ECONOMIC AND MARKET COMMENTARY

1st Quarter 2020

SMITH SHELLNUT WILSON

INVESTMENT COUNSEL AND MANAGEMENT

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OUR MISSION

Smith Shellnut Wilson is a registered investment adviser* specializing in managing investment portfolios for banks, individuals, corporations, foundations and public entities. Smith Shellnut Wilson offers its clients skilled investment management and unremitting client service. Smith Shellnut Wilson is dedicated to the premise that client relationships and performance, not transactions, are the ultimate goals.

I. CHALLENGES, THOUGHTS AND HOPE

The global virus-fighting lockdowns and closures in developed and developing economies have resulted in sharp declines in equity markets and severe dislocations in fixed-income markets worldwide.

The IHS Markit gauge of services slid 10.3 points to 39.1 in March 2020. With services comprising almost 90% of the U.S. economy, the largest percentage of Gross Domestic Product since 1947, the slump in the index highlights the extent of the shock to the nation's output as retailers, restaurants, and other service providers shut down in an effort to contain the outbreak. Similar measures for Japan, Germany, the U.K., France and Australia were also at all-time lows.

While registering a smaller setback than the services gauge, the IHS Markit Index of U.S. manufacturing dropped in March to 49.2, the weakest since August 2009. The economic stoppage and social distancing also are impeding global manufacturing and are expected to have an even bigger impact on the economy in the coming months. As businesses close their doors, and world economies grind to a halt, millions of people will be unemployed, as we already have begun to see in the U.S. March jobless claims tally of 10 million.

The unprecedented economic impact of the virus illustrates why central banks and governments have acted so swiftly to implement policies to support their economies. Alleviating the hardship from job losses is essential to keep consumption from falling sharply, as is maintaining sufficient financial system liquidity. The goal is to keep the effects of a savage short-term recession from weighing on potential output into the long term. By alleviating the household hardship resulting from a sudden stop in income, these policies raise the odds of a powerful wave of pent-up demand being unleashed once the virus is contained.

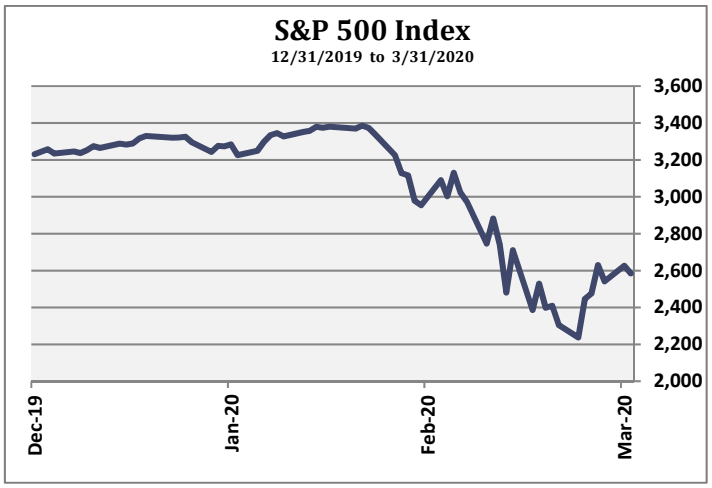
Extraordinary times require extraordinary measures. Unlike the medical effects of the virus, the economic impact is easier to predict and overcome. The global financial crisis of 2008 transformed the economy and financial markets by offering unlimited financing with zero interest rates, low inflation, and a tolerance for monetary and fiscal experimentation. Similar “no-holds-barred”

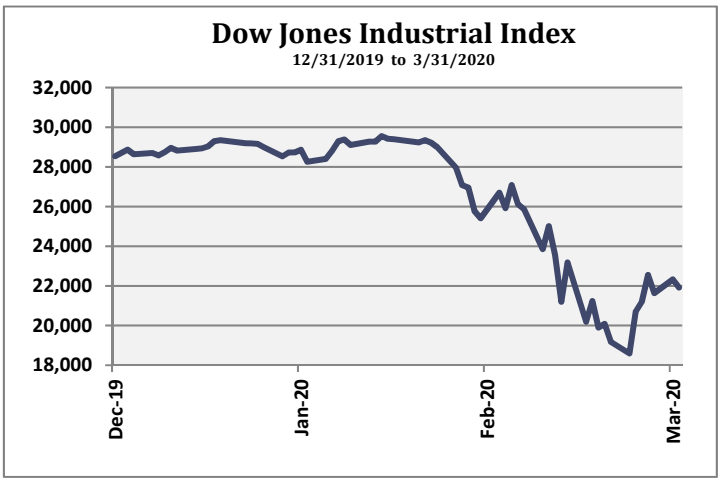
*Registration of an Investment Adviser does not imply any certain level of skill or training.

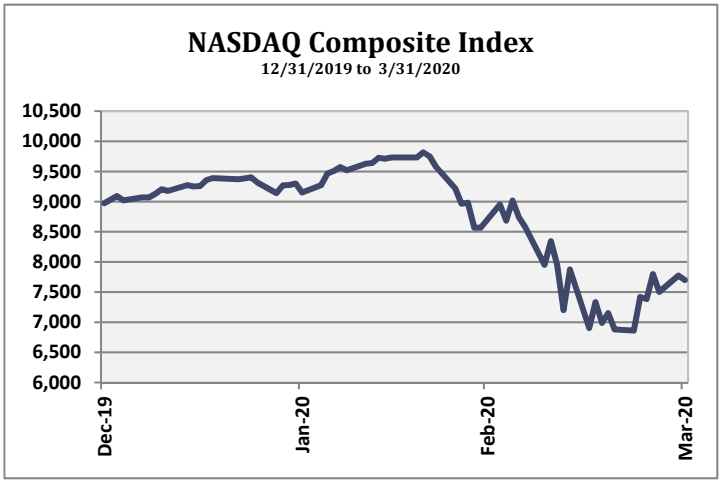
monetary and fiscal policy measures, as well as advancements on the health front, are currently underway, offering a glimmer of hope that the coronavirus will soon be contained and conquered without prolonged and lasting economic effects.

II. EQUITY MARKETS: FIRST-QUARTER 2020 RECAP AND PERSPECTIVE

U.S. equity indexes fell sharply and swiftly in the first quarter, with the S&P 500 Index plummeting (19.6)%, the Dow Jones Industrial Average falling by (22.7)%, and the tech-heavy NASDAQ falling by a lesser (13.9)%- -all, on a dividends-reinvested basis.







Across the market-capitalization spectrum, U.S. small-cap companies were down by (30.6)% on average, while mid-cap companies plunged (27.1)%, compared with the (19.6)% rout for large-companies. Market liquidity and returns improved somewhat toward quarter's end, as promises by the government to do "whatever it takes" in the form of monetary and fiscal stimulus began to ease investor fears. Despite this improvement, the S&P 500 still registered its worst quarter since 2008 and its worst first quarter since 1938.

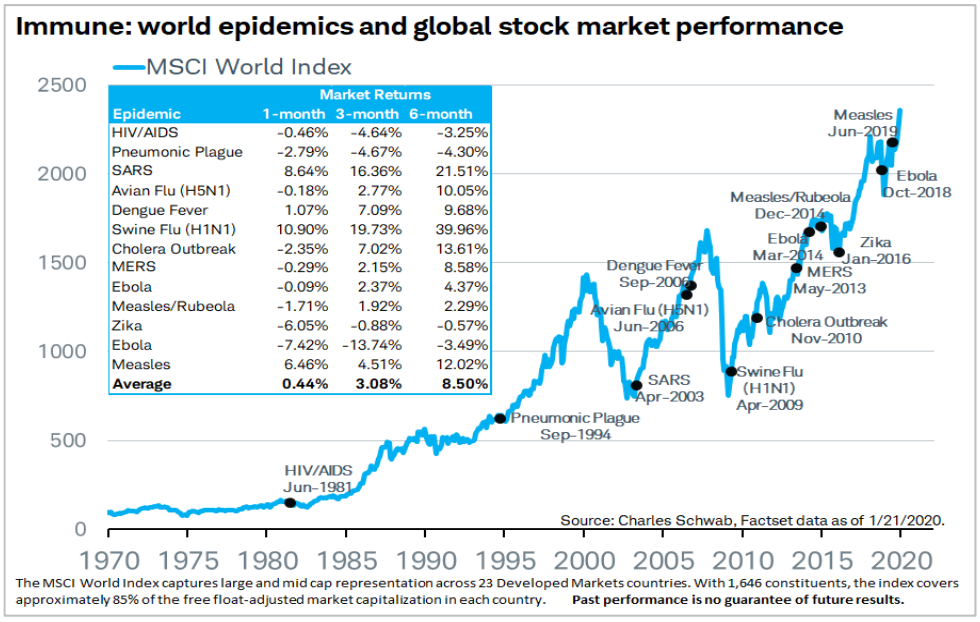
Price-to-earnings multiples based on trailing 12-month earnings, a common measure of valuation, fell to 13-18x at March 31, 2020 from 18-23x at December 31, 2019 across small-, mid- and large-cap company cohorts, compared with a 20-year average of approximately 18x for each cohort.

To put the first quarter in perspective, we provide a chart and a graph, below. The chart, "A Historical Perspective on Bear Markets," chronicles all 20%+ declines in the S&P500 Index since 1929. The graph, "Immune: World Epidemics and Global Stock Market Performance," shows subsequent market returns after past health epidemics.

Historical Perspective on "Bear" Markets

Peak	Trough	Duration (months)	Bear market magnitude	Recession during bear?	1-Year return after trough
9/3/1929	7/8/1932	34	-86%	Yes	124%
3/10/1937	4/28/1942	61	-60%	Yes	59%
10/9/2007	3/9/2009	17	-59%	Yes	68%
3/24/2000	10/9/2002	31	-49%	Yes	34%
1/11/1973	10/3/1974	21	-48%	Yes	38%
11/29/1968	5/26/1970	18	-36%	Yes	44%
8/25/1987	12/4/1987	4	-34%	No	23%
5/29/1946	6/13/1949	37	-30%	Yes	42%
12/11/1961	6/26/1962	6	-28%	No	33%
11/28/1980	8/12/1982	21	-27%	Yes	58%
2/9/1966	10/7/1966	8	-22%	No	33%
8/2/1956	10/22/1957	14	-22%	Yes	31%
7/16/1990	10/11/1990	3	-20%	Yes	29%
09/20/2018	12/24/2018	3	-20%	No	37%
Average		**22**	**-39%**		**47%**

Source: ISI, Bloomberg, National Bureau of Economic Research, Haver Analytics, FMRCo (Asset Allocation Research Team) as of February 26, 2020. Data based on S&P 500 Index price returns. Duration ends with a complete retracement of losses. Recessions are defined by the National Bureau of Economic Research. Past performance is no guarantee of future results. You cannot invest directly in an index. The S&P 500®, a market capitalization-weighted index of common stocks, is a registered service mark of the McGraw-Hill Companies, Inc. and has been licensed for use by Fidelity Distributors Corporation.



The conclusion from both is that stock market recoveries after such episodes tend to be swift and sharp and, hence, easy to miss if an investor is on the sidelines.

III. First-Quarter 2020 Bond Market Recap

High-grade bond indexes posted flat or positive returns in the first quarter, despite sharp dislocations in some sectors driven by bouts of illiquidity.

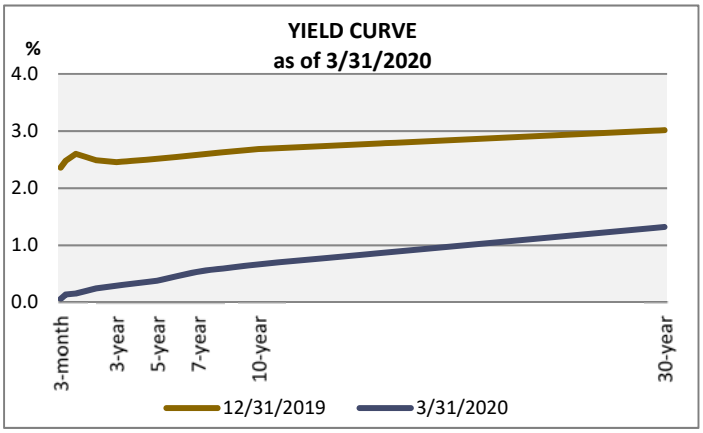
Bonds (Bloomberg Indexes)

1) Aggregate 3.15%
2) Treasury 8.20%
3) Mortgage 2.82%
4) Municipal (0.63)%
5) Corporate (3.63)%
6) High Yield (12.74)%

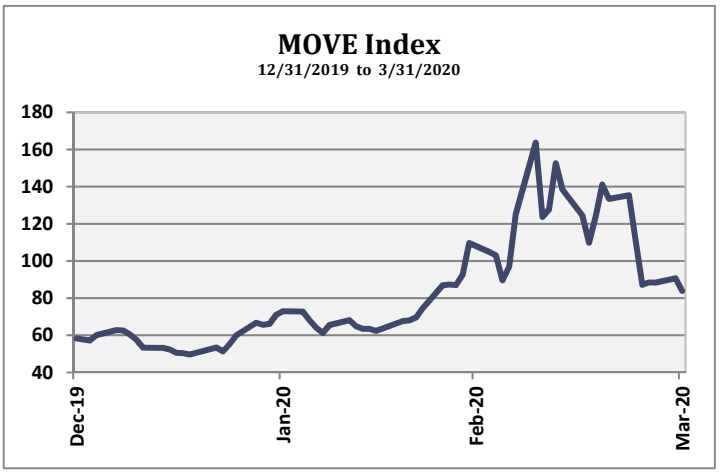
U.S. Treasury yields fell sharply during the quarter, tumbling more than 100 basis points across the curve, as the stock market swoon engendered a classic "flight to quality".

Treasury Yields

		12/31/19	3/31/20	Change (BP)
1)	10-Year	1.92%	0.67%	Down 125
2)	5-Year	1.69%	0.38%	Down 131
3)	2-Year	1.57%	0.25%	Down 132
4)	3-Month Bills	1.55%	0.09%	Down 146



Bond returns exhibited far more dispersion during the quarter than that witnessed in the equity markets.



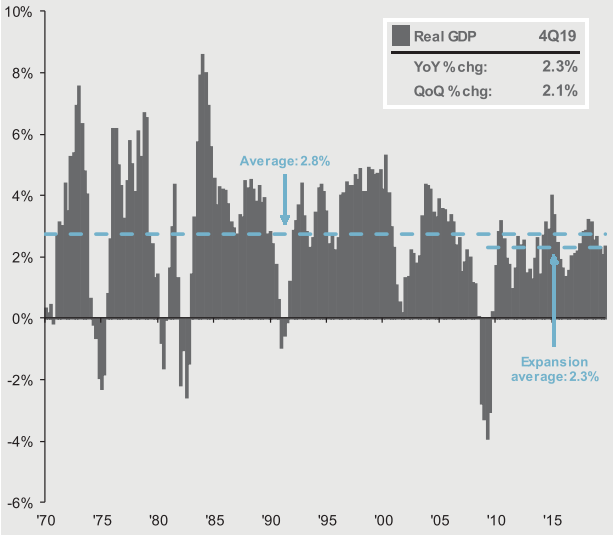
As fears due to the coronavirus intensified, bond investors and traders moved out of risk assets and into cash and U.S. Treasuries. Bonds with any real or perceived credit risk saw widespread selling, with yields moving markedly higher, providing buying opportunities in sectors such as the high-grade, essential-service municipal bond sector.

The source of the information in this commentary is SSW and Bloomberg unless otherwise noted.

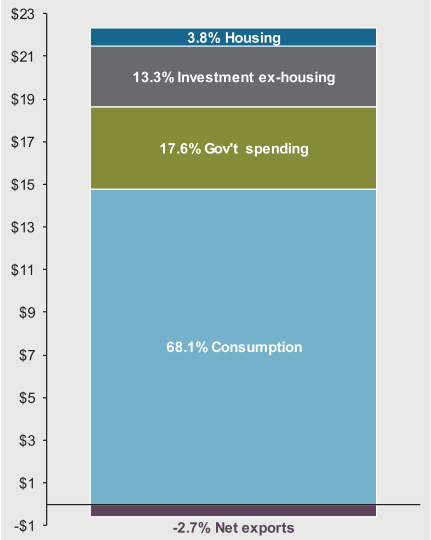
Economic growth and the composition of GDP

Economy

Real GDP
Year-over-year % change



Components of GDP
4Q19 nominal GDP, USD trillions

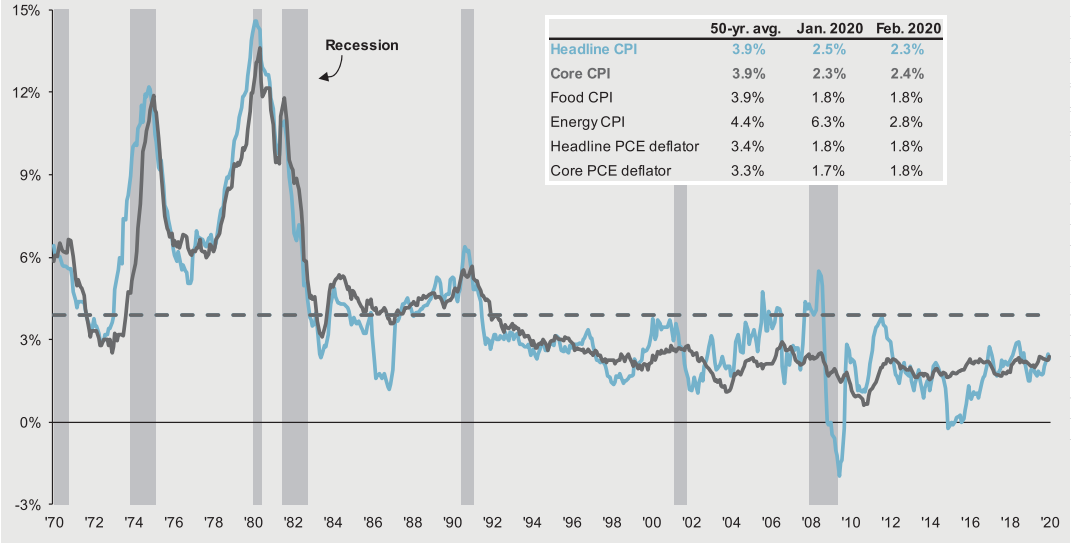


Source: BEA, FactSet, J.P. Morgan Asset Management.
Values may not sum to 100% due to rounding. Quarter-over-quarter percent changes are at an annualized rate. Average represents the annualized growth rate for the full period. Expansion average refers to the period starting in the third quarter of 2009.
Guide to the Markets – U.S. Data are as of March 31, 2020.

Inflation

Economy

CPI and core CPI
% change vs. prior year, seasonally adjusted



	50-yr. avg.	Jan. 2020	Feb. 2020
Headline CPI	3.9%	2.5%	2.3%
Core CPI	3.9%	2.3%	2.4%
Food CPI	3.9%	1.8%	1.8%
Energy CPI	4.4%	6.3%	2.8%
Headline PCE deflator	3.4%	1.8%	1.8%
Core PCE deflator	3.3%	1.7%	1.8%

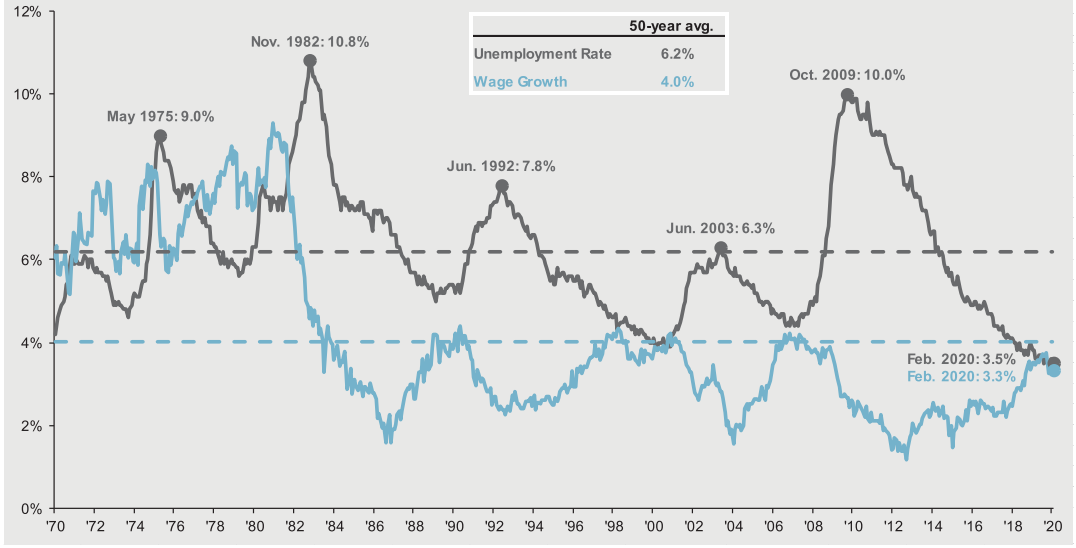
Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
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Economy

Unemployment and wages

Civilian unemployment rate and year-over-year wage growth for private production and non-supervisory workers
Seasonally adjusted, percent

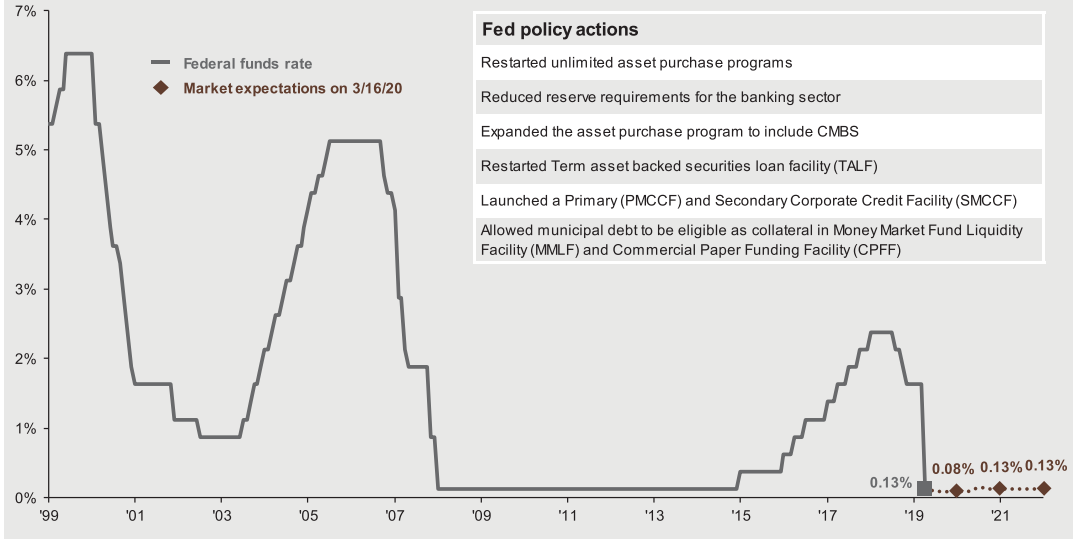


Source: BLS, FactSet, J.P. Morgan Asset Management.
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Fixed income

The Fed and interest rates

Federal funds rate expectations
FOMC and market expectations for the federal funds rate

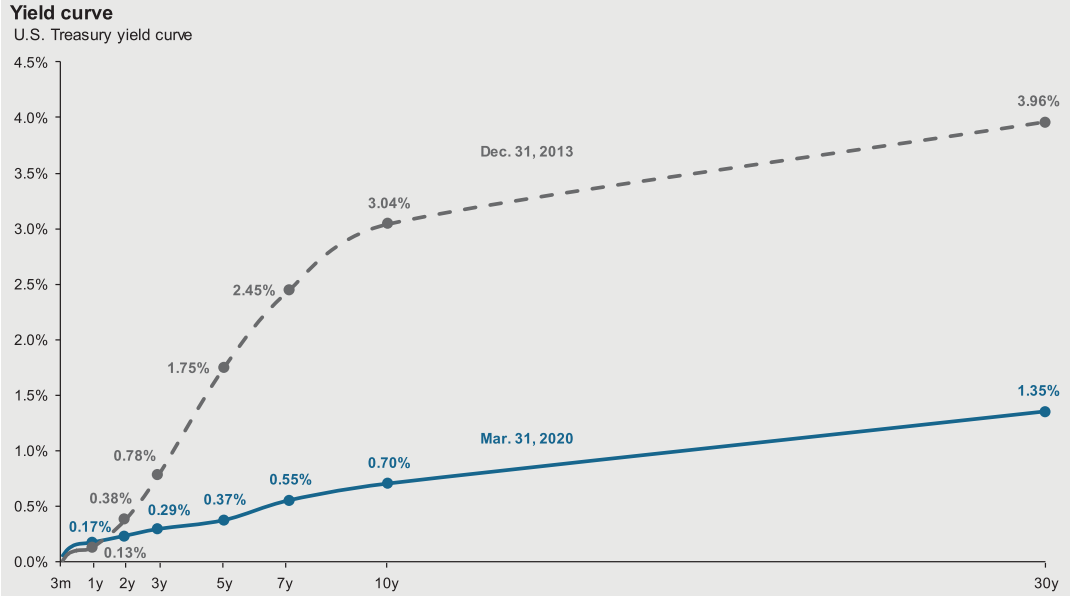


Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are the federal funds rates priced into the fed futures market as of the following date of the March 15, 2020 emergency cut and are through December 2022.
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Yield curve

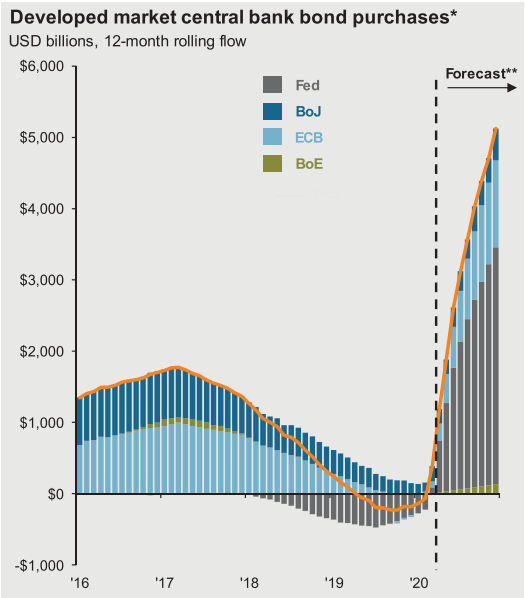
Fixed income

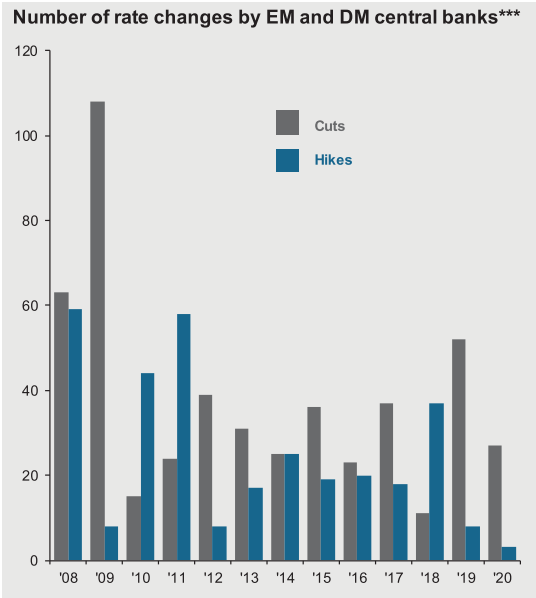


Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of March 31, 2020.

Global monetary policy

Fixed income





Source: J.P. Morgan Asset Management; (Left) Bank of England, Bank of Japan, European Central Bank, FactSet, Federal Reserve System, J.P. Morgan Global Economic Research; (Right) Bloomberg. *Includes the Bank of Japan (BoJ), Bank of England (BoE), European Central Bank (ECB) and Federal Reserve. **Bond purchase forecast assumes $200bn GBP in net purchases from BoE through August 2021; continued BoJ QE of $50trn JPY ann. for 2020; $1.11trn EUR in net purchases from the ECB through 2020; and the Federal Reserve to purchase $2.5trn of Treasuries, $1.2trn of agency MBS and $50bn of agency CMBS through 2020. Fed assumptions are based on purchase activity in March 2020 and previous QE announcements. ***Central banks include: Australia, Brazil, Canada, Chile, China, Colombia, Denmark, Euro area, Hong Kong SAR, Indonesia, India, Japan, Korea, Malaysia, Mexico, Norway, Peru, Philippines, Poland, Russia, Saudi Arabia, South Africa, Sweden, Switzerland, Thailand, Turkey, United Kingdom and the United States. *Guide to the Markets – U.S.* Data are as of March 31, 2020.

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S&P 500 valuation measures

Equities

S&P 500 Index: Forward P/E ratio



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	15.43x	16.33x	-0.29
CAPE	Shiller's P/E	23.20	27.27	-0.66
Div. Yield	Dividend yield	2.43%	2.07%	-1.00
P/B	Price to book	2.67	2.97	-0.41
P/CF	Price to cash flow	11.34	10.58	0.39
EY Spread	EY minus Baa yield	1.89%	0.00%	-0.96

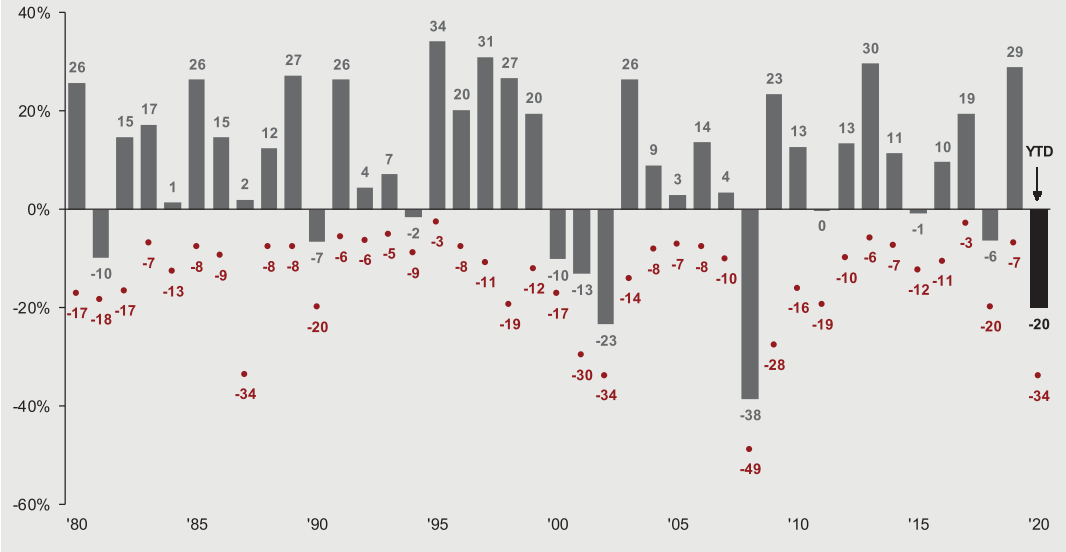
Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since April 1995, and FactSet for March 31, 2020. Current next 12-months consensus earnings estimates are $168. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure.
Guide to the Markets – U.S. Data are as of March 31, 2020.

Annual returns and intra-year declines

Equities

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.8%, annual returns positive in 30 of 40 years



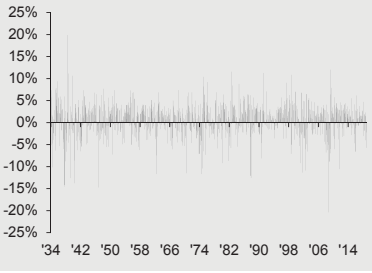
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%.
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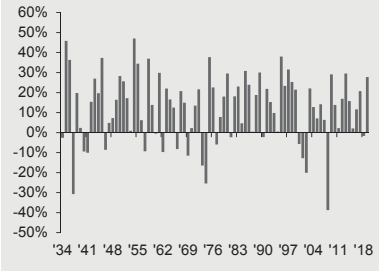
S&P 500 holding period returns

Equities

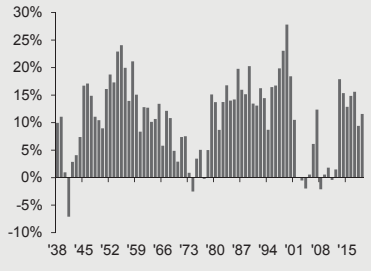
One-month holding period returns
Returns were positive 61% of the time



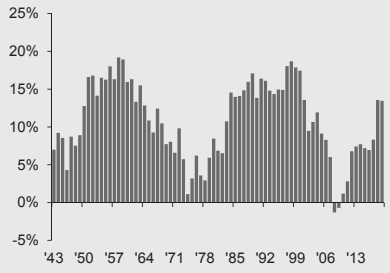
One-year holding period returns
Returns were positive 77% of the time (66/86 years)



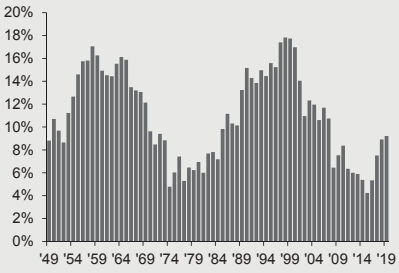
Five-year holding period returns
Returns were positive 91% of the time (75/82 years)



Ten-year holding period returns
Returns were positive 97% of the time (75/77 years)



Fifteen-year holding period returns
Returns were positive 100% of the time (71/71 years)



Source: FactSet, Robert Shiller, J.P. Morgan Asset Management.
Returns reflect S&P 500 annual rolling period total returns except for one-month returns which are price returns and do not include dividends.
Represents period from 12/31/1933-12/31/2019. Charts are for illustrative purposes only. Past performance is not indicative of future returns.
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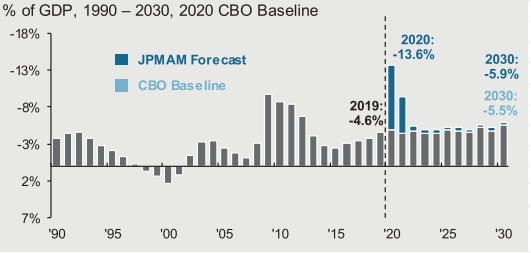
Federal finances

Economy

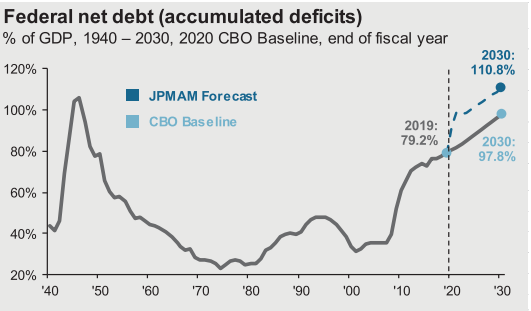
Coronavirus Aid, Relief, and Economic Security Act

Amount ($ bn)	Measure
$290	One-time stimulus checks amounting to $1,200 per adult and $500 per child up to certain income limits
$260	Enhanced, expanded and extended unemployment benefits, adding $600 per week to every unemployment check for 4 months, expanding program to cover contractors and self-employed and extending program to 39 weeks from 26 weeks
$510	Loans to distressed businesses, cities and states. Includes $29 billion for airlines, $17 billion for firms deemed important for national security and $454 billion as backstop for loans to other businesses, cities and states
$377	Small business relief, largely in the form of "forgivable loans" for spending on payroll, rent and utilities
$150	Direct aid to state and municipal governments
$180	Health-related spending
$516	Other spending and tax breaks
$2.283 trillion	**~10.8% of GDP**

Federal budget surplus/deficit
% of GDP, 1990 – 2030, 2020 CBO Baseline



Federal net debt (accumulated deficits)
% of GDP, 1940 – 2030, 2020 CBO Baseline, end of fiscal year



Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department.
2020 Federal Budget is based on the Congressional Budget Office (CBO) March 2020 Baseline Budget Forecast. CBO Baseline economic assumptions are based on the Congressional Budget Office (CBO) January 2020 Update to Economic Outlook. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Note: Years shown are fiscal years (Oct. 1 through Sep. 30).
Guide to the Markets – U.S. Data are as of March 31, 2020.

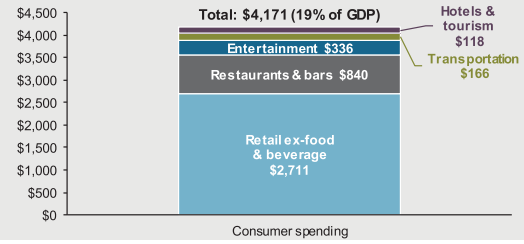
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Social distancing vulnerability

Economy

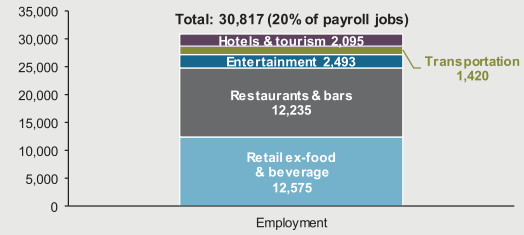
Consumer spending by industry

2019, billions



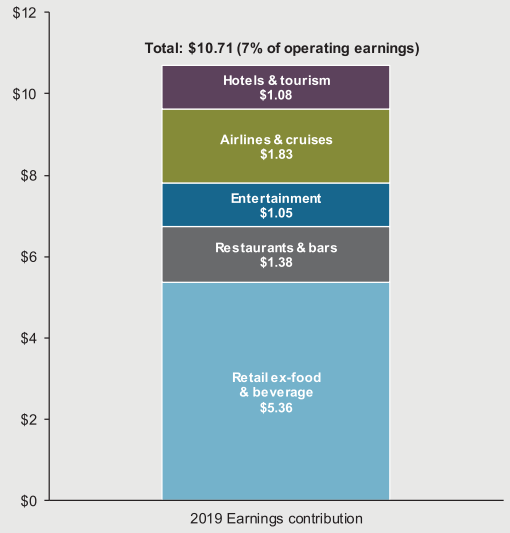
Employment by industry

Jan. 2020, thousands



Earnings contribution by industry

Contribution to 2019 S&P 500 operating earnings



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Factset, S&P 500, J.P. Morgan Asset Management. Consumer spending (2019 annual): membership clubs, sports, amusement parks, campgrounds, movies, theaters, museums, libraries, casino gambling, purchased meals and beverages, packaged tours, air and water transportation, hotels and motels, and select retail goods and services. Employment (January 2020): air and water transportation, transit and ground passenger transportation, support activities for air and water transportation, arts, entertainment, recreation, accommodation, food services and drinking places, and retail ex-food and beverage stores. Earnings (2019 operating): hotels restaurants and leisure; airlines; select entertainment and travel booking companies; multiline and specialty retail; and textiles apparel and luxury goods.
Guide to the Markets – U.S. Data are as of March 31, 2020.

Oil markets

Economy

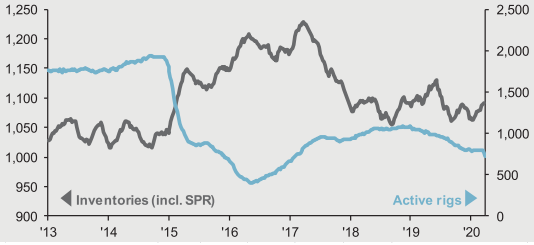
Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

Production	2017	2018	2019	2020*	2021*	Growth since '17
U.S.	15.7	17.9	19.5	20.9	20.8	32.8%
OPEC	37.4	37.3	35.2	34.2	34.5	-7.8%
Russia	11.2	11.4	11.5	11.6	11.5	2.8%
Global	**98.1**	**100.8**	**100.6**	**102.1**	**102.4**	**4.4%**
Consumption						
U.S.	20.0	20.5	20.5	20.5	20.7	3.8%
China	13.6	14.0	14.5	14.6	15.4	13.4%
Global	**98.7**	**100.0**	**100.8**	**101.1**	**102.9**	**4.2%**
Inventory Change	-0.6	0.8	-0.2	1.0	-0.4	

U.S. crude oil inventories and rig count**

Million barrels, number of active rigs



Price of oil

WTI crude, nominal prices, USD/barrel



Source: J.P. Morgan Asset Management; (Top and bottom left) EIA; (Right) FactSet; (Bottom left) Baker Hughes.
*Forecasts are from the March 2020 EIA Short-Term Energy Outlook and start in 2020. **U.S. crude oil inventories include the Strategic Petroleum Reserve (SPR). Active rig count includes both natural gas and oil rigs. WTI crude prices are continuous contract NYM prices in USD.
Guide to the Markets – U.S. Data are as of March 31, 2020.

SMITH SHELLNUT WILSON