Not Locking Down

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A resurgence of new Coronavirus cases around the country has created uncertainty for investors. Stock markets fell last week, not because of the virus, but because investors fear another round of economy-killing, government-mandated lockdowns. We don't expect that to happen, but when the government is involved, risks are definitely higher.

After the peak in early April, the seven-day moving average for new cases bottomed on June 9 at 21,282. Since then, they've surged, hitting 39,662 per day in the seven days through yesterday. That's an 86% increase in only 19 days. (Daily volatility in the data, especially over the weekend, makes it important to look at seven-day moving averages.)

Some of the increase in new cases is due to more testing, but not all of it. States where the number of cases has increased the most include Arizona, Florida, Texas, Mississippi, Nevada, South Carolina, and California. There is some tentative evidence that the rise in cases has been driven by higher summer temperatures in hotter states, where air-conditioned restaurants and bars have reopened. It is also not a coincidence that cases (even in states that started lifting restrictions in early May) surged after recent social unrest (both peaceful and otherwise). And, if we had more testing capacity back in April, antibody tests suggest that we would have seen many more cases than were actually reported.

Either way, while cases have increased, deaths from the virus have not. According to data from Worldometer, in the seven days ending Sunday, deaths averaged 596 per day nationwide, the lowest since March, and are down almost 75% from the peak in mid-April. In fact, in spite of all the negative publicity focused on some southern states, New York had 39 deaths per day in the seven days through Sunday, versus 36 each for Florida and Arizona, and 30 for Texas.

The average age of those testing positive for the virus appears to be falling, and we know younger and healthier individuals rarely get severe outcomes. Also, it appears that doctors and nurses have learned a lot about treating patients with the virus. This helps explain why cases have risen, but deaths have not.

As a result, although some states and cities have re-imposed density limits on people congregating, we highly doubt we're headed back to broad April-style restrictions. The virus will be with us, until it is not. Social distancing may slow the spread, but can't stop it. People and businesses are adapting. They want to get back to normal.

In spite of the "surge" in new cases, the TSA reports that the number of airline passengers going through checkpoints in the week through June 25th was up 12% versus the prior week. TSA data show a steady and uninterrupted increase in passengers since bottoming back in April. No wonder airlines are adding back flights and letting passengers know some of their flights will be full. In other words, the data show that economic activity continues to rebound from the widespread shutdowns.

We still project that the recovery process is going to take years; we don't expect an unemployment rate at or below 4.0% until at least 2023. However, even with a steep drop in corporate profits in the second quarter, in the current low interest rate environment our model still says stocks are cheap, suggesting we are unlikely to see the market retest its lows.
