

## Economic Commentary

This is a summary of our economic commentary from our April 8<sup>th</sup> Value Conversation Call. We encourage you to visit the Resource Page at [www.okeefestevens.com](http://www.okeefestevens.com) to listen to the recording.

There are four big things needed to see an economic and stock market recovery.

### **Fiscal & Monetary Support**

First, the government needs to provide fiscal and monetary support to the economy. In the US we can put a big check on this box. We've never seen anything like the stimulus package released on Friday, March 27<sup>th</sup>. The backside of this page outlines the specific elements of the stimulus. These measures are enough to keep the economy going for two or three months. If the shutdown extends to five or six months, we're bound to see new lows ahead, and more stimulus as well.

### **Flattening of the Virus Curve**

Social distancing is working. The tough thing to know is how long people will continue to adhere to this guidance. If people continue to do it, we'll hit the peak and start to see numbers decline. If people are cavalier about going out and into public places, the virus will continue to spread. Our advice is to stay home and stay safe.

### **Vaccines & Therapeutics**

Treatment of the virus needs to develop. Today, we're in the very early stages of this step. A vaccine may be ready early next year. We can't wait that long from an economic perspective. Therapeutics to treat the sick and lower the death toll is the first step. We're optimistic these therapeutic breakthroughs are on the horizon. Once announced it will provide a signal that we're on our way back to normal life.

### **The New Normal**

Getting back to normal will need a recovery of certainty in our day-to-day lives. The stock market hates uncertainty. The COVID-19 virus needs mass testing for immunity. People need to know if they have had it and that they're safe from it. This is necessary to get people back to work with confidence. We need rapid response testing procedures to contain future outbreaks. Until that happens, people will still be cautious about public gatherings.

There is a huge opportunity in this for our country and world to develop into a safer place. There is a lot to learn from this pandemic. We're optimistic about the future and we know this will make us more resilient.

**Our quarterly investor call titled "How O'Keefe Stevens Advisory is Navigating in These Challenging Times" is available for replay on the Resources page on our website [www.okeefestevens.com](http://www.okeefestevens.com).**

# Economic Commentary Continued

## \$2T “Relief Package”

Here is a quick summary of the \$2 Trillion package passed by the Senate and House of Representatives:

- » The Senate and House of Representatives passed the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act, the largest fiscal stimulus package in modern U.S. history, with an estimated amount of \$2 Trillion (9.2% of GDP). To put that number into context, the Recovery Act of 2009 was \$831 Billion (5.7% of nominal GDP at the time).
- » Here are the key highlights of the 883 page bill and what they mean for the economy:

Key Highlight	Dollar Amount/Details	Our View
<b>Direct Cash Payments to Individuals</b>	<ul style="list-style-type: none"> <li>➤ \$1,200 to each individual (income limit of \$75,000 for full rebate) plus \$500 per dependent child.</li> </ul>	Research has shown that direct cash checks are more effective in inducing spending than reductions in withholding tax. The U.S. Treasury aims to send these payments out in early April. This is probably the most impactful part of the legislation as far as consumption spending goes.
<b>Expanded Unemployment Insurance</b>	<ul style="list-style-type: none"> <li>➤ \$250 Billion to expand unemployment benefits</li> <li>➤ Adjust rules for unemployment to include 1099 workers</li> <li>➤ Adds 13 weeks of benefits on top of what states (generally 26 weeks) and \$600/week across-the-board until the end of July</li> </ul>	With initial claims for unemployment insurance in the millions, this measure is important to allow more American workers who lost their jobs to put more cash in their pocket on top of the direct cash payments they will receive. On the margin, it will allow workers additional time to find a job if the impact of the virus on businesses lingers.
<b>Tax Payments</b>	<ul style="list-style-type: none"> <li>➤ Employers can delay tax payments until 2021/2022 (est. \$300 billion in cash flow)</li> <li>➤ 50% tax credit for up to \$10,000 in wages for furloughed workers</li> </ul>	The loss of revenue would push employers that are solvent into cash flow issues. This measure should alleviate some of that stress and allow more of those businesses to stay open.
<b>Small Business Paycheck Protection Program</b>	<ul style="list-style-type: none"> <li>➤ \$350 Billion for small businesses</li> <li>➤ Provides 8 weeks of cash-flow assistance through 100% federally guaranteed loans</li> <li>➤ The government will forgive loans used to cover payroll, rent and utilities</li> <li>➤ Retroactive until February 15, 2020</li> </ul>	Small businesses make up the bulk of hiring in the U.S. economy. Layoffs do not mean permanent unemployment if businesses remain solvent (e.g. unemployment spikes after a hurricane but returns to normal once businesses open back up again). This measure allows more businesses to remain solvent and increases the probability of unemployment returning to normal in the aftermath of the virus outbreak.
<b>Lending for Distress Companies</b>	<ul style="list-style-type: none"> <li>➤ \$425 Billion for loans/investments/loan guarantees in support of the programs established by the Fed under 13(3) authority</li> <li>➤ \$50 Billion in loans for airlines, \$8 billion for air cargo, \$17 billion for businesses critical to national security (Boeing)</li> </ul>	This appropriation will allow the Fed to step in as a backstop investor in these companies to create liquidity but avoid principal losses. Doing so will keep these businesses afloat at a time when revenues may not exist.
<b>Healthcare System Aid</b>	<ul style="list-style-type: none"> <li>➤ \$140 Billion in appropriations for the healthcare system</li> <li>➤ \$11 Billion to support R&amp;D for vaccines/treatment</li> <li>➤ \$4.3 Billion to the CDC</li> </ul>	The Coronavirus crisis is a public health crisis that requires a public health response. Funding the healthcare system that is already overburdened in some parts of the country (New York) will be critical in containing the virus and lowering the death rate.
<b>State/Local Government Aid</b>	<ul style="list-style-type: none"> <li>➤ \$150 Billion</li> </ul>	Alleviating state budgets for expenditures related to Coronavirus response.