



COVID-19 UPDATE: Wall of worry is growing given Europe case surge. Supreme Court Justice battle. US cases organically easing. VIX falling similar to June correction.

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STRATEGY: VIX falling, looking more like June sell-off. Low prior to election day...

For the past 3 weeks, stocks have been correcting and in the past few days, this sell-off has become very steep on the downside. Yesterday's 3% intraday selloff also pushed the S&P 500 to >10% off its recent high, making it the steepest selloff since the June 8% correction.

The wall of concerns has been mounting in recent weeks and over the weekend:

- Supreme Court Justice death of RBG brings dysfunction of Washington front and center
- 2020 election likely to be contested and potentially undecided
- Europe is seeing a resurgence of cases
- Many healthcare experts see a COVID-19 second wave beginning this Winter
- China/US geopolitical tensions (TikTok)

The list can go on and on, but you get the picture. Investors can cite a mounting list of concerns. But here are some things to keep in mind.

Uncertainty risen and markets prefer visibility --> election day will mark a turning point for visibility...

The list above is adding to uncertainty and hurting market visibility. And we all know that as visibility contracts, equity risk premia rises. Hence, stocks fall. November 3, 2020 is a key turning point. The uncertainty into the election will be behind us by that date. And similar to 2016, the actual election outcome brings some clarity -- and regardless of the winner, this clarity is what will impact markets.

- In 2016, equity markets bottomed on 11/4/2016, 2 trading days (technically 3 trading days) before election results (after the close 11/8/2016).



2020 is certainly contested (not sure if it is closer than 2016) but it is interesting that equity markets managed to bottom prior to election day. Thus, we would expect stocks to bottom prior to the 2020 election day, (11/3) which is 42 days away.

If VIX falls below 25, it raises the odds selloff is ending...

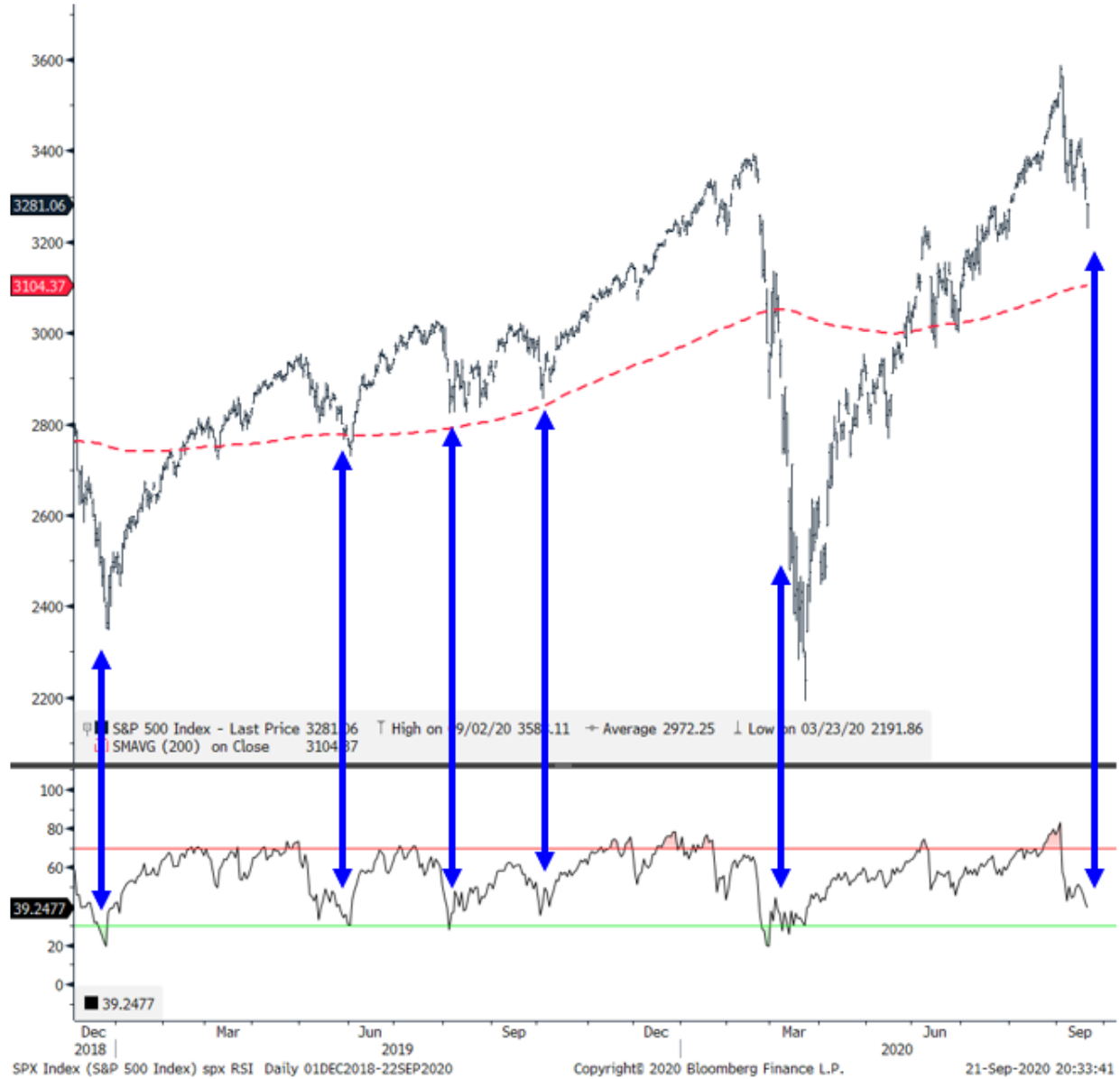
First, the VIX has been falling since making a new high on 9/4/2020. Thus, this mirrors what we saw in June and the VIX eventually fell below 25. And that was the tactical bottom for the S&P 500.

- contrast this with how VIX was surging into the lows in Feb/March
- so its possible VIX could explode higher, and if it does, then stocks have more downside
- but this steadily declining VIX is a sign of nearing the end of the sell-off, in our view



S&P 500 fell so steeply, now oversold on RIS basis, since 2018, 5 times RSI got this low, stocks were near the end of the sell-off.

The S&P 500 daily RSI (14D) is 39 and got as low as 37 yesterday. As the chart below highlights, this level of RSI has been associated with the end of a correction. Even in March, this was the level of RSI before we found downside slowing.

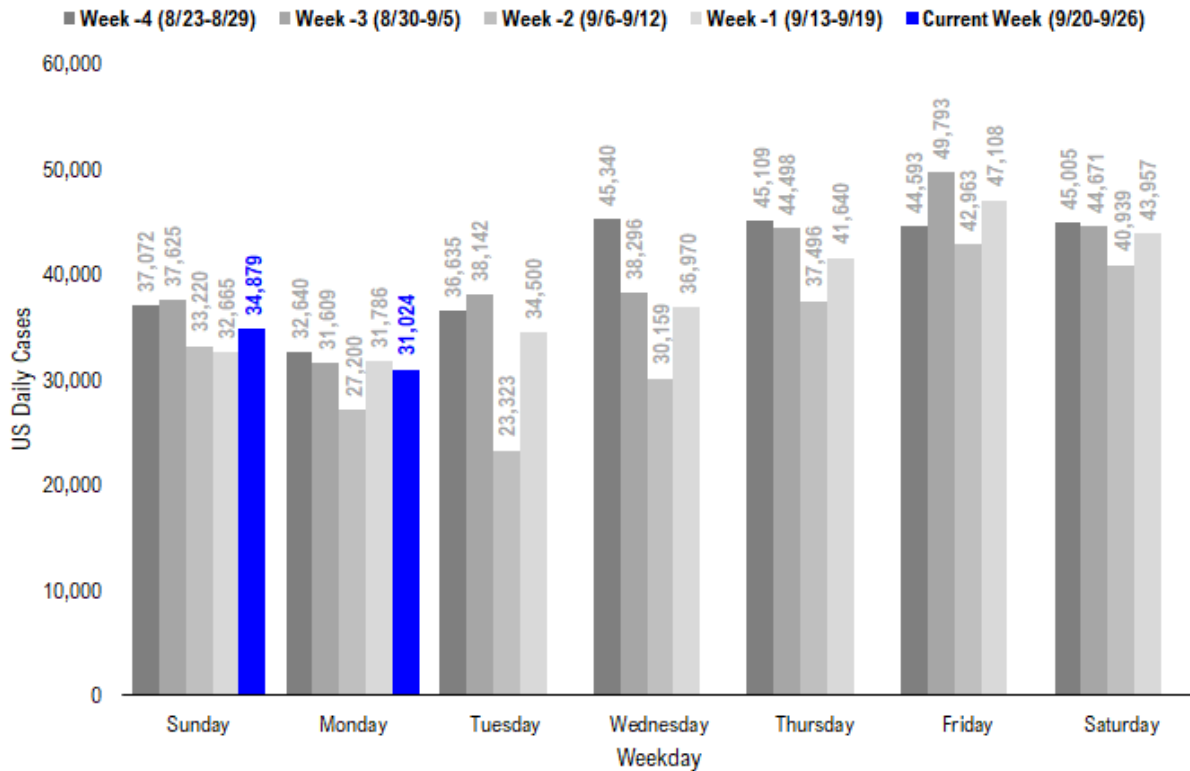


Source: Fundstrat

POINT 1: Daily cases 31,024 down -762 vs 7D, cases resume downtrend...

Last week, we commented that the rise in US daily cases seemed to be some type of distortion in trends due to the Labor Day holiday -- that is, long weekend and closures mean reported data was less complete in the Labor Day week and last week. And this week, we are seeing a catch up of this data. So this week would be a week to see what the proper trend is (baseline).

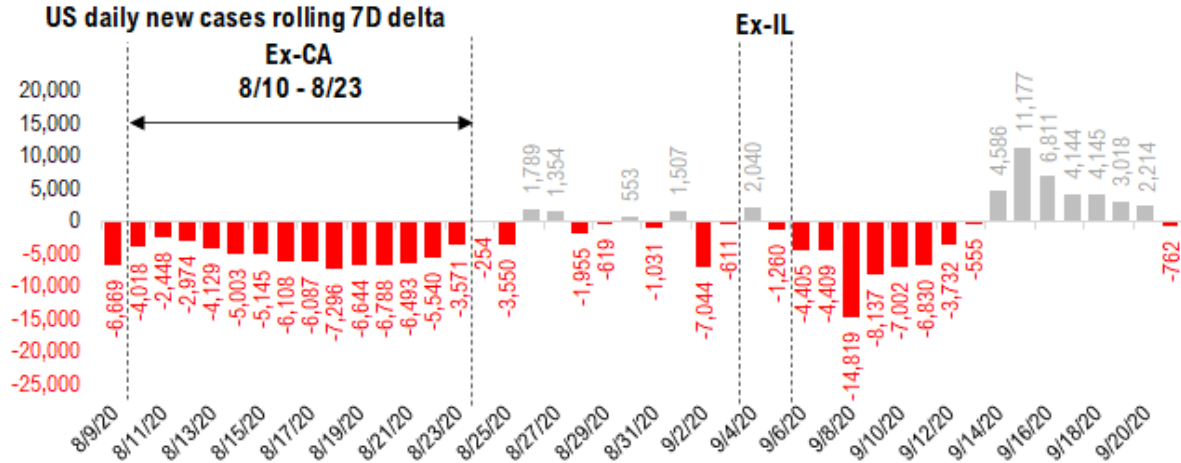
- Monday's daily cases were 31,024, down -762 vs 7D ago.
- This is the first decline in 9 days, further highlighting that Labor Day week caused distortions
- 73% of the US is in a downtrend in cases (see Point #2) but 6 states are making new highs, representing 8% of US (Point #2)



Source: COVID-19 Tracking Project

This week will give us a clearer picture...

Again, the daily change vs 7D ago, in our view, is the leading indicator as it is what influences the 7D moving average. The 7D delta has finally turned down again, the first time in 9 days. For the past week, the 7D delta was showing signs of soon reversing, so this is an expected development.



Source: COVID-19 Tracking and Fundstrat

The states showing large declines are TN, PA and TX. The exact same states with big surges a week ago. So, unless there was a window where COVID-19 suddenly surged across the US and then retreated, this looks like the seasonal effects. I know we are sounding repetitive.

6 states with largest 7D delta in daily cases

Wisconsin	1,271 vs 771 (-7D)	+500
Michigan	1,536 vs 1,088	+448
California	3,294 vs 2,855	+439
Minnesota	925 vs 638	+287
Iowa	660 vs 386	+274
Oklahoma	1,101 vs 869	+232
Total		+2,180

6 states with largest 7D delta in daily cases

Tennessee	895 vs 2,450 (-7D)	-1,555
Pennsylvania	234 vs 1,182	-948
Texas	1,742 vs 2,554	-812
Louisiana	243 vs 492	-249
Ohio	856 vs 1,079	-223
Indiana	522 vs 736	-214
Total		-4,001

Daily Case Increases (by State) (09/21)

% 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		
		9/14/20	9/19/20	9/20/20	9/21/20	vs 7D ago
United States		31,786	43,957	34,879	31,024	-762
States:						
1	California	2,855	4,304	4,265	3,294	
2	Texas	2,554	3,433	2,241	1,742	
3	Florida	1,736	3,573	2,521	1,685	
4	Kansas	1,513	0	0	1,674	
5	Michigan	1,088	483	0	1,536	<-higher
6	Illinois	1,373	2,529	1,402	1,477	
7	Missouri	1,332	1,387	1,328	1,463	
8	Wisconsin	771	2,283	1,665	1,271	<-higher
9	Georgia	1,023	2,284	1,134	1,184	
10	Oklahoma	869	1,237	1,003	1,101	<-higher
11	Minnesota	638	914	1,296	925	<-higher
12	Tennessee	2,450	942	2,075	895	
13	Ohio	1,079	951	762	856	
14	Alabama	704	1,301	798	818	
15	North Carolina	845	1,229	1,333	800	
16	Iowa	386	847	621	660	<-higher
17	Virginia	757	953	856	627	
18	Utah	563	1,077	920	622	
19	Arkansas	399	803	549	596	<-higher
20	New York	583	986	862	573	
21	Colorado	375	606	501	542	<-higher
22	Indiana	736	1,076	746	522	
23	Connecticut	569	0	0	497	
24	South Carolina	590	922	468	416	
25	Maryland	536	682	412	412	
26	Idaho	253	288	244	410	<-higher
27	New Jersey	334	461	453	392	
28	Kentucky	337	978	436	375	
29	Washington	312	597	349	300	
30	Nebraska	147	466	410	286	<-higher
31	North Dakota	254	377	351	286	
32	Massachusetts	254	599	359	256	
33	Louisiana	492	0	936	243	
34	Puerto Rico	208	694	262	242	
35	Pennsylvania	1,182	1,162	733	234	
36	Arizona	213	609	467	233	
37	Nevada	277	323	385	232	
38	Oregon	147	257	202	194	<-higher
39	Mississippi	144	655	277	192	<-higher
40	South Dakota	163	369	252	173	
41	Montana	86	292	136	130	<-higher
42	West Virginia	121	191	180	117	
43	New Mexico	81	162	67	104	<-higher
44	Delaware	88	83	117	101	
45	Wyoming	46	33	91	73	<-higher
46	Alaska	75	85	93	70	
47	Hawaii	79	110	77	56	
48	Rhode Island	32	178	82	52	<-higher
49	Guam	36	43	0	30	
50	Maine	40	30	44	27	
51	District of Columbia	30	50	53	23	
52	Vermont	11	4	5	4	
53	Northern Mariana Islands	1	0	6	1	
54	U.S. Virgin Islands	1	0	27	0	
55	New Hampshire	18	59	27	0	
56	American Samoa	0	0	0	0	

Source: COVID-19 Tracking and Fundstrat

POINT 2: Signs that COVID-19 is organically retreating in the USA

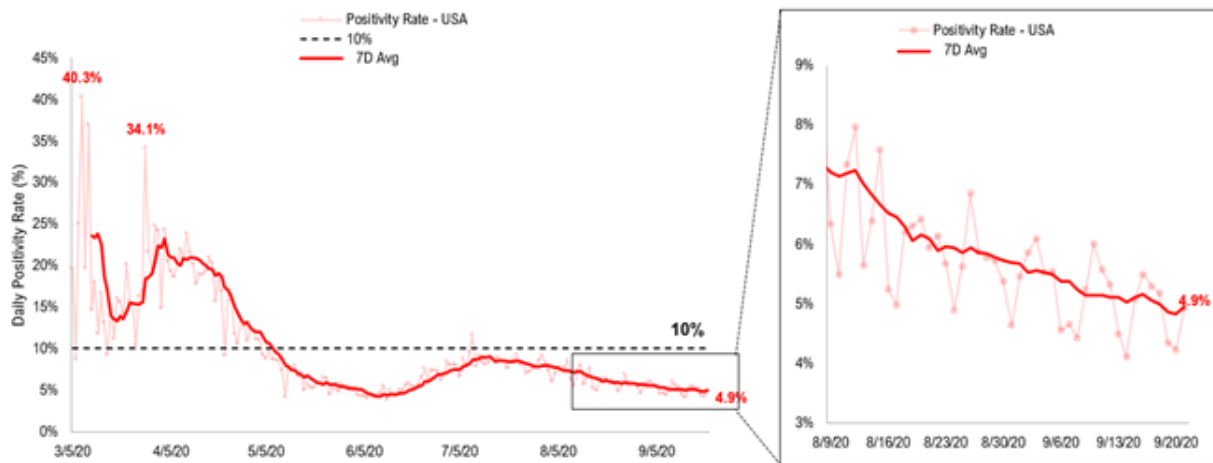
As noted above, this week is giving us a clearer picture of case trends (cleans up the seasonal distortion from Labor Day week) and we want to highlight a series to charts to make clearer why it looks like COVID-19 is organically retreating.

- Cases are rising at new spreader events and this is currently more visible at colleges/universities
- But even with these surges, overall cases seem to be organically retreating

Here are some reasons we see cases organically retreating, despite the above issues.

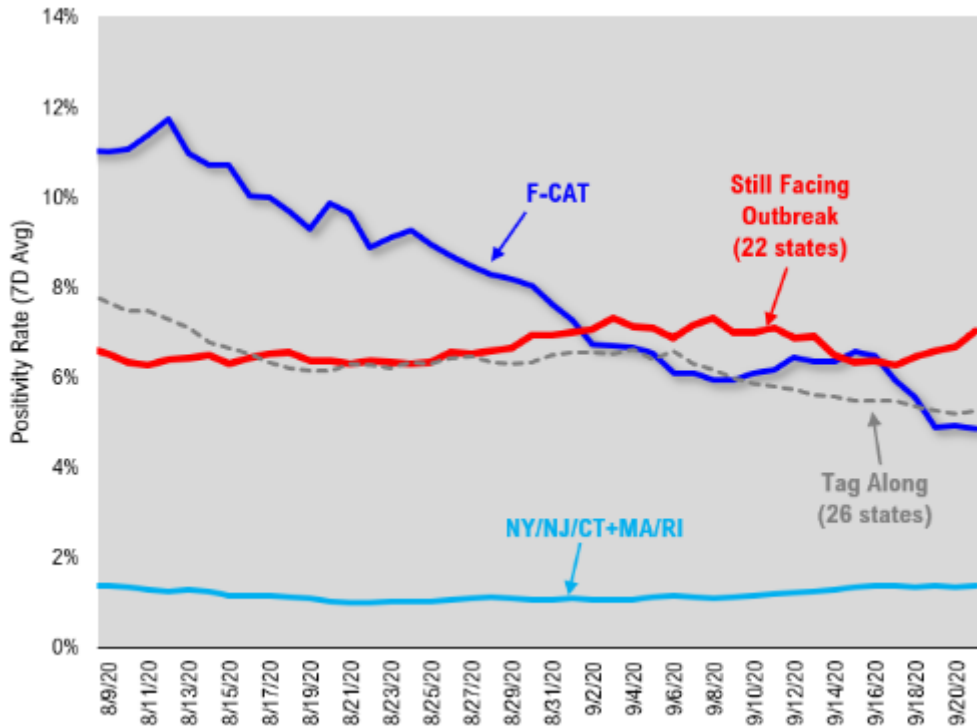
- Positivity rate continues to trend lower
- Positivity rate continues to fall in 2/3 of the USA, and only 22 states with low prevalence see some higher positivity
- Daily deaths saw an "unusual" blip during the week of Labor Day -- why would death trends show a different trend in a single week before resuming a broader trend? Bolsters argument distortion from holiday week.

The overall positivity rate has been moving lower steadily and is currently below 5%. When overall positivity is below 5%, this is considered a level of virus spread that is well contained. Hence, the virus has been well contained overall for the past few weeks.



Source: COVID-19 Tracking Project

- Looking at the 50 states by 4 composites, we can see where positivity rate is trending higher.
- NY Tristate (+MA + RI) is sub 2% --> very well controlled
 - F-CAT (FL, AZ, CA, TX) is <5% --> well controlled
 - Tag along states (26 mirroring F-CAT) is <5% --> well controlled
 - But there are 22 states, representing 27% of US where positivity rate has been stubbornly high at 8%



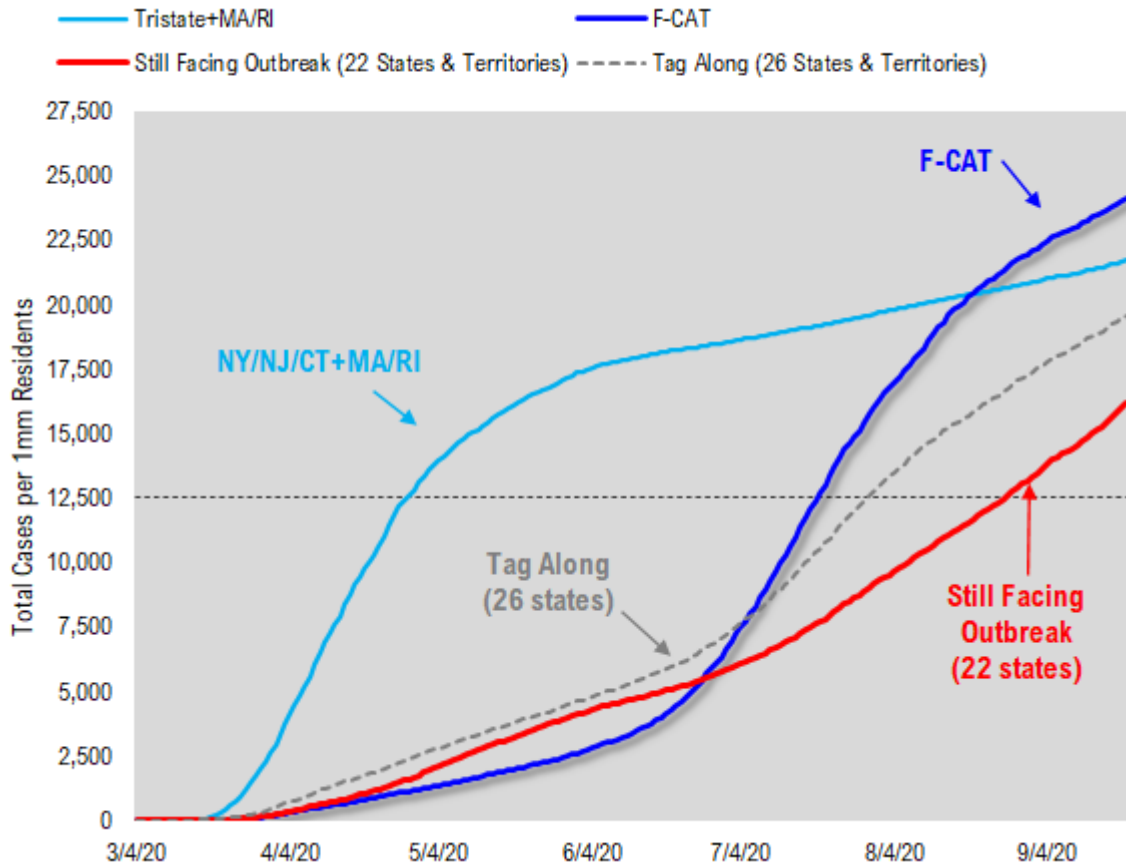
Source: COVID-19 Tracking Project

If you are wondering which states are still seeing a "breakout" in cases, it is these states below. 7 of these made new highs in cases within the past week. So, these are the "hot spots" -- but the total population is ~8% of the US. Thus, these will have less of an overall effect on US case figures.

	% US Pop	Total Cases per 1mm	<i>Daily Cases</i>		<i>Peak in cases</i>	
			9/21/20	7D Delta	# Days	% Decline in Daily
Wisconsin	2%	15,317	1,582	689	0	0%
North Dakota	0%	20,441	426	129	0	0%
Indiana	2%	15,571	1,243	400	0	0%
West Virginia	1%	7,086	178	55	1	-4%
Illinois	4%	20,791	1,462	59	7	-40%
Montana	0%	8,440	96	-4	9	-30%
South Dakota	0%	18,807	201	-19	14	-29%
Minnesota	2%	14,950	723	16	15	-32%
Hawaii	0%	7,557	114	-47	15	-54%
Iowa	1%	22,976	784	135	16	-43%
Guam	0%	11,514	0	0	17	-86%
Kansas	1%	16,609	0	0	18	-68%
Puerto Rico	1%	5,564	171	145	26	-60%
Kentucky	1%	12,746	530	220	30	-13%
Virginia	3%	15,677	874	-325	35	-22%
Alaska	0%	8,582	62	-24	42	-36%
Oregon	1%	6,956	181	-7	43	-38%
Ohio	4%	11,755	837	64	44	-29%
Missouri	2%	16,741	1,613	381	45	-11%
Oklahoma	1%	17,527	695	275	47	-28%
Utah	1%	18,052	628	240	57	-24%
Total 21 states	27%		12,400	2,382		

Source: COVID-19 Tracking Project

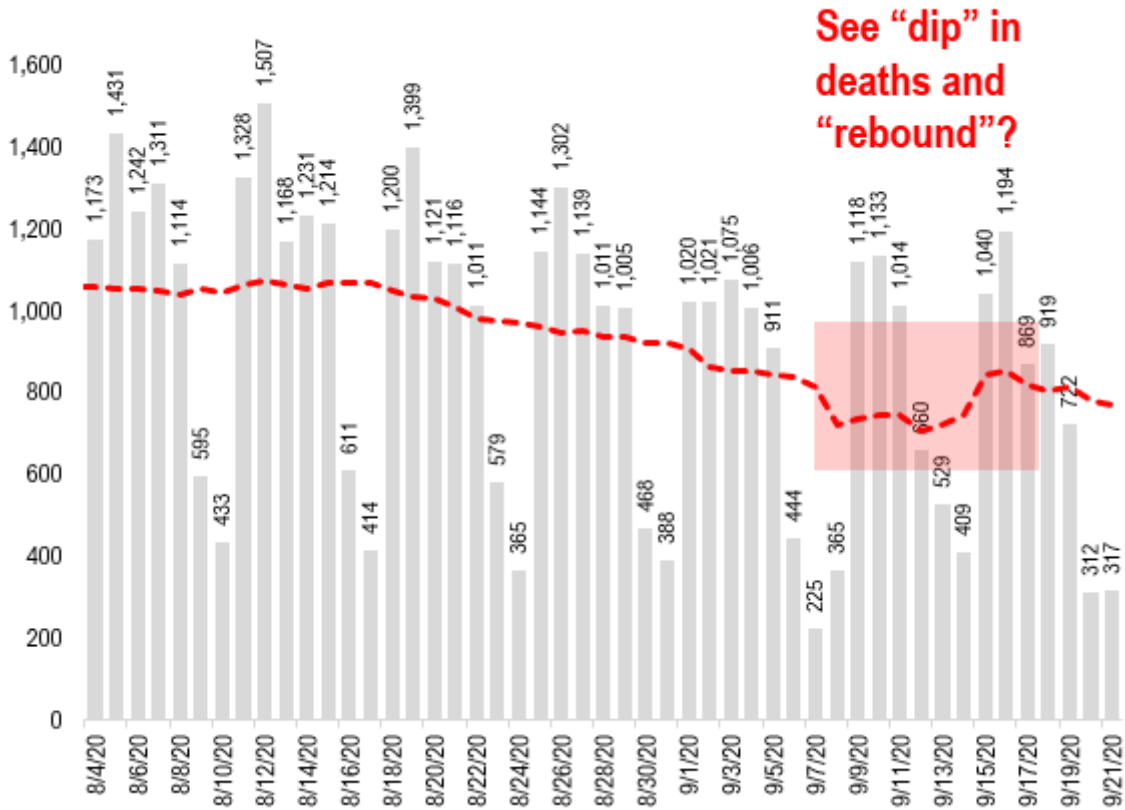
When we look at cumulative case prevalence, or cases per 1mm residents, we can see these 22 states (in red) have the lowest overall case prevalence, hence, this is why it is not entirely surprising to see cases surging in these states.



Source: COVID-19 Tracking Project

Finally, take a look at the daily death trends. During the week of Labor Day, do you see the sudden dip in deaths? And then the surge the following week? This is a pretty unusual pattern, and something not seen any time since March 2020 (see Chartbook). Hence, we think holiday closures caused reporting to be "unusually" low the week of Labor Day. And this was followed by a true-up the following week.

- Thus, this week is the week where we can more clearly see trends in cases.

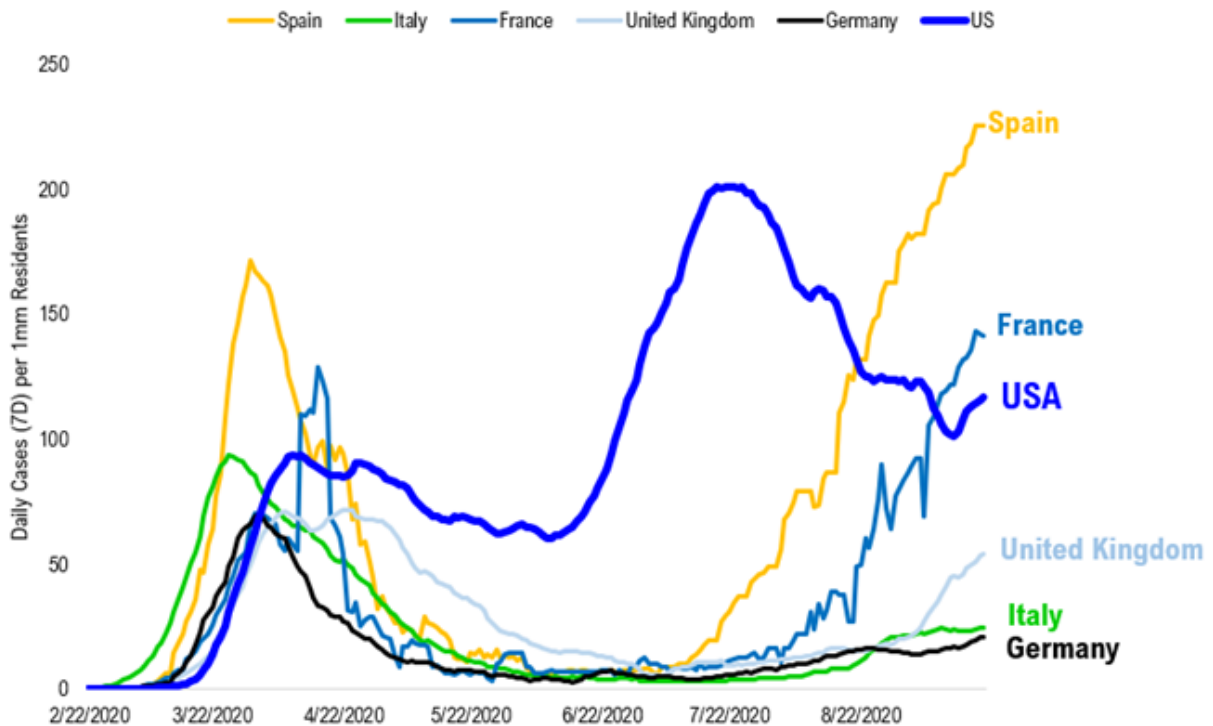


POINT 3: Europe prevalence is low, hence, more vulnerable to a renewed surge in cases

Europe has seen a resurgence in case, and the 3 nations where this is most notable is:

- Spain
- France
- UK

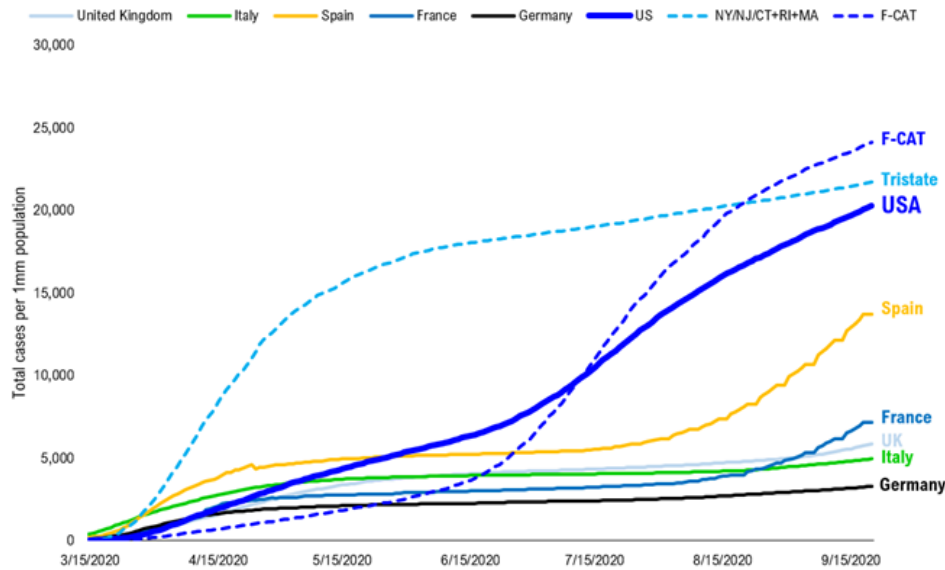
As you can see below, Spain and France now exceed the US in daily cases per 1mm residents. And as the chart below shows, the daily cases for Spain and France are well beyond prior highs of March/April. The UK cases have risen to an extent that renewed lockdown measures have been suggested.



Source: Johns Hopkins, COVID-19 Tracking and Fundstrat

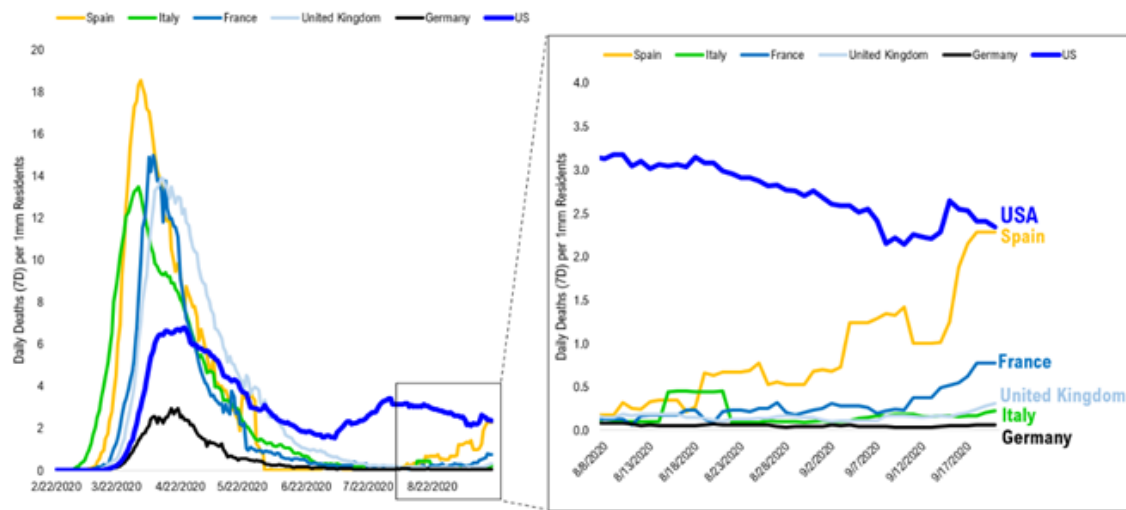
The surge in cases in Europe has been attributed to young people. And this is a fair characterization, since young people have been more mobile and interacting in the economy. But the young workers are also working and thus more likely to be catching COVID-19. In our view, the low case prevalence (cumulative cases per 1mm residents) is the reason those nations are somewhat more vulnerable to a renewed surge. Below we highlight the US (along with NY tristate and F-CAT) along with major European nations.

- Spain has the highest case prevalence, but even now it is 15,000 per 1mm, whereas the US is >20,000
- Thus, we think these nations are more relatively vulnerable to a re-introduction of new cases.



Source: Johns Hopkins, COVID-19 Tracking and Fundstrat

Spain cases have blown past its prior highs, but daily deaths (per 1mm residents) is well below prior highs. This is also true of France as well. The explanation is the same as what we saw in the US. The profile of the patient is younger, compared to the elderly seen in the early stages of the pandemic, and thus, mortality is considerably lower.



Source: Johns Hopkins, COVID-19 Tracking and Fundstrat

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