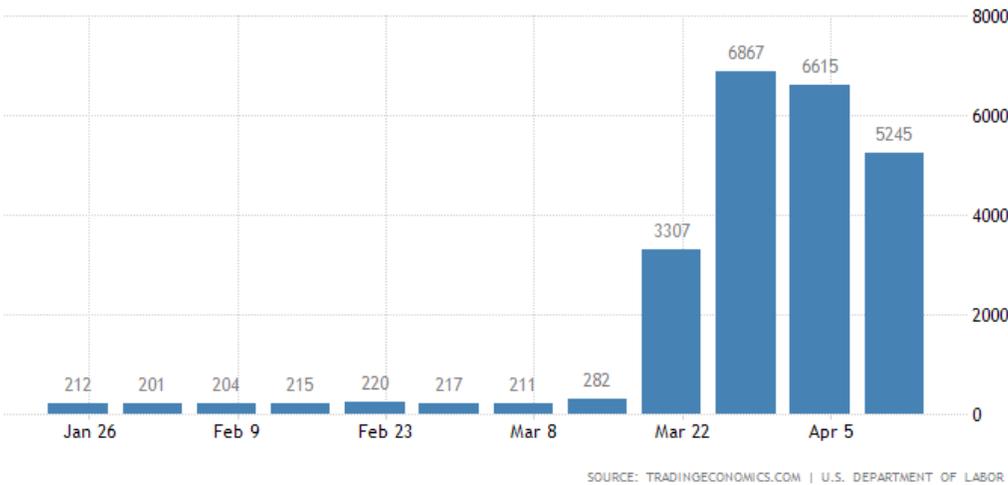




**COVID-19 Update – Flood of Data (04/17/2020)**

**Latest Developments and Economics**

If the COVID-19 pandemic continues the parallel of a natural disaster resembling a country-wide hurricane, then the initial economic damage caused by the wind and the rain occurred with the first unemployment claims report that was released two weeks ago. As often happens this initial period is followed by rising waters and floods and that economic flood came this past week in the wave of new macroeconomic data that start to



cover the shutdown period. The most shocking of course is the continued unemployment claims. The latest week saw another 5.245 million initial claims, which brings the cumulative total for the past 4 weeks to over 22 million. This is about equal to the number of jobs created since 2009. This also brings the unemployment rate

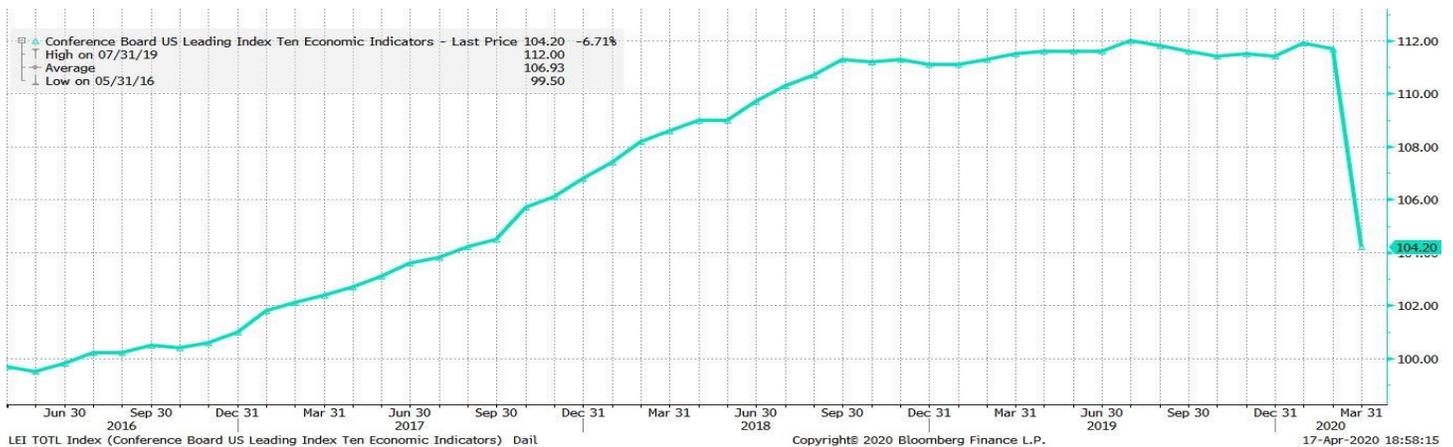
unofficially near 14% - even with the Payroll Protection Program enacted by the Treasury. With some states having capacity issues processing claims it is feasible that another two weeks of 5 million or so could bring the U.S. close to 20% unemployment – even if temporarily. There are several states, like Michigan, already at the 20% figure. There were several other macroeconomic data released that were similarly awful. Retail sales were down 8.7% - the worst reading on record – and measured through 03/31 covering only 2 weeks of most state lockdowns. Clothing, Autos, Furniture, Gasoline and Restaurants were all down significantly but, offset

somewhat by consumers stocking up on food and household provisions. Housing starts also saw a dramatic 22.3% monthly drop to 1.22 million annualized units (the largest



drop since 1984). As you can see from the chart (source: Bloomberg) housing was just starting to pick up from recent levels and, surprisingly, March 2020 was still over 1% higher than March of 2019. This reading does not fully comprehend the impact of the virus as well. Regional manufacturing surveys (New York, Philadelphia)

also showed historic drops. The “cliff notes” or summary of macroeconomic data, the Leading Economic Indicators (LEI) from the Conference Board (below) was released for March with a decline of 6.7% from the prior month.



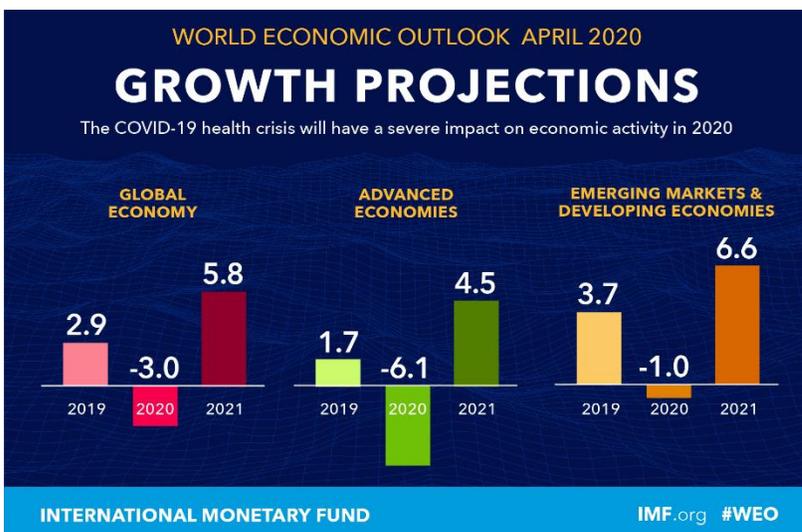
Source: Bloomberg

The LEI measures 10 economic variables and has a high correlation to near-term economic activity in the country. Of the 10 indicators only 3 were positive, led by interest rates. The poor economic data is not just limited to the U.S. but is global. China, the second largest economy in the world, experienced the first economic contraction since readings were taken in 1992. Year over year the economy shrank by 6.8%.

### China's Contraction GDP, retail sales, fixed asset investment, industry under pressure



In fact, this has all led the International Monetary Fund (IMF) to revise their April forecast of world economic output for 2020 to -3.0% from a +3.3% in January 2020 and off from +2.9% in 2019. The model forecast includes a -6.1% for developed economies (-5.9% for the U.S.) and a -1.0% for emerging economies in what they have termed “The Great Lockdown”.



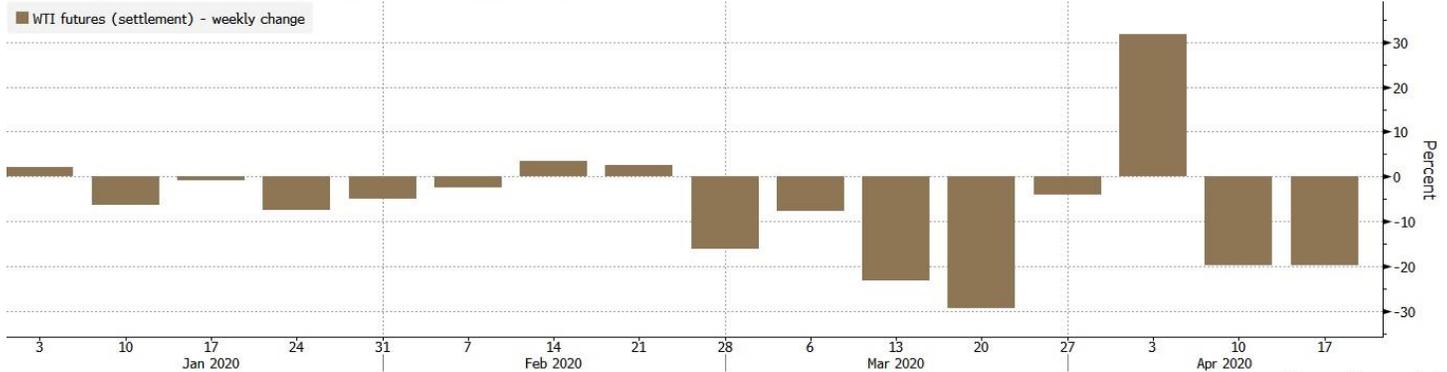
This would be worse than 2008 when the world economic output declined by 0.56%. The IMF however, does forecast a significant rebound in demand and output for the world in 2021 with world growth projected to be 5.8% higher than 2020.

There were also developments in the world oil situation. After an initial snag in the negotiations over oil production cuts due to Mexico initially

rebuking the size of their cuts, the U.S. intervened and helped move the dispute along. The eventual agreement resulted in 23 countries agreeing to cut back on oil production by an aggregate 9.7 million barrels per day which is about 13% of daily production. This was meant to stabilize the oil markets and to bring oil supply and demand back into balance. While a historic agreement in cooperation and volume it results in only an additional 7.6 million barrels per day versus the cut agreement of 2.1 million barrels that ended April 1.

**Demand Destruction**

U.S. crude posts another weekly drop as virus sends market out of balance



Source: Nymex  
 CL1 Comdty (Generic 1st 'CL' Future) WTI weekly Weekly 03JAN2020-17APR2020  
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This is not nearly enough to offset the estimated 20 million plus barrels per day drop in demand due to the lockdown. As a result, over one third of U.S. rigs have shut down and oil prices continued their slide of over 60% in 2020 to close on Friday at \$18.27 per barrel – a low not seen since January 2002. Current futures point to oil at about \$12 per barrel – levels not seen since 1999. There is significant concern that the world could run out of oil storage facilities should this go on for some time.

Despite all the negative news there has been massive effort on the part of the Federal Reserve, Congress and the U.S. Treasury to get the country past this lockdown aimed at individuals and business. The entire list of items can be found at

[https://www.wyden.senate.gov/imo/media/doc/Summary%20of%20COVID-19%20bills%20and%20Available%20Resources%20\(2\).pdf](https://www.wyden.senate.gov/imo/media/doc/Summary%20of%20COVID-19%20bills%20and%20Available%20Resources%20(2).pdf)

One of the larger pieces, \$350 billion for the Payroll Protection Program is already exhausted and a replenishment of \$300 billion is expected to come to vote this week. In addition, federal and state governments are starting to talk about the plans to open the economy. The White House issued guidelines for “Opening Up America Again”. While it is welcomed to see attention focusing on this it is very likely that the movement towards normal will be uneven. The first dimension is geography – while some countries like Germany, China and South Korea start to plan their reopening the United States will be behind. Even within the United States a federal plan will not be enacted uniformly throughout the states. The progression of the virus regionally and the specific state position on reopening will make the U.S. a rolling reopening. While many states start plan opening soon several states have extended their lockdowns until mid-May and beyond. The latest list is below:

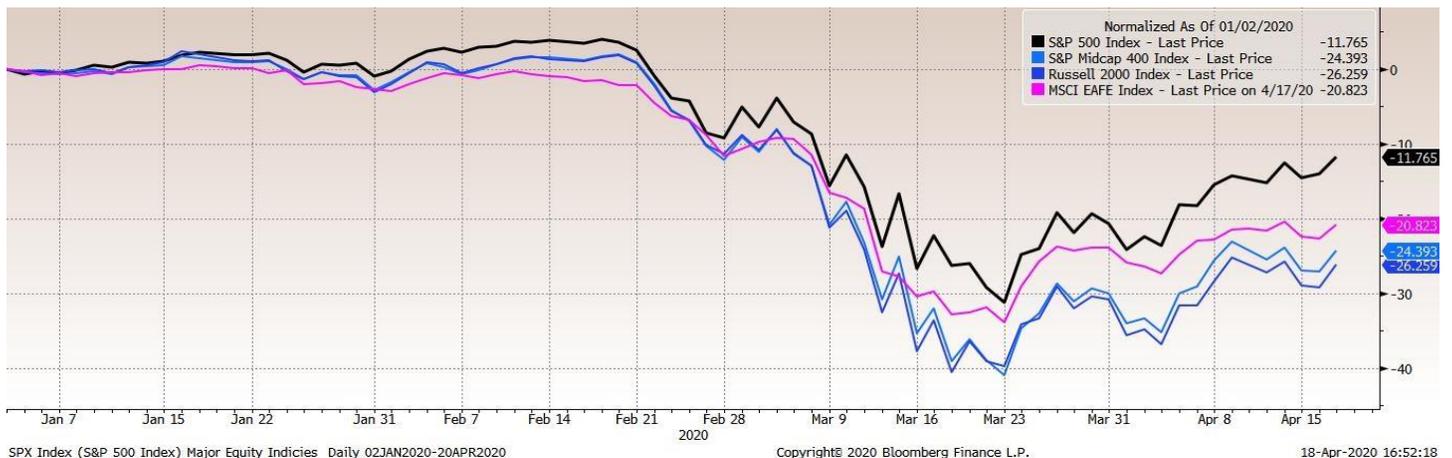
Late April	Early May	May 15	Late May	June 10	No Date	No Stay at Home Order
AL, AZ, CO, FL, GA, HI, ID, IL, IN, LA, ME, MS, MO, MT, NV, NM, NC, PA, SC, TN, TX	KS, MA, MI, MN, NH, OH, RI, WA	DC, DE, NY, VT	CT, WI	VA	AK, CA, KY, MD, NJ, OR, WV	AR, IA, NE, ND, OK, SD, UT, WY

Source: Washington Post

The reopening will also be uneven by industry or business type. The leisure, airlines, hotel and entertainment industries are expected to take much longer to recover than more essential industries like food and personal care. This will most likely be caused by consumer behavior as some will more readily resume normal activities and some still hesitant to rejoin crowded spaces unprotected. This should dissipate with further developments in testing, treatment and eventually development of an effective vaccine.

## Financial Markets

The S&P 500 finished the week up around 3.0% based on news of reopening and hopes on Gilead Sciences drug efficacy against the virus. This caps two weeks of gains in which large caps have recovered almost 2/3 of their loss in 2020. This is despite a volatile week given the poor macroeconomic data above and with bank earnings revealing a significant increase in expected loan loss reserves and muted earnings growth. The S&P 500 is now only down 11.765% for the year. This is in sharp contrast to small and mid-cap equities in the U.S. currently. They experienced a much larger downdraft of approximately 40% each and are still both down over 26% and 24% respectively for the year. With less resources for cushion and with almost 37% of the Russell 2000 companies not earning a profit before the lockdown, they are more vulnerable to this extended shock. Treasury bonds continued to rally as investors still seek safer assets. The next few weeks of earnings reports will be especially important in setting expectations for the year.



Source: Bloomberg

**Should you have any questions please contact us.**

### Buffalo Office

1114 Delaware Ave.

Buffalo, New York 14209

**PHONE: 716-883-9595**

### Jamestown Office

214 West Fifth Street

Jamestown, New York 14701

**PHONE: 716-484-2402**

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