



## COVID-19 UPDATE: While COVID-19 cases surge, COVID-19 not yet a "Stage 5 clinger" = good

THIS MESSAGE IS BEING SENT SOLELY TO CLIENTS OF FS INSIGHT

### STRATEGY: "Tape Bombs" pushes S&P 500 into deeply oversold = "when rally"

Equity markets on Monday was an old-fashioned blood bath, with the Dow falling nearly 1,000 points at the worst and all sectors declining. There were a few "tape bombs" fueling this carnage:

- fiscal stimulus "clock ran out" and looks more like a December timeframe
- COVID-19 cases surged to a new all-time high over the weekend
- 2020 Presidential election continues to be one of the most contentious/ mud-slinging in modern times
- SAP and other cos reporting 3Q2020 warn of poor visibility

So there was no shortage of reasons for investors to risk-off. However, equities are now severely oversold. And in past setups like this, set the stage for a sustainable bottom. So what would we catalog as signs of oversold:

- VIX surged 18% to >30
- VIX term structure inverted to -2.5 (4M less 1M), usually a sign of markets pricing in near term event risk
- S&P 500 4-hour RSI fell below 30 (see below).

Since April, the 4 times the S&P 500 4-hr RSI fell below 30, we were in the vicinity of a major trading bottom. Our TA, Rob Sluymer thinks there might be a few more days of sloppiness. But, the S&P 500 has held two key levels --> 3,224 and 3,363. And as such, we see the uptrend still largely intact.

- in short, a 1,000 point Dow drop in the days before the 2020 elections sounds like lots of "bad news priced in"
- aka, we believe the tilt is risk-on from here



Source: Bloomberg

Tom Block, Fundstrat's Washington Strategist, notes that it looks like both House Speaker Pelosi and the White House have given up on fiscal stimulus before election day. The bill most likely, in his view, gets taken up during the lame duck session into year-end. This is a disappointment for the millions of Americans without work and desperately needing this financial bridge. Does this change our view on equities or even epicenter groups? Not really, since, this is still a "when not if" issue.

### **Tom Block's Takeaways: Stimulus likely a lame duck issue, Election one week away**

- Stimulus clock runs out, Pelosi sends signal that Democratic Caucus supports her position.
- Lame duck sessions can be ugly, but 12/11 is deadline for government funding bill that could be vehicle for stimulus deal.
- Early voting way up, indications for 10 to 15 million more voters than 2016; can polling capture larger electorate?
- Election map shows Biden bettering Clinton polling numbers in some key states.

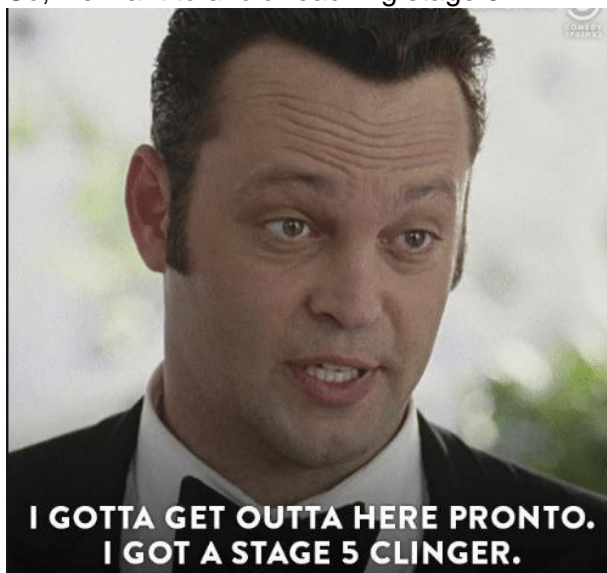
### **COVID-19 is getting worse in the US, but it is not a "stage 5 clinger"**

Over the past few weeks, we commented that COVID-19 trends, if measured as daily cases, was worsening. And indeed, daily cases on Saturday reached an all-time high. But at the same time, we think the real benchmark remains healthcare severity versus case count. And by this measure, we are not even yet at levels that would warrant becoming more alarmed.

Think of it this way, the chain reaction that is the "worst case" scenario, is:

- Stage 1- Cases surge
- Stage 2- Hospitals run out of capacity
- Stage 3- American deaths surge
- Stage 4- Economy shutdown
- Stage 5- Stock market disaster

So, we want to avoid reaching stage 5.

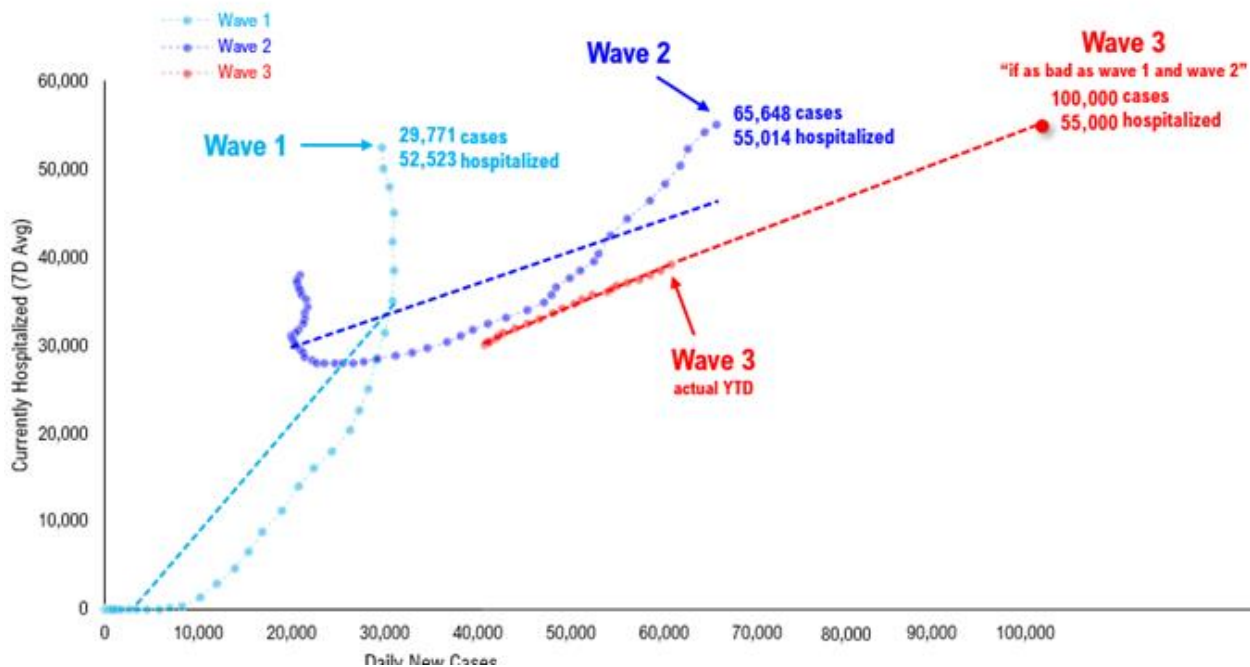


Source: Wedding Crashers

**Daily cases would need to exceed 105,000 per day for hospitalizations to match wave 2...**

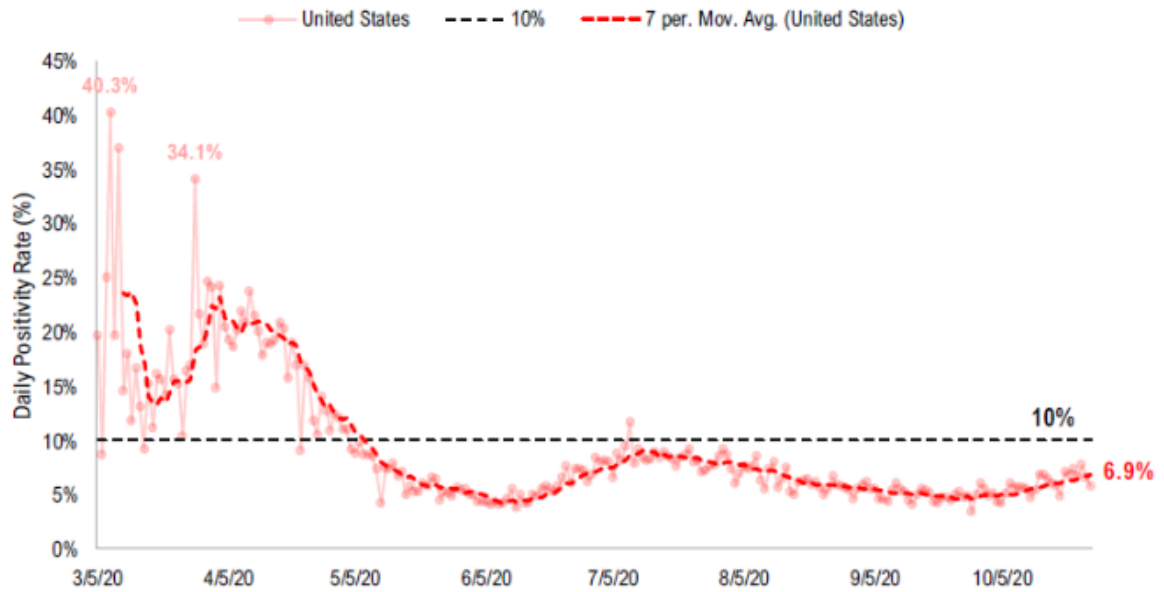
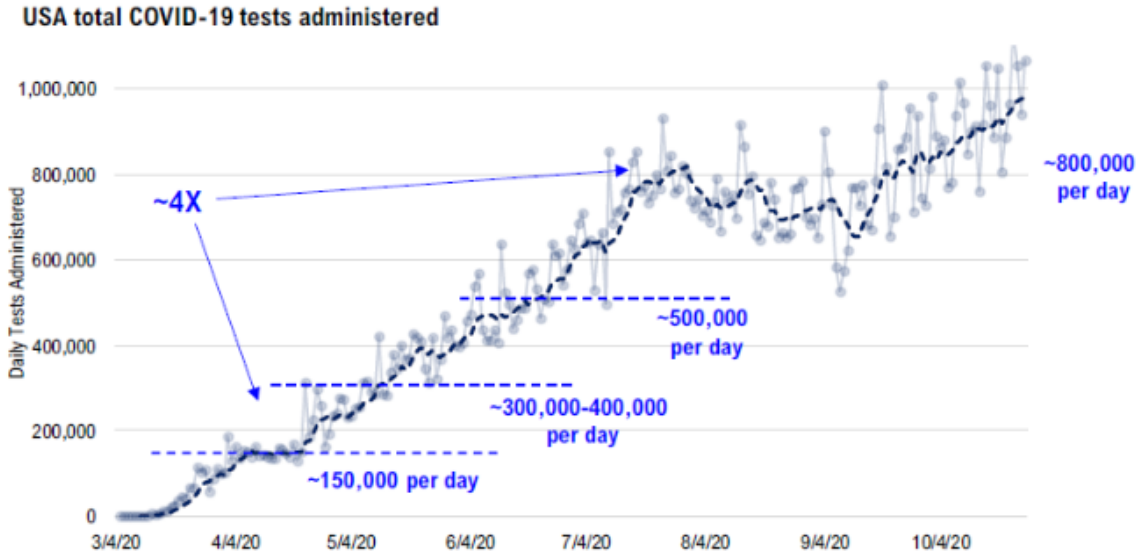
For those who did not watch "Wedding Crashers," a stage 5 clinger is an emergency situation. And the point where US hospitals are running out of beds would bring us to this point. As we discuss in point #2, we are not anywhere close to this point for several reasons --> (i) incremental severity is 1/4th and 1/13th of what we saw in wave 2 and wave 1, based upon incremental hospitalization rate (1% now) and (ii) hospitalizations are not geographically concentrated like wave 1 and wave 2

In fact, based on analysis by our data science team, led by tireless Ken, daily cases would need to exceed 105,000 for US hospitalizations to match what we saw in wave 2. This coefficient analysis is shown below and explained in point #2.



Source: COVID-19 Tracking Project and Fundstrat

Testing in the US has expanded, and that remains a good thing. Testing is as important as therapeutics. Think about the extreme, if Americans could self-test at home everyday with a quick diagnosis, we could significantly improve detection, which helps reduce spread. The positivity rate in the US overall is 6.9% (trending higher) which is a level suggesting the US is doing a decent job of detecting cases at the moment.

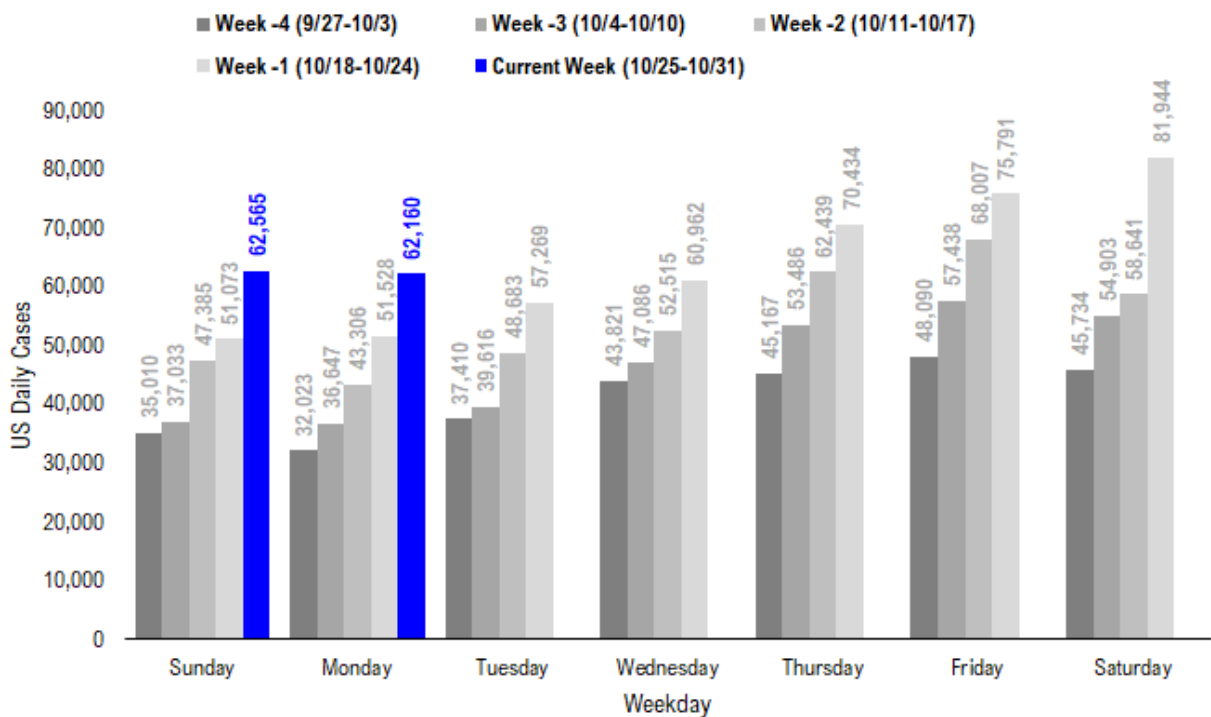


Source: COVID-19 Tracking Project and Fundstrat

**POINT 1: Daily cases 62,160, up 10,632 vs 7D ago -- still more linear than parabolic**

The latest COVID-19 daily cases came in at 62,160, up +10,632 vs 7D ago. Daily cases already hit a new all-time high a few days ago of 81,944, so we are seeing a surge in cases. Last week, we spoke of the likelihood that daily cases would move past 70,000 and we are already past that level.

- Because the spread is primarily in 11 states, we might be nearing peak velocity in those states (daily cases per 1mm >500 trigger policy response)
- Hospitalizations are more important, in our view, and while hospitalizations are rising, the levels are still quite low
- as discussed in point #2, because of the lower incremental hospitalization rate, daily cases would need to exceed 100,000 daily for hospitalizations to match wave 2



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.

- Daily cases are rising vs 7D ago, but the rate of increase is been constant.
- It does not seem to be accelerating (becoming exponential), which is key
- there was 1 day where daily cases surged 23,000 (exponential-like) but it was a 1-day surge



Source: COVID-19 Tracking and Fundstrat

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

Texas	4,418 vs 2,273 (-7D)	+2,145
Florida	3,377 vs 1,707	+1,670
Illinois	4,729 vs 3,113	+1,616
Colorado	2,211 vs 1,072	+1,139
Michigan	3,881 vs 2,909	+972
Connecticut	2,047 vs 1,191	+856
<b>Total</b>		<b>+8,398</b>

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

Tennessee	2,279 vs 3,317 (-7D)	-1,038
Wisconsin	2,883 vs 3,777	-894
California	2,981 vs 3,474	-493
Nebraska	582 vs 734	-152
North Dakota	522 vs 659	-137
Oklahoma	663 vs 774	-111
<b>Total</b>		<b>-2,825</b>

**Daily Case Increases (by State) (10/26)**

% 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			
	10/19/20	10/24/20	10/25/20	10/26/20	vs 7D ago
United States	51,528	81,944	62,565	62,160	+10,632
<b>States:</b>					
1 Illinois	3,113	6,161	4,062	4,729	<-higher
2 Texas	2,273	6,125	3,793	4,418	<-higher
3 Michigan	2,909	3,338	0	3,881	<-higher
4 Florida	1,707	4,471	2,385	3,377	<-higher
5 California	3,474	5,945	5,219	2,981	
6 Wisconsin	3,777	4,062	3,626	2,883	
7 Kansas	2,113	0	0	2,446	
8 Tennessee	3,317	2,574	3,500	2,279	
9 Colorado	1,072	1,828	1,689	2,211	<-higher
10 Ohio	1,837	2,858	2,309	2,116	
11 Connecticut	1,191	0	0	2,047	<-higher
12 Indiana	1,584	2,741	2,153	1,974	<-higher
13 North Carolina	1,144	2,584	1,807	1,643	<-higher
14 Minnesota	1,627	2,259	1,680	1,570	
15 Missouri	1,405	2,918	2,043	1,527	
16 Pennsylvania	1,103	2,043	1,666	1,407	<-higher
17 New Jersey	1,192	1,909	1,129	1,216	
18 Massachusetts	828	1,203	1,077	1,212	<-higher
19 Utah	1,168	1,608	1,765	1,201	
20 New York	998	2,061	1,632	1,191	
21 Alabama	859	2,360	1,079	967	
22 Georgia	752	1,846	1,318	958	<-higher
23 Kentucky	640	1,732	974	924	<-higher
24 Virginia	690	1,088	999	904	<-higher
25 Arizona	748	890	1,391	801	
26 South Carolina	604	795	1,278	767	<-higher
27 Iowa	557	1,640	1,143	747	<-higher
28 New Mexico	514	872	823	723	<-higher
29 Idaho	698	1,021	650	697	
30 Oklahoma	774	1,829	1,051	663	
31 Montana	569	639	738	621	
32 Washington	460	919	649	587	<-higher
33 Nebraska	734	1,225	705	582	
34 Maryland	497	796	792	565	
35 South Dakota	567	939	1,062	538	
36 Arkansas	434	874	667	530	<-higher
37 North Dakota	659	935	845	522	
38 Nevada	582	1,146	891	475	
39 Puerto Rico	427	116	665	461	
40 Mississippi	353	1,212	228	447	<-higher
41 Wyoming	286	260	236	436	<-higher
42 Alaska	202	371	523	348	<-higher
43 Oregon	262	391	362	335	<-higher
44 West Virginia	212	320	194	317	<-higher
45 Louisiana	202	0	974	222	
46 Delaware	103	160	114	207	<-higher
47 Rhode Island	85	465	274	167	<-higher
48 Guam	81	34	41	120	<-higher
49 New Hampshire	52	126	90	69	<-higher
50 Maine	23	42	64	53	<-higher
51 District of Columbia	25	97	61	45	<-higher
52 Hawaii	36	87	120	38	
53 Vermont	9	29	29	9	
54 Northern Mariana Islands	0	0	0	4	
55 U.S. Virgin Islands	0	0	0	2	
56 American Samoa	0	0	0	0	

Source: COVID-19 Tracking and Fundstrat



**POINT 2: Wave 3: to match peak "hospitalizations," daily cases >105,000**

**Two reasons hospitalizations are not yet worrying...**

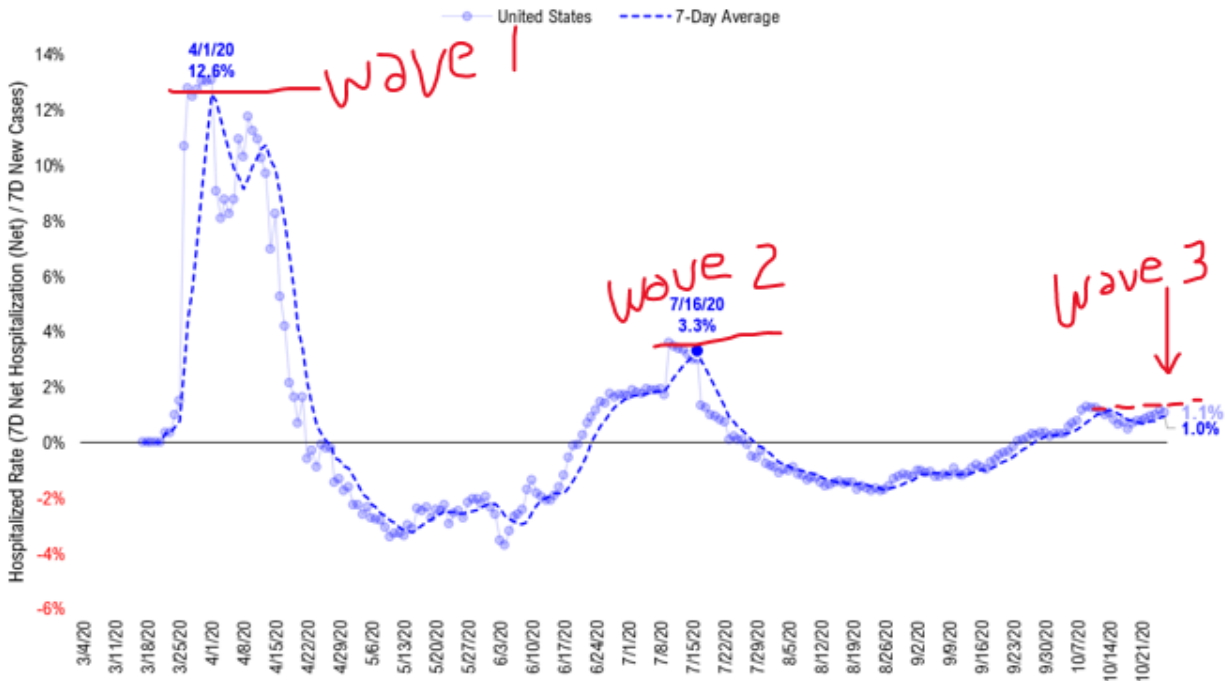
In fact, while there is a lot of media coverage of a surge in hospitalizations, that is the minority of areas in the US. There has not been any massive surge in hospitalizations. There are two reasons for this:

- the incremental hospitalization rate (coefficient) is still very low
- hospitalizations are occurring in a wider set of states, and so far, hospitalization intensity is low everywhere

**The hospitalization rate is only 1% vs 3.3% in wave 2 and 13% in wave 1...**

Below shows the incremental hospitalizations for the cumulative 7D rise in cases. That is, how many incremental confirmed cases require hospitalizations. This figure is only 1% currently.

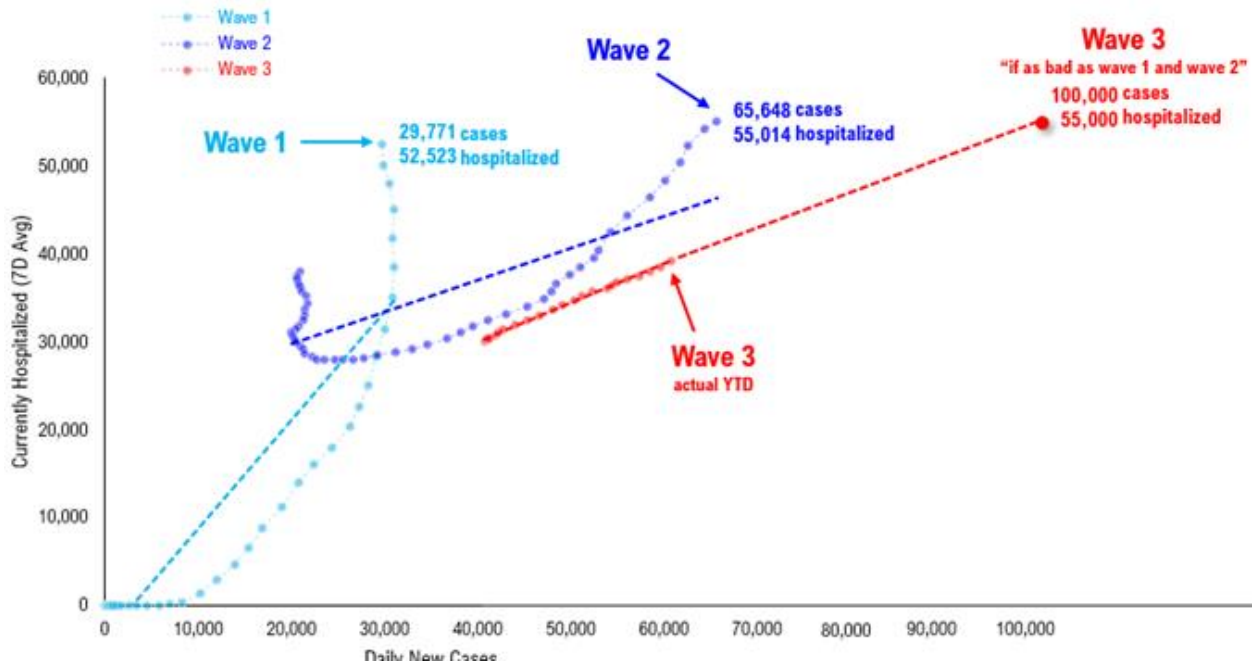
- this compares to 3.3% in wave 2 and 13% in wave 1
- healthier cohorts and better treatment explain this



Source: COVID-19 Tracking Project and Fundstrat

The coefficient is currently so low, that daily cases would need to reach >105,000 per day for hospitalizations to match what we saw in wave 1 and wave 2. The coefficient is plotted below, with daily cases on the x-axis and currently hospitalized on the y-axis.

- daily cases are averaging 60,000 now, so daily cases need to roughly double, before we see hospitalizations match the prior waves



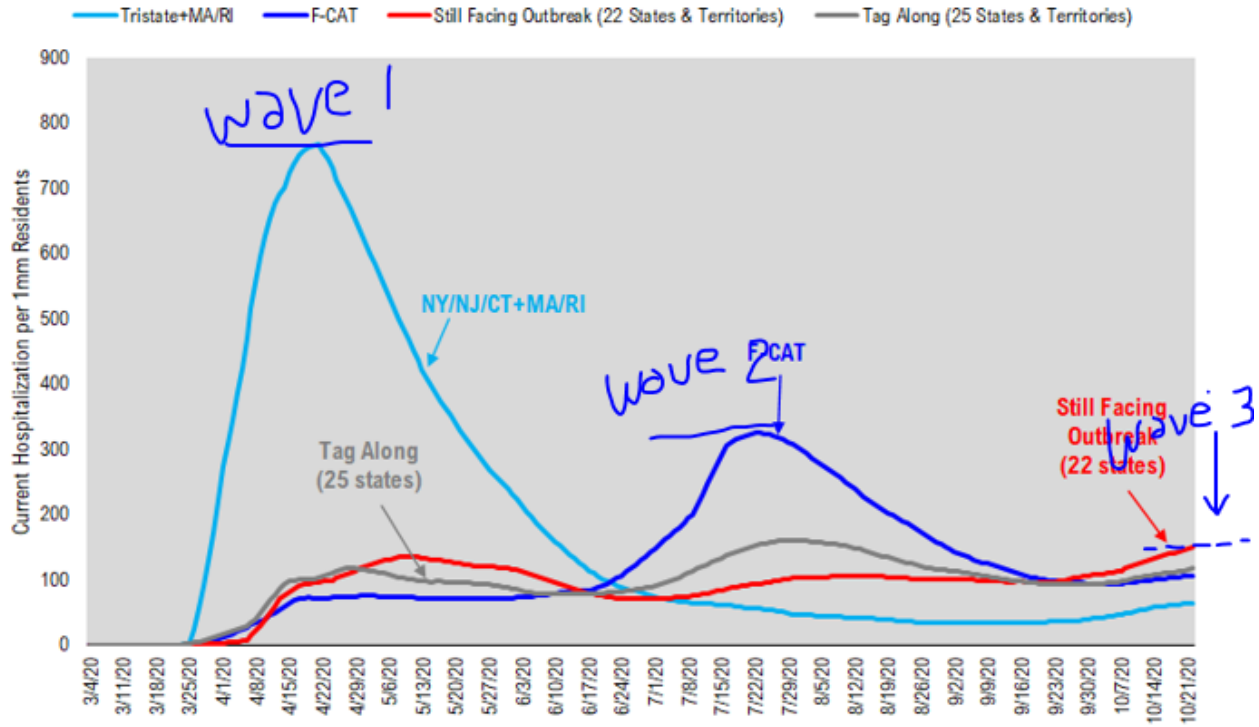
Source: COVID-19 Tracking Project and Fundstrat

***But the broader spread of hospitalizations means less intensive use of local hospitalizations...***

The other factor that makes hospitalizations less worrisome, is that few hospitals will really run out of capacity, relative to other waves. Below is a chart showing the rate of hospitalizations, or more specifically, hospitalizations per 1mm residents:

- the level of hospitalizations per 1mm residents is still under 100 in every region.
- in NY tristate, this got to >750 in wave 1
- in F-CAT, this got >300 in wave 2

So, we are hardly at the level of hospitalizations that warrants fearing a massive surge in hospitalizations. Unlike past waves, because this is reaching a much broader set of states, we are also seeing local intensive utilization of hospital resources.



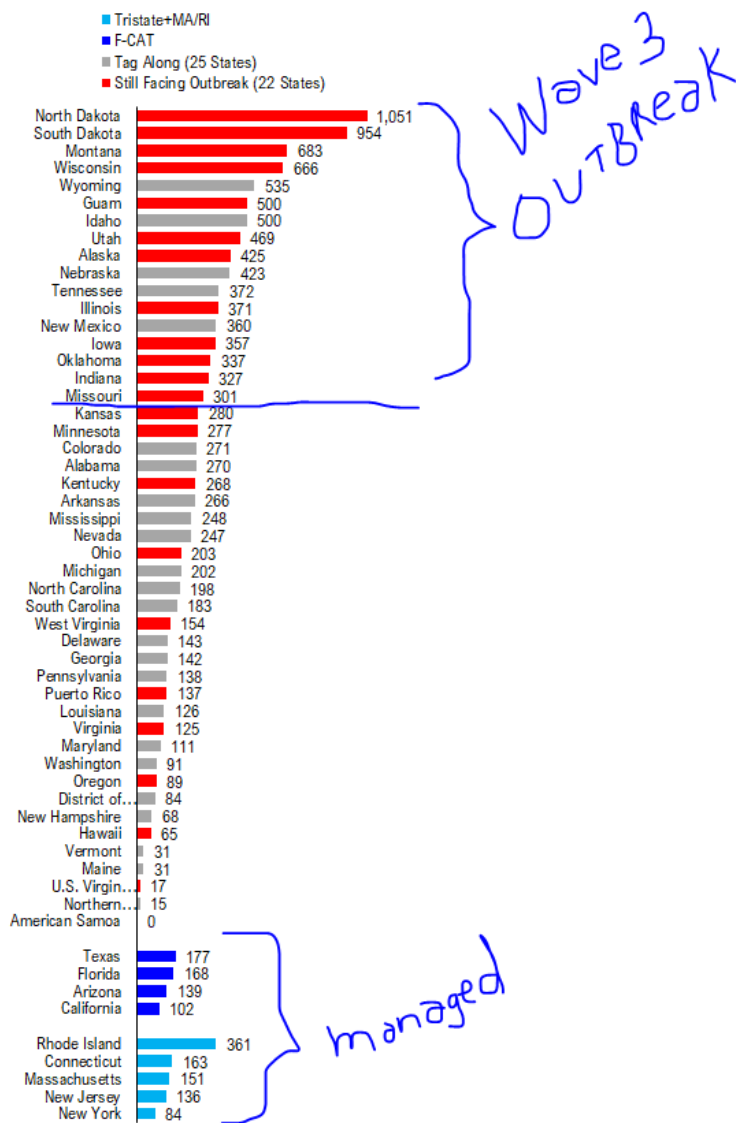
Source: COVID-19 Tracking Project and Fundstrat

**POINT 3: Wave 3 still driven by 15-16 states. If so, chances higher that daily cases peak by month end...**

The path to reaching a new all-time high in US cases varies from wave 1 and wave 2, to the extent that we are seeing a much broader geographic reach in new cases. Almost as if COVID-19 is sweeping across areas of the US that previously did not see as much an impact from wave 1 and wave 2. In fact, if we look at the color-coded states below, based on daily cases per 1mm residents, we can see the 15-16 states at the heart of this wave 3 outbreak.

- these states have daily cases per 1mm >300
- >300 daily cases per 1mm is where wave 1 and wave 2 regions peaked
- at that point, we expect policymakers to react and mandate masks, etc.

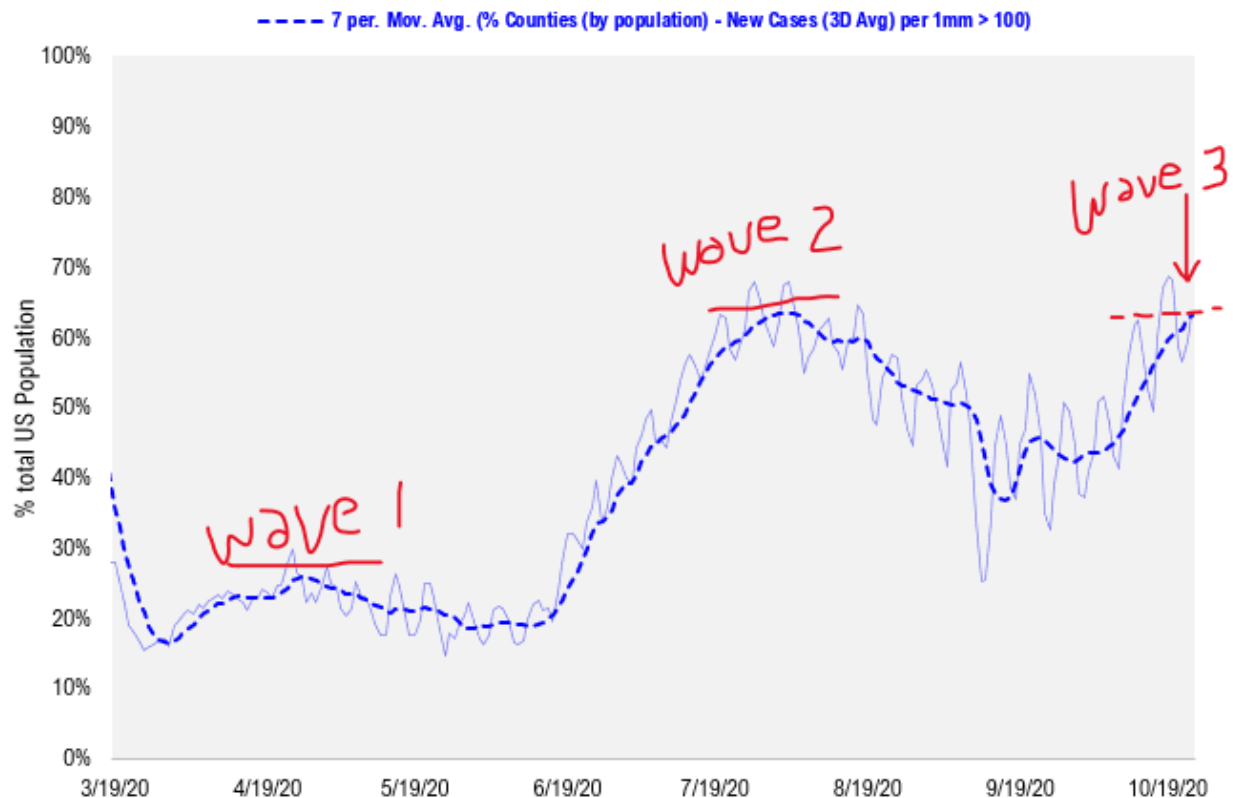
**Daily cases per 1mm (7D avg)**



Source: COVID-19 Tracking Project and Fundstrat

Another way to see COVID-19 wave 3 is to measure what % of the US has daily cases >100 per day (per 1mm residents). This figure measures the spread across the US.

- wave 1 was concentrated in NY tristate, so less of USA involved
- wave 2 saw 60% of the US with daily cases >100
- wave 3 is similar to wave 2 now



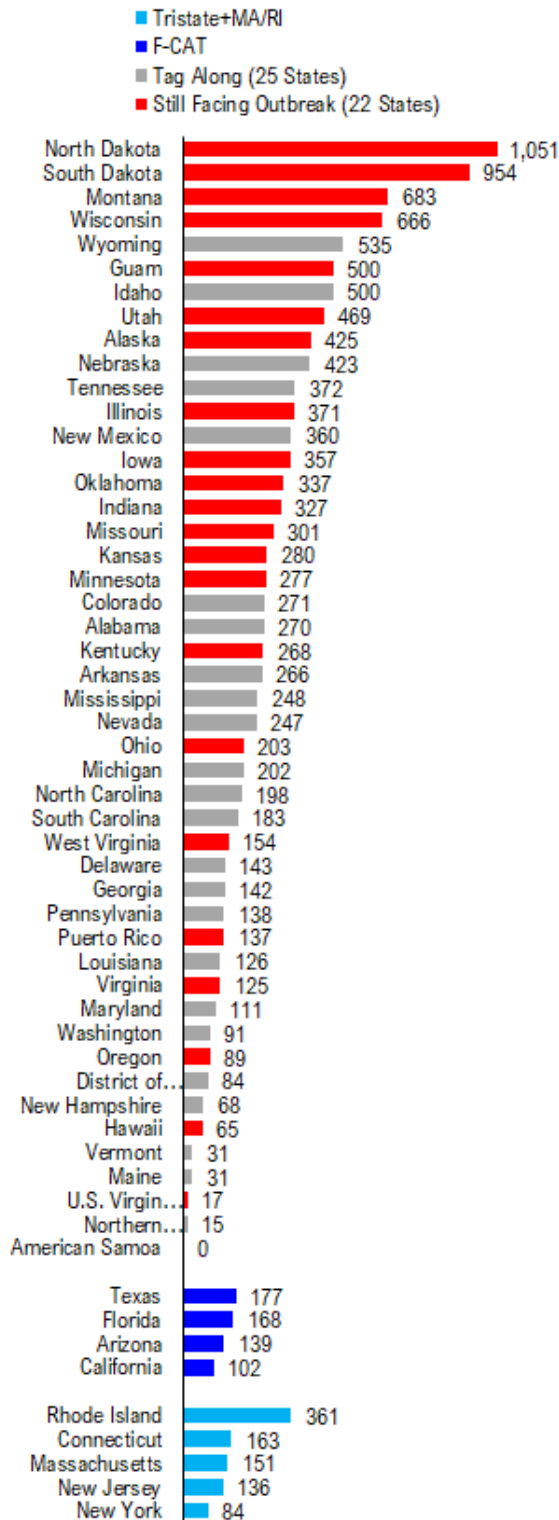
Source: COVID-19 Tracking Project and Fundstrat

So this gets back to our question, whether we see daily cases rise linearly or go parabolic. A parabolic surge would be bad. We can look at the US 50 states and see how the daily cases have increased over the past two weeks.

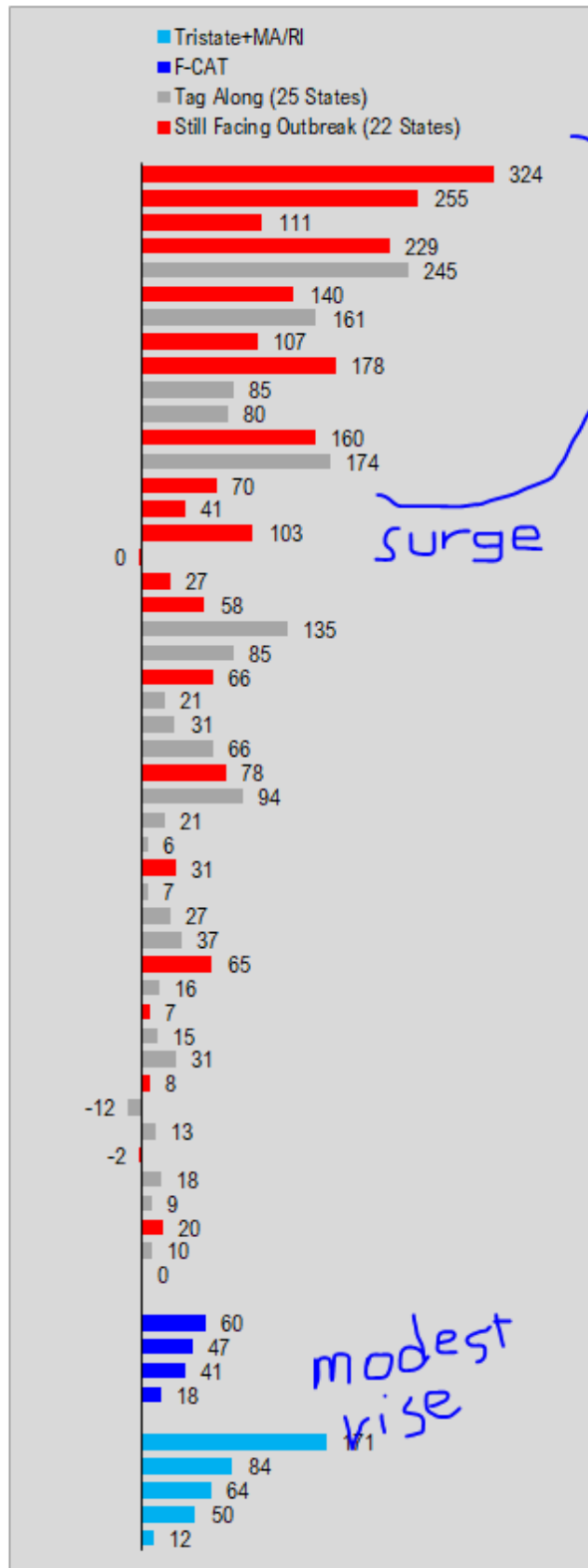
- the delta looks very linear for much of the US
- but it looks parabolic for those 15-16 states

These are the states to watch. When daily cases peak here, we could be looking at US cases peaking.

### Daily cases per 1mm (7D avg)



### Delta vs 2 weeks ago



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.**