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## Economy & Market Valuation

A once in a 100-year Black Swan event struck USA and the world in Q1 2020 as a Corona virus Pandemic (COVID-19). It is an event which nobody could have predicted. It is being compared to the Spanish Flu of 1918. It started from China and has now engulfed the whole world. The US economy, after 11 long years of economic expansion, is in recession right now as a result of the economic impact of COVID-19. Although NBER is yet to officially declare recession, nobody should have any doubt that we are in a recession.

The question that everybody has is - how long will this recession last. The answer depends upon when the social distancing restrictions will be lifted. Trump was eager for a phased opening of restrictions by Easter but it was later pushed out. There is a good report out by Dr. Scott Gottlieb - "A roadmap to reopening". It calls for a State by State phased reopening after transmission has slowed down considerably. If you are interested, you can read the report at the link provided at the end of this letter.

The consensus view is that a limited reopening could start happening in the Summer.

There are many drugs & therapies being tested right now to help patients who are critically ill. One of them is Remdesivir, an antiviral drug from Gilead which is used to treat Ebola virus patients. The trial results of Remdesivir are expected in April. If successful, it could be approved in a very short timeframe. It is supposed to reduce the mortality rate and help

critically ill patients. Plasma from COVID-19 recovered patients is also being tried and is showing good initial results. All these therapies are going to help the critically ill patients and reduce the pressure on hospitals. The ultimate cure would be the vaccine which is expected in 12+ month timeframe.

Events that can have a positive impact on the market:

- The number of new COVID-19 cases and deaths, peaks by end of April, and starts trending down afterwards
- A drug therapy that is materially successful in treating patients of COVID-19
- Successful trial of the vaccine in 2020 and the vaccine being made available to health workers by end of 2020
- Restrictions on social distancing are removed in summer and it does not result in increase of daily new cases

Events that can have a negative impact on the stock market:

- The number of new COVID-19 cases does not peak and keeps on going up during the summer
- Social distancing restrictions are not removed by May-June timeframe

We at OCA understood the impact of COVID-19 on the US economy and acted swiftly. We sold multiple positions and increased our cash position to ~ 40% in late Feb/early March. As a result of our actions, our portfolio has

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outperformed the S&P 500 by a significant margin. We have taken advantage of the huge drop since then to add back some of our positions. We are constantly watching the COVID-19 spread, progress of testing and trials of various drugs, to understand the turning points of the crisis. Meanwhile we will take advantage of big drops and spikes in the market. We view the disruption caused by COVID-19 as very serious but transitory. The economy will get back to normal once a cure/vaccine is found.

We are, as always taking the long-term view. We are looking for good quality companies to add to our positions or to purchase ones that can survive the current downturn and are available at attractive valuations.

Meanwhile stay safe and follow social distancing guidelines!

<https://www.aei.org/research-products/report/national-coronavirus-response-a-road-map-to-reopening/>