

Stocks Tumble on COVID-19, Economic Worries

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Wednesday saw a return of the “risk-off” trade on Wall Street, with the large-cap S&P 500 Index ending the day down 2.6%, while the small-cap Russell 2000 Index saw a bigger sell-off, down 3.5%. Market sentiment turned negative as data showed coronavirus COVID-19 cases flaring up in multiple states, making investors anxious about its impact on the economic recovery, and concern that the spreading coronavirus could force policymakers to slow the pace or reverse business re-openings. At the same time, fears of possible trade tensions between the European Union and the U.S., and a grim outlook by the International Monetary Fund (IMF) projecting a significantly deeper recession and slower recovery than it anticipated just two months ago, weighed on the markets Wednesday.

Coronavirus Infections Surge

Over the last two weeks, the number of new daily cases of the novel coronavirus has accelerated in several southern and western states, including North Carolina, Florida, Texas, Arizona and California.

According to analysts at Evercore ISI, “Net hospitalization and ICU capacity paint a clearer picture of outbreak severity. Hospitalizations, led by increases in U.S. hot spots (TX, CA, AZ, FL), have started to creep higher. Overall hospitalizations remain low. ICU utilization is still well below crisis levels. Overall, while cases are increasing, the demographic skew has helped keep hospitalization, ICU, and fatality numbers low. The vast majority of new cases are in younger age cohorts, while hospitalizations and deaths are heavily skewed toward the elderly.”¹

¹ Evercore ISI. “All Things Second Wave –Hospitalizations, ICU Usage, Reservations & Mobility.” Dennis DeBusschere et al. June 25, 2020

Sadly, nursing homes and assisted living centers are still seeing outbreaks in some states. For example, 45.2 percent of the COVID-19 deaths in Texas have occurred in such long-term facilities.²

While forced restrictions on people's movements don't appear imminent, state, county and local officials are beginning to tighten guidelines on gatherings and wearing face coverings, among other measures, to try to help slow the virus' spread. In addition, some governors are urging vulnerable residents to stay home. In addition, to help the hospital system manage an expected continued rise in COVID-19 patients, Texas Gov. Greg Abbott announced on Thursday, June 25, that elective surgeries are being suspended in Texas' four largest urban counties, which are home to Houston, Dallas, San Antonio and Austin.³

Also, on June 25, Abbott announced a temporary pause of any further phases to open Texas as the state responds to the recent increase in COVID-19 cases and hospitalizations. Businesses permitted to open under the previous phases can continue to operate at the designated occupancy levels.⁴

U.S. Weighs More Tariffs on European Goods

The Trump administration is considering additional tariffs on \$3.1 billion worth of products from France, Spain, Germany and the U.K. These possible new tariffs would target European exports such as olives, beer, gin and trucks, while increasing duties on products including aircraft, cheese and yogurt.

Earlier this year, the U.S. increased tariffs from 10% to 15% on imports of Airbus aircraft and parts. Trade tensions between the U.S. and Europe had escalated in October 2019 when the World Trade Organization ruled in October that Germany, France, Spain and the U.K. granted illegal subsidies to plane-maker Airbus, and allowed the U.S. to impose \$7.5 billion in duties as a result.

² As of June 24, 2020, 1013 out of 2249 COVID-19 deaths in Texas came from nursing homes and assisted living centers. Sources: <https://dshs.texas.gov/coronavirus/COVID-19OutbreaksinLong-termCareFacilities.aspx> and <https://www.dshs.texas.gov/coronavirus/>

³ Press Release. Governor Abbott Issues Executive Order Expanding Hospital Capacity. <https://gov.texas.gov/news/post/governor-abbott-issues-executive-expanding-hospital-capacity-order-suspends-elective-surgeries-in-four-texas-counties>

⁴ Press Release. Governor Abbott Announces Temporary Pause Of Additional Reopening Phases. <https://gov.texas.gov/news/post/governor-abbott-announces-temporary-pause-of-additional-reopening-phases>

IMF Slashes Forecast in the June World Economic Outlook Update⁵

The International Monetary Fund cut its estimate of global economic output in 2020, and now sees a global contraction of -4.9%, which is 1.9% below the previous forecast (April 2020). The fund also downgraded its GDP forecast for 2021, and it now expects a growth rate of 5.4% from the 5.8% forecast made in April. According to the latest update released June 25, the IMF said, “The COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously forecast.”

The IMF explained that the downward revisions were due to COVID-19 social distancing measures likely remaining in place during the second half of the year, with productivity and supply chains being hit. Also, in those nations still struggling with high infection rates, the IMF expects that longer lockdowns will dent economic activity even more. Domestically, the U.S. GDP is expected to contract by 8% in 2020; the IMF had previously estimated a GDP contraction of 5.9% in 2020 in their outlook released in April. Forecasts were lowered for the euro zone as well, with the economy now seen shrinking by 10.2% in 2020. Brazil, Mexico and South Africa are also expected to contract by 9.1%, 10.5% and 8%, respectively.

Disclosures

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The S&P 500 Index is a free-float market capitalization index of 500 large publicly held U.S.-based companies, capturing 80 percent coverage of U.S. equities. It is often used as a proxy for the American stock market.

The Russell 2000 Index represents the smallest 2000 stocks in the domestic-oriented Russell 3000 Index. It is often used as a proxy for small-cap investing in the U.S.

⁵ International Monetary Fund, World Economic Outlook Update, June 2020.
<https://www.imf.org/en/Publications/WEO>

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