
## *PHASE 3.5 STIMULUS HITS THE HOUSE*

After weeks of negotiations, the Senate passed a second relief package on Tuesday worth nearly half a trillion dollars for small businesses, hospitals, and coronavirus testing. The majority of the roughly $480 billion approved – $380 billion – will go to replenish funds designed to provide small businesses with loans for operating and payroll costs, mainly the Paycheck Protection Program (PPP) that offers forgivable loans. This round of aid also designates $25 billion for an expanded coronavirus testing strategy and $75 billion for hospitals and health care providers, two major sticking points for Democrats. The House is expected to vote on the bill today.

The initial $349 billion assigned to the PPP loan program under last month's $2.2 trillion stimulus ran out last Thursday. According to reports, more than 1.6 million businesses received approval in just two weeks' time. The Small Business Association announced it had doled out "more than 14 years' worth of loans in less than 14 days." Of course, there remain some questions about who actually received the funds. Many mom-and-pop operations and smaller independent businesses were not able to access funds, while at least 15 companies with market caps of over $100 million (not to mention some prestigious universities) received loans through the government program.

As the government and Federal Reserve struggle to support a closed U.S. economy, several Southern leaders across Georgia, South Carolina, and Tennessee have moved to reopen their local economies. With the presumed peak in cases behind us, and a growing number of protests demanding the right to get back to work and make a living, some states feel compelled to at least loosen restrictions to help alleviate the economic pressure on businesses forced to close and workers who have been forced to remain at home without pay for nearly six weeks now.

Of course, health experts have warned that opening up the economy too soon could lead to a second-round flare up in virus cases. The longer the economy remains closed, however, the more difficult it will be to reopen and get activity back on track amid lingering structural barriers of depleted savings and resources. But the alternative—increased illness and death—makes the calculus challenging to say the least.

In other news, last week kicked off a corporate earnings season that is as confusing as it is depressing. Just as the pandemic has torn a hole out of economies around the world, so too has it ripped up the prospect of near-term profits for many companies. Even worse, many bellwether companies have refused to issue guidance on 2020 earnings due to the highly uncertain outlook, making predicting the recovery even more complicated. We expect large earnings-per-share (EPS) declines this year, and believe it will not be until 2021 that we see signs of stabilization and growth in most corporate revenues and profits. Furthermore, stung by sudden stops to revenues, many companies have fallen back on credit lines and debt borrowed in the bond markets to keep themselves afloat. This means a focus on survivability, not profitability, may be the key ingredient to strong security selection in 2020. For now, stocks have been fairly sanguine as they bask in the glow of stimulus measures being rapidly implemented to prop up the economy. However, until there is some sense of where corporate profits will be in the future, it is hard to imagine a sustainable recovery in stock prices that is built to last.

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## *SUPPLY SHOCK SEIZES OIL PRICES*

A recent spectacular collapse in oil prices is also keeping investors on edge this week. WTI crude oil futures prices crashed on Monday, falling more than 300% to a low of -$37.63 a barrel—the first time ever prices of crude were below $0. Brent oil followed suit; prices on the sweet light crude tumbled as much as 17.3% overnight to $15.98 a barrel, the lowest level since mid-1999. What does this dramatic price action mean for the energy market and the economy itself?

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