

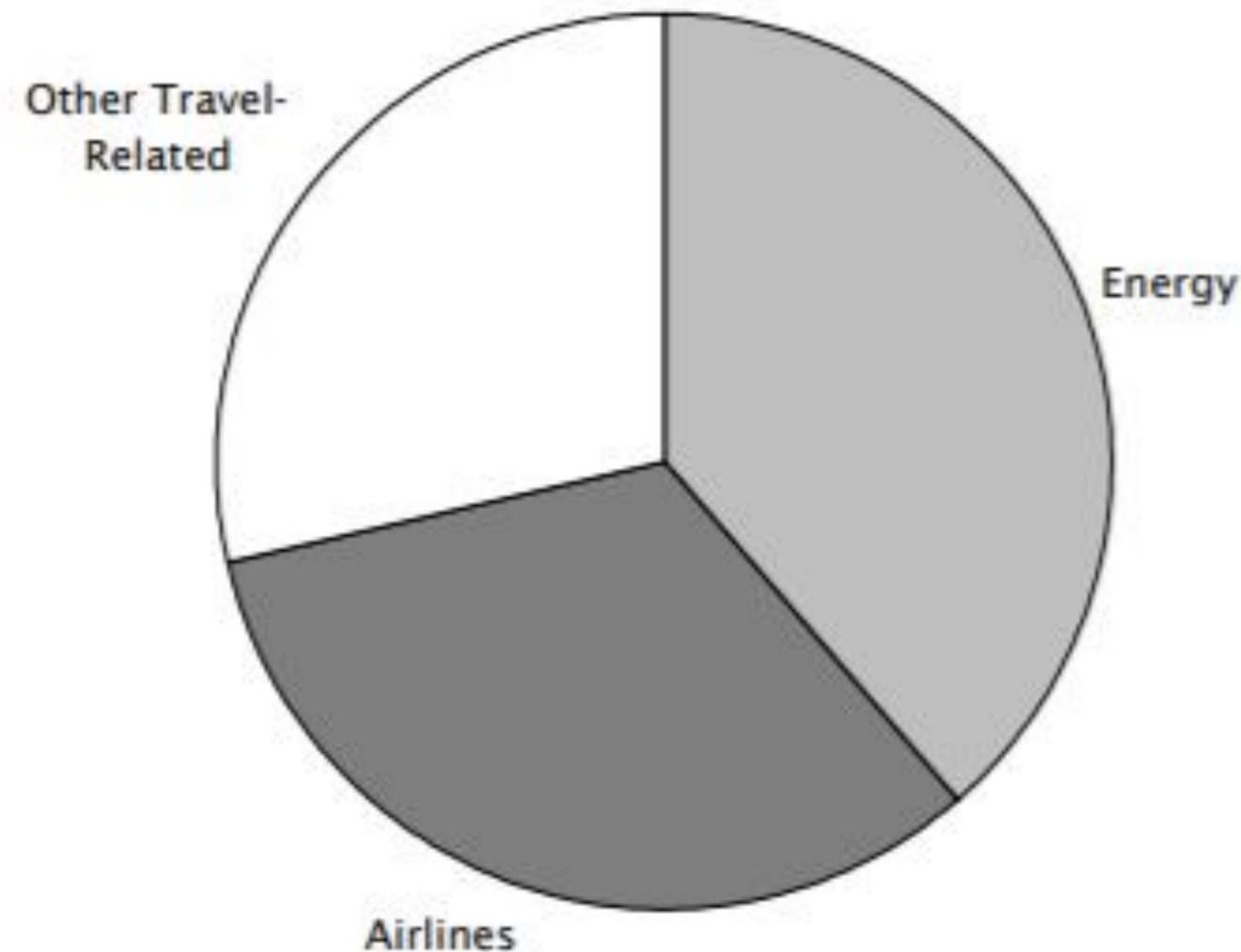
Economic & Market Outlook: It All Depends On Your Time Horizon

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Senior Vice President

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The Covid-19 Recession-75% of Earnings Per Share (EPS) Decline Was Directly Attributable To The Pandemic

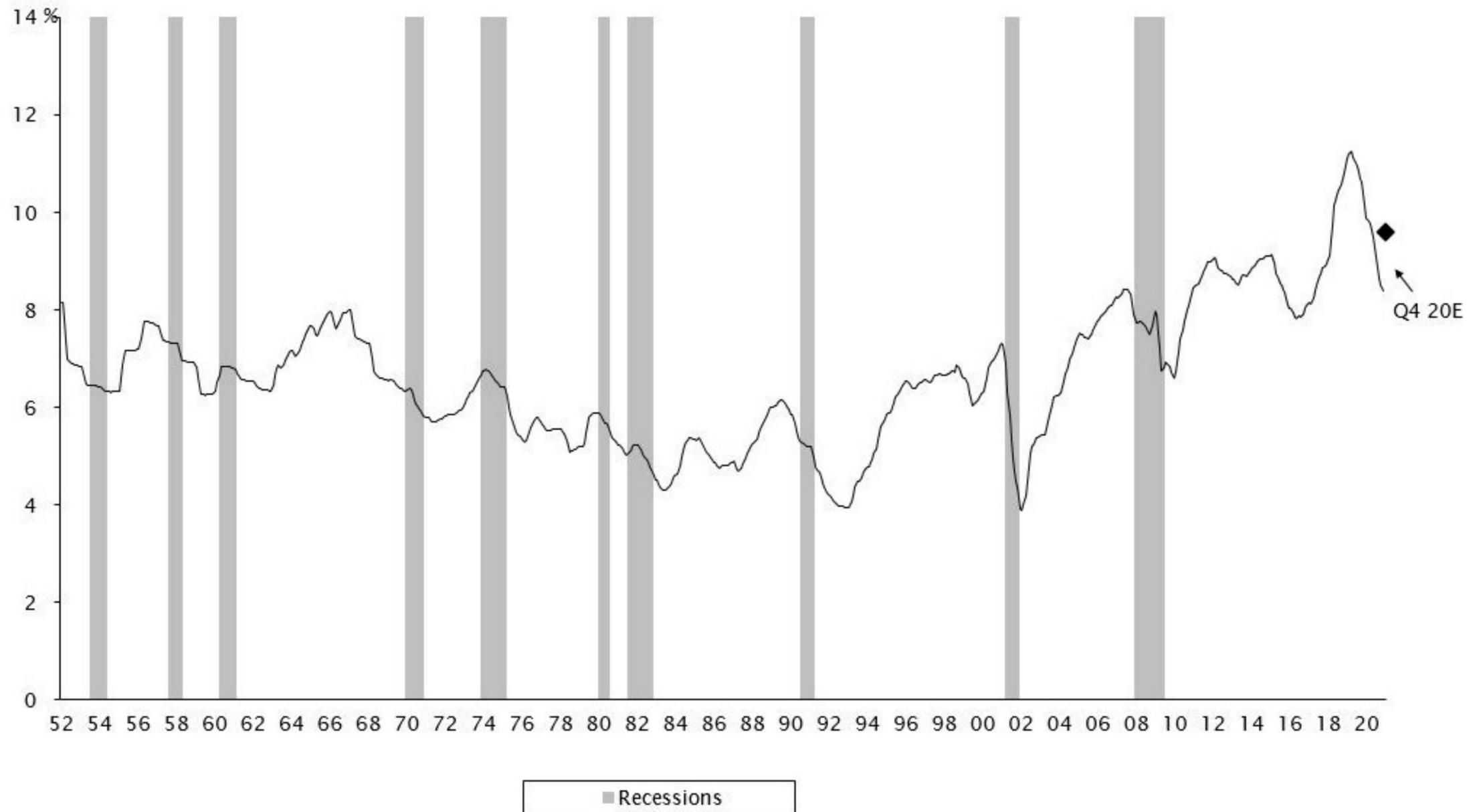
The S&P 500 Sectoral Breakdown of Year Over Year Decline in Earnings Q3 2020E*



*Estimate
Source: Empirical Research Partners Analysis. Report as of November 11, 2020.

Profit Margins Declined-But Still Higher Than the Peak In Each Prior Business Cycle!

The S&P 500* Net Profit Margins 1977 through Late-August 2020

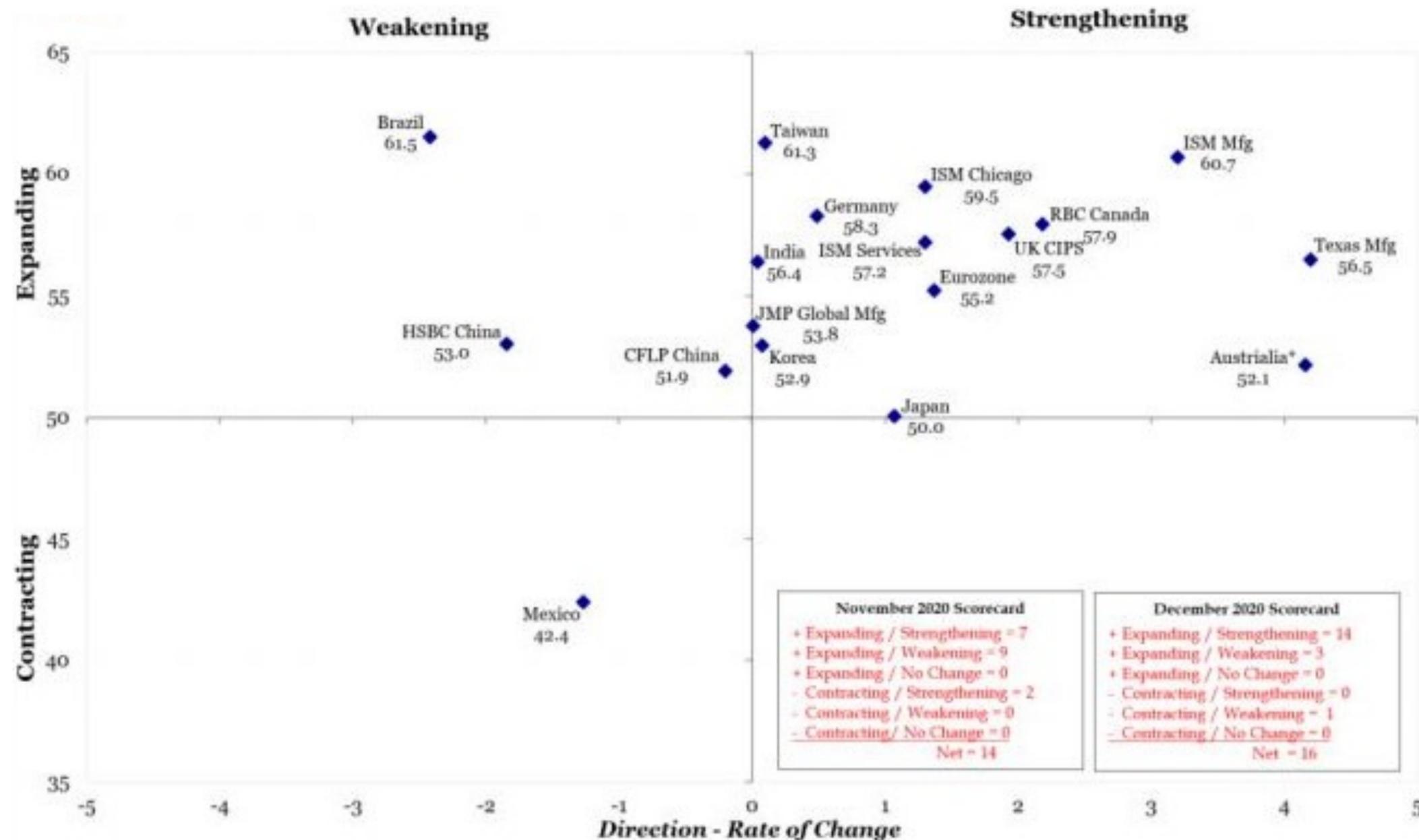


■ Recessions

*Excludes financials, data smoothed on a trailing four-month basis. Prior to 1977, the large-cap universe is used.
Source: Corporate Reports, National Bureau of Economic Research, Empirical Research Partners Analysis. Report as of January 21, 2021

Economies Recovering All Around The World

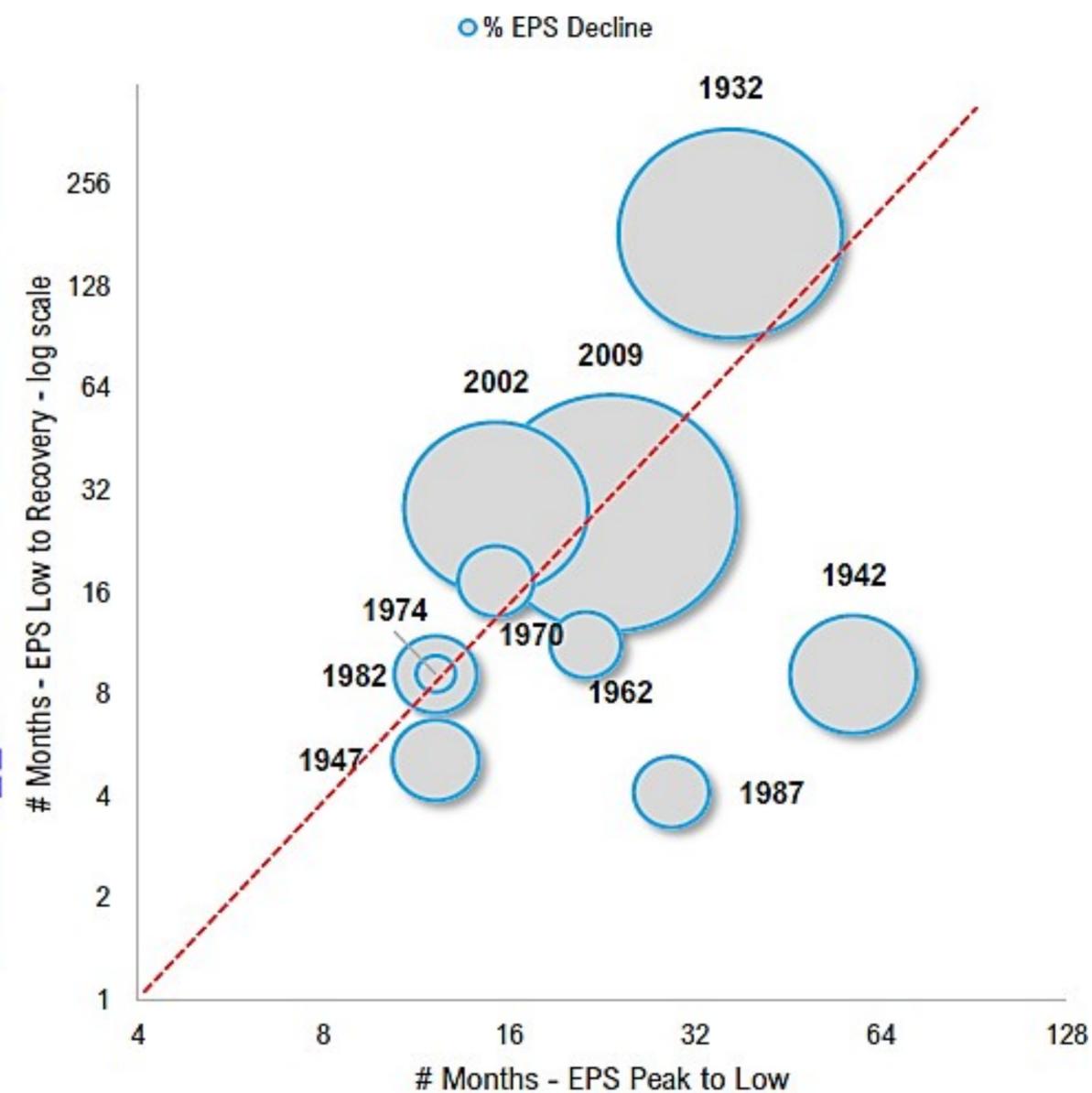
Lagging Employment Numbers Will Add Significantly to All Global Indexes When Re-openings Progress and Confidence Recovers



Earnings Rebound-Generally, EPS Recovery is Symmetric

EPS Peak to Trough Declines and Time to Recover to Peak Since 1929

Earnings Peak	Earnings Trough	Earnings Recovery	% EPS Decline	# Months Peak to Low	# Months Low to Recover	Ratio recovery to decline
12/31/1929	12/31/1932	1/31/1948	-75%	37	184	5.0x
9/30/1941	6/30/1946	3/31/1947	-29%	58	9	0.2x
6/30/1945	6/30/1946	11/30/1946	-16%	12	5	0.4x
9/30/1959	6/30/1961	5/31/1962	-12%	21	11	0.5x
9/30/1969	12/31/1970	5/31/1972	-13%	15	17	1.1x
9/30/1974	9/30/1975	6/30/1976	-15%	12	9	0.8x
3/31/1980	3/31/1981	12/31/1981	-5%	12	9	0.8x
1/31/1985	6/30/1987	10/31/1987	-13%	29	4	0.1x
9/30/2000	12/31/2001	4/30/2004	-54%	15	28	1.9x
6/30/2007	5/31/2009	8/31/2011	-91%	23	27	1.2x
			-32%	24	30	1.2x
			-15%	18	10	0.8x

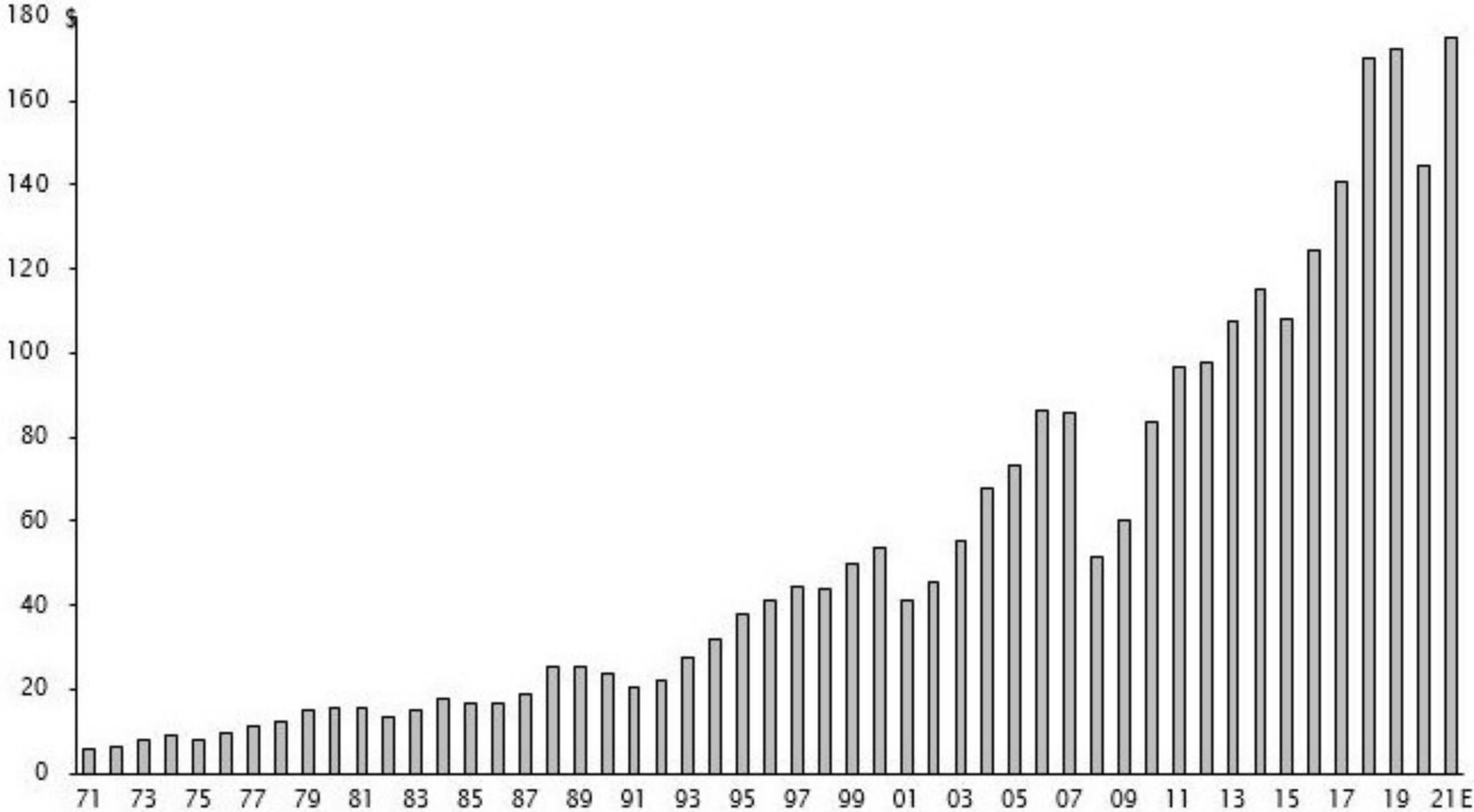


During GFC, EPS recovery = EPS decline duration

GFC = Global Financial Crisis
Source: Johns Hopkins, Fundstrat, Bloomberg, FacSet. Report as of July 30, 2020.

Analysts Figure 2021 Earnings Will Match Those of 2019

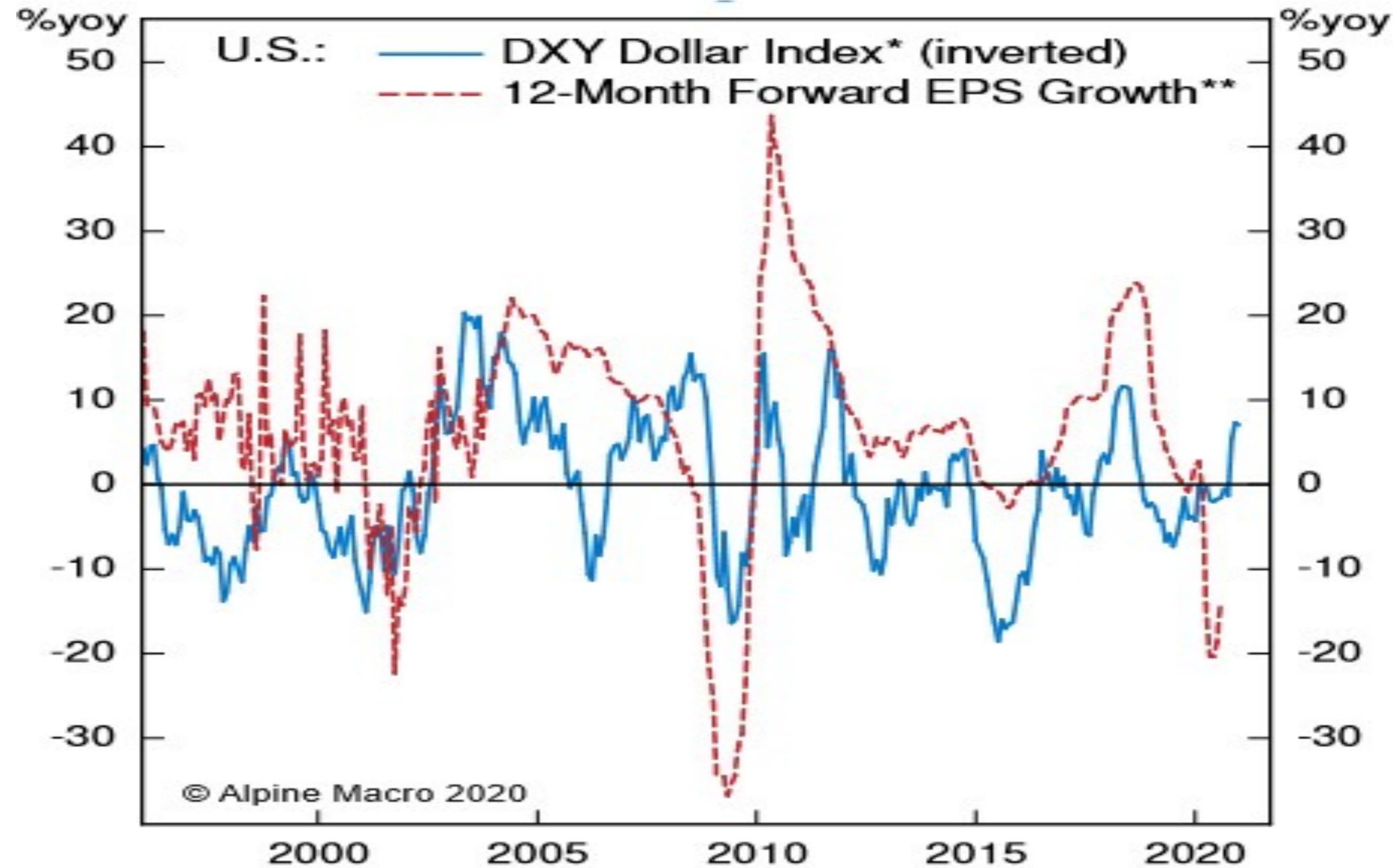
The S&P 500 Earnings Per Share 1971 through 2021E*



*Estimate

Source: Empirical Research Partners Analysis and Estimates. Report as of January 21, 2021.

A Falling Dollar Would Supercharge The Earnings Rebound



*Advanced by 4 months
**MSCI IMI Index

Source: Alpine Macro as of September 7, 2020.

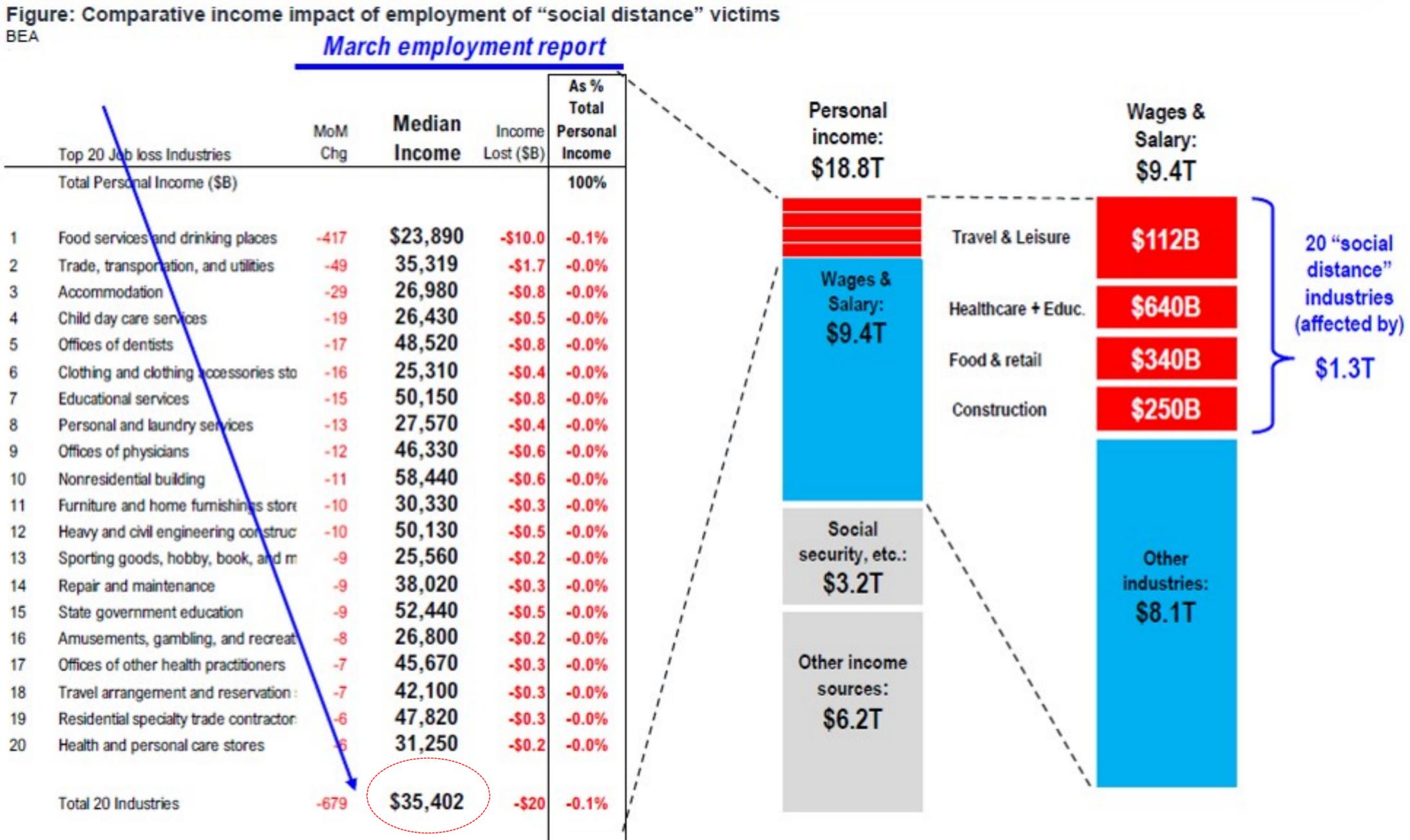
Social Distance Spending—Just \$717B, or 4% of \$17T Consumer Wallet

Social Distance Spending Based on BLS Data

1. Housing	2,640.7		
Shelter ex-out of town [I]	2,570.8		
Lodging on out-of-town trips [I]	69.9	→	Hotel + Travel 69.9
			Lodging on out-of-town trips [I] 69.9
2. Transportation	1,283.0		
Transportation ex-Airfare + Cruises	1,206.9		
Transportation Airfare + Cruises	76.1	→	Airlines + Cruise spend 76.1
			Airline fares [I] 65.8
			Ship fares [I] 10.3
3. Food	1,041.4		
Food at home	586.8		
Food away from home	454.6	→	Restaurants + Bars + Eating Out 492.7
			Meals at restaurants, carry outs and other [D] 388.7
			Lunch [D] 123.9
			Dinner [D] 193.0
			Snacks and nonalcoholic beverages [D] 32.0
			Breakfast and brunch [D] 39.8
			Food or board at school [I] 4.5
			Catered affairs [I] 5.3
			Food on out-of-town trips [I] 45.4
			School lunches [I] 6.3
			Meals as pay [I] 4.4
			Alcohol away from home 38.1
4. Personal insurance and pensions [I]	958.9		
5. Healthcare	653.0		
6. Personal care products + Miscellaneous	552.8		
7. Entertainment	424.0		
Pets + Audio Visual Equipment + Svcs	344.9		
Social, recreation, health club membership [I] etc	79.0	→	Sports + Concerts + Movies 79.0
			Social, recreation, health club membership [I] 25.9
			Fees for participant sports [D] 13.0
			Play, theater, opera, concert [I] 8.8
			Movie, other admissions, out-of-town trips [I] 8.5
			Admission to sporting events [I] 6.7
			Tickets to movies [I] 6.4
			Tickets to parks or museums [I] 3.5
			Participant sports, out-of-town trips [I] 3.5
			Admission to sports events, out-of-town trips [I] 2.8
8. Apparel and services	245.3		
9. Cash contributions [I]	248.1		

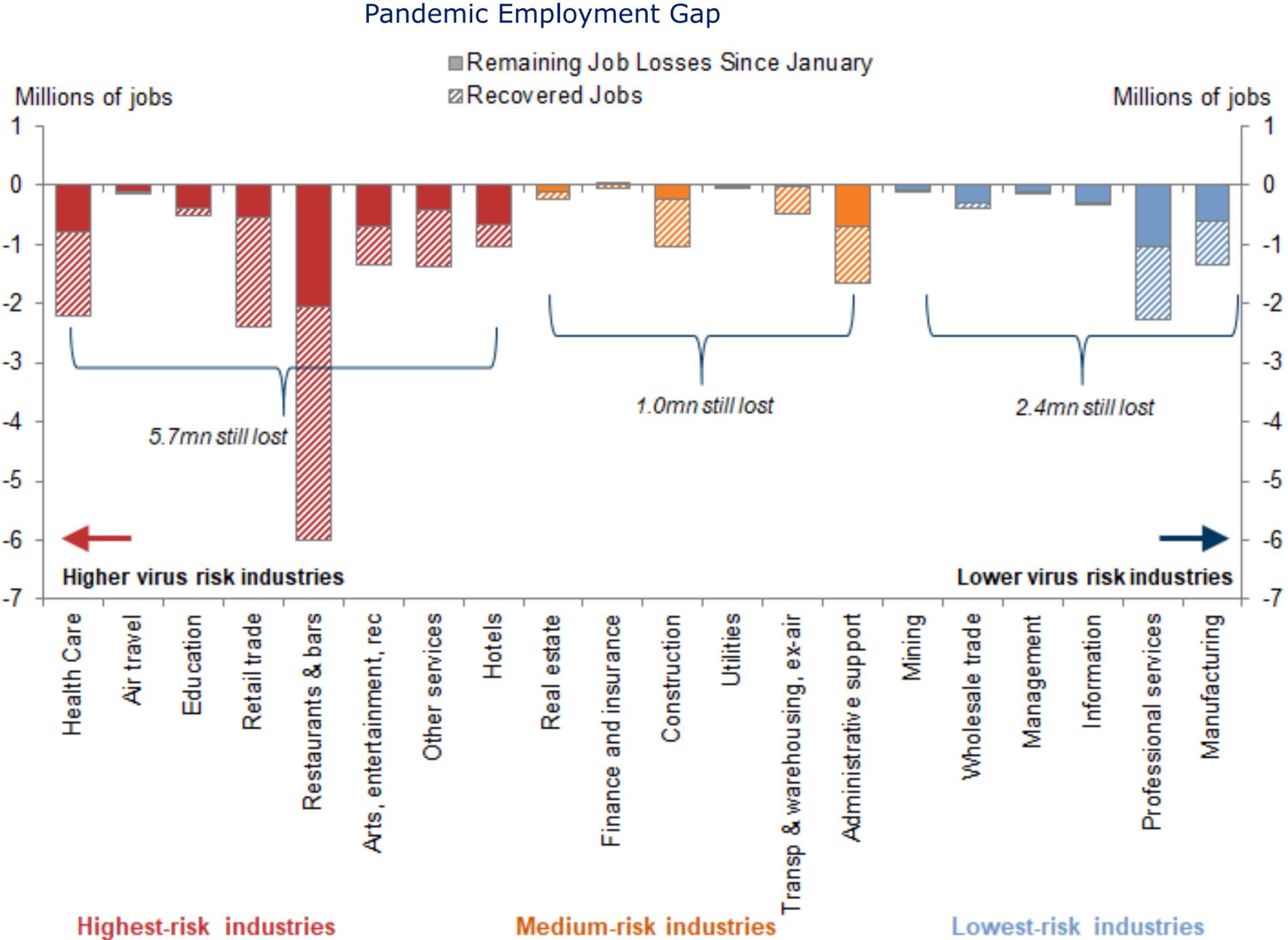
Social Distancing Sectors-26% of Labor, But Just 13% of Income

The Median Income at \$35,000 is Well Below U.S. Overall Income



Source: Fundstrat, Bloomberg, FactSet

Remaining Pandemic Employment Gap



Source: Department of Labor, Goldman Sachs Global Investment Research as of December 28, 2020

Breathtaking Stimulus...

Global Monetary And Fiscal Stimulus To Fight COVID-19 Impact
2020 February to December (CSM)

	Potential Central Bank Liquidity Injection		Potential Fiscal Stimulus		Central Bank Liquidity Injection and Fiscal Stimulus	
	\$ Tln	% GDP	\$ Tln	% GDP	\$ Tln	% GDP
U.S.***	\$6.21	29.0%	\$4.20	19.6%	\$10.41	48.6%
Eurozone	\$2.38	17.9%	\$4.27	32.0%	\$6.65	49.9%
Japan**	\$1.03	20.0%	\$2.79	54.1%	\$3.82	74.1%
U.K.	\$0.57	20.7%	\$0.59	21.6%	\$1.16	42.3%
China****	\$1.43	10.0%	\$1.22	8.4%	\$2.64	18.4%
Others*	\$0.94		\$2.85		\$3.79	
Total	\$12.56	14.5%	\$15.92	18.4%	\$28.48	32.9%

*** U.S.: Fed's \$6.2 tln injection Incl the \$2.5 tln announced on Apr 9, and the \$3.7 facility.

***On \$3.3 tln on the fiscal side, includes the \$454 billion appropriated to the ESF.

** "BOJ Vows to Buy as Many Bonds as Needed in Stimulus Move." (BBG, 4/27).

*includes Rest of World and Asian Development Bank, International Monetary Fund, World Bank CSM refers to Cornerstone Macro

Source: Cornerstone Macro as of December 15, 2020

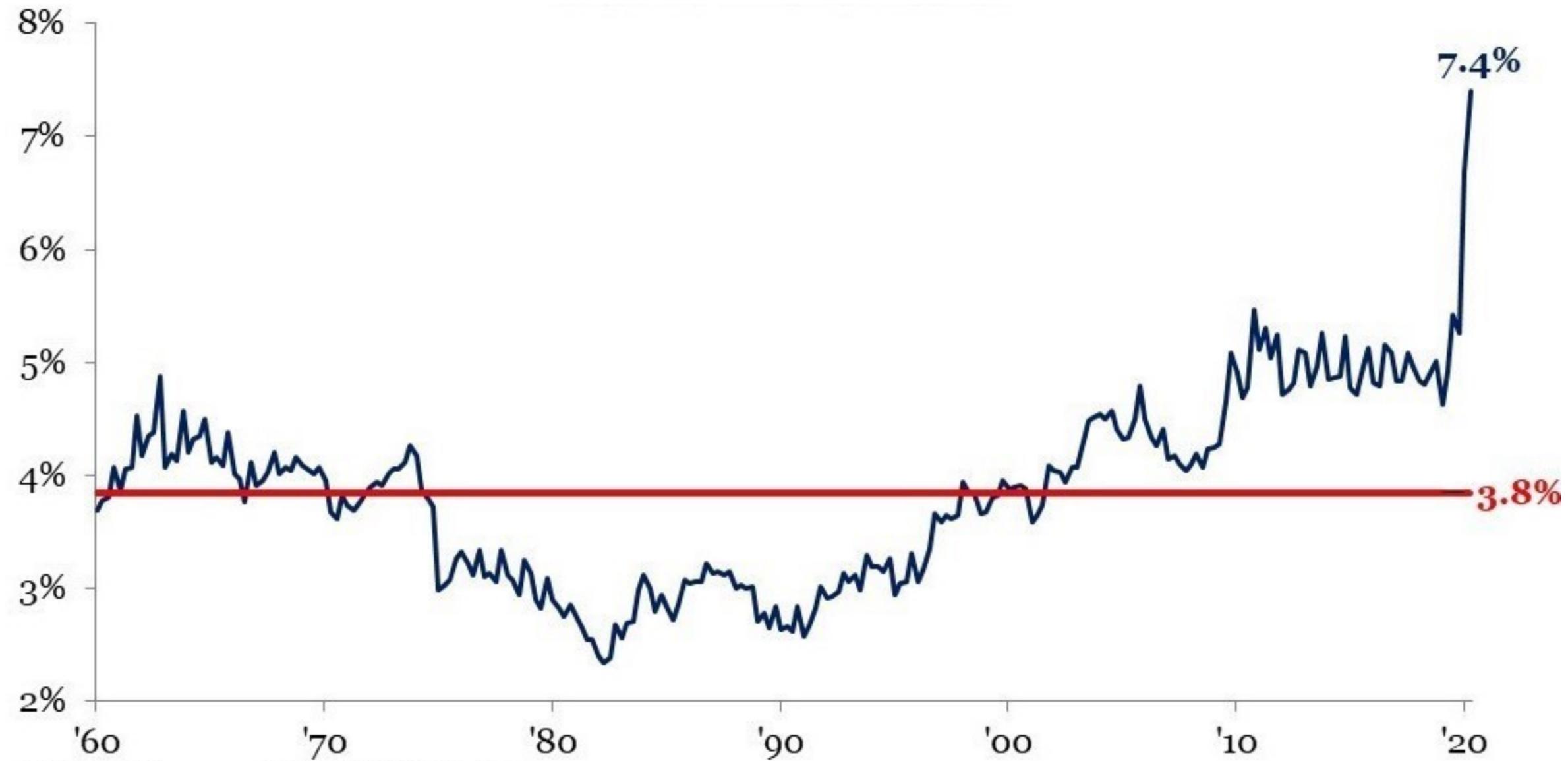
Monetary Stimulus-Moral Hazard?

8 Biggest Monthly Increases in Fed Balance Sheet

Month	US\$, bn	Explanation
March, 2020	1,650	Covid
April, 2020	844	Covid
September, 2008	594	Lehman Brothers
October, 2008	465	Lehman Brothers
May, 2020	441	Covid
September, 2019	185	Treasury yields surge 40bp
March, 2009	162	Lehman Brothers
December, 2020	141	?

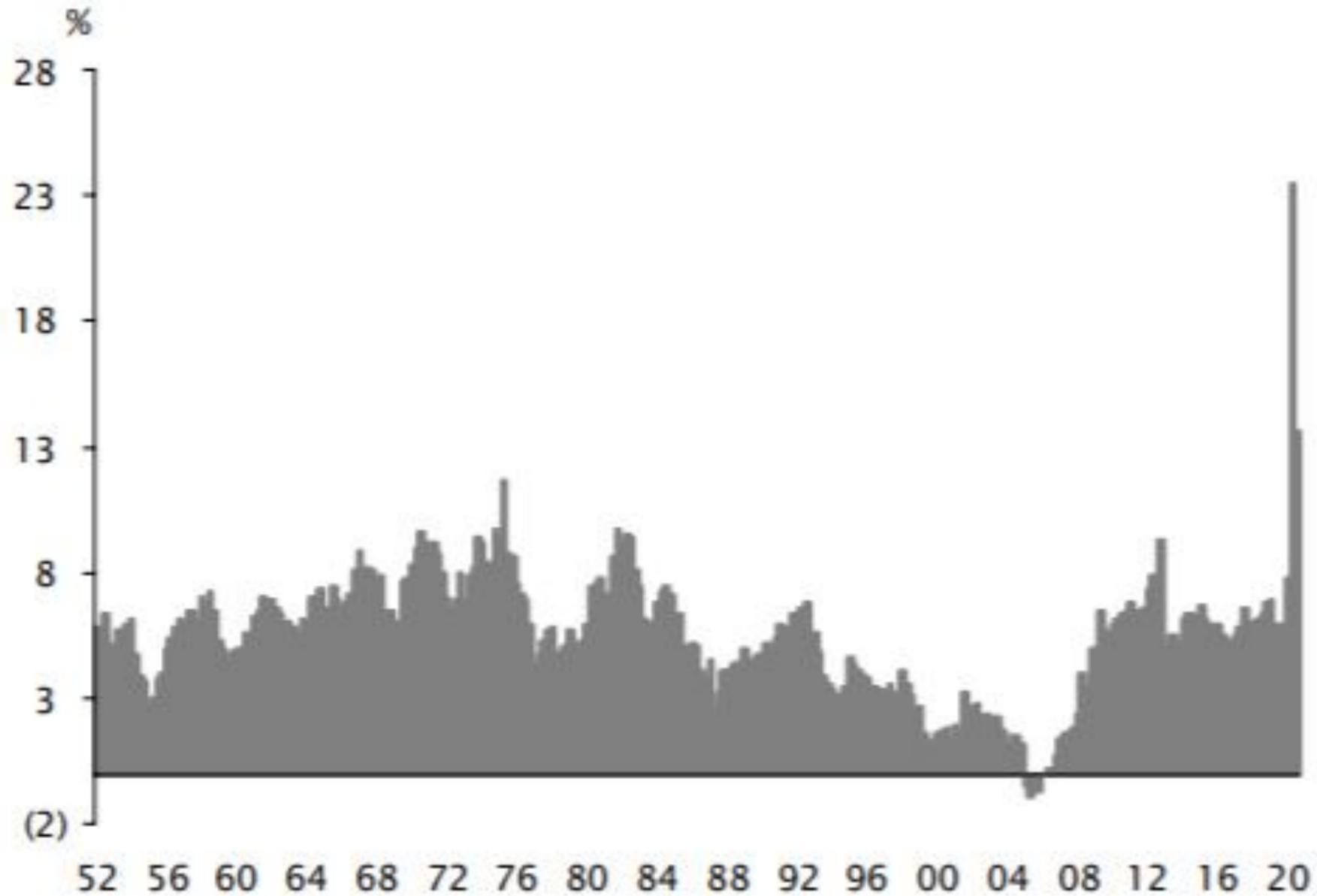
Fiscal Stimulus-Moral Hazard?

U.S. Non-Financial Corporations Cash Pct. Of Total Assets



Fiscal Stimulus-Moral Hazard?

The U.S. Consumer Free Cash Flow as a Share of Personal Income
1952 Through Q3 2020



Source: Federal Reserve Board, Bureau of Economic Analysis, Research Partners Analysis as of December 27, 2020

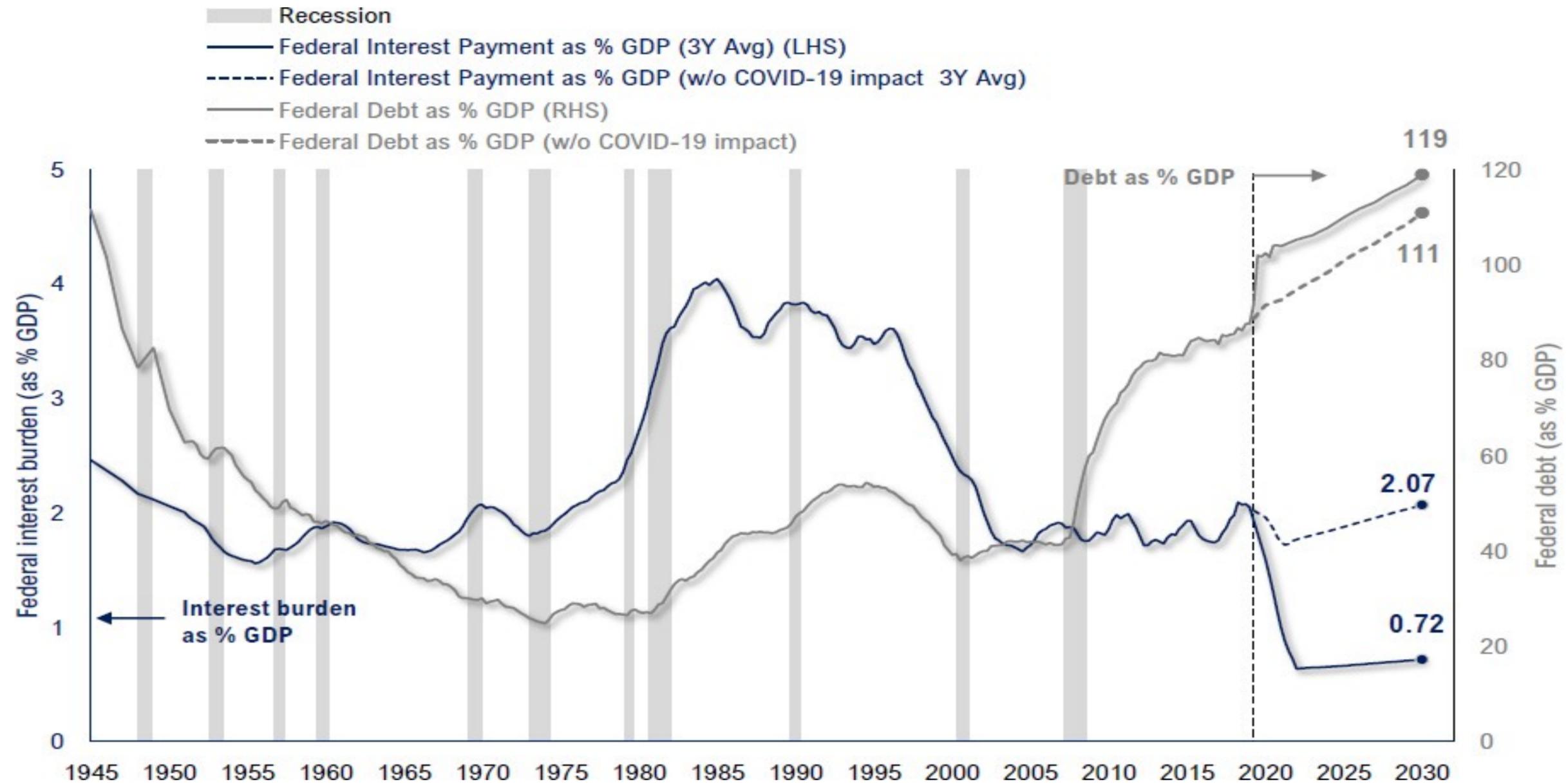
And The Debt Champion Is....

Debt Levels and Increases in Major Economies

	2020 gov't debt (US\$ trn)	2020 rise in gov't debt (US\$trn)	Population (mn)	2020 gov't debt per capita (US\$)	2020 rise in gov't debt per capita (US\$)
USA	22.21	4.20	328.2	67,672	12,797
Canada	0.76	0.31	37.6	20,300	8,202
UK	2.68	0.46	66.6	40,176	6,961
Japan	9.01	0.72	126.5	71,192	5,690
Germany	2.12	0.44	83	25,571	5,286
France	2.92	0.34	66.9	43,552	5,063
Italy	2.85	0.24	60.3	47,157	4,048
China	9.65	1.66	1,393.00	6,931	1,191

Per the CBO, U.S. Debt Service Falls, Even With COVID-19 Debt!

Federal Debt Service Forecast Based on COVID-19 Federal Spending Since 1945



Source: Fundstrat, Bloomberg, FacSet. Report as of July 30, 2020.

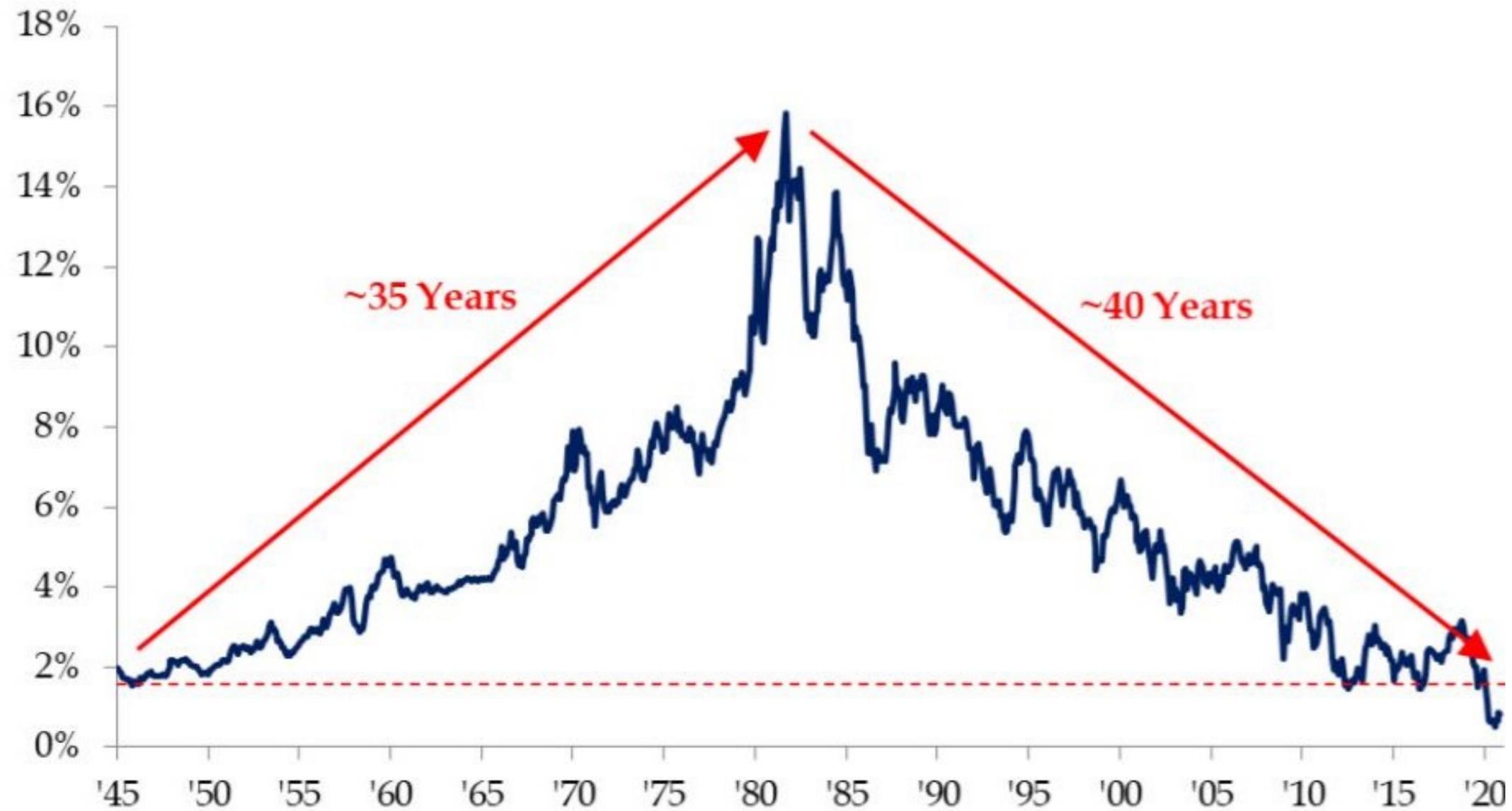
The Fed “Not Thinking About Thinking About Thinking About Raising Interest Rates Anytime Soon”

Rate Hikes vs. Unemployment Rate

<u>FOMC Chair</u>	<u>Tightening Phase Start</u>	<u>Unemployment Rate</u>
Greenspan	March, 1988	5.7%
Greenspan	February, 1994	6.6%
Greenspan	March, 1997	5.2%
Greenspan	June, 1999	4.3%
Bernanke	June, 2004	5.6%
Yellen	December, 2015	5.0%
Powell	March, 2018	4.0%

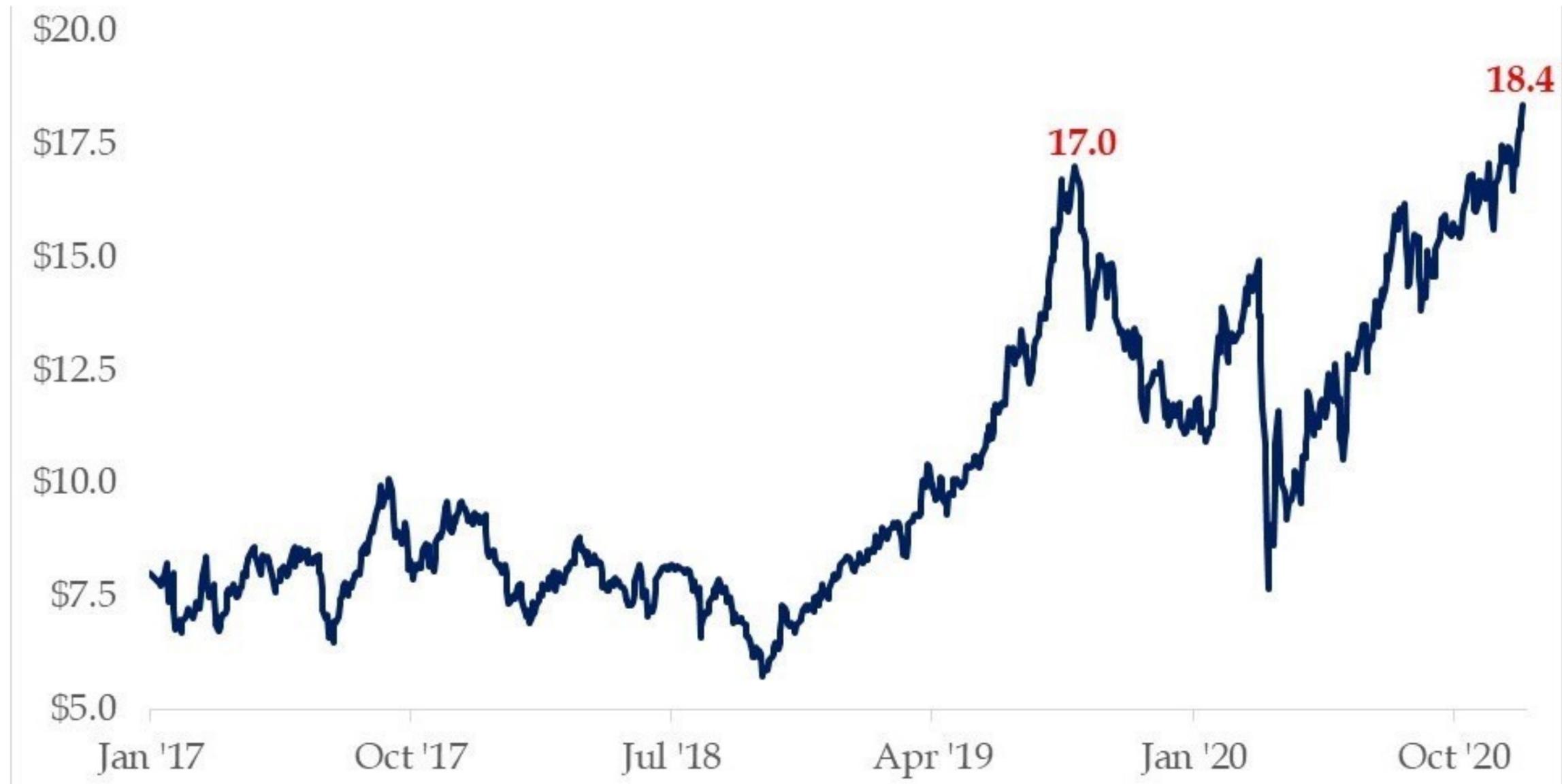
Should We Worry About Rising Yields?

U.S. 10-Year Yield Monthly, Since 1945



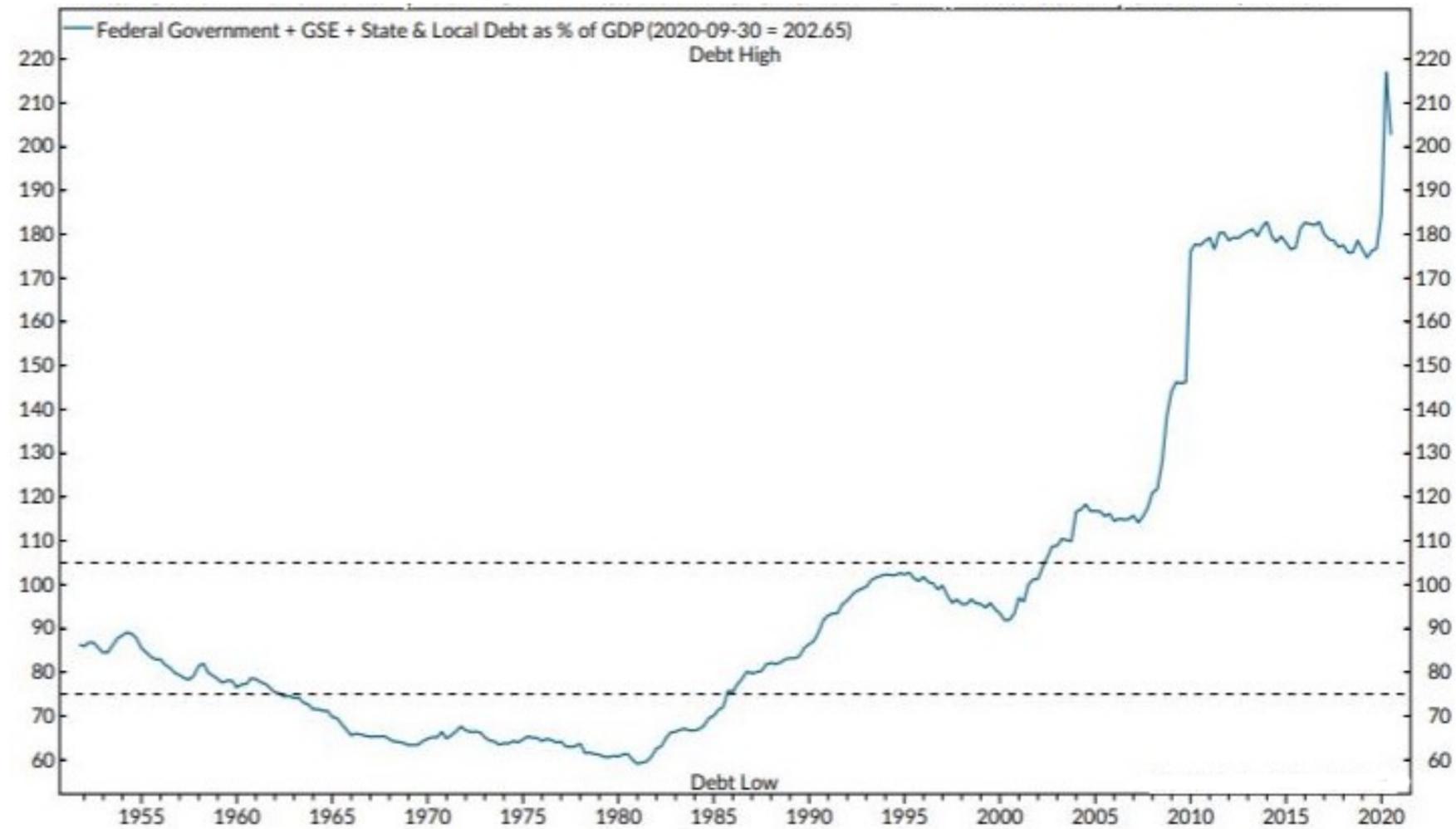
Beats The Alternative-Negative Yields

Global Aggregate Negative Yielding Debt



But Long Term, High Debt Slows Growth

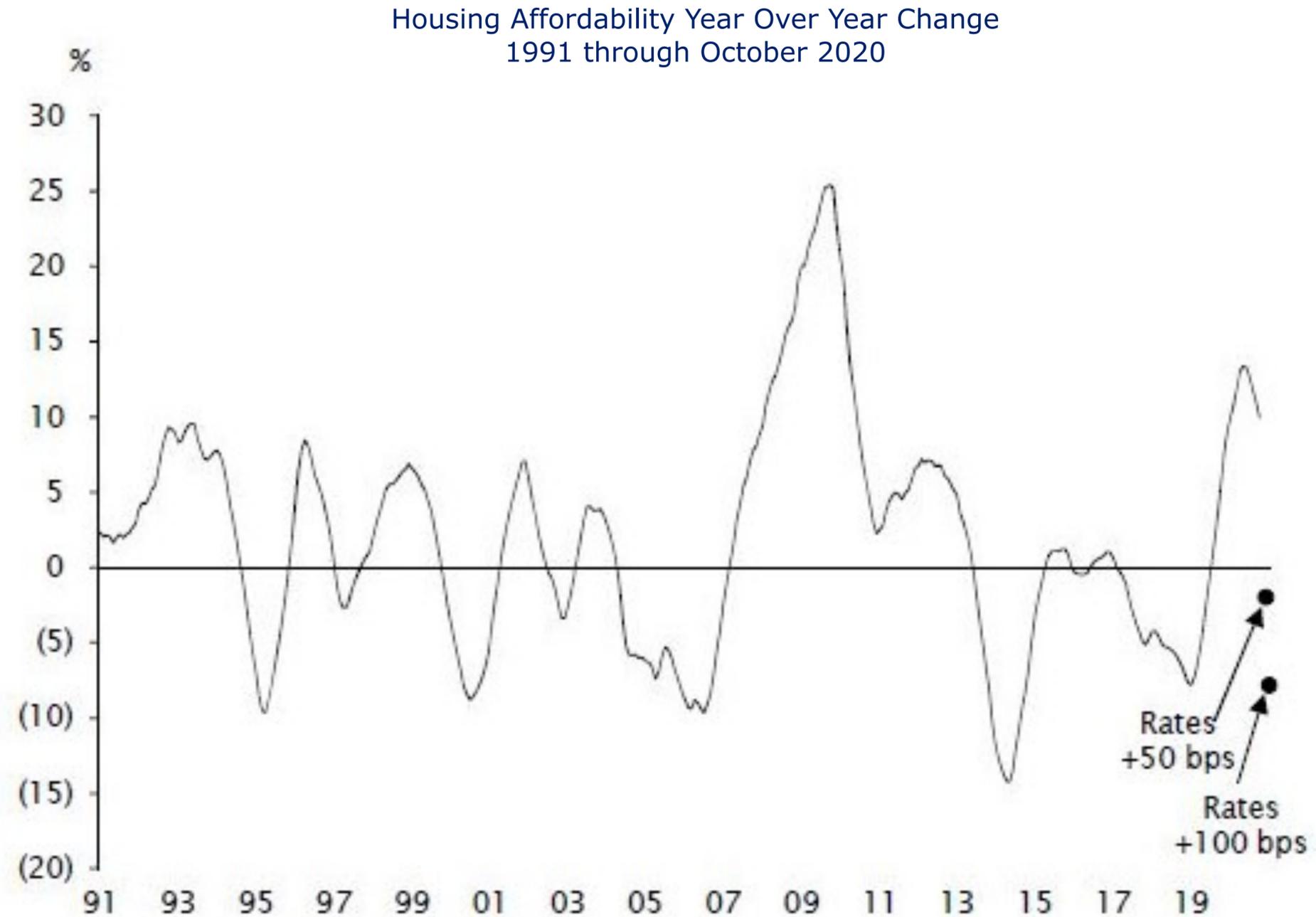
Total Government Debt's (Fed + GSE + State & Local as a % of GDP) Potential Impact On Growth



Multi-Factor Mode Analysis (1951-12-31 - 2020-09-30)						
Government Debt/GDP is:	Nominal GDP Gain/Annum	Real GDP Gain/Annum	Nonfarm Payrolls Gain/Annum	CPI Inflation Gain/Annum	Real Non-Residential Investment Gain/Annum	% Time In Mode
Above 105%	3.7	1.8	0.5	2.0	3.3	26.2
75% to 105%	5.4	3.2	1.6	2.4	4.7	40.0
75% and Below	8.9	3.6	2.5	5.7	10.4	33.8

Source: Federal Reserve Board, Ned Davis Research as of December 24, 2020

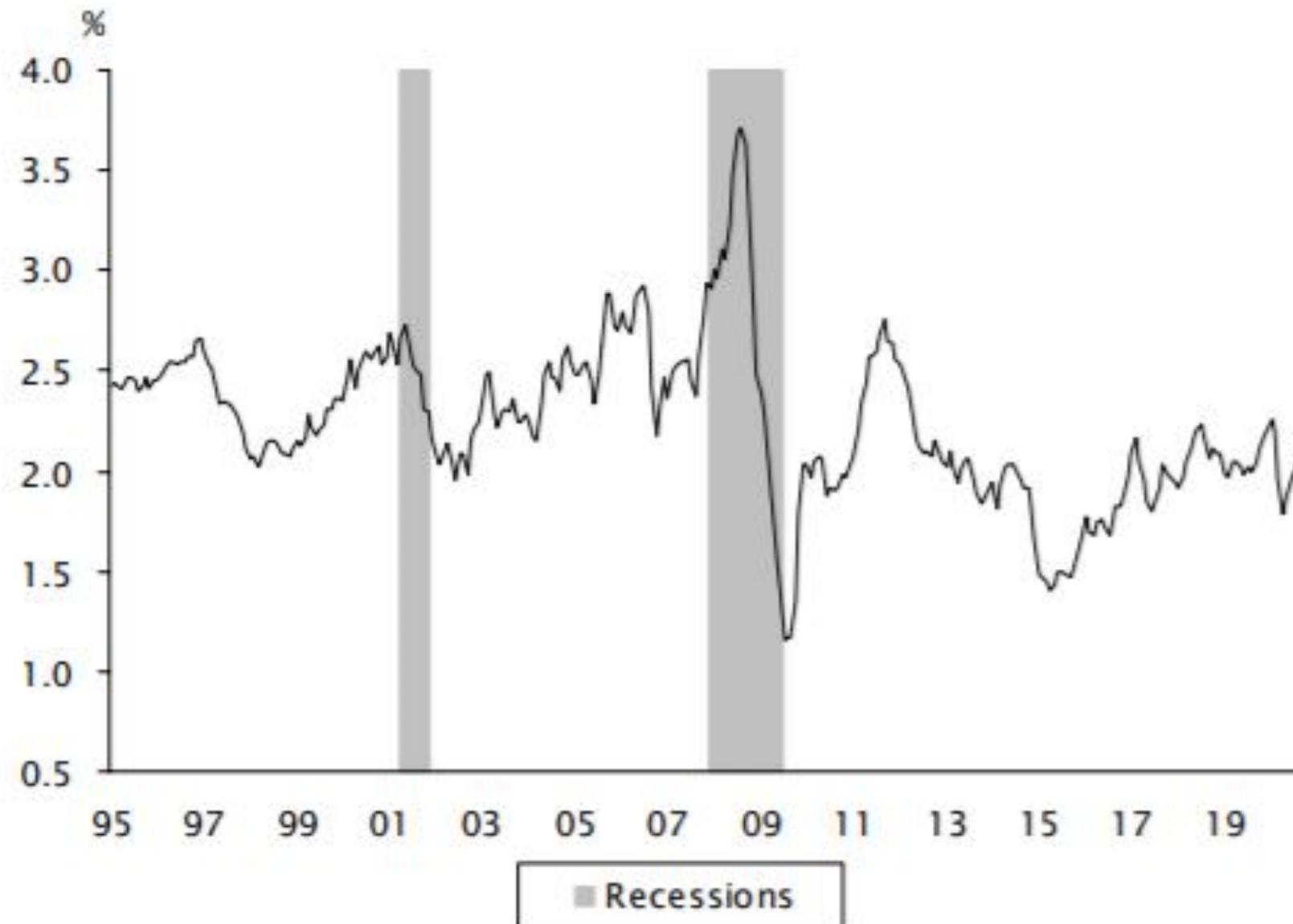
Housing Sector Can Withstand Rising Rates



Source: National Association of Realtors, Empirical Research Partners as of December 23, 2020

Should We Worry About Rising Inflation?

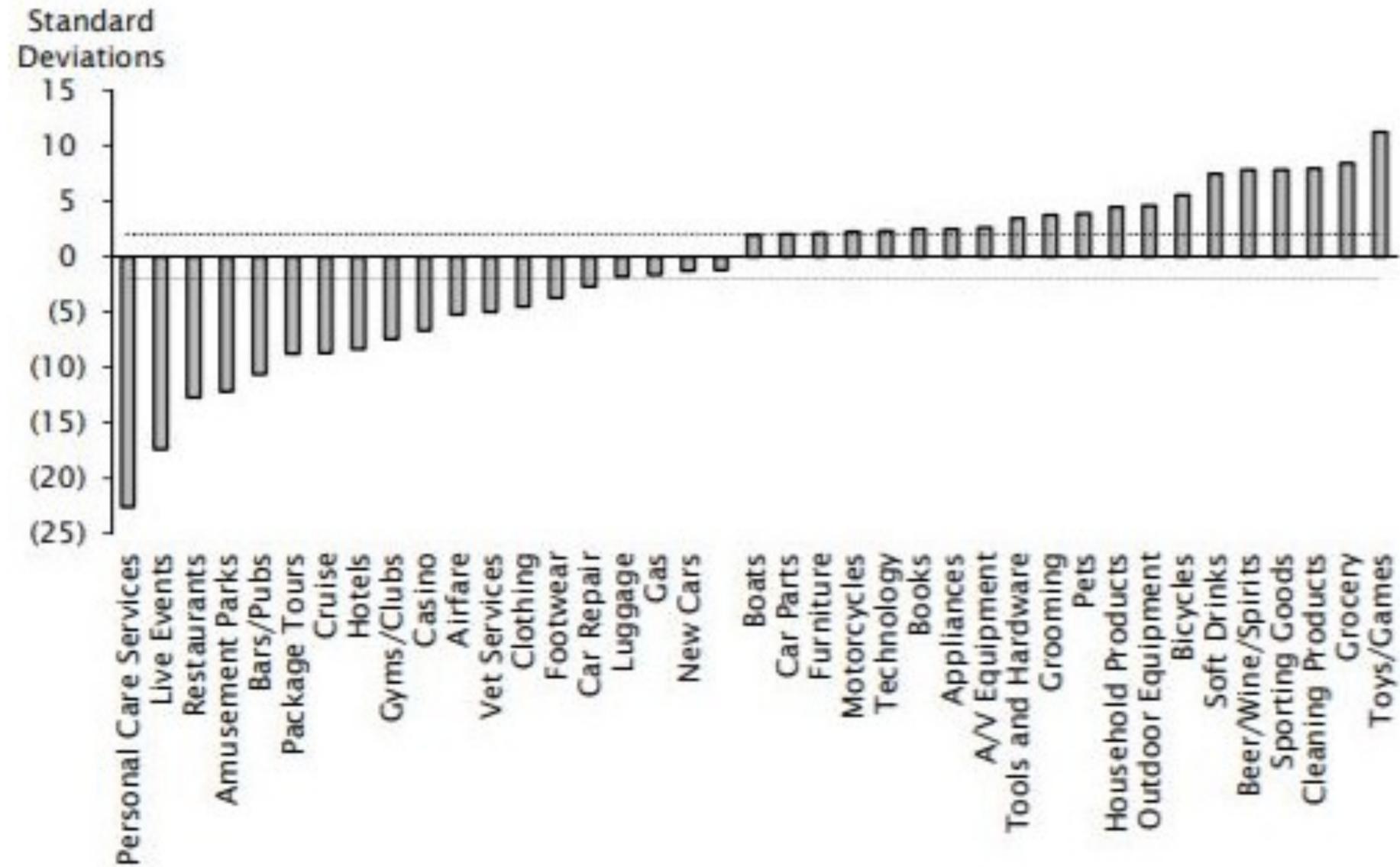
The Underlying Inflation Gauge
1995 through November 2020



Source: Federal Reserve Board, Bureau of Economic Analysis, Empirical Research Partners Analysis as of December 27, 2020

Taking A Look At Pent-Up Demand

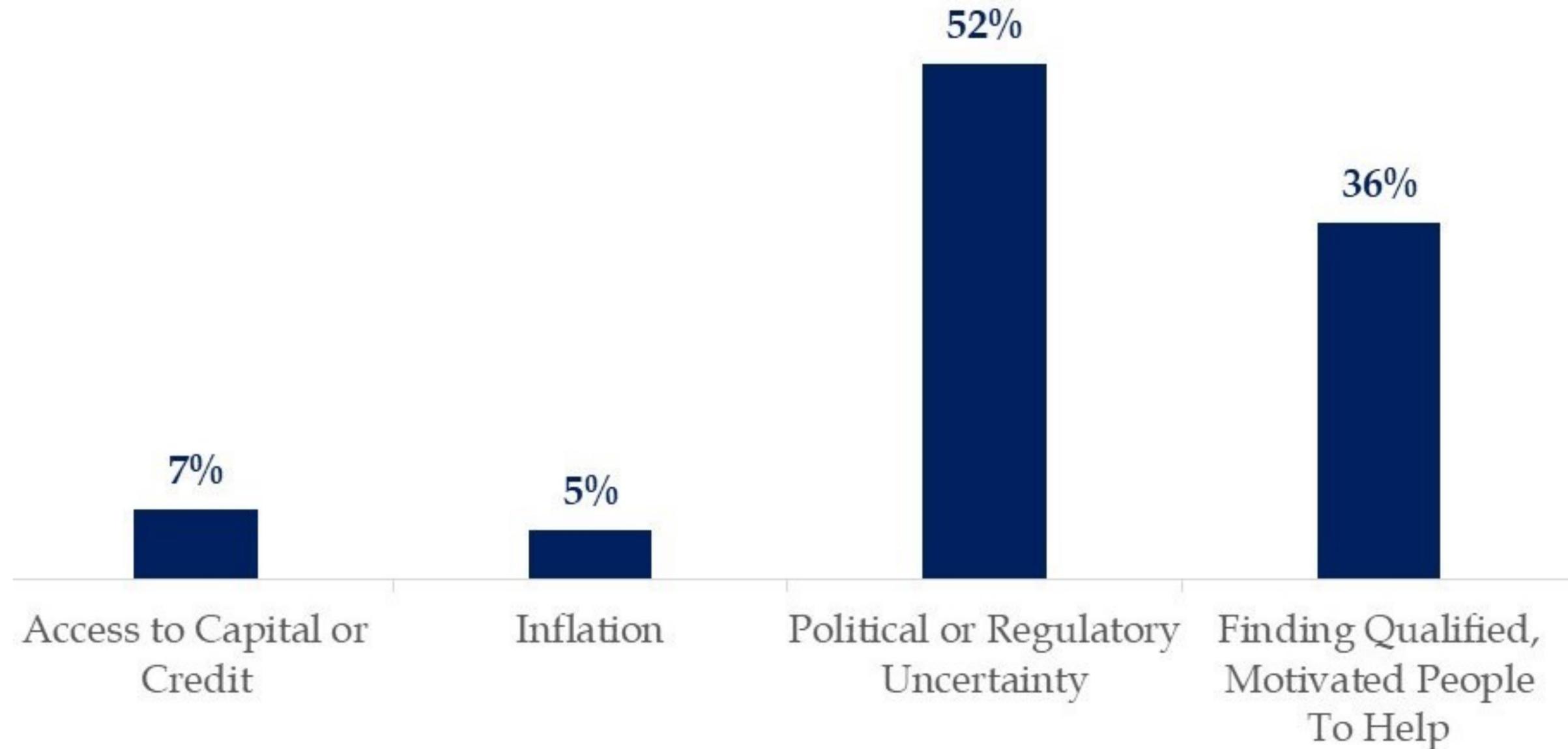
Category Outliers
 Relative Consumption Growth
 Number of Standard Deviations Away from the Mean
 Last 12 month compared to Historical Average
 2000 through November 2020



Source: Bureau of Economic Analysis, Empirical Research Partners as of December 23, 2020

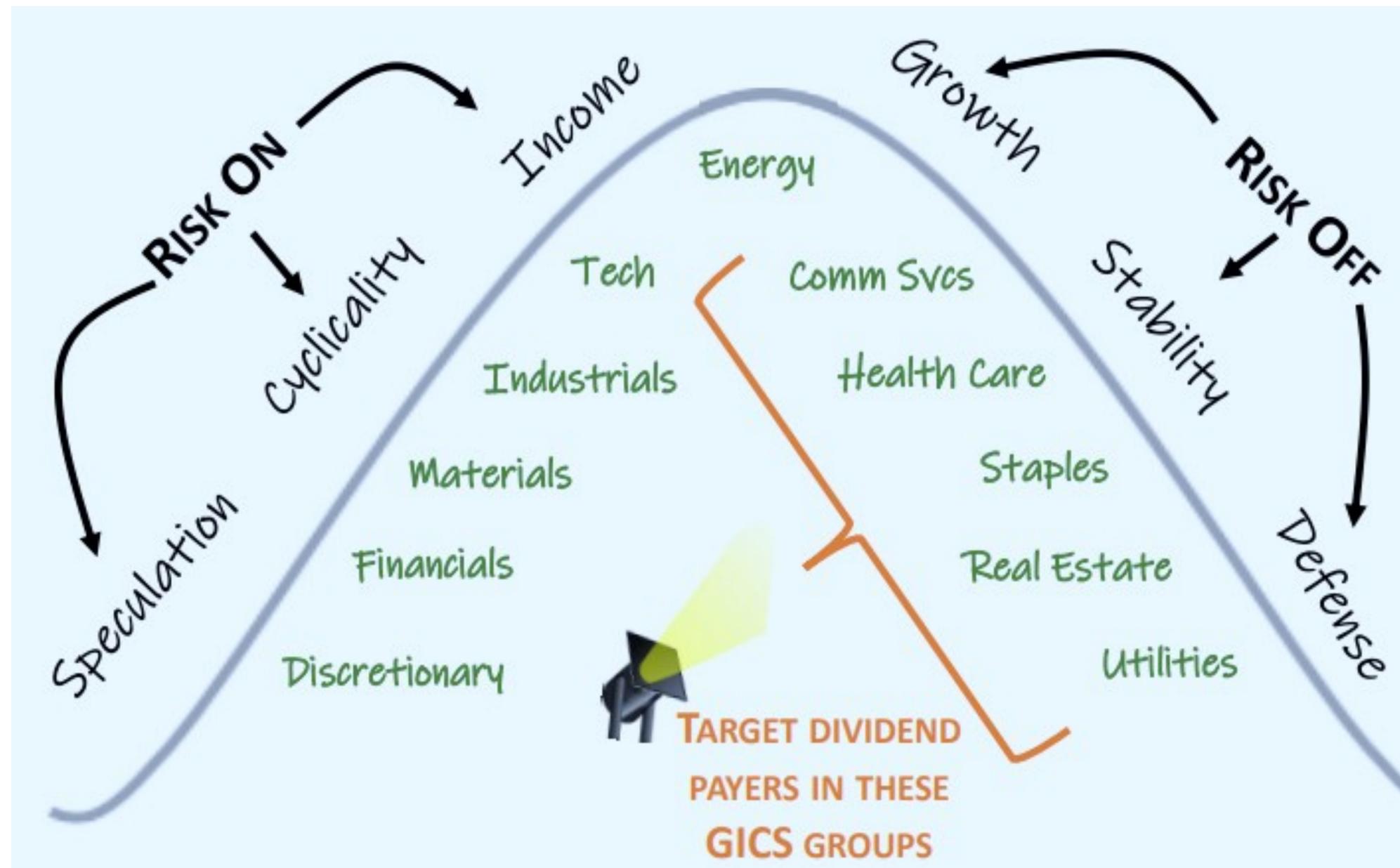
What Businesses Are Worried About

What Do You Fear Will Be The Biggest Challenge In The Next 5 Years To Your Business?



It All Depends On Your Time Horizon: In The Short Term, It's About Where We Are In The Economic Cycle

Sectors Around The Business Cycle

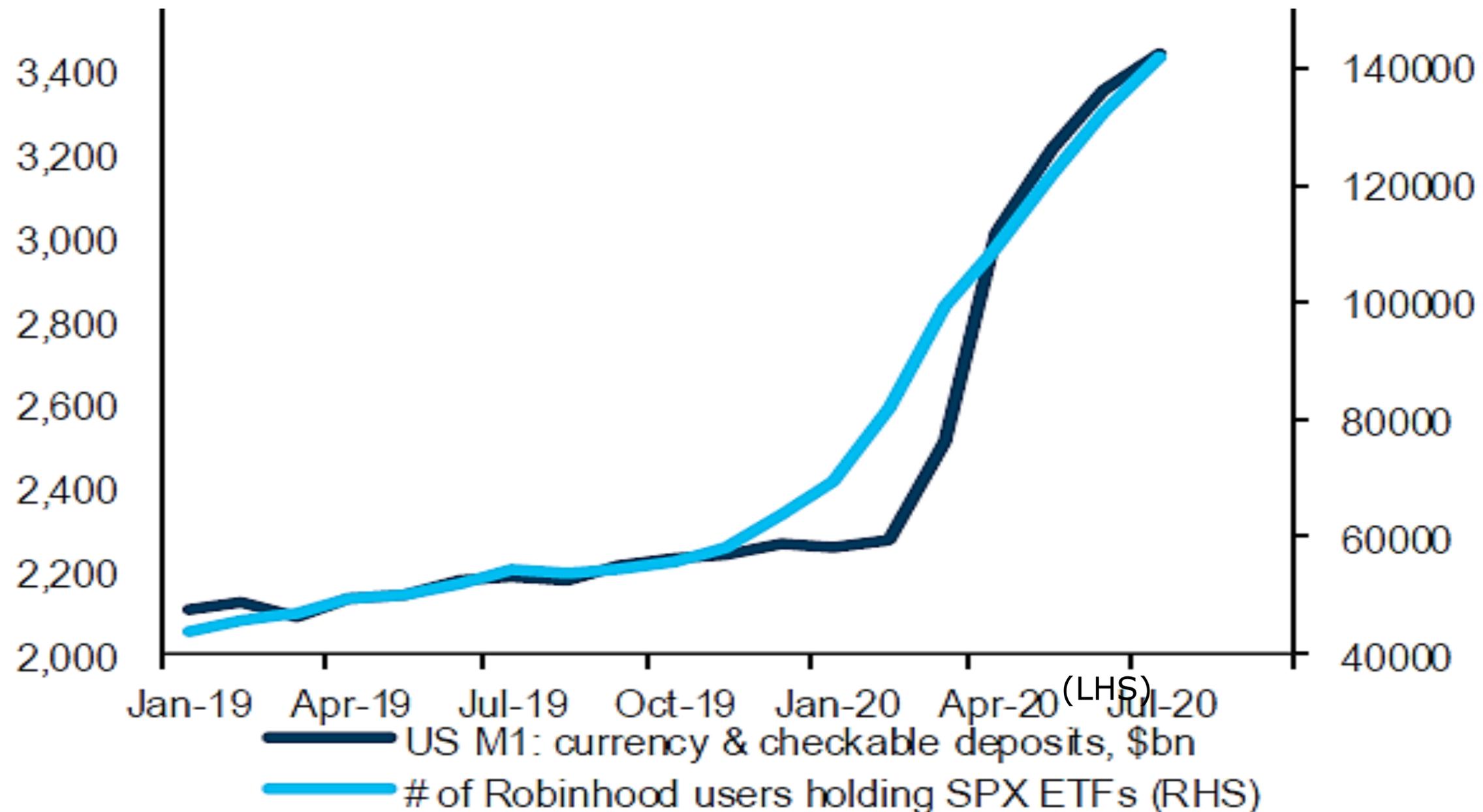


Excess Money Now Chases Financial Assets, Not Goods & Services

U.S. Nominal GDP YoY vs. U.S. 10-Year



Risk On! Surging Robinhood Users Coincident With The Increase In Cash Savings



Correlation Between Factors Is A Hallmark Of Machine-Based Trading

Correlation Between Factors is Extremely Elevated



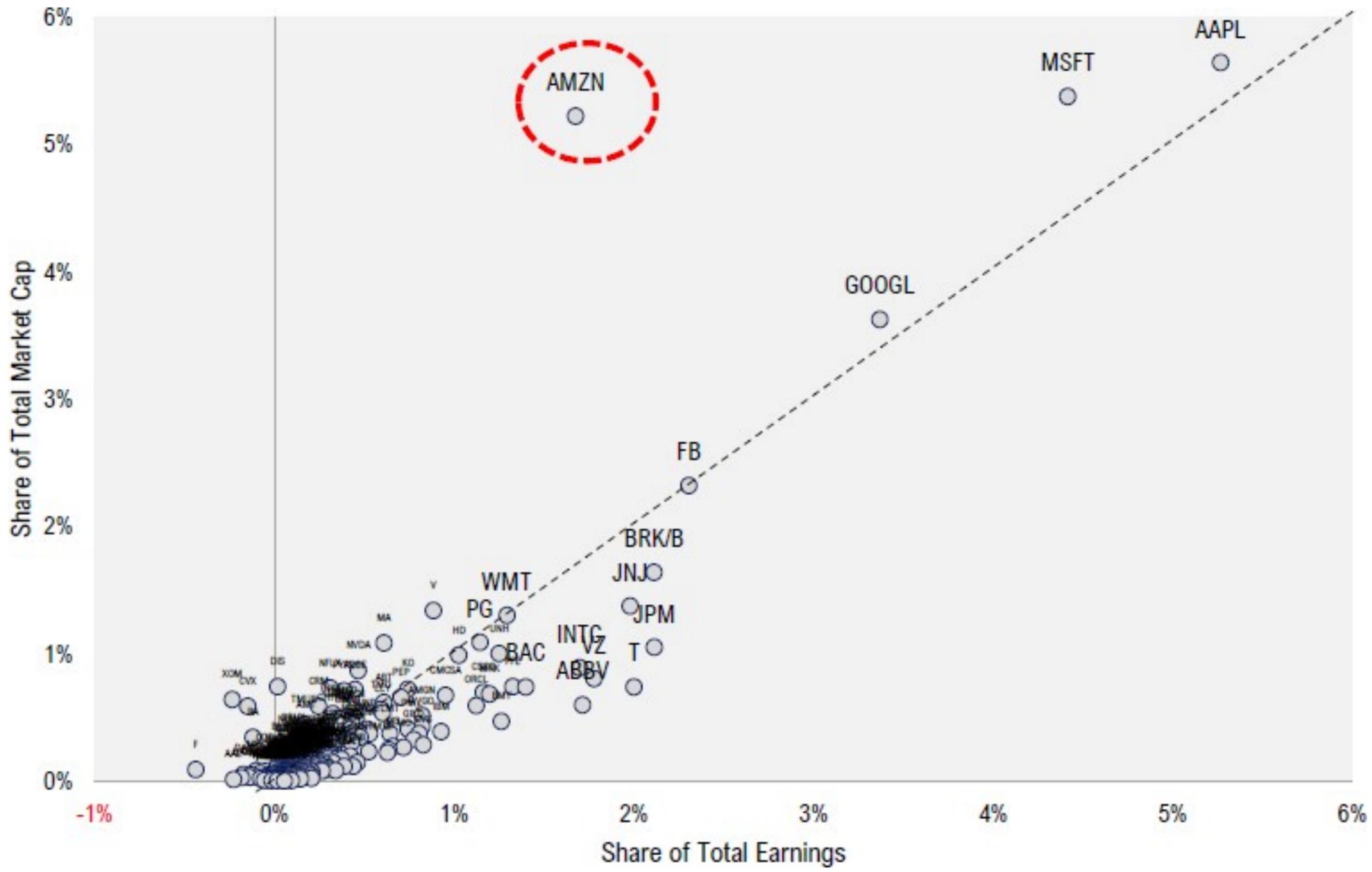
Incorporates 9 factors including Growth, Value, Size, Dividend Yield, Momentum and Volatility

Note: Shaded bars indicate recessions.

Source: Goldman Sachs Global Investment Research as of January 21, 2021

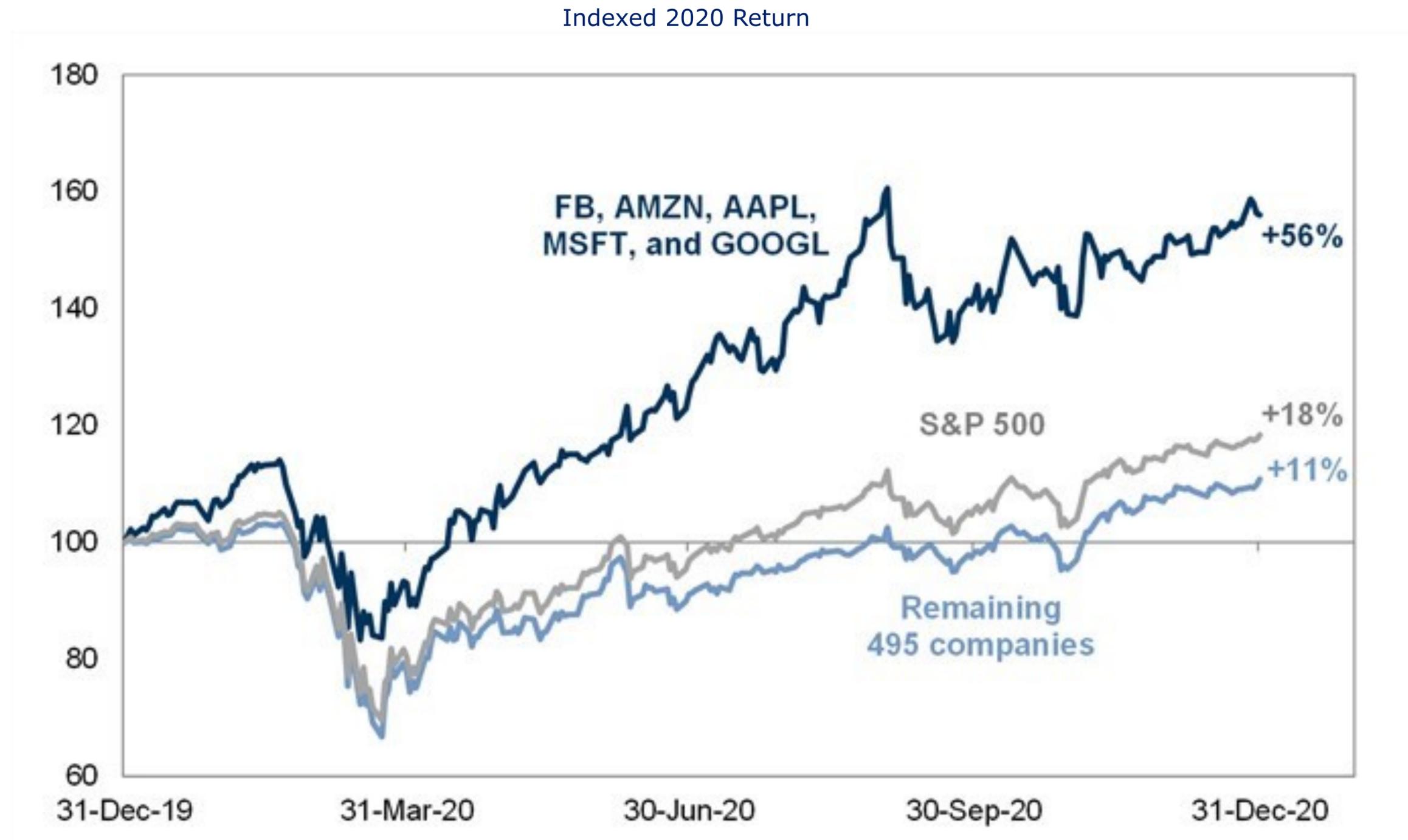
Record Concentration Of Market Cap In Five Largest Stocks Is "Earned"

S&P 500 Earnings Share vs. Market Value Share



Source: Johns Hopkins, Fundstrat, Bloomberg, FacSet. Data as of July 23, 2020. Report as of July 30, 2020.

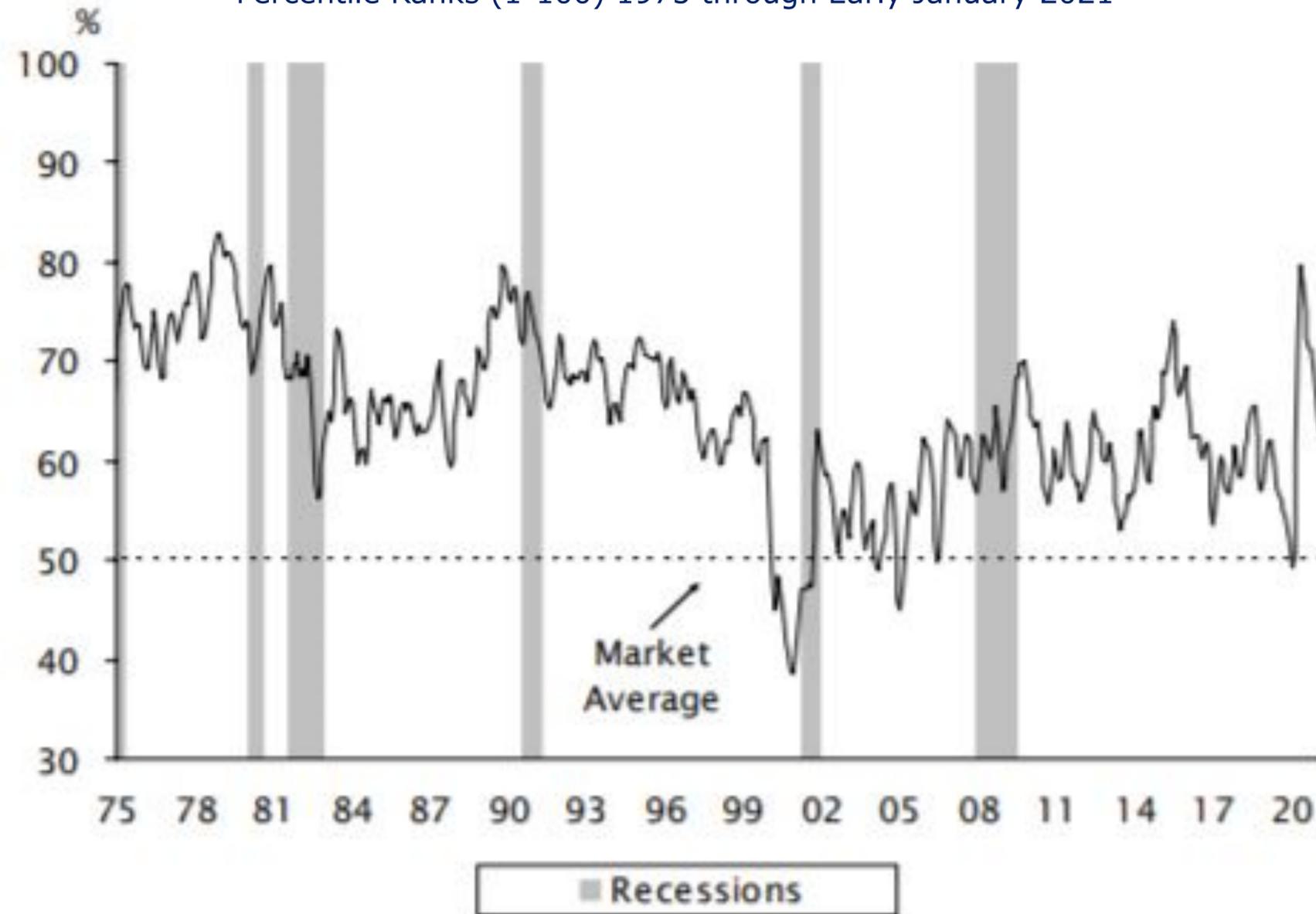
495 Stocks Are Still On Sale!



Source: Factset, Goldman Sachs Global Investment Research as of January 14, 2021

Risk On! Watch Controversy Within Travel-Related Stocks - Yet To Be Resolved

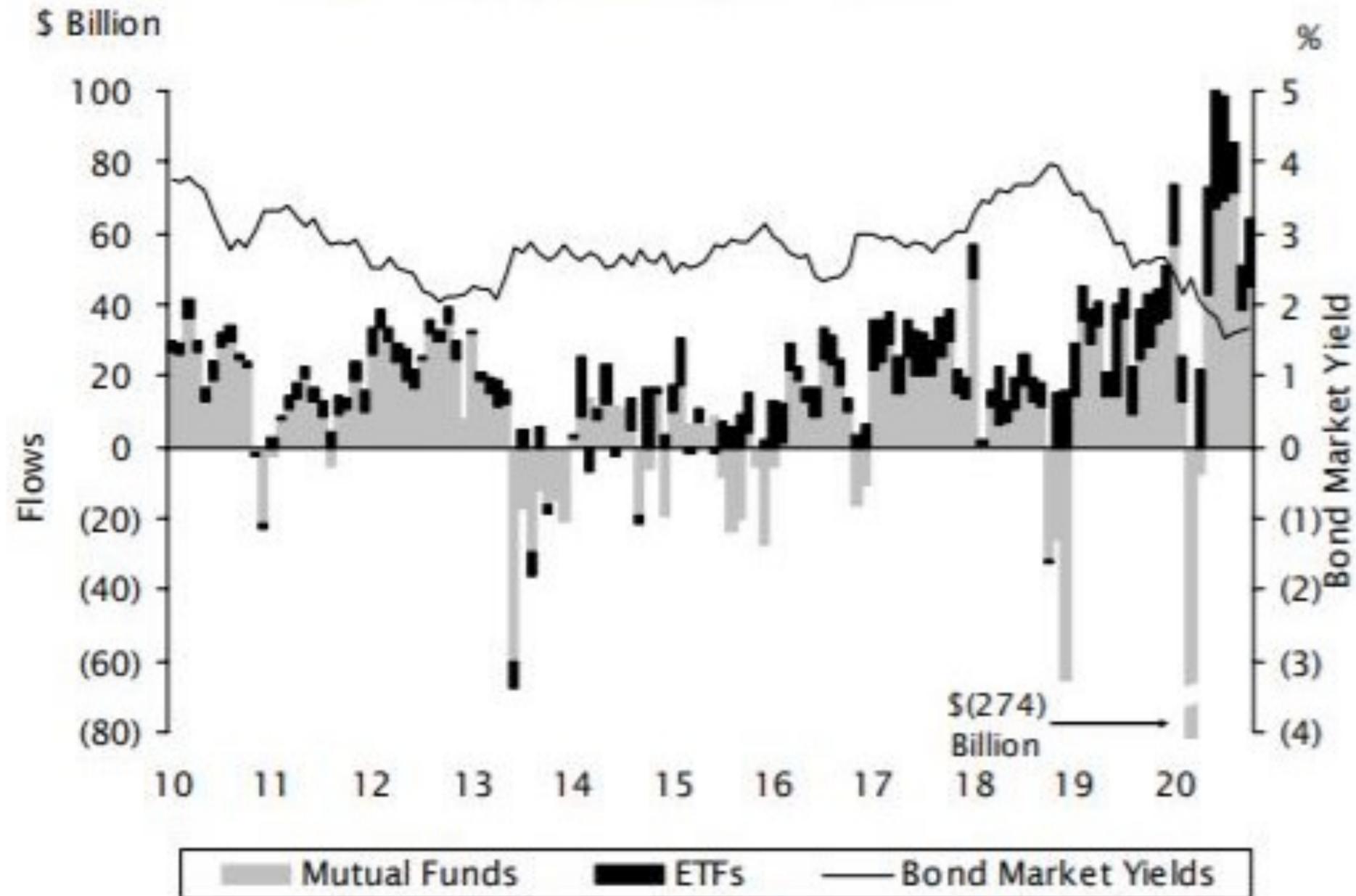
Large-Capitalization Travel Related Stocks* Arbitrage Risk
Percentile Ranks (1-100) 1975 through Early January 2021



*Comprises airlines, airport services, casino and gaming, hotels, restaurants and leisure and internet travel booking businesses
Source: National Bureau of Economic Research, Empirical Research Partners Analysis, as of January 15, 2021

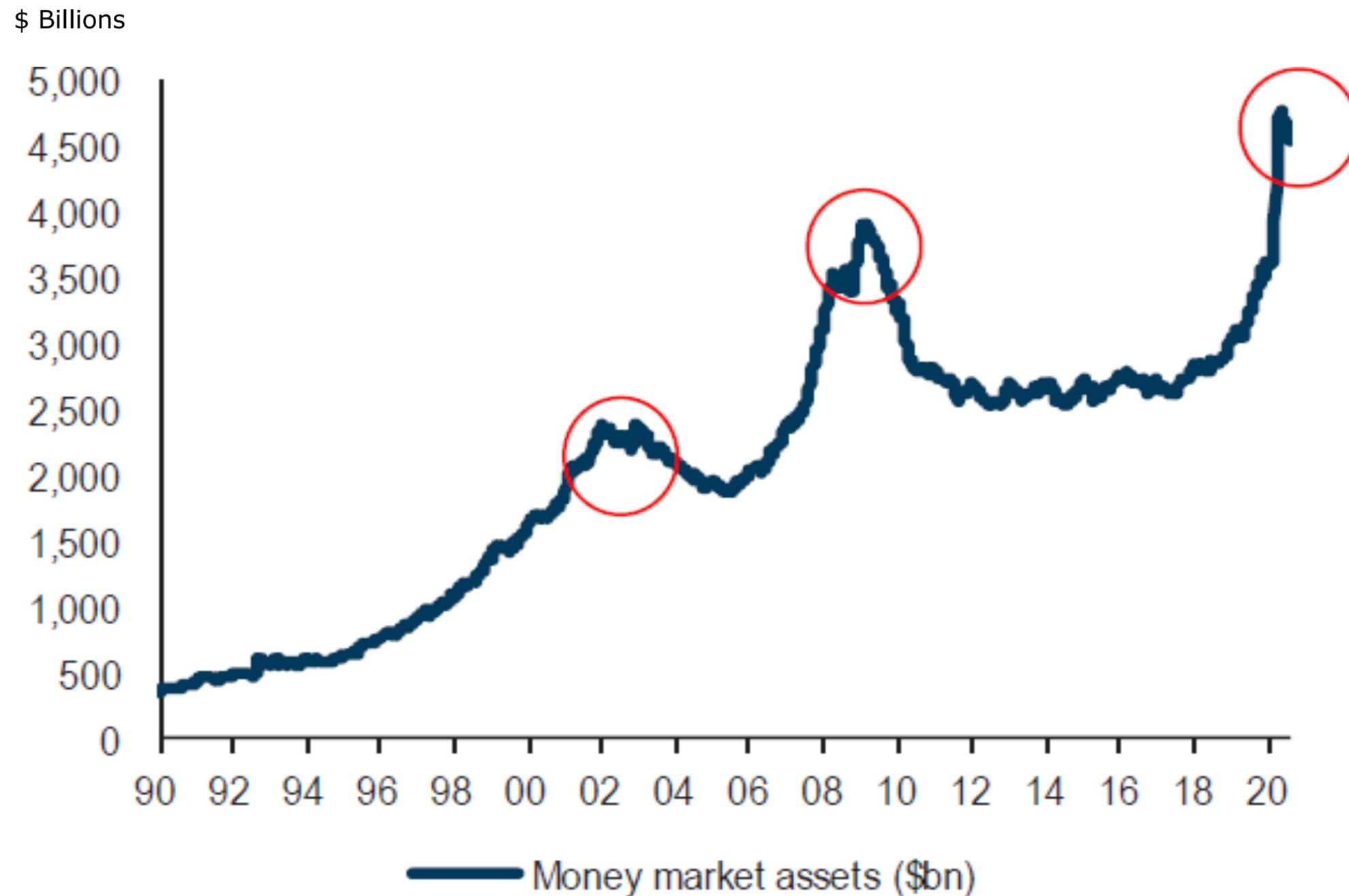
Meanwhile, The Love Affair With Bonds Continues

Bond Mutual Funds and ETFs Monthly Net Flows and the Yields of the U.S. Bond Market 2010 through October 2020



Source: Investment Company Institute, Empirical Research Partners Analysis as of December 27, 2020

A Record \$10T* Of Dry Powder "trumps" Whatever You May Be Worried About

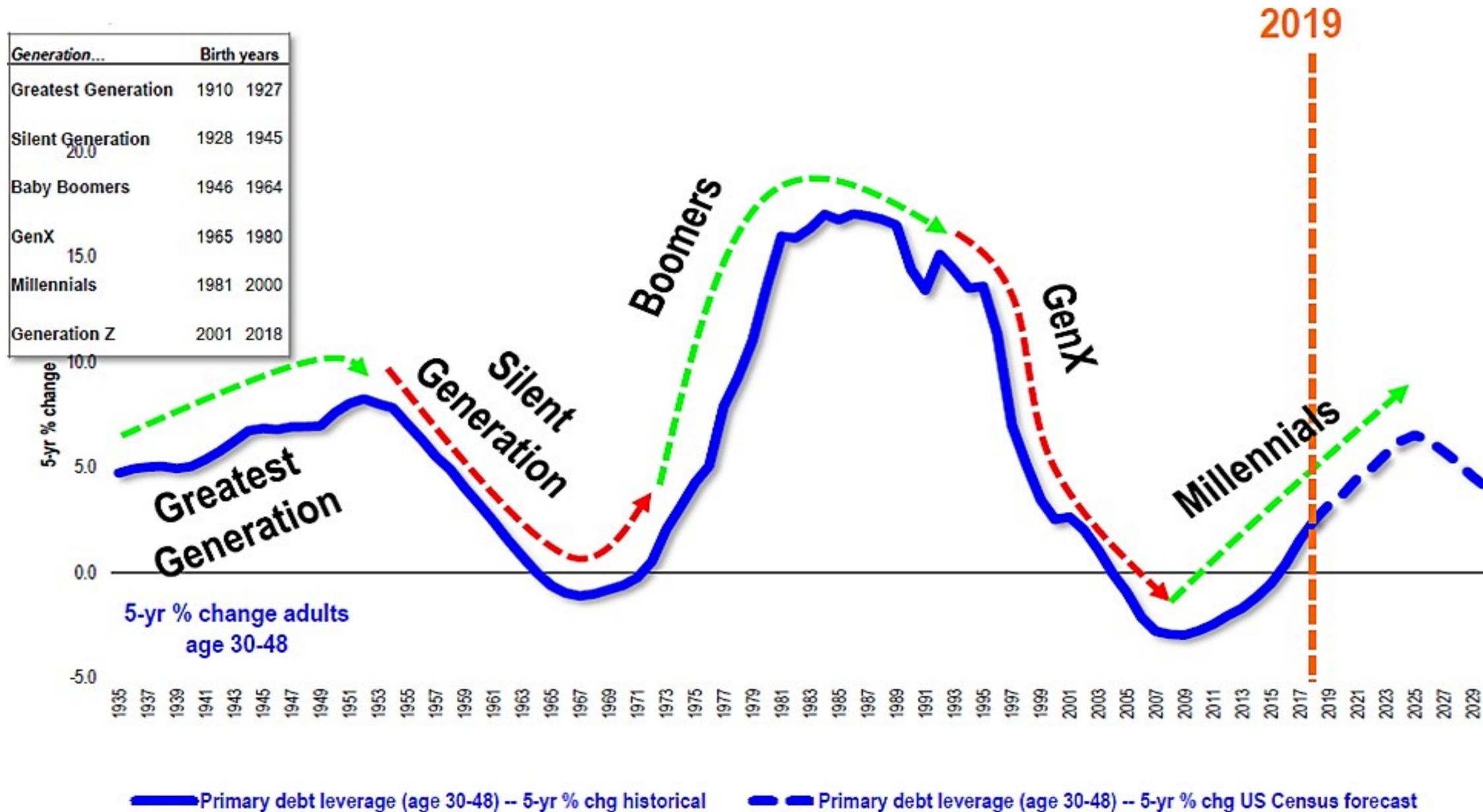


*\$2T in personal savings above normal, \$3T of money supply above normal, Fed balance sheet \$4T above normal, and Treasury cash balance \$1T above normal (Source: Evercore ISI)

Source: ICI, Bloomberg, Barclays Research. Report as of August 25, 2020.

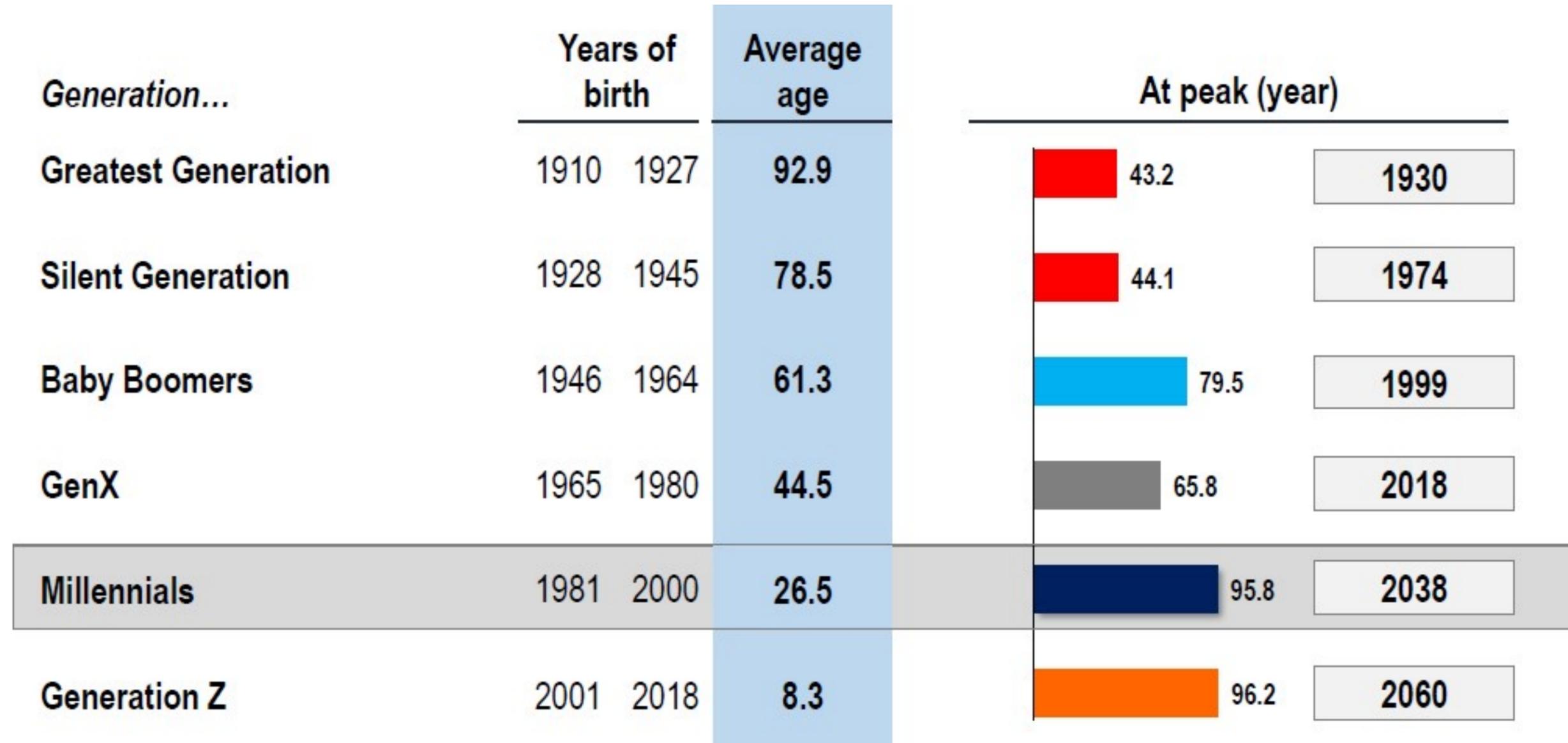
It All Depends On Your Time Horizon: In The Long Term, Prime Skilled Adults Age 30-48 Are Surging

Prime Leverage Years: # Adults Age 30-48 Since 1935 per the US Census Bureau



The Largest Generation Ever, Millennials Are Just Entering Their Prime Income Years

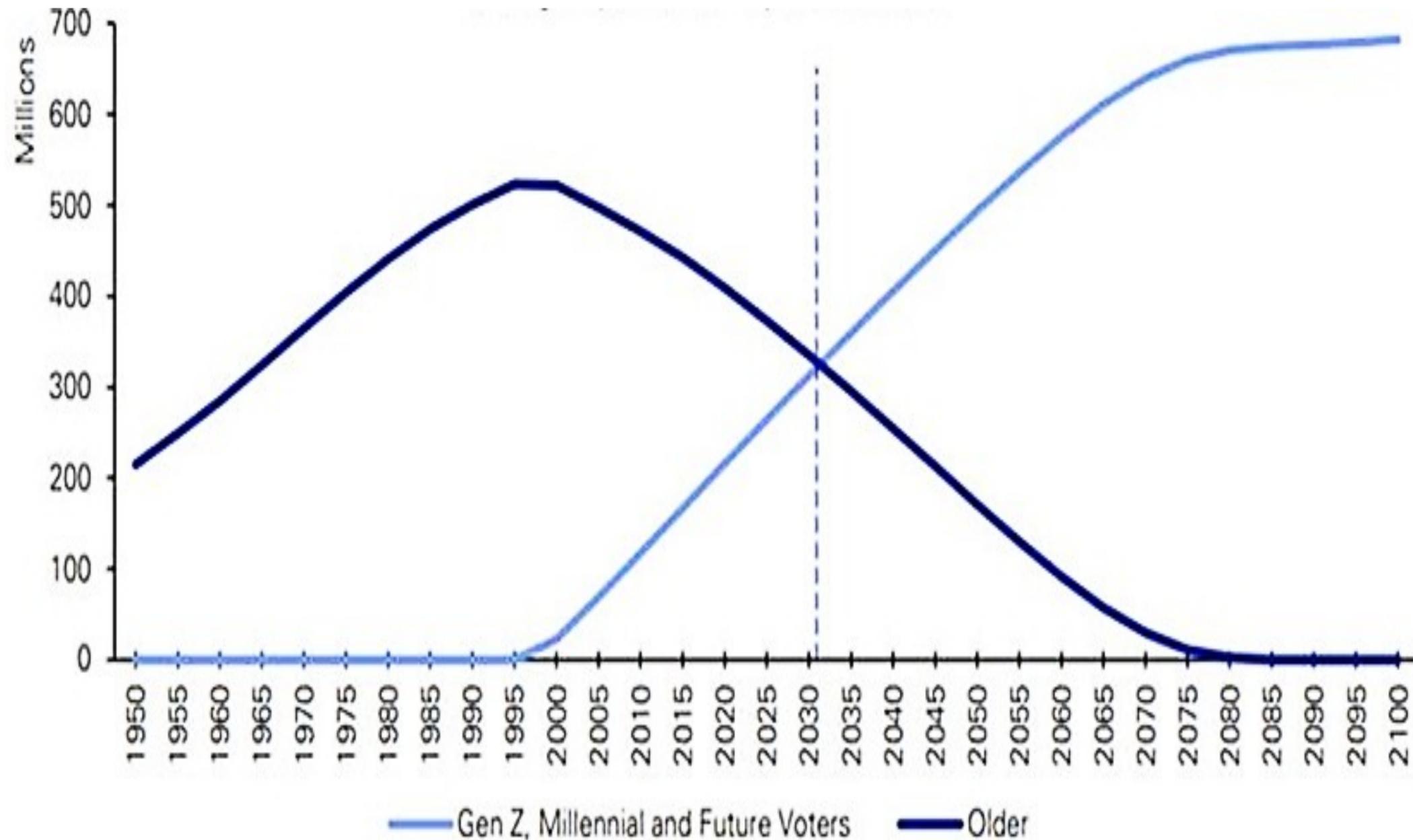
Total US Population Divided by Age Groups 2017



Peak population figures above include immigration. Reduced immigration will lead to a smaller overall size of GenZ..
Source: DESA UN Data sets, Fundstrat. Report as of July 30, 2020.

For Your Consideration-Millennials & Gen Z Will Have More Voters Than Older Generations By The End Of This Decade

Voting Populations* by Generations



*Voting population estimated from 17.5 years and older.
Source: United Nations, Haver, Deutsche Bank, as of September 9, 2020.

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LINDA DUESSEL



Mind on the Market

With more than 30 years of experience, Linda Duessel is nationally recognized for her expertise in analyzing equity market conditions. Linda discusses personal finance with investor groups across the country on topics of interest ranging from the impact of the alternative minimum tax to investing for retirement. Additionally, Linda has been extensively quoted by Associated Press, The Wall Street Journal and Barron's, as well as featured in the annual roundtable for USA Today.

As senior equity market strategist, Linda is part of the equity income team, which is responsible for formulating Federated's views about the market and the firm's positioning strategies within the equity income team. As senior client portfolio manager, she is responsible for articulating the strategy, process, positioning and performance of Federated's equity income products.

Interested in hearing more from Linda? Here are two ways:

1. **Read her weekly market views**
Look for them on our site and in our weekly email.
2. **Connect with her on LinkedIn**