COVID-19

Yesterday's 3 ½% drop in broad US equity markets in response to news of a sharp increase in the number of reported COVID-19 (or Coronavirus) infections outside China over the weekend has many investors understandably concerned.

Connecting the dots from the science of epidemiology to the "dismal" science of economics is a dauntingly difficult undertaking. Further connecting the resulting economic predictions to equity market predictions has, in our view, a vanishingly low probability of success. In previous CCR Wealth Management Outlooks we pointed out that recent stock market valuations have not been cheap. Expensive valuations lend themselves to periodically sharp corrections—often due to exogenous factors. We believe the magnitude of the recent drop in stocks is comprised of more than COVID-19 concerns. Some part of this correction can be attributed to extended valuations, and periodic corrections in equity pricing is healthy, provided the underlying economics remain healthy.

Speaking of health—it goes without saying that we do not keep an epidemiologist on staff. CCR remains vigilante and respectful of what we do not know about the COVID-19 outbreak. At the same time, the historical record is replete with examples of imminent disasters which never came to fruition. We expect, as does the market, a significant impact in global GDP in the first quarter. At this date it is equally impossible to quantify this impact as it is to predict the timing of the virus' ultimate ebb. Impacts to the bottom lines of many industries are likely to be deep, but also very temporary—history's archive on this is extensive.

We will adopt Warren Buffet's recent advice to investors as our own. In a CNBC interview yesterday, Buffet warned investors not to buy or sell stocks based on the day's headlines. "The real question is: Has the 10- or 20-year outlook for American Businesses changed in the last 24-48 hours? If something close to current rates should prevail over the coming decades and if corporate taxes also remain near the low-level businesses enjoy, it is almost certain that equities will over time perform far better than long-term fixed-rate debt instruments".