GYL | FINANCIAL® SYNERGIES

A FOCUS FINANCIAL PARTNER

Gerry's Journal

April 28, 2020

3 Scenarios for Economic Recovery

By Gerald B. Goldberg, JD, CIMA, CEO, and Co-Founder

Over the last six weeks, I've referenced the "three-legged stool" of economic recovery: monetary policy, fiscal policy, and public health policy. In GYL's view, these three distinct policy points form the foundation of our nation's (and the world's) COVID-19 recovery effort. As the pandemic has evolved, we feel it is now time to retire the "three-legged" analogy and begin to view monetary policy and fiscal policy as one - now under the broader scope of *economic* policy.

To that end, last week we received an important update on the fiscal component of our nation's economic policy. In this installment of Gerry's Journal, I share the key takeaways from last week's legislation and some thinking on what this means for the speed of economic recovery moving forward.

Takeaways from last week's legislation

Last Friday, April 24, President Trump signed a new relief package from Congress. The legislation totaled $484 billion and was aimed at three key areas: supporting small businesses, providing capital to hospitals and healthcare providers, and expanding COVID-19 testing at the federal, state, and local levels.

As it relates to small businesses, the bill adds $310 billion to the Paycheck Protection Program (PPP), $60 billion of which will be distributed through "community financial institutions, small insured depository institutions and credit unions with assets under $50 billion."

The need for additional PPP funding became clear on April 16th, when the $349 billion that was initially set aside for the program was exhausted through 1.66 million loans.[1] This new source of funding for PPP loans comes at an important time, with many small business owners frustrated with how the initial rounds of loans were allocated. Specifically, while the program is designed for small businesses, an AP report found that $365 million in PPP loans were granted to 94 publicly traded companies.[2] After being subsequently tried and convicted in the Court of Public Opinion, several of these firms (e.g. Shake Shack, Ruth's Chris Steakhouses) have subsequently repaid these loans.

Capital for hospitals and healthcare providers

The April 24th bill also included $76 billion to "prevent, prepare for, and respond to coronavirus, domestically or internationally." A portion of this funding is earmarked for healthcare providers and hospitals that have incurred losses attributable to COVID-19. The cost of building temporary structures to

---

[1] ABA Banking Journal, *SBA Report: 1.66 Million PPP Loans Made As Of April 16 (*link)

[2] AP, *Publicly traded firms get $365M in small-business loans.* (link)

house patients, leasing properties, and buying medical supplies is also covered. Like the new funding for PPP, this funding comes at a critical time for the U.S. healthcare system: the cost of personal protective equipment (PPE) has surged by over 1,000% since COVID-19 reached the U.S.[3]; a Time magazine study found that 89% of hospitals reported having a two-week-supply-or-less of N95 masks.[4]

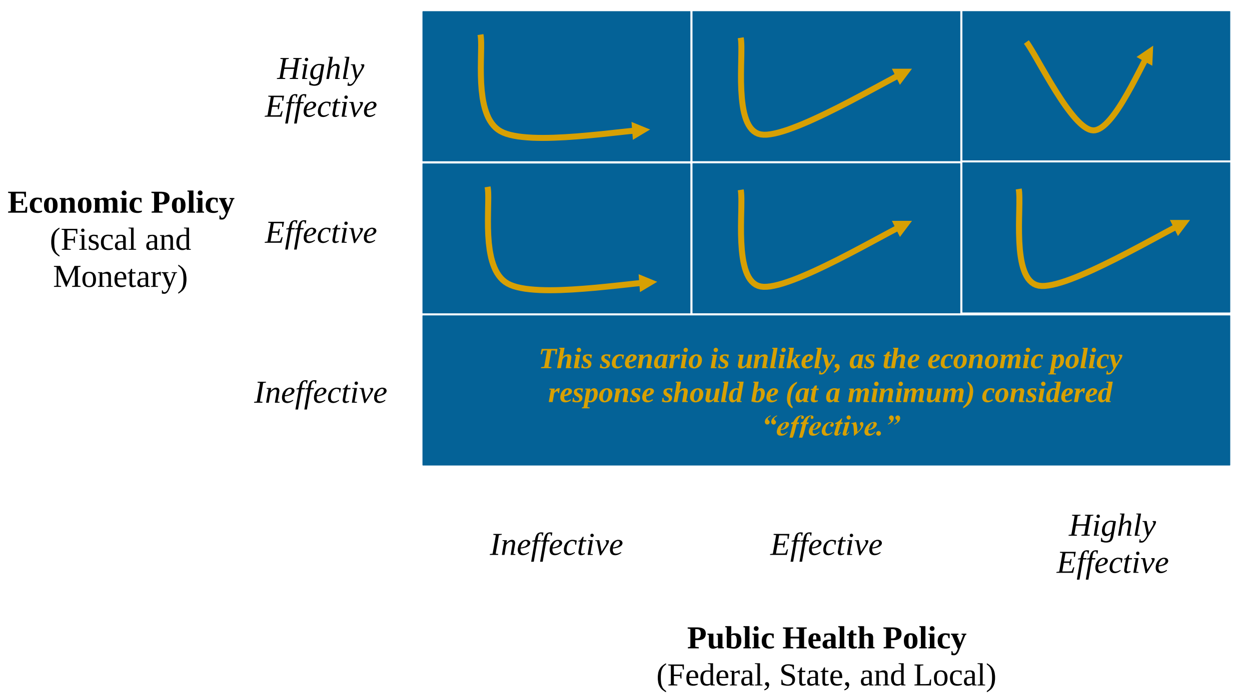
Expanded COVID-19 testing

Through the pandemic, the availability of testing supplies has been a well-documented concern from a public health perspective. This bill provides $25 billion for "necessary expenses to research, develop, validate, manufacture, purchase, administer, and expand capacity for COVID-19 tests." Almost half of those funds, $11 billion, is specifically designated for use by state and localities. In order to access funds, the bill requires that state and localities have a strategic plan in place to increase testing capacity.

Modeling the economic recovery

The critical question remains: how will these efforts translate into economic recovery moving forward? When will life (along with GDP, retail spending, unemployment, etc.) return to "normal"? By considering our nation's economic response in conjunction with our nation's public health response, we can create a rubric that helps us consider this question. At a minimum, it allows us to define which outcomes are possible, and which of these outcomes are most likely, given the data and information that we have today.

COVID-19 Response Efficacy Table



[3] McKnight's, *Analysis : PPE costs increase over 1,000% during COVID-19 crisis* (link)
[4] Time, *U.S. Health Care Workers Are Dangerously Ill-Equipped to Fight COVID-19* (link)

Considering the Fed's actions on April 14th and last week's round of stimulus from Congress, we would thus far give Congress a "B+" and the Fed an "A" for their response to the pandemic. Considering this, we at GYL would submit that our nation's collective economic response (fiscal policy + monetary policy) has been "effective" at a minimum, and one could reasonably argue that this response has been "highly effective." While there is yet more work to be done, particularly by Congress, it would be difficult to argue that the economic response has been "ineffective," especially when one considers the response by capital markets during the last several weeks.

What remains unclear, however, is how we should rate the public health policy response to this crisis. It is still too early to tell how effective the patchwork of public health decisions at the federal, state, and local level have been in flattening the curve. Just as important, we don't yet know what types of social-distancing steps will be required in the coming months to prevent a "second wave" of COVID-19 infection. Even if the government gets excellent marks for its economic policy, without an effective public health policy that provides confidence and safety to the people, we are likely to become mired in a protracted economic malaise.

What do we think is most likely? Our thoughts on each scenario are as follows:

The "V-Shaped Bottom" | *20% Probability*
In this recovery model, the economic collapse and recovery happen over roughly the same time period. Life returns to normal rapidly, people go back to work, and the economy picks up where it left off in January. As time moves on, this outcome becomes less and less likely.

The "Nike Swoosh" | *50% Probability*
During this recovery, the return to economic normalcy occurs over a longer time period. People slowly return to work and in turn, GDP grinds higher while unemployment drifts lower. This path seems like the most likely scenario given what we know today.

The "L-Shaped Abyss" | *30% Probability*
Under this recovery scenario, it takes years for the economy (and life) to return to normal. Many businesses don't survive, and life doesn't return to normal until a vaccine has been widely distributed, or herd immunity has been achieved - which might require 80% to 95% of the world being immune to COVID-19.[5]

In conclusion

The "Nike Swoosh" shape of economic recovery is our most likely outcome. Regardless of what comes next, we are here to support you and your family during this challenging time, and we will keep you updated on our thinking as new information becomes available.

---

5 HealthLine, *What Is Herd Immunity and Could It Help Prevent COVID-19? (link)*