GUARDIAN CAPITAL

May 26, 2020

Turning the Corner

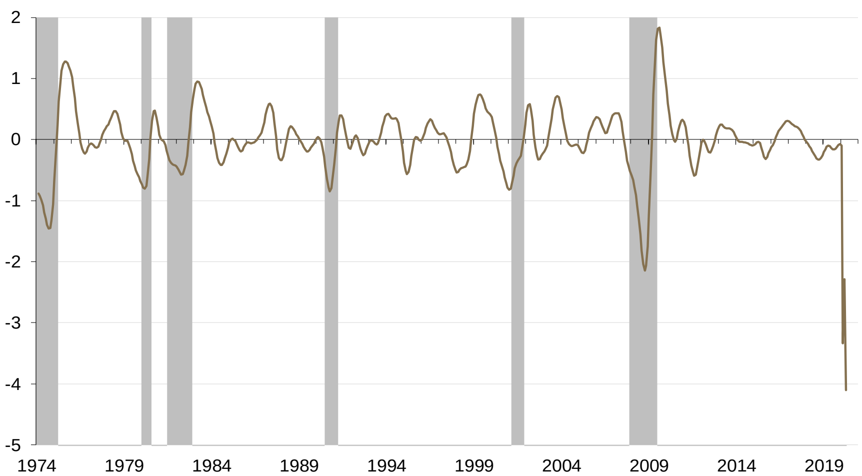
"I have to admit it's getting better, a little better all the time" – Paul McCartney

The global spread of COVID-19 and consequent broad-based shuttering of non-essential businesses to "flatten the curve" of contagion has had an unprecedented effect on the global economy – not only in terms of the magnitude of the impact of activity but the speed of the decline.

Virtually every economic indicator released in recent weeks has shown record-setting declines. An excellent broad example is the composite leading indicator (an aggregated gauge of economic momentum based on activity data) for the 36 industrialized economies that comprise the Organisation for Economic Cooperation and Development (OECD) and six other major emerging economies. The composite collapsed more than 4% in the three months to March – a decline that rivals the cumulative drop during the two-year global recession that followed the financial crisis in 2008/09, just in an eighth of the time.

OECD+ Composite Leading Economic Indicator

(three-month percent change)

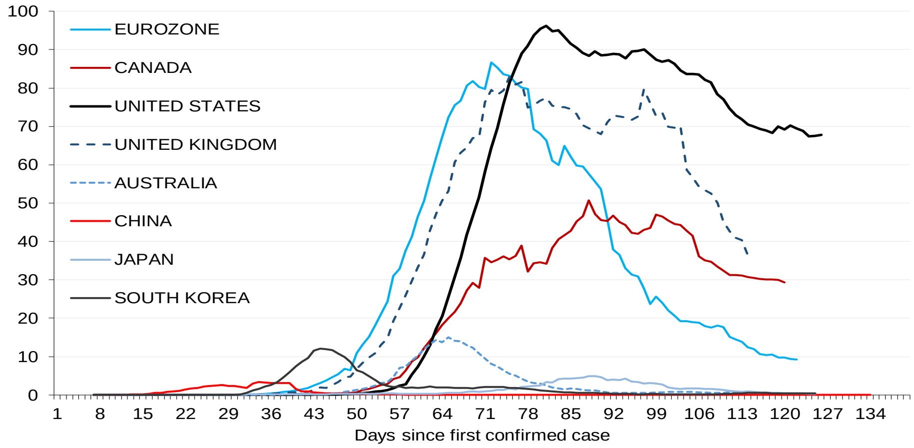


Shaded regions represent periods of US recession
Source: Organisation for Economic Co-operation and Development, Guardian Capital

This event has been devastating for millions worldwide, finding themselves suddenly out of work and without their accustomed and steady source of income. However, this approach to managing the pandemic has at least proven successful in slowing the pace of infection and mitigating the loss of life across the world (though various countries are at different points on the curve).

New Cases of COVID-19 per Million Population

(seven-day moving average)

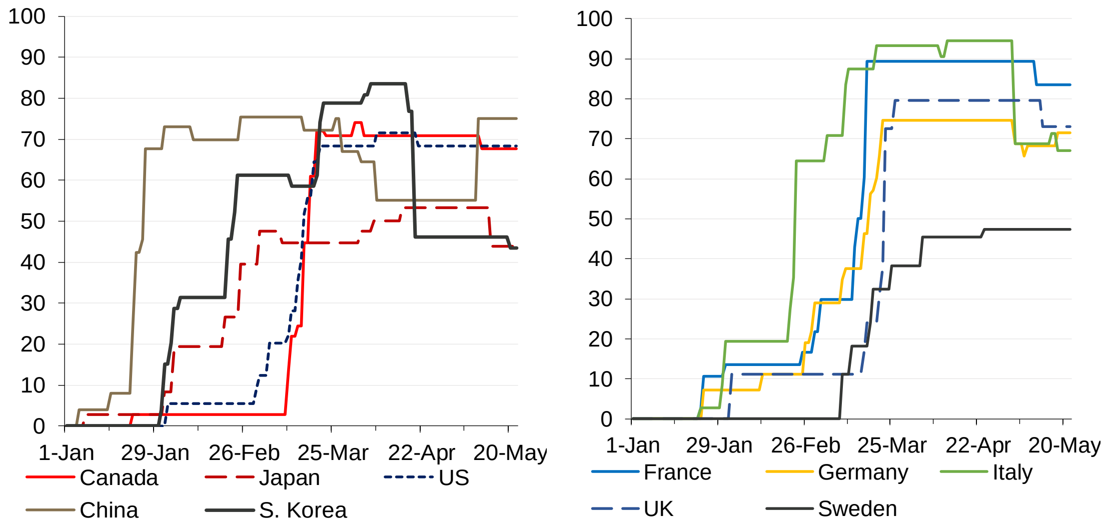


Source: Bloomberg, Johns Hopkins University, Guardian Capital

As the indicators seem to show, COVID-19 is ebbing, more and more countries (especially those that experienced (and reacted to) outbreaks earlier) have begun scaling back the stringent measures put in place and started to reopen their economies. However, as indicated by Oxford University's gauges of government responses to COVID-19, the vast majority of social distancing initiatives remain broadly at elevated levels, though off their peaks.

Government Response Stringency Index*

(index)



*The Stringency Index is a composite measure calculated as the simple additive score of seven indicators measured on an ordinal scale, rescaled to vary from 0 to 100; the indicators are school closings, workplace closings, public event cancellations, public transport closures, public info campaigns, restrictions on internal movement, and international travel controls. *Source:* Hale, Thomas and Samuel Webster (2020), Oxford COVID-19 Government Response Tracker; *Guardian Capital*

Nowhere to Go But Up

Economic activity worldwide is significantly lower now than it was three months ago. Given the likely, cautious and gradual pace of countries expanding what can begin to get back to business as usual, it will be months (or even years) before the full recovery of lost production. Accordingly, the level of economic output will likely continue to be subdued relative to the pre-COVID norms.

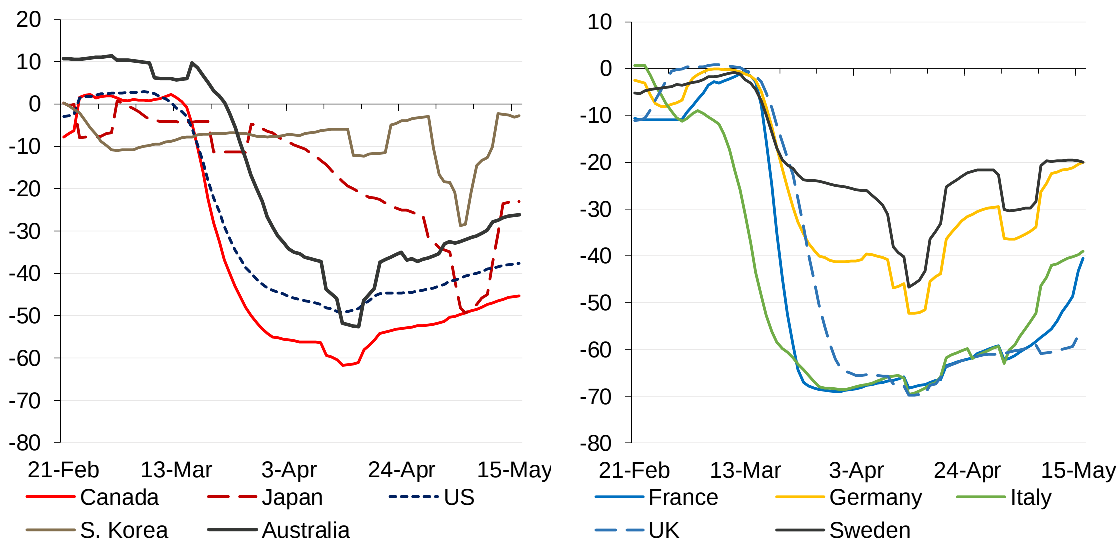
Importantly, though, after plumbing the depths and hitting rock bottom, there is nowhere to go but up.

And while the dataflow continues to paint a picture of an economic catastrophe, higher-frequency indicators show that conditions are becoming less grim – still not good by any means, but not getting any worse. Indeed, a growing number of data series are seeing their second derivatives turn positive, meaning that the rate of change is improving. So while the activity remains well below levels from the start of this year, or the same period a year ago (a negative first derivative), that rate is turning for the better.

For example, with governments worldwide permitting more non-essential businesses to reopen, mobility data compiled by Google show that people's visits to their places of work have ticked higher. These visits are still at least 20% below what would be considered "normal" (South Korea has almost returned to pre-COVID levels), but uniformly better than the troughs of early April.

Change in Visits to Workplaces*

(percent change from baseline** level, seven-day average)



**Mobility trends for places of work*

***Baseline level is median value for weekday from five-week period from January 3 to February 6*

Source: Google, Guardian Capital

GUARDIAN CAPITAL

May 26, 2020

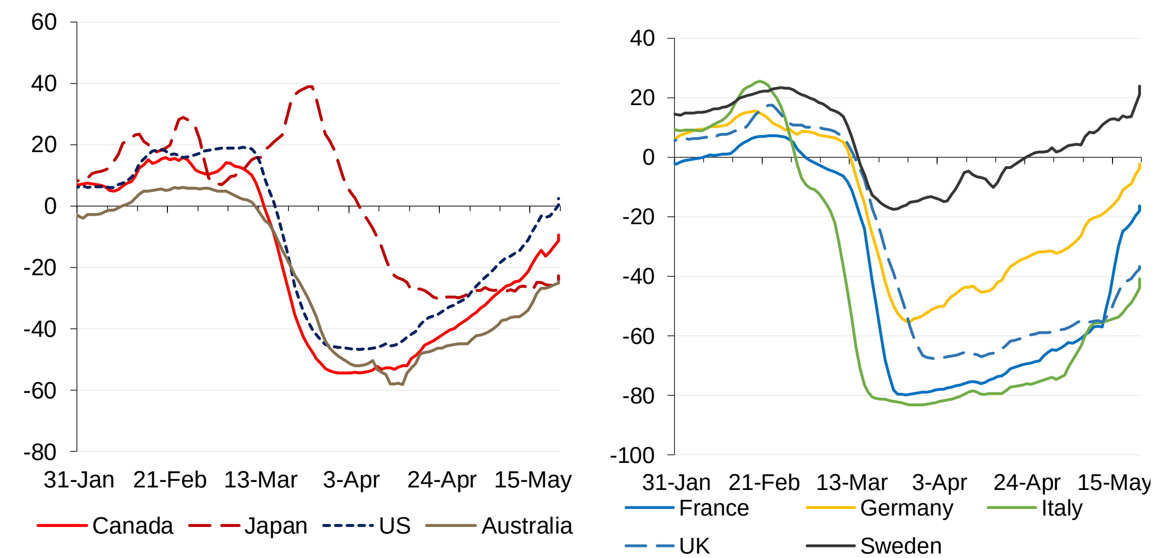
If You Open It, They Will Come

A big concern over “reopening” is that while employers and employees may have been eager to get back to work, consumers could be hesitant to come back. Instead, consumers are content with the migration to online shopping, which allows them to stay safe at home and have the goods come to them.

Something that seems evident in the data, however, is that the combination of improving spring weather in the Northern Hemisphere (and the fact that many people have been cooped up at home now for two months), has many people looking to get back out and about. Mobility data from Apple indicate that people are hitting the roads with increasingly normal frequencies and with a destination in mind (the data are based on direction requests using Apple Maps).

Mobility Trends, Driving*

(percent change from January 13, 2020; seven-day average)



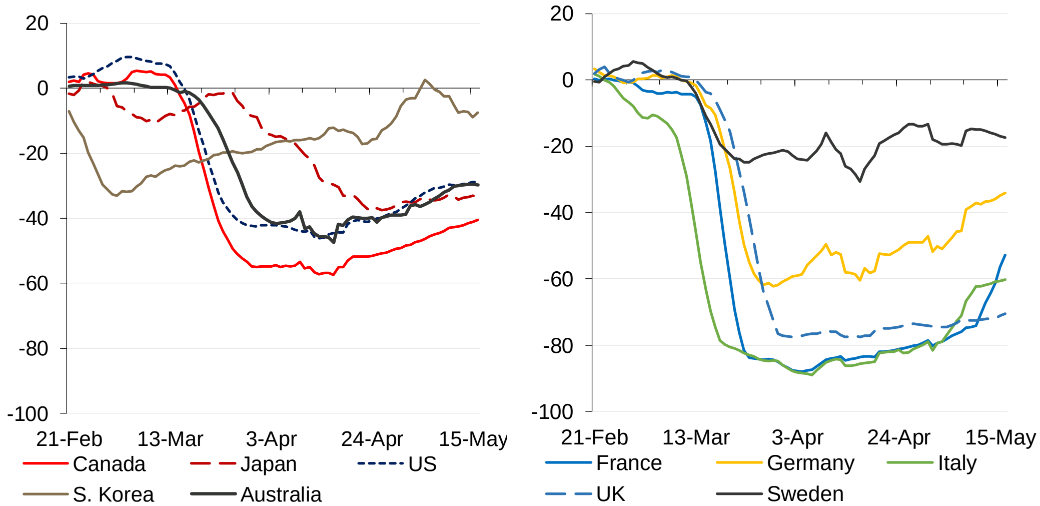
**Relative volume of directions requests using Apple Maps*

Source: Apple, Guardian Capital

These trends are echoed in Google’s mobility data, which show improvements in visits to retail and recreation centers. This classification covers places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters.

Change in Visits to Retail & Recreation Centers*

(percent change from baseline** level, seven-day average)

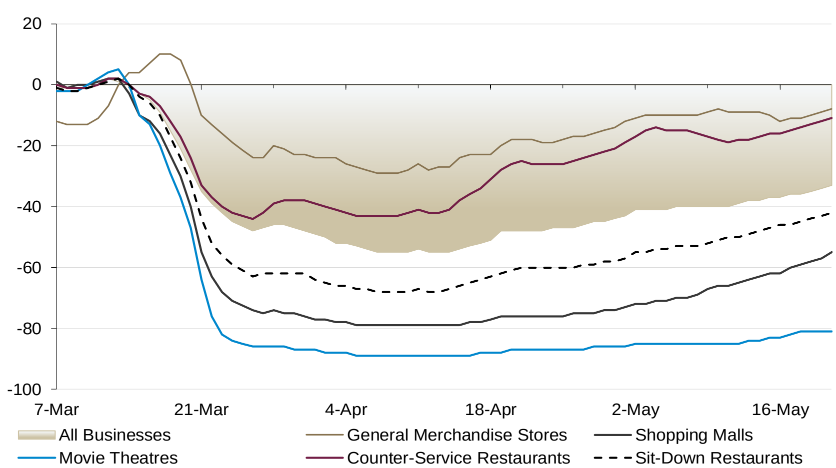


**Mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters*
***Baseline level is median value for weekday from five-week period from January 3 to February 6*
Source: Google, Guardian Capital

Note, however, that many of the segments within this grouping remain under tight restrictions. The gap between those commercial areas open and those still locked down is visible looking at data on foot traffic. General merchandisers and counter-service restaurants are seeing the greatest relative improvement in customer flows, while shopping malls and movie theatres are lagging – though, notably still registering improvements from their mid-April lows.

Change in Foot Traffic in the US

(percent change from baseline* level)

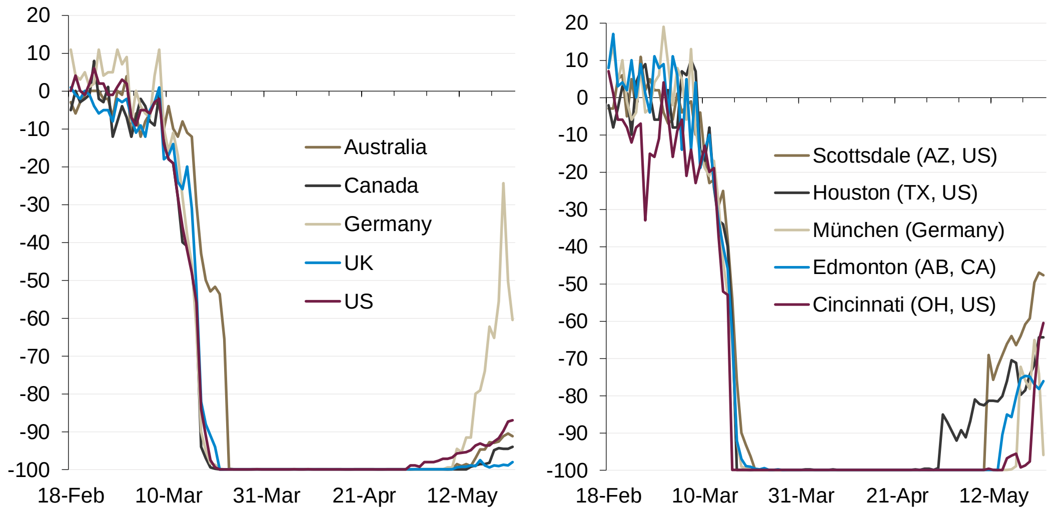


**Baseline level is median value between the second and third Wednesday of March; a lagging seven-day rolling-window smoothing algorithm has been applied to the data by the proprietor*
Source: SafeGraph, Guardian Capital

Further to this point, the restaurant industry – which has been by far one of the hardest-hit sectors by the societal lockdown – is beginning to see some nascent indications of improvements as well. While these businesses have tried to survive on increasing take-out service, diners are starting to return to dining rooms that were wholly abandoned through April. Again, the levels of activity remain well below previous normal levels but are improving, with burgeoning rebounds most notable in Germany, and regions of the US and Canada that have made the most material headway in resuming economic activity.

Seated Diners at Restaurants*

(year-over-year percent change)



**Online reservations, phone reservations, and walk-ins at restaurants on the OpenTable Network*

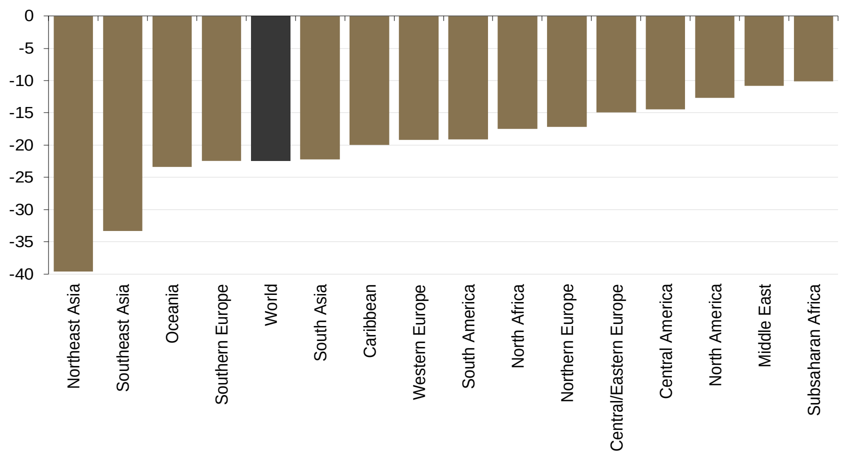
Source: *OpenTable,* Guardian Capital

Leaving the Nest

Another area that has been disproportionately impacted by the lockdowns has been travel and tourism. The United Nations' World Tourism Organization notes that 217 countries and territories have imposed travel restrictions, which has resulted in international tourist arrivals worldwide dropping more than 20% year-to-date March (including an almost 60% year-over-year collapse in March). Asia-Pacific has been hit the hardest, with travel bans to and from the region in effect earlier.

Change in International Tourist Arrivals, Year-to-Date March

(percent change from 2019)



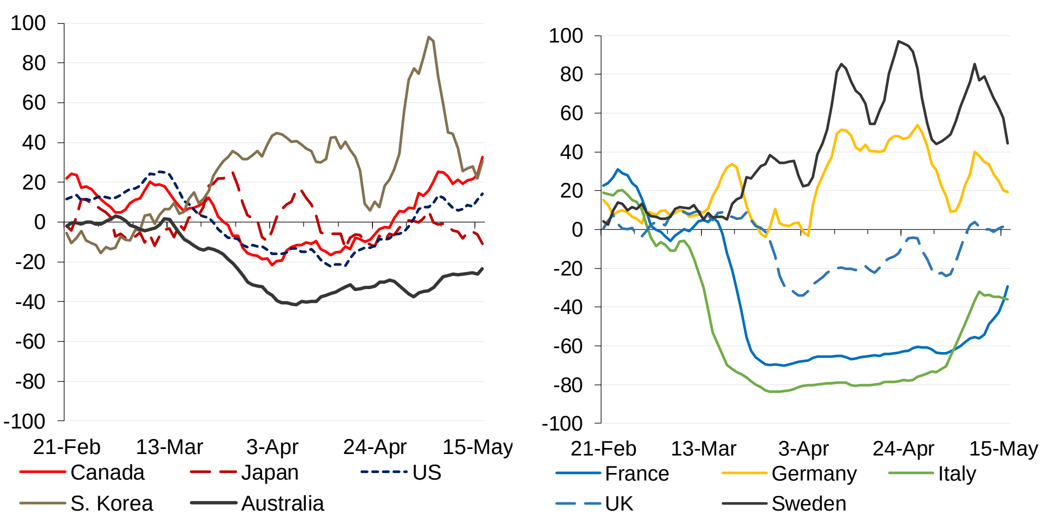
Source: United Nations' World Tourism Organization, Guardian Capital

Unsurprisingly, though, the more recent figures suggest that this hit is also abating – even with restrictions and border closures remaining in place globally.

First, as mentioned above, driving trends are improving as people increasingly look to put some distance between themselves and the homes in which they have been social distancing since March. Moreover, visits to tourist-friendly parks and beaches have generally increased relative to earlier in the year.

Change in Visits to Parks*

(percent change from baseline** level, seven-day average)



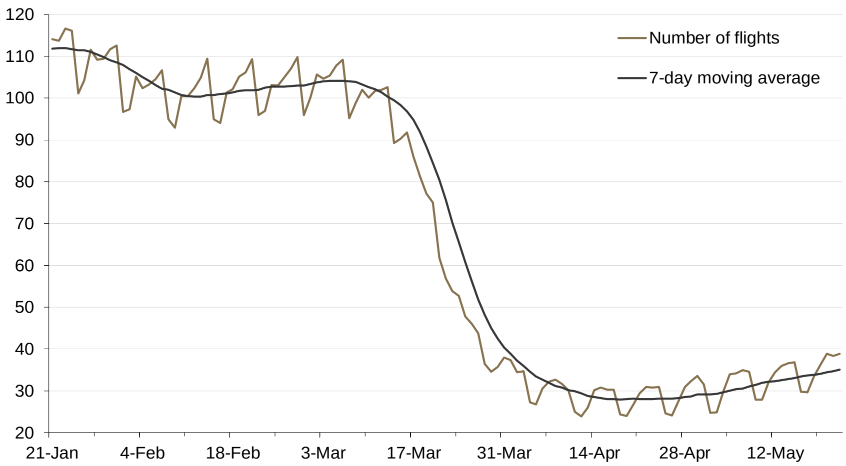
**Mobility trends for places like national parks, public beaches, marinas, dog parks, plazas and public gardens*
***Baseline level is median value for weekday from five-week period from January 3 to February 6*
Source: Google, Guardian Capital

Secondly, there is the fact that a couple of cruise lines have reported significant increases in bookings for 2021, despite the public relations nightmare of ships serving as large floating incubators for the coronavirus.

Finally, while commercial air travel is operating at roughly a third of its levels from the end of February, the number of flights has increased steadily since mid-April and are up 30% over the last month.

Global Commercial Flights* Tracked Per Day

(thousands)



**Commercial passenger flights, cargo flights, charter flights and some business jet flights*
Source: FlightRader24.com, Guardian Capital

Positive First Steps

That there are nascent signs of improvements across a growing variety of segments of the economy is undoubtedly positive, but these are just the first steps in a long journey toward recovery.

It is highly unlikely that the recovery in economic activity will mirror the speed of the drop – especially given that there is no established therapeutic treatment or vaccine to combat COVID-19. As the investing adage goes, the economy (and financial markets with them) tends to take the stairs up and the elevator down.

We can take solace from indications that we have turned a corner, and that the worse of the downturn appears to be in the past. We will continue to watch these indicators closely to monitor if trends continue on this upward trajectory.