

## CoronaCrash Roadmap IV: Calling a Bottom

To quickly recap the view on things:

- Aggressive monetary easing is a necessary but not sufficient condition for economic survival.
- Sending \$1,000 checks to individuals is stupid, and won't buoy markets.
- Fiscal policymakers need to limit the permanent destruction of formed capital.
- The confluence of sharply lower (higher DXY) with sharply lower equities is indicative of a liquidity spiral that opens up unlimited downside.

There are two keys to avoiding economic Armageddon:

- Limiting the duration of draconian containment measures
- Minimizing the permanent damage to the formed capital stock during the shutdown

The draconian economic shutdown will begin to unwind in early April, because it has to.

- I have great respect for Bill Ackman. I get where he's coming from with a call for a 30-day shutdown. But we can't stop the world for 30 days. To paraphrase Woody Allen, the modern economy is like a shark: it has to constantly move forward or it dies.
- This, I believe, is the proper framing:



- Viral transmission is slowing rapidly right now with draconian social distancing. Expect Europe to exhibit a discernable peak in daily new cases by early next week.



- A peak in Europe will bring light at the end of the sudden-stop tunnel
- Anticipate **a segue from aggressive containment to less draconian “common sense measures”** by early April

Trump is [steamrolling the FDA](#) to fast-track Covid-19 treatments

- Chloroquine has shown promising results in both China and in a [recent study in France](#)
- [Evidence continues to accumulate](#) the virus will exhibit flu-like seasonality

The Fed is in “whatever it takes mode” to support the Treasury market

- After buying \$40bn Monday and Tuesday and \$45bn on Wednesday, they’ve announced **\$75bn per day for today tomorrow**

Fiscal Policymakers are scuffling (as expected), but getting warmer:

- Mnuchin grades to a D- with his emphasis on mailing checks
- A \$1,000 check is of limited value if it comes with a pink slip
- Ideally, check-writing will be limited to that required to grease the political skids
- The **key to any package is the degree to which it limits the destruction of community business**
- Closing in on the answer:
  - Kudos to Andrew Ross Sorkin for taking to the [NY Times yesterday](#) to advocate for a no-interest bridge loan to all American businesses
  - Senators Collins and Rubi have proposed a \$300bn small business loan program, with debt forgiven if certain requirements – including employee retention – are met. It’s too small, but **this is the key concept**.
  - [Chuck Schumer opined positively](#) on the plan this morning
  - Policymakers are showing the requisite urgency and the necessary disregard for the price tag



I am looking for **a bottom** – at least a temporary one – **prior to the weekend**

- The Fed can't fix the virus problem, but massive **stimulus in the pipeline is an inducement to bottom-fishing** in anticipation of getting to the "other side"
- By my guesstimate, equities are cheap if the "other side" is only a few weeks away and DC cobbles together a decent small-business survival plan
- The "other side" may prove to be more than a few weeks away, but if that's the case its unlikely to become apparent next week
- We've reached the stage of the crisis at which **any further deterioration in markets will be met with quick and aggressive policy action**
- The **weekend should bring firmer news of a fiscal package**

Tactical Market Outlook:

- I am profitably exiting the short EURUSD and short USDCNH tactical positions **outlined on Monday.**
- On Feb 5 (**The RMB is Infected**) I recommended purchase of a 6m USDCNH 7.08 call for 1%. I would recommend reclaiming the initial premium by selling a 7.50 strike against that here.
- I'm **tactically long U.S. equity**, sizing sufficient to leave a mark if I'm wrong (subject to change without notice).
- The worst of the credit market dislocations should soon be behind, given overwhelming central bank fire power (and more if necessary) and a fundamental backdrop that should at stop deteriorating in coming days.
- **Watch Gold and the Dollar for clues** as to the sustainability of any equity bounce. Gold above \$1,500 would be a reassuring sign.
- All bets are off of it appears we are in for a multi-month disruption. That is not my base case.