

Ep45: Economic Outlook with Dr. Quincy Krosby, Chief Market Strategist for Prudential

May 22, 2020

PATTI BRENNAN: Hi, everybody. Welcome to “The Patti Brennan Show.” Hey, whether you have \$20 or \$20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives. Joining me today is Dr. Quincy Krosby. This is a real treat for me.

Quincy is the Chief Market Strategist for one of the largest insurance companies in the world, Prudential. It won’t surprise you to know that when you hear her background and hear what she has to say about what’s going on today. First, let me tell you about Quincy. She got her master’s and her doctorate from the London School of Economics.

She served our nation as a US diplomat and had numerous assignments at the IMF, worked with the Assistant Secretary of Commerce and the US Department of State. I got to tell you. I feel like we have our own Madam Secretary right in our own midst.

DR. QUINCY KROSBY: [laughs]

PATTI: She’s got a PhD in economics. She’s a market strategist just thrown in there for good measure. Quincy, thank you so much for being here today.

DR. KROSBY: Thank you, Patti. We go back a really long time. We thought we saw everything with all of the market crashes for tech, for 2008–2009. Did we ever think it would be a virus coming after us?

PATTI: Absolutely. I got to tell you. It is incredible. Folks, Quincy and I were reminiscing before we got on live. We were going back. It has been 20 years, she and I have been friends. Literally, 20 years ago, she came to Pennsylvania and spoke to a group of my clients. I will tell you that Quincy spoke for over an hour. There were no notes. It was just top of mind. It was amazing.

So much has changed since then. Just to your point, who would have thought that a virus would literally stop us dead in our tracks? Quincy, I’m really going to tap into your brain, that big, beautiful brain of yours.



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Let's break this down for everybody listening today. Sometimes, words get confused. Can you just help us understand what's the difference between the economy and the market? We talked about them as if they're one and the same, but they really aren't, are they?

DR. KROSBY:

No, sometimes they do match, but very often they don't. Let's look at where we are right now. Where we are right now, we are still in April, the very end of April. May 1st will be this week.

The market is up markedly, so to speak, over 30 percent since the so-called bottom toward the end of March, right? Yet, Patti, just today and this week, we had the GDP -- that's how much the economy grows or doesn't grow -- it dropped lower than any other consensus estimates from all the analysts.

Consumer confidence numbers yesterday, the lowest since 2008. Remember how awful that was. Day in and day out, we get just dismal, dismal data, just dismal. Not to mention, we are in the midst of what we call the Earny season.

We always look back, obviously, because we get the numbers. One thing that is happening is that one company after another is just not getting any guidance. They just say, "We can't give any guidance because we don't know what's happening. The uncertainty is too palpable."

Yet, the market is up. You have to ask yourself why would the market be up despite all of this bad news. It is the market's way always to look ahead. Formally, we call it that the market discounts all of the information.

Meaning, it takes in the good, the bad, the ugly, and then comes up with an idea of where we might be four to five months from now. That's the reason.

What the market is saying now could change is, "You know what? The economy is beginning to open, not just here in America but overseas, Germany, Denmark, Norway, Austria. Even the UK will little by little begin to open up their economy. China, the world's second largest economy and where this began, they've opened up their economy," and we're doing it here in the United States.

That's a plus. The market is saying, "OK, even though it will be phased and it will be staggered, it is beginning to open." Then this is what's so important is we're starting to see headlines talking about therapies.

The possibility that if you do go out, you do go back to work, you do get on a plane but you catch this, there's something that we can take perhaps that will keep us from going into the intensive care unit.



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This is crucial because over the next six, seven weeks, as we get into late June, we are going to hear from all of the pharmaceutical companies, the biotechs, the universities that are working on this in conjunction with hospitals, in conjunction with biotech companies, telling us about how their trials – as we call it, their trials – are doing.

You know, the better the information, the better the headline, the market sees through it. Of course, Patti, the ultimate will be when we have a vaccine.

In interview, I heard Bill Gates, because Bill Gates and Melinda Gates have a foundation, and I think putting almost \$250 million toward a vaccine, a vaccine that works, that's effective, and that will be available. There are about 100 sources right now of trying to find a vaccine.

He said in the interview something I think we're all thinking. "You know, when there actually is a vaccine, that's when we get back to true normal."

PATTI: That's interesting, and to your point, we heard this morning that Gilead's drug, remdesivir, it looks like the trials are looking quite positive. That's another reason why I think the market's breathing a sigh of relief.

To your point, you're right on. I think people just want to know that if they get sick, there is something that would prevent them from getting really deathly ill, and this is a hope.

When you think about the economic fallout, so we think about unemployment, where we've got 22 million Americans out of work. You compare that to that US stock market that was just plummeting, and we set records for losses initially. Now it's going up as if there's nothing to worry about.

Are there, gouges, anything special that you're looking to see how this is all unfolding that gives us a hint that this is actually legit? We know that the market has recovered quite a bit. It hasn't recovered everything. But it can go right back down again, right? Is there something that you think from an economic perspective that you're looking for?

DR. KROSBY: Yeah. The question for the market is really how long it lasts, the duration of this, because the longer it lasts, the harder it will be to kickstart the economy. The government, the Fed, they're doing everything in their power financially to cushion the downside, but if it's longer – and Americans don't want to get...

We are – the consumer – nearly 70 percent of our, what once was, a \$22 trillion economy. The problem is, according to every survey that's out and the most recent ones, that the majority of Americans say that they're prepared to remain in a restricted environment until they feel safe to go out, even if it dents the economy even more.



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This is, by the way, across all party lines, so if during the course of the next couple of months, you don't hear from the companies that are working on the therapies, the treatments, it's going to mean that the economy can't get moving again the way we want because the consumer...

Remember, the consumer represents – again, 68 percent's manufacturing – is only about 11 percent, and so this is the issue. Even in manufacturing, which is the area that's targeted to open first, even in a state like New York State, which still has restrictions in place – it was the leading hot spot in terms of the virus and deaths...

In lifting some of the restrictions, the governor of New York said, "We'll start with the Upstate Region" – that's the northern region – "and we'll start with manufacturing and construction." Across the country, what you're seeing is manufacturing, but what happens if workers say, "I don't feel safe. I'm not going in"? This is a dilemma right now.

The other thing that would be difficult for the market is if we start seeing cases rising, and we always have proxies. Just as the market was getting used to the fact that the Fed was in to underpin every nook and cranny in the market, that the government was providing relief, we also had, for the market, focus on how many cases, and you had a proxy.

One of the proxies was Italy because they were the first European country to be hit so dramatically, lock in, and we would watch every day. "What? Was it case up? Was it the cases down?" and our market reacted accordingly. Then New York became that proxy, by the way, because it got locked down. We would watch to see where the cases went.

What about if the caseloads start to rise and rise dramatically, and we don't have an available therapy? I think that could knock the socks off of the market, because right now, the market has broadened.

The leadership in the market initially when you talked about coming off of that March 23rd low was the big, big, gigantic technology names. Those are the mega-caps, and they kept the market up. We call it a narrow market. A healthy market, you want to see more sectors involved.

What's interesting is that as the states are beginning to lift restrictions, coupled with these positive headlines regarding therapies, potential therapies, we're starting to see the consumer discretionary names. It's not the Spam, which they say it tastes good with a fried egg on it, I guess.

PATTI: Yeah.

DR. KROSBY: [laughs] You know, Campbell Soup, and not to mention, Clorox, all doing very, very well, but we actually started to see Disney, which has become a bellwether consumer



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discretionary name. We're starting to see other parts of the consumer discretionary spectrum gaining as those headlines start to become more definitive as opposed to just mass uncertainty.

PATTI: It's interesting, Quincy, the uncertainty, it's such a big deal. I was talking with clients this morning, and I thought it was fascinating. Her name was Katy.

Katy said, "You know, if I had known. It's almost better that I didn't know that we were going to be cooped up with our kids for seven weeks counting at this point in time." She said, "That would have really bummed me out."

The other thing that she said that I thought was fascinating – and it's one person, but I'm hearing it more and more – people are just dying to get out. What she said was, "I can't wait to go back to the mall. I want to go to Target. I want to go shopping. I want to be able to buy stuff, like, this is getting really, really old."

I just can't help but wonder if there are a lot of people who are feeling that, and whether that kind of unmet demand, that there's a lot of demand that once we're able to get out, that's going to spring forth and help the economy, hopefully.

DR. KROSBY: I think it absolutely will help the economy, and that's one of the reasons that the government has been so generous with the unemployment insurance. I never thought in my wildest dreams – and I don't think you...

PATTI: Yeah.

DR. KROSBY: ..either, Patti, that you would see in the category of who's going to get unemployment insurance, you would see gig workers, G-I-G. Did you ever think that that would be included?

PATTI: No.

DR. KROSBY: It's clear, they want folks to be able to come out and start spending. Look, all over the world, people want to get out. We're seeing demonstrations everywhere. "Lift the lockdown, lift the lockdown," but the goal is to do it safely.

Again, the main reason is they don't want to see those cases come back, because if they do, if we get a significant second wave, is what they call them, without some kind of realistic therapy that's available, that's effective, guess what? There's going to be another shutdown, and that would be really negative.

If you think this one is bad, imagine another one where they then say it's got to be longer than the first one because we want to make sure that when we lift it, it's over.



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That's the problem with this, and it's humbling, Patti. It's humbling for all of us. It's a virus. It's us against this virus. Will we win? Absolutely, we will win. Do you remember the Hong Kong flu?

PATTI: Oh, yeah, absolutely.

DR. KROSBY: Do you remember how many deaths? The death toll? It was dramatic. I remember it. I remember being so sick. I had forgotten there was no vaccine, and the death toll was tremendous, but look. Look where we are, how many years later.

We will get through this. There will be a vaccine, and they are working. It's sort of like it's become a pandemic, if you will, of every genius, every scientist, every doctor working toward that vaccine. It's amazing, and we will get one, and it will be effective. The question is, what's the devastation before that?

One other thing is think of the timing. Everyone, the first days of spring, every guy was out there on his motorbike, motorcycle. I kept looking to see if they had the – what do you call it – the mask on.

PATTI: Yeah, the face mask, right.

DR. KROSBY: The face masks, because they don't even want to wear the helmets, so how are they going to wear the face masks?

PATTI: Exactly.

DR. KROSBY: Everyone feels that way, and you see it. People are on the beaches. People are in the parks. This is normal, but we're not living in a normal world, and that's the problem.

PATTI: It just goes to show you, the human nature, human nature, and we as people, we need other people. Digital is fine to a point, but there's just nothing like that face to face.

I think that the government response has been...I have to tell you, I'm going to use a word that might surprise you, Quincy. It's kind of impressive how quickly they moved and how dramatic it has been, and the fact that they did it almost, as you pointed out, indiscriminately, I found it...

I don't know if you saw that interview with Neil Carrey on "60 Minutes," but he said when we look back to the financial crisis, we learned a lot. He said the reason that it took so long for the economy to come out was that we were too tentative.

What we should have done, and what we're learning now is that rather than doing these targeted programs to really make sure that we're just helping the people who really need it, when you're going through something like this, we can't fool around here.



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We've got to help both the undeserving and the deserving. In an imperfect situation where we have imperfect information, we've just got to make imperfect decisions. In the end, because of the way the economy works – and this is just me talking. Tell me if I'm on the right track or not.

In a situation such as we're in, getting money into the hands of people gives them a feeling. It's kind of like that wealth effect. It's kind of like that, "OK, we're going to get through this. I do happen to have this unemployment check that happens to have another \$600 in it. I'm going to be OK."

I think that that's going to translate when we're able to get out and get back into a semi-normal life, into hopefully, people are going to use that money and be able to go back to life. Maybe not right away, but eventually.

DR. KROSBY: No, I agree with you, and what I found interesting was when you go back to 2008 and 2009, remember that Ben Bernanke, who was head of the Fed then, was an expert on the Great Depression. He then looked at what they did and what they didn't do and why.

The Great Depression, by the way, lasted 12 years. Most people don't realize that. When he was asked, what was the worst mistake the Fed ever made – it had been at the 100th anniversary of the Fed – he said it was what the Fed did in 1937. That was when they raised rates. They told the banks, "Hold more of that cash. Don't lend it out, because after all, we're worried about inflation."

He said that was the worst mistake. Then the Fed raised rates. If you noticed, Ben Bernanke learned from that, because he didn't want to raise rates initially. He thought he needed to see the economy have a viable recovery.

This time around, as you point out, it was the cavalry coming out. There was the President's nemesis, Jerome Powell, coming out and leading into every nook and cranny. The Fed's balance sheet has gone from \$4.5 trillion to \$6.6 trillion right now, and the expectations are it'll probably go up to about – I don't know – \$8 or \$9 trillion by the time they're finished.

The deficit is going to rise dramatically because the government's view is – the President's view is – we have to do whatever we have to do. The economy must be cushioned as much as possible. Patti, there is a lot of criticism regarding the deficit and regarding what the Fed is doing.

There's a lot of criticism, but you know, I go back to talking about the interview on 60 Minutes. You don't sit here and write a white paper about this. You don't sit here and argue and debate the pros and the cons. It's triage. It's financial triage is what it is, and you just do what you have to do at that time.



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I'm amazed. People are saying, "What is this going to lead to?" Well, we all know, unless the economy skyrockets, we're going to have to pay for this, but would you rather have the economy collapse and so damaged that we never get back on our feet? That's not a correct answer for anyone, and yet you'll hear that in the chorus of criticism.

PATTI:

It's interesting, because I think back to just a few years ago. Everyone was kind of freaking out about the rising deficits and the amount of US government debt, and, "What are we saddling our children with?"

Here we are today, and it's like, "Pile it on. We'll do whatever it takes." That's what they need to do. That's what the government is there for. Nobody knows the right answer. That's what makes all of this so uncomfortable, and why markets are plummeted and things of that nature.

Yeah, we will have to pay for this. With that in mind, let's talk about the federal government. We can talk about the Fed in a second.

Given the amount of liquidity and amount of stimulus or relief – it's probably not stimulus – are rising taxes inevitable? Really, Quincy, how does a government pay for all this kind of stuff?

DR. KROSBY:

You either have the economy coming back gangbusters – but no one expects that – because then you would have the tax receipts from that. Just take a look at local. Local economy at state level, local level. The Fed is getting involved in that now, setting up a facility to help on the most granular level in our country. It's going to have to be taxes.

It's going to have to be taxes, and I think it's something we all have to accept, and I think it's regardless of who is in the White House. The taxes are coming. You have to pay for it. If we don't allow it to be paid down, you only have to then say, "What does that mean down the road? That you get the Fed to pay for this always and let their balance sheet go up, up, up?"

There was a debate as we were going through the primaries whether the progressives on the Democratic side, if they were to win, you would have something called modern monetary theory where you raise the deficit so dramatically because what you want is all of those plans that you have to pay for everything to take place, because their view is that would ultimately help the economy.

But the way that they said it would in essence early on be paid for and not have interest rates rise dramatically was have the Fed buy the bonds. In many ways, that's exactly what you have now, but not for the same reasons. That's what's so interesting about it.

PATTI:

Yeah.



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DR. KROSBY: Right? It's interesting because you think about this. Think about if our deficit rose and rose and rose, and at auctions – that's how we pay our debt, right? We sell our bonds. Supposing buyers said, "You know what? Two percent on the 10-year Treasury, it's just... No. You've got to give us four percent, America."

Imagine if it kept rising and rising, and that would kill the economy, obviously. You've got the Fed now engaged in, in many ways, what the left wing of the Democratic party had been talking about, this modern monetary theory.

However, in a world in which you're going to have to deal with this, I think the expectations are that at some point when the economy is healthy, the Fed dials down its help and will do what the previous Fed did and what Powell was trying to do, and that is lower the balance sheet.

Bring the balance sheet down to where it's commensurate with where the economy is. This gets really theoretical and so on, but it's got to be paid for, and my view is it's going to happen regardless of who's in the White House come next year.

PATTI: Let's talk about that a little bit further on a fundamental basis. The Federal Reserve is basically buying the debt, right? That's what they're doing right now.

DR. KROSBY: They're the buyer of last resort, right.

PATTI: What happens is, they've got the cash. They're printing the cash down in their basement. They're printing money on their little printing machines, and they're using that money that they've just printed to buy the bonds of the US Treasury, right?

Now they have all of these bonds, and they might be getting their measly one or two percent interest rate. At what point does it become a problem for the Fed to hold all this stuff? Again, I'm asking the question that maybe some listeners are wondering. Could the Fed get into trouble? They can't exactly raise taxes. That's not an option.

DR. KROSBY: No, and this is why you hear a lot of people asking, "Are we going to have hyperinflation? Is now a good time to buy gold?" What's interesting -- and you will hear it all the time -- gold has many narratives. Inflation is one of them.

Going back to Ben Bernanke -- because we always have to go back to something we know, right? We know what happened.

PATTI: Sure.

DR. KROSBY: The Fed's balance sheet was \$850 billion in December of 2008. That is when we noticed that the Fed was buying bonds, and then it became clear when we got into 2009, they were



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doing what's called quantitative easing, buying the bonds in order to push the rates down to help the economy.

When you typed into Google "quantitative easing," and you're like, "What the heck is that?" Now we know what it is, but what is that?

What would pop up – and this would be late 2008, 2009 – would be printing of money, which is the pejorative. You're saying, "Oh, for God's sakes, what on Earth are they doing? They're printing money. This is not good." Then, what would happen when you clicked there, it would be Germany in the 1920s, and then hyperinflation.

The Central Bank of Germany, in the 1920s, printed money, handed it out, and then wages went up, prices went up, but then it escalated. You had Germans buying a loaf of bread with baskets of money. That was hyperinflation, and then gold was considered what you needed in a hyperinflationary environment.

If you remember – and I remember this so well, because I would be up late at night, like 2:00 or 3:00 in the morning during that period just trying to figure out what's going, what's going to happen the next day. I'd turn on the TV, and there would be these ads for gold bars. "Buy these bars of gold."

We live on an old farm, and I was thinking I could buy the bars of gold, and I could put them near the barn, do a map for the kids, because it becomes intriguing.

If you remember, that was what we were buying before we went into stocks. The gold trade, and then ultimately silver, was killed with margin calls. Ben Bernanke introduced zero interest rate policy, and that was meant to push us into taking on risk with the stock market.

Right now there is almost a resurrection of that fear that this is going to lead to hyperinflation, and the irony of this whole thing is the Fed is fighting deflation. That's ironic, because the only thing we could do is look at the numbers that we get. Prices are down across the board, maybe not for a living, but...

PATTI: Sure.

DR. KROSBY: ...sending kids to university or whatever. What you have is the Fed – and all central banks, by the way – fighting a fear of deflation. That's why they believe that they can react quickly enough if they do see a major inflation starting to take hold.

Right now, their goal, at least in the US, is just to try to get inflation to two percent and be maybe what we call "a little hotter." Let it go a little bit higher than that in order to make absolutely certain that it is intact.



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The reason for this is because a lot of people say, “Well, it’s kind of good not to have any inflation,” but you know what? When you have some inflation, it lets companies raise their prices. It lets them raise wages.

It also, by the way, if they can raise the prices, it tends to allow them to keep workers in, because if you get rid of workers, guess what never changes? Your debt. Your debt stays exactly the same. You don’t have a job...

PATTI: Interesting.

DR. KROSBY: ...hours are cut. You know what? Look, this is not easy, because I’m not in that camp. Despite having a doctorate in economics, it’s as much an art form as it is a science, and you know what they say, Patti. That God put PhD economists on this earth to make the weathermen look accurate.

PATTI: There you go, absolutely, and you know what? It is an art form, and if you knew exactly what was going to happen, then none of this stuff would be going on. We could anticipate it. Wouldn’t it be wonderful, Quincy, to fast-forward five years from now and know how this thing already played out?

DR. KROSBY: [laughs] Yeah.

PATTI: To your point, we kind of have the benefit that Bernanke didn’t have in that Jerome Powell really saw what he did and made a decision. It didn’t lead to the rampant inflation that everybody talked about back then, and it took a little bit longer.

Rather than do the 1Z, 2Z, QE1, QE2, we’re just going to do it all at once and do the firehose, and really put a lot of liquidity on this thing to see if we can get us out of this as quickly as possible. Here’s a question I have for you, because we’re talking a lot about the United States.

When you think about – and I don’t know if you can help me out with this – but I’m really curious what the other nations do, like a Germany or a Japan or even China. Are they doing that firehose thing, too, whether it be their central banks or their governments in terms of fiscal relief, the equivalent of our unemployment insurance, etc.?

DR. KROSBY: Yeah, they are. Nothing to the extent of the United States to say that. Globally, what you have is on the monetary side, which is what a central bank does, all of the central banks around the world acting quickly. The Chinese Central Bank has been trying for a long time.

Even before this their economy was slowing, then they had the trade war with the US, and then the virus of course starting there. They have been I wouldn’t say going insane throwing things at the economy, but more and more we’re seeing a monetary policy



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meaning lowering rates, telling the banks to lend money, don't keep so much on the balance sheet.

Now we're starting to see of some infrastructure spending. The one thing in China, which is incredibly important for their stability, is to make sure that employment stays intact, because without that everyone says President Xi if China is in there for life.

Even in countries like that, you can have so much rebellion, if it ever led to that, where the party leadership actually says, "We need a change." Employment is crucial for them.

Germany, which by the way they do not like to have deficit spending, that is anathema to them, but even there in 2008-2009 as well, we saw that they were prepared to do targeted spending. The European Central Bank, because there's so many countries involved, are working towards some kind of a liquidity pump into the system.

We'll hear probably more of that next week and the week after, but they've already started. They have negative interest rates. That's something that everybody wonders, "Are we going to have that as well?" and then Japan, the other day, the Bank of Japan going all in.

Most people don't realize that quantitative easing takes on many forms depending where you are. Besides "printing money, keeping their rates low," they also buy ETFs, but now they are pushing in even more. The longer this goes on, the more you are going to see in every country.

PATTI: That's interesting. When you think about it, how do you measure the stimulus and the relief and what the Fed is doing? Do you do it as a percentage of GDP, and is that why ours is much more massive because our economy is so much bigger?

Then, as a spinoff question, depending on what your answer is to that, since we're doing so much, does that mean that after 2008 and 2009, where we came out of it but international countries overseas did not, it was theirs was much slower? Is that another repeat of all of that do you think?

DR. KROSBY: Yeah, it is. Patti, do you remember the summer, it was the London Olympics and Mario Draghi, who then was the Head of the European Central Bank, who had problems with Spain, with Italy, with Greece? I think it was 2012, if I'm not mistaken, and here in the US you could have had a portfolio just focused on the US, completely domestically focused companies.

Yet, we were in a stranglehold because of what was going on over there. He made a comment. He said, "You know, we will do whatever it takes, and believe me, we have more." Just by saying that, he didn't even have to do anything, the markets took a big sigh of relief and basically opened up.



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The point is when you look over there, you see the problem, and the problems were smoothed over as the global economy came back to life, albeit there was much slower, but they have those problems today, and in Italy in particular. We always look at – and I don't want to get too technical – we look at the bonds, at sovereign debt like our treasuries.

We look there and we see what the yields on it is. You've got people who were saying, "Do we need this? Do we need...maybe we should just leave. Maybe we should finally just leave the European Union," which then creates its own cycle of fear of destabilization. You remember when even the British, the UK, left the EU. They weren't even member.

They were not members of the Eurozone, by the way, they had their own currency. You remember in the beginning it caused chaos, chaos. This is part of the problem, and they're under a tremendous strain and test in the Eurozone to see if this could work. It's one thing to work when everybody's happy and everything is good. Could it work in a situation like this? We're going to find out.

PATTI: Boy, we sure are. When you think about that, "we're going to find out," when you think about all of the things that we're doing, how does this compare to other crises? In terms of the amount, the trillions and trillions of dollars that we're doing here in the US, how does this compare on a percentage basis?

Is it equal to the financial crisis or the tech bubble, or even if we go back further, Quincy, like wartime or even the Depression, is what we're doing now eventually when with World War II and the amount of spending that was done to help with the war, is this the equivalent or maybe even more?

DR. KROSBY: It's so difficult. The Great Depression did last 12 years. When I mentioned 1937, that's when they started in essence creating the income tax. They created it early, but they raised the income tax to pay for the war every day.

The President Franklin Delano Roosevelt tried everything. I hate to say what we call it, it's throwing spaghetti at the wall and hoping something sticks. That's the way we discuss it. At least he was prepared to try everything. This time around – we always have to remember something, this was a government-induced shutdown.

The government knew what it was doing and why, as opposed to events hitting us and everything going willy-nilly. It was a good thing that we came into this. As the Chairman of the Federal Reserve characterized the US economy just eight weeks ago, we were in a good place.

We were in a good place in terms of the housing market, in terms of employment, in terms of every metric the economy was in a good place and so were interest rates, they were still low. That helped. Imagine going into this if we had been in terrible shape. That would have



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made us even worse.

That's why I think that the market – just going back to what you said initially – the economy and the market, how could it be so different now? The point is it's the market's way of looking ahead and saying, "OK. We see that things are bad, but what we're interested in, and this is investors in all over the world saying, 'Let's see what it looks like on the other side, and how soon can we get to the other side.'"

No one is expecting it to be the way it was coming into this. We will not be in a good place. The thing is we just need to be where we're coming out of it, where the data are getting less bad, where they're fewer people going in for unemployment insurance, where the GDP number, which was so horrible today, maybe is still bad but gets a little bit better.

That's the part of the healing that tells you that ultimately we're going to be getting out of it. You go back to something about this country. Why is it that after the financial crisis our country was stronger than all of the other countries? There's something special about our country. It happens all the time. I remember back then in 2009, 2010, they were saying, "Oh go buy overseas. Go to this country."

You know what, even if you never, ever took advantage of attractive valuations in emerging markets and in Europe, you would have done really well just being here in the US and the reason is, I think we have a system, nothing is perfect, but we have a system in which companies are managed. They can do what's necessary, and they still have that entrepreneurial spirit, which a lot of countries don't have.

I've worked all over the world, and always coming back home, seeing this entrepreneurial mentality in America, and I'm not here as part of the Chamber of Commerce.

PATTI: Right, right. [laughs]

DR. KROSBY: But I always just look at our companies, and what they do, and the leadership that comes out of that in terms of which company leaves the best debris. Most of them are American.

PATTI: It is so interesting, and it's that spirit. It is that energy, it is that one way or the other we're going to get out of this.

DR. KROSBY: Yeah.

PATTI: I think that is so important, because so much of this is psychology, right. Leadership is basically influencing other people with integrity, and moving them in a direction that you believe is the right direction. You're not going to sit and just stew. We're not going to circle the drain here. Let's do something.



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I do think that that is something that is unique, or put it this way, it's something that is part of our culture. It's part of our society, and I do think that that is what will help us. People are working all over the world trying to solve this problem, but I think that it is something where the American spirit is going to come out of this, and probably stronger than ever.

I think that the other thing that we want to think about, and I would be interested is, as we think about the United States versus other countries and are manufacturing and the things that we are learning about supply chain.

Do you think like we think about the medicines that are made in China, and the fact that they could really hold out on us, and say, "Well, we're not going to get, we're not going to send that stuff to you." Like is that something that we should be thinking about?

DR. KROSBY: Well, I'll tell you something else. This may surprise you, but you notice how you can't get the disinfectants? I always say, "I'll know when this is over, when I could go to the supermarket at 3:00 in the afternoon and find Clorox wipes on the shelves..."

PATTI: Right.

DR. KROSBY: ...and no one's fighting for them and they're there. You'll know that that hoarding is over. Everyone's comfortable again. Well, what's interesting is that in those disinfectants many of the chemicals come out of China, and the Chinese...

PATTI: Oh.

DR. KROSBY: Yes, yes. The Chinese are actually having trouble getting back to production on it, and that's one of the reasons you don't see the shelves being replenished, even to get into the granular on this, but even toilet paper it seems to be coming back onto the shelves. About the drugs, yeah, the compounds for the drugs come from China. They come from India.

I do think that the supply chains even for the manufacturing companies. I think you're going to start to see them come back to the US, and with that we'll start to see manufacturing, which by the way and this is the saddest part, manufacturing had started to come back up. When we look at the numbers, there's a line. It's 50, right.

Below 50 is contraction, above 50 is expansion. We started to see manufacturing the Philadelphia fed story which is the manufacturing report in the Philadelphia, greater Philadelphia, Pennsylvania area, starting to go so strong. Only the last report, obviously, came down dramatically. We were in that direction.

There was a manufacturing renaissance beginning in our country, and the hope is, the hope is that we've learned a lesson, and we start to come back. It's going to be a little bit



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difficult, and it will be more expensive. After all, the reason they went out of the US was to save money.

PATTI: Right.

DR. KROSBY: Well, look at how that help them now. I think then that will start to help create that middle class again that felt disenfranchised as the supply chains just left the US, went outside of the US for so many years. It may be painful in the beginning, as you break supply chains, only to start new ones.

I think that's coming, and I think it has a bipartisan support, because if you remember, when Elizabeth Warren was running for president, her message was not dissimilar from President Trump's message. She would say the same thing, "I want jobs here in America. I want Americans to be doing these jobs, and earning a decent wage."

I think that is going to come, and I think that's important, and it'll be a secular change in our economy, just like a secular change in our economy was, and, unfortunately, there's a problem today with it, is in the energy industry.

PATTI: Yep.

DR. KROSBY: You know where we are, energy independent. When did you ever think we would be energy independent?

PATTI: Exactly. Isn't that interesting? What a great observation that that's going to be, that could be a secular change.

DR. KROSBY: Yes.

PATTI: I think you're right. I think that the fallout from all of this, as painful as it is, is going to be at a secular, meaning a longer-term, more permanent change in the way that we do things.

DR. KROSBY: Yes.

PATTI: I'm all about the hope, Quincy. I really am, and I think about all of the people that are listening today, that may be unemployed. To be able to say to them, "There really is hope. There are going to be jobs that are going to come back, and there are going to be things that you're going to be able to earn or jobs where you're going to be able to earn a decent living, and be able to raise your family, and have all of the things that you want."

It's going to take some time but it's going to come.

DR. KROSBY: Amen. I'm not here to sugarcoat the situation, but the bad times create a positive move for



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countries, and this is one of them. I think this particular problem that we had is going to have companies reevaluate, and say, “You know what. I’m coming back.” It started. As I said, it started. It actually had begun, and now we had this major dislocation.

PATTI: And because of the dislocation, I can’t help but wonder if that’s not just going to accelerate the process.

DR. KROSBY: Yeah.

PATTI: It’s easy to kind of keep on doing everything that you’ve always done. Inertia is also part of human nature, and these companies were making money, and they were growing. Everything was hunky dory, but in a way, a crisis like this, even in my own small business, it has made me kind of sit back and say, “Is this the way that we should continue to do things? Is there a better, faster...”

Everything that we do, just take a look at it and say, “How can we do things differently?” We’re already starting it, and guess what, it’s already working. Now, small companies are smaller, and therefore we can move faster. Bigger companies, it’ll take some time, but I think that there’s a lot that we’re going to learn from this. I think that a lot of good is going to come out of a very difficult situation.

DR. KROSBY: Yeah, no. I absolutely agree with you, and by the way, I just want to point something out. We go back a number of years now. We started to see companies actually leave China or cut their presence in China, and perhaps move to another country. So we would call it China plus one, China plus two.

But then, we started to see them come back onto the US [inaudible 49:43] and when asked about why, they just said, “There were too many problems. It got to be actually too expensive, when we started, and the transport, and problems. Then it was just easier to come back to the US.” That was what we called the beginning of a renaissance, was manufacturing.

PATTI: Wow.

DR. KROSBY: Yeah, yeah, yeah.

PATTI: Oh, Quincy, I can’t thank you enough for being with all of us today. It has been such an honor. I got to tell you what an honor it has been to have Dr. Quincy Crosby on our podcast. You’re just so smart. I think we could talk all day long. So thank you so much for joining us.

DR. KROSBY: Patti, thank you so much, and you know one thing, when I did join you, and it wasn’t that many years ago, after our initial meeting, but I just remember talking to your clients, and



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how lucky they are, and they said it, that they were so grateful to you because, I think it was after the 2008, 2009, a few years after that.

They all said you made them whole again, and you took care of them. That's what we all need. I mean just talk about things that are changing, pensions. Where are pensions? We don't get them. They depend on you, Patti, and you have served them. I just remember there was a line at the ladies room at the restaurant that we were in.

This was not the one, 20 years ago, OK. They were, yeah, they were telling me about how you got them through that horrible period in 2008, 2009. So this was a few years after that when I was there with Jason. So they're lucky. They're very fortunate...

PATTI: Thank you.

DR. KROSBY: Yeah, yeah...Thank you.

PATTI: It is having wonderful people like you and access to that incredible, beautiful brain of yours, as I said earlier and the intellectual capital that you represent. It helps us to do a great job. Hopefully, we are going to get out of this. Thank you for your support. Thank you for the phone calls and everything that you do at Prudential and for all of us.

By the way, while we're doing this, I just want to thank all of you who are joining us today and listening to Quincy and I. These are really tough times. There's so much information out there.

I can't thank you enough for including us as part of your day and allowing us to make a little bit of sense out of what's happening in the world around us. We have hope. There's so much to be hopeful about.

We're going to get through this thanks to people like Quincy Krosby. Just know that we're here. If you have any questions, don't hesitate to call us. We're here for you. You can visit our website at keyfinancialinc.com.

In the meantime, stay safe and healthy, and just know that we're going to be better than ever after all of this. Have a great day.



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