Palouse Capital Management, Inc.
Weekly Update
April 20, 2020

Top 1,000 - Market Cap Changes*

4/19/2020 7:00	Five Day	Three Months	YTD	One Year
Top 1,000	3.2%	-13.7%	-10.9%	-0.8%
Largest 100 Equities	4.5%	-9.0%	-5.8%	6.3%
Largest 500 Equities	3.6%	-12.1%	-9.3%	1.5%
Smallest 500 Equities	-0.8%	-27.2%	-25.2%	-20.2%
Consumer Discretionary	8.4%	-6.9%	-4.5%	1.6%
Consumer Staples	4.0%	-6.6%	-5.1%	5.4%
Energy	0.5%	-41.8%	-42.7%	-47.3%
Financials	-4.2%	-29.3%	-29.0%	-20.5%
Health Care	6.5%	-2.8%	-29.0%	21.1%
Industrials	-0.2%	-24.5%	-0.3%	-16.5%
Information Technology	4.8%	-8.4%	-3.1%	13.5%
Materials	-1.9%	-18.3%	-18.6%	-11.5%
Communications Services	4.4%	-14.1%	-9.4%	0.1%
Utilities	-0.7%	-9.5%	-6.6%	5.8%
Real Estate	-3.2%	-13.9%	-11.8%	-0.3%

*All calculations based on internal analysis of 1,000 domestic companies. Changes are based on the change in float adjusted market cap for companies that were in the model at the beginning and end of each period. The model does not use published index data and does not include the effect of dividends.

Other Data

4/19/2020 7:00	Last Data Point	One Week Change	Three Month Change	One Year Change
Crude Oil (WTI)	$18.27	-19.7%	-70.4%	-71.5%
Gold Spot	$1,682.82	-0.8%	8.1%	31.9%
Fed Funds Upper Bound	0.25%	0 bp	-150 bp	-225 bp
Fed Funds Lower Bound	0.00%	0 bp	-150 bp	-225 bp
Two Year Treasury Rate	0.20%	-2 bp	-136 bp	-218 bp
Ten Year Treasury Rate	0.64%	-8 bp	-118 bp	-192 bp
Thirty Year Treasury Rate	1.26%	-8 bp	-102 bp	-170 bp
Two to Ten Spread	0.44%	-5 bp	18 bp	26 bp
Dollar Index	$99.78	0.3%	2.2%	2.4%
Jobless Claims - New	5,245	-20.7%	2284.1%	2483.7%
Jobless Claims - Continuing	11,976	60.8%	602.8%	621.9%
Vix	38.15	-8.4%	175.5%	215.6%

Trading Recap

We had one model change last week, the sale of all of the shares of the SPDR Bloomberg Barclay's High Yield Bond ETF ("JNK") that we held in the DI strategy. The decision to sell the JNK was based on risk and Ken is the analyst on that ETF.

Market Notes[1]

Equity markets surged again last week, although the move was a disjointed one; there were six sectors up and five down. The best sector was consumer discretionary, which was up a whopping 8% led by a sharp positive move in the share price of Amazon.com Inc. ("AMZN")[2]. Healthcare, consumer staples and technology stocks were all also strong. The worst sector last week was financials, driven by the first weak earnings reports of this earnings season. The worst stock in the financials sector was Wells Fargo & Co. ("WFC")[3], which was off almost 15% in its earnings week. WFC's results were weaker than expected, mostly as a result of a larger than expected provision for loan losses. WFC's big provision number was from the impact of Covid-19 on both the commercial and retail portfolios, although the weakening energy industry also had a material negative effect. The energy industry is in turmoil; the WTI crude oil price closed the week at $18.27, the lowest level since 2001.

[1] Refers to our 1,000 stock model unless otherwise indicated.
[2] We do not hold shares of AMZN in client portfolios.
[3] We hold shares of WFC in client portfolios.

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Source: Bloomberg. Past performance is not indicative of future results. Please see "Important Disclosures".

Large caps dominated small caps and mid caps last week. The 500 smallest stocks in our 1,000 stock model were down about 80 basis points last week while the largest 100 stocks were up 4.5%. Part of the disparity between large caps and small caps might have had to do with the weak financials sector; financials make up a larger part of small cap indexes than large cap indexes.

Large caps are now up almost 29% since the close on March 23rd – that is about 1.6% per trading day, a very sharp positive move in any historical context. Large caps fell about 34% between February 19th and March 23rd as widespread investor panic about Covid-19 walloped equity markets. Large caps are now down about 15% from February 19th to last Friday. The Top 1,000 are now down about 11% in the year to date time frame, although there is a wide disparity between large cap and smaller cap performance in that time frame; the smaller cap stocks in our model are down a dismal 25% since the beginning of the year.

First Quarter 2020

1Q20 was a bizarre quarter. Stocks were strong to start the year, with major indexes hitting all time records in mid-February. The market shrugged off the coronavirus risk in January because nobody seemed to know how severe it was. As of the end of December, Chinese health authorities confirmed that they were treating dozens of people, but at that time they did not even know if it was spread readily by humans. A couple of weeks after that the Chinese government confirmed the first coronavirus death. By mid-February there were about 80,000 coronavirus cases in China.

The first US coronavirus case was in late January, although people seemed to not be particularly concerned because it was travel-related. As time quickly went on, it became more and more apparent that the situation was deadly serious. The US government suspended entry of foreign nationals who travelled from China on January 31, which started an often frenetic sequence of government actions to mitigate the virus. State level lockdowns started in late March; by that time the market had already dropped a huge amount as the effect on public company earnings became a little clearer.

The last few days of the quarter saw equity markets surge at an unprecedented pace; between March 23rd (ironically, the beginning of the state level lockdowns) and the end of the quarter major stock indexes were up about 15%. By the end of March the severity of the virus situation was clear, but stocks reacted positively as investors seemed to speculate on the duration and timing of the crisis. While earnings expectations plummeted, many investors seemed to have thought that stock price moves were overdone.

By our estimation, equities were off about 20% in 1Q20 and all sectors were down. The best sector was consumer staples, which was supported by its defensive nature and also widespread hoarding of products like toilet paper and canned food. The worst sector was energy, which was off more than 50% as oil prices cratered. The energy sector has been dogged by OPEC+ bickering as well as dropping demand from worldwide travel restrictions and lockdowns. Some stocks were hardly affected by the crisis during 1Q20 – both AMZN and Microsoft Corp.[4], for example, were down much less than the overall market during the correction and they both closed the quarter higher than where they started.

[4] We hold shares of MSFT in client portfolios.

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PCM All Cap Market Model

4/19/2020 7:12	Price to Earnings Ratio*	Price to Book Value**	Upside to Target	# Stocks
Top 1,000	19.5x	2.8x	11.1%	1,000
100 Largest Equities	20.4x	3.8x	8.2%	100
500 Largest Equities	19.6x	3.0x	9.7%	500
500 Smallest Equities	18.7x	1.6x	23.6%	500
Consumer Discretionary	32.6x	6.4x	7.6%	110
Consumer Staples	17.3x	4.2x	5.1%	52
Energy	N/A	0.9x	**20.6%**	30
Financials	10.5x	0.9x	16.4%	138
Health Care	18.7x	4.3x	8.1%	144
Industrials	22.4x	3.3x	15.7%	131
Information Technology	21.7x	6.5x	9.9%	181
Materials	18.1x	1.9x	13.6%	47
Communications Services	16.5x	2.4x	15.3%	42
Utilities	17.7x	1.8x	9.0%	53
Real Estate	43.8x	2.5x	11.0%	72

All calculations based on internal analysis of 1,000 domestic companies. The model does not use published index data.

* Calculated by comparing market capitalization to estimated earnings.

** Calculated by comparing market capitalization to last reported shareholder's equity.

Earnings Season

Earnings season got going last week with the usual set of big bank earnings on Tuesday. There have now been 138 companies in the Top 1,000 that have reported results for quarters ended in January, February or March of 2020; of those reports, 82.6% were positive surprises and the adjusted cap weighted average surprise was 4%. Both surprise figures are tracking consistently with historic norms, although that will most likely change as we make our way through this tumultuous earnings season. I am estimating that overall expected earnings for the Top 1,000 dropped about 21% since the beginning of the crisis. Estimates dropped sharply again last week as more sell side analysts adjusted their models. I am now estimating that the big market's expected annual EPS growth is about -13% by comparing expectations to trailing EPS.

Market Model and Outlook

Our market upside model, which is based only on average sell side target prices, now suggests an 11.1% one year upside potential to the all cap market, down a few points from last week. There is a cap-related disparity to the upside model as well; while the largest 100 stocks in the model show about 8.2% one year upside, smaller caps are showing about 24% one year upside. I am now calculating the forward P/E for the all cap market at 19.5x, which is a high number in the historical context.

While it is nice to say that we are not technically in a bear market, the move since March 23rd seems a little too strong given what is happening with earnings expectations. Because of that, I would not be surprised to see another pullback in coming weeks, especially if earnings reports continue to contribute to volatility. That said, the progress with Covid-19 mitigation efforts seems to be largely ahead of expectations as of a few weeks ago.

For the past month or so I have been opining that this pullback was a good time to buy stocks. It clearly was, but I am concerned about the sharpness of the recovery so far. I think there will be some earnings related negative moves that could be good buying opportunities in coming weeks, but, in general, I no longer feel that the equity market is a target rich

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environment. I think investors should focus on good balance sheets and avoid industries that are directly impacted by the virus and mitigation.

I hope you all have a great week. As always, please give me a call at 509-220-4253 or send me an email at bharman@palousecap.com if you have any questions.

Thank you for your business!

Important Disclosures:

Palouse Capital Management, Inc. ("PCM") is an SEC registered investment adviser located in Spokane, WA. Registered investment adviser does not imply a certain level of skill or training. PCM may only transact business in those states in which it is registered or has completed the appropriate notice-filing requirements. Prospective clients should consult with a financial consultant to review their investment objectives and financial situation before determining whether any investment, security, or strategy is suitable. A copy of PCM's Form ADV Part 2A & 2B providing information regarding PCM's services, fees, and other important disclosure items is available on PCM's website – please contact Bryn Harman at 509-220-4253 to obtain copies of these documents. Any opinions expressed in any PCM–authored documents are subject to change without notice and, due to the rapidly changing nature of the security markets, may quickly become outdated. No information should be interpreted to state or imply that past results are an indication of future performance. All materials presented are compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. No portion of this document should be interpreted as legal, accounting or tax advice.

All analysis in this report was provided by Bryn Harman, CFA, PCM's Chief Executive Officer and Chief Investment Officer. Mr. Harman can be reached directly at 509- 220-4253 or bharman@palousecap.com.

If readers have any questions about anything mentioned in this report please feel free to contact us any time at 800-624-3833. Readers can also refer to our website, www.palousecap.com, for more information and can email PCM's Chief Investment Officer directly at bharman@palousecap.com with any questions. Readers should not assume that any investments in the securities mentioned in this program were or will be profitable or will continue to be held in the future. Pursuant to Rule 206(4)-1(a)(2)(A) we will provide a list of all trades made on behalf of clients in the past year upon request.

All data used to create this report was provided by Bloomberg L.P. unless otherwise indicated.

The PCM market model examines the universe of the 1,000 largest actively traded equities trading in the United States (referred to as the "Top 1,000"). The "Price to Earnings Ratio" is calculated by comparing the total capitalization for each market cap range and each sector to the total estimated net income (from sell side estimates) for the respective market capitalization range or sector. The "Price to Book Value Ratio" is calculated by comparing the total capitalization for each market cap range and each sector to the total last reported shareholder's equity for the respective market capitalization range or sector. "Upside to Target" is calculated using float adjusted market capitalization weightings and the one year upside potential to the average sell side target price for each security.

"Market cap" means market capitalization.

"LCV" refers to PCM's Large Cap Value Strategy.

"TR" means our Large Cap Total Return Strategy.

"SMID" means Small to Mid Capitalization and also refers to our Small/Mid Cap Value Strategy in certain contexts.

"ACT" means our All Cap Tilt Strategy.

"DI" means our Diversified Income Strategy.

"SPX" refers to the Standard & Poors® 500 Index ("S&P® 500"). The Standard and Poor's 500 Index is a free-float capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic equity market. The S&P 500 equal weighted index is the equal weighted version of the SPX. The S&P® High Dividend Yield Index measures the performance of 80 high dividend yield equities within the SPX. The S&P SmallCap 600® index is a capitalization weighted index that measures the performance of 600 small capitalization stocks.

The Russell 3000® Index is a float-adjusted, market capitalization weighted index comprised of equities of the 3000 largest domestic companies. The Russell 2500® index is a subset of the Russell 3000 index comprised of the 2500 smallest cap equities in the Russell 3000 and represents the SMID segment of the domestic equity market. The Russell® 2000 Index is a subset of the Russell 3000 index comprised of the 2000 smallest cap equities in the Russell 3000 index and represents the small cap segment of the domestic equity market.

About Mr. Harman:

Bryn Harman, CFA is the Chief Investment Officer and Chief Executive Officer of PCM. Mr. Harman holds a Bachelor of Commerce degree (Finance and Economics) from the University of Saskatchewan (1992) and he earned the Chartered Financial Analyst designation in 1997. Bryn began his career with a financial planning firm in 1994. Since then, Bryn has worked in several investment and corporate finance roles in Western Canada and the Pacific Northwest. Bryn is the former Director of Research for an investment management firm that had over $2 billion in assets under management at the time. Mr. Harman has been a portfolio manager with PCM since 2011 and he has held the position of Chief Investment Officer since 2013. Mr. Harman is a 50% owner of Palouse Capital Management.