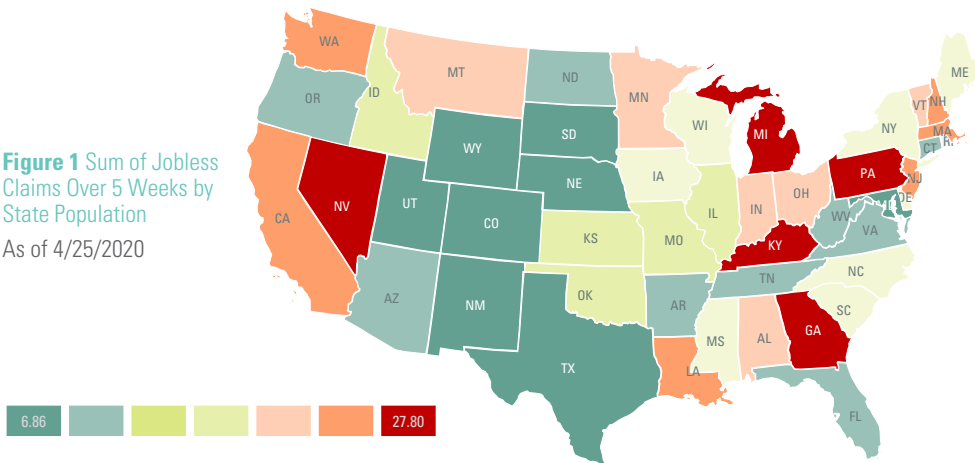


COVID-19 Research Update

Global Fixed Income Themes & Market Conditions

The April U.S. jobs report will come out on May 8 and unemployment data is expected to be dismal. Although data will be “ugly” relative to longer-term history, new claims likely peaked in early April. **Figure 1** is a heatmap of unemployment claims in the U.S., with states tethered to the hospitality and retail industries and those with stringent lockdown measures, registering the highest per capita jobless rates.

Figure 1 Sum of Jobless Claims Over 5 Weeks by State Population
 As of 4/25/2020



Note: This heat map shows the sum of jobless claims over the last 5 weeks divided by state population for an adjusted figure
 Source: Bloomberg (© 2020, Bloomberg Finance LP)

We could see some improvement in the hardest hit states as their economies slowly reopen. Consumer sentiment, as shown in **Figure 2**, should improve as the national unemployment rate declines. Furthermore, an uptick in consumer optimism should bode well for economically sensitive segments, such as the all-encompassing consumer discretionary sector.

Figure 2 U.S.: Conference Board, Consumer Confidence Index SA, As of 4/30/2020



Source: Brandywine Global, Macrobond, TCB

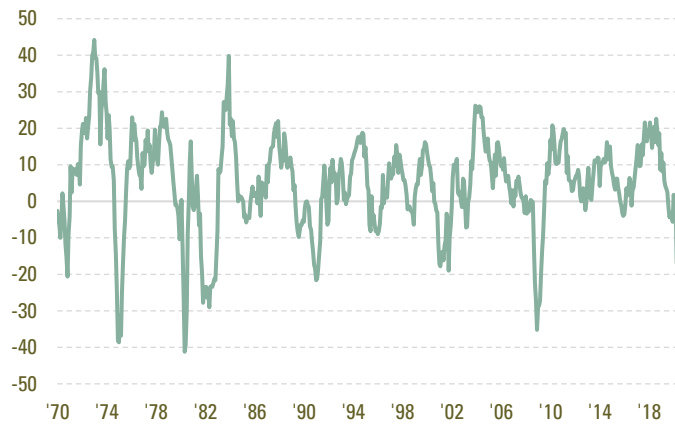


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Business confidence is plotted in **Figure 3** and should remain depressed, even though first quarter earnings were in line with—albeit lowered—expectations. **Figure 4** outlines sales and earnings surprises across all sectors within the S&P 500.

Figure 3 U.S.: OECD MEI, Business Tendency Surveys, Confidence Indicators SA, As of 4/30/2020



Source: Brandywine Global, Macrobond, OECD

Figure 4 Sales and Earnings Surprise by Sector From 2/16/2020 to 5/15/2020

Sector	Reported	Sales Surprise	Earnings Surprise
All Securities	406 / 499	1.00%	0.7%
Energy	25 / 27	5.16%	168.44%
Materials	26 / 28	1.19%	6.98%
Industrials	66 / 70	0.96%	11.40%
Consumer Discretionary	35 / 62	3.05%	-2.41%
Consumer Staples	25 / 33	0.83%	3.17%
Health Care	50 / 60	3.27%	9.82%
Financials	65 / 65	-0.65%	-21.19%
Information Technology	49 / 71	-1.63%	0.41%
Comm. Services	19 / 22	-0.87%	-0.83%
Utilities	20 / 28	-9.51%	5.81%
Real Estate	24 / 31	3.01%	-1.16%

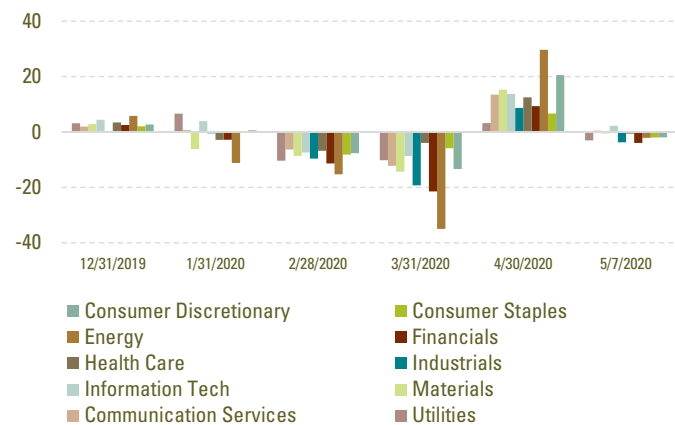
Source: Bloomberg (© 2020, Bloomberg Finance LP)

The energy sector produced positive earnings surprises despite the steep decline in crude oil prices during March. This sector largely illustrates the broader trend at work across corporates during the first quarter: two months of revenue were able to offset the collapse in March sales.

Figure 5 provides monthly returns for all sectors in the S&P 500. Although every sector within the S&P 500 Index generated positive returns in April, the relatively stronger performance did not offset the significant losses incurred in March. We believe the anticipated peak in new jobless claims in April and an earnings season in line with lowered expectations drove April equity market performance.

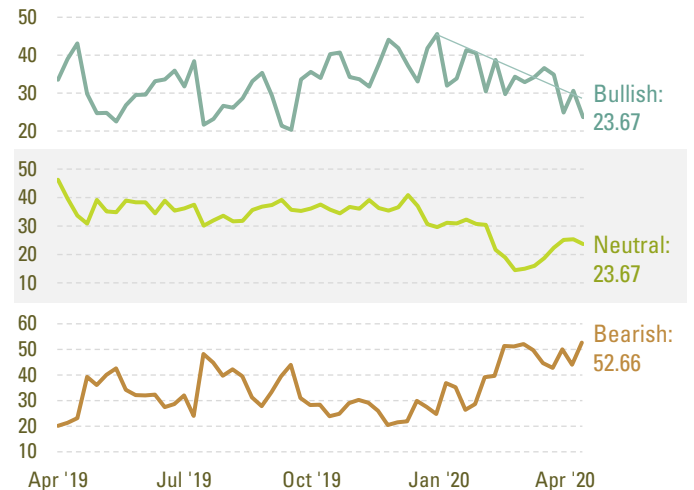
While U.S. equities started to discount an economic recovery in April, broad returns for the S&P 500 were off to a weaker start at the beginning of May. Unlike the first quarter, second quarter earnings will not likely be buttressed by two strong months of sales. Relatively weaker stock market returns in early May are corroborated by investor sentiment, which remains largely in bearish (see **Figure 6**).

Figure 5 S&P 500 Monthly Sector Performance As of 5/7/2020



Source: Bloomberg (© 2020, Bloomberg Finance LP)

Figure 6 Investor Sentiment As of 5/7/2020



Source: Bloomberg (© 2020, Bloomberg Finance LP)

Therefore, second quarter earnings could likely hit a trough. Once markets digest what should be a very challenging earnings season in July, we should then be able to form a more accurate picture of underlying U.S. economic fundamentals and business conditions. With the May 8 jobs report, we may be entering into a period of sentiment-crushing data, which could last anywhere from a month to an entire quarter. We expect U.S. equity and Treasury markets to react to short-term changes in sentiment.

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