

The Outlook: March 18, 2020

When grim news is also positive.

We are sending out a lot of “Outlooks” these days, aren’t we? And they always find something positive to say, no matter how terrifying the market’s behavior, don’t they? That means one of two possible things about Outlook Capital Management: either we’re hopeless optimists, blind to the facts about the long-lived catastrophe driving today’s market and economic meltdown; or we’re right.

We’re writing so often because panics are so good at persuading investors to do the wrong thing. Fear is the hardest thing we deal with in life—or at least it’s one of the hardest things. 44 years in the investment world has not made us experts at pandemics, viruses or a great many other things. But it *has* made us experts at understanding the nature of the market, and the way fear works on the market and on us normal human beings. It makes us all inclined to believe the worst; and it tries to persuade us to look past the positive parts of the whole picture, or even think they don’t exist.

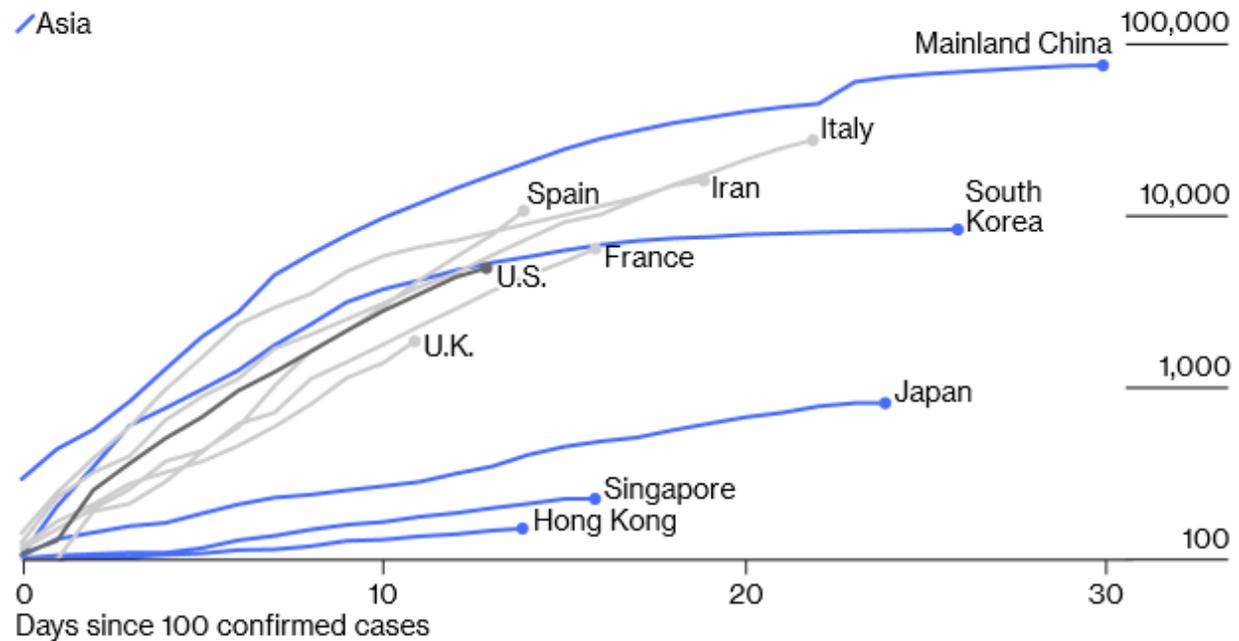
The turning point, for this market, will happen when the daily flow of statistics and facts provide the first sense that infections and deaths will not run wild, in the U.S., as they did in Wuhan and Italy (so far.) That will be followed by the first, small “return to work and normal economic activity” steps taken by the public and private sectors. Those small steps will gradually accelerate after a slow start. We say those return-to-work steps will follow improving facts about the Virus, instead of preceding them, because at this moment it would require politicians to show a lot of courage, and a blunt discussion of hard tradeoffs, to “lead” rather than “follow” better Virus news . . . and it’s never a good idea to *expect* those things from the political sector. (Though history tells us we will be pleasantly surprised, from time to time.)

That kind of “better Virus news” is going to come. For Outlook’s clients and friends with time for a deeper analysis, we’ve attached a very good piece by Richard Epstein. He’s a lawyer, not a doctor . . . but he is trying to look at the whole picture, not just its blackest corners. Under the heading of “Shorter!” here are just a couple of recent items, which we call “isolated facts pointing to brighter corners of the picture.”

First, the “curves.” They have different shapes . . . but they’ll all do the same thing in the end.

Spread of Coronavirus Has Slowed in Asia

Europe, U.S. seeking ways to reduce increase in infections



Sources: World Health Organization, NHC and Bloomberg reporting as of March 17, 2020 18:00 GMT
Note: WHO reporting began on Jan. 21. Chart shows only the first 30 days with more than 100 cases for each area.

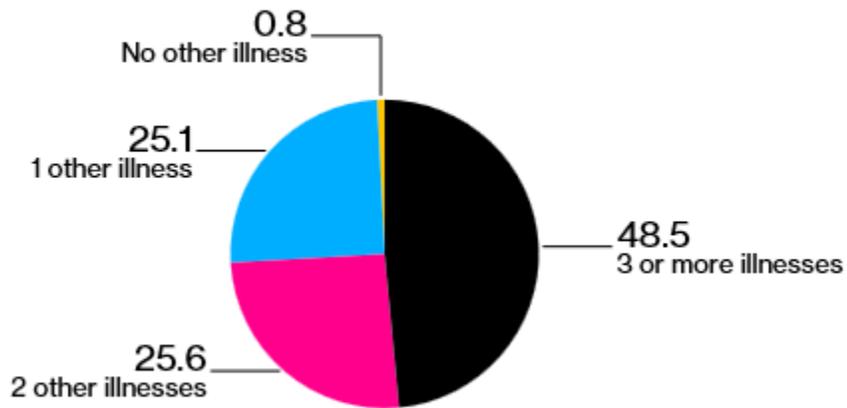
Next, 2 charts from Italy, which has been in the grimmest of places so far. Here is the headline over those charts.

99% of Those Who Died From Virus Had Other Illness, Italy Says

“The median age of those who’ve died from the virus in Italy is 80.5. As of March 17, 17 people under 50 had died from the disease. All of Italy’s victims under 40 have been males with serious existing medical conditions.”

Italy Coronavirus Deaths

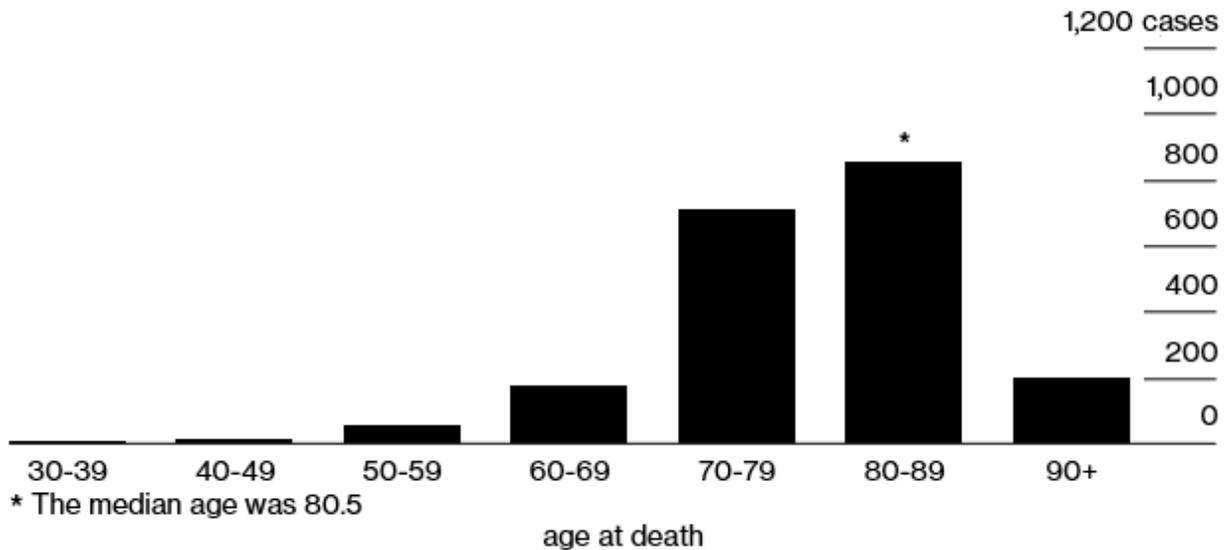
By prior illnesses (%)



Source: ISS Italy National Health Institute, March 17 sample

Threat to the Elderly

The median age of the infected is 63 but most of those who die are older



Source: ISS Italy National Health institute, March 17 sample

Of course these aren't "brighter" or "positive" facts. They're sad, and grim. But they are crucial facts for governments who will have to make the hard choices, in the not-too-distant future, to let their economies go back to work without eliminating more sad and grim news in the future—but instead emphasizing the protection of the Virus' high-risk targets.

Here's one last "sad and grim" fact . . . which still points to something more positive. A headline from today's Wall Street Journal:

Staff at Kirkland Facility With Coronavirus Outbreak Spread It to Other Facilities, Study Finds

Poor procedures fueled the explosive outbreak of the new coronavirus at nine Seattle-area nursing homes.

The group of Seattle-area nursing homes in which the Virus first exploded, in the U.S., was mostly just unlucky . . . because they were the first. The homes and their staff simply didn't understand what they were dealing with, so were slow to go into emergency prevention mode. The "positive," of course, is that the Kirkland experience warned everyone else around the country. It would be hard to find a nursing home, rehab center or assisted living facility which isn't in total "emergency prevention mode" today.

People do learn and adapt very fast in a free country, with free communications. That's the main reason the U.S. line in our top chart (the "Curves") will flatten out like those in Hong Kong, Singapore, Japan, South Korea and probably even China (whose statistics need an asterisk, as everyone knows by now.) As the flattening-out sinks in, the Virus Shutdown will begin to loosen up. The U.S. economy will have taken quite a punch, but nothing close to a knockout blow.

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