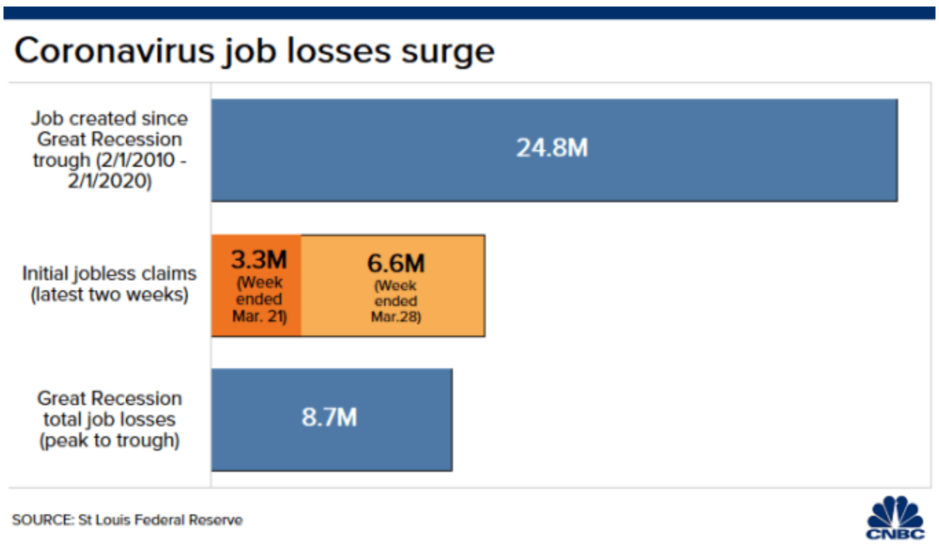
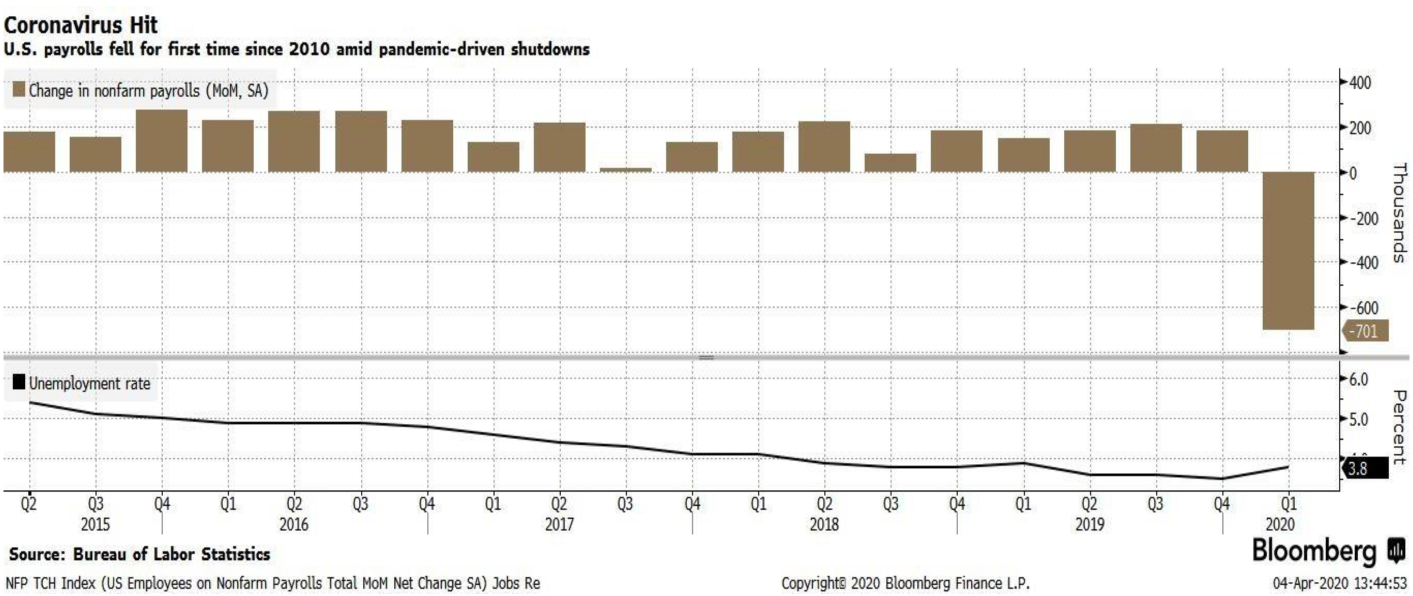
Courier Capital, LLC
Registered Investment Adviser
An affiliate of Five Star Bank

COVID-19 – Reaching the Apex (04/03/2020)

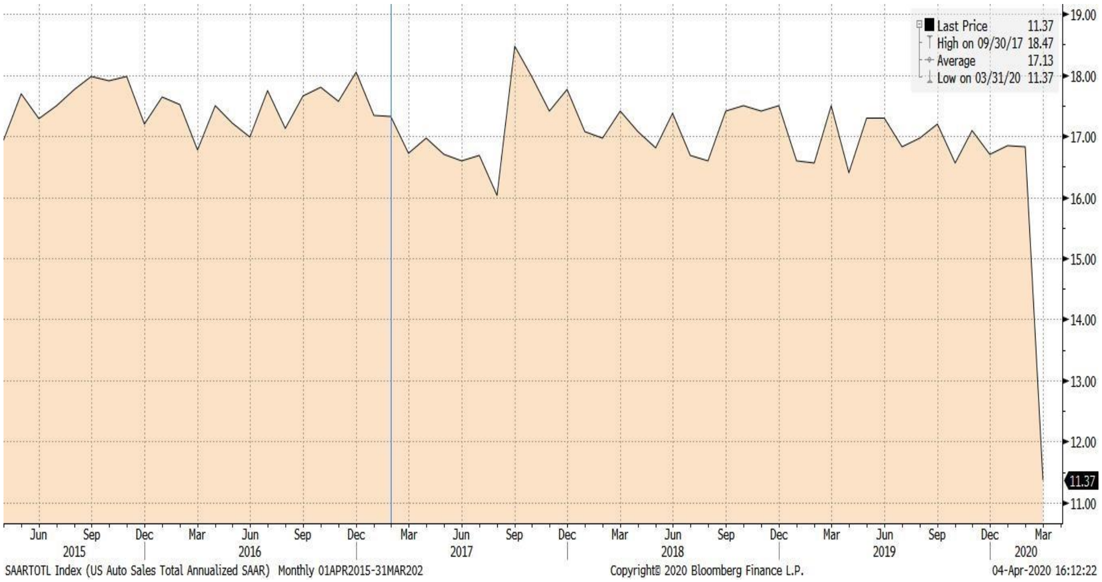
Latest Developments and Economics

Last week witnessed the extension of social distancing guidelines to April 30 by the President and, as more states enact a 'Stay at Home' policy, about 75% of Americans are asked to remain where they are and avoid going out. Restaurants, stores and other public places are generally closed and companies who did extend pay benefits for the first few weeks are finding they cannot do so for a longer time. This has led companies to shed workers at one of the fastest rates recorded in U.S. history. Last week the initial unemployment claims reached 6,648,000 and, together with the revised 3,300,000 from the prior week, total about 10,000,000 over the last two weeks. This has eclipsed the job losses from the great recession and cuts into the almost 25 million jobs created since 2010. The latest consensus for next week's initial unemployment print is another 5,000,0000. We also saw non-farm payroll recede by 701,000 jobs in March meaning this may have started earlier in 2020 than expected. This leaves unemployment at 4.4% (from 3.5%) and is expected to be over 10% soon.





Just as the media describes reaching the apex of U.S. COVID-19 cases in the next few weeks we need to reach the economic impact apex as well. The latest readings on the consumer reflect the stressed situation currently. Consumer confidence fell 12.6 points, the largest drop since the 2008 recession. New vehicle sales fell almost 38% from last March to an annualized 11.37 million units – down from a recent pace of 17.00 million (see chart).

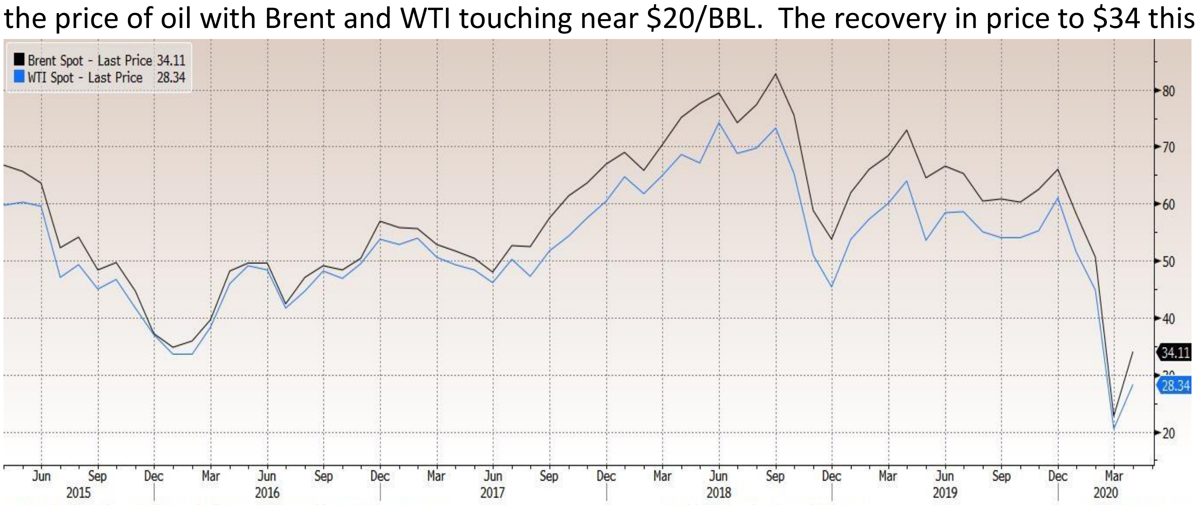


Airline traffic is down from an average 2 million passengers per typical day in March to 280,000. Finally, we will start to get the corporate view next week as Q1 2020 earnings are forthcoming with Delta Airlines and Carnival Cruise Lines on deck.

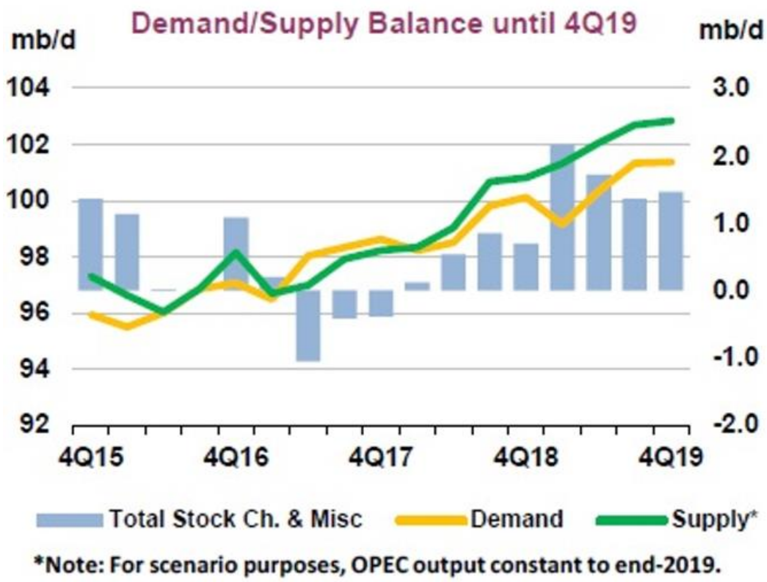
Even though the data shows an economy in decline we do need to move through this to get to eventual recovery. Before this situation exploded the economy was still in growth mode – there were almost 7 million unfilled jobs in the United States. The quicker we see a reduction in new cases the faster we can put this behind us. The U.S. government fiscal stabilization program of loans/grants to businesses and checks to citizens has already started. This was preceded already by monetary policy and liquidity response by the Federal Reserve. There has been similar significant reaction from developed economies around the world. The ECB cut rates to -0.75% (yes, negative) plus they lifted restrictions on member government borrowings. Germany, uncharacteristically, agreed to 750 billion (Euro) package for businesses and workers. France, Spain and Italy followed in similar manner. Bank of England cut rates to historic lows and U.K. guaranteed 80% of worker's salaries up to 2,500 Pounds per month. Similar reactions can be found in Canada, China, Japan, Australia and Brazil. It may not be a coordinated effort, but the response around the world is massive and a necessary 'step one' in mitigating the recessionary and deflationary impact to the global economy.

Oil in Turmoil

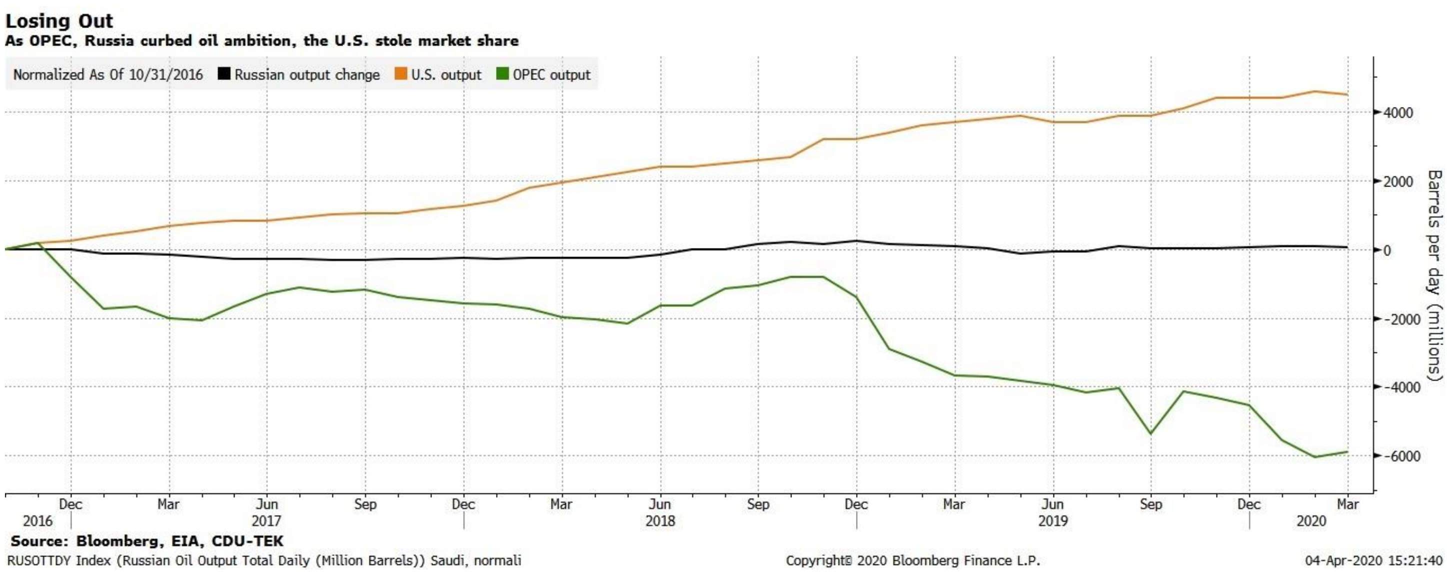
The COVID-19 issue isn't the only situation impacting the economy and markets. Russia and Saudi Arabia (and OPEC by extension) have not come to agreement on oil production cuts, which has led to a steep decline in the price of oil with Brent and WTI touching near $20/BBL. The recovery in price to $34 this week was on the hopes that Russia and Saudi Arabia were going to sit together and hammer out an oil production deal. As of this writing Putin had accused the Saudi's of being the problem so a meeting has been



postponed. The problem with oil recently has been an oversupply due to continued production. This chart shows the oil demand/supply balance BEFORE the virus. The green line clearly illustrates the rising supply of oil while the yellow shows demand also projected to increase – just not as fast. The COVID-19 situation made the problem worse as the halt in the global economy has meant a decline in the demand side (think less cars at gas stations and far fewer planes in the air). This causes supply and demand to be out of balance and results in an oversupply. The oil production cut was meant to replace expiring reduction agreements already in place and stabilize oil prices globally.

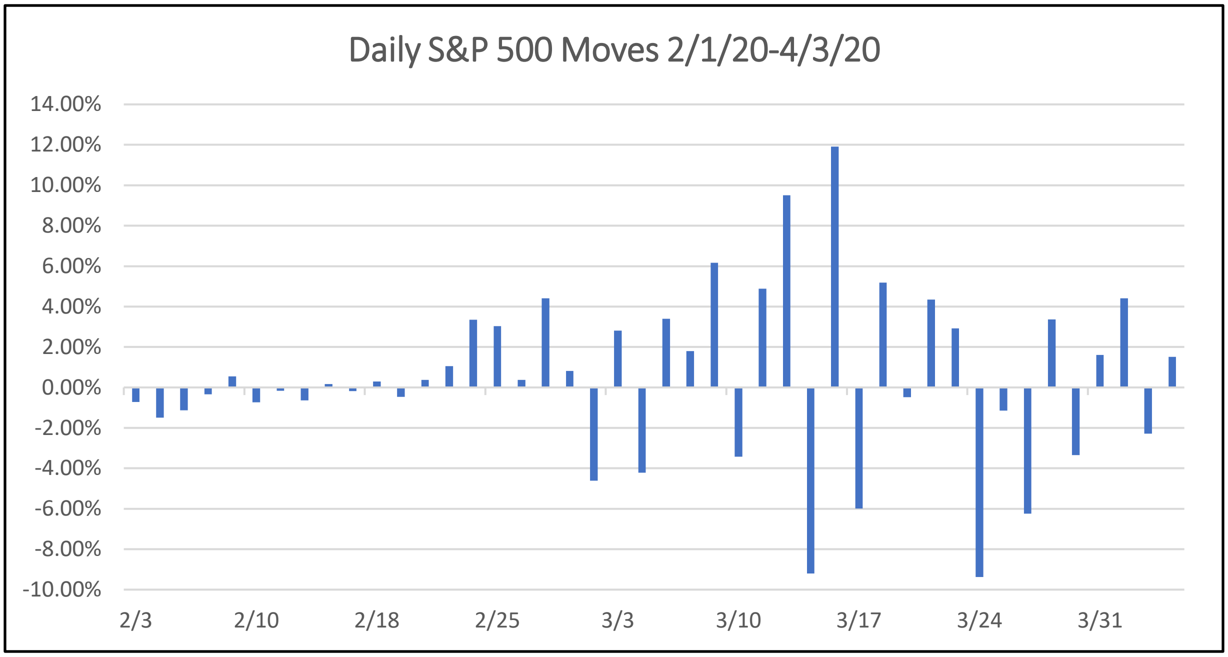


The Russians feel that they have seen this story before, so they are reluctant to cut production. The last time this happened the U.S. oil producers replaced the Russian production that was cut (see chart below). The Russians want commitments from the U.S. to cut production also before they buy in. There is still an OPEC meeting scheduled for April 9 which will hopefully move this issue forward.



Financial Markets

The S&P 500 entered March just coming off all-time highs in February and volatility was muted. As you can see in the chart below March has been very volatile with the number of daily moves of +/- 3% or more now at 20 for the year with all of them occurring after Feb 23. This represents 2/3 of the trading days since that date. The credit markets have also been impacted by this 'risk-off' posturing going through the markets. While Treasuries have rallied the credit spreads – extra yield for fixed income instruments that are not U.S. Government bonds – have widened significantly since the middle of March. The spread widening basically means that those bonds have lost value. The chart below shows selected bond changes.



BOND	3/13 Spread	4/02 Spread	Change	Percent
US 1-3 Yr Corporate AA	137	178	41	29.9%
US 1-3 Yr Corporate BBB	248	428	180	72.6%
Automobile ABS	155	232	77	49.7%
US Bank Loans	639	828	189	29.6%
US High Yield	731	917	186	25.4%
Spreads are listed in basis points				
Source: Amundi Pioneer				

We continue to monitor and analyze the developments with respect to our investment positioning as well as formulating our strategy as the markets and economy move towards eventual recovery. The indiscriminate selling should provide opportunities for us to take advantage of when the market settles from extreme volatility.

Should you have any questions please contact us.

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