



## COVID-19 UPDATE: Is current US surge of COVID-19 set to peak by end of month? Maybe. IHME revises "second wave" peak daily death forecast to peak at 5,700 vs 12,000 (1M ago)

THIS MESSAGE IS BEING SENT SOLELY TO CLIENTS OF FS INSIGHT

**STRATEGY:** This current surge in COVID-19, "wave 3," might peak by the end of October. COVID-19 has proven itself so contagious and so adaptive, that it is potentially proving to be nearly impossible to contain. Granted, those nations which contained the outbreak early, such as Taiwan and many Southeast Asian nations, or those nations which slammed shut its border, like Australia, have managed to keep COVID-19 at bay. But the citizens of those countries are not really immune, nor protected. Rather, they are shielded.

And whatever strategy a nation takes, it is a bridge until there is a cure or a vaccine. And then we can start to picture a true return to normal. And by the way, in those nations like Australia, China, Taiwan, etc., life looks very very close to normal.

- Check out this pool party in China from August 2020.
- If this was the NYC, we would see felony charges hammered by NY Gov Cuomo



Source: South China Morning Post

The spread of COVID-19 in the US has not allowed this to take place in the US. And US cases are surging again. But while the majority of US states are seeing cases rise, including NY, the rise in many of these states hardly compares to the scourges seen earlier in the year. This chart below shows the different tiers of states responsible for the various surges in cases in the US:

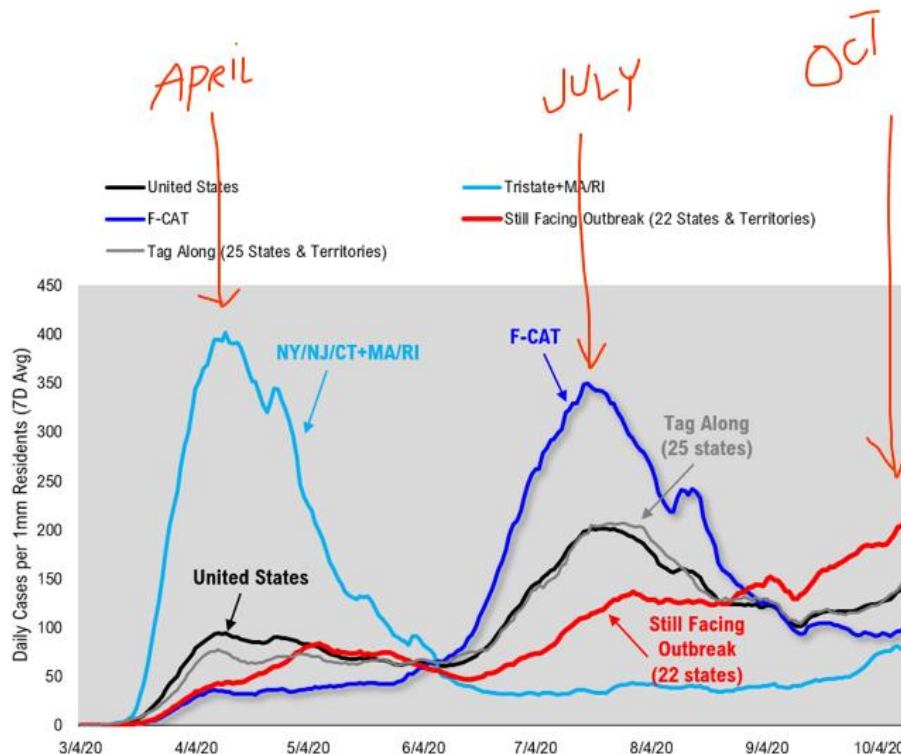
- Wave 1 (Feb-April 2020) --> NY tristate + MA + RI
- Wave 2 (June-July 2020) --> FL, CA, AZ, TX, or F-CAT
- Wave 3 (now) --> 8 states (or 22 states) are facing huge outbreaks

A few things stand out to us about the waves of COVID-19 cases in the US:

- Regional outbreaks previously peaked at ~350 daily cases per 1mm residents (wave 1 and wave 2)
- If so, the 8 states leading this wave 3 are nearing or exceeding that level now
- Waves seem to peak about 3 months apart
- If so, wave 3 might peak by the end of this month

So that is what we think is the key thing to watch in the next few weeks. COVID-19 doesn't have to conform to any rules. But the reason we think the 350 daily cases per 1mm acts as a "governor" is that state policymakers (governors) panic at that point. And once they clamp down, and citizens start masking up, we see cases slow.

So, we are somewhat hopeful that in the next few weeks, we could see this wave 3 reach its natural break point.



Source: COVID-19 Tracking and Fundstrat

The end of the month is also the alignment of other key events, most notably the 2020 Presidential election. Poll after poll is showing Biden and a blue wave as nearly unstoppable. And betting markets heavily favor Biden. But as Tom Block, Fundstrat's Washington Strategist, has said over and over again --> "don't trust the polls."

- foremost, who actually answers their cell phone and talks to a volunteer pollster?
- Rasmussen claims they get a 6% contact rate which I hardly believe
- I did a twitter poll and asked who received and answered an election pollster.
- Barely 5% and I think most of those answered yes, so they could see the rest of my questions
- And that 5% that does answer, is it really representative of the other 95%?
- This is not a random sampling, this is 100 calls and 5 agree to answer
- Something is off on those 5% of people.

But that is only my opinion. Below is some useful commentary from Tom Block on this matter. His key point:

- don't underestimate President Trump's chances of victory



Tom Block  
To



11:11 AM

Statistical overload for me.

It would be a mistake to again underestimate Trump's appeal

But

As I wrote on Monday, why the trip to Iowa? While I am skeptical of polls, the best and most expensive polls are the private polls done by the campaigns. These are the polls that determine ad buys and candidate travel. Going to Iowa which he won by 10 points, strongest R showing since Reagan, winning 93 of 99 counties shows it is close. They don't want to make the mistake Clinton did and ignore states that they think they should win. But the fact that he needs to go to Iowa is interesting,

Trump often says prophetic things like shooting someone on 5th Ave. He also said that people will get tired of winning under President Trump. I think there is a chance that while not tired of winning, they may be getting tired of the constant stress created by the President, Trump fatigue. Hard to measure but I have a gut feeling it could be an issue.

20 days in politics is an eternity, next week's debate could be a big moment. I think Trump was hurt by the first debate, I think it contributed to Trump fatigue. I think he will finish strong, and if there really is a gap as polling is indicating it can surely be closed. Democrats always underestimated Reagan, and they don't get Trump and always underestimate him.

Personally, I agree. I think this race is far, far closer than the polls suggest. I know this is a trigger statement.

But don't accuse me of political bias or being a Republican shill, or even a "Republican apologist." If anything, I am a contrarian who listens to the stock market. The stock market gains this month strongly argue for an incumbent victory.

But as we stated multiple times, whether Biden or Trump wins, the post-election trade is 90% identical. If Biden does truly follow through with his ~40% tax rate on capital gains (including carried interest), this will actually make asset-based investing far more attractive than asset-light.

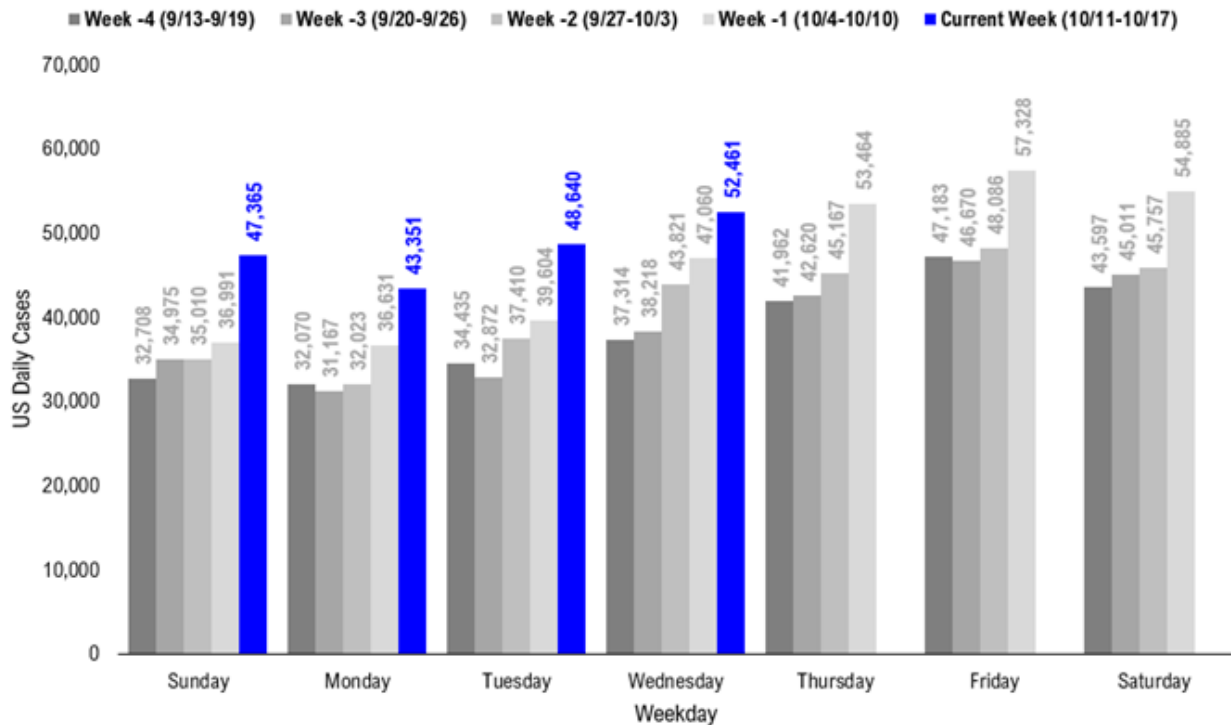
Why?

One can deduct depreciation/capital charge against income -- would be a big win for Value stocks.

**POINT 1: Is it possible this "wave 3" is rolling over? Maybe... see Point #2**

It is possible that this current surge of COVID-19 cases, aka wave 3, might be nearing a peak. Yup. We discuss this more in Point #2. Consider:

- 7D delta in new cases is +5,401, down from +10,374 just a few days ago
- So it looks like the rate of change is slowing sharply
- Point #2, we discuss how the surge is concentrated in a new set of states



Source: COVID-19 Tracking Project and Fundstrat

**US daily cases 7D delta is up but not exponential...**

Again, the daily change vs 7D ago, in our view, is the leading indicator as it is what influences the 7D moving average.

- As you can see below, the 7D delta in daily cases is rising but at a much slower pace
- This is not exponential.
- Exponential would be a continued and an increasingly faster rise in cases
- It has not yet happened, but it could



Source: COVID-19 Tracking and Fundstrat

**6 states with largest 7D delta in daily cases**

Wisconsin	3,107 vs 2,319 (-7D)	+788
Texas	4,564 vs 3,776	+788
Ohio	2,039 vs 1,424	+615
Puerto Rico	490 vs 23	+467
Minnesota	1,369 vs 911	+458
New Jersey	938 vs 508	+430
<b>Total</b>		<b>+3,546</b>

**6 states with largest 7D delta in daily cases**

Louisiana	331 vs 1,052 (-7D)	-721
Virginia	805 vs 1,198	-393
Tennessee	1,709 vs 2,080	-371
Georgia	1,297 vs 1,492	-195
Alabama	784 vs 941	-157
South Dakota	876 vs 1,030	-154
<b>Total</b>		<b>-1,991</b>

**Daily Case Increases (by State) (10/14)**

% 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			
	10/7/20	10/12/20	10/13/20	10/14/20	vs 7D ago
United States	47,060	43,351	48,640	52,461	+5,401
<b>States:</b>					
1 Texas	3,776	2,384	5,050	4,564	<-higher
2 Wisconsin	2,319	1,956	3,279	3,107	<-higher
3 Florida	2,582	1,533	2,725	2,883	
4 Illinois	2,630	2,742	2,851	2,862	
5 California	2,764	3,449	2,378	2,666	
6 Ohio	1,424	1,430	1,447	2,039	<-higher
7 North Carolina	1,711	1,276	1,734	1,926	
8 Tennessee	2,080	2,965	1,147	1,709	
9 Minnesota	911	1,171	1,135	1,369	<-higher
10 Michigan	1,016	1,809	1,237	1,359	<-higher
11 Missouri	1,068	1,235	988	1,338	<-higher
12 Kentucky	921	638	761	1,322	<-higher
13 Georgia	1,492	902	993	1,297	
14 Kansas	1,244	2,055	0	1,293	
15 Pennsylvania	1,309	1,088	1,342	1,276	
16 New York	1,360	1,029	1,393	1,232	
17 Indiana	1,281	1,574	1,549	1,165	
18 Utah	1,007	988	987	1,144	
19 Oklahoma	1,006	797	1,309	1,122	
20 Iowa	950	463	529	1,046	
21 New Jersey	508	469	988	938	<-higher
22 Arizona	604	475	684	901	<-higher
23 Arkansas	684	568	481	884	<-higher
24 South Dakota	1,030	361	414	876	
25 Mississippi	563	296	713	876	<-higher
26 Virginia	1,198	854	1,235	805	
27 Alabama	941	734	1,117	784	
28 South Carolina	798	718	727	781	
29 Washington	387	0	1,740	734	<-higher
30 Nebraska	498	495	457	704	<-higher
31 North Dakota	493	472	508	702	<-higher
32 Colorado	731	576	1,048	692	
33 Idaho	671	597	584	645	
34 Montana	716	423	486	599	
35 Massachusetts	535	760	749	580	
36 New Mexico	425	379	351	577	<-higher
37 Maryland	460	504	482	575	<-higher
38 Puerto Rico	23	228	135	490	<-higher
39 Nevada	431	569	487	479	
40 Oregon	294	212	313	380	<-higher
41 Louisiana	1,052	63	653	331	
42 West Virginia	203	153	274	263	<-higher
43 Wyoming	129	191	162	213	<-higher
44 Rhode Island	180	81	129	204	
45 Connecticut	123	1,066	320	164	<-higher
46 Alaska	126	191	151	143	
47 Hawaii	110	41	62	99	
48 Guam	54	92	96	75	<-higher
49 Delaware	84	159	105	71	
50 New Hampshire	69	65	71	70	
51 District of Columbia	45	38	46	64	<-higher
52 Maine	39	29	28	36	
53 Vermont	6	8	10	4	
54 U.S. Virgin Islands	-1	0	0	3	
55 Northern Mariana Islands	0	0	0	0	

Source: COVID-19 Tracking and Fundstrat

**POINT 2: 8 states "third wave" --> Daily cases peak >350 per 1mm. Peak this month?**

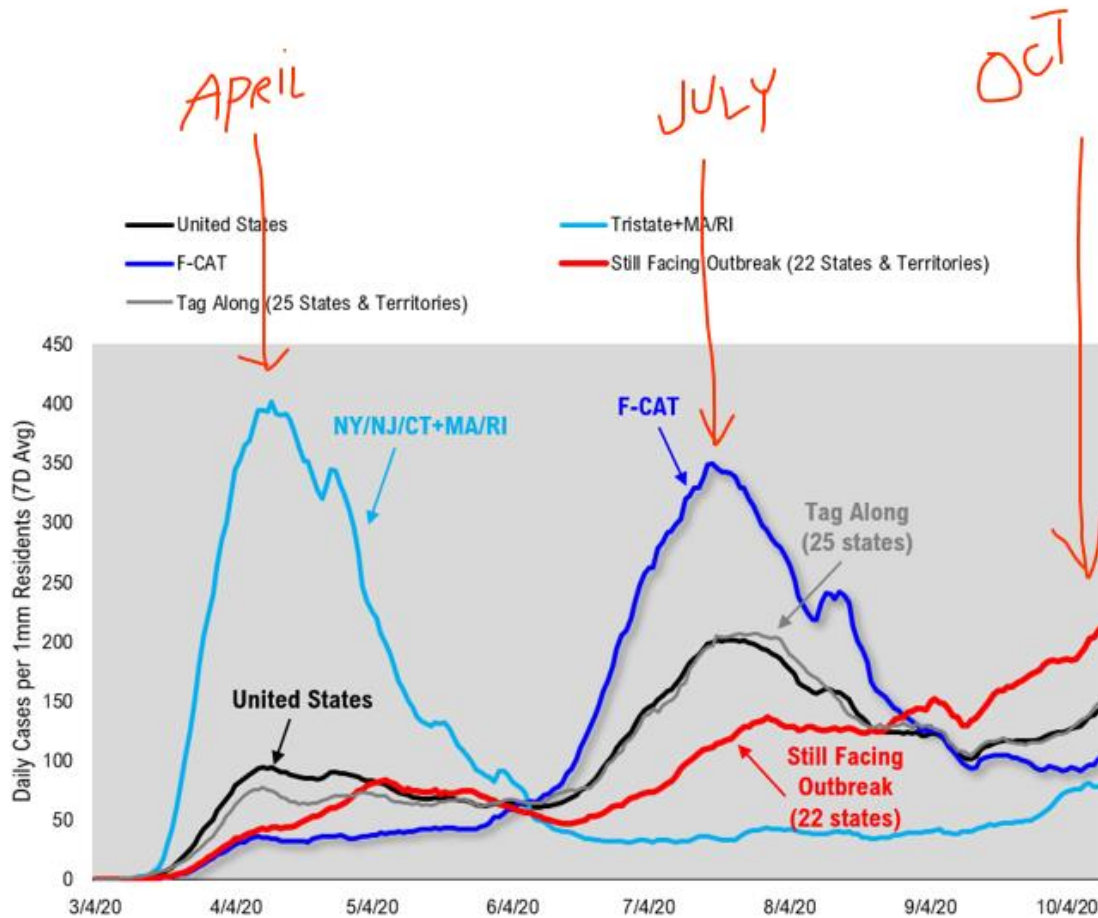
If we look at the spread of COVID-19 in the US, it is really unfolding in three waves. This is something we have informally referred to, but this is not the common vernacular or naming by policymakers or the media. But this is our way of providing a framework for the spread:

- Wave 1 (Feb-April 2020) --> NY tristate + MA + RI
- Wave 2 (June-July 2020) --> FL, CA, AZ, TX, or F-CAT
- Wave 3 (now) --> 22 states facing outbreak

**Wave 1 and Wave 2 peaked at 350 daily cases per 1mm residents (for the local region) and wave 3 the same?**

We have marked these on the chart below, showing daily cases per 1mm residents and the tiers of states.

- Daily cases peaked nearly identically in NY tristate (wave 1) and F-CAT (wave 2) at ~350 per 1mm
- The gap between peaks was nearly 3 months
- Will Wave 3 peak this month?



Source: COVID-19 Tracking and Fundstrat

***Policymaker loop might explain why it will peak this month...***

It would make sense to see wave 3 peak this month. Think about the policymaker loop:

- Cases surge towards critical levels, such as 350 cases per 1mm residents;
- Then, states step and impose strict measures;
- Then, R0 drops
- Cases peak

So, the next two weeks are key. But we think there is a good chance that daily cases will peak within the next few weeks. This for wave 3.

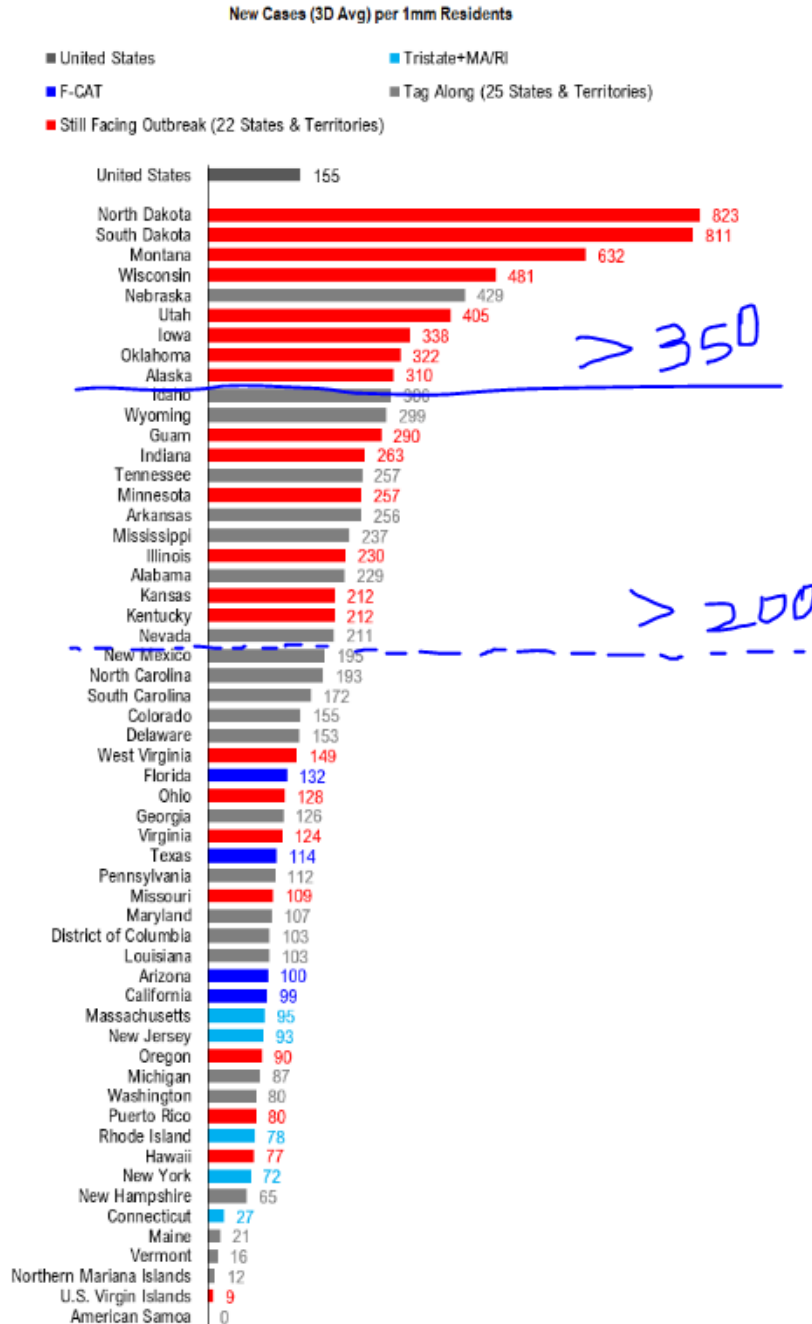
- I hope there is not a wave 4....

***8 states seem to be hitting that upper limit of daily cases --> when policymakers step in...***

At the moment, it looks like a few states are already at that 350 daily cases per 1mm residents. As we mentioned above, this is roughly where NY tristate and F-CAT saw daily cases peak during their respective waves. The 8 states are:

- North Dakota
- South Dakota
- Montana
- Wisconsin
- Nebraska
- Utah
- Iowa
- Oklahoma
- Alaska

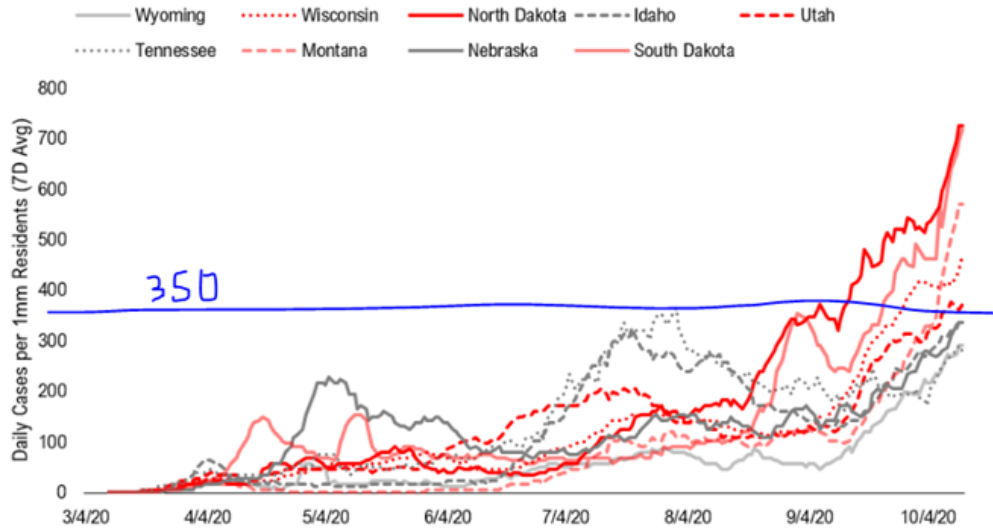




Source: COVID-19 Tracking and Fundstrat

Watching these states as a time series, we can see these surges are very recent. And the key is whether this level marks the peak for these states. But here is the question:

- Why should daily cases in these states surpass what we saw in NY tristate and F-CAT at the peak?
- Perhaps it is possible if the citizens of these states refuse to cooperate
- But barring that, we may be within 2 weeks of a peak

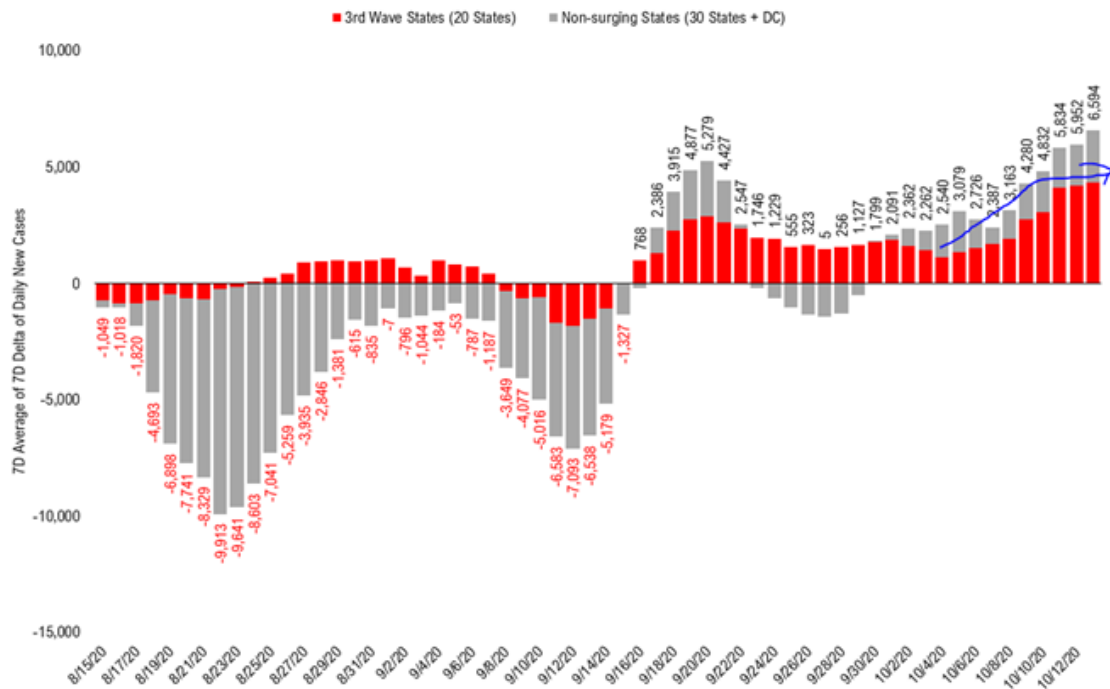


Source: COVID-19 Tracking and Fundstrat

Why are these set of states the most important? Check out the chart below. We show the 20 states that were not in the earlier waves and as you can see, these 20 states account for most of the increase in daily cases:

- In other words, when this wave of states peak, we will be past the third wave
- hopefully, this is before the end of the month

But again, the future is uncertain



Source: COVID-19 Tracking and Fundstrat

**POINT 3: IHME revises "second wave" daily deaths to 5,700 from 12,000 = good**

Exactly a month ago, we hosted a webinar with Dr. Christopher J.L. Murray, the head researcher from the IHME ([IHME website healthdata.org](http://IHME_website_healthdata.org)). The IHME is one of the best known COVID-19 forecast firms and their works are used by the White House. And as we mentioned back then, what makes their work unique are their forecasts for the path of COVID-19:

- infections
- daily cases
- hospitalizations
- deaths
- forecasts can include scenarios such as masks mandate, easing, etc.

We have admired the work of IHME and have used their projections in many of our COVID-19 commentaries. And we have found their models around infections (vs detected cases) useful.

***Recall, IHME forecasting a brutal flu season... 1.8 million infections daily if restrictions ease...***

The IHME is forecasting a massive surge in cases during flu season, which they term "the second wave" and this second wave was expected to far surpass the Feb/March surge -- both in daily cases and in daily deaths.

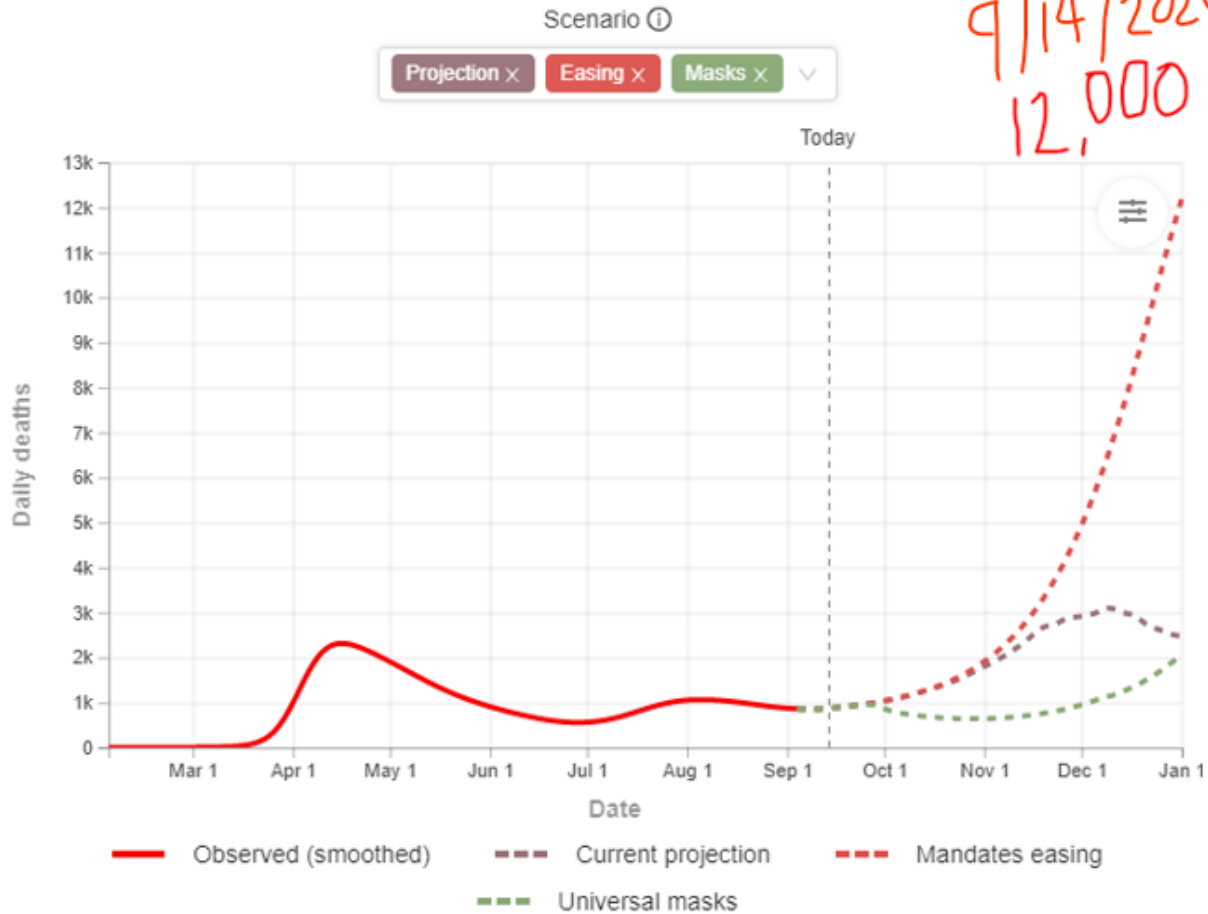
- On 9/14/2020, their forecast was for US daily deaths to reach 12,000 per day by year-end, assuming no new restrictions.
- This compares to the peak of daily deaths of 2,500 during the darkest days of April 2020.
- So a nearly 6X worse level of mortality.

At the time, it was a truly horrifying forecast. And our >1,000 clients who tuned in agreed that it was indeed very, very disturbing. We have provided this chart from that original forecast (posted 9/14/2020). Even if mandates were not eased, but the current set of restrictions remained in place, IHME was forecasting about 3,000 deaths per day.

- Even 3,000 daily deaths surpass the peak seen in April 2020 of 2,500.

## Daily deaths

Daily deaths is the best indicator of the progression of the pandemic, although there is generally a ...

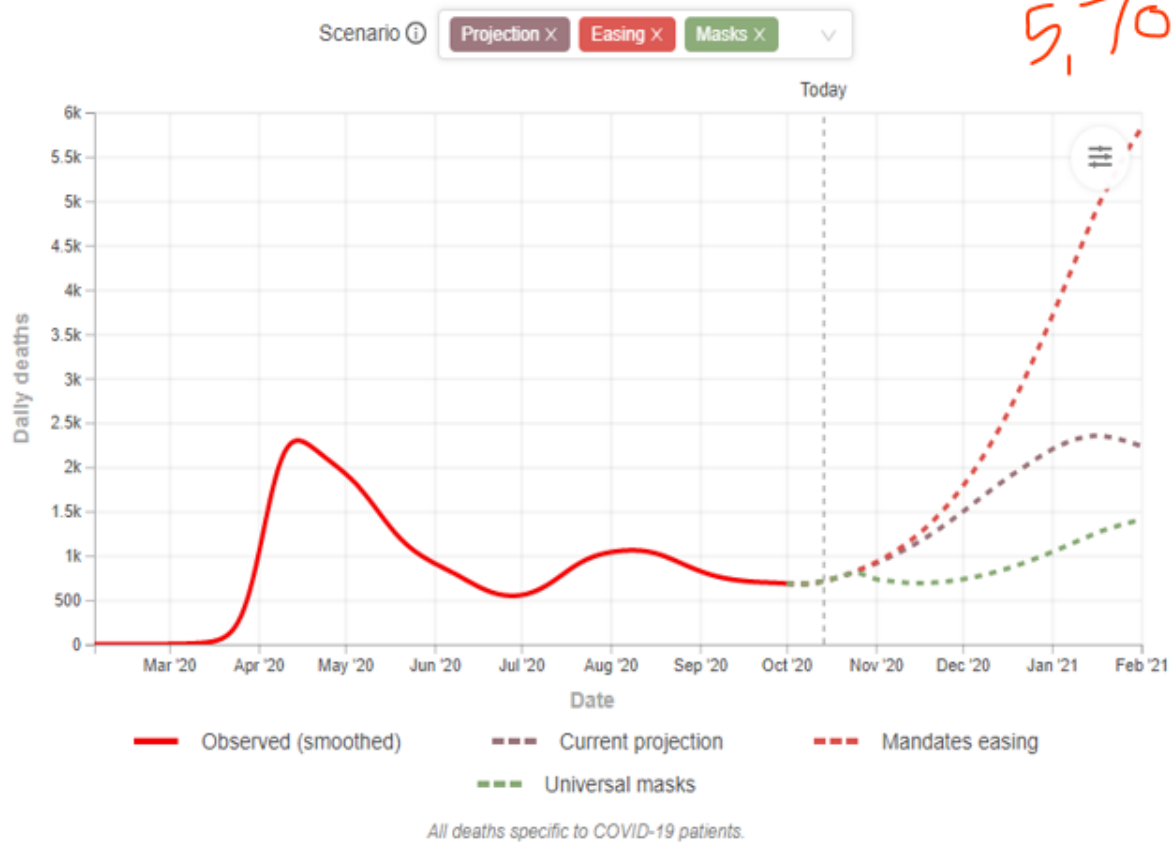


Source: IHME forecast as of 9/14/2020

The latest forecast for daily deaths is provided below. As you can see, daily deaths are still expected to rise parabolically during the expected "second wave" but with differences:

- Daily deaths are now forecast to peak at 5,700.
- This, while horrific, is now a 2X compared to April 2020 vs 6X previously
- If mandates remain in place, no easing, daily deaths expect to peak under 2,500, below the April 2020 peak

So the good news is that the recent incoming data in the past month is pointing to a considerably better forecast for the IHME's second wave mortality. This is due to incoming data points over the past 30 days. The fact that hospitalizations are not surging is likely a big factor. If COVID-19 is not leading to a surge in hospitalizations, then we can expect more benign outcomes.



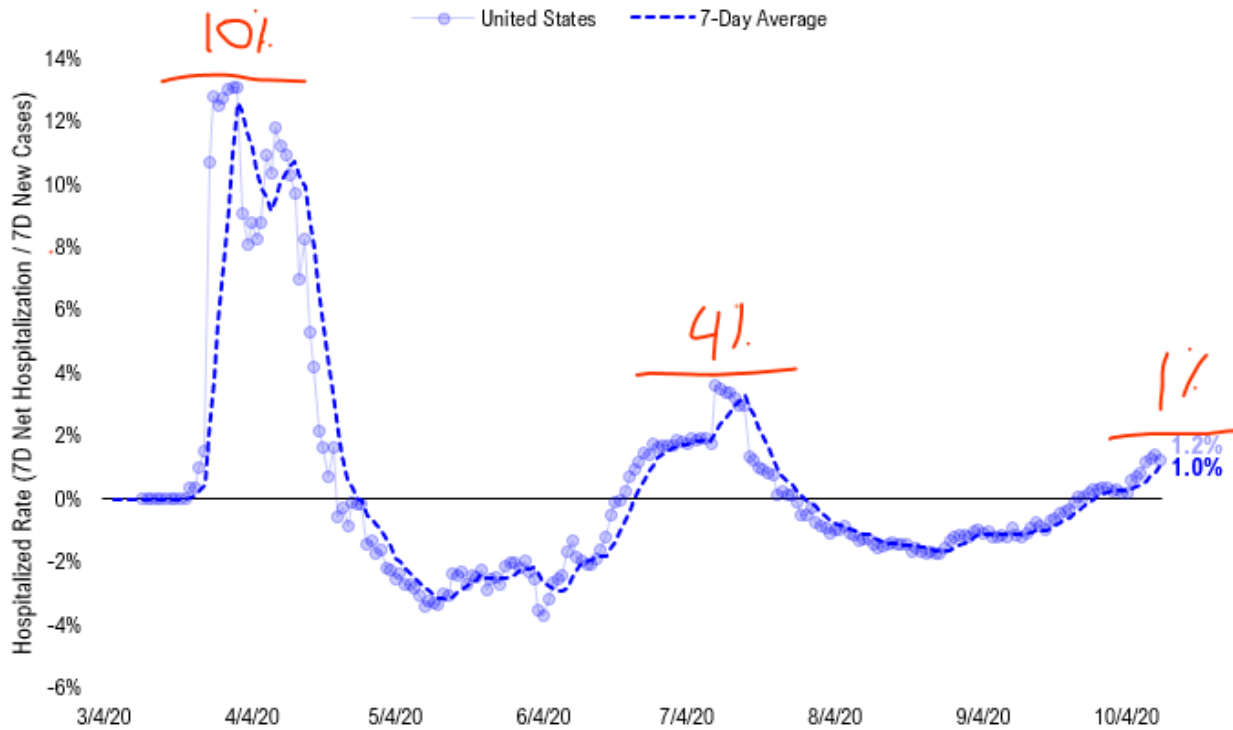
10/14/2020  
5,700

Source: IHME forecast as of 10/14/2020

Earlier this week, we published incremental hospitalizations. That is, how many newly infected end up in the hospital. The current ratio is 1%, which is down from 10% seen in April 2020 and 4% seen in July 2020. So this current wave of cases is only seeing 1 in 100 seek hospitalization.

- And if 1 in 100 is going to the hospital
- Certainly, mortality will be far lower than this.

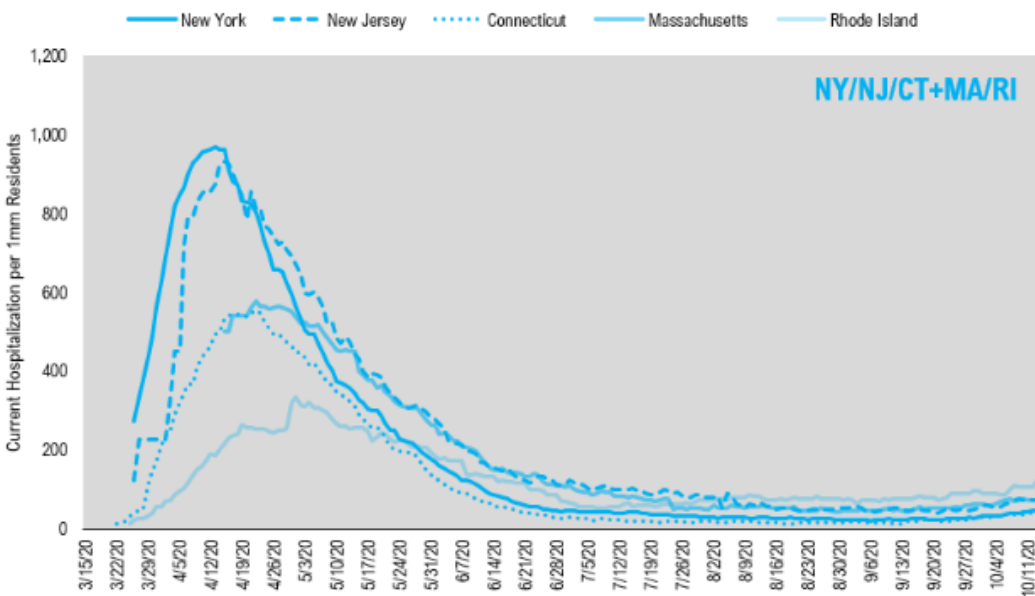
In other words, as long as this figure stays in the sub-4% range, we expect the incremental mortality to be far lower as well. After all, if someone is not hospitalized, that person's chances of death are quite low.



Source: COVID-19 Tracking Project and Fundstrat

Moreover, look at the level of hospitalizations in the states which were the hardest hit in April 2020 and July 2020.

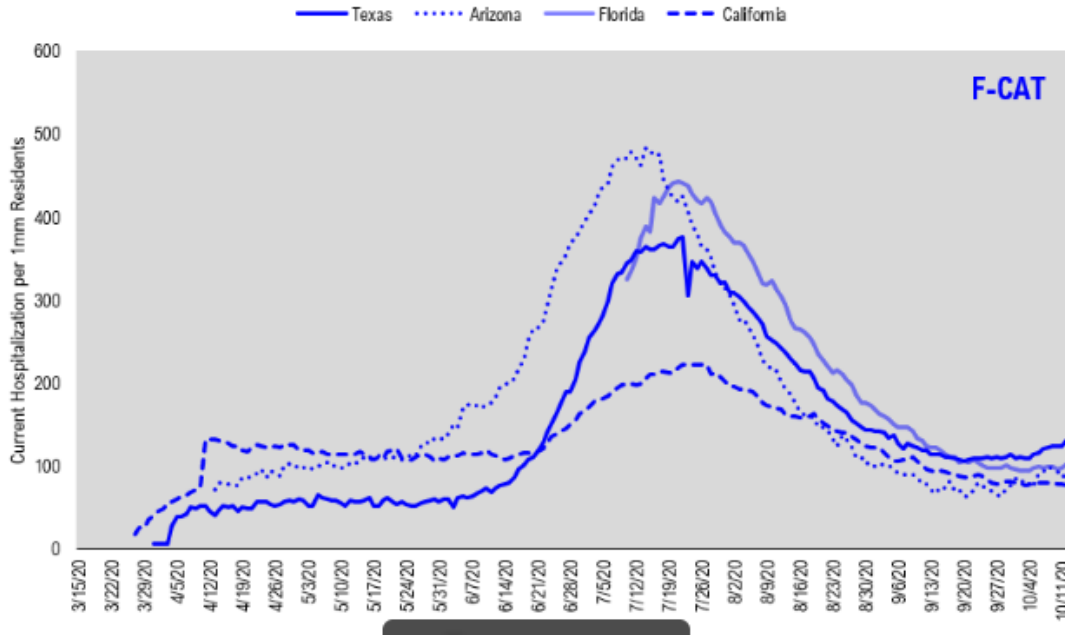
- NY Tristate hospitalizations have been muted and barely rising



Source: COVID-19 Tracking Project and Fundstrat

Similarly, during Summer 2020, 4 states saw the biggest surge in cases, FL, CA, AZ and TX, or F-CAT.

- hospitalized patients per 1mm residents have been falling (except for Texas).



Source: COVID-19 Tracking Project and Fundstrat

## 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.**