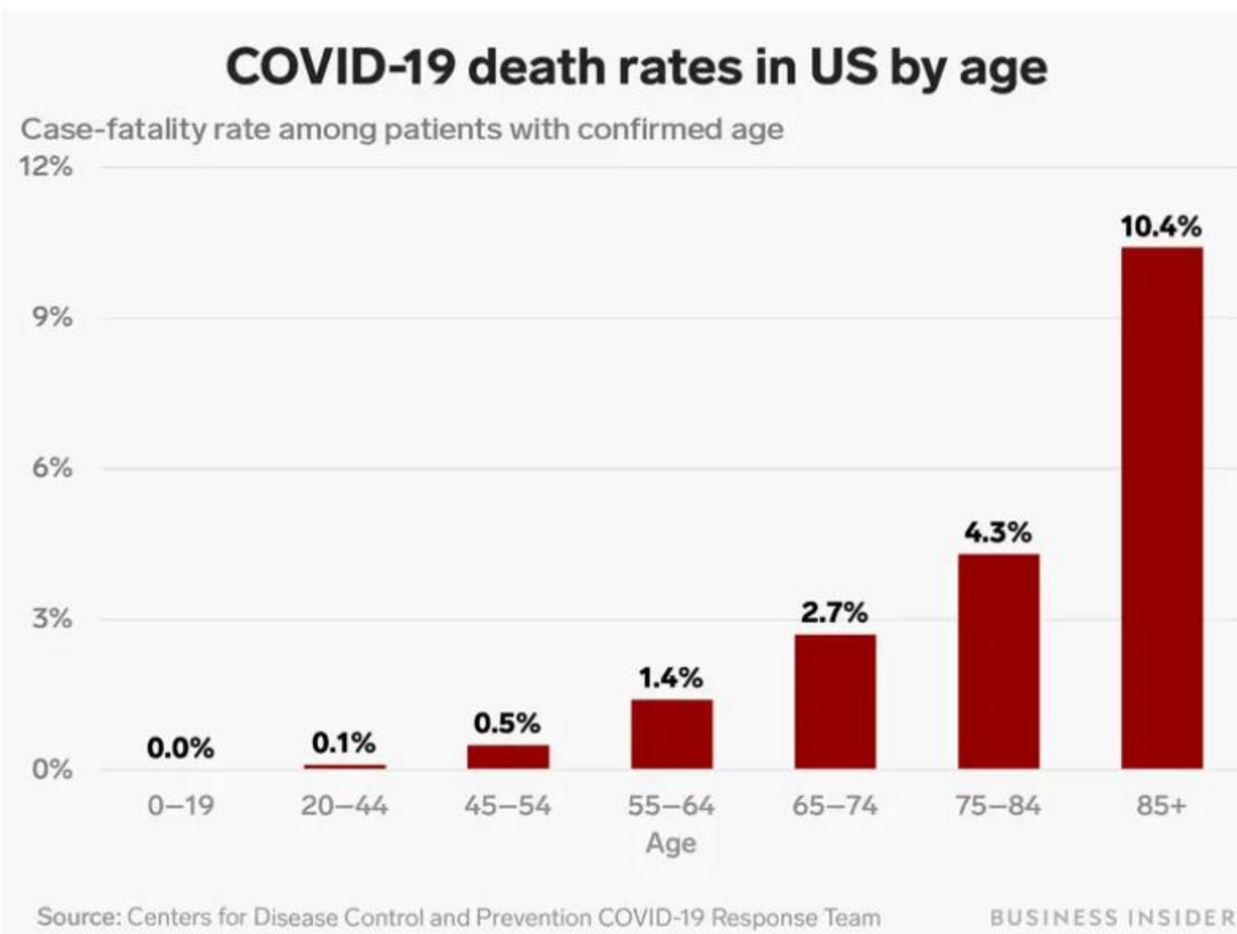
The Good, The Bad, and The Ugly of COVID-19

- COVID-19 impacts our health, employment, investments and the economy
- In each case, there are good, bad and ugly consequences
- We can treasure the good, and be prepared for the bad and the ugly

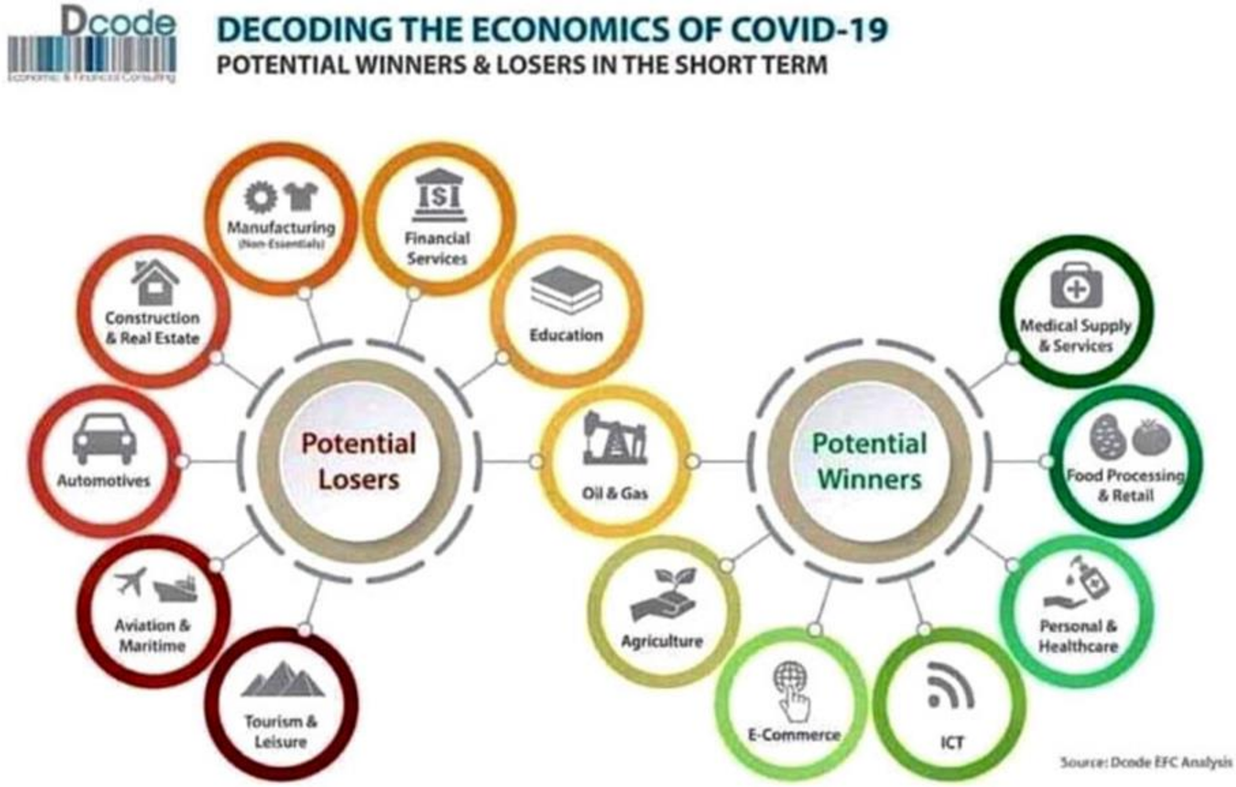
It's hard to imagine that anything good could emerge from the COVID-19 pandemic, and that the harm could be anything less than ugly, but there are some bright spots, as we discuss in this article. In the following, we discuss the good, bad and ugly in health, employment, investments and the economy.

As we get into the details, keep in mind that certain groups of people are affected differently:

Older people, and sick people, who contract the disease are far more likely to perish from it.



Certain workers are hurt while others benefit:



Health

The good news is that we are likely to emerge from this pandemic with new defenses against viruses. The Coronavirus has been around for a long time, and until now has been very curable. This "New" Coronavirus has sent scientists around the world scurrying for a vaccine. At the very least, we've already identified several medications that reduce the symptoms and increase the possibility of survival. This pandemic will pass, and we'll be armed with better defenses against the next attack.

The "bad" and the "ugly" are shown in the following table. The president's task force has forecast a range of 100,000 to 240,000 deaths that the US will suffer from the disease. The low end is bad enough. Some have said that this pandemic will be no worse than the seasonal flu, which kills about 60,000 people each year, but the task force's low end is substantially higher. At the high end of 240,000 deaths, we're still well below the 600,000 deaths caused by cancer each year.

At the time of this writing, less than 20,000 Americans have died from the disease, so there's still a long way to go, although the stock market appears to believe otherwise, as we discuss in the "Investment" section below. A pertinent consideration in weighing the severity of the virus is that some, maybe most, of these deaths might have occurred anyway since the old and the sick are the most vulnerable.

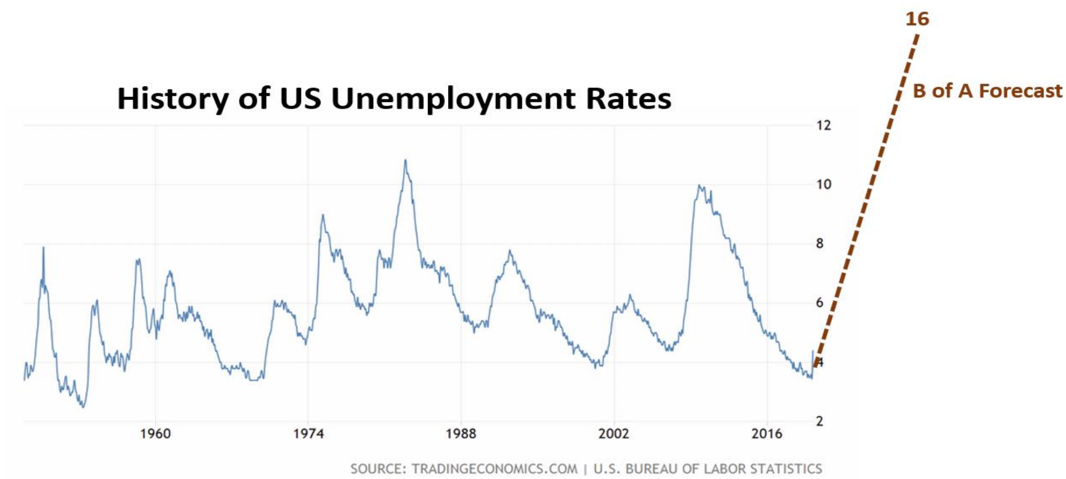
Average Annual Cause of Death in the US

- Heart disease: 647,457
- Cancer: 599,108
- **High end of task force estimate: 240,000**
- Accidents (unintentional injuries): 169,936
- Chronic lower respiratory diseases: 160,201
- Stroke (cerebrovascular diseases): 146,383
- Alzheimer's disease: 121,404
- **Low end of task force estimate: 100,000**
- Diabetes: 83,564
- Influenza and pneumonia: 55,672
- Nephritis, nephrotic syndrome, and nephrosis: 50,633
- Intentional self-harm (suicide): 47,173
- **COVID-19 deaths as of 4/9/20: 17,000 (17% of low end)**

Unemployment

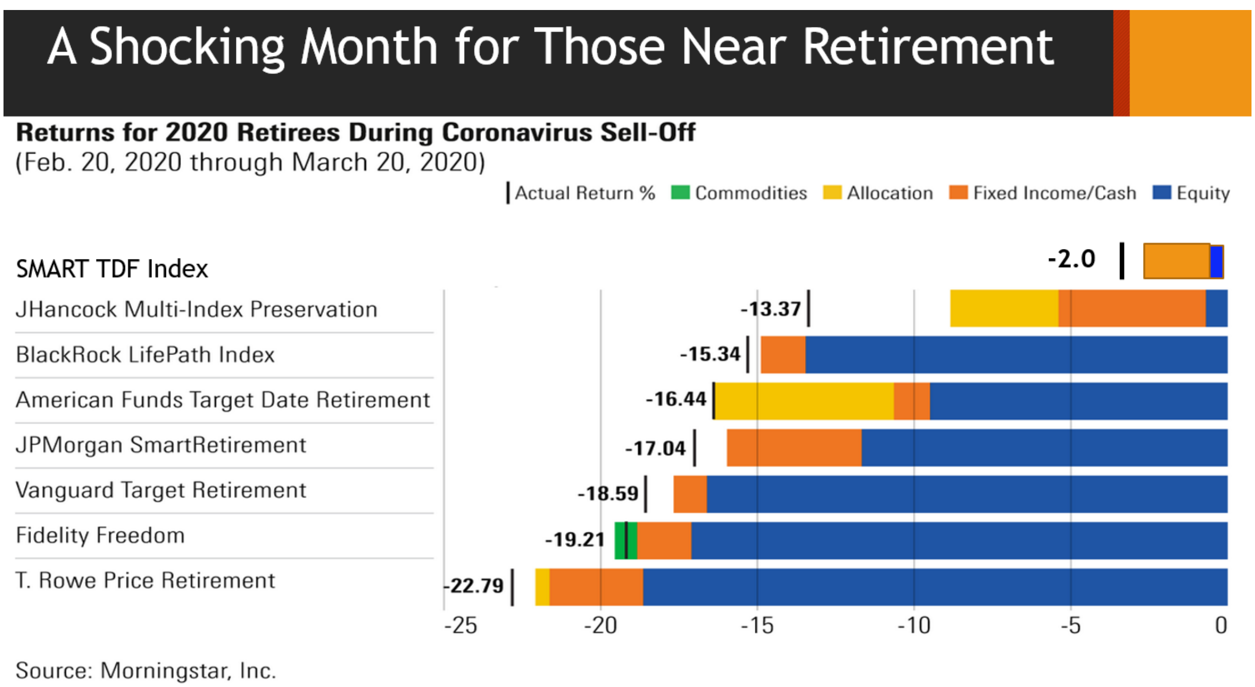
The good news is that the US had the lowest unemployment on record prior to the virus striking. The other good news is that social distancing is opening a whole new breed of human interaction that will likely change the workforce landscape forever. Thank goodness for the internet

The bad news is that some estimate that we have already exceeded the highest historical level of 10%. And the ugly news is that some see us heading even higher to an unprecedented 16% unemployment rate.



Investments

The good news is that we've been reminded of the lessons that had been forgotten from the 2008-2009 recession. Investors in the Risk Zone, who cannot afford much risk, are nonetheless invested about 60/40 stocks/bonds. Consequently they suffered significant losses in the their target date funds and IRAs as shown in the following graph (the "SMART TDF Index" is the [SMART Target Date Fund Index]() that launched in 2008). The Risk Zone is the 5 years before and after retirement when savings are at their peak. Our 78 million baby boomers [need serious help]().



The other good news is that the US stock market had recovered 35% of its first quarter loss at the time of this writing

The bad news is that the economy is already in a recession, and likely to get even worse (the ugly news), as discussed in the next section. Some have described the recent run-up in stock prices as a "Bear Rally" that will not last long. By the time this article is being read by you, you'll have a better sense of who was right, so far.

Economy

The good news is that the US economy had been growing at a respectable 2.5% per year. The bad news is that the economy has stopped growing and is heading toward a significant slowdown below a negative 10%, the [steepest recession on record]

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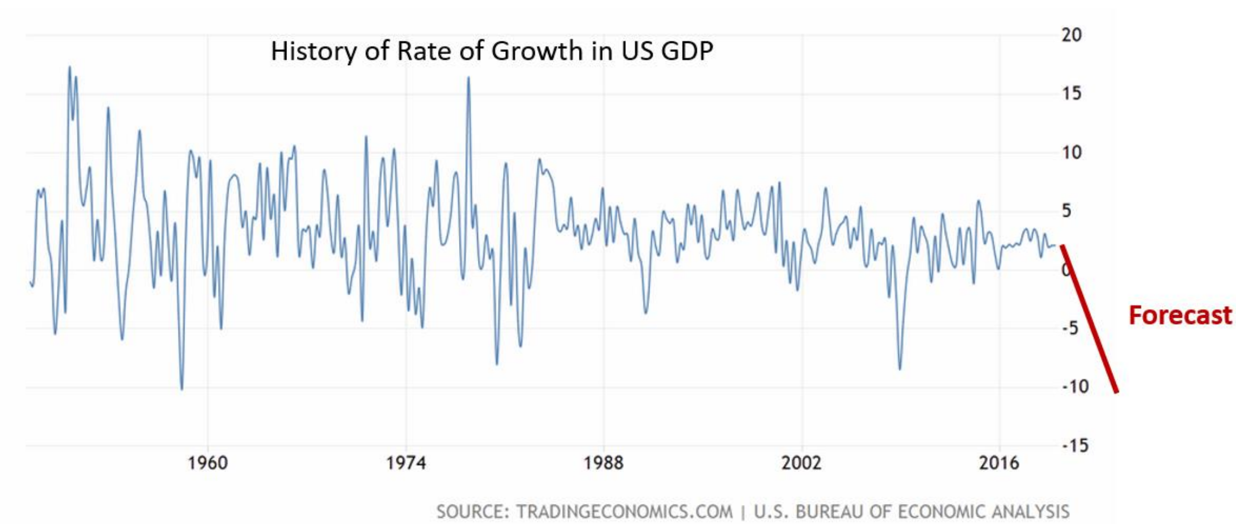


But it gets worse. The ugly news is that the economic stimulus around the world will likely cause the feared "Debt Spiral."

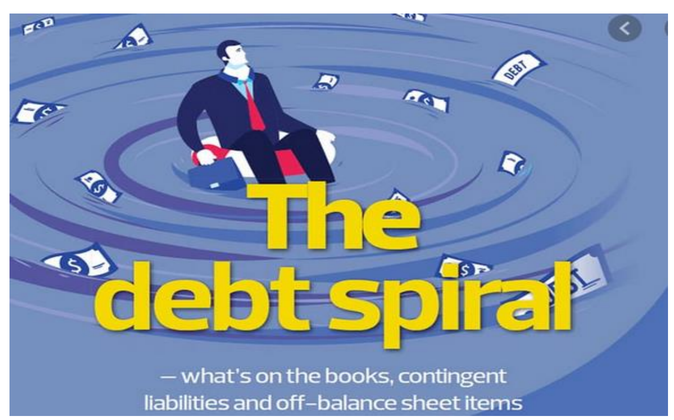
The US Federal Reserve has announced a $2.3 trillion loan package. This is in addition to the $2.3 trillion stimulus package the US announced over the past few weeks. According to the IMF, the five G20 countries with the largest coronavirus stimulus programs are:

1. United States: $2.3 trillion (11% of GDP). Or $4.6 trillion (22%) with loan package
2. Germany: $189.3 billion (4.9% of GDP)
3. China: $169.7 billion (1.2% of GDP)
4. Canada: $145.4 billion (8.4% of GDP)
5. Australia: $133.5 billion (9.7% of GDP)

Throwing money at the problem could exacerbate matters, leading to inflation, and even worse. We learned a lesson in the 1970s that has since been forgotten. But the 2020s could be much worse.

The world experienced stagflation in the 1970s when inflation spiked during a recession; throwing money at the problem backfired back then. This time central banks have responded to the Coronavirus by injecting exorbitant amounts into their economies, which could generate Demand-Pull Inflation because "too many dollars will be chasing too few goods." Until now, such "Quantitative Easing" did not generate inflation because most of the money went into stock and bond markets rather than consumer goods, so "velocity" was low, while there was serious inflation in stock and bond prices. But this new money will be spent on food and other necessities.

Inflation could trigger The Debt Spiral that economists have worried about for decades. It could get very ugly. Inflation will require higher yields on bonds. In particular, zero interest and below zero interest bonds simply will not sell. Investors will seek other ways to invest, and fiat money, pieces of



paper, will decline in their ability to buy stuff. Most governments can just barely afford to pay the interest on their current debt. Increases in interest rates will lead to defaults and panic. Imagine a world where Treasury bond interest cannot be paid, or is paid in greatly devalued currency

Conclusion

Paranoia is pervasive, thanks in large part to the way news is being reported. Every day we hear that 2000 more Americans have succumbed to COVID-19, without a context. Yes, it's a disconcerting number, but a small fraction of all the deaths on that day, at least so far. And the deaths are discussed as if they were a certainty for anyone contracting the disease, showing us videos of dying people separated from their loved ones. This is very scary stuff that has folks afraid to touch anything, including their own faces. In other words, warnings have gone overboard, especially for folks under 50 years old, who are highly likely to survive a COVID=19 attack and are 70% of the population.

But this will pass. The deteriorating economy is putting pressure on getting people back to work. The current conversation is to require the vulnerable to stay home, but let the others get back to a normal life.

The US economy is among the strongest in the world. Its resiliency is something we are all relying upon. We're all pulling together to get through this mess and hoping that the light at the end of the tunnel is near. No one knows what that "light" will look like but this pandemic will likely change the world for a long time.

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