

# COVID-19 BUSINESS & MARKET PERSPECTIVES

March 4<sup>th</sup>, 2020



BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO

# TODAY'S PRESENTERS



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PARTNER, DIRECTOR OF  
ASSET ALLOCATION



**MICHAEL P. MANNING,  
CFA, CAIA**

MANAGING PARTNER

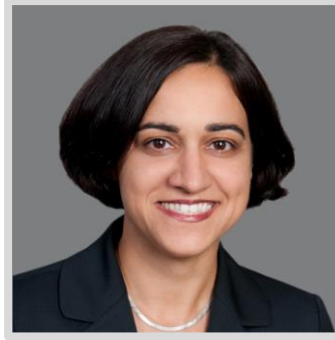


# DISCUSSION PANEL



**KAREN HARDING,  
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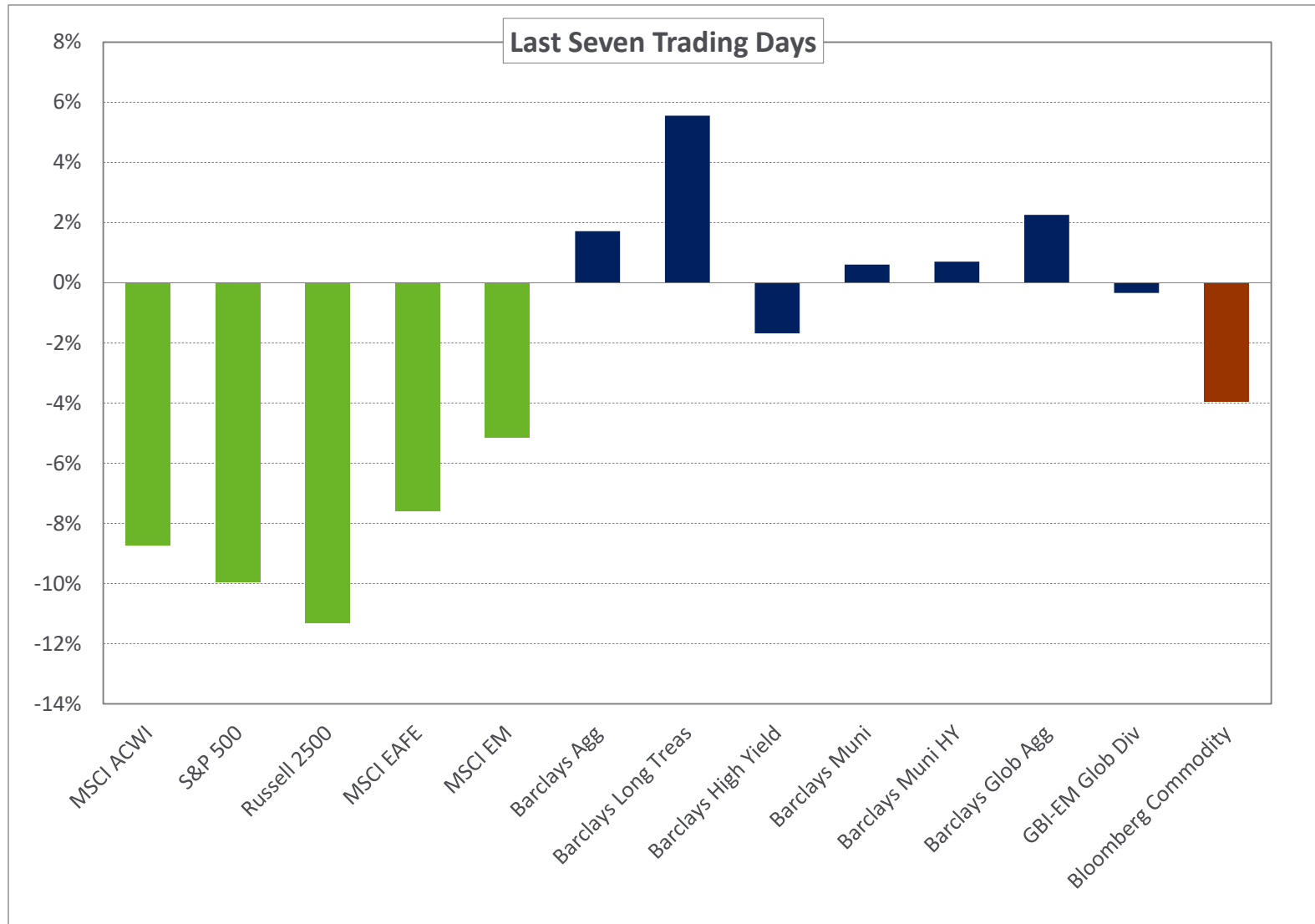


**CHRISTOPHER LEVELL,  
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PARTNER



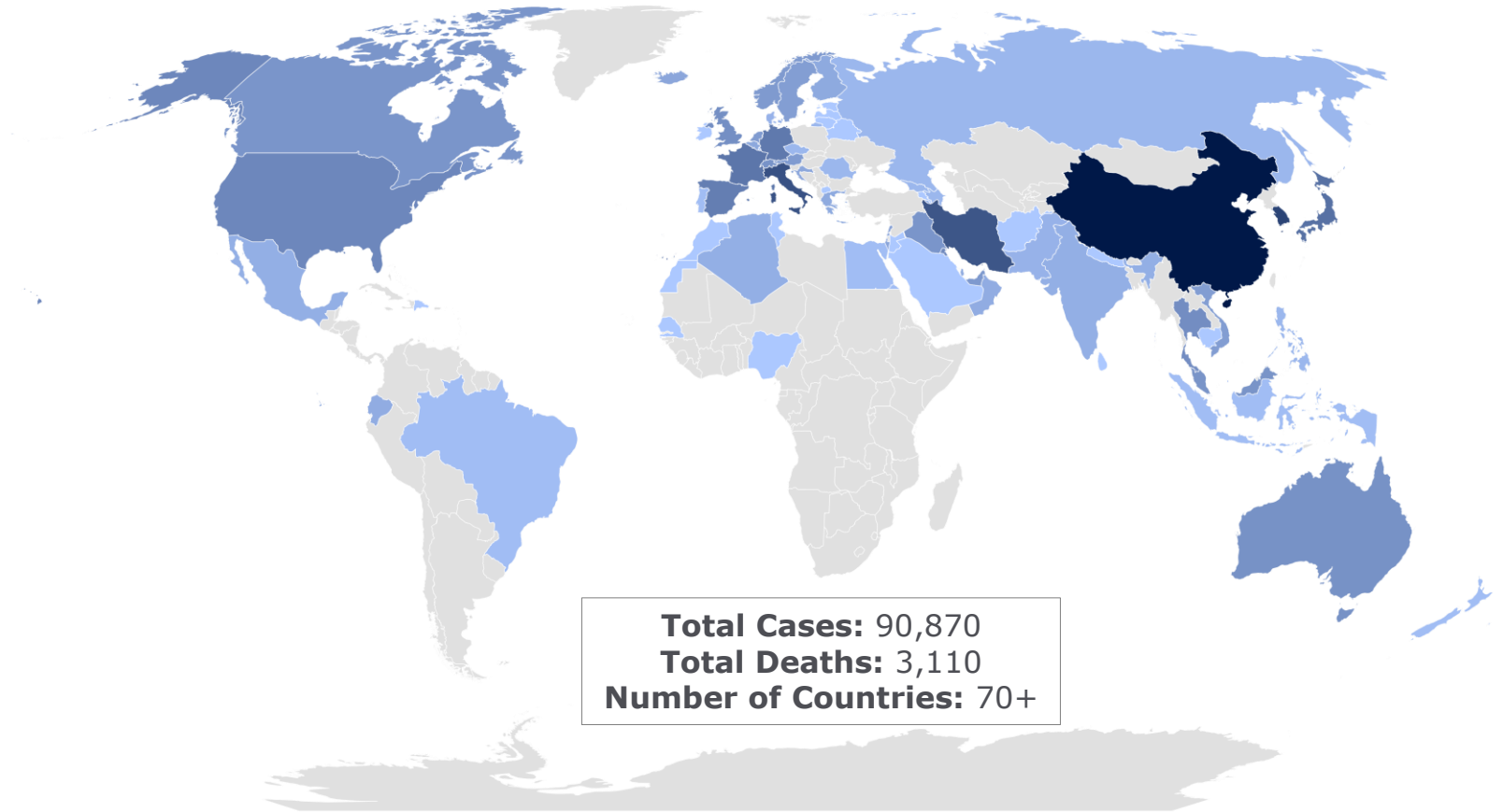
# RISK ASSETS DECLINED ON COVID-19 FEARS



Source: S&P, Russell, MSCI, JPM, Bloomberg, FactSet  
Data as of 03/03/2020

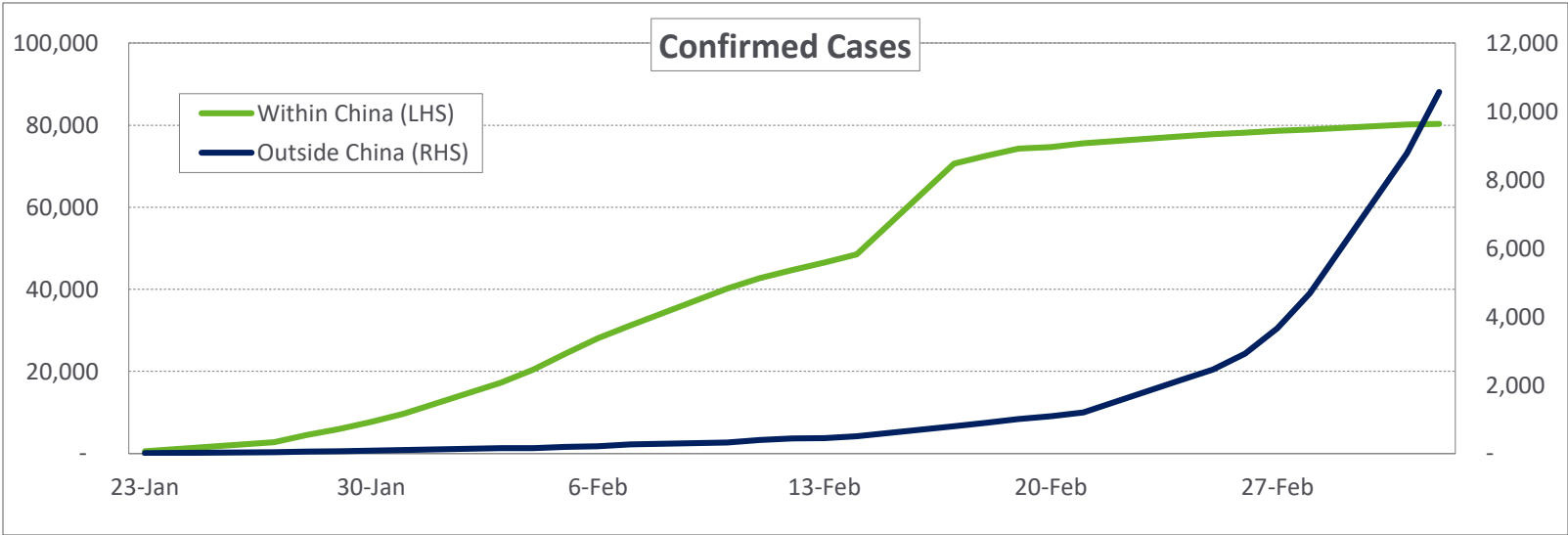
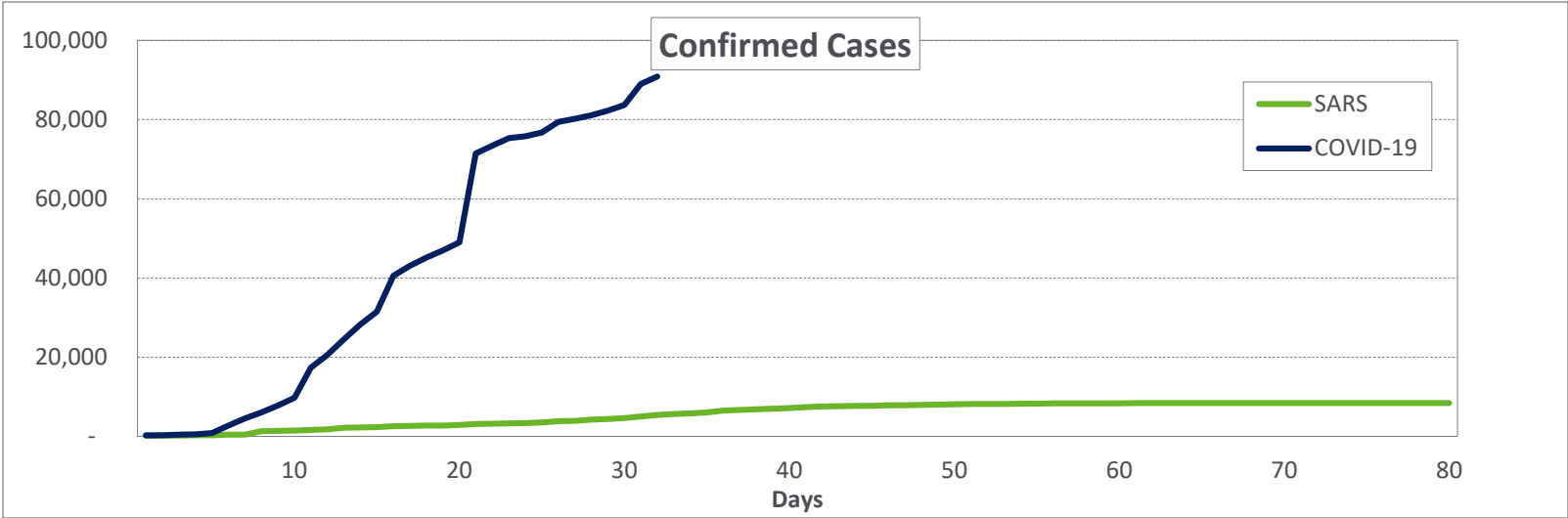
# CORONAVIRUS SPREAD AROUND THE WORLD

COVID-19 Confirmed Cases



Source: World Health Organization, FactSet, Bing, Microsoft  
Data as of 03/03/2020

# CONFIRMED COVID-19 CASES CONTINUE TO RISE

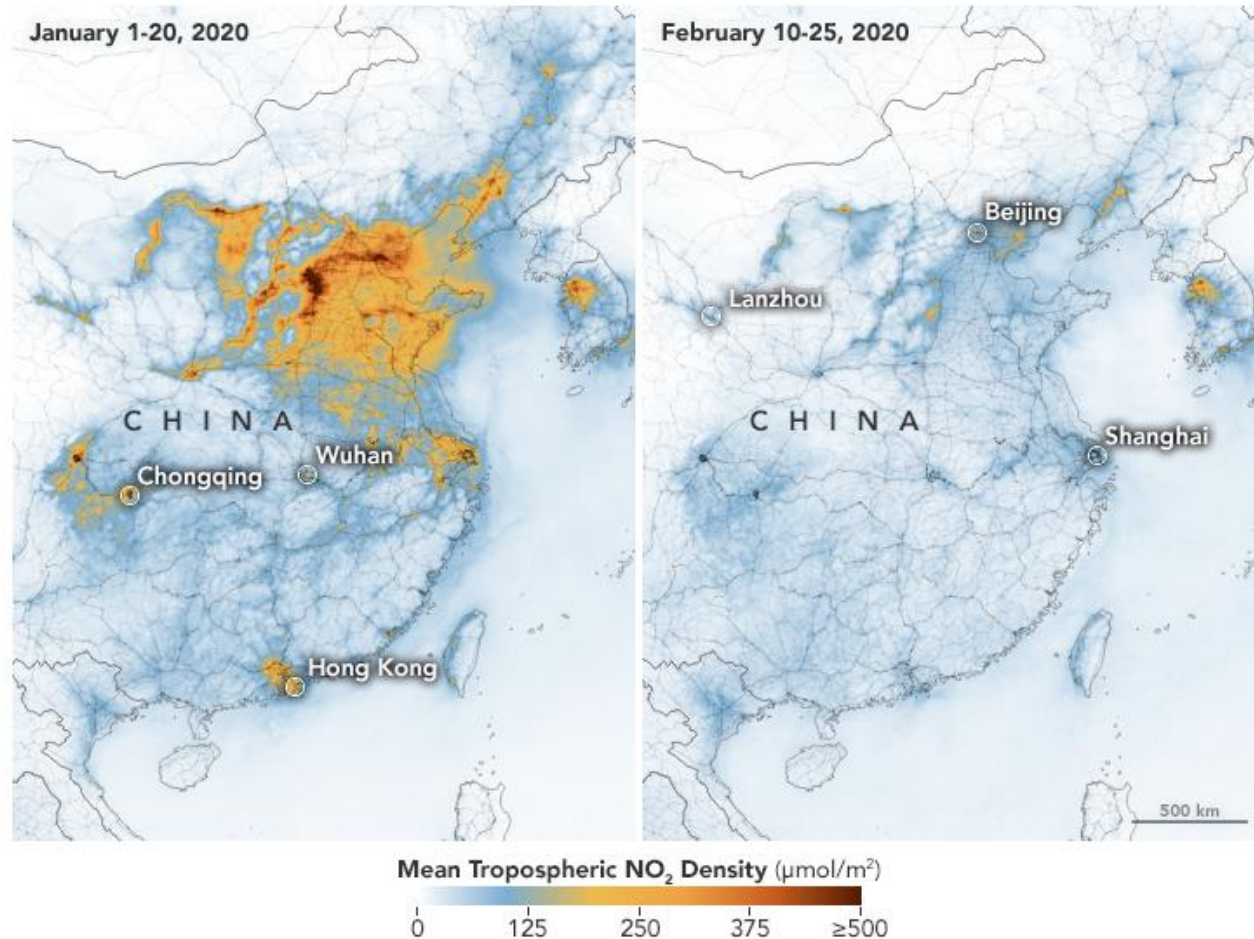


Source: World Health Organization, FactSet  
Data as of 03/03/2020



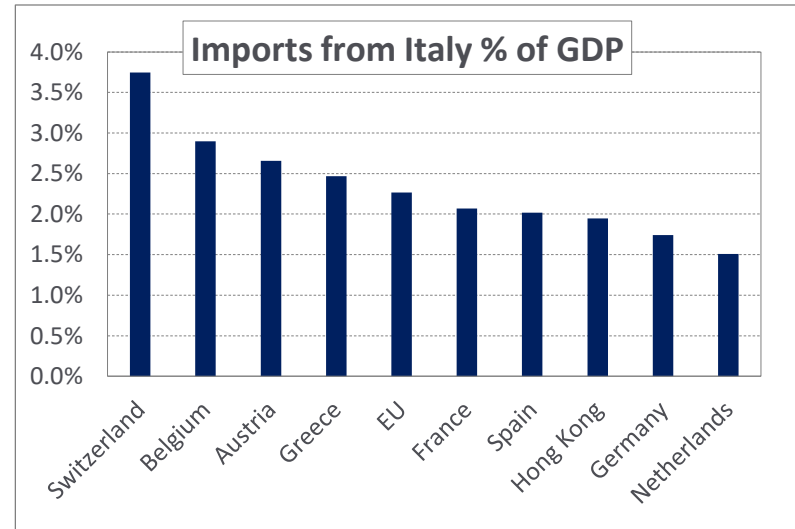
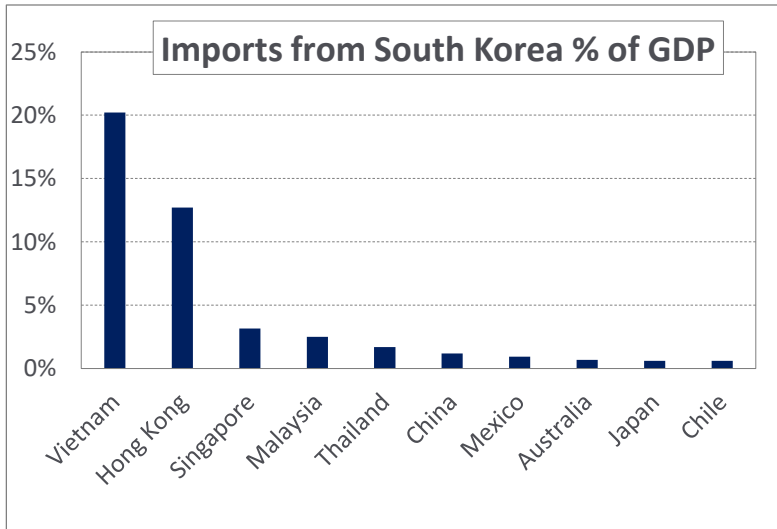
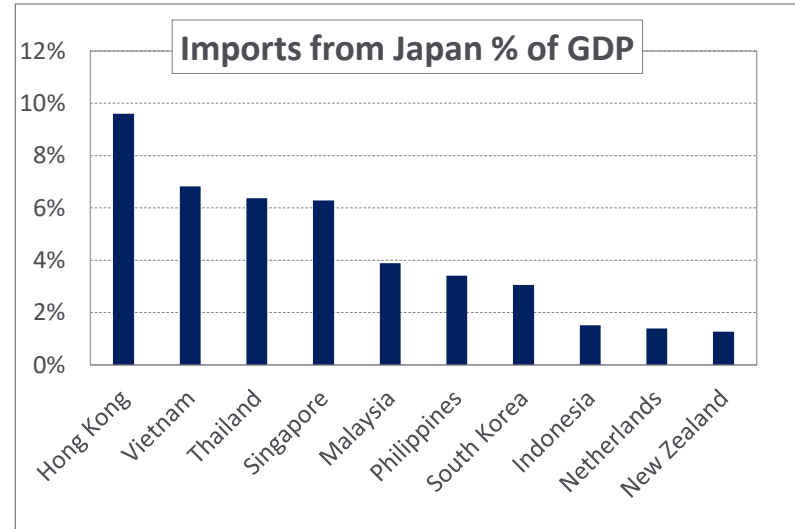
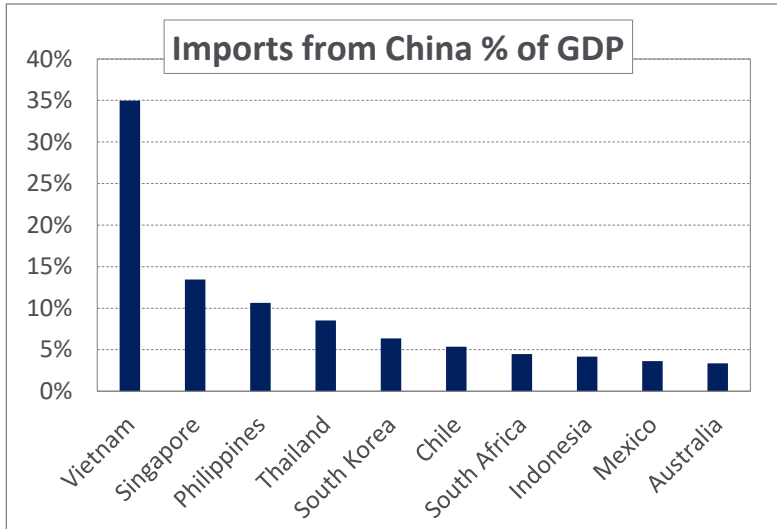
# QUARANTINES SLOWED ECONOMIC ACTIVITY

**Pollution monitoring satellites detected significant decreases in nitrogen dioxide ( $\text{NO}_2$ ) over China after quarantines and travel restrictions were implemented.  $\text{NO}_2$  is a gas emitted by industrial facilities, motor vehicles, power plants, etc.**



Source: NASA, European Space Agency

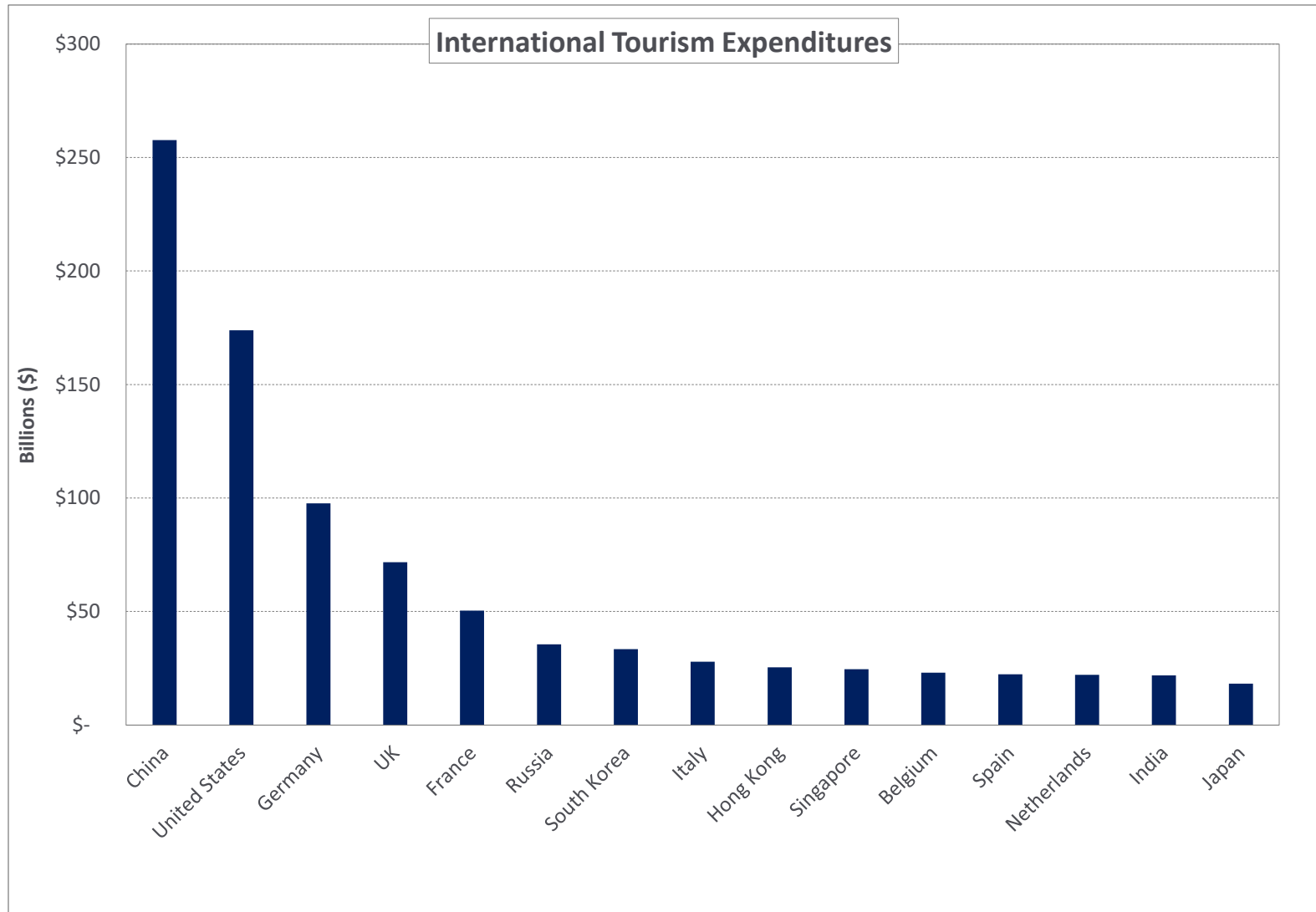
# ASIAN ECONOMIES ARE MORE VULNERABLE



Source: IMF, FactSet  
Data as of 12/31/2018

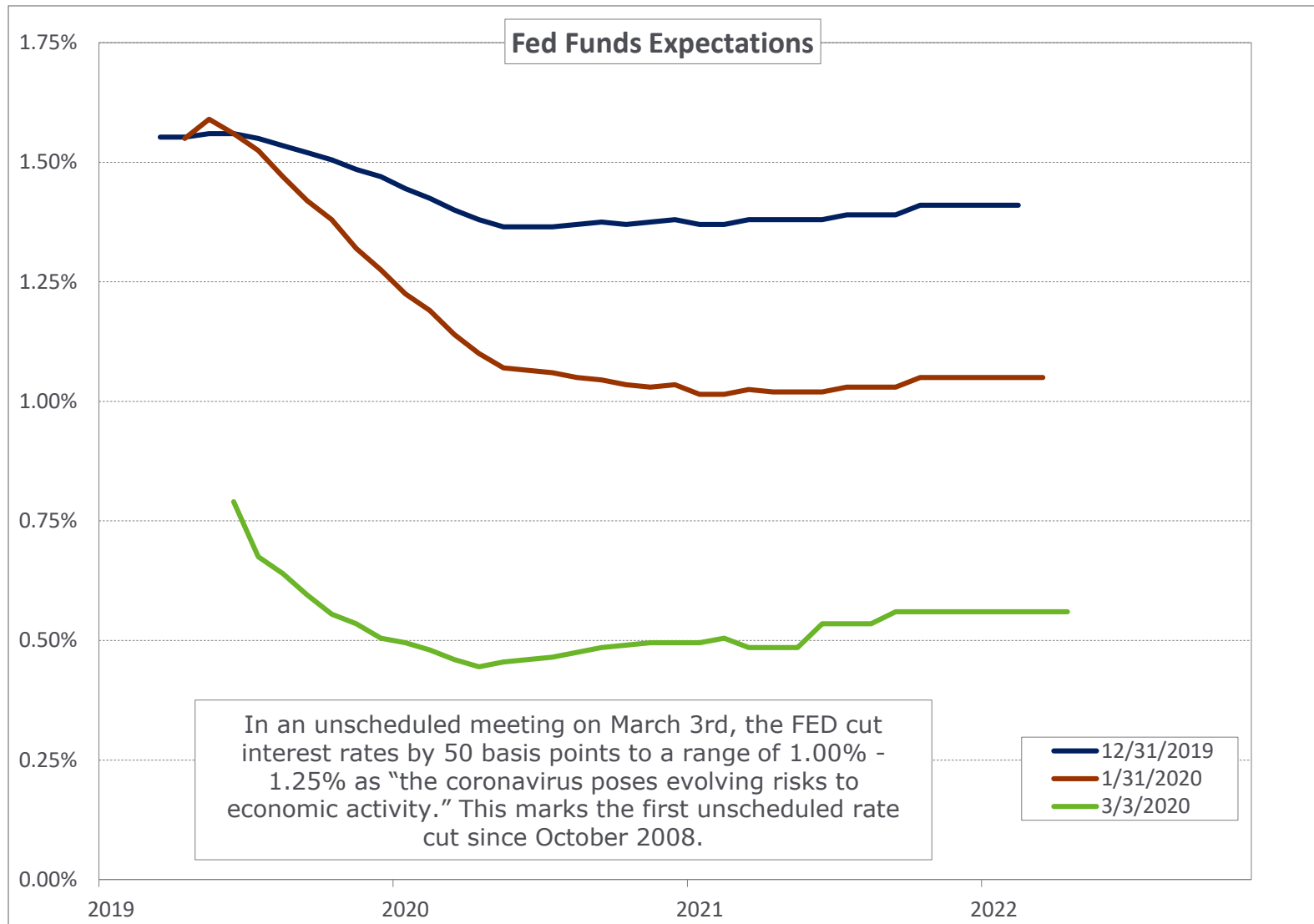


# TOURISM SLOWDOWNS WILL IMPACT GROWTH



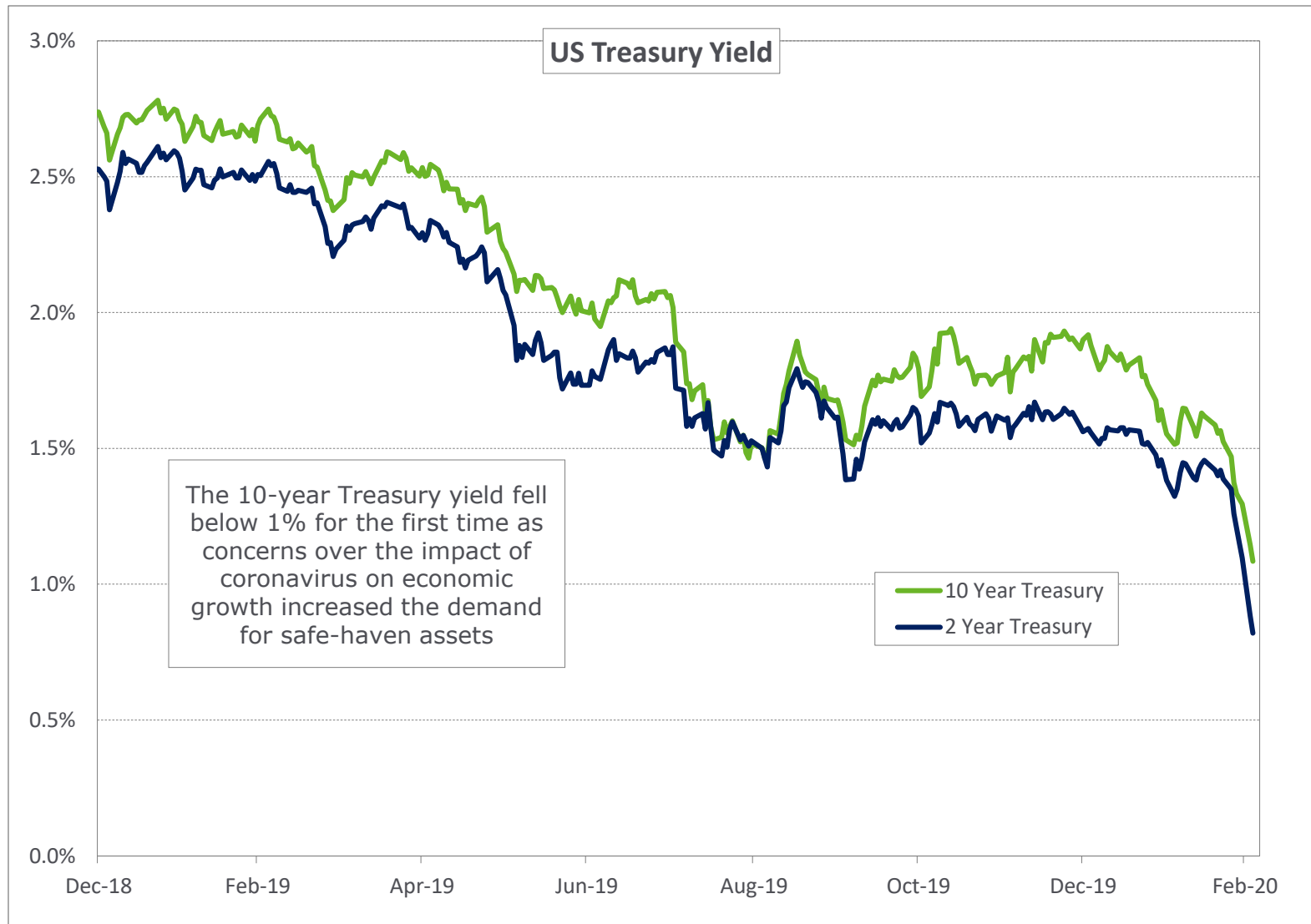
Source: UN World Tourism Organization, The World Bank, FactSet; data in current USD.  
International tourism expenditures represent expenditures of international travelers in other countries.  
Data is of 12/31/2018

# THE FED CUT RATES BY 50 BASIS POINTS



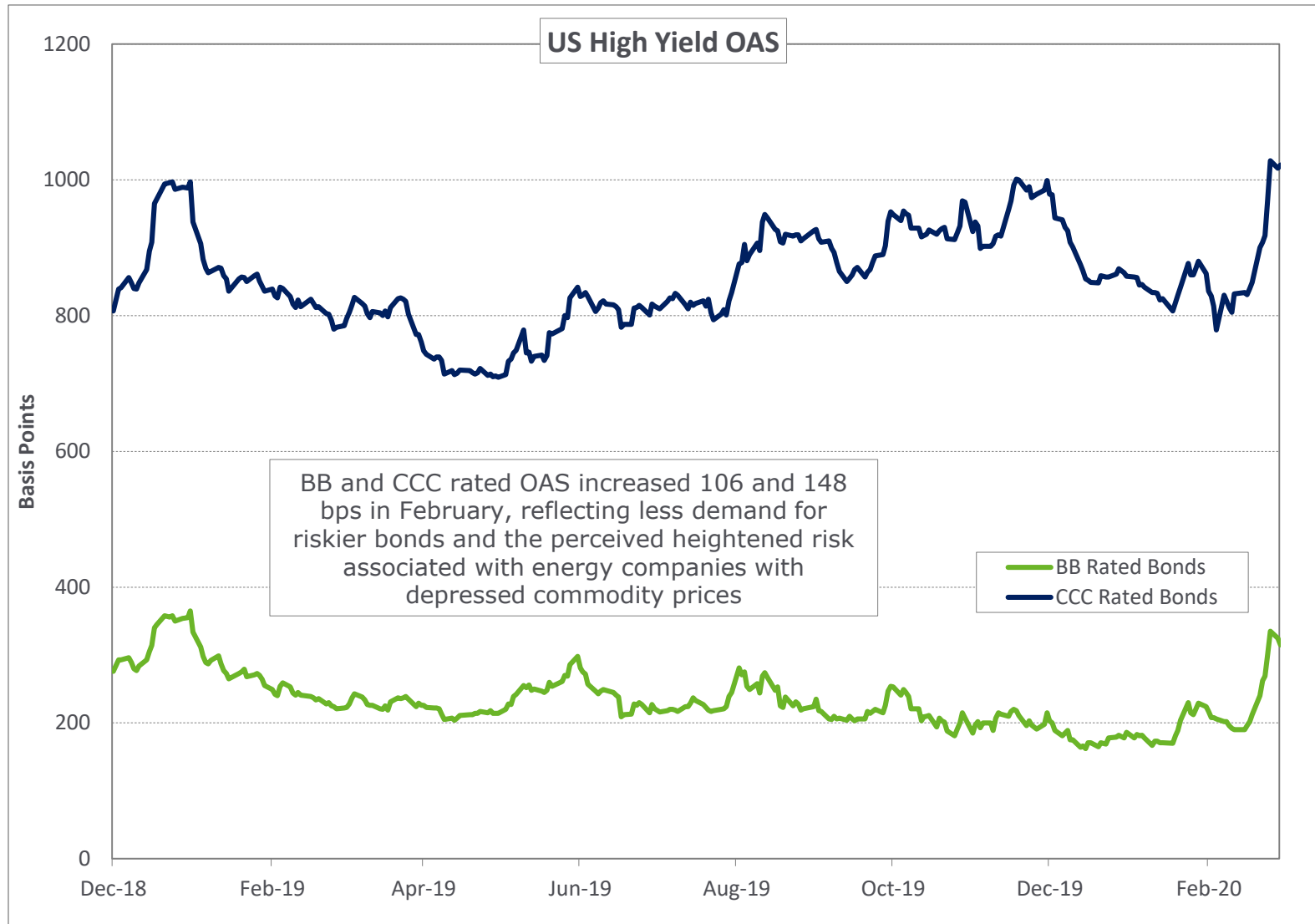
Source: FactSet  
Data as of 03/03/2020

# THE US TREASURY YIELDS FELL



Source: FactSet  
Data as of 03/03/2020

# HIGH YIELD SPREADS WIDENED



Source: Bloomberg, FactSet  
Data as of 03/03/2020

# ASSESSING THE ECONOMIC IMPACT

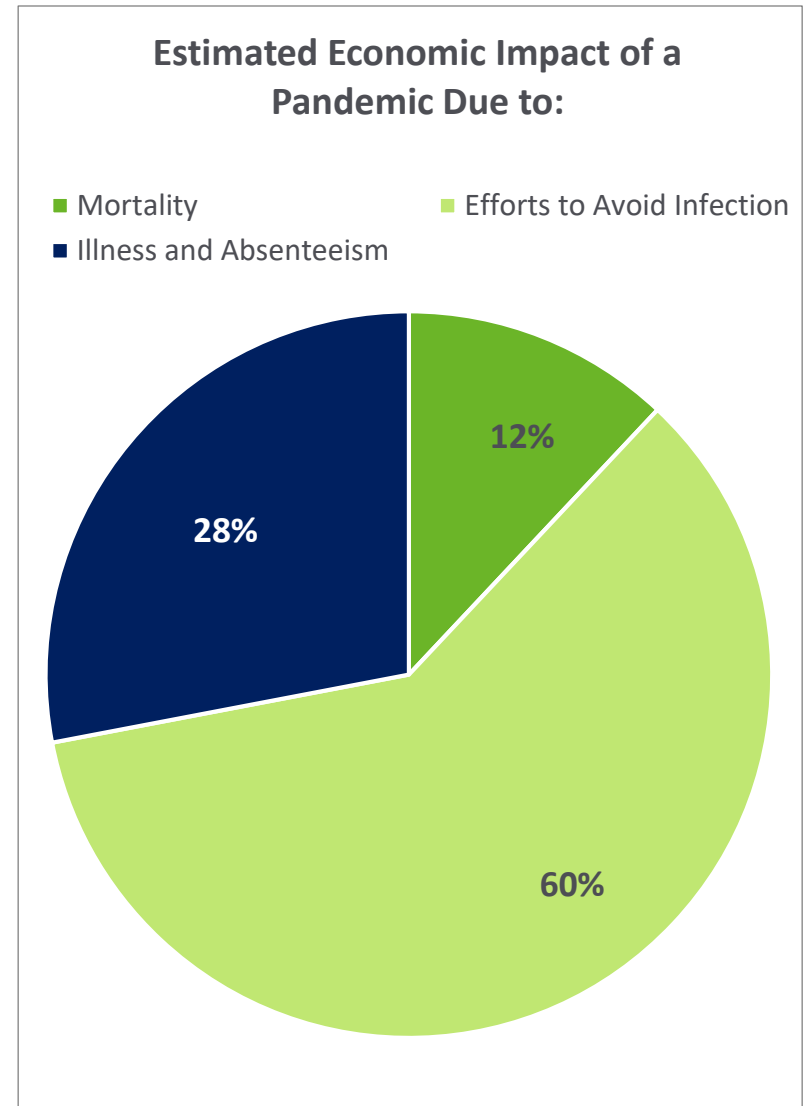
**Based on a World Bank study the impact and severity of containment and quarantine is likely the largest economic cost from a pandemic**

**Restrictive containment strategies can lead to both a demand and a supply shock to economic activity**

**The weak economic data from China shows how swift the decline can be**

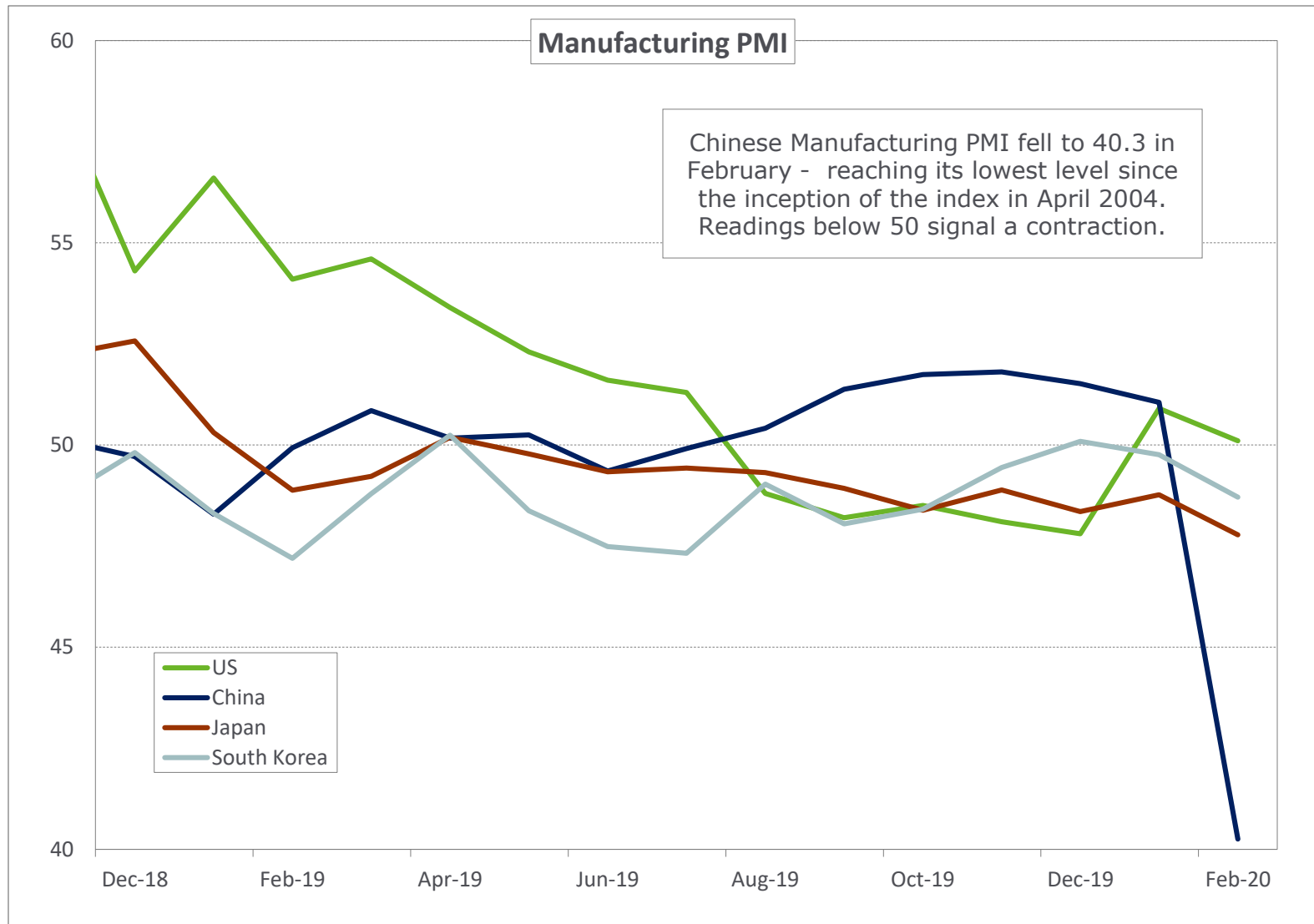
**The unknown remains whether the economic impact is short-term or has a lengthy impact on consumer consumption patterns**

**The COVID-19 case fatality rate is near 3% and widespread global infection would severely disrupt economic activity**



Source: The World Bank

# THE MANUFACTURING OUTLOOK DETERIORATED



Source: ISM, Markit, FactSet

# VIEW THE DRAWDOWN WITH 2019 RETURNS



Source: S&P, FactSet  
Data as of 03/03/2020

# EXPECTATIONS FOR THE COMING WEEKS

**We expect COVID-19 will officially be defined a pandemic by the WHO**

**Confirmed cases in the United States will likely rise as more instances of community spread occur across multiple states**

**Elevated volatility across equity and fixed income markets as the potential tail-risk of the COVID-19 epidemic is assessed**

**1st quarter GDP growth rates are likely to be materially lower across the globe but no reason to suspect a permanent impairment to growth**

**Potential of a fiscal policy response aimed at supporting demand and mitigating the economic impact from COVID-19**

China has already implemented a multitude of easing measures and the Fed announced an emergency rate cut of 50 basis points but monetary policy can only do so much

***These expectations may evolve as there is a significant level of uncertainty around the coronavirus impact***



# SUGGESTED NEXT STEPS, BUT BE PATIENT

Look to realize gains from safe-haven fixed income exposure following the material rally in government bond yields over the last month

Utilize realized gains to set aside an extra month of cash on hand or to serve as “dry powder” should we see a larger dislocation in equities

We see no clear opportunistic buying opportunity for equities but we will reassess our views after a material decline in equity markets

Maintain discipline with a rebalancing approach aimed at preserving long-term strategic targets to risk assets

***Embrace diversification given heightened uncertainty and the potential for continued market volatility***

# NEPC OPERATIONAL RESPONSE

**We have existing business continuity plans that have allowed NEPC to operate during various past disruptions**

**In light of the evolving COVID-19 threat, we are taking measured steps towards employee and client safety:**

- We are postponing international travel
- We are limiting non-essential travel, including on-site manager due diligence and internal NEPC meetings
- Client meetings are essential to our business and we will facilitate virtual meetings based on discussions with each client
- We currently have 20% of employees who work remotely and are actively testing our ability for all employees to work remotely

**While these steps are cautious, we believe they are an appropriate response to an uncertain situation**

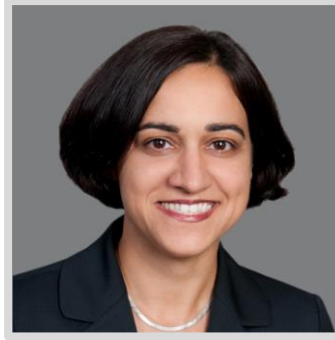
**We plan to host our annual client conference on May 20-21 in Boston, but will continue to monitor conditions**

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