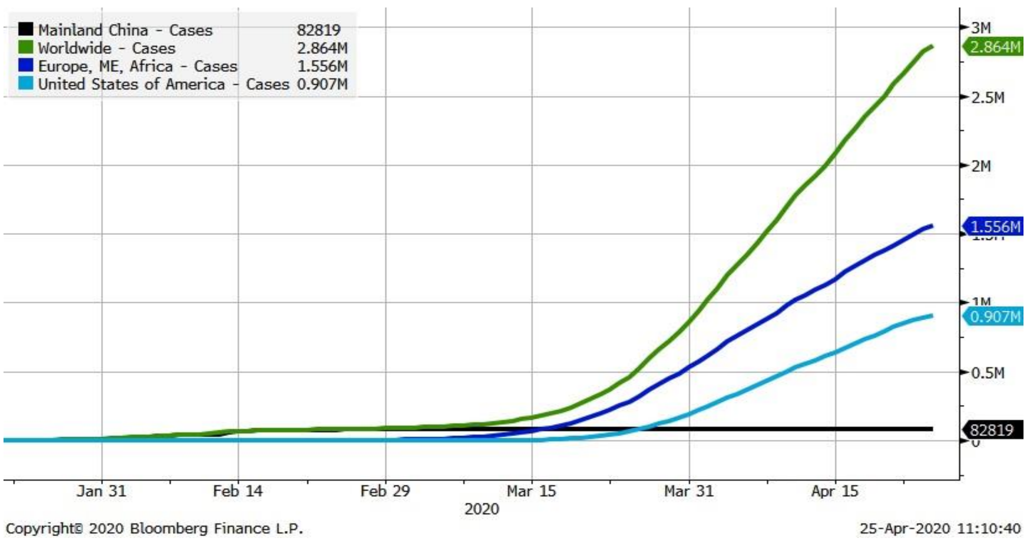
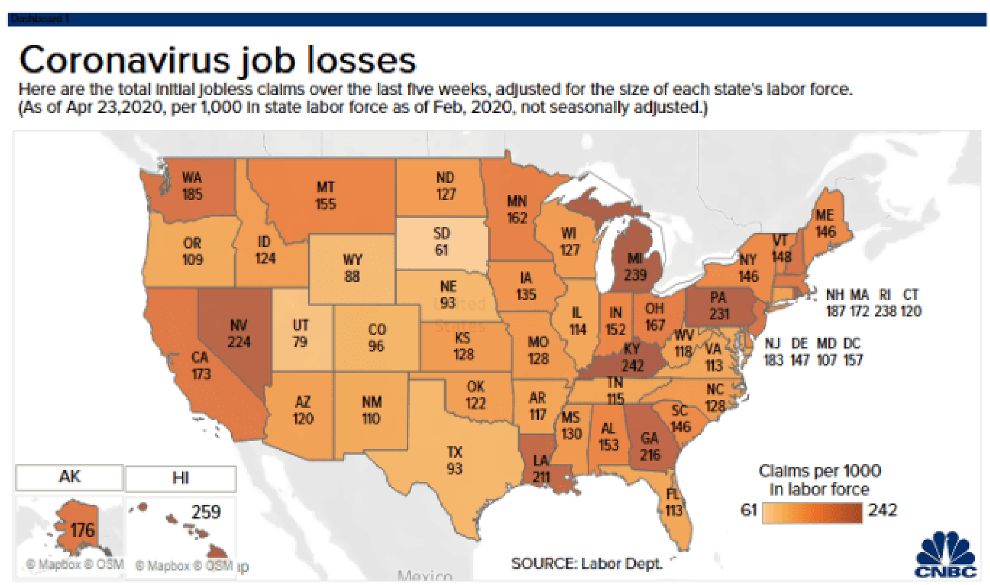
Courier Capital, LLC
Registered Investment Adviser
An affiliate of Five Star Bank

COVID-19 Update – The Waters Rise (04/24/2020)

Latest Developments and Economics

As we see the new virus cases in the U.S. start to level off we are learning more about it. This week the estimated first death from COVID-19 was revised to February 6 in Santa Clara, California so it may have started much earlier than we thought. As the number of reported cases worldwide rise to 2.86 million the U.S. reported cases are approaching 1 million (or about 31% of total cases). These reported cases in the U.S. only represent people tested and confirmed but the true infections are most likely much larger. A New York State study based on blood markers for antibodies found that 13.9% of those tested across the state had been infected by the virus. In New York City the estimate was 21.2% and State-wide as many as 2.7 million possibly were affected according to Governor Cuomo (about 10 times more than the official count). The U.S. accounts for approximately 25% of the 200,000 deaths reported globally. Worldometer data shows the reported cases and deaths in the U.S. are centered in hotspots. The states of New York, New Jersey, Massachusetts and California comprise over 50% of reported cases currently while those same states, substituting Michigan for California, account for over 60% of reported deaths in the country. This data changes the narrative of the lock downs and is one of the driving forces of increased discussion about a phased opening of the economy in parts of the United States. The most aggressive of these looks to be in Georgia and the country will be watching the results of the next few weeks.





In the meantime, economic data continues to come in providing evidence that the length of the lockdown is having a cumulative impact on the nation's economy. This past week's unemployment number of 4.427 million people brought some measured good news in its decline from prior weeks but the total of over 26 million unofficially raises the unemployment rate towards 17%. The CNBC chart illustrates the impact by state. Eight states (HI, KY, MI, RI, PA, NV, GA, LA) amassed initial claims of over 200 per 1,000 workers in the past 5 weeks. Other data reported out this week included durable goods orders, consumer confidence and Purchasing Manager's Index (PMI) all showing significant declines in economic activity in the U.S. and globally.

Aid Allocation ($ Billions)	Stimulus Package	Replenishment Bill	Total
Loans to Businesses	$454	-	$454
PPP	$339	$310	$649
EIDL	$10	$60	$70
Airlines	$78	-	$78
Household Payments	$301	-	$301
Tax Deferrals	$221	-	$221
Unemployment Insurance	$250	-	$250
Aid for States	$150	-	$150
Public Transit	$25	-	$25
Hospitals	$117	$100	$217
Other	$198	-	$198
Total Aid	$2,143	$484 **	**$2,627**

**This figure reflects total dollars allocated: includes fees

The rapid exhaustion of the initial federal stimulus program led Congress and the President to pass a replenishment of the Payroll Protection Program (PPP) and additional support for hospitals. The PPP has come under some scrutiny as it was designed for small business to continue to keep furloughed employees on payroll but, the definition allowed some public companies to receive benefits. Some of these companies (Shake Shack and Ruth Chris Steak for example) have repaid the loan after public pressure and the definition of eligible firms has been revised. The second stimulus bill totaled about $484 billion and brings the total fiscal support in the two acts to about $2.6 trillion dollars (or over 12% of 2019 GDP). States and cities are also now appealing to the Federal government for more financial assistance in response to the virus impact. Current estimates in New York State are up to a $13 billion deficit in 2020 while in one county (Erie County) the estimated potential sales tax revenue loss could be between $16 and $80 million according to the County Controller.

Estimated 2020 year-over-year corporate earnings of S&P 500 companies also continue to fall. Referring to the chart on the right, estimated first quarter (Q1) 2020 earnings growth was over 7.0% from August of 2019 through October and still assumed positive until March of 2020. Latest estimates are for significant declines in each quarter of 2020 with a Q2 peak of almost 30%, coinciding with estimated peak infections. The current expectation is for a recovery taking hold by Q4 of 2020 and continuing into 2021.

S&P 500 EPS growth estimates keep coming down

Date	1Q20E EPS Growth	2Q20E EPS Growth	3Q20E EPS Growth	4Q20E EPS Growth
8/1/2019	7.31%	8.19%	13.22%	15.02%
9/1/2019	7.48%	7.75%	13.01%	14.91%
10/1/2019	7.23%	7.33%	12.97%	14.85%
11/1/2019	5.68%	6.11%	9.94%	14.76%
12/1/2019	4.25%	5.57%	8.83%	14.72%
1/1/2020	3.68%	5.34%	8.46%	14.35%
2/1/2020	2.45%	4.64%	8.36%	11.36%
3/1/2020	-0.55%	3.48%	7.98%	8.84%
4/1/2020	-6.60%	-10.25%	-2.91%	1.93%
4/17/2020	-12.01%	-23.88%	-10.92%	-3.12%
4/23/2020	-13.23%	-27.08%	-13.42%	-5.31%
4/24/2020	-13.77%	-29.24%	-14.34%	-5.84%

Going Lower

2020 EPS estimates will continue to drop as America and the world close businesses to prevent the spread of COVID-19.

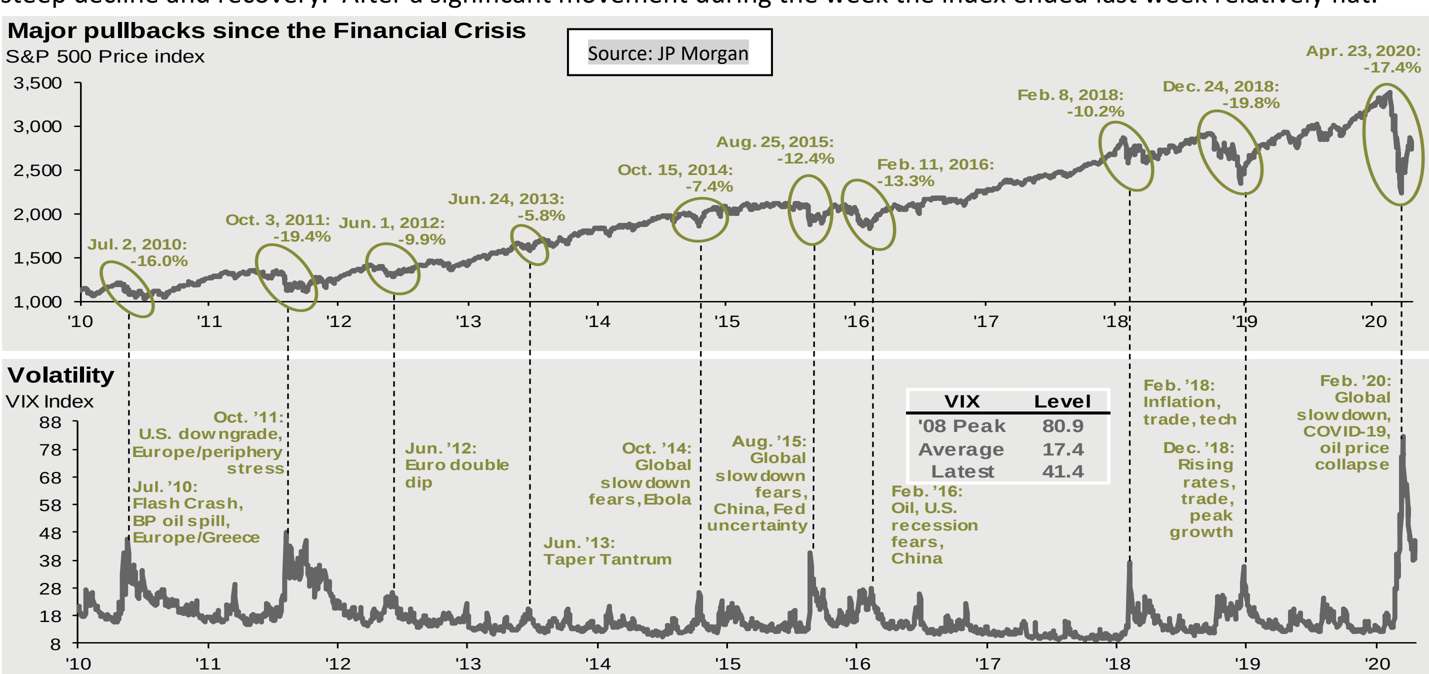
Source: The Earnings Scout

The Oil Roller Coaster in WTI

There are two measures of oil prices- WTI generally refers to U.S. domestic production while Brent is mainly for worldwide excluding the U.S. This week saw a roller coaster ride in WTI as the imbalance in oil demand and supply was exasperated by the current lack of storage facilities for the excess supply. The New York Times reported that approximately 15% of very large oil tankers, usually used to transport oil, are currently being used to store up to 2 million barrels each and the rental costs, which used to be $25,000 per day are now about $200,000 per day so it is expensive to hold oil. In what was a headline article this week WTI futures pricing went negative for a short time (blue line) reaching $-37.00 per barrel – and no, this does not mean you can have your local gas station pay you to fill your tank. Oil did recover to positive territory within 2 days but remains very weak. Oil ended Friday at $16.94 while Brent is at $21.44 – both far less than their $60 price as late as the end of January. This situation is just adding to the financial malaise. The energy sector only makes up less than 3% of the S&P 500 whereas it was 10% as recently as 6 years ago.

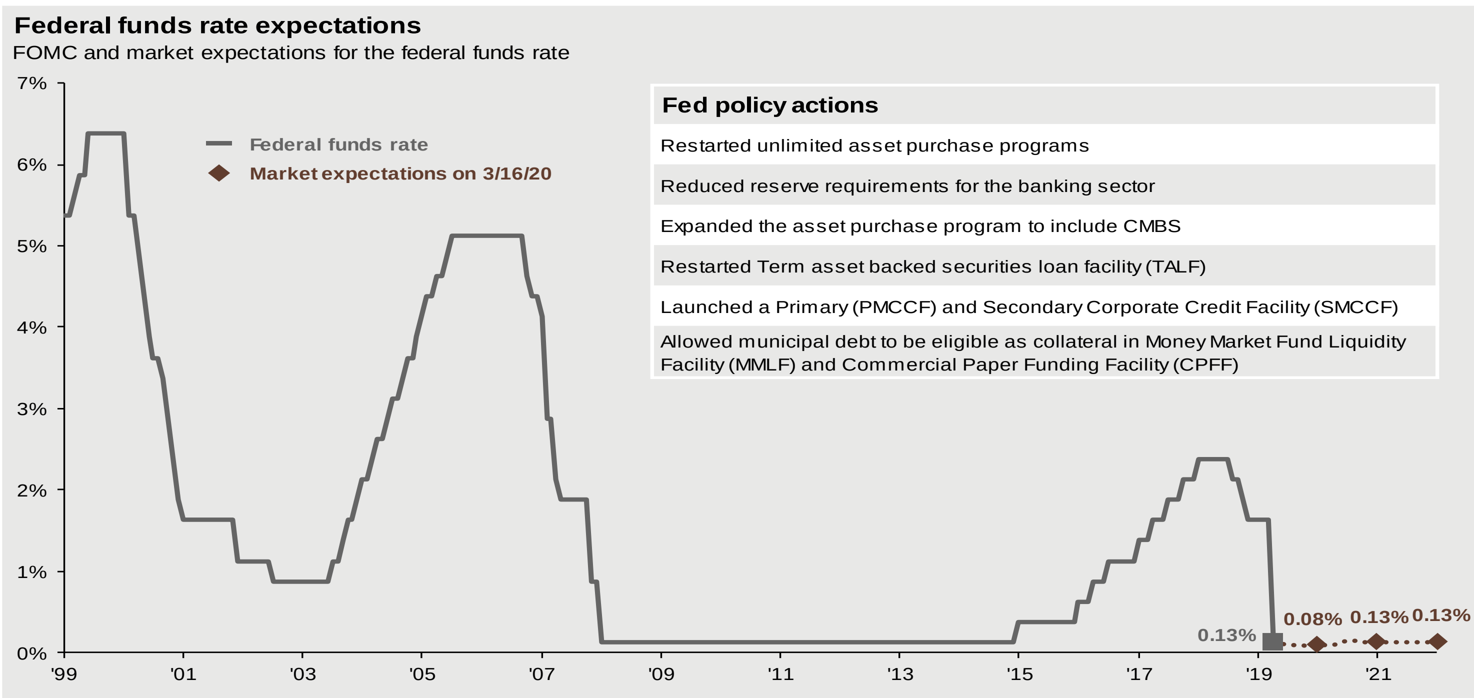
Financial Markets

Although daily movements can still be rather large the S&P 500 has generally stayed in a trading range following its steep decline and recovery. After a significant movement during the week the index ended last week relatively flat.



While volatility persists, the extreme market reactions have subsided, and the S&P 500 has recovered to YTD return of -11.7%. The VIX index measures implied volatility of the market and is generally referred to as the “fear gauge”. As you can see in the lower panel of chart the VIX will often rise considerably during times of stress and may be accompanied by significant pullbacks in the S&P 500 (upper panel). In March the VIX reached its highest level since the 2008 financial crisis. Currently the index has dropped meaningfully but is still well above its average of 17 during this period. The current market conditions give investors another opportunity to revisit and refine their portfolios to be in tune with their long-term objectives.

In addition, the current interest rate environment is very favorable to consumers. As the Federal Reserve has dropped interest rates to zero this should help to fuel economic activity once the economy starts to open. Low rates should certainly help with the purchases of big ticket items such as homes and automobiles. Many potential buyers are furloughed or temporarily unemployed and those who are not cannot visit open houses or auto showrooms. As you can see in the associated chart below interest rates are expected to remain historically low for the foreseeable future.



Source: JP Morgan

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