

Market Watch with RMH “the Calm before the Storm”

The “Calm before the Storm” refers to the summer doldrums, usually the month of August as employees take vacations (then there is Europe, which shuts down for 6 weeks), and business starts up post Labor Day. My thoughts are that we will have a very busy fall with **regards to media noise:**

- The election in November.
- Continuing Covid-19 issues.
- Unemployment in the US.
- What return to work decisions will corporate America make?
- How and what will the schools and universities do? This affects all families where both parents work.

The graph below suggests a “Square Root” economic recovery as defined by Blackstone’s portfolio strategists Byron Wein and Joe Zidle. We had a quick drop with a quick partial recovery followed by several years of slower growth.

Figure 1: Illustrative Growth Paths for US Real GDP³
(indexed to 100 as of 12/31/19)

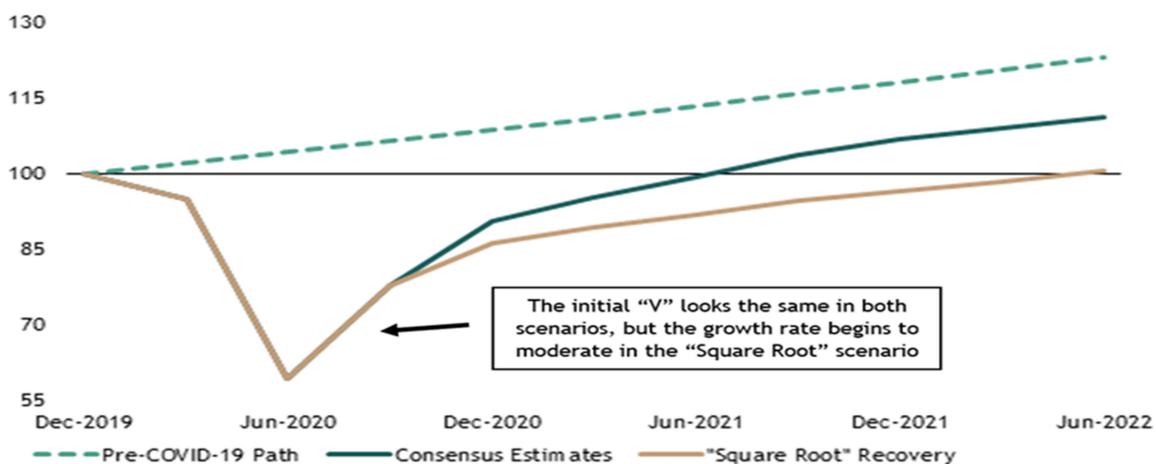
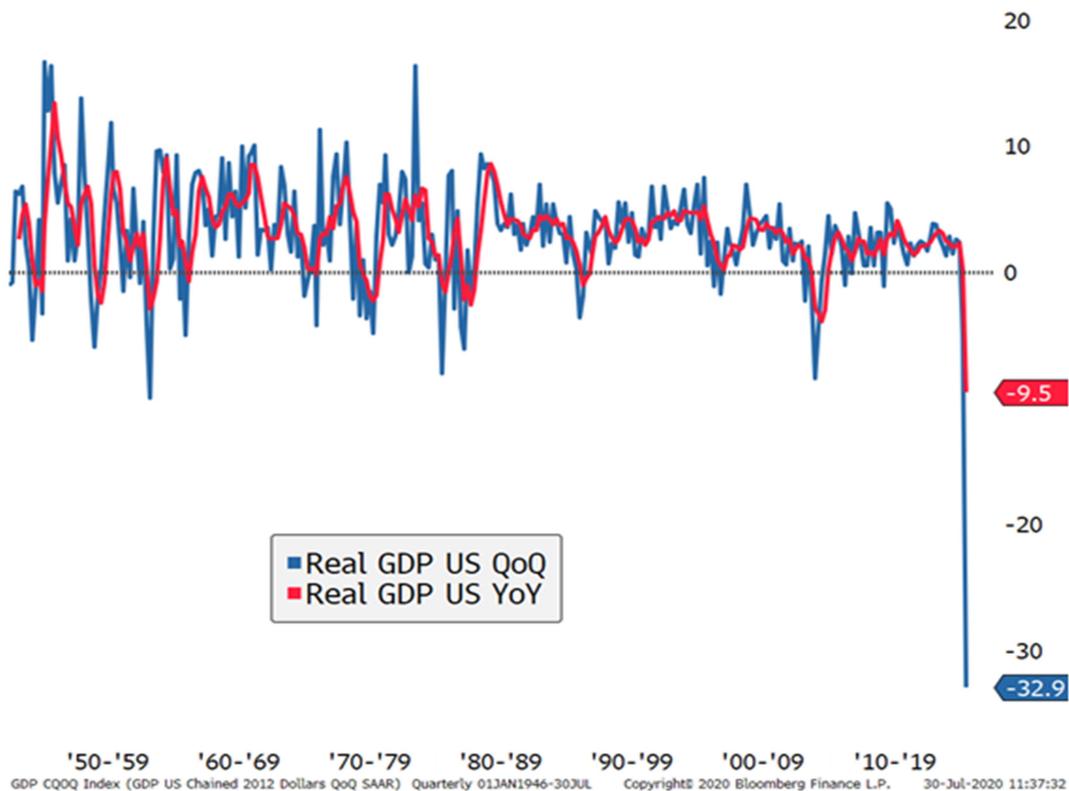


Chart from Bloomberg, based on all economic forecasts updated on 6/15/20 or later, as of 6/22/20. "Square Root" recovery is illustrative only. "Pre-COVID-19 path" represents constant annual growth at 2.1%.

Wien and Zidle believe that the worst of covid-19 has occurred (cycle low) for the US economy and the financial markets as shown in the chart above. The data clearly shows sequential improvement for most of the world's economies and this is a trend that will continue for the short term. Furthermore they believe the speed of the recovery while rapid so far from the monetary and fiscal stimulus, can't be annualized as a lot of the measures were onetime events. While some forms of the stimulus may become permanent, the size of the stimulus can't be doubled permanently, hence slower growth to get back to where we were pre covid-19.

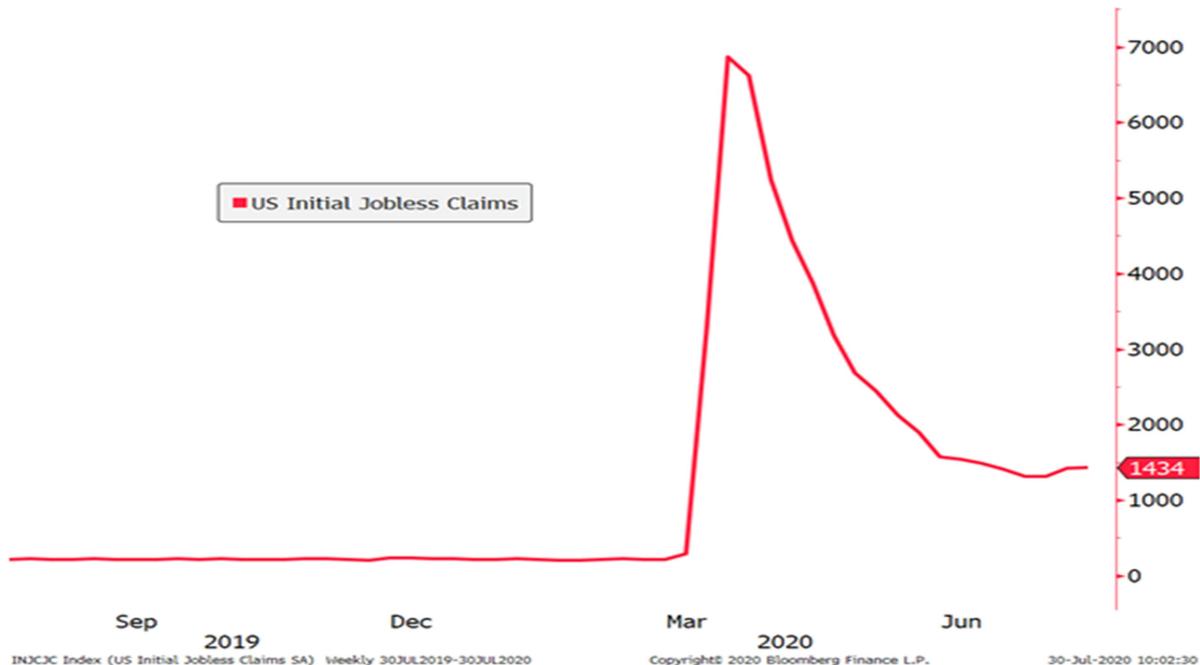
On Thursday July 30, 2020 we received the second quarter numbers for the Gross Domestic Product (GDP) and unsurprisingly it was as bad as expected. A year ago, the quarter over quarter decline was in the negative 10% range and it is more important to focus on this, not the 30% or annualized range (**noise**). There will be a positive gain for the third quarter as we can already see the economy turning around.

The following chart from Bloomberg shows the Real US GDP declines on a quarter over quarter basis, as well as a year over year basis.



The thing to keep in mind is that the FED has a dual mandate, Inflation (of which there is none) and Unemployment (of which we have a lot). Interest rates will stay low for as long as it takes to get the economy growing and the Unemployment rate down. **In summary, with high Unemployment, there is no chance of inflation, and no chance of interest rates rising.**

The next chart from Bloomberg shows the severity of the jobless claims as a result of covid-19. The US goes from full employment (4%) and the associated positive spending that goes with an economy running at full capacity, to an initial jobless claims spike of 30 million and the stresses from that. One of the biggest concerns going forward is the reopening of the economy, and if we get this wrong we will have a large number of people unemployed for a significant period of time. While the initial stimulus checks were wonderful (personal savings went up by over 10 %), and businesses stayed open, there will be a day of reckoning if we can't get people back to work. We need to take covid-19 and its economic effects more seriously as a nation.



A quote from FED Chair Powell outlines the extent of their willingness to pursue its full employment mandate is as follows:

- *"Our part of it is to push as hard as we can on our employment mandate while keeping price stability. We saw what happened to people at the lower end of the income spectrum late in the last expansion. It was the best labor market in 50 years, they told us. We saw that the biggest wage increases were going to people at the bottom end of the wage spectrum for the last couple of years of that ten year, eight month expansion, so a tight labor market is probably the best thing that the Fed can foster to go after that problem which is a serious one."*

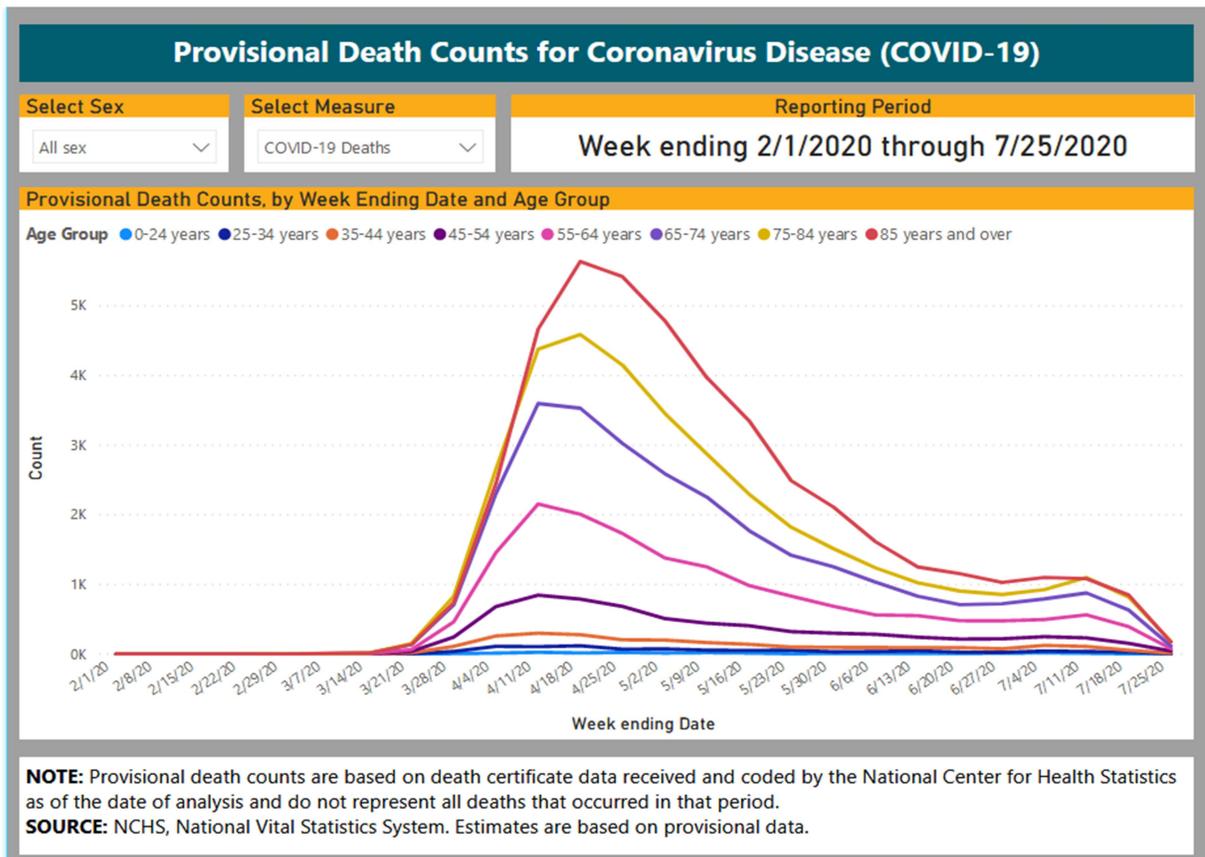
Things RMH are watching include the following and this is just a partial list:

- How fast the US Initial Jobless claims goes down.
- Will firms reinstate 100% of their workforce if they only have 90% of the demand.
- The lockdowns have taught many companies they can operate efficiently with fewer workers.
- State and Municipalities will face lower revenues from taxes, and the entities that rely upon sales taxes will be hurt harder. In general their job cuts have followed a crisis by a year.

The following graph is from the CDC (Centers for Disease Control and Prevention) updated as of July 29, 2020, represents the deaths involving covid-19. I am showing this as a 30,000 foot view, a macro perspective, rather than the micro perspective we are being bombarded with on a daily basis as a way to catch our attention, while leaving out the long term trend. The trend is clearly down, and I hope as we all do that this trend continues.

https://www.cdc.gov/nchs/nvss/vsrr/covid_weekly/

> Table 1. Deaths involving coronavirus disease 2019 (COVID-19), pneumonia, and influenza reported to NCHS by sex and age group. United States. Week ending 2/1/2020 to 7/25/2020



Comorbidities (the simultaneous presence of two chronic diseases or conditions in a patient, I had to learn what this meant)

This is important as covid-19 was the only cause for 6% of the deaths mentioned above. For deaths with conditions or causes in addition to covid-19, on average, there were 2.6 additional problems per death.

Excess Deaths (typically defined as the difference between observed numbers of death and expected numbers)

From the chart below the blue bars represent the **Predicted number of deaths from all causes** (death did not take a holiday due to covid-19). The yellow/orange line represents a “threshold for excess deaths” (covid-19), and the red crosses “indicates observed count above threshold”. One can clearly see the recent spike as some people started to go back to prior lifestyles not fully understanding the ramifications. I fully expect the excess death numbers to start declining going forward.

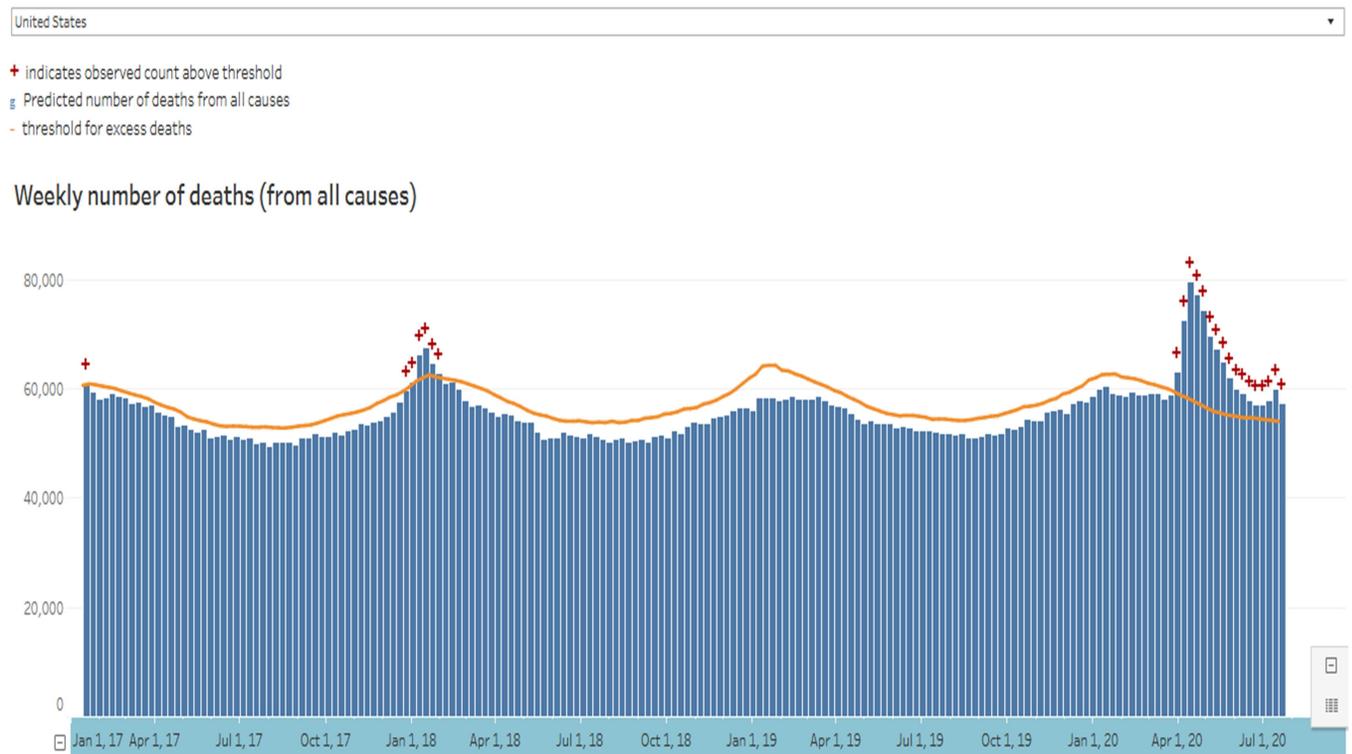


Figure Notes:

Number of deaths reported on this page are the total number of deaths received and coded as of the date of analysis and do not represent all deaths that occurred in that period. Data are incomplete because of the lag in time between when the death occurred and when the death certificate is completed, submitted to NCHS and processed for reporting purposes. This delay can range from 1 week to 8 weeks or more, depending on the jurisdiction and cause of death.

In conclusion as I first wrote about covid-19, ***I will stand with human ingenuity in this fight, we will prevail.*** Below is an article from Vaccine News sent to me by a client, and a quick on-line search one can go to. Currently there are more than 100 vaccines in development, with 20 starting clinical trials.



Vaccine News .pdf

<https://www.timesnownews.com/health/article/oxford-astrazeneca-covid-19-vaccine-phase-1-trial-data-to-be-released-on-july/622199>

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 Mundinger, CFA

Editing by Erica Mundinger

Joe Zidle and Byron Wien: On underwriting a square root recovery, July 1, 2020

Samuel Rines, Avalon Advisors: It is All About Jobs, Not GDP

Centers for Disease Control and Prevention: Excess Deaths Associated with Covid-19, July 29, 2020