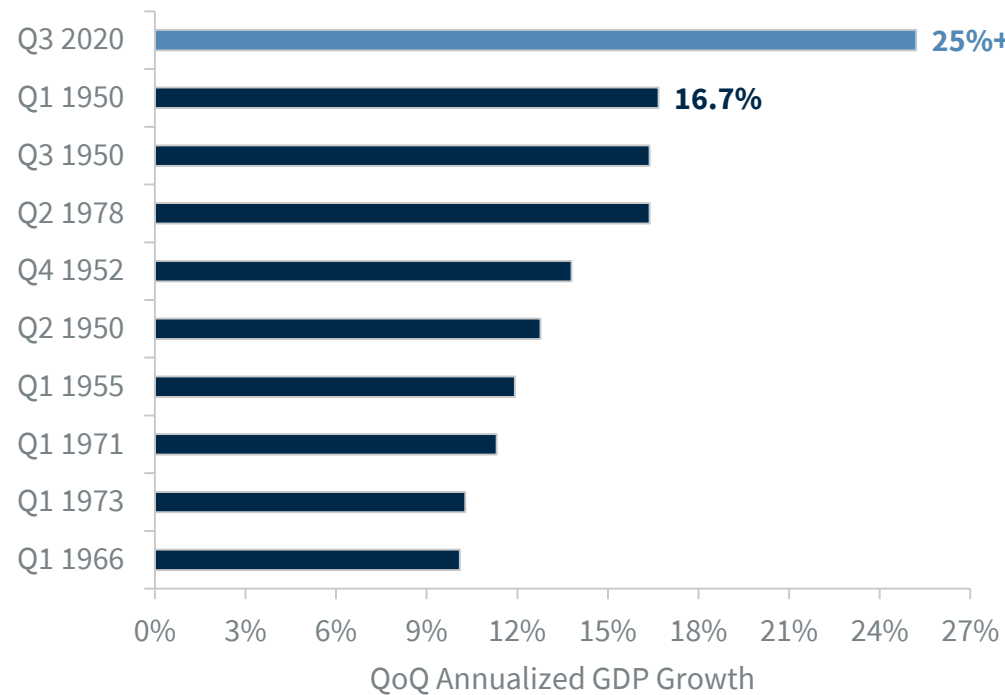


## COVID ECONOMIC RECOVERY

### THE US ECONOMY IS LIKELY TO HAVE RECOVERED SHARPLY FROM THE COVID RECESSION IN THE THIRD QUARTER

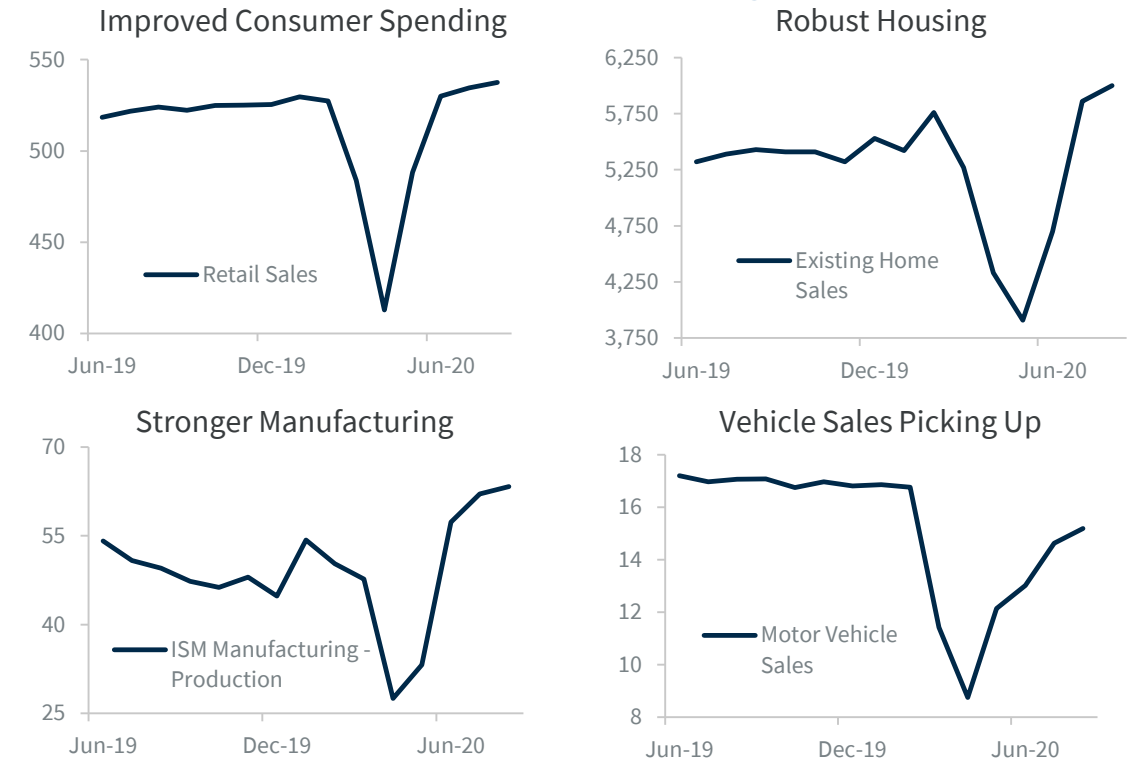
- We expect that the US economy saw the strongest quarter of economic growth (25% to 30%) in the post-WWI era in the third quarter.
- The sharp economic growth is due to some V-shaped recoveries in consumer spending, housing and manufacturing related sectors.

#### 3Q Likely the Strongest Quarter on Record



Source: Bloomberg, as of 6/15/2020

#### Some V-Shaped Recoveries Driving Economic Growth



Source: FactSet, as of 10/4/2020



## THE ECONOMIC ROADMAP UNDER THE SURFACE

- Internet & Direct Marketing Retail
- Technology Hardware, Storage & Peripherals
- Air Freight & Couriers
- Wireless Telecommunication Services
- Application Software
- Interactive Home Entertainment
- Household Products



**-3.3%**

2020 GDP Target

**+2.7%**

2021 GDP Target

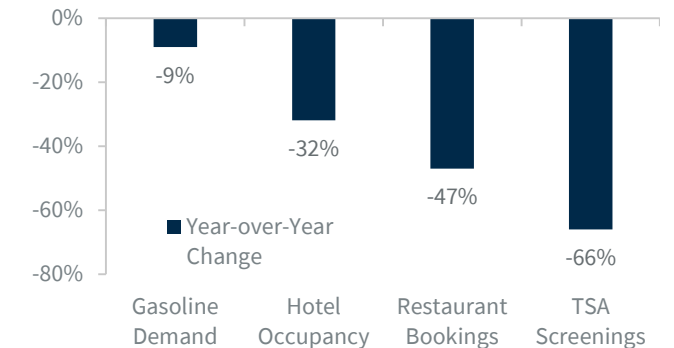
- Oil & Gas Equipment & Services
- Oil & Gas Exploration & Production
- Integrated Oil & Gas
- Hotel & Resort REITs
- Retail REITs



- Homebuilding
- Computer & Electronics Retail
- Home Improvement Retail
- Internet Services & Infrastructure
- Building Products
- Financial Exchanges & Data
- Biotech
- Medical Supplies

- Restaurants
- Automobile Manufacturers
- Apparel, Accessories & Luxury Products
- Diversified Banks
- Hotels, Resorts & Cruise Lines
- Airlines

### High Frequency, Real-Time Indicators



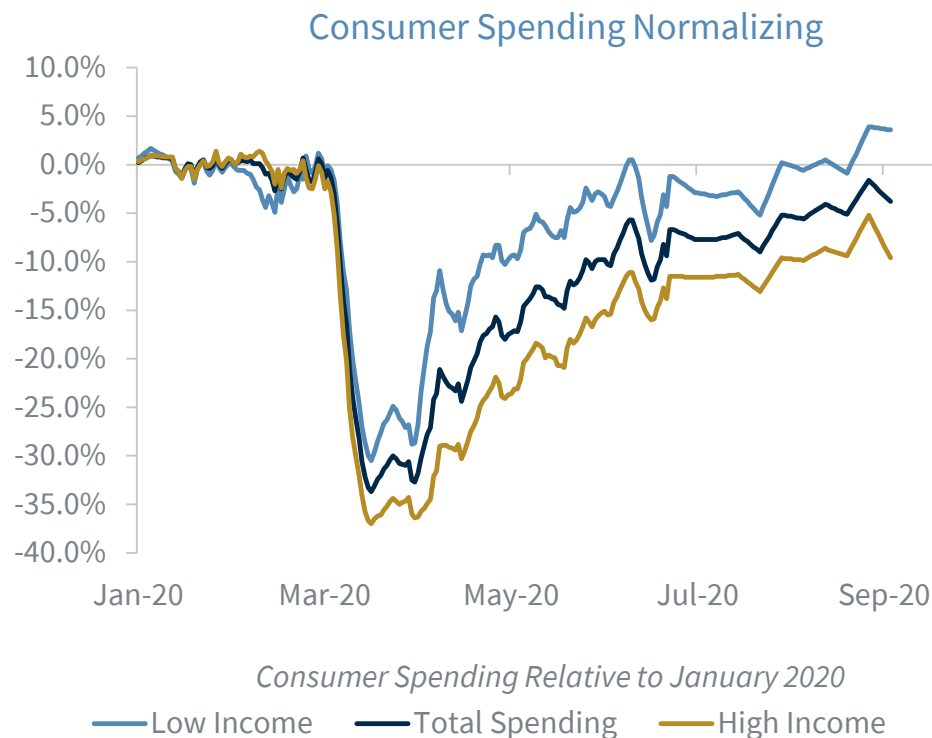
Source: Bloomberg, FactSet, Raymond James Investment Strategy estimates



## STIMULUS HAS SUPPORTED CONSUMER BALANCE SHEETS

### THROUGHOUT THE CRISIS, THE UNPRECEDENTED LEVEL OF FISCAL STIMULUS HAS SUPPORTED SPENDING

- The unprecedented fiscal stimulus has boosted spending off of the lows, as data suggests that consumer spending is only 4% off of January levels.
- The fiscal stimulus has particularly supported lower income families, as spending amongst this cohort is now above January levels in aggregate and these families can now better afford expenses relative to pre-COVID levels.

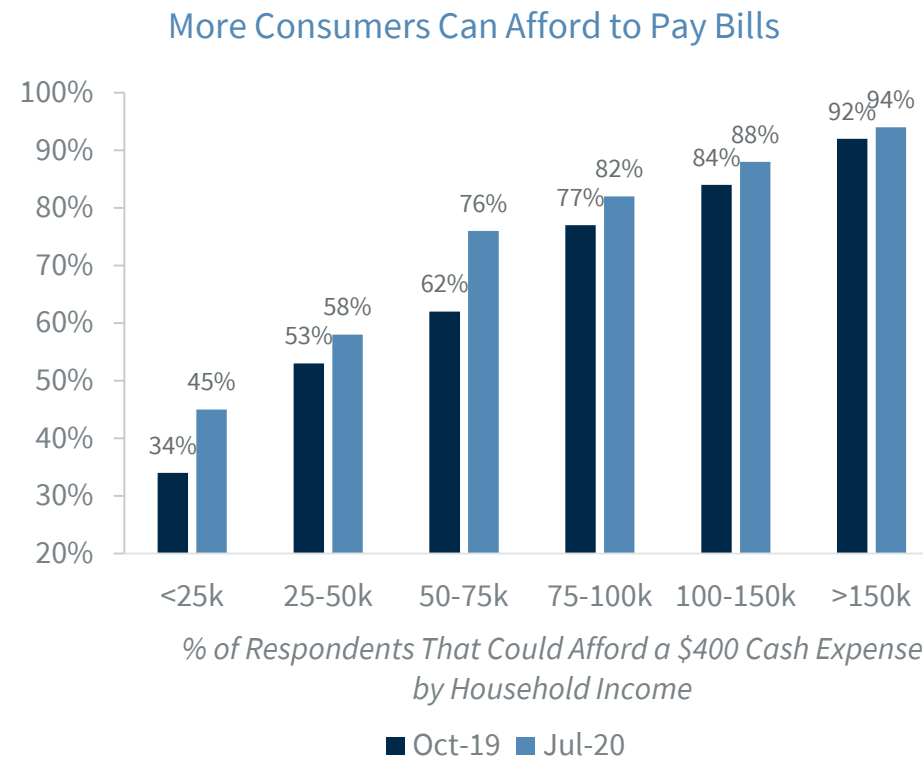


**-7.4%**

Decline in personal  
income from recent  
COVID peak

**14.1%**

Savings rate down  
from 33.1% at COVID  
peak



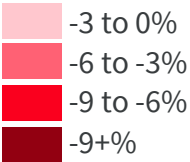
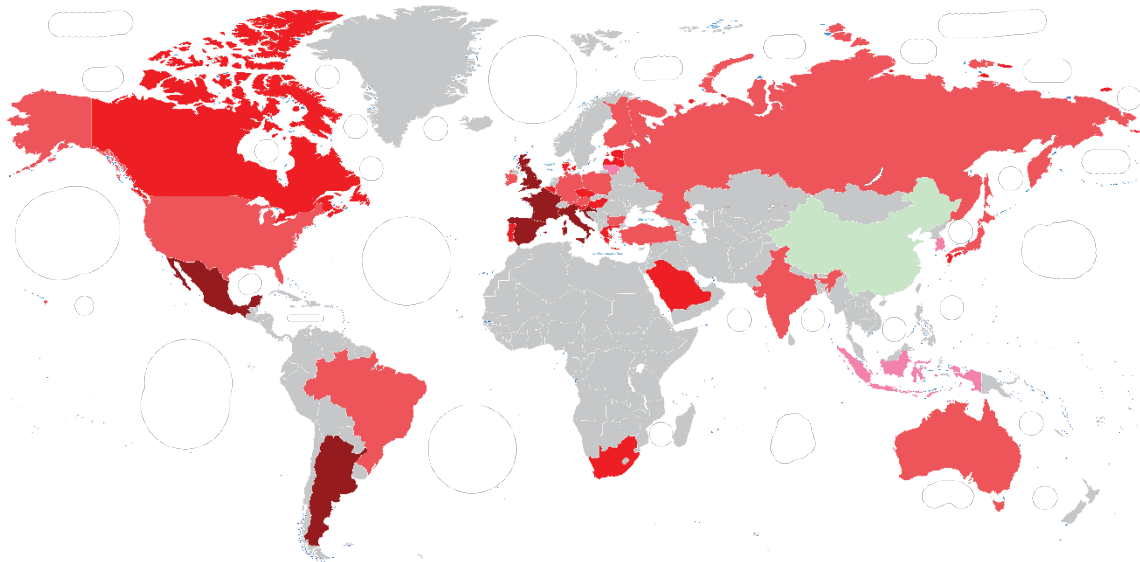
Source: Tracktherecovery. Data as of September 29, 2020.

Source: Federal Reserve. Data as of July 2020.



# G20 GDP FORECASTS—GLOBAL RECOVERY IN 2021

2020 GDP Forecasts



**80%**

of the World's  
Economic Output

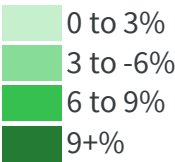
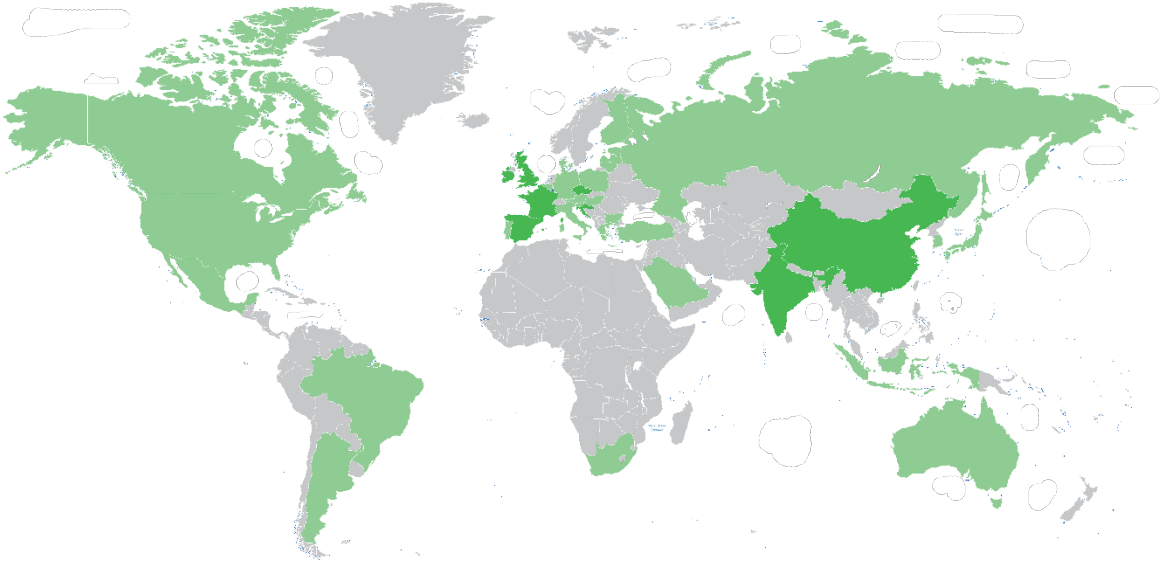
**75%**

of the World's  
Trade

**2/3**

of the World's  
Population

2021 GDP Forecasts



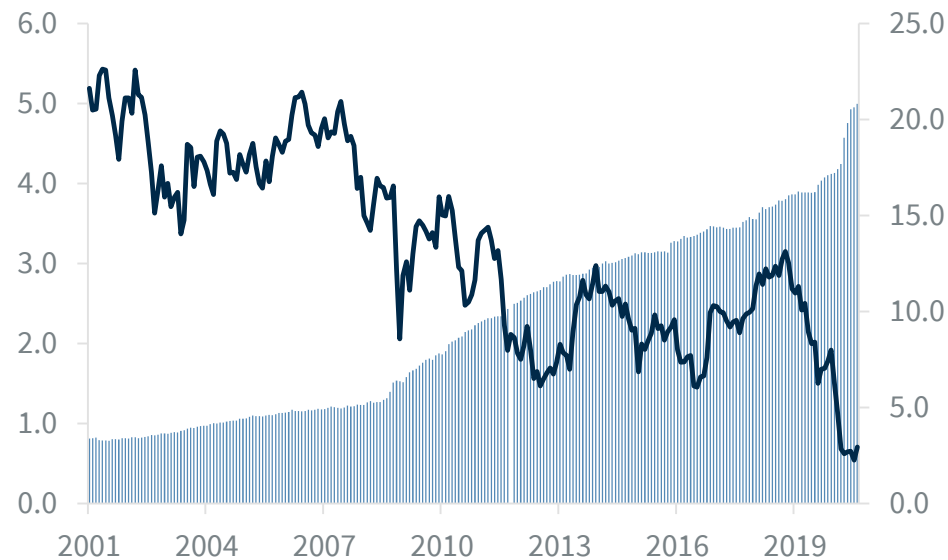
Sources: Bloomberg, CDC, FactSet, WHO

## RECORD ISSUANCE AND TREASURY YIELDS

### TREASURY YIELDS REMAIN NEAR RECORD LOWS DESPITE RISING DEBT LEVELS

- Despite record issuance and a sharp increase in debt levels Treasury yields remain stubbornly low.
- As debt levels continue to rise, it will be important for yields to stay lower for longer, as this will keep net interest costs to finance the increasing deficit contained. Keep in mind, ~67% of the outstanding Treasury debt will mature over the next five years.

Yields Decline While Debt Hits Record Highs



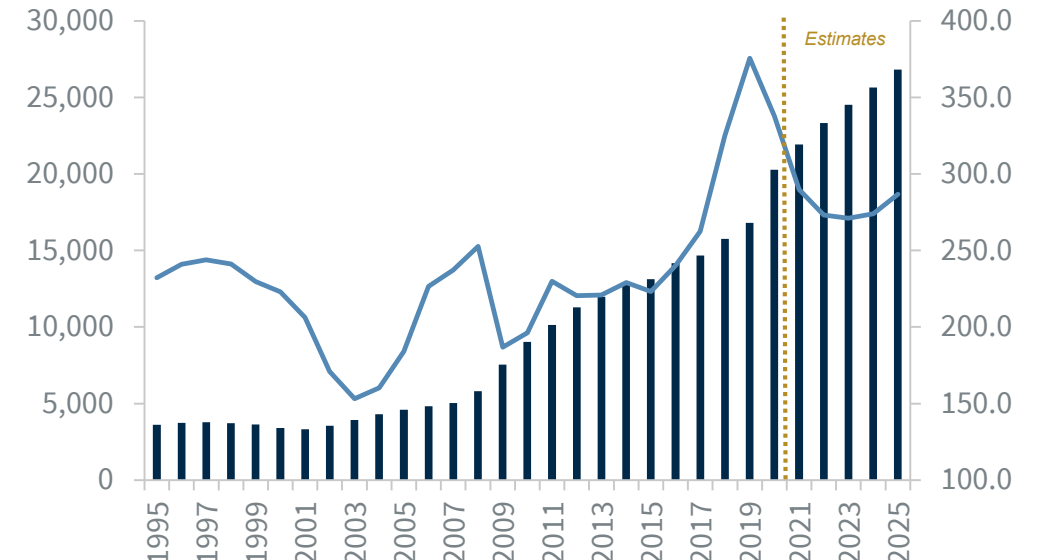
■ Federal Debt Held by the Public Outstanding (RHS, in \$tn)  
— US 10-YR Treasury Yield (LHS)

Source: FactSet, as of 9/29/2020

**67%**

of Treasury debt  
maturing over next  
five years

Despite Record Debt, Net Interest Near Multi-Year Lows



■ Total Federal Debt Held by the Public (LHS, in \$bn)  
— Net Interest Expense (in \$bn)

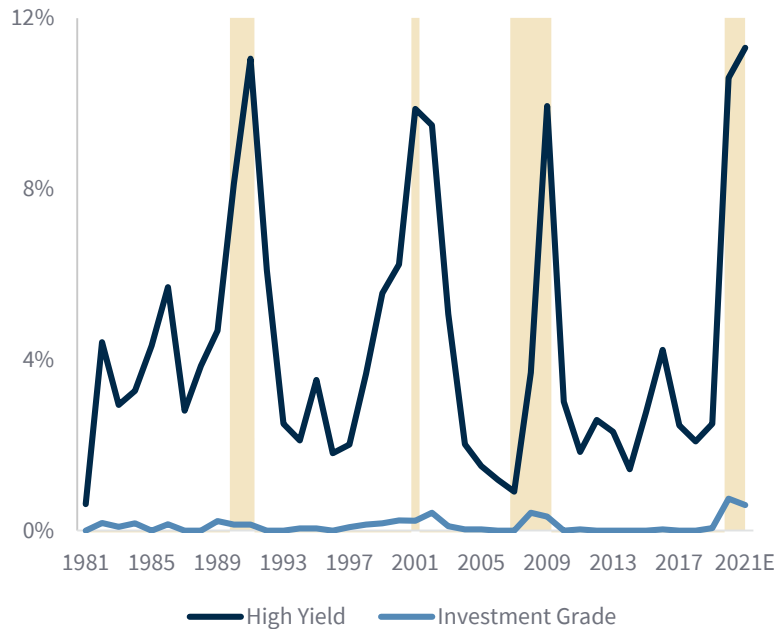
Source: FactSet, as of 9/29/2020

## YIELDS HAVE NO LICENSE TO MOVE HIGHER

### DEFAULT RATES ON THE RISE, SPECIFICALLY WITHIN THE HIGH-YIELD SPACE

- The pandemic-induced shutdowns and subsequent recession caused an unexpected drop in revenue for many businesses. This has spurred an increase in bankruptcies and defaults, particularly in the high-yield market, which is already composed of riskier assets. Energy companies, airlines, leisure facilities, and restaurants, which make up over two-thirds of the high-yield space, have an especially high projected rate of default.

#### High-Yield Default Rates Expected to Spike



Source: Bloomberg, as of 9/30/2020

#### PROJECTED DEFAULT RATES FOR TOP INDUSTRIES IMPACTED BY COVID-19

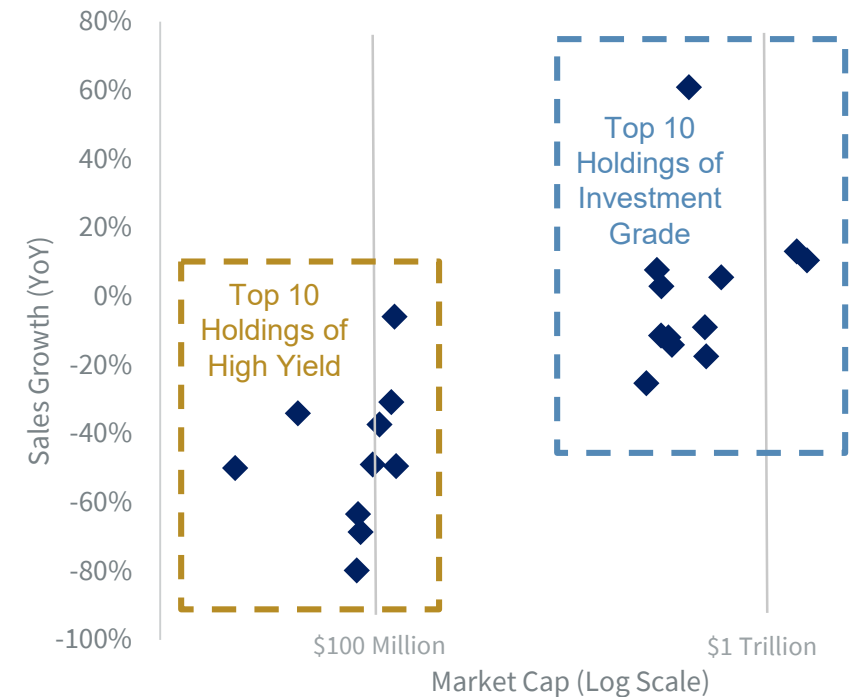
**17.1%**  
Energy

**7.3%**  
Leisure Facilities

**6.4%**  
Restaurants

**6.4%**  
Airlines

#### Investment Grade Sales Growth Advantage



Source: Bloomberg, as of 9/30/2020

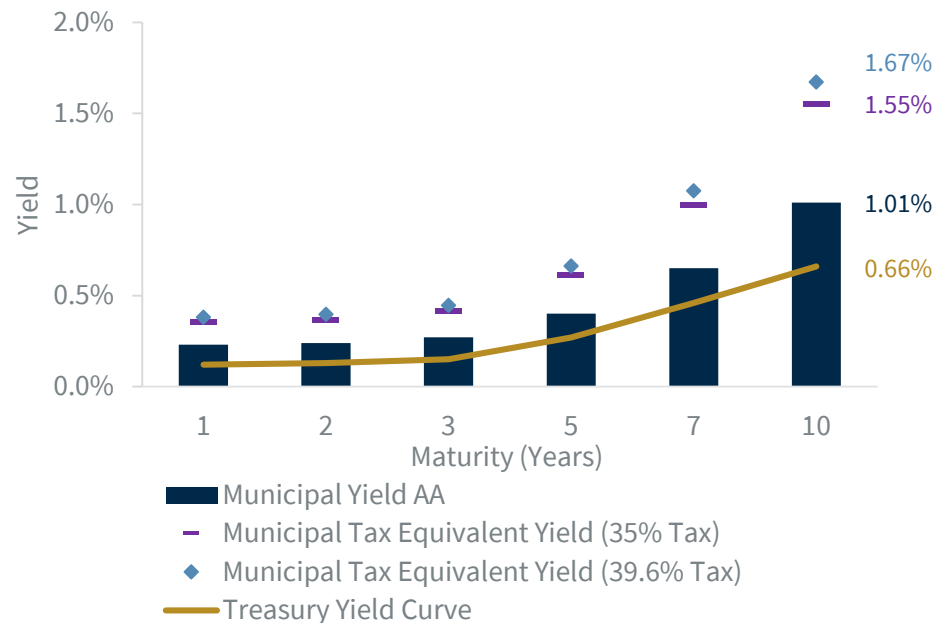


## YIELDS HAVE NO LICENSE TO MOVE HIGHER

### MUNICIPAL BONDS OFFER OPPORTUNITY

- Due to their historically low default rates and high credit quality, municipal bonds can be used to offset some of the heightened volatility seen in other areas of the fixed income market. The municipal market is being supported by the recent increase in fiscal stimulus. A Phase 4 deal for further assistance is currently in negotiations.
- Aid for state and local governments continues to be an obstacle in the negotiations surrounding the next economic stimulus package. However, the proposed \$1 trillion in aid may not be necessary at this point, as state and local governments closed Q2 with a \$117 billion surplus due mostly to the large cash inflow delivered through the CARES act.

### Munis Are Even More Attractive Under Higher Taxes



Source: FactSet, as of 10/4/2020

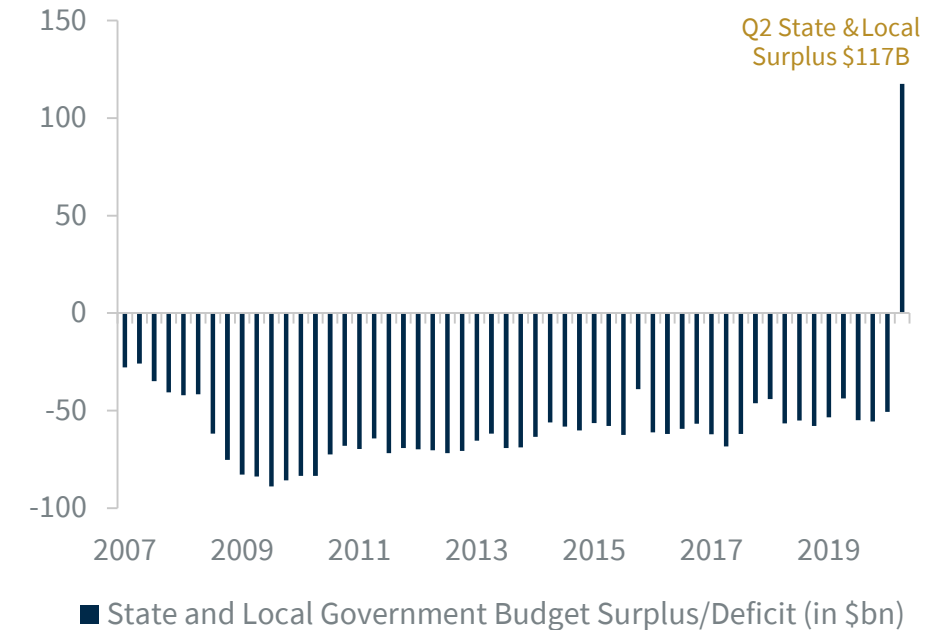
The value of the entire US  
muni market is

~\$4.3T

The value of Apple, Amazon,  
and Microsoft combined is

~\$5T

### State and Local Budget Surplus/Deficit



Source: Strategas, Data as of 9/30/2020





# WHY WE ARE OPTIMISTIC ABOUT EQUITIES

## Early In Bull Market

**200%**

Average Magnitude of Rally During Bull Market

## Improving Earnings Growth

**26%**

Consensus 2021 S&P 500 EPS Growth. Best Annual Growth Since 2010

## Low Interest Rates

**76%**

S&P 500 Constituents Have Dividend Yield > 10-Year Treasury

## Cash on Sidelines

**\$4.4**

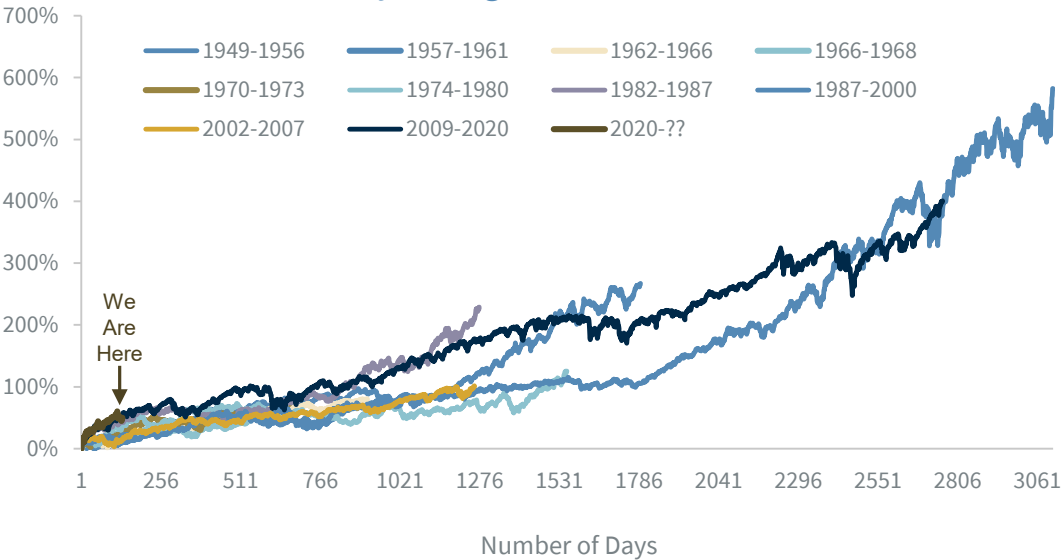
Trillion in Assets in Money Market Mutual Funds

## Positive Seasonality

**4.9%**

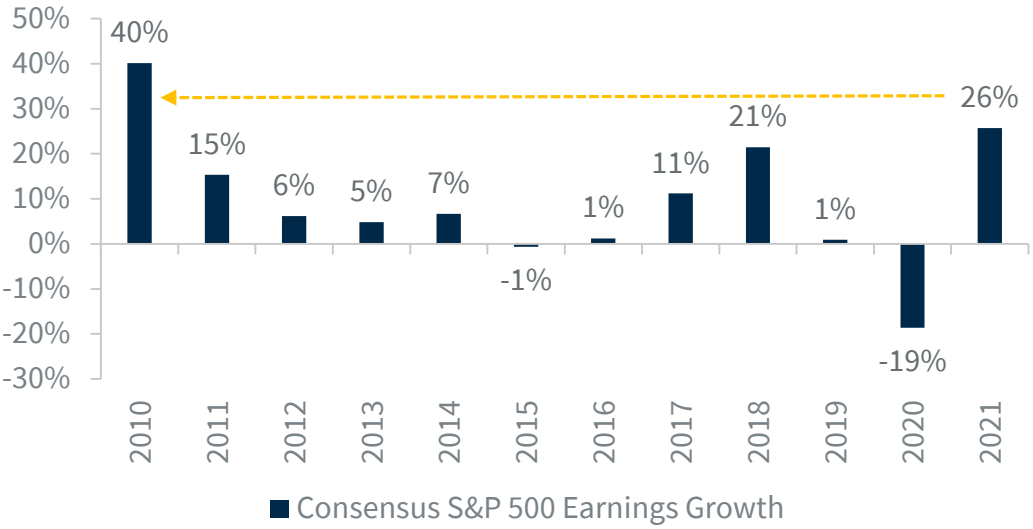
Average S&P 500 Return in 4Q Over Last 30 Years

Early Innings of Bull Market



Source: FactSet, as of 9/29/2020.

Strongest EPS Growth Since 2010 in 2021



Source: FactSet, as of 9/29/2020.



# FAVOR CYCLICALLY-ORIENTED SECTORS

## WE REMAIN BIASED TO SELECT CYCLICAL SECTORS OVER DEFENSIVE SECTORS

- Cyclical sectors should benefit from improving economic growth and our expectation for rising earnings growth.
- We are overweight the Information Technology, Communication Services, Consumer Discretionary and Health Care sectors.

Cyclical Tilt to Overweight Sectors

Overweight	Equal Weight	Underweight
Information Technology	Financials	Materials
Communication Services	Industrials	Utilities
Consumer Discretionary	Consumer Staples	Real Estate
Health Care		Energy

Cyclical Sectors

Defensive Sectors

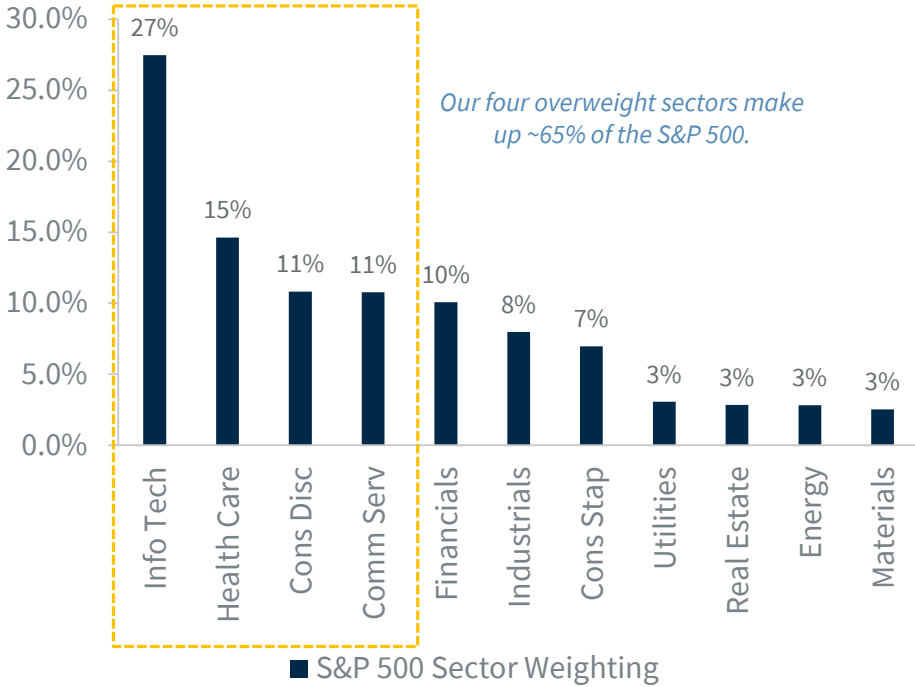
3,459

2020 S&P 500 Target

3,530

12-Month S&P 500 Target

Sector Weightings in S&P 500



Source: Raymond James Equity Portfolio & Technical Strategy

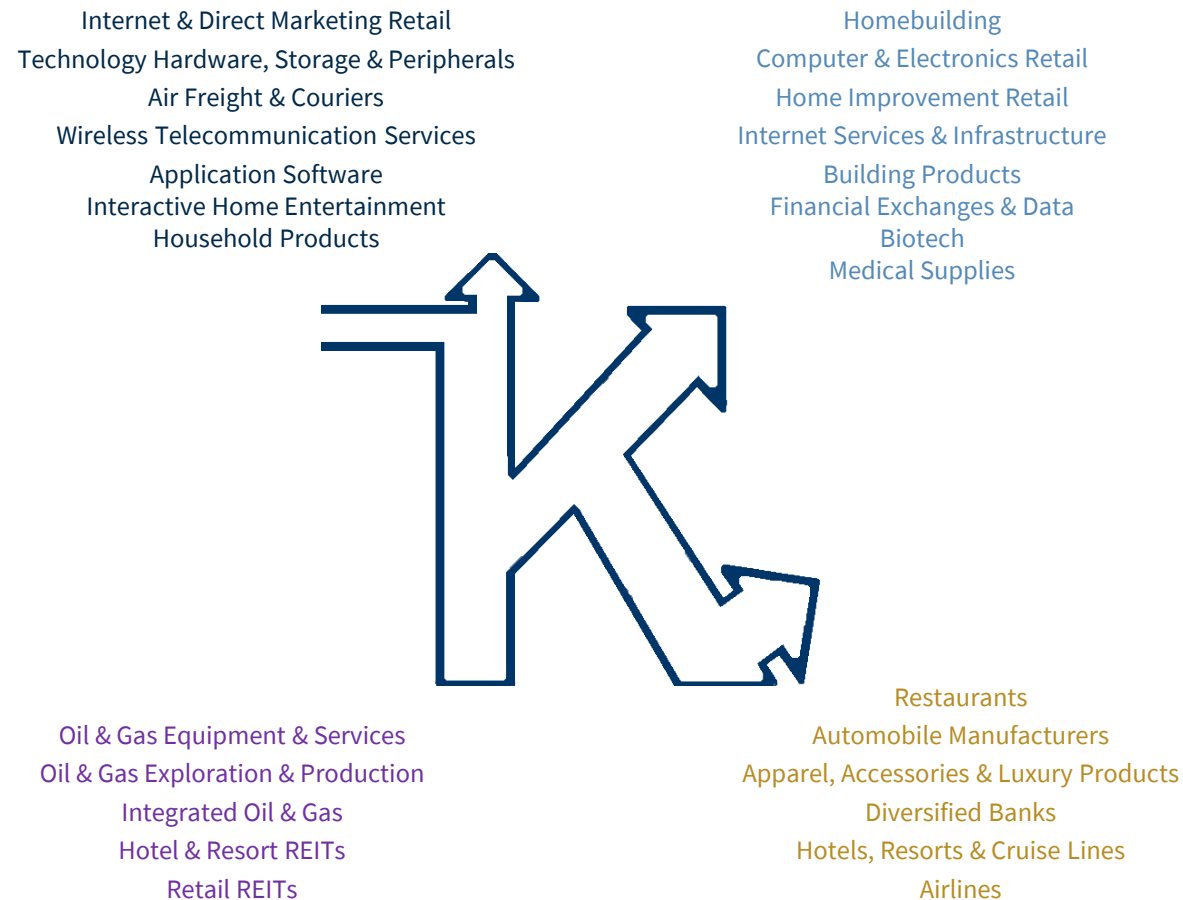
Source: FactSet, as of 6/8/2020



## K ECONOMY IMPACT ON EQUITY MARKET

### K-RECOVERY HAS DRIVEN SIGNIFICANT DISPERSION AMONGST WINNERS AND LOSERS

- Industries in the top portion of the K have significantly outperformed while those at the bottom have lagged the overall market.

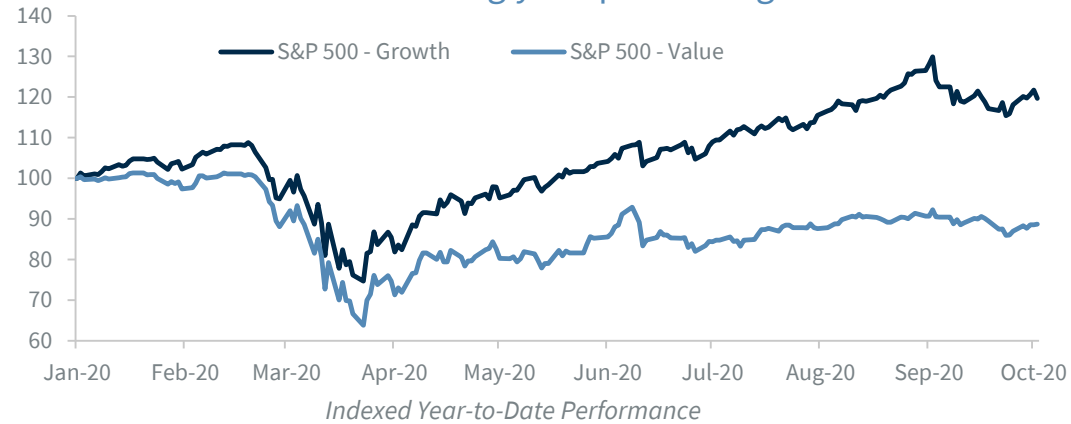


Source: FactSet, as of 10/2/2020



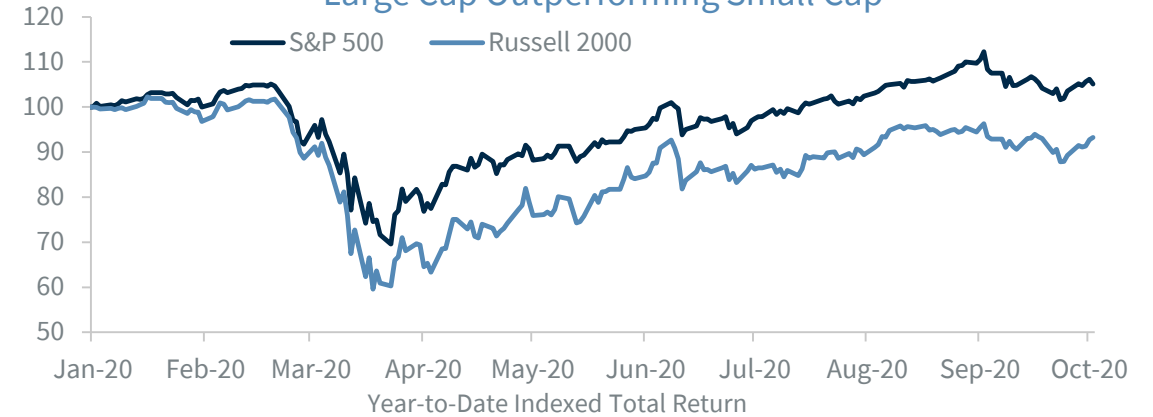
## K-RECOVERY DICTATING EQUITY PERFORMANCE

### Growth Strongly Outperforming Value



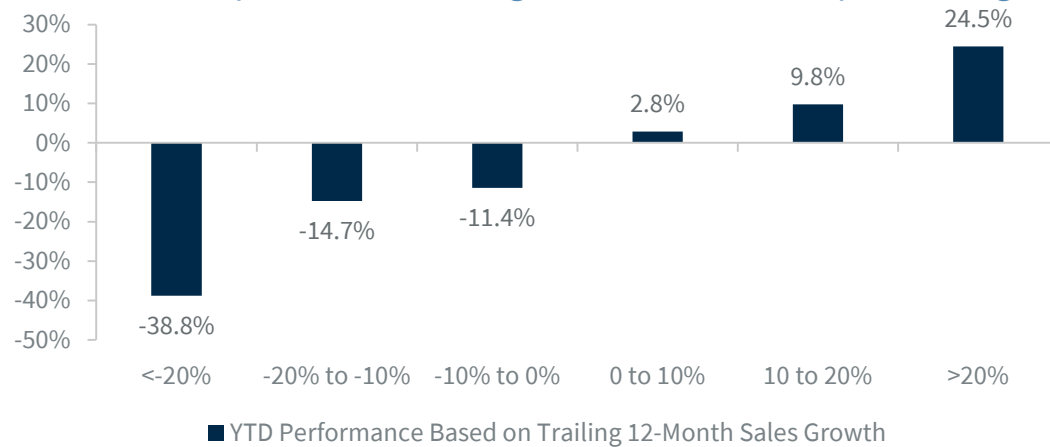
Source: FactSet, as of 10/3/2020

### Large Cap Outperforming Small Cap



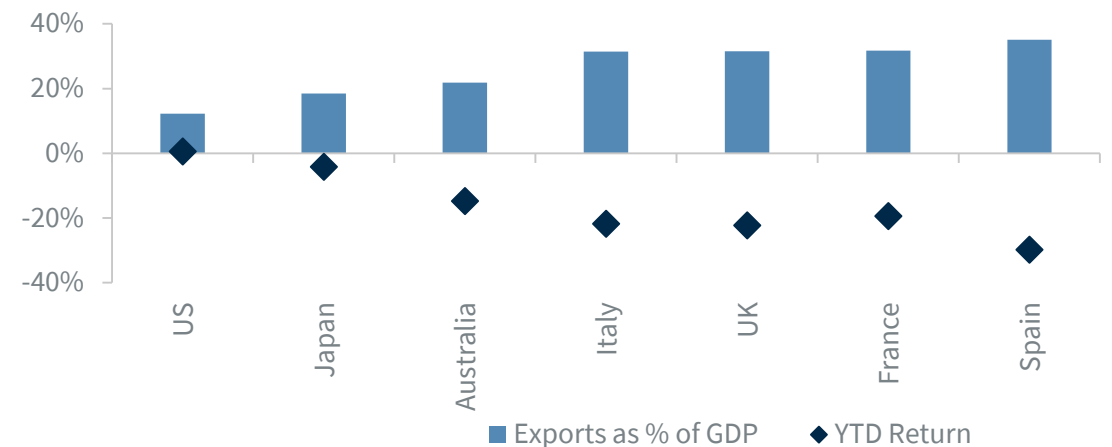
Source: FactSet, as of 10/3/2020

### Companies with Stronger Sales Growth Outperforming



Source: FactSet, as of 10/3/2020

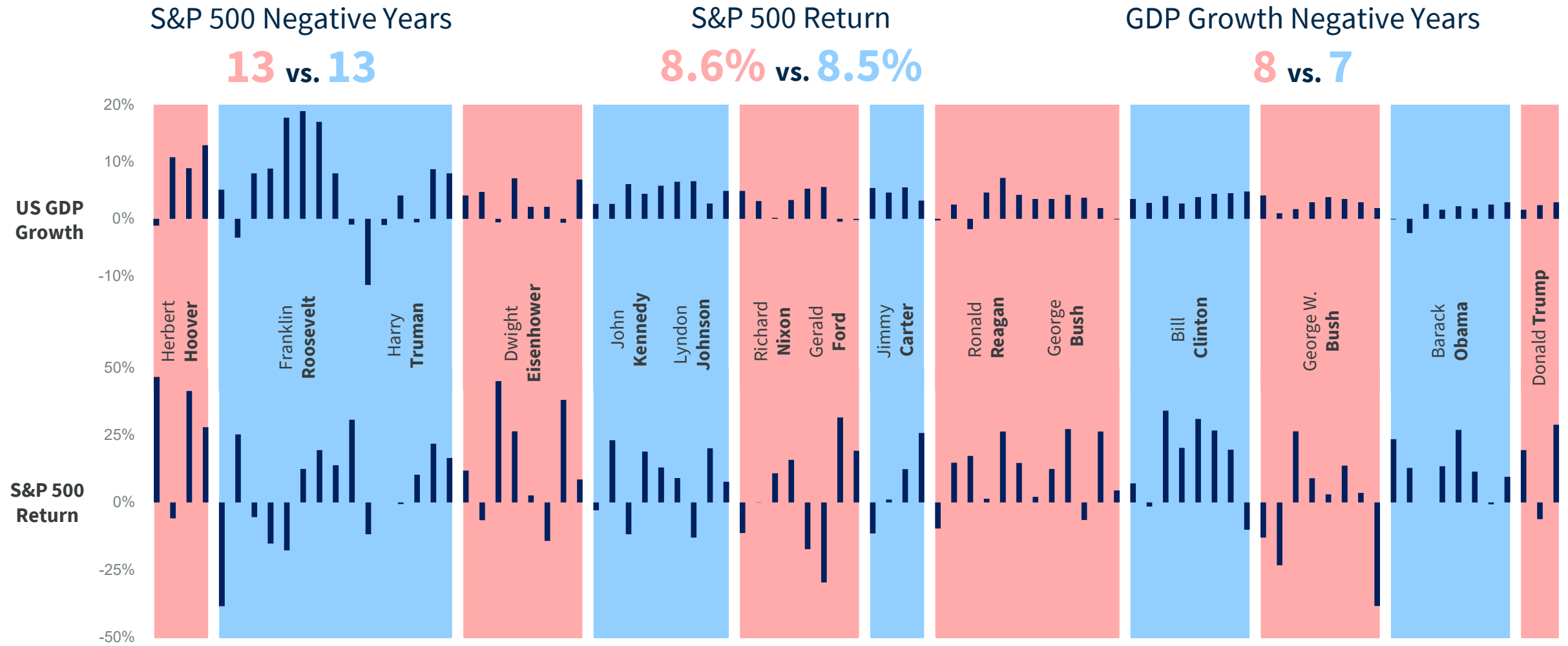
### Exports and Market Returns



Source: FactSet, as of 10/3/2020



## POLITICAL PARTY PERFORMANCE: SINCE 1932



Source: FactSet, as of 12/31/2019



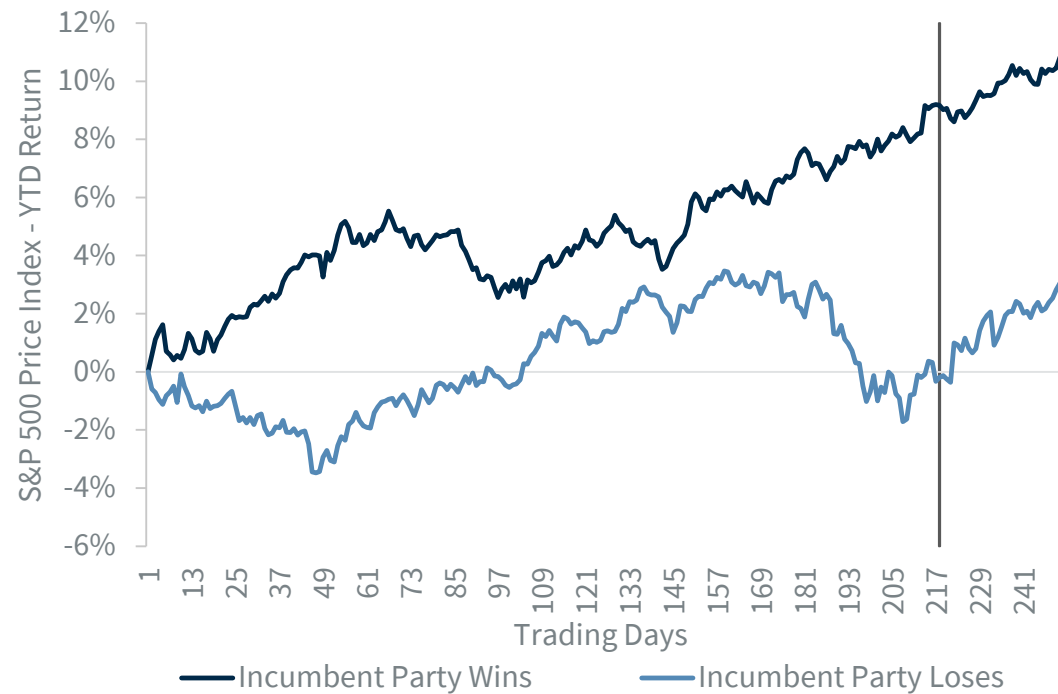


## EQUITY PERFORMANCE SURROUNDING ELECTIONS

### THE S&P 500 HAS HISTORICALLY HAD SOLID PREDICTIVE POWER REGARDING THE WINNER OF THE ELECTION

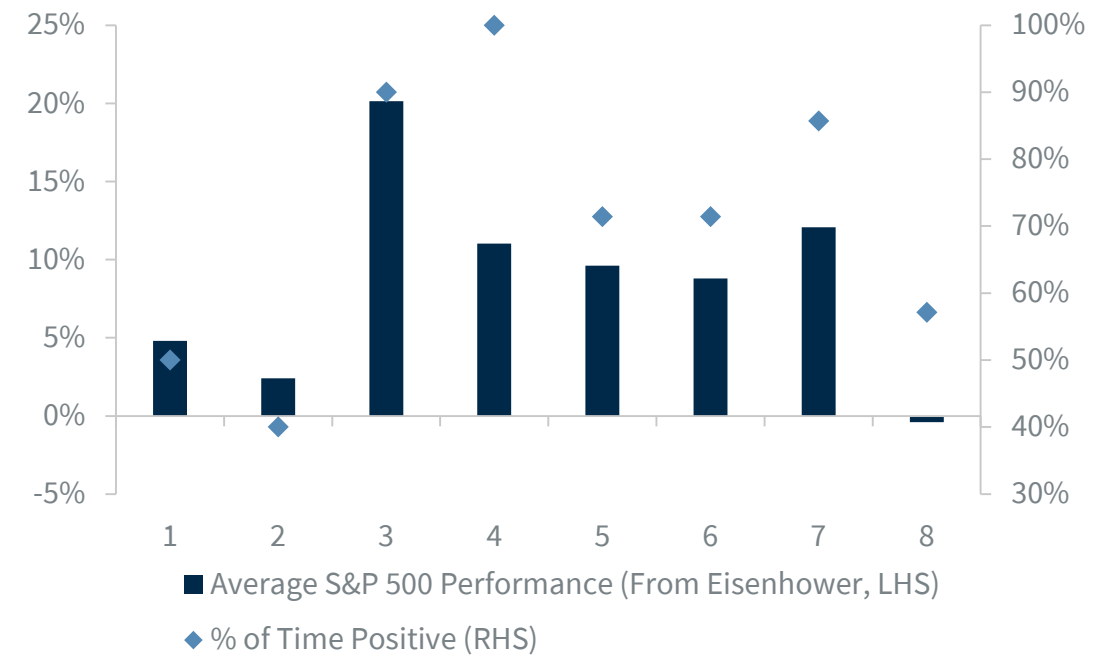
- Typically, in years that the incumbent loses, the S&P 500 trades lower heading into the election.
- The fourth year of the presidential cycle is historically positive for the equity market.

Performance When Incumbent Wins/Loses



Source: FactSet, as of 10/4/2020

Average Return by Presidential Year



Source: FactSet, as of 10/4/2020

## ANNUALIZED TOTAL RETURN FOR SECTORS UNDER BOTH PARTIES



### Energy

Conventional Wisdom:  
**Favors Republicans**



### Financials

Conventional Wisdom:  
**Favors Republicans**



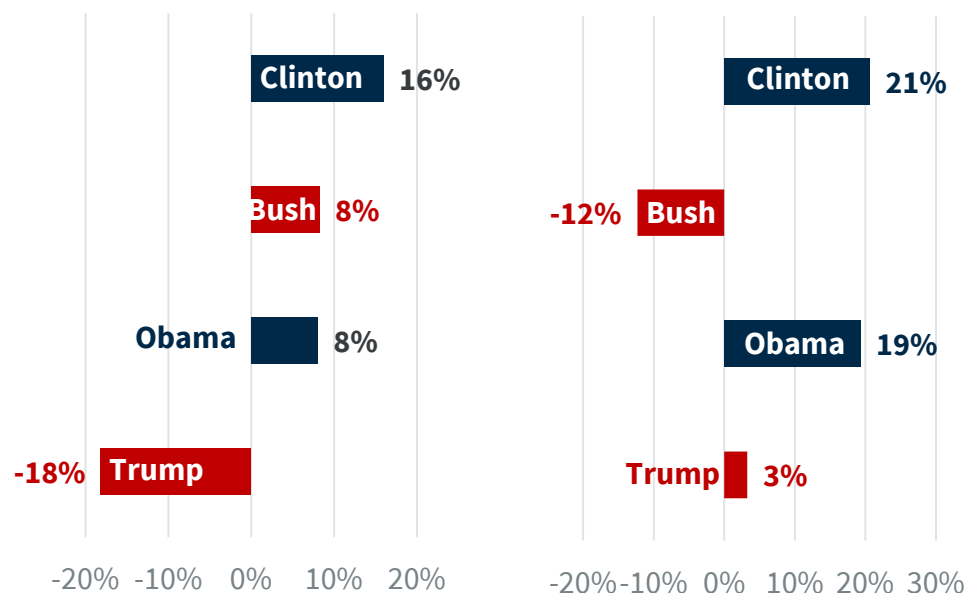
### Health Care

Conventional Wisdom:  
**Favors Republicans**



### Information Technology

Conventional Wisdom:  
**Toss Up**

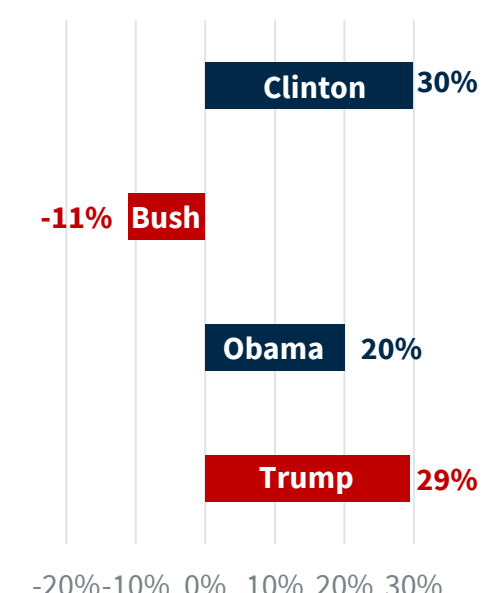
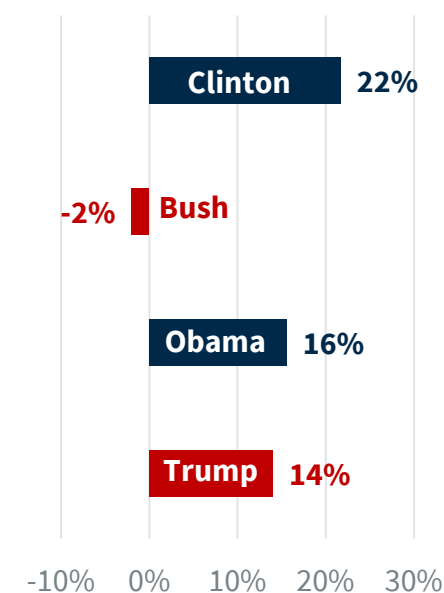


**Clinton**  
1/20/1993-1/20/2001

**Bush**  
1/20/2001-1/20/2009

**Obama**  
1/20/2009-1/20/2017

**Trump**  
1/20/2017-Present



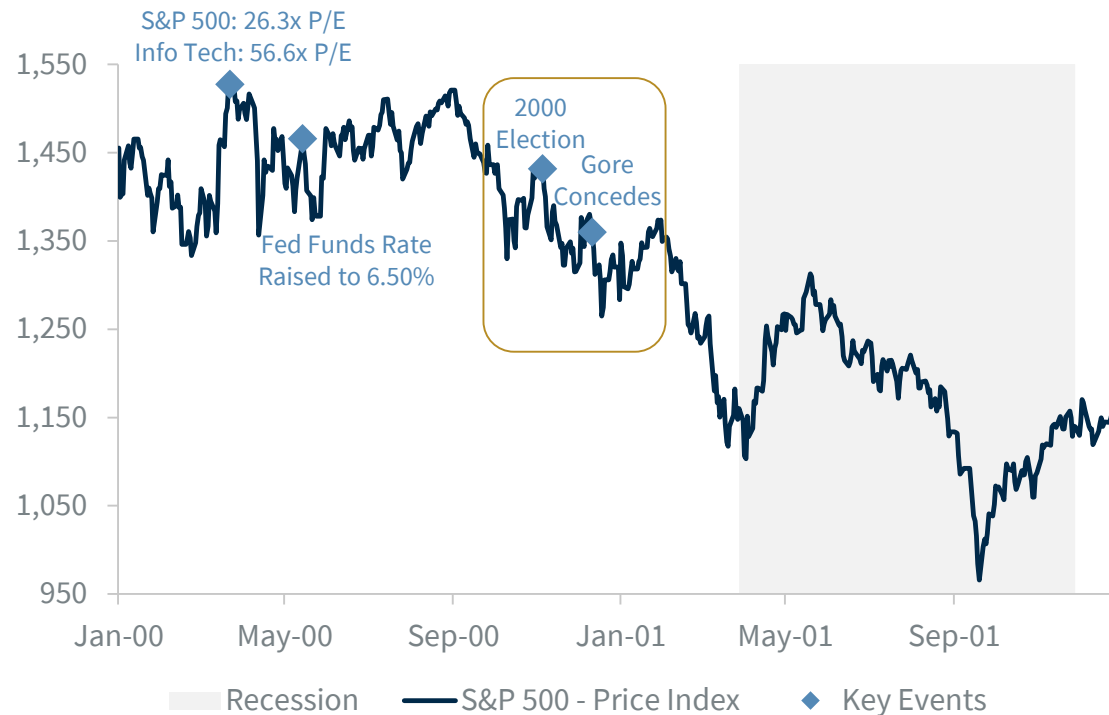
Source: FactSet, as of 10/4/2020, Images: Getty

## DEBUNKING ELECTION MISCONCEPTIONS

### THERE ARE A NUMBER OF MISCONCEPTIONS WHEN IT COMES TO THE ELECTION'S IMPACT ON THE EQUITY MARKET

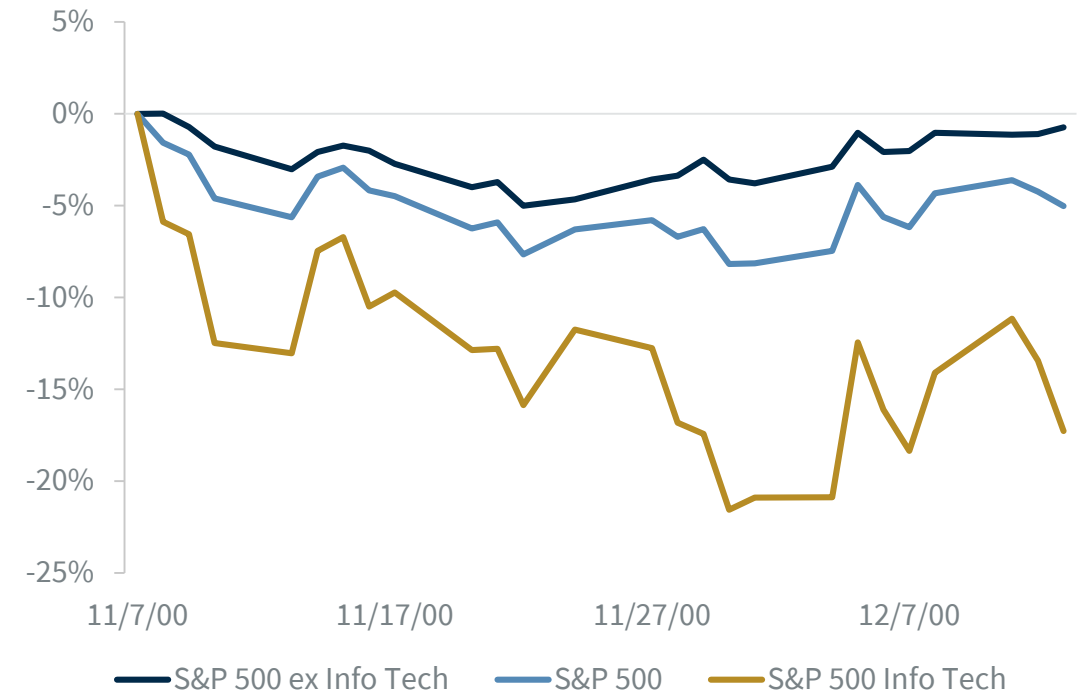
- It is a possibility that we may not know the outcome of the election on election night. Looking at 2000, the market declined ~5% until Gore conceded. However, if you strip out Technology (which was in the midst of the dot-com bubble), the market was actually flat over that time period.

Equity Market Performance Surrounding 2000 Election



Source: FactSet, as of 10/4/2020

Uncertainty of Election Outcome Will Lead to Sell-Off

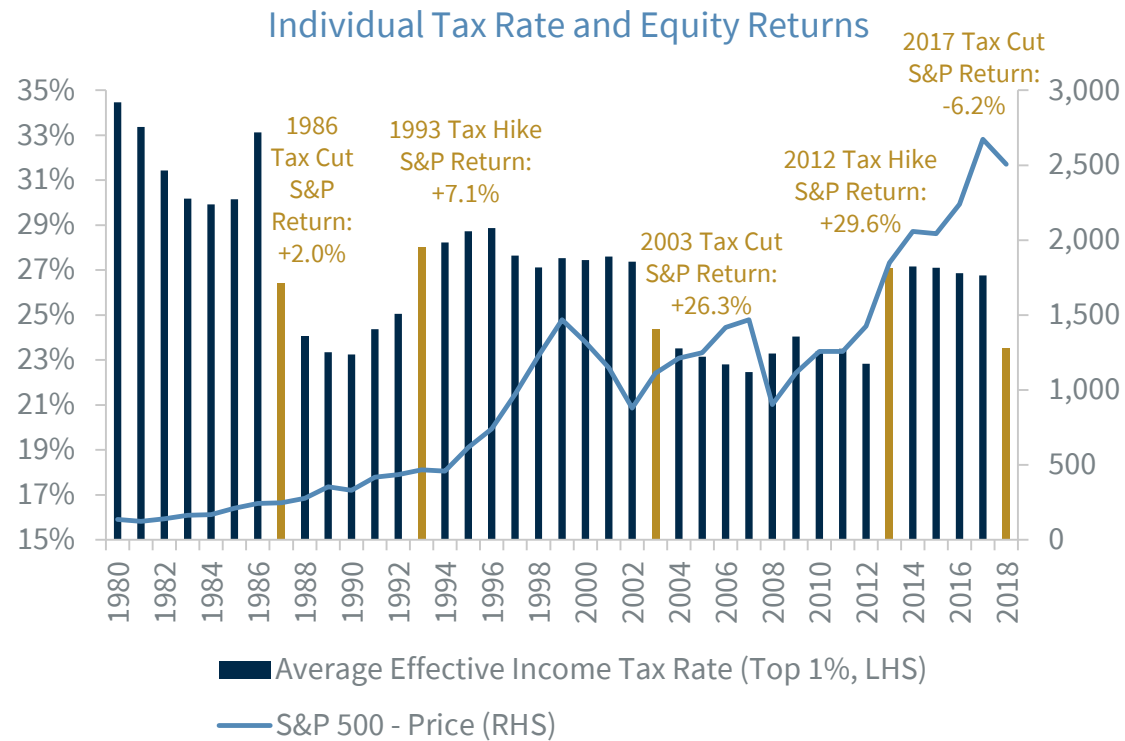


Source: FactSet, as of 10/4/2020

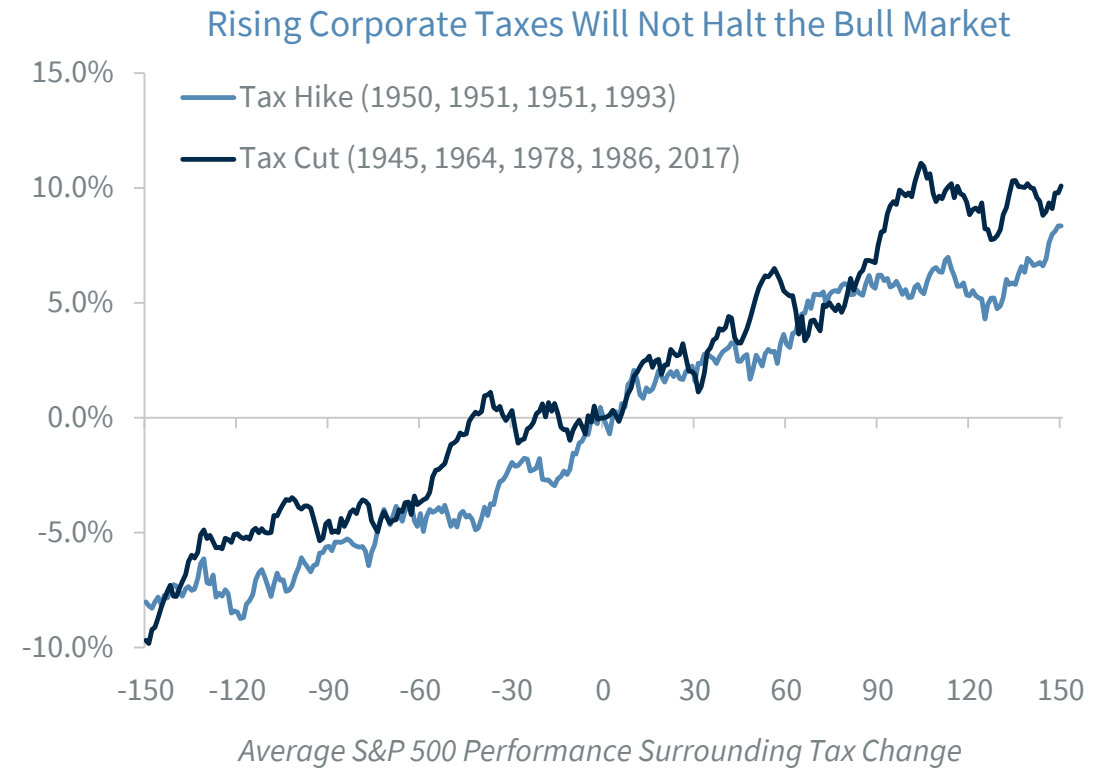
## DEBUNKING ELECTION MISCONCEPTIONS

### THERE ARE A NUMBER OF MISCONCEPTIONS WHEN IT COMES TO THE ELECTION'S IMPACT ON THE EQUITY MARKET

- Both income tax cuts and tax hikes have historically not had a significant impact on the equity market in the years they were enacted.
- While Biden's corporate tax plan would likely cause earnings to decline ~10%, previous tax hikes have not stopped the equity market's momentum.



Source: FactSet, IRS. 2018 average tax rate is estimated.



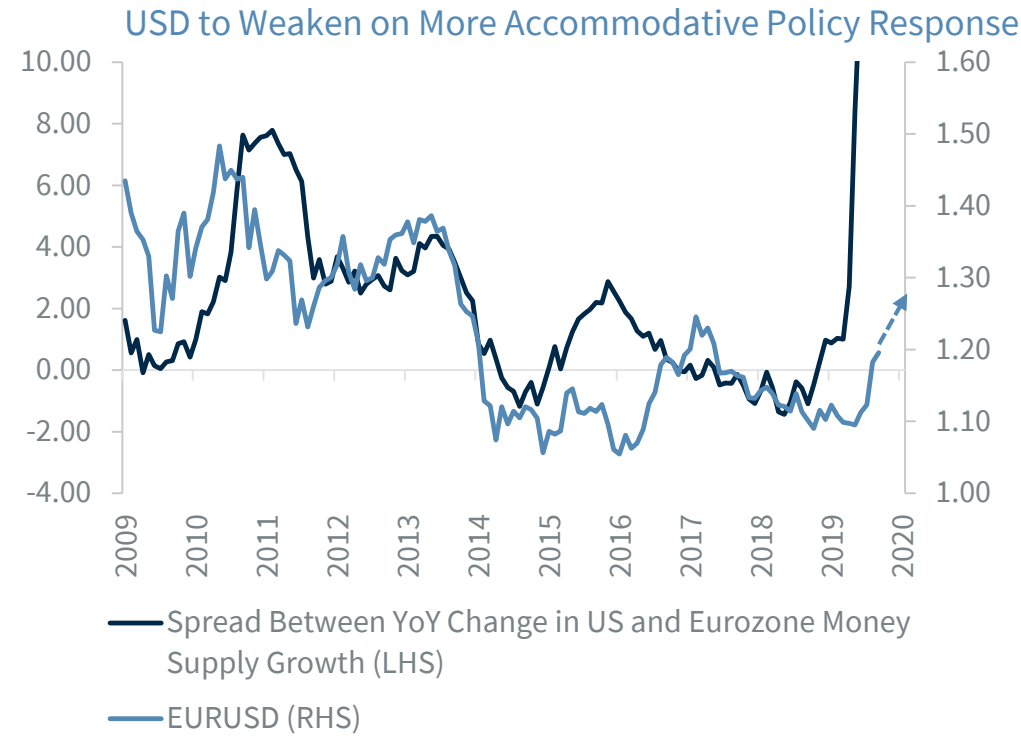
Source: FactSet, as of 10/4/2020



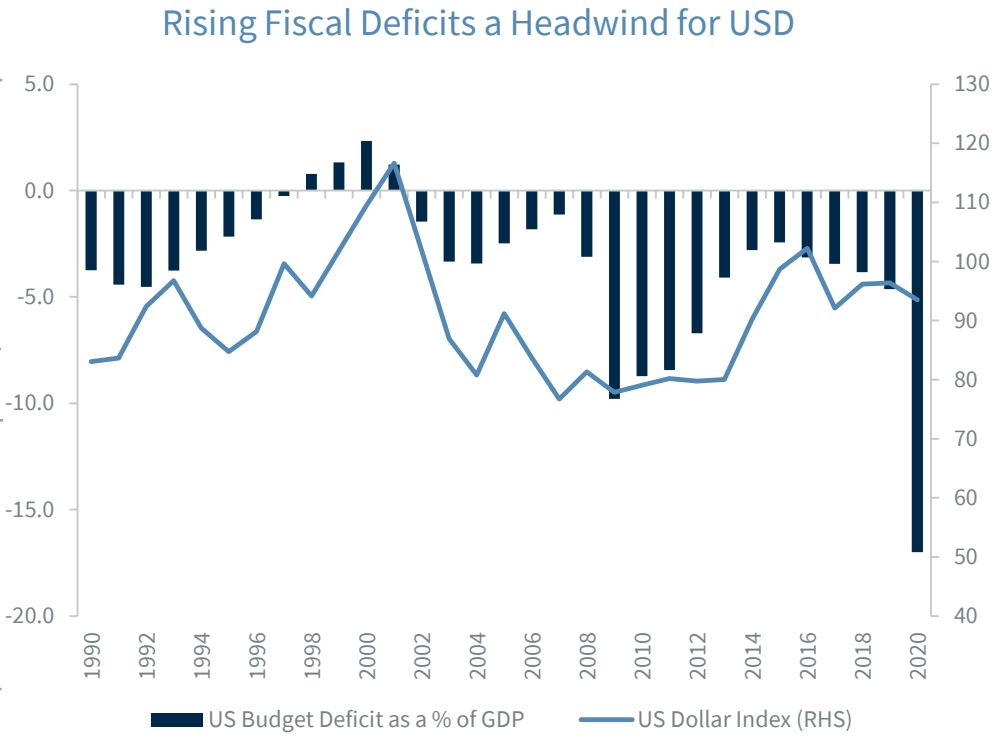
# GOLD A SOLID DIVERSIFIER AMONGST COVID VOLATILITY

## EASING IN FISCAL AND MONETARY POLICY WILL BE A HEADWIND FOR THE DOLLAR GOING FORWARD

- As the Fed has eased monetary policy to a larger degree than the ECB, this will weigh on the dollar relative to the euro going forward.
- The sharp increase in the budget deficit will also likely weigh on the dollar.



Source: FactSet, as of 10/4/2020



Source: FactSet, as of 10/4/2020



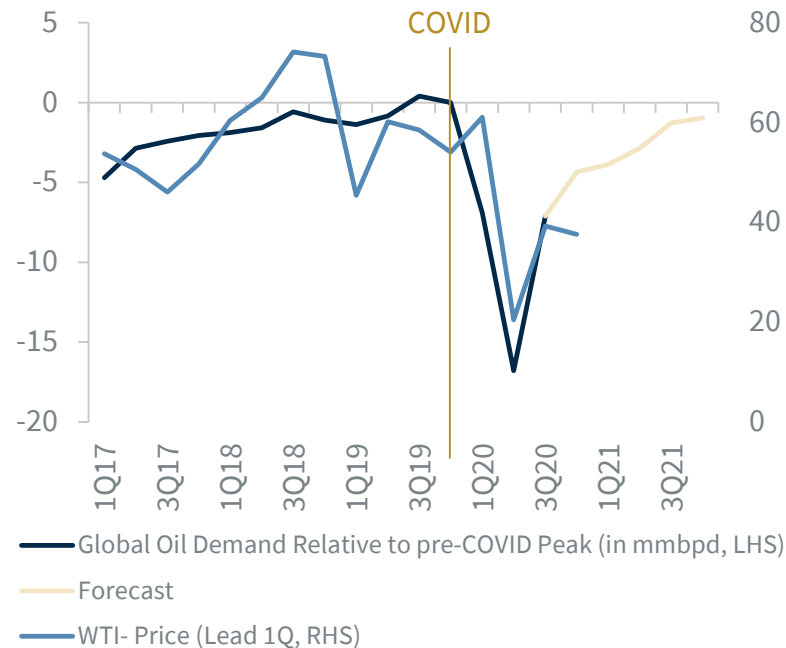


## ENVIRONMENTAL CONCERNS A HEADWIND FOR OIL

### THE SHIFT TO MORE RENEWABLE SOURCES WILL WEIGH ON OIL DEMAND GOING FORWARD

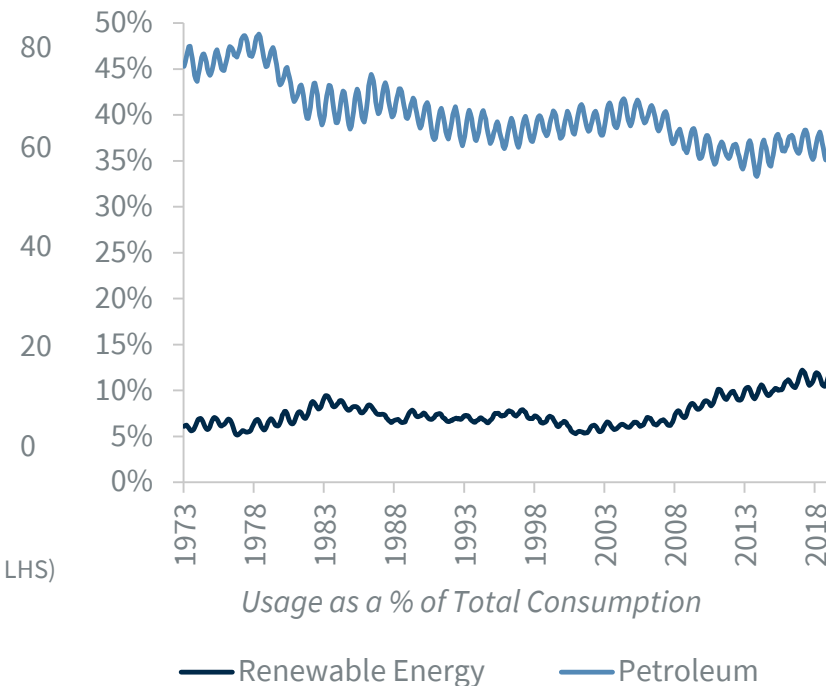
- The percentage of energy consumption from renewable sources relative to total consumption has risen considerably in recent years, with ~13% of consumption now coming from renewable sources. This is an almost 3x increase over the last 20 years.
- By 2040, it is estimated that ~60% of total car sales will be of electric vehicles.

Oil Demand Will Not Hit Pre-COVID Levels Through 2021



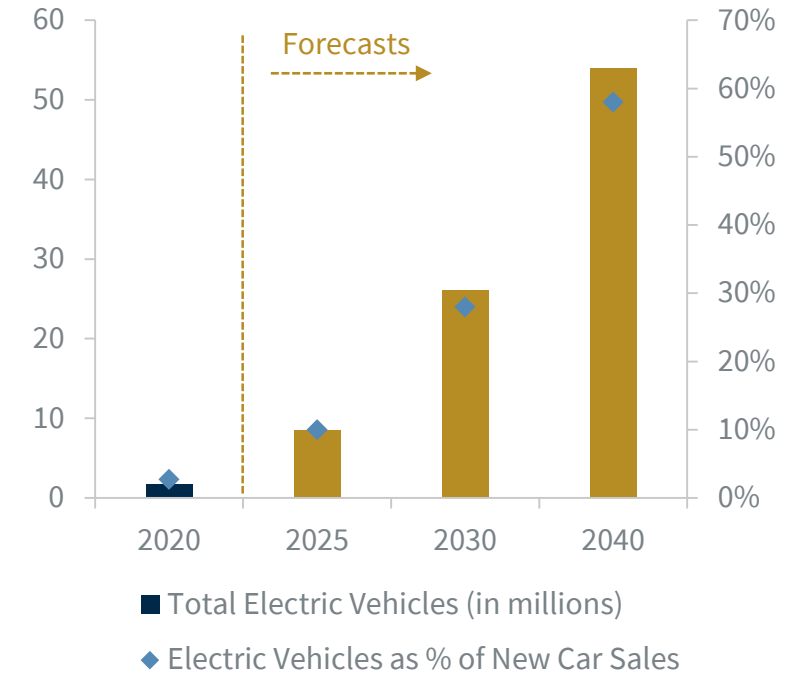
Source: FactSet, as of 10/4/2020

Oil as a % of Energy Consumption Declining



Source: FactSet, as of 10/4/2020

Electric Vehicle Demand Rising



Source: Bloomberg, as of 9/30/2020



## GOLD A SOLID DIVERSIFIER AMONGST COVID VOLATILITY

### THROUGHOUT THE COVID CRISIS, GOLD HAS BEEN A SOLID PERFORMER AND DIVERSIFIER

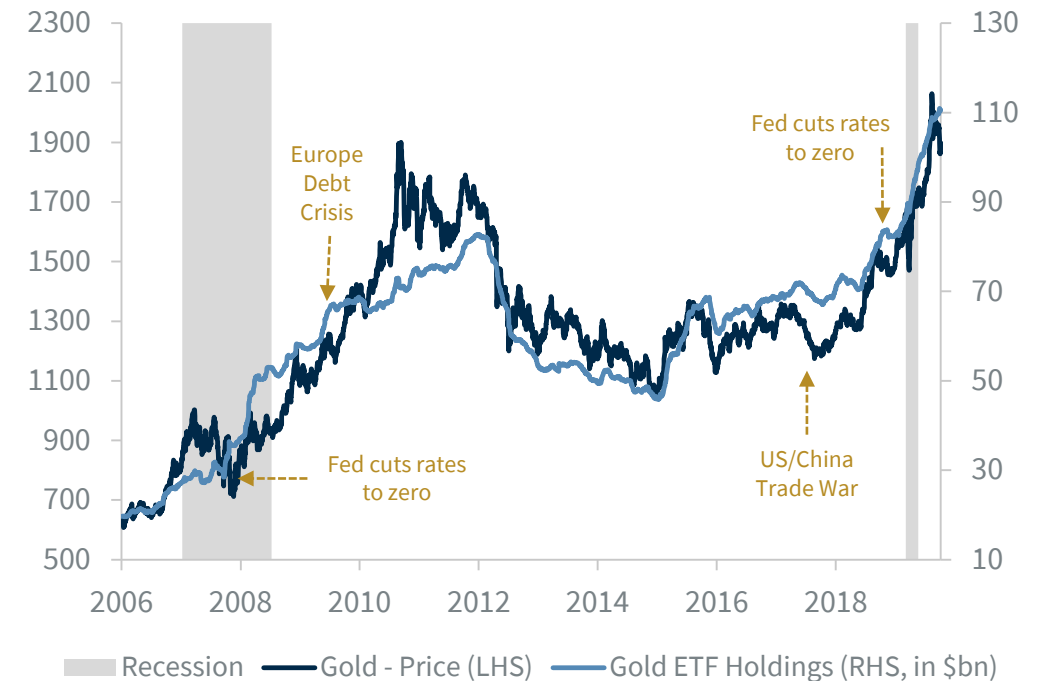
- As real yields have declined with the sharp decline in nominal yields and easing in monetary policy, gold has benefitted as it has had a strong correlation to real yields over the past 15 years.
- The move in gold has been primarily a retail trade, as the holdings in gold ETFs have moved with the price of gold.

Gold Moving With Real Yields



Source: FactSet, as of 10/4/2020

Gold a Retail-Driven Trade



Source: FactSet, as of 10/4/2020

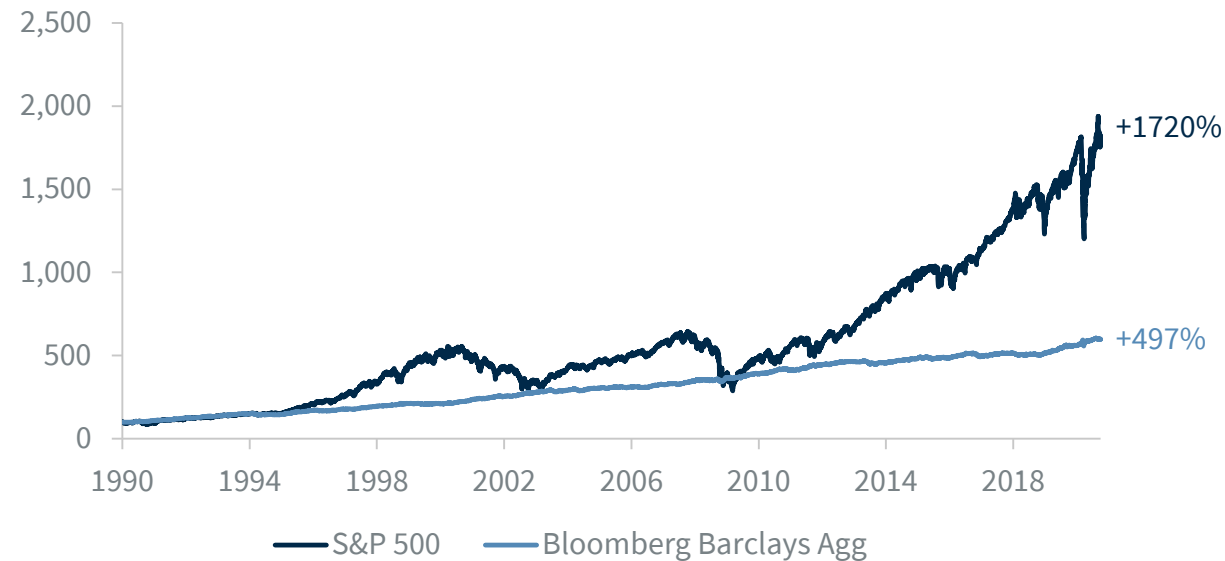


## CALIBRATING YOUR RISK PROFILE

WHILE A 100% EQUITY PORTFOLIO HAS OUTPERFORMED IN THE LONG RUN, IT HAS BROUGHT A SIGNIFICANT AMOUNT OF VOLATILITY RELATIVE TO A WELL-DIVERSIFIED PORTFOLIO.

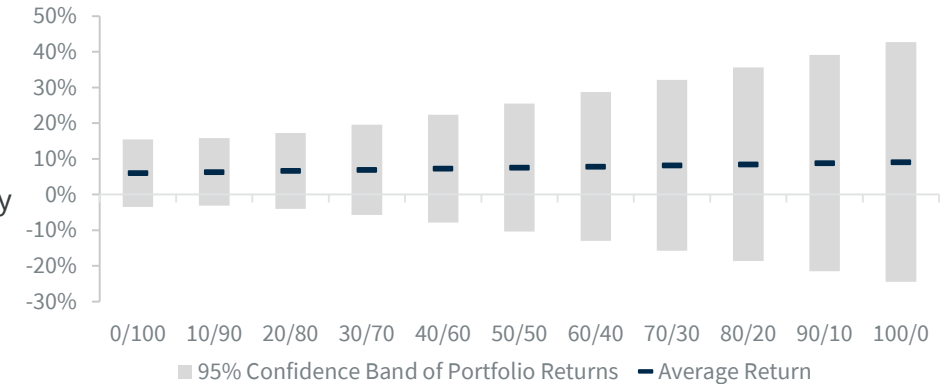
- While investing in a diversified portfolio is critical for investors, time horizon is also something for investors to seriously consider.
- When looking at the same allocation over a 1-year vs. a 5-year holding period, volatility is significantly reduced as there are benefits to longer time horizons.

### Equity and Bond Performance Over Last 30 Years



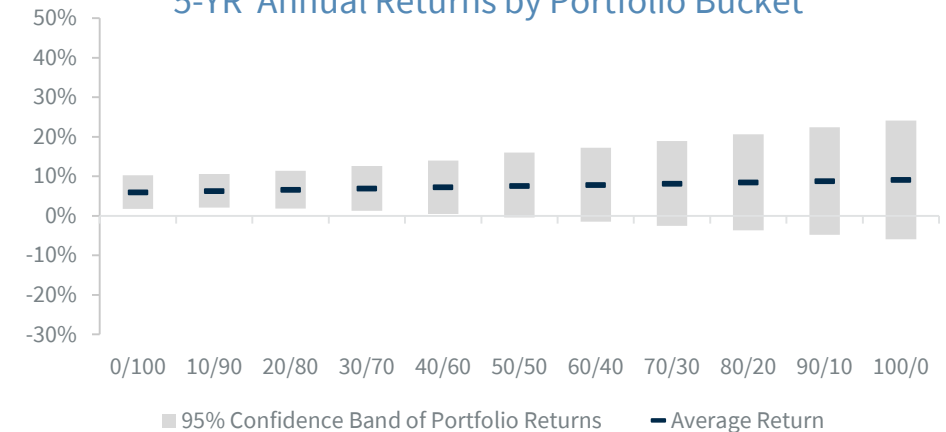
Source: FactSet, as of 10/4/2020

### 1-YR Annual Returns by Portfolio Bucket



Source: FactSet, as of 10/4/2020

### 5-YR Annual Returns by Portfolio Bucket



Source: FactSet, as of 10/4/2020

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**INTERNATIONAL INVESTING** | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Investing in emerging markets can be riskier than investing in well-established foreign markets.

**SECTORS** | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

**OIL** | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

**CURRENCIES** | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

**GOLD** | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

**FIXED INCOME** | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

**US TREASURIES** | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

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## FIXED INCOME DEFINITION

**AGGREGATE BOND** | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

**HIGH YIELD** | **Bloomberg Barclays US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below.

**US DOLLAR** | The U.S. Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" (value) when compared to other currencies.

## US INDEXES AND EQUITY SECTORS DEFINITION

**S&P 500** | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**SMALL CAP** | Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks.



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[LARGE-CAP STOCK](#) | also known as big caps are shares that trade for corporations with a market capitalization of \$10 billion or more. Large-cap stocks tend to be less volatile during rough markets as investors fly to quality and stability and become more risk-averse

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#### DATA SOURCES:

FactSet and Bloomberg.

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