

Timeline to the New Normal

By John Mauldin | October 9, 2020



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Like everyone else, I am weary of this pandemic mess. I want to travel freely, enjoy dinner with friends, hug, and shake hands.

And, of course, I want everyone who lost jobs and businesses to get them back. I wasn't thrilled with the economy a year ago, but I'd take it again in a heartbeat.

Alas, that's not going to happen. The recovery in front of us will be slower than we like. History shows improvement over time. Extreme poverty keeps dropping significantly every decade, although this year was a major setback. But that trend will eventually return. **We will get through this.** Yet the world on the other side will be different. In some ways, it will be better, primarily because of technology innovation, but don't expect the old world of 2019 to return. It's gone.

Having a general idea of where we are going is great, but *how* we get there is important, too. Today I want to make some informed speculation about how the next year will unfold. We're going to reach some key decision points in the coming months and you'll make better decisions if you think about them before we get there.

In a way, this is like getting the full schedule when your child goes to school. When you know when their vacations are, when grades come out, when games are played, it's easier to do planning. Sometimes those dates are inconvenient, but it's better to know the schedule.

Landmarks Ahead

I'll start with some info from an excellent article from STAT, the healthcare news service founded by hedge fund titan John Henry. I find its pandemic coverage far more enlightening than the mainstream media.

On September 22, STAT ran a long article titled "[The Road Ahead.](#)" It lists 30 key moments that could either change the pandemic's direction in the US, or at least give us important information. At this point no one knows what any of them will bring, but they are worth considering. I'll share just a few.

October 2020: More Treatments Arrive

This month's big news has been President Trump's COVID-19 diagnosis and (so far) quick recovery. This is of more than political importance. Simply because of who he is, Trump received quick diagnosis and immediate, aggressive treatment with several different drugs. The apparently quick results may guide treatment decisions for other patients.

Unfortunately, it's not yet possible for everyone to get tested as routinely as Trump, nor do these drugs exist in sufficient amounts for everyone. They have risks and might not work as well on other people. But, subject to further study, the president's infection could actually help stimulate a breakthrough.

This applies to more than just COVID-19. Some of these treatments may help other problems or become the basis for even further innovation. We talk about how the whole pandemic has pulled forward many changes, like more people working at home. The massive focus on new treatments and vaccines for COVID-19 has opened important new pathways for future treatments of other diseases. Perhaps just as important, we see cooperative research on an international level that really is astounding. I hope this sets a new standard for future medical developments.

As for those tests? We may soon be able to administer our own tests using a piece of paper. It should be quite cheap and relatively quick. If the FDA approves, it will go a long way towards helping us feel comfortable about opening up our economy. If you can be trusted to test for your own pregnancy, surely you can be trusted to take any test for a virus. No doctor should be necessary.

More and quicker testing is a good thing, because the FDA now appears unlikely to approve any vaccine candidates at its next review meeting later this month. Effective treatments and cheaper tests will help buy time.

November 2020: COVID Meets the Flu

This is not particularly comforting, but forewarned is forearmed. By this time next month, the regular flu season will be well underway. This is a problem because people with flu symptoms may think they have COVID-19 and panic. Or people with COVID-19 may think it's just the flu and not seek treatment. Either would be bad. But on the bright side, the masks and social distancing might reduce flu transmission. Regardless, everyone should get a flu vaccine.

Later in November brings Thanksgiving, the beginning of the holiday season and family gatherings. Those will likely be smaller this year, with less long-distance travel. We should hope everyone is careful enough not to spark any large outbreaks. And don't forget, many retail and service businesses depend on this season to make the year.

December 2020: Vaccine Trial Data

By December, several of the vaccine trials should have gathered enough data to either seek FDA authorization or go back to the drawing board. This could be a real turning point if at least one candidate looks safe and effective.

The companies and government are already working on plans to distribute the vaccine quickly. Experts like to say, "Vaccines don't stop disease, vaccinations do." I'm optimistic but this is not guaranteed. And if we don't have a vaccination campaign on the launchpad in December or early next year, those 2021 economic recovery forecasts may need a review.

February 2021: Super Bowl

Disruption of professional and college sports has been one of the pandemic's larger economic consequences. These are huge industries, accounting for many jobs. The Super Bowl is the apex of that pyramid. Will it be back?

I don't know the answer to that, but whatever happens will tell us something. It may be a bit like Groundhog Day and the weather. If the game happens with a (even somewhat decreased) live audience in the stands, it will likely mean we at least think we have the upper hand on the virus. If the game is cancelled or happens with major modifications, it will signal continued "winter."

March 2021: One Year Since US Outbreak

March will mark a year since the initial European and US outbreaks. This will be a sad milepost, particularly for those who lost loved ones, but also an important data point for the survivors.

First, we will want to see how many of the early patients remain immune. There have been scattered reports of reinfection in those who recovered. Researchers expect they will retain some immunity but it may recede with time. The answer has important implications for vaccine development and herd immunity calculations. An interesting side development is that some prior infections with coronaviruses (they typically cause what we think of as the common cold and some flus) seem to infer immunity in some people. We are not sure why. Some researchers think that as many as 20 million people in the US have already been infected but with no symptoms. Again, why? There are so many things about this virus we simply do not know.

Second, we know many COVID-19 survivors continue to have ongoing health problems. How long do those last? Are they permanent? This matters a great deal, too, and by mid-2021 we should have a better grasp on it.

April 2021: Vaccines Round 2

Right now, our attention is on the promising vaccines that are being fast-tracked through the clinical trials and approval process. Many others are also in the pipeline, and by next spring we should start seeing results. Many of this “second generation” are truly novel approaches in vaccine science. I know it’s the optimist in me, but I will not be surprised if we find a new vaccine technology that is clearly superior.

Some current technologies require the vaccine to be stored at super-cold temperatures below -100 Fahrenheit. Newer candidates can be refrigerated normally or even kept at room temperature. That would vastly reduce the logistical challenges.

Meanwhile, by April, the first-gen vaccines should be widely available. The question will then become whether people will want them. The math is stark here. Success = Effectiveness x Uptake. A 50% effective vaccine given to 50% of the population will mean only 25% of us are protected, and we won’t know exactly which 25%. That’s not enough to change public attitudes and end the recession. Vaccines will be a big economic story next year.

By the way, the fact that a vaccine may only be 50% effective is not a reason to not take it. While it may not keep you from getting COVID-19, it could significantly reduce the symptoms if you are infected. Along with better therapies, your chances of a mild case and a quick recovery should be better.

Bluntly, I intend to get a vaccine. The question will be which one? I am simply going to get my doctor, Dr. Mike Roizen, to tell me what he is taking. I will let you know his take on why he chose one particular vaccine and what he thinks about the others.

May 2021: Summer Begins

Traditionally, May is a festive month filled with weddings, graduations, Mother’s Day and the Memorial Day holiday, which in the US marks the beginning of summer break. May 2020 wasn’t like that. What about May 2021?

At this point, we just don’t know. For it to be anything like normal, we will have to have spent winter and spring distributing a very effective vaccine to most of the population. That, combined with better treatments, might bring people back into circulation. It would mean everything went perfectly for months on end. Possible? Yes. Likely? Ask me next May. But if I were running a business that needs more foot traffic, etc., I would start preparing now for a better summer next year.

July 2021: Olympic Dreams?

The summer Olympics, originally set for July 2020 in Tokyo, have been pushed back a year. Japan has been relatively unscarred by the virus, but bringing so many people from so many places together during a pandemic is risky. And there is also the question of what happens before the games. Will athletes around the world have had safe opportunities to train?

I think the *best* case is the Olympics will be a skeletal event, with small crowds and all athletes vaccinated and quarantined prior to competing.

By August 2021, we should have some level of clarity. Vaccinations will either be happening, or not. If the former, then we should be returning slowly to normal. Maybe by 2022 we'll be shaking hands and hugging again. But what will be left, economically?

Disruptive Caution

The sequence outlined above may sound bleak. Obviously, we all wish it could end sooner. Possibly it will. A lucky break here or there could change everything for the better. But realistically, I think we should prepare for the disruption to continue well into 2021. And possibly beyond, if vaccine development takes longer than expected.

But the nature and degree of disruption is a matter of choice. I don't expect to see more lockdowns like last spring. We've learned a lot since then. Masks, distancing, and staying outdoors effectively reduces the spread to manageable levels. But these measures don't *stop* the spread, so many will remain cautious.

This caution is what disrupts the economy. It's perfectly rational, too. If you have the option of working from home, you would probably rather do that than enter a building loaded with possible COVID-19 carriers. But it's a problem for the restaurants, convenience stores, and other businesses you might have visited near your workplace. Multiply by a few million and here we are.

I can only think of two things that would change these decisions. If we have effective COVID-19 treatments, people will raise their risk tolerance. If you get infected, your doc just prescribes some pills and you stay home a couple of weeks. Not great, but most people would take the chance. The other is a widely accepted, effective vaccine. You can act more or less normally if you know most of the people you encounter aren't a threat to your health.

Nevertheless, the behavioral changes that sparked this recession will last a few more months, at least. Some may become permanent. How many people, prevented from going to their gym, have now adopted home workout regimens that are just as effective? Not to mention more convenient and less expensive? They may never go back to their gyms.

Ditto for personal care. Many people who once visited expensive salons to cover their gray roots have learned how to do it themselves. Ditto for manicures, skin care, etc. Bad news for salons and spas.

And conventions? Conferences? I think they'll be back. I know our Strategic Investment Conference will be an in-person event as soon as possible. But when we had to pivot online this year, it wasn't so bad and was actually better in some ways. I suspect many large events will never return to their previous size. That will be costly for airlines, hotels, restaurants, taxis, and more. Concerts? Bars? Again, they'll reopen but probably with fewer customers. Which means these segments will shrink. Others will grow to take their place. That's what entrepreneurs do.

I know it sounds cold-blooded, but nearly every airline other than Southwest has been in and out of bankruptcy. I fully expect air travel will be higher by the middle of this decade than in 2019, though the flight path there might be a little bumpy.

But that's the long run. We have a big problem *right now*.

1930s Ahead

More than two months after the enhanced unemployment benefits ended, close to 25 million American workers are still on the rolls. This is a little bit off the high, but not much. Their initially generous benefits are much smaller now.

Meanwhile, the small businesses that received forgivable PPP loans in April/May/June have reached, or soon will reach, the end of their 24-week spending period. Whatever isn't forgiven will convert into regular loans. In trying to help these businesses, the government will have saddled some with even more debt.

Further up the food chain, the airline payroll support program just expired. The large carriers are laying off thousands of workers. Retailers continue to close stores and reduce headcount in locations that lack customers.

Hauntingly, we are starting to see layoffs outside the retail and service sector, at companies like Allstate and Raytheon that weren't directly affected by the pandemic. They are shedding jobs anyway. This suggests the recession is spreading into parts of the economy it hadn't previously touched.

All this is going to continue as long as COVID-19 remains enough of a threat to create the behavioral changes described above. We are at least another six months, and that's a best case, from a vaccine being widely distributed enough to help. Thousands of businesses and millions of workers don't have the means to wait. They just don't. They spent their cash and are running out of choices.

As you know, I am as worried about the massive government debt as anyone. But if we don't spend what it takes to support the economy until a vaccine is ready, the next few years could rival the 1930s. I don't say that lightly. I see a wonderful long-term future but a giant canyon is opening between then and now.

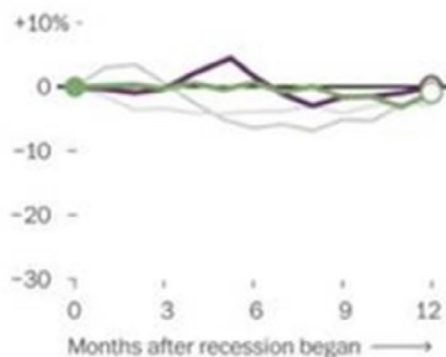
I am not privy to whatever negotiations may be happening in Washington. Obviously the two parties see things differently. That's not new. Until recently, they found ways to compromise. They need to do it again, or we will all pay a heavy price.

And that price will be borne by those least able to afford it. I shared this *Washington Post* chart last week. Which recession doesn't look like the others?

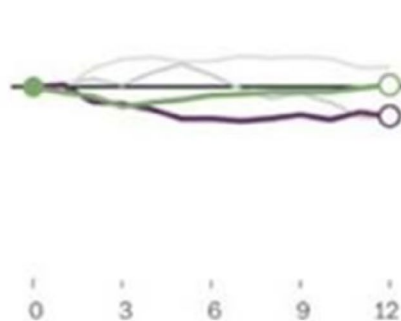
The coronavirus crisis is different

Job growth (or loss) since each recession began, based on weekly earnings

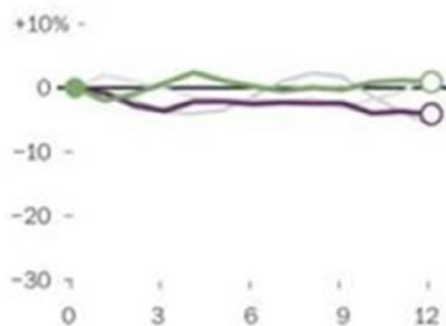
1990 recession



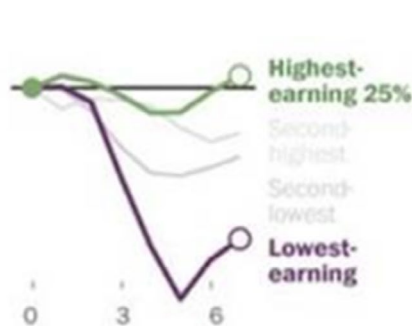
2001 recession



2008 recession



Coronavirus crisis



Notes: Based on a three-month average to show the trend in volatile data.
Source: Labor Department via IPUMS, with methodology assistance from Ernie Tedeschi of Evercore ISI
THE WASHINGTON POST

Source: *Washington Post*

While talks have again resumed, there has been no announcement as I write this letter. Both sides will have to compromise or we will be looking at a straight up depression and a return to the March/April economic crisis. Here's hoping they can figure it out. My base case is that they will.

I am a believer in human innovation and ingenuity. I think we will figure this out. I think the path of technology and innovation, especially in the biotechnology sector, is such that none of us in 2030 or 2035 will want to go back to the good old days of 2019. The medicine and healthcare of 2019 is going to look like the Stone Age in the 2030s. So will much of our current technology.

We're going to have to rationalize the debt sometime before 2030. I believe that life-extending technology and perhaps even the Holy Grail of age reversal technology will be available within the next decade or so.

As I filed this letter, I saw that MIT researchers are [working on a "universal" flu vaccine](#). It targets a protein that rarely mutates, and might lead to a longer-lasting and more effective flu vaccine. Such research is happening everywhere. Some of it will bear fruit and make all our lives better.

But in the meantime, we have to get through 2021. In a few weeks we will go to the polls and decide on which direction we want to take for the next four years. The problems will be the same whoever wins. The pace of recovery might be different. But entrepreneurs and businesses will figure it out. Innovation will grow. There will be more opportunities to put money to work in new technologies in this next decade than in the last 50 years combined.

So even as we deal with the problems in front of us, let's not take our eyes off the prize of innovation in the future. Over the coming months, I will be spending more time talking about the potential of the future (often happening right in front of us) and less about the problems of the present. Join me.

Changes and Corrections

First, a major correction. Totally my fault. In my banana bread recipe for last week I incorrectly said $\frac{1}{2}$ cup of sugar in the bread portion. It should have been $1\frac{1}{2}$ cups. Ironically, a few people wrote me saying they like the recipe. I might even try less sugar. It would make my doctor and my weight scales happy.

I mentioned that I miss traveling and meeting with people. I seem to be trying to make up for it by spending more time on the phone than ever. And Zoom or Skype or Teams. That is a change for sure. And I'm in the midst of one of my largest business changes ever, which I hope is going to be a big benefit for you. It is frustrating and taking longer than I would like, partly because everyone is more or less confined to their own ZIP Code. Things just don't happen as quickly. But we are making progress on what I think will be a much better way for us to work with each other in the future.

In the meantime, it is time to hit the send button. Have a great week and call an old friend or two.

Your seeing opportunities everywhere analyst,



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