



BHC Equity Capital Markets Update

Week of May 11, 2020



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May 13, 2020 - New York, NY - Brooks, Houghton & Company, Inc. ("BHC") issues its second *BHC Equity Capital Markets Update*, providing timely market intelligence:

Market Observations: Major Indices Are Slowly Retracing

- **Economic Data:** Employers cut an unprecedented 20.5 million jobs in April, tripling the unemployment rate to 14.7%. With no immediate reversal in sight, analysts expect unemployment to average 18% this quarter when job cuts spread further into white-collar work.
- **Earnings Scorecard:** According to FactSet, for Q1 2020 (with 86% of the companies in the S&P 500 reporting actual results), 66% of S&P 500 companies have reported a positive EPS surprise and 58% of S&P 500 companies have reported a positive revenue surprise. Still, the blended earnings decline for the S&P 500 is -13.6%, a dip not seen since Q3 2009 (-15.7%).
- **Market Performance:** The movement upward in the broader markets is head scratching. With earnings declines across the board, stocks have regained more than half of lost returns since the March bottom. Many investors believe the recession could be short-lived as states and the economy begin to open up.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 21.1 as compared to 19.0 on February 19th when the index closed at a record-high value.
- **SEC:** Approved Listing Rule 5636T proposed by Nasdaq to provide companies with a temporary limited exception on PIPEs through June 30, 2020, to suspend certain shareholder approval requirements in an effort to streamline access to capital amidst the market uncertainty.

Fund Flows and Investor Sentiment

- Many VC funds are likely to shift capital deployment this year, **focusing on supporting existing portfolio companies over new investments**. PitchBook VC analysts believe older vintages are more at risk now than

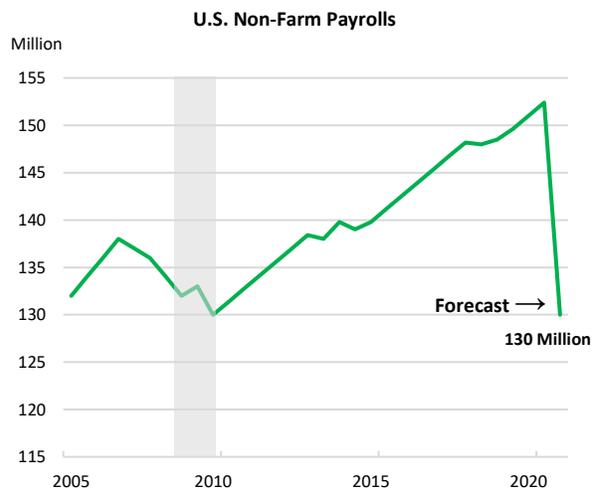
during the last financial crisis. **Net cash flows to LPs could turn negative** in 2020 after a multiyear stretch of healthy distributions.

- Equity funds saw their **3rd week of outflows** in a row and the largest since March. Across sectors, Healthcare was a lone bright spot last week as investor dollars continue their movement into the Biopharma and MedTech subsectors. Cyclical continued to struggle and Tech saw a rare week without strong inflows.
- **New issuance** continues to be very sparse with a smattering of IPOs getting priced around the globe and some episodic follow-on and convertible bond offerings for strong Use of Proceed stories.

Relevant Market Data



Q2 2020 Through May 6. Companies with \$5 Billion Market Cap or More.
By The New York Times | Source: Sentio



By The New York Times | Source: BLS

If you wish to discuss any of the topics and themes presented in the newsletter, or are involved in any equity capital transactions requiring assistance or introductions, then please contact Dave Maher at (917) 689-6767 or dmaher@brookshoughton.com.

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