Insights and Observations: Second Quarter 2020

The care for over 60% of nursing-home residents is subsidized by Medicaid, according to data from the Kaiser Family Foundation. Few private insurers cover long-term care because Medicaid is relatively easy to obtain. It is estimated that Medicaid "crowds out" 70% of long-term care insurance.

Ultimately, low Medicaid reimbursement rates have negatively impacted the quality of care for Medicaid recipients as well as private payers. Approximately half of all Americans who died from the coronavirus were living in nursing homes.

> **A program intended for the poor has become the default payer for middle-income and affluent people who didn't plan for long-term care and slipped through or manipulated eligibility rules ...That's why so many frail elderly people are trapped in low-quality nursing homes and vulnerable to the ravages of Covid-19.**
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> **Moses/Blase – WSJ 6/1/20**

It is estimated that the nursing home population in the U.S. has declined by 10% since December 31. The decline is attributed to many factors including virus-related deaths, deaths from other causes, and a considerable drop in admissions. Admissions are down due to a lack of rehabilitation patients, since hospitals canceled many elective surgeries because of the pandemic.

About 80% of coronavirus-related deaths in Canada have occurred in nursing homes. Many of the facilities are understaffed and generally in poor condition.

> **The coronavirus pandemic has exposed a major weakness in a health-care system that politicians have long held up as one of Canada's selling points.**
> **Paul Vieira – WSJ 6/24/20**

A team of medics from Canada's armed forces was recently dispatched to nursing homes in Quebec and Ontario. In their report, the medics found … *severe staffing shortages, medical supplies like catheters being used repeatedly after their sterility was compromised, cockroach infestations, significant fecal contamination in some rooms and dehydrated and hungry residents.*

> **This is a huge black eye for Canada. Policy makers' inaction … helped sow the seeds of the tragedy we have been witnessing.**
> **Dr. Samir Sinha, University Health Network – WSJ 6/24/20**

According to the Organization for Economic Cooperation and Development, government spending in Canada on long-term care (as a share of GDP) is about 25% below the average among developed economies.

The Internal Revenue Service paid $1.4 billion in stimulus checks to deceased people. The amount is less than 1% of the total stimulus payments.

IRS lawyers initially determined they couldn't deny payments to deceased individuals who filed returns in 2019. They later reversed that decision, and began asking recipients to return the money.

> **The IRS, which was trying to get the money out quickly, didn't use death records from the Social Security Administration as a computerized filter in the first three months of payments …**
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> **Richard Rubin – WSJ 6/25/20**

The world just took a crash course in remote learning. According to the United Nations, 90% of the world's student population was at home by mid-April.

> **With the school year now winding down, the grade from students, teachers, parents and administrators is already in: It was a failure.**
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> **Hobbs/Hawkins – WSJ 6/5/20**

One of the biggest concerns is that children lacking support to continue distance learning may end up eventually leaving school altogether. The Los Angeles Unified School District estimated that on any given day, 32% of high-school students didn't log in to learn.

Research suggests that students usually return in the fall with roughly 70% of learning gains in reading and 50% in math. Learning losses are expected to be worse for minority and low-income children who have less access to technology.

> **Parents are often the problem. One teacher was mortified when, during an online lesson, the shirtless dad of one of her students asked her to keep her voice down because he was watching daytime TV in the same room.**
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> **Stancati/Brody/Fontdegloria – WSJ 6/3/20**

In Italy and Spain, over 10% of students did not have a computer or tablet at home. Many had to rely on their parents' mobile phones, with siblings often sharing a single device.

Chinese output was valued at about 10% of U.S. production in the mid-1990s. Currently, the Chinese economy is about two-thirds the size of the U.S. The Chinese economy should continue to grow faster than the U.S., but the *growth gap* is expected to eventually shrink. Beijing expects the growth gap to close around 2049.

According to the baseline forecast of the United Nations World Population Division, the number of working age Chinese will fall by almost half this century, while the number of working age Americans will rise by about 15 percent.

When you combine the growth and demographic assumptions, the Chinese economy should peak relative to the U.S. by 2040 at 76% of GDP … and then steadily start to lose ground.

Anything is possible. But investors and policy makers should seriously consider the likelihood that the People's Republic is near the peak of its relative power and will soon enter a long period of relative decline.

Matthew C. Klein – Barron's 5/29/20

Ten years ago, investors were concerned about a paltry 3.8% yield on the 10-year Treasury … remember, the yield was 6.4% a decade earlier. Currently the yield is scarcely over six-tenths of one percent.

Historically, the yield for the 10-year Treasury at the start of a decade is almost always identical to the annual total return over the decade. For example, the 10-year Treasury yield was 3.8% on 1/1/2010, and the annualized return amounted to 3.75% over the subsequent ten years.

We are at a pretty bleak starting point for income investors.
Michael Fredericks, BlackRock – Barron's 6/5/20

High-quality bonds are often considered to deliver a relative *risk-free rate of return*. Yields are now so miniscule, that some are now describing the investment potential for bonds as *return-free risk*.

With the economy shut down, people who would ordinarily be wagering on sports are now getting into day-trading.

This isn't entirely new, of course. But by shutting down the economy, the coronavirus unleashed a new generation of gamblers on the stock market: people, mainly young men, going stir-crazy from quarantine and the lack of professional sports to bet on. They've turned to trading stocks.
Jason Zweig – WSJ 6/12/20

Charles Schwab added a record 609,000 new clients in the first quarter, with 283,000 added in March alone … the second highest monthly total ever. Schwab's daily average trades in March more than tripled year over year.

They don't know what they are doing, and they don't care that they don't know what they are doing.

Jaime Rogozinski, WallStreetBets – WSJ 6/12/20

According to the Federal Reserve, the bottom 80% of earners have not been keeping pace with total income, wealth, and consumption in the U.S. The middle class now makes up about 50% of the population … closer to countries like Russia and Turkey … rather than Japan, France, and Germany where 60% of the population is considered middle class.

Approximately 40% of American workers who have lost their jobs in the pandemic were earning less than $40,000, compared to the 13% that were earning more than $100,000. In addition, the top 10% of households account for 84% of total stock market ownership.

Wealth begets wealth, and if you don't have it, you don't have the means to withstand a shock.

Andre Perry, Brookings Institute – Barron's 6/19/20

It is also difficult to get ahead. According to simulations run by Deutsche Bank and the Organization for Economic Co-operation and Development, it takes five generations for a person born to a low-income family to get to society's median income levels.

Economic history clearly shows that the strongest, most durable periods of economic expansion in most countries occur when the middle class expands.

Abby Joseph Cohen, Goldman Sachs – Barron's 6/19/20

Income and wealth inequality have been on the rise due to many influences, including globalization, automation, and innovation. The widening gap has long-term social and economic implications, and will almost certainly influence the strength of the current economic recovery. Income inequality is also the driving force behind the increase in global debt levels, which ultimately contributes to the fragility of the overall economy.

> **Rising inequality is a breeding ground for all kinds of concerning things. You are muting the bottom 90 percent's ability to spend.**
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> **James Montier, GMO – Barron's 6/19/20**

The International Monetary Fund expects U.S. government debt to reach over 130% of GDP this year, up from 109% in 2019. That is a higher debt burden than after World War II. We are certainly not alone, as plenty of other countries are awash in debt.

But how will all this debt be serviced? Over the near-term we should expect monetary policies to keep rates at their historically low levels.

Decreasing the debt load would be difficult and quite painful. Higher inflation, for example, could allow today's debts to be paid back with cheaper money sometime in the future … but we have failed for the past decade to lift inflation. Spending cuts would probably be off the table because practicality does not necessarily win elections. Tax increases may sound like a good idea at first, but there are simply not enough wealthy people to cover the enormous tab.

> **You're talking to a very fiscally conservative person. But this is a war. In a war, you worry about winning the war, and then you worry about paying for it.**
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> **Carmen Reinhart, World Bank Chief Economist – WSJ 6/14/20**