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CAPITAL MANAGEMENT GROUP

The Hefter Report – April 2020

As of Friday, April 24th, this year has really been a tale of two markets. Most of the market is down. Especially hard hit during this Covid-19 crisis are sectors including restaurants, hotels, autos, energy, financials, industrials, small cap stocks and more. A few areas have benefited from the new stay-at-home economy, including technology, consumer staples and health care. In the past few days we believe we're starting to see signs that this dichotomy may be changing.

A number of states have begun gradually opening for business. In the past few days the tale of the market has reversed: energy, financials, and the other beaten down groups have outperformed tech and health care. We believe this is a very positive sign for the overall market and economy. Stocks are often a leading indicator and the recent rally may be predictive of what could happen with the overall economy in 6 to 12 months from now. If this rally broadens out to include important groups like financials and industrials, we think there should be further upside for stocks as a whole.

According to various antibody studies including one conducted by Stanford scientist John Ioannidis, the mortality rate of Covid-19 may be between 0.25% to 0.625% despite the reported mortality rate of 7%. They arrived at this number after the antibody blood tests of people in Santa Clara County showed many more people had the virus in their system than those who had previously tested positive. A New York study just released and reported by the Wall Street Journal also suggests a decreased mortality rate, revealing the actual number of people in New York state exposed to the virus to be between 13.9% to 21.2% of the state's population. This is more than 10 times the state's confirmed cases, which would decrease the reported mortality rate of 7% to below 1%. If further studies corroborate a significantly lower mortality rate for Covid-19, it could accelerate the pace at which economic activity resumes.

In addition to the possibility that the mortality rate may be considerably lower than reported, any positive results with an anti-viral medication reducing Covid-19 symptoms would be a game changer. On April 29th, the US National Institute of Health announced positive early results for a trial of Gilead Sciences' coronavirus drug Remdesivir, with 50% of treated patients improving and more than half discharged within two weeks. While certainly significant progress, we believe there is more potential for both at-home testing and treatment to continue fueling the relief rally. At least 70 companies across the globe are currently working on various treatments. Over the past two months, huge amounts of money have come out of stocks and gone into money markets and bonds. If we don't see cases rise significantly upon states reopening and more good news emerges on the medical front, that money could go right back into stocks and propel the market higher. We're not predicting anything immediate, but our outlook for the next few years is positive. This assessment includes the likelihood of higher taxes, no matter who wins the White House.

Wealth disparity is an important issue that we believe needs to be addressed. Government is now playing perhaps the biggest role in the overall economy since Franklin Roosevelt and the New Deal. If these efforts prove constructive in getting people back to work, we may see more fiscal spending on infrastructure and other areas in the near future. It's definitely a brave new world and it will be fascinating to see how we progress from here. But we believe the US will progress, as it always has, and hopefully a broader base of the population will benefit.

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