

April 17, 2020

Update: Coronavirus and the Markets - What We're Watching

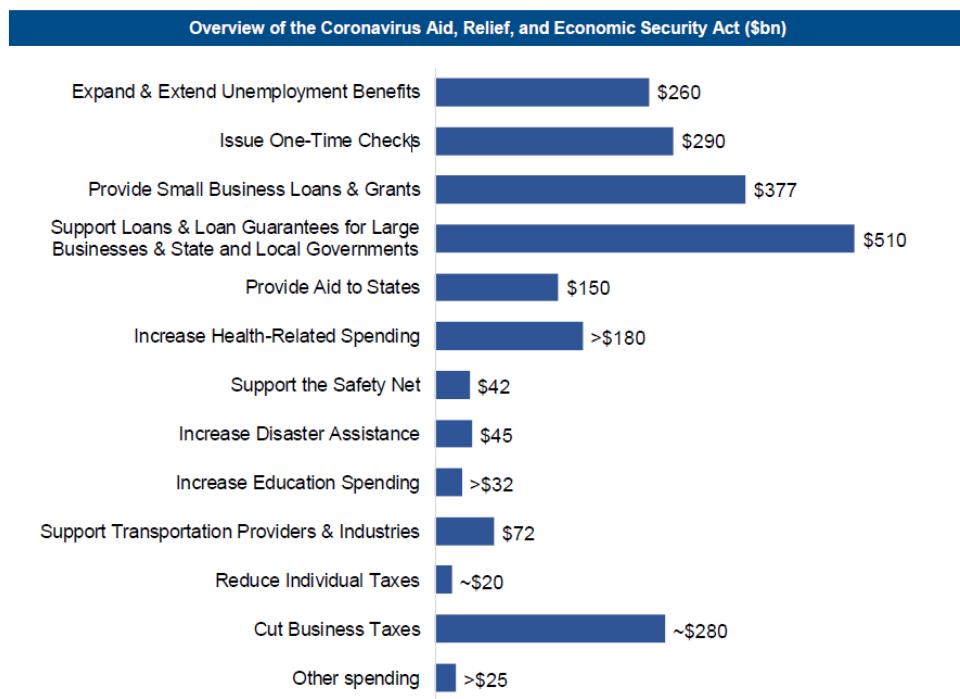
Are the peaks behind us? Are we really starting to see a flattening of the curve? After being plagued with more than 2 million confirmed worldwide coronavirus cases, including over 650,000 in the US, new cases in the US and globally are starting to show signs of plateauing and discussions on how to re-open our economy have begun. We won't be running back to work all at the same time, each state will be discussing the best ways and in most cases, it may be in phases, but nonetheless, a plan to reopen is in motion. News of Gilead Sciences drug, Remdimisvir showing signs of effectiveness in treating the coronavirus created a surge in stocks today, fueling hope a treatment was near. The gain put the S&P 500 on track for its first back-to-back weekly gains since early February.

It is clear that the market is beginning to think in recovery terms as the S&P 500 has now recovered 27% off the bottom on March 23rd. This was after falling 35% from the top on February 19th. Year to date this puts the S&P 500 down about 12% as of this morning. Many other equity markets have not fared as well, but nearly all of them have recovered meaningfully well over the last month. In addition, the credit markets that were under a great deal of stress have also recovered due to the government's bond buying programs. Suffice it to say, the market as it always does, is starting to think ahead to the potential of a strong 2021.

While Gilead Sciences drug is showing initial testing success, it is important to mention that there are at least 19 other drugs being explored for potential efficacy in treating COVID-19 patients. The government announced last night they intend to provide \$483 million to Moderna Inc. who appears to have the early lead in the development of a vaccine. This funding will help accelerate the development of the mRNA-1273 vaccine candidate and with the distribution of millions of doses per month this year and tens of millions per month next year. Once we can test more, treat, and then prevent the disease the chances of returning to a state of normalcy are much greater.

Assistance across our nation from individuals, to companies, and from our Government has been incredible in this fight. Our government, including towns, cities, and states and most notably the federal government have taken some incredible and unprecedented action to get us through this period. While government action can at times be imperfect, in this situation it was desperately needed and what has been done will be tremendously impactful to the economic survival of many people and businesses. Businesses are starting to see these benefits, most recently from the \$350 billion Paycheck Protection Program (PPP). Based on the incredible response, it is clear additional funding will be necessary to continue to help these small businesses. Congress is in talks of adding another \$250 Billion to the PPP program, and with the program ending this week there is hope a decision will be made shortly.

This is just one of several areas of funding relief that has been provided. There was \$454 Billion in emergency lending to businesses, states, and cities with specific provisions for airlines, cargo, and firms deemed critical to national security. Additionally, the \$150 billion Coronavirus Relief Fund was created to help states and cities with their expenditures for fighting this virus.



Source: Investment Strategy Group, Committee for a Responsible Federal Budget, Bill Text

Add this all up and the stimulus provided to date is at least 11% of our annual GDP. This is the highest percentage of any nation on the globe, and it may grow to 15% with some of the additional measures being discussed in Washington right now. If we weigh this against an estimate of 40% hit to the second quarter GDP and trend up from there, it is reasonable to assume that this 15% of stimulus could offset 75-90% of the hit to the annual GDP for 2020.

Keep Calm and Stay Positive

As we contemplate all that has happened over the last couple of months it is hard not to focus on the negative. The tragedy of COVID-19 is all around us. It has infected millions and has killed over 100,000 people worldwide, with sadly many more at risk and fighting for survival. It has left us quarantined in our homes and isolated from many of our loved ones, friends, and colleagues. It has essentially shut down the world wide economy in a way we have never seen before. It has dramatically affected financial asset prices and will almost surely affect non-financial asset prices, such as real estate and private businesses, once the world economic engine starts up again. It's challenging not to focus on it because it is all around us. However, there is so much more we can see and take away that is positive. Our resilience as a country and unity among our people can be seen from so many places, each and every one deserves a very big thank you! The list is plentiful, from the nurses and doctors, firefighters, the police officers, and grocery store workers, to the bus and train drivers, factory and delivery workers, teachers, our military, and many more are all helping us to fight this virus. The stories of children making masks at home, restaurants delivering food to health care workers, unconventional companies making PPE equipment, and consumer and beverage companies making hand sanitizer are all very inspiring. We as a bank are trying to do our part by donating over 100 masks to our local hospital, and coming together to support our local small businesses through the Payroll Protection Program (PPP) by

processing more than a year's worth of loans in a matter of days. Whether you're in the headlines or helping behind the scenes within your own communities, we thank you for your tremendous efforts, it is working and things are improving.

While concern of the virus returning may exist, we should feel confident we now have a much more acute warning system through data compiled by the CDC and from our hospitals to spot it earlier. We are resilient and will get through this, and when we do we will be stronger as a result. Please stay healthy and safe and don't hesitate to reach out to your Relationship Manager to discuss any of your questions or concerns.

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