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There were several pieces of significant news on the COVID front this week. On the treatment front, the Gilead drug Remdesivir had some good results in a [Phase III trial](#).

This is a significant step because anti-viral agents have been prone to failure over the years and very few anti-virals have made it to market. In fact, Remdesivir was initially developed (unsuccessfully) to treat Ebola.

Remdesivir appears to be an important win, but is not a silver bullet cure. It appears to make cases at least less severe and recovery faster. However, there is still much more to learn about using Remdesivir (dosage, timing etc.) that can make it more effective. The better news is that there is a substantial knowledge regarding the drug's side effects because of the Ebola trials. Dr. Fauci appeared to encourage speculation for an emergency approval when he equated Gilead's findings as a significant point in this crisis that was reminiscent of when they were trying to find a cure during the HIV crisis. That speculation was confirmed late Friday.

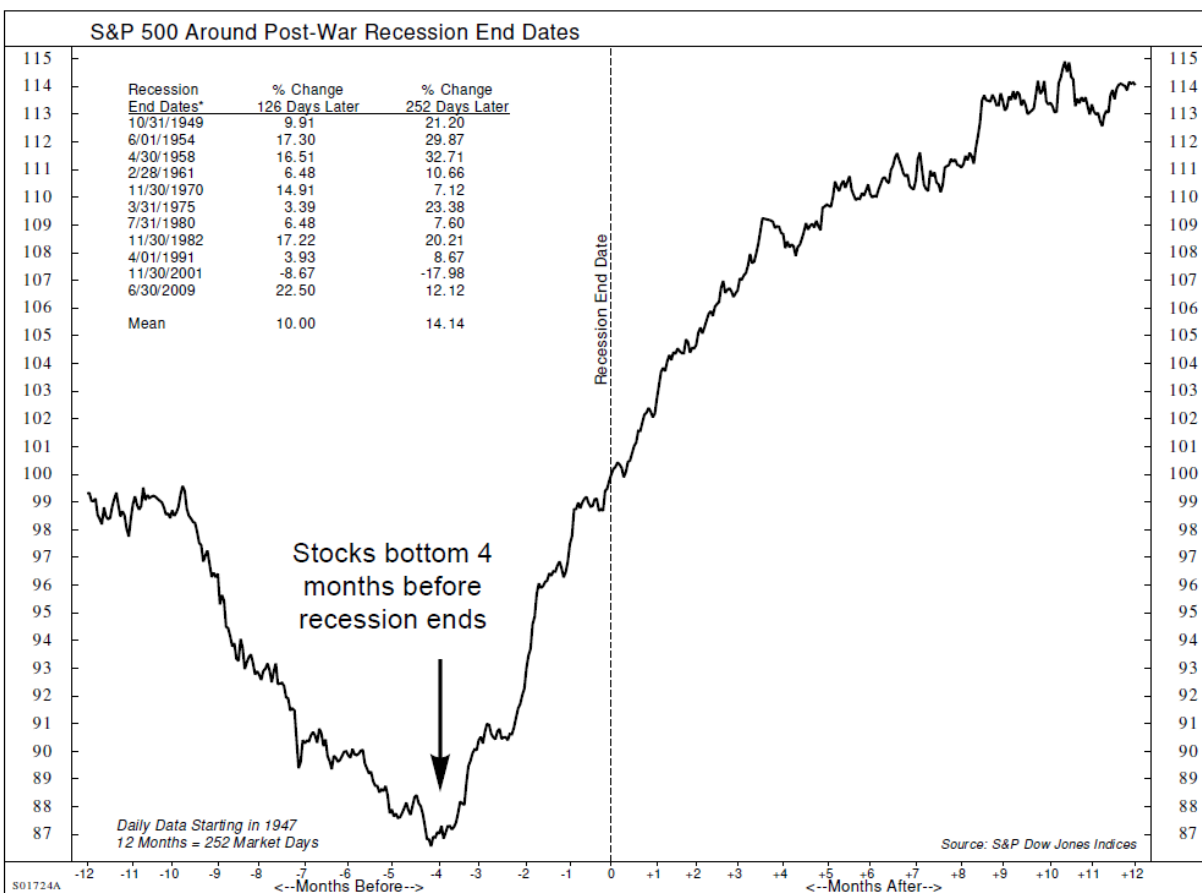
There was also progress on the vaccine front. Pfizer stated they were hopeful that they could have a [vaccine available for limited use](#) (probably healthcare workers) by this Fall. This was a potential that we discussed a few weeks ago, that at the time seemed unlikely. Pfizer is just one of the many companies racing each other to develop vaccines for COVID.

At the moment, Moderna appears to be in the lead based on a head start as they were already working on a similar corona virus when the COVID outbreak occurred and are currently in Phase II trials. On Friday [Moderna announced a partnership with Lonza](#), contract manufacturer with global capabilities aimed at manufacturing 1 billion doses a year, with the first batches expected in July. In a CNBC interview on Friday morning, Moderna stated that they believed that several companies would need to be successful at creating a COVID vaccine in order to have enough doses to satisfy global demand. The bottom line is that there are still no promises, but we appear to be on track for a variety of solutions to COVID much faster than early expectations.

Markets are Forward Looking

The stock market, of course, cooperated with this critical news and early in the week continued its rebound from the March crash before running out of steam later in the week. Still, the month of April (ended Thursday) was the best month since 1987. While this is welcome news, we are not out of the woods yet. Rarely does such a critical effort, performed at record speed, progress in an orderly way. We have no expectation that will change now. It is far more likely that we will experience bouts of both good and bad news, and the market will respond in kind.

As we have discussed numerous times in the past, the stock market is a forward-looking mechanism. This chart from Ned Davis Research makes the point clearly. On average, since WWII, the stock market bottoms about 4 months before the recession actually ends.



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Our Best Guess: A “U-Shaped” Recovery

The next logical, and much more difficult, question is when this recession will end. Wall St. generally uses letter analogies to describe recoveries. For example:

1. “V-shape” – this envisions a sharp drop followed by a quick rebound. The recession of 1953 is great example. It began in 3Q 1953 but lasted only two quarters before growth returned.
2. “U-shape” – This anticipates a sharp drop, followed by a lingering at the bottom, so it takes longer to get to the end of the recession. The 1973-75 period, where we experienced negative GDP growth for almost 2 years is an example of a “U-shaped” recession.
3. “L-shape” – this looks for a sharp decline, followed by a long period of malaise. This occurred during the great depression, when the economy took more than 10 years to recover.
4. “W-shape” - this is also called a ‘double dip recession’ and has a sharp drop, followed by a brief period of growth, followed by another leg down, before

recovery begins in earnest. The prospect of a second wave of COVID this winter has led many to think that a “W shaped” recovery is in the cards this time around.

[Just under half of 45 economists](#) Reuters poll earlier this month said the U.S. economic recovery would be “U-shaped”. Ten of those polled said it would be “V-shaped”, and five said it would be “W-shaped”.

Our belief is that the “U-shaped” appears most likely. A “V-shaped” recovery would effectively require everyone to go back to normal as there (their) locale opens up to commerce again. We see that as very unlikely. Daily, we are learning new ways to adapt to the Covid reality while shifting back to as many daily activities as practical. However, while the theatres may re-open, we have a hard time envisioning long lines to go see a movie. The risk reward simply doesn’t make sense for a large portion of the population. Disneyland won’t be empty, but it is unlikely to return to the typical crowds quickly. A continued emphasis on social distancing will make it more difficult for any business that serves groups of customers at one time to fully recover. Tables will be further apart in restaurants, and hair salons, etc. which means that the businesses are unable to generate the same revenue and hire back all the employees with effectively less capacity to offer.

A “W-shaped” would appear to anticipate a second wave of COVID later this year based on re-openings now, conducive weather, etc. With no cure or vaccine available for the masses, if there is a surge in COVID which could require new shutdowns at worst, or more conservative behavior at best. Full recovery would be dependent on widely available vaccines to be successful.

While a second wave is not out of the question, we don’t envision a second wave would be as bad as the first. When COVID first hit, we really had no idea how to react, what to do. The second time around, if it comes, we all know (or should know) precisely what to do, which should keep any second wave in check.

An “L-shaped” recovery would imply that the global scientific community fails, and we have no treatment, no vaccine for a very long time or the damage was so great that economic activity remains low. The results to date, while still uncertain, would appear in conflict with a “L shaped” scenario.

Therefore, we are envisioning a “U-shaped” recovery as most likely, with a bumpy ride over the remainder of the year and as we move into 2021, wide access to the ‘protective science’ will allow us eliminate our fear and return to something more like our previous normal. What that means for investing is that the market’s recovery will be some time in coming and we can expect a bumpy ride there as well. We enjoyed and were encouraged by the April market rally, but we believe that this is not over yet. So we stay disciplined and stick to our diversified plan.

We Are About to Re-Open... Now What?

With New York and many other areas moving rapidly toward re-opening, many of us have begun to wonder what our world will look like from here forward. The mantra is to re-open conservatively, observe the results, adapt and adjust. There is no playbook here. While no doubt some businesses will re-open aggressively and invite trouble, we expect most will open more conservatively and gradually get more aggressive with success. As people begin to wander out of the house again, they will avoid the former. We have been cooped up for a while now and we are collectively getting antsy and want to get out.

There is enormous pent up energy waiting to escape. We need to release that energy in a safe way.

Expect some scares. There will no doubt be times and news coverage about new outbreaks. That's how these things work, so be prepared. It is important to understand that COVID is not going away. It is here for the duration and we have to learn to live with it until vaccines are available for all, which will take some time. Keep calm and carry on!

The Death of Globalization

Our recent weekly comments have been very short term oriented as we dealt with the urgency of COVID. The stabilization of the situation has allowed us to think about the longer term impact of the virus on markets and the global economy. We envision several important changes that will likely stick after this epidemic has passed. This week we begin the process of examining some of these in more detail by examining the impact on globalization.

Globalization, or really the open trading of goods around the world, is one of the core tenets of economics – something called [Comparative Advantage](#). Comparative advantage suggests that countries will engage in trade with one another, exporting the goods that they have a relative advantage in productivity and importing goods where they do not have an advantage. The simple idea is that any country should produce what it is most efficient at producing, and trade for other goods where it is not efficient. In that way, all economies function at a higher efficiency, creating a higher level of economic activity and growth for everyone. There is also the concept of absolute advantage, which simply means that a country has uncontested superiority in the production of a particular item.

Trading among countries has been common since early times, but the developments in technology and transportation in the 20th century brought that to a new level. The chart below depicts world and U.S. trade as a percent of GDP from 1960. The last 60 years has seen tremendous growth in trade, initially dominated by Japan until the mid-1980's and since then increasingly by China, then in the midst of pulling itself into the industrial world and exiting the agrarian world. With very little wealth and low wages, China became the low cost producer of most anything.

Trade grew to a third of the US economy and over half of the world's economy

World and US trade as percent of GDP (1960–2016)



Sources: World Bank: World Bank DataBank and International Debt Statistics; International Monetary Fund: International Financial Statistics and Balance of Payments databases; GDP estimates from World Bank and Organization for Economic Cooperation and Development.

The trouble with trade is that economists want free trade, that is, no barriers, in either direction. The facts are that while barriers have generally been declining, many barriers remain, which can create unfair conditions and that is true in all directions of trade -we are not laying blame here, we are simply recognizing reality.

The demise of globalization began in earnest with the election of Donald Trump almost four years ago and it quickly intensified as the tariff wars escalated. The COVID pandemic appears to have sealed the deal as the realization that many of our most critical products, including some 80% of our pharmaceuticals, are made in China became clear. At the corporate level, CEOs received yet another reminder of the risk of hyper-efficient supply chains that focus solely on cost but are completely dependent on single plants in foreign countries. They got a taste of that with the Fukushima earthquake in 2011, which briefly shut down auto production for several manufacturers, but this COVID experience was overwhelming. [Japan has now made it a national priority to diversify away from China, it's largest trading partner.](#) The US has not made this an official policy, but the result is expected to be the same – manufacturing leaving China and moving elsewhere. Just how much might come home, as opposed to other Asian countries remains to be seen, but the trend appears inevitable.

What that implies is that we can expect the trade war to continue and generally increasing tensions with China in coming years. The migration of supply chains away from China puts a crimp in their growth and development plans and ramps up the economic competition between China and the U.S. It also presents an opportunity for the U.S. to re-establish its manufacturing base as it would be hoped that at least some of that supply chain migration would lead back to the U.S. Of course, moving manufacturing from a low-cost country will also increase costs. Whether that translates into higher prices (inflation) or reduced profits (lower equity valuations) remains to be seen.

Conclusion

Although we can often see changes coming, we can't readily see precisely how it will affect us, which is why we don't make specific prognostications and stick to our methodology and balance out risk as best we can to produce strong long-term results for you.

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