

market news

From Suntan Lotion to Spam In No Time

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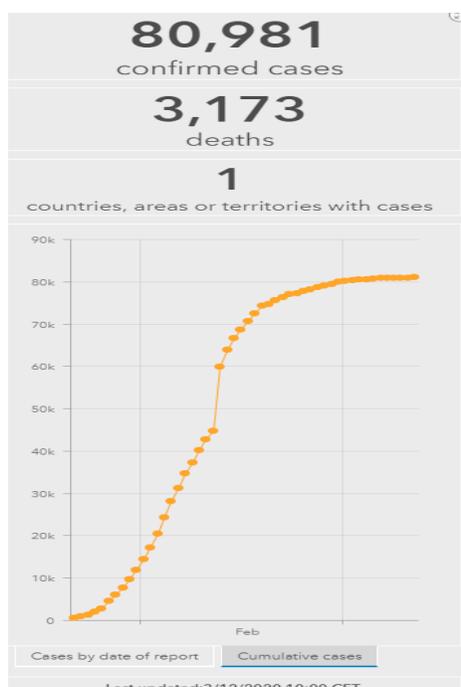
Just a week ago my wife and I were packing for our “Spring Break” trip and I was running to Target to buy sunscreen. Fast forward and today we are figuring out the best way to extricate ourselves from our travel plans, and I am heading to the grocery store to stock up on non-perishable foods just in case.

It is remarkable how quickly fear and panic can spread. It is my hope that when we look back on March 12th, 2020, we will view that date as the point of maximum panic over the Coronavirus. The NCAA tournament, NHL, NBA, and Broadway were all shuttered indefinitely. Most major colleges, cruise lines and Disney Land announced plans to close. Travel from Europe was restricted. Not surprisingly, this confluence of events led to a continuation of the brutal month the markets have been having. The S&P 500 and Dow Jones Industrial Average had their worst days in decades and even the credit markets struggled to deal with the panic on Wall Street.

There is no doubt that we are nowhere near the peak of actual cases of the Coronavirus in the US, however, that does not mean we are not at the maximum level of uncertainty. While there is no guarantee that this is the case, I do think there are some reasons for optimism.

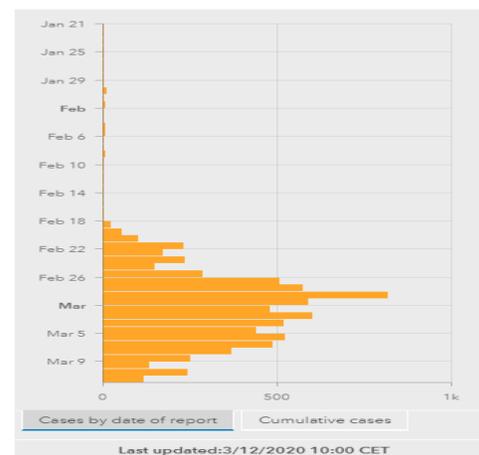
The virus first emerged in China, a country of over 1.4 billion people, in the city of Wuhan, population 11 million, in the Hubei province with a population of 74 million.

Since China has the longest experience with the virus, I think it is reasonable to look at their experience as a guide to what we should expect. According to the World Health Organization (WHO) data, China has had just under 81,000 cases of the virus or .006% of the population. Looking at the graph below we can see the classic “S” we expect based on the history of viral outbreaks, has in fact progressed in China. Early on, cases are seen at an exponential rate and then gradually coming under control.



Scott consults with TSWM clients and relationship managers to implement their financial plans through building diverse portfolios of high quality, low-cost investments relative to individual goals. Scott helps clients to gain better understanding and peace of mind in a complex and often confusing world. He strives to bring patience and objectivity to the investment process on a daily basis in order to avoid the destructive impact emotional reactions can have on financial decisions. Scott joined TSWM in 2006.

The next best place we can look is South Korea, which is the second center of the outbreak. Per the WHO data, South Korea has a population of over 51 million people and has 7,983 confirmed cases of the virus or .016% of the population as of today. The graphs below appear to show that, while early, South Korea appears to be following a path similar to that of China in controlling the virus.



Even Italy, which arguably has done the worst job of managing the disease, has only seen a .025% rate of infection thus far. I would suggest our response has probably not been as rapid and comprehensive as China's or Korea's with delays in testing and developing containment protocols. I am hopeful we are ahead of Italy in our reactions.

While these examples are by no means conclusive or certain, they are consistent with other historical outbreaks and the best lens through which we can view our likely path. The US population is roughly 331 million people. Applying the percentages seen in other countries, we think it is reasonable to expect a range of infection between 20,000 and 85,000 at this time as a base case. To put this in context, the population of Cary, NC is 135,000. I acknowledge the risk that we exceed these numbers, as we are behind the curve on the testing front. I still think we should expect the general path of our experiences will be similar to these examples.

Using the Chinese case, there was about a 2-month lag from the first case to the peak and a 2-month lag between the peak in cases and the return to a relatively normal level of activity. South Korea seems to be following a similar course, though it is still too soon to be certain.

Admittedly, the US appears to have been caught somewhat flat footed, particularly around testing for the virus. The actions of March 12 certainly signal a significant shift in the public mindset around this virus. This shift, plus the potential benefits of warmer weather, which is believed to reduce the life span of the virus on surfaces, should help the US bend the curve of the virus over time.

As advisors we are placed in the position of making our best guess as to what the future brings. Our best guess is based on that which we are able to observe in current parallels and the historical prospective. If you look at the examples we have, we are expecting a 3-5-month period of disruption and total infection rate well below 1% of the population. To that end, we are focusing on rebalancing, harvesting losses and taking advantage of market dislocations. Most importantly, we are here to discuss any concerns or questions that you have. The best thing we can do now is focus on each doing our part to heed the advice of the medical professionals and keep ourselves safe.

