



MARKET MATTERS

WEEKLY INVESTOR UPDATE

April 22, 2020

Executive Summary

- The curve of overall COVID-19 infections continues to flatten, although there may be daily spikes and developments may be uneven by region.
- Reported infections and deaths will increase, even retroactively, as testing increases.
- Post-infection immunity is still uncertain. Best guess is a few months to a few years.
- States continue discussing reopening plans and the U.S. Senate passed another spending bill.
- Oil rattled markets. Futures prices went negative as supply overtook storage capacity.
- USO, a large oil ETF, exacerbated the drop as it rolled its investments from May to June contracts. Trading in the fund was halted and the fund announced it can now invest in longer-term contracts.
- Short-term news is expected to be negative, but longer term outlook remains more positive.

COVID-19 Update: Flattening Curves, Reopening

Worldwide and in the U.S., the overall rate of confirmed new cases of COVID-19 continues to flatten, although there may be spikes on any given day and developments may be uneven by region.¹ As testing increases, reported infections and deaths are expected to increase. Last week, Chinese officials indicated that the death toll in Wuhan was 50% higher than previously reported.² While the accuracy of China's reported metrics have been questioned, the death toll is expected to increase in other parts of the world as more deceased are tested and statistics are revisited.³ California just announced the earliest known death in the U.S. occurred on February 6, when previously the first reported death was in Seattle on February 29.⁴

More testing will likely also increase reported infections. A recent study in Los Angeles County found that 4% of the population may have been infected, or 320,000 people, compared to the official reported number of 15,000.⁵ More studies and further development of tests will be needed, however, as the rate of false positives remains high in some tests. A higher rate of infections is not necessarily bad news, as it could indicate that the coronavirus is less deadly than initially believed and could mean that more people could return to work, depending on how long immunity lasts. Very little is currently known about how long immunity could last, but

¹ "New Cases of COVID-19 In World Countries," John Hopkins University. Visited April 22, 2020.

² "Coronavirus: China outbreak city Wuhan raises death toll by 50%," BBC News. April 17, 2020.

³ "25,000 Missing Deaths: Tracking the True Toll of the Coronavirus Crisis," *The New York Times*. April 21, 2020.

⁴ "California Announces Early Coronavirus Deaths; Trump Narrows Immigration Ban," *The New York Times*. April 22, 2020.

⁵ "New research shows LA County's rate of infection could be 40 times higher than number of confirmed cases," CBS News. April 21, 2020.

best guesses indicate anywhere between a few months to a few years. Reported “reinfections” in previously cured patients are raising fears that immunity may be short-lived, but further investigation is required as medical experts believe it could be due to the virus being more difficult to detect in later stages of infection.⁶

Given the relatively positive developments, coalitions of U.S. governors continue to develop plans to reopen their economies, the most recent being a coalition of southeastern states.⁷ As we mentioned in last week’s *Market Matters*, testing will be key to reopening economies and social distancing measures will likely need to continue in order to avoid a resurgence in the virus.⁸ The Centers for Disease Control and Prevention (CDC) projects a flattening curve in deaths only with extensive social distancing measures.⁹

Economic Update: More Stimulus

As we have mentioned before, economic indicators will continue to worsen, at least in the short term. Last week, another 5.2 million people in the U.S. filed for unemployment insurance, bringing the total to about 22 million since mid-March, which is over 13% of the U.S. workforce. Retail sales declined 8.7% in March, the biggest decline on record. FactSet projects U.S. GDP to contract 2.5% (annualized) in 2020 and increase 2.7% in 2021, and earnings for the S&P 500 to have declined 14.5% in the first quarter of 2020 (the largest quarterly decline since the third quarter of 2009).¹⁰ For the first time since 1976, China’s GDP contracted 6.8% (annualized) for the first quarter of 2020.

In other news, the U.S. Senate passed another spending bill of \$484 billion, primarily to replenish the Paycheck Protection Program (PPP);¹¹ President Donald Trump announced that immigration will be partially suspended¹² and that the U.S. will halt its funding for the World Health Organization (WHO);¹³ and trade barriers are complicating the delivery of critical equipment in the fight against COVID-19.¹⁴

⁶ “Does Covid-19 Infection Equal Immunity?” *Wall Street Journal*. April 19, 2020.

⁷ “Some States Look to Reopen, but Others Want More Testing First,” *Wall Street Journal*. April 21, 2020.

⁸ “The Coronavirus Economic Reopening Will Be Fragile, Partial and Slow,” *Wall Street Journal*. April 13, 2020.

⁹ “COVID-19 Forecasts,” Centers for Disease Control and Prevention (CDC). Visited April 22, 2020.

¹⁰ “Tracking the Global Impact Of Covid-19 - Weekly Summary,” FactSet. April 20, 2020.

¹¹ “Senate passes \$484B coronavirus relief package,” *The Hill*. April 21, 2020.

¹² “Trump’s immigration pause falls well short of full ban,” *Politico*. April 21, 2020.

¹³ “Trump Says He Will Halt WHO Funding, Pending Review,” NPR. April 14, 2020.

¹⁴ “Why countries can’t meet the demand for gear against covid-19,” *The Economist*. April 19, 2020.

Market Update: Oil Rattles Markets

Market news was dominated by the massive selloff in oil, particularly in the U.S. The WTI crude oil index was down 81% year-to-date as of April 21, 2020, but that hides front-end futures that actually went negative due to lack of storage. See the next section for more details. Equities, which had looked optimistic through last week, turned more pessimistic this week as the S&P 500 fell 3.1% on Monday, April 21. The dramatic fall in oil prices could lead to job losses and bankruptcies and could be an indicator that the economic impact of COVID-19 is worse than markets were expecting. As we have mentioned before, bouts of volatility are to be expected during a crisis, but the long-term outlook for economic growth remains positive.

Oil Shock

Storage concerns along with speculators being desperate to exit their May contracts led to a historic drop in oil contract prices that, until late in the morning of April 21, remained negative. Several factors led to this moment over the preceding months and the aftereffects will ripple through the economy for some time. Oil pricing has long been known to be inelastic, meaning the demand in the short term is largely unaffected by pricing; however, the storage costs for oil are not. Due to the oil glut from the Russia-Saudi price war and increased domestic production, there is little space to store oil and storage costs have risen dramatically. The cost for storage combined with the falling prices, with demand not picking up the slack created a negative feedback loop as speculators rushed to exit their contracts prior to Tuesday's expiration.¹⁵ It was cheaper to pay someone else to take the product than to find the storage. WTI oil closed at \$11.57 on April 21, but given that storage and demand concerns persist, we could see additional declines in price as the June contract comes due.

The effects of this event will be far reaching as nations that are dependent upon commodity pricing will be bracing for immediate budget shortfalls. It could also lead to job losses and bankruptcies in the U.S. energy sector.

We are here to support you and navigate these times of uncertainty together. Knowledge is power, and we're committed to equipping you and your financial professional with the tools and information you need to weather this storm. We are continuing to watch market developments and are here to assist you with evaluating and understanding these economic changes. Please contact your financial professional to discuss your portfolio or should you have any questions/concerns.

¹⁵ "The Oil Price Crash in One Word: 'Inelasticity'," *Bloomberg Businessweek*. April 20, 2020.

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