COLORADO FINANCIAL MANAGEMENT®

Investment Management and Financial Counsel

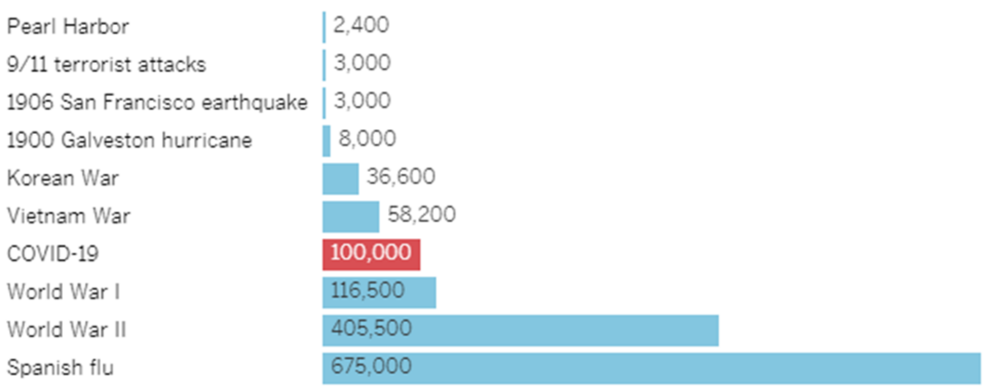
May 29, 2020

Dear Clients and Friends,

It was a grim milestone we passed this week… over 100,000 deaths in the US.

	Worldwide		United States		
	# of Cases	# of Deaths	# of Cases	# of Deaths	# of Tests
4/10	1.6 M	97 k	466 k	17 k	
4/17	2.2 M	147 k	662 k	29 k	3.4 M
4/24	2.7 M	192 k	869 k	50 k	4.6 M
5/1	3.3 M	234 k	1.1 M	63 k	6.2 M
5/15	4.4 M	304 k	1.4 M	86 k	10.3 M
5/29	5.9 M	364 k	1.7 M	100 k	15.1 M

U.S. deaths from wars, epidemics, attacks and disasters



Numbers rounded. Times reporting by Scott Wilson.
National Park Service, National Archives, Centers for Disease Control and Prevention, Johns Hopkins University, Congressional Research Service

According to an article in Forbes, 42% of US deaths occurred in nursing homes and assisted living facilities. And, here is a table showing the ages of deaths. This data came from the CDC. You can see the data is a week old.

US Deaths by Age as of 5/23/20		
< 1	5	0.0%
1 - 4 Yrs	3	0.0%
5 - 14 Yrs	11	0.0%
15 - 24 Yrs	93	0.1%
25 - 34 Yrs	542	0.7%
35 - 44 Yrs	1,403	1.7%
45 - 54 yrs	3,893	4.8%
55 - 64 Yrs	9,776	12.0%
65 - 74 Yrs	16,981	20.9%
75 - 84 Yrs	21,822	26.8%
85 Yrs +	26,843	33.0%
Total	81,372	

These facts make me question our response to this crisis. It seems to me we should have focused resources on the most vulnerable, and not taken such a haphazard approach to this. I'm not going to support the college kids on the beach in Florida, but I can see their point. From this data it would appear their risk of dying from COVID-19 was lower than the risk of driving their car to the beach.

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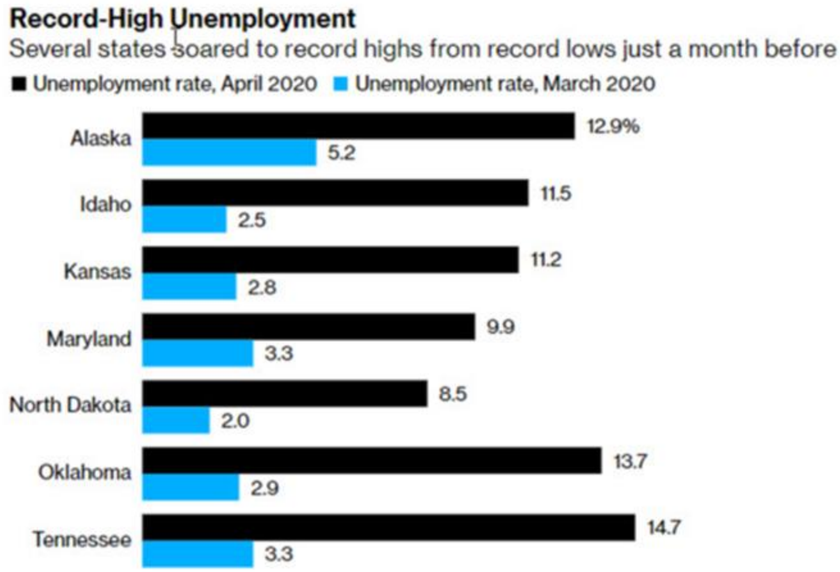
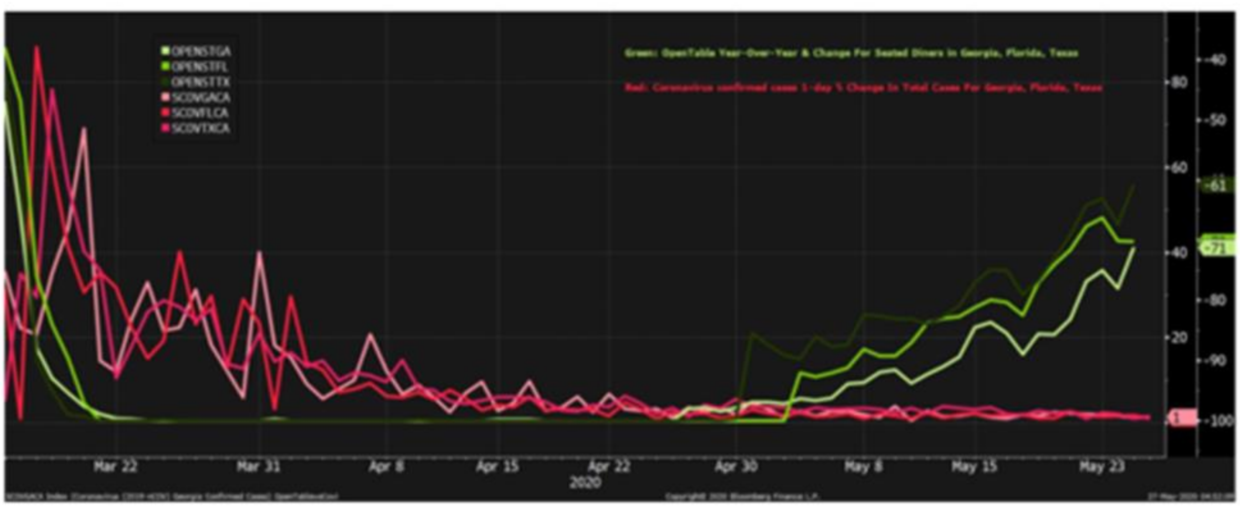
So, did it make sense to close the economy and put 20% of the people out of work? I'm not sure history will think so. But, it is what it is. We should focus on the future. An article from the BBC quotes a research paper from Edinburgh University arguing restrictions could be lifted "quite significantly" if the most vulnerable were completely shielded. It would require the isolation of these individuals and the regular testing and use of protective equipment by their caregivers. The researchers believe we could lift many restrictions. For the non-vulnerable population, Coronavirus carries risks similar to a nasty flu, says Professor Mark Woolhouse, an expert in infections disease who led the research.



I think this is going to be a more widespread way of thinking. Of course, we will all be watching closely to see if cases surge with the re-opening of the economy. Bloomberg printed this chart recently, which I thought was interesting. The green lines show OpenTable seating data for restaurants in Georgia, Florida, and Texas (three of the earliest and most aggressive states in terms of reopening). The red lines show the daily percentage change in total Coronavirus cases in each of those states. So far, the lines are going in the right directions.



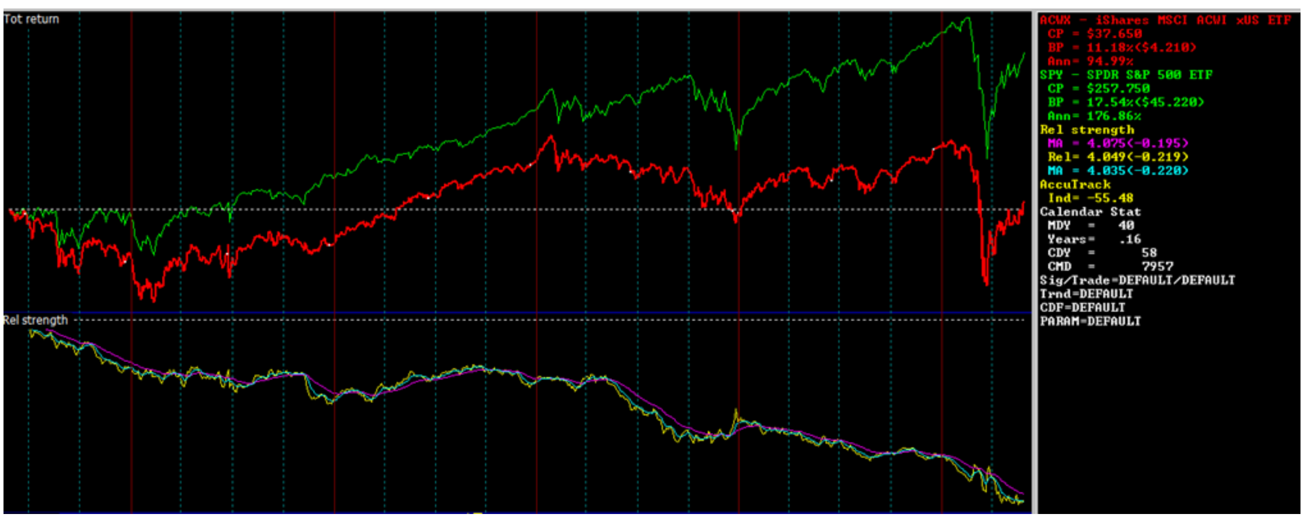
As May comes to a close, the stock market has largely shrugged off the bad news. As I've said many times, we knew the data was going to be bad. Rehashing the bad data serves little purpose, except to recognize that we are truly living through a historic period.

The next phase of this crisis will likely be a focus on the costs. Reported today, Mayor DeBlasio projects a $9 billion loss in tax revenue due to the Coronacrisis lockdown. Governor Cuomo predicted a 20% budget cut for schools, hospitals, and local governments. In Missouri, Gov. Mike Parson froze $61 million slated for higher education. In Washington, Gov. Inslee trimmed spending by $235 million. Illinois is expecting a $2.7 billion hole in this year's budget and $4.6 billion next year. Congress is going to be forced to do something, but now that the peak of the crisis has passed, the partisan bickering will come back and it will be hard to get them to agree.

Parts of the Federal government have decided to turn the spotlight away from the Coronacrisis. A China cold war has begun, and it seems unlikely it will stop anytime soon. I think this bears paying attention to. The last cold war with Russia was different, but may hold lessons. I may have to re-read some Tom Clancy novels. More immediately, in news related to China this week: China clamps down on Hong Kong, US to cancel visas for Chinese graduate students, US to remove favored trading status with Hong Kong, Congress is considering legislation to delist Chinese companies, China trade deal may be cancelled, US sanctions expected related to Chinese treatment of specific minority groups, and China threatens to smash any Taiwan independence move.

Despite all this news, the stock market enjoyed a good May. Frankly, somewhat better than I expected. You can see that the S&P 500 broke out of the trading range it was in since mid-April. I still believe it is vulnerable to a 5% or 10% correction that might take it down to the 2600 – 2700 level, but the rally is broadening to include more stocks and more sectors than just large cap tech. That's a good sign. Small and Mid-cap indices have outperformed over the last few weeks.

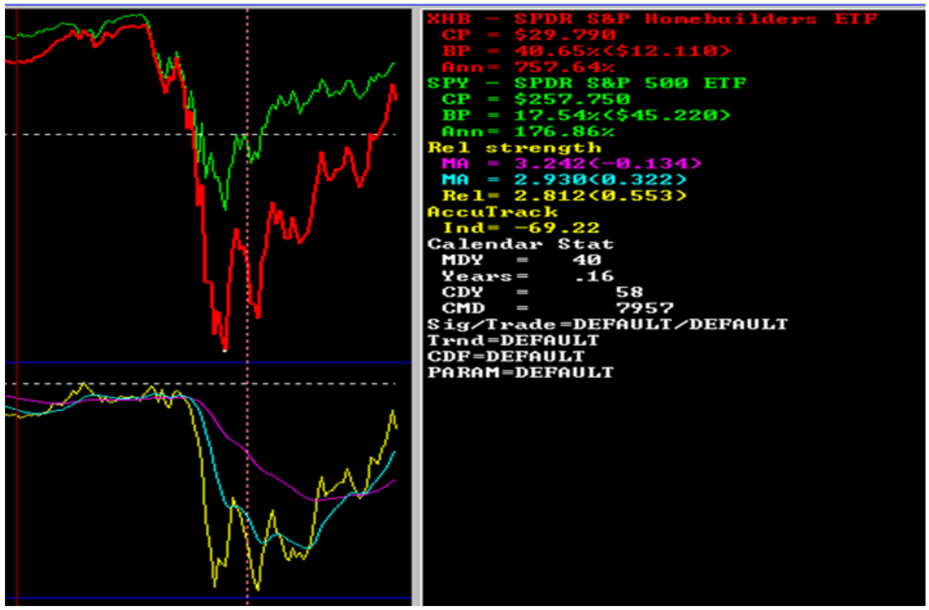
One asset class that cannot seem to gain any traction is international equities. Shown below is our favored international index, the MSCI All Country ex-US (ACWI ex-US), compared to the S&P 500. The green line is the S&P 500 and the red line is ACWI ex-US.



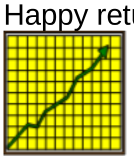
Over the last 5 years, the S&P is up 57% while the ACWI-ex US is up 2%. Someday this will change, but we are reducing our targets to international until we see signs, both fundamentally and technically, that they have.

Finally, one more chart to share, that portends an optimistic view. The Home Builders index is up 40% this quarter and showing significant relative strength vs. the market. Investors are optimistic there will be a rebound in demand for housing, which is a positive indicator for the economy in general.

As we leave May and begin the economic recovery this summer, I wish you good health and warm summer evenings. There will be some hiccups coming… but I think the worst is behind us.



Happy returns,



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