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 easing of Coronavirus restrictions and what shape a potential recovery might take.

Please listen to the full recording from the 11 May 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. Today, Professor Siegel will provide a quick 15-minute update, and then we will open the lines for your questions. Please note that this call is being recorded and is for financial professionals only. If you need assistance, dial *zero, and an operator will be happy to assist you. With that, I turn the line to Professor Siegel.

Professor Siegel: Well, thank you very much. Basically, had a good week. Since last Monday, S&P up 3% despite, of course, worst job numbers that we've ever had in one month. They were largely anticipated. As I've told you many times, a lot of the economic numbers that get reported are not the leading indicators of where the market or the economy are going. When I get up in the morning, I immediately check all the headlines on the virus, any new studies that have come through, I check all the countries, I check all the cases. I check the number of new cases, the death rates and all the other trends, because they're the ones that will inform us on how rapidly the economy is going to open. More and more states are opening, I think they should open faster than they're planned to open, but they are opening.

Let me just say that we're already seeing studies about whether new cases are spiking more in when States are opening. Let me warn you that much of the new cases is dependent on how fast testing is actually done. So if you're going to get a lot of new testing, you're going to get new cases, does not mean that suddenly the opening of the economy necessarily cause those cases, that's going to be a much longer process by which we understand that. And even then, there was a question about even if there are more cases might be less later on. Just thinking in terms of Sweden's example, the Head of the Health Ministry has already said that, yeah, we're going to have more cases than the other countries early on, but we're going to have much later lower cases later, than them.

And the final outcome won't be any different and we will not have gone into a complete shutdown. So, there's certainly more on that. Note, no direct news on any new drugs or vaccines. I mean, we do have second round trials, everything is still very promising. I think it was one negative report about Trump's drug of hydroxychloroquine, but outside of that, which had already been a negative reporter or you're on, no new report. The newest reports are these new antibodies testing reports. The CEO of Ortho has just come out with a very inexpensive test on antibodies with a 100% specificity.

Specificity, it's a question about whether, if it says you have antibodies, could that be false? And it has in tests, never been false, which is quite excellent. Sensitivity is how many times you might have them and then not be detected. But if it says you have them, you have them. And there are many other tests that will also be done. Now, what you do with these tests is another question, but this will really be able to track the extent of the people that were exposed. It is my belief that these antibodies actually do impart immunity for an unspecified number of times. I know there's some that say that it might not at all, but that's not really the history of coronaviruses. So there is going to be some immunity, perhaps several years or longer. The basic trends in the stock market are exactly what I've said.

The liquidity is enormous. It's still bigger, we had another jump in the money supply last Thursday. Not quite as big as the previous five months, but still again, liquidity is coming into the system faster than it's ever come in. And we're already several percentage points above the whole 50-week, two 52-week period that followed the Lehman bankruptcy. We've already added more M1 to the system. I saw an article by Barry Ritholtz, who I respect quite a bit, but saying, that all those people think there's inflation are wrong. Again, inflation can not be good until we really unlock the economy and people get confident, and we come back. I'm talking about placing in 2021, not talking about inflation in 2020, and this there's some really miracle development that neutralizes this disease. I'm saying it's there, it's going to be in people's pockets, and it's going to spark spending later on. I do think the stock market knows about it. I think that's one reason there's a bias upward. I know the professionals are shaking their heads and saying, how could the markets be so high?

But again, if you look at that liquidity out there, you can see why the market is that hot. I also had, I don't care that much about the earnings reports. Well, we're getting first quarter earnings reports of which there has barely been a month of which the coronavirus has impacted them. I mean, it moves relative stops, they're above or below what's expected, it still will move. Most companies have already eliminated their forward guidance. Obviously they can give forward guidance until we know what extent the economy will recover. There certainly does seem to be enormous pent up demand, but we all heard about the opening of Disneyworld in Shanghai, that the tickets were sold out in three minutes at 30% of capacity. Now there is a lot of people that will not go to events, but there's an awful lot of people that will go to events. And, that is especially young people whose risk is much lower. I think we're going to have young people basically be cautious and distance, but out there. The older people are the ones, and especially those with conditions have to be enormously careful at the present time, but it's incumbent on them. This idea that we should have the same policy for everyone was never right to begin with in my opinion, and were evolving into that particular configuration at the present time. In terms of what stocks are doing well, it's the same stocks that I talked about four weeks ago. I mean, technology is still doing well and we have 3% increase over the last five days in S&P. And we had a 6% increase in the tech sector of the S&P, healthcare is still doing well. The stocks are doing well, relative, that's still there.

And again, as years have gone on, we've got more and more momentum players that only play relative trends. So once one of these trends is established, it can go on for quite a long time. It does mean that once these trends are established, they could reverse very sharply. And, that's basically true of the whole market. As I've commented for years, people who are momentum players jump on, and then they jump off at a predetermined deviation from the trend which we got with the coronavirus after a long upturn from last October, all the way until the February highs that we actually did reach.

For more information, please also see our weekly commentary from Professor Siegel.

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