

Testing, Testing, 1, 2, 3...

"America's top priorities must be testing, testing, testing—to identify who's infected, who's not, who's immune and who needs to be isolated so they don't infect anyone else."

– William McGurn in the April 7th WSJ

"You can't fight a fire blindfolded, and that's where we still are. The first thing we have to do is get visibility on the problem."

– Caroline Chen, Health Care Reporter, on the importance of testing for combating Covid-19

Today, and for the past few months, we've been living through truly unprecedented times. One cannot logically look at the situation before us and say they know how things will play out. There are just too many variables. For the past 10 years, investors haven't had much to worry about. You could essentially buy anything, with a few exceptions, and do between ok and great. That has changed for the foreseeable future.

ETFs that offer broad market exposure don't allow investors to cherry-pick their favorite opportunities. Some stocks that have had dramatic declines recently could provide great future returns. Others that have risen because they produce tremendously valuable goods (hand sanitizers, for example) during this time of crisis could drop when the worst is behind us. Government bond yields in the US offer investors almost nothing but return of principal at these levels. Many corporate bonds, as a result of the market panic, have fallen in price and will offer fixed 5-6% yields for years to come (provided their business remains strong or recovers soon). In short, just two months ago, there were few bargains to be had. Today, there are compelling opportunities on quality securities (though not nearly as attractive as a few weeks ago) if investors have the courage to buy and knowledge of where to look. As noted above, there are also securities that have held up remarkably well, and even appreciated, yet those are likely to lag as the economy recovers. But, before investors decide what to do with their portfolios, let's take stock of where we stand today.

On March 18, I wrote in our newsletter that the term "flattening the curve" would become a household phrase. As this communication is being composed, we appear to be at the apex of deaths in the US, and total daily cases will likely begin to decline. The markets are digesting this with optimism as credit markets have recently stabilized and equities are rebounding sharply from their bottoms. (I'll borrow a stat from our research team at Gavekal, which helps put into perspective bear market rallies: Since 1950 there have been 15 bear markets. Of those 15 times, the market has retouched or broken its low 14 times. Said simply, a V bottom is not the odds-on favorite.)

A few weeks ago, the uncertainties at hand were...

Will people adhere to social distancing orders? And, will the measures be severe enough to blunt the spread of the virus?

The curve seems to be flattening—indicating that a positive health impact can be made by “social distancing”—but, is enough of the population willing to follow the guidelines to make a difference?

Today, the answers seem to be yes and yes.

Now, the narrative is evolving from *“is this the apocalypse?”* to *“when can we get back to normal?”* A misstep in how we proceed and a rush back to our normal routines could lead to a repeat scenario, something nobody wants!

There is a solution, and like everything else it's not perfect but I'm convinced that it's better than the alternatives. The U.S. must wait to restart our economy until we can implement widespread, quick, accurate, and trackable testing for all people to discern whether they are infected, not currently infected, or **recovered**. Without this, we would be a society flying blind.

In the past couple of weeks, there has been a breakthrough in testing and possible treatment as it relates to the body's creation of antibodies as an immune response. In short, the test can tell if someone has had the virus by identifying the unique antibodies the immune system creates to defeat it. A second (and most uplifting) step is taking those cells from people who've successfully beaten the virus and giving them to very sick patients whose bodies need them, through blood plasma. As much excitement as I have for the treatment potential, the testing information could have an even broader impact.

Once we can get our arms around how many people have had the virus, we can make more informed decisions. Imagine if we were to discover that only 2% of the world has had Covid-19. Or, conversely, if it turns out that 50% percent of the world has had it. And I'm not just throwing numbers around here. A study from the [University of Oxford](#) in the U.K. estimates that anywhere between 30-50% of the country has already been exposed to the novel coronavirus and therefore has already likely formed an immunity. (Side note: although that particular model has been contested by some scientists, the point is we need various forms of testing to understand the true impact and spread of the disease.)

I want to be clear: We need several types of solutions to regain maximum economic momentum. One test, which is easier to produce and has already been ramping in production looks at whether someone currently has the disease. These are the swab tests we've read about at drive-thru facilities and many healthcare locations. The antibody test mentioned above is not designed to determine if someone is currently infected, but rather if they've had the disease and are now immune. One reason that testing has become such a lynch pin for reopening the economy is the emerging confirmation of just how many people spread the virus asymptotically.

The second reason, which I already stated, is that we may be keeping countless people home who don't need to be there. (Imagine how many jobs and MARRIAGES this could save.) Without this information, we cannot make informed decisions. How can you send people back into stadiums without having these answers? There are those who say, "the cure is worse than the disease." My reply to them is, "try it your way." Don't address the testing, don't provide clarity, don't allow people to have the data. Just tell them to pretend this never happened. Good luck! Some will resume life instantly, while others will hold back and wait for the smoke to clear. If we don't prioritize testing, the smoke will be excruciatingly slow to clear. We are one of the most advanced nations on Earth, and we cannot create a solution to test our citizens in mass? It is not a question of whether it can be done, but whether it will be done?

In the above, I've pushed forward many assumptions and want to go over what could be tailwinds to both the positive and negative sides of this situation.

Positive:

- There are studies underway using the antibody test I've described. Should those tests reveal that the infection rate has been significantly higher than previously thought, it would mean the mortality rate is in fact WAY lower than prior estimates. Many studies have published a wide range of morbidity rates so positive clarity could be a big tailwind.
- Any breakthrough or clarity on a vaccine's timeline would obviously restore confidence that this virus can be defeated, not just avoided. Additionally, some surprise therapeutic breakthroughs, such as anti-virals, would have a similar, if not more profound, impact.
- Many people are beginning to look to May 1st as the gradual reopening date for parts of our daily life. I think most—if they knew we'd be on the downhill side—would see that as a major positive.
- Long-term preparedness for a repeat of such an event (both here and abroad) will likely be improved for future pandemics.

Negative:

- If we begin to reopen the economy prematurely, we could (like Bill Murray in "Groundhog Day") find ourselves repeating this over and over. Again, prematurity is not a function of time but preparedness in testing and, at the moment, the daily narrative coming out of the White House doesn't seem to be very focused on testing. (At the Bronx Zoo a tiger tested positive for Covid-19, yet countless patients in need of tests cannot get tested! I would point out that an animal test is a different type of test, so at least it didn't cost a human a test.)
- One major unknown is whether patients who have recovered from the coronavirus can become infected again. Leading infectious disease expert Dr. Anthony Fauci has publicly stated that he believes the likelihood of reinfection is extremely low. However, recent data out of South Korea has created some uncertainty as 51 patients who were "cured" from the disease tested positive again. Additional studies are underway to determine whether these were "reinfections" or "reactivations" (an important distinction), but if reinfection is possible, then antibody tests would fail to provide the definitive immunity check that people and the economy are counting on.
- There are many countries who will not have the resources, both economically and healthcare-wise, to navigate this storm. Currently, many poorer countries in the southern hemisphere haven't seen large scale infections. Should this change, and should those

countries fail to contain the virus, an even greater global humanitarian crisis could explode.

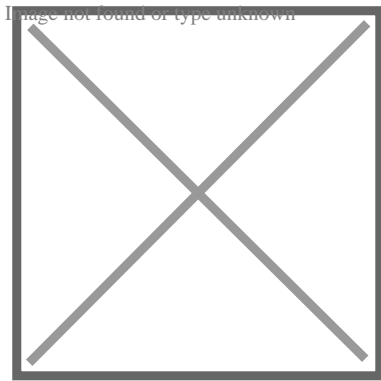
- In many ways, we could see a reverse in globalization in response to this outbreak. If you're a manufacturer relying on China, will you continue to do so? If you're the Chinese government, do you want people coming in from outside your borders without subjecting themselves to a screening process? If you're the US government and you've spent trillions of dollars to cope with the ravages of this outbreak, how soon will you reopen your borders to foreigners? How will you police your citizens who travel abroad? There are countless protectionist policies that I predict will spring up.
- Civil liberties will be impacted. If we get testing, how will people feel about sharing their health data with the big tech players who are likely to implement such a system? Maybe we'll have some electronic health card that doesn't seem so bad TODAY? In the future, will people be forced to do the same for the flu or other more common illnesses? Socially, would people who don't have immunities be shunned because they will eventually be contagious?
- The US government is poised to issue massive amounts of debt (\$4 trillion, or even more) to help the US economy weather the storm. Even if it works perfectly, the net result is we dramatically increased our country's debt load (which is already sizeable, currently at \$22 trillion). If restarting the economy stalls, we may have to take on additional debt, to avoid economic calamity.
- Longer term, the future implications of a nation compiling an unpayable amount of debt is not pretty, as there are only three viable ways to deal with a massive amount of national debt: default, inflate or simply cut entitlements. Two are straightforward. You default, meaning your currency plummets in value, your government can no longer sell bonds and it must offer its debt holders a reduced repayment, as many countries have done over the years (sometimes paying nothing at all, such as Russian bonds prior to the communist revolution). Unquestionably, government bond defaults are very, very disruptive. The other choice is a more invisible way to renege on a government's debt obligations: it creates inflation. (Such an approach is far more viable for a country that borrows in its own currency, like the US.) This gives everyone more money which drives the price of everything higher except costs that are fixed (e. debt). Of course, rising inflation brings many problems of its own, especially for those living on a fixed income.

Summary:

The good news is that we know a lot more than we did even a few weeks ago. However, information is so rapidly evolving that new revelations and data could create fresh uncertainties in the months ahead. As such, it is very possible that things get worse before they get better; but it's also possible we could soon see the light at the end of the tunnel.

My bet is that the truth lies somewhere in between progress and setback. Disappointments and advancements will trade punches for the next few months and, during this period, savvy investors will capitalize on opportunities to sow new seeds. This will set up some investors for years of favorable returns while the majority of investors sit idly by waiting for the world to "become safe again."

It seems to me that the only way life will return to normal is to replace ambiguity with clarity. For this to happen, we need both time and testing. We cannot do much about the former, so it's imperative that we focus on the latter, for everyone's sake.



Tyler Hay

Chief Executive Officer

To contact Tyler, email:

thay@evergreengavekal.com

DISCLOSURE: This material has been prepared or is distributed solely for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Any opinions, recommendations, and assumptions included in this presentation are based upon current market conditions, reflect our judgment as of the date of this presentation, and are subject to change. Past performance is no guarantee of future results. All investments involve risk including the loss of principal. All material presented is compiled from sources believed to be reliable, but accuracy cannot be guaranteed and Evergreen makes no representation as to its accuracy or completeness. The yields mentioned are yield to worst (YTW). YTW is the lowest potential yield that can be received on a bond without the issuer defaulting. Many corporate bonds have yields which are higher or lower than 5-6%. There is no guarantee that projected yields will be realized or that an investment strategy will be successful. These yields do not reflect the deduction of advisory fees, brokerage or other commissions, and any other expenses that a client may pay. There are other facts that will impact the return including price appreciation or depreciation.