



COVID-19 and The Economy:

Putting the Economic Impact, Policy Response and Market Volatility Into Perspective

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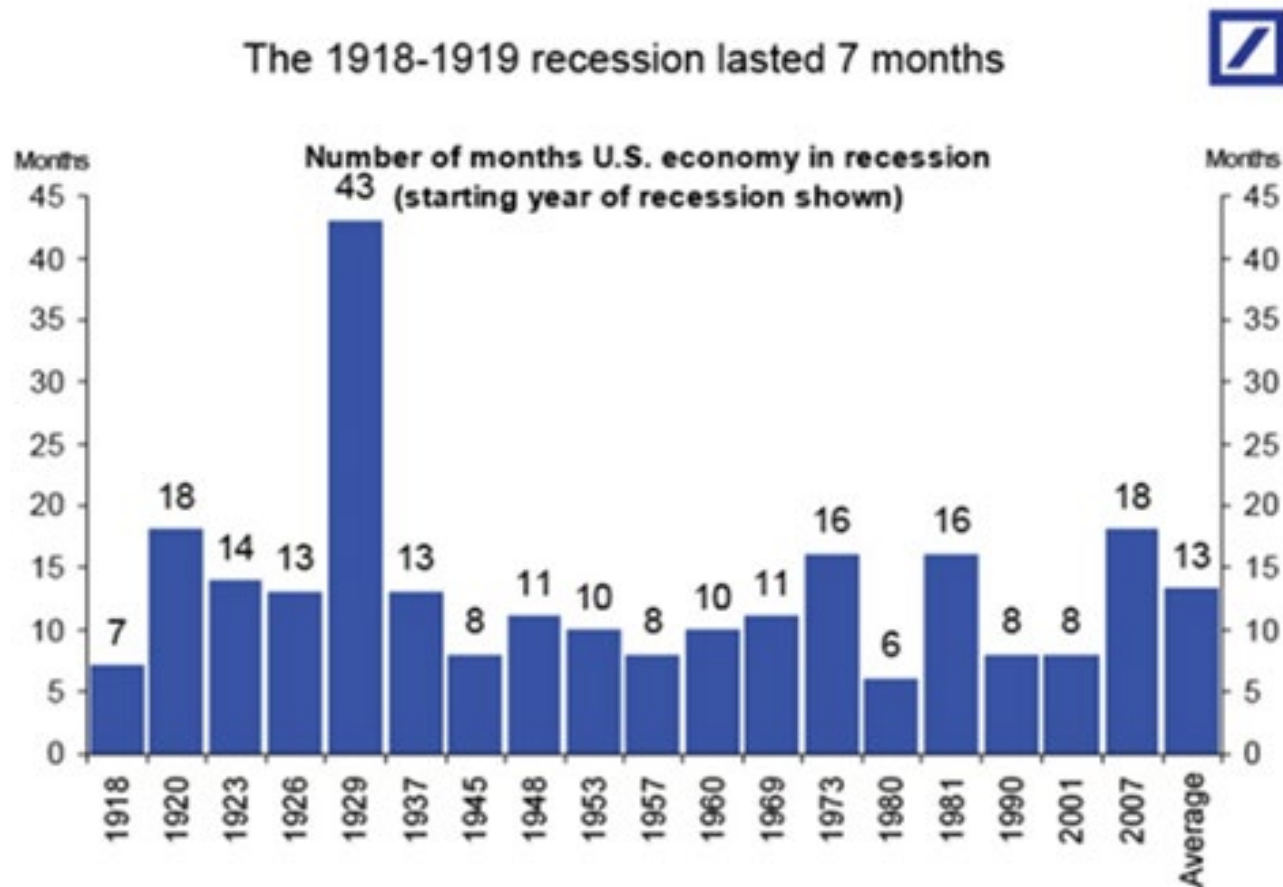
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Mid-Year 2020 Call: A Way of Seeing - The Case for the V Recovery

Private Confidential

Exhibit 1: Pandemic Induced Recession of 1918 Lasted 7 Months

Classic Cyclical Downturns in Economic Activity are Different than Downturns from Natural Disasters

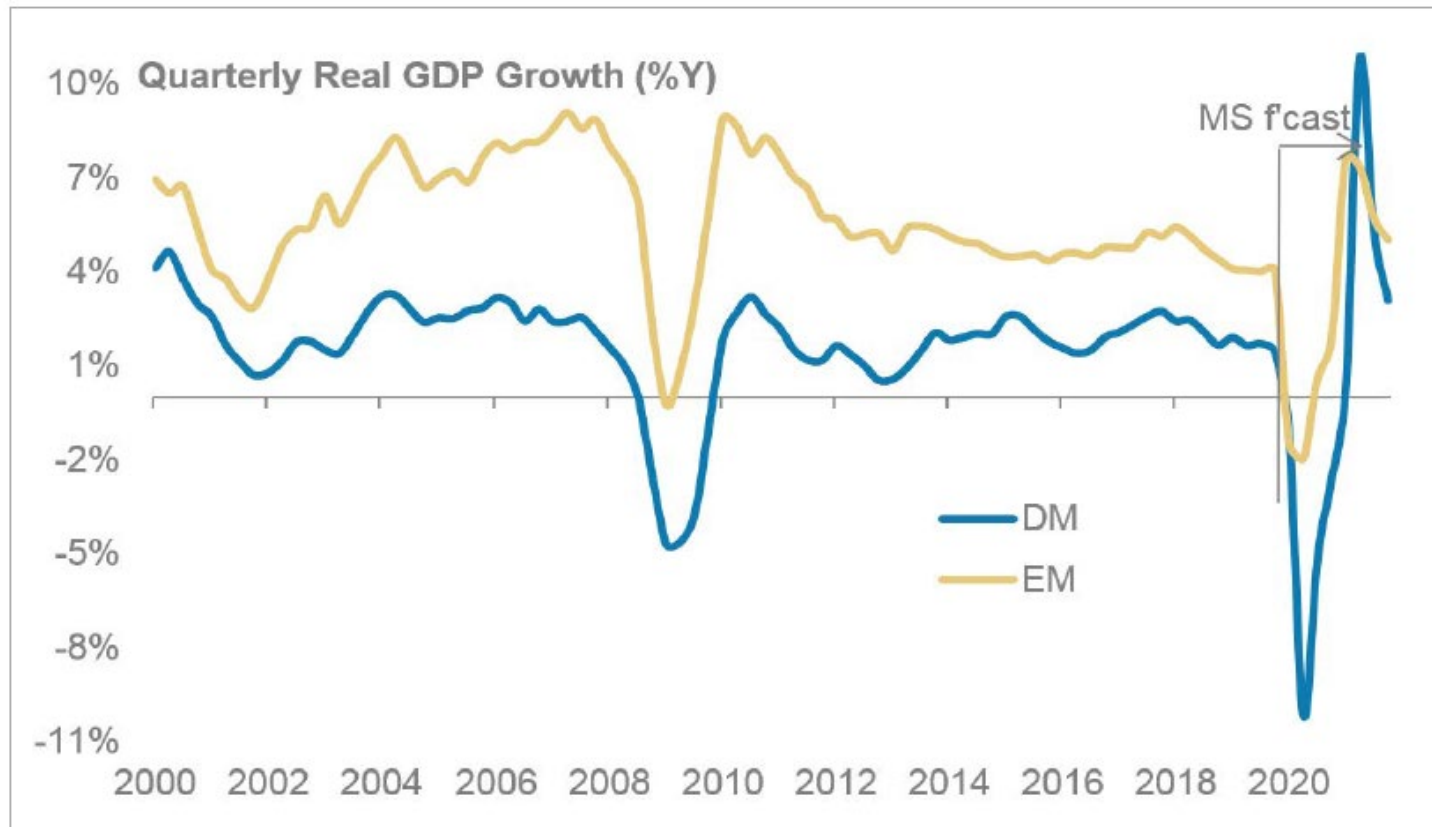


Source: Deutsche Bank

- Prior Pandemic Induced recession in 1918 lasted less than two quarters
- Cyclical Downturn in 2007 spanned six quarters or 18 months

Exhibit 2: Deepest Recession Since WWII, but Potentially the Sharpest Recovery Too

A Way of Seeing: The Result of a Natural Disaster not a Classic Cyclical Economic Downturn



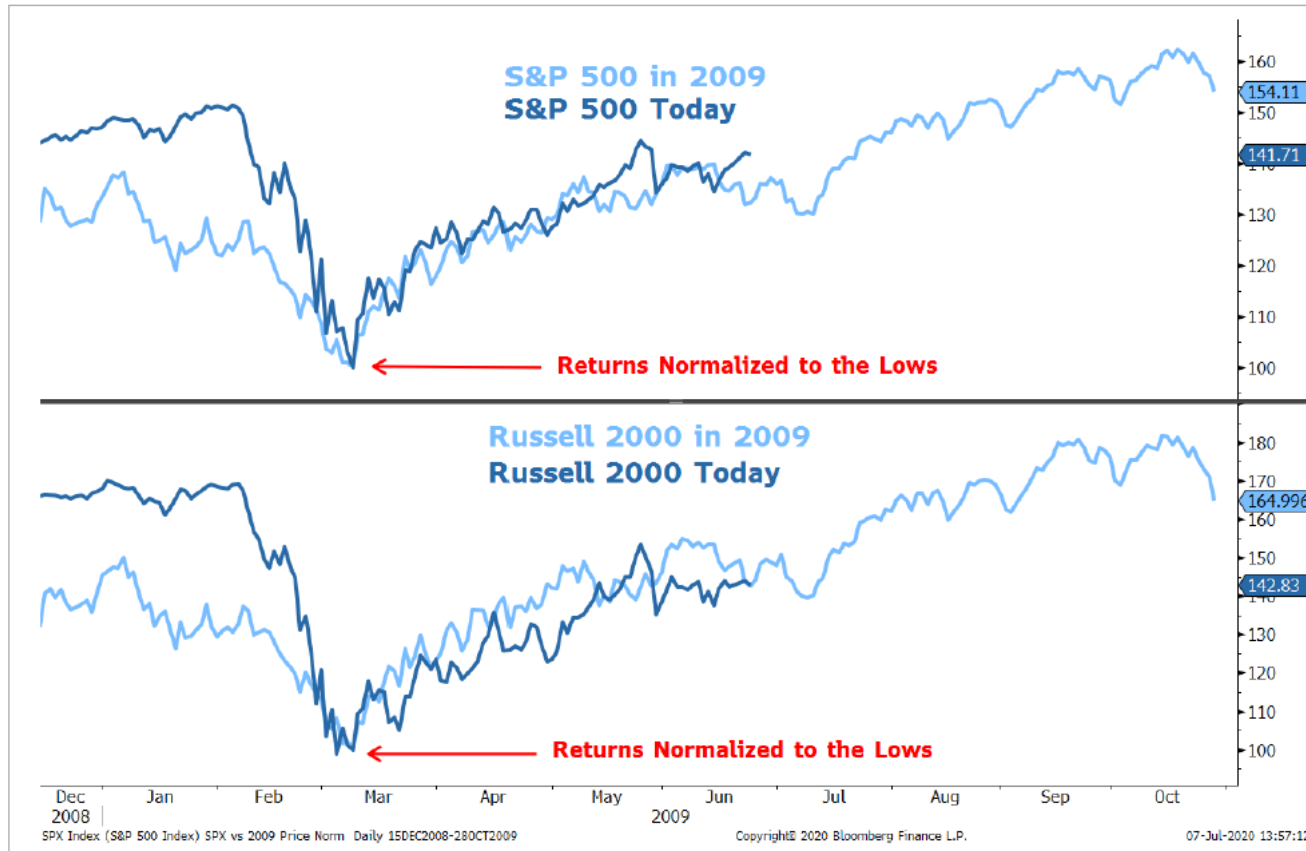
Source: Morgan Stanley & Co. Research as of May 10, 2020

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- Engineered recession not an organic progression of economic excesses that lead to broad systemic economic weakness
- More like a suppression than a recession or depression

Exhibit 3: Fastest Bear Market Decline in History, and Fastest Exit from Bear Market in History

Markets Right on Track with 2009 Recovery Trajectory; Consolidation, Seasonal Correction Coming?

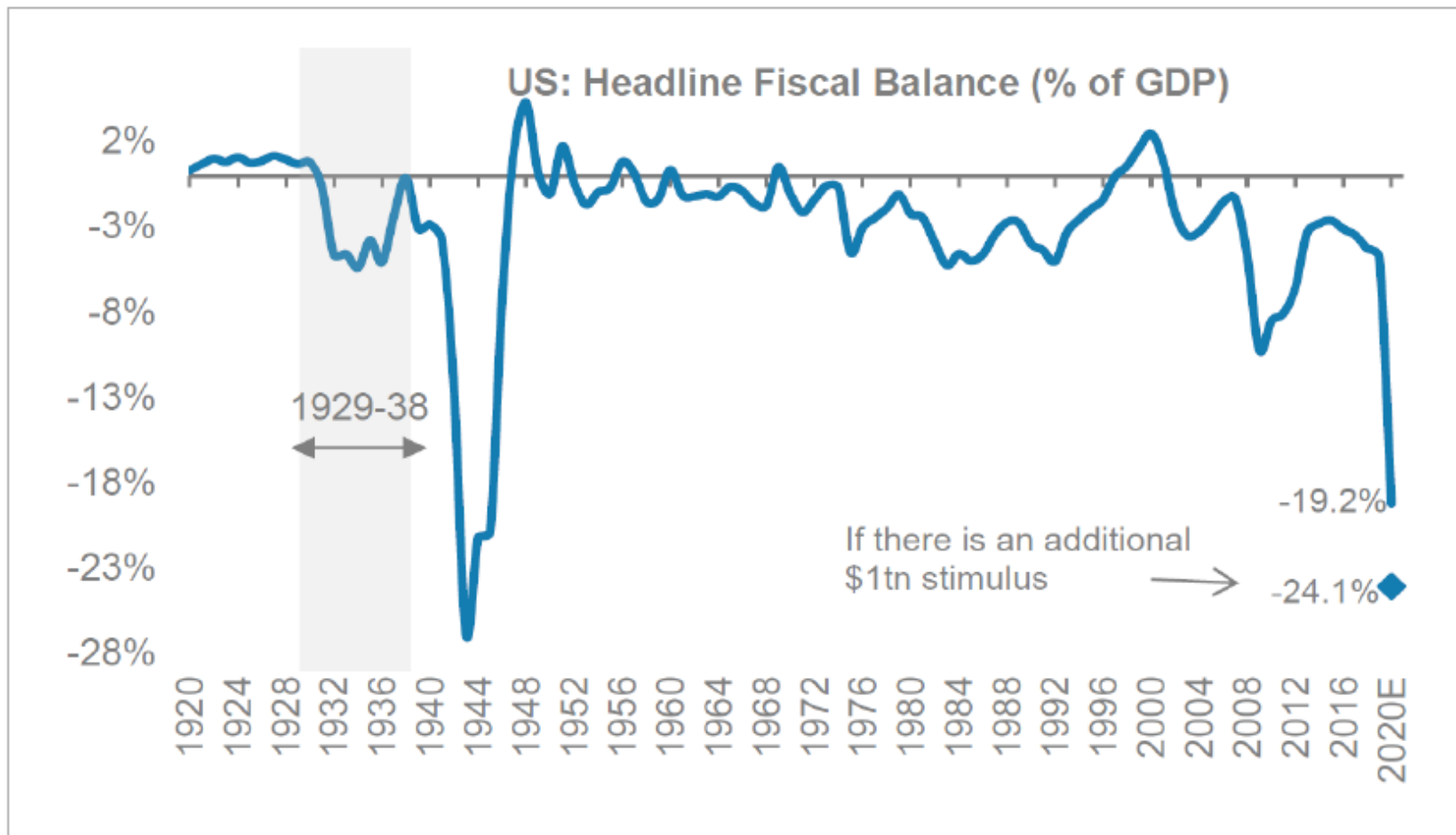


Source: Bloomberg, Morgan Stanley & Co. Research as of July 7, 2020

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- Market discounted recession in one month for fastest ever bear market decline -34% in history yet also fastest exit from bear market in history
- Like 2009 skepticism of durability of rally remains high while market tracks 2009 market recovery trajectory

Exhibit 4: Fiscal Policy Response Much Greater Than During Great Depression or Financial Crisis



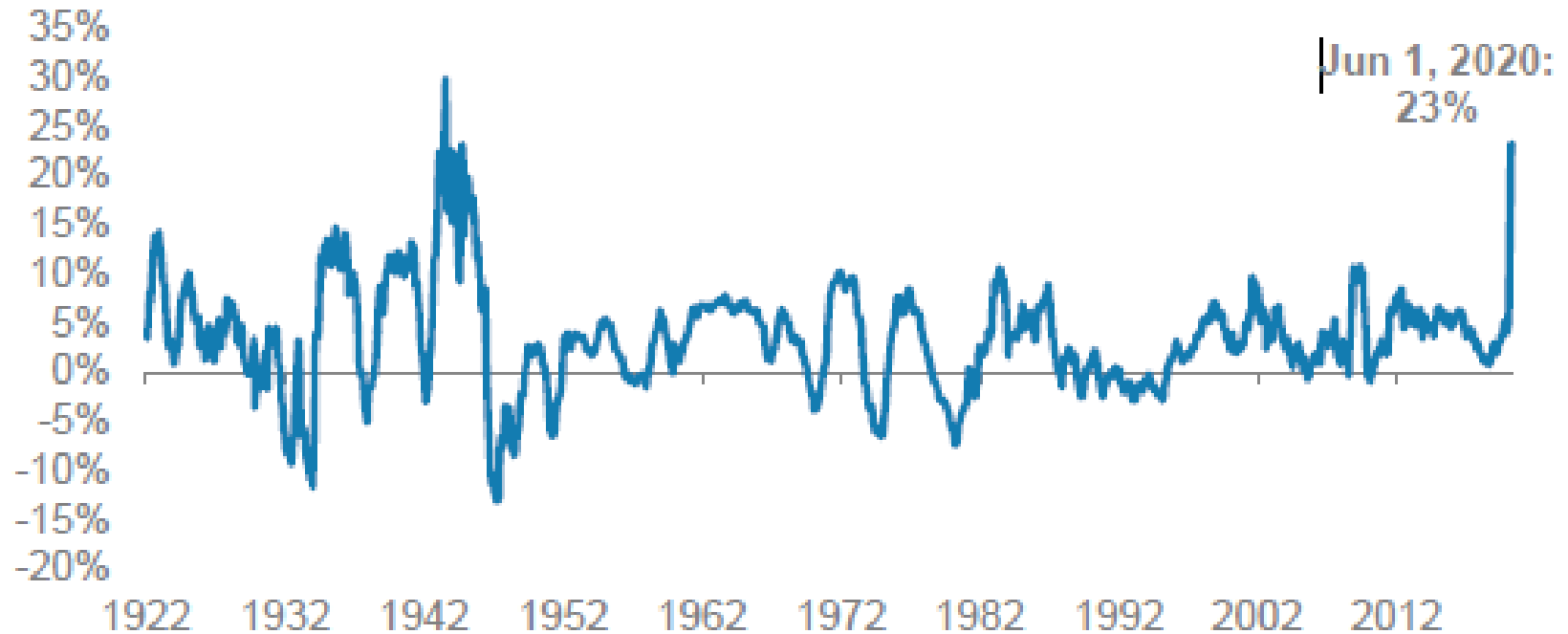
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- Response scale much greater the 2008 and Great Depression
- Execution much more coordinated and precise relative to 2009 and Great Depression

Exhibit 5: US Real M2 Growth Already Accelerating to a Post-1940 High

US Real M2 Growth (%Y, adjusted by headline CPI)



Source: Federal Reserve Board, NBER, Haver Analytics, Morgan Stanley Research

- Banking mechanism healthy today as opposed to 2009 as money supply (M-2) is expanding nearly 23% on annualized basis
- Stark contrast to 2009

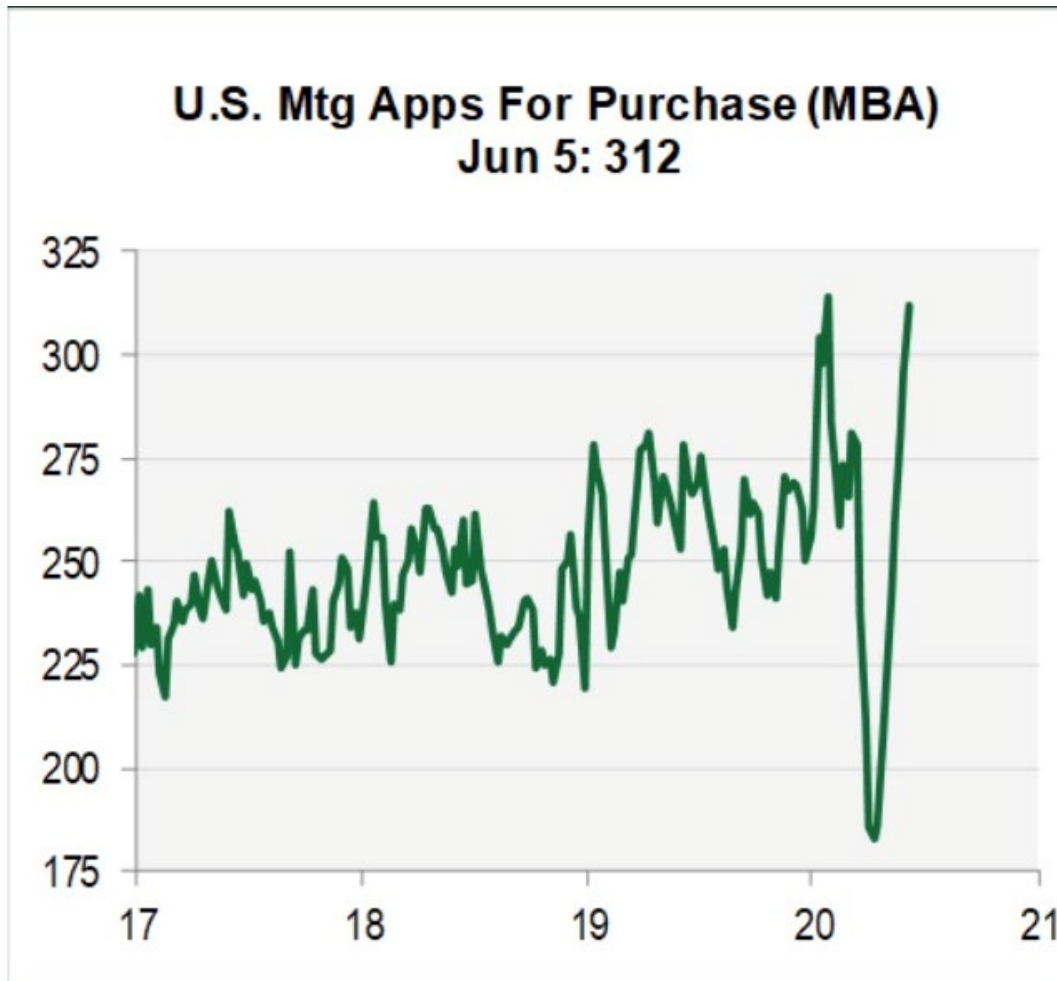
Exhibit 6: Early Leading Indicators Reflect Green Shoots Gaining Momentum

Coronavirus High Frequency Data

Indicator	Date (2020)	Level	Year Ago Level	% Change YOY	% Change MOM	% Change WOW
Initial Jobless Claims	June 5	1,542,000	220,000	600.9%	-42.6%	-18.7%
Continuing Jobless Claims	May 29	20,929,000	1,700,000	1131.1%	-7.2%	-1.6%
ASA Staffing Index	June 7	65.4	95.0	-31.2%	+8.8%	+3.7%
Weekly Retail Sales ¹	June 13	-8.3%	+5.4%	NA	NA	NA
Box Office Receipts	June 4 - 11	\$616,913	\$241,872,739	-99.7%	+335.5%	+148.5%
Rail Car Traffic (cars)	June 5	433,171	513,213	-15.6%	+5.0%	+9.5%
Steel Production (net tons)	June 15	1,210	1,887	-35.9%	+2.5%	+1.3%
Hotel Occupancy	May 31- June 6	39.3%	84.6%	-45.3%	+9.2%	+2.7%
Hotel Average Daily Rate	May 31- June 6	\$85.01	\$132.62	-35.9%	+11.3%	+2.5%
Hotel Revenue per Available Room	May 31- June 6	\$33.43	\$95.51	-65.0%	+45.7%	+10.2%
Opentable State of the Restaurant Industry ^{2,3}	June 15	NA	NA	-67.5%	+26.1%	+7.8%
TSA Checkpoint Data (7-day moving average) ²	June 15	466,080	2,572,343	-81.9%	+131.2%	+25.1%
Supply of Motor Gasoline in the US (Mbbl/d)	June 5	7,900	9,877	-20.0%	+6.8%	+4.6%

Sources: First Trust Advisors, Department of Labor, Redbook Research, Box Office Mojo, Association of American Railroads, American Iron and Steel Institute, Hotel News Now, Opentable, Transportation Security Administration, Energy Information Administration

Exhibit 7: US Mortgage Purchase Applications Surge 77% in Sharp V-Shaped Recovery

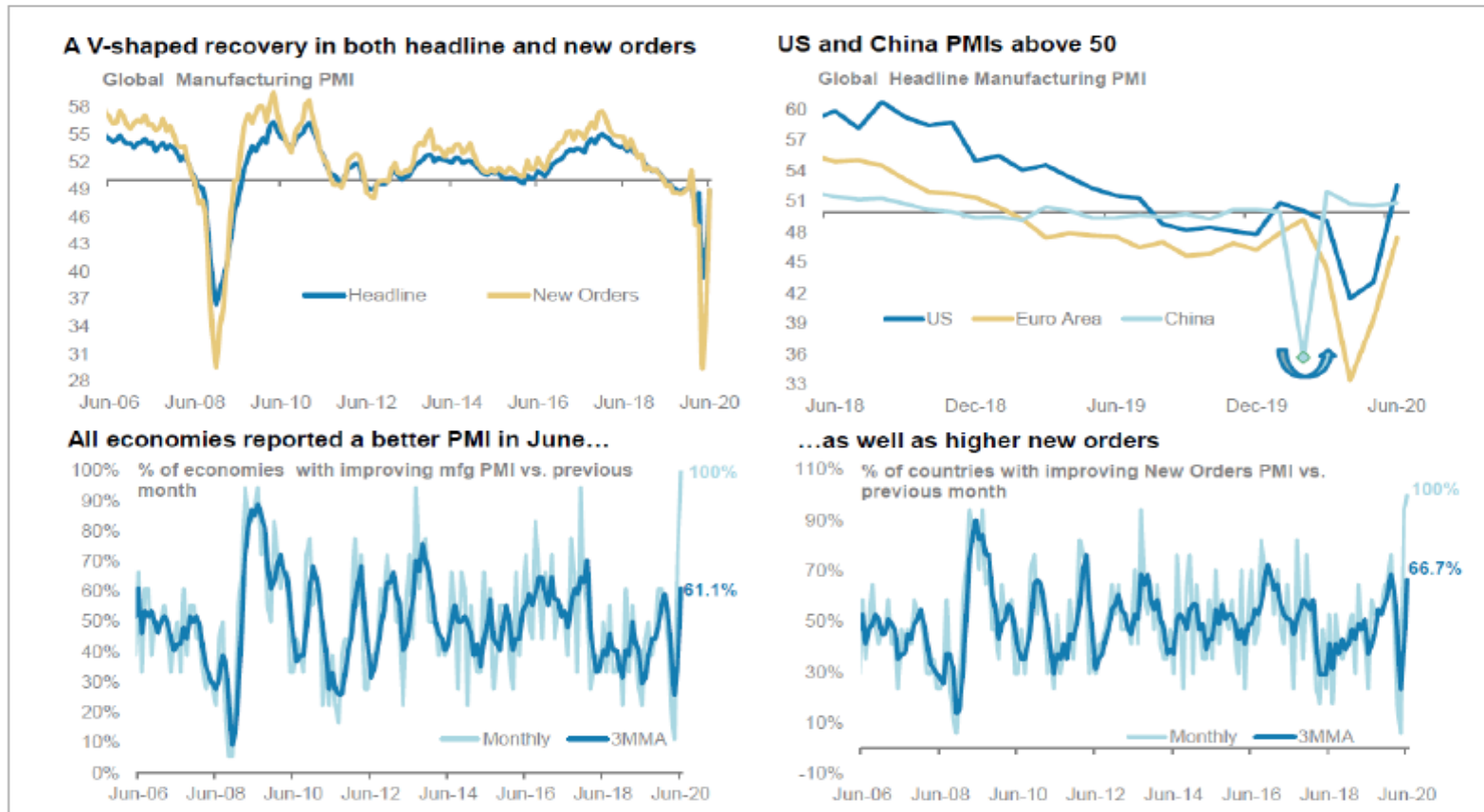


Source: Cornerstone Macro

- Unlike 2009 but much like 2002, Housing will lead the recovery in 2020
- US Housing is a \$33 Trillion dollar asset base with sizeable multiplier effect on economic activity

Exhibit 8: Manufacturing Bottomed and Bouncing Back from Record Low Levels in May 2020

The V-Shaped recovery in Manufacturing and Production is Evident in the Data in US and Abroad



Source: Markit, Haver Analytics, IMF, National Sources, Morgan Stanley & Co. Research as of June 30, 2020. Note: In top left chart, prior to April 2011, Canada, Indonesia & Columbia are excluded from the Global Aggregate due to lack of data. In the bottom two charts, Global excludes Canada, Indonesia & Columbia.

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- Headline manufacturing surveys surging off May lows

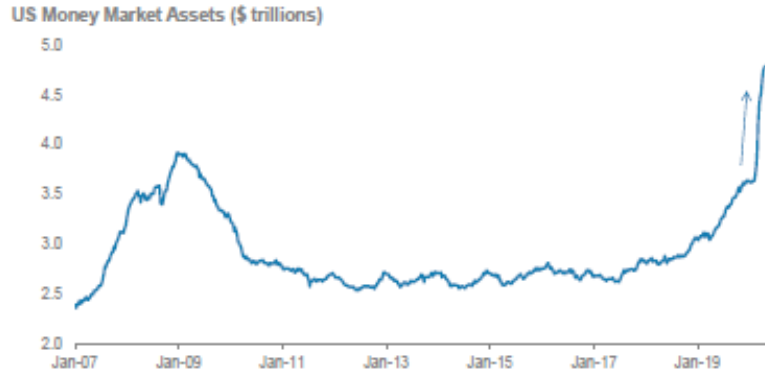
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- Leading indicator components such as new orders contributing most to headline recovery figures

Exhibit 9: Skepticism Remains High as “Cash on Sidelines” at Record Levels

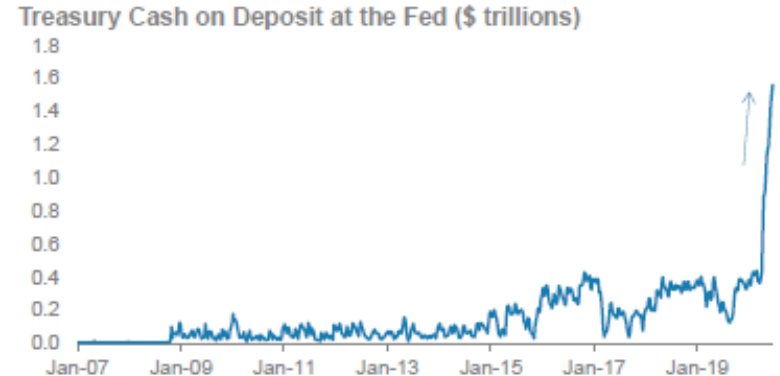
Bearish Sentiment and Short Positioning at Extremes Have Been Contrarian Indicator Historically

US Money Market Fund Balances Rise to US\$4.7 Trillion



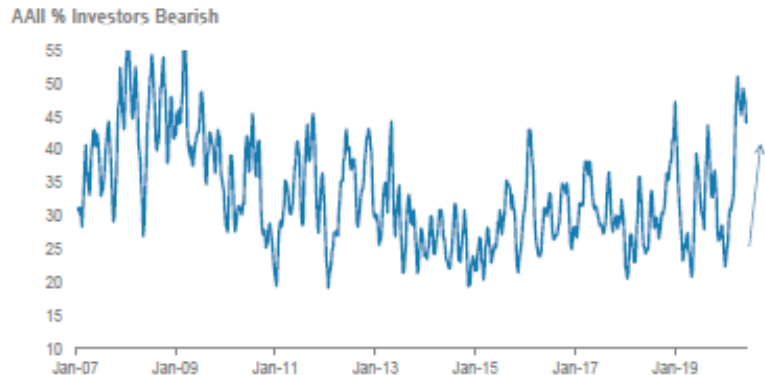
Source: Bloomberg, Morgan Stanley Research

Treasury Cash Holdings at the Fed Have Seen a Large Jump



Source: Bloomberg, Morgan Stanley Research

Surveys Suggest Bearish Sentiment



Source: Bloomberg, Morgan Stanley Research; Note: we show four-week moving average.

Futures Positioning Suggests Caution



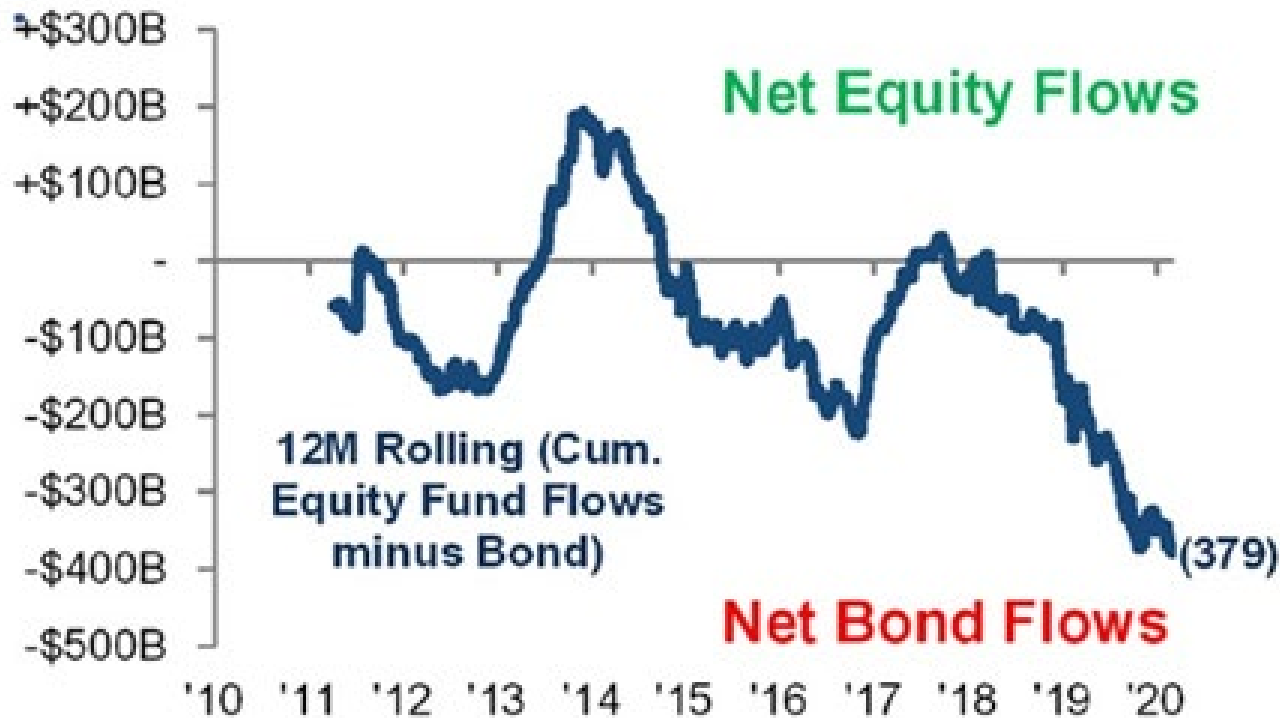
Source: Bloomberg, CFTC, Morgan Stanley Research

- \$4.7 Trillion cash balance has never been higher and exceeds 2009 by 23%;
- Record numbers of people have missed this part of the recovery rally as was the case in 2009 at this point in recovery;

Exhibit 10: Skepticism Remains High, Net Equity Out-Flows, Net Bond In-Flows at Extremes

Typically a Contrarian Indicator Suggesting Bullish Tailwind for Markets

Bond vs. Equity Flows at 12M Extreme



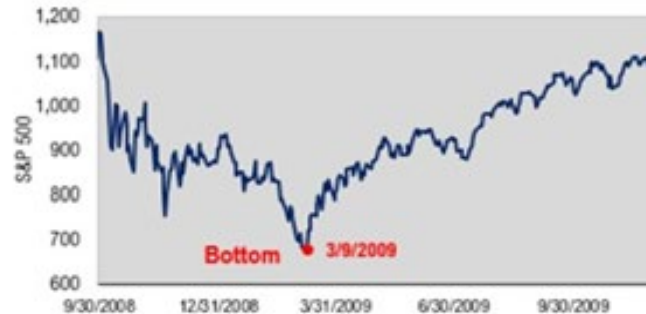
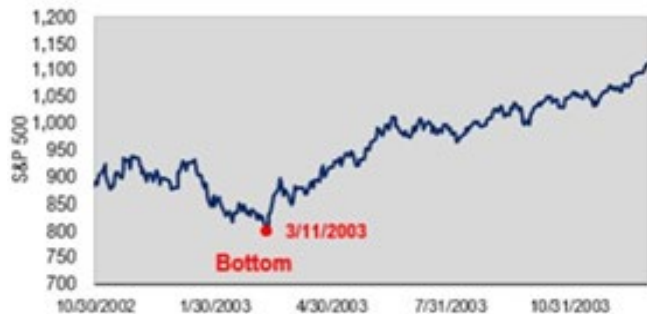
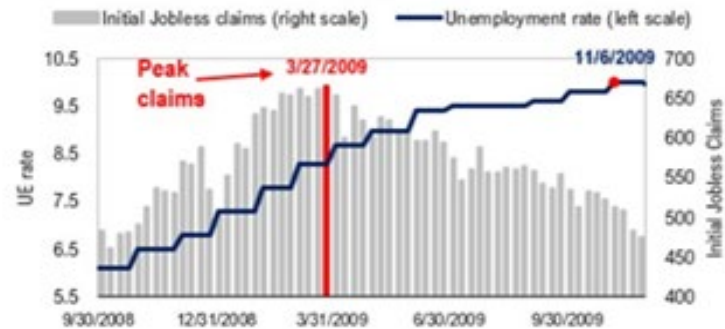
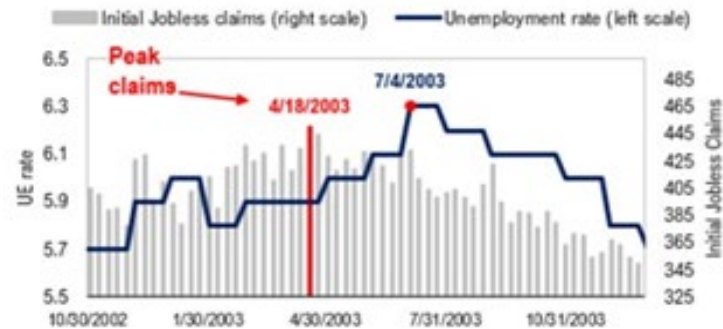
Source: JP Morgan

- Negative Equity Flows, Positive Bond Flows at historical extremes

Exhibit 11 – Risk of Re-test of Market Lows Declining; Market Likely Bottomed on March 23rd, 2020

Historical Analog: 2003 and 2009, Markets Bottom Just Before Jobless Claims Peak and Well Before Unemployment Rate Peaks

Stocks bottom before jobless claims peak...



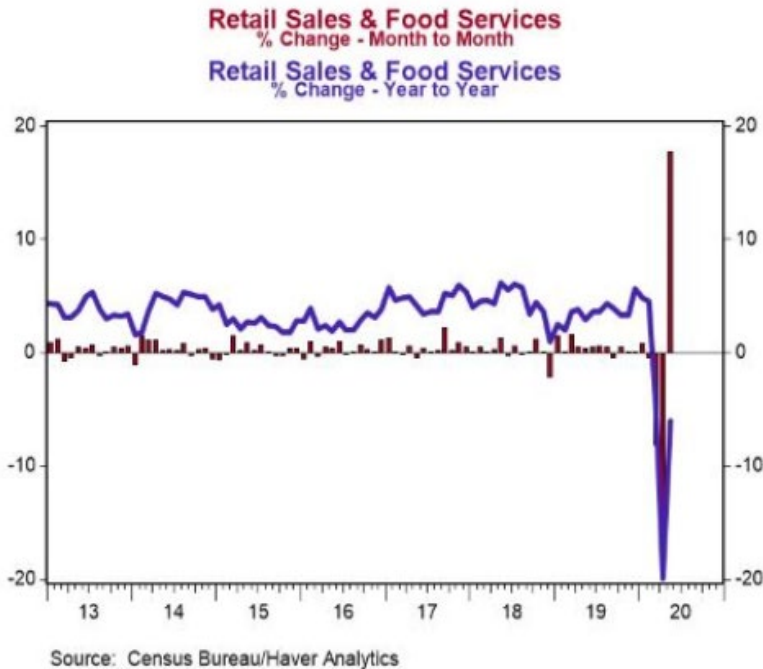
Source: Fundstrat

- **2003 Bear Market Bottomed on 3/11**, Jobless claims peaked on 4/18, Unemployment Rate peaked on 7/4;
- **2009 Bear Market Bottomed on 3/9**, Jobless claims peaked on 3/27, Unemployment Rate peaked on 11/6;
- **Not Shown:** 2020 Bear Market Bottomed on 3/23, Jobless Claims peaked on 3/28;
- **May Jobs report surprised by +2.5 million when expectations were for -8 million job losses**

Some Risks:

- **Market Re-Test of Lows – Possible, but not as Probable**
- **2nd Wave, Prior Pandemic Analog**
- **Hospital and Medical Preparedness**
- **China Trade Tensions, Virus Fallout**
- **Election Cycle 2020, Dem Sweep?**
- **Social Unrest**

Appendix - Exhibit A: Consumer Resilient, Pent Up Demand Evident as Retail Sales Surge +17.7% in May 2020

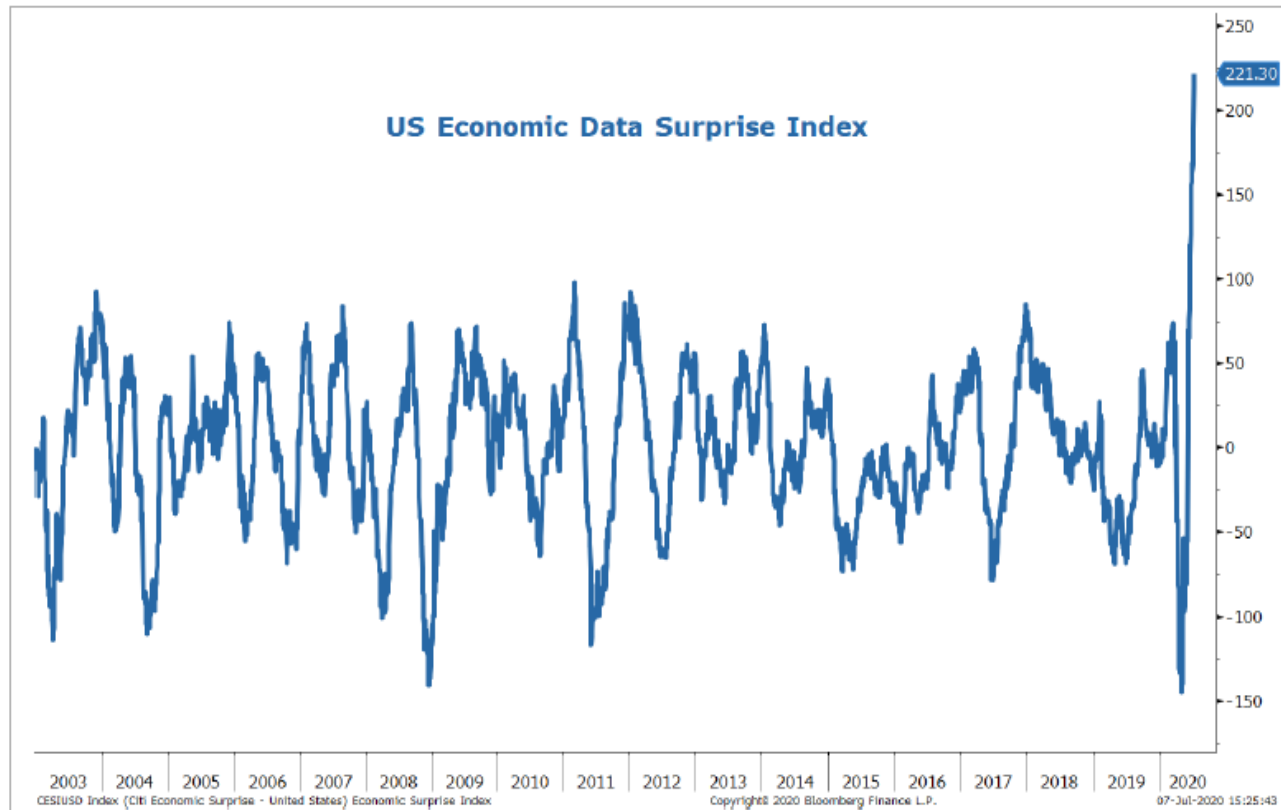


Retail Sales By Category: M/M Chg. (%)

Category	One Month Chg (%)	Comment
Clothing	188.01	Strongest Ever
Furniture	89.68	Strongest Ever
Sporting Goods	88.17	Strongest Ever
Electronics & Appliances	50.48	Strongest Ever
Autos and Parts Dealers	44.13	Strongest Ever
Bars and Restaurants	29.09	Strongest Ever
Total Retail Sales	17.69	Strongest Ever
Miscellaneous	13.65	Strongest Ever
Gas Stations	12.80	Strongest Ever
Building Materials	10.91	Strongest Ever
Non Store (Online)	9.04	3rd Strongest Ever
General Merchandise	5.96	2nd Strongest Ever
Food and Beverage Stores	1.97	
Health and Personal Care	0.39	

Source: Census Bureau, Bespoke

Appendix - Exhibit B: Economic Surprise Index Reflects Sharp V Recovery



Source: Bloomberg, Morgan Stanley & Co. Research as of July 7, 2020

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- Negative readings indicate that more indicators from around the globe are still releasing levels worse than forecast
- Economic data surprises rise to highest ever in history of series reflecting expectations of recovery were far too dire in May
- As a forward indicator the stock market rally was forecasting such an outcome

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For index, indicator and survey definitions referenced in this report please visit the following:

<https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

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