

May 2020



The Pandemic Alphabet

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‘Gut Feelings’ Are Driving the Markets

- New York Times – Jan 3, 2020

Fed Minutes Show Comfort With Economy, Rate Stance

- Wall Street Journal – Feb 19, 2020

Market circuit breakers triggered Mar 9, Mar 12, Mar 16 and Mar 18...

Coronavirus: The month everything changed

- BBC News – Mar 28, 2020

I’m Scared. That’s a Reason to Buy.

- Wall Street Journal – Mar 23, 2020

The Possibilities

35%

V-shaped Recovery

- Strong 2H recovery
- Fed/Fiscal backstop
- Impact temporary
- No second wave
- Prev. levels in 2021

35%

U-shaped Recovery

- Widespread risk-off
- Policy not enough
- Temporary furloughs become permanent
- Recovery drags

20%

L-shaped Unrecovery

- Activity at a trickle
- Massive GDP hits
- De-globalization
- Bankruptcies
- Prolonged bear mkt

10%

I is for Inflation

- Strong US recovery
- Int'l weakness lingers
- Resource constraints
- Debt levels pile on
- CBs pushed to contain inflation

Scenarios and probabilities as of March 2020. Source: BNY Mellon Global Economics and Investment Analysis team.

1. The Dramatic Disconnect:

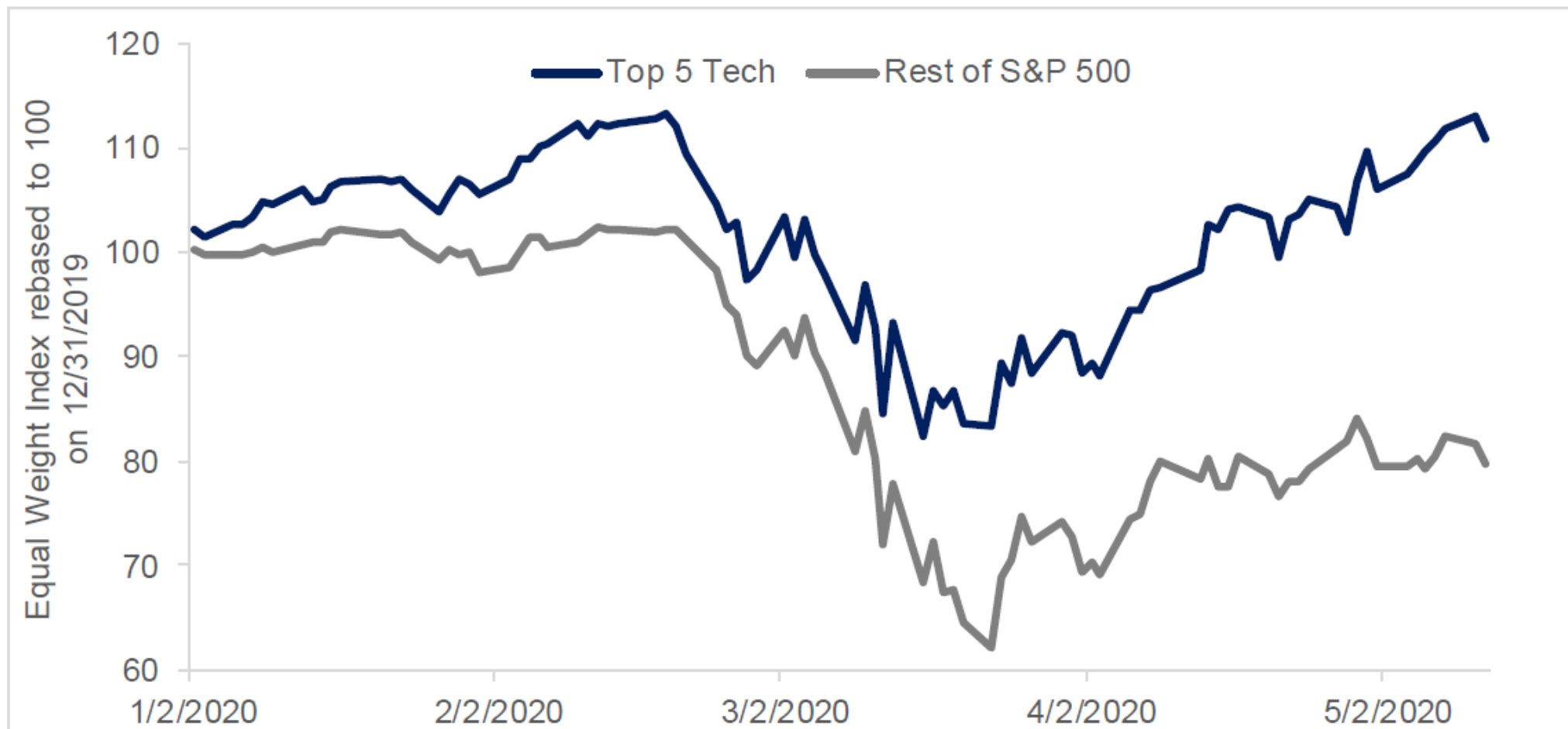
- **Economy ≠ Markets**
- **Tech ≠ Everything Else**

2. Guidance shifts from “Obey the rules!” to “Participate in the restart!”

3. Looming new world order

- **Threat of de-globalization**
- **Emergence of regional trading blocks**

The Dramatic Disconnect, illustrated



Top 5 Tech: Amazon, Facebook, Apple, Google, and Microsoft. Current members of S&P 500 on 4/30/2020 used. Data as of May 12, 2020. Source: Bloomberg

Risk is measured by the difference between **consensus** and **reality**

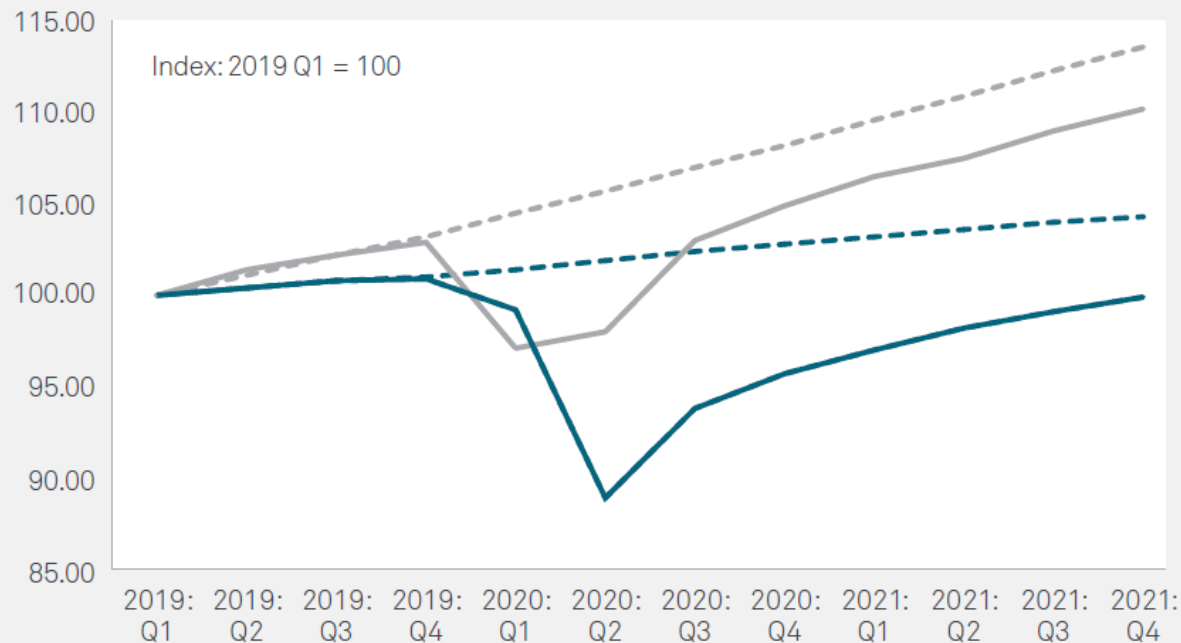
Quarterly World GDP

IMF Estimates in **January 2020** for:

- Advanced Economies
- Emerging Market and Developing Economies

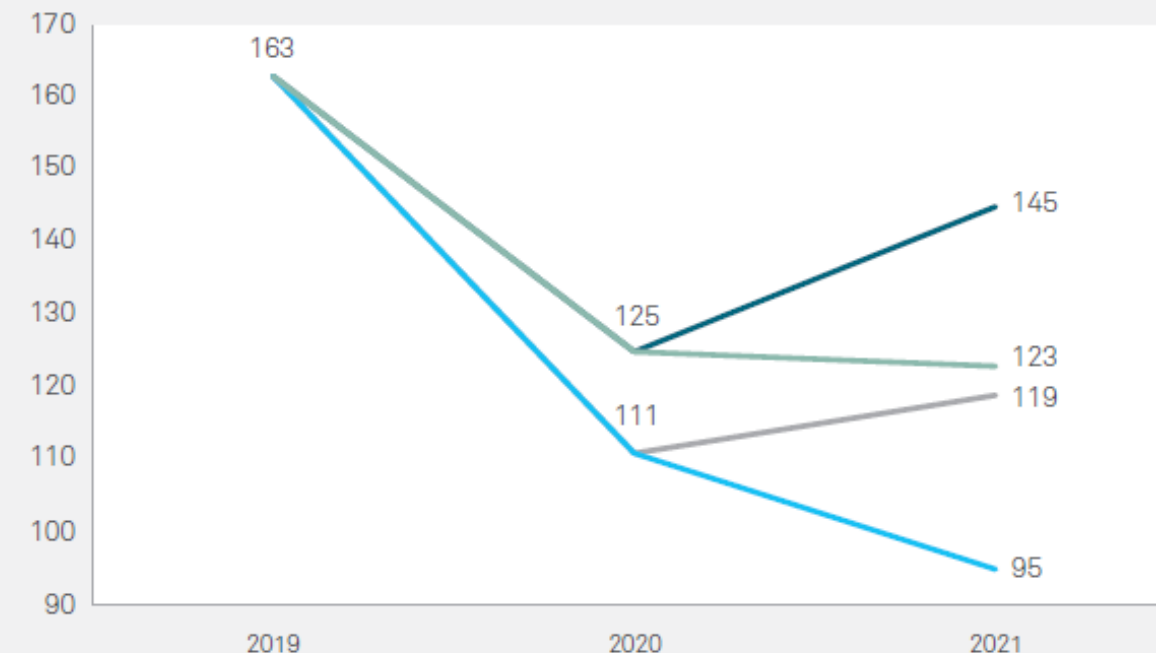
IMF Estimates in **April 2020** for:

- Advanced Economies
- Emerging Market and Developing Economies



S&P 500 EPS scenarios

- Baseline
- Scenario with longer lockdown
- Scenario with a second, but milder, virus outbreak
- Scenario with a longer lockdown and second, but milder, virus outbreak



Source: IMF and BNY Mellon Investment Management calculations as of April 2020. In the baseline scenario, the pandemic is assumed to fade in the second half of 2020, allowing for a gradual lifting of containment measures, with policy actions being effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains. The first alternative estimates the impact of the fight against the spread of the virus in 2020 taking roughly 50 percent longer than assumed in the baseline. The second alternative considers the impact of a second, but milder, outbreak occurring in 2021. The third alternative estimates the potential impact of both the outbreak taking longer to contain in 2020 and a second outbreak occurring in 2021. All three scenarios contain four common elements: the direct impact of measures to contain the spread of the virus; tightening in financial conditions; discretionary policy measures to support incomes and ease financial conditions; and scarring resulting from the economic dislocation that policy measures are unable to fully offset.

Disclosures

All investments involve risk, including the possible loss of principal. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

Important Disclosures:

INDEX DEFINITIONS

The **S&P 500 Composite Index (S&P 500)** is designed to track the performance of the largest 500 U.S. companies.

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