Chris Hyzy: This is Chris Hyzy, Chief Investment Officer for the Market Update Call for Monday, October 26th. With five days before Halloween and eight days to go until U.S. elections, top of mind is increasing virus cases across the U.S., not to mention Europe. Corporate earnings continuing to surprise to the upside and stimulus stalemate. Equities were consolidating all of last week on the back of three straight weeks of gains prior to that. Now in the next week the three areas that I just mentioned in terms of rising virus cases, corporate cases, and stimulus stalemate should dictate market action in our opinion. It's going to be difficult for investors to pivot to feeling more comfortable in reducing their high and still elevated cash positions and adding to risk assets until more clarity comes into the fold. We need to continue to see better than expected earnings. Upward estimate revisions continuing to increase, which has been so far the trend and economic data reaching pre-virus heights in some areas up ahead of the turn of the year. The broader move is just risk off in our opinion until there again, is more clarity on the elections. The timing and size of additional stimulus, the medium term prospects for jobs, and of course once again, the release of new vaccine and treatment trial data which we do expect in the next week and more importantly in the next month we do finish a few of the very important phase three trials. Now these four factors work hand in glove in our view and set the direction of the final two phases of the workout process that we highlighted back in late March and early April between now and 2022. Those two final phases start at the beginning of next year. The first one is the pent up demand cycle and then into 2022 that's where innovation, tech, and the next phase of the innovation frontier do take over. We call it The New Frontier. That's where we see most of job gains happening. In 2021 the jobs have come back are more than likely on the basis of the virus and treatment data that we do see that could support rising consumer confidence and business confidence in the areas most harmed like travel, leisure, and entertainment. Let's stick to the coming

weeks first. Volatility should remain high. Markets stuck in a wide range is what we see between 3200 and 3600 on the S&P until the previously mentioned four factors become more clear. So what do we know at this point? First global manufacturing, as stated by the purchasing manager's indices, are rising and not just rising in small increments. They're actually rising pretty handsomely and they're remaining to be robust, particularly overseas the areas that were hardest hit in the earliest hit areas within Asia and most notably China. Number two copper - rising to not just yearly highs, but almost two year highs. Transport stocks increasing, luxury goods stock increasing, cyclicals versus defenses outperforming, and credit spreads in the fixed income market are all pointing to increasing and higher growth in the next 12 months. These are the signs that you want to see whether or not we get a sooner rather than later new fiscal package. Having these areas support better economic growth in the future is what stocks typically look at up ahead of the overall economic cycle. Unfortunately right now the uncertainty level is very high globally as well as with the pandemic and very importantly, the elections. Number three, global earnings are rising and estimate revisions are increasing. This is not just in the United States. On a one month earnings revision ratio, BofA Global Research recently released, we have now gone above 1 which basically means more positive estimate revisions than negative and it's fast becoming the direction around the world as well. We expect this to continue given rising Asian exports, improving China credit growth, better than expected U.S. housing and auto sales overall, and solid consumer spending. The consumer by the way is actually reaching the highs once again in a post-Covid, post-pandemic type world. What I should say here is that the consumer, which pulled back on the second wave which we saw in some states in July, that same consumer is still powering ahead though on this so-called third wave of activity in virus growth so that's a good sign in terms of overall estimate revisions particularly as it relates to the

consumer lens. Four, more fiscal sending is on its way to help support small business, consumer spending, and is a bridge to a potential vaccine. Five, more treatment and vaccine trial data, as we said before, is being released in the next few weeks and will provide a potential roadmap to the second phase of the pandemic heading into 2021. Six, monetary policy accommodation – we've come to view this as not just accommodation, but table stakes core to what is out there in terms of liquidity and that remains at record levels. We expect this to be the case and the Fed has said so on a forward guidance basis for the next few years. Seven, in this context overall, if you take a look at the previous six things that we do know, the spread of the S&P 500 dividend yield and the government bond yields is higher than it has been in nearly 60 years. What does this really mean? This increases the likelihood that as things become more clear in the next 12 months, long term investors should actually raise their equity allocations in our opinion given the fact that equity, otherwise known as net worth, with our prospects of rising profit cycle should be more attractive in the next 12 months to longer term investors given its relative attractiveness to fixed income. Again, that spread between dividend yield and the S&P 500 and government bond yields have never been this wide in nearly 60 years. We've always said that science and technology get us back and that continues to be the case. Job growth will be needed to support the next two phases of the workout process, so we'll be watching that very closely in the areas most harmed but also as we said at the outset, in 2022 and beyond the innovation cycle hits a very high gear, not to mention the fact that infrastructure and transportation logistics and warehousing should also support rising U.S. job prospects in housing and in the auto sectors. In 2021 pent up demand cycle should drive further revisions upward to corporate profits. Fiscal policy is the name of the game as we now expect fiscal policy to come more or less at the turn of the year versus prior to the election and we should [say] another fiscal

package. Geopolitical relations are taking a backseat right now but they come back into the forefront heading into next year and continued innovation are all major drivers of asset prices and their direction in our opinion. The swing factor remains the timing of when businesses and consumer activity gets back to pre-virus levels. Is it quarter one? Is it quarter two? 2021 or the second half? An earlier upswing in confidence and activity would obviously create a quicker risk on phase in the markets and higher highs in our opinion around the turn of the year. That'll do it for today. Thanks for listening.

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