

## Market Watch with RMH - Covid and the Iceberg

As we all know from school, we only see the top 10 % or so of an iceberg, and the bottom 90% or so is hidden (in the sources there is a link as to why this is). [The diagram on the next page](#) really spoke to me in an eloquent way about all of the hidden costs of covid.

During the last several months I have been commenting on the hidden costs of covid. The CFA Institute, has a publication called *Enterprising Investor*, and in their August 20, 2020 publication, they address this issue in an article written by Laurence B Siegel and Stephen C Sexauer. The following is the introduction to the article:

“The pandemic crisis now rests on a fulcrum. On one side is Covid-19 and every possible action that might prevent people from contracting and dying from infection.

“On the other side is everything else that matters: livelihoods that allow people to feed and shelter their families; civil liberties; the education of children; social well-being, including the prevention of loneliness, isolation and domestic violence; and all other medical conditions, from cancer and heart disease to dental emergencies.” — Joseph A. Ladapo, MD, PhD, [Wall Street Journal](#)

In the past, our previous generations lived with the risk of polio (which Rotary International has as its goal to stamp out globally), smallpox, plague, typhus, and a plethora of other viruses and bacteria in a battle to stamp them out. Humanity faced these risks, not happily, however we survived and prospered. How do we know this? We are 7 billion people strong, generally healthy, and as wealthy as we have ever been, these are the clues as to who is winning the never ending battle between viruses and humans.

From “Living with Risk: The Covid-19 Iceberg” the following:

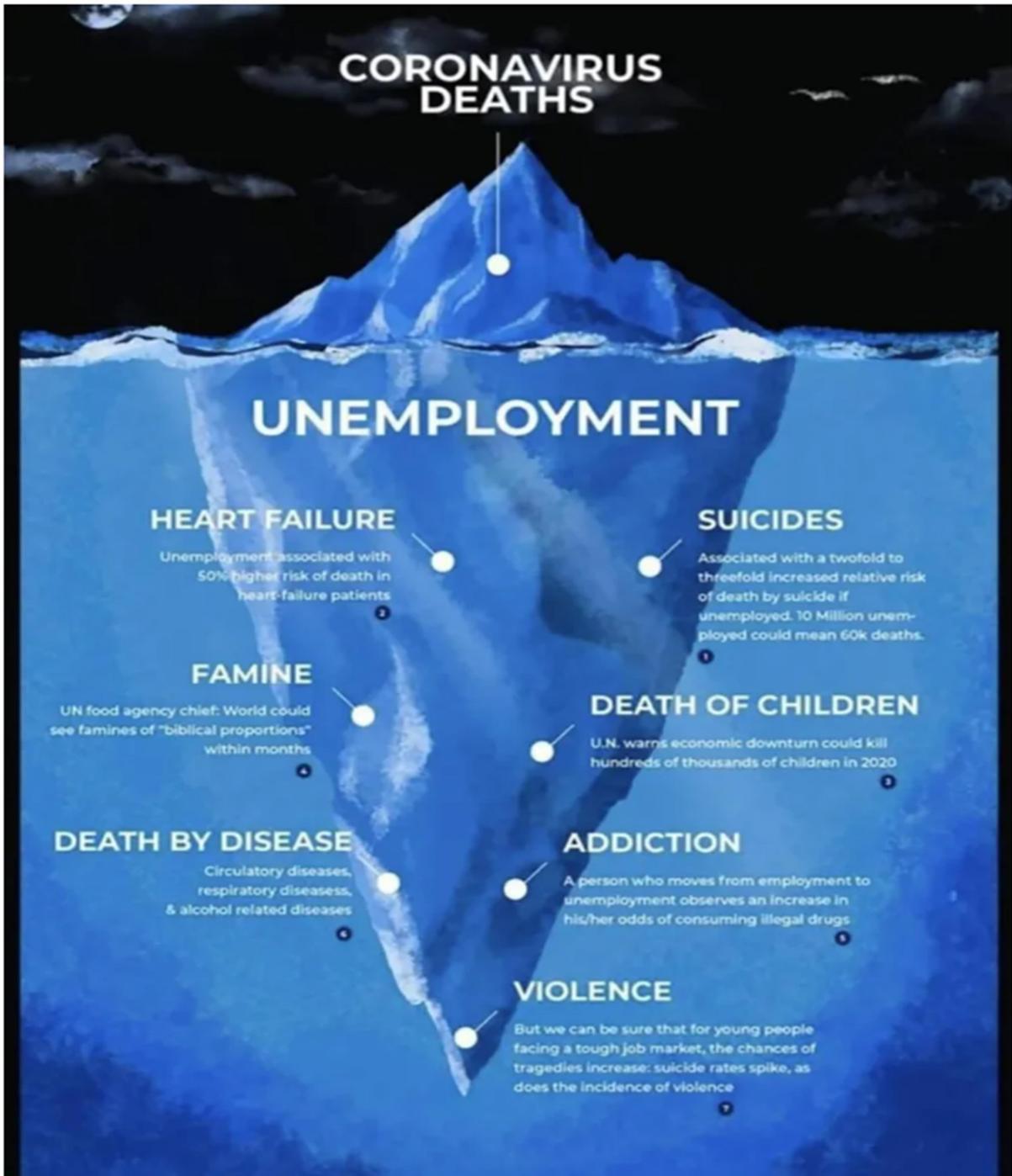
“Life is risk. We adapt, innovate, and make intelligent trade-offs to go forward. We manage risk, because we cannot live risk-free, even if we wanted to. In fact, to change is to take risks, and all economic progress comes from change.

So we should not be entirely shocked that we have reverted to technologies from the 1918–1919 influenza epidemic — masks and social distancing — to fight a 21st-century coronavirus and the associated COVID-19 disease. But, as Ladapo said in the epigraph, the costs of using only these technologies and no others are extraordinary. They are: “everything else that matters.”

We did not evolve to live in social isolation and idleness, and we are neither productive nor happy in that condition. Eventually many of us will suffer or die from the second-order effects as human progress stalls and then falls into reverse — unless we act vigorously to counteract these second-order effects.”

What do we expect going forward, a great depression similar to the one that started in 1929, or a current plunge like we have had, followed by a quick recovery? It will not be a great depression, **as this current period in time** was imposed by the political authorities in an attempt to control the spread of covid-19. What can be imposed by the government, can be relieved.

## The COVID-19 Iceberg: What Can and What Cannot Be Seen



Source: Dan Mitchell

Note: "Death by disease" should also include death due to delayed medical diagnosis and treatment. Coronavirus deaths during the pandemic period must be compared with deaths from economic causes and delayed or forgone medical treatments over the next five to 10 years, not just over the pandemic period.

## What Do We Need To Do?

From the “McKinsey & Co.: COVID-19: Saving thousands of lives and trillions in livelihoods” report, building public confidence is the first step. To do this the following is recommended:

- 1) See that new case counts are low, testing is widespread for official counts to represent accurate conditions.
- 2) The number of serious covid cases that require hospitalization can be effectively handled without impairing the hospital’s capacity to deliver normal medicine. As an aside, I found out this weekend, that Tucson Medical Center was closing 3 of its covid dedicated areas for lack of use!
- 3) Communication about health interventions by leaders is credible, consistent and provided in advance to let families, public and private sectors plan.
- 4) Public health measures are delivered effectively and sufficient to prevent increases in transmission.
- 5) Public health interventions do not structurally prevent economic recovery.

The importance of getting the virus under control is widely recognized by both the U.S. Federal Reserve (FED), and the European Central Bank (ECB), and we have mentioned some of the steps they have taken in the past. From Jerome Powell, chair of the Fed, “the path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. When ...Powell, chair of the FED was asked why that sentence was included, he replied that the most central fact or the most central driver of the path of the economy right now, is the virus... So it’s such an importance sentence”.

## The Cost of Delay

The Organization for Economic Co-operation and Development (OECD) estimates for every three months delay in getting the virus under control across OECD countries, the recovery to getting Gross Domestic Product (GDP) back to pre-crisis levels could be delayed by as much as six months. From averaging different scenarios, it is estimated that OECD countries could lose \$10Trillion in cumulative lost GDP by 2024. Let’s get the virus under control and back to January 2020 expectations.

## In Conclusion

When the virus is controlled and restrictions are lifted, we will see the pent up supply and demand colliding. We are seeing some of that now, as there was a good jobs report this past Friday, unemployment went down to 8.4% from over 10%, a step in the right direction. Workers going back to work will spend confidently.

Currently the U.S. Federal Reserve (FED) has deployed capital in record amounts to make sure businesses survive, in addition they helped the state and local governments. Still there has been a cost, as some businesses were damaged and will need to be recapitalized, possibly with new owners. The trick now is to balance controlling the virus so the coming economic expansion can properly expand and avoid more economic destruction.

## Anecdotes

New business applications to the State of AZ, on a 52 week moving average show 490 new applications per week, up 34.7% from a year ago, from businesses asking for new Employer Identification Numbers (EIN).

The Atlanta Fed improves their GDP estimate for 3Q/2020 to 29.6% up from 28.5% on September 1.

The number of mortgages in forbearance fell by 147,000 or 4% last week.

U of AZ students and the spike in their covid cases, a simple answer, they can afford to as they have read the research and see very few long term effects for their age cohort.

Spoke with one of my friends who helped his son move a car one way with U-Haul to San Diego. The interesting part at the drop off, was the comment that U-Haul had 400 one way drop offs in Tucson from San Diego. I am sure a number of these were for returning U of Arizona students.

One of the landlords in town, 5,000 + apartments, is seeing that greater than 90% of renters are current in their payments.

### **What steps are we doing at RMH?**

- We are looking at the portfolios and rebalancing where necessary.
- We are taking advantage of tax loss selling to lower future capital gains.
- We are looking at what insiders are doing with some of the stocks we have purchased.
- We are talking with portfolio managers on a one to one basis and participating in conference calls.

If there are ever any topics you wish us to explore, please let us know. ***We are here to help and guide you through these times.***

We thank you all for taking the time and reading “Market Watch.” It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us.

**On a personal note, RMH is now in the position to bring on new clients and please be sure to share this informational letter with whomever you wish. RMH’s focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires.**

Richard Munding, CFA

Editing by Erica Munding & Alex Sirola

### **Sources**

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