



Harry's Take

November 10, 2020

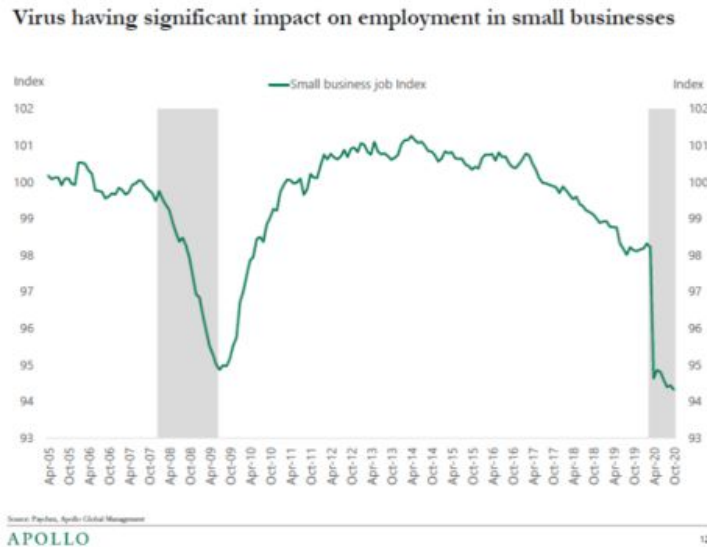
The V-Shaped Recovery Is Nearly Over: Here's Why We Don't Get Back to Normal

One of my favorite charts shows how the numbers of zombie companies grew from about 2% coming into the Great Recession of 2008 but then mushroomed to 19% and are still going up. These are public companies that are not paying any of their debt service, principal or interest.

Why? QE allows the banks to stay flush and not to have to foreclose on these bad loans. These zombies will continue to struggle and fail, even with continued stimulus. I've always estimated that the COVID-19 shock would hit on about a 9–12-month lag, i.e., by early next year... And again, regardless of a second stimulus plan to come.

There is another sector that won't come back easily, even with new hopes of an effective vaccine from Pfizer: small businesses! This chart shows that small businesses have had no V-shaped recovery and their employment index is now lower, at 94.3, than during the worst of the Great Recession in mid-2009, at 94.8. It peaked back in early 2014 at around 101.2, now near 7%.

Where's the V-Shaped Recovery for Small Businesses? Jobs < 09 Low

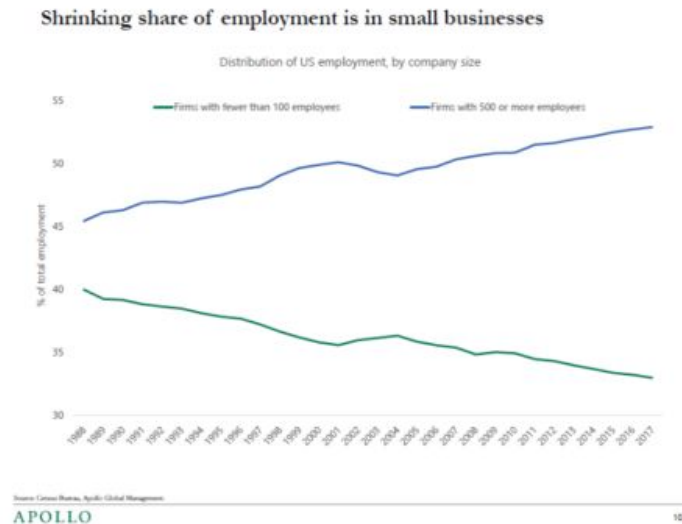


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If these companies with under 100 employees had public stocks, they would not be at new highs like the techs and, as of yesterday, the broader Dow and Russell 2000 (small cap) indices. On top of record low employment, bank loans have been tightening progressively ever since the pandemic hit, while the corporate bond market is growing and recently has had lower rates than ever. Large companies can float bonds, small businesses have to beg for bank loans.

This chart shows that even well before the 2020 pandemic and sudden economic collapse or even the Great Recession, small businesses were losing share in U.S. employment. They have fallen from 40% in 1988 to around 33% today and will very likely fall to 30% or lower at the worst of the economy, by my projections, in mid-2023 or so.

Small Businesses Losing Share Since 1988: Covid Now Death Knell



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Here is why the V-shaped recovery is nearing its end:

- 1) A good portion of large companies in travel, shopping, and entertainment will not get back to normal until a vaccine is widely disseminated—and even the new Pfizer one, if proven effective, is not likely to be distributed widely until the middle of next year or later—and many will refuse to take it.
- 2) Nearly 20% of zombie companies will never get back to normal, as they are just the walking dead.
- 3) Small businesses are still responsible for 33% of employment, and they are not bouncing back and can't get financing easily even if they want or need to.

My forecast: We'll see a double-dip recession leading to a depression hit between the 1st and 2nd quarters of next year—and stocks are likely to top well ahead of that... even from now to early December. That's precisely when most forecasters expect the economy to be much better and back to normal!

Harry

Got a question or comment? You can reach us at info@hsdent.com.