

# Four Ways COVID has changed the economy and markets... or has it?

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New York Life Investments

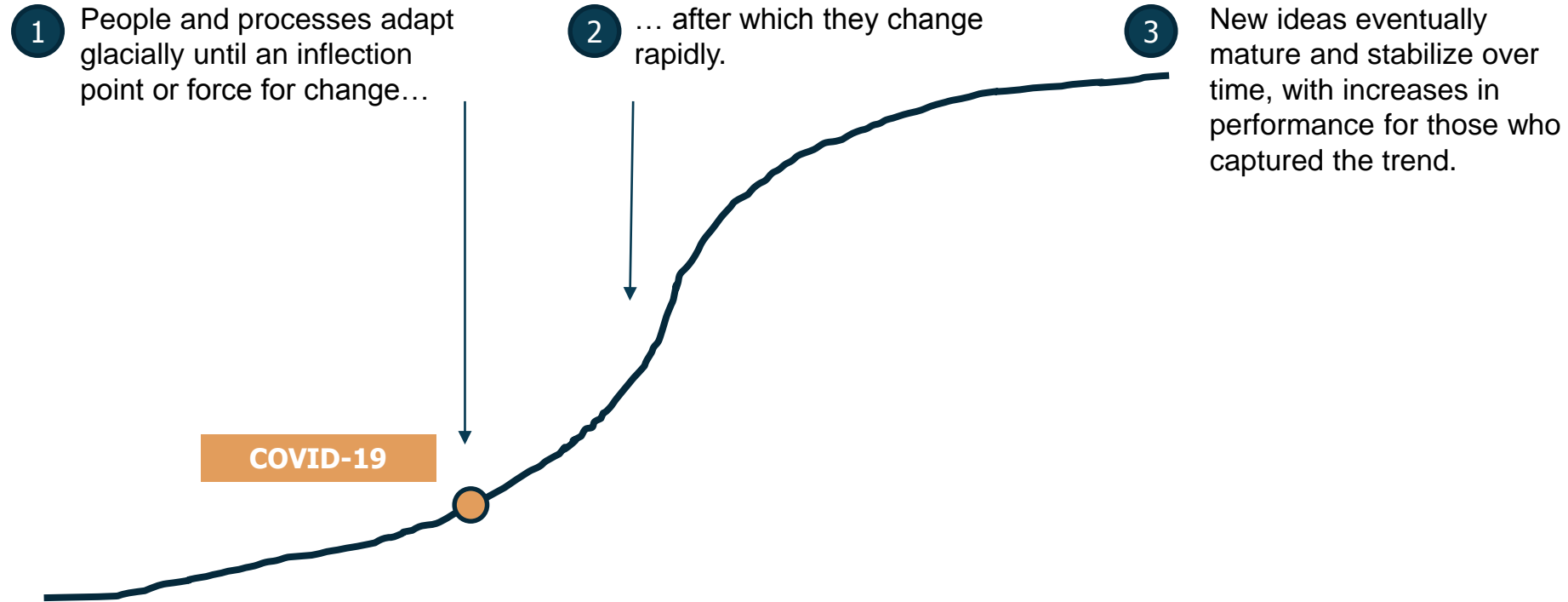
March 4, 2021



INVESTMENTS

This material represents an assessment of the market environment as at a specific date; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results.

# COVID's many changes: accelerate or ideate?



Source: New York Life Investments Multi-Asset Solutions, 2020. For illustrative purposes only.

# A transformed investment environment

- 1) Cyclical rotation
- 2) Indebtedness
- 3) Lower for longer interest rates
- 4) The future of cities

# Near-term economic reality depends on virus containment and policy support



Source: New York Life Multi-Asset Solutions, 2020.

# Vaccine rollout supports synchronized recovery

Safety and efficacy results support the rollout of vaccines



THE WALL STREET JOURNAL  
[FDA Says Pfizer-BioNTech Vaccine Is Safe, Effective](#)



BBC NEWS  
[Oxford Covid vaccine 'safe and effective' study shows](#)

BBC News

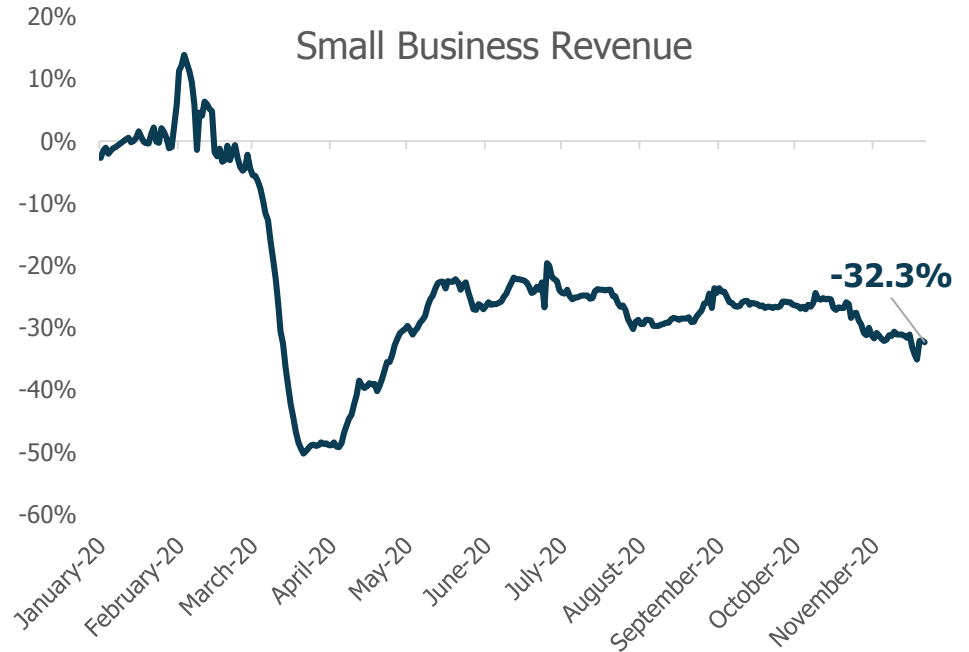
## Moderna: Covid vaccine shows nearly 95% protection

A new vaccine that protects against Covid-19 is nearly 95% effective, early data from US company Moderna shows. The results come hot on the ...

Source: New York Life Multi-Asset Solutions, Wall Street Journal, BBC News, 12/15/20.

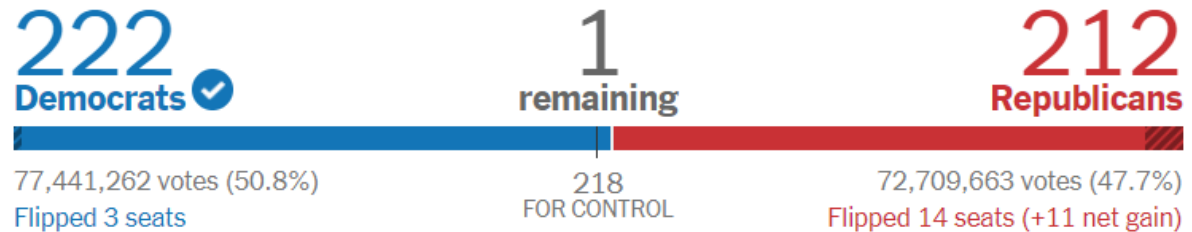
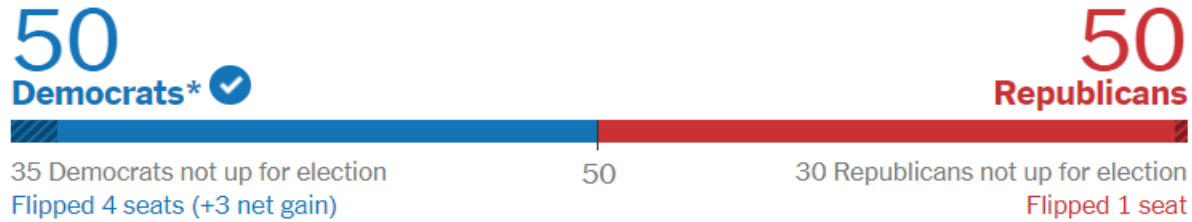
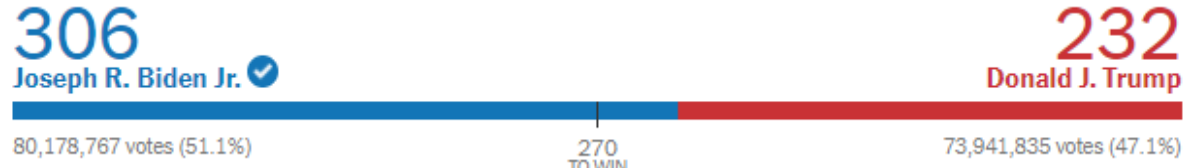
# Surge in coronavirus cases weighs on the economy in the near term

Small Business revenue down 32% versus 2020 levels



Source: New York Life Investments Multi-Asset Solutions, Track the recovery.org, as of 01/21/21. Past performance is no guarantee of future results. Percentage change in small business revenue is indexed to Jan 4 2020 and seasonally adjusted. The series is based on data from Womply.

# Fiscal support is highly uncertain.



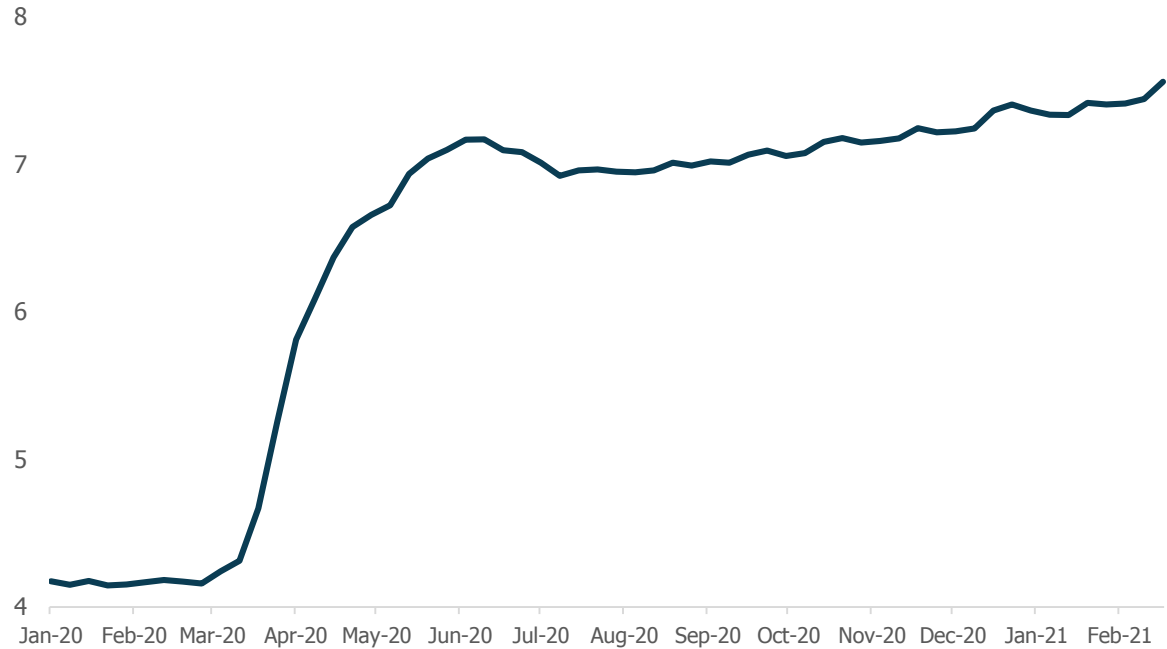
\*Democrats not up for election include two independents, Senator Bernie Sanders of Vermont and Senator Angus King of Maine, who caucus with the Democrats. Multi-Asset Solutions, New York Times; as of 02/24/21.

Source: New York Life Investments

# Federal Reserve support likely to persist



Fed balance sheet, trillions

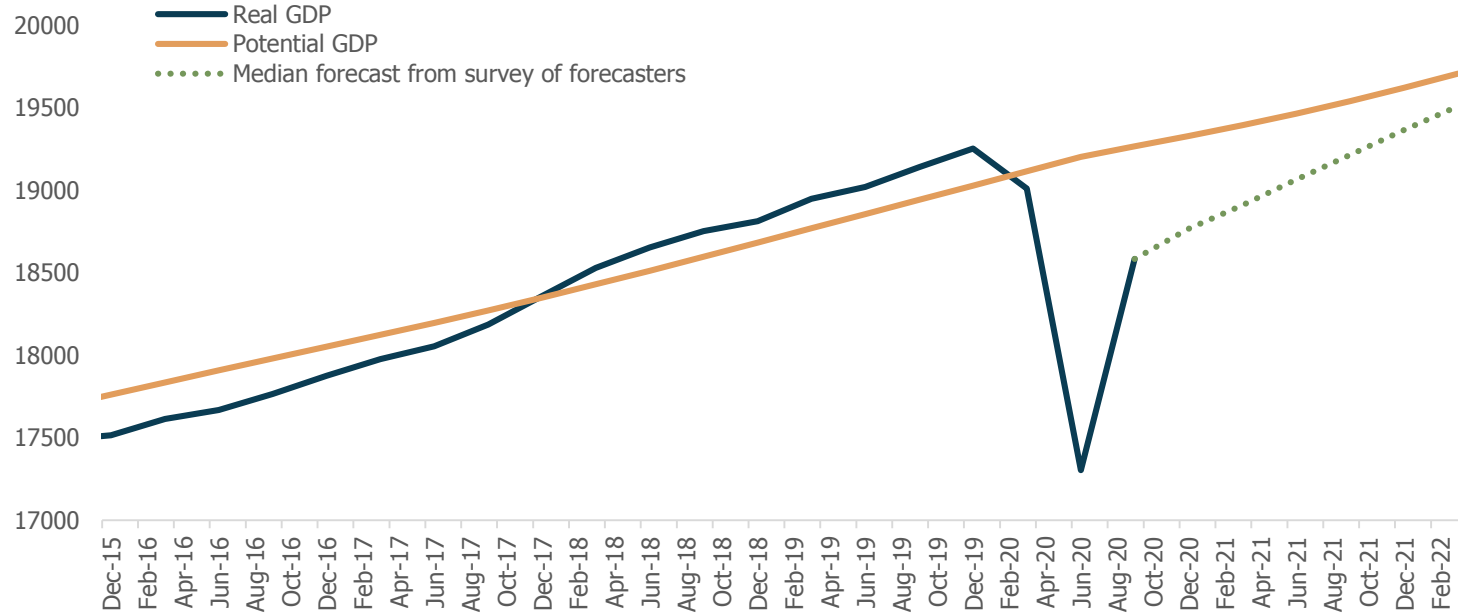


Source: New York Life Investments Multi-Asset Solutions, Federal Reserve Bank of St. Louis, as of 02/24/21.



# Despite market run-up in 2020, economic activity still far below its pre-pandemic trend

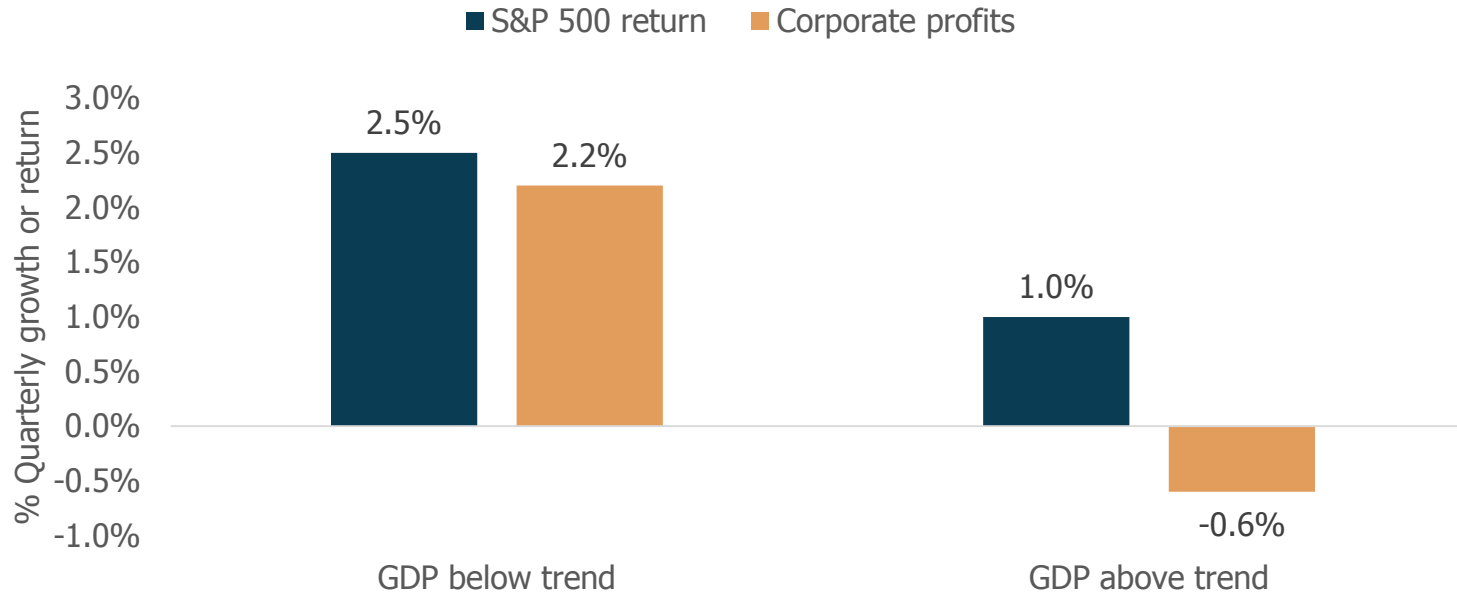
GDP in billions



Source: New York Life Investments Multi-Asset Solutions, New York Life Multi-Asset Solutions, Bloomberg LP, Congressional Budget Office (CBO), 12/3/20.

# Playing “catch up” could be good news for risk assets

Profits grow faster, and returns are better, when GDP is below trend

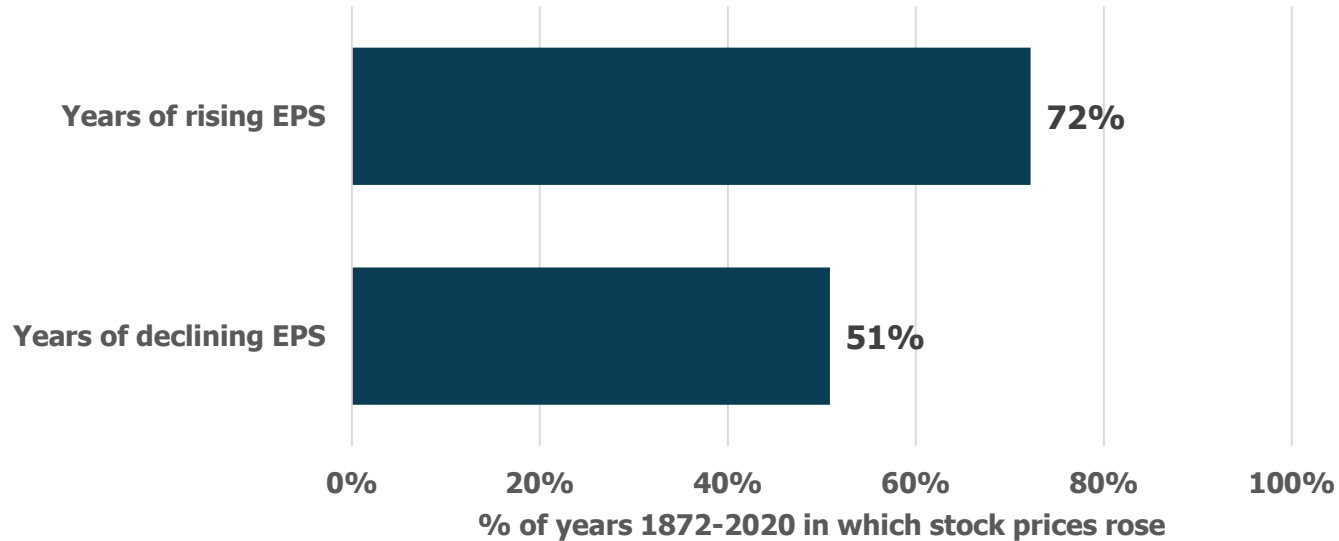


Source: New York Life Multi-Asset Solutions, Robert Shiller, Thomson Reuters, Bloomberg, 12/5/20. We use Shiller's stock index and earnings per share series from 1871-1984 and Thomson Reuters Operating EPS (trailing) and the S&P 500 Index for 1985-2020.

# Equity returns tend to follow corporate profit growth

## Probability that S&P 500 is up

*Annual data, 1872-2020*



Source: New York Life Multi-Asset Solutions, Robert Shiller, Thomson Reuters, Bloomberg, 12/5/20. We use Shiller's stock index and earnings per share series from 1871-1984 and Thomson Reuters Operating EPS (trailing) and the S&P 500 Index for 1985-2020.

# Recovering economy and markets likely point to style rotation

## Vaccine Day 11/9/2020

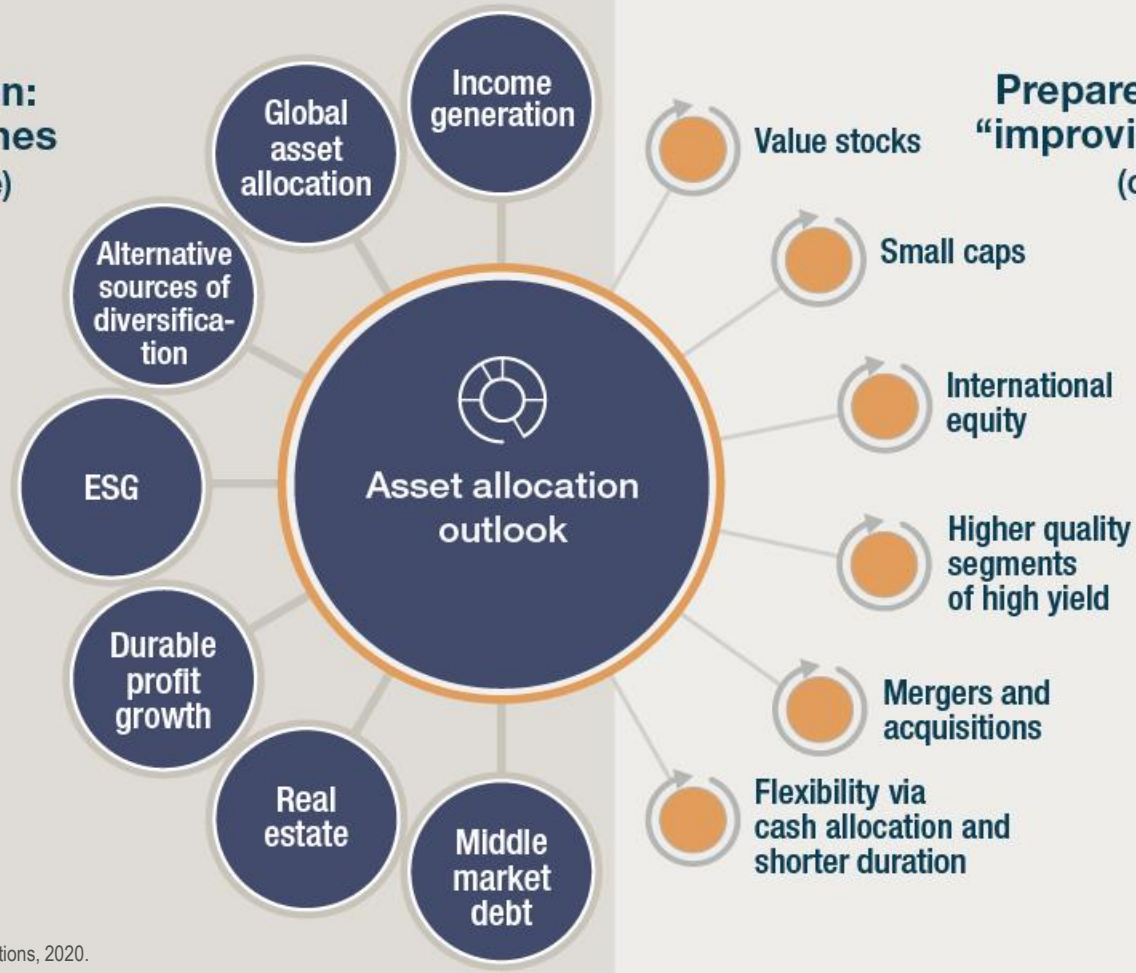
	Value	Core	Growth
Large	6.19%	5.47%	4.79%
Mid	7.33%	8.04%	9.33%
Small	14.64%	15.11%	15.55%

## 2020

	Value	Core	Growth
Large	1.78%	18.89%	35.18%
Mid	3.96%	15.80%	33.70%
Small	4.46%	18.97%	32.69%

Source: NYLI Multi Asset Solutions team, As of 12/31/20. Past performance is no guarantee of future results which may vary. An investment cannot be made directly into an index. Size and style is represented by the Russell index family.

**Core allocation:  
long-term themes**  
(quality, income)



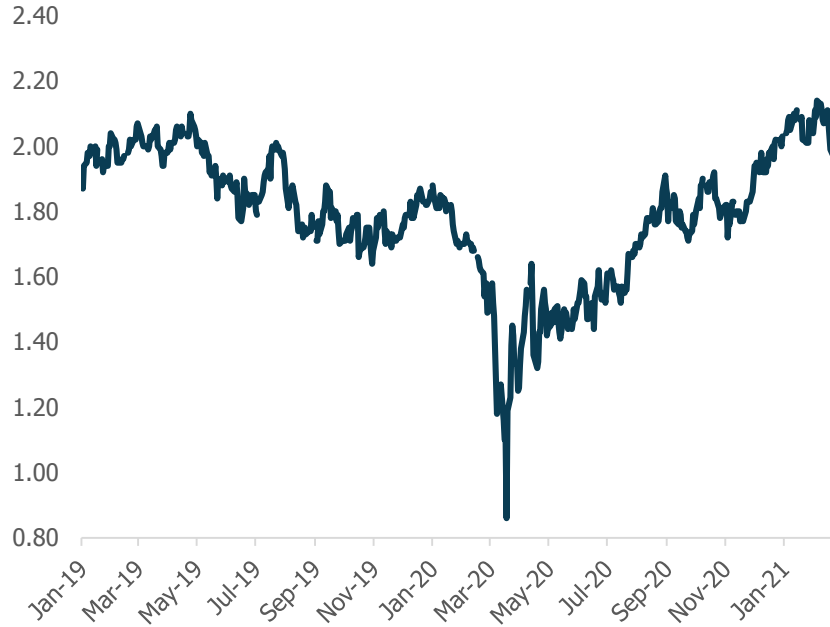
**Prepare for rotation: 2021  
"improving economy" ideas**  
(cyclicals, beta)

Source: New York Life Multi-Asset Solutions, 2020.

# Risks: rising rates in 2021

## Inflation expectations

*5 year, 5-year forward inflation expectation rate*



## Yield curve steepening

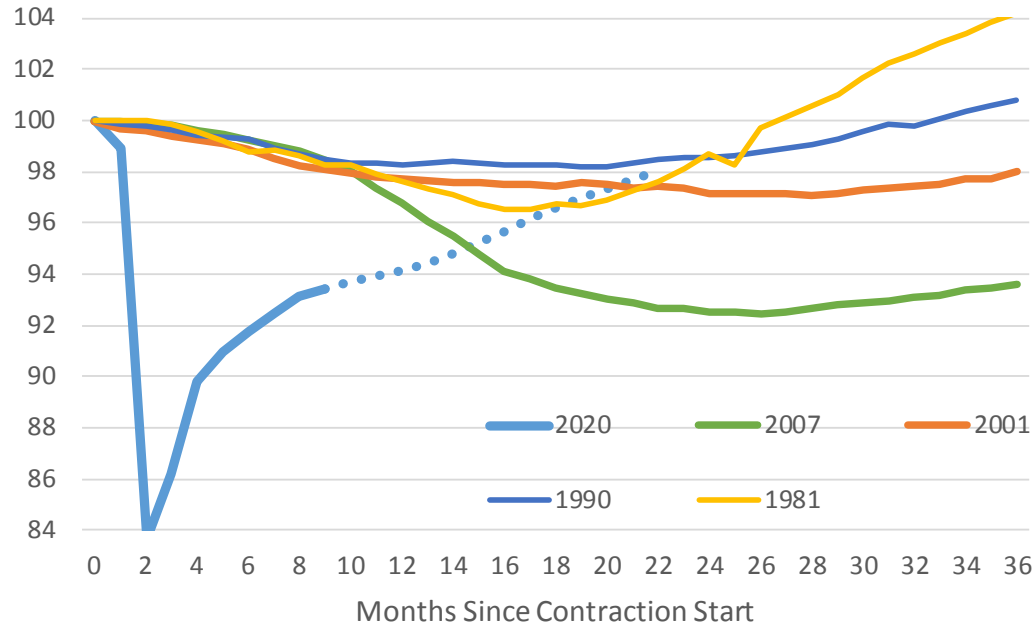
*U.S. 10Y - 2Y yield*



Source: New York Life Investments Multi-Asset Solutions, Federal Reserve Bank of St. Louis, Bloomberg LP, 2/24/21. Past performance is no guarantee of future results.

# Risks: labor market recovery

## Change in private payrolls during & after recessions *(indexed to 100 at prior cycle peaks)*

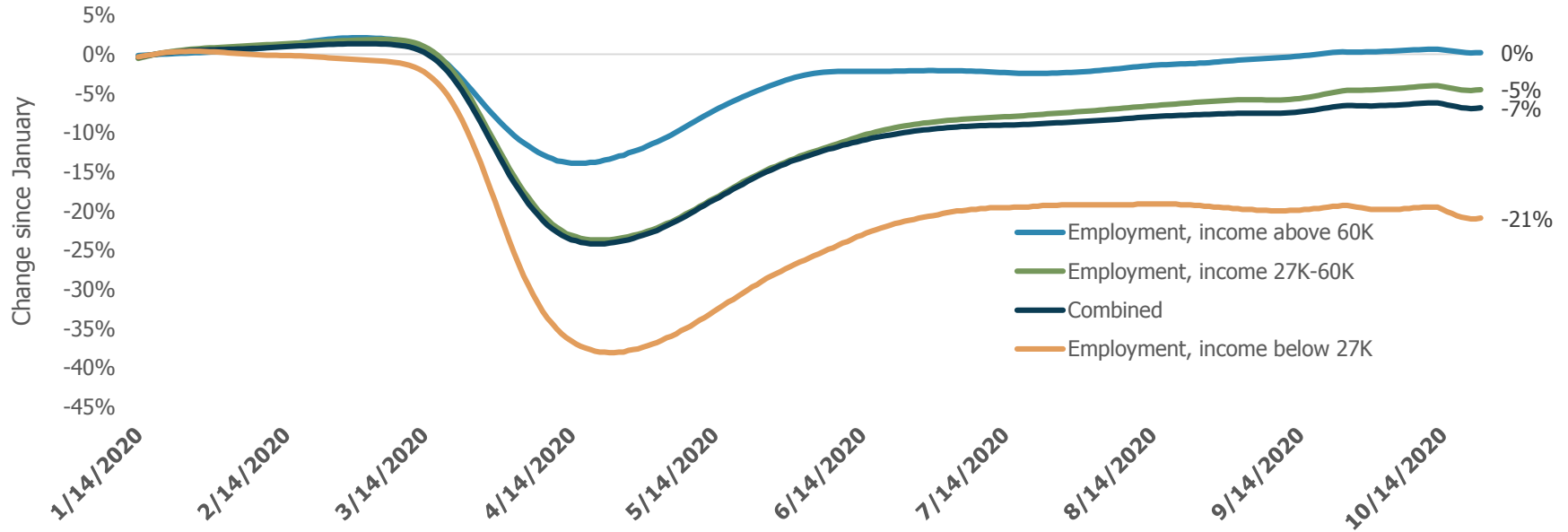


Source: BLS, MacKay Shields, Macroeconomic Advisors/IHS Markit, as of 12/31/20.

# Risks: COVID 19 heightens trends in equality

## COVID-19 has disproportionately impacted low-income workers

*Employment rates by income level*



Source: New York Life Investments Multi-Asset Solutions, Bloomberg, Shiller, Federal Reserve Bank of St. Louis, as of 8/12/2020. Past performance is no guarantee of future results.



# A transformed investment environment

Cyclical rotation

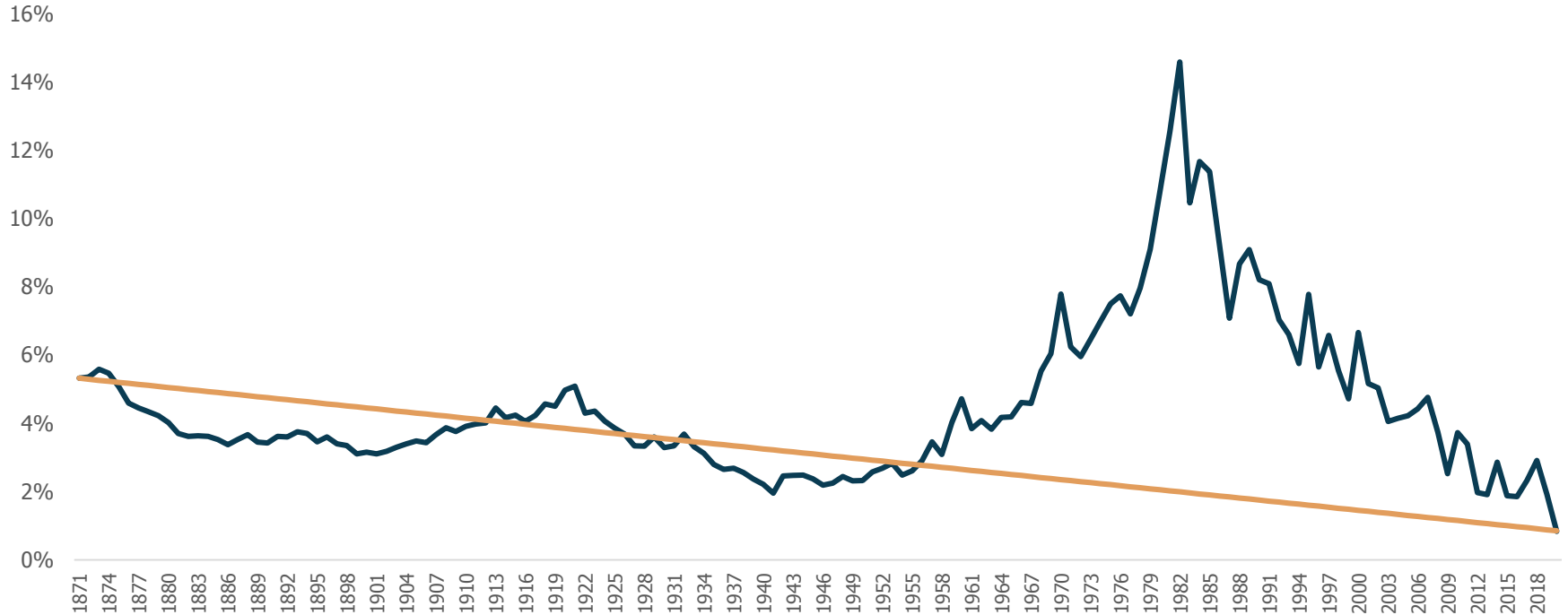
**Indebtedness**

Lower for longer interest rates

The future of cities

# The reach for yield drives everything

## Nominal U.S. Treasury 10-Year yield

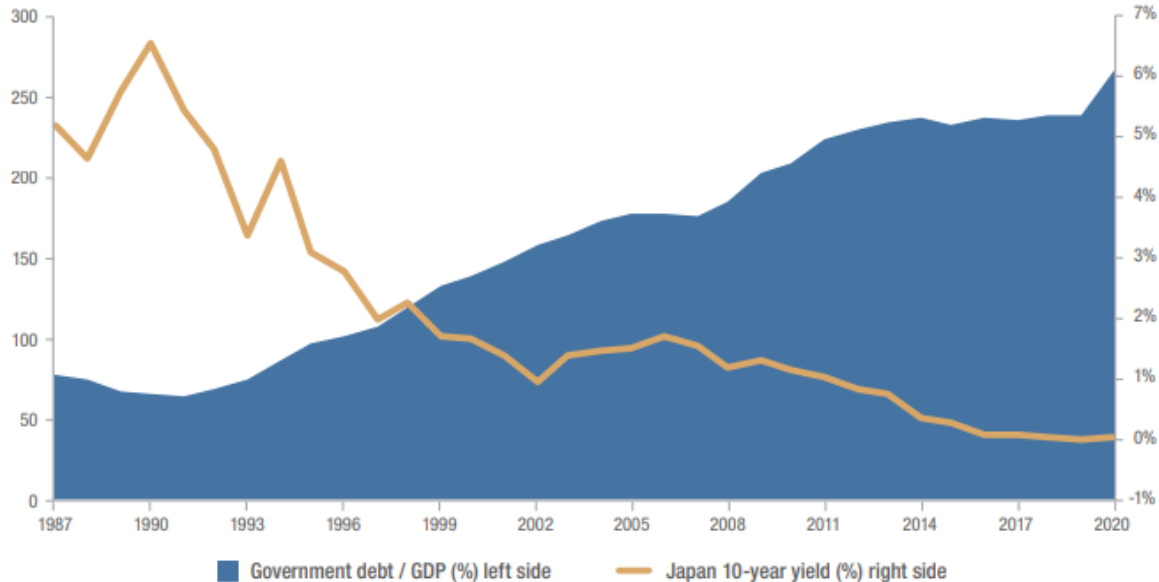


Source: New York Life Investments Multi-Asset Solutions, Bloomberg, Shiller, Federal Reserve Bank of St. Louis, as of 8/12/2020. Past performance is no guarantee of future results.

# Concerned about government deficits?

## The more you owe, the less it costs

### The example of Japan

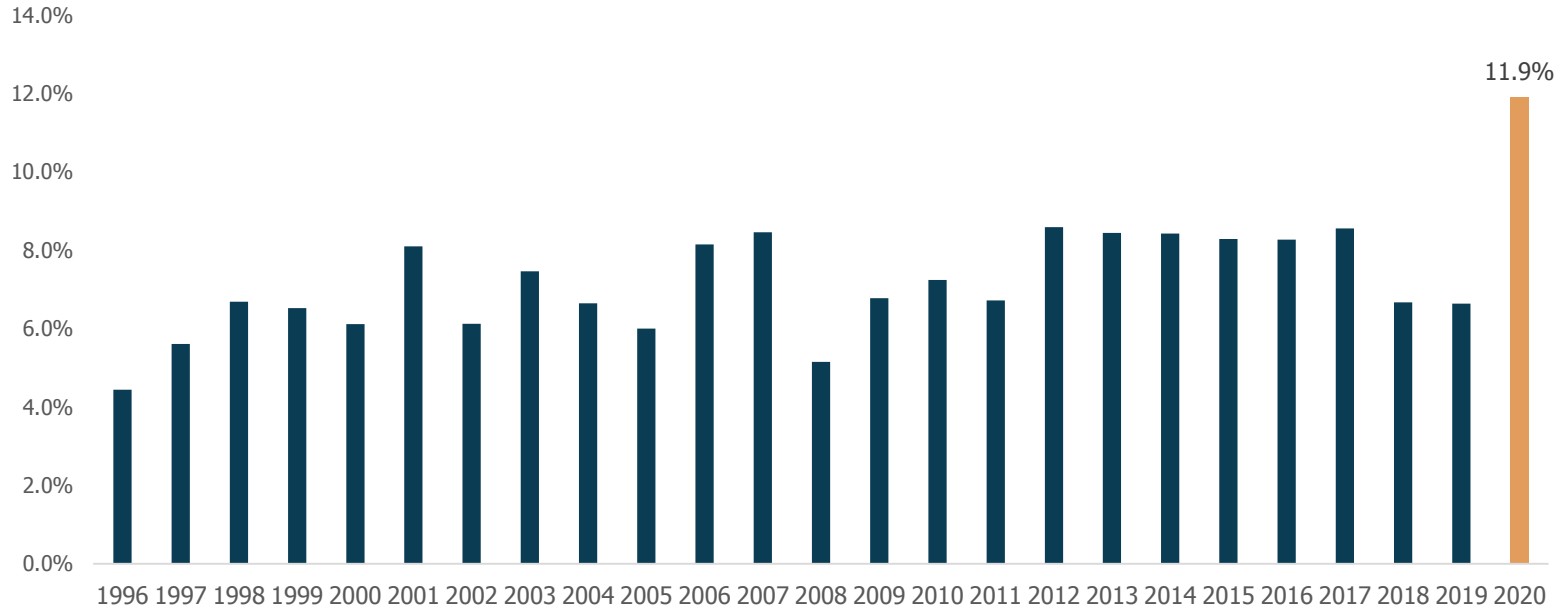


Source: New York Life Investments Multi-Asset Solutions; Citi; International Monetary Fund, World Economic Outlook Database, October 2020; Bank of Japan, 11/15/20.

# Debt issuance: vulnerability or good management?

## Companies have issued record debt in 2020

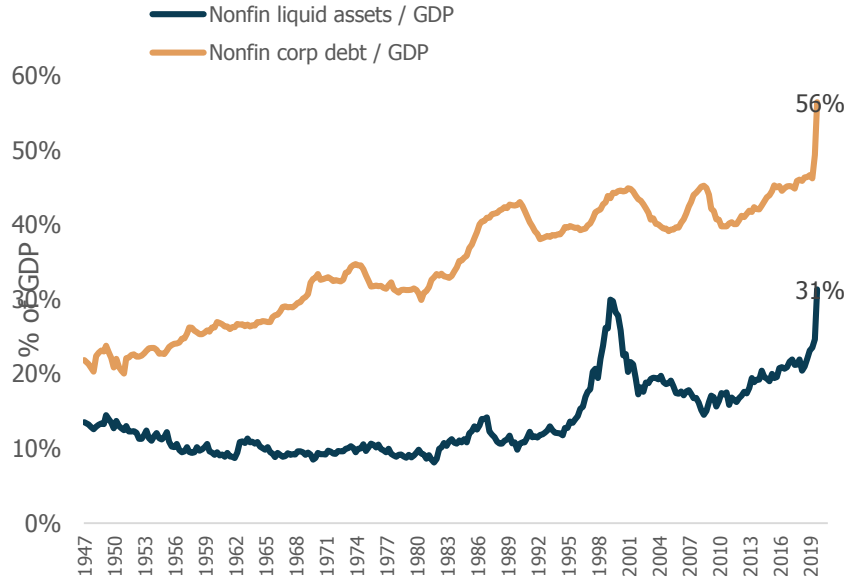
*Corporate debt issuance, % of GDP*



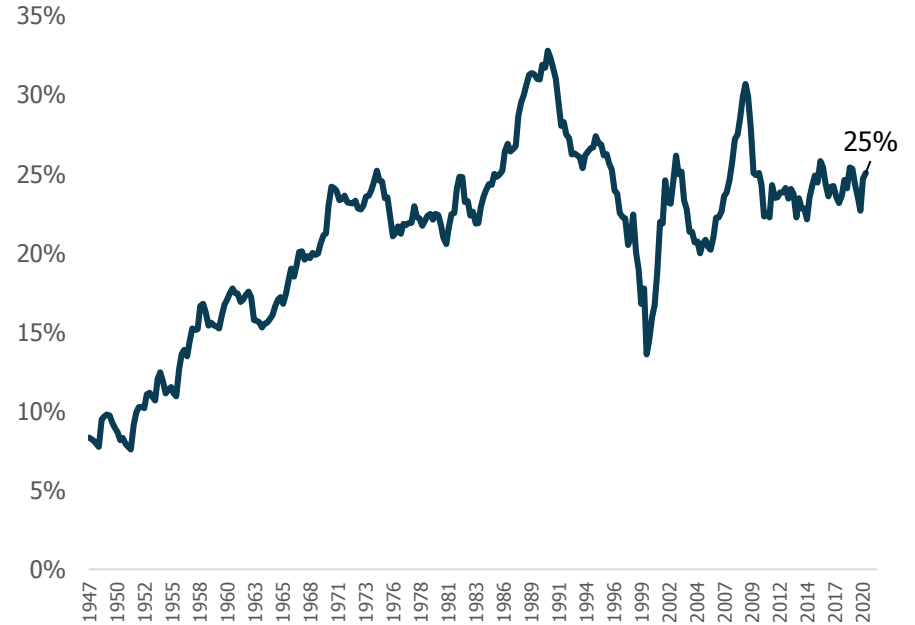
Source: New York Life Investments Multi-Asset Solutions, Federal Reserve Bank of St. Louis, sifma, 11/15/20. Corporate bond issuance for 2020 is estimated by assuming that the average pace of issuance through Jan - Oct will continue in Nov-Dec. GDP for 2020 is estimated by assuming the Atlanta Fed nowcast estimate for 4th quarter GDP holds true, adding consensus expectations for inflation.

# Corporations went on a borrowing binge to build liquidity reserves

*Flow-of-fund balance sheets for non-financial corporate businesses, public and private*



*Nonfinancial corporate business net debt / GDP ratio*

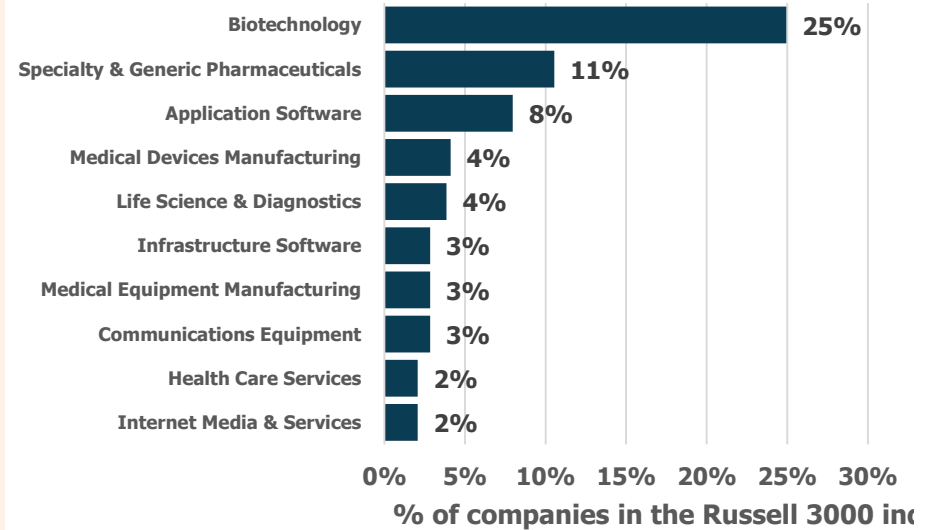


Source: New York Life Investments Multi-Asset Solutions, U.S. Federal Reserve Board, as of 12/2/20.

# 1 in 7 companies in the Russell 3000 is now a Zombie



## Zombies in the Russell 3000 Top 10 industries as of 12/8/2020

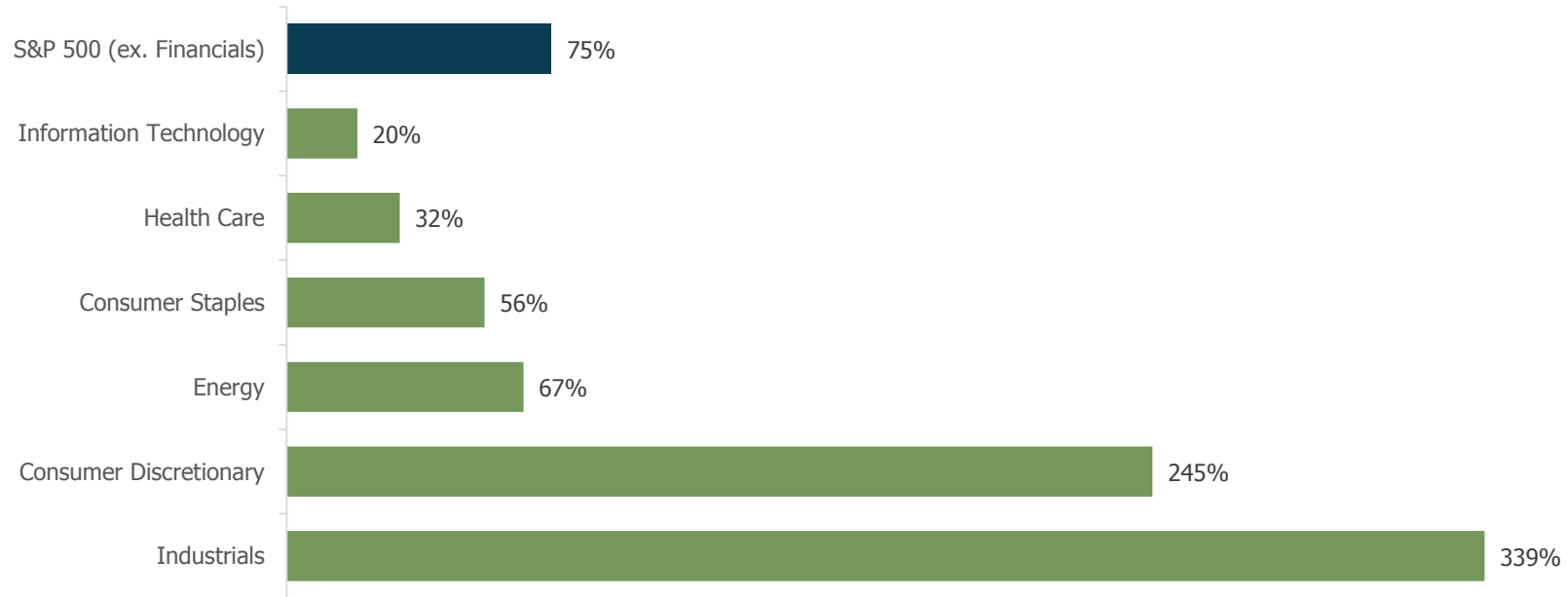


Source: New York Life Investments Multi-Asset Solutions, Financial times, Bloomberg equity screen counting companies for which the EBITDA/Interest cost ratio was < 1 on average over the last 12 quarters (3 years), shown by sub industry, For more background, see "Zombie" Companies: Background and Policy Issues, Congressional Research Service, October 29, 2020.

# Low interest rates drive fundamentals

## Corporate cash balances are up, especially in cyclical sectors

*Corporate cash holdings as of Q2 2020, %YOY*



Source: New York Life Investments Multi-Asset Solutions, JPMorgan, 11/15/20.

# A transformed investment environment

Cyclical rotation

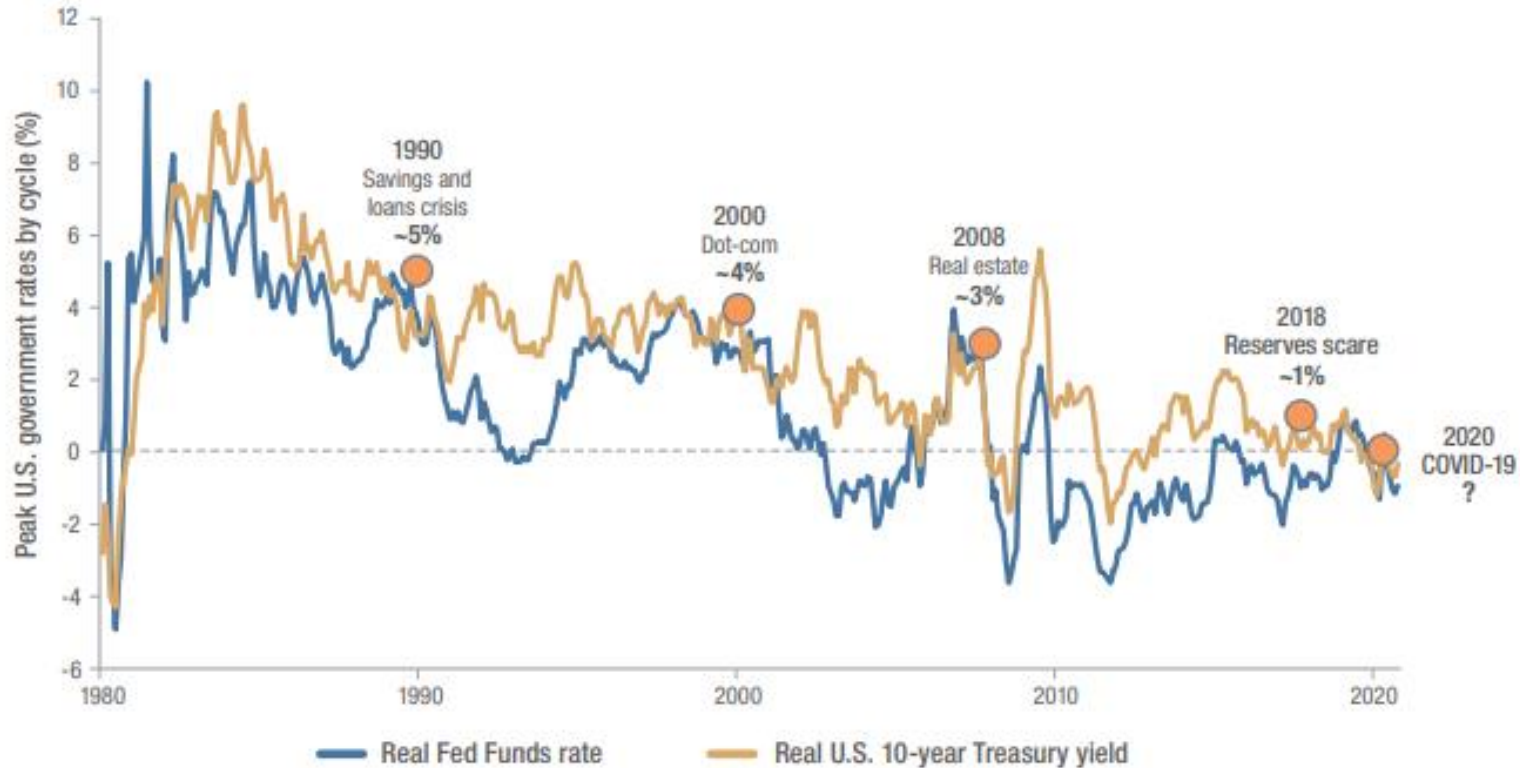
Indebtedness

**Lower for longer interest rates**

The future of cities



# The threshold for Fed support is declining



Source: New York Life Investments Multi-Asset Solutions, Citi Research; U.S. Federal Reserve; Bloomberg LP, 11/15/20.

# Is 60/40 dead? Bonds continue to provide important diversification to equities

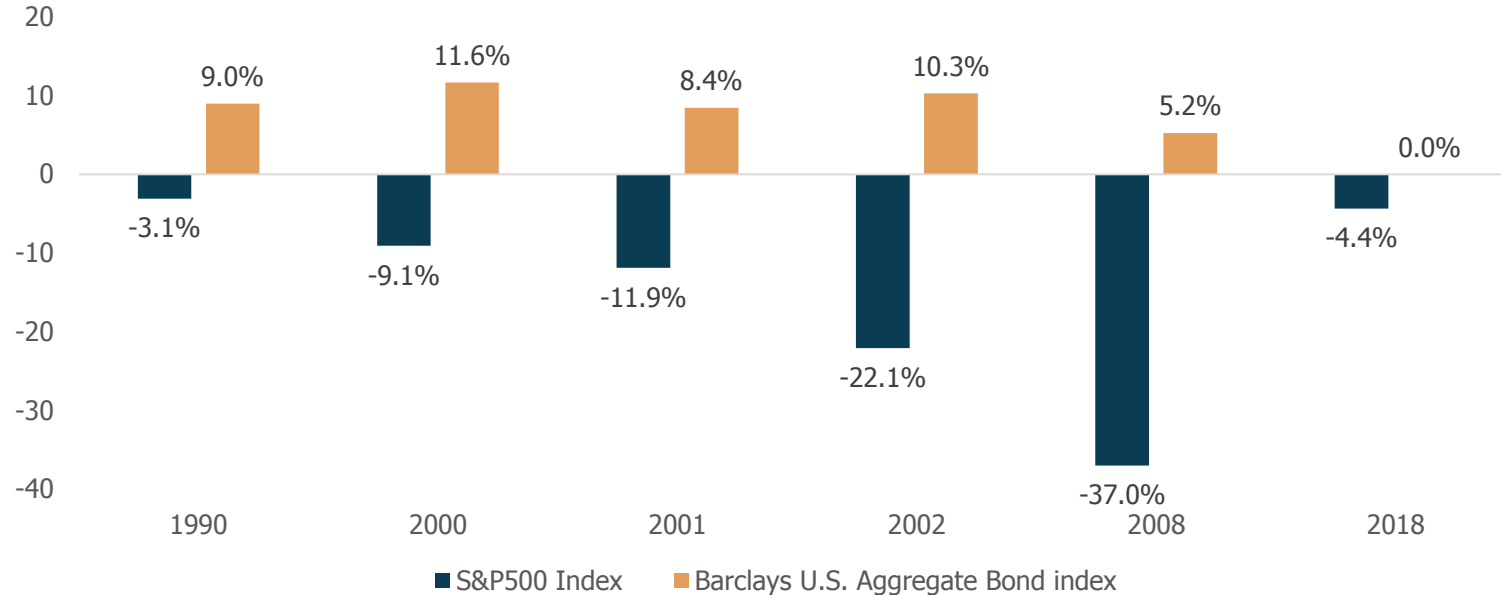
## 12-Month Rolling Weekly stock bond Correlation



Source: New York Life Investments Multi-Asset Solutions, Bloomberg, as of 12/14/2020. Past performance is no guarantee of future results. Stocks are represented by the S&P 500 total return bonds are represented by the 10-Year US treasury index. Correlation measures the mutual relationship or connection between two assets over a set time horizon. Correlation of +1 represents two assets that move perfectly together. Conversely, correlation of -1 represent two what move directly opposite and a measure of zero suggests no relationship.

# Is 60/40 dead? The past benefits of balance

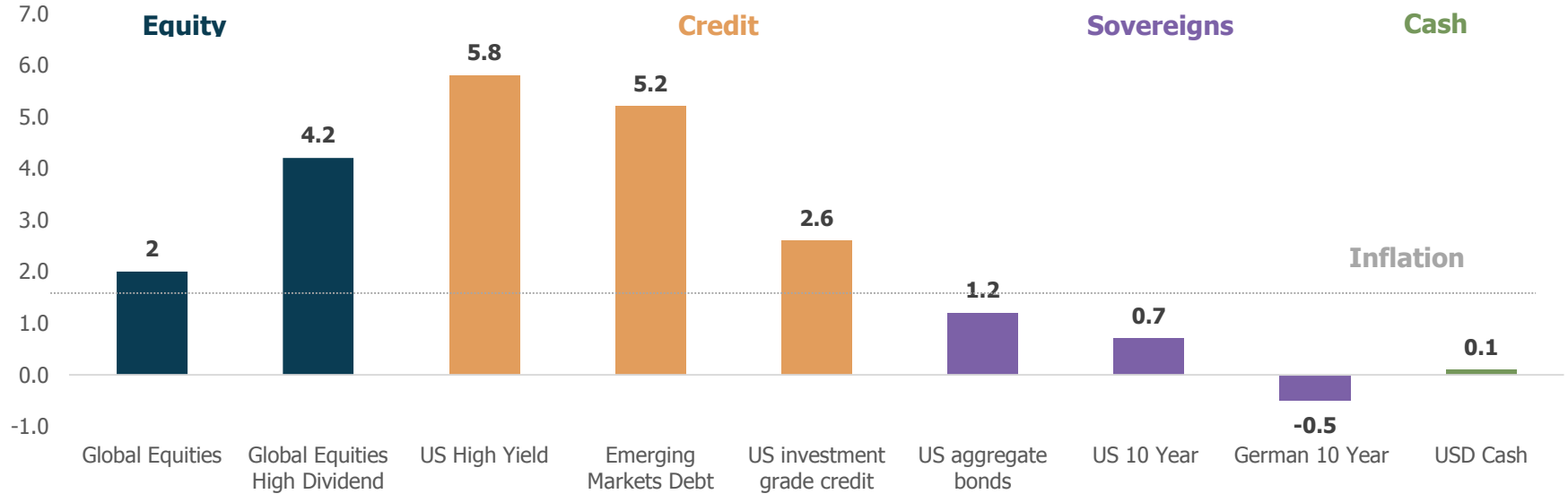
Despite lower yields, Bonds have historically added value when equities do not



Source: NYLI Multi Asset Solutions team, Bloomberg, Standard and Poor's. As of 11/24/2020. Past performance is no guarantee of future results which may vary. An index cannot be made directly into an index.

# Multi-Asset Yield Opportunities

## Nominal Yields



Source: NYLI Multi Asset Solutions team, Bloomberg, Standard and Poor's. As of 11/24/2020. Past performance is no guarantee of future results which may vary. An investment cannot be made directly into an index. Representative indices: MSCI ACWI Index, MSCI World High Dividend Index, Bloomberg Barclays High Yield Corporate bond index, JPM EMBI Global Diversified Bond. Bloomberg Barclays US IG Credit index, Bloomberg Barclays U.S. Aggregate Bond index.

# Reconsidering income generation

Retail investors:



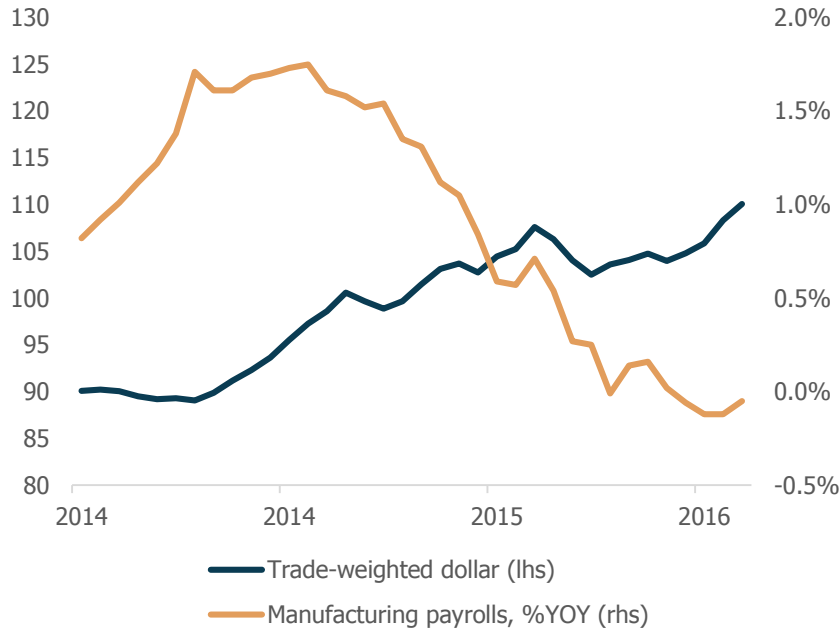
Institutional investors:



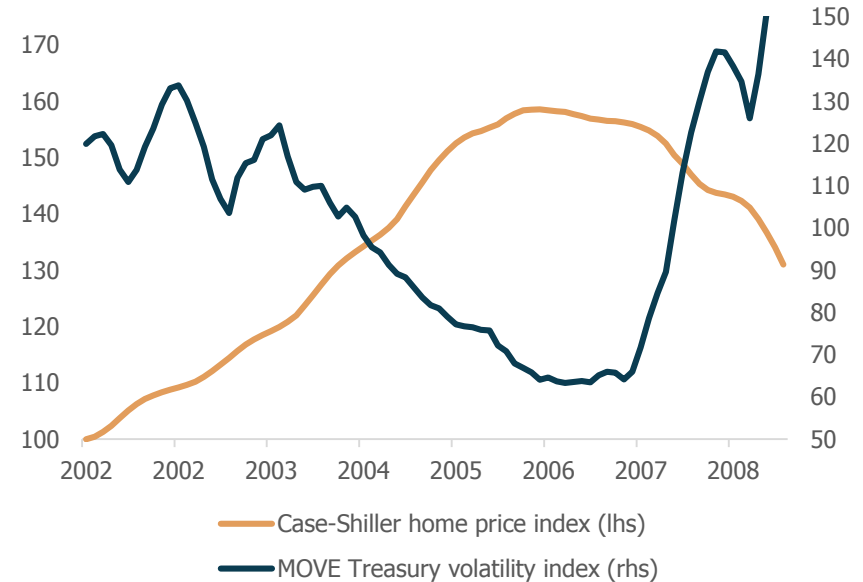
Source: New York Life Multi-Asset Solutions, 2020.

# Risks: “Lower for longer rates” could contribute to instability

## 2014-2016: Pre-emptive tightening



## 2004-2006: Fed pledges measured tightening cycle



Sources: Steven Friedman, MacKay Shields; Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; Bloomberg; dollar index rebased to 100 in January 2014.

# A transformed investment environment

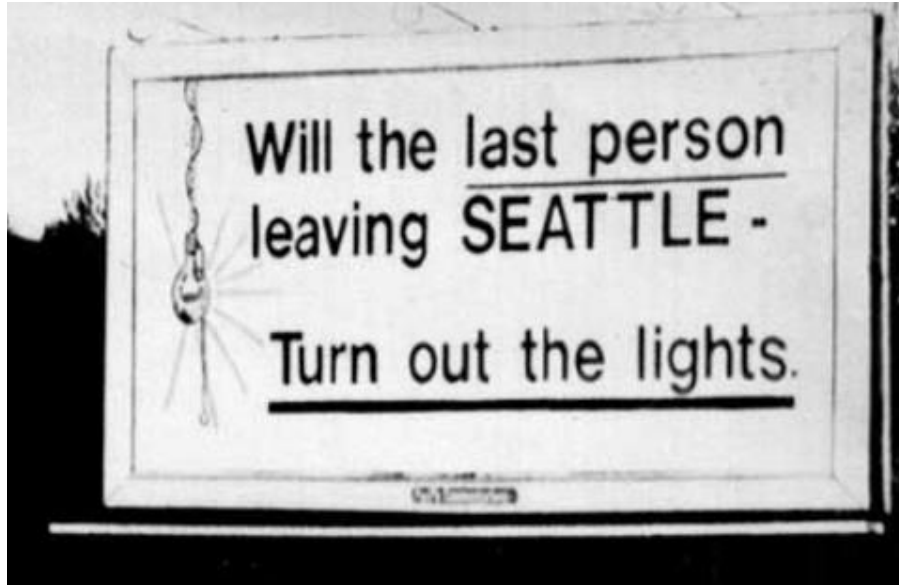
Cyclical rotation

Indebtedness

Lower for longer interest rates

**The future of cities**

# Death of cities?



## REPORT CARD

- |   |                    |   |                |
|---|--------------------|---|----------------|
| ✗ | Restaurants        | ✓ | Healthcare     |
| ✗ | Retail             | ✓ | Universities   |
| ✗ | Water-cooler talks | ✓ | Entertainment  |
|   |                    | ✓ | Museums        |
|   |                    | ✓ | Greener living |

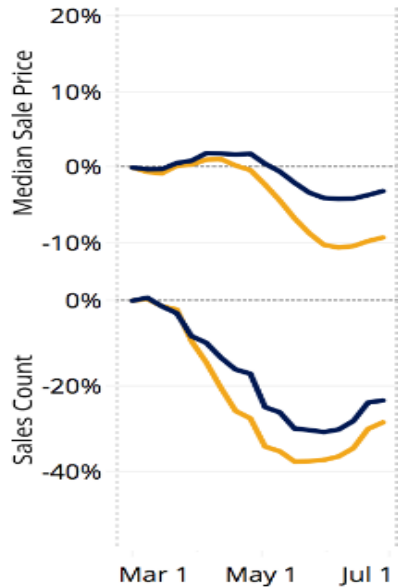
Source: Getty Images archive; New York Life Multi-Asset Solutions, 2/24/21. For illustrative purposes only.



# COVID-related changes are strongly felt in market pricing

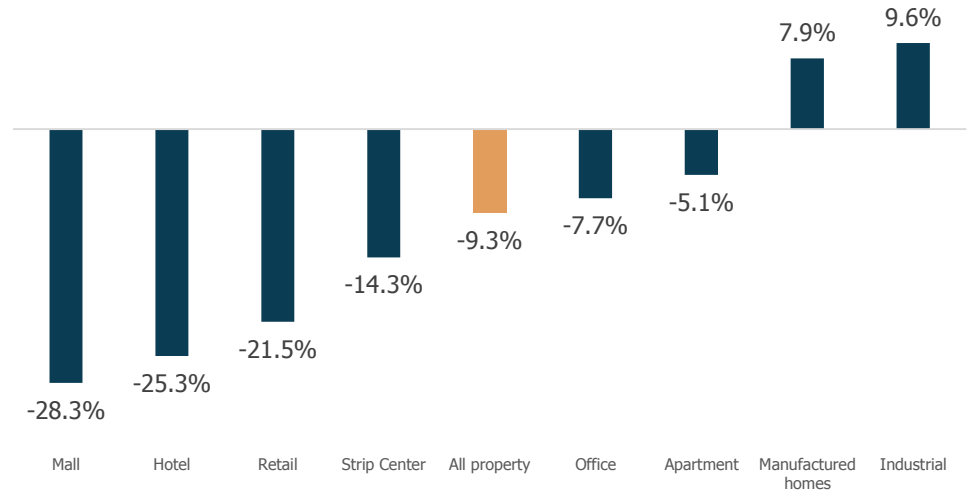
## Preferences are felt in housing prices...

Housing Markets: **Urban** vs. **Suburban**



## ... and in commercial real estate prices.

Change in Green Street Advisors Commercial Property Price Index  
Jan - October 2020



Source: Zillow 2020 Urban-Suburban Market Report, August 2020; New York Life Real Estate Investors, Green Street Advisors, October 2020.

## There are important caveats!

### Caveats for telecommuting:

- Age
- Gender
- Coaching
- Communication and access to information
- Collaboration

**62%**

Will return to the office for  
community and collaboration

**44%**

Lack access to tools, technology,  
and meeting spaces

**43%**

Would consider a location nearer  
to home

Source: CBRE, September 2020.

# Is the pandemic the real threat to cities?



Path forward  
for cities

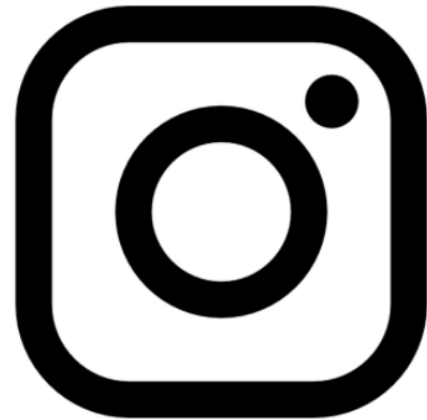
Restore

Reinvent

- **Municipal bonds**
- **Infrastructure**
- **Asset allocation**
- **Security selection**
- **Next growth equities**
- **International themes**

Image source: New York or Nowhere (online brand), 2020. For illustrative purposes only.

## How do cities reinvent? Example of 4G

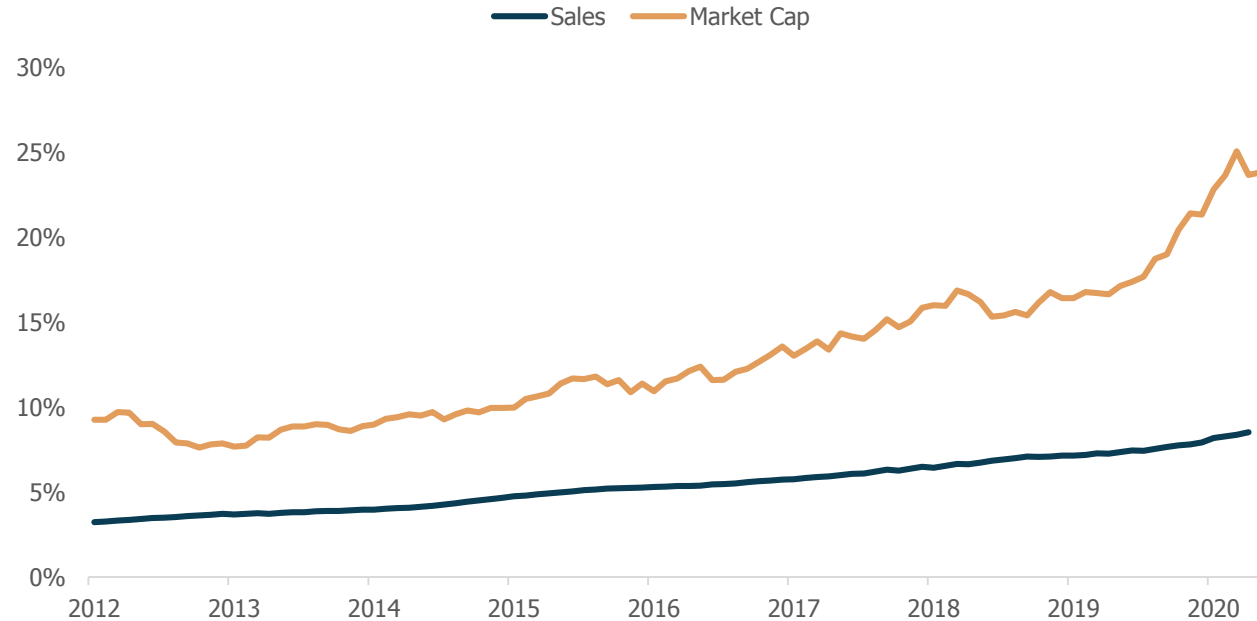


Source: New York Life Investments Multi-Asset Solutions, 2020.

# Implications for asset allocation and security selection (1/2)

Mega caps' valuations have increased beyond what sales share justifies

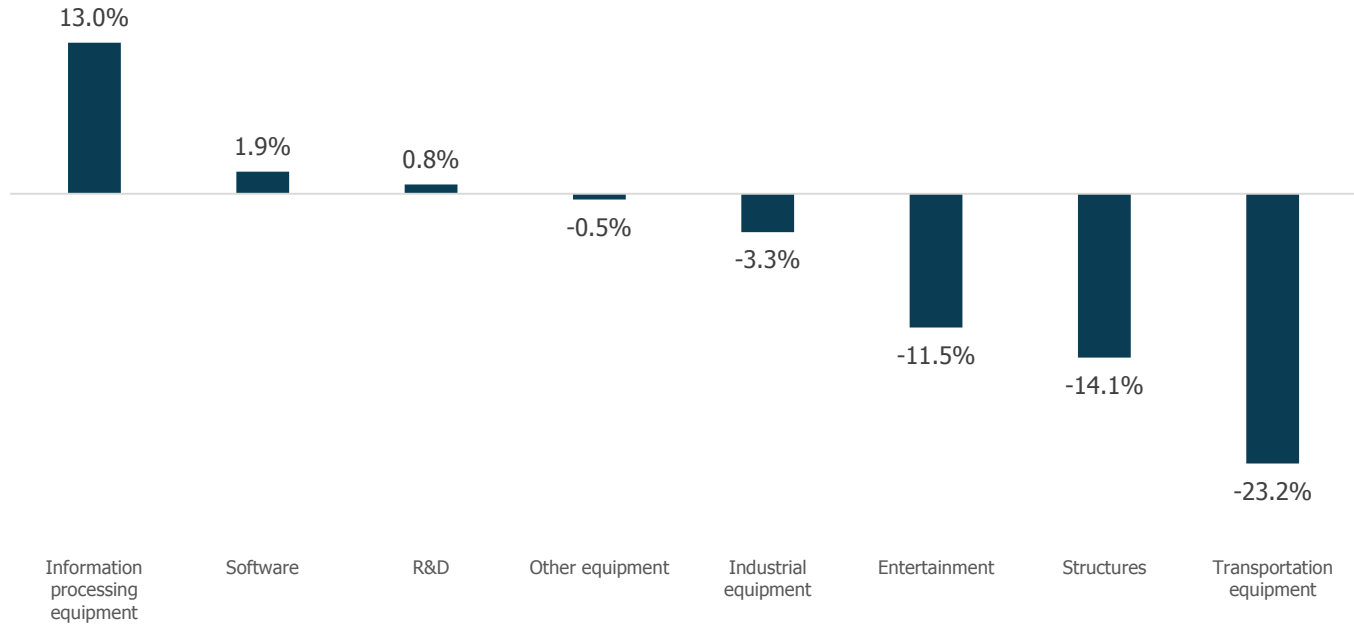
*Sales of Amazon, Microsoft, Apple, Google, and Facebook compared to the S&P 500 Index*



Source: New York Life Multi-Asset Solutions, Bloomberg LP, Bureau of Economic Analysis, 12/2/20.

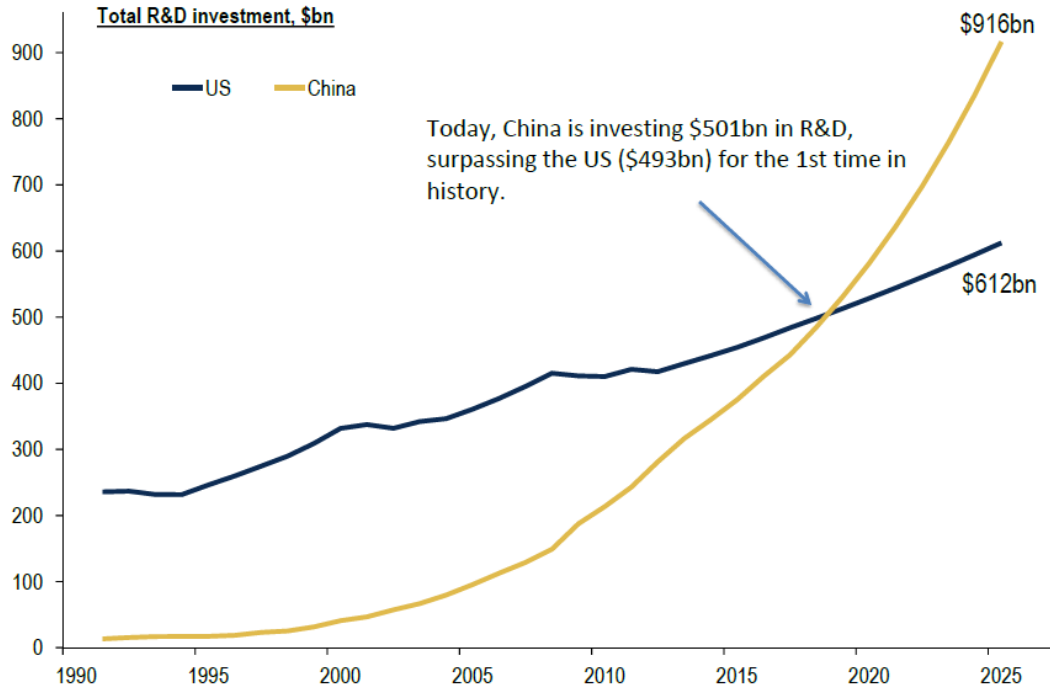
## Implications for asset allocation and security selection (2/2)

Private non-residential fixed investment  
*% change, YTD*



Source: New York Life Multi-Asset Solutions, Bloomberg LP, Bureau of Economic Analysis, 12/2/20.

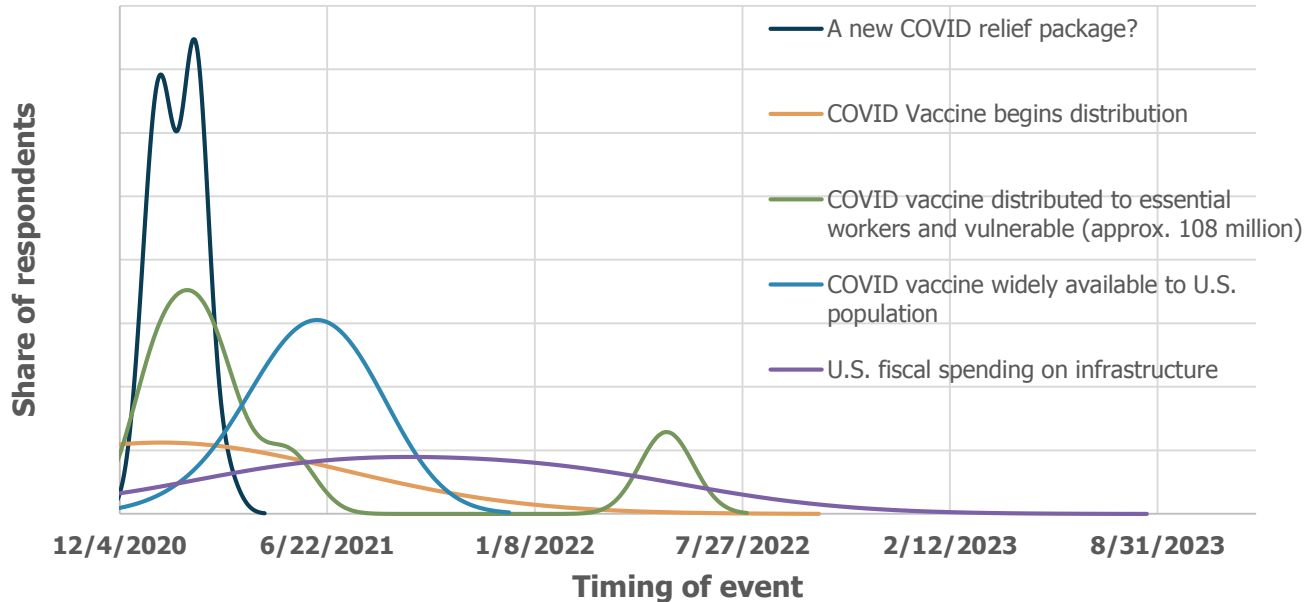
# Geopolitical consequences: who will harness the trend?



Source: Haim Israel, BofA, OECD, 10/28/20.

# Infrastructure enhancements will be required

## When do you think we will see ...

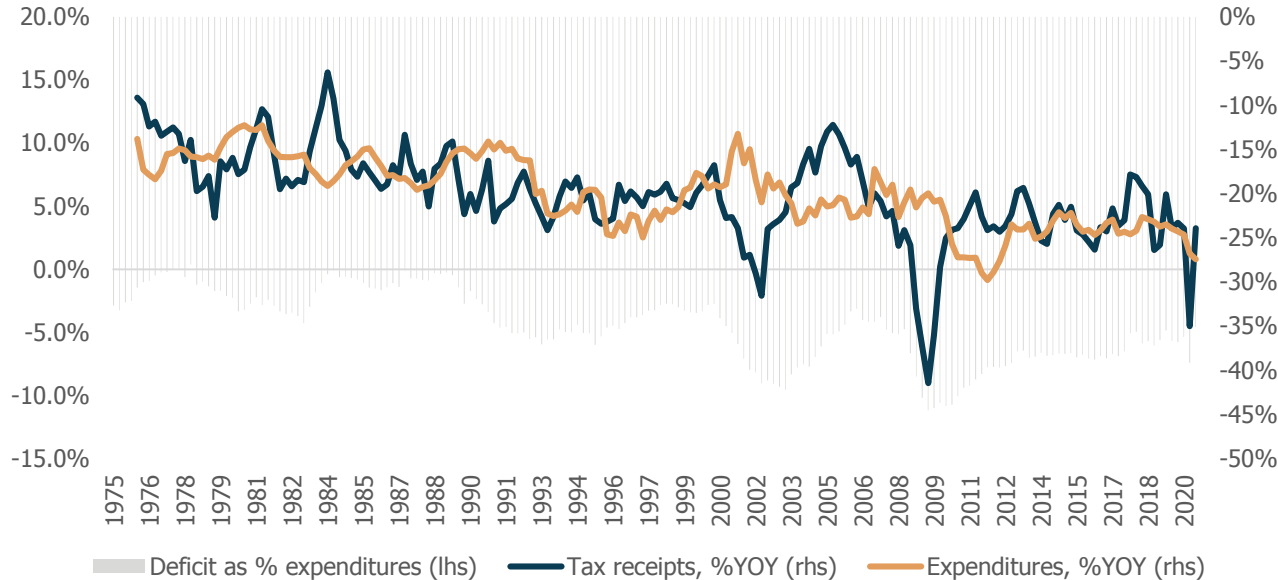


Source: New York Life Investments survey of portfolio managers, Q4 2020.



# How do cities restore?

## U.S. state and local finances



Can public fear be alleviated with sanitary infrastructure?

Will cities cut back on services?

Will it be harder to lure back businesses, residents, visitors?

How much will governments leave to market forces? How much will they attempt to influence?

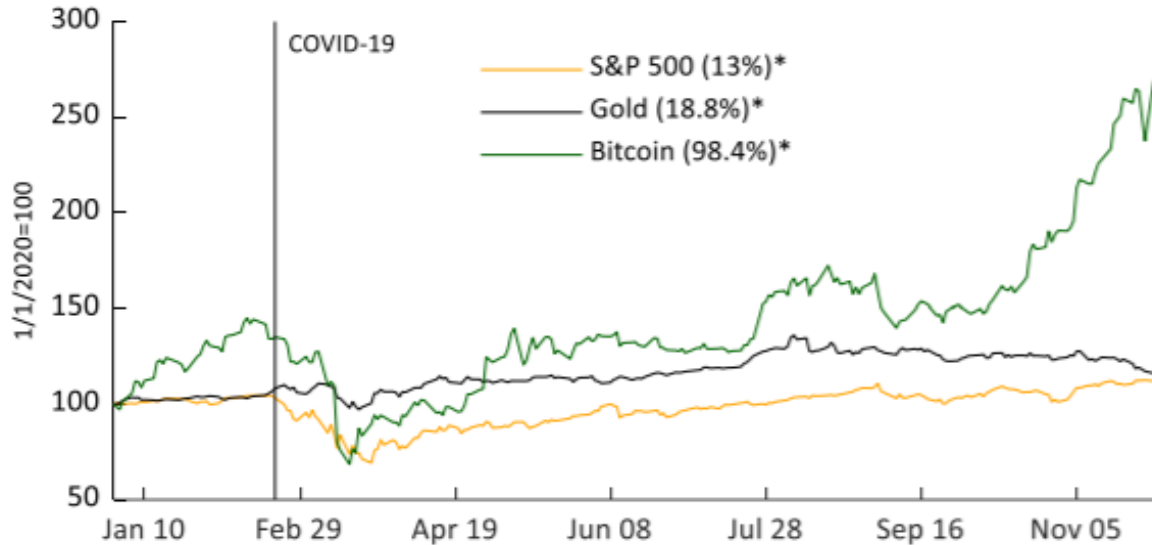
Source: New York Life Investments Multi-Asset Solutions, Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, 2/24/21.

# Questions?

# Appendix

# Blockchain-based currencies and the future of money

## Stocks, gold, and bitcoin in 2020



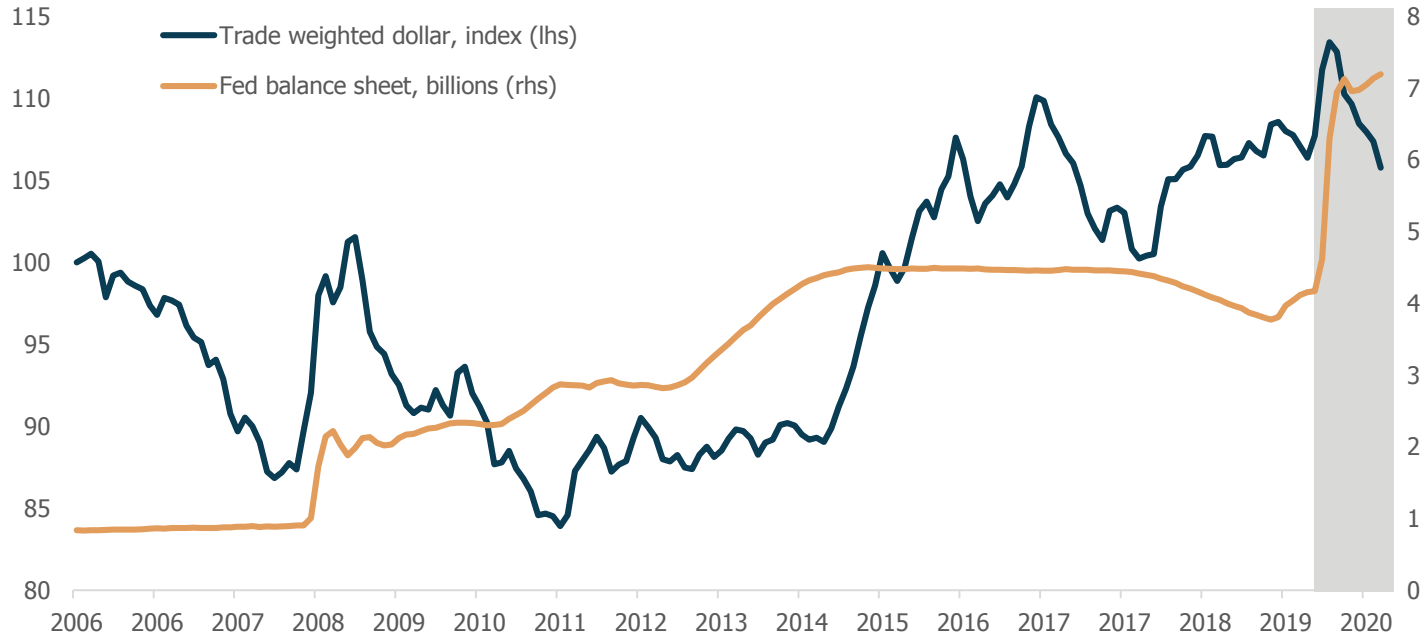
### Central banks analyze digital currency for:

1. Modern means of payment
2. Monetary policy efficiency
3. Financial stability concerns

Source: New York Life Investments Multi Asset Solutions team, Cornerstone Macro, Bloomberg, as of 12/17/2020. Past performance is no guarantee of future results.

# Dollar may weaken further, but global importance remains intact

## Dollar weakens as monetary support expands



Source: New York Life Multi-Asset Solutions, Federal Reserve Bank of St. Louis, 12/15/20.

# Definitions

The S&P 500 is a stock market index that tracks the stocks of 500 large-cap U.S. companies. It represents the stock market's performance by reporting the risks and returns of the biggest companies. Investors use it as the benchmark of the overall market, to which all other investments are compared.

The 10-year Treasury note is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance. A 10-year Treasury note pays interest at a fixed rate once every six months and pays the face value to the holder at maturity.

VIX Index: Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments.

# Disclosures

There is no assurance that the investment objectives will be met.

Past performance is no guarantee of future results, which will vary. All investments are subject to market risk and will fluctuate in value.

This material represents an assessment of the market environment as at a specific date; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. There can be no guarantees that any forecasts will actually come to pass.

Dividends fluctuate and are subject to change. There is no guarantee they will continue to be paid. While dividends may cushion returns in down markets, investments are still subject to loss of principal amount invested

All investments are subject to market risk, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market.

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