Aaron: And at this time let's go ahead and begin today's event—The Fed: Ground Zero in Markets with Wilmington Trust Chief Investment Officer Tony Roth. Tony, I'll turn the phone over to you.

Tony Roth: Thank you very much, Aaron, and good day to all of our clients that are on the phone with us: M&T Bank, M&T Securities, and Wilmington Trust. Thank you for listening today. We are going to focus today—oh, let me start by welcoming Luke Tilley, our chief economist, and Meghan Shue, our head of investment strategy. Given the team today is essentially our economic and markets team, we are going to be focusing on the economy and the markets rather than on the nuances of the virus itself and the very tough aspects of the virus from a medical standpoint, although we will make some remarks around where we think we are as a trajectory of the process.

So, let me start by talking about, from an economics and market standpoint, there are three major exogenous forces that are acting on the economy and markets and that we don't typically see. One is the healthcare public policy actions that are being taken around the country and globally from a mitigation standpoint. Now, we're going to focus most of the conversation today on the idea of mitigation and what it means. So, the mitigations that are happening around the country that involve school closings, restaurants, potentially many things other than essential services in many areas, but not all areas yet of the country, it's having a very strong downward drag on economic activity. And you can think of it as a demand shock, essentially.

If you think back to where we were a month ago, and I've used in this metaphor in the past, we've essentially turned the fishbowl inside out. A month ago, the world was watching what was happening in China, and they were concerned about a supply-side shock that the Chinese being afflicted by the coronavirus, dealing with the tragedy that was consuming domestically, was not going to be able to provide the support to the world and supply chains to the world that we've become accustomed to. Now, the fishbowl has turned itself inside out. Not only is China now getting back on its feet quicker than we probably had thought, but we're also seeing the rest of the world now suffering the way China has suffered, and while we had been primarily concerned about a supply-side shock coming out of China, we are now worried about a demand-side shock pretty much around the world outside of China where we're seeing this mitigation result in a significant impairment to demand for all kinds of goods and services.

The other two major forces that are operating the other direction on the economy, unfortunately to much less effect than the mitigation, is fiscal stimulus and monetary stimulus. So I'm going to take a couple of minutes just to level set where we stand today from a monetary and fiscal stimulus standpoint, and then we're going to turn back to mitigation and spend most of our time today on the idea of mitigation and what it means for both the economy and for the trajectory of the virus. Referring to monetary for a moment, we did have what I would call a shock-and-awe experience from the Fed—Federal Reserve here in the U.S. on Sunday, followed up by additional activity yesterday and additional activity today from a monetary standpoint. Let me try to simplify for everybody what the monetary activity actually consists of and why it's important. There's two categories of objectives that the Fed is aiming at when it takes this monetary activity. One is this is liquidity. The Fed is trying to assure that businesses don't go under. They want to ensure that businesses that are having significant impairment to their cash flow due to this demand shock that we're seeing in the economy have access to capital and continue to finance themselves in some way, so that they continue to have costs even though the cash is not coming in, in the register.

So in order to accomplish that, the Fed essentially cut interest rates to zero, cut capital ratios for banks to zero, and enabled banks to access the discount window without any penalty, and then yesterday, encouraged all the major banks to say they're going directly to the discount window since historically there's been a taint associated with using the discount window. What all that means is that banks should be very encouraged to lend and lend at low rates to small businesses. So that's the first thing the Fed did.

The other that the Fed is trying to accomplish in all of this action it's taking is to assure the continual functioning of markets in a efficient way. And, in that regard, the Fed has announced a quantitative easing program where it's going to be buying around 700 billion in securities of treasury and mortgage-backed securities starting with 400 billion yesterday I believe the number was. And that 700 billion serves to keep liquidity, particularly in the treasury markets, where we're seeing stress as a result of concern over longer-term government bonds. And so that quantitative easing is critical to ensure that overall credit markets and treasury markets in particular continue to find a clearing price with relatively tight spreads for securities, and that seems to have worked reasonably well.

The other thing that happened today from the Fed, which again is in the second category of ensuring that markets continued to function well, is that the Fed has provided a facility for commercial paper so that companies that need to issue commercial paper in order to finance themselves—these are companies that are essentially issuing short-term bonds in order to raise cash, in order to pay their expenses that they can—in fact, access the markets directly from the Fed if they need to. And so, what they do is they pay the overnight swap rate plus 200 basis points, which is about 100 basis points more than it was in 2008 when we had the credit crisis. But, nonetheless it will help all those A1-/B1-rated companies, those less-highly rated companies access capital and then liquidity during this difficult period.

So essentially, when we look at what's happened from a monetary standpoint, the Fed has, for the most part, exhausted its ammunition at this point. Not only are rates down to zero, but capital ratios are zero, and from a market-functioning standpoint, the Fed has pretty much committed to whatever it needs to, to make sure that liquidity remains in bottom margins. So that's all very positive, but it doesn't create, in and of itself, a significant amount of demand, so in terms of the underlying problem, it's not a great medicine.

The other thing that's going on is on the fiscal side before we get to mitigation is, on the fiscal side, we have a 125 billion bill approximately that was passed through the House that aims primarily at what I think of as gap income, so people that have to go on sick leave for the virus or other forms of costs that people incur that are directly affected by the coronavirus. That bill is aimed at that. In addition to that, we have a bill that was announced today by the administration that they're going to the Senate with of around $850 billion of additional monies, 500 of which or so is a combination of payroll taxes and direct checks to taxpayers, 250 of which is small business loans and small business loan guarantees, and roughly $50 to $60 billion of which is to support the airline industry directly.

We don't know what size of fiscal package will actually make it through Congress and find its way to the president's desk, but it will be somewhere between 125 and 850, and we think that will be probably closer to 850 than 125. Most of the measures that are laid out here directly benefit taxpayers, and it's going to be hard, I think, for the Democrats to resist too strongly in this kind of environment with the kinds of solutions that are being proposed there. So that's also very positive for the economy, and when you put the fiscal and monetary measures together, they're certainly significant, but they don't come close to equaling the magnitude of the downsized weight on the economy that mitigation actually represents. So, let's talk a bit about mitigation here before I turn it over to you, Luke.

So, there's two kinds of essentially flattening that comes from mitigation. Mitigation is aimed at flattening the curve of viruses, and I'm sure you've all seen lots of graphics on TV that shows that if we can isolate and mitigate the trajectory of the virus, that it won't all hit at once and won't overburden the health care system, and indeed will actually allow the virus to start to die out, and we won't have as many total cases as well over time. But the other type of flattening that happens as a result of the mitigation is that the trajectory of economic activity also gets flattened because, when everybody stops engaging in normal daily business routines, there's a massive shock to most forms of demand. We know that there's a increase in demand for toilet paper, but other than that, there's a big shock to the economy when people stop going to movie theaters, and stop getting on airplanes, and stop buying gasoline for their cars, because they're no longer driving to work, and so on and so forth.

And so what we want to do is try to provide a framework for folks to just start to understand what these mitigants mean for the economy, and we've created a framework that looks at different levels of mitigation that we may find ourselves living with over different periods of time. And we don't know what the combination will end up being. We don't know if it will be severe mitigation for a long period of time or mild mitigation for a short period of time. But what we can do is we can look at these different mitigants and at different centers or timeframes, and we can try to understand what impact they're likely to have on the economy. And so, let me turn it over to you, Luke. You and your team have done I think a tremendous amount of work on this at a very detailed, bottoms-up level. It was very impressive. So, if you could just introduce us to the framework that you guys have created and what you're doing with it and how it works and what your conclusions are that would be awesome.

LUKE TILLEY: All right. Thank you, Tony, and good afternoon, everybody. Good morning for anybody on the West Coast, and thank you for joining us today. As Tony said, we've been grappling with sort of the unique nature of this crisis, as I'm sure you have seen on TV, and as Tony has explained, there are a lot of different parameters and a lot of different ways that this can go. And with all of that uncertainty, we don't profess to know the science of the virus. We're not epidemiologists, though we've talked to several, and we also don't necessarily know what the mitigation efforts that Tony described are going to be.

And we still, of course, need to build that framework that Tony referred to and do our best to examine whether this is going to be a short-lived hit to the economy, or is it going to be something that lasts much longer. And, of course, this hinges on some other questions, too, including the fiscal and monetary response that Tony spoke about. So, we brought up this slide here for anybody that is watching on the web, and this just describes the framework that we came up with. As Tony said, we wanted to do a bottoms-up analysis, so if you just think about you can either try to understand the economy from starting at the little individual pieces at the bottom and estimating impact and then adding them all together versus doing a macro level, looking at GDP, what has happened in previous experiences, and then estimating how much you need to push down basically.

We decided to do the former because of the nature of this, as Tony has said, with the mitigation, is affecting so many different parts of the economy in so many different ways. So here, and I'm not going to read through each one of these bullets in detail, but I just wanted to convey the way that we are looking at it. There's two major parts of the U.S. economy. We have consumer spending, which is about two-thirds of the economy, and we have CAPEX, and the nature of the crisis clearly, as we know already, is that it is going to hit certain parts of consumer spending in a significant way and immediately, things like as we list in the second bullet here, restaurants and movie theaters, but also some other components to spending are not going to be affected nearly as much like household utilities.

And there are some items that we think will actually see some increased spending like streaming video, like ordering groceries from home. I saw a note last night, a news report that Amazon is going to hire 100,000 new people because obviously they are seeing a surge in the number of orders. So on the consumer spending front, we really wanted to dig in and look at some of the detailed line items within consumer spending in the U.S. economy, and as you'll see, that's what we've done there and done our best to sort of handicap the possible impacts at different levels of mitigation and for different periods, as Tony said.

We also know that CAPEX is likely to take a hit here, not just because of the virus, which we've talked extensively about, but we also know that a little over a week ago, Saudi Arabia took an action as they were arguing within OPEC and with Russia about the allotments of—and the total amount of—oil to be produced, and they have hit the oil sector. And anybody who was on a call with us last week knows that we believe that that is going to hit the economy and hit CAPEX, too. So, in this bottoms-up analysis, we provide different scenarios that includes both that impact from the energy sector, but then also tried to estimate how firms would react to longer and longer containment—I'm sorry—mitigation strategies and for varying periods of time. Obviously, it's challenging to have everybody working from home and follow through on CAPEX plans and obviously the uncertainty of it.

And then also we are quite conscious that the longer that any kind of cut-back in activity goes on that there are going to be some employment—some job impacts. And we also looked at that in very detailed fashion. There are 14 main employment sectors, and we know that—I'll say the obvious ones: leisure and hospitality, that restaurant jobs and hotel jobs—are likely already suffering and likely to continue suffering. And it will be less so for others, people that—companies that are able to have their workers working from home. So that's just sort of a brief overview and a description of the way that we decided to approach this, and for anybody on the web, I'm now going to bring up a slide that gives a summary of some of our scenario analysis.

Tony Roth: And conclusions essentially.

Luke Tilley: Yes.

Tony Roth: From these scenarios.

Luke Tilley: And the conclusions from these scenarios. So, this is what Tony described, and we basically have decided to set up different levels: level one, two, and three in terms of the mitigation effort, and basically the geographical dispersion of that. If you can read the notes that are sort of in the bottom there, level one would be the current level of mitigation, but it's varying for different regions of the country. We know that some states, including in Pennsylvania where we're sitting right now, the Eastern part, the counties have closed down and asked that all restaurants and bars to close, certainly gyms and hotels, theaters, all types of establishments. ut that's not the same experience that is widespread across the country, at least not yet. So that's sort of level one, and then of course we go out 30 days, 90 days, and 180 days.

Level two would be those same mitigation efforts, like the ones that I just described, where we have a pretty significant amount of mitigation going on, but that it's also enacted nationwide basically, all 50 states experiencing that kind of mitigation. You're still able to engage in some economic activity, being able to order things from Amazon, being able to go outside. There are still a lot of grocery stores open, and you're still able to move around, a lot of people working from home.

And then level three is the strongest containment measures are enacted nationwide, and this is a bigger jump from level two to level three than it is from level one to level two, and this is where we get the strongest mitigation efforts, which is much more challenging for the economy as we'll see when we look at the results here.

Tony Roth: Luke, would that be more comparable to what Italy is going perhaps, level three?

Luke Tilley: Yes. So, bringing up a good point there, Tony, comparable to what Italy is doing now, and we know that China engaged in this in a fairly strict, authoritarian way. Italy is doing it now in a less sort of stringent, less penalized way, but that's a good way to phrase it, Tony, for level three.

So, as you can see, what we're doing here is bringing out – and we do this on a quarterly basis. We do have the quarterly numbers. These are the summaries for the full year, 2020, and this is in terms of real GDP. And, as you might suspect, and you start in the top left, and you have the current level of mitigation that goes on for 30 days. And we have a non—we do not have a hit in the GDP. I am remiss and—to—that we did not put a note on these slides, and this is very important for the point that Tony was making. We are assuming some level of federal fiscal effort here, that some type of bill will get passed. I think Tony said it well, saying it will probably be between 125 billion and 850 billion. What we have plugged in using this framework for this particular set of numbers is $500 billion package, which of course is not everything that the administration is currently asking for, but significantly more than what is sort of already passed by the House and sort of established that 125 or so.

So that is included here, and I'm not going to go through each of the numbers, but I'll characterize them here to just sort of scratch some of the framework, and you can see our way of thinking about it because, as Tony said, we don't know either the length of the virus as we head into the warmer months or how the containment strategies are going to work. And we also don't know how stringent those mitigation strategies will be. But as you might have expected, when we move from the top left of this grid if you will and moving to the bottom right, you get very differential impacts in terms of the economic experience.

I would say that given today, given the way that the virus is spreading, given some of the comments from the president, and his CDC members, and other scientists, that we are more likely moving towards a level two. That is something that can be debated, but that is where we would look at in the 30 and 90 days, somewhere close to flat GDP over a 30-day timeframe, slightly positive. It would not be positive were it not for the $500 billion in federal stimulus. That one would be negative, level two, 30 days. You can see that level two for 90 days does move us into negative territory, and obviously as you move out to the 180 days, it's sharply negative.

Tony Roth: I think it's important to note, if I can apologize for interrupting, that we don't want to scare people by even having a 180-day column on this chart, but the president has talked about possibly July or August, which is around six months, and that's why we felt it was important to show that option. Is that fair?

Luke Tilley: That's fair, and I think that that's an excellent thing to point out, because we don't want to be – put the wrong number out like the one in the bottom right here, 6.1% decline in GDP and scaring people. What we're doing, as Tony said, is a scenario analysis here. We don't expect, currently, that we would be in a full nationwide lockdown for six months, but you can see where the impacts would be significant. To scale this in your mind, if you go back to a little more than 10 years ago, the great financial crisis, the biggest decline in real GDP at that time, so if we took the number from our historical experience, put it in this table, it was -3.9% for the great financial crisis, all of the problems that Tony described, the seizing up of the credit markets, would have you at a deeper impact than most of the numbers we have on here except for the bottom right.

And then also, Tony, I think you make a good point and just say that we're not—we don't want people to be scared off by the numbers, especially if your eyes tend to go to the bottom right. The stimulus package that's being—it was sort of announced this morning—that Treasurer Secretary Mnuchin is looking for, $850 billion, would materially push these numbers upwards, and we know that in 2009 the—it's called the ARRA, American Recovery and Reinvestment Act or the Obama Stimulus Package, that was about $800 billion roughly, split across tax breaks and spending, and both sides of the aisle when they recognized the crisis at that time were able to agree on that. So, if you wanted to think of the proposal from the administration this morning as something that would be more likely to happen, then you would automatically start plugging in those larger numbers, and these impacts would not be as severe.

So I'm conscious of not taking too much time, but I do want to move just to the next slide because Tony mentioned that we are doing this from a bottoms-up analysis, and we just think that it's really important to understand as we speak to clients, and as we speak to businesses, and try to give people an idea of the way that the economy might be affected, we do go into very great detail here. This is just an example of the consumer spending side of the analysis on the far left-hand side. I actually had, just to fit it on the slide here, shrink some of the 36 total items. But as you can imagine, consumer spending is of great importance here. And, as I mentioned, there are some things that you think that we know are going to be hit fairly significantly.

Near the bottom, up fourth one from the bottom, food services and accommodations, that is, restaurants and bars, about 7% of consumer spending, and that is obviously going to take a massive hit here as people are basically quarantined and we ask more and more states to close their food services and accommodations. As we've gone through this, I mentioned, I think, video streaming and rental. If you move up, up into the non-durable goods area, food and purchases for home, I can say that – with a fair amount of certainty that more people bought food and beverages for their home this past week in anticipation of not being able to go out, and that's actually a little bit of a boost there.

So, I won't get into the details of how every single one of these things was modeled and what the different percentages were, but this is our framework, as Tony said. And then just to dig into an example, and I think this is really important as we think about the market impacts of this, when we think about what's going to happen with equity markets, what's going to happen with interest rates, how people are going to react, it's not just the overall annual GDP figures on the previous slide, but what's the dynamic going to be? So, for example, level two, 90-day, the 90-day, coming at the -0.6% there, that's the number from the center of the previous slide. That's a sharp contraction in quarter two spending as you might imagine. This is -14%. That's sort of a very large number to be thinking about.

As Tony said, we were on the outside of the fishbowl looking in at China. And, actually, now we're starting to get some of the numbers from what happened in China as they experienced this as they were several weeks ahead of us, just releasing their retail sales for the month of February, and they were down about 20% year over year, which is obviously a massive number, but you would expect a little bit of a boost there. They saw auto sales decline by 37% year over year. Now, importantly, that is a big hit in the second quarter, but you would get the bounce in spending depending on the timeframe that we're thinking about, 30 days, 90 days, or 180 days. And you get a sharp bounce in spending for the second half of the year as you sort of emerge from those quarantines.

Investment does have a pretty sharp decline in this particular scenario, 6% during the year, a little bit—that's actually less than we saw during the financial crisis, but returns to positive in the second half of the year, similar to consumer spending. And then that very important government stimulus variable that we don't know what the total number is going to be, as I said. For this particular analysis we plugged in the 500 billion. It very well could be larger if both sides of the aisle recognize the scale of the crisis.

So, Tony, I'll turn it back over to you and just say that we don't know the level of containment and mitigation measures that are going to be taken, but with this framework we think we're in a good place to understand it. And it's very important to sort of be incorporating what those measures are because that will be the difference between what the markets have priced in so far and what the outlook will be going forward on a day-to-day basis.

Tony Roth: Luke, so thanks for that, great work. I think it's important also, for our routine listeners, to set the baseline here that we're going to be using this framework going forward, and so, as we move forward each week, each month, etc., we will be refining this, not only the assessment of how these different levels of mitigation and timeframes will impact the different industry groups or the economy, but also which level of mitigation and which timeframe we may need to focus in on because it may be more accurate than some of the other ones.

So, everyone just please keep in mind that we're going to be using this framework. You may see more permutations, and we'll provide additional detail around the underlying fundamentals of each box as we move forward, and we think that different boxes are more likely to be the ones that we land in versus others. Now, in terms of which box we end up in, we are, of course, hopeful that we end up in the upper left. I think that for purposes of figuring out markets, we're going to assume we end up somewhere in the middle of this chart.

And, I will say that we have some level of optimism now in a few different areas that it's very early on, but we're starting to get a bit of visibility into the potential seasonality of the virus, and we are starting to see a number of very well-reasoned and disciplined academic studies from physicians that are suggesting that this will, in fact, have some degree of seasonality to it given how it's spreading in the world so far. So that's a positive if it turns out to be true.

We're also starting to see on the medicine front, in both the therapeutic and the vaccination arenas, that companies are moving faster than we had thought they might. So we're seeing a therapeutic that is potentially going to be ready by the summertime that would be a monthly shot that would cover both, potentially, therapy for those that get the vaccine and provide a level of vaccination for those that have not had the vaccine and have no antibodies against it yet. Now that would not be able to be produced in a volume that would be able to take care of everybody in the world, much less everybody in the country, but it would be able to be produced in a volume where most of the first responders, we think, might be able to be—benefit from that.

And then, of course, on the vaccine front, we've already seen that the Moderna vaccine is now in human clinical trials starting yesterday in Seattle, Washington—40 patients or so. We still don't think we'll get a vaccine before this time next year, or thereabouts, but given the early success that companies are reporting in their efforts in developing a vaccine, we are fairly optimistic, if not confident, that we will end up with a vaccine here. This won't be a situation like HIV, or malaria, or whatnot, where there are viruses that we haven't been able to come up with a vaccine.

So, pivoting to markets, Meghan, when we think about what's going on in markets, and assuming now we're somewhere in the middle of that chart, and when we think about equity sentiment, we're seeing a mix. We're seeing a few indicators to suggest that equity sentiment has really fallen off the cliff when you look at the amount of puts in the market versus calls, but you're also seeing, with the way investors are actually positioning their portfolios, the more day-to-day investors if you will, they're still not capitulated. They're still really holding pat with their investments.

And then when we look at credit markets, we look at things like credit spreads and downgrades to ratings, we're seeing that we're starting to approach, on credit spreads, what I would describe as recessionary levels with investment-grade trading at about 250 or so above Treasuries and high yields starting to really widen out significantly, especially, of course, in the energy and the retail segments. But we're not seeing all that many downgrades yet. We're starting to see some downgrades, and I certainly wouldn't describe the overall profile of the credit states as being in crisis mode. I would say that it's headed towards a recessionary mode, but not certainly capitulation or at bottom. So, Meghan, when you think about the dynamics of the markets, what do you need to see to feel that we are in the process of forming a real bottom specifically around the equity market?

Meghan Shue: Yeah. That's a great question. That is the key question in my mind. And if you're looking at slide seven on the webcast, here we're showing, just to put into perspective what we've experienced over the last few days as a correction in the U.S. large-cap equity market. So, the Y axis here is the percent drawn-down, so the drop that we've seen from the peak to trough in the current sell-off, which is shown in the orange circle, as well as all historical declines of 20% or more. And then on the X axis, we're showing the time that it took to get there. We don't know if we bottomed yet, so we don't know where the orange line will ultimately—orange circle will ultimately end up.

But what you see if you look over to the gray circle, that is the median decline and the median duration from peak to trough that we've experienced historically. So you can see that at about 30% that we've fallen as of close of markets yesterday. That is right at the median decline that we've experienced in historical bear markets. The main difference is that we have done that in just 18 days, which is the fastest decline of that size on record. So this is one reason why we think we probably have not found the bottom, and if we have, it's probably going to take us a little while to get to a point of a sustained rally, because it has just happened so quickly, and we know that a big component of the current situation, and this pandemic, is time, needing time in order to get this under control.

And so, I would just point out four things that we are watching for as conditions for a sustained rally, and the first one is the reduction in the net new daily cases. That's that so-called flattening the curve, which Tony, as you articulated, is going to be a function of our health care response, our medical and pharmaceutical innovation, our societal response, and, potentially, seasonality.

The second condition would be a sufficient fiscal response. It looks like we are getting there in terms of having a sufficient fiscal response to handle this. Monetary policy—we've already had quite a few big measures taken by the Federal Reserve to try to act quickly and swiftly and early in this process. And so, at this point, the hand-off is definitely to the fiscal response.

The third thing that we would be looking for is sufficiently oversold conditions. And, Tony, as you pointed out, there are some measures that we're seeing, but not all of them; also looking at things like equity market valuations. We've come down quite a bit from where we were, so the S&P 500 is trading at a price-to-earnings multiple of about 13 and a half times next 12 months' earnings. That is coming—that is a meaningful decline from the roughly 19 times that we came into this year. We're at below-average levels, but still not where we were during prior crises. Just, for an example, during 2011, the S&P 500 traded at about 11 times earnings. Now, I would argue that lower interest rates would support a slightly higher multiple, but we don't know that we're there in terms of that oversold condition that we would like to see.

Tony Roth: And I would just add, Meghan, on that point that I'm less concerned around the multiple arguments, if you will, because earnings are going to start to come down for a lot of companies in the S&P in the second quarter pretty acutely, and that's going to take multiples back up in a sense. And they're also going to rebound very quickly once we get through this crisis. This is not the kind of crisis that we think is going to extend for years. We think that a year from now this is going to be very largely behind us, and we'll be back at the run rate of—the trend rate of the economy if you will. So, given that the shocked earnings in the—that fraction—is so quick but will rebound so quick, I'm a little less concerned about that metric than a lot of the other things we talked about.

Meghan Shue: That's a great point. Also kind of in there in terms of what we would be looking for would be an increase in oil prices; haven't talked that much about the oil market, but that is—with oil trading below $30 a barrel, the vast majority of oil plays in the U.S. are severely unprofitable, and so that's kind of put stress on the markets. And then the last thing would be some—actually some worse economic data out of the US. We know the economic data is going to be bad. We have not gotten that yet. It is quite likely that when that bad economic data starts to come in, the market will potentially trade off of it for a second time essentially. And so those are kind of the things that we're looking for, for a rally.

Tony Roth: So, our view, just for everybody's benefit, is that we're down around 30% let's call it, maybe a little bit less down than that given the rally today. We could see ourselves down 35%. We could see ourselves down 40%. We don't think that this is the kind of scenario where we're down more than 50%, and we would be surprised frankly to see us down 50%. It wouldn't shock us, but it would surprise us. So we're pretty close to the bottom, and so with that, Meghan, this is not necessarily a time, even though we encourage long-term investors to be patient, not to panic, to stay the course, it doesn't mean you shouldn't be doing anything. There's a lot that people can and should be doing right now. What are your thoughts around that?

Meghan Shue: So one thing you can be doing is looking to rebalance your portfolio, which is something our advisors work with on a—in many cases—an individual basis, but if you have, say, a 60% stock/40% bond portfolio right now, given the sharp moves and the sharp decline in equity markets, you're probably anywhere from 5 to 7% off of that target. So, we would rebound back to target so you kind of stay in your lane and the risk profile that is—that's suited for your long-term goals.

The second thing you can do is tax-loss harvest, which essentially just means capturing some of those losses to offset gains that you had either—are either going to come into or have experience recently to try to offset that tax burden. And then the third thing is putting new money to work for clients or individuals who have an excess amount of cash for whatever reason, maybe a liquidity event or some other reason. We would be looking to get that back to work into the market at these more attractive levels. Don't put it all in on one day. Create a plan. But, at this point, with the market down 30%, we would say that if you were typically looking to invest new money over a three-to-four-month time horizon, you might be able to accelerate that a little bit now because we have had such a dramatic drawn-down in the market.

Tony Roth: Thanks, Meghan. So last question for you before we get to questions from our listeners. We're a little short on time here, but a lot of folks are asking us, gee, should I be buying the airline stocks right now, especially if they're going to get bailed out? Should I be buying the entertainment companies, like the movie theaters, like Regal and AMC, and so on, and so forth? Should I be swooping in and finding great opportunities? What's your answer to that, those kind of questions?

Meghan Shue: So, I would point out two interesting sets of opportunities, one in the equities market and one in the fixed income market right now. On the equities side, we are not necessarily leaning hard into those really beaten-down sectors like airlines, restaurants, cruise lines that are down 50 to 80% from this year's highs. Instead, we're looking to take this opportunity to upgrade the portfolio, maybe sell some things that we weren't as excited about, upgrade to higher-quality companies that are now offering significant value.

At the sector level, we're finding opportunities in consumer-focused names. Some, actually, with exposure to China, because we are starting to see some improvement in the Chinese economic data, some opportunities in health care, which can be a more defensive area of the equity market, as well as technology, which people who have been talking with us for a while know how we are looking at this multi-year shift towards technology. We think this could represent a brief interruption in what is, overall, a very positive sectoral trend.

And then within fixed income what’s interesting is that we are seeing some opportunities in a part of the market that you may not expect in this type of a sell-off. There’s been a great deal of volatility in the municipal bond market, and we are finding some opportunities in municipal bonds that are actually backed by Treasuries and the full faith of the government essentially. And, typically, what we looked at is municipal bonds that yield—we typically look at municipal bonds yielding less than a U.S. Treasury, because if you have that tax benefit. And so, in a typical market like when we came into this year, we were looking at municipal bonds that were yielding about two-thirds of a U.S.Treasury, and today they are at 300% of the U.S. Treasury. So, essentially, you’re getting much more yield and still that safety backing of a municipal bond, so we’re finding some interesting opportunities there. Again…

Tony Roth: And the tax benefits.

Meghan Shue: And the tax benefit. And the reason for this is that, while this normally a very safe area of the market, you would expect it to do well, we are seeing municipal bonds sell off because of two reasons. One is concern about municipalities and how they’re going to hand this crisis, and then the other one is just with the very rapid flows in portfolios and institutions that need to rebalance, or they need to create liquidity to cover other positions. They’re selling the highest-quality, most-liquid securities, so it’s creating opportunities in municipal bonds.

Tony Roth: Great. So that is our—those are our prepared remarks. Thank you so much, Meghan. And what I’d like to do now is ask the operator to open up to questions for those that are on the line, whether it be through the internet channel or through the telephone channel. And I’m also going to turn it over to Luke to moderate the Q&A since we are all here in a very large conference room in Radnor, and we are all very fastidiously observing the six-foot rule in social distancing, and Luke has the computer that tells us the questions as they come in. So, operator, if you could please provide the instructions again for any questions, and Luke, turn it over to you.

Operator: All right, so as a reminder, to ask a question, you will need to press *1 on your telephone. To resolve your questions, press the # key. Again, that is *1 on your telephone. Please stand by while we compile the Q&A roster.

Luke Tilley: All right, thank you, operator. This is Luke again, and as Tony said, I am working the Q&A coming in on the laptop, and this is a first for me, so I apologize. It's because we all have to sit about six feet away from one another, so this would be, I think, to Tony or Meghan. There are multiple questions coming in, which we sort of addressed in a specific way, but very specific to what to do with your account in this kind of environment. There are some who are saying that they are in retirement and should they be making any changes to their allocations right now, and then also some other questions, which Meghan has addressed in some way, which is, should I be increasing my cash position? Should I be dollar averaging back into the market? So perhaps, Tony or Meghan, just sort of address what we're recommending in terms of the market right now and how we try to address the daily market movements and the way we watch out for that.

Tony Roth: So, let me take a first crack at that if I could. I actually had a cousin of mine who's a college professor, email me last night and asked me that exact question. And he said basically I have 80% invested in a diversified portfolio, and then I have separately about 20% of my assets within my retirement account in cash. And what I wrote back to him was that this is—he asked me should I get out. But I said absolutely not. If anything, you should get more into the risky asset side of the equation, and the first way you do that is you rebalance your portfolio, as Meghan very finely articulated for us. And the second thing, is that additional cash that you have, if that additional cash has accumulated and you never really had a chance to put it to work, which was the case, this is a good time to start to put it to work.

I wouldn't put it all to work in one day, and I recommended that he put a third of it to work now at this time and continue to watch the markets carefully. Certainly, again, it's our view that when we look back at where we are a year from now, we believe the markets will be meaningfully higher than they are today. That's irrespective of the outcome of the political process, and this is a buying opportunity. It's very difficult to call the bottom, so we would say get to work and start putting money into diversified equities immediately, but not all at once. Meghan, I don't know if you have anything to add to that.

Meghan Shue: I think that was well said. I don't have too much. We can look at the speed of the drop and kind of what we're expecting in terms of the economic response. And, and again we don't see this as a—likely a crisis scenario, so under those circumstances you would expect equities to recover over a six-to-18-month timeframe. That's a pretty wide range, but I think it's reasonable. And so as long as you had done the – hopefully had done the homework ahead of time, used whether it's our Paragon kind of stress test software or whatever framework to come up with your long-term risk profile. Then I would say the most important thing to do is, like Tony said, don't sell and think about deploying any excess cash at these more attractive valuations.

Luke Tilley: All right, so thank you for that. I will say we have a lot of questions coming in. I know we will not be able to get to all of them. The ones that we don't get to we will touch base with you because we will have a record of them. There are a lot for me. I'm not going to hog them all, but I will address this one, which I think is important. And it's about mortgage rates and whether they're expected to fall. Would somebody be looking to refinance? And I think that that's really an important question. There's sort of this interplay between what goes on with interest rates in the market, but then also the fears and the levels of risk.

So if you just think—I don't know what type of mortgage rate in terms of the term the questioner is asking about, but if you just look at a 30-year fixed-rate mortgage, those rates tend to move with the 10-year Treasury yield, and of course that has been falling for a very long time, and the mortgage rates have been falling with it. It's actually provided a good boost to the economy. Until we hit this past couple of weeks, where all of a sudden there was a certain amount of risk in the market, so there's a spread where mortgages are more expensive than the yield on the 10-year Treasury, and that just reflects the risk of the mortgage. And as it looked like investors were perceiving a lot of risk, and the market risk in the economy over the past several days, that spread widened out when we look at assets and mortgage-backed securities that are in this market.

So, it comes back to something that Tony was mentioning. In all the Fed's actions, what they did on Sunday afternoon/evening/night, one of their announcements is that they would be buying $200 billion worth of mortgage-backed securities over the next several months, and that is specifically because they saw that market seeing some disruption, and they thought that would be disruptive, much like it was the previous time around. Obviously, the housing sector is not in the same state that it was, and we wouldn't necessarily recommend—make the recommendation on—whether you should refinance or not, but we do recognize that the Fed is taking those actions in order to try to stop mortgage rates from rising too quickly. And, in the more general sense, their actions are designed—they're designed—to keep the economy going, not just in the mortgage market but also generally for others.

So, Tony, there's a question here about China and about – obviously you talked about how they bent the curve down, and now they're sort of reopening their economy. There's an attendee who is asking about whether we should even trust that their number of cases is not rising and sort of what we think about—and I would play that into sort of re-infection, and how that might affect basically the severity of the disease and the outlook.

Tony Roth: There's two questions that I'm perceiving embedded in that, Luke, and certainly we have—we know that the Chinese are not transparent with what's going on in the country in this and that they do manipulate their information. However, in this particular case, we also know that they had 12 field hospitals that had been set up in the Wuhan—in the Hubei province, and they've all been closed. And, we actually have anecdotal information from people that are in Hubei that say they're all getting back to life as they know it. And so, to the extent that there are infection rates that are higher than are being reported, which is probably certainly true to some degree within this big epicenter of Hubei province in Wuhan, not dramatically so at all.

We feel pretty confident now in the general direction of what China is telling us. That's the answer to the first part of the question around the credibility of China's information. Now, having said that, we do worry very much, and it will be an interesting model for the rest of the world to see what happens as China reopens its economy to see whether there's another wave of infection, because one of the things that we think about even here domestically is that we can flatten the curve through the mitigations that are being taken.

And, even just now, while we were sitting here, there was a news org that came across that said Mayor de Blasio is telling New Yorkers to be ready for an order to "shelter in place," which, if that is like what happened in San Francisco, you have to stay home unless you're going to get groceries or going to the pharmacy or getting gas or something of that nature. And so, we expect that we're going to go through a period here in the U.S., and we are going to flatten this curve, and then the question is going to be, and we're going to hear a lot of conversation about it at some point in the near future: When is it safe to start our society again? When is it safe for us to retake economic activity? In a way, the fact that China is ahead of the curve is going to be a lesson for us and a model for us to learn from, because the Chinese are restarting, and we don't know the degree to which—they probably don't have herd immunity, but they're going to have—a meaningful portion of their society has had it and will have immunity to some degree, and we'll have to see whether there's another wave.

And we're going to be grappling with the exact same question without knowing an answer probably in some number of weeks from now when we'll have seen a very significant flattening of the curve, and we're just not going to be sure whether it's safe to go back to a regular activity or to what degree it is safe. That's the best answer I can give to that one.

Luke Tilley: Excellent, Tony. So, we have lots of questions, as I said, on the web, but we also opened the phone lines. Chino, can you tell us if there are questions on the phone?

Chino We actually don't have any questions over the phone. You may continue.

Luke Tilley: Fantastic. I'm going to combine two questions here. Somebody was asking, just specifically, and for anybody on the web I've gone back to the table, the sort of grid of what is shown here. And somebody was asking the question, just what exactly is shown in these numbers? And I interpret that as saying, what is in the numbers? These are our projections for U.S. economic growth under these various scenarios; under the different levels of mitigation, sort of high, medium, and very high. I'm sorry, low, medium, and very high mitigation, and then also over a period of time. And I'm combining that with another question, which I'm going to send over to Meghan which is: What do you think the market is pricing in right now in terms of which of these scenarios?

And then I'll also just caveat that with something I mentioned when going through this that important is sort of like a quarterly dynamic. These numbers are showing what happens in 2020, but important to recognize that a big hit could come in the second quarter and then sort of a bounce in the second half of the year, so it's not just these numbers, but these are very instructive I think. Meghan?

Meghan Shue: So it's really difficult to know with certainly what the market is pricing in at any given time. But I would say in my estimation based on what we've seen from earnings estimates being reduced, the drawn-down in the market so far, some of the measures of volatility, I would say that the market is probably pricing in sort of—I'm drawing a triangle on the grid that we were showing with the calendar year 2020 real GDP—probably either a level one for 90 days, level two for 30 to 90 days, somewhere in that range, so definitely a recessionary scenario, a very sharp contraction, but probably a bounce-back in relatively short order and nothing consistent with what we would see in terms of a financial crisis, which is where I would put the numbers in the far right of the grid.

Tony Roth: And one of the things that I find really interesting about the work that the economic team has done is that if you look at the level three, and you look at a short period of time with a very deep mitigant, assuming that—to the question that the earlier listener had asked, assuming that we can then restart much more quickly, it's actually much less of a hit to the economy than a much longer—and to the markets—than a much longer mitigation even if it's a less-severe mitigation. So, there is an asymmetry between the degree of mitigation and the time where we'd be better off if we did a very severe mitigation for a short period of time than a more mild mitigation for an extended period of time. And certainly, the markets would much prefer to get through this as quickly as it could so it could see the light at the end of the tunnel.

Now, while we were—while you were answering that question, Meghan, I actually received a question on my cell phone from a client, which is a great question. And this is a client that's in this region, in the main line, that owns a luxury car company, and the question was: How should I think about my company in this situation, and what does the future look like from a demand-shock standpoint? And what we've seen, interestingly, in other scenarios, is that luxury goods tend to bounce back faster than a lot of other kinds of goods, because wealthy people get back on their feet much more quickly, and in fact, many of them are never off their feet.

They're not going to spend. They're not going to be conspicuous with their consumption during a crisis like this, but as soon as it passes, the pent-up demand can come back very quickly, and so we're actually more optimistic for those kinds of businesses where it's more of a discretionary spend than for smaller businesses where it may be less of a discretionary spend than if it's a non-luxury business, or an automobile, or whether it's an airline that loses a seat mile and never gets that seat mile back, and so on and so forth. In the luxury category, most of those luxury items are just deferred. They're not foregone. So, I hope that answers that question.

Luke Tilley: Excellent. Tony, we have another question here, and it's about portfolios. What mitigating steps have you taken to protect the value of the clients' portfolios? It's specific to since Trump announced the travel ban against China, but it might also be an opportunity to talk about the steps that we've taken over a broader horizon, maybe even into sort of late last year, in the way that we've been approaching this.

Tony Roth: Well, maybe Meghan I'll actually—I'll let you answer that one because you're our strategist here, and we've taken a number of measures de-risking but also repositioning our portfolio construction to be a bit more defensive.

Meghan Shue: Absolutely. So, a few weeks ago actually, we took our equity positioning from an overweight to an underweight, and that was a pretty big move. It was the first time we'd gone underweight equities versus our strategic benchmark, Tony, since you have been at the helm. And, in that same—at that same—time, we added to fixed income. We added to cash. We'd been holding elevated levels to—elevated positioning levels to hedge funds, which can be a mitigating asset class during these types of periods. They aim to kind of protect on the downside, and so those were kind of the main measures. We've been—importantly, we have made the concerted decision to not trade around this particular market event, because we have seen historic levels of volatility, and we feel, at this point, that it is safer to—it's often the hardest thing to do, but to do—to kind of sit on your hands and not make changes in portfolios that could end up locking in losses or doing damage to the portfolio. As I mentioned earlier, we've taken this opportunity to kind of upgrade the portfolio and get into higher-quality names within equities and some of our other strategies, and across different factors we have been for a while now, holding a diversified exposure to those more gross-oriented stocks, so those stocks that generate their own growth. Think technology or even some of the FANGs fall into that category. Those have held up reasonably well, relatively well I should say, versus other securities, even though they were trading at elevated valuations. But we also thought it was important to remain diversified, have some exposure to value in case this is short lived, and we get a snapback, have some exposure to what we call minimum volatility or volatility dampening strategies. And so, in that sense, I guess what I'm saying is that being diversified has been, in our view, one of the best approaches during this market.

Tony Roth: The other thing I'll say, Meghan, and I'm going to say this twice because I think it's so important, which is that we can't over-emphasize the importance of rebalancing, and I'm going to say it in a way that I hope it's going to really resonate with people, which is that if, in fact, the market was trading at 100 and we had a drawn-down and we went down to, let's say 60, and you rebalanced and then the market went back to 100, you would be better off, you would have more money, than if the market had stayed at 100 the whole time and you never actually went through that experience. Because you're going to buy more shares when the market is down at 60, and then you'll get back to where you were, you'll have actually made money.

So, as painful as it may seem to folks now when you're looking at your retirement accounts, and you're looking at your portfolios and your personal account and your RMA, your net worth, etc. If you take this opportunity to rebalance and we end up right back where we started, which is what we expect will happen at some point, you will be wealthier than if this had never happened in the first place. So, a bit of a silver lining here, but it just shows you how critical it is to rebalance right now, and when you look back at this and you'll say, gee, this turned out pretty good for me from a financial standpoint.

Luke Tilley: All right, Tony. So, I realized, to all of our listeners and attendees that we are going over time a little bit, so we are going to take one more question, and I'm going to combine two and pose them to Tony. Then all of the questions that have come in electronically, we will address directly to you, and I think I'm going to combine two of them, Tony, and I think it's pretty interesting because it's sort of taking that longer view as we get through this. As I think you said, we inevitably will, and it's sort of—it's a combination of two things.

What does the world look like when we get past this? And this is a little bit for me, but I'm tossing it to you. What is our economy going to look like after this, after we get past the virus and the oil crisis? But also combining that with another question of, how are businesses going to be acting? Do we think that they're going to change their behavior and keep more liquidity on hand? And I think it's more of a broader question of light at the end of the tunnel, and what do we think is on the other side, and how does that shape what we're doing?

Tony Roth: Great closing question, and I'll give you guys a crack at it as well, but I think that we always learn from these crises. For example, we look at the health of the financial industry, and we learned as a society that we needed to have much more regulation on the financial industry, and our banks are far stronger today than they were even 10 years ago. I think that people will realize from a supply chain standpoint whether it be the big boys like the Apples or the small companies that supply chain flexibility is vital, that there are tremendous risks to supply chain impairment, whether it be something like this, whether it be something that is more of a cheap political event like a war, or whether it be something that's more of a political economic event like a tariff scenario.

I think that people are going to want to—I think one of the biggest lessons, Luke, is that people are going to be much more careful with their supply chains, and you'll see five years from now even the big companies like Apple will be much more diversified from a supply chain standpoint. So, I think that those are some of the biggest changes. Then I think from a public policy standpoint and public policy health care specifically, I think that we're going to realize that we need to have a lot more flexibility in the way our health care system is designed and deployed.

I think that we're going to find that the Armageddon, if you will, of people working from home is not in all cases an Armageddon. I think that we'll find that some people are actually more productive working from home, and we'll see some of those kinds of arrangements put in place on a more permanent basis. And, in fact, had this happened even five years ago, I think the impairment to the productivity of American companies would be much more severe than it is today given just how broad the bands are in cable connectivity, VPN, all those kinds of things. So, I think that there are—but ultimately, Luke—I think that the economy is going to get back on its feet quickly. I agree with the president. I think the economy is going to get back on its feet quickly and that we're going to get back to our long-term trend line for economic growth. And then we'll be dealing with the same kinds of issues we talked about in our Capital Market Forecast around the challenges of tariffs.

If, in fact, we have a second term with our current president and he goes for another round of tariffs, we'll be dealing with the challenges around our labor market, maybe not having enough labor at some point; productivity, leading us forward to new heights in our economy; and then ultimately the federal deficit, which we're only going to be getting to as a result of this crisis. But, I see all those dynamics as dynamics that are manageable, and that we'll manage through our normal process, and that this will not break the back of American businesses, American people, or our economy in any way.

Luke Tilley: I wouldn't have changed anything that you said. The supply chain is incredibly important, and businesses need to manage those risks as much as they need to manage their costs. So, the supply chain is incredibly important. I don't really have anything to add to that, but I think Meghan does.

Meghan Shue: Just one more quick comment. Again, I agree with everything Tony and Luke said. We will, assuming this is relatively short lived, assuming we do not have a crisis-level increase in unemployment, we will likely be looking at a consumer very well positioned once we do bounce back. Consumers have been looking at multi-decade, high levels of savings rate. They will be likely looking at low interest rates for a long time to get some savings from the lower oil prices, and then, on the back of that, really a global monetary and fiscal policy stimulus that sets us up well assuming we can get through this and enter the back half of the year in the clear.

Tony Roth: Okay. Well, I want to thank everybody for joining today, and we will continue to have these calls as is warranted, which I'm sure will continue to be warranted, and we will—I'll give everybody a preview that we are working hard to find some experts that specialize specifically in the area of vaccinations for infectious diseases so that as we move forward and we try to figure out which box we're going to land in, and we figure out the longer-term trajectory, we can start thinking about where we are in the process, and we can start providing some more education to our listeners around, some myth and some reality in terms of the vaccination process and where we're going, as so many companies around the world are working on that particular effort right now. So, thank you all for listening today.

Aaron: Wilmington Trust is a registered service mark used in connection with various fiduciary and nonfiduciary services offered by certain subsidiaries of M&T Bank Corporation. The information on this call has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. The opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. This call is for information purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor.

There is no assurance that any investment strategy will succeed. Investing involves risk, and you may incur a profit or a loss. Past performance cannot guarantee future results. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business area of Wilmington Trust or M&T Bank who may provide or seek to provide financial services to entities referred to in this call. M&T Bank and Wilmington Trust have established information barriers between their various business groups. As a result, M&T Bank and Wilmington Trust do not disclose client relationships with, or compensation received from, such entities in their reports. Thank you.