

SEQUOIA FINANCIAL ADVISORS PRESENTS

The Shape of Recovery: What's Next?



EARNING TRUST. CREATING PLANS. DELIVERING RESULTS.

About Sequoia Financial Group

As an independent financial services firm, our salaried, non-commission professionals have access to a variety of solutions and resources and our recommendations are based solely on **what works best for you, not us.**





Financial Market Update

1. What are we monitoring?
2. What are we hearing from our investment partners?
3. What are we recommending?

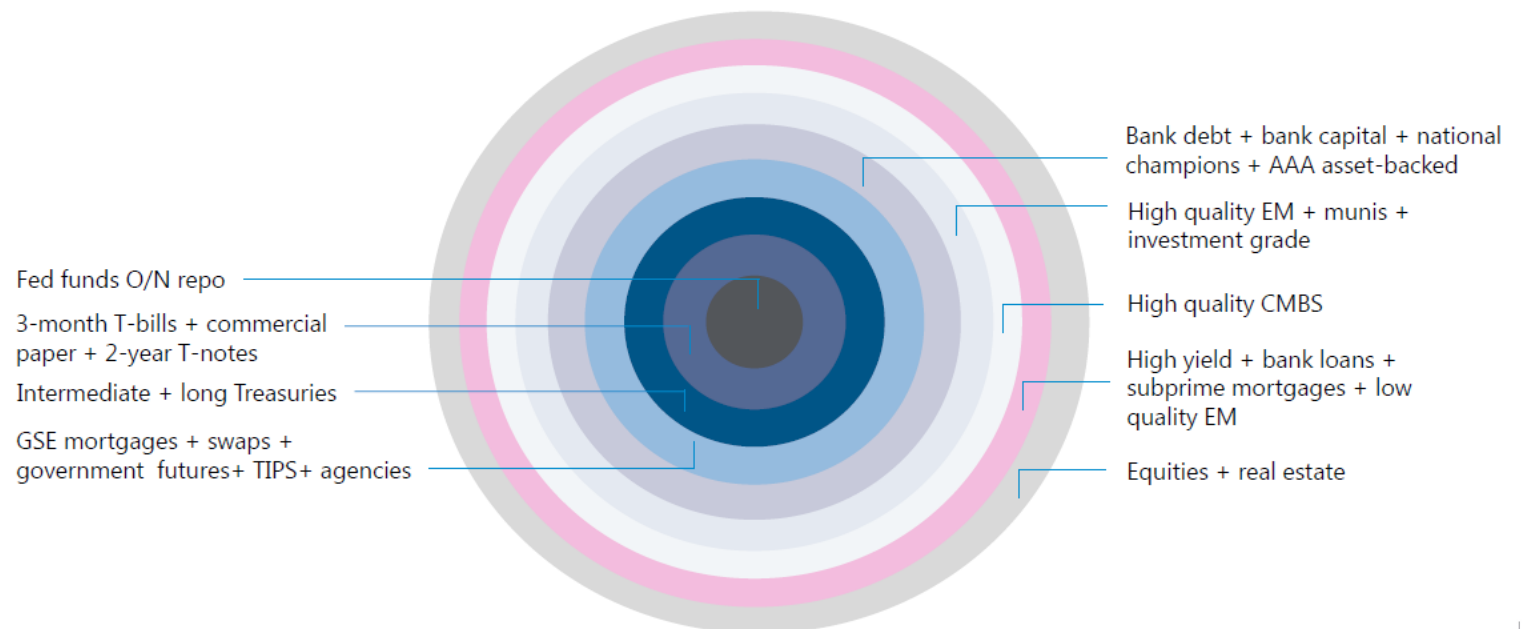


Financial Market Update

What are we hearing from our investment partners?

- ▶ Equity Manager
 - Vanguard Equity Income
- ▶ Fixed Income Manager
 - Pimco Income Fund

PIMCO's concentric circles



Source: PIMCO Investments LLC



ASSET CLASS EVALUATION – FUNDAMENTALS

EQUITY VALUATION REMAINS COMPELLING; PATH OF LEAST RESISTANCE STILL HIGHER

S&P 500 INDEX “EQUITY RISK PREMIUM” = S&P EARNINGS YIELD (E/P) – 10 YEAR U.S. TREASURY YIELD





Financial Market Update

What are we recommending?

- ▶ Slightly defensive positioning given stock market rally since March low
- ▶ Underweight International stocks relative to global benchmark
- ▶ Re-balance periodically
- ▶ Revisit investment strategy within the context of your overall financial plan

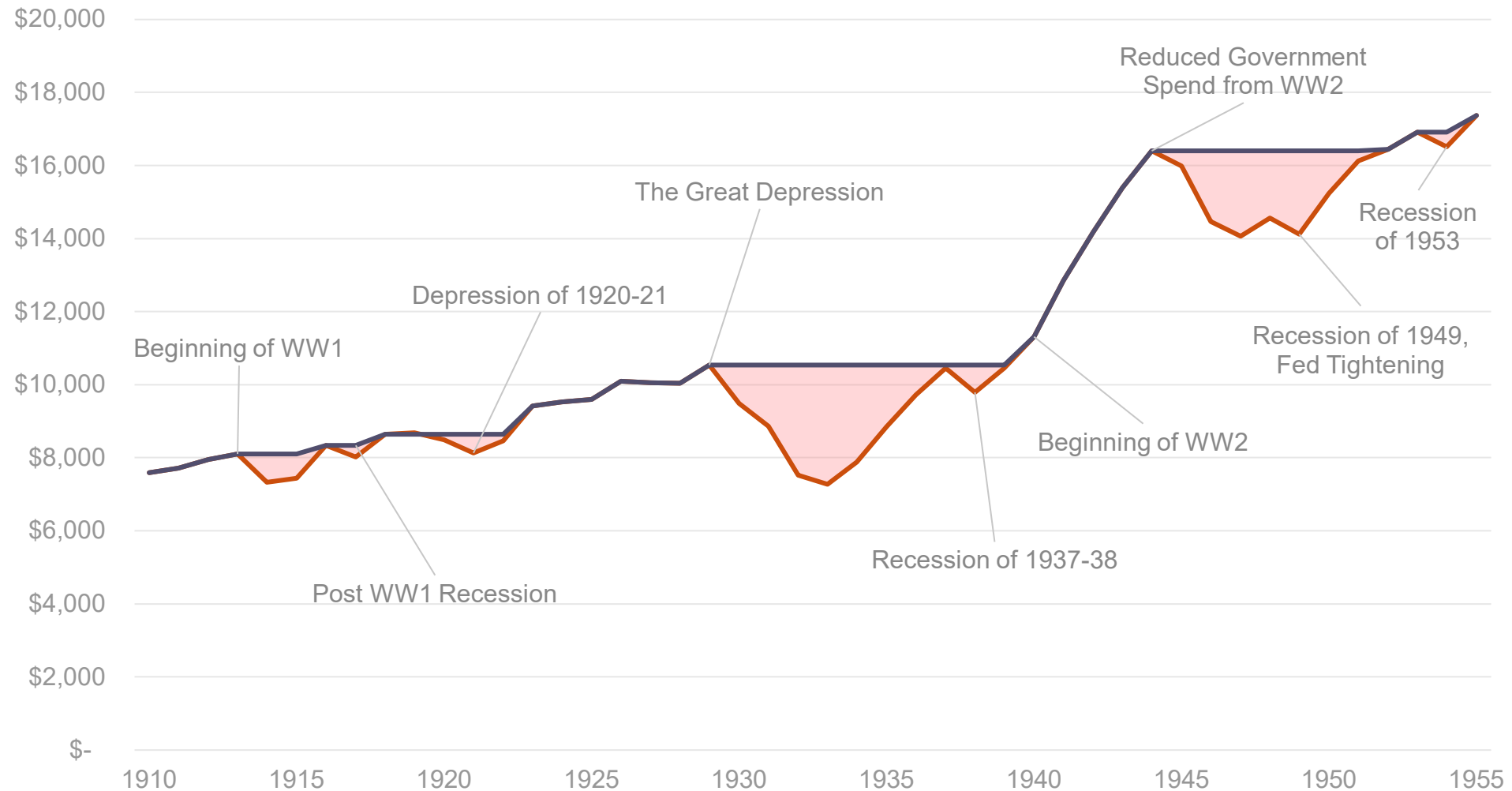




Questions

1. Prospective shape of the recovery? V, U, W, or L?
2. How is this different from other disasters?
3. What is the new paradigm?
4. How much will this really cost?
5. How will we pay for it?
6. What changes?
7. What are the second and third level effects of the crisis?

GDP/Per Capita PPP

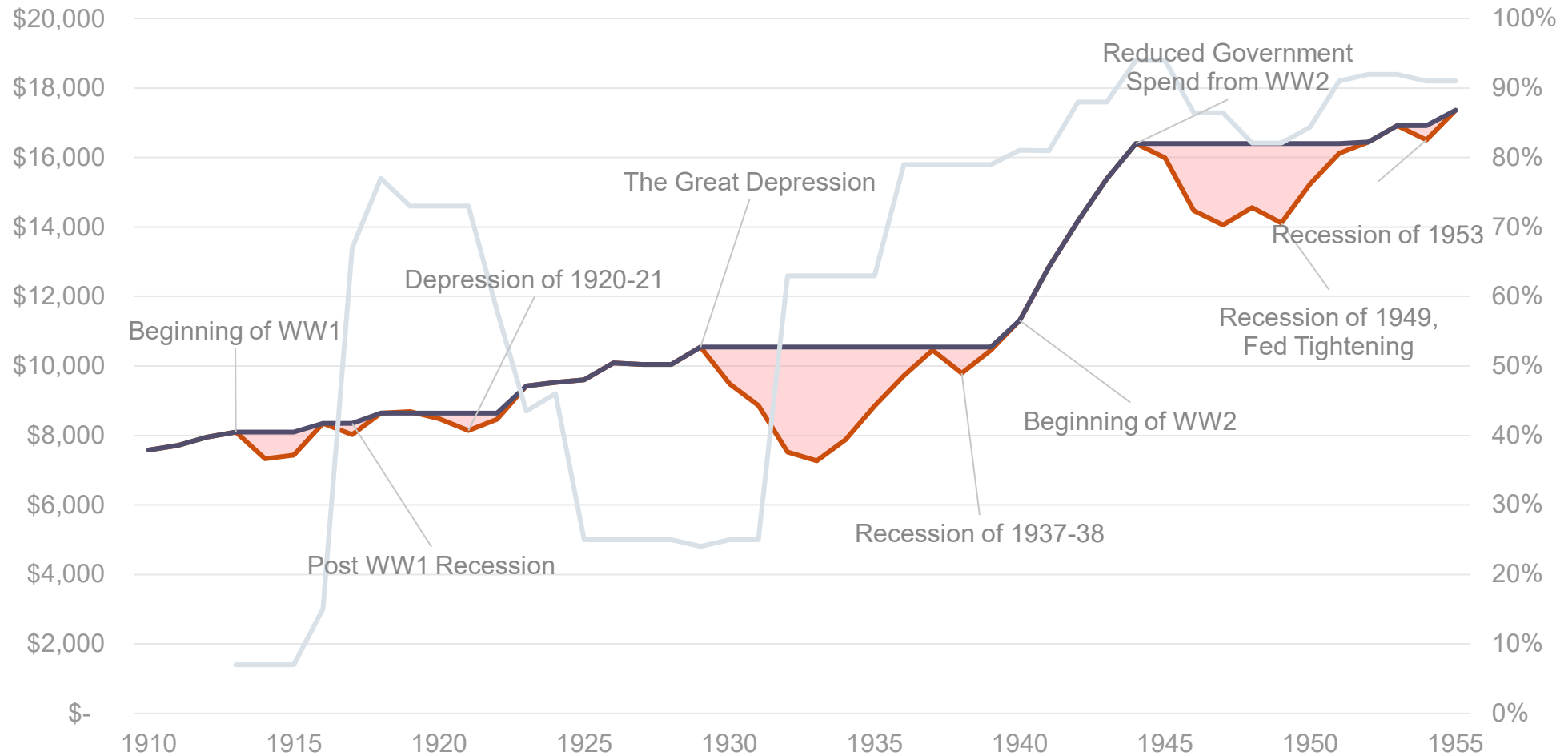


US GDP Data:

<https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2018>



GDP/Per Capita PPP & Top Tax Bracket

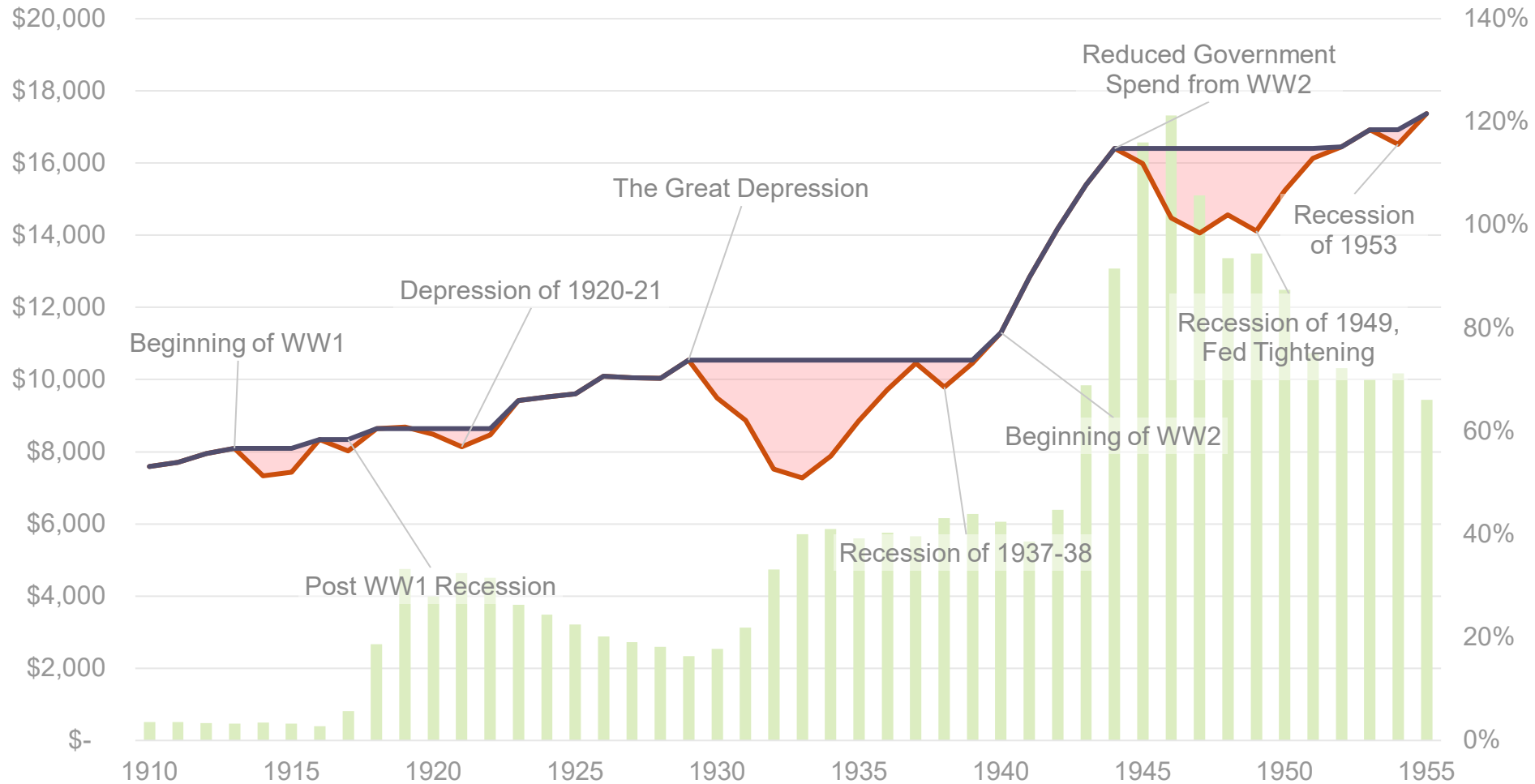


US Top Marginal Tax Rate Data:

<https://fred.stlouisfed.org/series/IITRHB>



GDP/Per Capita PPP & Debt/GDP

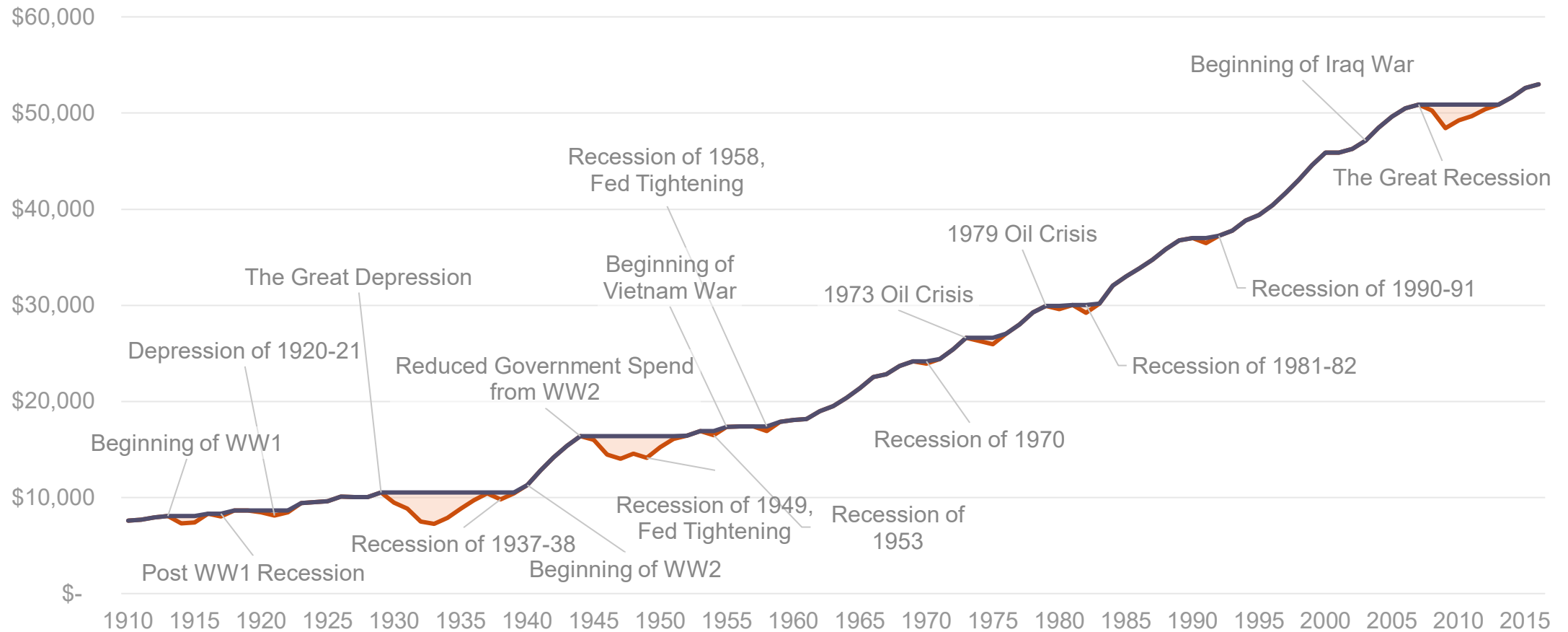


US Debt/GDP Data:

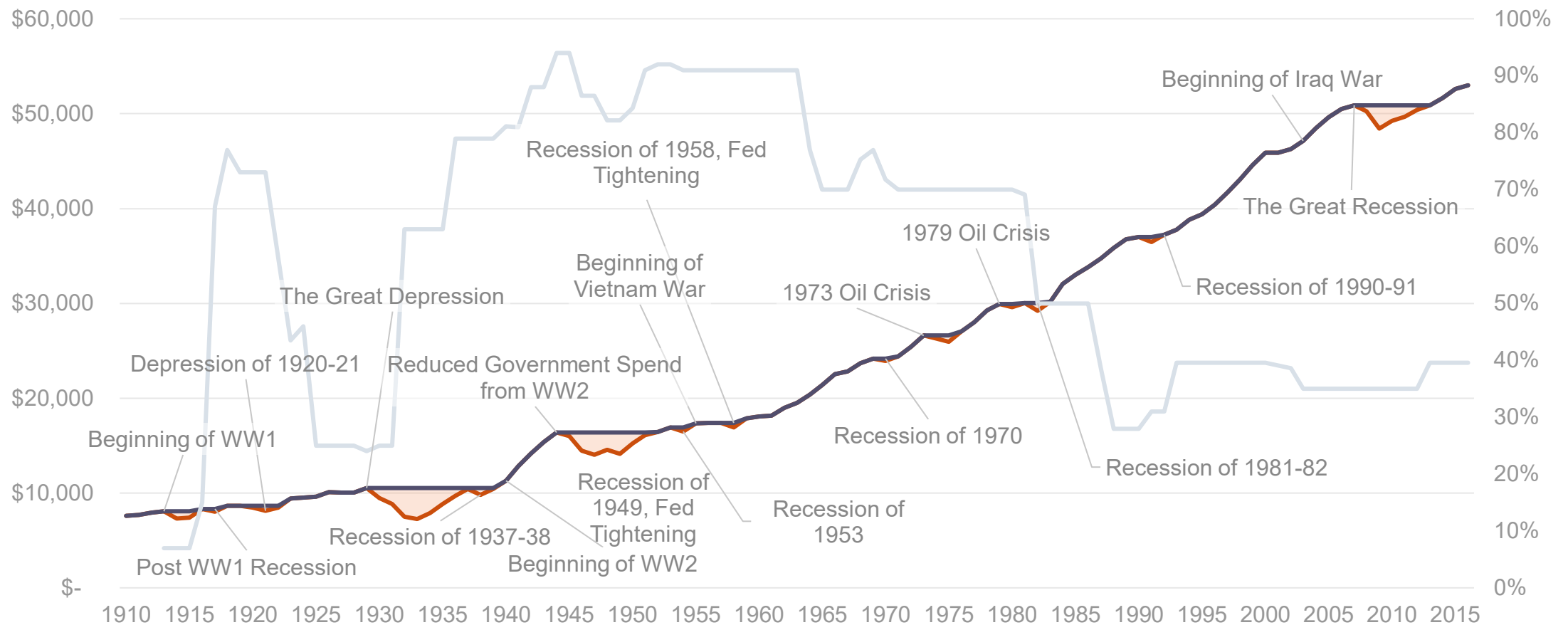
<https://data.imf.org/?sk=806ED027-520D-497F-9052-63EC199F5E63&sid=1390030341854>



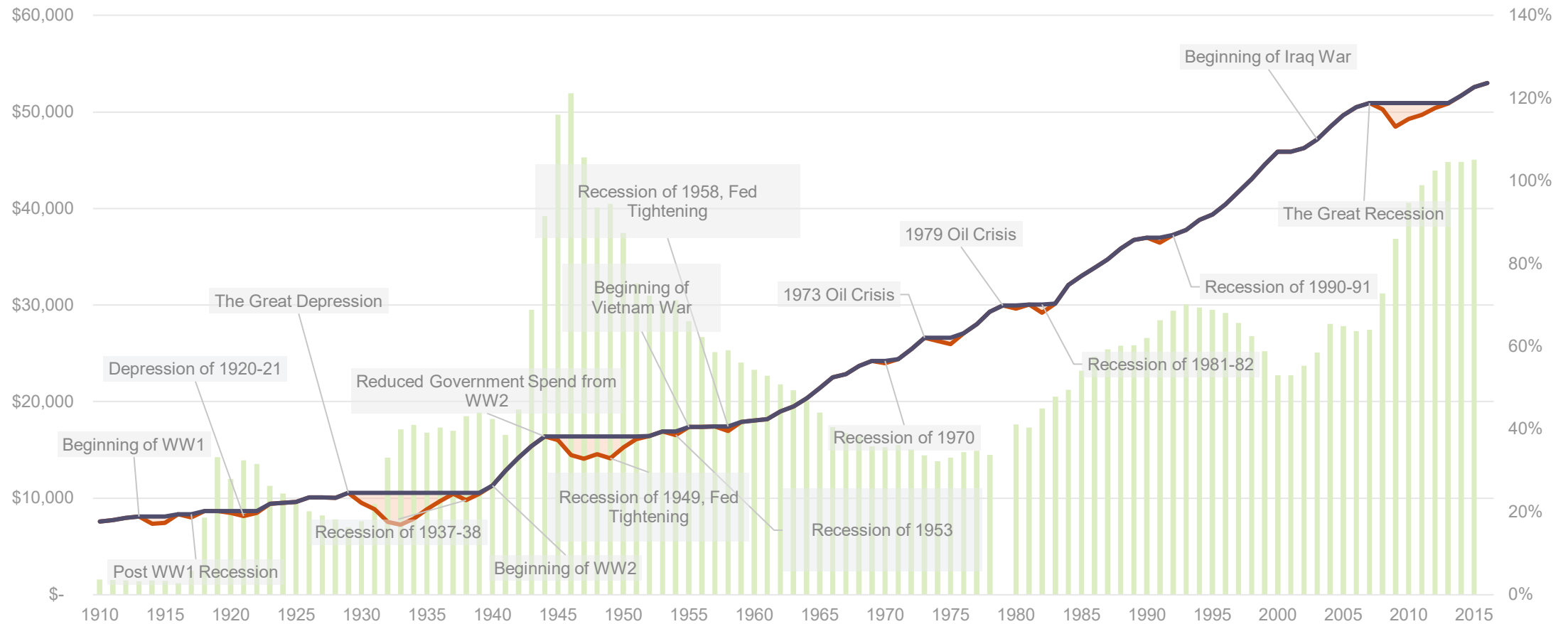
US GDP/Per Capita PPP



US GDP/Per Capita PPP & Top Tax Bracket



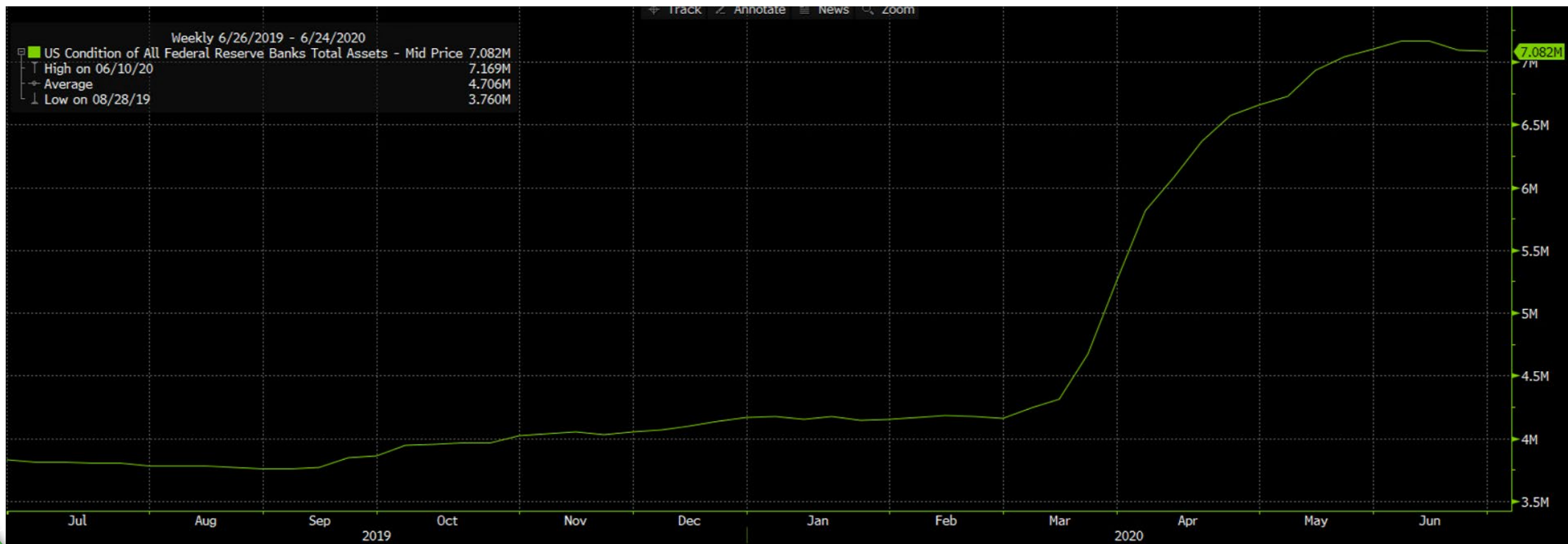
US GDP/Per Capita PPP & Debt/GDP



ASSET CLASS EVALUATION – MACROECONOMICS

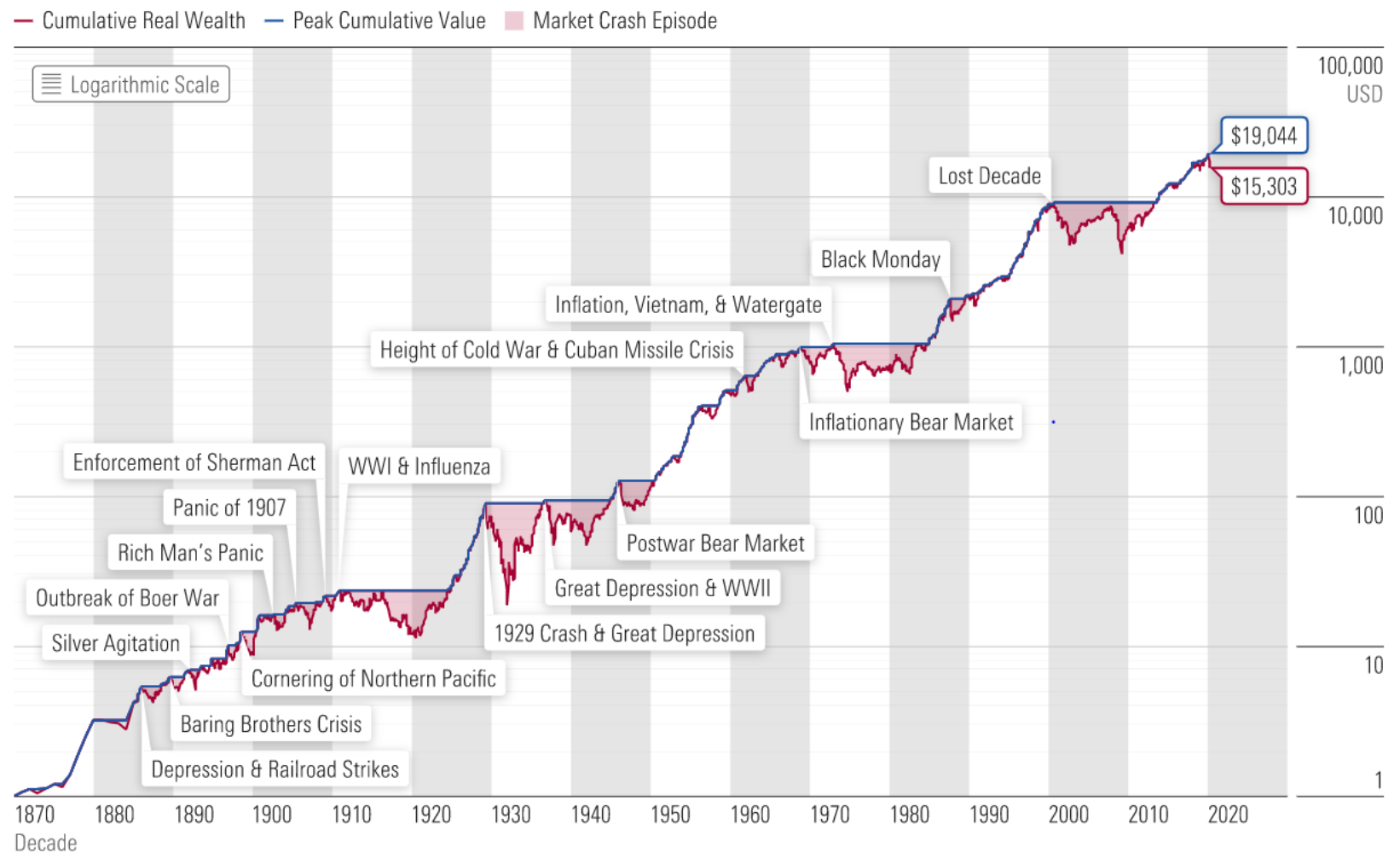
THE FED'S BALANCE SHEET IS GETTING SMALLER

After three months of record gains, which saw an increase of \$3 trillion to \$7.2 trillion, the Fed's balance sheet has posted its second consecutive weekly decline since the start of the corona crisis according to the latest H.4.1 statement:



Market Crash Timeline - Morningstar

Market Crash Timeline: Growth of \$1 and the U.S. Stock Market's Real Peak Values



Data as of Mar 31, 2020

Sources: Kaplan et al. (2009); Ibbotson (2020); Morningstar Direct; Goetzmann, Ibbotson, and Peng (2000); Pierce (1982); www.econ.yale.edu/~shiller/data.htm.

Market Crash/Morningstar Graph:

<https://www.morningstar.com/features/what-prior-market-crashes-can-teach-us-in-2020>



Asset Class Evaluation – Macroeconomics

...Retail Apocalypse? Maybe Not

The big picture

Table 2: Aggregated daily spending by major category (% year-over-year growth)

	5/7	5/6	5/5	5/4	5/3	5/2	5/1 (Pay day effects)	4/30	4/29	4/28	4/27	4/26	4/25	4/24
Airlines	-95%	-93%	-96%	-100%	-87%	-104%	-100%	-100%	-97%	-100%	-106%	-90%	-112%	-105%
Lodging	-83%	-82%	-85%	-88%	-81%	-83%	-80%	-88%	-88%	-89%	-92%	-85%	-90%	-90%
Entertainment	-92%	-93%	-89%	-86%	-93%	-71%	-84%	-93%	-94%	-98%	-93%	-96%	-96%	-97%
Restaurants	-36%	-35%	-31%	-39%	-52%	-48%	-41%	-41%	-42%	-40%	-43%	-55%	-51%	-46%
Transit	-55%	-56%	-55%	-60%	-63%	-51%	-61%	-64%	-59%	-65%	-63%	-74%	-61%	-63%
Gas	-41%	-43%	-42%	-44%	-45%	-41%	-44%	-46%	-48%	-47%	-47%	-51%	-46%	-48%
Clothing	-39%	-34%	-33%	-32%	-61%	-65%	-45%	-43%	-43%	-40%	-41%	-64%	-70%	-53%
Furniture	7%	4%	7%	9%	-28%	-27%	-1%	-5%	-19%	-10%	-7%	-40%	-44%	-16%
Department store	-42%	-35%	-28%	-26%	-65%	-72%	-57%	-49%	-46%	-40%	-31%	-67%	-76%	-61%
Online electronics	111%	122%	126%	130%	136%	126%	155%	131%	52%	87%	123%	149%	151%	119%
Grocery	29%	28%	40%	20%	1%	17%	23%	30%	17%	28%	18%	-1%	19%	29%
General Merchandise	18%	16%	19%	17%	-11%	-7%	3%	11%	8%	17%	17%	-16%	-12%	4%
Health, personal & beauty store	-2%	-5%	-3%	-8%	-26%	-20%	-5%	-8%	-25%	-11%	-11%	-32%	-25%	-9%
Home improvement	31%	27%	24%	28%	41%	34%	39%	25%	18%	16%	16%	18%	19%	17%
Retail ex auto	4%	4%	10%	2%	-16%	-12%	-1%	0%	-7%	0%	-2%	-21%	-17%	-7%
Total online retail	84%	78%	76%	68%	86%	108%	96%	77%	50%	60%	66%	86%	101%	84%
Total card spending	-9%	-9%	-4%	-9%	-19%	-14%	0%	-14%	-33%	-21%	-17%	-27%	-24%	-20%

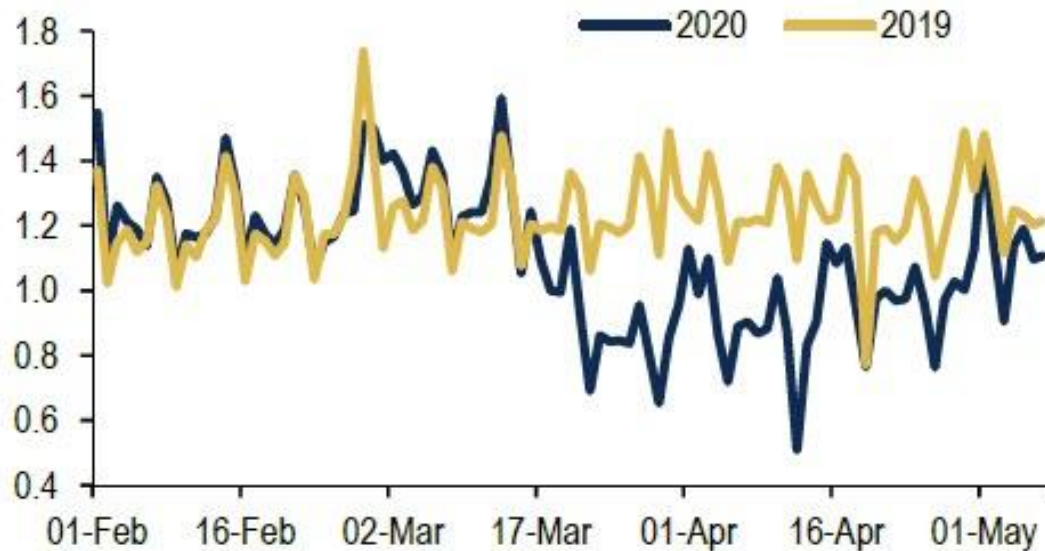
Source: BAC internal data; Note: > 100% decline reflects refunds. We advise taking a moving average to decipher the underlying trend. Note: 5/1 pay day effects means consumers spend more as a result of getting their paychecks on April 30th. Total card spending includes total BAC card activity which captures retail sales + services which are paid with cards. Does not include ACH payments.



Asset Class Evaluation – Macroeconomics

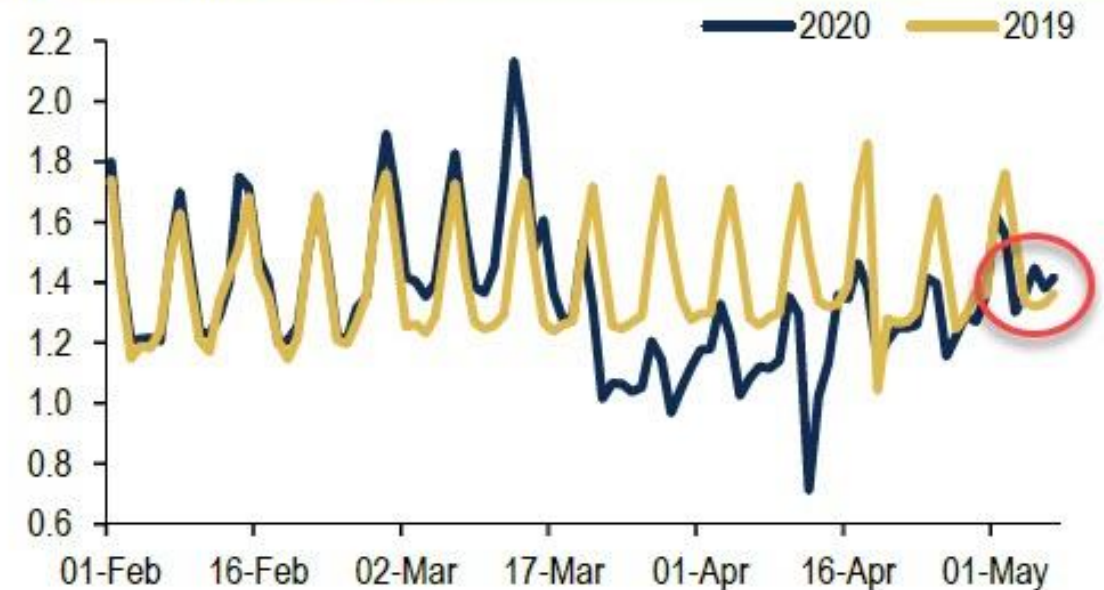
...Retail Apocalypse? Maybe Not

Chart 1: Daily total card spending, based on BAC aggregated card data (index, Jan 1st 2020 = 1)



Source: BAC internal data; Total card spending includes total BAC card activity which captures retail sales + services which are paid with cards. Does not include ACH payments.

Chart 2: Daily retail ex auto spending, based on BAC aggregated card data (index, Jan 1st 2020 = 1)



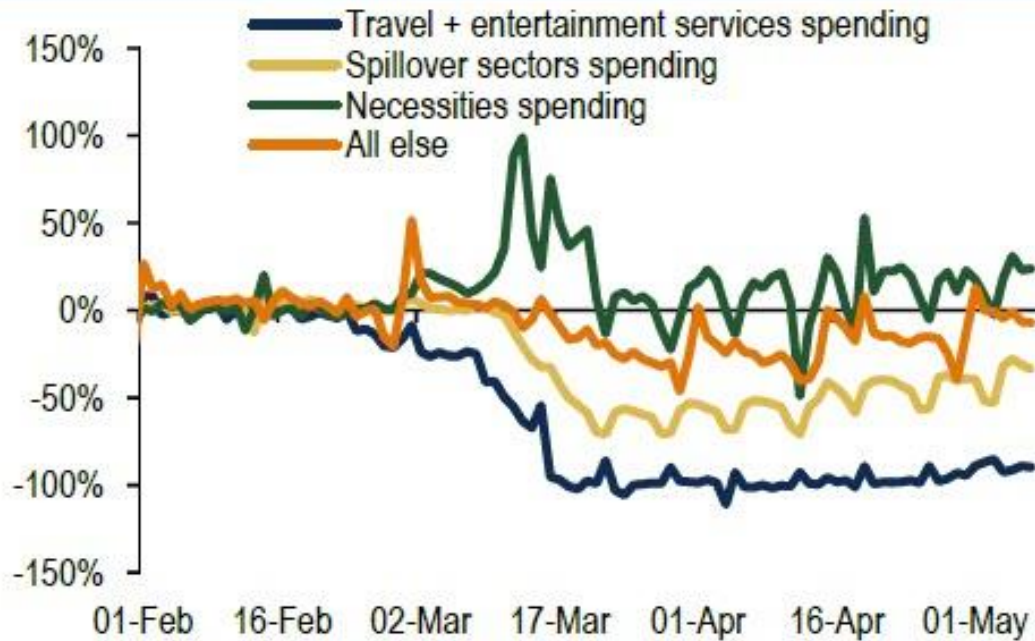
Source: BAC internal data



Asset Class Evaluation – Macroeconomics

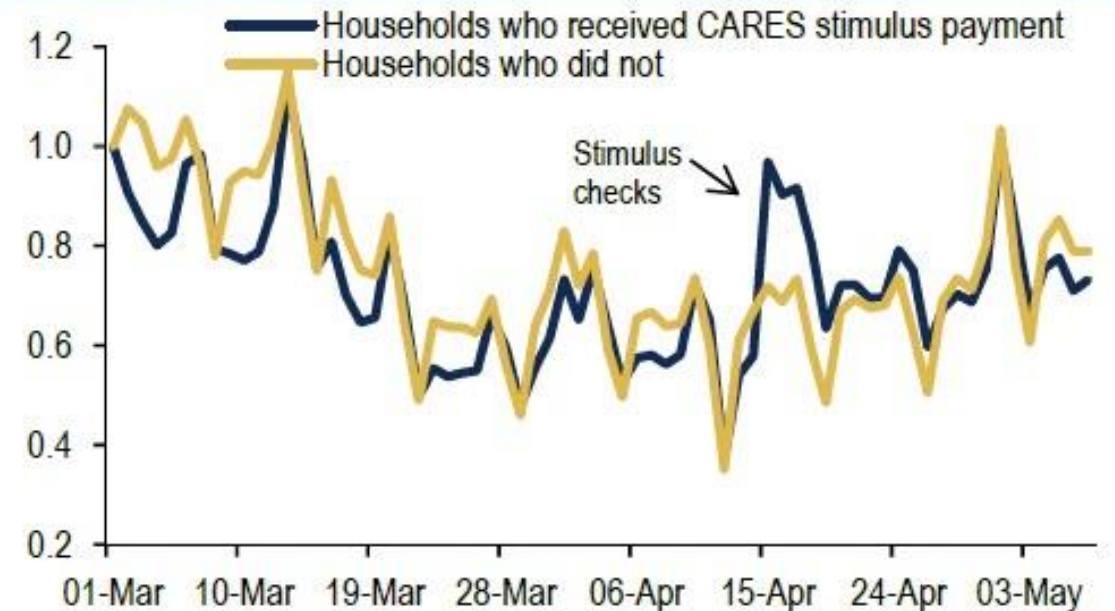
...Retail Apocalypse? Maybe Not

Chart 3: Aggregated daily spending by major categories (% yoy)



Source: BAC internal data. Note: Travel includes airlines, lodging and cruises. Spillover sectors include restaurants, clothing, department stores, and furniture. Necessities include groceries, general merchandise, and health & personal stores and electronics.

Chart 4: Aggregated daily total card spending for households that received CARES stimulus payment vs. those that did not (index, for both groups March 1st 2020 = 1)



Source: BAC internal data. Note: The categorization of households is based on whether households received direct deposit. "Households who did not" group might have later received physical checks.

China real time dashboard as of May 15, 2020

Week Ending	1/17	1/24	1/31	2/7	2/14	2/21	2/28	3/6	3/13	3/20	3/27	4/3	4/10	4/17	4/24	5/1	5/8	5/15
New COVID-19 cases	0	830	8890	21498	17455	9614	3162	1759	281	336	757	724	503	844	162	74	30	54
Oxford Government Stringency Index	11.9	42.4	67.7	73.0	69.9	69.9	75.4	75.4	75.4	72.3	75.0	64.4	55.2	55.2	55.2	55.2	55.2	64.4
Air Pollution in Shanghai YoY % Change	-47.2	-0.8	17	-26.4	-7	-24.4	-17.6	-71.8	-11	-8.4	-28.8	2.4	-39	20.8	-12.8	-6	-3.45	-3.9
Weekend Box Office Revenue (100,000 USD)	297.26	0.89	0.27	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Commuter Traffic - Subway Ridership in Shanghai	7637.1	5044.3	745.6	608.2	746.8	957.8	1581.4	2217	2721	3305.4	3713.4	4011.5	4076.7	4625.8	4791.4	4941.2	4384.4	5725.6
Car Sales YoY % Change	-11.6%	33.6%	-42.8%	-48.1%	-92.1%	-91.8%	-86.4%	-77.5%	-51.3%	-45.8%	-42.1%	-28.2%	-35.0%	14.7%	-0.5%	12.3%	#N/A	-7.0%
Electricity Demand- Power Plant Coal Inventory Changes	19.3%	18.3%	41.0%	9.6%	-2.7%	15.8%	46.4%	67.3%	38.3%	26.9%	39.1%	20.8%	26.1%	31.8%	17.4%	20.8%	0.0%	-5.3%

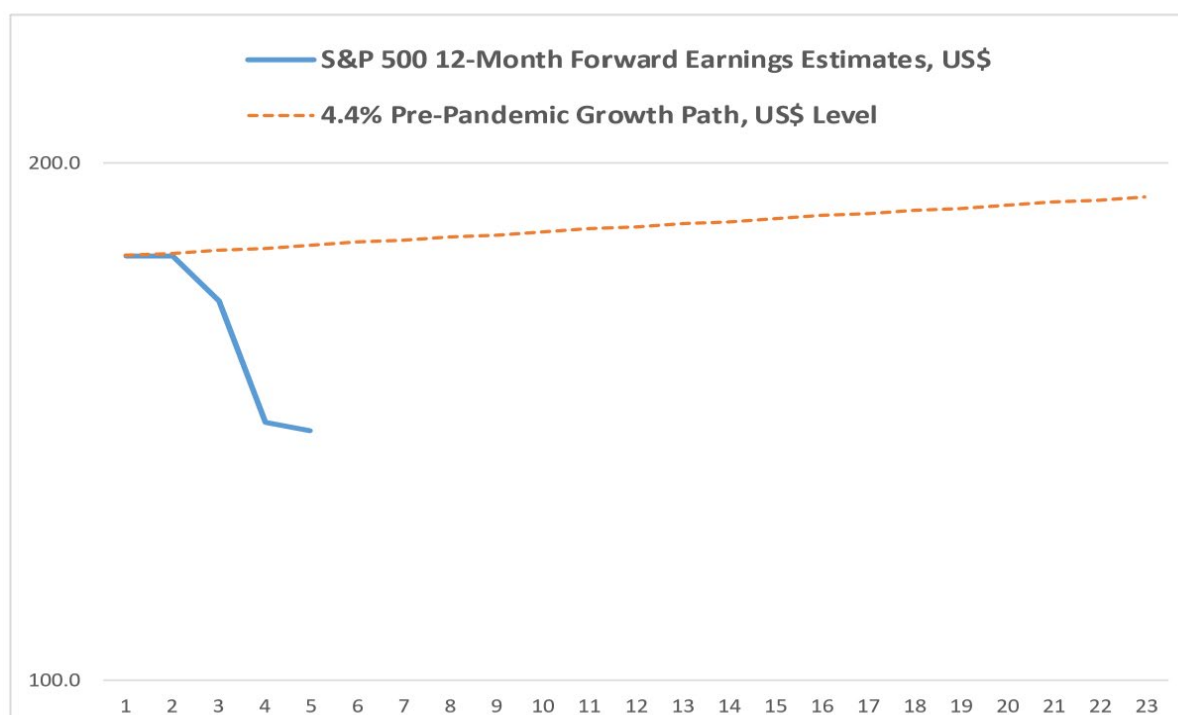
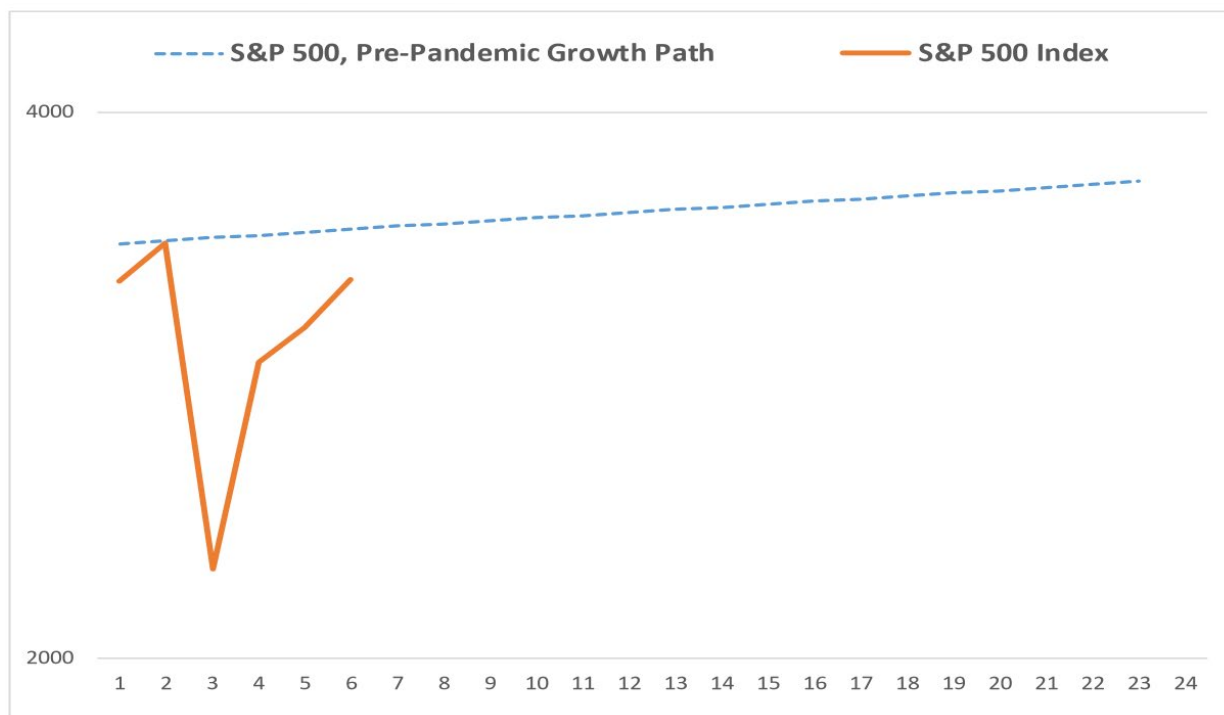
Source: Charles Schwab, World Health Organization, United Nations, TomTom.com, Bloomberg, Box Office MoJo, Macrobond data as of 5/15/20



ASSET CLASS EVALUATION – FUNDAMENTALS

THE “SUPER BULL” CASE FOR EQUITIES

The "Super Bull" case for U.S. equities is earnings and estimates quickly bounce back to the *pre-pandemic growth path* and so, too does the market. Indeed, if the level of interest rates remains depressed relative to the last cycle, the market could even shoot beyond the pre-pandemic growth path over the next few years.



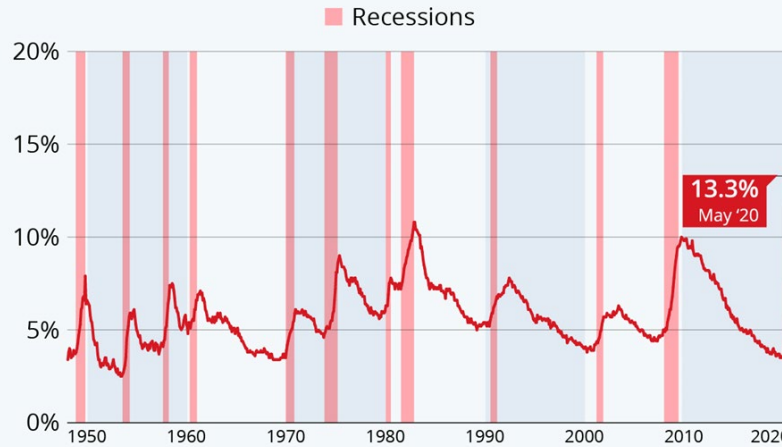
Current 'Hot Spots'

Corona Virus "Hot Spots", % of Positive Cases & Share of U.S. GDP (Nominal US\$)						
State	Ratio of Positive Tests, Recent Low	Ratio of Positive Tests, Current	% Increase	GDP, US\$	% of U.S. GDP	
AZ	0.08	0.13	62.5	366.19	1.7	
OK	0.03	0.04	21.9	206.06	1.0	
FL	0.05	0.06	20.8	1093.35	5.1	
TX	0.07	0.08	17.1	1886.96	8.8	
CA	0.05	0.05	1.3	3137.47	14.6	



Unemployment Rate Remains Historically High

Seasonally adjusted unemployment rate in the United States since 1948



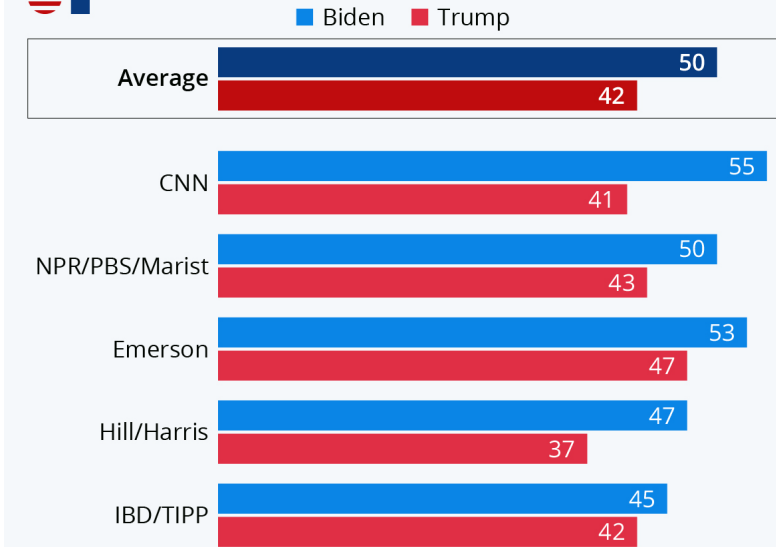
Source: U.S. Bureau of Labor Statistics



statista

Trump vs. Biden

Percentage of voters who would vote for each candidate if the election were today



Polls conducted between May 31 - June 5
Source: RealClearPolitics

Current Viewpoint

Biden's Tax and Spending Plan

Biden's taxation and spending agenda				
Taxation	\$ (bn)	Taxation commentary	Spending	\$ (bn)
Apply 12.4% payroll tax above \$400k, split evenly between employers and employees	962	Any changes to Social Security require a supermajority in the Senate, assuming no invocation of "Nuclear Option"	Healthcare (Public Option, Expand ACA)	2,250
Raise corporate tax rate to 28%	1,300	Eliminate roughly half the benefit of Trump corporate tax cuts (which cut corporate tax rates from 35% to 21%)	Infrastructure	1,300
Raise Top Rate & Limit Itemization	520	Return top rate to 39.6%, limit whatever deductions remain	Pre K and K-12	850
Tax Cap Gains as Ordinary Income	448	Only applied to people with AGI greater than \$1 mm; No step up in basis on death above a given exclusion	Higher education	750
Industry specific taxes	343	Primarily commercial and multifamily real estate (\$294 bn of total), based on changes to depreciation schedules	Clean energy research	400
Raise Global Intangible Low Tax Income rate	309	Raise minimum effective corporate tax rate paid on non-US profits	Expand social security	450
Phase out pass through deduction above \$400k	219	Consistent with increase in corporate tax rates on incorporated companies, higher taxes on pass-throughs as well	Paid family leave	430
15% minimum tax on book income	166	Conceptually, a corporate version of a minimum tax, except applied based on book income	Drug price reforms	-400
Various tax reductions	-273		Total spending increases	6,030
Total tax increases	3,994			

Source: Cornerstone Macro Research, J.P. Morgan Asset Management, May 2020.



Comparison of Tax Plans

	Top Capital Gains Rate <hr/> Applicable	Top Ordinary Income Tax Rate	Top Corporat e Tax Rate	Estate Tax Exemption	Top Estate Tax Rate	Basis Step- Up at Death <hr/> Carryover or Realization Event
Current	20%	37%	21%	\$11.58m	40%	Yes
Joe Biden Plan	39.6% Earnings > \$1m	39.6%	28%	\$5.45m (if TCJA repealed)	40% (?)	Eliminate Carryover

Biden also proposes eliminating the cap on Social Security tax for earnings over \$400,000

Source: <https://taxfoundation.org/2020-tax-tracker/>



Estate Taxes

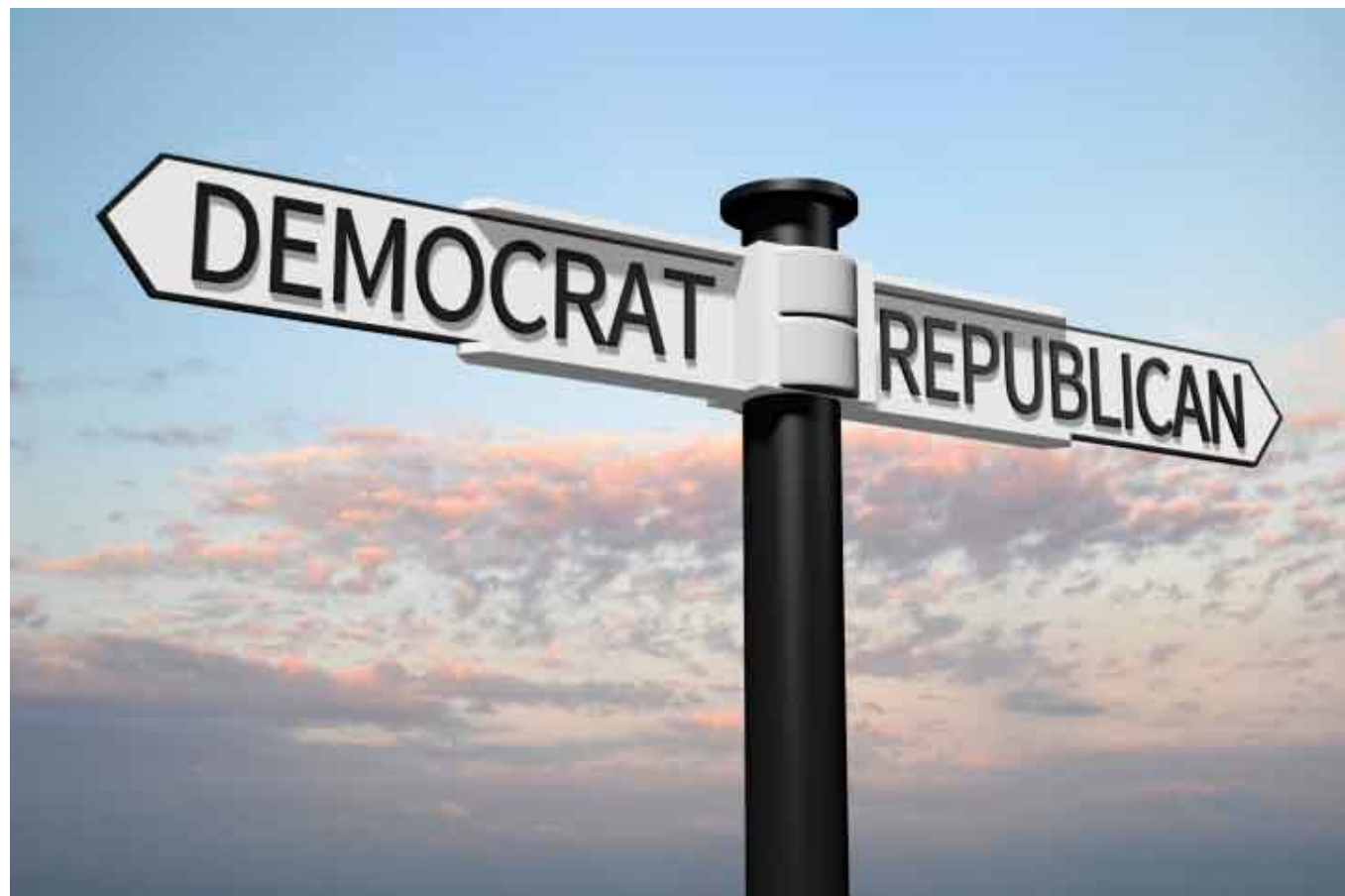
Estate Tax

Filing Status: Single	Current	Biden Plan	Difference
Estate Value	\$30,000,000	\$30,000,000	\$0
Exemption Amount	(\$11,580,000)	(\$5,450,000)	(\$6,130,000)
Taxable Estate	\$18,420,000	\$24,550,000	(\$6,130,000)
Estimated Taxes	(\$7,368,000)	(\$9,820,000)	(\$2,452,000)
Net Estate	\$22,632,000	\$20,180,000	(\$2,452,000)
Effective Tax Rate	24.56%	32.73%	8.17%

No "Stepped-Up Basis" at Death with Biden's Plan



One Party in Power?



Period	Avg. S&P 500 Return Per Annum
1881-2020, All Years	6.40%
Dem Control (7 Periods)	6.70%
Rep Control (7 Periods)	9.90%
Split Govt. (14 Periods)	5.20%

The Intersection of Financial Planning & Investment Strategy

- ▶ Extend your investment timeframe
- ▶ Understand your liquidity needs
- ▶ Evaluate capacity to shift your investment objective
- ▶ Determine if current planning opportunities are a fit for you (ex., Roth conversions, intrafamily loans, wealth transfers)



Next Steps

- ▶ Talk with your advisor
- ▶ Review or establish your financial plan
- ▶ Review your current investment strategy in the context of your plan
 - Evaluate liquidity/cash buffer
 - Analyze how you are invested based on what you are investing for



Disclosures

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