



# *Coronavirus Economics, Part 2*

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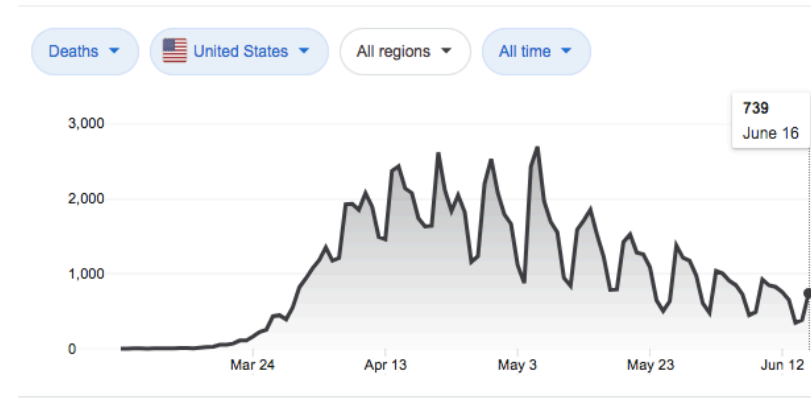
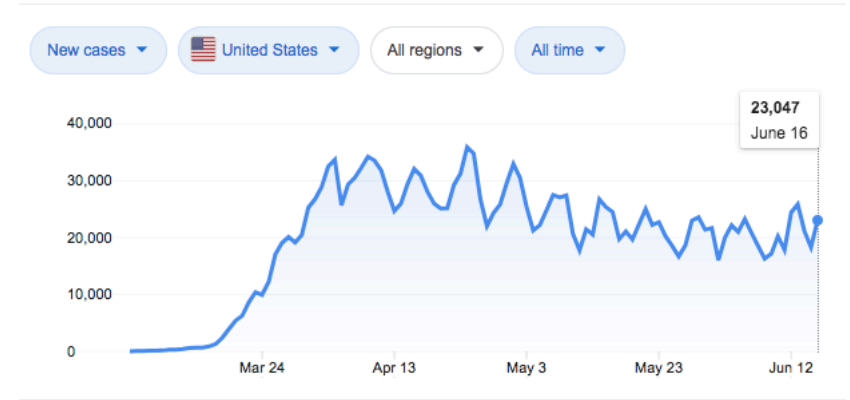
# Agenda

- Latest economic impact of the pandemic
- Global governmental responses
  - And what about inflation?
- Revisiting the shape of recovery
- The markets vs. the real economy  
*(aka Wall Street vs. Main Street)*

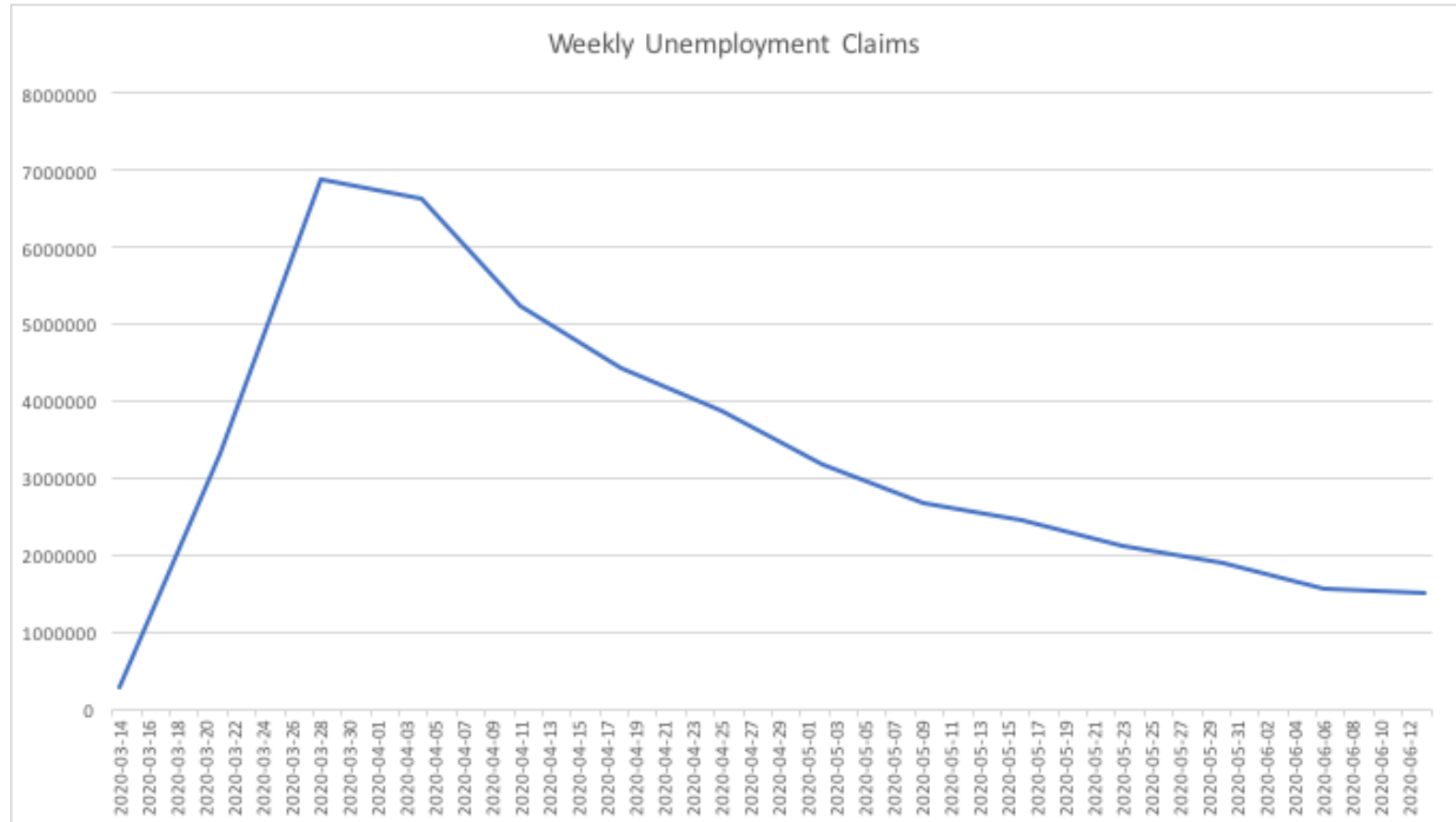


# State of the Pandemic

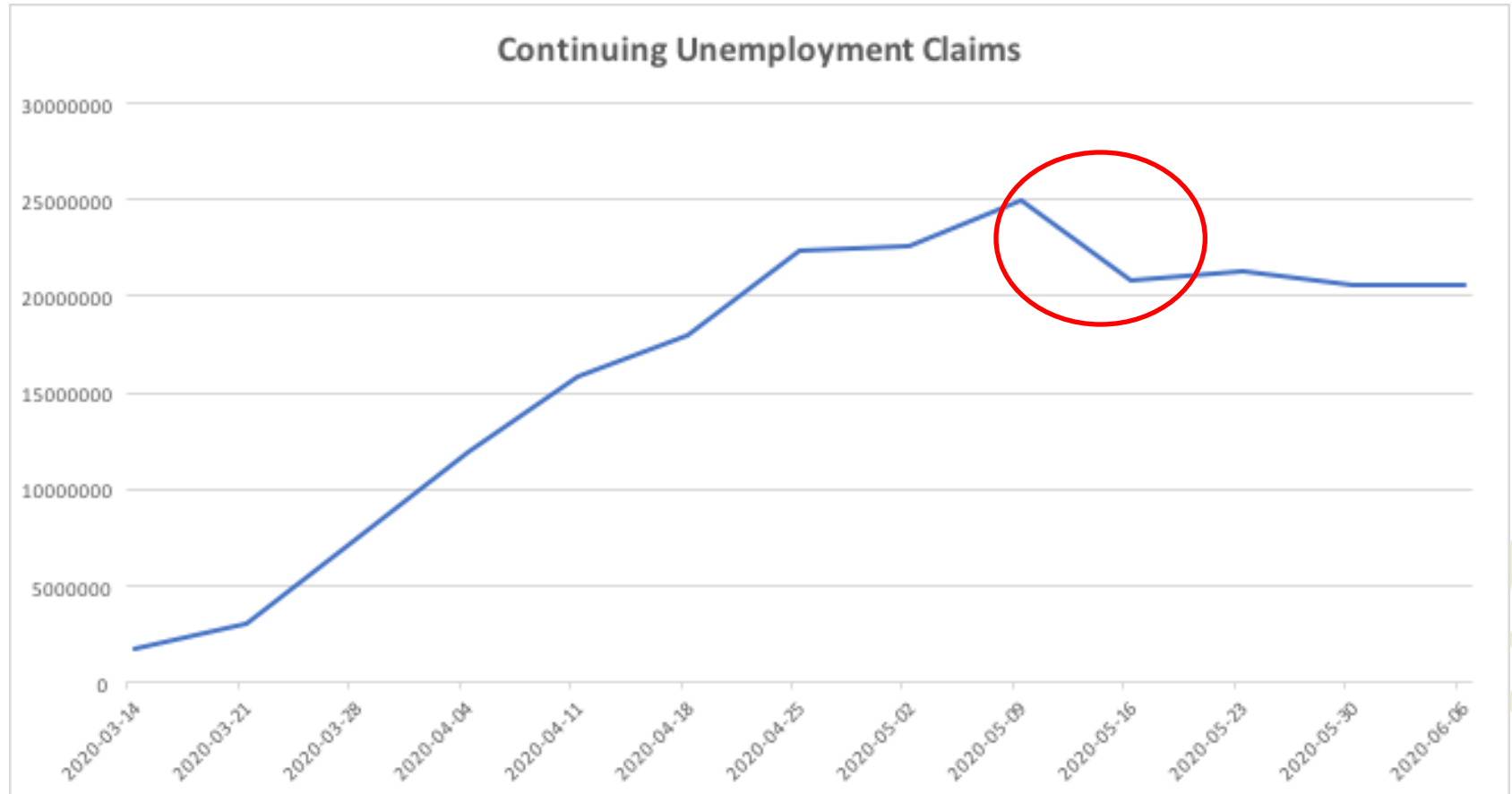
- In the U.S.
  - Infections: 2,200,000
  - Deaths: 119,000
- Worldwide
- Infections: 8,000,000
- Deaths: 440,000



# U.S. Economy



# U.S. Economy

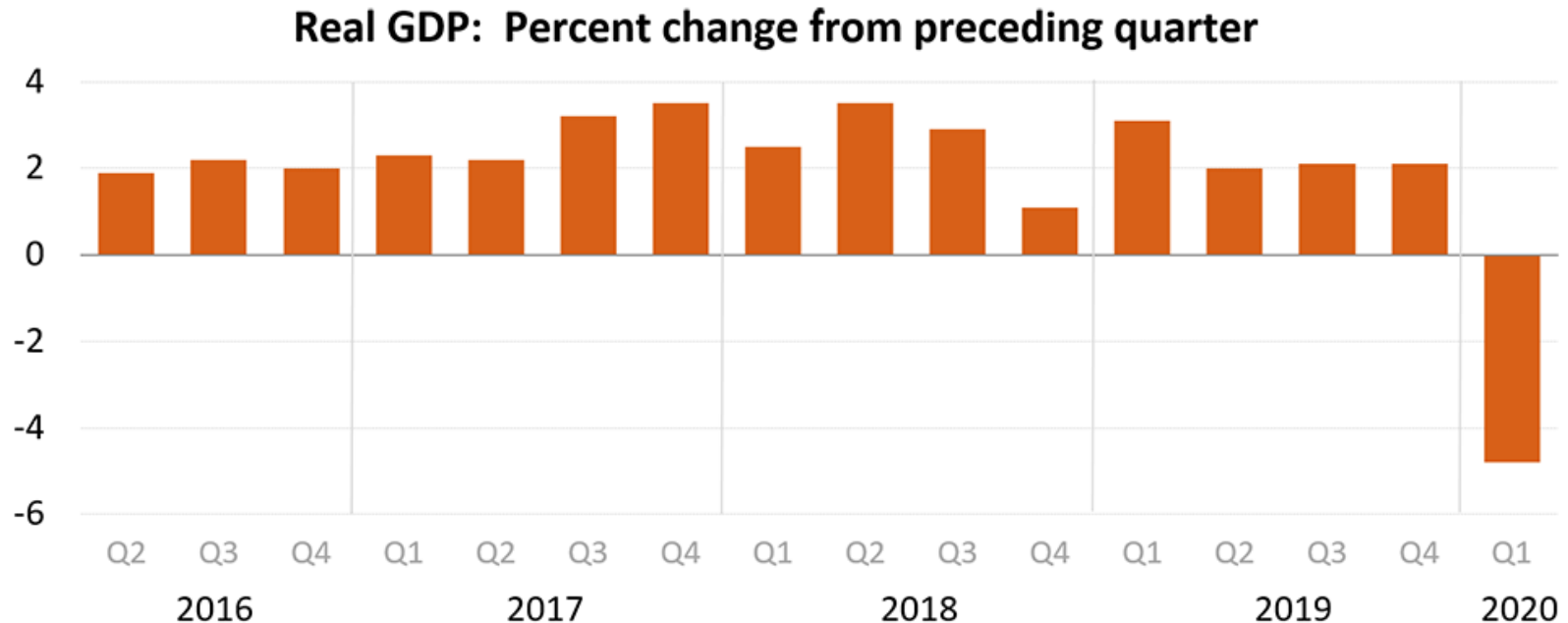


# U.S. Economy

Industry	Job gains
Leisure and Hospitality	1,239,000
Construction	464,000
Healthcare	390,000
Retail trade	367,000
Manufacturing	225,000

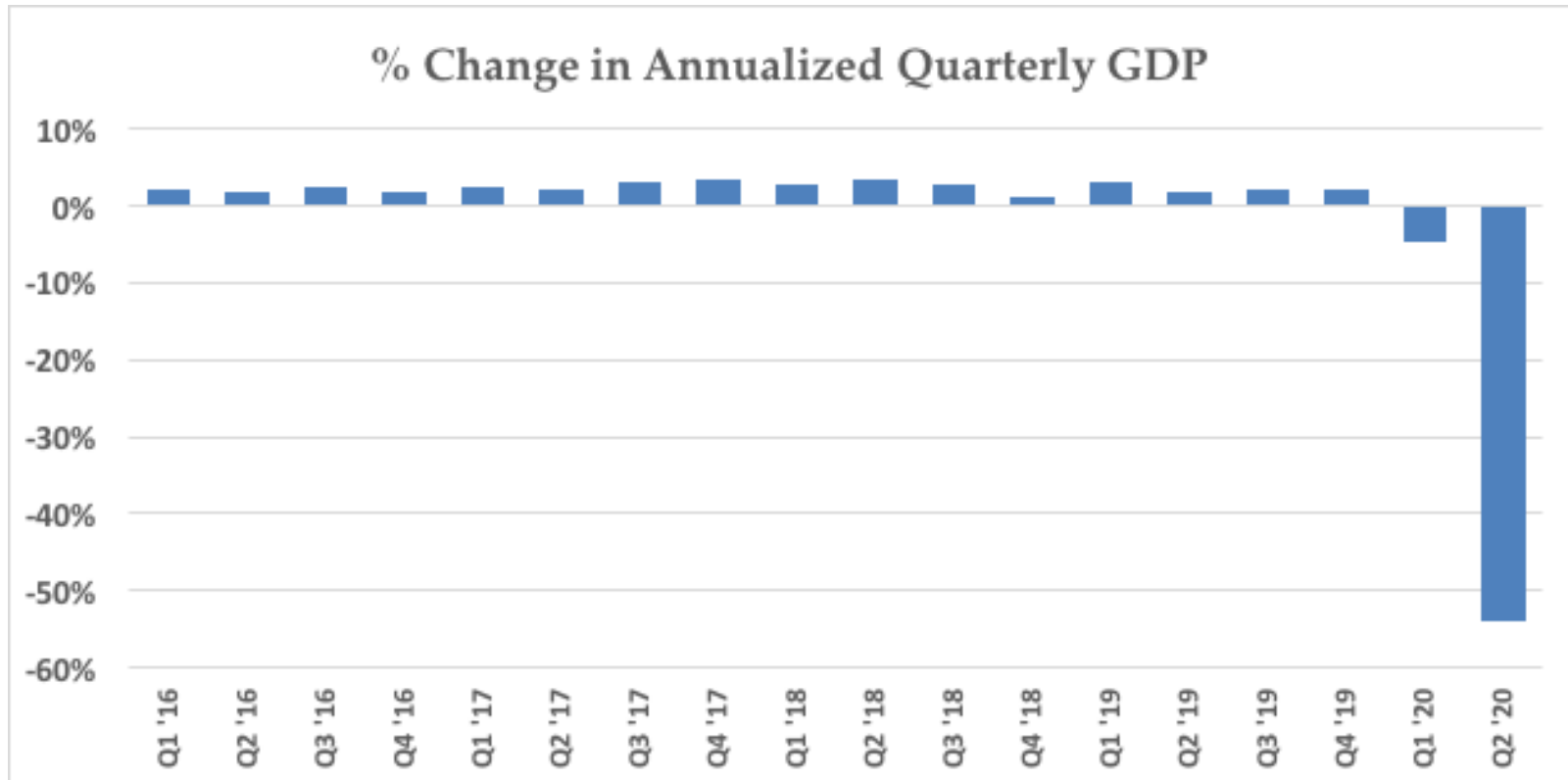
# U.S. Economy

- The economy shrank 4.8% in first quarter.
- Largest drop since 2008 and the Great Recession.



# U.S. Economy

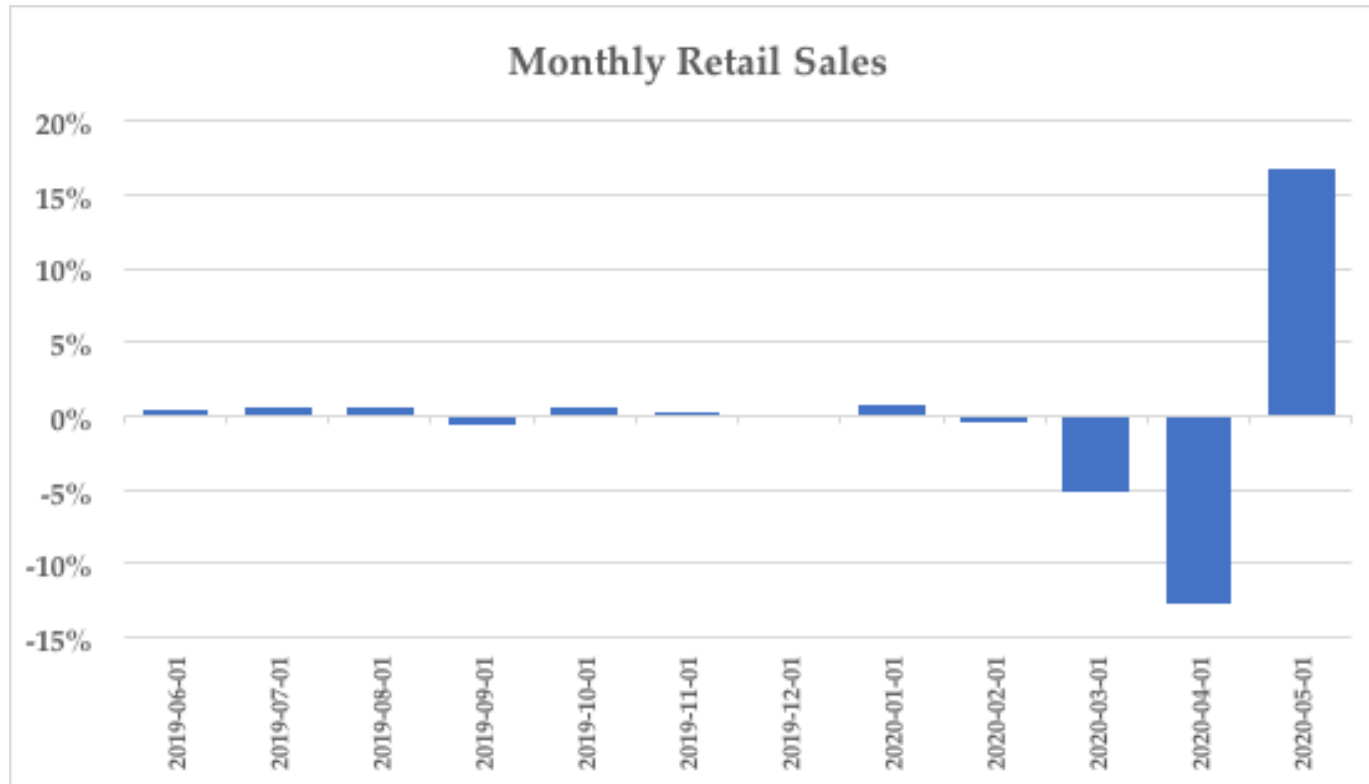
- Atlanta Fed: economy shrank 54% (est.) in 2nd quarter (annualized).





# U.S. Economy

- Rebound in retail sales, up 17.7% in May



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# Global Governmental Responses

## ■ US Congress

- CARES, PPP, and other fiscal support: **\$3 trillion**
- Additional fiscal support: **\$3 trillion** (*proposed*)
- **\$1 - \$3 trillion** infrastructure spending (*proposed*)

## ■ Federal Reserve

- 0% Fed Funds rate (indefinitely)
- Quantitative easing (bond buying - indefinitely)
- “Main Street Lending Program”
- Financing state and local governments

## ■ European Union

- **€500 billion** in fiscal support
- ECB: neg. interest rates, QE, PEPP (**€1.45 trillion**)



# Jay Powell on need for fiscal support

*“It would be a concern if Congress were to pull back from the support that it’s providing too quickly.”*

*“It would be wise to look at ways to continue to support people who are out of work and also smaller businesses that may not have vast resources for a period of time... so that we can get through this critical phase, that support would be well placed at this time.”*



# Interest, inflation, government debt, and financial suppression

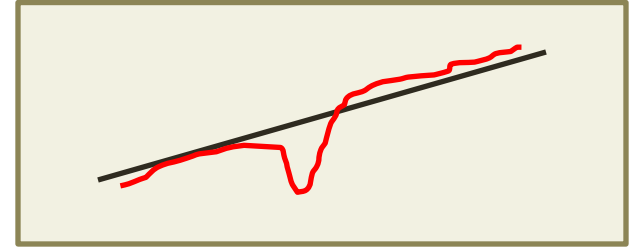
- US debt following WWII was of a magnitude similar to today.
- The Fed had a triple mandate to control inflation, consistent with full employment, AND support the national debt.
- This was accomplished through “financial suppression” by the Fed, which kept interest rates artificially low.
- We could also “grow our way out” of the debt but FS is more likely.
- *“You’re talking to a very fiscally conservative person. But this is war. In a war, you worry about winning the war, then you worry about paying for it.”*

Carmen Reinhart, chief economist, World Bank

# Types of Recoveries

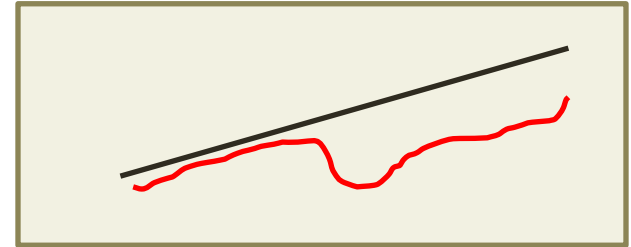
- V Shaped

- Typical of a Real Recession  
(*possible scenario*)



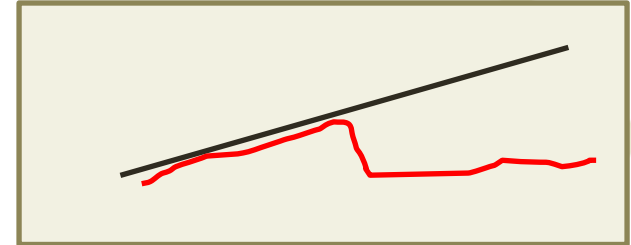
- U Shaped

- Typical of a Financial Crisis  
(*less likely scenario*)



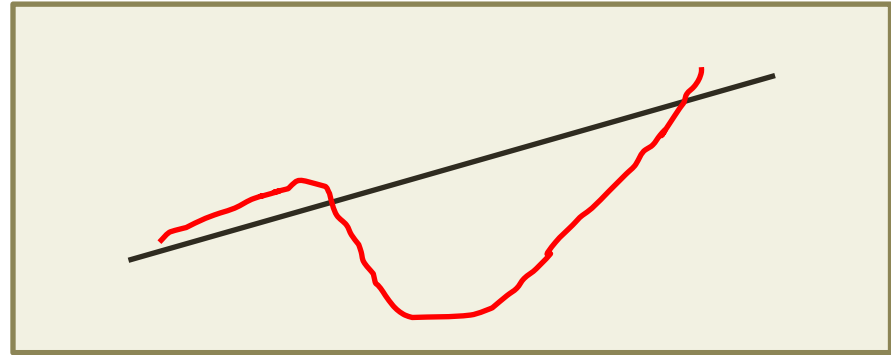
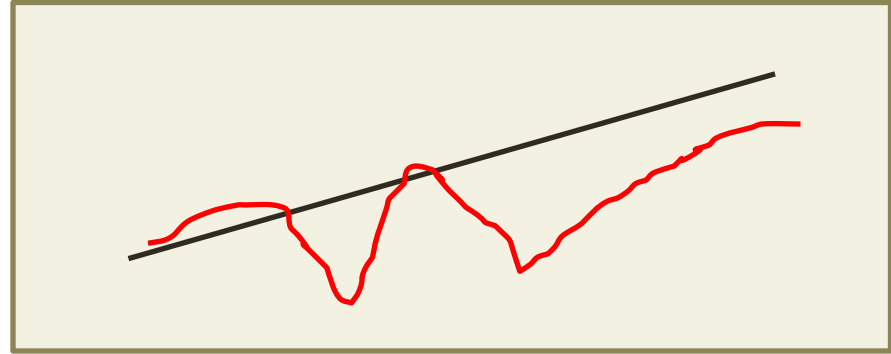
- L Shaped

- Worst case scenario  
(*and extremely unlikely*)



# Types of Recoveries

- W Shaped
  - Double-Dip Recession (*health-driven scenario*)
- The Swoosh
  - The stretched V (*most likely scenario?*)



# V for Victory?



THE WALL STREET JOURNAL.



## CORONAVIRUS

Free Resources

HOW DO YOU CATCH COVID-19?

GOING OUTSIDE SAFELY

SUMMER CHILD CARE

CAN I TRAVEL?

ECONOMY | CAPITAL ACCOUNT

## Signs of a V-Shaped Early-Stage Economic Recovery Emerge

After bottoming out in April, economic activity has continued to rise into early June

# Key Drivers

- Success of state and local reopening efforts
- Continued fiscal and monetary support
- Second wave of infection (assuming we exit the first wave)
- Emergence of vaccines and other therapies
- Ability of companies and workers to adapt to “New Normal”





# The markets vs the real economy

**The  
Economist**

Can the food system cope with covid?

Latin America's first millennial dictator

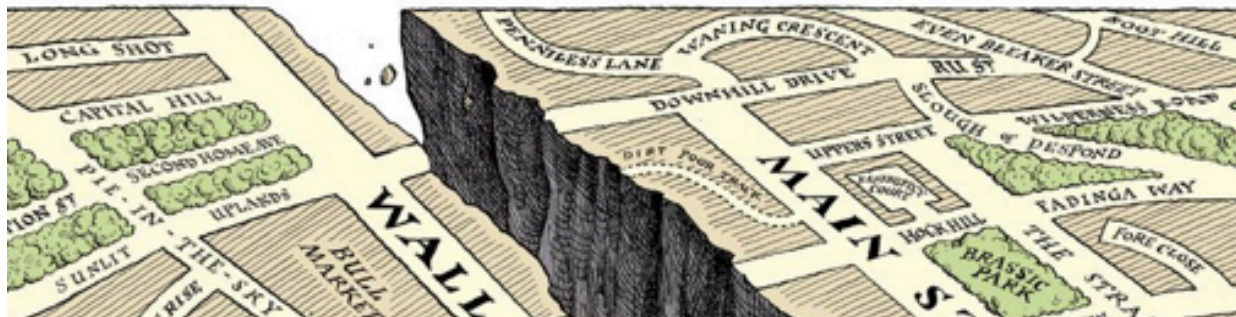
How the pandemic is changing science

Love under lockdown

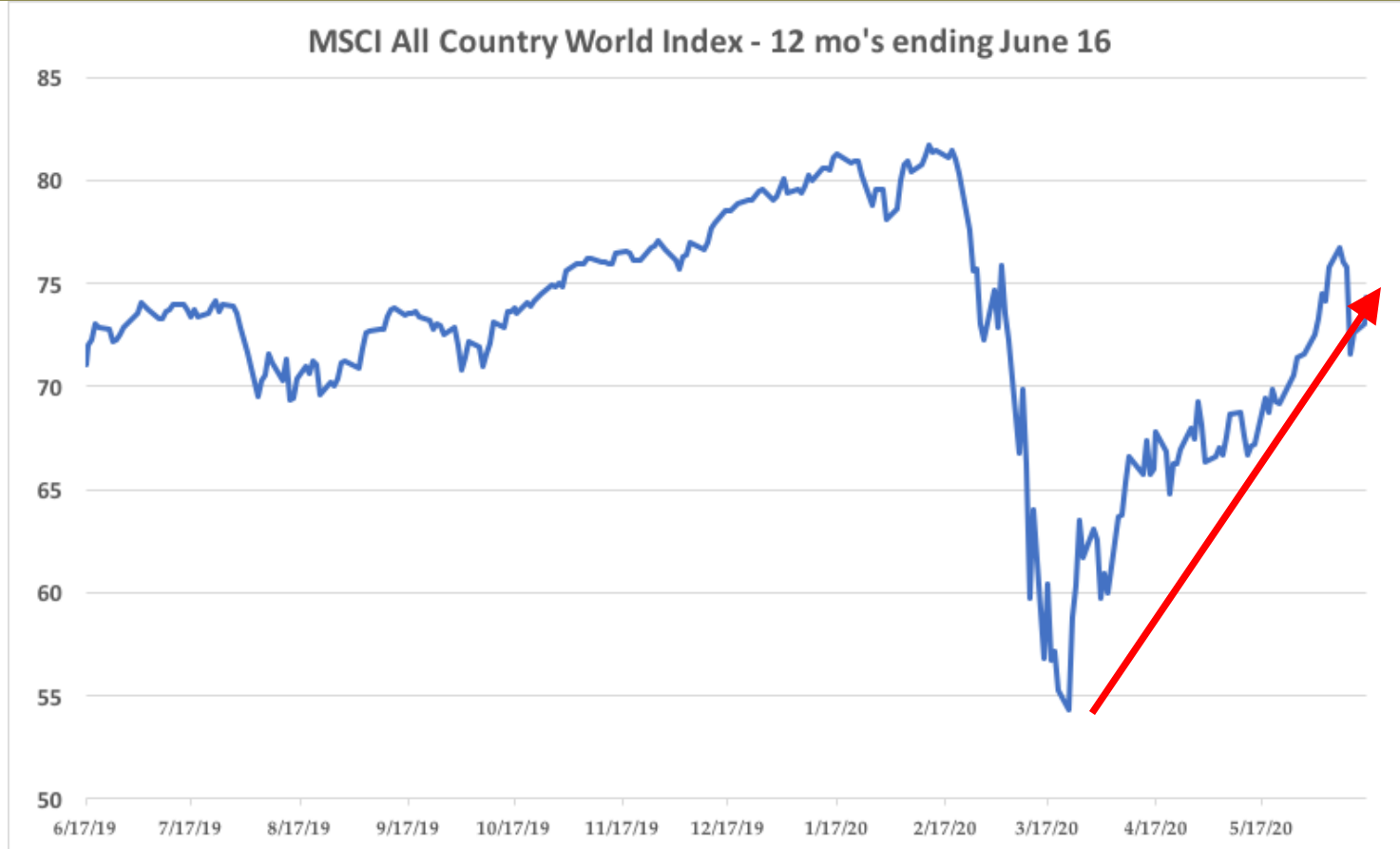
MAY 9TH-15TH 2020

## A dangerous gap

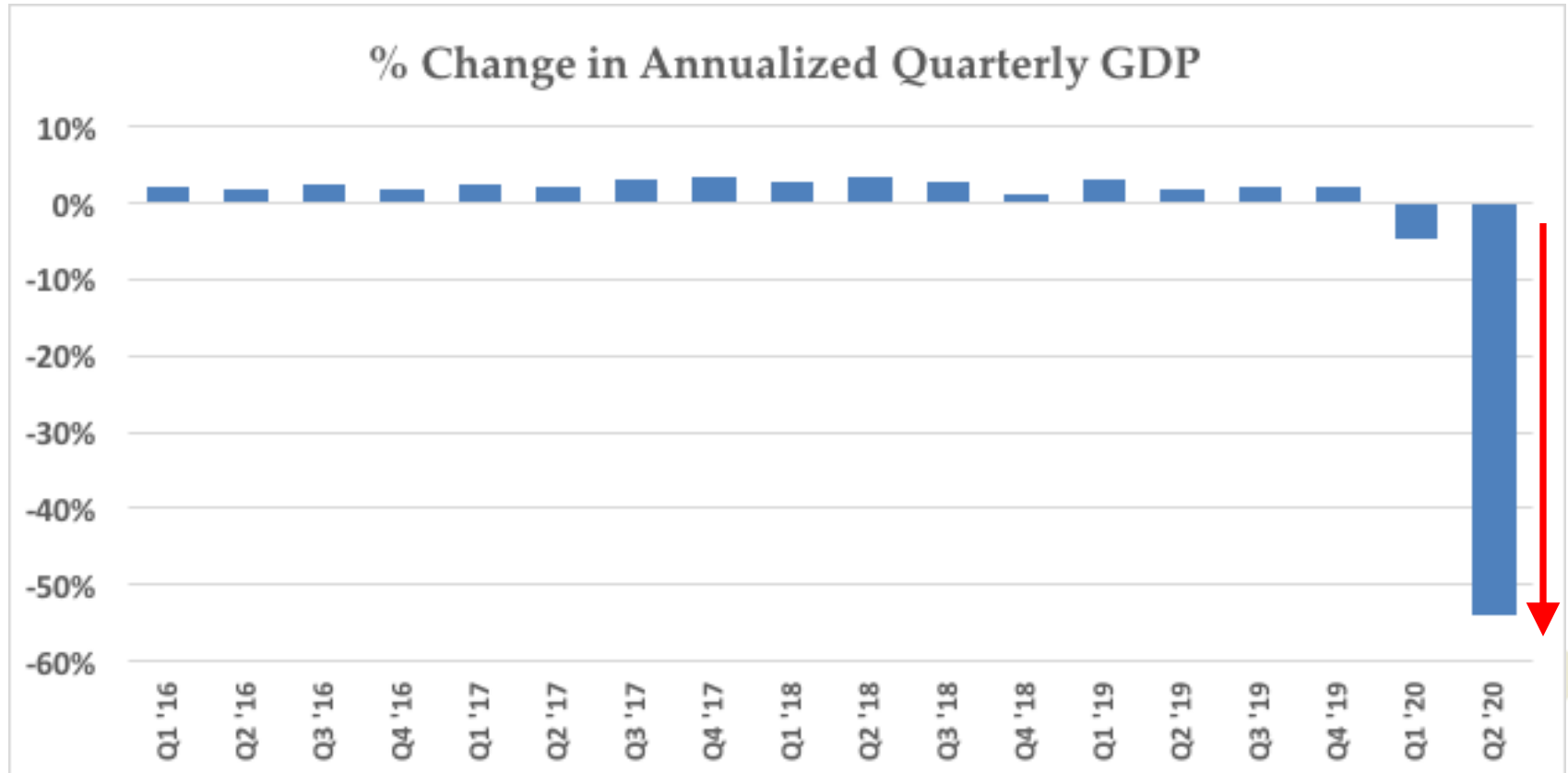
The markets v the real economy



# The Market



# The Market



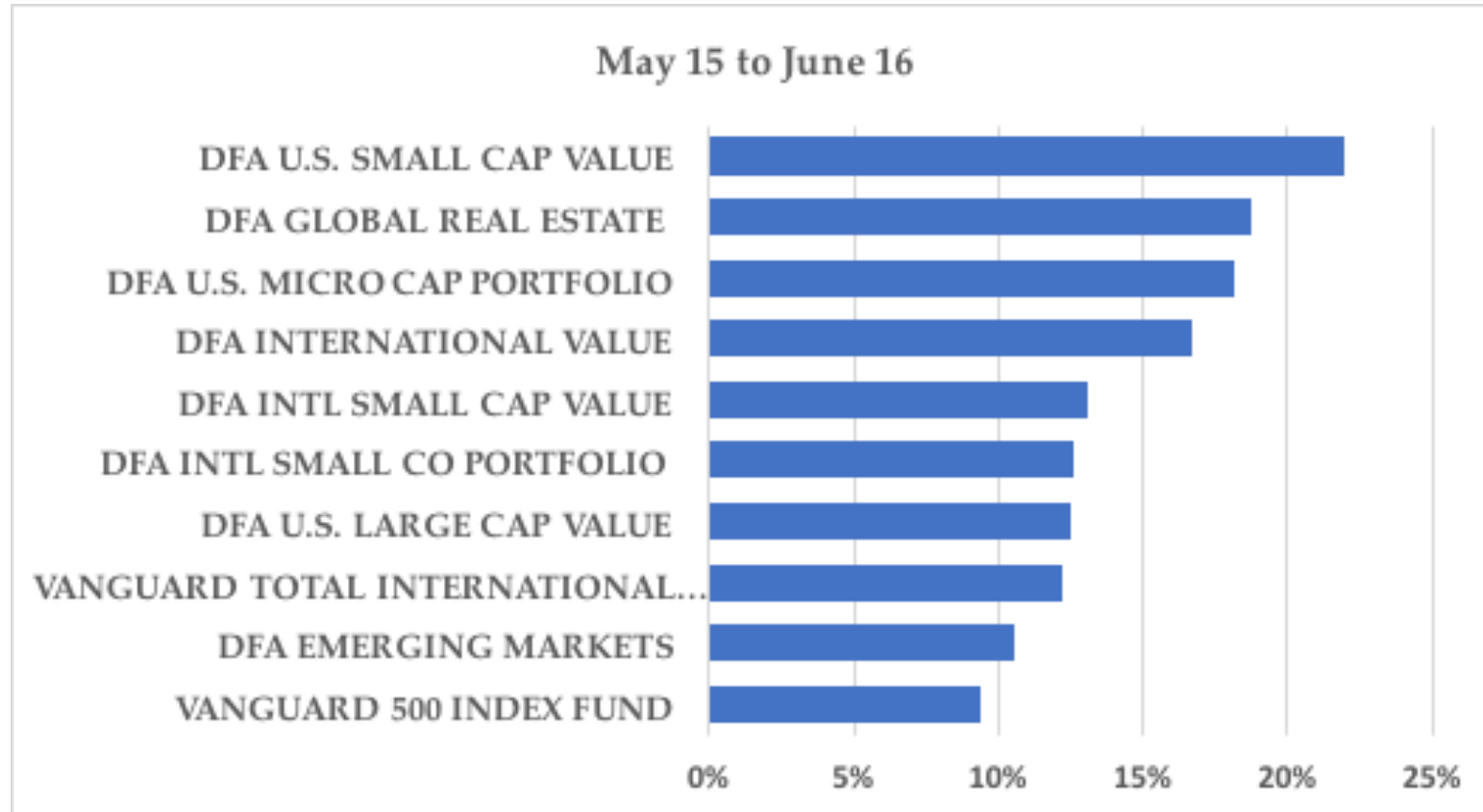
# The Market

“The Market” replies to The Economist:

*Maybe I know something you don't*



# Recent Market Trends



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# How are stocks valued?

$$\text{Value} = \frac{\text{Earnings}}{\text{Discount Rate}}$$



# How are stocks valued?

The diagram illustrates the relationship between a stock's price, its dividend, and its yield. It features three yellow boxes with red borders. The first box on the left contains the text "\$10". To its right is an equals sign. Further right is a fraction. The numerator of the fraction is a box containing "\$1". The denominator is a box containing "0.10". A horizontal line separates the numerator and denominator. Two red curved arrows are present: one starts from the top of the "\$10" box and points to the "\$1" box, and the other starts from the top of the "0.10" box and points to the "\$10" box.

$$\boxed{\$10} = \frac{\boxed{\$1}}{\boxed{0.10}}$$

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# How are stocks valued?

$$\boxed{\$20} = \frac{\boxed{\$1}}{\boxed{0.05}}$$

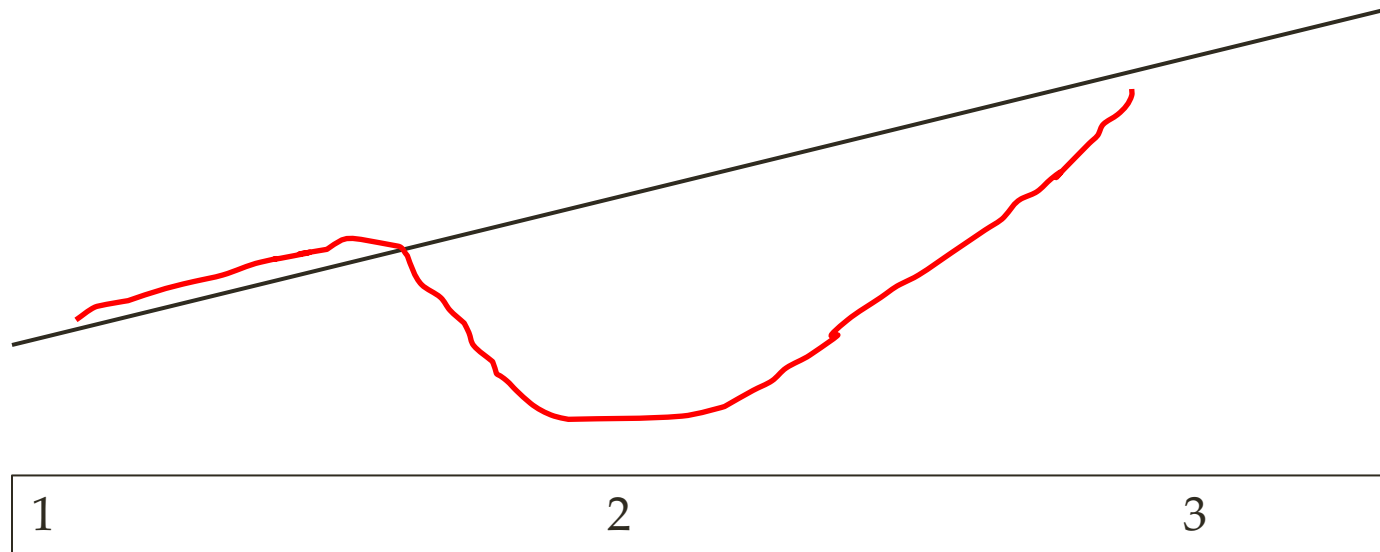
Lower interest rates typically support higher stock valuations.





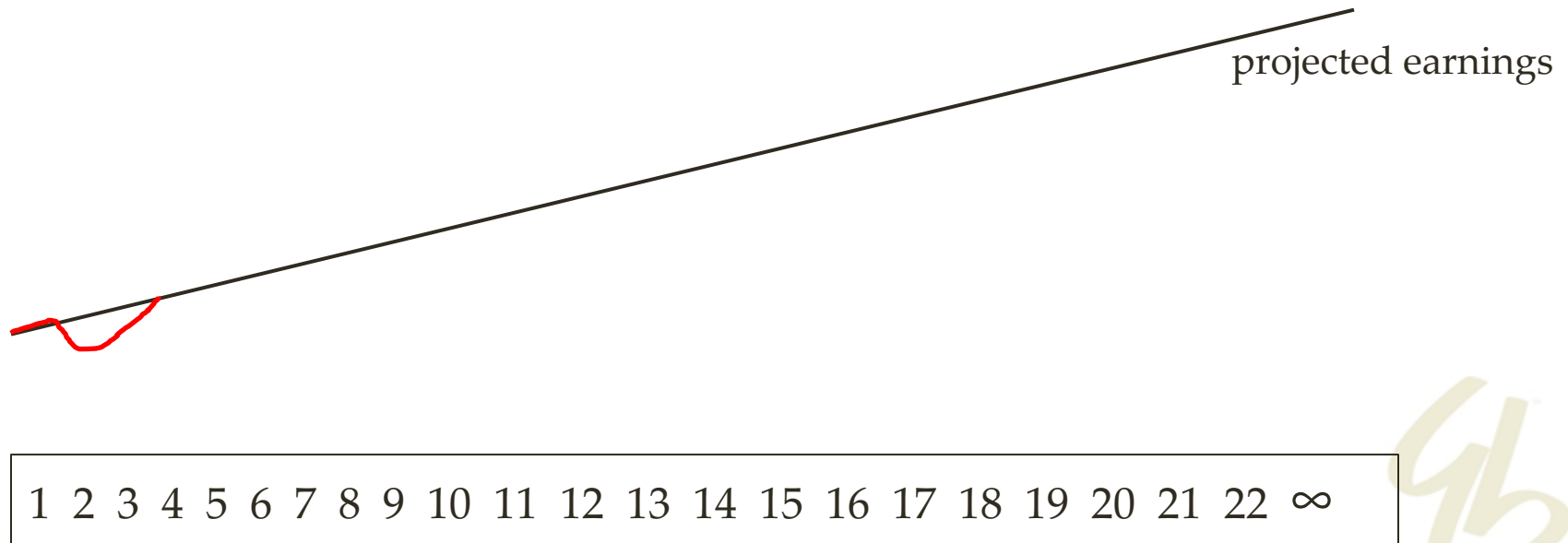
# Revisiting the Swoosh

Average earnings “trajectory” for ABC, Inc.



# Revisiting the Swoosh

Market perspective when valuing ABC, Inc.



# Summary

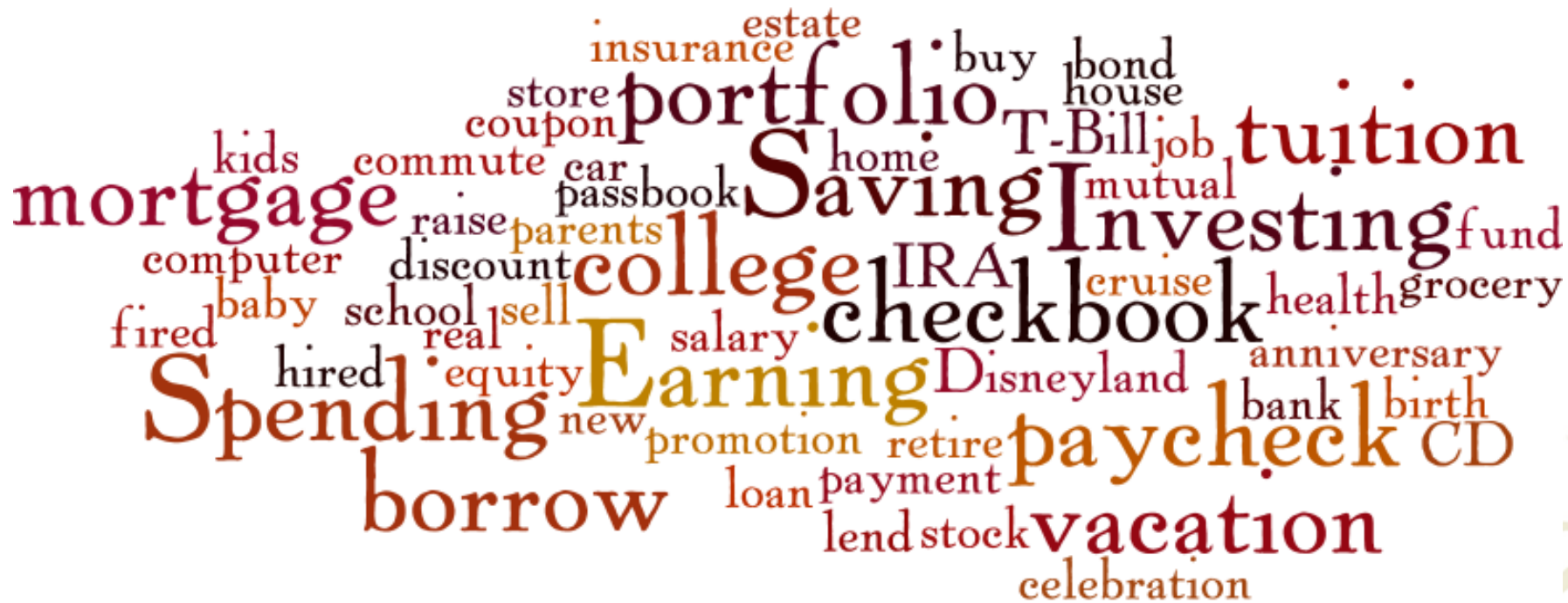
- The immediate economic impact of COVID-19 has been of almost unprecedented magnitude.
- Global governmental responses have also been of unprecedented magnitude and, hopefully, duration.
- Human behavior, both economic and hygienic, will determine the path of recovery.
- Markets don't price stocks based on today's conditions; markets focus on the future and move based on what's on the horizon.
- Resilience in all things – mental, emotional, and financial – is, as always, the best strategy for surviving any crisis.



# A great source of resilience



# Questions?



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