Thoughts on COVID-19

The date above is important as the impacts, both socially and economically, are subject to continuous updates as we learn more about the extent of the coronavirus contagion, the prospects for mitigation, and the response of governmental entities to these factors. A second qualifier is not quite as important, but certainly relevant — Segal Marco Advisors is by no stretch an expert on viruses, contagion, or vaccines, nor is our crystal ball regarding how governments respond to crisis of this sort anything but cloudy.

We add, however, that we are the recipients of the sometimes informed, and at times less so, perspectives of dozens and dozens of notes on the topic from the asset management community. Some of what we describe below should be viewed as somewhat of a distillation of that commentary seen through the lens of Segal Marco.

What We Are Seeing

First, wherever this ends up it is already a tragic situation with substantial loss of life and suffering. Most of what we read is that there will be more of both of these before this crisis abates. We also understand that like so many other versions of these types of infections, while the number of cases may slow and mitigation techniques improve, it is likely that we will have outbreaks of COVID-19 in the future with some regularity. Like the strains of flu and associated attempts at vaccines, this contagion is likely to evolve and mutate to make both early detection and prevention difficult. As a colleague who recently contracted the flu after having been inoculated was told by her doctor: "You got the one from the 40 percent we weren't prepared for."

Second, global economies, particularly China (which contributes the single largest amount to global GDP growth), have already been adversely affected. The first quarter GDP growth print for China may not be zero, but it has to be darn close to that. Notably China has become by far the largest part of the Emerging Market Index, so clearly the returns on that index are suffering. As announcements come in regarding outbreaks in other countries and regions, those markets will likely also react by punishing risk assets. When taken cumulatively, past projections for 2020 global GDP growth will have to be revised downward. All of this occurs in an environment when global growth was already muted despite a fairly universal application of monetary stimulus by central banks.

What This May Mean for Investors

We go back to our earlier comment regarding forecasting the future magnitude of this crisis. The headlines tell us: "Cases slowing in China. Outbreaks in Italy. South Korea affected. Japanese cruise ship passengers released prematurely. Cases confirmed in Iran. And, today, only the continent of Antarctica is unaffected." Tomorrow's headlines are impossible for anyone to predict. Unfortunately, all of this occurs during a period when, according to the polls we have seen, Americans have little faith in institutions generally, including the news media and government. This is well represented in some of the narrative we have heard which ranges from "Israel is coming out with a vaccine within the next 90 days" to "stock up on critical prescription drugs now" to "the worst is past."

For investors this has translated into advice from "you should not buy the dips" to "this is a great selective buying opportunity." For our part, we do not believe that it is appropriate or even responsible to pick a side in the face of what is largely a vast number of unknowns. For those that have put their (or worse their clients' or listeners') money down on red or black, we suggest that ones who are lucky enough to be right will be hailed as prescient geniuses and those that are wrong will somehow rewrite that history to minimize their embarrassment.

A topic that we *should* be focusing our attention on relates to the impact that this, and the next and the next, disruptive event has on the global economy going forward.

Questions such as:

- How will these events affect globalization?
- Will there be increasing regional reliance?
- Will there be a longer-term change to supply chains and a return to onshoring?
- Will these influences cause an increase in inflation?
- Will there be a sustained impact on tourism and travel?
- Can we create global mechanisms to advance medical technology for virus detection and mitigation?

While we cannot predict the full impact of this particular crisis, we can begin to think about what it is about our world that makes us so vulnerable.

To Conclude

In such times, we recommend that investors return to first principles — the concepts that helped establish their appetite for risk, their goals and objectives, and their time horizons.

- Is your asset allocation consistent with those principles? Have you allowed your risk assets to creep up in size and not followed rebalancing regimes as a result of the protracted bull market?
- Do you have sufficient liquidity to meet spending needs?
- Have you explored the impact of a true bear market upon your ability to achieve your goals?
- How stable are sources of cash flow that might be utilized as an alternative to tapping into principal?

There is no doubt that the long period of time where markets generally rose, including a 2019 where stock appreciation was historic, has caused many to become complacent.

We have heard a rising chorus of investors asking: "Why would I own anything, but good old U.S. Growth stocks?" The siren song of fear and greed have driven investors for generations, diversification is not nearly as alluring, but should be part of every investor's repertoire. ■

Questions? Contact Us.

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