



GWM USA

The week in review



Are we partly protected?

Not that one would notice from reading the gloomy press and watching negative analysts and commentators on CNBC, but markets are actually up this week and, as this note is being written, are continuing to move a little higher. However, in terms of market news this week has been relatively quiet.

One event of interest this week was a presentation given by one of the authors' favourite analysts – Jonathan Wilmot.

Jonathan has spent quite a bit of time recently with Sir John Bell, Regius professor of medicine at Oxford University. Based on conversations with Sir John, one key new hypothesis may be emerging from the data fog: what if a significant proportion of the population may already be fully or partly protected from COVID-19?



Continued on page 2



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What if?

What if, for many individuals, contact with similar coronaviruses in the past enables healthy T-cells to respond quickly to COVID-19, which is – as is well known – also a coronavirus? T-cells tend to be stronger in the young and many of the most obvious co-morbidities such as diabetes are associated with lower t-cell counts, so this fits well with what is known about the virus so far. This hypothesis fits with German exceptionalism. Germany had a particularly bad coronavirus season in the winter of 2018/19 and this may account for the low COVID 19 mortality rate in Germany, rather than the famed German efficiency.



Of course, it is not yet known if this new hypothesis is true but if it is, its significance cannot be overstated. The most obvious implication is that re-opening economies would be less likely to create a large second wave of infections. Those areas, which already have high infection rates – for example London with a 20% infection rate – would likely see little or no pickup in the famous Rt number.



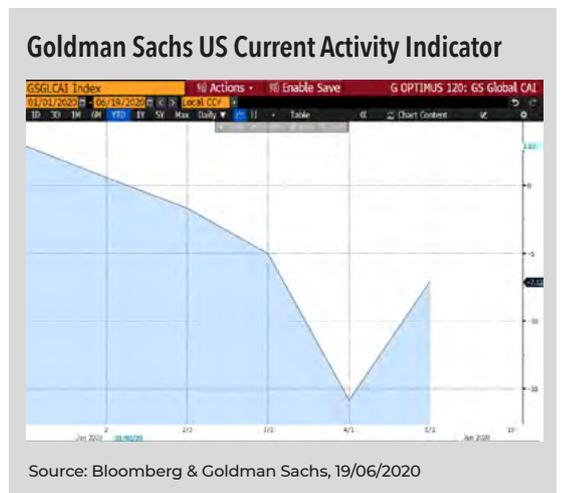
Caution must be stressed as this is a new hypothesis and it is not yet an accepted fact. Even if this hypothesis is true one would still expect a series of second waves to emerge in the autumn as populations spend more time indoors. However, these second waves would most likely emerge in areas with a low prevalence of infection as is now occurring in Arizona and Texas in the US.

In other news...

This week Goldman Sachs upgraded its US growth forecasts for the second and third quarters of this year. This upgrade was not substantial, but it is the direction that counts at the margin.

So, what does this all mean?

Well, having a diversified portfolio is imperative as bad things can of course happen. Indeed, some known unknowns include US/China trade tensions, US political risks and a fiscal cliff in the US at the end of July. However, investors should consider continuing to hold a meaningful weighting in equities as those developments outlined above should be positive for risk-on assets at the margin.



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