

MACROCOSM

## Fear Factor versus So-What Factor

Monday, June 29, 2020

**Donald Luskin**

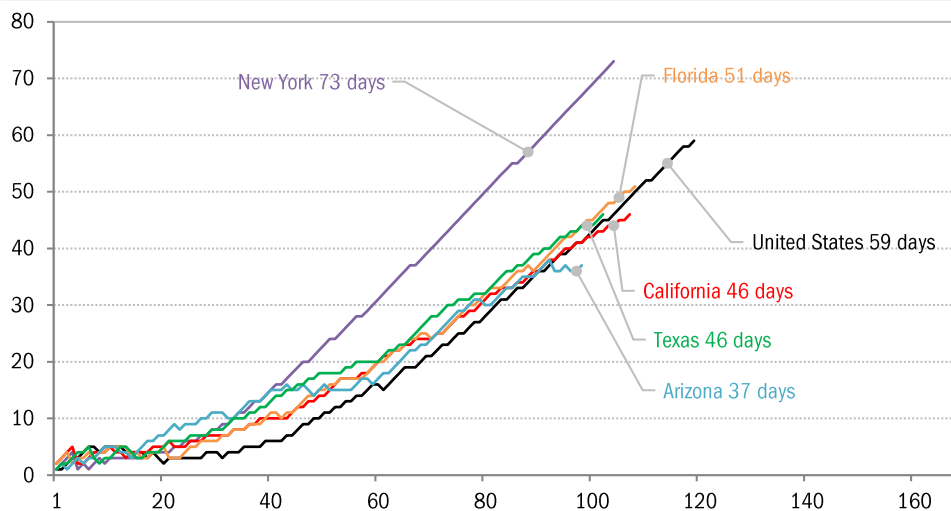
**Ignore words, see facts. Virus cases are rising, deaths not. Little scope for new lockdowns.**

You do realize your thoughts are being manipulated with mere words, don't you? The experts characterized the spread of Covid-19 as "exponential" ([here](#), [here](#)) and stamped the world into a depression in order to suppress it. The word "exponential" actually has a meaning, and the virus's spread was [never that](#). If it were, the days between doublings of deaths would be flat – constant – and instead they are ever-changing and generally upward-sloping virtually everywhere, including the four so-called "second wave" US states (please see the chart below). The latest word to scare you about the virus is "existential" ([here](#), [here](#)). That word doesn't really mean anything, so it can't be wrong.

As investors, we are accustomed to ignoring the endless sensationalist financial media characterizations of any move up in stocks as "soaring" and any move down as "plunging." Yet we are subject to [Gell-Mann Amnesia](#) when it comes to the virus – we take those very same words as legitimate.

More subtly, as investors we accept certain terms – "recession" or "bear market" for example – as names of real entities. But in fact they are only titles given to perceived patterns – much as the ancients gave names to the constellations, as though *Ursa Major*, say, were an actual physical

Days between doubling of deaths attributed to Covid-2019



Source: Covid Tracking Project, ECDC, TrendMacro calculations

### Update to strategic view

**US MACRO:** We caution against getting taken in by scary expressions like "second wave" to describe the rise in cases in Arizona, California, Florida and Texas. These states did not re-open their economies any earlier or any more than other states. Case fatality rates are falling in all four states, and hospitals are not saturated. This is consistent with a sharp rise in testing, far larger than New York had during the peak of its infection. More testing captures more cases, and more that are mild or asymptomatic. So cases now are concentrated among the many and durable middle-aged, while deaths remain concentrated among the few and the fragile old-aged. There is little political scope for new lockdowns other than small-footprint symbolic gestures, so we see little risk that the V-shaped recovery under way will be interfered with.

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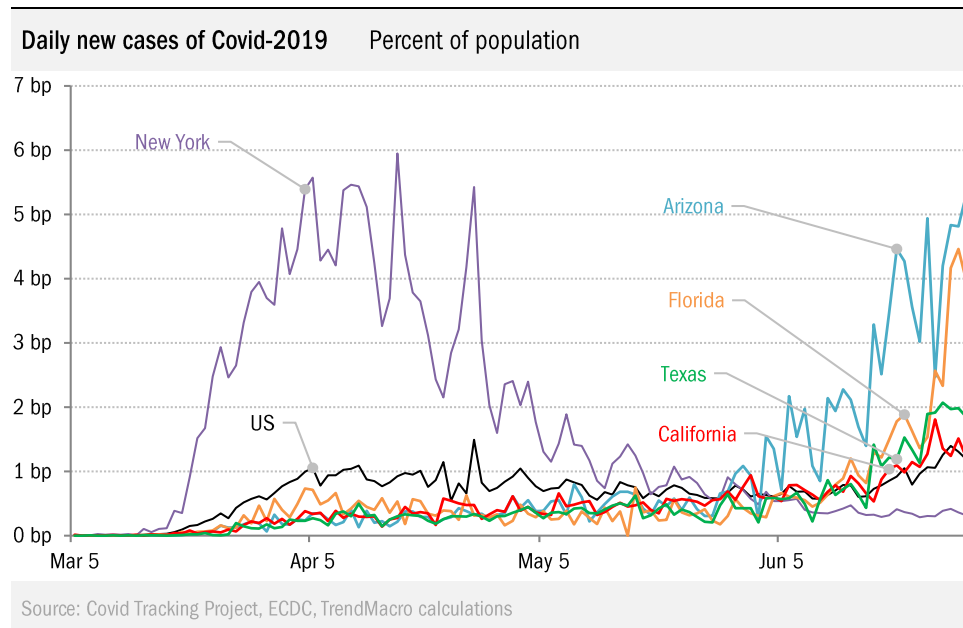
congregation of stars, rather than just a random pattern perceived uniquely from our arbitrary vantage point on Earth.

And these and other expressions we use so commonly [have no definition](#), but we make decisions based on them anyway. Justice Potter Stewart's [famous quote](#) about pornography – I can't define it, "but I know it when I see it" – is both funny and wise because it gets to the way our minds think in words, like "pornography," of which we don't even know the meaning.

*But we don't have to be the victim of undefined words imposed on us from outside when it comes to investment decision-making. So it is with using the expression "second wave" to characterize the present phase of the virus in several US states.*

*Do infections actually occur in scary-sounding "waves" as opposed to mere "episodes"? How do you know when you are in the "second" one, and what does it mean if you are? Is there any predictive value to such a characterization? Or is it indulged in for titillation (if you are the media) – or conversely, to create a false sense of understanding in an uncertain situation (if you are everyone else)?*

- We have no idea what a "wave" is, but it's definitely not a "second" one for the four states most often said by the media to be experiencing it – Arizona, California, Florida and Texas (please see the chart below, and ["Spike! 'Surge!' 'Precipice!' \(Please Check One\)"](#) June 16, 2020). If anything, for these states it's their "first" – unless you are a New York-centric reporter, thinking of New York's "wave" two months ago as everybody's first.



- It supports clear thinking to take the emotional edge off a bit by dispensing with prejudicial terms like "second wave," which suggest a scary and inevitable overwhelming force.

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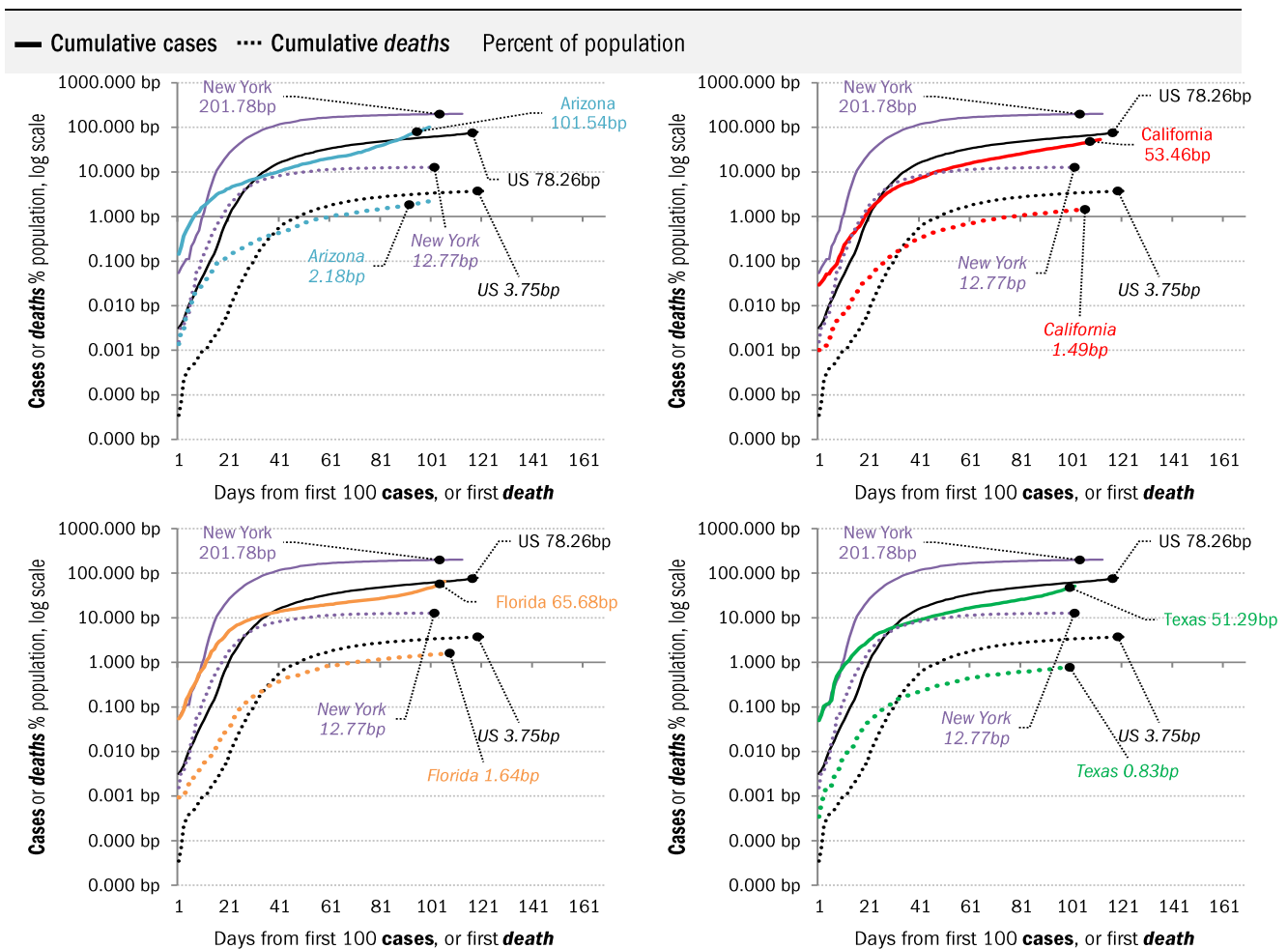
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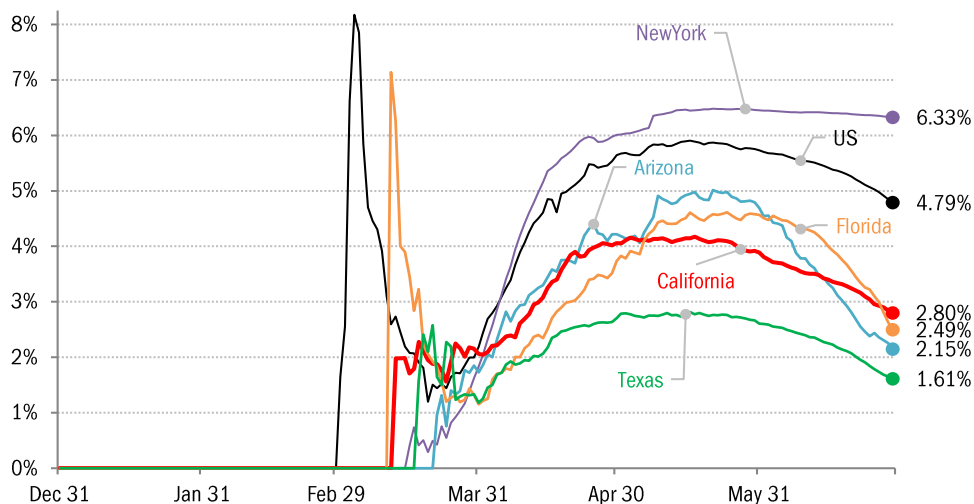
- But that's not to say it isn't worthy of analysis when we see new cases as a percentage of population rising – and in Arizona and Florida, rising to levels that, at first look, seem to be approaching what New York experienced at its worst in March and April. Indeed, it requires the clearest thinking possible. The trick here is to see through the fear factor, and focus on the so-what factor.
- Obviously we don't want to have anyone falling ill and being put at risk. But as investors, that's not the so-what factor. We have to care about what Mr. Market cares about – and that's the possibility that economic lockdowns will be re-imposed as a response, setting back what is shaping up by all indications to be a strong V-shaped recovery (see [“Data Insights: High-Frequency Post-Virus US Recovery Monitor”](#) June 25, 2020). We don't think there's the political appetite or maneuvering room to do much of that, unless this current episode of Covid-19 become far more consequential than it is at the moment (again, see [“‘Spike!’ ‘Surge!’ ‘Precipice!’ \(Please Check One\)’](#)”).
- We're betting it won't, because beneath the daily new cases data always highlighted in the media scare-stories, the underlying realities look nothing like what was experienced in New York and other states at the worst in March and April.



Source: Covid Tracking Project, ECDC, TrendMacro calculations

- The case data looks its worst when plotted as a daily change on a linear scale (as in the chart on the previous page). But plotted cumulatively, and on a log scale so growth rates over time are revealed, the case growth rates in the four so-called “second wave” states are nowhere near as steep as they were at the beginning in March (please see the solid lines at the top in each of the four charts on the previous page). Make no mistake about it, back then all of them but California looked just as bad as New York. But now, if this were a “second wave” worthy of whatever intuitive meaning you want to assign that term, these curves would be far steeper.
- Now only Arizona is above the national average in terms of cases as a share of population – and cases would have to almost double to equal New York’s. For the other three states, they’d have to more than double – in California, almost quadruple.
- Mortality is the true underlying reality. The curves of cumulative deaths in the four so-called “second wave” states are not as flat as New York’s is now. But they are close to flat, with the level of deaths as a share of population below the national average in all cases, and literally an order of magnitude below New York’s (please see the dotted lines at the bottom of each of the four charts on the previous page). This is consistent with the lengthening of days-to-double deaths in the four states (again, see the chart on the first page).
- The disconnect between rising cases in the four so-called “second wave” states and stable mortalities is seen clearly in the falling and below-average case fatality rates in all four (please see the chart below).
- If people aren’t dying, we don’t see how anything but symbolic small-footprint lockdown steps – what amount to visible but trivial “sin taxes,” like closing bars and party-beaches – can possibly be taken, knowing what we know now about their enormous financial cost and associated humanitarian cost (see [“Video: What you’re](#)

Case fatality rate

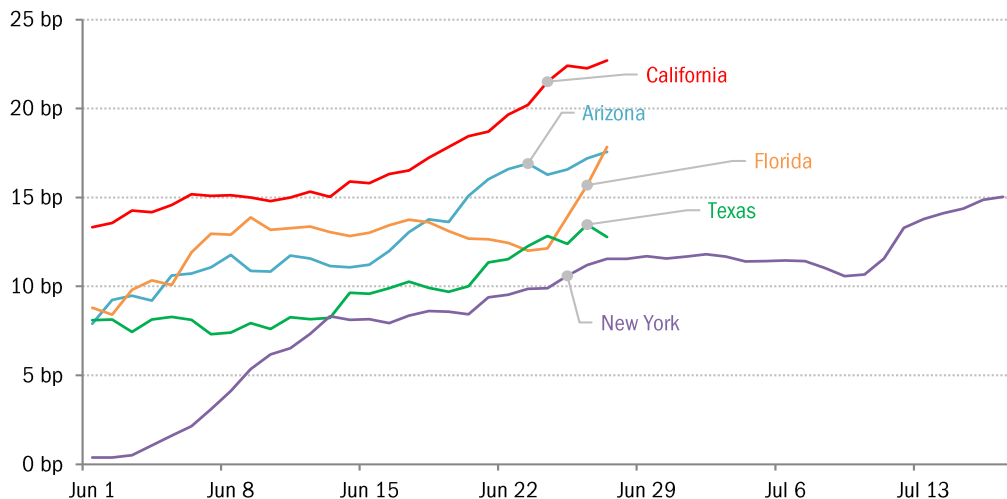


Source: Covid Tracking Project, ECDC, TrendMacro calculations

[not hearing about the cost-benefit trade-offs in the war on Covid-2019](#) April 7, 2020).

- Besides, the data is clear that the rise in cases in the four so-called “second wave” states isn’t because they re-opened first (they didn’t), or re-opened most (they haven’t), as we have amply demonstrated with mobility data (again, see [“Spike!” ‘Surge!’ ‘Precipice!’ \(Please Check One\)’](#)) – despite a constant [onslaught of disinformation in the media](#) that they did. *If re-opening didn’t trigger the rise in cases, then it isn’t worth the costs to close the economy again to try to bring the cases down.*
- Even though lockdowns wouldn’t really help, the temptation to “do something” might be hard to resist if hospitals were being overwhelmed in the four so-called “second wave” states. Despite scare-stories that intensive care unit capacity has [already been saturated](#), it is simply not true. Such stories are based on officially reported “base capacity” – and they completely ignore contingency plans that all hospitals have in place to create “surge capacity” on the fly –as [indeed they are doing now](#).
- *Why the disconnect between rising cases and falling fatality rates?* In some sense it doesn’t matter *why* – it’s an observed fact. But it increases our confidence to consider some possible explanations.
- First, we’ll mention – but set aside – the possibility that there just hasn’t been enough time for the flare-up in cases to translate into a commensurable number of fatalities. That’s probably directionally true, [but assuming a 13-day lag](#) from testing-positive to death, we’d have seen more by now.
- Second, despite the political controversy about it, the rising number of cases is very much a function of increased testing. This simple explanation has been made suspect after Trump, at his Tulsa rally, kidded about curtailing testing, and [the media promoted the hoax that he was serious](#). But whatever Trump meant, it’s simple: the more you test, the more cases you find – so you find the more *mild* or *asymptomatic* cases less likely to be lethal. To be sure, the

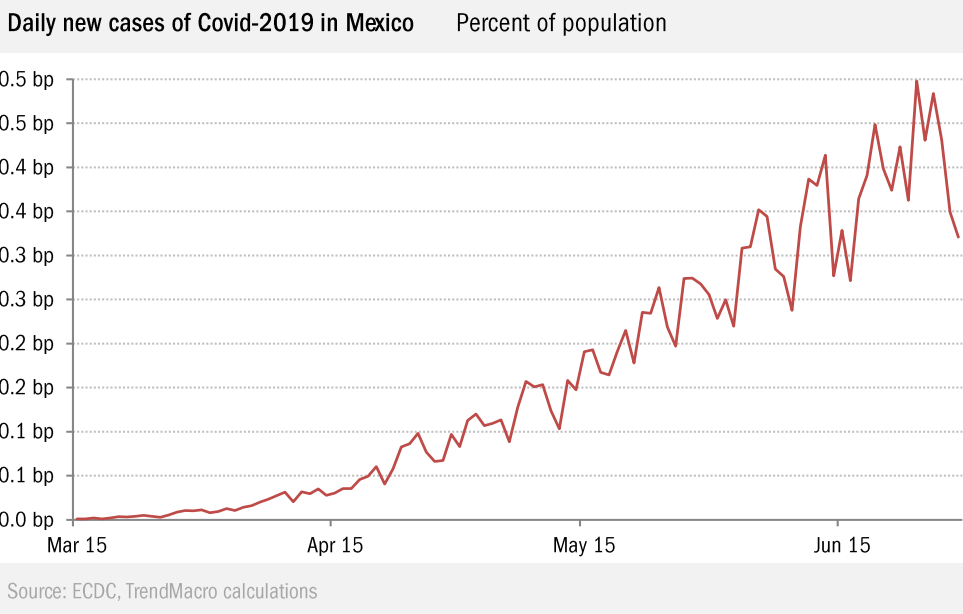
Covid-2019 tests Percent of population, compared to New York beginning March 15



Source: Covid Tracking Project, TrendMacro calculations

positivity rate is rising in all four of the so-called “second wave” states, but it’s hardly “soaring,” to use Paul Krugman’s choice of words [in a column last week](#). And that doesn’t change the simple fact that all four states are testing more than New York did at the comparable point in its “wave” (please see the chart on the previous page).

- Third, it seems that in the four so-called “second wave” states, at least where we can get the demographic data, the new cases are predominantly among the middle-aged, for whom the virus is not usually lethal. Fatalities remain predominantly among the older persons, but so far relatively few of them have been infected. Florida and Arizona have the reputation for older populations – but that is not actually borne out in the share of seniors in the population, not the share of persons living in nursing homes. If there is a demographic explanation at all, we think what’s [razing Arizona](#) – and California and Texas – [may be exposure of their hard-hit southern border communities to Mexico](#), which has been experiencing a relentless rise in infections since March (please see the chart below).



- Fourth, it is the case – it *has to be* the case – that we have gotten better at treating Covid-19 patients. If only by field-experimentation and word-of-mouth among health professionals, we’ve learned what works and what doesn’t, what helps and what hurts. If this were not true, it would be the first time in history that human ingenuity failed to improve matters in the face of a crisis once given a little bit of time and a little experience.
- Our so-what analysis looks something like this. It’s unproductive to call it a “second wave,” but there is a rise in cases in a number of US states, and that is a matter of concern. It is not translating into a commensurable rise in deaths, nor stress on hospitals. So there is little scope for imposition of anything more than symbolic lockdown measures, which should not get very much in the way of the V-shaped economic recovery under way.

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## Bottom line

We caution against getting taken in by scary expressions like “second wave” to describe the rise in cases in Arizona, California, Florida and Texas. These states did not re-open their economies any earlier or any more than other states. Case fatality rates are falling in all four states, and hospitals are not saturated. This is consistent with a sharp rise in testing, far larger than New York had during the peak of its infection. More testing captures more cases, and more that are mild or asymptomatic. So cases now are concentrated among the many and durable middle-aged, while deaths remain concentrated among the few and the fragile old-aged. There is little political scope for new lockdowns other than small-footprint symbolic gestures, so we see little risk that the V-shaped recovery under way will be interfered with. ▶