

Living in a COVID-19 World

From Quarantine to a New Normal, the Grand Re-opening:
December 8, 2020



The world has changed in the blink of an eye as COVID-19 fears and government mandated lockdowns have brought economic activity to a standstill. In today's recessionary environment, characterized by widespread unemployment stemming from quarantine and social distancing measures, we feel it is important to gauge how quickly activity might return to "normal" levels, particularly as lockdown restrictions are eased and we assess how quickly the timeline to recovery can take place.

Traditional economic data releases are available with a lag and in such a rapidly changing world, we know they do not always capture the true picture of the current situation. Higher frequency measures may provide a more accurate reflection of the current situation.

In this note, our aim is to highlight some of the higher frequency data we continue to review as a complement to our traditional U.S. Market Cycle Dashboard. We believe this data serves as a gauge into investor and consumer activity and can provide a signal of improving or deteriorating sentiment as we travel down the path towards economic recovery.

We know that historically markets do not wait for the "all clear" signal before discounting a more optimistic future. While the factors tracked below may not be leading indicators, we believe that they may be timelier in confirming that the world is heading back towards "normal," particularly as equities have already bounced significantly off of their lows experienced on March 23rd.

By monitoring real-time activity data, we aim to keep our finger on the pulse for how quickly the real economy is trending back to more normal levels. We will continue to monitor these data points in the weeks and months ahead to get a sense of how sentiment is shifting despite the ongoing challenges the current state of the world presents as well as gain insights into how consumer behavior may be changing.

The S&P 500 has rallied over 67% from the March 23rd low, climbing to new all-time highs in December. Year-to-date the index has returned over 16%, though there has been wide dispersion in performance between sectors. Tech has been the clear winner and has held its lead as the best performer, with consumer discretionary not far behind. However, with the recent news of successful vaccine trial results performance has shifted in favor of the more cyclical oriented sectors, which have driven index gains over the past few weeks.



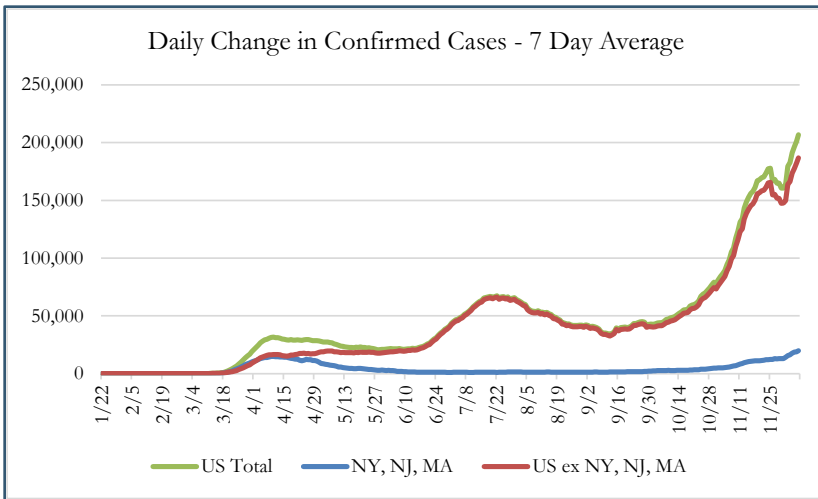
Source: Bloomberg

Sector	YTD Performance
Technology	39.8%
Cons. Disc.	30.1%
Communications	23.7%
Materials	18.9%
Health Care	12.1%
Industrials	11.3%
Cons. Staples	10.2%
Utilities	-0.6%
Real Estate	-2.9%
Financials	-4.7%
Energy	-30.5%

Living in a COVID-19 World

From Quarantine to a New Normal, the Grand Re-opening:
December 8, 2020

Daily Change: Number of Confirmed Cases – 7 Day Moving Average

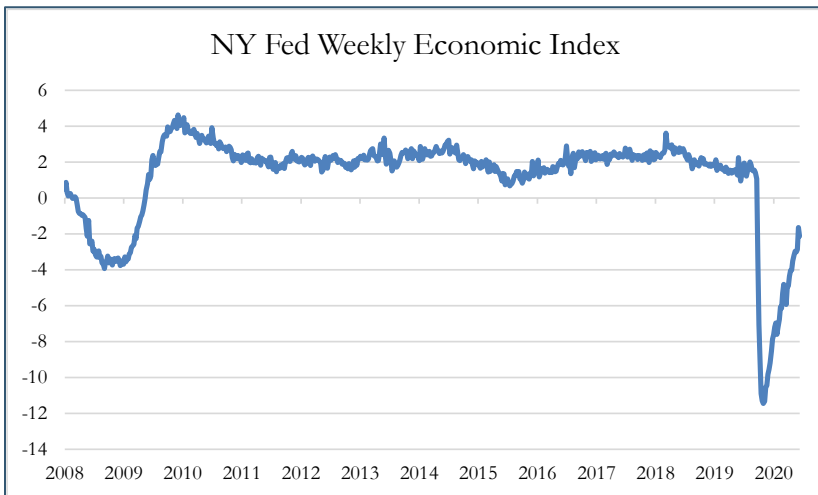


Source: Bloomberg

In the U.S. the daily change in number of cases continues to rise significantly. Levels are almost double what was experienced during the worst of the summer months.

We will be watching to see if these trends start to slow or if the current outbreak wave continues, particularly as cooler weather shifts more activity indoors. Increased localized restrictions may be needed to try and control the spread until vaccines are widely available.

NY Fed Weekly Economic Index



Source: Bloomberg, Federal Reserve Bank of New York

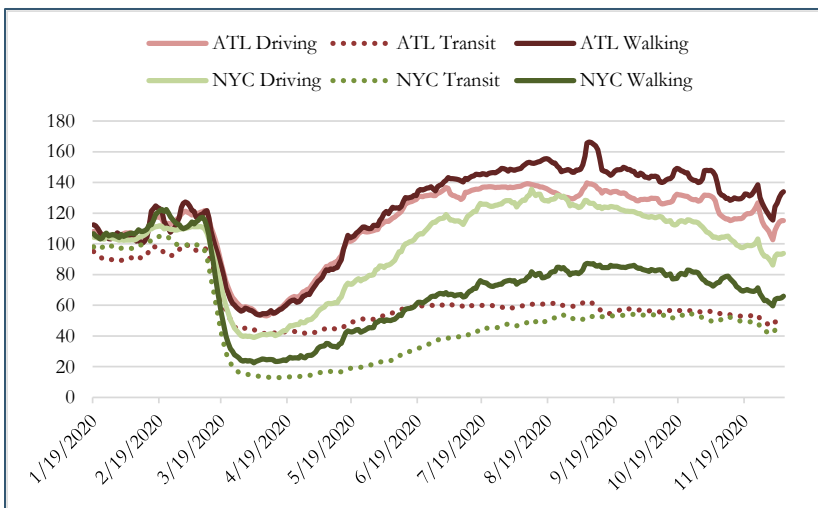
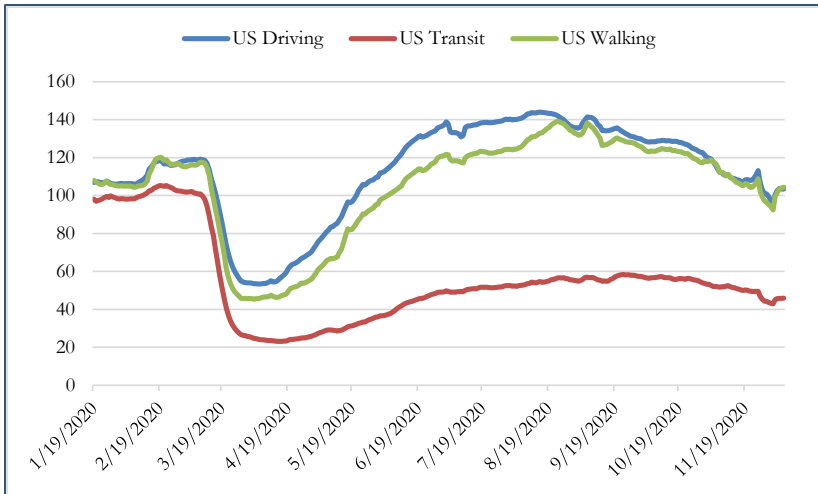
The weekly economic index is constructed of 10 underlying data series that are available on a weekly basis related to consumer behavior, labor conditions, and production in order to monitor the real time activity in the U.S.

The data continues to rebound sharply from the lows seen in late April. The index is climbing back towards pre-pandemic levels, and currently sits at the highest level since its sharp drop-off earlier this year.

Living in a COVID-19 World

From Quarantine to a New Normal, the Grand Re-opening:
December 8, 2020

Apple Mobility Trends – 7 Day Moving Average



Source: Apple <https://www.apple.com/covid19/mobility>

The Apple Mobility data reflects the number of requests for directions in Apple Maps and compares the number of requests to the levels seen on January 13th. Driving and walking direction requests are now back to their baseline levels, around where they stood at the start of the year. Unsurprisingly, public transit levels are still depressed.

While the trends have slid from their summer highs, with children back at school and ongoing work from home situations, the data settling at levels comparable to the start of the year should be viewed as a positive sign.

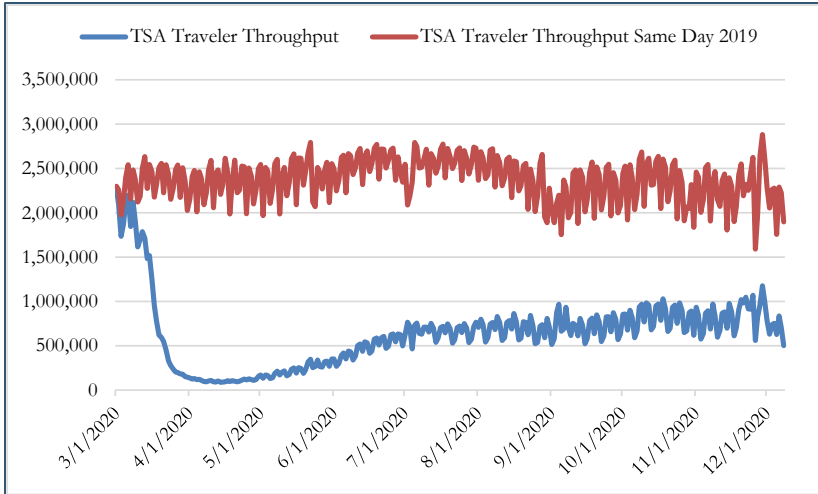
The second chart isolates two major cities, New York City and Atlanta. Both are reflecting similar trends to what we are seeing at the national level. Transit has been weak in both cities, and NYC walking requests are still well below February levels.

Increased mobility does not guarantee an increase in consumer spending, but it does increase the potential that people will spend money to the extent that stores and restaurants are open.

Living in a COVID-19 World

From Quarantine to a New Normal, the Grand Re-opening:
December 8, 2020

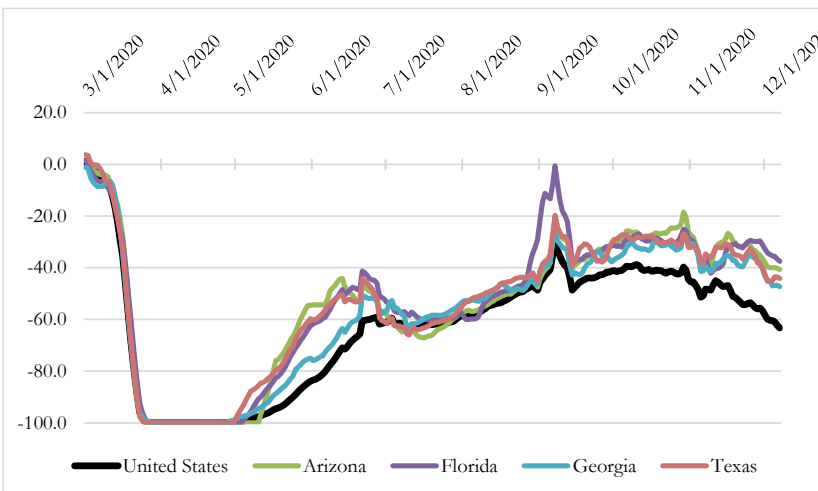
TSA Traveler Throughput



Source: Bloomberg, Transportation Security Administration

Travel, leisure, and hospitality are some of the worst hit industries due to the pandemic. The absolute number of travelers has recovered significantly from the mid-April lows, from ~90,000 to a recent surpassing number of over 1 million travelers a day. Air travel passenger volumes are still down meaningfully compared to last year. Despite increasing virus levels, passenger volumes have held steady throughout the fall, and saw a big jump for the Thanksgiving holiday. On the other hand, many companies have canceled corporate travel and households have postponed vacation plans.

Restaurant Activity – Seated Diners – 7 Day Moving Average



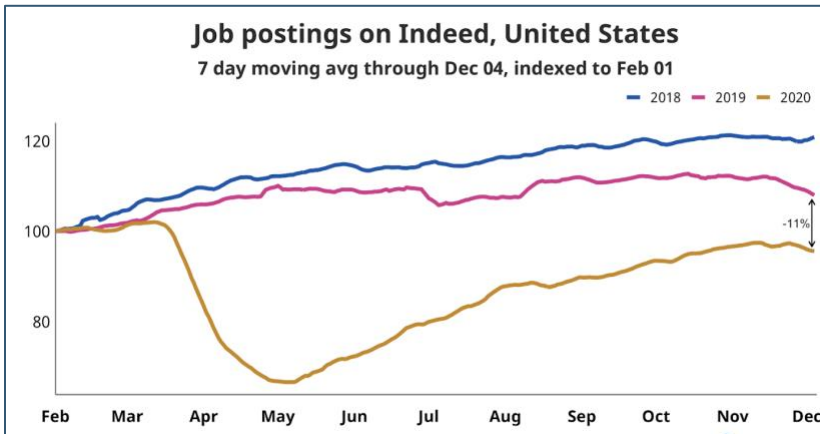
Source: OpenTable – State of the Restaurant Industry
<https://www.opentable.com/state-of-industry>

This data shows year-over-year seated diners at restaurants on the OpenTable network. We have isolated several of the states that have been more aggressive in lifting restrictions. After a slight pause in July, the recovery trend resumed. We have seen the trends roll over in recent weeks as the number of new virus cases has picked up. Some activity on the national level may be limited as the weather cools, but increased virus numbers appear to have impacted activity.

Living in a COVID-19 World

From Quarantine to a New Normal, the Grand Re-opening:
December 8, 2020

Indeed Job Openings

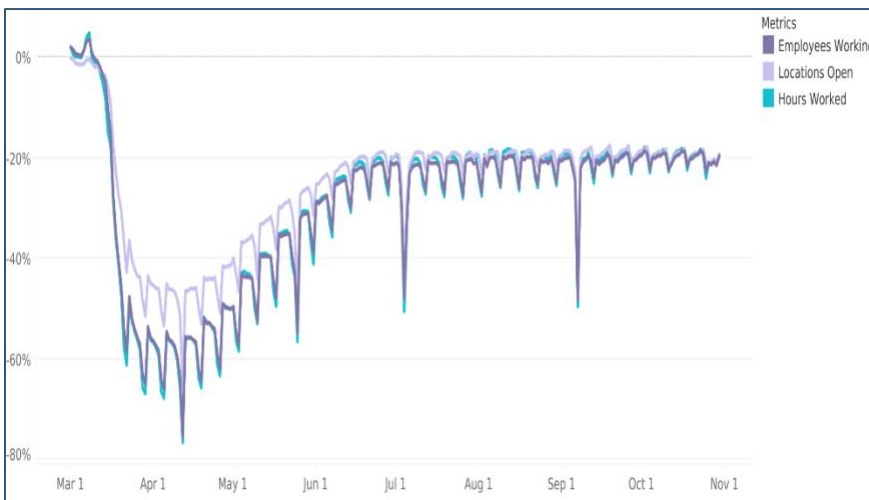


Source: Indeed

The number of job openings posted on Indeed.com have improved greatly since May, now only 11% below last year's trend. There has been so much disruption in the labor market due to COVID-19, and the unemployment rate is still historically high despite a large recovery in nonfarm payrolls.

Hospitality and tourism related job postings have declined the most, while construction, loading & stocking, retail, and driving job postings are all above last year's trend.

Small Business Impact



Source: Homebase

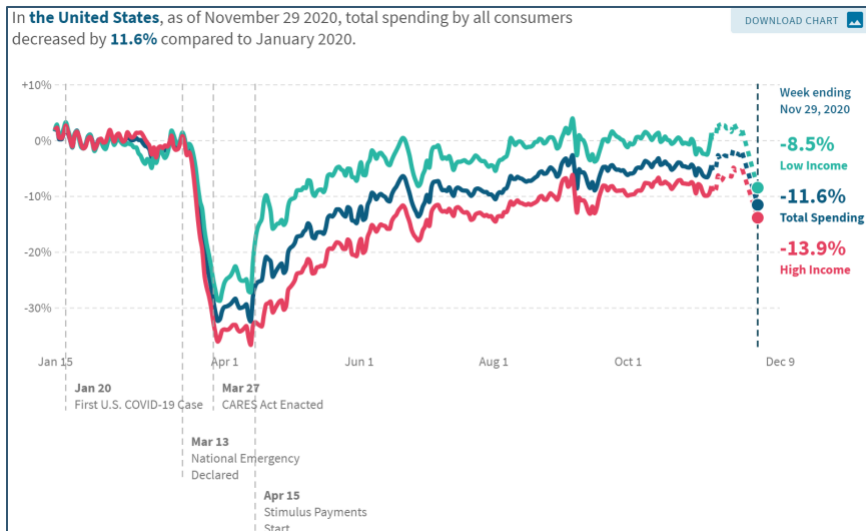
Homebase is a free scheduling and time tracking tool used by 100,000+ businesses and their hourly employees.

Small businesses have been hit hard by the pandemic. Many metrics have improved from the April lows but have been stuck around 20% below their March levels for a few months now. We will be watching to see which direction activity trends in the weeks ahead.

Living in a COVID-19 World

From Quarantine to a New Normal, the Grand Re-opening:
December 8, 2020

Credit & Debit Card Spending

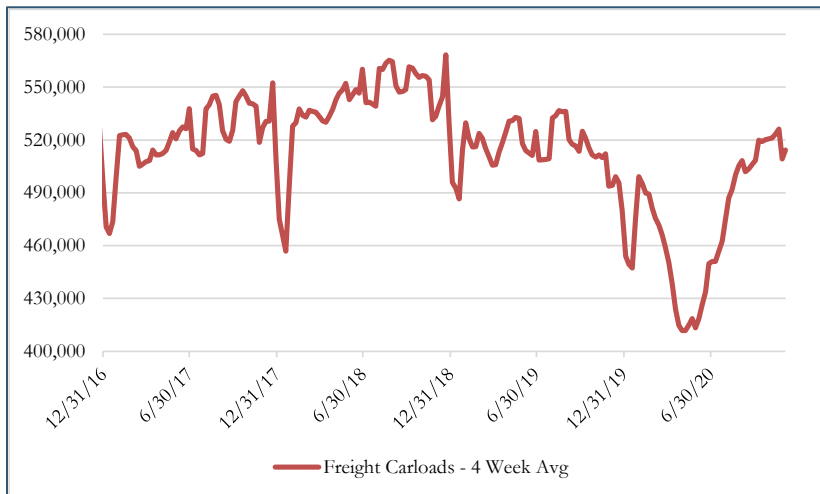


Source: tracktherecovery.org

Monitoring consumer behavior such as credit and debit card spending habits can be a strong indicator into how willing households are to spend versus save. Consumer spending has rebounded sharply at the national level from the April lows, as reported in the most recent report from the Bureau of Economic Analysis.

Here we see the trend in credit and debit card spending has stalled. This may be partly due to seasonal factors as typical holiday spending patterns have shifted away from the usual Black Friday rush.

Railroad Traffic – Freight Carloads



Source: Bloomberg

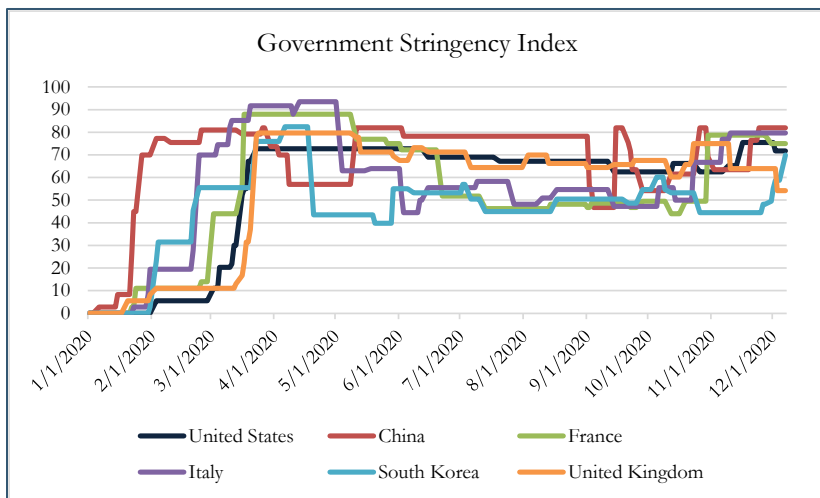
Tracking the physical movement of goods provides an important look into the levels of activity and demand across the economy. Rail traffic can be slightly noisy on a month-to-month basis, but the decline earlier this year was clear. After the typical slump around December, carloads dropped throughout the spring season. The recovery has been impressive. Freight carloads are near their highs for 2020, a positive sign for the economy, and reflects ongoing demand for goods and materials.

Living in a COVID-19 World

From Quarantine to a New Normal, the Grand Re-opening:
December 8, 2020



Government Stringency Index



Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

Positive vaccine developments comes just in time to lift our holiday spirits, as we are all eager to leave the challenges of 2020 behind. Emergency use authorization for the Pfizer-BioNTech vaccine candidate has been approved **[result pending]** by the F.D.A., and distribution is anticipated to begin by mid-December for essential workers and the most-at-risk portion of the population. Approval of the Moderna vaccine is predicted to arrive before long as well. In the meantime, the pandemic is still surging and there are still many challenges to overcome near-term while we wait for enough of the population to become inoculated and a more complete economic recovery takes hold.

Widespread distribution of both the Pfizer and Moderna vaccines are expected by springtime, and both vaccines will be made available for free to the American public. These positive developments extend optimism that a return to “normal” is not far off, however, government restrictions and consumer concerns may weigh on the recovery over the next few months as we have seen rising case counts in recent weeks slow economic activity. Several of the data trends we monitor closely have moderated in recent weeks, with both seated diners at restaurants and airline travelers down over 50% compared to year ago levels. Impressively the number of job openings on indeed.com continue to recover. True to the current environment, hospitality and tourism related job postings have declined the most, while construction, loading & stocking, and driving job postings are all above last year’s trend – reflecting the changing preferences of holiday shoppers towards e-commerce and away from traditional brick and mortar retailers, and the ongoing strength of the housing market.

Kicking off this holiday season we have a lot to be thankful for, and while this year’s holiday celebrations are, sadly, unlikely to mirror past years, perhaps the most exciting news is that we have made it to the homestretch of 2020 and the prospect of a vaccine permits us some optimism for 2021. As we reflect on 2020, we are grateful for all of the clients that entrust us to guide them and for all the individuals that make up the Pathstone team, including our new teammates in Washington, Texas, and Alaska. The Pathstone culture, processes, and

Oxford University has created a tracker to monitor government responses to the global pandemic. Here we are not necessarily looking to compare the effectiveness of various policies, our goal is to track the relative unwind of restrictions to gain a sense of how quickly government measures are being loosened. As restrictions are loosened, we would expect economic activity and consumer behavior to increase. Assuming there is not a second wave of outbreaks and the rate of infection has come under control, consumer confidence and sentiment should be able to improve, leading to increasing economic activity.

Many governments have had to maintain strict measures to keep the spread of the virus under control. After some easing of restrictions, many countries have had to tighten measures most recently to slow the most recent wave of outbreaks. Notably Italy, France, and South Korea have tightened in the past month and remain at restricted levels.

Living in a COVID-19 World

From Quarantine to a New Normal, the Grand Re-opening:
December 8, 2020



tools that have been built over the years were tested in this most extraordinary of years, and we are delighted with how our business was able to function facing these challenges.

For much of this year it has felt like the risks well outweighed the prospects for markets and the economy. Since the end of the third quarter alone we have faced a polarizing election, growing virus counts, fading prospects of renewed fiscal stimulus, and new localized lockdown measures. As our routines were upended and we were forced to adapt to life with restrictions, we relied on the investment processes we have built, supported by our U.S. Market Cycle Dashboard, Stress Tests, and Capital Market Assumptions in order to navigate the challenges of this pandemic-stricken year.

Markets have reacted favorably since early November, though despite the positive vaccine headlines, we recognize that we are not totally out of the woods yet. Virus case counts continue to rise, and holiday gatherings may exacerbate the situation over the near-term as Covid fatigue kicks in. There is still some hope that additional fiscal stimulus may be enacted in the U.S. before year-end. While there may be setbacks along the way, we see there is a brighter future once we cross the bridge to the other side of the pandemic. We are all looking forward to gaining some freedoms back in 2021 and wish everyone a healthy, peaceful and relaxing holiday season!

Disclosure:

This presentation and its content are for informational and educational purposes only and should not be used as the basis for any investment decision. The information contained herein is based on publicly available sources believed to be reliable but is not a representation, expressed or implied, as to its accuracy, completeness or correctness. No information available through this communication is intended or should be construed as any advice, recommendation or endorsement from us as to any legal, tax, investment or other matters, nor shall be considered a solicitation or offer to buy or sell any security, future, option or other financial instrument or to offer or provide any investment advice or service to any person in any jurisdiction. Nothing contained in this communication constitutes investment advice or offers any opinion with respect to the suitability of any security, and this communication has no regard to the specific investment objectives, financial situation and particular needs of any specific recipient. Past performance is no guarantee of future results. Additional information and disclosure on Pathstone is available via our Form ADV, Part 2A, which is available upon request or at www.adviserinfo.sec.gov.

Any tax advice contained herein, including attachments, is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of (i) avoiding tax penalties that may be imposed on the taxpayer or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.