



FEG WEBINAR

What Comes Next?

September 1, 2020



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WHAT COMES NEXT?

- I. Off the Bottom
- II. Near-Term Market Risks
- III. Altered Outlook for Investments
- IV. Uncertainty with Elections
- V. FEG Summary
- VI. Questions





OFF THE BOTTOM

OFF THE BOTTOM...AND FAST

S&P 500 TRADING DAYS TO NEW HIGH FOLLOWING -20% OR WORSE DECLINE

S&P PEAK	S&P LOW	% DECLINE	NEW HIGH DATE	TRADING DAYS TO NEW HIGH
8/2/1956	10/22/1957	-22%	9/24/1958	233
12/12/1961	6/26/1962	-28%	9/3/1963	299
2/9/1966	10/7/2966	-22%	5/4/1967	143
11/29/1968	5/26/1970	-36%	3/6/1972	451
1/11/1973	10/3/1974	-48%	7/17/1980	1,462
11/28/1980	8/12/1982	-27%	11/3/1982	83
8/25/1987	12/4/1987	-34%	7/26/1989	414
7/16/1990	10/11/1990	-20%	2/13/1991	86
3/24/2000	10/9/2002	-49%	5/30/2007	1,166
10/9/2007	3/9/2009	-57%	3/28/2013	1,021
2/19/2020	3/23/2020	-34%	8/18/2020	103

Note: Declines of -30% or worse are shaded.

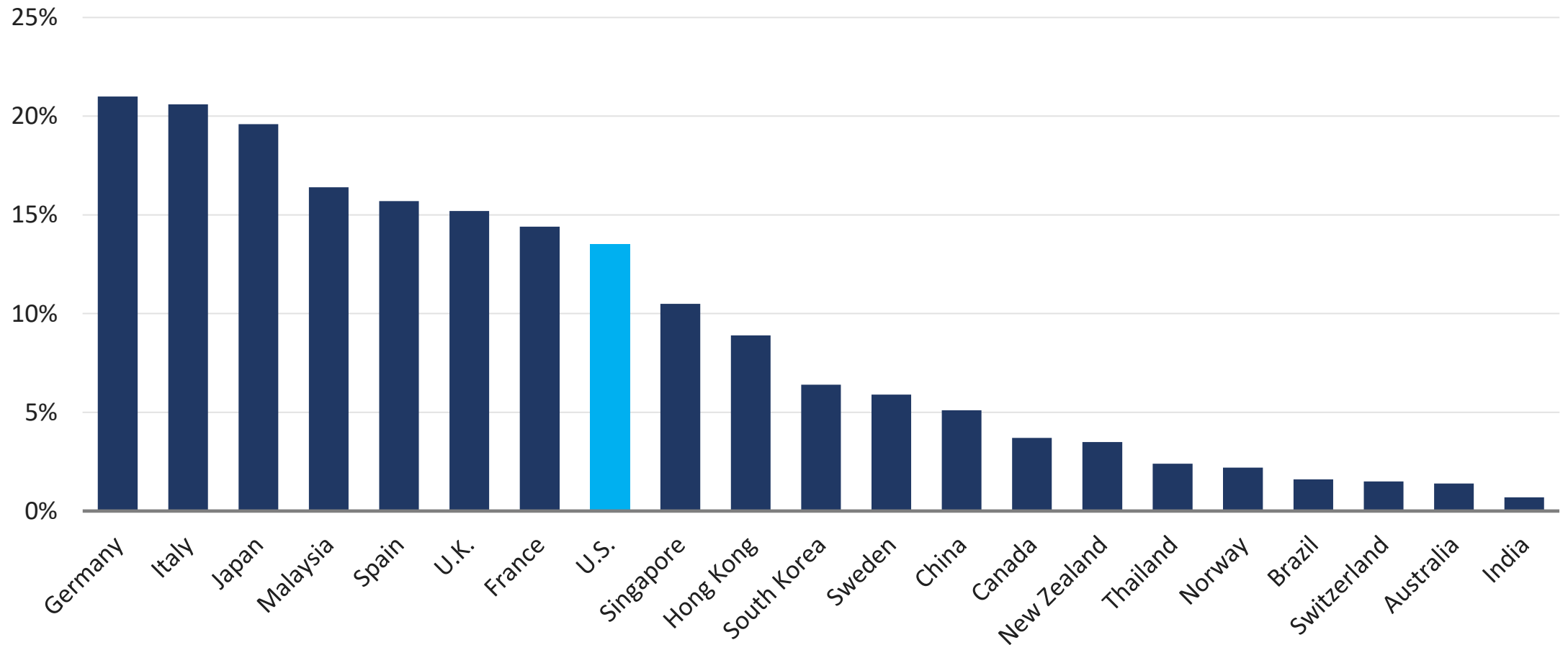
Data source: Strategas. As of 8/18/2020a

FISCAL RESPONSE WAS GLOBAL

- The economy slowed to a grind globally, and in response, policy makers provided tremendous fiscal stimulus.

THE FISCAL RESPONSE IS MASSIVE

Announced Fiscal Response as a % of GDP



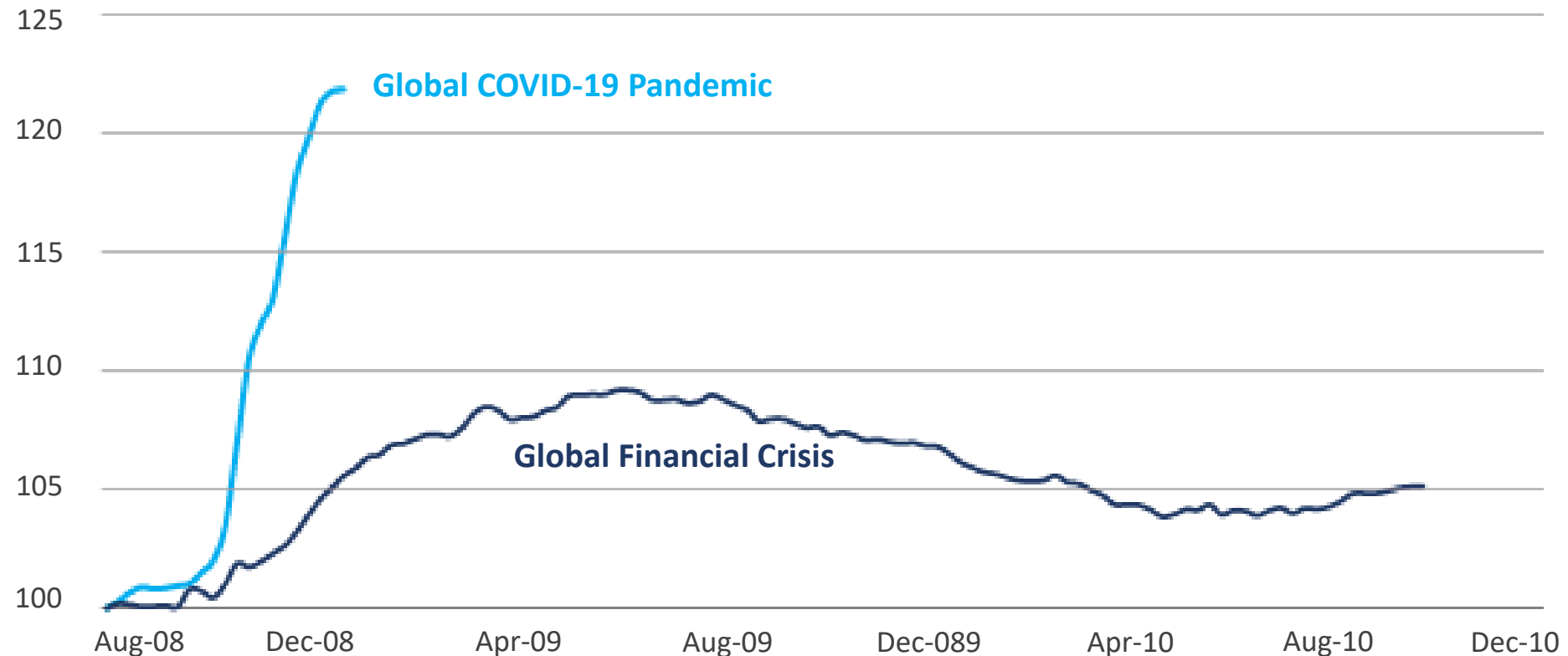
Data source: Natixis PRCG, IMF. Data as of June 1, 2020. IMF is International Monetary Fund

MONETARY SUPPORT ALSO CREATES INFLATION CONCERNS

- Although the current market is deflationary, there could be greater inflation risk in the long term if monetary stimulus and fiscal stimulus continue and economic recovery is faster than expected.

MONEY SUPPLY GROWTH IS FASTER THAN DURING THE FINANCIAL CRISIS

M2 Money Supply + Institutional Money Market Fund Balances, Indexed to 100



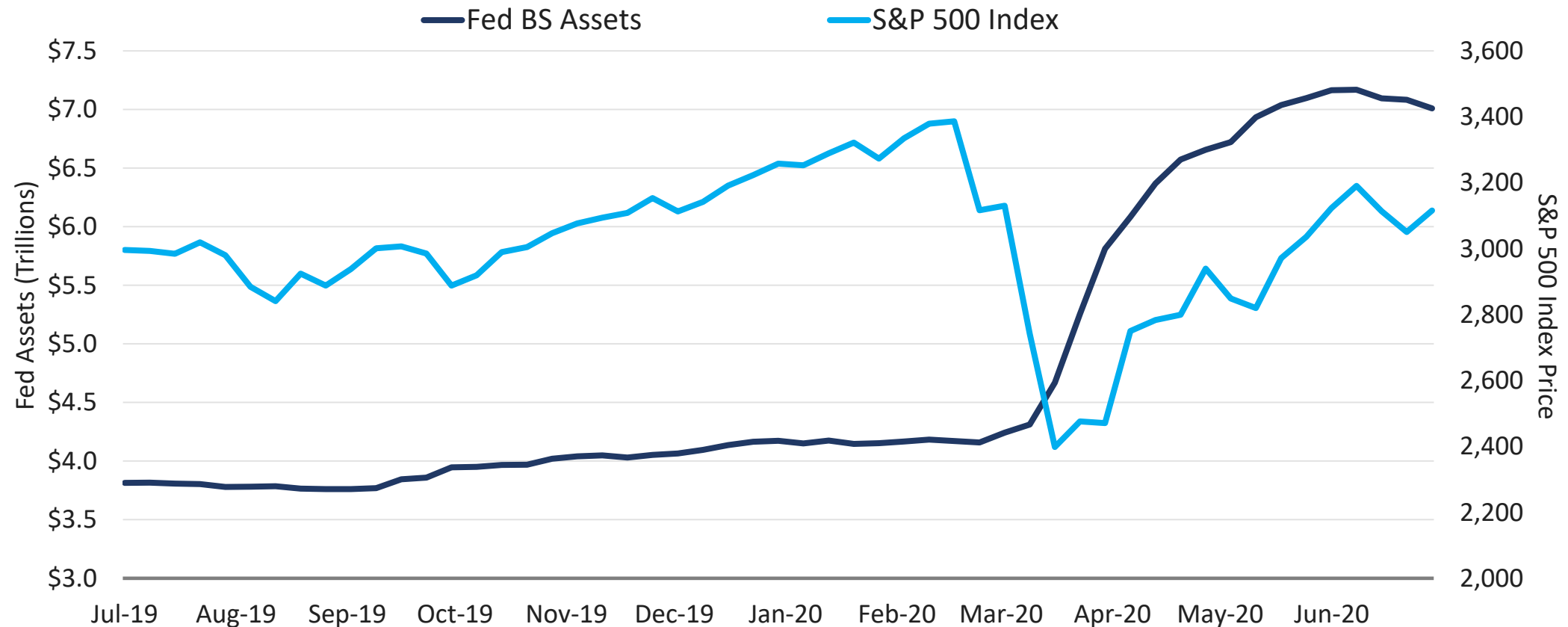
Sources: St. Louis Fed, J.P. Morgan Asset Management, Data as of May 25, 2020

CENTRAL BANK SUPPORT HAS ALSO BUOYED EQUITY MARKETS

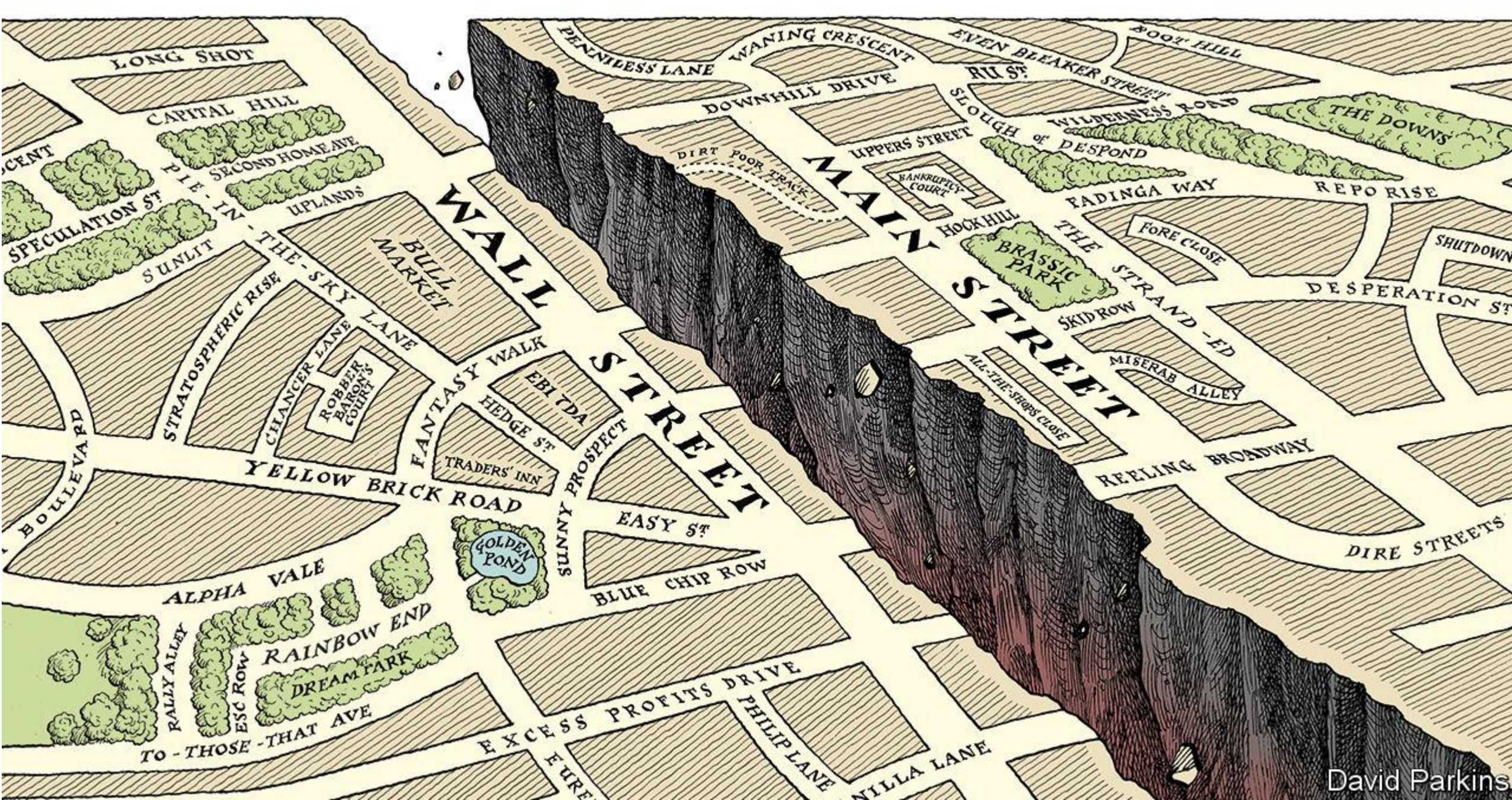
- Unprecedented scale and rapid expansion of monetary accommodation from the Fed, in addition to the tremendous fiscal stimulus, provided equity markets support.

THE EQUITY MARKET RESPONDED TO CENTRAL BANK SUPPORT

U.S. Federal Reserve Balance Sheet Assets and the S&P 500 Index



Data source: Bloomberg L.P. Data as of June 30, 2020



David Parkins

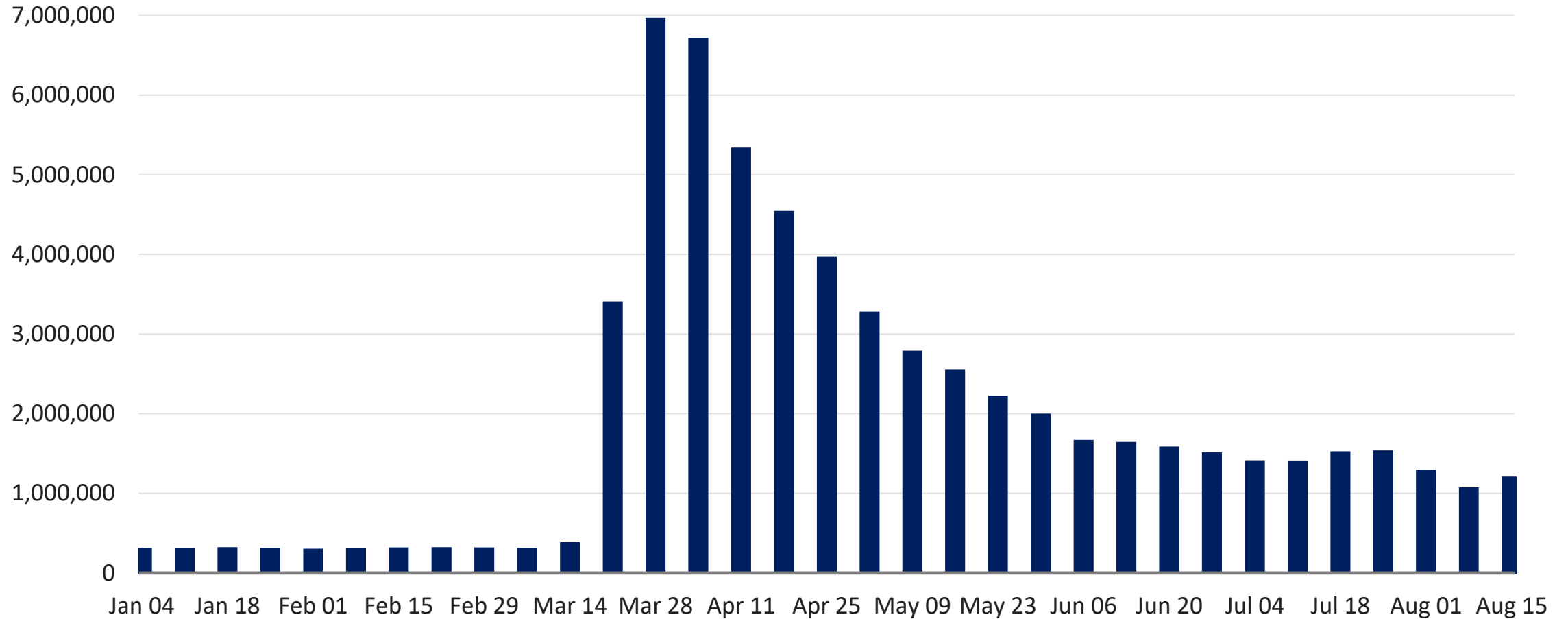
Image from *The Economist* May 7 2020 edition

JOBLESS CLAIMS HIT RECORD LEVELS

- New jobless claims have slowed, but remain at exorbitantly high levels, and despite the gradual reopening of the economy, many areas are nowhere near normal.

RECORD-BREAKING INITIAL JOBLESS CLAIMS SLOWLY DECLINING

U.S. Initial Jobless Claims, Seasonally Adjusted



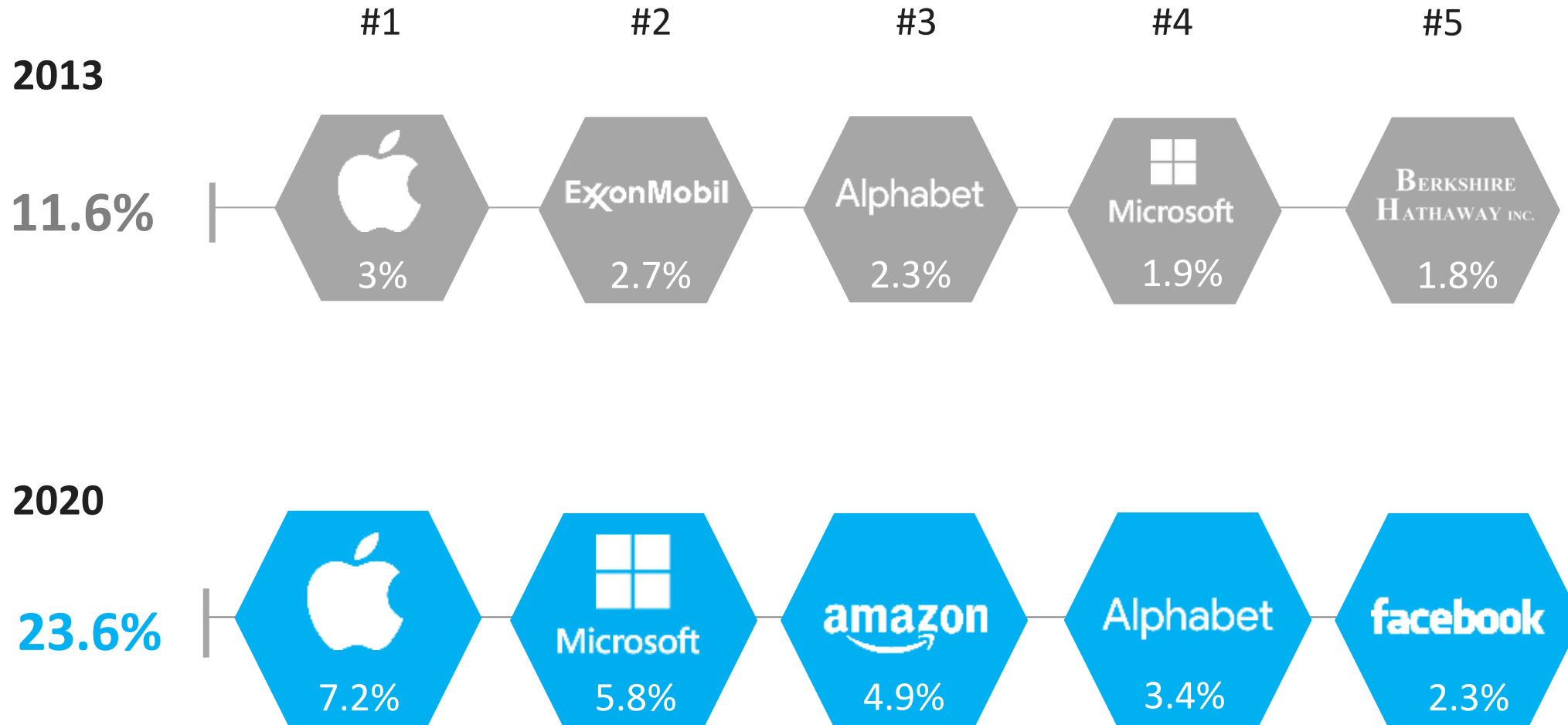
Data source: Bureau of Labor Statistics

THE STOCK MARKET AND THE ECONOMY ARE DIFFERENT

STOCK MARKET	THE ECONOMY
<ul style="list-style-type: none">• Measures future earnings.	<ul style="list-style-type: none">• Measures the present with economic metrics such as the GDP.
<ul style="list-style-type: none">• Value is dominated by large companies, which have been better positioned to survive the pandemic.	<ul style="list-style-type: none">• Smaller companies – most of which are not publicly traded – are domestic, consumer- or service-driven, and geographically focused.• These businesses have been among the hardest hit during COVID-19.

FIVE COMPANIES NOW MAKE UP MORE THAN 20% OF THE S&P 500

LARGEST COMPANIES BY MARKET CAP

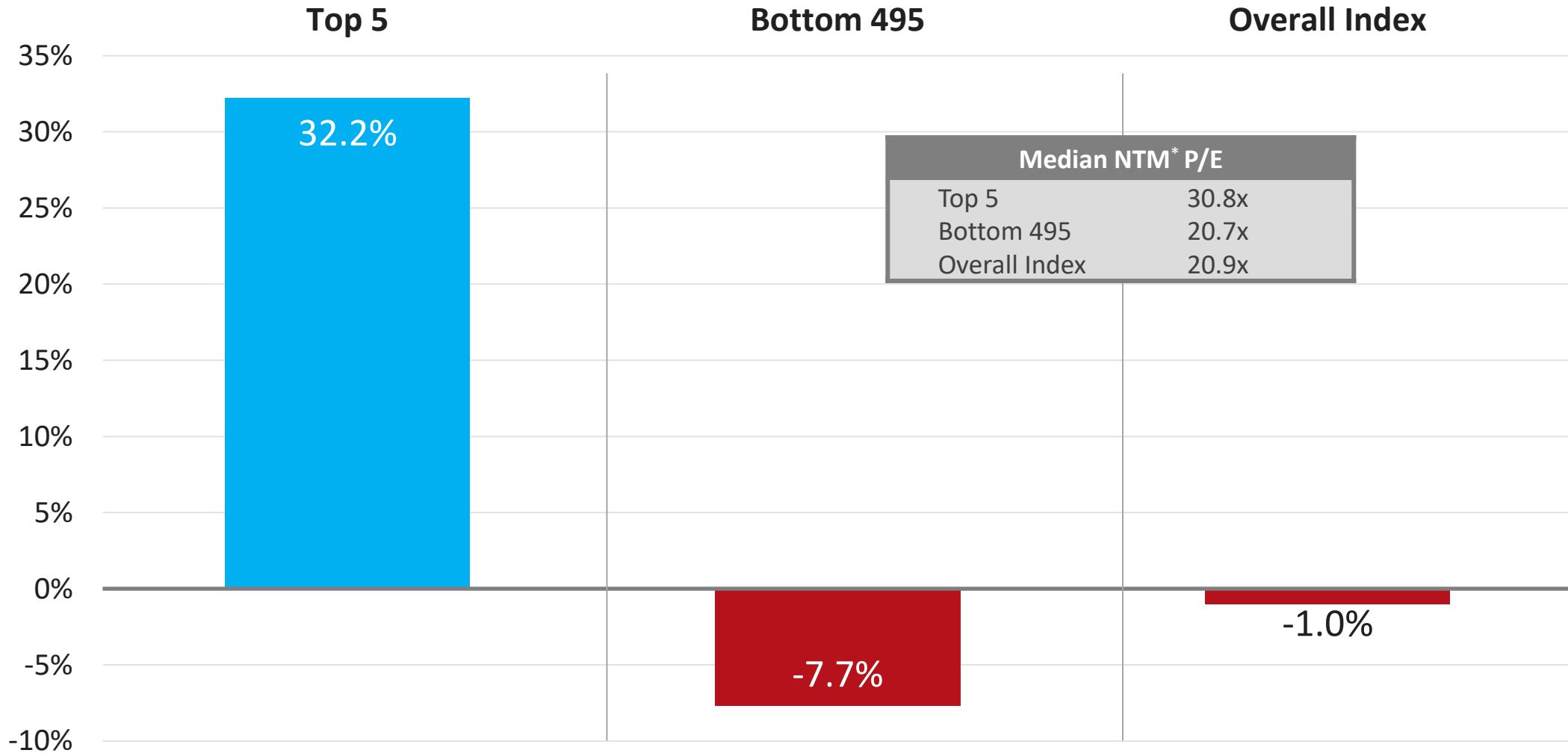


Data sources: 2013 – Dow Jones Market Data, *The Wall Street Journal*, shares do not sum to total due to rounding. 2020 – <https://www.slickcharts.com/sp500> as of 8/21/2020

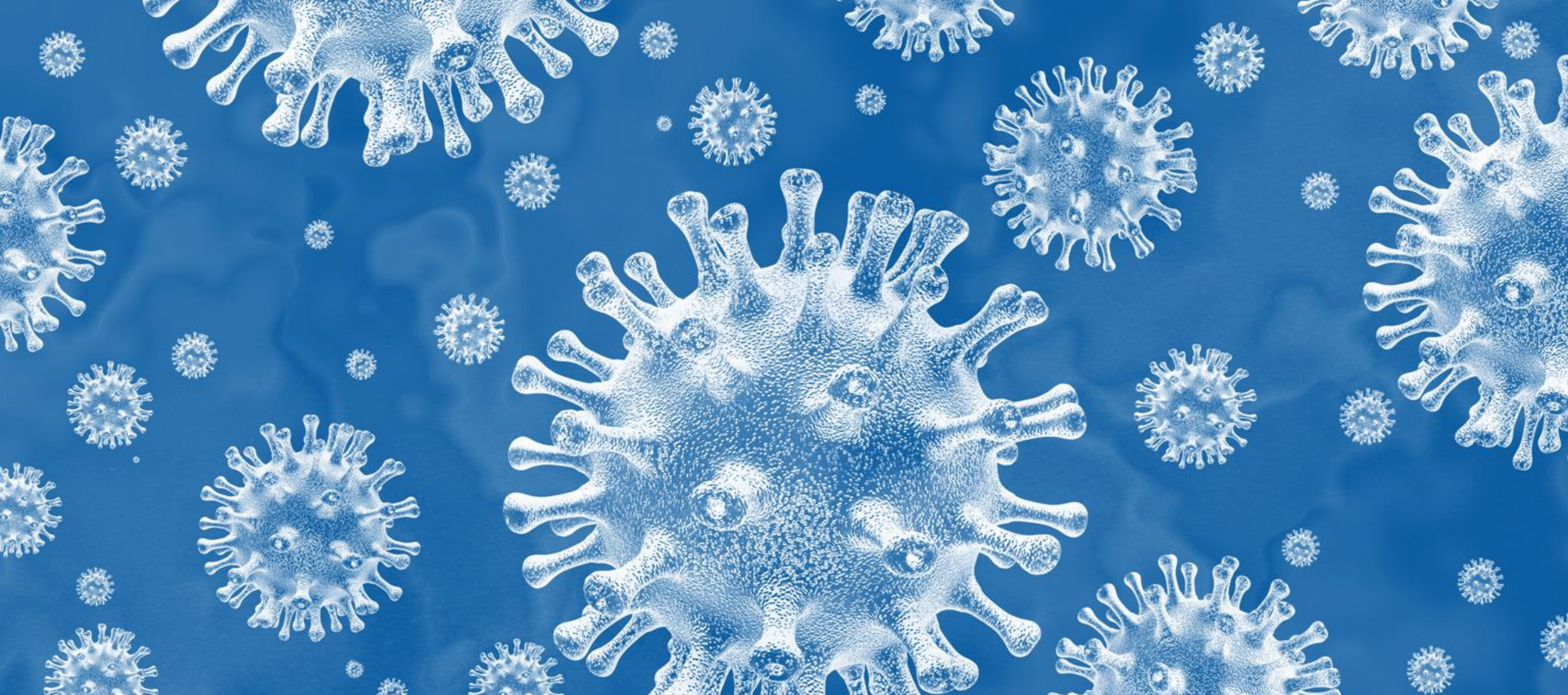
SO MUCH FOR DIVERSIFICATION

TOP 5 vs. BOTTOM 495 vs. OVERALL INDEX

Year-to-date performance



Source: Strategas. Data as of 7/17/2020. *NTM - next 12 months



NEAR TERM RISKS

The Uncertain Future of American Education

To go back or to stay home: That's the question on everyone's minds as Covid-19 rages on.

Here's what happened when students went to school during the 1918 pandemic



Don Hoover and Joe Sistrunk of Starke, Florida, are ready for school during the 1918 flu outbreak.



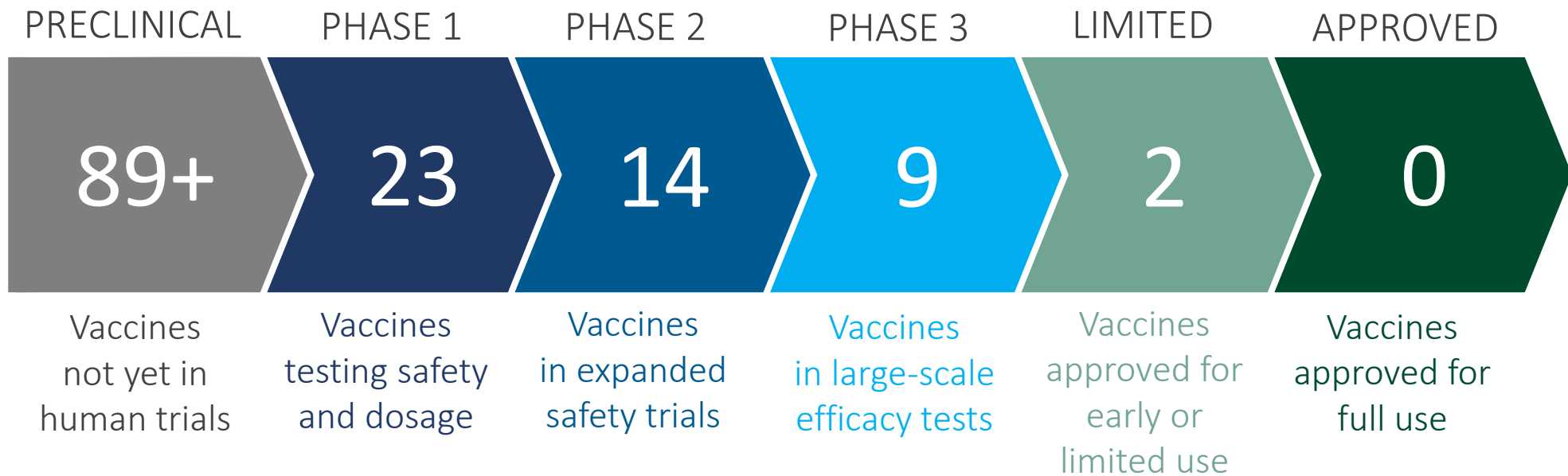
CORONAVIRUS

566 coronavirus cases reported at University of Alabama in less than a week

Northern Kentucky high school closed Monday after student tests positive for COVID-19



CORONAVIRUS VACCINES IN THE RESEARCH PROCESS

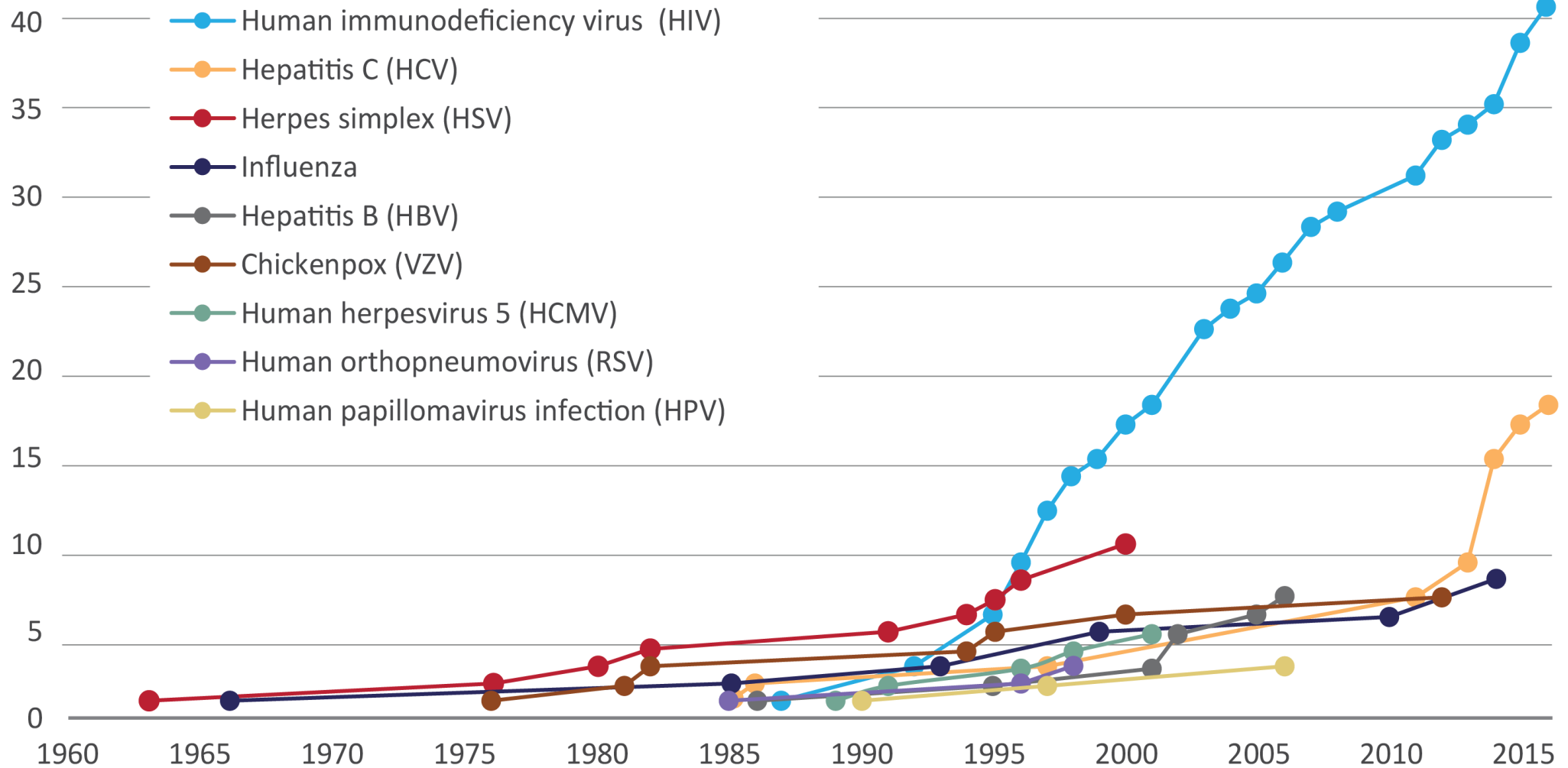


Note: Of the two limited approved, one is in phase 3 trial, the other is still in phase 1.

Data source: <https://www.nytimes.com/interactive/2020/science/coronavirus-vaccine-tracker.html>. Data as of August 28, 2020

HISTORY OF ANTIVIRAL DRUG DEVELOPMENT

Number of Approved Drugs



Source: De Clercg and Li, "Approved anti-viral drugs over the past 50 years", Clinical Microbiology Reviews. June 2016.

WILL PEOPLE BE BACK TO THE MALL AND OFFICE AFTER COVID-19?



A 3D rendering of a compass rose with a needle pointing towards the word 'FUTURE' on a blue background. The needle is a dark, metallic arrow pointing towards the top right. The word 'FUTURE' is written in large, bold, black capital letters, following the curve of the compass rose. The background is a light blue gradient with a subtle grid pattern.

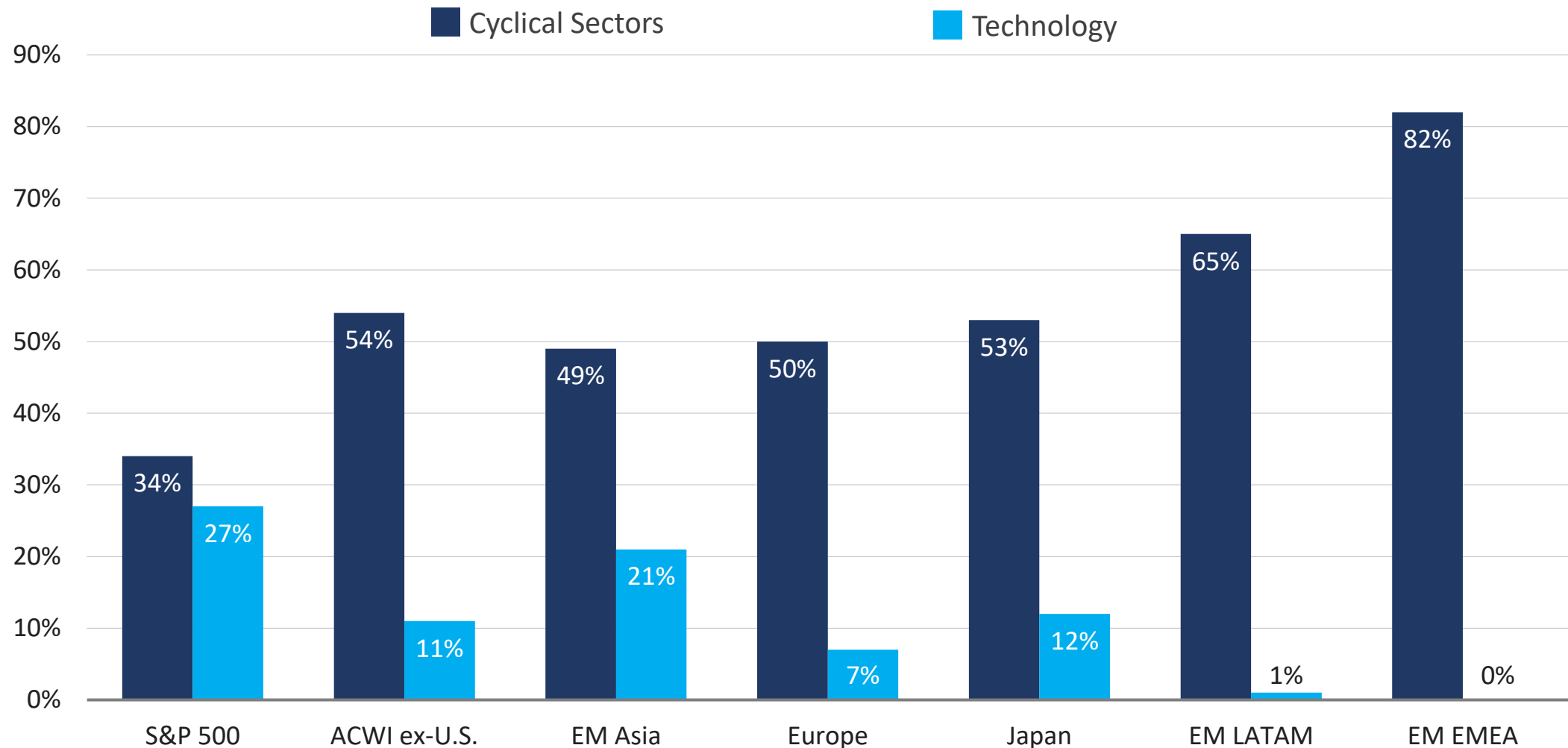
FUTURE

ALTERED OUTLOOK FOR INVESTMENTS

TECHNOLOGY IS MORE PROMINENT IN THE U.S. MARKET

TECHNOLOGY IS MORE DOMINANT IN THE U.S. MARKET

Cyclical Sectors Vs. Technology Sector (% of Market Cap)

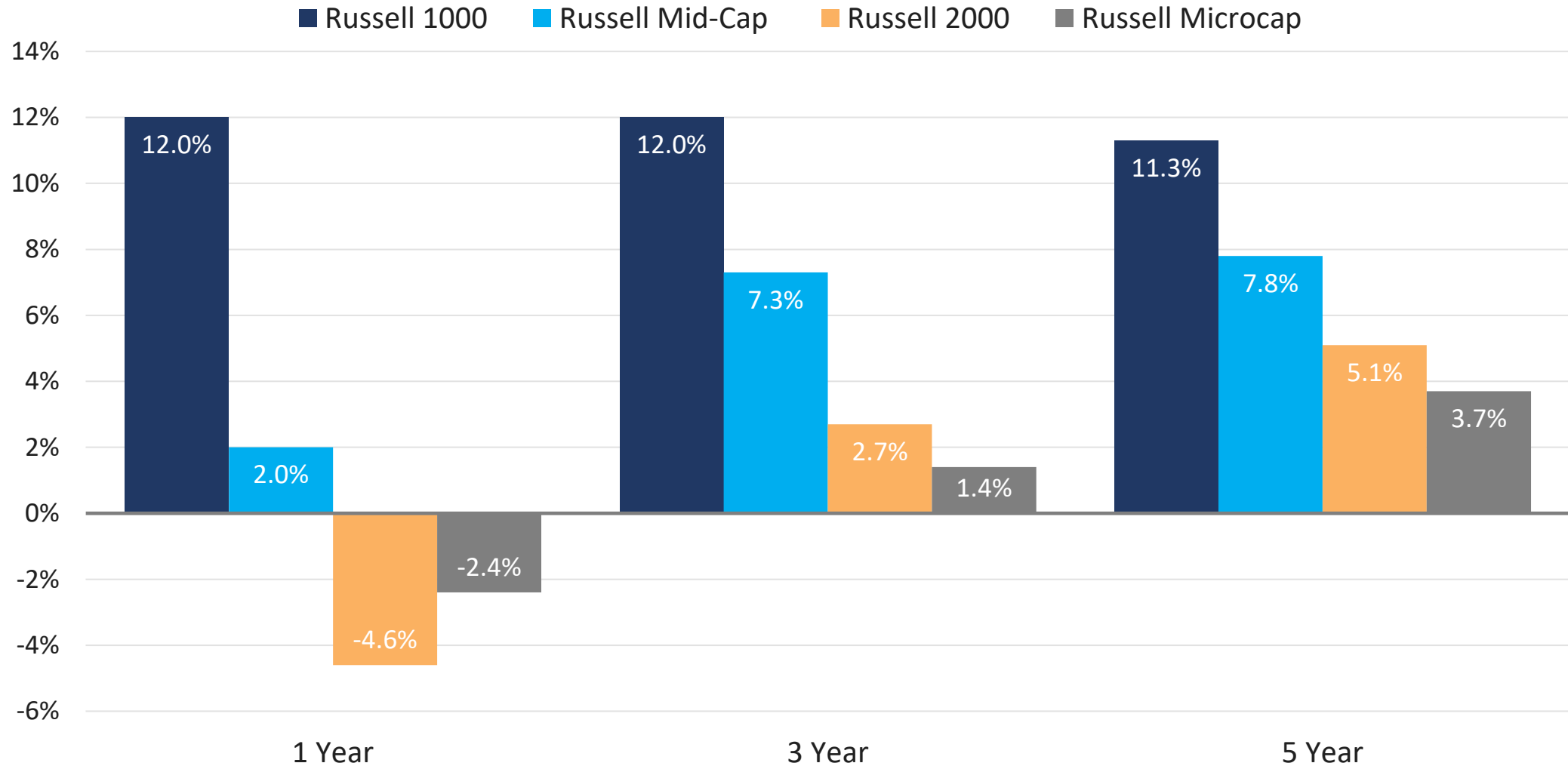


Data sources: MSCI, Standard and Poor's, J.P. Morgan Asset Management. Cyclical sectors include energy, materials, financials, industrials and consumer discretionary. Data as of June 4, 2020.

LARGE CAP DOMINATING SMALL CAP

TECH STOCKS SKEW RELATIVE PERFORMANCE OF LARGE AND SMALL STOCKS

Equity Performance as of July 31, 2020

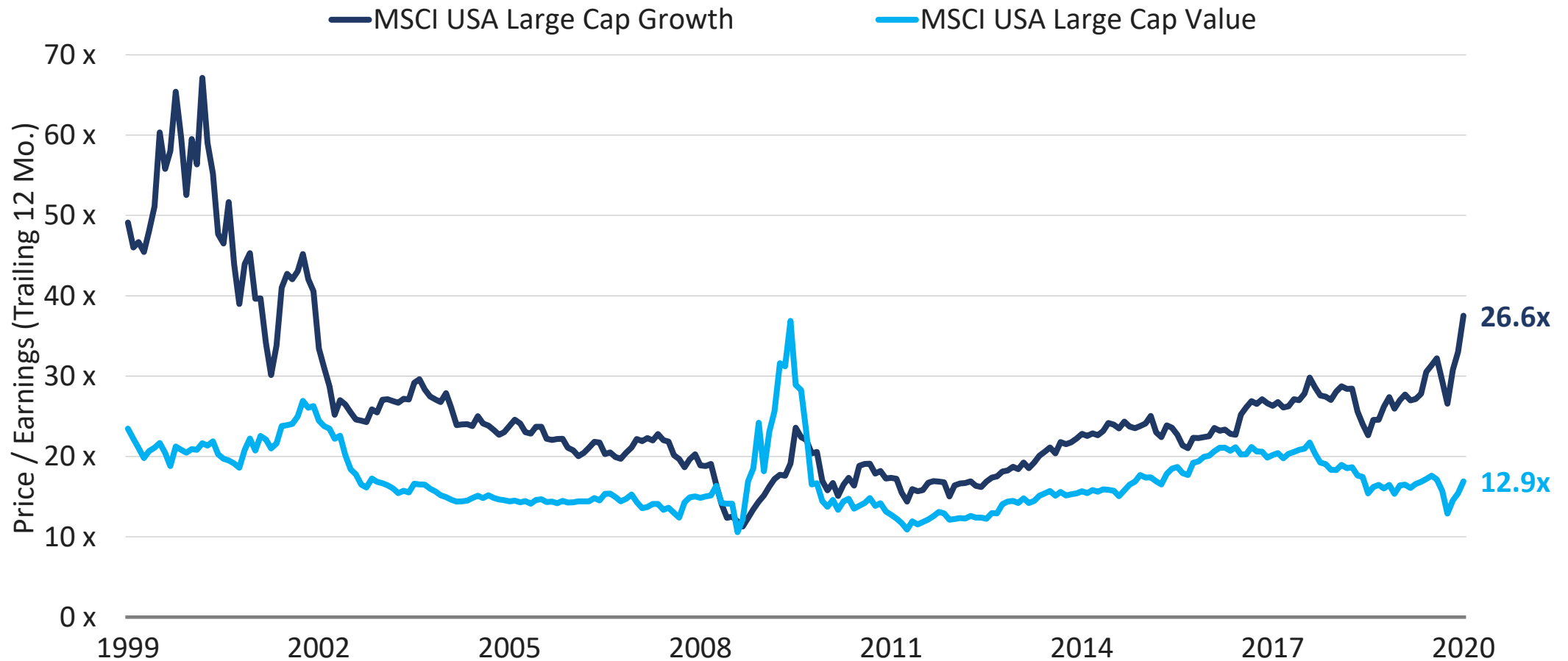


Data source: Lipper

VALUE REACHING RECORD LEVELS OF RELATIVE CHEAPNESS

- Dispersion between growth stocks and value stocks only exceeded by the technology bubble.
- Trend continues despite fits and starts of value outperforming.

HISTORICAL VALUATIONS: LARGE CAP GROWTH AND VALUE P/E

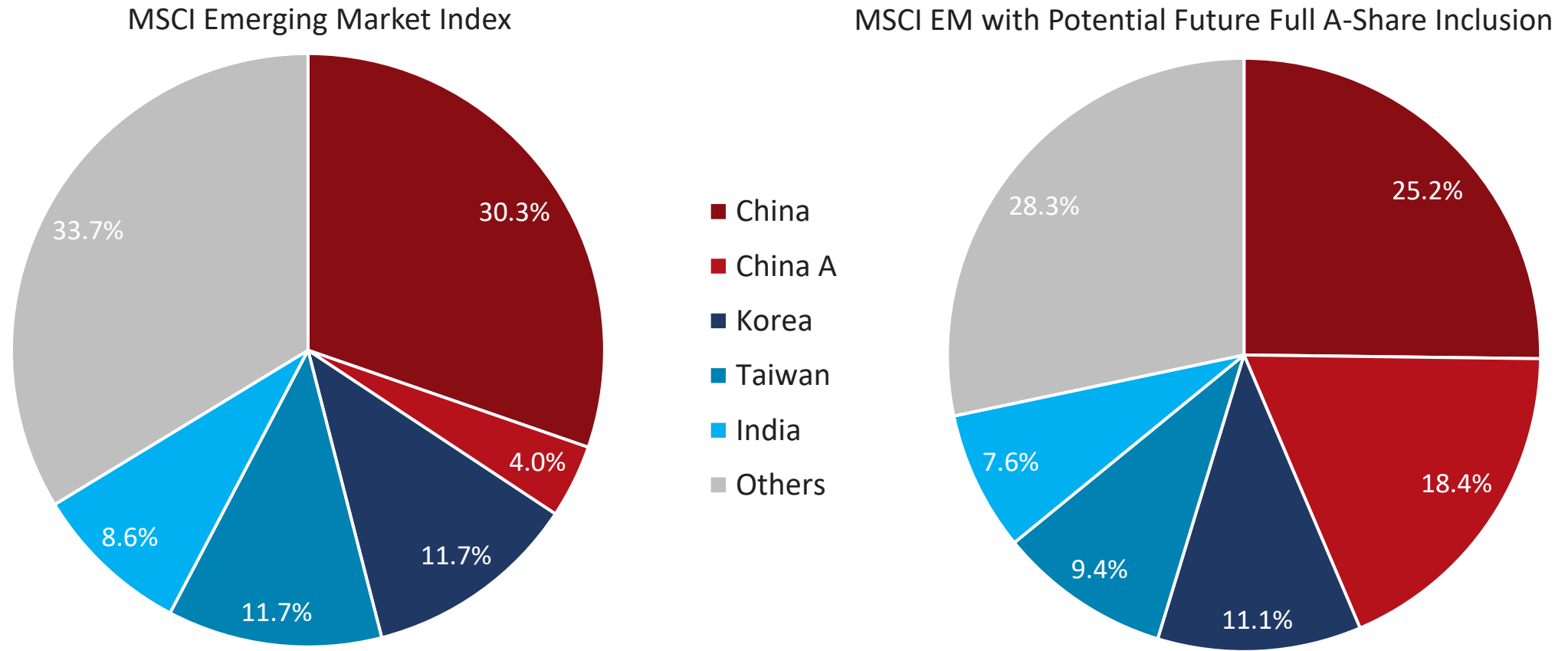


Data source: Rimes. Data as of June 2020.

CHINA WILL CONTINUE TO HAVE A KEY ROLE IN EQUITY PERFORMANCE

- U.S. – China economic tensions frequently top the headlines and deglobalization could be a growing trend investors have to consider.

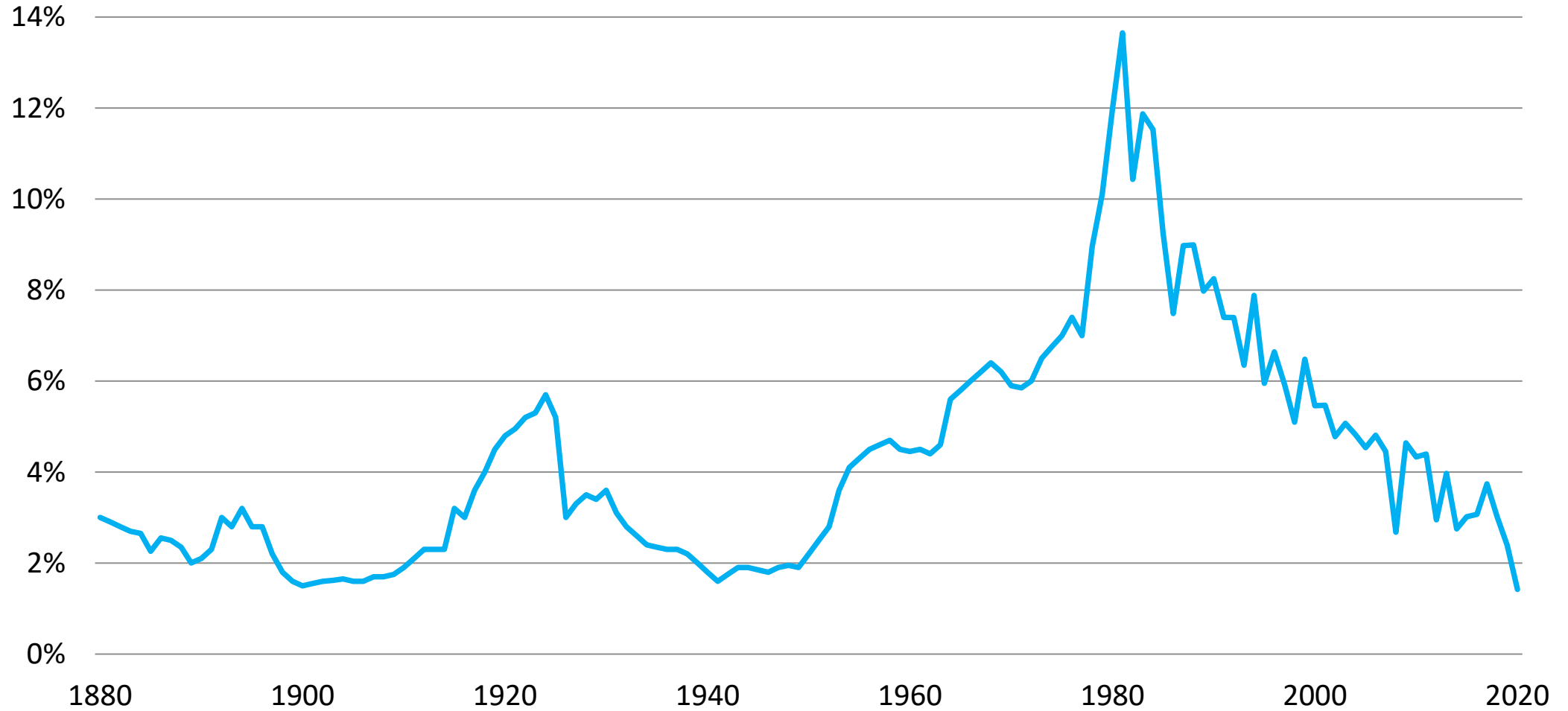
CHINA CONTINUES TO GROW IN IMPORTANCE WITH DOMESTIC MARKETS ADDED INTO INDICES



Data Source: Wellington Management. Data as of December 31, 2019

FAVORITE INTEREST RATE CHART

LONG-TERM U.S. INTEREST RATES

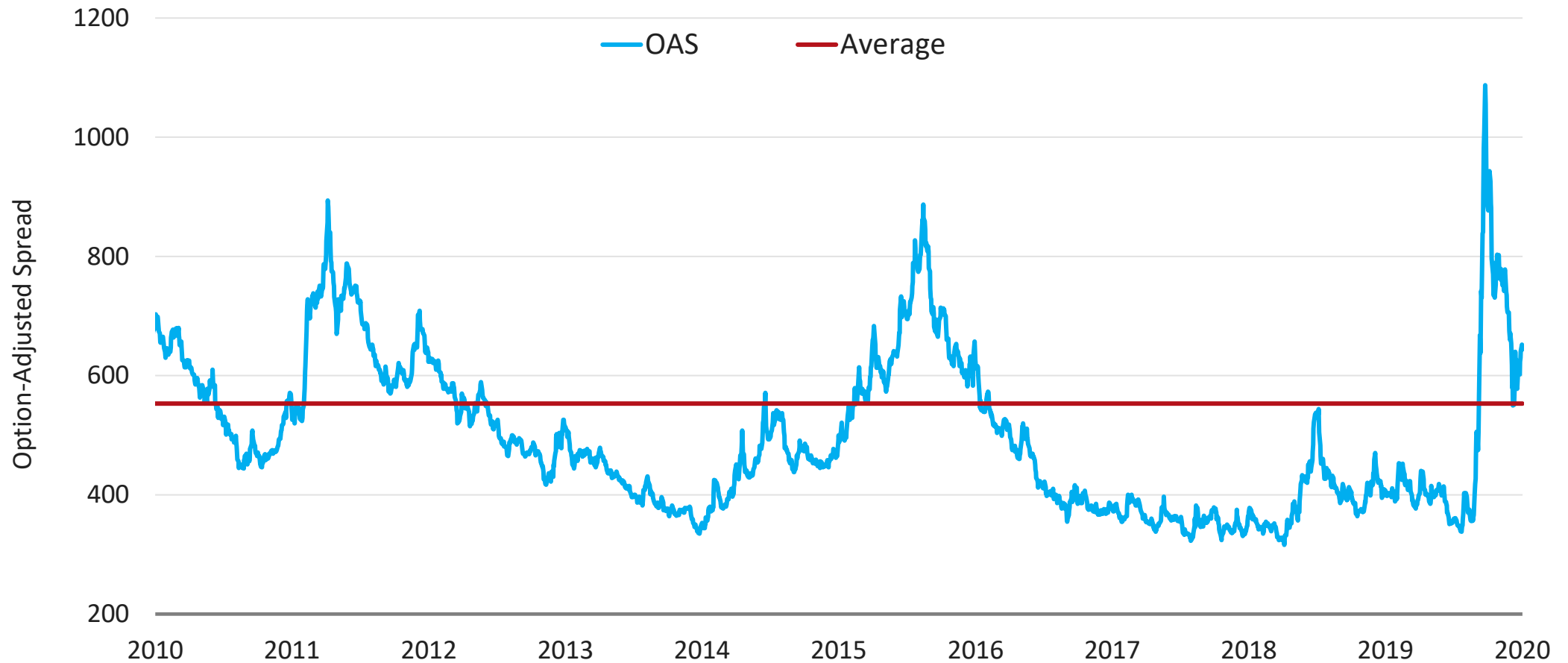


Data sources: STW, Ibbotson, Bloomberg

HIGH YIELD INFLOWS REACH RECORD LEVELS

HIGH YIELD SPREADS HAVE COMPRESSED

ICE BoA US High Yield Index Option Adjusted Spread

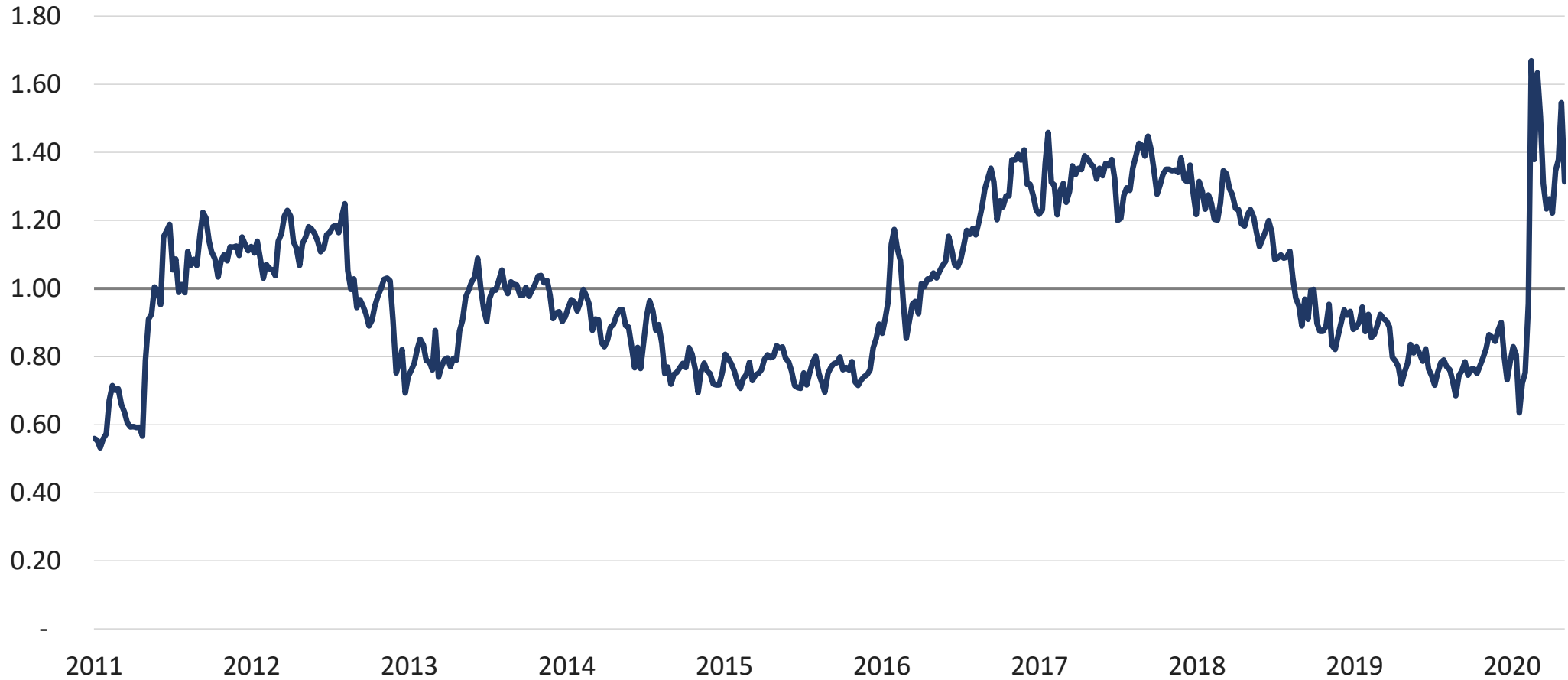


Data source: Bloomberg L.P., data as of June 30, 2020

SPREADS HAVE NOT TIGHTENED EVERYWHERE

CONDUIT CMBS SPREADS HAVE NOT COMPRESSED WITH HIGH YIELD

Seasoned Conduit CMBS BBB vs HY Spread Ratio

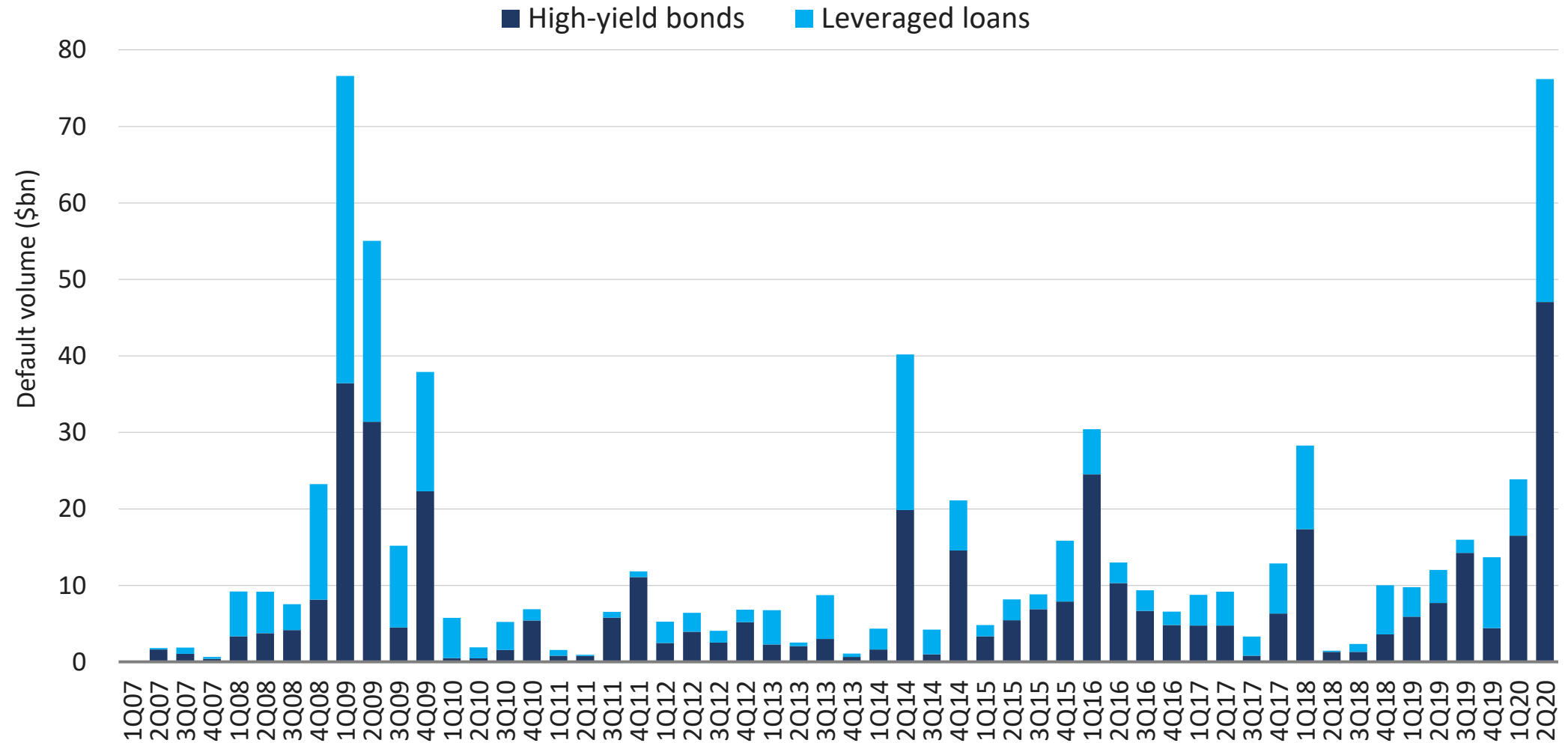


Data source: BofA Securities. Data as of June 12, 2020

DEFAULT RATE AND DISTRESSED

DEFAULT VOLUMES SPIKING TO LEVELS ON PAR WITH THE FINANCIAL CRISIS

U.S. High Yield and Leveraged Loan Default Volumes, \$Billions

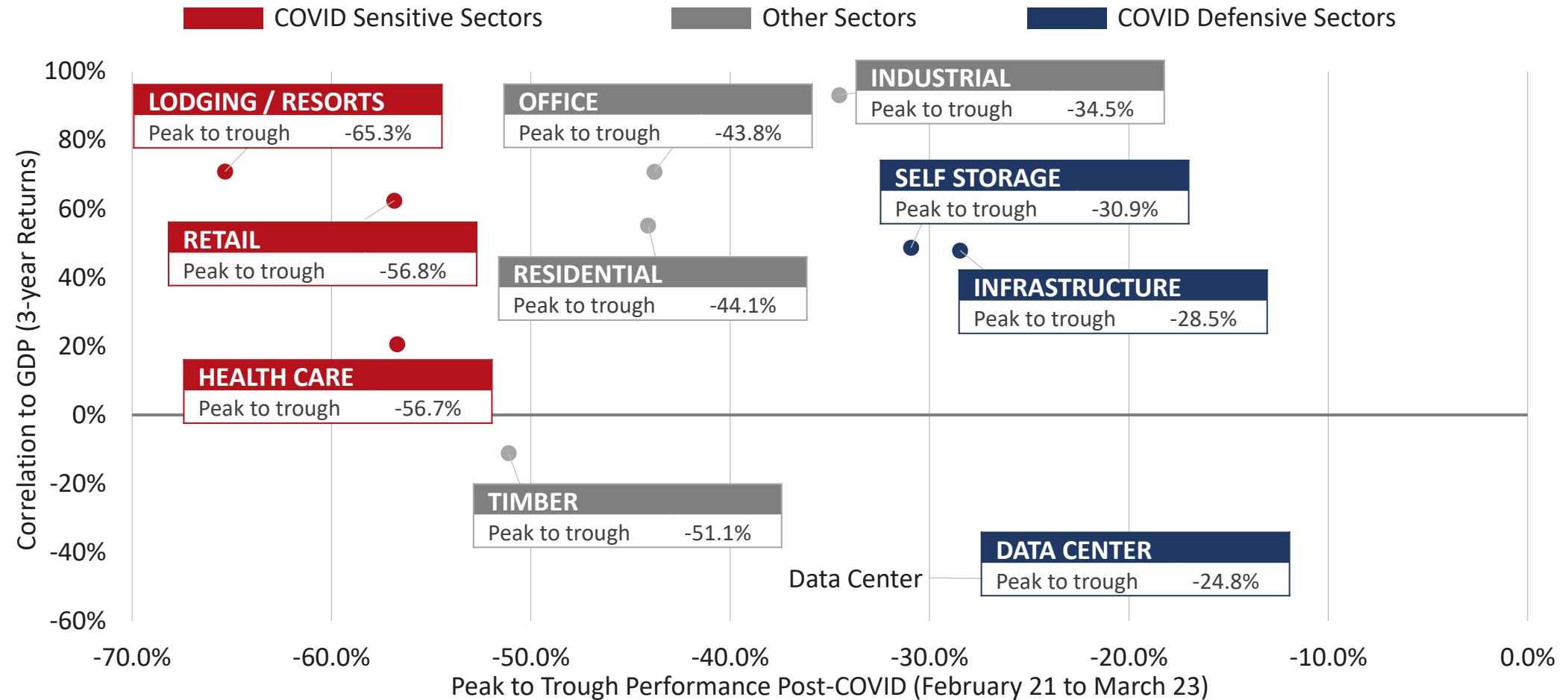


Data source: J.P. Morgan Asset Management, 2Q 2020 estimated

REIT SECTORS WERE NOT IMPACTED EQUALLY

- There was a broad dispersion across U.S. REIT sector returns. As COVID-19 halted travel and brick-and-mortar retail operations lodging and retail suffered, while infrastructure and data centers were more defensively positioned.

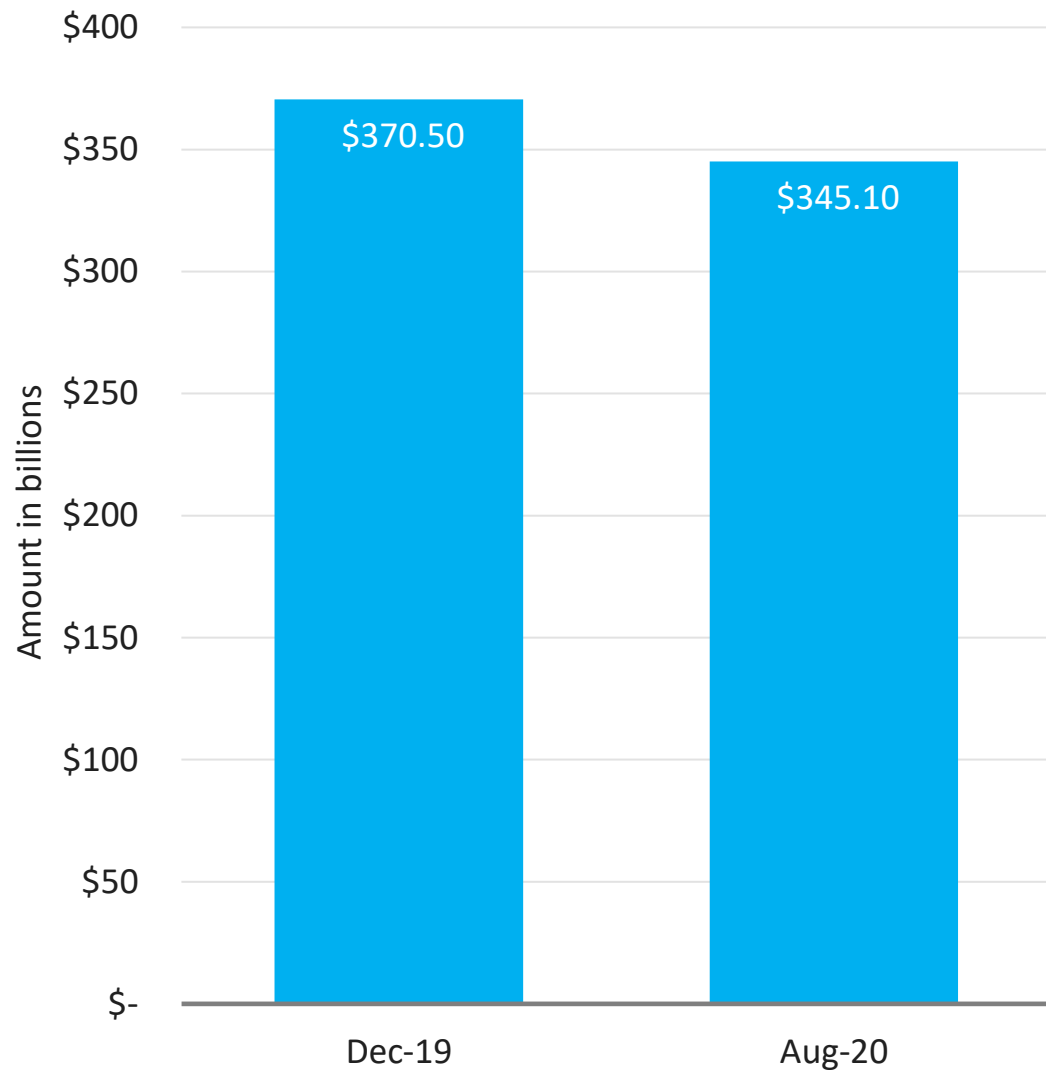
REIT SECTOR POST-COVID PERFORMANCE & GDP SENSITIVITY



Data Source: St. Louis Federal Reserve; Bloomberg. As of April 3, 2020.

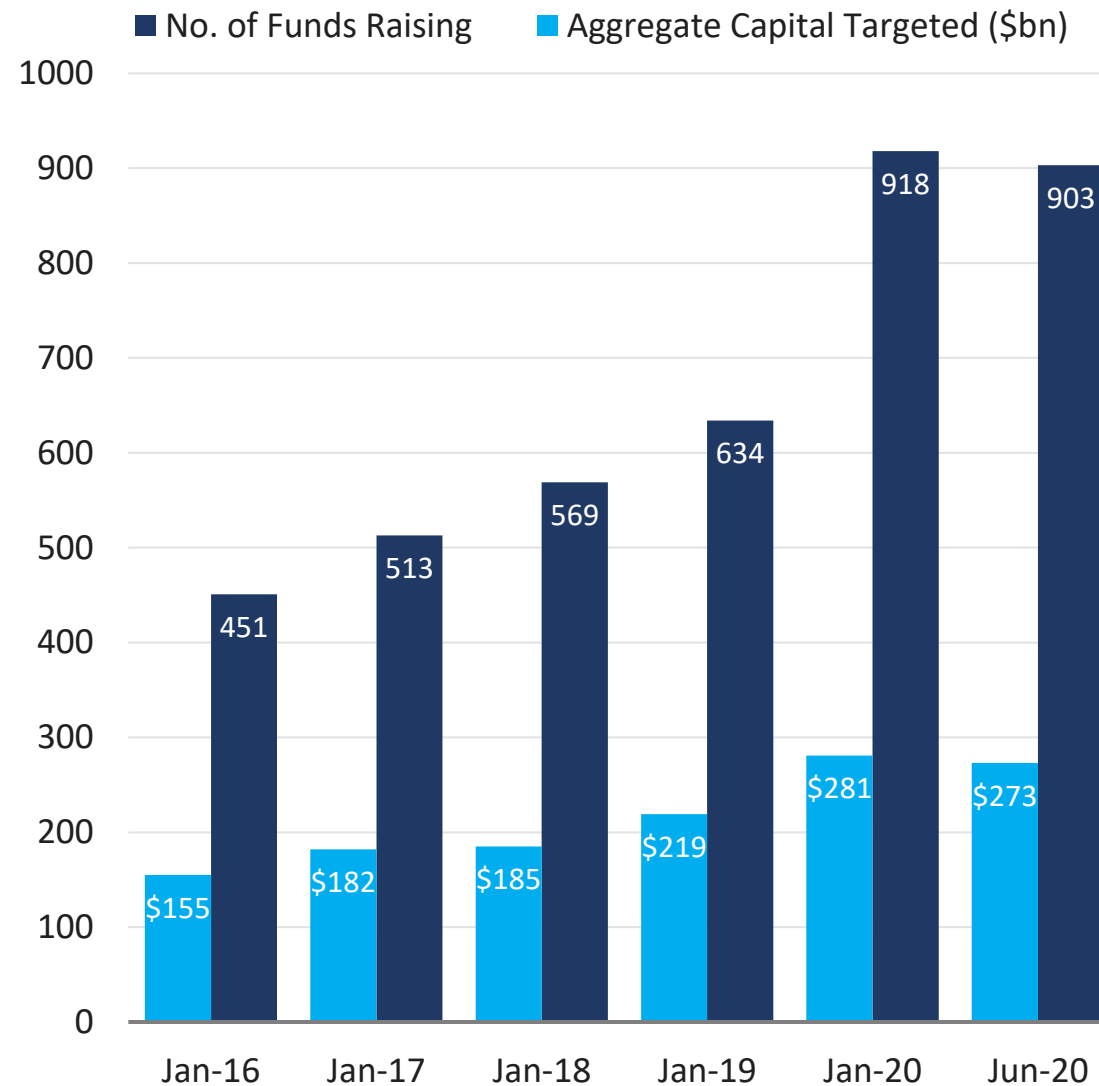
PRIVATE REAL ESTATE FUNDRAISING AT RECORD LEVELS

REAL ESTATE DRY POWDER



Source: Prequin Pro. Data as of August 27, 2020

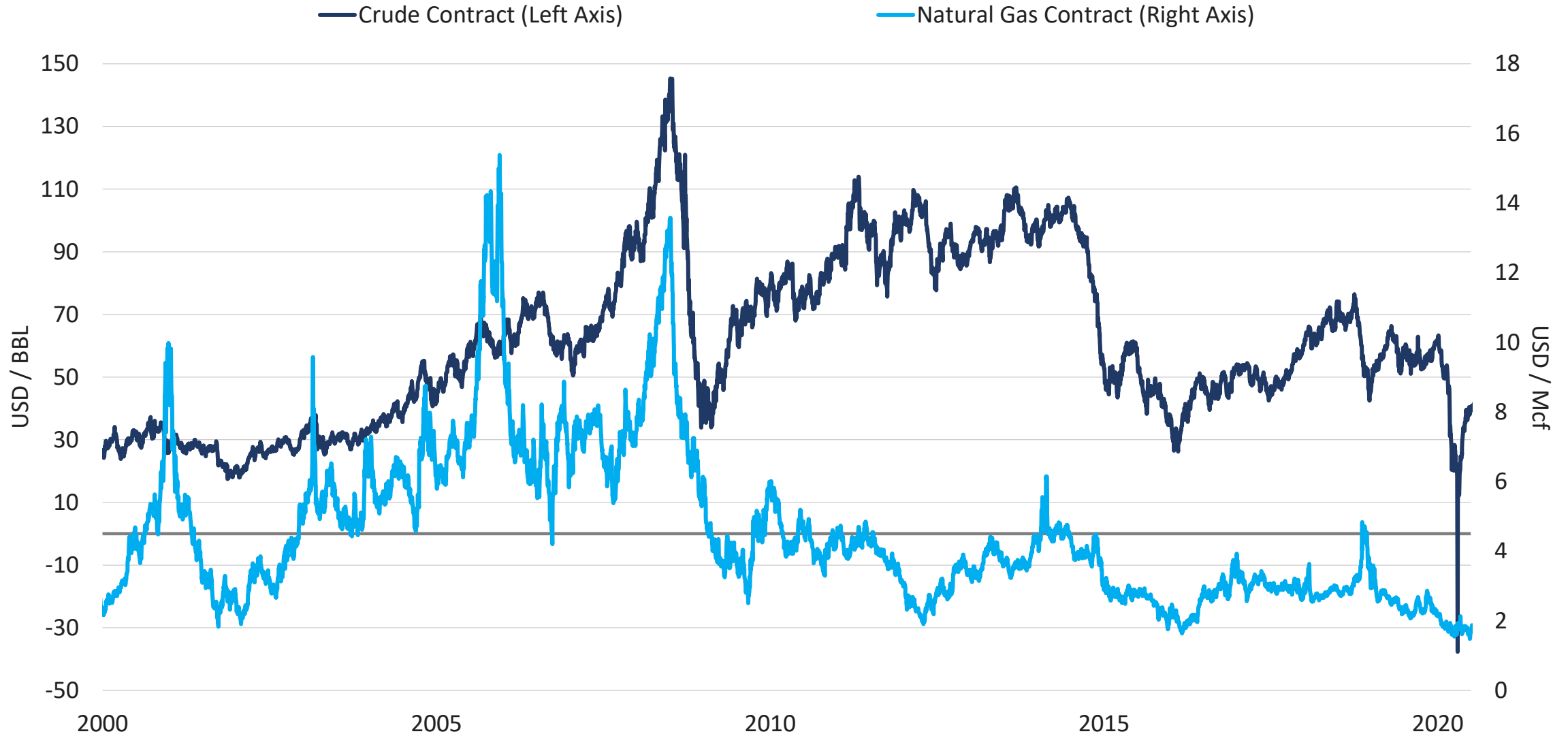
PRIVATE REAL ESTATE FUNDS IN THE MARKET



Source: Prequin Pro. Data as of June 30, 2020

CRUDE MARKET DYNAMICS HAVE CHANGED DRAMATICALLY SINCE GFC

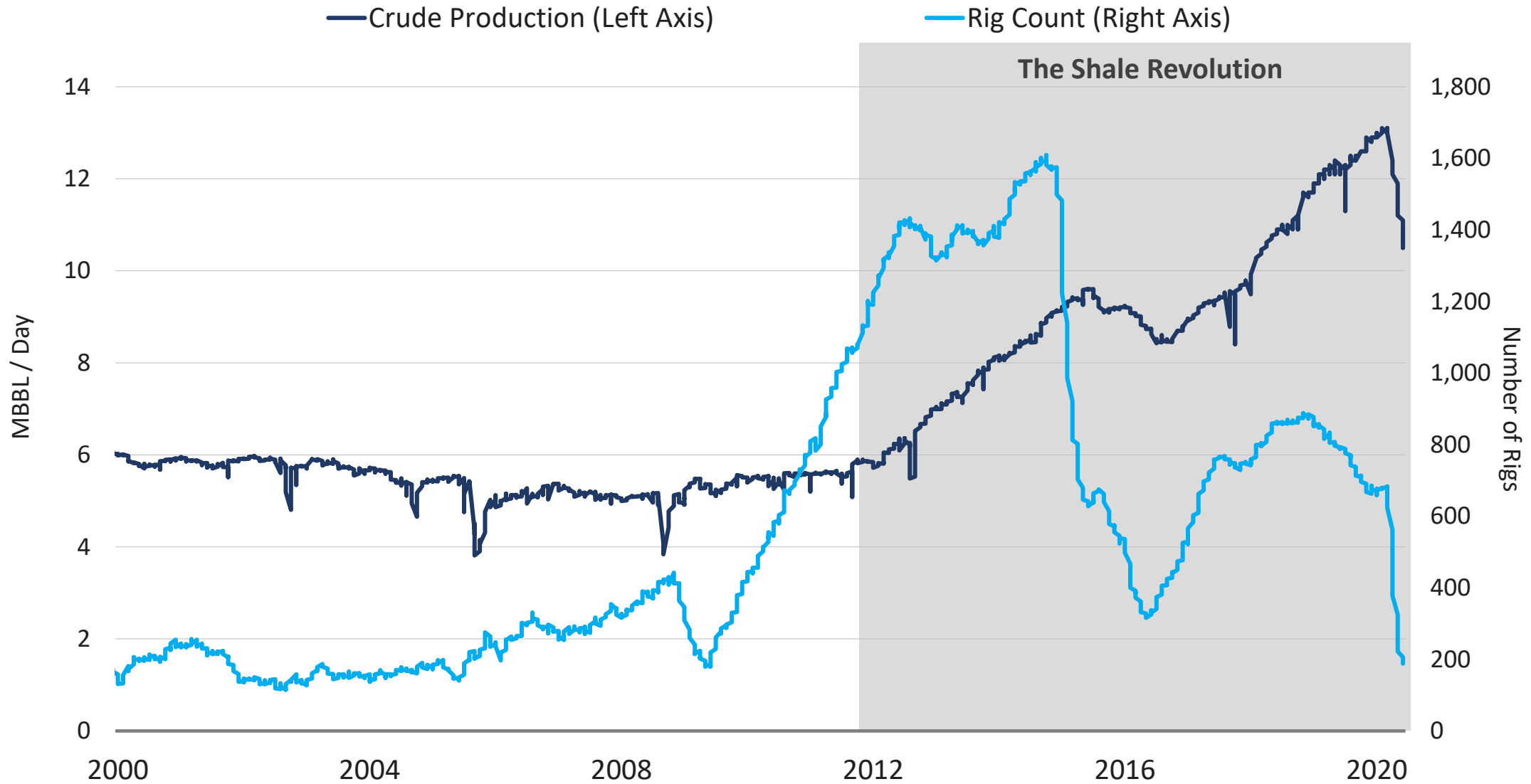
FRONT MONTH WTI & NATURAL GAS CONTRACT PRICE



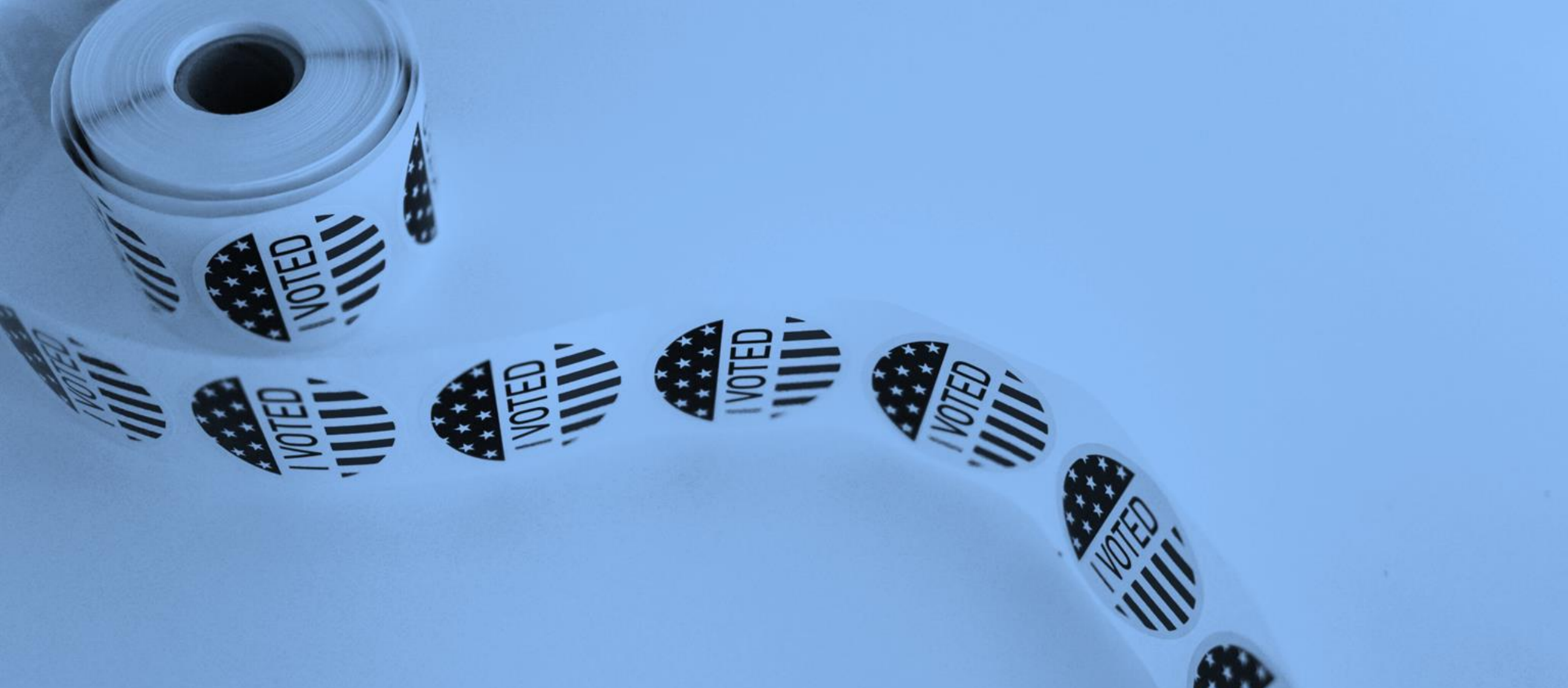
Source: Prequin. Data as of June 30, 2020

CRUDE MARKET DYNAMICS HAVE CHANGED DRAMATICALLY SINCE GFC

US CRUDE PRODUCTION & RIG COUNT



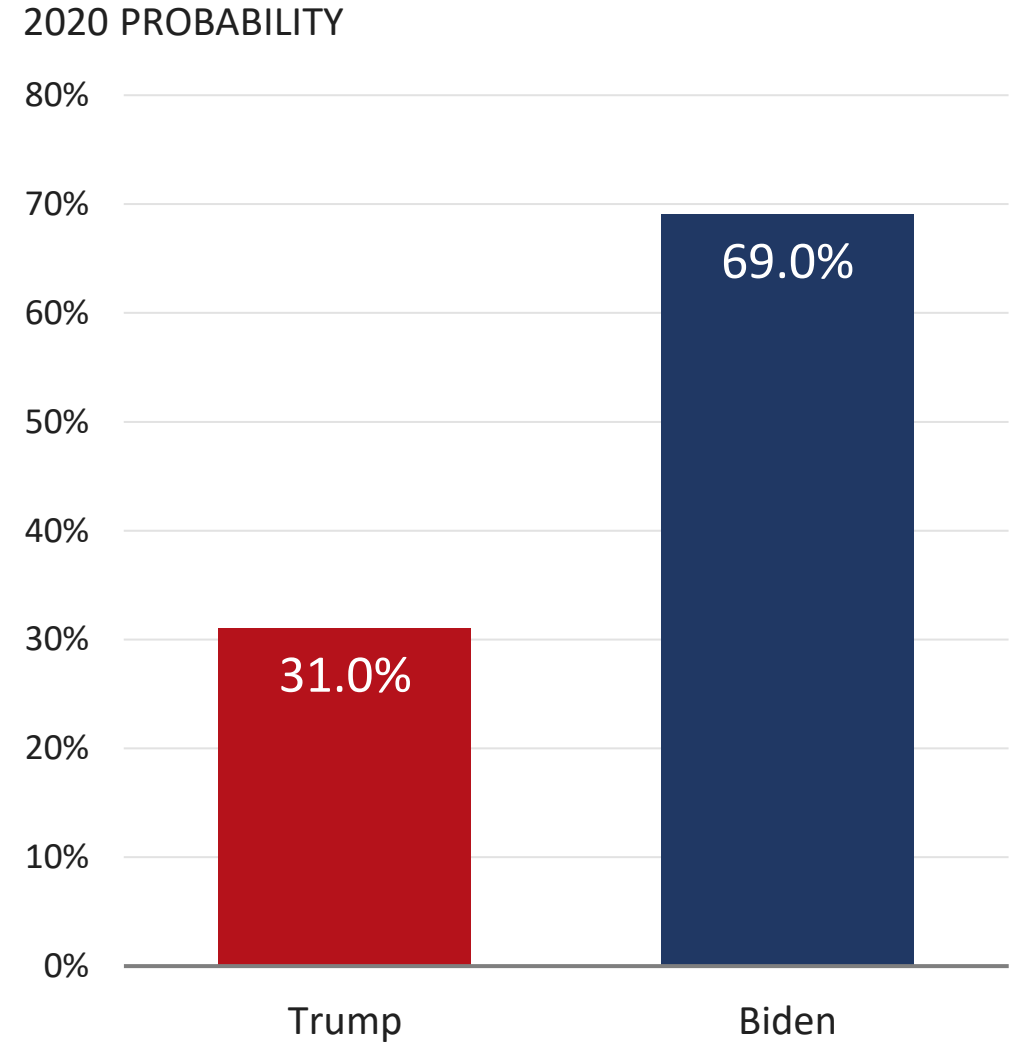
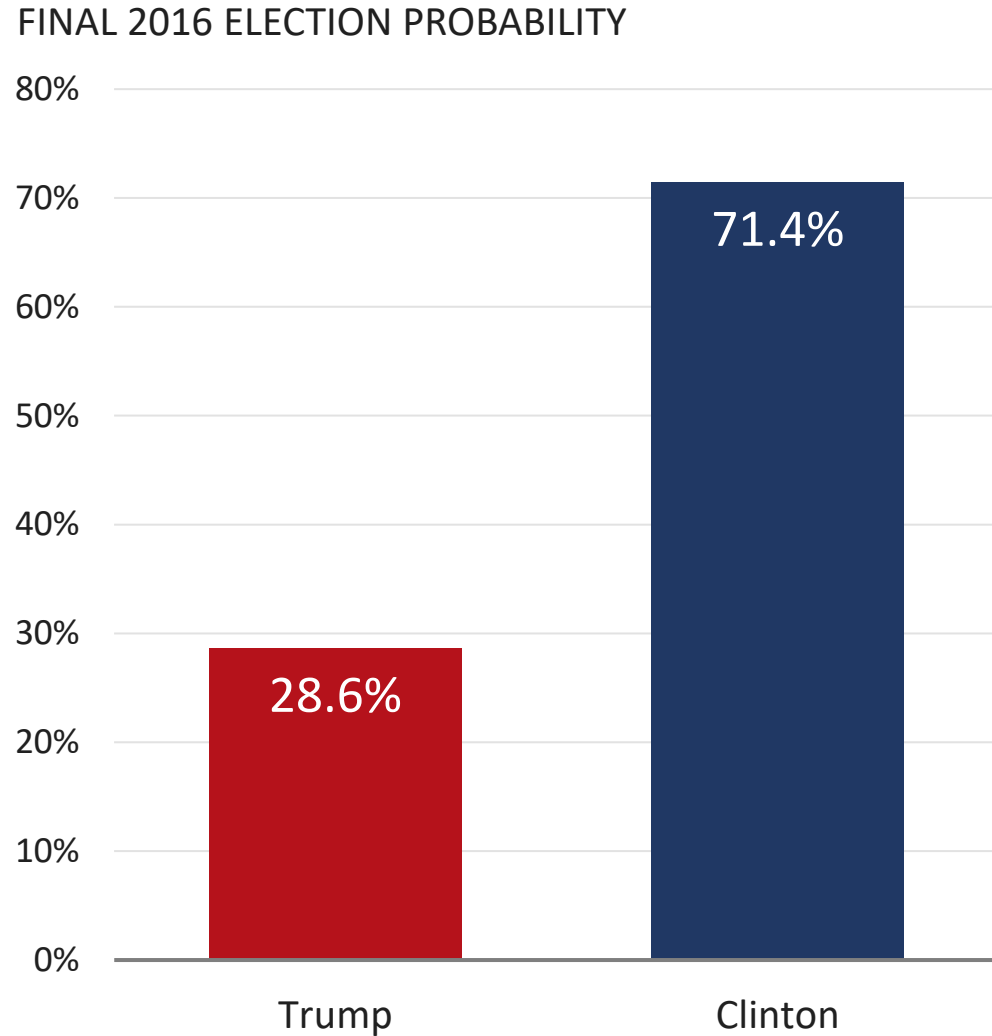
Source: Prequin. Data as of June 30, 2020



UNCERTAINTY WITH ELECTIONS

MAKING INVESTMENT DECISIONS BASED ON POLLING SEEMS FOOLISH

538 PRESIDENTIAL ELECTION FORECAST

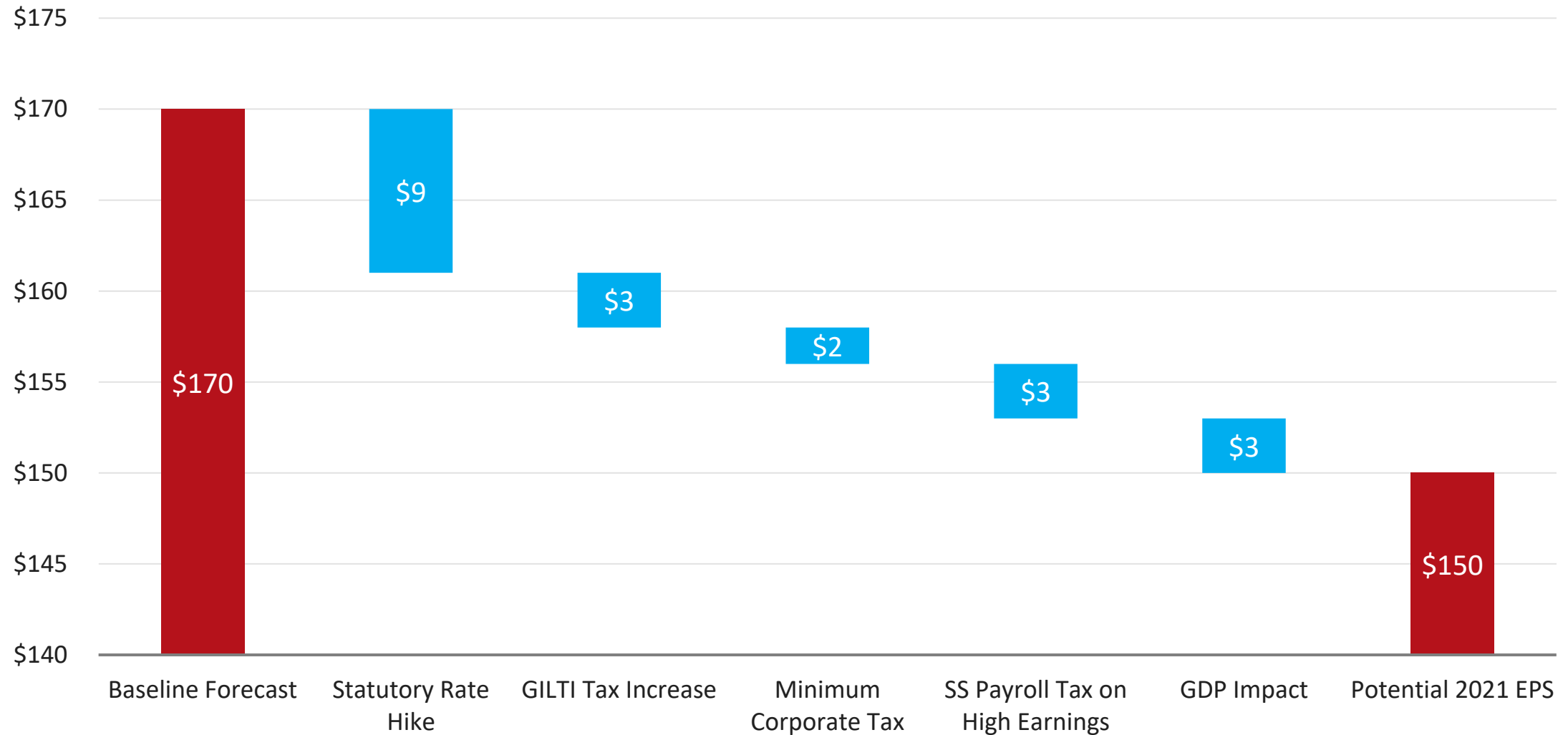


Data source: https://projects.fivethirtyeight.com/2020-election-forecast/?cid=referral_taboola_feed. 2020 probability as of September 1, 2020.

MARKETS ARE LIKELY TO PRICE IN EARNINGS REDUCTIONS FROM HIGHER TAXES

TAX REFORM COULD REDUCE S&P 500 EPS BY 12% (\$20) IN 2021

Potential Impact of Tax Reform on 2021 S&P 500 EPS

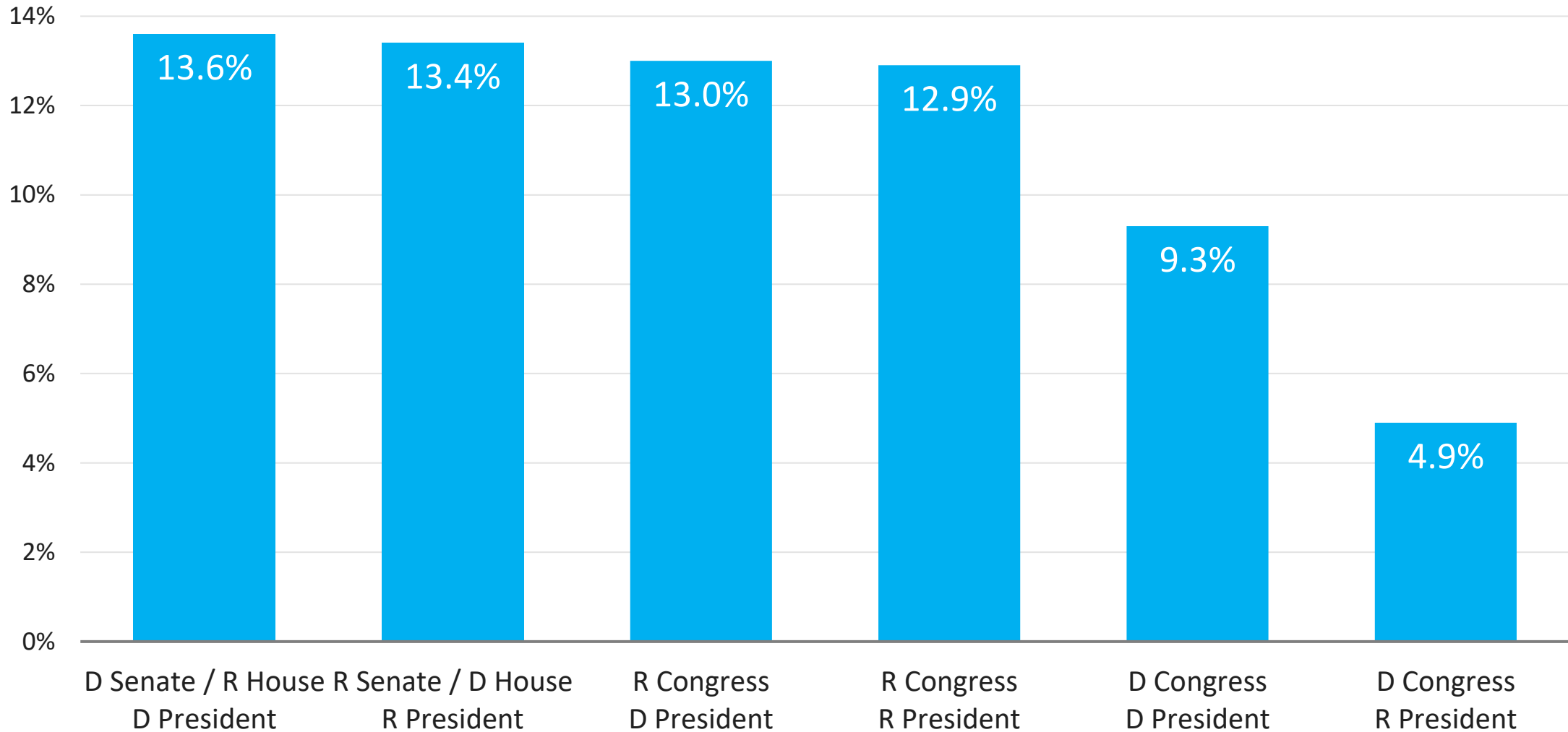


Data sources: Tax Foundation, FactSet, Goldman Sachs Global Investment Research. Data as of June 4, 2020.

CONTROL OF THE LEGISLATIVE AND EXECUTIVE BRANCHES

MANY TIMES, GRIDLOCK IS GOOD

Partisan Control, Average Annual S&P 500 Index Performance, 1933-2019



Source: Strategas. Excludes 2001-02 due to Rep. Jeffords change in party affiliation



FINAL THOUGHTS

IN CONCLUSION

- We are seeing a divide between the Economy and the Stock Market.
- The forthcoming November election promises to be contentious.
- Equity markets, especially in the U.S., are fully or near fully valued.
- Lower for longer on U.S. interest rates presents a challenge for fixed income investors but opportunities remain.
- The energy sector continues to face significant distress; however, lack of capital available could create compelling opportunities for investors.
- Volatility is likely to remain elevated until more is known about the pandemic and the ability of the global economy to approach normal levels of activity.
- We believe investors should maintain diversification and look for select opportunities to add value.

Research Review

Monthly economic commentary and in-depth review of asset classes

Private Capital Quarterly Review

Quarterly focus paper on current investment topic of significance and commentary on alternative investments

Market Commentary

Quarterly review of overall market landscape

FEG Insight

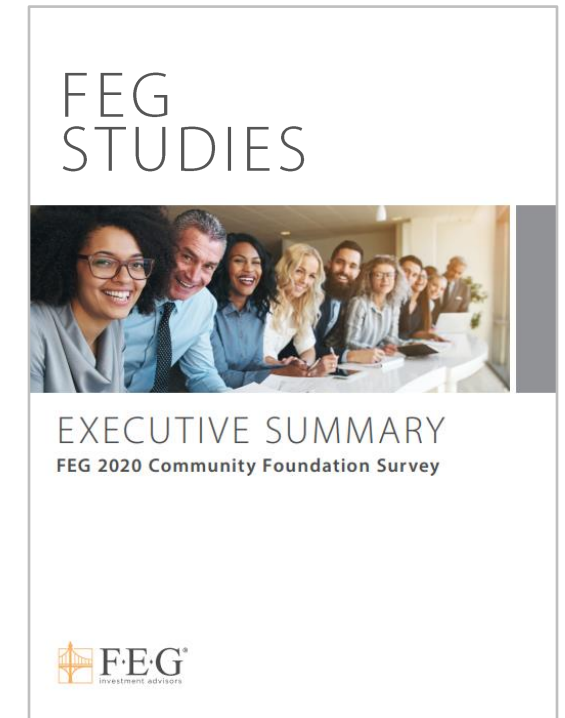
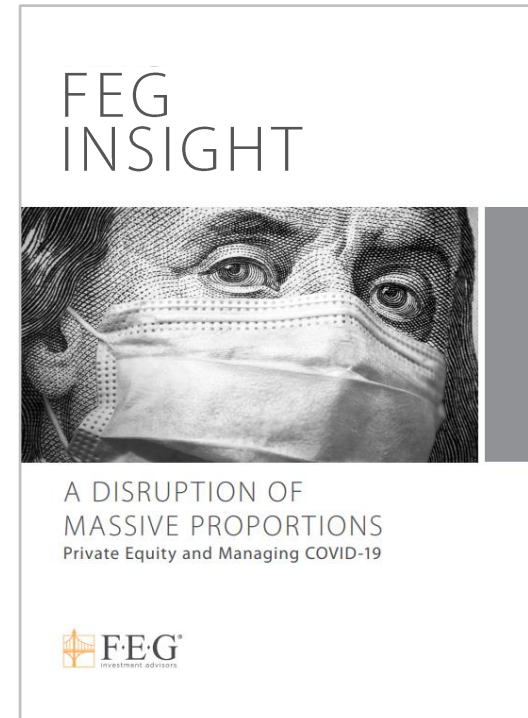
Educational focus paper on current investment related topic

FEG Events

Information on upcoming events, including webinars, lunch sessions, regional events, and the FEG Investment Forum

FEG Surveys and Studies

Invitations and reports related to FEG's proprietary surveys and studies, such as the Community Foundation Survey



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UPCOMING EPISODE

2020 HAS BEEN GREAT... LET'S HAVE AN ELECTION



Libby Cantrill | Managing Director and Head of Public Policy for PIMCO

With the election just months away, Libby joins us to discuss the political implications of COVID-19 and recent civil unrest, as well as the economic implications of the election outcomes.



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QUESTIONS & ANSWERS



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DISCLOSURES

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