TAKE 5 VIEWS

Quick Take

EQUITABLE

April 20, 2020

Winners and Losers

While managers continue to watch for signs the pandemic will begin easing, they are also keeping an eye on 2021, when earnings are likely to improve. Will today's big market losers be tomorrow's winners? Three investment teams we collaborate with are watching fiscal policies, valuation and future earnings power for clues.

Focus on fiscal moves

AXA Investment Managers
High Yield

The actual impact on U.S. GDP from the COVID-19 pandemic will be broad, as the economic sectors most impacted by the stay-at-home directives approximate as much as 30 percent of GDP. The CARES Act (economic relief bill), though massive in scope, will take time to move through the effected sectors. Monetary policy is already showing some efficacy in the nation's credit markets but has done little to convince equity investors that some degree of normalcy lays ahead. As such the near-term focus will continue to be on the mitigation of the COVID-19 pandemic in the population rather than on the economy in general. That said, the two are not inseparable. Thus, economic debate, centering on the magnitude of the decline in activity, should slowly pivot toward whether fiscal and monetary policies can and will return the economy to some level of normalcy in 2020.

Viewed through a valuation lens

GAMCO Asset Management
Small-Cap Value Sector

The stock market always discounts valuations very quickly. During the month of March, the market had no buffers—the result of quantitative investors, algorithmic trading and momentum investors all trading together. We believe that funds will flow into equities as the dust settles. We are considering when the market will discount 2021 earnings per share versus 2020, which will be a strong positive comparison. Like the virus, volatility is likely to remain with us. Volatility can lead to opportunity in areas where we can utilize our accumulated compounded knowledge of industries to buy/harvest companies where the markets have become too pessimistic or optimistic relative to long-term fundamentals. Some companies will be disproportionately hurt by recent developments, including the so-called BOTL companies—banks, oil (due to the recent price war) and travel and leisure—which have been completely shut down in the near term. Others will be helped (selected consumer staples and healthcare companies). Both need to be viewed through the lens of valuation.

It is too early to tell whether current events lead to a shift in market leadership from growth/momentum to value. We began to see a deterioration in venture funding in late 2019, but that has been belied by the continued strong performance of certain technology darlings. While we can't say exactly how this crisis will work out, as each one is slightly different, our approach has always been to own companies that have defensible balance sheets and franchising power to weather the storm. We believe this consistent and repeatable approach will serve us well through this crisis. Ultimately we think a retrenchment of the markets will chasten some momentum for investors while an economic downturn will underscore the importance of investing in companies with sustainable cash generation and adaptable managements.

Watching earnings potential

BlackRock
U.S. Large-Cap Value Sector

Our 2020 base case was for slow but positive U.S. economic growth. Upbeat fourth-quarter earnings, improving business sentiment and a Phase 1 U.S. China trade deal compelled U.S. stocks higher to begin the year—until the global spread of coronavirus brought a swift and sudden reversal. Concern over the human and economic toll has prompted emergency measures from governments and central bankers. Stock volatility is likely to persist as investors weigh the impact on corporate earnings and global supply chains. We expect earnings will be hit hard in 2020 but see coronavirus as a transitory event (perhaps three to six months) that does not permanently impair the world economy and company earnings power. This fall in U.S. stocks has been particularly pronounced, but history suggests investor patience has been rewarded as markets regain stability.

IMPORTANT INFORMATION

Information provided in this newsletter is general in nature, is provided for informational purposes only, and should not be construed as investment advice. The views and opinions expressed are those of the authors as of the date of their contribution and do not necessarily represent the views of their affiliated investment advisors, AXA Equitable Funds Management Group, LLC or its affiliates. Any such views and opinions are subject to change at any time based on market or other conditions and are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Securities and sectors referenced should not be construed as a solicitation or recommendation or be used as the sole basis for any investment decision.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. All commentary as of 3/31/2020.

Equitable is the brand name of Equitable Holdings, Inc. and its family of companies, including AXA Equitable Life Insurance Company (AXA Equitable) (NY, NY); AXA Advisors, LLC (member FINRA, SIPC); and AXA Distributors, LLC. The obligations of AXA Equitable are backed solely by its claimspaying ability. "Equitable Investment Management" is the brand name for AXA Equitable Funds Management Group, LLC, a registered investment adviser. On or about June 15, 2020, the firm will be rebranded Equitable Investment Management Group, LLC. Equitable Investment Management is a wholly owned subsidiary of AXA Equitable Life Insurance Company ("AXA Equitable") and an affiliate of AXA Advisors LLC, a registered broker/dealer.

Past performance is not a guarantee of future results.

There are specific risks associated with these investment options: Equity risk is generally greater for the common stocks of small- and mid-capitalization companies; foreign securities may fall due to adverse political, social and economic developments abroad. Bond investments are subject to interest-rate risk so that when interest rates rise, the prices of bonds may fall and the investor may lose principal value. In asset allocation portfolios, you will incur higher costs than if you were to invest directly in the underlying portfolios. Diversification does not guarantee a profit or protect against loss in a declining market.

The information has been established on the basis of data, projections, forecasts, anticipations and hypotheses, which are subjective. These analyses and conclusions are the expression of an opinion, based on available data at a specific date. Due to the subjective aspect of these analyses, the effective evolution of the economic variables and values of the financial markets could be significantly different for the projections, forecast, anticipations and hypotheses, which are communicated in this material.

Take Five Views and the Quick Take feature commentary from individuals who are affiliated with investment portfolios that are available through AXA Equitable variable life insurance, variable annuity and 1290 Mutual Fund products. AXA Invesment Manager, GAMCO Asset Management, and Blackrock are not affiliated investment companies with AXA Equitable and AXA Distributors.

Variable life insurance and variable annuities are issued by AXA Equitable Life Insurance Company (NY, NY). Co-distributed by AXA Advisors, LLC (member FINRA, SIPC) and AXA Distributors, LLC. AXA Equitable Funds Management Group, LLC is a wholly owned subsidiary of AXA Equitable. All companies are affiliated and are located at 1290 Avenue of the Americas, NY, NY 10104, (212) 554-1234.

Please consider the charges, risks, expenses, and investment objectives carefully before purchasing a variable life insurance policy or variable annuity. For a prospectus containing this and other information, please contact a financial professional or visit www.equitable.com. Please read the prospectus carefully before you invest or send money.

Variable Life Insurance, Variable Annuities and Mutual Funds: • Are Not Deposits of Any Bank • Are Not FDIC Insured
• Are Not Insured by Any Federal Government Agency • Are Not Bank Guaranteed • May Go Down in Value

GE-3049389 (4/20) (Exp. 7/20)

EQUITABLE