PFG Market & Strategy Update

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Key Points

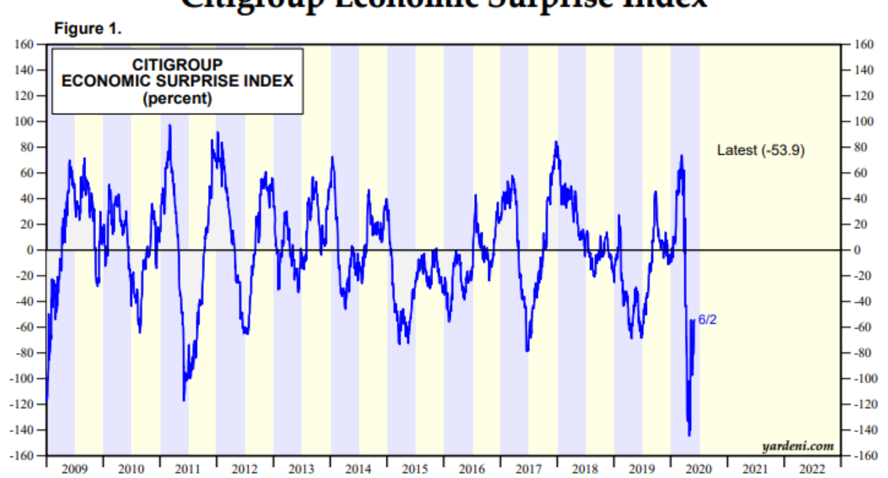
- Strategies are built for a variety of potential outcomes.
- Economic data is improving
- Deployed 10% cash into equities across PFG Strategies

Markets and economies are complex systems driven by a wide range of variables. These conditions make forecasting outcomes incredibly challenging. To address this challenge, we focus on constructing portfolios that offer robust opportunities for return in a variety of potential outcomes. One example of this is a barbell strategy, with both cyclical and defensive exposure. Cyclical exposures are expected to perform well if economic growth accelerates, while defensive holdings perform well in periods of volatility. This is how the equity side of our PFG strategies were positioned in early 2020. As volatility accelerated in March, defensive holdings such as Minimum Volatility, Defensive Equity and Health Care performed well. Cyclical exposure, including Mid and Small Cap, detracted from performance. Technology exposure, which is considered cyclical, boosted performance due to increased demand as companies pivoted to work–from-home.

As volatility increased, we saw the virus spread from China to Italy and New York, which led to stay-at-home orders and a shutdown of the global economy. Given the shock to the economy, the range of potential future outcomes for risk assets shifted to the downside. We felt it was important to prepare our portfolios for this shift in possible outcomes. Beginning in mid-March, we incrementally raised cash and decreased equity exposure. We felt maintaining 70% equity exposure and 30% downside protection was appropriate given the uncertainty we faced.

Over the past several weeks we have seen states and countries begin to lift restrictions. High-frequency data points, such as gasoline consumption, hotel occupancy, and TSA checkpoint volume, are all showing improvement. The Citigroup Economic Surprise Index is in an upward trend, indicating economic data is beating consensus forecasts.

Citigroup Economic Surprise Index



Note: Blue shaded areas denote first half of each year.
Source: Citigroup.

The spread of the virus has stabilized and is showing improvement in many places. Forward revenue and earnings expectations, an important driver of equity prices, have stabilized.

Based on improvement in these indicators we feel it is appropriate to begin deploying cash. We recently invested 10% of our cash position back into equities. Broadly, the changes included:

- An increase in quality stocks. These are companies with stable earnings growth, and low financial leverage. We believe these companies will perform well given the uncertainty that lies ahead.
- Investment in innovation stocks. These are companies that are considered "disruptors" in their industry. Examples of this include Next Generation Internet, Autonomous Technology & Robotics as well as innovation in healthcare. The shut-down of the economy and work-from-home orders will greatly affect how companies conduct business in the future. Additionally, advances in healthcare are critical to our well-being. We believe there are several opportunities within this space given the changes that are rapidly taking place within our economy.

Currently, we hold 20% cash across the PFG Strategies. The PFG Portfolio Management Team is continuing to meet with the Investment Committee at least weekly to discuss the next stage of deploying cash. Risk is still being elevated but if the current trends persist, we will likely deploy additional cash soon. It is important to remember that our primary focus is on risk mitigation given these highly uncertain times.

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