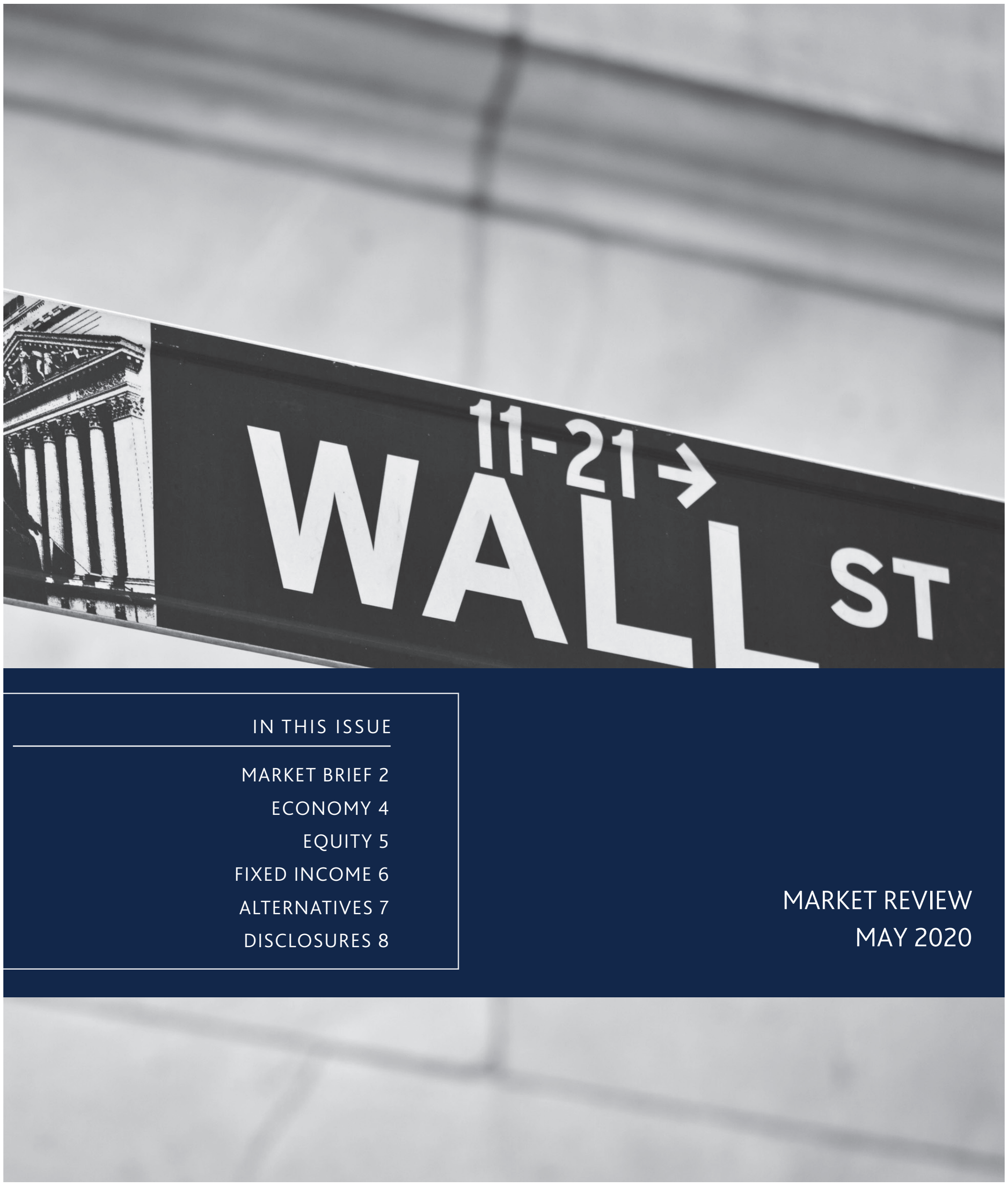

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MARKET REVIEW
MAY 2020

TRUST COMPANY of NORTH CAROLINA

2020 COVID-19 RECESSION PROJECTED TO BE SEVERE BUT BRIEF

Following a record-long 11 years of U.S. economic expansion, the economy swiftly plunged into a downturn as aggressive social distancing policies put in place to combat the spread of COVID-19 brought many industries to a near standstill. The global and U.S. economies are projected to experience recessions this year, based on the widely used definition of a recession as two consecutive quarters of economic contraction. The International Monetary Fund (IMF) expects the "Great Lockdown" 2020 recession to surpass the 2008-2009 Global Financial Crisis (GFC) as the worst global recession since the Great Depression. The IMF projects 2020 economic activity will contract by 3.0%, 5.9%, 7.5%, and 1.0% in the world, U.S., euro zone, and emerging markets, respectively. Under the IMF's projection, the cumulative loss in global economic output in 2020 and 2021 will total $9 trillion, more than the economies of Japan and Germany combined.

2020 IS UNLIKE PREVIOUS RECESSIONS

There is a wide range of economists' estimates as to the magnitude of the recession and recovery given the evolving nature of the COVID-19 pandemic and the largely unprecedented economic environment. Historically, recessions have usually arisen from the bursting of financial asset bubbles, oil price shocks, or Federal Reserve interest rate hikes to prevent excessive inflation and financial imbalances in an overheated economy. The unique nature of the current downturn, resulting from widespread lockdowns of non-essential services, makes it difficult to apply the typical business cycle approach to track the recession and recovery. As a result, some economists view this situation more like an extreme natural disaster that will likely be brief, but more severe than most historical recessions.

Another factor that makes this downturn unusual is the contraction in U.S. consumer spending, which declined 3.8% year over year in March. In the eight recessions since 1960, the only other time consumer spending growth went negative was 2008-2009. The resilience of consumer spending even during recessions usually provides some support for economic growth since it has accounted for approximately two-thirds of U.S. economic activity in recent decades. However, consumers are leading this economic downturn as lockdown measures are causing an unprecedented hit to the services sector which accounts for around 80% of U.S. GDP.

U.S. ECONOMIC GROWTH FORECAST

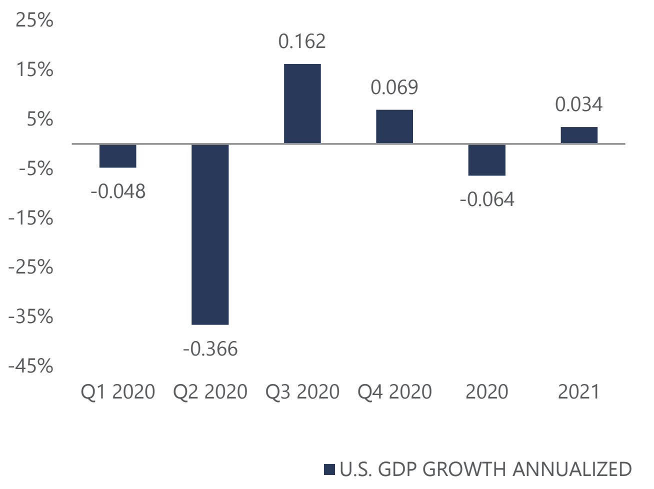
The 2020 U.S. recession is expected to be the shortest and most severe recession in the post-WWII era. Bloomberg economists project the reported 4.8% annualized GDP decline in the first quarter will accelerate to a 36.6% drop in the second quarter, followed by a rebound in the second half of the year with growth of 16.2% and 6.9% in the third and fourth quarters, respectively. This will leave 2020 growth at negative 6.4%. The cumulative decline in GDP from peak to trough is estimated to be 11.9%, around three times the 4.0% GDP loss during the GFC, but occurring over just one-third of the time.

The Bloomberg economists note their projections are tentative, at best, because their work is based on highly uncertain factors including the duration of lockdowns and details surrounding how the economy will be reopened. The biggest risk to these projections is if the economy reopens too early and a second wave of COVID-19 cases forces reimplementation of lockdown measures. In that scenario, the IMF believes 2020 economic growth could be 5.1% and 4.5% lower than their baseline projections for developed and emerging markets, respectively.

While economists' projections paint a grim view of the current economic situation, it is important for long-term investors not to lose sight of the broader macroeconomic picture beyond the near-term trajectory of the economy. The ultimate implications for asset prices depend on the long-term impact of recessions, which includes the initial economic shock and the lasting effects beyond the recession. One of the reasons the GFC was so destructive is because it led to a downshift in economic activity amid the multi-year unwinding of financial imbalances and debt deleveraging. BlackRock investment strategists estimate the long-term effects of the GFC by measuring its economic activity shortfall. Shortfall is the difference between actual GDP and the hypothetical level GDP could have been based on the pre-recession economic growth trend. BlackRock estimates the GFC's cumulative shortfall totaled 50% of the pre-recession GDP trend level. The 2020 recession is expected to have a

U.S. ECONOMIC GROWTH FORECAST*

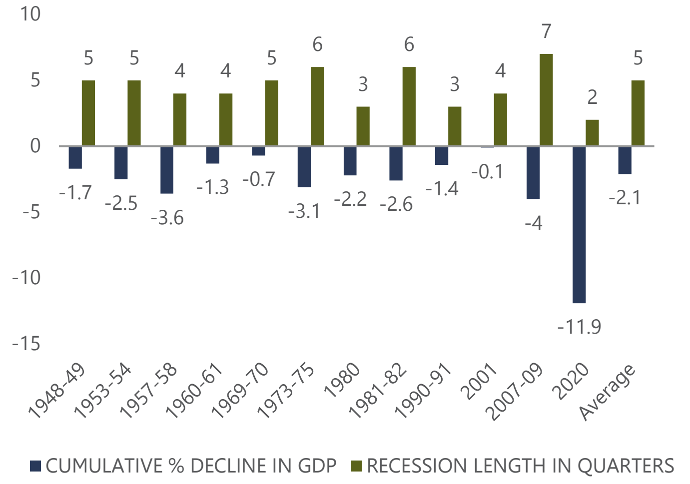
SEASONALLY ADJUSTED ANNUALIZED GROWTH



Source: Bloomberg
Past performance does not guarantee future results. *Q1 2020 actual GDP growth

U.S. RECESSIONS' DEPTH AND LENGTH

% LOSS IN GDP AND LENGTH IN QUARTERS, 2020 FORECAST



Source: Bloomberg
Past performance does not guarantee future results.

modest shortfall of 15%. Despite projections for this year's recession to have a larger short-term contraction in GDP than the GFC, the long-term effects, as measured by shortfall, are expected to be only a fraction of the GFC based on the assumption of a quicker recovery beginning in the second half of this year.

The economy will likely recover quicker than it did after the GFC because banks and consumers have better financial health than in 2008. Stronger balance sheets among banks and households should help to foster a faster rebound in lending and consumption. Consequently, the drop in consumer spending should create pent-up demand for some products instead of a permanent downshift in consumption. At the end of last year, household debt as a percentage of disposable income was 100% compared to 136% in 2008. In addition, household financial obligations from debt payments as a percentage of disposable income is near a record low at 15.1%. Banks' capital adequacy ratio, which measures a bank's capital versus risk assets, is higher than in 2008. The banking system's strength is also supported by large cash holdings and low loan-to-deposit ratios.

Economists are divided on how fast economic activity will recover after lockdown measures are lifted. Some economists believe there will be a quick V-shaped recovery while others expect a more gradual U-shaped recovery. A *Wall Street Journal* survey of more than 60 economists showed that 47.1% expect V-shaped, 45.1% U-shaped, and the remaining percent favor other scenarios such as a W-shaped double dip recession. Economists supporting the more gradual U-shaped recovery are cautious about how quick consumption will rebound given the fall in consumer confidence. Also, lingering fears of a second wave of COVID-19 cases could cause some consumers to maintain social distancing for longer, leading to a slower recover in virus-sensitive sectors including restaurants and travel. Another reason cited for the U-shaped recovery is that business investment may take longer to recover compared to consumer spending. Bloomberg economists forecast business investment will fall 35% in the second quarter, a larger decline than during the GFC.

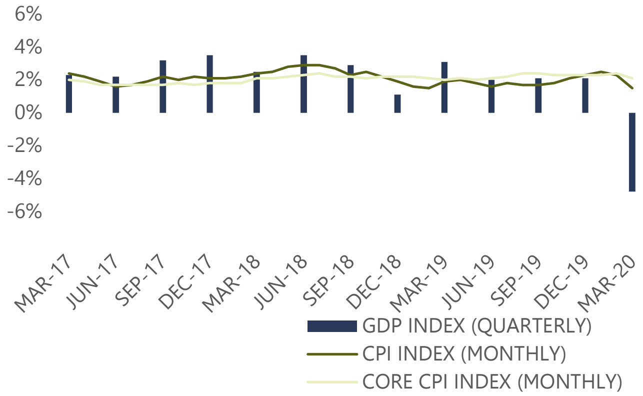
EMPLOYMENT FORECAST

In the brief time span of two months the U.S. economy went from historically low unemployment of 3.5% in February to 14.7% in April, the highest since the Great Depression. Based on the seven-week surge in unemployment claims to 33.5 million thus far, economists believe the unemployment rate should peak around 20% in May and decline sharply to high single digits by year end. This will surpass the GFC's peak unemployment rate of 10% in 2009 and approach the Great Depression's peak unemployment of 25%. The U.S. Bureau of Labor Statistics March employment report showed temporary layoffs have accounted for a significant majority of the massive increase in unemployment since mid-March. The large proportion of temporarily unemployed U.S. workers compared to workers who lost their jobs on a more permanent basis suggests a high percentage may reenter the labor force later this year. S&P Global Ratings economists believe over 10 million Americans will be back to work by July.

ECONOMY

GDP AND CONSUMER PRICES

MARCH 2017 THROUGH MARCH 2020

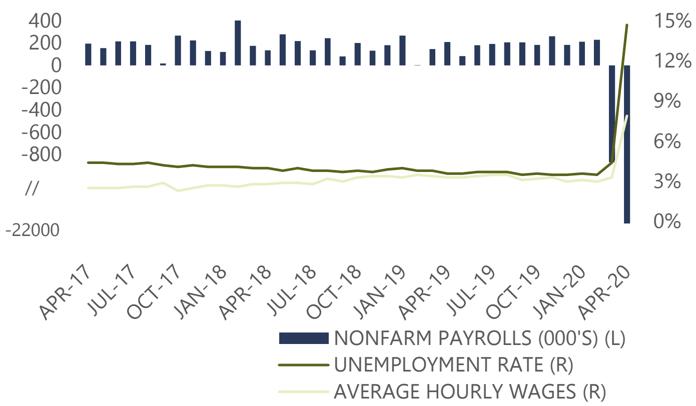


Source: Bloomberg

- Economic activity in the U.S. for the first quarter of 2020 contracted at a 4.8% annualized rate. Consumer spending, which largely supported the economy in recent quarters, dropped 7.6%.
- Second quarter U.S. real gross domestic product (GDP) is likely to show a deeper contraction since government-mandated lockdowns began in the last weeks of March. Mitigation efforts to contain the spread of COVID-19 paired with availability and effectiveness of testing will be crucial in determining the path of recovery.
- The Core Consumer Price index (CPI) decelerated to 2.1% in March from a year earlier. Core inflation may pick up in the short term as consumers have launched into emergency preparation mode, and supply shortages have increased worldwide.

LABOR MARKET

APRIL 2017 THROUGH APRIL 2020

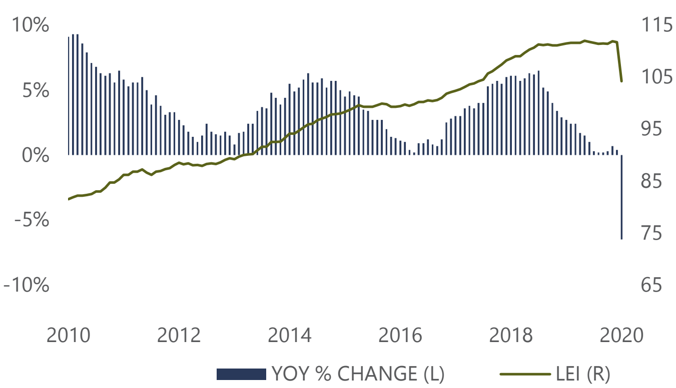


Source: Bloomberg

- Efforts to contain COVID-19 led to one of the worst employment situations in U.S. history after 20.5 million jobs were lost in April. March job losses were revised lower to 870,000 from initially being down 701,000. Job losses associated with the pandemic have erased all of the 23 million jobs created since the 2008-2009 recession.
- The unemployment rate spiked to the highest level since the Great Depression at 14.7%, up from 4.4% in March. The Bureau of Labor Statistics said the unemployment rate would have been worse if all absent workers were recorded as unemployed.
- Average hourly wage growth climbed to 7.9% from 3.3% in March as lower wage jobs bore the brunt of the job losses.

LEADING ECONOMIC INDICATORS

MARCH 2010 THROUGH MARCH 2020



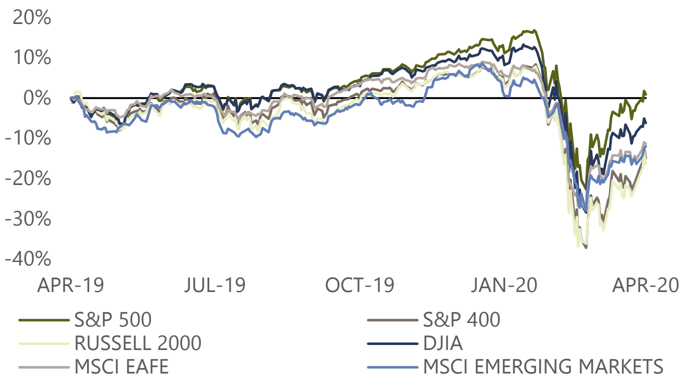
Source: Bloomberg

- The Conference Board Leading Economic Index (LEI) is used to gauge future business activity within the United States. The severe 6.7% drop in the LEI for March reflected the sudden halt in business activity as containment measures intensified, and suggests the U.S. could be facing a deep contraction.
- Initial unemployment claims were the largest negative contributor to the March LEI reading after record numbers of Americans filed for benefits in the second half of the month. Unemployment claims have totaled more than 30 million in the six-week period ending April 25.
- Stock price gains in April will contribute positively to next month's LEI reading, but weakness among most other components will remain widespread.

EQUITY

TRAILING 12-MONTH EQUITY RETURNS

PRICE APPRECIATION, APRIL 2019 THROUGH APRIL 2020

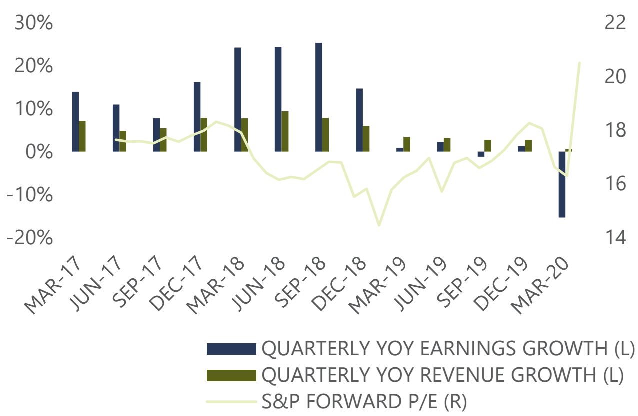


Source: Bloomberg. Past performance is no guarantee of future results.

- After registering one of its worst monthly declines in history of -12.35% in March, the S&P 500 rebounded 12.82% in April. This marked the benchmark's third best month since 1940 and sixth time since 1940 with a monthly gain above 12%. The S&P 500 gained 30.38% since the market bottomed on March 23 and has recovered roughly 60% of the drawdown since the prior peak on February 19.
- The relief rally was driven by significant fiscal and monetary stimulus and hopes for a return to normalcy amid signs the spread of COVID-19 is slowing and the global economy is gradually reopening in some areas.

S&P 500 YOY EARNINGS & REVENUE GROWTH

BY QUARTER, MARCH 2017 THROUGH APRIL 2020

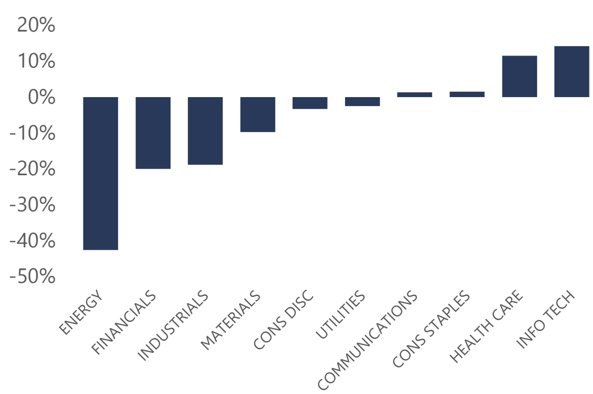


Source: Bloomberg

- More than half of S&P 500 companies have reported first quarter results. Earnings are on track to contract 15.16% on a year-over-year basis, worse than analysts' initial projection for an 8.28% decline. Revenue growth of 0.65% is below the analysts' estimate of 1.21%.
- Companies continue to pull their previous guidance amid low visibility into the impact of the COVID-19 pandemic. Over the last month, analysts have rapidly revised their 2020 earnings growth forecast lower to a 20.06% decline from a 10.11% decline. Analysts forecast the earnings contraction to accelerate in the second quarter with a 39.49% drop followed by declines of 21.65% and 9.64% in the third and fourth quarters, respectively.

S&P 500 SECTORS 12-MONTH PRICE RETURNS

APRIL 2019 THROUGH APRIL 2020



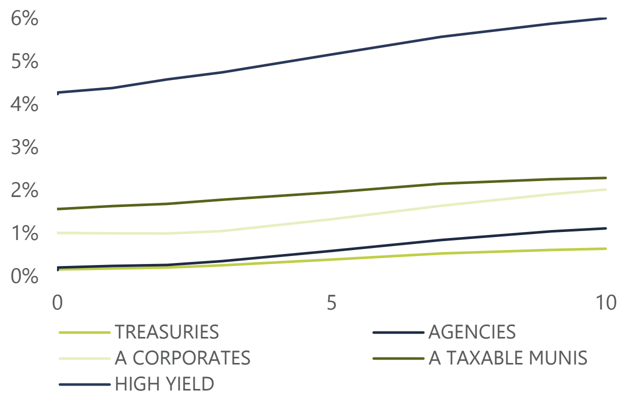
Source: Bloomberg

- The energy sector led the April rally with a record monthly gain of 29.78% despite the collapse in price of U.S. West Texas Intermediate (WTI) crude oil. The Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries, such as Russia, reached a historic agreement to cut oil production by 9.7 million barrels per day to support oil prices. Western Europe's largest oil producer, Norway, voluntarily joined the effort to cut production.
- The consumer discretionary sector was the second best performing S&P 500 group, rising 20.55% in the month. Amazon (AMZN), which accounts for almost 25% of the sector's weight, gained 26.89% amid a jump in demand for its services including e-commerce and cloud computing.

FIXED INCOME

CURRENT YIELD CURVES

YIELD CURVES AS OF APRIL 2020

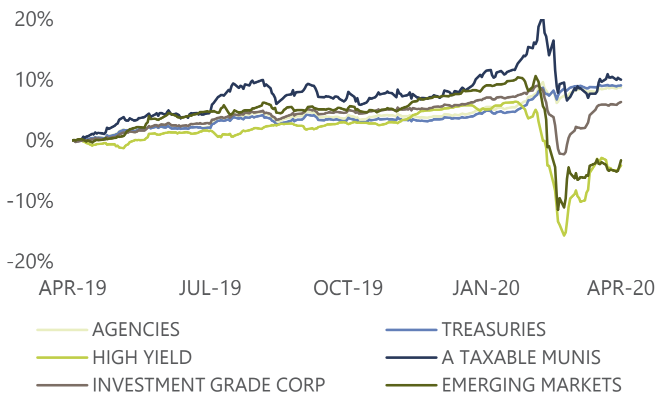


Source: Bloomberg

- The U.S. Treasury yield curve remained relatively unchanged in April. Yields on 2-year, 10-year and 30-year maturities all moved 5 basis points or less in the month.
- Yields on below investment grade bonds have increased significantly more than the other bond segments shown in the accompanying chart amid the COVID-19 pandemic, as bond investors have shown a preference for investment grade bonds that qualify for recently introduced U.S. Federal Reserve purchase facilities.
- A-rated taxable municipal bonds offer higher yields than A-rated corporate bonds, signaling that investors might expect the creditworthiness of municipalities to be more adversely impacted by the COVID-19 pandemic than corporations.

12-MONTH RETURNS, TAXABLE BOND SEGMENTS

APRIL 2019 THROUGH APRIL 2020

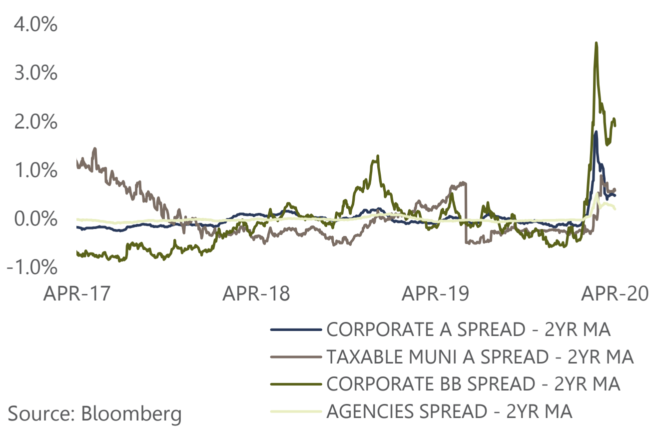


Source: Bloomberg. Past performance is no guarantee of future results.

- The three highest quality fixed income sectors shown in the accompanying chart (Treasuries, Agencies and A-rated taxable Municipals) each generated a price return of over 6% in the past 12 months.
- Meanwhile, the two lowest quality sectors (High Yield and Emerging Markets) have experienced declines as bond investors flock to quality amid the COVID-19 pandemic.
- Taxable municipal bonds performed better than other areas of the bond market over the past 12 months with a 10.35% return. The next best performing bond segment, Treasuries, generated a return of 9.11% over the same period.

SPREAD VS. TREASURY LESS 2-YR MOVING AVG

APRIL 2017 THROUGH APRIL 2020



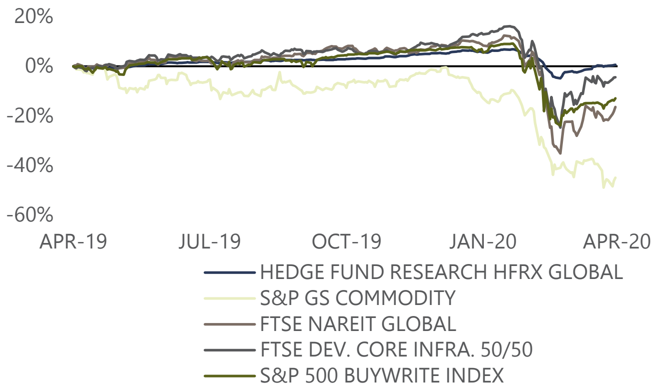
Source: Bloomberg

- The yield spreads to similar maturity Treasury securities for all of the fixed income sectors shown in the accompanying chart are above their two-year average levels.
- A-rated taxable municipal bonds were the only fixed income sector shown in the accompanying chart that experienced spread widening in April.
- A-rated corporate bonds saw their spreads tighten more in April than their BB-rated peers, signaling that demand for corporate credit grew in the month, but with a preference toward higher quality issues.

ALTERNATIVES

ALTERNATIVES, 12-MONTH RETURNS

APRIL 2019 THROUGH APRIL 2020

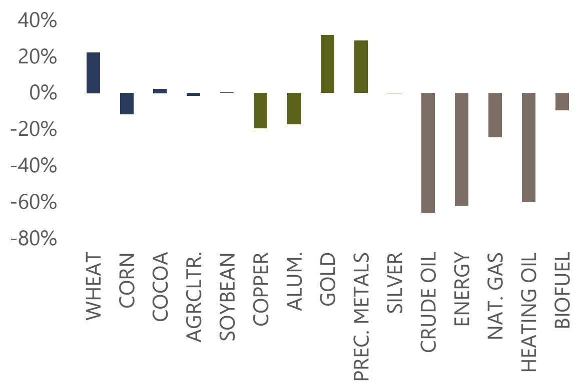


Source: Bloomberg. Past performance is no guarantee of future results.

- The global hedge fund asset class was the only one of the five alternative asset class indexes shown on the chart to the left to provide significant downside protection against sharp declines in global equity from mid-February through the end of March.
- Energy and industrial metal commodity prices remained under pressure in April, as the first indications of the COVID-19 outbreak's effect on economic activity emerged. Front-month U.S. oil futures contract prices briefly plummeted below $0 per barrel briefly on April 20 before recovering to close the month at $18.84 per barrel.
- The global real estate and infrastructure asset classes both rallied by roughly 30% from March 23 through April 30.

COMMODITIES, 12-MONTH SPOT RETURNS

APRIL 2019 THROUGH APRIL 2020



Source: Bloomberg. Past performance is no guarantee of future results.

- The collapse of the front-month U.S. crude oil contract in late April revealed the full effect of a supply glut, diminished storage capacity and weakened oil price demand.
- The International Energy Agency (IEA) indicated its expectation for global oil demand in April to be 29 million barrels per day lower than a year ago, marking its lowest level since 1995.
- Gold remains one of the only bright spots across the commodities complex, as the precious metal advanced 11.1% in the first four months of 2020 following an 18% advance in 2019. Gold's popularity among investors has increased in response to heightened global geopolitical tensions, falling global interest rates and economic uncertainty surrounding the COVID-19 pandemic.

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