Market Commentary Monday, April 20, 2020

April 20, 2020

EXECUTIVE SUMMARY

Week in Review – Bull Market Continues
COVID-19 – Gilead to the Rescue?
The Great Lockdown – IMF Slashes 2020 Global Growth Estimates
Econ News – Horrible U.S. Numbers
Discounting Mechanism – Plenty of Bad News Priced into the Average Stock
Making it Through to the Other Side – Liquidity Measures at GT
Dividends – Significant Payouts for S&P 500 Members Still the Present Estimate
Income Comparisons – Stocks vs. Treasuries is No Contest
Target Prices – Updated List Coming to theprudentspeculator.com
Stock News – Updates on JNJ, GS, JPM, BAC, PNC, BLK, C, KEY, BK & ABT

Market Review

While the average stock in the Russell 3000 index dropped 1.31% on a total return basis over the last five trading sessions and the S&P 500 Pure Value index had a negative total return of 3.13%, the S&P 500 did manage to add to the rebound off of the Bear Market lows set on March 23, 2020.

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THE PRUDENT SPECULATOR
Bear/Bull Markets Through the Years

S&P 500 Moves (on a Closing Basis) of 20% Without a Comparable Move in the Other Direction

				2/20/1928	9/16/1929	87.97%	BULL
9/16/1929	11/13/1929	-44.57%	BEAR	11/13/1929	4/10/1930	46.77%	BULL
4/10/1930	12/16/1930	-44.29%	BEAR	12/16/1930	2/24/1931	25.83%	BULL
2/24/1931	6/2/1931	-32.86%	BEAR	6/2/1931	6/26/1931	25.82%	BULL
6/26/1931	10/5/1931	-42.54%	BEAR	10/5/1931	11/9/1931	30.61%	BULL
11/9/1931	6/1/1932	-61.81%	BEAR	6/1/1932	9/7/1932	111.59%	BULL
9/7/1932	2/27/1933	-40.60%	BEAR	2/27/1933	7/18/1933	120.61%	BULL
7/18/1933	10/19/1933	-29.43%	BEAR	10/19/1933	2/6/1934	37.28%	BULL
2/6/1934	3/14/1935	-31.81%	BEAR	3/14/1935	3/10/1937	131.64%	BULL
3/10/1937	3/31/1938	-54.47%	BEAR	3/31/1938	11/9/1938	62.24%	BULL
11/9/1938	4/11/1939	-24.44%	BEAR	4/11/1939	10/25/1939	26.78%	BULL
10/25/1939	6/10/1940	-31.95%	BEAR	6/10/1940	11/7/1940	26.70%	BULL
11/7/1940	4/28/1942	-34.42%	BEAR	4/28/1942	5/29/1946	157.70%	BULL
5/29/1946	5/19/1947	-28.47%	BEAR	5/19/1947	6/15/1948	23.89%	BULL
6/15/1948	6/13/1949	-20.57%	BEAR	6/13/1949	8/2/1956	267.08%	BULL
8/2/1956	10/22/1957	-21.63%	BEAR	10/22/1957	12/12/1961	86.35%	BULL
12/12/1961	6/26/1962	-27.97%	BEAR	6/26/1962	2/9/1966	79.78%	BULL
2/9/1966	10/7/1966	-22.18%	BEAR	10/7/1966	11/29/1968	48.05%	BULL
11/29/1968	5/26/1970	-36.06%	BEAR	5/26/1970	1/11/1973	73.53%	BULL
1/11/1973	10/3/1974	-48.20%	BEAR	10/3/1974	11/28/1980	125.63%	BULL
11/28/1980	8/12/1982	-27.11%	BEAR	8/12/1982	8/25/1987	228.81%	BULL
8/25/1987	12/4/1987	-33.51%	BEAR	12/4/1987	3/24/2000	582.15%	BULL
3/24/2000	9/21/2001	-36.77%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	10/9/2002	10/9/2007	101.50%	BULL
10/9/2007	11/20/2008	-51.93%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	3/9/2009	2/19/2020	400.52%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR	3/23/2020	4/17/2020	28.48%	BULL
	Average Drop	-34.83%			Average Gain	107.27%	

While investors suffered through a stomach-churning 5-week Bear Market plunge of 33.92% in the S&P 500 from 2.19.20 to 3.23.20, the eighth drop of 20% or greater since the launch of *The Prudent Speculator* in 1977, those who stayed the course, believe it or not, are now enjoying Bull Market #8, with that market-cap-weighted index rebounding an incredible 28.48%.

Of course, it took a big rally on Friday to push the major market averages into the green for the week, with the move higher driven primarily by some modest optimism on the COVID-19 front related to the antiviral medicine remdesivir from **Gilead Sciences** (GILD – $83.99).

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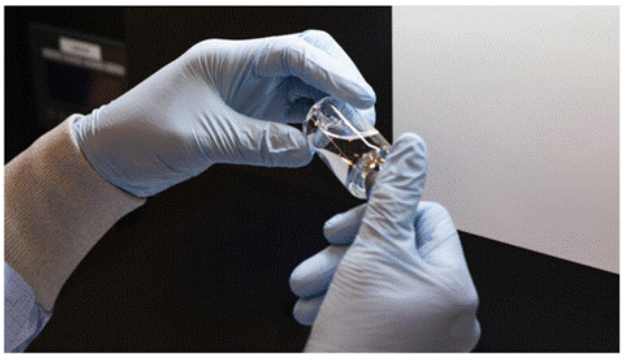
THE PRUDENT SPECULATOR
Gilead's Remdesivir Shows Promise

STAT Topics Coronavirus Opinion Podcast Newsletters Reports Events

EXCLUSIVE

Early peek at data on Gilead coronavirus drug suggests patients are responding to treatment

By ADAM FEUERSTEIN @adamfeuerstein and MATTHEW HERPER @matthewherper / APRIL 16, 2020



A vial of the remdesivir, an investigational drug from Gilead.
GILEAD SCIENCES VIA AP

https://www.statnews.com/2020/04/16/early-peek-at-data-on-gilead-coronavirus-drug-suggests-patients-are-responding-to-treatment/

A Chicago hospital treating severe Covid-19 patients with Gilead Sciences' antiviral medicine remdesivir in a closely watched clinical trial is seeing rapid recoveries in fever and respiratory symptoms, with nearly all patients discharged in less than a week, STAT has learned.

Remdesivir was one of the first medicines identified as having the potential to impact SARS-CoV-2, the novel coronavirus that causes Covid-19, in lab tests. The entire world has been waiting for results from Gilead's clinical trials, and positive results would likely lead to fast approvals by the Food and Drug Administration and other regulatory agencies. If safe and effective, it could become the first approved treatment against the disease.

The University of Chicago Medicine recruited 125 people with Covid-19 into Gilead's two Phase 3 clinical trials. Of those people, 113 had severe disease. All the patients have been treated with daily infusions of remdesivir.

"The best news is that most of our patients have already been discharged, which is great. We've only had two patients perish," said Kathleen Mullane, the University of Chicago infectious disease specialist overseeing the remdesivir studies for the hospital.

Her comments were made this week during a video discussion about the trial results with other University of Chicago faculty members. The discussion was recorded and STAT obtained a copy of the video.

The outcomes offer only a snapshot of remdesivir's effectiveness. The same trials are being run concurrently at other institutions, and it's impossible to determine the full study results with any certainty. Still, no other clinical data from the Gilead studies have been released to date, and excitement is high. Last month, President Trump touted the potential for remdesivir — as he has for many still-unproven treatments — and said it "seems to have a very good result."

In a statement Thursday, Gilead said: "What we can say at this stage is that we look forward to data from ongoing studies becoming available."

There have been plenty of ups and downs with news associated with the potential of remdesivir to treat SARS-CoV-2, the novel coronavirus that leads to COVID-19, as shares of the biotech giant opened nearly 3.5% lower Tuesday amid news of two of the company's COVID-19 clinical drug trials in China being canceled. So, we know better than to get overly excited about the leaked story of potential Chicago success from *Statnews.com*, but GILD did end the week some 14% higher. We note that the lack of enrollment that was cited as the reason for discontinuing the Chinese study was likely due to the dissipating outbreak in the region. And the Chicago test lacks a control arm, there are potential serious side effects and there is a lot more data to crunch. Still, we are fans of GILD and our Target Price now stands at $98.

That said, though COVID-19 continues to dominate the headlines, with the U.S. daily death counts hitting highs last week,…

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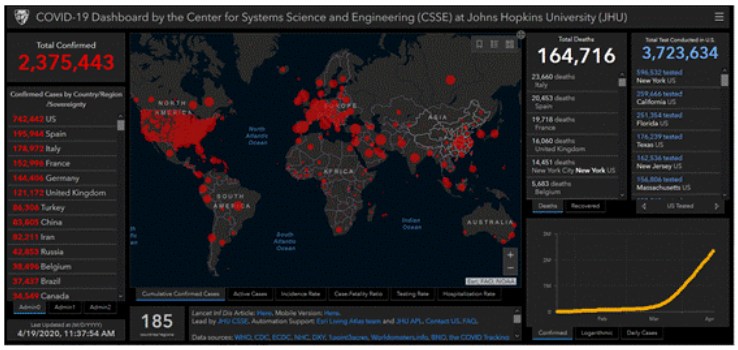
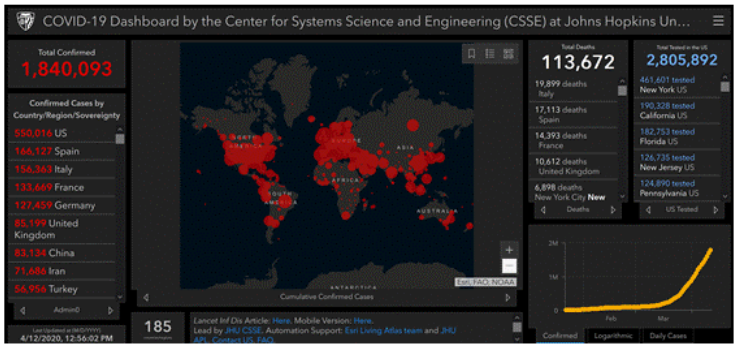
THE PRUDENT SPECULATOR
COVID-19's Global Spread





Sadly, Covid-19 confirmed cases and deaths continue to rise around the world, with the U.S. now up to more than 40,000 fatalities, even as the "curve" is flattening. The mortality count will move higher in the days and weeks to come, but Gov. Andrew Cuomo of hard-hit New York said on 4.19.20, "We are past the high point and all indications at this point is that we are on the descent."

https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

…it is good to see less media coverage related to shortages of critical medical supplies and more focus on debating the timing of reopening of economies around the world, especially given that the International Monetary Fund on April 14 slashed forecasts for its World Economic Outlook. The IMF, calling the current environment the Great Lockdown, now believes that advanced economics are expected this year to see a GDP decline of 6.1% and the U.S. is presently projected to post a 5.9% plunge in output.

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THE PRUDENT SPECULATOR
IMF: Huge Downward GDP Revision

Latest World Economic Outlook Growth Projections

The COVID-19 pandemic will severely impact growth across all regions.

(real GDP, annual percent change)	2019	PROJECTIONS 2020	2021
World Output	2.9	-3.0	5.8
Advanced Economies	1.7	-6.1	4.5
United States	2.3	-5.9	4.7
Euro Area	1.2	-7.5	4.7
Germany	0.6	-7.0	5.2
France	1.3	-7.2	4.5
Italy	0.3	-9.1	4.8
Spain	2.0	-8.0	4.3
Japan	0.7	-5.2	3.0
United Kingdom	1.4	-6.5	4.0
Canada	1.6	-6.2	4.2
Other Advanced Economies	1.7	-4.6	4.5
Emerging Markets and Developing Economies	3.7	-1.0	6.6
Emerging and Developing Asia	5.5	1.0	8.5
China	6.1	1.2	9.2
India	4.2	1.9	7.4
ASEAN-5	4.8	-0.6	7.8
Emerging and Developing Europe	2.1	-5.2	4.2
Russia	1.3	-5.5	3.5
Latin America and the Caribbean	0.1	-5.2	3.4
Brazil	1.1	-5.3	2.9
Mexico	-0.1	-6.6	3.0
Middle East and Central Asia	1.2	-2.8	4.0
Saudi Arabia	0.3	-2.3	2.9
Sub-Saharan Africa	3.1	-1.6	4.1
Nigeria	2.2	-3.4	2.4
South Africa	0.2	-5.8	4.0
Low-Income Developing Countries	5.1	0.4	5.6

Source: IMF, *World Economic Outlook*, April 2020

INTERNATIONAL MONETARY FUND IMF.org

The world has changed dramatically in the three months since our last update of the World Economic Outlook in January. A rare disaster, a coronavirus pandemic, has resulted in a tragically large number of human lives being lost. As countries implement necessary quarantines and social distancing practices to contain the pandemic, the world has been put in a Great Lockdown. The magnitude and speed of collapse in activity that has followed is unlike anything experienced in our lifetimes.

This is a crisis like no other, and there is substantial uncertainty about its impact on people's lives and livelihoods. A lot depends on the epidemiology of the virus, the effectiveness of containment measures, and the development of therapeutics and vaccines, all of which are hard to predict. In addition, many countries now face multiple crises—a health crisis, a financial crisis, and a collapse in commodity prices, which interact in complex ways. Policymakers are providing unprecedented support to households, firms, and financial markets, and, while this is crucial for a strong recovery, there is considerable uncertainty about what the economic landscape will look like when we emerge from this lockdown.

Under the assumption that the pandemic and required containment peaks in the second quarter for most countries in the world, and recedes in the second half of this year, in the April World Economic Outlook we project global growth in 2020 to fall to -3 percent. This is a downgrade of 6.3 percentage points from January 2020, a major revision over a very short period. This makes the Great Lockdown the worst recession since the Great Depression, and far worse than the Global Financial Crisis.

International Monetary Fund – April 14, 2020

Alas, economic stats out last week began to unveil the devastation inflicted by COVID-19 and the resulting shutdown of businesses due to the stay-at-home-policies, with China reporting a 6.8% drop in gross domestic product for the first three months of the year, the first decline since Beijing started reporting its numbers in 1992.

Here at home, the evidence of the economic carnage is starting to show, with last week seeing horrible statistics on the health of the factory sector,…

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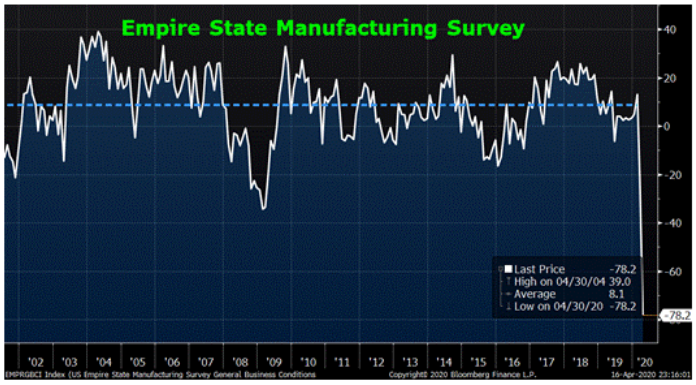
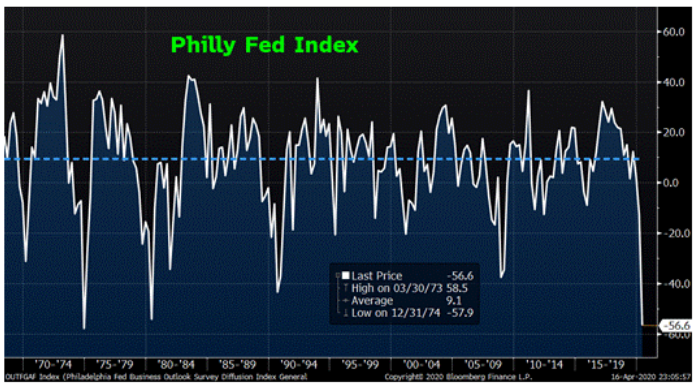
THE PRUDENT SPECULATOR
Awful Manufacturing Data





With the survey crushed by coronavirus-related factory shutdowns, the Empire State gauge of manufacturing activity in the New York area for April plummeted a record 57 points to a weaker-than-expected -78.2, the worst reading on record. It was also an ugly story with the -56.6 read on the Philadelphia Fed's April measure of manufacturing activity in the mid-Atlantic region, the lowest since July 1980.

…retail sales, industrial production,…

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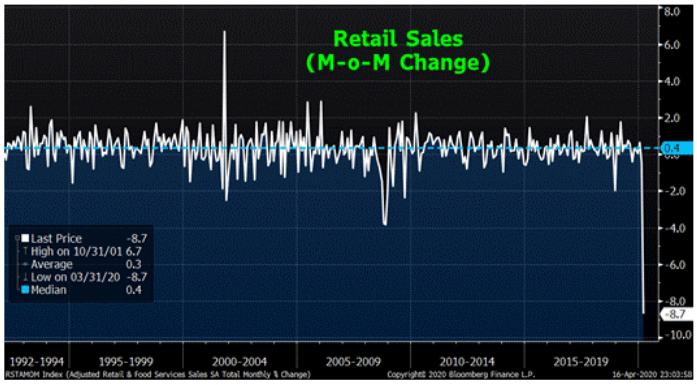
THE PRUDENT SPECULATOR
Ugly Economic Statistics



Uncle Sam said that retail sales for March plummeted by 8.7%, the biggest monthly collapse in history, with sales plunging 27% at auto dealers and 17% at gas stations, though sales at grocery-stores jumped 27%. Meanwhile, factory output sank 6.3% in March, capacity utilization for the industrial sector fell 4.3 points to 72.7% and overall industrial production dipped 5.4%, the latter the worst showing since January 1946.

…the housing industry and the all-important jobs market.

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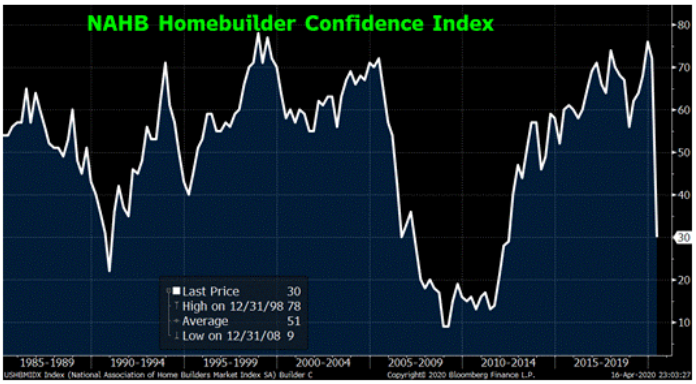
THE PRUDENT SPECULATOR
Terrible Economic Numbers



The National Association of Home Builders' monthly confidence index for April skidded 42 points to a reading of 30, down from 72 the month prior, the lowest tally since June 2012, but still well above the lows of the Great Recession. The latest figures on first-time claims for jobless benefits saw a whopping 5.2 million new filings, bringing the four-week economic-shutdown-related total to a catastrophic 22 million.

To be sure, the outlook for the U.S. economy over the next few months is the worst in recorded history,…

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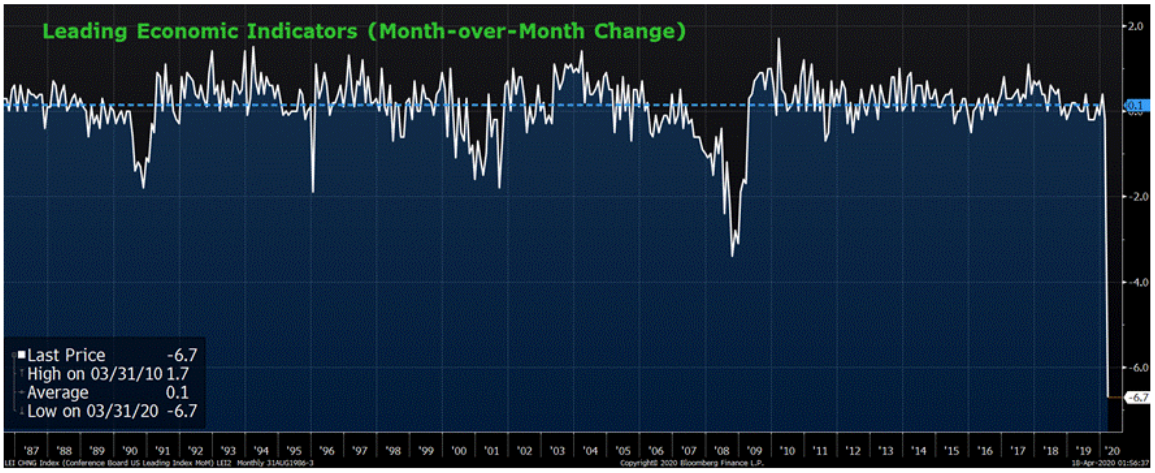
THE PRUDENT SPECULATOR
Forward-Looking March LEI = -6.7%

The forward-looking index of Leading Economic Indicators collapsed by 6.7% on a month-over-month basis in March, the biggest drop on record, blowing away the 3.8% decline in October 2008. The keeper of the index (Conference Board) stated, "The sharp drop in the LEI reflects the sudden halting in business activity as a result of the global pandemic and suggests the US economy will be facing a very deep contraction."



…which would seem to be a major disconnect with the big bounce seen in equity prices over the last four weeks…but it is not as if happy days are here again as the average stock in the Russell 3000 index has a total year-to-date return of -24.24%. And, we can't forget that the stock market is an anticipatory mechanism, with prices often bottoming when conditions look the worst.

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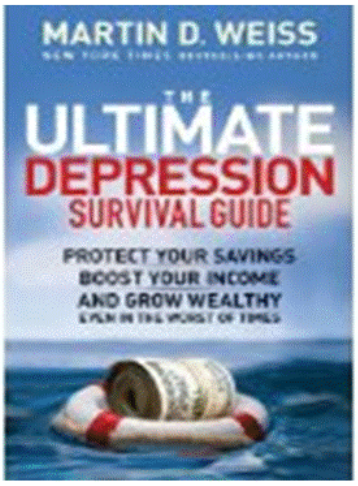
THE PRUDENT SPECULATOR
Darkest Before the Dawn: March 2009

"The World Bank warned that the global economy and global trade volumes would shrink for the first year since World War II. And Warren Buffett declared that the economy had fallen off a cliff."

Mar 10 '09 *New York Times*

S&P 500, Six Months Later: +52.7%



That does not mean to suggest that stocks have discounted all the bad news that is yet to come, and we remain braced for additional downside, but we might argue that the fastest and most volatile Bear Market in history,…

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THE PRUDENT SPECULATOR
Unprecedented Volatility

Stocks cratered with lightening speed over a wild five-week period in Q1 2020 as investors tried to discount the coronavirus risk to health and wealth, while illiquidity in many financial markets didn't help matters.

2020 BEAR MARKET

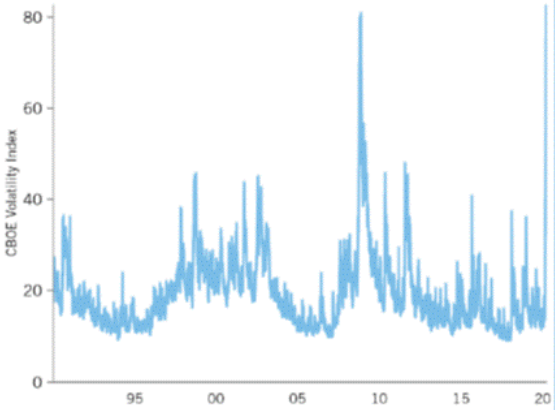
In an unprecedented five-week span, stocks plunged some 40% as the global economies came to a COVID-19-related virtual standstill.

Index	High Date	Low Date	Bear Mkt Drop
Average Stock			
Russell 3000 Average Stock	02.19.20	03.23.20	-40.54%
Russell 3000 Value Average Stock	01.17.20	03.23.20	-42.71%
S&P 500 Average Stock	02.19.20	03.23.20	-39.17%
NASDAQ Composite Average Stock	02.19.20	03.23.20	-34.03%
Broad-Based Indexes			
Dow Jones Industrial Average	02.12.20	03.23.20	-38.40%
NASDAQ Composite Index	02.19.20	03.23.20	-32.60%
Russell 1000 Index	02.19.20	03.23.20	-36.23%
Russell 2000 Index	01.17.20	03.18.20	-43.66%
Russell 3000 Index	02.19.20	03.23.20	-36.66%
S&P 500 Index	02.19.20	03.23.20	-35.41%
Value/Growth Indexes			
Russell 1000 Value Index	02.12.20	03.23.20	-39.57%
Russell 1000 Growth Index	02.19.20	03.23.20	-33.50%
Russell 2000 Value Index	01.17.20	03.23.20	-46.76%
Russell 2000 Growth Index	02.19.20	03.18.20	-42.64%
Russell 3000 Value Index	01.17.20	03.23.20	-39.97%
Russell 3000 Growth Index	02.19.20	03.23.20	-33.98%
S&P 500 Value Index	02.12.20	03.23.20	-38.34%
S&P 500 Growth Index	02.19.20	03.23.20	-33.35%
S&P 500 Pure Value Index	01.17.20	03.23.20	-51.78%

SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

VOLATILITY INDEX

The Volatility Index dates back only three decades, but the Financial Crisis in 2008 and March 2020 have the only readings above 80.



From 01.02.90 through 03.31.20. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

…reflected a COVID-19 U.S. death count of some two million, not the most recent projection of 60,308 (through 8.4.20) put forth by the University of Washington,…

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THE PRUDENT SPECULATOR
Declining COVID-19 Death Projections

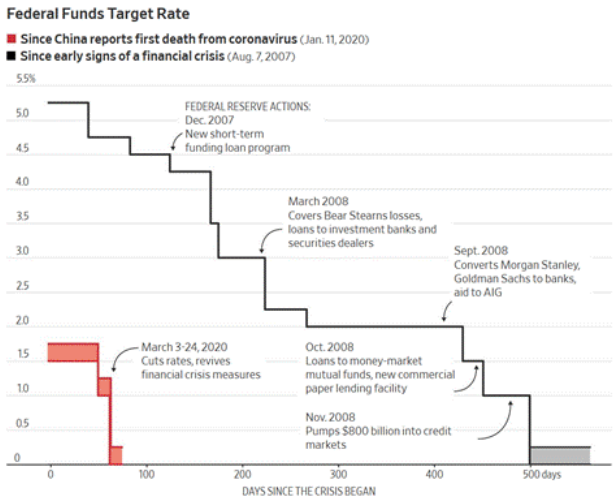
Source: https://covid19.healthdata.org/united-states-of-america

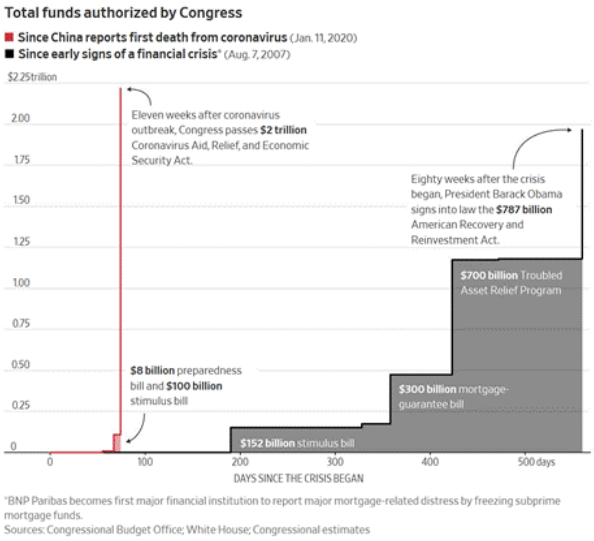
As of 4.17.20, total COVID-19 fatality estimates by 8.4.20 (assuming full social distancing through May 2020) from the University of Washington's Institute for Health Metrics and Evaluation had dropped to near 60,000.

…and an economy that would stay shut down for many more months than now seems likely, with far less support from Washington and the Federal Reserve than has actually occurred.

Washington's Incredibly Swift Response

As *The Wall Street Journal* reported, "The Fed and Congress sped up the response to the coronavirus pandemic using strategies tested a decade ago in the financial crisis, while a united GOP and less concern for the deficit smoothed way for $2 trillion legislation."





To be sure, we respect that most are much more pessimistic on the prospects for an economic rebound than U.S. Treasury Secretary Steven Mnuchin, who said on Sunday, "I think it will be months, I definitely don't think it will be years. We are going to conquer this virus, we are going to have terrific breakthroughs." However, even the pessimistic IMF forecasts detailed above call for U.S. GDP growth to rebound by 4.7% next year.

We don't know when, but ultimately the economy will recover. The key, of course, is to ensure that the businesses in which we are invested have the financial wherewithal to make it through to the proverbial other side. Those evaluations are ongoing, but even a company like **Goodyear Tire** (GT – $7.26), whose decimated share price might be arguing that survival, at least for current stockholders, is in serious question, would seem to have taken the proper liquidity steps.

The tire maker was out with a business update last week, in which management disclosed that Q1 sales were approximately $3.0 billion, down from $3.6 billion a year ago, and that tire unit volume totaled approximately 31 million for the first quarter of 2020, down 18% from the prior year. The result will be a first quarter loss before income taxes of $185 million to $195 million.

Of course, the dismal numbers were hardly unexpected, with the company stating, "These results reflect significant declines in global OE shipments after auto manufacturers halted production and weak replacement demand following sweeping shelter-in-place mandates." In response,

Goodyear has slashed capital spending, refinanced its $2.0 billion asset-backed revolving credit facility and “temporarily” suspended its quarterly dividend.

Goodyear said that it has total liquidity of approximately $3.6 billion, including $970 million in cash and cash equivalents, while management indicated that a phased restart of production will occur this quarter, beginning in April with some of its commercial truck tire facilities in the U.S. and Europe. Further, per the press release, “The company’s plant in Pulandian, China is operating with 100% of its workforce and is able to meet customer demand. The facility is expected to continue ramping up production throughout the second quarter.”

Our Target Price for GT now resides at $18, and we are at present (all stocks are always fighting for their spot in our portfolios) maintaining our position, even as we note that dividends have always been a significant component of the total return proposition for stocks. These are unprecedented times, for sure, and we would much rather Goodyear utilize its cash flow in the near term to ensure that we achieve significant capital appreciation over the long haul, while an eventual economic recovery would have us expecting a reinstatement of the dividend in the not-too-distant future.

True, we may have to tighten our belts a bit when it comes to payouts in our income-oriented equity strategies, and we are cutting our companies several quarters of slack, at least, before we might force a dividend-omission sale, but we continue to expect our stocks overall to produce solid dividends this year and beyond,…

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THE PRUDENT SPECULATOR
Dividends Payouts in Question

While we seek capital appreciation in equities first and foremost, dividends are a sizable component of total return, and we have to be braced for a (temporary) retreat in the overall income we receive.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2020 (as of 4.16.20)	130	1	6	16
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2021 (Est.)	$63.75
2020 (Est.)	$60.68
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73

Source: Bloomberg. As of 4.17.20

…which helps to make the equities-versus-fixed-income argument heavily lopsided in favor of the former…for those with a long-term time horizon!

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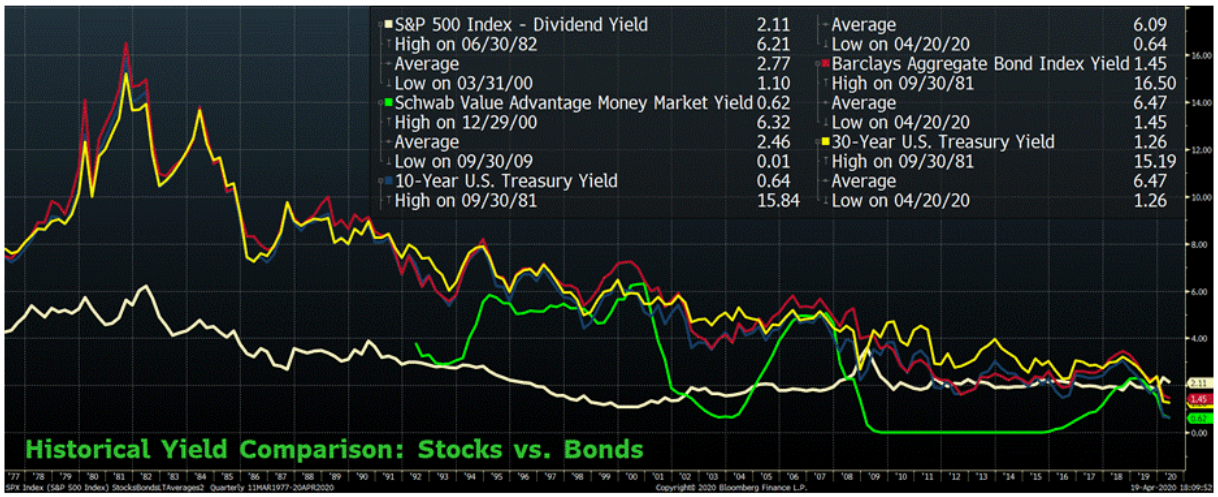
THE PRUDENT SPECULATOR
Equity vs. Fixed Income Yields

Though stocks are not necessarily a substitute for government or corporate bonds, the current payout on the S&P 500 (2.11%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. Incredibly, equities yield more than three times as much today as does the 10-Year U.S. Treasury!

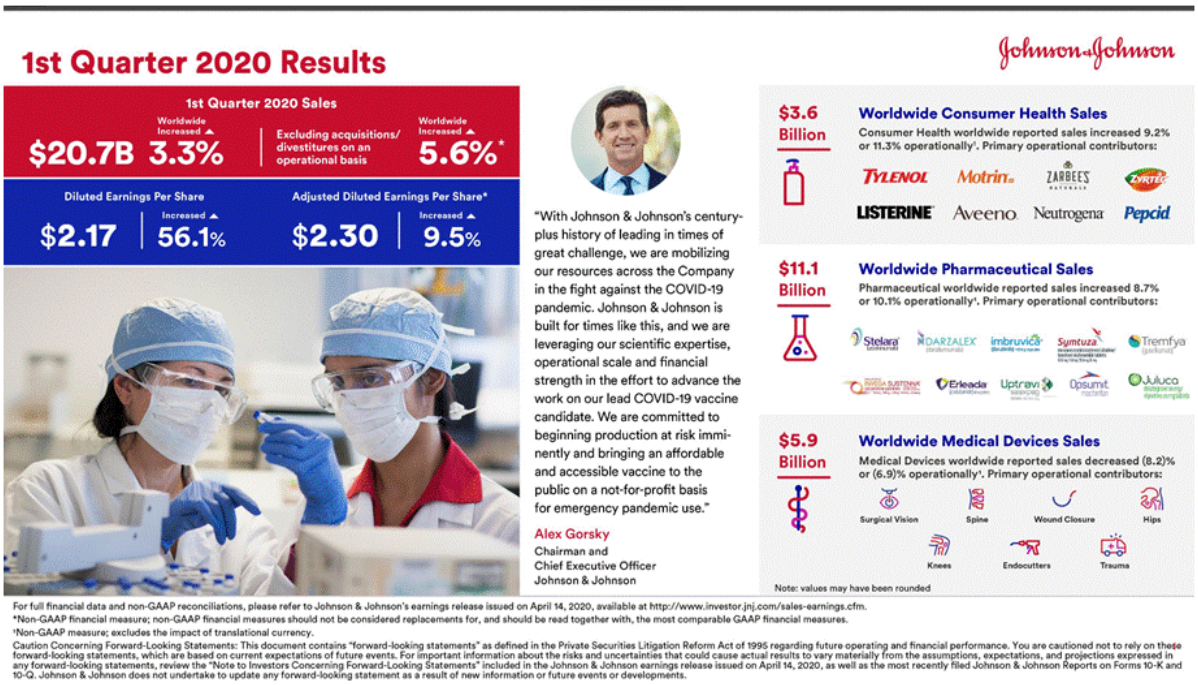


Stock Updates

Q1 earnings reporting season has kicked off, and Jason Clark, Chris Quigley and Zach Tart look at several of our companies that posted quarterly results or had updates out last week. Not surprisingly, our work has had to shift toward financial liquidity and business viability, versus the usual focus on price-related financial metrics, so hearing from management teams is very much welcome.

We are in the process of posting updated Target Prices to theprudentspeculator.com and readers should keep in mind that all stocks are rated as a "Buy" until such time as they are a "Sell," while a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/.

Global health and pharmaceutical concern **Johnson & Johnson** (JNJ – $152.02) released Q1 results that were substantially higher than analyst estimates, sending shares up nearly 5% for the subsequent day and up more than 7% for the week. JNJ earned $2.30 per share, compared with an analyst consensus of $2.00, while revenue was $20.7 billion, above the $19.5 billion estimate. Strong growth in the Consumer Health and Pharmaceuticals businesses offset weakness in Medical Devices, the latter a by-product of COVID-19-related deferrals of medical procedures in the company's Surgery, Orthopedics, Interventional Solutions and Vision businesses.



CEO Alex Gorsky commented, "COVID-19 is at the forefront of everyone's mind, which is why we plan to spend a fair amount of time during the earnings webcast discussing this unprecedented global pandemic, the profound impact it's having on global public health and our unwavering commitment to create and deliver value to all of our stakeholders. Johnson & Johnson was built for times like this, and our strong first quarter results are just one reflection of our sustainable business model. Our Johnson & Johnson colleagues remain focused on delivering on the commitments and responsibilities to our patients, doctors, nurses, employees, parents, children, communities and shareholders as defined in our credo. As we announced this morning, we increased our quarterly dividend by 6.3% to $1.01, which is another reflection of our stability and further underscores our commitment to delivering value to our shareholders. This marks the 58th consecutive year of dividend increases for Johnson & Johnson, and we believe that taking this action is the right thing to do for our shareholders at this time, and importantly, a strong example of the confidence we have in our business now and in the future."

Mr. Gorsky continued, "As the world continues to face the significant and urgent public health crisis, I want to emphasize that across Johnson & Johnson, we are leveraging our broad-based size and scale to think, lead and operate with the same level of incredible urgency, relying on the same courage, conviction and core strengths that set us apart and empower us to make a positive impact on society and health care. I am both proud and amazed at the level of dedication that I've witnessed from every Johnson & Johnson business, function team and person over the last

several weeks. Now we certainly don't have all the answers today, but we'll find the ones needed to ensure our success for tomorrow, and we won't take shortcuts to compromise our standards or our values as we move with speed and determination."

The company lowered 2020 guidance on account of the coronavirus outbreak, but given the change in demand dynamics recently, we think it's still solid. JNJ expects revenue between $79.2 billion and $82.2 billion, compared with the previous range of $85.8 billion to $86.6 billion. EPS should come in between $7.50 and $7.90, compared with $8.95 to $9.10 previously.

We continue to like JNJ in our broadly diversified portfolios and think that this sort of health care stock offers an important stabilizer during this time. In addition, while other companies have needed to whack their dividends, JNJ continues just raised their payout, pushing the yield to 2.7%. While the various legal battles of the last few years have not magically disappeared, we think that the risk/reward profile of JNJ is worthy of its elevated weighting in our portfolios, even as the high-quality name trades at nearly 20 times 2020 analyst earnings estimates. Our Target Price for JNJ now stands at $171.

With little surprise to most, **Goldman Sachs Group** (GS – $183.49) posted Q1 bottom-line results that were below published estimates, as the investment banking and securities giant increased reserves for potential loan losses as the COVID-19 global shutdown continues on. While shares began the week on a down slope, they recovered most of the losses for the week by close of trading on Friday. Net revenue for the period came in well above expectations at $8.74 billion, as trading, especially in the fixed income arena, benefited from the extreme volatility experienced in Q1. Adjusted EPS totaled $3.11, which was short of the expected $3.25, primarily on higher expenses and provisions.

Fixed Income, Currency and Commodities (FICC) generated quarterly net revenue of $2.97 billion, its highest quarterly performance in five years, while Equities generated net revenue of $2.19 billion, its second highest quarterly performance in five years, driven by strength in derivatives and higher volumes in intermediation. Consumer & Wealth Management generated record net revenue of $1.49 billion. Asset Management was the biggest segment drag during the period.

Goldman CEO Dave Solomon stated, "As the world grapples with this terrible pandemic, we are extremely grateful for the professionalism of the healthcare specialists and other front-line workers who are bearing the greatest burden in the fight against the virus. We are in awe of their courage and are doing our part to help communities and small businesses suffering from the economic impact of the crisis. I am enormously proud of the determination and dedication of the people of Goldman Sachs, who continue to serve our clients despite high market volatility. Our quarterly profitability was inevitably affected by the economic dislocation. As public policy measures to stem the pandemic take root, I am firmly convinced that our firm will emerge well-positioned to help our clients and communities recover."

Despite the challenging near-term backdrop, given strong activity levels, a healthy balance sheet and strategic repositioning, we think GS shares are quite attractive for the long-term. While we don't know how long the difficult environment will persist, we could see earnings rebounding

faster than peers because of the company's lower interest-rate exposure. The build out of its traditional banking and investment-management businesses should serve shareholders well in the long run, as currently almost two-thirds of Goldman's revenue comes from its investment banking and global markets trading business segments. The ultimate goal of Goldman's evolution is to change the trading and deal-making titan into a more well-rounded financial firm with more stable consumer and commercial businesses. That said, we won't be surprised if it takes a few years for the efforts to begin to be truly rewarded by investors. Our Target Price for GS now stands at $276.

Shares of **JPMorgan Chase** (JPM – $138.15) bounced back strongly on Friday, but still ended a miserable week for financial stocks in general down more than 7%, with the catalyst being the company's release of its Q1 financial results. While analyst expectations did not consistently discount the impact of COVID-19, which makes sense given that nobody can know what the hit to business will be in the near- and intermediate-term, adjusted earnings per share of $0.78 came in below published estimates. Of course, that was not a big surprise, as JPM built up credit reserves (adding $6.8 billion), saw widening funding spreads on derivatives and marked down the company's bridge loan book.

JPM CEO Jamie Dimon explained, "The company entered this crisis in a position of strength, and we remain well capitalized and highly liquid – with a CET1 ratio of 11.5% and total liquidity resources of over $1 trillion. And JPMorgan Chase performed well in what was a very tough and unique operating environment – growing deposits in every line of business and providing loans as we extended credit and served as a port in the storm for our clients and customers. In the first quarter, the underlying results of the company were extremely good, however given the likelihood of a fairly severe recession, it was necessary to build credit reserves of $6.8B, resulting in total credit costs of $8.3 billion for the quarter."

Mr. Dimon continued, "The first quarter delivered some unprecedented challenges and required us to focus on what we as a bank could do – outside of our ordinary course of business – to remain strong, resilient and well-positioned to support all of our stakeholders. In Consumer & Community Banking, we have remained focused on meeting our customers' needs. Approximately three quarters of our 5,000 branches have been open – all with heightened safety procedures and many with drive-through options – and the vast majority of our over 16,000 ATMs remain open. In March alone, we opened half a million new accounts for our card customers and extended over $6 billion of new and increased credit lines, and we were active in Home Lending and Auto. We lent over $500 million to small businesses in the month and we're now actively supporting the SBA's Paycheck Protection Program. For the quarter, we continued to see flows into both client investment assets and deposits."

He added, "We continued to support our wholesale clients throughout this challenging period, as they drew over $50 billion on their existing lines. We also provided over $25 billion of new credit extensions in March for companies most impacted by the crisis and helped our clients execute record Investment Grade bond issuances this quarter. In Commercial Banking, we partnered closely with clients on their liquidity needs, increasing loans $25 billion and deposits $40 billion in the quarter. The Corporate & Investment Bank turned in another solid quarter with record Markets revenue, as we helped clients navigate extremely tough and volatile market

conditions, and we maintained our #1 rank in Global IB fees as clients turned to us for financing and advice. And in Asset & Wealth Management, we saw strong growth in both loans and deposits, we took in $75 billion in liquidity flows, and more importantly we proactively reached out and helped clients manage their risk. In addition, JPMorgan Chase made a $50 million commitment to help address the immediate humanitarian crisis, as well as the long-term economic challenges that the most vulnerable people face. And the firm announced a $150 million loan program to help community partners get capital to underserved small businesses and nonprofits, particularly in the hardest hit communities."

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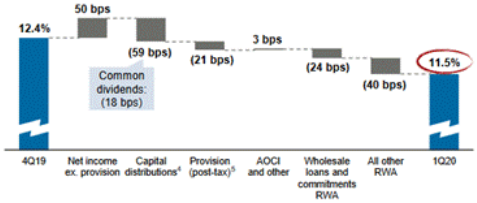
THE PRUDENT SPECULATOR

JPM – Prepared for Almost Anything

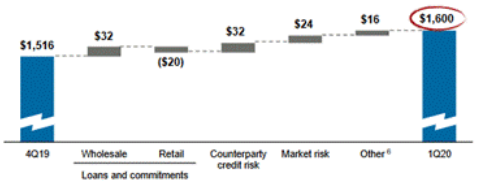
Fortress balance sheet and capital

$B, except per share data	1Q20	4Q19	1Q19
Basel III Standardized[1]			
CET1 capital	$184	$188	$186
CET1 capital ratio (1Q20 Advanced of 12.3%[1])	11.5%	12.4%	12.1%
Tier 1 capital	$213	$214	$213
Tier 1 capital ratio	13.3%	14.1%	13.8%
Total capital	$248	$243	$241
Total capital ratio	15.5%	16.0%	15.7%
Risk-weighted assets	$1,600	$1,516	$1,543
Firm SLR[2]	6.0%	6.3%	6.4%
Total assets (EOP)	$3,139	$2,687	$2,737
Tangible common equity (EOP)[3]	$185	$188	$187
Tangible book value per share[3]	$60.71	$60.98	$57.62

CET1 ratio (%)



Risk-weighted assets ($B)



[1] Represents estimated capital measures inclusive of CECL capital transition provisions for the current period. See note 6 on slide 13
[2] Estimated for the current period. Represents the supplementary leverage ratio ("SLR")
[3] See note 2 on slide 13
[4] Includes share repurchases and common and preferred dividends
[5] Net of CECL capital transition provisions. See note 6 on slide 13
[6] Primarily includes RWA related to investment securities, securitization and other assets

6

JPMORGAN CHASE & CO.

Even with the uncertainty and brisk near-term operational headwinds, we continue to believe that JPM will not only survive the current crisis but will thrive on the other side, as was the case during the Great Financial Crisis. The bank maintains a fortress balance sheet and a diverse the overall business model, while we think that there is plenty of management bench strength behind Mr. Dimon, who was only recently released from the hospital following emergency heart surgery. While share buybacks were suspended through the end of Q2, the company continues to pay a quarterly dividend of $0.90, with the yield now residing at 3.8%. Our Target Price for JPM is $141.

Diversified financial firm **Bank of Americ**a (BAC – $23.28) saw its shares drop more than 6% last week (even after spiking higher by more than 8% on Friday) after reporting Q1 financial

results. Adjusted EPS for the period was $0.37, which was 31% below expectations. The miss was driven by the bank's decision to add $5 billion to credit reserves. Given the current COVID-19 crisis and the unknowns around when the domestic and global economies might open back up and begin to heal, this was a smart move. For some context, BAC recorded less than $4 billion in credit provisions in all of 2019. While stock buybacks were wisely suspended, we liked that even the hard hit profits were more than enough to cover the quarterly dividend of $0.18.

CEO Brian Moynihan stated, "Our results reflect the strength of our balance sheet, the diversity of our earnings, and the resilience of our teammates to serve clients around the world. Despite increasing our loan loss reserves, we earned $4 billion this quarter, maintained a significant buffer against our most stringent capital requirement, and ended the quarter with more liquidity than when we began. We remain a source of strength – our customers trusted us with $149 billion in additional deposits since year-end, which enabled us to provide liquidity to people, small business owners and corporate clients. We received nearly a million requests for assistance and we announced a $100 million commitment to provide critical support to local communities. We are taking extraordinary steps to support our employees, clients and communities during this humanitarian crisis."

CFO Paul Donofrio added, "Ten years ago, we set out to transform our business and operate under the principles of responsible growth so we would be a source of strength in the next crisis. Our results this quarter reflect our progress: our strong earnings power allowed us to increase loan loss reserves while generating $4.0 billion in net income for shareholders. During the quarter, we suspended our buyback program to provide additional support to the economy. We also continued to invest in our people and our systems so we could deliver for consumers, small business owners and large corporate clients. We remain well-positioned to support our clients and deliver for all our stakeholders."

We continue to be fans of BAC and see it as one of our core financial holdings. While there will continue to be near-term pressures, we see numerous long-term opportunities upon which BAC can capitalize, from its large deposit base and consumer lending franchise to its "thundering herd" of Merrill Lynch's financial advisors and wealth managers. In the midst of the COVID chaos, we think there is a business positive for BAC. Customers that might have been hesitant or resistant to use digital/mobile banking have been forced to reconsider and usage numbers would suggest a spike in utilization. If comfort online is gained during this tragic time, it may give BAC the ability to have flexibility to cut branch count in more normal times, which could equate to massive cost savings. Our Target Price is now $39.

PNC Financial Services (PNC – $101.50) reported adjusted Q1 2020 earnings that trailed analyst estimates, such as they were. The regional bank earned $1.96 per share (vs. $2.05 est.) and had net interest margin of 2.78%, up 6 basis points, due to lower interest rates paid on deposits. PNC reported that the provision for credit losses was $914 million, which includes the effects of COVID-19 and loan growth. Of course, those provisions will likely continue to rise in the quarters ahead, even as the loan book is broadly diversified with COVID-19 High-Impact Industries representing *only* $19.3 billion of loans, approximately 7% of the overall portfolio.

PNC – COVID-19 High-Impact Loan Risk

Credit Quality: **COVID-19 High Impact Industries**

PNC

$19.3 billion Outstanding Loan Balances

$10.6 billion Commercial & Equipment Lease Financing Loans

Leisure Recreation: Restaurants, casinos, hotels, convention centers	$4.4 billion / 1.6% of Loans *73% Utilization*
Retail (non-essential): Retail excluding auto, gas, staples	$2.5 billion / 0.9% of Loans *61% Utilization and 59% ABL*
Healthcare Facilities: Elective, private practices	$1.6 billion / 0.6% of Loans *84% Utilization*
Leisure Travel: Cruise, airlines, other travel / transportation	$0.8 billion / 0.3% of Loans *82% Utilization*
Consumer Services: Religious organizations, childcare	$0.6 billion / 0.2% of Loans *75% Utilization*
Other Impacted Areas: Shipping, delayed demand, specialty education	$0.8 billion / 0.3% of Loans *47% Utilization and 12% ABL*

$8.7 billion Commercial Real Estate and Related Loans

Non-Essential Retail & Restaurants: Malls, lifestyle centers, outlets, restaurants	$3.8 billion / 1.4% of Loans *81% Utilization*
Hotel: Full service, limited service, extended stay	$3.2 billion / 1.2% of Loans *90% Utilization*
Seniors Housing: Assisted living, independent living	$1.7 billion / 0.6% of Loans *61% Utilization*

- Balances as of 3/31/20; excludes securitizations.
- ABL - Asset Based Lending. Shown in areas where material.
- Commercial & equipment lease financing loans exclude PNC Real Estate business loans. Commercial real estate and related loans include commercial loans in the PNC Real Estate business.

CEO Bill Demchak commented, "Our results for the first quarter were good, but the extraordinary changes in the economic backdrop occurring in March and the implications of the broad-based response to the COVID-19 outbreak had a material impact on our provision for credit losses…This pandemic is having a profound impact on the global economy and on people's lives and the challenges we face as a country are unprecedented. PNC through this period is navigating these challenges from a position of strength. We have nearly 52,000 employees who are working incredibly hard to serve our customers. We immediately mobilized to mitigate the risks to our front-line employees and implemented enhanced pay provisions for those in roles that can't be performed remotely. Our technology, in which we've invested heavily over time, allowed us to quickly transition to a remote work model for more than 30,000 of our employees, including those from our call center who are managing a very high call volume from the safety of their homes. Our technology also allowed us to quickly prepare for and respond to the federal government's economic stimulus package, which we are supporting through loans and other relief to consumer and business customers."

Mr. Demchak added, "Despite the current economic challenges, we are confident in our ability to continue to withstand strong environmental headwinds. We have solid liquidity and capital positions. We grew loans by $25 billion and deposits by $17 billion compared to the end of the fourth quarter. While this was largely driven by draws on commercial lines of credit, we have provided new loans to support key industries in our country since the COVID outbreak,

including over $2 billion in new loans to hospitals and other health care entities and $1 billion in new loans to municipalities."

Despite the even-lower low interest rate environment, the surge in loan requests should help PNC in the near term. The company has experienced increases in deposits and loan modification requests, while the contraction in GDP will weigh on PNC in the intermediate term. However, over the long term, we think that the bank has made valuable investments in expansion into new markets, and we think the asset management business will add to the bottom line, even if the awful Q1 trimmed billable assets. Additionally, we note that PNC owns around 20% of **Blackrock** (BLK – $476.87), the largest asset management firm in the world. PNC yields 4.5%. Our Target Price is $160.

Speaking of BlackRock, the stock has enjoyed a solid rebound in recent weeks, and shares were boosted last week after the company reported Q1 2020 results. The asset management behemoth posted EPS of $6.60 (vs. $6.39 est.) on revenue of $3.71 billion (vs. $3.63 billion est.). The company saw $75 billion in net inflows during the first seven weeks of the quarter, while $40 billion flowed out during the last five weeks. The $35 billion in net inflows were driven by cash, liquid alternatives, sustainable ETFs, factor ETFs and BLK's active Equity platform.

CEO Larry Fink said, "I want to take a moment to express the gratitude of everyone at BlackRock for the men and women on the frontline of this crisis, for the doctors and nurses and everyone working so hard today, putting their own health at risk to support the safety and health of all our communities and to our countries and to all of you, thank you. As I wrote in my Chairman's letter to shareholders, we're living and working in an unprecedented environment. In just a few short months, the COVID-19 outbreak has transformed the world for all of us as individuals; businesses, small and large; for entire industries; for every government around the world; it has presented tremendous medical, economic and human challenges that will be long-lasting and will reverberate for years to come. Our global markets were impacted by extreme volatility, liquidity receded and an oil price war exasperated stress. Swift actions by policymakers and several central banks represented the type of decisive responses that are needed to overcome this extreme market adversity. There has been tremendous monetary policy to stabilize financial markets, and we're beginning to see the type of fiscal policy that could stabilize our economies."

Mr. Fink continued, "Challenging environments have always been — always offered BlackRock an opportunity to further differentiate ourselves with all our stakeholders and in the industry itself, and I'm proud to say that it's happening once again, and I believe BlackRock's position has never been stronger. We remain committed in growing and investing at BlackRock. Our performance today reflects the investments we made in the resilience of our platform by supporting our people, by building our culture and forging deep partnerships with our clients. We have consistently and strategically invested for the long term to create the most diverse global asset management and technology service firm in the world. And we believe we are better positioned than any firm to weather shocks like these and help our clients do the same. Throughout the firm, there have been countless examples of everyone living our purpose to help more people achieve financial well being, and I could not be prouder or more grateful for the commitment of BlackRock's people."

Mr. Fink concluded, “The world is facing a challenge that is truly unprecedented in our lifetimes. BlackRock will continue to do everything we can to support our clients, the societies where we operate more broadly as we seek to overcome this.”

We were pleased to see BLK post a solid quarter, and analysts expect the company to keep the momentum up at least in Q2, though earnings in the back half of the year are projected to fall slightly year-over-year. We like the broad opportunities for organic growth for BLK’s numerous offerings in the retail space, in U.S. retirement, and in the international distribution of iShares, as well as in its up-and-coming risk management platform, known as Aladdin. BLK shares yield 3.0% and our Target Price is now $581.

Like the other big players in U.S. banking, diversified financial stock **Citigroup** (C – $45.45) saw its shares drop last week, despite a sizeable rally on Friday. On Wednesday, Citi reported its Q1 financial results, which came in well below analyst expectations as the bank added materially to its credit provision reserves. Adjusted EPS for Q1 was $1.05, versus the published guesstimate of $1.44. Revenue was up 12%, as Citigroup saw growth within its institutional clients group segment, which more than offset pressure within its international consumer business. Revenue within North American consumer also held up decently. Management said that for Q1 it booked approximately $7 billion for credit provisions. Citi shares have been hit harder than many of its large banking brethren, but we want to remind folks this is not the 2008/2009 Citigroup. The institution has made a number of changes and has materially improved its financial position.

Citigroup CEO Michael Corbat commented, “Our earnings for the first quarter were significantly impacted by the COVID-19 pandemic. We managed our expenses with discipline and had good revenue performance as the economic shocks caused by the pandemic weren’t felt until late in the quarter. However, the deteriorating economic outlook and the transition to the new Current Expected Credit Loss standard (CECL) caused us to build significant loan loss reserves….COVID-19 is a public health crisis with severe economic ramifications. All of the work we have done in recent years has put us in a very strong position from a capital, liquidity and balance sheet perspective. While no one knows the severity or longevity of the virus’ impact on the global economy, we have the resources we need to serve our clients without jeopardizing our safety and soundness…I want to thank our 200,000 people around the world who have had to work differently but have brought their same dedication and pride to their jobs each and every day. They have supported our clients, our communities and each other and I could not be prouder of them.”

While the near-term uncertainty will obviously call a number of things into question, we think C shares are quite attractive, especially when changing hands at 60% of tangible book value. A longer-term return to improving operational execution and business lines in faster growth markets around the globe (vs. its U.S. business) will be quite beneficial for shareholders. Using our longer-term lens, we still like that C has good leverage towards the U.S. economy, while also having the potential to show outsize benefits versus its peers from growth in Asia, Latin America and other emerging economies. Our Target Price for C now stands at $97, while the company seems committed to its generous dividend yield, which presently resides at a hefty 4.5%.

KeyCorp (KEY – $10.81) announced Q1 2020 results on Tuesday that missed analyst expectations, producing $0.12 (vs. $0.28 per share), and compared to $0.45 per share in Q4 of 2019. Provisions for credit losses for the Cleveland-based bank accounted for a loss of $0.23 per share, but deposits for the quarter grew 3% year over year to $110 billion. Key was also able to reduce its cost of funding by 14 basis points from the prior quarter, as the impact of lower interest rates took effect. Laurel Road, KEY's digital lending arm, originated $600 million of student consolidation loans in the quarter and generated $1.3 billion of residential mortgage loans.

Improved balance sheet mix and strong loan growth drove taxable equivalent net interest income $2 million higher than the prior quarter, while net interest margin rose to 3.01% versus 2.98% quarter over quarter. The current pandemic took its toll on market-sensitive businesses, sending non-interest/fee income to $477 million for Q1 versus $536 million for the year-ago quarter and $651 million a quarter ago. For Q2, management expects deposit costs to continue to slide another 30 to 35 basis points, contributing to higher net interest income. As a result of the expected originations of stimulus PPP loans, management expects lower net interest margin from the first quarter level due to the lower lower yield on those loans versus other products.

CFO Don Kimble shared his take on the banks financial position, "Capital ratios this quarter reflected the impact of the balance sheet growth and lower earnings. Most of our planned capital actions for the quarter were completed before the economic outlook turned. As a result, our common equity Tier 1 ratio was 8.95% as of March 31, down 49 basis points from year-end. This level is slightly below our target range, but well above the stressed capital buffer levels required by the Fed. Our capital target was established to provide sufficient capital to operate in stressed environments, recognizing we would be operating at levels below the target as we experience the impact of those environments. This capital level provides a sufficient capacity to continue to support our customers and their borrowing needs, and based on our current outlook, maintain our dividend."

He continued, "As a reminder, our capital priorities continue to be to support organic growth, to continue our strong common dividend, to repurchase shares in excess with excess capital. The new guidelines from the stress capital buffer are also helpful in addressing our capital actions. As announced earlier, we suspended our share buybacks through the second quarter. Given the uncertain economic outlook for the full year, we have removed our guidance for full year 2020. There is still a wide range of scenarios on the depth and duration of the economic downturn. Also impacting this will be the benefits of various programs to help bridge the retail and commercial customers. As we move through the second quarter, we expect to have more clarity on the economic impact of COVID-19 and the support provided to our clients, allowing us to provide more visibility on our full year outlook."

KEY – COVID-19 Loan Focus

Select Commercial Portfolio Focus Areas

Active Portfolio Surveillance

- Ongoing portfolio reviews
- Monitoring ratings migration
- Central reporting on enterprise-wide relief initiatives
- Established **pandemic watchlist** and ongoing review of commercial clients at risk
  - Evaluate business position as well as potential COVID implications
  - Deferral requests automatically added

Portfolios in Focus

		Outstandings	*% Total Loans*
Consumer Behavior	• Restaurants ($480 MM), sports, entertainment/ leisure, services, education, etc.	*$5.3 B*	*5.1%*
Travel/ Tourism/	• Diversified portfolio including hotels, tours, air/ water/ rail leasing	*$3.1 B*	*3.0%*
Leveraged Lending	• All exposure has total debt/EBITDA > 4.0x or senior debt/EBITDA > 3.0x and meets the purpose test (the new debt finances a buyout, acquisition, or capital distribution) • Diversified portfolio in multiple industries	*$2.7 B*	*2.6%*
Oil & Gas	• Primarily focused upstream; reserve-based • Comprised of ½ oil, ½ gas • Stress-tested at various price points	*$2.7 B*	*2.6%*

Portfolios reviewed on a frequent and ongoing basis

14

We believe the lumps KeyCorp took in the Great Financial Crisis were the impetus for its transition to a more conservative culture, which should serve it well in the current environment. Despite pressure on fee revenue in the near-term, we like the diversified exposure in the seemingly perpetual low-rate climate. Management still appears to be supportive of the dividend, although we wouldn't be all that surprised if it were trimmed, but the capital base is much stronger versus a decade ago. Shares yield a handsome 6.9% yield at current levels. We've pared our Target Price to $22.

Shares of global financial services giant **Bank of New York Mellon** (BK – $46.18) were one of the few financial stocks to gain ground last week, thanks to very good Q1 2020 financial results. Earnings per share of $1.05 beat the consensus analyst estimate of $0.88, as strong fee revenue growth from elevated trading volumes and market volatility drove an 11.7% increase versus Q1 of 2019.

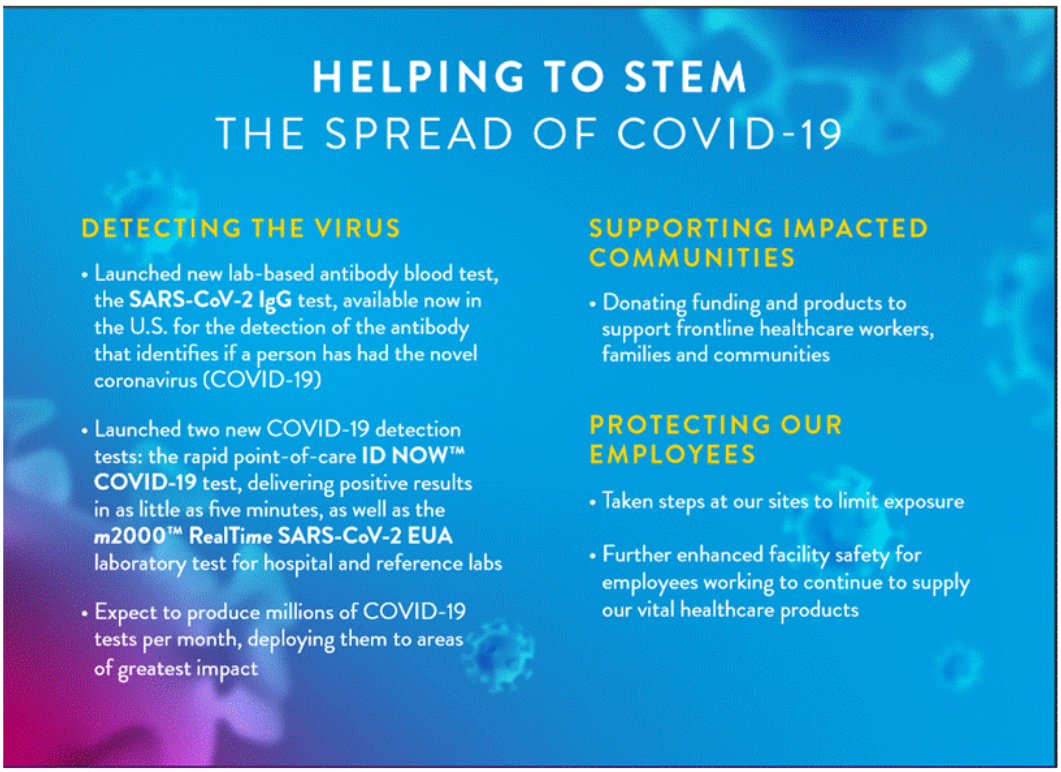
Looking ahead to the remainder of 2020, CEO Thomas Gibbons commented, "It is difficult to forecast the impact of the coronavirus on our results with certainty because so much depends on how the health crisis evolves, its impact to the economy and issues — actions taken by central banks and governments to support the economy. We have a lower risk fee-based business model that positions us relatively well in an environment like this. We perform stress tests regularly as do our regulators. In CCAR, we consistently perform well. We have a highly diversified business

model with a conservative risk profile and fees in general are skewed towards recurring revenue streams. We should benefit from increased activity in Clearance and Collateral Management from increased issuance of U.S. treasuries and U.S. tri-party collateral management, although the latter somewhat depends on Federal Reserve Bank and New York operations. Monetary policy turned signs of uncertainty, tends to have a positive effect for us through lower — excuse me, through higher deposit volumes, and we will continue to manage our expenses tightly. All that having been said, the lower interest rate environment, which impacts us both through net interest revenue and through money market fee waivers and Pershing, asset management and corporate trust, as well as the market decline in certain industries being under pressure, will have an impact. Still, we believe we have the capital and liquidity to withstand a multiple of scenarios, pay our dividends and continue to support our clients."

We think BNY Mellon maintains strong market positions in several segments (particularly in its Pershing business and certain other asset services offerings). Although low interest rates continue to negatively impact earnings, we appreciate the recurring nature of several of the bank's revenue streams. We hope, however, that the depressed economic backdrop is the stimulus for the bank to find additional ways to reduce its cost structure. Our Target Price for BK remains at $55.

Shares of **Abbott Labs** (ABT – $96.01) reached all-time highs this past week as the diversified healthcare concern released strong quarterly financial results that beat analyst expectations (earning $0.65 vs. $0.61 per share). Since falling sharply with the broader market for much of February and March, news surrounding the deployment of Abbott's COVID-19 rapid-test has garnered much attention. Sales for the first quarter increased 4.3% as consumer-facing segments more than offset some declines in key medical device categories as more elective procedures have been crowded out by the COVID-19 crisis. The company's popular glucose monitor, the Freestyle Libre, continued to add new users at a strong rate as sales for the product grew more than 60%. In partnership with the American Diabetes Association, Abbott has donated 25,000 Freestyle Libre sensors to U.S. hospitals and medical centers in outbreak hotspots to help accelerate access to the technology.

Abbott CEO Robert B. Ford had the following to say about the company's recent efforts, "Abbott has long been a global leader in infectious disease testing, so leading in this area is a role we can and should play. In late March, we launched 2 molecular diagnostic tests to detect COVID-19: one for our ID NOW rapid point-of-care platform; and one for our m2000 laboratory platform. Over the past few weeks, we've been actively working with government authorities and health systems to deploy these tests to places of greatest need. And just yesterday, we announced the launch of a lab-based serology test for the detection of the antibody IgG. While molecular testing detects whether someone currently has the virus, antibody tests determine if someone was previously infected. We already began shipping these antibody tests and intend to ship 4 million tests in April and ramping up capacity to 20 million tests per month in June and beyond."



He added, "But our efforts don't stop there. We're moving as fast as we can to develop additional tests, including a lab-based serology test to detect another important antibody, IgM, which we expect to launch in the near future. I'd like to thank our outstanding scientists as well as our manufacturing, supply chain and business teams. They've really stepped up to the challenge and are doing extraordinary work to increase availability of diagnostic testing as we fight this pandemic."

We continue to believe that Abbott's cash generation potential remains strong, which can be used to improve the balance sheet, return capital to shareholders and invest in the business. We also like that the company continues to invest heavily in R&D (7.3% of sales in the past quarter) as it focuses on wringing new products out of previous acquisitions. All the positives mentioned, we continue to keep a close eye on ABT shares as the valuation isn't exactly cheap at face value (though ABT shares are less expensive than many of its peers), given a current P/E ratio of about 29. Still, we are comfortable continuing to hold our remaining shares of this high-quality name as our Target Price has been hiked to $103.