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COVID-19 Investor Pulse Check #2

Conducted April 3–5, 2020

BCG's COVID-19 Investor Pulse Check

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BCG is surveying leading investors throughout the COVID-19 crisis to understand their changing perspectives on the US economy and stock market—and to bring the voice of the investor to senior executives and boards of directors. The first COVID-19 Investor Pulse Check was conducted March 20–22.

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

This COVID-19 Investor Pulse Check, conducted April 3–5, is the second in a series of periodic surveys that BCG will conduct in the weeks ahead to help corporate executives and boards of directors understand the perspectives of investors in this rapidly changing environment; the first survey was conducted March 20–22

- More than 85% of this survey's respondents also participated in the previous survey

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 decisions and actions that corporate executives and boards of directors are considering

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 Investor Pulse Check #1, there have been an enormous number of developments with respect to the COVID-19 crisis

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The key macro-level developments that investors seem to be watching include:

- The epicenter of the crisis, which has moved from Italy to the US, and the New York metro area in particular
- The percentage of US residents who are under shelter-in-place directives, which has increased from about 25% to roughly 90%
- The $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was passed in the US
- US unemployment, which has skyrocketed, with about 10 million new applications in the last two weeks of March
- China, which is increasingly getting back up to speed with a measured approach to relaxing restrictions

Given the rapid pace of change surrounding this crisis, we plan to conduct an Investor Pulse Check on a biweekly basis

Source: *New York Times*.

Despite the rapid pace of change surrounding the COVID-19 crisis, investors' perspectives are directionally consistent across the two pulse checks

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Key highlights from the two surveys provide a clearer picture of investors' expectations for . . .

US economy

- There is now greater convergence in expectations around the shape of the recovery, with 46% of investors (up from 39%) now expecting a U-shaped recovery and only 20% expecting an L-shaped recovery (down from 25%)

US stock market

- The expectation for the S&P 500's low point is now at 2,158 vs. 2,062 (+5%), and the expectation for the S&P 500's level three years from now is 3,165 vs. 3,075 (+3%); these current expectations are slightly higher and in line with the higher S&P 500 level at the time of the survey: ~2,530 vs. ~2,400 (+5%)
- The expectation for the timing of the S&P 500's low point is now slightly later: end of June 2020 vs. end of May 2020

Leaders of financially healthy companies[1]

- Intensely **focus on preserving liquidity** (79% of investors, up from 73%)
- **Prioritize building key business capabilities,** even if it means lowering EPS guidance or delivering below-consensus estimates (91% of investors, up from 89%)
- **Provide or revise guidance** for the current fiscal year within the next three months (77% of investors, down from 79%)
- **Deliver EPS that at least meets revised (or confirmed) guidance or consensus** (64% of investors, up from 56%)
- **Actively pursue acquisitions** at today's low valuations to strengthen the business (64% of investors, up from 58%)
- **Expect increased activist activity** and **take proactive steps** to mitigate activism risk (66% of investors, up from 59%)

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

US investors' perspectives

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

Duration of COVID-19 impact

End of Q3 2020

53% of investors expect the severe economic impact of the crisis to have ended by then

BUT

Only 15% of investors expect the S&P 500 to have returned to earnings growth by then

Shape of economic recovery

88% | 46%

Investors that **do not see a rapid V-shaped bounce back** to the precrisis economic level and growth rate (they foresee a U-, W-, or L-shaped recovery) vs. investors that now believe **the recovery will be U shaped**

Bear vs. bull

60% | 29%

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

53% | 64%

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

Expected low point for the stock market ↓

S&P 500 at **2,158**

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

Expected stock market level in three years ↑

S&P 500 at 3,165

Investors' expected S&P 500 level, on average, which will be reached in April 2023; that translates into an expected average annual TSR of 7%

Source: BCG's COVID-19 Investor Pulse Check, April 5, 2020; n = 150.
Note: TSR = total shareholder return.

Investor expectations (I/III)

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Investors have clear expectations, but they also appear to offer financially healthy companies unexpected flexibility to navigate the crisis

77%	**Investors that want companies to provide or revise their guidance** for the current fiscal year within the next three months, **but investors also indicate surprising flexibility (compared with historical norms) regarding near-term EPS commitments** for financially healthy companies
64%	Investors that think it is important for companies to deliver EPS in line with their revised guidance or the consensus estimate for the current fiscal year
91%	Investors that want management to prepare for the bounce back by building advantaged business capabilities to drive future growth—even if it means lowering EPS guidance or delivering below the consensus estimate
56%	Investors that think it is important for companies to continue to fully pursue their ESG agenda and priorities—even if it means lowering EPS guidance or delivering below the consensus estimate
41%	**Investors that think it is important for companies to prioritize maintaining their margin levels,** even if it is at the expense of investing to achieve advantage in the businesses

Source: BCG's COVID-19 Investor Pulse Check, April 5, 2020; n = 150.
Note: EPS = earnings per share; ESG = environmental, social, and governance.

Investor expectations (II/III)

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Investors have clear expectations, but they also appear to offer financially healthy companies unexpected flexibility to navigate the crisis

Investors' responses highlight the importance of financial resilience and a strong balance sheet to endure the crisis and be ready for the rebound; investors **even support some typically unconventional near-term moves—such as equity issuance, not maintaining the dividend per share, and not repurchasing shares—that would previously have been off the table**

79%	Investors that believe companies should be intensely focused on preserving liquidity even if it is at the expense of investing to achieve advantage in the business
71%	Investors that believe 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
48%	Investors that believe significant equity issuance, even at today's discounted valuations, is a reasonable move for companies to strengthen their cash position and financial resilience in order to fund near-term and medium-term business expenses or investments
56%	Investors that think companies should not aggressively repurchase shares despite today's very low valuations
57%	Investors that are comfortable with companies not maintaining the dividend per share in the near term

Source: BCG's COVID-19 Investor Pulse Check, April 5, 2020; n = 150.

Investor expectations (III/III)

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April 5

Investors have clear expectations, but they also appear to offer financially healthy companies unexpected flexibility to navigate the crisis

Given today's low valuations, **investors expect financially healthy companies to explore potential acquisitions and prepare for increased activism risk**

64% Investors that believe companies should actively pursue acquisitions to strengthen the business

66% Investors that think there will be an increase in activist activity and that companies should take proactive steps to mitigate activism risk by strengthening their businesses' near-term and medium-term fundamentals

Source: BCG's COVID-19 Investor Pulse Check, April 5, 2020; n = 150.

Comparison of BCG's COVID-19 Investor Pulse Check #1 vs. #2

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March 22 vs. April 5

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

What are your expectations for…	March 22	April 5	Difference
Duration of COVID-19's impact on US economy	Through Q3 2020	Through Q3 2020	None
Timing for S&P 500 to return to earnings growth	End of 1H 2021	End of 1H 2021	None
Likely shape of US economy's recovery:			
▪ V shape	13%	12%	-1 p.p.
▪ U shape	39%	46%	+7 p.p.
▪ L shape	25%	20%	-5 p.p.
▪ W shape	21%	21%	None
Bear vs. bull:			
▪ For CY 2020	14% bullish	12% bullish	-2 p.p.
▪ For CY 2021	55% bullish	53% bullish	-2 p.p.
▪ For CY 2022	63% bullish	64% bullish	+1 p.p.
▪ For next three years	65% bullish	68% bullish	+3 p.p.
S&P 500 low point:			
▪ Level	S&P at 2,062	S&P at 2,158	+5%
▪ Timing	End of May 2020	End of June (Q2) 2020	One month later
Three-year TSR[1]	S&P at 3,075 (8% TSR)	S&P at 3,165 (7% TSR)	+3% in S&P level

Implications for corporate executives of financially healthy companies

It is important for companies to…	March 22	April 5	Difference
Provide or revise guidance	79% agree	77% agree	-2 p.p.
Deliver EPS that at least meets revised guidance or consensus	56% agree	64% agree	+8 p.p.
Prioritize building key business capabilities	89% agree	91% agree	+2 p.p.
Continue to fully pursue their ESG agenda and priorities	Not asked in original survey	56% agree	NA
Prioritize maintaining their margin levels	Not asked in original survey	41% agree	NA
Intensely focus on preserving liquidity	73% agree	79% agree	+6 p.p.
Quickly access all available sources of debt financing	Not asked in original survey	71% agree	NA
Consider significant equity issuance a reasonable move	Not asked in original survey	48% agree	NA
Aggressively repurchase shares	39% agree	44% agree	+5 p.p.
Maintain dividend per share	41% agree	43% agree	+2 p.p.
Actively pursue acquisitions	58% agree	64% agree	+6 p.p.
Expect an increase in activist activity and take proactive steps to mitigate risk	59% agree	66% agree	+7 p.p.

Unchanged | Somewhat unchanged (for example, within 5 p.p.) | Somewhat changed | Significantly changed

Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, and April 5, 2020; n = 150 for each survey.
Notes: This slide spotlights key differences between our first two pulse checks. For more depth on the individual points, please see the detailed slides that follow. 1H = first half; p.p. = percentage point; CY = calendar year; EPS = earnings per share; ESG = environmental, social, and governance; NA = not applicable.
[1]The S&P 500 estimate for March 22 is less than that for April 5 despite having higher TSR, because the S&P 500 was lower on March 22 than on April 5.

Detailed survey analysis

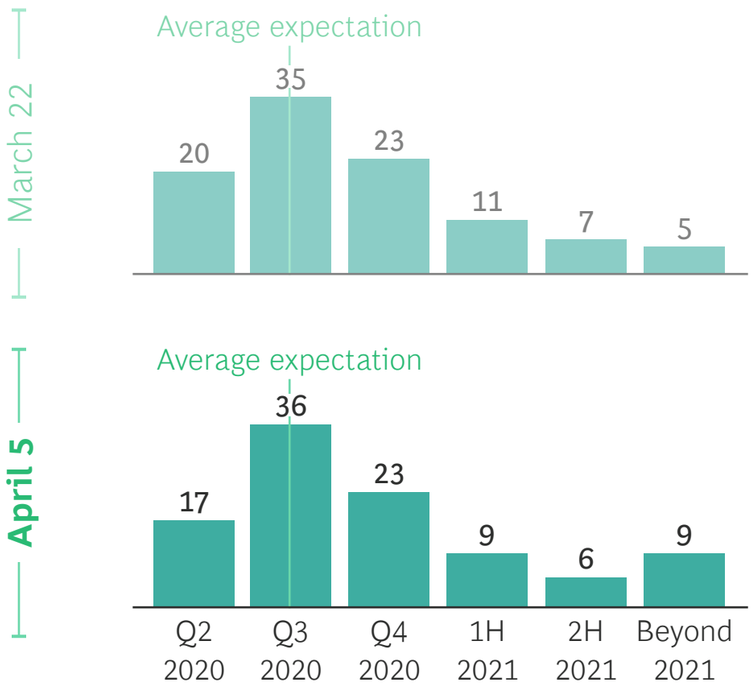
Only 12% of investors expect a V-shaped recovery—most expect a U-shaped one

Most investors expect COVID-19 to severely impact the US economy through Q3 or Q4; many expect a return to S&P 500 earnings growth in Q4 2020 or 1H 2021

March 22 vs. April 5

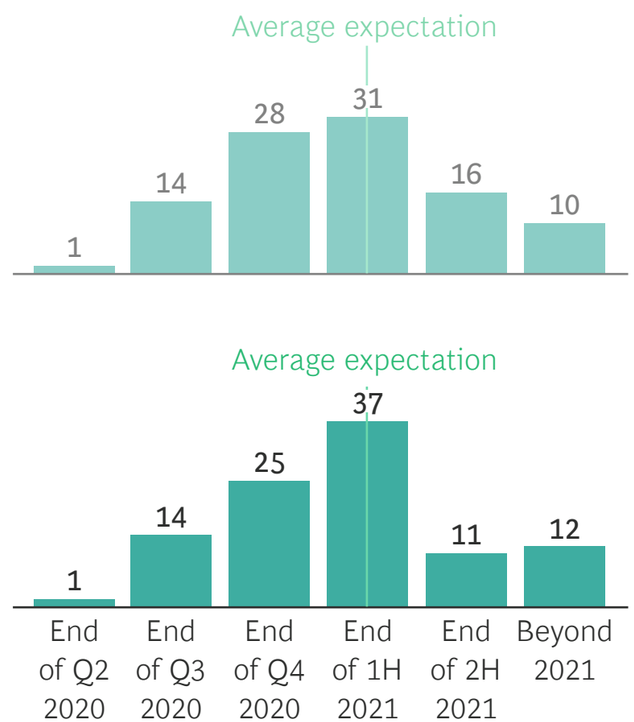
Duration of COVID-19's severe impact on the US economy[1]

Respondents (%)



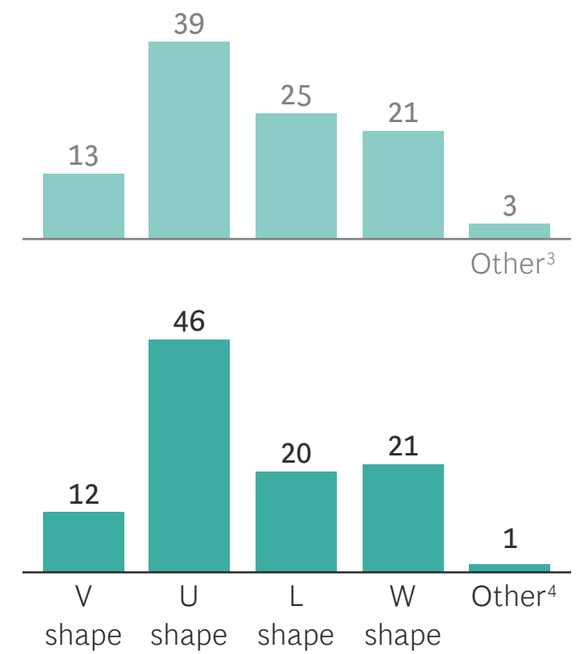
Expected timing for the S&P 500 to return to earnings growth

Respondents (%)



Likely shape of the US economy's recovery[2]

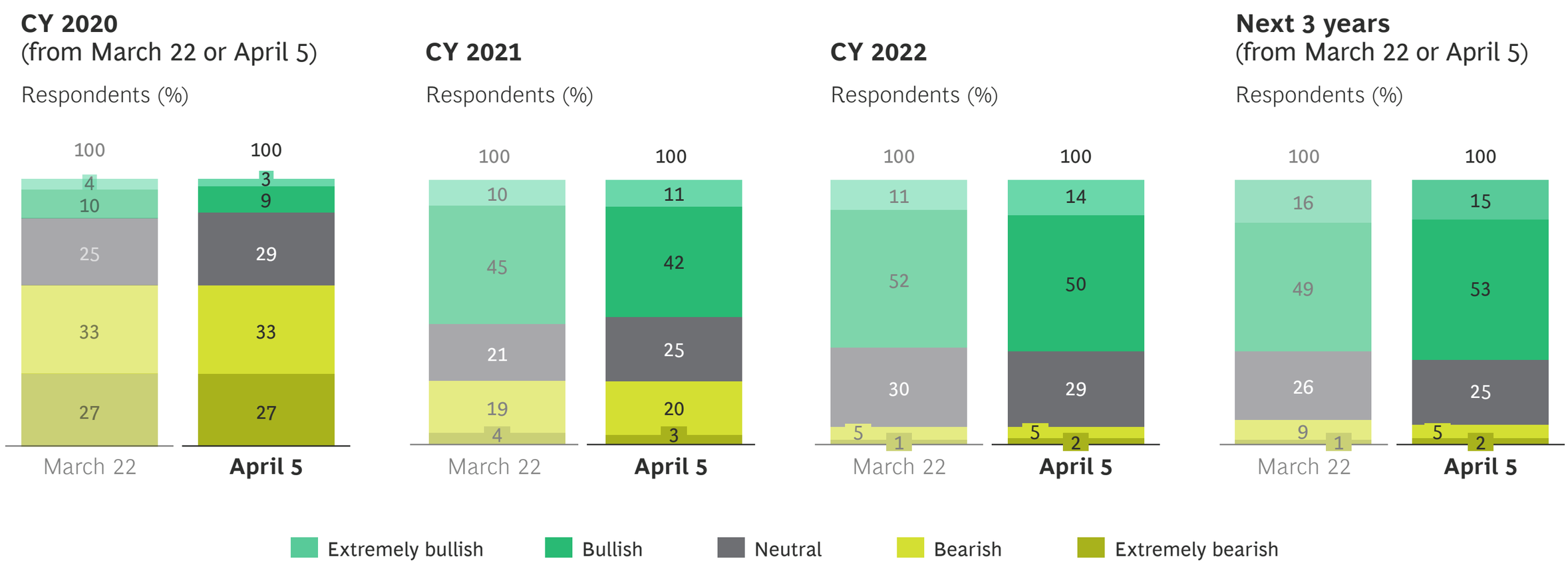
Respondents (%)



Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, and April 5, 2020; n = 150 for each survey. Notes: 1H = first half; 2H = second half.
[1]Question: Through what time period do you think the COVID-19 crisis will severely impact the US economy? [2]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. [3]Other = flatline; reorganization (fast recovery in new industries, old industries die); slow growth; and chaotic and extreme volatility (this is unprecedented). [4]Other = decline, flat, and slow rise; and long and gradual return.

Most investors—60%—are bearish for the remainder of 2020, but they are increasingly bullish for 2021 and 2022

March 22 vs. April 5



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

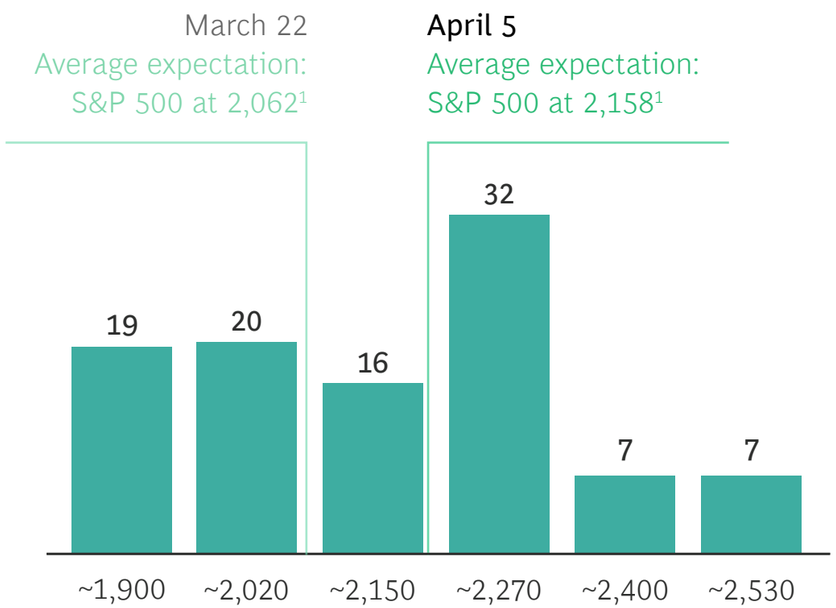
Investors expect even more downward pressure on markets, though less than and later than before

Investors expect an average S&P 500 level of 2,158 by the end of Q2 2020

March 22 vs. April 5

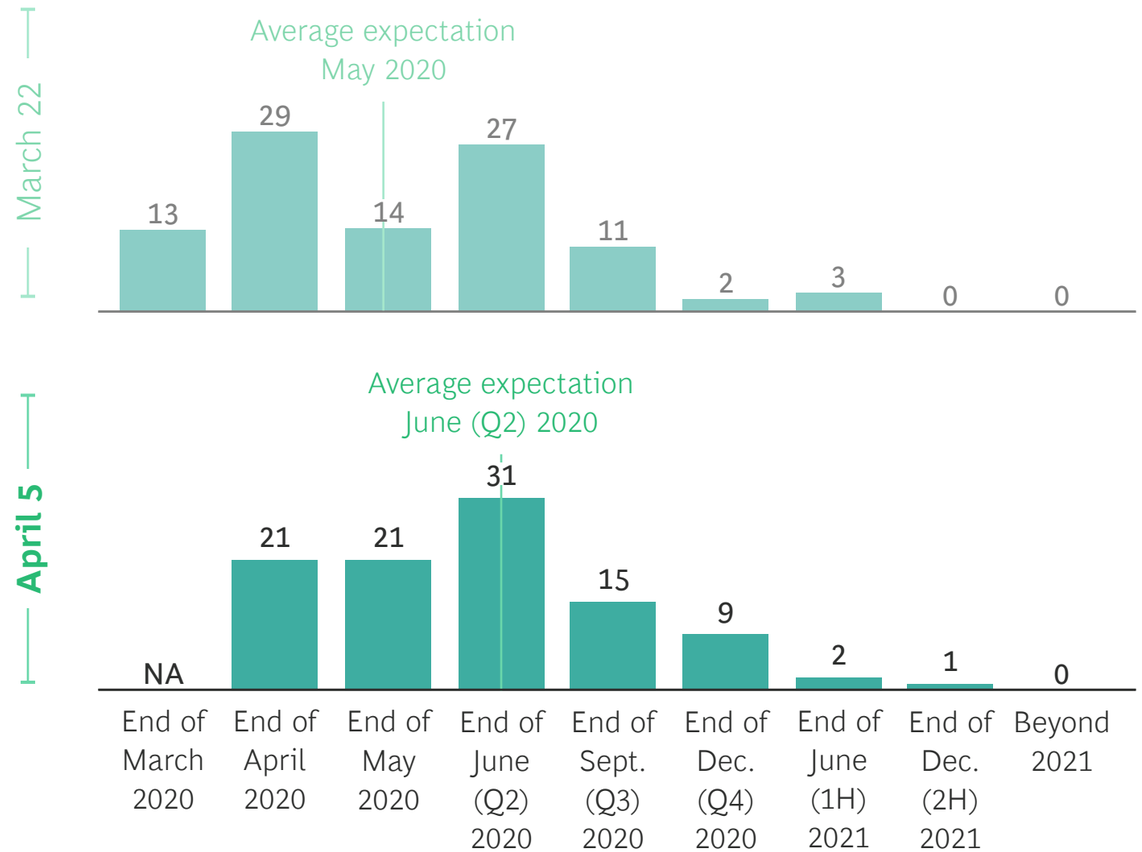
S&P low-point expectations: level

Respondents (%)



S&P low-point expectations: timing

Respondents (%)



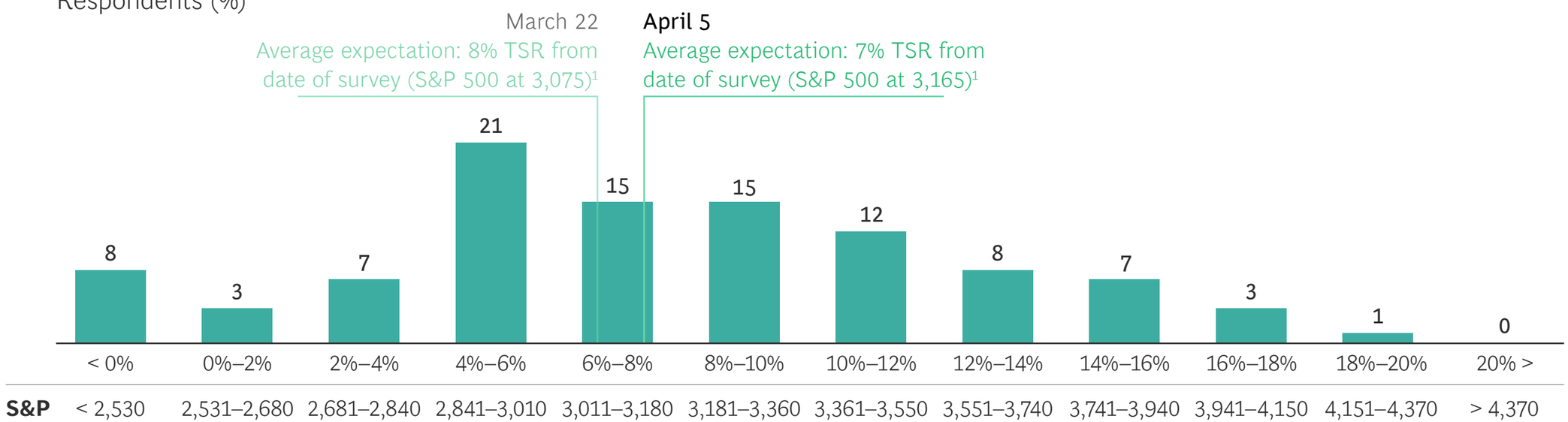
Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, and April 5, 2020; n = 150 for each survey.
Notes: 1H = first half; 2H = second half; NA = not applicable.
[1]Weighted average based on all responses.

Investors' three-year average annual TSR expectation of 7% is similar to the prior expectation and only moderate, compared with 9% TSR over the past 15 years

March 22 vs. April 5

Average annual TSR expectation for the S&P 500 over the next three years, April 5, 2020–April 4, 2023

Respondents (%)



Expected average annual TSR of 7% implies reaching an S&P 500 level slightly over 3,000 points in three years—still below the historical high (near 3,400 points) in February 2020 before the onset of the crisis

Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, and April 5, 2020; n = 150 for each survey.
Note: TSR = total shareholder return.
[1]Weighted average is based on all responses. The S&P 500 estimate for March 22 is less than that for April 5 despite having higher TSR, because the S&P 500 was lower on March 22 than on April 5.

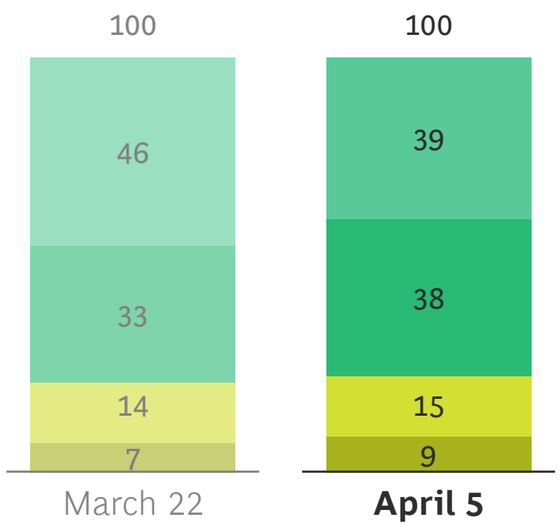
Nearly 80% of investors want companies to provide or revise guidance within 90 days, and 64% expect them to meet the revised near-term EPS guidance

Previously, 56% of investors expected companies to meet the revised near-term EPS guidance

March 22 vs. April 5

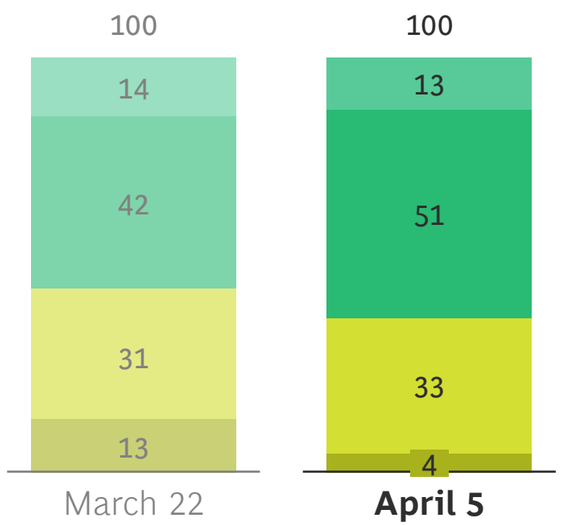
It is important for healthy companies to provide or revise guidance for the current fiscal year within the next three months[1]

Respondents (%)



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

Respondents (%)



Strongly agree | Somewhat agree | Somewhat disagree | Strongly disagree

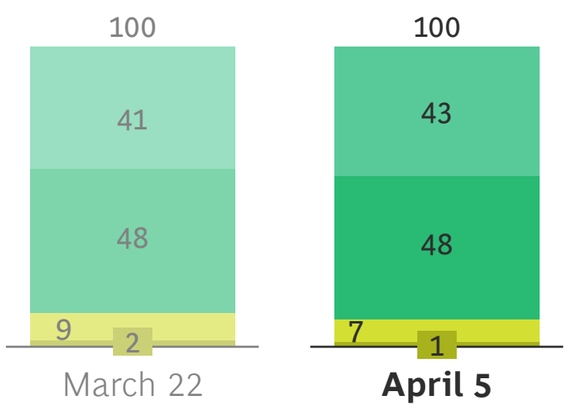
Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, and April 5, 2020; n = 150 for each survey.
Note: EPS = earnings per share.
[1]Questions were posed with respect to financially healthy companies.

About 90% of investors want management to build advantaged business capabilities; fewer prioritize maintaining an ESG agenda and margins

March 22 vs. April 5

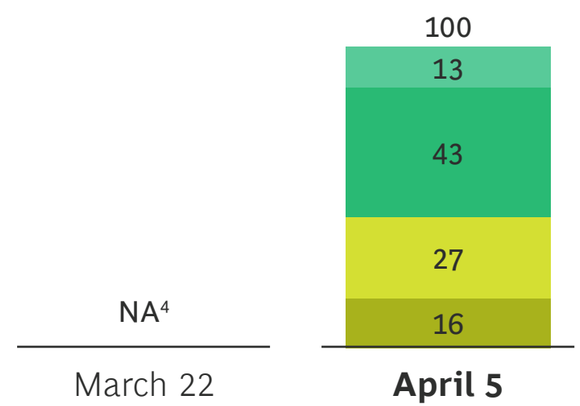
It is important for healthy companies to prioritize building key business capabilities to create advantage, drive future growth, and be better positioned to bounce back, even if it means lowering EPS guidance or delivering below consensus estimates[1, 2]

Respondents (%)



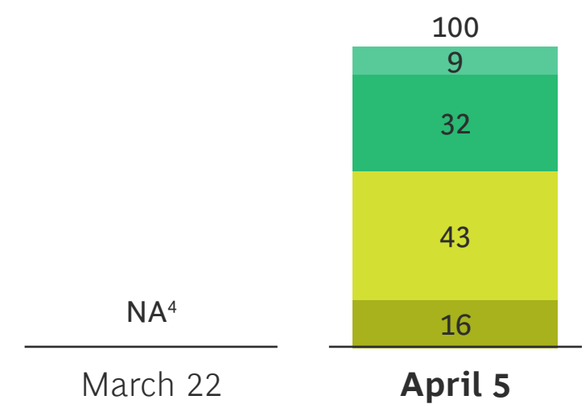
It is important for healthy companies to continue to fully pursue their ESG agenda and priorities as they navigate the crisis, even if it means guiding to lower EPS or delivering below consensus[1]

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, and April 5, 2020; n = 150 for each survey.
Note: EPS = earnings per share; ESG = environmental, social, and governance; NA = not applicable.
[1]Questions were posed with respect to financially healthy companies. [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.

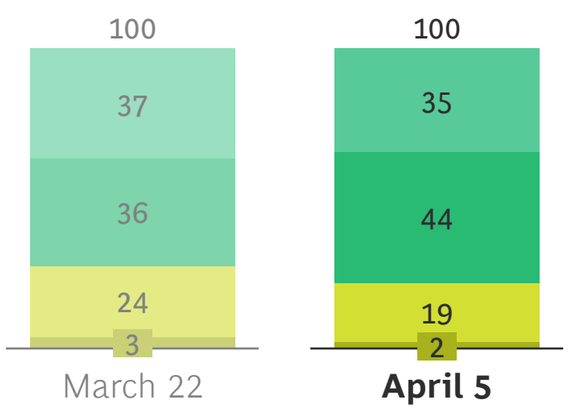
Companies should be intensely focused on liquidity (79% of investors, up from 73%)

If needed, investors prefer accessing all available sources of debt financing (71%) to issuing equity (48%)

March 22 vs. April 5

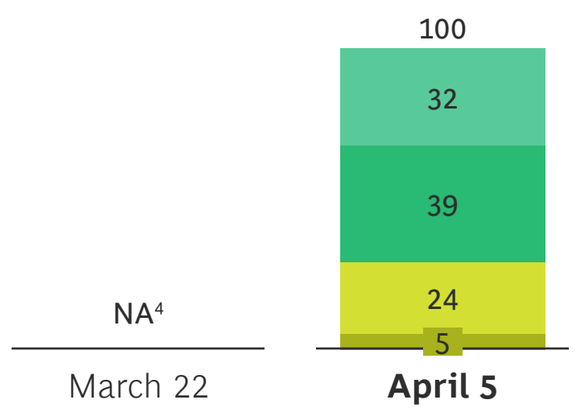
Over the next 12 months, it is important for healthy companies to intensely focus on preserving liquidity, even if it is at the expense of investing to achieve advantage in their businesses[1, 2]

Respondents (%)



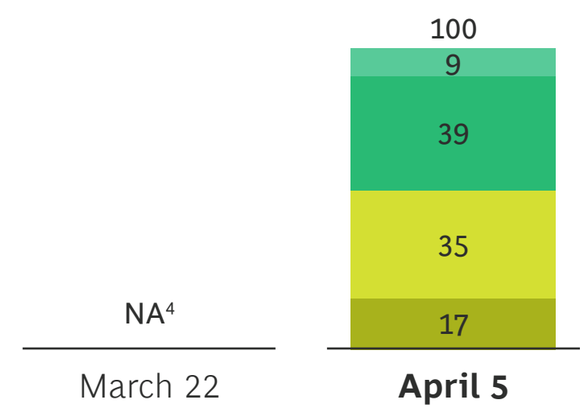
Healthy companies should quickly access all available sources of debt financing to strengthen their cash position and financial resilience in order to fund near-term and medium-term business expenses or investments, even if it stretches the balance sheet and increases credit risk[1, 3]

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 (%)



Strongly agree | Somewhat agree | Somewhat disagree | Strongly disagree

Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, and April 5, 2020; n = 150 for each survey. Note: NA = not applicable.
[1]Questions were posed with respect to financially healthy companies. [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.

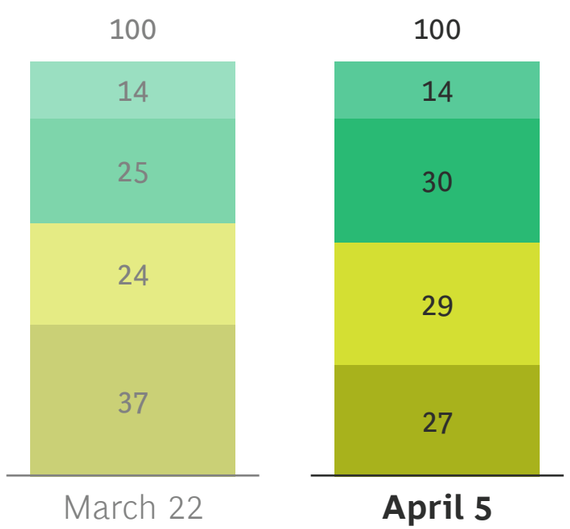
Companies have leeway to make some unconventional financial policy moves

Slightly more investors now want companies to repurchase shares (44% vs. 39%) and maintain dividends (43% vs. 41%)

March 22 vs. April 5

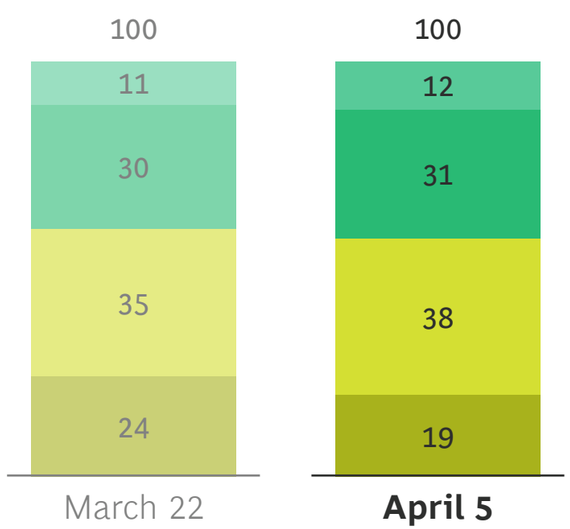
It is important for healthy companies to take advantage of today's low valuations and aggressively repurchase shares[1]

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]

Respondents (%)



Strongly agree · Somewhat agree · Somewhat disagree · Strongly disagree

Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020, and April 5, 2020; n = 150 for each survey.
[1]Questions were posed with respect to financially healthy companies.

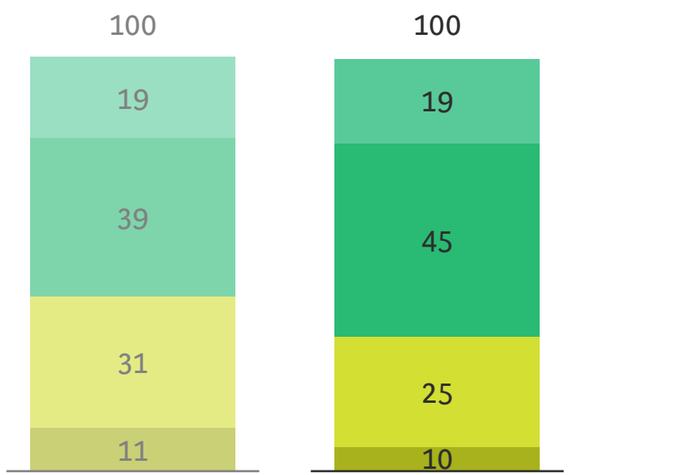
Given today's low valuations, investors expect management to pursue potential acquisitions (64%) and take proactive steps to mitigate activism risk (66%)

Investors now put more emphasis on acquisitions (64% vs. 58%) and mitigating activism risk (66% vs. 59%)

March 22 vs. April 5

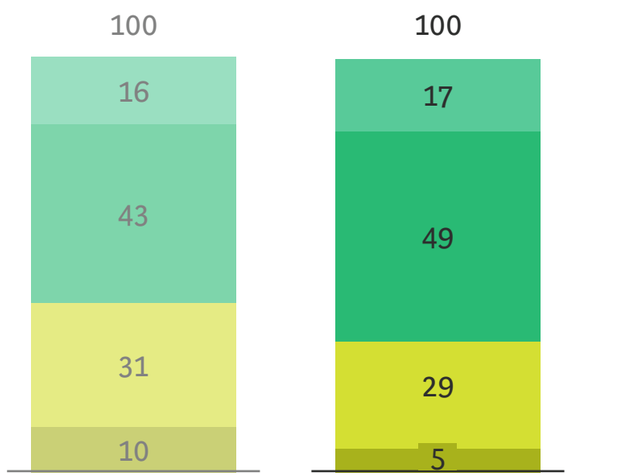
At current valuations, healthy companies should actively pursue acquisitions to strengthen their businesses[1]

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, and April 5, 2020; n = 150 for each survey.
[1]Questions were posed with respect to financially healthy companies.

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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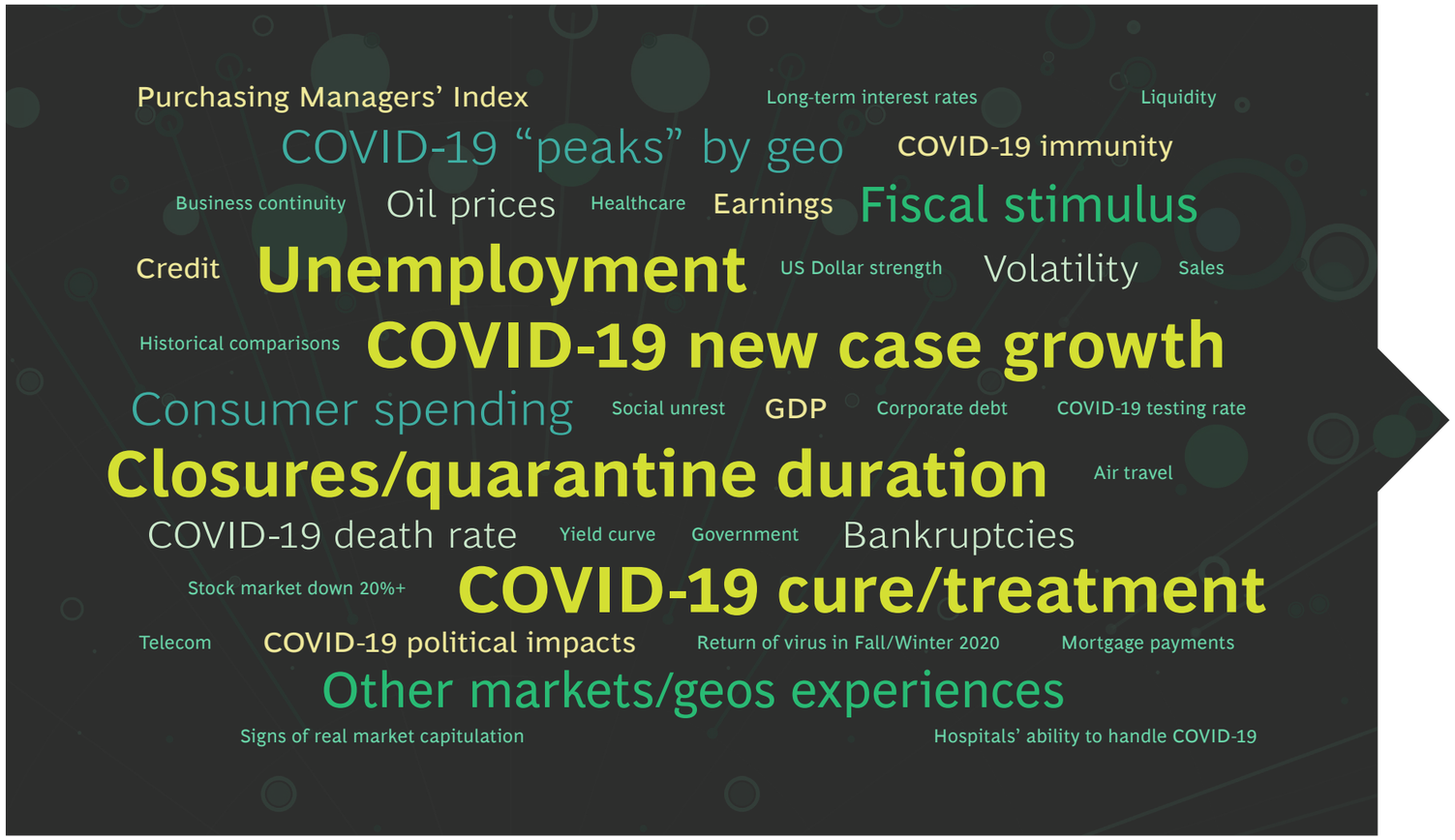

Investors are highly focused on:

- COVID-19 new case growth (n = 30)
- Unemployment (n = 28)
- Closures and quarantine duration (n = 17)
- COVID-19 cure and treatment (n = 11)
- Fiscal stimulus (n = 5)
- Other markets’ and regions’ experiences (n = 5)

Source: BCG’s COVID-19 Investor Pulse Check, April 5, 2020; n = 150.
Notes: 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 displayed and the number of responses: COVID-19 “peaks” by region = 4; bankruptcies = 3; COVID-19 immunity = 2; COVID-19 testing rate = 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.