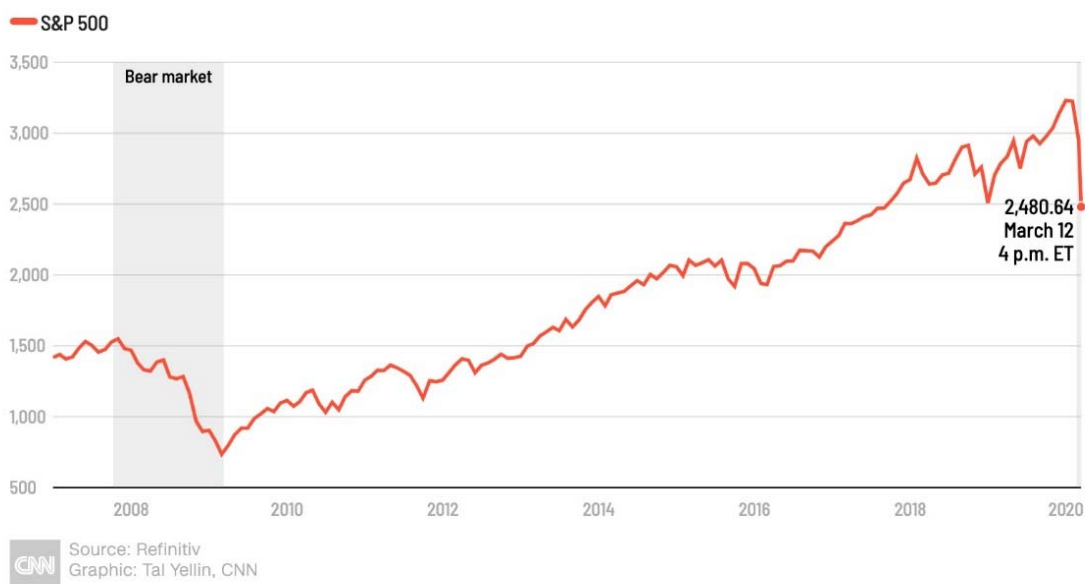


HB Perspective on Bear Market Rallies

Welcome. This is Ross Bramwell, a principal in the Investments Department at Homrich Berg. Of course, once again, we hope you and your family are, first of all, safe and well during this health crisis. In our continued effort to communicate through these challenging health and economic times, I'll take you through today's commentary as I discuss bear market rallies and what factors may determine if the recent rally is sustainable. As headlines are changing almost daily, this is our current outlook on these topics as of April 5, 2020.

Wall Street enters bear market

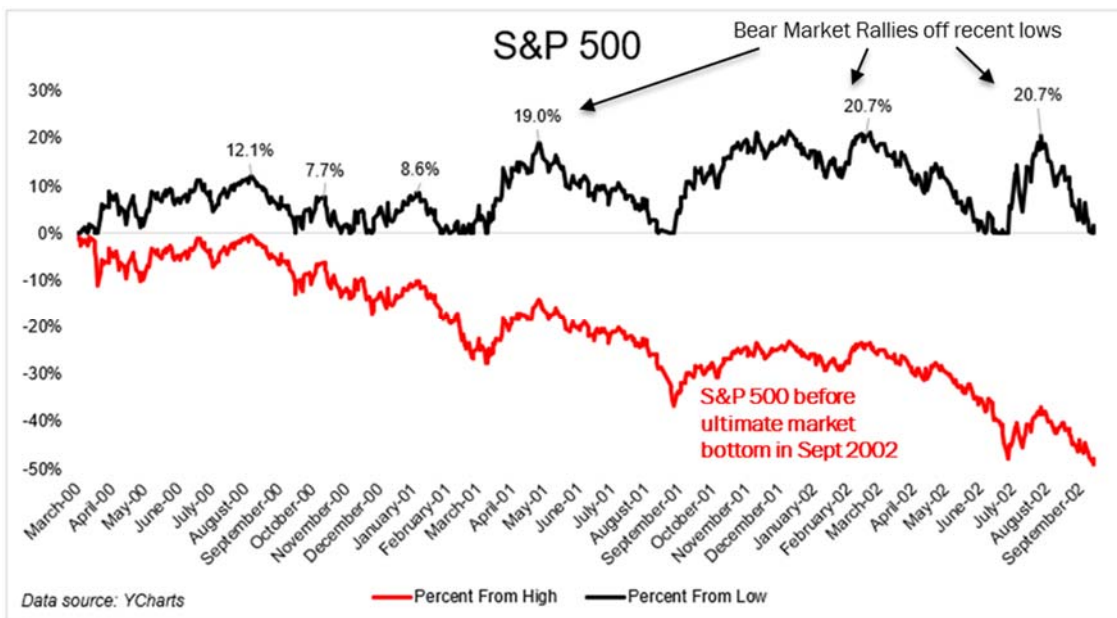
A bear market is defined as a 20% drop from the most recent peak.



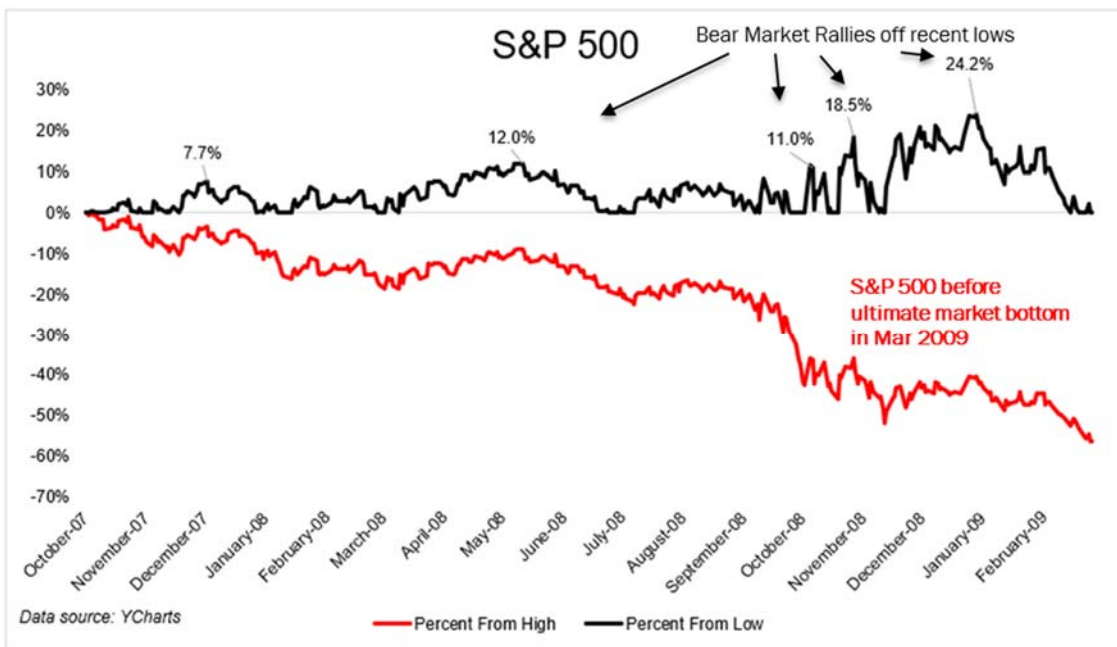
With large market swings almost every day of the last month, it's easy for investors to allow their emotions to get the best of them. On recent big down days it feels like stocks will only keep going lower, and on the up days investors hope that they have passed the bottom. If the market continues to go lower, their emotions are tested all over again. Even in the worst historical markets, stocks never went down in a straight line. Often times there are several, what we call, bear market rallies that give investors a sense of relief. Bear market rallies are periods during a bear market when stocks quickly appreciate in value in the short term, over days and weeks, before heading back down to new lows. Bear market rallies are not a sign that the bear market is over or that stocks have stabilized.

Throughout the 11-year bull market that recently ended, there were a number of bull market corrections that had conditioned many investors to "buy the dip". As we are now in a bear market, we may similarly see a number of bear market rallies. We just experienced a brief 20% rise off the recent lows. Whether it is sustainable is the question everyone is asking. We'll now take a look back and review the 2000-2002 and 2007-2009 recessions as historical examples.

The chart below shows the S&P 500 decline, in red, from the market top in March 2000 to the bottom in 2002. It also shows several bounces from the lows, the black line. We can see that there were several opportunities for investors to say the worst was behind them as there were three almost 20% or more bear market rallies before the market hit its ultimate low in September 2002.



We saw something similar in 2007-2009. We'll also notice that as the declines got steeper, post Lehman in the fall of 2008, so did the bear market rallies until the market finally bottomed in March 2009. Once again there were several double digit and even one 24% bear market rally before the market reached its lows in March 2009, which began the eleven year economic recovery and expansion that just ended.



After reaching all-time highs on February 19, the S&P 500 hit bear market territory in record time, in about three weeks. As markets dropped, the Fed tried to provide stability and liquidity to the financial markets through several actions including stating there was no limit to its asset purchases. On March 27, a \$2.2 trillion bill was signed that targeted businesses and individuals to bridge the economic gap this spring. The S&P 500 rallied over 12% in the three days leading up to the bill's signature, and overall, the market had quickly briefly rallied over 20% at one point before the end of March.



The recent rally is surely a relief after a few tough weeks for investors. However, calling a market bottom is always a challenge. Traditional economic indicators do not capture the impact of a government mandated quarantine and other isolation policies as a result of a pandemic in a timely fashion. Unemployment, earnings, GDP and other economic data points are important, but passing the peak of new cases, deaths, and the sought after medical solution are also keys to the timetable and will ultimately impact the total damage done to the U.S. and global economies. As headlines are expected to get worse with higher unemployment, new highs in cases and deaths, bankruptcies, cuts to U.S. GDP, it may be hard to hold current stock market levels.

We expect that markets will remain volatile as economic news will get worse. There are several important factors that we believe need to occur before the markets will be on firmer footing and any rally can be sustainable:

Peak Infections: It may be difficult for the market to bottom until the U.S. has seen a peak in new coronavirus infections. It appears that peak infections is still at least two weeks away for the current hot spots, but other cities or regions may become future infection hot spots and extend that timetable. Markets are still watching the recovery of China and also Italy and other European countries to better understand the time period needed to pass the infection peak, but with the vast size and population differences of the U.S. likely we will have a unique situation.

A viable medical option: It may be very likely that the current work and social norms and behaviors that include de-socialization, will become semi-permanent until an anti-viral or therapeutic is developed and widely available. As well, eventually a vaccine will be needed to maintain a sense of normalcy once parts of the economy are reopened. There is currently great progress on both fronts as the private sector is engaged, but there is currently no widely-used or approved options.

People getting back to work: Historic levels of unemployment claims have been announced the last two weeks, unfortunately, there are probably more painful weeks ahead. One of our main recession indicators is the health of the U.S. consumer, which has largely been decimated. This has impacted jobs, wages, ability to pay rent and mortgages, and of course consumer sentiment and spending. The U.S. consumer drives almost 70% of U.S. GDP, which will also see deep cuts in the second quarter. Clearly, it will take some time for the U.S. consumer to regain its strength. A likely fourth response bill will be needed to help.

Monetary response: The Fed reactions, although dramatic, were quite necessary in order to keep markets functioning and we have seen significant improvement in the Treasury and investment grade corporate bond markets. However, those actions will most likely be needed for some time.

Fiscal Response: Congress has enacted three coronavirus response bills, but most likely additional stimulus will be required. The current stimulus is hoping to bridge the economic gap created by the economic stoppage for a couple of months, but more may be needed to actually bring the economy back assuming we have passed the peak of new cases this spring. As many commentators have reflected, the response bills have been necessary but may not have been sufficient.

There is no magic level for any of these factors and they will not all give the OK sign at the same time. Monetary response occurred very quickly, and we've had significant fiscal stimulus, but we may need more. Markets tend to look to the future, that's how they're valued and priced. They tend to bottom when fear is high and the headlines are the worst, but there may be light at the end of the tunnel.

Financial plans are not developed to know whether the stock market will go higher or lower over the next few weeks or months. Looking back, I don't remember a single 2020 Economic Outlook that had pandemic listed as one of the potential risks. Financial plans are designed to help investors withstand the volatility of different environments. This is certainly a challenging time in so many ways, but we believe that clients' diversified portfolios can withstand these challenges and then participate in the eventual economic and market recovery by staying within their plan.

If you have further questions, please contact a member of your service team.

Disclosures: *This is a general discussion of current investment themes, asset classes, and specific investment segments. The discussion includes our opinions and forward looking thoughts and analysis as of April 5, 2020 and is not a guarantee of future investment results. Actual client portfolios are often customized and do not necessarily represent an exact replication of, if any, allocation discussed. This commentary focuses on a wide range of economics and finance issues in order to educate you on the linkages between these topics and their impact on the overall economy and investment markets. The content of this presentation represents the opinions of Homrich Berg regarding these educational topics and should not be interpreted as direct investment advice or marketing of HB services. Information included is from sources believed to be reliable, but which have not been independently verified. Investing involves risks including loss of principal. This document does not constitute legal, tax accounting or investment advice.*