

## Riding the COVID Rollercoaster

On Friday, news of a COVID-19 variant identified in South Africa, and the announcement of new travel restrictions, sent markets reeling. This is obviously not the only variant, and it won't be the last, either. In our opinion, it's not the new variant that is the problem, but the government's potential reaction to it. Oil prices fell 13% on Friday, pricing in a potential new round of lockdowns.

We're obviously not scientists, but what seems clear is that vaccines have underdelivered on their promise of ending the pandemic. Yes, relative risks for hospitalization and death are reduced (though not eliminated) after the jab, but fully vaccinated individuals can still get and spread the virus. This means the "zero COVID" strategy that public health officials have been pursuing since the pandemic began needs to change.

At this point, what seems likely is that COVID will gradually become like the flu, where there is a vaccine/booster available each year depending on what strain is most likely to be prevalent. Providing the public with accurate information about risk factors surrounding age and comorbidities is more important than ever.

However, our fear as economists is that certain urban areas in the US could be stuck in a cycle of fear, with each new variant leading to more draconian measures. This is where policymakers and individuals with disproportionate influence live, and their mindsets have become gradually divorced from the rest of the population. Just look at the packed stadiums at college football games.

Most importantly, is this how people want to live? Economic planning for businesses has become impossible. Individual travel plans can be disrupted at any moment. Maybe you are already fully vaccinated and are not overly concerned about mandates. What about when boosters become required to maintain your fully vaccinated status? Dr. Fauci recently hinted that this would be the case. Where is the offramp to normal life at this point?

Fortunately, we think widespread shutdowns are unlikely in response to this or any variant. Recent election returns in New Jersey and Virginia suggest the American public is fed up with the overly cautious policy mix chosen by officials in the past year and a half, including widespread shutdowns and tough mask rules.

Another round of shutdowns could turn a political environment that we believe favors a Republican wave in 2022 into a Republican tsunami. Democratic political strategists will be cautioning their party's leaders not to court fate. Although it's not our base case at this point, it's not outside the realm of possibility that another harsh shutdown would lead to a filibuster-proof Senate majority for the GOP in 2025.

Put it all together and we think investors need to continue to be ready to ride the COVID rollercoaster. Given record high profits, we still believe stocks are relatively cheap. That doesn't mean there won't be dips, though, or even corrections. But when they happen, they should still be considered buying opportunities.

| Date/Time (CST)  | U.S. Economic Data             | Consensus | First Trust     | Actual | Previous |
|------------------|--------------------------------|-----------|-----------------|--------|----------|
| 11-30 / 8:45 am  | Chicago PMI – Nov              | 67.0      | <b>66.4</b>     |        | 68.4     |
| 12-1 / 9:00 am   | ISM Index – Nov                | 61.2      | <b>60.9</b>     |        | 60.8     |
| 9:00 am          | Construction Spending – Oct    | +0.4%     | <b>+0.5%</b>    |        | -0.5%    |
| <i>afternoon</i> | Total Car/Truck Sales – Nov    | 13.4 Mil  | <b>13.6 Mil</b> |        | 13.0 Mil |
| <i>afternoon</i> | Domestic Car/Truck Sales – Nov | 10.3 Mil  | <b>10.2 Mil</b> |        | 10.1 Mil |
| 12-2 / 7:30 am   | Initial Claims – Nov 27        | 240K      | <b>220K</b>     |        | 199K     |
| 12-3 / 7:30 am   | Non-Farm Payrolls – Nov        | 550K      | <b>535K</b>     |        | 531K     |
| 7:30 am          | Private Payrolls – Nov         | 536K      | <b>525K</b>     |        | 604K     |
| 7:30 am          | Manufacturing Payrolls – Nov   | 45K       | <b>35K</b>      |        | 60K      |
| 7:30 am          | Unemployment Rate – Nov        | 4.5%      | <b>4.5%</b>     |        | 4.6%     |
| 7:30 am          | Average Hourly Earnings – Nov  | +0.4%     | <b>+0.4%</b>    |        | +0.4%    |
| 7:30 am          | Average Weekly Hours – Nov     | 34.7      | <b>34.7</b>     |        | 34.7     |
| 9:00 am          | ISM Non Mfg Index – Nov        | 65.0      | <b>65.4</b>     |        | 66.7     |
| 9:00 am          | Factory Orders – Oct           | +0.5%     | <b>+0.6%</b>    |        | +0.2%    |