Will COVID-19 Change Our World (and our Markets) Forever?

As our country begins to consider reopening for business, I am left wondering how we will forever be changed? Will we shake hands with new acquaintances? Will we travel for meetings or will we stay put and Zoom? Will home delivery of food, groceries and other goods become the norm? Will college education be an online experience? Will live entertainment and sports become a virtual event? Do any of us really need traditional offices? All of these questions and more will be answered over the next months and years. While nothing in life is black and white, humans are evolutionary beings. We adapt and change in the face of adversity. It is this continual process that ensures the survival of our species and results in us emerging stronger than ever, albeit different.

So, what does this mean for us as investors? I believe that “markets” are simply a microcosm of humans and the societies that we build. As such, they evolve and adapt as well. Like humans, markets follow certain fundamental rules, which serve the basic underlying needs of investors. In this way, the game itself never changes. While zone defense may be replaced by man-to-man coverage and the wishbone offense may be replaced by the spread, it’s still football. In the world of investing it is still all about risk and reward, choosing the most attractive asset class at a given time and putting our capital in that bucket. As we grind through economic cycle after economic cycle, we see that each major asset class (stocks, bonds, real estate, commodities and the U.S. dollar) periodically falls in and out of favor. This is true now and will be true in the future. It is a zero-sum game and each asset class is judged relative to the others. We can take comfort in the idea that just as we will emerge stronger, although a little different, so will our markets.

I have been asked a lot recently about whether this bear market is over. Bear markets in stocks are caused by a decline in the earnings of companies and the resulting decline in gross domestic product. This is otherwise known as a recession. Falling stock prices are merely a symptom of this reality. Terrorist attacks, financial crises and even global pandemics do not themselves cause bear markets. They do however hurt companies’ ability to generate and grow earnings – and that does cause bear markets. It is always about the earnings. We are just in the early innings of learning how much the coronavirus is going to hurt earnings over the next few month or years. Much of the outcome will depend upon the speed at which a medical solution is reached, as well as the changes that we as a culture adopt. There will be winners and losers. It is the search for equilibrium and the extent of lost earnings during the interim that will decide the length of this bear market. Are earnings going up or down? When they stop going down, we will know the bear market is over.

Last week’s Special Edition Advisor Q+A can be found here.

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The COVID-19 health epidemic has had substantial global economic impact on financial markets. As of March of 2020, restrictions to travel and business spanning the economy for activities not deemed essential have been imposed throughout the United States. These restrictions have caused unprecedented volatility and uncertainty in capital markets and have negatively impacted the economy. It is unknown how severe the impact to the economy and capital markets will be if the epidemic persists for an extended period of time. The epidemic may have a material adverse impact on Cabana's investment advisory business including, but not limited to, the performance of our portfolio strategies.

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