Reasons for Hope
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Hope is not stupid.

My colleague, Paul Eitelman, did a nice job yesterday preparing our clients for the likely horrible news that will most likely greet us for the month of April each and every morning. Today, I would like to take a moment to talk about reasons for hope.

As we watch the horror show of economic data from around the world, it’s important to remember that there’s a purpose behind this damage. As we’ve said repeatedly, the economic damage is not a direct result of the virus itself. Rather it is primarily a result of the actions taken to mitigate the human health toll of the virus. Effectively, we are starving the economy in an effort to starve the virus itself.

While the precise path of the virus remains well beyond our ability to forecast, we can look to China for hope. China, as we all know, was the first country that suffered from a mass infection of Covid-19. After a delay, the government placed stringent limitations on businesses and personal activities in an attempt to control the virus—the center of which was in the city of Wuhan. A week from tomorrow, the restrictions will be lifted and life in Wuhan will begin to return to normal.

At the country level, China had 82,447 total diagnosed cases since the beginning of the outbreak, as of this writing. In the last seven days, they have reported a total of 106 new cases and 4 new deaths, according to the World Health Organization. In a country of 1.3 billion people, one could come to the very reasonable conclusion that they have successfully contained the virus. Constant vigilance will be required to ensure the virus does not relapse.

This containment has been allowing China to return to normal life. Today, China’s official purchasing managers’ index (PMI) for March manufacturing came in surprisingly strong at 52.0, rebounding from a record low level of 35.7 in February. Now, there is always some skepticism of official numbers coming out of China—and the actual number was significantly higher than a Reuters poll of analysts’ estimates of 45. That said, even the consensus number represented a significant strengthening of manufacturing activity.

Because Russell Investments also works with independent money managers around the world, we have a unique up-close view to activities there. Independently, our manager research analysts in Shanghai have collected some interesting comments from local Chinese asset managers. These are courtesy of our Russell Investment colleagues there:

- Local China & Hong Kong asset managers report that 90% of China’s factories have reopened and that full capacity is expected in the coming weeks. Production is returning online, although current levels are low, at 40% utilization. China managers envisage that this will ramp upwards, and expect to see 80% production utilization before the end of April.
- According to local asset managers, restaurants have been among the first retailers to reopen. This is now extending toward all shops, including non-essential outlets and all public spaces.
- China’s worst-hit epicenter, the city of Wuhan, is scheduled to end its lockdown in a week’s time, on April 8. When that occurs, all of China will have renormalized to daily activities.

As we return our focus to the rest of the world, now fully engaged in the virus battle, we are still on the steep upward curve of new cases and fatalities. For example, the U.S. administration announced yesterday to expect this unnatural life of social distancing to last at least through the month of April. But for much of the world, the stay-at-home orders look a lot like the measures taken in China, and we are hopeful that they will have the same effect. Then, we too can start to return to our normal lives in the not-too-distant future.

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