

Chris & Ryan's Timely Market Dispatch

A Tough Week For People & Solid Progress In The COVID-19 Battle - Thinking Through The Market – April 3, 2020

I was going to title this missive as a tough week for the economy, but frankly, that is just too sterile. The economy is really about people – people wanting to be productive, feed their families and provide for a few extras. On that front it has been a very tough week. We are hearing first hand of the many that have lost jobs due to layoffs and the outright bankruptcy of their employers. Our hearts and prayers are with you. The bad news is that it is likely to get worse before it gets better, even with all the government support. The image below is suggesting that the current contraction is as bad as the 2008/09 collapse and we are only ~ 10 weeks in. This time around it was not created by market excesses – too much speculative debt chasing speculative assets is the usual norm, i.e. the 08/09 real estate boom bust.

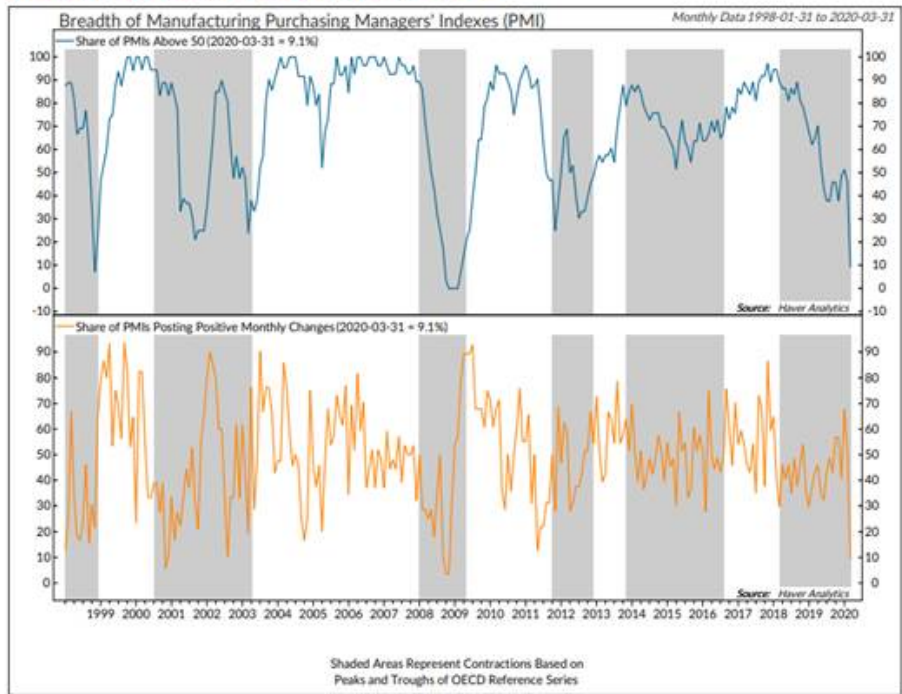
Breadth deteriorates

The spread of COVID-19 saw economic activity tumble in almost every part of the world.

As shown in the chart at right, the share of economies with expanding manufacturing industries plummeted to just 9.4%, the lowest since March 2009. The only other times that this breadth measure has been so low was during the GFC and after 9/11. This confirms our view that the global economy is in a severe global recession.

Furthermore, the share of economies that posted month-to-month deterioration in their PMIs was over 90%. The only other time we saw such broad-based deterioration was right after Lehman collapsed in 2008.

Broadest deterioration since GFC



Shaded Areas Represent Contractions Based on Peaks and Troughs of OECD Reference Series

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Realistically, you have to give kudos to our governments for recognizing the severity of the problem and acting relatively quickly, albeit never quick enough. While the political cooperation here in Canada might be somewhat expected, to see the Republicans and the Democrats working so closely together for the good of the American people, well I find it quite remarkable. Yes, the response has been imperfect, but what would we expect – perfect and timely execution?

The common enemy is COVID-19, and COVID-19 got a kick in the pants this week, notwithstanding the exponential increases in cases and deaths. On the good news front:

- Johnson & Johnson, a major holding of ours, announced it has a leading vaccine candidate and will have it in Phase 1 trials by September. https://www.marketwatch.com/story/jj-has-a-covid-19-vaccine-candidate-phase-1-trials-to-start-in-september-2020-03-30?mod=article_inline
- Dr. Stephen Smith, founder of the Smith Center for Infectious Diseases and Urban Health, announced some treatment protocols that he characterizes as a game changer. Well worth watching to the very end: <https://video.foxnews.com/v/6146455701001#sp=show-clips>
- Abbott Labs new test kit that can give a positive reading within five minutes, started shipping the units. <https://techcrunch.com/2020/04/01/detroit-to-be-first-to-deploy-abbott-labs-5-minute-covid-19-test-mayor-says/2020/04/01/detroit-to-be-first-to-deploy-abbott-labs-5-minute-covid-19-test-mayor-says/>

Anecdotally, there is good reason to think through the scary numbers and what they actually mean. Below is an email exchange from a colleague of ours who was battling on the front line in Italy:

In recent weeks, most of the Eastern European nurses who worked 24 hours a day, 7 days a week supporting people in need of care in Italy have left the country in a hurry. This is not least because of the panic-mongering and the curfews and border closures threatened by the emergency governments. As a result, old people in need of care and disabled people, some without relatives, were left helpless by their carers.

Many of these abandoned people ended up in the hospitals, which had been permanently overloaded for years, and after a few days, they were severely dehydrated, among other things. Unfortunately, the hospitals lacked the personnel who had to look after their own children locked up in their apartments because schools and kindergartens had been closed. This then led to the complete collapse of the care for the disabled and the elderly, especially in those areas where even harder measures were ordered, and to chaotic conditions.

The nursing emergency, which was caused by the panic, temporarily led to many deaths among those in need of care and increasingly among younger patients in the hospitals. These fatalities then served to cause even more panic among those in charge and the media, who reported, for example, "another 475 fatalities". The dead are being removed from hospitals by the army accompanied by pictures of coffins and the army trucks lined up.

However, this was the result of the funeral director's fear of the killer virus, who therefore refused their services. Moreover, on one hand there were too many deaths at once and on the other hand the government passed a law that the corpses carrying the coronavirus had to be cremated. In Catholic Italy, few cremations had been carried out in the past. Therefore there were only a few small crematoria, which very quickly reached their limits. Therefore the deceased had to be laid out in different churches.

In principle, this development is the same in all countries. However, the quality of the health system has a considerable influence on the effects. Therefore, there are fewer problems in Germany, Austria or Switzerland than in Italy, Spain or the USA. However, as can be seen in the official figures, there is no significant increase in the mortality rate. Just a small mountain that came from this tragedy.

While this is truly a sad story, it also paints a picture, that all may not be as bad as it seems.

Market wise, it was another volatile week but certainly nothing like we saw the week ending March 26, 2020. We continue to focus our efforts on identifying those companies where the business model is severely impaired in a post-corona environment and conversely those companies where the post-corona environment will be very supportive. On the latter note, we did initiate a new position in global healthcare services provider, Danaher last week <https://www.danaher.com/> - this is another case where we had done our due diligence pre-corona and were prepared when the opportunity came our way. What about next week? Honestly, we feel like we have made most of the tough decisions on “broken business models”. We have a sizeable cash position and we are thinking/making decisions through the lens of where do expect company X to be in 2 years, as opposed to 2 months. Please recall that the stock market is a forward looking animal – peak bad news on COVID-19 and/or the economy is unlikely to coincide with the bottom of the market.

Again, my thanks to all of you for the notes and calls of encouragement. The team and I really appreciate the support and we are determined to get us all through this particularly tough period. Try to have a great weekend, reach out to your loved ones and let’s all count our blessings. We will be back next week with the full quarterly market commentary.

Please forward this along to your family/friends if you believe we can help them and/or they can subscribe to these missives at <http://www.chrisraper.com/contact-us.aspx>.

Take care of yourselves and be safe, please.

Yours truly,

Chris Raper
Senior Vice-President | Senior Wealth Advisor

Ryan Cramp
Portfolio Manager

Chris Raper & Associates - the most proactive wealth advisory team on planet Earth



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