

DEVASTATION AND THE OPPORTUNITY OF A DECADE
ECONOMIC AND INVESTMENT THOUGHTS OF THE 2020 FLU CRISIS
CHINESE EXPRESSION: "MAY YOU LIVE IN INTERESTING TIMES"

On February 19, 2020, who could have imagined, as the U.S. wandered through a utopia of strong economics, low unemployment, low interest rates and record high financial assets, that the world would be reeling and on its knees within a single thirty-day period? Such is life in a modern connected world. What began as a small phenomenon in a foreign country migrated across the globe into an assault on personal safety and has shaken the very foundation of capitalism.

In response to COVID risks, governments did the unthinkable: they simply shutdown economies. There is no precedent for this type of action – not even during the flu pandemic of 1918. In response to sudden shutdown, markets had the challenging task of quantifying the effects of a prolonged cessation – hence, the fastest correction and bear market in history (within four weeks). In the end, markets have likely been correct – markets very quickly forecasted economic Armageddon. Statistics soon splashed across media outlets will be horrendous and demoralizing. As an example, witness the record-breaking spike in unemployment claims of 3.3 million on March 26th. In coming weeks, a huge contraction of economic activity will hit GDP statistics. As a result, we would suggest governments need to be extraordinarily careful of the balancing act between human safety and permanent damage to life-giving businesses that support every family. Businesses were never designed for zero revenue, and neither were working households designed for no wage income. Social security comes from workers (not a big savings pot as some may think) and pensions come from accumulated capital (and this capital is contingent on underlying businesses).⁽¹⁾

Investment Perspective

Investment markets have recently behaved as they did in 2018 when our analysis at the time showed virtually every asset class had challenges. Even safe/secure investment categories – bonds, for example – were flogged in 2018, but also in recent weeks. In March 2020, there was no ideal place to allocate (save cash – which surprisingly also had some risk rumblings).

It is important to remember that investment market declines have **always** been temporary. Some short, some long. But all have recovered as conditions normalize. As we write, the S&P 500 is up 18% from its low point set on March 23rd - surprising to some as flu cases rise. Also surprising, a 6% bounce when March 26th unemployment claims were announced.⁽¹⁾ We are not certain that all investment categories will discontinue their bouncing sooner than later – this could go on for a while. But we do know some things. We know that stocks as an asset class are extraordinarily cheap which is why we believe the flu crisis has created the best moment to buy in eleven years. Our models also suggest a wide basket of stocks purchased at current levels (while holding your nose) is projected to compound at 29% over the next three to five years (a lesser rate of 22% compounded for high quality stocks that traditionally hold up better during declines), over twice the rate of historical return.⁽²⁾ This is not a commentary on what might happen in the coming three to six months or even year.

We do know that fast declines are historically followed by quick recoveries, and the **biggest percentage gains** occur right after markets bottom and most often **during recessions**.⁽¹⁾ Investors that panic miss out on exceptional opportunities when markets rise during the worst of bad news periods. This is a strong lesson to not make assumptions about markets when interpreting news flow.

What's Next?

We hear gloomsters complaining during periods such as these that "things will never be the same," and that is true. Things will never be the same. They will be better. Amazing innovations will kick in to spur the nation on to greater productivity, better healthcare, more wealth, more opportunities than experienced over its 244-year history.

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