

## **John Dessauer Investments, Inc.**

### **John Dessauer's market review and update as of Wednesday July 1, 2020**

Some businesses here in Florida are open, but with strict rules and limited capacity. For example, I was finally able to get a haircut last week. Like everyone else in the salon I had to wear a mask, wash my hands and wear a coverall. The precautions are working. The hair dresser has been open for a couple of weeks with no virus cases. However, there are still hotspots in Florida and overall virus case numbers are rising. Miami will close its beaches for the 4<sup>th</sup> of July weekend. Marilyn and I are being very careful, going out only when absolutely necessary.

We are not alone in the struggle to cope with this awful virus. The International Monetary Fund (IMF) regularly publishes a World Economic Outlook (WEO). The latest report projects a 4.9% 2020 contraction in the global economy. That is a downward revision from its April 3% contraction estimate. The new 4.9%, is the worst in WEO history. In the report the IMF said that consumption and services dropped beyond expectations and described the hit to the global labor market as “catastrophic.”

The good news is that the IMF projects a rebound of 5.4% in 2021, assuming persistent social distancing and a continuing shift toward workplace safety and hygiene. The IMF is urging countries to prioritize ample resources for the health system and then economic support through “sizeable, well-targeted” fiscal policies. Central banks were applauded in the report for their “swift” actions to ensure liquidity in the financial markets and keeping borrowing costs low.

The IMF now expects every region of the world to contract this year, although some individual countries may still see growth. China, for example is expected to grow

1% this year. Our neighbors to the south are lining up to be among the hardest hit. Brazil is expected to contract by 9.1% this year and Mexico is expected to see a 10.2% 2020 contraction.

The ultimate solution to the virus challenge will be an effective vaccine. Work on that is underway with several promising formulas nearly ready for human testing. Developing a COVID-19 vaccine is clearly difficult. However, that is only half the story as Reuters headlined in a recent article: “Vaccine makers face biggest medical manufacturing challenge in history.”

“From deploying experts amid global travel restrictions to managing extreme storage conditions and even inventing new kinds of vials and syringes for billions of doses, the path is strewn with formidable hurdles, according to Reuters interviews with more than a dozen vaccine developers and their backers.” (Reuters 6/25)

Col. Nelson Michael, director of the U.S. Army’s Center for Infectious Disease Research who is working on the government’s “Warp Speed” project to deliver a vaccine at scale by January, said companies usually have years to figure this out. “Now they have weeks.”

One of those things to be figured out is storage. Developers are experimenting with new ways to mitigate the extreme cold storage demands of their vaccines, which at present need to be kept at minus 80 degrees Celsius (-112 Fahrenheit). SiO2 Materials Science is working on producing vials that won’t shatter at super-cold temperatures.

Johnson & Johnson has partnered with the U.S. government on a \$1 billion investment to speed development and production of its vaccine, even before it’s proven to work.

“Never in history has so much vaccine been developed at the same time – so that capacity doesn’t exist.” Said Paul Stoffels, J&J’s chief scientific officer who sees filling capacity as the main limiting factor.

The experts are confident that they can meet the challenges and develop effective vaccines that can be stored at more available temperatures.

It is possible that a vaccine will be ready this year. Some say that could be by October. Then comes the process of making the first few millions of doses and distributing those around the world. It may take billions of doses and some months before COVID-19 is finally defeated.

Meanwhile we can be thankful that the U.S. economy and financial markets are weathering the virus storm. Last week was the 12<sup>th</sup> straight week in a row with a decline in claims for unemployment. Orders for durable goods came in better than expected, with new orders up 15.8% month-over-month. Economists had estimated a jump of 10%. A broad measure of corporate profits showed a decline of 9.1% year-over-year, much better than the 11.1% decline economists expected.

The other big news was the result of the Federal Reserve’s stress testing of the major banks. The big banks passed their stress tests. The Vice Chair of the Federal Reserve said: “the banking system has been a source of strength during this crisis. Our banks can remain strong in the face of even the harshest of shocks.”

As a result of passing the stress tests several restrictions on banks’ capital were lifted. This could potentially free up billions of dollars for other banking activities such as loans to businesses and trading.

The Federal Reserve did issue restrictions on bank dividends to shareholders and said “no” to stock buybacks. But neither of these restrictions will prevent our well capitalized banks from continuing to support economic growth.

For the most part the partial reopening of businesses is going well. One troubling spot is that too many younger people seem to think they are immune from the virus. They have crowded some bars, restaurants and beaches with the expected result - a rise in COVID-19 infections. I saw one interview of a young man who admitted he thought he was immune because of his age. He also admitted that the infection he contracted from visiting a crowded bar was the worst sickness he had ever had. He is now urging other young people to follow the rules, wear masks, social distance and avoid crowds anywhere.

While we can't conquer the virus without a vaccine, we can limit its destructive power by being careful and following all the rules.

I will have the next market review and update one week from today on Wednesday July 8, 2020. Have a happy and safe 4<sup>th</sup> of July.

All the best,

John Dessauer

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