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Patten & Patten, Inc.

2Q20 Market Outlook

Market commentary

- In a matter of a few months, COVID-19 exposed the Achilles' heel of the global economy: integration. For decades, companies and governments implemented policies and erected infrastructure to enhance global interconnectedness. Squeezing out inefficiencies from supply chains that transverse continents was integral to expanding margins. Technology facilitated “just in time” inventory management, allowing cash to be deployed in other, more profitable pursuits.
- Social distancing, quarantines, and travel restrictions are necessary to suppress and eliminate COVID-19, but these measures also run contrary to the interconnected structure of modern economic systems. Policy makers are now confronted with a vicious trade-off between the health of their citizens and the health of their economies. Numerous pharmaceutical companies are testing existing drugs for expanded use as anti-viral therapies. Eventually, health care innovation will succeed in developing a vaccine. Until the vaccine arrives, however, isolation and distance on the part of all citizens are essential to suppression of the virus. The inability to mitigate the spread the virus will serve as a headwind to economic recovery.
- The First Quarter witnessed three global, systemic shocks. First, there was disruption to supply chains as China shut down its economy in response to the virus. Initially, the virus appeared to be contained, and the disruption was assumed to be short lived. As the virus spread to other continents, concerns over supply chains became secondary to the expected collapse in demand for goods and services. Next, Saudi Arabia and Russia initiated a market share war in the energy sector after failing to reach an agreement on production cuts at the OPEC+ meeting. Just as demand for oil began to falter, the Saudis and Russia chose to expand production. The economic impact of a world flooded with oil remains unclear. Clearly, market participants expect job losses in the energy sector along with credit pressures among many companies. Those concerns are offset, to a certain degree, by the rapid decline in the price per gallon of retail gasoline, effectively a much welcome tax cut for cash strapped consumers. Finally, liquidity shortages in short term funding markets manifested in extreme market volatility; dislocations in asset classes considered “safe havens”; and rapid de-leveraging. The global “flight to cash” rendered traditional hedges ineffective in counterbalancing the violent sell-off in the equity markets.

Market commentary (*continued*)

- In response, the Fed and other central banks unleashed market stability programs quicker and larger than what was undertaken during the Great Financial Crisis. In one critical week during March, the Fed aggressively returned policy rates to zero and implemented asset purchase programs designed to restore liquidity to the system. In an example of bipartisan cooperation, the US Congress passed the CARES Act (Coronavirus Aid, Relief, and Economic Security Act), a support package designed to provide as much as \$2.0 trillion to businesses and workers. The success of these programs with regard to stabilizing the economy depends on the progression of the virus. To the extent the number of new cases fails to peak by April 30, the fiscal package might prove inadequate. Consequently, Congress has already begun preparing legislation for additional financial support.
- Economic data will confirm what most people already know – a sharp, sudden, unprecedented downturn in global economies in the worst quarter since the Great Financial Crisis. In the US, weekly jobless claims surged to more than five times the previous high that was registered in 1982. We expect a large number of small business failures, particularly those in the service sector. That said, we are encouraged by the time line to peak new cases in other countries. Based on those examples, we are optimistic that US economic activity could rebound sharply later this year from pent up demand. However, given the regionalized impact of the epidemic, we expect economic recovery will also prove uneven across sectors and geographies. The progression of the virus and the nature of the recovery will influence our investment strategy.

Year to date and historical performance of various asset classes

| Asset Class | YTD | 1 year | 3 Year Annualized | Total Returns since... | |
|-------------------------------|--------|--------|-------------------|------------------------|--------|
| | | | | Trough* | Peak* |
| Domestic Equities | | | | | |
| S&P 500 | -5.95 | 5.34 | 9.40 | 35.18 | -10.50 |
| S&P 500 Equal Weight (RSP) | -13.71 | -5.10 | 3.99 | 37.94 | -15.86 |
| Dow Jones Ind. Avg. | -11.26 | -3.38 | 7.84 | 35.39 | -14.00 |
| NASDAQ Comp | 9.28 | 24.63 | 17.27 | 42.58 | -0.25 |
| Russell 2000 (IWM) | -16.92 | -8.06 | 0.38 | 37.78 | -18.26 |
| International Equities | | | | | |
| Shanghai Composite (CIN) | 2.79 | 10.18 | 3.35 | 13.51 | 3.48 |
| Hedged Japan (DXJ) | -11.42 | 0.27 | -0.59 | 20.32 | -9.38 |
| Hedged Europe (HEDJ) | -13.84 | -6.69 | -0.42 | 29.23 | -14.89 |
| Asia Pacific ex. Japan (EPP) | -14.32 | -13.75 | 0.10 | 35.80 | -14.80 |
| Emerging Markets (EEM) | -10.47 | -3.85 | 0.77 | 31.25 | -9.17 |
| Brazil (EWZ) | -39.85 | -33.50 | -3.47 | 37.09 | -35.00 |
| Canada (EWC) | -15.05 | -9.62 | 0.65 | 43.87 | -17.50 |
| India (EPI) | -18.54 | -21.67 | -5.76 | 41.99 | -17.47 |
| Mexico (EWW) | -29.65 | -27.68 | -14.67 | 26.11 | -33.39 |
| Bonds | | | | | |
| Long Treasuries (TLT) | 22.85 | 27.70 | 11.45 | -0.05 | 14.18 |
| Inv. Grade Corporates (LQD) | 5.66 | 11.74 | 6.75 | 17.34 | 2.91 |
| High Yield Corporates (HYG) | -5.42 | -1.52 | 2.46 | 20.15 | -6.16 |
| Commodities | | | | | |
| Gold (GLD) | 16.54 | 25.25 | 12.06 | 13.83 | 9.72 |
| Silver (SLV) | -0.30 | 16.13 | 1.98 | 35.09 | -3.48 |

*Stock market trough at 03/23/2020. Stock market peak at 02/19/2020. YTD through 06/28/2020

Source: Thomson Reuters Datastream

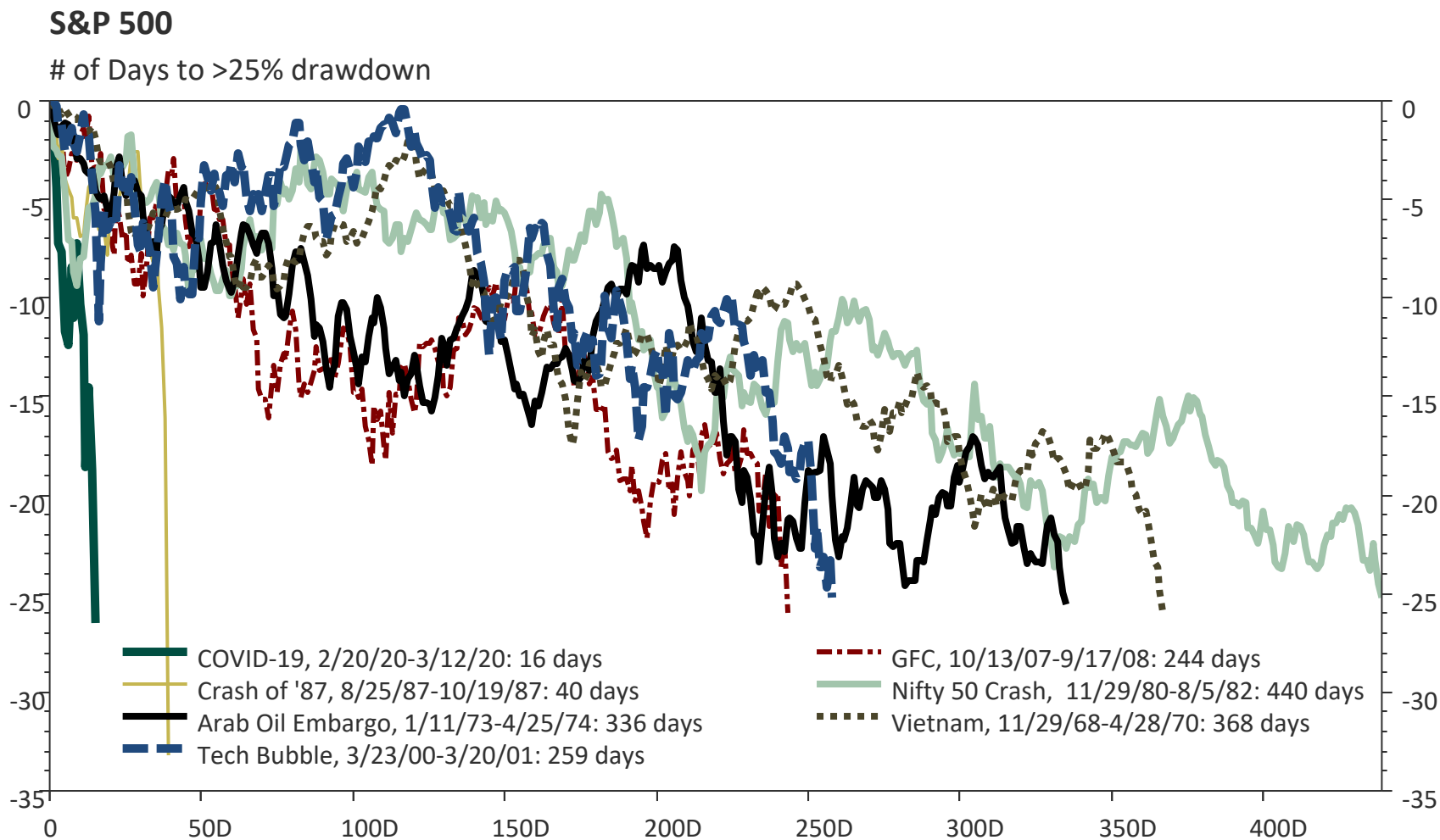
Year to date and historical performance equity sectors

| Domestic Equity Sectors | YTD | 1 year | 3 Year Annualized | Total Returns since... | |
|-----------------------------|--------|--------|-------------------|------------------------|-------------|
| | | | | Since Trough* | Since Peak* |
| Domestic Equities | | | | | |
| Consumer Discretionary | -0.80 | 7.08 | 11.67 | 41.50 | -6.30 |
| Retail (XRT) | -9.59 | 0.91 | 2.43 | 53.13 | -7.58 |
| Consumer Staples | -9.07 | -0.51 | 2.24 | 20.01 | -11.16 |
| Energy | -37.88 | -38.75 | -13.90 | 54.93 | -30.65 |
| Oil & Gas Exploration (XOP) | -46.57 | -52.46 | -25.25 | 65.85 | -31.85 |
| Financial Services | -25.18 | -15.15 | -0.73 | 29.45 | -26.51 |
| Regional Banks (KRE) | -37.07 | -28.42 | -10.24 | 28.76 | -33.91 |
| Health Care | -1.44 | 11.48 | 9.92 | 34.07 | -3.41 |
| Industrials | -16.75 | -9.56 | 2.58 | 36.93 | -19.53 |
| Materials | -12.75 | -4.81 | 1.21 | 44.78 | -10.40 |
| Technology | 11.97 | 30.75 | 23.71 | 44.49 | 0.91 |
| Telecom | -14.58 | -1.70 | 2.59 | 11.38 | -14.37 |
| Utilities | -13.69 | -5.96 | 4.21 | 23.42 | -21.34 |
| Transportation (IYT) | -19.45 | -13.36 | -1.53 | 31.13 | -19.26 |
| Real Estate | -17.63 | -9.25 | 1.31 | 35.69 | -23.21 |

*Stock market trough at 03/23/2020. Stock market peak at 02/18/2020. YTD through 06/28/2020

Source: Thomson Reuters Datastream

Swiftest 25% Drawdown in History



Source: Refinitiv Datastream

Exceptional Volatility

Four of the largest one-day percentage moves in the S&P 500 occurred during March 2020

S&P 500: Largest One-Day Gains

| Date | % Change |
|------------------|-------------|
| 3/15/1933 | 16.61 |
| 10/30/1929 | 12.53 |
| 10/6/1931 | 12.36 |
| 9/21/1932 | 11.81 |
| 10/13/2008 | 11.58 |
| 10/28/2008 | 10.79 |
| 9/5/1939 | 9.63 |
| 4/20/1933 | 9.52 |
| 3/24/2020 | 9.38 |
| 3/13/2020 | 9.29 |

S&P 500: Largest One-Day Losses

| Date | % Change |
|------------------|---------------|
| 10/19/1987 | -20.47 |
| 10/28/1929 | -12.34 |
| 3/16/2020 | -11.98 |
| 10/29/1929 | -10.16 |
| 11/6/1929 | -9.92 |
| 3/12/2020 | -9.51 |
| 10/18/1937 | -9.27 |
| 10/15/2008 | -9.04 |
| 12/1/2008 | -8.93 |
| 7/20/1933 | -8.88 |

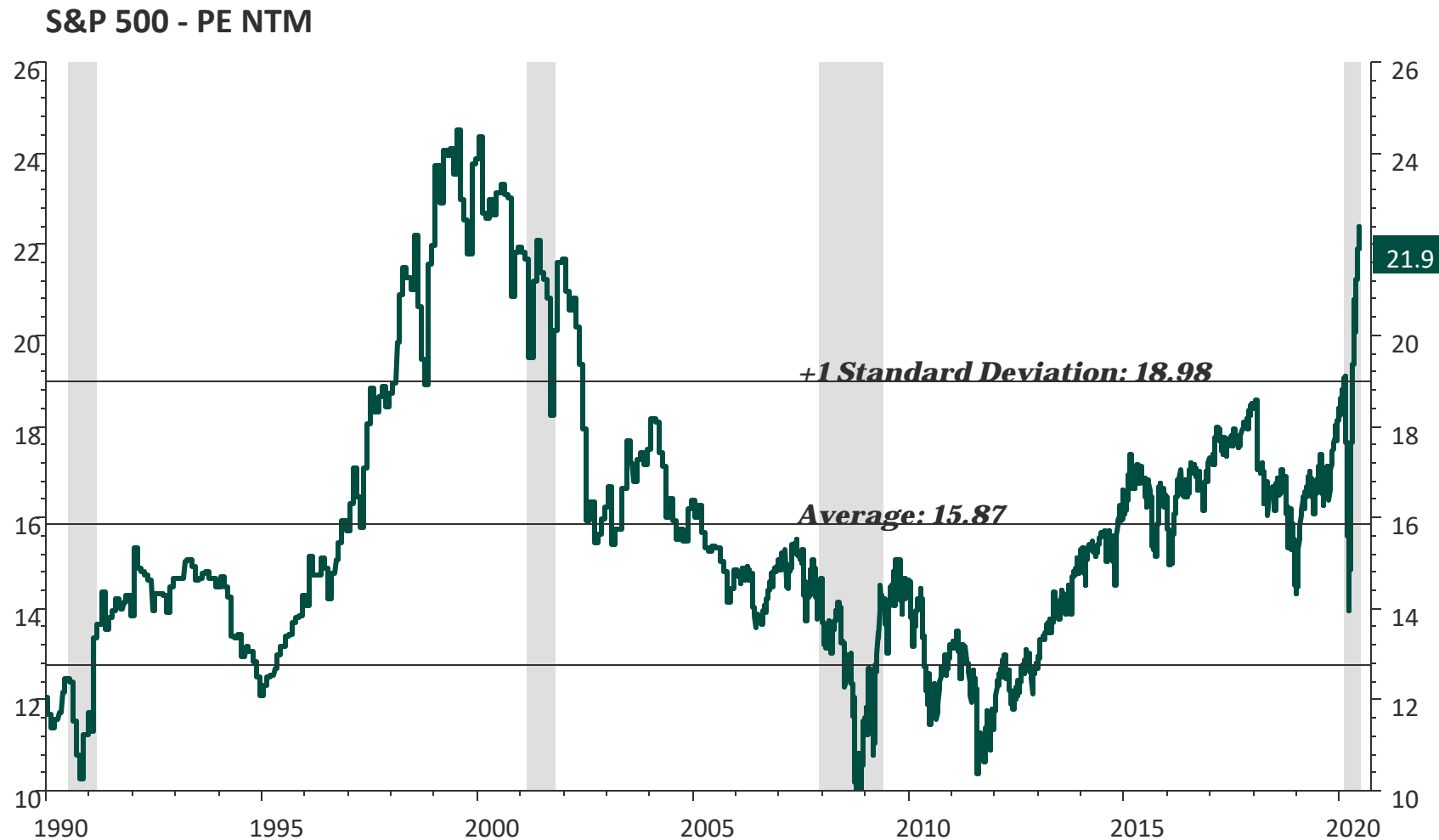
Despite volatility, markets little changed since September 2018

S&P 500 since September 2018



Source: Refinitiv Datastream

S&P 500 Valuation

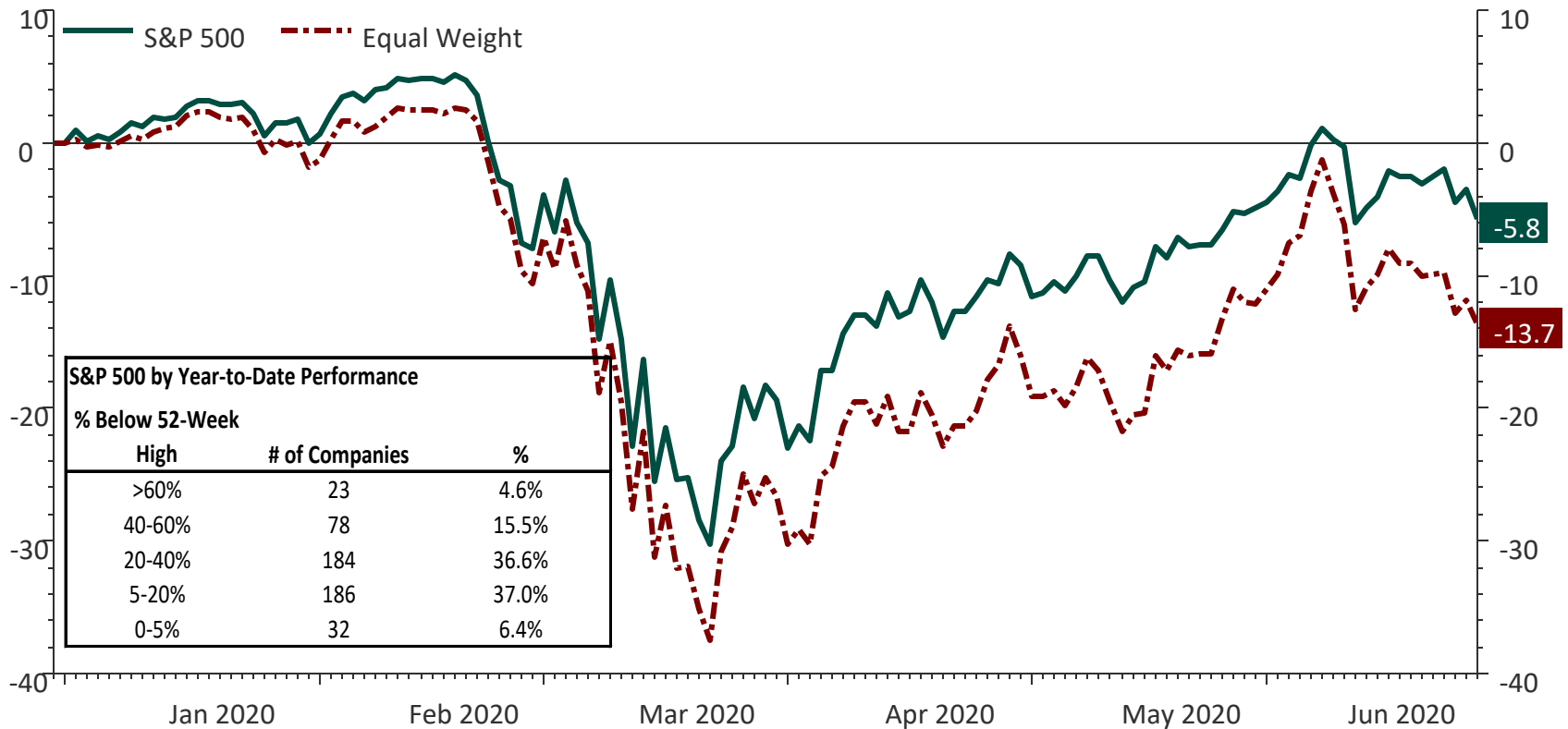


Source: Refinitiv Datastream

Bifurcated Market

S&P 500 vs. Equal Weight S&P 500

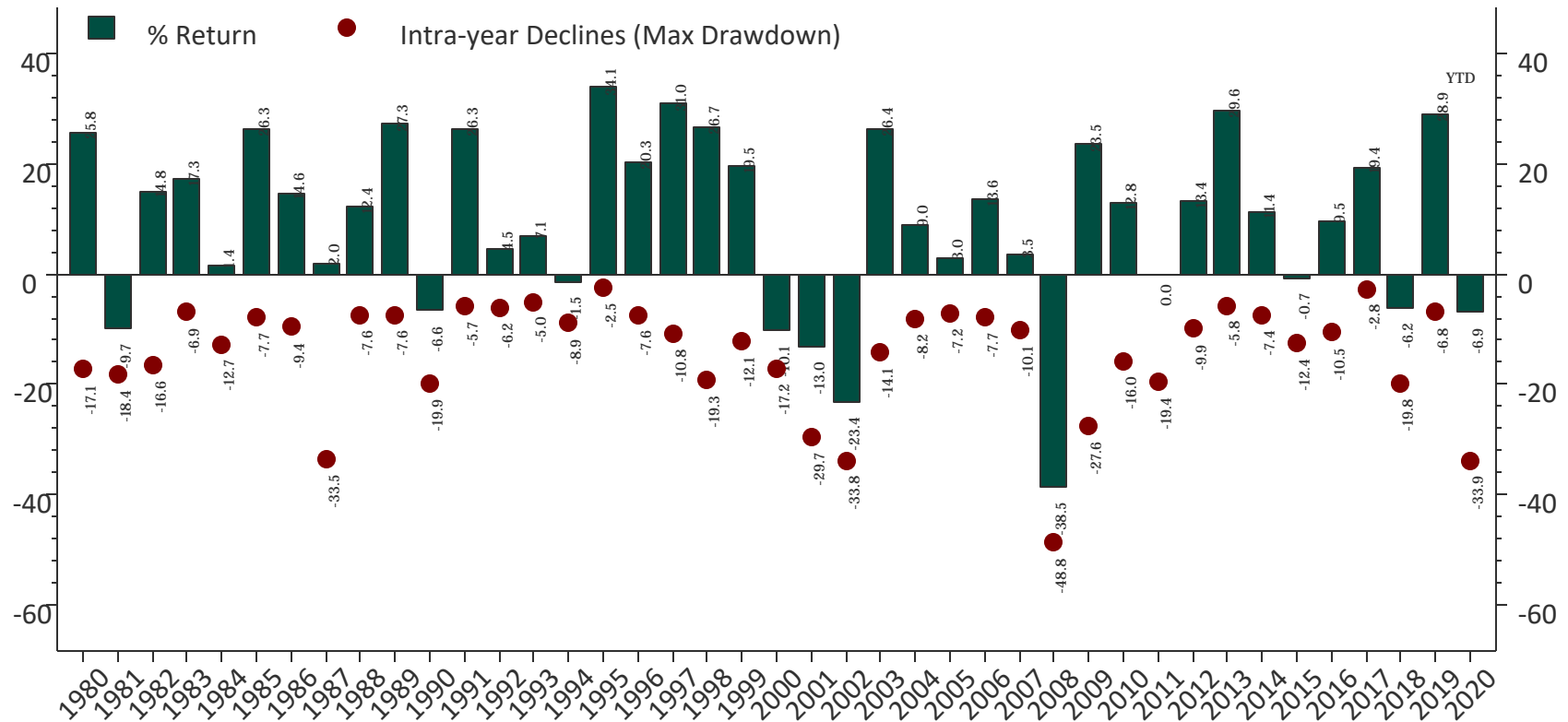
Year-to-Date Percent Change



Source: Refinitiv Datastream

Stock Market Sell-offs are Normal

S&P 500 Intra-year Price Declines (Max Drawdown) vs. Yearly Price Returns



Source: Data provided by Thomson Reuters

S&P 500 vs. the US Dollar



Source: Refinitiv Datastream

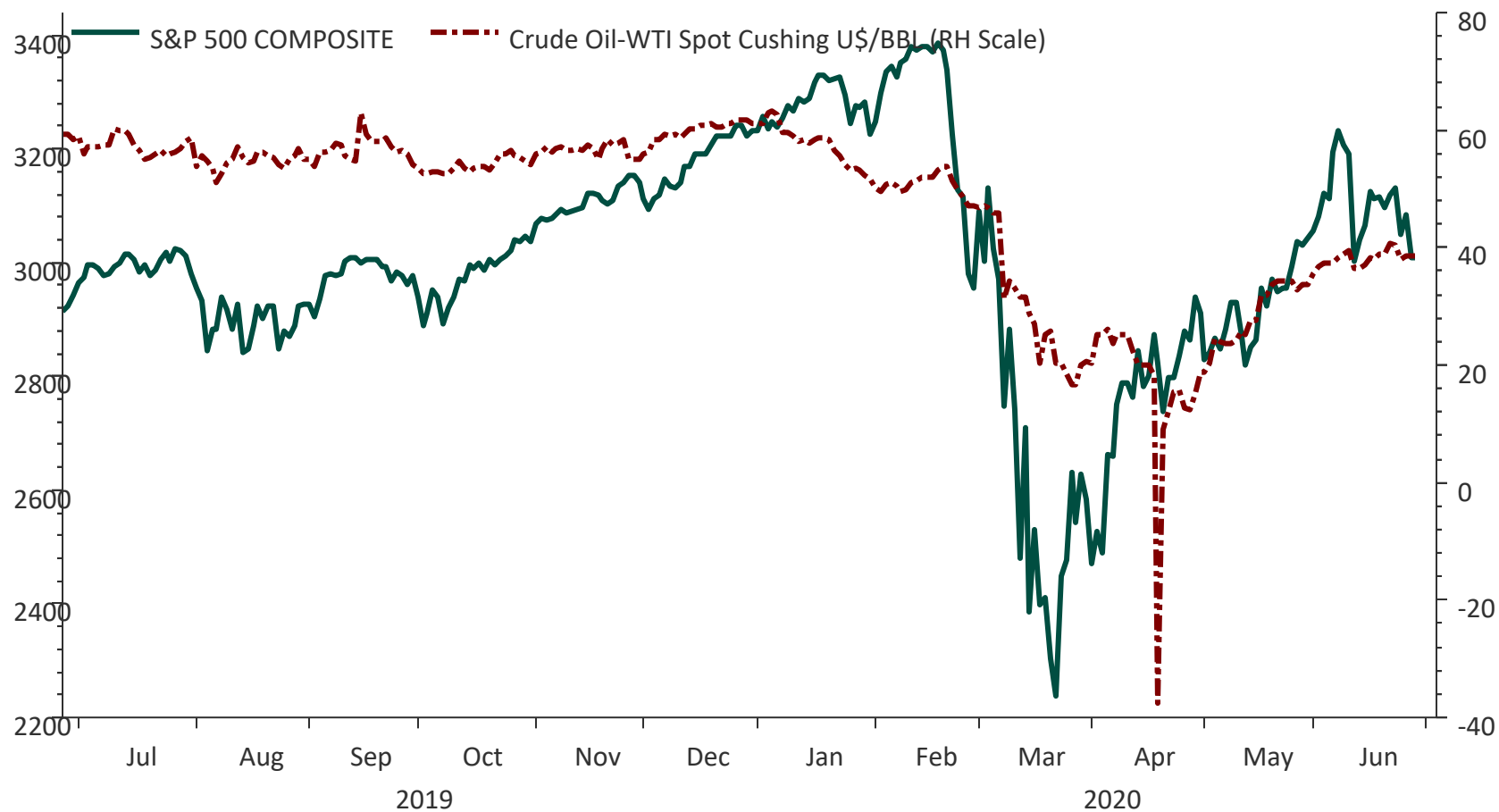
S&P 500 vs. the 10-Year Treasury



Source: Refinitiv Datastream

S&P 500 vs. the price of crude oil

S&P 500 vs. WTI Crude Spot



Source: Refinitiv Datastream

LME Copper Spot Price

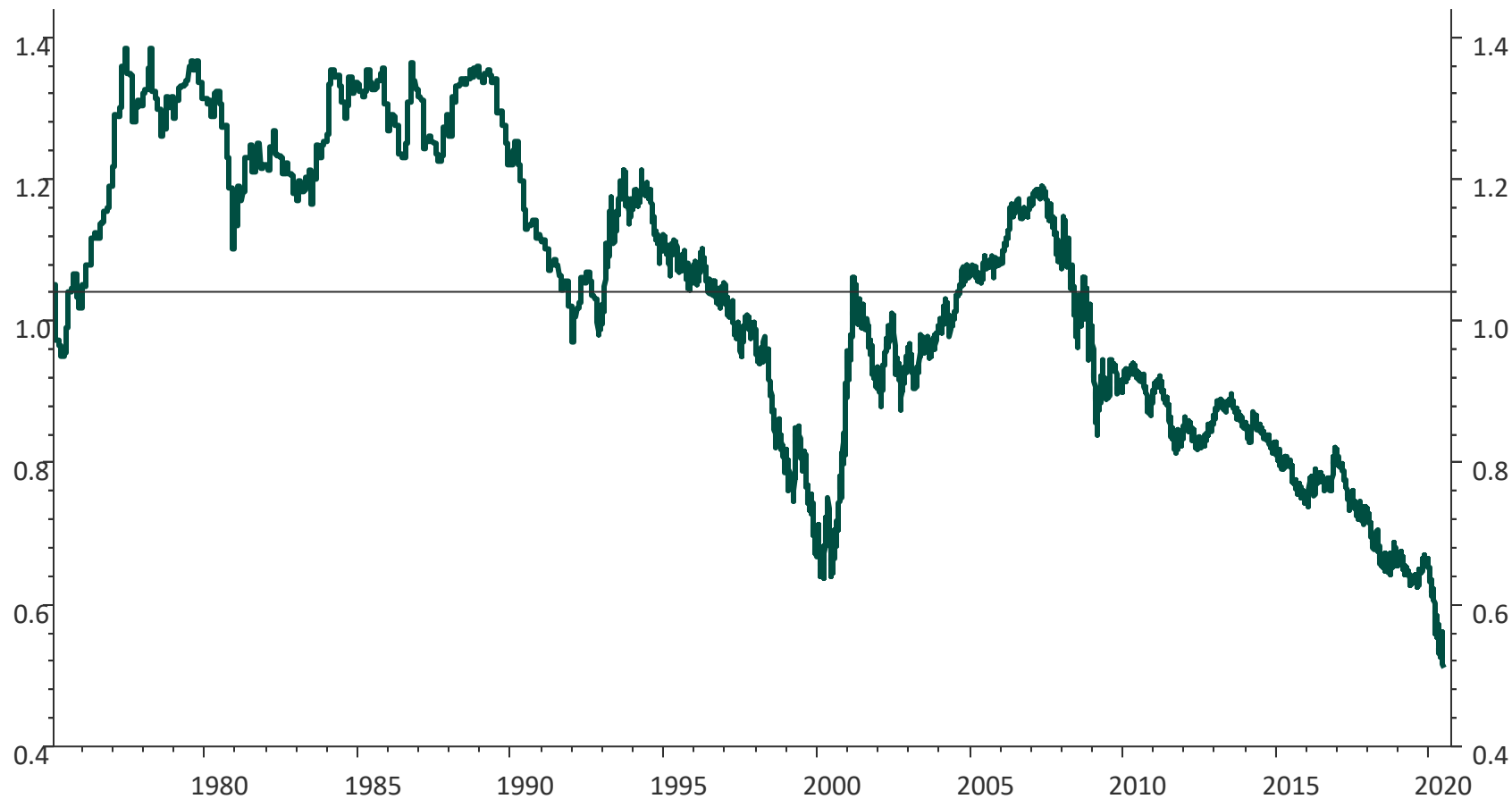
\$/MT



Source: Refinitiv Datastream

Value is out of favor

S&P 500 Value Index/Growth Index

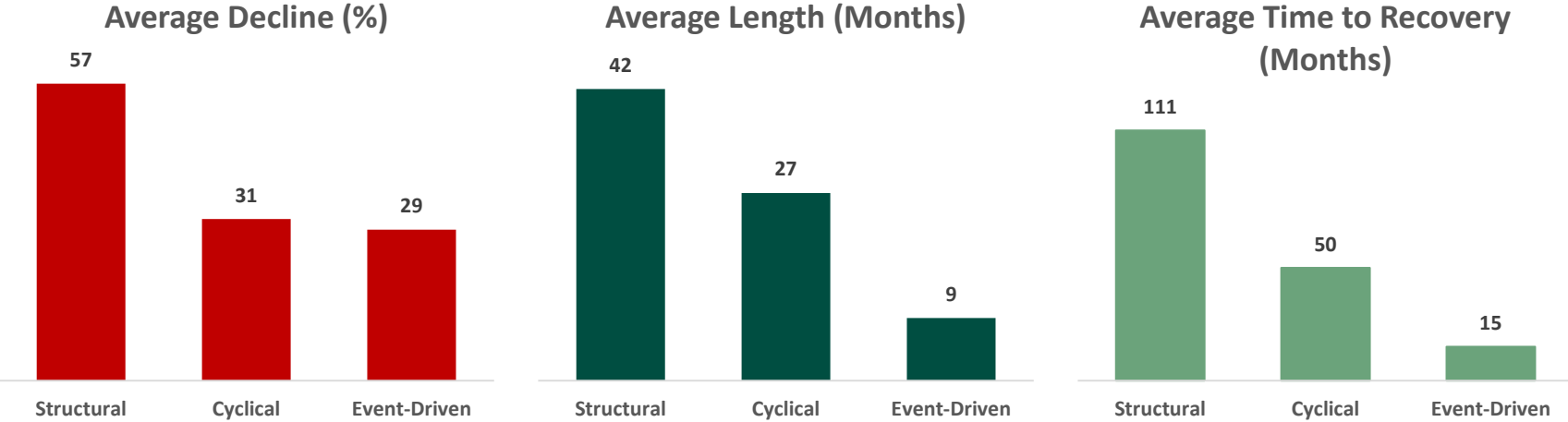


Source: Refinitiv Datastream

Characteristics of a bear market

| | Pre-Bear | Structural | Cyclical | Event-Driven |
|-----------------------------------|----------|------------|----------|--------------|
| Rising Rates | | ✓ | ✓ | Maybe |
| Exogenous Shock | | Maybe | Maybe | ✓ |
| Speculative Rise in Equity Prices | | ✓ | ✗ | ✗ |
| Economic Imbalances | | ✓ | ✗ | ✗ |
| Rising Productivity | | ✓ | Maybe | ✓ |
| Unusual Strength in the Economy | | ✓ | ✗ | ✗ |
| New Era Belief | | ✓ | ✗ | ✗ |

US Bear Markets & Recoveries



Global Interest Rates

Global Bond Yields on June 29, 2020

| Maturity | US | Canada | UK | Germany | Switzerland | Japan | Spain | Italy | Brazil | Greece |
|----------|-------|--------|--------|---------|-------------|--------|--------|-------|--------|--------|
| 2 year | 0.162 | 0.308 | -0.073 | -0.697 | -0.673 | -0.139 | -0.436 | 0.117 | 3.405 | NA |
| 5 year | 0.289 | 0.374 | -0.041 | -0.703 | -0.602 | -0.102 | -0.205 | 0.752 | 5.625 | 0.526 |
| 10 year | 0.638 | 0.522 | 0.170 | -0.466 | -0.438 | 0.017 | 0.472 | 1.371 | 6.910 | 1.295 |
| 30 year | 1.374 | 0.993 | 0.615 | -0.021 | -0.267 | 0.592 | 1.273 | 2.282 | NA | NA |

Change in Global Bond Yields since June 22, 2020

| Maturity | US | Canada | UK | Germany | Switzerland | Japan | Spain | Italy | Brazil | Greece |
|----------|--------|--------|--------|---------|-------------|-------|-------|--------|--------|--------|
| 2 year | -0.002 | 0.005 | 0.003 | 0.022 | -0.003 | 0.002 | 0.020 | -0.011 | -0.185 | NA |
| 5 year | -0.008 | -0.013 | -0.003 | 0.010 | 0.020 | 0.010 | 0.010 | -0.001 | -0.015 | -0.040 |
| 10 year | 0.000 | 0.008 | 0.000 | 0.015 | 0.007 | 0.016 | 0.016 | 0.006 | -0.030 | 0.026 |
| 30 year | 0.002 | 0.003 | -0.010 | 0.015 | 0.015 | 0.003 | 0.018 | 0.013 | NA | NA |

Source: Data provided by Thomson Reuters

Forward interest rates

Forward Rate Analysis

US Dollar Swap Curves

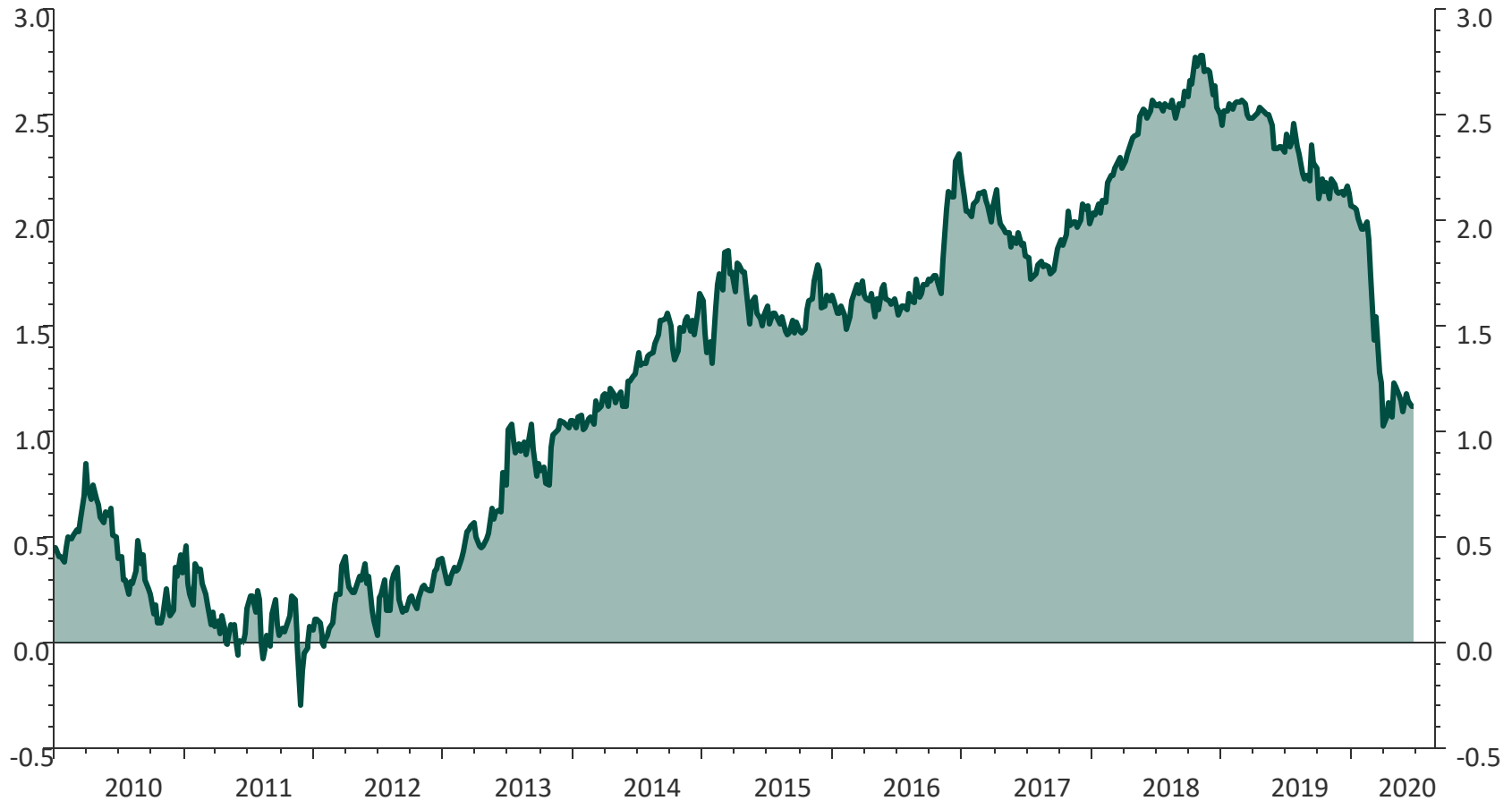
| Maturity | Current | Forward Rates | | | | | Chg (in bp) |
|--------------|-----------|---------------|--------|--------|--------|---------|-------------|
| | | 6 Mo | 1 year | 2 year | 5 year | 10 year | |
| 1 year | 0.259% | 0.215% | 0.188% | 0.254% | 0.731% | 1.065% | 81 |
| 2 year | 0.226% | 0.214% | 0.221% | 0.315% | 0.789% | 1.106% | 88 |
| 3 year | 0.232% | 0.248% | 0.273% | 0.394% | 0.840% | 1.087% | 86 |
| 5 year | 0.302% | 0.369% | 0.420% | 0.551% | 0.919% | 1.104% | 80 |
| 10 year | 0.603% | 0.658% | 0.699% | 0.795% | 1.010% | 1.100% | 50 |
| 30 year | 0.864% | 0.892% | 0.902% | 0.924% | 0.967% | 0.937% | 7 |
| 2 - 10 Curve | 38 | 44 | 48 | 48 | 22 | (1) | |
| 1 - 30 Curve | 61 | 68 | 71 | 67 | 24 | (13) | |

*market rates as of 06/29/2020 and based on 3 month LIBOR.

Source: Data provided by Thomson Reuters

US Treasury – German Bund Spread

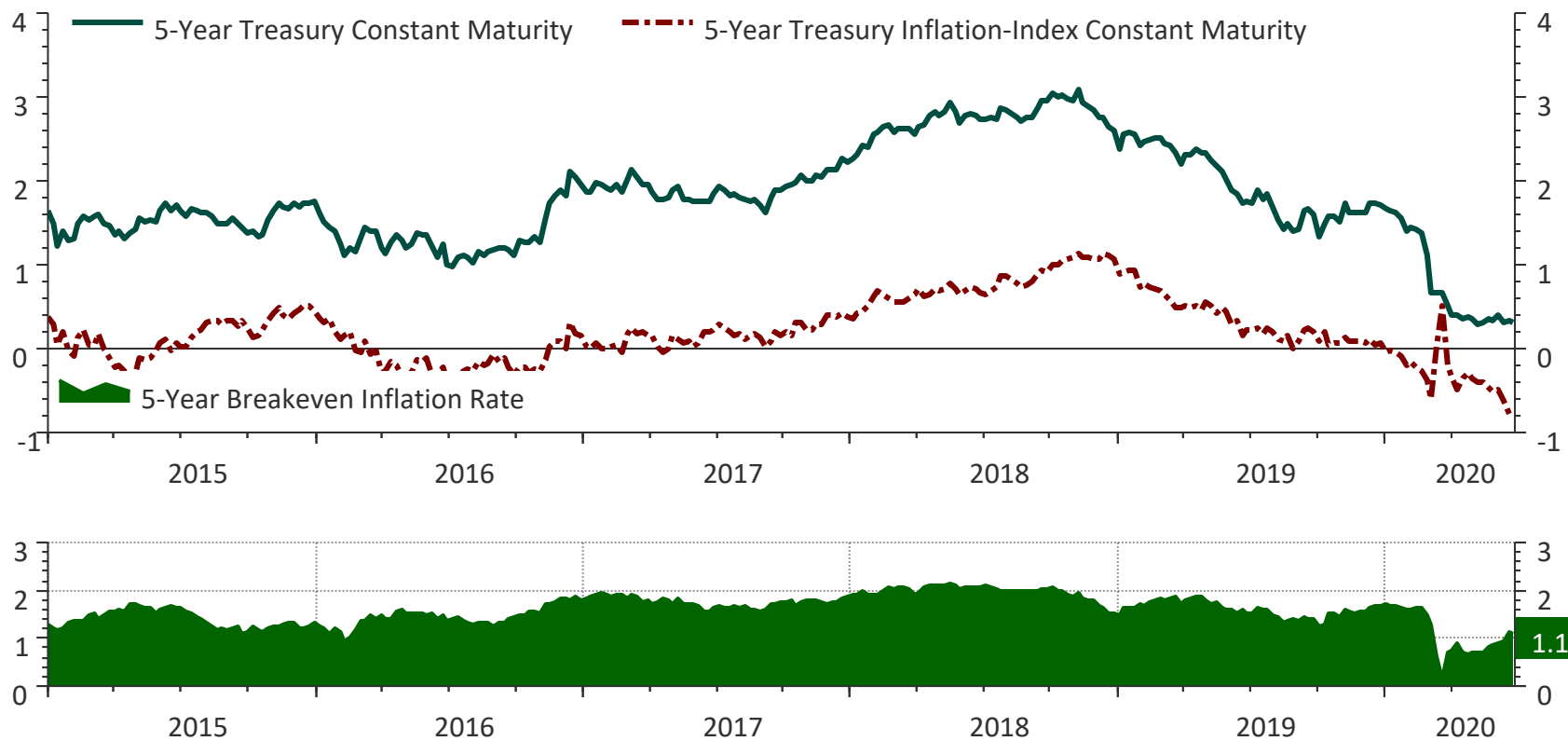
10-Year US Treasury-German Bund Spread



Source: Refinitiv Datastream

Low inflation expectations

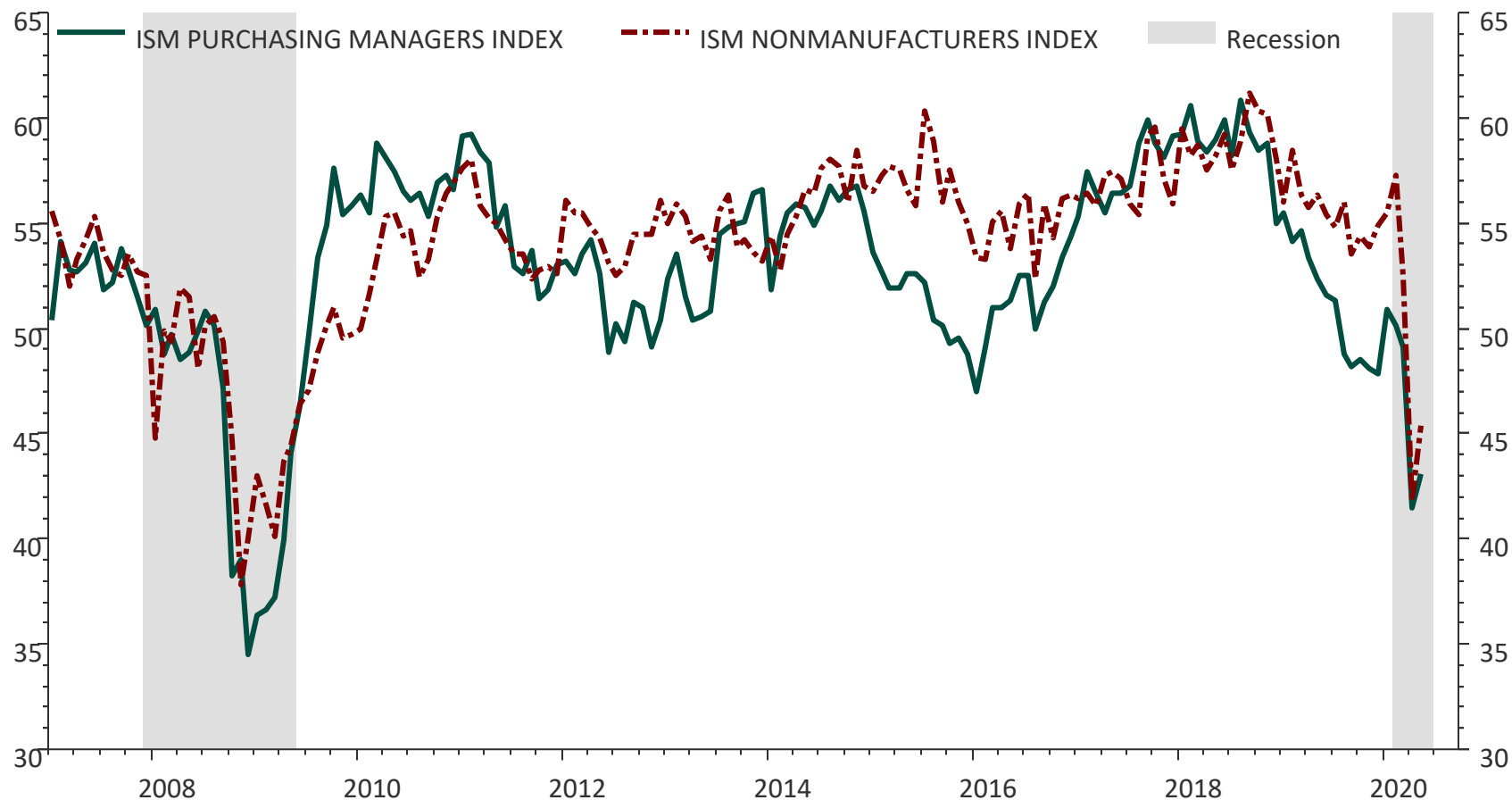
5-Year Breakeven Inflation Rate



Source: Refinitiv Datastream

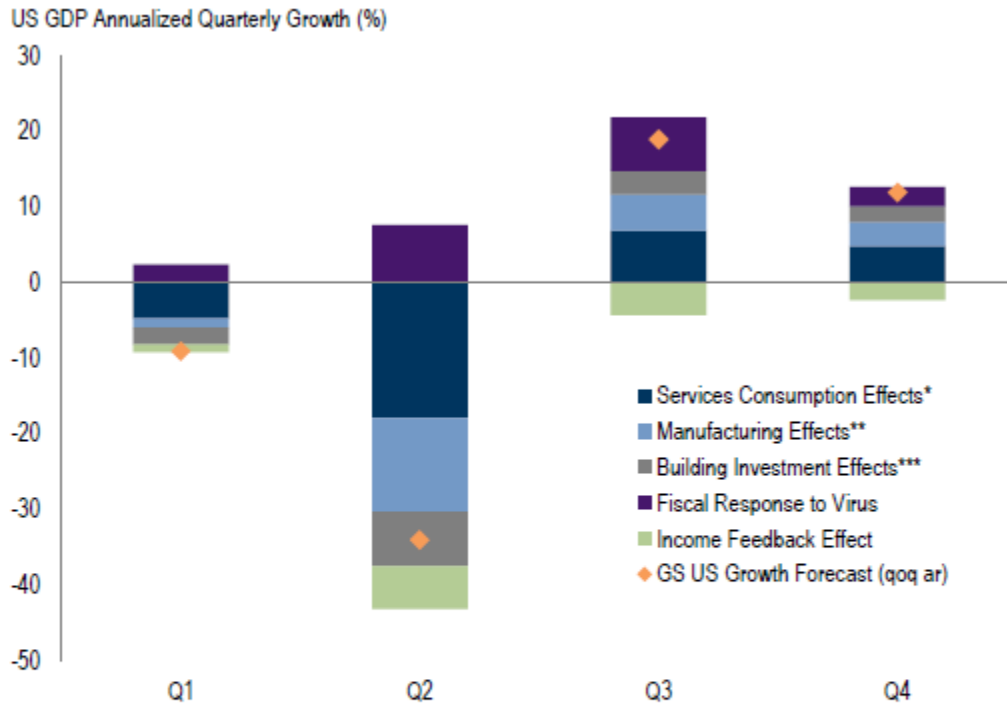
Manufacturing and Services sectors in contraction

ISM Manufacturing PMI and Non-Manufacturing NMI



Source: Refinitiv Datastream

US economic drag from COVID-19 likely concentrated in 1H20

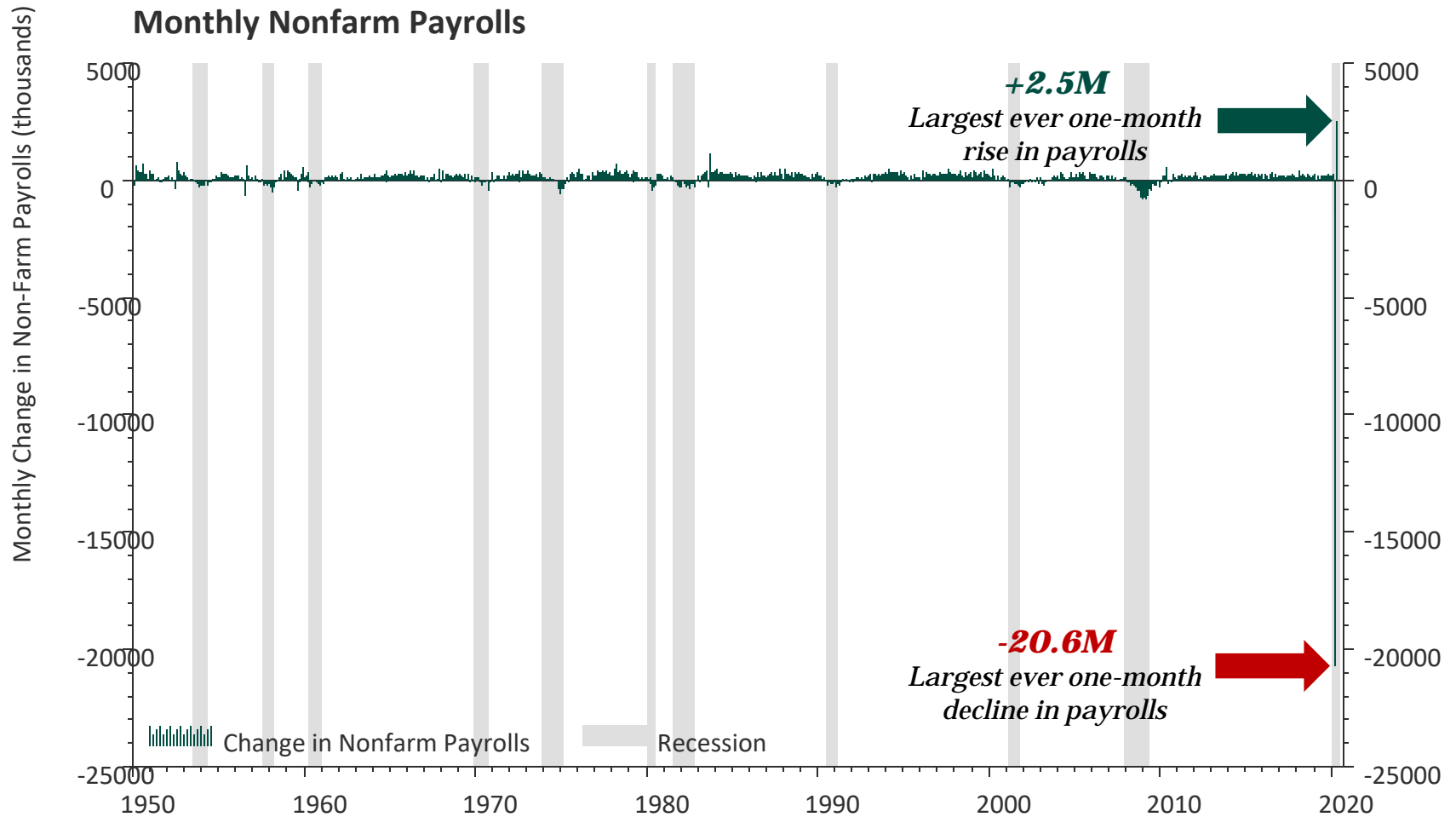


Key Drivers for Lower Growth

- Sharp contraction in March and April
- Consumers and businesses continue to cut back on spending
- Emerging supply chain disruptions
- Tightening in financial conditions

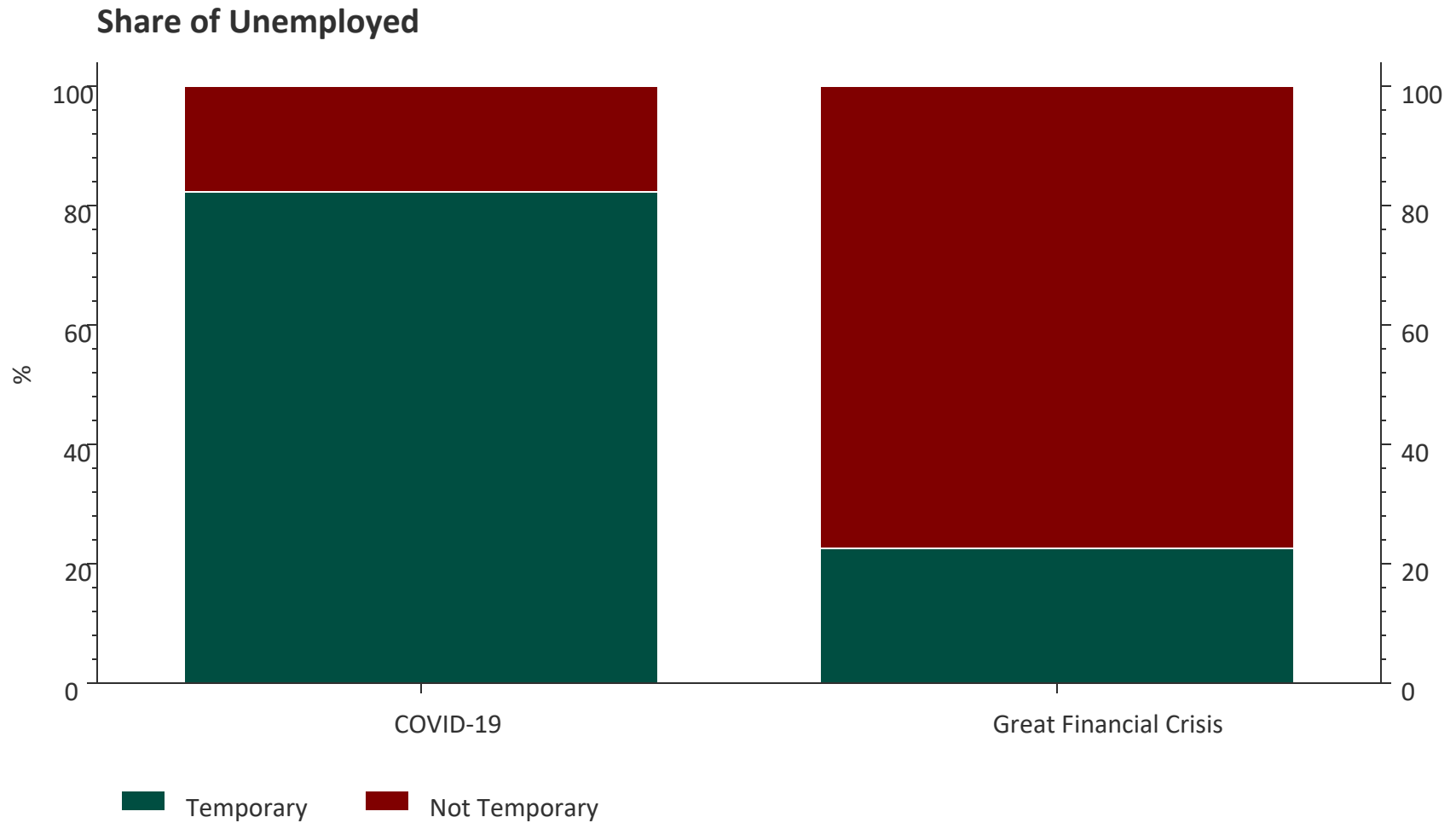
Source: Goldman Sachs Global Investment Research and GSAM. As of March 31, 2020. *Includes cutbacks to consumption categories requiring face-to-face interaction. **Includes reduced domestic and foreign demand for goods, supply chain disruptions, and plant shutdowns. ***Includes cutbacks to structures investment, homebuilding, and home sales. "QOQ AR" refers to quarter over quarter annualized rate.

Labor: Unprecedented moves in employment



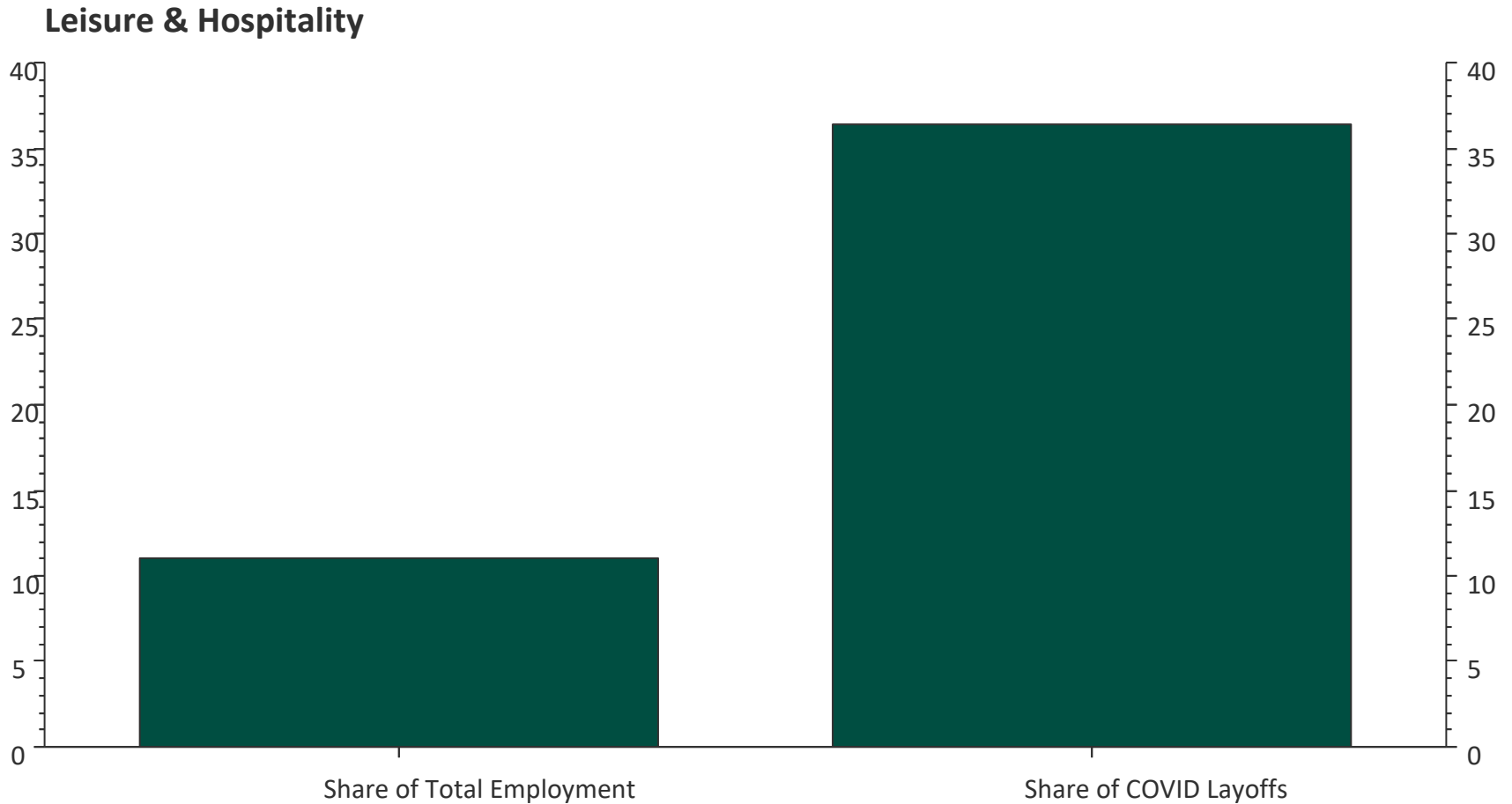
Source: Refinitiv Datastream

Labor: Vast majority of layoffs are temporary



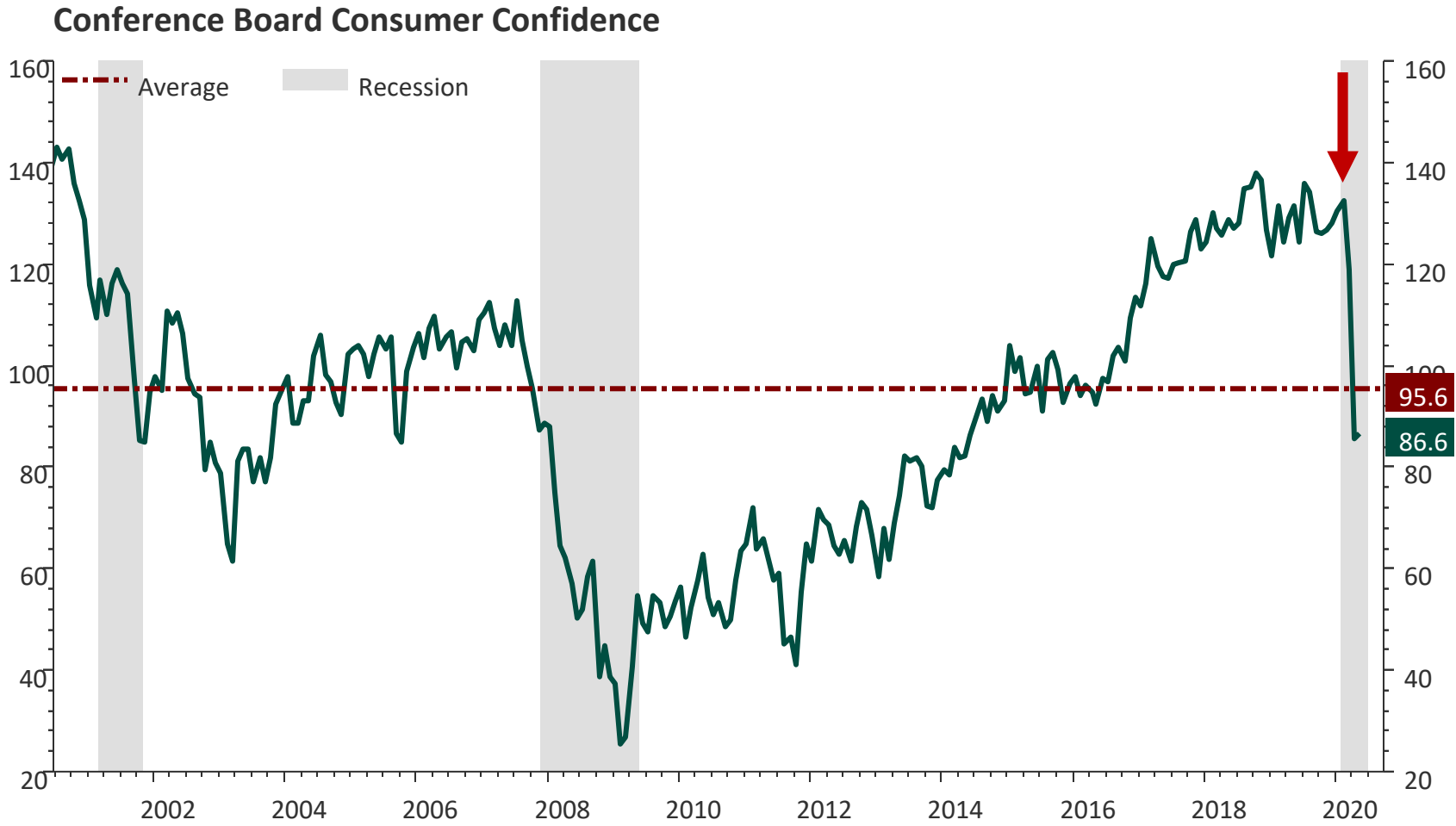
Source: Refinitiv Datastream

Labor: Leisure & Hospitality hit hardest



Source: Refinitiv Datastream

Consumer: Confidence rattled by COVID-19



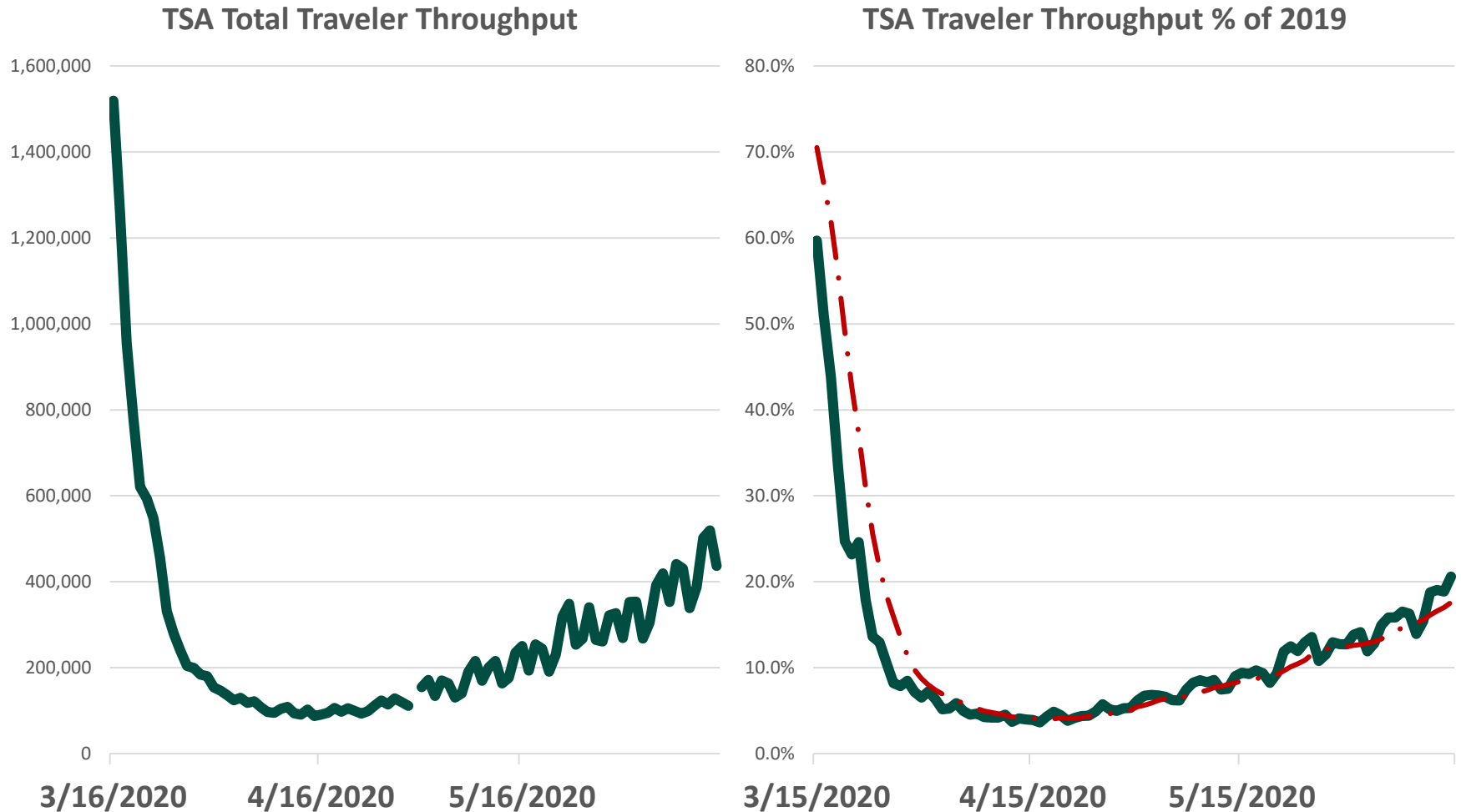
Source: Refinitiv Datastream

COVID-19 Recovery Heat Map

US Economic Activity Heat Map

| | Metric | 3/1/2020 | 3/8/2020 | 3/15/2020 | 3/22/2020 | 3/29/2020 | 4/5/2020 | 4/12/2020 | 4/19/2020 | 4/26/2020 | 5/3/2020 | 5/10/2020 | 5/17/2020 | 5/24/2020 | 5/31/2020 | 6/7/2020 |
|---------------------|-------------------------------------|----------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|-----------|----------|
| Business/Labor | Hours Worked | 1.0% | 1.1% | -6.4% | -43.6% | -59.4% | -61.0% | -62.6% | -60.4% | -57.7% | -54.6% | -49.7% | -44.9% | -39.3% | -40.0% | -32.3% |
| | Locations Open | -1.0% | -1.6% | -3.9% | -28.9% | -46.0% | -48.6% | -50.9% | -49.0% | -47.1% | -44.6% | -41.0% | -35.4% | -31.6% | -32.3% | -26.3% |
| | Employees Working | 1.0% | 1.0% | -4.4% | -42.1% | -58.3% | -60.1% | -61.6% | -59.7% | -57.1% | -54.1% | -49.6% | -43.4% | -40.9% | -38.9% | -31.9% |
| | Google Mobility Workplaces | 2.6% | 2.9% | -3.0% | -28.9% | -42.4% | -46.1% | -49.0% | -45.3% | -44.4% | -41.9% | -39.0% | -37.3% | -35.6% | -38.4% | -30.4% |
| | Google Search: Unemployment | 100.0% | 125.0% | 1000.0% | 1850.0% | 2500.0% | 2275.0% | 2225.0% | 2075.0% | 1975.0% | 1650.0% | 1625.0% | 1550.0% | 2033.3% | 1425.0% | 1375.0% |
| Air Travel | TSA Throughput | 99.1% | 87.6% | 70.5% | 31.0% | 9.8% | 5.9% | 4.3% | 4.2% | 4.6% | 6.2% | 7.4% | 8.7% | 10.9% | 12.6% | 14.6% |
| | Google Search: Flight | 81.6% | 103.1% | 84.0% | 50.6% | 42.5% | 39.0% | 35.8% | 42.3% | 46.6% | 47.3% | 46.2% | 43.2% | 44.4% | 46.3% | 44.7% |
| General Activity | Google Mobility Transit | 4.1% | 3.3% | -6.4% | -33.0% | -48.1% | -50.4% | -52.4% | -50.3% | -48.0% | -43.4% | -41.0% | -40.0% | -36.7% | -36.9% | -32.7% |
| | Apple Mobility Transit | 102.0% | 100.9% | 78.6% | 37.2% | 26.3% | 24.3% | 23.4% | 23.8% | 25.0% | 27.3% | 29.0% | 30.9% | 33.3% | 36.1% | 38.6% |
| | Apple Mobility Driving | 118.1% | 118.9% | 105.2% | 69.6% | 54.4% | 53.4% | 54.4% | 61.4% | 67.3% | 75.4% | 83.6% | 96.7% | 105.9% | 109.7% | 116.6% |
| | DOE Gasoline Demand | 100.7% | 102.8% | 104.9% | 104.4% | 97.3% | 85.0% | 72.0% | 62.1% | 59.9% | 64.4% | 70.9% | 75.0% | 78.9% | 81.4% | 82.8% |
| | AAR Waste & Scrap Railcar Loads | 97.5% | 107.2% | 104.6% | 95.7% | 94.7% | 87.7% | 76.8% | 75.6% | 84.8% | 87.8% | 92.1% | 91.9% | 91.9% | 97.4% | 90.6% |
| Restaurants | Open Table Reservations | 2.0% | -2.0% | -48.0% | -99.9% | -100.0% | -100.0% | -100.0% | -100.0% | -100.0% | -99.2% | -96.9% | -93.6% | -87.9% | -83.0% | -74.1% |
| | Google Search: Restaurant | 92.0% | 80.5% | 73.6% | 53.4% | 55.4% | 59.3% | 57.1% | 61.0% | 65.4% | 69.7% | 72.7% | 72.9% | 74.7% | 71.3% | 75.8% |
| Hotels | STR Hotel Occupancy | -1.7% | -7.3% | -24.4% | -56.4% | -67.5% | -68.5% | -69.8% | -64.4% | -62.2% | -58.5% | -55.9% | -54.1% | -50.2% | -43.2% | -45.3% |
| | STR Avg. Daily Rate | 1.6% | -4.6% | -10.7% | -30.2% | -39.4% | -41.5% | -45.6% | -42.2% | -42.9% | -44.0% | -42.1% | -42.4% | -39.7% | -33.3% | -35.9% |
| | STR Rev. per Available Room | -0.2% | -11.6% | -32.5% | -69.5% | -80.3% | -81.6% | -83.6% | -79.4% | -78.4% | -76.8% | -74.4% | -73.6% | -69.9% | -62.1% | -65.0% |
| | Google Search: Hotel | 116.2% | 104.0% | 93.0% | 69.9% | 54.1% | 60.0% | 61.8% | 62.3% | 58.6% | 62.9% | 71.2% | 69.0% | 56.0% | 70.9% | 79.3% |
| Retail & Recreation | Google Mobility Retail & Recreation | 7.7% | 8.4% | 1.9% | -27.7% | -42.0% | -42.3% | -45.7% | -41.7% | -39.7% | -33.9% | -29.6% | -28.9% | -24.3% | -23.9% | -18.6% |
| | Google Search: Movie Theatre | 65.5% | 58.3% | 28.6% | 13.1% | 10.9% | 10.0% | 9.3% | 8.3% | 9.2% | 14.8% | 18.4% | 26.9% | 18.5% | 18.6% | 23.2% |
| | Bloomberg Consumer Comfort | 63.0% | 62.7% | 63.0% | 59.7% | 56.3% | 49.9% | 44.5% | 41.4% | 39.5% | 36.9% | 35.8% | 34.7% | 35.5% | 37.0% | 38.7% |
| | Redbook Same Store Sales | 5.4% | 6.0% | 7.2% | 7.9% | 7.5% | 7.0% | -2.0% | -4.4% | -5.7% | -6.6% | -7.5% | -8.5% | -7.5% | -7.5% | -9.7% |
| Housing | MBA Mortgage Purchase Apps | 111.3% | 118.8% | 112.9% | 95.0% | 73.6% | 65.0% | 64.2% | 65.0% | 74.5% | 82.7% | 87.9% | 94.0% | 106.0% | 114.0% | 124.3% |

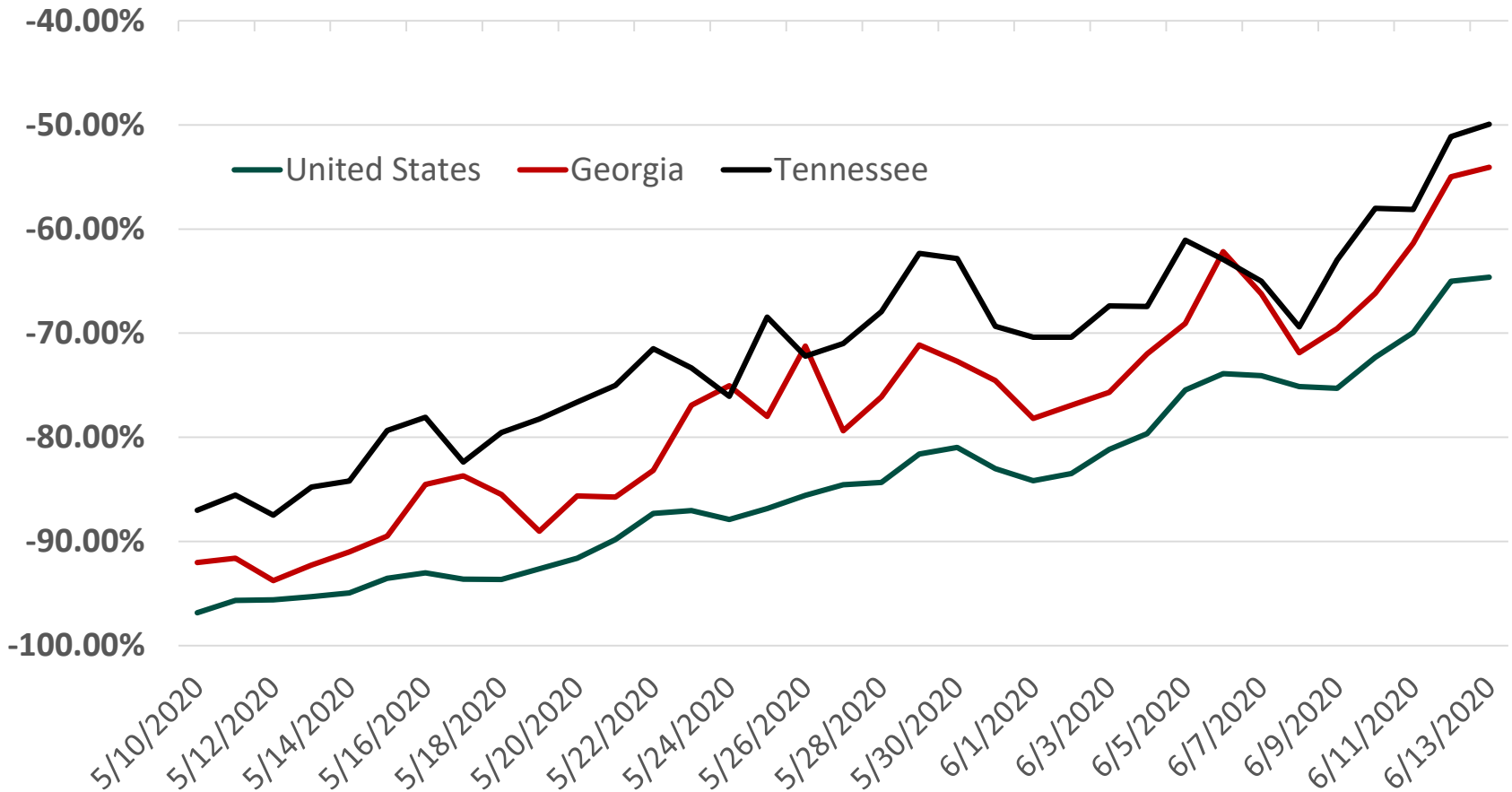
COVID-19 Recovery Metrics: Airlines



Source: TSA

COVID-19 Recovery Metrics: Restaurants

Open Table Seated Diners
Year-over-Year % Change

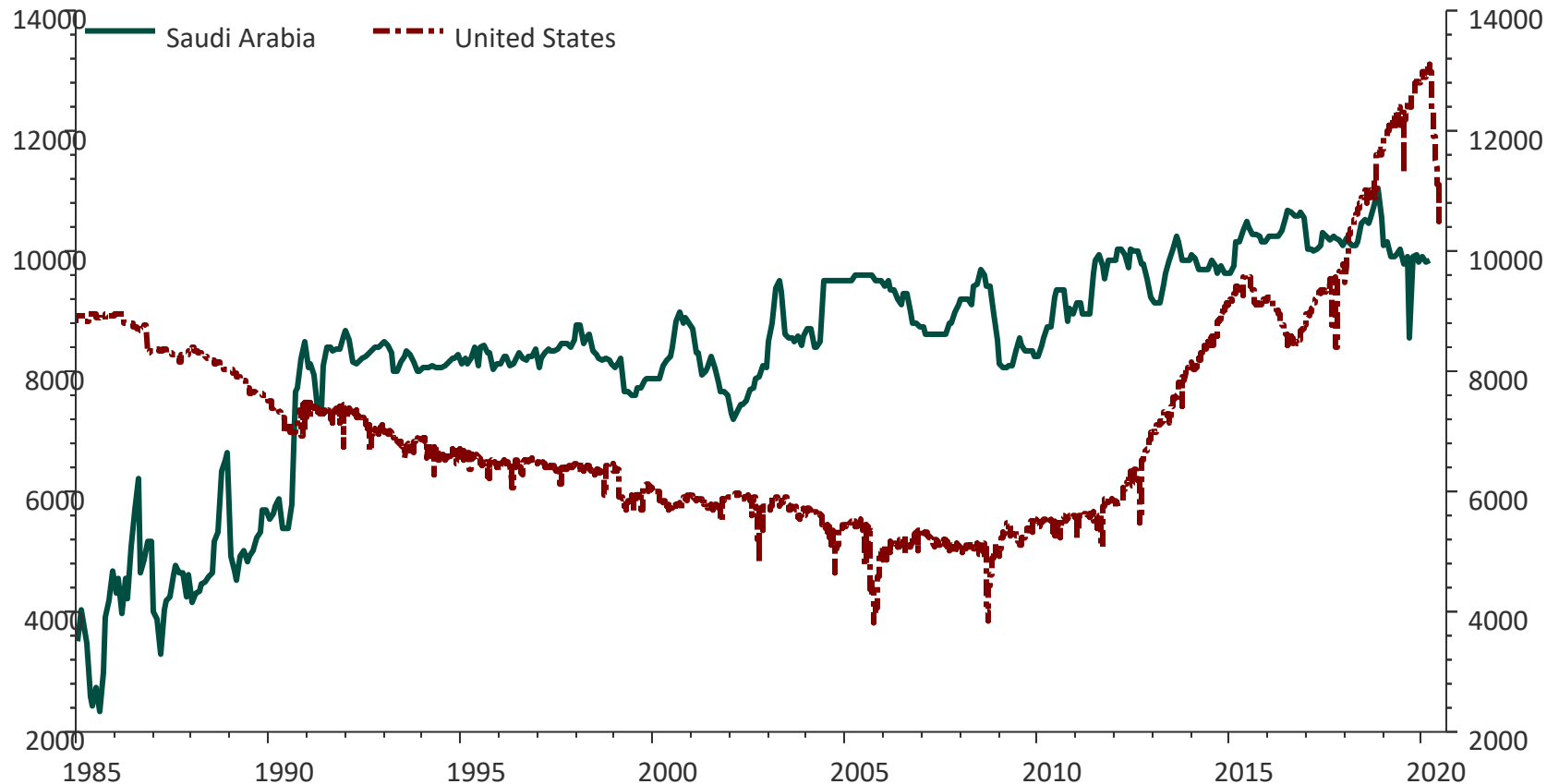


Source: OpenTable

United States is the new swing oil producer

US vs. Saudi Arabia Crude Production

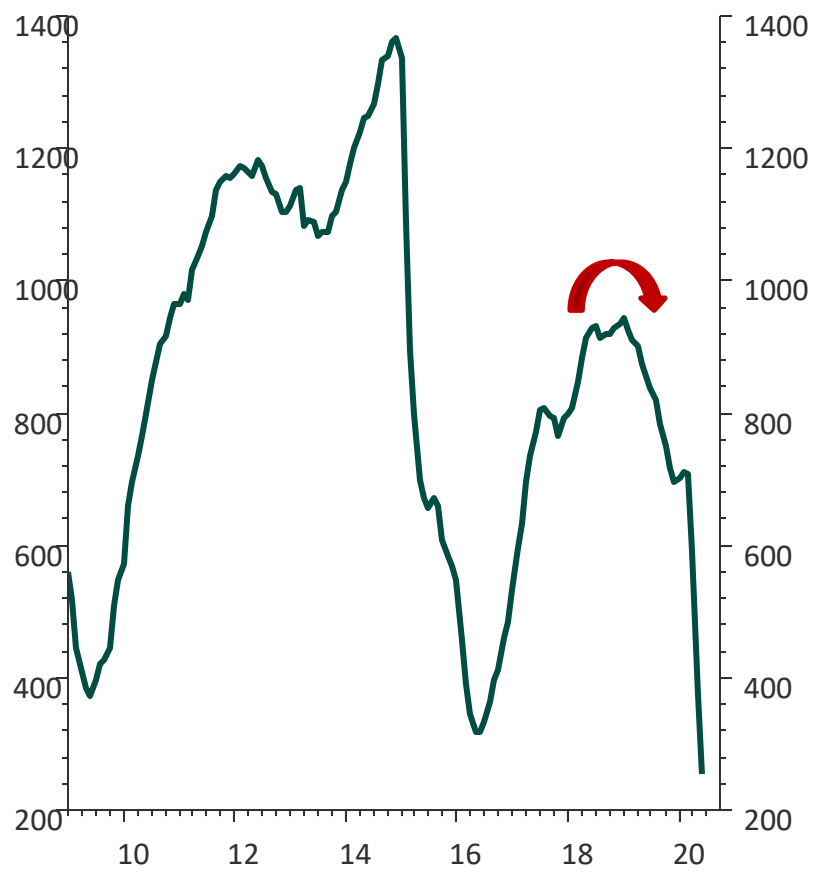
Barrels/Day in Thousands



Source: Refinitiv Datastream

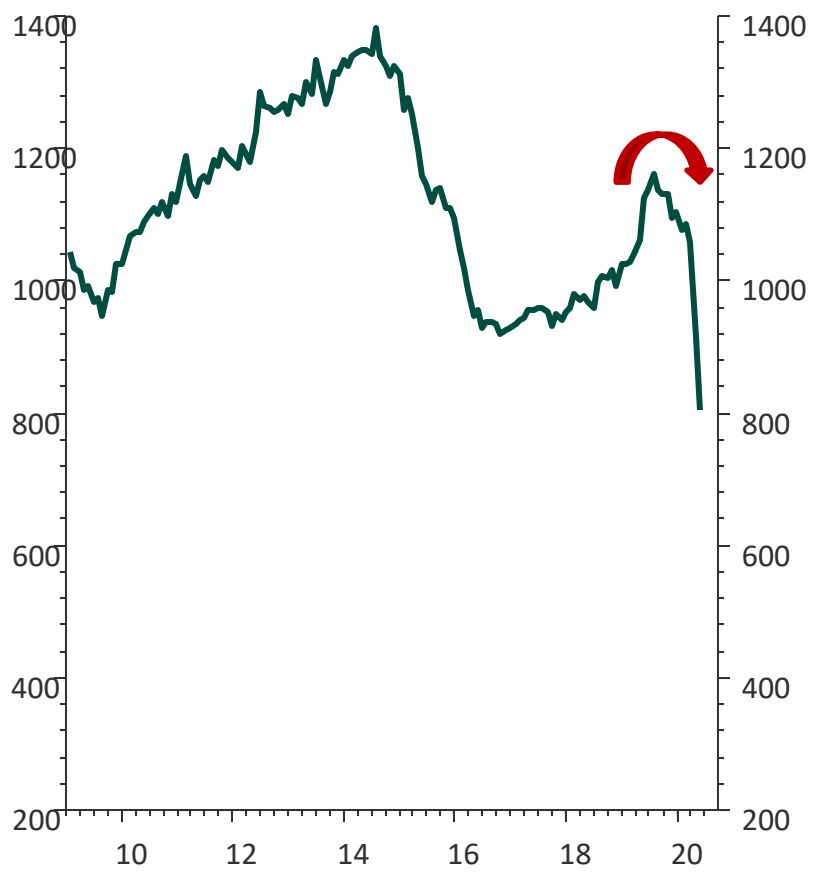
Global Decline in Rig Count

US Horizontal Rotary Rig Count



Source: Refinitiv Datastream

Int'l Crude Oil & Nat. Gas Rig Count



Source: Refinitiv Datastream