



COVID-19 – The Path Back to Normal (03/19/2020)

What is the updated Covid-19 situation?

As of 03/19/2020 the global cases, status and outcomes are listed below:

Covid-19 Current Global Statistics (03/19/20)

	Persons	Persons	Percent
Worldwide - Active Cases	190,179		
Mild Condition		181,038	95%
Serious Condition		9,141	5%
Worldwide - Closed Cases	107,456		
Patients Recovered		94,625	88%
Deaths		12,831	12%
Worldwide Total	297,635		

Source: Worldometer

As mentioned in previous communications the number of cases in the world would continue to rise and will most likely continue to do so through April at a minimum. This is not only due to the spread of the virus but, in many locations, the increase of testing as well. In general, early data was certainly impacted by the lack of identification (or self-identification) of patients to be tested for the virus plus the lack of available testing kits and sites. As of now, all 50 states in the U.S. have Covid-19 test labs so more people are being tested. What is noteworthy to this virus is its communicability. This is measured by a statistic called R0. The R0 for Covid-19 is thought to be approximately 1.7-2.0, which means that for every person that contracts the virus they transmit it to about 2 other people. This is the best estimate of what hopes to be the long-term numbers but are showing higher given the lack of long-term data and sample size. According to University of Michigan Public Health experts, this would put it a little higher than the seasonal flu and about the same level as H1N1 in terms of reproduction but far less than more dangerous diseases such as Ebola (1.51-2.53), Polio (5.0 – 7.0), Smallpox (5.0 - 7.0) and Measles (12 – 18). The best current self-contained example for Covid-19 is the cruise ship *Diamond Princess*. Worldometer reports that the ship had 3,711 passengers and crew aboard. According to the Journal of Travel Medicine the infection rate of the virus was high but, once the countermeasures of quarantine and isolation were implemented, the R0 fell to approximately 1.78. Further statistics on the ship indicate that 712 persons were infected with 8 reported deaths. This suggests a mortality rate among infected of about 1.1% - far smaller than the 3-4% we are seeing presently.

The example of the *Diamond Princess* and the experience in China leads us to where we are today with social distancing and as many people as possible working from home. The goal is to slow the rate of progression of the virus and reduce the number of cases overall.

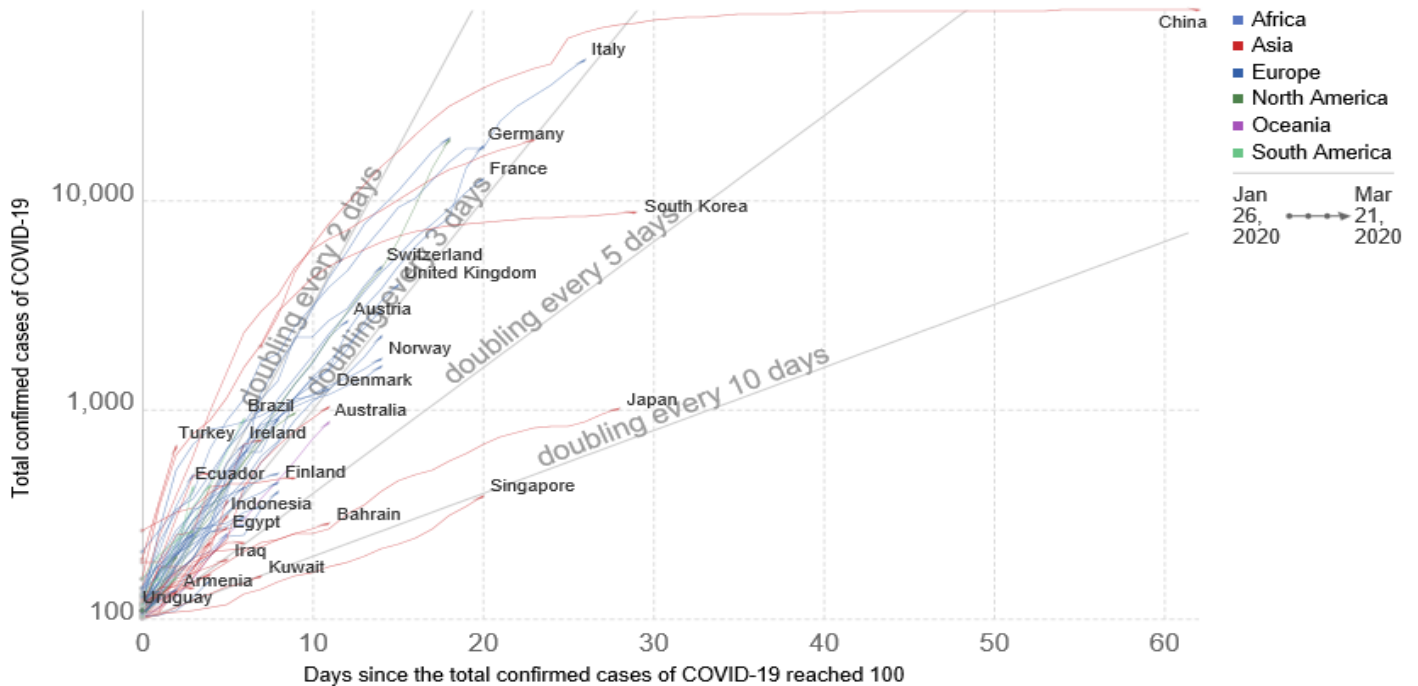
Total confirmed cases of COVID-19



The starting point for each country is the day that country had reached 100 confirmed cases

This allows us to compare the trajectory of confirmed cases between countries.

The number of confirmed cases is lower than the number of total cases. The main reason for this is limited testing.

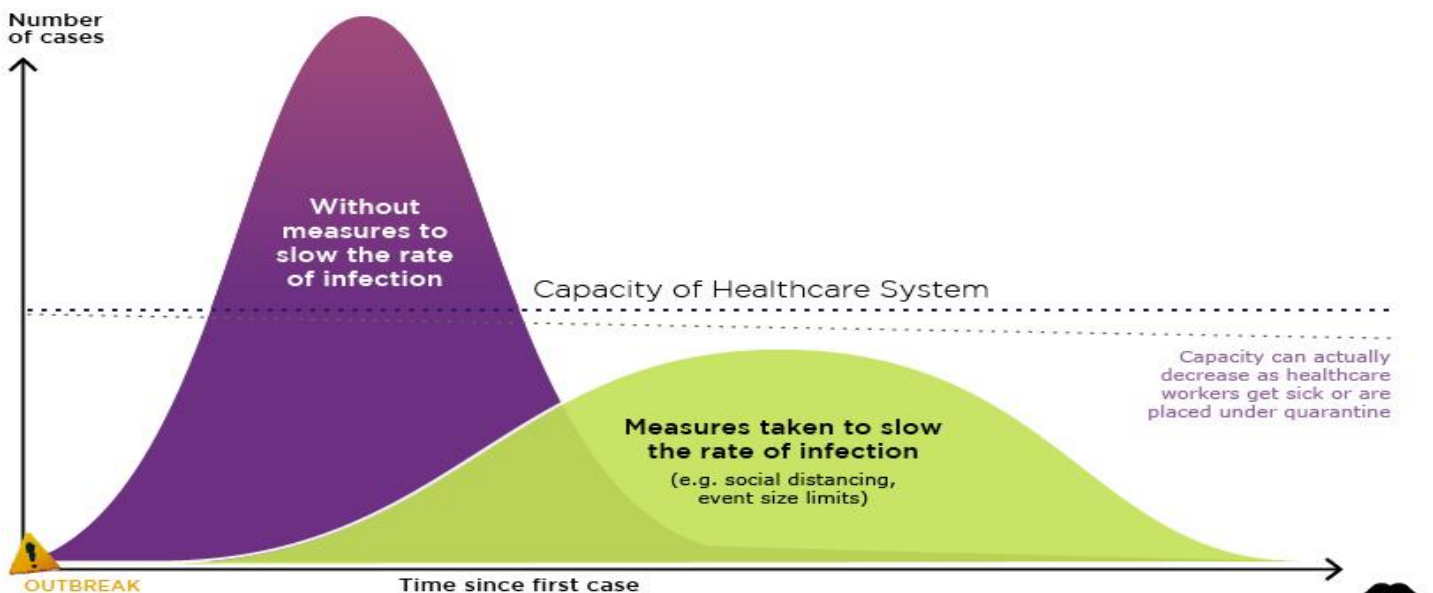


Source: European CDC – Latest Situation Update Worldwide

OurWorldInData.org/coronavirus • CC BY

This is all in an effort to “flatten the curve” so that the current medical resources in the country can deal with the most severe cases.

Flattening the COVID-19 Case Curve



Source: Adapted from Drew Harris, CDC



Although collecting data around the world is difficult, reiterating the most recent comparison of the 2009-2010 H1N1 (Swine) Flu, CDC estimated about 60 million people in the U.S. contracted the virus with at least 200,000 respiratory deaths over the course of the year globally. As the testing ramps up so that patients can be identified the next step is treatment and then eventually vaccination. Since COVID-19 is new there are no treatments or vaccines currently. Given the urgent health initiative the National Institute of Health has already fast-tracked a phase 1 clinical trial of a vaccine. If all goes well an estimated time for public delivery would be 12-18 months. A treatment for those infected is expected to come even earlier. The FDA and 22 labs in the U.S. are working literally around the clock to find a drug (hopefully already existing) that could either disrupt the virus 's own proteins (which is hard since they mutate) or protecting the human protein which prevents the virus from interacting with it.

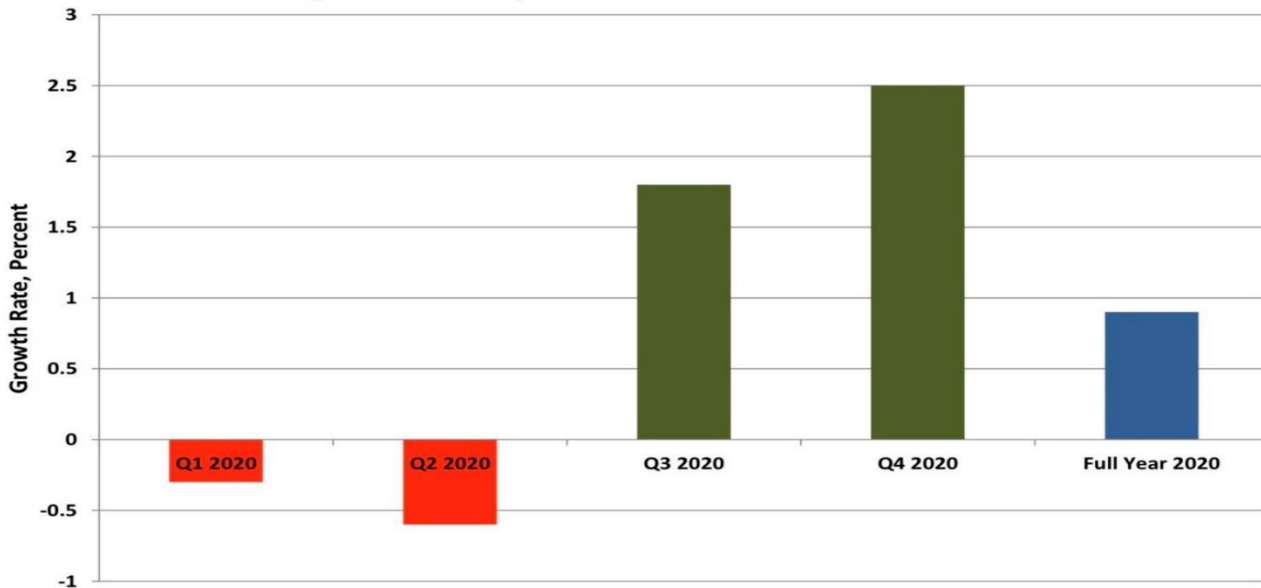
What is the economic impact?

Before the virus the U.S. economy was expected to grow somewhere between 1.7% and 2.2% for 2020. The countermeasures to slow the spread of the virus has basically brought the world's largest economy to a screeching halt. The economic data coming in through the end of February still shows an economy that was on track for growth in 2020 and historic low unemployment. It is expected that Q1 of 2020 will not show a quickly slowing economy as most of the shut-down was towards the end of the quarter. The second quarter will be a different story. It is expected that U.S. GDP will be negative given significant demand destruction. Should this continue both consumers and companies will be severely impacted in the next quarter as well. There are some estimates that second and third quarter GDP could retreat by double digits (on an annualized basis). Those same estimates are forecasting a rebound in GDP for the last quarter. In all, this will most likely meet the definition of a recession with the question being how sharp and how long. The duration of the virus impact will be the determining factor. The response has been sharp as the FOMC has quickly dropped interest rates back to zero and has provided the necessary liquidity to keep markets functioning well. In addition, an initial round of fiscal stimulus is in the works by the federal government to assist persons and industries affected. At the time of this writing the entire package is estimated to be \$2 trillion. The assistance for those suddenly laid off hopefully will be only a short-term requirement. Halting the economy for 2-3 weeks is one thing but 8-10 weeks is a much different conversation. After the crisis has passed the economic impact to consumers, companies and federal finances can be assessed.

The economic impact is not limited to the United States. Other developed economies are also in a similar situation. Italy is the worst case in Europe. The general expectations are the same for world GDP as well. The shorter the impact of this economically the quicker the world can get back to growth. Morgan Stanley estimates the following impact on global output: after a

slow down for the first two quarters a resumption of growth before the end of the year and an overall positive growth number for all of 2020.

Morgan Stanley Global Growth Base Case



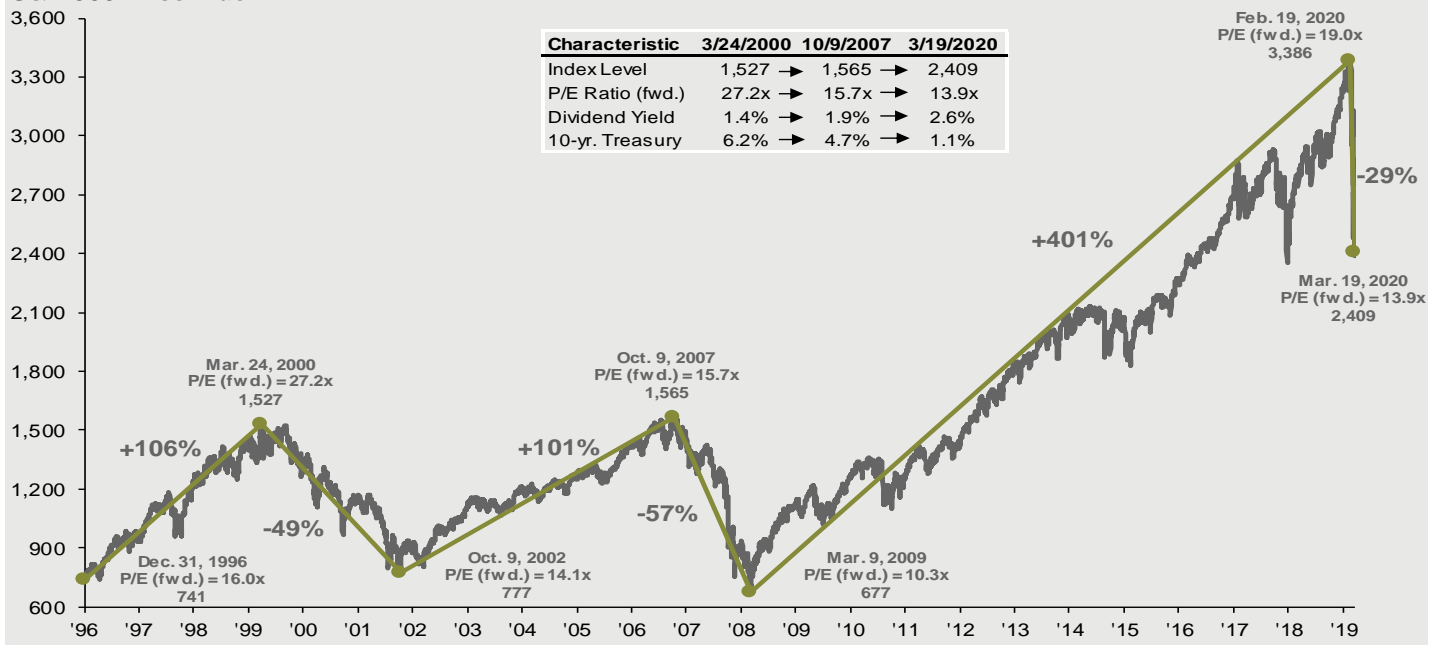
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Source: Morgan Stanley

What has been the market impact?

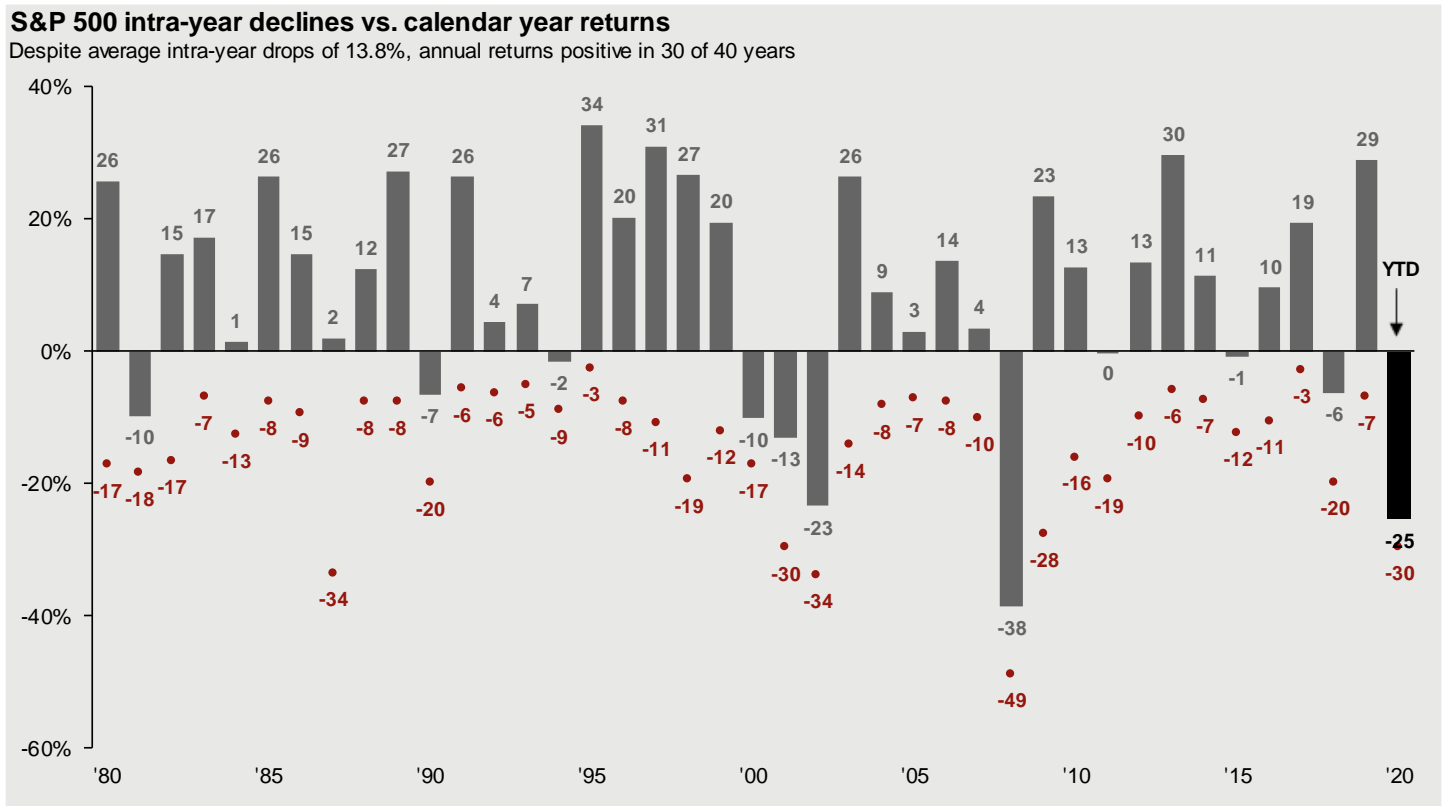
After a strong 2019 (with over 30% total return) and a historically long expansion, the market reaction has been swift and deep. This was the quickest turn to a bear market (over 20% decline) in history and one of the most volatile starts to a year recorded. The S&P 500 is down approximately 32% from its high and has moved 3% in either direction in almost half of the trading days this year (including the last 8 trading days).

S&P 500 Price Index



Source: J.P. Morgan

This extreme reaction is mainly due to uncertainty. The uncertainty around how long this will last and what the impact is on consumers and corporate revenues and profitability. The volatility will most likely continue in the short-term until some of the remedies to the virus mentioned above (testing, treatment, vaccination) start to materialize. Volatility, to some magnitude, is something the markets contend with every year. Even in 2019 at one point the market was down 7%.



Source: J.P. Morgan

This forced and panic selling has caused almost every S&P sector to decline, whether directly impacted by the virus (i.e.: travel, restaurants, hotels) or hardly impacted at all (i.e.: info tech, utilities). The average downdraft in earnings during recessions of about 30-40% historically has taken about three to four years to recover. According to J.P. Morgan current dividend futures suggest that the market is pricing in earnings decline through 2022 and approximately 10 years to recover. A 10-year earnings recovery would be on par with such events as the Great Depression and Japan and Germany after World War II. While the current virus situation is serious it is difficult at this point to put this on that same scale.

Finally, in another view historically, the table below shows what the following 1, 3, 10 and 20-year average returns in the market have been with prior corrections. In general, the deeper the corrections the more pronounced the forward recovery in future years.

This table shows the average returns over different time periods based on how far the S&P 500 declines from its high. The returns for periods longer than one year are the average annualized return of the index.

Percent From High	3 Months	6 Months	1 Year	3 Year	10 Year	20 Year
0%-5%	2.0%	4.1%	8.3%	8.3%	6.6%	6.1%
5%-10%	1.8%	3.6%	7.1%	6.8%	6.4%	6.5%
10%-15%	2.2%	3.6%	7.1%	6.7%	7.6%	8.0%
15%-20%	0.9%	1.7%	9.3%	5.7%	8.5%	9.1%
20%-25%	1.3%	3.5%	9.5%	8.4%	7.9%	9.0%
25%-30%	2.4%	3.8%	8.4%	8.5%	6.9%	9.6%
30%-35%	5.2%	8.6%	13.7%	9.3%	7.0%	9.0%
35%-40%	1.7%	7.8%	14.0%	9.5%	7.2%	9.5%
40%-45%	4.6%	13.7%	23.8%	12.2%	8.2%	9.9%
45%-50%	8.7%	19.2%	34.8%	16.0%	10.0%	10.4%
50%+	24.2%	36.8%	53.1%	22.7%	14.2%	Data from Ycharts

Source: [theirrelevantinvestor](#)

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