John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday March 25, 2020

China gets the blame for the spread of covid-19 and the global chaos that has followed. Xi Jing and other communist party leaders don't like that. Their first reaction was denial and a badly managed attempt to blame the United States. That has failed. Now Beijing is helping neighbors cope with the disease and is show-casing the results in China.

China has recorded a total of just over 80,000 cases in a population of 1.4 billion. The United States has recorded about 22,000 cases. Given the much smaller population, the U.S. has or soon will exceed the Chinese per-capita disease rate. On March 18th Italy added 4,207 new cases whereas Wuhan added none at all. The data suggest that China's containment policy has been effective in curbing the spread of covid-19.

Governments around the world have been imitating the Chinese approach by shutting down non-essential businesses including restaurants, bars and theaters. In Florida local governments have been closing beaches. Hopefully, the Chinese approach will work here, and we will see a decline in new cases soon.

China now faces another threat, namely reinfection from international travelers returning to China. There has been at least one such case. Beijing is requiring all flights inbound to Beijing to land at another airport where passengers can be screened for the virus. Other Chinese airports are requiring screening of all passengers returning from abroad.

There has been a cost from the containment policies. Closing businesses is brutal, especially for small businesses. The Chinese economy has taken a hit from the

containment policy. The damage is worse than analysts expected. Industrial output in January and February was down 13.5%. Analysts had expected a decline of 3%. Retail sales fell 20.5% much worse than the 4% decline that was expected. The bad economic news from China has economists around the world revising their predictions for their respective economies.

For the week ended March 14, the U.S. jobless claims jumped to a two-and-a-half-year high. Claims for state unemployment insurance jumped 70,000 to 281,000. Jobless claims are the most timely labor market indicator. The U.S. economy is headed for a decline in the current quarter and a recession if the decline persists into the third quarter.

Governments and central banks in the United States, Europe and elsewhere are responding, but with differing policies. The editorial board of *The Wall Street Journal* has praise for the approach the Chancellor of the Exchequer is taking in the U.K and sharp criticism for the U.S.

“The centerpiece is a loan-guarantee program worth 330 billion pounds, or around 15% of gross domestic product, for businesses of all sizes. Larger firms will be able to tap the central bank directly, while smaller companies will access the facility through their banks. That 330 billion pounds is only the start. Chancellor Whatever-It-Takes (Mr. Sunak used that phrase six times in his brief prepared remarks) promises to expand the guarantees to match demand.

Crucially, they’re targeted at the supply side of the economy. Mr. Sunak recognizes that a Keynesian demand stimulus won’t work if a quarantined population can’t get to the stores. The goal instead has to be to tide otherwise viable companies over

a once-in-a-century health emergency without allowing a wave of business closures or defaults to trigger a financial crisis and recession." (WSJ-3/19)

On March 20 the editorial board had thus to say about the U.S. approach: "Financial markets paused their slide Thursday, but no one should think this rolling economic calamity is over. If this government-ordered shutdown continues for much longer than another week or two, the human cost of job losses and bankruptcies will exceed what most Americans imagine. This won't be popular to read in some quarters, but federal and state officials need to start adjusting their anti-virus strategy now to avoid an economic recession that will dwarf the harm done from 2008-2009.

In a normal recession the U.S. loses about 5% of national output over the course of a year or so. In this case we may lose that much, or twice as much, in a month.

The politicians in Washington are telling Americans, as they always do, that they are riding to the rescue by writing checks to individuals and offering loans to business. But there is no amount of money that can make up for losses of the magnitude we are facing if this extends for several more weeks.

Perhaps we will be lucky, and the human and capitalist genius for innovation will produce a vaccine faster than expected—or at least treatments that reduce covid-19 symptoms. But barring that, our leaders and our society will very soon need to shift their virus-fighting strategy to something that is sustainable."

There is another view: "This time, as the coronavirus cloisters millions of Americans and shuts down the U.S. economy, it should instead be saluted as an investment in public health that lays the groundwork for a rapid rebound."

That is the view of St. Louis Federal Reserve President James Bullard, who argues that a potential $2.5 trillion hit coming to the economy is both necessary and manageable if officials move fast and keep it simple. It may seem an unconventional view in a moment of global anxiety, but Bullard argues the shutdown measures now being rolled out are essential to shortening the course of the pandemic.

Bullard agrees with the WSJ editorial board on the need for substantial government support. “They must also be coupled with massive federal government support to sustain the population through its coming isolation and prime the economy to pick up where it left off.

And, above all, when the losses are tallied, don’t call it a recession. Recessions are the ordinary - even predictable - contractions in activity that mark the end of normal business cycles. Bullard, who has earned a reputation inside the Fed for a penchant to rethink problems and reframe debates, said this is anything but.
Frame this as a massive investment in U.S. public health.”

The editors of *The Economist* in the March 14 issue had this to say about the U.S. economy: “The banking system, stuffed with capital, has yet to seize up, interbank lending rates are under control. When investors panic about the end of civilization they rush into the dollar, the reserve currency. That has not happened.”

We have the internet. People can work from home, order online and communicate without any risk of contaminating others. And there is the Gig economy. At home seniors can order food and medicine for delivery.

No doubt these shutdowns would be far more onerous without modern technology from the internet to Lyft and Uber Eats.

One last comment: I visited China many times in the 1990s. The leadership in Beijing in those days was called “the gang from Shanghai.” They were communist in politics but capitalists otherwise. Once they proved they could foster real growth and real jobs they were in line for higher positions in the communist party. That changed when Xi Jing became the leader. He is more of a communist and less of a capitalist. I thought that was a negative, a throw-back for the Chinese economy. This covid-19 mess has not only damaged the Chinese economy - it has or soon will change basic fundamentals. Neighbors, trading partners and foreign owned business managers will now reassess their business dealings with China. That could lead to rising unemployment and the end of Xi Jing’s reign. If so, that would be a long-term positive for China and the rest of the global economy.

I will have the next market review and update one week from today on Wednesday April 1, 2020.

All the best,

John Dessauer