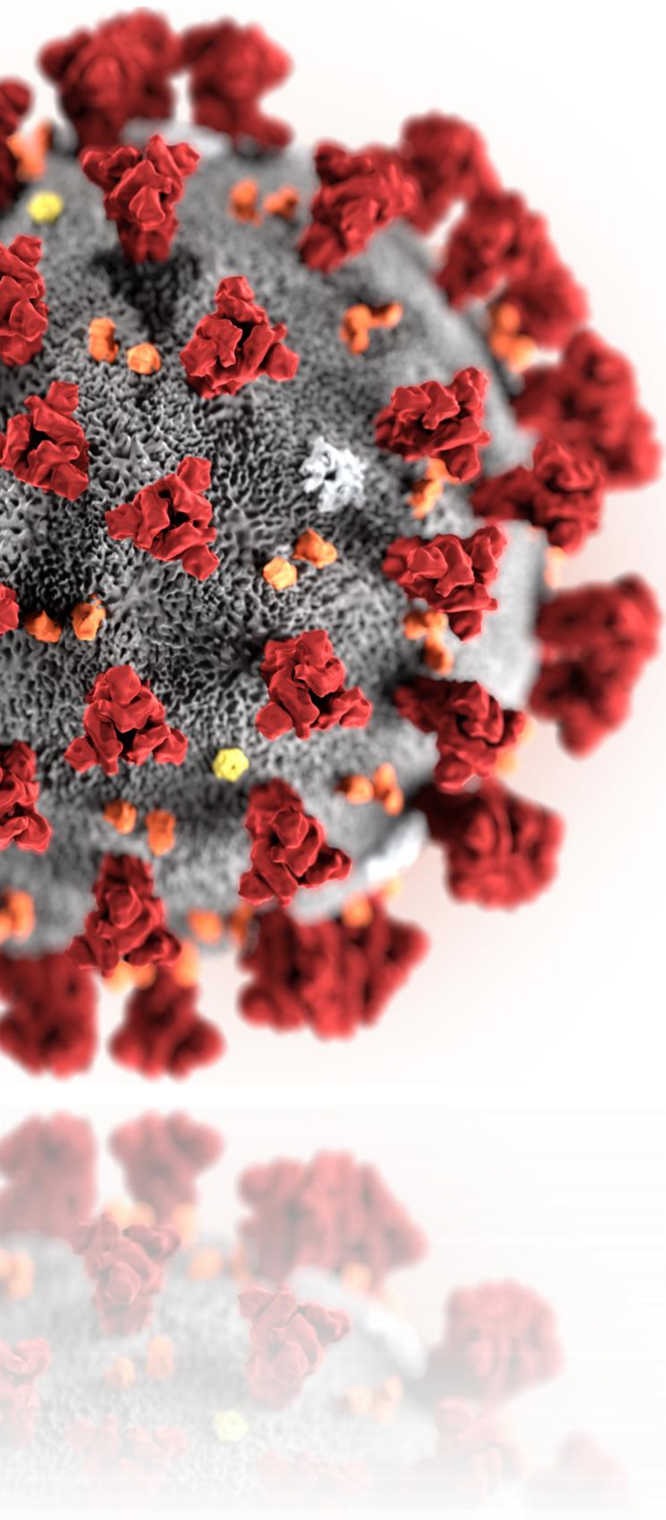


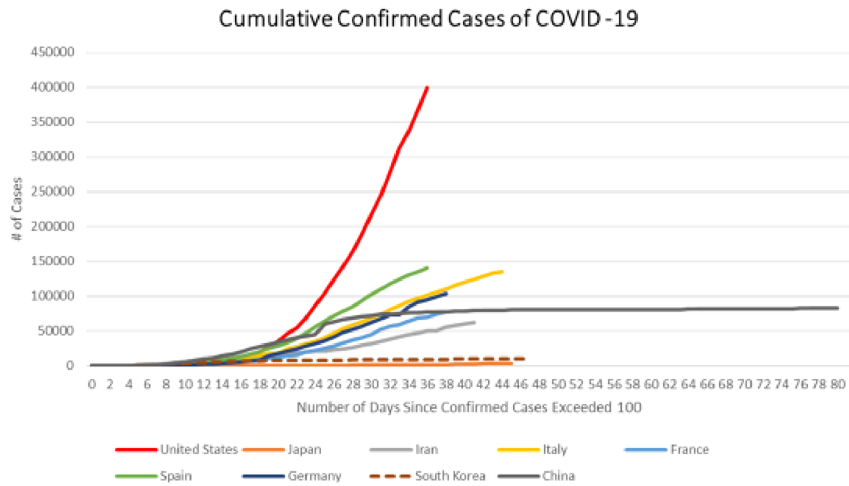
Economic Impact of COVID-19

April 2020

Covington Investment Advisors

Case Growth

Cases Continue to Rise



As of 4/8/2020

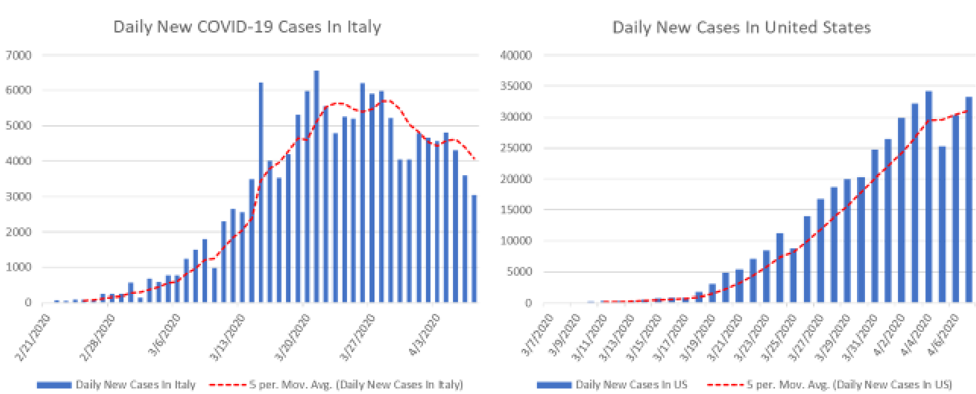
(1) Source: Johns Hopkins University
(2) Validity of Chinas data is Heavily Disputed

Covington Investment Advisors

As testing has ramped up the magnitude of the virus spread has been realized. Significant government actions have been taken to "flatten the curve".

The important thing now for markets is reaching a peak in new case growth and then the tapering off of cumulative cases.

Has The US Seen Its Peak in Growth?



As of 4/8/2020

(1) Source: Johns Hopkins University

Covington Investment Advisors

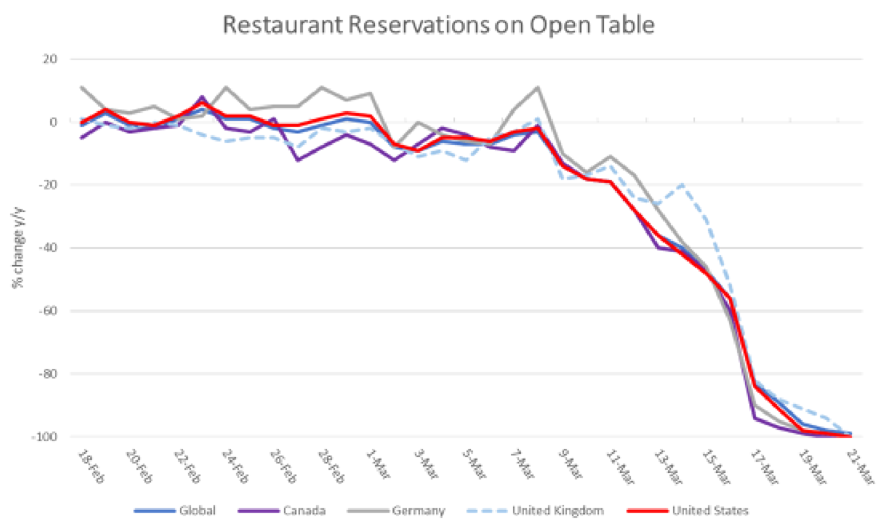
On April 6th the United States reported 25,316 new COVID-19 cases, significantly down from the peak of 34,916 on the day before. This explains investors enthusiasm that a tapering off of cases is in sight after weeks of shut down.

COVID-19 IMPACT

Impact on Consumer Habits

Stringent lockdown measures to combat Covid-19 are depressing levels of consumer and business spending by measures that have not been seen since the Great Depression. The peak to trough decline in European and US GDP is likely to be more than double that of the Global Financial Crisis. Consumer facing industries such as restaurants, hotels, travel, and brick and mortar retail will bear the brunt of the fallout from COVID-19.

100% Halt In Global Discretionary Spend



(1) Source: Open Table

Covington Investment Advisors

Going forward there will be several behavioral changes as a result of the recent crisis for at least the next 12-18 months. These behavioral shifts could dampen the speed of the economic recovery.

Household Sector

- Increase in precautionary savings for households
- Capacity restraints at restaurants, cinemas, sporting events, etc
- Fewer people traveling for vacations/leisure

Corporate Sector

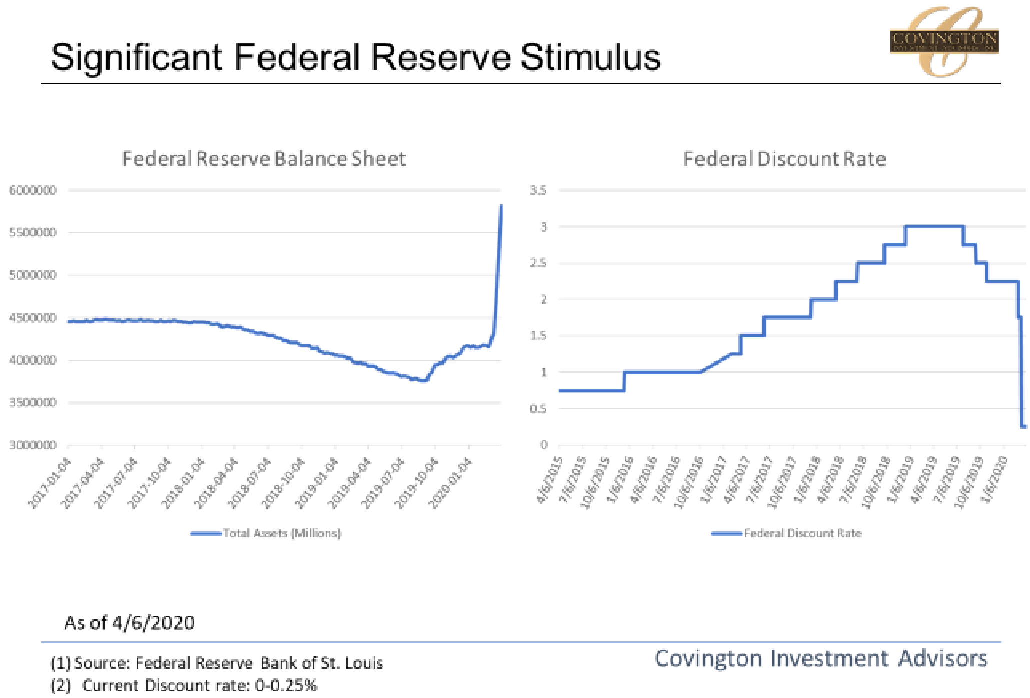
- Less work travel, more video conference
- Permanent work from home solutions
- Less generous dividend and stock buyback policies

Government Sector

- Global restrictions on travel to and from high risk areas. Increased scanning at travel bottlenecks
- More regulation to healthcare industry to ensure system is more prepared for pandemics in future
- Increased health and safety regulations particularly for high risk hubs such as retirement homes

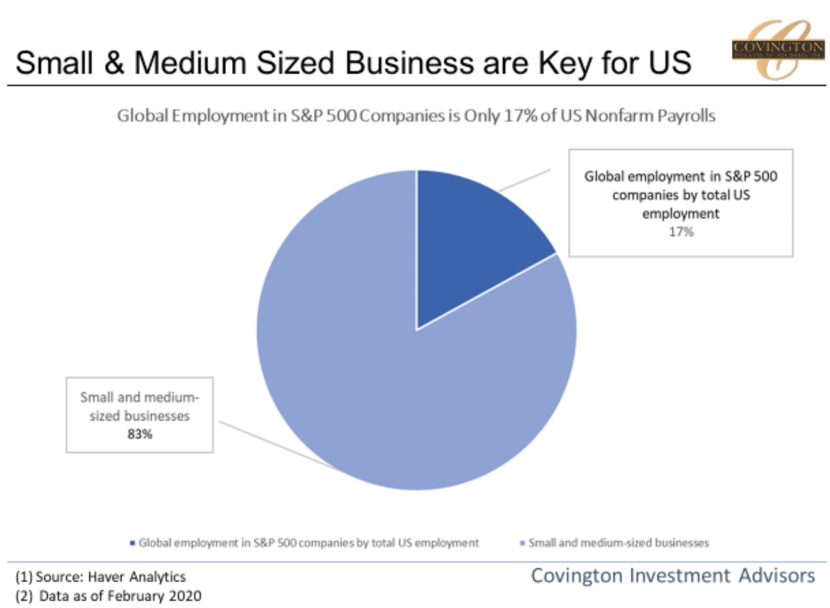
Policy Response

The outlook would be much worse would it not be for timely and aggressive monetary and fiscal policy. Policymakers and Central Banks learned important lessons from the failures of past crises, primarily the Global Financial crisis in 2007-2009. Central Banks around the globe have pulled out all the stops to inject liquidity and confidence into financial markets. The scale of fiscal easing has already exceeded what was supplied during the Financial Crisis.



COVID-19 IMPACT

The challenge for the economy ahead lies with the government lifeline being floated to small businesses. The recently passed CARES act is very generous and broad. The bill provides roughly $2 trillion of support for businesses and citizens that are feeling the consequences of the government mandated shutdown.

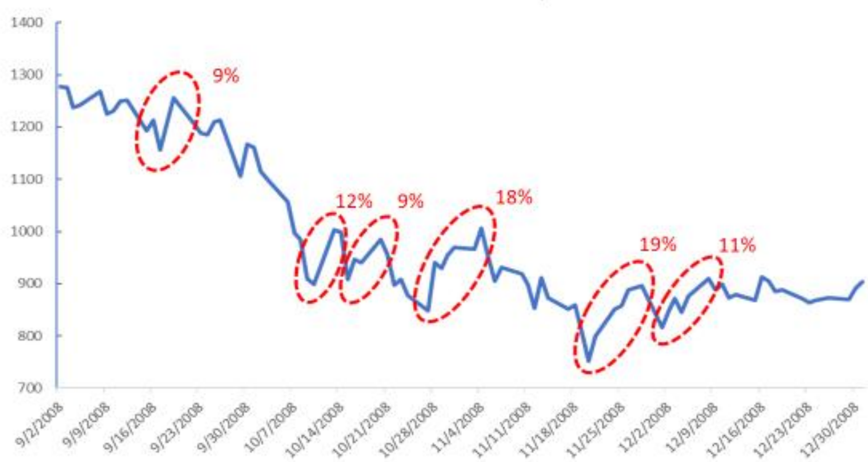


Heightened Market Volatility

With so much uncertainty surrounding these aspects of the market we feel that market volatility will continue to last for the remainder of 2020. Although we still think there will be a sharp recovery after the initial wave of the virus outbreak is contained, it does not mean that it will be smooth sailing. Government action has been swift but the logistics of rolling out the programs will be difficult.

Expect More Market Volatility

S&P 500 Price Action Between Sep. and Dec. 2008



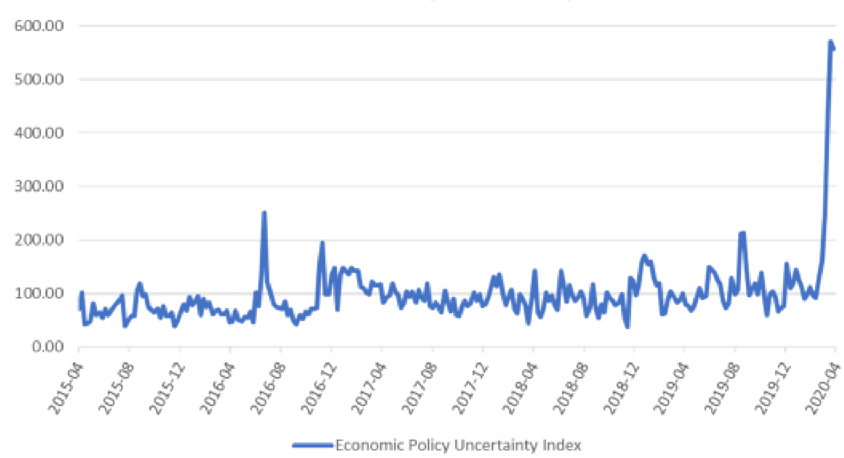
As of 3/30/2020

(1) Source: Yahoo Finance
(2) Red Percentages Indicate Size of Bounce

Covington Investment Advisors

Record High Economic Uncertainty

US Economic Policy Uncertainty Index



As of 4/6/2020

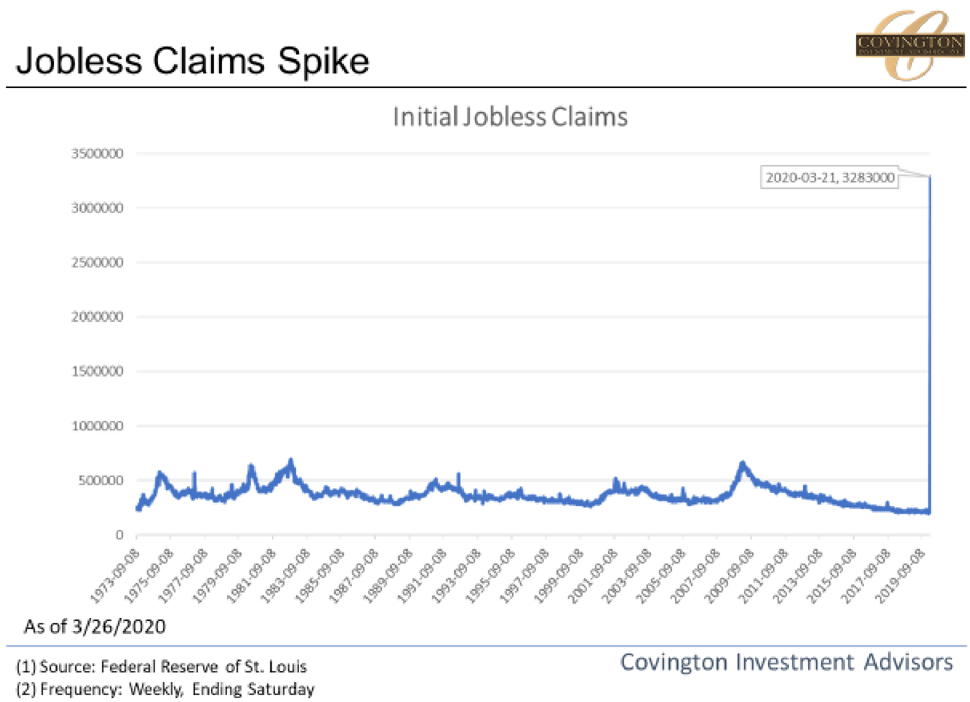
(1) Source: Federal Reserve Bank of St. Louis
(2) Weekly, Not Seasonally Adjusted

Covington Investment Advisors

COVID-19 IMPACT

What to Expect

We expect economic data to be extreme over the next few quarters. Most of this is already priced into the market but what is important now is whether the extreme conditions linger, or a 'snap back' recovery takes place in a timely manner.



We predict that by mid-May the virus will have been slowed down enough by social distancing that economies will gradually begin to reopen, like they have in Asia. The uneven containment measures raise the risk of a more protracted pandemic with the virus likely persisting into the second half of 2020 but hopefully at a pace that can be managed or controlled. The likelihood of "Hot Spots" popping up along with Governors being hesitant to broadly relax their social distancing will require close monitoring as things progress in stages.

COVID-19 IMPACT

Sector Outlook

Sector	Key Commentary
Consumer Discretionary **Underweight** **(From Neutral)**	– Consumer spending will remain extremely muted for at least the next two quarters – We estimate a quick snap back in consumer activity following the government shutdown – Significant government payouts should stimulate consumer activity – Lingering resistance to return to pre-virus levels of consumer spending even after lock downs are lifted are likely
Consumer Staples **Neutral**	– Stockpiling of household goods will provide a short-term boost to consumer staples sales – Panic buying shock will most likely be short term and normalize in the next 12-18 months – Stable cash flows with healthy dividend yields provide a safe haven for investors in times of panic
Energy **Underweight**	– The energy sector faces both supply and demand side shocks – Until a deal is reached by OPEC+ to cut production energy companies will struggle to produce enough cash flow to cover obligations including dividend payouts – Consumer travel has been brought to a standstill putting pressure on gasoline demand – Energy sector now only makes up 2.6% of S&P 500 – Weak Balance sheets. Kansas Fed estimates almost 40% of O&G producers face insolvency within the year if crude prices remains near $30/bbl
Financials **Underweight**	– Zero interest rate policy is bearish for financials – As long as the US fights deflation and low economic growth negative interest rates remain a possibility. This would be disastrous for the US financial industry – Although rates are low, the yield curve is steepening after the sharp market sell off – Maintain bias towards financials with diverse revenue streams not tied to interest rates (SPGI, ICE, BR)
Healthcare **Neutral** **(From Overweight)**	– Almost all health care resources are being devoted to fighting COVID-19 – Elective surgeries have been postponed due to the coronavirus (SYK) – Products and services largely remain non-discretionary – High barriers to entry in the sector. Laws and regulations are tailwinds for most healthcare companies – COVID-19 crisis will bolden the "Medicare for all" crowd in 2H 2020 and 2021 – Political volatility could create attractive buying opportunities

Sector Outlook

Sector	Key Commentary
Industrials **Neutral**	– High economic uncertainty is weighing on capital spending – Manufacturing output has been decimated by the government shutdown as many factories have been idled – We predict that manufacturing will experience a quick 'snap back' from pent up demand after the government shutdown is lifted
Technology **Overweight**	– Best long-term growth & innovation by far lies with technology companies – As technology continues to be embedded in every aspect of our lives it not only creates a growth opportunity but also makes their products and services non-discretionary – By far best balance sheets of any sector. Many companies have large amounts of net cash on their balance sheet. Pair this with some of the strongest management teams and even in a downturn tech firms will be able to use that cash for opportunistic acquisitions
Materials **Neutral**	– Record low commodity prices put pressure on most materials companies profit margins – An infrastructure bill would provide a huge tailwind for basic material demand – Standard positions in our three companies: Air Products, Ecolab, & Corteva which all are high quality names gets us up to a market level just from a bottom up approach
Real Estate **Neutral**	– Business disruption will most likely cause a spike in rent payment defaults – Hotel & resort REITs have felt brunt of COVID-19 impact – Low interest rates have been the main fuel for rising real estate valuations which impacts defensiveness
Communication Services **Neutral** **(From Underweight)**	– Data usage has spiked as citizens are cooped up in quarantine – Streaming will be the point of emphasis for companies in the sector which will see vying companies spending large amounts of money to buff their services – Ad spend will be damaged as companies cut variable costs due to the government shutdown – Theme park shutdowns and sports cancelations negatively impact legacy media conglomerates in the short term (DIS)
Utilities **Overweight**	– Large Dividend payouts and reliability of revenue make it attractive for our target risk profile – Relatively recession resistant – Most utilities trading near record valuations as investors reach for yield

Geographic Breakdown

Small/Mid Cap
NEUTRAL

We think small to mid cap domestic companies will outperform foreign stocks while continuing to lag their large cap domestic peers.

Domestic Large Cap
OVERWEIGHT

We maintain our overweight to domestic large cap equities. We believe this asset class will continue to lead the pack in 2020 by producing higher returns with less downside risk.

International
UNDERWEIGHT

Lack of growth, poor profitability, and demographic headwinds will continue to drag down International, particularly European, equities in 2020.

Emerging Markets
UNDERWEIGHT

We maintain our underweight rating on Emerging Markets/International equity for 2020. These markets continue to suffer from long term secular headwinds as well as higher downside risks.

Balancing Act

Headwinds	Tailwinds
Coronavirus Outbreak	Accomodative Monetary Policy
Presidental Election	Rerating of global Equities
Slowing Global Growth	$2 trillion CARES act

Covington Investment Advisors, Inc. prepared this material for informational purposes only and is not an offer or solicitation to buy or sell. The information provided is for general guidance and is not a personal recommendation for any particular investor or client and does not take into account the financial, investment or other objectives or needs of a particular investor or client. Clients and investors should consider other factors in making their investment decision while taking into account the current market environment.

Covington Investment Advisors, Inc. uses reasonable efforts to obtain information from sources which it believes to be reliable. Any comments and opinions made in this correspondence are subject to change without notice. Past performance is no indication of future results.