



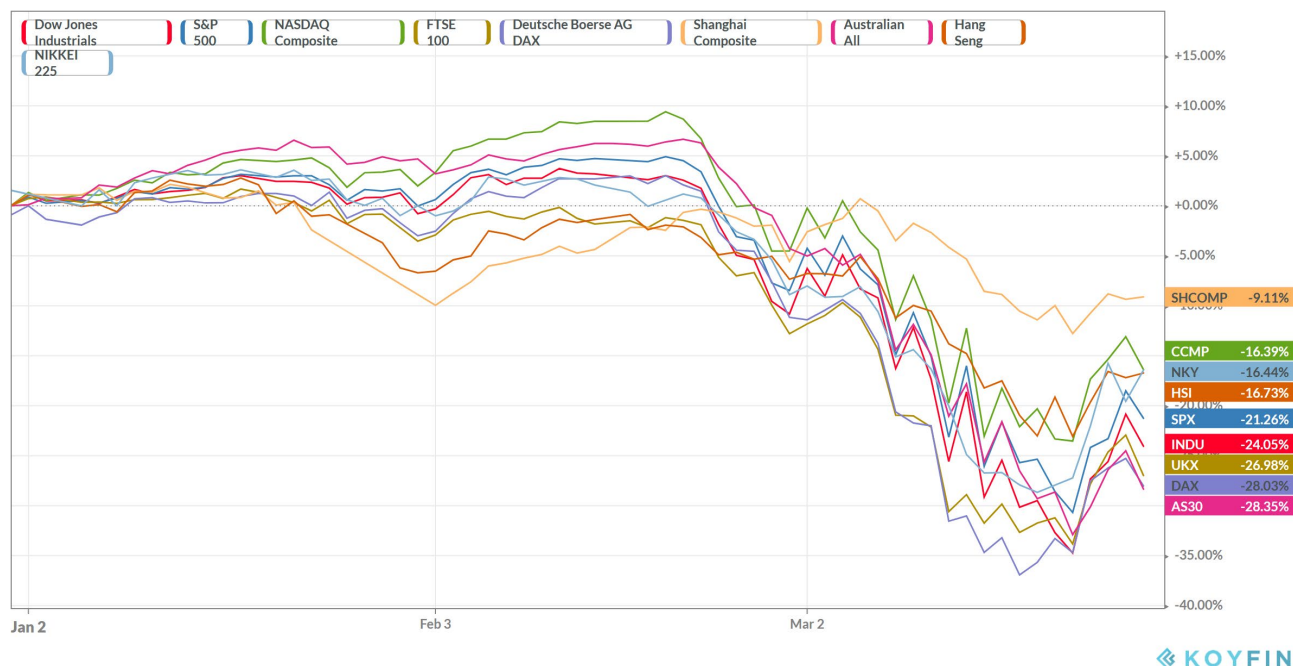
MARKET OUTLOOK 2020

"This too shall pass"

Prepared By Listing Partners Group

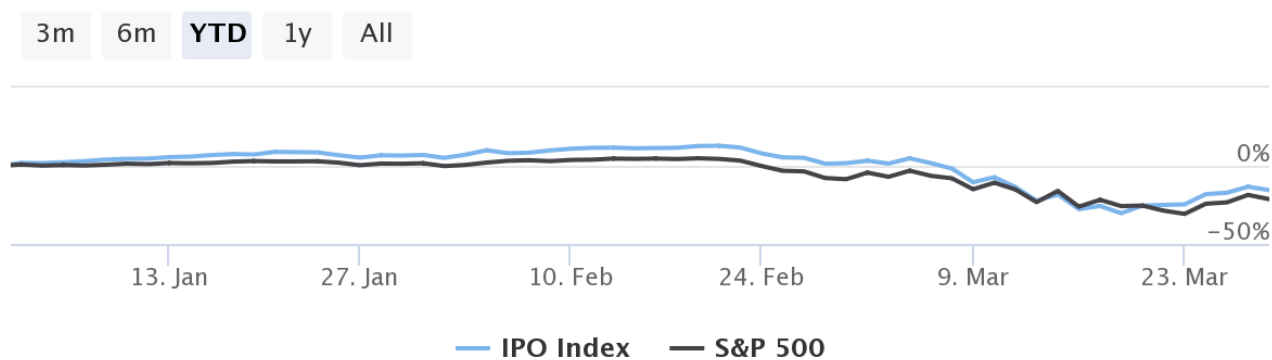
This document is to give the market outlook of Listing Partners Group for the financial markets and particularly the Pre-IPO and IPO markets.

The world has been thrown into an economic freeze to try to lower the demand on medical resources. The Corona pandemic is a tragedy of global scale and it is a threat that we didn't know about just three months ago. We are in the middle of a black swan event and currently we are in the eye of the storm so to speak. The markets have also taken a hit with the current circumstances as all major indices worldwide are down year-to-date.



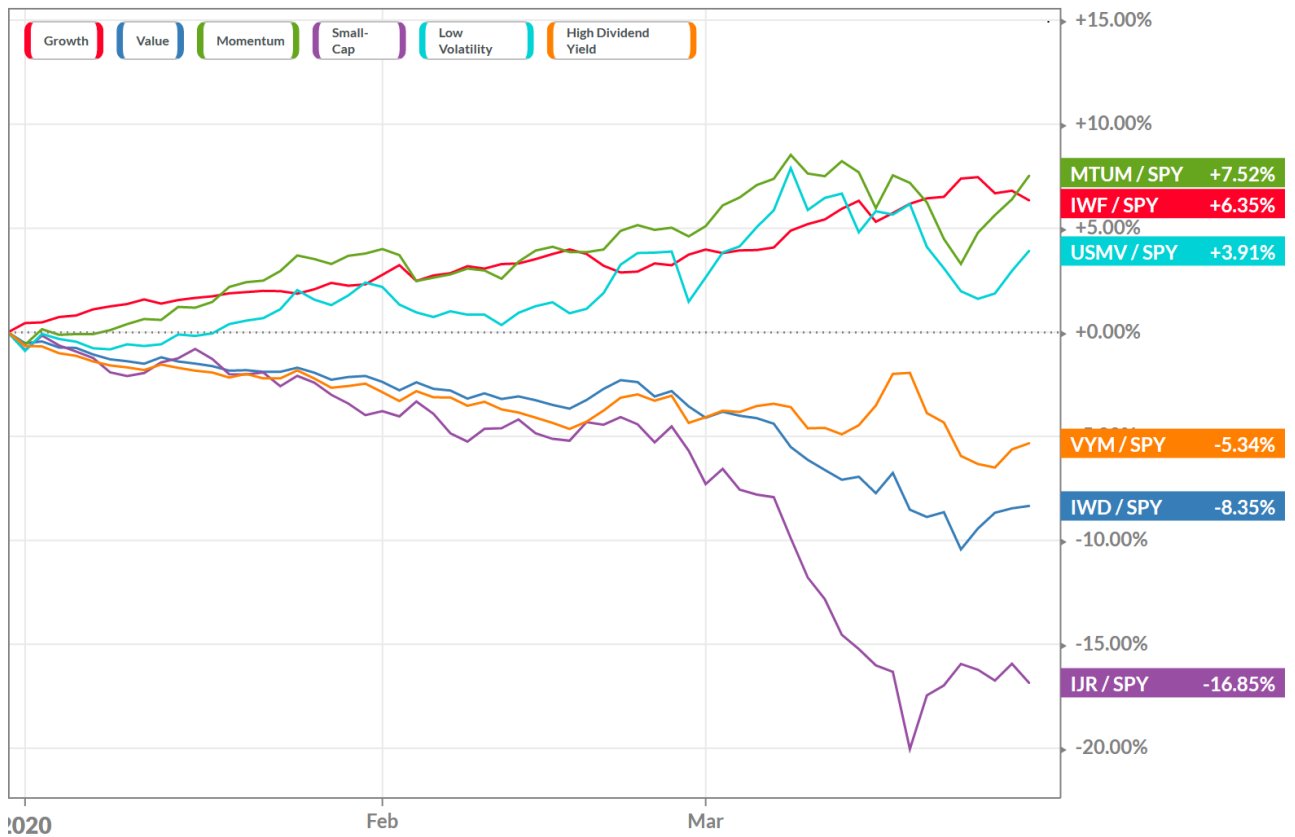
Interestingly enough, the Renaissance U.S. IPO index has outperformed the much broader and bigger S&P 500 year-to-date as seen in the graph below.

Renaissance U.S. IPO Index



Our ETF tracks the IPO Index

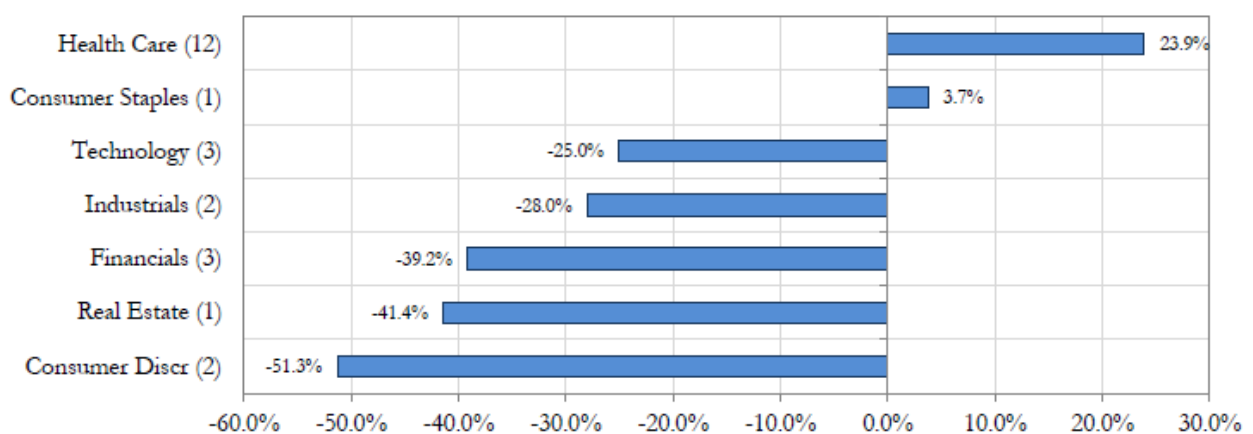
Factor analysis YTD



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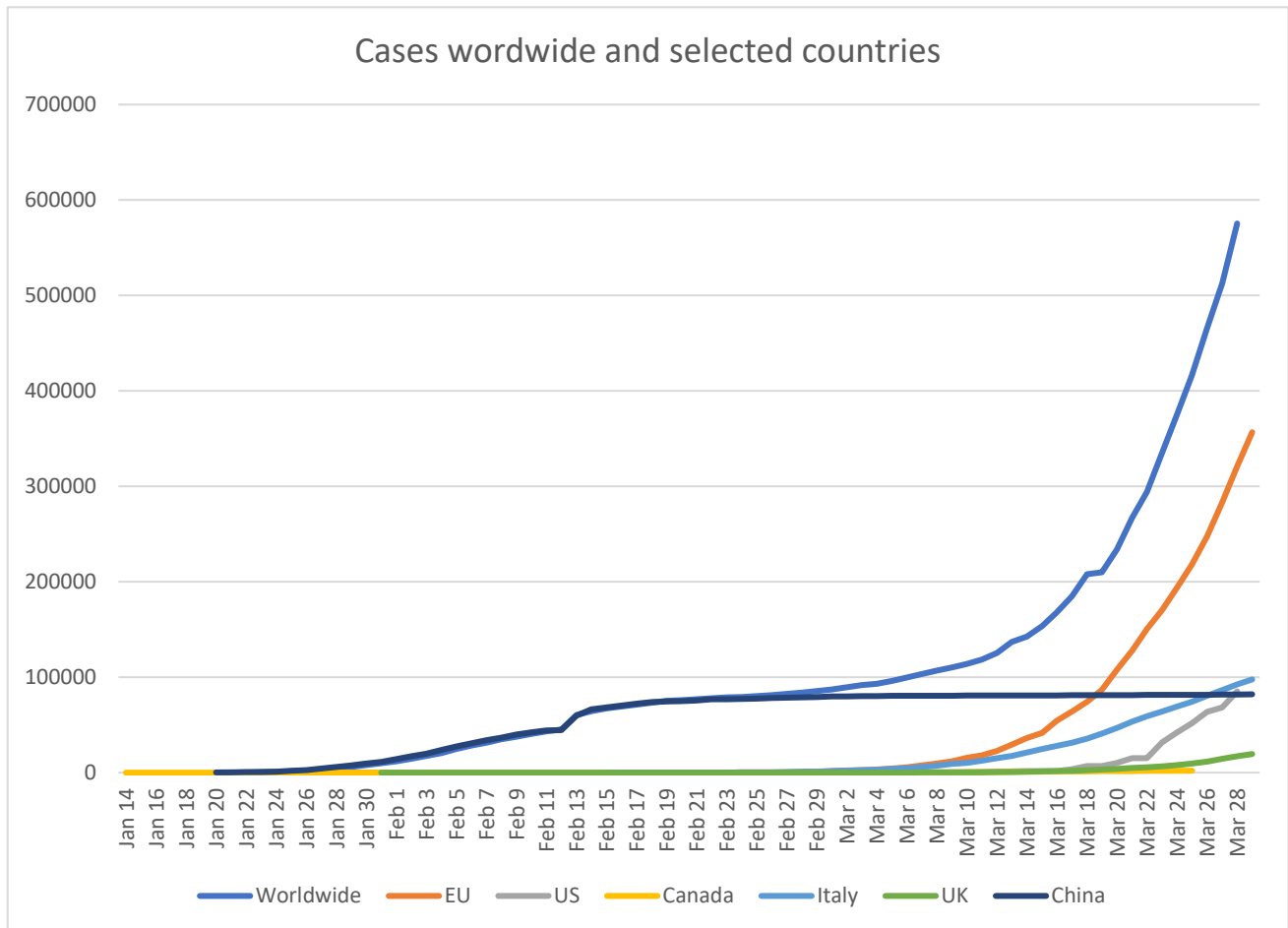
Despite the fact that small caps have been underperforming when we look at factor analysis, the IPO index is mostly driven by having the majority of IPOs during Q1 and most have been in the healthcare sector and the returns can be seen in the table below.

US IPO Returns – Average 1Q 2020 Returns by Sector



Source: Renaissance Capital. Based on offer price to 3/26/2020 closing price.

Flatten the curve will probably be the words of the year and will also be the most important factor for financial markets future, as we need to mitigate the stress on the health care systems around the world to make it possible to care for the infected population.



Chinas say that they have managed to stop the infection rate (reasonable doubt about these numbers) and Italy who was the most growing and biggest population of infected has been overtaken by US (according to <https://www.worldometers.info/coronavirus/>). The US and Europe are the hardest hit regions which is natural as trade and business between China, Europe, and United States are the three biggest economic powers. Japan and South Korea who also has strong relations with China has handled COVID-19 far better than Europe and US, which is probably due to high civil obedience, cleanliness, social dynamics (not many generational households like in Italy), and cultural difference in how you greet people (bowing instead of shaking hands, hugs, and kisses on the cheek).

We are flattening the curve through lockdowns, quarantine, and social distancing, which is impacting the economy severely, we can see the initial impact in the US by the employment numbers that was reported on the 26th of 2020. They reported an increase of 3 million which is the highest level since April 1880. The report is based on numbers from the 14th of March and we have indications that these numbers did not catch all numbers as there has been reported websites where filing for unemployment has been unavaible and number of states did start the lockdown after the 14th.

As an example, the Californian Governor Gavin Newsom said on the 13th of March that they saw one million in unemployment claims and in the unemployment report California had an increase of 129,203. It is reported that services industries are impacted by the COVID-19 and particularly the accommodation and food services sectors. They cited additional sectors that contributed to the increase, health care and social assistance, arts, entertainment and recreation, transportation and warehousing, and manufacturing industries.

The economic outlook looks grim but on the positive side central banks and governments have acted fast to support the economy during the times where the population is trying to flatten the curve. The fiscal packages have staggering numbers, for example on the 25th of March the Senate passed a \$2 trillion package to stimulate the economy and ensure liquidity. For comparison the American Recovery and Reinvestment act of 2009 only amounted to \$831 billion and this is the third phase of the stimulus packages.

If we continue on the discrepancy between the financial crisis ten years ago and the situation we have now, this crisis not a financing problem, we have a health crisis that causes a consumption and demand crisis in some sectors, supply crisis in other sectors which in turn causes a production crisis. All of this causes multiple problems in our economy, sectors like hotels, airplanes, coffee shops and restaurants have lost their revenue overnight, manufacturers aren't getting supplies because supply chains has been stopped, and hospitals are swamped with people that are having Corona or suspect that they have Corona and don't have supplies to protect themselves or room to take care of the patients. We have also seen people in Europe and America run to the stores to stock up on consumer supplies such as toilet paper, pasta, tins, and other supplies that don't spoil fast.

Some good news is that e-retailer like Amazon is employing 100 000 more workers for their warehouses to handle the increase in order, Microsoft teams has added 12 million users up to a total of 44 million users (from 20 millions in November), Zoom has been the most downloaded app with over two million downloads per day on the 23th of march (two months prior did they have 56,000 download per day).

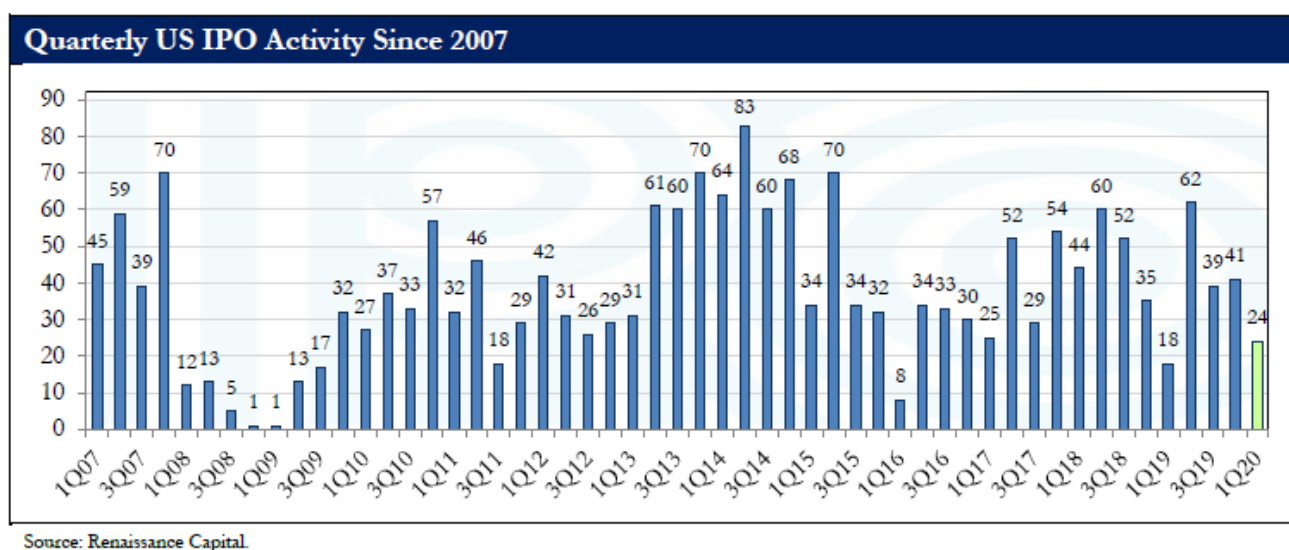
As the title for this market outlook says, "this too shall pass" and with that, the only thing that matters how we will get through this crisis. "The only thing we have to fear, is fear itself" as Franklin D. Roosevelt said in his inauguration speech 1933, but the comparison hopefully stops there. Fear over the economy tanking will lower consumption, investing willingness, unemployment will increase, housing prices will go down and so will the vicious cycle continue. At the moment have the crisis mostly affected the blue-collar service jobs that are having high mobility in the workforce, high portion of people with part time or short-term employment, and in general lower salaries. But if this reaches more of the white-collar workforce it will cause bigger problems and cause the earlier mentioned cycle to increase in speed and impact as white-collar jobs has lower mobility and higher salaries.

Our view is that Q1 is known to be terrible and Q2 will with high probability also be terrible, hopefully will we see some sectors in the economy show signs of bouncing back to normal. There is difference of opinion if the seasons will affect the COVID-19 virus as it affects the other flu viruses, but no signs have shown, at the moment, that it shouldn't affect it similar. Italy is two months into the infection and has started to see signs of the curve flattening and will hopefully does it take three to four months to get the virus under control so Italy can go back to somewhat normal life and in turn have the same pattern so were we can return to normal transport and mobility.

Given the possibility that COVID-19 will not die out by itself in the second half of the year, we can expect a second wave of infected people but at a much more manageable number of patients. COVID-19 will probably be something to worry about until immunity in the majority of the population is achieved or a vaccine has been developed and distributed. Nonetheless we expect the virus to be more under control during the second half of the year because of the measures countries has made to control the pandemic.

Even if above mentioned facts about the COVID-19 virus itself isn't very promising or at best is very unsure when everything will be over, our outlook on Q2 is somewhat unsure as the economic data has not shown the impacts the virus yet and should put some pressure on the financial markets if we don't have other indicators that the economy is returning to normal. Despite the financial stimulations, we will see an increase of companies that will not make it and increased unemployment, which should further put pressure on the second quarter of the year. For Q3 and Q4 we have a positive outlook on the financial markets as first we expect the peak of COVID-19 to be over and with that comes hopefully decreased volatility in the markets. Historically, the financial markets are usually 6 months before the economy, and we see that a lot of pension funds are in need of adjusting their equity to bonds ratio after the rapid selloff in the market during the first quarter. Together with stimulus in the economy and in the financial markets, and fiscal policies we see that it can create good opportunities in the equity markets for the long term investor.

With our specialty being Pre-IPOs and IPOs, we expect that the risk appetite will come back and be especially beneficiary for companies such as tech, fintech, and cleantech to some extent which we specialize in. With this quarantine were people work from can push people to adopt technology to an higher rate than before ever before. Of course, the usage will return but we see that as services as Zoom and Microsoft Teams is used to a higher extent this can accelerate a higher adoption rate than before as a big part of the population has now used technology and to a much higher extent than they otherwise would have under normal circumstances. Taken into account that remote work has been a megatrend for quite some time now and is expected to be accelerating after the COVID-19 is har shown that corporations can still operate under such work conditions and will work as a contingency plan for future epidemics.



Based on historic numbers will the IPO market return in time and according to Renaissance Capital LLC has the IPO market outperformed the S&P500 over 3 months after the turn.

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All in all we see that investors should be quick on their feet during Q2 to take the possibilities the market is offering and during Q3 and Q4 we are positive and think investors and companies that want to IPO should position themselves to be ready to take the opportunities we expect to come during the second half of the year.

I leave with you what our friend over at Bellevue Bank said about the situation in the markets, which we agree with and is nicely summed up below.

"The outlook depends a bit on the timeline – I am afraid the mess will not end during the next weeks, as the case numbers in the US will increase significantly and spread more fear. My best guess is that the medical issue will be solved until May/June in Europe, and a bit later in the US. But not all companies will survive despite help from the governments and central banks, that will cause issues which last longer. I am not afraid of stocks – there are always fluctuations (though seldom so quick as now) but the bond market is much bigger and vulnerable for infection. If this virus really spreads through the bond market, I fear we have a much bigger issue. So I watch more bonds than equities these days..."

- Bellevue Bank Klaus Mudra



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