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Investment Review and Outlook

In attempting to aptly describe the events of the first quarter of 2020, we are reminded of the famous record album released by the rock group, The Grateful Dead, titled: “What a Long Strange Trip It’s Been.” As the year began, stock market averages were consistently piercing new record highs. The price of oil was trading at multi-year highs. Wall Street analysts were forecasting accelerating global economic growth and strong corporate earnings. Who would have imagined that a ferocious pandemic would have turned that rosy macroeconomic outlook completely upside down? As of this writing, prognosticating the success in arresting this pandemic, as well as the full economic fallout, is certainly a fool’s errand.

But a keen observer can envision certain underlying fundamental changes that will take place. These insights can help investors make informed investment decisions to better navigate the financial markets in the coming months and years. Here are some of observations that will shape our thinking going forward.

1. The Covid-19 pandemic represents an existential threat to many industries and corporations. As examples, business at mall retailers, airlines, cinemas and casual dining chains has come to a screeching halt. The question of how quickly these industries can recover is difficult due to poor visibility as to when the spread of the pandemic will flatten out and recede. Thus, surviving companies in these industries will undoubtedly be those with financial strength and strong management teams to weather a protracted downturn.

2. The Federal Reserve and the Federal Government have aggressively responded to the crisis at record speed. While these actions are likely to help arrest the pace of economic decline, an economic decline is inevitable and unquantifiable. Though eerily similar to the downturn following 9/11, the impact of this pandemic is likely to be felt for a protracted period of time.

3. While many sectors are experiencing substantial operational and financial challenges, not all sectors are being impacted equally. In fact, it seems as if some industries could see the unfolding events as catalysts for future growth. For example, we believe that the pharmaceutical industry has an opportunity to change the negative perception of policymakers. Many view “Big Pharma” as a pariah industry that needs to be more heavily regulated. But now the industry is working furiously on finding solutions to Covid-19 and those negative perceptions could change. Technology companies have also been broadly outperforming the stock market averages, as many of these companies are facilitating business continuity in emergency situations.

4. We believe that the sharp increase in public debt as a result of the massive fiscal spending programs will be a drag on long term economic growth. Should policymakers view flagging growth as the primary obstacle to prosperity, we could see multiple fiscal spending programs in the years ahead. This could result in a higher pace of inflation. Moreover, recent interruptions in the global supply chain will likely result in “insourcing” in many industries, reversing decades of globalization and its attendant deflationary impulse.

What is certain is that the economic and financial landscape has become increasingly uncertain and is rapidly evolving. This is not a call for wholesale portfolio liquidation or moving to the sidelines. In many scenarios that we can envision, equity investing will become a growing source of utility in one’s portfolio. To be sure, a rapid recovery in the stock market is unlikely, as investors recalibrate their tolerance for risk in a post-Covid-19 world. But that does not portend the “death of equities,” a headline from BusinessWeek magazine in 1979, shortly before the dawn of one of the greatest bull markets in history!