

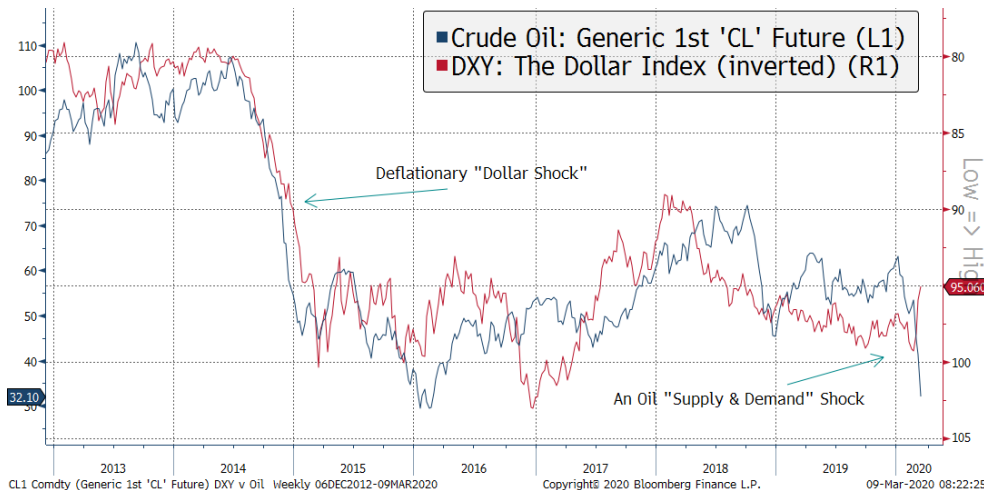


Still Just a Virus Trade

Oil itself is not systemic. For now, it's still just a "virus trade."

1) The assumption that the oil crash will "cause" a credit / EM crash as in 2015-16 is misplaced

- The causal factor in 2015-16 was Fed error – an unwitting tightening of the monetary stance as reflected in a 25% Dollar rally
 - **2015 was a Fed problem** as reflected in oil, the Dollar, and all commodities
 - **Today we have an oil problem** (triggered by a virus problem)
- 2015: Dollar up / oil down
 - 2020: Dollar down / oil down



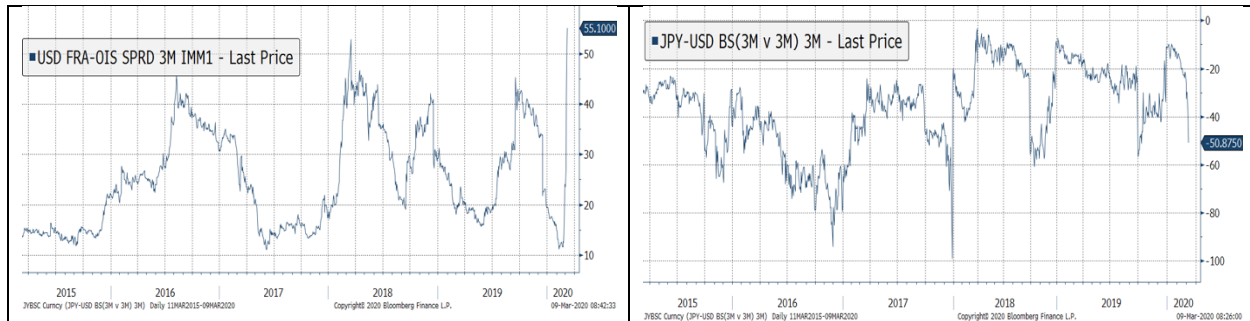
2) As noted on Friday, we can take solace from the fact that the Dollar is falling against the majors

- An ephemeral disruption **need not lead to a systemic credit event**
- Of course, if major economies are shut down for a year, many levered entities will go bankrupt
- So the virus itself could lead to a systemic event absent monetary error, but that is **not a base case**
- For now, the **risk assessment can remain focused on the extent and duration of economic disruption**



3) Policy can only avoid making matters worse

- So far, so good from the Fed
- They have the tools (repos, USD swap lines) and requisite awareness to prevent a counterparty liquidity crisis



4) Don't expect fiscal policy to save us

- The politics remain fraught in the U.S. and Europe
- If the global economy is shut down for 6 months (NOT a base case), **there is no policy for that** – it's just hugely costly.

5) Bottom Line: This still looks like **just a virus trade**

- Markets are **guesstimating the capitalized value of the disruption** to economic activity...
- ...and grappling with the increased **uncertainty these events bring to the U.S. elections**
- In last week's **CaronaCrash Roadmap** I targeted S&P 2600 (on a chart point and a guess as to the costs of the "sudden stop")
- We're approaching bottom-fishing time **so long as the risk-off / Dollar off correlation remains** intact
- Bearish: If the Dollar starts rallying amidst a continued sell-off, all downside targets go out the window
- Bullish: any signs of new cases peaking in Italy or any firm evidence that the virus will subside with warm weather (my current assumption).