

INVESTMENT INSIGHTS

Analysis, Insights and a Different Perspective

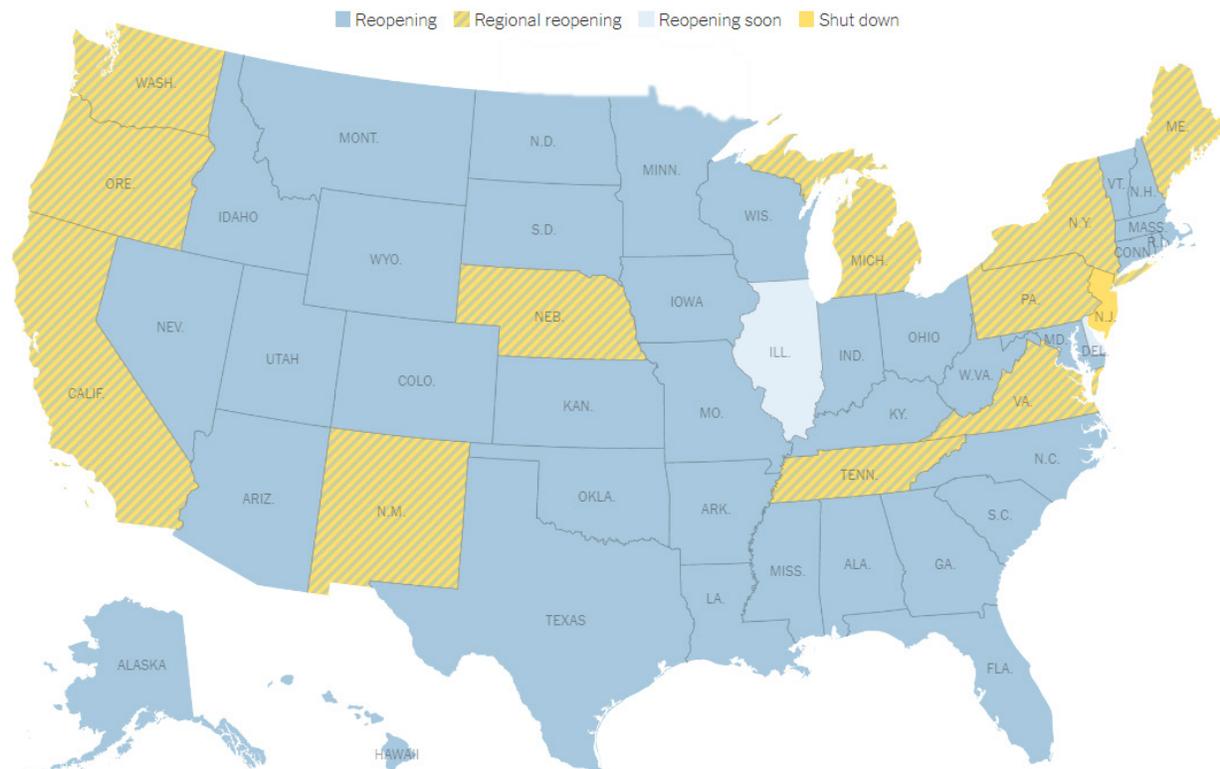
June 2020

REOPENING THE ECONOMY

Late last month, most states that had imposed restrictions to stop the spread of Covid-19 began reopening. As can be seen in the map below,¹ the reopening plans vary substantially for each state, with some states still largely shutdown. Even within some states, different regions are opening at different speeds. The difference across, or even within the states, in reopening has spurred much debate on this topic. In this issue of Investment Insights, we examine this debate by taking a close look at two notable studies that take different positions on the reopening question.

KEY POINTS

- This issue of Investment Insights looks at the reopening debate.
- Two notable studies that take different positions on this topic are examined closely.
- The outlook for the economy is discussed as economic activity picks up throughout the country.

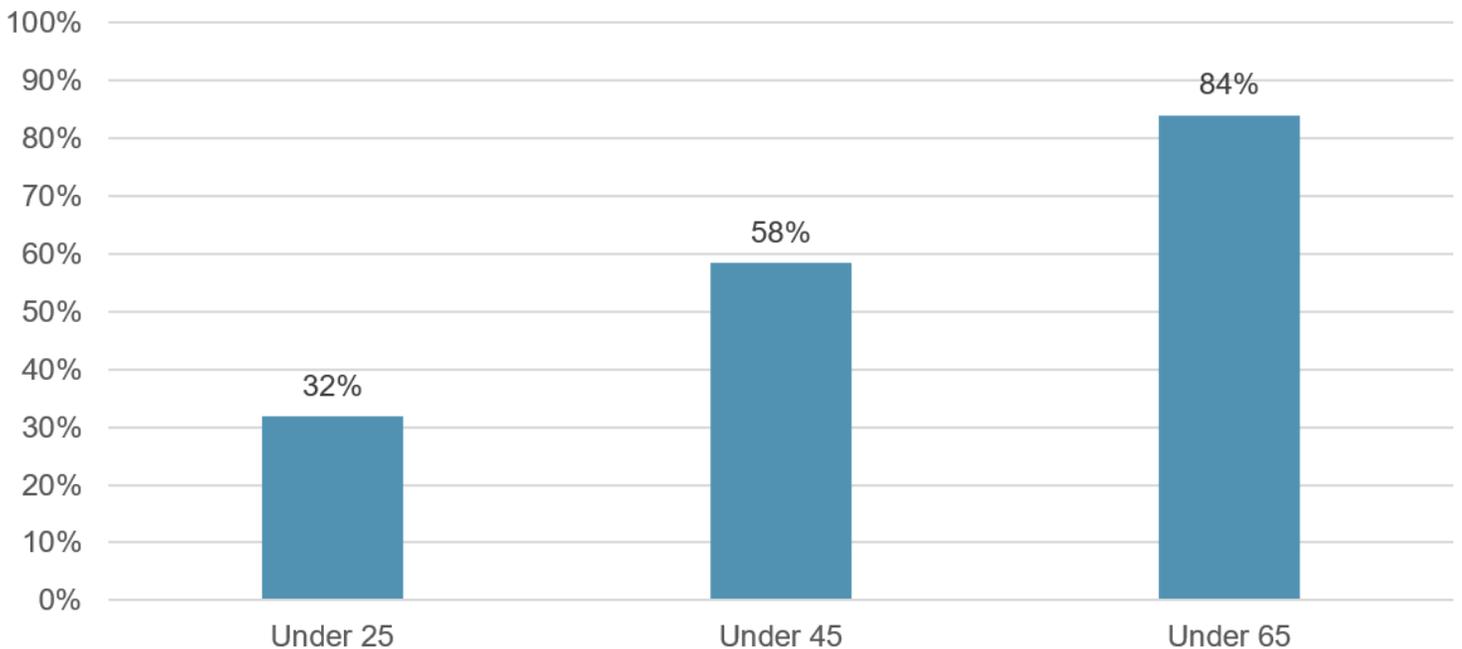


¹ Mervosh, Sarah, et al. "See How All 50 States Are Reopening." The New York Times, 27 May 2020.

NO SIGNIFICANT RISK

One study that overall favors cautious reopening is a study by Belfer Center for Science and International Affairs at Harvard Kennedy School.² One of the main conclusions of its analysis is that, for the majority of Americans, the novel coronavirus does not pose a significant additional risk of death. In this study, the author provides a statistical perspective on the risk of Covid-19 among various age groups. For Americans under the age of 25, which represent more than 110 million or about a third of all Americans, Covid-19 has caused only 50 deaths as of April 2020. Next, for Americans under the age of 45, which represent more than 58% of all Americans, the odds of death from Covid-19 is less than half the odds of death from drowning. Finally, for Americans under 65, which represent more than 84% of all Americans, the risk of death from Covid-19 is relatively small at 0.04% or 1 in 2,500.

U.S. Population Distribution by Age



Source: U.S. Census Bureau as of July 1, 2018

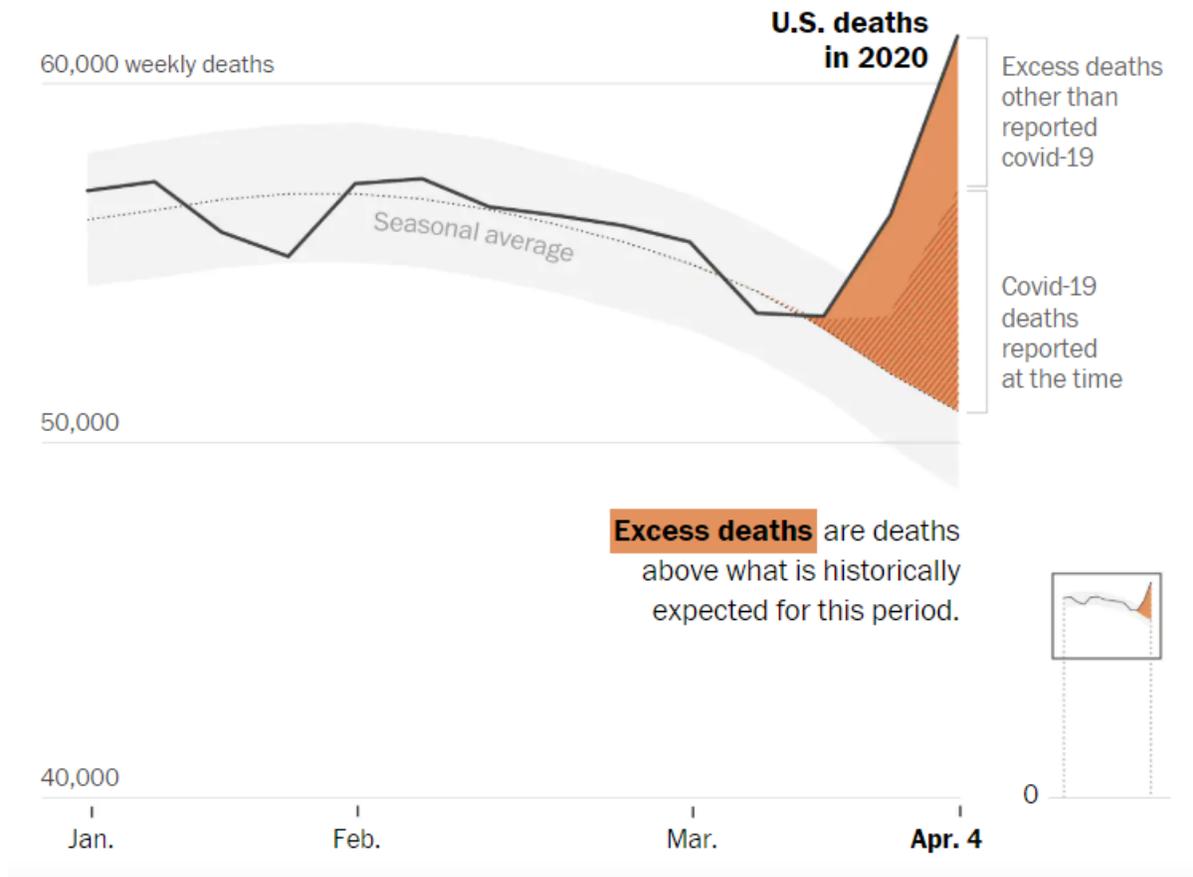
While this study maintains that Covid-19 does not pose a significant additional risk of death for the vast majority of Americans, it highlights that Covid-19 does pose a substantial additional risk of death for Americans over 65, especially individuals with preexisting conditions. It finds that the risk of death for Americans over 65 has increased by more than 10% since the arrival of Covid-19. Further, it finds that older individuals with preexisting conditions are at higher risk. It cites analysis conducted by the Centers for Disease Control and Prevention, which found that 94% of individuals who passed away due to Covid-19 had at least one preexisting health condition.

As such, the study calls for action measures that are designed to protect individuals who are the most vulnerable as the economy reopens. It calls on governments at all levels to provide guidance on who should return to work and who should remain at home, taking into account the differential in risk faced by individuals.

² Allison, Graham. "Coronavirus as a Strategic Challenge: Has Washington Misdiagnosed the Problem?" Belfer Center for Science and International Affairs, Apr. 2020.

DEATH UNDERCOUNTED

The risk of death is perhaps the biggest concern when it comes to the question of reopening, as an accurate death count should be the starting point for understanding the full impact of the disease. The Harvard study mentioned earlier argues that the risk of death is low for the majority of Americans. A report by Yale School of Public Health and The Washington Post,³ calls into question the accuracy of Covid-19 death count. As can be seen in the graph below, this study found that in the five weeks between March 1 and April 4, only about half (8,128) of the total (15,400) excess deaths, which are deaths beyond what would be expected without the virus, were contributed to Covid-19. In other words, approximately 7,272 of excess deaths were not attributed to Covid-19 during this time.



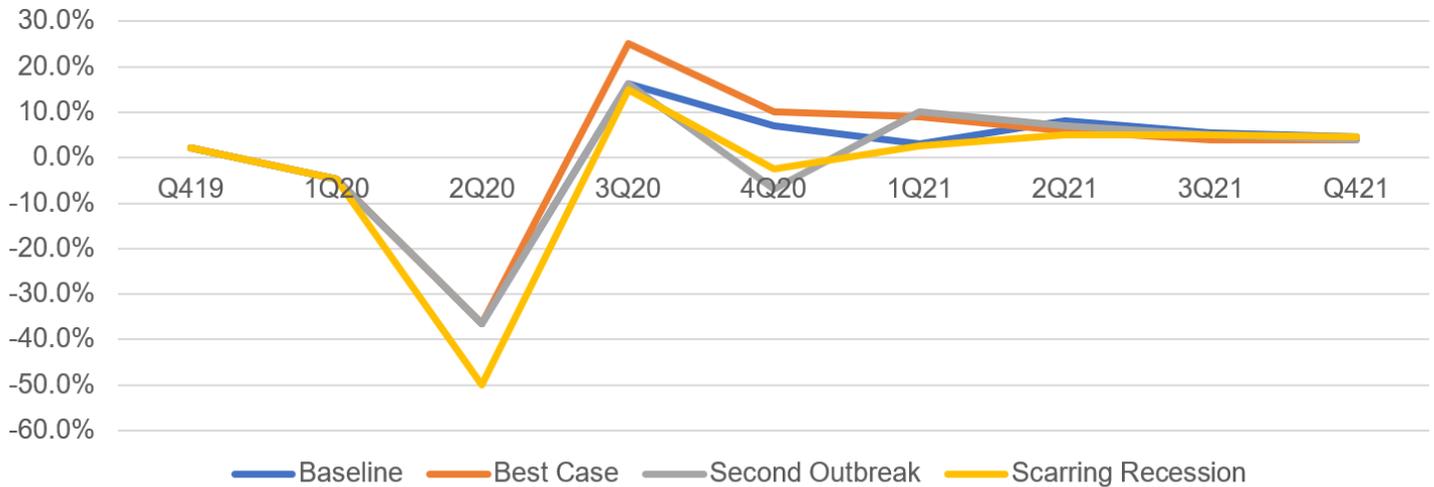
The researchers of this study are not sure what could be causing the discrepancy in the death count but hypothesize that the actual death toll of Covid-19 is likely much higher than what has been reported. A possible reason for an undercount is that, initially, many states declared Covid-19 deaths based on confirmed positive cases. By using death certificates, The National Center for Health Statistics as attempted to fix the reporting lag, but its tally still only accounts for about two-thirds (10,505) of the Yale excess death estimate (15,400). Overall, this study puts into question the accuracy of the Covid-19 death count and suggests that the overall number of deaths may be higher than officially reported. Given the higher potential death count, reopening too quickly may be premature and may result in more tragic deaths than anticipated.

3 Brown, Emma, et al. "U.S. Deaths Soared in Early Weeks of Pandemic, Far Exceeding Number Attributed to Covid-19." The Washington Post, WP Company, 27 Apr. 2020.

OUTLOOK FOR ECONOMY

In the May issue of Investment Insights, we examined the potential impact of the Covid-19 on the U.S. labor market. As mentioned in that issue, a forecast is only as good as the assumptions used in its calculation. The outlook for the economy depends on how effectively and safely the economy is reopened. The following graph shows some of the potential trajectories of recovery for the economy.

Possible GDP Recovery Trajectories



Source: Bloomberg

In this forecast, the Baseline assumes an eight-week lockdown followed by gradual loosening of restrictions over the course of the summer and moderate containment measures reintroduced in winter. Under the Best Case, intensive lockdown proves to be successful, and fiscal stimulus proves adequate to avert any lasting impact of the virus. The Second Outbreak assumes a renewed virus outbreak in the winter, which requires lockdown policies for the fourth quarter. Finally, the Scarring Recession assumes that fiscal and monetary responses were inadequate, and unemployment and business failures linger into the second half of the year.

The difference in the impact on the economy is large between the best case and the worst-case scenarios. According to this forecast, under the best case, the economy is expected to contract by 4.6% versus 14.6% in the worst-case scenario in 2020. The difference of more than 10% is yet another reason why the debate on how to effectively reopen the economy is one of the most important debates today.

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Important Disclosures: The information contained in this report is as of March 26, 2020 and was taken from sources believed to be reliable. It is intended only for personal use. To obtain additional information, contact Cornerstone Wealth Management. This report was prepared by Cornerstone Wealth Management. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. Investing involves risk including the potential loss of principal. No strategy can assure success or protection against loss.

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