



# The Coronavirus Crash: Reviewing Our List of Themes

Market Viewpoint: March 31, 2020

*Summary: A series of individual reviews for each active MRP theme, specifically addressing the effects of COVID-19 on each of MRP's current and recently suspended themes, as well as the broader macroeconomic outlook.*

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COVID-19 has undoubtedly been the most dramatic black swan event since 9/11. The initial spread of the virus in China prompted concerns about global manufacturing, supply chains, and growth, but the infection of Western nations has proven even more consequential for global markets.

At the time of this publishing, the total diagnosed cases number nearly 800,000, with about 590,000 of them being active cases. Virtually all nonessential businesses have shut their doors across much of the US and a large number of other countries. Mass layoffs have begun.

22 States have issued stay at home orders, as "social distancing" has become the term of the month. According to Business Insider, the state and city populations affected by some kind of stay-at-home order add up to approximately 160 million people – nearly 49% of the US population – and counting.

As a result, the economic and financial landscape of many key markets has seen dramatic shifts since the beginning of March. In the US, interest rates have plummeted, unemployment is surging, and second quarter GDP growth is all but certain to crater below 0%, perhaps diving all the way to a double digit decline. US initial jobless claims have skyrocketed to a record 3.28 million in the week ended March 21, up from just 211,000 two weeks ago.

In February, FactSet data indicated that YoY earnings growth for the S&P 500 turned positive again in Q4 2019, ending an earnings recession that had lasted three consecutive quarters. However, uncertainty has now enveloped most earnings projections as many companies have suspended their guidance until the extent of the Coronavirus impact comes into clearer focus. At its lowest, the S&P 500 index had knocked off 1/3 of its all-time high – a peak reached only one month prior.

At McAlinden Research Partners, we have been tuned-in nonstop to the news, data and market gyrations, continuing to produce our Daily Intelligence Briefing reports and doing our best to ensure we are up to date on anything and everything that could help our clients protect their assets and look ahead to what's next when this virus does pass.

So much has changed since our last Viewpoint, we feel it is time to update our list of themes accordingly.

## Recently Closed Themes

While MRP's themes are based on thematic, disruptive change in entire industries, technologies, and business models, Coronavirus has indeed eroded the fundamental rationale underlying several of our themes, and, for that reason, we have recently closed them



Joseph J. McAlinden, CFA, is the founder of [McAlinden Research Partners](#) (MRP) and its parent company, Catalpa Capital Advisors. He has 50 years of investment experience. Mr. McAlinden founded Catalpa Capital in March 2007 after leaving Morgan Stanley Investment Management where he had spent 12 years, serving first as chief investment officer and later as chief global strategist. During his 10 year tenure as chief investment officer, he was responsible for directing MSIM's daily investment activities and oversaw more than \$400 billion in assets. As chief global strategist, he developed and articulated the firm's investment policy and outlook. Prior to Morgan Stanley, Mr. McAlinden held positions as chief investment officer at Dillon Read and as President & CEO of Argus Research.

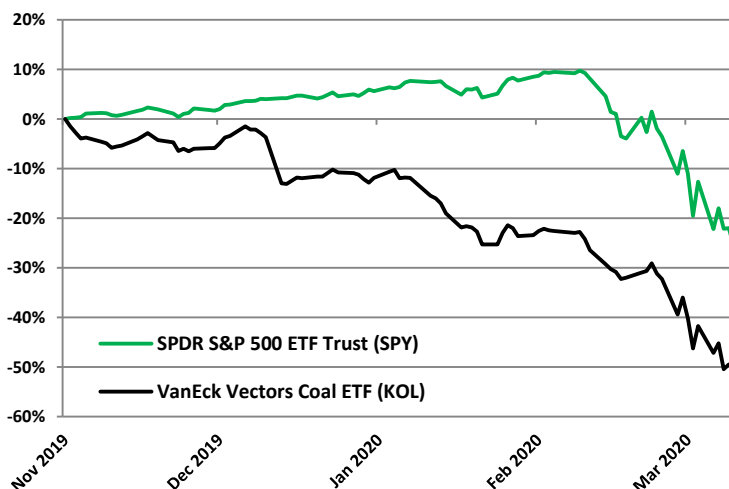
## - SHORT Coal

MRP added SHORT Coal to our list of themes on November 9, 2019 following a short rally in coal futures, in spite of declining financing for coal projects around the world and US coal-fired power plants having down at the second-fastest pace on record (roughly 15,100 megawatts (MW) of coal-fired electricity generation went offline in 2019).

New solar or wind-powered plants are now cheaper than building and using a new coal-fired generator in most developed markets, but we believe the economic downturn in some markets with large coal plants operating will boost coal demand in the short term, driving up spot prices in the coming months as countries like China and Japan take advantage of cheap fossil fuels to help their economies recover from the disruption wrought by the coronavirus pandemic.

The VanEck Vectors Coal ETF (KOL) was cut in half, declining an even 50%, between November 9, 2019 and March 20, 2020. The S&P 500 declined almost 22% over the same period.

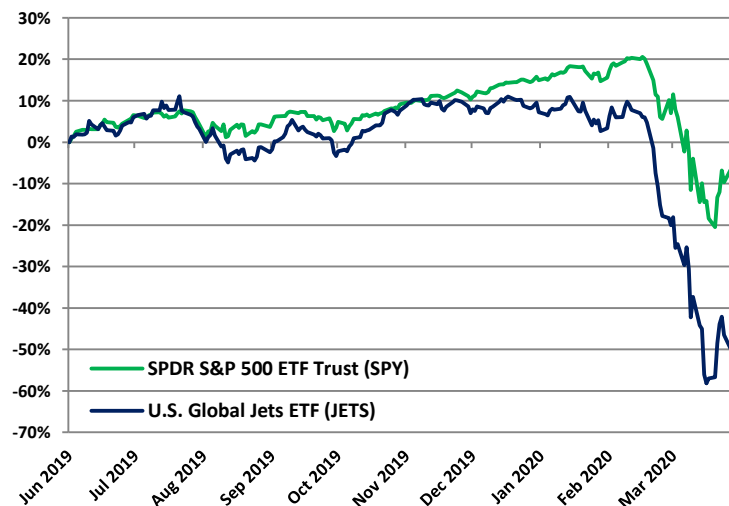
**Coal (KOL) vs S&P 500 (SPY)**  
November 2019 - March 2020



## - SHORT Airlines

MRP added SHORT Airlines to our list of themes on June 4, 2019 due to the International Air Transport Association cutting the global air traffic industry's 2019 profit expectations by more than 21%. Compounding this pressure, airlines who were forced to cancel thousands of flights through June, due to the grounding of Boeing's 737 MAX jets, have now extended those cancellations all the way to September for United and American Airlines, and October for Southwest Airlines. Cancellations became even more intense when the outbreak of Coronavirus brought travel demand close to a complete halt. Closed borders and travel bans have hampered any hope for non-essential international flights and even domestic flights across the US have slowed to a trickle.

**Airlines (JETS) vs S&P 500 (SPY)**  
July 2019 - March 2020



The Coronavirus has slowed global air traffic to a trickle, threatening many airlines and aviation manufacturers with bankruptcy. There is even speculation that US airlines could ground all international and domestic flights for a short time to protect capital.

However, airlines have bounced back following the passage of the aforementioned US stimulus bill, which includes \$56 billion for support of airlines. Boeing, a critical piece of the American economy, will undoubtedly receive funds to remain solvent ([though the company remains plagued by the global grounding of the 737 MAX](#)). Additionally, a cessation of all flights could actually be beneficial for airline stocks as so many are actually losing money on half-empty, or even fully empty, commercial flights.

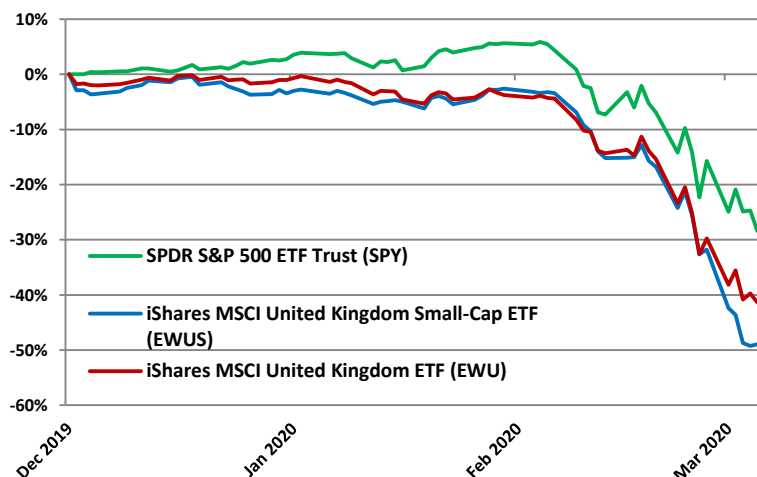
While the immediate outlook is still overwhelmingly negative for airlines, the sector's equities are certainly the hot ticket right now as many expect bailout loans to keep most publicly-traded airlines from disintegration in the longer-term. For this reason, we have decided to suspend the theme.

The US Global Jets ETF (JETS) declined 50% between June 4, 2019 and March 27, 2020, versus an S&P loss of 7% over the same period.

### - LONG UK Equities

MRP added Long UK Equities to our list of themes on December 16, 2019 due to renewed political and economic stability following the country's latest election, and the resulting Conservative Party majority. Global funds have been underweight UK equities for three and half years on account of the Brexit-related political impasse that has led to a decline in business spending, capital flight out of sterling assets, and an economic slowdown.

**United Kingdom (EWU, EWUS) vs S&P 500 (SPY)**  
December 2019 - March 2020



Boris Johnson's majority electoral win, a few days earlier, had finally broken the Brexit-related political impasse that had led to depressed business spending, capital flight out of sterling assets, and an economic slowdown. In our view, the upcoming economic stimulus that Johnson was pledging would be a positive catalyst for the UK economy and UK stocks.

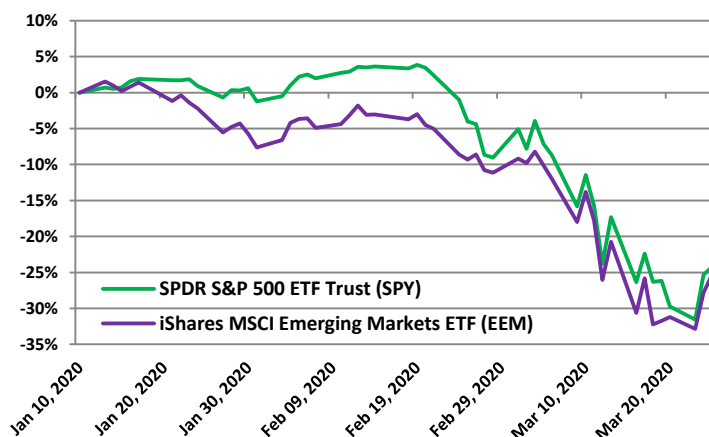
We continue to believe these things. However, the coronavirus outbreak and its negative impact on business activity in the UK will likely stall the economic expansion and equity market outperformance we had anticipated. As such, we are suspending the theme until further notice.

In the three months since MRP launched the theme, the iShares MSCI United Kingdom Small-Cap ETF (EWUS) and the iShares MSCI United Kingdom ETF (EWU) have declined by 49% and 40%, respectively. In comparison, the SPY lost 28%.

### - LONG Vietnam & LONG Emerging Markets

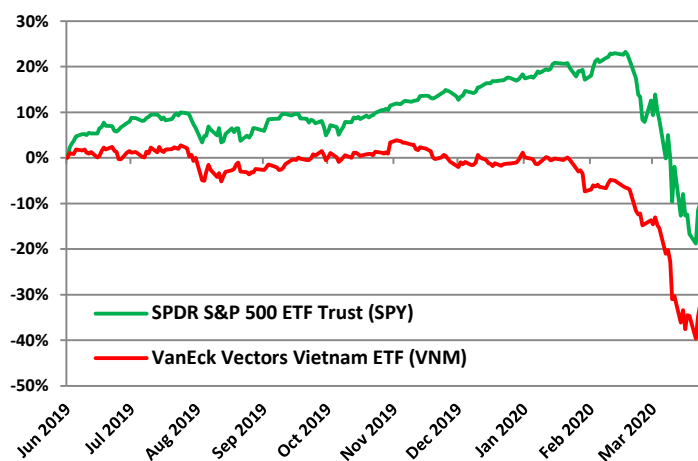
MRP added LONG Vietnam Equities to our list of themes on June 3, 2019 due to the country's expanding manufacturing capacity that made it the second largest electronics exporter in ASEAN. The ongoing US-China trade war and resulting tariffs on Chinese exports to the US has also shifted a large amount of manufacturing from the Chinese mainland to their Vietnamese neighbor.

**Emerging Markets (EEM) vs S&P 500 (SPY)**  
January 2020 - March 2020



### Vietnam (VNM) vs S&P 500 (SPY)

June 2019 - March 2020



Additionally, MRP added LONG Emerging Markets to our list of themes on January 10, 2020 due to an expected weakening of the US Dollar that would lighten Dollar-denominated debt loads for major EM economies and boost commodity prices.

However, emerging markets, including Vietnam, were slammed in early 2020 by the genesis of COVID-19 in China and the inevitable spread to other Asian markets. While the initial outbreaks in many Asian EMs appeared to have been mild, there is a good chance that lack of testing resources may have vastly understated the number of cases in a number of countries. Anxiety is running high in places like Indonesia and India as there is no telling how widespread cases could be, and the latter has even enacted a 21-day lockdown of the country.

In light of these uncertainties about how Coronavirus will continue to impact key EM economies in Asia, we have decided to suspend each theme.

Between June 3, 2019 and March 25, 2020, the VanEck Vectors Vietnam ETF (VNM) declined 32% vs a decline in the S&P 500 of 10%.

Since we launched LONG Emerging Markets, the iShares MSCI Emerging Markets ETF (EEM) fell about 25%, versus a similar fall in the S&P 500 of 24% between January 10 and March 25, 2020.

### - LONG US Banks

MRP added Long US Banks to our list on themes on November 14, 2019 due to a confluence of factors that we believed would enable the group to outperform in 2020. At the time, the yield curve was steepening, funding was cheap, and banks were partnering with Big Tech in ways that would expand their reach.

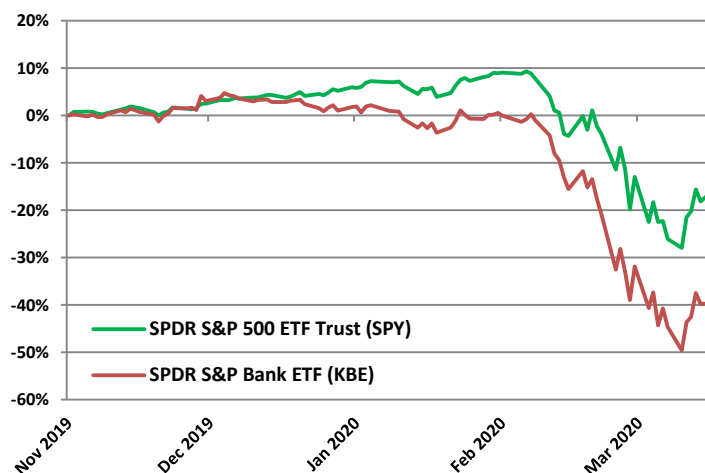
Four months into this theme, the central banks around the world, the US Federal Reserve included, have embarked on a massive rate-cutting spree. Over the course of the last month, the Fed Funds rate has been cut by 150bps.

The US economy is now likely to fall into a deep recession and previously healthy bank loan books are likely to deteriorate in quality as financial institutions are set to increase lending to offset lower interest rates. In light of these developments, MRP has suspending the theme.

Since we launched Long US Banks as a theme, the SPDR S&P Bank ETF (KBE) returned -40%, underperforming S&P 500's return of -15% over the same period.

### US Banks (KBE) vs S&P 500 (SPY)

November 2019 - March 2020



## Active Themes

### - LONG Agricultural Commodities

[MRP added Long Agricultural commodities to our list of themes on April 4, 2019](#) due to historic flooding that has devastated the Midwestern US's planting season, as well as African Swine Fever ripping through China's hog population.

While the combination of trade tensions and the subsequent breakout of Coronavirus muted last year's weaker than usual harvest, US futures are back on the rise again as demand for agricultural exports to China begin to rebound. CBOT soft red winter wheat futures were on track for their fourth straight day of gains and hit their highest since Feb. 24. Reuters reports that wheat rose 7.4% for the week ended March 20, marking its biggest weekly gain since May.

A 756,000-tonne corn sale to Chinese importers was also announced last week as part of the US-China Phase-1 trade deal. The deal is China's biggest purchase of US corn since July 2013. Though there was lingering doubt about Chinese commitment to large increases in orders of US farm goods through 2020 and beyond, in light of the Coronavirus' effect on China's economy, this initial sale should inject some optimism into futures markets.

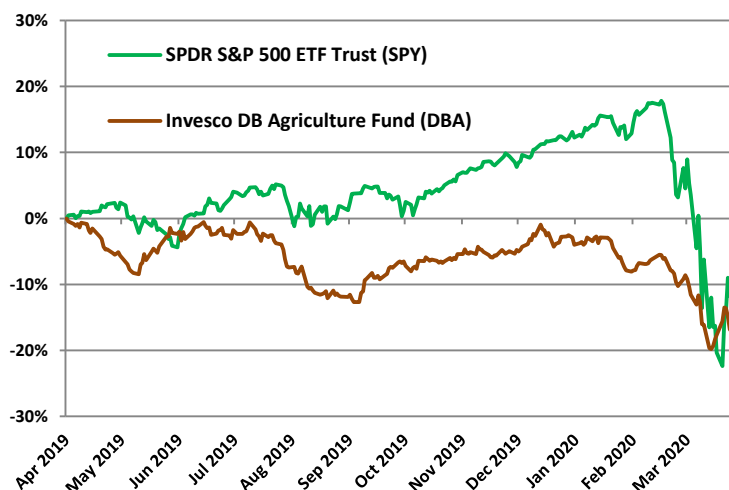
Another major crop MRP is watching is coffee. We've previously highlighted swarms of locusts in East Africa, as well as flooding in Brazil as major catalysts for a rally in coffee prices, but Bloomberg has recently reported that Coronavirus will also have an impact on global supplies. Volcafe Ltd. told clients that logistical holdups are expected to become "more widespread" throughout major producing countries, according to a memo sent to clients. These holdups could become more intensified by plunging air freight capacity and difficulty finding enough farm workers in key regions like South America, as well as truck drivers and shipping crews. Reuters writes that coffee importers in some of the largest consuming countries are stockpiling, bringing forward orders by up to a month to avoid potential shortages.

Finally, the global meat and livestock market, bolstered through the end of 2019 by a gigantic surge in imports by China, saw prices decline rapidly when Coronavirus caused complete gridlock at the country's ports. Beef prices have fallen as much as 20% in 2020, but that trend should reverse, along with poultry and pork, as supply chains start flowing again.

Due to African Swine Fever, along with the precautionary kills that come along with it, wiping out about half of China's massive hog supply in 2019, the country's shortfall in meat is now [likely to be anywhere from 22-25 million tonnes](#), and it remains to be seen how that gap will be completely filled. Though Chinese pork imports jumped an estimated two-thirds last year, and the USDA predicts another 42% rise in 2020 to 3.7m tonnes, there is not enough pork in the world to fill China's needs. This has pushed the country to rely on imports of other types of meat, which will push futures contracts up across the board.

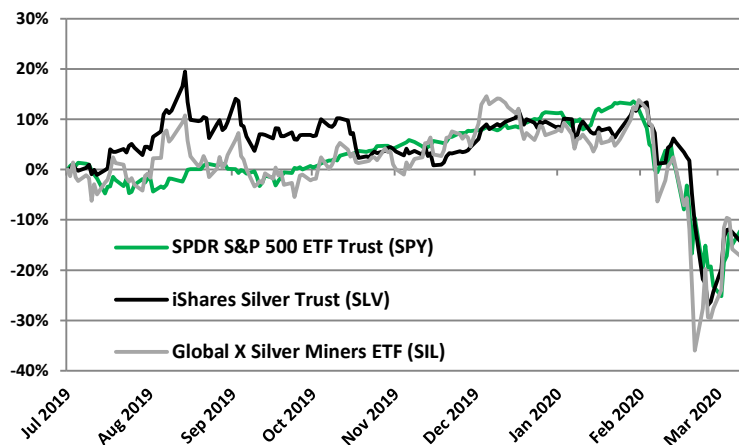
### Agricultural Commodities (DBA) vs S&P 500 (SPY)

April 2019 - March 2020



## - LONG Silver & Silver Miners

**Silver (SLV) vs Silver Miners (SIL)  
vs S&P 500 (SPY)**  
July 2019 - March 2020



[MRP added Long Silver & Silver Miners to our list of themes on July 22, 2019](#) due to precious metals lagging US equities over the last decade. But a shift in the global macro landscape, particularly the rapid rate cuts from the Federal Reserve, will drive the Dollar down in months to come, bolstering precious metals.

Though precious metals are traditional “safe-haven” assets, they have not been spared by the Coronavirus. Though gold and silver enjoyed sharp run-up at the onset of the Coronavirus, that would ultimately prove to be their downfall once investor liquidity began getting swallowed up by unrelenting volatility.

Gold did reach highest level since 2012 this month, but the rapid onset of a vicious bear market drove down stock prices so drastically that investors began selling off profitable precious metals positions for additional liquidity.

Silver is the most attractive play in precious metals since it is trailing gold by more than it ever has before. Earlier this month, the gold to silver ratio hit an all-time high of nearly 125, setting the stage for a dramatic rebound in silver spot prices when precious metals bounce back.

Silver typically underperforms gold in the early stages of a precious metals bull market, and the current level is nearly double the twenty-year average of 60:1 - a signal that silver is extremely undervalued relative to gold at the moment. This could encourage more investors looking for haven assets to start choosing silver over gold until a reversion towards the mean brings the gold/silver ratio closer to the 60 mark.

Additionally, The performance of silver miners will be [boosted by larger production volume of gold](#). The Global X Silver Miners ETF's (SIL) 17 highest weighted miners averaged just 40.4% of their Q3'19 revenues from silver, according to The Bull.com.au. The majority of their sales came from gold, which carries much stronger cashflows, bolstering traditional silver miners.

## - LONG CRISPR

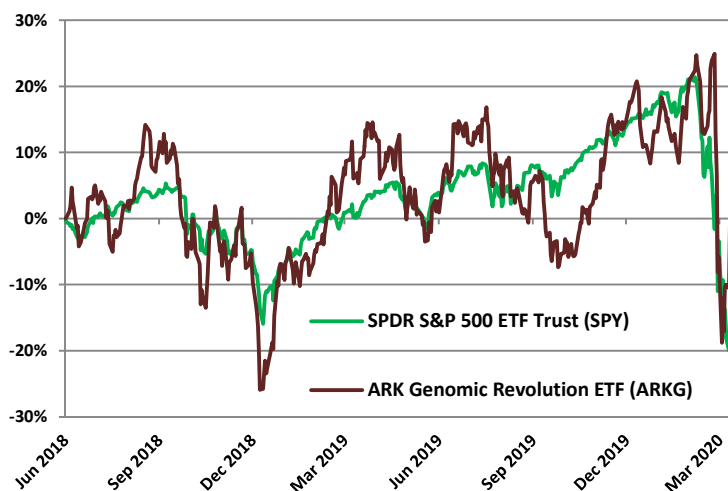
[MRP added Long CRISPR \(clustered regularly interspaced short palindromic repeats\) to our list of themes on June 14, 2018](#) due to expanding successes and applications for the molecular gene-editing technology, which allows scientists and doctors to snip out undesired bits of genetic material and, sometimes, replace it with preferred DNA. Using CRISPR, researchers have been able to cure mice of deadly genetic conditions like hemophilia B, Lou Gehrig's disease, and Huntington's disease. In human trials, successful trials in treatments of genetic blood disorders, advanced cancers, and other gene-related disorders have been undertaken.

Most recently, though, researchers made one of the largest strides yet in human trials by injecting a CRISPR treatment directly into a patient. This “in vivo” procedure revolutionizes the CRISPR process by eliminating the need to remove cells from the body, altering them ex vivo (outside of the organism), and then reinsert them.

Healthline reports that doctors plan to treat up to 18 adults and children with a particular genetic mutation that causes Leber congenital amaurosis, a rare genetic eye disorder. Many people who have the disorder are legally blind, though some can recognize light or movement. It can be caused by mutations in several genes, but this trial will only target one gene, known as CEP290. Mutations in this gene prevent cells in the retina from making a protein that's crucial to vision. Editas Medicine has run similar trials, gaining FDA approval in 2019 of its IND application for an LCA 10 (an eye disorder, caused by a mutation in the CEP290 gene) candidate treatment EDIT-101.

### Gene Editing/CRISPR (ARKG) vs S&P 500 (SPY)

June 2018 - March 2020



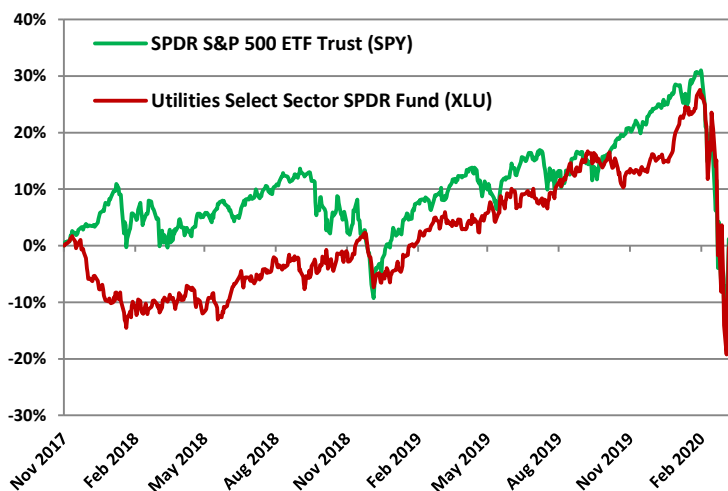
In October, [MRP noted that CRISPR could potentially be used to counter a number of viruses, including Zika and Ebola, by a utilizing a Cas13 enzyme to attack viral RNA](#), as opposed to the traditional Cas9 used to edit DNA. While Cas13 developments will not arrive quickly enough to fight the Coronavirus outbreak, it does give us hope for future viral outbreaks we will inevitably face in the future. Photonics Media reported this month that, by targeting thousands of different sites in human RNA transcripts, Researchers at the New York Genome Center and New York University have developed a machine learning-based predictive model to expedite identification of the most effective Cas13 guide RNAs. Using the model, they predicted optimized Cas13 guide RNAs for all protein-coding transcripts in the human genome.

### - LONG Electric Utilities

[MRP added Long Electric Utilities to our list of themes on November 20, 2017](#) due to an ongoing explosion in power consumption, led by the continued rise of wireless devices, the cloud and other data-intensive digital applications, and accelerated adoption of electric vehicles.

### Electric Utilities (XLU) vs S&P 500 (SPY)

November 2017 - March 2020



Long considered a boring and static industry, electric utilities have struggled with stagnant demand and an inability to engage customers dynamically as other businesses have. However, electricity consumption has begun to ride again in the wake of the proliferation of digital data from IoT and cloud computing, and advances in energy industry technologies. Annual US sales of electricity rose 3.6% from 2017 to 2018 alone, the largest annual increase in nearly a decade. The EIA expects world energy consumption will grow by nearly 50% over the next 31 years, pushing electricity demand 79% higher over the same period.

Even as interest rates rose through 2018 and early 2019, movement that usually hurts utilities by making bonds a more attractive safe-haven for investors, utilities surged. The Utilities Select Sector SPDR Fund (XLU) was even the best-performing sector ETF of the year in 2018. Utilities rode that wave all the way

into February, with shares in the S&P 500 Utilities Index trading at almost 24 times the earnings of those companies, compared with 21 times for the broader S&P 500.

Though Utilities have fallen victim to the same liquidity issues as gold and silver in the midst of this sell-off (all correlations go to 1 in a fire sale, as they say), interest rates at zero and treasury yields at all-time lows should send the XLU back to the forefront of safe haven plays as we move further into the unknown in 2020. The Wall Street Journal notes that the dividend yield for the sector climbed to its highest level of the year last week, hovering at 3.9%, well above the yield on the S&P 500. At the start of the year, the dividend yield on the sector was about 3%.

## - LONG Robotics & Automation

[MRP added Long Robotics & Automation to our list of themes on July 20, 2017](#) due to wide-scale automation finally taking hold across several significant industries. According to International Data Corporation (IDC), 60% of the world's 2,000 largest companies will have deployed autonomous mobile robots by 2021. That pace could be accelerated by Coronavirus' disruption to major economies.

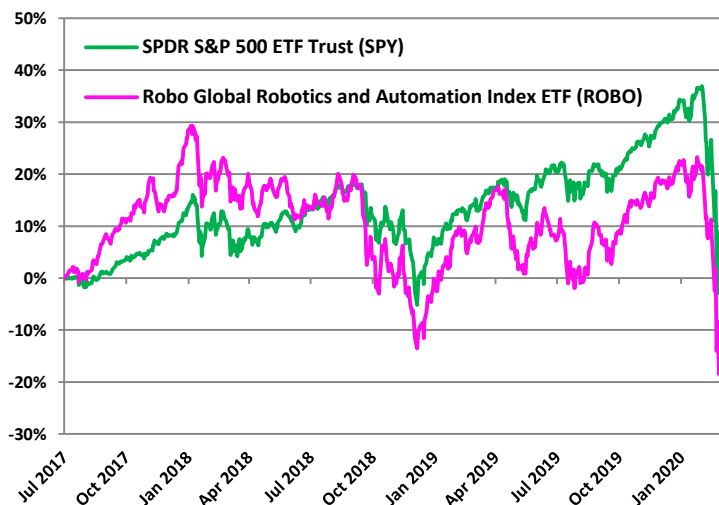
The industrial sector has, thus far, been the greatest beneficiary of automation technologies thus far.

MRP has previously highlighted the impact of robots in [warehousing and manufacturing, as well as mining](#). The International Federation of Robotics estimates that the market for warehouse and logistics robots worldwide nearly quadrupled to more than \$22 billion by 2022, up from \$5.7 billion in 2019.

The epicenter of the Coronavirus, China, has become the world's largest market for industrial robotics and the fastest-growing market worldwide, surging 21% to \$5.4 billion in 2019, while global sales hit \$16.5 billion with 422,000 robotic units shipped, according to the International Federation of Robotics in Frankfurt. The crisis, which resulted in at least 80,000 cases across the world's second largest economy, has called the robotic revolution into service in early 2020.

[Delivery robots and drones played key role in emergency](#) response for food, medicine, and other goods that needed to be transported to those quarantined. Robots will also be heavily utilized in rebounding from Coronavirus.

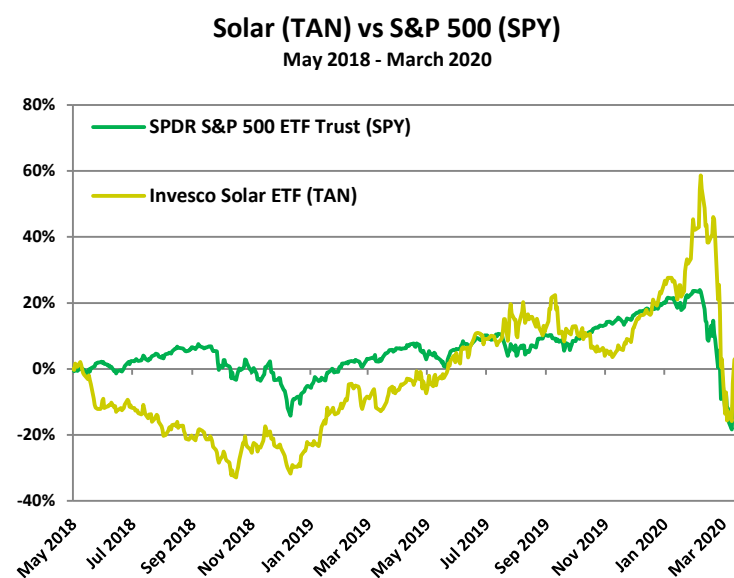
**Robotics & Automation (ROBO) vs S&P 500 (SPY)**  
July 2017 - March 2020



Though the supply chain has been bottlenecked by transportation curbs around China, a number of China's semiconductor plants have continued to run continuously throughout the outbreak, which chip industry experts attribute to their highly automated production processes. Venture capitalists with expertise in the robotics sector told Reuters anticipate orders from China to rise significantly this year.



## - LONG Solar



[MRP added Long Solar to our list of themes on May 14, 2018](#) due to continually strong deployment trends and improving cost-competitiveness. A new report by the Solar Energy Industries Association and Wood Mackenzie says solar energy installations added 13.3 gigawatts to the supply of electricity in the US in 2019, a 23% increase from 2018 and 40% of the total additions.

Looking ahead, the report estimated that solar photovoltaic capacity will more than double over the next five years, with annual installations projected to reach 20.4 GW in 2021 prior to the expiration of the federal investment tax credit for residential systems.

Projections for 2020 and beyond are now somewhat irrelevant, given Coronavirus' inevitable effect on new deployment. Residential solar will be slowed by consumer uncertainty and utility-scale solar, where about 2/3 of all new capacity came from last year, will experience shortages of components from China in the short-term.

BloombergNEF has revised its global forecasts for 2020, saying that demand for photovoltaic solar panels will be between 108 to 143 gigawatts, down from the range of 121 to 152 gigawatts that was in the forecast less than a month ago. Globally, analysts now expect a maximum of 43 gigawatts of solar installations this year from 45 gigawatts before. Its most pessimistic forecast is for 31 gigawatts compared with at least 37 gigawatts estimated previously.

While the Coronavirus is certainly a bump in the road, it will not reverse the course of rapidly plunging solar costs. A recent report by Carbon Tracker Initiative, a climate finance thinktank, found renewable power was a cheaper option than building new coal plants in all large markets, and was expected to cost less than electricity from existing coal plants by 2030 at the latest. Solar photovoltaics and wind energy were already cheaper than electricity from about 60% of coal stations, including about 70% of China's coal fleet and half of Australia's plants, it said.

According to Forbes, every form of energy production dropped from prior-year performance during China's coronavirus lockdown in January and February, but one. The country's solar output actually was up 12%.

## - LONG China Healthcare

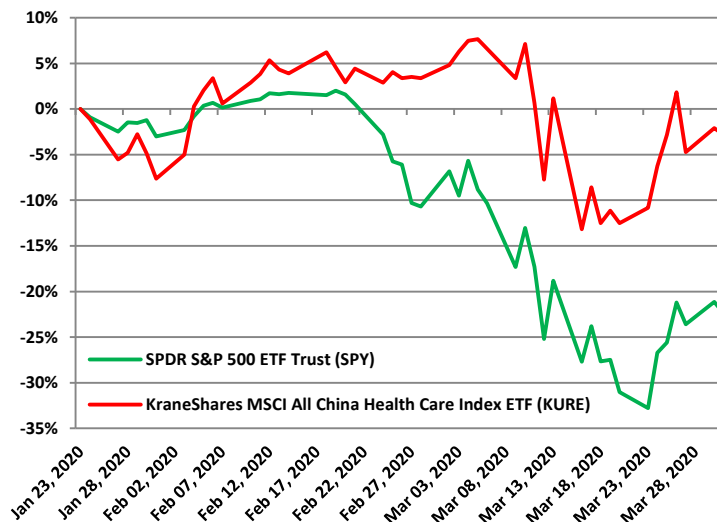
[MRP added Long China Healthcare to our list of themes on January 23, 2020](#) due to the early onset of Coronavirus ramping up demand for medical supplies across the country, as well as telemedicine.

The New York Times reports that China made half the world's masks before the coronavirus emerged there, and it has expanded production nearly 12-fold since then. While they had been claiming all production for themselves as they grappled with Coronavirus, the containment of the disease in the mainland will undoubtedly allow them to begin exporting mask supplies abroad.

This is the case with many other essential medical supplies used in treating Coronavirus. China ramped up production and built surpluses of these goods – now they plan to export their inventories at cut rate prices. The Wall Street Journal notes that the majority of ventilators shipping to Italy, for instance, are from the Chinese company Mindray.

The Motley Fool points out Ping An Healthcare and Technology Limited as a leading Chinese medical technology company, providing online medical services, consumer healthcare services, and runs an online health mall for drugs, medical devices, and other nutrition products. The ability to digitally connect doctors with a number of patients during this ongoing pandemic will decrease risk of contagion in crowded hospitals and increase productivity for medical staff.

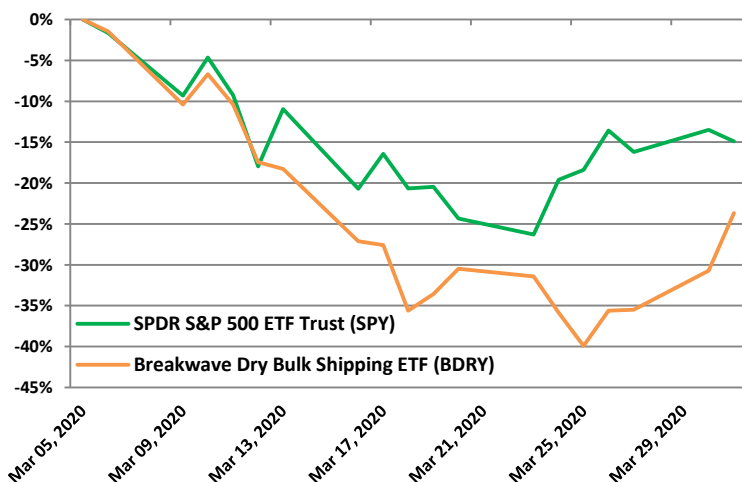
**China Healthcare (KURE) vs S&P 500 (SPY)**  
January 2020 - March 2020



JD Health, a subsidiary of e-commerce giant JD.com, has seen monthly consultations for its online health platform grow tenfold since the coronavirus epidemic began. Xin Lijun, boss of JD Health, told the Economist that some 1.6 million people tuned in to a talk by a top cardiologist that the jd.com subsidiary live-streamed. Without the outbreak, the shift in consumer behavior would have taken perhaps five years.

**- LONG Dry Bulk Shipping**

**Shipping (BDRY) vs S&P 500 (SPY)**  
March 2020



[MRP added Long Dry Bulk Shipping to our list of themes on March 5, 2020](#) due to an eventual rebound in shipping volumes through 2020, driven by a post-coronavirus commodities recovery. Freight rates and shipping stocks should experience a major boost when ports in China re-open fully and can start easing supply chain bottlenecks around the world.

Our thesis is that containment of the outbreak in worst-hit China + coordinated central bank stimulus worldwide + China's potential infrastructure package + near rock-bottom ship charter rates + vessel capacity reduction = a bullish case for dry bulk shipping.

The Baltic Exchange Dry Index (BDI) is a weighted average of freight costs for ships carrying dry bulk commodities such as grains, coal, or iron ore on several standard routes. The index tracks average prices across the Capesize, Panamax and Supramax sub-indices, which in turn measure rates for different sizes of carriers or merchant ships. Gains in the BDI would therefore reflect higher freight rates paid by merchants to charter ships.

Between January 1 and February 10, the BDI lost more than half its value, falling from 976 to 411, its lowest level since March 2016. Since bottoming out last month, the index has begun to rise again on the back of a firming

South America market and strong demand from the Pacific region. However, yesterday's close of 548 is still way below the 2518 peak reached in September 2019.

While compulsory rules on major ports across the US prohibiting crew changes and imposing the 14-day compulsory quarantine requirement (allowing ships to enter port limits only 14 days after departure from the previous port) will keep a lid on sentiment in the short term, the halving of tariffs on \$120 billion worth of Chinese exports to the US should help bolster volumes and encourage higher activity in general. Lower crude oil prices will also ease the strain of new regulatory costs, brought on by IMO 2020 regulations, to ships burning sulfur-laden bunker fuel.

## - LONG US Homebuilders

[MRP added Long US Homebuilders to our list of themes on March 6, 2020](#) due to cheap mortgages, warm weather, rising wages, and declining materials costs helping to create an environment where affordability and supply are improving at the same time.

New research published by HSH, an online consumer destination for mortgage information and rate shopping, reveals that housing affordability has improved in most metro areas. In 49 of the 50 major metropolitan areas reviewed by HSH, the income needed to purchase a median-priced home decreased in the fourth quarter of 2019, compared to the same period a year earlier. That is mostly due to lower mortgage rates offsetting gains in home prices.

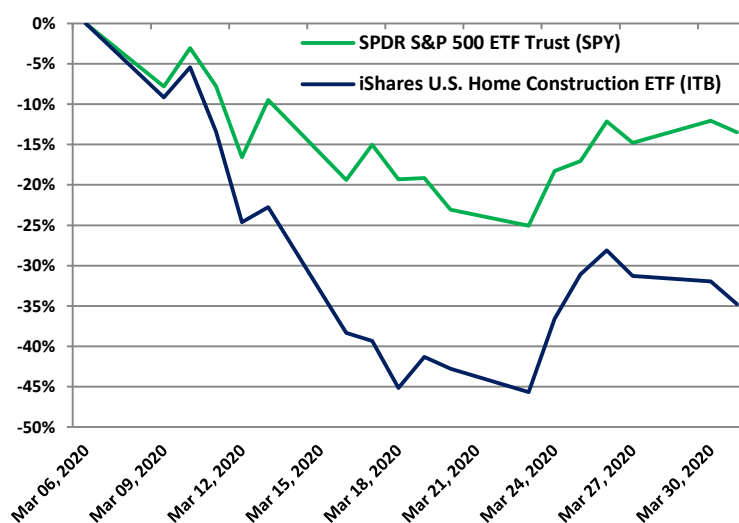
What's more, mortgage rates usually follow the direction of the 10-year Treasury note's yield, which dropped to a history low of 0.38 this month. While the yield has bounced back to 0.68, that's still more than 100bps lower than the start of the year.

Existing home sales jumped 6.5% to a seasonally adjusted annual rate of 5.77 million units last month, the highest level since February 2007, the NAR said. Economists polled by Reuters had forecast existing home sales would rise by just 0.7% to a rate of 5.50 million units in February.

Housing starts came in at about 1.6 million in February, the US Census Bureau reported Wednesday. Though that is about 1.5% less than January's revised figures, last month's starts were up roughly 39% from 2019. Single-family starts, the foremost indicator of housing demand, increased, by 6.7% in February compared to the month before. Permits also increased 13% from a year prior.

However, the short term outlook for housing is now facing a radical shift just one month after February's solid data. With Coronavirus sweeping across America, along with ensuing quarantines, lockdowns, and other executive in its wake, Reuters reports that jobless claims could exceed 2 million next week, a level unseen since 2012. This is a worrying prospect since, if people aren't working, they obviously aren't buying houses.

Homebuilders (ITB) vs S&P 500 (SPY)  
March 2020

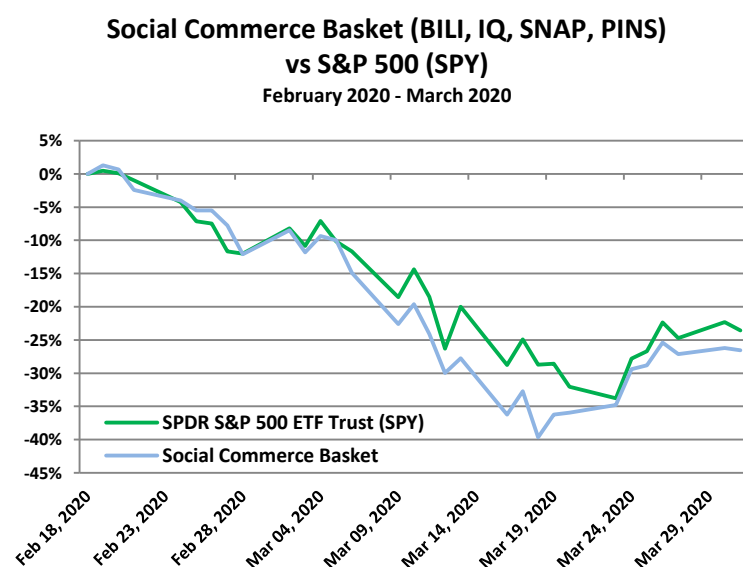


However, one industry not yet shutting down in most places is construction. As of now, it looks likely that Homebuilders the vast majority of the country will press onward, continuing to build out projects and new starts. Even though new starts and permits will undoubtedly slow, the virus has certainly had less impact on construction than other industries.

Confidence remains strong among those within the homebuilder industry. The National Association of Home Builders' (NAHB) monthly confidence index did slip two points to 72 in March, down from 74 the month prior, but that is still only four points below December's figure, which represented the highest index reading in over 20 years.

## - LONG Social Commerce

[MRP added Long Social Commerce to our list of themes on February 18, 2020](#) due to the worlds of ecommerce and social networking rapidly converging and turning social platforms into powerful distribution channels for brands. The shift was slow to take off, but it is starting to accelerate thanks to a tipping point in global mobile adoption.



Additionally, e-commerce and online shopping is likely to be accelerated by widespread quarantining across the planet. Though retail sales across all physical and digital mediums have declined in recent weeks, the President has recently signed a massive consumer stimulus package that could send checks worth up to \$1200 directly into American mailboxes. Families would receive \$2400, plus another \$500 per each child in the household.

The key part of the stimulus bill was a \$600 per week enhancement on top of scheduled state unemployment benefits (which average about \$350). This massive weekly will be in effect for the next 4 months.

In the past, about two-thirds of direct stimulus money was spent within the first six months of checks going out, according to economic studies of the 2001 and 2008 stimulus efforts. As the Washington Post has noted, additional Democrat plans would provide \$2,000 for every American adult and child plus a \$1,500 check in the summer and a \$1,000 check in the fall, if the public health emergency continues.

Not only will e-commerce likely pick up in the short term, but, consumers who purchase items via e-commerce and mobile devices are likely to continue using these platforms more often going forward. During the holidays, when online shopping spikes, increases in the percentage of digital sales are seen following the season as well. As Andrew Lipsman, principal analyst at eMarketer, told Forbes Magazine, "During the holiday, a time with more concentrated buying activity, consumers spend more online creating a step-change, meaning the consumer may not return to past behavior. We may see this type of similar behavior unfold over the next few months."

## - SHORT India

MRP added Short India to our list of themes on March 27, 2020, our most recent theme addition, due to India's high population density, patchwork healthcare infrastructure and air pollution problems heighten the probability that India could become the next global hotspot for coronavirus.

As of March 26, India has a little over 700 confirmed cases of COVID-19, up from 160 a week earlier. That is still a surprisingly low case count in a nation of 1.3 billion people. The actual number of cases is likely much higher if one accounts for the government's stringent testing criteria. Once the country starts testing more broadly, the case numbers will likely skyrocket.

The nation's weak public health infrastructure poses another challenge to containing the virus. India's health-care spending is among the lowest in the world — just 3.7% of GDP. For hundreds of millions of Indians, the option is either an overcrowded public hospital that cannot accommodate them or a private hospital they cannot afford. To curb the virus's spread, Prime Minister Narendra Modi decided to impose a 21-day shutdown of the country that started on March 25. During that time, only essential services will remain open and the country's 1.3 billion residents are expected to stay home.

On top of all this, India has other systemic risks to worry about. For some time now, the country has been grappling with a shadow banking crisis that is now spreading to conventional banks at the risk of destabilizing the broader financial system.

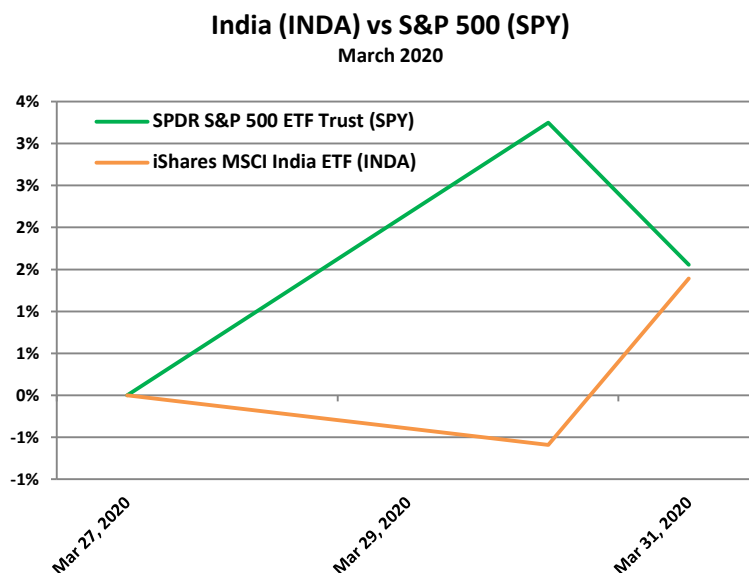
In light of this, MRP believes Indian assets will underperform their emerging market peers.

## Looking Ahead

Most of the themes discussed above have their own idiosyncratic forces at work. Under normal circumstances, those would provide a certain insulation from concerns about the macro environment. But these are not normal circumstances.

In the days ahead, as the second quarter gets underway, news reports from around the world will show a plunge in economic activity that is far from normal. Indeed, a number of knowledgeable experts are sounding the alarm bells over the size and scope of an inevitable downturn upcoming in the second quarter. St. Louis Fed President Jim Bullard, for instance, has said US GDP growth could drop by as much as 50%. Bullard's projection for unemployment is near the higher end of estimates, around 30%, while Goldman Sachs has issued a more conservative projection of 15% unemployment. Either way, corporate earnings in that environment will look pretty ugly compared with the year earlier.

That's the bad news.



The good news is we are likely much closer to the bottom than the top. That's largely due to aggressive monetary and fiscal stimulus from a number of central banks and governments across the world.

The US Federal Reserve rapid easing to short term rates of effectively zero (a range of 0.00% to 0.25%) has been combined with a massive regime of emergency QE and an opening of the discount window. Fed Chairman Jerome Powell has promised essentially unlimited lending, on top of trillions of dollars of liquidity already provided, to support the economy as long as it is damaged by the viral outbreak. The Fed has expanded asset purchases to municipal bonds, corporate bonds, and exchange-traded funds.

On top of the aforementioned \$2 trillion in stimulus already passed as part of the CARES Act, providing cash payments and unemployment insurance to millions of Americans, President Trump is back to touting an additional \$2 trillion for infrastructure spending – a part of his platform that was very popular during his 2016 presidential campaign, but fell by the wayside over the last few years. On Twitter, the President noted this week that the Fed's rate cuts make today "the time to do our decades long awaited Infrastructure Bill". In his tweet, Trump referred to a "Phase 4", indicating that the plan could be bundled as part of the next coronavirus relief package, which Democratic Speaker of the House Nancy Pelosi has pushed for. It remains to be seen how much bipartisan support will be rallied for another round of trillion-dollar spending, but the fact that the taps are already on shows both Republicans and Democrats are willing to support measures they usually wouldn't to support the economy.

While discouraging data through the next two quarters will still have some kind of market impact, there has already been a massive plunge in stock prices. Arguably, the bleak second-quarter outlook has been rapidly priced into equities. Our sense is that once the virus has clearly peaked we will see either a "V-shaped" market recovery or a "W-shaped" one if a barrage of shocking economic data leads to a double bottom in share prices before mid-year. Thereafter, the pent-up demand from months of quarantines and isolations should result in a sharp rebound in economic activity, preceded by a roaring rally in share prices.

Some are more skeptical about how robust a recovery might be. Mark Zandi, chief economist at Moody's Analytics, recently told Bloomberg that he likens his forecast to a "Nike swoosh" rather than a V- or U-shaped rebound, noting that US output alone could plunge at an annualized pace of as much as 25% in the second quarter, rebound by up to 15% in the third, then stall in the fourth with the economy "basically limping along".

However, renowned economist Victor Zarnowitz, a long-time member of the NBER's business cycle dating committee, long described a general rule that the steeper the plunge in economic activity the sharper would be the recovery. The so-called Zarnowitz rule does seem to prevail in most business cycles, but not always.

This time around, though, with the combined effect of stimulus packages and healthy state of the US economy before the COVID-19 outbreak, MRP is betting that the Zarnowitz rule is more likely to prevail, leading a particularly powerful market response when the Coronavirus' spread begins to show signs of slowing.

We continue to revise our preferred themes, available in all our daily reports, to reflect where we think the greatest opportunities will be emerging to generate alpha.



*For MRP's research disclaimer, please go to [www.mcalindenresearchpartners.com/disclaimer.html](http://www.mcalindenresearchpartners.com/disclaimer.html)*