



COVID-19 UPDATE: Cash is the anomalous position Key is whether NYC can manage the recent outbreak. Cruises plan to test 100% passengers. Why keep the ban?

THIS MESSAGE IS BEING SENT SOLELY TO CLIENTS OF FS INSIGHT

STRATEGY: The most distorted position arguably cash
Odds makers raised the probability of Biden win yesterday --> market rally due to Biden gain?

Post the first 2020 Presidential debate, odds makers raised the probability of a Biden win. As shown below, to bet on a Biden win, one needs to pay \$162 to win \$100. This was \$104 to win \$100 on 9/1. As you can see below, the odds rose for Biden since the debate.

- Yesterday, markets are responding to two effects: post-debate and progress on stimulus plan (CARES V)
- Does rally yesterday mean equity markets prefer a Biden win?

That is not entirely clear, because of the clear impact of progress on a fiscal stimulus package.

Rising

Candidate	Sep. 30	Sep. 28	Sep. 18	Sep. 1	Aug. 24
Joe Biden	-162	-137	-121	-104	-125
Donald Trump	+138	+120	+100	-118	+110
Kamala Harris	+10000	+10000	+10000	+10000	+8000
Mike Pence	+20000	+50000	+50000	+15000	+10000
Hillary Clinton	+25000	+25000	+25000	+15000	+10000
Jo Jorgensen	+50000	+50000	+50000	N/A	N/A
Kanye West	+100000	+50000	+50000	+50000	+50000

Odds via 888sport's UK-facing betting site and subject to change.
CHECK OUT: [Betting Odds For Every Swing State In the 2020 Election](#)

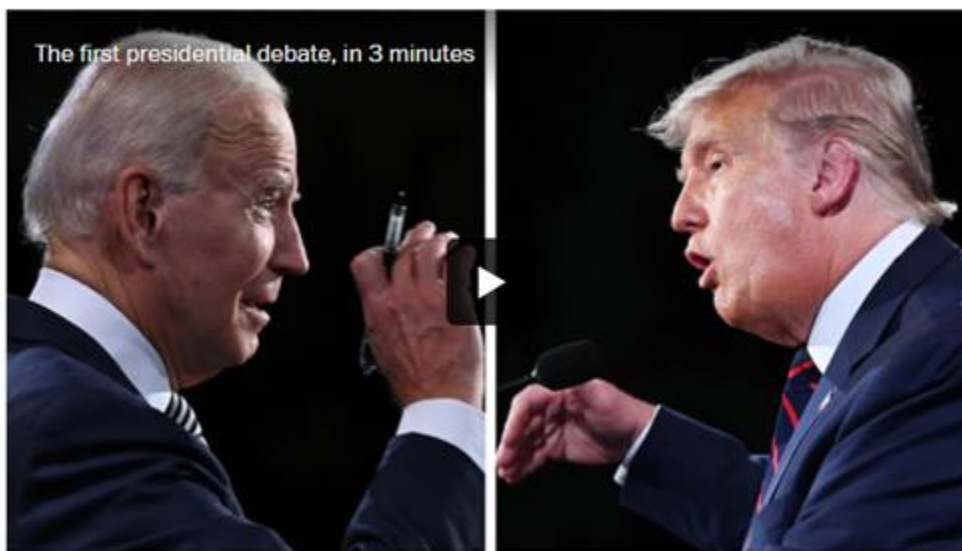
Source: bookies.com

But the acrimony of the first debate was enough to prompt the election committee to change the debate format and structure to ensure a "more orderly discussion" takes place. The only winner of Tuesday night's debate are the enemies of the US.



Live Updates

Election live updates: Debate commission says it will change structure to ensure more 'orderly discussion'



Democratic presidential nominee Joe Biden and President Trump argued against each other in a tense debate on Sept. 29. (Blair Guild/The Washington Post)

By **John Wagner, Felicia Sonmez, Colby Itkowitz** and **Amy B Wang**

September 30, 2020 at 4:22 p.m. EDT

The Commission on Presidential Debates announced Wednesday that it would add "additional structure" to the remaining faceoffs between President Trump and Democratic nominee Joe Biden after Tuesday night's chaotic clash in Cleveland, saying "more orderly discussion is needed."

Source: Washington Post

The stimulus bill seems closer and Tom Block believes enough Republicans will support it...

Our Head of Policy Strategy, Tom Block, believes a COVID-19 bill is closer than many realized. He points out 13 Republicans in the Senate need to approve this deal, of 21 running for re-election. And assuming the White House supports this, a bill should pass.

- this is a positive for those suffering and for the US economy overall
- this is therefore a good thing for financial markets = good.

Covid relief bill

Speaker Pelosi has told the Democratic members of the House that there will be no vote tonight on their \$2.2T relief package and that she and Secretary Mnuchin will meet again tomorrow. Both Mnuchin and Pelosi said progress was made in their face to face talks today.

McConnell was briefed by Mnuchin and said the two sides are far apart. McConnell has a problem as any deal will be north of \$1.5T and he has a majority of his Senate caucus unwilling to vote for the \$1T package a few weeks ago. However the political reality is that if all Ds support the bill, they only need 13 Rs. With 21 Rs running for re-election and assuming support from President Trump getting 13 Rs should be no problem.

Tomorrow is likely to be crucial day in determining if a pre-election deal is possible. If no deal is reached Ds in House will send a message by passing the partisan \$2.2T bill Pelosi introduced earlier this week.

Tom

Markets are acting fearful into election day... but over the next 30 days, we could see therapeutic/vaccine news...

The natural question is where can we find the anomalous positioning. Most would likely suggest that mega-caps or FANG are crowded trades. But, in our view, given we are early in an expansion, the most over-crowded trade, is cash. We have commented that cash on the sidelines is \$4.3T today and AAll retail investor sentiment is negative. This would be appropriate if the US was entering (not exiting) an economic depression and given the massive 36% drawdown in stocks, would seem out of place.

So we think investors are slowly allocating capital into equities, but buying the "safety trade" which is mega-cap and FANG. Thus, the most contrarian impact on markets is a sharp move in cash to risk-on and it finds its way into cyclical. This would cause a massive move in cyclical stocks.



<https://twitter.com/AwardsDarwin/status/1311376374347763712>

October returns will tell us about the election... per Stock Trader's Almanac

Thursday is the start of October and the first day of the 4th quarter. And the price performance of October seems to inform us about the potential outcome in Presidential election years. I like to check up on what Jeffrey Hirsch, of Stock Trader's Almanac, says about equity returns.

- If the incumbent party wins (10 of 19 years), markets are usually up, 8 of 10 times
- If the incumbent party loses (9 of 19 years), markets are down 6 of 9 times

I know 2020 is an unusual year. And markets seem to see Biden as market friendly. But this market history suggests if Biden odds rise in the month, S&P 500 should have a weak October. Conversely, a strong October could mean Trump is victorious.

Please don't yell at us.

This is just what the table below says.

S&P 500 October Gains Frequently Precede Presidential Incumbent Party Victories

Monthly S&P 500 % Changes in Election Years			
Incumbents Win			
Year	Oct	Nov	Dec
1944	N/C	0.4	3.5
1948	6.8	-10.8	3.1
1956	0.5	-1.1	3.5
1964	0.8	-0.5	0.4
1972	0.9	4.6	1.2
1984	-0.01	-1.5	2.2
1988	2.6	-1.9	1.5
1996	2.6	7.3	-2.2
2004	1.4	3.9	3.2
2012	-2.0	0.3	0.7
Totals	13.6	0.7	17.1
Average	1.4	0.07	1.7
Incumbents Lose			
Year	Oct	Nov	Dec
1952	-0.1	4.6	3.5
1960	-0.2	4.0	4.6
1968	0.7	4.8	-4.2
1976	-2.2	-0.8	5.2
1980	1.6	10.2	-3.4
1992	0.2	3.0	1.0
2000	-0.5	-8.0	0.4
2008	-16.9	-7.5	0.8
2016	-1.9	3.4	1.8
Totals	-19.3	13.7	9.7
Average	-2.1	1.5	1.1

© StockTradersAlmanac.com. All rights reserved.

An interesting aspect of election-year Octobers is the propensity for S&P 500 gains when the incumbent party ultimately retains the White House. Of the ten incumbent victories since 1944, the S&P 500 has advanced seven times, declined twice, and was unchanged in 1944 with an average October gain of 1.4%. Of the nine occurrences since 1944 when the incumbent was defeated, there were six S&P 500 declines and three advances in October. The average October decline when incumbents were defeated was 2.1%. Even excluding the S&P's 16.9% plunge in 2008, incumbent defeats were still preceded by an average October loss of 0.3%.

\$^GSPC \$SPY \$SDS \$SH \$UPRO \$SSO

<https://jeffhirsch.tumblr.com/post/630234708561821696/sp-500-october-gains-frequently-precede>

S&P 500 holding "line in the sand" but close just below next key level --> 3,363.31

So far, the equity markets have held that line in the sand, S&P 500 3,224.50. As we commented last week, this is a 62% retrace of the gains the market staged from June to August. That was the level where we thought stocks essentially fully priced in "worst is yet to come." And we think that if equities can then manage to close above 3,361.31, we could have a greater sense the worst is indeed behind us.

- Over the past 3 days, we can see equities have struggled against this level of 3,363.31 (below).
- On 9/30, the S&P 500 closed just below this key level -- 9/30 close 3,362.69, or 0.62 below the key level

Hmmmm.... October is key



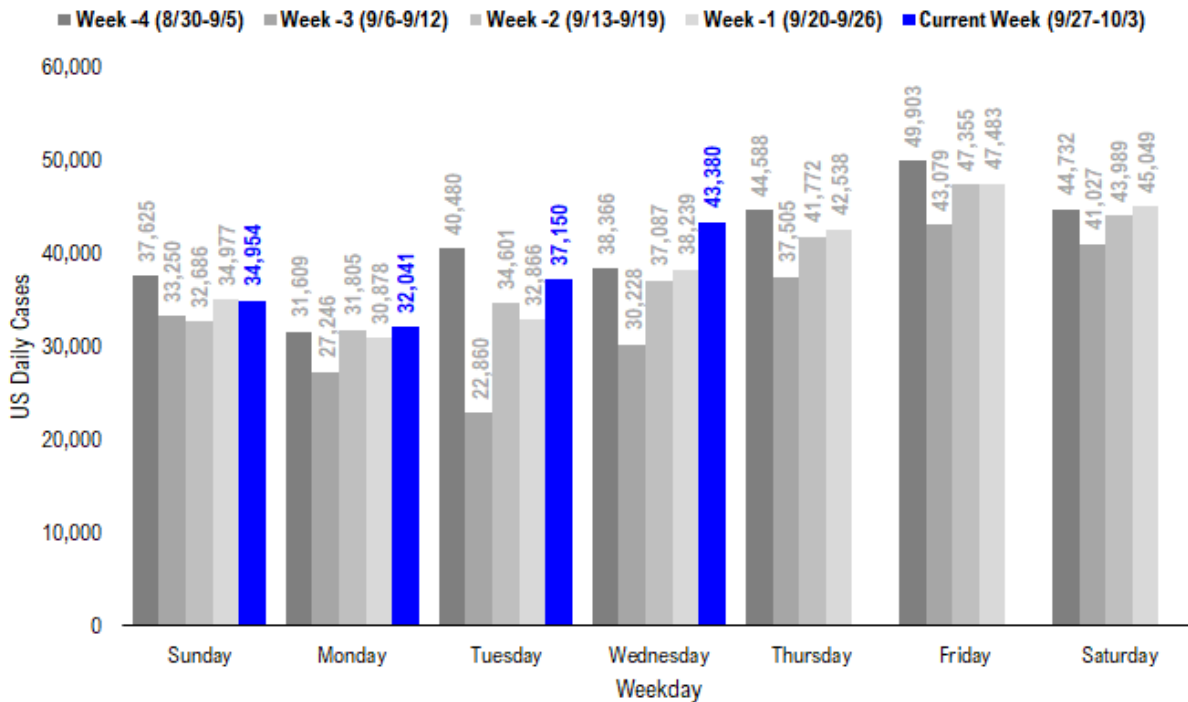
POINT 1: Daily cases rising vs 7D ago, not clear why, but the key question is if it turns exponential

Daily new COVID-19 cases came in at 43,380, which is up 5,141 vs 7D ago. This is the biggest 7D rise since mid-July if we don't count the post-Labor Day spikes due to the data distortion. Generally, daily cases are rising across the US.

We can think of a few factors explaining this rise, but the most important question is whether this leads to an exponential rise:

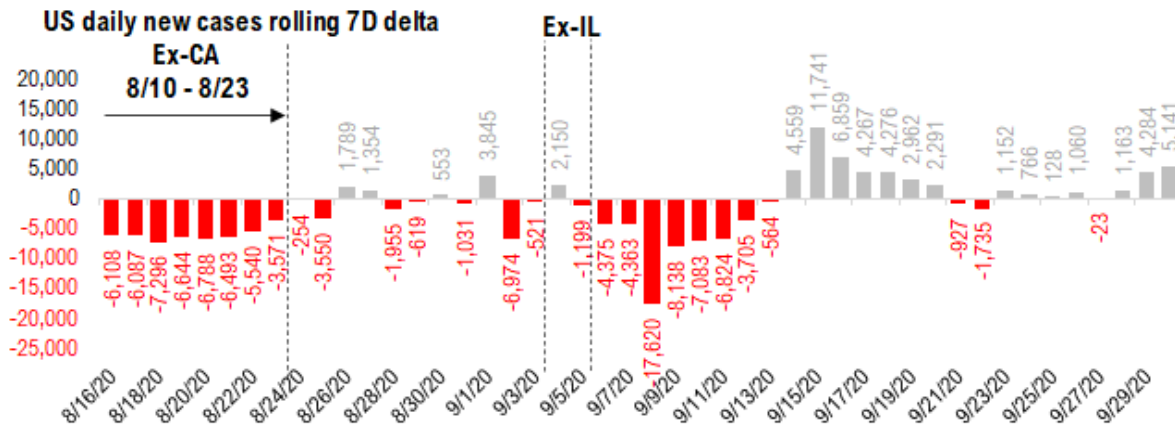
- is this due to back to school?
- is this due to flu season (which started early August in the South)
- is this due to more testing? maybe
- is this a "Rosh Hashanah effect"? maybe

We just don't know. Ultimately, it is better if Americans are scared because they will be more careful.



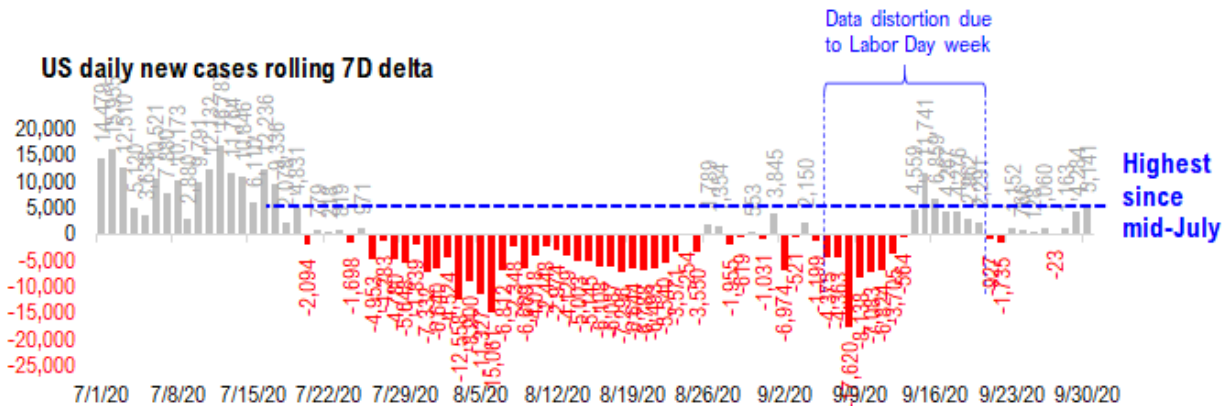
Source: COVID-19 Tracking Project

Again, the daily change vs 7D ago, in our view, is the leading indicator as it is what influences the 7D moving average. After 6 "flat" days, the daily cases jumped on Tuesday and Wednesday. This is a notable rise compared to other days in the past two months.

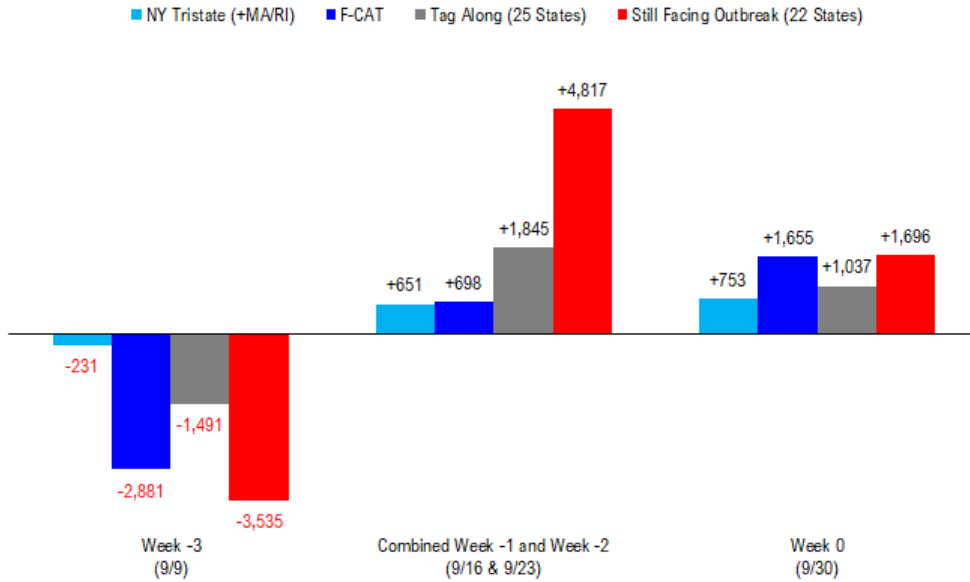


Source: COVID-19 Tracking and Fundstrat

In fact, if we ignore the post Labor Day spike which is primarily caused by the data distortion, yesterday's 7D delta in daily cases of +5,141 is the highest level since mid-July.



Looking at the tiers of the US states, in the past 7D, the largest contributor to case rises are F-CAT (essentially Texas) and those 22 states still facing an outbreak. But NY tristate area (+MA and RI) and the 25 states that saw case rise along with the F-CAT also have a material increase in daily cases.

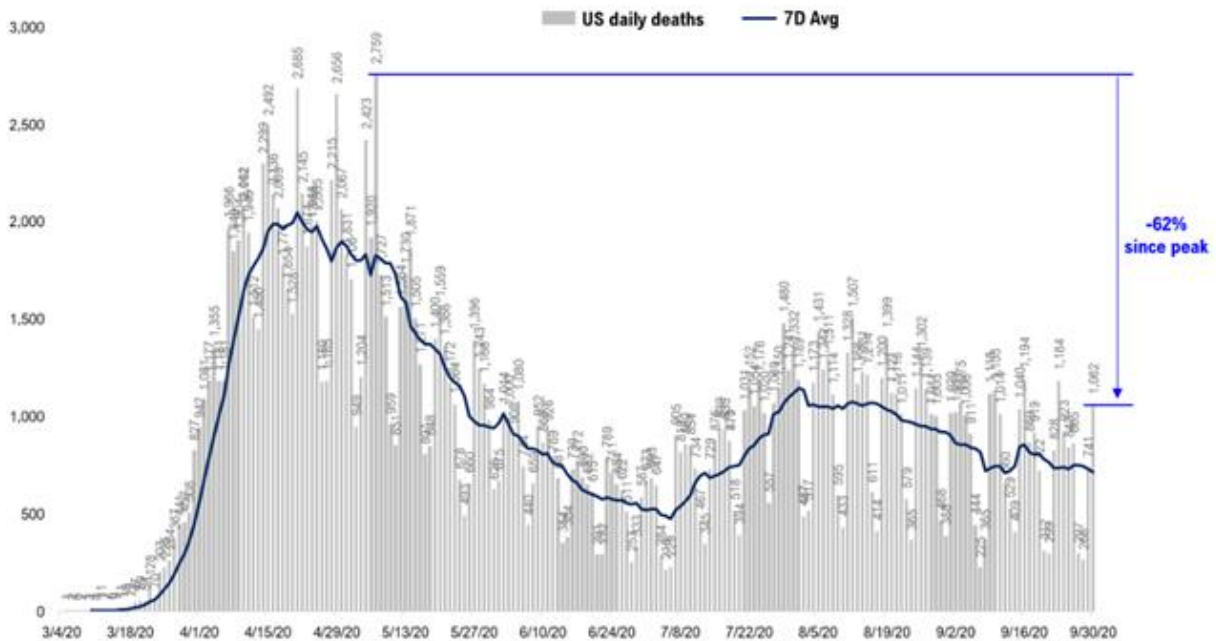


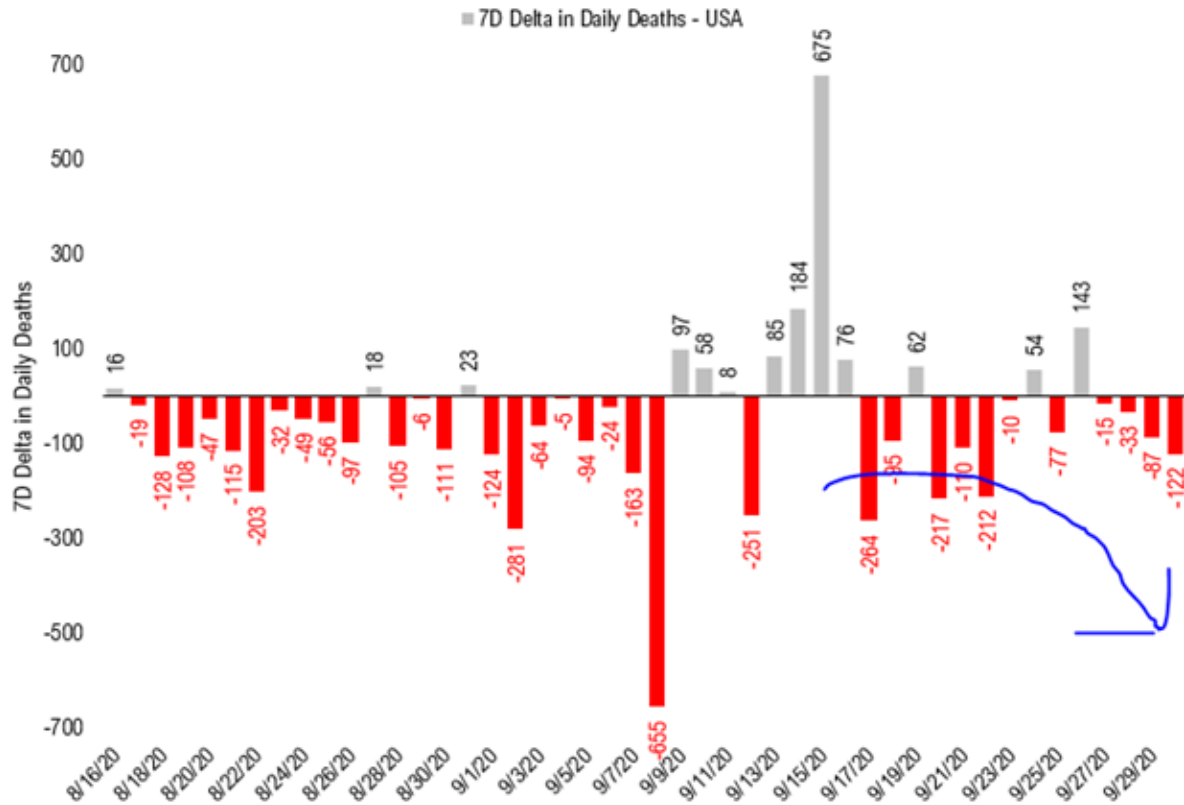
Source: COVID-19 Tracking and Fundstrat

Daily death trends are muted which is a good thing

Daily deaths are not tracking the surge in cases. This could change, but it remains curious how daily deaths remain in a stable downtrend. As you can see, daily deaths 7D delta remains declining, which is a good thing. This suggests many of the incremental cases are not seeing as severe healthcare outcomes.

US daily COVID-19 Fatalities





Source: COVID-19 Tracking Project

6 states with largest 7D delta in daily cases

Texas	5,335 vs 2,977 (-7D)	+2,358
Alabama	1,147 vs 569	+578
Wisconsin	2,319 vs 1,762	+557
North Carolina	1,495 vs 952	+543
Illinois	2,273 vs 1,848	+425
Michigan	1,054 vs 705	+349
Total		+4,810

6 states with largest 7D delta in daily cases

Florida	1,948 vs 2,590 (-7D)	-642
South Carolina	250 vs 880	-630
Arkansas	607 vs 874	-267
Washington	404 vs 645	-241
Missouri	1,351 vs 1,580	-229
Kansas	1,120 vs 1,267	-147
Total		-2,156

Daily Case Increases (by State) (09/30)

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

	Sorted				
	7D Ago	Last 3-day Trend			
	9/23/20	9/28/20	9/29/20	9/30/20	vs 7D ago
United States	38,239	32,041	37,150	43,380	+5,141
States:					
1 Texas	2,977	1,397	3,812	5,335	<-higher
2 California	3,146	2,955	2,162	3,200	
3 Wisconsin	1,762	1,726	2,367	2,319	<-higher
4 Illinois	1,848	1,709	1,362	2,273	<-higher
5 Florida	2,590	738	3,266	1,948	
6 Georgia	1,457	596	1,025	1,720	
7 Tennessee	1,561	737	879	1,528	
8 North Carolina	952	868	889	1,495	<-higher
9 Missouri	1,580	1,280	1,486	1,351	
10 Pennsylvania	898	676	988	1,153	<-higher
11 Alabama	569	662	571	1,147	<-higher
12 Kansas	1,267	2,037	0	1,120	
13 Iowa	1,036	366	474	1,120	
14 Ohio	903	993	1,105	1,080	
15 Michigan	705	1,308	898	1,054	<-higher
16 New York	665	834	1,189	1,000	<-higher
17 Kentucky	786	448	917	984	<-higher
18 Oklahoma	1,089	861	1,025	980	
19 Indiana	711	872	744	953	<-higher
20 Utah	877	827	694	906	
21 Virginia	580	449	923	755	<-higher
22 New Jersey	408	559	456	712	<-higher
23 Minnesota	678	904	809	687	
24 Idaho	396	422	511	614	<-higher
25 Arkansas	874	786	482	607	
26 Mississippi	552	190	589	552	
27 Massachusetts	543	430	512	532	
28 Colorado	616	411	535	511	
29 Nebraska	397	467	515	466	
30 Louisiana	431	240	533	452	
31 North Dakota	473	259	418	445	
32 Maryland	385	477	431	414	
33 Washington	645	439	369	404	
34 South Dakota	445	197	259	392	
35 Nevada	509	463	404	385	
36 Montana	212	306	311	347	<-higher
37 Arizona	438	273	674	323	
38 New Mexico	197	141	172	278	<-higher
39 South Carolina	880	597	584	250	
40 Connecticut	155	560	182	221	<-higher
41 Oregon	190	174	297	218	
42 Puerto Rico	40	660	444	207	<-higher
43 Rhode Island	133	26	132	192	<-higher
44 West Virginia	120	164	180	156	<-higher
45 Wyoming	153	121	67	127	
46 Hawaii	168	90	86	121	
47 Alaska	54	116	124	103	<-higher
48 Delaware	69	129	142	82	
49 Maine	25	12	37	54	<-higher
50 Guam	45	36	53	45	
51 New Hampshire	17	36	25	33	<-higher
52 District of Columbia	29	14	36	26	
53 Vermont	1	3	4	3	<-higher
54 U.S. Virgin Islands	2	0	1	0	
55 Northern Mariana Islands	0	0	0	0	
56 American Samoa	0	0	0	0	

Source: COVID-19 Tracking and Fundstrat

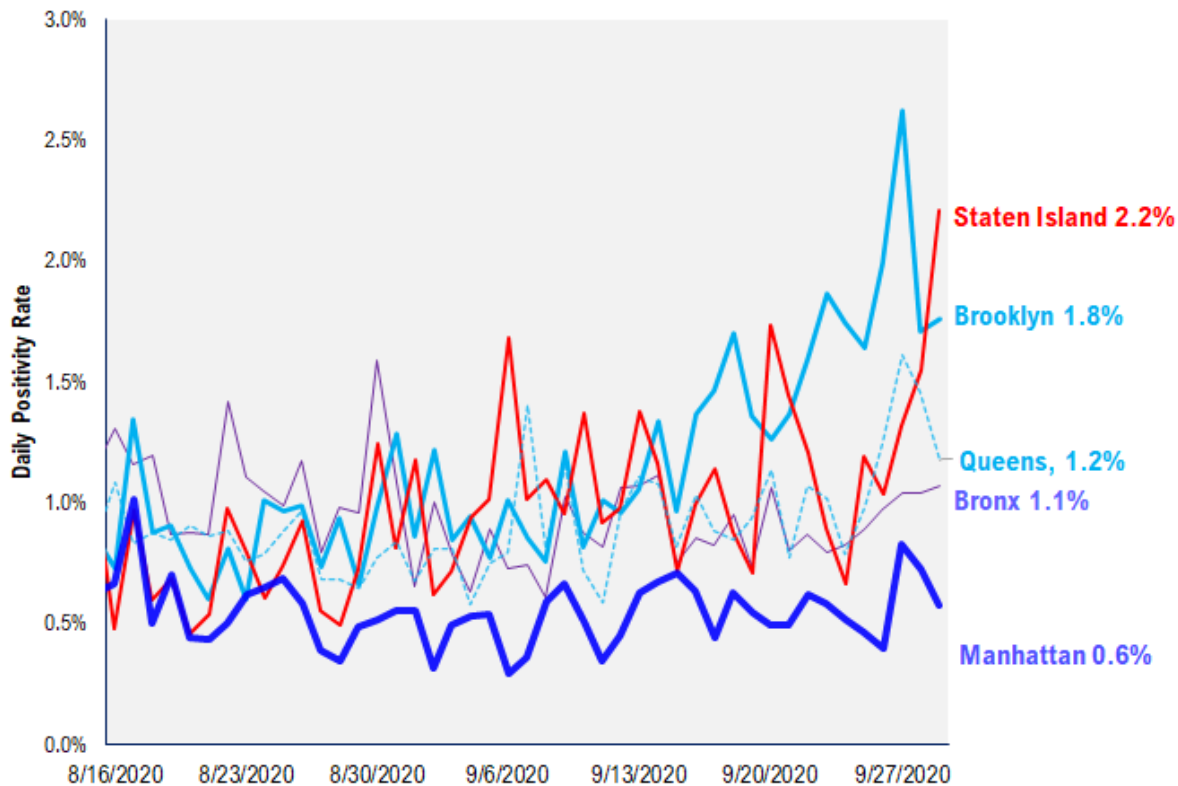
POINT 2: Manhattan positivity rate has been tame, despite surges in Rockland, Brooklyn and Staten Island...

We were alarmed by the surge in cases in Brooklyn and Rockland County, but as we noted yesterday, this can be a double-edged sword. If NYC cases do not rise exponentially over the next few weeks, then this is proof that expanding testing capacity is doing a better job of detecting cases and therefore limiting spread.

- We know that there has been an outbreak among the orthodox community, but we see this as more due to lax compliance (people losing fear);
- daily cases need to be watched and if cases don't exponentially grow, this is a positive outcome.

As shown below, the surge in Brooklyn has been followed by a surge in Staten Island. I think this bears watching. The positivity rate is a mere 2.2% but this is a change in pattern.

But what is notable is Manhattan positivity rate is only 0.6% and this is ridiculously low. In fact, given specificity errors of testing, one could wonder if the majority of the "detected" cases in Manhattan are actually false positives.



Source: NY Dept of Health

Yesterday is the first day of in-room dining...

In the meantime, we think NYC needs to re-open the economy soon. Yesterday is the first day of indoor dining (25% capacity) and this is a big milestone. As the WSJ article below notes, the NYC office occupancy is back to 10% compared to 25% for the US overall and 40% for Dallas and even 32% for Los Angeles.

- NYC has maintained the most restrictive economic policies
- Yet, NYC is seeing a surge in cases

Are these restrictive policies a major error? maybe.



THE WALL STREET JOURNAL

BREAKING NEWS

The Fed said the biggest U.S. banks will face restrictions on dividends and share buybacks for another three months, citing the need to conserve capital

U.S. | NEW YORK | REAL ESTATE

Manhattan Offices Are Nearly Empty, Threatening New York City's Recovery

About 1 in 10 office workers have returned since Covid-19 hit, far fewer than elsewhere, hurting local businesses



Plexiglass dividers and floor decals might not be permanent, but the pandemic will bring lasting change to offices. Experts from the architecture and real-estate industries share how they are getting back to work and what offices will look like in the future. Photo: Cesare Salerno for The Wall Street Journal

By [Peter Grant](#) and [Emma Tucker](#)

Updated Sept. 29, 2020 2:58 pm ET

SHARE TEXT

412

Source: WSJ

Overall, about 10% of [Manhattan office workers](#) were back as of Sept. 18, according to [CBRE Group](#) Inc., a commercial real estate services firm.

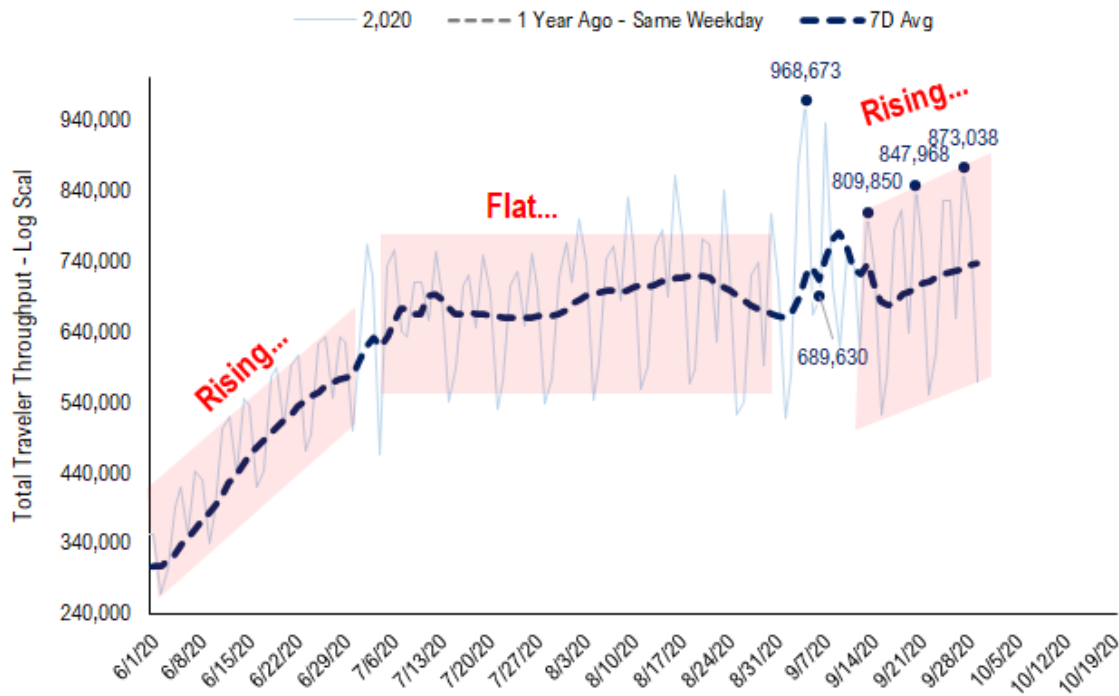
Nationally, about 25% of office workers have returned as of this month, on average, according to real-estate services firms. Some large metropolitan areas are considerably higher, such as Dallas at 40% and the Los Angeles metro area at 32%, industry professionals say. The reoccupation rate in New York's suburbs is 32%, according to CBRE, which manages 20 million square feet of office property in the region.

Source: WSJ

POINT 3: Organic demand for travel is recovering...

Demand for travel, measured by TSA throughput is beginning to rise again, as shown by the chart below. This is pretty interesting, since we know that travel remains a "taboo" service and broadly not considered acceptable behavior. Yet, despite this, the 7D moving average has started to rise.

- the current fiscal stimulus plan is also offering some relief for travel-centric companies
- thus, we see "epicenter" stocks benefitting from the passage of fiscal stimulus.



Source: TSA

And yesterday, the White House over-ruled the CDC on the maintaining of a cruise ban. I agree with the White House's view on this. The cruise industry used many accepted health experts to propose new guidelines to improve the safety of sailings. And if the testing is appropriately expanded, we can see the benefits of reduced spread.

- witness how well primary schools and colleges have managed their associated outbreaks.
- cruise lines have new measures to manage spread, with guidelines established by relevant health experts.

20 hours ago - Politics & Policy

Scoop: CDC director overruled on cruise ship ban



Jonathan Swan



CDC Director Robert Redfield. Photo: Alex Edelman-Pool/Getty Images

Robert Redfield, the director of the Centers for Disease Control and Prevention, was overruled when he pushed to extend a "no-sail order" on passenger cruises into next year, according to two sources with direct knowledge of the conversation today in the White House Situation Room.

<https://www.axios.com/scoop-white-house-overruled-cdc-cruise-ships-florida-91442136-1b8e-442e-a2a1-0b24e9a39fb6.html>

5 takeaways from the cruise industry's report on a return to sailing

The Healthy Sail Panel, made up of epidemiologists, cruise executives and former heads of federal agencies, submitted 74 best practices to the CDC.



<https://www.washingtonpost.com/travel/2020/09/21/cruise-return-report-covid-19/>

But if I had to flag what I see as a "repeat" theme among cohorts managing this crisis -- it is testing, testing, testing as prescribed by many experts.

And the cruise industry plans the same. They propose 100% testing of all passengers and mandatory masks.

100 percent testing and mandatory masks

The aim of the new recommendations is to "maintain a healthy 'bubble' within which cruises can operate." Cruise executives say testing 100 percent of passengers and crew before sailings will be key, with potential for retesting during sailings. Crew are required to isolate for seven days onboard before departure after receiving their negative test and should be retested before departure.

Source: Washington Post.

If 100% of cruise passengers are tested and masks are required, why would the CDC ban cruising? This is why I agree with the White House's view on this.

Disclosures

This research is for the clients of FS Insight only. For additional information, please contact your sales representative or FS Insight at <http://www.fsinsight.com/>.

Conflicts of Interest

This research contains the views, opinions and recommendations of FS Insight. At the time of publication of this report, FS Insight does not know of, or have reason to know of any material conflicts of interest.

General Disclosures

FS Insight is an independent research company and is not a registered investment advisor and is not acting as a broker dealer under any federal or state securities laws.

FS Insight is a member of IRC Securities' Research Prime Services Platform. IRC Securities is a FINRA registered broker-dealer that is focused on supporting the independent research industry. Certain personnel of FS Insight (i.e. Research Analysts) are registered representatives of IRC Securities, a FINRA member firm registered as a broker-dealer with the Securities and Exchange Commission and certain state securities regulators. As registered representatives and independent contractors of IRC Securities, such personnel may receive commissions paid to or shared with IRC Securities for transactions placed by FS Insight clients directly with IRC Securities or with securities firms that may share commissions with IRC Securities in accordance with applicable SEC and FINRA requirements. IRC Securities does not distribute the research of FS Insight, which is available to select institutional clients that have engaged FS Insight.

As registered representatives of IRC Securities our analysts must follow IRC Securities' Written Supervisory Procedures. Notable compliance policies include (1) prohibition of insider trading or the facilitation thereof, (2) maintaining client confidentiality, (3) archival of electronic communications, and (4) appropriate use of electronic communications, amongst other compliance related policies.

FS Insight does not have the same conflicts that traditional sell-side research organizations have because FS Insight (1) does not conduct any investment banking activities, (2) does not manage any investment funds, and (3) our clients are only institutional investors.

This research is for the clients of FS Insight only. Additional information is available upon request. Information has been obtained from sources believed to be reliable, but FS Insight does not warrant its completeness or accuracy except with respect to any disclosures relative to FS Insight and the analyst's involvement (if any) with any of the subject companies of the research. All pricing is as of the market close for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, risk tolerance, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies. The recipient of this report must make its own independent decision regarding any securities or financial instruments mentioned herein. Except in circumstances where FS Insight expressly agrees otherwise in writing, FS Insight is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice, including within the meaning of Section 15B of the Securities Exchange Act of 1934. All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client **website, fsinsight.com**. Not all research content is redistributed to our clients or made available to third-party aggregators or the media. Please **contact your sales representative** if you would like to receive any of our research publications.

The Yellow Thunderlight over the "BLAST" logo is designed by rawpixel.com / cited from Freepik.

Copyright 2020 FS Insight LLC. All rights reserved. No part of this material may be reprinted, sold or redistributed without the prior written consent of FS Insight LLC.