

I am tired of receiving and sending emails that begin with “I hope you and yours are staying safe.” Let’s just all agree that is implied and get down to business. Same with these ridiculous commercials that begin with a somber piano playing over a montage of empty streets and culminate in how we will get through this together...by buying their product. I’m not sure how a Camry is going to keep me safe.

That’s why I was so glad to have the draft this week. Finally, some sports to take my mind off the constant drumbeat of covid-19. Of course, the NFL fumbled by constantly reminding me of how seriously they are taking this (just like when they wear pink in October). Plus, here’s every person this draft pick has ever loved and how they died. For the love of God, can’t I just have an escape for a few hours?!

Enter the Philadelphia Eagles. We needed about four WR’s and three cornerbacks. Somehow, Eagle GM Howie Roseman decides to let Jerry Jones draft CeeDee Lamb at #17, right before us at #21. How does that happen? Plus, Jerry Jones drafts Lamb *from his mega-yacht*. What a flex. And now the Eagles have to cover Amari Cooper *and* CeeDee Lamb for the next 5+ years while we play guys that literally came off the streets in the middle of the season.

I’m thinking, “OK, Howie’s confident Jefferson will fall to him at #21 and didn’t want to give up any draft picks.” I may have disagreed, but I get it. But when Jefferson falls into our lap, Howie somehow botches it and drafts a second tier WR I’ve never heard of. Awesome, this guy torched defensive stalwarts like Arkansas Pine Bluff and SMU, so I’m sure he’s more NFL ready than the SEC kid that set an all-time record. After what amounted to a three hour Ohio State recruiting commercial, I went to bed furious.

Round two. We pick 53rd. There was a big WR available. A solid cornerback. A safety. We would make up for the round 1 screw up. And then the “hold my beer” moment came.

“And with the 53rd pick, the Philadelphia Eagles select Jalen Hurts, QB from the University of Oklahoma.”

Remember when the Sopranos series ended in that abrupt cut to black screen? The entire city of Philadelphia experienced that simultaneously. I lost consciousness momentarily. Disbelief gave way to hatred. I hated Howie Roseman. I hated Doug Pederson. I hated the owner for allowing these. I hated being born a Philadelphia sports fan. I hated my parents for not living in Pittsburgh or Boston. My dad for making me like football. I hated the universe. I hated myself. Sadly, “firehowie.com” was already taken. And yes, I seriously checked. If we didn’t trust Wentz to stay healthy, why did we sign him to over \$100mm last year?

But for one fleeting moment, I felt normal again. I forgot about covid-19, quarantine, unemployment, PPP, contact tracing and social distancing. I forgot about R naught and mortality rates and injecting disinfectants and flattening the curve.

So a big “Thank you” to the Eagles front office for allowing me that brief reprieve in the midst of this chaos.

My hatred for your stupidity distracted me from the more important things in life.

And that’s exactly why we need sports.

Last Week This Morning

- 10 Year Treasury tested 0.55% again before closing out at 0.60%
 - o German bund unchanged at -0.47%
- 2 Year Treasury up a touch to 0.225%
- LIBOR dropped 0.23%, down to 0.44%
- SOFR is .01%
- 4.3mm Americans lost their job last week, bringing the 5 week total to more than 26mm
 - o This implies an unemployment rate of nearly 20%
- Goldman suggests Q2 GDP could be -35% but that Q3 could be 19% and Q4 12%
- Oil went negative because nothing makes sense anymore
- The US now has over 50,000 covid-19 deaths and with another 10,000 more we will match the deaths from the 2017 flu season
- Trump suggests injecting disinfectant to fight coronavirus and Dr. Birx looks like a kid praying the teacher doesn't call on her

Regulators Pushing SOFR Adoption

First, Freddie and Fannie announce the discontinuation of LIBOR based lending. Then the Federal Reserve decides to pump up to \$1T per day into the repo market in order to provide liquidity. This, in turn, drives down SOFR (a repo rate) to 1 basis point. SOFR is artificially low while LIBOR is artificially high, and borrowers start wondering if they can make the switch to SOFR.

But that's not all. Now the Main Street Lending Program is requiring all loans to be SOFR-based.¹ The Main Street Lending Program is the one designated for big companies, like AutoNation and Ruth's Chris, that maybe shouldn't be taking money from PPP.

It was going to be challenging enough to get banks in a position to offer SOFR-based hedges by year end, but now the pressure will be on to change their loan systems to allow for SOFR so that they can provide bail out funds. The good news is that most lenders have been working on that anyway. The bad news is that their deadline was the end of 2021. How will this impact the effectiveness of the program?

Additionally, last week we discussed how LIBOR typically behaves during periods of financial stress. We said it should continue to drive lower towards 0.15%-0.20% in the coming weeks and months. It's down to 0.44% already. We know how LIBOR behaves during periods of financial stress because we have the experience from the financial crisis.

But we don't really know how repo rates behave when the Fed tries to extricate itself from daily repo intervention. We saw SOFR spike to double digits in September. The Fed intervened.

The whole reason for moving away from LIBOR was that it was subject to manipulation. If the Fed has to intervene daily in repo markets to keep rates like SOFR stable, aren't we just trading one manipulation out for another?

And sure, Powell seems committed. But isn't there at least some chance a different Fed Chair in the future won't be so committed to that continuity?

We've taken the power of daily floating rates out of the hands of 20 banks and put it into the hands of one Fed Chairperson.

I'm not sure that's an improvement. But it's clear the federal government will continue leveraging its role in lending to encourage the transition from LIBOR to SOFR.

What do Georgia and Sweden Have in Common?

Georgia Governor Brian Kemp is the unfortunate poster child for those wanting to re-open the economy. What concerns me is that the Georgia governor (and the protestors) don't seem to be making this decision based on data. I may agree with the ultimate decision, but I disagree on how he arrived at it. This is the same guy that just three weeks ago said he didn't realize asymptomatic people with covid-19 could spread it. And I promise you, we all knew it.

Just like I don't agree with the blanket shutdown, I don't agree with the blanket re-opening in Georgia. Why are hair salons and tattoo parlors being treated the same as another business?

Remember, my primary issue with flattening the curve is that it postpones cases, it doesn't eliminate them. The minute we start lifting restrictions, the virus starts spreading again and those at most risk are still at risk. "You don't get it, it's about not overwhelming the hospitals!" – very informed coronavirus observer and impassioned defender of every human life.

I'm glad you brought that up. We're starting to get data out of NYC that can better inform our decisions moving forward.

Hospitalizations

As of today, New York City has had a total of 37,995 hospitalizations.² That's a terrible human toll, but not an overwhelming number for NYC. We spent a lot of time two weeks ago talking about how many unused beds there are in NYC. In fact, the US Naval Ship Comfort is leaving because its beds went mostly unused.

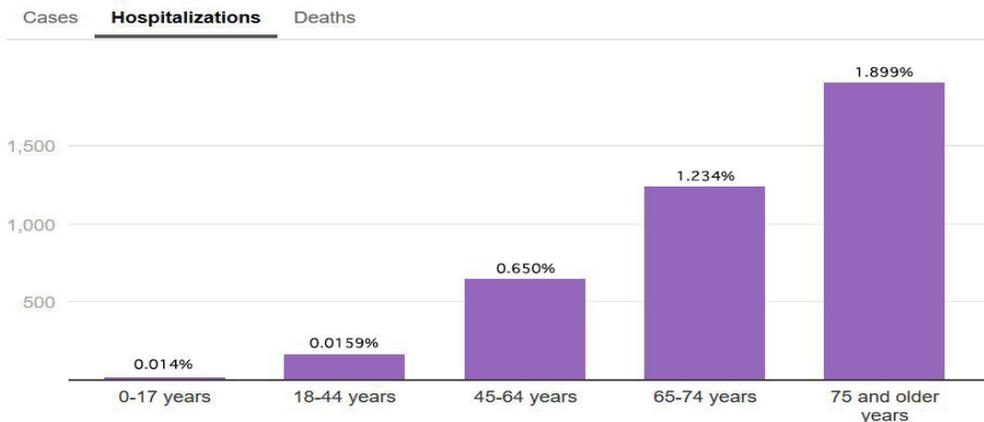
Cuomo will argue the aggressive intervention is what led to the unused beds. Undoubtedly, a full blown shut down has helped. But isn't there some chance it was never going to be as bad as the worst-case models suggested? And what happens when quarantine measures are lifted? Remember, flattening the curve postponed the number of cases, it didn't stop them.

Data out of New York also suggests that hospitalization rates don't exceed 1% until we get to the 65 and older crowd. Isn't it possible our devotion to flattening the curve in order to ensure the hospitals aren't overwhelmed is based on worst case projections instead of reality?

This hospitalization graphic is from New York's own website (although I did add the %'s on top of the bars to make it easier to read).³

Rates by Age

COVID-19 rate per 100,000 people



Cuomo (and many others) have been using projections that take hospitalization rates and apply them across the entire population. But hospitalizations are clearly more concentrated among the elderly.

If we stop assuming hospitalization is a % across the entire population and instead treat it as a function of age, isn't the likelihood of overwhelming our hospitals far less? Shouldn't our projections factor in age? Stop taking raw hospitalizations and extrapolating that across all ages when people 44 and younger have a less than 0.0159% chance of being hospitalized.

If those projections still show our hospitals being overrun, then I am onboard with the drastic measures. But if not, let's have a more reasonable discussion about what and where resources are needed.

Ventilators

It wasn't that long ago that Cuomo said NY needed 30,000 ventilators. Turns out they didn't need anywhere close to that many. In fact, New York is now sending ventilators to other states. But Ford, GE and other companies are now producing nearly 200k ventilators by year end based on those dire projections.

And how well did those ventilators work anyway? According to a study in New York, 88% of patients on ventilators still died.⁴ This is similar to a study in Wuhan that found that 86% of patients requiring ventilators died.

Cuomo demanded 30,000 ventilators and asked which 26,000 New Yorkers should die, and yet the success rate of a ventilator is just 12%.

If a loved one falls into that 12%, ventilators are a life saver. But isn't there some chance we are overreacting out of an unrealistic fear coupled with an unrealistic expectation of their benefits?

Remember, at one point the US government (citing a study out of the Imperial College London) was throwing around a death toll of up to 2.2mm Americans. If you believe quarantine is the only thing that has prevented that from happening, then you must believe 2.15mm Americans will still die when we lift quarantine.

Ventilators were never going to save 2.2mm American lives. Or 30,000 New Yorkers. Those numbers were far too high and their benefits dramatically overstated.

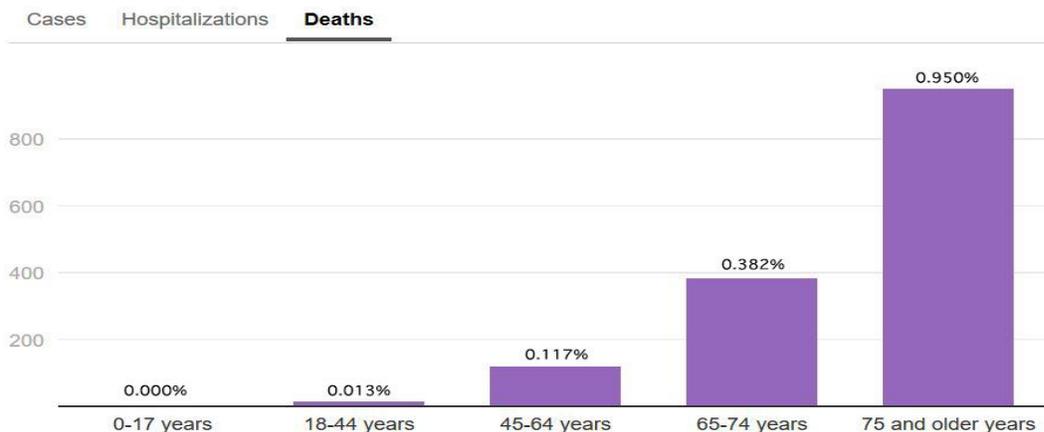
And it led to misinformed decisions.

Mortality

In the same NY data set we used to examine hospitalizations, mortality rates per capita are less than 1%. For those under 65, it's less than 0.12%. Keep in mind, this is per capita (for every 10,000 people), not just confirmed cases. But still, as I sit here typing this my odds of dying from covid-19 would be 0.013%.

Rates by Age

COVID-19 rate per 100,000 people



If my odds of dying are 0.013%, that is still way too high for my liking.

But how much are full stay-at-home-orders improving those odds? What if a change in my own behavior (6 feet, washing hands, etc) results in nearly the same odds as a full-blown quarantine without all the nasty economic side effects?

Looking at these numbers, how could we possibly conclude over 2mm Americans could die from covid-19? What decisions to avoid that outcome might we ultimately regret?

It is clear that covid-19 is deadlier than the average flu. But I don't think we should take big picture data and apply it equally across all age groups. It can be 10x deadlier for those over 75 years old, but maybe it's not as deadly for a 25 year old. Let's account for those differences when making decisions.

Under-Ascertainment

On April 11th, a Stanford study conducted on Santa Clara County residents found that, "These prevalence estimates represent a range between 48,000 and 81,000 people infected in Santa Clara County by early April, 50-85 fold more than the number of confirmed cases." [Click here to read the study.](#)

"The infection to case ratio, also referred to as an under-ascertainment rate, of at least 50, is meaningfully higher than current estimates." In other words, the true number of cases vs the number of confirmed cases.

And if the number of actual cases is 50-85x higher than the actual number of cases, the mortality rate *has to be* a fraction of the current reported mortality rate.

In fact, the study concludes covid-19 could have an "infection fatality rate of 0.12-0.2%".

Not 3.4% like the WHO suggested. Not more than 1% like Dr. Fauci suggested. Less than 0.2%.

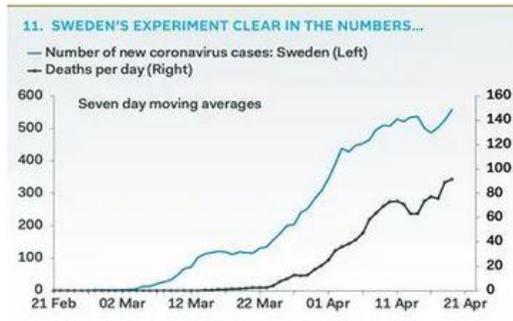
This study could be underestimating the mortality rate. But at a minimum, we are beginning to gather data that could ultimately suggest the early numbers dramatically overstated the true mortality rate, particularly across different ages.

Sweden

That brings us to Sweden. As you probably have read, Sweden has not locked down the country. Sweden is mostly relying on self-regulating citizens to follow social distancing measures. The primary governmental guidance is that groups of 50+ are banned. Visitations to elderly care facilities are also banned and everyone is encouraged to work from home. Other than that, you're kind of on your own.

Business Insider wrote a damning article condemning Sweden's approach and highlighting how their disastrous results could soon be replicated in US states trying to re-open.⁵

Look at how terrible Sweden's curve is compared to Norway's curve. The Swedes are being irresponsible, right?



But are they?

Sweden's hospitals aren't overrun. In fact, their ICU beds have 20% capacity.

Sweden's cases and death toll aren't the best, but they aren't the worst, either. Why is a country that remained open in the middle of the pack when it comes to # of cases? Isn't it possible that a full blown lockdown isn't materially more effective than voluntary social distancing measures?

I'm sure someone will send me links to articles that show how Sweden's cases and deaths are still rising. But that's Sweden's plan. Sweden believes that the number of cases and deaths will ultimately be the same over the next year. It's a classic case of pay me now or pay me later, but you will pay me.

Because they aren't kicking the can down the road, Sweden's Dr. Anders Tegnell, chief epidemiologist at Sweden's Public Health Agency, is projecting herd immunity in the coming weeks. Big picture, Sweden's position arises from the following:

1. More reasonable assumptions in models rather than extreme worst-case scenarios
2. Draconian quarantine is unsustainable in the long run
3. Voluntary social distancing measures are nearly as effective as a full lock down
4. Flattening the curve merely postpones the number of cases, not eliminate them

In a nutshell, Sweden expects that it and Norway (and other countries like it) will ultimately end up at the same place. Sweden basically believes it will have the same number of deaths a year from now whether they put the country on lockdown (with most of the deaths coming later) or stay open and rely on self-governance (with most of the deaths coming sooner). Pay me now or pay me later.

If they're going to end up at the same place in the long run, why pay the economic price of a total shut down today? Sure, their numbers are higher than their peer nations today, but Sweden expects those countries to catch up as they try to lift quarantine measures. Sweden expects to have far fewer deaths this winter during a second wave while Norway will have more.

Georgia and Sweden are pursuing similar policies. I'm not convinced Georgia's is rooted in scientific evidence the way Sweden's is, but they are setting off on a similar path nonetheless.

There is a chance that Georgia, like Sweden, looks worse in the near term. But if Kemp stays the course and achieves herd immunity before neighboring states, Georgia could be better off this winter.

Home Sweet Home

A few weeks ago, I wrote the economy would recover when we no longer feared the virus. I took that a step further and concluded that was most likely the result of a vaccine, or perhaps just sufficient testing.

But with more and more data, it becomes increasingly possible that we will no longer fear covid-19 because the reality sinks in that it was never going to kill over 2mm Americans.

North Carolina, and Charlotte specifically, have been pretty lucky. If our positive numbers are only the result of a total lockdown, then we are at risk of an explosion once that is lifted. A second wave, a third wave, etc.

I had to go out a few times this week and I was surprised by the amount of traffic. I think I was expecting the I Am Legend scenes out of Manhattan. But traffic was actually pretty busy. Rather than being furious at all the reckless citizens, I think this is actually a good sign.

If a lot of people are out and about, *and* our numbers are still pretty good, I wonder if self-regulation is really what is driving the positive results rather than a quarantine?

Think about the psychological impact this virus has had on our behavior. If the government lifts the stay at home orders right now, will I suddenly start shaking hands again? No. Traveling? No. Visiting grandparents? No way. Go to a sporting event? Definitely not an Eagles game.

I suspect my own behavior will be my best defense against contracting covid-19, not the government telling me to stay at home. A CBS poll this week highlighted how dramatically people would change their behavior, even if we had no governmental restrictions.



Left to our own voluntary social distancing measures, I suspect most of us do a pretty good job of avoiding big risks.

And I suspect my grandparents take more drastic measures than my parents, who take more drastic measures than me, who take more drastic measures than one of my 25 year old employees, etc.

That's not a blanket approach, either. New York reserves the right to say, "We have different circumstances than another city." And I worry about Florida's response given its elderly population.

But at some point a more targeted approach will be necessary and I hope we use data, rather than fear, to make those decisions.

Sources

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