

April 1, 2020

Pandemic: Economic Shutdown

'Beware the Ides of March'

-William Shakespeare, Julius Caesar

Wow, and what a month it was. The table below shows performance of major market indexes for March and year to date:

	March	YTD (3/31)
DJIA	-13.6%	-22.7%
S&P 500	-12.4%	-19.6%
Russell 2000 (small cap)	-21.7%	-30.6%
MSCI EAFE (Int'l developed markets)	-13.4%	-22.8%
MSCI Emerging Markets	-15.4%	-23.6%
Bloomberg Barclays Aggregate Bond	-0.6%	+3.1%

Today is April 1st and I can probably speak for everyone, wishing the current reality we're living through is merely some sort of prank.

Since our last Alert, ten days have both flown by and yet somehow been stretched out, feeling a bit like Bill Murray in Groundhog Day.

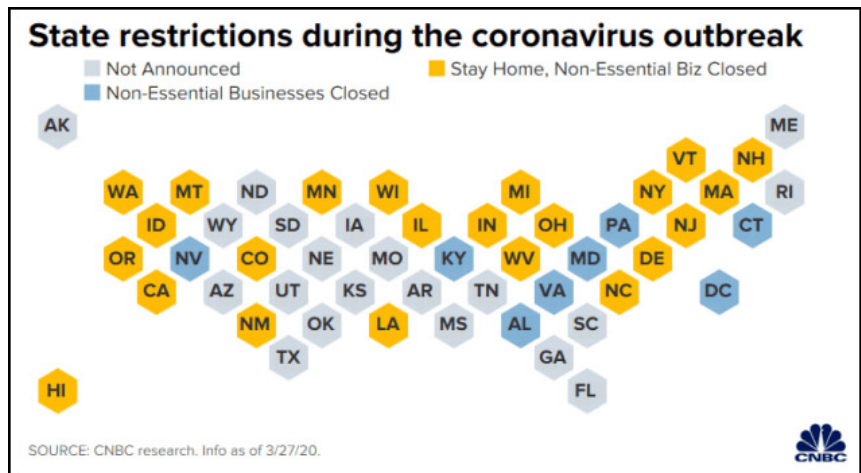
Not surprisingly, data on COVID-19 has gotten a lot worse. This was most evident in the marked shift in tone during yesterday's White House Taskforce briefing, bracing Americans to expect mass casualties in the coming weeks.

On the positive front, what we've witnessed in the past two weeks in terms of government policy action is nothing short of astounding – both monetary policy (Federal Reserve) and fiscal policy (Cares Act) measures have been undertaken with unprecedented speed, and an order of magnitude greater than even what was enacted during the 2008-09 Financial Crisis. In a somewhat perverse way, I find myself being thankful for us enduring that prior episode, for developing a playbook for policymakers to follow in today's crisis of even greater proportions.

For the economy, I'm afraid the outlook has darkened significantly since our prior missive. Unfortunately, the prospects for a swift and robust recovery have diminished substantially in the interim based upon the virus spread tracking, and how, as a country we have responded. The graphic below, compiled by CNBC shows the patchwork of social suppression efforts across the U.S. as of last Friday. Acknowledging there have been subsequent announcements since this snapshot (most notably Florida which had a meaningful post-Spring Break virus spread two weeks ago), the fact remains we are approaching this pandemic in what can only be described as a piecemeal fashion.

It's the lack of a uniform national response which is likely to result in an uneven and prolonged economic recovery. Relying upon individual states and municipalities to come up with their own measures is haphazard at best; at worst some leaders will invariably react too late and the resulting social and economic cost will be all the more profound.

Moreover, the protracted nature of these disparate measures across the country will stretch out the virus spread and duration. Based upon limited data thus far, we can reasonably expect it takes 3-4 weeks for "Stay Home" mandates to show some



suppression of virus spread (confirmed/presumed cases), then another 3-4 weeks before death rates will begin to abate. It's now very conceivable as a country we will be contending with this for several months. While some states and regions are likely to emerge sooner there will be prolonged social distancing, and likely limited domestic travel while there are still lagging COVID-19 hotspots to avoid. All of this will continue to suppress economic activity and growth.

China shutdown Wuhan and Hubei province on January 23. Now just over two months later there is ample evidence of a strong resumption in economic activity. Their momentum will only accelerate from here such that China domestic activity is likely to return to pre-virus spread levels by the end of April. China's economic output will take longer to recover given its sensitivity to exports with the rest of the developed world still mired in crisis. Given the more extreme and coordinated nature of China's containment/suppression response, at this juncture we believe the rebound in U.S. economic activity will require at least 4-6 months to commence a similar recovery, the economic harm will have only worsened in the interim.

Advance announcement: Lucid Advisors will be hosting our quarterly client webinars next week on Thursday April 9th and Friday April 10th. In anticipation of higher than normal interest/demand we have increased our webinar subscription to accommodate up to 100 attendees per session (advance registration required). Invitations will go out later this week, while we don't normally offer this please feel free to pass along to others who may be interested. There will also be an opportunity to submit questions in advance with your registration.

*"It's a sin that somehow light is changing to shadow,
And casting its shroud over all we have known...
On the wings of the night, as the daytime is stirring
Where the speechless unite in a silent accord..."*
-Pink Floyd, On the Turning Away