



COVID-19 UPDATE: Daily new cases collapse to 22,734, down massive -15,514 vs 7D ago. "Invincibility" of mega-cap tech questioned = healthy and overdue rotation

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Daily new COVID-19 cases came in at 22,734, down an astonishing -15,514 vs 7D ago. On the surface, this is great organic progress and shows the disease is retreating. In fact, even AZ only reported a mere 81 cases on Tuesday, the lowest since March 2020. However, keep in mind:

- Labor Day was Monday, so holiday effect going to impact yesterday's case number
- Daily tests were ~520,000 on Tuesday vs 800,000 last week
- But positivity rates still fall to 4.3%, good thing

So I am inclined to say the trend remains positive but the 22,734 figure is artificially good.

Tom Block, our Policy Strategist, notes that Washington is still at a standstill regarding another relief package. And from his perspective, a scenario that could move this forward is pressure from Democratic House members when they return next week. And this could result in a bill before members break for the election. See his comments below.

No matter the outcome in the Senate this week, everyone agrees that the Senate bill is just a negotiating ploy and is not going to become law.

Last week Speaker Pelosi and Secretary Mnuchin talked for about a half hour on the status of the coronavirus relief ideas, but both sides agreed that no progress was made. Rather than negotiate on specific programs, the Speaker is fixated on the total dollar amount of the bill, \$2.2 trillion. Perhaps if the Democratic leadership gets more pressure from its members when the House returns next week, Congress and the White House could agree on a bill before they break for the election.

STRATEGY: Epicenter vs FANG did not get "faded" in afternoon like past 4 days...

The megacap Tech stocks are no longer invincible. The bludgeoning seen in the last few days resulted in sharp pullbacks for these stocks. Below is the magnitude of the pullback in these megacap names. As you can see, 4 of these names have been particularly hard hit: **TSLA, ZM, AAPL** and **MSFT**.

| Ticker | Name | Current Price | Recent High | % Decline |
|--------|----------------------|---------------|-------------|-----------|
| TSLA | Tesla Inc | \$330.21 | \$498.32 | -33.7% |
| ZM | Zoom Video Communi | 350.88 | 457.69 | -23.3% |
| AAPL | Apple Inc | 112.82 | 134.18 | -15.9% |
| MSFT | Microsoft Corp | 202.66 | 231.65 | -12.5% |
| AMZN | Amazon.Com Inc | 3149.84 | 3531.45 | -10.8% |
| FB | Facebook Inc-Class A | 271.16 | 303.91 | -10.8% |
| NFLX | Netflix Inc | 507.02 | 556.55 | -8.9% |

NASDAQ -11% from its highs and S&P 500 -7%, both severe levels of decline suggesting a lot of froth is gone...

The NASDAQ 100 (QQQ) is in "correction" territory falling 11% from highs in just 3 days, while the S&P 500 is off 7%. That is a pretty intense level of selling and in a very short period of time. Do we think a deeper selloff is underway? Maybe, because, just like recessions, one can never tell the severity once it begins. But keep these facts in mind:

- stocks soared in August, so a bit payback is not entirely surprising
- market was overbought based on many technical indicators, RSI, etc.
- Megacap tech took on the air of invincibility, so this crushing decline is a clear rebuke of that view.



Multiple drivers still in place that favor stocks into YE...

The major drivers of stocks remain largely constructive, with the exception of rising election uncertainty. Here is a list, not in any order, of the positive tailwinds for stocks into YE:

- US economy is gaining momentum (ISM, jobs, etc.)
- COVID-19 organically retreating (per our ongoing comments)
- Vaccine/cure development remains positive with good momentum
- Bonds are giving strong relative value argument --> TINA
- Americans are becoming less fearful and thus, helping economy recover
- Stocks seasonally strong into YE
- \$4.5 trillion of cash on sidelines
- Majority of retail investors still bearish as AAll survey shows negative sentiment
- Fed remains dovish

So the list is pretty comprehensive for staying constructive. And if you did not agree with this take, remember, "don't fight the Fed" and a dovish Fed is positive for markets.

Epicenter trade seems to be strengthening as COVID-19 retreats, suggesting rotation could have traction this time...

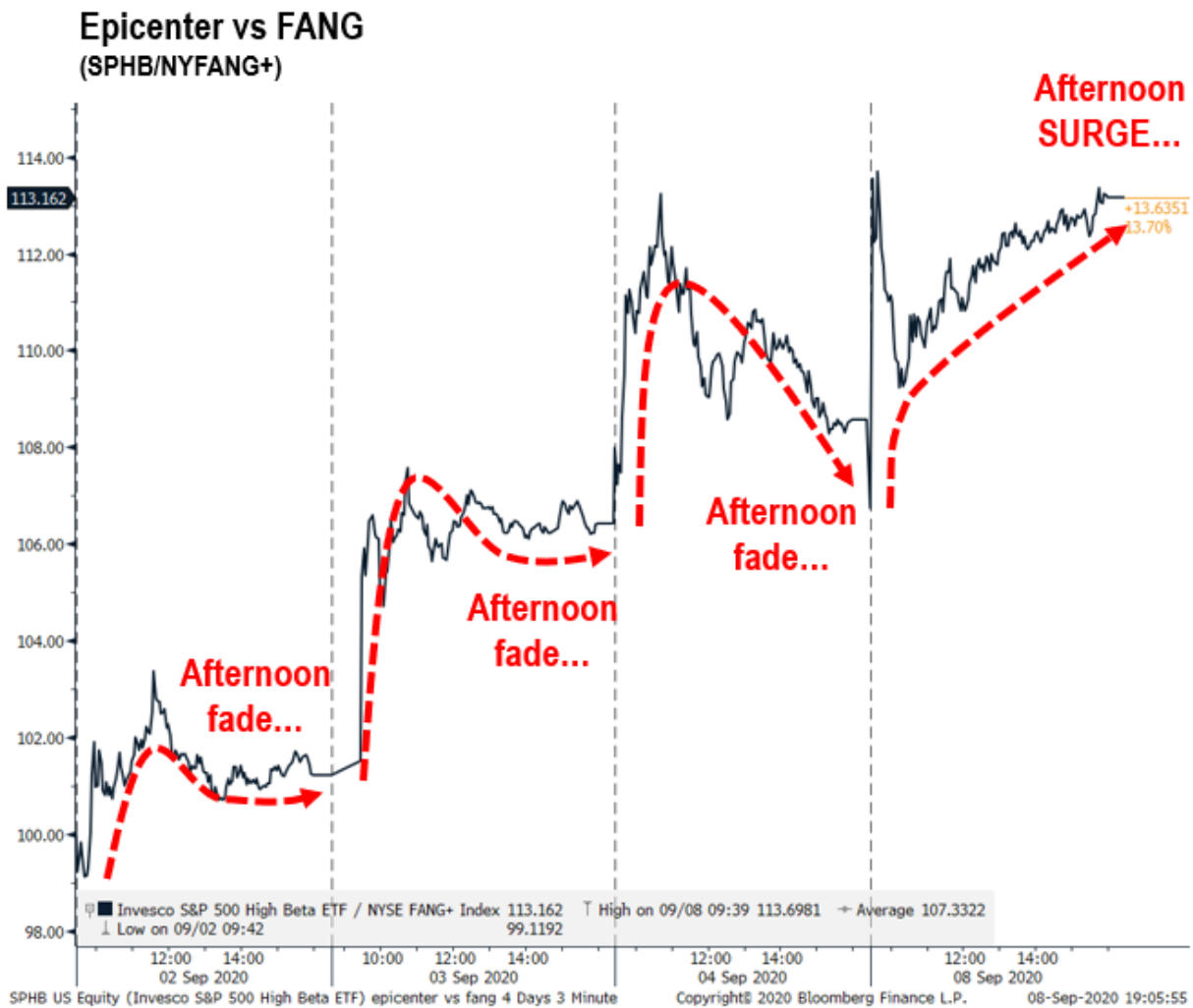
The organic news on COVID-19 continues to be promising. Granted, as noted above, Tuesday's case number could be suppressed somewhat by the long weekend, but it is still directionally very positive. But as we all know, this epicenter rotation seems to last for a shorter and shorter amount of time. Thus, we understand why investors might be skeptical.



But if we look at the intraday price gains over the last 4 days, yesterday's price move (Tuesday) showed positive break in pattern. We are using the S&P 500 High-beta ETF (SPHB) as the proxy for epicenter and comparing its price performance to FANG.

- Epicenter stocks gained continuously throughout the day, strengthening into the close
- this differs from the rally of the prior 3 days, where epicenter opened strong but faded into the close

Thus, it looks like this rotation is actually gaining strength, not weakening.



We realize the epicenter stocks are just tougher to own, because one is implicitly making a bet that a virtuous cycle is underway. This virtuous cycle would be driven by:

- COVID-19 disease retreating
- Americans less fearful

- Vaccine/cure progress
- Economy gains momentum
- \$4.5 trillion cash comes off sidelines

An example of this is Six Flags (SIX) which was up ~3% on Tuesday. Theme parks are a big beneficiary of an improving pandemic outlook. Granted, someone might say this is simply an unwind of a pair trade -- long Tech/ short epicenter. Could be.



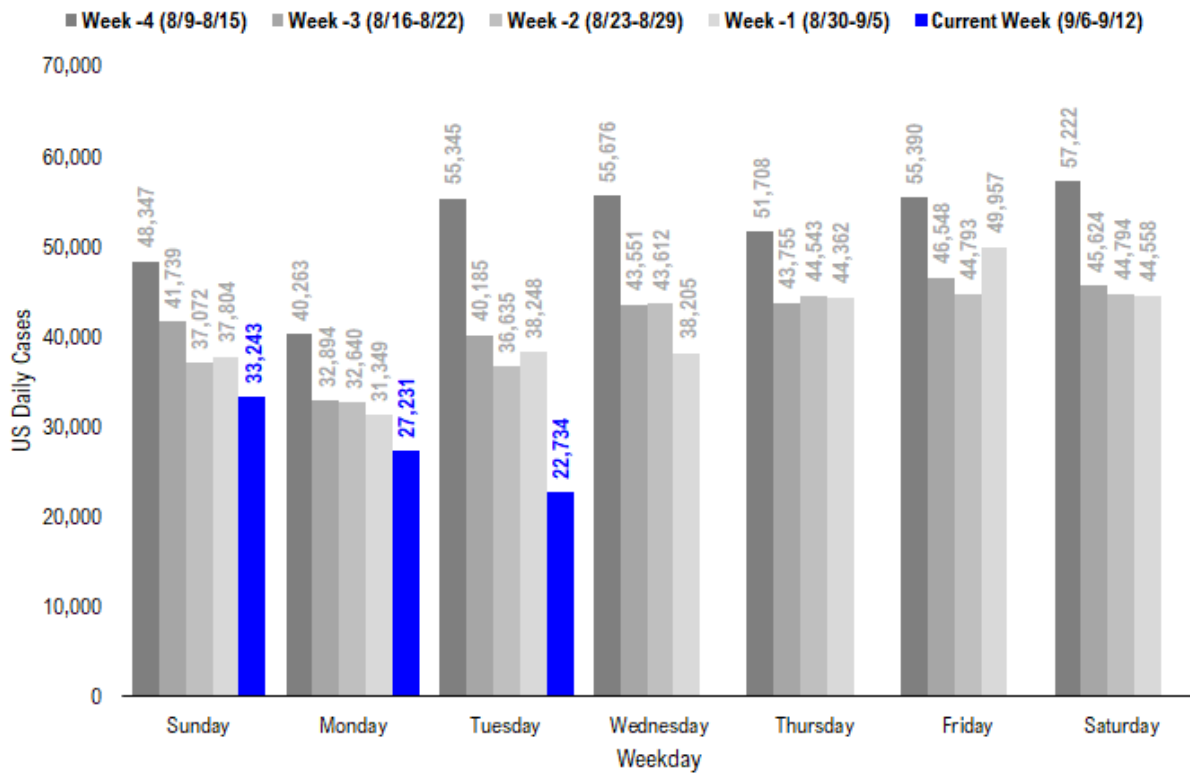
Yup. Hard to believe.

POINT 1: Daily cases collapse to 22,734 (-15,514 vs 7D ago), but long weekend might be a factor...

Daily cases continue to show a dramatic organic improvement. Daily cases came in at 22,734 on Tuesday, which is down 15,514 vs 7D ago. Tuesday cases usually rise vs Monday, but instead fell sequentially.

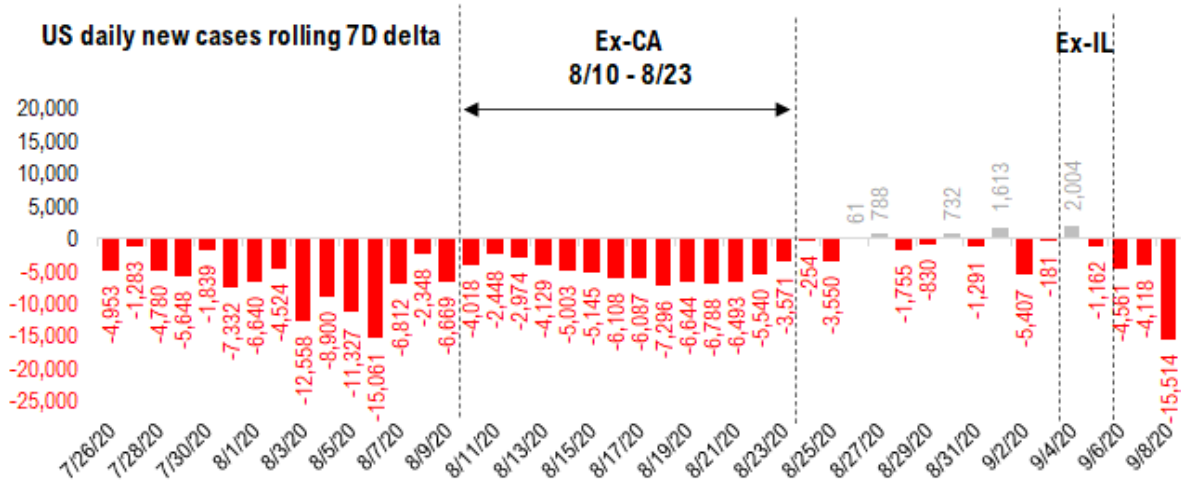
- this is a positive break in pattern
- but it could be due the long weekend

We do not want to read too much into this daily figure, since this is coming off Labor Day weekend and the Monday holiday could be distorting this figure.



Source: COVID-19 Tracking Project

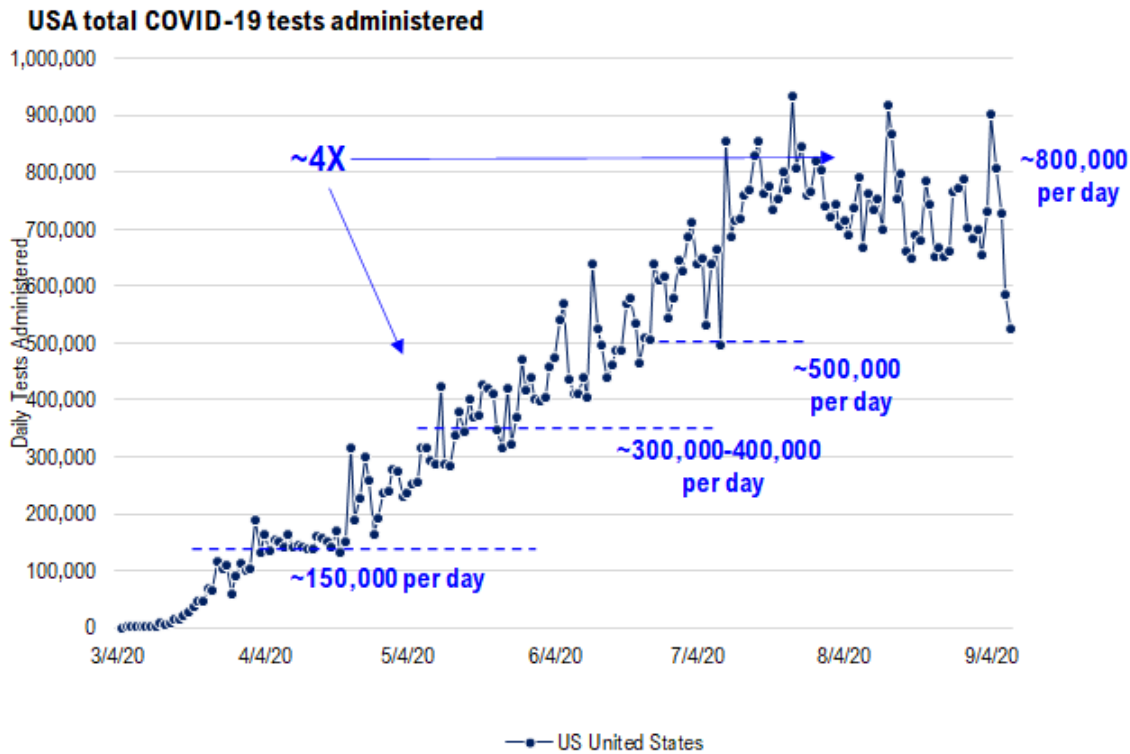
Again, the daily change vs 7D ago, in our view, is the leading indicator as it is what influences the 7D moving average. After seeing daily cases essentially flat for nearly 10 days, the last three days were good gains, but yesterday's drop of 15,514 was particularly notable. In any case, the next few weeks are a big test. The drop in cases is a good sign. But the Labor Day weekend is also coinciding with many social gatherings and back to school. So, the potential for cases to re-ignite is quite high. On the other hand, if daily cases do not surge, this is a major positive.



Source: COVID-19 Tracking and Fundstrat

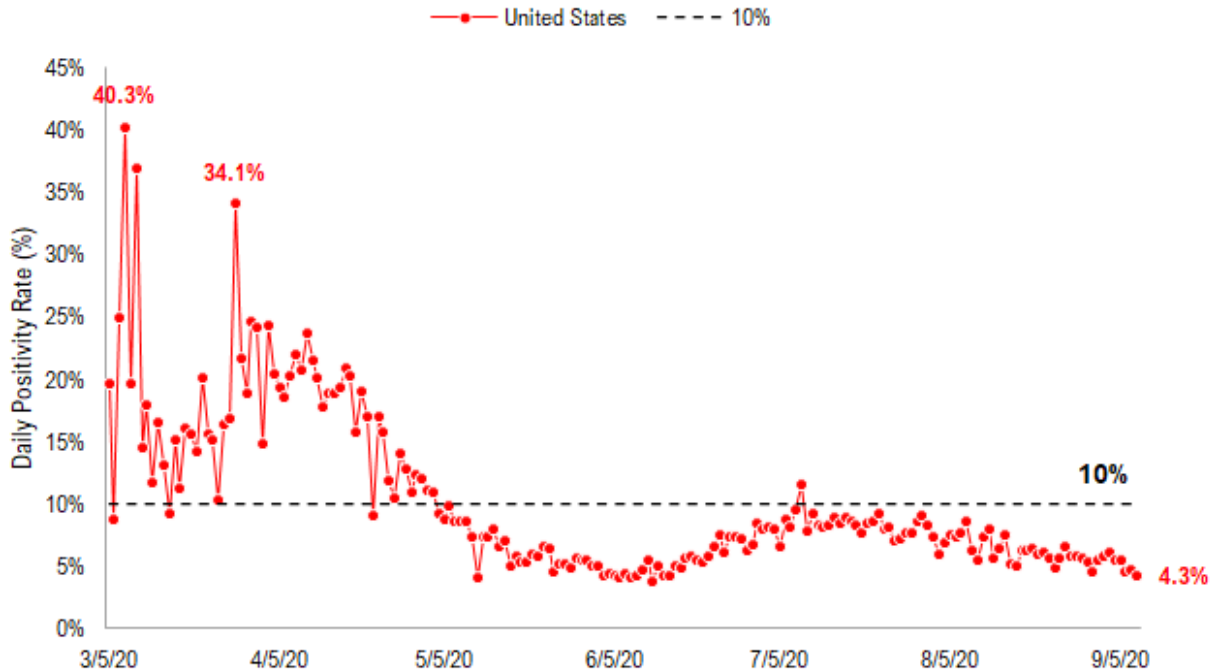
There is some credence to the idea that the holiday effect is causing artificially low reported cases. As shown below, daily tests were quite low in the last few days.

- if tests are down, then another key metric to review is positivity rate
- that was actually down again (see below), so the trends are still good



Source: COVID-19 Tracking and Fundstrat

Positivity trends were also encouraging as the daily positivity rate was 4.3%, which improved upon the figure from Monday (4.6%). Again, a sub-5% level is considered a level of infection that is under good control (assuming testing prevalence is high).



Source: COVID-19 Tracking and Fundstrat

6 states with largest 7D delta in daily cases

| | | |
|--------------|-------------|-------------|
| Connecticut | 417 v s 127 | +290 |
| Nebraska | 502 v s 287 | +215 |
| Oklahoma | 833 v s 666 | +167 |
| Wyoming | 71 v s 24 | +47 |
| Utah | 326 v s 296 | +30 |
| Arkansas | 294 v s 273 | +21 |
| Total | | +770 |

6 states with largest 7D delta in daily cases

| | | |
|----------------|-----------------|---------------|
| Texas | 1,416 v s 4,116 | -2,700 |
| Florida | 1,823 v s 3,600 | -1,777 |
| North Carolina | 716 v s 2,111 | -1,395 |
| California | 2,676 v s 3,712 | -1,036 |
| Alabama | 633 v s 1,558 | -925 |
| Ohio | 656 v s 1,453 | -797 |
| Total | | -8,630 |

Daily Case Increases (by State) (09/08)

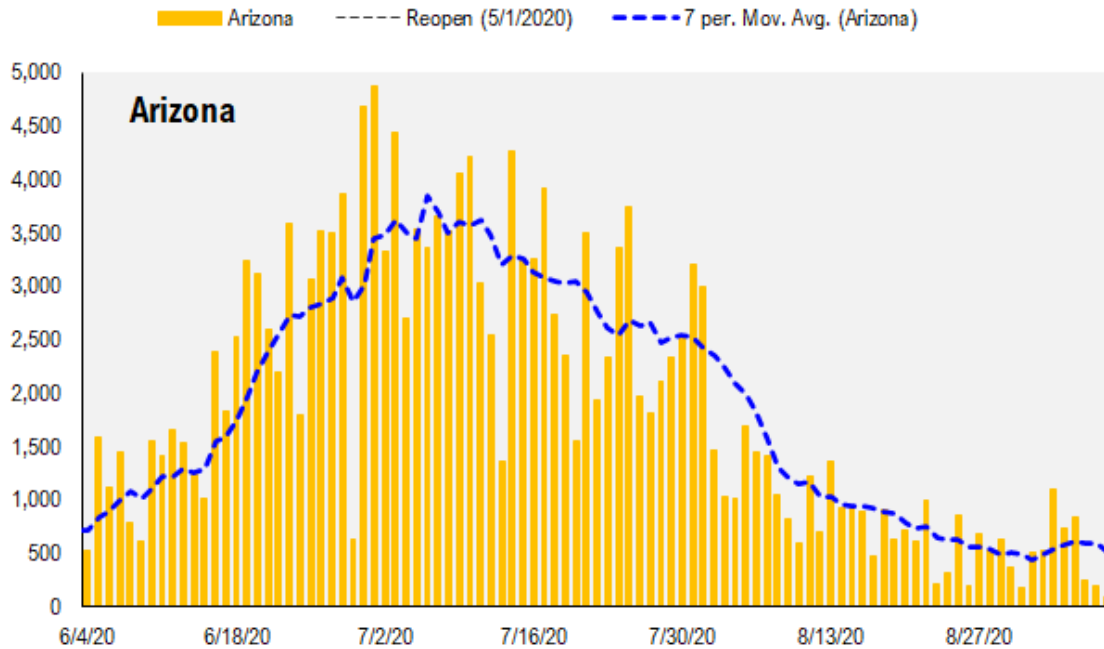
% total new cases (state cases/ total US cases)
% total US pop (state population/ total US population)

| | | <i>Sorted</i> | | | | |
|----------------|--------------------------|---------------|------------------|--------|--------|----------|
| | | 7D Ago | Last 3-day Trend | | | |
| | | 9/1/20 | 9/6/20 | 9/7/20 | 9/8/20 | |
| United States | | 38,248 | 33,243 | 27,231 | 22,734 | -4,497 |
| States: | | | | | | |
| 1 | California | 3,712 | 4,905 | 3,091 | 2,676 | |
| 2 | Florida | 3,600 | 2,564 | 1,838 | 1,823 | |
| 3 | Georgia | 2,226 | 1,651 | 608 | 1,543 | |
| 4 | Texas | 4,116 | 2,800 | 2,057 | 1,416 | |
| 5 | Illinois | 1,492 | 1,403 | 1,381 | 1,392 | |
| 6 | Virginia | 1,021 | 1,199 | 645 | 836 | |
| 7 | Oklahoma | 666 | 420 | 613 | 833 | <-higher |
| 8 | Missouri | 1,058 | 1,232 | 906 | 773 | |
| 9 | Wisconsin | 981 | 893 | 567 | 717 | |
| 10 | North Carolina | 2,111 | 1,086 | 1,018 | 716 | |
| 11 | Ohio | 1,453 | 773 | 778 | 656 | |
| 12 | Tennessee | 1,396 | 1,764 | 983 | 645 | |
| 13 | Alabama | 1,558 | 511 | 659 | 633 | |
| 14 | New York | 754 | 729 | 520 | 557 | |
| 15 | Nebraska | 287 | 81 | 89 | 502 | <-higher |
| 16 | Pennsylvania | 770 | 691 | 547 | 496 | |
| 17 | Iowa | 591 | 649 | 393 | 455 | |
| 18 | Michigan | 718 | 0 | 1,156 | 441 | |
| 19 | Connecticut | 127 | 0 | 0 | 417 | |
| 20 | Indiana | 695 | 843 | 590 | 386 | |
| 21 | Minnesota | 491 | 707 | 638 | 383 | |
| 22 | Maryland | 614 | 512 | 764 | 356 | |
| 23 | Utah | 296 | 388 | 373 | 326 | |
| 24 | Washington | 315 | 501 | 399 | 310 | |
| 25 | South Carolina | 854 | 663 | 655 | 301 | |
| 26 | Arkansas | 273 | 687 | 350 | 294 | |
| 27 | New Jersey | 330 | 311 | 332 | 277 | |
| 28 | Louisiana | 689 | 1,395 | 309 | 256 | |
| 29 | Kentucky | 789 | 310 | 290 | 255 | |
| 30 | Mississippi | 634 | 410 | 242 | 249 | |
| 31 | Idaho | 280 | 190 | 74 | 240 | <-higher |
| 32 | Colorado | 351 | 285 | 213 | 187 | |
| 33 | Massachusetts | 355 | 366 | 229 | 171 | |
| 34 | Oregon | 233 | 188 | 146 | 165 | |
| 35 | Nevada | 405 | 508 | 357 | 137 | |
| 36 | South Dakota | 240 | 220 | 191 | 103 | |
| 37 | Puerto Rico | 108 | 26 | 423 | 96 | |
| 38 | West Virginia | 257 | 123 | 163 | 86 | |
| 39 | Arizona | 507 | 250 | 198 | 81 | |
| 40 | Wyoming | 24 | 26 | 0 | 71 | <-higher |
| 41 | North Dakota | 184 | 297 | 170 | 71 | |
| 42 | Hawaii | 180 | 161 | 105 | 66 | |
| 43 | Montana | 92 | 100 | 52 | 65 | |
| 44 | Delaware | 55 | 151 | 206 | 59 | |
| 45 | District of Columbia | 57 | 41 | 36 | 47 | |
| 46 | Guam | 52 | 0 | 0 | 42 | |
| 47 | New Mexico | 108 | 59 | 37 | 37 | |
| 48 | Alaska | 35 | 86 | 33 | 35 | |
| 49 | Rhode Island | 53 | 35 | 53 | 20 | |
| 50 | New Hampshire | 22 | 23 | 29 | 18 | |
| 51 | Maine | 22 | 15 | 19 | 12 | |
| 52 | Vermont | 5 | 1 | 3 | 3 | |
| 53 | U.S. Virgin Islands | 5 | 14 | 9 | 1 | |
| 54 | Northern Mariana Islands | 1 | 0 | 0 | 1 | |
| 55 | Kansas | 0 | 0 | 1,694 | 0 | |
| 56 | American Samoa | 0 | 0 | 0 | 0 | |

Source: COVID-19 Tracking and Fundstrat

POINT 2: Arizona reported a mere 81 cases on Tuesday and all 4 epicenter states following NY tristate now...

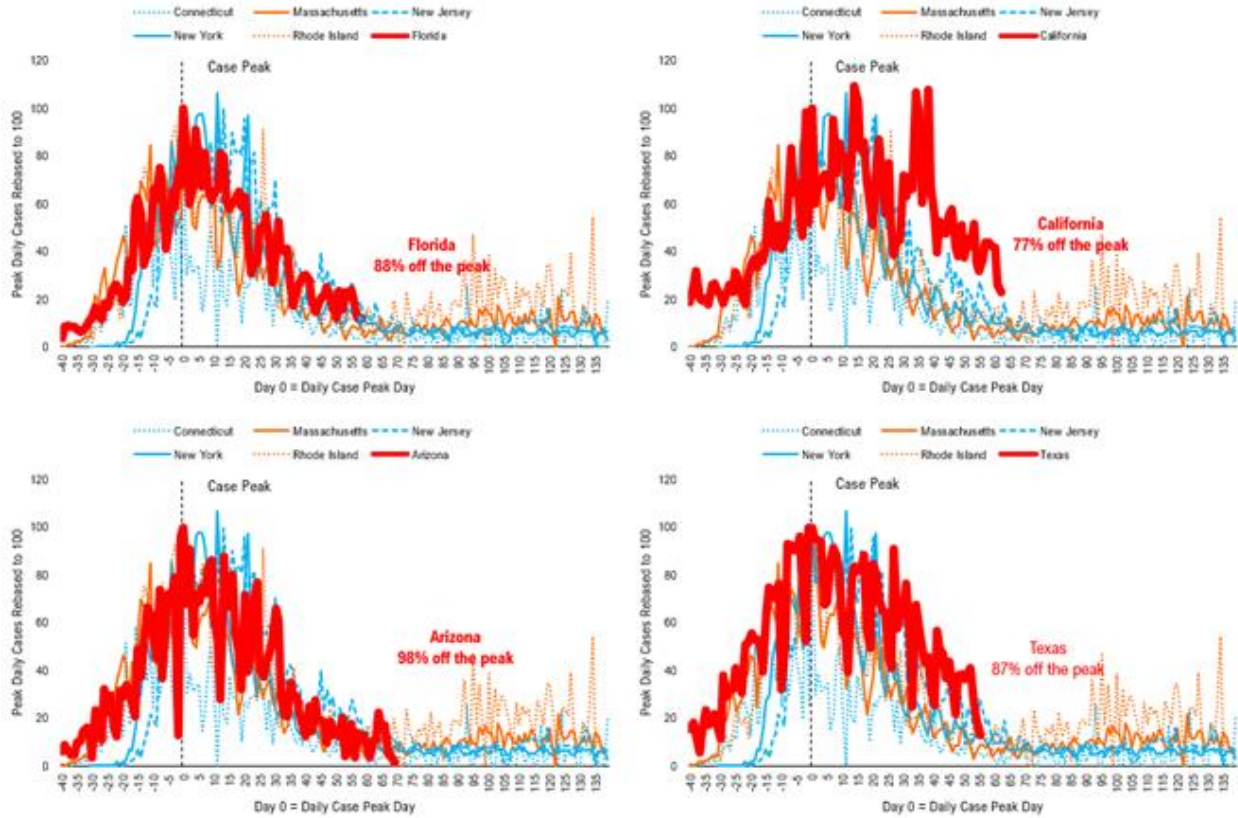
Did Arizona reach some type of herd immunity? Look at daily case trends for the past few days. The state reported a mere 81 cases on Tuesday. This is the lowest since March 2020.



Source: COVID-19 Tracking and Fundstrat

In fact, looking at the rest of the 4 states at the heart of the June/July surge, FL, CA, AZ, TX, or F-CAT, we can see their daily case trends are mirroring the experience of NY tristate closely.

- this raises the question of why do all these states have the same curve?
- each state took different mitigation measures and timing
- yet the declines look nearly identical



Source: COVID-19 Tracking and Fundstrat

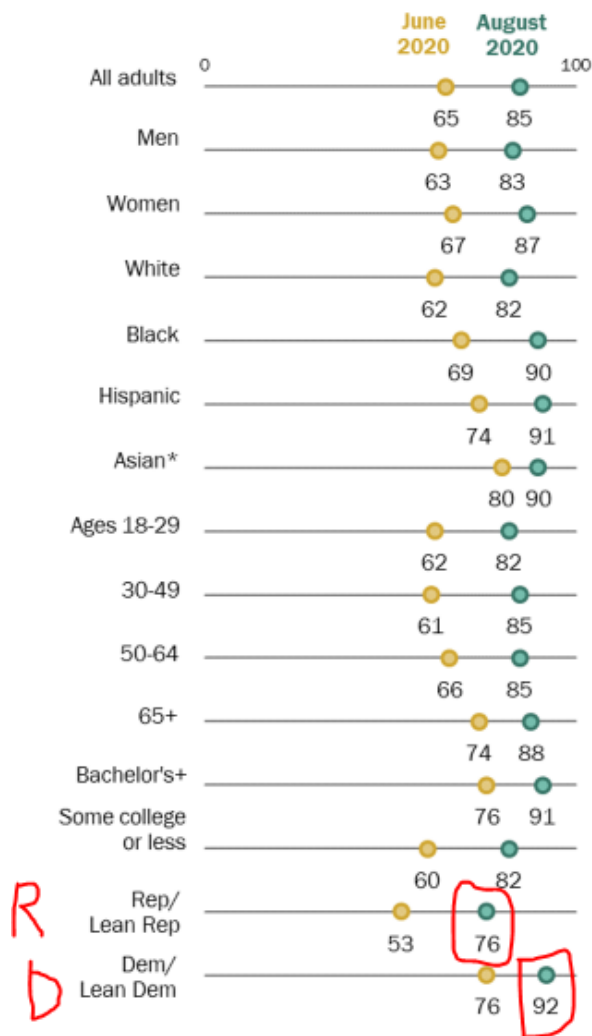
Part of me thinks this suggests that disease follows a natural course, once an outbreak happens, and this results in a similar spread until a level of community prevalence is reached. Otherwise, how does one dismiss that F-CAT prevalence looks a lot like NY tristate?

POINT 3: Researchers suggest mask-wearing might reduce the severity of COVID-19 -- could become a form of "variation" to generate herd immunity...

The topic of mask-wearing is a controversial one and has morphed into a political debate. The most recent Pew Research survey shows that there is still a material difference in mask compliance between Republican-leaning vs Democratic-leaning candidates.

Mask use increased in summer months

% who say that, in the past month, they've worn a mask or face covering when in stores or other businesses all or most of the time



*Asian Americans were interviewed in English only.
Note: White, Black and Asian adults include those who report being only one race and are not Hispanic. Hispanics are of any race.
"Some college" includes those with an associate degree and those who attended college but did not obtain a degree.
Source: Surveys of U.S. adults conducted June 4-10 and August 3-16, 2020.

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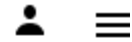
NEJM article suggests that those using masks contract milder form of COVID-19...

But something published in the New England Journal of Medicine, NEJM, suggests that mask wearing might bestow an additional benefit to the wearer.

- this study suggests that higher mask usage compliance is leading to significantly reduced COVID-19 severity.



The NEW ENGLAND
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Perspective

Facial Masking for Covid-19 — Potential for “Variolation” as We Await a Vaccine

Monica Gandhi, M.D., M.P.H., and George W. Rutherford, M.D.

September 8, 2020

DOI: 10.1056/NEJMp2026913

<https://www.nejm.org/doi/full/10.1056/NEJMp2026913>

This is a very interesting suggestion. The study suggests that masks reduce viral load to the mask wearer. And disease severity is known to be proportionate to viral load. They point to several examples of how mask usage is leading to higher rates of asymptomatic cases.

Now, I know many will scoff at this suggesting that "see! masks are supposed to prevent the disease, but you still catch it" -- but the point of this article is to suggest that masks reduce viral load = good.

Authors suggest that universal mask wearing is a form of "variolation"


The authors suggest that universal masking could become a form of "variolation" and with continued practice, could result in "variolation" and in turn generate herd immunity. That is, until a vaccine is found.

AS SARS-CoV-2 CONTINUES ITS GLOBAL SPREAD, IT'S POSSIBLE THAT ONE OF the pillars of Covid-19 pandemic control — universal facial masking — might help reduce the severity of disease and ensure that a greater proportion of new infections are asymptomatic. If this hypothesis is borne out, universal masking could become a form of "variolation" that would generate immunity and thereby slow the spread of the virus in the United States and elsewhere, as we await a vaccine.

<https://www.nejm.org/doi/full/10.1056/NEJMp2026913>

I had to turn to Wikipedia to figure out what "variolation" means...

Wikipedia describes variolation interchangeably with inoculation. And it says a patient getting this virus (variola) would hopefully develop a mild form of the disease.



View all

Variolation or inoculation was the method first used to immunize an individual against smallpox (Variola) with material taken from a patient or a recently **variolated** individual, in the hope that a mild, but protective, infection would result.

en.wikipedia.org › wiki › Variolation
[Variolation - Wikipedia](#)

The authors refer to the long agreed upon science that intake of viral load is proportionate to the severity of the disease. Thus, masks, if it reduces viral load, results in milder disease.

distress syndrome, and death. Recent virologic, epidemiologic, and ecologic data have led to the hypothesis that facial masking may also reduce the severity of disease among people who do become infected.³ This possibility is consistent with a long-standing theory of viral pathogenesis, which holds that the severity of disease is proportionate to the viral inoculum received. Since 1938, researchers

<https://www.nejm.org/doi/full/10.1056/NEJMp2026913>

Multiple instances cited, but the two highlighted below show "mild"/asymptomatic is 80%-95% of cases with mask usage...

Perhaps the most intriguing instances cited are two instances where mask compliance was nearly universal:

- Argentinian ship and with universal mask usage, asymptomatic infection rate was 81% but was only 20% before mask usage
- Food processing plant with universal mask usage showed 95% of cases were asymptomatic

In an outbreak on a closed Argentinian cruise ship, for example, where passengers were provided with surgical masks and staff with N95 masks, the rate of asymptomatic infection was 81% (as compared with 20% in earlier cruise ship outbreaks without universal masking). In two recent outbreaks in U.S. food-processing plants, where all workers were issued masks each day and were required to wear them, the proportion of asymptomatic infections among the more than 500 people who became infected was 95%, with only 5% in each outbreak experiencing mild-to-moderate symptoms.³ Case-fatality rates in countries with mandatory or enforced population-wide masking have remained low, even with resurgences of cases after lockdowns were lifted.

<https://www.nejm.org/doi/full/10.1056/NEJMp2026913>

With so many concerns about the difficulty in maintaining social distance with back to school, the notion of universal mask usage, and the resulting mitigation of severity, is quite encouraging.

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