



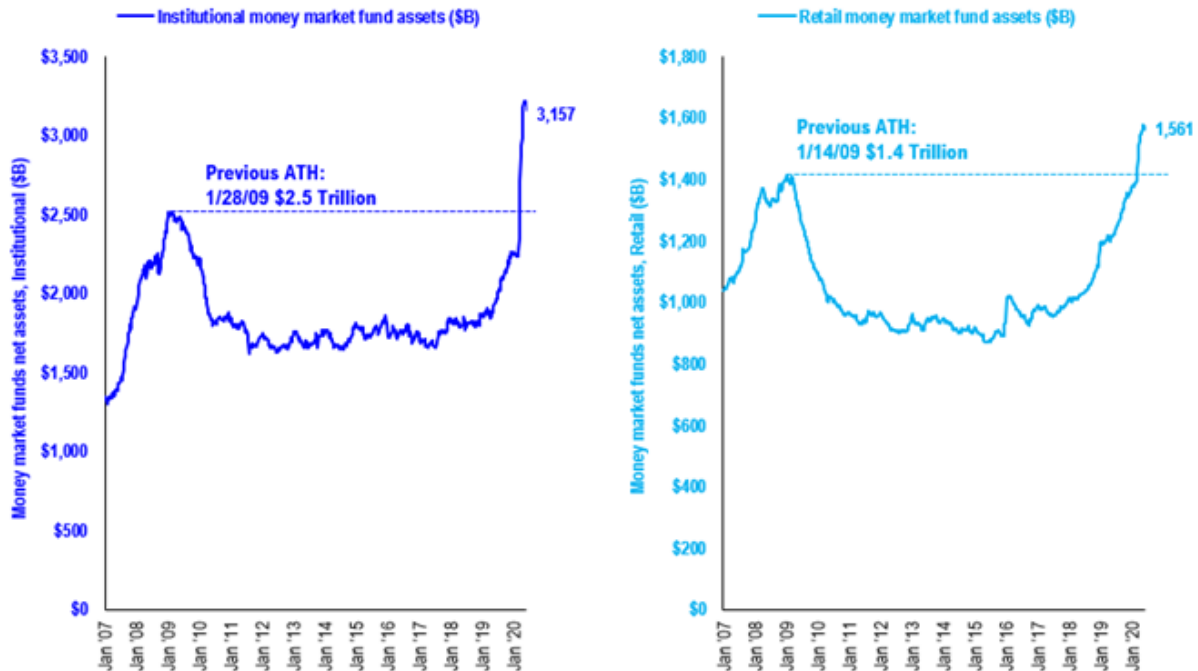
COVID-19 UPDATE: Texas reports massive >3X rise in cases, but state changed re-classification of prison cases, double counting?

THIS MESSAGE IS BEING SENT SOLELY TO CLIENTS OF FS INSIGHT

There are ever growing signs of "V" across a constellation of US economic data, with today's retail sales +17.7% growth (vs +8.4% consensus), the latest example. The plurality of investors expects the US economy to stage a sluggish/lumbering recovery, and these "V-shaped" rebounds represent upside surprises. And more importantly, the stock market's +45% gain since 3/23 implied the equity markets were suggesting a vigorous recovery was underway, and now the incoming data supports this framework.

Are investors appropriately positioned for a V-shaped recovery? Empirically, nope. We discuss in this commentary, how many investors have outright gone to cash positions and those institutional investors who are "EPS-centric" remain skeptical of equity gains, since prices have moved so much faster than fundamentals have improved. Hence, most clients are either positioned for slow GDP (OW Growth) or "US is Japan" and defensively positioned (OW Growth + Defensives). If a V-shaped recovery takes root, the appropriate strategy is to OW Epicenter stocks (Discretionary, Financials, Energy and Industrials), all of which have horrifically bad trends in EPS revisions.

If there is a simple guideline for markets, we think it is simply watching this growing mountain of money market cash on the sidelines, still \$4.7 trillion. Wow. Investors remain unconvinced of this rally and as we commented in several recent pieces, the pullback seen in the past week could solidify one's skepticism of this "sucker's rally" -- but I don't recall in my +27 years of equity research ever seeing a market top characterized by record cash on the sidelines. It is almost a contradictory statement.



Source: ICI and Fundstrat

Daily cases surged today +4,684 led by Texas (see below). But we think there may be double-counting in Texas today as the state decided to reclassify "prison cases" to the county of the prison (not clear where these cases previously tallied). 13 counties in Texas reported 1D jumps (from virtually ZERO in past 7D).

We will know if Texas is seeing an accounting fluke based on reported cases later this week. If they remain ~4,000 per day (like today) vs previous run-rate of 1,200/day, then the state has a serious surge on its hand. But notably, daily net hospitalizations (admissions less discharges) is flat and not surging.

Certainly cases are rising in Texas, but less organically and as wrote in many commentaries, TX, CA and AZ are seeing imported case growth (vs organic). But Texas could certainly benefit from requiring masks, which are not mandatory in public (but encouraged). Even 9 mayors are asking for this.

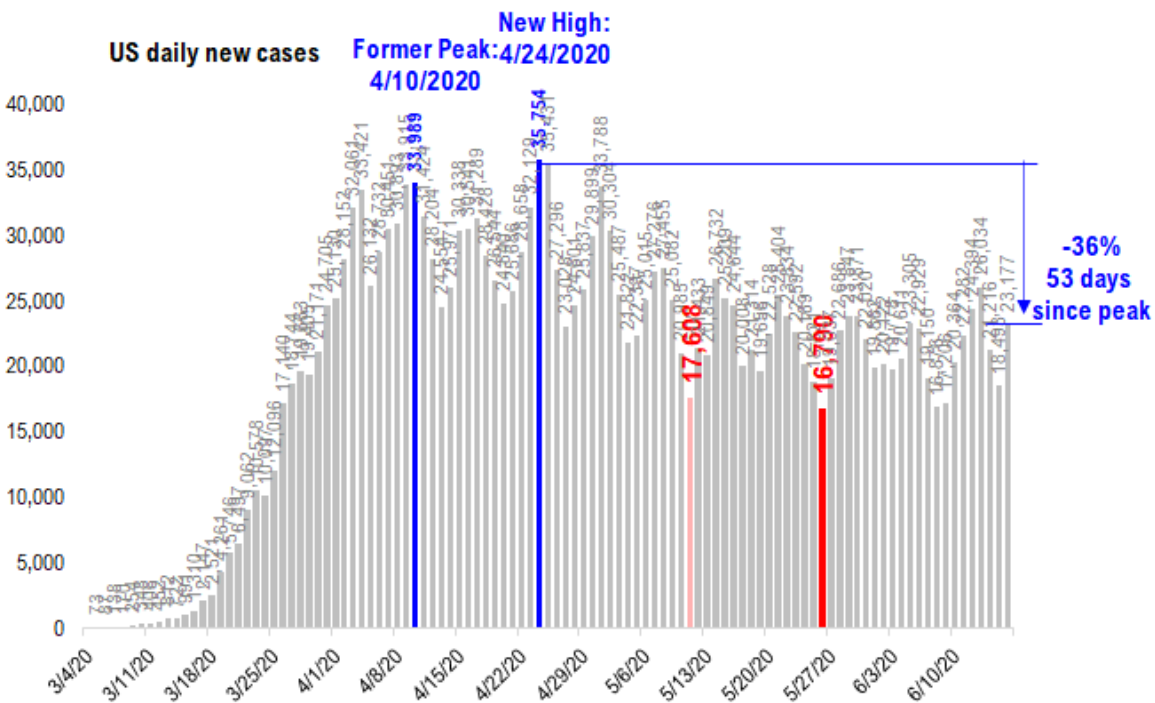
POINT #1: USA cases rise to 23,177 (+4,684) driven by rises in TX with 13 counties previously reporting ZERO cases now 1D surge, with 5 showing 100-900 cases -- looks like TX "prison" cases counted today

Total US COVID-19 cases rose +4,864 today with Texas accounting for +2,844 more cases vs 1D ago. Texas saw 13 counties which had averaged roughly ZERO cases in the past week each report a 1D surge with 5 counties posting 100-900 new cases in a single day. And in each instance, it looks like it is "prison cases" accounting for much of the surge.

- Based on our review of local media reports, it looks like many counties, including Anderson County, TX (+887 today vs ~ZERO past week) included prison cases with Beto and Michael prison accounting for 733 of the 887 (per Palestine Herald).

- So, this does not look like a massive second wave, but rather, better accounting to include prison cases.

Are we making excuses for Texas? We have no reason to. Our base case, as many of our clients know, was to expect a massive second wave stemming from the >350 nationwide protests numbering tens of thousands of protestors over the last 2 weeks. This should have led to a massive nationwide surge, but this has not yet happened.



Source: COVID-19 Tracking Project

Of the states reporting a rise, we know that 3 states have known surges, primarily stemming from imported cases (overflow) and those states are Texas, Arizona and CA. But the Texas surge today is what bears commentary.

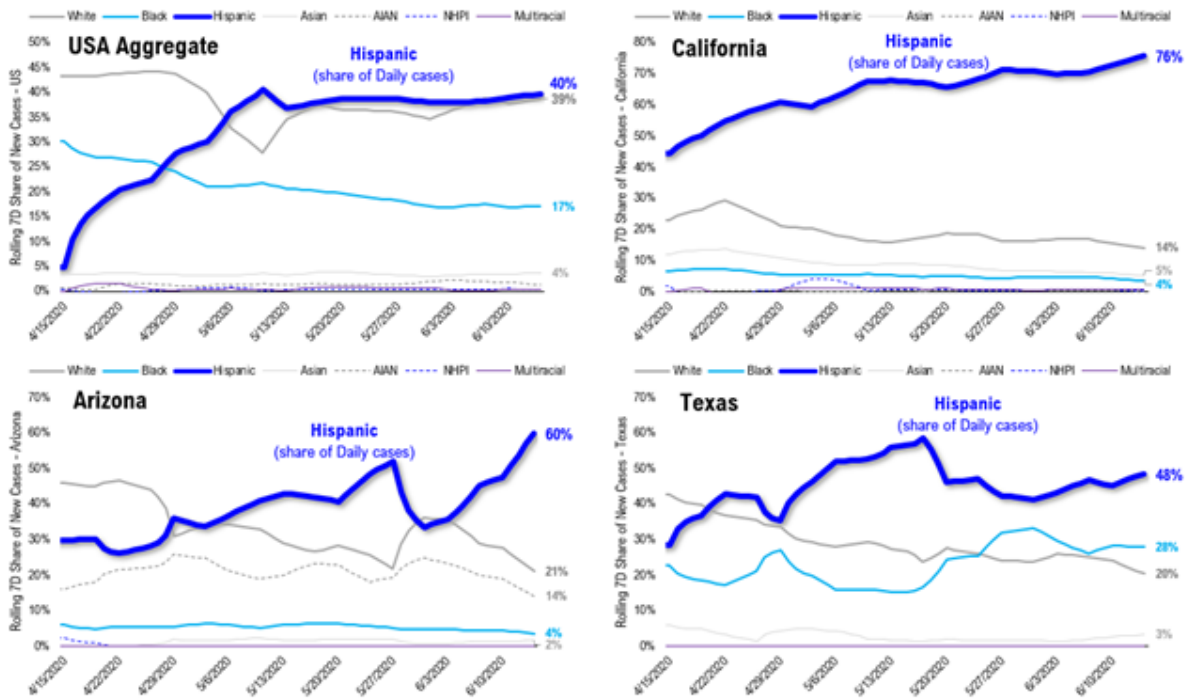
6 states saw large increases

Texas	4,098 vs 1,254 (1D)	+2,844
Arizona	2,392 vs 1,014	+1,378
Florida	2,783 vs 1,758	+1,025
Nevada	379 vs 106	+273
Illinois	623 vs 473	+150
<u>Massachusetts</u>	<u>195 vs 87</u>	<u>+108</u>
Total 6 states		+5,778

As this chart below shows, Hispanic related cases account for:

- CA +76% of incremental cases
- AZ +60%
- TX +48%

This is well above the national average of +40% and that compares to Hispanics representing 17% of the US population.



Source: COVID-19 Tracking Project

5 states saw large decreases

California	2,108 vs 2,597 (1D)	-489
North Carolina	751 vs 983	-232
Indiana	356 vs 521	-165
Missouri	225 vs 379	-154
<u>Arkansas</u>	<u>274 vs 416</u>	<u>-142</u>
Total 5 states		-1,182

Daily Case Increases (by State) (06/16)

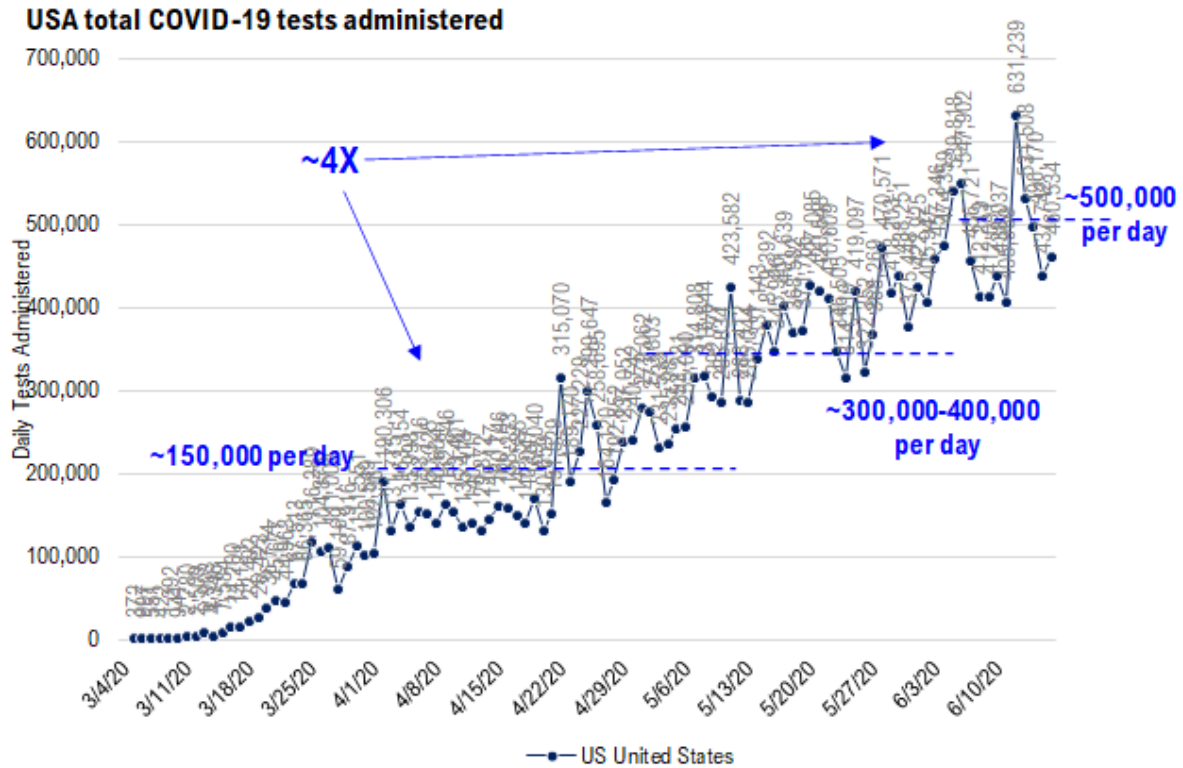
% total new cases (state cases/ total US cases)
% total US pop (state population/ total US population)

Sorted
Last 3-day trend growth rates

	6/14/20	6/15/20	6/16/20	
United States	21,216	18,493	23,177	+4,684
States:				
1 Texas	1,843	1,254	4,098	<-higher
2 Florida	2,016	1,758	2,783	<-higher
3 Arizona	1,233	1,014	2,392	<-higher
4 California	3,212	2,597	2,108	
5 North Carolina	1,443	983	751	
6 Tennessee	891	728	670	
7 Georgia	880	733	664	
8 Alabama	1,014	657	640	
9 New York	694	620	631	
10 Illinois	672	473	623	
11 South Carolina	840	583	612	
12 Louisiana	336	553	534	
13 Virginia	637	380	445	
14 Ohio	300	428	434	
15 Nevada	227	106	379	<-higher
16 Maryland	396	331	377	
17 Pennsylvania	336	323	362	
18 Indiana	366	521	356	
19 Mississippi	168	283	353	<-higher
20 Utah	332	295	329	
21 Washington	367	296	324	
22 New Jersey	276	222	323	
23 Oregon	259	184	278	
24 Arkansas	406	416	274	
25 Wisconsin	240	174	266	
26 Oklahoma	158	186	228	<-higher
27 Missouri	0	379	225	
28 Massachusetts	208	87	195	
29 Minnesota	299	222	189	
30 Kentucky	0	202	182	
31 Nebraska	92	126	180	<-higher
32 Colorado	113	169	143	
33 Iowa	209	127	126	
34 Michigan	189	74	125	
35 Connecticut	94	147	114	
36 New Mexico	102	122	88	
37 Idaho	9	54	78	<-higher
38 Rhode Island	46	32	71	<-higher
39 Delaware	35	76	63	
40 South Dakota	65	30	38	
41 North Dakota	22	21	23	
42 West Virginia	30	33	19	
43 New Hampshire	19	27	19	
44 District of Columbia	58	32	19	
45 Alaska	7	3	12	<-higher
46 Wyoming	10	19	10	
47 Maine	36	17	9	
48 Montana	13	8	5	
49 Hawaii	5	8	4	
50 Vermont	2	1	3	<-higher
51 Puerto Rico	11	6	2	
52 Guam	0	0	1	
53 U.S. Virgin Islands	0	1	0	
54 Northern Mariana Islands	0	0	0	
55 Kansas	0	372	0	
56 American Samoa	0	0	0	

Source: COVID-19 Tracking Project

Total tests rose modestly today to ~460k but the rise in cases today is not about the rise in tests.



Source: COVID-19 Tracking Project

POINT #2: Texas posting a "Texas-sized" 1D increase of +2,844 increase in daily cases, but 13 counties with ZERO cases all report 1D surge... Double counting?

Texas reported a 1D surge of +2,844 increase in daily cases today to a record 4,098 new cases. This is a whopping >3X rise in reported cases. As we discuss below, 5 counties are reporting 100-900 new cases where the previous week, these counties averaged ~ZERO cases.

So is a massive 1D second wave here?

- According to several media reports, the state changed its classification of COVID-19 prison cases to the county where the prison is located
- Is there double counting?

It's simple: The state has decided to start counting COVID-19 prison cases in the county where the prison is located. Previously, prison cases went on a separate tally under the Texas Department of Criminal Justice.

Source: Palestine Herald-Press

Granted, Texas has an imported case problem, leading to a sustained rise in cases. But as we discuss in the next section, 13 counties which previously had ~zero cases, suddenly reported big 1D jumps.

13 counties report a big 1D surge, and had few cases prior to today...

The surge in Texas is driven by 4-5 counties (sorted below):

- Anderson a HUGE 1D gain of +887 *SURGE*
- Brazoria +631 *SURGE*
- Harris (Houston) +504 (flat)
- Dallas +305 (flat)
- Hays +265 *SURGE*

The point we are making is 3 of the top 5 Texas counties reporting large daily cases had very few cases previously.

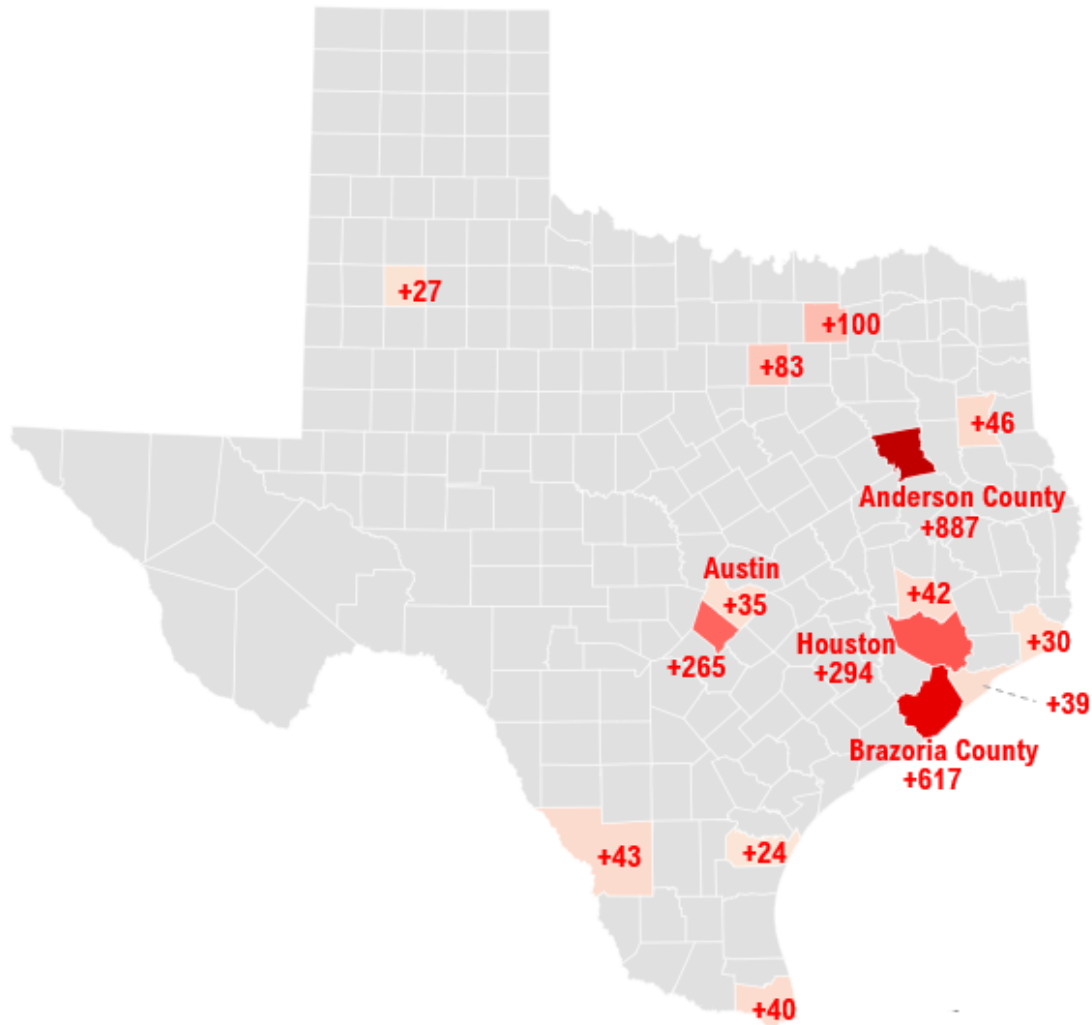
Daily Cases in Past 10 Days (Report Date)...

County	Population	% State Pops	Total Cases	Case Per 1MM Residents	Daily Cases in Past 10 Days (Report Date)...										10D Trend
					6/7/20	6/8/20	6/9/20	6/10/20	6/11/20	6/12/20	6/13/20	6/14/20	6/15/20	6/16/20	
Texas	29,677,668	100%	83,501	2,814	1,425	638	1,637	2,504	1,826	2,097	2,331	1,843	1,254	4,098	
Anderson	58,199	0.2%	989	16,993	0	0	6	0	4	0	7	0	0	887	
Brazoria	375,869	1.3%	1,495	3,977	0	0	-232	12	20	23	0	37	14	631	
Harris	4,978,845	16.8%	17,282	3,471	483	163	332	320	314	312	324	380	210	504	
Dallas	2,734,111	9.2%	14,537	5,317	289	263	254	298	300	312	328	345	302	305	
Hays	234,896	0.8%	938	3,993	0	0	56	24	27	82	99	0	0	265	
Tarrant	2,143,755	7.2%	7,498	3,498	88	77	219	64	166	225	296	133	81	164	
Collin	1,039,369	3.5%	1,787	1,719	0	0	81	18	7	7	78	9	20	120	
Travis	1,291,502	4.4%	4,664	3,611	46	35	118	161	133	129	76	147	84	119	
Rusk	52,767	0.2%	232	4,397	1	0	3	-2	3	0	2	0	58	104	
Hidalgo	870,366	2.9%	1,112	1,278	22	0	58	45	38	70	55	0	83	62	
Galveston	355,196	1.2%	1,312	3,694	66	22	32	25	33	30	52	71	18	57	
Williamson	589,914	2.0%	960	1,627	12	7	7	47	18	24	33	42	42	56	
Bexar	2,093,502	7.1%	4,437	2,119	147	21	22	180	135	192	172	230	151	44	
Webb	276,183	0.9%	718	2,600	0	0	14	26	18	9	14	0	0	43	
Montgomery	613,951	2.1%	1,300	2,117	0	0	26	32	40	35	61	0	0	42	
Cameron	427,881	1.4%	1,178	2,753	29	0	27	32	39	41	50	57	0	40	
El Paso	876,120	3.0%	3,948	4,506	78	0	136	70	68	45	99	40	77	37	
Jefferson	258,678	0.9%	1,279	4,944	8	0	20	537	3	35	11	2	7	37	
Lubbock	317,210	1.1%	894	2,818	7	6	9	3	16	15	23	34	10	37	
Denton	897,953	3.0%	1,772	1,973	19	14	24	35	40	33	55	32	17	36	
Nueces	383,718	1.3%	360	938	0	0	11	3	7	11	15	0	0	24	
Angulina	90,437	0.3%	331	3,660	0	0	0	44	0	28	0	0	0	22	
Bell	353,629	1.2%	651	1,841	0	0	27	34	23	44	31	24	0	22	
Ector	184,841	0.6%	260	1,407	0	0	19	8	7	6	11	0	0	22	
Midland	187,364	0.6%	222	1,185	0	0	14	8	3	14	7	0	0	21	
Bastrop	86,105	0.3%	313	3,635	5	0	15	9	6	3	5	2	0	18	
Brazos	229,410	0.8%	821	3,579	40	21	8	31	19	26	11	60	22	18	
Wichita	133,138	0.4%	117	879	0	0	3	0	2	1	6	0	0	18	

Source: Texas Department of State Health Services

This is the breakout of the top 15 counties with the largest 1D increase in cases in Texas. As you can see, the rises are led by counties which are not near a big city and not previously on the radar for case surges.

Top 15 TX Counties with Largest 1-Day Change in Daily Cases



Source: Fundstrat, Texas Department of State Health Services

But as the Palestine Herald reports below, 13 counties with prisons saw a 1D surge and these were largely due to prison reclassifications. Thus, we will know by the end of the week if:

- Texas is really seeing >4,000 cases per day
- or Wed's 4,000 case figure is a double-counting issue

PALESTINE HERALD-PRESS

Palestine, Texas

County's official COVID count surges almost 10-fold

BY JEFFERY GERRITT EDITOR Jun 16, 2020 Updated 1 hr ago



Anderson County, overnight, increased the official number of COVID-19 cases nearly 10-fold, reaching 989 cases. Tuesday's surge put Anderson County 18th among the state's 250 counties for COVID-19 cases, county Judge Robert Johnston said Tuesday.

What's going on?

It's simple: The state has decided to start counting COVID-19 prison cases in the county where the prison is located. Previously, prison cases went on a separate tally under the Texas Department of Criminal Justice.

"I don't really care how it's counted," Johnston said. "I just want to know what the rules are. We had 103; now it's 989."

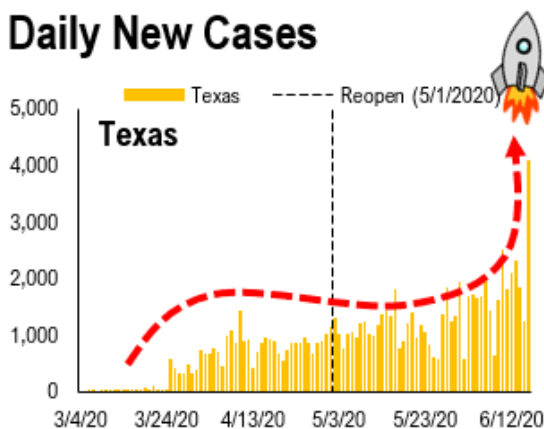
Net Hospitalizations flat despite a massive 3X surge in daily cases

Moreover, Texas is not seeing a surge in hospitalizations and as we have written extensively, daily cases and daily net hospitalizations (or gross) move in tandem. We think the fact that net hospitalizations is not surging but daily cases surge show there is one of several explanations:

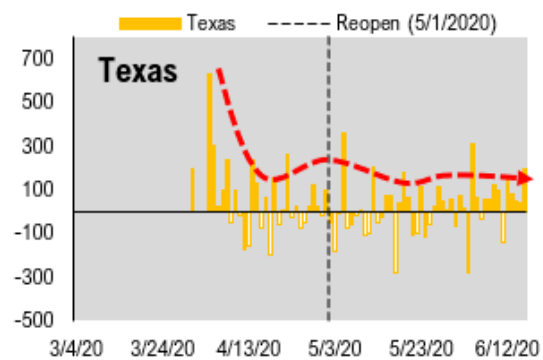
- new cases do not require hospitalizations at same rate = good
- new cases are due to better detection = good
- hospitals are discharging more cases = good
- lag = bad, but this has not been seen in any other state (see prior commentaries on this subject)

So the divergence is mostly good.

Daily New Cases



Net Hospitalizations



Source: COVID-19 Tracking Project

But Texas could benefit from mitigation measures like a mask...

Texas does not require citizens to use masks and PP&E while in public. This is certainly recommended by the TX governor, but it is not required. And as the article below highlights, local governments are asking for permission to require masks:

- Masks reduce spread. It is a fact and is a factor for Asia's success
- 9 Texas mayors asking for the ability to require this = good

The screenshot shows the top portion of a news article on the KENS5 website. The navigation bar includes 'KENS5', 'News', 'Weather', 'Sports', and 'Connect'. Below this is a secondary navigation bar with 'CORONAVIRUS', 'EVERYTHING 210', 'GOOD THINGS HAPPEN', and 'WEAR THE GOWN'. The article title is 'CORONAVIRUS Mayors of nine Texas cities call on Gov. Abbott to allow them to enforce mask orders'. The lead text reads: 'They argue that mask wearing is one of the best ways to keep businesses open and keep people safe, allowing the economy to reopen without overwhelming hospitals.' The URL is <https://www.kens5.com/article/news/health/coronavirus/mayors-of-nine-texas-cities-call-on-gov-abbott-to-allow-them-to-enforce-mask-orders/273-e9f7203a-4b5c-4084-a70c-e131b78d189c>

POINT #3: 30% of Baby Boomers+ went to 100% cash. Baby Boomers+ control 76% of \$100T of US household net worth, or \$76T. Yup.

We have talked for some time about the divide in retail investor positioning in this equity market:

- Robinhood = bullish, but this is younger investors, and with less wealth
- Schwab, etc. = bearish, and this is older Americans, with much greater wealth

This is the reason we have seen persistently net negative readings from the retail AAll survey (older Americans).

30% of Fidelity account holders >age 60 went to 100% cash during the pandemic...

The WSJ carried an article highlighting the extent that many older Americans have liquidated their stock holdings. It is a useful article and highlights how many older Americans sold stocks during the crash but have resisted buying again.

- And thus, sat out a 45% rally, that would have helped recover a huge percentage of those losses
- Account holders >age 60 also do not have the benefit to time on their hands like Robinhood Millennials

The screenshot shows a mobile view of a WSJ article. At the top, there is a hamburger menu icon on the left, the 'WSJ' logo in the center, and a search icon on the right. The article title is 'Investors Approaching Retirement Face Painful Decisions' in large white text on a black background. Below the title is a sub-headline: 'Individuals face perhaps one of the most difficult investing decisions in their lifetimes: whether to wait out a potentially long rebound or exit the market altogether'. The author is listed as 'By Akane Otani' and the date is 'June 15, 2020 5:30 am ET'. At the bottom of the article preview, there are icons for 'SAVE', 'SHARE', and 'TEXT', along with a comment count of '323'.

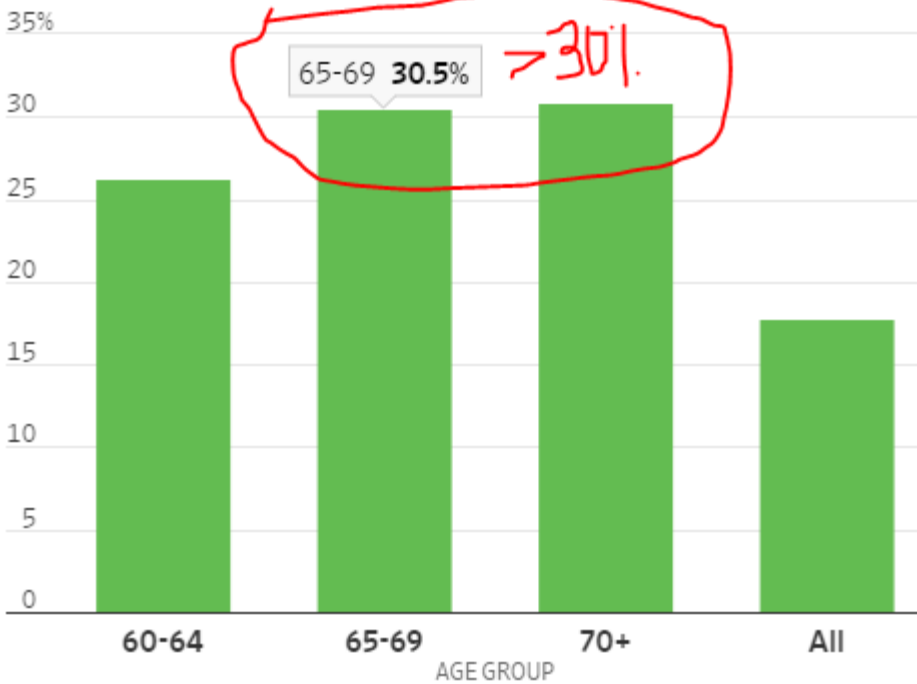
<https://www.wsj.com/articles/investors-approaching-retirement-face-painful-decisions-11592213401>

According to data from Fidelity Investments, 30% of investors age >60 sold all of their equity holdings. And as the article notes, they have not bought back their positions. And with the equity markets near their all-time highs, this is an especially tricky and painful decision.

Cut and Run

Nearly a third of investors who are above the age of 65 dumped all of their stocks sometime between February and May.

Share of individual investors who sold all of their equity holdings



Note: Data was collected from Feb. 20 to May 15.

Source: Fidelity Investments

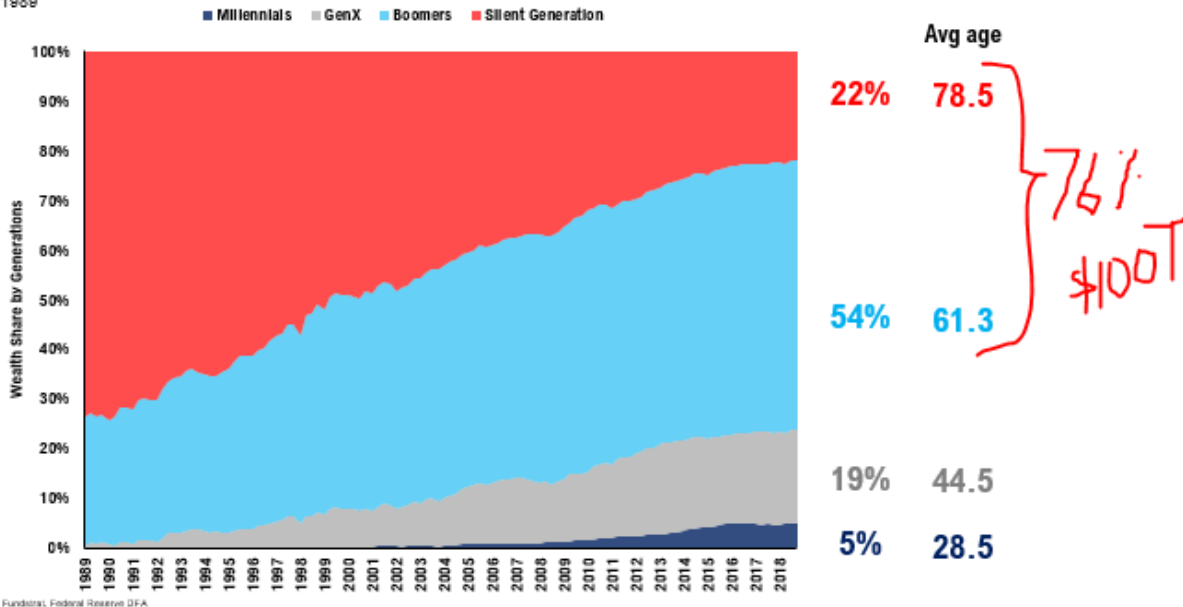
<https://www.wsj.com/articles/investors-approaching-retirement-face-painful-decisions-11592213401>

Older Americans control 76% of the \$100T of US household net worth... so it's a huge deal...

Older Americans, as this Federal Reserve data shows, control 76% of the \$100 trillion of the US household net worth. \$76T is 3.5X US GDP and could buy the stock market 3X over.

- Baby Boomers+ control all the wealth in America
- They control 15X the amount of capital of Millennials (\$5 trillion)

Figure: Wealth share by generations Since 1989



Source: Fundstrat and Federal Reserve

Visualizing this for a moment...

Thus, when we hear the media talking about the "retail investor" is all in, I think they are primarily referring to Robinhood account holders and Millennials generally:

	<u>Born</u>	<u>Age</u>	<u>Net Worth (\$T)</u>
Millennials	1981-2000	28.5	\$5T
Baby Boomers+	pre-1964	>60	\$76T

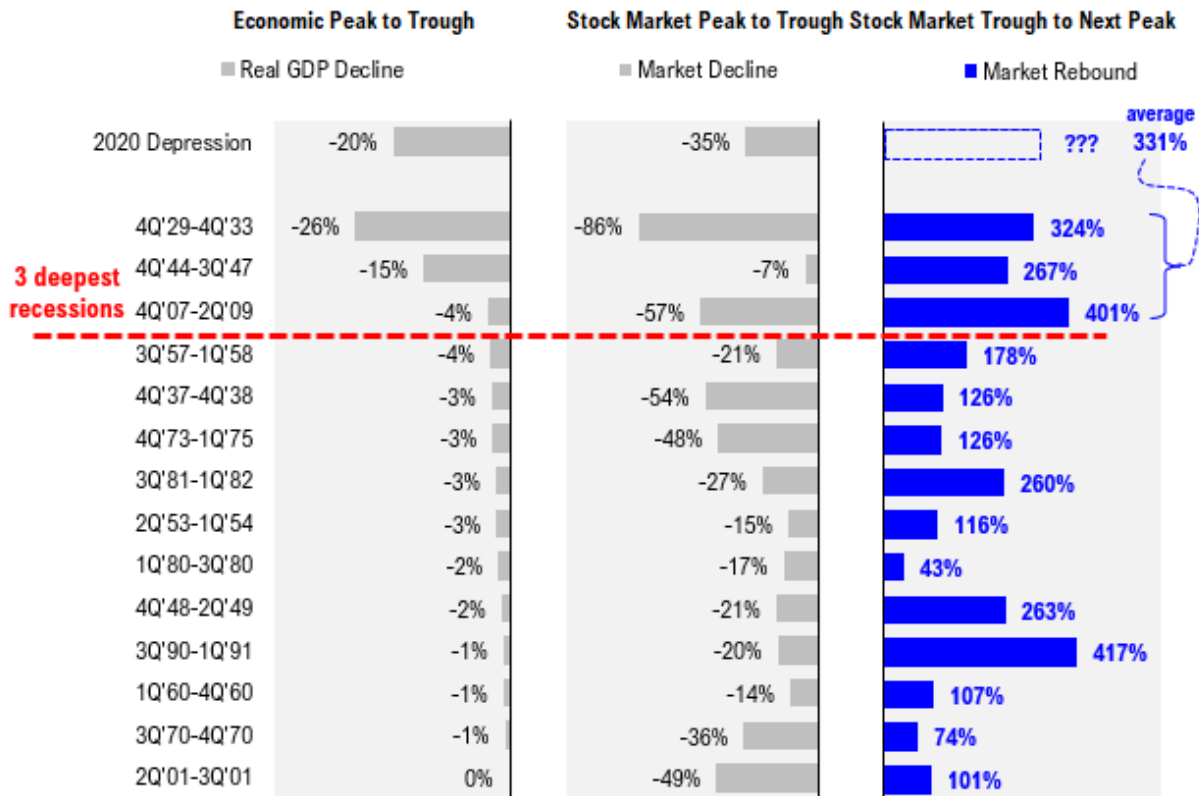
So even if Millennials are bullish, their aggregate firepower is much smaller than Baby Boomers. If a V-shaped recovery is underway, we expect market gains to be prodigious in the next few years.

- following each economic contraction, a new bull market is formed
- we will discuss in a later commentary the cornerstones of such a bull market.

If we look at the 3 worst GDP contractions since 1900, the average equity rally is 331% = S&P 500 9,500 --> yup

But here is a parting thought. Look at the cumulative gains that followed each of the biggest economic contractions:

- the average gain following the 3 biggest economic contractions is 331% gain in S&P 500
- this implies 9,500 for S&P 500 by the end of this run... wow



Source: Fundstrat, BEA, Bloomberg

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