

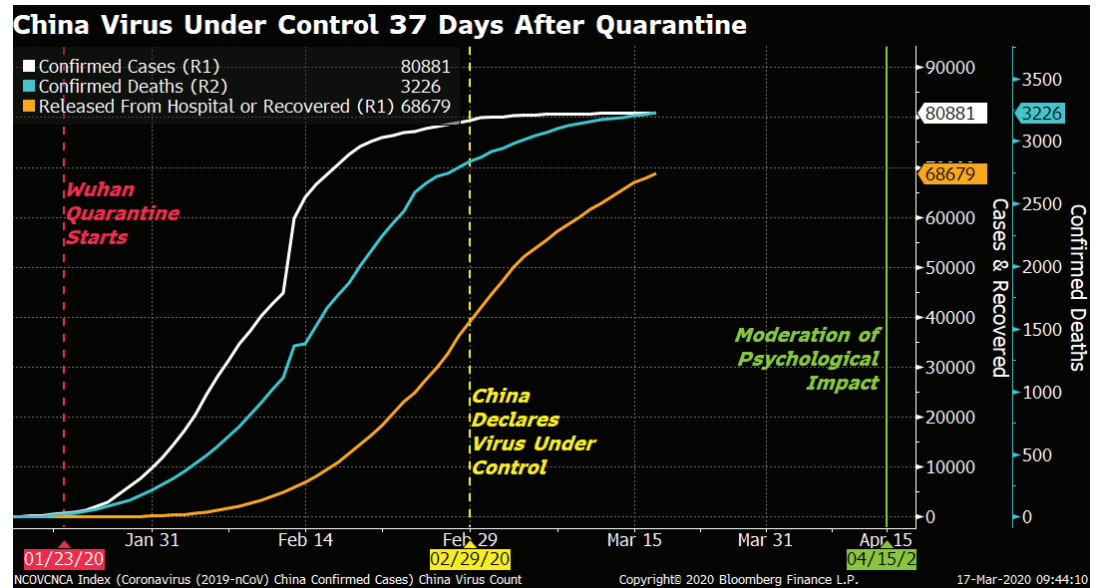
March 17, 2020

## The Beginning of the End of Panic

During a nearly four decade-long career I have learned that the job of the marketplace is to factor or price in the future. I have also learned to be suspicious of the statement that “this time is different.” Certainly the economic carnage is severe and is likely to expand, and that could create a knock-on failure across the global economy. However, we think everyone should take a step back and consider China’s situation as a guide for events over the coming two months.

While there are reports that China might have known about the outbreak as early as November, they did not implement a widespread quarantine until the last two weeks of January. They were dealing with very large infections early in their outbreak and had did not have the advance warning that the rest of the world did, but they eventually slowed the pace of new infections to a crawl and were able to resume their economic activity.

Unfortunately, Europe and the US did not take China’s experiences seriously enough and are paying the consequences. We are reminded of something that has been attributed to Winston Churchill, “Americans can always be counted on to do the right thing...after they have exhausted all other possibilities.”



We think the US has begun to “do the right thing,” and widespread isolation should lower the spread of the virus. That evokes another Churchill quote about the “end of the beginning.” Obviously economic and psychological carnage will continue to expand, but we suggest everyone be aware of the potential for an inflection point! We fully acknowledge the challenges of developing and testing a vaccine, getting it approved, and producing it in mass quantities, but markets like equities look to the future and an effective vaccine would give some definition to the crisis.

Clearly volatility in the equity markets will remain historic, and any involvement in the markets should be restricted to risk-defined

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strategies using long option premium. Granted, option premiums in index futures are sky-high and carry significant outlays of capital, but there are ways to reduce the cost to enter positions.

Our suggestion is to look at June expiration E-mini S&P bull call spreads to attempt to benefit from a potential relief bounce once the market sees some benefit from the a successful implementation of social isolation. Even if the US and Europe fall behind the infection

curve and end up paying the price for their indecision, recall how the markets recovered once the China's infection rate decelerated.

### **Suggested Trading Strategy**

**BUY** a June S&P 2750/2910 bull call spread for 45 with an objective of 120. Risk the spread to a trade below 15.

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