Economic & Market Impacts of COVID-19

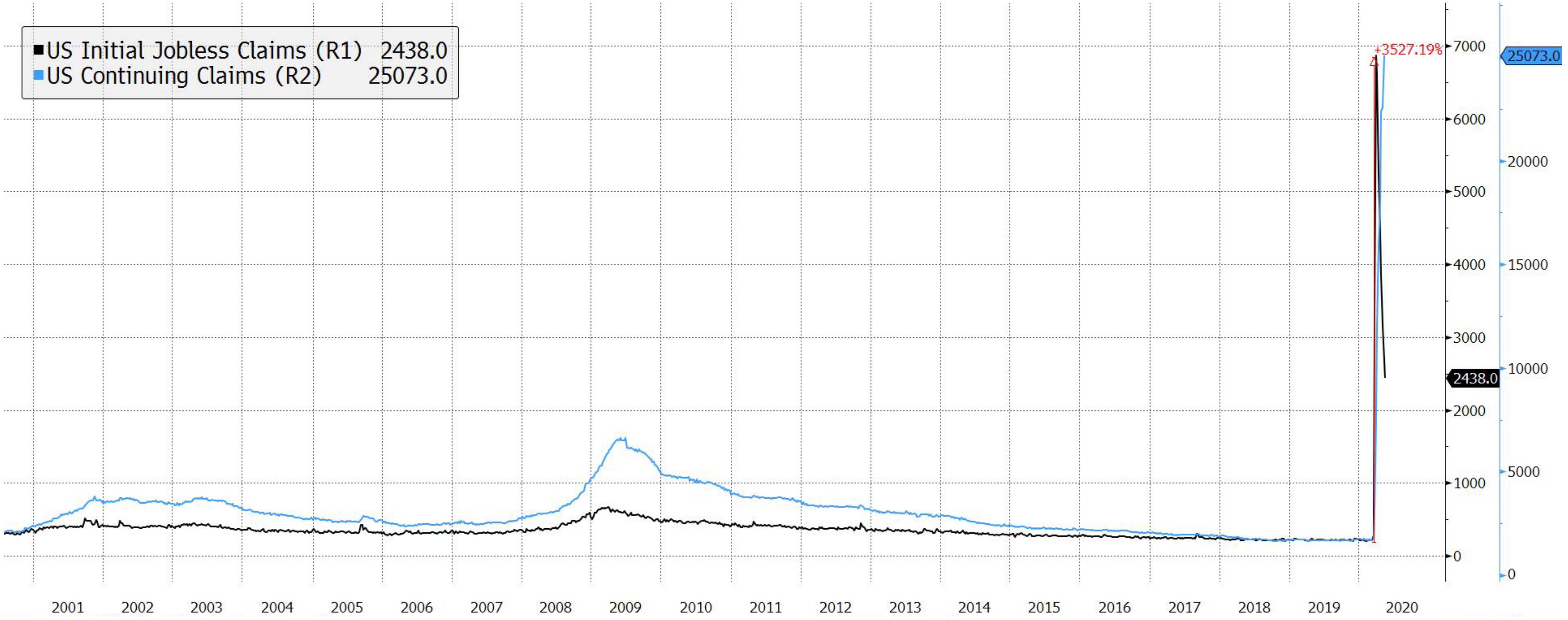
PANDEMIC PANDEMONIUM

PARKWAYADVISORS

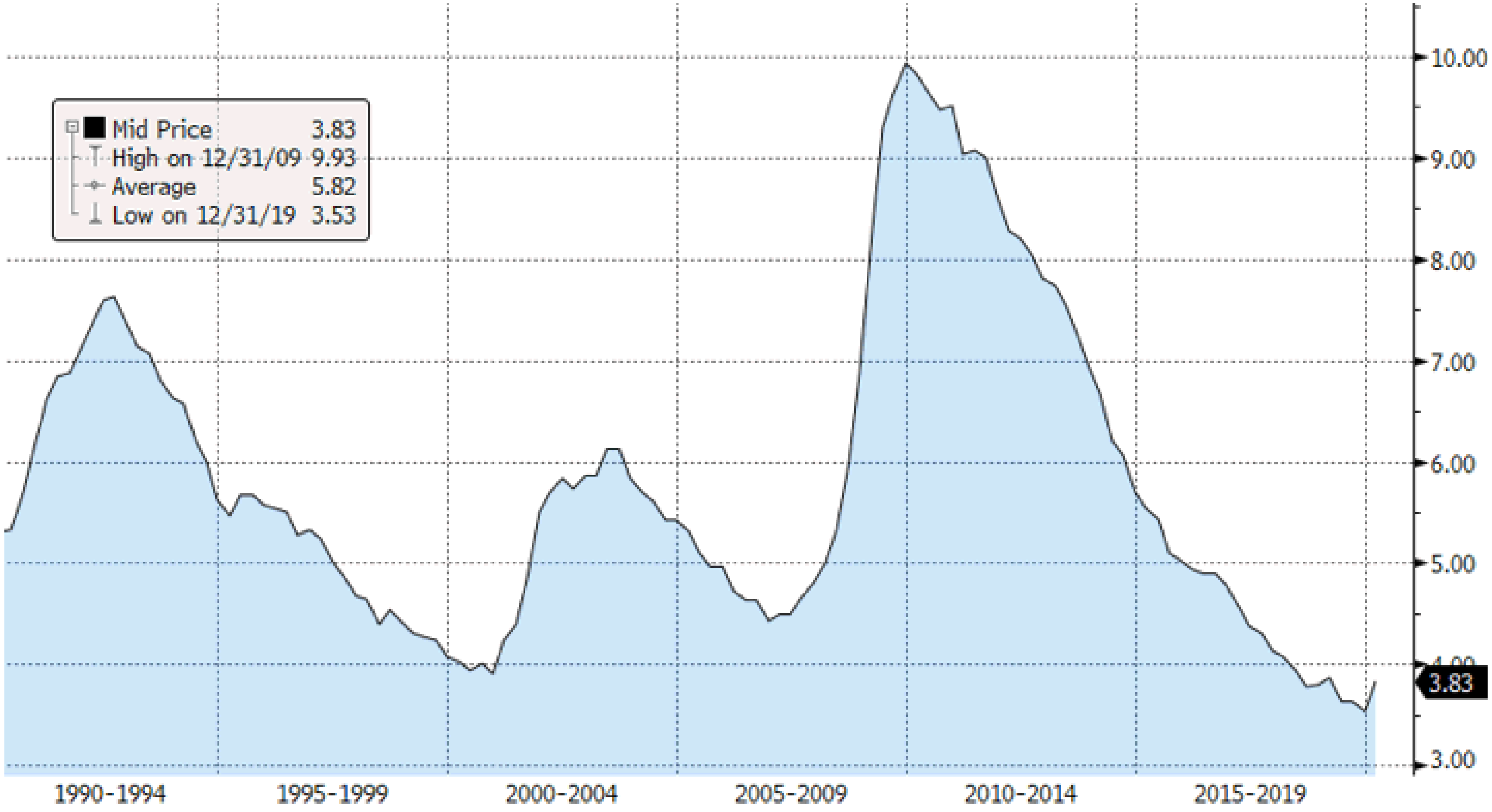
Economic Impact

- Consumer previously driving economy
- Dismal economic releases
- A significant slowdown in GDP (domestic and globally) has caused US risk to rise with the majority of the hit delayed until the second quarter release
- 26 million people filed for unemployment in five weeks
- $2 trillion CARES Act provided stimulus to US, including direct payments to Americans, loans to the distressed airline sector, and other “severely distressed sectors” of the economy from the virus outbreak; including PPP for which businesses could apply
- Potential virus drug in development and testing from Gilead; potential vaccine from Sorrento

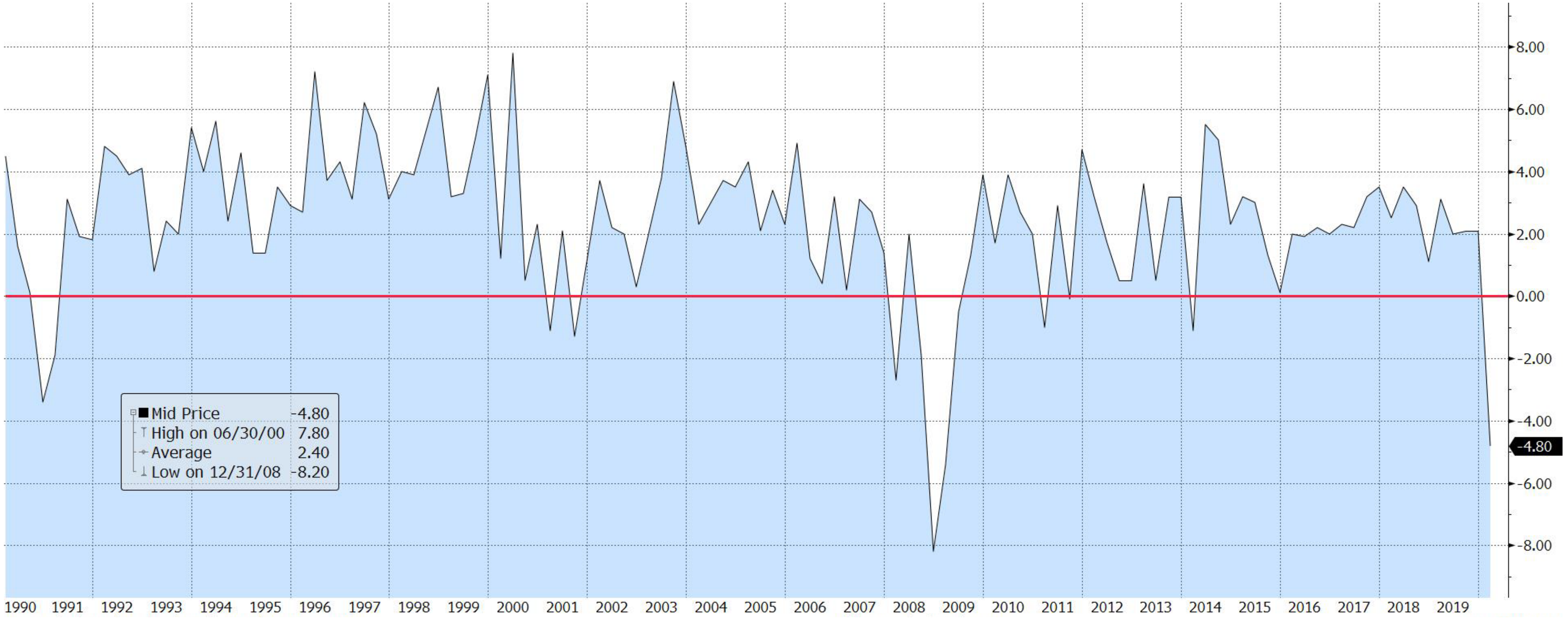
US Jobless Claims



US Unemployment Rate (%)



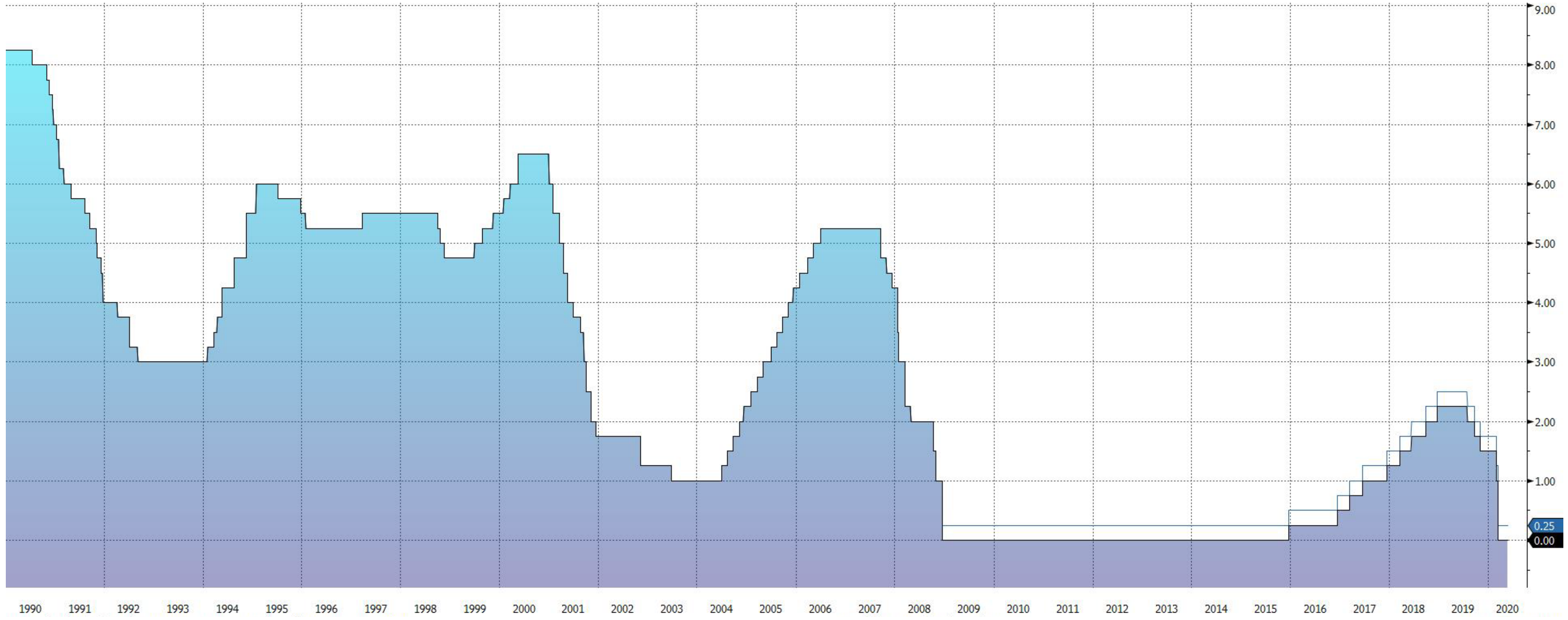
US GDP Percentage Change (QoQ)



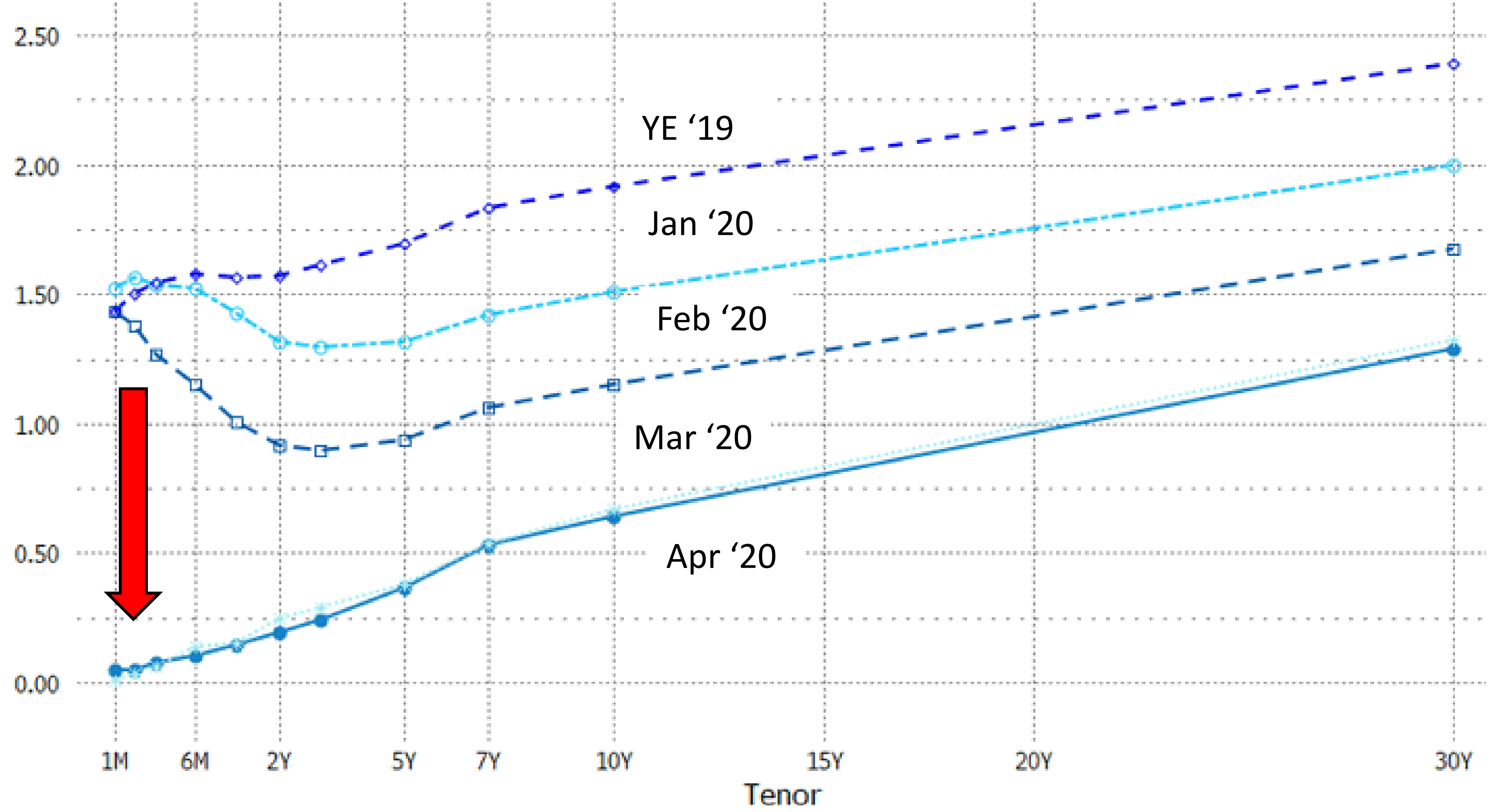
Federal Reserve & Yields

- Sunday, March 15th, Federal Reserve unexpectedly cut rates from 1.00%-1.25% to 0.00%-0.25%
- Fed committed to “whatever it takes” to aid the economy
- Fed enacts “unlimited quantitative easing” and begins buying assets in various classes and credit ratings (new)
- Flight to quality – plunging Treasury yields
- Investors seek “safe haven” – spreads widen

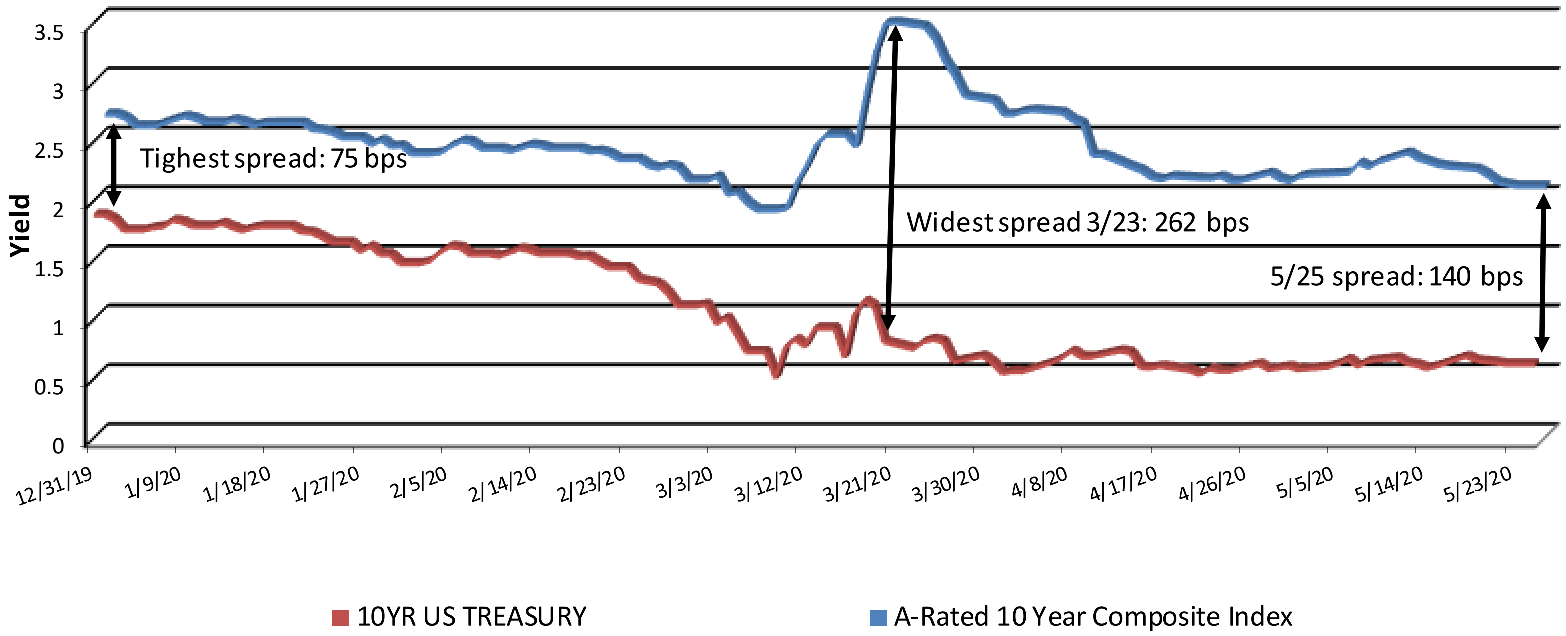
Fed Funds Target Rate



Treasury Yield Curve Changes Since Year-End



10-yr Treasury vs Corporate Yield & Spread

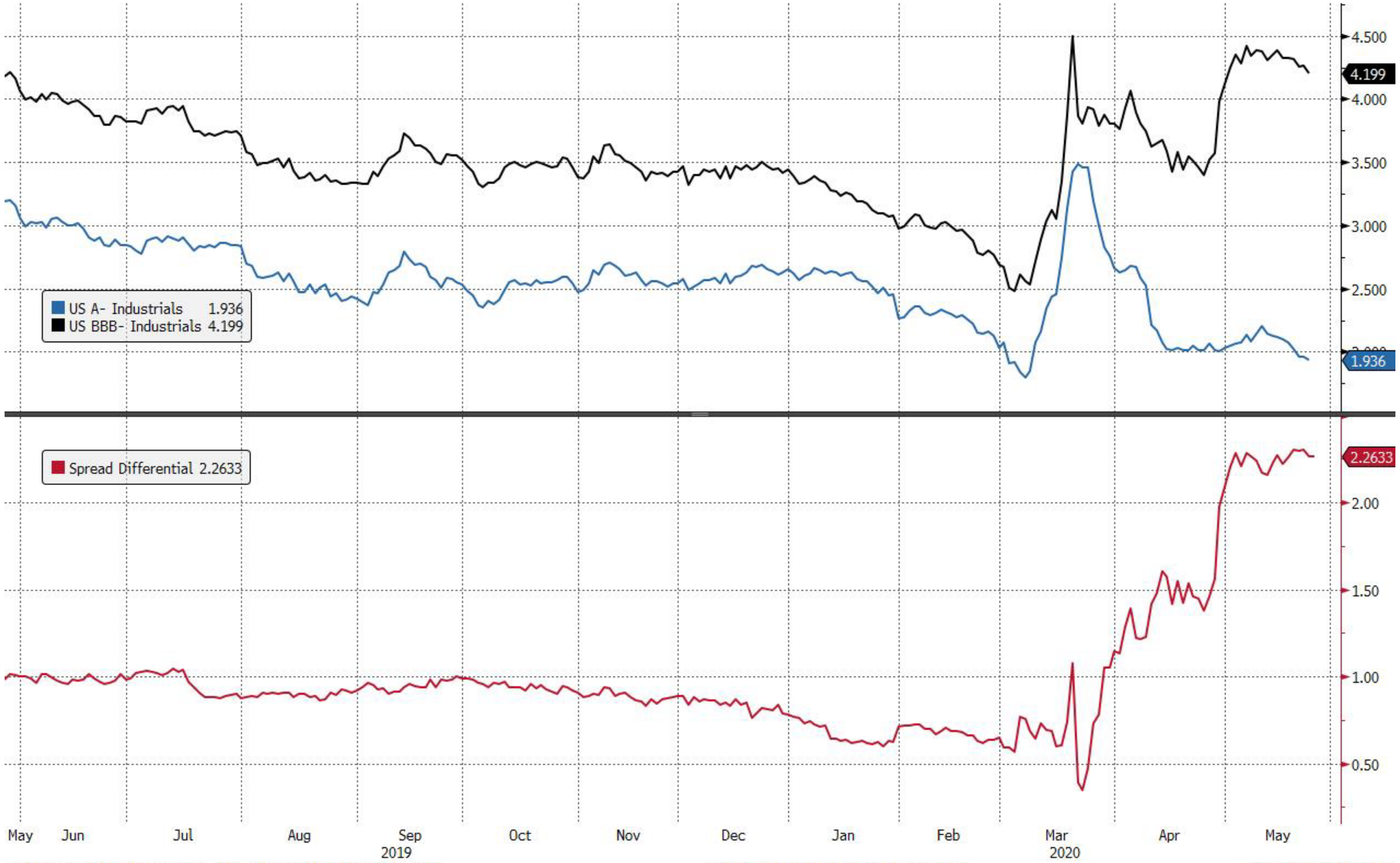


Average 10yr Treasury: 1.18 Average 10yr A-rated: 2.41

12/31 Spread: 75.07 bps 5/25 Spread: 140.42 bps

Average Spread: 122.5 bps

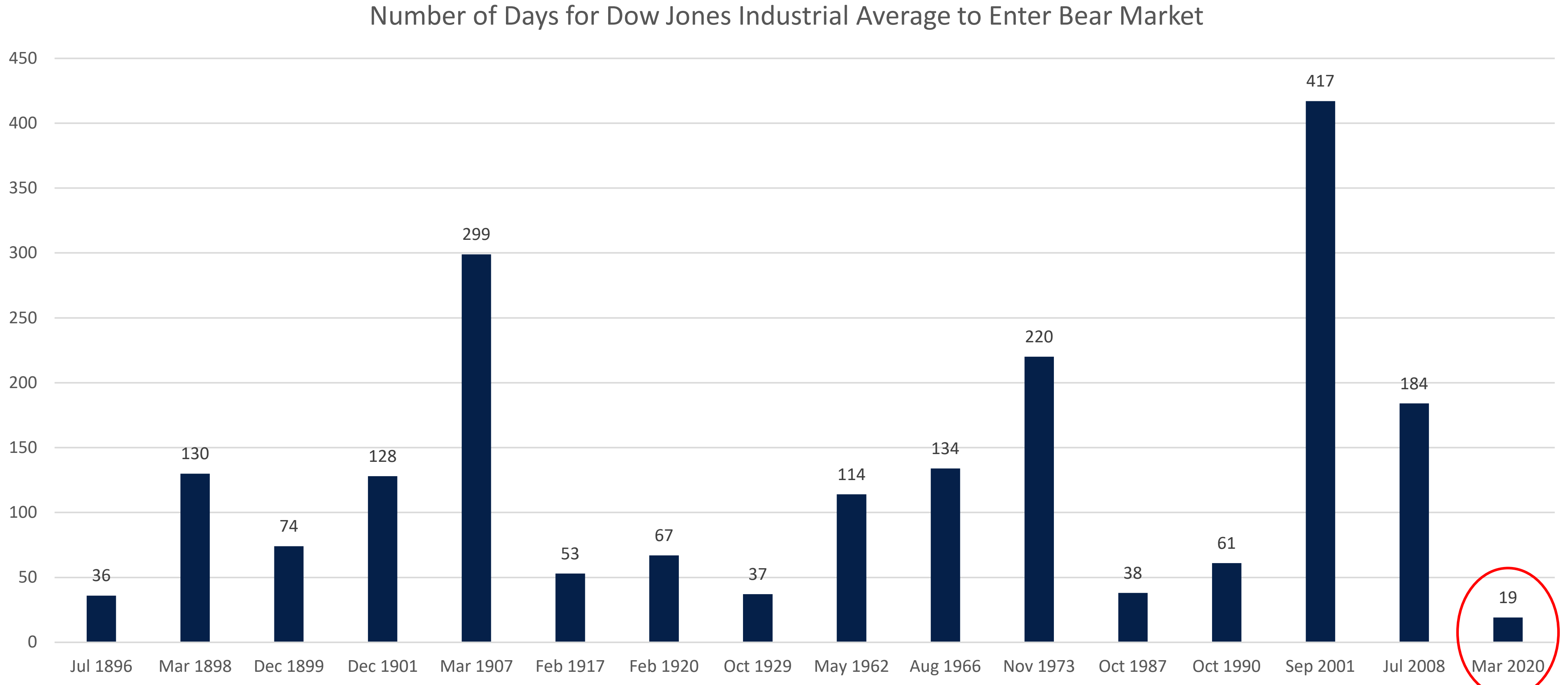
10-year Corporate Yields and Spread



Market Impact

- Crude oil traded negative first time ever (intraday low of -$40.32); now ~$34/barrel which is only down ~44% YTD
- Fastest bear market correction on record (22 days for S&P, 19 for Dow Jones)
- Short-end of the Treasury yield curve negative yielding for about a week in late March
- 10-year Treasury hit an all-time intraday low of 0.33%
- At one point, the entire Treasury yield curve was below 1%
- Stock market experienced multiple days of the largest or one of the largest point drops in history
- The S&P 500 down 34% from Feb high to Mar low; recovered about 2/3 of losses
- Stocks such as Norwegian Cruise Line, Royal Caribbean and Carnival Corp among the most negatively impacted, each losing ~65% of their market capitalization since the outbreak (over 80% at one point).
- Public companies are not providing any guidance into the future of 2020

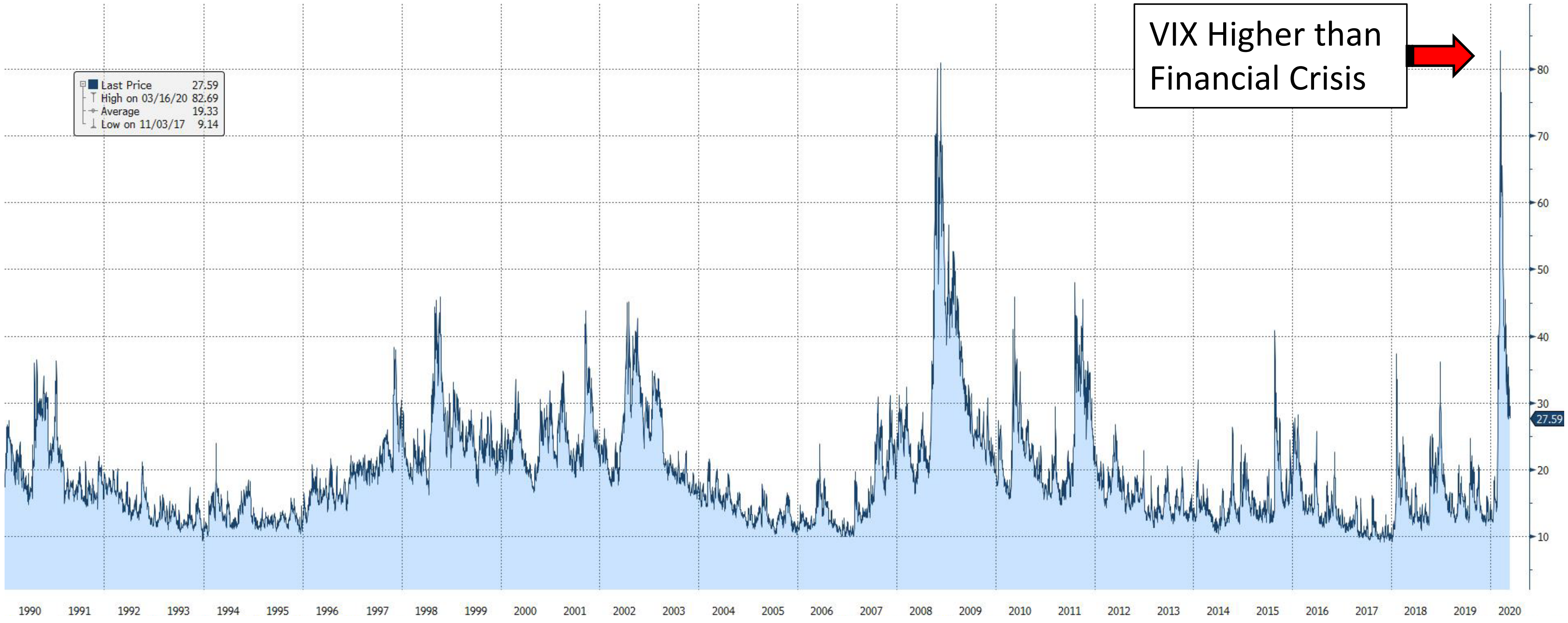
Fastest Bear Market* Correction on Record



*Bear market defined as a close 20% or more below 52-week high

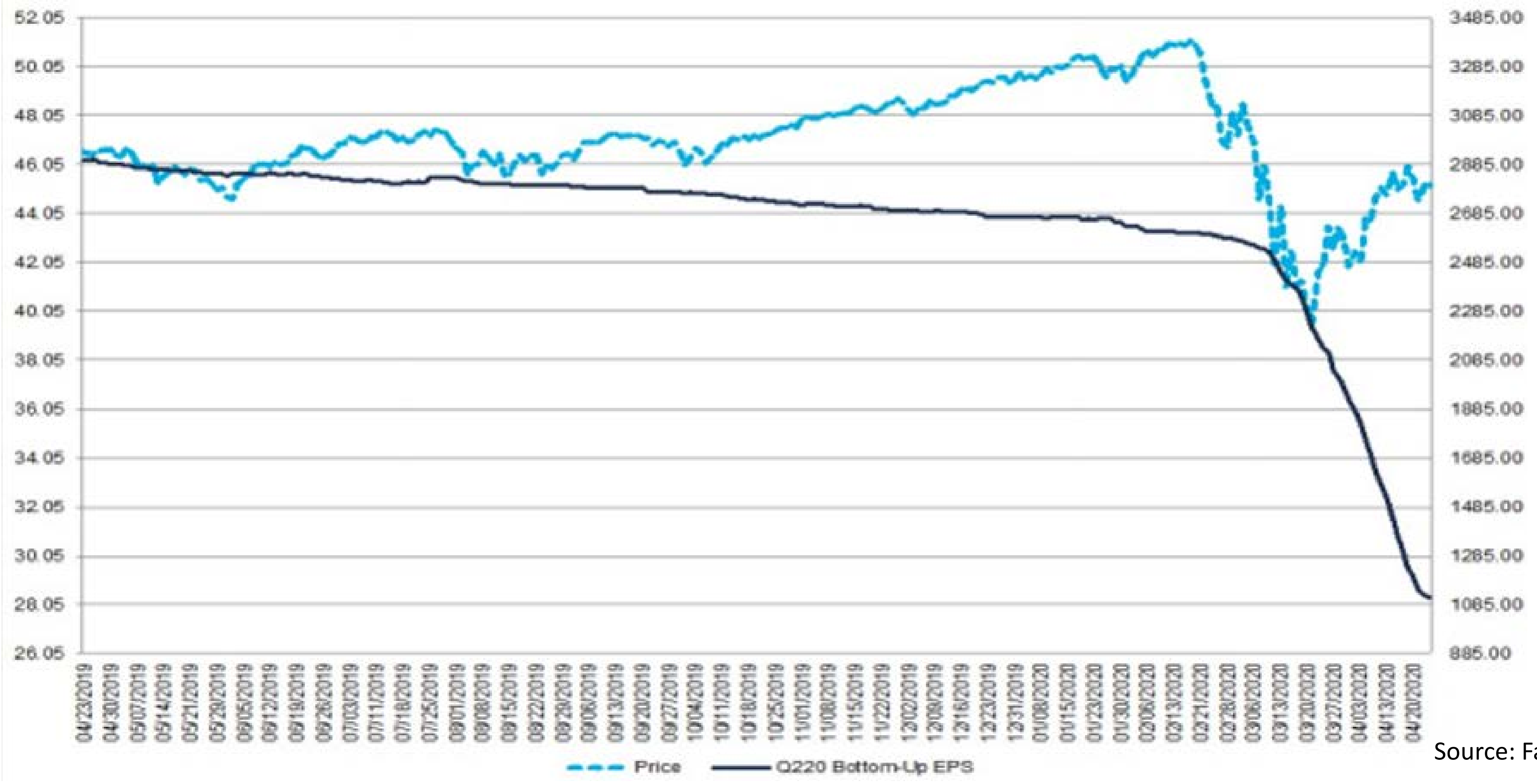
Source: LPL Research, FactSet Mar 20

Volatility Index (VIX)



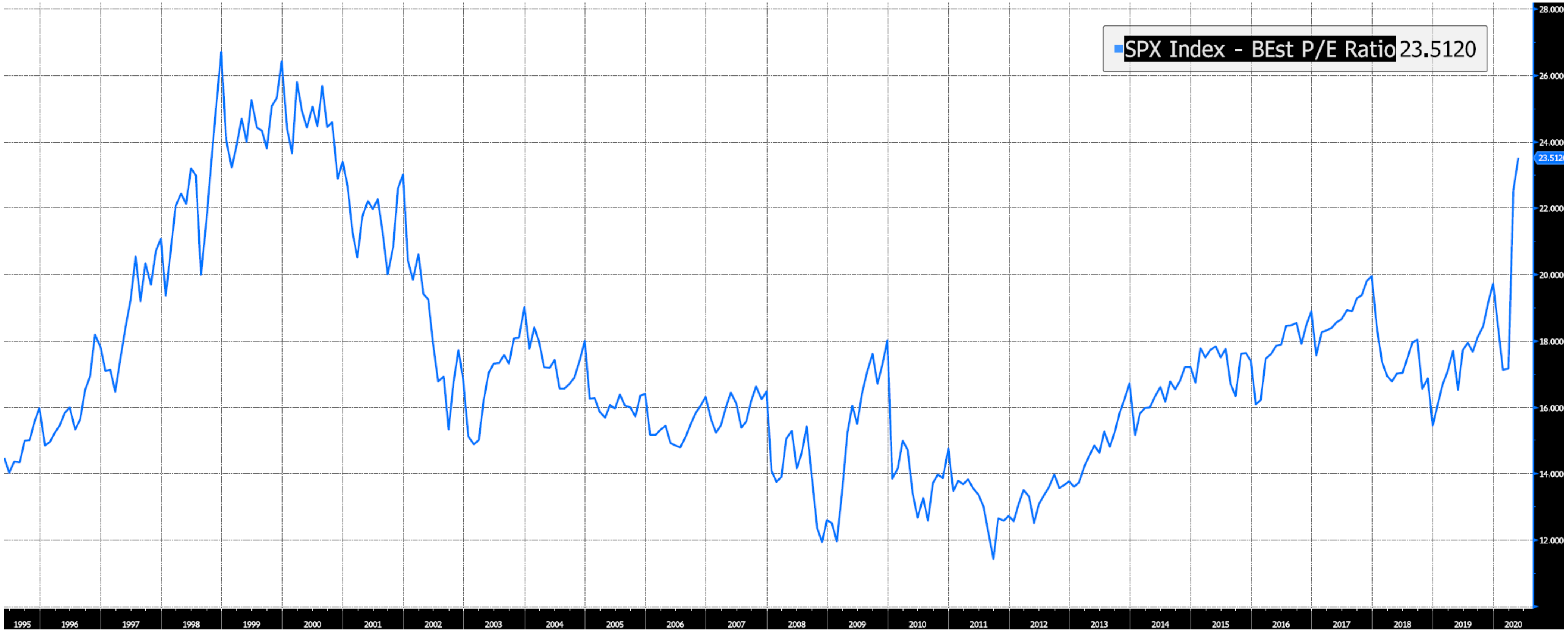
Global Equity

S&P 500 vs. Projected EPS



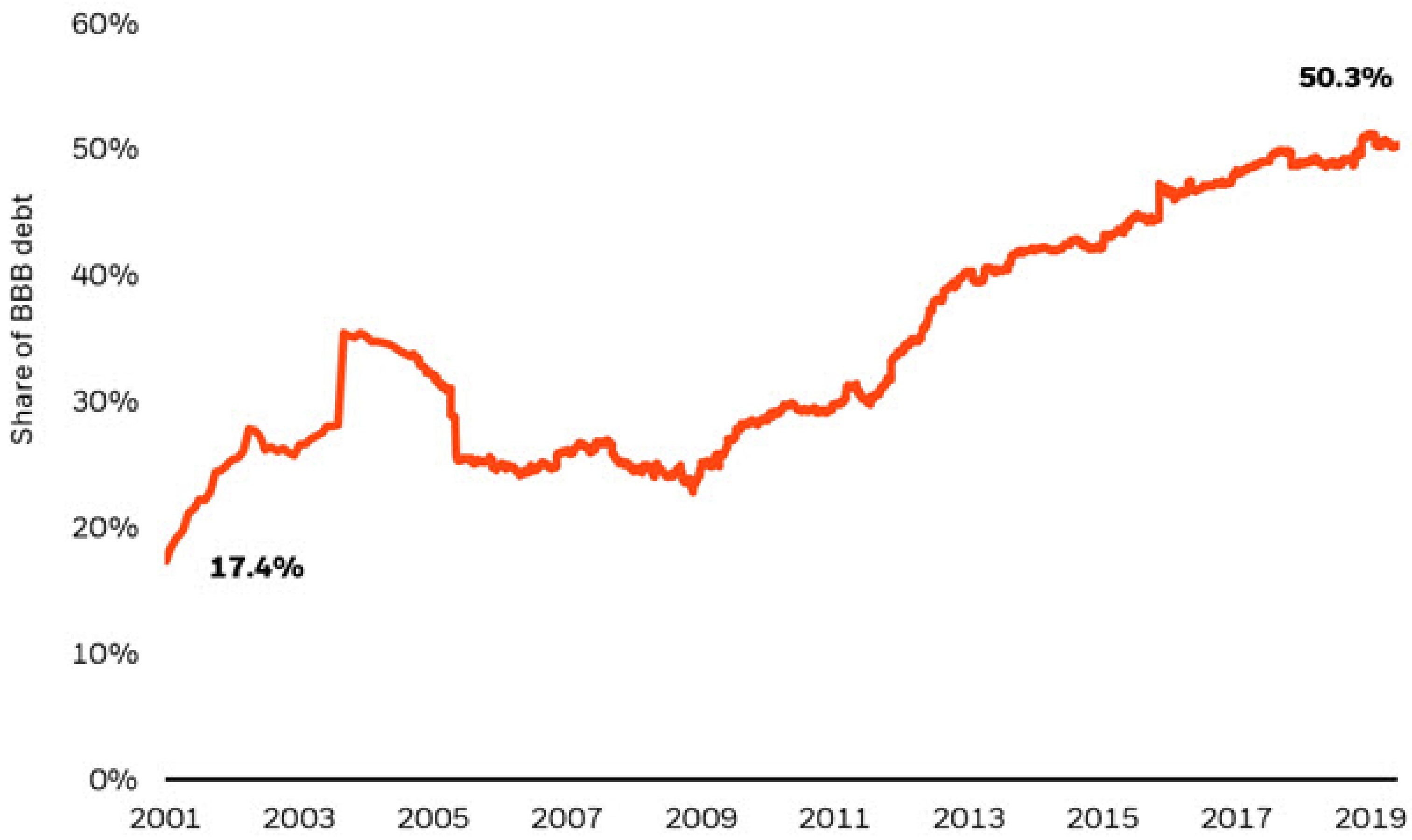
Source: FactSet

S&P 500 Forward 12-Month P/E Ratio



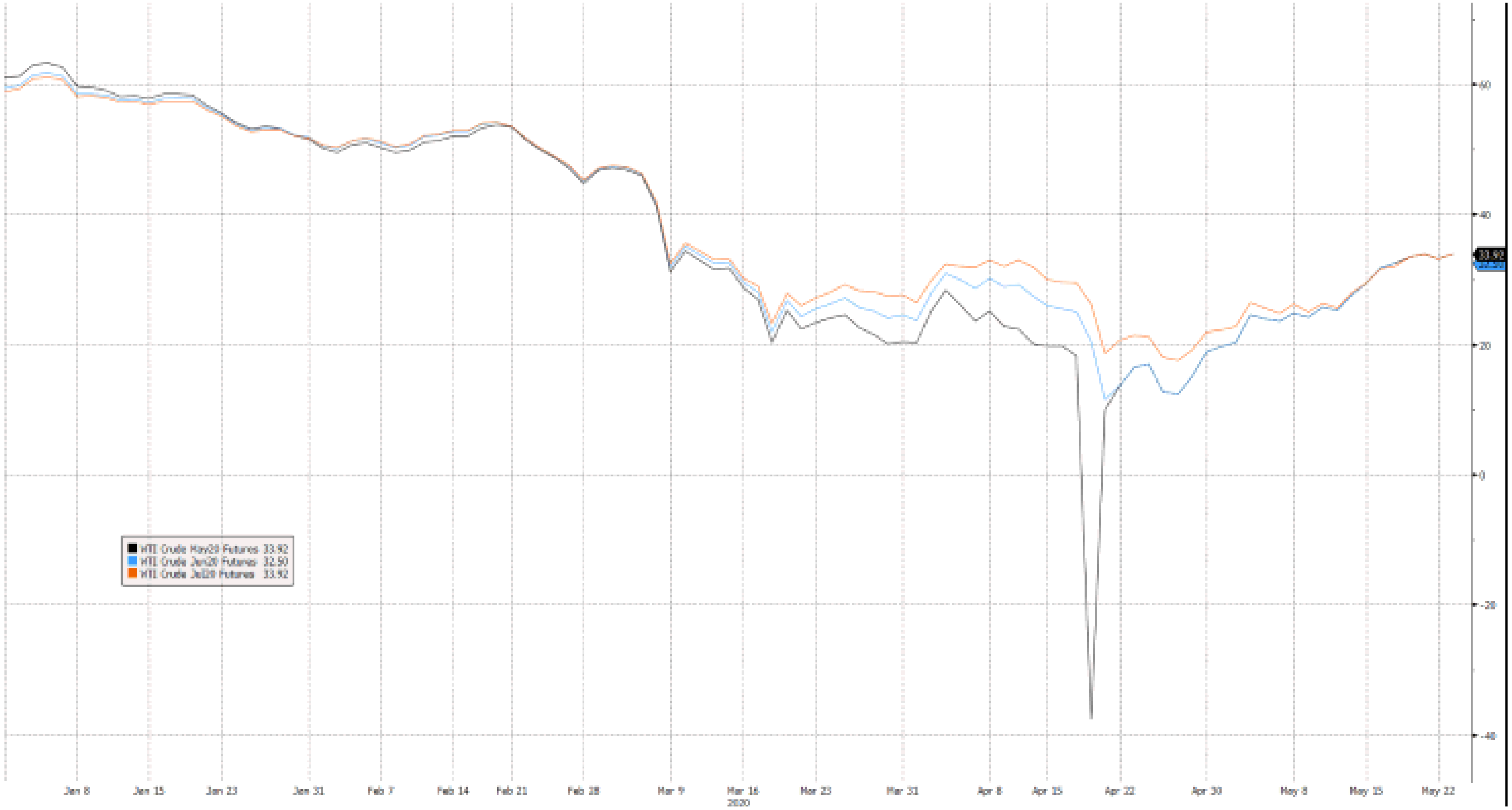
Source: FactSet

Increasing US Financial Leverage



Source: Blackrock & Bloomberg Barclays

West Texas Intermediate Crude Oil



COVID-19: Market Effects of Coronavirus

The following is Parkway's analysis of the recent shocks to the market and the industries most exposed to the shocks:

1st Level Impacts: industries that have been directly affected by the recent shocks and that are at most risk to have longer lasting effects

2nd Level Impacts: industries that will face near term obstacles due to the recent shocks and policies, but should return to normal fairly quickly as the shocks subside

3rd Level Impacts: industries that could become affected if the current shocks take a substantial amount of time to be resolved

COVID-19 and the sudden oil price war have affected the global economy and each industry. The following slides are industries that Parkway is monitoring closely.

Corp Sector – Adverse Impacts: Tier 1

Airlines/Aerospace – with travel being limited/banned the airlines will see a sudden sharp decline in demand. This will lead to airlines slowing new purchases and further adding stress to aircraft suppliers (Boeing & Airbus). The airline industry has been specifically addressed in the stimulus package and has received grants and loans to help the industry maintain their operations.

Gaming, Lodging & Leisure – locations that thrive off high foot traffic and tourism (casinos, cruise lines, vacation resorts, restaurants, etc.) are directly impacted by social distancing efforts and will see impacts to profit in the short term; however, as things clear up these industries should be able to make strong comebacks.

Energy, Oil & Gas – demand for oil has declined along with an OPEC price war that significantly tanked the price of oil. Upstream oil & gas companies are at risk due to the even lower profitability expectations. The lower profitability will lead to a scale back of projects and will damage oilfield service providers revenues as projects are cut. Pipeline transportation companies are at less risk to price volatility and should remain fairly constant in performance so long as the production of oil and other energy related products is not tremendously cut.

Corp Sector – Adverse Impacts: Tier 2

Retail – the quarantine will have mixed effects on retail. While initial demand may surge at pharmacies and grocery stores, increased quarantine measures may limit demand and online delivery options may be more utilized. Retailers who remain in operation may see increases in their expenses as they try to adjust for a COVID-19 shopping environment. Additionally, leisure shopping will likely see a drop in performance as people social distance and cut out non-essential interaction.

Automotive – the industry is already facing lower demand and could continue to see demand slow due to quarantine impacts. Inventories are likely to accumulate with less buyers and possible rises in unemployment could affect financing for vehicle purchases. Additionally, with slow demand, parts makers will see less revenue for their operations. Industrial vehicles could see changes either way, as more online deliverers could keep stable growth, however, if supply chains become affected less capacity may run through the industrial vehicles depleting their growth.

Car Rental – with travel and tourism stopped for the time being, the rental locations based out of airports will see a dramatic decline in demand.

Metals/Mining/Chemicals – Petrochemical companies will be directly affected by lower oil prices and declines in manufacturing activity will lead to less demand of chemicals. Commodity prices have begun to trend lower which will lower revenues for mining companies.

Corp Sector – Adverse Impacts: Tier 3

Technology – international supply chains will be impacted and international demand for products may slow as countries face the pandemic together.

Real Estate Services – recession fears could slow the purchase of homes and a healthy workforce may be difficult to assemble and make it more costly to complete projects. However, with mortgage rates moving lower, there is still potential for demand to remain stable.

Real Estate (Rentals) – as businesses have been forced to shutdown and millions of Americans have become unemployed disruptions in receiving rents to pay mortgages have become apparent from both commercial and residential tenants. Additionally, these real estate operations are highly leveraged and will likely need further assistance from the government and federal reserve.

Banking – the main impacts will come from the now lower interest rates that will decrease top-line revenues and quarantine impacts could cause companies to release employees or reduce hours and lead to more non-performing loans if these individuals do not receive some form of assistance. However, most banks hold diverse positions across industries to limit the impact of any one sector having credit issues. From an investment banking perspective, the growth oriented capital raising projects that companies had for 2020 have likely shifted more conservatively as these large borrowers are looking for ways to preserve cash and utilizing cheaper forms of financing to weather the COVID-19 storm.

Manufacturing – this industry has already faced struggles in their operations as there are many firms that they must compete with and find ways to lower prices to stay competitive. However, if overall GDP fails and demand for products takes a hit, manufacturing firms could see hits to their bottom line.

Sample Impact Chart

Row Labels	Sum of Book Value	Average of Price Change since 12/31/19
Tier 1	**112,397,327.57**	**-20.3%**
Airlines/Aerospace	17,223,922.37	-13.5%
Energy, Oil & Gas	94,528,621.78	-21.0%
Gaming, Lodging & Leisure	644,783.42	-12.6%
Tier 2	**96,401,359.15**	**-6.9%**
Automotive	49,146,626.26	-5.2%
Car Rental	1,994,964.39	-6.7%
Metal/Mining/Chemicals	25,715,131.23	-1.4%
Retail	19,544,637.27	-16.5%
Tier 3	**21,639,324.51**	**-1.6%**
Banking	9,986,968.87	-0.5%
Manufacturing	333,544.87	-10.2%
Real Estate Services	1,769,539.35	-2.2%
Real Estate Services/ Manufacturing	9,549,271.42	-1.7%
Grand Total	**230,438,011.22**	**-12.9%**

Where do we go from here?

- Recession?
- Federal Reserve
- Treasury Yields
- Equity

Questions?

Chad Hoes, FLMI
Chief Investment Officer
chad.hoes@parkwayadvisors.com

Trevor Rupe
Portfolio Manager
trevor.rupe@parkwayadvisors.com

PARKWAY ADVISORS
(325) 795-2111

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For More Information

We welcome your inquiry and can be reached by mail at Parkway Advisors, L.P., P.O. Box 5225, Abilene, Texas 79608 or by phone at (800) 692-5123 or by fax at (325) 795-8521. A copy of our Form ADV, Part II is available upon request.

For more information, please email info@parkwayadvisors.com or visit www.parkwayadvisors.com