



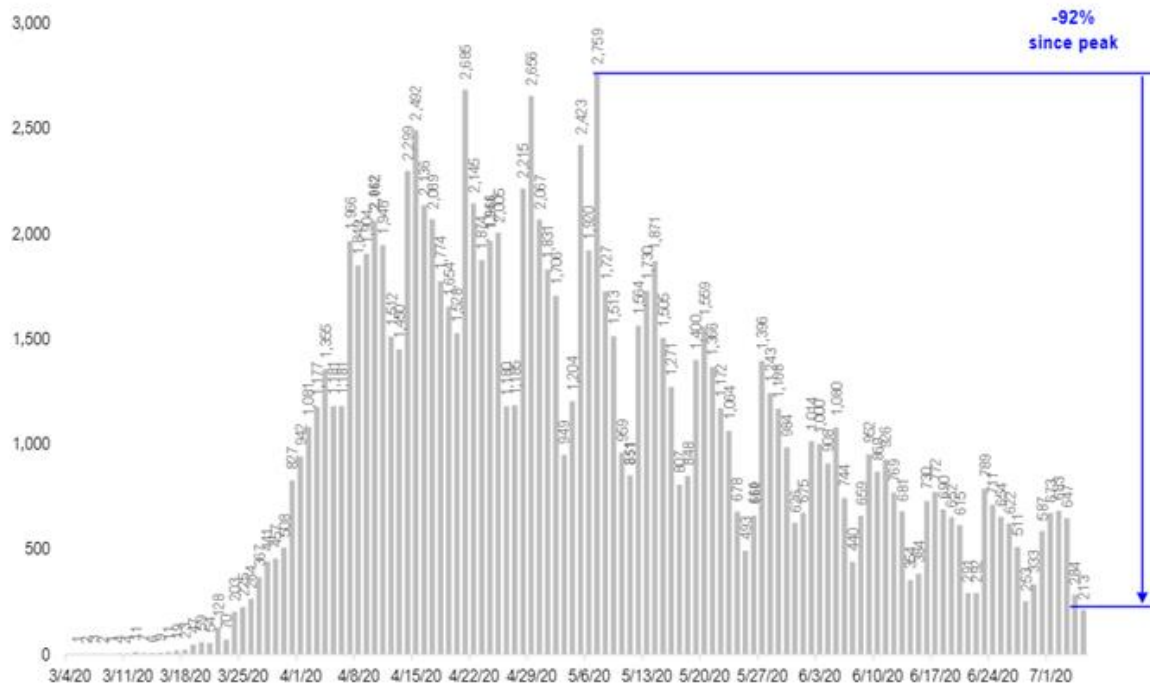
COVID-19 UPDATE: Getting harder to ignore widening divergence between "cases" (new high, Sat >57,000) and "deaths" (new low 213, down 92% from highs)

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Financial markets are resuming after the July 4th holiday (3-day weekend). The S&P 500 4% gain last week, despite COVID-19 spread accelerating in the US (measured by daily cases), suggests markets may be shifting away from "cases" as the primary metric to assess the state of the pandemic in the US -- and in any case, the gains despite the pandemic setback is a "half-full" outcome. It is increasingly clear, markets are looking through cases:

- Daily deaths continue to fall and fell to a new cycle low today to 213, down 92% from the high of 2,279 seen on 4/29/2020.
- The new "epicenter" states FL, CA, AZ, TX, or F-CAT, could be rolling over in daily cases --> when they roll, COVID-19 cases will roll
- Healthcare progress continues to be a positive skew and NBC reports (see below) the White House may announce a new therapeutic study this week
- Still, most people seem to equate "case surge" = "coming calamity"

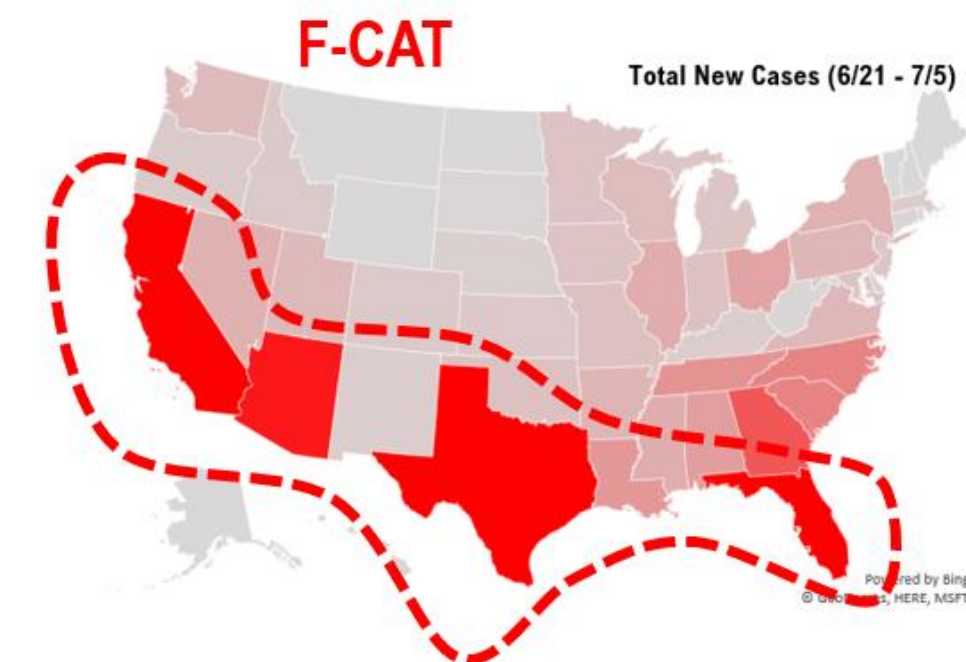
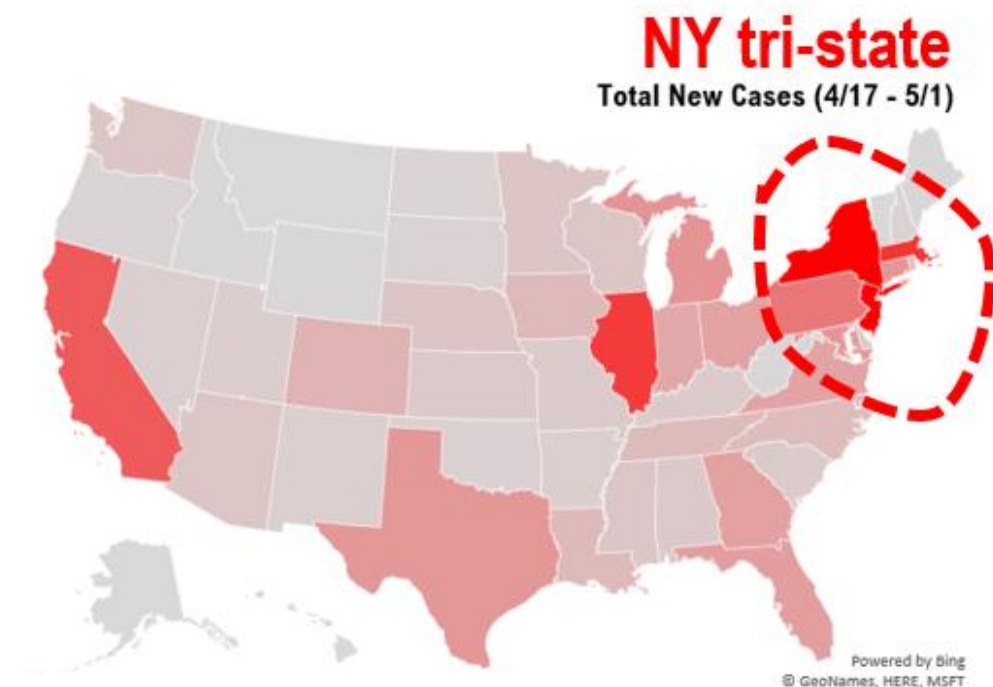
US daily COVID-19 Fatalities



Source: COVID-19 Tracking Project

In our view, F-CAT (see above) are the key states, and breakouts in the other 46 are secondary. One only has to look at a heat map of 14D increase in cases.

- In April, NY tristate was the "epicenter"
- Past 2 weeks, F-CAT is where the US surge is taking place
- As a side note, note this is the US Southern Border, and FL is the gateway to Latin America.

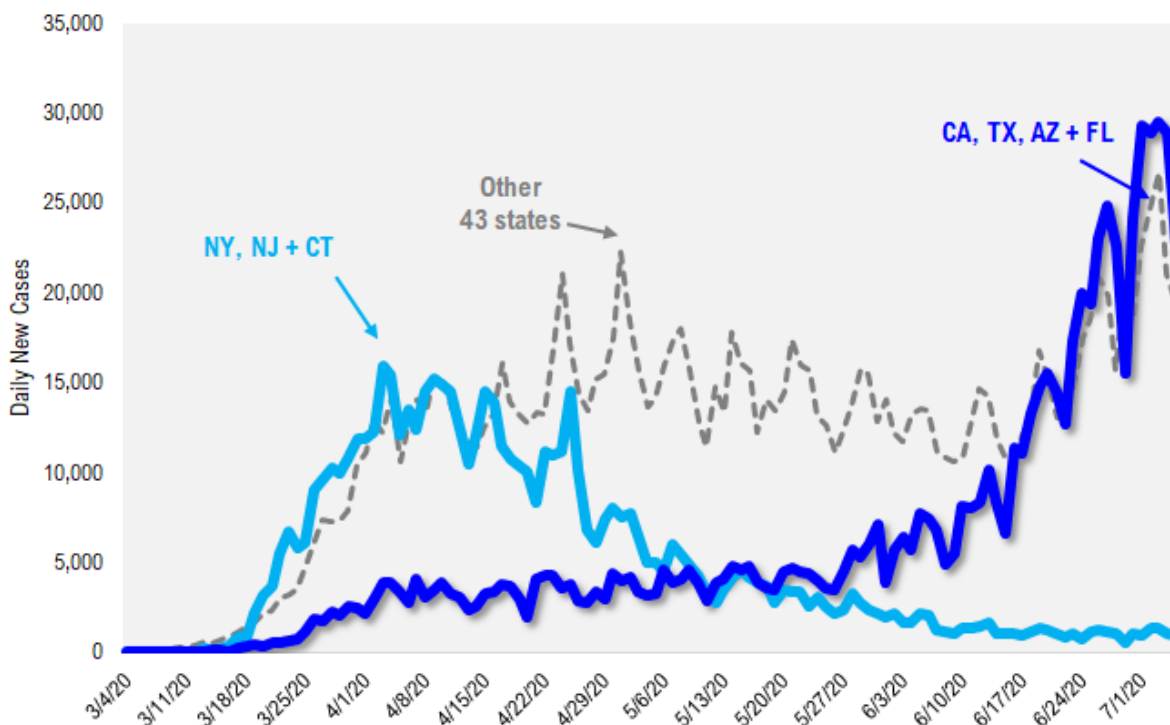


Total Daily cases in F-CAT kind of look like they are rolling over too... but it could be the holiday weekend effect

The good news is F-CAT surge seems to be taking a "step back." Total daily cases in F-CAT eased off their peak.

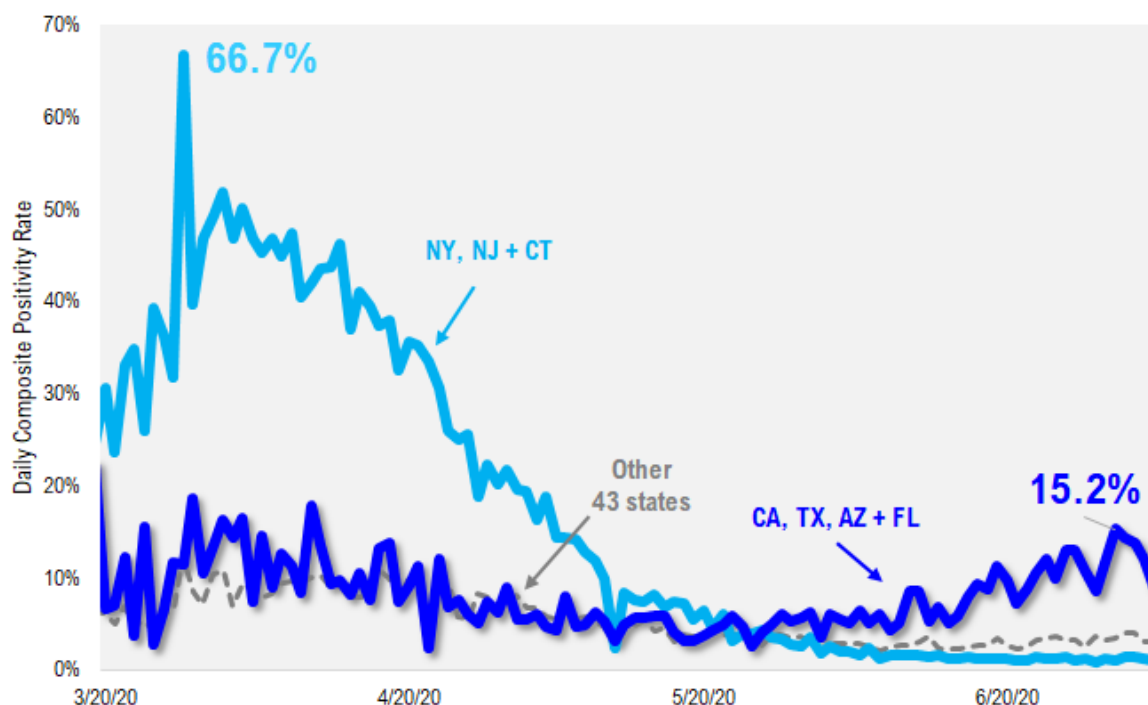
- recent daily case high was 29,516 on 7/3/2020
- as of today, 22,454, down 24%

We would heavily discount this figure, as this may be due to the weekend effect.



Source: COVID-19 Tracking Project

Even if US and F-CAT cases are surging, the detection of cases is much better today. Notice in late-March/early-April, the positivity rate in the tristate area reach an astounding 67% -- meaning essentially only symptomatic cases were being tested. In F-CAT, the positivity rate peaked recently at ~15% and fortunately, is back below 10% as of Sunday.



Source: COVID-19 Tracking Project

In terms of case trajectory, the US is not following the path of Europe, and this is not good. But I don't necessarily think this is a disaster. In fact, deaths are contracting and that remains the key metric. Moreover, perhaps the US will follow a path of "slow burn" and a fairly high number of cases. And if healthcare treatments improve, this is tenable and does not mean the US is relapsing. In fact, I thought the tweet from Sara Eisen of CNBC was quite positive:

- the White House might announce a new study on therapeutics
- on the surface, I see it as a positive



Sara Eisen ✓
@SaraEisen

"Next week administration officials plan to promote a new study they say shows promising results on therapeutics, the officials said. They wouldn't describe the study in any further detail because, they said, its disclosure would be "market-moving"



'We need to live with it': White House readies new message for the nation on cor...

The effort to craft a clearer response comes after months of Trump downplaying the health crisis and mixed signals from the administration.

[nbcnews.com](https://www.nbcnews.com)

6:58 PM · Jul 4, 2020 · [Twitter for iPhone](#)

113 Retweets **231** Likes

<https://twitter.com/SaraEisen/status/1279550263645417474>

STRATEGY: Daily deaths may become the real "arbiter" of state policy...

If equity markets can rally 4% in a week when US daily cases explode to a new high, I would argue this is financial markets telling us "confirmed" cases is not the primary metric to measure progress of COVID-19. There are many reasons this could be the case: new infections are younger, virus could be weakening, healthcare readiness better. But if this is true to financial markets, this may also be true from a policy perspective. That is, while case surge is alarming, and many equate rising cases = surge in deaths, if this is not the case, the economy can continue opening safely. And safely opening the economy is good = risk-on.

Catalysts for "binary" flip to Epicenter: Either F-CAT cases roll over, or if we get "cure/vaccine"

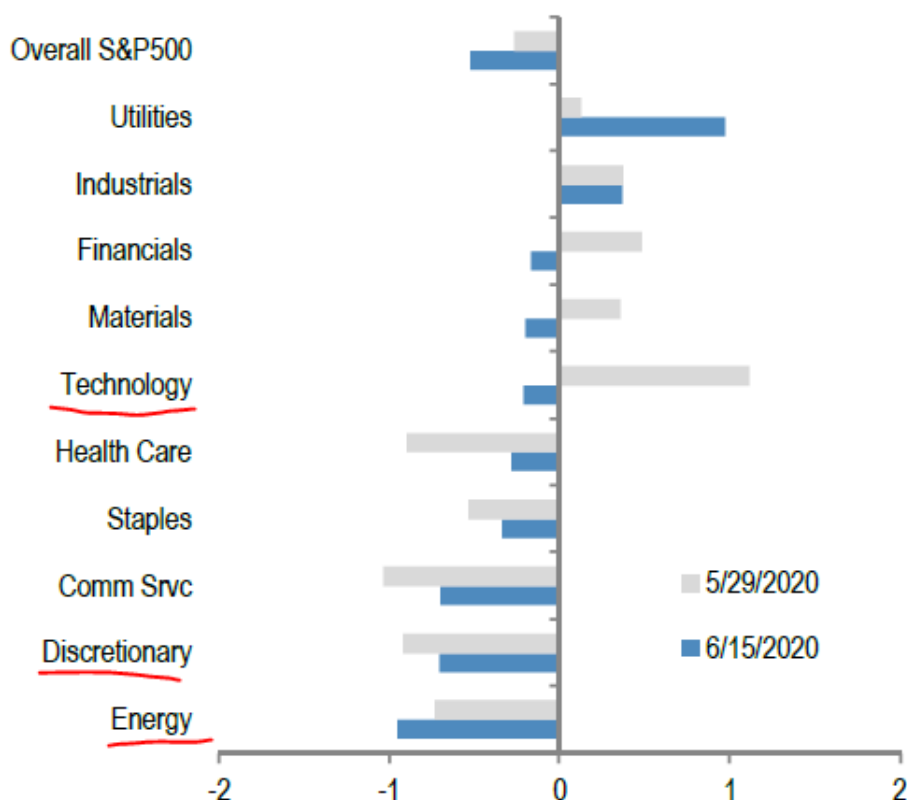
Investors have a preference for "defensive" and "secular growth" stocks (FANG, etc.). And the apprehension around case surge and the risk of "relapse/re-closing economy" is pushing investors towards these "bond proxy" trades. But we see two "binary" events, that will flip investors to cyclically-tilted:

- F-CAT cases rollover. This could already be happening
- Cure or vaccine developed

Either way, the safety of re-opening calculus completely changes. Thus, we see investors become cyclically tilted. By the way, the latest short interest data compiled by JPMorgan shows Energy and Discretionary and even Technology are "short-biased" by markets.

Chart A10: S&P500 sector short interest

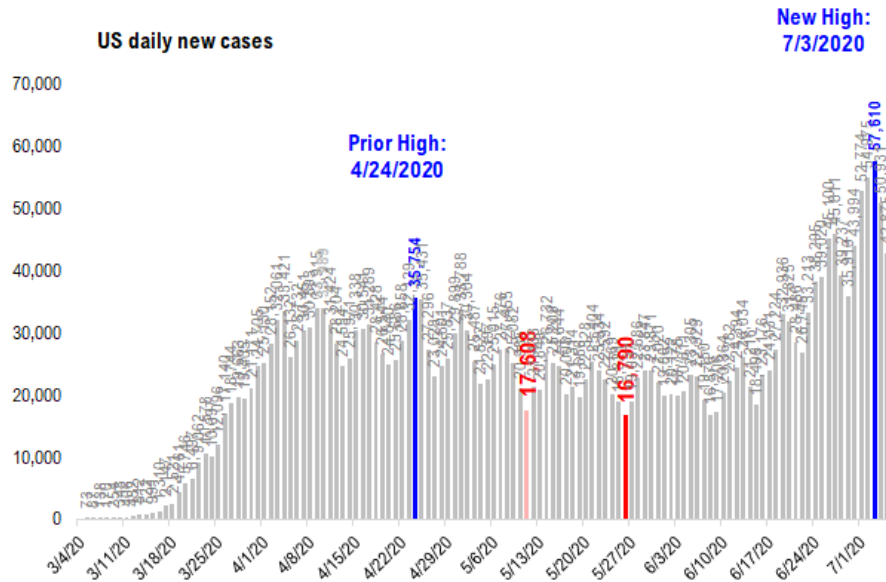
Short interest as a % of shares outstanding based on z-scores. A strategy which overweight's the S&P500 sectors with the highest short interest z-score (as % of shares o/s) vs. those with the lowest, produced an information ratio of 0.7 with a success rate of 56% (see F&L, Jun 28, 2013 for more details)



Source: NYSE, J.P. Morgan.

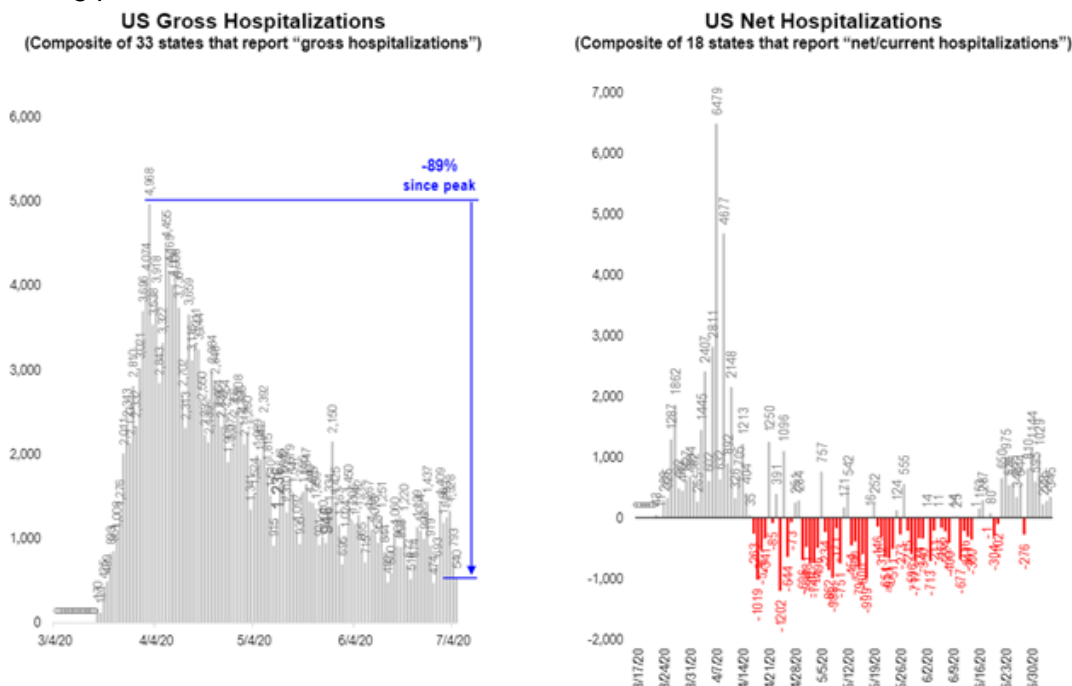
POINT #1: USA daily cases down to 42,875, down from >57,600 2D ago, but long weekend likely affecting reporting

Well, COVID-19's relentless case rise took a reprieve on Sunday as total confirmed US cases came in at 42,875, down ~15,000 from a recent peak. COVID-19 is spreading rapidly in the US, primarily in F-CAT. But cases alone is not the sole metric for progress and if daily deaths continue to fall, one could start to believe the US is past the worst.



Source: COVID-19 Tracking Project

Hospitalization trends in aggregate remain favorable. Even new net admissions are rising at a slowing pace. The local situation can be different.



Source: COVID-19 Tracking Project

In fact, CNBC reported that Houston Mayor said Houston Hospitals could run out of capacity within two weeks. This is a reminder to myself, that COVID-19 remains an extremely contagious and dangerous disease. But as we comment below, Houston cases peaked 9 days ago. So this is a positive leading indicator that the worst is likely behind Houston.

HEALTH AND SCIENCE

Coronavirus on track to overwhelm Houston hospitals in two weeks, mayor says

PUBLISHED SUN, JUL 5 2020-11:43 AM EDT
UPDATED SUN, JUL 5 2020-2:48 PM EDT



Tucker Higgins
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KEY POINTS

- Hospitals in Houston, Texas are on track to be overwhelmed in approximately two weeks as coronavirus cases mount, Mayor Sylvester Turner said on Sunday.

<https://www.cnbc.com/2020/07/05/coronavirus-on-track-to-overwhelm-houston-hospitals-in-two-weeks-mayor-says.html>

6 states reported meaningful rise in cases in past 1D

Arizona	3,536 vs 2,695 (1D)	+841
West Virginia	121 vs 15	+106
Alabama	1,091 vs 997	+94
New Jersey	369 vs 291	+78
Indiana	576 vs 517	+59
Delaware	132 vs 73	+59
Total 6 states		+1,237

6 states reported meaningful decline in cases in past 1D

Texas	3,449 vs 8,258 (1D)	-4,809
Florida	10,059 vs 11,458	-1,399
California	5,410 vs 6,510	-1,100
Mississippi	226 vs 990	-764
Georgia	2,197 vs 2,826	-629
South Carolina	1,461 vs 1,854	-393
Total 6 states		-9,094

Daily Case Increases (by State) (07/05)

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

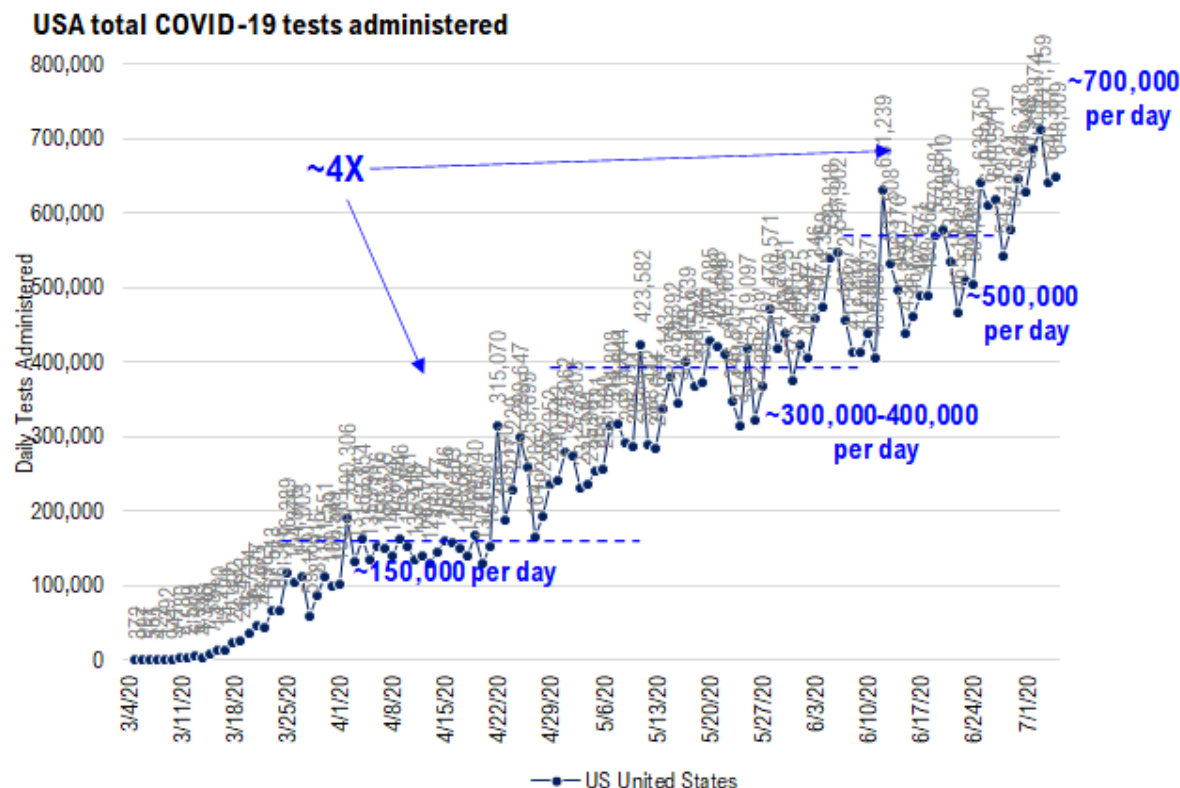
Sorted

Last 3-day trend growth rates

RI, KY, KS and CT didn't release stats over the weekend...

	7/3/20	7/4/20	7/5/20	
United States	57,610	50,931	42,875	-8,056
States:				
1 Florida	9,488	11,458	10,059	
2 California	8,040	6,510	5,410	
3 Arizona	4,433	2,695	3,536	
4 Texas	7,555	8,258	3,449	
5 Georgia	2,784	2,826	2,197	
6 Louisiana	1,728	0	1,937	
7 South Carolina	1,831	1,854	1,461	
8 North Carolina	2,099	1,413	1,329	
9 Tennessee	1,822	1,428	1,291	
10 Alabama	1,754	997	1,091	
11 Ohio	1,091	926	968	
12 Nevada	985	857	843	
13 Virginia	658	716	639	
14 Illinois	937	862	639	
15 Arkansas	547	587	605	
16 Indiana	528	517	576	
17 New York	918	726	533	
18 Wisconsin	579	738	522	
19 Minnesota	414	0	512	
20 Pennsylvania	667	634	479	
21 Washington	716	627	469	
22 Utah	596	676	410	
23 New Jersey	386	291	369	
24 Idaho	401	376	363	
25 Michigan	460	398	343	
26 Iowa	220	612	312	
27 Oregon	342	294	300	
28 Maryland	538	380	291	
29 Oklahoma	526	580	283	
30 Mississippi	914	990	226	
31 Missouri	547	385	221	
32 Colorado	267	247	199	
33 New Mexico	256	287	193	
34 Massachusetts	290	210	136	
35 Delaware	192	73	132	
36 West Virginia	73	15	121	<-higher
37 Nebraska	208	167	102	
38 Montana	45	39	45	
39 New Hampshire	35	0	40	
40 North Dakota	65	57	37	
41 South Dakota	85	50	35	
42 District of Columbia	45	12	35	
43 Puerto Rico	24	26	29	
44 Wyoming	32	24	28	
45 Alaska	46	48	27	
46 Hawaii	29	24	24	
47 Maine	45	24	18	
48 Vermont	9	2	11	<-higher
49 U.S. Virgin Islands	6	13	0	
50 Rhode Island	50	0	0	
51 Northern Mariana Islands	1	0	0	
52 Kentucky	297	0	0	
53 Kansas	929	0	0	
54 Guam	6	2	0	
55 Connecticut	71	0	0	
56 American Samoa	0	0	0	

Source: COVID-19 Tracking Project



POINT #2: F-CAT "nucleus" update: Cases rolling over in Houston, Phoenix and Los Angeles...Miami still soaring.

Leading indicator cities for F-CAT are Houston, Phoenix, Los Angeles and Miami, and first 3 likely peaked...

The new epicenter for US COVID-19 are Florida, California, Arizona and Texas, or F-CAT. And the "nucleus" of the breakouts are the 4 major cities of: Miami, Los Angeles, Arizona and Houston. These are the cities where the breakout really took place and conversely, these cities will act as leading indicators when cases are expected to peak.

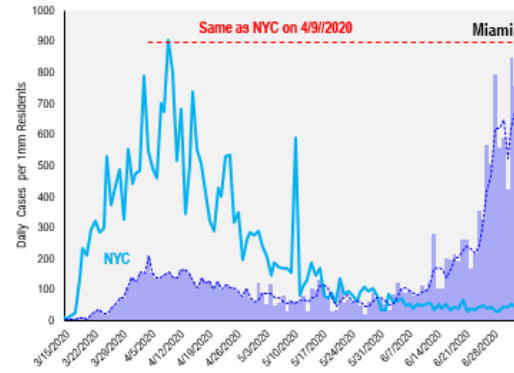
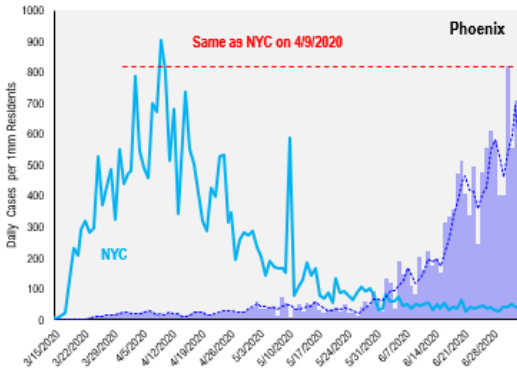
Last week, we noted that comparing the daily confirmed cases per 1mm residents, we thought these 4 cities would see local peaks by mid-July (1-2 weeks). And as of Sunday night, Phoenix and Miami, in particular, were approaching a level of daily confirmed cases per 1mm residents that matched NYC at its peak (4/9/2020) of 902 daily cases per 1mm residents:

- Over the past few days, it looks like both Phoenix and Miami have matched the daily confirmed cases reported by NYC.

So this is an interesting breakpoint for both cities, because this is the level that saw NYC

essentially reach its "break point" in terms of new cases. The difference, of course, is NYC had strict lockdown measures in place in late-March/April, thus, preventing this from worsening, while Phoenix and Miami have no such measures currently. So, the next two weeks will be key.

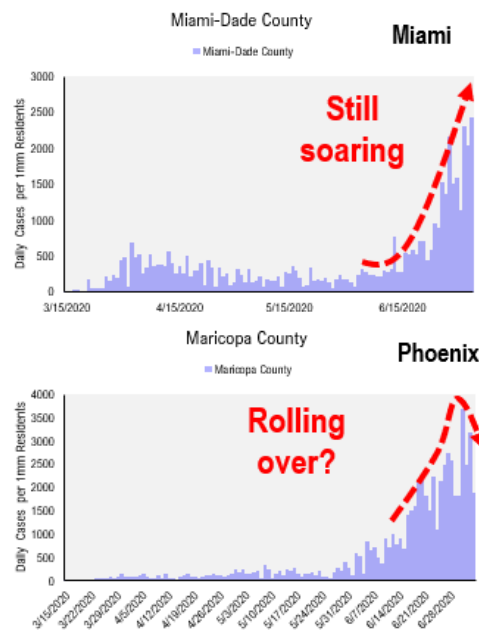
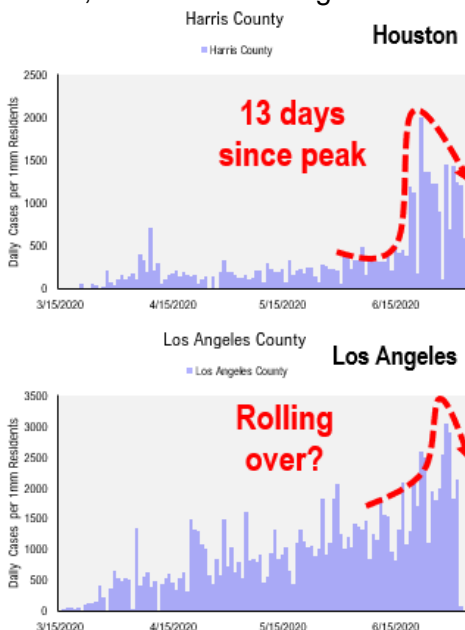
- Will confirmed cases rollover in these two cities? Or will they continue to soar past NYC?



It looks like daily confirmed cases in Houston, Los Angeles and Arizona are past peak, and Miami only one still surging...

But looking at daily confirmed cases for these 4 nucleus cities, it looks like 3 of the 4 might be past the peak.

- Houston daily confirmed cases peaked 13 days ago on 6/22/2020 at 2,000 and the latest figure is 597
- Los Angeles peaked 6 days ago on 6/29/2020 at 3,040 -- the latest county data is only 20 cases, but we believe this is due to "weekend" effect
- Phoenix daily cases 4 days ago at 3,674 on 7/1/2020 and is about half that currently. But this is "tentative" because of the long weekend.
- Miami, cases still soaring.



Source: State Health websites

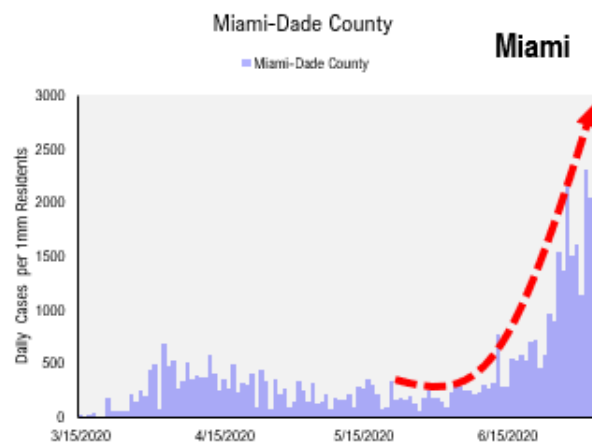
The takeaway is if there is sustained rollover in daily cases, this is likely to be viewed by markets as the "peak" -- this is analogous to how markets interpreted the local peak in NYC as the peak in cases for the NY tri-state area.

Daily cases and daily deaths are still diverging in Miami, LA, Houston and kind of in Phoenix -- nothing resembling a "lagged" surge

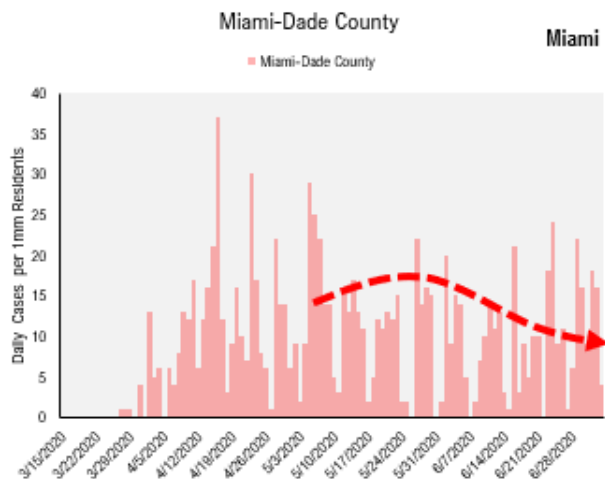
While many health commentators have said that cases lead hospitalizations, which leads deaths, and by this transitive logic, deaths in these 4 cities should be soaring. This might be possible, but as highlighted below, in 4 of 4 cases, the cases are soaring and deaths are diverging:

- Miami, despite record daily cases, daily deaths peaked in early April
- Los Angeles, despite record daily cases, deaths peaked in early April
- Phoenix, this is not as divergent
- Houston, despite recent record daily cases, daily deaths peaked in early April.

Daily Cases

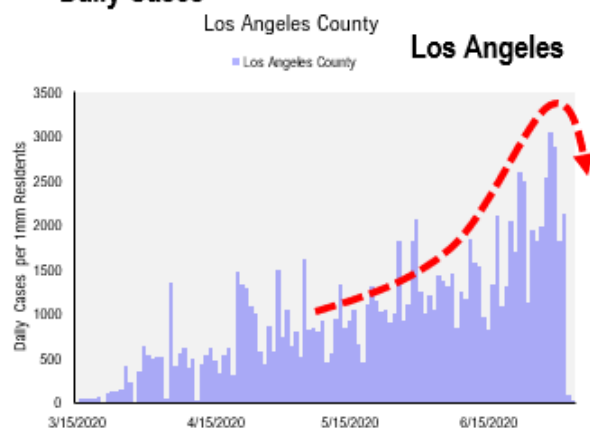


Daily Deaths

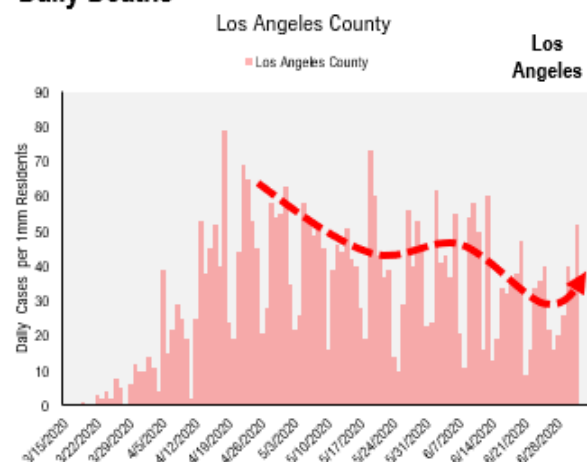


Source: Florida state website

Daily Cases

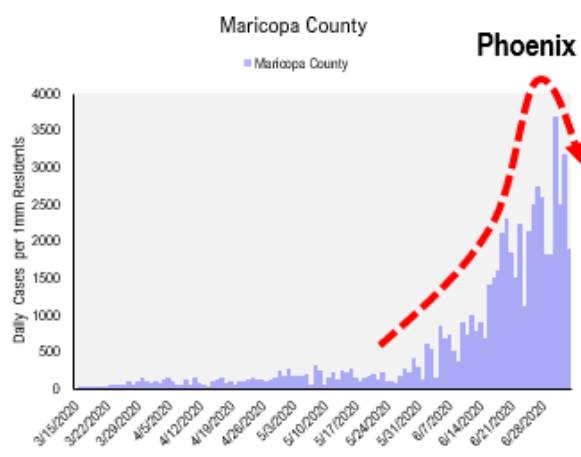


Daily Deaths

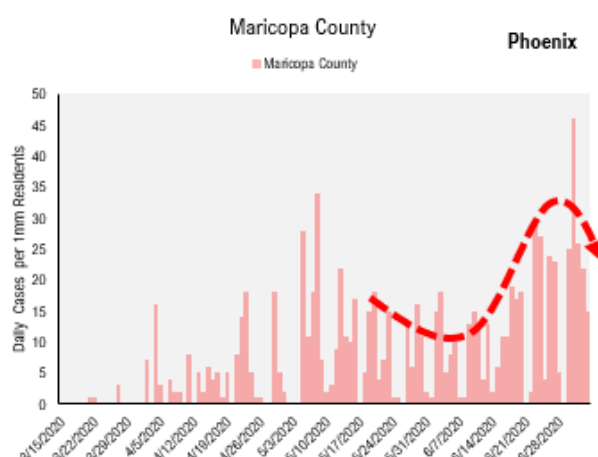


Source: California state website

Daily Cases

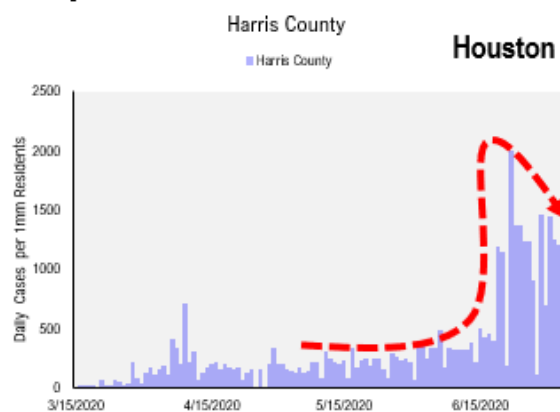


Daily Deaths

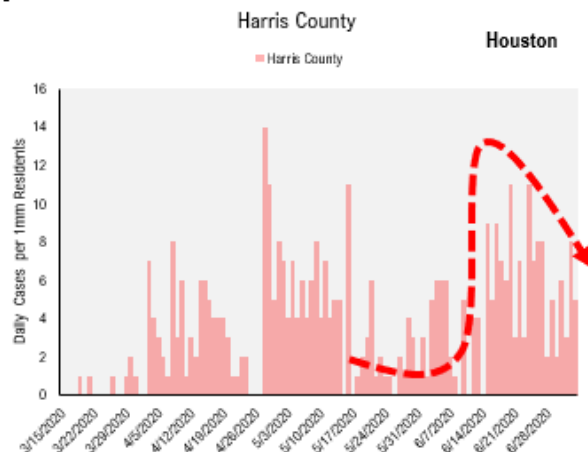


Source: Arizona state website

Daily Cases



Daily Deaths



Source: Texas state website

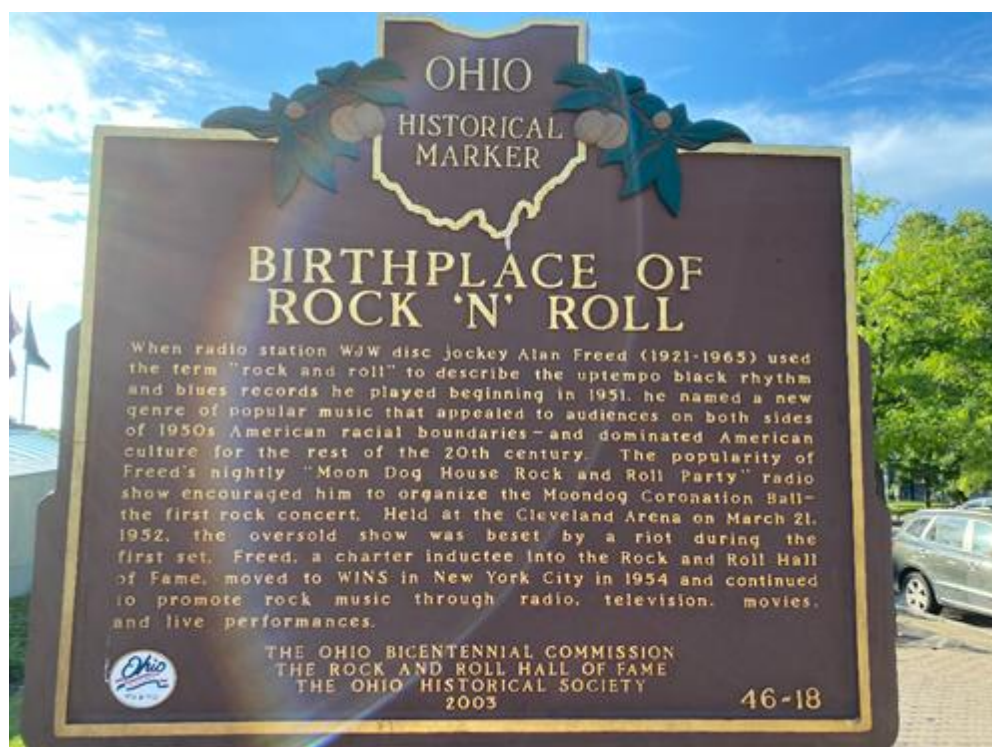
POINT #3: Road trip takeaways: East Coast to Cleveland to Michigan...

I just came back from a road trip from East Coast to Cleveland to Michigan and back home. I ended up passing through 5 states (NY, NJ, PA, OH and MI) and made a couple of detours. Not the longest road trip, but Michigan and Ohio are distant enough from the NY tristate area so I could get a sense for how these states are dealing with COVID-19. For those in the NY/NJ/CT area, because this was the original epicenter of COVID-19 and these states were so hard hit, there remains a high level of vigilance, mask compliance, etc. in these 3 states, even as these states ease restrictions.

Call me a "lightweight" but I was bit nervous to leave the confines of NY tristate, because I did not know what to expect:

- rest stops open? YES
- food and drink at rest stops? YES

I made a short stop in Cleveland, OH and wanted to visit the Rock 'N' Roll Hall of Fame. Cleveland is the birthplace of "rock and roll" as an OH DJ, Alan Freed is the first to use that term and he organized the first rock concert in 1952.



Unfortunately, I arrived too late in the day for a visit as it was closed already. But I managed to take a photo of the exterior. The area was fenced off, but some teens were inside the gate taking pics. It is a nice looking museum, and when I pass through again, I will certainly be sure to stop by when it is open.



This is the inside of the Cleveland Arcade where the Hyatt Regency is located. The hotel staff told me they were fully booked on the evening I showed up, but "full" is relative, as the hotel closed a lot of its room capacity. In fact, there was no restaurant open and no room service. So, the Hyatt Regency is operating more as a very limited service hotel, with a skeleton staff and essentially no amenities.



The hotel elevator probably fits 10 people, but the capacity is currently limited to two persons per elevator. I think if someone is traveling with family/friends, this limit does not apply. There was certainly evidence of some damage from the recent protests, but from my limited time there, the damage was one or two storefronts.



My destination was Michigan to visit my dad and extended family. I grew up in Michigan, and I rented a house via Airbnb close to where my dad lives. The state has been open for some time and even "indoor dining" is widely available, with limited capacity. Stores and restaurants had traffic but probably not to the level of traffic if the state was "wide open." Even "drive-in" used social distance measures -- not exactly sure this made sense. But cars

had to be parked 6 feet apart. After all, drive-ins are outdoor already and there is plenty of space created by cars. So, I am not entirely clear why this was the policy. But a drive-in was enjoyable -- reminds me of my childhood.



What did I learn?

Mask usage throughout PA, OH and MI is less than 50%, even in stores which have signage specifically stating, "masks required." Did this bother me? I was very apprehensive at first and surprised to see so few wearing masks. But I got used to it and we will find out soon enough whether this is the right social policy. Even NYC is starting to see diminished compliance and of course, with London opening bars/nightclubs this past weekend, masks were far less prevalent.

Everyone seems to be following COVID-19 pretty closely. So many conversations started with people talking about how badly TX, CA, AZ and FL are getting hit. But then again, it should not be surprising? By the way, many of my friends in MI figured NYC must be a graveyard, because COVID-19 hit the city so hard -- like I was lucky to make it out alive.

Overall, I am glad I made the trip. Road trips still have its charms but making stops and visits is a bit of an adjustment. By the way, it was sure a lot easier to find hand sanitizer, toilet paper and paper towels. I guess there is a lot more hoarding in the NY tristate area.

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