



COVID-19 UPDATE: Cases are rising in US and the simplest policy solution is requiring masks. Epicenter stocks --> Buy for the "skepticism" and stay for the "growth" -- 32 stocks

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Daily cases are up again today in the US, with the same 4 states accounting for the bulk of cases:

- CA +4,084
- TX +3,516
- FL +3,207
- AZ +2,519

These 4 states have known increases and sustained rises. We do not think the states need to roll back the eased restrictions. Foremost, because the case surge timeline fits with the nationwide protests more than it does with the easing of state restrictions. Moreover, a simple policy response could mitigate transmission -- requiring masks. The studies below show that with as little as 60% compliance, the R0 drops below 1.0 and Asia typically sees 80% compliance with mask usage. Several studies even suggest masks alone, without sanitizer, to achieve this (see commentary below).

Masks = good policy



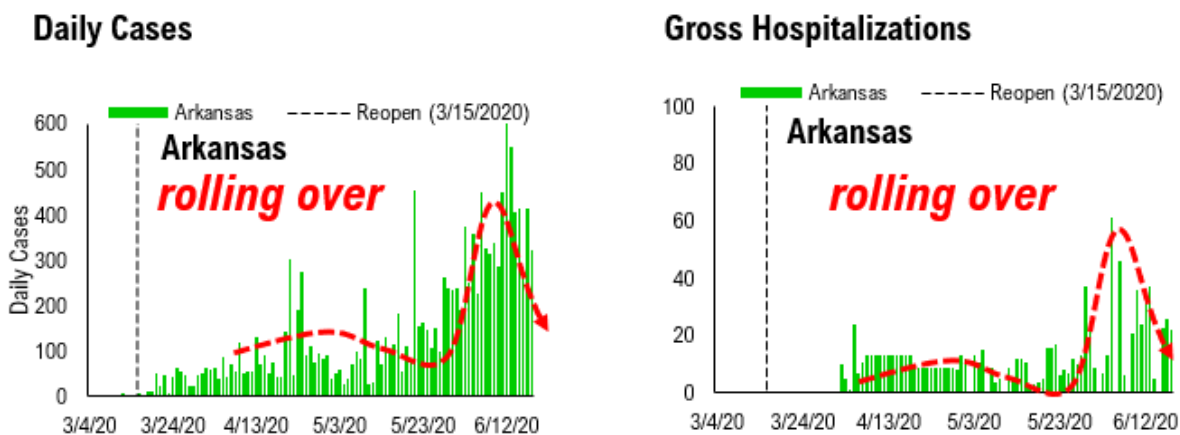
And as we commented yesterday, TX and FL took some "course correction" steps yesterday, including the use of masks. Today, California took the same step, CA Gov. Gavin Newsom issued an order that requires citizens to wear masks in public. These are wise steps. I know a mask is intrusive, and honestly uncomfortable on a hot day, but there is growing science showing that masks really slow the spread. In this commentary, we highlight 5 studies which show how effective masks can be to slow COVID-19 transmission. In one instance, an infected passenger flew from China to Toronto and did not infect a single passenger or crewmember on that flight, as he wore a mask during the trip.

The point we are making is that mitigation steps, like requiring masks can enable the safe re-opening of the US economy. And allow more "V"s to appear throughout the economy. It is encouraging to see more states and cities require masks and this seems to be gaining momentum. In fact, our data science team, led by tireless Ken, will try to compile a list in a future update.

And I don't think states are going to necessarily face a relentless surge in cases. Arkansas is the prime example. The state never issued shelter-at-home restrictions, so the state largely remained opened. But the state began experiencing a surge in cases starting in mid-May (which as our clients know, we have flagged for some time). And frankly, those case rises looked parabolic (see below).

- But since 6/12, Arkansas has seen a steady decline in reported cases and hospitalizations peaked on 6/10
- Again, note how hospitalizations and cases tend to move in tandem.

So Arkansas looks like the case surge has peaked and without requiring shelter at home restrictions. The state, however, is trying to encourage greater mask use -- but it is not currently required in the state, yet. It looks like AR Governor Asa Hutchinson is considering this, and Fayetteville City Council (city in the state) passed an ordinance requiring masks.



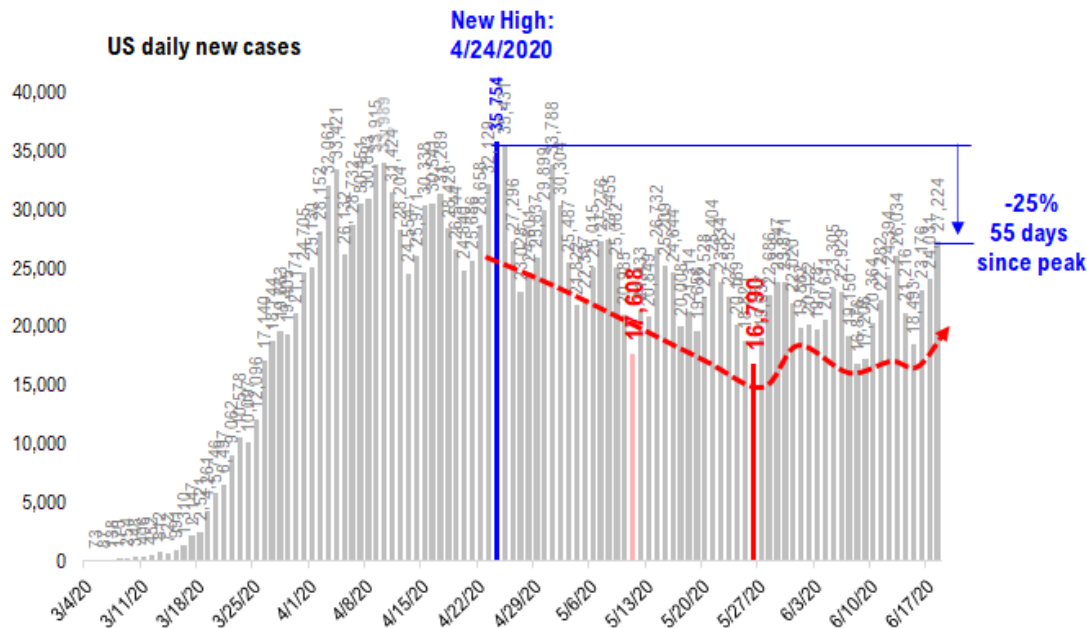
Source: COVID-19 Tracking Project

We still see stocks in the hands of buyers and the latest BofA Merrill Fund Manager survey supports this. The most underowned sectors remain epicenter groups -- Discretionary, Financials, Energy and Industrials. And it is interesting to see these epicenter groups now rally on risk-on days. By the way, epicenter is the also the "growth engine" for S&P 500 EPS in 2021, accounting for 62% of EPS growth, using consensus estimates. These 4 groups are just 26% of market cap, but 62% of EPS growth.

In short, "buy epicenter for the skepticism, but stay for the growth"

POINT #1: Cases rising in the US (due to protests? likely), but Arkansas cases rolling down could be a good harbinger

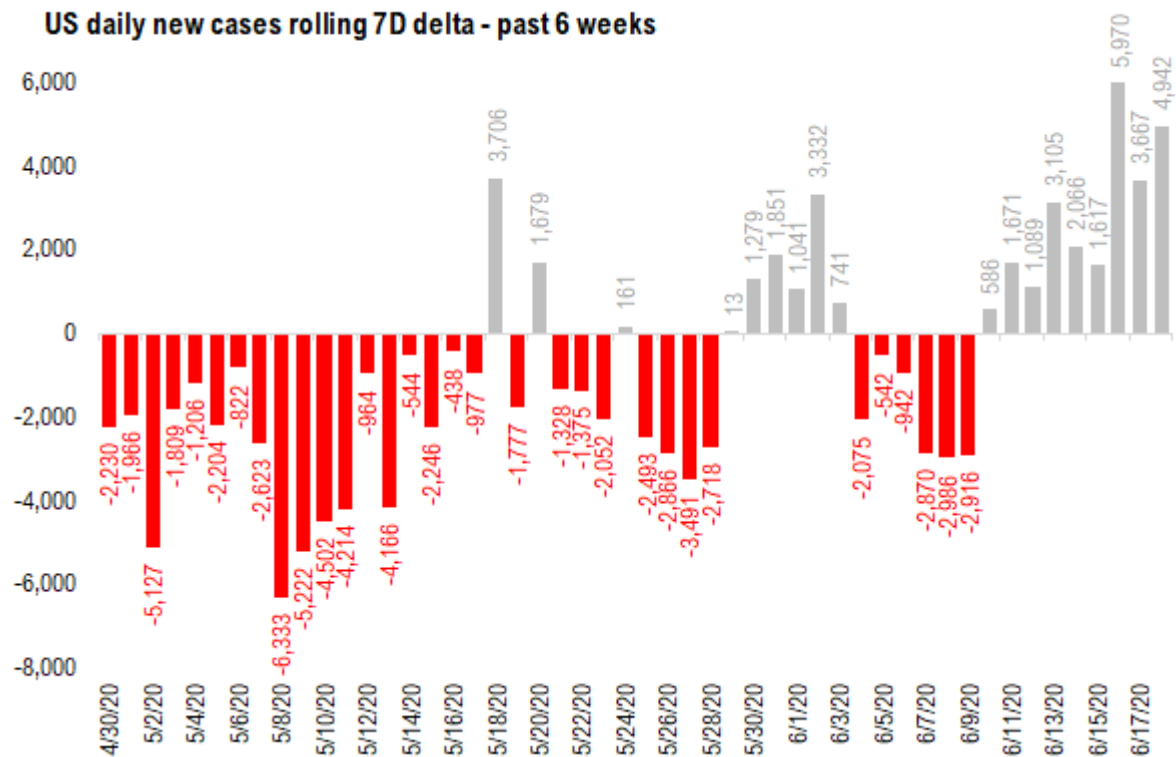
Total USA cases rose again today and are showing a stubborn rise in cases as the chart below highlights. This is not due to a rise in testing and we see this less due to easing of restrictions. The recency of the surge fits with cases rising due to the >350 nationwide protests raging for ~3 weeks now.



Source: COVID-19 Tracking Project

Looking at the daily case rise compared to the same day a week ago (7D) helps to visualize the rise in cases seen this week. While many may see this as an indictment for easing economic restrictions, we do think a "course correction" is warranted. And as we highlight in this commentary, it comes down to masks, which many states and cities are starting to mandate. Moreover, hospitalization and death trends are not rising in tandem with cases, which we see as a positive.

- and as we highlighted yesterday, states like TX and FL are noting the new cases are a younger sub-30 person and in many cases, asymptomatic.



Source: COVID-19 Tracking Project

We have written extensively in the past week about the 4 states accounting for the bulk of case rises (CA, TX, FL, AZ) so we will limit our commentary today on that subject.

6 states report sizable increases

Arizona	2,519 vs 1,827 (1D)	+692
California	4,084 vs 3,455	+629
Florida	3,207 vs 2,610	+597
Alabama	894 vs 400	+494
S. Carolina	992 vs 566	+426
Texas	3,516 vs 3,129	+387
Total 6 states		+3,225

3 states reported sizable declines

Maryland	260 vs 560 (1D)	-300
Washington	253 vs 373	-120
Arkansas	322 vs 415	-93
Total 3 states		-513

Daily Case Increases (by State) (06/18)

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

Sorted

Last 3-day trend growth rates

MS and LA didn't release daily stats due to the technical problems (MS) and the review for data accuracy (LA)...

	6/16/20	6/17/20	6/18/20	
United States	23,176	24,031	27,224	+3,193
States:				
1 California	2,108	3,455	4,084	
2 Texas	4,098	3,129	3,516	
3 Florida	2,783	2,610	3,207	
4 Arizona	2,392	1,827	2,519	
5 North Carolina	751	1,002	1,333	<-higher
6 South Carolina	612	566	992	<-higher
7 Alabama	640	400	894	<-higher
8 Georgia	664	952	882	
9 Ohio	434	412	700	<-higher
10 Tennessee	670	313	686	
11 New York	631	567	618	
12 Illinois	623	546	593	
13 Utah	329	407	495	<-higher
14 Virginia	445	444	463	
15 Oklahoma	228	259	450	<-higher
16 Indiana	356	227	425	
17 Wisconsin	266	256	422	<-higher
18 Pennsylvania	362	335	418	
19 New Jersey	323	277	404	<-higher
20 Iowa	126	282	393	<-higher
21 Minnesota	189	414	379	
22 Arkansas	274	415	322	
23 Missouri	225	211	283	<-higher
24 Massachusetts	195	266	271	
25 Maryland	377	560	260	
26 Washington	324	373	253	
27 Nevada	379	184	234	
28 Colorado	143	231	228	
29 Michigan	125	204	225	
30 Kentucky	182	166	202	
31 Nebraska	180	195	189	
32 Oregon	278	120	148	
33 Idaho	78	92	111	<-higher
34 New Mexico	88	132	88	
35 Connecticut	114	80	81	
36 South Dakota	38	84	59	
37 Rhode Island	71	49	56	
38 District of Columbia	19	29	56	<-higher
39 Delaware	63	41	55	
40 West Virginia	19	35	42	
41 Maine	9	17	42	<-higher
42 Wyoming	10	25	30	
43 North Dakota	23	42	27	
44 Montana	5	16	25	<-higher
45 Hawaii	4	4	18	<-higher
46 New Hampshire	19	72	14	
47 Alaska	12	20	12	
48 Puerto Rico	2	7	10	<-higher
49 Vermont	2	0	5	<-higher
50 Guam	1	2	5	<-higher
51 U.S. Virgin Islands	0	0	0	
52 Mississippi	353	489	0	
53 Northern Mariana Islands	0	0	0	
54 Louisiana	534	928	0	
55 Kansas	0	262	0	
56 American Samoa	0	0	0	

POINT #2: Multiple studies show masks reduce spread, with as little as 40% of population usage

California 'course corrects' and orders mask usage

California is the latest state to course correct and CA Gov. Gavin Newsom issued an executive order, requiring the use of masks when interacting with other people in public. This was previously not required in CA. CA is not the only state not requiring masks, as this is not required in TX and other states.

The screenshot shows the top portion of a news article on the CalMatters website. At the top left is the 'CAL MATTERS' logo. Below it are three navigation buttons: 'CORONAVIRUS' (highlighted in black), 'HEALTH', and 'NEWS'. The main headline reads 'Not an option: Governor orders statewide mask use amid scattered pushback'. Below the headline, it says 'BY ANA B. IBARRA' with a small profile picture and a Twitter icon, followed by 'PUBLISHED: JUNE 18, 2020'. A large photograph shows a person wearing round sunglasses and a face mask made of an American flag. Below the photo is a small camera icon and a caption: 'A protester covers his face with an American flag during a reopen California demonstration on May 1, 2020, in Sacramento. Photo by Anne Wernikoff for CalMatters'.

<https://calmatters.org/health/coronavirus/2020/06/masks-mandatory-california-newsom-governor-protests/>

Under the new guidelines, the rules essentially require a mask whenever someone leaves their home, with the exception of eating or exercising with 6 feet of distance.

When should you wear a mask?

You should wear a mask whenever you'll be around someone you don't live with, including:

- In any indoor public space
- When waiting in line
- When getting health care
- On public transportation or when ride-sharing
- At work
- Outdoors

<https://covid19.ca.gov/masks-and-ppe/>

Studies show the benefit of masks in reducing virus spread and does not require 100% compliance

We have included summaries from 5 recent studies about mask usage. Three of them are meta-studies but all examined the usefulness of using masks. Several were actually case studies from 2003 SARS and also recent contact traces of instances for COVID-19.

Date	Title	Authors	Abstract
June 2, 2020	Impact of population mask wearing on Covid-19 post lockdown	Babak Javid Nathalie Balaban	Modelling for pandemic influenza suggests some benefit in reducing total numbers infected with even 50% mask-use.
May 15, 2020	Critical levels of mask efficiency and of mask adoption that theoretically extinguish respiratory virus epidemics	Alan D Kof	With surgical masks (or equally efficient substitutes) and 80% and 90% adoption levels, respiratory epidemics with R0 of about 3 and 4, respectively, would be theoretically extinguished.
May 05, 2020	Efficacy of face mask in preventing respiratory virus transmission: a systematic review and meta-analysis	Mingming Liang Liang Gao Ce Cheng Qin Zhou John Patrick Uy Kurt Helmer Chenyu Sun	Meta-analyses suggest that mask use provided a significant protective effect (OR = 0.35 and 95% CI = 0.24-0.51). Use of masks by healthcare workers (HCWs) and non-healthcare workers (Non-HCWs) can reduce the risk of respiratory virus infection by 80% (OR = 0.20, 95% CI = 0.11-0.37) and 47% (OR = 0.53, 95% CI = 0.36-0.79).
April 30, 2020	A rapid systematic review of the efficacy of face masks and respirators against coronaviruses and other respiratory transmissible viruses for the community, healthcare workers and sick patients	Elsevier Public Health emergency System	In the community, masks appeared to be effective with and without hand hygiene, and both together are more protective.
April 10, 2020	Face Masks Against COVID-19: An Evidence Review	Jeremy Howard Austin Huang Zhiyuan Li Zeynep Tufekci Vladimir Zlotnik Helene von Seltzer Arne van Delft Lei-Han Tang Viola Tang Gregory L. Watson Christina E. Bar Roshama Shahn Friedrik Quastler Danny Hernandez	The preponderance of evidence indicates that mask wearing reduces the transmissibility per contact by reducing transmission of infected droplets in both laboratory and clinical contexts. Public mask wearing is most effective at stopping spread of the virus when compliance is high.

Weblinks:

<https://www.medrxiv.org/content/10.1101/2020.04.13.20063529v3>

<https://www.medrxiv.org/content/10.1101/2020.05.09.20096644v1>

<https://www.medrxiv.org/content/10.1101/2020.04.03.20051649v3>

<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7191274/>

<https://www.preprints.org/manuscript/202004.0203/v1?fbclid=IwAR0h7PBSAB6ZEcr-DzBaTTIEV9kivJiRZA7Eassb-rs75raKtOKIVKWcsFk>

Wearing a mask for the infected, pretty much prevents spread... even on long flights

One of the more interesting cases studies, is the case of a man who flew an international flight from China to Toronto and then tested positive for COVID-19. But this COVID-19 infected passenger wore a mask the entire flight. And the 25 people closest to him on plane/flight attendants were tested and all were negative. In fact, nobody has been reported from that flight as getting COVID-19.

A simple cotton mask reduces 96% of viral if a COVID-19 infected coughs 8 inches away...

The meta-study (last one cited above) also referred to another study which found that a simple cotton mask blocked 96% of the viral load, or 36-fold drop, at 8 inches from cough from an infected patient. This is incredible. Unfortunately, that study only involved 31 patients and is considered "under-powered"

Mask compliance -- if a mask is 60% efficient (not sure how that is measured), R0<1 if 60% of the population uses a mask...

The last meta-study also created an "efficiency frontier" for achieving different R0 values. The chart is kind of confusing with:

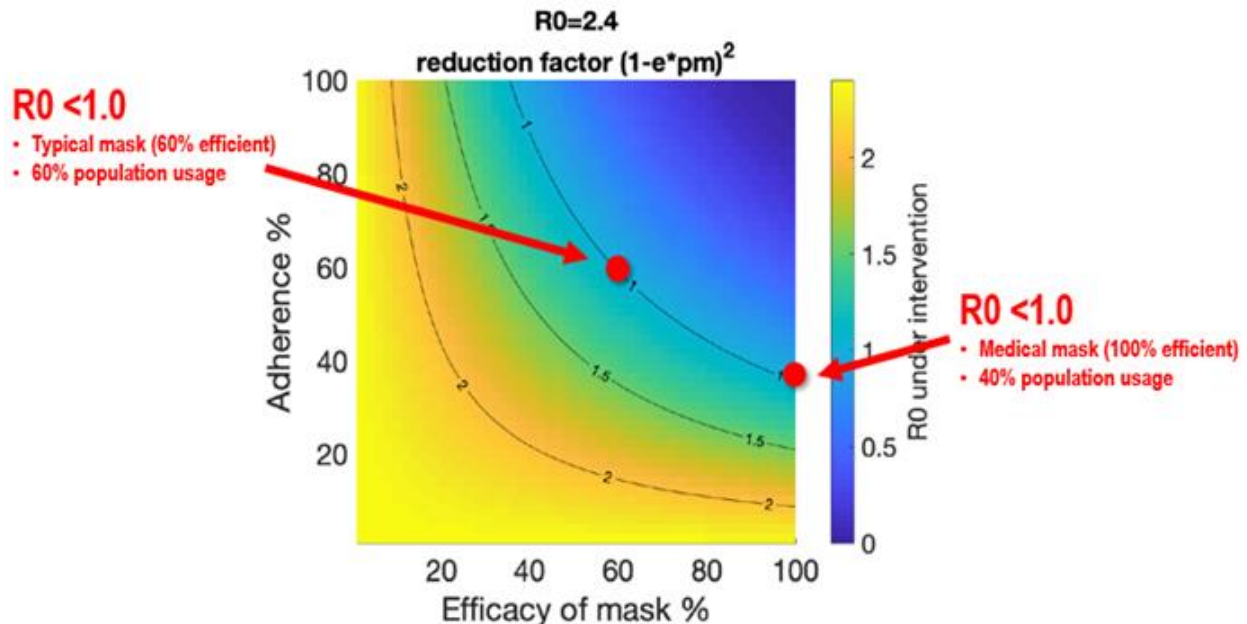
- x-axis based on the efficiency of a mask --> a medical mask is 100%, but I guessed that a "cotton" was 60%
- y-axis is % of the population that needs to comply

The line in the "blue area" is an $R_0 < 1.0$

As marked by myself, if everyone had a medical mask, then only 40% of the population needs to wear a mask to keep $R_0 < 1.0$

- If masks are only 60% efficient, the percentage of compliance only needs to be 60%

This is pretty impressive. Basically, there is not a need for 100% compliance,



<https://www.preprints.org/manuscript/202004.0203/v1?fbclid=IwAR0h7PBSAB6ZEcr-DzBaTTIEV9kjvJiRZA7Eassb-rs75raKtOKIVKWcsFk>

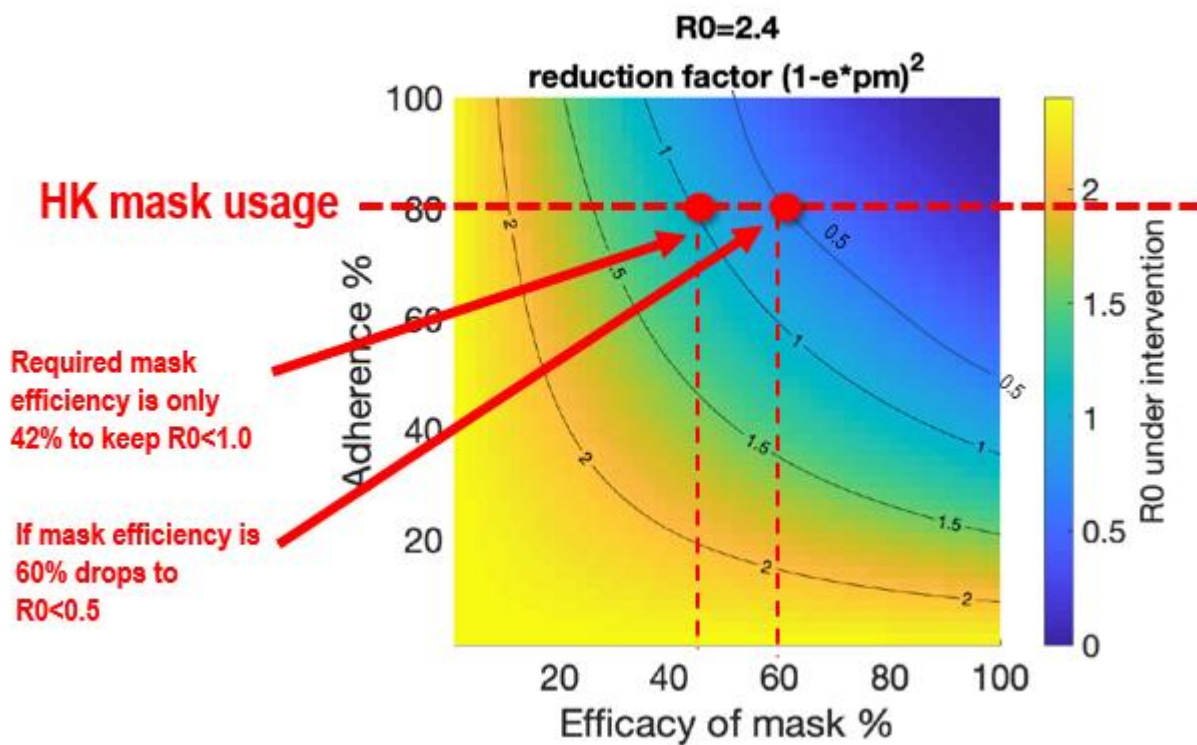
In Asia, mask compliance is in the 70%-range and at that level, the R0 is way below 1.0...

The studies also cited mask compliance rates in Asia, based on multiple surveys.

- Surveys during the SARS-CoV-2 in Hong Kong reported 74.5% self-reported mask wearing (going out increasing to 97.5%);

Using the same curve above, I highlighted how this affects the R0 (reproduction rate):

- at 80% compliance, a mask only needs to be 42% efficient to keep $R_0 < 1.0$
- Using the same 60% assumption for a cotton mask, the R_0 would be 0.5



Source: Fundstrat

So wearing masks clearly should impact the rate of spread. Thus, if policymakers want to do a "smart" course correction, mandating mask usage is a no-brainer.

POINT #3: Epicenter sectors to drive 62% 2021 EPS growth, despite being only 26% of market cap...

Given the economic cycle likely bottomed, we have been advocating investors outright Overweight "epicenter" sectors:

- Discretionary ex-AMZN
- Financials
- Energy
- Industrials

We like Technology and the US economy will be more technology-centric post-COVID-19. But Technology is an obvious and consensus overweight. Favoring the epicenter is less intuitive, but we believe these sectors have the best upside.

If eco data bottomed (yes), then time to OW "epicenter" ...



In this section, we want to highlight these sectors also are doing much of the heavy lifting for earnings growth in both 2021 and 2022, by using Street consensus. If using Fundstrat's macro EPS forecasts (mine, Brian Rauscher has his own estimates based on his system), the contribution from Epicenter is even larger:

	Epicenter share of EPS growth...	
	<u>2021</u>	<u>2022</u>
- Street estimates	62%	35%
- Tom Lee model	63%	60%

Street consensus sees 2021 EPS of \$163, or 31% EPS growth

Using bottoms up Street consensus, we aggregated the EPS contributions into 3 categories:

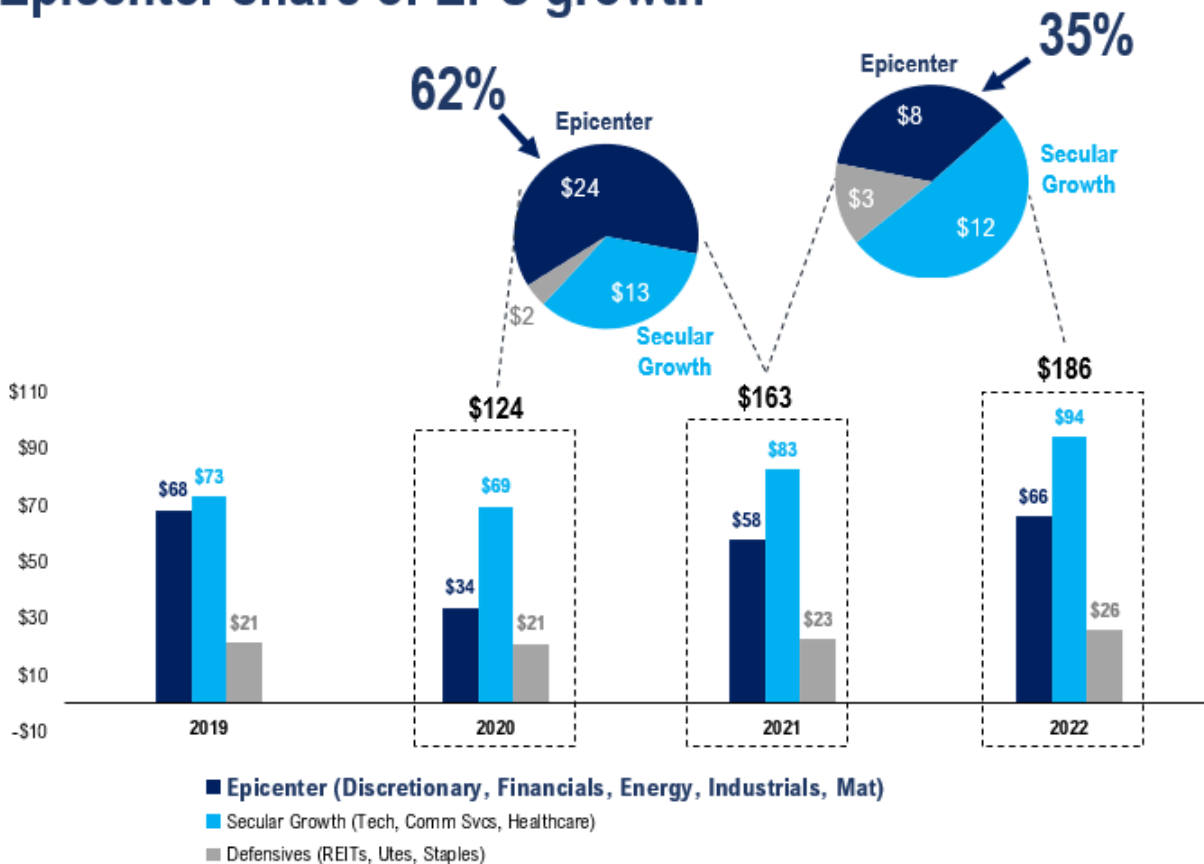
- Epicenter (Energy, Financials, Industrials, Materials and Discretionary)
- Secular Growth (Technology, Healthcare and Comm Services)
- Defensives (REITS, Utes and Staples)

The chart below shows the EPS contribution by year: 2019, 2020, 2021 and 2022. And the pie charts are the "EPS contribution" of share of the earnings increase.

- For 2021, Epicenter sectors will account for +\$24 of the +\$39 EPS increase, or 62%.
- this is 2X the contribution from the Secular growth sectors.

Hence, the earnings growth in 2021 is largely due to Epicenter sectors.

**CONSENSUS EPS:
Epicenter share of EPS growth**

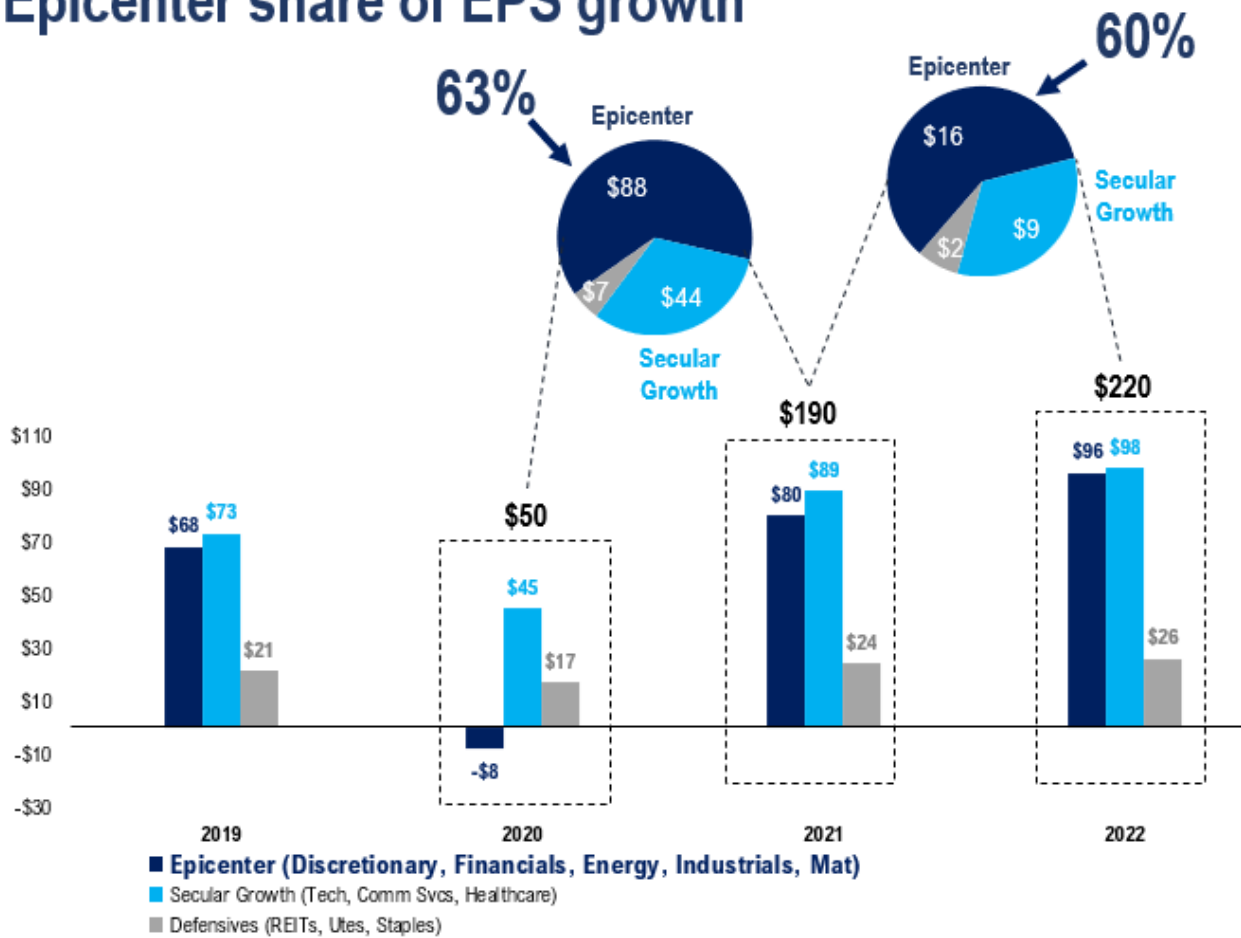


Source: Fundstrat and Bloomberg and Factset

My own forecast for 2021 EPS is even more aggressive as I expect 2021 EPS to be \$190, compared to \$163 from the Street. But even on our more aggressive forecasts, you can see Epicenter is 63% of the EPS growth.

- for 2021, because of operating leverage, we see this EPS contribution continuing and see 60% of 2022 EPS growth coming from "Epicenter" groups

FUNDSTRAT MODEL: Epicenter share of EPS growth



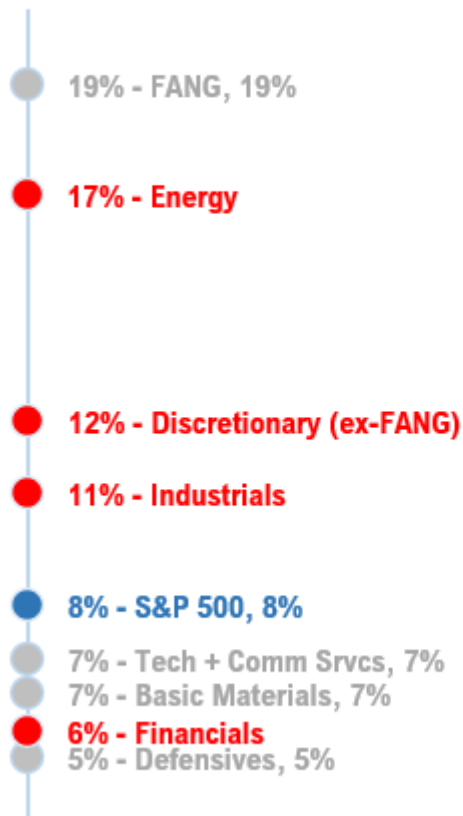
Source: Fundstrat and Bloomberg and Factset

Epicenter topline growth in 2021 is considerably higher than the 8% S&P 500 forecast

We have published the chart below previously, which shows 2021 topline growth forecasts, based on Street consensus.

- 2021 topline growth is forecast to be led by FANG --> hence, stick with FANG
- Epicenter groups are all expected to see considerably higher topline growth than S&P 500 overall, except for Financials (6%).
- Energy is forecast to be the highest at 17%

2021 Sales Growth



Source: Fundstrat and Bloomberg and Factset

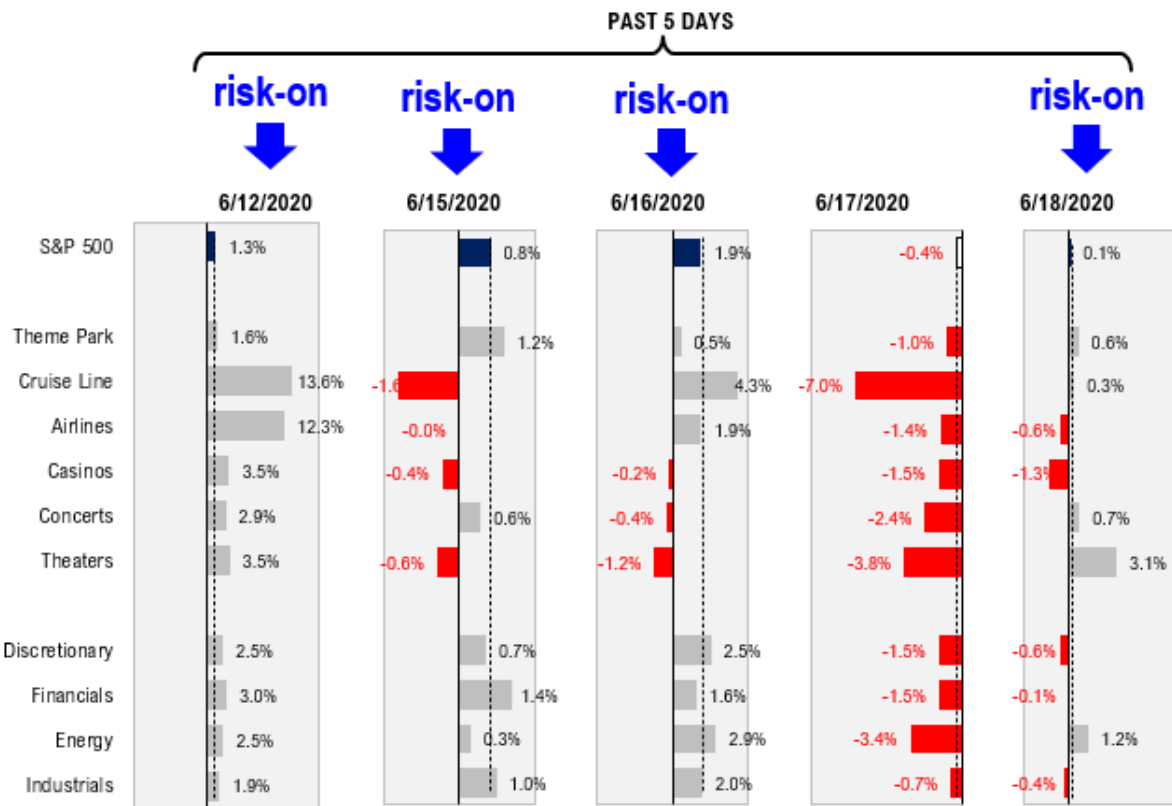
STRATEGY: Buy for the "skepticism" and stay for the "growth" -- 32 stock ideas

Over the past few weeks, when equities are risk-on (rally mode), we have seen outperformance of the epicenter sectors. This differs from the rally we saw in late-March/ early-April where secular growth (Tech, Comm Services and Healthcare) led the rallies. Thus, if investors are risk-on, epicenters are at the center of that rally.

- But their outperformance is justified, if the US economy is bottoming
- Epicenter sectors will account for 62% of EPS growth in 2021, much greater than their current 26% market cap share of S&P 500



In the past 5 days, when markets rallied, you can see the outperformance of epicenter sectors on those days. The last two days, including Thursday's session, was a bit choppy, so one only saw mild outperformance of epicenter on Thursday.



Source: Bloomberg and Fundstrat

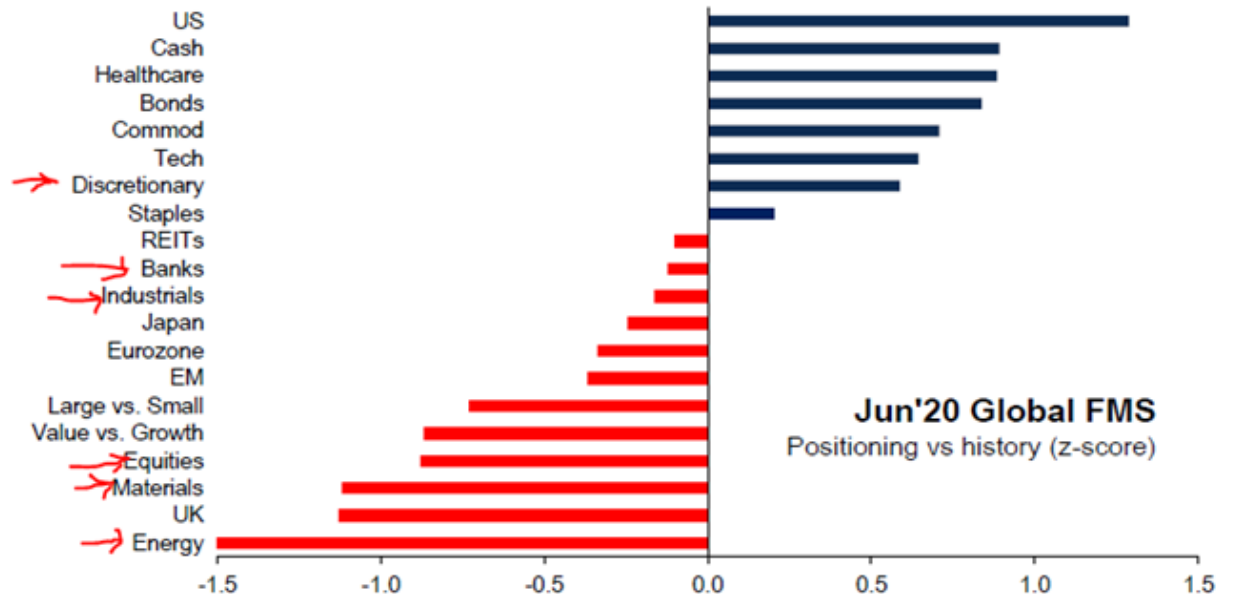
Latest BofA Merrill Fund Manager Survey shows "epicenter" is underweighted, with Energy extreme at -1.5 std deviations

The BofA Merrill Fund Manager Survey shows that epicenter sectors are still consensus underweights. The exception is Discretionary, which has shifted to a slight OW (z-scores):

- Discretionary +0.6 <--Overweight, actually
- Banks -0.2
- Industrials -0.3
- Materials -1.2
- Energy -1.5

The risk/reward is arguably better when the consensus is underweight a group. If that sector is not owned, then positive news would prompt a positive change in positioning = upside

Exhibit 13: FMS positioning vs. history



Source: BofA Global Fund Manager Survey

32 epicenter stock ideas meeting 3 of 3 criteria -- a trifecta

We have asked our team to find the "intersect" of stock ideas within the epicenter + Technology. We found 32 stocks within the Russell 1000 that meet 3 of 3 criteria:

- Ranked DQM quintile 1 (quant model)
- Rated OW by Brian Rauscher, Head of Global Portfolio Strategy
- Rated OW by Rob Sluymer, Head of Technical Strategy.

Discretionary: GNTX, BBY, GRMN, TPX, DHI, LEN, EBAY
Energy: CVX, XOM, COP, PXD
Financial: GS, MS, SBNY, SIVB
Industrials: GD, ALK, FBHS, MAS, CMI, OSK, ITT, GWW, MSM, SNDR
Technology: MXIM, OLED, XLNX, MSFT, AAPL
Comm Svcs: GOOGL, Z

Ticker	Company name	Sub-industry name	Current Price	Mkt Cap (\$mm)	DQM Quintile1	Brian Rauscher	Robert Suyster	Performance...		
								2/19-3/23	3/23-6/18	YTD
Consumer Discretionary										
GNTX	Gentex Corp	Auto Parts & Equipment	26.75	6,550	OW	OW	OW	-35.2%	33.2%	-7.7%
BBY	Best Buy Co Inc	Computer & Electronics Retail	82.30	21,259	OW	OW	OW	-44.3%	62.4%	-6.3%
GRMN	Gamin Ltd	Consumer Electronics	95.18	18,181	OW	OW	OW	-38.6%	49.6%	-2.4%
TPX	Tempur Sealy International	Home Furnishings	73.30	3,778	OW	OW	OW	-61.6%	102.4%	-15.8%
DHI	Dr Horton Inc	Homebuilding	57.31	20,834	OW	OW	OW	-52.2%	93.9%	8.6%
LEN	Lennar Corp	Homebuilding	61.90	18,745	OW	OW	OW	-58.3%	110.9%	11.0%
EBAY	Ebay Inc	Internet & Direct Marketing Re	48.44	34,038	OW	OW	OW	-29.8%	83.9%	34.1%
Energy										
COP	ConocoPhillips	Oil & Gas Exploration & Produc	44.45	47,669	OW	OW	OW	-58.6%	81.1%	-31.6%
XOM	Exxon Mobil Corp	Integrated Oil & Gas	46.92	198,388	OW	OW	OW	-47.9%	49.2%	-32.8%
CVX	Chevron Corp	Integrated Oil & Gas	91.94	171,650	OW	OW	OW	-51.0%	69.6%	-23.7%
PXD	Pioneer Natural Resource	Oil & Gas Exploration & Produc	94.54	15,586	OW	OW	OW	-56.6%	54.3%	-37.5%
Financials										
GS	Goldman Sachs Group Inc	Investment Banking & Brokerage	203.84	73,074	OW	OW	OW	-43.1%	51.0%	-11.3%
MS	Morgan Stanley	Investment Banking & Brokerage	47.58	74,970	OW	OW	OW	-50.6%	71.1%	-6.9%
SBNY	Signature Bank/New York	Regional Banks	107.19	5,787	OW	OW	OW	-50.1%	46.7%	-21.5%
SIVB	Sib Financial Group	Regional Banks	220.58	11,363	OW	OW	OW	-46.4%	54.0%	-12.1%
Industrials										
GD	General Dynamics Corp	Aerospace & Defense	159.06	45,629	OW	OW	OW	-42.9%	49.2%	-9.8%
ALK	Alaska Air Group Inc	Airlines	37.45	4,591	OW	OW	OW	-63.1%	55.8%	-44.7%
FBHS	Fortune Brands Home & S	Building Products	62.55	8,629	OW	OW	OW	-51.8%	79.6%	-4.3%
MAS	Masco Corp	Building Products	48.26	12,729	OW	OW	OW	-38.9%	75.3%	0.6%
CMI	Cummins Inc	Construction Machinery & Heavy	171.23	25,261	OW	OW	OW	-38.8%	66.6%	-4.3%
OSK	Oshkosh Corp	Construction Machinery & Heavy	73.78	5,022	OW	OW	OW	-42.1%	51.3%	-22.0%
ITT	Itt Inc	Industrial Machinery	56.20	4,850	OW	OW	OW	-44.4%	47.9%	-24.0%
GWW	Ww Grainger Inc	Trading Companies & Distributo	304.47	16,279	OW	OW	OW	-31.8%	45.3%	-10.1%
MSM	Msc Industrial Direct Co In	Trading Companies & Distributo	72.35	4,020	OW	OW	OW	-34.3%	54.9%	-7.8%
SNDR	Schneider National Inc	Trucking	24.19	4,287	OW	OW	OW	-22.4%	42.0%	10.9%
Technology + Comm. Services										
MXIM	Maxim Integrated Product	Semiconductors	60.56	16,147	OW	OW	OW	-27.5%	32.1%	-1.5%
OLED	Universal Display Corp	Semiconductors	154.34	7,270	OW	OW	OW	-37.8%	38.7%	-25.1%
XLNX	Xilinx Inc	Semiconductors	93.47	22,728	OW	OW	OW	-20.6%	29.8%	-4.4%
MSFT	Microsoft Corp	Systems Software	196.32	1,488,781	OW	OW	OW	-27.4%	44.4%	24.5%
AAPL	Apple Inc	Technology Hardware, Storage &	351.73	1,524,516	OW	OW	OW	-30.7%	56.8%	19.8%
GOOGL	Alphabet Inc	Interactive Media & Services	1,434.12	979,621	OW	OW	OW	-30.9%	36.0%	7.1%
Z	Zillow Group Inc	Interactive Media & Services	61.34	13,599	OW	OW	OW	-42.7%	96.5%	33.5%

Source: Fundstrat, Bloomberg

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