4/10/2020 Does the Latest Coronavirus Data Reveal the End Is in Sight?

I pray you are doing as well as can be expected as we live through this unusual time with "Shelter-in-place" orders all around. However, there are many more positives than negatives to focus on as we look forward to next week. While the fatality count unfortunately continues to rise the good news is that the growth rate in new Covid-19 cases is declining significantly. Additionally, hospitalization rates and ventilator usage is by orders of magnitude, lower than originally projected.

Around the world Europe and Great Britain appear to be on the downswing with Austria beginning to re-open parts of its economy. Other countries that have re-opened their economies include China, Brazil, Norway, Denmark, Czechia and Japan. Sweden never went into a lockdown and it appears to have "flattened" its curve and is seeing significant progress in reduction of active cases.

Here in the U.S. we are beginning to move toward that "light at the end of the tunnel" as many states and even New York appear to be "topping out" in terms of growth of active Coronavirus cases. I have attached an article by Commonwealth's Chief Investment Officer, Brad McMillan, who explores the most current numbers to give you a rundown on what the near future may look like.

I have also attached an article from AssetMark that makes some interesting points, including that the markets are forward looking and generally reflect what will happen in the next several months. Specifically, it is good to note that the S&P 500 index while down 13.65% year-to-date, is up over 10.40% in the last five trading days and is up over 12.46% in the past month. Clearly, the market believes the uncertainty associated with Coronavirus is beginning to be resolved and is anticipating the economy recovering eventually. Also, it helps that the Federal Reserve' actions and the fiscal measures taken by the government are beginning to kick in.

For these effects to continue we still need to see positive steps taken toward relaxing current restrictions and opening up the economy by our local, state and Federal government authorities. Hopefully, this will happen sooner rather than later, and we can begin to resume some normalcy in our lives.

As always, stay safe and healthy.

Christopher L. Phelps, CPA/PFS, CFP®, AIF®

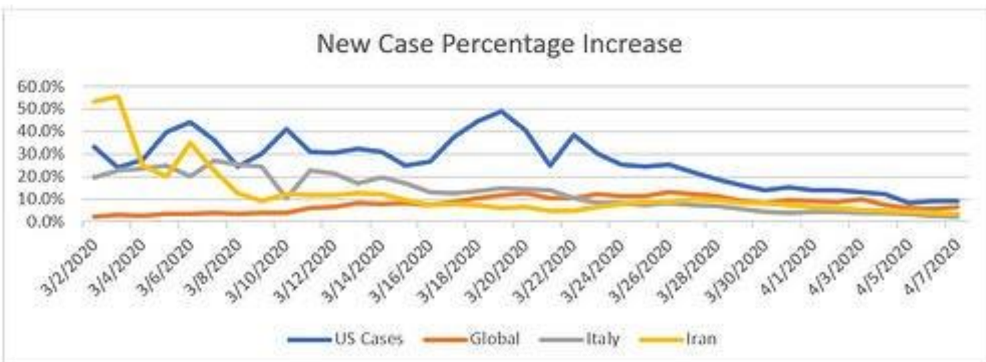
Does the Latest Coronavirus Data Reveal the End Is in Sight?

Presented by Christopher Phelps

The coronavirus crisis continues to evolve on a daily basis. To help determine where we are now—and where we could be going—a good place to start is with the data trends in the spread of the virus.

Case Growth: Are Things Getting Better?
Although we continue to see case counts rising, that rise is unavoidable at this stage of the pandemic and will continue for some time. Expect it—and don't assume it means that things are getting worse. Right now, the metric that signals whether things are getting better or worse is how quickly, in percentage terms, the cases are growing. Here, the news is better.

In the chart below, you can see that growth rates around the world are now at or below 10 percent. This number is not great. In fact, it implies that total cases will double in just over a week. But to put things in perspective, it is substantially better than the 15 percent of a week ago here in the U.S. (which doubled cases every five days) and the 30 percent of a couple of weeks ago (which doubled cases in less than three days).

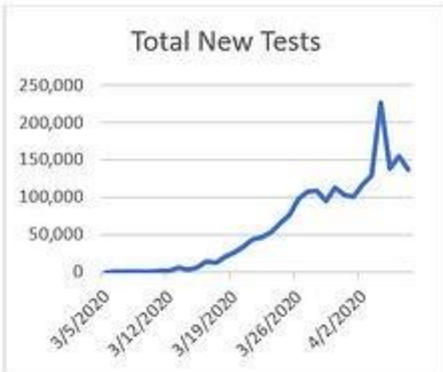


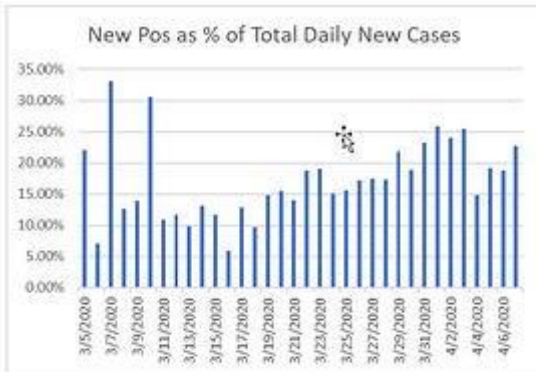
Source: Worldometer

Another way to look at this chart is to view case growth as a representation of the steepness of the case growth curve. When we say "flattening the curve," what we really mean is slowing the growth rate, which is just what we see above. As growth rates decline, the curve gets flatter and the likelihood of overloading the health care system declines. Again, we are not out of the woods yet, but we are getting much closer. If current trends continue, we can reasonably expect to be turning the corner in the next month or so.

Testing: A Mixed Bag
Other trends are positive as well. After a slow start, testing for the virus is now around 150,000 per day. There has been a slowdown in the growth rate in the past couple of days, but the testing rate should be poised to rise again in the next week. Again, it's not where it should be, but it's much better than it was and likely to improve further.

Less good is the next chart, which shows the percentage of positive results on each day's tests. The higher the positive results, the more the tests are being applied to confirm existing infections, rather than to find new infections or to establish population information to better manage the future control of the virus. The initial spike at the end of last month seems to have been due to expansion of confirmatory testing in New York City, as that cluster of cases hit high growth rates. The current rise seems to be due to other cities that are now hitting the expansion phase. We need greatly expanded testing to help determine population statistics; when the percentage of positive results gets back to the 10–15 percent range, it will be a good indicator that test availability is catching up with the need. That should come as the tests per day rise again, which takes us back to the first chart.





Source: COVID Tracking Project

Look Beyond the Headlines

These charts provide the underlying rationale for many of the current headlines, which are now speculating about peak virus and how the pandemic is being brought under control. As usual, the headlines are ahead of themselves. We can see from the first chart that U.S. cases are still rising at 9 percent per day. So, cases will keep rising, and the new cases per day are set to double in the next eight days. Similarly, while testing availability is much better, it’s still not where it needs to be. Don’t get too excited by the headlines just yet.

The takeaway from the data so far is that we have made meaningful progress in controlling the virus: we know what to do, we are doing it, and it is working. We are, however, only about halfway through the process at best. If current trends persist, we are still several weeks away or more from seeing new infections drop to zero.

A Positive Takeaway

The difference between now and the start of the pandemic is that we can at least see the end. We can see that we have flattened the curve, and we can reasonably project when the pandemic will be brought under control. We are not at that point yet, but at least we can see it. And that is a very positive takeaway from the data thus far.

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ON THE MARK

The stock market vs. the economy

Key Takeaways

- Fear of a COVID-19 led recession sent US stocks into the fastest bear market in history in March 2020.
- The stock market is typically a leading indicator, it tends to fall before the start of an economic recession and recover before the end of the recession.
- No matter how deep the recession or how long the downturn, markets have always bounced back.

Fastest bear market in history

Market volatility, market corrections (drop of 10% from a peak), and bear markets (drop of 20% from a peak) are sadly a part of long-term investing in the stock market. In the month of March, investors experienced the trifecta. The S&P 500 entered bear market territory in just 16 days, ending the longest bull market in US history just days after its 11th anniversary. This was the shortest time period in history for the market to enter a bear market. The S&P 500 fell 30% in 18 days but recovered some of the losses since then. For some perspective, it took the markets a year to fall 30% during the great recession of 2008[1]. Historically, when the market declines 30% or more it has already priced in a recession.

Should we wait for the recession to end?

Recessions are defined as two consecutive quarters of negative GDP growth. Gross Domestic Product (GDP) is the value of all goods and services produced by the economy. Officially, we haven't even had one negative quarter yet, so formally the recession has not started. The economy, as measured by GDP, is a backward-looking statistic and will likely take some time to be known and publicly available. As investors, we are likely to see a slew of bad economic news in the weeks ahead. Does that mean we have to wait for the recession to end before the markets recover? To understand that, let's look at the difference in the stock market and the economy.

The stock market is not the economy. The stock market is forward looking, and often starts going down before the economy turns south and similarly start turning back up before the downturn ends. This is evident by looking at stock market returns during years when GDP was negative. Since 1930, there have been 18 years of negative GDP growth. In 12 of those 18 years, the stock market returns were positive, and in most cases well over 18%[2].

Source: Forbes, St. Louis Trust Company, Fred and S&P

We saw this during the Great Financial Crisis, when the stock market reached a peak in October 2007, and began to decline two months before the start of the recession and

Years with Negative GDP Growth and Positive Stock Market Performance

Year	Real GDP	S&P 500 Return
1933	(1.2)	53.99
1938	(3.3)	31.12
1945	(1.0)	36.44
1947	(1.1)	5.71
1949	(0.6)	18.79
1954	(0.6)	52.62
1958	(0.7)	43.36
1975	(0.2)	37.20
1980	(0.3)	32.42
1982	(1.8)	21.55
1991	(0.1)	30.47
2009	(2.5)	26.46

14 months before it was officially announced. On the way out, the market bottomed in March 2009, and began to rise three months before the recession ended and 16 months before the end of the recession was announced[3].

What can investors do?

It is normal to feel uneasy during bear markets. We would all love to know when the economy, the markets and our lives will get back to normal. It is nearly impossible to know the bottom just as it is impossible to know the top of any market. Using the S&P 500 as a guide, according to Capital Group, the average bear market lasts 14 months[4]. Similarly, the US economy has been in an official recession less than 15% of the time over the last 65 years[5]. While bear markets and recessions are painful, they are temporary. If you are already invested in a well-diversified portfolio, your bear market experience will be very different than that of the S&P 500. Sticking to your plan is key, so resist the urge to make drastic shifts out of stocks or into cash. Historically, markets tend to bottom and head higher when economic news is still grim. In waiting for an economic recovery, investors run the risk of missing out on gains by trying to time the markets. The goal for all investors should be to remain invested long enough to reap the benefits of long-term compounding.

[1] https://www.marketwatch.com/story/algorithms-sped-up-selling-leading-to-the-fastest-bear-market-in-stock-market-history-2020-03-26
[2] https://www.forbes.com/sites/johnjennings/2020/03/26/why-the-looming-recession-doesnt-mean-you-should-sell-out-of-the-stock-market/#50ff261951cc
[3] https://www.nber.org/cycles.html
[4] https://www.capitalgroup.com/europe/capitalideas/article/market-corrections.html
[5] https://www.capitalgroup.com/advisor/insights/articles/guide-to-recessions.html

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