

MACROCOSM

“Spike!” “Surge!” “Precipice!” (Please Check One)

Tuesday, June 16, 2020

Donald Luskin

The media and the experts who overhyped the first wave are hallucinating a second one.

Risk-assets needed a narrative to trigger the correction we expected based on extended valuations (see [“Do Equities Have a Valuation Problem?”](#) June 9, 2020). It turned out to be a fright over a “second wave” of Covid-2019 infections and the possibility that lockdowns would have to be re-imposed to head it off. Now with markets feeling somewhat stabilized, let’s start by looking at the evolution of that narrative. Next we’ll evaluate whether it’s really anything to worry about.

- What got the ball rolling was [a Bloomberg story Wednesday](#)

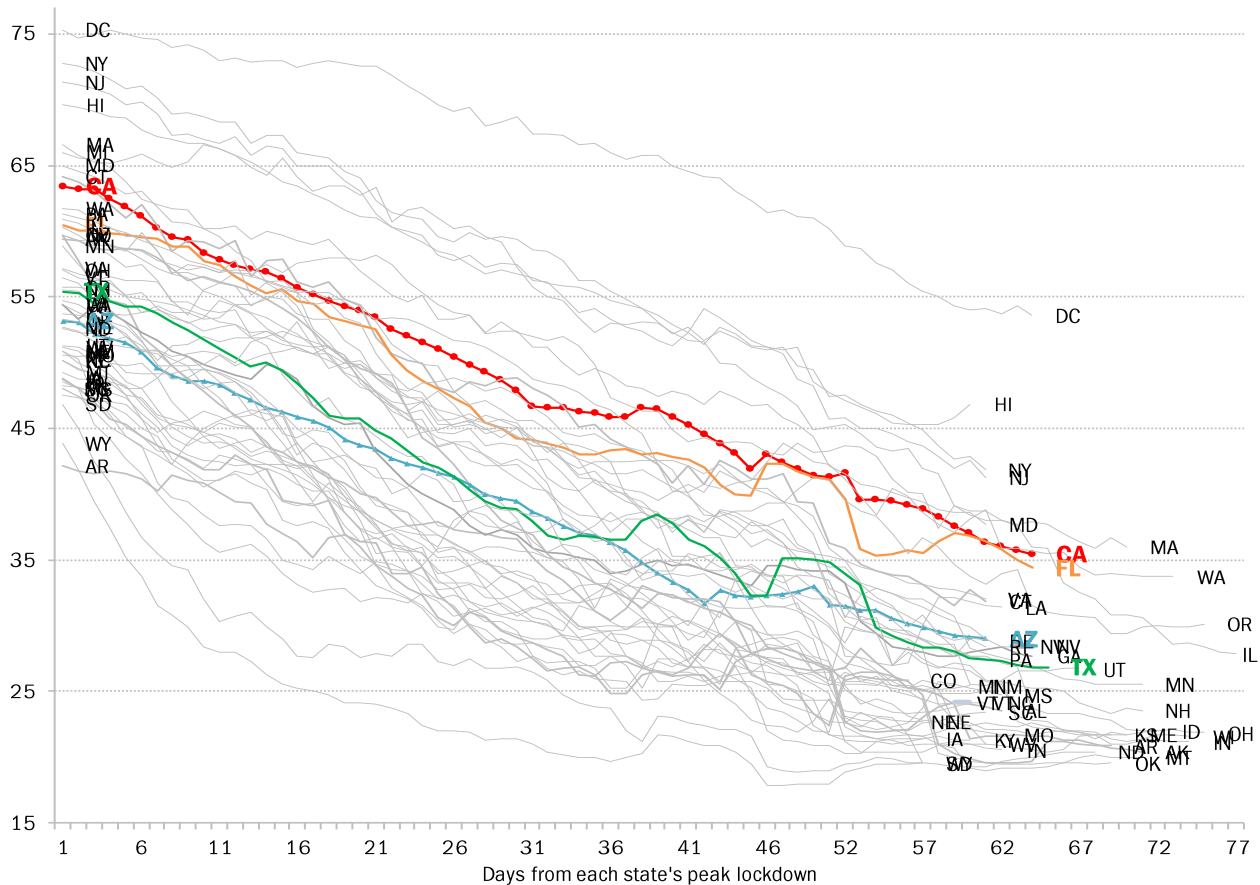
Update to strategic view
US MACRO, ASIA MACRO, US STOCKS:

An inevitable correction in richly valued risk-assets was triggered by a narrative that a “second...

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Social Distancing Index, respective state-by-state peak to present

Based on anonymized cell-phone mobility-tracking



Source: Maryland Transportation Institute, Center for Advanced Transportation Technology Laboratory, TrendMacro calculations

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[afternoon](#), declaring in its headline “Second U.S. Virus Wave Emerges” as though it were an established fact. It set the media template for many echo-chamber stories to follow: [portents of doom in rising confirmed cases – “a spike!” “a surge!” – in Arizona, California, Florida and Texas.](#)

- Then Wednesday night [the Institute for Health Metrics and Evaluation](#) released a new version of their widely followed model, updated to show deaths declining during the summer, and then – unlike in previous releases of the model – picking up again in autumn, and growing literally with no end in sight.
- [They’re back yesterday evening, with yet another update to their model, adding another estimated 31,000 deaths to the end-of-summer tally](#) (see [“Data Insights: Covid 2019 Monitor”](#) June 16, 2020). So far no press release explaining why – the most recent one is [last week’s](#), calling for a “second wave beginning September 15...due to increased mobility and relaxation of social distancing mandates.” The ever-quotable IHME Director Christopher Murray said, “We hope to see our model proven wrong by the swift actions governments and individuals take to reduce transmission.”
- The final thread of the narrative is the news that [authorities in Beijing have declared an “extremely severe” situation](#) with respect to a new Covid-2019 at a seafood market. The market has been shut down, and movement has been restricted in several neighborhoods.
- [Obviously, “Mr. Market” is not a humanitarian, and doesn’t care about death and disease. He cares only about whether politicians will again let themselves be stampeded by media scare stories and pseudo-scientific models into locking down the economy to suppress the spread of Covid-2019 – especially since we now know there is no evidentiary basis for thinking the global depression they already caused had any discernible public health benefit](#) (see [“Video: What you’re not hearing about bringing the economy out of lockdown”](#) April 27, 2020).
- We thought at first we might be seeing the first signs that mandated lockdowns could return in the US when we heard the chief executive of Harris County (which includes Houston), Judge Lina Hidalgo, [saying Thursday](#) – the day US equities took a very sharp tumble – “We may be approaching the precipice of a disaster. It’s out of hand right now.” [But we take this, and similar bluster from her counterparts elsewhere around the country, as posturing in order to avoid admitting their prior over-reaction.](#)
- [Now let’s look at the reality of a possible “second wave,” just in case reality matters in these considerations.](#)
- First, as to the predictions of the IHME model, frankly we’re surprised they still publish it. This model justified lockdown-mania in the US with fantastical estimates of the number of hospital beds and ventilators that would be needed, stoking fears that the health care system would be “saturated,” driving a campaign to “flatten the curve.” Even though the IHME model initially underestimated the cumulative number of US deaths, it was wildly wrong on hospital beds and ventilators, overestimating the demand for them by a factor of four to five.

Update to strategic view

Continued from first page

... wave” of Covid-2019 was “emerging,” and might delay or reverse the re-opening of the economy. In the US, the focus is on Arizona, California, Florida and Texas. None has changed its rank in terms of observance of social distancing, and there remains no correlation across states between re-opening and virus cases or fatalities. Except for Arizona, fatalities are no different than they were two months ago at the peak of lockdown in early April, and there are fewer than a month ago. We don’t think governors or local officials have the will or the moral authority at this point to impose new lockdowns. The Trump administration is leading by insisting the economy continue to open up, even should a second wave actually emerge. China’s draconian response to a small Beijing outbreak is an exception, where credibility in the eyes of the world is at stake.

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- Politicians the world around now [realize they were led astray](#) by such “SIR” models (“susceptibility/infection/reproduction”). [Epidemiologists](#) are now increasingly [distancing themselves](#) from them.
- Second, if there is a resurgence of Covid-2019 cases in the four states that are the focus of media concern – California, Arizona, Texas and Florida – *it is not because those states have relaxed social distancing guidelines any more or any earlier than others* (please see the chart on the first page).
- Judging by mobility data from cell-phone tracking that reveals actual quarantine behavior – not the presence or absence of laws, mandates or orders, which may or may not be obeyed – *California and Florida were among the most-immobilized at the early-April peak of nationwide social distancing, and they still are. Arizona and Texas were in the middle of the pack at peak, and still are.*
- Third, while we don’t mean to disrespect the importance of every life, *the reality is that the supposed Covid-2019 eruption in the four states is quite minor.*
- *The worst-case is Arizona, where the scariest thing you can say is that fatalities have risen seven-fold since the time of maximum social distancing in early April. But that is only to say that fatalities have risen from less than half a person per million to less than three persons per million* (please see the chart below).

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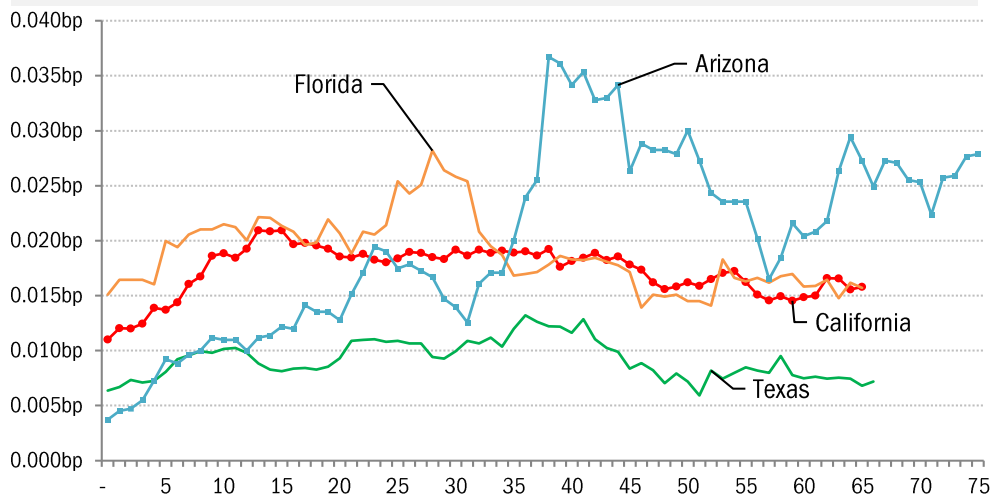
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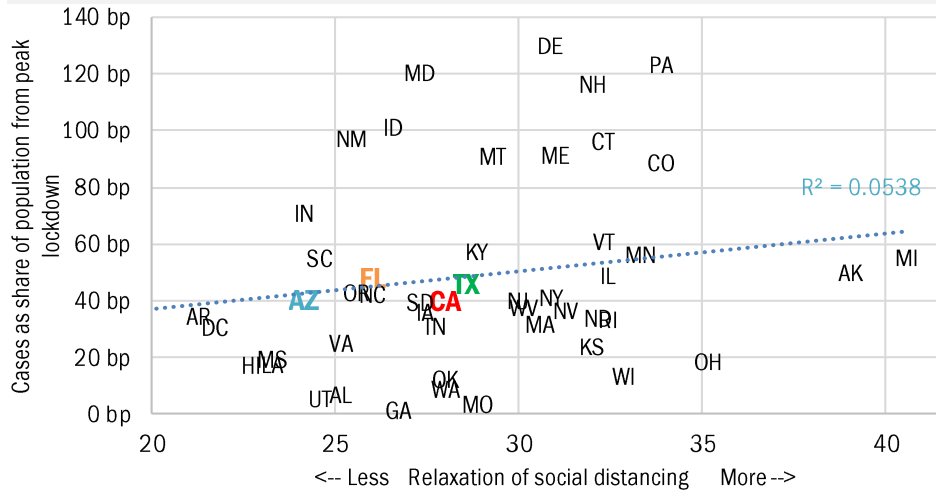
Covid-2019 fatalities from day of max social distancing, 7-day average, share of population



Source: Covid Tracking Project, TrendMacro calculations

- *And fatalities were worse a month ago than they are now, which is to say that while this “second wave” is “emerging” things are actually getting better in Arizona. And that’s the worst case state.*
- Looking at fatalities in the other three states supposedly leading the “second wave,” there is nothing to see (again, please see the chart above). Well, a flat line *is* something to see – considering *it means that these states have begun to open up their economies and it has made no difference at all to the control of Covid-2019.*
- Fourth, we could look at other metrics – such as confirmed cases.

Covid-2019 cases versus change in Social Distancing Index from maximum



Source: MTI, CATT Lab, Covid Tracking Project, TrendMacro calculations

We would see that the trend linking relaxation of social distancing to confirmed cases across all the US states is virtually zero (please see the chart on the following page). The four states supposedly leading the “second wave” are very much in the middle-of-the-pack.

- Remember, this analysis is based on about two months of observations. If there were a relationship between resurgence of the virus and re-opening the economy, we’d see it by now. It is not there.
- We could look at number of tests, share of positive tests, hospitalizations, and so on. We could make elaborate arguments, as others have, about how the seeming rise in confirmed cases is [an artifact of increased non-Covid hospitalizations](#), now that hospitals are once again open to elective procedures. But there is no need to do so. Fatalities are the ultimate metric. If they are not getting meaningfully worse, then the rest doesn’t matter, at least not enough to even consider keeping the economy from re-opening.
- To be sure, that’s not to say that government officials will be economically rational about this. But we strongly think their “public choice” incentives are quite clear at this point, with all that has come before – they’ve already presided over an economic ruination for what is increasingly being understood as no real public health benefit, and the electorate now fears poverty more than Covid-2019.
- China is a special case. In the Beijing breakout, we’re talking about only 106 cases. But at risk of becoming a pariah in the global community for its deception and opacity at the onset of the coronavirus crisis, it is geopolitically useful for China to appear to be highly concerned over even the smallest outbreaks, and be seen as taking self-sacrificial steps to contain them. As always, who knows what the reality is as to the true number of new cases or the efforts to contain them.
- But in the US the “strongmen” of the virus crisis find themselves

able to do little more than splutter – [as New York Governor Andrew Cuomo has](#) – that individuals and businesses are “in violation of the reopening plan,” jumping the gun on economic revitalization just as we said they would (see [“After the Crisis, the Work Begins”](#) May 4, 2020).

- And Houston’s Hidalgo amusingly, though not very grammatically, walked back her statement that “It’s out of hand right now” by saying “The good news is it’s not severe out of hand.”
- *And it must be said, with the last two weeks of heightened public awareness of the racially-motivated policy brutality on the one hand – and on the other hand the inability or unwillingness of the same police to control riots, looting and now even long-term trespass – it feels to us like state and local governments lack the strength of will or the moral authority to lock down the economy again, anyway.*
- It’s useful that the Trump administration is providing real leadership on the issue, with [Treasury Secretary Steven Mnuchin](#) and [National Economic Council Director Larry Kudlow](#) insisting that the economy must continue to re-open *even if* a second wave emerges – and, by the way, [there won’t be any more](#) federal bail-outs for dislocated workers. *At least it’s cover for state and local politicians who can fuss and fume like Cuomo and Hidalgo, and then blame Trump if anything goes wrong.* Would that the White House had shown such courage in March.

Bottom line

An inevitable correction in richly valued risk-assets was triggered by a narrative that a “second wave” of Covid-2019 was “emerging,” and might delay or reverse the re-opening of the economy. In the US, the focus is on Arizona, California, Florida and Texas. None has changed its rank in terms of observance of social distancing, and there remains no correlation across states between re-opening and virus cases or fatalities. Except for Arizona, fatalities are no different than they were two months ago at the peak of lockdown in early April, and there are fewer than a month ago. We don’t think governors or local officials have the will or the moral authority at this point to impose new lockdowns. The Trump administration is leading by insisting the economy continue to open up, even should a second wave actually emerge. China’s draconian response to a small Beijing outbreak is an exception, where credibility in the eyes of the world is at stake. ▶