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COVID-19 Investor Pulse Check #3

Conducted April 17–19, 2020

BCG's COVID-19 Investor Pulse Check

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BCG surveyed leading investors to understand their perspectives on the US economy, the US stock market, and the critical decisions and actions that senior executives and boards of directors are considering and making. The COVID-19 Investor Pulse Check is conducted biweekly.

Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.

This BCG COVID-19 Investor Pulse Check, conducted April 17–19, is the third in a series of periodic surveys that BCG will conduct to help corporate executives and boards of directors understand investors' perspectives in this rapidly changing environment

- The first survey was conducted March 20–22; respondents overlap 87% with this current April 17–19 survey
- The second survey was conducted April 3–5; respondents overlap 85% with this current April 17–19 survey
- Across all three surveys, there is a 79% overlap in respondents

About the respondents:

- They represent investment firms that have more than $4 trillion in combined assets under management
- About 80% are portfolio managers and senior analysts who are directly responsible for making buy, sell, and hold decisions
- They cover a broad spectrum of investing types or styles, including deep value, income, growth at a reasonable price, and core growth; they also include some quantitative, technical, and special situation investors

The survey focused on two key topics:

1. Investor expectations for the US economy and stock market as well as the shape of the recovery
2. Investor perspectives on critical moves that corporate executives and boards of directors are considering and making

The analysis shared in this document represents an aggregated view that is not segmented by investor type; it is important for corporate executives and boards of directors to keep in mind their current and target investor mix while interpreting the results

- Results by investor type can be made available upon request

The results represent the views of surveyed investors only; to understand BCG's point of view, please click **here** to visit BCG's microsite on the COVID-19 crisis

Since we conducted the COVID-19 Investor Pulse Check #2, there have been many developments with respect to the crisis

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April 5 vs. April 19

Some key indicators and macro-level factors that investors are likely watching include:

- The US—the country hardest hit by COVID-19, with about 750,000 cases and roughly 40,000 deaths—is experiencing a tension between opening up the economy and continuing restrictions to flatten the curve
  - Shelter-in-place directives, affecting about 90% of US residents, have been the subject of protests
- New York has extended its stay-at-home order until at least May 15 and is showing signs of flattening the curve
- Unemployment has skyrocketed, with roughly 22 million new filings in the past four weeks, approximately the same net number of jobs that were created in the decade since the previous recession
- The approximately $350 billion Paycheck Protection Program has run out of funding
- An additional $500 billion package is in the works for small business lending and to fund hospitals and testing
- China ended the lockdown of Wuhan that lasted more than ten weeks
- Uncertainty continues around COVID-19 testing ability and efficacy
- The S&P 500 increased about 11%, from roughly 2,530 (April 5) to approximately 2,800 (April 19)

Given the rapid pace of change, we plan to conduct a COVID-19 Investor Pulse Check on a biweekly basis to share the voice of the investor with business leaders at this critical time

Sources: Johns Hopkins University Center for Systems Science and Engineering; *New York Times*.

This third Pulse Check highlights that investors' perspectives are more bearish on the economy and conservative on the actions that companies should take

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April 5 vs. April 19

Compared with Pulse Check #2, Pulse Check #3 highlights that investors are:

1

Increasingly **negative on the economy** in 2020 and the stock market in 2021

2

Unchanged on their stock market expectations for the next three years through 2023

3

Even more **focused on a company's liquidity,** resilience, and ability to survive

4

Strongly **encouraging healthy companies to invest** in their businesses, rather than manage for short-term EPS[1]

Source: BCG's COVID-19 Investor Pulse Check, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: EPS = earnings per share.
[1]Financially healthy companies were defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.

US investors' perspectives

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April 19

Overview of US investors' current perspectives on the US economy and stock market

Duration of COVID-19 impact

End of Q4 2020

Investors expect the severe economic impact of the crisis to extend one quarter longer than they did in Pulse Check #2

AND

Only 24% expect the S&P 500 to have returned to earnings growth by the end of Q4 2020

Shape of economic recovery

Only 9%

Investors that **anticipate a rapid V-shaped recovery** to the precrisis economic level and growth rate

Fiscal stimulus

$1 trillion–$2 trillion

Investors' expectation, on average, for the amount of *additional* fiscal stimulus that is needed to support the economy through the crisis

Bear vs. bull

57% | 27%

Investors that are **bearish** or **neutral**, respectively, for the remainder of 2020

44% | 67%

Investors that are **bullish** for **2021** and **2022**, respectively

65% | 54%

Investors that are **more bearish** on the **economy** and **the stock market**, respectively, vs. one month ago

Expected low point for the stock market ↓

S&P 500 at **2,393**

Investors' expected low, on average, which is expected to be reached by the end of June (Q2) 2020

Expected stock market level in three years ↑

S&P 500 at 3,411

Investors' expected S&P 500 level, on average, which is expected to be reached in April 2023; that translates into an expected average annual TSR of 9%

Source: BCG's COVID-19 Investor Pulse Check, April 19, 2020; n = 150.
Note: TSR = total shareholder return.

Investor Pulse Check #3 summary: survive and then thrive

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April 19

Investors want financially healthy companies to focus on survival and liquidity[1]

- **77%** Investors that are intensely **focused on preserving liquidity**
- **73%** Investors that want companies to quickly access **all available sources of debt financing** to strengthen cash position
- **61%** Investors that don't think it's important for companies to aggressively repurchase shares (up from 56%)
- **65%** Investors that don't think it's important for companies to maintain the dividend per share (up from 57%)
- **56%** Investors that want companies to raise capital by **issuing equity, if necessary** (up from 48%)
- **64%** Investors that want companies to **take proactive steps against activism risk**

Investors want financially healthy companies to invest for the future and create long-term advantage[1]

- **92%** Investors that want companies to **prioritize building key business capabilities,** even if it means delivering below consensus
- **67%** Investors that want companies to invest in the business, **even if it means lower margin levels**
- **78%** Investors that want companies to **revise guidance in Q2, even though 44% of investors will not hold management teams** to the updated guidance or consensus EPS
- **65%** Investors that want companies to **actively pursue acquisitions** at today's valuations to strengthen the business

Source: BCG's COVID-19 Investor Pulse Check, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: EPS = earnings per share.
[1]Financially healthy companies were defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.

Comparison of BCG's COVID-19 Investor Pulse Checks (1/2)

BCG

March 22 vs. April 5 vs. April 19

Investors' perspectives on the US economy and stock market due to COVID-19

What are your expectations for…	March 22: #1	April 5: #2	April 19: #3	Difference (April 5 vs. April 19)
Duration of COVID-19's impact on US economy	Through Q3 2020	Through Q3 2020	Through Q4 2020	One quarter later
Timing for S&P 500 to return to earnings growth	End of 1H 2021	End of 1H 2021	Early Q2 2021	None
Likely shape of US economy's recovery:				
▪ V shape	13%	12%	9%	–3 p.p.
▪ U shape	39%	46%	37%	–9 p.p.
▪ L shape	25%	20%	21%	+1 p.p.
▪ W shape	21%	21%	27%	+6 p.p.
Additional fiscal stimulus that's needed	Not asked	Not asked	$1 trillion–$2 trillion	NA
Bear vs. bull:				
▪ For CY 2020	14% bullish	12% bullish	16% bullish	+4 p.p
▪ For CY 2021	55% bullish	53% bullish	44% bullish	–9 p.p.
▪ For CY 2022	63% bullish	64% bullish	67% bullish	+3 p.p.
▪ For next three years	65% bullish	68% bullish	69% bullish	+1 p.p.
More bullish vs. last month: economy	Not asked	Not asked	34% agree	NA
More bullish vs. last month: stock market	Not asked	Not asked	45% agree	NA
S&P 500 low-point expectation: level	S&P at 2,062	S&P at 2,158	S&P at 2,393	+11%
S&P 500 low-point expectation: timing	End of May 2020	End of June (Q2) 2020	End of June (Q2) 2020	None
Three-year S&P level expectations[1]	3,075 (11% TSR)	3,165 (10% TSR)	3,411 (9% TSR)	+8% in S&P level

Unchanged

Somewhat changed: More bearish, More bullish

Significantly changed: More bearish, More bullish

Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: This slide spotlights key differences between pulse checks. For more depth on the individual points, please see the detailed slides that follow. Color coding is based on the consideration of absolute and percentage change. 1H = first half; p.p. = percentage point; CY = calendar year; NA = not applicable.
[1]At the time of each survey, the S&P 500 level was as follows: March 22 = ~2,400; April 5 = ~2,530; April 19 = ~2,800.

Comparison of BCG's COVID-19 Investor Pulse Checks (2/2)

BCG

March 22 vs. April 5 vs. April 19

Implications for corporate executives of financially healthy companies[1]

It is important for companies to...[1]	March 22: #1	April 5: #2	April 19: #3	Difference (April 5 vs. April 19)
Provide or revise guidance	79% agree	77% agree	78% agree	+1 p.p.
Deliver EPS that at least meets revised guidance or consensus	56% agree	64% agree	56% agree	–8 p.p.
Prioritize building key business capabilities	89% agree	91% agree	92% agree	+1 p.p.
Continue to fully pursue their ESG agenda and priorities	Not asked	56% agree	46% agree	–10 p.p.
Prioritize maintaining their margin levels	Not asked	41% agree	33% agree	–8 p.p.
Intensely focus on preserving liquidity	73% agree	79% agree	77% agree	–2 p.p.
Quickly access all available sources of debt financing	Not asked	71% agree	73% agree	+2 p.p.
Consider significant equity issuance a reasonable move	Not asked	48% agree	56% agree	+8 p.p.
Aggressively repurchase shares	39% agree	44% agree	38% agree	–6 p.p.
Maintain dividend per share	41% agree	43% agree	35% agree	–8 p.p.
Actively pursue acquisitions	58% agree	64% agree	65% agree	+1 p.p.
Expect an increase in activist activity and take proactive steps to mitigate risk	59% agree	66% agree	64% agree	–2 p.p.

Unchanged

Somewhat changed: More defensive, More offensive

Significantly changed: More defensive, More offensive

Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: This slide spotlights key differences between pulse checks. For more depth on the individual points, please see the detailed slides that follow. Color coding is based on the consideration of absolute and percentage change. EPS = earnings per share; p.p. = percentage point; ESG = environmental, social, and governance.
[1]Financially healthy companies were defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.

Detailed survey analysis

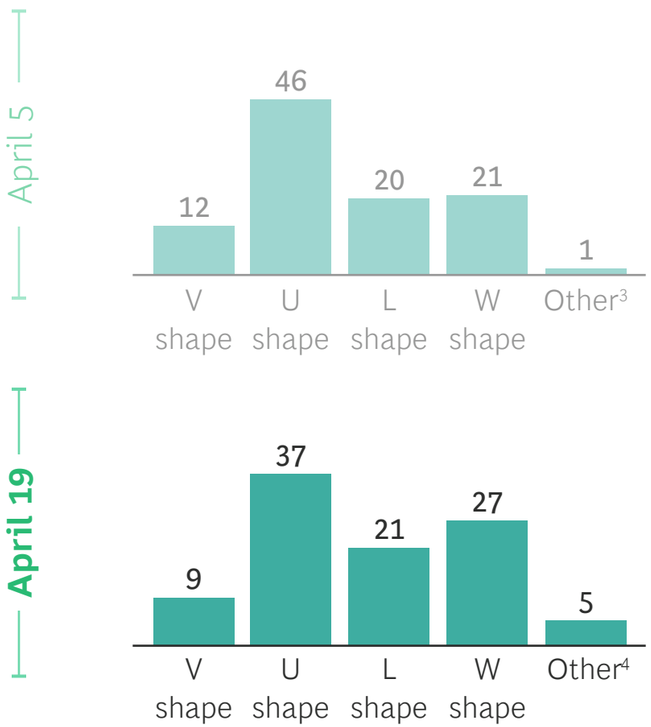
Only 9% of investors expect a V-shaped recovery—most expect U or W

Most investors expect COVID-19 to severely impact the US economy through Q4; many expect a return to S&P 500 earnings growth in 1H 2021

April 5 vs. April 19

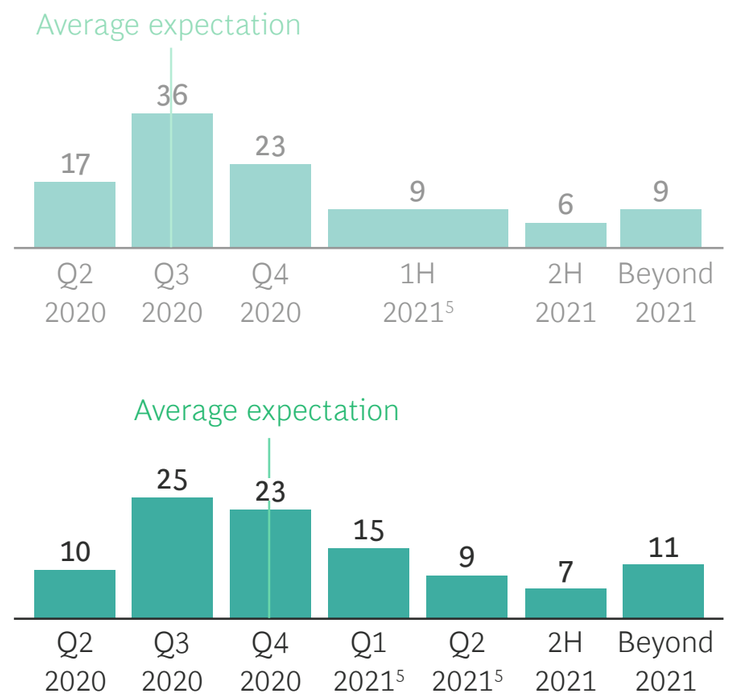
Likely shape of the US economy's recovery[1]

Respondents (%)



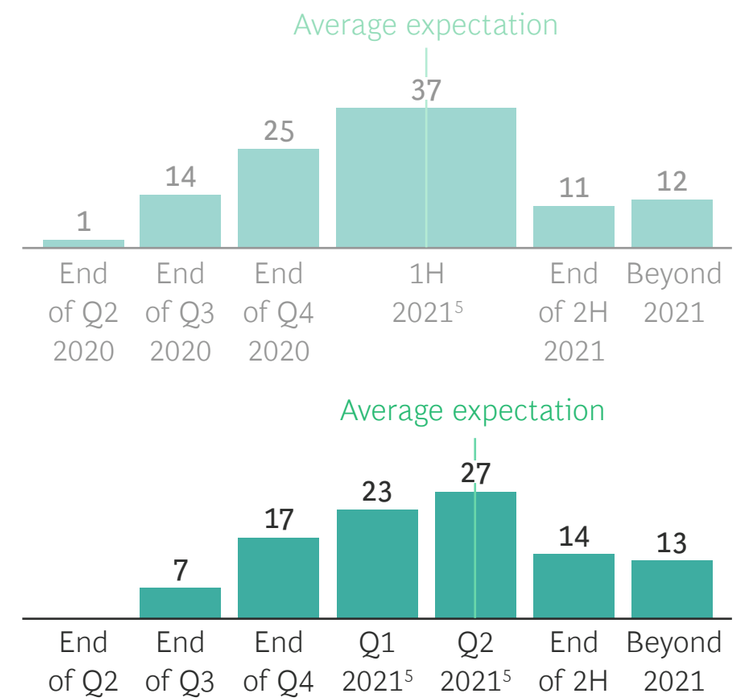
Duration of COVID-19's severe impact on the US economy[2]

Respondents (%)



Expected timing for the S&P 500 to return to earnings growth

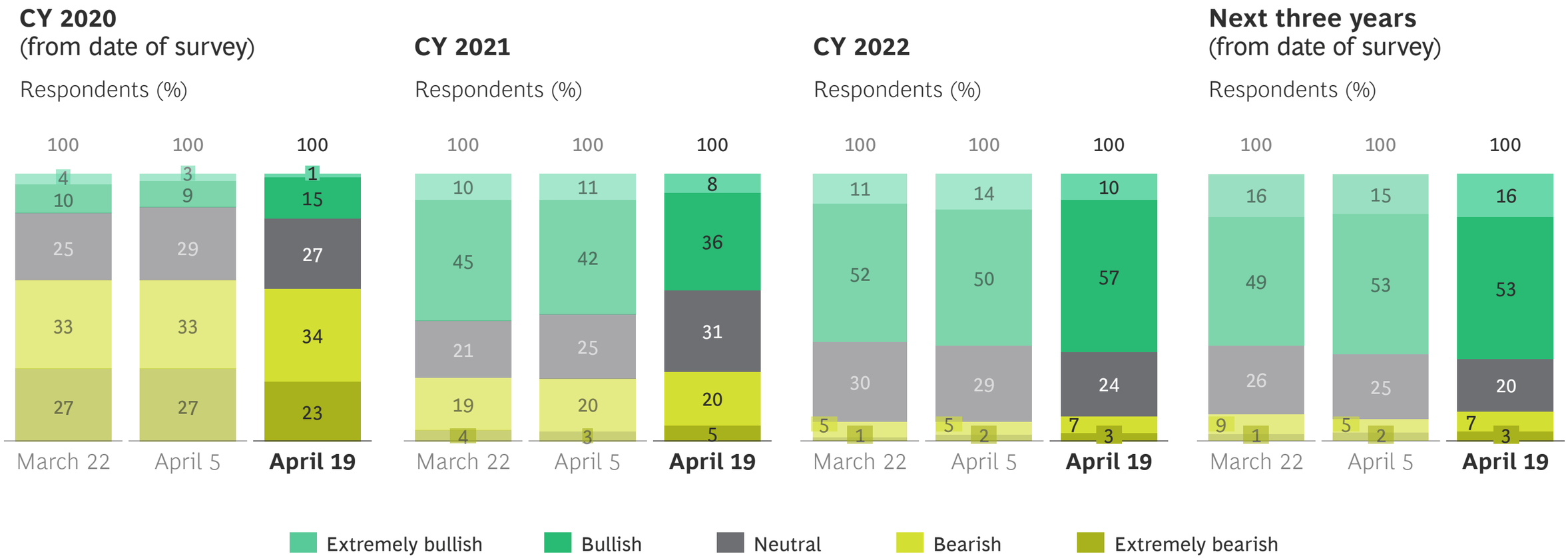
Respondents (%)



Source: BCG's COVID-19 Investor Pulse Check, April 5, 2020, and April 19, 2020; n = 150 for each survey. Note: 1H = first half; 2H = second half.
[1]V shape = return to the preshock economic level and growth rate; U shape = settle at a lower economic level, but return to the preshock growth rate; L shape = settle at a lower economic level and lower growth rate; W shape = double dip, where the economy settles at a lower economic level but returns to the preshock growth rate for a short period of time (a partial recovery), but then declines again before returning to the preshock economic level and growth rate. [2]Question was phrased: "Through what time period…." [3]Other = decline, flat, and slow rise; and long and gradual return. [4]Other = flatline; swoosh; fast recovery in new industries, old industries die; check mark partial V and then a slower slope after; low and slow; and others. [5]The April 5, 2020, survey gave investors a single response option of 1H 2021, while the April 19, 2020, edition replaced that with two response options: Q1 2021 and Q2 2021.

Most investors—57%—are bearish for the remainder of 2020, but they are increasingly bullish for 2021 and 2022

March 22 vs. April 5 vs. April 19



Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: CY = calendar year. Because of rounding, not all percentages add up to the totals shown.
Question: Where would you place yourself on the bear-bull spectrum over the four time periods highlighted below?

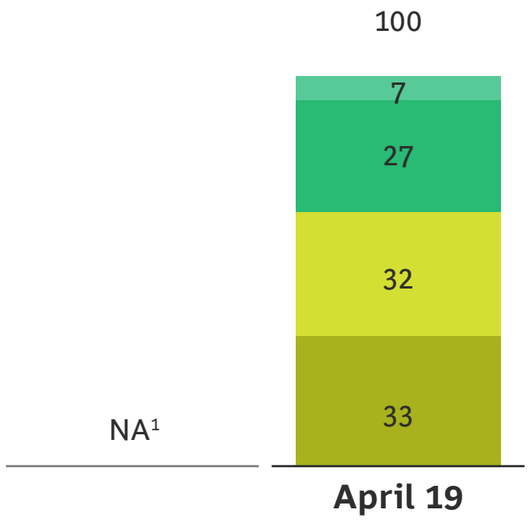
Many investors—65% and 54%—are more bearish on the economy and the stock market, respectively, than they were a month ago

On average, investors expect that an additional $1 trillion to $2 trillion of fiscal stimulus will be needed to support the economy through the crisis

April 5 vs. April 19

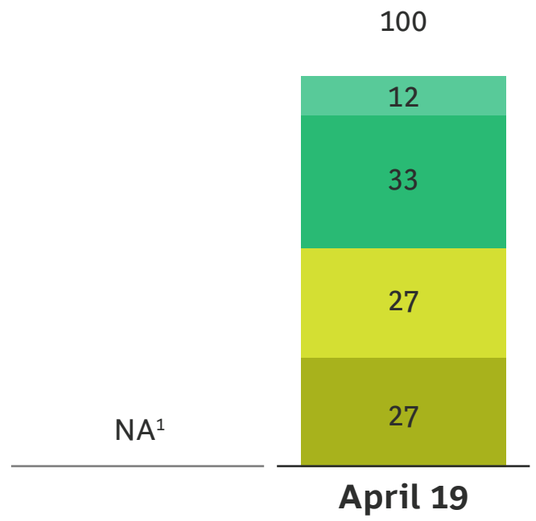
I am more bullish today on the economy than I was a month ago

Respondents (%)



I am more bullish today on the stock market than I was a month ago

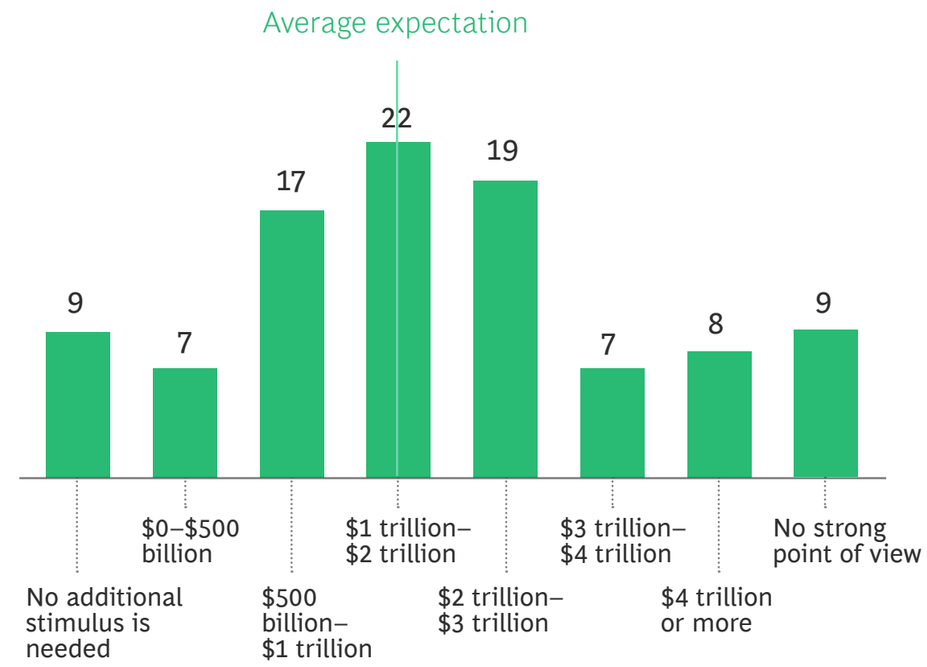
Respondents (%)



Strongly agree | Somewhat agree | Somewhat disagree | Strongly disagree

Additional fiscal stimulus (above and beyond the $2 trillion in the CARES Act) is necessary to support the economy through the COVID-19 crisis[1, 2]

Respondents (%)



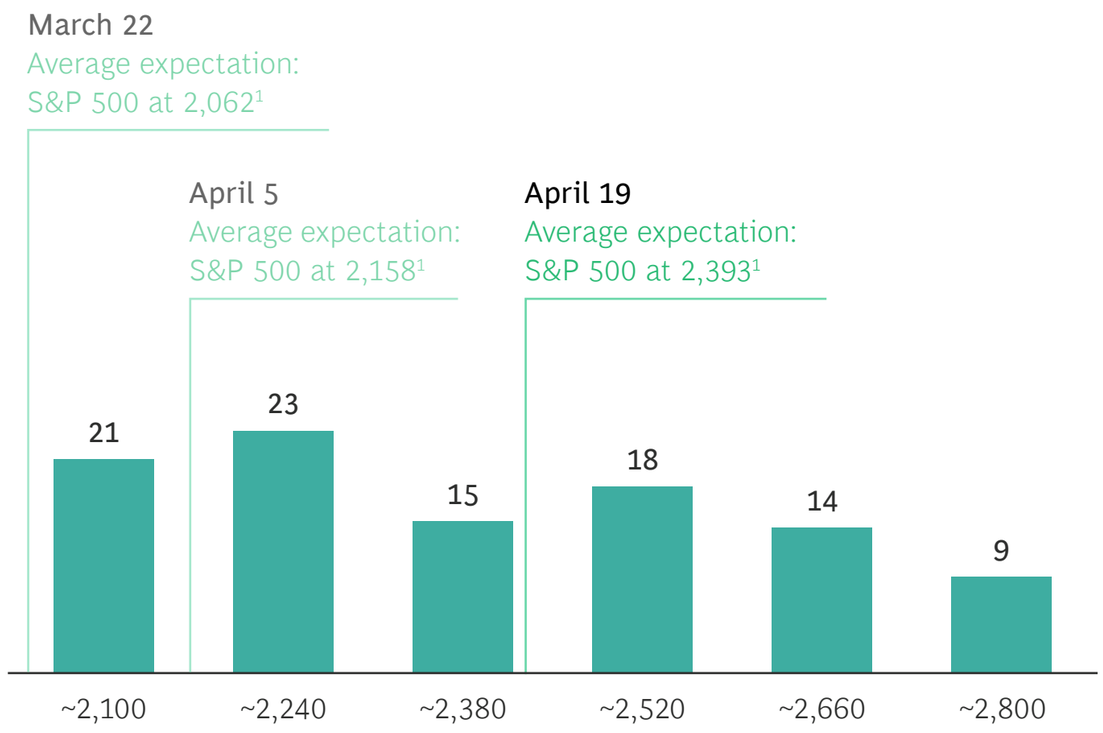
Source: BCG's COVID-19 Investor Pulse Check, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: Because of rounding, not all percentages add up to the totals shown.
[1]Question was not asked in the April 5, 2020, survey.
[2]CARES = coronavirus aid, relief, and economic security.

Investors expect more downward pressure on markets—though less than before—with an average S&P 500 level of 2,393 by the end of Q2 2020

March 22 vs. April 5 vs. April 19

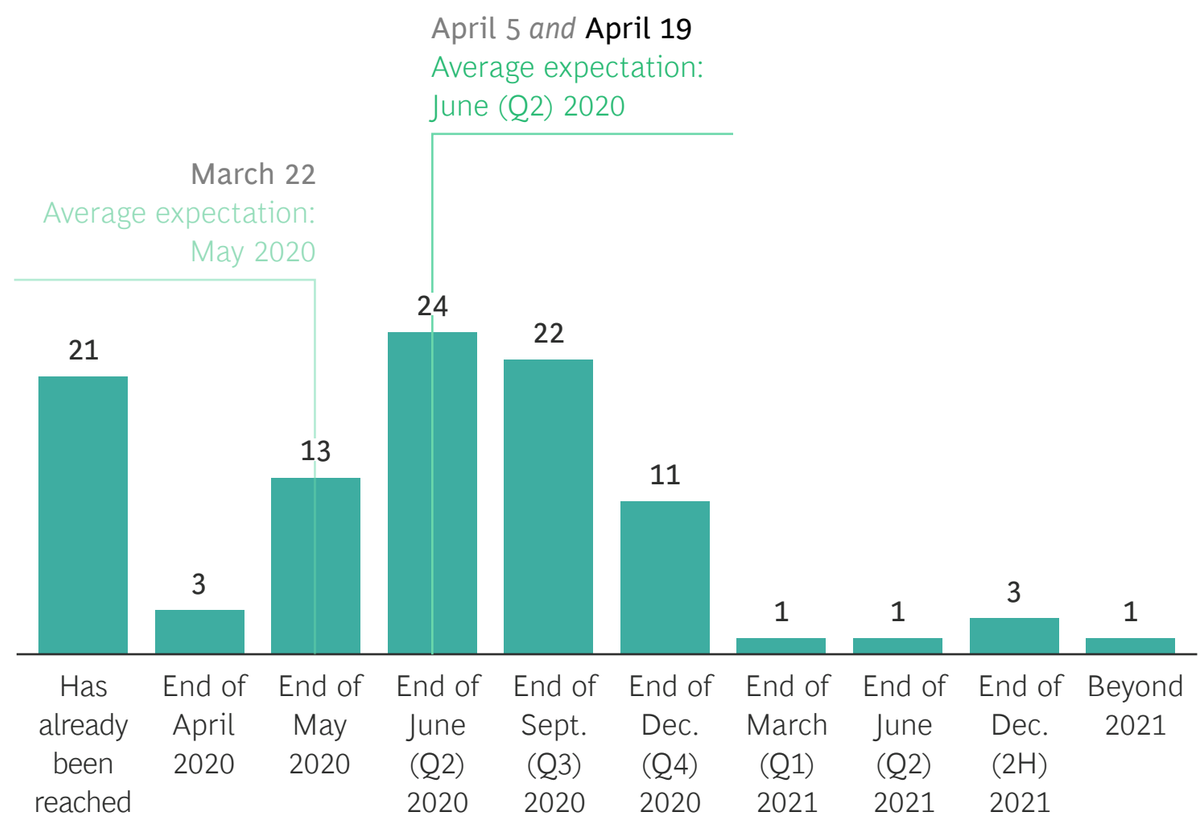
S&P low-point expectation: level

Respondents (%)



S&P low-point expectation: timing

Respondents (%)

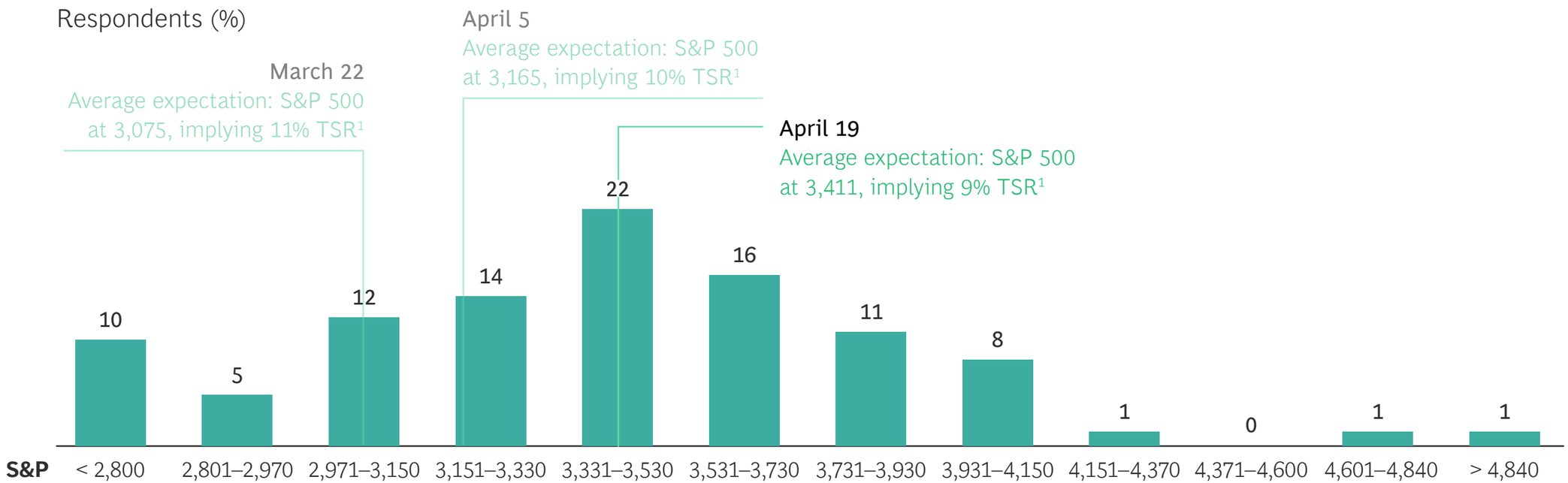


Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: Displayed data is from the Investor Pulse Check, April 19, 2020.
[1]Weighted average is based on all responses.

Investors' three-year average annual TSR expectation of 9% is similar to prior expectations and moderate, compared with 9% TSR over the past 15 years

March 22 vs. April 5 vs. April 19

Average annual TSR expectation for the S&P 500 over the next three years, April 19, 2020–April 18, 2023



An S&P 500 level that is slightly over 3,400 points in three years implies a TSR of about 9% and reaching the historical high that occurred in February 2020, before the onset of the crisis (the S&P 500 was 3,386 on February 19, 2020)

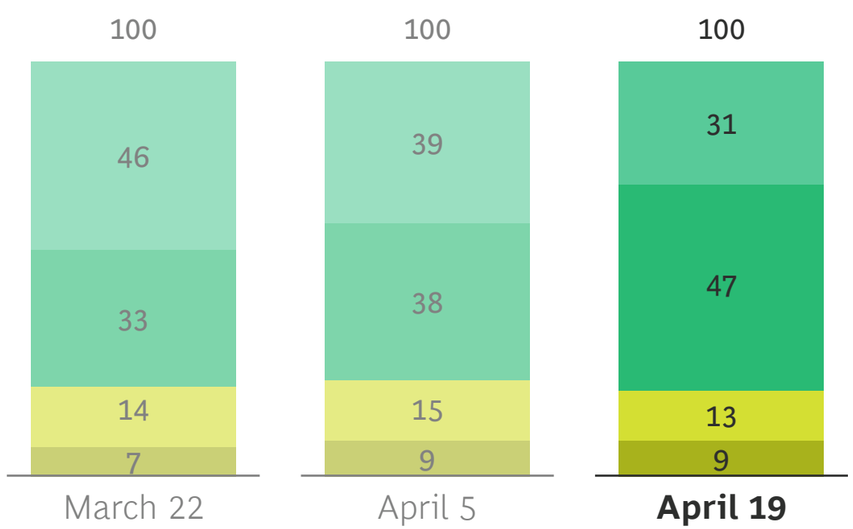
Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: TSR = total shareholder return. Displayed data is from the Investor Pulse Check, April 19, 2020.
[1]Weighted average is based on all responses. At the time of each survey, the S&P 500 level was as follows: March 22 = ~2,400; April 5 = ~2,530; April 19 = ~2,800.

Nearly 80% of investors want companies to provide or revise guidance within 90 days, and 56% expect them to meet the revised near-term EPS guidance

March 22 vs. April 5 vs. April 19

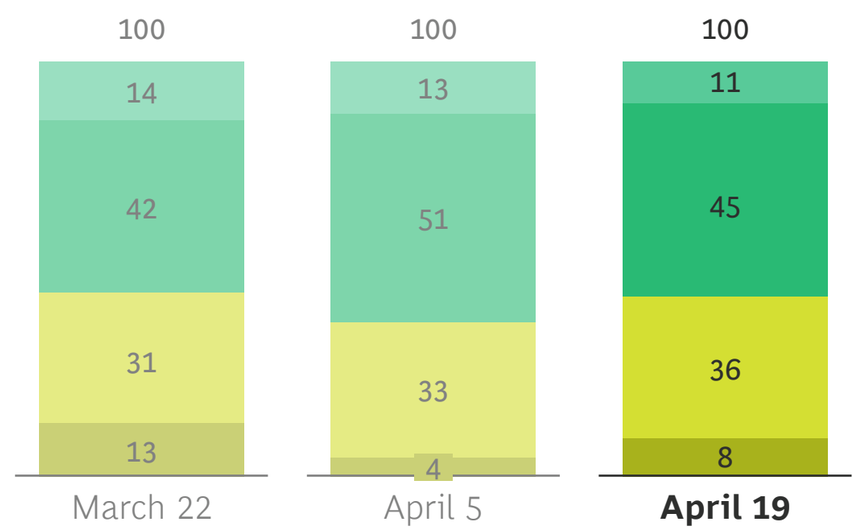
It is important for healthy companies to provide or revise guidance for the current fiscal year within the next three months[1]

Respondents (%)



It is important for healthy companies to deliver EPS for the current fiscal year that at least meets revised guidance or consensus[1]

Respondents (%)



Strongly agree | Somewhat agree | Somewhat disagree | Strongly disagree

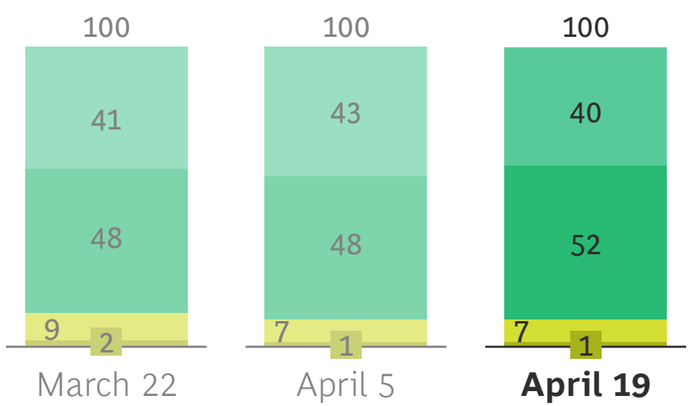
Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: EPS = earnings per share.
[1]Questions were posed with respect to financially healthy companies, which were defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.

Most investors—92%—want management to build advantaged business capabilities; fewer prioritize maintaining an ESG agenda and margins

March 22 vs. April 5 vs. April 19

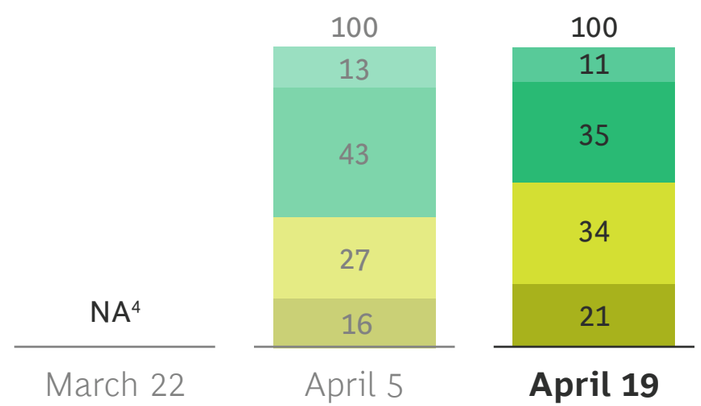
It is important for healthy companies to prioritize building key business capabilities to create advantage, drive future growth, and be better positioned to bounce back, even if it means lowering EPS guidance or delivering below consensus estimates[1, 2]

Respondents (%)



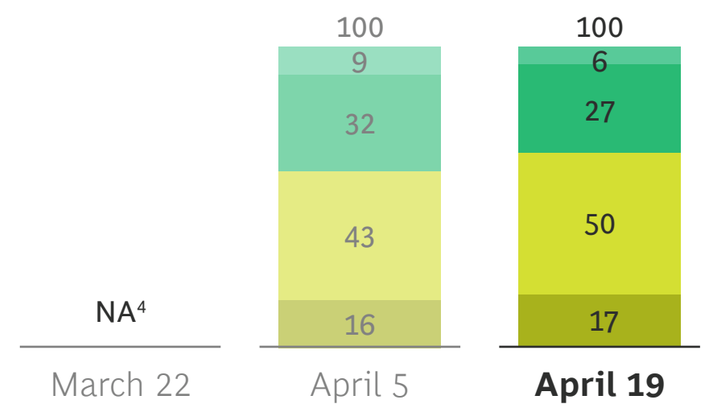
It is important for healthy companies to continue to fully pursue their ESG agenda and priorities as they navigate the crisis, even if it means guiding to lower EPS or delivering below consensus[1]

Respondents (%)



It is important for healthy companies to prioritize maintaining their margin levels (for example, gross margin and operating margin percentages), even if it is at the expense of investing to achieve advantage in the business[1, 3]

Respondents (%)



Strongly agree | Somewhat agree | Somewhat disagree | Strongly disagree

Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: EPS = earnings per share; ESG = environmental, social, and governance; NA = not applicable. Because of rounding, not all percentages add up to the totals shown.
[1]Questions were posed with respect to financially healthy companies, which were defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.
[2]Business capabilities include digital and technology infrastructure, for example.
[3]Investing to achieve advantage in the business may include digital and acquisitions, for example.
[4]Question was not asked in the March 22, 2020, survey.

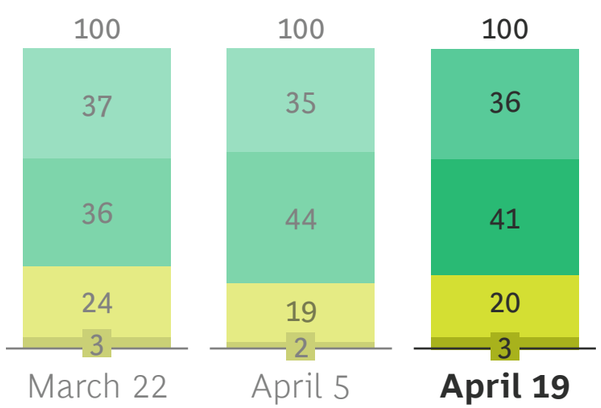
Many investors—77%—want companies to be intensely focused on liquidity

If needed, investors prefer accessing all available sources of debt financing (73%) to issuing equity (56%)

March 22 vs. April 5 vs. April 19

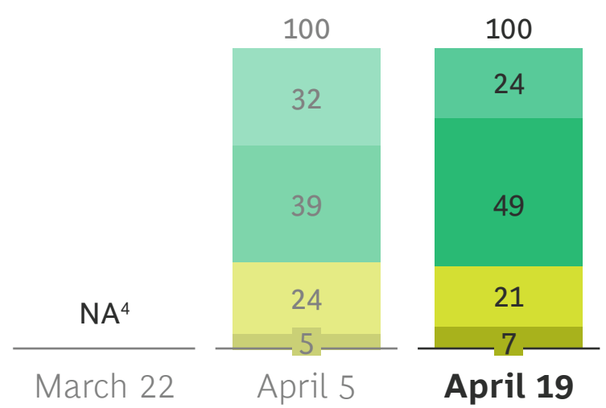
Over the next 12 months, it is important for healthy companies to intensely focus on preserving liquidity, even if it is at the expense of investing to achieve advantage in their businesses[1, 2]

Respondents (%)



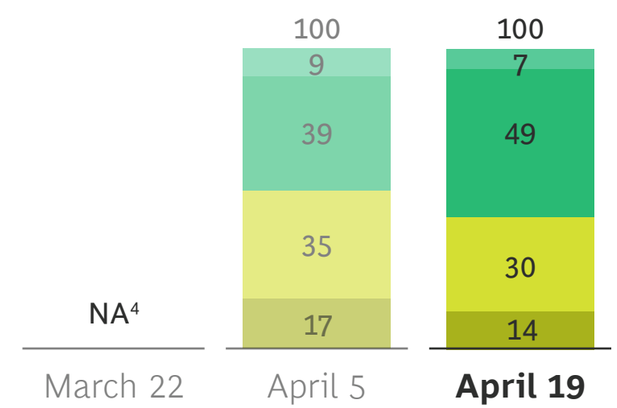
Healthy companies should quickly access all available sources of debt financing to strengthen their cash position and financial resilience in order to fund near-term and medium-term business expenses or investments, even if it stretches the balance sheet and increases credit risk[1, 3]

Respondents (%)



For healthy companies with share prices that have declined in line with the market, significant equity issuance is a reasonable move to strengthen their cash position and financial resilience in order to fund near-term and medium-term business expenses or investments[1]

Respondents (%)



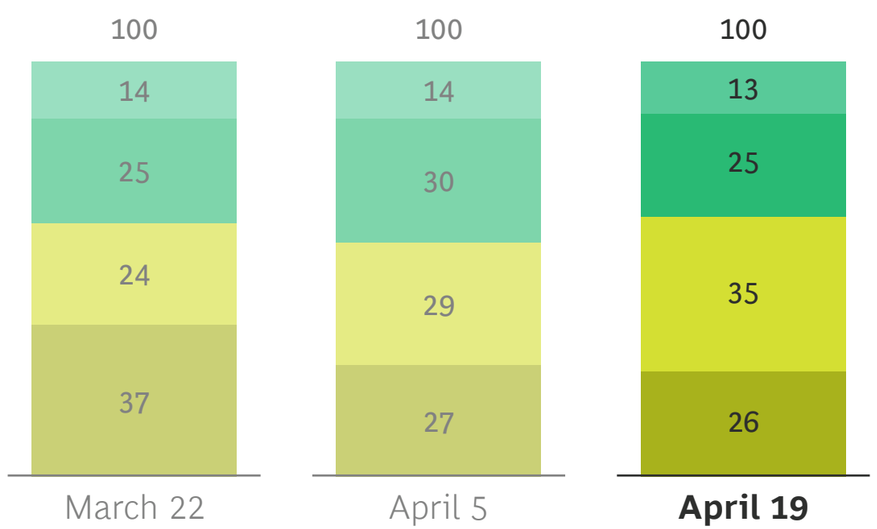
Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: Because of rounding, not all percentages add up to the totals shown.
[1]Questions were posed with respect to financially healthy companies, which were defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.
[2]Investing to achieve advantage in the business may include digital and acquisitions, for example.
[3]Debt financing includes revolvers, bank term loans, asset-backed loans, and private placements, for example.
[4]Question was not asked in the March 22, 2020, survey.

Investors appear to give management teams flexibility to make unconventional share repurchase and dividend moves

March 22 vs. April 5 vs. April 19

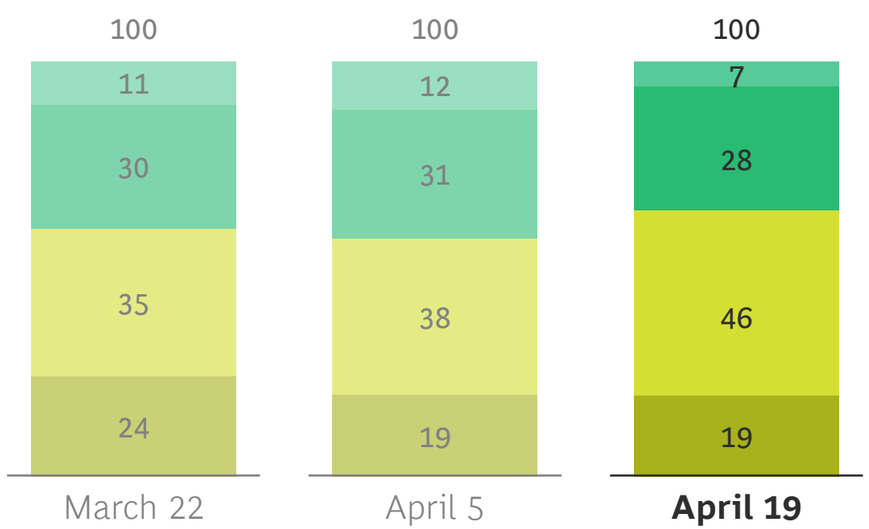
It is important for healthy companies to take advantage of today's low valuations and aggressively repurchase shares[1]

Respondents (%)



It is important for healthy companies to maintain their dividend per share even if it is at the expense of other uses of cash (such as buybacks and capex spending)[1, 2]

Respondents (%)



Strongly agree | Somewhat agree | Somewhat disagree | Strongly disagree

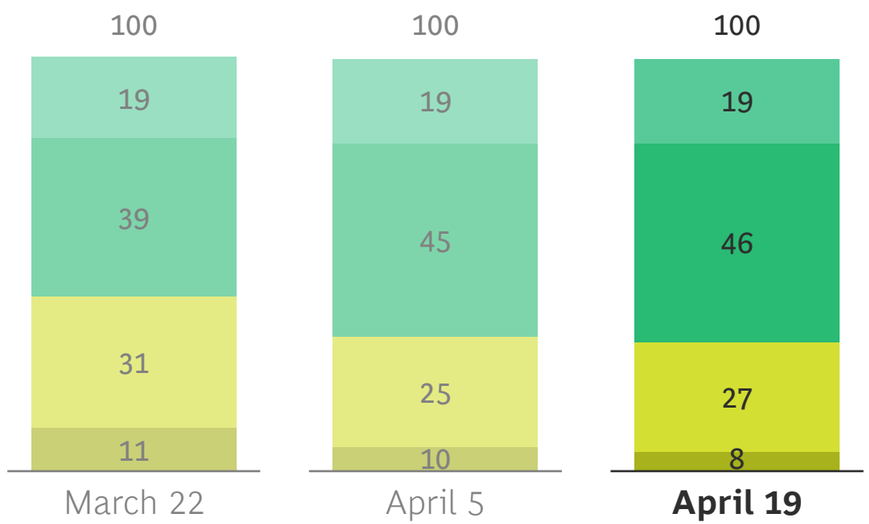
Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: Because of rounding, not all percentages add up to the totals shown.
[1]Questions were posed with respect to financially healthy companies, which were defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.
[2]Investor responses are general. Every company has a unique starting point and set of circumstances. Before any change to the dividend policy is made, rigorous analysis and thorough consideration are necessary.

Given today's low valuations, investors expect management to pursue potential acquisitions (65%) and take proactive steps to mitigate activism risk (64%)

March 22 vs. April 5 vs. April 19

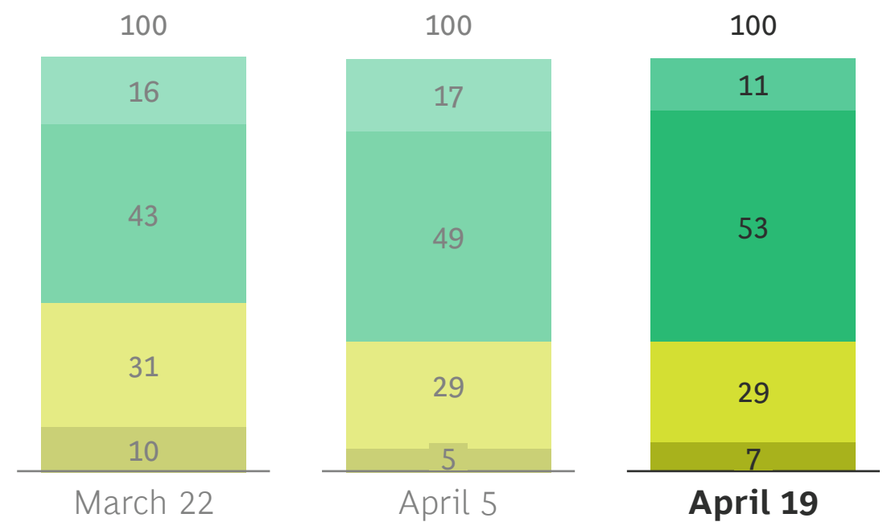
At current valuations, healthy companies should actively pursue acquisitions to strengthen their businesses[1]

Respondents (%)



Given today's low valuations, healthy companies should expect an increase in activist activity and, therefore, take proactive steps to mitigate activism risk by strengthening their businesses' near-term and medium-term fundamentals[1]

Respondents (%)



Strongly agree · Somewhat agree · Somewhat disagree · Strongly disagree

Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, April 5, 2020, and April 19, 2020; n = 150 for each survey.
Note: Because of rounding, not all percentages add up to the totals shown.
[1]Questions were posed with respect to financially healthy companies, which were defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.

Overview of the “single most important trend or development” that investors are watching to signal how deep and long the downturn will be

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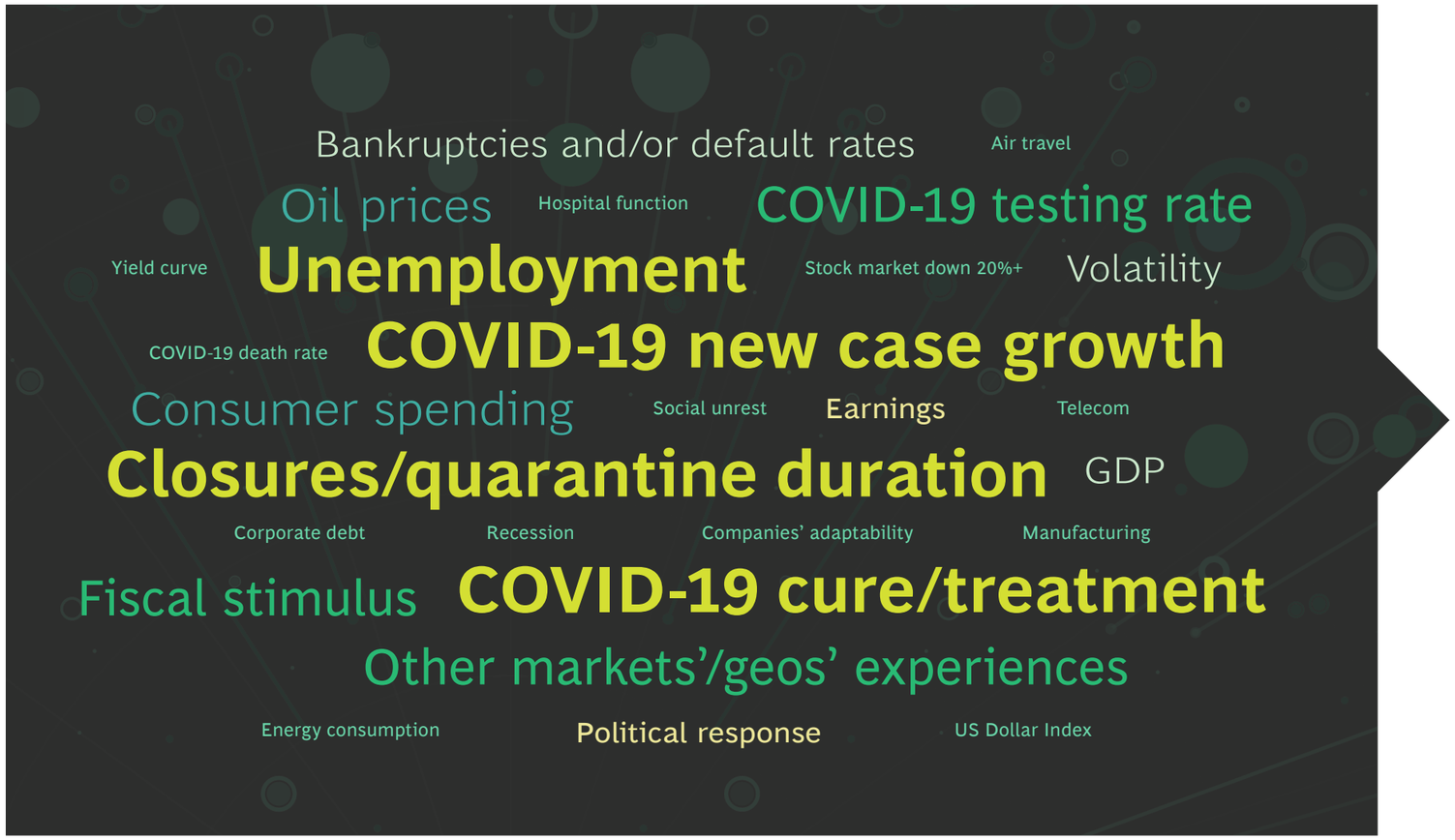
April 19



Investors are highly focused on:

- Unemployment (n = 30)
- Closures and quarantine duration (n = 20)
- COVID-19 cure and treatment (n = 20)
- COVID-19 new-case growth (n = 19)
- Fiscal stimulus (n = 10)

Source: BCG's COVID-19 Investor Pulse Check, April 19, 2020; n = 150 overall, n = 141 for this question.
Note: Raw responses to the survey were classified into categories, which are displayed here. To understand the scaling, here are some additional examples of the categories and the number of responses: consumer spending = 4; GDP = 3; earnings = 2; US Dollar Index = 1. Question: What is the single most important trend or development you are watching to signal how deep and long the downturn will be?

COVID-19 Disclaimer

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The situation surrounding COVID-19 is dynamic and rapidly evolving, on a daily basis. Although we have taken great care prior to producing this presentation, it represents BCG's view at a particular point in time. This presentation is not intended to: (i) constitute medical or safety advice, nor be a substitute for the same; nor (ii) be seen as a formal endorsement or recommendation of a particular response. As such you are advised to make your own assessment as to the appropriate course of action to take, using this presentation as guidance. Please carefully consider local laws and guidance in your area, particularly the most recent advice issued by your local (and national) health authorities, before making any decision.