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This Too Shall Pass

Coronavirus and the Global Fallout

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March 25, 2020

The unintended effects of the world's valiant efforts to reduce the number of deaths in the most susceptible to the severe effects of contracting COVID-19 has caused most of the globe to stop in its tracks. We are seeing the significant negative economic fallout of these efforts now.

Since first disclosed by the Chinese government in early January, it was clear that the COVID-19 virus was quite contagious and was likely going to spread globally and rapidly. What was not anticipated was the harsh unilateral actions of cities, states, provinces, and countries to clamp down on human interaction in an attempt to slow the virus' spread. The forced shutdown of travel, businesses, and all kinds of economic activity has brought the global economy to a standstill, far beyond the original city of Wuhan, China.

What's the primary reason for the lockdowns in country after country? To keep hospitals from being overwhelmed with seriously ill and dying patients, and to ration scarce ventilators, personal protective equipment (PPEs) and other critical medical supplies. Over the last few months, the virus has not become more virulent or aggressive – its spread was fueled by human travel and interaction. We see more positive test results now because more tests are being given. The supply of test kits has grown, the number of tests is up, yet *the mortality profile of the virus hasn't changed.*

The range of symptoms that someone gets after being exposed to COVID-19 is vast and heavily tilted toward the benign. Early data supports that many people will be asymptomatic, which means they will get the virus, it will run its course, and their immune system will successfully defeat it. At a press briefing on March 24, New York Gov. Andrew Cuomo said that it's likely that *"hundreds of thousands of people have already had COVID-19, didn't know they had it, and recovered."* Cuomo said we should be testing for antibodies (a specific blood protein produced by someone who has conquered the virus) and "getting back to work."

Of those who test positive, studies from data on thousands of the first month's worth of COVID-19 cases in China shows that 80% to 85% of people experienced "mild to moderate" symptoms (like a mild to bad case of the flu) and recovered, and about 5% to 10% of people suffered severe symptoms including a "light" case of pneumonia and recovered. The remaining approximately 5% were critical with pre-existing health conditions, and in need of medical care beyond self-quarantine. The death rate *of those who test positive* has varied widely depending on country – around 4% to 5% in older demographic countries such as Italy and Spain, or countries with poor overall health conditions such as Iran. For the remaining countries, so far, the fatality rate is around 1% to 2% *of those who test positive*. Online sources such as [Worldometer] are available to everyone.

Let's get a little perspective on testing right now. In most areas of the United States (including large metro areas such as New York City and Los Angeles), you are not going to be able to get a COVID-19 test unless you are:

1. Already severely ill
2. Need to be hospitalized
3. You are a healthcare professional, or
4. The testing would help determine the overall spread of the virus.

Even then, public health authorities are finding that only (2% to 30%) of those tested *actually had the* COVID-19 virus. The rest had other types of influenza. For example, as of March 24, the Texas State Department of Health said that there had been 13,235 coronavirus tests administered in Texas, of which just *715* came back as positive for COVID-19. *That is a 5% hit rate of those tested.* Remember, the criteria to get tested is quite high now. For reference, Texas has 30 million residents. More information about the virus is available from health experts such as the Centers for Disease Control and Prevention, the World Health Organization, and Johns Hopkins.

What is hopeful – as I've said before – is that THIS WILL END. With all the restrictions in place, it is expected that the number of infections will peak in the U.S in a reasonable amount of time. After that, restrictions will begin to ease though we must remain sharp-eyed to the practice of good hygiene and the protection of vulnerable people.

Unfortunately, the world has been gripped by a genuinely titanic hysteria that is causing second- and third-order effects that are dwarfing the first-order impact of people dying from a new virus. Consequences of the hysteria are causing actions and behaviors that far exceed the number of people who will succumb to the virus, and restrictions have come at a very high cost.

It is not irrational to think that the stock and bond market selloff in the midst of extreme uncertainty is unwarranted. Harried retail investors and some institutions just want out – the climate is just too nerve-racking. This herd of sellers may actually be small in number, but if there are even fewer buyers, it only takes a few sellers to cause large, repetitive drops in many asset classes. We have seen that there are strategic buyers who are dipping into the stock market on strong rebound days like we saw Tuesday, March 24, where the Dow Industrials rose 2,112.98 points, or 11.37%.

We have seen an incredible strain in the bond markets (both government and corporate debt) during the last few weeks, an indication that market participants are dumping assets considered safer than stocks in an effort to raise cash. Outside of short-term treasuries, everything was for sale last week at discounted prices. Leveraged investors such as hedge funds and those using margin were forced to liquidate as prices fell. Portfolio managers had to sell to meet redemptions from institutional and individual investors. They sold what they could – much of the selling was indiscriminate.

This has been the fastest move to a bear market in history – even more swift than 1929. Yes, 1929. The level of panic selling has been severe. The question you need to ask yourself now if you didn't sell is, should you? Or do you want to wait it out, invest more, or just think about it? I say the last three options are preferable at this time. Remember, this too shall pass.

Retail and institutional investors (and most of the public) know full well that the fear of the virus (right or wrong) and the panic and harsh reactions of governments and public health officials to restrict, contain, and shut down human activity and large swaths of business has triggered an economic recession. We are in the middle of it. What is also clear in the United States and many other countries, is that governments and central banks are taking unprecedented actions to shore up the financial markets, provide liquidity, mobilize resources, and help businesses and industries recover from this crisis.

The Federal Reserve (Fed), along with other global central banks, quickly got out of the blocks to stem the contagion within the financial system. The Fed's actions have included:

1. Cutting interest rates
2. Increasing liquidity in the interbank lending market
3. Easing requirements for banks, restarting "quantitative easing"
4. Buying an "unlimited" amount of treasuries and mortgage-backed securities, and
5. Pressuring banks to help borrowers in need by using forbearance.

The Fed is also supporting the flow of credit to employers and consumers, along with providing liquidity to money market funds, among many other measures. These actions are unprecedented in U.S. history.

In the wee hours of March 25, the White House and U.S. Senate reached a historic $2 trillion stimulus package that pushes unprecedented financial relief to individuals and businesses. It is set to include direct cash payments to millions of Americans, and provide small-business loans and loan forgiveness, aid for distressed industries, and enhanced unemployment benefits, among other measures. The size of these spending measures dwarfs actions taken during the 2008-2009 Great Financial Crisis.

I don't claim to know when markets will find their footing – especially given that traditional technical, sentiment, and valuation metrics are less relevant in a pandemic-driven bear market. In the near-term, relaxing restrictions of human movement and interaction, and restarting business, will do wonders to reduce the hysteria.

Conclusion

Now is the most critical time to speak with your financial professional . . . let them walk with you through these trying times. They can help you assess your income, tax and investment issues. They can help guide you through the opportunities to repair, rebuild and grow your financial assets as this crisis passes.

The crisis will pass, and they're here to help.

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Source of returns: Bloomberg

The Dow Jones Industrial Average is a stock market index that measures the stock performance of 30 large companies listed on stock exchanges in the United States.