

Market Update on Coronavirus with Professor Siegel

Published 25 March 2020

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 US response to Coronavirus and some of the scenarios that may result from the measures being taken by governments across the world.

Please listen to the full recording from the 23 March below:

Operator: 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 *0 and an operator will be happy to assist you. With that, I turn the line to Professor Siegel.

Professor Siegel: Yes. Good afternoon. Well, as good as it could be. Which is not very good. Certainly, from the market standpoint. Another decline, although not as drastic as we've seen before. The headline is that we had 37 Dow is now down 37 percent from its all-time high reached less than six weeks ago.

By the way, 40 percent is usually the demarcation of major bear market. Has the math works. That means another 5 percent decline. If we get it on a close would put cuts into a major bear market category. Clearly, one of the reasons for the sell-off is the continual squabbling on Capitol Hill. This is very dispiriting. And I can't comment on who's right or wrong. I do strongly believe they will get together and get it done. And that will be somewhat of a boost to the market, to be sure.

More importantly, as an event today clearly was a rather surprising, huge move by the Federal Reserve. Happened at 8 o'clock, actually caused about a thousand-point swing in the Dow futures, although they gave it up shortly afterwards, partly on the discouraging word from Washington. This is major one. I one person said, well, they brought out the bazooka again to really shoot at this. And one person said, no, it's not a bazooka. It's a Howitzer. No, I I'm not I do not understand armaments. So, I didn't know a Howitzer is stronger than a bazooka, but it's pretty much every virtually everything you could want. In fact, some even say a little bit more than you want. There's one credit facility, if I understand it correctly, that could give the

ability of the Federal Reserve to directly make loans to corporations. This is really, totally unprecedented and in fact, one former Fed governor said that this is too much power, by the way. Part of that, if you made loans, was also to take equity positions.

Now, you remember they did that with AIG during the financial crisis. A huge loan with an equity position.

And actually, the Dodd-Frank slows that down without it altered it and had to be approved by the Treasury, which obviously it was approved by Manuogian and it had to be given to all classes of investors. So, you can't just target one corporation. So, they've given it to all investment grade corporations. They've also given them rights to purchase an ETF in corporate bonds.

One thing that was not yet done but could be on the horizon if things get worse is the actual purchase of ETF in stocks such as the spiders or similar instruments. This has been done by other central banks, notably the Bank of Japan and actually the Bank of Hong Kong during the financial crisis. I hope it doesn't come to that. That is something, however, that is possible. They can come in with any amount of credit. The Federal Reserve has unlimited credit. The statement was by the Fed in the amount needed, we will make purchases of treasury and corporate bonds in the amount needed. That really harkens back to Mario Draghi's statement during the financial crisis. If you remember, called whatever it takes, actually as time went on, that became somewhat of an emblem of success because Europe, in fact, weathered the financial crisis. You're calming all its financial markets, did not get him to get the growth that they need. They are. But certainly, there were no defaults of any major bonds, nor were there any further countries that left the euro, nor did they even leave the EU outside of the Brexit itself. So, you know, the whatever it takes is now being translated into in the amount that is that is actually needed.

So, there are some other scenarios that are being discussed. Let's go to a little bit of a happier and somewhat hopeful scenarios, and that's with the virus control.

So, this is been the second day. My reading is correctly where new cases in Italy and new deaths in Italy are actually down. This is very encouraging because it does mean that tight social distancing and isolation does have the ability to bring this under control. And that that is very encouraging. In addition to and statement was made by President Trump today. But it's actually been echoed by others, you know. Measures so extreme that we're going to wreck the economy to, you know, maybe save how many lives. Lives are important, but wrecking the economy itself could cause life itself, people's livelihood and mental state, etc. and so on. There was actually a number of articles that were quoted today, I mean, actually started with John Itneeds from the Stanford Metter Research Center. We could go that talked about these trade off. Let's start talking about them realistically. Actually, then echoed on Friday by Dr. David Katz, the director of the Yale Prevention Research Center, taken up today. If you read the op ed piece by Thomas Friedman, who is saying just a minute here, what we should be doing is certainly in the short run flattening the curve, but maybe the healthy groups, getting them to get back into society, continue to isolate the at risk groups and, you know, get the economy there. And, you know, there will be cases, obviously, but there may be cases anyways. And you may actually be making things worse. We don't know. We may be working, making things worse. Some of these proposals have to do with, you know, a hard stop, as some say. You know, it's really close things down on a two-week basis, which is the out end of the infection period of

the COVID-19 virus. So, it dies down 99.9 percent and then, you know, restart the economy on Nura, you know, a much lower load. It's very, very early to discuss whether something should be done on a national basis, that they could be done or would be done on a national basis that. But what is encouraging, again, is social distancing does appear to be working. We are just beginning. You know, we we've just instituted in the United States, in New York, California and several other places, not even a week ago. It takes two weeks. We will continue to see, therefore, scary statistics coming up. But I'm hopeful on that. Again, people talk about vaccines. People talk about therapeutics. There's not been anything that's really so suddenly says, oh, my God, this is working. We would have heard it because they are trying things so far. Doesn't mean things won't work in their current trials, Tetra and so on. But some of the early excitement of week 10 days ago that there might be something much earlier. I just don't see it yet. Of course, I'd love to be pleasantly surprised. In the meantime, you know, it's being ruled and ruled by, you know, Fed is basically done everything it can. So, we can't again, as a step in buying ETF in the equity market, could we see a 50 percent bet? Yeah, we only actually saw fifty five percent decline during the financial crisis. Again, as I said, I've emphasized in the past, there are some really strong mitigating factors here. Remember the financial crisis wiped out or greatly reduced home equity of tens of millions of Americans? This is not happening now. Real estate, obviously, real estate prices are not as many transactions. The commercial real estate area is obviously going to be troubled without question. But on the home equity area, things look good. SALES, surprisingly, are taking place at just about market prices. So, when you realized that, I mean, our clients have stock portfolios, but the main. You know, Main Street Americans still mostly have their home equity and their home equity is still there. This is really, you know, very, very important. Again, there is no run on the banks. I mean, by the way, the Fed did stay the stabilization fund as they did in the financial crisis for money market mutual funds. The Fed says it will give any amount of banks, by the way, forget about the limits of FDIC insurance. You know, everything is going to basically be insured and that your bank has been fraudulent. And, you know, no signs of anything there on any for any majors. So, I mean, basically, all deposits are insured. We definitely see better things going on in the in some of the markets. The tips bonds, you know, which shot up to 60 basis points, are now down below zero. I'm talking about the 10-year TIPS. The 10-year itself is settled at 77 basis points a day after being, as you know, above 1 during the chaos that existed late last week. This is partly well, mainly because of the Fed coming in and using all it's powered by the amount of bonds that are absolutely necessary. Needless to say, stocks that that we have WisdomTree like are certainly not leading the pack. Technology is doing well and then it's hard to beat. We do have a number of technology use in Apple and others that would pay the dividends and have the earnings, but it's certainly some of the others. So clearly, you know, you're going to find that they it makes the yields of these even much better. It makes the reinvestment plans and the amount of, you know, when once they come back, when you find out how many shares you have rebought or if you're on a periodic buying plan, this is this is when you know, those will will come back. I'm convinced. But clearly now they're under pressure. Let me just say finally and then I'll take questions from the group. You know, people ask me how far can go down. Sure. If we could you know, we could hit that 40 percent tomorrow. A 5 percent decline basically gets us there. And then we could go down another 10 to 50 and we might get quotes all along there. If we get it, in my opinion, if we get continued improvement on some of those figures in Italy, like we've had high end belief in the social distancing can reduce the worst parts of this

epidemic, that that might be enough to calm the measures to keep prices basically as they are now. I do count on the government getting a stimulus. I think that's mostly discounted in the market. It may be good for 5 percent, maybe in the short run, even a little bit more. It is a positive going forward, then I think we have to really. Once we get through the storm of the increases before we started social distancing, then it's going to be scary stories. And, you know, people that, you know, need ventilators, clearly, so on. You know, I think serious discussion does begin about, you know, that once that storm alleviates a little bit is, you know, how or how we're going to position back to get a more normal economy.

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

The views expressed in this recording are those of Jeremy Siegel, any reference to “we” should be considered the view of Jeremy Siegel and not necessarily those of WisdomTree. For institutional use only. Not for public use or viewing.

Important Risks Related to this Article

WisdomTree like are certainly not leading the pack. Technology is doing well and then it's hard to beat. We do have a number of important information of technology use in Apple and others that would pay the dividends and have the earnings, but it's certainly some of the others. So clearly, you know, you're going to find that they it makes the yields of these even much better. It makes the **Marketing communications issued in the European Economic Area ("EEA")**: This document has been issued and approved by investment plans and the amount of, you know, when once they come back, when you find out how many shares you have WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. rebought or if you're on a periodic buying plan, this is this is when you know, those will will come back. I'm convinced. But clearly now they're under pressure. Let me just say finally and then I'll take questions from the group. You know, people ask **Marketing communications issued in jurisdictions outside of the EEA**: This document has been issued and approved by me how far can go down. Sure. If we could you know, we could hit that 40 percent tomorrow. A 5 percent decline basically gets WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. us there. And then we could go down another 10 to 50 and we might get quotes all along there. If we get it, in my opinion, if we get continued improvement on some of those figures in Italy, like we've had high end belief in the social distancing can reduce WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflictsthe worst parts of this epidemic, that that might be enough to calm the measures to keep prices basically as they are now. I do of Interest Policy and Inventory are available on request. count on the government getting a stimulus. I think that's mostly discounted in the market. It may be good for 5 percent, maybe in the short run, even a little bit more. It is a positive going forward, then I think we have to really. Once we get through For professional clients only. The information contained in this document is for your general information only and is neither the storm of the increases before we started social distancing, then it's going to be scary stories. And, you know, people that, an o you know, need to ventilators, clearly, so on. You know, I think serious discussion does begin about, you know, that once thater for sale nor a solicitation of an oer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past storm alleviates a little bit is, you know, how or how we're going to position back to get a more normal economy. performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice.

The application of regulations and tax laws can oen lead to a number of dierent interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public oering of shares or securities in the United States or any province or territory

thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.