



In this week's Highlights, Ryan Grabinski believes a recession is unavoidable at this point, the response from policymakers has been enormous, and timing the market bottom is very difficult.

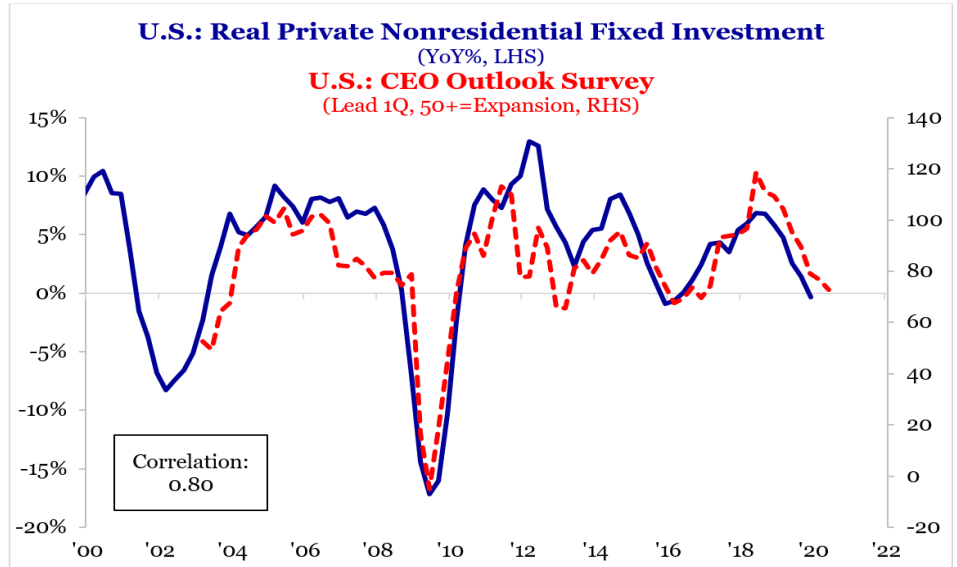


Ryan Grabinski
Equity Strategist

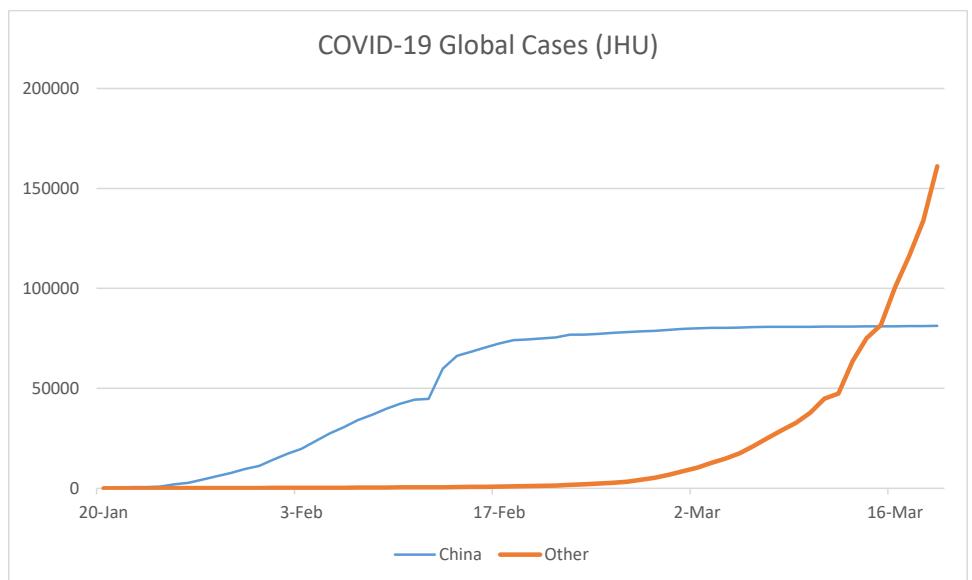
rgrabinski@strategasrp.com

Recession Is Practically Unavoidable With the Actions Taken To Prevent the Spread of the Coronavirus

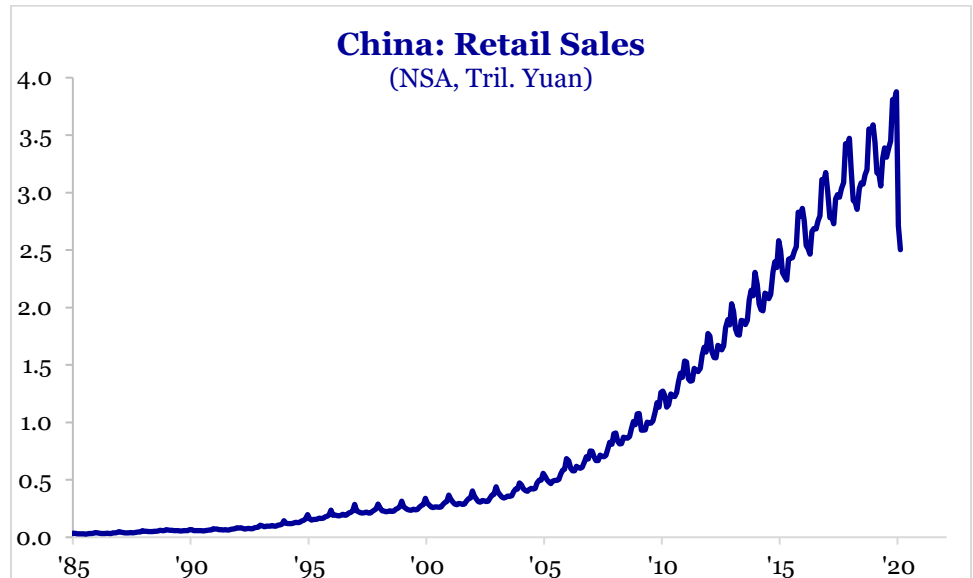
- The U.S. will likely slow notably in 1H of 2020. We have lifted our odds of a U.S. recession in 2020 to 75% and 2Q GDP could fall -10% q/q AR!



- For businesses to gain confidence, we need to see the number of cases outside of China begin to flatten.



- This week’s package of hard data displayed COVID-19’s hit to the Chinese economy. Retail sales were down -21.1% y/y, industrial production plummeted -13.5% y/y, urban unemployment hit 6.2%, and investment declined -24.5% y/y in February.



- The pandemic coronavirus interrupted the recovery that was emerging in Europe and is now sending the region into a recession. The latest soft data is stark: both the ZEW and Ifo Sentiment surveys plunged in March.



Monetary and Fiscal Response from Policymakers Has Been Tremendous

Monetary Policy Response to COVID – 19

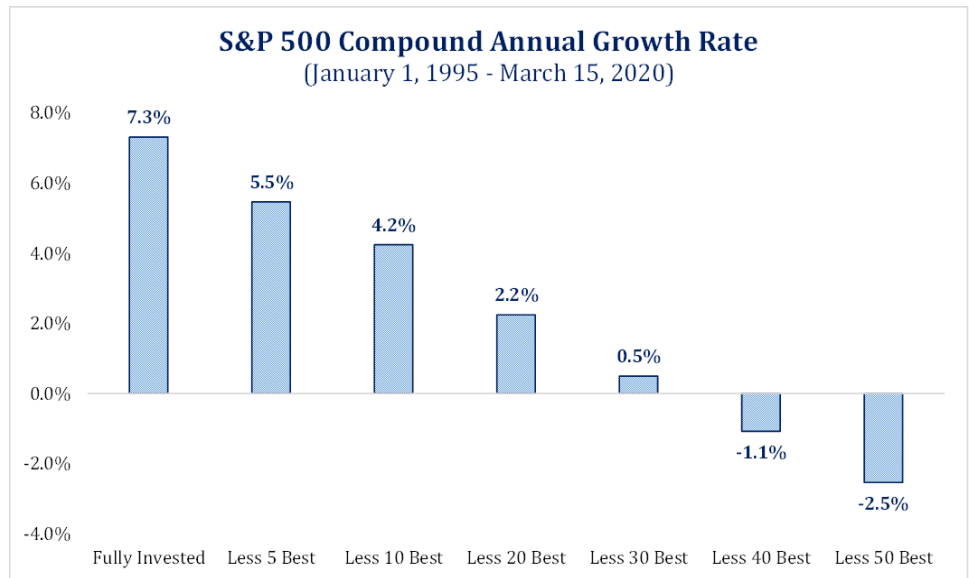
- Lowered The Fed Funds Target Rate From a 1.25-1.5 Percent Range to 0 Percent In Two Separate Actions In March
- Increase Treasury & Mortgage Backed Securities Purchases By \$700BN
- Lowered The Discount Rate To 0.25 Percent
- Reserve Requirements Reduced To Zero
- Coordinated Central Bank Action To Enhance Liquidity of the US Dollar
- Commercial Paper Funding Facility
- Primary Dealer Credit Facility
- Banking Agencies Provide Additional Flexibility For Banks

Fiscal Policy Response to COVID – 19

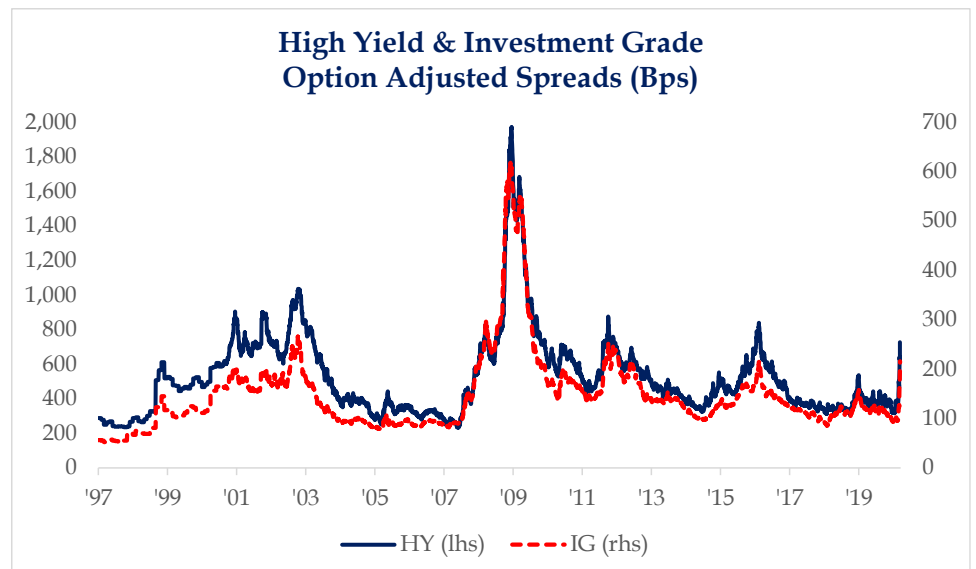
- **Phase One: Emergency Supplemental Funding For Coronavirus Response.** The Coronavirus Preparedness and Response Supplemental Appropriations Act provides \$8.3 billion in emergency funding for federal agencies to respond to the coronavirus outbreak.
- **Phase Two: Economic Safety Net Protections, Approximately \$110bn.** More specifically, the legislation provides for paid sick and family leave, enhanced unemployment insurance, more assistance for states to provide Medicaid, fewer restrictions on food stamps, and free Coronavirus testing.
- **Phase Three: Larger Fiscal Package Stimulus, Approximately \$1 TN.** Congress is now starting the process of developing a “TARP”-size economic stimulus package to deal with the potential for a severe slowdown in economic growth. We expect the final package to be a mixture of tax cuts, payments to individuals, small business credit expansion, aid to industries such as airlines, and government spending.

Timing the Market Bottoms Is Very Difficult

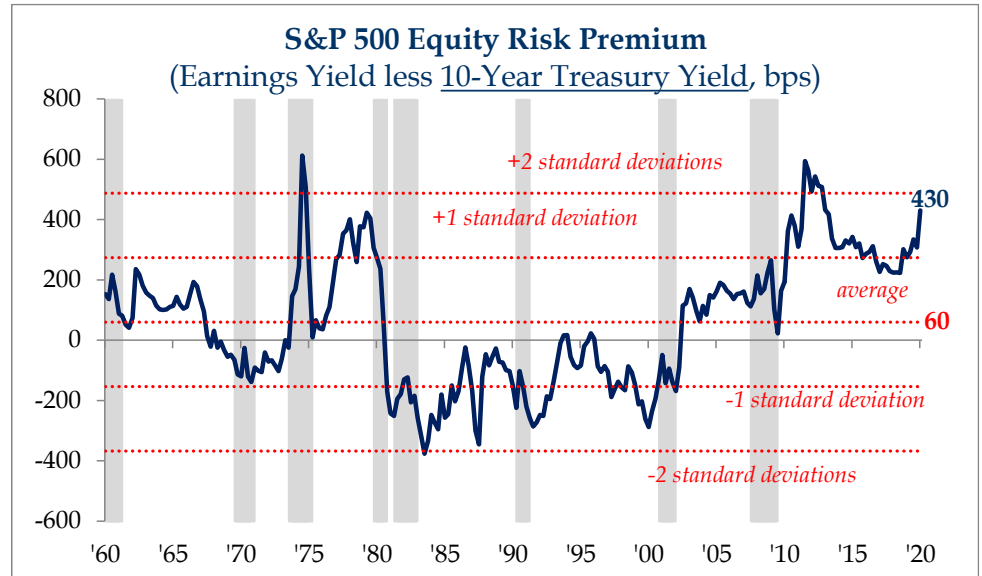
- The quicker there is confidence that the health crisis is being addressed properly, the more quickly the economy and the markets can bottom. We also know that timing the market bottom is very difficult and staying the course is often the best measure.



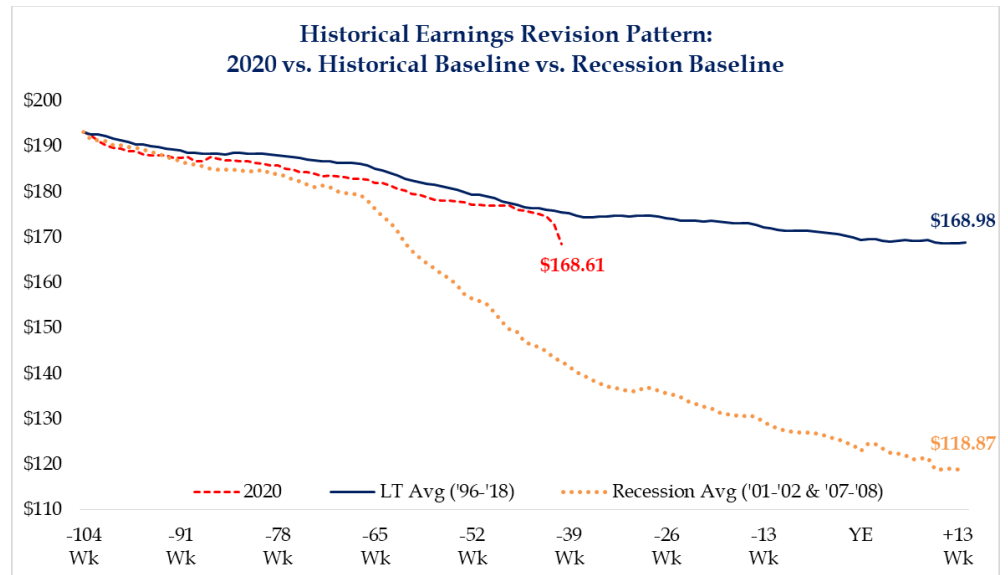
- High yield and investment grade spreads are widening out rapidly. This cycle, credit markets may not lead equities but rather are coincidental.



- Relative to bonds, equities remain a bargain. The equity risk premium is approaching two standard deviations above its long-term average.



- In the past week, earnings have taken a turn lower. We would expect this to decline further as economic conditions weaken in the coming weeks.



IMPORTANT DISCLOSURES

This communication was prepared by Strategas Asset Management, LLC (“we” or “us”). Recipients of this communication may not distribute it to others without our express prior consent. This communication is provided for informational purposes only and is not an offer, recommendation, or solicitation to buy or sell any security. This communication does not constitute, nor should it be regarded as investment research or a research report or securities recommendation, and it does not provide information reasonably sufficient upon which to base an investment decision. This is not a complete analysis of every material fact regarding any company, industry or security. Additional analysis would be required to make an investment decision. This communication is not based on the investment objectives, strategies, goals, financial circumstances, needs or risk tolerance of any particular client and is not presented as suitable to any other particular client.

For investors subject to MiFID II (European Directive 2014/65/EU and related Delegated Directives): We classify the intended recipients of this communication as “professional clients” or “eligible counterparties” with the meaning of MiFID II and the rules of the U.K. Financial Conduct Authority. The contents of this report are not provided on an independent basis and are not “investment advice” or “personal recommendations” within the meaning of MiFID II and the rules of the U.K. Financial Conduct Authority.

The information in this communication has been obtained from sources we consider to be reliable, but we cannot guarantee its accuracy. The information is current only as of the date of this communication, and we do not undertake to update or revise such information following such date. To the extent that any securities or their issuers are included in this communication, we do not undertake to provide any information about such securities or their issuers in the future. We do not follow, cover, or provide any fundamental or technical analyses, investment ratings, price targets, financial models or other guidance on any particular securities or companies. Further, to the extent that any securities or their issuers are included in this communication, each person responsible for the content included in this communication certifies that any views expressed with respect to such securities or their issuers accurately reflect his or her personal views about the same and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this communication. This communication is provided on a “where is, as is” basis, and we expressly disclaim any liability for any losses or other consequences of any person’s use of or reliance on the information contained in this communication.

Strategas Asset Management, LLC is an SEC-registered investment adviser and is affiliated with Strategas Securities, LLC, registered broker-dealer and FINRA member firm, as well as an SEC-registered investment adviser. Both are affiliated with Robert W. Baird & Co. Incorporated (“Baird”), a broker-dealer and FINRA member firm, although the firms conduct separate and distinct businesses. A complete listing of all applicable disclosures pertaining to Baird with respect to any individual companies mentioned in this communication can be accessed at <http://www.rwbaird.com/research-insights/research/coverage/third-party-research-disclosures.aspx>. You can also call 1-800-792-2473 or write: Robert W. Baird & Co., PWM Research & Analytics, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.

Past performance is not a guarantee of future results.