

Market Update on Coronavirus with Professor Siegel

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WisdomTree

Contributor

Professor Jeremy Siegel, WisdomTree's Senior Investment Strategy Advisor and Professor of Finance at Wharton, provides his perspective on the current market and how to prepare for the Coronavirus aftermath.

Highlights from this week's call include the impact that Coronavirus is having on global oil markets.

Please listen to the full recording from the 20 April below:

Operator: Hello, everyone. Thank you for joining the WisdomTree weekly call with Professor Siegel. In this extremely volatile market, we want to make sure we provide advisors with the help and guidance they need. Please visit our website for additional insights including the recordings of these calls. Please note that this call is being recorded and is for financial professionals only. With that, I turn the line to Professor Siegel.

Professor Siegel: Thank you very much. Well, we all know what the headline is going to be tomorrow. Oil, below zero. More than below zero, touching inconceivable -\$40 a barrel. We've all heard of a short squeeze. This was a long squeeze. I am shocked that the traders so misestimated the delivery problems of the May contract.

It will get all the headlines, but we all know it really isn't that significant. Actually, the energy sector was down 3.29%. It's been down much more in this decline than that, and deposit term contracts are down 10%, 15%, but nothing like this.

Listen, we all know when you have a 30 million barrel decline in the per day demand for oil, it doesn't almost matter how much Saudi and Russia cut. There's a glut oil, and if there's not enough to absorb it, then you're going to have this. We also know, by the way, if you take a look at the futures contracts, by mid next year, they're up to 35% again. Not great, but certainly doable.

We all know that there's going to be bankruptcies, particularly in the Permian. We know there's going to be a lot of consolidation, and those companies with strong balance sheets are probably going to get oil reserves in the ground at \$2 a barrel, make deals, and consolidation as they close the rigs. Again, it will make the headlines, but its significance very honestly, is not that much.

What's more interesting that made the headlines, too, was that the increase in cases of COVID-19, 2.7% yesterday. Today was below the 4.5% average daily increase that we've had. There is absolutely no question that we're on the downward slope of the curve almost everywhere. A few places still on the upside. Most countries are on the downward slope. Now, there is a little plateauing in places, but on the downward slope. A few of the countries that aren't, of the northern countries, Russia is actually really going up.

Again, when you see the number of cases, it's a function of testing and how many are tested. It's a function of deaths. Deaths are lagged two weeks off of that, so it's a hard stat, but it's not a timely stat. The bottom line is that, for many reasons including social distancing, we're on the downward slope.

So, of course, all we get now is the talk about reopening. A very good article—Gottlieb always writes good articles, Scott Gottlieb op-ed today *The Wall Street Journal*. He's always worth listening to. Actually, I find I learn more from him than Fauci, actually, on ideas on how the workplace will have to be modified or should be modified as we go back to work. There will be an awful lot of modifications. It's a slow rollout, a very slow rollout.

I mentioned last time that the real progress is the therapeutics and vaccines, although that's a longer-term item. After our call, we did know later last week a very preliminary report of Remdesivir really helping the serious patients. Now, the good thing, I mean we're going to get the final probably within the next week on that. I'm fully expecting that that is going to be a very strong, important therapeutic that's going to prevent deaths, but at this point, it's not an early-take therapeutic that I'll pop a pill. It's for people that are having breathing problems, although no one that entered that particular study was on a ventilator. Many were heading toward a ventilator. The results were quite stunning, I thought, actually in terms of what was reported. I'd be very shocked if the final report isn't also beneficial.

That's the first. There are many others, as we know, that these therapeutics, we need these therapeutics. The therapeutics, as I repeat, that turn this coronavirus into something that is just a flu in terms of its danger to the population are not going to eradicate it. It's a major, major features in getting people's confidence back. We have to be patient. We wanted every day for something to come out like we did last Thursday, but the truth of the matter is it's going to be a little bit slower, but I think they will come, and that confidence will come back.

Again, I'm not going to be putting dates. We're getting those dates about different steps in terms of our getting back. We do definitely have other countries that are already making those steps. Germany, Denmark, we already know, of course, that Sweden never went into a complete clampdown although they did have a lot of measures. It isn't that they didn't do anything, by the way. There was some misinformation about that, but these are countries to watch because they're countries to see how we can come out of it.

In terms of the actual data that comes through, I'm going to say what I said this week and last week and

the week before that and the week before that. I don't really care what the data is. That's all rearview mirror. We know it's going to be terrible.

I do expect that the PPP program is going to be funded. I know there's little glitches along the way. There were little glitches last time. That's unfortunate, but there will be more funding into that. Yes, we know there were some abuses, but very honestly, I have to tell you I'm impressed. When I go through the legislation, CARES legislation, I am impressed how much they got right. That they didn't close all the loopholes, that they missed things is understandable, and they can go back and correct those, but a lot of it, I think, was right and is going to help us.

Now, I want to go back to the big picture again that I presented two weeks ago and again last week. The flood of liquidity being brought to the economy, both by the fiscal authorities and the monetary authorities, is not going to disappear once we get back to business. It's going to be there, and when people get back to business, there is a huge amount of repressed purchasing power that I believe is going to be pushed into the economy, pushed into the economy in such a way that we're going to strain resources again.

Yes, it's going to take time for people to be absorbed, but I think they will be absorbed faster than a lot of people think they will be. I do see inflation in 2021, 2022, and 2023. I see it at 3% and 4% a year. I see rising interest rates, nothing catastrophic, but that I believe this year will mark the end of the 40-year bull market in bonds, and the 10-year will start creeping up to the one-handle, the two-handle, maybe the three-handle in due next year.

That's still less than inflation, so you're going to get a negative yield. Stocks should do well in that environment, in moderate inflation environments especially, and that's when that repressed demand comes out. Stocks usually can do quite well. There's going to be impairment to capital, I understand, particularly industries this year, that's going to remain but will do relatively well. This relates a little bit to the theme about how investors can get income and protect themselves against inflation, and when I'm done with my comments, I know that Jeremy Schwartz is going to talk a little bit about this.

So, actually the news over the last days is good. Yes, we're down today. Yes, there's going to be these tremendous headlines about negative oil prices, first time in history, and it is something to note, but we know it should not have been a surprise. It's a surprise, again, that they mismatched the contracts into May, but the big picture is no different at all in terms of what it portends. Secondly, we are in the midst of earnings season. I'm not that interested in it. Again, they suspend guidance. Some are hurt more in March than not. It might give us a little bit of idea of what gets hurt, although I think we pretty much know what industries are hurt the most in the travel, leisure, service industries, and which are doing extraordinarily well. I don't know if there's really going to be much surprise as far as that's concerned. I do expect in a couple of days, again, that deal to get more money out.

Just an update. I was talking to you about the money supply, the M1 money supply. We did have another

big increase last week. It comes out Thursday afternoon. I'm looking at it closely. Not quite as big as we had in the previous two weeks, but it is still jumping, and again, that to me, confirms the idea again it's jumped almost as much as the entire period of the year over the financial crisis in three weeks. This tells me how much liquidity is being poured into the system, liquidity which I do believe, as confidence comes back to our normal economy, will put our economy in a much stronger gear than many do fear at the present time.

For more information, please also see our [weekly commentary from Professor Siegel](#).

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