

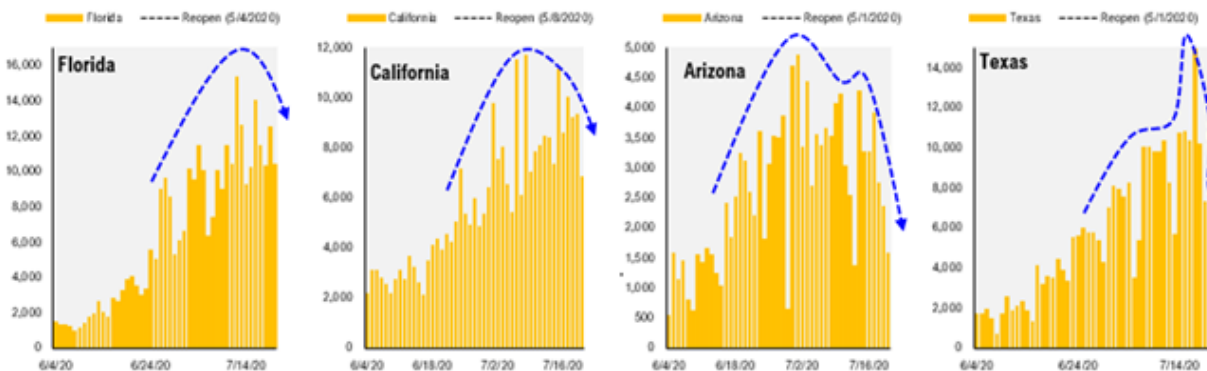


COVID-19 UPDATE: F-CAT rolling over. But of 12 states "last to open," 5 relapsing -- VA, IL, MD, MI and PA – VIMMP

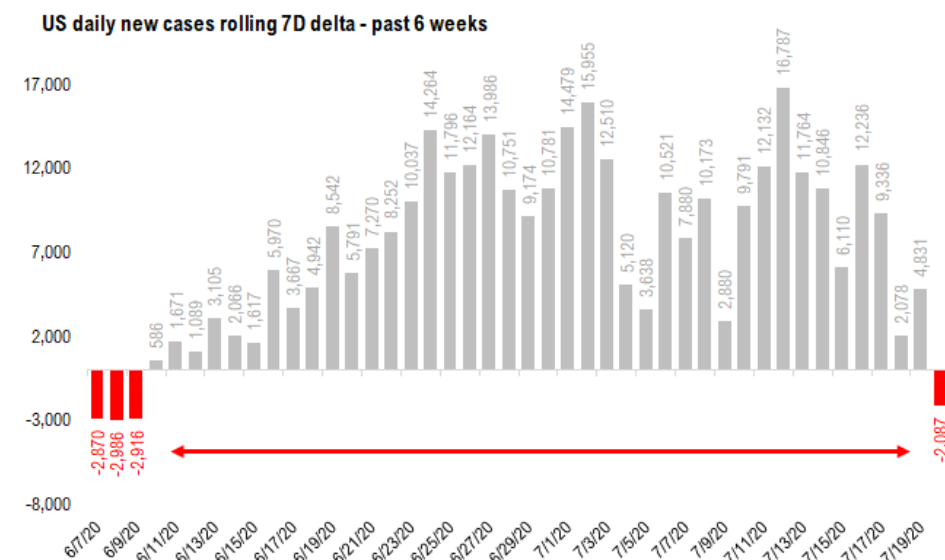
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Well, it looks like the 4-week COVID-19 surge is finally ending. This is best measured in two ways:

- The new epicenter, FL, CA, AZ, TX, or F-CAT, looks like it is clearly rolling over now (more than a plateau)
- The 7D change (cleans seasonality) in daily cases is down. The first time since June 9th
- It looks like the 4-week surge (post-BLM protests, we believe) is now running its course



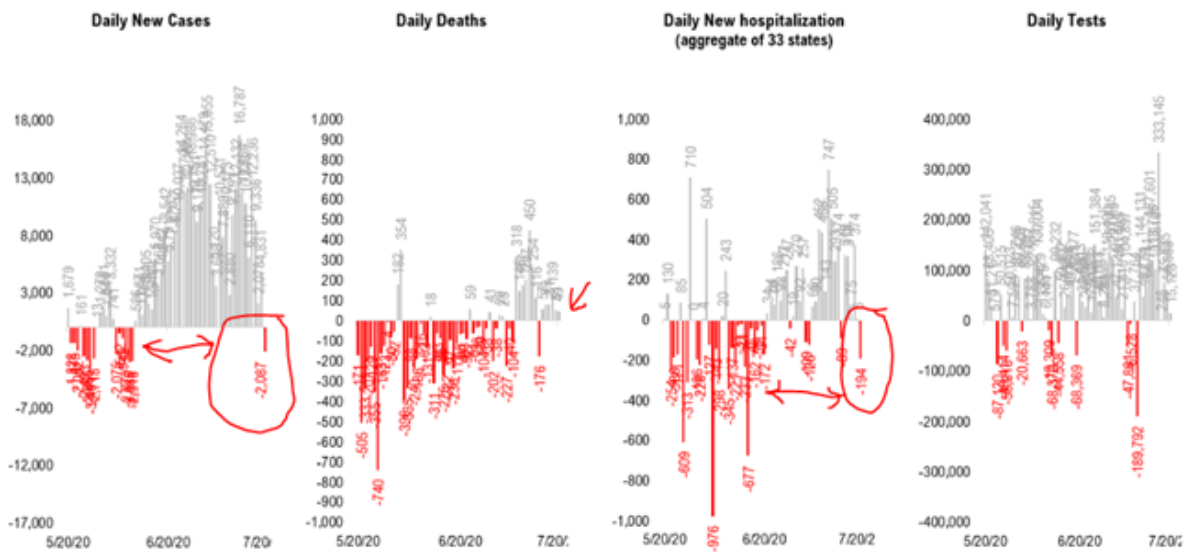
Source: COVID-19 Tracking Project



Source: COVID-19 Tracking Project

We realize that skepticism is going to run high. After all, there have been other "false dawns" and there remain the testing lags. Plus, we know mayors and governors are still in a "panic" but recall, NYC officials were still in a panic 45 days past the peak. But hospitalization trends (7D change of the daily gross admissions) and even daily deaths (7D change) are showing a similar plateau/decline. Thus, it is not just cases.

#5: Rolling 7-Day Change in the Key Metrics... (Past 8 Weeks)



STRATEGY: No such thing as a "triple top" = new all-time highs next key level...

The S&P 500 once again showed the old adage, "there is no such thing as a triple top" played out again today. The S&P 500 closed decisively above 3,233.

Figure: No such thing as a "triple top"



The strength of the equity market is an understandable puzzle. We are in the midst of the greatest economic contraction in 5 lifetimes and the pandemic is still not under control in the US. But, at the same time, the continued and persistent strength in equity markets cannot be overlooked. Look at the key levels the S&P 500 has cleared in the past 4 months:

- it has retraced above the key levels of 50%, 62% and 76% of losses
- it has taken out the June 8th highs
- the next key level is the prior all-time highs of 3,394

And unless there is a serious relapse in the fundamental trajectory of the disease, Central Bank or economic health, we think this is a matter of time before old highs are taken out.

Figure: S&P 500 50% retrace is key



And while many have said stocks are in a bubble, we continue to believe there are 5 reasons stocks should be rising here.

2020: Why stocks will recover

	<u>Description</u>	<u>Impact</u>
Disease	5 th US pandemic since 1900	US recovered every time
Economy bottomed	US economy already bottomed	Stocks bottom <i>before</i> economy bottoms
V-shape	Stocks always V-shaped recovery	S&P 500 could make all-time high in Summer 2020
Cost cutting	Companies cut costs in recession	2021 EPS \$190 or higher
Fed	“whatever it takes”	“don’t fight the Fed”

Source: Fundstrat

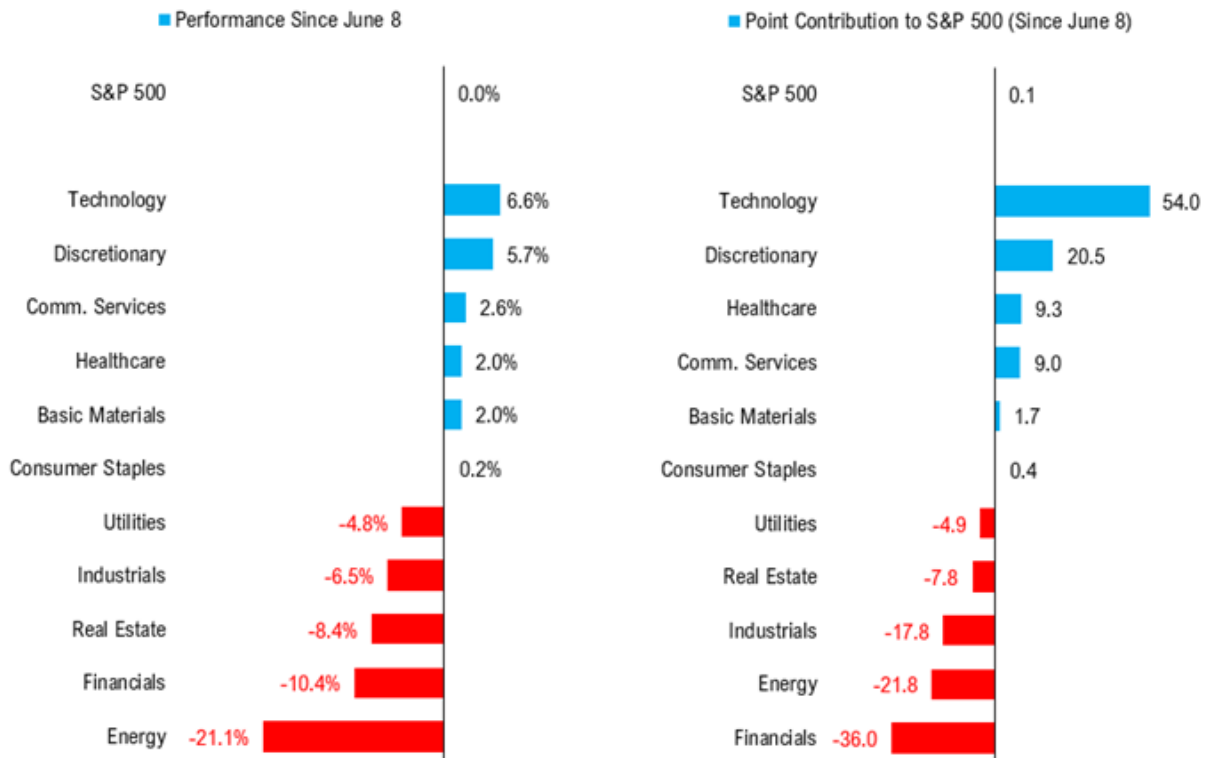
The epicenter is the most sensitive to economic re-opening...

We think COVID-19 data has become "show me" to markets, meaning, investors are going to remain skeptical until we are well past the peak, because of the possibility of false dawns. But let's say that this is indeed the apex:

- NY/NJ/CT/RI/MA took 25 days past peak for daily cases to be down -75%
- thus, F-CAT could see daily cases -75% by mid-August
- economic restrictions would be easing by mid-August

But the close today compared to the June 8th highs, shows that investors were buying Technology and Healthcare and Amazon (Discretionary) in the past 6 weeks. But they were dumping "epicenter"

- In other words, this S&P 500 3,233 close was comprised of a rotation into "bond proxies" = 76% of the market cap.
- Epicenter got even cheaper in the past 6 weeks, due to the worsening COVID-19 case metrics



Source: Fundstrat

Here is the observation. If US cases are down 75% by mid-August to under 18,000 per day, will investors be buying FANG/bond proxies?

- We think epicenter stocks will rally on this binary outcome.

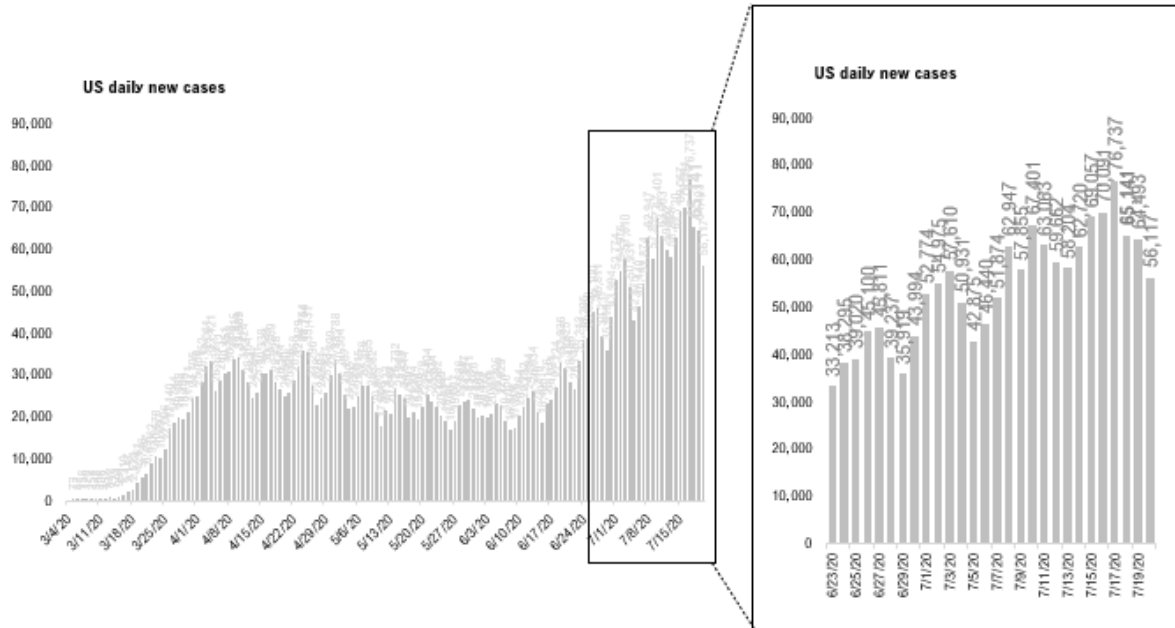
Figure: Epicenter Stock Ideas
Per Fundstrat

Ticker	Companyname	Sub-industryname	Current Price	Market Cap (\$mm)	DQM Quintile 1	Brian Rauscher	Robert Sluymer	Performance...		
								2/19-3/23	3/23-6/11	YTD
Still in the "early barbell recovery"										
TJX	Tjx Cos Inc/The	Apparel Retail	52.01	62,302		OW	OW	-42.4%	43.3%	-13.8%
GM	General Motors Co	Automobile Manufacturers	27.58	39,469	OW	OW		-49.6%	50.6%	-27.6%
BKNG	Booking Holdings Inc	Internet & Direct Marketing Re	1,603.22	65,621	OW	OW		-41.5%	37.9%	-22.7%
CCL	Carnival Corp	Hotels, Resorts & Cruise Lines	19.48	14,157		OW	OW	-72.3%	45.3%	-65.7%
WYNN	Wynn Resorts Ltd	Casinos & Gaming	91.27	9,845		OW	OW	-57.7%	55.9%	-35.4%
CVX	Chevron Corp	Integrated Oil & Gas	91.39	170,630	OW	OW	OW	-51.0%	64.8%	-25.8%
XOM	Exxon Mobil Corp	Integrated Oil & Gas	46.55	196,802	OW	OW		-47.9%	46.8%	-33.8%
FITB	Fifth Third Bancorp	Regional Banks	20.62	14,680	OW	OW	OW	-59.0%	62.4%	-35.8%
CFG	Citizens Financial Group Inc	Regional Banks	25.33	10,806	OW	OW		-58.6%	54.3%	-39.7%
MS	Morgan Stanley	Investment Banking & Brokerage	45.89	72,307		OW	OW	-50.6%	60.3%	-12.8%
RE	Everest Re Group Ltd	Reinsurance	212.12	8,482	OW	OW		-40.8%	22.7%	-23.8%
CMI	Cummins Inc	Construction Machinery & Heavy	164.35	24,246	OW	OW	OW	-38.8%	61.9%	-7.0%
NOC	Northrop Grumman Corp	Aerospace & Defense	319.58	53,274	OW	OW		-26.3%	18.9%	-6.7%
GD	General Dynamics Corp	Aerospace & Defense	150.43	43,152	OW	OW		-42.9%	39.4%	-15.3%
SNA	Snap-On Inc	Industrial Machinery	133.06	7,232	OW	OW		-39.5%	39.5%	-21.3%
FLS	Flowserve Corp	Industrial Machinery	27.57	3,588	OW	OW		-57.8%	40.3%	-45.8%
PCAR	Paccar Inc	Construction Machinery & Heavy	72.95	25,221		OW	OW	-32.8%	45.4%	-8.2%
Mid-stage in the "barbell recovery"										
ROST	Ross Stores Inc	Apparel Retail	91.48	32,560		OW	OW	-48.8%	50.0%	-18.9%
ULTA	Ulta Beauty Inc	Specialty Stores	226.66	12,764		OW	OW	-51.7%	57.7%	-10.8%
EOG	Eog Resources Inc	Oil & Gas Exploration & Produc	51.63	30,051	OW	OW		-55.3%	48.1%	-38.9%
SIVB	Sub Financial Group	Regional Banks	206.96	10,661		OW	OW	-46.4%	42.4%	-18.8%
STT	State Street Corp	Asset Management & Custody Ban	62.28	21,920	OW		OW	-45.1%	41.5%	-22.7%
JCI	Johnson Controls International	Building Products	\$34.39	\$25,578	OW	OW	OW	-44.0%	43.1%	-17.4%
DOV	Dover Corp	Industrial Machinery	96.33	13,866		OW	OW	-44.2%	47.2%	-16.5%
AOS	A O Smith Corp	Building Products	46.87	7,553		OW	OW	-19.3%	31.5%	-1.7%
ETN	Eaton Corp Plc	Electrical Components & Equipm	85.77	34,308		OW	OW	-44.6%	47.4%	-10.1%
CSX	Csx Corp	Railroads	69.23	52,993		OW	OW	-40.6%	43.3%	-5.6%
PNR	Pentair Plc	Industrial Machinery	37.08	6,145	OW	OW		-47.7%	61.3%	-19.6%
UNP	Union Pacific Corp	Railroads	164.97	111,940		OW	OW	-37.9%	43.2%	-9.7%
JBHT	Jb Hunt Transport Services Inc	Trucking	114.43	12,068		OW	OW	-28.2%	42.6%	-3.5%
CAT	Caterpillar Inc	Construction Machinery & Heavy	121.89	65,972	OW	OW		-32.9%	32.3%	-17.7%
DE	Deere & Co	Agricultural & Farm Machinery	153.18	47,924		OW	OW	-32.6%	35.9%	-12.8%
DAL	Delta Air Lines Inc	Airlines	29.67	18,923		OW	OW	-62.0%	22.4%	-53.5%
PH	Parker-Hannifin Corp	Industrial Machinery	177.33	22,737		OW	OW	-53.9%	77.8%	-15.7%
EMR	Emerson Electric Co	Electrical Components & Equipm	61.17	36,548	OW	OW		-47.0%	58.8%	-20.7%
Late-stage in the "barbell recovery"										
AAP	Advance Auto Parts Inc	Automotive Retail	\$133.22	\$9,206	OW	OW	OW	-44.0%	69.6%	-16.9%
BWA	BorgWarner Inc	Auto Parts & Equipment	33.39	6,922	OW	OW		-39.2%	54.4%	-24.7%
DLTR	Dollar Tree Inc	General Merchandise Stores	87.82	20,834		OW	OW	-17.0%	16.7%	-5.3%
IEX	Ilex Corp	Industrial Machinery	151.67	11,435	OW	OW		-33.9%	31.8%	-12.1%
GWW	Ww Grainger Inc	Trading Companies & Distributo	304.56	16,284	OW		OW	-31.8%	46.0%	-9.6%

Source: Fundstrat

POINT #1: US daily cases are down week over week, the first time since June 9th

Daily US cases fell to 56,117 today, the best level in more than two weeks and well off the 76,736 reported just 5 days ago. There was a widespread decline but CA and FL, in particular, reported sharply lower cases.



Source: COVID-19 Tracking Project

6 states with sizable 1D increases

Mississippi	1,251 vs 792 (1D)	+459
Illinois	1,173 vs 965	+208
Minnesota	903 vs 734	+169
Nebraska	264 vs 102	+162
Ohio	1,236 vs 1,110	+126
Texas	7,404 vs 7,300	+104
Total 6 states		+1,228

6 states with sizable 1D declines

California	6,846 vs 9,329 (1D)	-2,483
Florida	10,347 vs 12,478	-2,131
South Carolina	1,459 vs 2,374	-915
Arizona	1,559 vs 2,359	-800
Georgia	2,452 vs 3,251	-799
Kentucky	253 vs 977	-724
Total 6 states		-7,852

Daily Case Increases (by State) (07/20)

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

Sorted
Last 3-day trend growth rates

	7/18/20	7/19/20	7/20/20	
United States	65,141	64,493	56,117	-8,376
States:				
1 Florida	10,328	12,478	10,347	
2 Texas	10,158	7,300	7,404	
3 California	9,199	9,329	6,846	
4 Louisiana	0	3,116	3,186	
5 Georgia	4,689	3,251	2,452	
6 Alabama	2,143	1,777	1,880	
7 Tennessee	2,517	1,779	1,639	
8 Arizona	2,742	2,359	1,559	
9 South Carolina	1,552	2,374	1,459	
10 Kansas	0	0	1,369	
11 North Carolina	2,481	1,820	1,268	
12 Mississippi	1,017	792	1,251	<-higher
13 Ohio	1,542	1,110	1,236	
14 Illinois	1,276	965	1,173	
15 Nevada	1,182	1,288	948	
16 Virginia	940	1,057	945	
17 Washington	754	959	920	
18 Minnesota	457	734	903	<-higher
19 Pennsylvania	763	786	711	
20 Wisconsin	978	830	703	
21 Arkansas	771	695	699	
22 Indiana	841	917	635	
23 Maryland	835	925	554	
24 Missouri	960	846	530	
25 New York	754	502	519	
26 Michigan	678	483	489	
27 Iowa	185	816	443	
28 Colorado	444	354	424	
29 Utah	760	785	409	
30 Idaho	550	571	393	
31 Oregon	353	415	277	
32 Nebraska	120	102	264	<-higher
33 Massachusetts	359	296	255	
34 Kentucky	579	977	253	
35 New Mexico	280	235	244	
36 Puerto Rico	189	330	220	
37 New Jersey	88	144	180	<-higher
38 Oklahoma	916	209	168	
39 Connecticut	0	0	162	
40 North Dakota	115	112	107	
41 Delaware	92	90	105	
42 West Virginia	111	148	100	
43 Montana	105	62	88	
44 District of Columbia	79	67	78	
45 Alaska	62	79	75	
46 Wyoming	39	18	61	<-higher
47 Rhode Island	8	57	46	
48 New Hampshire	23	15	46	<-higher
49 South Dakota	73	44	37	
50 Maine	10	41	24	
51 Hawaii	19	28	12	
52 Vermont	4	12	10	
53 U.S. Virgin Islands	20	14	7	
54 Guam	1	0	4	<-higher
55 Northern Mariana Islands	0	0	0	
56 American Samoa	0	0	0	

Source: COVID-19 Tracking Project

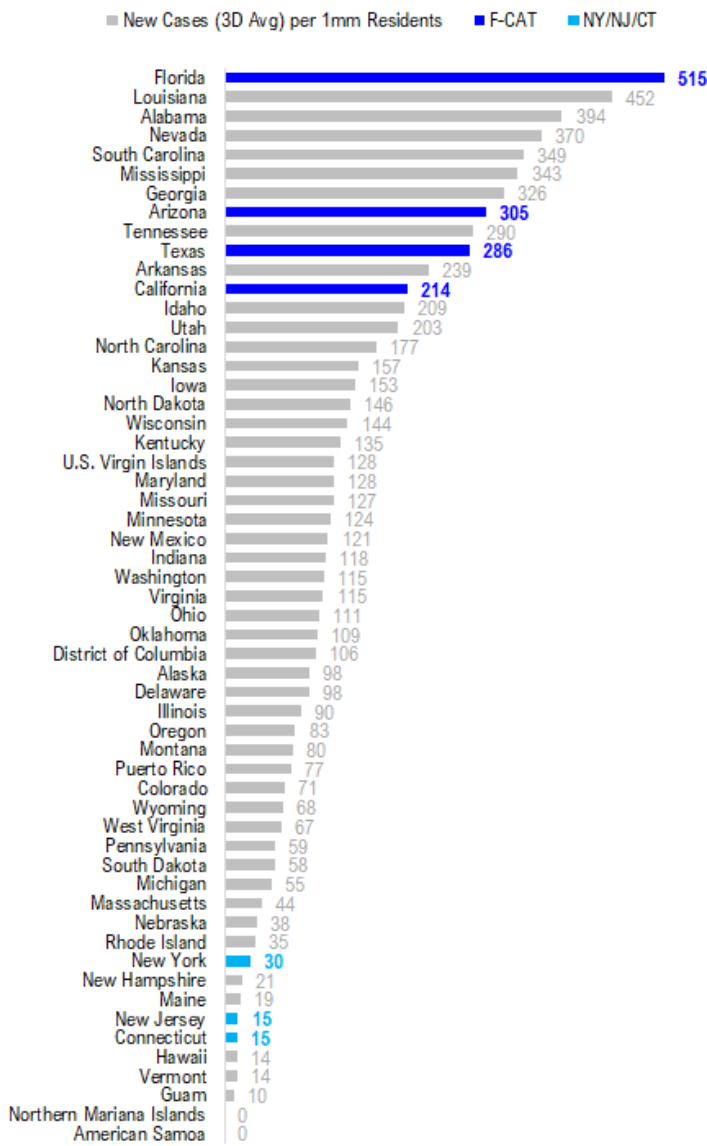
POINT #2: If F-CAT is peaking, how long to see cases -75%?

Daily cases for F-CAT seem to be finally rolling over. This is a good thing and the chart in the introduction showed the trend for each of the 4-states. But the peaking of cases does not mean the level of cases is now "benign."

Quite the contrary. Below is a chart showing the new daily confirmed cases per 1mm residents (3D avg) for the 50 states.

- Note FL at 515 is the highest in the nation, although off its peak
- CA, AZ and TX are in the 200-300 range, while NY tristate is in the 15-30 range

So, the peaking of cases is a good development, but the bigger question is how long before daily cases collapse?



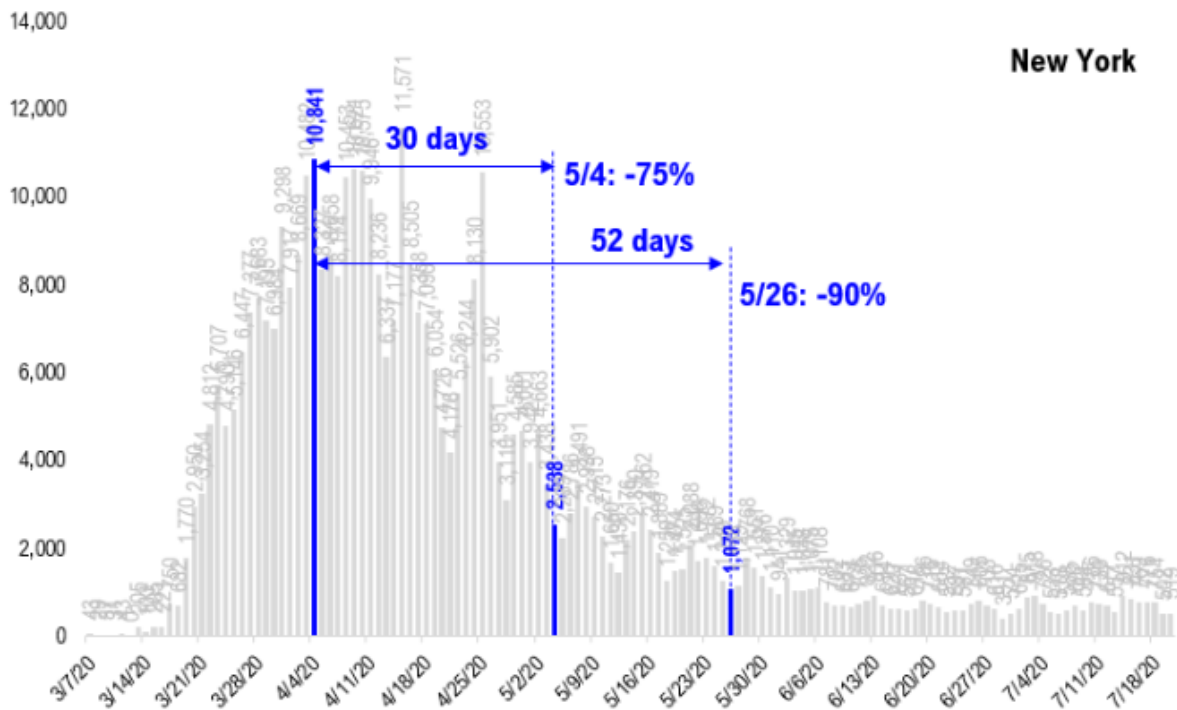
Source: COVID-19 Tracking Project

The 5 states that "crushed" the curve and have not seen a resurgence are the NY tristate (NY, NJ, CT) and Rhode Island and Massachusetts. These are all Northeast states. But here is the decline curve seen in these 5 states:

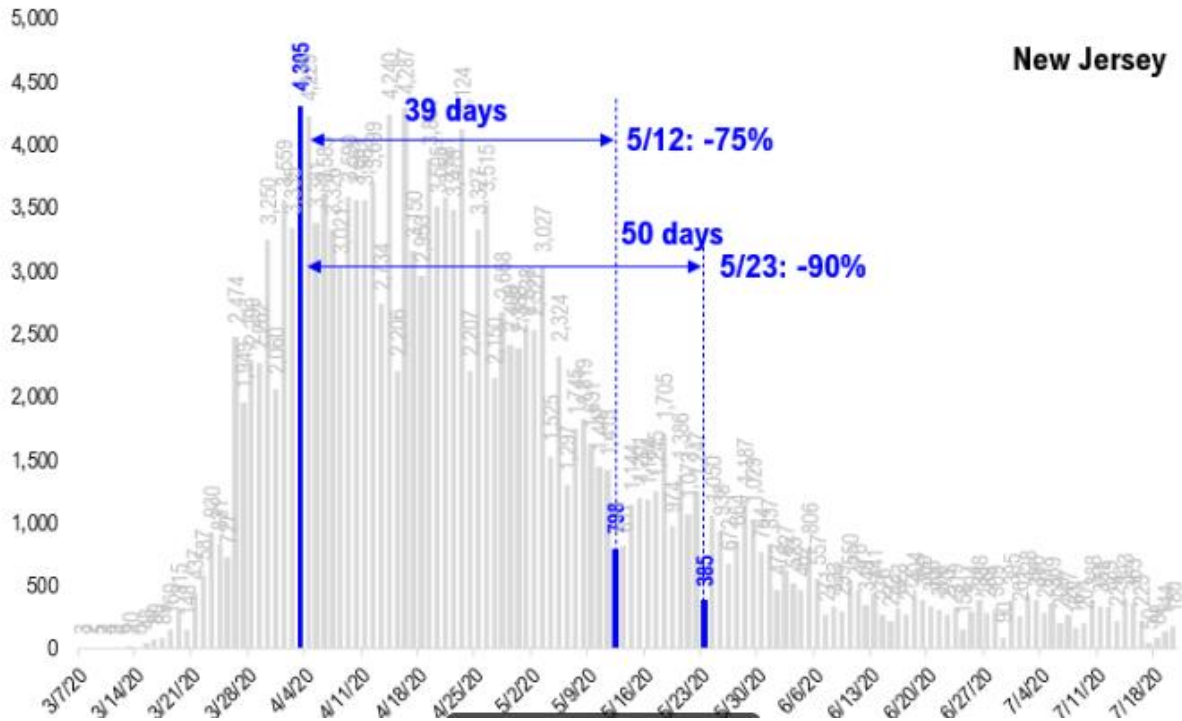
	Date	-75% case peak	-90% off highs
NY	4/3	30 days	52 days
NJ	4/3	39	50
CT	4/22	6	29
RI	4/24	30	52
MA	4/24	18	45
Avg		25 days	46 days

So if F-CAT is peaking, we should see daily cases -75% within 3 weeks...

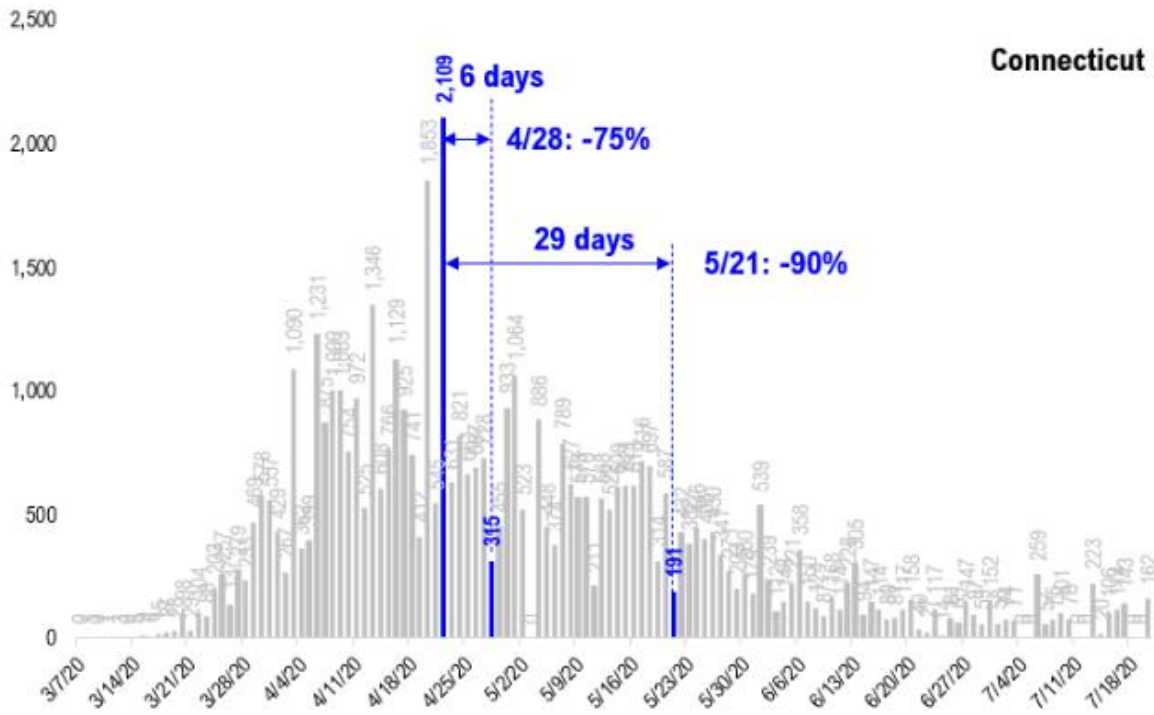
So, there is a bit of a waiting game underway. If F-CAT daily cases are rolling over, we should soon see a sustained downturn in daily cases. We think this is more likely in FL and AZ, where the prevalence surged so greatly, that the nucleus cities of Miami and Phoenix actually surpassed NYC on its worst days.



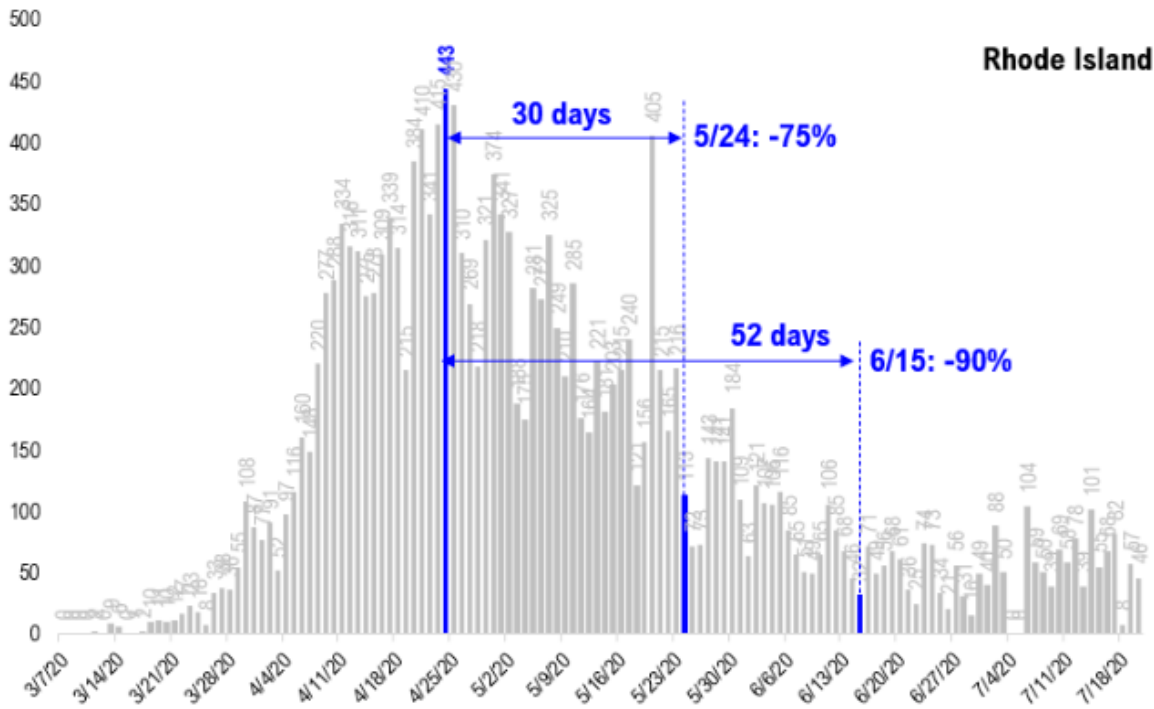
Source: COVID-19 Tracking Project



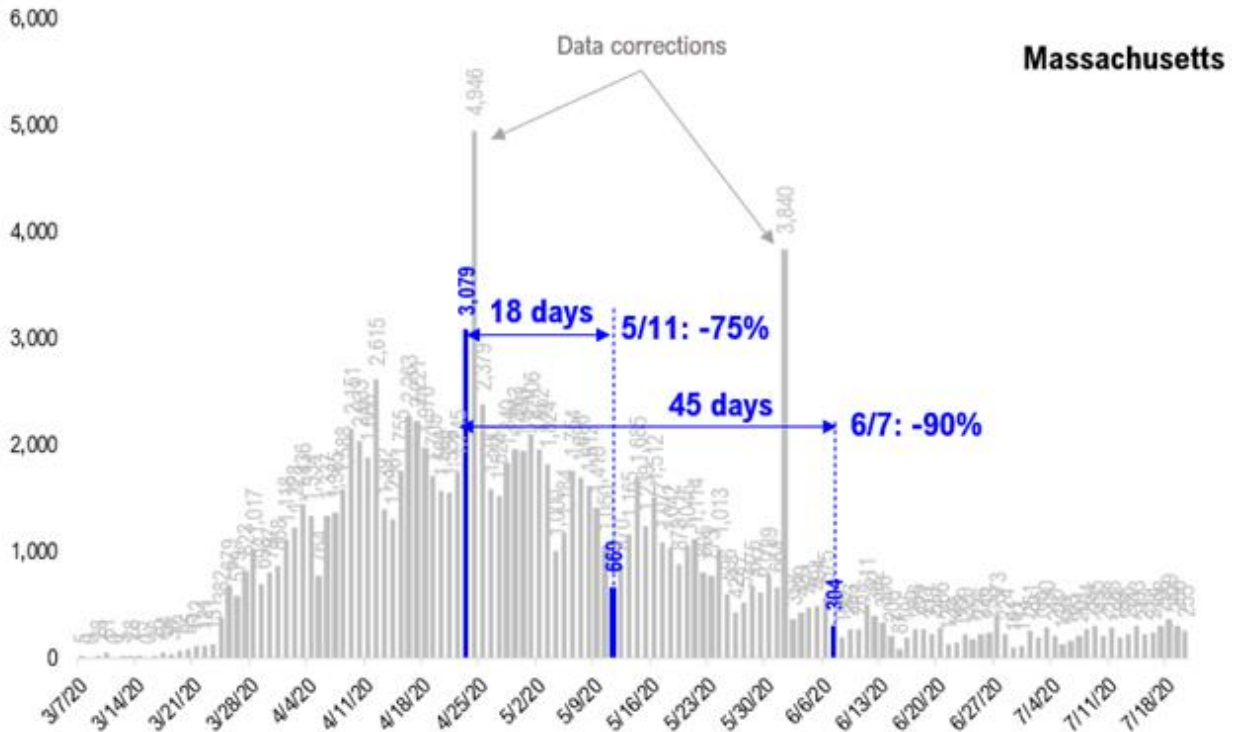
Source: COVID-19 Tracking Project



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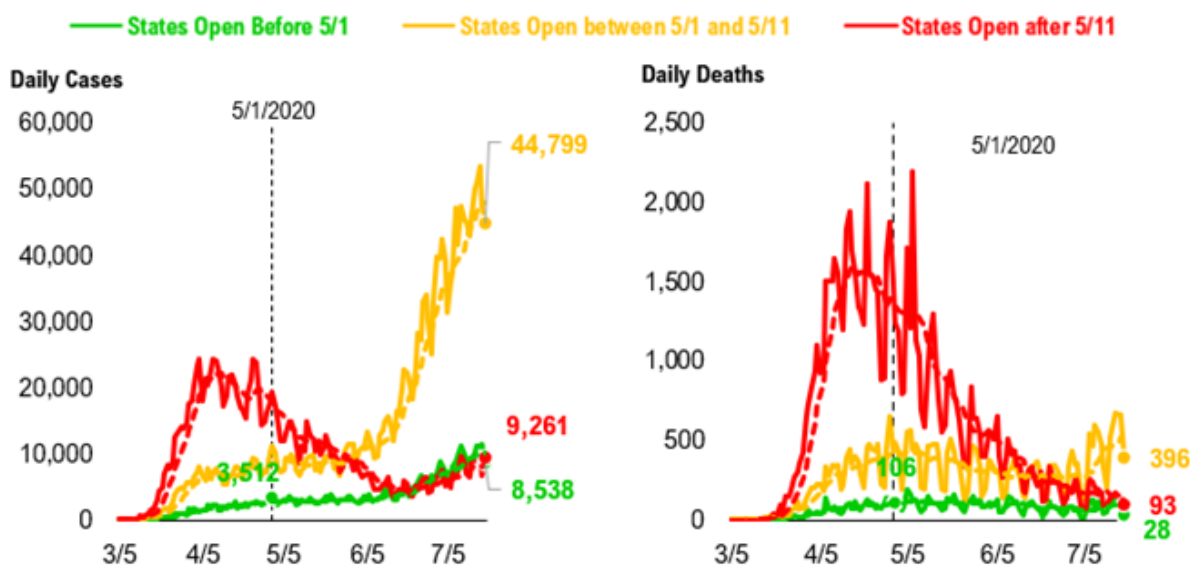
Source: COVID-19 Tracking Project

POINT #3: 5 of 12 states "last to open" could be re-lapsing. VA, IL, MD, MI and PA, or VIMMP

5 of the 12 states that crushed the curve and "waited to open" are seeing daily cases rise -- post BLM protests...

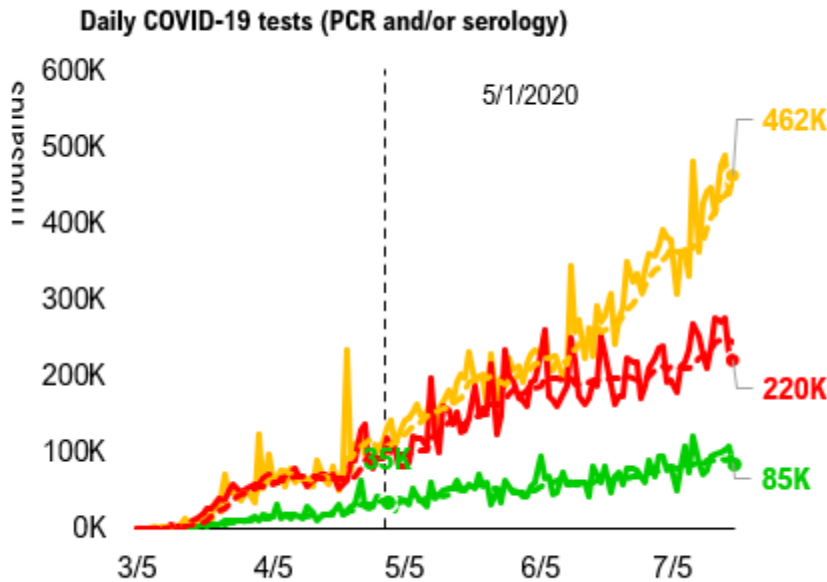
12 states held off opening the economies (more liberally) until after 5/11 and those states have, in total, been the most successful at containing the spread of COVID-19 cases. Below is the composites for the 3 types of states, and in red, are those states that opened only after 5/11.

- Daily cases in 5 of the 12 states are beginning to rise;
- Overall daily deaths are continuing to fall;
- Daily testing in these 12 states has continued to increase rising to 220k per day from <100k 8 weeks ago;



Source: COVID-19 Tracking Project

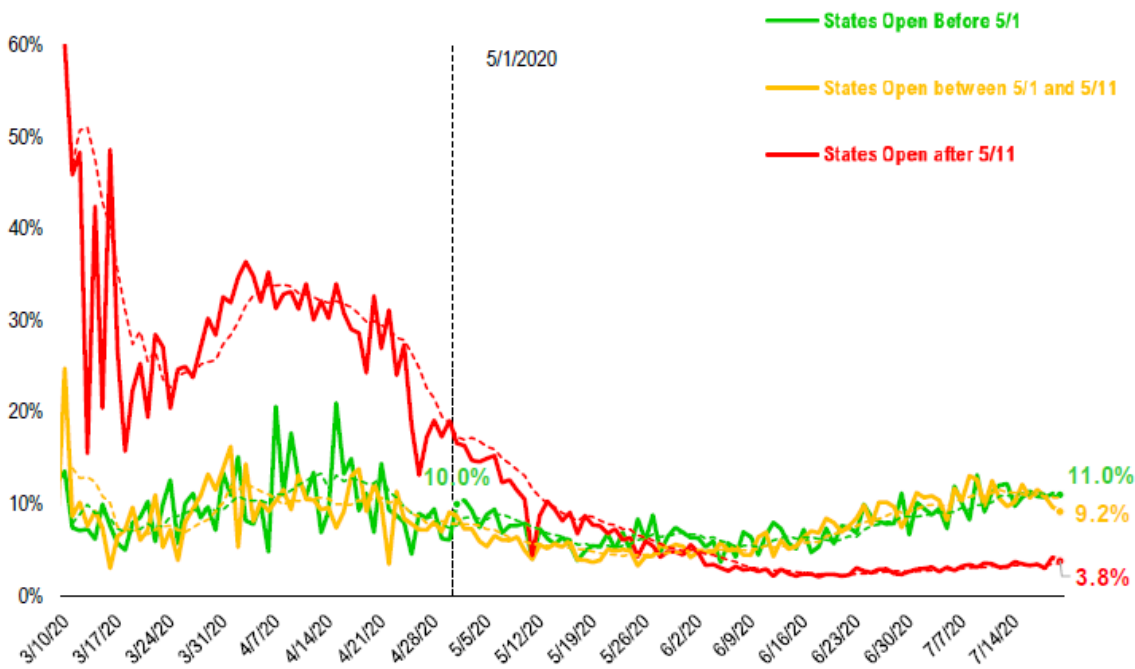
Thus, to an extent, the rise in daily cases reported in these 12 states is somewhat attributable to improved detection. The daily number of tests is shown below.



Source: COVID-19 Tracking Project

And the positivity rate for these 12 states is still below that 10% threshold. Currently, this is around 3.8%.

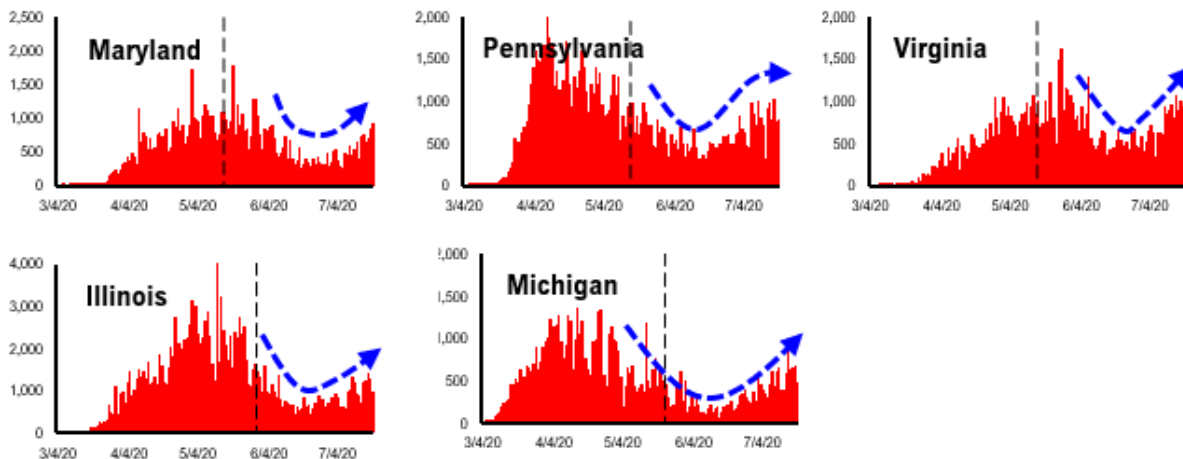
Composite Daily Positivity Rate



5 states are "re-lapsing" -- VA, IL, MD, MI, PA -- or VIMMP (not a great acronym)

5 of the 12 states, as we just noted, account for the rise in cases for these "late opening" states. The states are, in order of the opening:

- MD
- PA
- VA
- IL
- MI



Source: COVID-19 Tracking Project

Why did these states see a rise?

The important question is why did these states see a rise? We do not have an answer to this question. And these increases all seem to have taken place around the same date, sometime during the second week of June. We can name a few reasons:

- BLM/George Floyd protests
- Memorial Day
- Economic re-opening

The latter is less explanatory, as each of these states had a different opening date. The GDP and even population impact of these states is considerably smaller than F-CAT and NY tristate. So, to the extent, these regions see a rise in cases, there is less overall risk to the US re-opening narrative. But it is a setback nonetheless.

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