Investing Around the Coronavirus

Forecasting economic models during a pandemic may seem presumptuous or even audacious as it could be interpreted as an attempt at forecasting the evolution of the virus. On the other hand, predicting the trajectory of the stock exchange, in spite of the real economy showing weakness, might be considered simpler as the support provided by the Central Banks to the financial markets is almost predictable and is often described as its engine, parachute and its barometer.

In the short term then, we will need to navigate, these markets using government interventions as our compass as we continue economic uncertainty.

Over the medium term, we will need to remain steadfastly aware of the new normal which is that "nothing is as it was" which will have important ramifications on the decision making process of investors.

Finally, over the longer-term…………………….

A Keynesian Model?

If low interest rates allowed us to avoid the worst during the 2008 financial crisis, they had very little impact on investment activity as a whole. This time around governments are taking a different approach and have resolved to borrow heavily to subsidize their weakened economies with the US budget deficit likely to hit 20% of GDP, while the Euro Zone will come in around 10% of GDP by the end of 2020. The purchase of assets by Central Banks has become the byword for these new budget policies, has facilitated the government borrowing sprees and has helped maintain a semblance of economic stability. One might begin to interpret these policies as a means of monetizing public debt, which in turn could lead one to conclude that real assets like gold, gold mines and other valuable minerals might be something to consider adding to your portfolio.

If nothing else, the coordination or synchronizing of budgets and monetary policy has led to a radical change in the macro-economic landscape, given the importance of public sector investment in growth. It is clearly too early to evaluate the efficacy off these economic policies, however financing investments with limited profitability has never been a recipe for medium to long-term growth.

The Consumer is King

The uptick in the markets over the course of the last month or so can be directly attributed to the progressive re-opening of the international economy. However, the risk of a second wave of the contagion has put the brakes on and will continue to limit aggregate consumer demand, in particular as we come to terms with our personal economic concerns.

The impact of the drastic slow-down of the international economy can best be highlighted by business cost reduction policies. These policies have led to redundancies and soaring numbers of unemployed, the shuttering of large and small businesses and a high degree of economic uncertainty which in turn has had dramatic psychological impact on the international workforce.

If frugal has become the new means to an end, this will not only have macro-economic repercussions, it will re-direct economic activity to cheap, safe and effective communication solutions (e.g. Zoom) to conduct business, to earn a living, seek an education or simply communicate.

The over-performance of tech shares this year, and during the crisis has clearly highlighted the Darwinian concept of the “survival of the fittest”, as only those businesses and models which adapt to and can master the new models of technology that permit business to continue to flourish will thrive and survive the current pandemic.

Survival of the Fittest

One must never underestimate the level of upheaval faced by most economies today. What we are witnessing may well continue to plague the global economy for some time to come and the question becomes how to survive in such extreme circumstances.

Take the aviation industry as an example. If we were to apply the Darwinian model to this almost irreparably damaged sector, only the most efficient and cost-effective players will survive and hopefully profit from the disappearance of those competitors who simply could not keep up.

Investors should not overlook these trends and should maintain their stamina in this period of uncertainty by remaining focused on the new strategic players (winners) and see the current volatility as an tactical opportunity.