

The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

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Dear Client:

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One thing about the coronavirus is certain:
It'll have far-reaching effects that last years.

The way folks live and work, the way businesses run, etc. Many changes will be technological in nature, as the virus sparks usage of new products and services. Here's a preview of some of the changes to expect.

TECH

Even more of daily life will take place online,
an acceleration of a well-established trend.

After a period of being forced to work remotely and shop online, consumers and businesses alike will have a new appreciation for vital online tools. Even former skeptics will embrace online banking, videoconferencing and other web-based services.

Businesses will double down on e-commerce,
preparing their websites for higher traffic and orders.

Expect a big uptick in telehealth services...
virtual doctor visits and other forms of remote tracking can mitigate the crunch at hospitals in a viral outbreak.

But the shift to speedy 5G wireless will slow
as network operators deal with the economic fallout from the pandemic and curb their rollout of the service. Key components from China will be in short supply.

Many businesses had been counting on 5G to track inventory, monitor factory machinery, and do myriad other data-intensive tasks that require 5G.

Look for more federal funding to go to Wi-Fi hotspots for at-home education.
Advocates are pressing the Federal Communications Comm. to shift some of the money used to connect schools to the internet to connecting kids at home and elsewhere.

Expect federal regulators to speed up widespread adoption of delivery drones,
which have been mired by slow-moving regulators. Much red tape will get slashed.

There is an array of uses for drones in a pandemic or similar disruption. China has experimented with them to ship food and medicine and disinfect public areas. In the U.S., the focus will be first on lifesaving uses...delivering medicine and test kits, for example. Also expect more drones sold for surveillance and monitoring by police.

The global smartphone market will suffer for at least the rest of the year.
All smartphone vendors heavily rely on China for device manufacturing.
Apple will look harder for manufacturing alternatives to China. Samsung has already withdrawn from China over the past couple of years, moving production to India and Vietnam. Apple will follow suit, eyeing those two countries, plus Taiwan and even nations outside Asia. Other vendors will try to diversify supply chains, too.

Expect a high priority given to countries that can withstand a pandemic
or other major disruptive events. There will also be intense vetting of manufacturers and how they cope with disruptions. The way Beijing covered up the virus outbreak will do it no favors. Still, it will take time and effort to pull supply chains out of China.

Forecasts & Closures

GDP growth

Could be -21% in Q2. Assuming major bounceback in 2nd half, -2% for year

Interest rates

10-year T-note rates staying below 1%

Unemployment

Up to 8.0% or more at peak; many underemployed with reduced hours

Stay-at-home orders

CA, CO, CT, DE, HI, ID, IL, IN, LA, MA, MI, MN, NH, NJ, NM, NY, OH, OR, VT, WA, WV, WI. Mostly just major metros: FL, GA, KS, MO, NC, PA, TN, TX

Nonessential businesses shut

DC, KY, ME, MD, MT, NV, OK, VA

Schools and other closures

AL, AK, AZ, AR, IA, MS, NE, ND, RI, SC, SD, UT, WY

Complete economic outlook at
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FEDERAL RESERVE

The Federal Reserve will use all its firepower to bolster the economy.

This includes an open-ended and unlimited quantitative easing program, with purchases of Treasuries and other assets designed to keep interest rates low. The Fed's balance sheet has already surpassed its previous peak of \$4.5 trillion and will only go up. Expect long-term interest rates to stay below 1% for a while.

The Fed will also, for the first time in its history, purchase corporate bonds from investment-grade firms, while offering bridge loans for as long as four years. Companies that tap into the central bank's credit facility can delay payments to preserve cash for up to six months, but can't buy back shares or pay dividends. The Fed will buy corporate debt in the secondary market and U.S.-listed ETFs, too.

The central bank has already expanded existing emergency programs and revived old ones to ease strains in the markets for municipal debt and short-term loans, known as commercial paper. Another program allows the Fed to buy securities backed by student, car and credit card loans, with the goal of maintaining steady lines of credit for both individuals and businesses.

TRADE

Uncle Sam is mulling tariff relief for essential health care supplies.

U.S. tariffs apply to \$5 billion of American medical imports from China, a top supplier of everything from face masks and sterile gloves to CT systems.

Reducing these barriers may be a necessary step to ease U.S. shortages, especially with other countries, including EU nations, starting to restrict exports. The administration is also considering a three-month deferral of some tariff payments.

Trade officials have already granted several exemptions for medical goods.

And administration officials are negotiating with Beijing behind the scenes, hoping to secure more of the country's output as its COVID-19 outbreak recedes.

The U.S. would need 3.5 billion masks to cope with a yearlong pandemic.

MANUFACTURING

At the same time, efforts to boost domestic production are bearing fruit.

The Food and Drug Admin. has seen a surge of interest from companies who want to make masks for health care workers. An obstacle for smaller firms: The price of the necessary equipment has tripled because of a surge in demand. The FDA is also relaxing rules to allow automakers such as Ford to make ventilators.

Note, President Trump hasn't invoked the emergency powers available to him under the Defense Production Act. But he is facing increasing pressure to do so.

HOUSING

Fannie Mae and Freddie Mac will give quick relief to renters and homeowners.

The government-backed companies will suspend evictions and foreclosures for a period of at least 60 days for properties with mortgages backed by them. Financially strapped landlords can defer their loan payments for 90 days. The move could protect 4 million renters from eviction if their landlords ask for the forbearance. (Note: Fannie and Freddie back roughly half of multifamily home loans.) Homeowners unable to make their payments because of the outbreak can delay them up to a year with no penalties. Plus, the delay in payments won't be reported to credit agencies.

INVESTING

Some tips for bond investors from the editors of *Kiplinger's Personal Finance*.

Don't lock yourself into long-term Treasuries with ultralow yields. The return on those may turn sharply negative if the virus panic subsides and rates rebound.

Stay away from debt issued by borrowers in hard-hit energy and retail.

Municipal bonds still look like sound investments. Their yields have risen relative to taxable equivalents. Two good choices: Vanguard Tax-Exempt ETF. And BNY Mellon Muni Bond Infrastructure, a closed-end fund with an attractive yield.

Actively managed, go-anywhere bond funds are ideal for times like these, since their managers are free to invest in a wide range of bonds. Some good choices: FPA New Income, Metropolitan West Flexible Income and Osterweis Total Return.

Among high-yield bond funds, we like TCW High Yield, a relatively safe pick.



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CONGRESS

Congress has delivered a \$2 trillion economic bailout, the largest ever. What does it mean for you? A one-time \$1,200 check from Uncle Sam for most U.S. residents with gross income up to \$75,000 (\$150,000 if married). Beefed-up unemployment insurance if you lose your job. Laid-off workers will receive their state's usual unemployment benefits plus a \$600 weekly bonus. The bill also creates two programs that provide relief to businesses: One, a \$500 billion lending program for affected firms, states and cities. Two, a separate \$367 billion program to help small firms make payroll. Those eligible can apply to the Small Business Admin. or to local lenders tapped by the agency to administer the money. (More info on this next week.)

HEALTH CARE

The number of Americans being tested for COVID-19 will only increase. There are plenty of test kits in the pipeline. The number is hard to quantify, but of the 14 companies whose test kits have received FDA approval, at least two... Thermo Fisher and Abbott Laboratories...say they can ship over 1 million kits per week. That alone will put a significant dent in the problem, as will new test kits from companies such as Cepheid, which can deliver results in less than an hour. However, most Americans who have symptoms still can't get tested, for now, with medical professionals generally prioritizing those with the most severe symptoms. Plus, many items essential for conducting the tests remain in short supply.

And testing is only the start. Officials also need to track and isolate the virus, experts say, emulating the success of such countries as Singapore and South Korea.

Uncle Sam is starting to make progress on both, working with tech firms to use anonymized smartphone location data to better track those carrying the virus. The government is also taking steps to ease a shortage of hospital beds in many places by converting convention centers and hotels to house an overflow of sick patients.

But the U.S. is playing catch-up as thousands of new cases emerge daily.

Another form of testing that will have to be ramped up to beat COVID-19:

Antibody tests, also known as serological tests, which tell if someone has been infected by COVID-19 and may have immunity. These are blood tests, and researchers around the world are racing to develop them. Experts says such tests should be given to as many people as possible, since they can identify people who have recovered and are highly likely to be immune and can go back to work.

DRUGS

Looking for a drug to help treat COVID-19? Several may already exist.

The catch: They're old drugs being repurposed to fight the virus, since new antiviral treatments likely won't be ready until 2021 at the earliest.

That means their efficacy hasn't been proved in standard clinical trials, though they've shown promise in more limited tests. The list of such drugs includes existing antimalarial (chloroquine) and flu (favipiravir) medications and arthritis drugs such as Actemra and Kevzara...some widely available in April.

High demand is already limiting availability of some medications, including remdesivir. Maker Gilead has suspended access to the drug, initially developed to treat Ebola, because of the "overwhelming" interest.

Other treatments in the works: Convalescent plasma...blood plasma from patients who have recovered from COVID-19, used for its antibodies.

Artificial antibodies...similar to plasma, but likely more consistent.

It will take months for both to complete trials and hit the market.

A vaccine won't be widely available until 2021, though one company, Moderna, says it may start providing inoculation to health care workers this fall.



**EVENTS
INDUSTRY**

Trade shows and conferences are in for a damaging and lengthy shutdown.
The big worry for the events industry is the long-term impact. Do companies skip events next year and beyond? Do marketers take their money elsewhere for good?

The industry is planning big changes for the future. Look for cut-rate deals for tickets and trade booths in coming years. Refund policies will be more lenient, even giving full reimbursement up to one day before. Expect improved virtual tools... better live streaming, mobile apps, etc. There will be lots of digital experimentation.

Some conferences have shifted on the fly and are holding virtual events.

The widespread cancellations sideline many dealmaking opportunities, especially damaging for fledgling firms, which often rely on in-person connections.

SPACE

The space industry is poised for an abrupt shakeout across many segments. Expect consolidation across the board, including among launch companies, small satellite firms, geospatial firms, etc. Demand will dry up. Delays will be common. Many space efforts require huge sums of capital and are very sensitive to downturns.

It will be much more difficult to raise needed cash for riskier endeavors, including SpaceX's and OneWeb's constellations of small satellites to beam internet across the globe. SpaceX needs cash fast. OneWeb is preparing to file for bankruptcy.

Well-capitalized, established players can weather the storm, especially those with large government contracts. That's not the case for scores of space start-ups.

GUNS

Gun and ammunition sales will continue to surge. They've skyrocketed in recent weeks. Ammo.com, an online ammunition seller, said on March 10, the day confirmed COVID-19 cases in the U.S. topped 1,000, that sales soared 276%.

Gun stores across the U.S. have reported runs on firearms and long lines. Processing all the background checks and other paperwork will be a growing issue.

Legal battles are brewing over store closings as governors and mayors decide which businesses are essential. Gun rights advocates say gun stores must stay open.

MEDIA

Local media outlets will be especially hard-hit by the coronavirus crisis as local advertising dries up. Newspapers and local TV and radio stations are seeing a spike in audience in many cases, but that doesn't make up for lost ads.

Expect many local outlets to shrink or fold. Alt-weeklies have made cuts in Boston; Houston; Phoenix; Portland, Ore.; Sacramento, Calif.; and Seattle.

Meanwhile, national ad budgets figure to shrink as big brands cut back.

That hurts Facebook and Google, but they can easily handle sales drops, having loads of cash and little debt. The ad-supported giants will emerge stronger.

**SPORTS
BUSINESS**

With major sports on the sidelines and losing huge amounts of revenue...
NASCAR is holding weekly virtual races for its fans. The exhibition series is a tie-up between the car racing circuit and iRacing, an online racing simulator.

Racing's most popular drivers control the computer-generated cars, competing against each other in a strikingly realistic race, which is shown on TV.

Other leagues impacted by shutdowns have tried the e-sports game, too, such as European soccer teams. Other sports are showing simulated video games.

More will join the fray to try to keep fans engaged and make some money.

Yours very truly,

Knight/Kiplinger
THE KIPLINGER WASHINGTON EDITORS

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