

Notes from Lockdown

By John Mauldin | April 3, 2020



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In times of change learners inherit the earth; while the learned find themselves beautifully equipped to deal with a world that no longer exists.

—Eric Hoffer

Greetings from Puerto Rico, where this frequent traveler is evidently home for an unusually long time.

I want to start today by thanking everyone for your kind wishes for my daughter, Amanda. She is now in rehab. Therapy is going well and she will go home soon. Her stroke was serious and would have been worse had her husband not discovered her quickly. They know what caused it, which can be controlled, and are optimistic about a full recovery.

Several readers, some who had experienced stroke themselves, sent encouragement and therapy suggestions. Many, many thanks. I have relayed all your messages to her caregivers. Reading through those messages and others, I was struck by your kindness, even in this stressful situation. The lockdowns and distancing seem to have created a hunger for connection. We are learning how much we need each other. The little things matter. We can't shake hands or hug so we're all trying, perhaps unconsciously, to "touch" in other ways.

The new coronavirus is touching us all, one way or another. The virus is infectious but so are the preventative measures. Today I'll continue [last week's "postcard" format](#) and at the end give you a lightening round of things I have come across, some good and some not. I hope some of what I tell you makes you as angry as it does me.

We are all trying to get our arms around this global event. None of us know the outcome yet, but we can still share notes and help each other through it. Your letters and emails help me and I hope this does the same for you.

Speaking of help, let me quickly remind you Mauldin Economics is offering a complimentary three-month subscription to our *Healthy Returns* premium service. There's no obligation and all we need is your email address. [Get started here.](#)

Now, on with the show.

All in the Battle

The world is beginning to realize the seriousness of this issue. We rightly fear what is coming. We don't know how bad it will be, but the denial is almost gone. Even President Trump now says to expect 100,000–240,000 deaths or more. It's going to get worse before it gets better.

Yet we aren't just bystanders. To various degrees, we are all in the battle. Leading the charge are doctors, nurses, and other healthcare workers who voluntarily go where they *know* they are in danger, often without protective gear, because lives are at stake. They truly are heroes.

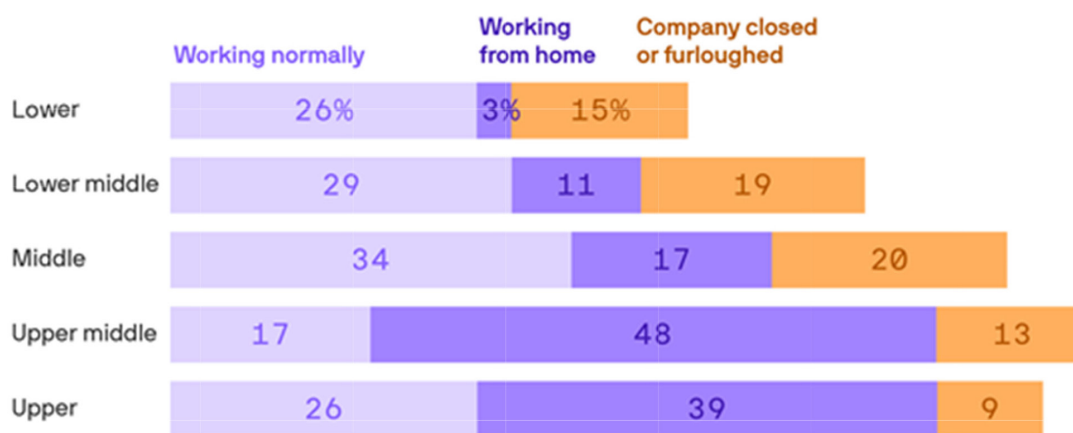
At the other end are the people working remotely from comfortable homes. Life is different and inconvenient now. They're nervous but relatively safe if they follow the standard precautions. Their income is secure for the moment. They still help the "war effort" just by staying home and not becoming disease carriers.

But most Americans are somewhere between those two extremes. Millions are still working, at risk to themselves, to keep society going. We see some of them: delivery people, grocery store and pharmacy workers, TV reporters. Others are invisible. Does your home still have electricity? If so, it's because people are working to keep the grid intact. We don't see them but they are critically important.

A recent Axios/Ipsos survey shows how we've rearranged.

Working status and emotional well being by socioeconomic group

Survey of 1,355 U.S. adults, March 27–30, 2020



Data: Axios/Ipsos survey. Margin of error ± 2.8 points for full sample. Margin for subgroups ranges from ± 5 to ± 9 points. Chart: Naema Ahmed/Axios

Source: [Axios](#)

Notice how “Working from home” is mostly an upper and upper-middle class phenomenon. It’s almost nonexistent at the lower end. People in the other income groups are more likely to be either working normally, laid off, or furloughed.

(By the way, the bars don’t add up to 100 because the rest were already not working—retired, in school, etc.)

But more alarming are the yellow bars at the right. If they are anywhere close to correct, it’s further evidence the unemployment rate is headed to Great Depression-like levels. And may stay there awhile, since we could be months (if not years) away from economic recovery.

Economists at Nordea are forecasting a 13% unemployment rate this year. There are other projections that are much higher. While still a guessing game, it seems clear that we are going to see a post-World War II high. It is quite possible we could approach Depression-era unemployment if the lockdown and social distancing policies last longer than currently anticipated.

Unlike then, however, the weak economy isn’t causing unemployment; the unemployment came first. Most of these people lost their jobs because the coronavirus fight required it. They are restaurant workers, hair stylists, hotel staff, flight attendants, and myriad others whose work requires close personal contact. Such contact is now a threat, so their jobs are casualties of war, sacrificed for the greater good.

We owe them a debt. The first payments are coming soon but if you are sitting at home with bills piling up, it can't come soon enough. And given the transient nature of much of our population, simply delivering the payments is going to get messy.

Small Business Help

The recently-passed CARES Act (Coronavirus Aid, Relief, and Economic Security Act) has, among other things, provisions to help the many small businesses that the coronavirus shutdowns have demolished. I know many readers are business owners so I want to share some possibly useful information.

The Paycheck Protection Program allocates \$350 billion for small businesses (under 500 employees) to receive forgivable government loans in exchange for retaining employees. Note the "forgivable" part. These loans will, if you meet the conditions, convert into grants you don't have to repay. The US Chamber of Commerce has a [detailed fact sheet](#).

As with most such programs, making the best of it requires some planning. My friend Darrell Cain runs a financial advisory firm specializing in dentists. As you might imagine, 80% of dentists have now mostly closed. Darrell is helping them figure out how to take care of their workers and get their practices going again when all this is over. It turns out there is an optimal path that isn't immediately obvious.

This is complicated so I won't go into the details here. If you are a small business owner, check out the Cain Watters [loan calculator](#) to find out how much you qualify to borrow from the Paycheck Protection Program. Note, this information applies to all kinds of small businesses, not just dentists.

The PPP loans come from the Small Business Administration but you will have to apply through a bank. Theoretically, all banks can do it but not all banks will. I'm told many banks are so overwhelmed they are helping only existing customers. So maybe start by finding out if your current bank is capable. If not, you may need a new one.

Business owners may be best served by having their employees access unemployment insurance, to which the federal government has added \$600 a week to whatever your state pays. When you take the PPP loan an 8-week clock starts ticking on the forgivability. You may be better off taking the loan closer to when you can open your business rather than while you are shut down.

I will also point out that the Treasury Department has greatly confused this program's rollout and twisted what Congress intended. The original plan was that unforgiven loans would convert into 4% 10-year notes. Treasury decided to "amend" that part. If they want banks to process all these loans then it needs to be at least a break-even endeavor for them. It's not clear that the 1% interest will cover their costs and risks. It was originally going to be less, and the resulting adjustments have further delayed much-needed help many small businesses are waiting on. This is maddening. They have to do better. This needs to be viable for the smaller banks that serve small businesses.

I get it that Treasury wants to show it is being tough on banks. Steven Mnuchin (Goldman Sachs) and many top Treasury officials are from the Big Bank world. They don't understand smaller banks with their overheads and regulatory costs. Smaller banks don't have Wall Street's scale. If they want this to succeed for small businesses, they have to make it work for small banks. And 1% just doesn't do it. This is a MAJOR screwup. Total FUBAR. Fix it.

Bye-Bye, Buybacks

The stock market had a rough first quarter. The second one may not be much better and could be worse. But more than a few traders expect a quick recovery once the virus is under control. Many expect the various Fed injections and stimulus programs to drive asset prices higher in late 2020. I have my doubts.

A report I just saw from Canaccord Genuity analysts Tony Dwyer and Michael Welch says the market may have another problem. For prices to rise, the market needs a) willing buyers who b) have cash to spend. Who is going to fill that role?

Well, since the Great Financial Crisis, the primary stock buyer has been the listed companies themselves via their stock repurchase programs. Their net purchases dwarf all others.

Figure 2: Corporations have been the only net buyer since the GFC



Source: breynoldsstrategy / Canaccord Genuity

This is a problem for bulls because the main buyer is suddenly leaving the scene. One reason is political pressure. It's a bad look to be rewarding shareholders when the country is in such dire straits. But that aside, many companies are already highly leveraged and, with recession looming, need to conserve their cash and borrowing power. Buybacks are not a priority. On top of that, the CARES Act restricts buybacks from companies receiving federal loans, loan guarantees, or other assistance.

All that means buybacks will likely be scarce for a while, and stock prices may have a hard time rising unless some other large buyer appears. Bull markets require people willing to buy. Bear markets develop simply in the absence of buyers.

China Puzzle

We know the coronavirus first emerged in Wuhan, China. According to the Chinese government, they had about 82,000 cases and 3,300 deaths before aggressive containment measures brought it under control.

That's the official story. Stories and rumors back in January, while the outbreak was still growing, suggested it was not the whole story. Many people on the ground saw various things suggesting the death count was actually higher. Last week [Bloomberg](#) said a classified US intelligence report found the Chinese numbers really are too low. Numerous other reports have suggested the same for weeks.

That's aggravating because, had China been more forthcoming, other nations could have been better prepared. Whether they *would* have been better prepared is another question. The publicly available data available in January was bad enough. It made experts like Scott Gottlieb predict the US would have a problem. Many epidemiologists knew it would be bad, and said so. Ben Hunt started pounding the table for action almost immediately.

I am not sure what, if anything, would have made US and European leaders do more to get ready. They may not have had the full truth from China, but they had enough to know this was coming. Yet thousands have still died and thousands more will.

When this is all over we need a bipartisan expert panel to investigate what went wrong at CDC, FDA, and everywhere else in the government. We had a 9/11 commission and this outbreak has already killed more Americans than died on that awful day. The country deserves the truth about why they had to die.

But we also need truth from China. There are persistent reports that COVID-19 came from a research facility near the Wuhan wet market. It apparently originated in the "horseshoe bat" which lives over 900 miles away from Wuhan. It would not naturally be there, except that researchers at the labs were looking at those bats trying to understand the coronavirus.

We know this because of all the research published both before the crisis and after by Chinese researchers, scientists and epidemiologists. There are many of them. Pictures of awards being given for research back in 2018 on this very topic. Even David Ignatius at the *Washington Post* says there must be [more to the story](#).

Occam's Razor says to choose the simplest explanation. You don't have to get into conspiracy or weaponization. This may well have been a screwup in containment that the Chinese government doesn't want to admit, and could ultimately kill millions. It will devastate the poor nations of the world. It has already made its way into the Amazon where they have no healthcare and no ability to "social distance," or even understand the meaning of it.

Global Recession

Morgan Stanley is now predicting between a 38% and 45% drop in GDP for the second quarter, after a small drop in the first quarter. Even with the rebound in their moderate case, they still project a 4%-plus year-over-year recession in 2020. They acknowledge it could be much worse.

In our bear case outlook, the contraction in 2Q GDP is sharper, and disruptions from the virus persist into 3Q. In that scenario, we see 2Q GDP contracting as much as 45%, followed by a soft 3Q, and a rebound in activity in 4Q20 and into 2021. Even with the rebound, the level of output at the end of 2021 in our bear case remains 11.5% below its pre-recession peak. Real GDP contracts at an annual average rate of 10.7%Y in 2020 and expands at a modest 1.2%Y rate in 2021.

You can easily find much more optimistic or much more pessimistic projections. Morgan Stanley seems close to the middle. I post it simply to make the point this won't be a quick return to business as usual.

How soon will people want to get back in the restaurants? How quickly will you want a dental hygienist putting her fingers into your mouth for a tooth cleaning? So much of life is going to change "Post-Virus."

Lightning Round

- A large local hospital paid for an order of almost 1,000 ventilators which were shipped from China. When the boat was met at the US port the ventilators were seized by the federal government.
- On the good news front, scores of currently available drugs are being tested to reduce the symptoms of COVID-19. Some are showing remarkable results. The last I saw, at least six vaccines were in the works with a few already in human trials.
- The Cleveland Clinic has developed a simple device that can be 3D printed to double the use of each ventilator. They are already being delivered and put to use.
- The Chinese went into severe lockdown, in some cases welding apartment doors shut. It clearly helped. The US and much of the developed world have gone to nowhere near such extremes. That means we are unlikely to emerge as soon as they did.

- The CDC and other authority figures are going to have to explain why they did not mandate simple masks right from the beginning. They can help even if not medical-grade. Countries that have used masks have a much smaller incidence of the virus. We should all wear simple masks in public. When you come home, wash them in hot water and detergent, which will kill any of the virus. Watch this [video](#) from the Czech Republic and share it with your friends. The Czechs evidently made 10 million masks in a few days. They don't have to be pretty, just cover your face.
- Dr. Mike Roizen, head of Wellness at Cleveland Clinic (he is Oprah's doctor) confirmed to me that masks would make a huge difference. Since getting a mask is difficult now, Mike pointed out a simple bandanna helps. We laughed and said perhaps I could cut up one of my wife's bikini tops. I can even color coordinate with my T-shirts on my walks outside.
- Ten million people have already filed for unemployment. My own family members did not realize they qualify under the new rules. Almost everyone who had a job or has been constricted by the coronavirus qualifies. Tell them to file online as soon as possible.
- March payrolls shrank 701,000, way more than expected. The next nonfarm payroll number could be closer to 10 million. And so on.
- My friend Ian Bremmer has a free service called [G-Zero](#) you should check out. I find it fun and useful to keep in touch with what is going on around the world.
- Follow me on twitter, [@JohnFMauldin](#). And if you want to know what day-to-day life is actually like in Beijing right now, follow my friend Michael Pettis, [@michaelpettis](#).
- It turns out that one of the early symptoms of the coronavirus seems to be a lost sense of smell. Michael Lewis writes about an effort using social media to [track the spread of the coronavirus](#) simply by using social media. If everyone participated, we could see where the virus is spreading much sooner than the testing shows.

Final Thoughts

While this pandemic is different, it is not the first pandemic or global war or global recession, etc., that humanity has seen. And after each such episode, the world isn't the same as it was. There is always a "New Normal." This time will be no different.

Many companies now have most employees working from home, and many will continue doing so after the virus is over. Some will no longer want as much expensive office space. We are clearly going to change our supply chains and bring manufacturing closer to home. That is going to happen everywhere in the world. This won't end globalization but will certainly change it.

Right now, it appears to me that the lockdown will not be lifted until sometime in the middle of May, when current estimates say peak deaths will begin to level off. You can see projections for the US and for each state [here](#). (To find your state, click on the icon for United States of America at the top. A drop-down box will appear.) Note this model assumes high compliance with social distancing everywhere, which we know is not happening. So it may be optimistic.

Time to close, but understand that we will have a new normal. The Age of Transformation will continue just as it has since the Industrial Revolution. There will be remarkable investment opportunities. Families and friends will become even more important. Life will go on.

A Personal Memory

I saw last week that one of the world's greatest tenors, Placido Domingo, had contracted COVID-19 in Acapulco, Mexico. It reminded me of one of my greatest memories.

I was 17 and had been invited to join the Fort Worth Opera chorus. They wanted young faces for the crowd scenes and I could actually hit a high C with some confidence and projection. The first opera I sang in was with possibly the greatest coloratura soprano of the last century, Beverly Sills. I stood 10 feet from her when she sang her greatest role, the mad scene from *Lucia di Lammermoor*. I had no idea how incredible that was.

The next opera was *La Traviata* with the new young (27) lead tenor from the Metropolitan Opera, Placido Domingo. In rehearsal, he sang most of it in a falsetto to conserve his voice. When it came to the end and the death scene, he continued using his falsetto. Shortly after starting, the conductor quieted the orchestra and then silenced them. The only sound was Domingo's voice. It was the most beautiful, haunting sound I have ever heard from a human being, literally raising the hair on the back of my neck and bringing tears to my eyes. And not just mine. I will never forget that moment as long as I live.

I hope Placido recovers. He recently apologized for some past conduct that sounds reprehensible. But his voice remains powerful and I hope the world doesn't lose it. With that, I will hit the send button and wish you a good week. Stay home, stay safe, and wear a mask.

Your wishing I could still hit the high C analyst,



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