



## Market Commentary: Is the Public Health and Economic Policy Response Adequate?

April 2020

*Driving up Avenue of the Americas (6th Avenue in NYC) there is no traffic, almost no people beyond sporadic groups waiting on food lines at the grocery store, all with face masks, police cars everywhere, empty buildings. It is surreal. - 10:00am Saturday, May 2nd.*

We hope all are safe and healthy. Please reach out - we are here for you.

I am thankful for family health and (mostly) harmony. That we live in a time when we are able to almost immediately identify a virus and have the tools to reasonably beat it in a relatively quick time frame relative to history--whatever that time frame may be, we will set records. It will not even be close. While we wait, technology allows us to be more productive (or conversely, unproductive via entertainment) than ever. The degree of technological advantage over the virus and the ability to produce are key to future market performance, with the specifics caught up in the odds and timing.

McKinsey & Company consulting recently published a presentation meant to assist senior leaders in understanding the effects of COVID-19 in order to navigate their respective companies through this period. It is a very good read. One chart in particular, shown below, really captures what we believe to be the essence of health scenarios and economic reaction (page 21 / 22). The Y-axis represents the efficacy of public health response to the virus while the X-axis represents economic policy response in supporting markets through the virus. The lines in each of the 9 charts reflect estimates of how the economy will fare through a measurement of Gross Domestic Product (see link below for GDP overview). For example, the

worst-case scenario would be a broad failure of public health interventions coupled with ineffective monetary policy resulting in no recovery. The percentages in the upper right corner of each box represent what senior executives expect to occur (results of a survey).

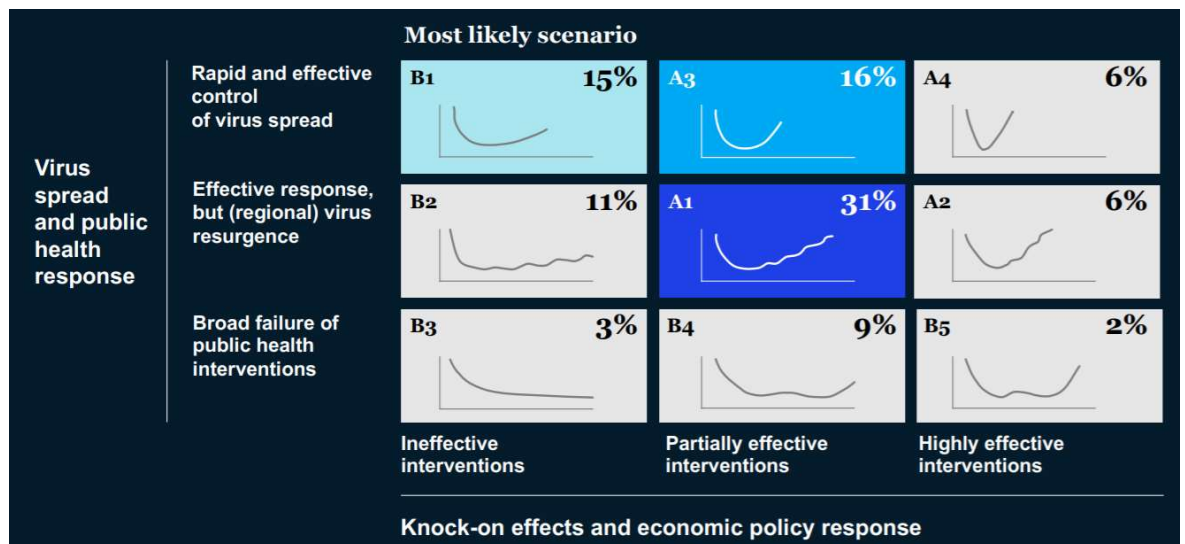


Chart: <https://www.mckinsey.com/-/media/mckinsey/business%20functions/risk/our%20insights/covid%2019%20implications%20for%20business/covid%2019%20april%2013/covid-19-facts-and-insights-april-24.ashx>



As can be seen from the chart, most executives expect a partially effective economic intervention while being split on the virus spread and response. This is not too surprising considering it feels much harder to predict the outcome of a virus that just made itself known less than a half year ago. Note that there is also the issue of the qualitative nature of the questions which means that two executives may perfectly align on how this plays out but select different scenarios in defining what they believe. Nevertheless, to us this chart does capture the crux of the issues as well as reasonable outcomes, based on the responses.

We are cautiously optimistic as there is reason to believe that the worst-case scenarios are highly unlikely. Let's take economic policy first:

As US and world markets rapidly readjusted expectations, we had the fastest ever market drop followed by the quickest recovery to date. Some of this volatility can most likely be attributed to more automated trading and algorithms coupled with less liquidity as compared to historical market structure. In fact, credit markets totally froze for roughly a two-week period. However, the Fed moved quickly, much quicker than in 2008 - perhaps due to lessons learned - in pumping liquidity and restoring market structure. Fed fund rates were very quickly lowered to 0%, allowing for fiscal easing (i.e., lower rate borrowing). Furthermore, the government acted rather quickly in introducing \$2 trillion worth of "bailout" for the economy. Government has been easing and bailing out now for the most part since 2008 with no immediate end in sight. Though at some point there will be a bill due which either means impressive growth with flat government spending and low interest rates or, more likely, higher taxes. In an election year with world governments and central banks conditioned to throw money at any problem, it is hard to imagine an economic policy that is less than at least partially effective.

The world seemed a bit rusty in getting back to what worked historically - the quarantine. Perhaps this is due to a combination of luck and incredible advances in medical technology. Importantly though, for most of history, the quarantine was all we had. There were considerable times in history where disease was simply thought of as an act of God. In comparison, we identified the virus almost immediately and have roughly 300 different material therapeutic and vaccine candidates in progress. One of the reasons for human supremacy over all (for good and bad) is our team work. It is the reason 30 humans beat 30 stronger animals (pick your favorite--I will go with tiger just to play into the whole "Tiger King" phenomenon...) given enough physical space. Humans will work together. Animals generally do not, and when they do, they are not too flexible. The global community is throwing resources at this with huge computing capability behind it all. On top of developing medicines and vaccines, the medical community is slowly tackling bettering treatment and saving lives with tools that already exist. There are countless examples of novel approaches given the way symptoms are showing. In short, it is hard to believe that we will not continue to make progress. Ultimately, we will overcome this.



In that capacity, it remains hard to see an outcome based on these key determinants that results in an economy that remains in a flatline. This would carry over to the markets. That does feel like good news. However, we also believe that there has already been some irreversible damage done to business, meaning we are most likely past the quick pop back expected earlier in the virus's evolution.

We continue to analyze risks in the market and what the new normal may look like. As referenced in our recent Explorations, we are analyzing what secular trends may come out of this and are active on behalf of our clients where we see risk and opportunity.

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#### Links:

- Vaccine and Therapeutic Tracker
  - <https://milkeninstitute.org/covid-19-tracker>
- GDP
  - <https://www.investopedia.com/terms/g/gdp.asp>
- McKinsey & Company Deck
  - <https://www.mckinsey.com/-/media/mckinsey/business%20functions/risk/our%20insights/covid%2019%20implications%20for%20business/covid%2019%20april%2013/covid-19-facts-and-insights-april-24.ashx>

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