SILVERCREST
ASSET MANAGEMENT GROUP

# STRATEGAS CALL TRANSCRIPT
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**Corporate Speakers:**

- Richard Hough; Silvercrest Asset Management Group; Chairman and CEO
- Robert Teeter; Silvercrest Asset Management Group; Managing Director and Head of Investment Policy and Strategy Group
- Jason Trennert; Strategas; Chairman and CEO

**Operator:** Ladies and gentlemen, thank you for standing by and welcome to the Silvercrest Market Commentary Conference Call. At this time, all participants are in listen-only mode. Today's conference is being recorded. (Operator Instructions)

I would now like to introduce your speakers for today: Richard Hough, Chairman and CEO of Silvercrest, Robert Teeter, Head of Silvercrest Investment Policy and Strategy Group and Jason Trennert, Chairman and CEO of Strategas. Please go ahead.

**Richard Hough:** Thanks for joining us today. This is Rick Hough, CEO of Silvercrest and I'm really privileged to have a conversation with Jason Trennert, the founder and CEO of Strategas.

Strategas is an advisory firm that was founded in 2006, about 14 years ago, a very close partner of Silvercrest in terms of looking at the macroeconomic picture, helping us refine strategy with regards to asset classes and thinking about other macro issues involved in the economy and the market. And we're really privileged as a firm to have a relationship with the professionals at Strategas and to have access to people like Jason.

Jason, thanks for joining us today.

**Jason Trennert:** It's my great please, Rick. Thank you for having me.

**Richard Hough:** You’re welcome. So in this environment, we've been talking about often with Rob Teeter, the Head of our Investment Group, the fact that there's an enormous amount of quantitative data on the economy that we're used to getting from the normal channels whether that's the Commerce Department, or the Fed or somebody else.

And all of that data has effectively become useless to us in thinking about the future and how to advise our clients. And so, we've been relying on a lot of alternative measures of the economy whether that's looking at hotel rooms or flights or gasoline usage, just for looking for signs of pick up in the economy, et cetera.

And we've really learned to have to just trust a lot of bad data and use our own intelligence and judgment and advisors like yourself to make us think through the history of financial markets, the history of economic slowdowns as unprecedented as the reasons for this one occurring and tap into that expertise that we have and access with people like you to think about what the future may look like and what the recovery might look like.

And so I'm just curious as you think about the future, your own thoughts on active management and its role in an environment like this and what you think its prospects are and what the catalysts are in the environment that could set the stage for active management to shine?

**Jason Trennert:** Right. Well thanks, Rick and I agree with you, by the way. I tend to think financial markets are better economists than economists. As a firm, I run a firm of economists that advises companies like yourself, institutional investors.

And so, there's always a certain humility for just having done this for 30 years, always tried to listen very carefully to the message the markets are telling us to make sure we don't miss anything. Because a lot of times the biggest mistakes are made, a lot of times are made by the smartest people, let's say like Long Term Capital when they ignore the messages of the markets and kind of chart their own path, tend to think that they're smarter than the collective wisdom that's in securities prices.

So just having said that, as far as active management is concerned, my own opinion to put it very simply is that the reason why active management will reign supreme in the period that's coming up is that access to capital is going to be far more rationed than it has been over the last 11 years.

And we could have a debate and I don't know, there might be a variety of people that are familiar with some of these terms on the call or not, but we could have a debate about quantitative easing. My opinion, Mae West once said too much of a good thing is terrific, but in my opinion, too much of quantitative easing did a lot of harm at a certain point because it obfuscated the message that you were getting from the prices from the market. And one of those largely is that you kept a lot of zombie companies, so called zombie companies in business and you didn't allow the market to clear.

And an environment like that, I would use Sears as kind of an object lesson in this weren't any normal period of time, any normal recovery, the cost of cap, the cost of debt capital in particular would rise and weak companies would either go out of business or be restructured or bought by somebody else. And that largely wasn't allowed to happen from 2009 to 2020 and that's part of the reason earlier this year, that's part of the reason why it's been so hard as an active manager, the dispersion between returns really wasn't as great as it had been in the past.

Now, I think to answer quickly, I think that's changed. I think the interest rates are low, but bank lending standards are tightening and I think that a lot of even private markets have learned that there's a—that haven't been priced in for a long period of time. And so now, again, I think it's a good period for active management to the extent to which it's going to be much harder to access capital and there'll be real benefits to being a winner or companies that have access to capital can gain market share.

**Richard Hough:** So, you're talking about the pricing mechanisms in the markets and to have the humility to understand what they're telling us. In this environment, a lot of people are skeptical, the run up in the equity markets obviously looking through this crisis and forecasting something of a recovery. How are you viewing that? And what are your views for economic activity and its resumption?

**Jason Trennert:** Yes. And that's a great point. I have to say having said all that, I'm a little skeptical too of—I'm not skeptical that there will be a recovery. What I am somewhat skeptical of is how long it may take.

And one of the prices that I'll be looking at or a market indicator I'll be looking at that would give me more confidence in the rally in the stock market would be 10-year treasury yields which is to say if 10-year treasury yields were rising at the same time stocks had been going up since March 23rd, I'd feel a little bit more confident that we were going to come out of this economic malaise fairly quickly.

The fact that treasury yield stays low and just the length of time of the lockdown leads me to be somewhat cautious, and that's largely because of the impact on the small business sector. There's about 150 million people in the work force in the U.S., 25% of them, a little more than 25% work for companies of less than 50 people. And it's that cohort I would say that in our firm worries us a bit.

And this is an interesting period where large companies that are well capitalized are going to be able to take a lot share and do quite well. We saw that with some of the retailers this week. But obviously a lot of smaller companies that don't have access, don't have permanent capital or don't access to the capital markets are going to find it hard in my opinion to survive, at least survive in the way that they had before.

The payroll protection plan is largely designed to help small businesses and I think it's imperfect of course, but it's a great idea. The only problem I have, Rick is that it's—you're going to have to keep going back to the well. You're going to have to keep that going to prevent more layoffs. And I do think you're going to see a second wave of—I'm not too worried about a second wave of the virus at least in terms of the way we're going to deal with it which I don't think we're going to lockdown the entire economy again. We did that.

I am somewhat more worried about a second wave of layoffs just as larger companies that are profitable start to come to grips with how things have changed. And just one quick example and I'll stop talking would be the airline industry as an example, believe it or not, has not laid anyone off. I happened to see the new CEO of United Airlines on CNBC yesterday and one of the conditions for the aid from the federal government was not to lay everyone off until October 1st. So that's the situation where clearly, that that business sadly will have to go through some pain and there'll be some other large companies that have to go through some pain too.

So a longer way of saying I'm not—I think the market is realizing that the policies are pretty, I would say, very pro-growth, very different than the 30s, I would argue that you will recover. I would just say I think it's going to take longer than a couple of months to kind of get back on our feet. And while this seems like an eternity because a lot of us have been home and all the rest of it, it's only been nine weeks. It's a pretty remarkable turn of events for an economy in simply two months. And so, I would just urge people to be somewhat patient.

**Richard Hough:** Right.

**Robert Teeter:** So Jason, this is Rob, maybe just to tie together a couple of the things you were talking about there, we touched at the beginning a little bit on what's going on in the market particularly, some of the comeback with the S&P and as you talked about some of the separation between winners and losers.

One of the things that I know you've talked about some that I think folks just find quite interesting is some of the similarities and differences between the markets as people talk about it, defined by the S&P for example and the economy defined by GDP, and there's some pretty significant and interesting differences and similarities there. I was wondering if you could maybe shed some light on that for the folks who dialed in today.

**Jason Trennert:** Yes. And we wrote a piece on this earlier in the week and I'd be happy to share it with you guys if you want to pass it along. But the simple—we have a list of things that are—the differences, but the biggest difference, the simplest difference is that GDP, about a little less than 70% of it is made up of consumer spending and the S&P 500 is much more intellectual property, capital spending, manufacturing oriented and manufacturing I put in kind of air quotes because manufacturing can also be intellectual property, doesn't necessarily have to be goods, hard goods.

And so that's probably the biggest difference. So if you look at technology as an example and I saw a technology analyst earlier today that I—whom I respect quite a bit saying that he thought the technology sector earnings in the S&P 500 would probably be flat this year. And the S&P 500 is 25% of the—the technology sector is 25% of the S&P 500. So, when you think about that, you think about 30 million people, close to 30 million are unemployed and the technology sector will largely keep its earnings roughly the same as they were last year is pretty remarkable.

And so, I guess the simple point is that the stocks that make up the index are more robust than individuals and to economic shocks. And so again, that may be part of the reason why the market is doing well. It's really just a makeup of the index which is made up of a lot of companies that people need, in some cases need more now with the crisis whether it's technology or healthcare than they might have before.

**Richard Hough:** Yes. So given that the virus is kind of driving the frontend of this and none of us on the call are medical experts as far as I'm aware, maybe take us through a little bit of your economic outlook over not only the next couple of quarters, but the next few years as we move from where we are today through recovery and kind of a range of outcomes that you see based on how this unfolds because we don't know exactly what will happen then.

**Jason Trennert:** Yes. Well listen, I think and I think like you, I try to give everyone, do everyone a favor, our clients the favor of not weighing in too much on any sort of expectations on the health side. Mainly because I don't know, and it seems increasingly apparent to me that a lot of the experts in the medical field don't know either. I mean it's like watching a tennis match in terms of what people think about the nature of this virus and all the rest of it.

But I would—so my own opinions are these and again, I don't want to offend anybody, but in my opinion, the real black swan for the economy wasn't necessarily the virus. It was the decision to lock down the entire economy. And I think historians, economic historians are going to debate whether and we don't know. The jury is very much out on that whether it was the right thing to do at the time, I believe that, but economic historians will debate whether with the benefit of hindsight that was the right thing to do or not given the economic pain that it's inflicted and social pain too I would argue as well.

So my opinion and this—and here again, I'm going to put another disclaimer, I don't want to offend anyone's politics, but I do think that if we focus I think as we're largely trying to do in growing our way out of the hole that's been created, it wouldn't surprise me if we got back to a run rate in earnings back where we were in 2019 of about $160, $165 by the end of 2021 which would kind of make the prices—I think that's what the market is discounting right now, is that this will be a pretty big divot, but the economic policies that are largely been used to combat it are pretty free market and I would say—I don't know if they're free market, but they're certainly pro-growth, let's put it that way, right?

So, we're not making the mistakes that we made, let's say in the '30s where at certain points, we quite literally made every mistake in the book during the '30s. At one point, the Fed raised rates, we raised income taxes, we had an undistributed corporate profits tax, there was a trade war, we increased regulations dramatically, we did all those things at the same time. And that's what turned a pretty deep recession in '29, '30 and '31 into the depression which lasted 12 years, 13 years right?

We're not doing those things now. But I will say that I think the path is quite good if we stay on this path and we just try to grow our way out. Again, not offending anyone's politics. The one thing that might worry me is if there was a Democratic sweep, one of the things that would worry me is that we do try a New Deal type of approach to, let's say getting an equitable, so called equitable or a fair recovery as Bill de Blasio stated and we could debate whether that's good or not for the country or whatever. I just know for stock market, it would be a disaster. I feel quite strongly that that would be a problem.

Because like the '30s, capital would eventually go on strike and that's when Any Rand in the '30s really started writing about all those things. So those are like the—there's a range of outcomes. I'm leaning much more towards the first one and as opposed to what is the most likely case. The second one is kind of a risk case, so.

**Richard Hough:** And Jason, on that point with regards to kind of the longer themes, a lot depends on whether or not our policymakers of the Fed make errors as we go along here and that will be a drawn-out process, obviously debatable what an error looks like and what it is.

But when you think about the longer term themes or implications for how we've intervened in the economy, let's just take one which would have to do with this massive amount of stimulus to support those who have lost their jobs via unemployment and other direct income benefits, the access to capital within certain industries, et cetera, what do you see as the risk now, in particular perhaps from an inflation perspective given the spike in money creation, what are your concerns around that?

For example, could we be looking at a 1970s inflation and/or stagflation scenario, just put that on the table in that way?

**Jason Trennert:** Yes, Rick, it's a great question. And I think, I would say in the short-term, this is obviously pretty manifestly deflationary just to the extent to which obviously its impact on labor costs and real estate and all the rest of it. Having said that, I'm largely of the view that inflation is always and everywhere a monetary phenomenon.

And it seems kind of quaint now, but the assets on the Fed's balance sheet before the financial crisis were $800 billion and 90% of what was on the Fed's balance sheet was U.S. treasury securities, mostly bills. So, you wouldn't even have any duration risk.

Again, now that the Fed's balance sheet is $7 trillion, so let's just use round numbers, it’s order of magnitude higher and there's everything kind of short and it's like used dog toys on the balance sheet, so you're accepting a lot of stuff as collateral that might not really be kind of AAA, put it that way.

So, I think that's actually appropriate for, given the shock to the economy, I don't think it's inappropriate for the Fed to have done what it is done. I think if you pair that with the fiscal side where the deficit before this happened was about $750 billion. That was the projection for this fiscal year, it looks like it's going to be more like $3.7 trillion this year if not higher.

The real question I would say, Rick, is whether that becomes a permanent feature of our response to the crisis, which is to say that if we continue to layer debt upon debt, it seems to me there's a chance that you could get inflation in the intermediate, meaning like three years out, intermediate to longer term because as the economy improves, obviously the prices will correct and then you're going to have—it will create an awful lot of liquidity sloshing around the economy.

And again, it gets very hard for politicians, easy for politicians and political actors to give things away, hard for them to take them away. And inflation, I remember Milton Freidman saying inflation is a little bit like drinking. It's like the first couple are easy and fun and then once you start going down, the bad stuff kind of comes later on. And that's I think one of the—that's one of the things that worries me a bit about doing what we're doing, is that it may be hard to rein this back in at a certain point.

Remarkably and this is also one last point, one of the things that I think the market is reflecting now is that remarkably, right now our chief economist, Don Rissmiller thinks that personal income for United States is only going to be down a couple of a percent this year because of all of the stimulus, the replacement of income that the government has provided. It's essentially providing a bridge loan to a lot of people that have been put out of work sadly.

So that's good. I mean it's a good thing. But again, I'm of the view, I think you are too that generally speaking, I'd rather have free markets and the price mechanism adjusts where capital is allocated than small groups of people especially if the groups of people are unelected like the FOMC.

**Richard Hough:** Yes, I would much rather see a normalized interest rate environment to allow for the appropriate allocation of capital. And also, that allows for less discrimination among those who are the politically powerful to influence the flow of capital when you get to normalized environment.

But that's not the environment we're in and I have to slow myself down because I'm not an economist and it's going to get dangerous even pretending to be one. And I'm really talking about the longer-term picture here with the amount of cash that's been created and that really the economy needs. I don't think anyone is disputing that it was necessary and in the wake of the fact that it's not circulating and the turnover is very low, what you would call volatility, it's not much of a concern.

And the backdrop, of course, has been one of declining prices, deflationary environment, whether that was leading into the crisis from the growth of technology and other productivity gains, that have been hard to see but obviously exist, or due to the crisis itself just because consumption had dropped in any number of categories. What tools do you see the Fed having to start pulling in that excess capital should it start things really going.

**Jason Trennert:** Yes. And I would argue, Rick, it looks like I'll just say for you and maybe the benefit of the audience and I'm wrong all the time, by the way, so my own opinion is that most likely they're going to get further easing in the short term. It may not—I doubt, I pray and I doubt that we'll actually see negative interest rates from the Fed. I know the President wants them, but I think he is thinking more like a commercial real estate developer than the leader of the free world because I think negative interest rates, frankly, do a lot more harm than good, my own opinion.

I think the Fed tends to agree with that. There was a San Francisco Fed paper regarding that issue that was put out last year. So, I don't think that's likely, the size of the balance sheet could get larger and then these are the easing sides. Then the other thing would be what they call forward guidance which is, it's a fancy way of just saying the Fed would kind of guarantee that it would keep rates low for a certain period of time or until certain economic bogeys were met.

And the thing that does, it's kind of more like jawboning, but it's nothing formal but it gives the market much more transparency into when you'll see an interest rate increase. I think that's quite…

**Robert Teeter:** I was just going to ask if you expand on this just a little bit and tying it into what we are talking about with inflation because I know you've done some interesting work here as well. One of the things we've observed is that as well is in the pre-virus environment, we got to a point where 20 multiple on stocks was pretty normal and kind of pretty stable.

I'm wondering what level of rates and what level of inflation you might look to as we normalize over the next few years, that's something that’s a concern to type of backdrop.

**Jason Trennert:** Yes. And so, the—we've done a histogram of PEs and inflation and the simple answer, Rob, is that 4% inflation which we're a mile away from is—well, below zero and above four are places where you see real degradation of PE multiples. The sweet spot is kind of where we are right now, zero to two, we tend to have the highest multiples on the market historically.

Two to four, you see some decline but not a lot. But over four, you start to have a big lifestyle change in terms of PEs and then below zero at least in the data that we have has been bad. There are periods—we'll get into this—there are good periods of deflation like the latter part of the 19th century which were all driven by productivity.

And so, deflation doesn't necessarily have to be a bad thing. It depends on the nature of it. In this case, the deflation we're getting is not necessarily because of productivity, we had a very low inflation but haven't had deflation. So, long-winded answer, I'm very comfortable with the 18, 19 maybe even higher multiple on the market as a whole.

And for some of those companies that actually are benefiting from this, it's not hard to see them attracting a multiple that would be higher. If you're robust to a shock like this, if your business model is robust to a shock like this, it's worth a lot.

**Robert Teeter:** But that's a helpful guidepost to keep in mind.

**Richard Hough:** Yes, it's a very helpful guidance. And as you think about kind of the longer term issues that I started to talk about looking more medium term then just to sum up kind of your thoughts on the market, given the interventions taking place, given interest rates, given what we're seeing with income despite the great distress with regards to unemployment just in terms of your own vision of getting through the other side with regard to income by the end of the year, and even if the recovery is a bit slower than originally anticipated since the lockdown I think lasted a bit longer than many people anticipated when this all first started in early March, end of February, the market in your perspective, doesn't seem that out of line, that it's retraced and seems to be looking towards the end of 2021. Is that a fair summary?

**Jason Trennert:** Yes. I think it's very fair. And, again, some of that as I said I want to give myself an out to say a lot of that will depend on us not making things worse in terms of policies, which I'm pretty confident, frankly, we're unlikely, mainly because we had the '30s to learn from and we have other periods to learn from.

And also, in many ways a lot of the things the Fed has done and the Treasury Department has done were—we benefited a lot of in a strange way by the great financial crisis, the global financial crisis in 2008-2009 because a lot of those facilities that the Fed created, for instance, were created first about 11 years ago and that's a good thing. You didn't have to spend a lot of intellectual capital to figure out all right, these are things we need to do to stabilize the economy. We don't want to punish good credits and all the rest of it.

So, I think it's pretty fairly—I think the market is pretty fairly valued. I think, again, I don't know if I'd put a lot more money to work here right now, I'd be kind of pretty selective. I do think it's going to be because of the things I said before in terms of layoffs and all the rest of it, it is going to be more—you have to get ready for a lot more volatility, I believe, in the financial markets and the economy.

It's going to be quite choppy, I believe. But that will provide opportunities for active managers, right, to buy good companies. And so, I feel pretty good about—I'm a little more nervous about the economy than I am about the markets. It may sound strange, but for all the reasons I said before I think the markets just given that structure are in decent shape and are reflecting the enormous amount of stimulus, monetary and fiscal stimulus that's been provided.

**Richard Hough:** Right. Right.

Rob, how does that fit with our own outlook and how we're working with client portfolios?

**Robert Teeter:** Yes. I think it's pretty similar. We share a lot of your—a lot of your views, Jason, and think that this a time particularly to be very selective with regard to what you do, to have the right time horizon. If ever there was a time to not try to predict what's going on day-to-day, I think it's something that might be now. And I think that helps a lot and we share a lot of your long-term backdrop as well in terms of economic outlook and valuation on stocks.

We've sort of turned things upside down again with that 20 multiple that has hung in there for a long time pre-virus and back into it and said what level of earnings does that imply for the markets here and does that seem reasonable. And I think we agree with you, it seems mostly reasonable recognizing there's a lot of divergence beneath the surface and a lot of potential paths going forward.

**Richard Hough:** And there may be…

**Jason Trennert:** Go ahead, Rick.

**Richard Hough:** No, I was just going to say and, of course, that divergence between companies, those that are winning or losing in immediate term provides a lot of opportunity to reorient portfolios and rely on really good bottom-up fundamental analysis to get through it.

**Robert Teeter:** Yes. Definitely. I think that's very much a key here.

Maybe shifting gears just a little bit, Jason, to get your thoughts on another topic that we've been asked a lot by clients and I'm sure you have as well. Any bigger picture changes in terms of whether it's onshoring of U.S. manufacturing whether it's in tech pharmaceuticals or changes in how supply chains are managed or things like that as a result of the virus?

**Jason Trennert:** Yes. I mean, Rob, we wrote a couple of [updates] in April just on the long-term winners and losers we thought from COVID because it is obviously a—it is a very meaningful historical event now. I mean, frankly, I'd be quite candid, I didn't quite appreciate that in early March. By the end of March, I appreciated it in a big way.

And there are certain things in my opinion that will not go back to the way they were. And I think one of them is the relationship between the U.S. and China. That may be true, frankly, for a lot of countries and China.

And I think as an example, if you—I guess the trade war last year—you want to call it a trade war but certainly trade tensions between the U.S. and China, if that didn't get you to reconsider diversifying your supply chains, this has to.

And you can see that if you're looking at a lot of the polling of Americans now, it's very clear that the majority of people both Republicans and Democrats by the way, it's pretty bipartisan, tend to view China as a rival as opposed to an economic partner whereas three or four years ago, it was generally seen as this kind of symbiotic relationship. They had a different political system, a culture than we did and it's two different paths. It's fine, we're not going to judge people on it and so on.

I think now, that's changed quite a bit. And so, pharmaceuticals I think is, I haven't seen the data that back this up but I keep hearing the numbers so don't quote me on this but I've heard that 85% of our antibiotics have at least some part of their supply chain through China. And I would argue that is—that just will not be the case a year from now regardless of who's president. And, again, I think this is one of the few places where Republicans and Democrats are pretty aligned on this issue.

I think there are other industries, too, certainly because of the amount of unemployment that we have. There's going to be—there's going to be an interest in bringing some industries back either for national security reasons, something like steel, or just because we lost a lot of jobs. And if you look over the last 25 years, we've lost most of the jobs in terms of manufacturing, not all of them but a good portion of them were in things textiles and furniture.

And so, there's going to be a combination I would say of goods that are seen as national security priorities and there are going to be other goods where people might say listen, we're just going to pay a little more because it's good for us and we're okay with that. And so, I think that's a big change. I mean, there is other stuff like high-price college education, I think globalization generally speaking I think is changing quite a bit people's attitudes towards that.

So, those are some of the big—and commercial real estate would be another one. I'll stop there. But that's another one where I do think there's going to be a meaningful change in the way we look at that.

**Robert Teeter:** There is certainly no shortage of themes that were in place before and are being accelerated by all of this and new themes that are taking hold as a result. We know you're out there a lot talking to folks like us and talking to all types of different investors and companies and everything else. Can you maybe give us some insight into what you're hearing about the most from the folks that you're talking to, what's front of mind, what are the big issues that people these days?

**Jason Trennert:** Yes. I would say the questions that we're getting most from clients I would say one is what is—the question, Rob, that you asked before is what's the difference between the market and the economy. Why does the economy look like it's on the verge of another depression and why is the market up?

And so, that—we get that question a lot, it's a very natural question. But we gave the answer to that. I think one of the questions we're asking clients because we're always trying to get some sense of where the consensus lies and one of the questions we're asking our clients is where they think the next 10% of the S&P 500 is going to be.

And 80%, the last two surveys we did last week and two weeks prior to that, in each case, 80% of the people that we surveyed, institutional investors, thought the next 10% was lower. And so, that may be part of the reason why the market is not going lower is because there's still a fair amount of skepticism in the move, right?

So, that's kind of a good thing if you're bullish, right, that it's not like people are just throwing—they're completely throwing caution to the wind and just buying.

The other question we get asked a lot is and it's a derivative of Rick's question before in terms of all the fiscal stimulus, the question we get a lot is: is it inevitable that the federal government is going to have to raise taxes to pay for this. And the simple answer I would say is that it depends on who wins in November.

I know some of the members of the President's economic team and you may think this is crazy or not crazy, but what have you, but I can tell you for a fact that they are thinking more about tax cuts right now than tax increases. And so, this administration is very comfortable with debt, I think given the guy at the top, of course, a real estate guy obviously, debt is not a four-letter word to him.

And I think the administration's view is largely that the markets will tell you when it's a problem and the dollar being as strong as it is and the 10-year treasury yields kind of staying where they are, their view is the best way to deal with this is to grow your way out. So, that's another question I would say we get quite a bit.

And it depends if it's another—if there's a Democratic sweep, I do think you'd have to start thinking about the possibility of a wealth tax or value-added tax or something along those lines. I hope that's not the case, but I would suspect that you'd hear a lot more discussion of that.

**Robert Teeter:** Yes. There certainly is going to be a lot of that—a lot of noise in a presidential election year, that's for certain whether it relates to just like you're talking about tax policy or if the regulatory issues come to the forefront again around technology or in other instances if we are re-onshoring or whether those issues come to the fore as well.

Definitely, no shortage of big issues to talk about on this call and in general. I thought what we'd do now unless Rick has another question, he may have a problem with his line there.

**Richard Hough:** Yes. I actually have one—I just have one follow-up question and then I think we'll take some questions from people listening in on the call.

Jason, I didn't really prepare you for this, but the United States has been such an attractive place for capital. Its equity markets are performing well versus a lot of the world and has been growing at a more sustainable pace than many other places in the world. And some of that has to do with the dollar, some of that has to do with the maturity of our capital systems and flexible economy, diversified economy.

But EE Research have noted that over the past 15-20 years, a substantial amount of the inflows into the U.S. markets, the equity markets in particular, have been from foreign entities and an important piece of the increasing equity markets. Are you continuing to see those flows, if my [piece] is correct or my recollection correct, and do you see that changing over the next couple of years?

**Jason Trennert:** Yes. So, Rick, your recollection is crystal clear. And I think it's been—actually, it's been reinforced. [There is] kind of a very specific answer when people say [why you like] the market up so much despite how weak the economy is getting. Part of it is just the flows from international investors to places they believe are most safe, right?

So, the dollar being the reserve currency is attracting a lot of—it has attracted a lot of foreign capital over the last 10 years. It's attracting more now. I do think that there's also pension plans that probably were underweight public equities, that's one of the reasons that you're seeing the market go up.

But I think, again, going back to your point, I think the dollar, it's hard to think of anything that would compete with the dollar as a reserve currency. The only thing that seems to be out there would be gold. I would argue the dollar is strengthening versus virtually every other fiat currency. The only currency if you want to call it that, that it's depreciating again is gold.

And all fiat currencies are depreciating against gold. And I think people are doing that largely as a hedge to the things that we just discussed before which is as a hedge if this becomes permanent.

**Richard Hough:** Right. Right.

**Jason Trennert:** People [always have] permanent but they kind of view it as insurance and just like insurance, you kind of hope you never have to make a claim. But I think people are saying like all right, just in case, I'm going to buy some of this.

I think another thing, Rick, I would just say is that another big source of demand for equities over the past 10 years have been corporations themselves.

**Richard Hough:** Right.

**Jason Trennert:** Share buybacks have been enormous. And so, I would say that's going to be something that'll be on the other side, that offsets some of the foreign flows a little bit just about certain companies obviously are going to have other priorities like paying down debt and so on. I don't think politically—I don't think there's any chance of share buybacks becoming illegal or anything like that but there are certain companies obviously that are going to have other priorities.

**Richard Hough:** Other priorities and sentiment affects these things and undoubtedly public CEOs are sensitive to the perceptions of their use of capital being in this kind of environment. Before we get to questions, I did get one here via email while we were talking.

We didn't talk about the energy sector. We talked pharma a little bit. But it's a mess, right? We've seen unbelievably low oil prices, very, very low demand as a consequence of the shutdown. Of course, the investment headwind of ESG environment like social and governance that type of thing.

**Jason Trennert:** Right.

**Richard Hough:** And then, of course, the COVID emergency here. So, what do you all see as [effect] for the U.S. energy sector? Is it headed to a lot more trouble on a kind of long slow decline or you view this as a bump in the road and as a consequence of just the crash in demand?

**Jason Trennert:** It's probably somewhere—Rick, it's probably somewhere in between. I mean, in my opinion, there's too much—there is too much capacity in the energy sector that has to be—and it's maybe one of the negative consequences of keeping rates so low is that you did keep a lot of—we talked about this whole idea of zombie companies a bit. A lot of the zombie companies were energy companies where very low interest rates allowed a lot of companies to punch holes in the ground.

In that regard, this could wind up being positive in an odd way because it's such a big shock that you'll take some capacity, some excess capacity out of the market and which could make people more confident about the price of oil in the future, right? So, I would kind of look to see more consolidation and M&A in that area. If I saw that, I would actually get bullish.

I also think—this may be not popular politically but I think that at the margin lower energy crisis obviously make alternative energy somewhat more costly in comparison. So, I think—I'm not saying that's going to disappear, that headwind again energy, but I think this slows it down a bit.

It's interesting I saw my first kind of [divest] from China letter that were just in the [ether]. I think it was sent to [Larry Shank]. And so, there's—that kind of aligning of mission and investing is clearly—it's getting into a lot of places more than just issues of sustainability and renewable energy.

**Richard Hough:** Thanks for that.

Let's open the lines and take some questions if we have anyone listening in on the phone who'd like to ask you something.

Operator, if you [could do them]. Thanks.

## QUESTIONS AND ANSWERS

**Operator:** Thank you.

(Operator Instructions)

One moment please.

**Jason Trennert:** Thank you. We'll just give that a second to see who queues up.

**Operator:** I'm showing no questions at this time.

**Richard Hough:** Okay. Thank you very much.

Jason, it's been instructive. I really appreciate the time you spent with Robert Teeter and myself today to talk about all this. You're a great partner and we appreciate you doing this.

**Jason Trennert:** Well, it's my great pleasure, Rick and Rob and you guys, you're great fiduciaries and great partners. So, I appreciate the opportunity to speak to your clients and be happy to answer any other questions people might have. But thank you very much.

**Richard Hough:** You're welcome and we'll talk to you soon and hopefully we get you in the flesh in a live format.

**Jason Trennert:** Yes, sir. Okay.

**Richard Hough:** All right. Take care.

**Jason Trennert:** Take care.

**Richard Hough:** Thanks, everyone, for joining.

**Robert Teeter:** Thanks, Jason.

**Jason Trennert:** Bye.

**Operator:** Ladies and gentlemen, this does conclude today's conference. Thanks for participating. You may all disconnect. Have a great day.