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COVID-19 UPDATE: Yesterday's White House briefing shows "great mask debate" largely ending = good. Virus peaking + Mask mandate = Economy resuming = Epicenter OW

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The White House held its first coronavirus briefing in more than 12 weeks and unlike previous briefings, the primary speaker was President Trump, while Dr. Birx and Dr. Fauci were not present. Overall, I thought it was an overall solid briefing and my takeaways are:

- Trump's stance is now pro-mask. It is "patriotic" and this largely ends any public/political resistance to the mask stance;
- Trump came out speaking favorably towards expanded testing - this came during the Q&A;
- He warned "things would get worse before they get better" but this strikes us as typical of policymakers "over-reacting;"

This is a welcome shift in messaging from the White House. While there are the ongoing debates about the science supporting the effectiveness of mask use to mitigate spread, several studies and contact traces show the effectiveness of a simple mask:

- the Singapore to China flight by an infected person, but since he wore a mask, not a single passenger nor crew member tested positive, (even 1M later);
- two infected hair stylists in Missouri who had served >100 clients, but not a single client became infected;
- according to the big-data model by IHME, daily infections would fall 80% by September with full mask compliance (see below)

And this is coming at a time when the surge was seen in the new epicenter, FL, CA, AZ and TX, or F-CAT, is peaking. Thus, the US is essentially having a "redo" of where we were 8 weeks ago in early June, where the restrictions can be eased and if cases continue to abate, the level of anxiety and panic will recede. This will be good for asset prices.

Yesterday's data showed the usual "Tuesday bump" in cases and deaths. Deaths are up but this pace of increase is hardly keeping up with the surge in cases. And thus, we believe, those daily deaths increasing, while tragic, is not going to warrant a rollback of the economic opening.

STRATEGY: Value underperformance so bad, not seen since "Great Depression" (1930, 1931)
At the risk of oversimplifying the sector framework, we think the biggest influence on sector positioning is the virus path. The reason is as follows:

- virus path leads
- economic opening which leads
- cyclically sensitive vs stay at home

 For important disclosures see **Page 16**.

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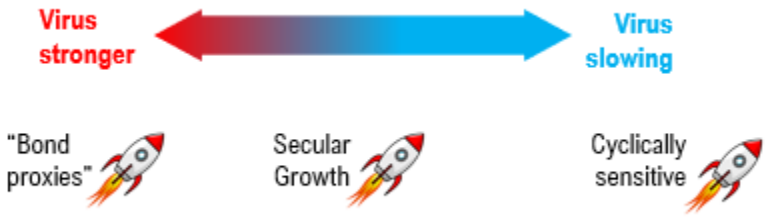
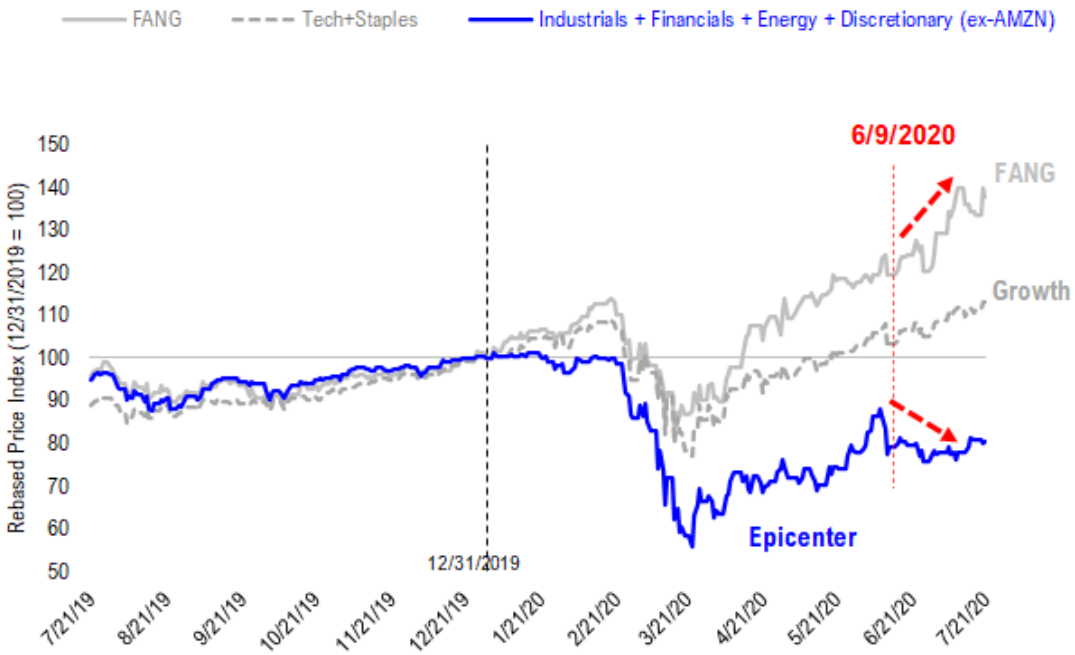
Thus, the virus path, expanding or receding, essentially governs sector positioning.



We can see this market behavior below. Since the virus began to strengthen in early June, the epicenter groups began to severely underperform. Conversely, FANG/Secular growth soared.



Source: Fundstrat

Overweight "epicenter" if the virus is weakening, which we believe it is...
So, if the virus is strong, like what we had since early June, "bond proxies" and "secular growth" work. But if the virus is now receding, we should see cyclically sensitive stocks work. We call these sectors, "epicenter" groups, because these sectors also happen to be in the eye of the economic crash:

- Industrials
- Discretionary (ex-AMZN)
- Financials
- Energy
- Materials

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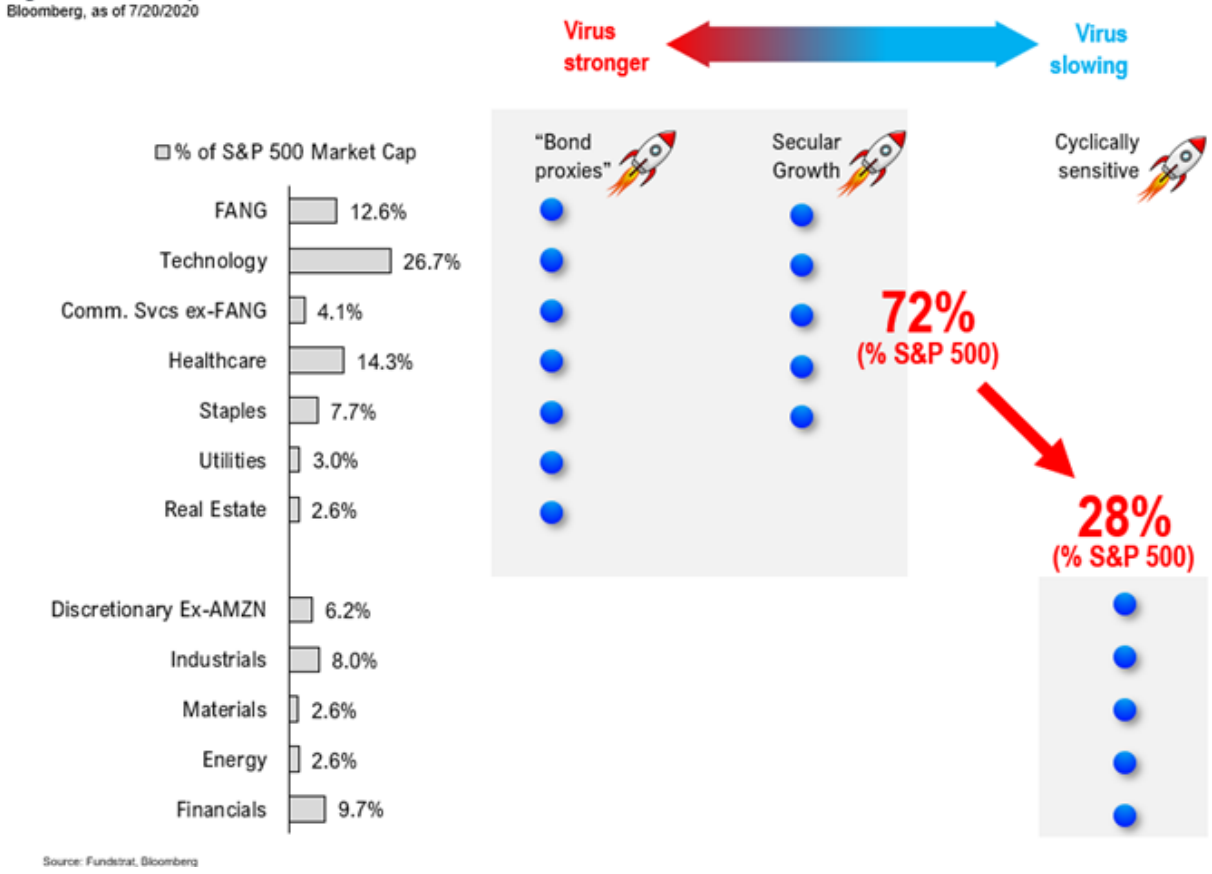
Rotation from "Virus Strong" to "Virus Slowing" is market cap skew --> 72% rotation into 28%
The issue with sizing is that 72% of the S&P 500 is a "virus stronger" trade as the bond proxies and secular growth (see below).

- whereas the "epicenter" group is only 28% of the overall market cap
- thus, we should expect a massive re-rate and price gain for the "epicenter" stocks

Figure: Sector Composition of S&P 500
Bloomberg, as of 7/20/2020



Source: Fundstrat, Bloomberg

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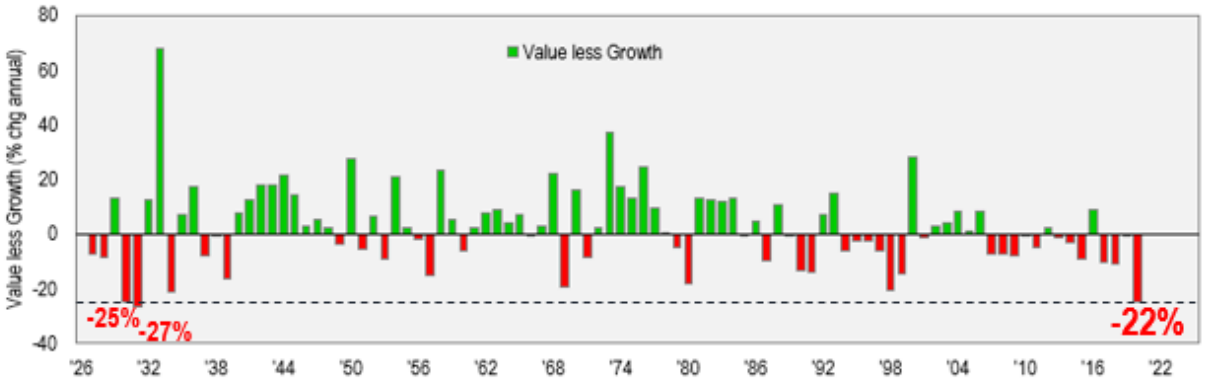
Tireless Ken, our data scientist, compiled the annual performance differential between US Value less Growth since 1925. Prior to 1970, he relied on the FAMA factor indices of Value vs Growth. The annual data is quite startling:

- Value less Growth July 2020 (vs July 2019) is -22% (2,200bp)
- The only 2 years worse than this was 1930 and 1931, with -25% and -27%, respectively
- So one has to go back to the Great Depression (90 years) to find Value doing worse.



Source: Fundstrat and FAMA

But this is what is somewhat curious. The Great Depression was also the greatest stock market decline ever. And thus, it would not be a surprise that during a sustained economic contraction, investors would flock to "growth stocks" -- this is what is happening in 2020, and especially since the start of the pandemic.

- if the US contraction remains intact, Growth stocks will lead.
- if the US is expanding, Value should lead.

Pick your poison (we think it is epicenter that leads).

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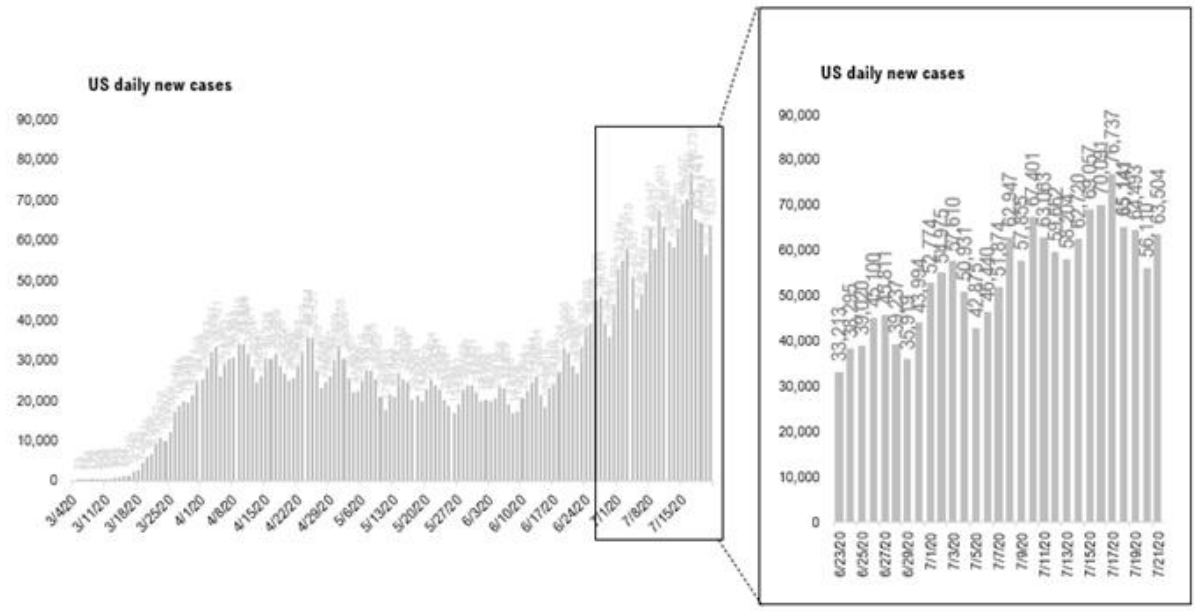
POINT #1: USA daily cases are flattening on a week over week basis = good

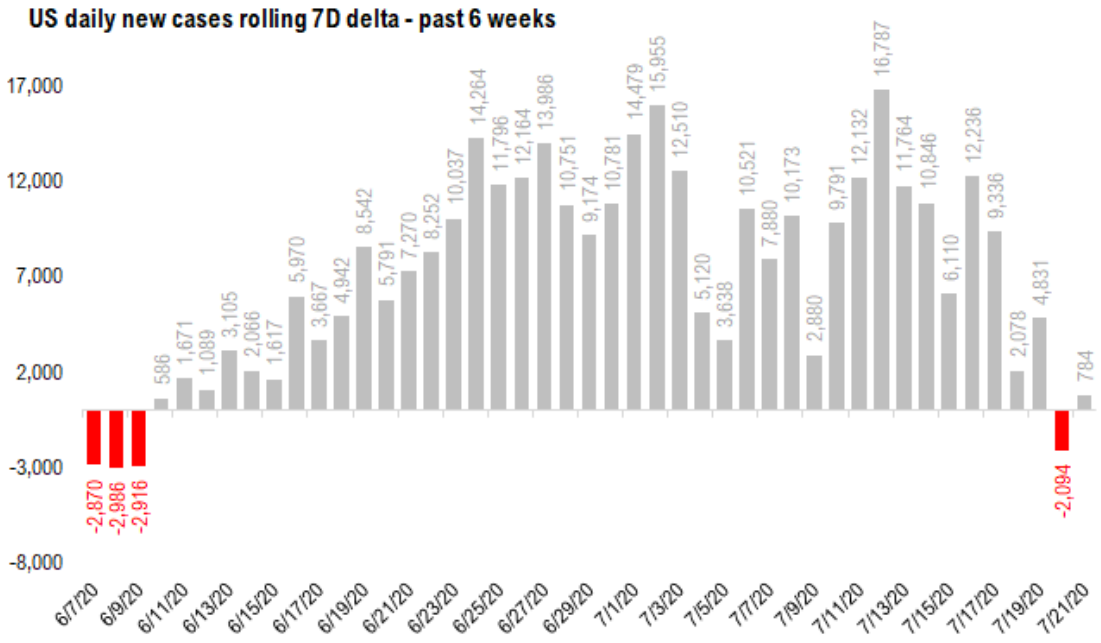
Daily USA cases rose yesterday to 63,504, but this is the typical weekly pattern. That cases are higher midweek.



Source: COVID-19 Tracking Project

But adjusting for this weekday fluctuation, the daily cases vs 7D ago smooths this out. And as shown below, daily cases are flat vs a week ago, the second consecutive day. And looking at the chart, we have not seen this since early June

- so it is VERY PROMISING



Source: COVID-19 Tracking Project

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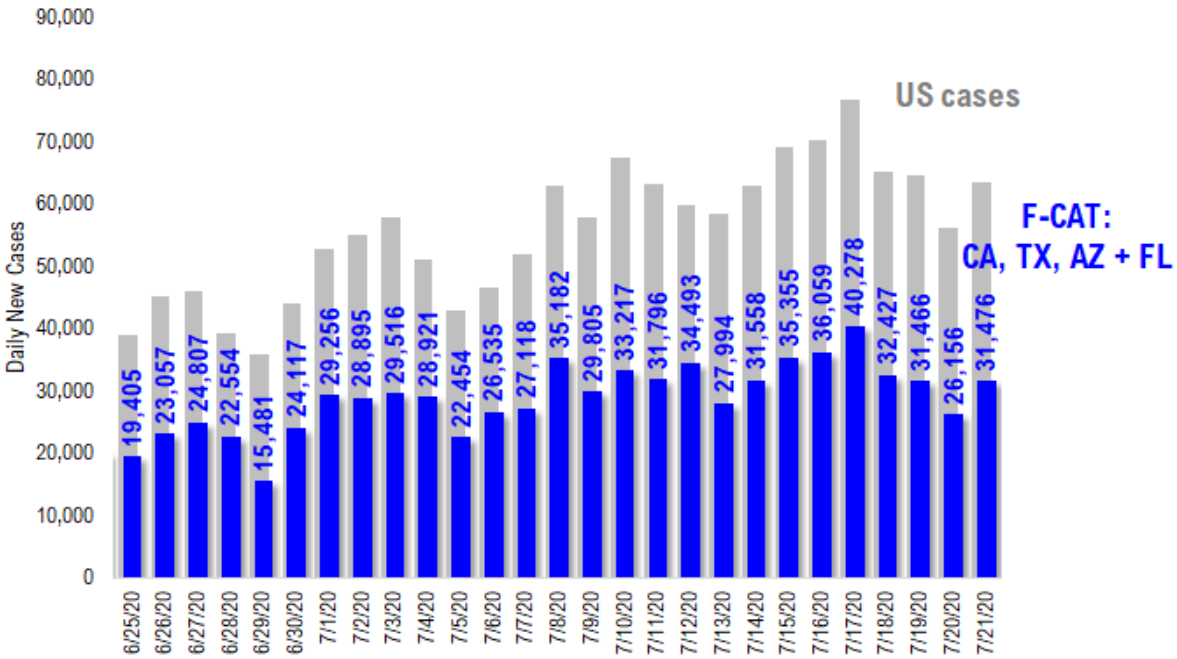
F-CAT, or FL, CA, AZ and TX, saw cases still down from its recent peak at 31,476 vs 40,278 5 days ago...

Another good sign is the total cases from F-CAT, the nucleus, have not surpassed the high seen last week.



Source: COVID-19 Tracking Project

6 states reported sizable 1D increase

California	9,231 vs 6,846 (1D)	+2,385
Arizona	3,500 vs 1,559	+1,941
Texas	9,305 vs 7,404	+1,901
Georgia	3,413 vs 2,452	+961
Oklahoma	893 vs 168	+725
Missouri	1,138 vs 530	+608
Total 6 states		+8,521

6 states report sizable 1D declines

Louisiana	1,691 vs 3,186 (1D)	-1,495
Florida	9,440 vs 10,347	-907
Minnesota	350 vs 903	-553
Alabama	1,467 vs 1,880	-413
Illinois	955 vs 1,173	-218
Ohio	1,047 vs 1,236	-189
Total 6 states		-3,775

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Daily Case Increases (by State) (07/21)

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

Sorted
Last 3-day trend growth rates

		7/19/20	7/20/20	7/21/20	
	United States	64,493	56,110	63,504	+7,394
	States:				
1	Florida	12,478	10,347	9,440	
2	Texas	7,300	7,404	9,305	<--higher
3	California	9,329	6,846	9,231	
4	Arizona	2,359	1,559	3,500	<--higher
5	Georgia	3,251	2,452	3,413	
6	Tennessee	1,779	1,639	2,190	<--higher
7	South Carolina	2,374	1,459	1,892	
8	North Carolina	1,820	1,268	1,815	
9	Louisiana	3,116	3,186	1,691	
10	Mississippi	792	1,251	1,635	<--higher
11	Alabama	1,777	1,880	1,467	
12	Missouri	846	530	1,138	<--higher
13	Wisconsin	830	703	1,117	<--higher
14	Ohio	1,110	1,236	1,047	
15	Pennsylvania	786	711	1,027	<--higher
16	Virginia	1,057	945	996	
17	Illinois	965	1,173	955	
18	Oklahoma	209	168	893	<--higher
19	Maryland	925	554	860	
20	New York	502	519	855	<--higher
21	Nevada	1,288	948	815	
22	Washington	959	920	797	
23	Arkansas	695	699	728	
24	Indiana	917	635	710	
25	Kentucky	977	253	646	
26	Michigan	483	489	573	
27	Idaho	571	393	556	
28	Colorado	354	424	493	
29	Utah	785	409	486	
30	Minnesota	734	903	350	
31	Nebraska	102	264	343	<--higher
32	Iowa	816	443	308	
33	New Mexico	235	244	302	<--higher
34	New Jersey	144	180	293	<--higher
35	Oregon	415	277	292	
36	Puerto Rico	330	220	244	
37	Massachusetts	296	255	244	
38	Delaware	90	105	122	
39	Montana	62	82	97	
40	Alaska	79	75	92	
41	District of Columbia	67	78	88	
42	Rhode Island	57	46	82	<--higher
43	North Dakota	112	107	81	
44	South Dakota	44	37	76	<--higher
45	West Virginia	148	100	57	
46	Wyoming	18	61	51	
47	Connecticut	0	162	41	
48	Hawaii	28	12	25	
49	New Hampshire	15	46	13	
50	Maine	41	24	12	
51	Guam	0	4	8	
52	Vermont	12	9	7	
53	U.S. Virgin Islands	14	7	4	
54	Northern Mariana Islands	0	0	1	
55	Kansas	0	1,369	0	
56	American Samoa	0	0	0	

Source: COVID-19 Tracking Project

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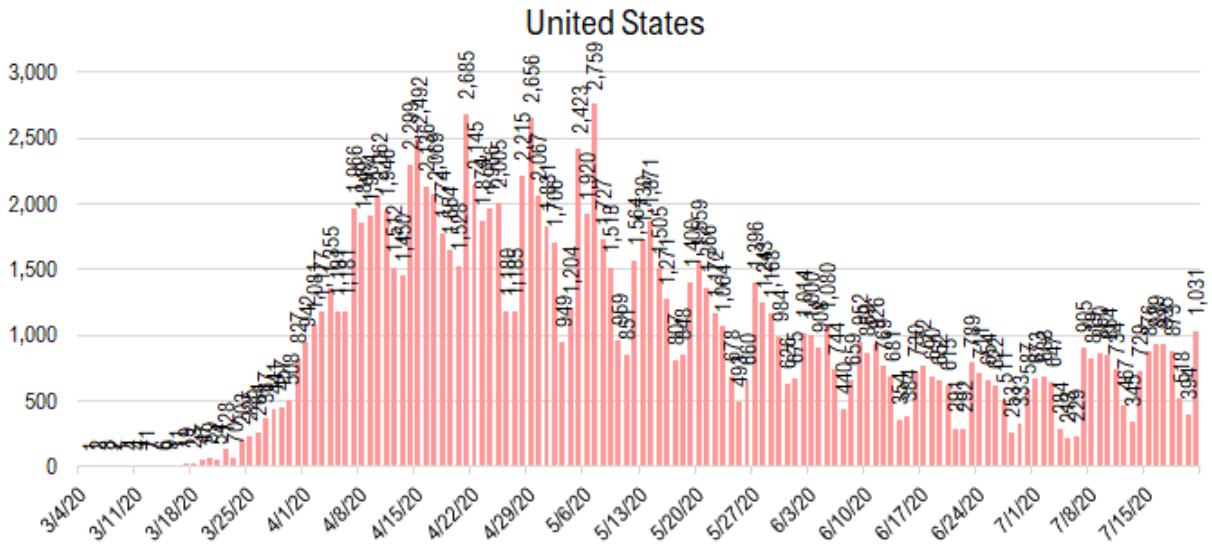
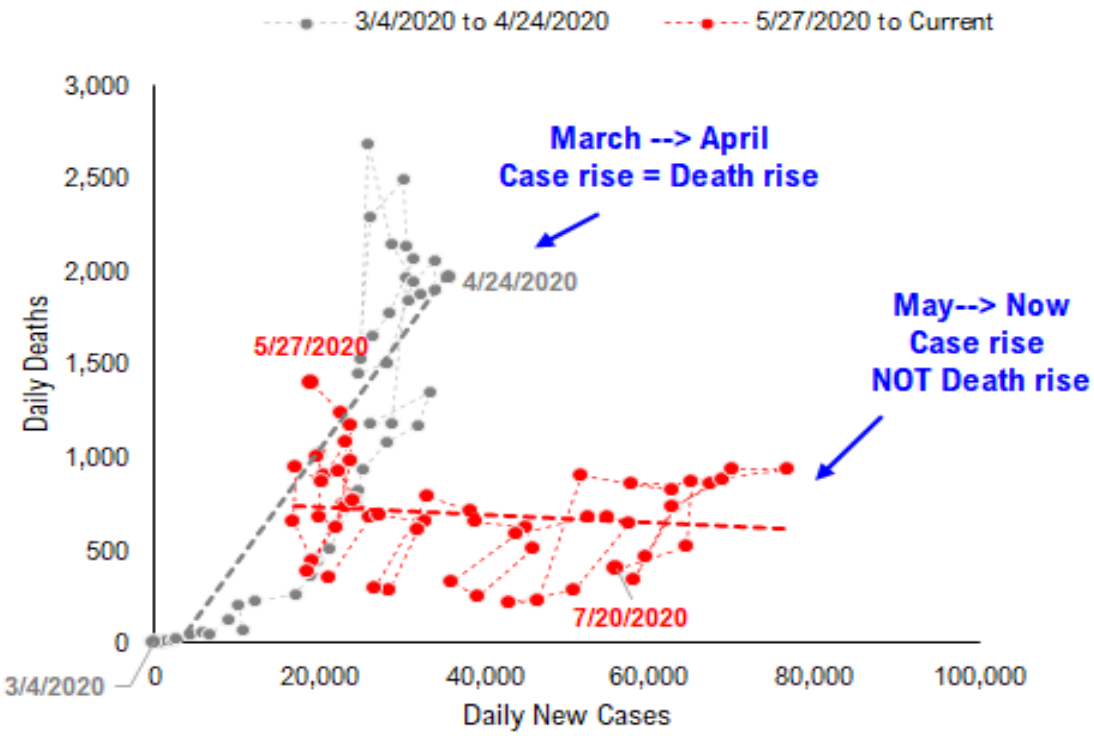
Daily deaths are up but this is expected. What is surprising is the rate of increase is so modest compared to the explosion in cases. It has been >6 weeks since the surge in cases started and yet deaths are only up slightly.



Source: COVID-19 Tracking Project

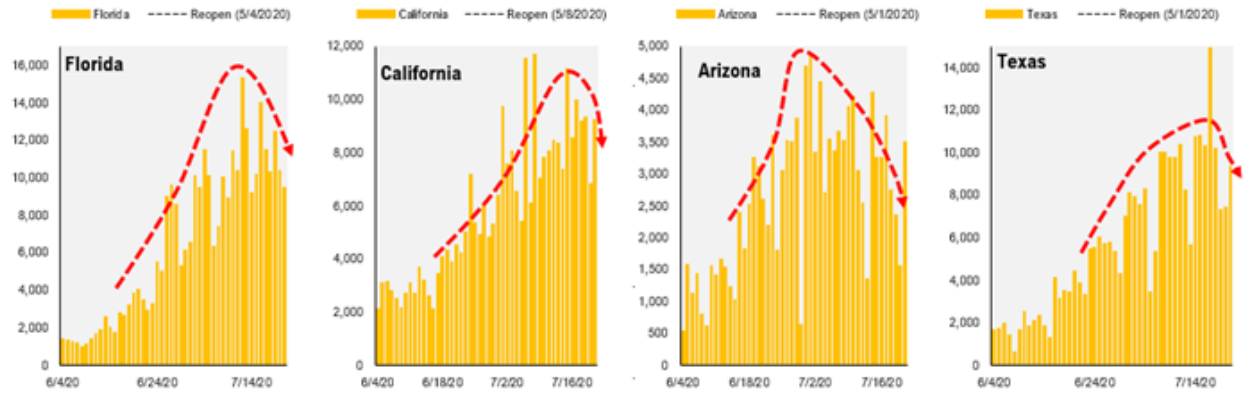
Daily deaths and daily cases are on a very different trajectory today vs what we saw in March/April.



Source: COVID-19 Tracking Project

POINT #2: F-CAT: Case trends supportive of "plateau" -- hospitalizations flattening too

Even with Tuesday's typical surge, daily case trends at F-CAT are improving. The daily cases were up from Monday (see above) but the trend is still downwards. Again, policymakers and governors and mayors and health experts will err on the side of caution. So, this will not be considered a peak for some time. But as we noted yesterday, it takes 25 days for cases to fall 75% from peak (based on 5 states, NY tristate + MA + RI). So this is the framework we are watching.



Source: COVID-19 Tracking Project

Within F-CAT, we have been paying the most attention to the "nucleus" cities, or the 4 cities that were the center of the breakout in each state:

- FL, Miami
- CA, Los Angeles
- AZ, Phoenix
- TX, Houston

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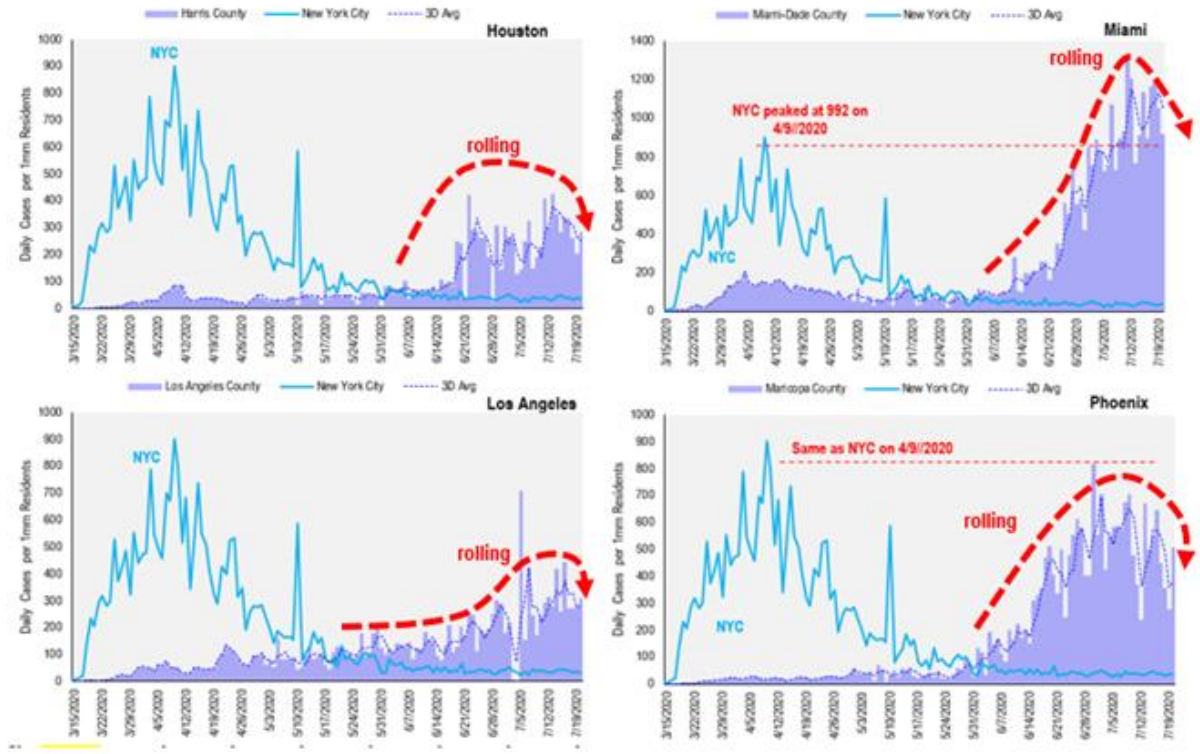
As shown below, the daily case trends in these 4 cities are evident that the 4-week surge is largely ending. Arguably it is the most convincing in Miami and Phoenix, as these 2 cities saw daily cases (per 1mm residents) surge to levels exceeding NYC. Granted, greater testing ability does not make this true apples to apples. But still.



Source: Johns Hopkins

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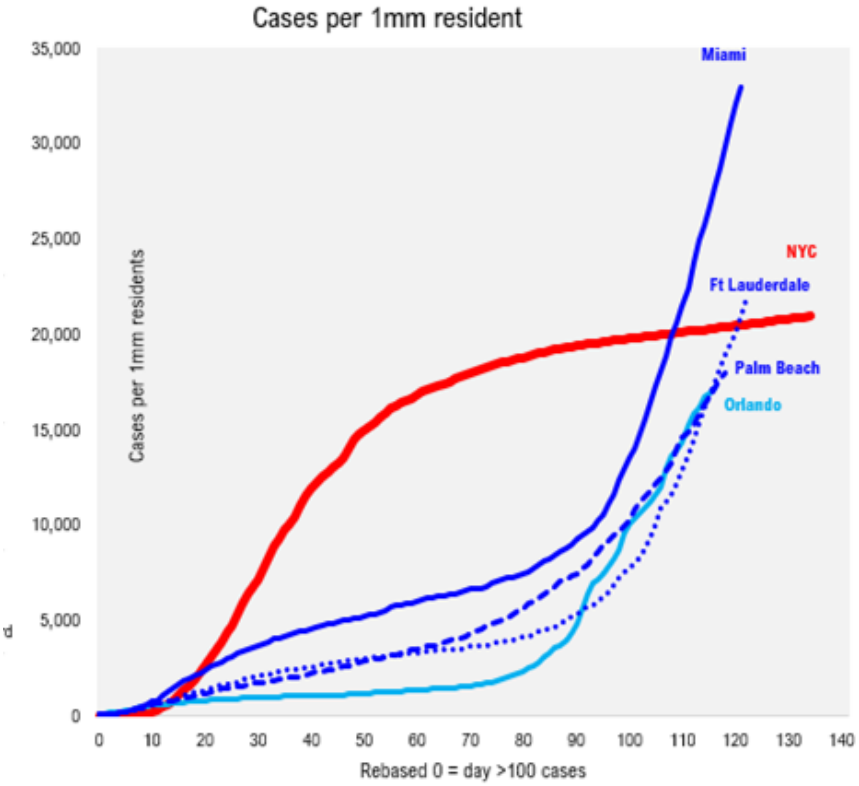
Looking at confirmed cases per 1mm residents, we can see that several major cities in F-CAT have blown past NYC:
- Miami, FL
- Fort Lauderdale, FL
- Phoenix, AZ
- Santa Cruz, AZ
- Yuma, AZ



Source: Johns Hopkins

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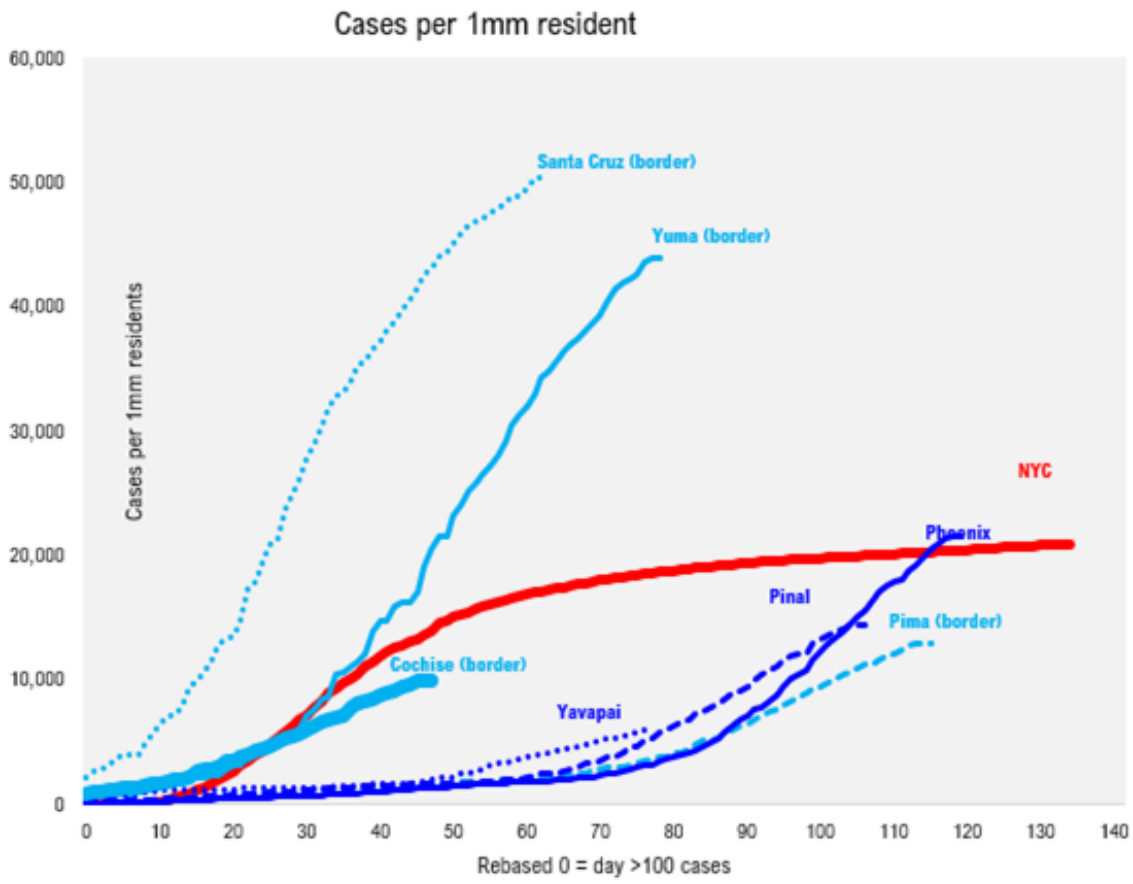

Source: Johns Hopkins

POINT #3: CDC Seroprevalence lab survey affirms what is widely known -- COVID-19 prevalence

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2X-13X "confirmed rate"

The CDC has not been a visible and central entity during the COVID-19 pandemic, but the data they collect and disseminate is useful. They published what is essentially a compilation of serology lab studies from 10 sites, over two rounds of collection. And with this, provided spot estimates of seroprevalence of COVID-19 (antibodies).

https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/commercial-lab-surveys.html

As reported by the NY Times, the main takeaway is that the seroprevalence studies show that COVID-19 antibody presence is 2X to 13X what is officially reported based on "confirmed" cases. Confirmed cases are based on PCR tests while serology looks at the presence of antibodies. And there is some controversy around antibodies since the level of type 1 and type 2 errors make serology testing somewhat less reliable. But in aggregate, this is still interesting.

https://www.nytimes.com/2020/07/21/health/coronavirus-infections-us.html#click=https://t.co/yEgqgSvCF6

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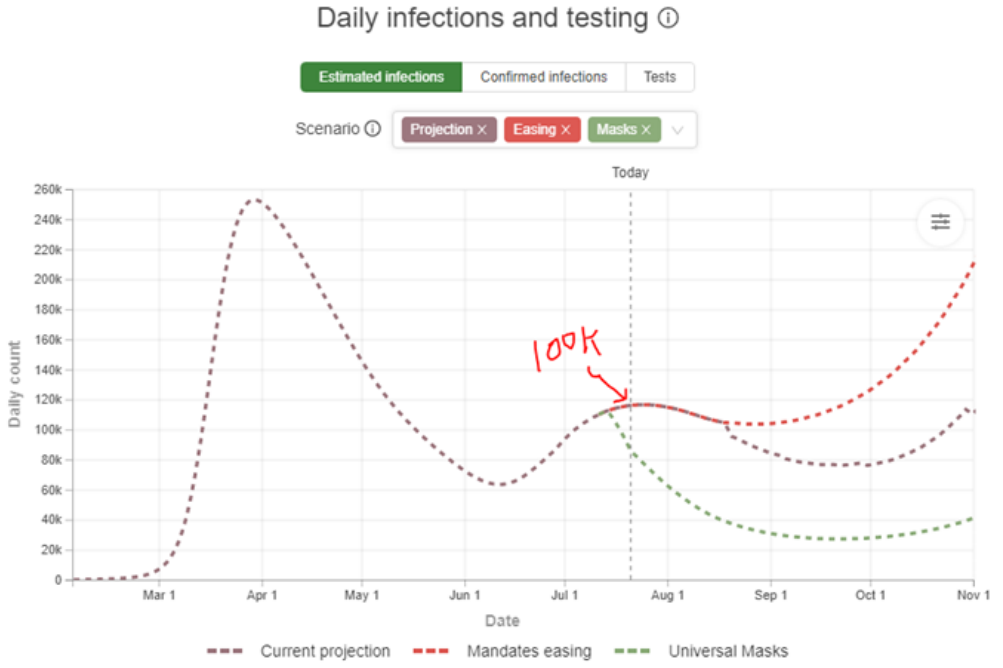
The CDC study only affirms what many are already aware of. Daily infections and total infected Americans are far higher than what is detected by testing capacity today. In fact, the IHME has a model that estimates the daily number of US infections. We have highlighted this model in the past.

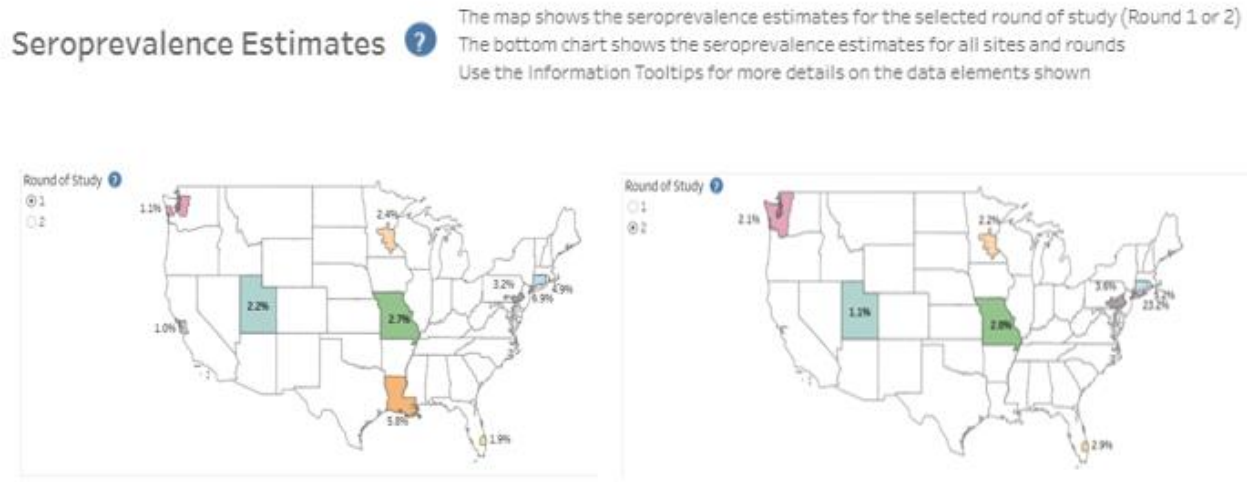
- per the IHME model, daily infections in the US likely peaked in April at ~260,000 per day.
- the current daily infections is ~100k per day.

Masks compliance, per their model, would lead to a crushing of daily infections by 80% by September.



https://covid19.healthdata.org/united-states-of-america

The CDC compiled survey shows the results of the two rounds of data collection (see below). The left chart is round 1 and the right is round 2.



https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/commercial-lab-surveys.html

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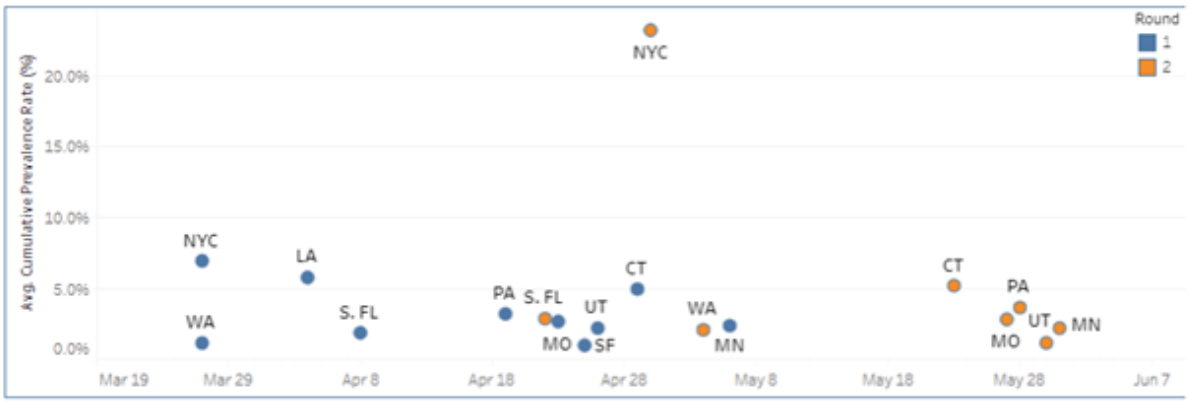
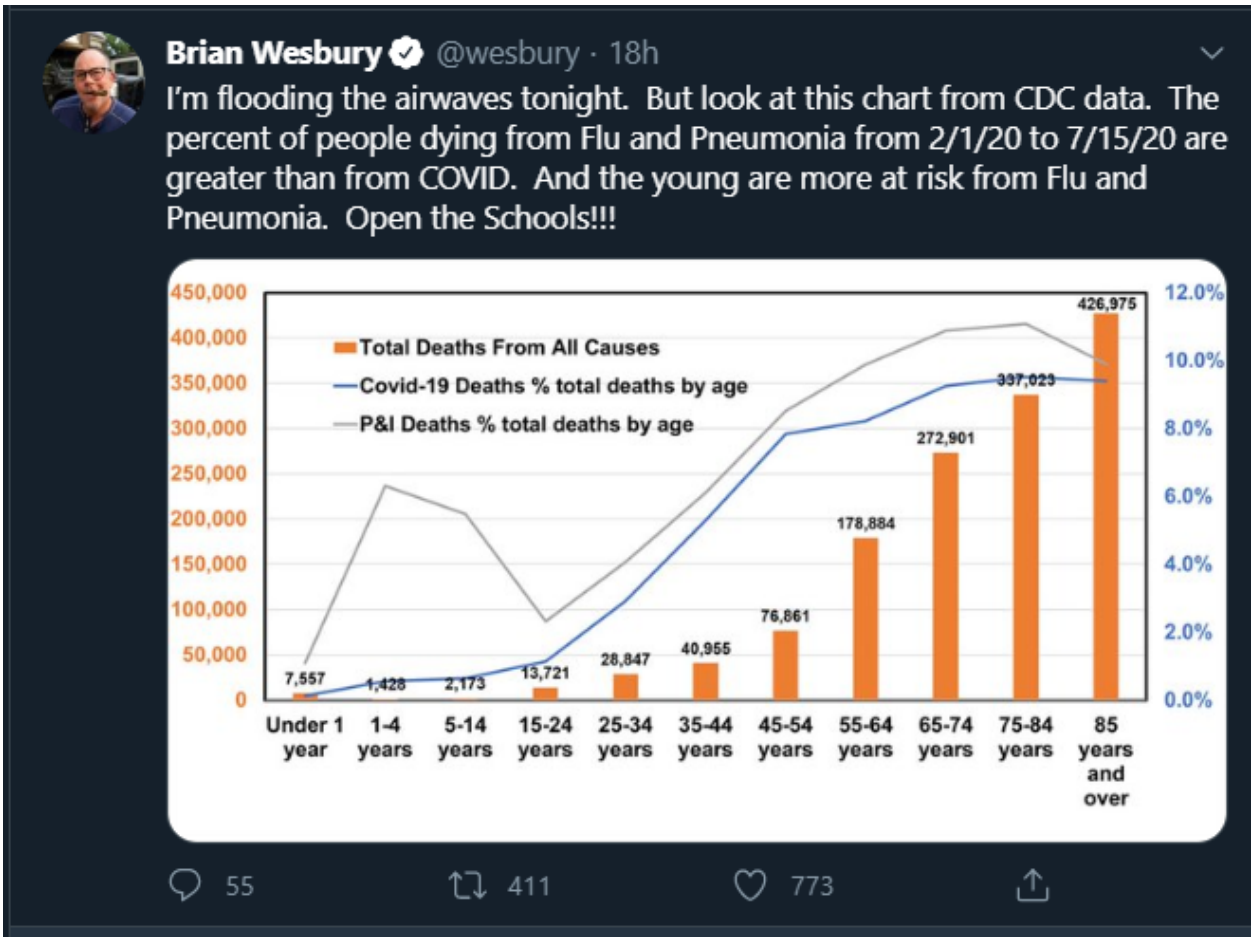
The time series chart below shows the date of the site survey and the serology presence at the time. Note the massive outlier of NYC? Serology prevalence was 23%.



https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/commercial-lab-surveys.html



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