

5/29/2020 Spread Rates Remain Low as Reopening Continues

A Message from Chris Phelps, Advisor

Here it is at the end of week ten here in San Diego and I am seeing a lot more traffic on the highways and in the stores and restaurants. A good sign that people are beginning to access the economy. We continue to slowly reopen in California as the beaches here become more accessible starting next Tuesday, although the parking lots remain closed. In San Diego county testing for coronavirus has continued with seven-day average positive rates falling to 3.00% over the last week which is well below national averages. Hospitalizations of Covid-19 positive patients continue to remain stable in both San Diego County and California at large despite ramped up testing. Nationally, more states across the country are continuing to open up and we are not seeing any signs yet of a second wave. To buttress this, ABC has reviewed the 21 states that eased restrictions on May 4th or earlier and found no significant increases in hospitalizations, deaths or percentage of people testing positive for coronavirus in any of them. This is a significant positive from both a health as well as an economic perspective.

Economic activity remains depressed but we are starting to see increases in various measures including the purchasing managers index which turned up, the consumer confidence index has stabilized and the Federal Reserve's Survey of Manufacturing Activity though still negative, has risen significantly from its all-time low. Interestingly, April saw a 10.5% increase in personal income and an increase in savings rates to 33% with nearly \$6.5 trillion set aside into banks. This is largely due to the stimulus payments and the government adding \$600 per week to unemployment benefits. The good news is that this represents the future spending that consumers could unleash over the coming months as the economy reopens. May could mark the end of the shortest but deepest recession in over one hundred years.

The Federal Reserve continues its support of the economy and credit markets. I would also not be surprised to see another \$1 trillion stimulus package coming out of Congress in June or July. Details will likely include additional tax cuts, aid to state and local governments, unemployment benefits extensions and maybe some corporate liability protections. Despite some significant volatility stocks have barely moved over the past month as investors wait for more clarity about the virus and the economy. The 10-year Treasury yield remains stuck in the 0.6% to 0.7% range but expect longer term rates to begin edging up as the economy begins to recover. With the run up in government debt and massive asset purchases by the Federal Reserve, inflation worries are stirring but as of now are not an issue. Considering the gradual and to some extent uneven restart of the economy both here in the U.S. and across the globe, I do not expect to see a "V-shape" recovery. However, there appears to be a growing sense among investment professionals and investors that we will see a steady upward path ahead.

In the latest commentary from Commonwealth's Chief Investment Officer, Brad McMillan, discusses his view of the current state of the virus pandemic and its effects on the economy and markets. Brad's optimism is increasing but he continues to be concerned about a large second wave of virus infections. However, he clearly sees that consumers are responding in positive fashion as business reopens. Anecdotally, the local Ross Dress For Less reopened this week and the check-out line was two hours long. It seems there was an urge to shop. The bottom line is

that things are progressing well towards recovery and there are many reasons to be positive. See the attachment for more information.

If you have any questions or if we can be of any help, please do not hesitate to contact Linda or me.

As always, stay safe and healthy!

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

Principal

Spread Rates Remain Low as Reopening Continues

Presented by Christopher Phelps

Over the past week, we've seen more good news in the coronavirus crisis. Perhaps most important, there were no signs of a second wave of infections stemming from the ongoing reopening of the economy and the loosening of social distancing measures in several states. In fact, the data reveals that social distancing had been subsiding in many areas even before the formal loosening. At two weeks or more into the start of this new environment for the spread of the virus, some growth in cases could have been expected. The fact that we have continued to see the spread rates at close to the lowest levels of the pandemic is a real positive.

In more good news, the economic reopening seems to be well on track. Both mobility and restaurant demand have come back much faster than anticipated, and mortgage applications have returned to 2019 levels. Plus, consumer and business confidence appear to have bottomed and started to recover.

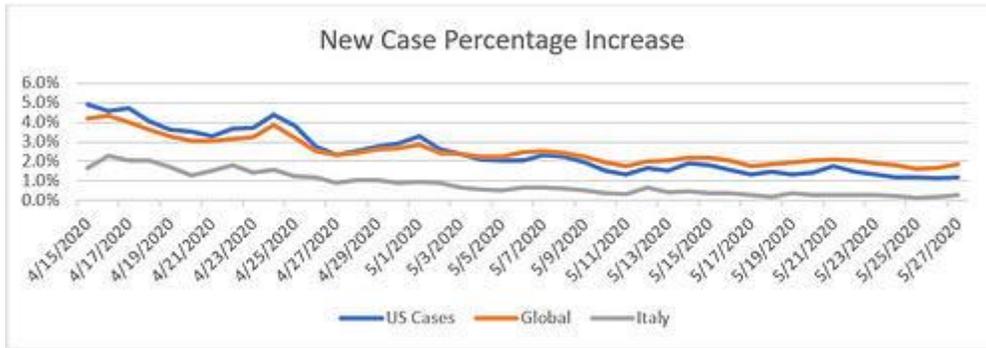
The news around testing has been a bit more mixed. Last week, questions emerged around what's been included in the reported test figures, from both the Centers for Disease Control and Prevention and a number of states, with the implication that the numbers had been meaningfully overstated. The recent decline in the number of tests reported suggests that is indeed the case but that those numbers are now being more reliably reported. Even given the lower number of reported tests, the rate of positive tests remains low, which suggests the data continues to trend favorably.

Overall, conditions remain much better than a couple of weeks ago and suggest that, so far, the reopening is proceeding smoothly from both a medical and economic perspective. Let's take a look at the details.

The Pandemic: No Significant Increase in Growth

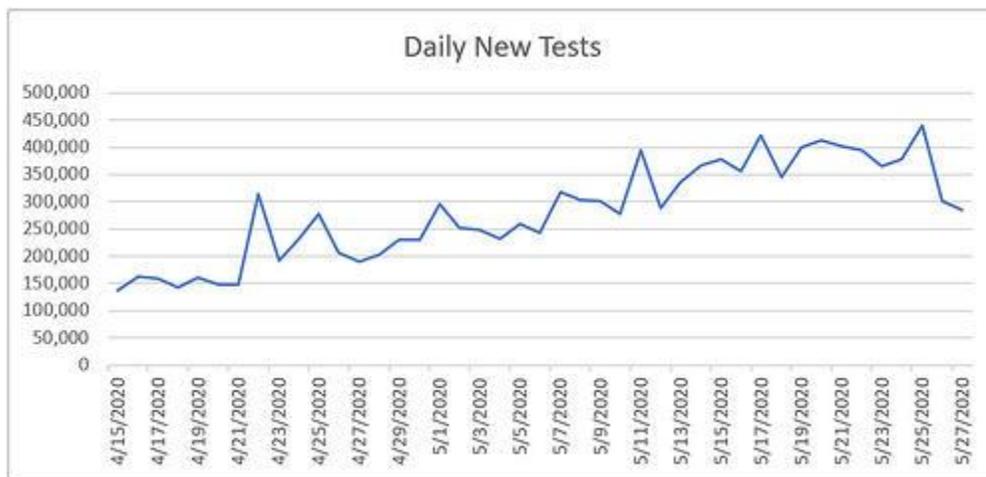
Growth rate. Over the past month, the new case growth rate has declined from about 5 percent per day to the present level of less than 2 percent per day. Over the past two weeks, however, the growth rate has been consistently under 1.5 percent per day, which is modest progress. If that growth rate holds, the number of cases will double about every seven weeks. We have succeeded in flattening the curve, but the virus continues to spread. Given the reopening of the economy,

however, this is good news in that we have not seen any significant increase over the past couple of weeks.



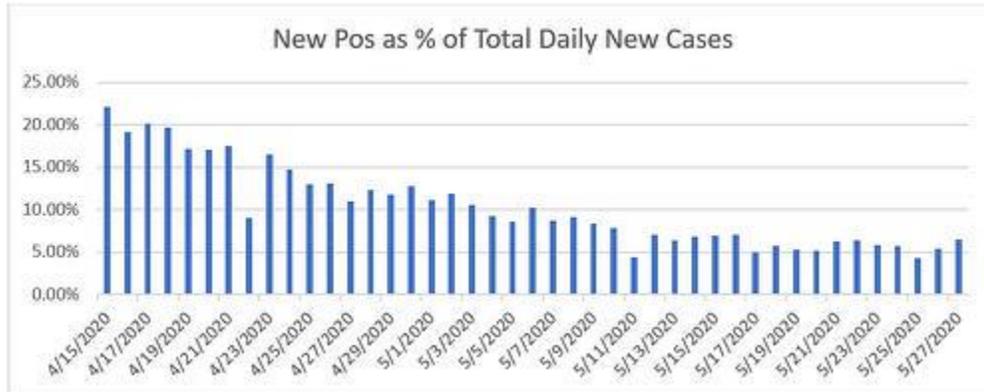
Source: Data from worldometer.com

Daily testing rate. Testing rates dropped off in recent days, likely as states are limiting the number of tests reported to only those indicating new infections. This change is in response to recent news stories questioning the prior practice of also including antibody tests, which indicate past exposure rather than current infection. While the number of tests is declining, the data going forward should be more accurate.



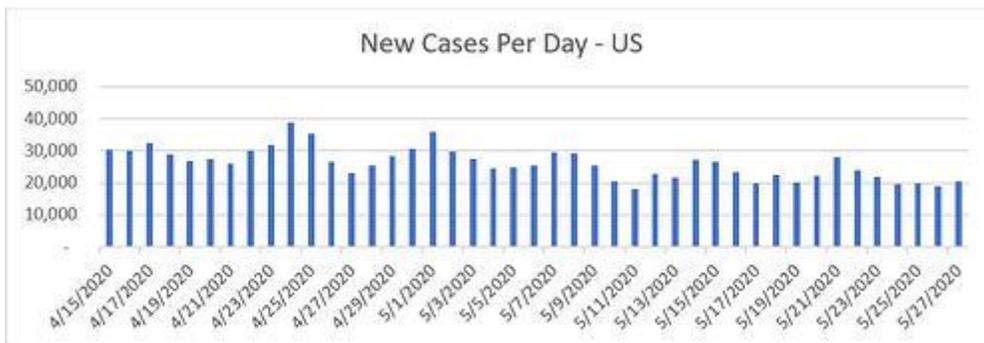
Source: Data from the COVID Tracking Project

Positive test results. Another way of seeing this progress is to look at the percentage of each day's tests that are positive. Ideally, this number would be low, as we want to be testing everyone and not just those who are obviously sick. The lower this number gets, the wider the testing is getting. Here, we can see that despite the decline in the number of tests reported, the positive level remains low. This result suggests that we still have enough tests in place, even at the lower level, to get a reasonable grasp of how the pandemic is spreading.



Source: Data from the COVID Tracking Project

New cases per day. Despite the reopening and the decline in testing, the number of new cases per day has remained steady, at around 20,000 per day. This number is, again, somewhat better than it looks. With the reopening, other things being equal, we would expect reported cases to increase—which has not happened. Stabilization, in this context, continues to be positive overall.



Source: Data from worldometer.com

Total active cases. Active case growth also continues to moderate, with under 10,000 per day for the past three days and with almost no increase over the past week.

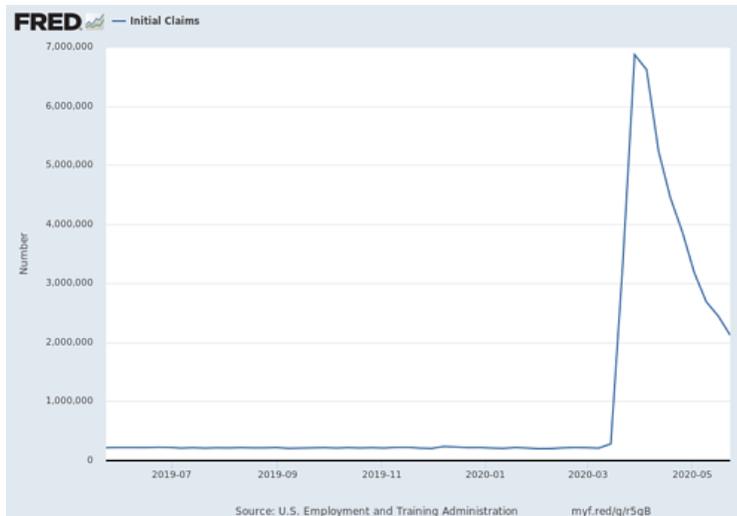


Source: Data from worldometer.com

Overall, the pandemic continues to be largely under control, with no signs yet of a major second wave of infections despite the reopening. This possibility remains something we need to watch. But overall and given the reopening, the news on the pandemic front is still quite positive.

The Economy: Peak Damage Behind Us

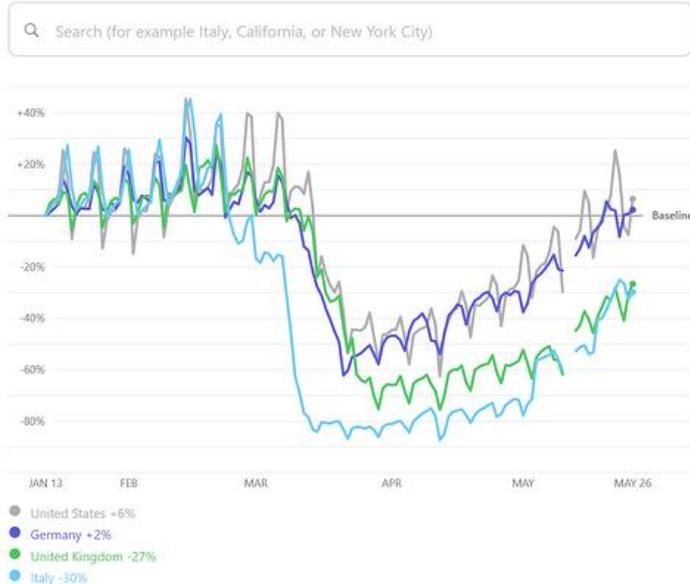
Jobs market. While layoffs continue, there are signs that the damage may have peaked and has started to recede. Weekly initial unemployment claims continue to decline from the peak, suggesting that much of the damage has already been done.



With the lockdown easing, Apple mobility data has bounced back and is now above the level of early March. This bounce is a significant improvement, suggesting people are now coming out of their homes again. We also see this improvement in one of the hardest hit areas of the economy, restaurants, which have started to come back in many areas. There is still a long way to go, but the process has started.

Mobility Trends

Change in routing requests since January 13, 2020



Source: apple.com

The risks. Although the reopening is going better than expected and is clearly having some positive economic effects, as we reopen we certainly face risks. The biggest of these is a second large wave of the pandemic. We have not seen that yet, though, which is a positive sign, suggesting that most people are continuing to act in a safe manner.

Another potential risk is that, even with the reopening, consumers will be slow to return and spending growth will not return to what was normal any time soon. This outcome seems possible, although the early signs are positive, with restaurants coming back faster than expected. Another positive sign is that mortgage applications are almost back to 2019 levels, which would drive additional spending, and Google searches for vehicle sales have rebounded significantly. While risk of a slow spending recovery still exists, early data shows that spending might come back faster than anyone expected.

The Markets: Risk of Volatility Remains

For the financial markets, now that the reopening is underway, markets have been reassessing the risks, and we have seen some volatility. While that risk remains, the good news is that as we get that data, markets will have a much firmer foundation. The past week's data has been positive on the whole, and markets have responded—a trend that will likely continue if the news remains positive.

Progress Continues

The real takeaway from this past week is that progress continues, to the point that a continued successful reopening over the next several weeks looks likely unless something significant changes. We are not yet out of the woods, and there are certainly significant risks going forward—with a second wave of infections being the biggest. But the thing to keep in mind is that many of the biggest risks are moving behind us. Another good week.

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