

An Opening Act to Repudiate



Photo: Rommy Coste on Unsplash

A bad opening foretells show cancellation. Australia and Hawaii reveal the threat of early openings even with near eradication of the virus. The egregious events transpiring in California, Florida, and Texas show the price of expediency over stoic resolve. The conspiratorial nature of nefarious leadership and the evocation of an election year are encumbering the US with a gratuitous ordeal. While the comprise between life and economics stirs virulent political debate, the proletariat labors precariously. Leaders face an unequivocal dilemma: limiting travel outside your bubble and gathering inside with the consequential economic impact or accepting the increased deaths and concede the prior economic sacrifice was meaningless. Plaintive politicians know these alternatives are an atrocious trade.

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The reopening experiences of Australia and Hawaii are a cautionary omen for those seeking a return to normal. From a near eradication of the virus in mid-June, their reproduction rate now exceeds the national US rate.

The outcome forewarns the reopening plans of Canada, Europe, and the US Northeast.

- Jason Prole

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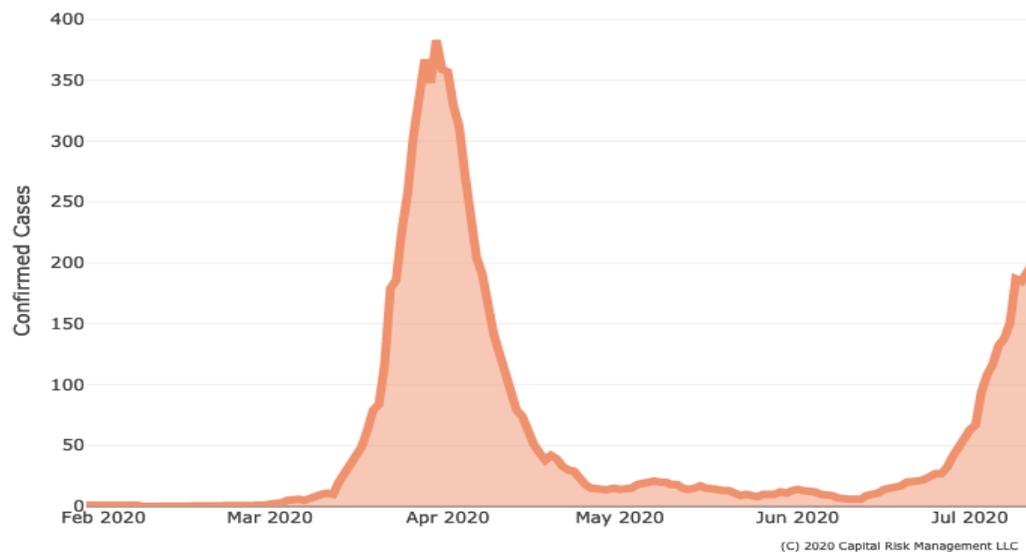
Highlights

- The **mitigation measures** will endure until a vaccine arrives.
- A **full return-to-normal** is not transpiring until the vaccine arrives.
- **Tourism** and **leisure** activities will remain severely curtailed.
- Limits on **international travel** will persist to limit intercountry contagion.
- **Inter-regional bubbles** within countries will endure.
- The **economic implication** is stark: there is no “V” in rebound.

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Opening act. For Australia, victory was at hand as the virus approached single-digit lows in mid-June. The confluence of fast action early in the pandemic and the natural shield of an island continent rapidly dispatched the virus. By mid-June, they had reached only *six cases* per day (exhibit 1). With an apparent victory at hand, they started to reopen in early June. This good fortune forgot the justification for the prior closures: the ease at which the virus spreads.

Exhibit 1. Australia Confirmed Cases (7-day average)



Australia's effort was not enough.

Source: Capital Risk calculations with John Hopkins data.

The desire to reverse the economic carnage brought by the closures was warranted. The dilemma is that a virus does not consider economics and needs only one host to maintain viability. Complete removal of the restrictions occurred by the third week of June. It took less than three weeks afterward for the virus to escalate, centered in Melbourne. This fallout foretells doom for those that will follow suit.

Canada and Europe face stark choices.

Revisiting the lessons learned are required as Europe, Canada, and others contemplate next steps. While not numerous, there are a few key lessons that provide guidance. The trouble is that they imply economic dread for specific sectors of the economy and their forlorn employees.

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Three Cs:

Setting the stage. While the precise characteristics of the virus remain contested, a few key attributes are apparent. The virus spread can transpire through the air. This trait is unhelpful for people working close. Indeed, the mantra “social distancing” is one of the critical three “Cs” to slow the virus spread: don’t get **close**. This action suggests that the assembly of people close together is off the table until a vaccine. We will enjoy sports and movies from the safety of our couches.

Don’t get close.

Avoid closed-in spaces.

The protests that erupted in May and June brought millions of people in close contact outside. Yet, cases did not spike in these locales. While it is hard to isolate the effects, outdoor activities seem less amenable to transmission because of the dilutive effects of copious amounts of circulating air. This trait follows the second critical C: don’t remain in a **closed space**. Australia, which is now in its winter season, provides credible evidence that returning to offices, schools, and other places with less fresh air circulation are unlikely.

Cover-up with a mask.

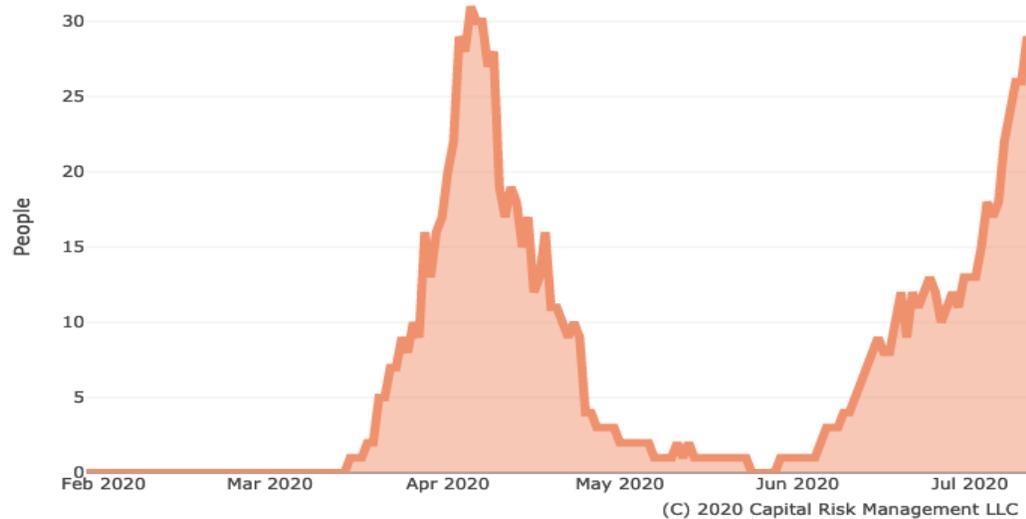
While parts of the US immolate themselves on a fraudulent altar of freedom, most of the US is “Masked Up.” This action reflects the final critical C: **cover-up**. That the virus is airborne and circulates easier indoors requires that people reduce the ability of the virus to spread. This result occurs by limiting its projection in the air and reducing the probability of achieving the *minimum infectious dose (MID)*. The implication is that masks will be required until a vaccine arrives and suggests limited TV and movie production.

None of these actions are new. The unfortunate outcome is that the world faces the unpalatable choice of placing a price on life. The need to weigh the economic impact, which is catastrophic for some industries, against the loss of life is logical. The hope was that people would act in their self-interest and permit a tempered return to normalcy. As any economist will tell you (or political commentator in the US), people do not act in their self-interest, which makes the dilemma endure.

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The Next Act. Many of the world's countries and US states are exalting in their performance at keeping the virus at bay. Hawaii is another locale that exceeded expectations and reached zero net cases by the end of May. Yet, the benefits of remoteness and containment were not enough. The victory was short-lived and Pyrrhic (exhibit 2). Cases are now at the prior peak reached in April, and the economic toll on their tourist-dependent economy is calamitous.

Exhibit 2. Hawaii Confirmed Cases (7-day average)



Source: Capital Risk calculations with John Hopkins data.

Other regions, particularly in Europe and parts of Canada, are heavily tourism dependent. Hawaii's outcome suggests two ominous indications until a vaccine arrives. First, there is no safe way to open borders or with people highly concentrated inside. The pending arrival of both the school year and the colder winter months suggest violating any of the three C's is tantamount to disaster.

Second, antibody testing indicates a vast undercounting of the number of cases. Thus, confirmed cases and the absence of symptoms conspire to provide an erroneous indication of our advance. We can celebrate progress in the treatment of the hospitalized patients. The enduring threat remains overrun

Virus victories were short-lived.

A full opening without a vaccine is a non-starter.

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hospitals that would cause deaths to erupt higher than the most ominous projection. Sadly, this demon is yet vanquished.

The final act. The world learned much from the last few weeks. Our position in untrodden territory required a global experiment in A/B testing. The staged opening provided insight into what works and what doesn't. This knowledge was vital before the onset of winter. The insight is an economic tragedy for those people in the misbegotten sectors that must close. Fortunately, it does provide direction for policy responses.

The policies must focus on those most impacted. One size does not fit all. Fiscal stimulus should target those workers displaced by the pandemic by providing unemployment benefits of unlimited duration with supplemented benefits for retraining programs. The virus is changing consumer behavior, and our human capital must adapt to it.

While writing checks to everyone is a politician's best friend in an election year, targeting future stimulus to help those most in need is preferred. Income is an imprecise measure of wealth and hides vast disparities in the US. Writing checks to people with robust savings or little propensity to spend is ineffective. Regrettably, distribution by savings faces massive hurdles in measurement. Thus, given the ineffectiveness, another round is best avoided.

A better course of action is focused spending on national infrastructure and job retraining programs. The demise of international students and the decrepit infrastructure suggest that demand exists. Virtual classrooms and construction can still occur without risking the spread. These actions would enable the US to ignite its engine of growth and calibrate the workforce towards the future. Unarguably, teaching a person to fish in a new boat is preferred to ordering take-out and watching *The Perfect Storm*.

Economic mitigation is paramount.

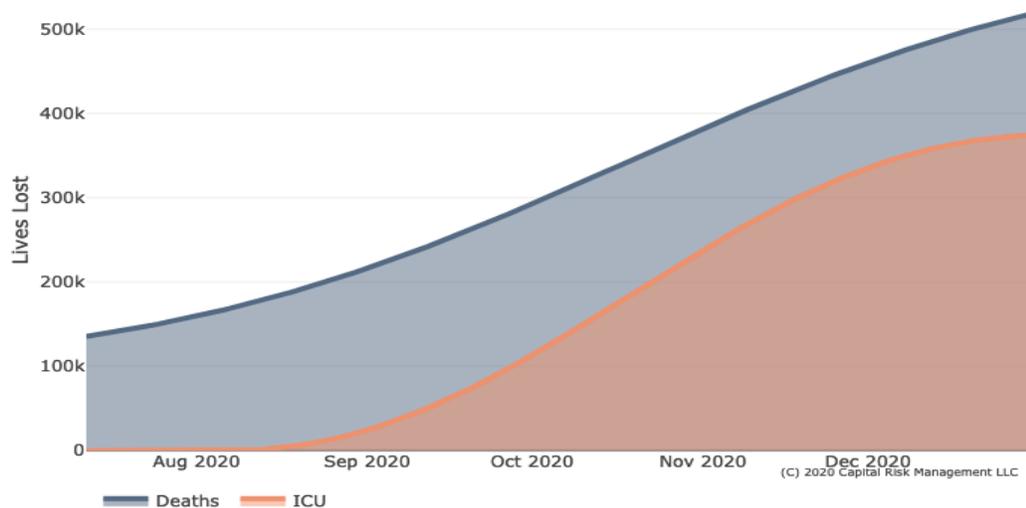
Target the people in the shuttered sectors.

Retraining and infrastructure are ideal for the future.

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Closing time. It is evident that some actions are not possible without a tragic loss of life. If the US were to maintain its current path, 400,000 people could die by the election and another quarter-million from inadequate hospital beds (exhibit 3). This toll that would exceed the US losses in both World Wars. No person of conscience would own this outcome.

Exhibit 3. Projected US Fatalities at Current Reproduction Rate



Source: Capital Risk calculations with John Hopkins data.

A targeted roll-back of the openings is required. The challenge for the future is communication. While a full return to normal is not possible until a vaccine, the economy can function close to capacity by conveying the importance of the three C's to ensure acceptance. The debate on liberty and government intrusion is a false narrative. We live free because we agree to bounds. We will remain captive to an unrepentant master, until politicians convey that these are actions of liberty, not servitude.

*"You will never do anything in this world without courage.
It is the greatest quality of the mind next to honor."*

Aristotle

**Unmitigated
deaths are too
much to bear.**

**The message
is critical to
ensure
beneficial
action.**

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