

INTELLECTUAL AMMUNITION

## Something You Probably Didn't Know about Ebola

Tuesday October 14, 2014

**Donald Luskin**

### If Ebola is going to infect the whole world, why are new cases in Africa declining?

We have been saying for a while that the global Ebola breakout -- now out of Africa and claiming victims in the United States while our authorities offer [inconsistent](#) and [flaccid](#) responses, the World Health Organization [blames income inequality and global warming](#), and [Democrats blame Republicans](#) -- is the animating element in the particularly fearful sentiment driving the present stock market correction (see ["Back in the Hot Zone"](#) October 10, 2014). It's an authentic black swan -- that is, a potential game-changer to the downside that no one seriously expected. *But we wanted to make sure that, amidst all the fear, clients were aware that present epidemic -- awful though it is -- isn't remotely acting like what the biohazard community calls "a slate-wiper."*

- *In western Africa, in the three nations suffering the most from Ebola -- the three nations with the least capability to keep the epidemic from exploding -- the number of new cases of Ebola seems to have peaked in mid-September, and since then has been falling in Liberia, flat in Guinea, and rising only in Sierra Leone (please see the chart below).*
- This stands in stark contrast to the "ideal" pattern for infectious disease propagation -- a Moore's Law of contagion, [exponential](#)

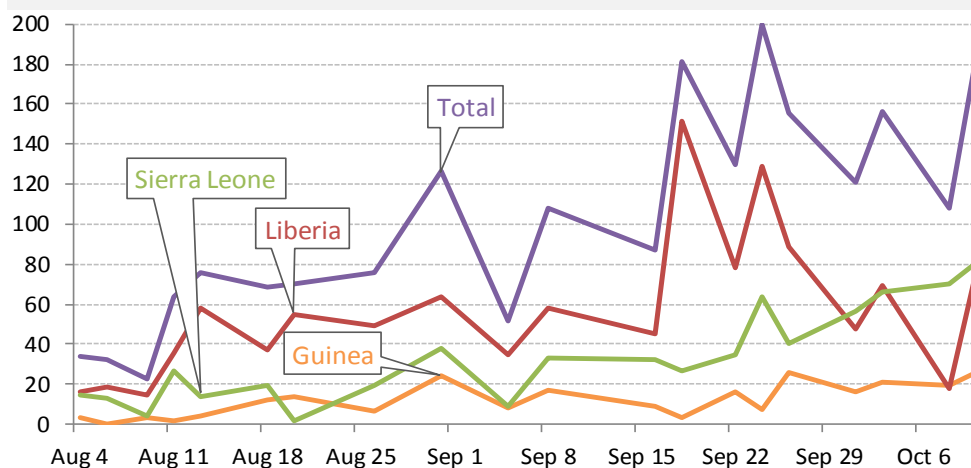
#### Update to strategic view

#### US STOCKS, EUROPE STOCKS, ASIA STOCKS, EMERGING MARKETS STOCKS:

The global Ebola epidemic is an authentic black swan, and its particular fearsomeness is the animating ingredient in the panic sweeping markets. While the worst-case risks are truly awful, and there will be short-term costs to avoid them, the reality is that the number of Ebola cases in western African nations -- where there is the least capability to deal with them -- is flat or declining. Even in the worst-case environments, the spread of Ebola isn't remotely following the exponential growth pattern that characterizes worst-case infectious disease propagation. Soon enough this will become evident, the stench of panic will dissipate, and this correction in stocks will be over.

[\[Strategy Dashboard home\]](#)
**New cases of Ebola per day, confirmed and suspected**

As of 10/10/14



Source: World Health Organization: TrendMacro calculations

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[growth](#) in which, say, 20 victims each infect 20 more victims who each infect 20 more victims, and so on. In the US, just seven iterations like that would infect the entire population four times over. *What we're experiencing now doesn't remotely resemble that pattern.*

- We fully acknowledge Ebola's fearsome potential -- including costly frictions on the movement of goods and persons in order to avoid a vastly greater cost. Yesterday it seemed airline stocks got a big whiff of that, the worst performers on a terrible day for all stocks.
- *But this black swan is still only a potentiality -- that is to say, the worst-case scenario is very, very far from eventuating. It remains an extremely low-probability event, and shows more signs of not happening than signs of happening.*
- If poor and poorly organized countries like Sierra Leone, Liberia and Guinea can keep Ebola from going exponential -- indeed, if Nigeria, Africa's most populous nation, [can stop Ebola dead in its tracks](#) as it has at 20 cases and 8 deaths -- then surely modern well-resourced nations with a tiny number of cases such as the United States and Spain can avoid the kind of worst-case scenarios that seem to be seizing some investors' imaginations.
- With the passage of a little time we expect this will become evident, and the stench of panic currently punishing stocks should dissipate. And then this correction -- we think largely a sentiment event -- will be over.

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## Bottom line

The global Ebola epidemic is an authentic black swan, and its particular fearsomeness is the animating ingredient in the panic sweeping markets. While the worst-case risks are truly awful, and there will be short-term costs to avoid them, the reality is that the number of Ebola cases in western African nations -- where there is the least capability to deal with them -- is flat or declining. Even in the worst-case environments, the spread of Ebola isn't remotely following the exponential growth pattern that characterizes worst-case infectious disease propagation. Soon enough this will become evident, the stench of panic will dissipate, and this correction in stocks will be over. ▶

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