



COVID-19 UPDATE: Stocks still a solid risk/reward beyond just Fed "put". Daily cases up vs 7D ago, but still too early to conclude this is a new wave

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STRATEGY: 4 reasons stocks still can go up ALOT. Millennials + global labor shortage as important as Fed + fiscal policy

We have done a number of calls this week and two things seem to come up in each discussion. These are fairly intuitive, but clearly on top of investor minds:

- First, whether markets have seen their highs for the year, given the upcoming headwinds of 2020 election uncertainty and heightened risk of second COVID-19 wave from flu season.
- Second, where is the best risk/reward trade between now and year-end

Foremost, I think it is perfectly reasonable for any investor to be extremely skeptical about equities in 2020. After all, we are in the midst of the worst Depression in 5 lifetimes, exceeding the Great Depression. The world is dealing with the worst pandemic in 100 years, or at least 50 years (since 1967). And the policy steps take to battle this tragedy have long term consequences. And add in widening divisiveness in the US between Baby Boomers and Millennials, arguably even wider chasm than growing divide between Conservatives and Liberals, and one can see why the "future is very very uncertain and scary."

But I learned a long time ago that the stock market doesn't care about my opinion and rather, my time is better spent trying to understand the message from the market. And we think the underlying message is one that remains constructive. That is, we think there are many factors that explain the extreme resilience of stocks in 2020. We have written about these cornerstones in many of our recent commentaries, so I will not repeat all of them, but 4 factors really stand out to us:

#1: Don't fight the Fed

Massive support from Fed and fiscal policy. Even as a sole factor, this explains a lot. Don't fight the Fed.

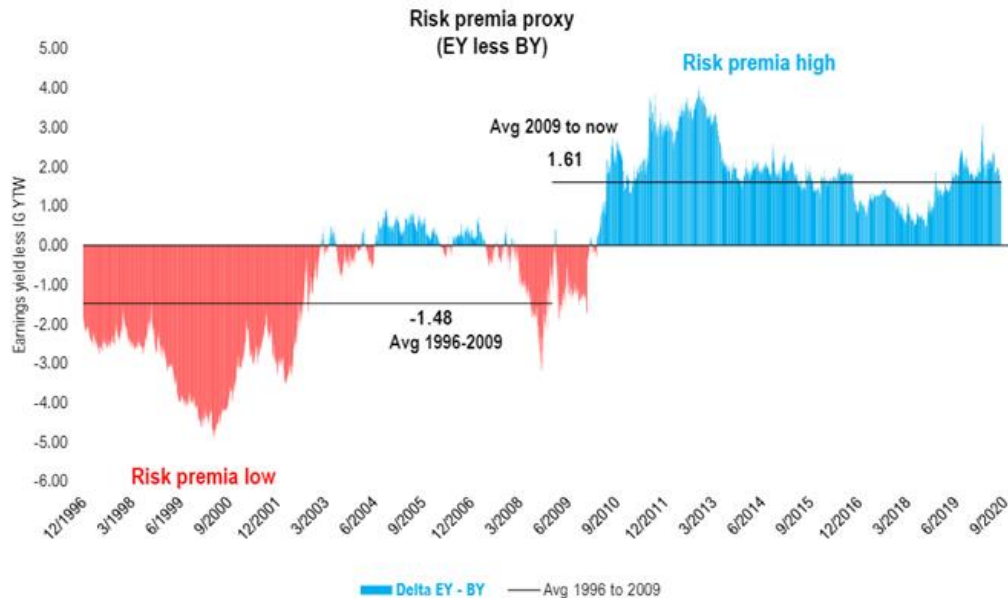
- Yesterday's Fed decision and forward looking views underscore this -- rates low for long

But this is not a sufficient explanation. After all, look at the amount of money created by ECB and BOJ in past 10 years and have very little to show for it. The market is not completely fooled by this "sleight of hand."

#2: "Stress test of 5 lifetimes" and equity now more valuable in capital structure

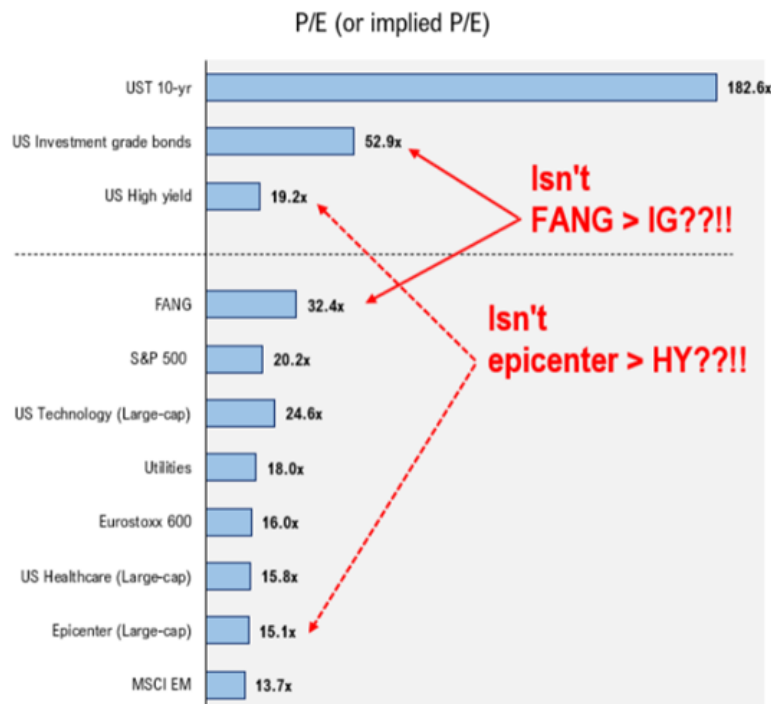
US corporates survived the most extreme stress test of any of our lifetimes, and their prospering during this time means equity risk premia is going to fall. Moreover, within the capital structure, equity is proving to be more valuable in a time of stress than previously exhibited.

Figure: EY less BY
Proxy for equity risk premia



Source: Fundstrat and BoFA

Figure: PE of Bonds (inverse of YTW) and PE of equities
Current



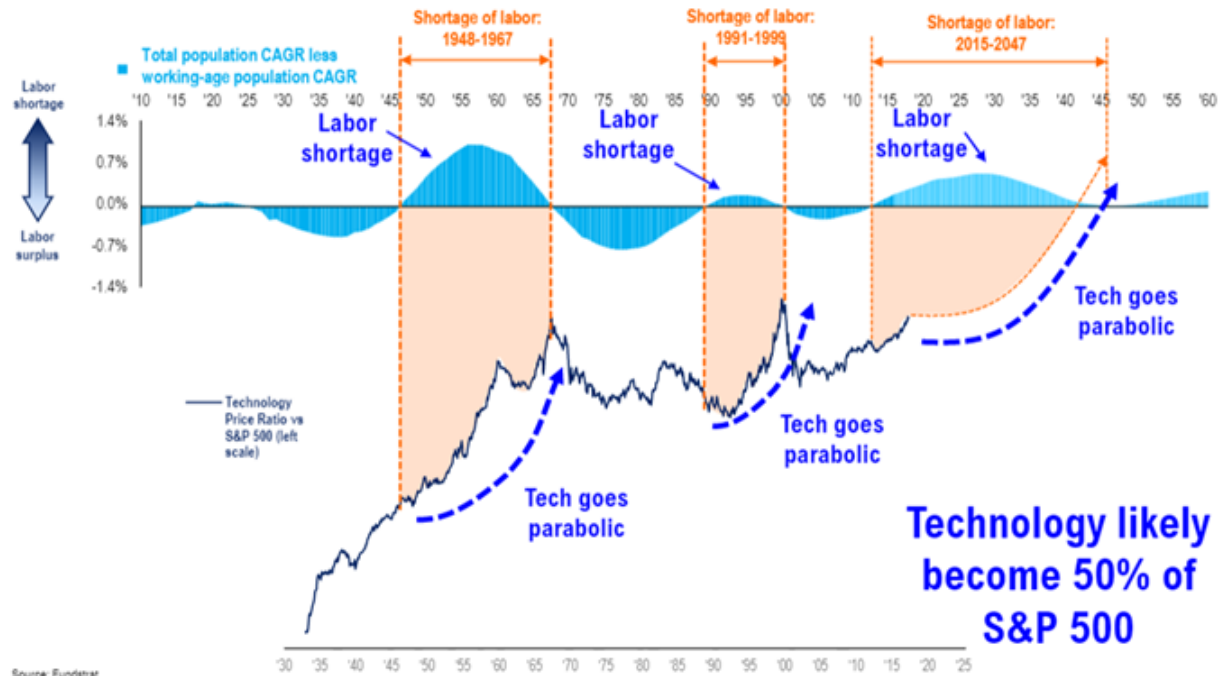
Source: Fundstrat and BoFA

#3: World more reliant on technology to offset labor supply contraction and US main supplier = tech to be 50% S&P 500.

Another key driver for US equities, in our view, is the world is facing a structural labor shortage. This is something we have written about since 2018 (the first year this took place) and if the world has population growth exceeding labor supply, this output gap/ worker shortage is solved by increasing reliance on capital-based labor, aka Technology.

- see below, since 1930, the periods of US labor shortage (population growth > labor growth) has led to parabolic gains in Technology
- US has been structurally short labor since 2015 -- when did tech go parabolic? 2015...

Figure: Comparative relative performance of US Technology stocks during periods of US labor shortage
Since 1930-now



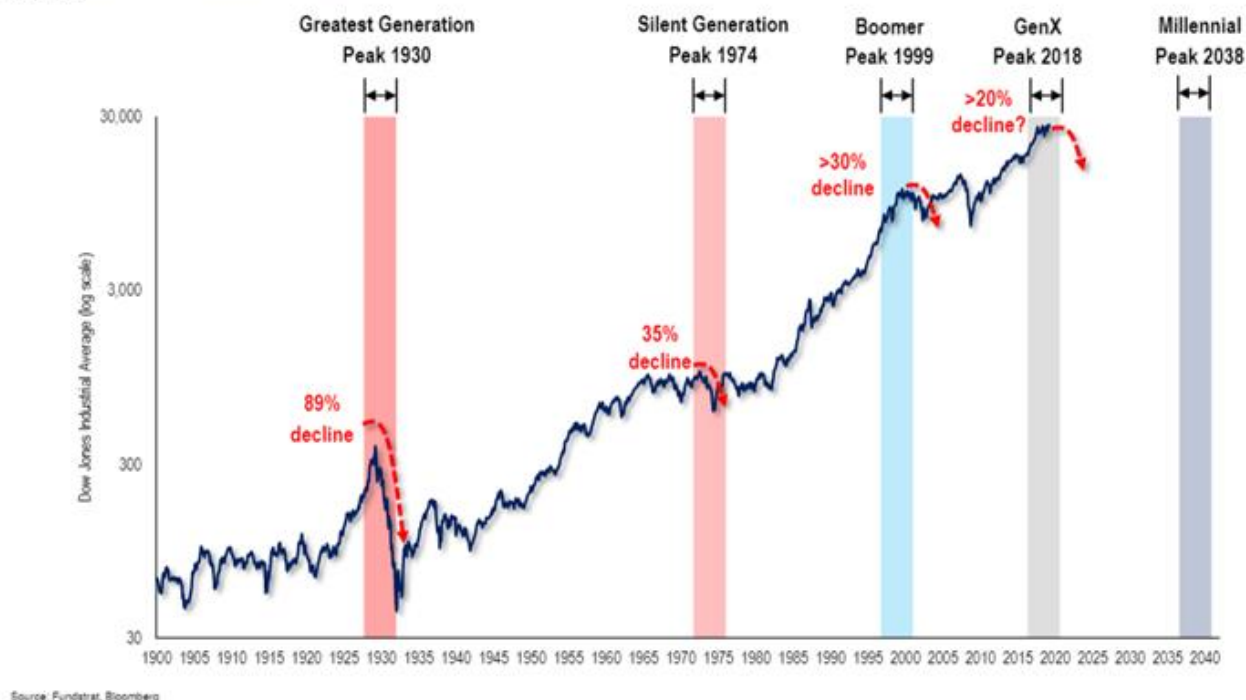
#4: Millennials driving US economy and their cohort does not peak until 2038...

One of the cornerstones of our research process is the belief that demographics and population trends influence economic and financial market outcomes (see tech discussion above as another example). Millennials (those born between 1980 to 2000) are the single largest ever generation in the US, surpassing that of Baby Boomers in absolute size by nearly 40%.

- Below is a plot of the DJIA and we marked the actual year each generation peaked in total size
- Notice every major market top coincided with a generational peak
- Millennials are expected to peak in 2038

Hence, 2020 is probably the start of a new bull market that might last 20 years.

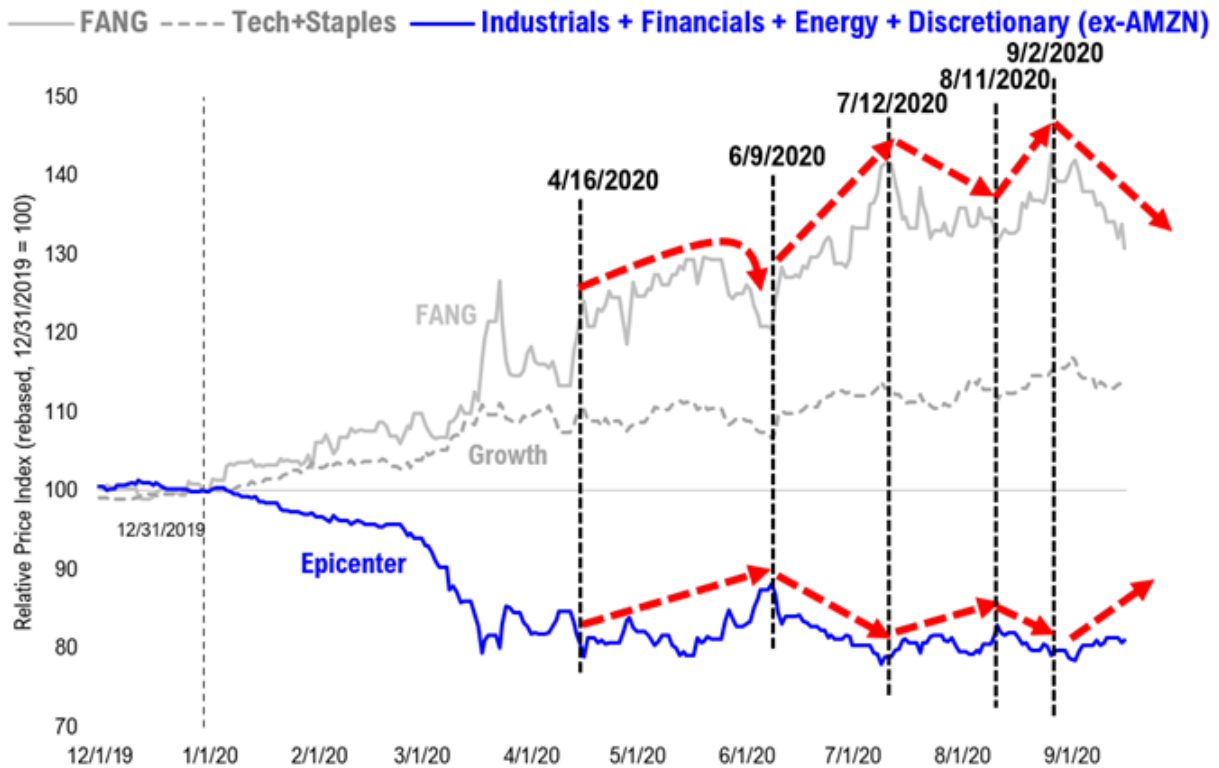
Figure: Dow Jones Industrials Average
Since 1900



Where is the best risk/reward? Epicenter currently...

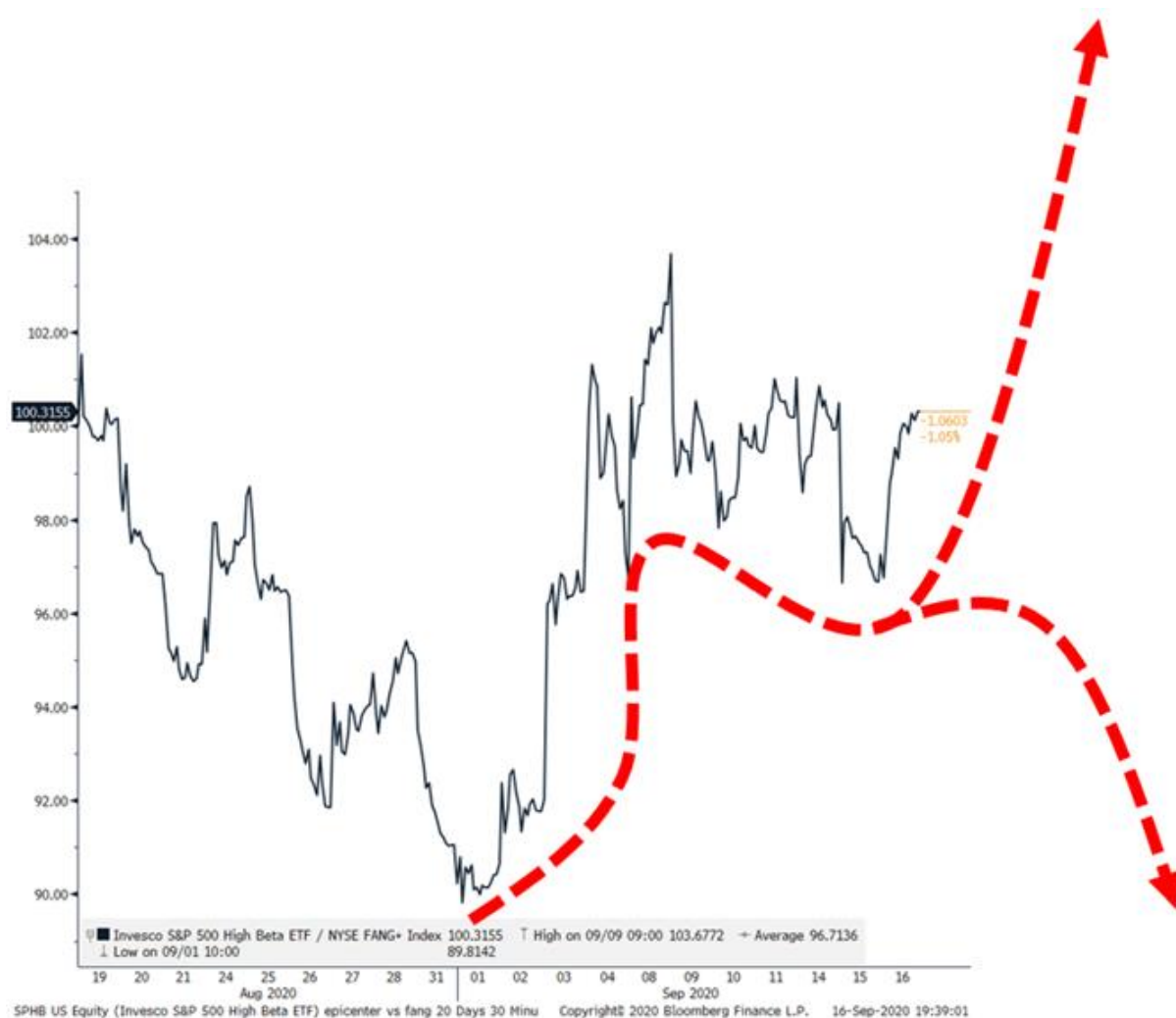
For some time, we mentioned that the stock market's resilient recovery has been telling us a vigorous GDP and EPS recovery would be forthcoming and for the most part the market has been correct in suggesting this. In fact, the ISM and strong recovery in housing point to this. And as COVID-19 has begun to organically retreat, we are beginning to see the start of a period of outperformance for the epicenter stocks (see below).

Figure: Rebased epicenter group relative performances
Past 1 Year; Start of 2020 = 100



Source: Fundstrat, Bloomberg

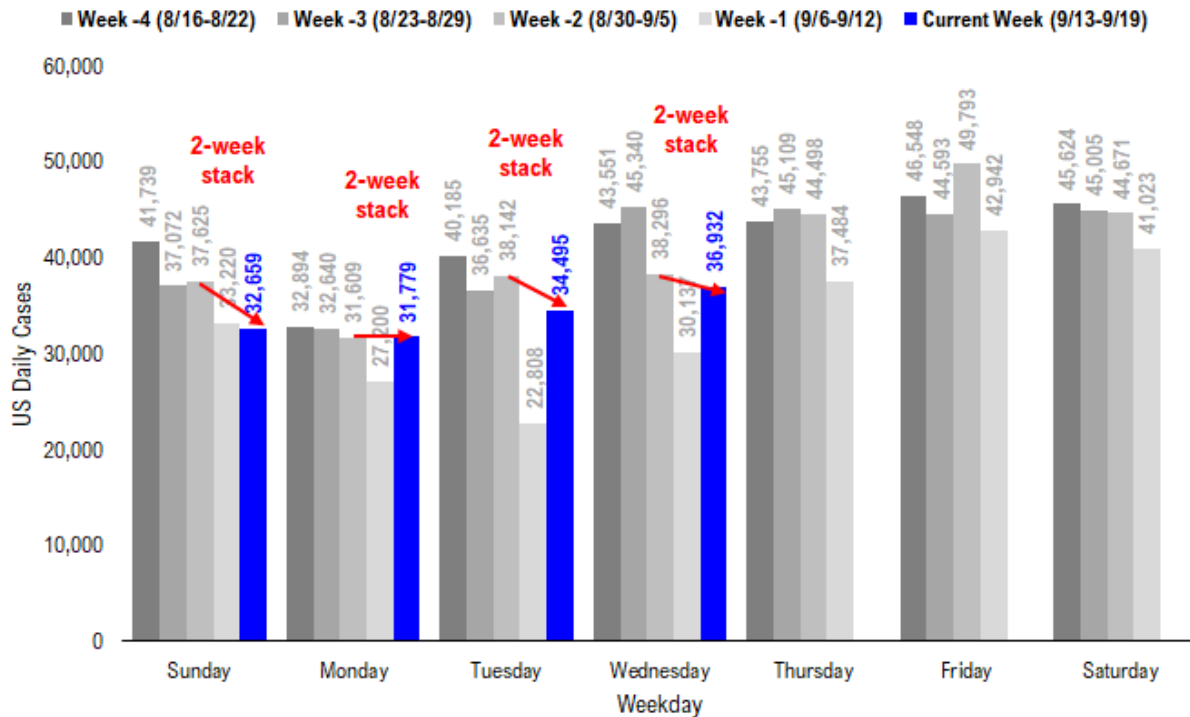
The chart below compares epicenter (SPHB) vs FANG (NYSE Fang+) and as you can see below, there has been choppy relative outperformance since the start of September. The outperformance since the start of the month has been about 1,000 basis points. The obvious concern investors have is that this is all a head fake.



POINT 1: US daily cases 36,932 up +6,795 vs 7D ago. It is still too early to conclude if this is a new wave or more "payback" due to the suppressed Labor Day week data.

Daily cases came in at 36,932 Wednesday, which is +6,795 vs 7D ago. This is a break in the recent pattern, to the extent that instead of seeing daily cases down vs 7D ago, we are seeing a rise for the past three days. As we wrote yesterday, there are two explanations for why we are seeing such large jumps. Either:

- cases are suddenly surging this week, due to back-to-school and Labor Day social gatherings, or
- case data was suppressed throughout last week due to the Labor Day weekend, and we are seeing "payback" this week

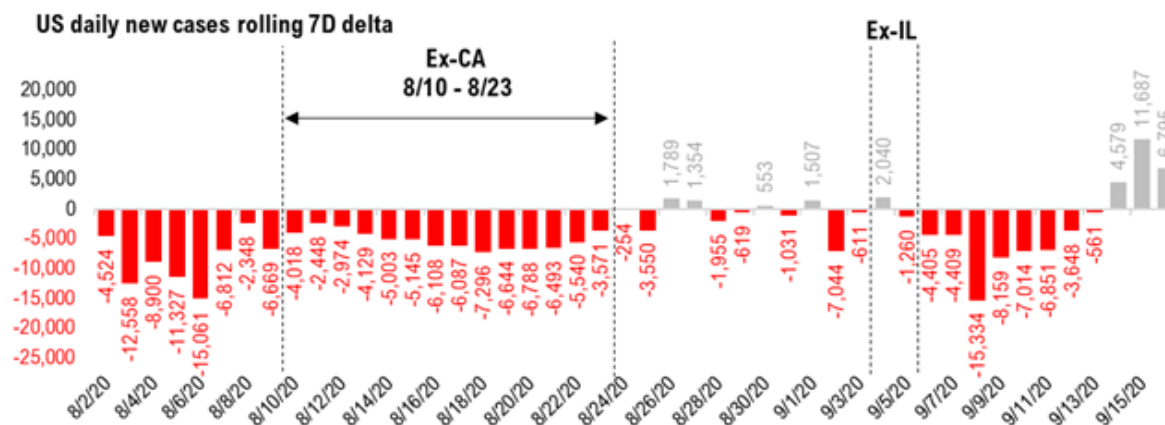


Source: COVID-19 Tracking Project

Next week will give us a clearer picture...

I don't know which of the above explanations is correct. So, we will need to wait until next week to see which of these is the correct explanation. Good things so far are 1) the daily cases did not exceed the level two weeks ago; 2) the 7D delta of daily cases decreased from 11,687 (Tuesday) to 6,795 (Wednesday). As we move toward the end of the week, if the recent jump in daily cases is due to the understated Labor Day week data, we should see this 7D delta continues to fall.

Again, the daily change vs 7D ago, in our view, is the leading indicator as it is what influences the 7D moving average. As shown below, the rise in daily cases vs 7D ago for the past three days is a reversal of the steady declines seen over the past few weeks.



Source: COVID-19 Tracking and Fundstrat

The states with the significant increase are CA, TN, IL and WI. Similarly, the rise in these states could stem from back to school or Labor Day social gatherings. But it is still too early to make the call.

6 states with largest 7D delta in daily cases

California	2,950 vs 1,616	+1,334
Tennessee	1,856 vs 833	+1,023
Illinois	1,941 vs 1,337	+604
Wisconsin	1,408 vs 857	+551
Kansas	971 vs 496	+475
Iowa	803 vs 364	+439
Total		+4,426

6 states with largest 7D delta in daily cases

Texas	3,409 vs 4,285	-876
Louisiana	508 vs 821	-313
Missouri	1,191 vs 1,362	-171
Pennsylvania	776 vs 931	-155
Indiana	580 vs 705	-125
Washington	347 vs 464	-117
Total		-1,757

Daily Case Increases (by State) (09/16)

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

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

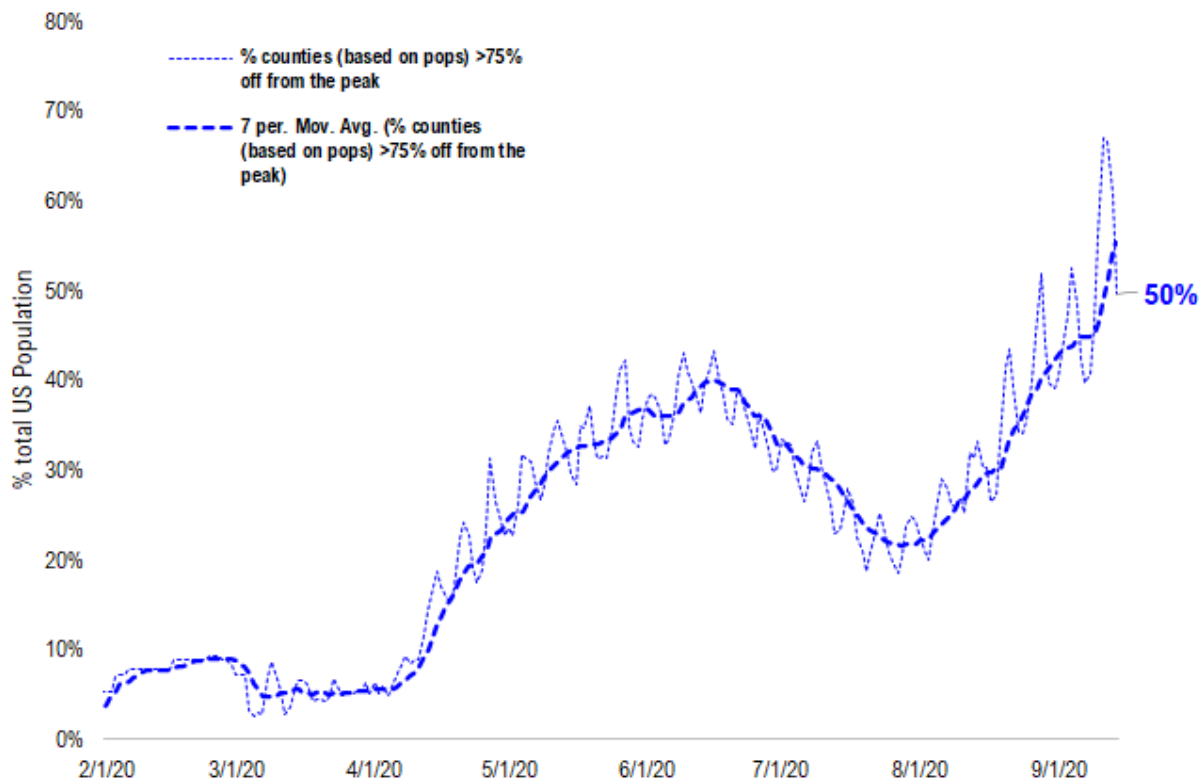
		Sorted				
		7D Ago		Last 3-day Trend		
		9/9/20	9/14/20	9/15/20	9/16/20	vs 7D ago
United States		30,137	31,779	34,495	36,932	+6,795
States:						
1	Texas	4,285	2,554	4,816	3,409	
2	California	1,616	2,855	2,235	2,950	<-higher
3	Florida	2,056	1,736	3,116	2,355	
4	Georgia	1,937	1,023	1,496	2,223	
5	Illinois	1,337	1,373	1,466	1,941	<-higher
6	Tennessee	833	2,450	957	1,856	<-higher
7	Wisconsin	857	771	1,348	1,408	<-higher
8	Missouri	1,362	1,332	1,317	1,191	
9	North Carolina	897	845	1,106	1,137	<-higher
10	Ohio	973	1,079	1,001	1,033	
11	Kansas	496	1,513	0	971	<-higher
12	Oklahoma	876	869	1,091	970	
13	Alabama	811	704	701	927	
14	Virginia	882	757	943	845	
15	Iowa	364	386	401	803	<-higher
16	Pennsylvania	931	1,182	1,151	776	
17	Kentucky	658	337	718	764	
18	Utah	314	563	562	747	<-higher
19	Mississippi	426	144	505	711	<-higher
20	Arizona	496	213	487	695	<-higher
21	Michigan	783	1,088	571	680	
22	New York	576	583	766	652	
23	Maryland	336	536	599	643	<-higher
24	Arkansas	385	399	676	606	<-higher
25	Colorado	246	375	400	587	<-higher
26	Indiana	705	736	689	580	
27	South Carolina	316	583	737	532	<-higher
28	Louisiana	821	492	371	508	
29	Minnesota	260	638	402	462	<-higher
30	New Jersey	323	334	436	388	<-higher
31	Washington	464	312	327	347	
32	Nebraska	440	147	307	328	
33	Massachusetts	181	254	313	306	<-higher
34	South Dakota	168	163	193	297	<-higher
35	Idaho	329	253	278	283	
36	North Dakota	238	254	233	269	
37	West Virginia	147	121	156	220	<-higher
38	Nevada	154	277	226	208	<-higher
39	Oregon	116	147	178	188	<-higher
40	Montana	87	86	137	187	<-higher
41	Connecticut	89	569	136	135	<-higher
42	Wyoming	48	46	46	128	<-higher
43	New Mexico	87	81	81	118	<-higher
44	Rhode Island	84	32	120	108	<-higher
45	Hawaii	100	79	66	102	
46	Delaware	65	88	200	97	<-higher
47	District of Columbia	25	30	65	56	<-higher
48	Alaska	63	75	42	49	
49	Guam	45	36	39	47	
50	Puerto Rico	1	208	229	46	<-higher
51	New Hampshire	23	18	34	32	<-higher
52	Maine	21	40	15	23	
53	U.S. Virgin Islands	0	1	4	7	
54	Vermont	4	11	6	1	
55	Northern Mariana Islands	0	1	0	0	
56	American Samoa	0	0	0	0	

Source: COVID-19 Tracking and Fundstrat

POINT 2: County-level data shows that as much as 70% of US has cases 75% off peak

Periodically, we publish county-level data (Johns Hopkins data and cleaned up by our head of data science, tireless Ken). County-level data is useful because we can track underlying trends more comprehensively. The chart below is the % of the US that is seeing US cases 75% off their peak.

- this ratio's 7D moving average reached a new high of 60% recently, surpassing the levels seen in June
- this organic retracement of cases (measured as % US 75% off peak) is very promising
- hence, despite the daily cases remaining stubbornly high, this diffusion data on county-level tells us COVID-19 still retreating

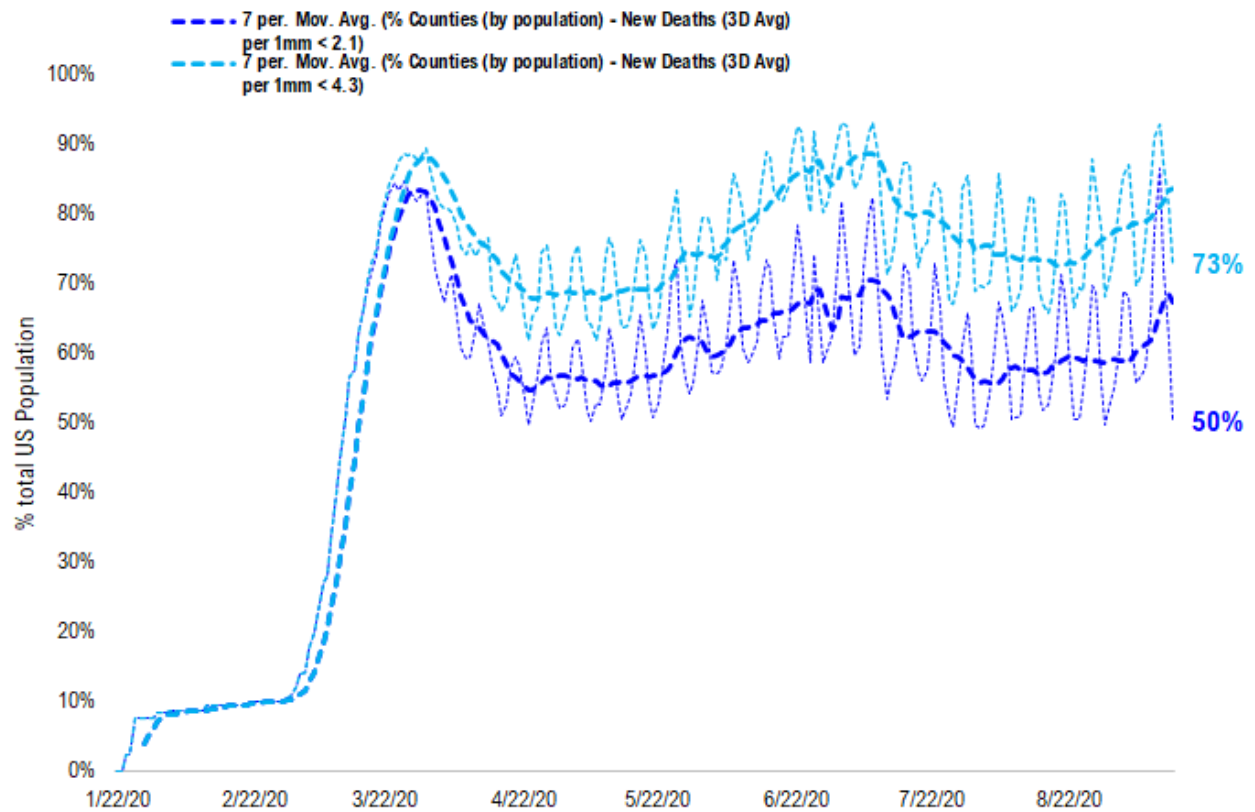


Source: Johns Hopkins and Fundstrat

Similarly, the pattern of daily deaths is also improving. This is tracking what % of US (based on county-level Pops) are seeing daily deaths below a specific threshold. Extremely low levels of deaths is 2.1 daily deaths per 1mm residents.

- currently, nearly 70% of the US counties have daily deaths below this level, nearly a cycle high
- this 7D moving average is moving up sharply in recent weeks.

Bottom line, the organic trends at the county level is promising.



Source: Johns Hopkins and Fundstrat

POINT 3: Dr. Fauci takes Vitamin D supplements -- please take your Vitamin D

Many of our clients are aware that we are big advocates of the importance of vitamin D, as we highlighted multiple studies showing how low levels of vitamin D seem to be associated with more severe risks for COVID-19. Moreover, we found several studies that show many US cohorts suffer from low Vitamin D, such as Latino and Blacks and this could explain why COVID-19 severity seems much worse.

We wanted to share this CNBC interview with Dr. Fauci and he commented that he takes 2 supplements daily. Vitamin D and C.

HEALTH AND WELLNESS

The supplement Dr. Fauci takes to help keep his immune system healthy

Published Mon, Sep 14 2020•2:33 PM EDT Updated Tue, Sep 15 2020•8:00 PM EDT



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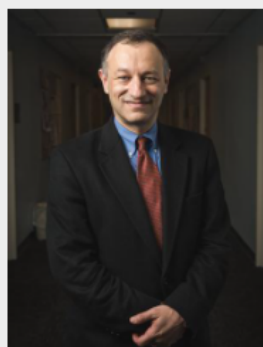
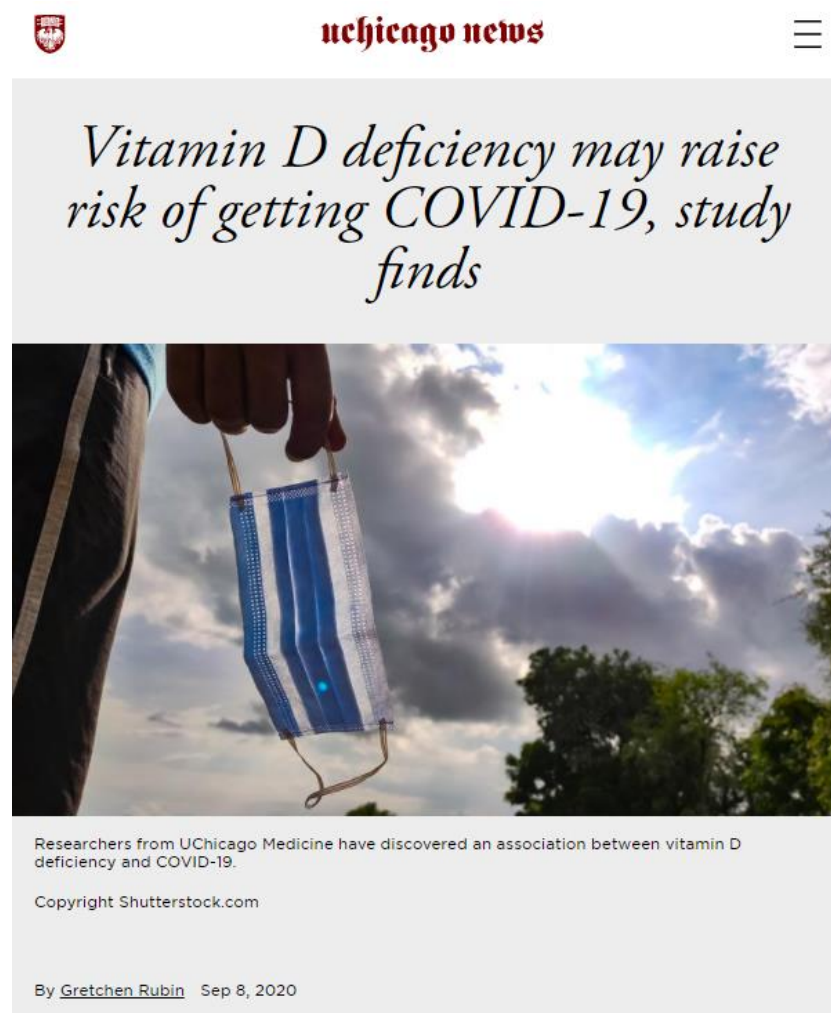
Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, prepares to testify during a House Select Subcommittee on the Coronavirus Crisis hearing in Washington, D.C., July 31, 2020. Kevin Dietsch | Pool | Reuters

According to Dr. Anthony Fauci, most "so-called immune boosting supplements" actually do "nothing." However, there are two vitamins Fauci does recommend to help keep your immune system healthy.

"If you are deficient in vitamin D, that does have an impact on your susceptibility to infection. So I would not mind recommending, and I do it myself taking vitamin D supplements," Fauci, 79, said during an Instagram Live on Thursday, when actress Jennifer Garner asked Fauci about immune-boosting supplements.

Source: CNBC

The article also cited a University of Chicago study which found that those with low Vitamin D levels are twice as likely to catch COVID-19. Vitamin D boosts the immune system, so this would be a logical connection.



Prof. David Meltzer

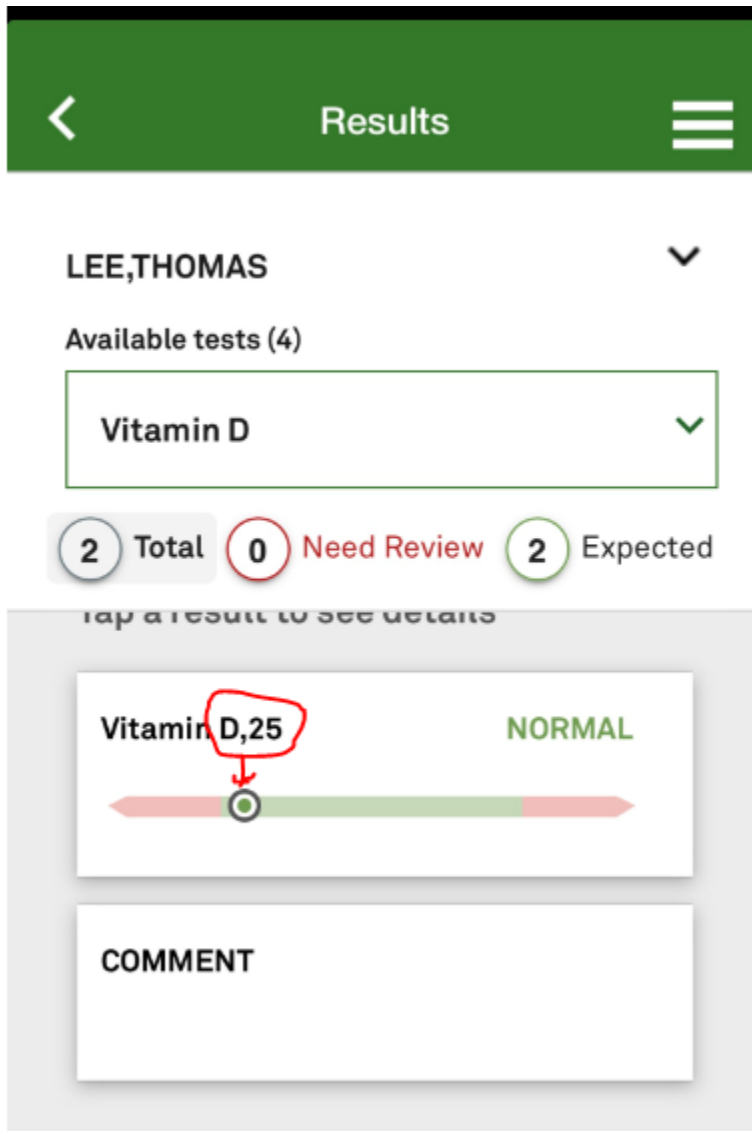
The research team looked at 489 patients at UChicago Medicine whose vitamin D level had been measured within a year before being tested for COVID-19. Patients who had vitamin D deficiency (defined as less than 20 nanograms per milliliter of blood) that was not treated were almost twice as likely to test positive for COVID-19 compared to patients who had sufficient levels of the vitamin.

It's important to note that the study only found the two conditions were frequently seen together; it does not prove causation. Meltzer and colleagues are currently planning further clinical trials.

<https://news.uchicago.edu/story/vitamin-d-deficiency-may-raise-risk-getting-covid-19-study-finds>

I recently got my vitamin D levels tested. The screenshot is below.

- low is a reading of 20 or lower
- I am barely sufficient at 25
- I need more sun or need to eat more salmon



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