



Banking. Wealth. Insurance.

## Economic and Market Update

*July 22, 2020*

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President and CIO  
Johnson Wealth, Inc.

# Conclusions

- Economic **recovery** underway and uneven
- Trajectory of infections will create improvement
- Global stimulus nearly **29% of global GDP**
- **Markets' recovery** based on optimism about recovery; stimulus now and in the future; Vaccine; TINA
- **Bonds** have a place and so do **complements**
- **Election** isn't over – policies matter
- **Demographics** create unrest and future upside



# We've Been Here Before

Do you recall the following, in 1968:

- *H3N2 Pandemic – 100k deaths in U.S.*
- *Prague Spring*
- *TET Offensive*
- *Dr. Martin Luther King Jr. assassinated sparking national riots*
- *Lyndon Johnson signs the Fair Housing Act to eliminate discrimination from housing practices – and announces he is not running for re-election*
- *5000 University students protest in Paris, causing sympathy protests across the country*
- *Robert F. Kennedy is assassinated as he is campaigning for President in LA*
- *DNC sees police and national guard battle anti-war protesters*
- *Arthur Ashe is first African American to win a grand slam tournament*
- *Mexico City – police and troops fire on student protest*
- *Nixon wins*
- *Yale admits female undergraduates for the first time in 267 years*



Image Source: Smithsonian

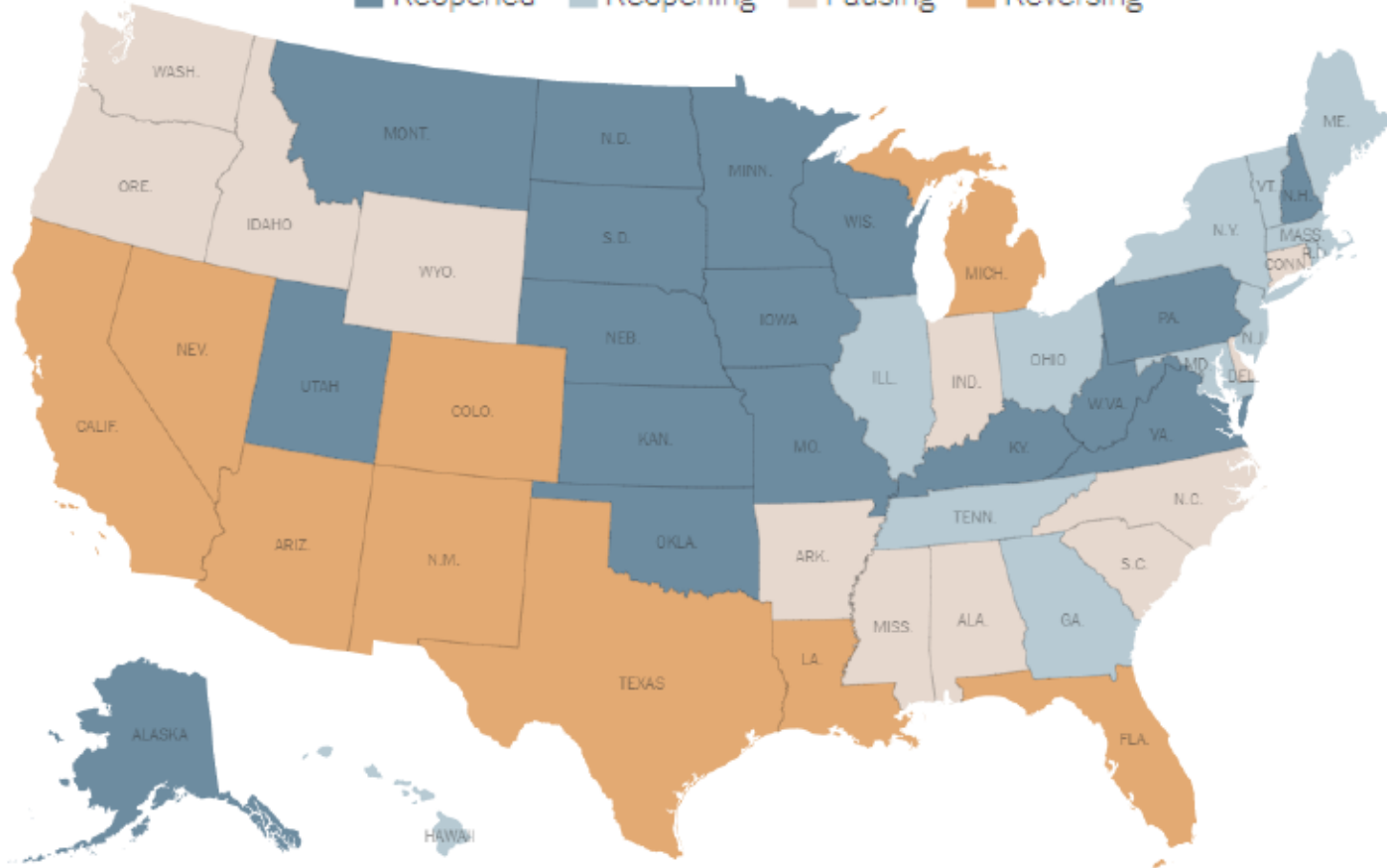


# Pausing The Reopening

[See How All 50 States Are Reopening \(and Closing Again\)](#)

Updated July 13, 2020

■ Reopened ■ Reopening ■ Pausing ■ Reversing

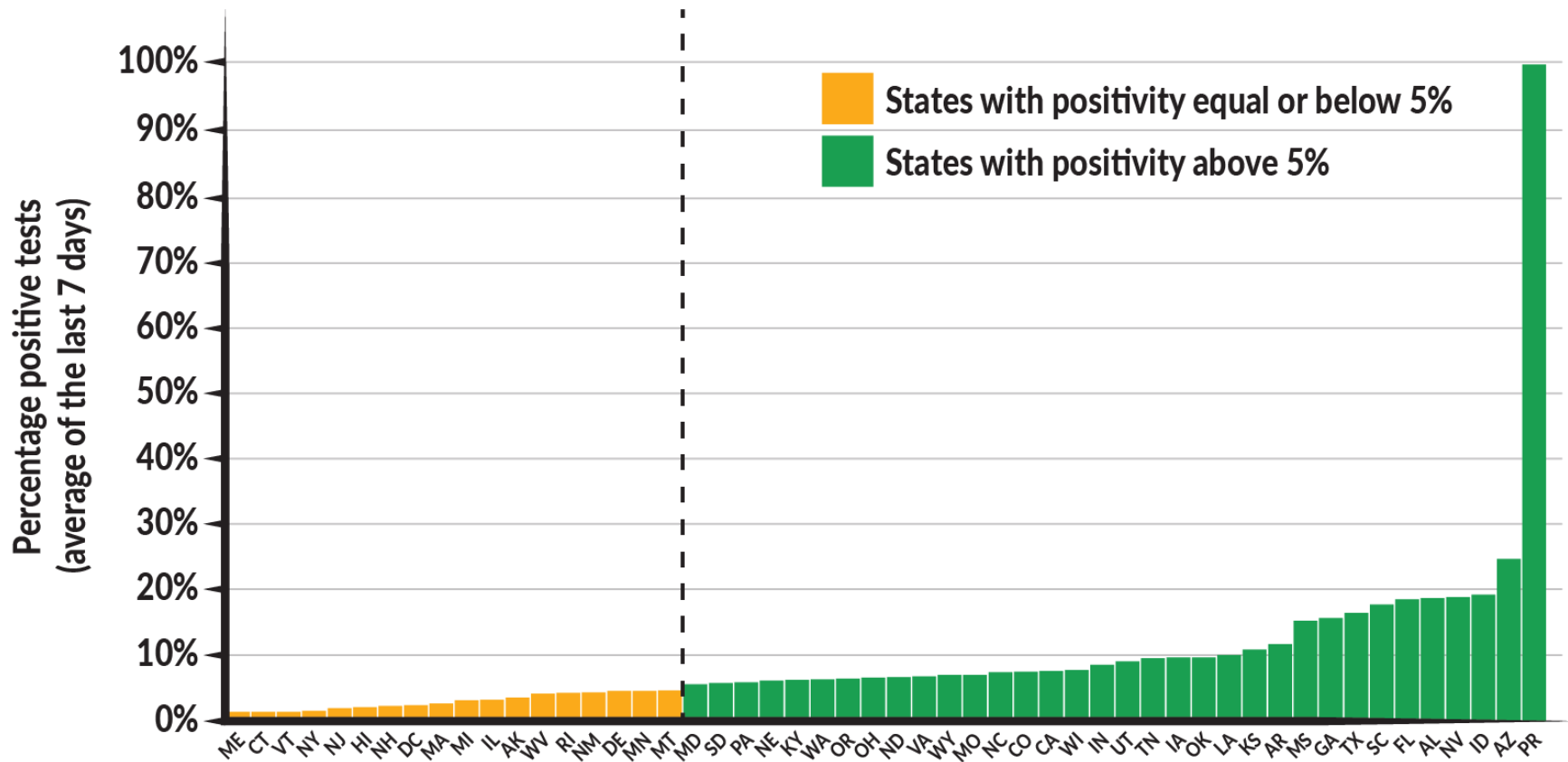


**COVID Data Is Going In The Wrong Direction**

Source: Johns Hopkins Corona Virus Resource Center



# COVID 19 – Round 2

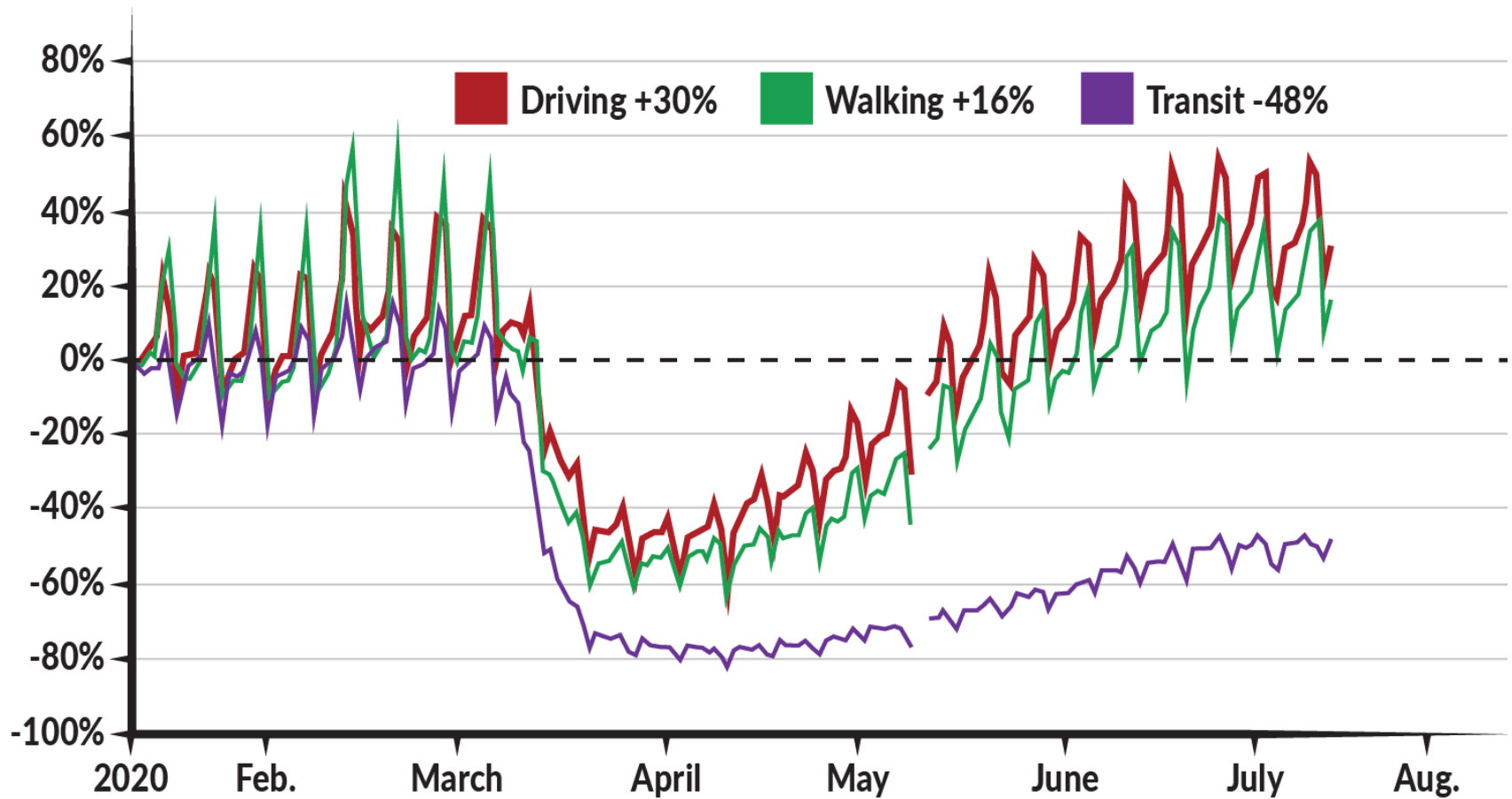


Source: Johns Hopkins Corona Virus Resource Center

- 34 states have higher than recommended positivity
- 18 states meet positivity recommendations



# U.S. Apple Mobility Daily Data

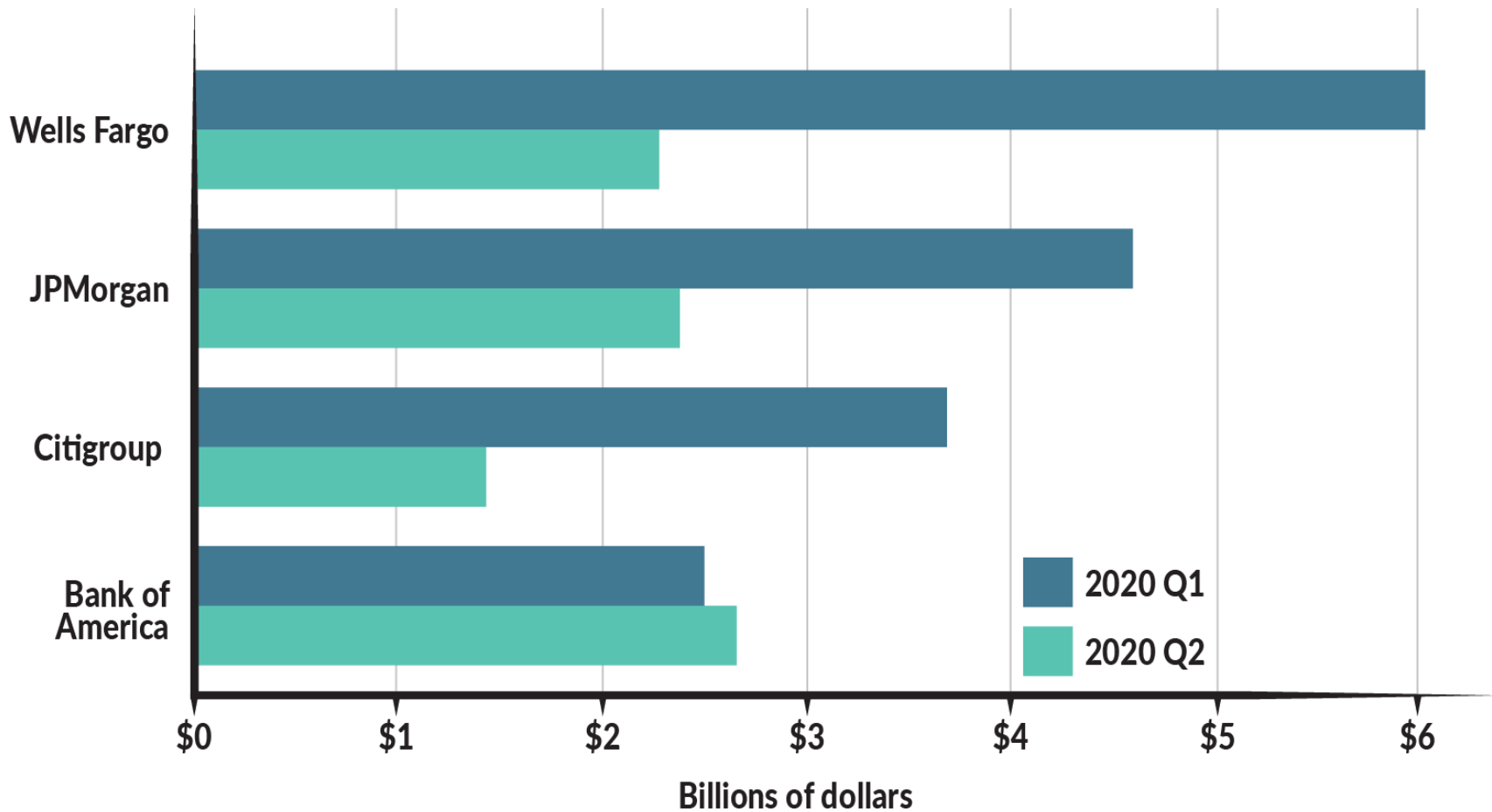


Source: Apple, data through July 13, 2020



# Loan Loss Reserves

## Provisions for Corporate Loan Losses



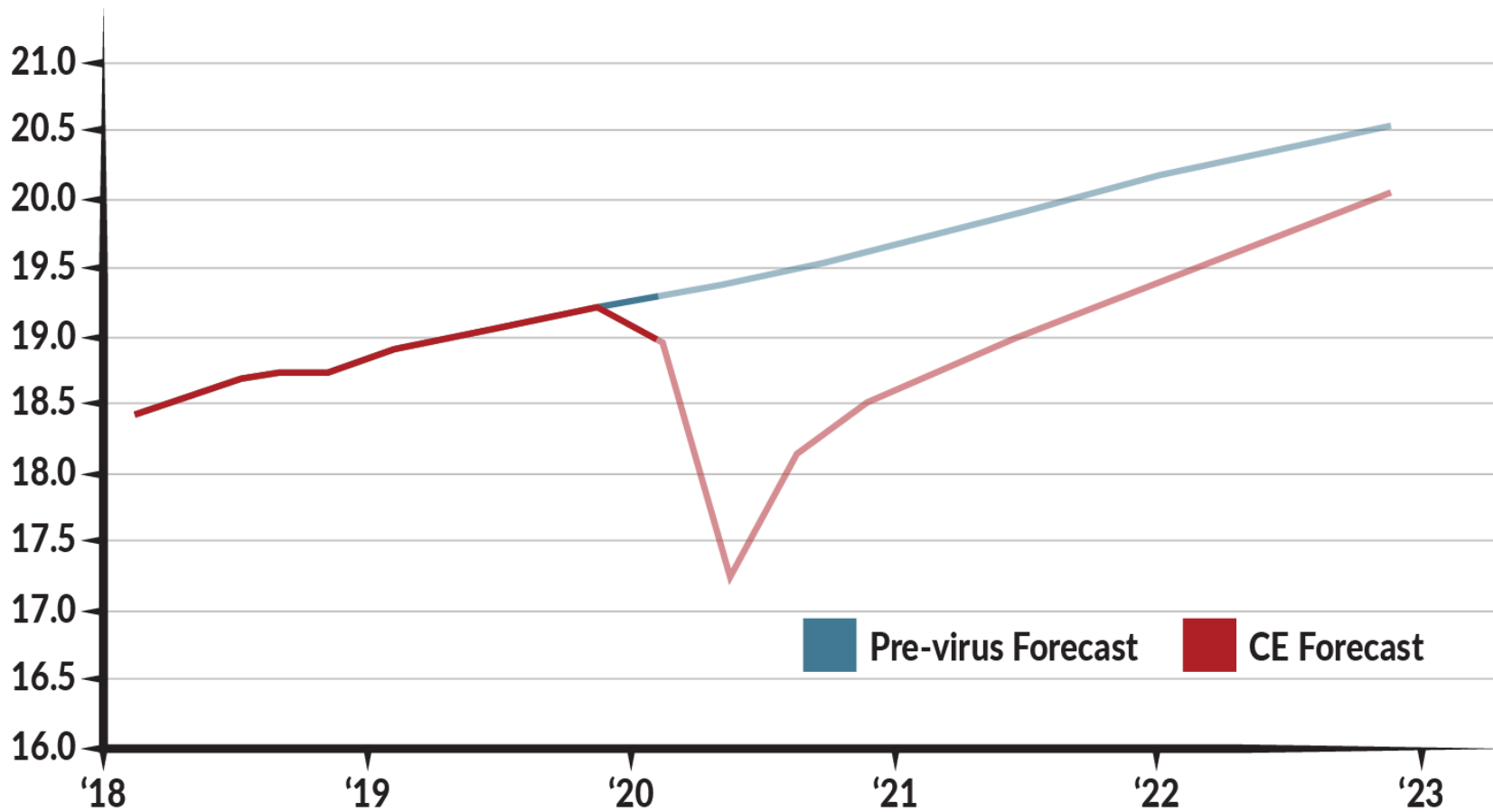
Source: The companies listed, WSJ 7.18.20

Note: JPMorgan figures are reserve build



# New Trajectory

U.S. Real GDP  
Trillions of dollars



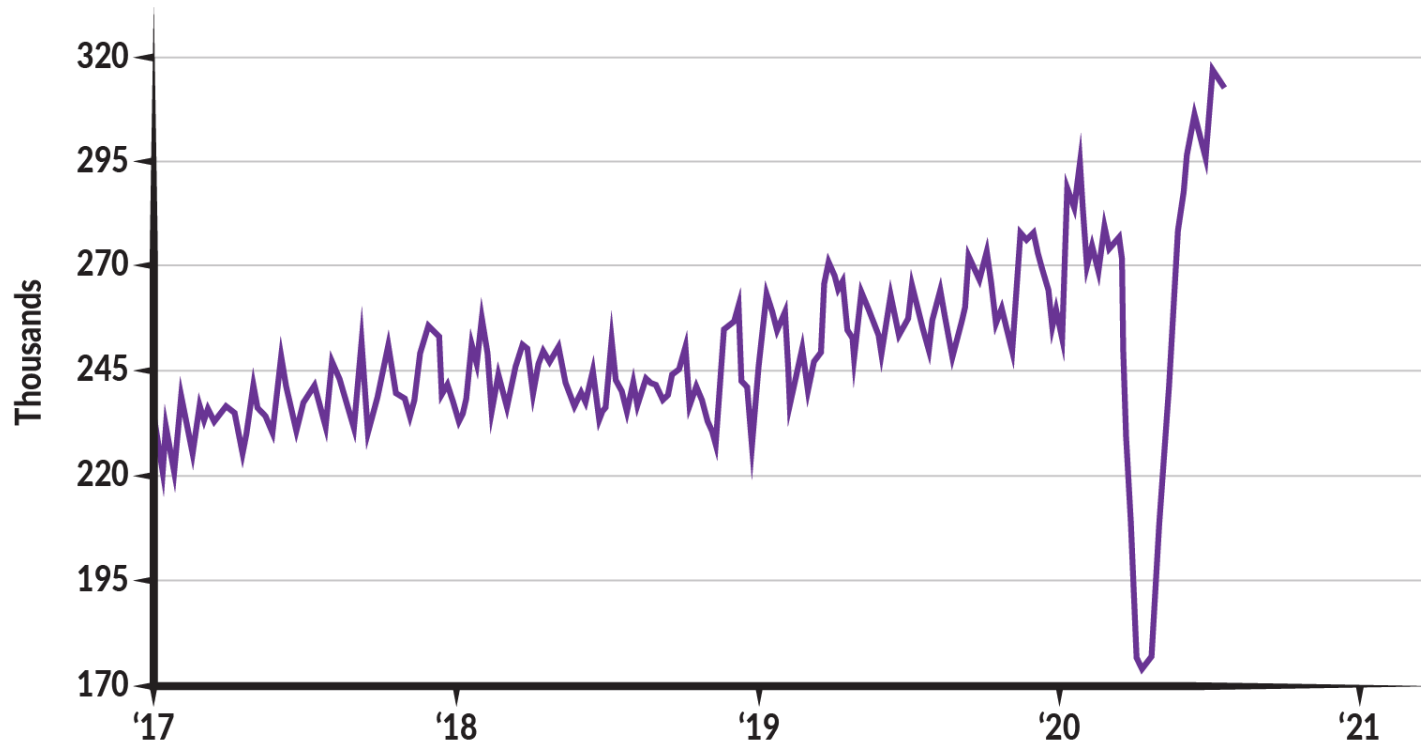
Source: Capital Economics estimates 7/6/20





# Housing Recovery

**U.S. Mtg Apps for Purchase (MBA)**  
Seasonally adjusted by CSM, July 10: 313

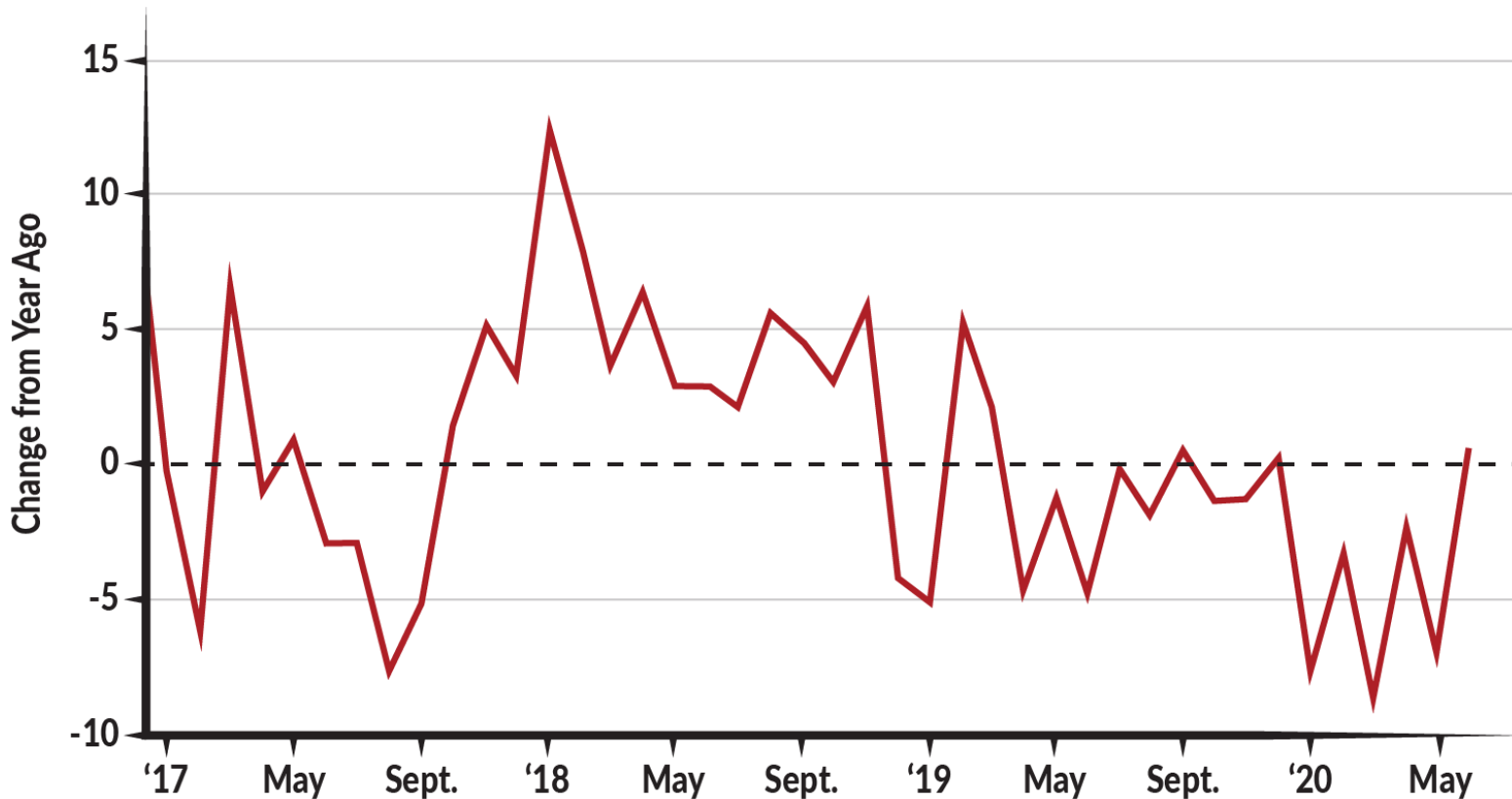


- April 10th -35% YoY
- July 10th +15% YoY, 313k units
- Urban flight
- Secular demographic trend
- Real estate contributes over \$1 trillion to economy

Source: Cornerstone Macro, National Mortgage Association



# Electric and Gas Production



- Index 2012=100
- Production recovered in June and was actually up .56% over 2019
- Supports the improvement in PMI's

Source: Capital Economics estimates 7/6/20



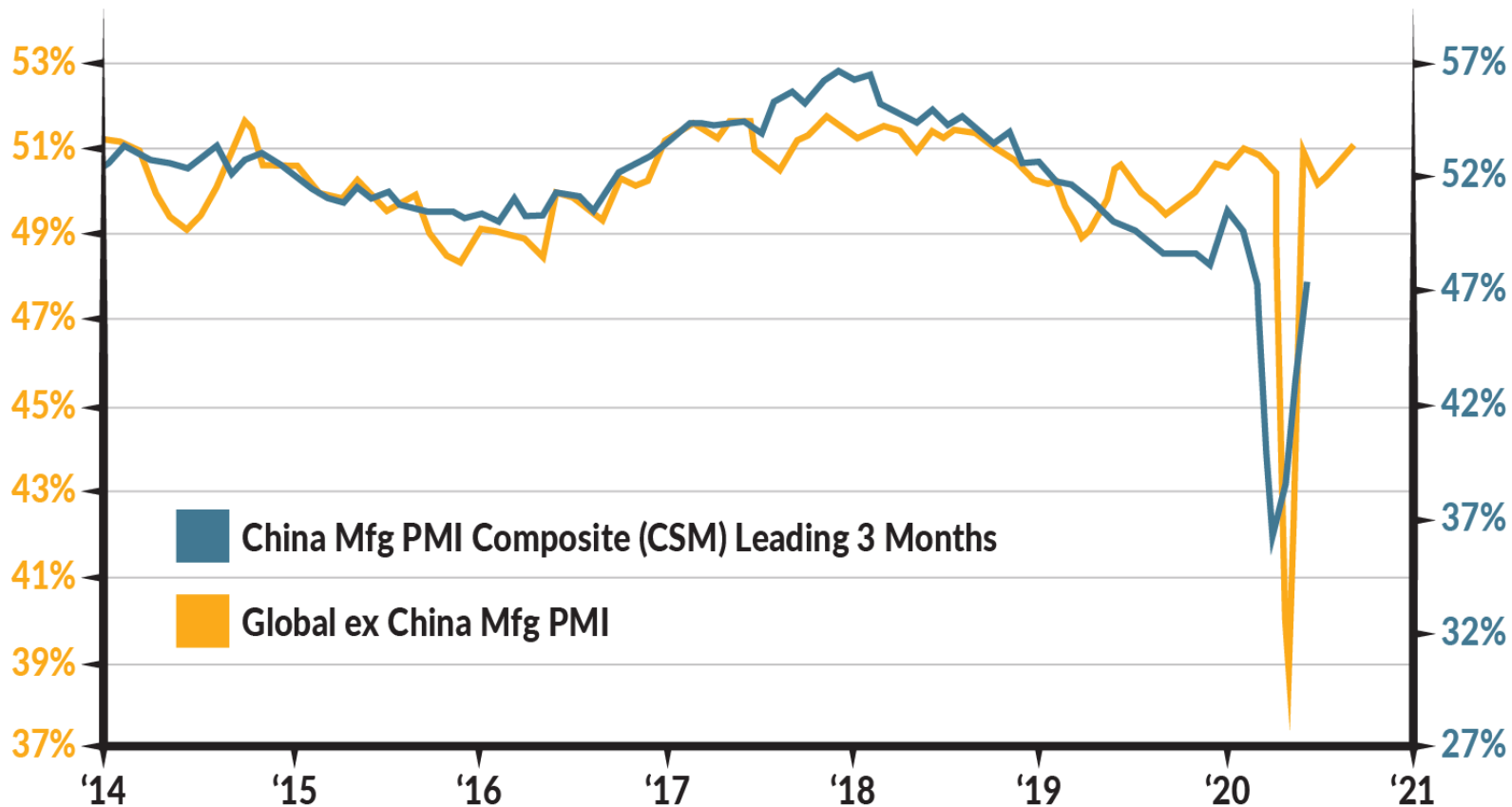
# Boom! Economic Stimulus Summary

Global Monetary And Fiscal Stimulus To Fight COVID-19 Impact - 2020 Feb to Apr						
	Potential Central Bank Liquidity Injection		Potential Government Fiscal Stimulus		Both	
	\$ Tln	% GDP	\$ Tln	% GDP	\$ Tln	% GDP
<b>U.S.</b>	\$6.21	29.0%	\$3.30	15.4%	\$9.51	44.4%
<b>Eurozone</b>	\$1.78	13.3%	\$4.02	30.2%	\$5.80	43.6%
<b>Japan</b>	\$1.03	20.0%	\$2.08	40.3%	\$3.11	60.3%
<b>U.K.</b>	\$0.37	13.6%	\$0.23	8.3%	\$0.60	21.8%
<b>China</b>	\$1.33	9.3%	\$1.22	8.4%	\$2.54	17.7%
<b>Others</b>	\$0.73	-	\$2.67	-	\$3.40	-
<b>Global</b>	<b>\$11.44</b>	<b>13.2%</b>	<b>\$13.52</b>	<b>15.6%</b>	<b>\$24.96</b>	<b>28.8%</b>

Source: Cornerstone Macro as of 7/2/2020, Federal Reserve



# First In, First Out



- 50 = Growth!
- China – first in, first out
- The recovery will not be straight up over time

Source: Cornerstone Macro



# China's Deflationary

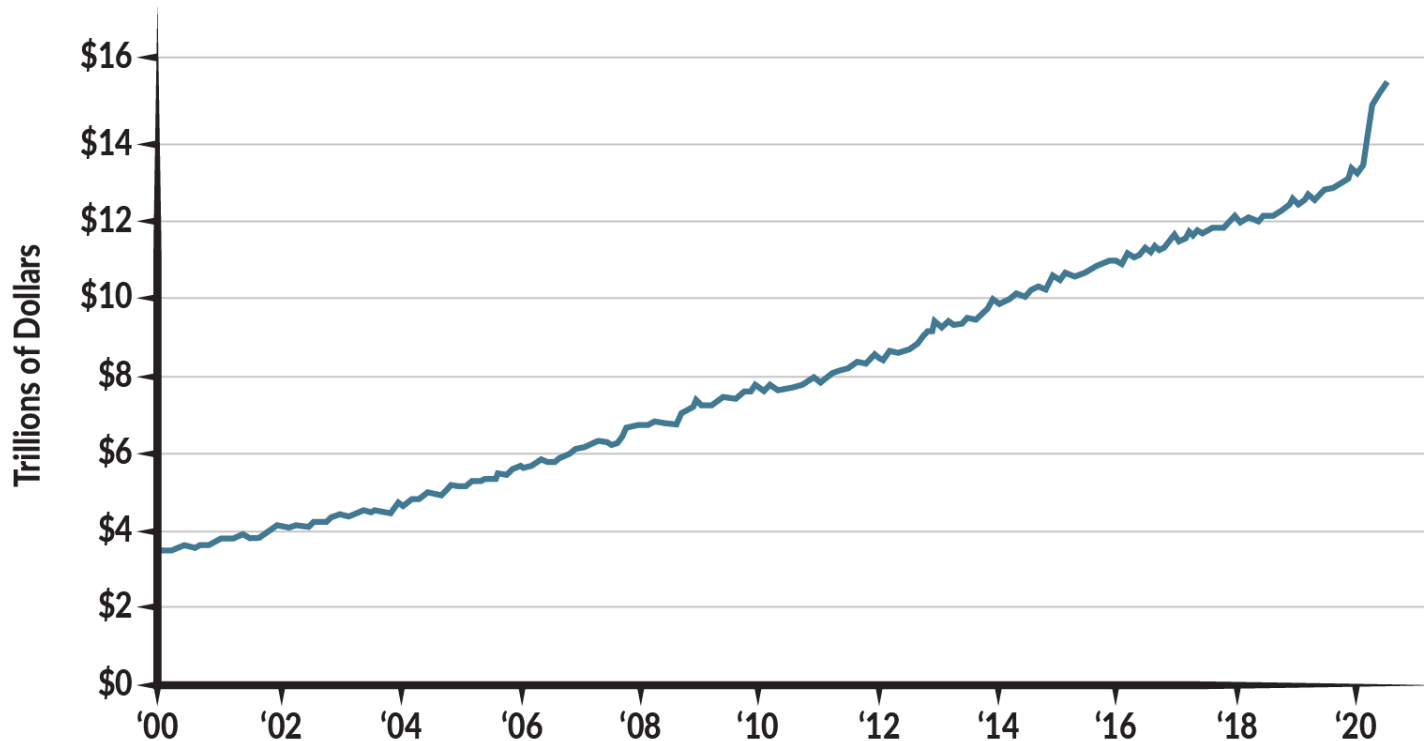


Source: Cornerstone Macro



# Money On Deposit

Total Deposits at Commercial Banks  
Monthly



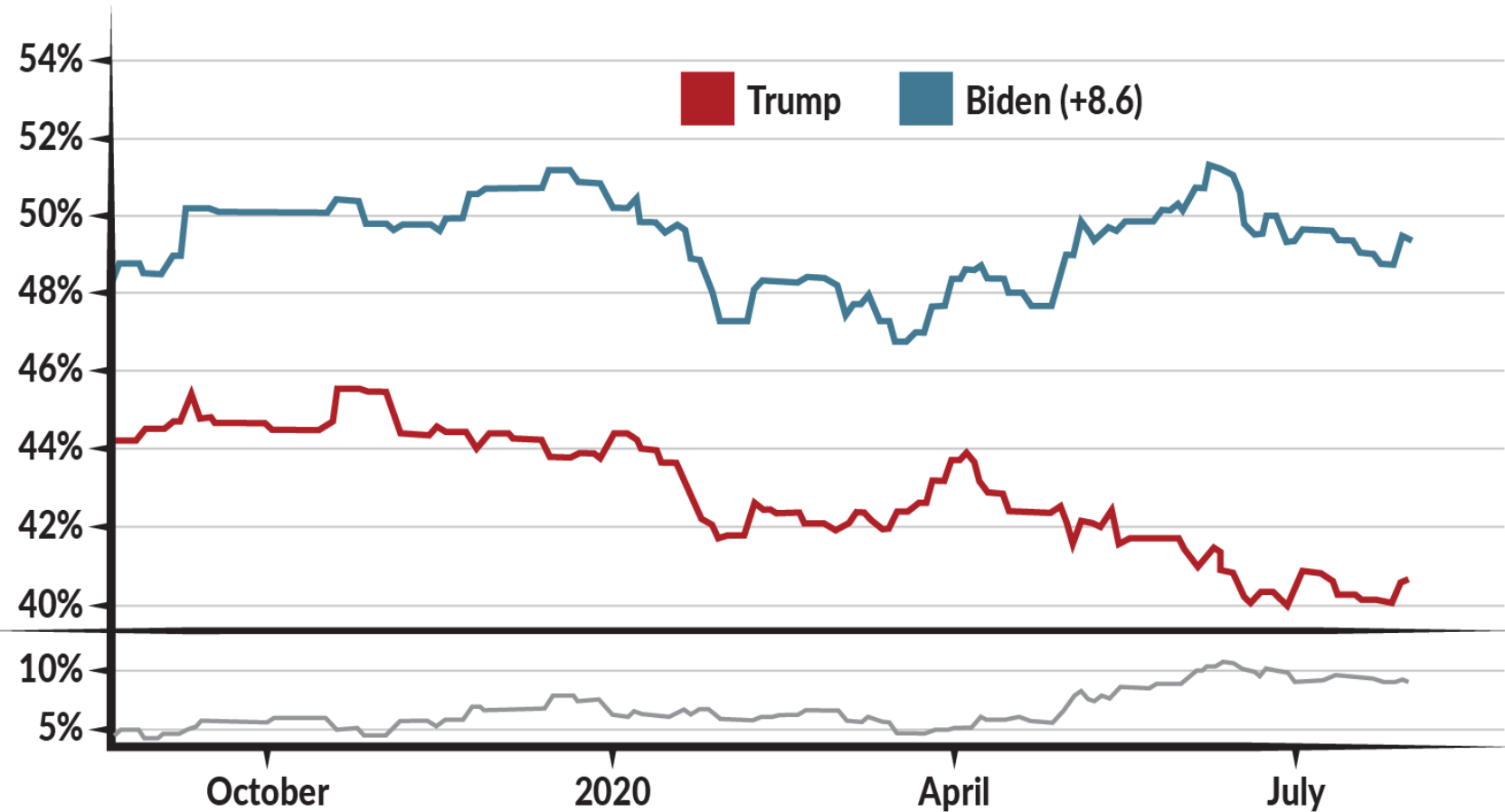
- Fed's balance sheet has grown
- Programs lead to increase in deposits
- Money growth leads to inflation when it is spent

Source: WSJ 7.18.20, Federal Reserve Note: July 2020 data as July 1



# It's Early!

## General Election RCP poll average



Source: Real Clear Politics



# Key Policies To Watch

- Platform planks will be here in August
  - » *Taxes*
  - » *Infrastructure*
  - » *Clean energy*
  - » *Regulations*
  - » *Health Care*





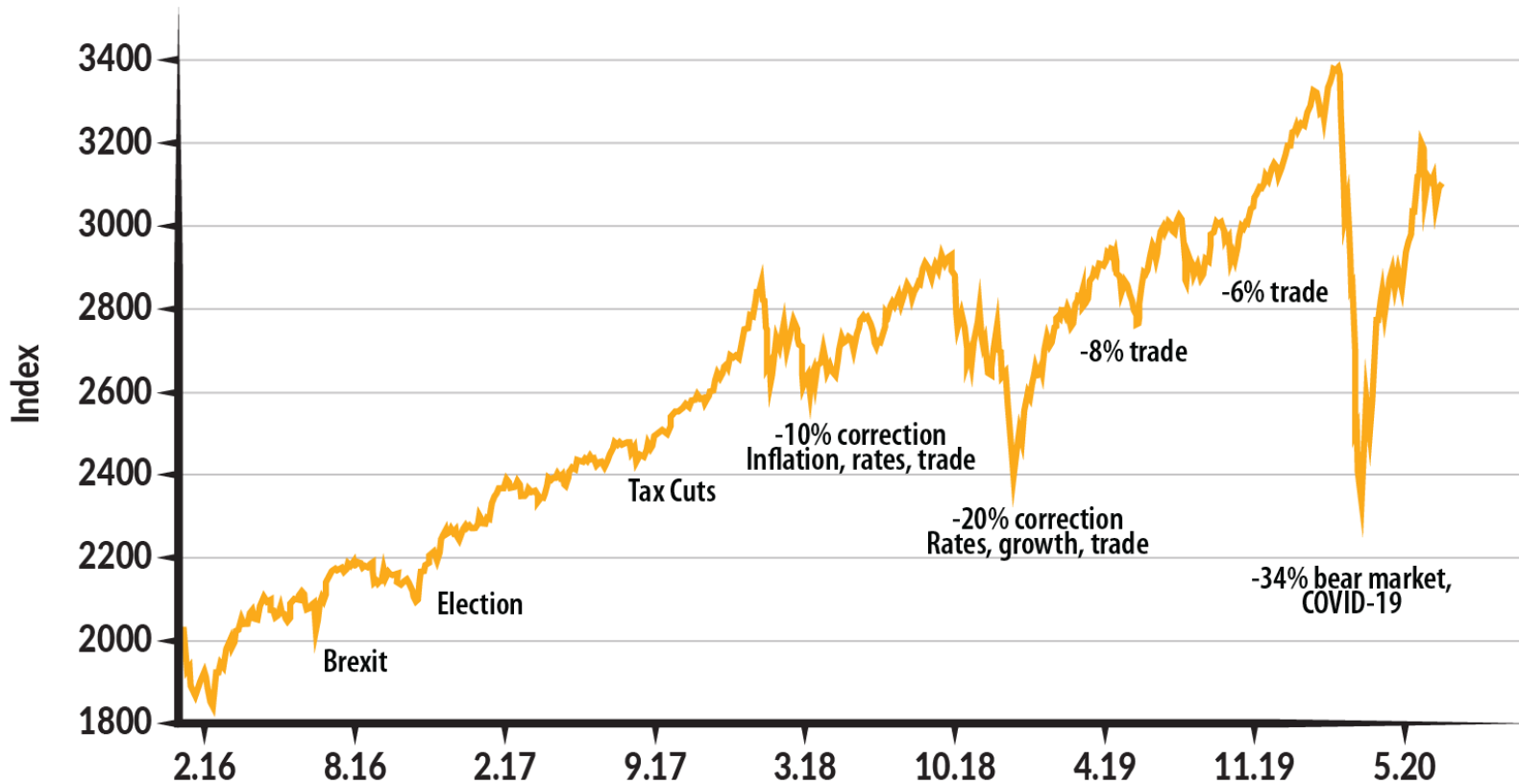
# Returns

	Fixed Income	2020 Q2	2020 YTD
Barclays US Aggregate Intermediate		2.1%	4.7%
Bank of America Merrill Lynch Municipals 1-12 Yr		2.6%	2.0%
US Equity			
S&P 500		20.5%	-3.1%
Russell 1000 Growth		27.8%	9.8%
Russell 1000 Value		14.3%	-16.3%
Russell 2000 ( <i>small-cap</i> )		25.4%	-13.0%
International Equity			
MSCI ACWI Ex USA ( <i>international</i> )		16.1%	-11.0%
MSCI EM ( <i>emerging markets</i> )		18.1%	-9.8%
Commodity			
Bloomberg Commodity		5.1%	-19.4%

Source: Morningstar Direct as of 6/30/20



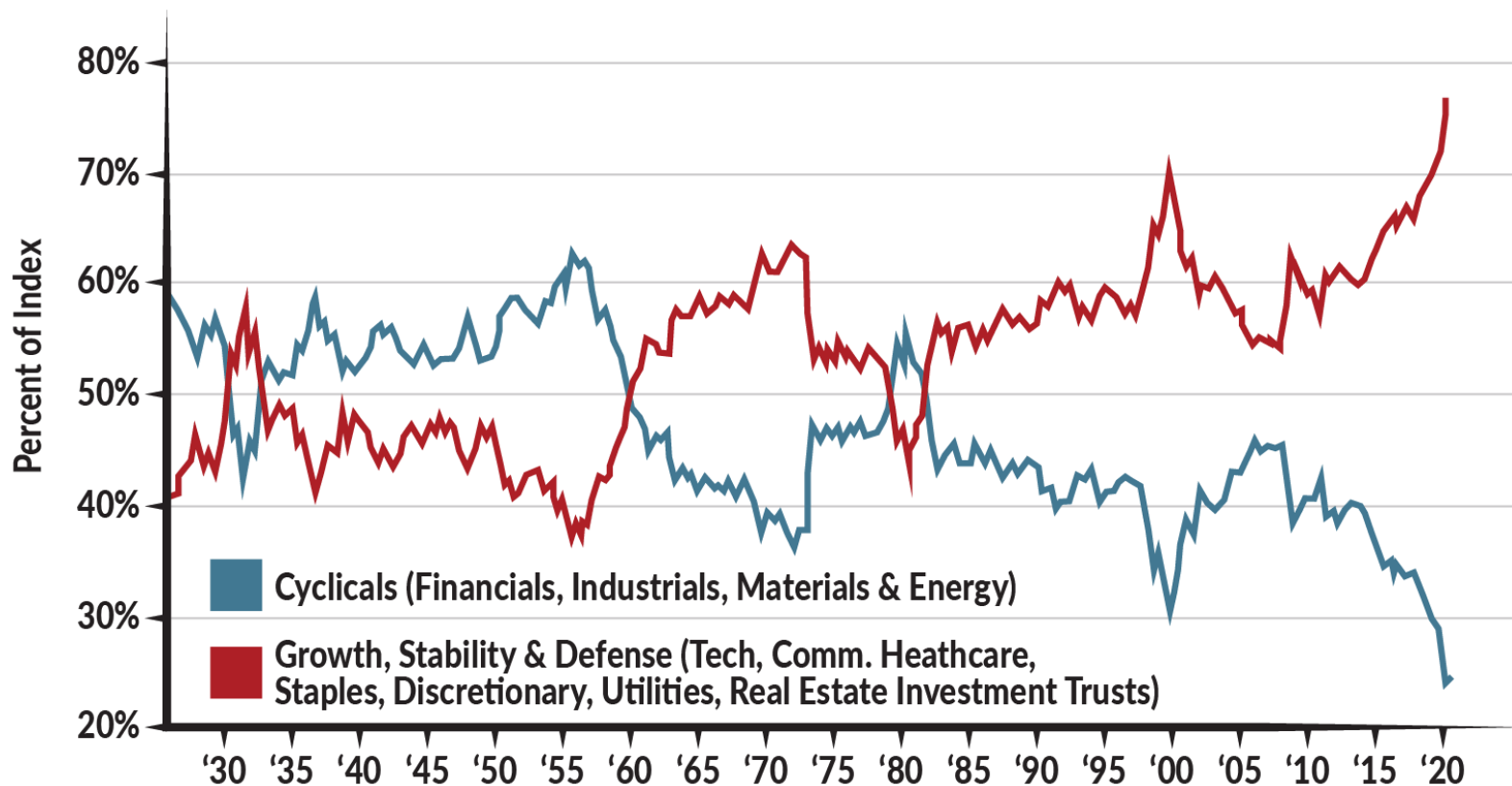
# S&P 500 Index



Source: Thomson ONE



# Extremes



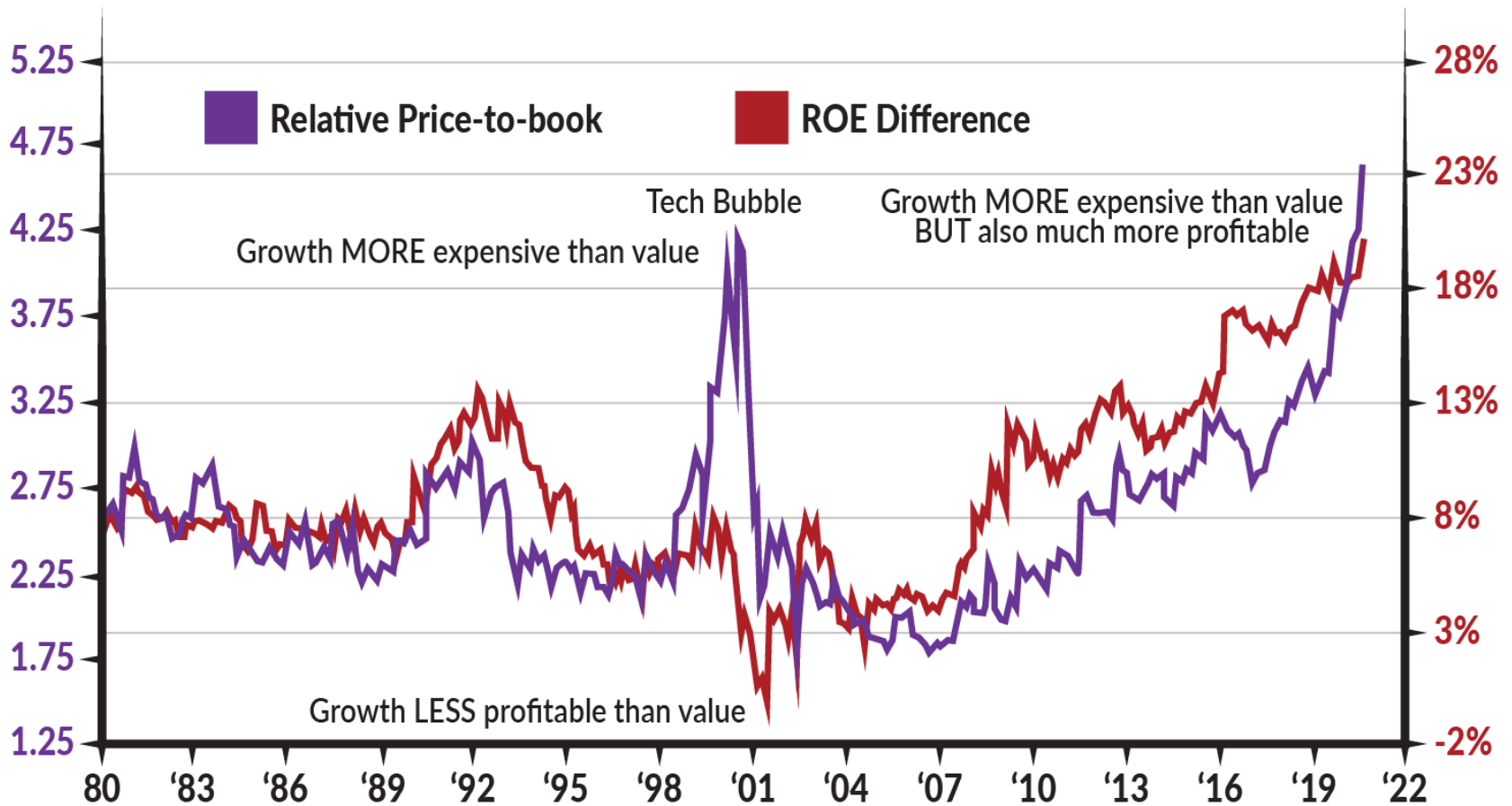
- Stimulus and low interest rates increase risk taking
- Technology dominates the index
- Value stocks are all but ignored

Source: Cornerstone Macro as of June 18, 2020



# Not A Tech Bubble

## Russell 1000 Growth vs Value



Source: Cornerstone Macro



# Concentration Too High?

Name	Industry_Sector	Sector	CUR_MKT_CAP	% of Index	Cumulative %
APPLE INC	Technology	Industrial	\$1,706.948	6.198%	6.198%
AMAZON.COM INC	Communications	Industrial	\$1,639.976	5.955%	12.153%
MICROSOFT CORP	Technology	Industrial	\$1,629.681	5.918%	18.071%
ALPHABET INC-CL C	Communications	Industrial	\$1,066.509	3.873%	21.943%
FACEBOOK INC-CLASS A	Communications	Industrial	\$711.979	2.585%	24.529%

Source: Standard & Poors

- 25% of S&P 500 index in 5 stocks
- Technology dominates the index
- Note – “Communications” not technology – utilities or tech companies
- 5 stocks as large as Financials, Energy, Materials and Industrials combined



# Conclusions

- Economic **recovery** underway and uneven
- Global stimulus nearly **29% of global GDP**
- **Growth** will continue to work, if its quality growth
- **Bonds** have a place and so do **complements**
- **Election** isn't over – policies matter
- **Demographics** create unrest and future upside



# Disclosure

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## Thank You!

