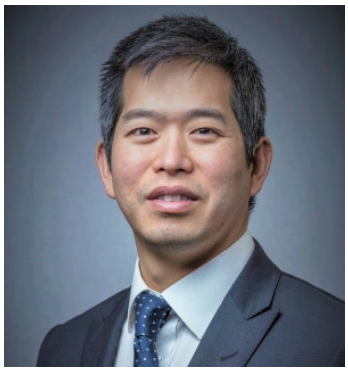
The Advisor



About Your Advisor

Paul Yoon is dedicated to providing meaningful and high quality financial advisory services to retirees and business owners. Mr. Yoon has both securities and insurance licenses. He is a contributor for the Forbes magazine and frequently conducts seminars at College of the Canyons.

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Coronavirus Update; Growing Spread and Economic Impact

The coronavirus, and the resulting illness COVID-19, have rampaged through the U.S. leaving major urban centers infectious hotspots and hospitals overwhelmed. The stories told by nurses and doctors who work in ERs and ICU's have been heartbreaking. Since families are not able to enter the room their loved one is in, they are often left without any way to say a final good-bye.

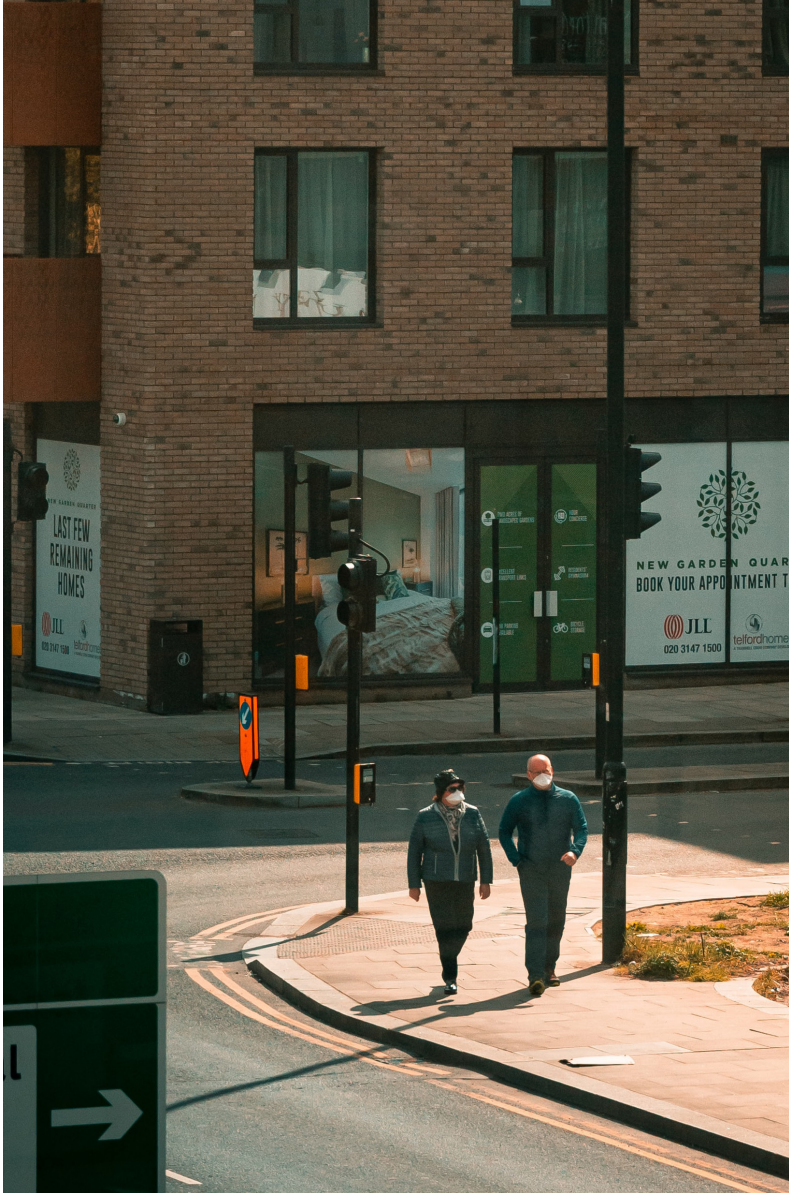
The pandemic has left most states to declare emergencies, with stay-at-home orders commonplace across the country. The impact on businesses in the hospitality and leisure, retail and business services sectors has been devastating.

As of April 22, 2020, worldwide, there are 2,629,801 confirmed cases of COVID-19, according to John's Hopkins Center for Systems Science and Engineering. There are also 183,454 deaths worldwide. The countries most devastated are Italy, with more than 25,000 deaths, Spain with nearly 22,000, France with other 21,000 and the United Kingdom with more than 18,000.

The City of New York, on its own, follows the U.K. with more than 15,000 deaths. New York also leads the U.S. in the number of people tested. The U.S. leads all countries in confirmed cases with 842,629.

Economic Meltdown

With national unemployment at only 3.5 percent in February, the surge in unemployment claims threatens to eclipse the Great Depression in job loss. Unemployment claims hit 22 million by mid-April.



During the five-week period ending April 23, 26.5 million workers filed new unemployment claims, and add that to the existing 7.1 million unemployed Americans, it represents a real unemployment rate of 20.6 percent, the worst since 1934.

There is no way to sugarcoat what the coronavirus pandemic has done to the economic well-being of millions of Americans and the cost to their economic health is only eclipsed by the terrible toll it has taken on those who have lost their lives.

There is a fear that the unemployment rate continues to increase across all sectors of the economy impacted by fallout from the pandemic.

The crisis has also hit the healthcare sector economically with elective surgeries in most states put on hold, so that the focus can be on COVID patients. Unfortunately, hospitals make 40 percent of their revenues from elective surgeries, and the pandemic has hit them with both sick staff, alongside furloughs and a drop in profits.

Those who are lucky enough to be able to perform their work from home are doing so in droves and this has changed the dynamics of their jobs with more reliance on the Internet and services like Zoom or Webex.

Small business, which makes up nearly half of the U.S. economy has been hard hit.

Efforts by the administration and Congress to get relief to these businesses, so that they can keep employees on the payroll and not lay them off, have come up short. The initial $350 billion Paycheck Protection Program, that was quickly approved, ran out of funds by mid-April, leaving many small business owners wondering what they are going to do to keep their businesses afloat.

A new package of disaster assistance loans and grants would add another $60 billion for small lending institutions and an additional $60 billion to go to small businesses directly. There is also $75 billion to help hospitals and $25 billion for testing efforts.

Despite all of these efforts, there are still many questions, including; how long the pandemic will impact the daily lives of Americans, how long before stay-at-home orders can be relaxed and whether or not there could be a second wave.

With any chance of a vaccine still a year or more out, and therapeutic treatment options in early testing phases, the answer to this scourge has not yet been answered.

COVID-19 Dashboard by the Center for Systems Science and Engineering (CSSE) at Johns Hopkins University (JHU), https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

Lance Lambert, "Real unemployment rate soars past 20% — and the U.S. has now lost 26.5 million jobs," (2020, April 23), Fortune, Finance, Unemployment

Jacob Pramuk, "Senate passes $484 billion coronavirus bill for small business and hospital relief, testing," (2020, April 21), CNBC, Politics

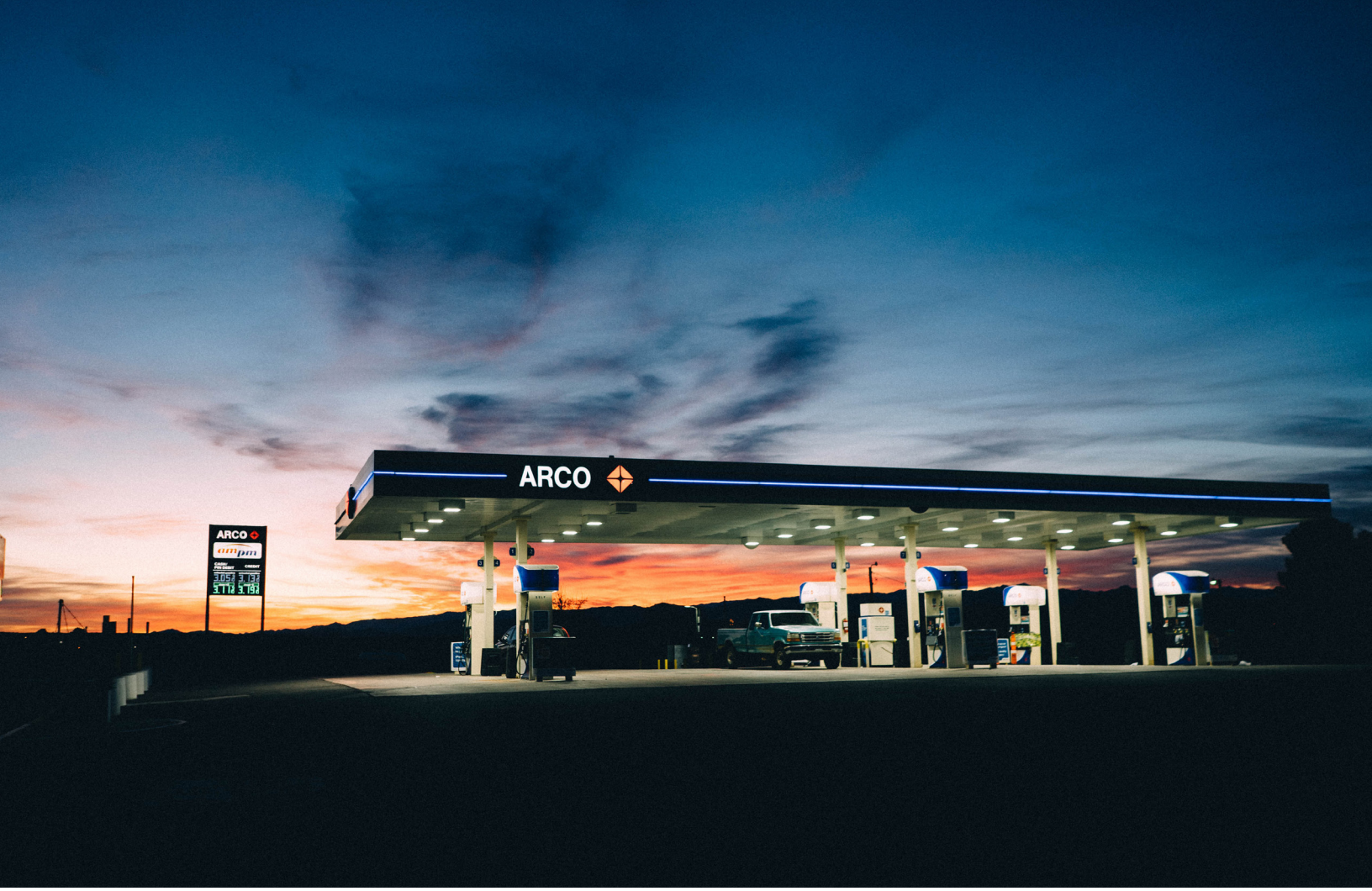
Oil Prices see a Historic Drop

What would happen if jeans went completely out of fashion? What if 85 percent of the people who normally went out and bought jeans decided to stop wearing them and stop buying them. Why should they; they're out of fashion.

But, what if at the same time, the factories that produce jeans didn't get the message? What if rows of workers at sewing machines just kept on producing thousands of pairs of jeans every day? What would happen to the glut of jeans?

Jeans would be stacked up in warehouses for as far as the eye can see.

This is what has happened in the oil markets. Although, in this case, the warehouses have been replaced with tankers, storage facilities and refineries.



A worldwide pandemic has reduced the need for oil in manufacturing, in the airline industry and for people who normally drive into work every day. The oil producers have kept up their pace of churning out 90 million barrels of oil every day. The result is that there is an enormous glut of oil on the market.

Russia has even increased their oil production slightly.

Gas consumption has dropped by 50 percent and is at a level not seen since 1969. While air freight traffic is still at normal levels, passenger air travel is down considerably. World oil consumption is down 30 million barrels a day. Crude oil has seen a 75 percent loss year to date.

The price for May futures contract for West Texas crude (WTI) that expired on April 22, fell into negative territory, at minus $37.63 a barrel. The problem is that with all of the oil available, there is nowhere to store it. For this reason, nobody wanted a crude contract. Sellers were actually paying buyers to take the glut of oil off of their hands. This was the first time in history that an oil futures contract was in negative numbers.

If an oil contract requires physical delivery and there is nowhere to put the oil, then you have a quandary. Granted, the contracts that ended up in negative numbers were few, and oil rebounded shortly thereafter, but this was a first, even going back to the Great Depression. If there is no storage capacity, then the only recourse is to offer the oil back to the seller.

At the beginning of the year, WTI traded above $60/barrel.

Future Supply

There is an armada of oil tankers headed to the U.S. from Saudi Arabia. While the president has suggested that the nation's strategic oil reserves might be replenished at this time, at a very competitive price to the U.S., it is uncertain what will happen with this glut of oil otherwise.

Counterbalancing this trend is the concern that production and shipments in the future may be interrupted. Oil futures were up more than 25 percent on April 23 after the president ordered the Navy to shoot down and destroy any Iranian gunboats that harass Navy ships.

Because the Middle East continues to be a major supplier of oil, and growing tensions threaten to create a reduction in exports from the region, any escalation in the region could offset the recent drop. Many analysts see this as having only a temporary impact since saber-rattling has become the norm and any disruption to the flow of oil is doubtful.

The June contract for crude oil now sits above $16/barrel. But, as the June contract nears its expiration on May 19, the ongoing oversupply problem could impact it in the same way as the May contracts.

While the price drop may benefit consumers into the immediate future, it is hurting independent oil producers in the U.S., who have cut back on production and slashed budgets by 40 percent. Many smaller companies may go out of business despite some relief headed their way from the government and programs to provide some intermediate funding.

As the old supply/demand rule would dictate, an over-supply of a commodity means that prices come down. While the impact of the coronavirus pandemic, and how long it will go on, is uncertain, the likelihood of lower gas prices may be one consequence.

Pippa Stevens, "Oil rallies more than 50% in two days in comeback from record lows," (2020, April 23), CNBC, Markets

Myra P. Saefong/Mark DeCambre, "U.S. oil prices surge over 25% as traders point to escalating Middle East tensions," (2020, April 23), MarketWatch, Futures Movers

About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He's a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.